

APPENDIX F

TO: UBCM Members

FROM: UBCM Member Services Committee
Mayor Bill Trewhella, Chair
Mayor Al Kemp
Councillor Maxine Williams

DATE: September 8, 1995

RE: **RESPONSE TO THE REPORT ON THE REVIEW OF
THE MUNICIPAL SUPERANNUATION PLAN:
STATUS AND ISSUES**

ITEM #3(d)

October 4, 1995

B.C. COMMUNITIES AGENDA

DECISION REQUESTED

This report reviews member responses to the Member Services Committee's review of the Municipal Superannuation Plan and makes seven recommendations for further action.

1. BACKGROUND

1.1 UBCM Convention Resolution

As concerns about the Municipal Superannuation Plan have grown in recent years, the 1993 UBCM Convention endorsed the following resolution which was sponsored by the UBCM Executive:

THEREFORE BE IT RESOLVED that the UBCM Executive be instructed to review and report on the state of the pension plan and the advantages and disadvantages of re-establishing the municipal sector with its own distinct pension plan.

1.2 Purpose of the Review

The purpose of the review was to undertake a status report on the Municipal Superannuation Plan. The review focused on:

- describing the plan and its history;
- outlining recent changes;
- reviewing the impacts of those changes; and
- identifying potential issues of concern.

The review served primarily as an information update and informed analysis of the impacts of the recent changes. It also provided the basis for further action, as a result of member response.

1.3 Preparation of the Status Report

An interim review was presented to the 1994 UBCM Convention. This allowed for further refinements before the final review was distributed to all UBCM members in March 1995. The Executive Summary, Summary of Issues and Questions and the background sections of the review were prepared by UBCM staff. The review and issues section were prepared by consultants (Towers Perrin) retained for the project. The Status report was approved by the UBCM Executive Member Services Committee and prepared with the guidance of a Steering Committee composed of:

- Municipal Officers' Association (MOA) – Ken Tollstam, Administrator, City of North Vancouver; Jim Tarves, Treasurer, Regional District of East Kootenay; Dave Gawley, Director of Finance, City of Victoria

- Government Finance Officers (GFOA) – Ken Bayne, Comptroller, Budgets & Research, City of Vancouver; George Horwood, Director of Finance, District of West Vancouver
- GVRD Human Resources Advisory Committee – Allan Woodbury, Director of Personnel Services, City of New Westminster

1.4 Purpose of this Report

At the time the pension review was distributed, municipalities and regional districts were invited to comment on the issues that were outlined in the Executive Summary. The purpose of this report is to provide a summary of the member responses with respect to the issues and to make recommendations regarding these issues.

2. RECENT DEVELOPMENTS

This section studies the developments that have taken place since the review was distributed to members.

2.1 Formation of the Municipal Pension Board

Bill 53 established the new governance structure, the Municipal Pension Board, and in January 1995 appointments to the board were formally completed. Current members of the Board include:

Four Plan Member Representatives:
 Steven Polak, Hospital Employees Union
 Shane Simpson, Canadian Union of Public Employees
 Cliff Ivers, Retired Firefighter
 Margaret Bisal, BC Nurses Union

Three Government Representatives:
 John Herbert, Executive Director, Finance & Management Services Division, Ministry of Health
 Tor Veltheim, Executive Director, Public Sector Employers' Council Secretariat (PSEC)
 Tom Vincent, Director of Social Policy Branch, Ministry of Finance and Corporate Relations

UBCM Representative:
 Richard Taylor, Executive Director

Board Chair:
 John Cook, Superannuation Commissioner

Board Secretary:
 Ian Dodge, Policy Analyst, Superannuation Commission

Observer:
 Barbara Ingamells, Manager, Member Services, UBCM

The UBCM Executive was requested to appoint a member to the formally constituted new Municipal Pension Board. While the questions of the role and responsibilities of that appointee, which are raised as an issue in the review were still under discussion, the Executive nominated the Executive Director until such time as these matters could be resolved. The appointment was effective January 1, 1995, for a two year period.

2.2 Activities of the Municipal Pension Board and Current Issues

Since the 1994 Convention the Municipal Pension Board met four times. Among the issues discussed were:

- a process for appealing Commission decisions;
- a number of other benefit issues (e.g. definition of spouse)

- portability agreements between the MSP and other pension plans;
- an investment policy; and,
- the appointment of the actuary for the December 1994 actuarial review.

2.3 Two Major Issues also Discussed were:

- Community Health Councils (CHCs)/ Regional Health Boards (RHBs)

With the formation of CHCs and RHBs, these new employers and the new employees of these organizations will be covered under the Municipal Superannuation Plan. Employees transferred to these new organizations that are members of the Public Service Pension Plan will be grandparented under their existing plan, (i.e. these employees will remain in the Public Service Plan and will not be transferred to the Municipal Superannuation Plan).

There is some concern expressed by UBCM and others regarding the number of new employees that will become members of the Municipal Superannuation Plan; particularly as this affects the relationship between the current contribution rates and the unfunded liability. It has been indicated that a large number of employees (initially estimated to be over 2,000) will work for CHCs and RHBs. What is not known is the number of employees of CHCs and RHBs that are currently covered in the Public Service Pension Plan that will remain members of this plan.

- Addition of Dental benefits

The addition of a Dental plan for retirees to the Municipal Superannuation Plan was again brought to the Municipal Pension Board for discussion and consideration. The addition of Dental coverage was not part of the benefit improvements of Bill 53, Pension Statutes Amendment Act, 1994 although this issue was discussed by the Board prior to Bill 53. The other three major public sector plans already provide this benefit.

The issue surrounding the addition of this benefit is funding. It has been proposed to the Board that the funding would come from the Inflation Adjustment Account (IAA). UBCM has requested that a financial projection of the IAA be completed including estimates of the impact on indexing pensions of the IAA, for funding the addition of the dental benefit. These projections have not been finalized. The Board is anticipated to make a recommendation at its Fall 1995 meeting.

