Pension and OPEB Study Commission
April 28, 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, April 28, 2014.

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

Commission members present: Rosemary Booth Gallogly, Dennis Hoyle, Richard Licht, Joseph Polisena, Antonio Pires, and Mark Dingley representing Gina Raimondo. Jean Bouchard, Allen Fung, and John Simmons joined the meeting.

Members absent: Paul Doughty, J. Michael Lenihan, Steven St. Pierre, 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, Daniel Sherman, Actuary for the Pension and OPEB Study Commission and members of the public.

At this point, Chairperson Booth Gallogly noted that the Commission did not have a quorum and Agenda Item #1 was postponed.

Before moving onto the next item on the agenda, Mayor Polisena, from the Town of Johnston, asked the commission if he could speak on a point of personal privilege, in order to address comments made regarding his role on the commission. Mayor Polisena stressed how seriously he takes his appointment, and addressed comments regarding his attendance by stating that he has a good attendance record, and citing family health reasons to explain his absence at last weeks meeting. Mayor Polisena then went over some of the history of how Johnston's pension funding got to where it is today, such as former administrations giving generous benefits, the cutting of all general revenue sharing, lack of state oversight, and an inherited deficit. To close, Mayor Polisena reiterated his respect for the commission and all it does, as well as for all the work the Division of Municipal Finance does to aid the commission. Chairperson Booth Gallogly added that Mayor Polisena has been a regular attendee at these meetings, and is always diligent in letting the commission know if he can't attend under unusual circumstances.

Agenda Item #2 – GASB Statements Nr. 67 and Nr. 68 update, Attachment B

Chairperson Booth Gallogly then moved on to agenda item #2, an update of GASB Statements Nr. 67 and Nr. 68. These will be important statements for the municipalities, as there's a difference in the amount of work that might be entailed depending on whether you have a locally administered plan, or you're part of ERS and MERS. The Auditor General's Office and the Division of Municipal Finance have created a newsletter to give people an update pertaining to ongoing developments in municipal finance. Chairperson Booth Gallogly thanked Dennis Hoyle for generously taking the lead on this effort.

Dennis Hoyle, Auditor General for the State of Rhode Island, then explained that the purpose of the newsletter was to get everybody up to speed on and thinking about the new GASB pension standards. There are two courses of actions municipalities may take, depending on whether they administer a local plan or are in the state administered plans ERS and MERS. The challenge for municipalities that have locally administered plans is that they're probably going to have to do more sooner, and likely with less help from the state, making it more of a challenge. Furthermore, this is applicable to their fiscal year 2014 financial statements, and at this time there's only two months left in the fiscal year. There's a challenge making sure they have the information they need, which should largely be provided by their actuary. With ERS and MERS, there's still a challenge making sure they have the necessary information; however, they won't need to record the changes until fiscal year 2015.

Dennis Hoyle further explained that GASB 67 relates to the plan level, and 68 relates to the employer level. The local plans, because they typically don't issue a separately issued plan financial statement, have to include the additional disclosures in their financial statements for fiscal '14.

For the ERS and MERS plans, the Office of the Auditor General has started to meet with ERSRI and GRS, ERSRI's actuary so that GRS is up to speed on what they'll need to do. They're implementing monthly meetings or perhaps more frequently to make sure that everything's on target. GRS will provide the data, and the Auditor General's Office will audit the data. Richard Licht, Director of the Department of Administration, asked how one would allocate the unfunded liability to the teacher's retirement in a town where the teachers are part of the state retirement system. Dennis Hoyle replied that the actuary is going to calculate the new numbers in the aggregate and then it's going to be divvied up based on proportion of contributions. Director Licht pointed out that will change year to year because the number of teachers will change each year.

Chairperson Booth Gallogly summarized by saying that in the past, all of that liability has shown up on the state's financial statement, and because of this GASB standard, rather than having each municipality use their own methodology to figure out what their share of the teacher's pension liability is, the retirement division and the Auditor General have been working to figure out if there's a way that the state could provide a spreadsheet and language for their financial statements to divvy this up. This will make it easier for the municipalities that are in ERS and MERS, but the problem will be on the locally administered side because they're going to be on their own. Chairperson Booth Gallogly suggested that locally administered plans reach out to their actuary to be sure that the actuary feels comfortable that they'll be able to provide the information that's required under GASB 67. There may be some actuaries that don't have the ability to provide the data that's necessary.

Recognizing the need for training, Dennis Hoyle then mentioned that this is on the agenda for training at the University of Rhode Island in October. Furthermore, there will likely be other work sessions so everybody knows what they will be providing and how to use it. Director Licht asked whether the state's liability would be reduced by the amount shown for local teachers, to which Dennis Hoyle replied that it would. Antonio Pires, Director of Administration for the City of Pawtucket, commented that with these new standards, we are taking a "never again" kind of approach, where such lack of pension funding will never again be able to be swept under the rug, with such openness and transparency being a good thing for the future. Dennis Hoyle again stressed the importance of elected officials understanding the new numbers that will be product of these recently enacted standards, particularly because one set of numbers will be for financial reporting and the other for their funding approach.

Agenda Item #1 – Approval of minutes from March 31, 2014, Attachment A

Before moving on to agenda item #3, with additional commission members present at this time, the commission now had a quorum to vote on the minutes from the March 31, 2014 Study Commission meeting. Chairperson Booth Gallogly asked if there were any corrections, adjustments, or additions to the draft minutes of that meeting. There were none. Richard Licht made a motion to accept the minutes as written. The motion was seconded by Jean Bouchard. The motion passed all in favor, with the exception of Mayor Polisena who abstained from voting due to his absence at the March 31, 2014 meeting.

Agenda Item #3 – Funding Improvement Plans – updates from municipalities, Attachment C

Chairperson Booth Gallogly then introduced the third item on the agenda, an update on the Funding Improvement Plans (FIP). At the last meeting, Mark Dingley, representing Gina Raimondo asked if the Commission could go through the status of the FIPs for the communities in critical status. Chairperson Booth Gallogly reiterated that the data and reports collected and produced for the commission wouldn't be possible without the Chair's staff at the Division of Municipal Finance, and particularly thanked Susanne Greschner, Chief of the Division of Municipal Finance, as well as Elaine Colarusso, for their diligent work in putting these reports together with the support of the Commission's actuary, Dan Sherman. Included in the FIP packets were a narrative that provides a short description of where the municipalities are in terms of implementing the FIP, a summary of where they are now compared to their original FIP in terms of when they'll get out of critical status, whether they've implemented their original FIP in full or partially, whether or not they still may be in negotiation or arbitration, and then a summary of the funding of the Annual Required Contribution (ARC). A package of each FIP for communities in critical status was provided to the commission members, including the responses to a survey sent out by DMF, the 20 year schedule from their original FIP, and then a new 20 year schedule if the municipalities did submit one. A plan is in critical status if it's below the 60% funded threshold.

Chairperson Booth Gallogly then turned it over to Susanne Greschner, who thanked the municipalities for their responses and cooperation, as well as Dennis Hoyle for the support of his office. Susanne Greschner stressed that these reports are a work in progress, as new valuations and ongoing litigation can greatly change the actual financial numbers. Chairperson Booth Gallogly would then introduce all of the municipalities and their Funding Improvement Plans.

The FIP plan for the Bristol Police was to fully fund the ARC, and expect to get out of critical status in 2021 based on their plan and the update from their survey response. Bristol is fully implementing the plan that they submitted, and are currently not in negotiations.

Chairperson Booth Gallogly made clear that this will likely be the format the commission will use going forward, looking back at what was originally proposed and comparing it. Just because someone puts the money in their budget and says they are going to fund it doesn't necessarily mean that's what actually happens. One of the key parts therefore will be to look at the audits to make sure that 100% of the ARC was funded or if they had a plan where they were fazing in the ARC, that the amount they said they were going to pay actually gets recorded in that fiscal year.

For the Coventry Municipal Plan, the original FIP had the town emerging from critical status in 2033. The current update shows a slippage of five years, having them emerge from critical status in 2038. They've indicated that they're fully funding the ARC, with an increased employee contribution rate and have implemented a defined contribution plan and closed defined benefit plan to new entrants. A three year wage freeze was not implemented, and in addition to the percentage of ARC payments made/scheduled to be made in FY13 – FY15, the town has made supplemental payments directly towards the pension liability. Dan Sherman added as a reminder that 2038 is beyond the Commission's 20 year guideline, so the commission might want to discuss that fact if they wish to address that particular issue. Chairperson Booth Gallogly said one thing that the commission and any permanent oversight structure may see when going through these plans is that as new valuations are prepared, that's going to be modified by investment returns, levels of employment, assumptions, if an experience study is done in the future, etc. So one thing they'll have to think of is what will happen if these plans don't emerge from critical status when they had planned to under the guidelines. The guidelines are not in statute.

