hooker & holcombe

# Municipal Pension & OPEB Report

# 2019

Hooker & Holcombe (H&H) is pleased to share with you our 2019 Municipal Pension & OPEB Report. We analyzed both pension and OPEB plan information based on data extracted from the Comprehensive Annual Financial Reports (CAFRs) submitted by local municipalities in Connecticut for the fiscal year ended June 30, 2018. Our pension and OPEB experts analyzed approximately 200 municipal pension plans in Connecticut representing over 70,000 participants and more than $11 billion in pension fund assets. Additionally, the OPEB section reveals findings for more than 180 municipal OPEB plans in Connecticut, representing over 110,000 participants and more than $8 billion in actuarial accrued liability. Since the June 30, 2018 CAFRs are generally the first ones in which most OPEB plans were reported under updated financial reporting standards, comparative data is not readily available for the prior years and therefore has not been included in this report.

We hope you find the results of our Municipal Pension & OPEB Report useful in understanding the Connecticut municipal pension and OPEB landscape and how your plan may compare to others.

## MAJOR FINDINGS

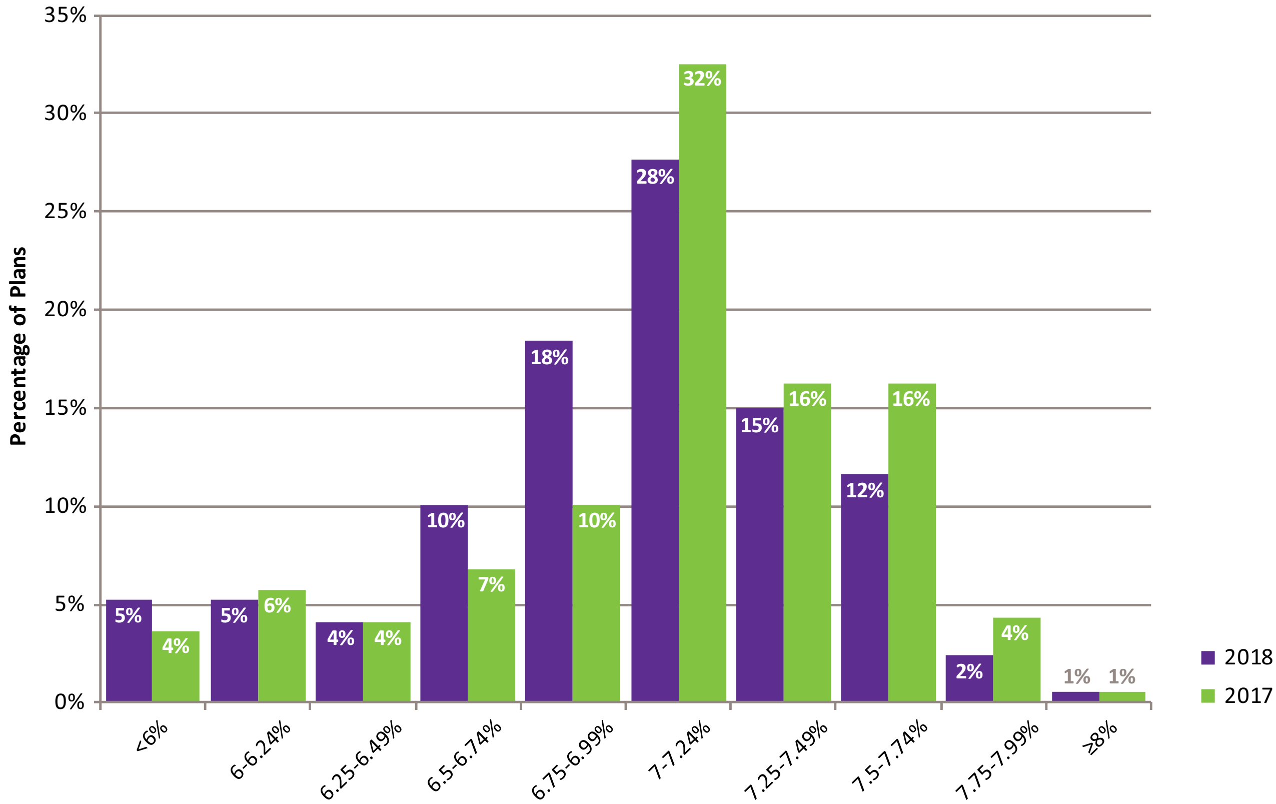
***Municipalities with Pension plans:***

