

# City of Rutland Pension & OPEB Liabilities

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Realities and Solutions  
Treasurer Wendy Wilton  
June 21, 2010



# Historical Pension Plan Facts

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- ❑ Began January 1, 1938 with CIGNA as custodian, Segal as the actuary
- ❑ Pre-dates State Teachers' Pension (1947)
- ❑ Prudential purchased CIGNA's pension business in 2004
- ❑ City Charter provides up to \$0.06 on the municipal tax rate for ER pension funding
- ❑ Pre-Act 60/68 RPS was a City Department
- ❑ Through 2000 was a success story



# Key Plan Changes from 2000-2010

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- Higher payroll through wage increases
- Participation doubled
- Plan benefit changes implemented in 2000
- Contractual benefit changes after 2000
- Annually Required Contribution (ARC):  
\$964,800 to \$5,125,675



# Changes to Plan

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- Benefit increased from 1.5% to 2.0%, 1989 restatement, *retroactive* to all years of service
- No increase in contributions to offset benefit
- 2001 valuation, recommended ER contribution was 10.22% of payroll, up from 6.5% in 1999
- “If the plan provisions had not changed the recommended contribution...would have been 6.60% of payroll” Segal, 2001 Valuation
- City costs exceeded charter cap by 2001



## Changes to Plan, cont...

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- Changes in “Rule” from 85 to 80 for non-Fire & Police employees
- Reduction in number of years to be vested from 10 to 5
- 2000: two separate plans were created—one for Fire and Police and one for all other employees
- 2003: Amortized over 15 years vs. 10

### Changes Impacting City Pension Plan Long Term Liabilities, June 2010

Val Date	Total Plan Characteristics:				Group Plan Provisions:					Source of Change:	
	% Funded	Asset Value	ARC	# participants	Group	Benefit %	Rule	NRA	Vesting	Pension	Contract(s)
1993	116.0%	\$15,976,700	\$509,000	542	Municipal	1.50%	85	62	10		
					Fire + PD	same	same	same	same		
1995	102.0%	\$17,900,900	\$878,200	547	Municipal	1.75%	85	62	10	X	
					Fire + PD	same	same	same	same		
1997	109.0%	\$21,887,900	\$834,000	583	Municipal	1.75%	85	62	10		
					Fire + PD	same	same	same	same		
1999	110.0%	\$27,234,000	\$940,400	632	Municipal	1.75%	80	62	5	X	
					Fire + PD	same	same	same	same		
2001*	99.5%	\$33,351,605	\$1,787,160	731	Municipal	2.00%	80	62	5	X	
	Implementation of 1989 Restatement Provisions				Fire + PD	same	same	same	same		
2003	95.4%	\$38,282,217	\$2,246,572	769	Municipal	2.00%	80	62	5		
	Reductions to Police Rule and NRA				Fire + PD	2.00%	80/75	62/60	5		X
2005	91.1%	\$44,048,143	\$2,785,751	850	Municipal	2.00%	80	62	5		
	Fire Rule & NRA same as PD, + 4 yrs military				Fire + PD	2.00%	75	60	5		X
2007	84.7%	\$50,695,986	\$3,609,894	906	Municipal	2.00%	80/75	62	5		X
	DPW rule 75, Fire factor to 1.17, Police to 2.5%				Fire + PD	2.0/2.5%	75	60	5		X
2009	69.0%	\$49,414,401	\$5,492,635	1018	Municipal	2.00%	80/75	62	5		
	No Changes				Fire + PD	2.0/2.5%	75	60	5		
2010	69.0%	\$52,555,207	\$5,125,675	1033	Municipal	2.00%	80/75	62	5		
	2010 ARC based on 30 year amortization of UAAL				Fire + PD	2.0/2.5%	75	60	5		



# Contractual changes after 2000

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- Police NRA (normal ret. age) reduced to 60 and rule reduced to 75, by 2003
- Fire NRA and rule reduced to match Police by 2005, Up to 4 years of military service credited to service in Fire & Police Plan
- DPW rule reduced to 75, by 2007
- Additional factor of 1.17 for Fire (retro) and prospective benefit increase for PD to 2.5% by 2007, but with additional employee contributions



## Plan Status as of 2001

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□ 99.5% funded, ARC \$1,787,161

Actuarial Value of Asset: \$33,351,605

□ Unfunded Liability: \$158,783

□ 731 participants

□ Recommended ER funding: 10.22% payroll

□ “The increase in plan benefit [to 2.0%] is the primary reason the ARC increased”--Segal, 2001 valuation



