

# Town of Hamden

## PENSION OBLIGATION BOND ORDINANCE

### Town Council Information Meeting

July 24, 2013

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# Overview of Options

1

## **Do Nothing**

- No change in benefits nor immediate injection of cash

2

## **Reduce Benefits Only**

- Reduce benefits for future hires and/or current employees and/or current retirees
- No immediate injection of cash

3

## **Immediate Injection of Cash; No Change in Benefits**

- Immediate injection of cash via Pension Obligation Bond (POB) or other vehicle
- No change in benefits

4

## **Immediate Injection of Cash and Reduce Benefits**

- Immediate injection of cash via Pension Obligation Bond (POB) or other vehicle
- Reduce benefits for future hires and/or current employees and/or current retirees

**There are several options to reduce benefits.**

# Summary of Options

## Do Nothing

1

- **Continue to Underpay ARC** -> the Plan will become insolvent (i.e., run out of money) within five years; Town will begin to pay pension payments out of general cash flow in about FY '18 (~\$30 million increasing annually; peaking around \$45 million in FY '35)
- **Pay ARC** -> ~\$30 million in FY '14 increasing 2.0% annually

## Reduce Benefits Only

2

- **Continue to Underpay ARC** -> the Plan will become insolvent (i.e., run out of money) within five years; Town will begin to pay pension payments out of general cash flow in about FY '18 (~\$25 million increasing annually)
- **Pay ARC** -> ~\$17 million in FY '14 increasing 2.0% annually

## Injection of Cash Only

3

- **Continue to Underpay ARC** -> the Plan will become insolvent (i.e., run out of money) within 15 years; Town will begin to pay pension payments plus POB debt-servicing out of general cash flow in about FY '28 (~\$55 million increasing annually)
- **Pay ARC** -> ~\$22 million in FY '14 increasing 2.0% annually plus POB debt-servicing

## Injection of Cash and Reduce Benefits

4

- **Continue to Underpay ARC** -> the Plan will become insolvent (i.e., run out of money) within 15-20 years; Town will begin to pay pension payments plus POB debt-servicing out of general cash flow once insolvent
- **Pay ARC** -> ~\$25 million annually; includes POB debt-servicing

## Path Forward

- The Plan will become insolvent under all options if the ARC continues to be underpaid:
  - Reducing benefits alone won't delay insolvency but will result in lower future payments;
  - Issuing a POB alone will only delay insolvency if the ARC is underpaid.
- Funding the ARC will require increased contributions:
  - Town's contribution will average about \$35M – \$40M if the Plan is not changed; or
  - About \$25M even if the Town eliminates retirement benefits for current and future employees.
- The combination of the following can achieve long-term solvency without requiring dramatic and sustained increases in Town's contributions or extreme benefit cut backs:
  - Immediate injection of cash (i.e., POB);
  - Maintain funding discipline;
  - Increase Town contributions; and
  - Reduce benefits

