



# Five-Year-Forecasting and Other State - Local Interactions

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# Presentation Overview

- Five-Year Forecasting
- Other Reporting Elements
- Pension Reform
  - State, Local, Next Steps



# Five-Year-Forecasting

- New reporting element as part of the enacted FY 2012 State Budget
- Division of Municipal Finance worked with Finance Directors to develop template
- Forecast to be sent to DMF within 30 days of final action of the budget
- This year: Deadline is January 31, 2012



# Five-Year-Forecasting

- Forecast to be developed for general fund and unrestricted school fund
- Two scenarios:
  - Scenario 1 reflecting baseline revenue and expenditure assumptions for current year (FY 2012) and forecasting for FY 2013-FY 2016
  - Scenario 2 reflecting fully funding pensions and Other Post Employment Benefits



# Five-Year-Forecasting

- School and library aid five-year forecast sent to finance directors
- Assumptions for municipal aid were provided
- Pension adjustment
- Reports to be submitted electronically and in pdf



# Other Reporting Elements

- Adopted Budget Survey – within 30 days of final action
- Quarterly Reports – submitted on or before the 25<sup>th</sup> day of the month succeeding the end of the fiscal quarter to the Division and Auditor General
  - signed by chief executive officer, chief financial officer, superintendent, chief financial officer for school district
  - report also to be submitted to city/town council president and school committee chair
- Fiscal Impact Statement – within 60 days of any changes to pension, OPEB or healthcare benefits



# Other Reporting Elements

- Projecting Year-End-Deficits – corrective action plan to be submitted to Division and Auditor General on or before the last day of the month succeeding the close of the fiscal quarter
- Likelihood of Year-End-Deficit – within 30 days municipality to notify Auditor General and Division of likelihood of deficit and immediately develop plan to eliminate deficit



# Other Reporting Elements

- Certification of Tax Rolls – submit certified tax rolls to Division no later than the next succeeding August 15
- Electronic Reporting



## Reports from the Division of Municipal Finance

- Veterans and Elderly Exemption Book
- Tax Information Tables (Assessment, Levy, Rates, Motor Vehicle Exemptions)
- Adopted Budget Surveys
- Legislation passed by General Assembly
- Salary Survey
- Municipal CBAs
- Municipal Contact Information

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# Pension Reform - State

- Targeting an 80 percent funding level for all pension systems
- Ensures employees preserve what they have earned through June 30, 2012 while shifting future investment risk to public employees through installing a new defined contribution plan
- Suspends future COLAs to retirees' benefits until the system is better funded but provides for an intermittent COLA every 5 years until 80 percent funded




# Pension Reform - State

- Moves all state employees, teachers and MERS general employees to hybrid pension plans
- Increases minimum retirement age for most employees not already eligible to retire
- Begins to address independent local plan solvency issues

# Pension Reform – Employer Contr.


Contributions (millions)	Previous		Current Law FY 2013		
	FY 2012	FY 2013	DB	DC	Total
MERS Municipal	\$20.4	\$40.9	\$25.3	\$2.2	\$27.5
MERS Police & Fire	12.8	24.8	9.6	1.0	10.6
<i>MERS Subtotal</i>	<i>\$33.2</i>	<i>\$65.7</i>	<i>\$34.9</i>	<i>\$3.2</i>	<i>\$38.1</i>
Teachers	\$134.2	\$221.0	\$120.7	\$16.2	\$136.9
<b>Total MERS/Teachers</b>	<b>\$167.4</b>	<b>\$286.7</b>	<b>\$155.6</b>	<b>\$19.4</b>	<b>\$175.0</b>

Source: Treasury



# Pension Reform – COLA Provisions

- State employees, teachers, judges and state police do not lose any COLAs granted prior to July 1, 2012, but future annual COLAs suspended until aggregate funded ratio for ERS, Judicial and State Police Benefits Trust exceeds 80 percent
  - MERS plans not included in the aggregate calculation
  - Each MERS plan will have a separate determination of funding status annually



# Pension Reform – COLA Provisions

- A limited, risk-based COLA is established that is only granted when pension system is well-funded
- COLA would be equal to the difference between the 5-year smoothed investment return and 5.5%, to equal no more than 4% and not less than 0%
- COLA will be applied to member's first \$25,000 (indexed) of pension income
- Interim COLA at 5 year intervals from enactment until aggregate funded ratio exceeds 80%
- For MERS, interim COLA at 5 year intervals from July 1, 2012 until specific MERS plan funded ratio exceeds 80%



# Pension Reform – Hybrid Plan

- Defined Benefit

- Employees would retain all benefits accrued through June 30, 2012

- Defined Contribution

- Overlays defined benefit plan with new defined contribution plan
- MERS public safety personnel are not part of DC
- MERS public safety without Social Security will have supplemental DC plan

# Pension Reform - MERS

	General		Public Safety		
	Prior	New	Prior*	New in Soc Sec	New not in Soc Sec
Accrual	2%	1%	2.5%	2.0%	2%
Comp	High 3 years	High 5 years	High 3 years	High 5 years	High 5 years
Vesting					
DB	10	5	10	5	5
DC**	NA	Immediately	NA	NA	NA
Retirement Age					
Unreduced	58/10 YOS or 30 YOS	SS NRA	55/10 YOS or 20 YOS	55/25 YOS	55/25 YOS
Reduced	50/20 YOS	62/20 YOS	50/20 YOS	50/20 YOS	50/20 YOS

\* For public safety: under prior provisions there was also a 25-year plan, but most public safety plans have the 20-year plan which is shown here

\*\*Three year vesting period for employer contributions

# Pension Reform - Teachers

	With Social Security		Without Social Security	
	Prior	New	Prior	New
Accrual	Varies	1%	Varies	1%
Comp	High 5 years	High 5 years	High 5 years	High 5 years
Vesting				
DB	10	5	10	5
DC*	NA	Immediately	NA	Immediately
Retirement Age				
Unreduced	62/29 YOS	SS NRA	62/29 YOS	SS NRA
Reduced	55/20 YOS	62/20 YOS	55/20 YOS	62/20 YOS

\*Three year vesting period for employer contributions



# Locally Administered Plans

- Complete initial actuarial studies by April 1, 2012, annually thereafter
- State will reimburse 50% of actuarial studies
- Complete initial experience study no later than April 1, 2012, and every 3 years thereafter
- Requiring all locally-administered pension plans with funded ratios below 60% to submit pension funding improvement plan within 180 days
- Penalties for non-compliance include withholding of state aid
- Established 14-member Commission to review existing legislation and local pension plan administrative practices, as well as OPEB obligations



# Locally Administered Plans

## Reform Not Complete

- Of the 36 local plans, 24 plans are deemed “at risk” by the Auditor General, and of those 20 have a funded ratio below 60%
- Auditor General: “Many municipal pension plans are severely underfunded which presents the risk that sufficient funds will not be available to meet promised benefits to retirees.”
- Three communities (Coventry, East Providence, West Warwick) have recently been downgraded because of underfunding the ARC.



**Happy Holidays!**