Pension Study Commission
June 18, 2012
Minutes of the Meeting

A Study Commission meeting was held in Room 313 of the State House, 82 Smith Street, Providence, Rhode Island on Monday, June 18, 2012.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 1:16 pm.

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Bruce Keiser, Richard Licht, Antonio Pires, Steven St. Pierre, Melissa Malone representing Gina Raimondo, and John Simmons

Members absent: J. Michael Lenihan, Joseph Polisena, Angel Taveras (William Farrell, Mayoral Aide to Mayor Taveras was present in the audience)

Others present: Susanne Greschner, Chief of the Division of Municipal Finance, Daniel Sherman from Sherman Actuarial Services, LLC and members of the public

Agenda Item # 1 – Approval of Minutes from June 4, 2012

For the first item on the agenda Chairperson Booth Gallogly asked if the Commission members had any corrections, adjustments or additions to the draft minutes provided from the Study Commission meeting held on June 4, 2012. There were none. Richard Licht, Director of Administration for the State of Rhode Island made a motion to accept the minutes as written. The motion was seconded by Mayor Fung from the City of Cranston. The motion passed all in favor.

Agenda Item # 2 – Funding Improvement Plan Guidelines – Attachments B, C & D

Next on the agenda, Chairperson Booth Gallogly introduced Dan Sherman from Sherman Actuarial Services, LLC and Susanne Greschner, chief of the Division of Municipal Finance to provide an update on the draft funding improvement plan guidelines. She indicated that the goal is to get these guidelines to the municipalities this summer so they have the guidelines to refer to when developing their own funding improvement plan.

Ms. Greschner indicated that Attachment B (found in the addendum) has been updated, including the comments from Mayor Fung at the last Pension Study Commission meeting.

Mr. Sherman introduced Attachment C and reviewed it with the Commission. Chairperson Booth Gallogly noted that when looking at Exhibit A of Attachment C it is important to remember that the table is based on the assumption that there have been no changes to pension plans' benefit structure. Therefore, the increased annual required contribution (ARC) payments would be funded from the contribution side.

Chairperson Booth Gallogly indicated that Ms. Greschner is planning to hold a seminar to explain the guidelines to the municipalities. In addition, the Chairperson offered that Mr. Sherman will be available to help answer questions from cities and towns' actuaries. Furthermore, she added that cities and towns are welcome to bring their actuary to the training seminar.

Tony Pires, Director of Administration for the City of Pawtucket inquired as to the rationale for showing the annual pension contribution as a percentage of a municipality's levy. Ms. Greschner responded that she only showed the comparison for discussion purposes based on comments made by Commission members at the last meeting. She indicated that she did not intend to distribute Attachment C to the municipalities. Chairperson Booth Gallogly stated that the table was created in response to Commission members who said they did not want to adopt guidelines without knowing how it would impact communities.

Referring to Attachment C, Mr. Pires was curious why, in Cranston's case, if they are currently at year 21 of their amortization schedule would their amortization under the draft guidelines only increase to 22 years? Mr. Sherman explained that Cranston's pension is currently based on level amortization payments, like a mortgage. However, Mr. Sherman based his calculations in the table on a three percent (3%) per year increase in ARC payments so he was able to get the number of years down. Chairperson Booth Gallogly also noted that if the potential guidelines went to 25 years for Cranston as was done for other communities, Cranston's ARC would be less than the previous year which is not allowed according to the draft guidelines.

Mayor Fung stated that he had concerns about sending these guidelines out because in order to meet the guidelines cities and towns would have to increase taxes every year in order to meet the guideline requirements and he does not think that is a responsible thing to do. Mr. Sherman responded that based on the proposed 25 year amortization some plans will not emerge from critical status until year 16 or 17. Liberalizing the guidelines by increasing the amortization period or allowing for ARC payments that are lower than the previous year would keep cities and towns in critical status for many more years.

Mayor Fung stated that he is already working with his actuary as are many other cities and towns. However, these guidelines do not address the benefit structure. He is attempting to address Cranston's benefit structure which could reduce its ARC to below what has been. However, doing so would violate the guidelines. Mr. Sherman noted that Cranston's locally-administered pension plan is unusual because it has a level amortization.

Continuing the discussion of Attachment C, Mr. Pires asked about Warwick FP1 which has an amortization of 34.25 years but was reduced to 25 years under the proposed guidelines *and* shown as 40 years. Chairperson Booth Gallogly responded that Warwick's pension plan was shown two ways because of the issue with the current standards of the governmental accounting standards board (GASB). At 40 years, it would not comply with GASB standards.

John Simmons, executive director from the Rhode Island Public Expenditure Council, expressed opposition to the draft guideline number one on page 3 of Attachment B which states there is to be no decrease in a municipality's ARC contribution from one year to the next unless the plan is fully funded. Because, for example, in Providence's case, these guidelines would not allow the city to utilize the $18 million in recently negotiated pension savings if the city was still required to fund the ARC at an amount no less than the prior year. In addition, he was concerned about the language which stated the employer contribution must be 100% of pay-go.

To Mr. Simmons' points, Chairperson Booth Gallogly suggested that the Commission amend item number one on page 3 to eliminate the wording "for those in critical status, the employer contribution must be equal or more than 100% of pay-go". In addition, she suggested that if pension benefit changes are made which would reduce a municipality's liabilities then they should be allowed to reflect those changes in their funding improvement plan in the form of future decreased ARC payments. Mr. Sherman noted that was a very good point and agreed with the change but pointed out that municipalities should only be able to reduce their ARC payment because of a negotiated reduction in benefits not, simply, because they reamortized their pension obligations to a longer time period. Therefore, the Commission members agreed to change the guidelines to allow for a reduction from the current funding level of the ARC if the change is attributable to benefit reductions.

