

Pension Report



**WARRANT COMMITTEE REPORT TO
BELMONT TOWN MEETING ON PENSIONS
OCTOBER 28, 2015**

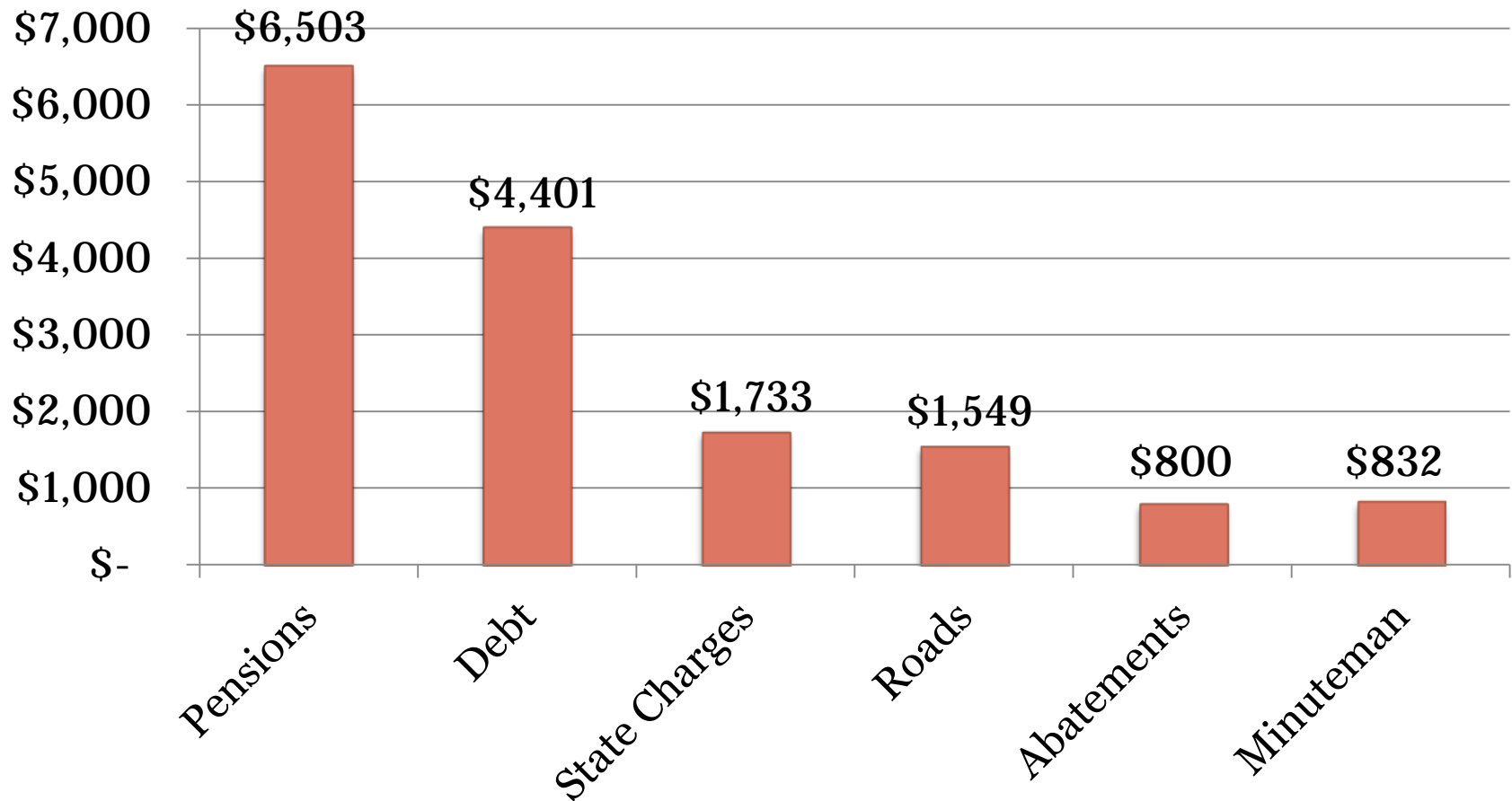
FY 2016 Budget Overview: \$100,293,295



	FY2015 (Adj)	FY2016	% change
Total Budget	\$ 95,256	\$ 100,293	5.3%
minus fixed costs	\$ 15,686	\$ 15,817	0.8%
equals operating budget	\$ 79,570	\$ 84,476	6.2%
School	\$ 46,156	\$ 49,660	7.6%
Town	\$ 32,019	\$ 32,998	3.1%
Capital Budget (Discretionary)	\$ 1,395	\$ 1,818	30.3%

