MEMORANDUM

Date: September 12, 2012

To: The Board of Commissioners

cc: Township Manager

From: CARFAC

Subject: Township Pension and OPEB Obligations

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I. <u>Summary</u>

This report was reviewed by CARFAC at its September 19, 2012 meeting and will update the Board of Commissioners as to the CARFAC's work on the issues associated with the Township's Pension and Other Post-Employment Benefits ("OPEB") obligations. In developing this report, we have had the able assistance of the Township's staff. We have also worked closely with the Township's labor counsel, Dilworth Paxson, and its actuarial firm, Mockenhaupt Benefits Group.

The summary of the report is that the Township has a very substantial unfunded liability, principally with respect to its OPEB obligations, that presents a long term threat to the ability of the Township to meet these obligations while maintaining the level of services and taxation it has historically been accustomed to.

The discussion set forth below is clouded by a variety of actuarial assumptions and discussions of legislative and collective bargaining limitations on addressing these issues, but two things are abundantly clear.

First, the Township's obligations with respect to Pension and OPEB are unfunded at this moment in time to the tune of approximately **$236 million**. Second, the Township needs to stop committing to these obligations going forward.

This report will outline the facts of the predicament and suggest steps to begin to address the obligations.

As we will outline, Radnor is not alone in facing these issues, but its situation is the worst of the local lot. The Township's predicament has been caused principally by offering unaffordable, generous retirement benefits over a substantial period of time. In order to address these issues, the Township must (1) reduce these obligations through collective bargaining with union employees, police and civilian; (2) seek to reduce the obligations through private negotiations with retirees; (3) reset its compensation package for non-union employees; and (4) amortize the remaining obligations over a reasonable period of time.

A. The OPEB Problem (estimated to be $214 million of the $236 million problem):

Based on the Mockenhaupt Report dated July 19, 2012, if the Township ceased operations, it would face an OPEB obligation that would require it to pay an estimated **$214 million** over the lifetime of the current beneficiaries. The obligation can be best understood in the following terms: If the Township was to set aside funds to address this obligation, it would need to invest today a lump sum of $54 million at a rate of return of 4.5% in order to fund these obligations. Alternatively, an annual contribution in an initial amount of $4.5 million would amortize the obligation over a thirty year period. Needless to say, these obligations will impact either levels of service, levels of taxation, or both over a substantial period of time.

The Township has historically offered its employees, both police and civilian, medical benefits in retirement. The details of these programs are set forth in Exhibit A. These benefits are substantial, costly and an open ended liability. For example, the Township essentially guarantees medical coverage for the lifetime of police retirees, spouses and eligible dependents, even if the police officer retires at age 50.

The benefit that the Township offers is richer than comparable townships.

Unlike retirement, no provision was made to fund these promises. As a consequence, a substantial unfunded liability has accrued. Historically, this liability was obscured by the limitations of governmental financial reporting and also by the arcane assumptions required in evaluating these types of long term obligations.

B. <u>The Pension Problem</u> (estimated to be $22 million of the $236 million problem):

The Township has also provided its employees, both police and civilian, with a pension benefit. The details of these programs are set forth in Exhibit A. These benefits are currently provided pursuant to a defined benefit program. Pursuant to the defined benefit program, the Township promises a benefit in retirement which is supported in part by employee contributions, but with respect to which the Township bears the risk of investment return and funding.

In the case of the Township's police and civilian pension programs, the aggregate unfunded liability is approximately **$22 million**. Again, this amount is subject to a variety of actuarial assumptions.

The pension benefits, particularly as to police retirees, is richer than comparable townships.

The Public Employee Retirement Commission rates the Radnor pension plans as "moderately distressed."

II. <u>Detailed Discussion</u>

A. <u>Addressing the OPEB Problem and the Pension Issue:</u>

Radnor is not alone in facing this underfunding issue. A recently completed State Budget Crisis Task Force report noted that from 2007 – 2011 state and local governments shortchanged their pension plans by more than $50 billion – an amount having nothing to do with the market losses of 2008 (See "Gloomy Forecast for States, Even if Economy Rebounds" NYT, July 17, 2012). CalSTRS, the California State Teachers' Retirement System, reported a 1.8% return on investments in the 2011-2012 fiscal year. The retirement plan assumed an actuarial rate of return of 7.5%. CalSTRS' CEO noted that investment returns alone will not put CalSTRS on solid footing. He instead called for a "long term funding plan" that includes gradual, predictable and fair contribution increases from all parties involved (see "More Bad News for Public Pension" WSJ, July 19, 2012).

In the time since we last reported to the Board, the Township has received updated valuations from Mockenhaupt on both the Pension and OPEB obligations.

The revised valuations for the pensions show a deteriorating situation. In fact, the plans, which are funded at 67% and 57% for the police and civilian, respectively, have progressed from a rating of "minimally distressed" to a rating of "moderately distressed."

The OPEB obligation improved modestly, reflecting a correction in a calculation. Nevertheless, it remains a gaping unfunded liability.

B. Guiding Principles

The working group began its work utilizing the following guiding principles: (1) Radnor should honor its obligations; (2) we need to understand the true cost of Radnor's workforce; (3) we need to understand the source of the underfunding in relation to the need to pay competitive compensation; and (4) we need to understand that the final resolution of the economic matters confronting the Township will take a number of years.

C. Questions to be Answered

The group sought to answer the following questions:

1. What is the true compensation paid to a Township employee?

2. Is that level of compensation at, above or below market?

3. In light of the analysis in questions 1 and 2, what changes should the Township consider?

4. How should we address the unfunded, existing liabilities?

D. Answers to the questions:

1. What is the true cost of a Township employee?

As set forth in Exhibit B, when you add the cost of salary, benefits, retirement and OPEB, the estimated average annual cost of a Township employee for 2013 is:

Police Employee: $210,390
Civilian/Union Employee: $120,866
Civilian/Non-Union Employee: $127,161

These numbers reflect the full cost of an employee and are the numbers that should be considered for budgeting and cost of headcount purposes.

