



Is The Sky Really Falling?

A Review of the Funded Status of Public Pension Plans

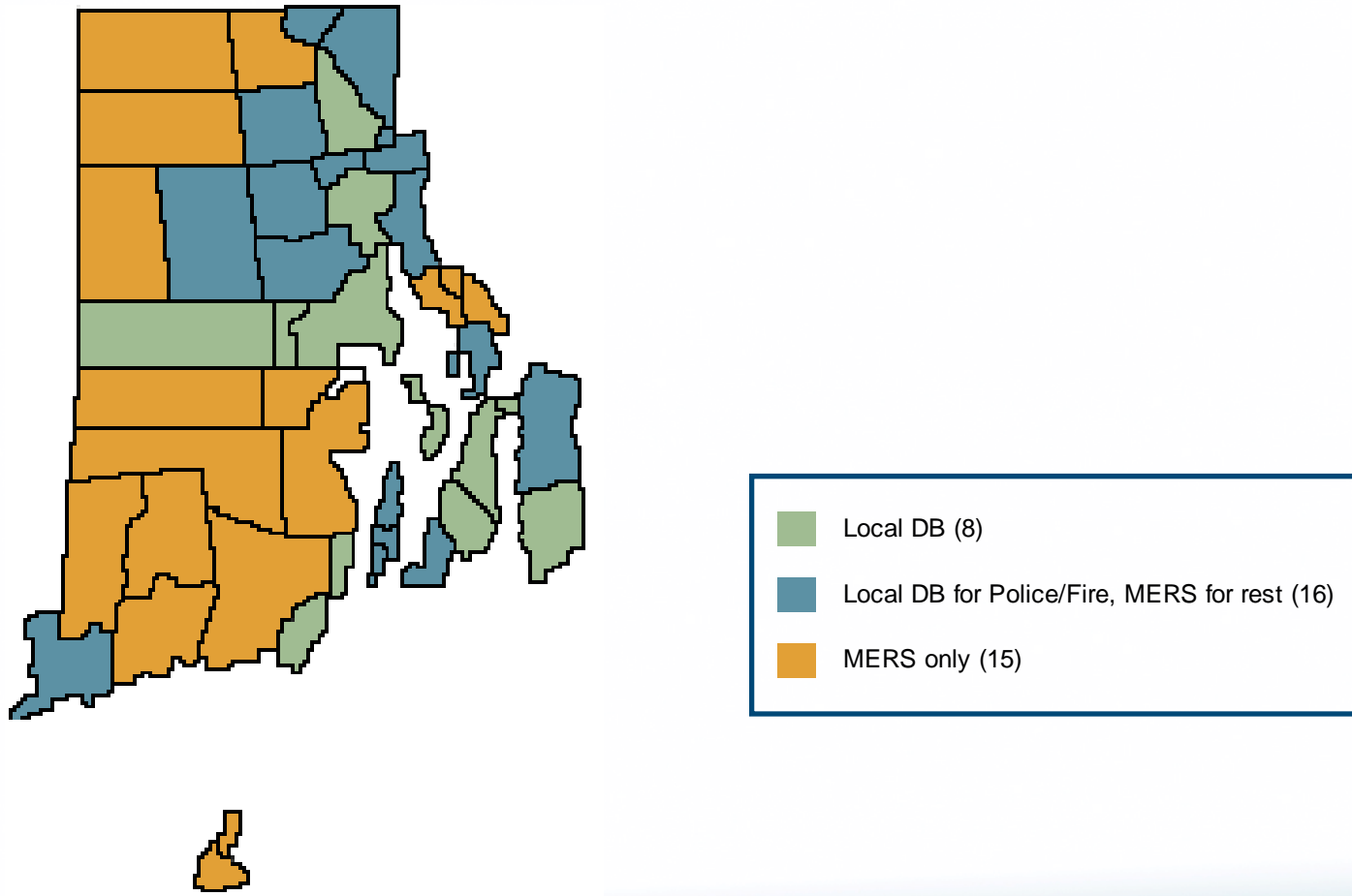
Presented by
Rebecca A. Sielman, FSA
Principal and Consulting Actuary