Note: \$ in 000's

\$15.8 MM in Fixed Costs: Components



Note: Data in \$000's; Total Pension spending \$7.9MM when including all sources

Long-Term Trends



- “Town of Homes” = 2.5 – 3.5% revenue growth
- Employee compensation is 69.5% of budget
 - Compensation growth > revenue growth = #1 challenge
- Enrollment growth and mandated school costs
- Capital, maintenance, and infrastructure
- Pension and healthcare obligations, including OPEB

Background on Pensions



- Pensions are defined benefit plans providing retirement income for Town employees (not including teachers)
 - Teachers are covered under separate state plan
- Belmont Retirement Board holds decision rights for funding schedule
 - Biennial actuarial valuations; must fund by 2040
 - Next review in late Summer 2016 based on January 2016 actuarial analysis
- \$74MM Unfunded Liability; 51% Funded; 2027 Target Date; 7% Growth; 17% Service Cost, 83% Amortization Payments
- Warrant Article 12B from June Town Meeting requested WC analysis

Current Pension Funding Schedule

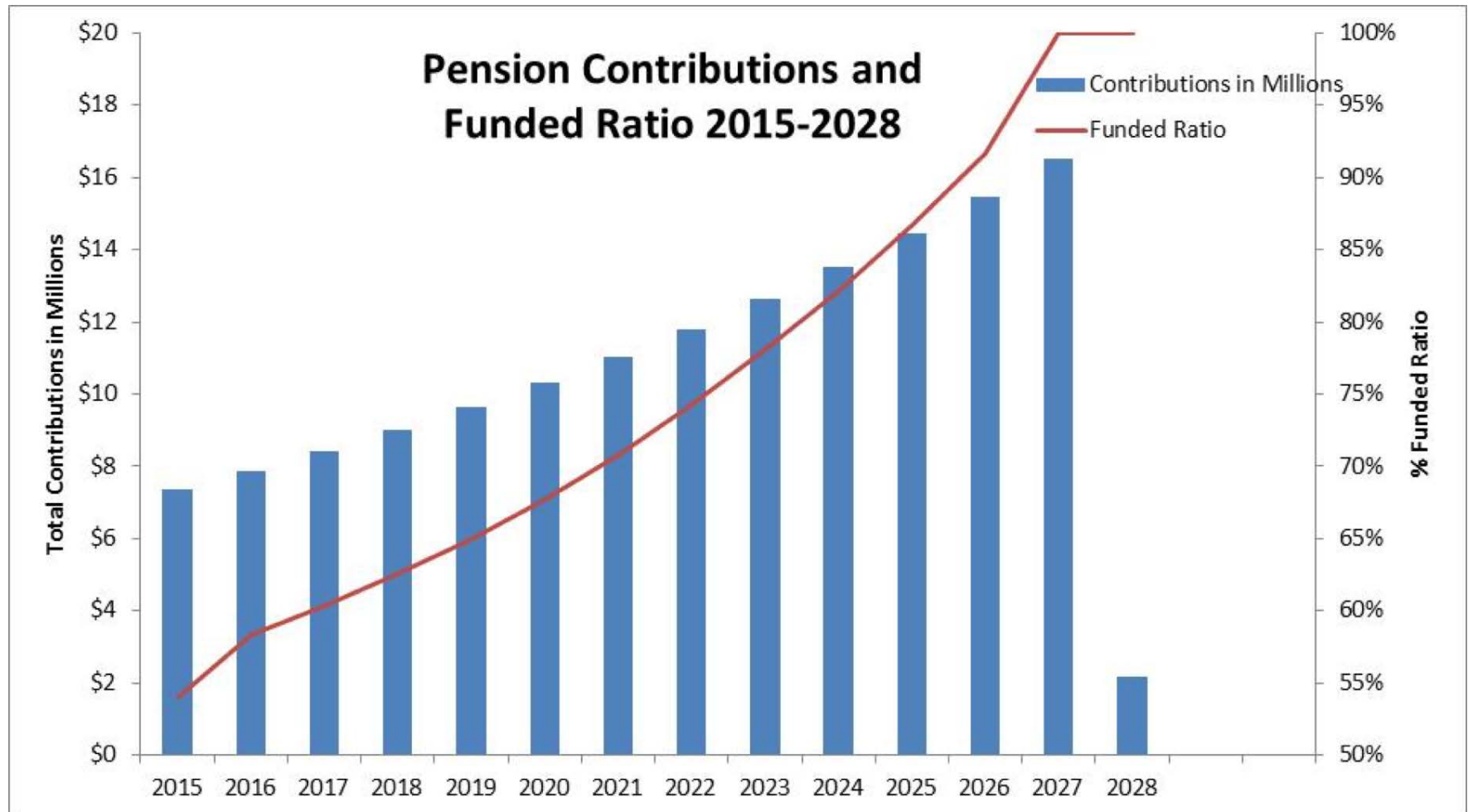


Fiscal Year	Service Cost	Amortization Payments*	Total Pension Contribution	Increase
2015	1,297,269	6,067,254	7,364,523	
2016	1,349,160	6,528,798	7,877,958	7.0%
2017	1,403,126	7,024,063	8,427,189	7.0%
2018	1,459,251	7,555,460	9,014,711	7.0%
2019	1,517,621	8,125,572	9,643,193	7.0%
2020	1,578,326	8,737,165	10,315,491	7.0%
2021	1,641,459	9,393,201	11,034,660	7.0%
2022	1,707,118	10,096,850	11,803,968	7.0%
2023	1,775,402	10,851,508	12,626,910	7.0%
2024	1,846,418	11,660,807	13,507,225	7.0%
2025	1,920,275	12,528,639	14,448,914	7.0%
2026	1,997,086	13,459,168	15,456,254	7.0%
2027	2,076,970	14,456,854	16,533,824	7.0%

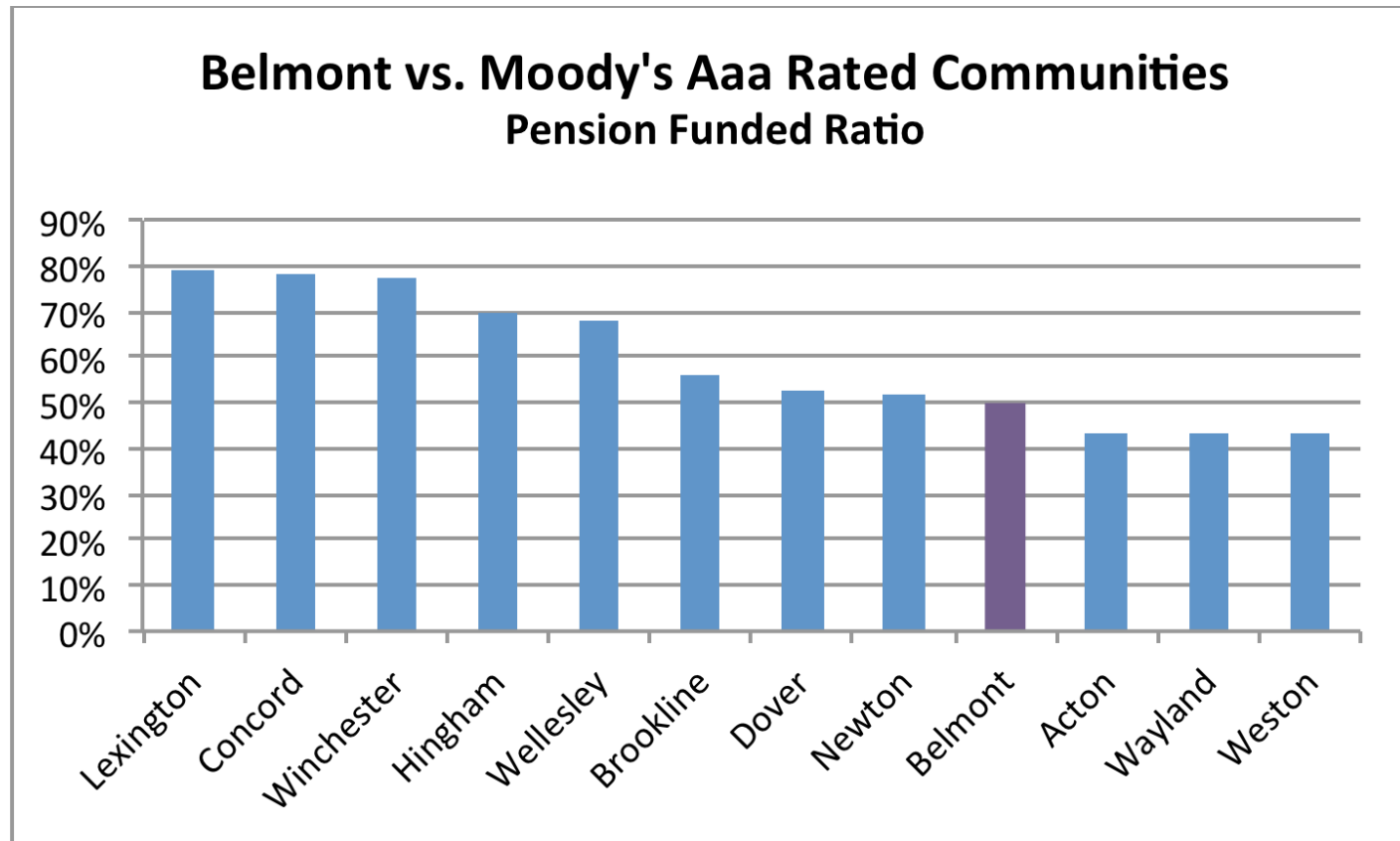
Source: Segal Consulting, Actuarial Valuation and Review as of January 1, 2014, page 14.

