



Newton City Council

Committee of the Whole Report

With the Finance Committee Presiding

Thursday, April 6, 2023

Present: Councilors Baker, Bowman, Crossley, Downs, Danberg, Gentile, Greenberg, Grossman, Humphrey, Kalis, Kelley, Krintzman, Laredo, Leary, Lipof, Lucas, Malakie, Markiewicz, Noel, Norton, Oliver, Ryan, Wright & Albright

School Committee Member: Chris Brezski

Clerk's Note: The full Committee meeting can be viewed on the following link:

<https://newtv.org/recent-video/63-newton-city-council-meetings/7991-newton-city-council-committee-of-the-whole-april-6-2023>

Referred to a Committee of the Whole

#129-23

Discussion on the percentage growth rate to fully fund the Pension Trust and impact on the City Budget

COUNCILORS ALBRIGHT, LIPOF, GROSSMAN, AND MARKIEWICZ requesting a meeting with the City Council's Committee of the Whole to discuss our study (with School Committee Member Chris Brezski) of the Newton Retirement Board's plan that increases funding to the pension trust annually by 9.6%, its request for Cost of Living (COLA) increase, and its impact on our city and school services annually until full funding is achieved.

Action: Committee of the Whole Held 24-0

Note: The Chair first introduced the item and asked for a motion to invite School Committee member Chris Brezski into the discussion, which passed unanimously.

Council President Albright explained that this discussion began during the budget process last year. The growing annual pension trust allocation has been a concern for a number of years and it is required by the State that the pension trust is fully funded by 2040. But the City's current plan has the pension fully funded in 2030. Members of the Council met with the Mayor, where she discussed her proposal which she brought before the Retirement Board. President Albright noted that she and other members of the Council also wanted to

present their plan for fully funding the pension to the Retirement Board, which represents the possibility of a larger reduction in the annual contribution and a greater extension of time in the pension funding schedule. The Mayor provided the attached letter after her presentation to the Retirement Board. Her proposal included a change in COLA for retirees. Newton offers COLA on the first \$12,000 of one's pension while State law allows retirement boards to pay COLA up to the first \$18,000. Newton is one of only six communities still at the \$12,000 level. It was also noted that any change to the COLA base needs to be approved by the City Council. This has been docketed by the Newton Retirement Board and was denied by the Council in past terms.

At the March 28th Retirement Board meeting, the Mayor presented her request to the Board to reduce the pension contribution in order to bond the Horace Mann School project and suggested an increase to the COLA base of \$1,000 per year for the next 3 years, getting up eventually to a \$15,000 COLA base. There are members of the Council that would agree to an increase of the COLA base if there is a reduction in the annual contribution to the pension trust to help provide city services to current and future residents of Newton.

School Committee member, Chris Brezski presented the attached presentation regarding the work he has done with a number of other Councilors. He first presented the City's current plan on how to fund the pension trust. A chart was provided with other options for funding the pension trust.

Mr. Brezski explained that the City is only in a position to consider these alternatives because of the fiscal responsibility exhibited over the last decade.

Councilors asked the following questions:

Councilors asked clarifying questions regarding how an increase to the COLA base would affect the pension trust.

It was asked if raising the COLA base will affect the end date of fully funding the trust.

Mr. Brezski explained that it would be an increase in the liability and will affect the benefit payments for each year. These dollars would have to be incorporated into the new funding schedule.

Councilors made the following comments:

It was noted that an increase to the COLA base is important to not only the current retirees but also current and prospective employees.

A Councilor explained that this will not have a large impact on the individual retirees and the Council made the decision not to increase the COLA base in the past because it would only be an increase of \$30 for a retiree over a year, or \$2.50 per month. This would have an impact on funding the pension. It was also noted that it is important to have the updated numbers from the City's actuary.

Councilors raised concerns about not being able to fund current school projects because of the existing funding schedule for the pension trust.

It was noted that there will be another Committee of the Whole to discuss several items the Mayor docketed to request allocations of free cash. These items affect the Mayor's allocation of funds to the Newton Public Schools. The Mayor has requested that these items be discussed after her budget address.