- The average long-term rate of investment return assumption declined by 11 basis points (bps) to 6.81%, compared to an average of 6.92% in the 2017 study. Moreover, this assumption has declined by 33 bps over the past three years.
- The average funded ratio increased slightly to 74.9% compared to 74.5% in the June 30, 2017 CAFRs.
- The average money-weighted rate of return for FYE 2018 is 7.31%, representing a slight increase versus the five-year trailing average of 6.94% since GASB 67/68 standards have been in place.
- Fifty-one percent of municipalities use a mortality assumption based on the RP-2014 Mortality Table vs. 43% using the RP-2000 Mortality Table. Only 6% of plans utilize an assumption based on “other” mortality tables.
- When looking at the mortality improvement scale assumption, 51% of plans use Scale MP as provided annually by the Society of Actuaries (SOA), followed by Scale AA (35%) and Scale BB (10%). Only 4% of plans use another approach.
- When looking at amortization payment schedules for purposes of determining annual employer contributions, Connecticut pension plans use an average period of 19 years.
- Sixty-seven percent of public sector plans use the level percent approach for setting amortization schedules, while 33% use a level dollar approach.

***Municipalities with OPEB plans:***

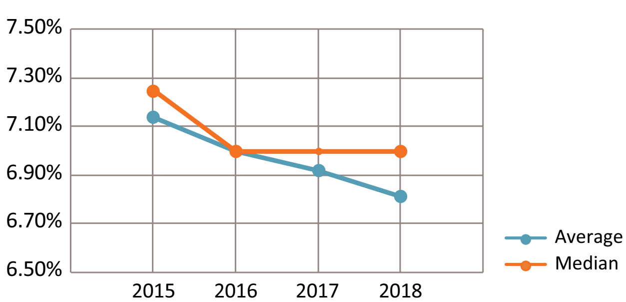
- Fifty-seven percent of OPEB plans are unfunded, with 43% of plans funded with an OPEB trust.
- For those plans funded using an OPEB trust, the average funded ratio is 27.5%.
- The median investment return assumption for funded OPEB plans is 6.75%, slightly lower when compared to pension plans (6.81%).
- For FYE 2018, the average money-weighted rate of return for funded OPEB plans is 5.86%, which is lower when compared to pension plans (7.31%).

