**Pension and OPEB Study Commission**
**February 24, 2014**
**Minutes of the Meeting**

A Study Commission meeting was held in the Senate Lounge of the State House, 82 Smith Street, Providence, Rhode Island on Monday, February 24, 2014.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension and OPEB Study Commission called the meeting to order at 10:00 AM.

**Commission members present:** Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Richard Licht, Antonio Pires, Joseph Polisena, Steven St. Pierre, John Simmons, and Mark Dingley representing Gina Raimondo.

**Members absent:** J. Michael Lenihan, Angel Taveras, and there is a vacancy due to the retirement of the Jamestown Town Administrator.

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

**Agenda Item #1 – Approval of minutes from January 27, 2014 – for vote, Attachment A**

For the first item on the agenda, Chairperson Booth Gallogly asked the Commission if there were any corrections, adjustments, or additions to the draft minutes of the January 27, 2014 Study Commission meeting. There were none. Mayor Polisena from the Town of Johnston made a motion to accept the minutes as written. The motion was seconded by Antonio Pires. The motion passed all in favor.

**Agenda Item #2 – OPEB Trusts, Attachment B**

a. **OPEB Trust in Massachusetts**
   - **Paul Todisco, Senior Client Service Officer for PRIM, Massachusetts**

For the second item on the agenda, Chairperson Booth Gallogly introduced guest speaker Paul W. Todisco to shed light on how the State of Massachusetts handles their OPEB trusts. Mr. Todisco is a Senior Client Service Officer for the Pension Reserves Investment Management ("PRIM") Board.

The PRIM Board has been in existence since 1983, with Mr. Todisco joining PRIM in 1984. There are 105 independent retirement systems and boards in Massachusetts. Mr. Todisco's role with PRIM has been to deal directly with and service the cities and towns in Massachusetts who have their own pension funds that wish to join with PRIM and invest in its $58 billion pension fund. About 82% of the $58 billion comes from the state employees and the municipal teachers in the state-administered system. The remainder of the fund consists of local cities and towns, counties, regional systems, and school districts that have opted to join PRIM, either moving over their entire pension assets for full management, or by putting a portion of their assets in and choosing to either invest in PRIM's total fund, or select certain asset classes that PRIM offers through a program called "segmentation."

Mr. Todisco then explained the difference between his organization, PRIM, and another organization, the Public Employee Retirement Administration Commission ("PERAC"). PERAC is the regulatory body, regulating all of the aforementioned 105 retirement boards. PRIM serves as the "bank." Their sole role is that of the investment arm. Prim does not administer any benefits; they just invest the assets of its membership.

Chairperson Booth Gallogly asked Mr. Todisco to refresh her memory regarding a Massachusetts state statute that prescribes what the local plans can provide for benefits. This is different from Rhode Island where each benefit plan is locally negotiated. Mr. Todisco affirmed this, citing Chapter 32 of the Massachusetts General Laws as the statute that oversees all the retirement systems in Massachusetts. It's a uniform statute, which also has some portability that allows for some consistency in benefits when moving from one plan to another.

Mr. Todisco then referred to his slide pertaining to the evolution of the State Retiree Benefits Trust Fund ("SRBTF"), which shows how the PRIM Board became the investment arm for the state's OPEB funds. The genesis of the Massachusetts State OPEB fund came about through the transformation of the Health Care Security Trust ("HCST") into the State Retiree Benefits Trust Fund, as a means to provide funding for the state's OPEB liability. The state then decided to use the PRIM Board to invest these funds. However, the IRS would not allow the commingling of the State's pension funds with the state's retirement insurance funds. As a solution, because the money could not be commingled, a special commission decided to keep the HCST Board that was responsible for the investments of the original trust in place as an interim solution until further legislation could be passed. Then in 2009, the interim status of HCST management of SRBTF became permanent, and a new HCST Board was created.

The HCST Board's job was at one point to manage the state OPEB assets, and use PRIM as the investment manager. However, due to IRS regulations, the OPEB assets could only be invested alongside the pension assets and not commingled. This changed in 2010, when the IRS said that as long as it meets certain criteria, the commingling of funds would be allowed. Legislation was then passed in 2011 which allowed the HCST Board to invest with the pension fund, allowing HCST's assets to commingle with PRIM's.

Mayor Polisena inquired as to the amount of unfunded OPEB liability in Massachusetts, which Mr. Todisco estimated to be in the neighborhood of $40-50 billion when combining the state and local plans. Mayor Polisena then followed up by asking how much of that $40-50 billion is funded. Mr. Todisco said that, for the state, $500 million is funded.

Mr. Licht asked whether, in Massachusetts, there is a requirement that a municipality have an OPEB trust. Mr. Todisco answered that, yes, they must have established, and began funding, an OPEB liability trust fund if they wish to invest. However, there's no requirement otherwise for a municipality to establish an OPEB trust fund. In order to invest in the state fund, there has to be a minimum of $250,000 in their trust fund. Mr. Licht asked if there was a requirement to fund the unfunded liability, to which Mr. Todisco said that there is no such requirement. Mr. Licht asked whether the state requires Massachusetts municipalities to move retirees to Medicare at age 65. Mr. Todisco replied that there has been such a requirement since either 1986 or 1988.

Chairperson Booth Gallogly referred to presentation slide covering the composition of the HCST Board, and asked Mr. Todisco to briefly describe their responsibilities. Mr. Todisco explained that it's a seven-member board, and described the rationale behind the makeup of its membership. Some of the board's responsibilities are the actuarial valuations for the state fund, and also to approve submissions of the municipalities to invest in the SRBTF.

Mayor Polisena inquired about the fees to cities and towns. Mr. Todisco explained that they are very small fees, to cover a small portion of operational and administrative costs. Mayor Polisena asked what the rate of return was for PRIM. Mr. Todisco stated that since the inception of their fund in 1984, the rate of return has been about 9.6%.

Paul Doughty asked whether, once a plan elects to join, they can later elect to get out, and if so, if any plans had done so. Mr. Todisco said that, yes, they can elect to get out, but that none have chosen to do so, partially because the investment fund is new and the numbers have been good.

Chairperson Booth Gallogly asked whether the membership of PRIM had changed when the locals had an option to join it, and whether there is a local representative on PRIM. Mr. Todisco said that there currently is no local representative. When the PRIM Board was first established, there was a seat on the board for a participating system of the fund, one whose entire assets were turned over to PRIM. However over time, that seat was abolished.

In regards to reporting, Chairperson Booth Gallogly asked whether, for example, a local town council can find out what was in their 9.6% rate of return. Mr. Todisco explained how they receive a statement from PRIM, with a breakdown of things such investment gains and losses, and management fees.

Chairperson Booth Gallogly asked if there was an issue with the management of the available funds of plans who are poorly funded, having more money going out then coming in. Mr. Todisco explained that they have a cash fund that provides monthly liquidity for pension funds and that they don't turn over all their assets. Every month they get a budget, and an automatic redemption. PRIM only redeems on the first business day of the month.

Mr. Todisco went over what the HCST Board requires, including evidence of authorization, acknowledgement of investment risk, an understanding of agreements, acknowledgement of fiduciary obligation, and an indication of a commitment to fund.

Mr. Todisco covered state OPEB reporting requirements. Municipalities and other entities must submit a summary of its OPEB cost and obligations and all related information required under GASB 45, covering the last fiscal or calendar year for which this information is available. PERAC must then notify this entity with any concerns they might have, and file a summary of these reports with the Massachusetts legislature for their review. Chairperson Booth Gallogly asked whether this law is for all municipalities to follow, or just those who have opted to invest. Mr. Todisco explained this covers only those who've chosen to invest. John Simmons asked if there was a requirement for every municipality to do an OPEB study. Mr. Todisco answered not to his knowledge.

Mr. Todisco gave an overview of the website that has all the needed information and documents that an entity participating in the SRBTF may need, as well as a list of its participating government entities. Many of the participating municipalities and entities are very well funded. Mr. Todisco also cited examples of PRIM's municipal outreach, which are municipalities and entities which may invest in the SRBTF in the future.

Chairperson Booth Gallogly asked Mr. Todisco whether there were any questions or concerns about whether or not, because it was invested by a state body, peoples retirement health was now guaranteed by the state. Mr. Todisco said that was not really a question or concern of the municipalities or the state.

Mr. Todisco explained how Massachusetts currently uses an aggressive rate of return assumption of 8%, but is looking into using a blended rate to bring that assumption down. Paul Doughty then asked who comes up with the assumed rate of return. Mr. Todisco said that for the PRIM Board, it's legislated to them. Cities and towns who have their own investment funds determine their own rates of return assumptions.

Mr. Todisco went over some of the benefits to investing in the SRBTF, including PRIM's staff, custodian bank, outside auditing, low operational costs, the PRIT Fund's strategic asset allocation and diversified portfolio, and the alignment of interests between municipalities, HCST, and PRIM.

