**CHIEF ADMINISTRATIVE OFFICER**
**City of Burlington**
City Hall, Room 20, 149 Church Street, Burlington, VT 05401 Voice (802) 865-7000
Fax (802) 865-7014
TTY (802) 865-7142

TO: Mayor Bob Kiss
Burlington City Council

FROM: Jonathan P.A. Leopold, Jr.

DATE: August 17, 2007

RE: Retirement Task Force Report and Recommendations

Attached is a copy of the report of the Mayor's Special Task Force on the Retirement System. The report covers a variety of issues and offers fourteen recommendations for restoring the financial integrity of the Retirement System and reducing the burden on taxpayers. The agenda for the Council Meeting of August 20th includes two resolutions to implement two of the recommendations of the Task Force.

The first resolution authorizes an agreement with the Vermont Pension Investment Committee for the investment management of not less than 90% of the Retirement System assets. The proposed contract has been reviewed and approved by the Retirement Board and the Board of Finance. The allocation of 90% of the Fund assets to be placed under management by VPIC is the recommendation of the Retirement Task Force. The remaining 10% of assets would remain under the management of the Retirement Board for the purpose of providing the City flexibility to achieve an asset allocation consistent with the City's investment goals to the extent that the asset allocation of the VPIC may not fully complement the City's goals. As noted in the report on pages 23 through 26 the management of the Retirement Fund by VPIC will provide greater diversification of the portfolio, provide enhanced investment opportunities and reduce the administration and management expenses of the Retirement System.

The second resolution adopts a two year phase-in schedule to convert the calculation of average final compensation from the highest three years (36 months) to the highest five years (60 months) of compensation. This standard has already been adopted earlier this year for non-union personnel of the Police Department. The phase-in schedule and "hold harmless" provision ensures that the adoption of this revision will not reduce an employee's benefit. As discussed on pages 11, 12 and 13, this recommendation will greatly help to stabilize the cost of the System.

# REPORT OF THE SPECIAL TASK FORCE

# ON THE

# CITY OF BURLINGTON

# EMPLOYEES' RETIREMENT SYSTEM


Task Force Members:

David Boardman
Eileen Elliott
John Ewing
Jane Knodell
Jonathan Leopold, Chair
Andy Montroll
Emma Mulvaney-Stanak
Karen Paul
Kurt Wright


Submitted on August 17, 2007

OFFICE OF THE CLERK/TREASURER
City of Burlington

City Hall, Room 20, 149 Church Street, Burlington, VT 05401

Voice (802) 865-7000
Fax (802) 865-7014
TTY (802) 865-7142

August 17, 2007

Mayor Bob Kiss
Burlington City Councilors

Dear Mayor Kiss and City Councilors;

The following constitutes the report and recommendations of the Special Task Force on the Burlington Employees Retirement System (BERS). These recommendations represent a comprehensive and unified strategy to restore the financial integrity and to reduce the costs of the BERS. We unanimously and strongly recommend the City adopt these recommendations in their entirety.

In addition to the issues considered in this report, the Task Force reviewed the status of the implementation of the recommendations to the Mayor and City Council a year ago. The Task Force strongly re-affirms the previous recommendations regarding the investment of the assets of the BERS Fund and the composition and membership of the Retirement Board.

The Task Force applauds the progress and efforts of the City Retirement Board to reduce investment management and related fees and to improve the performance of investment management. However, the Task Force remains convinced that most, if not all, of the Retirement Fund should be invested through the State of Vermont Pension Investment Committee and State Treasurer.

The Task Force also remains concerned that the composition and structure of the Retirement Board is inconsistent with the City Charter and should be restructured to ensure a balance of membership consistent with the provisions of the City Charter.

Finally, the Task Force unanimously agreed to continue to serve the City through the implementation of the recommendations herein if the Mayor and Council were so disposed.

Sincerely,

Jonathan Leopold, Convener

# TABLE OF CONTENTS


| | |
|---|---|
| Introduction and Background | 1 |
| Conversion from Defined Benefit to Defined Contribution Retirement Plan | 6 |
| Recommendation | 8 |
| Stabilizing and Reducing Financial Burden | 9 |
| Benefit Redesign and Administration Recommendations | 10 |
| Revision to Term of Average Final Compensation | 11 |
| Recommendations | 13 |
| Revision to the Early Retirement Provisions | 13 |
| Recommendations | 16 |
| Revision of the Disability Criteria for the Disability Benefit | 16 |
| Recommendation | 17 |
| Administration of Disability Benefits | 18 |
| Recommendation | 19 |
| Unfunded Liability and Pension Obligation Bonds | 19 |
| Recommendation | 22 |
| Collective Bargaining of Retirement Benefits for the BERS | 22 |
| Recommendation | 23 |
| Review of Prior Recommendations | 23 |
| Recommendation | 26 |
| Summary of Recommendations | 27 |
| Attachment A | 29 |
| Attachment B | 32 |
| Attachment C | 33 |
| Attachment D | 34 |
| Attachment E | 36 |
| Attachment F | 37 |

## Introduction and Background

The City of Burlington provides a "defined benefit" retirement program for City employees. The program, known as the Burlington Employees' Retirement System (BERS), provides two separate and distinct retirement benefit plans. The plan for "Class A" employees covers uniformed personnel of the Police and Fire Departments. The "Class B" plan covers all other "civilian" employees of the City.

The Class A employees do not participate in the Social Security Program except for the mandatory Medicare B benefit. In contrast, the Class B employees participate in the National Social Security Program (OASDI). Thus, the plan design for the B employees is intended to complement and supplement Social Security benefits. In contrast, the benefit plan for the Class A employees is intended as an alternative to Social Security and an enhanced benefit.

Historically, the City has designed the Class A and B benefit plans in a manner intended to achieve relative equivalency in both employer and employee costs for both classes of employees. Thus, for example, the Class A employee has historically contributed to the BERS Retirement Fund in an amount equal to the contribution by Class B employees to the Social Security system. The total contributions by the City for Class B employees for both the Retirement System and Social Security was roughly equivalent to the total cost for a Class A employee. This parity is somewhat less since plan changes were enacted in 2000.

Both the current and future benefit obligations of the BERS are funded from the City's Retirement Fund. The Retirement Fund is financed by contributions from Class A employees, contributions from the City as the employer and by the investment income to the Fund. The employer contribution for all General Fund employees of the City is paid by the property tax levied from the retirement tax rate. The revenue generating departments such as Burlington Electric Department, the Airport and the Church Street Marketplace pay the employer contribution from their respective department revenues.

The annual funding contribution by the City has two components expressed as a percentage of qualified employee earnings. The first component is the "normal rate" which represents the funding required to pay the future benefits an employee has accrued by virtue of that year of service. The second component is the "past service contribution" which represents the extent of underfunding or overfunding of the Retirement System with regard to the benefits already accrued to employees for their past service.

Since these future obligations will extend for a period of thirty years or more, it is fiscally responsible to fund a deficit (underfunding) over a thirty year period. Thus, it is in essence a mortgage or bond to be paid to the Retirement System from annual contributions. If the Retirement Fund is underfunded relative to the past service benefit liabilities, the funding gap is paid annually as though it was a long term bond or mortgage with an assumed interest rate equal to the assumed earnings

rate of the investments. The amount of the annual contribution requirement is then calculated as a percent of current payroll.

This "past service contribution" and the normal rate constitute the annual contribution requirement. Conversely, if a retirement system is overfunded relative to the liabilities for past service by employees, the past service contribution becomes a credit that reduces the total annual contribution by the City.

As an example, if the BERS was underfunded by $20 million, the "past service contribution" annual funding would be approximately $1.8 million. This $1.8 million would represent a $20 million debt amortized over 30 years at 8% interest per year. Thus, if the "normal contribution" was $5.5 million, the total annual contribution would be a total of $7.3 million as the sum of $5.5 million and $1.8 million for normal and past service contributions.

Conversely, if the BERS was overfunded by $20 million, the "past service contribution" would be a credit of $1.8 million. Thus, the total annual contribution required would be $3.7 million representing the $5.5 million for the normal contribution and subtracting $1.8 million as a credit for the overfunding or "past service" contribution.

**Example**

| | $20 m. Underfunding | $20 m. Overfunding |
|---|---|---|
| Normal Contribution | $5,500,000 | $5,500,000 |
| Past Service Contribution | $1,800,000 | - $1,800,000 |
| Total Contribution | $7,300,000 | $3,700,000 |

In conclusion, under the above example, an overfunding of $20 million **reduced** the annual contribution to $3.7 million. Conversely, an underfunding by $20 million **would increase** the total required annual funding to $7.3 million or nearly double the required contribution level when the system is overfunded by $20 million. Attachment A provides a history of the actual funding requirements for the past 15 years and dramatically illustrates the impact of the change from a credit for overfunding to a debit for the current underfunding of the BERS.

Historically, the Retirement Fund assets have exceeded the level determined to be necessary to pay the retirement benefits obligations of the BERS. As a consequence, the level of annual contribution required to fund accrued benefit liability was moderated by investment income above the assumed earnings rate.

In the year 2000, the City determined that the BERS was sufficiently well funded that the City could enhance benefits for employees by utilizing the overfunding "surplus funds" without a significant increase in tax rate to fund future contributions. Attachments C, D and E provide the actuarial projections of the cost and impact of the changes in benefits that were adopted in FY 2000. The long term effect of the changes was to gradually "spend down" the overfunding. As the overfunding surplus was spent down, the "credit" applied to past service would be reduced and the tax rate would gradually rise.

However, subsequent to the change in benefits in 2000, the stock market declined significantly in 2001 and 2002. The value of the BERS investments fell from an all-time high of approximately $126 million to a low of $78 million, thereby eliminating the overfunding surplus projected to cover the cost of the improved benefits.

Over the ensuing years, the investments of the BERS recovered modestly to a current level of approximately $127 million as of June 30, 2007. As a consequence, with the enhanced benefits adopted in 2000 and the precipitous losses of 2001 and 2002, the BERS Retirement Fund had insufficient funding to provide for the projected liabilities of the BERS, i.e., the Retirement Fund had an "unfunded liability". The loss of credit annually for the "surplus" overfunding in conjunction with the requirement to pay for the underfunding has dramatically increased the annual contribution by the City.

For the past several years, the assets of the BERS have represented approximately 80% of the required funding level for the system to be determined "fully funded". This underfunding is the result of two primary factors:

1. The changes in benefits in 2000 significantly increased the liabilities of the BERS; and
2. The losses in the BERS investment funds in 2001 and 2002.

The 2000 benefit changes increased the annual contribution funding requirement for the "normal contribution" because the value of the retirement benefits for current service increased significantly. Similarly, the value and cost of the retirement benefits for past service also increased and created a greater liability for the BERS.

