



# Managing Pension & OPEB Obligations

CARFAC Presentation to the  
Board of Commissioners  
December 10, 2012

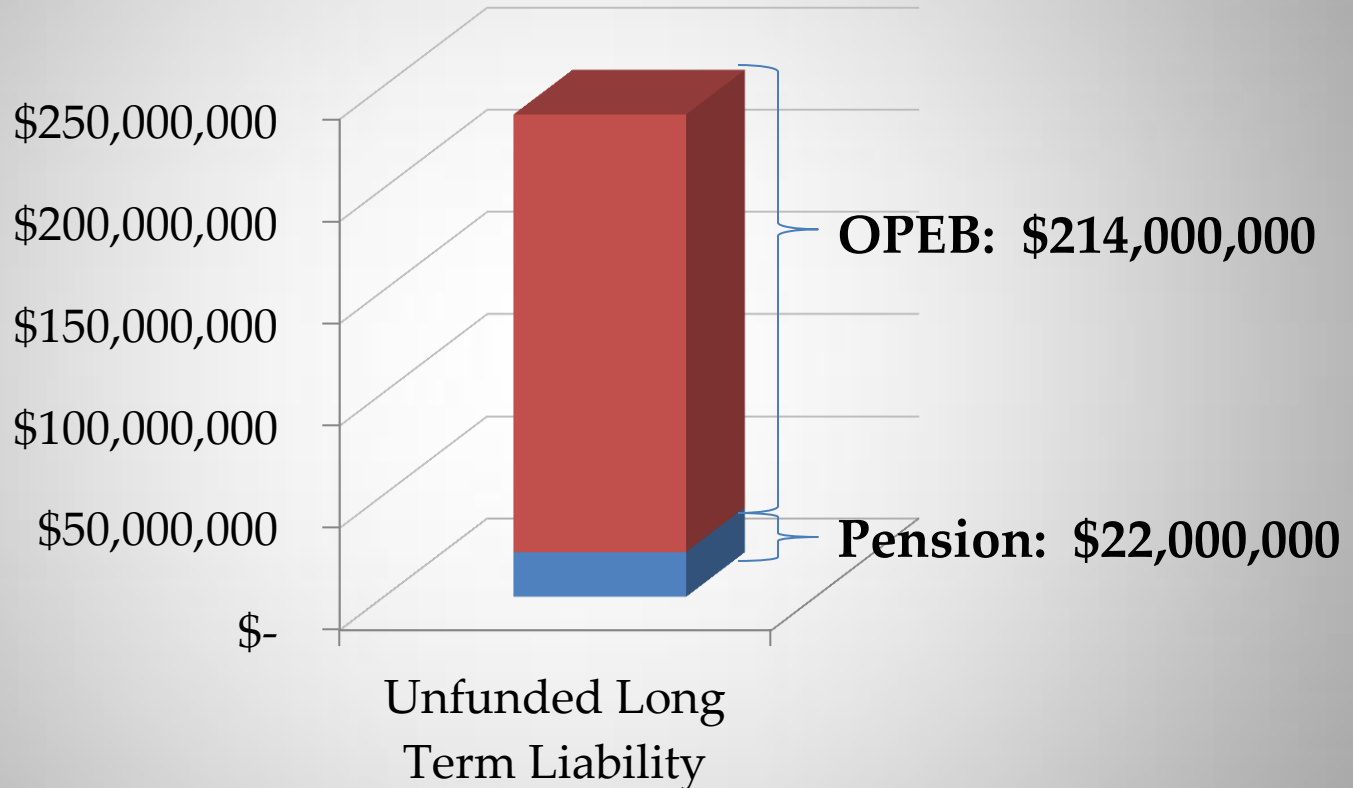


# Managing Pension & OPEB Obligations

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# Financial Challenges

## \$236M



This represents the obligations for Pension and Other Post-Employment Benefits (OPEB) as valued at January 1, 2012.



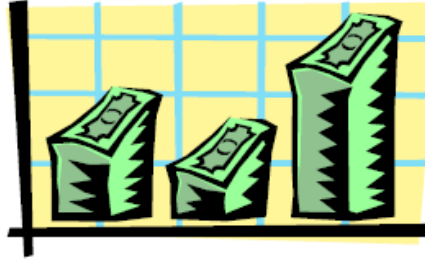
# The Pension Problem

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# Civilian Pension Lifecycle

retirement goal at -----> \$ 1,152,583

## Retire in 2042



funding goal should be reached when the employee is expected to retire

employee retires at age 62 and receives monthly benefit payments of \$8,173 for life with 10 years guaranteed

annual contributions of 13% of pay are deposited in to the pension plan

total contributions for 30 years amount to \$431,853

2066  
retiree dies at age 86

total benefits paid over life of retiree (24 years)  
total \$2,353,945

## Entry year 2012



new employee is hired in 2012 at age 32 at a salary of \$50,000 and joins the pension plan

