

Board of Finance Meeting

Preliminary Employee Benefit Expense Budget Discussion

Fiscal Year 2022

December 1, 2020

Agenda

Preliminary Budget Discussion on Benefit Expense

- I. Health Benefit Budget - \$1,157,646
- II. Retirement Budget
 - I. Actions taken to manage Actuarial Defined Contribution (“ADC”)
 - II. Assumption Changes & Funded Ratio
 - III. Assumed Rate vs. Market Return
 - IV. ADC vs. Town Contribution
 - V. Normal Cost vs. Past Cost
 - VI. Retirement Program Trends
 - VII. Other Post Employment Benefit (“OPEB”) Strategy
 - VIII. Retirement Conclusion
 - I. Defined Contribution Budget - \$83,425
 - II. Defined Benefit Budget - \$477,407
- III. Other Benefits:
 - I. Dental - \$52.3 thousand
 - II. Life Insurance - \$43.6 thousand
 - III. Worker’s Compensation - \$240 thousand
- IV. Benefit Budget Conclusion

I. Health Benefit Budget

- During current Fiscal year 2021 (“FY21”) the Town transitioned from ConnectiCare to Anthem. As part of that negotiation:
 - A zero percent increase was negotiated for FY21
 - An 8% cap (maximum increase) was negotiated for FY22
- Collective Bargaining negotiations
 - Supervisors: FY22 the Town’s HSA contribution will drop from 40% to 37.5%
 - Dispatcher and Support contracts will expire on June 30, 2021, it was assumed that health plan design would remain the same as the current FY21.
- Budget Assumptions:
 - FY22 assumes that premiums will increase 8% over FY21 actual
 - Health budget increases are between 7% and 8%
 - Health Benefit Budget:
 - FY21 is \$1,262,430 (assumed a 10% increase vs. 0% negotiated).
 - FY22 projects expense to be \$1,157,646
 - year over year decrease of \$105 thousand reflects changes in plan choices by employees and a slight reduction in year over year budget increase assumptions.

Health Benefit Budget

Fiscal Year 2021 - ACTUAL				
	% Employer paid	% Employer HSA	Single deductible	Family Deductible
Supervisor	86%	40%	2,250	4,500
Support	85%	37.5%	2,500	5,000
COPS	86%	45%	2,250	4,500
Dispatchers	85%	45%	2,250	4,500
non-union	87%	40%	2,000	4,000

Fiscal Year 2021 - PROJECTED				
	% Employer paid	% Employer HSA	Single deductible	Family Deductible
Supervisor	86%	40%	2,250	4,500
Support	85%	37.5%	2,500	5,000
COPS	86%	45%	2,250	4,500
Dispatchers	85%	45%	2,250	4,500
non-union	86%	40%	2,250	4,500

	Union	\$ Employer premium	\$ Employer HSA	Total Cost
	Supervisor	86%	40%	
Single		8,654.10	900	9,554
Two person		18,173.22	1,800	19,973
Family		24,663.86	1,800	26,464
	Support	85%	37.5%	
Single		8,368.88	938	9,306
Two person		17,574.44	1,875	19,449
Family		23,850.84	1,875	25,726
	COPS	86%	45%	
Single		9,151.22	1,012.50	10,164
Two person		19,217.64	2,025.00	21,243
Family		26,078.00	2,025.00	28,103
	Dispatchers	85.0%	45%	
Single		8,510.58	1,013	9,523
Two person		17,872.14	2,025	19,897
Family		24,254.88	2,025	26,280
	Non-union	87%	40%	
Single		9,171.50	800	9,972
Two person		19,260.28	1,600	20,860
Family		26,139.10	1,600	27,739

	Union	\$ Employer premium	\$ Employer HSA	Total Cost	y/o/y change
	Supervisor	86%	37.5%		
		9,360.00	844	10,204	6.80%
		19,630.00	1,688	21,318	6.73%
		26,650.00	1,688	28,338	7.08%
	Support	85%	37.5%		
		9,048.00	938	9,986	7.30%
		18,954.00	1,875	20,829	7.09%
		25,740.00	1,875	27,615	7.34%
	COPS	86%	45%		
		9,880.00	1,012.50	10,893	7.17%
		20,748.00	2,025.00	22,773	7.20%
		28,158.00	2,025.00	30,183	7.40%
	Dispatchers	85%	45%		
		9,178.00	1,012.50	10,191	7.01%
		19,292.00	2,025	21,317	7.14%
		26,182.00	2,025	28,207	7.33%
	Non-union	86%	40%		
		9,178.00	900	10,078	1.07%
		19,292.00	1,800	21,092	1.11%
		26,182.00	1,800	27,982	0.88%

