

Thomas R. Hoover
Town Manager



TOWN OF COVENTRY
1670 Flat River Road, Coventry, RI 02816
Tel. (401) 822-9185 Fax (401) 822-9139

TO: Honorable TOWN COUNCILMEN

FROM: Thomas R. Hoover, Town Manager *Y. Q. H.*

SUBJECT: Pensions Funding Improvement Plans
Tuesday, November 13, 2012 Town Council Agenda

Please find attached Funding Improvement Plans for both the Municipal Employees and Police Pension Systems. These plans were prepared under our direction by our actuarial firm, Milliman, Inc. The plans meet all of the requirements of the State Locally Administered Study Commission. The Funding Improvement Plan guidelines must follow the following criteria under the RI General Laws:

- 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%; and
- Maximum amortization period of 30 years in which plans must emerge from critical status within 20 years; and
- Maximum percent increase in amortization payments would be 4% (except to make up for funding of 100% of ARC); and
- No decrease in contribution from one year to the next unless the reduction is the result of a reduction in benefits; and
- Encourage shorter amortization schedules, with increasing payments; and
- No open amortization method; and

- Future changes in UAL due to changes in plan benefits, actuarial assumptions, and methods, or experience may be amortized up to 20 years as a separate base.

Finally, the State Commission requires that the local governing body indicate if a transition to the Municipal Employee Retirement System (MERS) has been considered, and if so, what significant factors and/or obstacles were considered. The Town of Coventry previously completed actuarial evaluations on both the Municipal Employees Plan and the Police Plan which has been provided to the Town Council previously. Based on these results the Municipal Employee's System was funded at 25.3%. In turn, the Police System was funded at 11.3%. The Plan for the Municipal Employees increases this percentage to the point that the Plan is no longer in critical status within a period of 19 years. This will be accomplished through increased funding and negotiating pension benefit reductions with members of the retirement system. The State Commission requires that each Plan include future funding projections under four (4) scenarios. As such, four (4) such scenarios are provided for the Municipal Employee's Plan and seven (7) scenarios for the Police Plan. These proposals are subject to collective bargaining and as such are subject to change. Of the four proposals it is recommended that the Town's annual contribution to both the Municipal Employee's and Police Plans increase such that the portion of the ARC actually contributed increases by twenty percentage points each year until it reaches 100% of the ARC by fiscal year 2016. Under this proposal the Town exits the critical status within 19 years and reaches an 80% funded level within 26 years. Furthermore, the recommendation is to increase the employee contribution from 7% to 10%, implement a three (3) year wage freeze, close the the defined benefit plan to all new entrants and implement a defined contribution plan for all new hires with the Town matching 100% of the employee contributions up to 10% of the employees gross wages. It is estimated that the average employee will contribute 6% to such a defined contribution plan.

As for the Police proposal, the Plan exits critical status within 20 years and becomes 80% funded within 24 years. Under this proposal the Town would freeze longevity pay increases, change to a five year final average earnings definition, increase the employee contribution to 20%, change retirement eligibility to age 55 with 25 years of service, and change the benefit formula to 50% of final average earnings at 25 years of service plus 2% per year thereafter up to a maximum of 60% of final average earnings. Furthermore, the proposal eliminates future COLA's for all participants including current retirees, and closes the defined benefit plan to all new entrants and implements a defined contribution plan for new hires with the Town contributing 100% of the employee's contribution up to a maximum of 10% of the employee's gross wages. It is estimated that the average Police Officer will contribute 7% to the defined contribution plan under this proposal.

Under these proposals, it is currently estimated that the Town would not need to increase its total annual contribution for the next fiscal year. Subsequently, the Town would have to budget the increase in the ARC payments each fiscal year thereafter until an exit from critical status is made.

Immediately upon consideration and approval by the Town Council, these plans will be submitted to the State Commission as required by the RI General Laws. It is expected that the Plans will be adjusted through time as subsequent actuarial valuations are performed and collective bargaining issues ensue.

Finance Director, Ted Przybyla; Milliman Actuarial Representative Steve Lemanski, and I will be available at the Town Council meeting to answer any questions you may have regarding this Plan.