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# 2024 MUNICIPAL PENSION & OPEB REPORT

We are pleased to present the 2024 Municipal Pension & OPEB Report. This is the sixth edition of the report which we began producing in 2018. Although the retirement landscape has changed since then, the goal of the report remains unchanged: to provide a summary of information to help public sector retirement plan sponsors better understand how current market trends impact pension and Other Post-Employment Benefits (OPEB) plans using data extracted from the Annual Comprehensive Financial Reports (ACFRs). The ACFR data was submitted by municipalities in Connecticut for the fiscal year ending June 30, 2023.

Although ACFR data is extensive and sometimes difficult to understand in its raw form, our team of experienced actuaries have extrapolated the main findings, making it easier for plan sponsors to use the report to benchmark their own plans.

As you read further, the roller coaster ride of the previous fiscal year continued in 2023 as inflation remained at an elevated level, affecting pension and OPEB plans throughout Connecticut.

In direct contrast to FYE 2022, investment returns for FYE 2023 were favorable and in most cases exceeded the actuarial assumptions for both pension and OPEB plans. As a result, some of the erosion in funded ratios that occurred in the previous year was reversed in 2023. Relatively few plan sponsors adopted a change in the long-term rate of return assumption for 2023, as higher interest rates and generally more favorable capital market assumptions provided full support for maintaining the status quo.

Not surprisingly, plan sponsors continue to accelerate the use of technology, with many municipalities considering online pension plan administration as a way of simplifying plan management, lowering expenses and keeping pace with the growing number of retirees now receiving benefits.

We trust you will find the results of our 2024 Municipal Pension and OPEB Report helpful. Please reach out to your USI Consulting Group (USICG) consultant should you wish to discuss the report findings in more detail.

Sincerely,


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## CONNECTICUT MUNICIPAL PENSION PLANS

**200+** plans

**71K+** participants

**$16.9B** actuarial accrued liability

## CONNECTICUT MUNICIPAL OPEB PLANS

**170+** plans

**116K+** participants

**$7.2B** actuarial accrued liability

ACFRs data FYE June 30, 2023

# PENSION

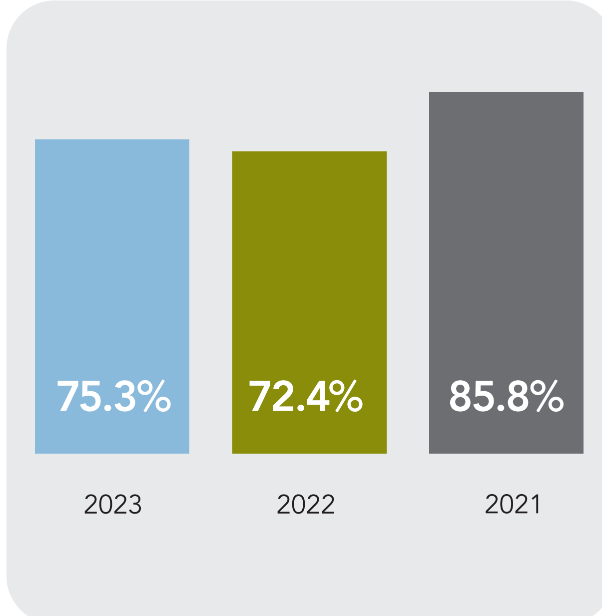
## KEY TAKEAWAYS | *Municipalities with pension plans*

### Fiscal 2023 returns were favorable, reversing some of the erosion in funded ratios from the prior year.


Our analysis of the money-weighted rate of return by plan size for FYE 2023 showed favorable returns that helped plans to reverse some of the erosion in funded ratios that occurred for the prior fiscal year.

The FYE 2023 data shows that the smallest plans (<$10M) had the highest average returns at 9.20%, while the mid-sized plans ($10-$49M) and largest plans ($50M+) had lower returns of 9.15% and 8.95%, respectively.

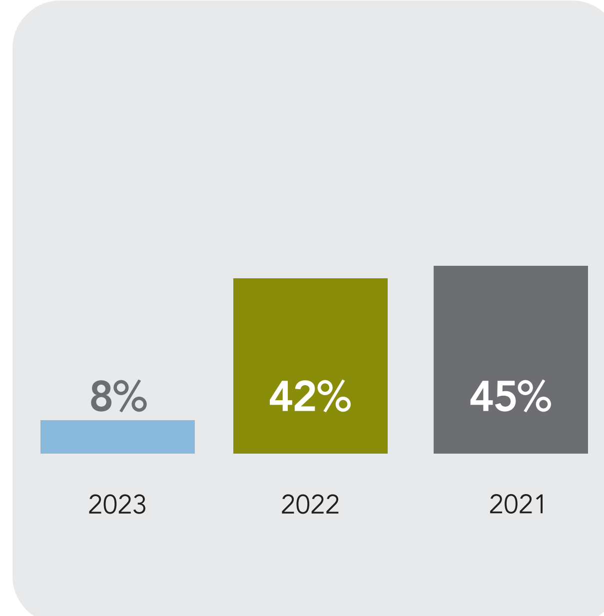
### Funded ratios increase slightly from 2022 levels.




47% of the pension plans analyzed exceed the 80% funded mark, compared to 36% in the 2023 report. Those plans below the 50% funded level increased slightly to 14% this year, compared to 12% in the 2023 report.

This year, 12% of plans can boast pensions that are funded at 100% or higher, which is a modest increase versus 7% in last year's report.

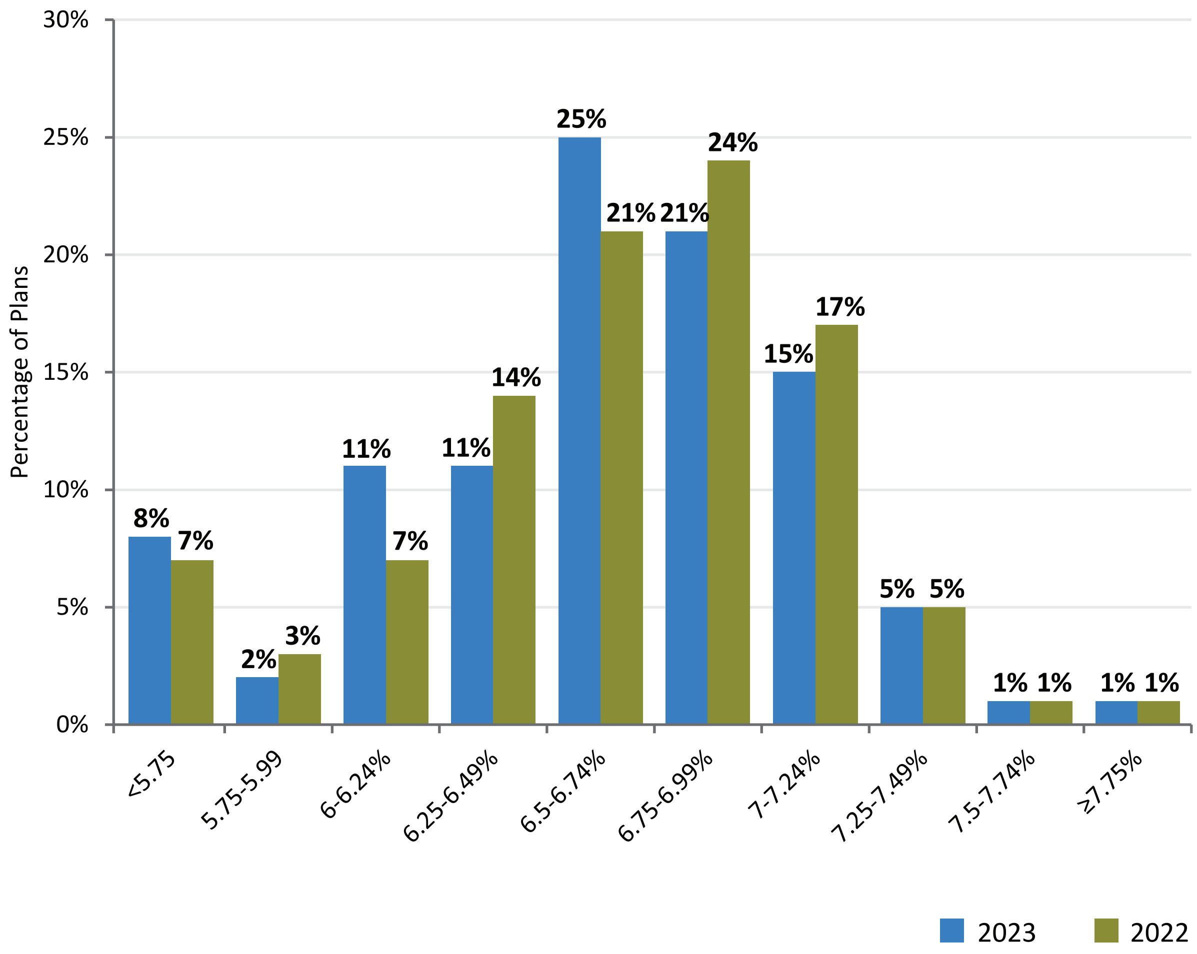
### Only 8% of plans reduced the long-term assumption rate, compared to 42% of plans in the previous report.