II. Retirement Budget

- The Town presently offers two retirement programs:
 - Defined Benefit (“DB”)
 - Defined Contribution (“DC”)
- The DB program is funded via: 1) employee contribution %, 2) return on plan assets and 3) actuarial determined employer contribution (“ADC”)
 - Over the course of several years, the Town’s Pension and Benefit Board (“PBB”) has recommended several actions to manage ADC expense
 - The ADC for FY21 was \$786 thousand which was funded through a \$200k transfer from surplus and a Town and Board of Education (“BoE”) budget of \$442k and \$123k respectively.
 - The ADC for FY22 is \$768k. The budget is approximately \$627k which will be budgeted assuming 9% of active participants salary. The Town will contribution \$477k and the BoE will contribute approximately \$150k.
- The DC program caps the Town’s contribution at 8% of salary.
 - This is inclusive of a 5% mandatory match and a 3% voluntary match.
 - Budget Assumptions:
 - The budget for FY21 is \$88,579 (assumed all employees were at an 8% maximum) The budget for FY22 is \$83,425 (assumes employees actual contribution choice)

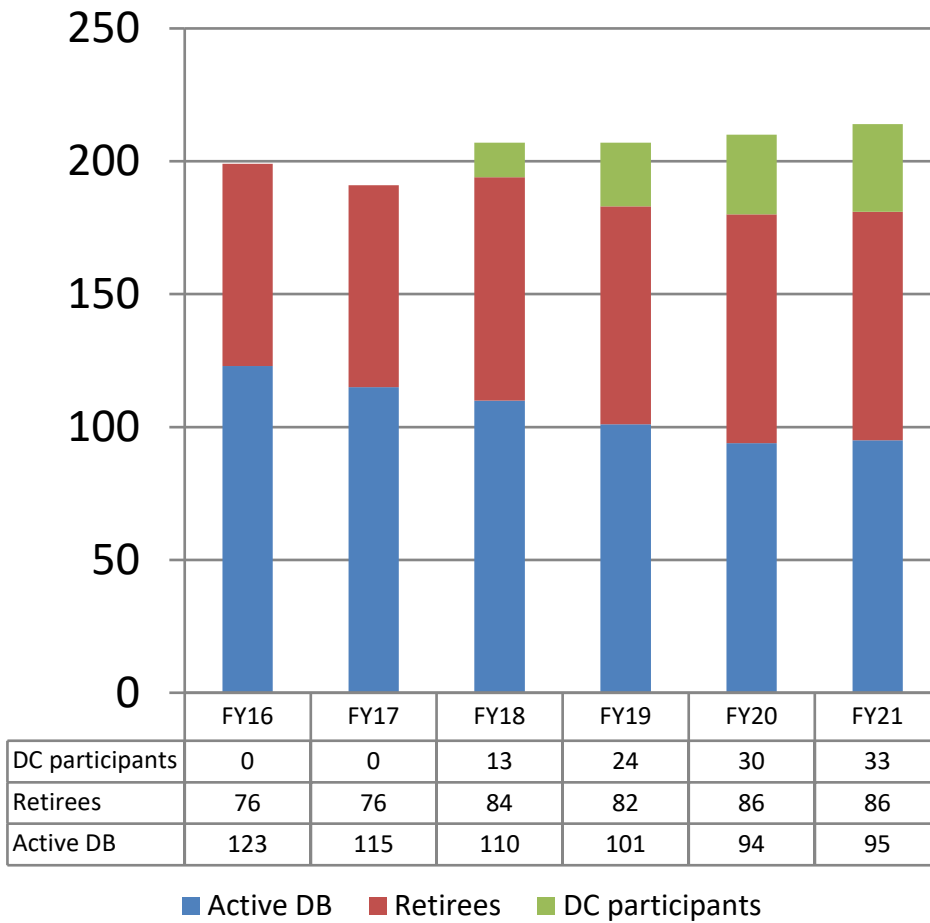
Actions Taken to Manage Pension Plan ADC

