Rhode Island Locally Administered Municipal Pension Plans

Request for Proposal for Actuarial Services Under A Master Price Agreement

State of Rhode Island Department of Administration
Richard A. Licht, Director

One Capitol Hill, Providence, Rhode Island 02903

Solicitation Information
November 20, 2012

RFP # 7458300

TITLE: Actuarial Services for Municipal Pension Plans

SUBMISSION DEADLINE: December 18, 2012 at 2 PM

PRE-BID/ PROPOSAL CONFERENCE: **NO** Date:
Mandatory:
Location:

Questions concerning this solicitation must be received by the Division of Purchases at rfp.questions@purchasing.ri.gov no later than **December 3, 2012.** Questions should be submitted in a *Microsoft Word* attachment. Please reference the RFP# in the subject of all correspondence. Questions received, if any, will be posted on the Internet as an addendum to this solicitation. It is the responsibility of all interested parties to monitor the website and download this information.

SURETY REQUIRED: **NO**

BOND REQUIRED: **NO**

Daniel W. Majcher, Esq.
Assistant Director, Special Projects

Vendors must register on-line at the State Purchasing Website at www.purchasing.ri.gov.

NOTE TO VENDORS:

Offers received without the completed three-page RIVP Generated Bidder Certification Form attached may result in disqualification. This form is available at www.purchasing.ri.gov.

THIS PAGE IS NOT A BIDDER CERTIFICATION FORM

Instructions and Notifications to Offerors

Potential Offerors are advised to review all sections of this Request for Proposal (RFP) carefully and to follow instructions completely, as failure to make a complete submission as described elsewhere herein may result in rejection of the proposal.

This is a Request for Proposal, not an Invitation for Bid. Responses will be evaluated on the basis of the relative merits of the proposal, in addition to price; there will be no public opening and reading of responses received by the Division of Purchases pursuant to this request, other than to name those Offerors who have submitted proposals.

1. Potential vendors are advised to review all sections of this RFP carefully and to follow instructions completely, as failure to make a complete submission as described elsewhere herein may result in rejection of the proposal.

2. Alternative approaches and/or methodologies to accomplish the desired or intended results of this procurement are solicited. However, proposals which depart from or materially alter the terms, requirements, or scope of work defined by this RFP will be rejected as being non-responsive.

3. All cost associated with developing or submitting a proposal in response to this RFP, or to provide oral or written clarification of its content shall be borne by the Offeror. The State assumes no responsibilities for this cost.

4. Proposals are considered to be irrevocable for a period of not less than one hundred twenty (120) days following the opening date, and may not be withdrawn, except with the express written permission of the State Purchasing Agent.

5. All prices submitted will be considered to be firm and fixed unless otherwise indicated herein.

6. Proposals misdirected to other state locations, or which are otherwise not present in the Division of Purchases at the time of opening for any cause will be determined to be late and will not be considered. For the purposes of this requirement, the official time and date shall be that of the time clock in the reception area of the Division of Purchases.

7. It is intended that an award pursuant to this RFP will be made to a prime vendor(s) who will assume responsibilities for all aspects of the work. The State reserves the right to award to multiple vendors. Joint venture and cooperative proposals will not be considered. Subcontractors are permitted, provided that their use is clearly indicated in the vendor's proposal and the subcontractor(s) to be used is identified in the proposal.

8. All proposals should include the vendor's FEIN or Social Security Number as evidenced by a Form W-9, downloadable from the Division of Purchases' website at www.purchasing.ri.gov.

9. The purchase of services under an award made pursuant to this RFP will be contingent on the availability of funds.

10. Vendors are advised that all materials submitted to the State for consideration in response to this RFP will be considered to be Public Records as defined in Title 38, Chapter 2 of the General Laws of Rhode Island, without exception, and will be released for inspection immediately upon

request once an award has been made.

11. Interested parties are instructed to peruse the Division of Purchases' website on a regular basis, as additional information or changes relating to this solicitation may be released in the form of an addendum to this RFP. It is the responsibility of all potential offerors to monitor the website and be familiar with any changes issued as part of an addendum.

12. Equal Employment Opportunity (G.L. 1956 § 28-5.1-1, et seq.) - §28-5.1-1 Declaration of policy – (a) Equal opportunity and affirmation action toward its achievement is the policy of all units of Rhode Island state government, including all public and quasi-public agencies, commissions, boards and authorities, and in the classified, unclassified, and non-classified services of state employment. This policy applies in all areas where State dollars are spent, in employment, public services, grants and financial assistance, and in state licensing and regulation. For further information, contact the Rhode Island Equal Opportunity Office at (401) 222-3090.

13. In accordance with Title 7, Chapter 1.2 of the General Laws of Rhode Island, no foreign corporation, a corporation without a Rhode Island business address, shall have the right to transact business in the State until it shall have procured a Certificate of Authority to do so from the Rhode Island Secretary of State (401-222-2040). This is a requirement only of the successful vendor(s).

14. The vendor should be aware of the State's Minority Business Enterprise (MBE) requirement, which should address the State's goal of ten percent (10%) participation by MBE's in all State procurements. For further information, please contact the MBE Administrator at (401) 574-8253 or visit the website www.mbe.ri.gov or by email at charles.newton@doa.ri.gov.

15. Insurance Requirements: The successful respondent shall provide proof of the following insurances:

Commercial General Liability Insurance: Contractor shall obtain, at Contractor's expense, and keep in effect during the term of this contract Commercial General Liability Insurance covering bodily injury, and property damage in a form and with coverage that are satisfactory to the State. This insurance shall include personal and advertising injury liability, independent contractors, products completed operations, contractual liability and broad form property damage coverage. Coverage shall be written on an occurrence basis. A combined single limit of $1,000,000 per occurrence and aggregate is required.

Errors and Omissions Coverage: Contractor shall obtain, at Contractor's expense, and keep in effect during the term of this Contract errors and omissions Insurance covering any damages caused by an error, omission or any negligent acts of contractor, its subcontractors, agents, officers or employees under this Contract. Combined single limit per occurrence shall not be less than $1,000,000. Annual aggregate limit shall not be less than $1,000,000.

Auto Liability Insurance: Contractor shall obtain, at Contractor's expense, and keep in effect during the term of this contract, auto liability insurance covering all owned, non-owned, or hired vehicles. A combined single limit per occurrence of $1,000,000 will be obtained.

Workers Compensation and Employers Liability: Contractor shall obtain statutory Workers Compensation coverage in compliance with the compensation laws of the State of Rhode Island.

Coverage shall include Employers Liability Insurance with minimum limits of $100,000 each accident, $500,000 disease or policy limit, $100,000 each employee.

The State will be defended, indemnified and held harmless to the full extent of any coverage actually secured by the Contractor in excess of the minimum requirements set forth above. The duty to indemnify the State under this agreement shall not be limited by the insurance required in this agreement.

Independent Contractors, neither eligible for nor entitled to, Workers Compensation must file with the Department of Labor and Training, Division of Workers Compensation a Notice of Designation as Independent Contractor Pursuant to RIGL 28-29-17.1 naming the State of Rhode Island Department of Administration as the hiring entity.

The liability insurance coverage, except Professional Liability, Errors and Omissions or Workers Compensation required for the performance of the contract shall include the State of Rhode Island the Department of Administration and its divisions, officers and employees as Additional Insureds but only with respect to the Contractor's activities under this contract.

The insurance required in this agreement, through a policy or endorsement shall include:

A) A Waiver of Subrogation waiving any right to recovery the insurance company may have against the State.

B) A provision that Contractor's insurance coverage shall be primary as respects any insurance, self-insurance or self-retention maintained by the State and that any insurance, self-insurance or self-retention maintained by the State shall be in excess of the Contractor's insurance and shall not contribute.

There shall be no cancellation, material change, potential exhaustion of aggregate limits or non-renewal without thirty days (30) written notice from the Contractor or its insurer(s) to the Department of Administration. Any failure to comply with the reporting provisions of this clause shall be grounds for immediate termination of this contract.

As evidence of the insurance coverage required by this contract, the Successful Bidder shall furnish Certificate(s) of Insurance to The Department of Administration, Purchasing Division at least 48 hours prior to the commencement of work. A copy of additional insured wording from the commercial liability insurance policy will be sent along with the insurance certificate. Failure to comply with this provision shall result in rejection of the bid offer.

Insurance coverage required under the contract shall be obtained from insurance companies acceptable to the Department of Administration.

The Contractor shall pay for all deductibles, self-insured retentions and/or self-insurance included hereunder.

The Purchasing Agent reserves the right to consider and accept alternative forms and plans of insurance or to require additional or more extensive coverage for any individual requirement.

The vendor will not provide services prior to the issuance of a purchase order/agreement by the Division of Purchases.

Rhode Island's Locally Administered Municipal Pension and OPEB Plans

A. Introduction and Historical Background

The Rhode Island Department of Administration, on behalf of locally administered Municipal Pension Plans, is soliciting proposals from qualified firms to provide actuarial services to the plans, and to the Department of Revenue with respect to its role in assisting communities in addressing the funding status and sustainability of the locally administered pension and OPEB plans. This Request for Proposals is issued to assist in the furtherance of the goals outlined in Rhode Island General Law 45-64, a copy of which has been attached to this document. This recruitment is to provide a pool of expert actuaries available to municipalities and the Department of Revenue.

Rhode Island municipal governments provide pension benefits to their employees either through the State-run Municipal Employees Retirement System (MERS) or through locally-administered plans. Currently, the State of Rhode Island administers MERS for 109 municipal pension plans for general employees, police and fire, for about 30 municipal governments whereas 36 pension plans are locally-administered by 24 communities.

The unfunded pension liability for locally-administered pension plans is approximately $2.1 billion, with an estimated collective funding ratio of 40.3 percent (as reported in the FY 2010 audited financial statements, where available; and the Auditor General's report "Status of Pension and OPEB Plans Administered by RI Municipalities", September 2011). Annually required contributions (ARC) for MERS plans amounted to $31.3 million in FY 2010. Plans covered in MERS are required to make 100 percent of their ARC payments.

The Auditor General noted that, at the time of the release of his report in September 2011, 24 of the 36 locally-administered pension plans were at risk. These 24 plans were administered in 18 communities. Based upon current assessments, 22 of these plans were severely under-funded (less than 60 percent) and in many cases, annual contributions were significantly less than annual required amounts. In addition, Other Post Employment Benefits (OPEB) presents a bigger challenge to Rhode Island municipalities. The collective unfunded liability for OPEB benefits is $3.5 billion. The collective ARC for OPEB plans is $244 million. The total annual cost to municipalities (if 100% of the required contributions for pensions and OPEB were made) was $544 million. The amount actually funded was approximately $388 million or approximately 71% on a collective basis. Fully funding the ARC for pensions and OPEB would consume 26.7% of the property tax levy.

As stated in the Rhode Island General Laws (RIGL) on retirement, the general administration and the responsibility for the proper operation of the locally administered pension plans is vested in the local government. Under the newly enacted state law, pension plans which are in critical status (below 60% funding ratio) were required to submit to the Pension Study Commission, an experience study by April 1, 2012 and an annual valuation of the assets and liabilities of the locally administered plan. All municipalities with plans in critical status must complete a plan of funding improvement by November 11, 2012 (guidance and documentation attached as appendix). As part of the work of the State of Rhode Islands Pension Study Commission, the Department of Revenue, Division of Municipal Finance completed an inventory of the benefit structures of the numerous plans which are administered locally in the fall of 2011. The Division continues to do staff work for the Commission.

B. Scope of Services to be Provided

The following are the required services to be provided by the successful actuarial firm or firms as it relates to pension or other post employment benefit plans:

Valuation and Staff Services:

1. Attendance by a Fellow or Associate of the Society of Actuaries at a minimum of two local government meetings involving presentation of the actuarial valuation, presentation of alternative funding or benefit scenarios, coordination with the local government's investment consultant, production of an asset liability analysis performed by the investment consultant and additional or special meetings upon request.

2. Assistance by a Fellow or Associate of the Society of Actuaries on an as needed basis, including responses to routine phone calls and written responses to correspondence from the system. Phone calls shall be returned no more than 48 hours after requested and correspondence shall be answered no more than 14 days from date of receipt.

3. Development and review of tables necessary in the calculation of plan benefits as the local government shall deem necessary, including but not limited to:

    - Asset reconciliation
    - Actuarial value of valuation assets development (if applicable)
    - Determination of prior year asset gain or loss
    - Unfunded actuarial accrued liability.
    - Amortization of unfunded actuarial accrued liability
    - Normal Cost: Normal cost or current cost is the present value of benefits that are expected to be earned during the current year.
    - Prior valuations

    - Gain and loss analysis
- Introduction and Actuarial Certificate
- Summary discussion
- Comparison of results with prior valuation
- Summary of valuation results
- Appropriation development for the current fiscal year
- Funding schedule(s)
- Information required by Auditors—GASB 25 (Governmental Accounting Standards Board Standards)
- Assets
- Summary of system membership characteristics
- Actuarial methods and assumptions
- Summary of plan provisions
- Glossary of actuarial valuation terms

4. Recommendations regarding the continued improvement of actuarial reporting, in compliance with GASB Standards.

5. Periodic updates regarding federal legislation and/or IRS Rules or Revenue Rulings that may affect the operation of the locally administered plans and the payment of benefits.

6. Calculation of applicability of IRS Code Section 415(b) Maximum Benefit Limitations for individual members who may be potentially affected.

7. Availability to answer questions on a timely basis regarding proposed retirement legislation or ordinances and the impact such legislation or ordinances will have on pension programs.

8. Preparation of a yearly detailed valuation report for the locally administered plan to be signed and presented to the local government that includes a determination of the actuarial status of the plan as of end of the prior fiscal year. Regarding each locally administered plan, it shall be noted that this report shall contain a separate actuarial valuation and employer contribution rate for each municipal employing unit. The report shall include, but not be limited to, the following information: summary of valuation results; employee data including a distribution of active municipal employees, active police & fire employees, municipal and police & fire retirees; actuarial balance sheet; the development of employer contribution rates; explanation of actuarial method and assumptions; calculation for pooled investments, and, any additional information necessary for compliance with pronouncements of the Governmental Accounting Standards Board (GASB) for financial reporting purposes.

9. Presentation of the Valuation to the local government-The actuary meets with the local government officials and actuary will include the following elements in his/her presentation:
   - Results of the actuarial valuation
   - Actuarial assumptions and methods, and commentary on the methods employed and viewed by national authorities on actuarial practices
   - Discussion of terms used in the valuation
   - Discussion of alternatives funding schedules and/or strategies.

10. Preparation of a report that details the financial impact on the unfunded liability and adjusted employer contribution rates should a locally administered pension plan wish to adopt changes to the benefit structure or contributions to the plan. Under such circumstances, the actuary should provide the requesting party with the cost of performing such services.

11. Prepare 20 year projections to include but not be limited to Employer Contribution Rate, Compensation and Employer Contributions for Fiscal applicable Years, Actuarial Accrued Liability, Actuarial Value of Assets, Unfunded Actuarial Accrued Liability, Funded Ratio, Market Value of Assets and Funded Ratio Using MVA at Valuation Date

Special Services

At the request of the local government, perform actuarial services, hereinafter referred to as Special Projects, on an as needed basis. This includes, but is not limited to, “Funding Improvement Plans”, required to be submitted by Rhode Island municipalities with locally administered plans which are in “critical” status. A copy of the Guidelines and the Documentation issued by the Pension Study Commission is attached for informational purposes. Upon request for any Special Project, the successful firm must provide a written, cost estimate, which shall include.

- A description of the work that will be performed;
- A schedule for the completion of the project;
- The number of consultant hours required by consultant classification;
- Total anticipated expenses.

Such work may be commenced only upon the approval of the engaging governmental entity.

C. Minimum Qualifications and Proposal Requirements

Proposals must be as succinct as possible while providing an accurate picture of the firm's ability to meet the needs of the locally administered pension plans in a thorough, accurate, responsive and cost-effective manner.

Each proposal must contain the following elements:

Transmittal Letter and Minimum Qualifications

Within the transmittal letter, the proposing firm must certify to the following minimum qualifications.

1. The firm is a professional actuarial firm that provides actuarial valuations, experience investigations, and pension consulting services.
2. The principal actuary who will be responsible for the account is a Fellow or Associate of the Society of Actuaries and is an Enrolled Actuary.
3. HIPPA Compliance. The State of Rhode Island, local plan sponsors, and the contractor shall comply with obligations under the Health Insurance Portability and Accountability Act of 1996(HIPPA) and its accompanying regulations. By submitting a response for OPEB related tasks, the contractor warrants to the State that it is familiar with the requirements of HIPPA and its accompanying regulations, and it will comply with all aspects of HIPPA in the course of this engagement.
4. The letter must be signed by an individual authorized to bind the firm contractually and must state the name, title, address, phone number, fax and internet address of a contact person who is authorized to provide clarification of the proposal should it be necessary.

Understanding

In this section, describe your present understanding of the newly enacted state law relating to locally administered pension plans in Rhode Island. This discussion, no more than two (2) pages in length, could include a discussion of issues faced by a pubic pension plans and could include comments regarding size, active and retiree population, administrative structure and operations, funding outlook and statutory constraints. Please describe your insight into current concerns of the plans and comment on how your particular firm might aid in the resolution of such concerns.

Professional Staff and Firm Methodology

In this section, describe the experience of the individuals who could be assigned to the account.

5. Principal Actuary
    a. Identify the principal actuaries by name and give the year such actuary became a Fellow or Associate of the Society of Actuaries and an Enrolled Actuary under Section 3042 of the Employees' Retirement Income Security Act of 1974.
    b. Detail how long the principal actuaries have been involved in pension consulting and identify those small-sized public retirement systems in which the actuary has worked as the principal actuary. Also, please state whether such work involved the production of yearly actuarial valuations.
    c. Please include the resumes of the principal actuaries with your proposal.
6. Support or On-Site Actuary
    a. Will there be a substitute or on-site actuary? If so, please add the response to the questions outlined in 5a and 5b for the substitute or on-site actuary.
    b. Please include the resume of the support or on-site actuary with your proposal.
7. Other Professional Staff

    Identify and describe the qualifications of professional staff that will be available for work as needed. Please provide a resume of actuarial credentials for each member of the professional staff including the length of time the staff person has worked for a major actuarial firm.
8. Firm Methodology

    Please provide information, not exceeding two pages, regarding your approach to the scope of work outlined in Section B. Should you consider your approach to actuarial services to be different in any way, please describe those differences.
9. Firm History and Operations
    a. Please address the following questions regarding your firm:
        i. How many years has the firm, or the principals, been providing actuarial services?
        ii. How many years has the firm, or the principals, been providing actuarial services for public plans?
        iii. Please detail how many years the team that would be assigned to this account have worked together.
        iv. Please identify the location of the primary office that will provide services for a municipality in Rhode Island, or the Department of Revenue.

v. Describe the ownership structure of the firm, including the relationships of each branch office to the branch offices and to the headquarters. Identify the individual who has overall responsibility for the firm's operations.

vi. Please describe any material developments in the ownership structure of your organization over the past three years. Describe any planned material changes in your organization in detail.

vii. Indicate when and why any senior personnel left or joined the firm in the last three years and specify their involvement in the firm's public pension plan programs. For personnel who have left the firm, please indicate their job titles, number of years with the firm and the name of the individual who replaced them.

viii. How many employees are located at the branch office that will be responsible for services under this proposal?

ix. If the client contact person is other than the actuary, please identify who will be the client contact person on the account?

x. Describe the firm's computer capabilities in detail. Please be advised that there are a variety of data systems at the local level in Rhode Island.

xi. Describe the procedure used in "reconciling" or "scrubbing" the data provided annually by a local government. The State is focused on having local governments provide the most accurate data possible; therefore, it is interested in the method in which the vendor will communicate potential variances from year to year to focus on correction if applicable.

10. Valuation, Experience Investigation, and Consulting Services

a. List current local government pension system clients (Preferably in the small to mid-sized range) of the firm for whom you perform actuarial valuations, accompanying experience investigations, and serve as primary actuary. In addition, please list those state or local pension systems you have lost as clients during the past five years. Finally, all firms should submit a past template or sample of an actuarial valuation and experience study.

b. How many defined benefit clients does your firm serve, both public and private?

c. Please list your current public pension fund clients and include the size of each client's active, inactive, and retired membership, as well as their assets.