The terms of the Coventry Police Plan are currently in arbitration. Chairperson Booth Gallogly pointed out that arbitration is another issue the commission will have to discuss in relation to its impact on the guidelines. The town has indicated that they'll be out of critical status by 2036, which again, is a few years after what's allowed by the guidelines. The status of this plan is unsure until the arbitration is completed. This also brings the question of whether efforts made by a community which may not have been as successful as they thought, determines whether or not they've done a FIP and completed it successfully. Items in the FIP which are still in arbitration include a freeze in longevity pay increase, a change to a five year final average earnings definition, an increase in the contribution rate to 20%, a change in retirement eligibility to age 55 with 25 years of service, a change in the benefit formula as stated in FIP option 1, the elimination of COLAs for all participants including retirees, a closed defined benefit plan to new entrants, and the implementation of a defined contribution plan as stated in the FIP. In addition to the percentage of ARC payments made/scheduled to be made in FY13 – FY15, the town has made supplemental payments towards the pension liability.

Director Licht asked Susanne Greschner if she could go over the FIP Summary of Responses spreadsheet in the back of the packet to make it clear what it's saying. Chief Greschner then went through the columns of the spreadsheet, explaining what the data represented and the source of the data for everyone's edification. Mayor Fung then stated that the only criticism he would have would be that on the spreadsheets it's going back to the old FIP that a community had originally implemented, and not taking into consideration the revised FIP from the court entered settlement agreement plan. Mayor Fung used Cranston as an example of such a community. Chairperson Booth Gallogly agreed with Mayor Fung in terms of the projected years.

Mark Dingley commented that, having looked at the plans, he didn't believe any municipality has submitted a new amortization schedule. The original FIPs had the projected amortization schedule, and until the Commission gets a new amortization schedule, one would have to use the original numbers submitted. Chairperson Booth Gallogly followed up by saying that many of these amortization schedules are not available because the actuaries are still working on the valuation which will incorporate, in some communities, if there's been a deal or something negotiated. In some other communities, if someone's in arbitration or still in negotiations, an actuary is not going to include what's expected in the June 30, 13 valuation. They're still going to go off of what those benefits are. This is going to take several years to play out. Since there was so much attention to coming up with FIPs that meet the guidelines, when someone comes back to the commission and says that they weren't able to get what they wanted and now have a new ARC, the commission is going to need to see that 20 year schedule, because somehow it's going to have to be paid for. Chairperson Booth Gallogly also stated that it's important to note that the list presented to the commission is only for those plans in critical status, and we need to take the next step and identify where all the other plans are, and if the ARC is being funded for those plans. Some municipalities could slip into critical status, especially those just lingering above the 60% threshold and those only contributing a small percentage of the ARC. Mayor Fung then commented that he understands this, but the problem they have is that the commission's charge is to review critical status plans. Until the plans fall into critical status, he doesn't think the commission should be imposing guidelines or recommendations on those communities. He could understand, as has been done in the past, giving warnings to these communities. However, he doesn't feel that it is the role of the commission to provide guidelines at that point.

As counterpoint to Mayor Fung, Mark Dingley said that one of the problems with these independent plans is, in the past, as communities went into MERS, they were required by statute to make 100% contribution to the MERS plan. They did make this contribution, but the contributions to their other plans suffered. Now we have another situation where we're emphasizing that these plans get out of critical status, and to allow those contributions to be made and ignore contributions to the other plans, would be repeating history. Furthermore, Mr. Dingley believes we're losing the meaning of critical status. What we're looking at is plans that for 25 years won't be 60% funded. If we look at public pension plans on a national level, any plan that's 60% or below funded is a really poorly funded plan. So what we are living with are plans that will still be extremely unhealthy for the next 20-25 years, which Mr. Dingley feels isn't a very optimistic or progressive viewpoint.

The Coventry School Plan is still being negotiated; however no legal action is currently pending. It is not yet known when this plan will emerge from critical status.

Cranston Fire & Police Plan is a plan where Mayor Fung was able to achieve partial implementation. The funding status does move out a few years, but the ARC payments are expected to be 100% funded. Mayor Fung said that he did just submit an initial revised valuation from the actuary that shows what the funding schedule will be over time. Legal action has been finalized and the judge entered a final order approving the settlement between police and fire unions and retirees, modifying the original FIP. The 10-year COLA freeze still applies to those who decided to opt out and continue their original suits. Approximately 76 individuals opted out of the settlement. Under the terms of the settlement, the annual 3% compounded COLA is suspended, excluding current or future widows that do not opt out of the settlement, every other year over a ten year period beginning 7/1/13. After the 10 year period, for years 11 and 12, the 3% compounded COLA shall be reduced to 1.5% compounding (excluding current or future widows who do not opt out of the settlement). After year 12, the COLA is fixed permanently at 3% compounded per year without any further escalation based upon any raises to active employees. There were no one-time contributions in excess of the ARC for FY13 and FY14. The city implemented the above changes to the original FIP that was approved by the Superior Court to resolve the class action and will continue to fund per the settlement. Right now, funding above 60% is projected to occur 2037. Chief Greschner stated that DMF will update the table with Cranston's recently received valuation numbers.

Chairperson Booth Gallogly explained that the Cumberland Police Plan section is blank due to not receiving an update from the municipality. However, their original FIP and what they actually contributed is reported.

On behalf of the Johnston Fire and Police Plans, Mayor Polisena spoke to ensure that the town is not ignoring the commission, and that they are still in negotiations. The pension discussions were on hold until the police and fire contracts were taken care of. Mayor Polisena then brought to the attention of the commission the ING lawsuit, which is in the process of being brought to the Supreme Court, and its impact on future pensions for the municipality.

The Narragansett Police Plan had no change to the status of its FIP. It will reach 60% funded by 2032. The Narragansett Town Plan includes police and fire, who have agreed to a retirement age of 25 years of service and reducing the accrual to 2% for employees hired after 7/1/13. The COLA for police and fire is suspended until 6/30/21 and back to compounded with exceptions. They are still negotiating the following items from the original FIP: other town employees have not settled a change to age 65 and 10 years of service or 25 years of service, reducing the accrual to 2% and deferring the COLA to 2021 and then resuming to 3%. There is no retiree deferral of the COLA. Based on what was submitted at this point, the Town will emerge from critical status in 2018. Chief Greschner added that this plan could be one where the ARC changes when DMF receives the new valuation based on results of the negotiation.

For the Newport Fire Plan, there is no change to the FIP, which is to continue to fund the plan in accordance with the ARC and there are no items that are not fully implemented effective July 1, 2014. The plan is expected to be out of critical status in 2023. For the Newport Police Plan, they expect to continue to fully fund the ARC, the changes have been fully implemented, and they expect to be out of critical status in 2016, which is earlier than what they originally expected.

For the Pawtucket Police & Fire Plan, the City is still negotiating with fire, but they have implemented a 3-year COLA freeze, effective 7/1/14, except for retirees earning less than $30,000/year. The calculation of retirement benefit changed to 2.5% for the first 20 years or 50% and 2% for the next 10 years for a total of 70%, approved in the new fire contract. The City changed the contribution for actives from 7.5% to 9% in the new fire contract for new hires after 5/1/13. There's a different contribution for fire employees hired before that date. The City added a termination benefit option of 2.5% to credit service with less than 20 years but more than 10 years served, and changed pension salary base to a 3-year average. The Police contract is still being negotiated and is expected to include similar language. Antonio Pires added that the fire contract has been negotiated, voted on by the members, and is before the city council. They are now in the process of signing that document. They are arbitrating the police contract going forward; however they were actively involved in negotiations regarding the FIP. It is his understanding that, although they would have an arbitration process, the portion regarding the pension would be something that they may be willing to sign a memorandum of agreement in that regard. A critical change in the plan that was omitted, according to Mr. Pires, is that the active police and fire would have a 10-year COLA freeze or age 55, whichever comes first. They also recently sent notice to the retirees, formally informing them of the imposition of the COLA freeze. They'll have a city meeting on May 15, 2014 with all retirees to hopefully come to a meeting of the minds with them. Mr. Pires further said that Pawtucket has made a 100% contribution to the ARC and is moving forward. Chief Greschner said that she will add Mr. Pires' comments to DMF's narrative.

