Pension Study Commission
September 10, 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, September 10, 2012.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 1:15 pm.

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

Members absent: J. Michael Lenihan, Richard Licht, Antonio Pires, Joseph Polisena

Others present: Susanne Greschner, Chief of the Division of Municipal Finance and members of the public

Agenda Item # 1 – Approval of Minutes from July 16, 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 July 16, 2012. There were none. Paul Doughty, President of the Providence Firefighters' Union Local 799, 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 – Discussion on Moody's Request for Comment on *Adjustments to US State and Local Government Reported Pension Data* – Attachments B & C

Next on the agenda, Chairperson Booth Gallogly referenced Attachment B found in the addendum which is the Commission's response to Moody's Request for Comment on their report entitled *Adjustments to US State and Local Government Reported Pension Data*. The Chair also noted that the Frequently Asked Questions which Moody's published following their request for comment clarifies some of the specific issues the Commission raised in its letter to Moody's as well as confirms what Moody's goal is in undertaking these changes. Moody's Frequently Asked Questions can be found as Attachment C in the addendum. The Chair continued by saying she will try to keep the Commission abreast of any developments regarding this issue because it will have an impact on state and local pensions across the country.

Agenda Item # 3 – Update on Tier System – Attachment D

For the third item on the agenda Chairperson Booth Gallogly asked Susanne Greschner, chief of the Division of Municipal Finance to provide the Commission with an update on the progress of the locally-administered pension plans tier system summary which has changed several times over the last few months due to Ms. Greschner's diligent work in contacting the municipalities to gather any information that may have been missing. Ms. Greschner referred to the **Locally Administered Plans - Summary Status as of September 10, 2012** provided to the Commission members as Attachment D found in the addendum. She noted that the tier system was developed by the Commission's actuary, Daniel Sherman, to help the Commission track the compliance with the statutory requirements. She added that the status looks much better than it did a few months ago. Overall, thirty four (34) plans are locally-administered. Twenty two plans, including two small plans in Narragansett and Pawtucket, are in "critical status" which means they are less than sixty percent (60%) funded. The twenty two plans in critical status are administered by seventeen (17) communities.

Funding status for all thirty four (34) locally-administered pension plans ranges between 0% funded for the two small, closed pension plans in Narragansett and Pawtucket and 110% in Jamestown.

Ms. Greschner noted that she is still working with the eight (8) communities that are listed in bold on the tier system summary. For the most part, those communities either have some documentation that is still missing or an experience study that has been deemed incomplete. Ms. Greschner indicated that she is currently working with those communities.

Mayor Fung noted the distinction put on the tier system summary status as to whether a community has accepted *and adopted* the recommendations from the experience study. For clarification purposes, Mayor Fung noted that a lot of communities may have accepted the recommendations from their experience study, however, many of those communities will not be adopting those recommendations until the out year in FY 2014. Cranston is one such community where this is the case.

Jean Bouchard, Municipal Vice President of AFSCME/Council 94, inquired if a consistent method was used to measure the locally-administered plans' assets or if cities and towns were using different methods. Ms. Greschner replied that the actuarial value of assets, not market value, has been used for all communities listed in the summary status tiers.

Mr. Doughty questioned if the Mayor of Cumberland has indicated if the town is intending to comply with the experience study. Ms. Greschner responded that she had a conference call with the Mayor and as far as she knows the town has not completed an experience study but is working with an actuary to get some information to the Commission. Mr. Doughty followed by asking if the Mayor of Cumberland has indicated that the town will comply with completing an experience study and just needs more time or if they do not plan to complete one? Ms. Greschner replied that her understanding is that the town is not planning to conduct a full-blown experience study but that they are working with an actuary to provide a funding improvement plan. In response, Mr. Doughty expressed his concern to Chairperson Booth Gallogly that if Cumberland does not complete a full experience study other cities and towns may begin to ask, if Cumberland doesn't have to do it, why do we? The Chair acknowledged that Mr. Doughty made a good point as an experience study can reveal issues about a pension plan. She also acknowledged that she has not given up hope and noted that Ms. Greschner and the Commission's actuary, Mr. Sherman, will continue to work with Cumberland.