2. Is that level of compensation at, above or below market?

Although more work can be done in refining this answer, we are confident that Radnor is above market as to its level of compensation.

a. The Police Retirement and OPEB Benefit is above market

We believe that although there have been periodic attempts to rein in benefits, the Township remains well above market, with respect to retirement and OPEB benefits.

For example, Mockenhaupt has conducted a police pension benefit survey of Mockenhaupt Benefits Group clients (162 clients). Mockenhaupt's conclusion is that Radnor's police retirements benefits are better than market in the following features:

- Availability of an early retirement benefit
- While in the majority regarding the charging of member contributions, the rate charged is less than most at 2% when 5% is closer to the market rate (see correction goals moving forward section)
- Availability of a non-service connected disability benefit
- Service connected benefit in excess of normal pension (75% of FMAS)
- Survivor benefit in excess of minimum amount of 50% of retiree's pension (100%)
- The service increment cap is higher than most at $500/month

b. The OPEB Benefit is above market

We asked Delaware Valley Health Insurance Trust (DVHIT), the trust that administers Radnor's medical insurance programs, to survey its 64 municipalities across the Delaware and Lehigh Valley. DVIT reported that of its 64 clients, only 14 offered OPEB benefits and only 6 offered the benefit to police and civilian retirees.

Additionally, analysis of participants in the DVHIT noted that, on a gold, silver and bronze scale, the Township's retiree plans are in the gold category and the bulk of the prescription plans are the richest administered by DVHIT.

c. A comparison of local communities confirms this conclusion.

Further, our own survey of local municipalities, a copy of which is attached as Exhibit C, confirms our out-of-market behavior.

Radnor has the largest unfunded pension balance and that balance is dramatically higher than the median. Radnor also has the largest OPEB obligation. (Compare Lower Merion's $31.2 million liability to Radnor's $52.1 million liability or Haverford's $26.3 million liability.) Significantly, Radnor is the only municipality that has offered and continues to provide post-retirement health benefits for life to police officers, their spouses and eligible dependents at no cost to the retiree. As previously noted, many municipalities do not provide OPEB benefits.

3. In light of the analysis in questions 1 and 2, what changes should the Township consider?

The answer, we submit, is to (1) stop the bleeding by eliminating the above market benefits; and (2) seek to reduce the outstanding obligations.

We have set forth as Exhibit D a listing of actions taken around the country to deal with the issue of unsustainable benefits and related underfunding issues. We have also set forth as Exhibit E, a listing of the relevant precedents under Pennsylvania law which restrict change.

As discussed below, some of the needed changes can be achieved (1) unilaterally; (2) through collective bargaining; and (3) only through State legislation. In our view, the Township will need to rely on each of these avenues in dealing with its challenges.

That having been said, the CARFAC should propose the following actions:

Immediate Actions:

a. Full-Time Hiring Freeze (until labor contracts can be amended)

(1) Intent: "Stop the bleeding" by not adding additional long-term liabilities on out-of-market benefits (regardless of the Township's intent to fund those liabilities)

b. Continue auditing current beneficiaries to ensure that the Township is paying only what it is required to by agreement or law:

(1) Intent: Ensure that current resources are not being spent on non-eligible benefits.

(2) It's noted that the Township has begun this process in the fall of 2010, but needs to allocate necessary HR resources to make sure that the benefits are appropriately managed in perpetuity.

c. Current Retirees: Negotiate a plan to move all retirees [not already in the active plan] to the current active medical/Rx/Dental plan and have those retirees remain on whatever the active plan is moving forward:

(1) Intent: In 2012 dollars, the estimated annual savings by moving these retirees into the active plan is $89,565 annually. It is theoretical that these annual savings will grow over time as the cost for the high benefit/ low out-of-pocket cost plans become more and more expensive.

(2) Administratively, managing health care compliance will become more efficient.

d. Engage State Representatives and municipal organizations on the problem:

(1) Intent: Much of the issue with regard to the police pension is the result of overly burdensome laws that put the municipalities in disadvantaged positions in defining pension benefits and their ability to make changes to current officers (i.e. arbitration)

e. Continue drilling into the specifics of what these benefits cost and what the market levels are:

(1) Intent: At this point, we have a grasp of approximately 80% of the problem. It will take additional and on-going work to organize the Township's financial information in a

meaningful manner to help present a compelling argument for real change. Failure to continue the efforts made to-date will result in falling short of achieving the long-term goals noted below

Correction Goals Moving Forward:

a. Pension Corrections (to be achieved through negotiations and policy setting):

(1) Police Pension – recommendations are the result of market research that suggests that Radnor Township is providing substantially out-of-market benefits:

(i) Increase current officer contributions to the pension from 2%[1] to 5%: Research conducted by Mockenhaupt shows that the average contribution rate for police plans that require employee contributions, is 4.7%. 63% of the plans included in the research are at a 5% employee contribution rate, and only 5% have employee contributions of 2% or less. Further evidence that Radnor is out-of-market in this regard include: (1) Act 600 provisions mandate that police officer contribution rates be 5% for groups that participate in social security, unless otherwise reduced by Ordinance. Radnor Township *does* participate in Social Security. (2) Since the Police Pension Plan is now at a Distress Level 2, the Township could negotiate an employee contribution rate in excess of 5%.

(ii) Require Police Pension Fund Charity contributions to be deposited to the benefit of the Fund, not to offset the employee's contribution rate: The benefit to the plan would be an additional $76,000 (based on 2012 payroll estimates) in revenue to the plan.

[1] The current contract requires a 3% employee contribution, but 1% of the employee portion is being funded by donations solicited by the FOP. The result is that current police officers only contribute 2% of their pay towards the pension.

(iii) Eliminate provision requiring the General Fund to pay "longevity" to retired police officers: It seems illogical to ask today's taxpayers to pay funds for officers that are not providing services today. In 2012, this would save the Township's general fund approximately $20,000.

