

NARRAGANSETT TOWN COUNCIL AND FINANCE COMMITTEE WORKSHOP

SUSTAINABILITY of the TOWN of NARRAGANSETT'S PENSION AND OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

MARCH 11, 2013

WHY WE ARE HERE THIS EVENING

- Have an open dialogue with Town Council and current and future retirees as to why Pension and Other Post Employment Benefit plans are NOT financially sustainable
- Discuss what can be done to solve the problem
- Finance Committee is making recommendations but none related to changes in current plan benefits

BENEFIT PLANS ARE SIGNIFICANTLY UNDERFUNDED, AND MAY NEVER BE FULLY FUNDED

- Pension plan funded only **57%** at July 1, 2012
 - Assets = \$56,809,355
 - Accrued Liability = \$98,815,043
 - 51% relates to future retirees; **48% relates to current retirees**
 - Unfunded Liability = \$42,005,688
 - Plan is in “critical status” per state law (less than 60% funded)
- Non-education OPEB plan is funded only **.8%** at July 1, 2012
 - Assets = \$550,000
 - Accrued Liability = \$70,645,391
 - 31% relates to future retirees; **69% relates to current retirees**
 - Unfunded Liability = \$69,545,391
 - OPEB liability for Education personnel is minimal because of minimal benefits received by teachers for short period of time after retirement
- **Situation likely cannot not be solved by changing benefits provided solely to future retirees – current retirees benefits may also be impacted**

Source: Nyhart report on dated Feb. 1, 2013 for OPEB and Dec. 31, 2012 for Pensions

PENSION PLAN

100% FUNDED AT 1/1/2000 vs. 57% at 7/1/2012

- Pension accrued liability went from \$30,371,465 at 1/1/2000 to \$98,815,043 at 7/01/12, a 225% increase in 12 years
 - Significant benefit changes added including changes to retirement age and addition of COLA
- Town did not fund 100% of annual required pension contribution during 10 year period ended 6/30/2012
 - Annual funding ranged from 39.6% to 63.3%
 - Unfunded amount totaled \$12 million.
 - Accrued Liability not impacted by underfunding
 - Impact on Unfunded Accrued Liability more difficult to quantify
- Annual cost and liability will continue to increase if not fully funded annually
 - Not funding annual required contribution increases unfunded accrued liability
 - Larger unfunded accrued liability increases annual required contribution

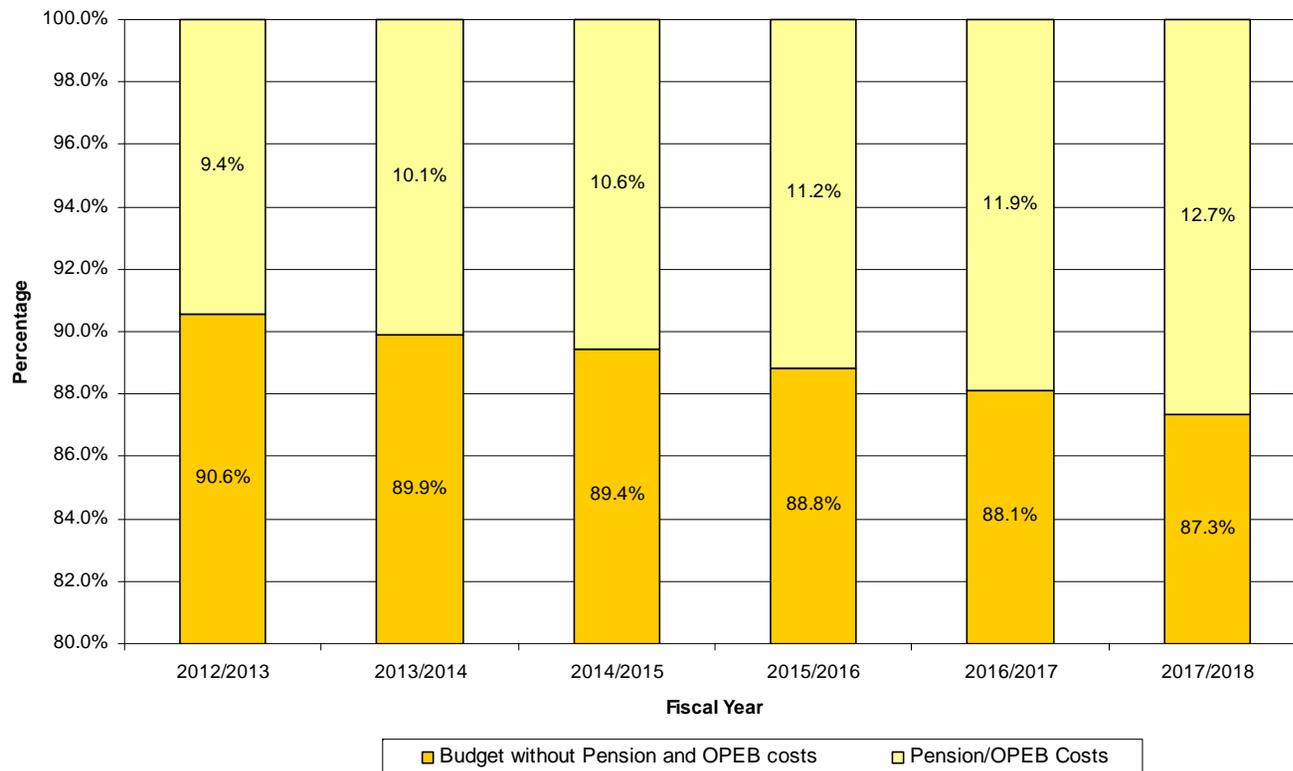
Source for amounts and percentages: Nyhart report dated 12/31/2012