11. Pension Consulting Services

a. Describe the media the firm routinely uses to inform its clients of changes in federal requirements, revisions to accounting standards, pending federal legislation or regulation, new methods of achieving benefit objectives?

b. Does the firm produce a newsletter specifically for public retirement plans or is the material produced for both public and private clients?

c. Who prepares the communications materials?

d. Do you have any special pension consulting services?

12. References

List three public employee retirement system clients for whom the firm or the principals has provided professional actuarial and consulting services within the past five years. One of the reference clients must be a client who has been serviced by the proposed team. For each reference listed, include client name, address, and telephone number and name of a contact person.

13. Affirmative Action

Please provide any comment that you would like to call to the attention of the State of Rhode Island regarding hiring procedures with respect to equal opportunity and affirmative action.

14. Contribution Disclosure

Any firm responding to this RFP must disclose all contributions made by any firm-administered Political Action Committee and/or any contributions made by any principals of the firm to any Rhode Island political candidate during the past three years. Further, the candidate must agree to comply with the terms of Rhode Island's General Laws Section 17-27-1 through Section 17-25-5, "Reporting of Political Contributions by State Vendors."

Fees

Fee per hour for performance of actuarial services for all actuaries and staff support. Each contracting entity may also negotiate a lower rate than stated on Master Price Agreement or a flat fixed fee arrangement for annual valuations, Funding Improvement Plans or special projects.

(The successful firm must agree to provide an itemized bill on all special projects. Also, if there are different hourly rates for professional staff on ad hoc consulting please list those hourly rates.)

D. Submission of Proposal

Questions concerning this solicitation may be e-mailed to the Division of Purchases at rfp.questions@purchasing.ri.gov no later than the date and time indicated on page two (2) of this solicitation. Please reference the RFP # in the subject of all correspondence. Questions should be submitted in a Microsoft Word attachment. Answer to questions received, if any, will be posted on the Internet as an addendum to this solicitation. It is the responsibility of all interested parties to download this information. If technical assistance is required to download, call the Help Desk at (401) 574-9709.

Offerors are encouraged to submit written questions to the Division of Purchases. No other contact with State parties regarding the RFP will be permitted unless expressly authorized by the Division of Purchases. Interested Offerors may submit proposals to provide the services covered by this Request on or before the date and time listed on page two (2) of this solicitation. Responses received after this date and time, as registered by the office time clock in the reception area of the Division of Purchases will not be considered.

An original plus nine (9) copies of the Technical Proposal with two (2) electronic copies and an original plus nine (9) copies of the Cost Proposal in a separate sealed envelope, with two (2) electronic copies, must be either mailed and received prior to the submission deadline or hand-delivered in a sealed package marked **"RFP # 7458300: Actuarial Services for Municipal Pension Plans":**

RI Department of Administration
Division of Purchases, 2nd Floor
One Capitol Hill
Providence, RI 02908-5855

NOTE: Proposals received after the above-reference due date and time will not be considered. Proposals misdirected to other State locations or those not presented to Division of Purchases by the scheduled due date and time will be determined to be late and will not be considered. Proposals faxed, or e-mailed, to the Division of Purchases will not be considered. The official time clock is in the reception area of the Division of Purchases.

RESPONSE CONTENTS

Responses should include the following:

1. A completed and signed three-page R.I.V.I.P. generated bidder certification cover sheet downloaded from the Rhode Island Division of Purchases' Internet home page at www.purchasing.ri.gov.

2. A completed and signed Form W-9 downloaded from the Rhode Island Division of Purchases' Internet home page at www.purchasing.ri.gov.

3. An original plus nine (9) copies of the Technical Proposal, with two (2) electronic copies.

4. An original plus nine (9) copies of the Cost Proposal in a separately sealed envelope, with two (2) electronic copies.

5. In addition to the multiple hard copies of proposals required, as noted above, Respondents are requested to provide two (2) electronic copies of the technical and cost proposal in electronic format (CDROM, diskette, or flash drive). Microsoft Word/Excel format is preferable and should be marked appropriately.

6. The Executive Summary form provided below.

E. Evaluation Criteria

Only proposals that meet the Minimum Qualifications will be evaluated. The evaluation will take place in three phases.

- Phase One will involve review of written proposals.
- Phase Two will involve interviews with the Evaluation Team, who will determine the finalists to be presented to the State of Rhode Island Division of Purchases to be selected for the Master Price Agreement.
- Phase Three – Review of Costs – In order for cost proposals to be reviewed, the Offeror must achieve a minimum technical score of 50 points out of 70 points. Any Offeror receiving less than 50 points will be dropped from further consideration.

In all phases of the selection process, firms will be evaluated using the following criteria.

Criteria

- Firm understanding of small sized public defined benefit pension plans – 10 Points
- Firm Methodology – 5 Points
- Professional Staff/Experience – 15 Points
- Firm Organizational Background, Experience and Resources – 10 Points
- Actuarial Services – 15 Points
- OPEB Valuation Services – 5 Points
- Pension Consulting Services – 10 points
- Cost– 30 Points – The State will award the lowest cost proposal with 30 points and will apply the following formula to determine cost points for all other proposals:

$$\frac{\text{(Price of lowest Cost Proposal)}}{\text{(Cost of each Higher Priced Proposal)}} \times \text{Maximum Point for Cost(30)} = \text{Awarded Points}$$

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F. Tentative Bid Schedule of Events

Questions must be received by:	December 3, 2012
Proposals Due:	December 18, 2012 – 2:00 p.m.
Interviews:	December 2012

The State reserves the right to amend this schedule at its sole discretion.

G. Miscellaneous Provisions

The State nor its municipalities will not enter into any limited liability clauses of any type with the winning bidder.

- The Division will commission a review team to evaluate and score all proposals that are complete and minimally responsive using the criteria described above. The evaluation of any item may incorporate input from sources other than the bidder's response and supplementary materials submitted by the bidder. Those other sources could include assessments made by evaluators based on findings recorded from reference checks (including but not limited to those supplied by the bidder), prior experience with or knowledge of bidder's work, responses to follow-up questions posed by the State and/or oral presentations by the bidders if requested by the review team. The State may elect to use any or all of these evaluation tools.

- The review team may contact any, all or some of the bidders with questions and clarifications at any point during the process at its own discretion. The review team may adjust the technical score of any bidder after conducting such a clarification.

- The review team will present written findings, including the results of all evaluations, to the State Purchasing Agent or designee, who will make the final selection for this solicitation. When a final decision has been made and a contract awarded, a notice will be posted on the Rhode Island Division of Purchases web site.

- In order for the Cost Proposal to be reviewed, all technical proposals must meet a minimum technical score of 50 points out of a total of 70 points. If the technical proposal does not achieve this minimum, the cost proposal submitted by the bidder will not be considered and the proposal in its entirety will be dropped from further consideration.

- Because the evaluation takes into consideration both the technical and cost components in a value based approach, the lowest costing bidder may not necessarily be awarded a contract.

- The State reserves the right, at its sole discretion, to determine the number of vendors to be selected to participate on the Master Price Agreement.

- If voluntarily selected by a Municipality, vendors selected to participate on the State's Master Price Agreement created as a result of this RFP shall offer their services to Municipalities under the same terms and conditions provided. However, the rates/cost stated in this Master Price Agreement represents the maximum rate/cost and the State and Municipalities may negotiate lower rates/cost.

- Notwithstanding anything above, the Division reserves the right to unilaterally: 1) accept or reject any, or all, bids, proposals, and award on cost alone; 2) cancel the solicitation at any time; 3) waive any technicality in order to act in the best interest's of the State; and 4) to conduct additional negotiations as necessary.

- Proposals found to be technically or substantially non-responsive, at any point in the evaluation process, will be rejected and not be considered further. The State, at its sole option, may elect to require presentation(s) by bidders in consideration for the award. An award will not be made to a contractor who is neither qualified nor equipped to undertake and complete the required work within the specified time.

- During contract negotiations, if the State or its agent is unable to agree to contract terms with a selected candidate, the State reserves the right to terminate contract negotiations with that candidate and negotiate with the additional candidates as necessary.

Attachments:

- Executive Summary (See next Page)
- Pension and OPEB Plans Administered by Rhode Island Municipalities, Office of the Auditor General, September 2011
- RI General Laws 45-64
- July 3, 2012 Letter from Chairperson of the Pension Study Commission

Rhode Island Locally Administered Municipal Pension Plans
Request for Proposal for Actuarial Services

Executive Summary
(Please Limit Response to One Page)

Firm Name: ____

Address: ____

____

Telephone: ____

Contact Person: ____

Actuarial Team: ____

Number of Public Defined Benefit Clients: ______________________________

Average Number of Plan Assets: ______________________________

Why should municipalities in Rhode Island retain your firm to provide actuarial services? Please summarize your firm's strengths in the space provided.

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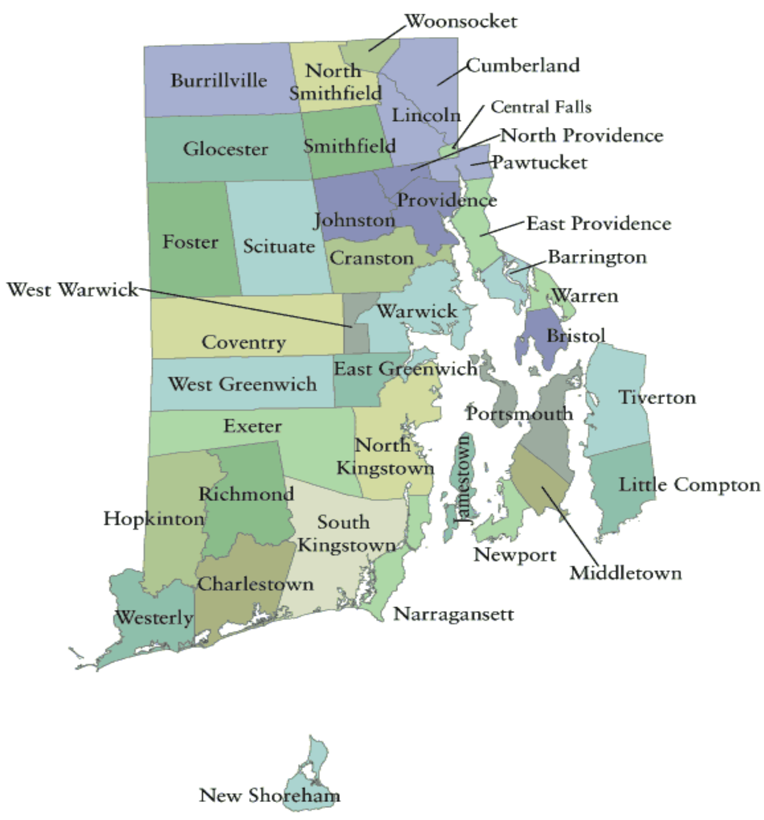
Pension and OPEB Plans

Administered by

Rhode Island Municipalities

September 2011



Dennis E. Hoyle, CPA
Acting Auditor General

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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We have completed a review of defined benefit pension and other postemployment benefit (OPEB) plans administered by Rhode Island municipalities. This report is an update of previous reports entitled *Status of Pension Plans Administered by Rhode Island Municipalities* issued in July 2007 and a more recent report *Status of Pension and OPEB Plans Administered by Rhode Island Municipalities* issued in March 2010. Our reviews are a natural extension of our oversight responsibilities with respect to Rhode Island municipalities.

Our report is included herein as outlined in the Table of Contents and includes recommendations to improve the funded status of pension and OPEB plans administered by Rhode Island municipalities.

Sincerely,

Dennis E. Hoyle, CPA
Acting Auditor General

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Pension and OPEB Plans
Administered by Rhode Island Municipalities

Table of Contents

The fiscal health of pension plans administered by Rhode Island municipalities has declined further and the ultimate threatened consequence of a poorly funded pension plan has been realized – the two locally administered Central Falls' plans have insufficient assets to fund benefits. Consequently, benefits are being substantially reduced by a State receiver.

Due to economic conditions and reductions in State aid, municipalities are even further stressed to make annual required contributions and funded ratios have continued to decline; thereby leaving some of these plans in perilous condition. The collective unfunded liability for locally administered pension plans has increased $200 million from amounts reported in our March 2010 report to $2.1 billion.

At $3.5 billion, the unfunded liability for other postemployment benefits provided by municipalities ("OPEB"– generally retiree healthcare) overshadows the collective unfunded liability for all locally administered pension plans. The locally-administered OPEB plans are less than 1% funded – only $27.5 million has been set aside to pay future retiree health benefits. The funded status of the OPEB plans is more dire since the requirement to measure and disclose these liabilities is recent, many plans continue on a pay-as-you-go basis, and efforts to fund these future costs are in their infancy. Generally, there is a disconnect between the retiree health benefits typically negotiated through collective bargaining agreements and the associated long-term costs. For example, it is not uncommon for local public safety retirees to receive family health coverage for life – a period that could span more than 40 years.

The number of pension plans considered at risk increased to 24 out of 36 plans. The collective funded ratio of the locally-administered pension plans decreased from 43%, as reported in March 2010, to 40% currently (45% funded as reported in July 2007). Of the 24 locally-administered pension plans considered at risk:

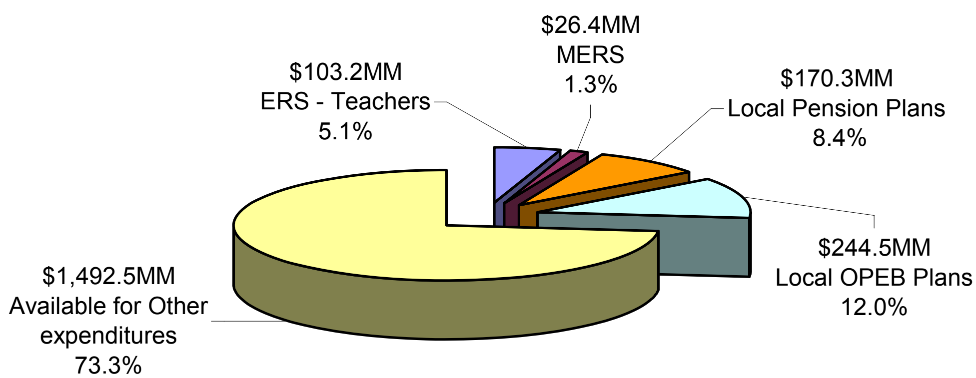
- two Central Falls plans are nearly insolvent and cannot meet future benefits and the municipality is in bankruptcy;
- twelve are significantly underfunded and annual contributions are significantly less than actuarially determined amounts;
- six other plans are still significantly underfunded although annual contributions are more than 80% of annual required amounts; and
- four additional plans, despite a funded ratio greater than 60%, were considered at risk because annual contributions were generally declining over a multi-year period.

The principal concern is ensuring that pension plans administered by Rhode Island municipalities can provide the benefits promised to retirees. Of equal importance is the negative impact these self-administered plans are having on the overall financial health of communities when not properly funded. When pension and OPEB plans are chronically underfunded, the eventual costs to fund the plans become significantly larger and divert resources from other programs and initiatives. Further, bond rating agencies have intensified their focus on how a government is managing its pension and OPEB liabilities – those that have not demonstrated responsible management of these costs and liabilities are being downgraded and consequently experiencing higher borrowing costs.

Most municipalities are challenged to contribute at required levels, which is key to eventually reducing unfunded liabilities. Improving the funded status of these plans presents a significant hurdle to communities that are already challenged to meet their obligations within state mandated property tax limits and reductions in state aid to municipalities. Recent investment losses have further eroded the funded ratios and the impact of those market losses is still being recognized in actuarial valuations of the plans. Oversight measures designed to increase the percentage of annual required contributions actually made have not resulted in a significant increase in contributions. No locally-administered plans have merged into the state-administered Municipal Employees' Retirement System (MERS) since our prior reports.

The collective annual required contributions (ARC) (for pensions) for all municipalities was approximately $300 million for fiscal 2010 of which $170 million related to locally-administered plans. The annual required contribution for OPEB plans was $245 million. The total annual cost to municipalities (if 100% of the required contributions were made) was $544 million or 26.7% of the total local property tax levy as shown in the chart below. The amount actually funded was approximately $388 million or approximately 71% on a collective basis.

FY2010 ARC for all Pension and OPEB Plans as a % of Property Tax Levy (in millions)
Total Levy = $2,036.8MM



For nine communities, the annual required contribution for pensions and OPEB (if 100% were made) represents 25% or more of the community's fiscal 2010 property tax levy – a significant and likely unsustainable burden. In Woonsocket, Central Falls, Providence, and Johnston the annual required contributions (for pensions and OPEB) were 61%, 58%, 51%, and 47%, respectively, of their annual property tax levy. Expected increases in fiscal 2013 employer contribution rates for teachers will further increase these percentages.

Various structural issues contribute to or facilitate the poorly funded status of many locally-administered plans. Clearly, local administration of the plans allows flexibility in defining the benefit structure of the plan and also the timing and actual amounts contributed. In many instances, that flexibility has resulted in generous benefits and failure to make annual required contributions. Additionally, local governments typically have a short-term annual budget process perspective which is often inconsistent with the long-term perspective required of pension plan stewards. These factors directly impact the poorly funded status of the plans.

In contrast, all Rhode Island municipalities are making 100% of their annual required contribution for teachers to the state administered Employees' Retirement System. Similarly, all Rhode Island municipalities that participate in the Municipal Employees' Retirement System (MERS) are making 100% of their annual required contribution and are adhering to the established benefit structure outlined in the State's General Laws. The MERS plan has a funded ratio of 73.6% (near 90% prior to the impact of changing the investment return assumption from 8.25% to 7.5%). In these instances, the municipality must fund required amounts – the General Laws allow for offset of state aid to local governments if the municipality is delinquent in making required pension contributions to the State administered pension plans. The same fiscal discipline is not forced upon a municipality with regard to its locally administered pension plan.

Due to their size, locally administered plans are at a disadvantage when investing plan assets with the goal of maximizing returns while reducing investment risk exposure through diversification. The smaller size of the investment portfolios associated with the self-administered plans also makes it more difficult to fully participate in all types of investment options.

The following recommendations are offered for both municipalities and the State to ultimately decrease the risk that these plans (1) will be unable to meet their benefit obligations to retirees, or (2) continue to negatively impact a community's overall fiscal health.

Municipal Level:

- Commit to making incremental progress towards funding 100% of the annual required contribution for pensions and then fund the plans consistently at required levels.
- Reexamine benefit provisions within the locally-administered pension plans and embark on reforming those benefits where warranted; mirror pension reform measures contemplated or enacted by the State for its employees and local teachers; and consider other retirement plan options for new hires (e.g., "hybrid" or defined contribution plans).
- Complete a comprehensive analysis of retiree health benefits offered to retirees to (1) review the affordability of the benefits offered, and (2) ensure the assumptions underlying the valuation of future liabilities are appropriate and reasonable. Contemplate mirroring retiree healthcare reform measures adopted by the State for its retirees, and commit to funding OPEB benefits in an actuarially sound manner.
- Seek to remove pension and retiree healthcare benefit plan provisions from collective bargaining agreements and address through local ordinances or charter provisions.
- Merge plans into the Municipal Employees' Retirement System (MERS).
- Create trusts for OPEB benefit plans and begin, or continue, funding future benefits at actuarially determined levels.

State level:

- Consider legislation that would provide flexibility and eliminate the obstacles that currently make merging locally administered plans into MERS unlikely and problematic. These include providing a time frame (e.g., no more than 5 years) to achieve 100% funding of the ARC and allowing flexibility for nonconforming benefit structures for plans merging into the state-administered Municipal Employees' Retirement System.

- Consider legislation that would require locally-administered plans with funded ratios below a specified threshold to be merged into the state-administered Municipal Employees' Retirement System.

- Explore state legislation that would remove pension and retiree health benefits from municipal collective bargaining agreements.

- Explore options for pooled investments (for locally-administered pension and OPEB plans) to enhance investment performance, reduce costs, and reduce investment risk.

- Revise the benefit structure within the Municipal Employees' Retirement System to mirror changes contemplated or enacted for state employees and teachers within the Employees' Retirement System.

- Implement a state-administered agent multiple-employer OPEB plan for all municipalities with a common benefit structure and a common health insurance provider/administrator – mirror OPEB benefit restructuring adopted for State employees.

