

# MUNICIPAL PENSION PLANS

September 21, 2011

House Finance Committee

Senate Finance Committee

# WHY ARE WE HERE?

- Municipalities are facing growing pension bills
- General Treasurer has focused on the problem, its magnitude and implications
- Financial condition of local plans has not received as much attention as State plans, and solution may be more elusive

# WHY ARE WE HERE?

Today's hearing is a continuation of Assembly's efforts to gather information

- Joint event for national perspective (September 6, 2011)
- Briefings for both chambers from the General Treasurer
- Finance Committee meetings

# WHY DOES IT MATTER?

- Current projections have pension costs consuming larger proportion of local resources, limiting options for investments for other priorities
- Rating agencies increasingly sensitive to long term liabilities when evaluating communities' overall fiscal health, affecting ability to borrow

# WHY DOES IT MATTER?

- Many communities struggling with deficits and limited capacity in property tax base
- Size and severity of unfunded pension and OPEB liabilities range among communities
- No near term projection to grow out of the problem

# SUMMARY OF PRESENTATION

- Characteristics of Municipal Pension Plans
  - MERS – State Administered
  - Local Pension Plans – locally administered
- Financial Status of Municipal Pension Plans
- Review of Other Post-Employment Benefits
  - Data derived from Office of Auditor General and Division of Municipal Finance

# Characteristics of Municipal Pension Plans

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# TEACHERS ARE IN STATE PLAN - ERSRI

- State Administered
- Covers all local public school teachers
- Teachers contribute 9.5% of pay
- All districts contribute at the same employer contribution rate, which is shared with the State
  - Local = 60% of employer rate
  - State = 40% of employer rate



# MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

- Established in 1951 - plan benefits contained in State Statute (Title 45 of RIGL)
- 110 State Administered Plans
  - 67 units covering general employees
  - 43 covering police and fire employees

# MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

- State is administrative agent, but has no funding responsibility
- Separate actuarial valuations are performed for each participating plan
- Require local employers to make 100% of annually required contribution (ARC) – Aid could be withheld if not fully funded

# MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

- Covers various local employees – general municipal, police and fire - Become members at date of employment
  - Can include some school employees, elected officials
- Total assets of \$1.2 billion as of June 30, 2010
- Unfunded Actuarial Accrued Liability of \$430.2 million as of June 30, 2010
- Funded ratio of 73.6% as of June 30, 2010

# MERS –STANDARD PLAN BENEFITS – GENERAL EMPLOYEES

Provision	Basic Plan	Optional Plan
Age	30 Years of Service or 58 w/ 10 Years	
Final Ave Compensation (FAC)	3 Year Average	
Service Credit	2.0% Annually with 75.0% maximum	
COLA	None	3.0% simple – 1 <sup>st</sup> anniversary
Employee Contribution	6.0%	7.0%

# MERS – PUBLIC SAFETY EMPLOYEES

- Standard plan benefits for police and fire include options for a 25 year plan and a 20 year plan
- However, most of the 43 public safety plans have the 20 year plan

# MERS –STANDARD PLAN BENEFITS – PUBLIC SAFETY- 20 YEARS

Provision	Basic Plan	Optional Plan
Age	20 Years of Service – Any age	
Final Ave Compensation (FAC)	3 Year Average	
Service Credit	2.5% Annually with 75.0% maximum	
COLA	None	3.0% simple
Employee Contribution	8.0%	9.0%

# MERS –STANDARD PLAN BENEFITS – PUBLIC SAFETY- 25 YEARS

Provision	Basic Plan	Optional Plan
Age	25 Years of Service or 55 with 10 Years	
Final Ave Compensation (FAC)	3 Year Average	
Service Credit	2.0% Annually with 75.0% maximum	
COLA	None	3.0% simple
Employee Contribution	7.0%	8.0%

# MERS – ACTIVE MEMBER DEMOGRAPHICS

Active Members	2010	2009	2008
<i>(as of June 30 Valuation)</i>			
General Municipal			
- Number	6,383	6,554	6,797
- Average Age	50.6	50.9	50.3
- Average Service	11.6	11.2	10.9
- Average Salary	\$35,900	\$35,246	\$34,109