For the Portsmouth Municipal, Police & Fire Plan, the town introduced pension reforms which were not included in the 7/1/13 valuation. The ARC will be 100% funded in the 7/1/14 valuation. According to the town, they use a lower, 6.75% rate of return. The town states that with reforms accounted for, considering the deferred gains and the conservative rate of return, it will be apparent that Portsmouth has taken the issue seriously and made improvements that will have lasting impact on the financial well-being of the community. Per the original FIP, the town was working towards: Current employees will stay in the defined benefit plan, benefit multipliers will decrease to 1% for service after 7/1/13, COLA will be reduced to 1.7% for all future retirees and COLA will begin 5 years after retirement. Employees will contribute 4% of pay to the defined benefit plan, employees will contribute 5% of pay and the town will contribute an additional 1% of pay to a defined contribution plan. New employees will join a defined contribution plan with employees and the town each contributing 8% of pay. Chief Greschner said that the Town stated it has implemented most of these changes, however, DMF is still awaiting confirmation as to which particular ones have and which have not. Chief Greschner expects to receive an update soon. Based on their self-reported survey, Portsmouth appears to emerge from critical status in 2016, an improvement from the previous 2019 expectation.

For the Providence City Employees Plan, the 5% and 6% Class A and Class B COLAs are frozen for the next 10 years, as outlined in the FIP. This shows now that Providence will be out of critical status based on self-reported data in 2034. The benefit is based on the average of the four highest years out of the last 10 years of service, and all employees are required to contribute for each year they receive a pension accrual.

Mark Dingley then referred back to the Portsmouth and Providence plans, saying he thinks it's only fair to the communities that have adopted a 7.5% assumed interest rate, that there be some adjustment to those who have not. Mr. Dingley then referred to Providence who is still at 8.25%. The City's numbers are greatly impacted by their assumption of greater investment earnings. Mr. Dingley then pointed out that it appears Providence will come out of critical status before Cranston, but if Cranston used an 8.25% return, Cranston would likely come out before Providence. In general, some of these actuarial factors which differ between communities can significantly impact whether or not someone is submitting a FIP that's in compliance or not in compliance with the guidelines.

Chairperson Booth Gallogly then pointed to Portsmouth, raising the question whether they should get credit for their use of a 6.75% rate of return. Mr. Dingley said that they should, since they're being more aggressive in their financial conservatism. Chairperson Booth Gallogly then asked the commission how they could give credit to these communities. Mayor Fung answered that he didn't believe it was the commission's role to do that. He feels it's based on the evaluation that the actuaries have done as part of that 3 year study that the municipalities are required to do. The municipalities are supposed to take a look at what their actual investments are over a period of time, and then the actuaries would make a recommendation of what that should be. To try to say that the rate of return should be normalized and the same for every community is not the commission's role, since it should be based on each individual community's experience in their investment returns. Some may have different investment advisors, or be more aggressive, causing different investment experiences. Mayor Fung reiterated that he felt it would be unwise to implement an across the board rate of return mandate.

Chairperson Booth Gallogly stated that it's not in the guidelines for a municipality to use a specific investment rate of return. Dan Sherman added that he didn't think that normalizing would have much of an effect on the overall time frame of when a municipality would emerge from critical status. He felt it would just affect the timing of the funding and that it's not something that the commission really needs to worry about. Chairperson Booth Gallogly then asked Mr. Sherman, in terms of a plan that's in critical status, whether the funding percentage could potentially dip worse or better depending on the rate of return. Mr. Sherman answered that it might shift one year, but not very much, because if you don’t make that bogey each year, you’re going to have to put more money in. In the last year of a 20 year improvement plan, for example, you could have a plan at 61% and a change in the rate of return could drop it to 59%, however at this point in time it’s unimportant.

For the Scituate Police Plan, the town was not successful in eliminating COLAs for future retirees as planned, while reducing the benefit accrual and increasing the employee contribution to 15% is currently in arbitration. Upon resolution of the arbitration, the town stated that they will be able to fully assess the status of their FIP, and make changes which they will submit for approval if applicable. This plan was supposed to be out of critical status based on the original FIP in 2031, and according to the town, right now they’ll be out of critical status by 2028. Chairperson Booth Gallogly pointed out that this must be based on their actual investment performance, especially since they didn’t get what they expected. Therefore, the commission would need some more updated information on this plan. Chief Greschner added that depending on the arbitration ruling, their valuation could change in the future.

The Smithfield Police Plan is on track with full implementation of the FIP, emerging from critical status in 2026. The town wanted the commission to know that it didn’t need to necessarily do all the budget cuts that they identified in their FIP in order to support the additional contributions that they’re making.

In regards to the Tiverton Police Plan, the town reported that it implemented the original FIP, which is to increase its funding to 119% of the recommended contribution in FY 2013. It changed from an open amortization to a closed amortization, and indicated that the plan will be out of critical status in 2017.

The Warwick Fire and Police I Plan is continuing with its 40 year contribution strategy as established in ordinance, expects to emerge from critical status in 2032, and has fully implemented their plan.

For West Warwick Municipal Police & Fire, on 4/1/14 the town council approved a 5-year plan which has the town funding the pension ARC at 100% beginning in FY 2015. There has been successful negotiation with all employee unions and retirees. The actuary is completing the revised FIP to reflect the negotiated concessions, and the revised FIP will be submitted to the Commission once completed. They expect to be out of critical status by 2032. There were some changes compared to what they had asked for, but the plan is very comprehensive. Chief Greschner stated that she expects the new valuation from the actuary very soon.

In Woonsocket, where there is a budget commission in place, the plan is a closed plan, whose FIP was based upon elimination of COLAs entirely and extension of amortization to 16 years. Legislation was passed by the General Assembly to allow for the extension. Negotiations are continuing with retirees in this closed plan to investigate other options relating to the COLA. Negotiations are being held in the context of the $90 million pension obligation bond issued in 2002, which will cost the city $7.1 million per year until 2032. The 5-year plan developed by the Woonsocket Budget Commission has fully funded the ARC in FY 2014 and thereafter based upon the original FIP. They expect to be out of critical status by 2019, but are still involved in negotiations with the retirees.

After review of the Funding Improvement Plans, Chairperson Booth Gallogly commended Chief Greschner and her staff for dealing with these municipalities in a way that keeps the relationship between the state and the communities intact. Chairperson Booth Gallogly also thanked Dan Sherman and Dennis Hoyle for their work in gathering the necessary data. This report highlights the complexities in dealing with each one of these plans. They are each individually collectively bargained, with each mayor or town manager working on these trying to get the Pension Study Commission information as these plans progress through the process. Mayor Polisena also thanked Chairperson Booth Gallogly, Dan Sherman, Chief Greschner, and her staff at DMF for their hard work in gathering and putting together all of the necessary information which can at times be difficult to obtain.

Agenda Item #4 – Article 2 (Municipal Incentive Aid) – proposed amendments, Attachment D

For the next item on the agenda, Chairperson Booth Gallogly referred to Attachment D which is Article 2, relating to Municipal Incentive Aid. It is a draft of some amendments to Article 2. One of the challenges with Article 2 is that you get the incentive aid if you're 100% funding your ARC, and the Article didn't specify what happens with plans that are over 100% funded and therefore, may not want to fully fund the ARC. So in the proposed amendment there is some flexibility provided to those plans. There's some flexibility provided to communities who had not yet had a local governing body approve a FIP for FY 2014, and allows for the funds that would've been redistributed to the communities to be put in an escrow, so that the community has a little bit more time to comply with the requirements. That money would carry over or be reappropriated by the state until the next fiscal year, at which point they would need to meet the requirements for the year that passed, and also be compliant with the requirements for the then current year. This provision would give the Coventry School Plan a little bit more time by giving them a month after the fiscal year closes. In this case, it would give them until July to get that implemented.

The last thing it does is clarify the date upon which a municipality would have to have a plan implemented. Originally, everyone was given 18 months from the date that the plan was determined critical, that they had to have a FIP implemented. However, it then became apparent that with the way it was written, no one would be able to get the aid unless the statute was changed, because the date upon which everybody was supposed to be fully implemented had already passed. So with the proposed amendment, it gives municipalities until a month after the close of the fiscal year.

