



Government of  
Saskatchewan



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April 22, 2013

PRIVATE & CONFIDENTIAL

Brent Sjoberg & Kirby Benning  
Sponsors' Plan Review Committee  
c/o Brent Sjoberg, Deputy City Manager & CFO  
Corporate Services Division  
City of Regina  
2476 Victoria Avenue  
PO Box 1790  
Regina SK S4P 3C8

Dear Mr. Sjoberg and Mr. Benning:

**Re: Regina Civic Employees' Superannuation & Benefit Plan ("the Plan")  
Registration # 0268425**

Thank you for your providing us with a draft copy of the Letter of Intent (LOI) and Funding Policy with respect to the Plan. We are encouraged by the progress you have made towards restructuring the pension plan, and appreciate the significant effort this has taken. However, if our understanding of the proposal is correct, we would not be willing to ask Cabinet for an amendment to the regulations to provide the Plan with elimination of solvency funding and an extension of the amortization period for funding the unfunded liability.

The purpose of this letter is to provide you with our concerns and questions regarding the LOI and Funding Policy. This will allow you see to the areas with which we have concerns, and to determine what changes you are able to make to address our concerns.

**We have three main concerns with the proposal:**

**1. Stability of Contributions**

There is a lack of mechanisms to manage growth in the deficit. Although the proposed changes to the benefits, in addition to the proposed method of valuing and funding the deficit, will presumably make the contribution rate manageable at the time the changes are implemented, we do not have assurance that contributions will remain stable over

time. Experience has shown that plan participants will not or cannot meet contribution requirements that exceed a certain level. We need a high degree of certainty that the deficit will not grow, and a contribution increase will not be required.

## **2. Intergenerational Equity**

With the proposed changes to the plan, new hires and young plan members will be paying for the cost of benefits which they will not enjoy. The proposed elimination of solvency funding and extension of the amortization period for unfunded liabilities significantly shifts the risk of funding accrued benefits to future taxpayers, young employees and new hires without a proportionate reduction in the risk they bear with respect to future benefits.

## **3. Decision-Making**

The proposal is that a Sponsor Committee, with the power to amend the funding policy, be formed. This Committee will have seven employee and seven employer representatives, and consensus will be required in order for changes to be made to the Funding Policy. There are no processes specified which deal with a situation where a consensus cannot be achieved.

The proposal is that approval of the Civic Pension and Benefits Committee, as well as City Council, is required in order for changes to be made to the plan. There are no processes specified which deal with a situation where the parties cannot agree on the changes.

**In addition to our three main concerns, there are several more issues that will need to be addressed in order for us to consider a revised LOI and Funding Policy. The following lists most of those areas. However, we do have other concerns which are too technical in nature to address at this point.**

### **1. Discount Rate**

It is unusual to determine a discount rate at this point for a valuation that will be effective several months in the future. It is the discretion of the Superintendent of Pensions to determine the acceptability of a discount rate. It is not our practice to approve a discount rate in isolation, and in advance of reviewing an entire actuarial valuation report.

In order for us to determine the suitability of the discount rate in the valuation, we will need to see a breakdown of the components in the rate (gross, active management, investment expense, and margin). We are also interested in knowing what the margin would be if it were presented as a percentage of the going concern liability. Given the size of the reserve, how probable will it be that the plan will meet its funding expectations over the next three years?

It is unusual that it is a plan review committee setting the discount rate, as opposed to it being a decision made by the fiduciary of the plan, the Administrative Board in this case. We are interested in hearing your rationale for taking this decision out of the hands of the Administrative Board.

## **2. Funding Policy**

It is proposed that decisions regarding funding be based on a management valuation (which is different than the valuation that will be filed with our office), using best estimate assumptions. The minimum funding target is to be 105% of the sum of management valuation liabilities plus reserves. We are concerned that benefits could be improved when the plan is not sufficiently funded according to the filed valuation, or benefits will not be decreased when the filed valuation indicates there is a significant funding problem.

Based on our understanding of the funding policy, if the funded position of the entire plan is taken into consideration, the plan will not meet the minimum funding target at the time the LOI is implemented. We are wondering if it is intended that the deficit attributable to past service not be included when making funding decisions. If this is the case, it appears as though benefits can be increased even if the plan as a whole is in a deficit position.

The Funding Policy provides a list of benefits which the Administrative Board should consider if the plan is below the minimum funding target. However, we are concerned that it is a list for consideration only, and does not provide clear direction.

We are concerned that the Funding Policy does not provide direction on contribution increases, and an acceptable level of contribution variability.

The Funding Policy is difficult to understand, particularly as it relates to the minimum funding target, and the determination as to whether the funded position of the plan is below the minimum funding target. The Funding Policy should be written in a way that is clear to plan members.

## **3. Contribution Rate**

We will need to know the expected contribution rate, broken down by special payments and current service cost. In addition, we will need to see the assumptions and methods used in determining the contribution rate.

## **4. Cost Sharing of the Past Deficit**

The LOI indicates that, while there remains a going concern deficit established prior to January 31, 2011, it will be paid 60% by employers and 40% by employees. The

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Employer Sponsors commit to recommending the ability to extend this to December 31, 2012 when the results are known.

The going concern deficit as at December 31, 2010 was \$246 m. We assume that the unfunded liability that will be established at December 31, 2013 will be a re-set of all previous unfunded liabilities. In other words, payments towards the December 31, 2010 unfunded liability will not be made. If this is a correct interpretation, how will you measure if a going concern deficit established prior to January 31, 2011 remains?

As you are asking for relief from filing a December 31, 2012 valuation, is it your intent that the decision to extend the 60/40 split will be based on a management valuation that is not filed with our office?

#### **5. Amortization Period**

The LOI asks that the amortization period for going concern unfunded liabilities be 20 years, rather than the 15 years currently required. Is this extension to 20 years being asked for only the unfunded liability established in the next filed valuation?

We are interested in working with you to find a solution that is suitable to all stakeholders. We read the letter to you from the Administrative Board dated March 28, 2013. That letter addresses similar concerns to the ones we have raised. We encourage you to address all issues raised in this letter, as well as the Board's letter. Please contact me if you have any questions.

Yours sincerely,



Leah Fichter  
Director, Pensions Division

cc: Dave Wild, Chair and CEO, Financial and Consumer Affairs Authority  
Colyn Lowenberger, Director, Pensions & Disability Administration, City of  
Regina