## Plan Status as of 2010

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- 69% funded, ARC \$5,125,675
- Actuarial Value of Asset: \$52,555,207
- Unfunded Liability: \$23,750,472
- 1033 participants
- Recommended ER funding: 19% overall
- Assets/Liabilities split between RPS and City
- Actual City ER contribution is 7.1%,  
recommended at 23.76% to 36.66% (attached)

**Valuation Summary for the City of Rutland Employee's Retirement System - 2010 Plan Year**

**30 YEAR AMORTIZATION OF UNFUNDED LIABILITY**

	<u>Police</u>	<u>Fire</u>	<u>DPW</u>	<u>General</u>	<u>Board of</u> <u>Education</u>	<u>Total</u>
	<i>City</i>	<i>City</i>	<i>City</i>	<i>City</i>	<i>RPS</i>	
1. Total Normal Cost:	389,350	201,321	388,281	237,579	2,601,619	3,798,150
2. Expected Employee Contributions:	142,228	58,496	45,057	34,960	784,832	1,065,573
3. Administrative Expenses:	6,468	6,633	6,360	4,748	35,791	60,000
4. Employer Normal Cost as of January 1, 2010: (1) - (2) +(3)	253,590	149,458	329,584	207,366	1,862,578	2,792,576
5. Actuarial Accrued Liability:	8,225,540	8,436,053	8,087,824	6,038,337	45,517,922	76,305,676
6. Actuarial Value of Assets:	5,288,867	5,424,223	5,200,318	3,882,537	32,759,259	52,555,204
7. Unfunded Actuarial Accrued Liability (UAAL) (5) - (6):	2,936,673	3,011,830	2,887,506	2,155,800	12,758,663	23,750,472
8. Amortization of UAAL Over 30 Years Payable December 31, 2010:	260,857	267,533	256,490	191,494	1,133,319	2,109,693
9. Employer Normal Cost as of December 31, 2010	273,877	161,415	355,950	223,955	2,000,784	3,015,982
	<u>Police</u>	<u>Fire</u>	<u>DPW</u>	<u>General</u>	<u>Board of</u> <u>Education</u>	<u>Total</u>
11. Covered Payroll:	2,250,441	1,169,917	2,252,861	1,748,021	19,493,589	26,914,829
12. Total Recommended Plan Contribution for 2010 Plan Year	676,962	487,444	657,497	450,410	3,918,935	6,191,249
13. Total Plan Contribution as a % of Covered Payroll	30.08%	41.66%	29.18%	25.77%	20.10%	23.00%
14. Expected Employee Contributions:	142,228	58,496	45,057	34,960	784,832	1,065,573
15. Expected Employee Contributions as a % of Covered Payroll	6.32%	5.00%	2.00%	2.00%	4.03%	3.96%
16. Recommended Employer Contribution Payable December 31, 2010 (8) + (9):	534,734	428,948	612,440	415,449	3,134,103	5,125,675
17. Recommended Employer Contribution as a % of Covered Payroll:	23.76%	36.66%	27.18%	23.77%	16.08%	19.04%



# Impact of Changes to Pension

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*The Big Picture is unsettling:*

- Despite an increase in assets, the pension is underfunded and trending down
- ER contribution is unrealistic at current levels, ARC is \$5 million +
- Taxpayer liability is real, beyond the cap



## Impact of Changes to Pension, cont.

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*However, some recent positive changes:*

- July 1, 2010 prospective change to Board of Ed benefit, changes ER liability from 16% to 10% (see chart)
- Change to 30 Year Amortization reduces ER obligation about 2%





## OPEB (City only)

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- ❑ Other post-employment benefits=retiree healthcare
- ❑ Unfunded liability: \$15.9 million
- ❑ ARC: \$1.6 million (\$0.16 on tax rate)
- ❑ City has used “pay as you go” model, no planning for future costs, required to report in FY 2009
- ❑ City of Burlington: \$3.9 million OPEB; stop at age 62, 50% co-payment of premium, no spousal coverage



## OPEB—increases in costs & benefits

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- ❑ BCBS cost increases: 13% per year
- ❑ High cost plan/low deductibles (\$10 OV, Rx \$5/10/25), 2010 Family: \$22,945 annual
- ❑ Low premium co-payment (10%, 4% cap)
- ❑ Coverage to age 65
- ❑ Increased benefits for spousal and/or family coverage for retirees since 2000
- ❑ New federal legislation: Dependent coverage required to age 26 (2011), W-2 reporting (2011), ER tax exposure potential of 40% (2014)