Mayor Fung showed concerns that we are now trying to codify guidelines into the municipal incentive aid program which weren't there before. Part of the problem he has with this is if a community doesn't hit the benchmark of emerging from critical status during the guidelines, they will be unable to receive any incentive aid. Mayor Fung used the example of Cranston, where there's a negotiated settlement that's been deemed fair after a full court hearing, by a superior court judge who has listened to all sides. Under this proposal, they'll still be ineligible to receive any incentive aid because of the codification of the guidelines. Therefore, there has to be some flexibility for those communities that have gone through a similar court process, since that process is going to ensure, even more than the commission's guidelines, that the payments are going to have to be made because if they don't do it, they'll be in violation of a court order which can impose more sanctions. Furthermore, Mayor Fung pointed towards the last provision on page 2, subsection 5, and his interpretation that it really just says that any municipality with a locally administered plan is given money, even when not in critical status. He felt the whole point was to help the communities in critical status. Chairperson Booth Gallogly clarified that the municipal incentive aid, as proposed last year, basically gave all communities a distribution based on population, and they would receive it as long as they had all their employees in MERS, if they had locally administered plans not in critical status and funding 100% of their ARC, and if they were a locally administered plan that had prepared a FIP. This is going to come up when the Pension Study Commission talks about who's going to be the permanent overseer and what kind of flexibility they're going to have with the guidelines to make those kinds of decisions. Mayor Fung clarified his stance by saying that they should add a provision that puts into consideration any community that's part of a court-ordered settlement, where you have greater oversight than just the guidelines. It's not fair for those communities to not be given any aid if after a hearing, a superior court judge has already determined that whatever the settlement was was fair. These communities will have to abide by a payment schedule that is greater than any guidelines a state oversight entity could provide. The Chairperson asked Mayor Fung if he thought that the statute should include that or the guidelines. Mayor Fung responded that he feels the statute should contain that provision.

Mark Dingley commented that it's one thing if the community is close to the 20 year guidelines, but it would be another thing if a judge accepted a settlement where the plan wouldn't become 60% funded for 50 years, or some other length of time too far off the 20 year guideline. Having flexibility is one thing, but just saying that anybody who gets a court-ordered or binding arbitration is acceptable would go too far. The guidelines have to be implemented in coordination with the legal settlement in some way to satisfy the state. Mayor Fung replied that utilizing any applicable standards and time-frames is part of the legal process. Mayor Polisena suggested that maybe there should be some flexibility, for example, within the Department of Revenue or the Auditor General's Office to look at the individual communities and see whether it would be fair, based on their efforts and outcomes in court, to either give or withhold municipal aid, as opposed to putting standards into law since once it's there it's set in stone. John Simmons said if you put the guidelines in the statute then they're detailed and then they're controlled by statute, but if in the statute you have that the guidelines are controlled by an outside group then the guidelines can always be changed.

Chairperson Booth Gallogly posed the hypothetical issue of what the Pension Study Commission could recommend to resolve a situation where a community can't implement a FIP or anything close to a FIP that will bring the plan into a sustainable path, which municipal incentive aid alone could not fix. The goal in the creation of the Pension Study Commission was to help the General Assembly figure out what it's going to take, and Chairperson Booth Gallogly feels there's been a tremendous amount of progress, and that hopefully they'll be able to make some great recommendations to the General Assembly.

Mayor Fung commented that what many of the mayors have been asking for is just the enabling legislation, because if you can't do it, having that enabling legislation on top of the changes at least gives you a fighting chance in court on a public policy argument that there's a state recognition of problems on the local level.

Agenda Item #5 – Public Comments

Separate public comments were received by former Warwick City Councilman Robert Cushman, Roger Durand, and Thomas Hoover, Town Manager from the Town of Coventry.

Agenda Item #6 – Adjourn

John Simmons made a motion to adjourn which was seconded by Antonio Pires. The meeting adjourned at 12:00 PM.

Rosemary Booth Gallogly

Rosemary Booth Gallogly
Chairperson

May 19, 2014
Date

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Addendum to the April 28, 2014 OPEB and Pension Study Commission Meeting Minutes

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Issued jointly by the:

- ***Division of Municipal Finance, Department of Revenue***
- ***Office of the Auditor General***

Planning for GASB's New Pension Accounting Standards

Two accounting pronouncements issued by the Governmental Accounting Standards Board (GASB) - Statements No. 67 and 68 - will have a significant impact on government financial statements beginning in fiscal 2014. For separately issued plan financial statements and municipalities with locally administered pension plans, changes will be required in 2014. In fiscal 2015, all government employers participating in a defined benefit pension plan will be required to make changes in their financial reporting.

The following is a brief summary of:

- the likely impact on fiscal 2014 and 2015 financial reporting depending upon which defined benefit pension plans (ERS, MERS, or locally-administered plans) cover a municipality's employees;
- ongoing planning activities at the State level to assist employers that participate in the state-administered ERS and MERS plans to implement the new standards;
- recommended planning activities if the municipality administers its own pension plan (a locally-administered pension plan); and
- resources available to help with the implementation of these new pension accounting standards and explain the impact of these standards on the financial reporting of governments to elected officials and citizens.

The new standards –

Statement No. 67 – *Financial Reporting for Pension Plans* (an amendment of GASB Statement No. 25) – effective for fiscal 2014 financial statements – generally impacts separately issued plan financial statements and governments that include a locally-administered pension plan as a pension trust fund within its financial statements.

Statement No. 68 – *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27) – effective for fiscal 2015 financial statements – applicable to the financial statements of any governmental employer contributing to a defined benefit pension plan for its employees.

Fiscal 2014 financial reporting –

If the municipality only participates in the state-administered ERS (teachers) or MERS plans and does not have a locally-administered defined benefit plan there will be no impact due to the new standards on a municipality's fiscal 2014 financial statements. However, significant financial reporting changes will occur in fiscal 2015 as described below.

If the municipality has a locally-administered pension plan(s), which is included as a pension trust fund within the financial statements, new note disclosures and required supplementary information (RSI) are required to be included within the financial statements **for fiscal 2014**. This information needs to be provided by the plan's actuary. Advance planning with the actuary to ensure this new data is available to meet the fiscal 2014 financial reporting/audit timeline is critical. GASB has outlined requirements regarding when the actuarial data must be measured. For locally-administered plans, a municipality and its actuary need to coordinate the measurement dates, any required changes in actuarial assumptions, and the timing of data provided to and from the actuary. GASB requires that decisions regarding measurement dates be consistently observed in future periods. This requires advance planning to ensure the new actuarial schedule is workable and can be adhered to going forward. When a municipality has a locally-administered plan, the fiscal 2014 financial reporting impact is limited to the inclusion of new note disclosures and RSI. Further financial reporting changes occur in fiscal 2015.

> ***Muni-news*** *is a new joint effort between the Department of Revenue and the Office of the Auditor General to communicate matters of interest to municipalities. This first newsletter, prepared by the OAG, highlights recommended planning considerations for the financial reporting impact of the new GASB pension accounting standards.*

Fiscal 2015 financial reporting –

For all government employers with employees participating in a defined benefit plan, the **net pension liability** will be recorded on the government-wide financial statements at June 30, 2015. The net pension liability will be calculated in accordance with the new GASB requirements and reflects the market or fair value of assets accumulated as of the measurement date. Under current accounting standards, a liability was recorded on the financial statements only when a government contributed less than the annual required contribution. The recording of the new net pension liability (for all defined benefit pension plans) will likely be a material liability on a government's financial statements.

Annual pension expense is generally the change in the net pension liability between years – this amount is different from the previous recognition of annual pension cost based on the annual required contribution. Certain actuarial gains and losses are deferred and amortized over a defined period as outlined in the standard rather than recognized immediately. The governmental fund level financial statements will still include contribution or funding based amounts as expenditures as opposed to the new pension expense amounts described above.

For employers who participate in multiple plans (e.g., a combination of state-administered and locally-administered plans) – the net pension liability and pension expense recorded on the government-wide financial statements will be a composite of all the defined benefit plans. For a cost-sharing plan, such as ERS which includes teachers, the municipality will recognize their proportionate share of the ERS plan's net pension liability and pension expense.

