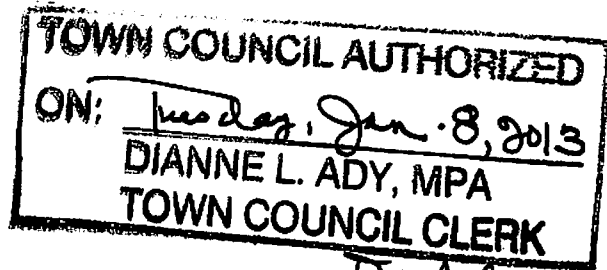


Copy: R. Rossi,

January 2, 2013

TO: Smithfield Town Council
Dennis Finlay, Town Manager

FROM: Randy R. Rossi



SUBJECT: Police Pension Plan Funding Improvement Plan

As part of the recent pension reform legislation, locally administered pension plans have been brought to the forefront and the burden they have on municipalities statewide. For our town the Police Pension Plan is currently in critical status with a funding ratio (assets-to-accrued liabilities) of 16.8% which is well below the state required minimum of 60%. The Town increased its contribution by \$600,000 to the plan in the current fiscal year (2013) to begin to address the issue. The Police Plan is a closed plan which includes 44 participants (33 retirees, 6 beneficiaries, and 5 disabled participants) and an unfunded liability of \$20,556,295.

In accordance with Rhode Island General Law Section 45-65-6, the Town submitted the enclosed funding improvement plan to the Locally-Administered Pension Plans Study Commission by November 11, 2012 deadline. As the second phase of submitting the plan the Town is required to adopt one of the options to help revive the plan from critical status and reach a funding ratio of 100%.

After a review of the four options with the town's actuary (Buck Consultants) and the Town Manager we recommend adopting Option 1. This option will provide a layered approach over the next two years to help reduce the financial impact over the next two fiscal years while reaching a funding level of 100% within 19 years.

Fiscal Year	Increase to Contribution	Potential Increase to Tax Levy	Increase to Tax Rate
2014	20% - \$329,600	.65%	\$0.15 per \$1,000
2015	10% - \$197,966	.39%	\$0.09 per \$1,000

- ❖ The potential increase to the tax levy is the worst case scenario and all other options would be examined before a decision is made for funding the increase in the Town's contribution.

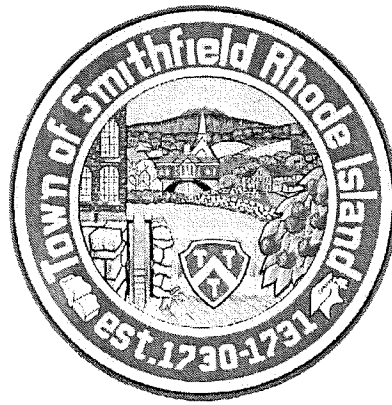
MOTIONS:

md/SA 4/0 Unanimous

That the Smithfield Town Council approves Funding Improvement Option 1 increasing the Town's Annual Contribution by 20% annually until reaching 100% of the Annual Required Contribution for the Police Pension Plan.

Enclosures:
Town's Funding Improvement Plan
Police Pension Actuarial Study as of June 30, 2012

TOWN OF SMITHFIELD



POLICE PENSION PLAN FUNDING IMPROVEMENT PLAN

NOVEMBER 6, 2012

Executive Summary

In accordance with Rhode 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 has completed an experience study as of March 21, 2012 and an actuarial valuation as of October 24, 2012 which incorporated the new assumptions as outlined in the experience study. Based on these results the funded status of the police pension plan is 16.8% and therefore, considered in critical status.

Within this plan we will outline the Town's options for increasing the funding ratio to bring the fund out of critical status. The Town Council will be reviewing these options following the new council taking office. The Police Plan is a closed plan which includes 44 participants (33 retirees, 6 beneficiaries, and 5 disabled participants) and an unfunded liability of \$20,556,295. The Town plans to increase contributions and emerge from critical status in about 13 years.

Current Funding

The Town Council has adopted (July 10, 2012 - Town Council Meeting) the recommendations of our actuary that were presented in the March 2012 experience study. These actuarial assumptions have been incorporated in Town's October 2012 actuarial evaluation. Based on these results, the actuary is recommending a pension contribution of \$2,104,565 into the trust with incremental increases averaging 0.10% annually until 2029 when the plan is expected to be 100% funded. The Town has contributed \$1,648,000 for fiscal year 2013, or 78.3% of the Annual Required Contribution (ARC). The Town's contribution represents 2.66% of the total budget. For fiscal year 2012 the Town contributed \$1,048,000, or 55.3% of the ARC.