Mayor Fung still expressed concern over the amortization period guideline because he thinks it will have a significant impact on Warwick's plan if adopted as is. He asked why the draft guidelines do not allow the cities and towns to have the flexibility over the amortization period. For example, why not allow the cities and towns the flexibility to decrease the time period if they can make over and above the guideline ARC? Likewise, for communities with a very low funded ratio it could be very difficult to make the ARC payments based on a 25 year amortization period. Chairperson Booth Gallogly inquired of Mr. Sherman if it would be acceptable to allow cities and towns flexibility in the length of amortization of up to a maximum of 30 years so long as their pension plan emerged critical status within 20 years. Mr. Sherman concurred. Therefore, the Commission members agreed to change the guidelines to a 30 year maximum amortization providing that plans get out of critical status within 20 years.

Next, the sample funding improvement plan provided in Attachment D was discussed. Mr. Sherman explained the executive summary and exhibits A, B & C of the sample funding improvement plan in detail. Chairperson Booth Gallogly requested that Mr. Sherman include the ARC in the summary box on page 3. In addition, she added that is important to note that Exhibit A is based on the sample community's current pension provisions and assumes no benefit changes.

Chairperson Booth Gallogly also noted that the guidelines request that cities only submit four (4) options to the Study Commission, however, cities and towns will likely run more than ten (10) options with their actuaries. Therefore, cities and towns will have to choose their four (4) best scenarios to submit.

The Commission discussed having municipalities provide a transition plan to the Municipal Employees Retirement System (MERS) as one of the four options. Much discussion ensued. Mr. Hoyle noted that he thinks it's important to include MERS in the guidelines, otherwise, the cities and towns as well as the Commission may lose sight of it as an option. Melissa Malone, representing General Treasurer Gina Raimondo noted that MERS has a uniform benefit structure and that an actuary has to do heavy lifting to establish the liabilities when joining MERS. Because current Rhode Island law prohibits plans with retirees from entering MERS the Chair suggested modifying the bullet on page 4 of the guidelines to simply ask municipalities to identify the obstacles they see in joining MERS.

Outside of the funding improvement plan, the Commission agreed that further discussions regarding MERS (particularly for closed pension plans) would need to be held so that, hopefully, a pathway to MERS could be developed for communities that would want it.

Director Licht made a motion to adopt the guidelines with the changes discussed at today's meeting and to send out Attachments B & D with the changes to the municipalities. Mr. Simmons seconded the motion which passed all in favor. A copy of the final approved funding improvement guidelines is provided in the addendum as Attachment E.

Agenda Item # 3 – Public Comments

Dan Beardsley, executive director of the Rhode Island League of Cities and Towns addressed the Commission to say that while he appreciated Ms. Greschner's efforts to hold a training session for municipalities on the guidelines he did not think holding the session at the end of June gave people enough lead time especially considering that many people will be taking summer vacations. Ms. Greschner suggested offering two sessions of the seminar, one in the beginning of the summer and another in August to accommodate different vacation schedules. Mr. Beardsley said that would be good.

Agenda Item # 4 – Adjourn

The meeting adjourned at 3:10 PM.

Rosemary Booth Gallogly
Chairperson

7/16/12
Date

PSC/jb

ATTACHMENT B

Changes made to document are reflected below.

Funding Improvement Plan
- For Discussion Purposes Only –
Revised June 12, 2012

Background

R.I. Gen. Laws § 45-65-6 (2) states:

"In any case in which an actuary certifies that a locally-administered plan is in critical status for a plan year, the municipality administering such a plan shall, not later than thirty (30) business days following the certification, provide notification of the critical status to the participants and beneficiaries of the plan and to the general assembly, the governor, the general treasurer, the director of revenue, and the auditor general. The notification shall also be posted electronically on the general treasurer's website. Within one hundred eighty (180) days of sending the critical status notice, the municipality shall submit to the study commission a reasonable alternative funding improvement plan to emerge from critical status."

- Critical status notification for plans with a funded ratio of less than 60% is due within 30 business days of the submission of the experience study and actuarial valuation, which would be May 11, 2012.
- A funding improvement plan to restore the funded ratio to 60% or better is due 180 days later, which would be November 11, 2012.
- Ensuring that the critical status notification and funding improvement plan are based on the actual funded status of the plan is critical.
- Even when the impact of the new valuation on contribution rates is deferred for budgetary purposes until FY 2014, the municipality should formally consider and adopt (as necessary) an updated valuation for the purposes of reporting to the Commission pursuant to the law and for financial reporting purposes.