For employers participating in the state-administered ERS and MERS plans, the data needed to meet the new net pension liability, pension expense, and note disclosure requirements will be provided by the Employees' Retirement System of Rhode Island (ERSRI) and the Office of the Auditor General (OAG). ERSRI's actuary will calculate and provide the new GASB required information including each participating employer's proportionate amounts. ERSRI's actuary will also provide the new information for each participating employer in the MERS plan (an agent plan). The OAG will audit and opine on the data provided by ERSRI's actuary. This will allow the auditor of a municipality's financial statements to rely on the audited data provided by ERSRI with only minimal tests of the data.

Planning between ERSRI, ERSRI's actuary, and the OAG is underway to coordinate specific responsibilities and the timeline to ensure that employers participating in plans administered by ERSRI have GASB compliant, audited data available to meet their financial reporting needs for fiscal 2015.

For locally-administered plans, the data needed for fiscal 2015 financial reporting will again largely be provided by the plan's actuary. Planning decisions made to meet the fiscal 2014 financial reporting considerations for a municipality with a locally-administered plan should facilitate obtaining the information needed to record the net pension liability and pension expense.

Conclusion -

Due to the complexity of these new pension accounting standards, municipalities should immediately begin planning with their actuary and auditor to ensure all the necessary information will be available for inclusion in their financial statements.

The significant changes in financial reporting and actuarial information provided for pension plans should be discussed in advance with elected officials and those charged with governance.

Additional training opportunities are planned to assist Rhode Island municipalities in meeting the new pension accounting standards. These future training events will include detail about the nature and timing of information for the state-administered ERS and MERS plans.

Technical Resources -

GASB has good implementation guidance on its website at gasb.org . Copies of the statements, implementation guides in a Q&A format, podcasts, and other related guidance materials are available at no cost. *Links to guidance materials:*

- About the new standards

  http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472

- Implementation toolkit

  http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163527940

The Government Finance Officers Association (GFOA) has the following document available for purchase:

An Elected Official's Guide: The New Pension Accounting

http://gfoa.org/downloads/GFOA2013EOGNewPensionAccounting.pdf

Newlsetter policy: This newsletter is intended to provide municipal officials and other interested parties with general information on matters of interest to municipalities. It is neither designed nor intended to address complex issues in detail. Accordingly, guidance provided in this newsletter cannot replace specific guidance provided to a municipality.

This newsletter will typically be published quarterly.

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Funding Improvement Plan
Summary of Responses as of April 24, 2014

Municipality:	Original FIP Year Emerging from Critical Status	Update Year Emerging from Critical Status	Implementation of FIP Full/Partial/Changes made to FIP	Negotiating In arbitration/court n/a
Bristol Police	2021	2021	Full	n/a
Coventry Municipal	2033	2038	Full	n/a
Coventry Police	2034	2036	Full	Arbitration
Coventry School Plan	unknown	unknown		Negotiating
Cranston Fire & Police	2032	2037	Partial	n/a
Cumberland Police				
Johnston Fire & Police (2 plans)				
Narragansett Police (closed)	2032	2032	Full	n/a
Narragansett Town	2014	2018	Partial	Negotiating
Newport Fire	2024	2023	Full	n/a
Newport Police	2019	2016	Full	n/a
Pawtucket Police & Fire	2026	2026	Full	Negotiating (Fire)
Portsmouth Muni, Police & Fire	2019	2016	Partial	n/a
Providence City Employees	2033	2034	Full	n/a
Scituate Police	2031	2028		Arbitration
Smithfield Police	2026	2026	Full	n/a
Tiverton Police	2020	2017	Full	n/a
Warwick F&P I	2033	2032	Full	n/a
West Warwick Municipal Police & Fire	2031	2032	Changes to FIP	Negotiating
Woonsocket	2019	2019	Full	Negotiating (retirees)

Source: The Division of Municipal Finance, based on survey responses provided by municipalities. ARC has not been verified in the actuarial valuations.

Funding Improvement Plan
Summary of Responses as of April 24, 2014

Bristol Police	No further action taken or changes made. The town is continuing to fund 100% of the ARC and have indicated that there are 3 active members remaining in the plan.
Coventry Municipal	The town plan has an increased employee contribution rate and implemented a defined contribution plan and closed defined benefit plan to new entrants. Three year wage freeze was not implemented. In addition to the percentage of ARC payments made/scheduled to be made in FY13 - FY15, the town has made supplemental payments directly towards the pension liability.
Coventry Police	The following items from the FIP are in arbitration/court: freeze longevity pay increase, change to a five year final average earnings definition, increase the contribution rate to 20%, change retirement eligibility to age 55 with 25 years of service and change benefit formula as stated in FIP option 1 (attached), eliminate COLAs for all participants including retirees, closed defined benefit plan to new entrants and implement a defined contribution plan as stated in FIP. In addition, the percentage of ARC payments made/scheduled to be made in FY2013-15, the town has made supplemental payments towards the pension liability.
Coventry School Plan	Still negotiating: Change to a 30-year closed amortization, remove COLAs for future retirees, change benefit formula, change average earning to career average earning. Coventry maintains it has no funding responsibility other than the contractually required contribution of 12.75% of covered payroll. The council and school committee, through resolutions have denied responsibility for the UAAL rather than the ARC as determined by the plan's actuary. According to the town, all parties continue to meet to attempt to resolve the matter. At the request of Governor Chafee, Steve Harford has attended the last two meetings to help the process along. There is discussion to hire a fact finder to resolve some of the differences. The town states that no legal action is currently pending.
Cranston Fire & Police	At a class action fairness hearing on 12/13/13, the judge entered a final order approving a settlement between police and fire unions and retirees modifying the original FIP. The 10-year COLA freeze still applies to those who decided to opt out and continue their individual suits. Approximately 76 individuals opted out of the settlement. Under the terms of a settlement, the annual 3% compounded COLA is suspended, excluding current or future widow that do not opt out of the settlement, every other year over a ten year period beginning 7/1/2013. After the 10 year period, for years 11 and 12, the 3% compounded COLA shall be reduced to 1.5% compounding (excluding current or future widows who do not opt out of the settlement). After year 12, the COLA is fixed permanently at 3% compounded per year without any further excalation based upon any raises to active employees. There were no one-time contributions in excess of the ARC for FY 2013 and 2014. The City implemented the above changes to the original FIP that was approved by the Superior Court to resolve the class action and will continue to fund per the settlement.
Cumberland Police	No response.
Johnston Fire & Police (2 plans)	Response expected late pending review by town solicitor.
Narragansett Police (closed)	There is no change to the FIP which states that 60% funded level will be achieved in 20 years by 2032.

Funding Improvement Plan

Summary of Responses as of April 24, 2014

Narragansett Town	Police and fire have agreed to a retirement age of 25 years of service and reducing the acrrual to 2% for employees hired after 7/1/13. The COLA for police and fire is suspended until 6/30/21 and back to compounded with exceptions (police 3% COLA simple for hires after 7/1/13 and fire 3% simple for new employees hired before 7/1/13). Still negotiating the following items from the original FIP: other town employees have not settled a change to age 65 and 10 years of service or 25 years of service, reducing the accrual to 2% and deferring the COLA to 2021 and then resuming to 3%. There is no retiree deferral of the COLA.
Newport Fire	There is no change to the FIP which is to continue to fund the plan in accordance with the actuarially required contirbution and there are no items that are not fully implemented effective July 1, 2014.
Newport Police	There is no change to the FIP which is to continue to fund the plan in accordance with the actuarially required contirbution and there are no items that are not fully implemented effective July 1, 2014.
Pawtucket Police & Fire	There will be a 3-year COLA freeze, effective 7/1/14, except for retirees earning less than $30K. The calculation of retirement benefit changed to 2.5% for first 20 years or 50% and 2% for the next 10 years for a total of 70%, approved in new fire contract (term 7/1/13 to 6/30/16). Changed contribution for actives from 7.5% to 9%, in new fire contract for new hires after 5/1/13. Different contribution for fire employees hired before that date. Added a termination benefit option of 2.5% to credit service with less than 20 years but more than 10 years served, changed pension salary base to a 3-year average. Police contract is still being negotiated and is expected to include similar language. See appendix.
Portsmouth Muni, Police & Fire	Town introduced pension reforms which were not included in the 7/1/13 valuation. The ARC will be 100% funded in the 7/1/14 valuation. According to the town, they use a lower rate of return, 6.75%. The town states that with reforms accounted for, considering the deferred gains and the conservative ROI, it will be apparent that Portsmouth has taken the issue seriously and made improvements that will have lasting impact on the financial well-being of the community. Per the original FIP the town was working towards: Current employees will stay in the defined benefit plan, benefit multipliers will decrease to 1 % for service after 7/1/13, COLA will be reduced to 1.7% for all future retirees and COLA will begin five years after retirement, employees will contribute 4% of pay to the defined benefit plan, employees will contribute 5% of pay and the Town will contribute an additional 1 % of pay to a defined contribution plan (School Department contribution of 3% of pay for its employees), new employees will join a defined contribution plan with employees and town each contributing 8% of pay. Awaiting confirmation
Providence City Employees	COLAs frozen for next 10 years, Class A and Class B COLA's frozen as outlined in FIP, all 5% and 6% COLAs permanently eliminated, benefit based on average of the four highest years out of the last 10 years, all employees required to contribute for each year they receive a pension accrual.
Scituate Police	The town has not eliminated COLA for future retirees as planned while reducing the benefit accrual and increasing the employee contribution to 15% is currently in arbitration. Upon resolution of the arbitration, the town stated that they will be able to fully assess the status of our FIP, and make changes which they will submit for approval if applicable.
Smithfield Police	The town responded that there are no budget cuts as referred to in original FIP to support additional contribution.
Tiverton Police	The town reported that it implements the original FIP which is to increase its funding to 119% of the recommended contribution in FY 2013. Changed to closed amortization.