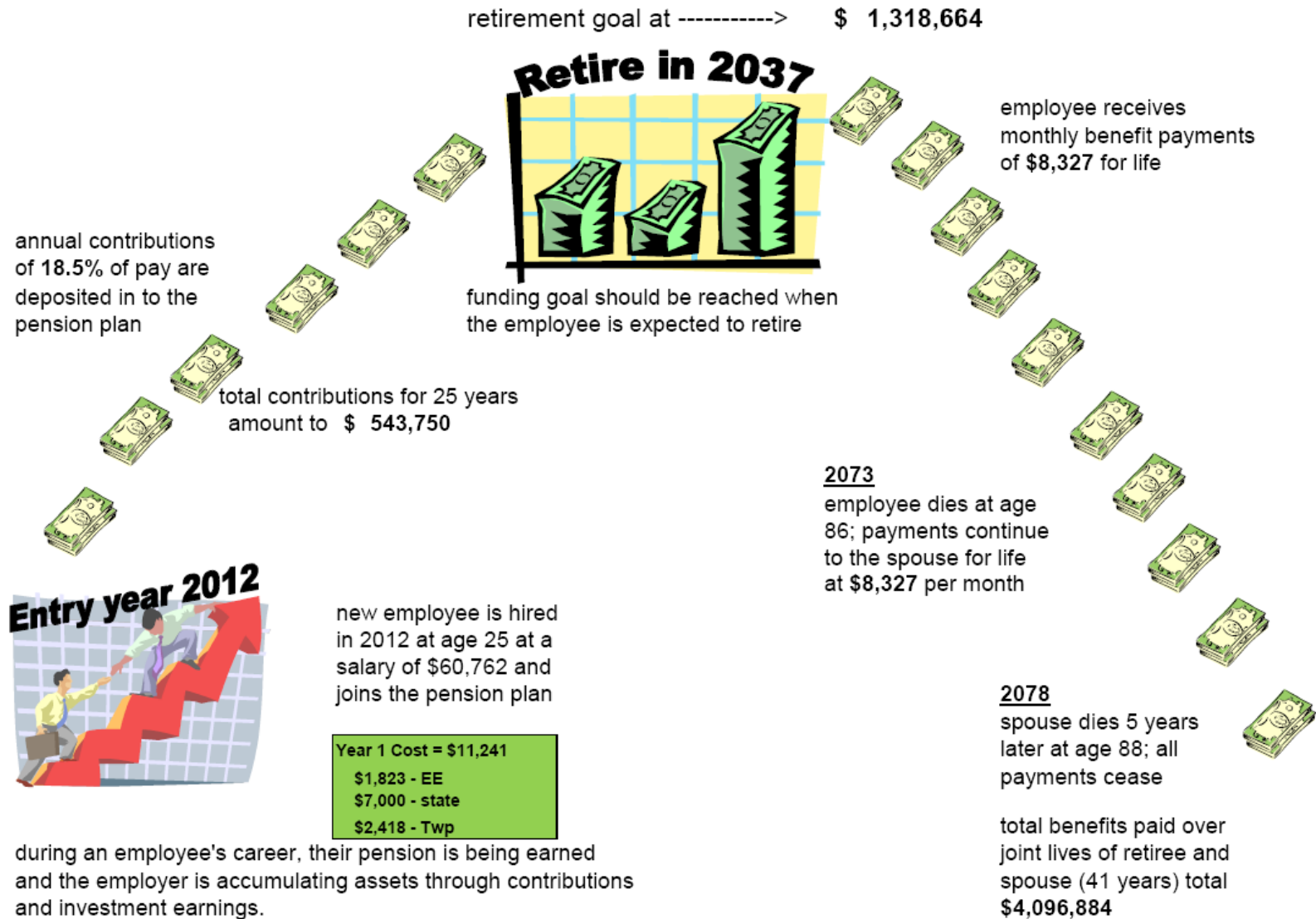
Year 1 Cost = \$6,500  
\$2,500 - EE  
\$3,200 - state  
\$800 - Twp

during an employee's career, their pension is being earned and the employer is accumulating assets through contributions and investment earnings.

theoretically, all assets should be exhausted after the last benefit payment is made

