

CITY OF RUTLAND
CITY HALL
P.O. BOX 969
RUTLAND, VT 05702-0969
www.rutlandcity.com
802-773-1800 • FAX 802-773-1809

OFFICE OF THE CITY TREASURER

March 26, 2012

Wendy Wilton

Pension Commissioner & City Treasurer

Rutland Public Schools
Superintendent Mary Moran and Board of School Commissioners
6 Church Street
Rutland, VT 05701

City of Rutland
Mayor Christopher Louras and Board of Aldermen
PO Box 969
Rutland, VT 05702-0969

Dear Mayor Louras, Superintendent Moran, Honorable Board of Aldermen, and Honorable Board of School Commissioners:

On behalf of the Pension Board I write to express its concerns regarding the underfunded status of the City of Rutland Pension Plan (the "Plan") and what future steps the Pension Board intends to take pursuant to Ordinance and our responsibilities under the Plan.

As you may know, per the terms of the Plan, the Pension Board serves as Administrator of the Plan (§14.1) and as such has a fiduciary responsibility along with other parties (§18.2) as laid out in Article XVIII of the plan. In addition, the Pension Board has a mandate under R.O.R. §404 to only approve negotiated benefits "provided appropriate funding is approved" by the boards negotiating the benefits. As fiduciaries, the Pension Board's responsibilities include ensuring the solvency of the Plan and its ability to pay benefits as they come due. The Pension Board members must act solely in the best interest of the participants and with the care, prudence and diligence expected of those acting in a similar capacity.

We have been advised by our actuary and other experts that any pension plan at 50% funding cannot realistically recover, forcing consideration of a freeze to future benefit accruals. As a comparison, private sector pension are mandated to be frozen by the IRS once a plan drops below 60% funded, and no further benefits can accrue until the funded status improves. While ours is a governmental plan, the same basic principles apply as to the health of the Plan and the realistic consideration that the plan should be frozen at that point. The plan is expected to reach 60% funding level in the near future without significant changes.

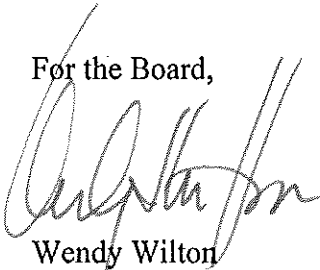
The Pension Board understands that the Plan's underfunding represents a significant problem for the City, its employees, and taxpayers. Given the nature of the pension fund and our duties under the Pension Ordinance, it is heretofore our intent to exercise our authority relating to *any future accrued pension benefits* and approve only those pension benefits for which appropriate funding has been provided, as determined by ordinance and consultation with appropriate entities:

R.O.R. § 404 (3) states "Appropriate funding will mean funding of the cost of such benefits based upon reasonable financial analysis."

We understand that an immediate resolution of the situation is probably not possible; however, incremental progress is required because the status quo is unacceptable. We know that future increases in funding and/or reduction in future benefit accruals are needed but only in future years will we know how much will be necessary in order to achieve fuller funding of the Plan. We know that it will take time to find a comprehensive solution to the funding problem, but we are acting now to prevent the problem from becoming worse and to give everyone time to develop long range solutions. *At a minimum, funding normal cost of benefits must be achieved to attain actuarial stability.*

In the distant past the Pension Board set all of the pension benefits and the respective boards merely indicated that employees could participate in the City Pension Plan; then the respective boards began to negotiate benefits. The Pension Board has always accepted the pension benefits negotiated by the respective boards until now. The Pension Board cannot agree to accrue pension benefits in new contracts without proper funding. We are now requiring that before any new labor contracts are agreed to regarding any pension benefit that we must approve the pension benefit and be informed on the specific funding in advance of your ratification actions, in order to complete our fiduciary duties under the ordinance. We stand ready to share all of the information that we have and to help in any way that we believe is reasonable to deal with this problem for all employees of the City. We look forward to stabilizing this financial situation for the security of the City, the employees, and the taxpayers.

For the Board,



Wendy Wilton
Pension Commissioner & City Treasurer

Cc: City Attorney Andrew Costello, Attorney Bill Meub, S. Tracy Braun-People's United Bank Retirement Services (Actuary).

Enclosure: City of Rutland Employees Retirement System Actuarial Valuation for January 1, 2012, City Pension Ordinance: Title 3, Chapter 3, Subchapter 6, sections 401 to 403.

Subchapter 6. Pension Plan

§ 401. City of Rutland Pension Plan

The City of Rutland pension plan shall be the retirement plan for the employees of the city. The pension plan shall be adopted and directed by the Pension Board and may be amended by the Pension Board.

§ 402. Pension commissioner, powers and duties

The Treasurer of the City of Rutland shall be the Pension Commissioner of this city. He/she shall have the following duties and powers:

(1) To collect and receive all sums of money contributed or paid by employees of this city for pension purposes.

(2) To receive all sums of money appropriated by this city or contributed, received or given from any other source for pension purposes.

(3) To pay to, deposit and invest all sums of money contributed or paid by employees of this city for pension purposes, and such other sums appropriated by this city for such purposes, except as otherwise provided.

(4) To pay or cause to be paid to the persons entitled thereto the sums of money hereinafter in this subchapter specified as pensions.

(5) To contract with and sign the pension plan contract for the purposes herein mentioned, said contract to contain in substance the provisions of this subchapter; and to execute and sign from time to time any other documents necessary or convenient to carry out the provisions thereof.

(6) Such other powers as may be necessary or convenient to carry out the purposes specified in this subchapter.

§ 403. Pension board

(1) The pension board of the City of Rutland shall be comprised of five (5) members of the Board of Aldermen and five (5) members of the Board of School Commissioners and the Pension Commissioner.

(2) Appointment to the Pension Board shall be made by the President of the Board of Aldermen for the five (5) members from the Board of Aldermen and by the President of the Board of School Commissioners for the five (5) members from the Board of School Commissioners approved by the respective Boards.

(3) The Pension Commissioner shall be the presiding officer of the Pension Board and shall be a voting member of the Board.

§ 404.

(1) Pension benefits negotiated or provided to the employees under the direction or control of the Board of Aldermen shall be approved by the Pension Board provided appropriate funding is approved by the Board of Aldermen.

(2) Pension benefits negotiated or provided to the employees under the direction or control of the Board of School Commissioners shall be approved by the Pension Board provided appropriate funding is provided by the Board of School Commissioners.

(3) Appropriate funding will mean funding of the cost of such benefits based upon reasonable financial analysis.