## PENSION: LONG-TERM INVESTMENT RETURN ASSUMPTION (FYE 2018 VS. FYE 2017)



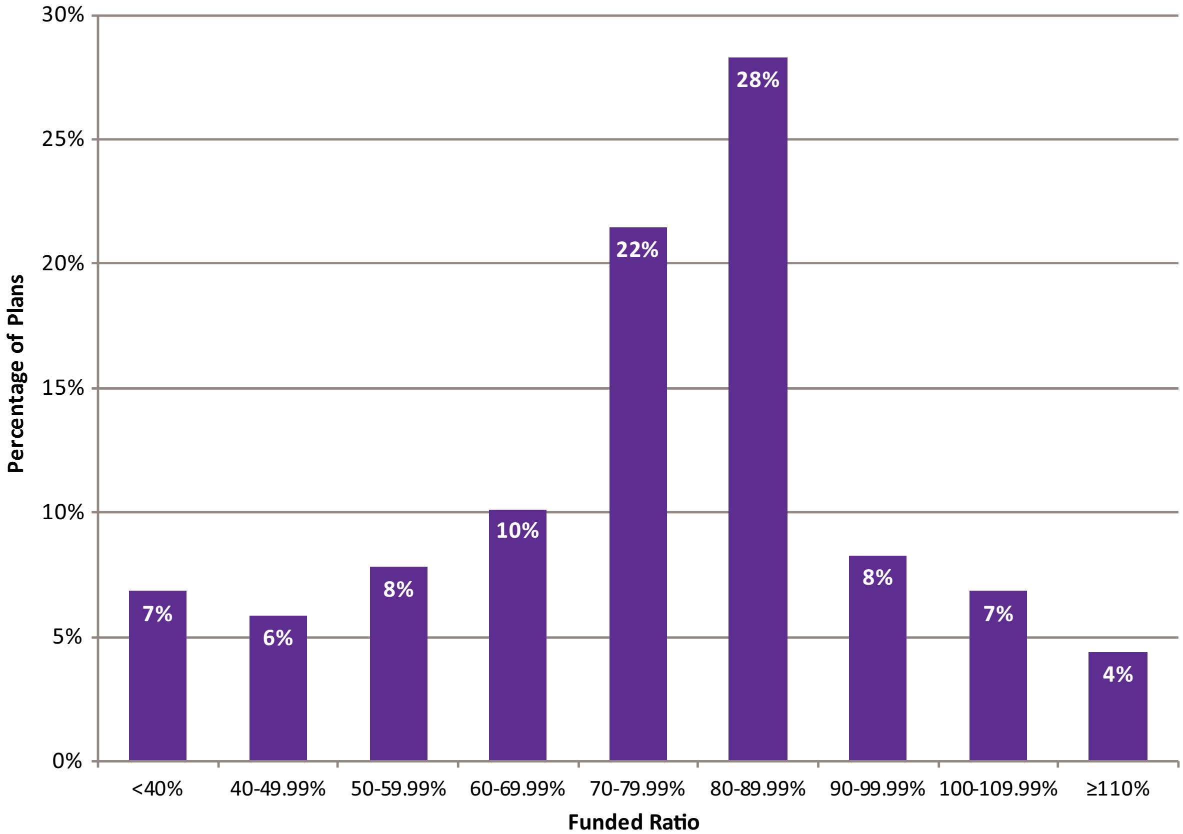

The average investment return assumption is 6.81% (median is 7.00%). This represents a decline of 11 basis points (bps) from the 6.92% average (7.00% median) in the 2017 study. This assumption is generally tied to either the July 1, 2017 or July 1, 2016 actuarial valuation used in determining the employer's cash contribution amount (also known as the Actuarially Determined Employer Contribution, or ADEC).

## PENSION: AVERAGE AND MEDIAN INVESTMENT RETURN ASSUMPTION TRENDS




When looking at trends, the average long-term rate of return assumption has declined by 33 basis points (from 7.14% to 6.81%) from FYE 2015 to 2018. The median assumption has declined 25 basis points (from 7.25% to 7.00%) during that same period. All else being equal, a lower investment return assumption results in higher actuarial liability and ADEC, and a lower funded ratio.

