



Town of Branford

*Police Retirement Fund & Volunteer Fire Department Pension Plan
Post-retirement Medical Plan (OPEB)*

**Review of the 2023 Actuarial Valuations (Pension)
Review of the 2022 Actuarial Valuation (OPEB)**

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Agenda



- Purpose of the Valuation
- Police Pension Valuation – Overview of Results
- Police Pension – Executive Summary
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Purpose of the Valuation



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

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

- 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 (*15 years “layered” for Police pension, 10 years “layered” for Volunteer Fire pension, 24 years for OPEB*) & normal cost (assignment of benefits “earned” for the budget year).

Police Pension Valuation - Overview of Results



- Funded ratio is 70.5% at July 1, 2023, vs. 72.8% in prior valuation
- ADEC for FY 2024-25 is \$1.706M vs. \$1.435M for FY 2023-24
- Asset loss (unfavorable experience) - investment returns on a market value basis were below the 6.50% assumption (-2.7%/yr average over 2 years), while smoothed (actuarial) returns were +3.8%/yr average
- Liability loss (unfavorable experience) – driven mainly by the combined effect of actual retirement/turnover patterns, salary losses, and inactive mortality losses
- 60.8% of total plan liability is due to members in pay status (vs. 57.2% in prior valuation)

Police Pension - Assumption Review



- **Investment return** – Current assumption is 6.50%. Based on the current target asset allocation and our (USI Advisors) capital market assumptions, we believe that a long-term assumption of 6.50% is reasonable. Most of our clients have “paused” lowering this assumption for 2022 and 2023 actuarial valuations.
- *Median* for CT public sector pension plans (USI/H&H survey based on FYE 2022 CAFRs) is 6.50% (*average* is 6.46% for all plans; *6.55% for plans with \$10-49 million in assets*). NASRA issue brief (March 2024) shows average assumption of 6.91% (median 7.00%) for very large public sector pension funds.
- **Mortality projection scale** – There was *not* an annual update published in either 2022 or 2023 by the Society of Actuaries. Mortality projection scale is used to estimate how life expectancies are expected to change in the future. This is used in conjunction with the underlying mortality table, which reflects estimated life expectancies today.
- The same comments apply for the Volunteer Fire pension plan.

Police Pension – 2023 Executive Summary



	July 1, 2023	July 1, 2021
Number of members		
Active employees	47	48
Terminated vested members	4	4
Vested in employee contributions only	0	2
Employees in DROP	3	3
Retired, disabled and beneficiaries	57	52
Total	111	109
Covered employee payroll	4,667,862	4,437,542
Average plan salary	99,316	92,449
Actuarial present value of future benefits	49,600,146	45,711,251
Actuarial accrued liability	41,725,616	38,588,327
Plan assets		
Market value of assets	27,665,079	30,141,970
Actuarial value of assets	29,415,703	28,108,243
Unfunded accrued liability	12,309,913	10,480,084
Funded ratio	70.5%	72.8%
Actuarially determined employer contribution (ADEC)		
Fiscal year ending	2025	2023
ADEC	1,706,170	1,424,960
Fiscal year ending	2026	2024
ADEC	1,716,620	1,434,980

Volunteer Fire Pension Valuation - Overview of Results



- Funded ratio is 98.3% at January 1, 2023, vs. 90.5% in prior valuation
- ADEC for FY 2024-25 is \$39K vs. \$51K for FY 2023-24
- Asset loss (unfavorable experience) - investment returns on a market value basis were below the 6.50% assumption (-2.0%/yr average over 2 years), while smoothed (actuarial) returns were +5.3%/yr average which generated an asset loss
- Liability gain (favorable experience) – driven mainly by the effect of lower than expected accruals by active members.
- In addition, the Town’s actual contributions to the pension fund exceeded the ADECs during the past two years.
- 20.0% of total plan liability is due to members in pay status (vs. 17.7% in prior valuation)

Volunteer Fire Pension – 2023 Executive Summary



	January 1, 2023	January 1, 2021
Number of members		
Active employees	228	223
Terminated vested members	0	0
Retired, disabled and beneficiaries	16	14
Total	244	237
Covered employee payroll	N/A	N/A
Average plan salary	N/A	N/A
Actuarial present value of future benefits	1,868,831	1,726,665
Actuarial accrued liability	1,656,034	1,509,644
Plan assets		
Market value of assets	1,439,684	1,395,377
Actuarial value of assets	1,627,237	1,365,503
Unfunded accrued liability	28,797	144,141
Funded ratio	98.3%	90.5%
Actuarially determined employer contribution (ADEC)		
Fiscal year ending	2025	2023
ADEC	38,980	50,840
Fiscal year ending	2026	2024
ADEC	39,550	51,430

OPEB Valuation – Overview of Results



- Funded ratio is 162.4% as of July 1, 2022 vs. 123.3% in prior valuation
- ADEC for FY 2023-24 is \$8K vs. \$326K for FY 2022-23
- Asset gain (favorable experience) - investment returns on a smoothed (actuarial) basis for 2020-21 and 2021-22 of +8.0% and +5.2% (average of 6.6%/yr. compounded) respectively (vs. 6.50% assumption), while market value returns were +5.4%/yr. on average (+14.2% for 2020-21 and -7.7% for 2021-22)
- Liability gain (favorable experience) - mainly due to the combined impact of moving to the CT Partnership 2.0 plan as well as favorable demographic experience since the prior valuation

OPEB – 2022 Executive Summary



	July 1, 2022	July 1, 2020
Number of members		
Active members	579	575
Retired members and dependents	<u>88</u>	<u>86</u>
Total	667	661
Covered employee payroll	47,267,481	44,639,368
Average plan salary	81,636	77,634
Actuarial present value of future benefits	29,611,239	33,153,155
Actuarial accrued liability	23,692,215	25,885,442
Plan assets		
Market value of assets	35,675,801	31,913,829
Actuarial value of assets	38,465,160	31,913,829
Unfunded accrued liability	(14,772,945)	(6,028,387)
Funded ratio	162.4%	123.3%
Actuarially determined employer contribution (ADEC)		
Fiscal year ending	2024	2022
ADEC	7,677	298,455
Fiscal year ending	2025	2023
ADEC	9,736	326,473

Looking Ahead



- Continue to monitor the current investment return assumption of 6.50%, based on capital market assumptions and long-term inflation expectations