OBJECTIVES

The objective of our review was to assess the fiscal health of the various locally-administered pension and other postemployment benefit plans (OPEB) covering Rhode Island municipal employees. Fiscal health is primarily measured by whether the municipality is consistently making 100% of annual required contributions to the plans and the overall funded status of the plan. We also assessed a community's capacity to meet its annual required contributions (for all pension and OPEB plans) by measuring the total annual required contribution as a percentage of the community's annual property tax levy.

In addition, we assessed the effectiveness of efforts outlined in the general laws to require local governments to make 100% of their annual required contributions. Further, we explored some of the factors that generally contribute to locally administered pension plans being at higher risk than plans administered by the State. For this update report, we have also presented information to conclude whether the status of these locally administered pension plans has improved or worsened since our prior reports (July 2007 and March 2010).

Disclosures about a municipality's current and future costs for post-employment benefits other than pensions (generally health-care for retirees) are relatively new but equally important in evaluating the overall fiscal health of a community and the funded status of its obligations for pensions and retiree healthcare to its employees.

We outlined recommendations that may be considered to enhance the funded status of locally administered pension and OPEB plans thereby improving the overall fiscal health of the municipality.

Our review was based on various data which is publicly available including the audited annual financial statements of each municipality in Rhode Island and periodic actuarial valuations performed for locally administered pension and OPEB plans. Generally, our review used audited financial data included in the municipality's fiscal 2010 audited financial statements. For communities with a June 30 fiscal year end, those reports were due to our office by December 31, 2010. If any community obtained an actuarial valuation of its pension plan subsequently to that disclosed in its fiscal 2010 financial statements, we have included that information to the extent possible.

The current status of any locally administered pension plan may vary from the information presented herein based on investment performance and other factors subsequent to the date of the municipality's most recent audited financial statements or the most recent actuarial valuation that was available at the time of our review.

We have not performed independent tests of the data included in these financial reports or actuarial valuations. We have also not compared benefit provisions among the various plans administered by Rhode Island's municipalities; however, the Division of Municipal Finance, Department of Revenue has prepared a summary of the various pension plans offered by municipalities to its employees and retirees.

BACKGROUND

Public employee pension plans, both within Rhode Island and nationally, have been the subject of intense scrutiny and debate. The reasons are varied but include:

- significant and growing unfunded liabilities;
- questions about the sustainability of the plans;
- actual pension plan defaults in Alabama and imminent defaults on benefits more locally in Central Falls;
- the budgetary impact of escalating required contributions;
- the impact of recent market events on investment performance;
- future expectations on the performance of equity and fixed income investments and the related impact on choosing an appropriate investment return assumption to discount future benefits;
- the perennial debate over defined benefit vs. defined contribution plans and the comparability of benefits afforded participants in government sponsored vs. private sector plans;
- managing the legal challenges prompted by pension reform efforts; and
- maintaining retiree income security and its positive impact on the economy.

In general, most plan sponsors are struggling to contain escalating pension costs which result from past underfunding of the plans, employees generally retiring earlier and living longer, and the impact of recent investment losses which continue to affect nearly all plans.

In Rhode Island, the debate has been escalated by the high profile bankruptcy filing of the City of Central Falls, which was, in part, prompted by the near insolvency of its locally-administered pension plans. With little or no assets remaining in the plans, significant reductions in retiree benefits are proposed by the Receiver. Further, the funded status of the State-administered pension plans for state employees and teachers has declined despite pension reform measures enacted in recent years. This has resulted from investment losses in recent years, a recent downward revision to the assumed rate of return on investments (from 8.25% to 7.5%), as well as the more generic and global impact of increased longevity, earlier retirement ages, and guaranteed cost of living increases for retirees.

Investment performance in recent years has had a severe impact on the funded status of pension plans and required contributions. The effect is somewhat muted by “smoothed-market” provisions employed by most plans which spread the highs and lows of annual investment performance over a longer period (e.g., five-year smoothing). While recent investment performance has improved, the impact of the prior investment losses is still being recognized in actuarial valuations due to these smoothed-market provisions.

Despite escalating pension costs, some entities have reduced contributions for budgetary reasons; thereby, deferring their obligation to fund the liabilities into the future and creating a much more serious and long-term financial problem. Many plans are severely underfunded which presents the risk that sufficient funds will not be available to meet promised benefits to retirees. It also undermines the overall fiscal health of the plan's sponsor.

In the government environment, the annual cost of providing pension benefits can consume a significant portion of the annual operating budget. Failure to make annual required contributions to pension plans or invest pension assets prudently can ultimately increase the overall cost to the municipality. Additionally, granting generous benefits without consideration of the long-term costs can have a far-reaching impact on the overall fiscal health of the pension or OPEB plan and its government sponsor.

The Government Finance Officers Association (GFOA) included the following recommendation in its Advisory (October 2010) entitled *Responsible Management and Design Practices for Defined Benefit Pension Plans:*

> "The GFOA recommends that under no circumstance should state and local government plan sponsors engage in pension contribution holidays or make insufficient contributions. When employers skip an actuarially required contribution or make a smaller payment than required, they defer that cost to the future and jeopardize the long-term funding of the plan. When governing bodies arbitrarily reduce contributions to a plan, the resulting systemic underfunding ensures future financial shortfalls and places the burden for that shortfall on future taxpayers. These types of funding decisions compound future funding problems and are, in many instances, a leading cause of funding shortfalls."

Bond rating agencies have increased their focus and given additional weighting to the responsible management of unfunded pension and OPEB liabilities of governmental entities. The frequency of ratings downgrades precipitated by unfunded pension and OPEB obligations has increased. Consequently, access to the capital markets and the corresponding costs of borrowing for a community are increasingly tied to the responsible management of pension and OPEB obligations.

Recent accounting pronouncements generate further focus and concern as governments are required to measure and disclose the future cost of OPEB (e.g., retiree health care) on an actuarial basis. In actuality, most OPEB plans operate on a pay-as-you-go basis without any accumulation of funds to provide for future benefits. Due to the escalating nature of healthcare costs and the time frame for which benefits are provided, the actuarial costs of such benefit programs are very significant. These unfunded liabilities warrant the same attention and funding commitment as those accruing from pension benefits.

OVERVIEW OF PENSION and OPEB PLANS COVERING RHODE ISLAND MUNICIPAL EMPLOYEES

Rhode Island municipal employees are covered by a variety of pension plans, some administered by the State, others administered by the municipality, and a few administered by employee unions. While the focus of this report is primarily defined benefit pension plans administered directly by Rhode Island municipalities, it is useful to understand the types of pension plans (defined benefit vs. defined contribution) and the variety of plans covering local public employees.

Defined benefit pension plan – A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified is a function of one or more factors such as age, years of service, and compensation.

Defined contribution plan – A pension plan having terms that specify how contributions to a plan member's account are to be determined, rather than the amount of retirement income the member is to receive. The amounts received by a member will depend only on the amount contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account.

Source: *Governmental Accounting and Financial Reporting Standards* published by the Governmental Accounting Standards Board

Employees' Retirement System of Rhode Island (ERS) - Teachers

- *Administered by State of Rhode Island*
- Covers local public school teachers
- Total plan assets - $3.4 billion (teachers share – fair value at June 30, 2010)
- Unfunded Actuarial Accrued Liability - $4.1 billion at June 30, 2010 (valuation date)
- Funded ratio – 48.4% at June 30, 2010 (valuation date)

All local school teachers are members of the Employees' Retirement System (ERS) of the State of Rhode Island (pursuant to General Law section 16-16-2). That plan also covers state employees and is administered by the State. The employer contribution to the plan for teachers is shared between the local school district and the State (fiscal 2011 – 7.76% State and 11.25% local for a total employer contribution rate of 19.01% in fiscal 2011). Teachers contribute 9.5% of their salaries. The municipality has no responsibility for administering the plan and its primary obligation is to make annual required contributions. Separate actuarial valuations are not performed for each school district – all districts contribute at the same employer contribution rate which is shared with the State.

Municipal Employees' Retirement System of Rhode Island (MERS)

- *Administered by State of Rhode Island*
- Covers various categories of municipal employees - general, police and fire
- Total plan assets – $1 billion - fair value at June 30, 2010
- Unfunded Actuarial Accrued Liability - $430 million at June 30, 2010 (valuation date)
- Composite Funded ratio – 73.6% at June 30, 2010 (valuation date)

Some municipal employees participate in the Municipal Employees' Retirement System (MERS) of the State of Rhode Island which is administered by the State. That system is a voluntary multiple-employer agent plan. The State acts as administrative agent but assumes no funding responsibility. A municipality may have multiple units covering specific groups of employees (e.g., police, fire, general employees) -- separate actuarial valuations are performed for each participating entity. The municipality has no responsibility for administering the plan but is required to make annual required contributions as determined by the actuary specifically for that unit.

Some municipal employees are covered by pension plans administered by their employee union. In these instances the municipality's obligation is solely to make annual required employer contributions.

Locally-Administered Pension Plans

- *Administered by local governments*
- Covers various categories of municipal employees - general, police and fire
- Total plan assets – $1.4 billion (as of most recent data available in FY 2010 audit reports or more current actuarial valuations)
- Unfunded Actuarial Accrued Liability - $2.1 billion (as of most recent audit reports or current actuarial valuations)
- Collective funded ratio – 40.3% (as of the most recent information included in fiscal 2010 audit reports or current actuarial valuations)

Many municipalities have established pension plans for their employees where the city or town is solely responsible for all aspects of the administration and funding of plan benefits. In these instances, the municipality is responsible for determining plan provisions, obtaining actuarial valuations, making required contributions, investing assets and paying benefits to retirees.

Twenty four Rhode Island communities have created one or more pension plans, which they administer for their employees. The actuarial value of assets collectively held by these plans was nearly $1.4 billion and the collective unfunded actuarial accrued liability for future benefits (for only these locally-administered pension plans) was nearly $2.1 billion (as of the most recent actuarial valuation referenced in their June 30, 2010 financial statements or more current actuarial valuations).

Locally-Administered OPEB Plans

- *Administered by local governments*
- Covers various categories of teachers, municipal employees - general, police and fire
- Total plan assets – $27.5 million (as of most recent data available in FY 2010 audit reports)
- Unfunded Actuarial Accrued Liability - $3.5 billion (as of most recent audit reports)
- Collective funded ratio – less than 1% (as of the most recent information included in fiscal 2010 audit reports)

Many municipalities have established other post-employment benefit programs (OPEB) for their employees which generally consist of retiree healthcare benefits. For these OPEB plans, the city or town is solely responsible for all aspects of the administration and funding of plan benefits. Additionally, the municipality is responsible for determining plan provisions, obtaining actuarial valuations, making required contributions, investing assets, and paying benefits to retirees. Although pension benefits for teachers are provided through the State-administered Employees' Retirement System, retiree healthcare benefits are provided through the municipality. Teachers may opt to purchase retiree healthcare coverage through the State's OPEB plan but the State assumes no funding obligation for benefits.

Most Rhode Island communities have created one or more OPEB plans, which they administer for their employees. The actuarial value of assets collectively held by these plans was only $27.5 million and the collective unfunded actuarial accrued liability for future benefits (for only these locally-administered OPEB plans) was nearly $3.5 billion (as of the most recent actuarial valuation referenced in their June 30, 2010 financial statements).

A schedule on page 11 lists the various plans that each Rhode Island municipality administers or participates in.

Rhode Island Municipalities' Defined Benefit Pension and OPEB Plans

	ERS	MERS			OTHER PLANS	LOCAL PENSION PLANS		OPEB
Municipality	Teachers	Municipal Employees	Police	Fire	Not Administered by Municipality	Administered by Municipality	Covered employees	PLANS
Barrington	●	●	●	●				●
Bristol	(a)	●	●	●		●	Police (prior to 3/22/98)	●
Burrillville	●	●	●					●
Central Falls	●	●				●	Police & Fire 1% (prior to 7/1/72) and Police & Fire (after 7/1/72)	●
Charlestown	(a)	●	●					●
Coventry	●					●	Municipal Employees, Police, School Employees (except teachers)	●
Cranston	●	●	●	●	●	●	Police & Fire EE's Pension Plan (prior to 7/1/95)	●
Cumberland	●	●		●		●	Police and other former employees	●
East Greenwich	●	●	●					●
East Providence	●	●				●	Fire & Police	●
Exeter	(a)	(a)						(a)
Foster	●	●	●					●
Glocester	●	●	●					●
Hopkinton	(a)	●	●					(a)
Jamestown	●	●				●	Police	●
Johnston	●	●		●		●	Police, Fire (prior to 7/1//99)	●
Lincoln	●	●		●	●	●	Police & Fire & Town and School	●
Little Compton	●					●	Town employees other than certified teachers	●
Middletown	●	●	●	●		●	Generally, employees hired prior to 7/1/01	●
Narragansett	●					●	Police (prior to 7/1/78) and Town Plan	●
New Shoreham	●	●	●					●
Newport	●	●				●	Fire and Police	●
North Kingstown	●	●	●	●				●
North Providence	●	●		●		●	Police Pension Plan	●
North Smithfield	●	●	●					●
Pawtucket	●	●				●	Pre Fiscal 1974 Police & Fire (pay as you go), and Post Fiscal 1974 Police and Fire	●
Portsmouth	●					●	Full-time Town employees except teachers	●
Providence	●				●	●	All city employees except teachers	●
Richmond	(a)	●	●					(a)
Scituate	●	●				●	Police	●
Smithfield	●	●	●			●	Police (prior to 7/1/99), Fire	●
South Kingstown	●	●	●	●				●
Tiverton	●	●		●		●	Police	●
Warren	(a)	●	●	●				●
Warwick	●					●	City Employees, Police Pension I and Fire Pension, Police Pension II, Fire Pension II, Public School Employees	●
West Greenwich	(a)	●	●					●
West Warwick	●					●	Full time town ee's (except teachers) & Police and Fire	●
Westerly	●	●			●	●	Police	●
Woonsocket	●	●	●	●		●	Police (hired prior to 7/1/80) & Fire (hired prior to 7/1/85)	●

(a) - The Town is a member of a regional school district which offers this plan.

Accounting Principles Applicable To Governmental Pension and OPEB Plans

The Governmental Accounting Standards Board (GASB) issues accounting principles for governmental entities. In general, these accounting principles (1) require that periodic actuarial valuations be performed of governmental pension and OPEB plans, (2) define the acceptable actuarial methods that can be used in valuing pension benefit and OPEB liabilities, (3) define the annual amount that must be recognized as an expense (whether actually contributed or not) on a government's financial statements and (4) specify the pension and OPEB related disclosures that must be included in the annual financial reports of a governmental entity.

These accounting principles do not mandate how a government actually funds its pension and other postemployment benefit costs. A municipality that fails to contribute 100% of the annual required contribution to its pension or OPEB plan must disclose the actual amount contributed and report the full annual required contribution amount (funded and unfunded portion) as an expense in its government-wide financial statements. The amount reported in the fund level financial statements is only the actual amount funded. A municipality's government-wide financial statements should reflect, as a long-term liability, the cumulative difference between the annual required contribution amount and the amount actually contributed to its pension plan.

Governments are required to include basic information about their pension and OPEB plans that allows a reader of the financial statements to determine the unfunded actuarial accrued liability, the overall funded status of the plan and whether actual contributions are equal to 100% of annual required amounts.

Proposed changes to Accounting Principles Applicable to Pension Plan Costs

GASB is currently contemplating wide–ranging and controversial changes to the financial reporting standards for governments that participate in or sponsor defined benefit pension plans for their employees. An exposure draft of proposed changes was released in June 2011.

One of the more significant changes proposed includes recognition of the entire unfunded pension liability on the government's financial statements rather than the cumulative amount of annual required contributions not made as is the current requirement. Additionally, when existing assets are insufficient to fund all future liabilities, a discount rate different from the assumed investment rate of return (e.g., high grade municipal bond index rate) must be used for that portion of the unfunded liability. Other proposed changes include limiting the permitted actuarial cost methods allowed and "delinking" funding methodologies from financial reporting requirements.

While these changes are not yet effective and may change due to comments made to the exposure draft and GASB's due process response to those comments, the proposed accounting changes will have a significant impact on the financial results reported by all governmental entities. Accordingly, a discussion of the future status of pension plans should also reflect the newly proposed accounting standards impacting the measurement and financial reporting of pension liabilities. Similar proposed changes are expected for employer recognition of OPEB costs.

MEASURING THE FISCAL HEALTH OF PENSION PLANS ADMINISTERED BY RHODE ISLAND MUNICIPALITIES

The primary objective of a defined benefit pension plan is to pay current and future benefits to its members. These benefit obligations cannot be met without the appropriate level of available assets. Many factors such as investment market volatility, changes in benefits, and changes in membership can affect the assets and liabilities or funding status of a plan. Proper planning and management is required to ensure that plan assets will be sufficient to support future liabilities. Periodic actuarial valuations are a tool used by management to assess the development of the liability components of the plan and how they relate to plan assets.

Various measures can be used in assessing the fiscal health of a pension plan. We have selected the following measures because they are both appropriate and, generally, readily available from either periodic actuarial valuations or the annual audited financial statements of a governmental entity.

Annual required contribution (ARC)	The amount required to be contributed to the plan as determined by an actuary in accordance with the plan's actuarial funding methodology and assumptions. Any contribution amount less than 100% of the ARC warrants attention.
Net pension obligation (NPO)	When a government contributes 100% of the ARC, no liability is required to be presented on the face of the government's financial statements. When less than 100% of the ARC is contributed, the difference between the ARC and the actual contribution is reflected as a liability on the government's government-wide financial statements and is referred to as the net pension obligation. When an NPO exists on a government's financial statements, this amount represents the cumulative effect of contributions that should have been, but were not, made to a pension plan.
Unfunded actuarial accrued liability (UAAL)	The Actuarial Accrued Liability (AAL) is the present value of fully projected benefits attributable to service credit that has been earned. The Unfunded Actuarial Accrued Liability (UAAL) is the difference between the AAL and the actuarial value of assets available to pay benefits.
Funded ratio – overall funding status of the plan	The funded ratio of a pension plan is the relative value of the plan's assets and liabilities. The Plan's funded ratio is determined by dividing the actuarial value of assets by the actuarial value of liabilities.
Investment Performance	In addition to contributions, investment income is another source of funds to provide current and future pension benefits. Investment performance can be measured against the actuarial assumed rate of return and investment returns obtained by other similar investors.

Ultimately, the pertinent considerations regarding funding a public pension plan is the ability of the plan sponsor to continue to pay promised benefits and to make required contributions without causing fiscal stress; and whether the plan's unfunded liability is being amortized over an appropriate time frame.

We identified 24 plans administered by 18 municipalities that we considered to be at risk.

Locally-administered Pension Plans Considered at Risk

Municipality	Pension Plan	Date of Valuation	Unfunded Liability	Funded Ratio	% of ARC made in Fiscal 2010
Category 1 - Plan is nearly insolvent and sponsoring municipality is in bankruptcy.					
Central Falls	Police & Fire (after 7/1/72) John Hancock	7/1/2010	$ 33,592,234	16.2%	0%
Central Falls	Police & Fire (prior to 7/1/72) 1%	7/1/2010	12,966,446	8.8%	100%
Category 2 - Plan is significantly underfunded (<60%) and annual contributions are less than annual required amounts.					
Coventry	School EE's Pension Plan	9/1/2008	18,340,664	36.9%	34%
Coventry	Police Pension Plan	7/1/2009	39,846,988	16.5%	74%
Coventry	Town's Municipal EE Retirement Plan	7/1/2009	9,537,773	29.3%	68%
Cranston	Police & Fire EE's Pension Plan (prior to 7/1/95)	7/1/2010	244,833,000	15.8%	87%
Cumberland	Town of Cumberland's Pension Plan	7/1/2010	15,431,400	38.9%	16%
East Providence	Firemen's & Policemen's Pension Plan	10/31/2010	64,990,000	47.8%	20%
Johnston	Police	7/1/2009	37,209,735	27.6%	87%
Scituate	Police Pension Plan	4/1/2009	7,481,437	23.4%	67%
Tiverton	Policemen's Pension Plan	7/1/2010	8,896,000	38.8%	0%
Warwick	Police Pension I & Fire Pension Plan	7/1/2009	210,371,727	26.6%	67%
West Warwick	Town Plan	7/1/2010	98,006,445	26.3%	43%
Westerly	Police Pension Plan	7/1/2010	13,111,553	55.2%	87%
Category 3 - Plan is significantly underfunded (<60%) but current contributions are near or equal to 100% of annual required amounts.					
Johnston	Fire (prior to 7/1/99)	7/1/2009	47,625,201	26.8%	94%
Newport	Firemen's Pension Plan	7/1/2010	51,210,293	37.6%	105%
Newport	Policemen's Pension Plan	7/1/2010	32,625,856	56.4%	108%
Pawtucket	Post 1974 Policemen & Firemen	7/1/2009	130,392,959	29.6%	97%
Providence	ERS of the City of Providence	6/30/2010	828,484,000	34.1%	96%
Smithfield	Police (prior to 7/1/99)	7/1/2010	19,200,349	11.4%	n/a
Category 4 - Plan is more than 60% funded but annual contributions are significantly less than required amounts (<80%) and/or generally declining over a multi-year period.					
Narragansett	Town Plan	7/1/2010	23,144,132	69.9%	63%
North Providence	Police Pension Plan	7/1/2007	9,370,009	68.5%	49%
Smithfield	Fire Pension Plan	7/1/2010	3,796,223	74.1%	39%
Woonsocket	Police (pre 7/1/80) and Fire (pre 7/1/85) Pension Plan	7/1/2010	30,205,140	69.1%	1%

See Note 1 – page 47

The plans in the preceding table are listed alphabetically by municipality within each risk category. Our assessment of plans includes information included in the municipality's fiscal 2010 audited financial statements and in certain instances more current actuarial valuations provided by the municipalities.