# MERS – RETIRED MEMBER DEMOGRAPHICS

Retired Members	2010	2009	2008
<i>(as of June 30 Valuation)</i>			
General Municipal			
- Number	3,977	3,894	3,730
- Average Age	73.2	73.1	73.1
- Average Monthly Benefit	\$1,102	\$1,050	\$988

# MERS – ACTIVE MEMBER DEMOGRAPHICS

Active Members	2010	2009	2008
<i>(as of June 30 Valuation)</i>			
Police and Fire			
- Number	1,376	1,398	1,383
- Average Age	39.2	39.8	39.1
- Average Service	11.5	11.1	11.1
- Average Salary	\$55,715	\$54,069	\$52,743

# MERS – RETIRED MEMBER DEMOGRAPHICS

Retired Members	2010	2009	2008
<i>(as of June 30 Valuation)</i>			
Police and Fire			
- Number	547	495	444
- Average Age	58.6	58.9	59.3
- Average Monthly Benefit	\$2,329	\$2,247	\$2,159

# MERS - CONTRIBUTIONS

- Employee share delineated in State statute - employee share ranges from 6.0% to 9.0%, depending on plan
- Employer pays difference between actuarially required contribution and employee share
- Differs for each plan given separate valuations done for each plan

# MERS - EMPLOYER CONTRIBUTION RATES – MUNICIPAL EMPLOYEES

- FY 2013 employer contribution rates for general municipal employees nearly doubled from FY 2012, increasing from an average of 9.59% to 18.35%
- Nearly 80% of the increase in the employer contribution rate is due to assumption changes

# MERS - EMPLOYER CONTRIBUTION RATES – PUBLIC SAFETY EMPLOYEES

- FY 2013 employer contribution rates for public safety employees also nearly doubled from FY 2012, increasing from an average of 17.27% to 31.91%
- Nearly 85% of the increase in the employer contribution rate is due to assumption changes

# LOCAL PENSION PLANS

- 36 plans provided through 24 municipalities, of which half cover public safety employees
  - Not governed by state law
  - Municipality is entirely responsible for administration and funding the plans
  - May be included in collective bargaining agreements
  - Some municipal employees are covered by plans administered by employee union

# LOCAL PENSION PLANS

- Covers general municipal, police and fire
- Combined total assets of \$1.4 billion as of June 30, 2010
- Combined Unfunded Actuarial Accrued Liability of \$2.1 billion as of June 30, 2010
- Overall funded ratio of 40.3% as of June 30, 2010



# LOCAL PENSION PLANS

Locally Administered Plans	Members
Active	6,916
Retired	5,276
Disabled	897
Beneficiaries	899
Terminated, Other	606
Total	14,594

# LOCAL PENSION PLANS

- Division of Municipal Finance has recently developed detailed report of local pension plans
- Approximately 1/3 of locally administered plans are closed – no longer available to current employees
- About 1,500 employees are covered in these closed plans and more than 300 actives are included

# LOCAL PENSION PLANS

- Nearly 2/3 of the communities with local plans have only one local plan – rest of employees are in MERS
- Plans among and within communities vary on plan design, vesting periods, COLA provisions, employee contribution rates

# INJURED ON DUTY (IOD)

- State law requires individuals on IOD receive full pay
- Recent reform applies to police officers and fire fighters for injuries incurred on or after July 1, 2011
- Requires those receiving IOD benefits apply for a disability pension within 18 months of the injury
- Allows a person to receive up to a six-month extension before required to apply for a disability pension
- Appeals are heard by the Workers' Compensation Court

# MUNICIPAL PENSIONS - ISSUES

- Participation in Social Security
- Differences in who determines and administers plans and benefits
- Variance in plan design and other plan elements among communities
- Disability pension provisions
- Second careers after retiring

# MUNICIPAL PENSIONS - ISSUES

- Variance in local fiscal capacity
- Differences in size and severity of unfunded liabilities
- Employer contributions have not been sufficient to support benefit levels

