Huntington West Virginia
Municipal Policeman's and Fireman's Pension and Relief Funds:
An Update
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January 14, 2013

Overview

My earlier report on the City of Huntington Fireman's and Policeman's Pension and Relief funds[1] were based on the July 1, 2010 Actuarial Valuation Reports. Since that time on November 21, 2012 the July 1, 2011 reports have been completed and received by the City[2]. As required by West Virginia Code 8-22 Part III a single actuary for all state fire and police funds was used, Gabriel Roeder Smith & Co. The financial condition of both funds shows improvement over the 2010 results.

For the Fire fund the "unfunded liability" decreased from $88,228,949 to $86,589,007 and the "funded ratio" rose from 6.08% to 9.32% for a gain of $627,970. For the Police Fund the decrease in "unfunded liability" fell from $83,776,208 to $78,946,410. While the funded ratio increased from 15.20% to 21.09% for a gain of $2,730,102.

Improved Investment Performance

While there are several factors contributing to the better results. One was the improved return on the Fund's investments. The actuaries use a formula to establish the expected discount rate. If a funds return on its invested assets exceeds the discount rate then the unfunded liability falls as earning exceed what was projected. If earnings were less than the expected discount rate the unfunded liability rises. In the past the failure of the Fire and Police Fund's earning to equal or exceed the discount rate has contributed to the increase in the unfunded liabilities for both funds. This was not the situation in 2011.

For 2011 the discount rate used by the actuaries ranged from 7% for funds 60% or more funded to 5% for funds less than 15 percent funded. Since the Fire Fund's unfunded liability was 9.92%, the 5% discount rate was used. The approximate return on assets for the plan year rose from 3.7% to 17.6%. This estimated return in excess of the 5% resulted in a net appreciation of $510,351. According to the actuaries' formula since the police fund was above 15% at 21.09% the discount rate used was 5.5%. The return to the police fund was 10.9% which accounted for a net appreciation of $702,061.

The positive change resulted from a shift in both funds investment portfolios as shown in the two attachments. While the Police Fund continued with United Bank the Fire Fund switched to City National Bank.

For the Fire Fund the amount in cash and short term investments dropped from 21% to 11%. In the Fire Fund there were no holdings of government securities or corporate bonds. The percentage held in corporate stocks remained virtually constant 37%-38%. The Police Fund also decreased its percentage held as cash and short term investments from 22% to 15% showing a more balanced portfolio than the Fire Fund's. The Police Fund decreased its holding of government securities from 21% to 10% while

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[1] Kent, C (October 18, 2012) "Huntington West Virginia Municipal Policeman's and Fireman's Pension and Relief Funds: An Analysis" Huntington Area chamber of Commerce.
[2] Gabriel Roeder Smith and Company (November 21, 2012) *City of Huntington, West Virginia Firemen's Pension and Relief Fund Actuarial Valuation Report for the Year Beginning July 1, 2011* and *City of Huntington, West Virginia Policemen's Pension and Relief Fund Actuarial Valuation Report for the Year Beginning July 1, 2011.*

increasing its corporate bond holdings from 5% to 21%. The percentage in corporate stocks actually decreased from 39% to 32%.

Changes in Receivable Contributions

By far the most significant reason for the improved performance of the funds came from the increase in "receivable contribution". Receivable contribution constituted $4,523,696 or 51% of the total assets for the Fire Fund. It constituted $3,653,919 or 22% of the Police Fund. Both these entries are significantly greater than recorded in previous years. For both Funds the receivable contribution listed for June 30, 2010 was zero (0). The fireman's fund listed $1,293,686 in June 2011 while the corresponding figure for the police fund was $1,026,354.

Receivable contributions consist of monies from the insurance premium tax due the Fire and Police Funds plus the amounts due to the funds from the required City contribution. These amounts reflect the situation on the date of the actuarial report (June 20, 2011). In order for the City to draw down the insurance premium tax allocation it must first pay the amount due the pension funds. Until that payment is made the amount of the insurance premium tax due the Funds and the amount due the Funds from the City are counted as receivable contributions.

