



The elements of success



Town of Wilton

Pension Plan

Review of the July 1, 2020 Actuarial Valuation

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- Purpose of the Valuation
- Pension Valuation Summary
- Town Contribution Summary (Funding Policy)
- Asset Information
- H&H CT Municipal Plan Survey Results
- Actuarial Liability/Normal Cost - Details
- Town Contribution - Details

The ultimate cost of a pension plan is based primarily on the level of benefits promised by the plan. The pension fund's investment earnings serve to reduce the cost of plan benefits and expenses. Thus,

$$\text{Town's Ultimate cost} = \text{Benefits Paid} + \text{Expenses Incurred} - \text{Investment Return} - \text{Employee Contributions}$$

- Actuarial Valuation utilizes an actuarial cost method to assign a portion of this “ultimate cost” to the budget year. The valuation does not determine the cost of the plan but is a tool used to determine the appropriate level of Town contributions.
- Actuarially Determined Employer Contribution (ADEC) developed from the valuation is comprised of two components: amortization of unfunded liability (*20 years*) & normal cost (assignment of benefits “earned” for the budget year).

- Liability Breakdown:
 - Police 33%
 - Plan 3 52
 - Fire 15
- Plan is closed to all groups (except Fire) : 56.9% of liability is for inactive members (up from 56.4% for 2019)
- Liability experience was within \$20,000 of expected results for 2019-20. Small net loss driven mainly by loss from mortality, offset by gains from retiree COLAs, salary increases and turnover/retirement patterns.
- Plan continues to have a funded ratio that is well above average at 99.5% (top 11% in CT)

Funding Policy

Contribution **With** Multiplier

(\$ thousands)

	2021-2022	2020-2021
Funded %	99.5%	98.9%
Funding Policy Adjustment	+5%	+5%
Plan 1 Police	\$ 1,124.1	\$ 1,088.3
Plan 3 Board of Ed	\$ 553.2	\$ 582.4
Library	84.0	88.2
Town	54.3	96.7
Subtotal – Plan 3	\$ 691.5	\$ 767.3
Plan 4 Fire	181.0	199.4
Grand Total	\$ 1,996.6	\$ 2,055.0
Change*	\$ (58.4)	\$ 37.9

* From prior year

Asset Reconciliation (Market Value)

(in \$millions)

	2019-20
Market Value, July 1, 2019	\$ 122.33
Receipts:	
Contributions – Town	\$ 4.07
Contributions – Employees	<u>1.05</u>
	\$ 5.12
Disbursement:	
Pension Payments	\$ (5.96)
Admin Costs	<u>(0.22)</u>
	\$ (6.18)
Investment Return:	<u>2.84</u>
Market Value, June 30, 2020	\$ 124.11

Return on Assets:

+2.3%

Actuarial Value of Assets

(in \$millions)

Market vs. Actuarial: Why and How Different

Market Value, July 1, 2020 \$ 124.11 (A)

Development of Unrecognized Assets

Year	Excess/ (Shortfall)*	Percent Unrecognized	Amount Unrecognized
2019-20	\$ (5.54)	80%	\$ (4.43)
2018-19	(0.68)	60%	(0.41)
2017-18	0.49	40%	0.20
2016-17	5.23	20%	1.04

Total Unrecognized Market Appreciation (3.60) (B)