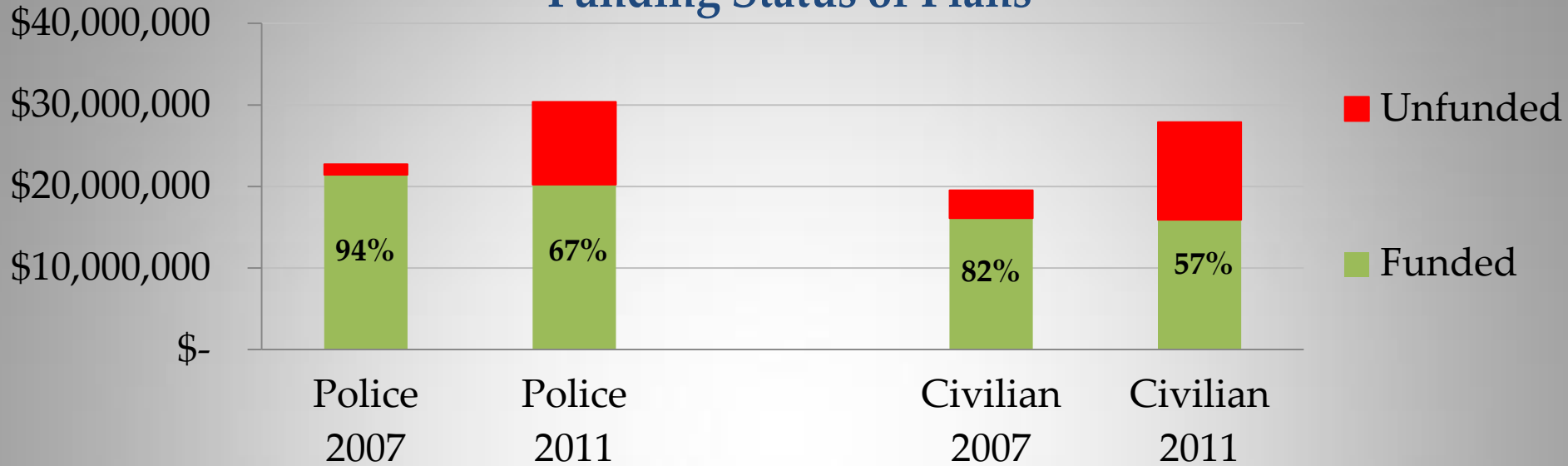
Source: Mockenhaupt Benefits Group

# Police Pension Lifecycle

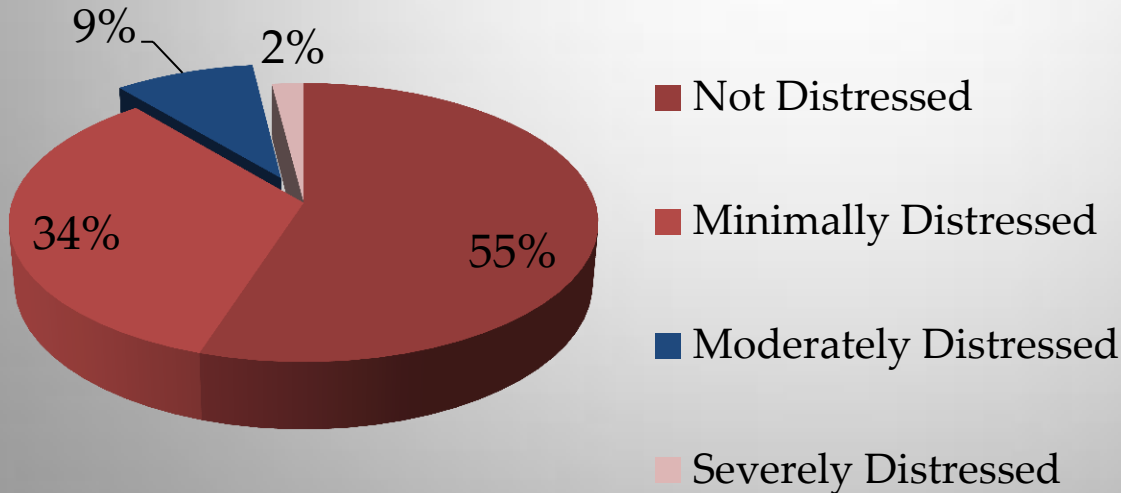


# Radnor Township Pension Plans

## Funding Status of Plans



## State-Wide Pension Distress Levels

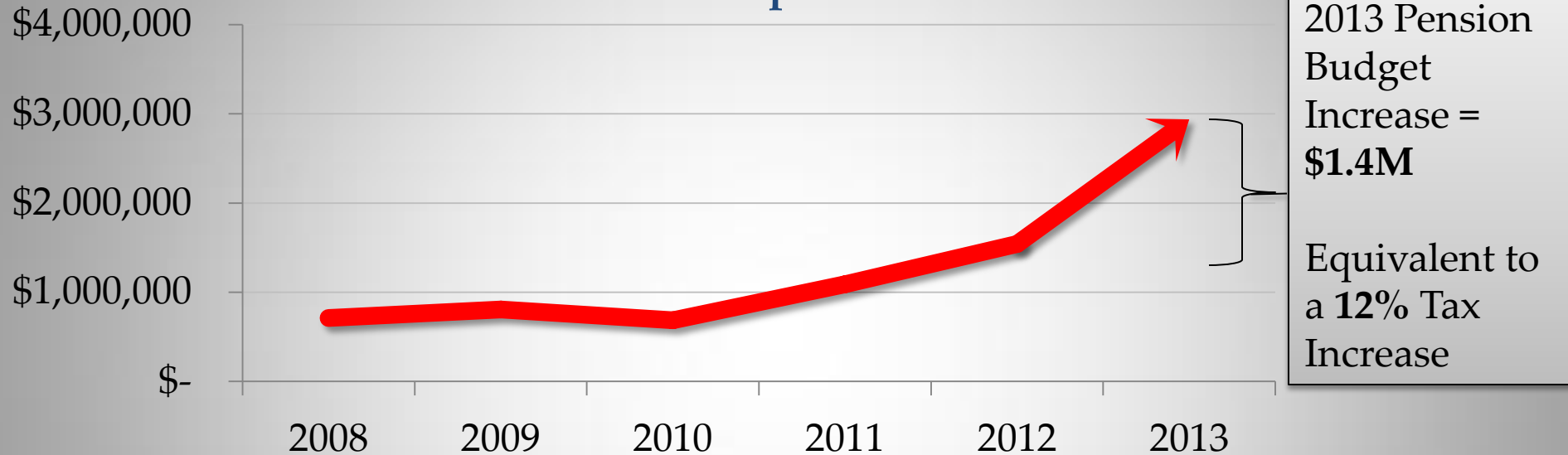


Distress Description	
Over 90% Funded	Not Distressed
70% -89% Funded	Minimally Distressed
<b>50% - 69% Funded</b>	<b>Moderately Distressed</b>
Less than 50% Funded	Severely Distressed

