

THE CITY OF WARWICK
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RESOLUTION OF THE CITY COUNCIL

No. R-13-28 Date 3/14/13
Approved. Scott Avedisian Mayor

RESOLUTION RELATIVE TO FUNDING THE POLICE AND FIRE PENSION PLAN

RESOLVED, that:

WHEREAS, Governor Lincoln Chafee has proposed in his most recent budget submitted to the R.I. General Assembly that additional state aid to municipalities be provided; and

WHEREAS, as proposed in the Governor's budget, the City of Warwick would receive an additional eight hundred thousand dollars and zero cents (\$800,000.00) in local municipal aid; and

WHEREAS, Mayor Scott Avedisian proposes that in addition to the programmed annual contribution by the City into all local pension funds that these additional local aid funds as proposed by Article 11 of the Governor's budget, if received by the City, be dedicated to make an additional payment into the Police and Fire I pension plans, so-called; and

WHEREAS, this dedication of funds will contribute and assist the City to maintain and reduce its funding obligation as set forth in the programmed funding formula for these two pension plans.

NOW, THEREFORE, BE RESOLVED, that the Warwick City Council hereby endorses the Mayor's proposal and supports the dedicated use of any additional local aid as proposed by Article 11 of the Governor's Budget toward payment into the Police and Fire I pension plans; and

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2 BE IT FURTHER RESOLVED, that the Warwick City Council hereby requires that any
3 money received by the City under the terms of this provision of state law must be directed to be
4 considered as additional principal payment to the unfunded pension liability of the Police and
5 Fire I pension plans. It is expressly designed to not be used for any other purpose or to in any way
6 reduce the annual contribution by the City into the pension fund.

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8 This Resolution shall not be deemed support of the Governor's overall Budget.

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10 This Resolution shall take effect upon passage.

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12 SPONSORED BY: COUNCILMAN COLANTUONO
13 COUNCILMAN LADOUCEUR
14 COUNCILMAN SOLOMON
15 COUNCIL PRESIDENT TRAVIS
16 COUNCILWOMAN VELLA-WILKINSON
17 ON BEHALF OF MAYOR AVEDISIAN

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19 COMMITTEE: FINANCE



November 8, 2012

Mr. Ernest M Zmyslinski
Director of Finance
City of Warwick - City Hall
3275 Post Road
Warwick, RI 02886

Re: City of Warwick, Rhode Island Firefighters/Police I Pension Fund – Analysis of Funding Improvement Plan

Dear Ernie:

Pursuant to Rhode Island General Laws §45-65-6, this letter describes the alternative funding improvement plan (Funding Plan) for the City of Warwick, Rhode Island Firefighters/Police I Pension Fund (PFI Fund) to emerge from critical status. In our opinion, the current Funding Plan that was first implemented beginning in July of 1995 is a reasonable and executable Funding Plan.

Elements of Current Funding Plan

1. Already established advance funded Fire II and Police II Pension Funds with a commitment to contribute an actuarially appropriate contribution each year. The City of Warwick (the City) has met the actuarially appropriate contribution for each of these Funds each year since inception, and thus, the funding ratios for these plans are well above the definition of critical status. In addition, benefits for new hires have been reduced to decrease the rate of growth in the actuarial liability over time.
2. Already established contribution strategy into the closed PFI Plan to ultimately reach a fully funded status. In 1995, a 40-year contribution strategy was implemented to fully amortize the unfunded liabilities. The City has met the amortization schedule each year. Based on this schedule, the initial unfunded liability will be fully amortized in 23 years from July 1, 2012, or June 30, 2035. The level of benefits paid from the PFI Fund are expected to continue to increase through 2027 as the final active members retire and based on post-retirement benefit increases. Also, benefits are anticipated to be paid from the PFI Fund well past the year 2055. Thus, reaching a fully funded status in the year 2035 is a reasonable amortization period.
3. Already established contribution strategy to fully fund any new actuarial losses over a reasonable period of time. Each year, new gains or losses arising from experience deviating from the actuarial assumptions, such as investment performance or actual salary increases, are amortized over a closed 20-year period from the time the gain or loss occurs. This ensures the monies will be contributed to the PFI Fund before the benefits are due. A 20-year period has been appropriate and continues to be appropriate for this purpose. However, as the PFI Fund continues to mature, the amortization period for new gains and losses will be shortened to ensure the financial viability of the PFI Fund.