(iv) Redefine the pension compensation benefit basis to eliminate any accrued leave time payments made within the appropriate "average pay years" range (i.e. for normal retirement, that would be 36 months and for disability it would be 12 months): Research suggests that Radnor is within the majority (87%) that allow for "total pay" to be the pension compensation basis. However, since the Township also includes leave time accrual payments into the "total pay" amount, Radnor is part of only 4% (7 out of 162) of those researched in having to fund that additional requirement. The estimated actuarial savings is $1,000,000[2] off of the UAAL which equates to annual savings of $313,000 (in reduced MMO expenses, based on 2012 payroll estimates).

(v) Adopt policies that mandate that all leave time be used within a defined period and remove the allowance for roll overs or long-term accruals

(vi) Eliminate non-service connected disability retirement benefits: Out of the 162 plans researched, Radnor is one of only seventeen that allows for this benefit. Further, it seems illogical to allow for an officer to get hurt during non-work time and require the taxpayers to fund their disability retirement. It should be further noted that for most townships and boroughs, this benefit is not permitted under Act 600 and that most of the other municipalities that offer this benefit are cities.

[2] Estimates provided by Mockenhaupt Benefits Group

(vii) Reduce the service disability benefit: Out of the 232 plans that have this benefit, Radnor is one of eighteen that offers a pension benefit calculation of greater than 50% of final monthly average salary (currently, Radnor is at 70%). The estimated actuarial savings is $147,000[2] which equates to annual savings of $35,000[2] (in reduced MMO expenses).

(viii) Reduce the survivor benefit as a percentage of the retiree benefit: Research shows that out of 162 plans that include this benefit, Radnor is one of nineteen (or 12%) that offer 100% survivor benefit. The research suggests that a more in-market percentage be 50% where 139 plans (or 88%) are currently at. The estimated actuarial savings is $565,000[2] which equates to annual savings of $74,000[2] (in reduced MMO expenses).

2. Civilian Pension:

(i) Convert all active employees to a defined contribution program: Currently, civilian employees receive pension set-asides of 13.08%[3]. Those set-asides are funded by the employee (at 5%) and by the Township (at 8.08%). The Township then receives State reimbursement on a fixed, per employee amount (the 2012 amount is $3,573.11 per civilian employee). Benefits:

- Current employees: Depending upon negotiations, employees could receive the same amount in set-asides as they do today

- Shift in Assumption Risk: The primary benefit to the Township is that all the assumption risk that currently exists with a defined benefit plan would be shifted to the employee. This would

[3] Based on the 1/1/2011 Pension Actuary

eliminate future unfunded liabilities which will cost the Township $1,291,115 in the 2013 MMO (equates to $8,120 per RATE employee, on average)

(ii) Adopt policies that mandate that all leave time be used within a defined period and remove the allowance for roll overs or long-term accruals

b. OPEB Corrections:

(1) Police:

(i) Current Active Officers:

- Limit OPEB benefit to age 65 (at which time the benefit from the Township ceases and Medicare will take over): The estimated reduction in current UAAL is $7,500,000[2] which would reduce the ARC by $900,000[2].

- Require retiree to follow whatever the active plan is over time (no plan "lock in" at retirement)

- Active employees will be required to make contributions to be deposited into a Post-Retirement Obligation Trust Fund (similar to pension contributions): While this wouldn't reduce the plan expense, it would defray the taxpayers' portion and bring employee buy-in to the program. For example, a monthly contribution of 2% of estimated medical premiums for family coverage, over 25 years, invested at 4.5% would equate to $53,265 to help offset the cost to the taxpayers.

- Upon retirement, all life insurance coverage will cease to be funded by the Township. The Township will cash in the Whole Life policies and cancel the coverage. With regard to the term life insurance coverage, the Township will offer to turn the plan over to the retired employee at their full expense.

- Eliminate Health Care Benefits for Early Retirement ("Twenty and Out") Provision: This would not improve the pension problem because pension benefits are actuarially reduced; however, in terms of the OPEB problem, this would eliminate the liability for all officers electing the early retirement option.

(ii) Replacement / New Hires:

- Limit benefit for retiree to age 65
- Limit OPEB benefit to retiree only (no spouse or dependents)
- Require retiree to follow whatever the active plan is over time (no plan "lock in" at retirement)
- No health care for early retirement

(2) Civilians:

(i) Current Active Employees:

- Limit coverage for the retired employee to age 65 (at which time the Township coverage will cease and Medicare will take over): The estimated reduction in current UAAL is $7,100,000[2] which would reduce the ARC by $800,000.

- Limit OPEB coverage to include only the retiree (no spouse or dependents): The estimated reduction in current UAAL is $1,200,000[2] which would reduce the ARC by $96,000[2].

- Require contributions from employees to be deposited into a Post-Retirement Obligation Trust Fund (similar to pension contributions): While this wouldn't reduce the plan expense, it would defray the taxpayers' portion and bring employee buy-in to the program. For example, a monthly contribution of 2% of estimated medical premiums for family coverage, over 25 years, invested at 4.5% would equate to $53,265 to help offset the cost to the taxpayers.

- Upon retirement, all life insurance coverage will cease to be funded by the Township. The Township will cash in the Whole Life policies and cancel the coverage. With regard to the term life insurance coverage, the Township will offer to turn the plan over to the retired employee at their full expense.

(ii) Replacement / New Hires:

- No post-retirement health care or life insurance will be paid for by the Township (similar to the non-union civilian employees hired after January 1, 1990): However, civilian employees can have the option to buy coverage from the Township until the age of 65.

4. <u>How should the Township address the unfunded, existing liabilities?</u>

The Township should vigorously explore by audit the existing benefits to determine that it is paying no more than it is obligated.

Once satisfied that it has a firm grasp on the liability, the Township should provide for funding the obligations in a business-like fashion that aligns the costs of operations with the benefits of operations.