- Fiscal Year 16
 - Conducted pension study
- Fiscal Year 17
 - Researched alternative retirement programs and ways to increase funded ratio
- Fiscal Year 18
 - Began offering Defined Contribution (“DC”) plan (July 1, 2017)
 - All new Collective Bargaining Unions employees (except PD) enter the DC plan
 - Added \$1 million to the Town plan (additional contribution)
- Fiscal Year 19
 - Conducted Asset/Liability Study
 - Revised Investment Policy Statement
- Fiscal Year 20/21
 - Negotiated future employee increase in employee contribution in certain unions
 - Negotiated no OPEB benefits after termination in certain unions
 - Continue negotiations in remaining union plans

Assumption Changes & Funded Ratio

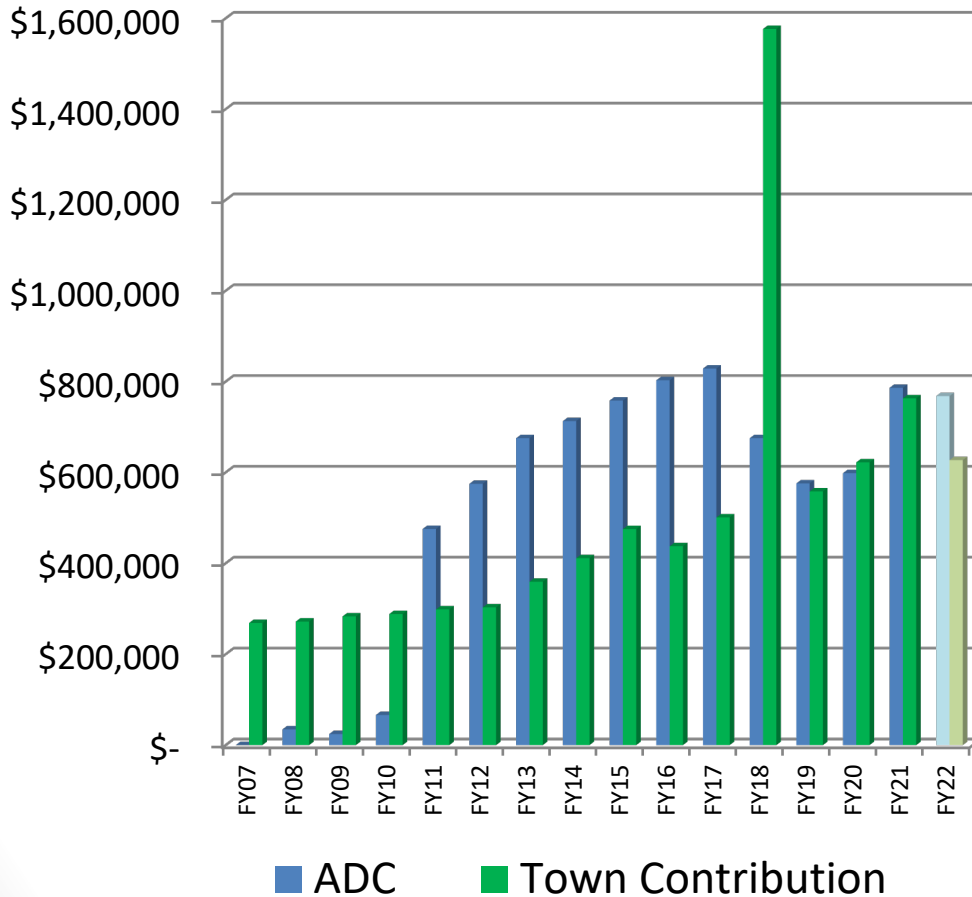
- Assumption Changes
 - Lowered the discount rate to 7.75% from 7.125%
 - Annually reviewed and updated demographic assumptions
 - Changed the amortization period from level dollar 20 year open to level percent 20 year closed. Amortization period will decline each year until it reaches 10 years and remain at 10 years thereafter.
- Current Funded Ratio – 84.2%
- Most assumption changes are conservative and increase the annual ADC. They also lead to a more accurate projection of the ADC.

