Pension and OPEB Study Commission
May 19, 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, May 19, 2014.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension and OPEB Study Commission called the meeting to order at 10:20 AM.

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Dennis Hoyle, Antonio Pires, Joseph Polisena, Mark Dingley representing Gina Raimondo, John Simmons, Steven St. Pierre.

Members absent: Paul Doughty, Allan Fung, J. Michael Lenihan, Richard Licht, Angel Taveras, and there is a vacancy due to the retirement of the Jamestown Town Administrator.

Others present: Daniel Sherman, Actuary for the Pension and OPEB Study Commission and members of the public.

Agenda Item #1 – Approval of Minutes from April 28, 2014

Chairperson Booth Gallogly asked if the Commission members had any corrections, adjustments or additions to the draft minutes provided from the Study Commission meetings held on April 28, 2014. There were none. Mayor Polisena, from the Town of Johnston made a motion to accept the minutes as written. The motion was seconded by Mark Dingley, representing Gina Raimondo. The motion passed all in favor.

Agenda Item #2 – Recommendations to General Assembly–continued discussion – Attachment B

Next on the agenda, the Chair referred to the draft of recommendations that the Commission might put forward to the General Assembly in the next session. She indicated that the potential recommendations are balanced and include enforcement mechanisms that are important if a community does not comply with their plan. The Chair would like to have some recommendations from the Commission next month so that legislation could then be drafted and presented to the General Assembly. She welcomes any comments and/or suggestions from the Commission members.

The Chair stated that the Commission is charged with making recommendations to the General Assembly. Specifically, pursuant to R.I. General Laws §45-64-8 the Commission "*shall review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally-administered plan and other post-retirement benefit obligations of cities and towns.*"

The Chair referred to the guiding principles that would be reflected foremost is the need for sustainable government. There would be some commitment to intergenerational equity (not shifting costs to future generations and honoring promises to retired employees) balanced with cost control. Steven St. Pierre, sergeant of the Bristol Police Department thought that the language "not shifting costs to future generations and honoring promises to retired employees" could be misinterpreted. The Chair indicated that the language in question would be rewritten to clearly state that pension and OPEB obligations should be funded as they are earned. Mark Dingley from the General Treasurer's office (representing Gina Raimondo) suggested that the language be changed by eliminating "not" and indicate "to avoid shifting costs and to honor promises to retired employees." Antonio Pires, director of administration for the City of Pawtucket, said that difficult decisions are being recommended in order for benefits to be sustainable for future years. He said it is a guiding principle and not necessarily going to be the outcome. John Simmons, executive director for the Rhode Island Public Expenditure Council (RIPEC), believes it would be short-sighted by the Commission to "not" think that there could be a possibility of re-addressing the Other Post Employment Benefits (OPEB) issues in the future. Mr. Simmons said that payments should be made on the obligations; however it may have to be readdressed in the future. Mr. Pires thought that perhaps the structure could be similar to the State of Massachusetts. Dan Sherman, Actuary for the Pension and OPEB Study Commission indicated that Massachusetts had made some changes in 2010-2011 that only affected new hires. He said there had not been any benefit cutbacks to any existing employees or retirees. Dennis Hoyle, State Auditor General suggested a guiding principle, and that is to ensure that guideline determinations are made consistent with sound financial, actuarial, and accounting principles.