EXHIBIT A

<u>Current Benefits for Radnor Township Retirees</u>

I. Police Officers

A. <u>Pension</u>

1. Mandatory employee contributions of 3% (*NB: Currently the Radnor Police Pension Fund Charity pays 1% of this obligation on behalf of Township police officers.)*

2. Officers vest after 12 years of service.

3. <u>Normal Retirement</u>

a. Officers who reach 50 years of age and 25 years of service with the Township may receive a pension.

b. Monthly retirement benefit is equal to 50% of the average of the final 36 months of employment.

c. Payments of accrued but unused leave time is included in the calculation of final average salary.

d. Each year every retiree is entitled to a supplemental annual increase of $50. These payments are made out of the General Fund, not the Police Pension Fund.

e. For each year of service beyond 25, retirees are entitled to a service increment payment of $100 per month for each year of completed service beyond 25 years to a maximum of $500 per month for 30 years of service.

f. No Social Security offset.

4. <u>Twenty-and-Out</u>

a. Officers are entitled to an actuarially reduced pension after 20 years of service regardless of age.

b. Entitled to regular retirement life insurance.

c. Not entitled to post-retirement medical benefits.

5. Disability Pension

   a. Service-connected disability entitles an officer to a pension based on 70% of his earnings

   b. Non-service connected disability entitles an officer to 50% of officer's wages plus full medical and dental benefits for officer and family. Maximum benefit may not exceed 100% of an officer's final average salary and to the extent worker's compensation causes the officer to exceed this amount, the excess shall operate as an offset against the disability pension. *(NB: The non-service connected disability pension has been eliminated for officers hired after January 1, 2001 and replaced with long-term disability insurance.)*

6. Survivor Benefit

   a. For officers who have vested at time of death, their spouse or children (until age 18 or 23 if attending college) are entitled to 100% of the pension the retiree was receiving or would have been entitled to receive at the time of death.

   b. For officers who have not vested at time of death, their spouse or children (until age 18 or 23 if attending college) are entitled to 100% of the officer's contribution plus interest.

   c. Killed in Service benefit paid to surviving spouse (or if no surviving spouse children until age 18 or 23 if attending college) at 100% of salary at time of the officer's death. This benefit is paid by State.

B. Retiree Medical Benefits

1. Retirees, their spouses and eligible dependents are provided the same health insurance coverage that was in place when officer retired.

2. Retirees receive coverage until the coverage is replaced by Medicare or Medicaid. Retirees must apply for these programs when eligible and such program will become the retiree's primary plan.

3. Retirees who obtain new employment following retirement that provides medical coverage without cost to the retiree must use such a plan as their primary plan and the Township will provide only those benefits not provided in the primary plan.

4. The survivors of all retirees except non-service connected disability retirees, shall be entitled to health coverage until: (1) death; (2) remarriage; or (3) they would otherwise be ineligible based on age. *(NB: Applies only to officers who retire on or after January 2, 2004.)*

C. Life Insurance

1. All retirees (including those who retire under 20-and-out or for a service-connected disability) are provided with a paid up life insurance policy in the amount of $25,000 with double indemnity.

II. R.A.T.E. Employees

A. Pension

1. Mandatory employee contribution of 5%.

2. Employees partially vest after 10 years of service and fully vest after 15 years of service.

3. Normal retirement may be taken after an employee has reached age 62 and has 20 years of service with the Township. Normal retirement benefit is equal to 50% of the average of the final 36 months of employment.

4. Employees may elect to retire at age 55 with an actuarially reduced benefit.

5. Retiring employees may elect a 50% or 100% survivor annuity for which their payments will be actuarially adjusted accordingly.

6. No Social Security offset

B. Retiree Medical Benefits

1. For retirees hired before January 1, 1990, the retiree and eligible dependents are entitled to full employee health benefits for the rest of the retiree's life, provided that when the retiree or spouse becomes Medicare eligible, Medicare will become the primary provider and the Township plan will be secondary.

2. For retirees hired after January 1, 1990, the retiree only is entitled to full employee health benefits for the rest of the retiree's life, provided that when the retiree becomes Medicare eligible, Medicare will become the primary provider and the Township plan will be secondary.

C. Life Insurance

1. All retirees are entitled to life insurance with a survivors benefit in the amount of $35,000.

EXHIBIT B

	Police	Civilian: Union (RATE)	Civilian: Non-Union
Pension			
Number of Employees - Active	40	66	24
- In Payment Status	47	55	14
Actuarial Valuation Date	1/1/2011 completed 3/16/2012	1/1/2011 completed 3/16/2012	
Actuarial Assumptions	Investment Rate of Return - 7.5% Projected Salary Increases - 5% Underlying Inflation Rate - 3%	Investment Rate of Return - 7.5% Projected Salary Increases - 5% Underlying Inflation Rate - 3%	
Key Provisions	- Employee Contribution - 3% (temporarily reduced?) (1% paid by Police Pension Fund) - Normal Retirement Age 50 and 25 years of service or Age 60 and 20 years of service; - Early retirement after 20 years of service, actuarially reduced - No COLA	- Employee Contribution - 5% - Normal Retirement Age 62 and 5 years of service, reduced by 1/20 for each year less than 20 - No COLA	
Normal Cost + Admin. Expenses	$644,175 (15.056% of payroll = 1.9% Admin Exp)	$531,725 (11.880% of payroll + 1.2% Admin Exp)	$217,719 (11.880% of payroll + 1.2% Admin Exp)
- Employee Contributions	$113,973	$203,259	$83,226
- State Aid	$293,241	$236,023	$64,370
- Township Contribution	$236,961	$92,443	$70,123
Per Employee			
- Employee Contributions	$2,849	$3,080	$3,468
- State Aid	$7,152	$3,576	$3,576
- Township Contribution	$5,924	$1,401	$2,922
Annual Amortization of UAAL	$1,199,862	$1,291,115	
- Per Employee/Retiree	$13,792	$8,120	
Funded Ratio	66.6%	57.0%	
Applicable law, etc	- PA Act 600 requires a defined benefit pension plan for police officers, with additional provisions for retirement age and employee contribution rate - For retired officers, benefits are fixed at retirement and cannot be modified without the approval of the retiree - Any changes must be made through collective bargaining - Mandatory binding arbitration	- Any changes must be made through collective bargaining - Case law may limit ability to change post-retirement benefits for past service	- Case law may limit ability to change post-retirement benefits for past service
Options to consider	- Return employee contribution rate to 5% - Eliminate/reduce use of unused leave in final average salary - Transfer functions to non-uniformed personnel	- Transition to Defined Contribution, Hybrid or capped plan (from point forward, employee option, new hires) - Contract out functions	