# **Financial Status of Municipal Pension Plans**

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# FINANCIAL STATUS OF MUNICIPAL PENSION PLANS

Pension Plan	UAAL (millions)	Funded Ratio	Plan Members	UAAL per Member
State Employees	\$2,700.5	48.4%	25,061	\$107,755
Teachers	\$4,133.2	48.4%	26,264	\$157,371
MERS	\$430.2	73.6%	14,780	\$29,109
Local Plans	\$2,096.4	40.3%	14,594	\$143,648



# FINANCIAL STATUS OF MUNICIPAL PENSION PLANS: MERS

- Overall funded ratio of 73.6%
- 29 of 67 municipal employee plans are more than 80.0% funded
- 2 municipal employee plans are less than 50.0% funded
- 12 of 43 police and fire plans are more than 80.0% funded
- No police or fire plans are less than 50.0% funded

# FINANCIAL STATUS OF MUNICIPAL PENSION PLANS: LOCAL PLANS

- Overall funded ratio of 40.3%
- 31 of 36 plans are less than 80.0% funded
- 24 plans are identified as “at risk” by Auditor General
- 18 plans are less than 50.0% funded
- 5 are less than 20.0% funded

# FINANCIAL STATUS OF MUNICIPAL PENSION PLANS

Pension Plan	UAAL (millions)	Funded Ratio	Plan Members
Jamestown – Police Plan	\$57.2	99.3%	26
Middletown - Town	\$12.0	78.0%	177
Warwick – Police Plan II	\$2.4	98.3%	287
Warwick – Fire Plan II	\$2.4	88.3%	116

There are a few, relatively small, locally administered pension plans that are well funded, and these communities consistently meet or exceed their ARC requirements

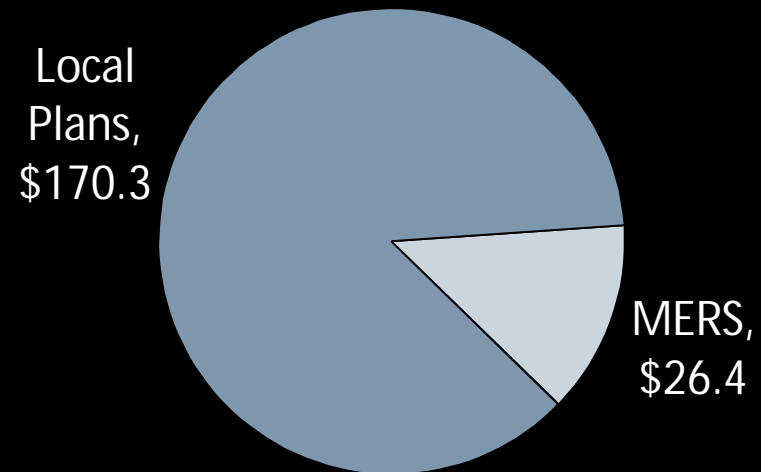
# FINANCIAL STATUS OF MUNICIPAL PENSION PLANS

- Factors contributing to low funded status
  - Market performance
  - Assumption changes and earning assumptions
    - State lowered rate of return assumption from 8.25% to 7.5%
    - Lowered inflation rate assumption from 3.0% to 2.75%
    - Increase life expectancy
  - Low contribution rates in locally administered plans

# ANNUAL REQUIRED CONTRIBUTION

- The ARC for all municipal pensions was \$196.7 million in FY 2010
  - Communities using locally-administered plans paid 81% of the \$170.3 million ARC
  - Communities participating in MERS paid 100% of their \$26.4 million ARC

Annual Required Contribution  
(\$196.7 Million)



# LOCAL PENSION PLANS

- 36 pension plans are locally-administered in 24 communities
- 24 out of the 36 locally-administered pension plans are considered at risk by the Auditor General
- Locally-administered plans do not have the level of available assets to meet benefit obligations

# LOCAL PENSION PLANS – AT RISK

- Category I – plan is insolvent and sponsoring municipality is in bankruptcy
- Category II = plan is significantly underfunded (less than 60%) and annual contributions are significantly less than ARC (less than 80%)