3. MEMBER RESPONSES TO THE REPORT

3.1 Summary of Distribution and Presentations

In March of 1995 our review was distributed to all UBCM members and they were advised that we would welcome comments on the various points of discussion outlined in the Executive Summary (Appendix A) or any other points of concern. Copies were also made available to any interested parties and were distributed to the Municipal Officers Association (MOA), Government Finance Officers Association (GFOA), the Municipal Pension Board, the Superannuation Commission and others. In all, UBCM distributed copies of 250 copies of the review and approximately 400 copies of the Executive Summary.

To highlight our work, the November 1994 UBCM News included an article on the interim Pension Report, which was presented to the 1994 UBCM Convention in Whistler. Both the May and August 1995 issues of the UBCM News included articles on the final report circulated in March 1995.

Presentations on the review were given at the GFOA Annual General Meeting, several MOA Chapter meetings, the review was presented twice at the MOA Convention and to a joint GVRD Human Resources Advisory Committee (HRAC) and RAAC meeting. We estimated several hundred plan members attended these presentations.

3.2 Overview of Responses

The Executive Summary raised many issues for consideration by the membership. A total of 52 responses were received - 45 from members and 7 from employee associations and individuals. Together they raised 11 issues of concern. These have been summarized in Appendix B and the responses were categorized in order to determine the major concerns of members and others (see Table 1).

By far the greatest concern is that the:

- UBCM should report on the advantages & disadvantages of re-establishing a municipal sector only plan.

This was followed by recommendations regarding:

- Actuarial review of Inflation Adjustment Account (IAA).
- UBCM demand that the province cease diverting funds from IAA.
- Province to plan to eliminate Unfunded Liability in 60 month period.
- Representation by exempt senior local government employees in plan governance.

Other concerns received less widespread support. The next section will discuss each of the five major issues.

4. DISCUSSION OF COMMON THEMES IN THE RESPONSES

4.1 Establishing a Separate Municipal Pension Plan

The original motion that led to this report included direction to review the *"advantages and disadvantages of re-establishing the municipal sector with its own*

distinct pension plan". However, the resolution first asked the Executive to *"review and report on the state of the pension plan"*. Given the significant changes the plan was undergoing since the original motion was adopted, the emphasis on the use of the available time and resources was to complete the first part of the instructions.

Nevertheless, there is continued support for the concept of a separate pension plan with over 40 of the responses - the highest number of the responses received - supporting this direction. Some of the responses actually go further than the original resolution and suggest separation without examining

the advantages or disadvantages. We feel this important issue deserves further discussion before acting.

First, a separate Municipal plan is not in our view an end in itself. Separation must be appreciated as the means to achieve an end, or an objective, that has real meaning to improving the governance, financing or administration of the plan. There could be several reasons to suggest separation:

- as a means to minimize cross-subsidies between municipal and other sectors.
- to control the plan funding policy - to allow local governments to pursue a different funding policy that would eliminate the unfunded liability.
- to permit local government to pursue other financial issues or benefit levels.
- to allow local government to set its own plan administration performance levels and to have true cost recovery for those expenses.
- to address governance issues such as the minimal control by the municipal sector on the present Pension Board; and/or
- to provide a means for the exempt municipal employees to be represented.

Some of these objectives could be achieved through other arrangements rather than complete separation into a new plan. For instance, a Group 5 might be created within the existing plan. There are now four groups in the plan and a group 5 option would establish a new group within the existing plan for municipal employees. This could allow separate accounting (minimizing any cross-subsidies), different contribution rates (e.g. sufficient to reduce the unfunded liability) and distinct plan administration performance levels. A Group 5 Advisory Council could be established to make recommendations on this group that the UBCM representative could carry to the Municipal Pension Board.

However, we do not see in the responses calling for separate plan, a clear and unified sense of what are the **objectives** of separation. If the objectives are not clearly understood at the outset, the goal of separation might be achieved but may not provide for the objective that some felt would have been realized.

Second, if on balance of an examination of the advantages and disadvantages, separation is the preferred route to achieving the goals, the implementation of that decision will be a considerable task. Indeed, an examination of the advantages and disadvantages pales in comparison to the challenges that would follow. We see these as some of the steps that would be involved:

Step 1 The basic study of advantages and disadvantages completed and taken to the 1996 Convention for consideration.

Step 2 Gaining the support from municipal employees and government leading to the introduction of new legislation (at the earliest in 1997 if these considerable challenges could be achieved).

Step 3 Implementation of the legislation including formation of a new governance structure, plan administration and accounting systems, etc. (begins in 1998).

The time and costs involved would be considerable. There appears to be some implication that UBCM should bear the costs of the first two steps. UBCM would have to raise the needed funding through a special dues levy if it were to undertake more than modest follow-up activities.

The Committee does not disagree that the next step should be to complete the instruction of the 1993 resolution. However, in the course of our work it has become clear to us that:

- local government representatives must be more precise about the actual objectives of separation if it is to be considered.
- there should be latitude to examine alternatives.
- local government representatives must be realistic about what is involved to implement a separate plan.

In regard to the final point the Committee strongly recommends a balanced strategy in the follow-up to its report. Putting all the emphasis on pursuing separation could divert the UBCM representatives from dealing adequately and responsibly with short term priorities.

Recommendation:

That the Executive be directed to complete the report on *"advantages and disadvantages of re-establishing the municipal sector with its own distinct pension plan"* with these added considerations:

- the work be considered part on a longer-term work program.
- the work be subject to funding being available, with the understanding that a special dues levy would likely to be required to implement the results of that study should a decision to proceed be reached at the 1996 Convention.
- the work include research to more precisely define the member's objectives for separation.
- the Executive should have the latitude to examine and present alternatives to complete separation.

