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November 8, 2012

PERSONAL & CONFIDENTIAL

Mr. Theodore Przybyla
Finance Director
Town of Coventry
1670 Flat River Road
Coventry, RI 02816

Re: Town of Coventry Municipal Employees Retirement Plan
Funding Improvement Plan Report

Dear Ted:

Enclosed is the Funding Improvement Plan report for the Town of Coventry Municipal Employees Retirement Plan.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Steve".

Steve A. Lemanski, F.S.A., F.C.A.
Consulting Actuary

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Enclosure

**COVENTRY MUNICIPAL
EMPLOYEES RETIREMENT PLAN
FUNDING IMPROVEMENT PLAN**

COVENTRY MUNICIPAL EMPLOYEES RETIREMENT PLAN

**FUNDING IMPROVEMENT PLAN
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COVENTRY MUNICIPAL EMPLOYEES RETIREMENT PLAN

FUNDING IMPROVEMENT PLAN

Executive Summary

In accordance with Rhode Island General Laws Section 45-65-6, the Town is submitting this Funding Improvement Plan (Plan) to the Locally-Administered Pension Plans Study Commission. The Town had completed an actuarial valuation and an experience study as of July 1, 2011. Based on these results the funded status of the pension system is 25.3% and therefore, considered in critical status.

In the pages that follow, we describe our plans for increasing this ratio to the point that the plan is no longer considered in critical status. This will be accomplished through increased funding and negotiating pension benefit reductions with the members of the retirement system. We expect to achieve the goal of emerging from critical status in 19 years.

This funding improvement plan includes future funding projections (prepared by Milliman, Inc., the Town's actuary for the plan) under four scenarios, as summarized on Exhibits A through D of the Appendix. Exhibit A shows the projected results under the current plan provisions, and Exhibits B through D summarize the results reflecting proposed benefit provision changes. The proposed benefit changes outlined in this improvement plan are Town proposals, and are subject to collective bargaining.

Current Funding

The Town has accepted the recommendations of our actuary for modifications to the actuarial assumptions. Based on these results, the actuary is recommending a FY 2013 pension contribution of \$1,068,188 to the trust based on a 22 year amortization with payments increasing 3.55% per year. The Town has budgeted \$559,077 for FY 2013, or 52.3% of the recommended contribution. This also represents 0.6% of our revenue.

Future Funding

The Town has agreed to adopt a "phase-in" approach to contributing the Annual Required Contribution ("ARC") for the DB plan, with the phase-in starting in FY 2014. Under the phase-in approach, the Town's actual contribution to the DB plan increases such that the portion of the ARC actually contributed increases by 20 percentage points each year until it reaches 100% of the ARC by FY 2016.

In addition, the period for amortizing the unfunded accrued liability will be reset to 30 years (closed period) for the July 1, 2012 actuarial valuation (which will be used to determine the ARC for FY 2014), with a 3.55% growth assumption for the amortization payment.

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 retiring. This forecast reflects the current benefit provisions for the defined benefit plan.

The Town generally was contributing approximately \$550,000 to \$560,000 per year for the past several years. In order to support the substantial expected increase in funding contributions for the system, the Town must make changes to other line items in its budget, increase its revenue, and make changes to the current pension plan benefits.

COVENTRY MUNICIPAL EMPLOYEES RETIREMENT PLAN

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Budget Reductions and Revenue Enhancements

The Town of Coventry focuses on cost savings opportunities and will aggressively pursue these savings. Staffing levels will continue to be evaluated and efficiencies implemented wherever possible. Employee health care is a significant benefit cost that continues to increase. The Town, through its relationship with other communities in the WB collaborative, has been somewhat successful in its efforts to control annual cost increases. Energy audits of municipal and school properties have recently been completed. The resulting recommendations, including upgrading of equipment to more energy efficient technology, are being evaluated and sources of funding identified. The Town has also focused on alternative energy, including the recent installation of solar panels on a municipal building. The Town has signed a contract with a wind turbine developer for the installation of a turbine on Town owned property. Both of these projects will stabilize a portion of the Town's future electricity costs through long term electricity purchase contracts.

The Town's administration is very mindful of the extraordinary burden local property taxes continue to place upon the taxpayers. The attached revenue projections include tax increases only to fund increasing pension costs for this plan. Otherwise, the current operating budget is assumed to be level funded for the foreseeable future.