Chairperson Booth Gallogly thanked Ms. Greschner for all of her work and for staying on top of the changing of tiers as new information is submitted by cities and towns.

Agenda Item # 4 – Discussion on Funding Improvement Plans to be Submitted No Later than November 11, 2012 – Attachment E

Chairperson Booth Gallogly introduced the Funding Improvement Plan Checklist found in the addendum as Attachment E. The checklist is a draft compiled by Ms. Greschner based on the Funding Improvement Plan Guidelines which were sent on July 3, 2012 to the communities whose pension plans are in critical status. Chairperson Booth Gallogly explained that the goal of the checklist is to identify if cities and towns have complied with all aspects of the Funding Improvement Plan Guidelines and to help identify any areas of the plan which might need to be developed further. She noted that Mr. Sherman was not available to be with the Commission today but may be able to add additional information to the checklist. She also asked the Commission members to review the checklist to see if they could think of anything else that should be included.

Agenda Item # 5 – Potential Recommendations to the General Assembly

Chairperson Booth Gallogly stated that one of the clear parts of the Commission's mission is to make recommendations to the General Assembly. In preparation of that, she and Ms. Greschner brainstormed a list of ideas (found in the addendum) that the Commission may or may not want to focus on. Chairperson Booth Gallogly emphasized that she is not advocating for any of the ideas, but rather, wanted to use them as a way to get the conversation started. She asked the Commission members to think of some ideas of how the Department of Revenue could help support cities and towns. One thing she thought might be helpful is that the state is planning to issue an RFP to get actuarial firms on the state's master price agreement list which would provide cities and towns with a resource of pre-qualified actuaries they could use. She's hoping this process will begin in the next few weeks.

Discussion of the potential recommendations ensued. Mayor Fung suggested that a bullet should be added to this potential recommendation list which addresses giving cities and towns the authority to make pension plan reforms such as suspension of COLAs, etc. before any remedies are discussed regarding non-compliance of a Funding Improvement Plan. Speaking to Mayor Fung's point, Bruce Keiser, Town Administrator from Jamestown, noted that the question of authority needs to be decided by the courts as to whether a compelling public interest or dire fiscal emergency exists. Chairperson Booth Gallogly added that she thinks an agreement between all parties is preferable to being in limbo while a court decides which is why she believes it is important to involve all interested parties in this process to try and come to a resolution.

Mr. Keiser noted the looming issue regarding Other Post Employment Benefits (OPEB) and asked if the Commission should put that on the list. Chairperson Booth Gallogly stated that she was glad Mr. Keiser raised the question and noted that she had been considering whether a centralized trust for the administration of OPEB would make sense. John Simmons, Executive Director of the Rhode Island Public Expenditure Council inquired if the Commission wanted to consider the same requirements of OPEB that it has of pensions?

Regarding Funding Improvement Plans, Mayor Fung wondered where a city or town should go for approval of its Funding Improvement Plan. For example, should they wait for approval from the Pension Study Commission or the General Assembly before implementing the plan?

No additional potential recommendations to the General Assembly were made at this time.

Agenda Item # 6 – Next Meeting Date

The Commission's next meeting is scheduled for September 24, 2012. However, Chairperson Booth Gallogly expressed that she wanted to make sure the meetings were productive and since not many funding improvement plans will have been received by then she suggested that the Commission's next meeting not be held until October 15, 2012.

Agenda Item # 7 – Public Comments

There were no public comments.

Agenda Item # 8 – Adjourn

Mr. Doughty made a motion to adjourn which was seconded by Mr. Hoyle. The meeting adjourned at 2:00 PM.