Retirement Program Trends



- Retiree base growing slightly (+13.2%)
- Active DB participants decreasing (-22.8%)
- DC participation is increasing (34.7% of Active DB participants)

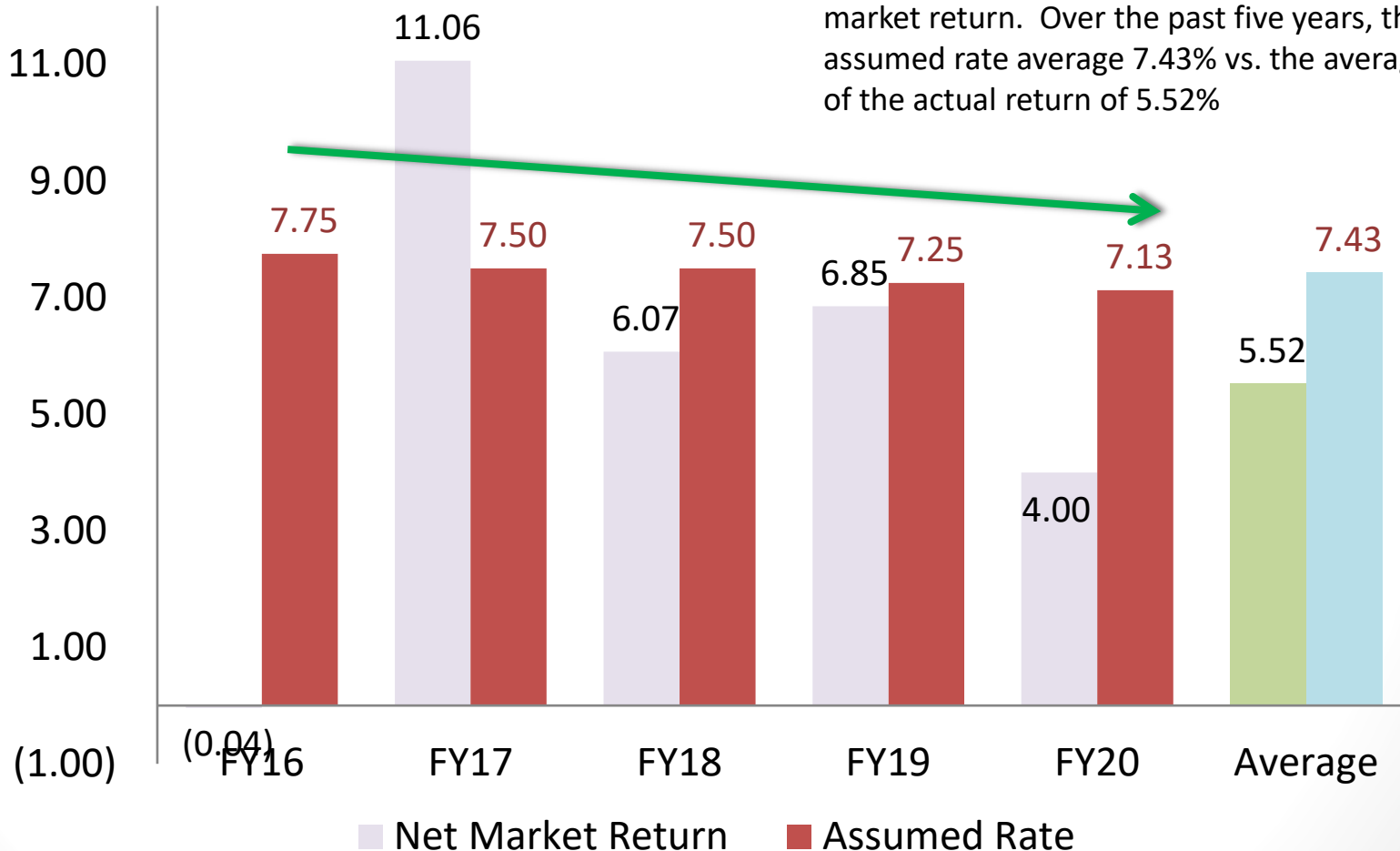
Actuarial Defined Contribution (“ADC”) vs. Town Contribution – Funding Strategy



- The Actuarial calculated ADC rose sharply after market declines in 2008. The ADC rose from \$66k to \$475k in one budget year (FY11).
- As a result, the Town adopted a funding strategy in FY2012 to annually increase the pension contribution by .25% as a percentage of employee salary. Currently at 9%
- During FY18 an additional \$1 million was placed in the plan
- For the past 4 fiscal years, the Town has contributed an amount in line with the ADC.