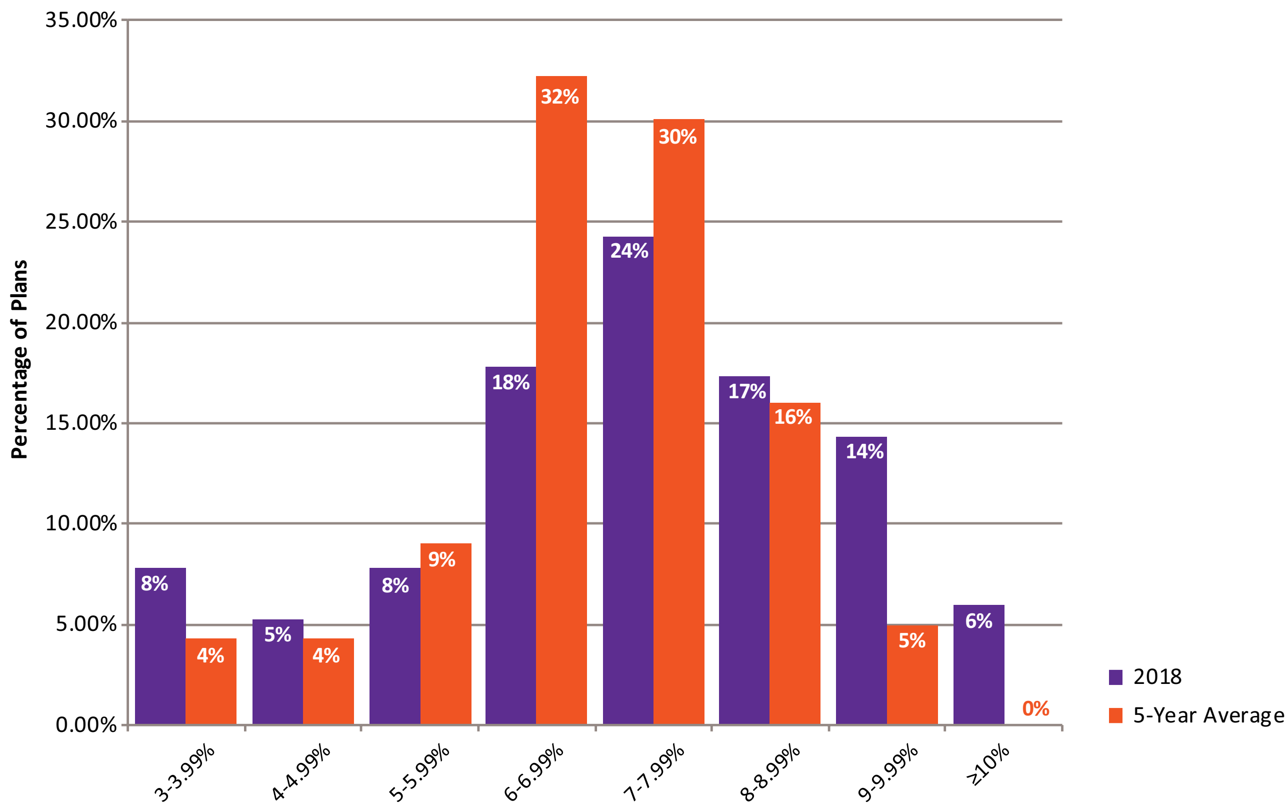
## PENSION: FUNDED RATIO




We analyzed the funded ratio (Market Value of Assets divided by Accrued Liability) for each plan. As of June 30, 2018, the average funded ratio was 74.9% (median of 78.9%), a slight increase versus an average of 74.5% (77.2% median) in the 2017 CAFRs.

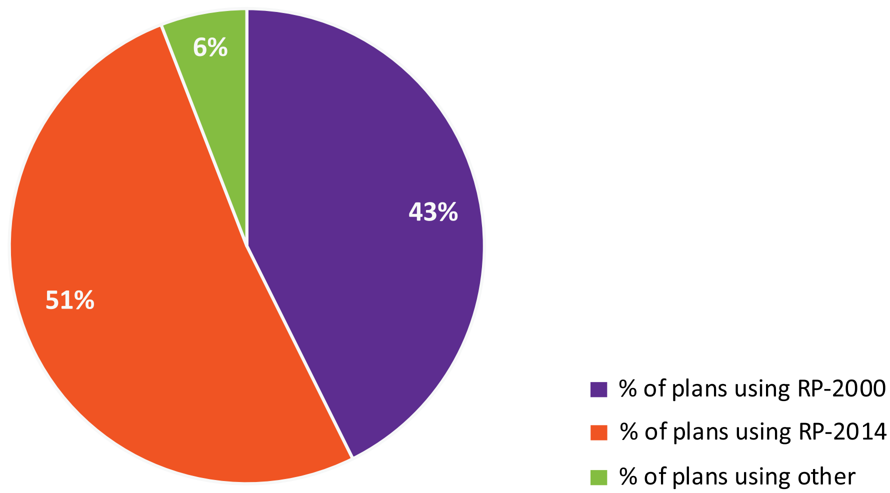
Nearly half (47%) of the pension plans analyzed exceed the 80% funded mark, with 13% falling below 50%. Notably, more than 1 in 10 (11%) of plans can boast pensions that are funded at 100% or higher, up slightly from 10% last year.

## PENSION: FYE 2018 RETURN VS. 5-YEAR AVERAGE RETURN




The average money-weighted rate of return for FYE 2018 was 7.31% (median of 7.44%). We compared this rate to the most recent 5-year compounded average money-weighted rate of return (6.94% average and 7.02% median). Interestingly, the average return for FYE 2018 is slightly higher than the trailing average for the 5-year period when the GASB 67/68 financial reporting standards were put in place.