For Commission Discussion:

1. Funding Improvement Plan Documentation

- A funding improvement plan should be formulated, based on reasonably anticipated experience and reasonable actuarial assumptions, and should show at least the following:
    - FY 2014 Funding of the ARC before and after changes are made

- Amortization cost, method, including period, interest rate and rate of increase in payments, if any;
- Assets (Market and Actuarial) and liabilities, before and after changes were made;
- ~~Employer and Employee Normal Costs, before and after changes were made;~~
- Funded status, before and after changes were made;
- Employer and Employee Normal Costs, before and after changes were made;
- Description of benefit changes (if applicable);
- Provide a description of the plan to emerge from critical status;
- Time frame when municipality expects to emerge from critical status;
- Required actions to implement the plan ~~Steps to be taken to assure demonstrate that the improvement plan will be followed in the years to come. Include steps to be taken in the case of unforeseen and significant changes in future experience from the expected;~~
- Two ~~40-year~~ deterministic forecasts over the amortization period and two years afterwards of the after change values listed in items 1 through 5 above, plus, total Payroll and total Benefit Payments. One forecast is based on the actuarial assumptions. The second on the same assumptions except the investment return is 50 basis points lower than the assumption for all years;
- Include the actuarial assumptions used to forecast total Payroll growth, new entrants for open plans; and
- Five-Year Forecast of municipal revenue growth for the time period until plan is no longer in critical status

2. Funding Improvement Plan Guidelines ~~Requirements~~

The recently enacted Pension Protection Act (R.I. Gen. Laws 36-10.2) includes provisions relating to funding improvement strategies. ~~Based on the discussion at the last Pension Study Commission meeting,~~ Below is a summary of those provisions. The wording in bold and italics may be considered by the Commission for the locally-administered pension plans.

- Funding improvement period of 10 years. ***Funding improvement period ~~of 15 years~~ not to exceed 20 years***;

- At the close of the 10 year funding improvement period, for any plan that has a funded percentage of 50% or less, the plan's funded percentage shall equal or exceed the sum of (i) the plan's funded percentage in the plan year that the plan was certified as endangered, plus (ii) 50% of the difference between 80% and the plan's beginning funded percentage; or the plan's funded percentage shall improve by at least 1% annually until the plan's funded percentage equals or exceeds 80%.

ATTACHMENT B

The Commission may consider a ~~three-tiered~~ two-tiered approach:

~~***1. Funding ARC and funded ratio above 40%: At the close of the 15 year funding improvement period, for any plan that has a funded percentage of 40% or more less, the plan's funded percentage shall equal or exceed the sum of (i) the plan's funded percentage in the plan year that the plan was certified as endangered critical, plus (ii) 50% of the difference between 80% and the plan's beginning funded percentage; or the plan's funded percentage shall improve by at least 1% annually until the plan's funded percentage equals or exceeds 80%.***~~

1. ***~~Not~~ Funding ARC ~~and funded ratio above 40%:~~ Maximum amortization period of 25 years; maximum percent increase in amortization payments would be 4%; no decrease in contribution from one year to the next unless plan is fully funded; encourage shorter schedules, with increasing payments; for frozen plans with only retirees the amortization period would equal the average future lifetime; for those in critical status, the ~~employee and~~ employer contribution must be equal or more than 100 ~~110~~% of pay-go; no open amortization method; and future changes in UFAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base; possible relief provision that would provide for a temporary increase in ARC payments by no more than 8%.***

2. ***Not funding ARC ~~and funded ratio below 40%:~~ Contribution has to be ~~120 % of prior year contribution~~ increased such that the portion of the ARC actual contributed increases by 20 percentage points each year until it reaches 100%; maximum amortization period of 25 years; maximum percent increase in amortization payments would be 4%; no decrease in contribution from one year to the next unless plan is fully funded; encourage shorter schedules, with increasing payments; for frozen plans with only retirees the amortization period would equal the average future lifetime; for those in critical status, the employee and employer contribution must be equal or more than 100% of pay-go; no open amortization method; and future changes in UFAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base. Extenuating circumstances may have to be discussed~~, e.g. property tax cap.~~***

- Requiring an explanation why a plan cannot meet the guidelines to improve the funded percentage within 10 years as outlined in R.I. Gen. Laws 36-10.2-7 (2), if applicable. ***Requiring an explanation why a plan cannot meet the guidelines ~~to improve the funded percentage within 15 years~~, if applicable;***

- Provide between five and ten funding improvement strategies, showing revised benefit structures, revised contribution structures, or both. ***Provide for four improvement strategies, whereas one of them has to be moving the whole plan into MERS.***

- In addition to those strategies, "the board shall include a default funding improvement strategy that shall show increases in employer and employee contributions under the plan necessary to achieve the applicable requirements found in subsection (2), assuming no amendments to reduce future benefit accruals under the plan" (see R.I. Gen. Laws 36-10.2 (4)).

- The Retirement Board "shall submit the "Default A" strategy … and one additional funding improvement strategy, as selected by the board, to the general assembly" (see R.I. Gen. Laws 36-10.2 (5)). ***The local governing body shall submit these four improvement strategies to the Pension Study Commission, and identify which one has been chosen as the funding improvement plan.*** <u>***If the funding improvement strategy to join MERS has not been chosen, the local governing body should provide for an explanation why this strategy has not been chosen***</u>; and

- If no funding improvement strategy is approved by the general assembly, the "Default A" strategy shall be enacted into law and shall remain in effect until either the plan is no longer engendered or another funding strategy consistent with the statute has been adopted. ***If no funding improvement strategy is approved by the local governing body, or the one approved deemed unacceptable, the Pension Study Commission will develop a funding improvement plan which may include transitioning the plan into MERS for all retirees and actives. Retirees and active employees would not lose accrued benefits, prior accruals would be frozen and accrue at new MERS accrual rates.***

Attachment C

Effect of Potential Funding Guidelines for Plans in Critical Status **Draft - For Discussion Only**