Rhode Island GFOA
October 4, 2011

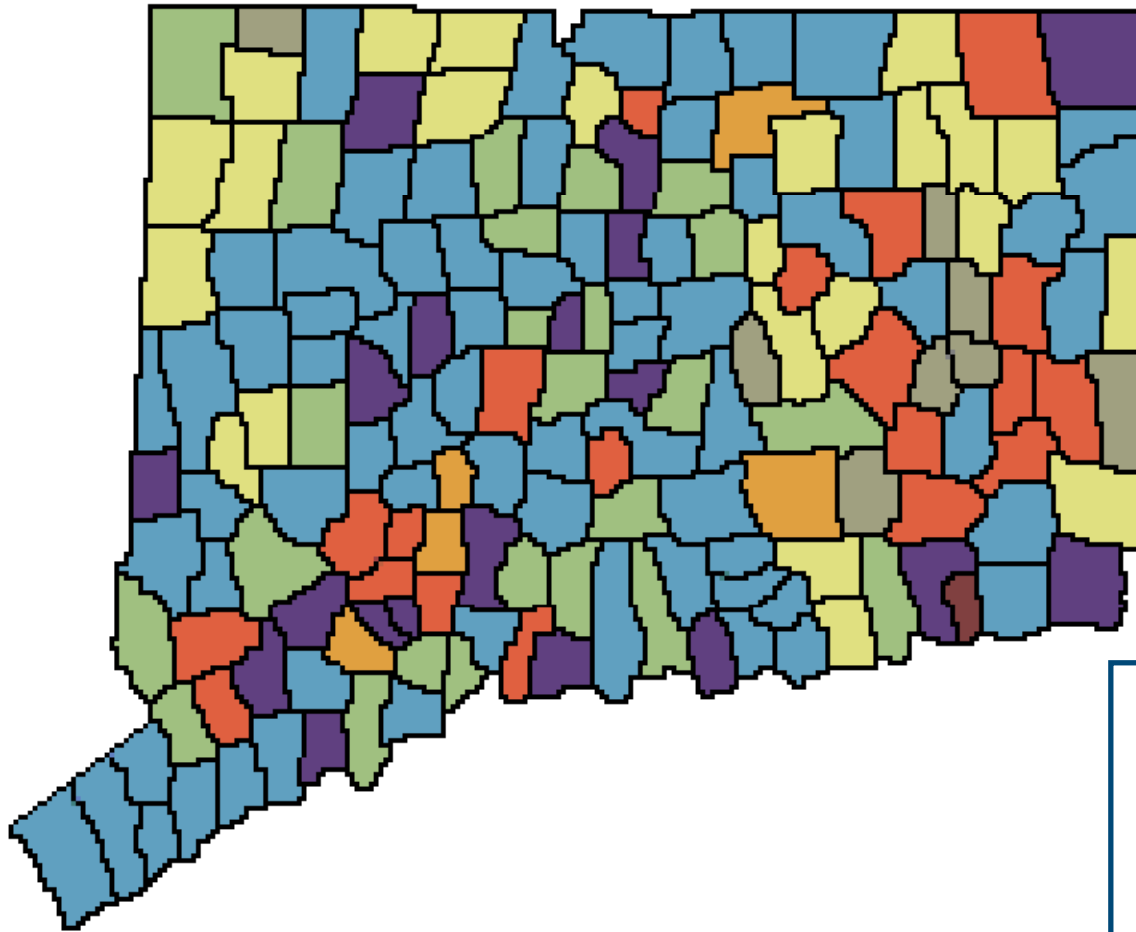
The statements and opinions expressed herein are solely those of the presenter and do not constitute official statements or positions of Milliman, Inc.











Rhode Island Public Pension Plans

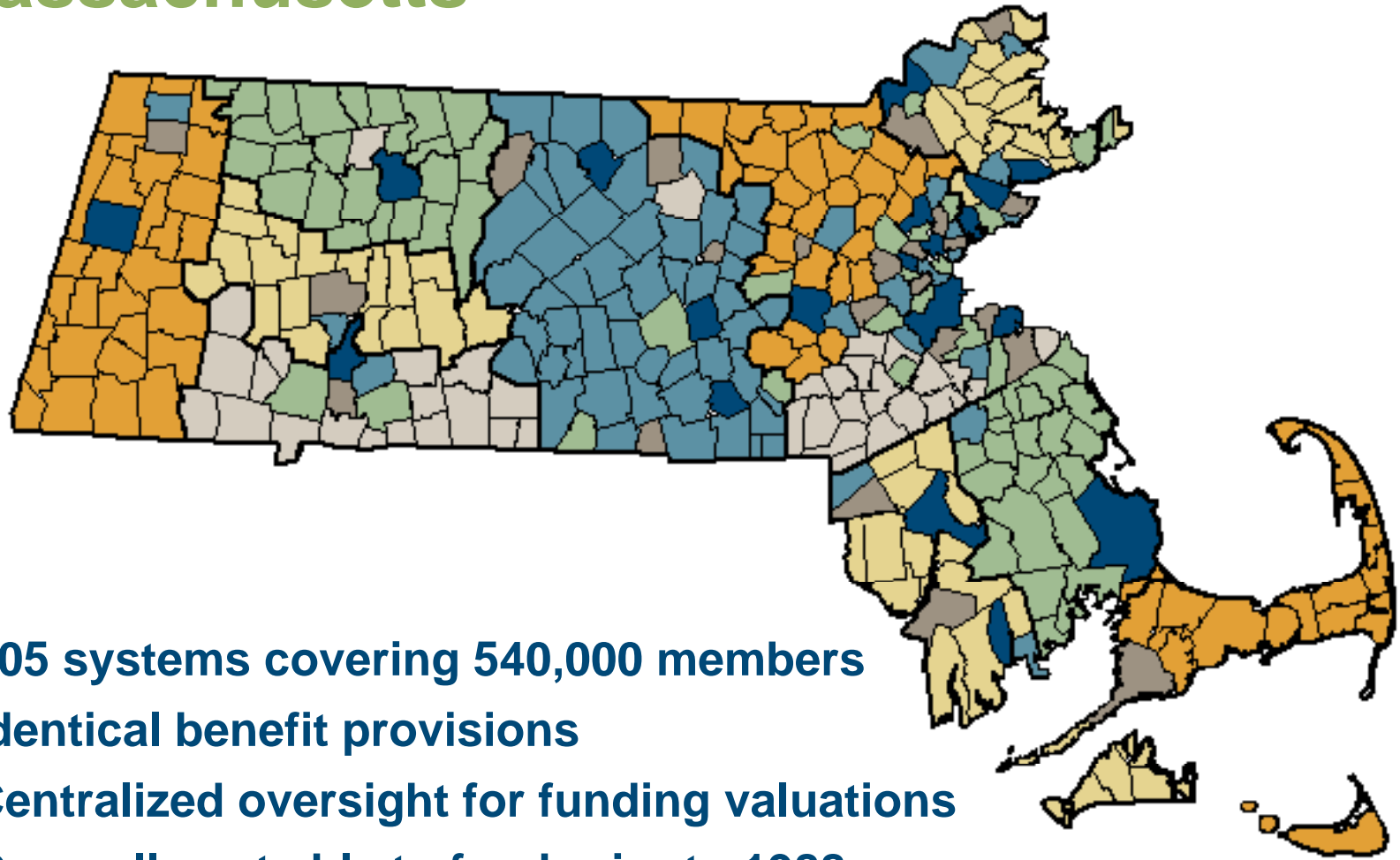


Connecticut



 DB only (70)	 DC only (23)
 DB + DC (24)	 DC + MERS (5)
 DB + MERS (19)	 MERS only (20)
 DB + DC + MERS (1)	 None (8)