Huntington did not claim the amounts due from the premium tax until over a year after were available for transfer. This is due in part to the requirement that the actuarial reports must be received prior to any drawdowns commencing. The actuarial reports were not received until November 21, 2012. The insurance premium tax money becomes available on September 1st and the City has 18 months to claim it by making the required payments to the pension Funds. The law allows a grace period in which the City has 18 months to claim the amount due from the tax by making the required payments.

Since the City due to cash flow issues, did not claim the monies for either fund until over a year after they became available, the amounts recorded in the asset reports as receivable contributions are quite large. As Huntington becomes more current in claiming the insurance premium tax and making the payments to the pension funds, the amount of receivable contributions will diminish and other asset categories will increase.

It is important to note that Huntington did not lose any money. All the money due the funds was claimed and deposited. To date the amounts available as of September 1, 2012 have not been claimed. This is not unusual. Only 14 of the 54 cities in the plan have started claiming their insurance premium tax allocations. The only "loss" in the delay is the income the funds could have received had the money been deposited with them earlier.

Estimated Employer Contributions

The estimated employer contribution for FTE 6/30/2013 is $5,423,744 for fire up from $5,366,227 and $4,252,960 for police down from $4,724,218 in 2012. The $471,258 decrease in the estimate for police is partially offset by the $57,517 estimated increase for fire. The net difference is $413,741 decrease in the estimate for the City obligation to both funds**. IT MUST BE NOTED THESE WERE THE ACTUARIES ESTIMATES BASED ON THE PREVIOUS YEAR'S DATA. THE ACTUAL AMOUNT THE CITY MUST CONTRIBUTE IS CALCULATED USING CURRENT DATA AS PROVIDED IN THE MUNICIPAL TREASURER'S (City Finance Officer) REQUEST TO THE MUNICIPAL PENSION OVERSIGHT BOARD.**

The City Finance Director has indicated to me that the actual amounts are most likely to be $5,453,914 for fire and $4,316,854 for police. The total amount of $9,770,768 would be a reduction from the

$10,090,446 employer contribution in 2013 of $319,678. There is no reason to project that the City's contributions will continue to fall. As the actual amounts needed are determined by many factors using current data.

Assumptions

The assumptions used in these reports have not changed from the previous report.

- Number of participants (retirees, surviving spouses, disabled members and deferred vested members)
- Level of employee contributions (currently 7.00% of pay)
- Retirement rates (anticipated that 45% will retire at age 50-51 and 100% by age 58)
- Mortality rates
- Disability rates
- Terminations
- General inflation of 3.00% per year
- Wage increases of 4.00% per year
- Investment performance of the Funds (currently expected at 5.00%)
- Increases in State contributions from the Insurance Premium Tax

There are no changes in unfunded liabilities due to alterations in items like the mortality tables as was the case for plan year 2010. But if the assumptions and the actual results are at variance changes in the unfunded liabilities will occur. One area in which this is likely is payouts to retirees. It does not appear that these are considered in the actuarial report.

Past Due Reports

As noted in the October 17, 2012 report, two reports which are required under State law had not been filed with the Municipal Pensions Oversight Board[3]. Since then one of the required reports on their investment policies have been filed. The other reports concerning the comparative performance of the funds which are to be done on a quarterly basis have not been provided. These reports are to include all fees and costs of investing.

Developing Issues with the "New" Pension Program

Police and fire members hired after January 1, 2010 were to be enrolled in a newly created "West Virginia Municipal Police Officers and Firefighters Retirement Fund[4]. Benefits under this plan differ significantly from those under the "old" system. This is a State program. There are no separate local funds and the program is under the control of the Consolidated Public Retirement Board which administers and invests the monies. A description of the program can be found on the Consolidated Public Retirement Board web site[5].