SIGNIFICANT COST IMPACT TO BUDGET

- Pension and OPEB annual cash costs (referred to as PAYGO contributions) represent 9.4% of 2012/13 budget
- Expected to grow to 12.7% of 2017/18 budget
 - And, this assumes a **4% increase** in annual budget through 2017/18
- Increasing percentage means budget increases will go more to funding PAYGO contributions rather than services, programs, infrastructure and education
 - PAYGO contributions will not get plans 100% funded

MORE OF FUTURE ANNUAL BUDGETS WILL BE TAKEN UP BY PAYGO CONTRIBUTIONS

Percentage of Pension and OPEB Costs to Annual Budget



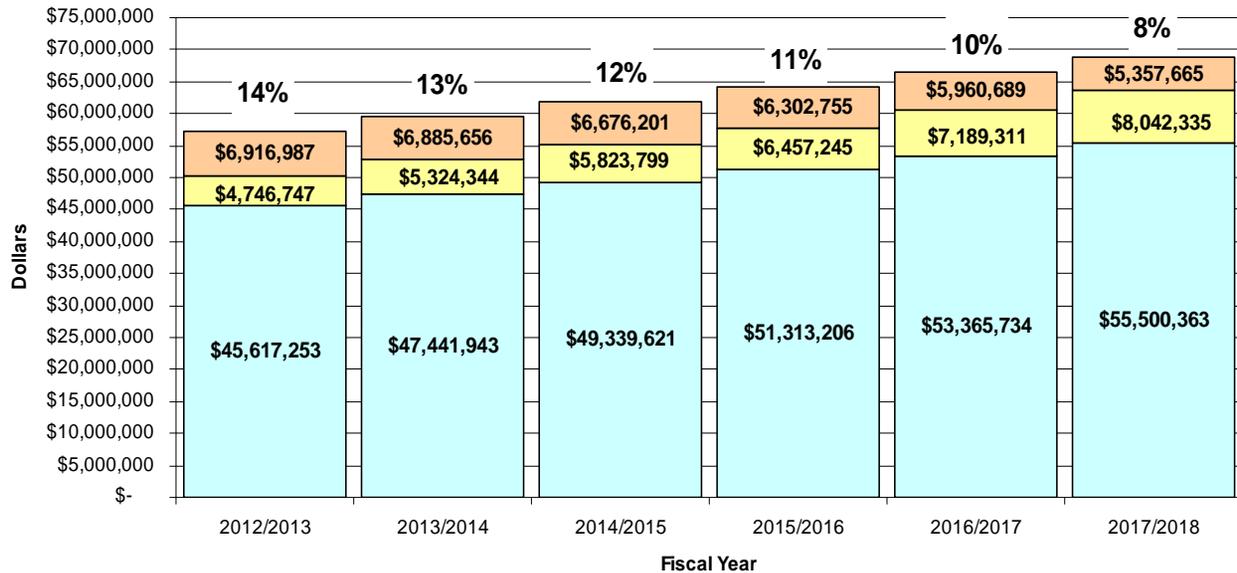
Source: Town 5-year forecast; Nyhart reports