EXHIBIT B

	Police	Civilian: Union (RATE)	Civilian: Non-Union
OPEB			
Number of Employees - Active	38	66	2
- Retired Receiving Benefits	39	42	14
Actuarial Valuation Date	1/1/2012 completed 7/19/12		
Actuarial Assumptions	- Interest Rate: 4.5% - Medical cost Trend Rate - 6.5%, reduced 0.25% per year to 2018, then 5% thereafter; Dental - 3%		
Key Provisions	- Employee + dependents - Must enroll for Medicare when eligible - Coverage is supplemental to any plan provided by a new employer after retirement	- Employee + dependents - Employee only for those hired after 1/1/1990 - Must enroll in Medicare when eligible - Coverage is supplemental to any plan provided by a new employer after retirement?	-Employee + dependents for those hired before 1/1/1990 and must enroll in Medicare when eligible (currently 2 employees) - No retiree health benefit for those hired after 1/1/1990
Annual Required Contribution (ARC)	$2,796,854	$1,791,392	
- Normal Cost	$860,450	$526,664	
- UAAL	$1,936,404	$1,264,728	
- Normal Cost Per Employee	$22,643	$7,745	
- UAAL Per Employee/Retiree	$25,148	$10,199	
Funding Status	- Unfunded - "Pay as you go"		
2012 "Pay as you go" Budget	$927,720	$644,250	$214,750
- Per Retiree	$23,788	$15,339	$15,339
Applicable law, etc	- No legal requirement to provide, but any changes must be made through collective bargaining, subject to binding arbitration - Benefits are those in place at time of retirement unless agreed to by retiree (case law?)	- No legal requirement to provide, but any changes must be made through collective bargaining	not applicable
Options to consider	- Eliminate benefit through collective bargaining (current and/or future employees) - Offer buyout option - Transition to fully retiree paid option program - Transition to a Retirement Health Savings Plan - Cap township contribution - Increase premiums and co-pays and other cost sharing (for those not yet retired) - Continue monitoring to cover only eligible dependents - Continue monitoring to assure that Medicare is primary when eligible	same as police	not applicable