The losses in the BERS investments eliminated the overfunding "surplus" that arguably would have paid for the increased liability for the past service benefits for another decade. The combination of the losses and the increased costs for increased benefits resulted in a swing from the BERS having a "surplus" or overfunding of 20% to a "deficit" or underfunding of approximately 20%.

The change from 20% overfunded to 20% underfunded is dramatic and serious. It also significantly increased the current annual contribution required for funding the System. Previous to 2000, the surplus worked to reduce the annual contribution for normal or current service. Today, the deficit requires additional funding above the level required for the normal or current contribution.

Thus, the dramatic increase in the annual contribution for the BERS by City taxpayers and rate payers is primarily the result of three factors:

1. The increase in benefits increased the annual contribution for the employees' current year of service or the "normal contribution";
2. The increase in benefits and the investment losses of the BERS Fund eliminated the "credit" that had reduced the annual contribution prior to 2000; and

3. The deficit or underfunding of the BERS due to the increased costs of benefits and the losses in investments resulted in a "debit" or additional cost to pay down the deficit or underfunding of the System.

As early as 2003, the City was aware of the emerging problem of the cost of the benefit changes and the decline in the assets of the BERS and the increasing tax burden. In response to the significant increase in annual costs of the BERS, the City implemented the following measures effective July 1, 2006 for all non-union personnel and for members of the Police, Fire and AFSCME Unions:

1. Employee contributions by Class A employees were increased and Class B employees began to contribute not only to Social Security but also directly into the BERS;
2. The City scaled back the plan benefits to reduce the cost of the enhancements made in 2000; and
3. The City developed policies to moderate increases in employee compensation and to stabilize the number of City employees.

Notwithstanding the beneficial effect of the above initiatives, the costs of the BERS required a substantial increase in the property tax burden in order to fund the BERS for fiscal years 2004, 2005, 2006 and 2007.

In April, 2006 Mayor Bob Kiss appointed a Special Task Force to undertake a review of the BERS and to develop recommendations to reduce the burden for funding the BERS. The Task Force was structured into two phases. The first phase was accomplished in May 2006 with an interim report to Mayor Kiss on June 5, 2006. The Task Force reviewed the investment management fees and administrative costs of the BERS and recommended that such fees and costs could be reduced by utilizing the Vermont Pension Investment Committee (VPIC) of the State of Vermont to manage the investments of the BERS funds. VPIC oversees the investment of approximately $3 billion for the State Employees' Retirement Fund, the Vermont Municipal Employees' Fund and the Vermont Teachers Fund. In addition, the Task Force recommended that the savings should be utilized to pay BERS administrative expenses in lieu of utilizing the annual contribution. Finally, the Report also recommended the City revise the composition and membership of the Retirement Board to conform to the provisions of the City Charter.

The second phase of the Task Force's work was to perform a detailed review and evaluation of the BERS and to provide recommendations for a plan of retirement benefits for City employees that would be affordable to City taxpayers. As noted below, the City Council further charged the Task Force to address certain issues and provide recommendations to the Council.

The proposed budget for Fiscal Year 2007 included full funding of the City's annual contribution for the BERS. This required an additional increase in property tax support for the BERS from $3.9 million to $5.2 million for an increase of 4 cents on the tax rate, equal to a 6.35% overall in property taxes exclusive of the school tax

rate. This represented a 37% increase in the tax burden for the retirement system from 10.9 cents to 14.9 cents, representing more than 20% of all non-school property taxes.

In response to this significant increase in the tax burden and the costs of the BERS, the City Council adopted a resolution in June 2006 incorporating the Mayor's Task Force as a task force of both the Mayor and the City Council and requested the Task Force to address the following:

1. Determine whether the components of the BERS shall continue to be a subject of collective bargaining or instead should be exempt from bargaining as is the case with the State of Vermont Employees' Retirement System.
2. Develop recommendations to return the level of taxpayer support for the System to the historic level of approximately 12% of payroll.
3. Consider the affordability and sustainability of the Retirement System and provide recommendations regarding the System's basic structure, asset allocation strategies, investment placement and advisors, benefit levels and whether the Retirement tax rate should be subject to a maximum tax rate which can only be increased on approval of the City voters.

The Task Force began the second phase in October 2006. Over the ensuing six months, the Committee met five times to discuss and consider presentations and materials covering a variety of issues in the BERS. Specifically, the Task Force considered the following issues:

1. The long term affordability of a defined contribution system;
2. Potential modifications to the plan design to reduce the level of required contributions;
3. Potential improvements to administration and management of benefits to reduce the required future contributions;
4. Strategies for alleviating the burden of the unfunded liability; and
5. Approaches to ensure stability in the burden of contributions and the stability of benefit obligations.

The Task Force report and recommendations are as follows:

## Conversion from Defined Benefit to Defined Contribution Retirement Plan

The Task Force reviewed and evaluated the cost of converting the City's current "defined benefit" retirement plan to a "defined contribution" plan to alleviate the financial burden of the BERS. Simply stated, a defined benefit retirement plan provides members a specific benefit at retirement determined by a formula which typically is based on the member's length of employment, earnings history and age at retirement. Under a defined benefit plan, the cost and financing burden may fluctuate with the investment performance of the fund. The federal Social Security Program, for example, is an example of a defined benefit retirement plan. Typically, the employer is the guarantor of the defined benefits for eligible members.

Under a defined contribution plan, the benefits at retirement are not specific or defined but rather the ongoing contribution of both the employee and the employer are the defining elements of the plan. The retirement benefit for a member is variable and is determined by the accumulation of employee and employer contributions and the investment earnings of the fund. Typically, a defined contribution plan benefit is specific to each individual member. At retirement, members typically may receive their benefit in a lump sum payout or convert the available funds to a lifetime annuity or periodic payments of available funds.

Historically, the predominant form of retirement and pension plans was the defined benefit plan. However, over the past twenty five years there has been a significant trend in the private sector to convert from defined benefits to defined contribution plans. Over the past twenty five years, the percentage of private sector employees participating in defined benefit plans has decreased from approximately 30% to 20%. Over the same period, the number of private sector employees participating in defined contribution plans increased from less than 10% to close to 40%. In contrast, public sector employee memberships in defined benefit plans have remained stable at approximately 90% of public sector employees.

The primary attraction of a defined contribution plan for the City is the predictability and stability of costs. The level of contributions by the City as an employer is predetermined as a fixed percentage of wages and salaries. The risks of the investment performance of the retirement fund are transferred from the employer to the employees. The primary benefit to the employee is the portability of the pension benefit as an employee changes employment.

Under a defined benefit plan, the benefit to the member employee is predetermined and guaranteed by the City as the employer. When the investment performance of the retirement plan exceeds earnings expectations, the level of employer contribution may decrease as it did in Burlington and throughout the nation during the 1990's in the rising stock market. However, when investment earnings fail to meet assumptions, the employer's contribution and fiscal burden

increases to offset the poor investment performance and ensure the funding of the defined benefit obligation. The latter situation for Burlington and indeed most cities and towns in the United States occurred with the decline in the market in 2001 and 2002.

Thus, the primary attraction of a defined benefit plan is the predictability of the benefit to be provided to member employees. The employer assumes the risk and the benefits of the investment performance of a retirement fund. Typically, a defined benefit plan is specific to the employer and is not portable unless the employer is a member of a group of participating employers in a single defined benefit plan. The lack of portability of the BERS defined benefit plan is a significant incentive for City employees to continue employment with the City since the amount of the benefits increases as years of service and the level of compensation of the employee increases. Conversely, the lack of portability of the BERS may be an initial disincentive to work for the City since a short term employee will typically not derive significant benefits from the BERS.

In terms of the issue of whether to convert to a defined contribution plan, the Task Force considered four options:

1. Terminate the current defined benefit plan for both current and future employees and institute a defined contribution plan as an alternative;
2. Maintain the current defined benefit plan for current employees but close it to future employees and provide a defined contribution plan as an alternative for new employees;
3. Maintain the current defined benefit plan and offer a defined contribution plan as a supplement or alternative; and
4. Maintain the current defined benefit plan for both current and future employees.

To review these options, the Task Force considered the potential financial benefits, the feasibility and strategy for implementation and the potential impact on the recruitment and retention of highly qualified personnel.

As noted above, the primary financial benefit to the City would be the predictability and stability of the required annual contributions under the defined contribution plan. However, the degree of the reduction of the financial burden and/or relief associated with the conversion to a defined contribution plan would be a function of a determination of the level of employer contribution.

Currently, the benefits of BERS have been subject to collective bargaining for the past fifteen years. A change to benefits, including conversion to a defined contribution plan, would require collective bargaining for the City's unionized employees. It would be extremely difficult to bargain to convert the current defined benefit plan to a defined contribution plan that provided significant reductions of employer contributions.

The Task Force determined that the most feasible strategy to convert from a defined benefit plan that reduced the financial burden to the City would be to maintain the current defined benefit plan for current employees and remove the plan

from collective bargaining. By removing the plan from collective bargaining, the City would have the flexibility to convert to a defined contribution system for future employees. However, by removing the City's retirement plan for collective bargaining by law, it would require that the City maintain the current plan in perpetuity for all current employees.

The potential benefit of converting to a defined contribution plan for all new employees would produce a significant savings assuming the contribution was substantially lower than the City contribution rate per employee for the current system. The City projects that employee turnover over the next five years will result in new employees constituting between 35% and 50% of the City workforce. Thus, with employee turnover it is projected that within five years, a substantial number of City employees would be enrolled in a defined contribution plan as an alternative to the current BERS plan.

As a final consideration, the Task Force examined the potential impact on employee recruitment and retention by converting to a defined contribution plan. In September of 2006, Moody's Investors Service reconfirmed the City's AA3 credit rating and cited a "seasoned and effective management team" as one of the key strengths of Burlington's government. The average tenure of management was approximately 15 years. Notwithstanding this statistic, recruitment and retention of City employees remains a continuing major challenge. The City wage and salary scale for certain management positions is not competitive with the marketplace for highly qualified personnel.

The City's defined benefit retirement plan provides benefits somewhat more generous than most defined benefit plans. Thus, the retirement benefits are an important element of the City's total compensation for both recruitment and retention of employees. More importantly, the City's defined benefit plan is a very significant factor in retaining employees and, in particular, management. Once an employee becomes fully vested in the BERS, the value of retirement benefits grows significantly with increased years of service and increasing salary or wages. The lack of portability of this benefit promotes retention of employees.

Finally, in light of the high cost of the BERS, the option of a supplement would exacerbate the current financial burden. The option of offering a defined contribution plan as an alternative to the current defined benefit would reduce the value of the current system as a means to retain highly qualified personnel.