The 12 locally-administered plans not considered at risk (those excluded from the preceding tables) still require continual commitment to fund the plan responsibly by contributing 100% of annual required amounts and move toward fully funding the plan. Options to merge the plan into the Municipal Employees' Retirement System to reduce administrative costs and enhance investment performance and diversification should still be pursued.

Annual Required Contribution

Annual Required Contribution

The amount required to be contributed to the plan as determined by an actuary in accordance with the plan's actuarial funding methodology and assumptions. Any contribution amount less than 100% of the ARC warrants attention.

Consistently funding 100% of the annual required contribution (ARC) to a pension plan is one of the best indicators of an entity's commitment to making incremental progress in meeting its obligation to employees and retirees for pension benefits. If annual required contributions are consistently made, funding ratios will increase and the plan should eventually become fully funded. The table on page 16 demonstrates the actual percentage of the annual required contribution made by each locally administered pension plan over the five-year period 2006 - 2010.

The aforementioned table highlights that twelve municipalities substantially underfund their respective annual required contribution for certain plans - Central Falls (1 of 2 plans), Coventry, Cumberland, East Providence, Narragansett, North Providence, Scituate, Smithfield, Tiverton, Warwick (1of 5 plans), West Warwick, and Woonsocket. Additionally, the amount contributed by Cranston to its Police and Fire Plan is declining compared to the prior year.

Rhode Island Municipal Pension Plans - Percentage of Annual Required Contributions Made - Fiscal Years 2006-2010

=actual contribution is <80% of ARC

Municipality	Pension Plan	2006 ARC	2006 %	2007 ARC	2007 %	2008 ARC	2008 %	2009 ARC	2009 %	2010 ARC	2010 Contributions	2010 %	Comments
Bristol	Police Pension Plan (prior to 3/22/98)	$ 438,015	53%	$ 540,519	117%	$ 620,203	127%	$ 640,220	100%	$ 770,003	$ 865,433	112%	consistently funding at least 100% since 2007
Central Falls	Police & Fire John Hancock (after 7/1/72)	1,949,325	8%	2,108,373	28%	2,108,373	58%	2,573,298	0%	2,573,298	-	0%	substantial underfunding of ARC
	Police & Fire 1% (prior to 7/1/72)	974,873	127%	1,276,317	99%	1,276,317	100%	1,265,866	100%	1,265,866	1,260,318	100%	consistently funding approximately 100% of ARC
Coventry	Town's Municipal EE Retirement Plan	1,443,927	13%	1,567,266	60%	1,361,081	58%	806,558	89%	806,558	550,000	68%	substantial underfunding of ARC
	Police Pension Plan	5,479,790	28%	4,921,572	88%	4,071,928	68%	3,084,953	83%	3,084,953	2,274,733	74%	substantial underfunding of ARC
	School EE's Pension Plan	-	n/a	1,077,105	63%	1,077,105	64%	1,974,659	35%	1,974,659	672,228	34%	substantial underfunding of ARC - see Note 2
Cranston	Police & Fire EE's Pension Plan (prior to 7/1/95)	21,723,021	98%	21,723,021	100%	20,785,343	96%	20,062,219	95%	22,209,224	19,396,892	87%	declining funding of ARC
Cumberland	Town of Cumberland's Pension Plan	806,797	101%	737,697	100%	923,078	100%	1,135,722	100%	1,315,293	211,425	16%	substantial underfunding of ARC in 2010 but previously funding ARC
East Providence	Firemen's & Policemen's Pension Plan	4,192,401	24%	4,595,332	33%	4,830,497	32%	6,256,502	25%	6,878,284	1,400,002	20%	substantial underfunding of ARC
Jamestown	Police Pension Plan	98,313	222%	122,028	142%	130,774	160%	139,929	123%	233,257	257,510	110%	consistently funding at least 100% of ARC
Johnston	Police	2,659,000	100%	2,743,000	99%	2,839,000	102%	3,338,000	84%	3,464,000	3,024,000	87%	consistently funding at least 84% or more of ARC
	Fire (prior to 7/1/99)	3,330,000	93%	3,100,000	114%	3,209,000	101%	3,704,000	76%	3,834,000	3,589,000	94%	consistently funding at least 76% or more of ARC
Lincoln	Town Retirement Plan	309,674	106%	348,818	100%	358,880	100%	386,977	100%	618,012	576,259	93%	consistently funding at least 93% or more of ARC
Little Compton	Town Employees Other than Certified Teachers	303,154	93%	358,331	85%	338,040	106%	424,375	80%	507,896	424,375	84%	consistently funding at least 80% or more of ARC
Middletown	Town Plan	2,617,280	98%	2,383,896	115%	2,475,038	100%	2,715,725	95%	2,780,271	2,826,050	102%	mostly consistent funding of ARC
Narragansett	Police Plan (prior to 7/1/78)	71,561	98%	80,656	0%	80,656	267%	77,093	0%	77,093	120,000	156%	increased funding in 2010
	Town Plan	2,184,453	47%	2,653,919	40%	2,630,851	44%	2,462,870	55%	2,462,870	1,557,772	63%	substantial underfunding of ARC
Newport	Firemen's Pension Plan	3,543,234	100%	3,352,662	106%	3,291,226	100%	3,310,657	105%	3,781,258	3,981,258	105%	consistently funding at least 100% of ARC
	Policemen's Pension Plan	2,440,649	100%	2,385,996	102%	2,272,177	100%	2,406,091	103%	2,470,822	2,670,822	108%	consistently funding at least 100% of ARC
North Providence	Police Pension Plan	1,255,035	92%	1,255,035	77%	1,525,120	55%	1,529,633	54%	1,529,633	746,432	49%	substantial underfunding of ARC
Pawtucket	Pre 1974 Policemen & Firemen (pay-as-you-go)	925,047	81%	930,140	77%	859,343	80%	790,725	82%	766,692	629,460	82%	funded on a pay-as-you-go basis
	Post 1974 Policemen & Firemen	6,699,593	52%	7,362,251	52%	7,433,922	57%	8,117,103	60%	9,387,665	9,106,000	97%	increased funding in 2010
Portsmouth	Employees of the Town of Portsmouth	1,552,169	100%	1,671,713	100%	2,088,317	100%	2,346,316	100%	2,590,523	2,590,523	100%	consistently funding at least 100% of ARC
Providence	ERS of the City of Providence	51,454,000	96%	50,584,000	100%	54,120,000	100%	48,509,000	100%	51,299,000	49,123,000	96%	mostly consistent funding of ARC
Scituate	Police Pension Plan	410,834	101%	410,834	101%	472,897	94%	472,897	95%	683,831	457,344	67%	substantial underfunding of ARC in 2010 but previously funding ARC
Smithfield	Police (prior to 7/1/99)	1,252,918	126%	-	n/a	-	n/a	-	n/a	n/a	1,048,000	n/a	see Note 3
	Fire Pension Plan	707,557	68%	912,526	53%	693,229	72%	1,044,019	54%	1,452,418	570,270	39%	substantial underfunding of ARC
Tiverton	Policemen's Pension Plan	648,059	100%	647,343	92%	597,226	100%	711,225	100%	1,023,362	-	0%	no funding of ARC in 2010, but previously funding 100% of ARC
Warwick	City Employees Pension Plan	3,043,476	100%	3,165,215	100%	3,211,753	100%	3,340,223	100%	3,973,247	3,973,247	100%	consistently funding at least 100% of ARC
	Police Pension II Plan	1,917,484	100%	2,359,189	100%	2,285,974	100%	2,369,750	100%	2,062,481	2,062,481	100%	consistently funding at least 100% of ARC
	Police Pension I & Fire Pension Plan	10,517,450	100%	19,719,971	62%	19,816,479	64%	19,551,645	65%	19,638,790	13,125,568	67%	substantial underfunding of ARC
	Fire Pension Plan II	1,081,926	100%	1,334,416	100%	1,432,908	100%	1,535,840	100%	1,594,677	1,594,677	100%	consistently funding at least 100% of ARC
	Warwick Public Schools Employee Pension Plan	1,503,550	84%	1,700,598	71%	1,439,385	106%	1,569,248	100%	2,195,400	2,195,000	100%	consistently funding at least 100% of ARC since 2008
West Warwick	Town Plan	3,100,394	47%	3,553,780	56%	4,082,436	56%	4,676,096	21%	5,799,056	2,500,000	43%	substantial underfunding of ARC
Westerly	Police Pension Plan	1,355,800	96%	1,502,900	86%	1,651,100	79%	1,249,700	88%	1,458,500	1,275,000	87%	consistently funding at least 79% or more of ARC
Woonsocket	Police (pre 7/1/80) & Firemen's (pre 7/1/85) Plan	-	n/a	-	n/a	32,100	100%	1,518,900	2%	2,705,190	15,612	1%	substantial underfunding of ARC - See Note 4
	Totals:	$ 141,990,759	87%	$ 153,186,419	87%	$ 156,421,756	87%	$ 156,098,034	82%	$ 169,268,082	$ 136,670,691	81%	

Continual underfunding pension obligations is viewed negatively by bond rating agencies and others assessing the fiscal health of a community. For example, a downgrade in the credit rating assigned to the Town of West Warwick in August 2009 cited the following:

> "The downgrade is based on the town's reduced financial position following consecutive operating deficits, continued pressures related to the fiscal challenges of the school department and a growing net pension obligation due to the long-term practice of not fully funding the town's annually required contribution (ARC) for pensions. The town's unfunded pension liability increased by $37 million or over 200% between 2001 and 2006, bringing the system's funded ratio down to a low 45% from 77% with additional declines expected given recent market losses. West Warwick's contribution as a percent of the ARC has ranged from 0% to 56% over the last six years, with only partial funding budgeted again in fiscal 2010." *(Moody's Investors Service – Town of West Warwick – August 5, 2009)*

A more recent rating report in August 2011 included the following:

> "The recent positive operating results are also the result of consistent underfunding of the town's pension fund, which will continue to exert significant negative financial pressure on the town's financial operations. In fiscal 2010, the town contributed $2.5 million of its $5.8 million ARC (43.11%). Combined with underperformance of fund investments, the pension plan's overall funded ratio fell to 29.74% ($35.6 million funded out of a $119.7 million liability). The town decreased its annual contributions to $1 million in both fiscal 2011 and fiscal 2012 (14.4% and 12.7% of the ARC, respectively). This has increased the unfunded liability to $98.0 out of a total accrued liability of $133.0 million (26.3% funded). The Town's independent actuary reports that if the town continues its low level of funding, the pension plan will be depleted in 8 to 10 years. If the plan's investments underperform their 8% long-term rate of return assumption, this period could be even shorter. Once the pension plan assets are depleted, the town will need to fund pension costs directly from general revenues at a cost of more than $10 million or more per year, creating a significant strain on the town's budget." *(Moody's Investors Service – Town of West Warwick – August 5, 2011)*

Similarly, Moody's March 2011 rating for the Town of Coventry included the following:

> "The town has a long history of underfunding the actuarially determined annual required contributions (ARC) for its Town and Police Pension Plans which has resulted in very weak pension funded ratios for the two plans. As of July 1, 2009, the funded ratios for the Town and Police Plans were 29% and 17%, respectively, among the lowest for locally administered plans in the state. These levels, which while up from lows of 18% in 2006 for the Town Plan and 6% in 2004 for the Police Plan, remain minimal, and inconsistent with the current rating category. The funded status of the plan is likely to remain pressured as the town continues its practice of underfunding the ARCs for both plans. ARC funding has ranged from 14% to 89% since 2005. For fiscal 2011, the Town and Police ARCs were funded at 62% and 69% respectively, just enough to cover the pay-as-you-go pension costs for each. 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. The continuation of this practice will likely bring negative pressure to the rating in the future." *(Moody's Investors Service – Town of Coventry – March 30, 2011)*

As reflected above in the rationale for ratings modifications, rating agencies are increasing their focus on the existence of unfunded pension and OPEB liabilities and whether governments are responsibly managing those obligations by funding 100% of annual required contributions. Consequently, the overall fiscal health of a government and its ability to borrow at a reasonable cost is much more directly linked to the responsible management of its pension and OPEB obligations.

The table below demonstrates the strong correlation between locally-administered pension plans that we had deemed to be at risk and recent ratings downgrades.

Municipalities Downgraded by Moody's Investors Service	Pension Plan Discussed as a Rating Factor
Central Falls	✓
Coventry	✓
East Providence	✓
Pawtucket	
Providence	✓
Warwick	
West Warwick	✓

The very significant annual required contribution to pension and OPEB plans are largely a by-product of past underfunding of the plans. For example, the annual required contribution to the City of Providence's pension plan for its employees (excluding teachers) was $51.3 million for 2010 and $56.4 million for fiscal 2011 of which the City made approximately 100% of the required contribution. The composite employer contribution rate (different rates are applied to different groups of employees - e.g., police, fire, general) was 42.90% of payroll. Within the rate, only 6.11% related to normal or current service costs and 36.79% related to amortization of the unfunded liability and interest thereon. This underscores the very dramatic impact of past underfunding on current required contributions.

The higher cost of not making consistent and timely contributions is also evident in the example of the City of Cranston's Police and Fire Employees Retirement System. The annual required contribution for fiscal 2009 and 2010 was $20.1 million and $22.2 million, respectively. This plan covers 61 active members and 428 retirees for a total of 489 individuals. In contrast, the <u>aggregate</u> annual required contribution for <u>all</u> participating entities in the Municipal Employees Retirement System (MERS) was $31.3 million for fiscal 2010 covering a total of 14,780 individuals (active and retirees). This significant disparity in the relative annual required contribution between the plans results in part from the impact of Cranston not contributing required amounts each year in the past.

One of the key advantages of participating in the State administered MERS plan is that 100% of the annual required contribution <u>must</u> be made. The general laws provide for deducting required contribution amounts due the State Employees' Retirement System from state aid payments to the municipality. This seeming lack of flexibility and forced discipline is actually a benefit due to the dramatically increased costs associated with deferring contributions to a pension plan. While a significant benefit from a responsible funding perspective, it is a key reason why some communities are not pursuing merging their locally administered plan in the state administered Municipal Employees' Retirement System (MERS). The budgetary impact of making 100% of the annual required contribution is too significant to manage within property tax limitations and other declining revenues (e.g., State aid).

Net Pension Obligation

Net Pension Obligation

When a government contributes 100% of the ARC, no liability is required to be presented on the face of the government's financial statements. When less than 100% of the ARC is contributed, the difference between the ARC and the actual contribution is reflected as a liability on the government's government-wide financial statements and is referred to as the net pension obligation. When an NPO exists on a government's financial statements, this amount represents the cumulative effect of contributions that should have been, but were not, made to a pension plan.

The net pension obligation (NPO) is an amount defined by generally accepted accounting principles (GAAP) for governments. This liability is included in an entity's government-wide (accrual accounting basis) financial statements along with other long-term liabilities such as bonds payable. It represents the cumulative difference between amounts actually contributed to a pension plan and the annual required contribution as determined by an actuary in accordance with guidelines permitted by GAAP.

The NPO is a measure of the effect of not contributing the annual required contribution amount. The NPO amount, together with cumulative investment income, would have been available within the plan to fund future liabilities if the annual required contribution had been made. Nearly one-half of the City of Cranston's general long-term debt stems from the chronic failure to contribute actuarially determined amounts to fund the City's Police and Fire Employees Retirement System.

Municipalities with the largest net pension obligations as included in their fiscal 2010 financial statements are summarized below.

Municipality	Net Pension Obligation
Providence	$ 132,767,000
Cranston	90,436,567
Pawtucket	78,058,564
East Providence	40,721,381
Coventry	32,108,831
West Warwick	29,247,260
Warwick	28,197,917
Central Falls	27,318,891
Narragansett	11,718,611
Johnston	5,772,000
North Providence	4,934,857
Woonsocket	4,150,545
Westerly	2,924,196
Smithfield	2,694,331
Scituate	2,454,952
Tiverton	1,219,411
Cumberland	1,103,868

Unfunded Actuarial Accrued Liability

Unfunded Actuarial Accrued Liability

The Actuarial Accrued Liability (AAL) is the present value of fully projected benefits attributable to service credit that has been earned. The Unfunded Actuarial Accrued Liability (UAAL) is the difference between the AAL and the actuarial value of assets available to pay benefits.

The Unfunded Actuarial Accrued Liability (UAAL) is determined as a result of periodic actuarial valuations usually performed annually. The UAAL is the by-product of measuring both the assets and projected benefits (liabilities) of the plan using actuarial assumptions and methodologies. These measures become the basis for developing the annual required contribution amount and the funded ratio.

Basically, the UAAL demonstrates how well assets have been accumulated to meet future benefit obligations to retirees. The UAAL is expressed in dollars whereas the funded ratio uses the same data to express what percentage of the liability for future benefits (AAL) has been funded by the actuarial value of assets.

Some governments have issued pension obligation bonds to finance the unfunded actuarial accrued liability in their pension funds. In essence the pension obligation bonds provide a source of cash to pay off the unfunded pension liability. In selling these bonds, governments are counting on plan investment earnings being greater than the interest paid on the pension obligation bonds. Obviously, there is the risk that the market may not generate investment returns to exceed the rate paid on the bonds. Furthermore, once the bonds are issued, a government is committed to the debt service schedule whereas a government typically has more flexibility in deciding on the amount and the specific timing of future pension contributions. Through issuance of pension obligation bonds, a “soft” liability is exchanged for a “hard” liability.

The consideration of pension obligation bonds is often controversial since the amount of bonds contemplated is usually significant to the entity’s overall debt burden and the market returns required to ensure the viability of the proposal are anything but certain. The worst-case scenario occurs when investment returns fail to meet required amounts and further contributions are required to the pension plan in addition to the debt service on the bonds. Locally, the City of Woonsocket issued $90 million of pension obligation bonds in fiscal 2003. In fiscal 2010, due in part to investment losses, the City recognized an annual required contribution of $2.7 million in addition to the debt service on its pension obligation bonds (approximately $1.7 million for fiscal 2010).

The table on the next page highlights the unfunded actuarial accrued liability and funded ratio (as of the most recent valuation included in the municipality’s fiscal 2010 financial statements) for each of the 36 pension plans administered by Rhode Island municipalities including the funded ratio trend for the period 2006-2010.