Funding Improvement Options

The Town is currently contributing less than 100% of the ARC and has developed the following four options to emerge the Police Pension Plan from critical status. All four options are using the current fiscal year 2013 and 20 years forward to fiscal year 2033 in the attached actuarial schedules (21-year period).

OPTION 1

Increase of Funding by 20% until reaching 100% of Annual Required Contribution

- Emerge from Critical Status in 13 Years (Fiscal Year 2026)
- Total contribution costs for 21-year period \$38,772,020
- Reach Funding Ratio of 100% in 19 Years (Fiscal Year 2031)

The Town has increased the funding of the system for fiscal year 2013 to 78.3% of the ARC. Option 1 increases the Town's contribution by 20% per year until it reaches 100% of the ARC, which would be reached in fiscal year 2015.

In order to support the contribution increases the Town will need to find areas to cut in an already lean budget that has averaged a 0.21% increase over the last four fiscal years. The table below illustrates the potential effect on the tax levy if the Town were to increase taxes as the sole source of generating the necessary revenue.

Fiscal Year	Increase to Contribution	Potential Increase to Tax Levy	Increase to Tax Rate
2014	20% - \$329,600	.65%	\$0.15 per \$1,000
2015	10% - \$197,966	.39%	\$0.09 per \$1,000

OPTION 2

Contribute 100% of Annual Required Contribution

- Emerge from Critical Status in 13 Years (Fiscal Year 2026)
- Total contribution costs for 21-year period \$38,253,793
- Reach Funding Ratio of 100% in 19 Years (Fiscal Year 2031)

This option would require an additional contribution of \$456,565 for the current fiscal year, which was not part of the adopted budget. Drastic cuts in staffing and services would be necessary in order to fund the additional contribution. In fiscal years 2014-2026 the Town's annual contribution would increase an average of \$1,357 per year until emerging from critical status in fiscal year 2026.

OPTION 3

Contribute 100% of Annual Required Contribution and Increase by 2.10% Annually

- Emerge from Critical Status in 10 Years (Fiscal Year 2023)
- Total contribution costs for 21-year period \$36,513,460
- Reach Funding Ratio of 100% in 19 Years (Fiscal Year 2031)

This option provides a more aggressive approach than the first two options and would require an additional contribution of \$456,565 for the current fiscal year, which was not budgeted. In fiscal years 2014-2023 the Town's annual contribution would increase an average of \$48,615 per year until emerging from critical status in fiscal year 2023.

OPTION 4

Transfer participants to Municipal Employees Retirement System of RI

- Would not emerge from Critical Status within the 20 year target
- Total contribution costs for 21-year period \$45,190,172

It would be a very difficult option to implement with an expected strong opposition from the participants of the plan. On a cost basis it would cost the Town over \$7 million dollars more in contributions over the same 21-year period than the other three options. This option would not be the optimal choice for emerging the plan from critical status.

OPTION 1

Retirement Plan for Former Employees of the Police Department of the Town of Smithfield

