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January 30, 2025

Mr. Cheldon Angus
Chief Executive Officer
Winnipeg Civic Employees' Benefits Program
5th Floor – 317 Donald Street
Winnipeg, MB R3B 2H6

Subject: The Winnipeg Civic Employees' Benefits Program – Draft Trust Agreement Effective December 31, 2024

Dear Mr. Angus:

We have prepared the attached the draft amended Pension Trust Agreement for the Winnipeg Civic Employees' Benefits Program. The draft amended Agreement captures the recommendations of the Committee on Program Sustainability that were presented at the stakeholder information session held on December 12, 2023. Koskie Minsky has also updated the recitals and made any necessary housekeeping changes, as well as performing a review of our edits.

Section 13.3 of the September 1, 2011 Pension Trust Agreement requires that if an amendment to the Agreement would materially affect the benefits payable from the pension plan or early retirement benefits arrangement, that such amendment shall not be considered by the Board until the Board has first received a report thereon from the Actuary. In my opinion, there is no material impact on the pension benefits or early retirement benefits arrangement, and no material financial impact on the actuarial liabilities of the Program, resulting from the enclosed changes to the Pension Trust Agreement.

The following information is provided to aid the Board in its review of the changes. In accordance with Section 13.4 of the September 1, 2011 Pension Trust Agreement, this report should be submitted to the City and Signatory Unions for the purpose of their review and approval of the amendment.

As a reminder, the five amendment recommendations from the Committee on Program Sustainability are as follows:

1. Re-establish a Future Contribution Reserve to finance the expected shortfall in contributions relative to the cost of benefits over the expected future service of the existing employee members.
2. Increase the contingency margin from 5% to 10% of the Program's actuarial liabilities.
3. Specify that actuarial surpluses continue to be distributed 50%/50%, but be used to decrease employee and employer contribution rates equally. For this purpose, any actuarial surplus would be amortized over the expected future service of the existing employee members of the Program.
4. Allocate the existing balance of the Plan Members' Account to the Future Contribution Reserve.
5. Eliminate the priority given to pension indexing of 50% of future CPI increases on Program termination.

While the Committee's final report was comprehensive, several unaddressed issues arose during the course of drafting the changes as we got into the finer details. The following issues are being raised to help the Board understand the implications of different approaches to implementation and ensure the spirit of the recommendations have been captured correctly.

1. **Section 7.5:** Recommendation #3 states, in part, "Specify that actuarial surpluses continue to be distributed 50%/50%, but be used to decrease employee and employer contributions equally."

   The Committee's report does not provide direction on how surplus would be used to decrease employee and employer contribution rates equally in the case where the Plan Members' Account and City Account balances are not equal. While in many cases the balances in the City Account and the Plan Members' Account would be equal, it is possible for situations to arise where the two accounts are not equal, such as when a plan surplus occurs after benefits have been reduced to eliminate a funding deficiency.

2. **Section 7.5 possible addition:** The 2003 Pension Trust Agreement required annual funding of the contribution shortfall from the Funding Contribution Reserve (FCR) into the Main Account. We recommend not reinstating this provision. Instead, the in-year contribution shortfall should be treated as a funding deficiency in the year-end actuarial valuation. If the Program experiences gains during the year, resulting in an actuarial excess, no additional funding is required—the accounts, including the FCR, would be rebalanced in accordance with Section 7.6 of the Pension Trust Agreement. However, if a funding deficiency is identified in the actuarial valuation, it will be compounded by the contribution shortfall. This additional deficiency should then be addressed as part of the overall funding strategy, following the established order of priority:

   1) Equal transfers from the City Account and Plan Members' Account,
   2) Transfers from the Plan Members' Account if funds remain after step 1,
   3) Use funds in the Future Contribution Reserve.

   Excluding this provision prioritizes the FCR over the Plan Members' and City Accounts. In other words, the Program uses the surplus in the City Account and Plan Members' Account before using the reserve in the FCR. Adding back the provision for annual funding of the contribution shortfall from the FCR would instead first use some of the FCR (equal to the contribution shortfall for the year), followed by using the City Account and Plan Members' Account, and finally by using the remainder of the FCR to resolve a deficit.