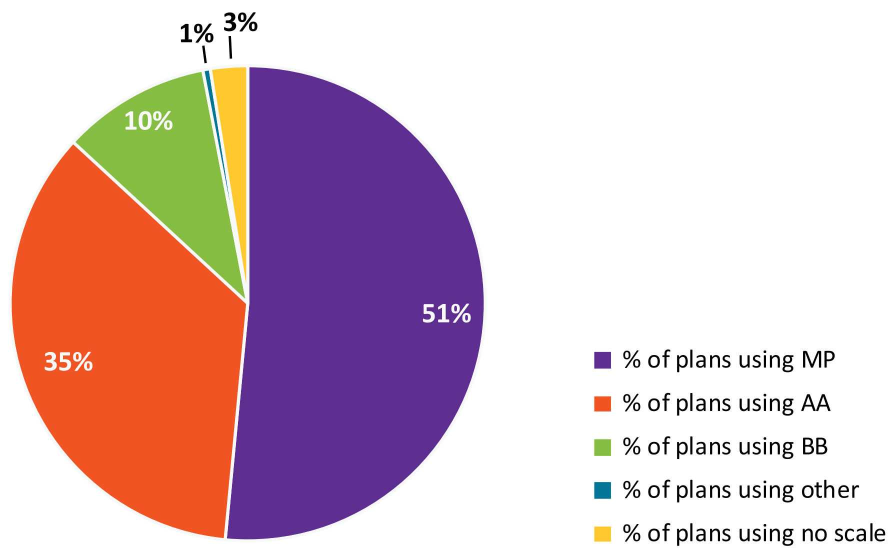
## PENSION: MORTALITY TABLE ASSUMPTION




Over time, life expectancies have generally increased. The Society of Actuaries (SOA) periodically publishes mortality studies reflecting updated life expectancies based on large databases of pensioner mortality experience. As of the June 30, 2018 CAFRs, the two most common mortality tables in use by Connecticut public pension plans were the RP-2014 Mortality Table (51% of plans) and the older RP-2000 Mortality Table (43% of plans). Only 6% of plans were using an assumption reflecting some other mortality basis.

Looking ahead, we are anticipating that a recent mortality study issued by the SOA (and subsequent to the June 30, 2018 CAFR date for this report) will begin to be used by public sector plan sponsors. The new mortality tables are known as the Pub-2010 Public Retirement Plans Mortality Tables, and are based on the first study ever done by the SOA that incorporates public sector-specific pensioner mortality experience.

## PENSION: MORTALITY IMPROVEMENT SCALE ASSUMPTION




Because actuarial valuations involve calculating liability associated with providing benefits to participants, both today and for many years into the future, actuaries also consider the potential effect of future improvements in life expectancies. This effect is captured most often by way of a mortality improvement scale assumption, with the most common scale (51% of plans) being Scale MP which is updated annually by the SOA. The next most common scales, which are most often used in conjunction with the RP-2000 Mortality Table, are Scale AA (35% of plans) and Scale BB (10% of plans). Only 4% of plans in the study are using some other approach for the mortality improvement scale assumption.

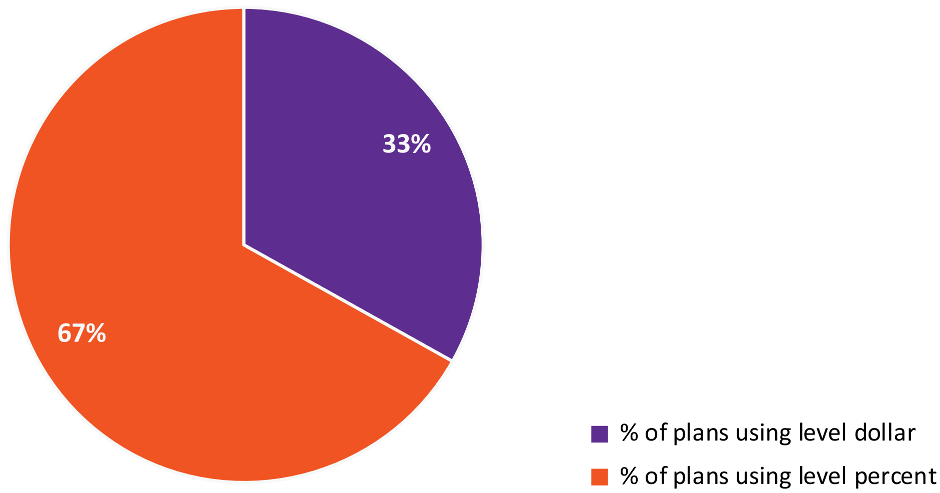
## PENSION: AMORTIZATION PERIOD


The ADEC most commonly reflects two components: 1) the normal cost, which is the value of benefits expected to be earned by active participants during the upcoming year, and 2) an amortization payment, which is a contribution towards eliminating the pension plan's unfunded actuarial liability (or surplus, if applicable) over time.

Since a pension plan's unfunded actuarial liability is generally considered a long-term expense, the amortization payment, similar to making a payment against a home mortgage, is recognized over time.

Connecticut public sector pension plans' amortization periods (average of 19 years, median 20 years) are reasonably consistent with findings nationwide, and compare favorably with the 30-year period that is generally considered to be the maximum for public sector plans.