Chairperson Booth Gallogly noted that one of the challenges to setting something up like this is that there would clearly need to be more staff resources at the centralized organization, because you are dealing with account management and record keeping. But it would be hard to imagine being able to get rid of FTE's at the local level, because in some cases the person handling it is handling numerous other things. So overall, if Rhode Island were to move to a similar structure, the locals may benefit from the economies of scale potentially, but will not necessarily realize any staff savings. The state would be taking on this responsibility more or less for the greater good. Mr. Todisco agreed.

Mayor Fung asked who retains the fiduciary liability, and whether it was at the state or local level. Mr. Todisco said that PRIM shares the liability role, and could be considered a co-fiduciary. Mayor Fung asked if the locals would still need to get fiduciary insurance, which Mr. Todisco replied in the affirmative, and stated that it's the same way with the pension funds.

Mark Dingley pointed to the list of participants, commenting on how the majority of participating municipalities are fairly smaller in size, as well as well-off financially. Mr. Dingley wondered if Massachusetts was doing anything to help those municipalities who aren't as well funded. Mr. Todisco replied that in terms of aid from the state, that no help was currently being offered. Mr. Todisco also confirmed that many larger, less funded cities have not been able to participate as of yet. Mayor Polisena asked why, if these cities only need $250,000 of available funds to get started, they haven't at least begun to participate. Mr. Todisco stated that he believed these municipalities had different priorities at the local level. Mr. Dingley then asked whether the state had ever rejected any entity that has applied. Mr. Todisco answered that it has, but only because their paperwork was not filled out properly, and for no other reason. Mr. Dingley then stressed the importance of entities funding their OPEB ARC, because if there isn't a commitment to this, the money coming in will be going right back out to pay for retiree benefits. Mr. Simmons asked if all communities pay their benefits out of this fund, to which Mr. Todisco replied that they don't, and that only one community gives them their entire appropriation and makes quarterly withdrawals to pay for benefits. For the most part, this is a long-term fund. Chairperson Booth Gallogly inquired as to what the arguments were for a local body to say that they didn't want to be invested in this state fund, but rather want to keep it at the local level. Mr. Todisco said that many feel comfortable in their long established relationships with their local investors, and the smaller groups who can't do much just don't want to bother with it. Mayor Polisena asked if Rhode Island was to get that state legislature to pass a statute to do this, is there any way Mr. Todisco and PRIM could provide guidance? Mr. Todisco stated that he and PRIM would absolutely do that. Antonio Pires than pointed to the City of Pawtucket, and that the problem they have in funding their unfunded OPEB liability of around $310 million is that, assuming no growth in tax base or inflationary increase in medical costs, even with an increase of the tax rate by the maximum 4% allowed per year, it would take a city like Pawtucket a hundred years to get the needed funds. This is daunting and would entail exceptional foresight into the not so near future.

Chairperson Booth Gallogly referred to the handout that is in response to what Mayor Fung had asked about the state's OPEB trust. The handout showed that even though they state is funding 100% of the ARC, it is going to take a long time to get fully funded.

Mr. Licht followed up Antonio Pires' discussion of Pawtucket's OPEB liability by asking him what the City's unfunded pension liability was. Mr. Pires estimated it to be around $100 million. Mr. Licht then made note that Pawtucket's OPEB liability, like many others in Dennis Hoyle's report, is around three times that of their pension liability. Mr. Licht wanted to point out that the state is the reverse of that, where the pension liability is much greater than the OPEB liability. Mayor Polisena added that the state is in much better shape than the municipalities due to a former governor cutting general revenues and state aid, citing the Town of Johnston as an example. Mayor Fung added that the municipalities are also struggling with OPEB funding because, at the time these benefits were granted, health care costs were not at the level that they are today. Furthermore, many of these benefits are also tied into contracts, adding to the complication. This is showing up now because of the GASB reporting requirements for OPEB. Mayor Polisena further echoed Mayor Fung's statements regarding the explosive rise in health care costs over the years. Chairperson Booth Gallogly added that a large aspect of why the state and local municipalities differ on OPEB has to do with a community's individual employment makeup, and public safety employees reflect a significant component at the local level. Mr. Todisco added that the Massachusetts state legislature is contemplating changes to OPEB, such as minimum retirement ages and lengthening years of service, which came about from a special committee not unlike the Pension Study Commission. The legislation is still pending.

Chairperson Booth Gallogly asked Mr. Todisco, in terms of the locals being able to opt into the state's healthcare, whether it had to be a whole community or if it could be a smaller unit such as a certain union group. Mr. Todisco replied that he believed it had to be the entire community. Chairperson Booth Gallogly asked whether there were different plans to choose from. Mr. Todisco answered that there were. Paul Doughty followed up by asking whether a community had to pick one plan, or if the individual employee can choose between several. Mr. Todisco replied that he believed, like the state, the employee gets to choose individually between several plans.

Mr. Todisco asked if there were any more questions. There were none. He then echoed his sentiments about hoping to help the Pension Study Commission in the future, which the Pension Study Commission thanked him for.

**Agenda Item #3 – OPEB analysis for Rhode Island Municipalities, Attachment C**

**a. Update on previous report, released November, 2013**

For the next item on the agenda, Chairperson Booth Gallogly referred to Attachment C, an update on a previous OPEB report prepared by the Division of Municipal Finance.

Susanne Greschner, Chief of the Division of Municipal Finance, then went over Attachment C, which addressed some questions put forth by Commission members. The first page covered discount rates and healthcare cost trends. All the data came from the municipalities' most recent actuarial valuations. Chairperson Booth Gallogly stated that one thing she noticed looking at the healthcare trend rates when looking at the individual valuations was a general decline over time. For example, they decrease gradually from around 9% to around 4.5% or 5%; different from what we've seen in the past. Mr. Licht added that although the trends are lower, they are still hovering around twice the rate of inflation. Mr. Dingley added that one thing that should be looked at as people live longer are the health care trend rates of those 65 years old and older.

The other two tables show that the Division of Municipal Finance's prior OPEB reporting did include all of the schools, a question that was previously brought up by the Commission. Chief Greschner explained how some valuations are the municipal plans only, while some are the school plans only, and other valuations include both municipal and school plans. Chief Greschner also explained how the four school districts have separate valuations, and five communities don't have OPEB liability other than within a regional school district. The reports are looking at 52 separate plans that the local governments have.

Mr. Licht asked if we had details regarding the specific benefits the different plans offer, such as family plans, transferring to Medicare, etc. Chief Greschner stated that the Division of Municipal Finance did survey municipalities and ask whether or not retirees move into Medicare, however, there were some discrepancies when comparing the survey answers to the valuations. Chairperson Booth Gallogly followed up by saying that the Division of Municipal Finance did do a benefit survey, where in some cases they received very detailed benefit descriptions, and in other cases not so detailed. It is very complicated to determine the exact benefits of a group with all the contractual changes and dates of employment factors where the benefits may change. The report, however, is up on the Division of Municipal Finance's website. Mayor Fung followed up by saying that it is very complicated on the local level, with different classes of retirees getting different benefits over different periods of time. Mr. Simmons also went through some of the reasons for such difficulty on the local level.

Chairperson Booth Gallogly touched back to the fact that some of the valuations contain just municipal data, some just school data, and some combine both. The fact that it's not exactly comparing apples to apples means there's some difficulty in constructing a report such as the Michigan Report that has been the model for much of the Division of Municipal Finance's recent OPEB reporting.

**Agenda Item #4 – Governor's proposed FY 2015 Budget, Article 2 (Municipal Incentive Aid)**

**a. Draft letter to municipalities, Attachment D**

For the next item on the agenda, Chairperson Booth Gallogly referred to Attachment D, the draft letter to municipalities regarding the $5 million available in state aid for next year to those communities who are following their Funding Improvement Plan ("FIP"), or who have instituted a FIP that meets the guidelines. The Commission felt it useful to send out to municipalities as a reminder of what is expected of their plans for 2015 if they wish to receive state aid. Mayor Fung made a recommendation that on page 2 of the letter, where it says that it "calls for" municipalities to fund a certain percentage, it be changed to "asks for," so that it doesn't imply that it is a mandate as it's really guidelines to follow. Mayor Polisena made a motion for the change in wording for the letter, which was seconded by Antonio Pires. All voted in favor.

Chairperson Booth Gallogly stated that in the future, however, recommendations to the General Assembly may have to be made in regards to the following of FIP plans and the adequate funding of

OPEB. Mr. Dingley followed up by saying that it's easy for the communities who can afford to reach these goals to do so, and it's much harder for those communities who are in rougher shape financially to do so. Therefore, we should think about an equitable way to reward those communities who are doing the most as opposed to those who are merely meeting the requirements. Chairperson Booth Gallogly agreed that this is something we would need to think about because right now, the way the municipal incentive aid statute is worded, it references the guidelines. If we wanted to do something different, an amendment would be needed. Mayor Polisena stated that they should be careful of creating a situation that pits cities and towns against each other, since everyone should be in this together in a consolidated effort.