4.2 Actuarial Review of the Inflation Adjustment Account (IAA)

The Inflation Adjustment Account (the "IAA") was established in 1981 to provide inflation protection to retired Plan members. Our review indicates that *"As far as we are aware, no calculations have been performed to determine the number of years of full inflation protection which can be anticipated under the "revised" IAA in respect of current and future retirees. In addition, we understand that no analysis was conducted to determine how much this period was reduced as a result of the changes to the IAA"*.

The review observed that historically, the IAA has been ignored for the purpose of determining the financial condition of the Plan. The rationale for overlooking the IAA is that the level of future inflation adjustments provided by the IAA are limited by the assets available in the IAA to fund such increases.

Further, our review indicated that the Bill 53 changes are funded by reducing the allocation of investment return to the Inflation Adjustment Account.

Many members support the view that an actuarial review of the IAA should be undertaken for the plan.

An actuarial review of the IAA was called for by the UBCM, during Municipal Pension Board discussions, regarding the recent letter of appointment for the plan actuary to conduct the December 1994 actuarial review. Since the Pension report was produced the Board has retained the actuary of December 1994.

The appointed plan actuary is expected to complete the actuarial valuation of the Municipal Pension Plan later this year.

Recommendation: That the UBCM reiterate the request that the actuary include a review of the IAA with the triennial valuation of the plan.

4.3 Application of IAA funds for Benefits

As pointed out in the previous section (4.2), the original purpose of the IAA account was to provide inflation protection for retired plan members. However, the funding arrangements for the IAA have been revised in order to finance the benefit improvements established as a result of Bill 53.

There is currently discussion at the Municipal Pension Board of the potential effects that diverting funds for new benefits will have on the ability of the IAA to achieve its original objective of providing pension indexing. Specifically, there have been discussions on provide funding for Dental coverage from the IAA and UBCM has requested an analysis of the IAA in this regard. However, as yet, the review of this analysis has not been completed.

The nature of the responses from the membership indicate that funds from the IAA should not be diverted to fund for additional benefits.

Recommendation: That the Municipal Pension Board be requested to cease diverting the funds of the IAA account to fund additional benefits; at least until such time as a full actuarial analysis of the potential of the IAA to fund future inflation protection is completed.

4.4 Unfunded Liability

The Plan's unfunded actuarial liability has increased from \$407 million as of December 31, 1979 to \$1.4 billion as of December 31, 1991. In addition, if expressed as a percentage of the total payroll of Plan members, the unfunded actuarial liability has increased from 42.9% of total payroll of plan members as of December 31, 1979 to 49.6% of total payroll as of December 31, 1991.

A new funding policy was established for the Plan in July, 1994 and was included as part of Bill 53. This new funding policy is based on the premise that the plan's unfunded actuarial liability should not increase as a percentage of covered payroll.

Our review observed that this funding policy may lead to the elimination of the Plan's unfunded actuarial liability. This is because any actuarial gains which arise between actuarial valuations will not be applied to reduce the contribution requirements - they will serve to reduce the Plan's unfunded actuarial liability, while an increase in the Plans' unfunded actuarial liability will result in an increase in the contribution rates. However, there is no finite period established over which full funding of the Plan is to be achieved. In our opinion the Plan's funding policy defines a contribution strategy and is silent on the overall funding objective.

Many local government responses to the report support the view that the Province be requested to plan to eliminate the Unfunded Liability in a 60 month period.

An actuarial review of the Municipal plan is currently underway which will determine the status of the Unfunded liability as a percentage of covered payroll.

Recommendation: That UBCM await the results of the actuarial valuation (expected in early 1996) and make recommendations on the funding policy to the 1996 convention in respect of the report results on the unfunded liability; but in no way should there be benefit improvements in the interim that potentially increase the Unfunded Liability.

4.5 Representation of Exempt Employees

Exempt employees do not currently have representation on the Municipal Pension Board and we have received comments from some members supporting representation from this group. Issues to be considered include:

- Will the provincial government entertain the possibility of adding a representative of the exempt employees to the Pension Board?
- How would a representative be chosen by the exempt employees?

UBCM sympathizes with those Municipal employees that have expressed frustration in their inability to gain representation. Estimates indicate that there are approximately 10,000 to 15,000 exempt employees (municipal/hospital/school/other) that represent 10% - 15% of plan members.

Recommendation: That the exempt employees representative issue be pursued by requesting the Steering Committee to take the lead in determining how a representative would be chosen by this group of employees and report their findings through to the UBCM Member Services Committee.

Other Issues

4.6 Improvements to Plan Administration

Our review outlined issues of concern regarding plan administration including those functions performed by the Superannuation Commission which directly affect Plan members such as delays in:

- pension estimates
- commencement of pension payments
- communication material
- group insurance enrollment
- receiving refunds of excess plan contributions

The Pension Board recognized the need for improvement in some aspects of the Plan administration and in a 1994 Treasury Board submission they recommended "that sufficient resources be made available to the Superannuation Commission to bring service levels to an acceptable standard, and that the cost effectiveness of any additional resources be monitored and appropriate reports be provided to the Board".

The Commission recognizes the need for improved service - particularly with respect to the time required to perform certain administrative functions.

Recommendation: That the UBCM representative to the Municipal Pension Board continue to monitor the plan administration situation and, where appropriate, to make further recommendations to the Board for improved service.

4.7 Issues Not Commented On

The report invited comment on other questions and issues including "Doubling"* and the UBCM Representative on the Municipal Pension Board. Comments were not received from the membership on these two issues. However, the Committee feels the latter deserves comment and consideration.

*Doubling -The contribution rates under the plan are structured on a "doubling" basis - the rates applicable within 15 years of normal retirement age are double the rates applicable prior to that age. This approach recognizes that pension costs increase under a defined benefit pension plan as an individual ages and also the different employee demographics amongst employers.