Funding Improvement Plan
Summary of Responses as of April 24, 2014

Warwick F&P I	Continuing with 40 year contribution strategy as established in ordinance.
West Warwick Municipal Police & Fire	On 4/1/14 the town council approved a 5-year plan which has the town funding the pension ARC at 100% beginning in FY15. There has been successful negotiation with all employee unions and retirees. The actuary is completing the revised FIP to reflect the negotiated concessions. The revised FIP will be submitted to the Commission once completed. See attached for details.
Woonsocket	FIP was based upon elimination of COLAs entirely and extension of amortization to 16 years. Legislation was passed by the General Assembly to allow for the extension. Negotiations are continuing with retirees in this closed plan to investigate other options relating to the COLA. Negotiations are being held in the contecxt of the $90 million pension obligation bond issued in 2002, which will cost the city $7.1 million per year until 2032. Five-year Plan developed by the Woonsocket Budget Commission has fully funded the ARC FY 2014 and thereafter based upon the original FIP.

PAWTUCKET - FUNDING IMPROVEMENT PLAN UPDATE – 4/18/14

The following is additional information in response to the Funding Improvement Plan Update form.

2. Deferred COLAs except for retirees earning less than $30,000?

Yes. There will be a 3-year COLA freeze effective July 1, 2014. A letter is being prepared to all retirees to provide them notice and invite them to an informational meeting that is being held on May, 15, 2015.

3. Retirement calculation of benefit changed to 2.5% for first 20 years or 50% and 2% for next 10 years for a total of 70%?

Yes. The new Fire contract (July 1, 2013 to June 30, 2016) includes this change and has been ratified by both the union and the City. The Police contract is still being negotiated and will include this change. In the meantime, a MOU will be drafted and signed by the Police union and the City.

4. Change contribution for actives from 7.5% to 9%?

Yes. The new Fire contract includes all new hires after May 1, 2013 will contribute 9% for pension. Employees who were hired prior to May 1, 2013 will follow the schedule below for pension contributions:

Until June 30, 2014 they will contribute	7.5%
Commencing on July 1, 2014 they will contribute	8%
Commencing on July 1, 2015 they will contribute	8.5%
Commencing on July 1, 2016 and thereafter they will contribute	9%

The Police contract is still being negotiated but is expected to have similar language where new hires will contribute the 9% and employees who are already active will have gradual increase of pension contributions.

5. Added a termination benefit option of 2.5% to credit service with less than 20 years but more than 10 years of service?

Yes. The new Fire contract includes the following language, "Members' pension benefits shall be vested after ten (10) years of service. However, an employee leaving City employment before serving twenty (20) years shall not be entitled to their pension benefit until their twentieth (20th) anniversary from their date of hire (hereinafter the "Normal Retirement Date)."

The Police MOU and new contract will include the same language.

Revised FIP:

On April 1st, 2014, the West Warwick Town Council approved a 5-year plan that addresses the pension and OPEB ARCS as required by the Pension Study Commission. The plan will enable the Town's pension plan to emerge from critical status within the 20-year timeframe established by the Commission. Per the 5-year plan, the Town will fund the Pension ARC at 100% beginning in FY15. The plan also provides for the establishment of an OPEB Trust with the Town funding 100% of the OPEB ARC beginning in FY16.

To attain these milestones the Town has successfully negotiated with all employee unions and retirees to acquire pension, benefit and other budget savings totaling over $5 million/year. In addition, the plan shows the Town utilizing the maximum tax levy for each of the 5 years of the plan. The Council has already approved the MOU's with all active employee unions as well as new 5-year collective bargaining agreements (CBA's) with Police and Fire Unions. They will be approving the 5-year CBA for the Town employee's Union (Council 94) at their next meeting along with the MOU for retirees. The School Committee has negotiated concessions with the teachers and non-certified employees totaling over $1 million that will also help to fund the ARC's.

At this time, the Town's actuary is completing the revised FIP to reflect the negotiated concessions and the Town's commitment to fund the Pension and OPEB ARC's. The revised FIP will be submitted to the Commission once completed (estimated completion date is April 25th).

Any questions or comments call Town Manager, Fred Presley at [redacted].

Pension Negotiations with the Local 1104 International Association of Fire Fighters, AFL-CIO

nyhart

Provision Type	Current Provision	Proposed Provision*
Retirement Age	Hired prior to 7/1/2011 – earlier of age 62.5 or 20 years of service Hired on or after 7/1/2011 – earlier of age 62.5 or age 50 and 20 years of service. Benefits cannot begin until the 23-year anniversary of membership in the Plan.	All Current Members can retire with unreduced benefits at the earlier of age 62 or age 50 and 25 years of service. Future Members can retire with unreduced benefits at the earlier of age 62 or age 55 and 25 years of service. The 23-year anniversary requirement has been removed.
Benefit Earned	Members earn 2.5% of pay for each year of service up to a maximum benefit of 70% of pay which is reached at 28 years of service	Members earn 2.2% of pay for each of the first 25 years of service and 3.0% of pay for up to 5 additional years with a maximum benefit of 70% of pay ***Note: Formula change is applied to both past and future service***
Average Pay	Pay over final 1 year of employment	Average of highest 3 consecutive years of pay
COLA	2.25% compounded for the first 15 years of retirement	Suspend COLA for first 7 years of retirement (or until age 62.5, if earlier) followed by 15 years of a simple 2.25% COLA
Employee Contribution Rate	Hired prior to 7/1/2011 – 9.0% of compensation stopping after 28 years of service Hired on or after 7/1/2011 – 9.0% of compensation stopping after 30 years of service	Effective 1/1/2014, increase the contributions for current and future active employees to 11% of salary, followed by increases to 12% on 7/1/2014 and 13% on 7/1/2015; the contribution rate remains at 13% of salary after 7/1/2015 Contributions continue for all years of service
Employee Contribution Compensation	Member contributions are based on weekly salary, longevity, and holiday pay	Member contributions are based on weekly salary, longevity, holiday pay, and EMT pay (if applicable)

Pension Negotiations with the Local 1104 International Association of Fire Fighters, AFL-CIO

nyhart

Provision Type	Current Provision	Proposed Provision*
Occupational Disability	Members receive 2/3 of pay with annual increases equal to the percentage increase in pay of active employees in the position held at time of disability retirement	Occurs Prior to 25 Years – Receive 2/3 of pay; at 25th anniversary since date of hire, benefit adjusted to 55% of present pay received by active employees in the position held at time of disability retirement Occurs After 25 Years - Receive 2/3 of pay COLA – Changed to match the retirement COLA as described above
Non-Occupational Disability	Members receive their accrued normal retirement benefit with a minimum of 50% of pay	Occurs Prior to 10 Years – Receive 25% of pay Occurs After 10 Years – Receive 25% of pay plus 2.2% for each year between 10 and 25 plus 3.0% for each year between 25 and 30 years; accruals cease at 30 years

Proposed Provisions go into effect July 1, 2014

Pension Negotiations with the International Brotherhood of Police Officers, Local 312