Option: 20% Increase in ARC
Emerge from Critical Status in 13 Years

Annual Increase Rate: 20.00%

Fiscal Year	Payment Against the ARC	Employer Normal Cost	Employer Expected Expenses	Amortization	ARC	Contribution	Increase	Benefit Payments	Assets	Accrued Liability	Unfunded Liability	Funded Ratio
2013	78%	0	27,000	2,000,467	2,104,565	1,648,000		1,690,742	4,151,787	24,708,082	20,556,295	16.80%
2014	92%	0	28,000	2,047,885	2,154,825	1,977,600	20.00%	1,726,978	4,401,156	24,868,991	20,467,835	17.70%
2015	100%	0	29,000	2,066,867	2,175,566	2,175,566	10.01%	1,763,229	4,973,334	25,004,793	20,031,459	19.90%
2016	100%	0	30,000	2,066,867	2,176,605	2,176,605	0.05%	1,799,348	5,756,681	25,113,529	19,356,848	22.90%
2017	100%	0	31,000	2,066,867	2,177,643	2,177,643	0.05%	1,835,196	6,563,286	25,193,241	18,629,955	26.10%
2018	100%	0	32,000	2,066,867	2,178,681	2,178,681	0.05%	1,870,615	7,395,231	25,241,959	17,846,728	29.30%
2019	100%	0	33,000	2,066,867	2,179,719	2,179,719	0.05%	1,905,402	8,254,926	25,257,725	17,002,799	32.70%
2020	100%	0	35,000	2,066,867	2,181,795	2,181,795	0.10%	1,939,368	9,145,176	25,238,643	16,093,467	36.20%
2021	100%	0	36,000	2,066,867	2,182,833	2,182,833	0.05%	1,972,308	10,069,242	25,182,904	15,113,662	40.00%
2022	100%	0	38,000	2,066,867	2,184,909	2,184,909	0.10%	2,004,038	11,030,770	25,088,692	14,057,922	44.00%
2023	100%	0	39,000	2,066,866	2,185,946	2,185,946	0.05%	2,034,342	12,033,958	24,954,320	12,920,362	48.20%
2024	100%	0	41,000	2,066,866	2,188,022	2,188,022	0.09%	2,062,940	13,083,476	24,778,117	11,694,641	52.80%
2025	100%	0	42,000	2,066,866	2,189,060	2,189,060	0.05%	2,089,563	14,184,725	24,558,652	10,373,927	57.80%
2026	100%	0	44,000	2,066,866	2,191,136	2,191,136	0.09%	2,113,958	15,343,724	24,294,583	8,950,859	63.20%
2027	100%	0	46,000	2,066,867	2,193,213	2,193,213	0.09%	2,135,744	16,567,303	23,984,805	7,417,502	69.10%
2028	100%	0	47,000	2,066,867	2,194,251	2,194,251	0.05%	2,154,500	17,863,174	23,628,484	5,765,310	75.60%
2029	100%	0	49,000	2,066,866	2,196,326	2,196,326	0.09%	2,169,876	19,240,045	23,225,117	3,985,072	82.80%
2030	100%	0	51,000	2,066,867	2,198,403	2,198,403	0.09%	2,181,579	20,707,741	22,774,608	2,066,867	90.90%
2031	100%	0	53,000	0	55,015	55,015	-97.50%	2,189,313	22,277,115	22,277,115	0	100.00%
2032	100%	0	55,000	0	57,091	57,091	3.77%	2,192,622	21,733,118	21,733,117	0	100.00%
2033	100%	0	58,000	0	60,206	60,206	5.46%	2,191,143	21,143,604	21,143,603	0	100.00%

Assumed Interest Rate: 7.75%

OPTION 2

Retirement Plan for Former Employees of the Police Department of the Town of Smithfield