Rhode Island Municipal Pension Plans - Unfunded Actuarial Accrued Liability (UAAL)

Municipality	Pension Plan	Date of Valuation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Funded Ratio Trend
Bristol	Police Pension Plan (prior to 3/22/98)	7/1/2010	$ 12,148,307	$ 20,937,357	$ 8,789,050	58.0%	decreasing
Central Falls	Police & Fire (after 7/1/72) John Hancock	7/1/2010	6,516,889	40,109,123	33,592,234	16.2%	decreasing
	Police & Fire (prior to 7/1/72) 1%	7/1/2010	1,251,926	14,218,372	12,966,446	8.8%	increasing
Coventry	Town's Municipal EE Retirement Plan	7/1/2009	3,943,263	13,481,036	9,537,773	29.3%	inconsistent, but slight decrease from 2008 to 2009
	Police Pension Plan	7/1/2009	7,901,431	47,748,419	39,846,988	16.5%	inconsistent, but slight decrease from 2008 to 2009
	School EE's Pension Plan (2)	9/1/2008	10,721,962	29,062,626	18,340,664	36.9%	decreasing
Cranston	Police & Fire EE's Pension Plan (prior to 7/1/95)	7/1/2010	45,900,000	290,733,000	244,833,000	15.8%	decreasing in 2008 & 2009 then increasing in 2010
Cumberland	Town of Cumberland's Pension Plan	7/1/2010	9,807,821	25,239,221	15,431,400	38.9%	decreasing
East Providence	Firemen's & Policemen's Pension Plan	10/31/2010	59,600,000	124,590,000	64,990,000	47.8%	decreasing
Jamestown	Police Pension Plan	7/1/2010	7,917,927	7,975,138	57,211	99.3%	consistently funded > 100% then slight decrease in 2010
Johnston	Police	7/1/2009	14,201,866	51,411,601	37,209,735	27.6%	inconsistent, but decreased from 2007 to 2009
	Fire (prior to 7/1/99)	7/1/2009	17,472,877	65,098,078	47,625,201	26.8%	inconsistent, but decreased from 2007 to 2009
Lincoln	Town Retirement Plan	1/1/2010	14,662,776	21,127,359	6,464,583	69.4%	decreasing
Little Compton	Town Employees Other than Certified Teachers	7/1/2010	5,847,475	7,853,226	2,005,751	74.5%	inconsistent, but increasing 2010
Middletown	Town Plan	7/1/2010	42,526,359	54,547,798	12,021,439	78.0%	inconsistent, but increased from 2009 to 2010
Narragansett	Police Plan (prior to 7/1/78)	7/1/2010	(76,563)	840,010	916,573	0.0%	consistent
	Town Plan	7/1/2010	53,870,256	77,014,388	23,144,132	69.9%	decreasing
Newport	Firemen's Pension Plan	7/1/2010	30,820,663	82,030,956	51,210,293	37.6%	inconsistent, but increased from 2009 to 2010
	Policemen's Pension Plan	7/1/2010	42,240,992	74,866,848	32,625,856	56.4%	inconsistent, but increased from 2009 to 2010

Rhode Island Municipal Pension Plans - Unfunded Actuarial Accrued Liability (UAAL)

Municipality	Pension Plan	Date of Valuation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Funded Ratio Trend
North Providence	Police Pension Plan	7/1/2007	20,331,967	29,701,976	9,370,009	68.5%	decreasing then increasing in 2007
Pawtucket	Pre 1974 Policemen & Firemen (pay as you go)	7/1/2009	-	4,000,000	4,000,000	0.0%	pay as you go plan - 60 retirees
	Post 1974 Policemen & Firemen	7/1/2009	54,729,846	185,122,805	130,392,959	29.6%	decreasing
Portsmouth	Employees of the Town of Portsmouth	7/1/2010	32,779,646	54,054,944	21,275,298	60.6%	decreasing
Providence	ERS of the City of Providence	6/30/2010	427,891,000	1,256,375,000	828,484,000	34.1%	decreasing then slight increase in 2010
Scituate	Police Pension Plan	4/1/2009	2,286,905	9,768,342	7,481,437	23.4%	increasing then significant decrease in 2009
Smithfield	Police (prior to 7/1/99) (3)	7/1/2010	2,476,804	21,677,153	19,200,349	11.4%	no trend due to substantial changes made to the plan
	Fire Pension Plan	7/1/2010	10,862,060	14,658,283	3,796,223	74.1%	decreasing
Tiverton	Policemen's Pension Plan	7/1/2010	5,633,000	14,529,000	8,896,000	38.8%	decreasing
Warwick	City Employees Pension Plan	7/1/2010(draft)	87,060,569	122,721,770	35,661,201	70.9%	decreasing
	Police Pension II Plan	7/1/2009	137,152,325	139,554,358	2,402,033	98.3%	decreasing
	Police Pension I & Fire Pension Plan	7/1/2009	76,142,283	286,514,010	210,371,727	26.6%	consistent
	Fire Pension Plan II	7/1/2009	18,265,170	20,678,480	2,413,310	88.3%	decreasing
	Warwick Public Schools Employee Pension Plan	7/1/2010	32,317,581	42,039,713	9,722,132	76.9%	consistent
West Warwick	Town Plan	7/1/2010	35,007,723	133,014,168	98,006,445	26.3%	decreasing
Westerly	Police Pension Plan	7/1/2010	16,145,954	29,257,507	13,111,553	55.2%	decreasing then consistent
Woonsocket	Police (pre 7/1/80) and Fire (pre 7/1/85) Pension Plan (4)	7/1/2010	67,655,825	97,860,965	30,205,140	69.1%	decreasing
		Totals	$ 1,414,014,885	$ 3,510,413,030	$ 2,096,398,145	40.3%	

The cost of providing pension payments to plan members can vary widely among plans and is affected by numerous factors. Calculating the UAAL per plan member allows comparison of plans of different sizes as illustrated in the table below.

Pension Plan	UAAL	Plan members (a)	UAAL per plan member
Locally administered pension plans (aggregate) (b)	$ 2,096,398,145	14,594	$ 143,648
MERS (state administered - aggregate) (b)	430,236,223	14,780	29,109
Providence – ERS of the City of Providence	828,484,000	6,359	130,285
Cranston – Police and Fire (pre 7/1/95)	244,833,000	489	500,681
Warwick – Police Pension I and Fire Pension Plan	210,371,727	455	462,355
Employees' Retirement System of RI – State employees	2,700,450,527	25,061	107,755
Employees' Retirement System of RI – Teachers (state administered)	4,133,195,600	26,264	157,371

General – plan benefits and member characteristics (e.g., average salary) can vary significantly between plans which affects the comparability of the UAAL per plan member. UAAL is as of the most recent valuation included in the entity's fiscal 2010 audited financial statements or more recent to the extent available. For the locally administered plans the actuarial valuations are not all as of the same date.

(a) plan members include active employees, terminated employees not collecting benefits, retirees, and beneficiaries.

(b) separate actuarial valuations are performed for each unit; the UAAL presented is the aggregate UAAL for all units -- no adjustment has been made for the inclusion of individual plans which are overfunded in the aggregate UAAL for all plans – inclusion of overfunded plans in the aggregate UAAL understates the UAAL per member. The MERS actuarial valuation is the most recent available – June 30, 2010.

Since plan benefits and plan member characteristics can vary significantly among plans, one must exercise caution in drawing specific conclusions from the UAAL per plan member. It is clear, however, that the UAAL is significantly impacted by failure to contribute required amounts, investment performance and specific benefit provisions. It is noteworthy that MERS has the highest funded ratio (73.6%) of the plans used in the foregoing comparison and it also has the smallest UAAL per plan member. This demonstrates that timely and consistent funding of annual required amounts will generally result in significantly reduced pension costs.

Funded Ratio

The funded ratio of a pension or OPEB plan is the relative value of the plan's assets and liabilities. The Plan's funded ratio is determined by dividing the actuarial value of assets by the actuarial value of liabilities.

Funded Ratio

The funded ratio quantifies the overall funding status of the plan and is a key measure of the fiscal health of a pension plan. It represents the relative value of the plan's assets compared to plan liabilities. The Plan's funded ratio is determined by dividing the actuarial value of assets by the actuarial value of liabilities.

Conceptually, a pension fund should be at or near 100% funded meaning that sufficient assets have been accumulated to meet estimated future pension liabilities. The further a plan is from 100% funded, the greater the risk that, without increased contributions and investment income or gains, assets will be insufficient to meet expected pension benefits. Larger contributions are required to make-up for the funding deficiency when plans are significantly less than the 100% funded ratio.

At the other end of the spectrum from plans that are 100% funded, plans that are pay-as-you-go use current receipts to pay current benefits with no assets set aside for future costs. In most cases, pay as you go plans eventually become too expensive to support with only tax receipts and contributions. This typically occurs in an established plan where the number of retirees continually increases yet the number of active employees decreases or remains relatively constant. Investment earnings count for most of the revenue generated by a prefunded plan, lessening the impact on employer contributions.

We identified local plans considered to be at risk based on the criteria described on page 14. Recent initiatives in other states to identify pension plans at risk have generally targeted any plan with a funded ratio less than 80%. Using this parameter, there are a number of municipalities in Rhode Island with locally-administered pension plans that are at risk (based on the most recent funded ratio reported in each municipality's fiscal 2010 audited financial statements or more current available actuarial valuations).

Thirty-one self-administered pension plans have funded ratios of less than 80%. The table on the next page lists the current funded status of the locally-administered pension plans with comparisons to funded ratios reported in our July 2007 and March 2010 reports.

- Eighteen of the locally administered pension plans have funded ratios of less than 50%; five are less than 20% funded.

- Fourteen of the plans experienced a significant reduction in the reported funded ratio compared to data reported in our first report on the status of locally administered pension plans issued in July 2007.

Locally Admininistered Pension Plans - Funded Ratio Comparison

		Funded Ratio reported in:		
Municipality	Pension Plan	September 2011	March 2010	July 2007
Central Falls	Police & Fire (prior to 7/1/72) 1%	8.8%	8.1%	7.3%
Smithfield	Police (prior to 7/1/99)	11.4%	17.9%	36.0%
Cranston	Police & Fire EE's Pension Plan (prior to 7/1/95)	15.8%	15.1%	15.5%
Central Falls	Police & Fire (after 7/1/72) John Hancock	16.2%	30.2%	34.6%
Coventry	Police Pension Plan	16.5%	17.4%	8.0%
Scituate	Police Pension Plan	23.4%	23.4%	37.0%
West Warwick	Town Plan	26.3%	39.5%	48.0%
Warwick	Police Pension I & Fire Pension Plan	26.6%	27.2%	27.0%
Johnston	Fire (prior to 7/1/99)	26.8%	26.8%	30.7%
Johnston	Police	27.6%	27.6%	30.8%
Coventry	Town's Municipal EE Retirement Plan	29.3%	29.6%	18.0%
Pawtucket	Post 1974 Policemen & Firemen	29.6%	38.8%	42.5%
Providence	ERS of the City of Providence	34.1%	33.5%	37.4%
Coventry	School EE's Pension Plan	36.9%	36.9%	46.6%
Newport	Firemen's Pension Plan	37.6%	39.5%	39.9%
Tiverton	Policemen's Pension Plan	38.8%	40.3%	49.9%
Cumberland	Town of Cumberland's Pension Plan	38.9%	44.6%	59.5%
East Providence	Firemen's & Policemen's Pension Plan	47.8%	57.1%	70.0%
Westerly	Police Pension Plan	55.2%	54.3%	43.4%
Newport	Policemen's Pension Plan	56.4%	61.5%	62.5%
Bristol	Police Pension Plan (prior to 3/22/98)	58.0%	64.2%	67.0%
Portsmouth	Employees of the Town of Portsmouth	60.6%	61.6%	65.3%
North Providence	Police Pension Plan	68.5%	68.5%	67.5%
Woonsocket	Police (pre 7/1/80) and Fire (pre 7/1/85) Pension Plan	69.1%	90.4%	100.9%
Lincoln	Town Retirement Plan	69.4%	89.6%	90.9%
Narragansett	Town Plan	69.9%	79.8%	79.0%
Warwick	City Employees Pension Plan	70.9%	79.2%	78.5%
Smithfield	Fire Pension Plan	74.1%	77.8%	86.0%
Little Compton	Town Employees Other than Certified Teachers	74.5%	78.5%	80.5%
Warwick	Warwick Public Schools Employee Pension Plan	76.9%	84.6%	81.0%
Middletown	Town Plan	78.0%	84.3%	72.2%
Warwick	Fire Pension Plan II	88.3%	97.0%	86.3%
Warwick	Police Pension II Plan	98.3%	104.9%	102.3%
Jamestown	Police Pension Plan	99.3%	100.4%	123.9%
	collective funded ratio	40.3%	42.8%	45.0%

Funded ratios as reported in the most recent audited financial statements of the municipality or where applicable a more current actuarial valuation compared to amounts report in our previous reports in March 2010 and July 2007.

Assumed Rate of Return on Plan Investments

Investment Performance

In addition to contributions, investment income is another source of funds to provide current and future pension benefits. Investment performance can be measured against the actuarial assumed rate of return and investment returns obtained by other similar investors.

After making annual required contributions, the next most important factor impacting the financial health of a pension plan is overall investment performance. Achieving average investment returns equal to the assumed rate of return is necessary to meet planned funding targets. Failure to meet the assumed rate of return adds to the growth in plan liabilities.

The assumed rates of return for pension plans administered by Rhode Island municipalities ranged from 7.0% to 8.5%. The assumed rate of return used by the State of Rhode Island Employees Retirement System was recently changed to 7.5% downward from 8.25%.

According to *Public Fund Survey Summary of Findings for FY 2008* issued by the National Association of State Retirement Administrators in October 2009, over time, investment earnings account for the majority of public pension fund revenues. The prominence of investment earnings in the financing arrangement magnifies the role of a pension fund's investment return on its funding condition.

With the trend to question investment return assumptions and ensure they are aligned with reasonable market expectations, those communities using higher investment return assumptions (e.g., 8.5%) may need to examine that rate in light of actual and expected investment performance. Obviously, any downward adjustment in the investment return assumption (discount rate) will have a corresponding increase in the unfunded liability and, ultimately, annual required contributions. In essence, making any downward adjustment in the investment return assumption will significantly worsen the funded status of the plan.

Smaller plans typically have difficulty achieving the overall investment performance of larger plans because they have fewer opportunities to spread risk, cannot invest as efficiently (higher costs), may not have access to all types of potentially higher yielding investments and may not have developed appropriate asset allocation strategies to diversify risk.

Locally administered pension plans struggle to achieve the same rates of return earned by larger, well diversified and professionally managed plans. Further, larger plans are better able to manage investment risk through diversification.

Considering that investment performance can have a significant impact on the plan's funded status and contribution rates, efforts to improve investment performance by (1) merging the locally administered plans into the State administered Municipal Employees' Retirement System or (2) creating a state administered pooled investment trust for locally administered pension plans deserve serious consideration.

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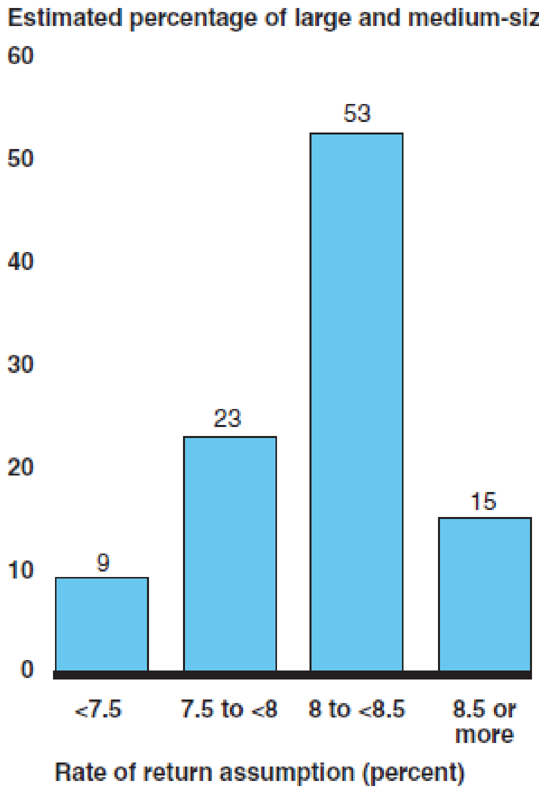
Rhode Island Municipal Pension Plans - Assumed Rates of Return

Municipality	Pension Plan	Date of Actuarial Valuation	Assumed Rate of Return	Change in Assumption since Prior Actuarial Valuation
Bristol	Police Pension Plan (prior to 3/22/98)	7/1/2010	8.00%	
Central Falls	Police & Fire John Hancock (after 7/1/72)	7/1/2010	7.75%	
	Police & Fire 1% (prior to 7/1/72)	7/1/2010	7.50%	
Coventry	Town's Municipal EE Retirement Plan	7/1/2009	8.00%	
	Police Pension Plan	7/1/2009	8.00%	
	School EE's Pension Plan	9/1/2008	7.00%	
Cranston	Police & Fire EE's Pension Plan (prior to 7/1/95)	7/1/2010	8.00%	
Cumberland	Town of Cumberland's Pension Plan	7/1/2010	8.00%	
East Providence	Firemen's & Policemen's Pension Plan	10/31/2010	8.50%	
Jamestown	Police Pension Plan	7/1/2010	7.00%	
Johnston	Police	7/1/2009	7.75%	
	Fire (prior to 7/1/99)	7/1/2009	7.75%	
Lincoln	Town Retirement Plan	1/1/2010	8.00%	
Little Compton	Town Employees Other than Certified Teachers	7/1/2010	7.50%	
Middletown	Town Plan	7/1/2010	7.50%	
Narragansett	Police Plan (prior to 7/1/78) (pay as you go)	7/1/2010	7.50%	
	Town Plan	7/1/2010	7.50%	
Newport	Firemen's Pension Plan	7/1/2010	7.50%	decrease from 8.25%
	Policemen's Pension Plan	7/1/2010	7.50%	decrease from 8.25%
North Providence	Police Pension Plan	7/1/2007	7.25%	
Pawtucket	Pre 1974 Policemen & Firemen (pay as you go)			
	Post 1974 Policemen & Firemen	7/1/2009	7.875%	decrease from 8%
Portsmouth	Employees of the Town of Portsmouth	7/1/2010	8.00%	
Providence	ERS of the City of Providence	6/30/2010	8.50%	
Scituate	Police Pension Plan	4/1/2009	8.25%	
Smithfield	Police (prior to 7/1/99)	7/1/2010	8.50%	
	Fire Pension Plan	7/1/2010	8.50%	
Tiverton	Policemen's Pension Plan	7/1/2010	7.50%	
Warwick	City Employees Pension Plan	7/1/2010 draft	7.50%	decrease from 8%
	Police Pension II Plan	7/1/2009	8.00%	
	Police Pension I & Fire Pension Plan	7/1/2009	8.00%	
	Fire Pension Plan II	7/1/2009	8.00%	
	Warwick Public Schools Employee Pension Plan	7/1/2010	7.00%	
West Warwick	Town Plan	7/1/2010	8.00%	decrease from 8.25%
Westerly	Police Pension Plan	7/1/2010	8.00%	
Woonsocket	Police (pre 7/1/80) and Fire (pre 7/1/85) Plan	7/1/2010	8.25%	
Average			7.81%	

The United States Government Accountability Office (GAO) included a survey of assumed rates of returns for state and local pension plans in an August 2010 report – *State and Local Government Pension Plans – Governance Practices and Long-Term Investment Strategies have Evolved Gradually as Plans Take on Increased Investment Risk.* The assumed rates of return used within the locally-administered pension plans as listed on the previous page are generally consistent with the results of the GAO's national survey. The following bar graph was included in the GAO's August 2010 report.

Figure 6: Distribution of Plans' Assumed Rates of Return



Source: GAO survey of state and local plans.

Note: The 95 percent confidence intervals for these estimates are less than plus or minus 9 percentage points.

STATUS OF OTHER POSTEMPLOYMENT BENEFIT (OPEB) PROGRAMS

At the time of our initial report (July 2007), new accounting guidelines [1] relating to other post-employment benefits were on the horizon but were not yet effective for Rhode Island's municipalities. By fiscal 2010, all the municipalities that offer OPEB were required to implement the accounting and disclosure requirements.

These guidelines require governmental employers to measure the cost of the postemployment benefits provided to retirees (generally healthcare) on an actuarial basis and recognize these costs (i.e., annual required contribution) in the entity's government-wide financial statements. The accounting measurement criteria for other postemployment benefit costs is similar to pensions and uses consistent terminology as well.