Rosemary Booth Gallogly
Chairperson

October 15, 2012
Date

PSC/jb

Addendum to
September 10, 2012
Pension Study Commission
Meeting Minutes

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August 16, 2012

Moody's Investors Service
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New York, NY 10007

RE: Request for Comment: **ADJUSTMENTS TO US STATE AND LOCAL GOVERNMENT PENSION DATA -** Report Number: 143254

Thank you for the opportunity to comment on Moody's proposed adjustments to the pension liability and cost information reported by state and local governments.

This comment on Moody's proposed adjustments is offered by the Rhode Island Local Pension Study Commission (Commission) which was established by the Rhode Island General Laws as part of the State's overall pension reform efforts. The Commission was formed to assess the funded status of the locally-administered government pension plans within the State of Rhode Island and to provide recommendations to the General Assembly regarding objectives to improve their funded status. The near term focus of the Commission is to receive and react to funding improvement plans for each of the local plans deemed to be in critical status (funded ratio less than 60%). Such funding improvement plans are required no later than November 11, 2012. The Commission membership is enclosed as an attachment.

Generally, the Commission is opposed to those measures and adjustments proposed by Moody's that differ substantially from the accounting provisions included in the most recent pension accounting standards issued by the Governmental Accounting Standards Board (GASB) in June 2012 – Statements No. 67 and 68 as applicable to plans and employers, respectively.

One of the objectives of having a recognized standard setting body designated to promulgate generally accepted accounting principles (GAAP) for governments – the Governmental Accounting Standards Board – is to enhance the consistency and comparability of reported financial information by state and local governments. Through the existence of the GASB and their promulgation of generally accepted accounting standards combined with the independent auditors' assessment of conformance with those standards a mechanism to ensure consistency and comparability of financial data reported among governments is in place. Applying pension accounting guidelines for rating purposes that are materially different from GAAP may begin an undesirable trend of selective disregard of certain generally accepted accounting principles and substitution of rating specific criteria. This is problematic, even if well-intentioned, with the objective of enhancing comparability.

Specifically, the Commission is opposed to the adjustment, which proposes to substitute a common discount rate based on a high-grade long-term corporate bond index rate (5.5% for 2010 and 2011) to present value pension plan liabilities. The actuarial valuation of any pension plan inherently requires adoption of a series of assumptions that are appropriate for that specific plan. Substitution of common "assumptions" rather than tailored or plan appropriate assumptions is inconsistent with the intent of a plan actuarial valuation. We also have concerns that the index which is proposed for the discount rate is volatile. For 2012, the index used for discounting would have been much lower than what was used for 2010. The most recent value for July 2012 is 3.73%. In recent years, it has been as high as 8%. GASB considered and rejected using such volatile discount rates.

Further, the Commission is opposed to the proposed adjustment, which would similarly substitute a common amortization period for all plans. In essence, we believe these proposals, in the interest of enhancing comparability of pension obligations among state and local government entities, ignore the unique investment objectives and policies of the plans as well as each plan's status within its adopted amortization period. If adopted, these efforts would unfairly distort the funded status of the plans.

Also of concern is the likely confusion to result from multiple measures of a pension plan's funded status. GASB's most recent pension standards "delink" funding methodologies from financial reporting measures. Consequently, most plans will have two measures - amounts reported which are consistent with the adopted funding methodologies and amounts reported for financial reporting purposes. The GASB changes alone will create opportunities for confusion since such numbers will likely be substantially different. Adding a third set of values for rating agency purposes will likely result in further confusion and debate as to the appropriate measure of a pension plan's ability to meet its future benefit obligations. Governmental units may feel obligated to verify Moody's calculations by engaging their actuaries to perform additional work which will result in additional costs.

