Pension Study Commission
October 15, 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, October 15, 2012.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 1:17 pm.

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Bruce Keiser, Richard Licht, Antonio Pires, Joseph Polisena, Mark Dingley representing Gina Raimondo, John Simmons, and JR Pagliarini representing Angel Taveras

Members absent: J. Michael Lenihan and Steven St. Pierre

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

Agenda Item # 1 – Approval of Minutes from September 10, 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 September 10, 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 – Funding Improvement Plans to be submitted no later than November 11, 2012
a. Reminder letter on Funding Improvement Plans, Attachment B

Next on the agenda, Chairperson Booth Gallogly referred to Attachment B found in the addendum which is a draft reminder letter to municipal officials regarding the upcoming due date for Funding Improvement Plans. This is only a requirement for locally-administered pension plans that are deemed to be in critical status (less than 60% funded). The Chair also noted that progress has already been made by some communities who have been meeting with various stake holders. However, she is concerned that some other communities are not making much headway. Therefore, she recommends sending a reminder letter with the July 3, 2012 guidelines attached. She asked the Commission members if they had any other suggestions for the letter.

Mayor Fung indicated that through feedback he has received from other mayors and administrators, he is aware of at least one community that might not be able to meet the deadline despite actively working with their actuary. He questioned what a city or town should do if they cannot meet the deadline. Chairperson Booth Gallogly responded that the purpose of the reminder letter is to make sure that all cities and towns are making progress. If they do not meet the deadline, the statute allows for the withholding of state aid and for the Pension Study Commission to make recommendations to the

General Assembly. However, she also noted that the Commission understands the complexities of formulating a plan and as long as communities are diligently working on these plans and are making progress the Commission might be more flexible in those instances. Richard Licht, Director of Administration, expressed concern about stating in the letter that the Commission will turn to the legislature if a community does not provide a Funding Improvement Plan on time. In the end, he thinks the Commission may have to do that but was concerned about how that would be interpreted if it was stated in the letter. For example, would cities and towns think that the Commission is putting off its responsibility onto the legislature? According to Director Licht, the bottom line is that cities and towns should be trying to comply with the law and deadline.

Mayor Fung raised the issue of what if the local governing body in a city or town rejects the plan that is proposed? Mr. Doughty responded that the statute calls for a *reasonable improvement plan*. He continued by saying that the plan submitted to the Commission need not be final or concrete at this point so administrators should not worry whether the plan will be accepted but rather focus on submitting a reasonable plan.

Mayor Fung believes the intent of the legislation was twofold. With one being that municipalities would perform an experience study and actuarial valuation to recognize the impact that plan benefits have on the plan's liability and get an accurate picture of where the plan stood. Secondly, that municipalities use this information to put together a reasonable improvement plan to get out of critical status. In addition, Mayor Fung noted that in order to come up with a reasonable Funding Improvement Plan, actuaries must look back on past experience. Since this experience is constantly changing as time goes on, if no Funding Improvement Plan is implemented (due to none presented or if a local governing body turns down the mayor or administrator's plan, etc.) then another experience study and actuarial valuation may be required for the Funding Improvement Plan to still be considered reasonable and valid as time passes. Therefore, Mayor Fung believes there is an urgency to get these improvement plans done and for municipalities to take some sort of action to get out of critical status. Mr. Doughty responded by saying he's concerned that a rush to implement a plan will not leave any time to come to a negotiated agreement. And if municipalities implement a plan by unilaterally changing benefits then lengthy and expensive litigation will ensue which does not serve anyone and, more importantly in his opinion, it is not what the statute requires. Mayor Fung noted that only two of Cranston's retirees have expressed their willingness to meet with his administration to talk about their pension. Therefore, if Cranston waits until they get a negotiated settlement before implementing changes then this process could drag on for a long time and continue to increase the city's unfunded liability as the city cannot afford to make 100% of its current ARC.