Only 8% of pension plans reduced the long-term rate of return assumption from FYE 2022 to FYE 2023, with the most common reduction being 12.5 basis points. (0.125%).

In stark comparison, approximately 42% of plans analyzed in the 2023 report, and 45% of plans analyzed in the 2022 report, reduced the long-term rate of return assumption.

## LONG-TERM INVESTMENT RETURN ASSUMPTION (FYE 2023 VS. FYE 2022)




The average investment return assumption is 6.43% (median of 6.50%). This represents a decrease of just 3 basis points from 6.46% average (6.50% median of) in our 2023 report. Only 8% of plans reduced their investment return assumption since last year's report, with the most common reduction being 0.125%.

This assumption is generally mapped to either the July 1, 2022, or July 1, 2021, actuarial valuation used in determining the employer's cash contribution amount (also known as the Actuarially Determined Employer Contribution, or ADEC).

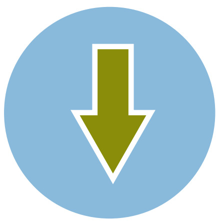
### What is ADEC?

Actuarially Determined Employer Contribution (ADEC): The amount actuarially calculated each year that is required to be contributed by an employer to a pension plan's pool of assets in order to ensure there will be enough funds to pay promised pension benefits.

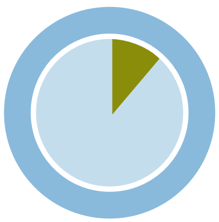
## AVERAGE AND MEDIAN INVESTMENT RETURN ASSUMPTION TRENDS

All else being equal, a lower investment return assumption results in higher actuarial liability and ADEC, and a lower funded ratio.

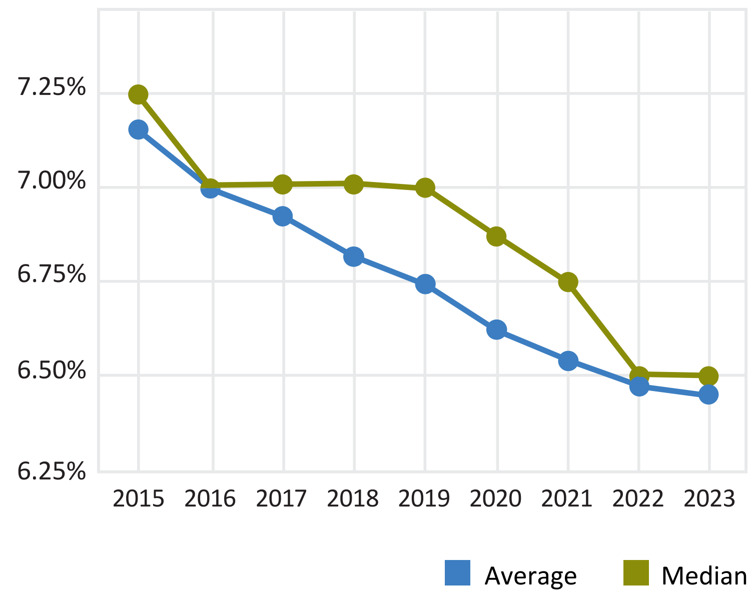
When looking at trends, the average long-term rate of return assumption has declined by 71 basis points (from 7.14% to 6.43%) from FYE 2015 to 2023.



The median assumption declined 75 basis points (from 7.25% to 6.50%) during that same period.



Only 8% of plans reduced the long-term rate of return assumption from FYE 2022 to FYE 2023, with the most common reduction being 12.5 basis points.

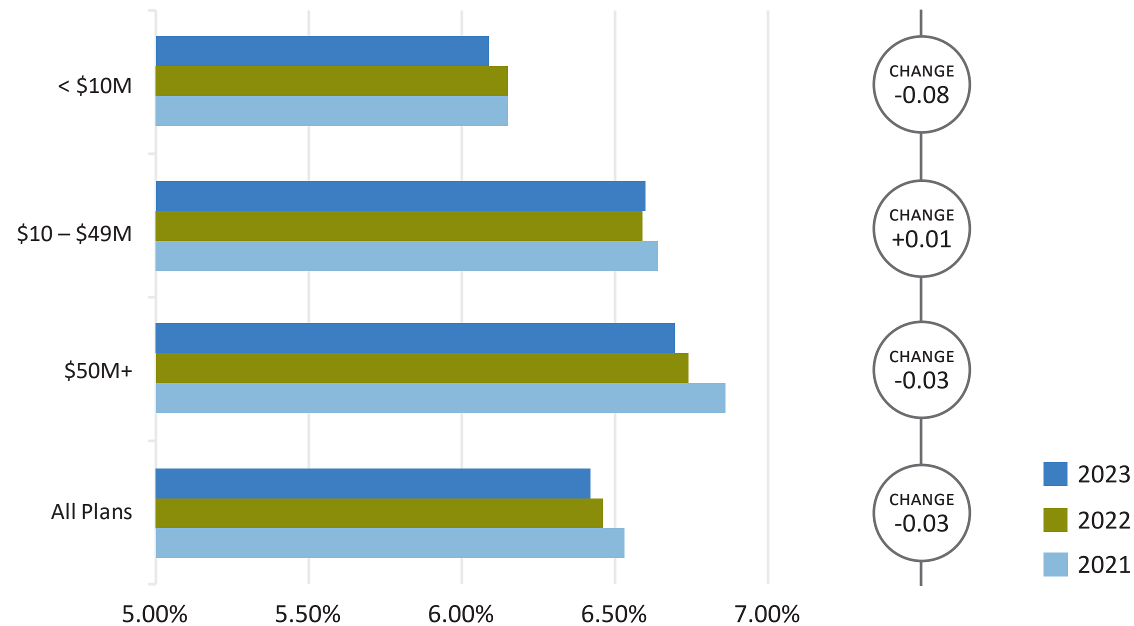


## AVERAGE INVESTMENT RETURN ASSUMPTION BY PLAN SIZE

When looking at the investment return assumption based on plan size by assets (under $10M, $10 to $49M, $50M plus), the results show that as plan size increases, the average investment return assumption increases as well.

Within each range, the average assumption generally decreased from FYE 2022 to FYE 2023. The average decrease for "All Plans" was 3 basis points (from 6.46% to 6.43%).

| | | Average Investment Return Assumption | | | |
|---|---|---|---|---|---|
| Plan assets ($ millions) | % of plans | 2023 | 2022 | 2021 | % Change |
| < $10 | 37% | 6.07% | 6.15% | 6.15% | -0.08% |
| $10 – $49 | 37% | 6.60% | 6.59% | 6.64% | 0.01% |
| $50+ | 26% | 6.71% | 6.74% | 6.86% | -0.03% |
| All Plans | 100% | 6.43% | 6.46% | 6.53% | -0.03% |