Scenarios	Current Provision	Proposed Provision*
Benefit Earned	Police union members receive a pension benefit of 62.5% of pay at 25 years of service; members earn an additional 2.5% of pay per year for service between 25 and 28 years. The maximum benefit is 70% of pay which is reached at 28 years of service. Members hired prior to 7/1/2011 can retire at 50% of pay with 20 years of service.	The benefit amount will not change for members who have 20 years of service as of 7/1/2013. For all others, lower the benefit amount to 55% of pay at 25 years of service. However, members can retire at 50% of pay with 20 years of service. The following benefit accrual schedule will apply: Service — % of Pay 20 — 50.0% 21 — 51.0% 22 — 52.0% 23 — 53.0% 24 — 54.0% 25 — 55.0% 26 — 57.5% 27 — 60.0% 28 — 62.5% 29 — 65.0% 30 — 67.5% 31 — 70.0% In other words, members earn 2.5% of pay for the first 20 years of service, 1.0% of pay for the next 5 years of service, and 2.5% of pay for the next 6 years of service. The maximum benefit earned is 70% of pay at 31 years of service. ***Formula change is applied to both past and future service***
Retirement Age	Members hired prior to 7/1/2011 can retire with unreduced benefits at the earlier of age 62 or completion of 20 years of service regardless of age. Members hired on or after 7/1/2011 can retire with unreduced benefits at the earlier of age 62 or age 50 with 25 years of service.	Members hired prior to 7/1/2014 can retire with unreduced benefits at the earlier of age 62 or completion of 20 years of service regardless of age. ***Members hired on or after 7/1/2014 can retire with unreduced benefits at the earlier of age 62 or age 50 with 20 years of service.***

Pension Negotiations with the International Brotherhood of Police Officers, Local 312

nyhart

Scenarios	Current Provision	Proposed Provision*
Employee Contributions	Members currently pay 9% of annual salary for up to 28 years of service	Effective 1/1/2014, increase the contributions for current and future active employees to 11% of salary, followed by increases to 12% on 7/1/2014; the contribution rate remains at 12% of salary after 7/1/2014. Contributions continue for all years of service.
COLA	2.25% compounded for the first 15 years after a police officer retires	Suspend COLA for 7 years followed by 15 years of 2.25% compounded
Occupational Disability**	Members receive 2/3 of pay with annual increases equal to the percentage increase in pay of active employees in the position held at time of disability retirement	**Disability COLA is changed to match the standard retirement COLA** Members who remain fully disabled at normal retirement continue receiving disability benefit. However, if the member is not "fully disabled" at normal retirement age, the benefit is adjusted to the member's accrued benefit under the normal retirement benefit formula. The standard retirement COLA will apply to this portion of the benefit.**

****Proposed Provisions go into effect July 1, 2014***

****Proposed Provisions are based on an MOU from April 2013. In addition, the two proposed provisions from a Nyhart report dated November 25, 2013 have been included. The Occupational Disability change also includes an adjustment to the disability COLA as described above.***

***** It was assumed that 50% of members becoming disabled will be "fully disabled" at normal retirement age and will continue to receive 2/3 of pay of the same rank member. Note it is also assumed that the subsequent retirement benefit for members who are not "fully disabled" at normal retirement age is based on pay and service accrued at the date of disability. Allowing participants to "earn" accruals while being disabled or a higher percentage of "fully disabled" members will result in the realized savings being lower than shown in this report.***

Pension Negotiations with the Municipal Union

nyhart

Provision Type	Current Provision	Proposed Provision*
Retirement Age	Members can retire with unreduced benefits upon the attainment of age 60 and completion of 10 years of service or the completion of 25 years of service regardless of age.	Members hired prior to 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or the completion of 25 years of service regardless of age. ***Members hired on or after 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or age 55 and completion of 25 years of service.***
Benefit Earned	Members earn 2.5% of pay for each year of service	Members earn 2.4% of pay for each year of service after 7/1/2014. Service prior to 7/1/2014 remains at the 2.5% level.
Average Pay	Average of basic earnings and longevity pay over the last 12 months of employment	Average of the last 10 years of gross earnings
COLA	2.25% compounded for the first 15 years of retirement	Suspend COLA for first 5 years of retirement followed by a 2.00% COLA compounded for 15 years
Employee Contribution Rate	As of 1/1/2011, the rate increased to 9.0%. Prior to 1/1/2011, the rate was 8.0%	Increase the contribution rate to 11.00% of annual gross earnings

***Note: The proposed provisions reflect the document sent to Nyhart on December 2, 2013 for the Municipal Union**

The proposed changes take effect on July 1, 2014

Projected savings shown in the report are all calculated as of July 1, 2014

Pension Negotiations with School (Council 94)

nyhart

Provision Type	Current Provision	Proposed Provision*
Retirement Age	Members can retire with unreduced benefits upon the attainment of age 60 and completion of 10 years of service or the completion of 25 years of service regardless of age.	Members hired prior to 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or the completion of 25 years of service regardless of age. ***Members hired on or after 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or age 55 and completion of 25 years of service.***
Benefit Earned	Members earn 2.5% of pay for each year of service	Members earn 2.4% of pay for each year of service after 7/1/2014. Service prior to 7/1/2014 remains at the 2.5% level.
Average Pay	Average of basic earnings and longevity pay over the last 12 months of employment	Average of the last 10 years of gross earnings
COLA	2.25% compounded for the first 15 years of retirement	Suspend COLA for first 5 years of retirement followed by a 2.00% COLA compounded for 15 years
Employee Contribution Rate	As of 1/1/2011, the rate increased to 9.0%. Prior to 1/1/2011, the rate was 8.0%	Increase the contribution rate to 11.00% of annual gross earnings

Note: The proposed provisions reflect the document sent to Nyhart on December 2, 2013 for the Municipal Union

The proposed changes take effect on July 1, 2014

Projected savings shown in the report are all calculated as of July 1, 2014

Pension Negotiations with Library

nyhart

Provision Type	Current Provision	Proposed Provision*
Retirement Age	Members can retire with unreduced benefits upon the attainment of age 60 and completion of 10 years of service or the completion of 25 years of service regardless of age.	Members hired prior to 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or the completion of 25 years of service regardless of age. ***Members hired on or after 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or age 55 and completion of 25 years of service.***
Benefit Earned	Members earn 2.5% of pay for each year of service	Members earn 2.4% of pay for each year of service after 7/1/2014. Service prior to 7/1/2014 remains at the 2.5% level.
Average Pay	Average of basic earnings and longevity pay over the last 12 months of employment	Average of the last 10 years of gross earnings
COLA	2.25% compounded for the first 15 years of retirement	Suspend COLA for first 5 years of retirement followed by a 2.00% COLA compounded for 15 years
Employee Contribution Rate	As of 1/1/2011, the rate increased to 9.0%. Prior to 1/1/2011, the rate was 8.0%	Increase the contribution rate to 11.00% of annual gross earnings

***Note: The proposed provisions reflect the document sent to Nyhart on December 2, 2013 for the Municipal Union**

The proposed changes take effect on July 1, 2014

Projected savings shown in the report are all calculated as of July 1, 2014

Pension Negotiations with Municipal Non-Union

nyhart

Provision Type	Current Provision	Proposed Provision*
Retirement Age	Members can retire with unreduced benefits upon the attainment of age 60 and completion of 10 years of service or the completion of 25 years of service regardless of age.	Members hired prior to 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or the completion of 25 years of service regardless of age. ***Members hired on or after 7/1/2014 can retire with unreduced benefits at the earlier of age 62 and completion of 12 years of service or age 55 and completion of 25 years of service.***
Benefit Earned	Members earn 2.5% of pay for each year of service	Members earn 2.4% of pay for each year of service after 7/1/2014. Service prior to 7/1/2014 remains at the 2.5% level.
Average Pay	Average of basic earnings and longevity pay over the last 12 months of employment	Average of the last 3 years of gross earnings
COLA	2.25% compounded for the first 15 years of retirement	Suspend COLA for first 5 years of retirement followed by a 2.00% COLA compounded for 15 years
Employee Contribution Rate	As of 1/1/2011, the rate increased to 9.0%. Prior to 1/1/2011, the rate was 8.0%	Increase the contribution rate to 11.00% of annual gross earnings

***Note: The proposed provisions reflect the document sent to Nyhart on December 2, 2013 for the Municipal Union**

The proposed changes take effect on July 1, 2014

Projected savings shown in the report are all calculated as of July 1, 2014

Pension Negotiations with Retired and Deferred Vested Participants

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Scenarios	Current Provision	Proposed Provision
COLA Adjustment	Retired members receive a 2.25% compounded COLA for up to 15 years (depending on when the member retired).	COLA has been delayed 5 years for current retired and deferred vested participants*