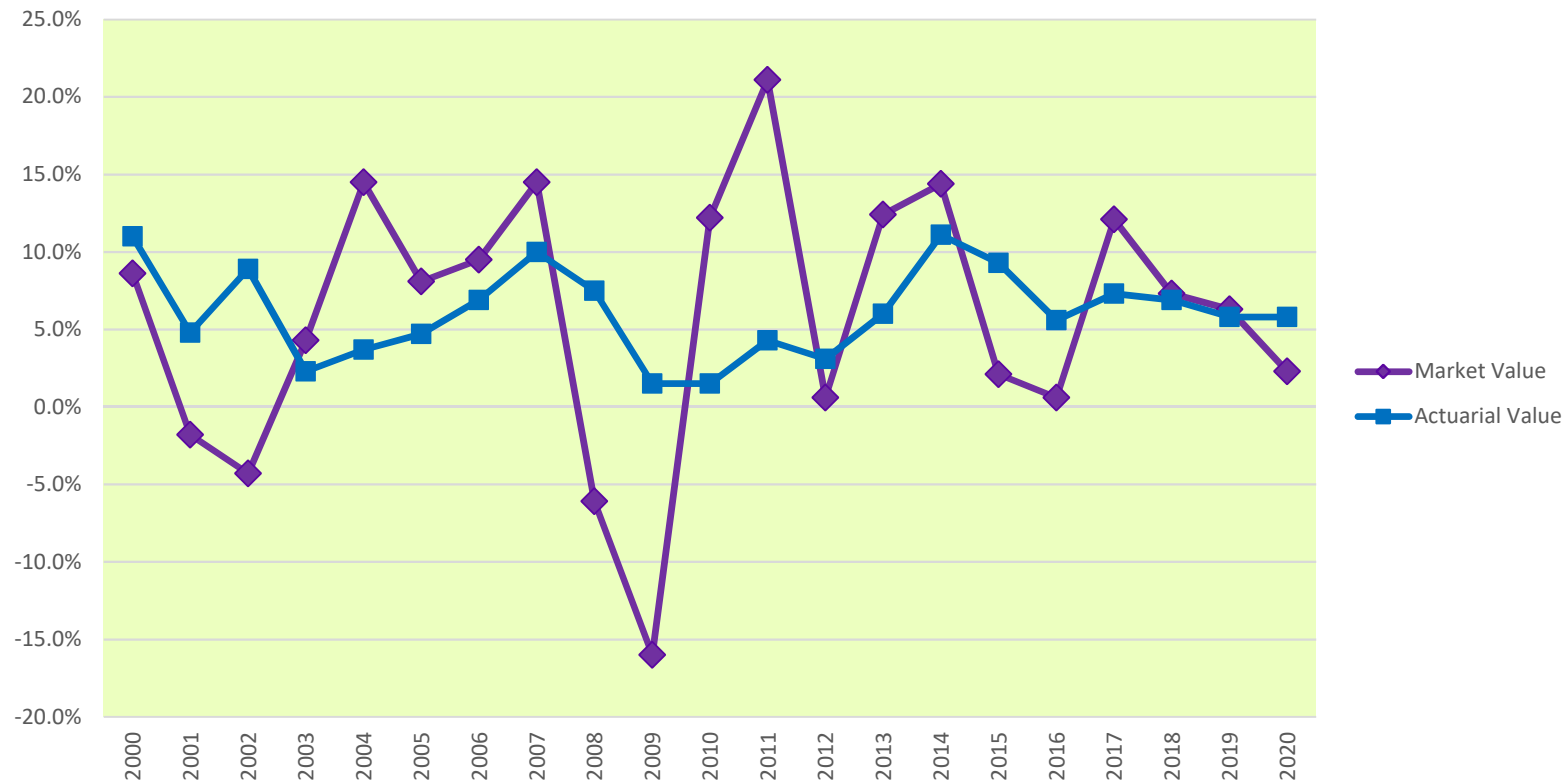
Actuarial Value of Assets, July 1, 2020 [(A) – (B)] \$127.71
As % of Market 102.9%