Option: Contribute 100% of ARC
 Emerge from Critical Status in 13 Years

Fiscal Year	Payment Against the ARC	Employer Normal Cost	Expected Expenses	Amortization	ARC	Contribution	Increase	Benefit Payments	Assets	Accrued Liability	Unfunded Liability	Funded Ratio
2013	100%	0	27,000	2,000,467	2,104,565	2,104,565	100.80%	1,690,742	4,151,787	24,708,082	20,556,295	16.80%
2014	100%	0	28,000	2,000,467	2,105,603	2,105,603	0.00%	1,726,978	4,875,083	24,868,991	19,993,908	19.60%
2015	100%	0	29,000	2,000,467	2,106,641	2,106,641	0.00%	1,763,229	5,616,860	25,004,793	19,387,933	22.50%
2016	100%	0	30,000	2,000,467	2,107,680	2,107,680	0.00%	1,799,348	6,378,535	25,113,529	18,734,994	25.40%
2017	100%	0	31,000	2,000,467	2,108,718	2,108,718	0.00%	1,835,196	7,161,788	25,193,241	18,031,453	28.40%
2018	100%	0	32,000	2,000,467	2,109,756	2,109,756	0.00%	1,870,615	7,968,571	25,241,959	17,273,388	31.60%
2019	100%	0	33,000	2,000,467	2,110,794	2,110,794	0.00%	1,905,402	8,801,153	25,257,725	16,456,572	34.80%
2020	100%	0	35,000	2,000,467	2,112,870	2,112,870	0.10%	1,939,368	9,662,190	25,238,643	15,576,453	38.30%
2021	100%	0	36,000	2,000,467	2,113,908	2,113,908	0.00%	1,972,308	10,554,779	25,182,904	14,628,125	41.90%
2022	100%	0	38,000	2,000,467	2,115,984	2,115,984	0.10%	2,004,038	11,482,390	25,088,692	13,606,302	45.80%
2023	100%	0	39,000	2,000,467	2,117,022	2,117,022	0.00%	2,034,342	12,449,033	24,954,320	12,505,287	49.90%
2024	100%	0	41,000	2,000,467	2,119,098	2,119,098	0.10%	2,062,940	13,459,174	24,778,117	11,318,943	54.30%
2025	100%	0	42,000	2,000,467	2,120,136	2,120,136	0.00%	2,089,563	14,517,994	24,558,652	10,040,658	59.10%
2026	100%	0	44,000	2,000,467	2,122,212	2,122,212	0.10%	2,113,958	15,631,277	24,294,583	8,663,306	64.30%
2027	100%	0	46,000	2,000,467	2,124,288	2,124,288	0.10%	2,135,744	16,805,596	23,984,805	7,179,209	70.10%
2028	100%	0	47,000	2,000,467	2,125,326	2,125,326	0.00%	2,154,500	18,048,389	23,628,484	5,580,095	76.40%
2029	100%	0	49,000	2,000,467	2,127,402	2,127,402	0.10%	2,169,876	19,368,068	23,225,117	3,857,049	83.40%
2030	100%	0	51,000	2,000,467	2,129,478	2,129,478	0.10%	2,181,579	20,774,141	22,774,608	2,000,467	91.20%
2031	100%	0	53,000	0	55,015	55,015	-97.40%	2,189,313	22,277,115	22,277,115	0	100.00%
2032	100%	0	55,000	0	57,091	57,091	3.80%	2,192,622	21,733,117	21,733,117	0	100.00%
2033	100%	0	58,000	0	60,206	60,206	5.50%	2,191,143	21,143,603	21,143,603	0	100.00%

Assumed Interest Rate: 7.75%

OPTION 3

Retirement Plan for Former Employees of the Police Department of the Town of Smithfield

Option: Always Contribute at least ARC with Annual Increase of 2.10%
Emerge from Critical Status in 10 Years

Annual Increase Rate: 2.10%

Fiscal Year	Payment Against the ARC	Employer Normal Cost	Employer Expected Expenses	Amortization	ARC	Contribution	Increase	Benefit Payments	Assets	Accrued Liability	Unfunded Liability	Funded Ratio
2013	100%	0	27,000	2,000,467	2,104,565	2,104,565		1,690,742	4,151,787	24,708,082	20,556,295	16.80%
2014	102%	0	28,000	2,000,467	2,105,603	2,148,761	2.10%	1,726,978	4,875,083	24,868,991	19,993,908	19.60%
2015	104%	0	29,000	1,995,845	2,101,844	2,193,885	2.10%	1,763,229	5,661,660	25,004,793	19,343,133	22.60%
2016	107%	0	30,000	1,985,643	2,092,292	2,239,957	2.10%	1,799,348	6,517,368	25,113,529	18,596,161	26.00%
2017	110%	0	31,000	1,968,637	2,075,677	2,286,996	2.10%	1,835,196	7,448,687	25,193,241	17,744,554	29.60%
2018	114%	0	32,000	1,943,234	2,050,346	2,335,023	2.10%	1,870,615	8,462,762	25,241,959	16,779,197	33.50%
2019	118%	0	33,000	1,907,312	2,014,096	2,384,058	2.10%	1,905,402	9,567,477	25,257,725	15,690,248	37.90%
2020	124%	0	35,000	1,857,992	1,964,977	2,434,123	2.10%	1,939,368	10,771,560	25,238,643	14,467,083	42.70%
2021	131%	0	36,000	1,791,394	1,896,884	2,485,240	2.10%	1,972,308	12,083,594	25,182,904	13,099,310	48.00%
2022	141%	0	38,000	1,701,602	1,805,754	2,537,430	2.10%	2,004,038	13,515,141	25,088,692	11,573,551	53.90%
2023	154%	0	39,000	1,580,105	1,680,675	2,590,716	2.10%	2,034,342	15,076,794	24,954,320	9,877,526	60.40%
2024	100%	0	41,000	1,413,151	1,509,448	1,509,448	-41.74%	2,062,940	16,782,294	24,778,117	7,995,823	67.70%
2025	100%	0	42,000	1,413,151	1,510,486	1,510,486	0.07%	2,089,563	17,465,823	24,558,652	7,092,829	71.10%
2026	100%	0	44,000	1,413,152	1,512,563	1,512,563	0.14%	2,113,958	18,174,730	24,294,583	6,119,853	74.80%
2027	100%	0	46,000	1,413,152	1,514,639	1,514,639	0.14%	2,135,744	18,913,334	23,984,805	5,071,471	78.90%
2028	100%	0	47,000	1,413,152	1,515,677	1,515,677	0.07%	2,154,500	19,686,644	23,628,484	3,941,840	83.30%
2029	100%	0	49,000	1,413,151	1,517,752	1,517,752	0.14%	2,169,876	20,500,456	23,225,117	2,724,661	88.30%
2030	100%	0	51,000	1,413,152	1,519,829	1,519,829	0.14%	2,181,579	21,361,456	22,774,608	1,413,152	93.80%
2031	100%	0	53,000	0	55,015	55,015	-96.38%	2,189,313	22,277,115	22,277,115	0	100.00%
2032	100%	0	55,000	0	57,091	57,091	3.77%	2,192,622	21,733,117	21,733,117	0	100.00%
2033	100%	0	58,000	0	60,206	60,206	5.46%	2,191,143	21,143,604	21,143,603	0	100.00%