*Amortization payments include amounts to fund past early retirement incentive programs

Current Pension Contributions & Funded Ratios

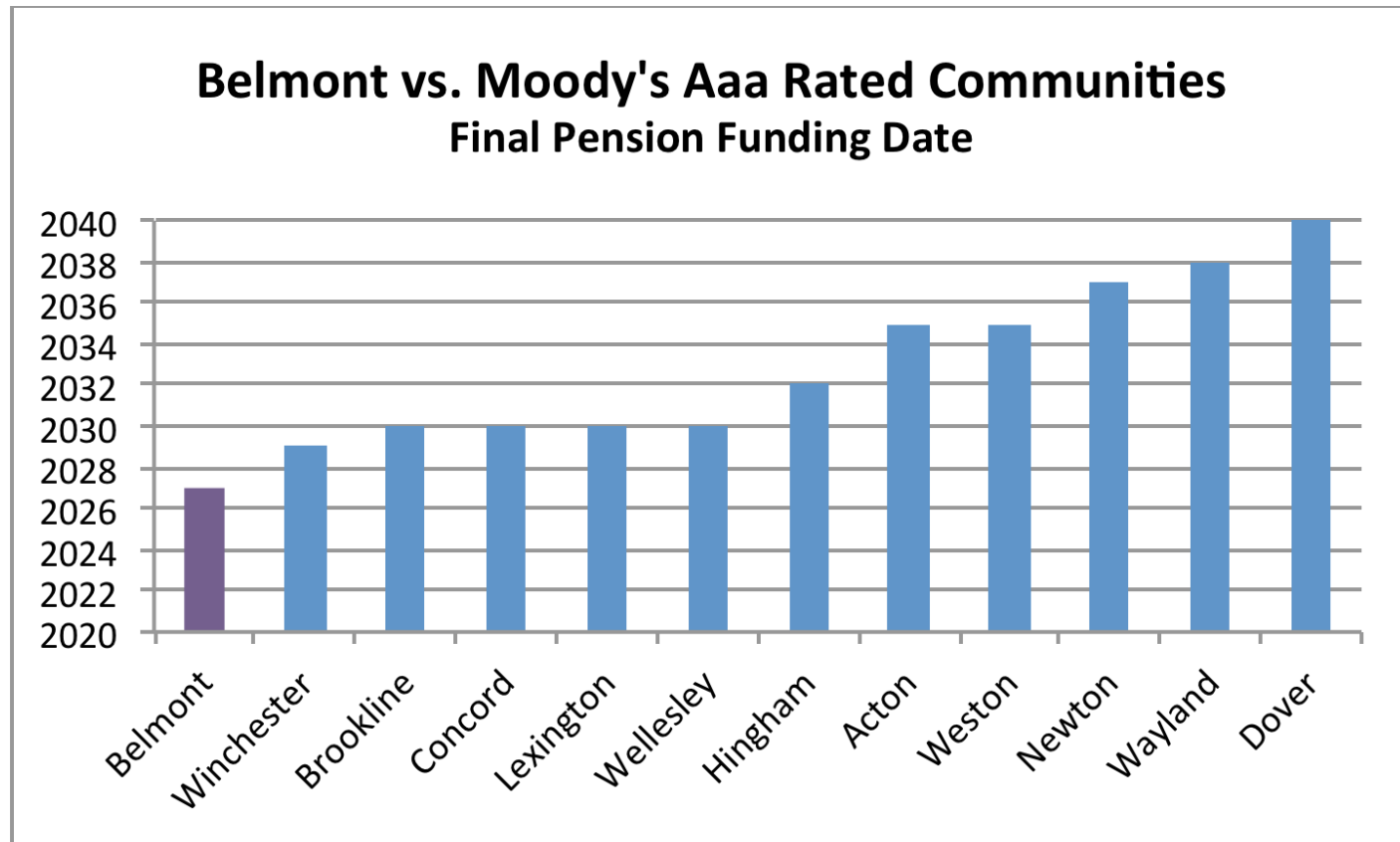


Belmont vs. Moody's Aaa: Funded Ratio



Source: FirstSouthwest. October 20, 2014 BOS Precinct Meeting. Data modified for presentation

Belmont vs. Moody's Aaa: Funding Date



Source: FirstSouthwest. October 20, 2014 BOS Precinct Meeting. Data modified for presentation

Excess Amortization



Example of Excess Amortization Calculation		
A. Pension Contribution FY2015		7,364,523
B. Pension Contribution FY2016		7,877,958
C. Increase in \$ (B-A)		513,435
D. Increase in % (C/A)		7.0%
E. Example of long-term budget growth rate		3.5%
F. Excess Amortization Growth % (D-E)		3.5%
G. Excess Amortization Growth \$ (F x A)		255,677

Funding Schedule Impact on Town Budget



Fiscal Year	(1) Total Pension Contribution	% Increase	(2) Increase at 3.5%	(1-2) Excess Growth	Estimated % of Budget
2015	7,364,523				
2016	7,877,958	7.0%	7,622,281	255,677	0.3%
2017	8,427,189	7.0%	7,889,061	538,128	0.5%
2018	9,014,711	7.0%	8,165,178	849,533	0.8%
2019	9,643,193	7.0%	8,450,960	1,192,233	1.1%
2020	10,315,491	7.0%	8,746,743	1,568,748	1.4%
2021	11,034,660	7.0%	9,052,879	1,981,781	1.7%
2022	11,803,968	7.0%	9,369,730	2,434,238	2.0%