Source: Township Records and Public Employees Retirement Commission

# Radnor Township Pension Plans

## Net Township Pension Cost

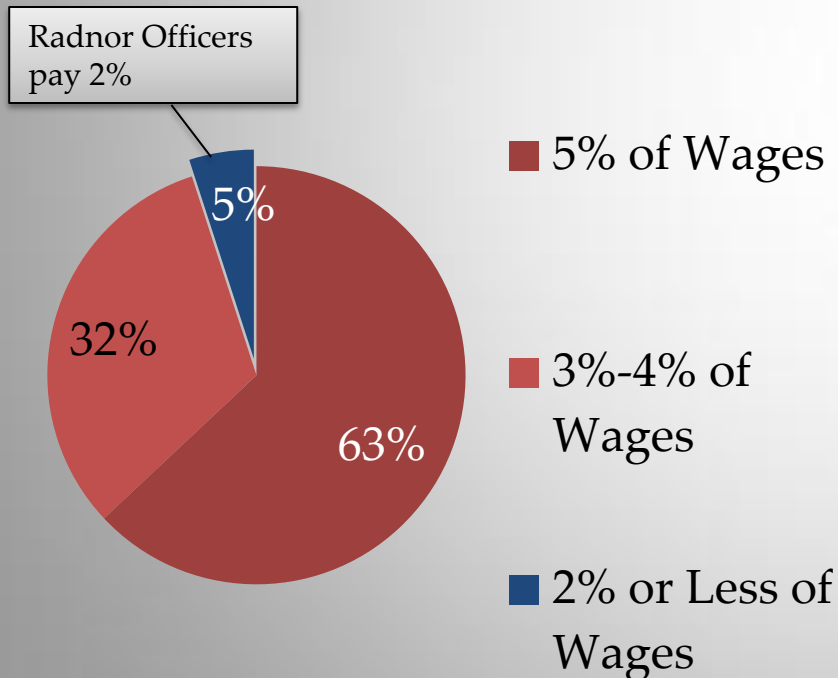


2013 Net Cost Make Up	
Normal Cost (Net) and Admin. Expense	446,569
<b>Annual Amortization of Unfunded Liability</b>	<b>2,490,977</b>
<b>Total</b>	<b>\$2,937,546</b>



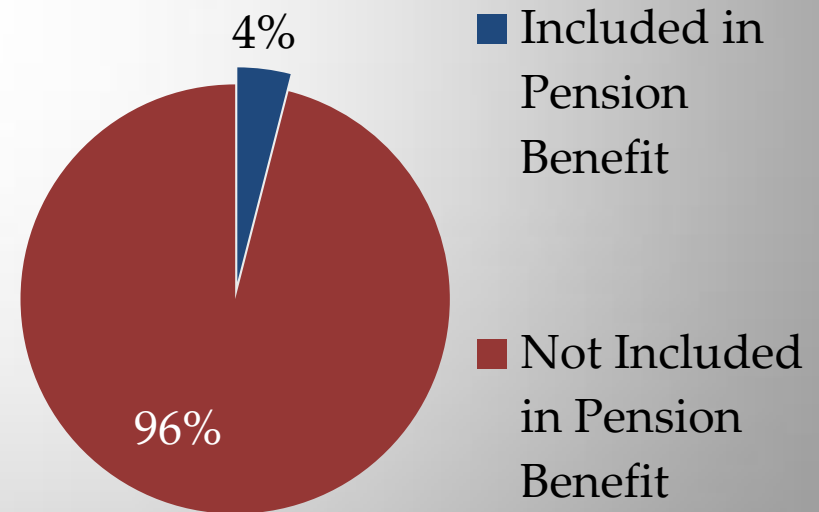
# Police Pension Market Analysis

## Employee Pension Contributions



## Pension "Spiking"

Including Leave Time in Pension Benefit



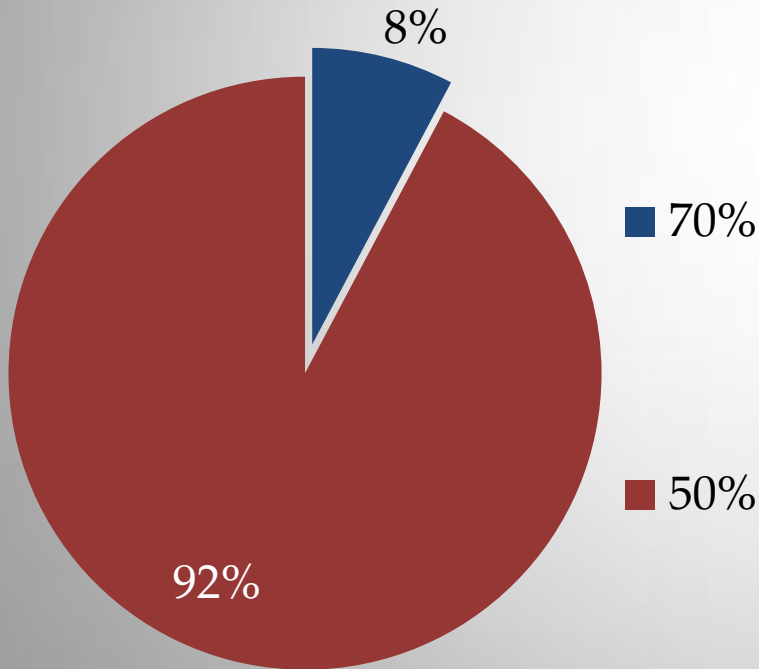
Allowing Accrued Leave Time in Pension Benefit is illegal according to PA Auditor General's Office.