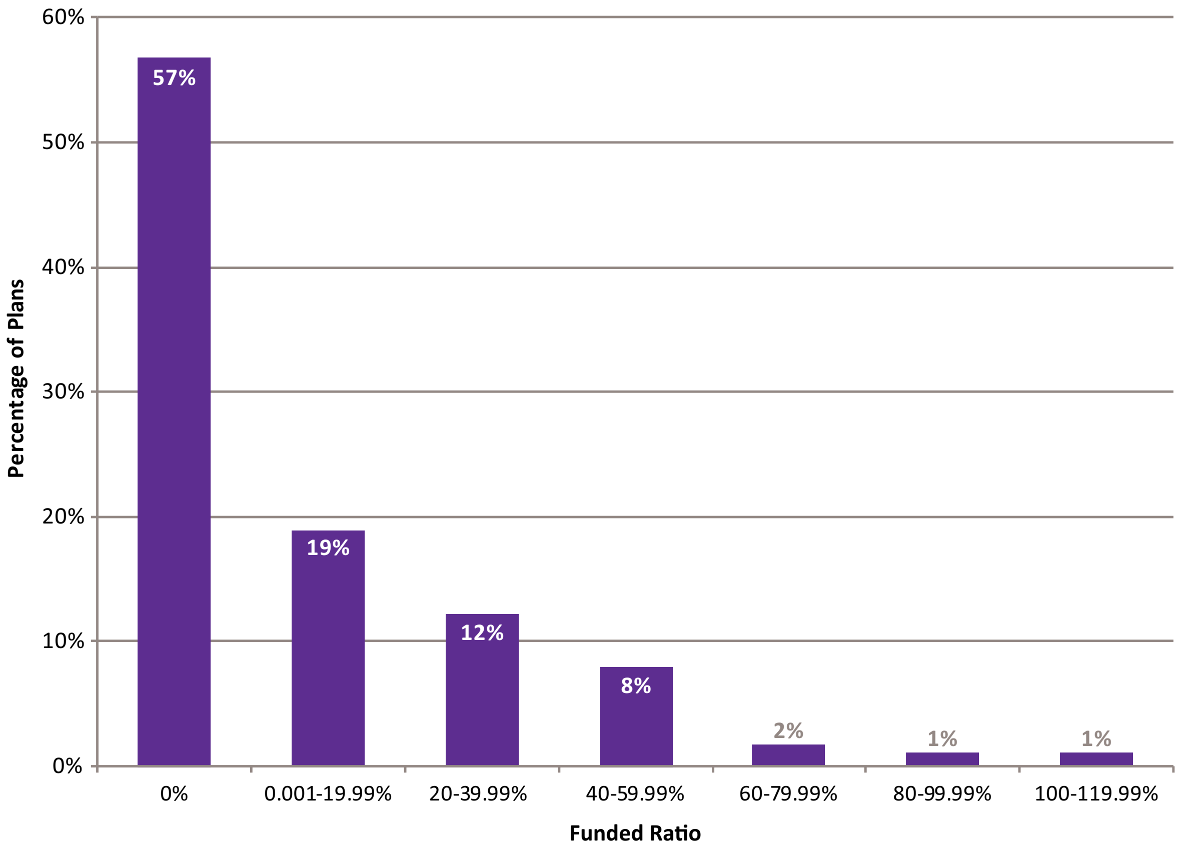
## PENSION: AMORTIZATION METHOD




A public pension plan sponsor may choose to “pay off” a plan’s unfunded liability by using either a “level dollar” amortization method, under which each year’s amortization amount will remain constant, or by using a “level percent” amortization method. Under the latter approach, the amortization payments are lower in the initial years, but gradually increase over time and eventually exceed the annual payments under the level dollar method.

In this year’s report, 67% of Connecticut public sector plans use the level percent approach, while the other 33% use the level dollar approach.