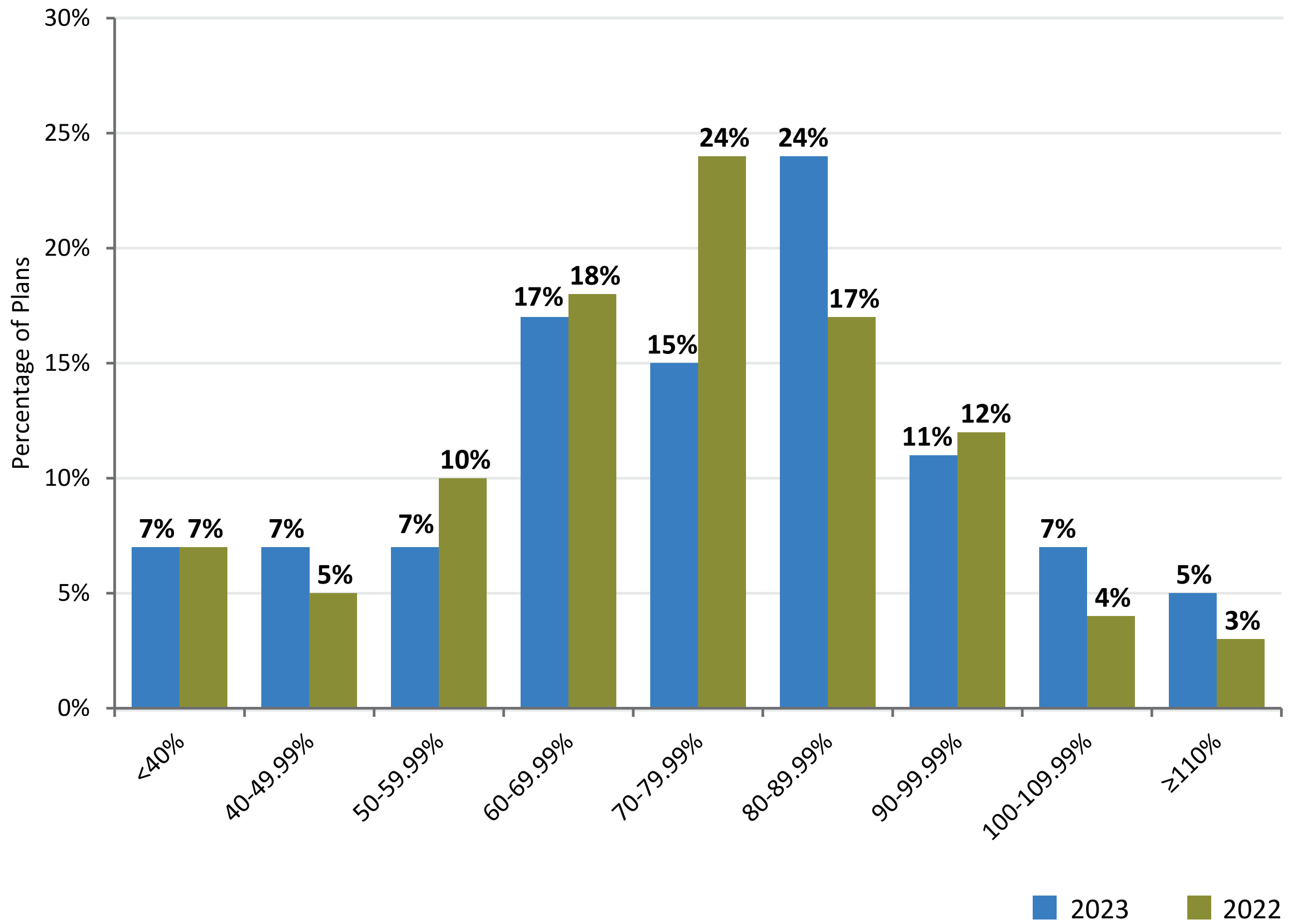
## FUNDED RATIO

Favorable investment returns for FYE 2023 helped plans reverse some of the erosion in funded ratios that occurred in the previous fiscal year.

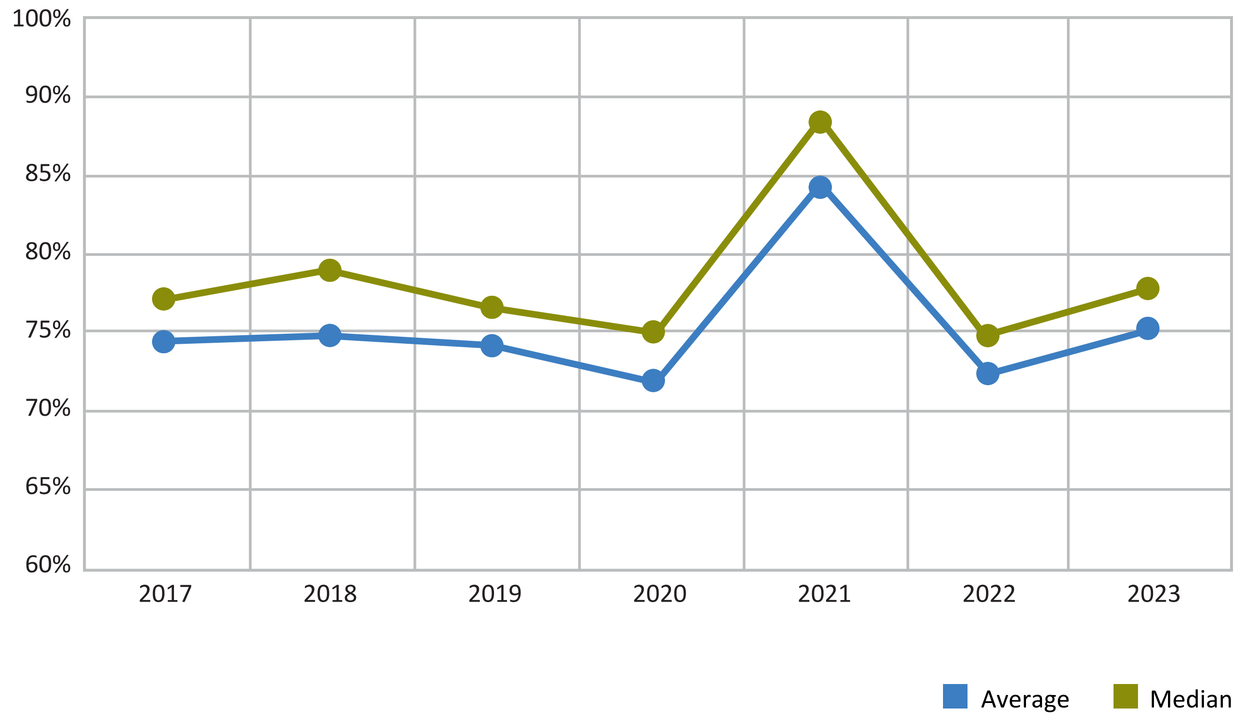
This year, 47% of the pension plans analyzed exceeded the 80% funded mark, compared to 36% in the 2023 report.

Those plans below the 50% funded level increased to 14% this year, a slight rise compared to 12% in last year's report.

These percentages are consistent with increase in the average and median funded ratios when compared with 36% of plans exceeding the 80% mark in our 2023 report. This year, 12% of plans can boast pensions that are funded at 100% or higher, an increase compared to 7% in the 2023 report.



## AVERAGE AND MEDIAN FUNDED RATIO TRENDS




The average funded ratio (Market Value of Assets divided by Entry Age Normal Accrued Liability) is 75.3% (median of 77.6%), versus 72.4% average (median of 74.9%) as of June 30, 2022.

This represents a modest increase compared to the 2022 ACFR data, but still at a notably lower level when compared to the 2021 data (85.8% average and 88.2% median).

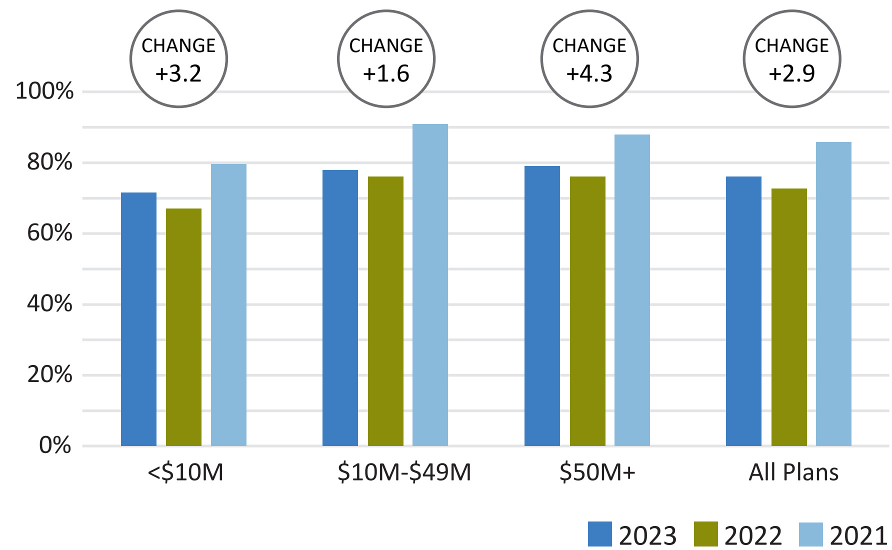
## AVERAGE FUNDED RATIO BY PLAN SIZE

Consistent with prior years, the results show that as plan size increases the average funded ratio tends to increase as well.