Assumed Interest Rate: 7.75%

OPTION 4

Retirement Plan for Former Employees of the Police Department of the Town of Smithfield

Option: Transfer Participants to MERS in 2013

Fiscal Year	Accrued Liability	Assets	Unfunded Liability	Benefit Payments	Employer			ARC Contribution	Accrued Increase	Funded Ratio
					Normal Cost	Expected Expenses	Amortization			
2013	22,591,689	4,151,787	18,439,902	1,690,742	0	0	1,648,000		18.40%	
2014	22,780,684	4,418,855	18,361,829	1,726,978	0	0	0		19.40%	
2015	22,949,293	2,959,700	19,989,593	1,763,229	0	0	0		12.90%	
2016	23,095,494	1,353,523	21,741,971	1,799,348	0	0	1,491,756	1,546,686	5.90%	
2017	23,217,360	1,193,072	22,024,288	1,835,196	0	0	1,565,848	1,623,506	5.10%	
2018	23,312,826	1,063,067	22,249,759	1,870,615	0	0	1,643,547	1,704,066	4.60%	
2019	23,379,715	970,116	22,409,599	1,905,402	0	0	1,725,034	1,788,553	4.10%	
2020	23,415,972	921,723	22,494,249	1,939,368	0	0	1,810,516	1,877,183	3.90%	
2021	23,419,546	926,377	22,493,169	1,972,308	0	0	1,900,219	1,970,189	4.00%	
2022	23,388,375	993,659	22,394,716	2,004,038	0	0	1,994,391	2,067,829	4.20%	
2023	23,320,273	1,134,323	22,185,950	2,034,342	0	0	2,093,298	2,170,378	4.90%	
2024	23,212,660	1,360,442	21,852,218	2,062,940	0	0	2,197,196	2,278,101	5.90%	
2025	23,064,363	1,685,559	21,378,804	2,089,563	0	0	2,306,526	2,391,457	7.30%	
2026	22,873,764	2,124,986	20,748,778	2,113,958	0	0	2,421,743	2,510,917	9.30%	
2027	22,638,855	2,695,936	19,942,919	2,135,744	0	0	2,543,338	2,636,989	11.90%	
2028	22,359,029	3,417,833	18,941,196	2,154,500	0	0	2,672,098	2,770,490	15.30%	
2029	22,032,834	4,312,843	17,719,991	2,169,876	0	0	2,808,873	2,912,302	19.60%	
2030	21,658,856	5,406,070	16,252,786	2,181,579	0	0	2,954,808	3,063,610	25.00%	
2031	21,235,990	6,726,034	14,509,956	2,189,313	0	0	3,111,641	3,226,218	31.70%	
2032	20,764,072	8,305,573	12,458,499	2,192,622	0	0	3,282,420	3,403,285	40.00%	
2033	20,242,194	10,183,733	10,058,461	2,191,143	0	0	3,472,547	3,600,413	50.30%	

Assumed Interest Rate: 7.50%

Assumed Payroll Growth: 3.75%