There has been a "perceived" inequity as a result of employee contributions exceeding employer contributions. However, employer rates are increasing

- through to July 1, 1997 in accordance with Bill 60 and
- the plan's new funding policy provides for automatic increases in employer contribution rates if the plan's unfunded actuarial liability increases as a percentage of covered payroll.

UBCM Representative on the Municipal Pension Board

Several questions were outlined in the "Review of the Municipal Superannuation Plan: Status and Issues" that need to be considered in order to select the appropriate individual for this important position including:

- What qualifications should be required for this position?
- What process should be applied to select the representative for the Pension Board?
- How should the individual be held accountable to the UBCM?
- What direction should be provided for the individual by the UBCM?
- How to communicate on pension issues with UBCM members?

Recommendation: That the UBCM Member Services Committee in consultation with Municipal Superannuation Plan Steering Committee, develop recommendations for the 1996 Convention, regarding the UBCM Representative on the Municipal Pension Board:

- establish the qualifications of the position,
- determine the process to select the representative,
- determine how the individual should be held accountable to the UBCM,
- determine how to communicate on pension issues with UBCM members and
- determine what direction should be provided to the individual by the UBCM.

5. SUMMARY OF RECOMMENDATIONS

That the following recommendations be approved by the UBCM convention:

Recommendation #1: That the Executive be directed to complete the report on "*advantages and disadvantages of re-establishing the municipal sector with its own distinct pension plan*" with these added considerations:

- the work be considered part on a longer-term work program.
- the work be subject to funding being available, with the understanding that a special dues levy would likely to be required to implement the results of that study should a decision to proceed be reached at the 1996 Convention.
- the work include research to more precisely define the member's objectives for separation.
- the Executive should have the latitude to examine and present alternatives to complete separation.

Recommendation #2: That the UBCM reiterate the request that the actuary include a review of the IAA with the triennial valuation of the plan.

Recommendation #3: That the Municipal Pension Board be requested to cease diverting the funds of the IAA account to fund additional benefits; at least until such time as a full actuarial analysis of the potential of the IAA to fund future inflation protection is completed.

Recommendation #4: That UBCM await the results of the actuarial valuation (expected in early 1996) and make recommendations on the funding policy to the 1996 convention in respect of the report results on the unfunded liability; but in no way should there be benefit improvements in the interim that potentially increase the Unfunded Liability.

Recommendation #5: That the exempt employees representative issue be pursued by requesting the Steering Committee to take the lead in determining how a representative would be chosen by this group of employees and report their findings through to the UBCM Member Services Committee.

Recommendation #6: That the UBCM representative to the Municipal Pension Board continue to monitor the plan administration situation and, where appropriate, to make further recommendations to the Board for improved service.

Recommendation #7: That the UBCM Member Services Committee in consultation with Municipal Superannuation Plan Steering Committee, develop recommendations for the 1996 Convention, regarding the UBCM Representative on the Municipal Pension Board:

- establish the qualifications of the position,
- determine the process to select the representative,
- determine how the individual should be held accountable to the UBCM,
- determine how to communicate on pension issues with UBCM members and
- determine what direction should be provided to the individual by the UBCM.

Review of the Municipal Superannuation Plan:

Status and Issues

EXECUTIVE SUMMARY

The Municipal Superannuation Plan represents 5% of an average municipal government's expenditures. The total municipal contributions in 1994 were \$149.5 million (employer and employee). The Plan has combined (municipal and other sectors) assets of \$5.8 billion.¹ It is the largest of the four major B.C. public sector plans (municipal, college, teachers, provincial government) – with over 88,000 active members, nearly 17,000 inactive or deferred employees and 20,000 retirees – 27% of the active employees are municipal.¹ Big dollars are involved from the individual, municipal or overall perspectives. The magnitude of these numbers alone suggests that local government needs to review its involvement in the Plan.

This Status and Issues Report is the first comprehensive review of the Plan by municipal employers since the Plan was established in 1958. The Report is intended to inform, increase interest in Plan issues and to stimulate discussion. The Executive Summary is not designed to outline details of the Plan – such details can be found in section 3 of the Report and in Appendix B. A history of the Plan is contained in Appendix A and summarized in section 2. It is clear from reading this history that what started as a 'municipal' plan has evolved into one where the municipal sector is in the minority. Today, only 180 of the over 600 employers participating are municipal (29%) – the health sector is the largest sector (with 38% of the employers and over one-half of the employee members). What distinguishes this sector and most 'others' in the Plan from the municipal sector is the source of their funding – over 60% of Plan member organizations are directly funded from provincial revenues. The change in the composition of the Plan, since it was founded in 1958, has had a great effect on the dynamics of how employees and employers interrelate. Structures UBCM established for 'co-oversight' of the Plan in the early days were not able to adapt to the changing environment and have been replaced. The origins of the Plan as a 'municipal' plan asks some to question if the current mix of employees and employers is a compatible one where there is a high degree of shared interests.

This Executive Summary is also not designed to review the major changes that have occurred in the last two years as a result of the *Pension Benefits Standards Act* (PBSA) and Bill 53 (1994). [These are outlined in sections 4.1 and 4.2.]² Suffice it to say, the last two years have seen the most sweeping range of changes made to the Plan's benefits since 'indexing' of pensions was introduced over a decade ago.

This Summary is, however, designed to provide the Plan members with an overview of the status of the Plan and the issues that they should be aware of. It is intended to be the basis for municipal members to signal those issues and concerns that they feel should be pursued. A collective direction among the municipal employer sector, in particular, has not been seen recently and this report, it is hoped, may provide the basis for future collective action.

The Executive Summary is structured around three key ways of assessing the Plan:

¹ 1992 figures used.

² Throughout the Executive Summary reference is made to sections of the full report. The reader is encouraged to consult these sections for further information.

- the way it is governed and administered.
- the way it is financed.
- the benefits provided.