Currently the members pay 8.5 percent of annual salary into the Fund and the required match from the City is 10.5 percent for a total of 19 percent[6]. The employee match can be raised by the Board to 10.5

[3] WVC 8-22-17(c) and WVC 8-22-22(c)
[4] WVC 8-22A
[5] Http://www.wvretirement.com/MPFI
[6] WVC 8-22A-8(a)(1)

percent if felt necessary to insure the solvency of the system[7]. If the plan is not 70 percent funded by July 1, 2014 the employee contribution automatically increases to 10.5 percent.

There are two related issues which should be carefully watched regarding this fund. First, the program was established with the expectation that at least 100 members would be in the plan by January 1, 2014. In fact failure to have 100 members voids the plan entirely[8]. In which case the enrollees are transferred to the Emergency Medical Services Retirement System. It does not appear likely that 100 member requirement will be met. As of date of this update only 49 are in the plan.

The second problem concerns the date for when payouts to beneficiaries is to begin. The law provides a start date of January 1, 2013[9] which has already passed. There are currently no claims against the Fund. There is fear that if a major disability or death benefit is to happen the Fund would not be able to meet the obligation required under the law and would in effect be bankrupt.

There are proposals being discussed to remedy both situations. The first would extend the date for the membership requirement to 2017. Given the data on planned retirements and assuming the retirees will be replaced, by that date the needed membership is assured. Also, the start date for benefit payouts should also be moved until the plan is 75 percent funded. For those already in the plan insurance should be purchased by the municipality to indemnify them.

Conclusions

- The financial condition of both the Fire and Police pension funds has improved since the previous report. The Police fund is 21 percent funded up from 15 percent. The fire Fund is 9 percent funded which is an increase from 6 percent.
- The improved position of these funds is due primarily to an increase in “receivable contributions” plus improved investment performance which exceed the actuarial projections and are significantly better than in past years.
- The unfunded liabilities of both funds remain high. For the Fire Fund it is $86,589,007 and for Police Fund $62,297,745 for a total of $148,886,752. Assuming the actuarial projections are correct and the City makes the necessary payments both funds will be fully funded in 2050.
- The City’s contribution to both plans appears to be slightly less than in the previous year. The contribution of $9,770,168 is approximately 3 percent below last year’s. There should be no expectation that the City’s contribution will continue to decrease as the City’s obligation is determined by numerous factors.
- There are potential problems with the new pension plan for those hired after January 1, 2010. These concern meeting the enrollment target of 100 members by 2014 and the fund being able to sustain a major outflow due to a member’s death or disability.

Recommendations

- The Funds should be pressured to supply to the Council and the MPOC and make public the quarterly reports on investment costs and comparative performance as required by State law.
- The City should make every effort to receive the monies due the Funds from the insurance premium tax by making timely payments of the City’s required contribution

[7] WVC 8-22A-8(a)(2)
[8] WVC-22A-4
[9] WVC 8-22A-9(a)

- The City and interest parties should communicate with the legislative delegation the need for changes in the dates for the new pension plan in order to continue the plan and to insure its solvency.

Disclaimer

This analysis of the Huntington West Virginia Policemen's (Police Fund) and Firemen's (Fire Fund) Pension and Relief Funds was requested by the Huntington Area Chamber of Commerce (Chamber). The Chamber has not provided funding for the project or participated in anyway in developing the findings and conclusions which are contained in the report. Nor does it reflect the opinions or conclusions of the author's employer Marshall University or its Board of Governors. The responsibility for the content of the report is solely the author's.

About the author

The author was formerly Business School Dean and a Vice President for Business and Economic Research at Marshall University. Since January 2012 he holds the Lewis Distinguished Chair in Business and Directs the BB&T Center for American Capitalism at the Marshall School of Business. He also is a Senior Fellow in Economics at the Center for Business and Economic Research at the Rahall Transportation Institute. He served for 11 years on the Huntington City Council. For nine of these years he chaired the Finance Committee. He has served on many state boards including being Vice Chair of Governor Underwood's Fair Tax Commission and Chair of the Sub-Committee on Local Finance and Property Taxation of Governor Manchin's Tax Modernization Project. Currently he is a member of the West Virginia Property Valuation Commission.