* vs. assumption of 6.875%

Historical Investment Returns



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Investment Return

1-year

5-year

10-year

20-year

Market

2.3%

5.6%

7.7%

5.8%

Actuarial

5.8%

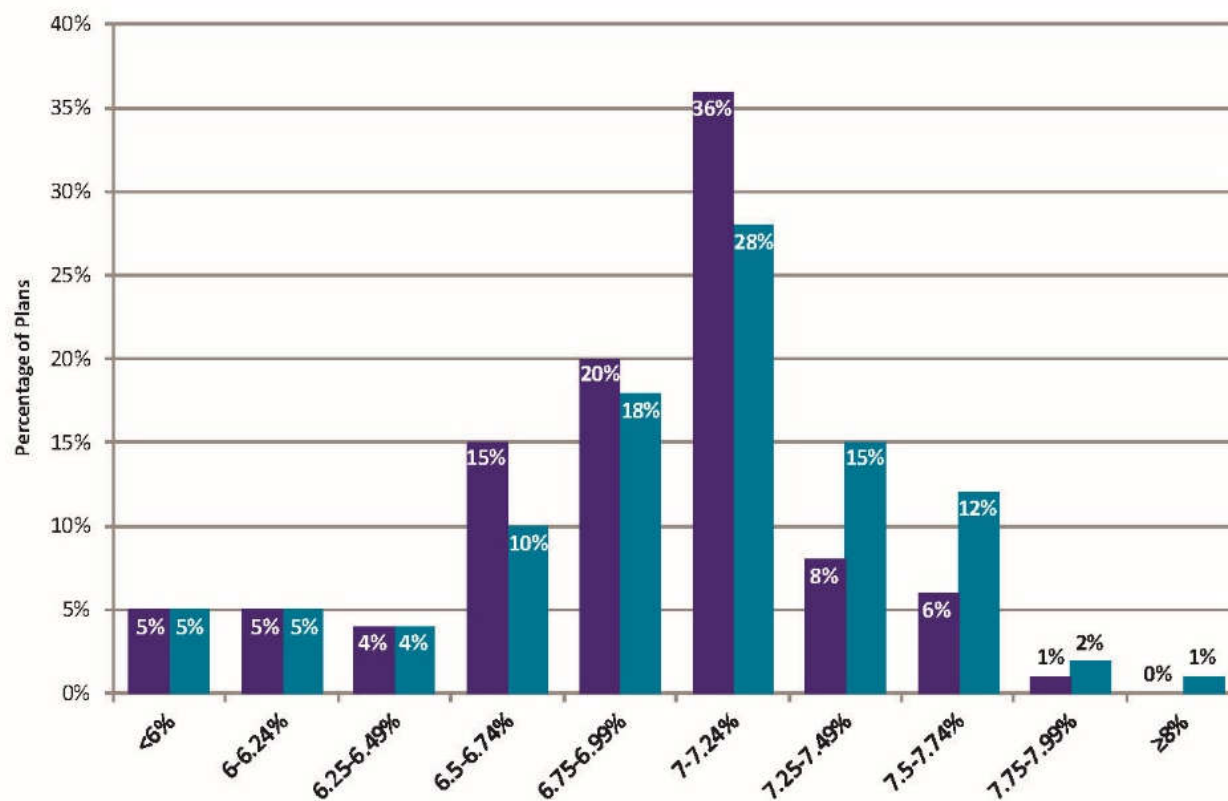
6.3%

6.5%

6.4%

- **Investment return** – No change to 6.875% assumption. Based on the current target asset allocation and HHIA capital market assumptions, we believe that the long-term assumption of 6.875% is reasonable. Trend continues to be towards lowering. Average for CT public sector plans is now 6.74% (based on H&H survey of FYE 2019 CAFRs).
- Average assumption is higher for larger plans (7.02% for \$50+ million in assets; 6.89% for \$10 to \$49 million in assets)
- Recommend performing experience study prior to 2021 valuation (most recent study reviewed plan experience through FYE 2015)

Investment Return Assumption Survey



- Average investment return assumption is 6.74% (median is 7.00%)
- Decrease of 7 basis points from the 6.81% average (7.00% median) in our 2019 report

This assumption is generally tied to either the July 1, 2018 or July 1, 2017 actuarial valuation used in determining the employer's cash contribution amount (also known as the Actuarially Determined Employer Contribution, or ADEC)