The Chair referred to the recommendation that the Commission amend R.I. General Law §45-65-8 to replace the study commission with an oversight board with the responsibility of overseeing all locally-administered pension plans. The membership of the local pension plan oversight committee could include the director of revenue or designee, auditor general or designee, executive director of the state retirement board, and two independent public members with expertise in finance, investments, accounting or actuarial expertise to be selected by other members of the oversight committee from a list of names provided by (RIPEC). Mayor Polisena suggested adding some municipal chief executive officers and/or a representative from the Rhode Island League of Cities and Towns and representatives from the police, fire and Council 94 unions to the oversight committee. He thought that the municipal chief executive officers should be selective from those who have locally-administered plans. The Chair pointed out that most of the cities and towns would be included since they are involved with OPEB. She said initially it would be focused on the communities with locally-administered pension plans. Auditor General Hoyle stressed that the board would not be weighing in on the benefit structure. Mr. Pires suggested keeping the committee small and that it is important to take the politics out of it. Mr. St. Pierre agrees with the establishment of an oversight committee that includes both municipal and labor representatives. Jean Bouchard, Municipal Vice President of AFSCME, Council 94, also agreed; however she thought the oversight committee should be directed more towards the funding improvement plans (FIPs) as opposed to the committee being given the power to make changes without any feedback from the unions. The Chair asked for suggestions as to who would make the recommendations for filling the positions on the oversight committee. Mayor Polisena suggested a representative from the R.I. League of Cities and Towns or a representative from the Governor's office. Mr. Simmons agreed that the oversight committee should include representatives from the labor unions and the League of Cities and Towns, and he suggested that there be a representative from the treasurer's office or designee as opposed to the administrator of the retirement system, and Mr. St. Pierre agreed. The Chair suggested that the oversight committee include active and retired labor members from the various unions. Mr. Pires, after discussion, now indicated the need to broaden the oversight committee, and he believes that it is important to have that perspective at the table.

Next, the Chair referred to the authority and powers of the local pension plans oversight committee. She thought that the regulations would be promulgated similar to any other public regulations through open public hearings. Another recommendation would be to require all local governments with defined benefit pension plan to formally adopt a funding policy, subject to approval by the oversight committee that provides for reasonable assurance that the cost of those benefits would be funded in an equitable and sustainable manner. Mr. St. Pierre thought that there should be more specific language included in this recommendation. Auditor General Hoyle said that this is somewhat of a by-product to the new GASB accounting standards. He said that under the current standards, the accounting guidelines provide the parameters for a funding policy. In the future it will only be accounting;

therefore communities should adopt a funding policy. Mr. St. Pierre's concern is with the vague language of the recommendation (subject to approval by the oversight committee). The Chair stressed that if the oversight committee's role is to determine whether a community's benefits are sustainable and the assumptions are reasonable, and added that it would not involve itself in the benefit structure. Mr. Sherman said that there needs to be reasonable assumptions, otherwise there will be cost shifting to the next generations. He indicated that there are actuarial standards that dictate the meaning of reasonable. Mr. Dingley thinks that the fundamentals are that "if there is a problem out there, you need to shine a bright light on it." He said that the Commission cannot dictate the benefit levels. However, he said the original legislation indicated that if a community did not adopt a FIP, notice would then be sent to every member of the plan, general assembly, and the municipal chief executive officer. He believes that this sort of action has to be taken at a minimum.

The Chair referred to the recommendation to review, approve, or disapprove funding improvement plan submissions for those plans that are in critical status (60%). She referred to the ability to withhold state aid/require investment of pension funds by the State Investment Commission if based on certain criteria as listed in the proposed recommendations. Mr. Dingley's concern is with regards to the State Investment Commission, he thinks that it could be viewed as a reward by some of the plans. He said that many of the plans are poorly funded with very poor cash flow. Furthermore, if the investment of its assets are taken from a plan and moved over to the State Investment Commission, it could have a negative impact on the overall investments of the total funds. Mr. Dingley said if there is a negative cash flow, then the fund will be liquidating more assets than it is investing, therefore it could have a negative impact. Furthermore, some of these plans are in such poor shape that if the community is not complying with their plan, then the plan is more likely to be in trouble in the future. He pointed out by giving money to the State Investment Commission with a plan that the community cannot afford is more likely to end up in litigation, and then state pension funds would then be used to defend lawsuits against the plans. He suggested that the Commission think about ways to mitigate those consequences. He suggested a separate fund could be set up for critically funds plans in an effort to manage that cash flow separately. It might be an answer so that there is not a disadvantage to all the other plans. The Chair inquired as to what can be done to make a community comply with their FIP. Mr. Dingley said that under federal law, the multi-employers plans have certain criteria when they get into a certain zone. He explained that there are actual obligations imposed by law which increases contributions, potentially lowering benefits, etc. Mayor Polisena suggested that perhaps Mr. Sherman and the Division of Municipal Finance staff could provide the Commission with 3-4 options for consideration. The Chair replied that she would look into it. She would like to have a plan that is put together that is balanced so that there is an incentive for both sides to make it work. Mr. Dingley cautioned that both the charter rule and collective bargaining agreements would have to be considered when moving forward with a plan. The Chair welcomes any suggestions, and they can be directed to Elaine Colarusso at Elaine.Colarusso@dor.ri.gov.