As a result of the implementation of this governmental accounting standard, municipalities must disclose the future costs associated with providing post-employment benefits to its employees in their annual financial statements. For most communities, the future costs are very significant and largely unfunded. In most cases, governmental employers fund these costs on a pay-as-you-go basis and there has been little or no accumulation of assets to pay future benefits. Further, health care costs continue to increase at a dramatic pace; therefore, any projection of the future cost of benefits to retirees must reflect an aggressive cost escalation trend rate. These costs will further challenge Rhode Island municipalities as many are already struggling to properly fund their obligation for pension benefits.

The collective unfunded liability for OPEB plans (UAAL) as shown in the table beginning on page 32 is $3.5 billion. Assets totaling less than 1% of the actuarial accrued liability have been set aside for the payment of future benefits. On average, communities are funding 50% of the annual required contribution for OPEB benefits. The collective ARC for OPEB plans alone is $244 million.

The collective unfunded liability for OPEB plans increased from $2.4 billion (as reported in our March 2010 report) to $3.5 billion currently. A large portion of this increase is due to a change in the investment return assumption (discount rate) used by the City of Providence's actuary in valuing plan liabilities. Amounts reported previously were based on an 8% investment return assumption and the more current actuarial valuation uses a 4% investment return assumption. This caused the City's unfunded OPEB liability to nearly double.

This underscores the sensitivity of the determination of unfunded liabilities to the underlying actuarial assumptions. The variability of investment return assumptions for OPEB plans is dramatic (see table on page 34) compared to investment return assumptions for the locally administered pension plans (see table on page 27). The Governmental Accounting Standards Board has provided guidance on choosing an appropriate investment return assumption to discount future OPEB liabilities. One of the key determinants is whether the government has established a trust to hold assets for the OPEB plan and whether they are funding the plan on an actuarially determined basis. With both of those provisions in place, a government may appropriately use an investment return assumption that is more consistent with a

[1] GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* requires governmental employers to obtain periodic actuarial valuations of their OPEB plans, report the annual required contribution as an expense on its government-wide financial statements, and disclose the funded status of the OPEB plan in a manner that is similar to accounting requirements for pensions by employers.

long-term investment perspective reflecting adopted investment policy and asset allocations. Absent those provisions, a government should use a discount rate that is consistent with returns earned on other short-term investments held by the government.

Some municipalities may be using overly optimistic investment return assumptions in valuing their OPEB liabilities. Some are using a long-term investment assumption without creating a trust to hold accumulated assets, investing assets consistent with a long-term investment objective, and/or funding OPEB on an actuarial basis – all of which are necessary to use a long term investment return assumption. Many others are using a 4% investment return assumption which is not reflective of current short-term investment returns. In the absence of a trust and funding the OPEB plan on an actuarial basis the discount rate used should be reflective of returns on short-term investments of the government.

The estimate of the unfunded OPEB liability may be imprecise due to understatement for potentially inappropriate investment return assumptions used in valuing certain of the OPEB plans and the need to factor in the impact of recent legislation that facilitates enrolling eligible retirees in Medicare which would decrease plan liabilities.

Another actuarial assumption key to valuing OPEB liabilities is the inflation or health care cost escalation assumption. Since the annual increase in health care costs is significant – realistic projections of this component of the actuarial valuation is also critical.

While the $3.5 billion unfunded liability for municipal retiree health plans is alarming, a more realistic appraisal of that liability may in fact be greater for the reasons cited above.

Each municipality that offers retiree health benefits should complete a comprehensive analysis to (1) ensure the assumptions underlying the valuation of future liabilities are appropriate and reasonable, (2) review the affordability of the benefits offered, and (3) commit to funding OPEB benefits in an actuarially sound manner.

We did not compare, in detail, the benefits offered by the various locally administered OPEB plans. However, in general, the municipal plans appeared to be more generous than the State's OPEB plan for its employees. For example, under many municipal OPEB plans, full spousal and dependent coverage is common and a retiree co-pay is often not required. The State's OPEB plan covers only employees (spousal and dependent coverage is available on a buy-in basis at full cost) and a 20% retiree co-pay is required for all employees retiring after October 1, 2008. Co-pay percentages for earlier retirees were determined based on years of service.

A report by the Pew Center on the States noted that "on average, states have only put aside 7.1 percent of the assets needed to adequately fund their retiree health care liabilities. Twenty states have not set aside any funds."[2] Governments, at both state and local levels, are struggling to meet required payments to fund just pensions notwithstanding OPEB benefits. Until recently, the liability for future OPEB had been largely ignored and unreported. Unfunded OPEB liabilities, while not unique to Rhode Island are real and without funding, will only grow significantly, particularly due to escalating health care costs which must be factored into the estimation of the liability.

[2] Pew Center on the States – *The trillion dollar gap – Underfunded state retirement systems and the roads to reform*- February 2010

Consistent with the conclusions outlined herein that locally administered pension plans are at risk, locally-administered OPEB plans should likely be viewed in the same light. An opportunity exists to restructure plan design and benefit delivery before each community creates a trust and begins to accumulate assets to fund future benefits.

One option would be for the State to create a pooled investment trust for other post-employment benefits. This would serve as a common investment vehicle for municipalities that are accumulating assets to meet the future cost of OPEB. A pooled OPEB investment trust administered by the State could provide a well diversified, professionally managed investment option for Rhode Island municipalities. It is likely that the investment return of the pooled trust could exceed the return obtained by a municipality acting individually, particularly for smaller communities that are just beginning to accumulate assets for OPEB.

Another option is to consider a statewide OPEB health care plan (an agent–multiple employer plan under State administration but without State funding responsibility) that could decrease overall costs through economies of scale, reduce administrative costs and enhance bargaining position with health insurers. A statewide OPEB plan would also be consistent with the goal of merging locally administered pension plans into the state administered MERS plan, as well as, initiatives to foster a statewide healthcare contract for teachers and municipal employees. Further, plan design and plan benefits vary widely among municipalities–a common state administered plan could standardize OPEB benefit provisions among municipalities.

Rhode Island Municipalities' Other Post-Employment Benefit (OPEB) Plans at June 30, 2010

Municipality	Type of Plan	ARC	Contributions	% of ARC	Net OPEB Obligation (Asset)	Date of Valuation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liablity	Funded Ratio
Barrington	Trust Fund	$ 2,597,104	$ 1,526,488	58.78%	1,513,245	6/30/2009	$ 3,513,802	$ 21,471,689	$ 17,957,887	16.4%
Bristol	Trust Fund	890,000	874,444	98.25%	(368,668)	7/1/2008	1,675,000	12,862,000	11,187,000	13.0%
Burrillville [8]	Pay-as-you-go	133,280	127,036	95.32%	28,771	7/1/2008	-	1,693,855	1,693,855	0.0%
Central Falls	Pay-as-you-go	2,027,948	1,144,806	56.45%	1,453,547	7/1/2009	-	32,011,503	32,011,503	0.0%
Charlestown	Trust Fund	401,000	449,000	111.97%	(299,548)	7/1/2009	502,000	4,947,000	4,445,000	10.1%
Coventry	Pay-as-you-go	1,200,000	859,000	71.58%	661,121	7/1/2009	-	12,835,000	12,835,000	0.0%
Cranston - *Public Safety*	Trust Fund	4,092,301	3,649,942	89.19%	1,138,662	7/1/2010	450,533	50,765,110	50,314,577	0.9%
- Board of Education	Pay-as-you-go	3,119,950	2,002,019	64.17%	2,774,886	7/1/2009	-	31,160,310	31,160,310	0.0%
Cumberland	Pay-as-you-go	3,973,000	1,166,224	29.35%	5,160,269	7/1/2008	-	46,872,000	46,872,000	0.0%
East Greenwich	Pay-as-you-go	1,743,839	428,826	24.59%	2,312,918	7/1/2009	-	13,840,762	13,840,762	0.0%
East Providence - *City Plan*	Pay-as-you-go	5,138,868	2,755,302	53.62%	4,811,626	10/31/2009	-	78,291,702	78,291,702	0.0%
- School Plan	Pay-as-you-go	2,029,870	3,784,314	186.43%	(3,194,375)	10/31/2009	-	27,709,764	27,709,764	0.0%
Foster	Pay-as-you-go	73,806	60,863	82.46%	12,943	7/1/2009	-	780,502	780,502	0.0%
Glocester [8]	Pay-as-you-go	192,932	128,381	66.54%	105,315	7/1/2008	-	2,199,146	2,199,146	0.0%
Jamestown - *Police Plan*	Pay-as-you-go	216,224	52,292	24.18%	240,850	1/1/2009	-	1,661,060	1,661,060	0.0%
- School Plan	Pay-as-you-go	925,289	334,179	36.12%	843,764	7/1/2009	-	14,153,205	14,153,205	0.0%
Johnston [8]	Pay-as-you-go	19,218,165	4,472,653	23.27%	28,275,137	6/30/2008	-	226,245,500	226,245,500	0.0%
Lincoln	Pay-as-you-go	1,992,852	885,332	44.43%	2,107,196	6/30/2010	-	24,880,760	24,880,760	0.0%
Little Compton	Pay-as-you-go	224,867	87,000	38.69%	120,000	7/1/2007	-	1,954,239	1,954,239	0.0%
Middletown [8]	Pay-as-you-go	2,026,910	1,930,072	95.22%	-	7/1/2009	2,500,343	32,387,961	29,887,618	7.7%
Narragansett [8]	Pay-as-you-go	6,549,964	1,447,706	22.10%	10,124,232	7/1/2010	-	72,792,463	72,792,463	0.0%
New Shoreham [5]	Pay-as-you-go	not available	not available	not available	69,000	not required	-	1,643,452	1,643,452	0.0%
Newport	Trust Fund	9,050,275	11,241,301	124.21%	7,039,517	7/1/2009	8,486,653	125,947,132	117,460,479	6.7%
North Kingstown	Pay-as-you-go	2,407,135	1,074,612	44.64%	2,681,170	7/1/2010	-	34,510,724	34,510,724	0.0%
North Providence	Pay-as-you-go	4,289,000	1,945,000	45.35%	4,780,024	7/1/2008	-	52,758,000	52,758,000	0.0%

Rhode Island Municipalities' Other Post-Employment Benefit (OPEB) Plans at June 30, 2010

Municipality	Type of Plan	ARC	Contributions	% of ARC	Net OPEB Obligation (Asset)	Date of Valuation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liablity	Funded Ratio
North Smithfield	Pay-as-you-go	580,468	327,492	56.42%	722,770	7/1/2009	-	5,796,707	5,796,707	0.0%
Pawtucket	Pay-as-you-go	22,881,686	11,416,382	49.89%	51,934,557	7/1/2009	-	378,184,421	378,184,421	0.0%
Portsmouth - *Town Plan* [6]	Trust Fund	1,569,039	645,276	41.13%	2,030,262	7/1/20008	-	13,026,759	13,026,759	0.0%
- *School Plan*	Pay-as-you-go	511,670	322,804	63.09%	400,934	7/1/2007	-	4,514,458	4,514,458	0.0%
Providence	Trust Fund	79,580,000	39,011,000	49.02%	53,983,000	7/1/2009	1,040,000	1,498,491,000	1,497,451,000	0.1%
Scituate	Pay-as-you-go	529,719	178,360	33.67%	736,190	3/31/2009	-	4,713,768	4,713,768	0.0%
Smithfield [8]	Pay-as-you-go	2,307,517	1,358,037	58.85%	1,778,967	7/1/2010	657,366	29,610,752	28,953,386	2.2%
South Kingstown [7]	Trust Fund	1,780,100	1,735,461	97.49%	-	7/1/2009	-	18,700,000	18,700,000	0.0%
Tiverton	Pay-as-you-go	3,222,448	1,362,886	42.29%	3,744,209	7/1/2009	-	36,172,948	36,172,948	0.0%
Warren	Trust Fund	383,807	69,875	18.21%	761,574	7/1/2007	700,000	3,018,423	2,318,423	23.2%
Warwick - *City Plan*	Pay-as-you-go	20,620,310	7,487,501	36.31%	36,360,944	7/1/2009	-	229,348,977	229,348,977	0.0%
- *School Plan*	Pay-as-you-go	3,876,982	2,343,722	60.45%	9,204,172	7/1/2009	-	41,643,649	41,643,649	0.0%
West Greenwich [5]	Pay-as-you-go	not available	32,616	not available	not available	not required	-	73,250	73,250	0.0%
West Warwick	Pay-as-you-go	9,327,511	3,573,395	38.31%	11,515,448	7/1/2008	-	136,587,286	136,587,286	0.0%
Westerly - *Police Plan*	Trust Fund	459,200	425,000	92.55%	101,000	7/1/2009	7,978,431	12,379,627	4,401,196	64.4%
- *School Plan*	Pay-as-you-go	532,439	450,418	84.60%	149,502	7/1/2008	-	1,576,533	1,576,533	0.0%
Woonsocket - *City Plan*	Pay-as-you-go	14,111,578	3,803,866	26.96%	20,157,343	7/1/2009	-	132,987,895	132,987,895	0.0%
- *School Plan*	Pay-as-you-go	3,844,919	1,934,163	50.30%	3,814,851	7/1/2009	-	47,145,503	47,145,503	0.0%
Regional School Districts										
Bristol-Warren	Pay-as-you-go	2,831,156	2,639,973	93.25%	2,935,934	7/1/2009	-	31,379,203	31,379,203	0.0%
Chariho	Pay-as-you-go	165,832	159,590	96.24%	137,104	7/1/2009	-	1,715,539	1,715,539	0.0%
Exeter-West Greenwich	Pay-as-you-go	412,461	236,089	57.24%	317,795	7/1/2008	-	3,554,702	3,554,702	0.0%
Foster-Glocester	Pay-as-you-go	397,028	376,044	94.71%	46,967	7/1/2009	-	3,405,892	3,405,892	0.0%
	Totals:	$ 244,440,449	$ 122,316,742	50.04%	$ 273,225,125		$ 27,504,128	$ 3,560,402,131	$ 3,532,898,003	0.8%

OPEB - Discount Rate Used in Actuarial Valuations

			Funding Policy	
Municipality / Regional School District	**Discount Rate**	**Fiduciary Trust Fund**	**Actuarial Basis**	**Pay-as-You-Go Basis**
Cranston - *Public Safety Employees*	8.00%	Yes		√
East Providence - *School EE's*	8.00%			√
South Kingstown	8.00%	Yes	√	
Westerly - *Police Plan*	8.00%	Yes	√	
Bristol	7.50%	Yes	√	
Charlestown	7.50%	Yes	√	
Middletown	7.50%			√ (a)
Newport	7.50%	Yes	√	
Barrington	5.00%	Yes		√
Bristol Warren Regional School District	5.00%			√
East Providence - *City EE's*	5.00%			√
Portsmouth - *Town Plan*	5.00%	Yes		√
Central Falls	4.50%			√
Lincoln	4.50%			√
Narragansett	4.50%			√ (a)
North Kingstown	4.50%			√
Pawtucket	4.50%			√
Scituate	4.50%			√
East Greenwich	4.25%			√
Burrillville	4.00%			√ (a)
Chariho Regional School District	4.00%			√
Coventry	4.00%			√
Cranston - *Board of Education Employees*	4.00%			√
Cumberland	4.00%			√
Exeter-West Greenwich Regional School District	4.00%			√
Foster	4.00%			√
Foster-Glocester Regional School District	4.00%			√
Glocester	4.00%			√ (a)
Jamestown - *Police Plan*	4.00%			√
Jamestown - *School Plan*	4.00%			√
North Providence	4.00%			√
North Smithfield	4.00%			√
Portsmouth - *School Plan*	4.00%			√
Providence	4.00%	Yes		√
Warren	4.00%	Yes		√
Warwick - *City Plan*	4.00%			√
Warwick - *School Plan*	4.00%			√
West Warwick	4.00%			√
Westerly - *School Plan*	4.00%			√
Woonsocket - *Education Dept*	4.00%			√
Woonsocket - *Municipal Employees*	4.00%			√
Johnston	3.50%			√ (a)
Smithfield	3.50%			√ (a)
Tiverton	3.50%			√
Little Compton	not provided			√

(a) = The municipality has not established a trust fund to administer the OPEB plan; however, funds have been set aside in a Special Revenue Fund. Employer contributions to Trust Funds are irrevocable; whereas, contributions to Special Revenue Funds may be withdrawn with the proper government action. Refer to End Note 8 (page 47) for additional details.

Note - Exeter, Hopkinton, and Richmond do not offer OPEB benefits. New Shoreham and West Greenwich plans are small plans (less than 100 employees); therefore, an actuarial valuation was not completed.

ANNUAL REQUIRED CONTRIBUTIONS IN RELATION TO THE LOCAL PROPERTY TAX LEVY

Since property taxes are the primary revenue source for most Rhode Island municipalities, we prepared a schedule comparing each municipality's total actuarially determined annual required contribution, for all plans that it administers or participates in, to its total property tax levy for fiscal year 2010. In the aggregate, approximately 27% of the property tax levy would be required to fund 100% of the annual required contribution for both pension and OPEB plans. This means more than $1 of every $4 raised through property taxes is needed to cover just pension and OPEB costs each year. For some communities, the percentage of their tax levy needed to fund their pension plans by contributing actuarially determined amounts is even more significant. In Woonsocket, Central Falls, Providence, and Johnston the annual required contributions (for pensions and OPEB) were 61%, 58%, 51%, and 47%, respectively, of their annual property tax levy.

The wide disparity in the percentage of the annual property tax levy that would be required to fund 100% of the annual required contribution to all pension and OPEB plans can be attributed to a variety of factors including differences in benefit provisions and the impact of continual underfunding in prior years. Generally, those communities that administer local plans have the higher percentage of total ARC to total property tax levy.

The table on the next page details the aggregate annual required contribution for all pension and OPEB plans for each municipality presented as a percentage of the fiscal 2010 property tax levy for that municipality.