A final concern relates to the federal securities law disclosure requirements associated with the issuance of municipal bonds and the potential requirement for disclosure of this third set of pension numbers issued by an outside party. Since the Moody's sensitivity analysis would be in the public domain, despite the fact that a municipality had not commissioned the analysis, the municipality would need to determine whether all three measures of a pension plan's funding status needs to be disclosed in the municipality's Official Statements Disclosure counsel would need to review the applicability the Securities and Exchange Commission's anti-fraud Rule 10-b5. In addition, counsel would need to consider the San Diego Order (Section 5) wherein the SEC found that the City officials knew or were reckless in not knowing that the City's disclosures were false and misleading by failing to disclose in its Official Statement, the results of the Mayor's Blue Ribbon Committee Report that put the City officials on notice of San Diego's growing pension liabilities and the NJ Order (Paragraphs 23 and 24) related to the state's failure to disclose in its Official Statement the existence of or findings from the Benefit Review Task Force Report commissioned by the state's Acting Governor. This securities law concern will be compounded further if other rating agencies adopt similar, but not the same, adjustments to reported pension data.

We do not object to the remaining two principal adjustments, which propose to (1) allocate a proportionate share of liabilities associated with participation in a cost-sharing pension plan, and (2) report asset values at fair value rather than smoothed market. These two proposals are consistent with GASB's recently issued pension standards. Nor do we object to Moody's treatment of pension liabilities as similar to debt as that is consistent with GASB's standards.

Sincerely,

Rosemary Booth Gallogly

Rosemary Booth Gallogly
Chairperson, Local Pension Study Commission

cc: Governor Lincoln D. Chafee
Marcia Van Wagner, Moody's
Timothy Blake, Moody's
Robert Kurtter, Moody's
Naomi Richman, Moody's
Jack Dorer, Moody's
Alfred Medioli, Moody's
Wesley Smith, Moody's
Paul Doughty, Pension Study Commission
Jean Bouchard, Pension Study Commission
Steven St. Pierre, Pension Study Commission
Antonio Pires, Pension Study Commission
J. Michael Lenihan, Pension Study Commission
Angel Taveras, Pension Study Commission
Joseph M. Polisena, Pension Study Commission
Bruce R. Keiser, Pension Study Commission
Dennis Hoyle, Pension Study Commission
Gina Raimondo, Pension Study Commission
Richard Licht, Pension Study Commission
Allan Fung, Pension Study Commission
John Simmons, Pension Study Commission
Susanne Greschner, Chief, Municipal Finance

MOODY'S
INVESTORS SERVICE

REQUEST FOR COMMENT

Adjustments to US State and Local Government Reported Pension Data: Frequently Asked Questions

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On July 2, we published a Request for Comment regarding proposed adjustments to US public sector pension data. This document provides responses to questions that have been raised by investors, issuers and other interested parties.

Because of the complexity of this topic, and our desire to provide sufficient time for market participants to provide their thoughts, we have extended the comment period on the proposed adjustments to September 30 and encourage the submission of written comments to: cpc@moodys.com.

Q1. Why is Moody's proposing these changes?

» The proposal seeks to address the fact that government accounting guidelines for pensions allow for significant differences in key actuarial and financial assumptions that make statistical comparisons across governments very challenging.

» Our proposed adjustments are intended to provide a more transparent, comparable and conservative view of unfunded pension liabilities in the public sector, in order to improve analysis and understanding of credit risk due to these long-term obligations.

» We seek to create a measure of unfunded pension obligations that recognizes the contractual nature of accrued benefits and will be similar, but not identical, to bonded debt as a liability on balance sheets and a factor affecting future budgets.

Q2. Pensions have been in the headlines for several years: why are you making these adjustments now?

» We have always incorporated pensions into our credit analysis where we have been aware of significant unfunded liabilities. As pensions began to be a driving factor in a number of rating downgrades over the past few years, we began to evaluate how we could bring greater transparency and comparability to pension data.

» In early 2011, we began to use consolidated debt and pension metrics in our state government credit analysis, and we are evaluating expanding the use of similar metrics to local government credit analysis as well.

» The proposed adjustments were developed over a prolonged period based on our previous work on the subject and an extensive centralized data collection and analysis effort.

Q3. Did you develop these proposals in response to GASB's new standards?

» No. The release of Moody's proposed adjustments at approximately the same time as GASB's new standards was coincidental.

» Our proposed adjustments have some overlapping features with GASB's new standards but differ in others, most prominently the discount rate. We propose to apply a uniform discount rate each year to all public pension plans, whereas GASB's standards allow for the use of many different discount rates across plans.