TOWN'S ANNUAL FUNDING SIGNIFICANTLY LESS THAN WHAT IS REQUIRED

2012/13	PAYGO CONTRIBUTION <small>(per budget)</small>	REQUIRED CONTRIBUTION <small>(per Nyhart reports)</small>	DIFFERENCE	PERCENT FUNDED
PENSION	\$2,690,897	\$5,432,159	\$2,741,262	49.5%
OPEB	\$2,055,850	\$6,231,575	\$4,175,725	33.0%

- Annual Required Contribution, simply put, includes an annual cost PLUS an amount to amortize the unfunded accrued liability over 30 years
 - Includes amount for current retirees – again demonstrates issues go beyond future retirees, to include current retirees
- Over 90% of combined annual required contributions are attributable to Town government, police and firefighter personnel and not teachers
- **Teachers are in state Pension system and receive minimal OPEB for a short post-retirement period**

SIGNIFICANT INCREASES IN ANNUAL BUDGETS WOULD BE NEEDED TO FULLY FUND PLANS

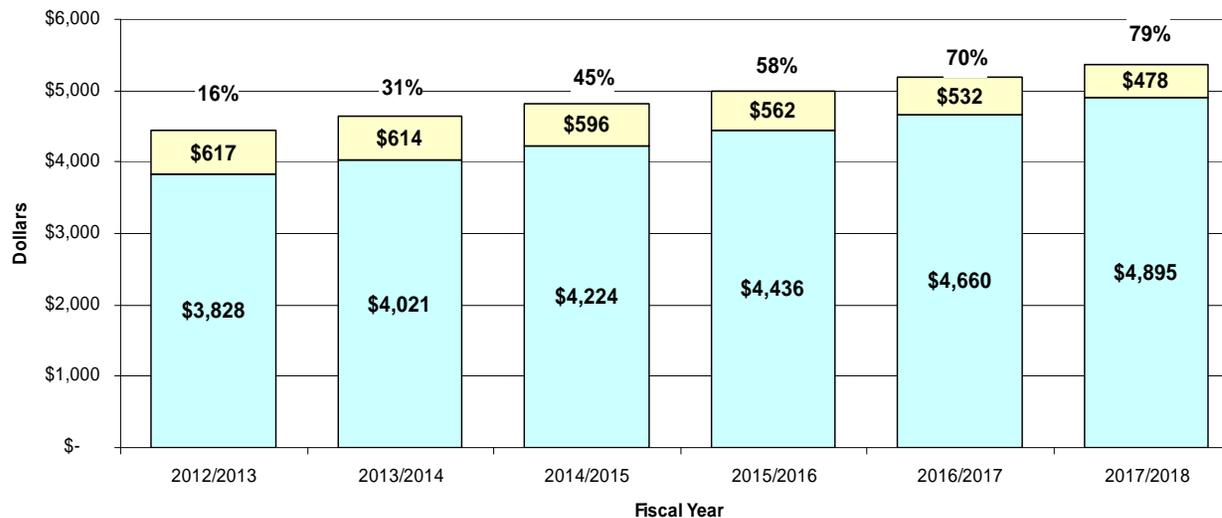


■ Budget excluding Pension and OPEB - assumes 4% increase each year
 ■ Pension and OPEB Pay-as You-Go
 ■ Additional Budget Required to Fully Fund Pension and OPEB ARC
 □ Percentage Increase in Budget to Fully Fund Pension and OPEB ARC

Source: town 5-year forecast; Nyhart reports

INCREASING PROPERTY TAXES WON'T FIX THE PROBLEM

- To fully fund annual required contributions over next five years would result in 79% increase in property taxes for median home with \$400,000 assessed value
 - Narragansett has 7th highest per capita tax in RI (Source: State of RI Dept. of Revenue, Feb. 2013)



Annual Property Tax assuming 4% increase in mill rate
 Cumulative Percentage Increase in Annual Property Tax
 Additional Property Tax to Fund ARC 100%

TOWN NEEDS TO ADDRESS ISSUES NOW!