2023	12,626,910	7.0%	9,697,670	2,929,240	2.3%
2024	13,507,225	7.0%	10,037,089	3,470,136	2.6%
2025	14,448,914	7.0%	10,388,387	4,060,527	3.0%
2026	15,456,254	7.0%	10,751,981	4,704,273	3.3%
2027	16,533,824	7.0%	11,128,300	<u>5,405,524</u>	3.7%
			Cumulative	\$29,390,038	

Modifying Funding Schedule: Sensitivity Analysis



Assumed Increase in Annual Pension Contributions	Projected Full Funding Year By Rate of Return on Investments				
	Rate of Return	Change in Years		Rate of Return	Change in Years
	7.75%*	From Current		6.00%**	From Current
7.0%	2027	0		2030	0
6.0%	2027	0		2031	1
5.0%	2028	1		2033	3
4.0%	2029	2		2037	7
3.0%	2030	3		>2040	TBD

*Source: Segal. July 29, 2015 presentation to the Belmont Retirement Board

**Source: Warrant Committee analysis

Pension Obligation Bonds (POBs)



- Belmont borrows \$, invests in pension investment fund
- If investment returns exceed debt cost, can reduce long-term costs
 - Plan assumes 7.75% returns; borrowing cost expected to be 4.5% or less
 - 10-year investment returns 7.3% (period ending 8/31/15)
 - >25% chance under 4.75% (5 years); >10% chance under 4.75% (20 years)
- Factors: Estimated Savings; Risk Tolerance; Use of Debt on Non-Capital; Total Capital Needs; Impact on Bond Rating
- See additional reference materials