Chairperson Booth Gallogly noted that one reason the Commission asked for four funding improvement plans is because they know it is a process to come to an agreement. That way, if the recommended plan is rejected then the community can revisit one of the other three plans rather than having to go back to the drawing board.

b. Discussion around determining the reasonableness of the plans submitted by municipalities, Attachment C

Chairperson Booth Gallogly referred the Commission members to Attachment C which basically uses items of the July 3, 2012 guidelines as a checklist for the Commission and, more specifically, the Commission's actuary, Dan Sherman, to use as a checklist when determining the reasonableness of a community's Funding Improvement Plan.

The Chair emphasized that she would be happy to add any points to the checklist that may have been missed and asked the Commission members to provide any comments they may have on the checklist after the meeting to Susanne Greschner, Chief of the Division of Municipal Finance.

Agenda Item # 3 – Potential recommendations to the General Assembly – Attachment D

For the next item on the agenda Chairperson Booth Gallogly asked, "What can we do to incent people to fix the problems of their locally-administered pension plans? And if they don't, what can be done to bring those plans in-house, perhaps into the Municipal Employee Retirement System (MERS), where they can be monitored more closely?" To that end, Chairperson Booth Gallogly, with the help of Dennis Hoyle, Susanne Greschner and Mark Dingley, came up with some suggestions found in Attachment D. Their goal was to come up with a pathway to MERS that could be used as an incentive and a second, mandatory pathway to MERS that can be used if a locally-administered plan fails to make progress in emerging from critical status. The premise behind these suggestions is that MERS is a centrally administered plan and the assets are pooled from an investment standpoint. The disability process is also centrally administered through MERS, relieving cities and towns of those duties. Lastly, as a part of MERS, communities would be forced to pay their annual required contribution (ARC).

Mayor Fung expressed hesitation about simply moving locally-administered pension plans into MERS. In his opinion and the opinion of many RI League of Cities and Towns members, moving a plan into MERS does not necessarily eliminate the problems. For example, it can create a whole host of new problems especially if a community has collective bargaining agreements (CBAs) with different provisions. He believes that MERS is not a panacea. Instead, such a move of troubled pension plans would need to be vetted out. In his opinion, any thought about moving locally-administered plans into MERS must be accompanied by legislation that addresses taking some things out of collective bargaining agreements. Otherwise cities and towns may be faced with a lot of grievance issues on the local level. Chairperson Booth Gallogly stated that the Commission should discuss the points Mayor Fung raised in more detail as the goal is not to force communities into MERS but rather give them an option if they cannot bring their own locally-administered pension plan back on track through negotiations, etc. She added that any locally-administered plan that is adhering to a funding improvement plan and making progress in regards to improving its funded ratio and emerging from critical status would not be required to join MERS.

Mayor Polisena from the Town of Johnston raised the question of how mayors and town administrators can make a plan to emerge from critical status and adhere to that plan when they have no control over the school departments. Chairperson Booth Gallogly acknowledged that it is a problem.

Mayor Fung reiterated his point that he is not sure that a pathway to MERS is the most helpful way to assist communities in fixing their pension problems. Instead, he would prefer to see legislation addressing these issues at the local level. He believes communities have two ways they can improve their pension plans. First, they could get all stakeholders to agree upon a funding improvement plan and then use a friendly lawsuit to enforce it. That way if a community fails to maintain their funding improvement plan, they are violating a court order. Or secondly, the funding improvement plans of each individual municipality could be set in statute so that they are required to follow it and make their ARC payments. Both options would require that future administrations adhere to the funding improvement plan.

Mr. Hoyle noted that a couple of significant advantages of joining MERS would be the joint investment pool and the relief it would provide communities from the burden of administering a local pension plan. In addition, contribution of the ARC is required which has had a significant positive effect on the health of teachers' pension plans.