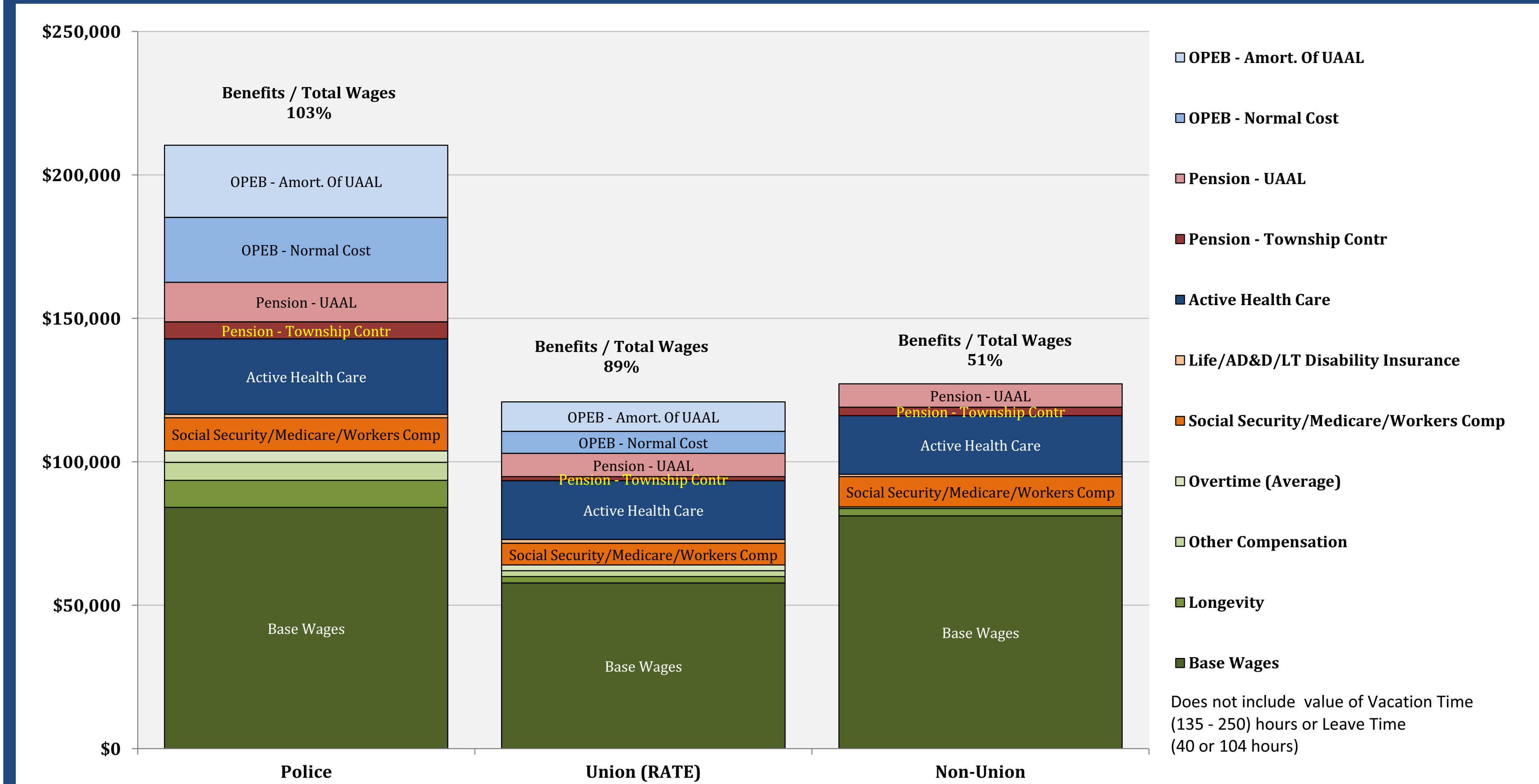
EXHIBIT B

			Civilian			
	Police		Union (RATE)		Non-Union	
AVERAGE COST PER EMPLOYEE (BY GROUP)						
		2013 Estimates		**2013 Estimates**		**2013 Estimates**
OPEB - Amort. Of UAAL		$25,148		$10,199		$0
OPEB - Normal Cost		$22,643		$7,745		$0
Pension - UAAL		$13,792		$8,120		$8,120
Pension - Township Contr		$5,924		$1,401		$2,922
Active Health Care		$26,328		$20,455		$20,455
Social Security/Medicare/Workers Comp		$11,557		$7,604		$10,552
Life/AD&D/LT Disability Insurance		$1,185		$1,326		$838
Wage Makeup:						
Base Wages	$84,139		$57,805		$81,130	
Longevity	$9,365		$2,189		$2,630	
Other Compensation	$6,306		$2,033		$514	
Overtime (Average)	$4,003		$1,989		$0	
Total Wages		$103,813		$64,016		$84,274
TOTAL AVERAGE EMPLOYEE COST		**$210,390**		**$120,866**		**$127,161**
Percentage of Non-Wage Exp of Total		**39%**		**39%**		**34%**
Percentage of Total Exp to base wages		**250%**		**209%**		**157%**
Benefits Total		**$106,577**		**$56,850**		**$42,887**
Benefits / Total Wages		**103%**		**89%**		**51%**

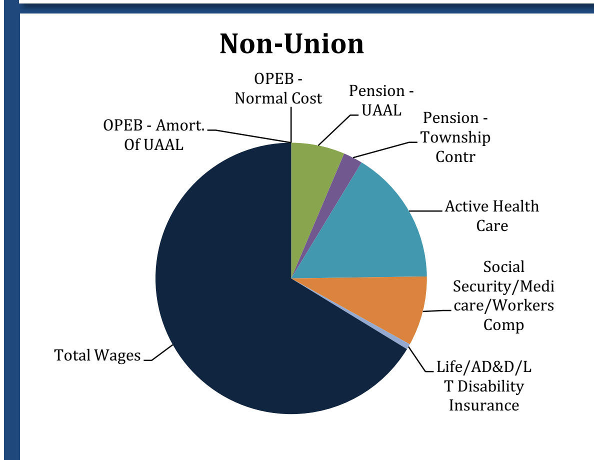
Footnotes:

1. FOP - The wage information only includes pensionable income. Consequently, this excludes "Extra Duty" pay (which are OT detail assignments paid for separately by private entities at 1.70% of overtime rates
2. All Employees - The Township pays for unemployment expenses on a case-by-case basis (rather than buying insurance and paying a premium)
3. Leave Time - Vacation, sick, personal and comp. time is included in the base wages - In other words: to include those items would require dividing the base wages into those different categories
4. Overtime - The amounts include the 2012 YTD totals per employee and calculate an assumed annualized expense ~ Formula: [(YTD Exp/18 pays)*26]

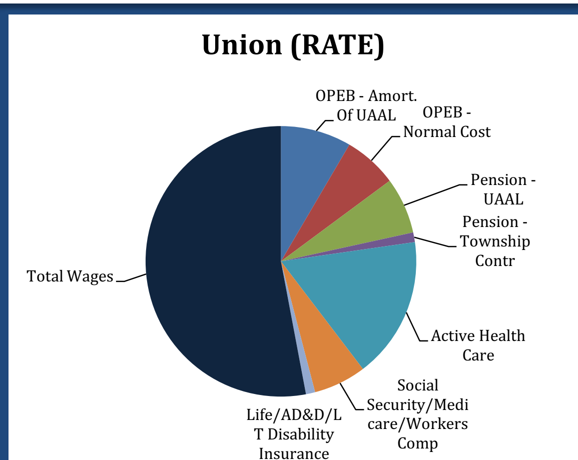
EXHIBIT B



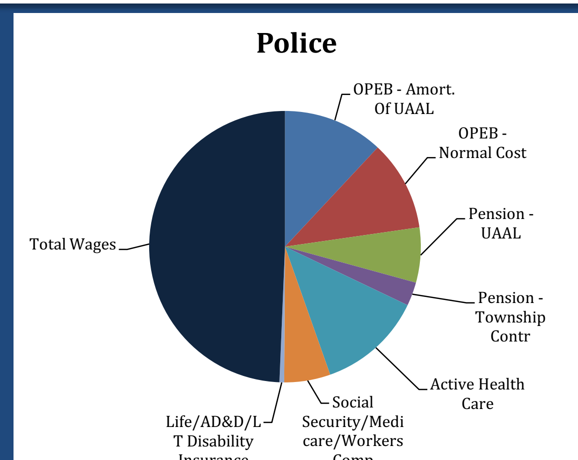
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Benefits / Total Wages 103%
Benefits / Total Wages 89%
Benefits / Total Wages 51%
OPEB - Amort. Of UAAL
OPEB - Normal Cost
Pension - UAAL
Pension - Township Contr
Active Health Care
Social Security/Medicare/Workers Comp
Base Wages
Police
Union (RATE)
Non-Union
OPEB - Amort. Of UAAL
OPEB - Normal Cost
Pension - UAAL
Pension - Township Contr
Active Health Care
Life/AD&D/LT Disability Insurance
Social Security/Medicare/Workers Comp
Overtime (Average)
Other Compensation
Longevity
Base Wages
Does not include value of Vacation Time (135 - 250) hours or Leave Time (40 or 104 hours)