## Recommendation

The Task Force concluded that the BERS defined benefit plan is a critical component of the City's benefit and compensation package for City employees. Converting the defined benefit plan to a defined contribution plan will significantly undermine the City's efforts to recruit and retain high quality staff, in particular management.

Such a conversion would result in the potential loss of valued staff and would require a significant increase in salaries and wages to enhance the City's total compensation package. The BERS defined benefit plan specifically promotes the retention of valued employees.

The Task Force determined that the conversion of the BERS defined benefit plan to a defined contribution plan could stabilize and reduce the financial burden for the BERS. However, the consequences in the loss of valued staff and the difficulty in recruiting new quality employees outweigh the potential benefit of a conversion to a defined contribution plan. Therefore, the Task Force recommends the City consider other strategies to reduce the burden and stabilize the costs of the BERS.

However, it is important to emphasize that the recommendation to continue the BERS as a defined benefit plan is contingent on the implementation of the other recommendations of the Task Force as an integrated, comprehensive strategy to reduce costs and improve the financial integrity of the BERS. It is the strong consensus of the Task Force that the BERS defined benefit plan can only be sustained by reducing costs and restoring the financial strength of the BERS through the implementation of the recommendations contained herein.

In the event that these recommendations are not implemented in their entirety and the anticipated cost savings not realized, the Task Force recommends that the City initiate steps to terminate the current defined benefit plan for future employees and convert to a defined contribution system. (As discussed on page 16, the City may consider selectively converting to a defined contribution system for those new employees in bargaining units that are unwilling to adopt the recommended changes).

## Stabilizing and Reducing Financial Burden

In consideration of the Task Force recommendation not to convert the BERS defined benefit plan to a defined contribution plan, the Task Force reviewed and considered certain factors contributing to the significant increase in the financial burden of the BERS. The increased burden of the City's annual contribution to fund the BERS is primarily a reflection of the significant enhancement of benefits in 2000, the decline in the investments of the BERS funds in 2001 and 2002 and increases in employee wages and salaries that exceeded the actuarial assumption of the plan.

With regard to these last two issues above, increases in salaries and wages and improvements to benefits require an increase in the required level of funding of the annual contribution for current employees for service in that year. However, this

increase is compounded by the additional burden of funding the "unfunded liability" of the BERS when assets do not match projected liabilities.

When a defined benefit retirement plan's assets are sufficient to fund the liabilities of the plan, it is considered to be "fully funded". That is to say that the level of assets and future projected investment income are sufficient to fund the benefit obligations for current employees. However, when the assets are less than the actuarially determined amount sufficient to fund the benefit liability of the plan, it is considered "underfunded". The amount of the underfunding or "unfunded liability" represents the actuarially determined difference between the actual assets of the retirement fund and the level of assets required to fully fund benefit liability.

As noted before, historically the BERS has been either fully funded or has actually had a surplus funding in excess of the liabilities of the BERS. However, the investment losses in 2001 and 2002, in conjunction with the enhanced benefits in 2000 caused the BERS to be underfunded. This underfunding or unfunded liability of the BERS was exacerbated by increases in employee wages and salaries that exceeded the assumed rate of annual increase in employee compensation.

In the spring of 2006 the City negotiated agreements with the AFSCME and Police Unions to restructure the defined benefit of the BERS to scale back certain benefit enhancements enacted in 2000. In addition, the Police Union, as Class A employees, agreed to a two percentage point increase in employee contributions to the BERS. AFSCME, representing many Class B employees, agreed to contribute 2% of employee's wages and salaries to the BERS effective July 1, 2006 and 3% effective July 1, 2007. This contribution for B employees was historic in that previously Class B employees only contributed to their Social Security benefits.

The City Council enacted the changes negotiated with AFSCME for all non-union civilian management. It also enacted the changes negotiated by the Police Union for Police and Fire Department management. However, despite these agreements and changes to the BERS plan, additional significant increases of nearly $2 million in funding were required in Fiscal Year 2007. Despite these changes in benefits and the increased levels of employee contributions, the increase in the City's annual contribution for the BERS in 2007 was dramatic and led to significant taxpayer resistance.

The Task Force reviewed and considered the factors contributing to the significant increase in the annual contribution requirement for the BERS over the previous four years. The following recommendations of the Task Force reflect strategies to address the problems and/or factors underlying the significant increase in costs.

## Benefit Redesign and Administration Recommendations

The Task Force reviewed certain options for the redesign of the BERS benefits to reduce the current and future levels of annual contributions. The Task Force did not address Plan redesign considerations already considered in the collective bargaining process in the first half of 2006. In considering these options,

the Task Force identified two redesign options that would have relatively small impact on most employees and would address certain issues contributing to the increase in BERS costs. These two options were to revise both the formula for Average Final Compensation (AFC) and the disability definition for qualifying for disability benefits.

## Revision to Term of Average Final Compensation

The level of benefits paid an employee/retiree by BERS is determined primarily as a function of the total years of service factored by an accrual rate and the "average final compensation" for the employee. Thus, for example, the benefit for an employee with twenty years of service at an accrual rate of 1.6% for each year of service with an average final compensation of $50,000 would be calculated as follows:

20 years x 1.6% x $50,000 = $16,000 a year benefit

Currently, the Average Final Compensation (AFC) for an employee is the average annual salary or wage for the three highest years for an employee. Thus, an employee with a highest compensation level of $48,000, $50,000 and $52,000 for the highest three years of earnings would be $50,000.

As noted above, one of the factors contributing to the increase in unfunded liability and the costs for annual contributions was increasing the employee compensation in excess of the actuarially assumed rates of 3.5% per year. The assumed rate of increase of employee compensation is an important factor in projecting the future liability of a defined benefit plan since the amount of the benefit is in part determined by the employee's earnings.

Each year the annual contribution to the BERS is calculated in part based on the assumption that an employee's compensation will increase at a rate of 3.5% a year or less. If the employee's compensation increases at less than the assumed rate of 3.5%, the annual contributions paid into the system will be greater than actually required in the future. However, conversely, if an employee's compensation increases by a rate greater than 3.5% a year, the annual contribution will ultimately be less than the amount required to fully fund the system.

Annual changes in compensation in excess of the assumed rate of 3.5% have a particularly problematic impact on BERS with respect to employees with many years of service. As noted above, the Average Final Compensation and Years of Service are the primary determinants of the level of an employee's retirement benefits. When an employee has a long history of service, both the City and the employee have contributed annually to the Retirement System for each year of service based on the employee's compensation in that year and assumed future increases of not more than 3.5%. Thus, for example, an employee with 20 years of service will have 20 years of annual contributions made previously to fund the projected benefit for that employee.

However, if near the end of the employee's service there is a significant increase in compensation in excess of the 3.5% assumption, the many years of previous contributions will have been under-calculated in order to fund the prospective benefit. Thus, significant increases in compensation for an employee with many years of service can create a significant underfunding of the liability of the system.

When the plan design in 2000 enhanced the benefit, it created an increase in the liability of the system because previous annual contributions did not anticipate the enhanced level of benefits. In 2000 the BERS Fund was actually overfunded such that the assets exceeded projected liabilities. The enhanced benefits were effectively funded by utilizing the surplus funds at that time.

Subsequent to the changes in 2000, the City also reclassified many positions in both the Police and Fire Departments. The increase in compensation for those Class A employees significantly exceeded the assumed rate of 3.5% a year. The effect of this increase in compensation was exacerbated by the fact that many of these employees had relatively high longevity and years of service.

Changes in compensation in excess of the assumed rate of 3.5% are somewhat less problematic for Class B employees since the retirement benefit for these employees is comprised of both Social Security and the supplementary BERS plan. In contrast, the sole retirement benefit for Class A employees is the BERS plan. Thus, when a Class B employee's compensation increases more than 3.5%, a significant portion of the liability for the increase in benefits is absorbed by the Social Security System.

In contrast, however, a Class A employee's sole retirement plan is the BERS. Thus, the unfunded liability for such increase in compensation falls entirely on the BERS. Thus, the reclassification of many Class A employees in both the Police and Fire Departments in recent years increased annual compensation for these employees at a rate significantly greater than 3.5%. As a consequence, the unfunded liability for these increases exacerbated the unfunded liability of the BERS.

The BERS calculates Average Final Compensation based on the three years of highest earnings. This three year basis is common to many defined benefit retirement plans. However, approximately half of all public defined benefit retirement plans utilize a five year basis.

The effect of using a five year basis, rather than a three year basis, is to moderate the impact of a significant increase in employee compensation particularly for those employees with considerable longevity. The impact on the retirement system is moderated because it is averaged over a longer period of time. In addition, the contributions to the retirement plan by both the employee and the employer are at the highest level of compensation for a longer period of time before the full impact of the increase in benefits results from the increase in compensation.

The Task Force determined that the impact on most City employees of a change from three to five years to calculate Average Final Compensation would be negligible. Most employees receive modest increases in compensation consistent

with the assumed rate of 3.5% per year. A relatively small number of employees receive increases (typically from a promotion) that will exceed the 3.5% assumption. A change to a five year basis would also moderate the effect on the System of employees who return to service after some period of absence. For such employees, three years at a new and significantly higher rate of compensation has not been factored into the determination of the original employee and employer contributions made during previous service.

A change from three to five years of the basis for calculating AFC would reduce the current unfunded liability of the BERS and would moderate the cost increase of future changes in compensation in excess of 3.5% a year. In addition, such a change would have a favorable impact on employee retention. Currently, an employee who receives a promotion or returns to service will maximize the benefits of the change in compensation in three years in terms of an increase in retirement benefits as a consequence of the change in compensation.

A change to a five year basis would require that an employee remain in service for five years at the higher level of compensation to maximize the retirement benefit increase associated with the increase in compensation. Thus, there would be a significant incentive in terms of an increase in retirement benefits for an employee who remains in service at a higher level for a longer period of time (i.e., five years instead of three years). The Task Force felt this was invaluable to promote retention of employees who perform their work such that they are promoted or otherwise receive a significant change in compensation.

### Recommendations

The Task Force recommends that the City change the three year basis for calculation for Average Final Compensation to a five year basis. This change will reduce the current unfunded liability of the system and will moderate future increases in unfunded liability resulting from changes in employees' compensation in excess of 3.5% a year. The Task Force estimates that the benefit of implementing this recommendation will result in a decrease of 1 cent on the tax rate.

## Revision of the Early Retirement Provisions

The City enacted two major changes in the benefits for employees that significantly increased the costs of benefits. The first change was to increase the accrual rate of the credit for years of service. The change in the accrual rate increased the amount of the retirement benefit to an employee by 30% to 40% depending on which COLA option a retiree chose. The City addressed this issue in March 2006 by negotiating reductions in the accrual rate to modestly reduce the cost of this change.