# LOCAL PENSION PLANS – AT RISK

- Category III = plan is significantly underfunded (less than 60%) but annual contributions are at or near 100% of ARC
- Category IV = plan is more than 60% funded but annual contributions are significantly less than ARC (less than 80%) and are continuing to decline



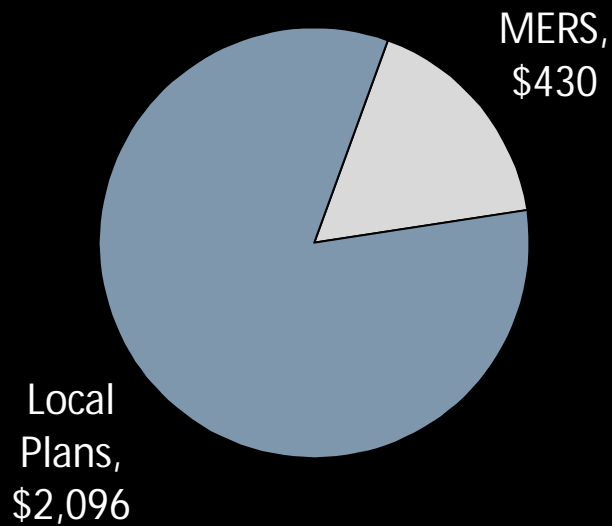
# LOCAL PENSION PLANS – AT RISK

Category	July 2007	March 2010	September 2011
Category I	-	-	2 plans
Category II	7 plans	7 plans	12 plans
Category III	10 plans	12 plans	6 plans
Category IV	4 plans	4 plans	4 plans
Total at Risk	21 plans	23 plans	24 plans
Total Plans	36 Plans	36 Plans	36 Plans

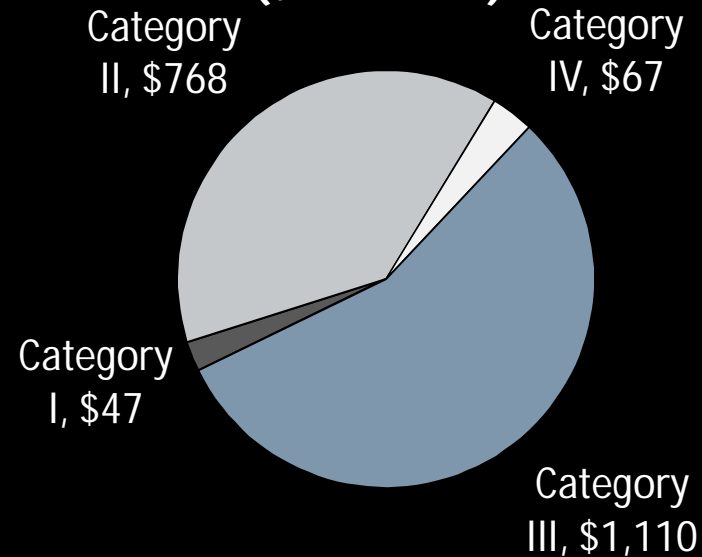
*Note: Data from 2007 and 2010 reports have been re-categorized to be consistent with 2011 report.*