The data shows that Connecticut municipal pension plans have higher funded ratios in the past year in all plan size categories.

In 2023, the average funded ratio increased between 1.8% and 4.3%, with an average increase of 2.9% for "All Plans". In this year's report, modest increases occurred across the board in all plan size categories.

| | | Average Funded Ratio | | | |
|---|---|---|---|---|---|
| Plan assets ($ millions) | % of plans | 2023 | 2022 | 2021 | % Change |
| < $10 | 37% | 70.9% | 67.7% | 79.5% | 3.2% |
| $10 – $49 | 37% | 76.7% | 75.1% | 90.8% | 1.6% |
| $50+ | 26% | 79.7% | 75.4% | 87.9% | 4.3% |
| All Plans | 100% | 75.3% | 72.4% | 85.8% | 2.9% |

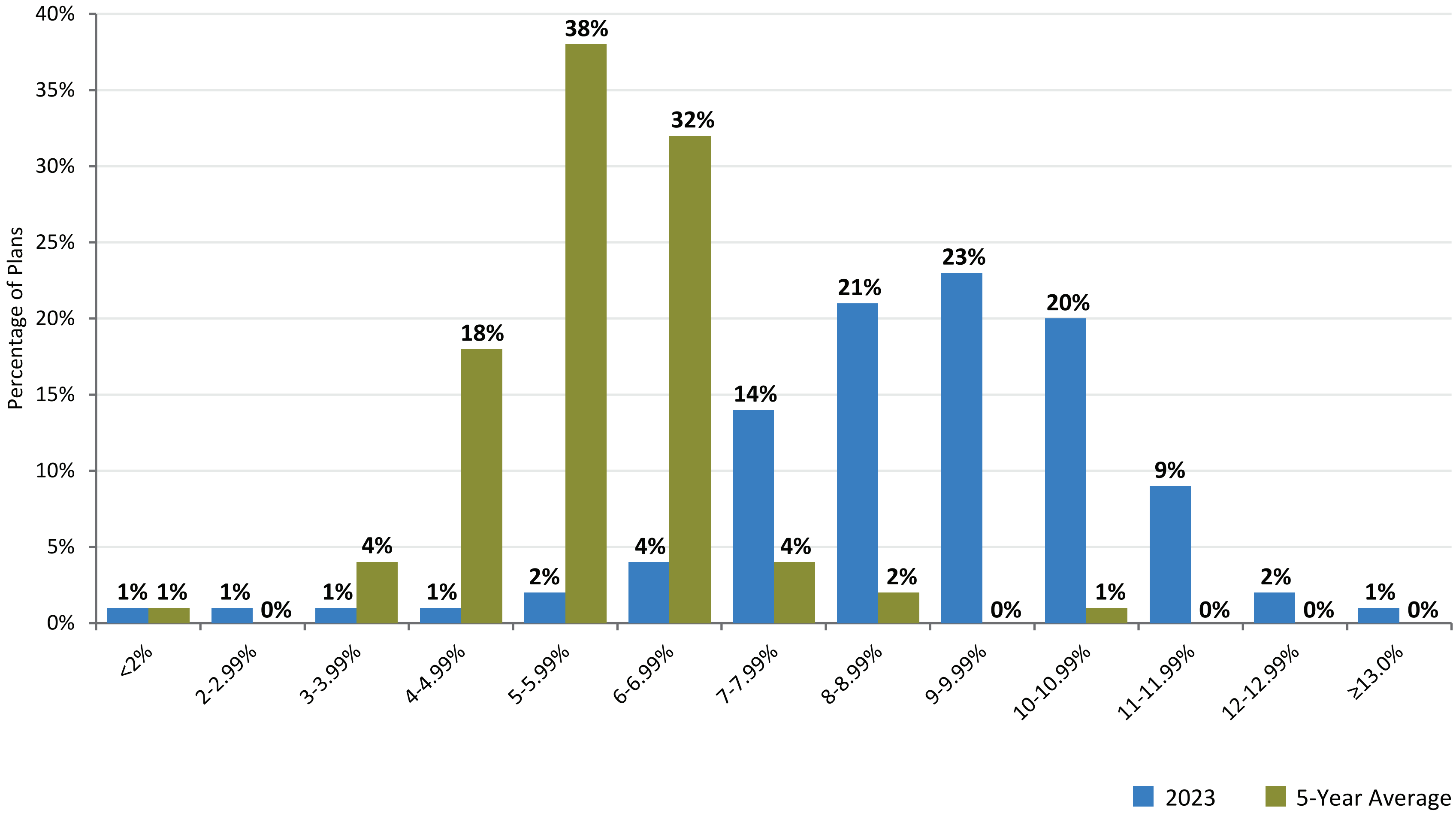


## FYE 2023 RETURN VS. 5-YEAR AVERAGE RETURN

The average money-weighted rate of return for FYE 2023 was 9.11% (median of 9.25%).

The 5-year (compounded) average money-weighted rate of return for the period ending June 30, 2023 is 5.74% average (median of 5.78%) compared to 5.30% average (median of 5.31%) for the 5-year period ending June 30, 2022.

Fiscal 2023 returns generally exceeded the actuarial assumptions for public sector pension plans.



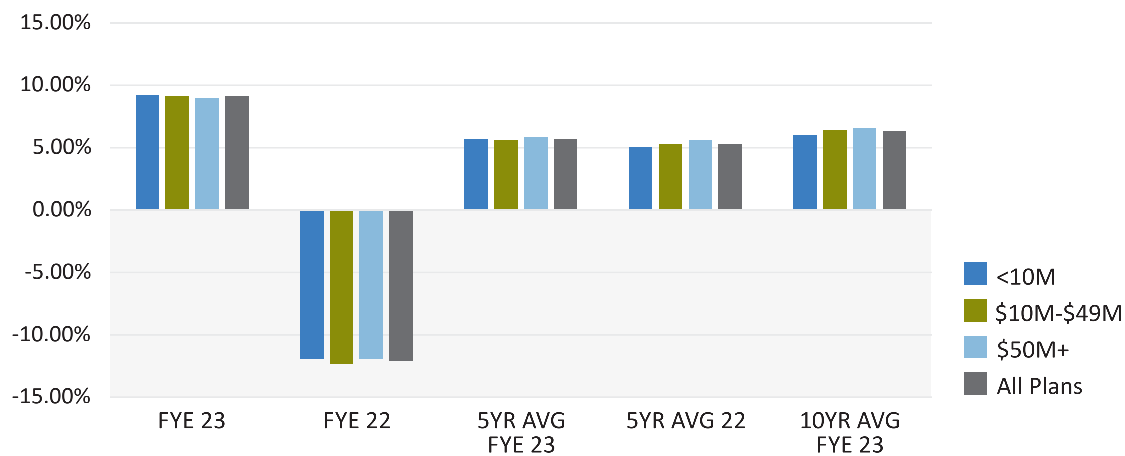
## MONEY-WEIGHTED RATE OF RETURN BY PLAN SIZE

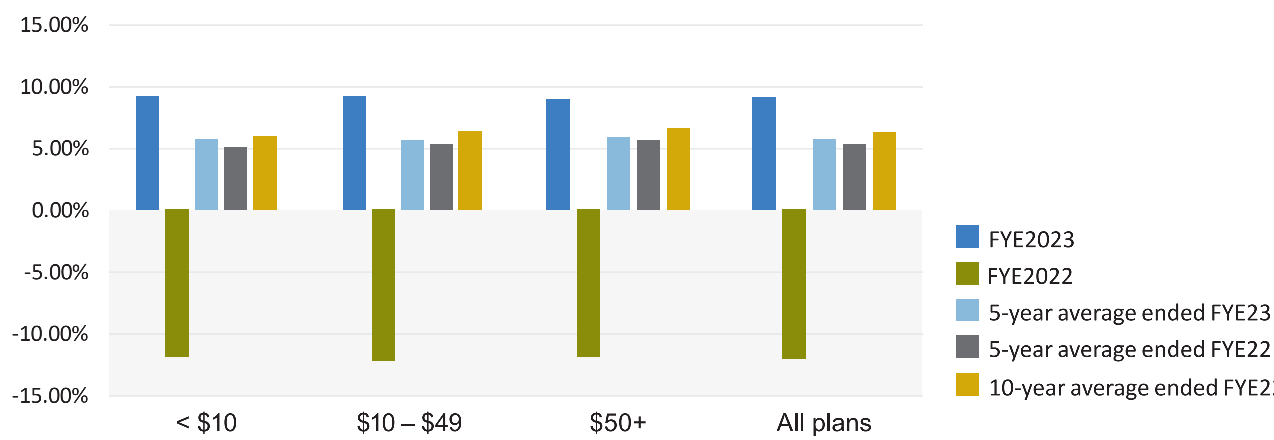
A new statistic this year is the 10-year (compounded) average money-weighted rate of return of 6.31% (median of 6.39%) for the period ending June 30, 2023. Note that the 10-year average actual return is within 12 basis points of the average investment return assumption of 6.43%.