   Leaving this provision out simplifies the Program accounting by reducing transactions back and forth between the FCR and the Main Account.

3. **Sections 7.6(c) and 7.6(d):** There were two situations relating to funding the FCR that were not addressed in the 2003 Agreement. We have added those as follows:

   a. **Section 7.6(c):** If the FCR becomes overfunded, any excess amounts would be transferred to the General Component of the Main account. This prevents over-reserving for the contribution shortfall, thereby protecting against intergenerational inequity that can arise from being overly conservative.

   b. **Section 7.6(d)**: If there is a non-zero balance in the City Account and Plan Members' Account, and the FCR is not fully funded, equal amounts would be transferred from the City Account and Plan Members' Account to top-up the FCR.

      Please note that this approach does not strictly align with the stated Rationale for Recommendation #1, which asserts: "...funding the FCR would take priority over other uses of the excess of the value of assets of the Main Account over the Program's actuarial liabilities." This wording could be interpreted to imply that the FCR is to be funded exclusively from the Main Account. In other words, funds should not be drawn from the Plan Members' Account or the City Account to finance the FCR.

However, this provision must be included to ensure alignment with the rationale for Recommendation #1 which is to prioritize the FCR over other uses of surplus, and to reinforce the Committee's objective of strengthening the Program's reserves.

4. **Section 8.2(c)**: Our drafting of the FCR provisions was primarily guided by the 2003 Pension Trust Agreement. However, when addressing a funding deficiency, we have adjusted the order of priority in which FCR funds are applied. Under the 2003 Agreement, the FCR was utilized only after benefit reductions (e.g., COLAs reduced to 50% of CPI). We propose prioritizing its use earlier—before applying Best Estimate Assumptions—to better align with its function as a stored surplus. The table below illustrates the revised placement of the FCR in the funding deficiency resolution process.

Actions in Case of a Funding Deficiency

2003	2024
Transfers from the City Account and Plan Members' Account	Transfers from the City Account and Plan Members' Account
Transfers from the Plan Members' Account	Transfers from the Plan Members' Account
Use of Best Estimate Assumptions	**ELIMINATE THE FCR**
Reduce indexing to 75% of CPI	Use of Best Estimate Assumptions
Increase contributions to 8%	Reduce indexing to 75% of CPI
Reduction of indexing to 50% of CPI	Increase contributions to 10%
ELIMINATE THE FCR	Reduction of indexing to 50% of CPI
Increase contributions above 8%	Increase contributions above 10%
Reduction in Program benefits	Reduction in Program benefits

5. **Section 8.4** of the 2011 Pension Trust Agreement referred to using surplus in case "any of the measures described in subsection 8.2(b) or subsections 8.2(e) through (g) have been implemented". Having not been involved with the Program at that time, we have assumed that the reference to 8.2(g) was a typo that should have referred to subsection 8.2(h), and have therefore corrected for the typo in the current draft.

6. **Section 14.2** - We note that the 2011 Pension Trust Agreement enabled the Plan Members' Account to be used to provide benefit enhancements. Recommendation #3 states, in part, "Specify that actuarial surpluses continue to be distributed 50%/50%, but be used to decrease employee and employer contributions equally." Further, the details provided regarding Recommendation #3 state that the potential change would "give future contribution reductions priority over future benefit enhancements in the use of actuarial surpluses". While not specifically addressed in the Committee's report, our interpretation of prioritizing future contribution reductions over future benefit enhancements is that benefit enhancements above those in effect today could only be provided after member contributions are fully reduced to zero, which would occur when the Plan Members' Account has grown above a level where the calculated amortization of surplus exceeds the annual member required contributions. For greater clarity, use of surplus in the Plan Members'

Account need not prioritize contribution reductions over benefit enhancements when the enhancement is only a reversal of a prior benefit reduction that resulted from a funding deficiency.

Please let me know if you require anything further or have any questions.

Sincerely,

ECKLER LTD.



Andrew Kulyk, FSA, FCIA

Copy:
Roberto Tomassini, Padraigin Murphy; Koskie Minsky
Johanan Schmuecker, Eckler Ltd.

Enclosures