Rhode Island Municipalities - Fiscal 2010
Total Annual Required Contribution as a Percentage of the Total Property Tax Levy

Municipality	2010 TAX LEVY(a)	State Administered Pension Plans: ERS (Teachers) 2010 ARC (c)	State Administered Pension Plans: MERS (Other ee's) 2010 ARC	Local Pension Plans 2010 ARC (b)	Local OPEB PLANS 2010 ARC	Total 2010 ARC All Plans (b)	(b) Total ARC as a % of Tax Levy
Barrington	$ 51,856,526	$ 2,467,321	$ 708,023		$ 2,597,104	$ 5,772,448	11.1%
Bristol [9]	33,449,298	1,562,065	1,033,038	770,003	2,707,885	6,072,991	18.2%
Burrillville	21,867,633	1,533,960	397,099		133,280	2,064,339	9.4%
Central Falls	10,570,404		206,631	3,839,164	2,027,948	6,073,743	57.5%
Charlestown [9]	20,395,658	852,012	620,217		448,295	1,920,524	9.4%
Coventry	59,014,126	4,088,664		5,866,170	1,200,000	11,154,834	18.9%
Cranston	160,419,261	8,525,001	2,757,224	22,209,224	7,212,251	40,703,700	25.4%
Cumberland	52,119,987	2,893,462	859,824	1,315,293	3,973,000	9,041,579	17.3%
East Greenwich	41,524,344	1,676,045	600,852		1,743,839	4,020,736	9.7%
East Providence	84,770,570	3,799,424	2,822,394	6,878,284	7,168,738	20,668,840	24.4%
Exeter [9] [10]	11,763,351	720,297	106,897		189,980	1,017,174	8.6%
Foster [9]	10,345,673	524,219	214,296		203,324	941,840	9.1%
Glocester [9]	20,380,911	1,091,723	447,990		460,442	2,000,154	9.8%
Hopkinton [9] [10]	15,794,049	1,072,184	401,839		59,517	1,533,540	9.7%
Jamestown	17,734,650	614,728	627,266	233,257	1,141,513	2,616,764	14.8%
Johnston	63,658,365	2,652,300	1,020,000	7,298,000	19,218,165	30,188,465	47.4%
Lincoln	50,599,475	2,958,817	175,632	618,012	1,992,852	5,745,313	11.4%
Little Compton	9,441,514	261,795		507,896	224,867	994,558	10.5%
Middletown	39,247,059	1,846,356	753,744	2,780,271	2,026,910	7,407,281	18.9%
Narragansett	42,106,773	1,408,884		2,539,963	6,549,964	10,498,811	24.9%
Newport	60,914,809	2,040,145	1,685,903	6,252,080	9,050,275	19,028,403	31.2%
New Shoreham	7,529,857	198,609	230,068			428,677	5.7%
North Kingstown	63,293,576	3,108,830	2,810,221		2,407,135	8,326,186	13.2%
North Providence	60,468,663	2,481,000	657,500	1,529,633	4,289,000	8,957,133	14.8%
North Smithfield	25,090,079	1,213,075	181,331		580,468	1,974,874	7.9%
Pawtucket	88,299,369	5,137,240	1,094,082	10,154,357	22,881,686	39,267,365	44.5%
Portsmouth	42,275,881	1,981,787		2,590,523	2,080,709	6,653,019	15.7%
Providence	294,186,862	17,900,000		51,299,000	79,580,000	148,779,000	50.6%
Richmond [9] [10]	14,376,803	1,063,222	311,583		59,020	1,433,825	10.0%
Scituate	24,570,658	1,244,983	312,476	683,831	529,719	2,771,009	11.3%
Smithfield [3]	46,156,583	1,586,246	921,521	2,500,418	2,307,517	7,315,702	15.8%
South Kingstown	64,504,174	3,008,018	1,197,500		1,780,100	5,985,618	9.3%
Tiverton	32,187,296	1,080,135	228,365	1,023,362	3,222,448	5,554,310	17.3%
Warren [9]	19,874,748	870,679	764,686		1,397,078	3,032,443	15.3%
Warwick	204,173,334	9,187,493		29,464,595	24,497,292	63,149,380	30.9%
Westerly	59,205,119	2,639,227	33,939	1,458,500	991,639	5,123,305	8.7%
West Greenwich [5] [9]	16,850,480	843,526	367,359		255,097	1,465,982	8.7%
West Warwick	51,700,991	2,700,405		5,799,056	9,327,511	17,826,972	34.5%
Woonsocket	44,130,573	4,335,982	1,828,900	2,705,190	17,956,497	26,826,569	60.8%
	$ 2,036,849,482	$ 103,169,859	$ 26,378,400	$ 170,316,082	$ 244,473,065	$ 544,337,406	26.7%
			$ 299,864,341				

(a) source - Division of Municipal Finance
(b) includes contributions to all plans including pay-as-you-go plans; however, excludes those plans where an annual required contribution is not actuarially determined (as is the case with plans administered by an employee union)
(c) excludes State's contribution for teachers retirement

OVERSIGHT OF LOCALLY-ADMINISTERED PENSION and OPEB PLANS

State of Rhode Island General Laws

> *Rhode Island General Laws Section 45-10-15 requires the following:*
>
> - For any audit year in which a municipality contributes materially less than 100% of the annual required contribution to its pension plan(s) as reported in accordance with GASB Statement Number 27 "Accounting for Pensions by State and Local Governmental Employers" or any successor statement, the municipality shall submit to the Auditor General and the state Director of the Department of Revenue:
>   - the municipality's most recent actuarial study of the plan(s), and
>   - management's recommendations for assuring future payments equal to the annual pension cost (APC).
> - This information must be submitted within three (3) months of completion of the audited financial statement.

The General Laws of the State of Rhode Island contain few provisions regarding locally administered pension and OPEB plans since the plans are established and governed by local ordinance or municipal charter provisions. Section 45-10-15 of the Rhode Island General Laws, however, requires a municipality to submit certain information when they have not contributed 100% of their annual required contribution.

The Office of the Auditor General requests all municipalities contributing materially less than 100% of their ARC to develop a plan to assure future payments equal to the ARC. Compliance has been inconsistent and generally this oversight mechanism has been ineffective in increasing contributions to the plans. Some municipalities have repeatedly failed to comply with their corrective action plans by either not appropriating the contribution stipulated or not contributing the amount appropriated if budgetary shortfalls occur elsewhere. The current law lacks enforcement provisions. Because of the flexibility locally administered plans can exercise, pension contributions (to locally-administered plans) are often cut when budgetary shortfalls arise.

Many municipalities have difficulty in meeting the ARC due to constraints on their ability to raise property taxes (the primary source of revenue for most municipalities) and recent cuts in state aid to municipalities. A schedule on the previous page compares the annual required contributions for all pension and OPEB plans to each municipality's property tax levy.

It is noteworthy that the City of Pawtucket has increased contributions to its locally administered pension plans despite a challenging budgetary situation and threatened deficits. The City used budgetary resources previously needed for debt service on bonds that are now retired to bring contributions (for one plan that was consistently underfunded) to near 100% of the annual required contribution.

Two notable enforcement efforts were enacted in 2011. One requires municipalities to submit a five-year forecast which includes a scenario in which 100% of the annual required contribution for both pension and OPEB is made. The other requires municipalities to provide a fiscal impact statement to the State within 60 days of executing changes in healthcare benefits, pensions or OPEB including the impact on the unfunded liability, annual required contribution, and five-year forecast.

CONCLUSIONS AND RECOMMENDATIONS

Status of the Plans

The fiscal health of pension plans administered by Rhode Island municipalities has declined further and the ultimate threatened consequence of a poorly funded pension plan has been realized – the two locally administered Central Falls plans have insufficient assets to meet benefits and benefits are being substantially reduced by a State receiver. Due to economic conditions and reductions in State aid, municipalities are even further stressed to make annual required contributions and funded ratios have continued to decline; thereby leaving some of these plans in perilous condition. The collective unfunded liability for locally administered pension plans has increased $200 million from amounts reported in our March 2010 report to $2.1 billion.

The locally administered OPEB plans are less than 1% funded – only $27.5 million has been set aside to pay future retiree health benefits and the unfunded liability is estimated at $3.5 billion. The funded status of the OPEB plans is more dire than the pension plans since the requirement to measure and disclose these liabilities is recent, many plans are funded on a pay-as-you-go basis, and efforts to fund these future costs are in their infancy. Generally, there is a disconnect between the retiree health benefits typically negotiated through collective bargaining agreements and the associated long-term costs. The estimate of the unfunded OPEB liability may be imprecise due to understatement for potentially inappropriate investment return assumptions used in valuing certain of the OPEB plans and the need to factor in the impact of recent legislation that facilitates enrolling eligible retirees in Medicare which would decrease plan liabilities.

Most municipalities are challenged to contribute at required levels, which is key to eventually reducing unfunded liabilities. Improving the funded status of these plans presents a significant hurdle to communities that are already challenged to meet their obligations within state mandated property tax limits and reductions in state aid to municipalities. Recent investment losses have further eroded the funded ratios of the plans although the full impact of those market conditions has yet to be recognized in actuarial valuations of the plans. Oversight measures designed to increase the percentage of annual required contributions actually made to pension plans have not resulted in a significant increase in contributions. No locally-administered plans have merged into the state-administered Municipal Employees' Retirement System since our prior reports.

The total annual cost to municipalities (if 100% of the required contributions for pensions and OPEB were made) was $544 million. The amount actually funded was approximately $388 million or approximately 71% on a collective basis.

For nine communities, the annual required contribution for pensions and OPEB (if 100% were made) represents 25% or more of the community's fiscal 2010 property tax levy – a significant and likely unsustainable burden.

There are currently no state-administered OPEB plans for municipalities – all municipal OPEB plans are locally-administered. Consistent with the conclusions outlined herein that locally-administered pension plans are at risk, locally-administered OPEB plans should likely be viewed in the same light. An opportunity exists to restructure plan design and benefit delivery before each community creates a trust and begins to accumulate assets to fund future benefits.

Causes

Underfunded pension and OPEB plans are not unique to Rhode Island. The issues associated with defined benefit plans–both public and private–have received significant attention in light of increasing actuarial liabilities for future benefits driven in large part by employees retiring earlier and living longer as well as recent investment losses.

The annual cost to fund the various pension and OPEB plans of the municipalities is significant. It threatens to have a disproportionate impact on a municipality's overall financial situation and may be unsustainable in light of property tax limits and current reductions in state aid. Failure to fund these plans adequately and in compliance with actuarial requirements in the past is the single largest reason why current costs are so high.

Various other structural issues contribute to or facilitate the poor funded status of many locally-administered plans. Clearly, local administration of the plans allows flexibility in defining the benefit structure of the plan and also the timing and actual amounts contributed to the plan. In many instances that flexibility has resulted in generous benefits and failure to make annual required contributions. Additionally, local governments typically have a short-term, annual budget perspective which is often inconsistent with the long-term perspective required of pension plan stewards.

In contrast, all Rhode Island municipalities are making 100% of their annual required contribution for teachers to the state-administered Employees' Retirement System. Similarly, all Rhode Island municipalities that participate in the Municipal Employees' Retirement System are making 100% of their annual required contribution and are adhering to the established benefit structure outlined in the State's General Laws. The MERS plan is 73.6% funded. In these instances, the municipality must fund required amounts – the General Laws allow for offset of state aid to local governments if the municipality is delinquent in making required pension contributions to the state-administered pension plans. The same fiscal discipline is not forced upon a municipality with regard to its locally-administered pension plan.

The costs for locally-administered plans, as measured by annual required contributions, are generally much more significant than costs for employees participating in the Municipal Employees' Retirement System (see table on page 36).

When a municipality also administers a pension plan for certain of its employees, retiree benefits are most often negotiated through the collective bargaining process. Oftentimes, the "cost" of the contract focuses on the near term cash outflows for salary increases and health care but ignores the long-term and likely long term costs of the pension and OPEB benefits provided.

We did not compare, in detail, the benefits offered by the various locally-administered OPEB plans. However, in general, the municipal plans are more generous than the State's OPEB plan for its employees. For example, under the municipal OPEB plans, full spousal and dependent coverage is common and a retiree co-pay is generally not required. In comparison, the State's OPEB plan covers only employees (spousal and dependent coverage is available on a buy-in basis at full cost) and a 20% retiree co-pay is required for all employees retiring after October 1, 2008 (co-pay percentages for earlier retirees were determined based on years of service).

Due to their size, locally-administered plans are at a disadvantage in investing plan assets with the aim of maximizing returns yet reducing risk exposure through diversification. The smaller size of the investment portfolios associated with the self-administered plans also makes it more difficult to effectively diversify assets and fully participate in all types of investment options. Further, the cost of investing and the overall administrative costs of the self-administered pension plans are likely higher because of the lack of economies of scale.

Impact on Municipalities

The principal concern is ensuring that pension plans administered by Rhode Island municipalities can provide the benefits promised to retirees. Of equal importance is the negative impact these self-administered plans are having on the overall financial health of communities when not properly funded. When pension and OPEB plans are chronically underfunded, the eventual costs to fund the plans become significantly larger and divert resources from other programs and initiatives.

The Central Falls receiver has substantially reduced benefits because those plans are depleted and have minimal assets to fund benefits. Other plans are uncomfortably close to being unable to fund benefits in the not too distant future. As an example, assets available within the City of Cranston's Police and Fire Employees Retirement System are only sufficient to make pension benefit payments to retirees for approximately two years. The Town of West Warwick has been advised by its actuary that assets are only sufficient to fund benefits for the next 8 to 10 years (assuming it meets the assumed rate of return on investments).

Of equal importance is the negative impact these self-administered plans are having on the overall financial health of communities when not properly funded. Bond rating agencies are intensifying their focus on how well a community is managing its pension and OPEB obligations. Ratings are being downgraded due to unfunded pension liabilities and the lack of a responsible funding plan or attempts to modify benefits. Ratings assigned to debt of the municipality directly impacts a community's borrowing costs and in the most extreme situations whether they can borrow at all.

Many municipalities are challenged to contribute at required levels, a necessary component to eventually reduce unfunded liabilities. Improving the funded status of these plans presents a significant hurdle to many communities that are already challenged to meet their obligations within state mandated property tax limits and reductions in state aid to municipalities.

OPEB liabilities warrant the same attention and funding commitment as those accruing from pension benefits and represent another significant financial challenge for municipalities. While the collective OPEB liabilities of the municipalities are alarming due to both dollar amount and recent disclosure, there are substantial opportunities to restructure benefits and plan design to effect savings for municipalities. These include moving retirees into Medicare when age eligible as facilitated by a recent change in the General Laws. Significant opportunities also exist for the consolidation of OPEB plans administered by the municipalities. Consolidation would allow for administrative and investment efficiency and foster uniformity in plan benefits.

Because many of the locally-administered pension plans have a higher proportion of retirees and fully-vested employees, making changes to benefit provisions are problematic. In a number of instances, newer employees were moved to the MERS plan but retirees and hires before a certain date were left in the locally administered plan. While merging locally-administered plans into MERS is still recommended, changes in benefit provisions are necessary to yield significant cost savings.

Many Rhode Island municipalities face a significant hurdle to fully fund these plans in the near term. There is no single solution to the problem of underfunded pension and OPEB plans and the attendant high costs of providing those benefits. A combination of initiatives will likely be required to decrease the risk that plans (1) will be unable to meet their benefit obligations to retirees and (2) continue to negatively impact a community's overall fiscal health. In the four year period since our initial report on the status of locally-administered pension plans, relatively little has been accomplished in stabilizing or improving the funded status of these plans despite an intense focus on pension issues both in Rhode Island and nationally.

Recommendations

The issues impacting the fiscal health of locally-administered pension plans are multi-faceted and long-term in nature. It is likely that actions to address the issues will involve studies of various options and occur over a period of time rather than immediately. We believe the following recommendations warrant consideration to ensure that pension benefits can be provided to employees/retirees without undermining the fiscal health of municipalities.

Municipal Level Recommendations

1. **Commit to making incremental progress in funding 100% of the annual required contribution for pensions and then fund the plans consistently at required levels.**

Due to the significant negative impact that underfunding pension and OPEB plans can have on a municipality's long-term fiscal health, additional enforcement measures may be warranted to ensure municipalities make 100% of annual required contributions to pension and OPEB plans. Existing statutory provisions (G.L. section 45-10-15) require a municipality making materially less than 100% of the annual required contribution to its pension plan to submit a plan to the Director of Revenue and the Auditor General outlining management's recommendations to assure funding of the annual pension cost. In actuality this process has not generally resulted in a significant increase in the percentage of the annual required contribution funded by municipalities.

Municipalities must commit to making at least incremental progress in contributing 100% of the annual required contribution (ARC) to locally-administered pension plans, and once a plan has been developed and adopted, adhere to the funding plan provisions.

The ability of municipalities to increase their funding to locally-administered pension plans has been limited due to economic conditions and reductions in state aid. Failure to make 100% of the ARC coupled with a poorly funded plan is drawing increasing attention from bond rating agencies. Adoption of a sound plan, which commits the municipality to reaching a 100% ARC funding level within a reasonable time frame, is generally viewed favorably by rating agencies.

2. Reexamine benefit provisions within the locally-administered pension plans and embark on reforming those benefits where warranted; mirror pension reform measures contemplated or enacted by the State for its employees and local teachers; and consider other retirement plan options for new hires (e.g., "hybrid" or defined contribution plans).

Municipalities should consider pension reform measures in conjunction with efforts to increase annual contributions. This may be more difficult for pension plans compared to OPEB plans since in many instances newer employees are members of MERS plans and older employees and retirees remained in the locally administered plans.

Consider alternatives to defined benefit plans for new hires such as defined contribution and "hybrid" plans to control municipal retirement plan costs. These are attractive since once the required employer contribution is made to the defined contribution plan, the employer has no further liability. One of the primary benefits of a defined-contribution plan, from a government employer's perspective, is that it provides a great deal of stability since contribution levels are known in advance and do not change much from year to year. This is in sharp contrast to the volatility in contribution levels experienced under defined benefit plans. Additionally, since defined contribution plans are more portable to the employee, some believe that defined contribution plans are beneficial in recruiting workers since the typical long vesting provisions of governmental defined benefit plans can be a disincentive in today's increasingly mobile workforce.

3. Complete a comprehensive analysis of healthcare benefits offered to retirees to (1) review the affordability of the benefits offered, and (2) ensure the assumptions underlying the valuation of future liabilities are appropriate and reasonable. Contemplate mirroring retiree healthcare reform measures adopted by the State for its retirees, and commit to funding OPEB benefits in an actuarially sound manner.

With the unfunded liability for OPEB significantly overshadowing the unfunded pension liability, municipalities need to undertake a comprehensive analysis of retiree health benefits offered to its employees to ensure long-term affordability. Recently enacted changes in the State's General Laws which facilitate enrolling retirees in Medicare, when eligible, should be maximized and factored into actuarial valuations of the plans. As highlighted herein, some of the assumptions underlying the OPEB actuarial valuations may be inappropriate or unrealistic and should be reviewed.

The State's efforts to structure its OPEB plan in a reasonable and more affordable manner and begin funding the plan on an actuarial basis are worth mirroring from a plan design perspective. This could be through restructuring the local OPEB plans or through, as described in recommendation # 12 below, creation of a statewide OPEB plan for municipalities.

4. Seek to remove pension and retiree health benefit provisions from collective bargaining agreements and address through local ordinances or charter provisions.

While the right to collectively bargain retirement benefits is a controversial issue, the poorly funded status of the locally administered pension and OPEB plans suggest that having such benefits subject to periodic renegotiation fuels the inherent challenge of balancing short term budgetary pressures against the long-term costs (or cost savings) associated with pension and retiree-health benefits. For example, as evidenced by the estimated unfunded OPEB liability, the near term cost of providing health insurance for life is minimal if recognizing such costs on a pay-as-you-go basis. It is relatively easy to lose sight of the true future cost which is now proving to be very substantial and likely unsustainable. Additionally, few municipalities have any standardization of retirement or OPEB benefits among its classes of employees or bargaining units. This not only adds to the complexity of administration but, in the case of healthcare, limits opportunities for cost savings.

Retirement and OPEB benefits for state employees are outlined in the General Laws and are not subject to the collective bargaining process. The State has implemented one OPEB plan for the majority of its employees (excluding State Police and Judges).

Defining pension and OPEB plans outside of individual collective bargaining agreements could provide enhanced transparency, promote standardization of plan benefits among the municipality's employees regardless of membership in a particular bargaining unit, and remove some of the inherent, but understandable, tendency to favor short term cost benefits at the expense of longer term, but likely more substantial, contractual costs.

5. Merge plans into the Municipal Employees' Retirement System (MERS).

The ultimate goal should be to have one comprehensive plan covering municipal employees that is responsibly and adequately funded. We believe that goal can best be achieved by merging the locally-administered plans into MERS where multiple benefits accrue but, most importantly, that annual required contributions are consistently made to fund the plans.

6. Create trusts for OPEB benefit plans and begin, or continue, funding future benefits at actuarially determined levels.

Most municipalities have not created trusts for their OPEB plans. Creation of a trust restricts funds such that amounts set aside can only be used to pay those benefits. Further, when coupled with an appropriate investment policy, creation of a trust allows use of a more favorable longer-term discount rate when valuing OPEB liabilities.

Since most communities have not created trusts and the funding for these plans is still in its infancy, as detailed in recommendation #12 below, there are opportunities to implement a statewide OPEB plan for municipal employees that may be cost effective and administratively efficient.

State Level Recommendations

7. Consider legislation that would provide flexibility and eliminate the obstacles that currently make merging locally-administered plans into MERS unlikely and problematic – these include providing a time frame (e.g., no more than 5 years) to achieve 100% funding of the ARC and to allowing flexibility for nonconforming benefit structures for plans merging into the state-administered Municipal Employees' Retirement System.

Little, if any, progress has been made in merging locally-administered pension plans into the state administered MERS plan. For municipalities potentially interested in merging into MERS, the obstacles appear too significant to overcome. If, for many compelling reasons, merging the locally administered plans into MERS is the ultimate goal, then removing or lessening the impediments is worthy of consideration.

The usual impediment to merging a locally-administered plan into the MERS is conforming the benefit structure of the local plan to the statutory provisions of the MERS and the immediate budgetary impact of making 100% of the ARC once in MERS.

Allowing some flexibility (through amendment to the General Laws) to allow nonconforming benefit structures may be warranted to remove this impediment and enhance the safety of the plan. Although administering MERS with divergent benefit provisions for the various participating entities could be cumbersome, significant benefits such as enhancing retiree security, imposing the discipline to make 100% of annual required contributions, improving investment performance, and reducing administrative costs more than outweigh any administrative disadvantages.

Since separate actuarial valuations are performed for each participating entity and separate contribution rates are established for each unit within MERS, a nonconforming benefit structure would not impact the contribution rates of other participating entities.