Mr. Pires inquired if there was consideration to withhold state aid versus education aid. The Chair indicated that education aid was considered; however the funding formula made it problematic. Mayor Polisena commented that most mayors have no control over the school budgets.

Mr. St. Pierre referred to the recommendation regarding the power to question and require modification of actuarial assumptions and methodology used in the valuation to ensure compliance with actuarial standards. He believes that language should be added that states "if those assumptions are not consistent with the reasonably accepted practices" or some language that is similar to that.

The Chair referred to the training recommendation. Mr. Dingley indicated that the treasurer's office conducts continuing education requirements for both the SIC and the retirement board, and that it could be opened up for the municipal programs. Mr. Sherman said that the State of Massachusetts has a standard for retirement board members that require training of 18 hours in a three year period. Mayor Polisena's suggested that perhaps the required training be conducted immediately before the pension board meetings to make it more accommodating for the board members. Mr. St. Pierre said that the training is the most important factor, and suggested establishing some firm standards on what training is necessary and then holding those individuals accountable to receiving that training.

The Chair referred to the recommendation regarding the ability to receive complaints regarding pension fraud or other matters and refer to the appropriate investigative enforcement body. She indicated that this would be a very difficult responsibility, and she is concerned about whether people would feel comfortable going to their own community with any issues. Mr. Dingley cautioned about getting in the middle of something like this. He said that provided it was first discussed with the state police to determine if they would be willing to entertain those complaints, he suggested setting forth the process in the event something was detected that the appropriate place would be directed to the state police or to the attorney general's office. The Chair indicated that research would be performed to determine who would be the appropriate investigative enforcement body, and then it would be specified. Mr. Pires indicated that there is a civil division within the attorney general's office that handles consumer affairs complaints. He said part of the legislation could call for the establishment within the civil division or other unit within the attorney's general's office regarding pension fraud. Mayor Polisena believes that most people would feel more comfortable going to the state police or the attorney general's office as opposed to the municipality.

Mr. Simmons referred to the recommendation that the Division of Municipal Finance will provide staff support for this board, including but not limited to: collect and analyze municipal date and make decisions based upon the principles described and best practices. He inquired as to what decisions will be made. The Chair indicated that this will be specified in the next draft.

The Chair indicated that there needs to be some enforcement mechanisms with regard to ensuring the FIP implementation is on track. Mr. Simmons agreed that shining the light on the problem is a more appropriate approach as opposed to the enforcement mechanisms. Mr. Pires commented that every active employee and retiree has the right to know if their annual requirement contribution (ARC) is not being fully funded. The Chair agreed that shining the light is an important way to get people to work together. In addition, the Retirement Security Act requires that notices be sent to individuals when the actuary determined that a plan was less than 60% funded. This was an important way to get people to realize that something needs to be done.

The Chair referred to the recommendation to amend legislation related to collective bargaining changes and its fiscal impact statements to require that an actuary provide a statement with cost estimates. She thought that it should also apply to those outside the unions when changes occur; therefore it should be broader to indicate any action. Mr. St. Pierre inquired as to who pays the cost. The Chair indicated that it is the cities and towns. Mayor Polisena commented that it is another unfunded mandate, and that is should be paid for by the State. Mr. Dingley said a statement with cost estimates is to determine what the cost is as the change is being made, and that the State is not requiring a city or town to do something that should already be doing if they were utilizing good management practices. Mr. Simmons agreed that if a community is not providing a statement with cost estimates, then they should be required to do so whether it is a funded mandate or not.

Mr. Dingley referred to the recommendation to require the State Investment Commission to administer a program which invests assets of locally-administered pension plans or OPEB trust on a voluntary basis. His recommendation is to request the State Investment Commission to make a recommendation.

He said there are already collectively invested OPEB trusts, and that he and Susanne Greschner, Chief of the Division of Municipal Finance, met with one in particular and indicated that their cost structure might even be significantly lower than the cost structure from an investment management fee and administration perspective than what they could do statewide. He suggested determining what the best practices are and then how to provide this service most efficiently to the local communities.

