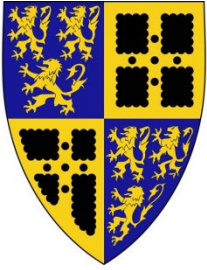


TOWN OF OLD SAYBROOK  
SELECTMEN'S OFFICE



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Telephone (860) 395-3123 • Fax (860) 395-3125

To: Board of Finance Members  
From: Carl P. Fortuna, Jr., First Selectman  
Re: Creation of a Pension Reserve Account  
Date: May 26, 2022

At a Pension and Employee Benefit Board (“PBB”) meeting held on May 26, 2022, the PBB voted to recommend that the Board of Finance approve the concept of a new fund called “Pension Stabilization Fund”.

**Background**

As part of the Fiscal Year 2023 budget, the Board of Finance (“BOF”) agreed to fully fund the Town’s defined benefit plan and budget the Actuarial Determined Calculation (“ADC”). Therefore, as a next step in managing this long-term liability, it is recommended that the Town set up a “Pension Stabilization Fund”. Stabilization funds are used to set aside surplus revenue to mitigate yearly budget spikes. The Town’s ADC will fluctuate due to market moves, modification of actuarial assumptions, and changes in employee demographics. The Pension Stabilization Fund will be used to manage budget spikes associated with the yearly ADC fluctuations.

The Town’s defined benefit pension plan is presently 85% funded and closed to all new employees except for police officers who remain eligible to participate in the defined benefit plan. Since 2017, when eligible new employees participated in the defined contribution plan, the participation of active employees have fallen from 108 to 81. As active participation decreases, employee contributions also fall putting more burden on the Town contribution to make up the difference. This may increase the ADC.

For fiscal year 2023, the ADC is \$788,953. That is comprised of “normal cost” \$400,624 which is the amount of pension accrual based on the service of active participants, and “past service cost” of \$388,329 which is the yearly amortization of expense associated with retired employees. If the plan were 100% funded, the town’s ADC would equal the normal cost.

It is likely that over the next several years as active employee participation decreases, the markets have down years, and the town continues to amortize its past service costs that the ADC may fluctuate. In order to dampen the impact on the budget, it is recommended to set aside surplus funds to keep this expense as stable as possible.

**Motions Requested**

To approve the creation of a Pension Stabilization Fund.