» Furthermore, GASB's changes will not be implemented for all governments until fiscal 2015, while our proposed adjustments would take effect later this year to capture the current levels of pension-related credit stress.

Q4. Do you expect that Moody's adjustments will force issuers to change their accounting and disclosure practices?

» No. As a credit rating agency, it is not Moody's role to prescribe mandatory accounting rules for any industry; rather, we are proposing these adjustments because we believe they can enhance independent credit analysis.

» As in other cases where Moody's makes adjustments to reported financial information, there is no expectation that issuers will add those adjustments to their disclosures. To the extent that issuers disclose more details about their pension systems, such as duration, employer contributions and normal cost, our adjustments would better reflect the status of each plan.

Q5. With these adjustments, is Moody's applying a corporate pension accounting and analytic approach to governments?

» Our proposed approach is similar to the corporate accounting approach to measuring unfunded liabilities because it uses market value to measure assets and a high-grade bond index to measure liabilities.

» We recognize governments differ in significant ways from corporations but even entities expected to exist in perpetuity can default. Costs and obligations associated with pensions cannot be deferred and accumulated indefinitely. Without adhering to prudent financial management, the risk of financial crisis caused by pension obligations increases.

Q6. Why is Moody's discount rate of 5.5% so much less than the investment rates of return assumed by pension plans?

» Our proposed adjustments separate the rate of return on pension assets from the discount rate used in the measurement of liabilities.

» For the liability measure, we chose a discount rate based on a high-grade bond index because:

- it is consistent with how we measure bonded debt, which we report at par value and therefore implicitly discount at the cost of borrowing;
- it measures the risk associated with the future payment of pension benefits similarly to that associated with the future repayment of bonded debt;
- it is a reasonable proxy for a government's cost of financing portions of its pension liability with additional bonded debt.

» While we monitor pension systems for overly optimistic return assumptions, we do not endorse a particular rate of return.

» We recognize that plan actuaries discount liabilities by the rate of return when determining required employer contributions; however, this does not produce a balance sheet liability concept for the actual pension benefits.

Q7. Shouldn't differences in legal flexibility to reduce liabilities be reflected in what discount rate is used?

» State legal structures create differences in the ability of governments to make changes to benefits and reduce liabilities. However, the extent and practical effect of these differences is not clear and involves unpredictable political and judicial components. We have not attempted to quantify them in our adjustment of pension liabilities. We do consider these differences as part of our overall credit analysis, and as changes are made they will be reflected in revised reported liabilities and will flow through our analysis.

Q8. Isn't the wage growth assumption that is embedded in the AAL a source of potential flexibility to reduce liabilities?

» There are many embedded assumptions in estimating pension liabilities that, if changed, can affect an issuer's overall AAL. We have chosen to make the adjustments we believe to be the most material and feasible to implement. Our research indicates the influence of variations in the discount rate is far greater than the variances in other assumptions.

Q9. Would an annual change in the discount rate create rating volatility?

» No. While changes in market factors such as interest rates could result in volatility of our proposed pension measures, we don't expect ratings to be sensitive to such temporary market factors. The discount rate is one of several factors that affect pension analytics, including the sponsor's long-term funding strategy and benefits policy. Moreover, pensions are only one factor in our overall credit analysis.

» We track unfunded pension liability and bonded debt on a combined basis, as well as separately, so that we have more information to interpret trends that are due to market factors and those that are related to issuer-specific developments.

Q10. By eliminating asset smoothing, would ratings be too positive during up years of the stock market and too negative in down years?

» As noted above, we expect to see changes in market performance, but do not expect to make rating changes based on temporary market volatility. The goal of eliminating asset smoothing is greater comparability, both to match liabilities which are a point in time measure, and to bring asset valuations across all plans to a comparable basis.

Q11. What is the meaning of Moody's adjusted annual contribution measure?