Other Issues and Considerations

One factor that is expected to help dampen the growth of the liability is a recent agreement for minimal to no salary increases for current active members for the next three years. The current liability projections assume that members will receive salary increases each year of approximately 3-4% so the three-year pay freeze would decrease the projected liability substantially. In addition, material gains will be realized for current retirees whose post-retirement benefit increases are tied to the actual salary increases of active members. If the three-year pay freezes are realized in future valuations, the City contributions into all of its pension plans could be lower by as much as \$5 million per year when compared to current projections.

In addition, based on the current amortization strategy which utilizes laddered, closed bases, there could be some years in which the employer contribution could decrease, or increase at a slow pace, even though future contributions will still need to increase. This will be especially true if the before mentioned salary gains do materialize. In this case, the City should attempt to manage future cash flow issues by increasing the contribution in to the Plan in a disciplined, consistently increasing pattern. This type of strategy will be managed as future experience unfolds.

Attached Exhibits

The attached exhibits provide projections of future valuation results and contribution requirements from the City for the PFI plan. This projection assumes all future assumptions are met, including the 7.50% investment return assumption. In addition, a sensitivity exhibit is also provided that shows the results based on actual returns of 7.0%. Based on current projections, the plan should emerge from critical status in conjunction with the June 30, 2032 valuation.

Certification

The undersigned is a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render actuarial opinions about this plan. This communication shall not be construed to provide tax advice, legal advice or investment advice.



Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

City of Warwick - Exhibit I
Projection Results Based on the June 30, 2011 Actuarial Valuation
City of Warwick, Rhode Island Firefighters/Police I Pension Fund (PFI Fund)
Investment Return: 7.50% return for FY2012, 7.50% each year thereafter

Valuation as of June 30,	Fiscal Year Ending June 30,	Employer Contributions for Fiscal Year (in Millions)	Increase	Benefit Payments	Actuarial Accrued Liability at Valuation Date (AAL, in Millions)	Actuarial Value of Assets at Valuation Date (AVA, in Millions)	Unfunded Actuarial Accrued Liability at Valuation Date (UAAL, in Millions)	Funded Ratio at Valuation Date	Revenue Forecast	Contribution as a % of Revenue
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
2011	2012	\$ 13.5		\$ 19.4	\$ 311.7	\$ 69.6	\$ 242.1	22.3%	\$ 273.9	4.9%
2012	2013	14.3	6.0%	20.3	316.7	65.9	250.8	20.8%	\$ 279.4	5.1%
2013	2014	14.8	3.8%	21.2	320.8	63.8	257.0	19.9%	282.1	5.3%
2014	2015	15.2	2.9%	22.1	324.1	64.9	259.2	20.0%	286.1	5.3%
2015	2016	15.8	3.8%	22.9	326.6	64.7	261.9	19.8%	292.7	5.4%
2016	2017	15.6	-1.1%	23.7	328.2	62.4	265.8	19.0%	299.4	5.2%
2017	2018	16.2	3.8%	24.4	328.9	58.9	270.0	17.9%		
2018	2019	18.9	16.5%	25.0	328.8	55.0	273.8	16.7%		
2019	2020	19.6	3.8%	25.6	327.9	52.8	275.1	16.1%		
2020	2021	24.2	23.4%	26.1	326.1	50.6	275.5	15.5%		
2021	2022	25.1	3.8%	26.6	323.7	52.4	271.3	16.2%		
2022	2023	29.3	16.7%	26.9	320.5	54.9	265.6	17.1%		
2023	2024	30.4	3.8%	27.2	316.7	61.4	255.3	19.4%		
2024	2025	30.0	-1.4%	27.4	312.2	69.3	242.9	22.2%		
2025	2026	31.1	3.8%	27.6	307.1	77.2	229.9	25.1%		
2026	2027	28.9	-6.9%	27.7	301.6	86.6	215.0	28.7%		
2027	2028	30.0	3.8%	27.7	295.4	94.4	201.0	32.0%		
2028	2029	31.4	4.4%	27.6	288.9	103.9	185.0	36.0%		
2029	2030	32.5	3.8%	27.5	281.8	115.5	166.3	41.0%		
2030	2031	34.5	6.0%	27.4	274.4	129.4	145.0	47.1%		
2031	2032	35.8	3.8%	27.1	266.6	146.5	120.1	54.9%		
2032	2033	34.1	-4.7%	26.8	258.5	166.4	92.1	64.4%		
2033	2034	35.4	3.8%	26.4	250.0	186.4	63.6	74.6%		
2034	2035	35.7	0.9%	26.0	241.3	209.7	31.6	86.9%		
2035	2036	37.0	3.8%	25.6	232.4	235.4	(3.0)	101.3%		
2036	2037	-	0.0%	25.0	223.3	265.0	(41.7)	118.7%		
2037	2038	-	0.0%	24.5	214.0	258.9	(44.9)	121.0%		
2038	2039	-	0.0%	23.9	204.7	252.9	(48.2)	123.5%		
2039	2040	-	0.0%	23.3	195.2	247.1	(51.9)	126.6%		
2040	2041	-	0.0%	22.6	185.7	241.5	(55.8)	130.0%		