**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 Mr. Doughty. The meeting adjourned at 10:45 AM.

Rosemary Booth Gallogly
Chairperson

March 31, 2014
Date

PSC/nd

# Addendum to the February 24, 2014 OPEB and Pension Study Commission Meeting Minutes

Attachment B

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# OPEB Trust in Massachusetts

## Presentation to
## State of Rhode Island and Providence Plantations
## Locally-Administered Plans
## and OPEB Study Commission

## February 24, 2014

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# Paul W. Todisco - Senior Client Services Officer

Paul Todisco is the Senior Client Services Officer for the Massachusetts Pension Reserves Investment Management ("PRIM") Board. Paul, who originally joined PRIM in 1984 as a seminal member of the PRIM staff, returned to the PRIM staff on September 15, 2008 after a six-year hiatus. During that time, he served as the Executive Director of the Health Care Security Trust ("HCST"), the endowment created by the Commonwealth to invest a portion of the annual payments Massachusetts receives from the landmark 1998 tobacco settlement that arose from a class action suit between 46 states and the big tobacco manufacturers. Between his service at the HCST and PRIM, Paul has 30 years' experience in the public investment fund arena. He played an integral role in developing PRIM's modern client service program; in particular, working on legislative strategy that led to the passage of a bill creating the highly successful "segmentation" investment program, which allows local retirement systems to invest in eligible asset classes of the Pension Reserves Investment Trust ("PRIT") as an option to investing in the total PRIT Fund.

Prior to joining PRIM, Paul served as Staff and Research Director for the Joint Committee on Public Service in the Massachusetts legislature from 1982–1984, where he advised the Committee members on legislation concerning public pensions, collective bargaining, civil service, and state and municipal administrative matters. Paul is a graduate of Suffolk University (BS cum laude 1976). On April 20, 2013, Paul was awarded the Claritas Investment Certificate by the Chartered Financial Analyst (CFA) Institute, having successfully passed the Claritas Investment Certificate Exam. He resides in Marblehead and has two children, Will (29) and Diana (20).

# Evolution of the State Retiree Benefits Trust Fund (SRBTF)

- **1999** - MGL Chapter 29D enacted and signed into law as part of the FY 2000 GAA (section 43 of Chapter 127 of the Acts of 1999), creating the Health Care Security Trust ("HCST"), into which the Master Settlement annual payments are to be deposited, and also creating the HCST Board of Trustees, a 7-member Board charged with the supervision and management of the HCST and the MSA funds therein. Significant features of Chapter 29D include: 7-member Board appointed by Governor (5), Treasurer (1) and AG (1); 70/30 % schedule of saving/spending ratio established for annual MSA payments to be received in subsequent fiscal years, with the 30% for spending to be "for health related and tobacco control purposes".

- **2004** - The GASB (Governmental Accounting Standards Board) issues Standards 43 and 45, requiring all (non-federal) government employers to take steps to define and disclose actuarial liability for retirees' non-pension post-employment benefits (aka "Other Post-Employment Benefits" or "OPEB"), and to determine the actuarial liability for those OPEB benefits.

- **2007** - The State Retiree Benefits Trust Fund (SRBTF) is legislatively created to address and administer OPEB state retiree benefits; composition of the SRBTF Board is "PRIM plus 2", i.e., the existing PRIM Board members plus A&G and GIC (Section 8 of Chapter 61 of the Acts of 2007 states: " There shall be set up on the books of the commonwealth a fund to be known as the State Retiree Benefits Trust Fund … The pension reserves investment management board … shall be the trustee of and shall administer the fund. For the purposes of this section the secretary of the executive office of administration and finance, or his designee, and the executive director of the group insurance commission … shall be members of the [PRIM] board ... The purpose of said [SRBTF] fund shall be for depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employees' retirement system for health care and other non-pension benefits for retired members of the system ..."). <u>The legislation also abolished the HCST.</u>

- **2007** – Special Commission is legislatively established to study and report on numerous issues associated with GASB 43 and 45 and OPEB liability -- said Special Commission issues its report in 2008, and many of its recommendations are subsequently filed as legislative proposals, and some subsequently enacted and signed into law.

- **2008** - "Interim" outside section is enacted and signed into law stating that the HCST shall manage the SRBTF while the legislature considers the recommendations of the special OPEB study commission (See section 12 of Chapter 235 of the Acts of 2008: "… in order to minimize investment fees and maximize returns through continuity of investment management of the [SRBTF] … while the general court considers the recommendations of the [special] commission … investments of the trust shall be held and managed by the [HCST] board of trustees … until legislation is enacted confirming management of the [SRBTF]").

- **2009** - Interim status of HCST management of SRBTF becomes permanent, and HCST Board is reconfigured.

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# Who Manages the SRBTF? Who Can Invest in the SRBTF?

- The seven-member Health Care Security Trust (HCST) Board, established by **Section 4 of Chapter 29D** of the General Laws, is responsible for the administration and investment management of the SRBTF. The HCST Board is comprised of the Secretary of Administration & Finance or a designee, the Executive Director of the Group Insurance Commission or a designee, the Executive Director of the Public Employee Administration Commission (PERAC) or a designee, the State Treasurer or a designee, the Comptroller or a designee, an appointee of the Governor, and an appointee of the State Treasurer (both appointed members are required to have investment, financial management, legal, or public management experience).

- Chapter 68 of the Acts of 2011, the FY 2012 state budget, was signed into law in July 2011. Sections 50 and 57 of Chapter 68 amend **Section 24 of Chapter 32A** and **Section 20 of Chapter 32B,** respectively, of the General Laws allowing municipalities, authorities, and certain other government entities of the Commonwealth to establish a liability trust fund for funding retiree benefits (other than pension), also known as Other Post-Employment Benefits (OPEB). The legislation also ensures that these entities have access to the state's investment trust, the State Retiree Benefits Trust Fund (SRBTF), for purposes of investing OPEB funds. Further, Section 20 of Chapter 32B, as amended, designates the entities eligible to serve as custodian of such funds: 1) a designee appointed by the board of a municipal lighting plant, 2) the treasurer of any governmental unit, or 3) the Health Care Security Trust (HCST) Board of Trustees, which oversees the SRBTF.

- In August 2011, the HCST Board voted to assign full investment management of the SRBTF assets to the nine-member Pension Reserves Investment Management (PRIM) Board, which manages the approximately $57 billion Pension Reserves Investment Trust (PRIT) Fund, the state pension fund. PRIM and PRIT were established in 1983 to address the Commonwealth's unfunded pension liabilities.

# *Composition of the Health Care Security Trust Board*

| | |
|---|---|
| State Comptroller, or designee (Chair) | Martin J. Benison |
| Secretary of Administration & Finance, or designee | Julia Chabrier |
| State Treasurer, or designee | Alan F. Gordon |
| Treasurer's appointee | Michael Tow |
| Governor's appointee | Terrence Finn |
| Executive Director, Group Insurance Commission, or designee | Dolores L. Mitchell |
| Executive Director, Public Employee Retirement Administration Commission, or designee | Joseph E. Connarton |

# Summary of Legislation

- Section 20 of Chapter 32 B provides a Road-Map for entities to establish an OPEB trust without a special act and without a funding schedule requirement:
  - Government entities setting up an OPEB Trust should adopt Section 20
  - Identifies HCST and entity treasurer as options for custodian (not retirement systems)
  - Provides “turn-key” option to invest in SRBTF by appointing the HCST as custodian
  - If the treasurer is custodian, Section 24 of Chapter 32A allows investment in SRBTF
  - HCST Board Approval required in either case

- Section 24 of Chapter 32A (as amended) provides entities who already have an OPEB Trust fund with the ability to invest in the SRBTF
  - Must have appropriate investment authority
  - Retirement systems are grandfathered
  - HCST Board Approval required

- NEW: Section 7 of Chapter 36 of the Acts of 2013 amended Section 24 of Chapter 32A and now requires the HCST board of trustees to invest the SRBTF assets in the PRIT Fund.

# Application of Legislation

## ❑ HCST Board Approval Requirements

- Evidence of authorization
- Acknowledgement of investment risk, understanding of agreements
- Acknowledgement of fiduciary obligation (HCST as custodian or custodial designee)
- Indication of commitment to fund

# State OPEB Reporting Requirements

**MGL 32B:20 (d)**

- Shall annually submit to the Public Employee Retirement Administration Commission (PERAC) on or before December 31, a summary of its OPEB cost and obligations and all related information required under GASB 45, covering the last fiscal or calendar year for which this information is available.
- On or before June 30 of the following year, PERAC shall notify any entity submitting this summary of any concerns that the commission may have or any areas in which the summary does not conform to the requirements of GASB 45 or other standards that the commission may establish.
- PERAC shall file a summary report of the information received under this subsection with the chairs of the house and senate committees on ways and means, the secretary of administration and finance and the board of trustees of the Health Care Security Trust.

