

Governor's FY 2014 Budget: Article 11

Staff Presentation to the House Finance
Committee
February 7, 2013

Article 11 – Municipal incentive Aid

- New 3-year program to encourage:
 - Sustainable funding of retirement plans
 - Reduce unfunded liabilities
- Budget includes \$10 million for first year
- Distributed to eligible municipalities on population basis if certain conditions are met

Article 11 - Background

Characteristics of Municipal Pension Plans

- MERS – state administered
- Local Pension Plans – locally administered

Municipal Employees Retirement System (MERS)

- Established in 1951 - plan benefits contained in State Statute (Title 45 of RIGL)
- 110 State Administered Plans
 - 67 units covering general employees
 - 43 covering police and fire employees

Municipal Employees Retirement System (MERS)

- ❑ State is administrative agent, but has no funding responsibility
- ❑ Separate actuarial valuations are performed for each participating plan
- ❑ Requires local employers to make 100% of annually required contribution (ARC) – Aid could be withheld if not fully funded

Local Pension Plans

- 36 plans provided through 24 municipalities, of which half cover public safety employees
 - Not governed by state law
 - Municipality is entirely responsible for administering and funding the plans
 - May be included in collective bargaining agreements

Local Pension Plans

- 24 out of the 36 locally administered pension plans are considered at risk by the Auditor General (September 2011)
- Locally administered plans do not have the level of available assets to meet benefit obligations

Local Pension Plans

- Covers general municipal, police and fire
- Combined total assets of \$1.4 billion as of June 30, 2010
- Combined Unfunded Actuarial Accrued Liability of \$2.1 billion as of June 30, 2010
- Overall funded ratio of 40.3% as of June 30, 2010

Local Pension Plans

Locally Administered Plans	Members
(as of November 2011)	
Active	6,916
Retired	5,276
Disabled	897
Beneficiaries	899
Terminated, Other	606
Total	14,594

Local Pension Plans

- Nearly 2/3rds of the communities with local plans have only one local plan – rest of employees are in MERS
- Plans among and within communities vary on plan design, vesting periods, COLA provisions, employee contribution rates

Municipal Pensions - Issues

- Variance in local fiscal capacity
- Differences in size and severity of unfunded liabilities
- Employer contributions have not been sufficient to support benefit levels

Article 11 - Background

- Assembly created a local pension study commission as part of pension reform enacted in November 2011
- Law required all local plans to submit an actuarial valuation to the Commission by April 1, 2012

Article 11 - Background

- If the plan is <60% funded that means it is in critical status
- Municipality has 180 days to submit an alternative Funding Improvement Plan (FIP) to emerge from critical status

Article 11 – Municipal Incentive Aid

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Article 11 – Municipal Incentive Aid

- For FY 2014, a municipality may receive funds if:
 - 1) If it has no locally administered pension plan, or
 - 2) It has submitted an approved Funding Improvement Plan, if required, by May 1, 2013, or
 - 3) If its local plan is not required to submit a Funding Improvement Plan (FIP)

Article 11 – Municipal Incentive Aid

- For FY 2015 and FY 2016, a municipality may receive funds if:
 - 1) All local plans are in MERS or have transitioned to MERS by June 30, 2014, or
 - 2) Has submitted or implemented FIP that has been approved by plan sponsor and local governing body, or
 - 3) No FIP is required and municipality is meeting 100% of ARC

Article 11 – Municipal Incentive Aid

- Municipalities with only MERS plans automatically qualify for aid:
- If a municipality does not qualify, the unused amount will be distributed among other eligible municipalities
- FY 2014 distributions are in Staff Budget Analysis FY 2014 publication

Article 11 – Municipal Incentive Aid

- Pension reform legislation required municipalities to submit Funding Improvement Plans if local plan is in “critical status”
- 13 plans in 10 communities are exempt
- 23 plans in 18 communities are in critical status

Article 11 – Municipal Incentive Aid

Communities with Plans in Critical Status

Bristol (1)	Pawtucket (2)
Coventry (3)	Portsmouth (1)
Cranston (1)	Providence (1)
Cumberland (1)	Scituate (1)
East Providence (1)	Smithfield (1 of 2)
Johnston (2)	Tiverton (1)
Narragansett (2)	Warwick (1 of 5)
Newport (2)	West Warwick (1)
North Providence (1)	Woonsocket (1)

Article 11 – Municipal Incentive Aid

Communities with <u>No</u> Plans in Critical Status	
Jamestown	Middletown
Lincoln	Westerly
Little Compton	Central Falls*

Article 11 – Municipal incentive Aid

Communities Only in MERS	
Barrington	New Shoreham
Burrillville	North Kingstown
Charlestown	North Smithfield
East Greenwich	Richmond
Exeter	South Kingstown
Foster	Warren
Glocester	West Greenwich
Hopkinton	

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