



# Pension & OPEB Funding

2014 Annual Town Meeting





# Quote from 1981 Advisory Report



*Although the Advisory Committee recognizes that some of the Town's current budgetary problems could be alleviated if the Town funded only some, or even none, of its current scheduled payment, we believe that good business management requires that the Town continue with its full funding. To skip a year or to fund partially, only increases the total costs over time associated with the present services of current Town employees and puts off the "day of reckoning".*



# Pension plan



- Defined benefit plan for employees other than teachers
  - In place of Social Security
  - Teachers participate in similar plan sponsored by the State
  
- Employees pay 9% of salary plus 2% of salary over \$30,000, with no cap
  - Compares to FICA cost for private sector employees and employers – 6.2% of pay up to \$117,000



# Pension funding



- Through FY77 – funded on a “pay-as-you-go” basis
- 1978 Annual Town Meeting – increased annual budget to address unfunded past service liability
- Funding sustained through significant budget cuts in early 80’s
- Plan fully funded by end of FY97
- FY98 - FY09 – no contributions by the Town; investment earnings more than sufficient to cover Town’s contribution
- Following 2008 market decline, contributions resumed in FY10



# Funding schedule



- Steady increases to Town contribution since FY10
- \$1 million increase in FY15
- Average annual increase FY16 – FY18: \$255,000
- Based on this schedule, fully funded by 2030
- Unfunded liability projected to continue growing through FY15



# Other Post Employment Benefits “OPEB”



- Town obligated to subsidize portion of health insurance premiums for retirees
- Until FY06, paid current costs on a “pay as you go basis”
- Substantial unfunded liability for benefits earned in prior years



# OPEB funding



- Initial actuarial valuations – 1994 & 2001
- Special legislation to create Group Insurance Liability Fund – 2004
- Failed OPEB override – November 2004
- Initiated funding inside the levy – July 2006
  - Increasing \$600K/year to a level of \$3M/year



# OPEB funding, contd.



- Special legislation to fund via Prop 2½ exclusion – March 2007
- Town Meeting and voters approved OPEB funding exclusion - May 2007
  - \$1.8M/year for 10 years (raised total level of funding to \$3M)
- Actions taken to reduce accrued liability
  - Adopted M.G.L. Ch. 32B Section 18 – April 2006
    - Required eligible retirees to enroll in Medicare
  - Migrated remaining retirees to Rate Saver plans



# Pension funding – peer comparison



	FY15 Total Budget	FY15 Tax Impact Appropriation	Appropriation as % of Total Budget	Full Funding Date	Valuation Date	Funded Ratio	Assumed Rate of Return
Dedham	\$ <b>87,910,967</b>	\$ 4,107,233	4.7%	2034	1/1/2012	71.9%	8.00%
Concord	88,762,745	4,001,036	4.5%	2030	1/1/2012	76.7%	7.50%
Belmont	94,868,500	6,355,103	6.7%	2027	1/1/2012	49.9%	7.75%
Winchester	97,611,427	3,889,699	4.0%	2029	1/1/2013	77.4%	7.75%
Natick	127,727,715	7,079,771	5.5%	2030	1/1/2013	61.1%	8.00%
Needham	135,644,289	5,524,150	4.1%	2030	1/1/2012	72.9%	8.00%
Lexington	181,109,226	4,919,154	2.7%	2030	1/1/2012	78.3%	7.75%
<b>Average</b>	<b>\$ 116,233,553</b>	<b>\$ 5,125,164</b>	<b>4.6%</b>			<b>69.7%</b>	
<b>Wellesley</b>	<b>\$ 140,536,089</b>	<b>\$ 5,943,377</b>	<b>4.2%</b>	<b>2030</b>	<b>1/1/2013</b>	<b>67.5%</b>	<b>7.00%</b>



# Implications of different pension full funding dates



<b>Full Funding Date</b>	<b>FY15 Cost Including Enterprise Funds</b>	<b>FY15 Savings</b>	<b>Remaining Amortization</b>	<b>Incremental Amortization Cost</b>	<b>First Year Unfunded Liability is Lower Than Today</b>
2030	\$ 7,040,036		\$ 108,098,537		2016
2035	6,150,837	889,199	127,367,470	19,268,933	2018
2040	5,614,039	1,425,997	150,223,416	42,124,879	2026



# Retirement-related contributions since 1998



<i>(\$ in millions)</i>	<u>FY98 - FY09</u>	<u>FY10 - FY14</u>
Town Contributions	\$ -	\$ 15.9
Employee Contributions		
Teachers	\$ 32.5	\$ 21.3
Non-Teachers	26.7	16.7
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	\$ 59.2	\$ 38.0
Imputed FICA Cost (Town portion)	\$ 40.3	\$ 21.7



# OPEB funding