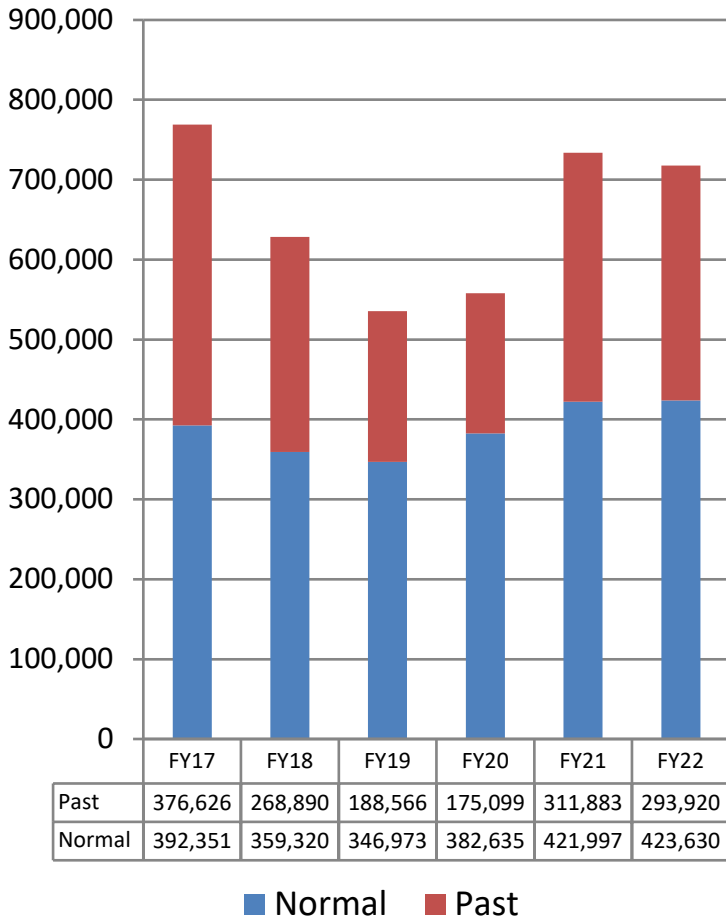
Assumed Rate vs. Market Return

The PBB has methodically reduced the assumed rate annually (7.75% to 7.125%) to have a more accurate reflection of actual market return. Over the past five years, the assumed rate average 7.43% vs. the average of the actual return of 5.52%



A large part of the Town's annual expense is due to past service costs

Normal Cost vs. Past Cost



- Normal cost (current year's expense for benefit) remains fairly steady and increases with salaries
- Past cost (cumulative of all past year's expense for benefit) is increasing mainly due to asset performance
 - Unfunded liability amortized over 20 years
- The two together plus interest on past cost equals the ADC

Retirement Conclusions

- The Town's strategy is to annually increase its contributions as a percent of salary which is expected to close the gap between ADC and budgeted amount over time.
- The Town has reduced its retirement expenses on most future employees with a capped expense of 8% in the DC plan
 - The budget for the Town's DC plan is \$83,425
 - The budget for the Town's DB plan is \$477,407
 - Total Town retirement expense is \$560,832

Other Benefits

- Dental
 - Dental Expense is the same premium for all employees as the Town is self insured through Anthem. The difference in premiums per employee is based on the co-pay percent.
 - Actual dental expense for FY20 was \$54,672
 - Dental expense budget for FY21 is \$64,242
 - Dental expense budget for FY22 is \$52,520
- Life Insurance - \$43.6 thousand budget for FY22
 - During benefit negotiations in FY21, the Town changed life insurance providers from The Standard to Anthem. As part of that negotiation insurance benefits will remain flat for 3 years. The expense may over this period as salaries go up or as employees reach a different age bracket.
 - FY21 budget is \$39.4 thousand.
- Worker's compensation ("WC") - \$240 thousand
 - The town receives its worker's compensation insurance through CIRMA. Traditionally WC was a combination of a per employee fee based on type of work and an additional fee associated with a WC audit. During FY21, CIRMA will not charge an excess fee associated with an audit. The WC fees will be evaluated on a yearly basis.

Benefit Budget Conclusion

- Benefits have been carefully managed over time.
- Year over year decrease for employee benefits as a whole

Benefit	FY20 (B)	FY20 (A)	FY21	FY22	Y/O/Y \$ change	Y/O/Y % change
Health	1,313,265	1,139,716	1,262,430	1,157,646	(104,784)	-8.30%
Dental	59,384	54,672	64,242	52,250	(11,992)	-18.67%
WC	258,127	232,013	246,051	240,000	(6,051)	-2.46%
DB	456,084	442,080	444,000	477,407	33,407	7.52%
DC	63,545	71,819	88,579	83,425	(5,154)	-5.82%
life	37,005	39,095	39,398	43,559	4,161	10.56%
Total	2,187,410	1,979,395	2,144,700	2,054,287	(90,413)	-4.22%