# Police Pension Market Analysis

## Disability Benefit

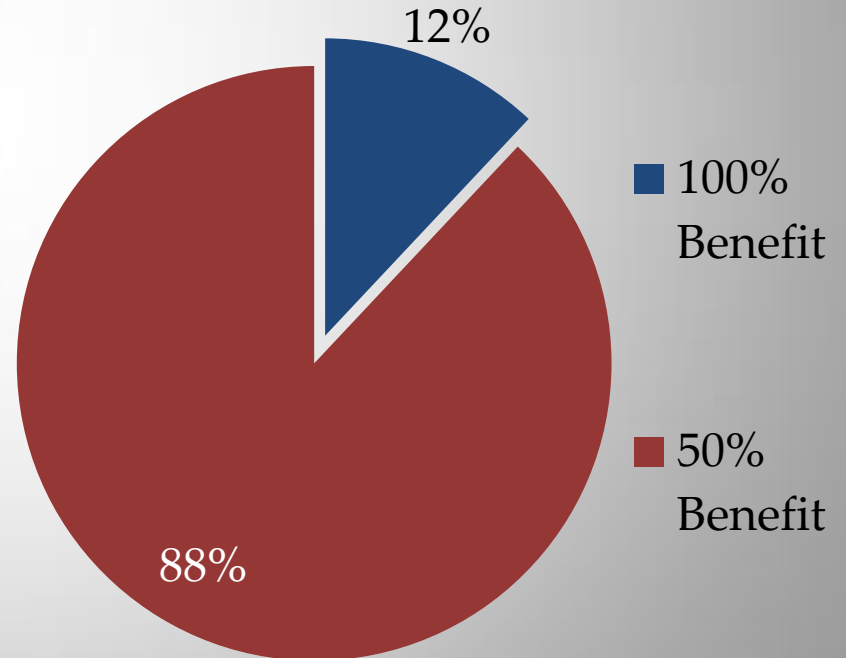
### Percentage

Of Final Avg. Salary



## Survivor Benefit

Out of 162 that offer this benefit



# Key Considerations to Manage Long-Term Obligations - Pension -

1. Bring benefit levels in line with market
2. Increase employee contributions to be in line with market
3. Consider long-term strategies to convert from defined benefit to defined contribution plans



# The “OPEB” Problem

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# Other Post Employment Benefits (OPEB)

- Cost is almost entirely retiree healthcare
- Police: Employee + Spouse + Dependents
- Civilian Union: Employee + Spouse + Dependents (Employee only for those hired after 1/1/1990)
- Civilian Non-Union – Employee + Spouse + Dependents for those hired before 1/1/1990 – no benefit for those hired after 1/1/1990
- Must enroll for Medicare when eligible (currently at age 65)
- No employee or retiree contribution towards premium
- Any changes subject to collective bargaining, state law, case law, and prior practice. State law mandates mandatory binding arbitration for police. No state law requires that retiree healthcare be provided
- Liability of township is unfunded; only paid as “Pay as You Go”

# Police OPEB: Pay as You Go Illustration

Police OPEB  
Pay-as-you-go Illustration

**Retire in 2037**

\$0 paid from general fund during 25 years of employment

employee and dependents receive monthly medical, Rx, dental, vision and life insurance for life

Annual costs 1st year of retirement at age 50 for family coverage = \$81,754

2045

Age 58, drop to Husband/Wife coverage  
Annual cost = \$124,959

2051

Age 64  
Annual cost = \$201,930

2052

Age 65, Medicare primary for retiree; spouse still on ER Medical Plan  
Annual Cost = \$132,159

2055

Age 68, Medicare primary for retiree and spouse  
Annual Cost = \$86,654

2073

Age 86; retiree dies - coverage continues to spouse for life  
Annual Cost = \$126,742

2078

spouse dies 5 years later at age 88

total retirement benefits paid over joint lives of retiree and spouse (41 years) total \$6,183,197 paid from general fund

**Entry year 2012**



new employee is hired in 2012 at age 25

retiree benefits are being earned over the employee's career; on a pay-as-you-go basis, retirement costs are paid after employee retires, as they are incurred, from general fund no contributions are made during employee's career

# Police OPEB: Prefund Illustration

## Police OPEB Prefund Illustration

retirement goal at -----> \$ 1,811,327

employee and dependents  
receive monthly medical, Rx,  
dental, vision and life insurance  
for life

annual contributions  
of \$26,764 are  
deposited in to the  
OPEB Trust

**Retire in 2037**

funding goal should be reached when  
the employee is expected to retire

Annual costs 1st year of retirement  
at age 50 for family coverage = \$81,754

**2045**

Age 58, drop to Husband/Wife coverage  
Annual cost = \$124,959

**2051**

Age 64  
Annual cost = \$201,930

total contributions for 25 years  
amount to \$ 669,112  
from general fund

**2052**

Age 65, Medicare primary  
for retiree; spouse still  
on ER Medical Plan  
Annual Cost = \$132,159

**2055**

Age 68, Medicare primary  
for retiree and spouse  
Annual Cost = \$86,654

**2073**

retiree dies at age 86; coverage  
continues to spouse for life  
Annual Cost = \$126,742

**2078**

spouse dies 5 years  
later at age 88

total retirement benefits  
paid over joint lives of  
retiree and spouse (41  
years) total \$6,183,197  
paid from trust fund  
\$0 paid from general fund

new employee is hired  
in 2012 at age 25



retiree benefits are being earned over the employee's career;  
if the employer is pre-funding, assets accumulate  
through contributions and investment earnings.

pre-retirement contributions made from general fund to trust fund  
post-retirement benefit premiums/costs paid from trust fund

# Civilian OPEB: Prefund Illustration

## Civilian OPEB Prefund Illustration

retirement goal at -----> \$ 706,452

employee receives medical, Rx, dental, vision and life insurance for life

### Retire in 2042

funding goal should be reached when the employee is expected to retire

Annual costs 1st year of retirement at age 62 for individual coverage = \$71,227

annual contributions of \$6,990 are deposited in to the OPEB Trust

total contributions for 30 years amount to \$ 209,686 from general fund

2044  
Age 64  
Annual cost = \$83,082

2045  
Age 65, Medicare primary  
Annual Cost = \$28,644

total retirement benefits paid over retiree's life amounts to \$1,596,372 paid from trust fund \$0 paid from general fund



new employee is hired in 2012 at age 32

retiree benefits are being earned over the employee's career; if the employer is pre-funding, assets accumulate through contributions and investment earnings.