The second major change enacted in 2000 was to significantly reduce the offset for early retirement for employees prior to the normal retirement age of 55 and 65 for Class A and B employees respectively. Typically, retirement benefits are

reduced for early retirement of a beneficiary by an actuarially determined factor to make the total projected payout over the beneficiary's life equivalent to the total payout for a normal age retirement.

As an example, under Social Security, an early retirement benefit at age 62 is actuarially reduced from the benefit amount at age 65 so that the projected total payout is the same as the benefit payout to an individual at normal retirement of age 65. Thus, the total cost and corresponding total benefit of an early retirement is equivalent to the total cost and total benefit payout for a normal age retirement.

Prior to 2000, the BERS reduced the early retirement benefit at two different rates based on whether an employee was hired pre- or post- July 1, 1983. For employees hired post July 1, 1983, the reduction in benefit for an early retirement was an actuarially determined factor that made the total projected payout the same for both an early and normal age retirement. This approach reflected the standard for early retirement Social Security benefits. Attachment B provides a table of the reduction factors previous and subsequent to 2000. The reduction in benefit for an early retirement for a B employee at age 55 years old was approximately 2/3 of the benefit for normal retirement at age 65 years.

However, for employees hired prior to July 1, 1983 the reduction for early retirement was 3.33% for every year less than the normal retirement age for employees hired prior to July 1, 1983. Thus, for a Class B employee with a normal retirement age of 65 years old, the benefit would be reduced by 33.34% or 1/3 for an early retirement at age 55 years old. This was a very generous and potentially costly benefit. (The typical actuarial adjustment for an early retirement at age 55 would be approximately 65%)

The effect of the small reduction in benefit for an early retirement for pre-1983 employees was threefold:

1. The small reduction in benefit encouraged early retirement since the total benefit payout to an employee would be greater over the beneficiary's lifetime;
2. Employees who retired at normal retirement age were effectively penalized by receiving a smaller total benefit payout; and
3. The cost to the BERS was significantly increased since the payout for an early retirement was greater than the payout for a normal retirement and the benefit provisions encourage employees to elect the more expensive option.

The change in the BERS benefit provisions in 1983 to adopt an actuarially appropriate reduction for employees hired after July 1, 1983 represented an intentional policy by the City to adopt a standard similar to Social Security to ensure that the total benefit payout to a beneficiary would be the same regardless of the age at which an employee elected to begin to receive benefits. This change in 1983 was intended to address the problems caused by a reduction in benefits that was less than the actuarially appropriate factor.

Over time, the number of employees hired before July 1, 1983 would diminish with turnover and retirement. The effect of the adoption of the actuarially appropriate reduction would eventually encompass all City employees. Thus, the problems associated with the actuarially too generous benefit for early retirement for employees hired prior to July 1, 1983 would be minimal and eventually eliminated.

However, the changes adopted by the City to the BERS in 2000 reversed this policy and actually greatly increased the magnitude of this issue in two respects. First, the City effectively eliminated the distinction for pre- and post-1983 hired employees and thereby eliminated the actuarially determined reduction in benefits for early retirement for post-1983 employees. Second, the City then decreased the amount of the deduction for early retirement for all employees.

The reduction for pre-1983 employees for each year of early retirement was 3.33%. Thus, for example, prior to the 2000 change, the retirement benefit for an early retirement at age 55 years would have been reduced by 33.33% compared to a normal age 65 years retirement. With the change in 2000, the reduction in the benefit was decreased from 3.33% per year to 2%. Thus, the reduction in benefit for an early retirement at age 55 years would be 20%. In contrast, an actuarially appropriate reduction in benefit would be approximately 65%.

The effect of this change was a dramatic increase in the benefit for an early retirement and a significant increase in the costs to the BERS and City. As an example, a Class B employee with a normal age retirement benefit of $18,000 per year would receive the following early retirement benefits at age 55 years old:

| | |
|---|---|
| Prior to the changes in 2000 | |
| Hired Prior to July 1, 1983 | $12,000 per year |
| Hired Subsequent to July 1, 1983 | $6,408 per year |
| Subsequent to the changes in 2000 | |
| Regardless of date of hire | $14,400 per year |

Thus, this hypothetical early retirement benefit for an employee hired prior to July 1, 1983 increased 20% from $12,000 per year to $14,400. The increase in early retirement benefit for an employee hired post-July 1, 1983 was a dramatic increase of 125% in benefit from $6,408 to $14,400 per year.

It is also important to note that the early retirement benefit currently provided by the BERS is approximately 125% greater than an actuarially appropriate neutral early retirement benefit. If all employees elect to take early retirement, the costs of the total payout of retirement benefits have been increased at least 20% for employees hired pre-1983. Even more problematic, the costs for early retirement increase approximately 125% compared to the level of benefit based on "normal" retirement.

Finally, it should be noted that this significant increase in benefit for early retirement provides even more incentive for employees to elect an early retirement.

Conversely, it discourages employees to defer early retirement to the normal age 65 years. Thus, the cost of early retirement benefits is compounded by both the increased cost of early retirements and the probable increase in the number of employees electing for early retirement benefits.

It should be noted that the early retirement benefit for Class A employees was similarly changed from an actuarially determined offset for retirement prior to age 55 and 25 years of service, to no offset for early retirement after 25 years of service and a 1.82% offset for each year of service less than 25 years. The early retirement offset is effectively not affected by age. Police and Fire personnel have historically had an actuarially lower longevity compared to civilian employees. However, the effect of this change in 2000 was similar to the change for Class B employees and increased potential early retirement benefits by between 40% and 100%. It dramatically increased the costs of an early retirement and significantly increased the inequity of the benefit paid out to an early retiree and a normal age retiree.

In the past year, the City has negotiated changes with the AFSCME Union for all new Class B employees to revert to an actuarially based offset for early retirement. However, the City has not yet reached agreement with the IBEW representing employees of the Burlington Electric Department and several of the bargaining units representing non-teacher employees of the School Department. For new Class A employees, the minimum retirement age was raised to 45 years.

**Recommendation**

With regard to the bargaining units and employees that have not yet agreed to an actuarially based offset, the City should require adoption of the actuarial standard or, alternatively, terminate continuation of the defined benefit plan for new employees of any bargaining unit that will not accept the standard already adopted by AFSCME. This change is essential to control future costs and to provide equity for early and normal age retirees.

For all current Class B employees and former employees with vested benefits, the City should restore the 3.33% per year reduction originally in place for employees hired prior to July 1, 1983. This reduction factor for early retirement is still significantly less by at least 50% than an actuarially appropriate factor. For Class A employees, the City should revert to an actuarial standard for employees with less than 25 years of service and age 55 or, alternatively, adopt a standard similar to the pension provisions for the Vermont State Police.

These changes would potentially save an estimated 2 to 3 cents on the tax rate by reducing costs an estimated 20%.

**Revision of the Disability Criteria for the Disability Benefit**

Currently, the BERS plan provides a retirement benefit for disabled employees. This benefit is, in general, greater than comparable benefits under other

public defined benefit plans in several respects including the level of the benefit, the liberal definition of disability and the inclusion of non-work related disability service.

Simply stated, the BERS provides a disability retirement benefit equal to 75% of an employee's compensation prior to the disability until the beneficiary reaches normal retirement age. Upon reaching normal retirement age, the employee is converted to a regular retirement. In addition to the disability benefit, an employee continues to earn credit for years of service during the period of the disability benefit. Thus, an employee with ten years of service who becomes disabled and receives a disability benefit for fifteen years until achieving the normal retirement age receives a retirement benefit based on 25 years of service.

The BERS definition of disability for the first two years after an employee is disabled is a disability which prevents the employee from performing his or her job. After two years of disability benefits, the criteria for disability are redefined as the inability to perform any gainful employment. The BERS definition of disability after two years parallels the disability definition under Social Security.

In addition to the cash benefit and continued accrued years of service, in the first two years of disability an employee is eligible for vocational rehabilitation at the expense of the BERS in order to enable the employee, if possible, to perform gainful employment. In the first two years of disability the benefit is offset by actual earned income. After two years the benefit is offset by both earned and potential earned income.

Currently, there are approximately 30 former employees receiving disability benefits of a little over $1,100 a month on average. This represents approximately 10% of the total number of retirees and retirement payroll. Annual costs of disability benefits are approximately $675,000 a year.

The Task Force determined that the disability benefit of BERS is an important element of employee security. However, the Task Force identified several potential changes that would align the BERS disability benefit closer to the standard for other defined benefit plans and Social Security disability provisions.

**Recommendation**

The Task Force recommends that the City utilize a single criteria of disability based on the Social Security definition of an inability to perform gainful employment and thereby eliminate the exception for the first two years that the disability need only preclude one from performing one's prior job. In addition, the Task Force recommends that the City consider a reduction of benefit from 75% of base salary or wage to the industry standard of 66%. Finally, the Task Force also recommends utilizing the Social Security standard for income to offset the disability benefit.

It is difficult to quantify the potential savings from these recommendations. However, a 20% reduction in the cost of this benefit will result in ¼ of 1 cent on the tax rate.

## Administration of Disability Benefits

The disability benefit of BERS is administered by the Retirement Board of the City. The City utilizes the City's Medical Board physicians to evaluate an employee's disability. The Board may also refer a disability applicant to a specialist for further evaluation. However, the City is frequently unable to process and evaluate a disability claim in a manner consistent with industry standards. There is anecdotal evidence that the administration of this benefit and the determination of eligibility could be substantially improved to ensure that the benefit accrues solely to employees who require the benefit.

The Task Force considered a variety of options to improve the administration of this benefit and to potentially moderate the costs associated with the benefit. These options included the following:

1. The BERS could purchase disability insurance on an annual basis and thereby transfer administration and certain risk to an insurance company;
2. The City could purchase only administration services from a private insurance company but continue to fund the benefit directly; and
3. The City could define the eligibility as "qualified to receive Social Security disability benefits" and to thereby preclude benefits for an employee not deemed eligible for Social Security Disability benefits.

The utilization by BERS of purchased disability insurance to provide the disability benefits would provide for professional administration and determination of disability. Purchased insurance would also spread the risk of an unusual incidence of employee disability to the insurance. However, the Task Force noted that ultimately over an extended period of time, the cost of the insurance would include both the benefits paid and the profit for an insurance company. Thus, the Task Force concluded that over an extended period of time the cost of the insurance would be more expensive to the BERS than direct payment of the benefits.

After the initial two year period, the definition and criteria of disability under the BERS plan parallels the standard for disability benefits under Social Security. Thus, the determination by Social Security of eligibility for disability benefits would be a valid basis for determining an employee's eligibility for the BERS disability benefit. Utilization of these criteria would provide an objective standard for determining and evaluating disability benefit eligibility.