Massachusetts

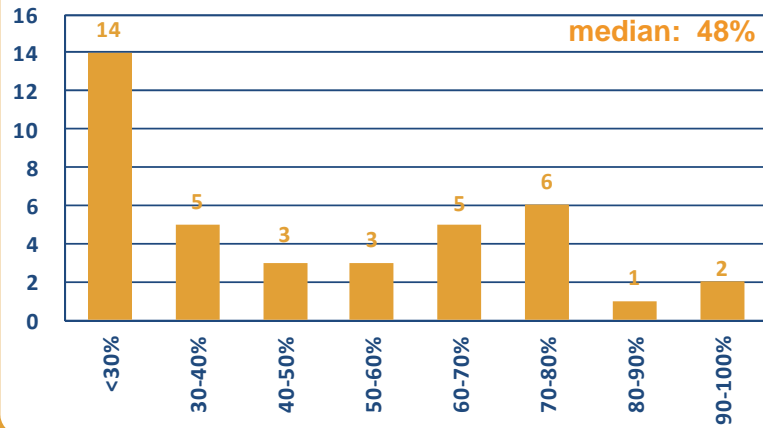


- 105 systems covering 540,000 members
- Identical benefit provisions
- Centralized oversight for funding valuations
- Generally not able to fund prior to 1988

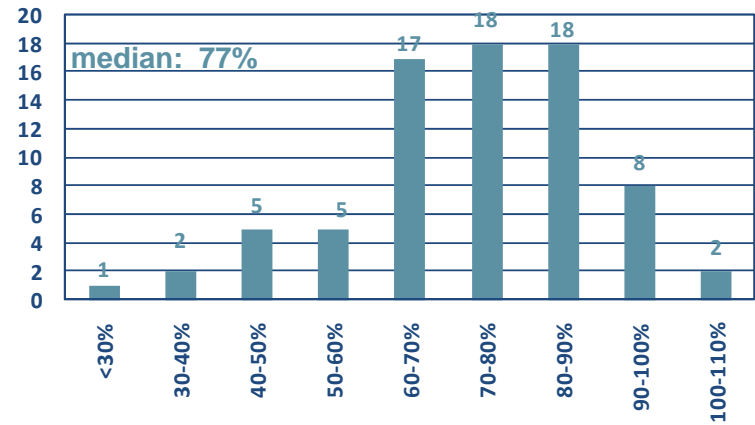
How well funded are Rhode Island plans compared to other public pension plans?