# Downloadable Documents Posted to SRBTF Web Page

- http://www.mass.gov/anf/srbtf.html
- Frequently Asked Questions (FAQ).
- Custodian and Investment Agreement, Exhibits, and Opinion of Counsel.
  - Exhibit A – Sample language of resolution/vote of a government entity authorizing the HCST to invest such government entity's OPEB liability funds. Vote must be certified.
  - Exhibit B – Investment Services Agreement (ISA) between HCST and PRIM.
  - Exhibit C – PRIM Operating Trust Agreement.
  - Exhibit D - HCST and PRIM Administrative Services Agreement.
  - Exhibit E – HCST Policies and Procedures.
  - Sample of boilerplate language for government entity's Opinion of Counsel letter, i.e., what should be included in the letter.
- Draft of Certificate of the Clerk of City/Town. May be customized for type of entity (e.g., an authority, county, district, light department).
- Checklists for government entities investing in SRBTF under Chapter 32B, §20, under Chapter 32A, §24, or under Special Legislation.

# Governmental Entities Participating in the SRBTF

- Town of Acton
- Town of Amherst
- Town of Bedford
- Town of Boxford
- Town of Burlington
- Town of Chelmsford
- Concord Area Special Education (CASE) Collaborative
- Town of Cohasset (Asset transfer pending)
- Town of Harvard
- Town of Hingham
- Town of Ipswich
- Town of Marblehead
- Massachusetts School Building Authority
- Mass State Retirees
- Town of Needham
- Town of Tewksbury (Asset transfer pending)
- Town of Wakefield
- Wakefield Municipal Gas & Light Department
- Town of Wellesley

**Participant assets, excluding Mass State Retirees, were $75.8 million as of December 31, 2013.**
**Total SRBTF assets were $587.0 million as of December 31, 2013.**

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# Municipal Outreach

- Acton-Boxborough Regional School District
- BiCounty Educational Collaborative, Franklin, MA
- Braintree
- Brookline
- Chelmsford Water District
- Dartmouth
- Leominster
- Lowell Regional Transit Authority
- Lower Pioneer Valley Educational Collaborative
- Manchester-by-the-Sea
- Manchester-Essex Regional School District
- Middleton
- MHFA
- Newbury
- Newton
- Northborough
- Pilgrim Area Collaborative, Pembroke, MA
- Stockbridge
- Waltham
- West Newbury
- Westwood

## 1. *Benefits to Investing in the SRBTF*

Municipal OPEB liability trust fund assets are professionally managed within a governance structure that has layers of fiduciary oversight, in the same manner that the Massachusetts Retirement Systems' assets are managed :

- Pension Reserves Investment Management (PRIM) Board: 9 Appointed and Elected Trustees.
- Four Advisory Committees (Investment, Real Estate, and Administration & Audit Committees, and Compensation Committees that are comprised of PRIM trustees and industry professional volunteers).
- 32-person full-time professional staff (Investments, Legal, Financial Operations, Client Service).
- Four preeminent investment consultants for Public Markets (Long Only Investments), Real Estate, Private Equity & Private Debt, and Hedge Funds.
- 29 Public Securities Managers Investing in 38 Portfolios; 10 Real Estate, Timber & REIT Managers; 100+ Private Equity and Private Debt Managers (200+ Partnerships); One Hedge Fund-of-Funds Manager, and 22 Direct Hedge Fund Managers.
- PRIM's Custodian Bank – No need to use separate custodian bank for OPEB assets.
- Outside Independent Public Auditing Firm audits the PRIT Fund.

# 2. Benefits to Investing in the SRBTF

*As with Retirement System's assets…*

- Municipalities enjoy low costs resulting from economies of scale (55 basis points, or 0.55%, total cost of operation in PRIT's most recent audited fiscal year). Total cost of operation includes ALL expenses of managing the PRIT Fund and PRIM operations. There are no additional administrative fees charged by PRIM.

- Municipal OPEB liability trust funds have full exposure to the PRIT Fund's strategic asset allocation and fully diversified portfolio:

  - Seven Major Asset Classes: Global Equity (includes U.S., non-U.S Developed, and Emerging Markets), Core Fixed Income, Value-Added Fixed Income (includes High Yield Bonds, Bank Loans, Emerging Markets Debt, Private Debt), Private Equity (buyouts and venture capital), Real Estate (includes both private and public real estate markets), Timber/Natural Resources, and Hedge Funds).

  - The PRIT Fund is diversified among and within asset classes. Portfolio risk is mitigated when asset classes have low correlations to each other.

  - The majority of PRIT's global public equities are "passively" managed using index funds, which costs less in fees than if the portfolios were "actively" managed, i.e., designed to outperform a specific market index (e.g., the S&P 500).

  - By participating in the SRBTF, a municipality has access to "alternative assets", such as Private Equity, Private Real Estate, Direct Hedge Funds, Timber, and Private Debt that are otherwise cost prohibitive many smaller municipal trust funds.

# 3. *Benefit to Investing in the SRBTF*

Municipalities , HCST, and PRIM's interests are totally aligned:

- PRIM is a retirement board, as defined in M.G.L., Chapter 32, and is statutorily established to invest the assets of any Massachusetts contributory retirement system that opts to join the PRIT Fund. Additionally, recent legislation has mandated that the Health Care Security Trust (HCST) Board employ PRIM to invest the SRBTF, ensuring that a municipality's liability trust funds and retirement system's assets will always be managed identically.
- There are no financial incentives for PRIM staff to "accumulate assets", as is the case for most private investment and consulting firms.

# 4. In Summary…

- Municipalities' OPEB liability trust funds are invested the same way the Massachusetts Retirement System's assets are managed.
    - The PRIT Fund's General Allocation Account, aka PRIT Core, which holds ALL of PRIT's investments.
- Diversification, diversification, diversification!
    - Lowers overall portfolio risk.
    - Municipalities' OPEB liability trust funds gain access to PRIT's alternative investments, which are unavailable to smaller investors due to cost and minimum investment requirements (i.e., Private Equity, Direct Hedge Funds, Timber, Private real Estate, Private Debt).
- Municipalities' OPEB assets are managed at a very low cost due to economies of scale.
    - Fifty-five basis points, based on PRIT's most recent audit. This includes ALL expenses incurred by PRIM and PRIT.
- Municipalities receive a concise monthly capital account statement from PRIM identical to the one the Participating and Purchasing Retirement Systems receives each month.
- Proven long-term investment performance track record.
    - Since inception (2/28/1985), the average annual return of the PRIT Core Fund was 9.69% as of December 31, 2013.
- Municipalities, HCST, and PRIM's interests are totally aligned.
    - There are no financial incentives for PRIM staff to "accumulate assets", as is the case for most private investment and consulting firms.
- Municipalities have a responsive and dedicated client services team at PRIM representing their needs.

# Health Care Security Trust – State Retiree Benefits Trust Fund

## NET of Fees Rates of Return

## For Periods Ending December 31, 2013

| | NAV $ (M) | Actual Allocation % | Month | QTD | FY '14 | Calendar YTD | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception |
|---|---|---|---|---|---|---|---|---|---|---|---|
| GENERAL ALLOCATION* | 554,124 | 100.0% | 1.70 | 4.71 | 9.88 | 14.80 | 14.80 | | | | 14.25 |
| CLOSED PORTFOLIOS | 59 | 0.0% | | | | | | | | | |
| CASH | (235) | 0.0% | | | | | | | | | |
| TOTAL | 553,948 | 100% | 1.70 | 4.68 | 9.82 | 14.66 | 14.66 | 9.98 | 11.37 | 7.03 | 7.21 |
| | | | | | | | | | | | |
| PARTICIPANTS CASH | 33,067 | | 0.01 | 0.02 | 0.04 | | | | | | |
| TOTAL FUND** | 587,015 | 100% | 1.69 | 4.67 | 9.81 | 14.65 | 14.65 | 9.98 | 11.36 | 7.03 | 7.21 |
| | | | | | | | | | | | |
| *POLICY BENCHMARK* | | | *1.04* | *3.91* | *8.61* | *12.60* | *12.60* | *8.43* | *11.75* | *6.40* | *6.70* |
| *ACTUAL ALLOCATION BENCHMARK* | | | *1.58* | *4.31* | *9.33* | *13.85* | *13.85* | *9.26* | *11.36* | *6.87* | *7.09* |

- The inception date for the HCST's investment in the PRIT Fund General Allocation Account (PRIT GA) was 10/31/2011, when 82% of the fund was transitioned from separate accounts to PRIT GA. The remaining 18% of separate account assets were transitioned over the following 14 months with 100% of assets invested in PRIT GA by 12/31/2012. This ITD value reflects the inception-to-date return for PRIT GA assets only.

** The inception date for the TOTAL FUND was 11/30/2001. This ITD value reflects the true inception-to-date return for all HCST assets including legacy separate account investments as well as the PRIT GA investments.