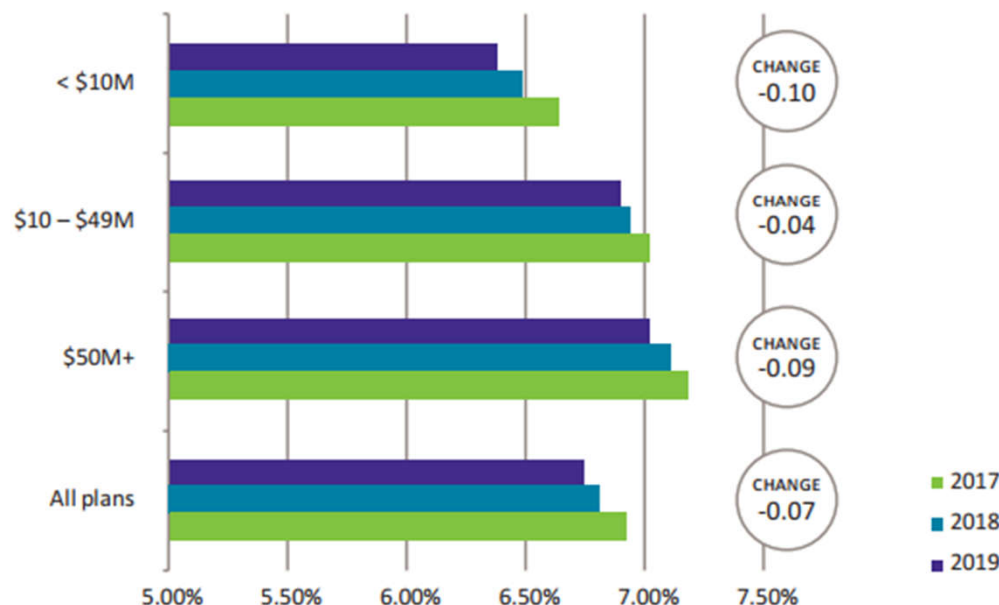
Investment Return Assumption Survey



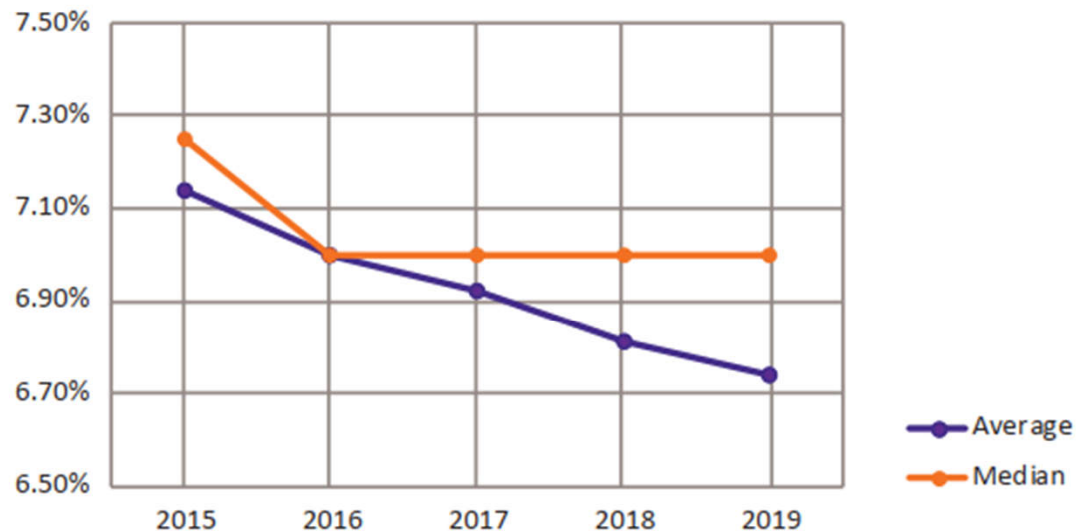
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In this report, we also analyzed the investment return assumption based on plan size. For this purpose, we classified a plan by asset size (under \$10 million, \$10 to \$49 million, \$50 million plus). The results show that as plan size increases, the average investment return assumption increases as well. Within each range of plan asset size, the average assumption decreased from 4 to 10 basis points from 2018 to 2019, and the average decrease for all plans was 7 basis points (from 6.81% to 6.74%).

Plan assets (\$ millions)	% of plans	Average Investment Return Assumption			
		2019	2018	2017	2019 vs 2018 % Change
< \$10	38%	6.38%	6.48%	6.63%	-0.10%
\$10 – 49	35%	6.89%	6.93%	7.02%	-0.04%
\$50+	27%	7.02%	7.11%	7.18%	-0.09%
All plans	100%	6.74%	6.81%	6.92%	-0.07%