**Recommendation**

The Task Force recommends that the City contract for the administration and determination of the disability benefits. A private insurance company with the expertise and experience to determine and administer the disability benefits would substantially improve the administration of the BERS disability benefit and would reduce and/or eliminate inappropriate utilization of this benefit. The Task Force does not recommend the City purchase full insurance for the disability benefit since the cost of the insurance would ultimately be higher than the current self-insured approach.

The Task Force also recommends that the City should require eligibility for Social Security disability benefit as a condition of eligibility for the City disability benefit within six months of the onset of the disability. The purpose of this six month period would be to provide a period sufficient for the determination of disability eligibility by the Social Security Administration.

It is difficult to determine the potential savings associated with the implementation of these recommendations. However, a 20% reduction in the costs of the disability benefit could potentially result in a ¼ of 1 cent reduction of the tax rate.

## Unfunded Liability and Pension Obligation Bonds

The actuarial valuation performed by the BERS actuary, Buck Consultants, determined that the accrued liability of the BERS was $140,615,645 as of June 30, 2006. The actuarially determined assets of the BERS were a corresponding $108,342,798 as of June 30, 2006. Thus, the unfunded liability of the BERS was $32,271,847 as of June 30, 2006. The assets of BERS represented 77% of the accrued liability. While the BERS is exempt from the Federal ERISA oversight, the standard employed for determining whether a pension fund is subject to ERISA review is a minimum of 80% funding.

In general, it is preferable for a retirement plan to be fully funded rather than maintaining an unfunded liability. The underfunded status of a plan is not inherently problematic. The degree to which the underfunding is a problem is determined by the magnitude of the underfunding and the financial burden such underfunding creates for the retirement plan.

Typically, benefits are paid over an extended period of time. Thus, a retirement plan has an extended period of time in which it can "make up" the underfunding. Usually the annual contribution requirement to compensate for an unfunded liability is determined by treating the unfunded liability as a mortgage obligation of the employer or plan sponsor. The term of this virtual mortgage is typically between twenty and thirty years to correspond with the probable term during which the benefits will be paid out.

The interest rate of this mortgage for the unfunded liability is determined by the assumed investment income rate for the fund's assets. In developing the actuarial determination of the required assets to meet the liability of the plan, there is an assumed rate of return on the investments of the plan. For most retirement plans, the investment income of the retirement plan is actually the most significant source of funding for the benefit liability. When there is an unfunded liability, the assets which are not available (i.e., the unfunded liability) do not earn this investment income. This presumed rate of the lost investment income is the interest rate of the mortgage required to compensate for the lost income.

The BERS plan assumes a rate of return of investments of 8% per year. Thus, the $32 million unfunded liability as of June 30, 2006 represents $32 million of assets that will not be invested and earning 8% per annum. In order to "make up" the unfunded liability, the City must not only pay the $32 million of principal but in addition, the 8% per annum of "lost" investment income. Thus, in effect, the City currently has a mortgage owed the BERS of $32 million to be paid over a thirty year period with an interest rate of 8% per annum.

The annual cost of this "mortgage payment" is approximately $2.9 million for the $32 million unfunded liability and lost income for the Retirement System. The portion of this $2.9 million funded by the property tax is approximately $2 million or just under 6 cents on the tax rate. The annual contributions required to amortize the unfunded liability represents approximately 40% of the total annual contribution for General Fund employees.

The financial difficulties of the BERS over the past six years are not uncommon among municipalities and states throughout the U.S. Many public and private defined benefit plans suffered significant losses in the adverse financial market of 2001 and 2002. Many defined benefit plans have accumulated unfunded liabilities similar to the BERS.

A common strategy to reduce the burden associated with the unfunded liability of a retirement plan is the issuance of a Pension Obligation Bond (POB) to pay the unfunded liability. The primary benefit of a POB is the differential between the interest rate of the Bond and the interest rate of the assumed earnings (and the mortgage) for the retirement plan.

For example, if the City of Burlington issued a POB, the taxable interest rate would be 6% per year. The 6% interest rate for the Bond compares favorably to the 8% interest of the mortgage for the unfunded liability. In effect, it is less expensive for the City to issue a Bond for $32 million than to pay a mortgage to the BERS at 8% interest for the same $32 million.

In concept, a POB would reduce the financial burden for the City of the $32 million unfunded liability of the BERS. With an 8% lost income interest rate, the annual contribution by the City for the unfunded liability is just under $2.9 million. Thus, the City will be paying not only the $32 million unfunded liability but almost $54 million in interest over the thirty year period.

Alternatively, if the City issued a $32 million bond at 6% interest, over thirty years the annual cost of the Bond would be just over $2.3 million. The interest expense of such a bond would be approximately $38 million over the thirty year life of the Bond. Thus, the total cost to the City over thirty years of the Bond issue would be approximately $70 million. In contrast, the total cost of paying the unfunded liability of the mortgage to the BERS would be approximately $86 million. Thus, the difference in costs over thirty years is approximately $16 million or $500,000 a year. The savings for a Pension Obligation Bond would reduce the tax rate burden for the BERS by approximately 1 cent.

The Task Force evaluated a variety of considerations relative to Pension Obligation Bonds. These considerations included:

1. The potential reduction in the City's capacity for issuing bonds while maintaining the City's credit rating and meeting other capital needs; and
2. The potential adverse effect to the City if the investment of the bond proceeds fails to achieve at least the cost of the 6% interest rate for the bonds.

The Task Force reviewed these two considerations and determined that the potential benefits of a POB more than offset the risks associated with each of these considerations.

The City's independent financial advisors, PFM, has advised the City that the issuance of a Pension Obligation Bond would not adversely restrict the City's capacity to issue additional bonds for capital improvements and maintain the City's credit rating. In fact, the extent to which the POB reduced the City's financial burden associated with the repayment of the unfunded liability would be a favorable consideration in future reviews of the City's credit rating.

The BERS performance evaluator, Dahab Associates, performed an analysis for the City of the investment strategy and asset allocation structure for the BERS fund with and without a POB funding the unfunded liability. This analysis indicated that the investments of a POB would somewhat enhance the ability of the Retirement Fund to achieve the assumed investment rate of return at 8% per annum while somewhat reducing the risk of not achieving this return.

The problem most often associated with the issuance of a POB is that the bond proceeds would be invested just prior to a significant market downturn. If the market downturn resulted in a loss of assets that reduced the long term investment income of the POB proceeds below 4% per annum, the actual cost to the City would exceed the 8% interest of amortizing the unfunded liability.

To offset this issue, Dahab Associates also prepared an analysis of a staged issuance and investment strategy over a four year period. The potential benefit of a staged issuance and investment would be to minimize the impact and effect of market turning for the issuance and investments of the entire POB. This strategy appeared to have a significant potential to offset the risk of adverse market turning.

### Recommendation

The Task Force recommends that the City seek voter authorization to issue a Pension Obligation Bond to fund the unfunded liability of the BERS. Further, the Task Force recommends that the City consider and review the benefit of the staged or "laddered" investment of the proceeds over multiple years.

## Collective Bargaining of Retirement Benefits for the BERS

Retirement benefits represent a pre-tax form of compensation for employees and are just one part of an overall compensation plan. In the collective bargaining process there is a potential for a tradeoff of employee's retirement benefits in lieu of other forms of compensation such as wages or other personnel benefits.

The current financial burdens of the annual contributions and the obligations of the City to fund the BERS are primarily the result of the enhancements of benefits in 2000 with the concommitant decline in the BERS assets. There is some sentiment among the City's unions that these improvements in benefits (and the resulting increase in costs) were negotiated in 2000 as a partial offset for lower increases in wages and other benefits.

Under Burlington's Charter, the tax rate for the Retirement System is set as required. Thus, an increase in the costs of retirement benefits and a concommitant tax increase do not require voter approval. In contrast, typically, increases in wages and salaries or other benefits must be accomplished within approved tax rates or alternatively require voter approval or offsetting savings in order for the City to fund increases in compensation within existing tax rates. Thus, as a rule, increases in employee compensation and benefits are subject to voter approval. However, increases in retirement benefits circumvent required voter approval for a tax increase.

Another consideration of the current inclusion of retirement benefits in collective bargaining is not only that the benefit may be enhanced as occurred in 2000 but that benefits may also be retracted as occurred in 2006. From both an employee and employer perspective, the collective bargaining of retirement benefits offers both the potential to improve and reduce benefits and costs.

While the potential to enhance benefits may appeal to employees, the risk of the reduction of benefits is highly undesirable. A retirement benefit is a profound consideration for the long term financial security of an employee. The extent to which such a benefit may be retracted and/or reduced is contrary to the financial security of an employee. Similarly, the extent to which changes may undermine the financial security of the retirement benefit, it is also detrimental to the employee.

Another consideration when retirement benefits are subject to collective bargaining is the legality of changing benefits for current and former employees not

represented by a union. Such current and former employees have a vested interest in the benefits and yet they are not represented in the bargaining process by which their benefits may be changed.

It is clear that such current and former employees have a legitimate concern when benefits are reduced such as occurred in 2006. Less obvious is the concern such employees and even current retirees may have when benefits are improved as occurred in 2000 and reduce the secure funding level of benefits. When such improvements increase costs and create an unfunded liability it may well jeopardize the financial security of the benefits. To the extent that benefits are thereby not as secure, these employees and especially current retirees, have a significant cause for concern.

Under Vermont State law, the retirement plan for State employees is exempt from collective bargaining. When a retirement plan is exempted from collective bargaining it cannot be changed through either the bargaining process or any other action by the employer. Thus, a statutory exemption of the BERS plan from collective bargaining would preclude both future enhancements and/or retractions of benefits. The only change that would be possible in the future would be to terminate the plan for future employees. Most importantly, benefits could not be increased and thereby cause an increase in the tax rate that had not been approved by voters.

In this context it is also important to note that the Task Force briefly considered the issue of whether to amend the Charter to require voter approval for any increase in the retirement tax rate. Such a change would undermine the integrity of City finances if a limit on the tax rate prevented the City from fully funding the required annual contribution to the BERS. In light of this consideration, it is important to limit the impact on the tax rate of potential changes in benefits and the costs thereof.

**Recommendation**

The Task Force recommends that the City seek an amendment to the City Charter and State law to exempt the Burlington Employees' Retirement System from the collective bargaining process as part of a comprehensive plan embodied in the recommendations of the Task Force to secure the long term financial liability of the system while reducing the volatility and burden for funding.

## Review of Prior Recommendations

Over the past eight months, the Task Force reviewed and discussed the status of the City's implementation of the previous recommendations regarding the investment of the BERS assets and the composition and role of the Retirement Board. The City has engaged in negotiations with the State Treasurer and the staff of the Office of the Attorney General, on behalf of the Vermont Pension Investment

Committee (VPIC), regarding an agreement whereby the investment of the City's Retirement Fund assets would be managed by VPIC. A tentative agreement has recently been reached and is now subject to consideration by the Retirement Board, City Council and the VPIC.