- Significant negative impact on future budgets
- Significant underfunding of plans, particularly OPEB
- Pressure from State
- Increased scrutiny by rating agencies
 - Clear trend in downgrades due to Pension/OPEB costs
 - Downgrade in Town rating will increase Town borrowing costs
- Recent contract negotiations have resulted in some changes to benefit plans, but these changes will still not solve the problem

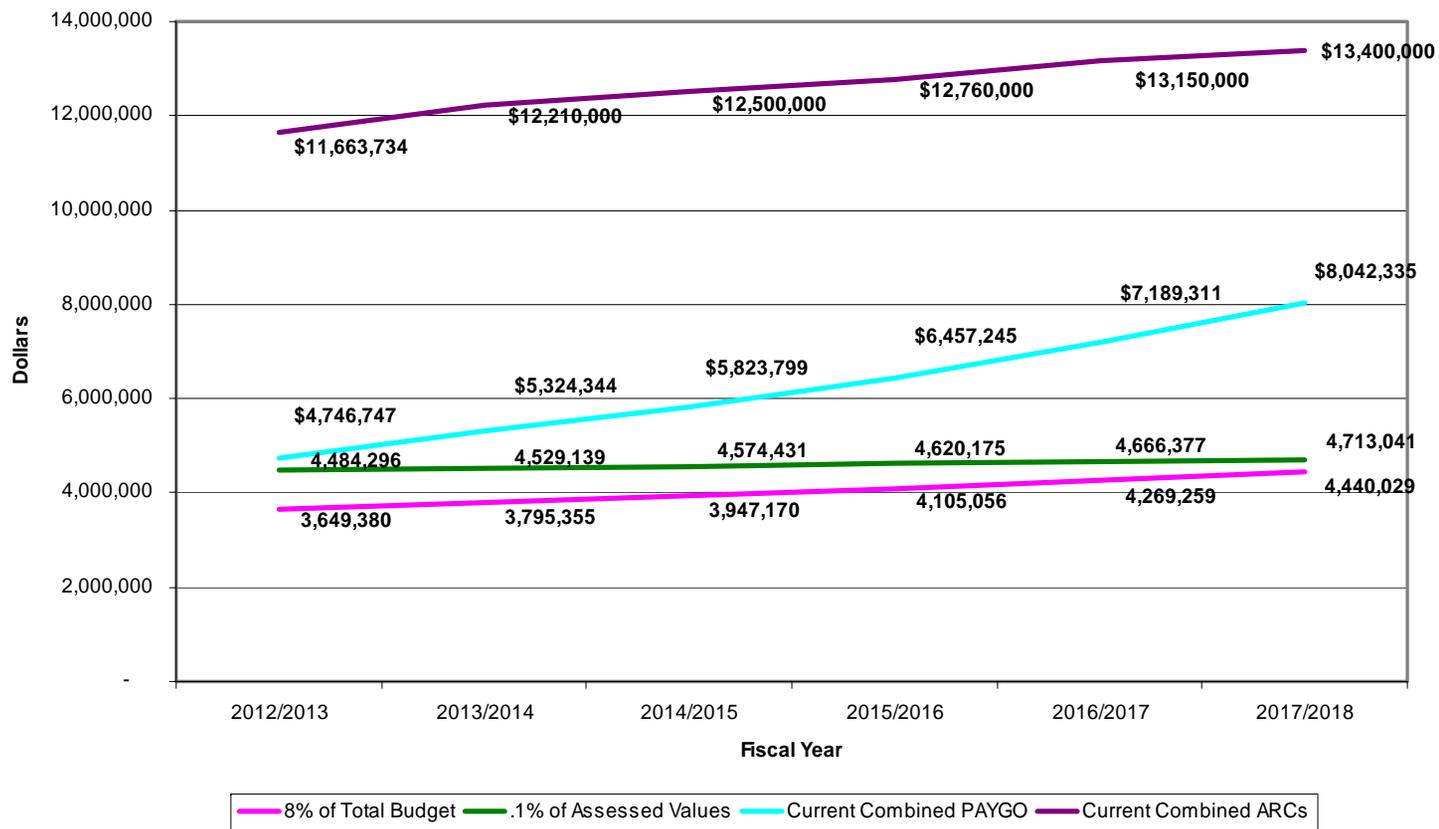
RECOMMENDED PATH TO MAINTAINING FINANCIALLY SUSTAINABLE BENEFIT PLANS

- Combined Pension and OPEB Annual Required Contributions should be fully (100%) funded
- Combined amounts should not exceed a pre-defined measure
- Fundamental changes to Pension and OPEB plans will be needed to reduce future costs and liabilities
 - Some changes could impact both current and future retirees
- Committee did not consider possible legal ramifications of any potential benefit changes

USING THE RIGHT PRE-DEFINED MEASURE

- Will maintain spending within our means
- Will allow for increases in tax dollars to be spent more on town services, infrastructure and education
- Considered several measures:
 - Percentage of Budget (6 – 8%)
 - Percentage of Assessed Value .1%
 - Percentage of Tax Dollars
 - Compared to neighboring towns