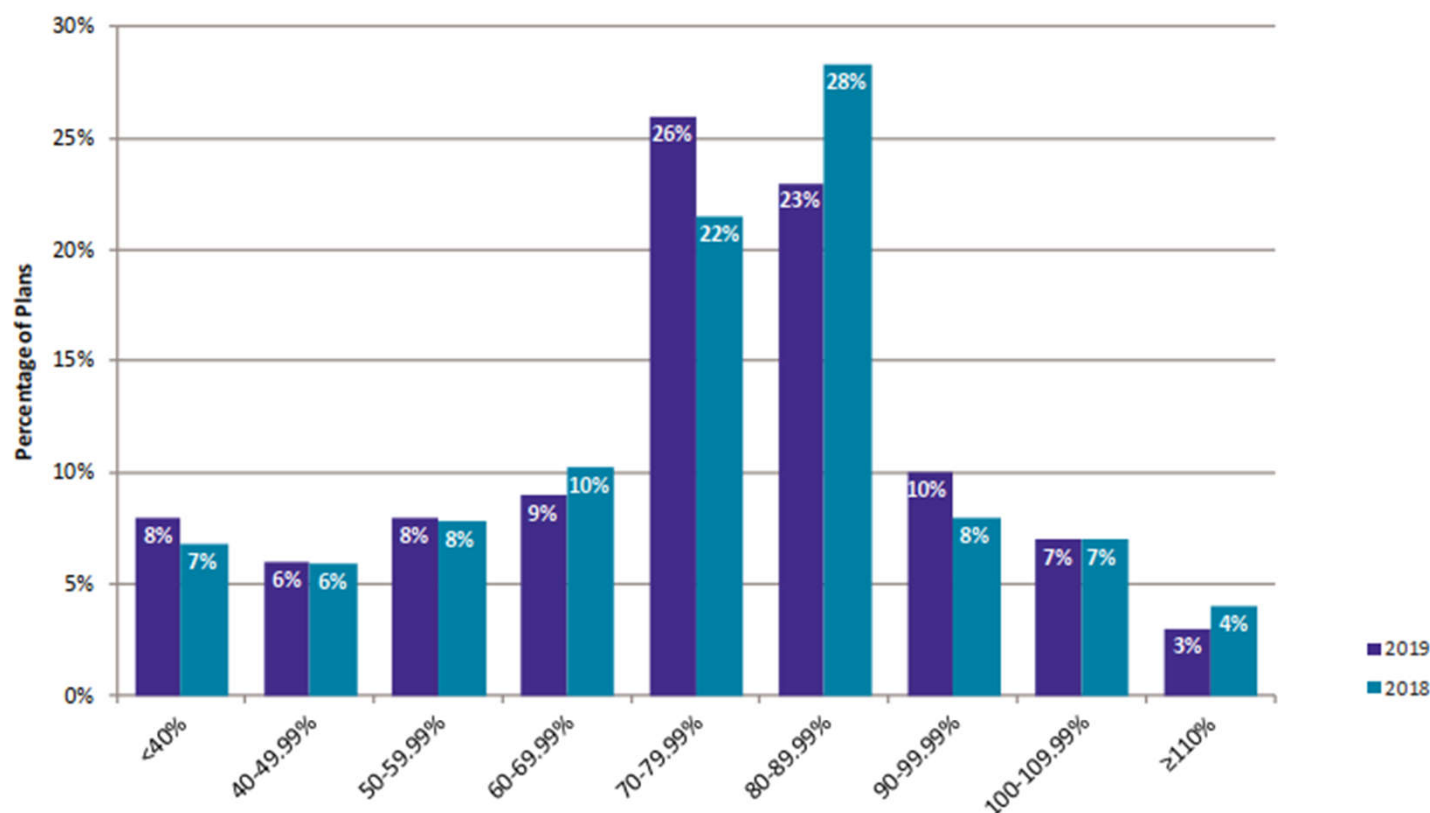


Average and Median Investment Return Assumption Trends



When looking at trends, the average long-term rate of return assumption has declined by 40 basis points (from 7.14% to 6.74%) from FYE 2015 to 2019. The median assumption has declined 25 basis points (from 7.25% to 7.00%) during that same period. Approximately 39% of plans reduced the long-term rate of return assumption from FYE 2018 to FYE 2019, with the most common reduction being 12.5 basis points. All else being equal, a lower investment return assumption results in higher actuarial liability and ADEC, and a lower funded ratio.