# Solutions for Pension & OPEB?

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*Reduction in benefits  
and/or*

*Increases in contributions*

*...will provide the structural changes  
needed to create future solvency  
and financial stability for the City*

## Contractual Changes Impacting OPEB Costs, June 2010

Contract Years	Healthcare Provisions	Retirement Age/Rule
<b>POLICE</b>		
1995-1998	Premium Paid 100% by City for actives, Blue Cross JW Plan	No mandatory retirement age, Rule of 80
1998-2001	Conversion to VHP Plan, vision & chiropractic added. VHP at 100% premium paid by City, JW plan co-payment of premium required: 5%, then 7.5% for active employees only. No retiree benefits outside VERPs.	No mandatory retirement age, Rule of 80
2002-2005	2004: VHP 100% premium paid by City, JW Plan 10% premium co-pay. <b>Retirees offered up to 2 person healthcare for the first time with 10% premium co-payment for either JW or VHP to age 65.</b>	Mandatory retirement age of 60, rule reduced to 75. Up to 4 years military service added as a credit to pension service years.
2005-2009	100% VHP or VFP premium paid by City. JW grandfathered and employee pays the difference between JW and VHP costs. <b>Retirees offered 2-person healthcare up to age 65 with spousal coverage to age 65, with family coverage offered if the retiree pays the difference in cost.</b>	Minimum retirement age of 50 with staged premiums with 100% at age 55.
<b>FIRE</b>		
1993-2000	Premium Paid 100% by City for actives, Blue Cross JW Plan. No retiree benefits.	No mandatory retirement age, Rule of 80
2002-2005	2004: VHP 100% premium paid by City, JW Plan 10% premium co-pay. <b>Retirees offered up to 2 person healthcare with 10% premium co-payment for either JW or VHP to age 65 for the first time.</b> \$50 deductible and \$5/10/25 Rx co-pays specified in contract. BCBS 2004 renewal experienced a 17.9% increase.	Mandatory retirement age of 60, rule reduced to 75. Up to 4 years military service added as a credit to pension service years.
2005-2008	100% VHP or VFP premium paid by City. JW grandfathered and employee pays the difference between JW and VFP costs. <b>Retirees offered healthcare up to age 65 (not restricted to 2 person).</b>	Minimum retirement age of 48 with staged premiums with 100% at age 55
2008-2011	Employees and retirees contributing 10% of premium costs with a cap of 4% of annual salary or pension annuity by FY 2010.	No Change
<b>DPW</b>		
1998-2001	Conversion to VHP Plan, 100% premium paid by City. JW premium co-payment 5%, then 7.5% next year. No retiree benefits outside VERPs.	No mandatory retirement age, Rule of 60
2001-2004	Vision & chiropractic added to VHP, 100% premium paid by City, JW plan 7.5% premium co-pay. No Retiree benefits.	No mandatory retirement age, Rule of 80
2004-2007	100% VHP or VFP premium paid by City. JW grandfathered and employee pays the difference between JW and VHP costs. <b>Retirees offered 2-person healthcare up to age 65 with spousal coverage to age 65.</b>	Rule of 75, no mandatory retirement age.
2007-2010	Employees and retirees contributing 10% of premium costs with a cap of 4% of annual salary or pension annuity by FY 2010.	Minimum retirement age of 58. Up to 4 years military service added as a credit to pension service years.



# Key Strategies

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1. Curing structural funding problems in Pension and OPEB will reduce the annual costs to the City and long term liabilities
2. Pension: (re) define the ER:EE ratio (City)?  
Pre-2000, total 8% of payroll (6% ER/2%EE),  
\$1 million ARC, Ratio 3:1...  
2010, total 31% of payroll (27%ER/3.8%EE)  
\$2.3 million ARC, Ratio 7:1...



## Key Strategies, cont...

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3. Create an employee-funded OPEB trust?  
(Burlington, Fire & PD)
4. Stakeholders need to work together to solve this issue—including administration, employees, policy-makers—so that current & future taxpayers will not face an undue burden

*More information?* Wendy Wilton, City Treasurer

773-1800 x231, [www.rutlandcity.com](http://www.rutlandcity.com)