Antonio Pires, Director of Administration for the City of Pawtucket, indicated that he sees the value of having an alternative outcome, such as a mandatory pathway to MERS, if a local government cannot come up with a reasonable Funding Improvement Plan because it would provide communities with an understanding of what would happen if they do not take action. In addition, by being in MERS the municipalities would be required to pay 100% of their ARC. This will force municipalities to look at the situation, meaning, if they want to offer benefits that are more liberal than others, then they are going to have to pay for them. Municipalities also need to calculate the cost of their current benefits plan so that everyone can be aware of what is at risk if changes are not made. Then changes can be made, if necessary, through negotiations with the active and retired employees.

Chairperson Booth Gallogly expressed her openness to Mayor Fung's suggestions as well as those of other Commission members. She emphasized that she is not set on having locally-administered plans join MERS, rather she used that as a suggestion to get the conversation started. Most importantly, she is interested in finding a way to codify improvement of the locally-administered pension plans so that all of the time and effort that Commission members have put in is not for naught and that pensioners, as well, will have a pension they can count on after all their years of work.

Agenda Item # 4 – Next Meeting Date

The Commission's next meeting is scheduled for October 29, 2012.

Agenda Item # 5 – Public Comments

There were no public comments.

Agenda Item # 6 – Adjourn

Mayor Polisena made a motion to adjourn which was seconded by Mayor Fung. The meeting adjourned at 2:21 PM.

Rosemary B Gallogly
Chairperson

Dec 3, 2012
Date

PSC/jb

Addendum to
October 15, 2012
Pension Study Commission
Meeting Minutes

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
Office of the Director
One Capitol Hill
Providence, RI 02908-5855

TEL: (401) 574-8999
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October 15, 2012

Dear Mayors, City and Town Managers, and Town Administrators,

As a reminder, per R.I. General Law § 45-65-6 (2), the Funding Improvement Plans (FIP) for communities with locally-administered pension plans in critical status (less than 60% funded) must be submitted to the Pension Study Commission within one hundred eighty (180) days from when you sent your critical status notices or by November 11, 2012, *whichever is earlier*. Your plans may be submitted to the Commission via Susanne Greschner at Susanne.greschner@dor.ri.gov.

For your reference I am attaching the Funding Improvement Guidelines and sample funding improvement plan which were distributed to municipalities in July. In addition, you may find the Pension Study Commission's web page, including minutes of the Commission's meetings, to be a helpful resource. (http://www.muni-info.ri.gov/finances/study_commission.php)

If you have additional questions as you prepare your funding improvement plans please feel free to contact Susanne Greschner or her staff in the Division of Municipal Finance. They can be reached at (401) 574-9900.

Sincerely,

Rosemary Booth Gallogly
Chairperson of the Pension Study Commission

Cc:
Members of the Pension Study Commission
Susanne Greschner, Chief, Division of Municipal Finance

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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July 3, 2012

Dear Mayors, City and Town Managers, and Town Administrators,

Over the course of several months, the Pension Study Commission ("Commission") worked to develop funding improvement guidelines to assist municipalities whose locally-administered pension plans are deemed to be in critical status. As you know, R.I. Gen. Laws § 45-65-6 (2) states

"…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."

This means that a funding improvement plan to restore the funded ratio to 60% or better is due no later than November 11, 2012.

Numerous discussions ensued and at its last meeting on June 18, the Commission voted to provide these guidelines to municipalities.

Part I provides an overview of the documentation that the municipalities should include in their funding improvement plans and **Part II** lists specific guidelines. The Commission also provides a sample improvement plan, which is included as an Appendix to this letter.

I. 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;
- 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;
- Two 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.

II. FUNDING IMPROVEMENT PLAN GUIDELINES

The Commission has developed guidelines to further assist cities and towns in the formulation of the Funding Improvement Plans. Generally, the funding improvement period should not exceed 20 years with the plan emerging from critical status within that timeframe.

The local governing body shall submit four funding improvement strategies to the Pension Study Commission consistent with these guidelines and identify which one has been chosen as the funding improvement plan. If no funding improvement strategy is approved by the local governing body, the Pension Study Commission will notify the General Assembly.