PERCENTAGE OF ASSESSED VALUE PROVIDES STABLE AND SUSTAINABLE MEASURE



CURRENT PLANS' DESIGNS HAVE UNSUSTAINABLE BENEFITS

- Pensions

- Cost of living adjustment – 3% compounded (other local plans have reduced COLA, made it simple interest, or eliminated it for a pre-defined period)
- High benefit accrual – 2.5% (many plans going to 2% or less)
- Retirement age – varies across groups
- Form of payment is joint & survivor – more expensive than life annuity payment just to retiree

- OPEB

- Contributions by some groups under 20%
- Town subsidy
- Cost of health care plan high – more affordable options in marketplace
- Medicare benefits and Part B Reimbursements –retirees not required to enroll in Medicare at eligible date

REAL EXAMPLE OF CURRENT PLANS' UNSUSTAINABLE BENEFITS

- Employee retired at age 47, as allowed by plans, and assumes employee lives until age 80
- Total employee contributions, plus interest = \$ 148,968
Pension benefits received = \$2,159,784
OPEB received = \$1,087,327
Net cost to Town = \$3,098,143

Source: Don Goodrich

POSSIBLE OPTIONS FOR PENSION BENEFITS

OPTION	Reduction of Accrued Liability	Impact on Annual Required Contribution	Impact on Annual Required Contribution Over 30 Years
REDUCE OR ELIMINATE THE PENSION COLA (NUMBERS ASSUME ELIMINATING COLA)	\$21,000,000	\$2,600,000	\$83,100,000
ADJUST PENSION RETIREMENT AGE	\$8,000,000	\$1,200,000	\$44,000,000
CHANGE PENSION BENEFIT PAYMENT TO A SINGLE LIFE ANNUITY	\$3,000,000	\$460,000	\$14,100,000
ADJUST FUTURE PENSION ACCRUAL BENEFIT TO 2%	\$2,000,000	\$530,000	\$18,600,000

SOURCE: Nyhart report dated February 8, 2013

POSSIBLE OPTIONS FOR OPEB BENEFITS

OPTION	Reduction of Accrued Liability	Impact on Annual Required Contribution	Impact on Annual Required Contribution Over 30 Years
SWITCH TO LEAST EXPENSIVE HEALTH PLAN	\$16,400,000	\$1,460,000	\$49,140,000
REMOVE MEDICAL AND DRUG COVERAGE AT MEDICARE AGE	\$7,150,000	\$1,140,000	\$118,250,000
LIMIT MONTHLY SUBSIDIES TO RETIREES TO A FIXED DOLLAR AMOUNT	\$9,120,000	\$750,000	\$48,730,000
REMOVE MEDICARE PART B REIMBURSEMENT SUBSIDY	\$5,060,000	\$410,000	\$19,780,000
ALL RETIREES, FUTURE AND CURRENT, CONTRIBUTE 20% OF OPEB PREMIUM	\$4,470,000	\$280,000	\$8,260,000

SOURCE: Nyhart report dated February 8, 2013 and Nyhart email dated February 21, 2013

SIGNIFICANT COMBINED SAVINGS CAN RESULT

- Combined annual required contributions

- Current = \$11,660,000
- With changes = \$ 2,830,000
- Savings = \$ 8,830,000

- Combined accrued liabilities

- Current = \$170,162,000
- With changes = \$ 76,200,000
- Savings = \$ 93,962,000

- Town Council has several options available that can reduce costs to a sustainable level.

PENSION AND OPEB COSTS AS A SINGLE BENEFIT COST

- Viewing combined pension and OPEB costs as one provides flexibility in ultimate benefit changes
 - Maintaining most of current pension benefits may be viewed as more important than maintaining most of current OPEB benefits
 - Major changes in OPEB benefits could be adopted to reduce combined cost with less significant changes to pension plan benefits (similar to teachers' plan)

IN SUMMARY

CONCLUSION

- Current cost of Pension and OPEB plans are not sustainable

RECOMMENDATIONS

- Annual Required Contributions should be funded 100%
- Combined pension and OPEB annual required contributions should not exceed .1% of Town's property value assessments
- Changes to current pension and OPEB benefits are needed

OPTIONS ARE AVAILABLE

- Some benefits may be more valuable than others to current and future retirees – change some, keep others
- Legal issues will need to be understood and considered

QUESTIONS