■ Governance and Administration

Ultimate control of the Plan lies with the provincial government – at the legislative, cabinet or ministerial levels (depending on the issue to be decided). Municipal employees or employers can only ‘advise’ government under the current governance system.

Changes have been made in the last year to improve the governance structure with the formation of a new 8-person Board (4 employee and 4 employer representatives, of which 1 is a UBCM nominee; with the Superannuation Commissioner as the chair) that reports directly to the Treasury Board of Cabinet [see section 5.2.1]. This structure provides:

- more direct communication to government (including forwarding of any minority positions); and
- potentially more control over certain functions of the Superannuation Commission.

While an improvement over the previous advisory committee structures, it still leaves: (a) exempt employees with no apparent voice [sections 5.2.1, 6.6.2]; and (b) municipal employers with a small say in a Board dominated on the employer side by provincial government representatives. UBCM members also need to decide how to most effectively use their new seat (the role and responsibility of the UBCM nominee is one item that needs further discussion [see section 6.6.1]). These are issues that might be considered for follow-up action by the membership.

Improvements to the administration of the Plan should be one of the new Board’s priorities. The challenges facing the Superannuation Commission today are different than they were in the past – i.e. employees with different work patterns and better informed/educated employees have increased demands on the Commission. A wide range of problems [section 6.7.1] have been identified, including complaints from some members about:

- delays in pension estimates,
- delays in pension commencement,
- untimely communications material,
- delays in group insurance enrollment,
- poor-quality counselling, and
- delays in receiving refunds.

The Commission has acknowledged these problems and the need to be more proactive. Desired performance levels must be set and the Commission must have the resources to reach those levels. Local government must decide if it wishes to contribute increased resources or recommend other ways to help the Commission to achieve the desired service levels.

The value of the Plan to younger members, who see an immediate cost and a very distant benefit, is also a problem area that could begin to be addressed in communications materials.

■ Financial Condition

The financial condition of the Plan is neither cause for great consternation nor for complacency. The financial condition should be studied, understood and considered carefully by municipal employees and employers. Such discussion can get easily muddled by legal, actuarial or ‘moral’ arguments. We have tried to avoid these or at least explain how they affect the discussion in this report.

There is no disputing that the Plan has a large ‘unfunded liability.’ There are several ways of describing this:

- The unfunded liability calculated on an ongoing basis is \$1.4 billion at Dec. 31, 1991; that is, the Plan has assets of \$7.9 billion (including future employee and statutory employer

contributions) and liabilities of \$9.3 billion. The unfunded liability in December 1979 was \$407 million [see section 5.1.1].

- As a percentage of current payroll – the unfunded liability is 50% of current payroll [see section 5.1.1].
- If the Plan was wound up today, the funded ratio provides a reasonable estimate of the Plan's financial condition. The funded ratio, a comparison of accrued liabilities with current assets, increased from 61% at Dec. 31, 1979 to 80% at Dec. 31, 1991 [see section 5.1.3].
- Other major public sector B.C. plans are also in deficit positions – e.g. 11% of payroll (Public Service); and 117% of payroll (Teachers) [see section 5.1.5].
- Manitoba and Saskatchewan municipal plans have a surplus; Ontario (17% of payroll) and Alberta (34% of payroll) have deficits [see section 5.1.5].

Whatever way it is described, funding of the Plan is a concern.

A natural question is: Why did this unfunded liability arise? Quite simply, the contribution rates fell behind those recommended by the Plan Actuary. Legislation, including the *Pension Benefits Standards Act*, did not require the Plan (government) to follow the Actuary's recommendations on contribution rates [section 3.5.2].

Despite the funding policy which exists under the Plan – a policy that would not be permitted in a private sector plan – the security of accrued pension entitlements is not a major concern for the following reasons:

- It is highly unlikely that the Plan will terminate in the foreseeable future;
- If the Plan were to be terminated, the taxation powers of the provincial government and the municipalities should allow them to fund any shortfall which may exist at that time. However, the provincial government would not be legally required to fund the shortfall [section 6.2.4];
- If the Plan were to be amended in future, any pension entitlements accrued up to the time of the amendment may not be reduced due to the application of the *PBSA*.

Notwithstanding this, the provincial Auditor General has stated that “no provisions in the legislation hold the government responsible for any unfunded pension liabilities” in respect of the Plan. Despite the fact the government may not be legally required to fund any deficiencies under the Plan, the Auditor General recognizes there is likely a moral obligation to honour the pension entitlements.

The reported financial condition of the Plan is expected to show an improvement as a result of the December 1994 actuarial evaluation. The steps taken recently to diversify the Plan's investments into such asset classes as corporate bonds, Canadian and foreign equities and real estate (previously restricted to short- or long-term government investments) are expected to improve the rate of return on the investments of the Plan. Recent legislation also put in place a new ‘funding policy’ that will trigger an automatic increase in employer contribution rates, should there be a deterioration in the unfunded liability position as a percentage of payroll [section 5.1.6]. While the financial picture is expected to improve, the contribution rates will still likely be lower than the Actuary's recommendations [section 5.1.2]. The new funding policy (perhaps more properly described as a contribution policy) needs to be clearly understood by members as it is a key part of their benefit security [section 6.4].

Currently, employer contributions in aggregate are slightly lower than employee contributions [section 3.5.1] and this is a cause of concern to some employee representatives. However, employer contribution rates are scheduled to increase to account for all of the recent *PBSA* changes. To make the employer rates more comparable (and for other reasons), there is a suggestion to eliminate the current ‘doubling rate.’³

³ Two possible approaches to eliminate the ‘doubling rate’ would be to apply a flat rate to all ages with special ‘transition rates,’ or to adopt smoothed contribution rates. Although these approaches would have the effect of leveling out the contribution rates throughout the member's contributory years, they both would result in more administrative complications. [See section 6.5.2.]