Councilor Markiewicz motioned to hold which passed unanimously.

**Respectfully submitted,
Rebecca Walker Grossman Chair, Finance Committee**

City of Newton Pension Funding Discussion

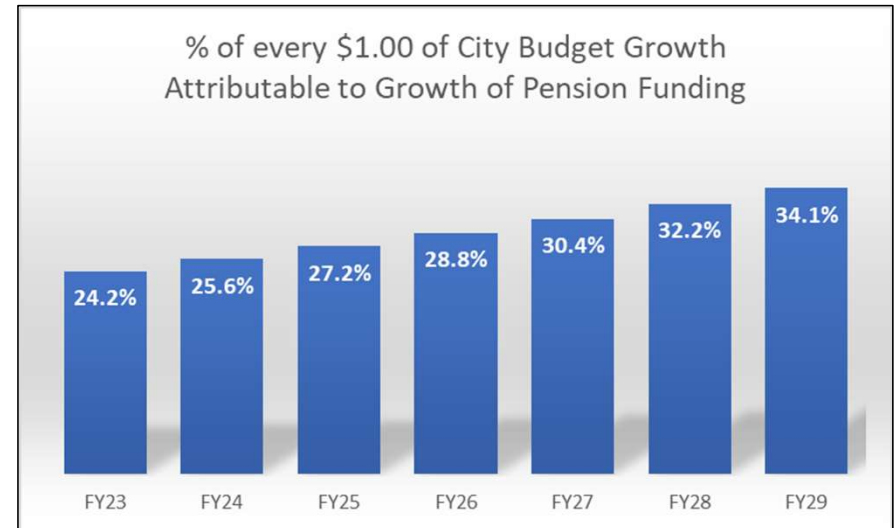


November 2022

City of Newton Pension Funding Discussion

Issue:

- Assuming the City budget grows at 3.5% per year, **pension funding will increase from 8.8% of the City budget in FY22 to 13.2% of the City budget in FY29**
- This represents a **4.4% crowding-out of the City budget**, further straining already strained services
- **~28 cents of every dollar of growth** in the City budget through FY29 will go to increased pension funding
- Increasing pension funding at 3.5% to match the growth of the City budget will **free-up 1.5x the amount of cash for City services than the proposed operating override will create** in new revenue through FY29



Addressing the Issue:

- This is intended to be a discussion, not a prescription
- This is a simple analysis of the City's current pension funding growth of 9.6% per year until fully funded versus alternatives at a lower rate of growth; The City should seek to maximize the utility of dollars invested in the pension trust versus investing in current city operations and other initiatives
- There is no debate that these obligations are the City's moral and legal obligation to fulfill; this is about fulfilling that obligation and maximizing utility of limited resources

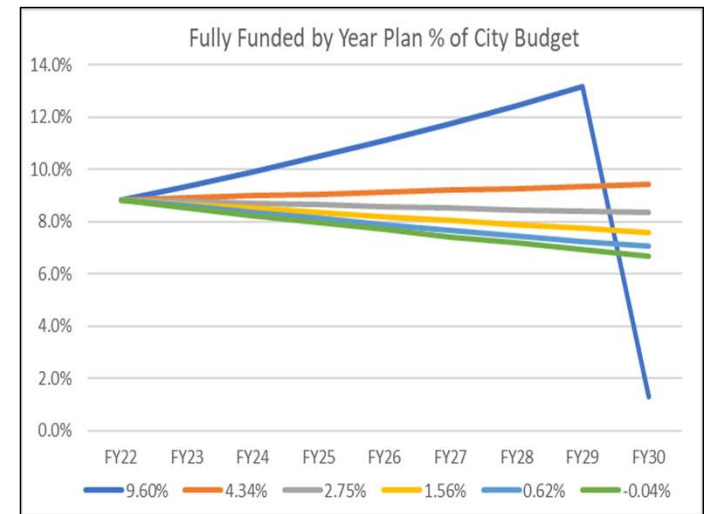
City of Newton Pension Funding Discussion