				2011 Actuarial Valuation and Experience Study, for FYE13 or FYE14 Appropriations								Levy						
	FYE 2011 ARC[1]	FYE 2011 Contribution[1]	%	Before Change ARC	After Change ARC	Potential Guidelines	% Increase over BC ARC	% Increase over 2011 Contribution	With 100% Pay-Go Minimum	% Increase over BC ARC	% Increase over 2011 Contribution	12/31/2009 FY 2011	FY 11 Contributions as a % of FY 11 Certified Levy	12/31/2010 FY 2012	Proposed FY 2013[5]	Approp. (based on guidelines, but no benefit changes) as % of FY 13 Proposed Levy	Estimated FY 2014[6]	Approp. (based on guidelines, but no benefit changes) as % of FY 14 Est. Max Levy
Bristol	784,676	784,676	100%	899,460	1,231,858	939,978	4.50%	19.79%	1,257,336	39.79%	60.24%	34,320,310	2.29%	35,697,780	35,821,734	2.62%	37,254,603	2.52%
			Yrs	18	18	25												
Cranston	23,947,728	19,947,728	83%	25,705,109	26,468,713	20,645,284	-19.68%	3.50%	22,473,577	-12.57%	12.66%	175,003,222	11.40%	180,715,853	180,769,326	11.42%	188,000,099	10.98%
			Yrs	21	21	22												
Coventry B1	4,165,703	2,717,570	65%	5,140,951	5,923,422	5,525,841	7.49%	103.34%	5,796,762	12.76%	113.31%							
Coventry B2			Yrs	22	22	25												
Coventry School	2,200,642	685,572	31%	2,376,177	2,376,177	2,014,270	-15.23%	193.81%	2,014,270	-15.23%	193.81%							
			Yrs	*30*	*30*	*25*												
Subtotal Coventry	*6,366,345*	*3,403,142*		*7,517,128*	*8,299,599*	*7,540,111*			*7,811,031*			59,562,835	5.71%	61,860,355	62,333,368	12.10%	64,826,703	11.63%
Cumberland	1,507,130	1,000,000	66%	1,650,489	1,650,489	1,568,524	-4.97%	56.85%	1,568,524	-4.97%	56.85%	56,732,858	1.76%	57,890,766	59,560,610	2.63%	61,943,034	2.53%
			Yrs	22	22	25												
E. Providence	7,362,115	1,437,580	20%	6,267,312	7,525,372	8,166,245	30.30%	468.05%	8,829,640	40.88%	514.20%	95,317,344	1.51%	98,331,681	99,314,040	8.22%	103,286,602	7.91%
			Yrs	30	30	25												
Johnston - Police	4,570,429	1,899,500	42%	4,984,937	6,122,310	5,350,449	7.33%	181.68%	5,350,449	7.33%	181.68%							
			Yrs	18	18	25												
Johnston - Fire	4,701,525	1,886,000	40%	4,941,283	5,386,679	4,608,240	-6.74%	144.34%	4,608,240	-6.74%	144.34%							
			Yrs	18	18	25												
Subtotal Johnston	9,271,954	3,785,500		9,926,220	11,508,990	9,958,689			9,958,689			66,483,714	5.69%	68,570,772	67,993,212	14.65%	70,712,940	14.08%
Newport - Police	3,116,642	3,116,642	100%	3,461,972	3,461,972	3,461,972	0.00%	11.08%	4,399,231	27.07%	41.15%							
			Yrs	20	20	20												
Newport - Fire	4,359,109	4,359,109	100%	4,822,712	4,822,712	4,822,712	0.00%	10.64%	4,822,712	0.00%	10.64%							
			Yrs	20	20	20												
Subtotal Newport	7,475,751	7,475,751		8,284,683	8,284,683	8,284,683			9,221,943			60,913,756	12.27%	63,448,437	64,998,671	12.75%	67,598,618	12.26%
N. Providence	1,529,633	789,227	52%	1,675,452	2,023,317	1,910,113	14.01%	142.02%	1,910,113	14.01%	142.02%	65,311,452	1.21%	67,218,014	67,701,097	2.82%	70,409,141	2.71%
			Yrs	22	22	25												
Pawtucket[2]	10,531,718	9,561,000	91%	10,531,718	10,531,718	11,399,872	8.24%	19.23%	11,399,872	8.24%	19.23%	92,445,040	10.34%	96,340,757	99,692,117	11.44%	103,679,802	11.00%
			Yrs	30	30	25												
Portsmouth	2,514,420	2,514,420	100%	2,782,710	3,234,722	3,375,002	21.28%	34.23%	4,000,000	43.74%	59.08%	44,174,990	5.69%	45,807,376	46,895,699	7.20%	48,771,527	6.92%
			Yrs	28	28	25			*(Estimated)*									
Providence[3]	56,380,000	56,333,000	100%	64,783,119	72,071,119	75,782,856	16.98%	34.53%	85,709,864	32.30%	52.15%	307,014,942	18.35%	324,460,407	330,500,027	22.93%	343,720,028	22.05%
			Yrs	28	28	25												
Scituate	738,709	464,283	63%	738,709	738,709	738,709	0.00%	59.11%	738,709	0.00%	59.11%	24,841,929	1.87%	25,492,269	25,667,150	2.88%	26,693,836	2.77%
			Yrs	25	25	25												
Smithfield Police	1,972,824	1,048,000	53%	1,894,932	1,988,398	1,252,385	-33.91%	19.50%	1,650,404	-12.90%	57.48%	48,233,107	2.17%	49,357,148	49,887,161	2.51%	51,882,647	2.41%
			Yrs	19	19	25												
Tiverton	1,067,884	452,407	42%	636,139	636,139	636,139	0.00%	40.61%	704,172	10.69%	55.65%	34,703,682	1.30%	35,771,014	36,716,216	1.73%	38,184,865	1.67%
			Yrs	25	25	25												
Warwick FP1[4]	12,984,590	12,984,590	100%	13,053,572	13,818,463	16,202,794	24.13%	24.78%	18,532,731	41.97%	42.73%	208,897,991	6.22%	216,867,072	220,434,450	7.35%	229,251,828	7.07%
			Yrs	34.25	34.25	25												
	12,984,590	12,984,590	100%	13,053,572	13,818,463	12,939,774	-0.87%	-0.35%	18,532,731	41.97%	42.73%	208,897,991	6.22%	216,867,072	220,434,450	5.87%	229,251,828	5.64%
				34.25	34.25	40												
West Warwick	6,912,110	1,289,098	19%	7,888,010	7,888,010	7,888,010	0.00%	511.90%	7,888,010	0.00%	511.90%	51,841,899	2.49%	52,337,257	54,242,371	14.54%	56,412,066	13.98%
			Yrs	25	25	25												