Funded Ratios

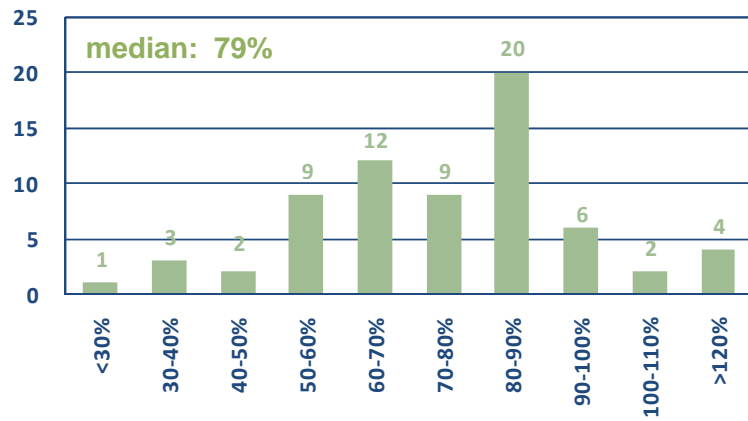
Rhode Island



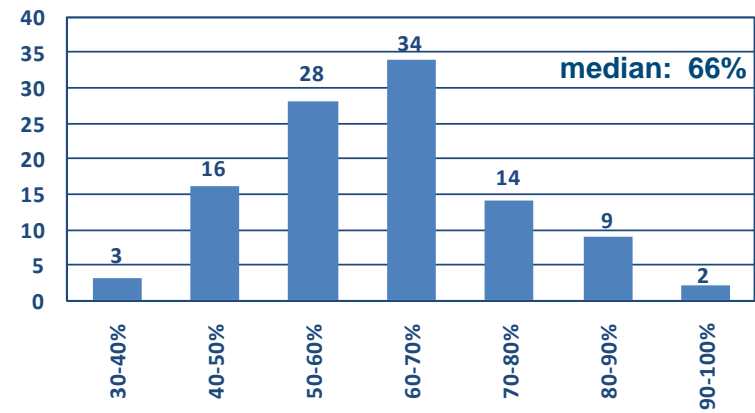
Large State-Wide Plans



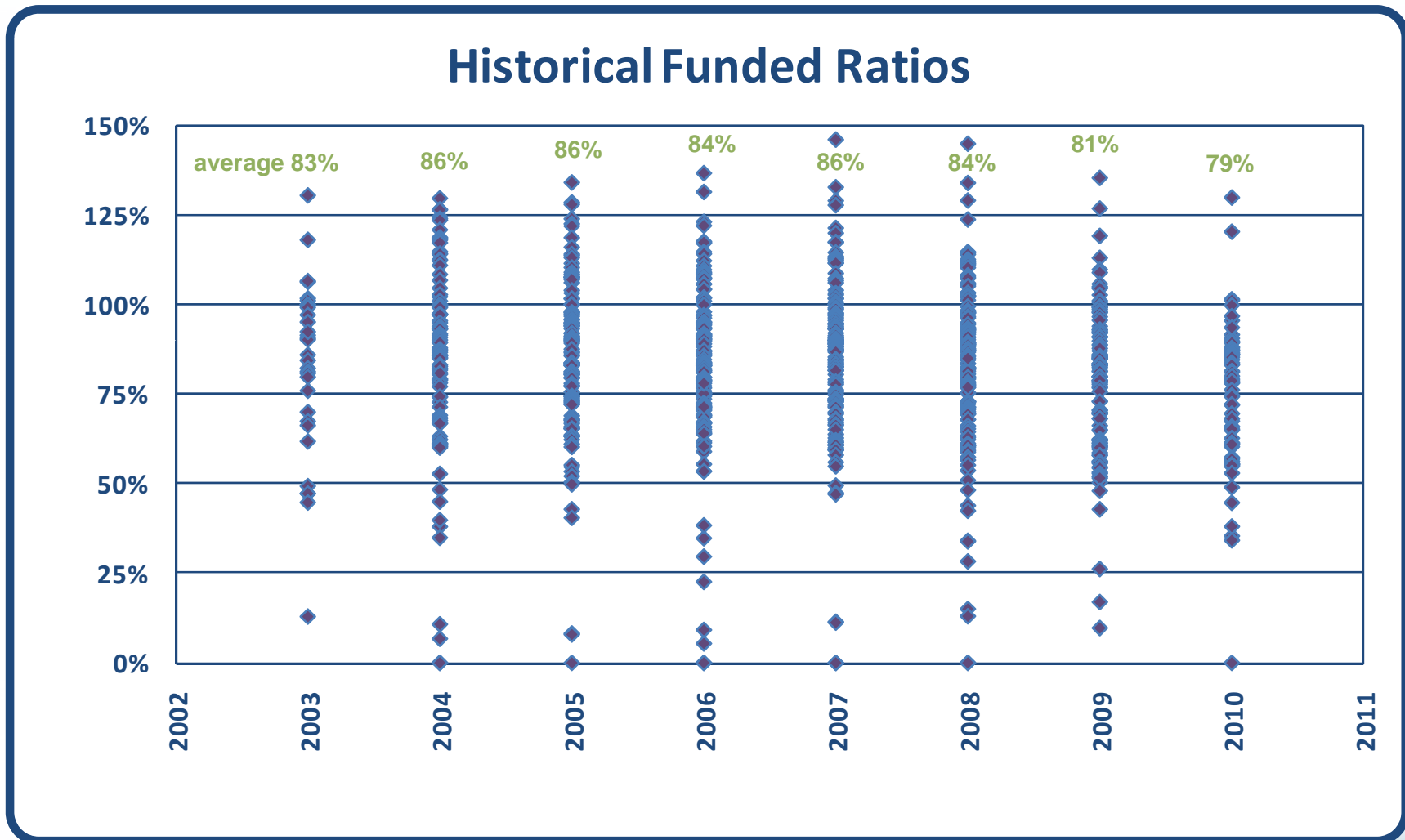
Connecticut



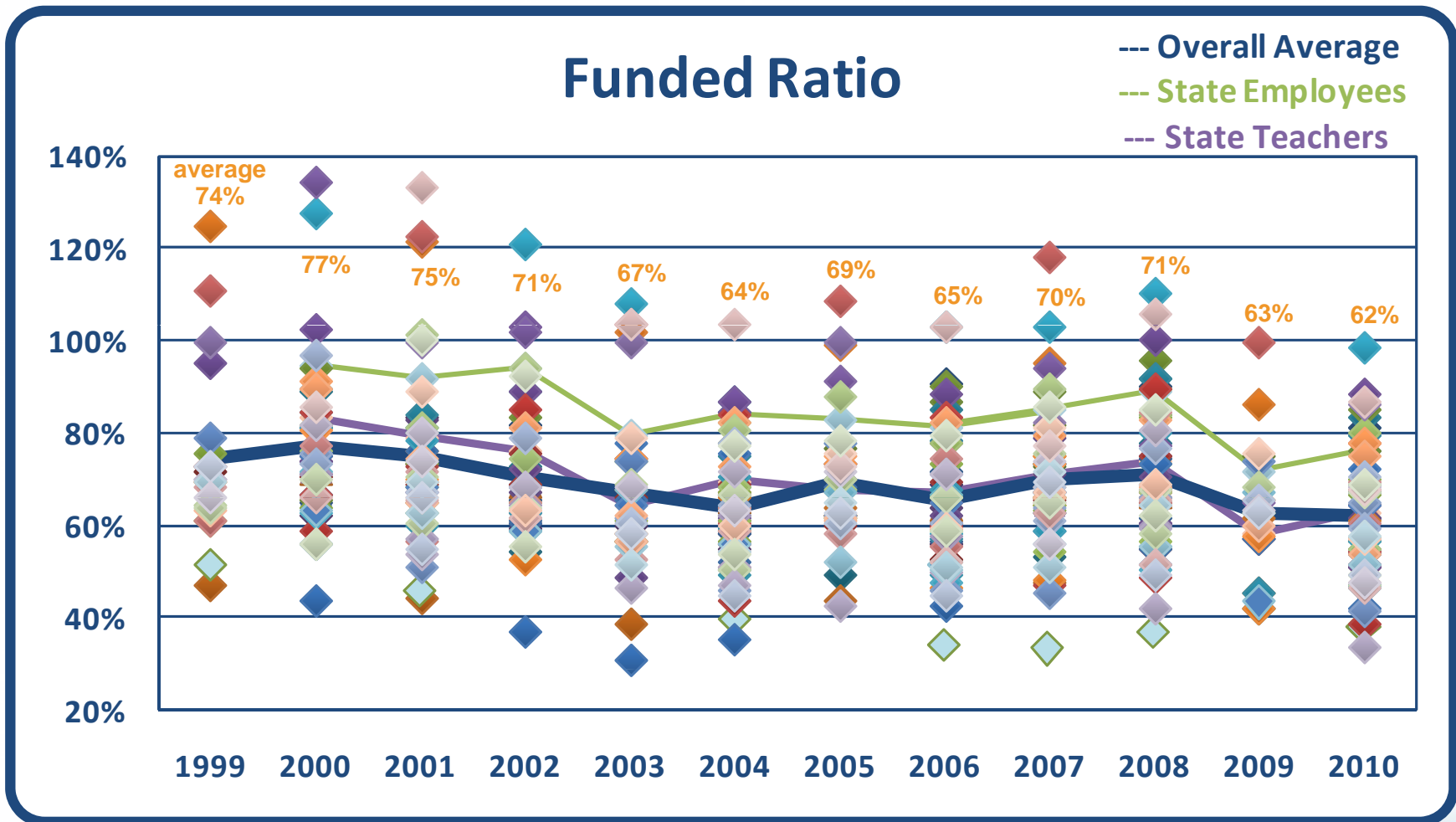
Massachusetts