Impact:

- The starting point is that the rate of growth of pension funding may be more than the City is able/willing to bear in terms of crowding out other City services and investments
- The table below shows the percentage of the City budget dedicated to pension funding through 2030 under the current plan, and fully funding by every year FY31 – FY35**

Percent of City Budget Dedicated to Pension Funding Under Various Plans:

	Current	FY31 Plan	3.5% Plan	FY32 Plan	FY33 Plan	FY34 Plan	FY35 Plan
<i>Growth:</i>	9.60%	4.34%	3.50%	2.75%	1.56%	0.62%	-0.04%
FY22	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
FY23	9.3%	8.9%	8.8%	8.8%	8.7%	8.6%	8.5%
FY24	9.9%	9.0%	8.8%	8.7%	8.5%	8.3%	8.2%
FY25	10.5%	9.0%	8.8%	8.6%	8.3%	8.1%	8.0%
FY26	11.1%	9.1%	8.8%	8.6%	8.2%	7.9%	7.7%
FY27	11.8%	9.2%	8.8%	8.5%	8.0%	7.7%	7.4%
FY28	12.4%	9.3%	8.8%	8.4%	7.9%	7.5%	7.2%
FY29	13.2%	9.3%	8.8%	8.4%	7.7%	7.2%	6.9%
FY30	1.3%	9.4%	8.8%	8.3%	7.6%	7.0%	6.7%



**assumes City budget grows at 3.5% per year

City of Newton Pension Funding Discussion

Analysis:

- This examines the level of funding increase (via Employer Contributions) that would be required for the City to reach fully funded status in each of the years 2031-2035
- All other assumptions remain constant from the Actuarial Valuation and Review as of January 1, 2022 prepared by The Segal Group
- The analysis calculates the constant rate of funding increase required FY23 through FY31-FY35 such that the end of year value of assets in the trust is equal to the Segal Group Cashflow Forecast, though a constant rate of funding increase may not be the strategy that maximizes the utility of those dollars
- The only change made is the rate of growth of Employer Contributions, which in turn effects the amount of investible assets

<u>Fully Funded Year</u>	<u>Required Rate of Increase</u>	<u>FY23-FY29 "Freed up" Cash</u>	<u>FY30- Incremental Funding Required</u>	<u>Foregone Investment Returns</u>	<u>End of Year Mkt Value Assets</u>
FY30	9.60%	<i>Fully Funded per City plan</i>			1,046,477,599
FY31	4.34%	79,380,485	101,059,619	21,679,134	1,075,253,252
3.5% Plan	3.50%	90,641,142	117,459,141	26,817,999	n/a
FY32	2.75%	100,402,276	131,708,881	31,306,606	1,105,784,863
FY33	1.56%	115,205,770	155,802,320	40,596,550	1,138,248,858
FY34	0.62%	126,430,176	176,356,052	49,925,876	1,172,995,622
FY35	-0.04%	134,044,585	192,234,221	58,189,636	1,210,218,327


City of Newton Pension Funding Discussion

Current City Plan – Cashflow Forecast

- Below is the City’s projections, including its 9.6% increase in Employer Contributions, as presented in the Actuarial Valuation and Review as of January 1, 2022 prepared by The Segal Group