# DISTRIBUTION OF MUNICIPAL UNFUNDED PENSION LIABILITY

**Share of Total Municipal Unfunded Pension Liability (\$2.5 Billion)**

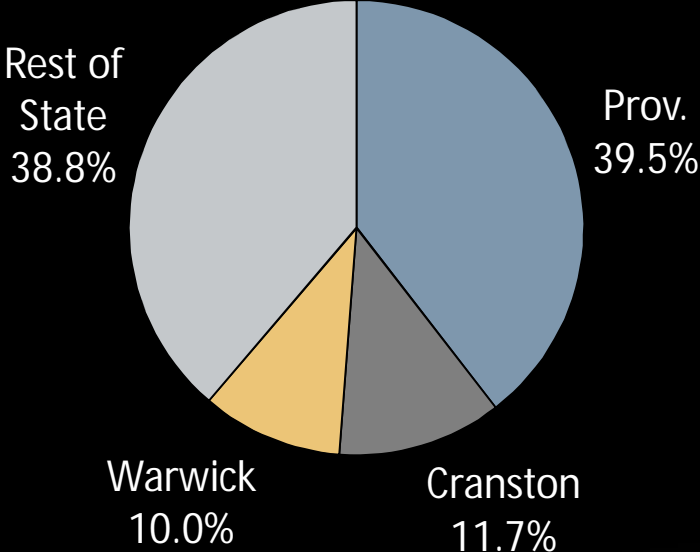


**Share of At Risk Unfunded Pension Liability (\$2.0 Billion)**

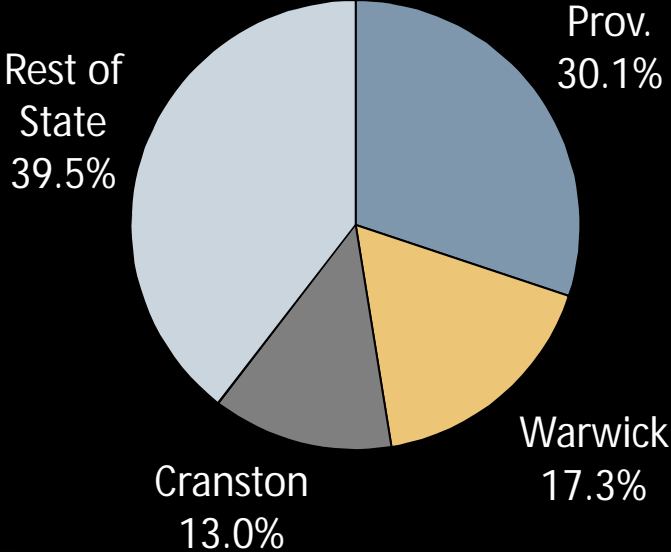


# LOCAL PENSION PLANS - UNFUNDED PENSION LIABILITY AND ARC

**Share of Unfunded Pension Liability (\$2.1 Billion)**



**Share of Annual Required Contribution (\$170.3 Million)**



# LOCAL PENSION PLANS – CATEGORY I

Category I Plans	Funded Ratio	% of ARC Paid	Unfunded Liability
Central Falls – Police and Fire (John Hancock (after 7/1/72))	16.2%	0.0%	\$33.6 million
Central Falls – Police and Fire (prior to 7/1/72)	8.8%	100.0%	\$13.0 million

# LOCAL PENSION PLANS – CATEGORY II

Category II Plans	Funded Ratio	% of ARC Paid	Unfunded Liability (millions)
Coventry – School	36.9%	34.0%	\$18.3
Coventry - Police	16.5%	73.7%	\$39.8
Coventry - Municipal	29.3%	68.2%	\$9.5
Cranston – Police and Fire	15.8%	87.3%	\$244.8
Cumberland – Town Plan	38.9%	16.1%	\$15.4
East Providence – Police and Fire	47.8%	20.4%	\$65.0
Johnston - Police	27.6%	87.3%	\$37.2
Scituate - Police	23.4%	66.9%	\$7.5
Tiverton - Police	38.8%	0.0%	\$8.9
Warwick – Police I and Fire	26.6%	66.8%	\$210.4
West Warwick – Town Plan	26.3%	43.1%	\$98.0
Westerly - Police	55.2%	87.4%	\$13.1

# LOCAL PENSION PLANS - % OF ARC PAID

Category II Plans	2008	2009	2010
Coventry – School	64.0%	34.9%	34.0%
Coventry - Police	68.0%	83.2%	73.7%
Coventry - Municipal	57.6%	89.1%	68.2%
Cranston – Police and Fire	95.7%	95.1%	87.3%
Cumberland – Town Plan	100.0%	100.0%	16.1%
East Providence – Police and Fire	32.4%	25.1%	20.4%
Johnston - Police	101.5%	84.4%	87.3%
Scituate - Police	93.8%	95.2%	66.9%
Tiverton - Police	100.0%	100.0%	0.0%
Warwick – Police I and Fire	64.5%	64.6%	66.8%
West Warwick – Town Plan	55.8%	21.4%	43.1%
Westerly - Police	79.0%	87.9%	87.4%