[1] From the 2011 audited financial statements, except for for Coventry School, Johnston Police, and Pawtucket where the amounts were derived from the actuarial valuation and confirmed with the city or town

[2] Based on the 2010 actuarial valuation

[3] If the recent agreement with the retirees is ratified, the ARC will decrease substantially, but the Pay-Go will have a modest decline in FYE13.

[4] The 2011 ARC is based on the City's pension funding ordinance. The minimum ARC under GAAP accounting was $20,018,000. Two scenarios are shown: one assumes funding based on the local ordinance, the other is based on GAAP accounting.

[5] Proposed levy growth based on fiscal disclosure

[6] Assumes 4% levy increase

Example of a Funding Improvement Plan (Option 1 of 4)

For

Community X

Police and Fire Retirement System

October 31, 2012

(This represents a sample funding improvement plan which is based on actual data for a Rhode Island community, but does not reflect the proposals for benefit modifications)

Executive Summary
In accordance with Rhode Island General Laws Section 45-65-6, the City is submitting this Funding Improvement Plan (Plan) to the Locally-Administered Pension Plans Study Commission. The City had completed an actuarial valuation and an experience study as of October 31, 2011. Based on these results the funded status of the pension system is 33.6% and therefore, considered in critical status.

In the pages that follow we will describe our plans for increasing this ratio to the point that the plan is no longer considered in critical status. The local governing body for the City has adopted option number 1, in order to emerge from critical status. The other options are described in separate reports. This will be accomplished through increased funding and negotiating pension benefit reductions with the members of the retirement system. We expect to achieve this goal in about 16 years.

Current Funding
The City has accepted the recommendations of our actuary for modifications to the actuarial assumptions. Based on these results, the actuary is recommending a pension contribution of $7,525,388 to the trust based on a 30 year amortization with payments increasing 4.25% per year. The City has budgeted $1,795,827 for fiscal year 2012, or 23.9% of the recommended contribution. This also represents 1.44% of our revenue. For fiscal year 2011, the City contributed 20% of the recommended contribution.

Option 1
Future Funding
The Plan is to increase the funding of the system for fiscal year 2013 to 40% of the recommended contribution. This will be increased 20% per year until it reaches 100% of the recommended contribution for fiscal year 2016. The amortization period will be shortened from 30 years to 25 years in the determination of the recommended contribution. Exhibit A shows the forecast of key values under this approach based on the actuarial assumptions adopted, and new participants entering the plan to replace those terminating and retiring. Exhibits D and E describe the actuarial assumptions and plan provisions, respectively.

To support this substantial increase the funding of the system, cuts in other line items of our budget will be required. The following reductions will be made for FYE13:

- Ten positions in various departments will be eliminated
- The Capital budget will be reduced by $500,000
- Negotiated changes in healthcare benefits will save $2,500,000

The revenue enhancements will be made as follows:

- Enhancement #1
- Enhancement #2
- Enhancement #3
- Enhancement #4

Plan Changes

The City intends to negotiate reductions in the pension benefits provided to current active and retired plan participants as follows:

- Current Cost of Living adjustments are 3% compounded regardless of the Consumer Price Index. Our intent it to decrease this to the lesser of 2.5% or the change in Consumer Price Index.
- Currently, a participant is eligible to retire at any age after 20 years of service, with no reduction for early commencement. Our intent is to increase the number of years to 25 and include age 60 to receive an unreduced benefit. Early retirement eligibility will be age 55 with at least 10 years of service. However, the benefit for early commencement will include an actuarial reduction for commencing benefits prior to age 62.
- Currently, the benefit formula provides 2.5% of the final average salary of each of the first 24 years of service. Starting with the next collective bargaining agreement, we expect to lower this rate to 2.25%.
- The benefit is currently based on the final salary earned by the participant prior to retirement. We expect to negotiate a change to using the highest 3 year average salary as the basis of the benefit calculation.

Our actuary has estimated that these modifications will substantially reduce the costs and liabilities of the plan. Their estimates are as follows:

	Current Plan Provisions	Proposed Plan Provisions
Employer Normal Cost	$1,893,623	$1,420,217
Employee Normal Cost	$986,056	$986,056
Total Normal Cost	$2,879,679	$2,406,273
Accrued Liability	$159,321,987	$143,389,788
Unfunded Accrued Liability	$105,800,574	$89,868,375
Funded Ratio	33.6%	37.3%

Exhibit B shows the key values forecasted for the next 26 years based on these revised provisions and the new Funding Policy. Exhibit C is the same forecast as Exhibit B, except the actual return on investments is .5% less than the assumption.