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# *The PRIM Board and the PRIT Fund*

***Steven Grossman, Treasurer and Receiver General, Chair***
***Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer***

# PRIM is a Retirement Board with Layers of Fiduciary Oversight

Pension Reserves Investment Management (PRIM) Board
9 Appointed and Elected Trustees

Investment, Real Estate, Administration and Audit and Compensation Committees
24 Industry Professionals & Board Members

**PRIT Fund - $57.9 billon as of 12/31/2013**

29 Public Securities Managers Investing 38 Portfolios
10 Real Estate, Timber & REIT Managers
100+ Private Equity and Private Debt Managers, 200+ Partnerships
1 Hedge Fund-of-Funds Manager, 22 Direct Hedge Fund Managers
Public Markets, Private Equity, Hedge Fund and Real Estate Consultants
PRIM Staff – 32 Professionals

Beneficiaries: 88% of All Retirement Boards:
Mass Teachers' Retirement System
State Employees' Retirement System
& 91 Local Retirement Systems

# PRIM Board Composition

| | |
|---|---|
| ❑ Treasurer or Designee (Chair) | Treasurer Steven Grossman |
| ❑ Governor or Designee | Secretary Glen Shor |
| ❑ Treasurer's Private Citizen Appointee | Alexander E. Aikens, III, Esq. |
| ❑ Governor's Private Citizen Appointee | Anthony E. Hubbard, Esq. |
| ❑ Governor's Public Safety Union Appointee | Dana A. Pullman |
| ❑ Teachers' Retirement Board Elected Member | Dennis J. Naughton |
| ❑ State Retirement Board Elected Member | Theresa F. McGoldrick, Esq. |
| ❑ Member Elected by Teachers Retirement | Robert L. Brousseau |
| ❑ Member Elected by State Employees | Paul E. Shanley, Esq. |

# PRIM Advisory Committees

***Investment Committee***

| | |
|---|---|
| Treasurer Steven Grossman, Chair | PRIM Board Chair |
| C. LaRoy Brantley | Cambridge Associates |
| Michael Even, CFA | Numeric Investors |
| Constance M. Everson, CFA | Capital Markets |
| Edward W. Kane | HarbourVest Partners |
| Paul E. Shanley, Esq. | PRIM Board Member |
| A&F Secretary Glen Shor | PRIM Board Member |
| Glenn P. Strehle, CFA | MIT (Retired) |
| Timothy L. Vaill | Retired Chair/CEO Boston Private Financial |

***Audit & Administration Committee***

| | |
|---|---|
| Robert L. Brousseau, Chair | PRIM Board Member |
| Theodore C. Alexiades | Hingham Retirement |
| Patrick E. Brock | Hampshire County |
| Karen E. Gershman, CPA | Health Advances |
| Treasurer Steven Grossman | PRIM Board Chair |
| Shanti A. Fry | Finance Professional |
| Renée M. Landers, Esq. | Suffolk University Law |
| Theresa F. McGoldrick, Esq. | PRIM Board Member |
| Dennis J. Naughton | PRIM Board Member |
| A&F Secretary Glen Shor | PRIM Board Member |
| Michele A. Whitham, Esq. | Foley Hoag |

***Real Estate Committee***

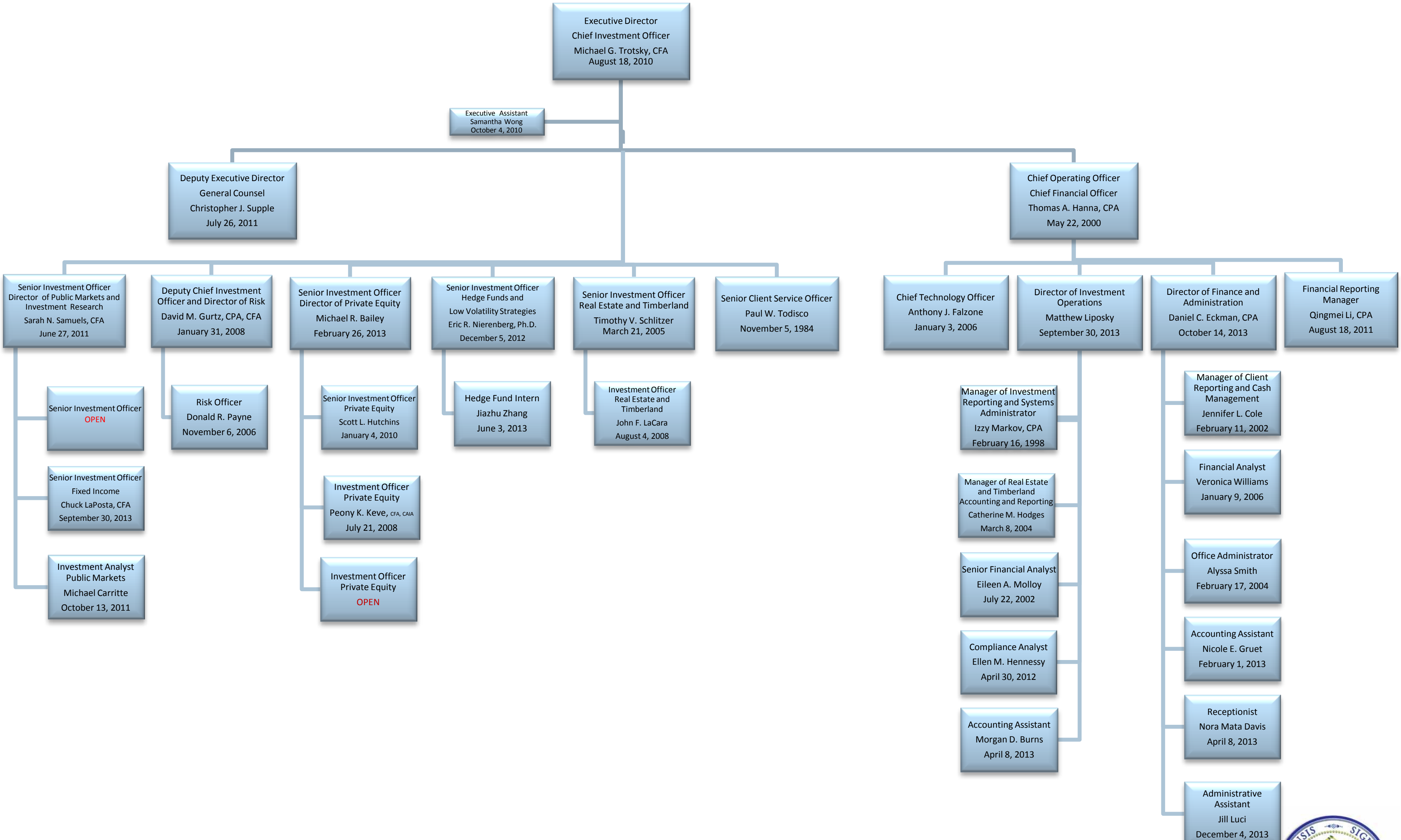
| | |
|---|---|
| Alexander E Aikens, III, Chair | PRIM Board Member |
| Treasurer Steven Grossman | PRIM Board Chair |
| Jill S. Hatton, CRE | Blackrock (Retired) |
| Anthony E. Hubbard, Esq. | PRIM Board Member |
| Jack Lutz, PhD | Forest Research Group |
| William F. McCall, Jr. | McCall & Almy, Inc. |
| Garlan Morse, Jr. CRE | Morris & Morse Co, Inc. |
| Peter F. O'Connell | Marina Bay Company |

***Compensation Committee***

| | |
|---|---|
| Michele A. Whitham, Esq.,Chair | Foley Hoag |
| Patrick E. Brock | Hampshire County |
| Robert L. Brousseau | PRIM Board Member |
| Shanti A. Fry | Finance Professional |
| Treasurer Steven Grossman | PRIM Board Chair |