A question that couldn't be answered in the scope of this Review is if there is 'cross-subsidy' between municipal and provincially funded members. The method of accounting and of establishing contribution rates does not attribute the cost of the various sectors. This may be a question for future research [section 6.1]. If such an accounting framework had been in place we might know today how much of the unfunded liability was 'municipal.' As it is, the municipal sector's current contribution rates may bear little relationship to underwriting its employees' benefits – we simply don't know.

Inequities may be a concern because a significant portion of the Plan's unfunded actuarial liability is attributable to past underfunding of the Plan (relative to the Actuary's recommendations). Some may argue that it is not equitable to pass this portion of the unfunded actuarial liability on to future generations of taxpayers.

In addition, if employee contributions are increased in future as a result of the Plan's funded position, inequities may also arise between generations of Plan members [section 6.2.2].

However, accounting for unfunded liabilities of the magnitude recorded has not apparently resulted in reduced local government credit ratings [section 6.2.4].

■ Benefits in Review

Compared to other pension plans, the Municipal Superannuation Plan provides a good standard of benefits. Yet, due to the magnitude of employee contributions – compared to private-sector plans – the Plan is an 'average plan'. The 'employer-provided value' of benefits provided under the Municipal Superannuation Plan is comparable to the median employer-provided value provided under private sector pension plans. While the total benefits provided under the Plan are well above the median in the private sector, approximately half the pension plans in the private sector do not require employee contributions. In addition, many of the contributory plans in the private sector have employee contribution rates which are lower than the contribution rates under the Plan [section 5.4].

After more than a decade without significant benefit changes (before *PBSA*), the Plan recently has seen new benefits introduced in 1994 [section 4.2.4] – principally to provide:

- 2-year vesting effective January 1, 1998.
- Reinstatement of lump-sum refunds.
- Leave of absence rules expanded.
- Early retirement reduction factor reduced from 5% to 3% per year.
- Child-rearing period recognized as service for eligibility purposes (5 years).
- Indexing of all early retirement and bridge pensions.
- Extended health care coverage improved effective January 1, 1995.
- Up to 100% of premium for MSP and extended health coverage provided for retirees.

The Plan has experienced full indexing each and every year since indexing was instituted in 1982 – which was a very important benefit enhancement. However, full indexing is not guaranteed; it depends on availability of funds [sections 3.5.2.1, 5.1.4 and 6.3].

Presently, benefit improvements must be evaluated on a wide range of criteria (such as equity, comparability with other plans, social policy considerations, cost effectiveness, etc. [section 6.8.2]) and the costs identified. For instance, the provincial government required that the most recent benefit changes be financed without adding to contribution rates or to the unfunded liability. These recent changes were financed through a reallocation of the Inflation Adjustment Account (IAA) [sections 5.1.2 and 5.1.4]. In short, some of the funds that would have flowed to the IAA will be diverted to provide new benefits. It is anticipated that the IAA balance, which stood at approximately \$748 million (1992), will generate new investment income to sustain it into the future.

It was suggested, as part of this Review, that the Inflation Adjustment Account, which has not been subject to actuarial review, be included as part of the 1994 year-end actuarial review [section 6.3]. This might provide some indication of the levels of indexing that might be provided in the future.

It appears that the Plan's financial condition is likely to continue to be a barrier to future benefit changes.

■ Summary

The 1993 UBCM Convention requested the UBCM Executive to:

- review and report on the state of the Municipal Superannuation Plan; and
- report the advantages and disadvantages of re-establishing the municipal sector with its own, distinct pension plan.

The first objective is fulfilled in this report. This report also identifies a number of issues that might be dealt with regardless of the direction on the second point. [See Summary over.]

The second instruction proved more problematic. Two issues dominate the discussion about a separate municipal plan: cost and control [see section 6.1].

This much one can say about costs: at this point, it is not possible to say whether it would cost more or less for municipalities to fund their own plan. What is known is that under the present system, there is **not true cost accounting**. Municipalities (employees and employers) and local taxpayers may be subsidizing the benefits of provincially funded workers or *vice versa*.

It may, however, be possible to achieve a better cost accounting without separating the Plan through the use of separate contribution rates and accounting structures within the existing plan that target for the municipal costs and benefits.

Turning to the matter of 'control': under the present governance system, local government employers will likely continue to be marginalized players. Employee representatives are accountable to the union, Municipal Employees' Pension Council (MEPC). Government employer representatives will receive their mandate from Cabinet on crucial issues before they enter discussions. UBCM is naturally excluded from both processes. The issues and questions on the following page require further input from its members before UBCM can decide which actions to take. UBCM has two choices:

- try to work within the current system, or
- attempt to establish a plan that has a more effective and accountable municipal employee/employer governance process.

The first step in either case would be to articulate what our objectives are – and the recent decision UBCM has made to establish an interim pension advisory committee may assist their Pension Board representative in advancing that discussion.

• • •

In conclusion, nearly 40 years ago municipal employees and employers had a vision – a secure and adequate Municipal Superannuation Plan. Over the years the municipal workforce has changed dramatically and the Municipal Superannuation Plan membership has evolved in ways that were not originally contemplated. Yet, it met the original vision. This report challenges us to think not just about the current issues but also the need for a renewed vision for the Plan for the next 40 years.

Have we laid the foundations for a secure, stable and sustainable pension plan for municipal employees into the 21st century?

That is our challenge.

That is our collective responsibility.