# LOCAL PENSION PLANS – ARC AS % OF LOCAL LEVY

Category II Plans	2009	2010
Coventry	19.3%	18.9%
Cranston	25.2%	25.4%
Cumberland	16.7%	17.3%
East Providence	14.6%	24.4%
Johnston	46.8%	47.4%
Scituate	11.3%	11.3%
Tiverton	18.0%	17.3%
Warwick	31.9%	30.9%
West Warwick	33.1%	34.5%
Westerly	9.8%	8.7%
<b>State Average</b>	<b>24.6%</b>	<b>26.7%</b>

# LOCAL ARC REQUIREMENTS – 2010 ARC AS % OF LOCAL LEVY

Category II Plans	Teachers	MERS	Local Plan	OPEB	Total
Coventry	6.9%	0.0%	9.9%	2.0%	18.9%
Cranston	5.3%	1.7%	13.8%	4.5%	25.4%
Cumberland	5.6%	1.6%	2.5%	7.6%	17.3%
East Providence	4.5%	3.3%	8.1%	8.5%	24.4%
Johnston	4.2%	1.6%	11.5%	30.2%	47.4%
Scituate	5.1%	1.3%	2.8%	2.2%	11.3%
Tiverton	3.4%	0.7%	3.2%	10.0%	17.3%
Warwick	4.5%	0.0%	14.4%	12.0%	30.9%
West Warwick	5.2%	0.0%	11.2%	18.0%	34.5%
Westerly	4.5%	0.1%	2.5%	1.7%	8.7%
- State Average	5.1%	1.3%	8.4%	12.0%	26.7%



# LOCAL PENSION PLANS - DEBT SERVICE AND PENSION LIABILITIES

Category II Plans	Funded Ratio	Tax Levy (millions)	% for Debt Service	% for Local ARC
Coventry - highest of three	36.9%	\$59.0	5.2%	9.9%
Cranston	15.8%	\$160.4	6.3%	13.8%
Cumberland	38.9%	\$52.1	12.2%	2.5%
East Providence	47.8%	\$84.8	4.5%	8.1%
Johnston	27.6%	\$63.7	7.8%	11.5%
Scituate	23.4%	\$24.6	9.3%	2.8%
Tiverton	38.8%	\$32.2	11.0%	3.2%
Warwick	26.6%	\$204.2	4.5%	14.4%
West Warwick	26.3%	\$51.7	5.7%	11.2%
Westerly	55.2%	\$59.2	13.4%	2.5%

# LOCAL PENSION PLANS - INVESTMENT PERFORMANCE

Category II Plans	Assumed rate of Return	Average rate of Return*
Coventry – all plans	8.0%	-3.27%
Cranston – Police and Fire	8.0%	1.46%
Cumberland – Town Plan	8.0%	3.47%
East Providence – Police and Fire	8.5%	5.88%
Johnston - Police	7.75%	1.31%
Scituate - Police	8.25%	0.86%
Tiverton - Police	7.5%	3.91%
Warwick – Police I and Fire	8.0%	2.78%
West Warwick – Town Plan	8.0%	2.22%
Westerly - Police	8.0%	1.52%
*(05-09) - Status of Pension and OPEB Plans Administered by RI Municipalities (March 2010)		

# WHY DOES IT MATTER?

- Current projections have pension costs consuming larger proportion of local resources, limiting options for investments for other priorities
- Rating agencies increasingly sensitive to long term liabilities when evaluating community overall fiscal health, affecting ability to borrow

# WHY DOES IT MATTER?

- Many communities struggling with deficits and limited capacity in property tax base
- Size and severity of unfunded pension and OPEB liabilities range within the state
- No near term projection to grow out of the problem

# WHY DOES IT MATTER?

- Bond rating agencies have recently downgraded a number of communities, citing unfunded pension liabilities as an increasing concern
- Bond rating agencies have negative outlooks for six of the eight Category II communities
- This will have an impact on the cost of borrowing for these communities

