# memorandum

September 2, 2009

**TO:** CUPE Local 500 Executive

**FROM:** Bob Ripley & Brian Ellis

**RE: Winnipeg Civic Employees Benefits Program**

Our pension fund like other pension funds throughout Canada has been affected by the significant declines that occurred in global stock markets last year. From the beginning of 2008 to December 2008 the market value of the fund's investments had fallen by approximately 15%. This equates to approximately a $680 Million dollar loss on a $3.5 Billon dollar plan. The Program was well-positioned heading into this turmoil, holding significant reserves which can and will be used to buffer the plan in the short term.

Due to the low interest rates since the beginning of this decade the cost of the Program has risen from below 16% of pay to 24% of pay at the present time. The Program's reserves have been used to subsidize the cost of benefits being earned for current and future service by approximately $50 million per year.

In other words, the plan has been using investment returns to subsidize benefit payments. The plan had these reserves set aside to pay for the benefits and the Trustees were well aware that contributions would have to increase in the future. Our Actuary estimated that action would have to be taken around 2012 to 2015 to address the shortfall in contributions. The Trustees were preparing a plan to address this situation but the investment market losses incurred by the plan last year made this an immediate priority as the investment losses exceeded the size of its reserves by approximately $190 million.

If the cost of benefits for the future service of existing and new employees continues to exceed the contributions being made, this will further erode the Program's funded position. Presently plan members and the employers are paying 6.7% of pay respectively. This equates to a total contribution to the plan of 13.4% of pay. (6 ½% of earnings up to $46,300 and 7 ½ of earnings over $46,300 which equates to an average of 6.7%)

If the Program's current benefits are to continue to be provided for future service without being subsidized by reserves, employee and employer contribution rates combined would have to increase to between 22% and 24% of pensionable earnings.

The Pension Trust Agreement gives the Board of Trustees the authority to increase employer and employee contribution rates to 8% (16% combined) of pensionable earnings as part of the remedies to resolve funding deficiencies in the Program. However, based on the provisions of the Trust Agreement and the timing of actuarial valuations, the earliest that an increase in contributions to 8%

of pensionable earnings could occur is mid-2010, unless the Signatory Parties agree to an earlier increase.

A decision to increase contributions to the Plan, other than as required by the Pension Trust Agreement, requires the agreement of the City and a “double majority” of the Signatory Unions. A “double majority” means a majority of the Signatory Unions representing more than 50% of the employee members of the Program who are active members of a Signatory Union. All other affected Unions are also dealing with this issue via their own internal processes.

The Trustees are recommending to the Signatory parties that by September 30, 2009, they agree to an increase in the Program’s contribution rates to 8% of pay effective January 1, 2010. This in our opinion is the prudent approach and would avoid the potential effects of retroactivity and allow reasonable notice of the change to be given to employees and participating employers.

At an 8% contribution rate the plan will still be well short of the required 12% contribution rate to sustain current benefit levels. The Trustees are in ongoing discussions on the subject of allowing for the possibility of the Signatory Parties agreeing to a higher rate of contribution from January 1, 2010 or a later date in an effort to reduce any benefit reductions.