Pension Board Minutes – July 16, 2019

Attending: Aldermen, Chris Ettori, Rebecca Mattis and Sharon Davis, School Commissioners, Charlene Seward, and Chair, Mary Markowski

Absent: Bill Gillam, Jr., Scott Tommola, Joanne Pencak, Hurley Cavacas, and Matt Olenick

Others Attending: Peter Amons of Rutland Public Schools and Erik Schaik of Newport Group. Also, in attendance was William Lovett of the City of Rutland Fire Dept and Alderman Matt Reveal.

The Chair began the meeting at 6:00 pm. The Chair asked for approval of the minutes of the June 10, 2019. A motion was made and seconded, motion approved.

The Chair introduced Erik Schaik of Newport Group to present the Plan Valuation of January 1, 2019.

City Plan:

Assets: At the beginning of 2018 the asset market value was $26.5 million. The activity in 2018 included, $1.7 million in employee/employer contributions and $3.88 million in benefit payments, fees and net investment earnings. The market return for the year was -4.74% and total plan assets for the end of the year were $24.45 million. Mr. Schait noted that overall end of December market returns were negative, however, market conditions have rebounded in the first quarter of 2019. The actuarial value of assets for the end of the year was $26.67 million using a smoothing value method.

Participant Data: There are currently 82 active participants, 30 terminated/inactive participants and 131 retired participants/beneficiaries in pay status. The average age of active participants is 50.47 with an average service of 18.65 and average future service of 6.32. This reflects the City's decision to close out the plan for new employees. Erik noted that while new employee contributions are not coming in, the city is not incurring the additional liability for those new employees.

Contributions and Liability: The total normal cost of benefits earned during the year for active participants is $740K. With participant contributions of $363K, the city share would be $415K if the plan were 100% funded. Erik noted that the unfunded actuarial accrued liability was $19.15 million as of January 1, 2019. The projected payment on the unfunded portion of the accrued liability is $1.6 million, with a 30 year payoff. Erik noted that the funded status of the City plan improved from 56.83% in 2018 to 57.79% in 2019.

There was discussion of the impact of the retirements from the Fire Department during FY19. These events occurred after the valuation. These changes will be included in the FY20 valuation to reflect the impact.

The Risk and Duration Measures were reviewed; the duration is another method to measure the effects of interest rate on the plan assets. For example with a 1% drop in the interest rate you could expect the liability to increase by 10.5% on page 12 of the report. The actuarial assumptions were outlined on page 13 and 14.

School Plan:

Assets: At the beginning of 2018 the asset market value was $60.7 million. The activity in 2018 included, $3.26 million in employee/employer contributions and $6.62 million in benefit payments, fees and net investment earnings. The market return for the year was -4.74% and total plan assets for the end of the year were $57.7 million. Mr. Schait noted that overall end of December market returns were negative, however, market conditions have rebounded in the first quarter of 2019. The actuarial value of assets for the end of the year was $61.7 million using a smooth value method.

Participant Data: There are currently 464 active participants, 155 terminated/inactive participants and 289 retired participants/beneficiaries in pay status. The average age of active participants is 48.62 with an average service of 11.16 and average future service of 7.47. Total plan participants in the School Plan were 908. Peter explained that several years ago there was a change in the retirement eligibility that adjusted the rule of 80 to the rule 85.

Contributions and Liability: The total normal cost of benefits earned during the year for active participants is $1.71 million. With participant contributions of $1.09 million the school share would be $677K if the plan were 100% funded. Erik noted that the unfunded actuarial accrued liability was $11.18 million as of January 1, 2019. The projected payment on the unfunded portion of the accrued liability is $2.13 million, with a 30 year payoff. Erik noted that the funded status of the School Plan has remained the same over the year at 84.6%.

The Risk and Duration Measures were reviewed; the duration is another method to measure the effects of interest rate on the plan assets. For example with a 1% drop in the interest rate you could expect the liability to increase by 12.2% on page 23 of the report. The School will be more impacted by interest rate changes because the participants are younger. The actuarial assumptions were outlined on page 24 and 25.

Peter asked about the impact of lower market returns over the next couple of years and how it would affect contributions given the contractual obligations to fund the plan. Erik explained that it might be necessary to review the funding plan, if there were several years of lower than expected returns. The school has a 20 year amortization plan based on the state plan operations.

Rebecca asked about the City change to VMERs and whether the City should have waited until the plan was fully funded. Erik explained that it would have been less painful because you wouldn't be trying to pay-off the past balance. However, if the plan had continued with its funding plan it would have just delayed the current situation. It would definitely be better to make the switch when the plan was fully funded. Erik noted that even if the change was not made the City would have had to increase its contributions. The pension deficit committee is addressing the funding issues.

There was some discussion about the Board structure on the City and School side and responsibility of the Board. There is a desire to review the composition of the Board with the assistance of the City Attorney.

The meeting was adjourned at 7:10 pm.

Respectfully submitted,

Mary A. Markowski