The money-weighted rate of return by plan size, both for FYE 2022 and for the equivalent 5-year and 10-year periods, revealed an improved market performance versus FYE 2022, in all plan size categories.

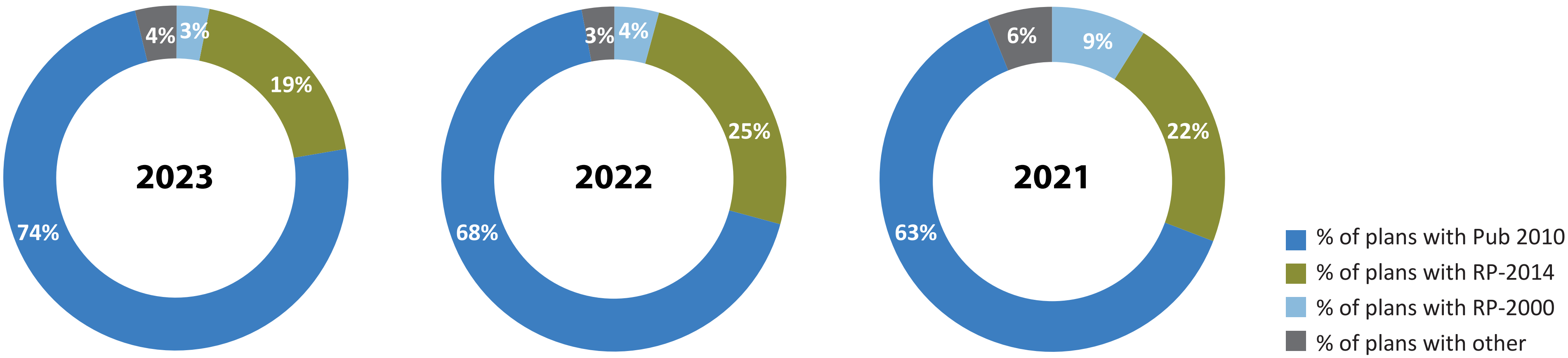
This year, the analysis shows that smaller plans generally achieved a higher average money-weighted rate of return versus larger plans for FYE 23. Over the longer term, however, larger plans achieved higher returns than smaller plans.

| Plan assets ($ millions) | FYE 23 | FYE 22 | 5-year average ended FYE 23 | 5-year average ended FYE 22 | 10-year average ended FYE 23 |
|---|---|---|---|---|---|
| < $10 | 9.20% | -11.91% | 5.70% | 5.09% | 5.98% |
| $10 – $49 | 9.15% | -12.29% | 5.64% | 5.28% | 6.38% |
| $50+ | 8.95% | -11.91% | 5.87% | 5.59% | 6.58% |
| All Plans | 9.11% | -12.06% | 5.72% | 5.30% | 6.31% |



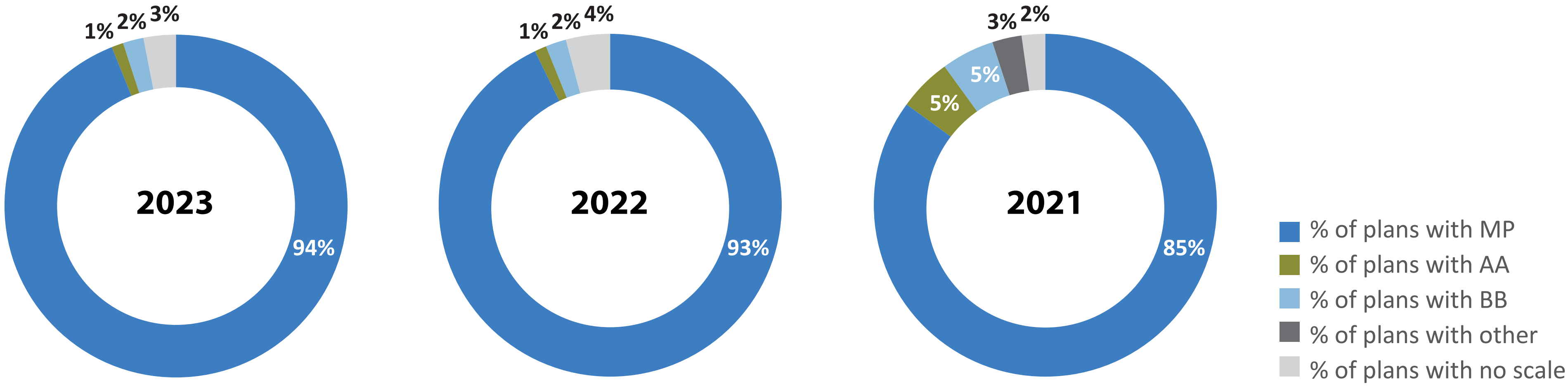
## MORTALITY TABLE ASSUMPTION




The Society of Actuaries (SOA) periodically publishes mortality studies reflecting updated life expectancies based on large databases of pensioner mortality experience. As of the June 30, 2023 ACFRs, 74% of Connecticut plan sponsors were using the Pub-2010 public sector mortality table, which represents a 6% increase in use compared to 2022 and an 11% increase when compared to 2021.

The next most common mortality tables in use by Connecticut public pension plans is the RP-2014 Mortality Table (19% versus 25% in 2022). Only 7% of Connecticut plans were using an assumption reflecting either the older RP-2000 table or some other mortality basis in 2023, which is unchanged versus the 2022 report.

## MORTALITY IMPROVEMENT SCALE ASSUMPTION



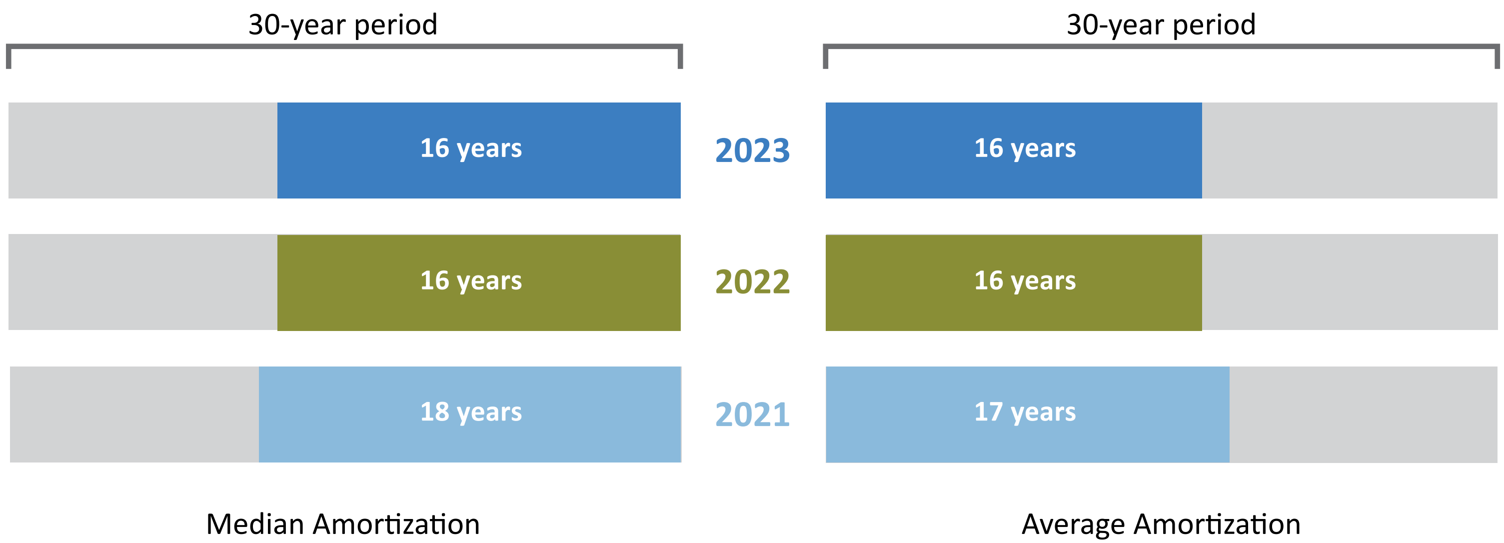

Because actuarial valuations involve calculating liability associated with providing benefits to participants, both today and for many years into the future, actuaries also consider the potential effect of future improvements in life expectancies.