Current Investment Portfolio Target Allocations

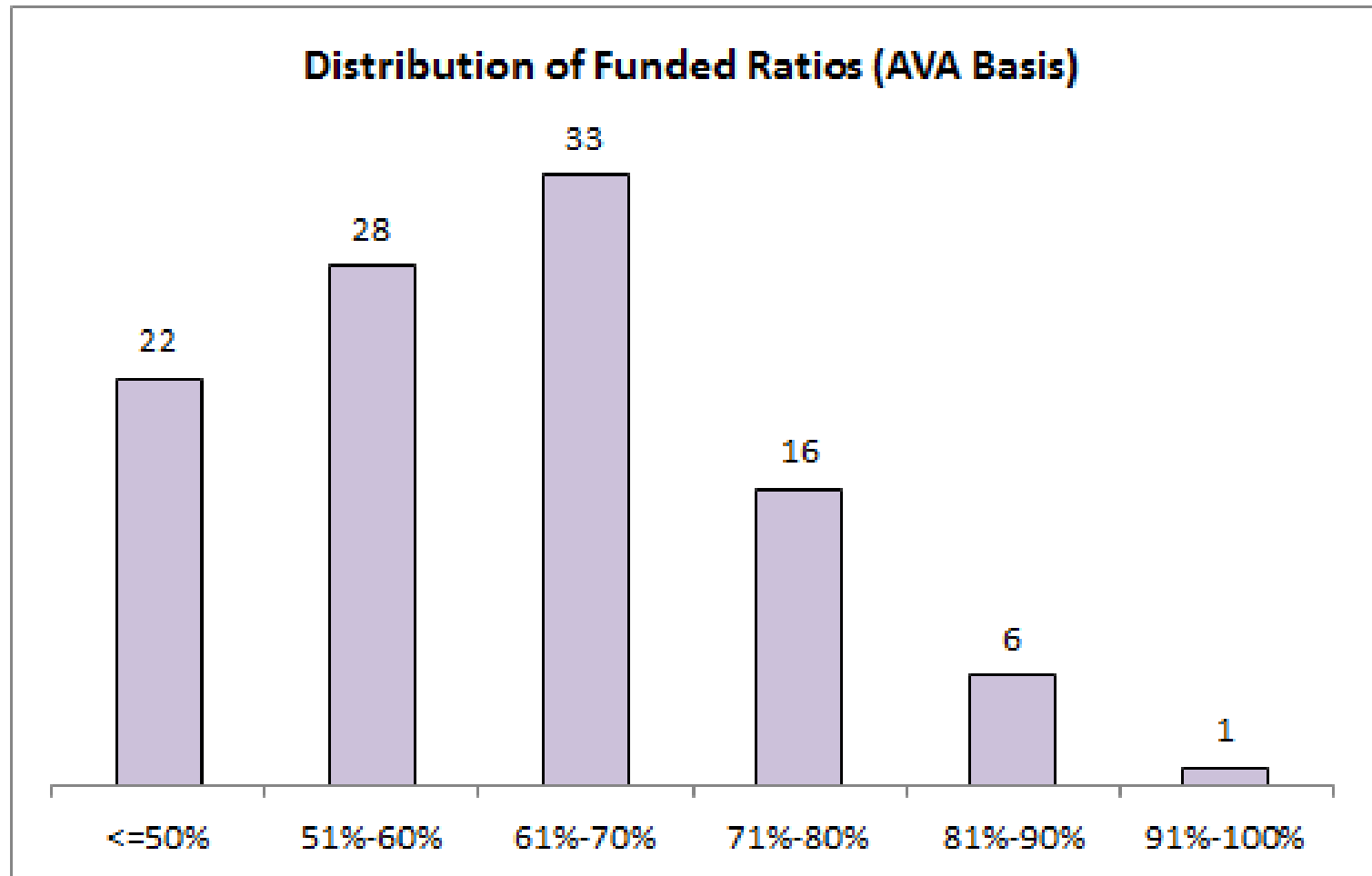


Asset Class	Target Allocation
Large Cap Equities	23%
Small/Mid Cap Equities	5%
Int'l Equities	12%
Total Equity	40%
Core Bonds	10%
Global Multi-Sector Fixed Income	11%
Total Fixed Income	21%
Private Equity	7%
Real Estate	12%
Hedge Funds	10%
Total Alternatives	29%
Real Assets	10%
Total Other	10%

