

Chief Financial Officer's Report to  
Priorities and Finance Committee  
2019 December 03

ISC: UNRESTRICTED  
PFC2019-1503

## **Administration Response to C2019-1472**

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### **EXECUTIVE SUMMARY**

As directed by Council on 2019 April 29 (NOM C2019-0569), Administration undertook a review of the retirement allowance with the request that it report back to Council members. Furthermore, Council referred NOM C2019-1472 Ending the Payment of Vacation Payment Allowance, as amended, to the 2019 December 3 meeting of the Priorities and Finance Committee for a decision the Committee would recommend to Council. Administration has completed its review and recommendation on how to end the retirement allowance and engaged a third-party expert consultant to peer-review its analysis and recommendation.

### **ADMINISTRATION RECOMMENDATION:**

That the Priorities and Finance Committee:

1. Recommends that Council direct Administration to end the retirement allowance by grandfathering existing eligible employees and eliminating the provision for new employees with the effective date to be established upon the conclusion of the next round of negotiations anticipated to be no later than 2021 December 31, subject to applicable Labour Code requirements.
2. Directs that Attachments 2 and 3 remain confidential pursuant to the *Freedom of Information and Protection of Privacy Act* Sections 25 and 27, to be reviewed by 2022 January 31.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

On 2018 September 18 Council approved a Motion Arising in response to Administrative Inquiry, AI2018-03, directing Administration to engage an external consultant to review elements of the total compensation package and report back to Council.

At the Combined Meeting of Council on 2019 April 29, Council approved Notice of Motion C2019-0569 specifically directing Administration to review the retirement allowance in light of the current economy, competitive practice and relevant legal and labour relations considerations.

On 2019 November 19, Council approved an amendment to NOM C2019-1472 Ending the Payment of the Retirement Allowance, referring it to the Priorities and Finance Committee on 2019 December 3.

### **BACKGROUND**

The retirement allowance provision was introduced at The City in the mid-1980s and has served as a tool to retain the knowledge and experience of long-service employees during periods of strong competition for talent. Long service has been valued at The City as it enables the development of depth and breadth of knowledge achieving continuity and resiliency of services.

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### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Administration gathered information pertaining to financial costs, competitive practices, the value and purpose of this benefit, as well as associated legal considerations. Furthermore, alternative approaches were investigated with regard to the discontinuation of the retirement allowance using key decision criteria of cost impact, fairness, equity, and legal/labour risks among others. This information is contained in Attachment 3 (Confidential).

The four options evaluated were:

1. Grandfather current eligible employees and eliminate for new hires;
2. Provide notice such that the retirement allowance ends for all current eligible and future employees;
3. Grandfather employees greater than or equal to 53 years of age with greater than or equal to 15 years of service, and pay out all other eligible employees; or
4. Pay out all current eligible employees based on accrued benefit obligation and eliminate for new hires.

Administration's work was then peer-reviewed by expert compensation/pension/retirement consultants from a third-party organization, Gallagher Benefits Services. Their review supports Administration's analysis, conclusion and recommendation, which can be found in Attachment 2 (Confidential).

Administration has considered the suggestions made by Gallagher and incorporated and/or addressed them in the report found in Attachment 3 (Confidential).

### **Stakeholder Engagement, Research and Communication**

None.

### **Strategic Alignment**

This report and recommendation align with Citizen Priority: A Well-Run City and with Council Directive W1 under that priority.

### **Social, Environmental, Economic (External)**

None.

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

The retirement allowance payout has averaged approximately \$4.3 M annually over the past 3 years. The retirement allowance expense has averaged approximately \$7.3 M per year.

Funding the retirement allowance involves the maintenance of financial reserves for future anticipated benefit obligations. For 2018, the accrued benefit liability for future anticipated benefit obligations was \$73.8 M. The City will need to continue to do an annual accounting actuarial valuation to ensure the reserve is properly funded.

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The cost of the third-party review was \$5,145.00.

#### ***Current and Future Capital Budget:***

No impact.

#### **Risk Assessment**

There is risk that the elimination of the retirement allowance could negatively impact the following Principal Corporate Risks: Health & Safety from a workplace culture perspective and Talent Management & Workforce Vulnerability from engage and retain perspectives. It will positively impact Financial Risk with declining expenses and accrued financial liabilities.

#### **REASON(S) FOR RECOMMENDATION(S):**

There are several considerations when discussing the potential elimination of the retirement allowance. Information is included in the attachments to support a comprehensive discussion and recommendation.

Administration's recommendation has the lowest legal risk, keeps the original commitment intact for current employees, and has a moderate impact on employee morale.

#### **ATTACHMENT(S)**

1. Attachment 1 – Administration Overview and Recommendation
2. Attachment 2 – Consultant Report (Confidential)
3. Attachment 3 – Review of Retirement Allowance (Confidential)