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

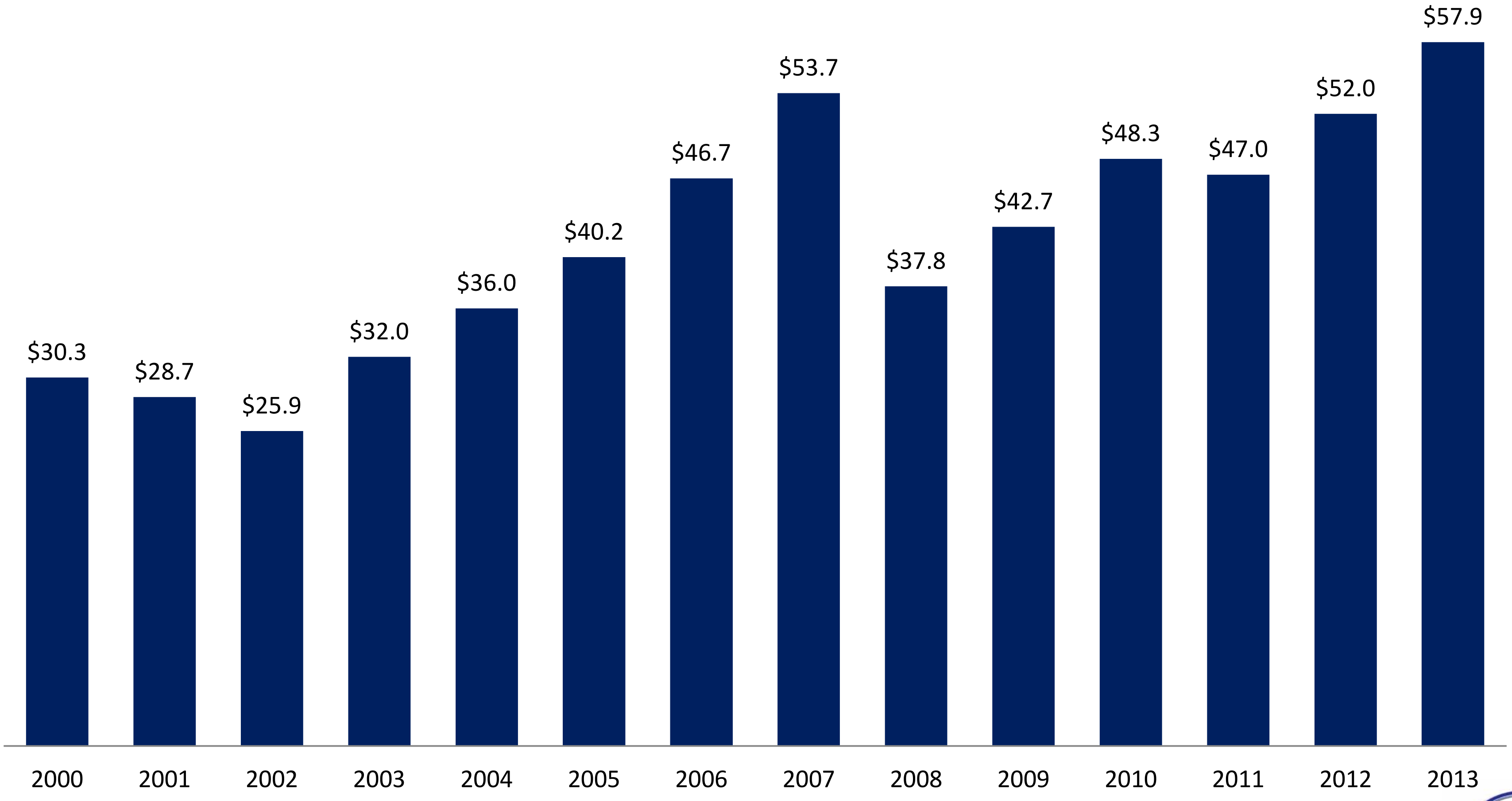
# Organizational Chart




PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# Total PRIT Fund NAV ($Billions)

## Calendar Years 2000-2013




PENSION RESERVES INVESTMENT MANAGEMENT BOARD

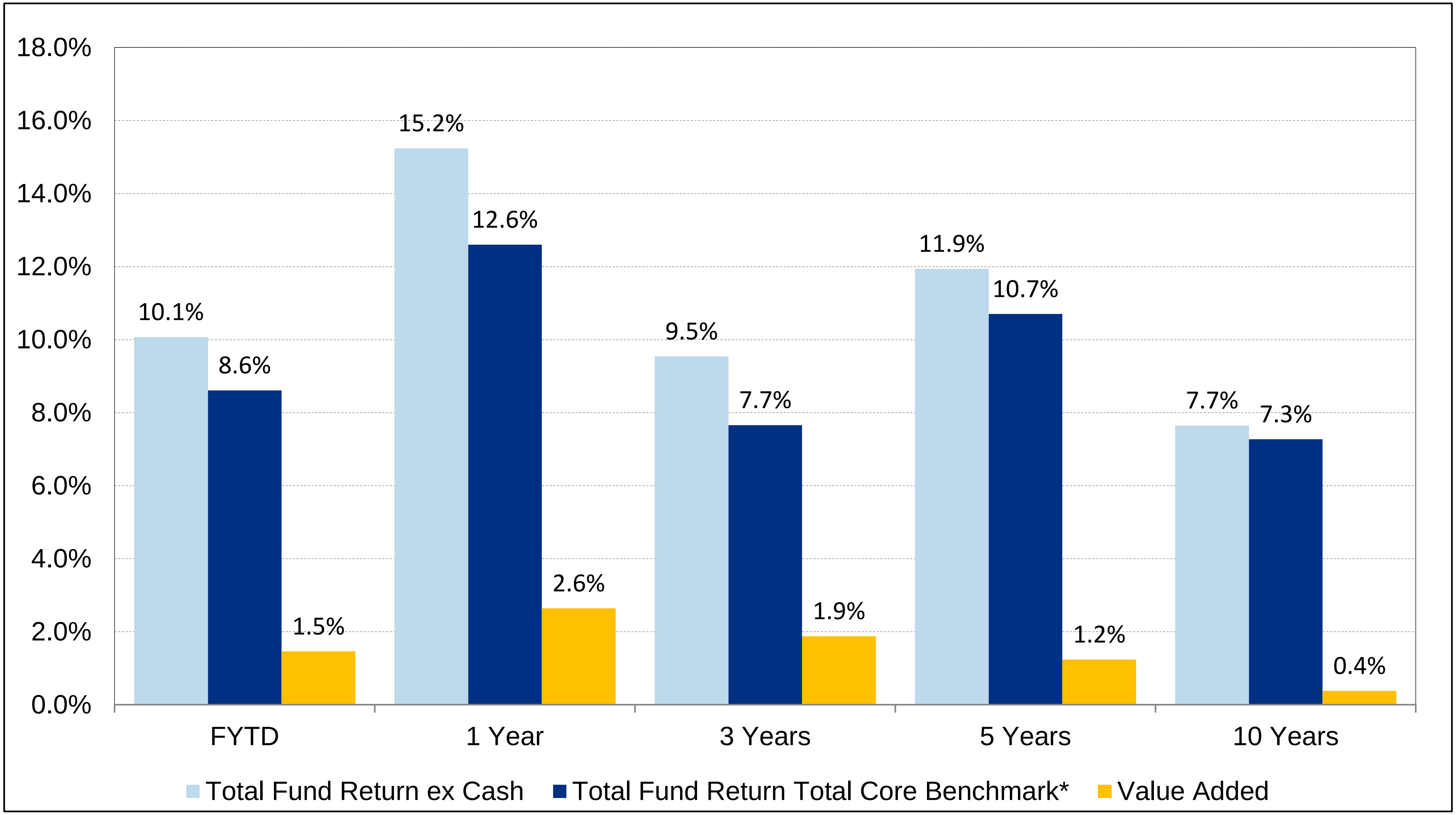
# PRIT Core Fund Asset Allocation Targets - Adopted February 4, 2014

| | Current | New | Current vs. New |
|---|---|---|---|
| U.S. Large Cap | 15.0% | 14.5% | -0.5% |
| U.S. Small/Mid Cap | 4.0% | 3.5% | -0.5% |
| International | 17.0% | 16.0% | -1.0% |
| Emerging Markets | 7.0% | 6.0% | -1.0% |
| **Total Global Equity** | **43.0%** | **40.0%** | |
| Core Bonds | 10.0% | 0.0% | -10.0% |
| High Yield Bonds | 1.5% | 1.5% | |
| Bank Loans | 1.5% | 1.5% | |
| EMD (External) | 1.0% | 1.0% | |
| EMD (Local Currency) | 2.0% | 2.0% | |
| TIPS | 3.0% | 3.0% | |
| Long Treasuries | 0.0% | 10.0% | 10.0% |
| **Total Fixed Income** | **19.0%** | **19.0%** | |
| Private Equity | 10.0% | 10.0% | |
| Private Debt | 4.0% | 4.0% | |
| Real Estate | 10.0% | 10.0% | |
| Hedge Funds | 10.0% | 9.0% | -1.0% |
| Timber/Natural Resources | 4.0% | 4.0% | |
| **Total Alternatives** | **38.0%** | **37.0%** | |
| Portfolio Completion Strategies | 0.0% | 4.0% | 4.0% |
| | *Return/Risk* | *Return/Risk* | |
| 5-7 Year Expected Return | 7.1% | 7.1% | |
| 30 Year Expected Return | 8.2% | 8.2% | |
| Risk (Std. Deviation) | 12.9% | 12.3% | |
| Sharpe Ratio | 0.43 | 0.46 | |

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# Total PRIT Fund Returns (Gross of Fees)