The City has adopted a policy that there will be no changes in the retirement system benefits that generate a net increase in the costs and liabilities of the system until the system and the OPEB plan have each achieved at least an 80% funded ratio.

Exhibit A
Forecast of key values

Exhibit B
Forecast of key values (revised provisions)

Exhibit C
Same Forecast than Exhibit B, except actuarial return on investment is 0.5% less than assumption

Exhibit D
Actuarial Assumptions
(List all pertinent assumptions)

Exhibit E
Plan Provisions
(List all significant plan provisions here, both before and after changes are made to the program)

Option 1 - Exhibit A

Current Forecast of Actuarial Valuation results

Year	Payment against the ARC	Employer Normal Cost	Amortization	ARC	Contribution	Increase	Payroll	Contribution as a % of Payroll	Benefit Payments	Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Revenue Forecast	Contribution as a % of Revenue
2012	40%	1,893,623	6,272,622	8,166,245	3,227,849	124.5%	12,695,471	25.4%	9,226,974	52,493,868	164,795,192	112,301,324	31.9%	124,669,391	2.6%
2013	60%	1,964,634	7,077,647	9,042,281	5,382,574	66.8%	13,171,551	40.9%	9,642,188	53,314,605	170,364,243	117,049,637	31.3%	126,016,658	4.3%
2014	80%	2,038,308	7,580,666	9,618,973	7,649,655	42.1%	13,665,484	56.0%	10,076,086	56,225,134	176,021,296	119,796,162	31.9%	127,912,402	6.0%
2015	100%	2,114,744	7,987,135	10,101,879	10,054,069	31.4%	14,177,940	70.9%	10,529,510	61,511,115	181,757,215	120,246,100	33.8%	129,910,503	7.7%
2016	100%	2,194,047	8,269,588	10,463,635	10,463,635	4.1%	14,709,613	71.1%	11,003,338	67,186,681	187,561,431	120,374,750	35.8%	132,113,563	7.9%
2017	100%	2,276,324	8,557,652	10,833,975	10,833,975	3.5%	15,261,223	71.0%	11,498,488	73,218,429	193,421,810	120,203,381	37.9%		
2018	100%	2,361,686	8,854,923	11,216,609	11,216,609	3.5%	15,833,519	70.8%	12,015,920	79,624,901	199,324,493	119,699,592	39.9%		
2019	100%	2,450,249	9,161,568	11,611,817	11,611,817	3.5%	16,427,276	70.7%	12,556,636	86,425,353	205,253,730	118,828,377	42.1%		
2020	100%	2,542,134	9,477,724	12,019,858	12,019,858	3.5%	17,043,299	70.5%	13,121,685	93,639,747	211,191,699	117,551,951	44.3%		
2021	100%	2,637,464	9,803,498	12,440,962	12,440,962	3.5%	17,682,423	70.4%	13,712,161	101,288,723	217,118,310	115,829,587	46.7%		
2022	100%	2,736,368	10,138,949	12,875,318	12,875,318	3.5%	18,345,513	70.2%	14,329,208	109,393,556	223,010,991	113,617,436	49.1%		
2023	100%	2,838,982	10,484,076	13,323,058	13,323,058	3.5%	19,033,470	70.0%	14,974,023	117,976,093	228,844,455	110,868,362	51.6%		
2024	100%	2,945,444	10,838,793	13,784,237	13,784,237	3.5%	19,747,225	69.8%	15,498,113	127,214,017	234,745,803	107,531,786	54.2%		
2025	100%	3,055,898	11,202,903	14,258,801	14,258,801	3.4%	20,487,746	69.6%	16,040,547	137,154,076	240,707,626	103,553,550	57.0%		
2026	100%	3,170,494	11,576,048	14,746,543	14,746,543	3.4%	21,256,037	69.4%	16,601,966	147,845,723	246,721,537	98,875,814	59.9%		
2027	100%	3,289,388	11,957,652	15,247,040	15,247,040	3.4%	22,053,138	69.1%	17,183,035	159,341,059	252,778,084	93,437,025	63.0%		
2028	100%	3,412,740	12,346,810	15,759,550	15,759,550	3.4%	22,880,131	68.9%	17,784,442	171,694,676	258,866,656	87,171,981	66.3%		
2029	100%	3,540,718	12,742,137	16,282,855	16,282,855	3.3%	23,738,136	68.6%	18,406,897	184,963,301	264,975,383	80,012,082	69.8%		
2030	100%	3,673,495	13,141,486	16,814,981	16,814,981	3.3%	24,628,316	68.3%	19,051,138	199,205,132	271,091,023	71,885,890	73.5%		
2031	100%	3,811,251	13,541,460	17,352,711	17,352,711	3.2%	25,551,878	67.9%	19,717,928	214,478,580	277,198,842	62,720,262	77.4%		
2032	100%	3,954,173	13,936,431	17,890,603	17,890,603	3.1%	26,510,073	67.5%	20,408,056	230,839,872	283,282,491	52,442,619	81.5%		
2033	100%	4,102,454	14,316,377	18,418,831	18,418,831	3.0%	27,504,201	67.0%	21,122,338	248,338,152	289,323,862	40,985,710	85.8%		
2034	100%	4,256,296	14,661,197	18,917,493	18,917,493	2.7%	28,535,608	66.3%	21,861,619	267,004,090	295,302,941	28,298,851	90.4%		
2035	100%	4,415,907	14,921,102	19,337,010	19,337,010	2.2%	29,605,694	65.3%	22,626,776	286,816,567	301,197,647	14,381,080	95.2%		
2036	100%	4,581,504	14,900,878	19,482,382	19,482,382	0.8%	30,715,907	63.4%	23,418,713	307,542,439	306,983,656	-	100.2%		
2037	100%	4,753,310	-	4,753,310	4,753,310	-75.6%	31,867,754	14.9%	24,238,368	313,234,907	312,634,216	-	100.2%		