» The proposed adjusted contribution translates our other adjustments into a pro-forma measure of annual fiscal burden that can be compared across plans and issuers, relative to capacity to pay.

» While the proposed adjusted amount may vary quite significantly from a government's actual and planned contribution level, we nonetheless view it as a useful forward-looking measure of potential budget burden.

» We propose to amortize unfunded liabilities over a 17-year period, which corresponds to the average remaining working life of employees from a sample of pension plans.

» We recognize that our proposed adjusted contribution does not take into account expected investment returns based on each plan's asset mix, which is a relevant consideration for actuaries who are calculating a recommended long-term employer contribution plan.

Q12. Why does Moody's not place more weight on reported ARCs and contribution variances from ARC?

» Whether issuers pay 100% of their reported ARCs is an important governance and budgetary management factor in our analysis.

» However, because ARCs are derived from reported UAALs that are based on widely varying actuarial cost methods and assumptions and are amortized over inconsistent periods of time, the ARCs themselves do not provide a good basis for comparison of potential fiscal burden.

Q13. What is the expected magnitude of rating changes as a result of the pension adjustments?

» While a full assessment of potential rating impact is premature now, we do not expect mass rating changes because:

- we have long viewed pensions as debt-like obligations and considered unfunded liabilities - and the assumptions on which the liabilities are based - in our rating analysis;
- pensions are only one of several factors in our government rating methodology;
- we do not expect widespread changes in relative rankings of debt and pension liabilities among governments as a result of the proposed adjustments.

» We do not expect changes for state ratings or outlooks solely due to the proposed pension adjustments.

Q14. Would there be any instances where the credit effect of the adjustments could be positive?

» Yes. We expect that some local government entities, mainly school districts, would show no pension liability if the state absorbs the full cost of pensions with annual "on-behalf" payments. These credits would look relatively better on combined measures of debt and pensions.

» In addition, a handful of plans use a lower discount rate than we are proposing and consequently our adjustments could result in smaller, rather than larger, unfunded liabilities than those reported.

» In both cases, the outcome of our proposed adjustments may or may not warrant rating upgrades since pensions are only one component of our credit analysis.

Q15. How do you incorporate pension reforms into state and local government rating analysis?

» While we view pension liabilities as debt-like obligations, we acknowledge they are not the same as debt. One important difference is that some previously accrued liabilities may be subject to amendment through legislation or negotiation. Enacted pension benefit reforms that apply to existing employees or retirees and that result in changes to accrued liabilities would be reflected in the government's reported pension data and in our adjustments.

Q16. What about unfunded "OPEB" liabilities for retiree healthcare – how are these incorporated in Moody's rating analysis?

» For governments that provide retiree healthcare benefits, OPEB is an area of growing operating budget pressure due to increased numbers of retirees and a persistently high healthcare inflation rate, and is included in our assessment of financial performance and management. However, budget pressure from these benefits varies widely across governments, with some providing only modest subsidies or no benefits at all.

» In response to OPEB cost pressure, many governments have implemented benefit cuts and shifted a greater share of costs to retirees, demonstrating the legal and economic flexibility to control the scope and cost of OPEB obligations.

» Accrued OPEB benefits generally do not have the contractual standing of pension liabilities, and therefore we generally do not view them as debt-like liabilities akin to pensions and bonded debt, even though they can be a source of current budget pressure that could, in combination with other factors, contribute to rating actions.

Q17. How does Moody's view the issuance of pension funding bonds by governments?

» Issuing bonds to fund previously accrued pension liability would have a neutral effect on our combined debt measures.

» However, bond financing of an accrued pension liability would also have the effect of crystallizing the liability on the balance sheet, whereas the pension liability itself could potentially be modified through legislation or negotiation. A significant reduction of unfunded liability through bond financing could reduce a government's incentive and political leverage to subsequently achieve meaningful modification of accrued pension benefits.

» There is also the risk that returns on the invested pension bond proceeds may underperform expectations, leaving the government to make up the lost investment returns in addition to paying debt service on the bonds. For these reasons, extensive use of bond financing for pensions could be viewed as credit negative.