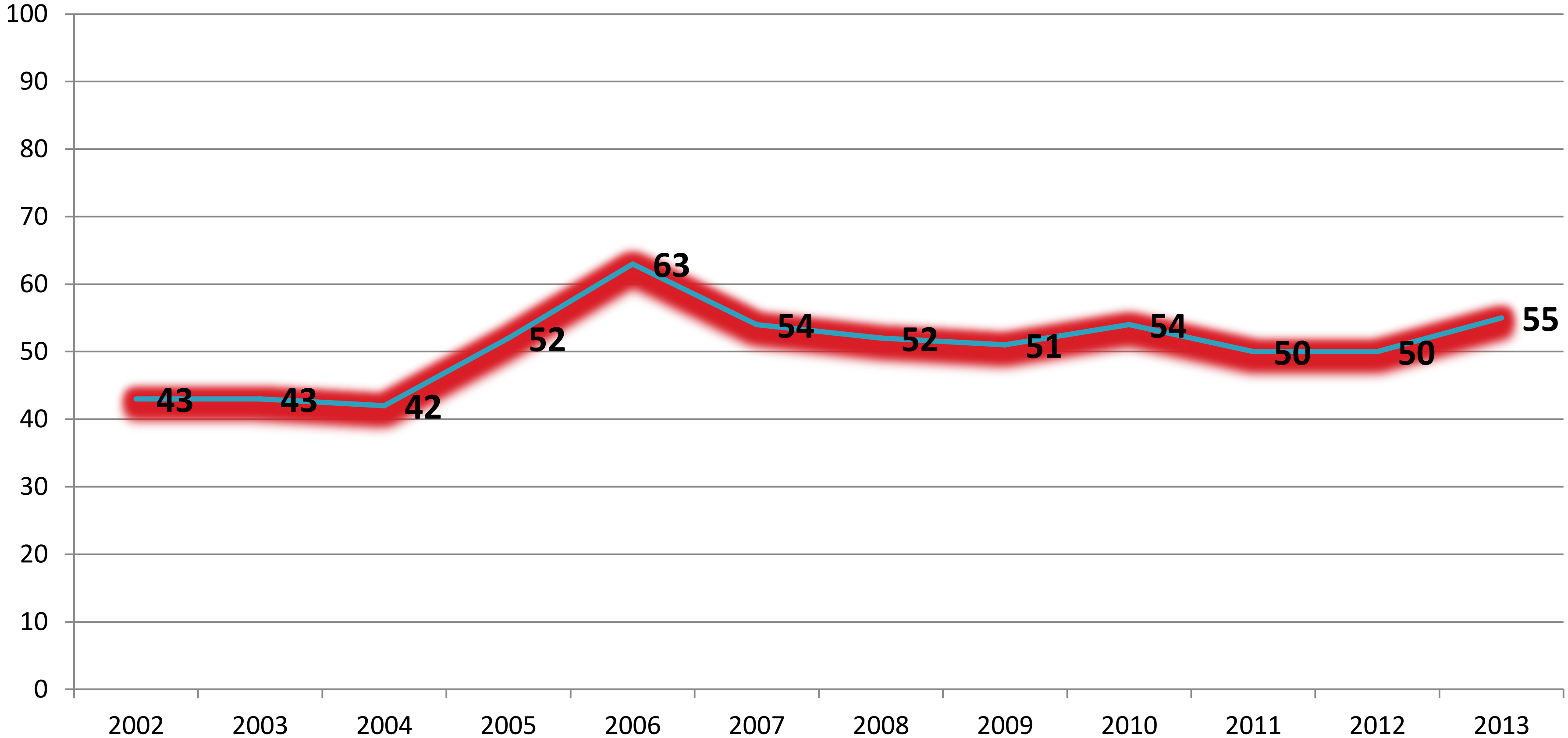
As of December 31, 2013




**Includes Private Equity Benchmark*

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# PRIT Fund Ratio of Expenses in Basis Points




PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

# Attachment C

## OPEB DATA

| Valuation Date | Municipality | Discount Rate | Health Care Cost Trend Rate |
|---|---|---|---|
| 6/30/2011 | Barrington | 5.0% | 8% per year graded off 0.50% per year to an ultimate rate of 4.50% per year |
| 6/30/2011 | Barrington Schools | 5.0% | 8% per year graded off 0.50% per year to an ultimate rate of 4.50% per year |
| 7/1/2012 | Bristol | 6.75% | 7.1% initial rate to an ultimate rate of 4.7% |
| 7/1/2011 | Burrillville | 4.00% | 8% initial rate to an ultimate rate of 5% |
| 12/31/2011 | Central Falls | 4.50% | 8% initial graded off 0.5 per year to an ultimate rate of 4.5% |
| 7/1/2012 | Charlestown | 7.50% | 5.6% initial to an ultimate of 4.6% |
| 7/1/2011 | Coventry | 4.00% | 5.8% to an ultimate of 4.4% |
| 7/1/2012 | Cranston | 7.50% | 8.5% graded 0.5% per year to an ultimate of 4.5% |
| 6/30/2011 | Cranston Schools | 3.50% | 9.0% graded 0.5% per year to an ultimate of 4.5% |
| 6/30/2012 | Cumberland | 4.00% | 10% graded 0.5% per year to an ultimate of 5% |
| 6/30/2011 | East Greenwich | 4.25% | 8.5% per year graded off 0.50% per year to an ultimate rate of 4.5% per year. |
| 6/30/2011 | East Greenwich Schools | 4.25% | 8.5% per year graded off 0.50% per year to an ultimate rate of 5.00% per year. |
| 10/31/2011 | East Providence City Plan | 4.50% | 9% decreasing by 0.50% annually to an ultimate rate of 5.0% |
| 10/31/2011 | East Providence School Plan | 4.50% | 9% decreasing by 0.50% annually to an ultimate rate of 5.0% |
| NA | Exeter | | |
| 7/1/2009 | Foster | 4.00% | 10% initial graded 1% annually to an ultimate rate of 5.0% |
| 7/1/2010 | Glocester | 4.00% | 10% initial graded 1% annually to an ultimate rate of 5.0% |
| NA | Hopkinton | | |
| 7/1/2011 | Jamestown Town | 4.00% | 8% graded 0.5% per year to an ultimate rate of 4.5% |
| 7/1/2011 | Jamestown School | 4.00% | 8.5% per year graded off by 0.50% per year to an ultimate rate of 4.5% |
| 6/30/2012 | Johnston | 3.50% | 9.5% graded 0.5% per year to an ultimate of 5.0% |
| 6/30/2013 | Lincoln | 7.50% | 9.0% initial graded 0.5% per year to an ultimate of 5.0% |
| 6/30/2011 | Little Compton | 4.00% | 8% graded off 0.5% per year to an ultimate rate of 4.5% |
| 6/30/2011 | Middletown | 7.50% | 8% graded off 0.5% per year to an ultimate rate of 5% |
| 6/30/2012 | Narragansett | 4.50% | 10% initial graded 1% per year until 7%, then 0.5% per year until the ultimate rate of 5% |
| 7/1/2012 | Newport | 7.50% | Ultimate Healthcare Cost Trend Rate of 3.8% |
| NA | New Shoreham | | |
| 7/1/2010 | North Kingstown | 4.00% | 9% initial graded 1% per year to an ultimate rate of 5% |
| 7/1/2012 | North Providence | 4.00% | 7.3% initial rate with an ultimate rate of 4.7% over 70 years |
| 7/1/2011 | North Smithfield | 4.00% | 9% initial graded 1% the first year, 0.5% in years after to an ultimate rate of 5% |
| 7/1/2011 | Pawtucket | 4.00% | 8% graded off 0.5% per year to an ultimate rate of 5% |
| 6/30/2013 | Portsmouth | 5.24% | 9% per year graded off by 0.50% per year to an ultimate rate of 5% per year |
| 6/30/2012 | Portsmouth School | 4.00% | 9.5% per year graded off by 0.50% per year to an ultimate rate of 5% per year |
| 7/1/2011 | Providence | 4.00% | 7.5% initial graded to a 4.5% ultimate after 11 years |
| NA | Richmond | | |
| 3/31/2013 | Scituate | 4.50% | 7.5% initial graded off 0.5% per year to an ultimate of 4% |
| 6/30/2013 | Smithfield | 5.25% | 9% initial to an ultimate of 4.5% by the year 2021 |
| 7/1/2011 | South Kingstown | 8.00% | 5.8% initial rate to an ultimate rate of 4.4% after 49 years |
| 7/1/2012 | Tiverton | 3.50% | 11% initial graded 1% per year to an ultimate rate of 5.0% |
| 6/30/2012 | Warren | 4.00% | 10% graded 0.5% per year to an ultimate rate of 5% |
| 7/1/2011 | Warwick | 4.00% | 15.2% to an ultimate rate of 5.7% |
| 7/1/2011 | Warwick Schools | 4.00% | 5.4% to an ultimate rate of 5.7% |
| NA | West Greenwich | | |
| 6/30/2012 | West Warwick | 4.00% | 9% initial graded 0.5% to an ultimate rate of 5% |
| 7/1/2012 | Westerly | 7.50% | 10% initial graded 1% to an ultimate of 5% |
| 7/1/2012 | Westerly Schools | | Not available |
| 7/1/2011 | Woonsocket | 4.00% | 9% initial to an ultimate rate of 5% by 2015 |
| 7/1/2011 | Woonsocket - Schools | 4.00% | 8% to an ultimate rate of 5% |
| 6/30/2012 | Bristol Warren School District | 5.00% | 10% initial grading off 0.5% per year to an ultimate rate of 5% |
| 6/30/2012 | Chariho School District | 4.00% | 10% initial grading off 0.5% per year to an ultimate rate of 5% |
| 7/1/2012 | Exeter West Greenwich School Dist. | 4.00% | 9% initial grading off 1% per year to an ultimate rate of 5% by 2016 |
| 6/30/2012 | Foster Glocester School District | 4.00% | 8.5% initial grading off 0.5% per year to an ultimate rate of 5% by 2020 |

Source: R.I. Division of Municipal Finance based on most recent OPEB valuations submitted as of February 24, 2014.