The Task Force believes that investment management of the BERS investments will benefit the City in three respects. First, the investment management and related costs for the BERS will be substantially lowered by virtue of the economies of scale associated with the $3 billion of investments with VPIC. Second, the $3 billion size of the VPIC investments will provide the BERS investments access to investment managers and investment opportunities not available to an investment fund the size of BERS. Third, the Task Force believes that placement of the City's funds with VPIC will strengthen the oversight and management of the investment of the Retirement Fund.

Recently the City Retirement Board has been considering a partial investment of funds with VPIC. The rationale for not investing all of the BERS investments through VPIC is to provide the City the flexibility to create a total portfolio with a different weighting of asset classes from the weighting in the VPIC funds.

The Task Force reviewed and considered the strategy of not placing all of the funds with VPIC. The City Council members of the Task Force met with the Retirement Board and its investment performance consultant to review the rationale for this investment strategy. The Task Force concluded that the benefits of VPIC investment management continue to be compelling and that not more than 10% of the Retirement Fund should be managed independently of VPIC.

The second recommendation of the interim Task Force Report was that the City should review the current structure and composition of the Retirement Board. By City Charter, the membership of the Retirement Board is a total of five members with two appointed by the City Council, two elected by City employees (one each from Class A and B) and the Chief Administrative Officer ex officio.

However, the City Ordinance provides for an eight member Board comprised of three members appointed by the City Council, four members elected by the City employees and the Chief Administrative Officer, ex officio. The Ordinance does not conform to the City Charter provisions. The Task Force believes that the current composition of the Board is not only inconsistent with the City Charter but has created an imbalance in representation of the interests over the Retirement Fund.

In this regard, it is noted that there has evolved a misperception on the part of many employees that the Retirement Fund is "their" fund and, therefore, the employees should have significant control over the disposition and investment of the Retirement Fund. This misperception is reinforced by the fact that Class A employees have always contributed to the Fund, and more recently, Class B employees also contribute.

Under a "defined contribution" (DC) retirement plan, it would be accurate that the funds belong to the employees. In fact, under a DC plan, each employee has an individual account with a specific amount of funds and typically each employee

determines how those funds are to be invested. If the employee leaves or retires, the employee is entitled to the funds specifically set aside for that employee.

However, under a defined benefit retirement plan neither the individual employee nor the employees collectively have an ownership interest or right with regard to the assets of the DB plan. Instead, the employees both individually and collectively have an interest and vested right in the benefits under the plan. The employer owns the investment assets but has the liability to provide the defined benefit to which the employee is entitled.

Under a DB plan the employer, in this instance the City, owns the assets, not the employee. The employee owns the right to the promised benefit. If the investment funds are not sufficient to pay for the costs of the benefit, the employer is obligated to still pay the full cost of the benefit. If the investment assets are greater than the liability of the benefits, the employer, not the employee, is entitled to the excess or overfunding.

In this context, it is clear that the City created and owns the Retirement Fund as a means to finance the benefits it is obligated to provide employees. The employees contribute to the Retirement Fund in exchange for the benefit the City will provide at the employees' retirement.

A common example of the difference in ownership of retirement plan investment assets is the difference between the Federal Social Security Fund and both private and public employer 401(k) plans. Social Security is a defined benefit plan. The Social Security Fund is "owned" by the government even though employees contribute to the Fund. The employees who contribute to the Social Security Fund are entitled to the benefits promised but not the investment funds used to pay for the benefits.

In contrast, under a 401(k) plan and other similar defined contribution plans, the employee "owns" the investment funds despite the fact that the employer contributes to the fund. When the employee retires, the employee is entitled to the specific amount of funds and the employer has no further liability to the employee.

The Task Force notes that while employee representation on the Retirement Board provides significant control of the investment of the Retirement Fund, it is the City taxpayer and ratepayer who bear the burden if the Retirement Fund investments are not sufficiently successful to cover the cost of the benefits. Therefore, the Task Force feels that the composition and membership of the Board should be revised to reflect the obligation of the City to ensure the benefits owed to employees and to reflect the City's liability for the success or failure of the investment of the Retirement Fund.

## Recommendations

The Task Force recommends that the City place between 90% and 100% of the assets of the Retirement Fund under the management of the VPIC. The Task Force believes that this will reduce investment management expenses, provide access to more investment opportunities and top tier managers while strengthening the oversight of the investments.

The Task Force recommends that the City Council revise the City Ordinances governing the composition and membership of the Retirement Board to comply with the City Charter. The composition and membership set forth in the City Charter more accurately reflects the City's ownership of the Retirement Fund and liability for the performance success or failure of the Fund.

## Summary of Recommendations

1. The City should retain the current BERS defined benefit plan if the recommendations of the Task Force are adopted as a comprehensive plan to restore the financial health of the BERS and to reduce the current costs and tax burden. If these recommendations are not adopted and the savings achieved, the BERS should be converted to a defined contribution plan for all new employees. (p 8)

2. Revise the current three year basis of Average Final Compensation (AFC) to a five year basis to moderate future increases in unfunded liability resulting from changes in employees' compensation in excess of 3.5% a year. (p 13)

3. For all new Class B employees, the City should adopt the actuarial standard for an early retirement offset adopted effective July 1, 2006 for all non-union personnel and the City AFSCME Union employees. The City should convert the current defined benefit plan to a defined contribution plan for any employee group that does not accept this standard. (p 16)

4. For all current Class B employees and former employees with vested benefits, the City should restore the 3.33% per year reduction originally in place for employees hired prior to July 1, 1983. (p 16)

5. For Class A employees, the City should revert to the pre-2000 actuarially based offset for early retirement for employees with less than 25 years of service and age 55 or alternatively adopt a standard similar to the pension provisions for the Vermont State Police. (p 16)

6. Amend the City Ordinance to provide a uniform standard of disability based on the Social Security definition as permanent inability to perform gainful employment and utilize the Social Security standard for income to offset the disability benefit. (p 17)

7. The City should consider a reduction of disability benefit from 75% of base salary or wage to the industry standard of 66%. (p. 17)

8. Utilize a third party contract for the administration and determination of the disability benefits by a private insurance company with the expertise and experience to improve the administration of the disability benefit. (p 18)

9. Require eligibility for Social Security disability benefits as the standard for City disability benefits within six months of the onset of the disability eligibility. (p 18)

10. Seek voter authorization to issue a Pension Obligation Bond to fund the unfunded liability of the BERS and thereby reduce the expenses of this liability and consider whether to phase or "ladder" the investment of the proceeds over multiple years. (p 22)

11. Amend the City Charter and State law to exempt the Burlington Employees' Retirement System from the collective bargaining process. (23)

12. Place at least 90% of the BERS assets under the investment of the Vermont Pension Investment Committee (VPIC) to improve diversification, reduce investment management expenses and to provide greater investment opportunities. (p 25)

13. Retain up to 10% of the BERS assets and place under the direct management and oversight of the Retirement Board to enable the City to adapt the total asset allocation of the BERS assets to reflect the City's investment goals (p 25)

14. Revise the City Ordinances governing the composition and membership of the Retirement Board to comply with the composition and membership set forth in the City Charter. (p 25)

# ATTACHMENT A

## TOTAL CONTRIBUTIONS FOR BOTH A AND B EMPLOYEES

| Est. Contributions for year ending | Valuation Year | Projected Payroll | Normal Contribution | Past Service Contribution | Total Contribution | As % of Payroll |
|---|---|---|---|---|---|---|
| June 30,1992 | 1990 | 19,761,157 | 993,145 | 46,200 | 1,039,345 | 5.3% |
| June 30,1993 | 1991 | 20,813,363 | 1,026,775 | 193,423 | 1,220,198 | 5.9% |
| June 30,1994 | 1992 | 21,115,585 | 1,110,310 | 150,248 | 1,260,558 | 6.0% |
| June 30,1995 | 1993 | 21,375,754 | 1,136,582 | (52,411) | 1,084,171 | 5.1% |
| June 30,1996 | 1994 | 22,696,388 | 1,385,645 | (406,528) | 979,117 | 4.3% |
| June 30,1997 | 1995 | 23,051,397 | 1,420,589 | (476,493) | 944,096 | 4.1% |
| June 30,1998 | 1996 | 23,970,697 | 1,543,837 | (642,264) | 901,573 | 3.8% |
| June 30,1999 | 1997 | 24,458,883 | 1,584,700 | (1,101,395) | 483,305 | 2.0% |
| June 30,2000 | 1998 | 25,181,288 | 1,749,560 | (1,705,454) | 44,106 | 0.2% |
| June 30,2001 | 1999 | 26,525,647 | 1,879,340 | (2,721,861) | (842,521) | -3.2% |
| June 30,2002 | 2000 | 26,738,897 | 3,237,952 | (2,470,506) | 767,446 | 2.9% |
| June 30,2003 | 2001 | 28,335,739 | 3,460,682 | (2,380,771) | 1,079,911 | 3.8% |
| June 30,2004 | 2002 | 29,719,840 | 3,688,639 | (1,226,799) | 2,461,840 | 8.3% |
| June 30,2005 | 2003 | 31,374,681 | 3,934,287 | 628,824 | 4,563,111 | 14.5% |
| June 30,2006 | 2004 | 33,190,245 | 3,782,704 | 905,446 | 4,688,150 | 14.1% |
| June 30,2007 | 2005 | 34,384,729 | 3,916,950 | 2,192,474 | 6,109,424 | 17.8% |
| June 30,2008 | 2006 | 35,588,195 | 3,301,297 | 2,929,190 | 6,230,487 | 17.5% |