» Also, to the extent that a pension bond included a component to fund current-year contributions, as opposed to just previously accrued liability, we would consider it deficit financing.

Q18. How does Moody's distinguish between pension situations that are potential credit problems in the near-term versus those that are problematic in the long term?

» Near term credit problems related to pensions are usually evident from low funded ratios, a high level of budget stress related to required pension contributions, a pattern of contributions that are low relative to actuarially required amounts, and in some cases negative cash flow trends in the pension fund itself.

» Longer term pension problems are evident from trends in funded ratios and funding history, among other indicators.

» Because this analysis takes many factors into account, Moody's does not have a target funded ratio that identifies adequate levels of funding.

» One purpose of our proposed adjustments is to bring greater transparency regarding potential future problems by revising some key assumptions that often act to push pension costs into the future.

Q19. Would the pension adjustments apply to public sector bond issuers other than states and local governments?

» Yes. The proposed adjustments would apply as a standard way of measuring pension liabilities for all entities reporting under governmental accounting standards. This does not mean that pensions have similar weighting in our methodologies across municipal sectors. To the extent that pensions are a meaningful factor in our methodology for a given sector, the adjustments would be relevant, though not necessarily determinant.

Q20. When will you publish issuer-specific adjustments?

» We will publish our specific adjustments for states and selected local governments when we have finalized our analytical approach later this year. In the RFC, we have provided examples of how the adjustments are calculated so interested parties can explore the potential impact in specific situations.

Report Number: 144863

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MOODY'S
INVESTORS SERVICE

ATTACHMENT D
Locally Administered Plans - Summary Status as of September 10, 2012
Pending Confirmation
(Communities in bold reflect that some information is still missing as of September 10, 2012)

Tier 1 – Completed Valuation and Experience Study, Accepted and Adopted Results, Not in Critical Status

- Jamestown, 109.6%
- Lincoln, 63.9%
- Middletown, 75.8%
- Smithfield Fire, 68.7%
- Warwick Municipal, 70.9%
- Warwick Police 2, 86.5%
- Warwick Fire 2, 78.0%
- Westerly, 64.1%

Tier 2 – Completed Valuation and Experience Study, Unknown if Accepted or in the Process of Accepting Results from Experience Study, Not in Critical Status (Funded ratio shown assumes that recommendations from the experience study will be adopted)

- **Narragansett, 61.4%**
- **Warwick School, 85.4% (governing body will convene later this month and recommendations are expected to be sent to Commission by October 1, 2012)**
- **Woonsocket, 60.7% (Budget Commission will evaluate recommendations of experience study)**

Tier 3 – Completed Valuation and Incomplete Experience Study, Not in Critical Status

- **Little Compton, 86.7% (letter sent to Town on 8/1/12)**

Tier 4 – Completed Valuation and Experience Study, Accepted and Adopted Results, In Critical Status

- Bristol, 47.5%
- Coventry Municipal, 25.3%
- Coventry Police, 11.3%
- Cranston, 16.9%
- East Providence, 33.6%
- Johnston Police, 27.0%
- Johnston Fire, 32.4%
- Newport Police, 57.1%
- Newport Fire, 39.6%
- Portsmouth, 51.7%
- Providence, 32.3%
- Scituate, 27.5%
- Smithfield Police, 18.5%
- Tiverton, 54.1%

- Warwick Fire and Police 1, 22.3%
- West Warwick, 26.3%

Tier 5 – Completed Valuation and Experience Study, Unknown if Accepted or in the Process of Accepting Results of Experience Study (Funded ratio shown assumes that recommendations from the experience study will be adopted), In Critical Status

- **Coventry School, 30.5% (in communication with Board of Trustees)**
- **North Providence, 40.0% (in communication with the Town)**
- **Pawtucket, 30.3% (Recommendations are expected to be taken up by the Council later this month)**