**OPEB - Municipal and School Plans**

| Municipal Plan Only | School Only Plan | Municipal & School Plan Together | School District Plan | No OPEB | Total |
|---|---|---|---|---|---|
| Barrington | Barrington Schools | Burrillville | Bristol/Warren | Exeter | |
| Bristol | Cranston Schools | Coventry | Chariho | Hopkinton | |
| Central Falls | East Greenwich Schools | Cumberland | Exter/West Greenwich | New Shorham | |
| Charlestown | East Providence School | Johnston | Foster/Glocester | Richmond | |
| Cranston | Jamestown School | Lincoln | | West Greenwich | |
| East Greenwich | Portsmouth School | Little Compton | | | |
| East Providence | Warwick Schools | Middletown | | | |
| Foster | Westerly Schools | Narragansett | | | |
| Glocester | Woonsocket Schools | Newport | | | |
| Jamestown | | North Kingstown | | | |
| Portsmouth | | North Providence | | | |
| Warren | | North Smithfield | | | |
| Warwick | | Pawtucket | | | |
| Westerly | | Providence | | | |
| Woonsocket | | Scituate | | | |
| | | Smithfield | | | |
| | | South Kingstown | | | |
| | | Tiverton | | | |
| | | West Warwick | | | |
| 15 | 9 | 19 | 4 | 5 | 52 |

Source: RI Division of Municipal Finance, based on most recent OPEB valuations submitted as of February 24, 2014.

**OPEB Membership and UAAL**

| **Municipal Plan Only** | Membership | | | UAAL |
|---|---|---|---|---|
| | Active | Retiree | Total | |
| Barrington | 81 | 16 | 97 | $4,774,940 |
| Bristol | 138 | 119 | 257 | 13,284,000 |
| Central Falls | 70 | 78 | 148 | 14,112,791 |
| Charlestown | 22 | 20 | 42 | 3,567,000 |
| Cranston | 313 | 595 | 908 | 63,098,440 |
| East Greenwich | 114 | 39 | 153 | 11,544,931 |
| East Providence | 365 | 184 | 549 | 76,217,756 |
| Foster | 59 | 12 | 71 | 780,502 |
| Glocester | 118 | 25 | 143 | 2,314,731 |
| Jamestown | 10 | 8 | 18 | 3,482,971 |
| Portsmouth | 87 | 43 | 130 | 12,324,207 |
| Warren | 55 | 7 | 62 | 3,592,138 |
| Warwick | 729 | 713 | 1,442 | 223,593,412 |
| Westerly | 48 | 40 | 88 | 10,909,168 |
| Woonsocket | 341 | 437 | 778 | 155,670,034 |
| *Subtotal* | *2,550* | *2,336* | *4,886* | *$599,267,021* |
| | | | | |
| **Municipal & School Plan Together** | | | | |
| Burrillville | 303 | 68 | 371 | $2,190,597 |
| Coventry | 717 | 385 | 1,102 | 12,523,000 |
| Cumberland | 443 | 126 | 569 | 39,386,221 |
| Johnston | 664 | 680 | 1,344 | 186,959,399 |
| Lincoln | 356 | 113 | 469 | 15,498,655 |
| Little Compton | 49 | 11 | 60 | 2,629,923 |
| Middletown | 372 | 273 | 645 | 26,124,808 |
| Narragansett | 355 | 169 | 524 | 71,347,783 |
| Newport | 653 | 527 | 1,180 | 96,229,056 |
| North Kingstown | 760 | 164 | 924 | 36,223,703 |
| North Providence | 705 | 272 | 977 | 66,227,000 |
| North Smithfield | 243 | 32 | 275 | 6,291,808 |
| Pawtucket | 1,436 | 780 | 2,216 | 312,260,277 |
| Providence | 5,109 | 3,631 | 8,740 | 1,149,115,000 |
| Scituate | 393 | 54 | 447 | 3,977,363 |
| Smithfield | 460 | 100 | 560 | 35,141,509 |
| South Kingstown | 769 | 258 | 1,027 | 17,610,000 |
| Tiverton | 274 | 96 | 370 | 24,492,216 |
| West Warwick | 528 | 547 | 1,075 | 107,329,661 |
| *Subtotal* | *14,589* | *8,286* | *22,875* | *$2,211,557,979* |
| | | | | |
| **School Only Plan** | | | | |
| Barrington Schools | 397 | 77 | 474 | $16,971,386 |
| Cranston Schools | 1,006 | 365 | 1,371 | 26,287,884 |
| East Greenwich Schools | 231 | 14 | 245 | 4,110,870 |
| East Providence School | 529 | 235 | 764 | 28,331,194 |
| Jamestown School | 57 | 25 | 82 | 6,496,005 |
| Portsmouth School | 275 | 86 | 361 | 7,207,872 |
| Warwick Schools | 1,380 | 276 | 1,656 | 37,833,649 |
| Westerly Schools? | | | | 974,441 |
| Woonsocket Schools | 748 | 217 | 965 | 57,310,469 |
| *Subtotal* | *4,623* | *1,295* | *5,918* | *$185,523,770* |
| | | | | |
| **School District Plan** | | | | |
| Bristol/Warren | 68 | 290 | 358 | $24,218,300 |
| Chariho | 394 | 19 | 413 | 1,472,182 |
| Exter/West Greenwich | 192 | 31 | 223 | 3,999,389 |
| Foster/Glocester | | | | 3,015,744 |
| *Subtotal* | *654* | *340* | *994* | *$32,705,615* |
| | | | | |
| **TOTAL** | **22,416** | **12,257** | **34,673** | **$3,029,054,385** |

No OPEB: Exeter, Hopkinton, New Shoreham, Richmond, and West Greenwich

Source: RI Division of Municipal Finance, based on most recent OPEB valuations submitted as of February 24, 2014.

Attachment D

**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
FAX: (401) 574-8997
TDD: (401) 222-1227



February 24, 2014

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

Governor Chafee has proposed $5 million in his FY 2015 budget for the Municipal Incentive Aid program. As a reminder, the key points for eligibility for this aid are summarized below.

The purpose of the Municipal Incentive Aid program is to encourage municipalities to improve the sustainability of their retirement plans and to reduce unfunded liabilities. The aid program provides *additional* state aid to those municipalities complying with the requirements and provisions of the law and is administered and managed by the Division of Municipal Finance within the Department of Revenue.

Specifically, R.I. General Laws 45-13.2-6 states that

> *"For fiscal years 2015 and 2016, municipalities shall be eligible to receive aid under this chapter, if:*
> *(1) the municipality has no locally-administered pension; or*
> *(2) the municipality has transitioned all locally-administered pension plans into MERS by June 30, 2014; or*
> *(3) the municipality had notified plan participants, beneficiaries and others pursuant to chapter 45-65 and has submitted to the state's department of revenue a FIP, pursuant to chapter 45-65, for every locally-administered pension plan and each submitted FIP meets the guidelines of the Study Commission on Locally-Administered Pension Plans created pursuant to section 45-65-8 or otherwise applicable guidelines or regulations and each FIP has been approved by the plan sponsor and the local governing body; or*
> ***(4) the municipality has implemented the original recommended FIP or an amended FIP pursuant to chapter 45-65 within eighteen (18) months after an actuary has certified that a locally-administered plan is in critical status for a plan year; and the FIPs are approved by the plan sponsor and the local governing body; or (5) there existed a locally-administered pension plan in that municipality, but either: (i) no FIP was required pursuant to chapter 45-65 and the municipality is funding one hundred percent (100%) of its Annually Required Contribution (ARC); or (ii) FIP is required pursuant to chapter 45-65, however, the due date for the FIP submission or implementation is after the March payment of state aid."***

For those municipalities that already submitted a Funding Improvement Plan to the Pension Study Commission the bolded section of the statute above applies.

The guidelines call for a municipality to increase its contribution such that the portion of the Annually Required Contribution (ARC) actually contributed increases by 20 percentage points each year until it reaches 100 percent. Municipalities also need to emerge from critical status within 20 years. For your reference, the complete guidelines that were adopted by the Pension Study Commission are attached.

Sincerely,

Rosemary Booth Gallogly
Chairperson of the Pension Study Commission

Enclosure

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

**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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TDD: (401) 222-1227

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.

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)

**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% | | |

## 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% | | |

## 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% | | |

**State OPEB**

| | State Employees | State Police |
|---|---|---|
| Liability | | |
| Accrued Liability | $728,207,337 | $81,758,873 |
| Assets* | $11,544,955 | $1,487,613 |
| UAAL | $716,662,382 | $80,271,260 |
| Funded Ratio | 1.6% | 1.8% |
| Discount Rate | 5.0% | 5.0% |
| Membership | | |
| Active | 11,368 | 214 |
| Retirees/Beneficiaries | 9,340 | 352 |
| Total | 20,708 | 566 |

*At June 30, 2013, the State Employee plan had accumulated assets of $42.5 million, and the State Police had $9.3 million.
Source: State OPEB actuarial valuation as of June 30, 2011; for state employees amended and restated as of June 30, 2011.