Historical Funded Ratios - Connecticut



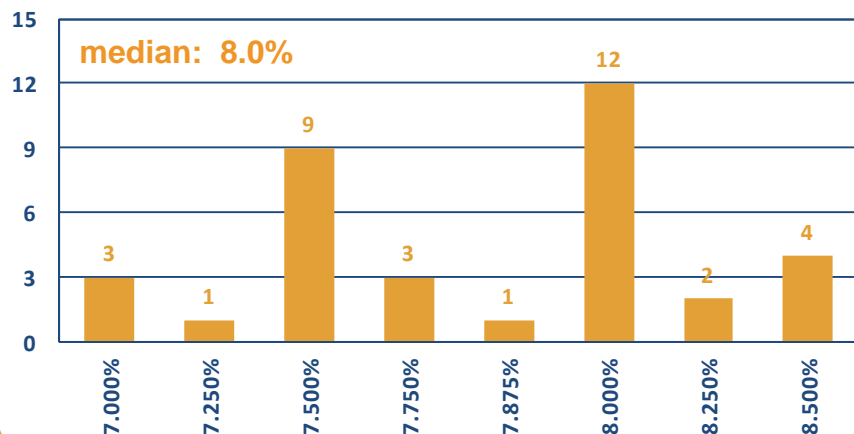
Historical Funded Ratios - Massachusetts



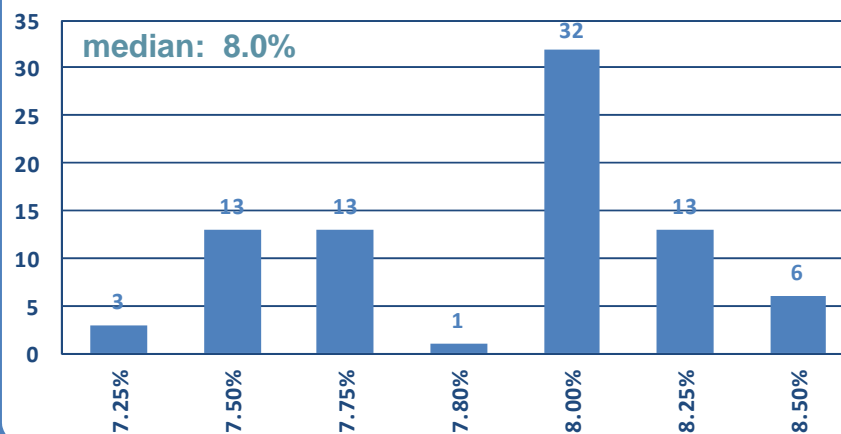
How do the interest rate assumptions used for Rhode Island plans compare to other public pension plans?