This effect is captured most often by way of a mortality improvement scale assumption, with the most common scale used in 2023 being Scale MP (94% of plans versus 93% of plans in 2022).

Very few plans are now using the next most common scales, which are Scale AA (1% of plans, unchanged from 2022 but down from the 5% using this scale in 2021) and Scale BB (2% of plans, unchanged from last year). Only 3% of plans are using no scale for the mortality improvement assumption in 2023.

## AMORTIZATION PERIOD

Connecticut's public pension plans continue to compare favorably with the 30-year amortization period that is generally considered to be the maximum for public sector pension plans.




The ADEC most commonly reflects two components: 1) the normal cost, which is the value of benefits expected to be earned by active participants during the upcoming year, and 2) an amortization payment, which is a contribution towards eliminating the pension plan's unfunded actuarial liability (or surplus, if applicable) over time.

Since a pension plan's unfunded actuarial liability is generally considered a long-term expense, the amortization payment, similar to a home mortgage, is recognized over time.

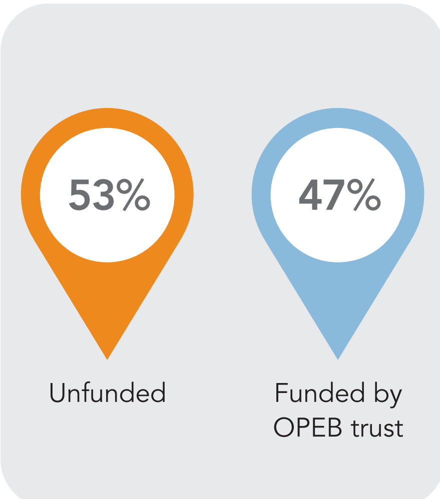
Connecticut public pension plans' amortization periods are reasonably consistent with national stats and compare favorably with the 30-year period that is generally considered to be the maximum for public sector plans.

Both the average and median period for plans in the report are unchanged from the results of our analysis for 2022.

# OPEB

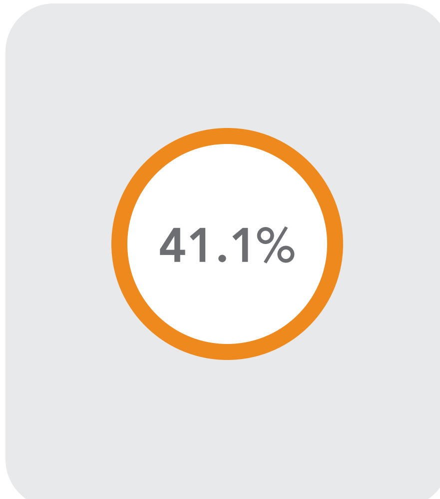
## KEY TAKEAWAYS | *Municipalities with OPEB plans*

### Percentage of funded OPEB plans and those funded by a trust remains unchanged.



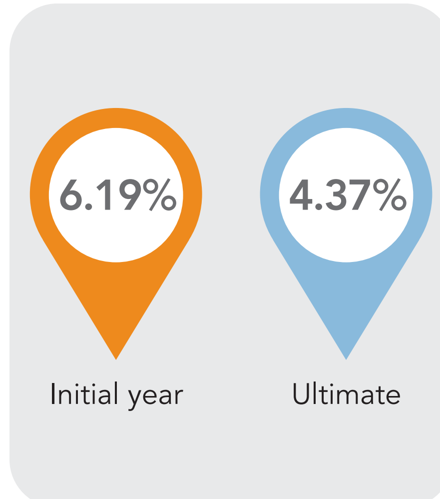

Fifty-three percent of OPEB plans are unfunded (unchanged from the 2023 report), with 47% of plans funded with an OPEB trust (also unchanged from the 2023 report).

### Increase in average funded ratio.




For those plans funded using an OPEB trust, the average funded ratio is 41.1%, a 4.6% increase vs. the average funded ratio of 36.5% in the 2023 report.

### Health care trend assumptions decrease slightly.



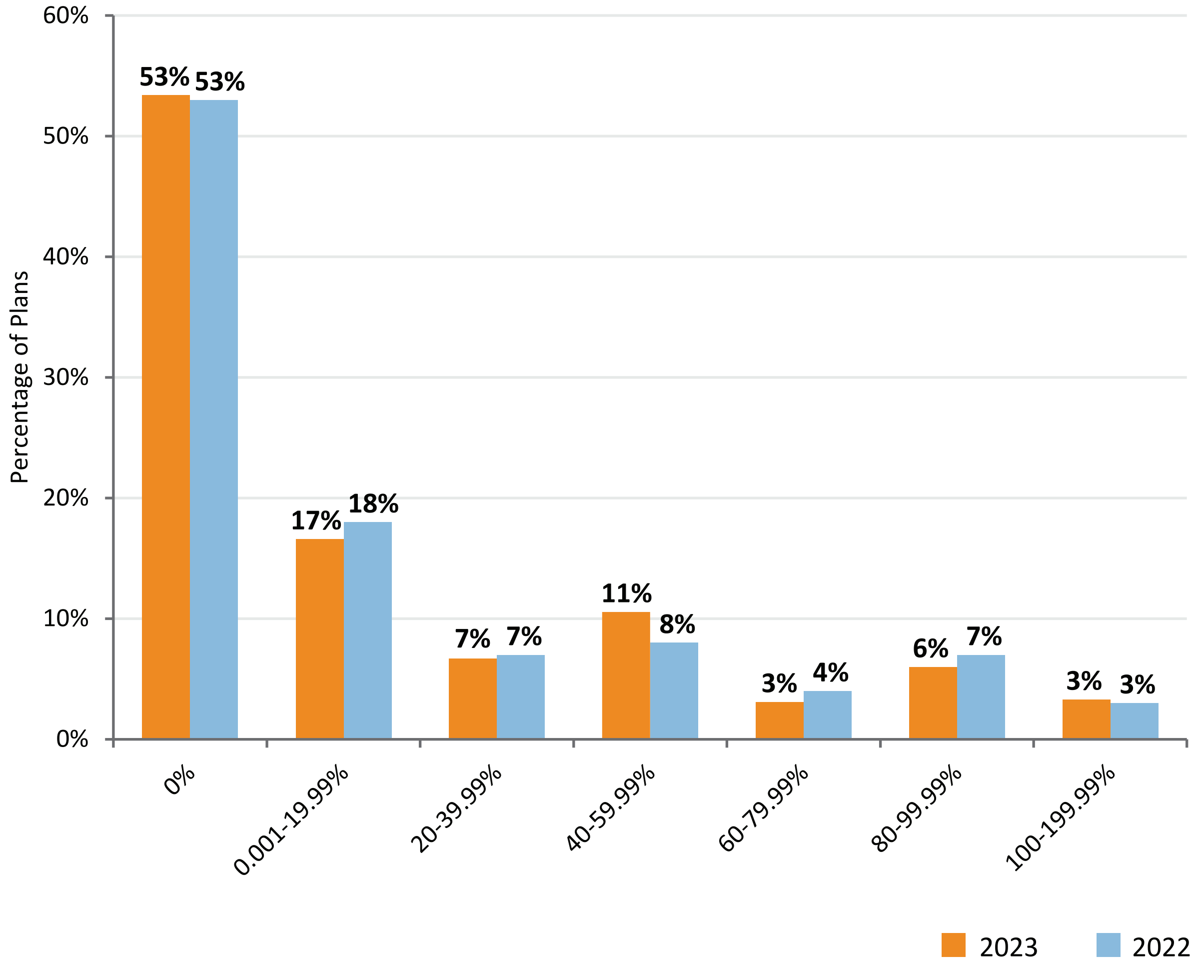

The average initial year health care trend assumption is 6.19% (median of 6.50%), and the average ultimate year health care assumption is 4.37% (median of 4.40%).