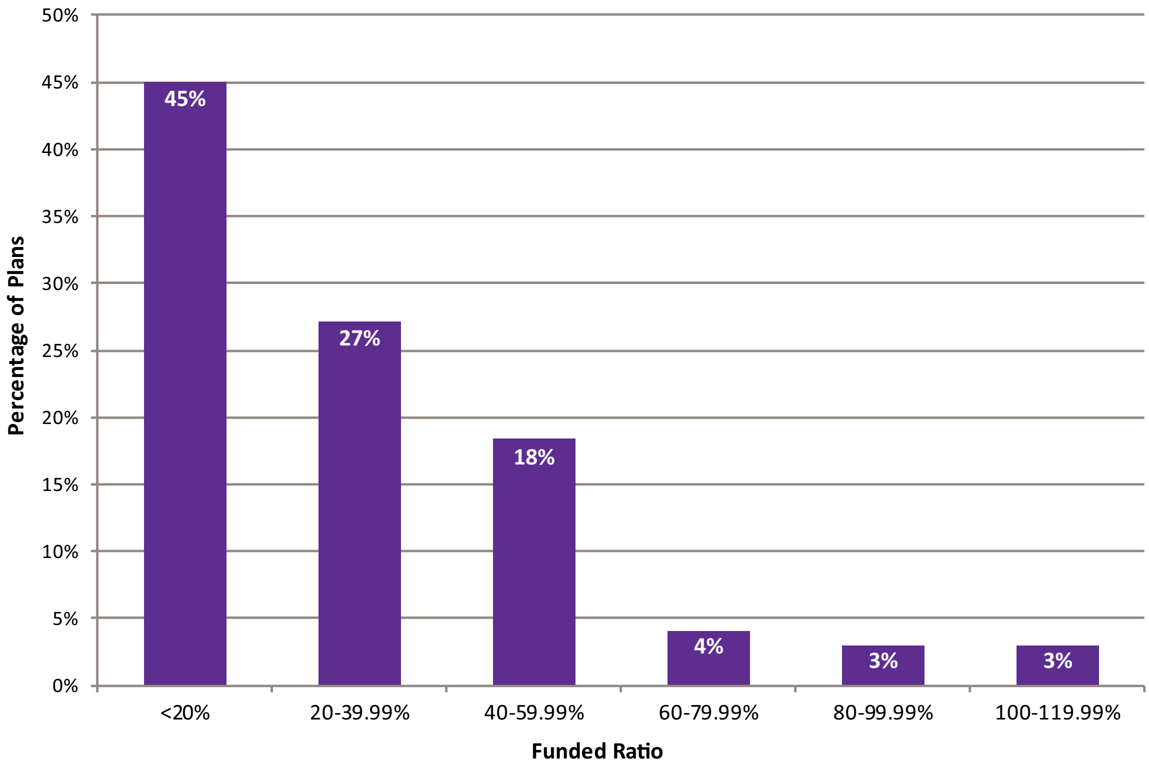
## OPEB: FUNDED RATIO FOR ALL PLANS




Many public sector OPEB plans continue to be unfunded arrangements, as the Government Accounting Standards Board (GASB) did not require actuarial measurements of the liabilities until about a decade ago.

As of June 30, 2018, approximately 57% of the OPEB plans in Connecticut are unfunded, with the remaining 43% of plans funded via an OPEB trust. These statistics compare with the Office of Policy and Management (OPM) data from its *Municipal Indicators Report* published in December 2017, which indicated a split of 61% unfunded and 39% funded plans at that time.

## OPEB: FUNDED RATIO (FUNDED PLANS ONLY)

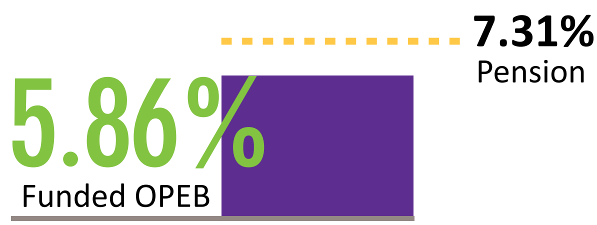



When looking only at the OPEB plans funded via a trust, the average funded ratio is 27.5% (median is 23.7%) as of the June 30, 2018 CAFRs. Forty-five percent of the plans have a funded ratio of less than 20%, while 3% of plans are at least 100% funded.