1. For municipalities that are funding 100% of the Annual Required Contribution (ARC):

- Maximum amortization period of 30 years in which plans must emerge from critical status within 20 years;
- maximum 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;
- encourage shorter amortization schedules, with increasing payments;
- for frozen plans with only retirees the amortization period would be not 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; and

- relief provision that would provide for a temporary increase in ARC payments by no more than 8%.

2. For municipalities that <u>are not</u> funding 100% of the ARC:

- 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%;

- maximum amortization period of 30 years in which plans must emerge from critical status within 20 years;

- maximum 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;

- encourage shorter amortization schedules, with increasing payments;

- for frozen plans with only retirees the amortization period would be not more than the average future lifetime of the retirees;

- no open amortization method; and

- 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.

If the local governing body believes they cannot meet these guidelines due to extenuating circumstances or other situations, a full explanation should be provided to the Commission.

In addition, the local governing body shall indicate if they considered a transition to MERS and, if so, identify what were the significant factors and/or obstacles in that consideration. Further, it would be helpful for the Commission if municipalities identified what actions could be taken to potentially facilitate moving locally administered plans to MERS.

We hope that you find these guidelines and the sample improvement plan helpful. I would also like to mention two seminars that will be held on July 10 and August 7. On these dates we will discuss these guidelines and will answer any questions you may have. You will receive an agenda for these seminars under separate cover.

Attachment B

Sincerely,

Rosemary Booth Gallogly

Rosemary Booth Gallogly
Chairperson of the Pension Study Commission

Cc:
Members of the Pension Study Commission
Susanne Greschner, Chief, Division of Municipal Finance

APPENDIX

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%
ARC	$8,166,245	$6,748,264

Exhibit B shows the key values forecasted for the next 27 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 assumed 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)

Attachment B

Option 1 - Exhibit A

Current Forecast of Actuarial Valuation results, adopted Actuarial Assumptions, prior to Benefit Changes

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	307,542,439	-	100.0%		
2037	100%	4,753,310	-	4,753,310	4,753,310	-75.6%	31,867,754	14.9%	24,238,368	313,234,907	313,234,907	-	100.0%		
2038	100%	4,931,559	-	4,931,559	4,931,559	3.8%	33,062,794	14.9%	25,086,711	318,765,683	318,765,683	-	100.0%		

Attachment B

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%		
2038	100%	3,698,669	-	3,698,669	3,698,669	3.8%	33,062,794	11.2%	21,388,530	207,566,347	207,566,347	-	100.0%		

Attachment B

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%		
2038	100%	3,698,669	-	3,698,669	3,698,669	3.8%	33,062,794	11.2%	21,388,530	207,616,385	207,616,385	-	100.0%		

Attachment C

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)										

Attachment C

Municipality:										
Funding Improvement Plan Guidelines: For Municipalities that <u>are</u> 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										

Attachment C

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										

Attachment C

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										

"Pension Security - Encouraging A Pathway to MERS and Ensuring Compliance with Funding Improvement Plans" - Discussion Points

1. As locally-administered pension plans contemplate and prepare funding improvement plans for the November 11, 2012 submission date are there compelling reasons why a transition of locally administered plans into MERS should also be pursued?

Advantages of MERS compared to locally-administered plans:

- Payment of the ARC is required.
- Investment risk is minimized and return optimized through participation in a professionally managed and diversified portfolio.
- Benefit provisions are set in State law – modification or enhancement of benefit provisions through collective bargaining process is eliminated.
- Reduced investment expense – economies of scale - investment costs are spread over a large portfolio.
- Reduced actuarial cost – MERS perform valuation for all participating units
- Eliminates need to administer the pension plan - enrollment, maintain contributions by participant, determination of benefit amounts, monthly pension payroll, providing data to actuary, etc.
- Eliminates the need for a "local" disability determination process.

2. Should transition to MERS be incentivized with the objective of obtaining the advantages outlined above and preventing a future deterioration of funded status through failure to make required contributions? Even when municipalities adopt funding improvement plans, does the risk remain that the future ARC may not be made to fund the plans?

