

MAYOR'S GASB 45 COMMITTEE
City Hall Council Chambers
January 27, 2009

A meeting of the Mayor's GASB 45 Committee was held on January 27, 2009 in the City Hall Council Chambers. The following committee members were present: Thomas Barnes Jr, Richard Miecznikowski, Bill Veits, Anthony Benvenuto, Peter Dauphinais, Brian Rooney and Francine Petosa. Also Present: Mayor Ward and Comptroller Glenn Klocko.

1. Call to order.

Rich Miecznikowski called the meeting to order at 5:10 p.m.

2. General discussion of GASB 45 Regulations and take any action as necessary.

Tom Barnes entered the meeting at 5:13 p.m.

Bruce Barth from Robinson & Cole provided a brief synopsis which he based his opinion letter to the City. The letter describes the options of using excess pension assets to fund GASB 45- Other Post Employment Benefits (OPEB). There are two different methods under the IRS code, one requires 120% funding and the other 125%. Any amount in excess of the funding threshold can be transferred to a separate fund within the Pension Trust. The money transferred will be used exclusively to pay healthcare benefits. In order to do this, there are two requirements: all current participants must be fully vested and you can not reduce the benefits or change the cost or retiree benefits for five years. The health insurance benefits for retirees are locked in for five years. If you are not using the money from the Pension Fund you can fund this with a Section 115 Trust or VEBA Trust. If the value of the retirement assets drops below the 120% or 125% you must return all money back to the Pension Fund. The City is given 30 years to fund the ARC (annual required contribution). There is no mandate to fund retiree healthcare, but you have to account for it. If you fund it, you receive a better interest rate for determining the liability for the retiree healthcare cost itself.

Brian Rooney asked if the fund was one fund or split up in three. Bruce responded the City has three separate pension funds and retiree healthcare can only fund participants in their fund, police cover police, etc.

Comptroller Glenn Klocko spoke regarding the City's rating agency presentations which took place today. One fifth of the presentation was dedicated to discussing GASB 45. The City has an irrevocable trust in place, which is empty, but \$1.1 million is designated for that fund should the decision be made to not use excess pension funds. The original plan, which is now the back up plan, was established by the Board of Finance two fiscal years ago. This plan started with a base of \$200,000 with an increase of 25% each year and funded by the tax rate taking 15 years to fund. Glenn stressed the Committee needs to look at what happens if you do decide to do this. This is not an all or nothing proposal.

Tom Barnes asked Bruce to explain the process. Bruce explained the money will still be held in the same Trust, from an accounting standpoint the money is separated but from an investment standpoint the money is commingled. The money could be invested separately, but it does not necessarily need to be.

Tom Barnes stated ultimately the City is responsible for these liabilities regardless of whether or not the money is there or not. Bruce confirmed that was true.

Bruce explained if the City was to create a separate retiree account within the Pension Plan, any of the three, it would require City Council approval, it is not up to this Committee or the Trustees of the plans or the Retirement Board. From a fiduciary standpoint, once the City Council takes action, the fiduciary duty would be to make sure the plans are properly funded. Each pension plan can be treated separately. A qualified transfer is one year transfer, which can be done each year. A qualified future transfers is for two to ten years. Bruce recommends to the Committee a one year transfer because of the uncertainty of the future.

Tom asked if the funding drops below the 120/125% what happens. Bruce said if you drop below the funding level you must transfer the money back, if you are close to it you do not have to until you reach the threshold. All money and earnings must be transferred back to the pension fund. Bruce explained you can transfer any amount you choose up to certain limits, up to the funding requirement depending on which methodology you choose. If the money is returned to pension fund, the participants are still vested and benefits must remain the same.

Tom Barnes asked Steve Lemanski, Actuary, to explain the four year smoothing technique to absorb losses. Steve explained the smooth value is designed to smooth out the fluctuation. The assumed value is 7.75% based on the 2006 experience study. The gain or loss is spread or absorbed in the asset value over four years. The smooth value cannot be less than 80% or over 120% of market value. The assumptions will be run with the value at 6/30/09.

Steve explained how liabilities are calculated for employees and inactive/past participants. Tom asked the effect of having everyone vested. Steve explained the impact of the pension liability is nominal. Currently, vesting happens at 10 years, if an employee leaves prior to 10 years the retiree contributions plus interest are refunded. If someone leaves in the first six, seven or eight years, the contributions are more valuable than the benefit calculations.

Brian Rooney questions if it was possible for an employee to contribute a percentage in addition to their pension contribution. Bruce said it is possible to put it into the Pension Trust. Steve explained municipalities have added that to their retiree medical trust. The employee contributes, say 1%, for benefits to help pay the costs.

3. Determine date of next meeting.

The Committee agreed to meet again on Tuesday, February 3, 2009 at 5:00 p.m. in the Council Chambers. John Bierne from Merrill Lynch is asked to attend the meeting. Public participation will also be allowed. Another meeting will be held for discussion and decision.

Peter Dauphinais asked for a copy of the actuarial and GASB reports.

John Boi, 70 Wintergreen Road, asked if the actual number or smoothing numbers would be used. Steve stated he believes market value has to be used.

Bill Veits questioned if only two of the funds are over funded can we do this for just two plans. Glenn stated that is true, this can be done on a plan by plan basis. All options should be explored.

4. To adjourn.

Richard Miecznikowski made a motion seconded by Brian Rooney and voted unanimously to adjourn.

The meeting adjourned at 5:50 p.m.

Respectfully Submitted,

Jodi A. McGrane
Recording Secretary