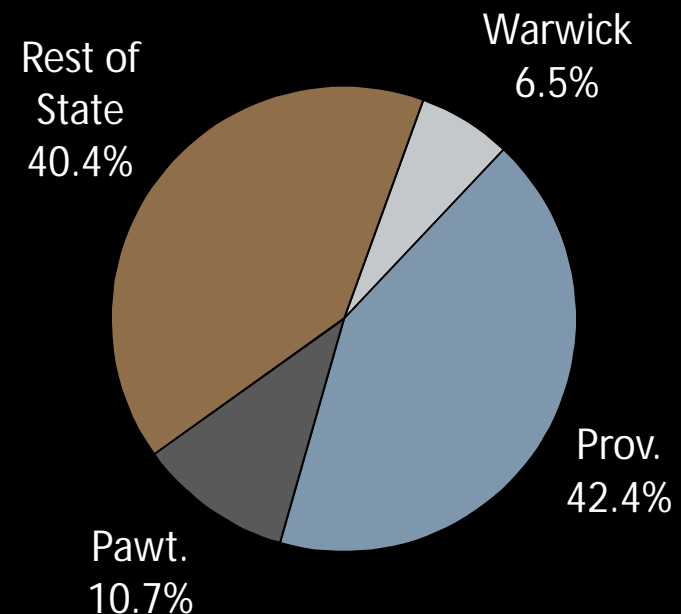
# OTHER POST EMPLOYMENT BENEFITS

- Generally consist of retiree health care benefits
- Covers teachers, municipal employees and public safety
- Locality is responsible for:
  - Administration
  - Funding
  - Plan design
  - Conducting actuarial valuations

# DISTRIBUTION OF LOCAL OPEB UNFUNDED LIABILITIES

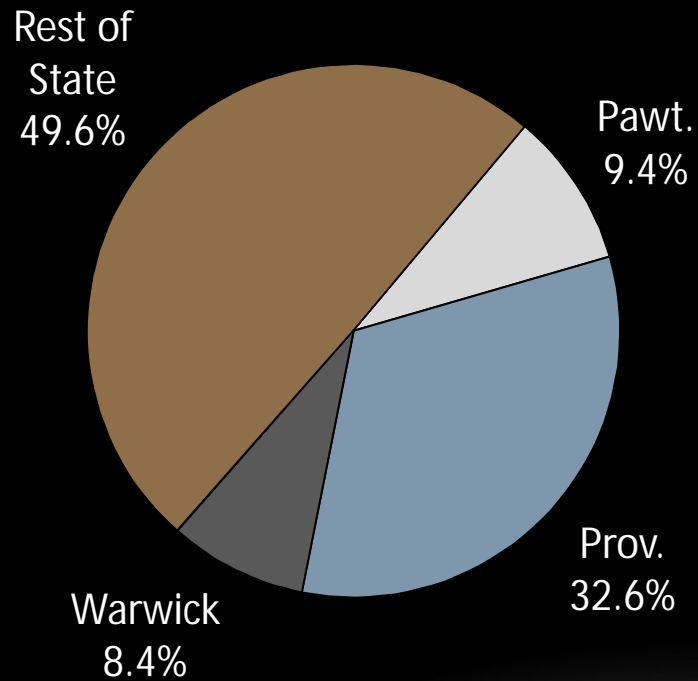
- \$3.5 billion in unfunded OPEB liability
- Providence is \$1.5 Billion (42.4%) of total municipal unfunded OPEB Liability
- Collective assets of \$27.5 million translate to funded ratio of less than 1.0%

Share of OPEB Unfunded Liability  
(3.5 Billion)

