Pension Board Minutes – October 16, 2018

Attending: Aldermen, Sharon Davis, Chris Ettori, William Notte and Scott Tommola, School Commissioners, Joanne Pencak, Charlene Seward, Matt Olenick, Hurley Kavacas, Chair, Mary Markowski

Others attending: Erik Schait, Newport Group, Peter Amons, Chief Financial Officer, RPS, Mayor David Allaire, Aldermen Paul Clifford and Matt Whitcomb.

The Chair called the meeting to order 5:30 pm, and asked if there were any additions to the agenda. As there were no changes there were two items on the agenda:

- Approval of the minutes of the meeting of September 18, 2018
- Actuary Review of Plan Assumptions

Erik Schait from Newport Group presented the actuarial assumptions that were included in the handout from the meeting of September 18, 2018. Some of the major assumptions are the discount rate, withdrawal rate, compensation increases, mortality and retirement. All of these assumptions play a role in how the liability is calculated. Erik presented a detailed outline of the assumptions and recommendations for changes or adjustments to the current assumptions. He noted that the discount rate has a high impact on the plan, salary growth has a medium impact, inflation is relatively low, retirement and withdrawal have a medium impact, and mortality has medium to low impact.

The discount rate is set to equal the long term rate of return on plan assets. This rate should reflect the long term rate of return on plan assets. The Investment mix, time horizon and net investment performance should be considered in the rate. Also, this should be forward looking rather than based on historical performance. For example, if we have to pay $1,000 per month ten years from now how much would be needed today to earn that long-term rate of return to make the payments. The expected payments are discounted to current. The discount rate is currently set at 7.5%. Erik presented data on other plans and noted that the discount rates are coming down. A change of .50% increase or decrease would change liabilities by about $6.2 million. Changes to the discount rate will have a significant impact on the liability however; changes to other assumptions can offset the impact.

Erik presented options to work toward a 7% discount with a gradual decline in the discount rate of .1% over a five-year period (page 17). Peter noted that this would soften the impact compared to a onetime change. The school has agreed to pay the ARC (annual required contributions) so changes can have a material cash impact. Lowering the rate does not change what the pension will actually pay; it's just recognizing that the liability should be higher. The board agreed to review all assumptions before voting on any changes.

The withdrawal assumptions were reviewed. The greater the rate of withdrawal will assume a greater ratio of participants will leave prior to retirement age. This assumes participants will accrue less future benefit and results in a lower liability today. This has a medium overall impact on the liability. Erik presented alternative assumptions for the school and City. The school has had more withdrawals per year than expected and the City has had less withdrawal per year than expected. Erik made recommendations for slight changes in the table to reflect what is actually happening in the school and City, as outlined on page 29. The school would move to T-8 and the City with the exception of Fire would the T-7, with Fire at T-1 based on experience.

Compensation increases are the assumption of future increases in salary for participants. The plan bases benefits on the participants average annual rate of pay on January 1 and does not include bonuses. A greater rate of compensation increases will result in a greater projection of retirement benefits payable at retirement age. An increase in this assumption will result in a greater liability today. Currently, all City and School groups are at 4%. Based on experience and future expectations the recommendation for the school is to stay at 4% and City would be reduced to 3.5%.

Erik presented the impact of mortality. Mortality is used to value the life expectancy of participants. Benefits paid from the plan are paid over the life of the participant and their spouse. A mortality table is used to calculate the likelihood that a participant is alive to receive the benefit at each future payment date. A greater rate of mortality will result in an assumption that payments will be paid for a shorter period. An increase in mortality rates will result in a decrease in liability today. Currently, the city and school follow the 2018 430(h) Annuitant & Non-Annuitant Mortality table. These are the tables used for single employer pension plan liabilities and have been static. The recommendation for the school and city was to move from the static table to the RP-2014 tables and projections based on the group. This is more in line with what the VMERS plan is using.

The assumption for Retirement age was reviewed. The assumed retirement age is when we expect a participant to retire and elect benefits. This can be a single age or there could be rates for varying ages. The earlier a participant is assumed to retire the greater the liability today. Liabilities have a medium sensitivity to the retirement age. Erik reviewed the retirement ages and plan experience for the School and City groups. There were no recommended changes for the retirement age assumptions.

After reviewing all of the major assumptions, Erik presented an outline of the impacts of these changes without the discount change. The review of the assumptions is a five-year study and will be reassessed if significant changes are noted. These are reviewed by the Actuary annually. The committee agreed that the recommended changes to the assumptions were fair and agreed to the changes with additional discussion regarding the changes to the discount rate. Because the discount rate has the biggest impact to the liability the committee agreed to adopt a gradual decline in the discount rate with an incremental rate change over 5 years, as presented in slide 17 and 18. Hurley made a motion to approve the recommended changes to the assumptions including the incremental changes to the discount rate from 7.5% to 7.0% over the next five years. After review of the overall implications of the changes, the motion was seconded by Charlene Seward. Motion passed. Unanimously

Sharon Davis made a motion to approve the minutes of September 18, 2018. The motioned was approved and seconded.

The committee thanked Erik for the detailed review of pension assumptions.

The meeting was adjourned at 6:40 pm.

Respectfully submitted,

Mary A. Markowski