For communities that are not contributing 100% of required amounts, immediately moving to 100% as required of all participants in MERS appears impossible from an annual budget perspective. Allowing time to reach that goal, for example, a period not to exceed five years, would lessen the immediate impact.

8. Consider legislation that would require locally-administered plans with funded ratios below a specified threshold to be merged into the state-administered Municipal Employees' Retirement System.

A state pension oversight body could have responsibility for periodically assessing the status of locally administered pension plans and ensuring that appropriate corrective actions are taken, including requiring merger of the locally administered plan into the State Municipal Employees' Retirement System. Indicators, such as a funded ratio below a target (e.g., less than 60% funded) or continued failure to make 100% of annual required contributions, could trigger enhanced State oversight and prompt negotiations to merge the locally administered pension plan into the state administered MERS plan. The pension oversight body could also require increased employer, and possibly employee, contributions to a pension fund if its funded ratio is below 80 percent.

It is noteworthy that Massachusetts enacted legislation in 2007 that mandated local pension plans with funded ratios less than 65% and ten-year average investment returns 200 basis points less than investment returns of a state administered fund would be required to transfer assets to a state administered fund for investment purposes. The local retirement boards continue to administer the plan absent control of the invested assets. Massachusetts had also legislated a long-term schedule to achieve full funding of pension plans including locally administered plans.

9. Explore state legislation that would facilitate removing pension and retiree health benefits from municipal collective bargaining agreements.

For the reasons described in recommendation #4 above, state legislation could be explored that would facilitate removing pension and retiree health benefits from municipal collective bargaining agreements.

10. Explore options for pooled investments (for locally-administered pension and OPEB plans) to enhance investment performance, reduce costs, and reduce investment risk.

Self-administered plans lack advantage in investing accumulated pension plan assets to maximize returns yet reduce risk exposure through diversification. The smaller size of the investment portfolios associated with the self-administered plans makes it more difficult to effectively diversify assets and fully participate in all types of investment options. With some exceptions, investment returns of the self-administered plans are less than the returns earned by the State retirement system. Further, the cost of investing and the overall administrative costs of the self-administered pension plan are higher because of the lack of economies of scale.

Optimally, locally-administered plans should be merged into the State administered MERS plan – this option best addresses all of the concerns associated with the locally-administered plans. If these efforts are unsuccessful, a pooled investment trust, administered by the State, should be explored to optimize the advantages of a professionally managed, well-diversified investment option. With a pooled investment trust, the assets of locally-administered pension plans would be commingled for investment purposes. Investment gains and losses would be distributed pro-rata to each participating entity. This would allow for broader diversification of assets thereby mitigating risk and enhancing investment returns through exposure to a wider variety of investment-vehicles and reducing costs by spreading asset management expenses over a larger base. The State could utilize the existing structure in place to invest the assets of the Employees' Retirement System. Since the investment objectives of the local pooled investment trust would be similar if not the same as the ERS, the same asset allocation model and investment objectives could be adopted.

11. Revise the benefit structure within the Municipal Employees' Retirement System to mirror changes contemplated or enacted for state employees and teachers within the Employees' Retirement System.

Members of the State-administered Employees' Retirement System, which covers state employees and teachers are generally subject to a two-tiered benefit structure based on whether the member had achieved 10 years of service by July 1, 2005 (Schedule A benefits). Schedule B benefits are reduced and affect members with less than 10 years of service by July 1, 2005.

A similar two-tiered benefit structure could be implemented for members of the Municipal Employees' Retirement System (MERS). Over time, this would serve to reduce the annual required contribution to the plans as more members are covered by the reduced benefit provisions.

12. Implement a state-administered agent multiple-employer OPEB plan for all municipalities with a common benefit structure and a common health insurance provider/administrator – mirror OPEB benefit restructuring adopted for State employees.

The State should contemplate what role it chooses to assume in administering either 1) a pooled investment trust for assets accumulated by municipalities to fund their OPEB liabilities or 2) offering a multiple-employer agent OPEB plan to achieve economies of scale and cost savings in providing post-retirement healthcare benefits to municipal employees. The latter option would be consistent with (1) the goal of merging locally-administered pension plans into the state-administered MERS plan and (2) various initiatives to foster a statewide healthcare contract for teachers and municipal employees with a common health insurer/administrative agent. A significant opportunity exists to restructure plan designs before each community creates a trust and begins to accumulate assets which will be invested to fund future benefits.

One option would be for the State to create a pooled investment trust for other postemployment benefits. This would serve as a common investment vehicle for municipalities that are accumulating assets to meet the future cost of OPEB. A pooled OPEB investment trust administered by the State could provide a well diversified, professionally managed investment option for Rhode Island municipalities. It is likely that the investment return of the pooled trust could exceed the return obtained by a municipality acting individually, particularly for smaller communities that are just beginning to accumulate assets for OPEB.

Another option is to consider a statewide OPEB health care plan (an agent – multiple employer plan under State administration but without State funding responsibility) that could decrease overall costs through economies of scale, reduce administrative costs and enhance bargaining position with health insurers. A statewide OPEB plan would also be consistent with the goal of merging locally-administered pension plans into the state-administered MERS plan. This option would also be consistent with various initiatives to foster a statewide healthcare contract for teachers and municipal employees with a common health insurer/administrative agent. Further, plan design and plan benefits vary widely among municipalities – a common state-administered plan could standardize OPEB benefit provisions among municipalities.

Appendix A

End Notes

1. Narragansett Police (prior to 7/1/78) plan is 0% funded on an actuarial basis. It is not considered one of the plans at risk because it is a small pay-as-you-go plan with 12 retirees and an unfunded actuarial accrued liability of $916,573. Pawtucket Police & Fire (Pre 1974) plan is 0% funded. It is not considered one of the plans at risk because it is a small pay-as-you-go plan with 60 retirees (firefighters hired prior to July 1, 1972 and police officers hired prior to July 1, 1973) with an average age of 84.7. Total benefits paid in fiscal 2010 were $629,460. According to the City, the pension expense for this plan has been built into the budget and tax rate and therefore, there is no potential for increase in the liability. The plan is expected to close in approximately 10 years.

2. The annual employer contribution to the Coventry School Employees pension plan is established by contract at 12.75% of salaries. The ARC reported in the 5-year ARC table on page 16 represents the pension cost based on a 30-year amortization, as reported in the actuarial valuation as of September 1, 2008. Similarly, the information on the unfunded actuarial accrued liability and funded ratio were also obtained from the 2008 actuarial valuation.

3. As of July 1, 2006, all active Smithfield police officers hired prior to July 1, 1999 were transferred from the locally-administered pension plan to the State MERS. The funds held under the Town's plan are for members (44 retirees) receiving retirement benefits and for terminated but vested members. The funds will be reduced by the cost to purchase annuities and employee contribution balances that have been guaranteed by an insurance company, and the liabilities covered by the Town's plan will be limited to those for inactive participants that were not guaranteed by the insurance company at the time of the discontinuance. As of July 1, 2010, the discontinuance of the Town's plan was completed and a new plan document setting forth the liabilities to be covered by the new plan has been finalized and adopted. As the terms of the new plan document were not finalized by June 30, 2010, an ARC was not calculated for fiscal 2010. The Town reported employer contributions of $1,048,000 in fiscal 2010. This contribution amount was used on page 36 due to the absence of an ARC amount.

4. The City of Woonsocket issued a $90 million pension obligation bond in fiscal 2003 to fund the actuarially determined pension obligation for the Police (pre 7/1/80) and Fire (pre 7/1/85) pension fund. Beginning in fiscal 2008, the portfolio losses generated an unfunded actuarial accrued liability and therefore, annual required contributions have been computed. The actuarially calculated annual required contribution is based on a 30-year amortization of the unfunded accrued liability. This methodology is in accordance with GASB requirements; however, as long as the bonds are still outstanding, Rhode Island Public Law 2002, Chapter 10 (which authorized the City to issue the pension obligation bonds) requires that the unfunded liability be amortized over five years.

5. New Shoreham and West Greenwich have small OPEB plans (less than 100 participants) and therefore, did not obtain an actuarially-computed ARC. West Greenwich reported an OPEB expense of $32,616. This amount, plus the Town's share of the OPEB ARC of the regional school district, is used on page 36 due to the absence of an ARC amount.

6. Portsmouth created an OPEB Trust in fiscal 2010. The Statement of Net Assets reports $146,923 in funds held in trust as of June 30, 2010. The actuarial valuation was performed as of July 1, 2008 and therefore, reports $0 assets.

7. South Kingstown has adopted an Irrevocable OPEB Trust Fund; however, as of July 1, 2009, the date of the most recent actuarial valuation, the OPEB Trust agreement was not finalized. Therefore, the actuarial valuation reported $0 net assets. Contributions for fiscal 2009 and 2010 were made during fiscal 2010 and were reported in the OPEB Trust Fund financial statements. The Statement of Net Assets reports $1,021,675 of funds held in trust as of June 30, 2010.

8. Employer contributions to a trust fund are irrevocable; whereas, contributions to a special revenue fund may be withdrawn with the proper government action. The following municipalities have not established a trust fund to administer the OPEB plans, but have set aside some funds in Special Revenue Funds:

    a. Burrillville - $110,331
    b. Glocester - $504,278
    c. Johnston - $100,368
    d. Middletown - $2,938,208 (The assets were considered in the actuarial valuation.)
    e. Narragansett - $622,788
    f. Smithfield - $657,366 (The assets were considered in the actuarial valuation.)

9. For the schedule on page 36, the annual required contribution (ARC) associated with the regional school districts' pension and OPEB plans were allocated to the participating municipalities based on their share of funding to the regional school districts.

10. Exeter, Hopkinton and Richmond do not offer other postemployment benefits.

classified service.

(b) The chief medical examiner shall appoint, with the approval of the director of health, assistant medical examiners and shall hire other staff as necessary to carry out the provisions of this chapter.

(c) Persons employed full time at the time of enactment of this chapter within the division of medical examiners in the department of the attorney general shall be transferred to the office of state medical examiners with their former rights and privileges of employment. ~~, and shall be~~ For members eligible to retire on or before June 30, 2012, such members shall be eligible for retirement benefits after the age of fifty (50) years and service of twenty (20) years, including service within the division of medical examiners. For members eligible to retire on or after July 1, 2012, such members shall be eligible for retirement benefits in accordance with chapters 8 through 10 of title 36.

SECTION 22. Title 45 of the General Laws entitled "TOWNS AND CITIES" is hereby amended by adding thereto the following chapter:

CHAPTER 64

RETIREMENT SECURITY ACT FOR LOCALLY ADMINISTERED PENSION FUNDS

45-64-1. Short title. -- This chapter shall be known as and may be cited as the "Pathway to Retirement Security for Locally Administered Pension Funds Act."

45-64-2. Purpose. -- The purpose of this chapter is to provide retirement security to current and retired municipal employees by codifying standards to promote the sustainability and longevity of pension plans established and administered by municipalities.

45-64-3. Legislative Findings. -- It is the intention of the general assembly to begin the process of ensuring the sustainability of locally administered pension plans and to advance and maintain the long-term stability of such plans. The general assembly finds and declares that:

(1) Rhode Island law authorizes and empowers municipalities to administer their own municipal pension plans; currently, there are thirty-six (36) such plans administered by twenty-four (24) municipalities.

(2) According to a report by the Office of the Auditor General entitled *Pension and OPEB Plans Administered by Rhode Island Municipalities* (September 2011): "Many municipal pension plans are severely underfunded which presents the risk that sufficient funds will not be available to meet promised benefits to retirees. It also undermines the overall fiscal health of the plan's sponsor."

(3) It is in the best interests of individual employees, taxpayers, municipalities and the state itself to maintain viable and sustainable municipal public pension plans. These interests

include:

Preserving a level of pension benefits that is, over the long term, reasonable for current and retired municipal employees and affordable for taxpayers;

Avoiding significant and unanticipated retirement benefit reductions, which could cause an increase in poverty among retired municipal employees and a resulting strain on state social services;

Maintaining investments in infrastructure and education on the state and local levels in lieu of diverting critical resources to satisfy pension obligations;

Preventing the financial downgrade of municipalities by rating agencies as a result of unfunded pension obligations, which would make it more difficult to access the capital markets and increase the costs of borrowing;

Encouraging rating agencies, in recognition of the state's proactive approach toward financial discipline, to take positive credit actions on Rhode Island municipal bonds; and

Creating a more stable and well-managed environment in Rhode Island to attract new businesses and maintain and expand existing businesses, which will diminish the uncertainty and fiscal instability that accompany uncontrolled pension obligations.

(4) The first step in ensuring the viability and sustainability of local pension plans is to get an accurate analysis of the current condition and fiscal health of the individual plans.

45-64-4. Definitions. -- As used in this chapter the following terms shall have the following meanings:

(1) "Actuarial experience study" means a report provided by an actuary that includes a recent discussion of plan experience, recommendations for actuarial assumptions and methods, and information about the actuarial impact of these recommendations on the liabilities and other key actuarial measures.

(2) "Annual actuarial valuation study" means a valuation of a locally administered plan completed by an actuary, and a certification based on that valuation indicating whether such plan is or is not in critical status, on an annual basis.

(3) "Critical status" means that, as determined by its actuary, as of the beginning of the plan year, a plan's funded percentage for such plan year is less than sixty percent (60%).

(4) "Locally administered plan" or "plan" means any defined benefit pension plan established by a municipality for its employees, other than: (a) A plan that is part of the Employees' Retirement System of Rhode Island as defined in chapter 36-8 or the Municipal Employees' Retirement System of Rhode Island as defined in chapter 45-21; or (b) A plan established by a municipality that has filed for bankruptcy protection pursuant to chapter 9 of title

11 of the United States Code, a plan established by a municipality for which a receiver has been appointed pursuant to chapter 45-9 or a plan established by a municipality for which a fiscal overseer has been appointed pursuant to chapter 45-9.

(5) "Municipality" means any town or city in the State of Rhode Island, any city or town housing authority, fire, water, sewer district, regional school district or public building authority as established by chapter 14 of title 37.

45-64-5. Actuarial valuation methodology. -- Actuarial methods used by the actuary in preparing an actuarial experience study or annual actuarial valuation shall be in compliance with accepted actuarial standards and applicable public pension accounting laws, rules and regulations. The actuary shall not, year to year, change actuarial methods for the sole purpose of achieving a more favorable funding or fiscal result. Any actuarial study shall be made by the actuary in good faith and in accordance with accepted actuarial standards.

45-64-6. Certification and notice requirements. -- (1) Every municipality that maintains a locally administered plan shall submit its initial annual actuarial valuation study to the study commission created herein under section 45-64-8 on or before April 1, 2012, and for each plan year ending on or after December 31, 2012, within six (6) months of completing such plan year. The initial actuarial experience study shall be submitted to the study commission on or before April 1, 2012, and subsequent actuarial experience studies must be submitted to the study commission no less frequently than once every three (3) years.

(2) In any case in which an actuary certifies that a locally administered plan is in critical status for a plan year, the municipality administering such a plan shall, not later than thirty (30) business days following the certification, provide notification of the critical status to the participants and beneficiaries of the plan and to the general assembly, the governor, the general treasurer, the director of revenue, and the auditor general. The notification shall also be posted electronically on the general treasurer's website. Within one hundred eighty (180) days of sending the critical status notice, the municipality shall submit to the study commission a reasonable alternative funding improvement plan to emerge from critical status.

(3) The state shall reimburse every municipality for fifty percent (50%) of the cost of undertaking its annual actuarial valuation study.

(4) Notwithstanding any other law to the contrary, the funding improvement plans and actuarial valuation studies submitted pursuant to this section shall be public records.

45-64-7. Failure to comply. -- (1) With respect to any municipality that fails to comply with the requirements of this chapter within the prescribed time, the general treasurer is authorized to withhold moneys due to the municipality from the state for any purpose other than education, including, but not limited to, municipal aid and other aid provided under sections 45-13-5.1, 45-13-12, 44-34.1-2, 44-13-13, 44-18-18.1, 44-18-36.1(b) and 42-63.1-3.

45-64-8. Study commission. -- A study commission for locally administered plans shall be established to 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 shall consist of fourteen (14) members: the director of the department of revenue, or his or her designee; who shall be the chair, the auditor general, one member each representing the department of administration, the general treasurer, the League of Cities and Towns and the Rhode Island Public Expenditures Council, and three (3) members appointed by the governor representing municipal police, fire and non-public safety employees. In addition, the Speaker of the House and President of the State Senate shall each appoint one member to the commission and then shall jointly select and appoint one elected mayor from a city or town with a population greater than 50,000, one elected mayor from a city or town with a population less than 50,000 and one appointed town administrator.

45-64-9. Severability; Indispensable Party. -- The holding of any section or sections or parts hereof to be void, ineffective, or unconstitutional for any cause shall not be deemed to affect any other section or part hereof. The state shall be an indispensable party in any action contesting the validity of this chapter.

SECTION 23. Chapter 42-149 of the General Laws entitled "State Expenditures for Non-State Employee Services" is hereby amended by adding thereto the following section:

42-149-3.1. Assessment on state expenditures for non-state employee services. – Whenever a department, commission, board, council, agency or public corporation incurs expenditures through contracts or agreements by which a nongovernmental person or entity agrees to provide services which are substantially similar to and in lieu of services hereto fore provided, in whole or in part, by regular employees of the department, commission, board, council, agency or public corporation covered by chapter 36-8, those expenditures shall be subject to an assessment equal to five and one-half percent (5.5%) of the cost of the service. That assessment shall be paid to the retirement system on a quarterly basis in accordance with subsection 36-10-2(e).

SECTION 24. This act shall take effect upon passage.

LC03021/SUB A/2

EXPLANATION

BY THE LEGISLATIVE COUNCIL

OF

A N A C T

RELATING TO PUBLIC OFFICERS AND EMPLOYEES--RETIREMENT SYSTEM -- CONTRIBUTION AND BENEFITS

***

This act would comprehensively amend the contribution and benefits' provisions of both the state and municipal employees' retirement systems.

This act would take effect upon passage.

LC03021/SUB A/2

S.

2011 -- H 6319
SUBSTITUTE A

AN ACT

RELATING TO PUBLIC OFFICERS AND EMPLOYEES--RETIREMENT SYSTEM -- CONTRIBUTION AND BENEFITS

LC03021/SUB A/2

Presented by

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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

TEL: (401) 574-8999
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TDD: (401) 222-1227

July 3, 2012

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

Over the course of several months, the Pension Study Commission ("Commission") worked to develop funding improvement guidelines to assist municipalities whose locally-administered pension plans are deemed to be in critical status. As you know, R.I. Gen. Laws § 45-65-6 (2) states

"...Within one hundred eighty (180) days of sending the critical status notice, the municipality shall submit to the study commission a reasonable alternative funding improvement plan to emerge from critical status."

This means that a funding improvement plan to restore the funded ratio to 60% or better is due no later than November 11, 2012.

Numerous discussions ensued and at its last meeting on June 18, the Commission voted to provide these guidelines to municipalities.

Part I provides an overview of the documentation that the municipalities should include in their funding improvement plans and **Part II** lists specific guidelines. The Commission also provides a sample improvement plan, which is included as an Appendix to this letter.

I. FUNDING IMPROVEMENT PLAN DOCUMENTATION

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

- FY 2014 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);

- Provide a 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 guidelines to further assist cities and towns in the formulation of the Funding Improvement Plans. 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 identify which one has been chosen as the funding improvement plan. If no funding improvement strategy is approved by the local governing body, the Pension Study Commission will notify the General Assembly.

1. For municipalities that are funding 100% of the Annual Required Contribution (ARC):

- 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;
- 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%.

2. **For municipalities that are not funding 100% of the ARC:**

- 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%;

- 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;

- 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.

If the local governing body believes they cannot meet these guidelines due to extenuating circumstances or other situations, a full explanation should be provided to the Commission.

In addition, the local governing body shall indicate if they considered a transition to MERS and, if so, identify what were the significant factors and/or obstacles in that consideration. Further, it would be helpful for the Commission if municipalities identified what actions could be taken to potentially facilitate moving locally administered plans to MERS.

We hope that you find these guidelines and the sample improvement plan helpful. I would also like to mention two seminars that will be held on July 10 and August 7. On these dates we will discuss these guidelines and will answer any questions you may have. You will receive an agenda for these seminars under separate cover.

Sincerely,

Rosemary Booth Gallogly

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%		