City of Warwick - Exhibit II
Projection Results Based on the June 30, 2011 Actuarial Valuation
City of Warwick, Rhode Island Firefighters/Police I Pension Fund (PFI Fund)
Investment Return: 7.00% return for FY2012, 7.00% each year thereafter

Valuation as of June 30, (1)	Fiscal Year Ending June 30, (2)	Employer Contributions for Fiscal Year (in Millions) (3)	Increase (4)	Benefit Payments (5)	Actuarial Accrued Liability at Valuation Date (AAL, in Millions) (6)	Actuarial Value of Assets at Valuation Date (AVA, in Millions) (7)	Unfunded Actuarial Accrued Liability at Valuation Date (UAAL, in Millions) (8)	Funded Ratio at Valuation Date (9)	Revenue Forecast (10)	Contribution as a % of Revenue (11)
2011	2012	\$ 13.5		\$ 19.4	\$ 311.7	\$ 69.6	\$ 242.1	22.3%	\$ 273.9	4.9%
2012	2013	14.3	6.0%	20.3	316.7	65.8	250.9	20.8%	\$ 279.4	5.1%
2013	2014	14.8	3.8%	21.2	320.8	63.6	257.2	19.8%	282.1	5.3%
2014	2015	15.3	3.0%	22.1	324.1	64.4	259.7	19.9%	286.1	5.3%
2015	2016	15.8	3.8%	22.9	326.6	63.9	262.7	19.6%	292.7	5.4%
2016	2017	15.7	-0.8%	23.7	328.2	61.2	267.0	18.7%	299.4	5.2%
2017	2018	16.3	3.7%	24.4	328.9	57.4	271.5	17.4%		
2018	2019	19.0	16.8%	25.0	328.8	53.0	275.8	16.1%		
2019	2020	19.7	3.8%	25.6	327.9	50.5	277.4	15.4%		
2020	2021	24.4	23.5%	26.1	326.1	48.0	278.1	14.7%		
2021	2022	25.3	3.8%	26.6	323.7	49.5	274.2	15.3%		
2022	2023	29.6	16.8%	26.9	320.5	51.6	268.9	16.1%		
2023	2024	30.7	3.8%	27.2	316.7	57.9	258.8	18.3%		
2024	2025	30.3	-1.2%	27.4	312.2	65.6	246.6	21.0%		
2025	2026	31.4	3.8%	27.6	307.1	73.1	234.0	23.8%		
2026	2027	29.3	-6.7%	27.7	301.6	82.2	219.4	27.3%		
2027	2028	30.4	3.8%	27.7	295.4	89.7	205.7	30.4%		
2028	2029	31.8	4.6%	27.6	288.9	98.9	190.0	34.2%		
2029	2030	33.0	3.8%	27.5	281.8	110.2	171.6	39.1%		
2030	2031	35.1	6.2%	27.4	274.4	123.6	150.8	45.1%		
2031	2032	36.4	3.8%	27.1	266.6	140.3	126.3	52.6%		
2032	2033	34.8	-4.3%	26.8	258.5	159.8	98.7	61.8%		
2033	2034	36.1	3.8%	26.4	250.0	179.4	70.6	71.8%		
2034	2035	36.6	1.2%	26.0	241.3	202.1	39.2	83.7%		
2035	2036	37.9	3.8%	25.6	232.4	227.2	5.2	97.8%		
2036	2037	-	0.0%	25.0	223.3	256.0	(32.7)	114.7%		
2037	2038	-	0.0%	24.5	214.0	248.1	(34.1)	115.9%		
2038	2039	-	0.0%	23.9	204.7	240.0	(35.3)	117.3%		
2039	2040	-	0.0%	23.3	195.2	231.9	(36.7)	118.8%		
2040	2041	-	0.0%	22.6	185.7	223.9	(38.2)	120.6%		