Option 1 - Exhibit B

Forecast of Actuarial Valuation results - Funding Improvement plan #1

Year	Payment against the ARC	Normal Cost	Amortization	ARC	Contribution	Increase	Payroll	Contribution as a % of Payroll	Benefit Payments	Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Revenue Forecast	Contribution as a % of Revenue
2012	40%	1,420,217	5,328,046	6,748,264	2,667,368	85.5%	12,695,471	21.0%	9,271,122	51,845,547	147,113,364	95,267,817	35.2%	124,669,391	2.1%
2013	60%	1,473,475	6,004,132	7,477,608	4,451,175	66.9%	13,171,551	33.8%	9,641,967	51,616,635	150,828,511	99,211,876	34.2%	126,016,658	3.5%
2014	80%	1,528,731	6,425,411	7,954,142	6,325,669	42.1%	13,665,484	46.3%	10,027,646	53,026,788	154,522,846	101,496,058	34.3%	127,912,402	4.9%
2015	100%	1,586,058	6,767,017	8,353,075	8,313,542	31.4%	14,177,940	58.6%	10,428,751	56,306,363	158,182,581	101,876,217	35.6%	129,910,503	6.4%
2016	100%	1,645,535	7,006,251	8,651,786	8,651,786	4.1%	14,709,613	58.8%	10,845,901	59,807,176	161,792,390	101,985,214	37.0%	132,113,563	6.5%
2017	100%	1,707,243	7,250,307	8,957,550	8,957,550	3.5%	15,261,223	58.7%	11,279,737	63,495,258	165,335,282	101,840,024	38.4%		
2018	100%	1,771,264	7,502,165	9,273,429	9,273,429	3.5%	15,833,519	58.6%	11,730,927	67,379,254	168,792,452	101,413,199	39.9%		
2019	100%	1,837,687	7,761,964	9,599,650	9,599,650	3.5%	16,427,276	58.4%	12,200,164	71,468,044	172,143,122	100,675,078	41.5%		
2020	100%	1,906,600	8,029,821	9,936,421	9,936,421	3.5%	17,043,299	58.3%	12,688,171	75,770,717	175,364,368	99,593,651	43.2%		
2021	100%	1,978,098	8,305,827	10,283,925	10,283,925	3.5%	17,682,423	58.2%	13,132,257	80,362,352	178,496,762	98,134,411	45.0%		
2022	100%	2,052,276	8,590,032	10,642,308	10,642,308	3.5%	18,345,513	58.0%	13,591,886	85,262,193	181,522,400	96,260,207	47.0%		
2023	100%	2,129,237	8,882,434	11,011,670	11,011,670	3.5%	19,033,470	57.9%	14,067,602	90,490,548	184,421,654	93,931,107	49.1%		
2024	100%	2,209,083	9,182,961	11,392,044	11,392,044	3.5%	19,747,225	57.7%	14,559,968	96,068,774	187,173,031	91,104,257	51.3%		
2025	100%	2,291,924	9,491,446	11,783,369	11,783,369	3.4%	20,487,746	57.5%	15,069,567	102,019,244	189,753,016	87,733,772	53.8%		
2026	100%	2,377,871	9,807,586	12,185,457	12,185,457	3.4%	21,256,037	57.3%	15,597,001	108,365,262	192,135,912	83,770,649	56.4%		
2027	100%	2,467,041	10,130,892	12,597,933	12,597,933	3.4%	22,053,138	57.1%	16,064,911	115,211,829	194,374,567	79,162,739	59.3%		
2028	100%	2,559,555	10,460,600	13,020,155	13,020,155	3.4%	22,880,131	56.9%	16,546,859	122,594,895	196,449,695	73,854,800	62.4%		
2029	100%	2,655,538	10,795,533	13,451,071	13,451,071	3.3%	23,738,136	56.7%	17,043,264	130,551,638	198,340,350	67,788,712	65.8%		
2030	100%	2,755,121	11,133,874	13,888,995	13,888,995	3.3%	24,628,316	56.4%	17,554,562	139,119,857	200,023,808	60,903,951	69.6%		
2031	100%	2,858,438	11,472,744	14,331,182	14,331,182	3.2%	25,551,878	56.1%	17,993,426	148,427,936	201,566,483	53,138,547	73.6%		
2032	100%	2,965,629	11,807,375	14,773,005	14,773,005	3.1%	26,510,073	55.7%	18,443,262	158,522,485	202,953,495	44,431,010	78.1%		
2033	100%	3,076,841	12,129,278	15,206,118	15,206,118	2.9%	27,504,201	55.3%	18,904,344	169,444,463	204,168,825	34,724,362	83.0%		
2034	100%	3,192,222	12,421,420	15,613,642	15,613,642	2.7%	28,535,608	54.7%	19,376,952	181,219,577	205,195,239	23,975,662	88.3%		
2035	100%	3,311,930	12,641,620	15,953,550	15,953,550	2.2%	29,605,694	53.9%	19,861,376	193,830,099	206,014,195	12,184,096	94.1%		
2036	100%	3,436,128	12,624,485	16,060,613	16,060,613	0.7%	30,715,907	52.3%	20,357,910	207,079,167	207,079,167	-	100.0%		
2037	100%	3,564,983	-	3,564,983	3,564,983	-77.8%	31,867,754	11.2%	20,866,858	207,457,379	207,457,379	-	100.0%		