Funded Ratio



Forty-three percent of the pension plans analyzed exceed the 80% funded mark, with 14% falling below 50%. These percentages are consistent with declines in the average and median funded ratios, when compared with 47% of plan exceeding the 80% mark in our 2019 report (and with 13% falling below 50% in our 2019 report). Notably, 10% of plans can boast pensions that are funded at 100% or higher, down slightly from 11% in last year's report.

- FYE 2020 survey results are being compiled, but not yet finalized
- Preliminary results indicate a continued decrease in the average investment return assumption, and likely below 6.70%. Median likely to decrease from 7.00% to 6.875%.
- Funded ratio – likely slight decline in both the average and median. Lower investment return assumption and actual investment returns for FYE 2020 contributed to this decline.

Breakdown of Actuarial Liability



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(in \$millions)

	July 1, 2020		July 1, 2019	
	Amount	% of Total	Amount	% of Total
Active Participants	\$ 55.4	43.1%	\$ 53.7	43.6%
Terminated Vesteds	2.8	2.2%	2.3	1.9%
Retirees	<u>70.2</u>	<u>54.7%</u>	<u>67.1</u>	<u>54.5%</u>
Total	\$128.4	100.0%	\$123.1	100.0%
<u>By Plan</u>				
Police	\$ 41.9	32.6%	\$ 39.7	32.3%
Plan 3	67.3	52.4%	64.8	52.6%
Fire	<u>19.2</u>	<u>15.0%</u>	<u>18.6</u>	<u>15.1%</u>
Total	\$128.4	100.0%	\$123.1	100.0%

(in \$millions)

	July 1, 2020 Valuation	July 1, 2019 Valuation
Assets, Actuarial Value	\$ 127.7	\$ 121.8
Actuarial Liabilities	<u>(128.4)</u>	<u>(123.1)</u>
Overfunding/(Underfunding)	\$ (0.7)	\$ (1.3)
Funded Percent	99.5%	98.9%
20-Year Payment	\$60,000	\$115,000

Town's Normal Cost



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Normal Cost: Portion of total future liability allocated to the current year.

Contribution if assets = actuarial accrued liability

July 1, 2020 (Current)	Police	Plan 3	Fire	Total
Town's Normal Cost	\$ 493,000	\$ 1,053,000	\$ 240,000	\$ 1,786,000
Covered Payroll	3,371,000	8,847,000	2,408,000	14,626,000
Normal Cost as % of Covered Payroll	14.6%	11.9%	10.0%	12.2%

Breakdown of Town's Contribution*



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Fiscal Year 2021-2022	Police	Plan 3	Fire	Total
Normal Cost	\$ 493,000	\$1,053,000	\$ 240,000	\$1,786,000
20-year payment on Unfunded	546,000	(413,000)	(73,000)	60,000
Adjustment for FYE 2021/2022	<u>31,000</u>	<u>19,000</u>	<u>5,000</u>	<u>55,000</u>
2021-2022 Contribution	\$1,070,000	\$ 659,000	\$ 172,000	\$1,901,000

Fiscal Year 2020-2021	Police	Plan 3	Fire	Total
Normal Cost	\$ 485,000	\$ 1,078,000	\$ 222,000	\$1,785,000
20-year payment on Unfunded	521,000	(368,000)	(38,000)	115,000
Adjustment for FYE 2020/2021	<u>30,000</u>	<u>21,000</u>	<u>6,000</u>	<u>57,000</u>
2020-2021 Contribution	\$1,036,000	\$ 731,000	\$ 190,000	\$1,957,000

* Prior to underfunding load

Participant Counts

	Plan 1	Plan 3				Plan 4	
	Police	Board of Education	Library	Town	Plan 3 Total	Fire	Grand Total
Active Participants							
7/1/2020	32	108	12	29	149	26	207
7/1/2019	35	119	13	31	163	26	224
Terminated Vested Participants							
7/1/2020	2	48	2	3	53	1	56
7/1/2019	1	44	1	3	48	2	51
Retired Participants							
7/1/2020	45	148	14	38	200	20	265
7/1/2019	42	143	15	36	194	20	256
Total Participants							
7/1/2020	79	304	28	70	402	47	528
7/1/2019	78	306	29	70	405	48	531

All but Fire closed to participation for new employees.