2065  
retiree dies at age 86  
Annual Cost last year = \$150,623

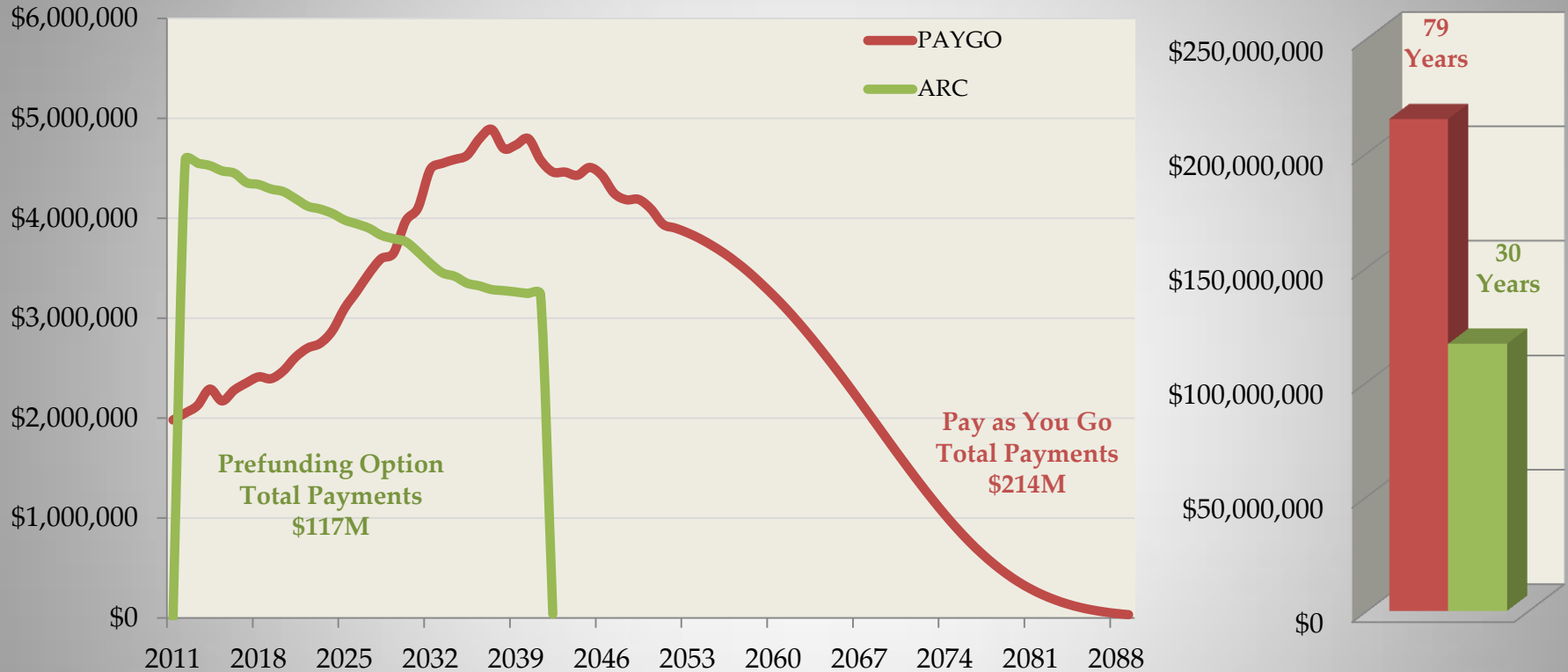
pre-retirement contributions made from general fund to trust fund  
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# Radnor Township OPEB Liability