Plan Changes

Town Proposal 1

The Town proposes to make the following changes to Plan Provisions for the AFSCME group, subject to negotiations and collective bargaining:

- Currently, the employee contribution rate is 7.0%. We expect to increase this to 10.0%.
- Implement a 3-year wage freeze starting in 2012.
- Close the defined benefit plan to all new entrants and implement a defined contribution plan for new hires with the Town contributing a 100% match of the employee contribution, up to a maximum of 10% of the employee's gross wages. Our actuary estimates that some new hires will not elect to make the maximum contribution into the defined contribution plan, such that the average employer contribution is 6% of compensation into that plan.

Exhibit B illustrates the forecast for Town Proposal 1.

Our actuary has projected that for FY 2014, the changes to the Plan Provisions outlined in Town Proposal 1 will reduce the costs, liabilities and the Town's projected contributions. In addition, the variability of the Town's projected contributions will be reduced over time, as new hires are covered by a defined contribution plan. The estimated FY 2014 results are as follows:

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FUNDING IMPROVEMENT PLAN

	Current Plan Provisions	Proposed Plan Provisions
Employer Normal Cost	\$540,400	\$491,300*
Employee Normal Cost	380,200	432,400
Net Employer Normal Cost	160,200	58,900
Accrued Liability	18,458,500	17,843,100
Actuarial Value of Assets	4,780,900	4,780,900
Unfunded Accrued Liability	13,677,600	13,062,200
Funded Ratio	25.9%	26.8%
ARC (FY 2014)	959,600	831,200*
Town Contributions	694,200	603,900*

*Includes \$9,700 in expected employer contributions to proposed defined contribution plan

Alternative proposals have also been reviewed (Town Proposals 2 and 3):

Town Proposal 2 (Alternative Proposal)

The Town proposes to make the following changes to Plan Provisions for the AFSCME group, subject to negotiations and collective bargaining:

- Currently, the employee contribution rate is 7.0%. We expect to increase this to 10.0%.
- Implement a 3-year wage freeze starting in 2012.
- Close the defined benefit plan to all new entrants and implement a defined contribution plan for new hires with the Town contributing 10% of the employee's gross wages.

Exhibit C illustrates the forecast for Town Proposal 2.

Our actuary has projected that for FY 2014, the changes to the Plan Provisions outlined in Town Proposal 2 will reduce the costs, liabilities and the Town's projected contributions. In addition, the variability of the Town's projected contributions will be reduced over time, as new hires are covered by a defined contribution plan. The estimated FY 2014 results are as follows:

	Current Plan Provisions	Proposed Plan Provisions
Employer Normal Cost	\$540,400	\$497,700*
Employee Normal Cost	380,200	432,400
Net Employer Normal Cost	160,200	65,300
Accrued Liability	18,458,500	17,843,100
Actuarial Value of Assets	4,780,900	4,780,900
Unfunded Accrued Liability	13,677,600	13,062,200
Funded Ratio	25.9%	26.8%
ARC (FY 2014)	959,600	837,600*
Town Contributions	694,200	610,300*

*Includes \$16,100 in expected employer contributions to proposed defined contribution plan

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Town Proposal 3 (Alternative Proposal)

The Town proposes to make the following changes to Plan Provisions for the AFSCME group, subject to negotiations and collective bargaining:

- Currently, the employee contribution rate is 7.0%. We expect to increase this to 10.0%.
- Implement a 3-year wage freeze starting in 2012.

Exhibit D illustrates the forecast for Town Proposal 3.

Our actuary has projected that for FY 2014, the changes to the Plan Provisions outlined in Town Proposal 3 will reduce the costs, liabilities and the Town's projected contributions. The estimated FY 2014 results are as follows:

	Current Plan Provisions	Proposed Plan Provisions
Employer Normal Cost	\$540,400	\$499,000
Employee Normal Cost	380,200	443,700
Net Employer Normal Cost	160,200	55,300
Accrued Liability	18,458,500	17,849,100
Actuarial Value of Assets	4,780,900	4,780,900
Unfunded Accrued Liability	13,677,600	13,068,200
Funded Ratio	25.9%	26.8%
ARC (FY 2014)	959,600	813,800
Town Contributions	694,200	588,700

Exhibit E provides the same forecast as Exhibit B (Town Proposal 1), except that actual return on investment is 0.5% less than the 7.0% assumption.

