Larouche LCol JMS@CMP DCBA@Ottawa-Hull

From:	JONES LCol LSC@CMP DCBA@Ottawa-Hull
Sent:	Wednesday, 14, January, 2009 13:07
To:	Sipos Capt(N) JP@CMP D MIL C@Ottawa-Hull; Lefort Col DE@CMP Compt CMP@Ottawa-Hull
Cc:	Belovich Col DM@CMP DGCB@Ottawa-Hull; Fisher Maj KW@CMP DGCB@Ottawa-Hull
Subject:	Effect of current recession/economic downturn re: IRP
Attachments:	BN - Recession and IRP.doc

Sir:

Attached you will find a briefing note (BN) by one of my staff officers examining the potential for large increases in the cost of moving CF personnel during the current economic downturn, both for the CF and for our members personally. In the BN Maj Fisher talks about the costs of HEA. In addition to the $15,000 limit he mentions in his BN, there is a provision within HEA to reimburse members 100% of their loss on the sale of a home if TB declares a market as "depressed". Currently there are no "depressed" markets in CA; however, we have just staffed two requests for reimbursement under this item (both for Edmonton) to TBS and await the outcome. In the event that TB does designate some markets as "depressed", this would alleviate the cost to our members but increase the cost to the CF.

I would like to highlight as well that, because the calculation is based on the purchase price plus any capital additions made to the house, those likely to be the most severely affected are those that have moved more recently. For example, a member posted into Edmonton in the last two years is much more likely to have bought "high" and now be forced to sell "low" than a member who has been there for many years and has seen the market grow and then shrink rapidly. This may be worth considering when posting CF members after tours of a very short duration.

Understanding that the cost move budget and posting plot is the product of many different forces, the BN is forwarded to you as yet another factor that may merit consideration as you put together your plan.

Cheers,

Les Jones

L.S.C. Jones
Lieutenant Colonel | Lieutenant colonel
Director Compensation and Benefits Administration | Directeur rémunération et avantages sociaux administration
National Defence | Défense nationale
Ottawa, Canada, K1A 0K2
Jones.lsc@forces.gc.ca
Telephone | Téléphone | 613-995-9037 Facsimile | Télécopieur 613-992-3220
Teletypewriter (National Defence) | Téléimprimeur (Défense nationale) 1-800-467-9877
Government of Canada | Gouvernement du Canada

BN - Recession and IRP.doc (57...

BRIEFING NOTE FOR DGCB

EFFECT OF ECONOMIC DOWNTURN ON CF IRP COSTS

ISSUE

1. The downturn in the Canadian economy, and its effects on the Canadian housing market, is going to have a substantial monetary impact on both Departmental costs for the CF Integrated Relocation Program (CF IRP) and out-of-pocket costs for individual CF personnel slated for relocation/posting over the next several APS periods.

BACKGROUND

2. The CF IRP provides limited compensation to CF personnel who, by virtue of a directed posting, sell their principle residence at a loss (when compared to the purchase price) via Home Equity Assistance (HEA).

3. HEA provides for reimbursement of 80% of a loss of equity, up to a maximum of $15,000 reimbursed; any remaining loss on equity comes directly out of the pocket of the posted CF mbr.

4. In addition to reimbursement for losses of equity, the CF IRP also provides assistance to posted CF personnel who are unable to sell their principle residence in a timely manner prior to their COS date, usually due to a slow or slumping real estate market at the place of origin. This benefit, Temporary Dual Residency Allowance (TDRA), provides reimbursement of various expenses (property taxes, utilities, specific mortgage costs, etc) based on the premise that an individual should not have to bear the financial burden of two residences, solely as a result of a posting. This benefit is limited to a 6 month timeframe after the COS date and is further limited to the value of residual Custom funds remaining in the individual's funding envelope.

DISCUSSION

5. As has been presented for some time throughout the media, the Canadian economy, although the soundest of the G8, has finally followed suit with the remainder of the Western world and is currently in recession. It has been widely speculated that this recession could last well into the second or third quarter of 2010 until early indications of a turn-around are seen. Though the recovery could <u>begin</u> in the second half of 2010, several economists have predicted that it could well take until 2012 or later until a significant recovery has occurred.

6. The drop in consumer confidence, and hence spending, which has followed will eventually affect employment in more than just the manufacturing sector – eventually, other areas will be hit by the lack of demand/sales and staff will be let go. <u>This will undoubtedly have a direct impact of the employment of military spouses</u>.

7. Another impact of the economic downturn has been the decrease in the housing market. Based on data obtained from the Canadian Real Estate Association (CREA), year-over-year home prices in Canada declined 10% nationally in Nov 08 relative to Nov 07. This decline represents a value of $31,000 nationally. Though it is understood that some markets will fare better than others, three of the hardest hit markets represent those with substantial military populations: Victoria, Edmonton and Toronto/Ontario.

[redacted]

8. Based on historical trends, the CF relocates/posts 13,500 of its personnel each APS. Data indicates that approximately 45% or 6,075 of these postings will be personnel who are homeowners and therefore likely to attempt to sell their primary residence at origin.

9. If we assume that only 75% of these 6,075 pers experience a loss of equity equal to the nationally averaged decline in value, this translates into 4,556 mil pers experiencing an equity loss of $31,000. Based on the HEA formula for reimbursement, the CF IRP will pay out an additional $68.3M for these 4,556 affected pers (4556 pers * $15K each). This represents approximately a 22% incremental increase to the cost of the CF IRP for that year.

10. Additionally, two further issues need to be considered in the context of this situation: first, the likely inevitable increase in TDRA costs; second, the residual loss of equity remaining after the HEA reimbursement. First, the TDRA: the $68.3M identified above does not include any provision for increased TDRA, as this is far too variable to predict, but suffice to say it is highly probable that these costs will increase substantially. Second, the additional equity loss: as mentioned previously in para 3, the maximum benefit under HEA is $15K. Based on an equity loss of $31K, this means that the remaining $16K would come from the pocket of the affected CF mbr. This would be disastrous for these families and would only be exacerbated if the affected family in fact also experienced the loss of the spouse's employment. It goes without saying that this would decimate the morale of those involved.

CONCLUSIONS / RECOMMENDATIONS

11. In what is likely to be a lengthy period of belt-tightening throughout all departments of the Federal Government, it does not seem prudent to willingly <u>increase</u> spending on the CF IRP by 22%, particularly when it stems from a course of action that could be deferred.

12. DCBA 4 recommends additional analysis be undertaken on the potential impact of the recession vis-à-vis the CF IRP with a view to examining the prudence of significantly scaling back the number of postings for APS 09 and APS 10.

Prepared by:	Maj K.W. Fisher, DCBA 4
Date prepared:	12 Dec 08
Reviewed by:	LCol L.S.C. Jones, DCBA
Prepared for:	Col D.M. Belovich, DGCB