Section 3: Supplemental Information

Exhibit E: Cashflow Forecast



Plan Year	MVA BOY	Administrative Expenses	Net 3(8)(c) Payments	Benefit Payments	Employee Contributions	Employer Contributions	Investment Returns	MVA EOY	Net Change in Plan Assets
2022	\$526,328,950	\$450,000	\$145,000	\$50,181,657	\$11,357,250	\$40,847,226	\$36,345,430	\$564,102,199	\$37,773,249
2023	564,102,199	462,375	148,988	52,321,355	11,669,574	44,768,560	39,022,897	606,630,512	42,528,313
2024	606,630,512	475,090	153,085	54,240,416	11,990,488	49,066,342	42,049,328	654,868,079	48,237,566
2025	654,868,079	488,155	157,294	56,039,540	12,320,226	53,776,711	45,488,342	709,768,367	54,900,289
2026	709,768,367	501,580	161,620	57,729,465	12,659,032	58,939,275	49,406,732	772,380,742	62,612,374
2027	772,380,742	515,373	166,065	59,218,682	13,007,156	64,597,445	53,881,566	843,966,789	71,586,047
2028	843,966,789	529,546	170,631	60,660,362	13,364,852	70,798,800	58,996,260	925,766,162	81,799,373
2029	925,766,162	544,108	175,324	61,894,438	13,732,386	77,583,077	64,843,250	1,019,311,005	93,544,843
2030	1,019,311,005	559,071	180,145	63,053,157	14,110,027	7,980,689	68,868,249	1,046,477,596	27,166,591
2031	1,046,477,596	574,446	185,099	63,930,227	14,498,052	8,234,159	70,733,214	1,075,253,249	28,775,653
2032	1,075,253,249	590,243	190,189	64,790,675	14,896,749	8,495,587	72,710,382	1,105,784,859	30,531,610
2033	1,105,784,859	606,475	195,420	65,616,275	15,306,409	8,765,222	74,810,534	1,138,248,855	32,463,996
2034	1,138,248,855	623,153	200,794	66,251,182	15,727,336	9,043,317	77,051,240	1,172,995,620	34,746,765
2035	1,172,995,620	640,289	206,315	66,871,290	16,159,837	9,330,135	79,450,627	1,210,218,324	37,222,704
2036	1,210,218,324	657,897	211,989	67,501,470	16,604,233	9,625,949	82,021,183	1,250,098,332	39,880,008
2037	1,250,098,332	675,990	217,819	68,066,478	17,060,849	9,931,035	84,778,039	1,292,907,969	42,809,636
2038	1,292,907,969	694,579	223,809	68,597,315	17,530,023	10,245,686	87,738,936	1,338,906,910	45,998,941
2039	1,338,906,910	713,680	229,964	69,130,715	18,012,098	10,570,196	90,920,545	1,388,335,390	49,428,480
2040	1,388,335,390	733,306	236,288	69,705,939	18,507,431	10,904,871	94,338,109	1,441,410,268	53,074,878
2041	1,441,410,268	753,472	243,786	70,312,368	19,016,385	11,250,927	98,006,981	1,498,275,926	56,964,768

City of Newton Pension Funding Discussion

Risk & Sensitivity:

- Extending the date of fully funding increases the risk that the City will not reach its goals, but only marginally so, and certainly within reasonable scenarios to meet statutory requirements
- So long as the projected rate of investment return is greater than the rate of growth of liability (true in all our scenarios), the math says to fund upfront (if the rate of return was 0%, there would be no incentive to fund)

Return Required to Meet FY40 Statutory Funding:

	<u>Funding Growth</u>	<u>Required Return</u>	<u>FY40 Pension % of City Budget</u>
City Plan	9.60%	-1.22%	24.7%
2031 Plan	4.34%	4.15%	10.2%
3.5% Plan	3.50%	4.66%	8.8%
2032 Plan	2.75%	5.06%	7.7%
2033 Plan	1.56%	5.62%	6.3%
2034 Plan	0.62%	6.01%	5.3%
2035 Plan	-0.04%	6.26%	4.7%

Fully Funded Year Given Investment Returns:

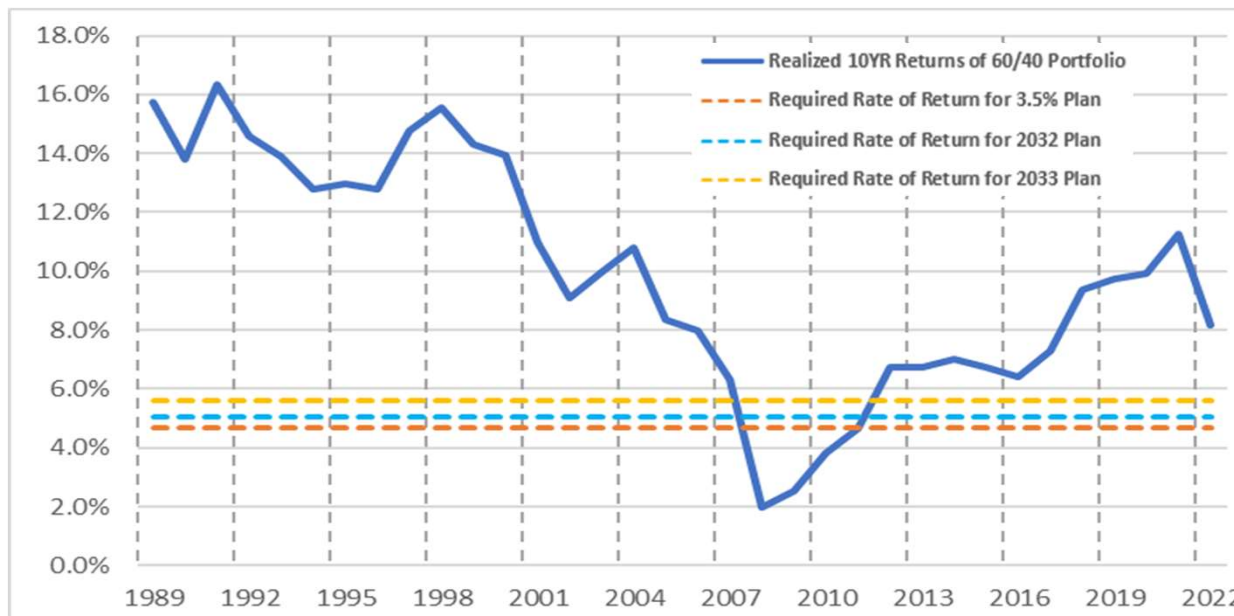
	<u>Funding Growth</u>	<u>Fully Funded Year for Given Investment Return</u>		
		<u>4.00%</u>	<u>5.00%</u>	<u>6.00%</u>
City Plan	9.60%	FY33	FY32	FY30
3.5% Plan	3.50%	>FY40	FY38	FY34
2032 Plan	2.75%	>FY40	>FY40	FY35
2033 Plan	1.56%	>FY40	>FY40	FY37

City of Newton Pension Funding Discussion

Reasonableness of Risk & Sensitivity:

- Looking back to 1980, a benchmark pension 60% stock / 40% bond portfolio would have produced insufficient returns to meet FY40 statutory funding in extension scenarios for only the four year period following the Global Financial Crisis (2008-2011).

Cumulative Annual 10yr Returns of 60/40 Benchmark Portfolio & Required Rates of Return to Meet Statutory Requirement Under 3 Extension Scenarios:



Assuming a 16.5% decline in assets YTD (matching 60/40 benchmark portfolio), current estimated assets are still in-line with FY22 EOY assets as projected pre-pandemic

Source: 60/40 performance calculated from JP Morgan Asset Management Data; Required rates of return under various plans as previously presented

City of Newton Pension Funding Discussion

OPEB Liabilities & Impact:

- Understanding the City’s desire to start funding OPEB liabilities, shifting the date of meeting fully funded status in the City’s pension trust unquestionably further pushes out the date of allocating incremental resources to the OPEB trust
- While the City does not have the same statutory requirement to pre-fund OPEB, the City does have to meet these obligations
- There are contractual and legal variables that may effect OPEB obligations in the future that are not realistically possible with pension obligations



Difference in FY45 OPEB Trust Assets (\$mm) *City Plan vs Extension Plans*

2031 Plan	\$136.1
2032 Plan	\$263.5
2033 Plan	\$382.6

assumes constant \$50m of OPEB funding per year beginning in year when City pension obligation fully funded; Returns compound at 6.91%

Exhibit: Example Year – Comparing the City’s Current Plan vs Fully Funding in FY33:

Exhibit E: Cashflow Forecast

Plan Year	MVA BOY	Administrative Expenses	Net 3(8)(c) Payments	Benefit Payments	Employee Contributions	Employer Contributions	Investment Returns	MVA EOY
2022	\$526,328,950	\$450,000	\$145,000	\$50,181,657	\$11,357,250	\$40,847,226	\$36,345,430	\$564,102,199
2023	564,102,199	462,375	148,988	52,321,355	11,669,574	44,768,560	39,022,897	606,630,512
2024	606,630,512	475,090	153,085	54,240,416	11,990,488	49,066,342	42,049,328	654,868,079
2025	654,868,079	488,155	157,294	56,039,540	12,320,226	53,776,711	45,488,342	709,768,367
2026	709,768,367	501,580	161,620	57,729,465	12,659,032	58,939,275	49,406,732	772,380,742
2027	772,380,742	515,373	166,065	59,218,682	13,007,156	64,597,445	53,881,566	843,966,789
2028	843,966,789	529,546	170,631	60,660,362	13,364,852	70,798,800	58,996,260	925,766,162
2029	925,766,162	544,108	175,324	61,894,438	13,732,386	77,583,077	64,843,250	1,019,311,005
2030	1,019,311,005	559,071	180,145	63,053,157	14,110,027	7,980,689	68,868,249	1,046,477,596
2031	1,046,477,596	574,446	185,099	63,930,227	14,498,052	8,234,159	70,733,214	1,075,253,249
2032	1,075,253,249	590,243	190,189	64,790,675	14,896,749	8,495,587	72,710,382	1,105,784,859
2033	1,105,784,859	606,475	195,420	65,616,275	15,306,409	8,765,222	74,810,534	1,138,248,855

Plan Year	MVA BOY	Administrative Expenses	Net 3(8)(c) Payments	Benefit Payments	Employee Contributions	Employer Contributions	Investment Returns	MVA EOY
FY22	526,328,950	450,000	145,000	50,181,657	11,357,250	40,847,226	36,345,430	564,102,199
FY23	564,102,199	462,375	148,988	52,321,355	11,669,574	41,483,910	39,101,427	603,424,392
FY24	603,424,392	475,090	153,085	54,240,416	11,990,488	42,130,518	41,914,969	644,591,775
FY25	644,591,775	488,155	157,294	56,039,540	12,320,226	42,787,205	44,869,812	687,884,029
FY26	687,884,029	501,580	161,620	57,729,465	12,659,032	43,454,127	47,987,044	733,591,567
FY27	733,591,567	515,373	166,065	59,218,682	13,007,156	44,131,445	51,280,642	782,110,689
FY28	782,110,689	529,546	170,631	60,660,362	13,364,852	44,819,320	54,781,219	833,715,541
FY29	833,715,541	544,108	175,324	61,894,438	13,732,386	45,517,917	56,328,764	886,680,738
FY30	886,680,738	559,071	180,145	63,053,157	14,110,027	46,227,402	59,932,270	943,158,065
FY31	943,158,065	574,446	185,099	63,930,227	14,498,052	46,947,947	63,777,890	1,003,692,181
FY32	1,003,692,181	590,243	190,189	64,790,675	14,896,749	47,679,723	67,903,577	1,068,601,124
FY33	1,068,601,124	606,475	195,420	65,616,275	15,306,409	48,422,905	72,336,591	1,138,248,858

Only Employer Contributions change (which effects assets available to produce Investment Returns)

End of Year Assets equal to City plan

City of Newton Pension Funding Discussion



March 2023 Update

City of Newton Pension Funding Discussion

Updated for FY22 Returns

- We updated this analysis for the ~15% decline in trust asset values that occurred FY22
- Note that we do not have any updated actuarial numbers; We can only analyze the numbers we do have
- We cannot emphasize this enough: The actuarial data will differ from this analysis. This is intended to provide an order-of-magnitude update to our FY22 analysis (prior to the market declines) to provide some sense of the impact of those declines – across all scenarios
- This analysis simply holds all assumptions from the January 1, 2022 report constant – expenses, benefits paid, employee contributions, rates of investment returns – all are held constant; The same assumptions (ex-rate of funding growth) are the same for all scenarios
- This analysis, using market value of assets following a ~15% annual decline with no other change in assumptions or liability, is likely to present a more dire picture of **all** scenarios that will the actuarial analysis
- The pension trust had \$444.5mm market value of assets at FY22 year end; we are not including \$29.1mm of cash outside the trust in this analysis
- ***We reiterate that this analysis seeks to examine a range of scenarios that would provide much needed funding to current City services, yet still meet our obligations to City employees and future taxpayers in a fiscally prudent manner***
- ***No pensioner would be put at risk by changes of this magnitude; this is about allocating the burden between current and future Newton taxpayers***