The Chair referred to the recommendation that is to create an optional pathway to MERS that interested communities can follow. Auditor General Hoyle advocates that this should continue to be a recommendation. Mr. St. Pierre does not have an aversion of the recommendation; however he would add "voluntary" be an additional option.

Lastly, the Chair referred to the recommendation that would require a funding improvement plan for OPEB, similar to the FIP for pensions. The Chair believes that this needs to be part of the recommendations; however she was uncertain of the level of priority at this time since it would be a longer range challenge. Mr. Dingley said that every year that OPEB is not funded, it is just "kicking the can down the road" with the liabilities accumulating. Auditor General Hoyle would like to see the Commission have a stronger recommendation to do something other than just replicating the FIPs for OPEB. He believes there is some efficiency if they try and take a different approach and it should be a strong recommendation. The Chair agrees that there is a great opportunity to set a path in motion in a structure that is efficient and makes sense.

The Chair indicated that assuming there is some agreement on what the recommendations will be, she would like to provide any member of the Commission an opportunity to have descending views so that the general assembly can see all the points brought forward to them so that the recommendations are open and transparent.

She indicated that follow-up will be made on the issues that the Commission had identified.

Agenda Item #3 – Revised funding improvement plan guidelines

Due to time constraints, the Commission will continue with Attachment C at the next meeting on June 30, 2014.

Agenda Item #4 – Public comments

A public comment was received from Michael Riley.

A public comment was received from Ralph Ezovski, International Brotherhood of Police Officers.

Agenda Item #5 - Adjourn

Mayor Polisena made a motion to adjourn which was seconded by Mr. Pires. The meeting adjourned at 12:10 PM.

Rosemary B. Booth Gallogly
Chairperson

June 30, 2014
Date

PSC/sm

Addendum to the May 19, 2014 OPEB and Pension Study Commission Meeting Minutes

Attachment B

MAY 19, 2014

Local Pension & OPEB Study Commission

DRAFT

Recommendations to the Governor and General Assembly
Working Document

Many positive steps have been taken by municipalities to address pension and OPEB liabilities. However, pension and OPEB funding issues continue to exist on the local level. The problems are in some instances both severe and urgent, and continued oversight and work with the municipalities is needed to ensure both fiscal stability for the municipalities, and pension and health care security for municipal employees and retirees.

There is a very real debate over how much guidance is welcomed or expected by municipalities but the overarching goal is to provide security and stability for municipalities, retirees, and citizens. Awareness and education is not a compelling enough outcome for the Pension and OPEB Study Commission ("Commission").

The Commission is charged with making recommendations to the General Assembly. Specifically, pursuant to R.I. General Laws §45-64-8 the Commission

> *"shall review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally-administered plans and other post-retirement benefit obligations of cities and towns."*

The Commission has agreed to put forth those recommendations which will deliver results and help municipalities meet the challenge that will ensure sustainable benefits and benefits that are affordable and competitive.

Recommendations

1. Establish a Local Pension Plans Oversight Committee

Finding. The Locally-Administered Pension and OPEB Study Commission finds that there is a strong need for continued oversight of local pension and OPEB plans. This need is demonstrated by the review process undertaken by the Commission and the ongoing nature of the material reviewed by the Commission and support staff, including valuation reports, experience studies, funding improvement plans, and testimony related to actual implementation of improvement plans.

Guiding Principles. The form of oversight should be guided by the following principles, and all decisions from the oversight body should reflect these principles:

- Foremost, the need for sustainable government
- A commitment to intergenerational equity (not shifting costs to future generations and honoring promises to retired employees) balanced with cost control
- Consideration of the need for competitive pension benefits balanced with the prudent use of taxpayer dollars (for municipal services, education, maintenance of credit ratings)

The Commission recommends amending R.I. Gen. Laws §45-65-8 to replace the study commission with an oversight board with the responsibility of overseeing all locally-administered pension plans. The membership of the board would include the following persons:

Membership of the Local Pension Plans Oversight Committee.

- Director of revenue or designee
- Auditor general or designee
- Executive Director of State Retirement Board
- Two independent public members with expertise in finance, investments, accounting or actuarial expertise to be selected by the other members of the oversight committee from a list of names provided by the Rhode Island Public Expenditure Council

Authority and Powers of the Local Pension Plans Oversight Committee.