Interest Rate Assumptions

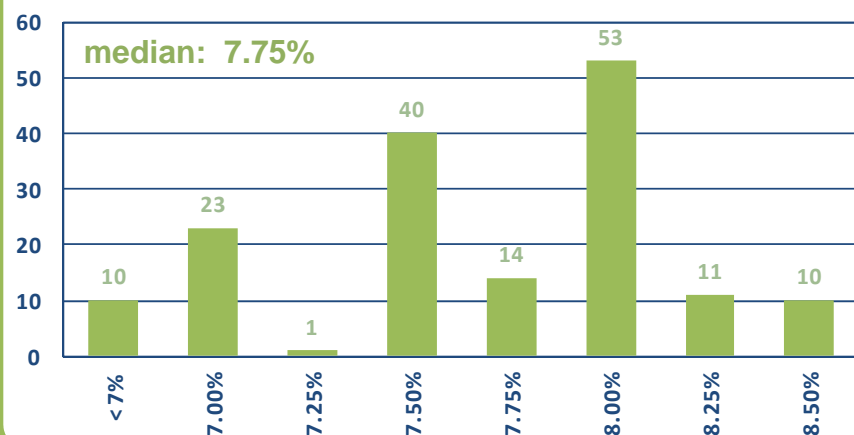
Rhode Island



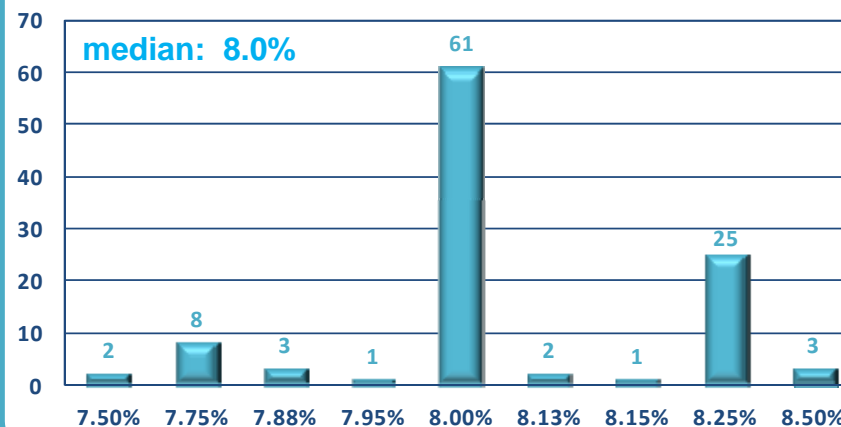
Large State-Wide Plans



Connecticut

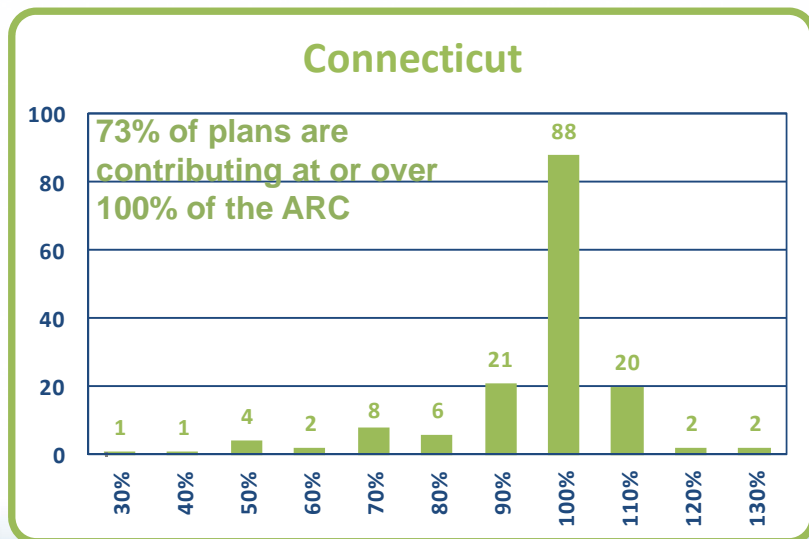
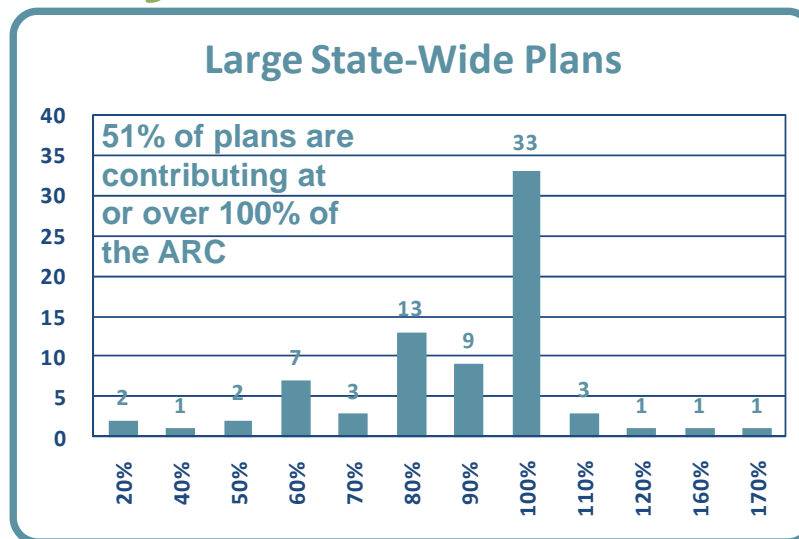
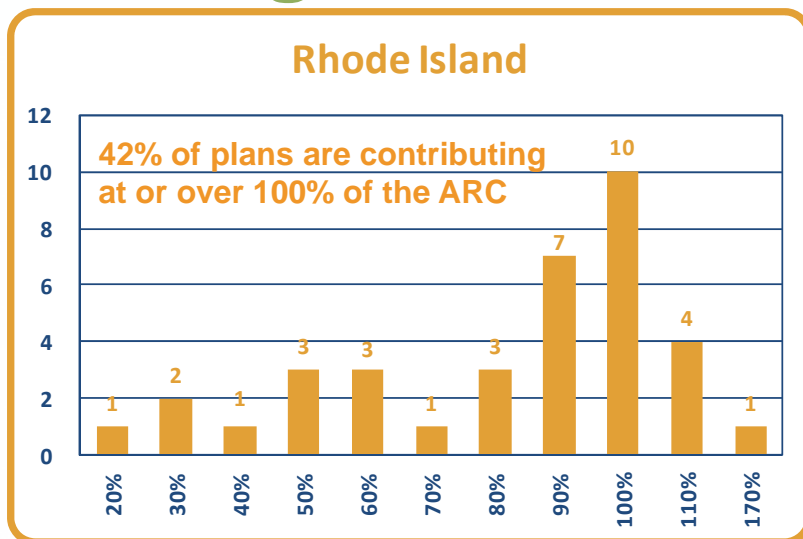