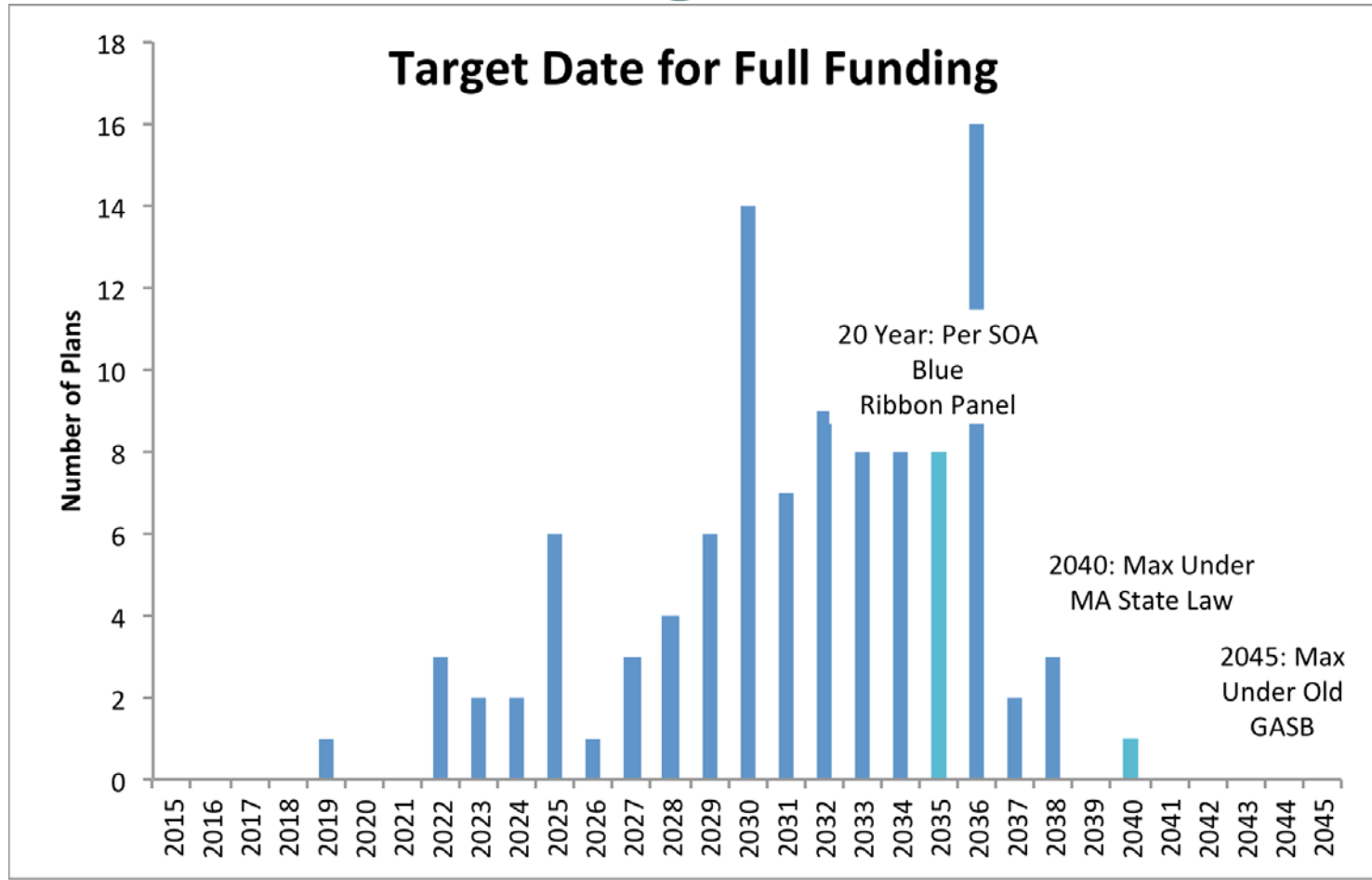
Appendix



MA Distribution of Funded Ratios




MA Distribution of Full-Funding Target Dates



Note: SOA refers to Society of Actuaries.

Pensions and OPEB (Retirement Health)



- **Pensions**
 - \$7.9 MM total contribution in FY 2016; 7% increase over FY '15
 - Projected to fully fund by 2027, prior to 2040 state requirement
 - Biennial valuation; Warrant Committee will evaluate options
- **Other Post Employment Benefits (OPEB)**
 - GASB 45: pay-as-you-go \$1.2 MM + \$367K stabilization fund
 - \$171 MM unfunded liability (was \$195 MM); “all in same boat”
 - Managing via health plan design, Medicare for eligible, reduced town contribution rate; pension funding moves to OPEB in 2027