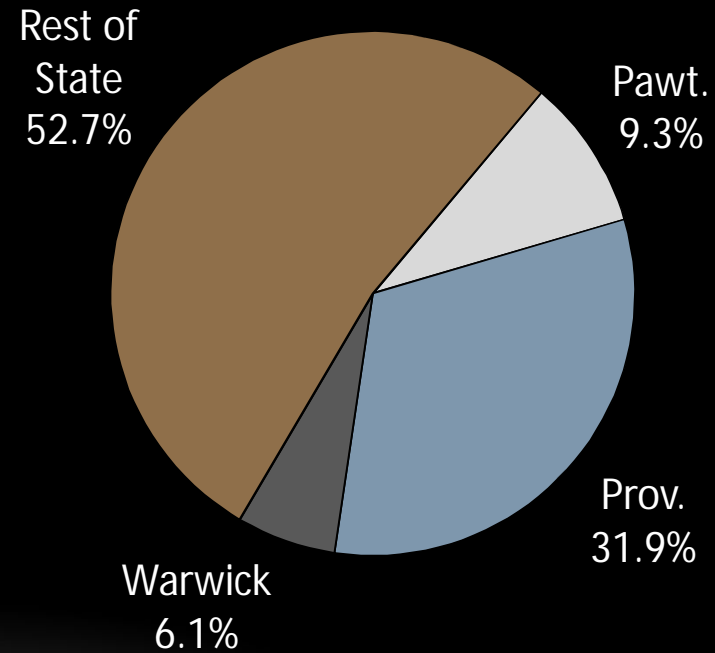


# DISTRIBUTION OF OPEB ARC PAYMENTS

**Share of OPEB ARC  
(\$244.4 Million)**



**Share of OPEB ARC Paid (\$122.3 Million)**





# OTHER POST EMPLOYMENT BENEFITS

- Recent State reform authorized municipalities to require that retirees, as a condition of receiving or continuing to receive retirement and health benefits, enroll in Medicare as soon as the retiree is eligible
- Can provide Medicare supplement or gap coverage, but not required to provide any other healthcare benefits to any Medicare-eligible retiree (or spouse) who has reached age 65

# OTHER POST EMPLOYMENT BENEFIT PROGRAMS – ARC AS PERCENT OF LEVY

Category II Plans	Pension Plans	OPEB	Total
Coventry	16.9%	2.0%	18.9%
Cranston	20.9%	4.5%	25.4%
Cumberland	9.7%	7.6%	17.3%
East Providence	15.9%	8.5%	24.4%
Johnston	17.2%	30.2%	47.4%
Scituate	9.1%	2.2%	11.3%
Tiverton	7.2%	10.0%	17.3%
Warwick	18.9%	12.0%	30.9%
West Warwick	16.4%	18.0%	34.5%
Westerly	7.0%	1.7%	8.7%
- State Average	14.7%	12.0%	26.7%

# MUNICIPAL DEFICIT REDUCTION PROPOSALS

- Various fiscal circumstances have resulted in some communities proposing to issue deficit reduction bonds
- While the Auditor General does not endorse such financing, it has required these communities to develop corrective action plans to begin addressing financial deficiencies

# MUNICIPAL DEFICIT REDUCTION PROPOSALS

- Auditor General requirements for corrective action plans have included:
  - Requiring 100% of ARC to MERS and Teacher pensions
  - No expansion of locally administered pension plans or OPEB benefits while deficit bonds are outstanding
  - Portion of revenues dedicated to retiring deficit bonds must go to fully funding pension and OPEB obligations once deficit bond is extinguished

# SENATE COMMISSION ON MUNICIPAL PENSIONS (2010) - RECOMMENDATIONS

- Require locally-administered plans to begin a timetable to achieve 100% funding of the ARC
- Align municipal disability with State reforms
- Encourage municipalities to adopt a plan to begin funding OPEB liabilities
- Require the Auditor General to update the local pension analysis every other year

# SUMMARY – KEY CONCEPTS

- Locally-administered plans at risk because they do not have available assets to meet future obligations
- Locally-administered plans vary in assumptions used for pension planning and financing
- Past contributions (both municipal and employee) have been insufficient to support benefits
- Collective bargaining/contracts have short term horizons with long term pension implications

# SUMMARY – KEY CONCEPTS

- The underfunding of pension plans will continue to negatively impact communities' fiscal health

“Moody’s believes that the choice not to fully fund the ARC is tantamount to deficit financing and demonstrates an unwillingness to make meaningful progress toward addressing the pension liability in a sustainable fashion” (Moody’s Investors Service – Town of Coventry – March 30, 2011)

- Growing pension obligations will make it increasingly difficult to fund other priorities