Massachusetts



**How well are Rhode Island
plan sponsors funding their
plans compared to other
public pension plan
sponsors?**

Percentage of ARC Actually Paid



Massachusetts: near universal full payment of actuarially determined appropriation amount

Graphs display the average for the past six fiscal years of the ratio of actual contributions to the Annual Required Contribution

Source Data

Rhode Island: 2011 Report of the Senate Municipal Pensions Study Commission; September 2011 Report *Pension and OPEB Plans Administered by Rhode Island Municipalities*

Connecticut: data compiled by Milliman from 2010 CAFRs

Massachusetts: PERAC Annual Reports

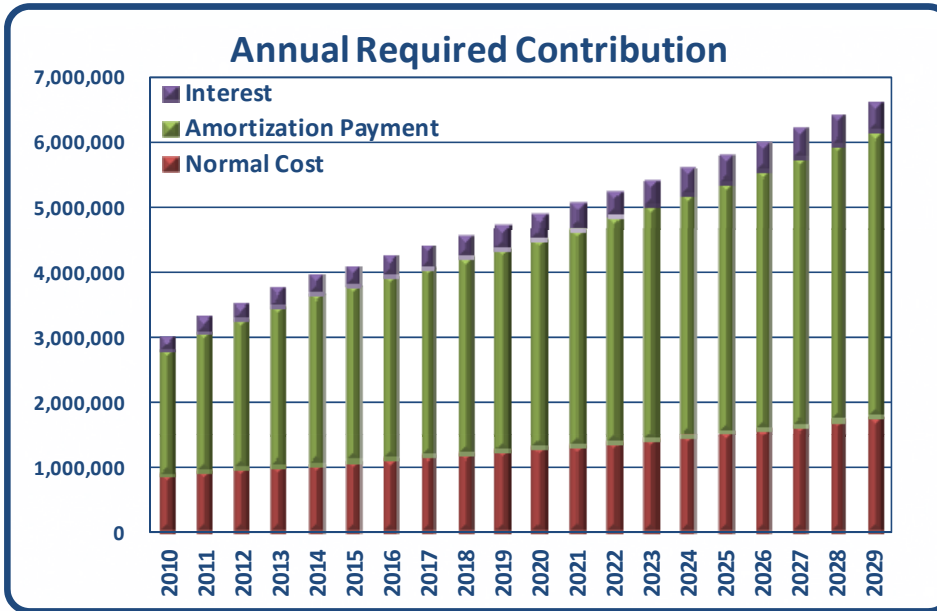
Large State-Wide Plans: data compiled by Milliman from 2010 CAFRs

What does the future hold for an underfunded plan?

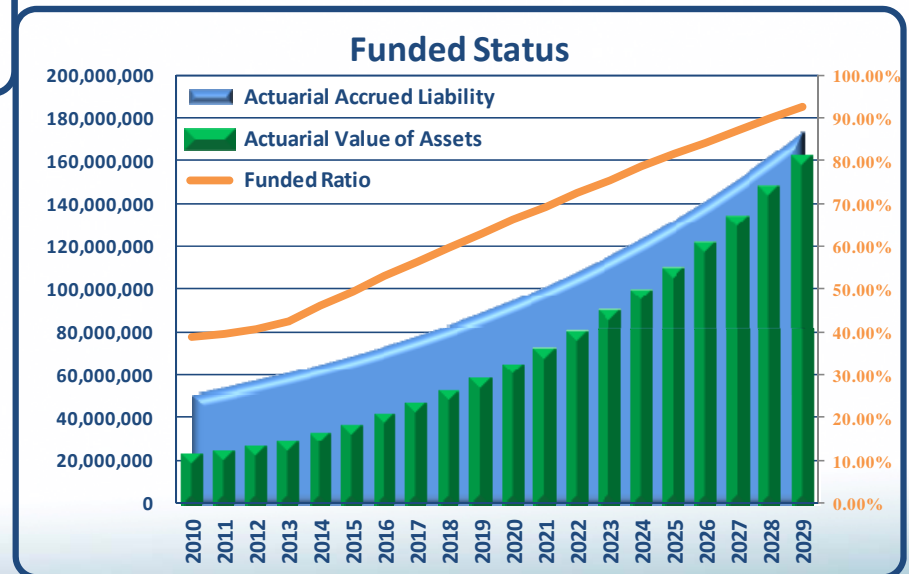
A Typical Rhode Island Municipal Plan

July 2010	\$ millions
Market Value of Assets	\$16.9
Actuarial Value of Assets	19.6
Actuarial Value / Market Value	116%
Accrued Liability	50.5
Funded Ratio	39%
Total Normal Cost	1.3
Expected Member Contributions	0.4
Net Normal Cost	0.9
Amortization Payment	2.2
Interest	0.2
FY11 Annual Required Contribution	3.3
FY10 Actual Contribution Paid	0.4
FY11 Expected Benefit Payments	2.3