Non-Union
OPEB - Normal Cost
Pension - UAAL
OPEB - Amort. Of UAAL
Pension - Township Contr
Active Health Care
Social Security/Medicare/Workers Comp
Total Wages
Life/AD&D/LT Disability Insurance



Union (RATE)
OPEB - Amort. Of UAAL
OPEB - Normal Cost
Pension - UAAL
Pension - Township Contr
Total Wages
Active Health Care
Social Security/Medicare/Workers Comp
Life/AD&D/LT Disability Insurance



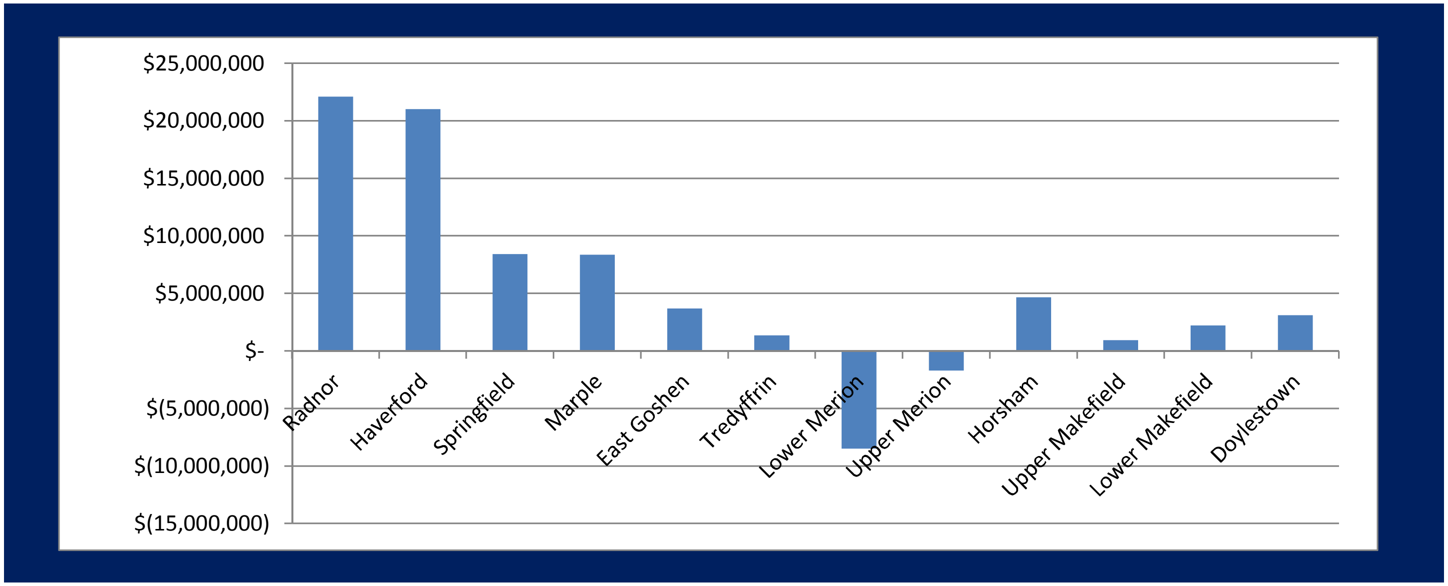
Police
OPEB - Amort. Of UAAL
OPEB - Normal Cost
Total Wages
Pension - UAAL
Pension - Township Contr
Active Health Care
Social Security/Medicare/Workers Comp
Life/AD&D/LT Disability Insurance

Radnor Township
Comparison of Surrounding Municipalities
Pension & OPEB

From the data collected on the surrounding municipalities, the following are brief statistics summarizing the Pension & OPEB challenges each community faces.

The pension data shows the following (overfunded)/unfunded balances are as follows:

Radnor	$	22,122,300
Haverford	$	21,036,362
Springfield	$	8,423,810
Marple	$	8,381,001
East Goshen	$	3,701,769
Tredyffrin	$	1,365,988
Lower Merion	$	(8,486,972)
Upper Merion	$	(1,706,000)
Horsham	$	4,685,782
Upper Makefield	$	945,067
Lower Makefield	$	2,226,265
Doylestown	$	3,105,474



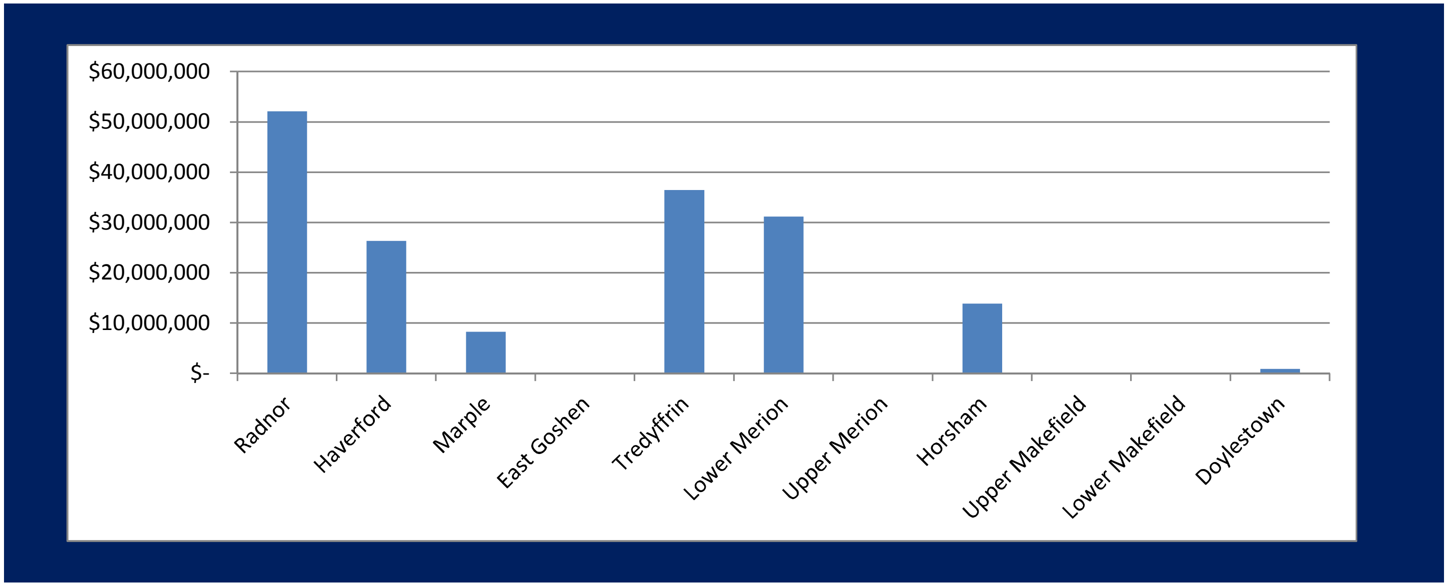
In analyzing the pension plans and provisions, Radnor Township is second only to Lower Merion Township in the number of retirees who are currently receiving a monthly pension benefit - 102 vs 171. The underfunded liabilities for Radnor are a result of a combination of factors including investment assumptions, lack of sufficient employee contributions, pension spiking and unplanned, unforecasted reductions as a result of disability pensions.