- Develop regulations that would set the parameters for the work of the oversight body;
- Require all local governments with defined benefit pension plans to formally adopt a funding policy, subject to approval by the Oversight Committee, that provides for reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner;
- Adopt guidelines and utilize these funding improvement plan (FIP) guidelines to provide a standard for measuring improvement and compliance. While not in statute, the guidelines would provide an objective tool for determining FIP progress;
- Review, approve, or disapprove funding improvement plan submissions;
- [Open for discussion] Ability to withhold state aid/require investment of pension funds by the State Investment Commission if:
    a. there are two consecutive years of not paying at least 95% of the actuarially determined contribution
    b. if the plan's investment performance is more than 200 basis points below the MERS return for the same comparable two year period calculated pursuant to GASB 67 guidelines
    c. increases in benefits are granted when the plan is in critical status
    d. failure to take actions required in FIP or failure to submit a FIP;
- Power to question and require modification of actuarial assumptions and methodology used in the valuation to ensure compliance with actuarial standards;
- Establish training standards for members of all locally-administered pension boards or investment bodies. This could include minimum continued education requirements for fiduciary training, investments, ethics, and open meetings;
- [Open for discussion] Ability to receive complaints regarding pension fraud or other matters and refer to the appropriate investigative enforcement body;
- Consider establishing units for actuarial, audit, investment, legal, disability, fraud, information technology and communication services;

- Review and accept report, prepared by the Division of Municipal Finance, and submit report to the governor and general assembly

The Division of Municipal Finance will provide staff support for this board, including but not limited to:

  - Maintain a database of all actuarial valuations which summarizes key information from the valuations;
  - Collect and analyze municipal data and make decisions based upon the principles described and best practices;
  - Prepare an annual report summarizing the plans in critical status addressing the progress made and compliance with the guidelines;
  - Provide oversight to ensure FIP implementation is on track;
  - Confirm whether FIPs have been approved by the governing body of the municipality;
  - Provide ongoing education and training;

2. Monitor OPEB plans
   - Require the submission of OPEB valuations, similar to the requirements for pension valuations, to the Auditor General and Division of Municipal Finance.

3. Amend legislation (R.I. General Laws §44-35-10, §16-2-21.6, §45-5-22) related to collective bargaining, relating to fiscal impact statements to require that an actuary provide a statement, with cost estimate, for collective bargaining changes effecting pension and OPEB items, prior to entering into them, if there is a material change.

4. Recommend continued funding through the Municipal Incentive Aid program for municipalities if criteria according to the statute are met.

   - Amend the statute for municipal incentive aid: if a municipality is not eligible to receive the aid in FY 2014, the respective amount would be re-appropriated into the following fiscal year, at which time the amount re-appropriated would be distributed to the municipality provided that the municipality has satisfied the eligibility requirements for the prior fiscal year and the current fiscal year. This recognizes that the timing for meeting the guidelines for some municipalities will not impose an unintended punitive effect.
   - Amend the statute so that the Required Funding Contribution only applies to municipalities that have a funded ratio below 100%. The statute requires that pension plans that are not in critical status fully fund the Required Funding Contribution in order to receive the incentive aid.
   - Issue revised guidelines (see attached).

5. Require the State Investment Commission to administer a program which invests assets of locally-administered pension plans or OPEB trusts on a voluntary basis.

6. Establish a state-wide OPEB trust to maximize efficiencies and investments for local plans. Consider whether a trust should be created by the State or as a collaborative of cities and towns. Both could be established to administer benefits and/or pooling of investments (specify minimum number of municipalities volunteering to participate in order to create structuring, possibly 5?).

7. Include criteria that the "critical status" of a locally-administered pension plan would be considered under the provisions of the Fiscal Stability Act.

8. Create an optional pathway to MERS that interested communities can follow:
   - Consider providing one-time incentives
   - Provide specific period to reach benchmark funding requirements
   - Allow for re-amortization of recalculated unfunded liability
   - Allow members to retain existing service credits
   - Provide for state/school aid offset in the event of failure to make required funding payments.