City of Newton Pension Funding Discussion

Updated for FY22 Returns (holding all assumptions, ex-growth of funding, constant):

- Holding all else constant, the current 9.6% City plan would fully fund in mid-2032 (this is likely a longer date than reality given the caveats already provided)
- The current City plan has peak funding equal to 14.8% in FY31; A full-funding FY35 plan at 4.75% rate of growth would have peak funding equal to 10.3% of the City budget

	Projected City Budget (\$000s)		"Freed-Up" Cash vs 9.6% Status Quo (\$000mm)					% of City Budget Consumed by Funding Pension Trust					
	City Budget	9.6% Funding	FY31 Plan	FY32 Plan	FY33 Plan	FY34 Plan	FY35 Plan	9.6% Funding	FY31 Plan	FY32 Plan	FY33 Plan	FY34 Plan	FY35 Plan
<i>Growth/Yr:</i>	3.50%		11.01%	8.79%	7.10%	5.72%	4.75%	9.60%	11.01%	8.79%	7.10%	5.72%	4.75%
FY22	462,670	40,847	-	-	-	-	-	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
FY23	478,863	44,769	(577)	332	1,022	1,584	1,980	9.3%	9.5%	9.3%	9.1%	9.0%	8.9%
FY24	495,623	49,066	(1,273)	725	2,214	3,410	4,244	9.9%	10.2%	9.8%	9.5%	9.2%	9.0%
FY25	512,970	53,777	(2,107)	1,187	3,598	5,507	6,824	10.5%	10.9%	10.3%	9.8%	9.4%	9.2%
FY26	530,924	58,939	(3,098)	1,728	5,199	7,907	9,755	11.1%	11.7%	10.8%	10.1%	9.6%	9.3%
FY27	549,506	64,597	(4,272)	2,359	7,042	10,645	13,076	11.8%	12.5%	11.3%	10.5%	9.8%	9.4%
FY28	568,739	70,799	(5,656)	3,091	9,158	13,758	16,828	12.4%	13.4%	11.9%	10.8%	10.0%	9.5%
FY29	588,645	77,595	(7,279)	3,938	11,579	17,290	21,060	13.2%	14.4%	12.5%	11.2%	10.2%	9.6%
FY30	609,247	85,045	(9,177)	4,915	14,341	21,288	25,822	14.0%	15.5%	13.2%	11.6%	10.5%	9.7%
FY31	630,571	93,209	(11,389)	6,037	17,486	25,804	31,172	14.8%	16.6%	13.8%	12.0%	10.7%	9.8%
FY32	652,641	62,961	(44,827)	(31,871)	(18,137)	(8,302)	(2,025)	9.6%	n/a	14.5%	12.4%	10.9%	10.0%
FY33	675,484	8,765	-	-	(78,090)	(66,576)	(59,309)	n/a	n/a	n/a	12.9%	11.2%	10.1%
FY34	699,125	9,043	-	-	-	(74,596)	(62,266)	n/a	n/a	n/a	n/a	12.0%	10.2%
FY35	723,595	9,330	-	-	-	-	(65,369)	n/a	n/a	n/a	n/a	n/a	10.3%
"Freed-Up" Cash Through 2031:			n/a	24,312	71,639	107,193	130,762						
Incremental Funding Required > 2031:			n/a	(31,871)	(96,227)	(149,474)	(188,968)						
Assumed Forgone Investment Returns:			n/a	(7,559)	(24,588)	(42,282)	(58,206)						

Assumes 3.5% annual growth in City budget