Exhibit F contains a summary of the actuarial assumptions. Please note that "proposed assumptions" have been adopted, and are consistent with those summarized on pages 7 through 9 of Milliman's March 21, 2012 Experience Study report.

Exhibit G contains a summary of the current plan provisions, as well as proposed plan changes.

The Town commissioned an analysis (**Exhibit H**) by Gabriel, Roeder, Smith & Company (GRS), actuary for the State Retirement Board. Upon review of the projected cost of the transition to MERS, the Town has determined that this option is unfeasible.

COVENTRY MUNICIPAL EMPLOYEES RETIREMENT PLAN

**FUNDING IMPROVEMENT PLAN
EXHIBIT F**

Summary of Actuarial Assumptions

The current actuarial assumptions used in the original July 1, 2011 Coventry Municipal Employees Retirement Plan valuation plus the proposed changes in actuarial assumptions (consistent with pages 7 through 9 of Milliman's March 21, 2012 Experience Study report) are as follows:

	Current Assumption		Proposed Assumption	
Consumer Price Inflation	2.75% per year.		No change.	
Salary Scale	<u>Age</u>	<u>Rate</u>	<u>Service</u>	<u>Rate</u>
	20	7.10%	1	6.80%
	25	6.18%	2	6.80%
	30	5.57%	3	3.55%
	35	5.11%	4	3.55%
	40	4.72%	5	6.35%
	45	4.39%	6-9	3.55%
	50	4.12%	10	6.10%
	55	3.88%	11-14	3.55%
			15	5.85%
			16-19	3.55%
			20	5.60%
			21-24	3.55%
			25	5.35%
			26-on	3.55%
Investment Return	7.50% per year, net of investment expenses.		7.00% per year, net of investment expenses.	

Turnover	<u>Age</u>	<u>Rate</u>	
	20	10.94%	No change.
	25	8.78%	
	30	6.98%	
	35	5.45%	
	40	4.23%	
	45	3.29%	
	50	2.52%	
	55	1.89%	

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**FUNDING IMPROVEMENT PLAN
EXHIBIT F**

	Current Assumption		Proposed Assumption	
Retirement	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
	55-58	2%	55-58	3%
	59	7	59	7
	60-61	10	60-61	10
	62	35	62	35
	63-64	20	63-64	20
	65	50	65	40
	66-69	40	66-69	30
	70	100	70	100
 Mortality	RP-2000 Combined Healthy Mortality Table projected to 2005 with Scale AA, with separate male and female tables.		RP-2000 Combined Healthy Mortality Table with generational projection per Scale AA with separate male and female tables.	
 Disability	1987 Commissioner's Group Disability Table, six month elimination period, separately for males and females.		No change.	
 Percent Married	75% of active members are assumed to be married, with husbands 3 years older than their spouses.		No change.	
 Asset Valuation Method (Actuarial Value)	The total value of the plan assets is adjusted by phasing in recognition of the difference between the expected return on market value and the actual return on market value over a five-year period at 20% per year.		No change.	
 Actuarial Cost Method	Entry Age Normal actuarial cost method.		No change.	
 Payroll Growth Rate	4.00%		3.55%	

COVENTRY MUNICIPAL EMPLOYEES RETIREMENT PLAN

**FUNDING IMPROVEMENT PLAN
EXHIBIT G**

Summary of Current Plan Provisions and Proposed Plan Changes

	Current Provision	Town Proposal 1	Town Proposal 2
Normal Retirement Benefit	2% of Average Compensation per year of service.	No change.	No change.
Final Average Earnings	The average of total pay received for the five consecutive years out of the ten latest years which gives the highest average.	No change, but wages frozen for the next 3 years for active AFSCME group participants.	No change, but wages frozen for the next 3 years for active AFSCME group participants.
Member Contributions	All active participants contribute 7% of compensation.	All active AFSCME group participants contribute 10% of compensation.	All active AFSCME group participants contribute 10% of compensation.
Eligibility	Eligible members participate on the first day of the month following date of hire.	Close the defined benefit plan to all new entrants and implement a defined contribution plan for new hires with the Town contributing a 100% match of the employee contribution, up to a maximum of 10% of the employee's gross wages. Our actuary estimates that some new hires will not elect to make the maximum contribution into the defined contribution plan, such that the average employer contribution is 6% of compensation into that plan.	Close the defined benefit plan to all new entrants and implement a defined contribution plan for new hires with the Town contributing 10% of the employee's gross wages.