**Retired members receive a COLA for up to 15 years depending on when they retire. Under the current plan, some members are not entitled to any future COLA's, while other members are entitled to anywhere from 1 to 15 future COLA increases. The proposed plan is being valued such that no members would receive a COLA in the next 5 years. After the 5-year period, the COLA returns for members who, as of July 1, 2013, are entitled to future COLA's. For example, a member who retired June 1, 2007 has received 6 COLA increases as of July 1, 2013. We are valuing this individual such that he does not receive a COLA for the next 5 years. Beginning July 1, 2019, the individual begins to receive his remaining 9 COLA increases.*

Pension Negotiations with Disabled (Police & Fire) Participants

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Scenarios	Current Provision	Proposed Provision
Add Longevity Pay	Disabled Police & Fire members receive 2/3 of the Salary being received by an active member holding the same rank ***Salary includes base pay only***	Disabled Police & Fire members receive 2/3 of the Salary being received by an active member holding the same rank ***Salary includes base pay AND longevity pay***
COLA Adjustment	Disabled Police & Fire members receive a benefit increase equal to the percentage increase in pay of the same rank member. This increase is paid for the life of the member.	Members receive no COLA increases for the next 5 years. Beginning 7/1/2019, members receive a 2.0% compounded COLA for 5 years. Beginning 7/1/2024, members receive a 3.5% compounded COLA for 5 years. After the 7/1/2028 increase, members will receive no additional COLA increases.

Impact of All Proposed Changes on Overall Plan

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Scenario	Immediate Liability Reduction*	Immediate Reduction of the Annual Contribution*
Re-Amortization	$0	$824,000
Plan Changes – Fire	$2,910,000**	$615,000**
Plan Changes – Police	$2,090,000	$367,000
Plan Changes – Municipal Union	$1,915,000	$288,000
Plan Changes – School (Council 94)	$2,201,000	$319,000
Plan Changes – Library	$154,000	$28,000
Plan Changes – Municipal Non-Union	$171,000	$34,000
Plan Changes – Retired, Deferred Vested Participants	$3,121,000	$198,000
Plan Changes – Disabled Police & Fire Participants	$713,000	$45,000
Total Savings	**$13,275,000**	**$2,718,000**

- *The figures above are measured at July 1, 2014 and assume that the Town contributes $10,322,474 during fiscal year 2013-2014.*
- *Under the baseline scenario without re-amortizing the unfunded liability, the projected ARC at July 1, 2014 is $10.46 Million.*
- ***Current and future active fire union members are being valued in a manner consistent with the $615,000 savings shown in the March 14, 2014 report. Note a range of savings was previously provided based on different retirement rate assumptions. Actual savings will depend on actual employee behavior.*
- *The re-amortizing of the unfunded liability as of July 1, 2014 does not ultimately change the overall cost (actual benefits paid) of the plan. It simply changes the timing of contributions to the plan.*
- *The unfunded liability is amortized as a level percentage of pay over 25 years. For this purpose, pay is assumed to grow at 3.5% annually*

*These numbers are estimates only and are not guarantees of future plan costs

Pension Negotiations with Disabled (Police & Fire) Participants

nyhart

Scenarios	Current Provision	Proposed Provision
Add Longevity Pay	Disabled Police & Fire members receive 2/3 of the Salary being received by an active member holding the same rank ***Salary includes base pay only***	Disabled Police & Fire members receive 2/3 of the Salary being received by an active member holding the same rank ***Salary includes base pay AND longevity pay***
COLA Adjustment	Disabled Police & Fire members receive a benefit increase equal to the percentage increase in pay of the same rank member. This increase is paid for the life of the member.	Members receive no COLA increases for the next 5 years. Beginning 7/1/2019, members receive a 2.0% compounded COLA for 5 years. Beginning 7/1/2024, members receive a 3.0% compounded COLA for 5 years. After the 7/1/2028 increase, members will receive no additional COLA increases.

Disabled Participant Impact

- ***The chart below lists each change individually and the impact that each has on the plan's 2014 liability and contribution requirement for the Disabled group only. All other employees and liabilities remain unchanged.***

Scenario	Immediate Liability Reduction*	Immediate Reduction of the Annual Contribution*
Add Longevity Pay	**$(2,041,000)**	**$(129,000)**
COLA Adjustment	$2,957,000	$186,000
Total Plan Savings	$916,000	$57,000

Figures above are calculated as of July 1, 2014

*These numbers are estimates only and are not guarantees of future plan costs

Attachment D

REVISED ARTICLE 2 (April 15, 2014)
RELATING TO MUNICIPAL INCENTIVE AID

SECTION 1. Section 45-13.2-4 and Section 45-13.2-6 of the General Laws in Chapter 45-13.2 entitled "Municipal Incentive Aid" are hereby amended to read as follows:

§ 45-13.2-4 State Aid Incentive Program appropriated. – There are hereby appropriated funds for a state aid program entitled "Municipal Incentive Aid Program." For fiscal year 2014, fiscal year 2015 and fiscal year 2016, the amount of five million dollars ($5,000,000) shall be appropriated.~~. and an amount of ten million dollars ($10,000.000) will be requested for appropriation for fiscal year 2015 and for fiscal year 2016~~. Municipal Incentive Aid shall be administered and managed by the division of municipal finance within the department of revenue.

§ 45-13.2-6 Distributions. - (a) Municipal Incentive Aid described in this chapter shall be distributed to eligible municipalities on the basis of the most recent population estimate for each municipality as a share of the total state population reported by the U.S. Department of Commerce, Bureau of the Census. Such payments shall be made to eligible communities in March 2014~~, March 2015, and March 2016~~ of each year to the extent that funds are appropriated.

(b) For fiscal year 2014, municipalities shall be eligible to receive aid under this chapter if: (1) the municipality has no locally-administered pension; or (2) the municipality notified plan participants, beneficiaries and others pursuant to chapter 45-65, and submitted to the state's department of revenue a Funding Improvement Plan ("FIP"), pursuant to § 45-65-6, for every locally-administered pension plan in that municipality, and each FIP had been approved by the plan sponsor and the local governing body no later than June 1, 2013; or (3) there existed a locally-administered pension plan(s) in that municipality, but either: (i) no FIP was required pursuant to chapter 45-65; or (ii) a FIP is required pursuant to chapter 45-65, but, the due date for the FIP submission is after the March payment of state aid.

(c) For fiscal year 2015 ~~and 2016~~ and each fiscal year thereafter that Municipal Incentive Aid is distributed to eligible municipalities under this chapter, 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 had 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 § 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 one month after the close of the fiscal year and made the required funding payment (formerly referred to as Annually Required Contribution, or ARC) in compliance with the municipality's adopted FIP(s) and the funding guidelines established by the Pension Study Commission ~~within eighteen (18) months after an actuary has certified that a locally administered plan is in critical status for a plan year~~; and the FIP(s) 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 either (1) the municipality is funding one hundred percent (100%) of its Required Funding Payment ~~Annually Required Contribution (ARC)~~ or (2) the municipality has a funded ratio of one hundred percent (100%) or greater; 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 this municipal incentive aid.

(d) ~~In any fiscal year that a municipality does not receive an appropriation under this chapter, the amount that would have been allocated to the municipality will be distributed in the month of May among the other eligible municipalities for that fiscal year, on the basis of the most recent population estimate for each municipality as a share of the total state population reported by the U.S. Department of Commerce, Bureau of the Census.~~ Commencing in FY 2014 and in any year thereafter that a municipality is not eligible to receive a distribution under this chapter, the distribution that said municipality would have received had it been eligible shall be reappropriated to the immediately following fiscal year, at which time the amount reappropriated shall be distributed to said municipality provided that said municipality has satisfied the eligibility requirements of both the prior fiscal year and the then current fiscal year. In the event that said municipality fails to satisfy the eligibility requirements for the prior and the then current fiscal year by the time that eligibility to receive distributions in the next fiscal year is determined, then the amount that would have been distributed to the municipality for said prior year will be distributed in the month of May among the municipalities that received a distribution in the prior fiscal year, with the share to be received by each municipality calculated in the same manner as distributions were calculated in the prior fiscal year.

SECTION 2. This article shall take effect upon passage.

Rosemary Booth Gallogly
Chairperson

May 19, 2014
Date

PSC/nd