1/1/2012 Valuation

**Closed Group** (analysis includes only *current* employees and retirees)



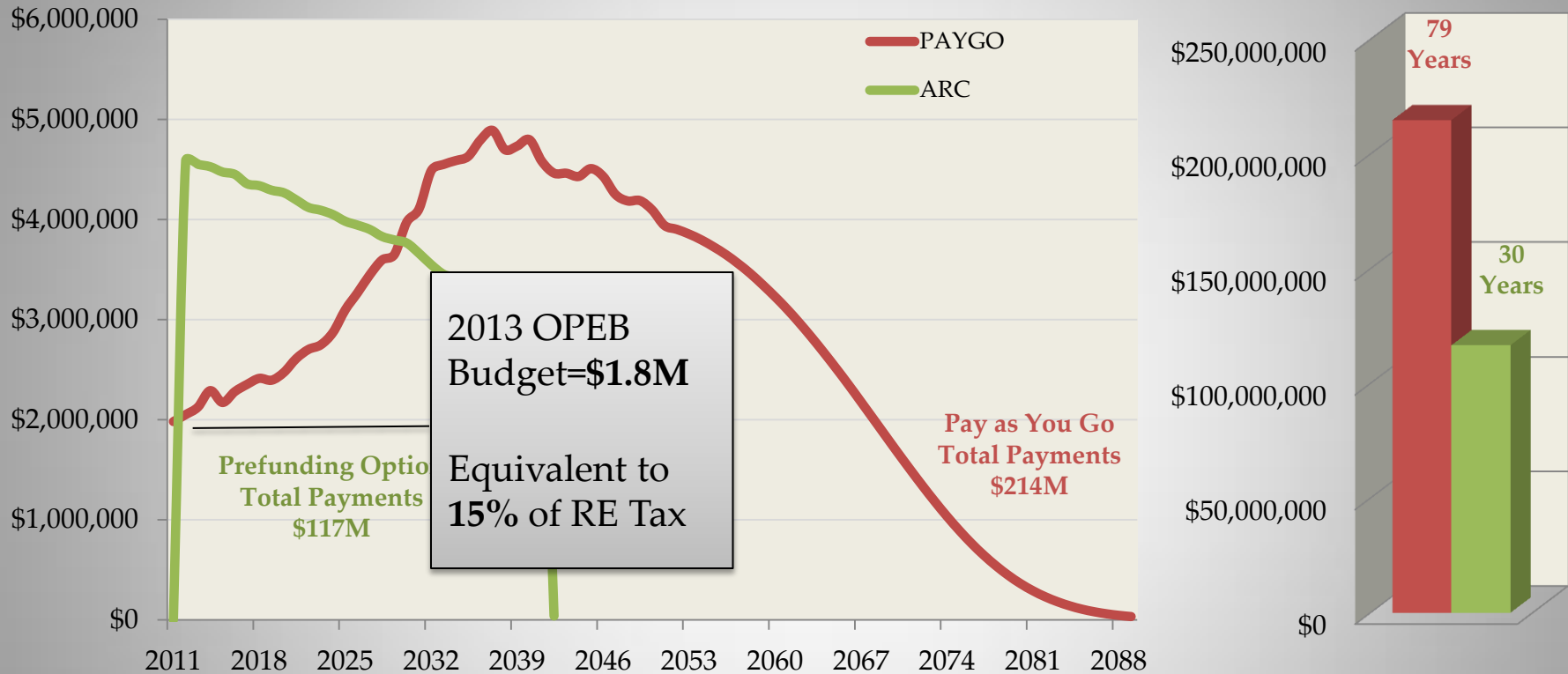
Any replacement / new hires would change the outcomes presented in the graph by increasing and extending the length of time for which funding would be required.

The ARC and PAYGO lines go to \$0 only if the Township (a) eliminates OPEB from all future hires and/or (b) doesn't hire any replacement or new hires moving forward.

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1/1/2012 Valuation

**Closed Group** (analysis includes only *current* employees and retirees)



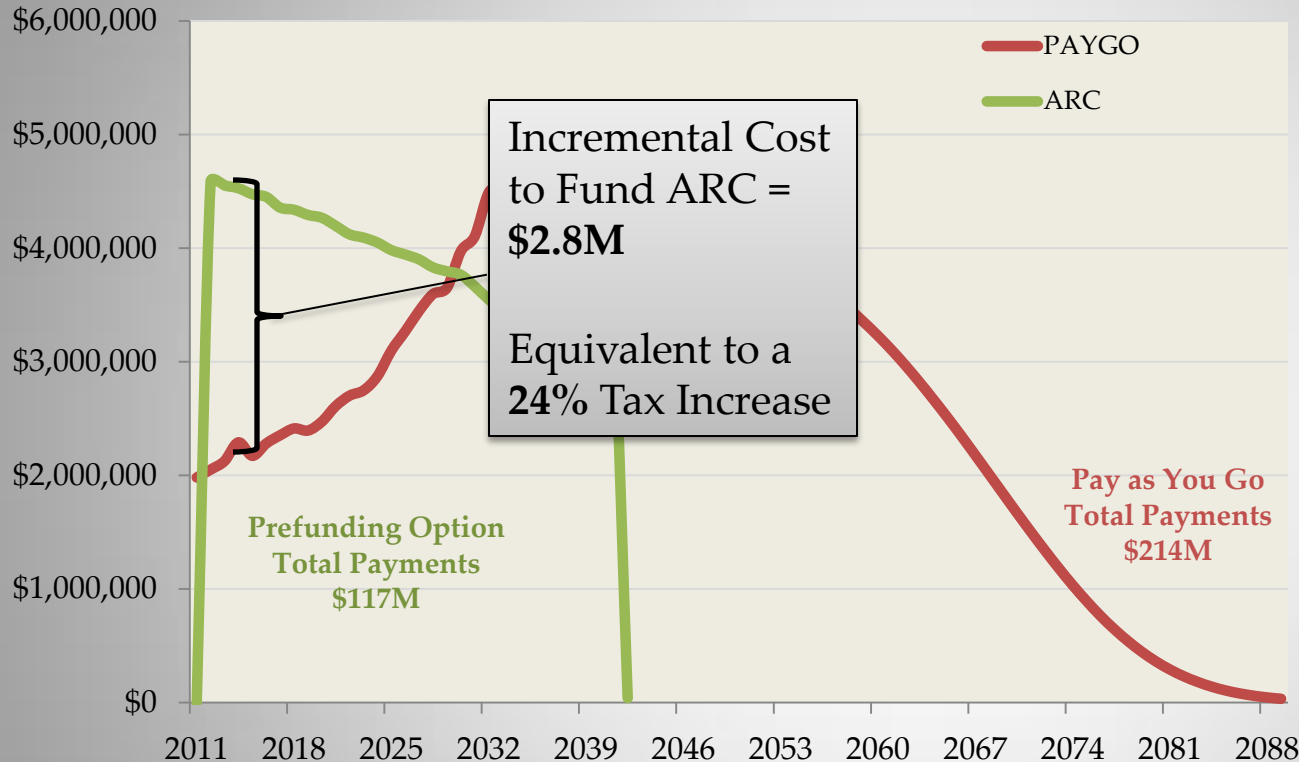
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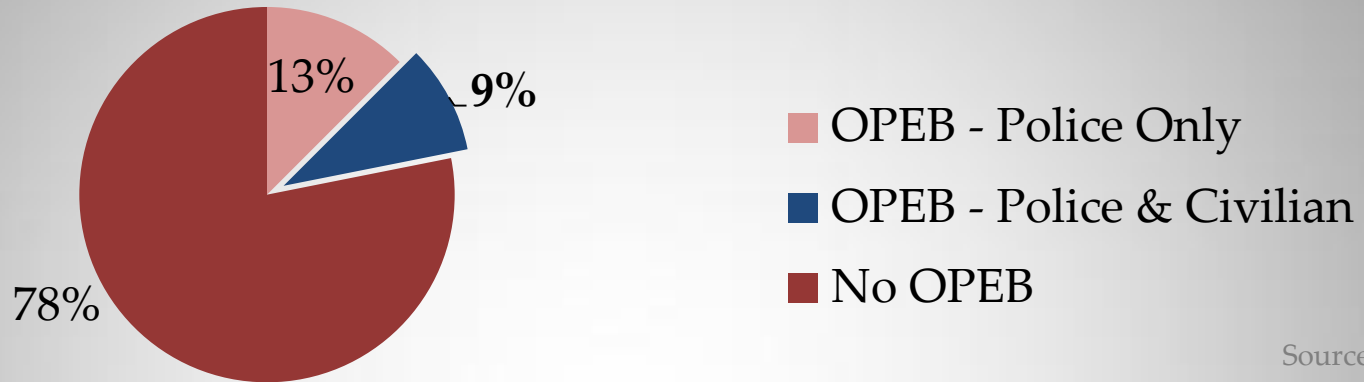