## OPEB: INVESTMENT RETURN ASSUMPTION

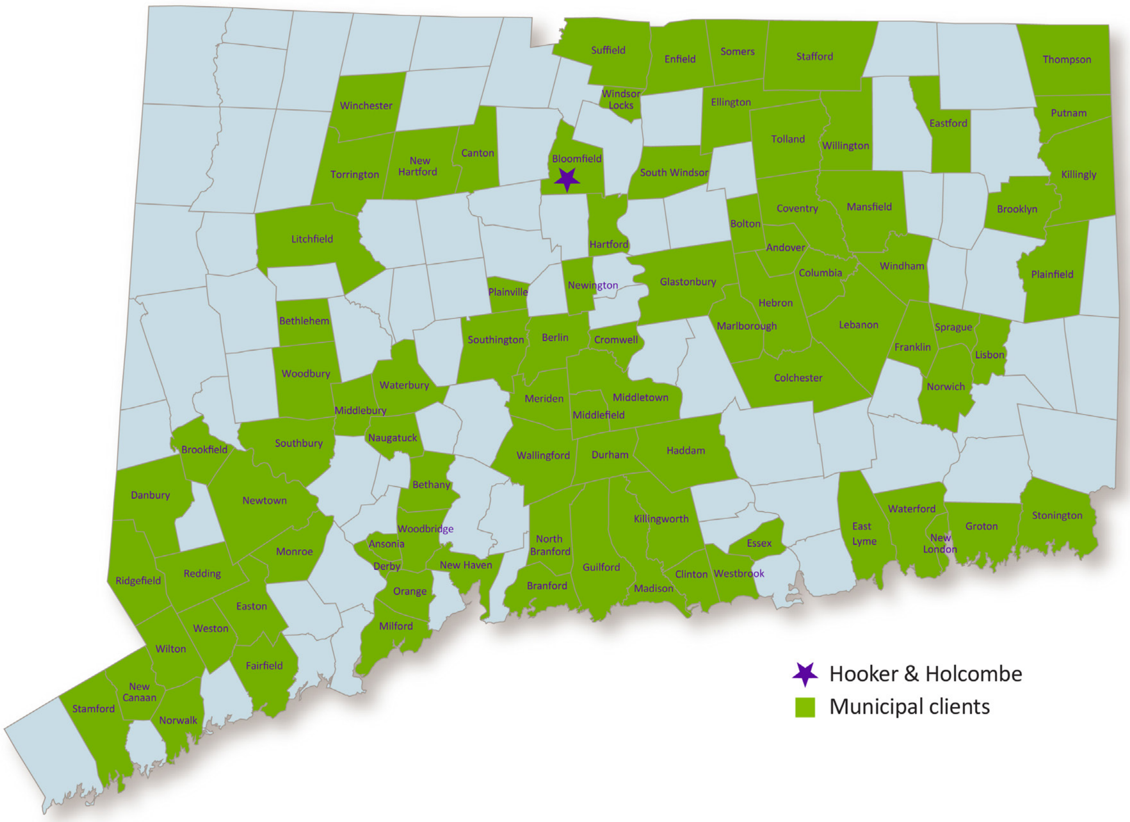

As of June 30, 2018, the median investment return assumption for funded OPEB plans is 6.75%. This assumption is slightly lower than the 6.81% average assumption for pension plans.

## OPEB: MONEY-WEIGHTED RATE OF RETURN




Similarly, the average money-weighted rate of return for FYE 2018 for funded OPEB plans is 5.86%, which is lower than the comparable statistic for pension plans.

## ABOUT HOOKER & HOLCOMBE




Hooker & Holcombe has been working with municipalities to consult, design, and administer pension and OPEB plans since it opened its doors in 1956. Today, more than half (51%) of Connecticut's municipalities work with H&H in some capacity. Whether we're helping create, modernize, merge or terminate a plan, our dedication and years of experience have helped literally hundreds of thousands of municipal employees realize a comfortable retirement.

In addition to pension and OPEB solutions, the firm offers recordkeeping and TPA services for defined contribution plans. Through our Investment Advisory Group, the firm delivers independent investment advisory consulting services for both defined benefit and defined contribution plans, ensuring that our clients understand their fiduciary responsibilities and how they relate to their plans.

To learn more about our services, visit **hhconsultants.com**.
If you would like additional details about this report, please contact:

**Steve Lemanski, FSA, FCA, MAAA**
860.856.2073
SLemanski@hhconsultants.com

With over 63 years of experience, Hooker & Holcombe offers the solutions needed to identify, achieve and exceed our clients' retirement plan goals.

## Actuarial Services

- Actuarial valuations
- Plan terminations
- Plan design & optimization
- Funding strategies
- Asset liability modeling
- De-risking strategies
- Experience studies
- Union negotiation planning
- Arbitration testimony
- Online pension administration

## Support Services Center

- Participant service center
- Forms audit & processing
- Benefit payment services

## Investment Advisory

- Investment oversight
- Expense & performance audits
- Investment policy guidelines & objectives
- Asset allocation strategies
- Asset liability modeling
- Investment manager searches
- Fund evaluation & selection
- Performance monitoring & reporting
- Assistance with RFPs
- Financial wellness education

## Retirement Services

**TPA & consulting**

- Plan document
- Plan demographic analysis
- Plan design consultation & preparation
- Compliance testing
- Form 5500 preparation & filing
- Contribution calculations
- Participant education & communication
- Fee benchmarking

**Recordkeeping**

- Plan administration
- Data collection
- Benefit statements
- Management reports
- Daily or periodic valuations
- Loan, transfer, rollover & withdrawal determinations
- Retirement or termination payout calculations & vesting
- Processing investment trades

hooker & holcombe

860.521.8400
800.457.1245

**hhconsultants.com**