

Addendum to General Comments: Town of Newtown Pension Plan – July 1, 2014

In the time since the valuation report was completed, the Society of Actuaries has finalized a multi-year project regarding the recognition of future improvements in longevity. The new mortality tables are designed to become the “standard” for financial accounting purposes.

Although the financial accounting rules and the funding calculations are not directly tied together, we are of the opinion that not using the new tables for funding purposes would not be considered proper actuarial practice, and would result in negative commentary in the auditor’s disclosures.

The traditional way of measuring the liabilities for future benefits included what is called a static mortality table, such that a single table applied to each participant in a pension plan. The table we have been using is the IRS issued table, which includes a 7 year projection from the current year, but is based on mortality data from the late 90s.

The new mortality table is really a series of tables, and is called a “generational” mortality concept. The easiest way to look at it is to think of the plan using different mortality tables for each group of people born in a certain year. Someone who is 62 today will have a different life expectancy at age 62 than someone who will turn 62 in 30 years.

The impact on the plan is that people retiring in the future are projected to live longer, and thus collect their pensions for a longer period of time than someone retiring now. This could increase the liabilities of the plan by anywhere from 5% to 8%. The factor for Newtown will depend how the new tables fit the mix of participants in the plan.

Because this new methodology is such a significant change to how we calculate benefit liabilities, the programming to see how the switch to the new tables will affect Newtown is still being worked on. We should have the programming ready by the end of 2014, and we will start studying the effects on your plan in the spring.

We expect that a 10% increase in the budget request for 2016-17 is not out of the question – although the increases from the new tables could be countered by positive actuarial experience and a continued contraction of the active participant work force.

From what we are hearing, your auditors will expect the yearend financial reporting for June 30, 2015 to be prepared using the new mortality tables.

June 30, 2015 is also the first year that the new GAS-68 standards will apply to the Town’s financial reporting. Under GAS-68, the unfunded liability of the plan will immediately become a balance sheet liability of the Town. Previously, the Town’s liability for pension funding was equal to the difference between the actuarially determined contributions and the actual contributions made, with the unfunded amount just a footnoted item.

For 2015, then, the Town’s balance sheet will reflect both the impact of the adoption of GAS-68 and the new tables all in the same year. Before any adjustments for the new mortality tables, we were projecting an adjustment to the balance sheet of more than \$8 million. It looks like the new tables will add somewhere between \$2.2 million and \$3.3 million to that number.