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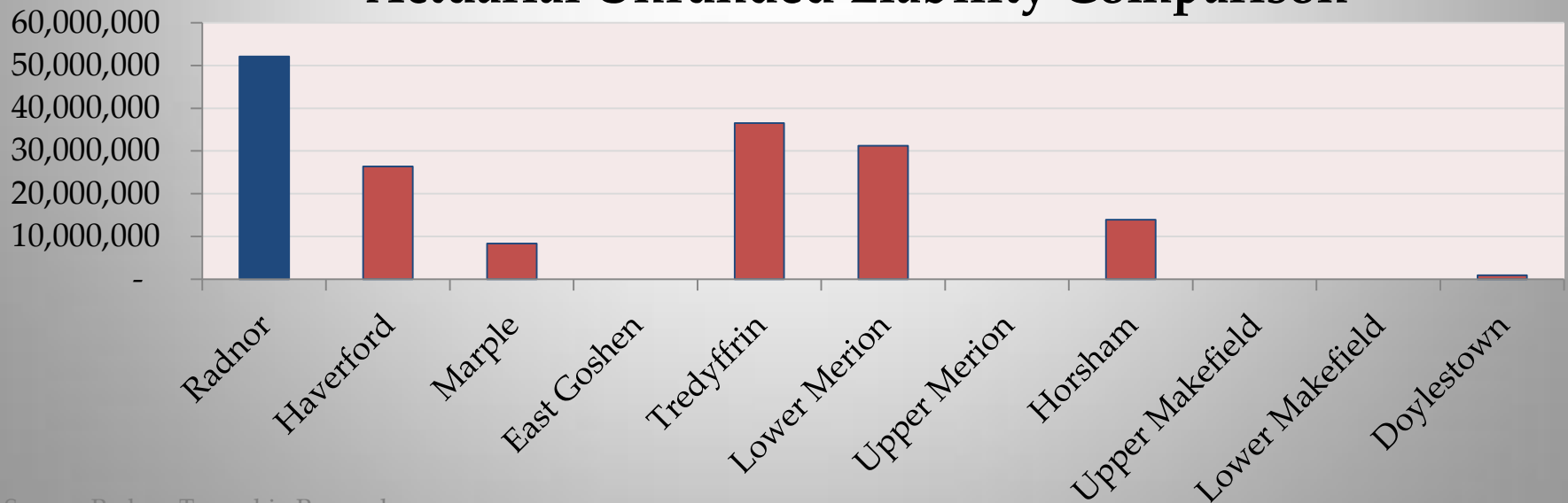
# OPEB Market Analysis

## Who Offers OPEB?



Source: DVHIT

## Actuarial Unfunded Liability Comparison



Source: Radnor Township Research

# Key Considerations to Manage Long-Term Obligations - OPEB -

1. Limit the benefit to Medicare age (currently 65)
2. Limit coverage to the retiree only and require dependent / spouse to buy in
3. Require contributions from employees to offset the cost, similar to pension

# Generally, Where Do We Begin?

## Options to Consider

### IMMEDIATE ACTIONS

1. Continue Hiring freeze until contracts can be amended
2. Continue to audit retiree benefits to insure accurate benefit management
3. Convert retirees to present day health plan
4. Engage State Representatives to seek legislative changes
5. On-going Commissioner, Employee and Citizen education program