In looking at the OPEB challenges, Radnor again stands out as the only municipality who has offered and continues to provide post retirement health benefits for life to Police Officers, their spouses and eligible dependents at no cost to the retiree. Union personnel who retired pre-1995 were provided the same benefit. Since then, post retirement health is provided to the union retiree only without spousal or eligible dependent coverage. No OPEB provided to non-union personnel hired after 1/1/1990. Further, the majority of covered retirees, spouses and eligible dependents participate in a PPO plan rather than an HMO. By comparison, Springfield, Newtown Square, Marple and East Goshen townships provide an OPEB benefit to police only and, except for Marple, provide the benefit to the officer & spouse only. Upper Makefield provides no OPEB benefits to any employees.

EXHIBIT C

OPEB liabilities for the Townships who have reported are as follows:

	Radnor	$	52,142,879
	Haverford	$	26,379,000
	Marple	$	8,310,252
*	East Goshen	$	-
	Tredyffrin	$	36,499,279
	Lower Merion	$	31,205,040
*	Upper Merion	$	-
	Horsham	$	13,903,341
*	Upper Makefield	$	-
*	Lower Makefield	$	-
	Doylestown	$	934,213



* The townships noted above have -0- OPEB liability because it is either not offered or fully paid by retiree contributions.

DVHIT reports the following from their membership base of municipalities - full details of plan provisions are not yet available but DVHIT expects to collect this in their next annual survey.

# of municipalities offering OPEB	14
# of municipalities offering OPEB - Police only	8
# of municipalities offering OPEB - Police & Civiliar	6
# of municipalities not offering OPEB	50

APPENDIX D

1. Close loopholes that inflate years of service and final salary ("spiking")

2. Raise retirement age; eliminate early retirement and "double-dipping".

3. Increase employee and retiree premiums and co-pays.

4. Increase the number of years of employment required for lifetime or fully subsidized benefits.

5. Require new employees to pay a percentage of their base salary at retirement for health care costs.

6. Offer hybrid plans that combine elements of defined benefit and defined contribution. (Providence, RI)

7. Restructure OPEB benefits to reduce cost.

8. Require retirees to join a Medicare advantage prescription plan.

9. Cash buy-out of lifetime benefits. (G.M.)

10. Make realistic investment assumptions.

11. Insist on clarity as to obligations, benefits and sustainability.

12. Require any benefit to be accompanied by actuarial calculations of long-term affordability.

13. Set up irrevocable trusts to fund benefits and prevent diverting funds.

14. Fully fund the annual required contribution.

15. Pass State Legislation to change benefits without bargaining. (New Jersey)

16. Bankruptcy (Stockton, California; Central Falls, Rhode Island)

17. Cut Benefits for current retirees. (San Diego, San Jose, Illinois)

EXHIBIT E

Outlined below is a statement of some of the relevant precedents:

a. Post-retirement benefits for public employees, including pensions and retiree healthcare, are considered deferred compensation and therefore cannot be diminished. *See White Deer Twp. v. Napp*, 985 A.2d 745, 757 (Pa. 2009), citing, *Commonwealth ex rel. Zimmerman v. Officers & Employees Retirement Bd.*, 496 A.2d 141 (Pa. 1983); *Borough of Elizabethtown v. Elizabethtown Non-Supervisory Police Negotiating Comm.*, 719 A.2d 1144 (Pa. Commw. Ct. 1998).

b. The right to a pension benefit cannot be altered once an employee has "entered the system." *Police Officers of Borough of Hatfield v. Borough of Hatfield*, 559 A.2d 113 (Pa. Commw. Ct. 1989).

c. As a result, benefits for current employees can only be reduced by agreement and cannot be altered unilaterally by a municipality, or even by an arbitrator's award. *See Police Pension Fund Ass'n Bd. v. Hess*, 562 A.2d 391, 396 (Pa. Commw. Ct. 1989).

d. Home Rule Charter Municipalities Law – "A municipality shall not… Be authorized to diminish the rights or privileges of any former municipal employee entitled to benefits or any present municipal employee in his pension or retirement system." 53 Pa.C.S. § 2962(c)(3).

    1. *FOP v. City of Johnstown* (Feb. 22, 2012) – Commonwealth Court reinstated a retiree healthcare benefit that had been reduced by an interest arbitration panel, finding that the Home Rule Charter Law makes post-retirement healthcare of both current employees and retirees a right that is protected from diminishment.

E. Reduction or elimination of retiree healthcare would be subject to agreement between the municipality and the police officers' union. *See City of Wilkes-Barre v. Wilkes-Barre Firefighters Ass'n*, 596 A.2d 1271 (Pa. Commw. Ct. 1991), *affirmed*, 623 A.2d 815.