COVENTRY MUNICIPAL EMPLOYEES RETIREMENT PLAN

**FUNDING IMPROVEMENT PLAN
EXHIBIT G**

	Current Provision	Town Proposal 3
Normal Retirement Benefit	2% of Average Compensation per year of service.	No change.
Final Average Earnings	The average of total pay received for the five consecutive years out of the ten latest years which gives the highest average.	No change but wages frozen for the next 3 years for active AFSCME group participants.
Member Contributions	All active participants contribute 7% of compensation.	All active AFSCME group participants contribute 10% of compensation.
Eligibility	Eligible members participate on the first day of the month following date of hire.	No change (defined benefit plan remains open to new hires).



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Exhibit H

August 7, 2012

Mr. Ted Przybyla
Finance Director
Town of Coventry
tprzybyla@town.coventry.ri.us

Dear Mr. Przybyla:

Subject: Actuarial Analysis - Extending MERS Coverage to Employees of the Coventry Municipal Employees Retirement Plan

As requested, we have determined the initial employer contribution rate that the Town will be charged if the Town of Coventry elects coverage for the Town's municipal employees under MERS (Rhode Island's Municipal Employees' Retirement System), effective July 1, 2012.

Background and Proposal

We have been provided data on 106 employees, 64 retirees, and 41 vested terminated member of the Town of Coventry Municipal Employees Retirement Plan who would be covered under MERS. The analysis assumes all prior service will be granted to the members for both benefit calculations and for eligibility purposes. The analysis is performed under two scenarios: with the optional COLA C provision or without it. By statute, the member contribution rate for the unit will be 1.00% if no COLA is elected and 2.00% if COLA C is elected.

Analysis

The table below shows the employer contribution rate and other information:

Assumes no Asset Transfer		
Item	Without any Optional Provision	With Optional COLA C Provision
1. Projected unfunded actuarial accrued liability as of June 30, 2012	\$16,900,000	\$18,800,000
2. Total normal cost rate	7.90%	8.72%
3. Member contribution rate	1.00%	2.00%
4. Employer normal cost rate (2. - 3.)	6.90%	6.72%
5. Amortization rate	19.16%	21.27%
6. Total employer contrib. rate (4. + 5.)	26.06%	27.99%
7. Projected FY 2013 payroll	\$5,400,000	\$5,400,000
8. Projected FY 2013 employer contrib.	\$1,425,000	\$1,525,000

The Town would not participate in a MERS actuarial valuation until after the Town had participated in MERS for a full year. Therefore, the first MERS actuarial valuation in which the Town would be a participant would be the June 30, 2013 valuation which would set the FY2016 contribution rates. Thus, the contribution rates shown above would be effective from the July 1, 2012 effective date through June 30, 2015. After that, contributions will be determined by the annual valuations for MERS.

Impact of Additional Contributions

The employer contribution rates and amounts shown above are based on the assumption that no extra assets are transferred into MERS. If extra assets are transferred, then for each \$1,000,000 contributed to MERS, the employer contribution rate will be reduced by 113 basis points (1.13%). For example, by contributing an additional \$10,000,000 to MERS when the plan is established, the Town would reduce the contribution rate shown above by 11.32 percentage points, or from 27.99% to 16.67% if the optional COLA C provision is adopted. This amounts to a savings of \$61,600 in the annual employer contribution for each \$1,000,000 contributed.

Member Data

Member data on the 106 active members provided by Frank Karpinski, the Executive Director for ERSRI, in electronic format. As of June 30, 2011, the active members are 47.5 years old on average, they have an average of 13.4 years of service, and their current average salary is \$49,500.

Other Comments

Our analysis was prepared based on actuarial assumptions and methods used in preparing the June 30, 2011 actuarial valuation report, the most recently completed one.

If you have any questions about our analysis, please do not hesitate to call or write.

Sincerely,



Joseph P. Newton
Senior Consultant

cc: Mr. Frank J. Karpinski, Executive Director, ERSRI