These statistics compare with last year's average initial year health care trend assumption of 6.20% (median of 6.50%) and an average ultimate year health care assumption of 4.38% (median of 4.40%).

### Number of years to reach the ultimate trend remains unchanged.


The median number of years to reach the ultimate trend assumption is 11 years, which is unchanged from the median period of 11 years in the 2023 report.

## FUNDED RATIO FOR ALL PLANS



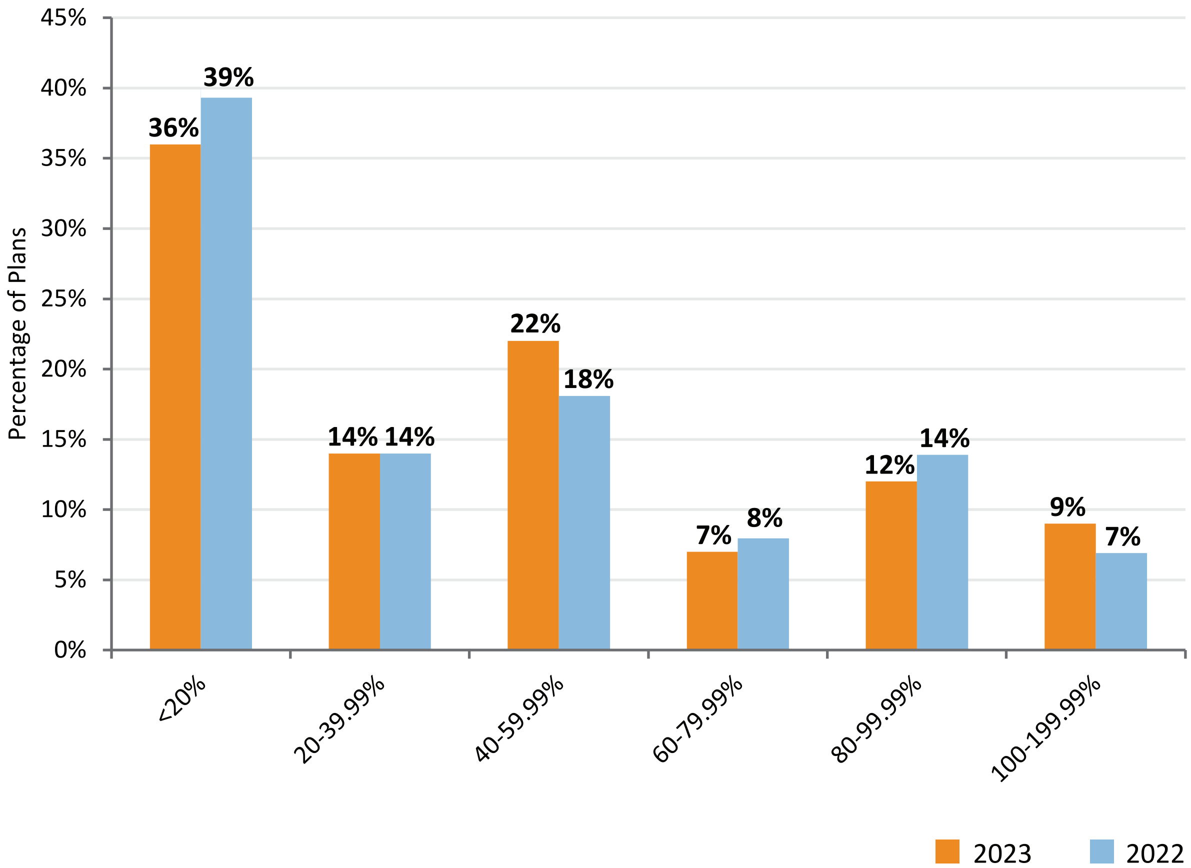

As of FYE 2023, approximately 53% of the OPEB plans in Connecticut are unfunded, with the remaining 47% of plans funded from an OPEB trust.

These statistics are unchanged from the unfunded and funded numbers cited in last year's report.

The rules governing how municipalities should report pension costs and other post-employment obligations are covered by the Government Accounting Standards Board (GASB). GASB is a private non-governmental organization that creates accounting reporting standards for state and local governments.

Many public sector OPEB plans continue to be unfunded arrangements, as GASB did not define actuarial measurements of liabilities until 2009.

## FUNDED RATIO FOR FUNDED PLANS ONLY

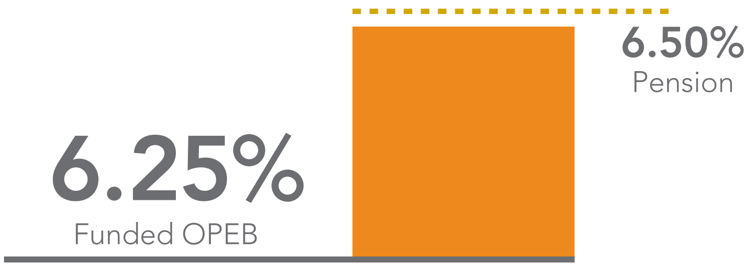



For OPEB plans funded by a trust, the average funded ratio as of FYE 2023 was 41.4% (median of 36.5%) versus an average of 36.5% (median of 33.6%) in the 2022 ACFRs.

Thirty-six percent of plans have a funded ratio of less than 20%, a slight decrease compared to 39% in the 2022 report.

More plans are 100% funded, with 9% of plans funded at 100% or more in 2023 compared to 7% of plans funded at that level in 2022. This increase was mainly driven by favorable investment returns for FYE 2023.

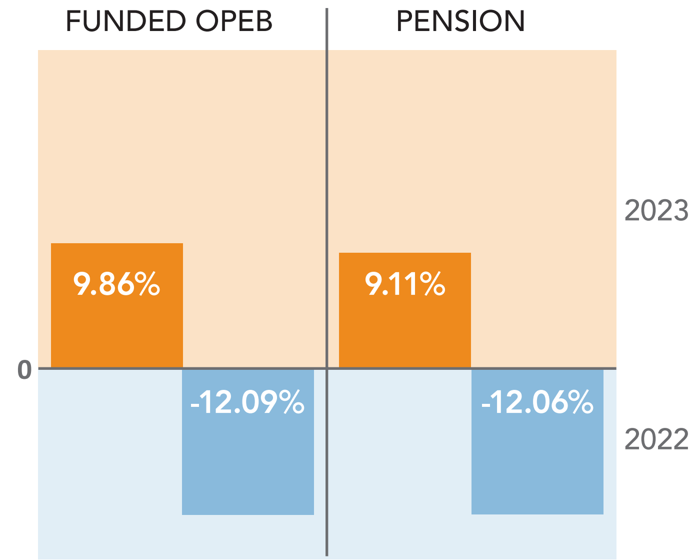
## INVESTMENT RETURN ASSUMPTION




As of FYE 2023, the median investment return assumption for funded OPEB plans is 6.25% versus 6.50% for FYE 2022. This assumption is 25 basis points lower than the median investment return assumption for pension plans (6.50%).