Tier 6 – Completed Valuation and no Experience Study, In Critical Status

- **Cumberland, 38.9% (in communication with Town)**

Tier 7 – Completed Valuation and no Experience Study, Only old Retirees, Pay-Go, In Critical Status
- Both plans are small plans and funded on a pay-go basis. Given these circumstances, the municipalities have been asked to submit an actuarial report using the state's MERS assumptions for the interest rate and the mortality tables -

- **Narragansett Police, 0.0% (in communication with Town)**
- **Pawtucket "Old Plan", 0.0% (Final report expected next week)**

Attachment E - Checklist on Funding Improvement Plans (FIP) Submitted by Cities and Towns

Municipality:										
Date of Submission										
FIP Documentation										
•FY2014 Funding of the ARC (Before/After Changes are made)										
•Amortization -Cost -Method -Period -Interest Rate -Rate of Increase										
•Assets & Liabilities (Before/After Changes are made)										
•Funded Status (Before & After)										
•Employer & Employee Normal Cost (Before & After)										
•Description of Benefit Changes (If Applicable)										
•Description of Plan to Emerge from Critical Status										
•Time Frame when Municipality Expects to Emerge from Critical Status										
•Required Actions to Implement the Plan										
•Two Deterministic Forecasts (Yes/No)										
•Actuarial Assumptions used to forecast payroll growth										
•Five-Year Forecast of Municipal Revenue Growth for the time period until plan is no longer in critical status (Yes/No)										

Municipality:										
Funding Improvement Plan Guidelines: For Municipalities that are Funding 100% of ARC										
•4 FIP's submitted (Yes/No)										
•1 FIP has been chosen by local governing body										
•Max Amortization period of 30 years in which plans must emerge from critical status within 20 years										
•Max percent increase in amortization payments would be 4% (except to make up for funding of 100% of ARC)										
•No decrease in contribution from one year to the next unless the reduction is the result of a reduction in benefits										
•Used shorter amortization schedules (how many years), with increasing payments										
•For Frozen Plans with only retirees, the amortization period would not be more than the average future lifetime of the retirees										
•No Open Amortization Method										
•Future Changes in UAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base										

Municipality:										
•Relief provision that would provide for a temporary increase in the ARC payments by no more than 8%										
Funding Improvement Plan Guidelines: For Municipalities that <u>are not</u> Funding 100% of ARC										
•4 FIP's submitted (Yes/No)										
•1 FIP has been chosen by local gov. body										
•Contribution has to be increased such that the portion of the ARC actually contributed increases by 20 percentage points each year until it reaches 100%										
•Max Amortization of 30 years in which plans must emerge from critical status within 20 years										
•Max Percent increase in amortization payments would be 4% (except to make up for funding of 100% of ARC)										
•No decrease in contribution from one year to the next unless the reduction is the result of a reduction in benefits										
•Used shorter amortization schedules (how many years), with increasing payments										

Municipality:										
•For Frozen Plans with only retirees, the amortization period would not be more than the average future lifetime of the retirees										
•No Open Amortization Method										
•Future Changes in UAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base										
For All Municipalities										
•Cannot meet guidelines (explanation provided)										
•Municipality considered transition to MERS										
•Other										

Local Pension Study Commission
Potential recommendations to General Assembly
Draft – September 10, 2012
For Discussion Purposes Only

- Review of existing legislation in terms of coherence with new GASB standards

- Definition of critical status – Funding vs. Accounting

- Non-compliance with guidelines for Funding Improvement Plans
  Automatic suspension of COLA benefits?
  Automatic move of new employees into MERS? (What happens to closed plans?)

- Discussion of whether or not existence of Funding Improvement Plan guidelines should be authorized in statute, who is responsible oversight authority to adopt guidelines…

- Pathway to MERS
  - for all?
  - for all actives?
  - for new employees?
  - Local pension benefits cap? (E.g., locally-administered pension plans cannot offer benefits more generous than the state-run MERS)

- Required funding of ARC and penalties for underfunding

- Disability Pension Reform
  Currently, an employee that retires because of a work-related disability is entitled to a tax-free disability pension of 66 2/3% of salary.