A Summary of the Issues and Questions

Report Reference	The Issues highlighted in this Review include:	The Questions that local government might focus on include:
GOVERNANCE AND ADMINISTRATION		
6.1	There is little influence by municipalities over the governance and administration.	What are the consequences of this lack of control? What would be the objectives for seeking greater control?
6.7.1	Administrative responsiveness is less than desired by some Plan members.	Is this perception shared by other Plan members? What are the acceptable performance levels and do Plan members have suggestions on how to achieve those?
6.6.1	UBCM representation on the Municipal Pension Board.	What should be the role and responsibility of the UBCM (local government) representative? What mechanism should be put in place so the representative can be informed of members' views?
5.2.1 6.6.2	Exempt employees are not directly represented.	Are the interests of exempt employees adequately represented? How could they be better represented?
FINANCIAL CONDITION		
5.1.2 5.1.4 6.3	Inflation Adjustment Account (Indexing Account)	Should the purpose of the Inflation Adjustment Account (IAA) be clarified, given the recent diversion of Indexing funds to pay for other benefits? Should the IAA be subject to actuarial review to assess the potential to continue indexing benefits in the future?
6.8.2	Future Benefit Improvements cannot increase contribution rates or the unfunded liability.	Should this policy be reaffirmed? Should any future increase in investment earnings be used to pay down the unfunded liability?
BENEFITS		
5.1.1 5.1.6 6.4	There is a significant unfunded liability.	Is the new funding policy adequate to deal with the unfunded liability?
6.1	There may be a cross-subsidy between municipal and other members.	Does this potential warrant further study in regard to a separate pension plan?

6.5.2	Contribution rates 'double' at age 55.	Should the 'doubling rate' be replaced?
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**UBCM Member Responses to the
Review of the Municipal Superannuation Plan: Status and Issues**

Member	Comments & Recommendations (The bracket numbers following the comments are used as the basis of compiling the final summary in order to identify common themes)
Capital RD	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. UBCM demand province cease diverting funds from IAA. (3) Province to plan to eliminate Unfunded Liability in 60 month period. (4)
Fernie	Complete direction of '93 resolution. (1) Actuarial review of IAA. (2) UBCM demand province cease diverting funds from IAA. (3) Province to plan to eliminate Unfunded Liability in 60 month period. (4)
Mission	Supports positions of MOA and GFOA. Study advantages & disadvantages of re-establishing own plan. (1) Actuary to evaluate & report on IAA. (2) Actuary to evaluate & report on longevity & sustainability of plan. (6) Attempt to have MOA on new Pension Board. (5)
Peace River RD	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Recommends the adoption of all the recommendations contained in the CRD report.
Valemount	UBCM investigate the possibility of overseeing & separately operating the Municipal Superannuation Plan. (1)
Saanich	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuary to evaluate & report on IAA. (2) Plan to eliminate Unfunded Liability in 60 month period. (4) Indexing funds not be used to pay for other benefits. (3) Attempt to have MOA on new Pension Board. (5) Encourage provincial gov't to improve plan administration. (7)
Bulkley-Nechako	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
Thompson-Nicola RD	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
RD Central Okanagan	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuary to evaluate & report on IAA. (2)
Kimberley	Seek separation of municipal sector. (1) Seek revamping of administration. (7)

	<p>Concerns s/b transmitted to UBCM Pension Board representative via the UBCM Executive/staff.</p> <p>Separation of the municipal sector would allow for a restructured board which should include non-union (exempt) staff representation. (5)</p> <p>IAA must be reviewed & should not be a source of funding for other benefits. (3)</p> <p>Policy that future benefit improvements cannot increase. Contribution rates or the unfunded liability should be reaffirmed.</p> <p>Plan should be closely monitored/more attention paid to actuarial recommendations.</p> <p>Further study with regard to possible cross-subsidy between municipal and other sectors.</p>
Burnaby	Thank you for writing the report.
Merritt	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
Smithers	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
	Concern that exempt employees cannot voice their opinions. (5)
East Kootenay RD	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
Abbotsford	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
	Exempt employee representation on the Pension Board. (5)
	Address unfunded liability and if necessary, both employer and employee contributions must be raised to ensure the plan will be self sufficient.
	Ensure sufficient funds in IAA account for future indexing. (2)
	Equalization of contributions by employer/employees should be addressed.
Powell River	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
	Actuary to evaluate & report on IAA. (2)
	UBCM report at the 1995 Convention.
	That the province be requested to immediately cease diverting indexing funds to pay for other benefits. (3)
	That the province be requested to establish a plan to eliminate the unfunded liability within five years and that the plan have a "balanced budget". (4)
Township of Langley	Endorses Capital Regional District's comments regarding a self-funded and self-sustaining plan. (1)
RD Fraser Cheam	Investigate the possibility of overseeing & separately operating the Plan. (1)
Mackenzie	UBCM work toward establishing a separate pension plan for municipal employees only. (1)
	Request that the province stop utilizing indexing funds for other pension benefits. (3)
	A plan be negotiated to place the Municipal Superannuation Plan on a fully funded basis. (4)

Victoria	<p>UBCM continue to pursue the original objective of re-establishing a separate municipal plan. (1)</p> <p>Demand action to extinguish the unfunded basic fund liability. (4)</p> <p>Demand action to determine the actuarial sufficiency of the inflation fund. (2)</p> <p>Demand plan cease diverting funds to pay for other benefits. (3)</p>
Kelowna	<p>Implement a program to eliminate the unfunded liability within 5 years and provide for adequate and current funding of all benefits and liabilities. (4)</p> <p>If appropriate, re-establish plan as a separate and distinct plan. (1)</p> <p>Actuary to evaluate & report on IAA. (2)</p> <p>UBCM report at the 1995 Convention.</p> <p>Review governance structure to provide for control and direction of plan by municipal employers and employees, including exempt employees. (5)</p> <p>Implement true cost accounting and use separate contribution rates and accounting structures for municipal costs and benefits. (8)</p>
Duncan	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)</p> <p>Actuarial review of Inflation Adjustment Account (IAA). Report at 1995 Convention on this issue. (2)</p> <p>Province to plan to eliminate Unfunded Liability in 60 month period. (4)</p>
Golden	<p>UBCM investigate the possibility of overseeing and separately operating the Municipal Superannuation Plan. (1)</p>
Invermere	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)</p>
Keremeos	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)</p> <p>Actuarial review of Inflation Adjustment Account (IAA) (2). Report at 1995 Convention on this issue.</p>
Kaslo	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)</p>
Dawson Creek	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)</p> <p>Issues of concern to the municipality include:</p> <ul style="list-style-type: none"> • Unfunded Liability (4) • total control of plan by province, yet the province asserts that the funding shortfalls will be the responsibility of the municipalities. • exempt employees have no seat on Advisory Council.(5) • cumbersome and unacceptable delays in claims and employer inquiries. (7)
Pitt Meadows	<p>Actuarial review of Inflation Adjustment Account (IAA). Report at 1995 Convention on this issue. (2)</p> <p>Exempt employee representation. (5)</p> <p>Planned action to eliminate unfunded liability. (4)</p>
Williams Lake	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)</p> <p>Actuarial review of Inflation Adjustment Account (IAA). (2)</p> <p>UBCM report at 1995 convention.</p>