Option 1 - Exhibit C

Forecast of Actuarial Valuation results - Funding Improvement plan #1 with .5% lower investment return for 19 years

Year	Payment against the ARC	Normal Cost	Amortization	ARC	Contribution	Increase	Payroll	Contribution as a % of Payroll	Benefit Payments	Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Revenue Forecast	Contribution as a % of Revenue
2012	40%	1,420,217	5,328,046	6,748,264	2,667,368	85.5%	12,695,471	21.0%	9,271,122	51,585,223	147,113,364	95,528,140	35.1%	124,669,391	2.1%
2013	60%	1,473,475	6,020,539	7,494,014	4,460,941	67.2%	13,171,551	33.9%	9,641,967	51,088,506	150,828,511	99,740,004	33.9%	126,016,658	3.5%
2014	80%	1,528,731	6,459,615	7,988,346	6,352,870	42.4%	13,665,484	46.5%	10,027,646	52,223,401	154,522,846	102,299,446	33.8%	127,912,402	5.0%
2015	100%	1,586,058	6,820,581	8,406,639	8,366,853	31.7%	14,177,940	59.0%	10,428,751	55,220,295	158,182,581	102,962,286	34.9%	129,910,503	6.4%
2016	100%	1,645,535	7,080,942	8,726,478	8,726,478	4.3%	14,709,613	59.3%	10,845,901	58,424,363	161,792,390	103,368,026	36.1%	132,113,563	6.6%
2017	100%	1,707,243	7,348,614	9,055,857	9,055,857	3.8%	15,261,223	59.3%	11,279,737	61,802,137	165,335,282	103,533,145	37.4%		
2018	100%	1,771,264	7,626,891	9,398,155	9,398,155	3.8%	15,833,519	59.4%	11,730,927	65,363,365	168,792,452	103,429,087	38.7%		
2019	100%	1,837,687	7,916,256	9,753,943	9,753,943	3.8%	16,427,276	59.4%	12,200,164	69,118,432	172,143,122	103,024,689	40.2%		
2020	100%	1,906,600	8,217,226	10,123,826	10,123,826	3.8%	17,043,299	59.4%	12,688,171	73,078,420	175,364,368	102,285,948	41.7%		
2021	100%	1,978,098	8,530,357	10,508,455	10,508,455	3.8%	17,682,423	59.4%	13,132,257	77,320,836	178,496,762	101,175,926	43.3%		
2022	100%	2,052,276	8,856,266	10,908,542	10,908,542	3.8%	18,345,513	59.5%	13,591,886	81,867,902	181,522,400	99,654,498	45.1%		
2023	100%	2,129,237	9,195,643	11,324,879	11,324,879	3.8%	19,033,470	59.5%	14,067,602	86,743,756	184,421,654	97,677,899	47.0%		
2024	100%	2,209,083	9,549,258	11,758,341	11,758,341	3.8%	19,747,225	59.5%	14,559,968	91,974,653	187,173,031	95,198,378	49.1%		
2025	100%	2,291,924	9,917,980	12,209,904	12,209,904	3.8%	20,487,746	59.6%	15,069,567	97,589,212	189,753,016	92,163,804	51.4%		
2026	100%	2,377,871	10,302,811	12,680,682	12,680,682	3.9%	21,256,037	59.7%	15,597,001	103,618,705	192,135,912	88,517,206	53.9%		
2027	100%	2,467,041	10,704,922	13,171,963	13,171,963	3.9%	22,053,138	59.7%	16,064,911	110,178,128	194,374,567	84,196,439	56.7%		
2028	100%	2,559,555	11,125,755	13,685,310	13,685,310	3.9%	22,880,131	59.8%	16,546,859	117,316,150	196,449,695	79,133,545	59.7%		
2029	100%	2,655,538	11,567,140	14,222,678	14,222,678	3.9%	23,738,136	59.9%	17,043,264	125,086,596	198,340,350	73,253,754	63.1%		
2030	100%	2,755,121	12,031,473	14,786,594	14,786,594	4.0%	24,628,316	60.0%	17,554,562	133,549,415	200,023,808	66,474,393	66.8%		
2031	100%	2,858,438	12,522,073	15,380,511	15,380,511	4.0%	25,551,878	60.2%	17,993,426	143,567,739	201,566,483	57,998,744	71.2%		
2032	100%	2,965,629	12,887,310	15,852,940	15,852,940	3.1%	26,510,073	59.8%	18,443,262	154,458,703	202,953,495	48,494,791	76.1%		
2033	100%	3,076,841	13,238,655	16,315,495	16,315,495	2.9%	27,504,201	59.3%	18,904,344	166,268,478	204,168,825	37,900,347	81.4%		
2034	100%	3,192,222	13,557,517	16,749,739	16,749,739	2.7%	28,535,608	58.7%	19,376,952	179,026,697	205,195,239	26,168,542	87.2%		
2035	100%	3,311,930	13,797,857	17,109,787	17,109,787	2.1%	29,605,694	57.8%	19,861,376	192,715,708	206,014,195	13,298,487	93.5%		
2036	100%	3,436,128	13,779,155	17,215,283	17,215,283	0.6%	30,715,907	56.0%	20,357,910	207,122,467	207,122,467	-	100.0%		
2037	100%	3,564,983	-	3,564,983	3,564,983	-79.3%	31,867,754	11.2%	20,866,858	207,503,927	207,503,927	-	100.0%		