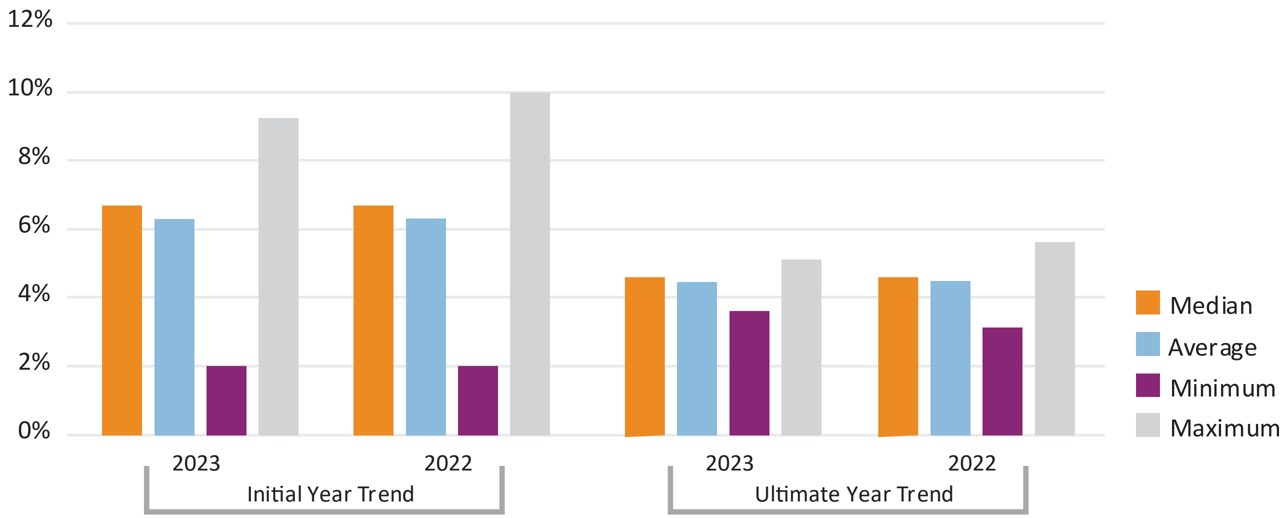
## MONEY-WEIGHTED RATE OF RETURN

Similar to pension plans, OPEB plans generally experienced favorable returns in FYE 2023.




The average money-weighted rate of return for FYE 2023 for funded OPEB plans is 9.86% (a notable change versus -12.09% for FYE 2022).

## HEALTH CARE COST TREND ASSUMPTION



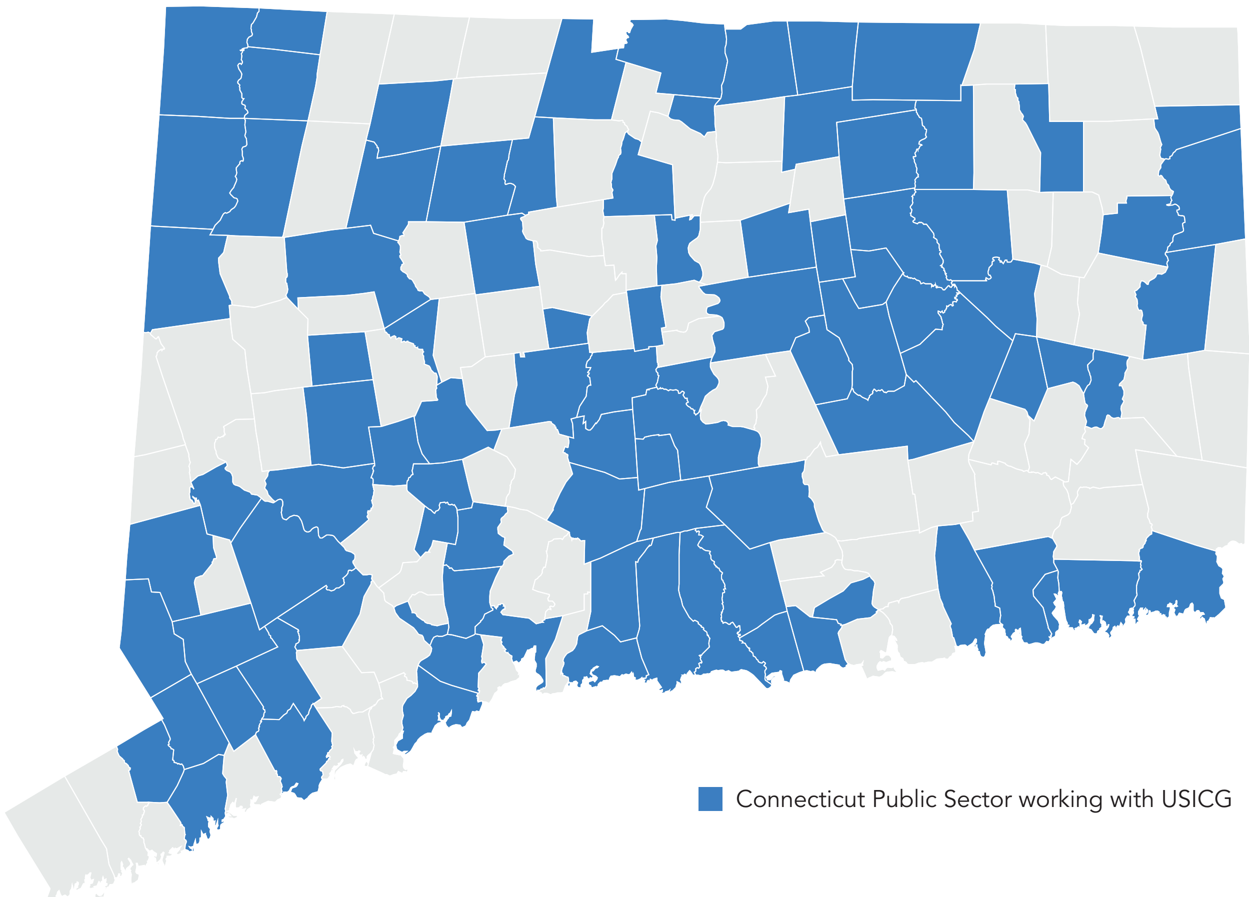

| | Initial Year Trend | | Ultimate Year Trend | | Years to Ultimate | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Median | 6.50% | 6.50% | 4.40% | 4.40% | 11 | 11 |
| Average | 6.19% | 6.20% | 4.37% | 4.38% | 19 | 22 |
| Minimum | 2.00% | 2.00% | 3.60% | 3.00% | 7 | 1 |
| Maximum | 9.00% | 10.00% | 5.20% | 5.50% | 70+ | 77 |

As of June 30, 2023, the average initial year health care trend assumption is 6.19% (median of 6.50%), and the average ultimate year health care assumption is 4.37% (median of 4.40%). These statistics compare with last year's average initial year health care trend assumption of 6.20% (median of 6.50%), and an average ultimate year health care assumption of 4.38% (median of 4.40%).

The average number of years to reach the ultimate trend assumption is 19 (versus 22 in last year's report) with a median of 11 years (unchanged from last year).

The reason there is a large difference between the average and median is because the two most common approaches have very different grade-out periods. One approach generally grades down to the ultimate trend in 7-11 years, while the other approach (known as the "Gretzen model") grades down more gradually over 50-70+ years.

HOW USICG CAN HELP | *Let us help you prudently manage your pension and OPEB plans for competitiveness, fiscal sustainability, administrative and accounting integrity, and regulatory compliance.*




Pension and OPEB plans have provided public sector employees with a comfortable retirement for over 150 years. **Today, 61% of Connecticut municipalities partner with USI Consulting Group to deliver exceptional benefits and superior service to their employees.**

However, managing a pension plan today can be very complex due to changing regulations, accounting disclosure requirements and other state laws that may mandate or limit benefits offered to public sector employees.

For nearly 50 years, USICG has been helping plan sponsors mitigate risk and the financial impact their pension plans may be having on their organization. Our experienced actuaries fully understand the challenges of pension and OPEB obligations in the unique public sector environment. From intelligent plan design to investment governance to participant education that helps employees appreciate the value of their benefit, our credentialed actuaries offer creative solutions to improve the prediction and management of plan costs and expenses.

## 5 REASONS WHY YOU SHOULD BE WORKING WITH USICG

1. **Deep expertise –** We work with more than 900 public sector entities in over 35 states, supporting more than 600,000 plan participants.
2. **Vast resources –** With 80 credentialed actuaries on staff, and more than 60 actuarial professionals to support them, we have a solution for just about every need.
3. **Broad knowledge –** Clients include state, county, municipal, utility, transit, university and school boards, and public health systems.
4. **Client satisfaction –** On a scale of 1-10, 86% of client survey respondents rated USICG a 9 or 10 when asked how likely they would be to refer USICG. Our consultants and the professionals who support them excel at going the extra mile to ensure client satisfaction.
5. **One size does not fit all –** Services support qualified and non qualified plans of all shapes and sizes.

### Exceptional service, expertise and value are at your fingertips

USICG's team of experienced actuaries will join forces with your committee to develop an innovative pension and OPEB plan strategy designed around your specific goals. Discover how our unique approach to public sector retirement plan management, coupled with leading-edge technology, delivers customized solutions with proven financial impact.

Contact your USICG consultant or reach out to us directly at information@usicg.com to learn more.

Connect with us today | information@usicg.com | 860.633.5283 | usicg.com |



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