3. Alternatively, should the General Laws be amended to require transition to MERS when certain conditions exist (failure to adhere to the funding improvement plan, failure to contribute the ARC, investment performance that lags ERSRI investment returns; implementation of pension benefit increases without first achieving 100% funded status)?

Options to consider:

Propose legislation re: <u>A pathway to MERS</u> that would: (incentive approach)

- <u>Encourage</u> transfer of the plans to MERS by these provisions -
  - Allow a period of no more than five years to reach 100% funding of the MERS ARC;
  - Allow for reamortization of the recalculated unfunded liability upon entry to MERS;
  - Allow plan members to retain existing service credits and then adopt MERS accrual rates on a go-forward basis
  - Allow for transfer of existing investments – SIC could hold and optimize timing of sale to align with ERSRI asset allocation rather than force an immediate liquidation
  - Allow transfer of existing retirees to MERS provided sufficient contributions and/or assets are transferred to mitigate liquidation of other plan's assets (negative cash flow issue)
  - Provide for one-time financial incentives?
- Provide for offset of School Aid in the event of failure to make ARC payment (to ensure there is a way to enforce payment of the ARC).

"Pension Security - Encouraging A Pathway to MERS and Ensuring Compliance with Funding Improvement Plans" - Discussion Points

Propose legislation re: A pathway to MERS that would: (punitive approach)

- Require transfer of plan to MERS if any of the following conditions exist:
  - failure to adhere to the adopted funding improvement plan; or failure to adopt/submit a funding improvement plan
  - failure to contribute the ARC or failure to make the 20% increase required of the funding improvement plan guidelines;
  - investment performance that lags ERSRI investment returns (e.g., local plan investment return is less than 50 basis points of the ERSRI return for 2 consecutive years (with exceptions for plans that have a reason for assuming less risk i.e, 100% funded);
  - implementation of pension benefit increases without first achieving 100% funded status)?
  - Disability pension percentage rates that exceed statewide average or MERS average
- Transfer of the plan to MERS due to the existence of the outlined conditions is a trigger for DOR Director to appoint a fiscal overseer or budget commission
- Require a higher employee contribution rate when the plan is required to be transfer to MERS
- Provide for offset of School Aid in the event of failure to make ARC payment.

Other discussion points:

Should we allow only whole plans(actives and retirees) to migrate to MERS? If not, how will assets in old plan be divided between retirees and actives?

Are there other incentives to join MERS that could be considered?

What other measures could be enacted to ensure adherence to the adopted funding improvement plans?

What body or office will approve the funding improvement plan? -- What body or office will assess compliance/adherence to the funding improvement plan on an ongoing basis.

When a budget commission is appointed by the Director of Revenue and the municipality has a locally administered pension plan in critical status should there be a mandatory presumption of transfer to MERS?

Should Central Falls be considered an exception and be allowed to migrate into MERS with their significantly restructured plan, but new hires be required to enter restructured MERS?

Are there other obstacles/impediments to joining MERS?

Are there issues unique to potential transfer of "closed" or nearly closed plans to MERS?

Continuing Discussions:

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

Definition in statute of critical status- Funding vs. Accounting?

Discussion of whether or not guidelines should be in statue, and if other items should be added, such as no rolling amortization, and plans must comply with GASB standards for actuarial methodology (entry age normal).

"Pension Security - Encouraging A Pathway to MERS and Ensuring Compliance with Funding Improvement Plans" - Discussion Points

addition of clear language on time frame for plans to submit funding improvement plan who enter critical status in the future.

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.

Flexibility for local governments to suspend COLA (possibly addressed above through forcing non complying plans into MERS)

OPEB – Statewide Trust

OPEB- Similar requirements for Experience Study and Valuation, funding improvement plan

Notes:

Transfer of plan to MERS assumes conformance to MERS benefit structure except as outlined.