If 100% of the ARC is Contributed Each Year

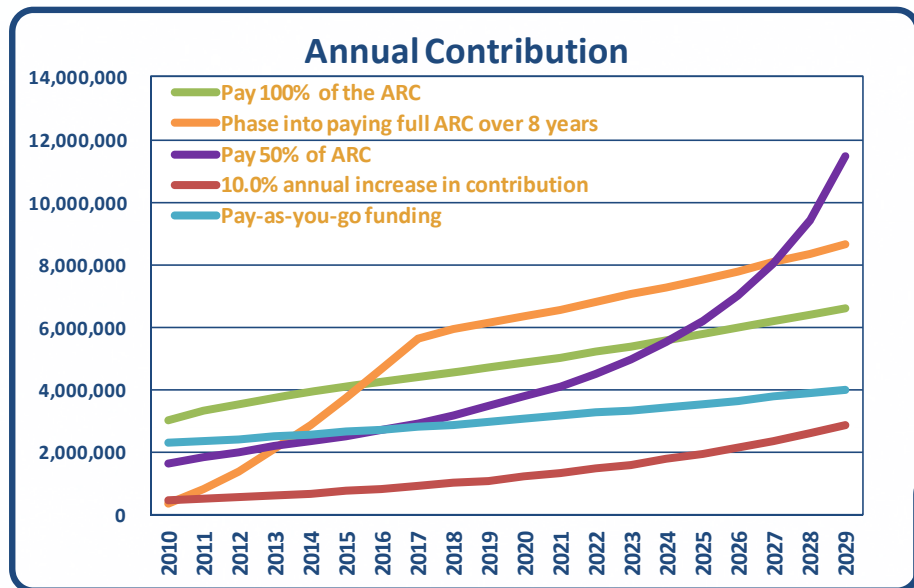


- 8.00% interest rate assumption
- Entry Age Normal funding method
- Five year asset smoothing
- Level percent amortization
- 22 year amortization period → plan will be 100% funded in 2032



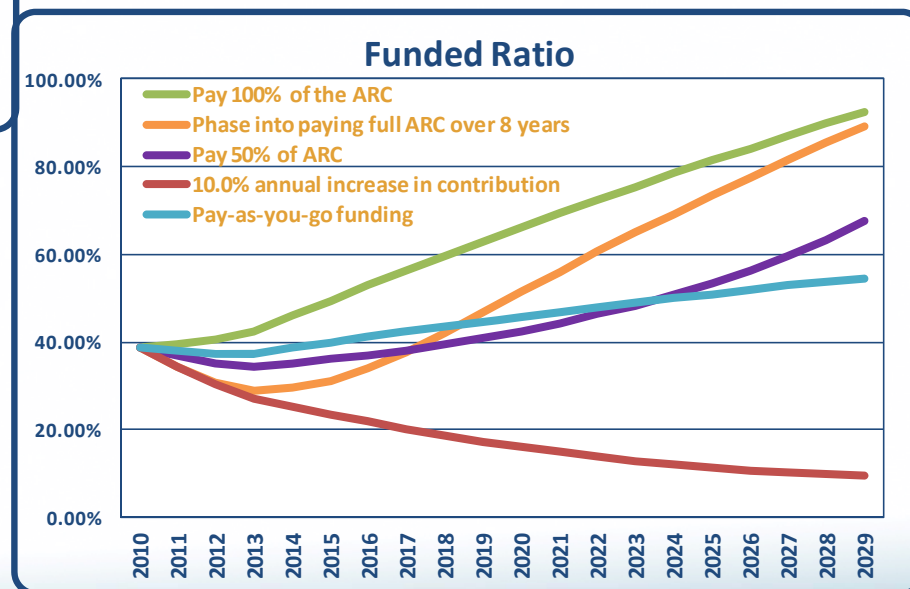
Paying 100% of the FY 2011 ARC [\$3.3m] would mean a seven-fold increase over what was contributed in FY 2010 [\$400k]

Alternative Funding Strategies



- There are many approaches to getting a plan back to a healthy funded position
- The best choice for a particular plan depends on many factors

- Long-term projections are vital for ensuring that a strategy is sound:
 - ➔ Contribution levels are manageable
 - ➔ Plan assets remain sufficient to pay benefits



Alternative Funding Strategies

- Pension plans are “pay now or pay later”
- There is a trade-off between the level of contributions and improvements in the funded ratio
- Running out of plan assets jeopardizes the ability to pay benefits to plan members
- Make a plan and stick to it

Potential Changes in Rhode Island

What Other Nearby States Do

- **Connecticut** – must obtain a “qualified cost estimate” from an actuary prior to making plan changes
- **Maine** – must fully fund the cost of plan changes upon implementation
- **Massachusetts** –
 - Centralized review of valuations
 - Extension of allowable amortization periods in 2009
 - Cap on annual increases in ARC
 - No decreases in ARC allowed
 - Mandatory take-over of local plan investments for poorly funded plans with poor investment performance

Recent Research

Lessons from Well-Funded Public Pensions: An Analysis of Six Plans that Weathered the Financial Storm

June 2011 National Institute on Retirement Security

- **Always pay the full ARC**
- **Employee contributions to help fund benefits**
- **Plan changes priced out in advance**
- **Modest COLAs**
- **Anti-spiking provisions**
- **Reasonable economic assumptions**

Recommendations from RI Auditor General

Pension and OPEB Plans Administered by Rhode Island Municipalities
September 2011, Office of the Auditor General

- **Local plan sponsors commit to making progress towards paying the ARC**
- **Reform benefit provisions**
- **Remove pension benefits from collective bargaining agreements**
- **Merge local plans into RI MERS**
 - **All local plans**
 - **Only local plans falling below certain funded ratios**
- **Explore options for pooled investments**

Other Possibilities?

- **Transfer retiree liability into a state-wide plan**
 - Leave assets behind with the liability for active members so that the local plan is x% funded – 50%? 75%? 100%?
 - Require local plan to pay 100% of ARC
 - Require state review of valuations, including approval of assumptions and funding method
 - Prohibit benefit improvements unless plan is above a certain funded ratio threshold
 - Include effective enforcement mechanism

Questions?