	<p>UBCM demand province cease diverting funds from IAA. (3) Province to plan to eliminate Unfunded Liability in 60 month period. (4)</p>
Port Alberni	<p>Given additional financial information, a recommendation that the municipal sector re-establish its own distinct pension plan may be in order.(1)</p>
Langford	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. UBCM demand province cease diverting funds from IAA. (3) Province to plan to eliminate Unfunded Liability in 60 month period. (4) Representation by exempt senior local government employees in plan governance. (5)</p>
Central Fraser Valley RD	<p>Supports the comments of the City of Abbotsford.</p>
Castlegar	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention.</p>
Telkwa	<p>UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)</p>
Alberni-Clayoquot RD	<p>UBCM should take the Municipal Pension fund under its own wing and operate it similar to the way the MIA or MFA is operated. (9)</p>
GVRD	<p>UBCM be requested to continue the investigation of the issues and questions posed by the report and report to membership. (10) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. No further benefit changes until strategy to eliminate \$1.4 billion unfunded liability is developed. (11)</p>
Sidney	<p>Representation by exempt senior local government employees in plan governance. (5) UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. UBCM demand province cease diverting funds from IAA. (3)</p>
100 Mile House	<p>Supports the position taken by the Capital Regional District. UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. UBCM demand province cease diverting funds from IAA. (3) Province to plan to eliminate Unfunded Liability in 60 month period. (4)</p>
North Cowichan	<p>Endorses the Capital Regional District's requests that UBCM: UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. UBCM demand province cease diverting funds from IAA. (3)</p>

	Province to plan to eliminate Unfunded Liability in 60 month period. (4)
Fort Nelson-Liard RD	Supports the investigation of a separately operated plan. (1)
Ucluelet	Investigate the possibility of overseeing and separately operating the plan. (1)
RD Central Kootenay	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Province to plan to eliminate Unfunded Liability in 60 month period. (4)
Parksville	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Province to plan to eliminate Unfunded Liability in 60 month period. (4)
Creston	Endorses the Capital Regional District's requests that UBCM: UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. UBCM demand province cease diverting funds from IAA. (3) Province to plan to eliminate Unfunded Liability in 60 month period. (4)
Sparwood	UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1) Actuarial review of Inflation Adjustment Account (IAA). (2) UBCM report at 1995 convention. UBCM demand province cease diverting funds from IAA. (3) Province to plan to eliminate Unfunded Liability in 60 month period. (4)
Other	
John Murray	Retired Administrator of Whistler. 100% takeover of plan by UBCM. (1)
David Moulding	Retired Treasurer-Collector of City of North Vancouver Submitted minutes of the former Pension Advisory Plan Advisory Council.
Municipal Finance Authority	Investigate the possibility of UBCM operating the plan as a separate entity. (1)
Gov't Finance Officers Assoc.	Thank UBCM for their efforts. UBCM determine the priorities of the issues, communicate these to (GFOA) the Municipal Pension Board and work with Board to resolve issues. UBCM continue to communicate with municipal employee groups & consult with them. UBCM review the need & practicality of a separate plan for the municipal sector. (1) Due to the significance of the issues the above be undertaken expeditiously as possible.
MOA	UBCM should: Report on the advantages & disadvantages of re-establishing its own plan. (1) Actuary to evaluate & report on IAA. (2)

Actuary evaluate & report on the longevity & sustainability of the plan. (6)
Attempt to provide for direct MOA membership on the Board. (5)
Other areas of concern, better communication to members; plan administration; counseling services; representation of retirees. (7)

Capital RD CUPE
Local 1978

Resolution to CUPE BC
UBCM should report on the advantages & disadvantages of re-establishing its own plan. (1)
Actuarial review of IAA. (2)
Province be requested to cease diversifying funds from the IAA to pay for other benefits. (3)
Province to plan to eliminate Unfunded Liability in 60 month period. (4)

T.M. Youngberg

UBCM consider the possibility of overseeing and separately operating the Municipal Superannuation Plan. (1)

Analysis of Comments

Common Themes	Requests
(1) UBCM should report on the advantages & disadvantages of re establishing its own plan.	45
(2) Actuarial review of Inflation Adjustment Account (IAA).	23
(3) UBCM demand province cease diverting funds from IAA.	15
(4) Plan to eliminate Unfunded Liability in 60 month period.	19
(5) Representation by exempt senior local government employees in plan governance.	11
Other Significant Issues	Requests
(6) Actuary to evaluate & report on longevity & sustainability of plan.	3
(7) Encourage provincial government to improve plan administration.	4
(8) Implement true cost accounting and use separate contribution rates and accounting structures for municipal costs and structures.	1
(9) UBCM should take the Municipal Pension fund under its own wing and operate it similar to the way the MIA or MFA is operated.	1
(10) UBCM be requested to continue the investigation of the issues and questions posed by the report and report to membership.	1
(11) No further benefit changes until strategy to eliminate \$1.4 billion unfunded liability is developed.	1

Note: This report includes responses received up to September 11, 1995.