ATTACHMENT A

## CONTRIBUTIONS FOR CLASS A EMPLOYEES

| Est. Contributions for year ending | Valuation Year | Projected Payroll | Normal Contribution | Past Service Contribution | Total Contribution | As % of Payroll |
|---|---|---|---|---|---|---|
| June 30,1992 | 1990 | 4,743,837 | 326,376 | 180,161 | 506,537 | 10.7% |
| June 30,1993 | 1991 | 5,012,702 | 285,724 | 276,095 | 561,819 | 11.2% |
| June 30,1994 | 1992 | 5,081,581 | 305,403 | 270,497 | 575,900 | 11.3% |
| June 30,1995 | 1993 | 5,612,880 | 313,760 | 200,191 | 513,951 | 9.2% |
| June 30,1996 | 1994 | 5,641,617 | 488,564 | 311,065 | 799,629 | 14.2% |
| June 30,1997 | 1995 | 5,511,397 | 473,429 | 159,834 | 633,263 | 11.5% |
| June 30,1998 | 1996 | 5,797,600 | 546,134 | 154,581 | 700,715 | 12.1% |
| June 30,1999 | 1997 | 6,125,800 | 552,547 | (87,849) | 464,698 | 7.6% |
| June 30,2000 | 1998 | 6,133,571 | 730,508 | (66,582) | 663,926 | 10.8% |
| June 30,2001 | 1999 | 6,301,306 | 764,979 | (629,501) | 135,478 | 2.2% |
| June 30,2002 | 2000 | 6,468,639 | 1,241,332 | (962,694) | 278,638 | 4.3% |
| June 30,2003 | 2001 | 7,300,867 | 1,374,023 | (934,137) | 439,886 | 6.0% |
| June 30,2004 | 2002 | 7,449,084 | 1,477,153 | (240,193) | 1,236,960 | 16.6% |
| June 30,2005 | 2003 | 8,169,478 | 1,604,485 | 241,703 | 1,846,188 | 22.6% |
| June 30,2006 | 2004 | 8,341,093 | 1,404,640 | 333,297 | 1,737,937 | 20.8% |
| June 30,2007 | 2005 | 8,932,223 | 1,501,507 | 971,787 | 2,473,294 | 27.7% |
| June 30,2008 | 2006 | 9,244,851 | 1,306,993 | 1,220,155 | 2,527,148 | 27.3% |

ATTACHMENT A

# CONTRIBUTIONS FOR CLASS B EMPLOYEES

| Est. Contribution for year ending | Valuation Year | Projected Payroll | Normal Contribution | Past Service Contribution | Total Contribution | As % of Payroll |
|---|---|---|---|---|---|---|
| June 30,1992 | 1990 | 15,017,320 | 666,769 | (133,961) | 532,808 | 3.5% |
| June 30,1993 | 1991 | 15,800,661 | 741,051 | (82,672) | 658,379 | 4.2% |
| June 30,1994 | 1992 | 16,034,004 | 804,907 | (120,249) | 684,658 | 4.3% |
| June 30,1995 | 1993 | 15,762,874 | 822,822 | (252,602) | 570,220 | 3.6% |
| June 30,1996 | 1994 | 17,054,772 | 897,081 | (717,593) | 179,488 | 1.1% |
| June 30,1997 | 1995 | 17,540,000 | 947,160 | (636,327) | 310,833 | 1.8% |
| June 30,1998 | 1996 | 18,173,097 | 997,703 | (796,845) | 200,858 | 1.1% |
| June 30,1999 | 1997 | 18,333,083 | 1,032,153 | (1,013,546) | 18,607 | 0.1% |
| June 30,2000 | 1998 | 19,047,717 | 1,019,052 | (1,638,872) | (619,820) | -3.3% |
| June 30,2001 | 1999 | 20,224,341 | 1,114,361 | (2,092,360) | (977,999) | -4.8% |
| June 30,2002 | 2000 | 20,270,258 | 1,996,620 | (1,507,812) | 488,808 | 2.4% |
| June 30,2003 | 2001 | 21,034,872 | 2,086,659 | (1,446,634) | 640,025 | 3.0% |
| June 30,2004 | 2002 | 22,270,756 | 2,211,486 | (986,606) | 1,224,880 | 5.5% |
| June 30,2005 | 2003 | 23,205,203 | 2,329,802 | 387,121 | 2,716,923 | 11.7% |
| June 30,2006 | 2004 | 24,849,152 | 2,378,064 | 572,149 | 2,950,213 | 11.9% |
| June 30,2007 | 2005 | 25,452,506 | 2,415,443 | 1,220,687 | 3,636,130 | 14.3% |
| June 30,2008 | 2006 | 26,343,344 | 1,994,304 | 1,709,035 | 3,703,339 | 14.1% |

ATTACHMENT B

## BURLINGTON EMPLOYEES RETIREMENT SYSTEM
## CLASS B MEMBERS

**Actuarily Based Early Retirement Benefit Calculation**

**As a Percentage of Benefit for a Normal Age Retirement**

| | Months | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Age of Retiree | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 55 | 0.356 | 0.359 | 0.362 | 0.365 | 0.368 | 0.371 | 0.375 | 0.378 | 0.381 | 0.384 | 0.387 | 0.390 |
| 56 | 0.393 | 0.396 | 0.400 | 0.403 | 0.406 | 0.410 | 0.413 | 0.416 | 0.420 | 0.423 | 0.426 | 0.430 |
| 57 | 0.433 | 0.437 | 0.441 | 0.444 | 0.448 | 0.452 | 0.456 | 0.459 | 0.463 | 0.467 | 0.471 | 0.474 |
| 58 | 0.478 | 0.482 | 0.487 | 0.491 | 0.495 | 0.499 | 0.504 | 0.508 | 0.512 | 0.516 | 0.521 | 0.525 |
| 59 | 0.529 | 0.534 | 0.538 | 0.543 | 0.548 | 0.552 | 0.557 | 0.562 | 0.566 | 0.571 | 0.576 | 0.580 |
| 60 | 0.585 | 0.590 | 0.596 | 0.601 | 0.606 | 0.612 | 0.617 | 0.622 | 0.628 | 0.633 | 0.638 | 0.644 |
| 61 | 0.649 | 0.655 | 0.661 | 0.667 | 0.673 | 0.679 | 0.685 | 0.691 | 0.697 | 0.703 | 0.709 | 0.715 |
| 62 | 0.721 | 0.728 | 0.735 | 0.742 | 0.748 | 0.755 | 0.762 | 0.769 | 0.776 | 0.783 | 0.789 | 0.796 |
| 63 | 0.803 | 0.811 | 0.818 | 0.826 | 0.834 | 0.841 | 0.849 | 0.857 | 0.864 | 0.872 | 0.880 | 0.887 |
| 64 | 0.895 | 0.904 | 0.913 | 0.921 | 0.930 | 0.939 | 0.948 | 0.956 | 0.965 | 0.974 | 0.983 | 0.991 |
| 65 | 1.000 | | | | | | | | | | | |

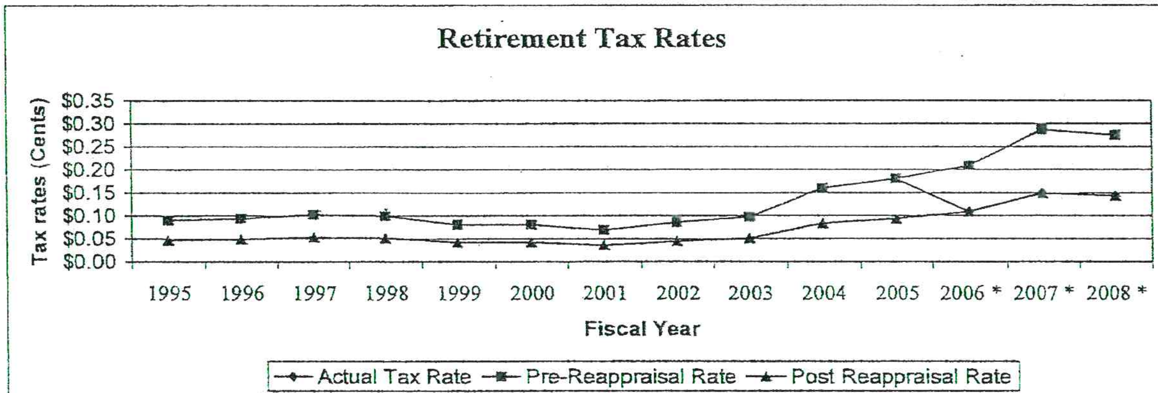
# ATTACHMENT C

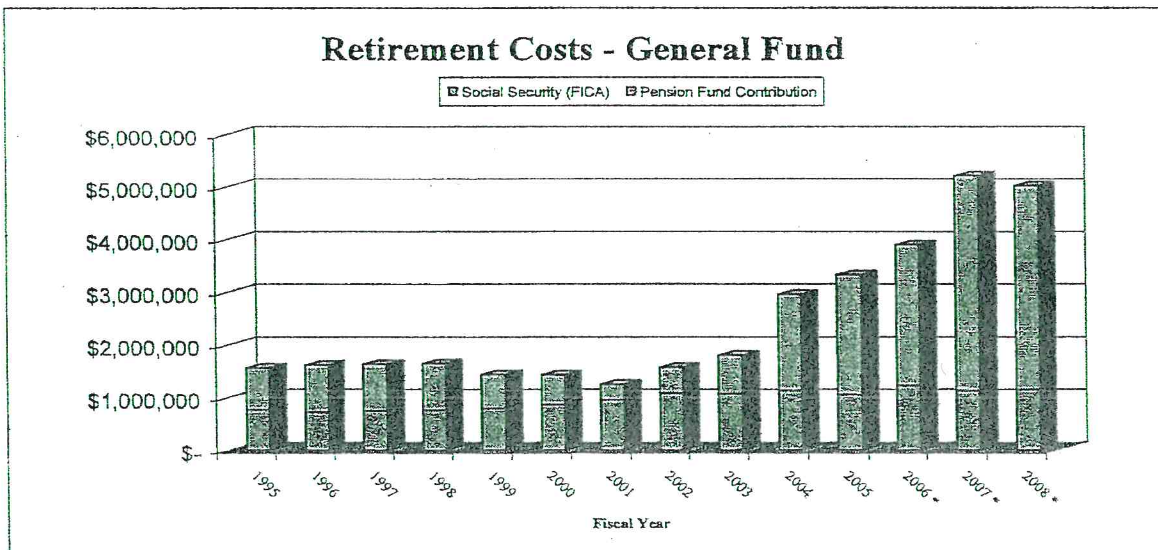
## General Fund Tax Contribution to the Retirement System

### General Fund Retirement Costs & Tax Rate

| Fiscal Year | City Share of Social Security | City Contribution to BERS | Total | Actual Tax Rate | Pre-Reappraisal Rates | Post Re-Appraisal Tax Rates |
|---|---|---|---|---|---|---|
| 1995 | 773,990 | 785,750 | 1,559,740 | 0.0896 | 0.0896 | 0.0465 |
| 1996 | 725,109 | 894,057 | 1,619,166 | 0.0933 | 0.0933 | 0.0485 |
| 1997 | 755,360 | 874,410 | 1,629,770 | 0.1021 | 0.1021 | 0.0530 |
| 1998 | 766,050 | 880,590 | 1,646,640 | 0.0992 | 0.0992 | 0.0515 |
| 1999 | 802,890 | 631,620 | 1,434,510 | 0.0808 | 0.0808 | 0.0420 |
| 2000 | 871,152 | 559,089 | 1,430,241 | 0.0808 | 0.0808 | 0.0420 |
| 2001 | 956,870 | 293,130 | 1,250,000 | 0.0689 | 0.0689 | 0.0358 |
| 2002 | 1,085,360 | 486,740 | 1,572,100 | 0.0856 | 0.0856 | 0.0445 |
| 2003 | 1,077,130 | 727,340 | 1,804,470 | 0.0978 | 0.0978 | 0.0508 |
| 2004 | 1,139,050 | 1,821,137 | 2,960,187 | 0.1603 | 0.1603 | 0.0833 |
| 2005 | 1,061,370 | 2,269,750 | 3,331,120 | 0.1803 | 0.1803 | 0.0936 |
| 2006 * | 1,228,354 | 2,671,646 | 3,900,000 | 0.1086 | 0.2091 | 0.1086 |
| 2007 * | 1,129,357 | 4,090,321 | 5,219,678 | 0.1491 | 0.2871 | 0.1491 |
| 2008 * | 1,152,976 | 3,873,168 | 5,026,144 | 0.1431 | 0.2755 | 0.1431 |

* A General City-wide reappraisal was completed in 2006 which affected the tax rate required. For example, the tax rate needed to generate $3,900,000 in 2006 was 10.86 cents. However, if a reappraisal had not taken place, the rate would have been 20.91 cents. For FY'07 & '08, the same ratio was used to project a pre-reappraisal rate as in FY 2006. This discounts growth in the Grand List.