9. Require a funding improvement plan for OPEB, similar to the FIP for pensions.

The Commission is hopeful that these recommendations will enable Rhode Island municipalities to begin to effectively manage the substantial liabilities present in local pension and OPEB plans and put these plans on a path toward fiscal sustainability.

Attachment C

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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

TEL: (401) 574-8999
FAX: (401) 574-8997
TTY Relay: via 711

May 2014

Revised Funding Improvement Plan Guidelines
(replacing guidelines that were approved by the Pension Study Commission in June 2012)

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

As you know, pursuant to R.I. Gen. Laws §45-65-6 (2), a municipality is required, within one hundred eighty (180) days of sending the critical status notice, to submit to the Pension Study Commission ("Commission"), a reasonable alternative funding improvement plan to emerge from critical status.

The Commission has provided funding improvement guidelines in June 2012 to assist municipalities whose locally-administered pension plans are deemed to be in critical status, defined in R.I. Gen. Laws §45-65-4 as having a funded percentage of less than 60%.

The Commission, with two years of experience working with municipalities and their funding improvement plans ("FIPs"), has used these guidelines to help municipalities achieve improved pension security and provide a framework for the Commission in its review of the plans submitted. During the process of reviewing the FIPs, it became apparent, however, that there may be circumstances in which a municipality may need some flexibility to achieve implementation of their plan. An example of such a circumstance is if a municipality negotiated a settlement or contract and approval is pending in court or before an arbitrator.

In such an instance, if the local governing body does not meet the guidelines, a full explanation of the circumstances, as well as applicable documentation, must be provided to the Division of Municipal Finance within the Department of Revenue which will review the municipality's request and provide an opinion as to whether or not extenuating circumstances are applicable to the Commission or the body succeeding the Commission. The package should include a letter signed by the chief elected official.

Funding Improvement Plan Information
The information that follows provides a detailed description of the Funding Improvement Plan documentation and guidelines expected with each FIP submission. Part I lists the documentation that municipalities should include in their funding improvement plans and Part II lists the specific guidelines. In addition, Part II also includes the documentation needed in those instances where the original FIP that was submitted to the Commission was revised by the municipality. A sample funding improvement plan is also included as an Appendix to this letter.

Attachment C

I. FUNDING IMPROVEMENT PLAN DOCUMENTATION

A funding improvement plan should be formulated, based on reasonably anticipated experience and reasonable actuarial assumptions, and shows at least the following:

- 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);
- 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 revised guidelines in May 2014 to assist cities and towns in the formulation of the Funding Improvement Plans. These revised guidelines replace the guidelines that were issued by the Commission in June 2012. 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 clearly identify which one has been chosen as the funding improvement plan. Each of the four strategies shall include an actuarial valuation. If no funding improvement strategy is approved by the local governing body, the Pension Study Commission will notify the General Assembly.

1. For *all* municipalities with pension plans in critical status:

   - 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;

Attachment C

- 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%;
- the local governing body must indicate if they have considered a transition to MERS and, if so, identify the significant factors and/or obstacles in that consideration. Municipalities should identify what actions would facilitate moving their locally-administered plan to MERS.

2. Additional guideline for municipalities that are *not* funding 100% of the ARC:
   - The 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%

3. For municipalities having to revise their Funding Improvement Plan:
   - Provide a copy of the resolution from the local governing body which approves the revised plan
   - Provide a description of the final Funding Improvement Plan, including a description of the plan provisions that will be implemented
   - Provide an actuarial valuation for the final Funding Improvement Plan with a 20-year schedule

If the local governing body cannot meet these guidelines, a full explanation of the circumstances preventing the municipality from meeting the guidelines, as well as applicable documentation, must be provided to the Division of Municipal Finance within the Department of Revenue. An example of such a circumstance is if a municipality negotiated a settlement or contract and approval is pending in court or before an arbitrator.

The Division of Municipal Finance will review the municipality's request and provide an opinion as to whether or not extenuating circumstances are applicable warranting a revised plan or additional information to the Commission or the body succeeding the Commission. The package should include a letter signed by the chief elected official along with the governing body approval of the selected FIP.

We hope that you find these guidelines and the sample funding improvement plan helpful.

Sincerely,

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%		