# Total Both Burlington-Class A & B Employees
## Offset Improvements with Future Actuarial Asset Gains

| Pre 2000 Provisions | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (2,721,861) | (3,759,999) | (4,741,141) | (5,512,681) | (5,653,514) | (6,316,301) | (6,933,686) | (7,305,078) |
| normal | 1,843,686 | 1,935,871 | 2,032,665 | 2,134,298 | 2,241,013 | 2,353,063 | 2,470,716 | 2,594,253 |
| Total | (878,175) | (1,824,128) | (2,708,476) | (3,378,383) | (3,412,501) | (3,963,238) | (4,462,970) | (4,710,825) |
| Est. Tax Rate *** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Post 2000 Provisions Increased Past Service Liablity $16,885,000 and Normal Cost $1,285,000**

| | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (2,246,457) | (2,246,456) | (2,246,457) | (2,409,396) | (2,083,736) | (2,202,765) | (2,270,902) | (2,004,405) |
| normal | 3,117,682 | 3,273,566 | 3,437,244 | 3,609,106 | 3,789,561 | 3,979,040 | 4,177,992 | 4,386,892 |
| Total | 871,225 | 1,027,110 | 1,190,787 | 1,199,710 | 1,705,825 | 1,776,275 | 1,907,090 | 2,382,487 |
| Taxes Required | 762,259 | 876,314 | 996,069 | 958,875 | 1,132,497 | 1,151,898 | 1,270,551 | 1,621,776 |
| Est. Tax Rate *** | 2.18 | 2.50 | 2.85 | 2.74 | 3.24 | 3.29 | 3.63 | 4.63 |

**Difference Between Pre 2000 Benefits & Post 2000 Benefits**

| | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|---|---|---|---|
| Total Amount | 1,749,400 | 2,851,238 | 3,899,263 | 4,578,093 | 5,118,326 | 5,739,513 | 6,370,060 | 7,093,312 |
| Taxes Required | 1,193,468 | 2,045,793 | 2,820,060 | 3,267,671 | 3,631,997 | 4,060,248 | 4,522,020 | 5,052,571 |
| Est. Tax Rate *** | 3.41 | 5.85 | 8.06 | 9.34 | 10.38 | 11.60 | 12.92 | 14.44 |

*** Tax Rate Based on FY 2008 Grand List

# Total Both Burlington-Class A & B Employees
## Offset Improvements with Future Actuarial Asset Gains

| Pre 2000 Provisions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (7,316,718) | (7,511,747) | (7,234,827) | (6,945,368) | (6,645,321) | (6,484,118) | (6,523,422) |
| normal | 2,723,965 | 2,860,162 | 3,003,171 | 3,153,330 | 3,310,996 | 3,476,546 | 3,650,372 |
| Total | (4,592,753) | (4,651,585) | (4,231,656) | (3,792,038) | (3,334,325) | (3,007,572) | (2,873,050) |
| Est. Tax Rate *** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Post 2000 Provisions Increased Past Service Liablity $16,885,000 and Normal Cost $1,285,000**

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (1,297,723) | (734,535) | (193,806) | (193,806) | (193,806) | (30,867) | - |
| normal | 4,606,236 | 4,836,548 | 5,078,375 | 5,332,294 | 5,598,909 | 5,878,854 | 6,172,797 |
| Total | 3,308,513 | 4,102,013 | 4,884,569 | 5,138,488 | 5,405,103 | 5,847,987 | 6,172,797 |
| Taxes Required | 2,319,454 | 2,794,314 | 3,521,842 | 3,707,624 | 3,902,696 | 4,270,460 | 4,516,393 |
| Est. Tax Rate *** | 6.63 | 7.98 | 10.06 | 10.59 | 11.15 | 12.20 | 12.90 |

**Difference Between Pre 2000 Benefits & Post 2000 Benefits**

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|---|---|---|---|
| Total Amount | 7,901,266 | 8,753,598 | 9,116,225 | 8,930,526 | 8,739,428 | 8,855,559 | 9,045,847 |
| Taxes Required | 5,641,470 | 6,262,515 | 6,608,018 | 6,436,412 | 6,287,502 | 6,414,157 | 6,575,485 |
| Est. Tax Rate *** | 16.12 | 17.89 | 18.88 | 18.39 | 17:96 | 18.33 | 18.79 |

*** Tax Rate Based on FY 2008 Grand List

ATTACHMENT E

## Burlington-Class A Empolyees
## Offset Improvements with Future Actuarial Asset Gains

| Pre 2000 Provisions | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (629,501) | (1,151,166) | (1,563,857) | (1,863,474) | (2,288,656) | (2,569,340) | (2,768,558) | (2,914,020) |
| Normal | 744,583 | 781,813 | 820,904 | 861,949 | 905,046 | 950,298 | 997,813 | 1,047,704 |
| Total | 115,082 | (369,353) | (742,953) | (1,001,525) | (1,383,610) | (1,619,042) | (1,770,745) | (1,866,316) |
| **Post 2000 Provisions Increased Past Service Liablity $16,885,000 and Normal Cost $515,000** | | | | | | | | |
| Prior Svc Cost | (629,501) | (629,501) | (629,502) | (792,442) | (1,098,047) | (1,217,531) | (1,194,057) | (1,078,930) |
| Normal | 1,258,579 | 1,321,508 | 1,387,583 | 1,456,962 | 1,529,810 | 1,606,301 | 1,686,616 | 1,770,947 |
| Total | 629,078 | 692,007 | 758,081 | 664,520 | 431,763 | 388,770 | 492,559 | 692,017 |
| **Difference in Cost** | 513,996 | 1,061,360 | 1,501,034 | 1,666,045 | 1,815,373 | 2,007,812 | 2,263,304 | 2,558,333 |

| Pre 2000 Provisions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (2,868,981) | (3,176,936) | (2,898,993) | (2,702,749) | (2,561,447) | (2,491,874) | (2,538,478) |
| Normal | 1,100,089 | 1,155,093 | 1,212,848 | 1,273,490 | 1,337,165 | 1,404,023 | 1,474,224 |
| Total | (1,768,892) | (2,021,843) | (1,686,145) | (1,429,259) | (1,224,282) | (1,087,851) | (1,064,254) |
| **Post 2000 Provisions Increased Past Service Liablity $16,885,000 and Normal Cost $515,000** | | | | | | | |
| Prior Svc Cost | (748,889) | (756,454) | (193,806) | (193,806) | (193,806) | (30,867) | 0 |
| Normal | 1,859,494 | 1,952,469 | 2,050,092 | 2,152,597 | 2,260,227 | 2,373,238 | 2,491,900 |
| Total | 1,110,605 | 1,196,015 | 1,856,286 | 1,958,791 | 2,066,421 | 2,342,371 | 2,491,900 |
| **Difference in Cost** | 2,879,497 | 3,217,858 | 3,542,431 | 3,388,050 | 3,290,703 | 3,430,222 | 3,556,154 |

ATTACHMENT F

## Burlington-Class B Employees
## Offset Improvements with Future Actuarial Asset Gains

| Pre 2000 Provisions | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (2,092,360) | (2,608,833) | (3,177,284) | (3,649,207) | (3,364,858) | (3,746,961) | (4,165,128) | (4,391,058) |
| Normal | 1,099,103 | 1,154,058 | 1,211,761 | 1,272,349 | 1,335,967 | 1,402,765 | 1,472,903 | 1,546,549 |
| Total | (993,257) | (1,454,775) | (1,965,523) | (2,376,858) | (2,028,891) | (2,344,196) | (2,692,225) | (2,844,509) |
| **Post 2000 Provisions Increased Past Service Liablity $16,885,000** | | | | | | | | |
| **Normal Cost $760,000** | | | | | | | | |
| Prior Svc Cost | (1,616,956) | (1,616,955) | (1,616,955) | (1,616,954) | (985,689) | (985,234) | (1,076,845) | (925,475) |
| Normal | 1,859,103 | 1,952,058 | 2,049,661 | 2,152,144 | 2,259,751 | 2,372,739 | 2,491,376 | 2,615,945 |
| Total | 242,147 | 335,103 | 432,706 | 535,190 | 1,274,062 | 1,387,505 | 1,414,531 | 1,690,470 |
| Difference in Cost | 1,235,404 | 1,789,878 | 2,398,229 | 2,912,048 | 3,302,953 | 3,731,701 | 4,106,756 | 4,534,979 |

| Pre 2000 Provisions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|---|---|---|---|
| Prior Svc Cost | (4,447,737) | (4,334,811) | (4,335,834) | (4,242,619) | (4,083,874) | (3,992,244) | (3,984,944) |
| Normal | 1,623,876 | 1,705,069 | 1,790,323 | 1,879,840 | 1,973,831 | 2,072,523 | 2,176,148 |
| Total | (2,823,861) | (2,629,742) | (2,545,511) | (2,362,779) | (2,110,043) | (1,919,721) | (1,808,796) |
| **Post 2000 Provisions Increased Past Service Liablity $16,885,000** | | | | | | | |
| **Normal Cost $760,000** | | | | | | | |
| Prior Svc Cost | (548,834) | 21,919 | 0 | 0 | 0 | 0 | 0 |
| Normal | 2,746,742 | 2,884,079 | 3,028,283 | 3,179,697 | 3,338,682 | 3,505,616 | 3,680,897 |
| Total | 2,197,908 | 2,905,998 | 3,028,283 | 3,179,697 | 3,338,682 | 3,505,616 | 3,680,897 |
| Difference in Cost | 5,021,769 | 5,535,740 | 5,573,794 | 5,542,476 | 5,448,725 | 5,425,337 | 5,489,693 |