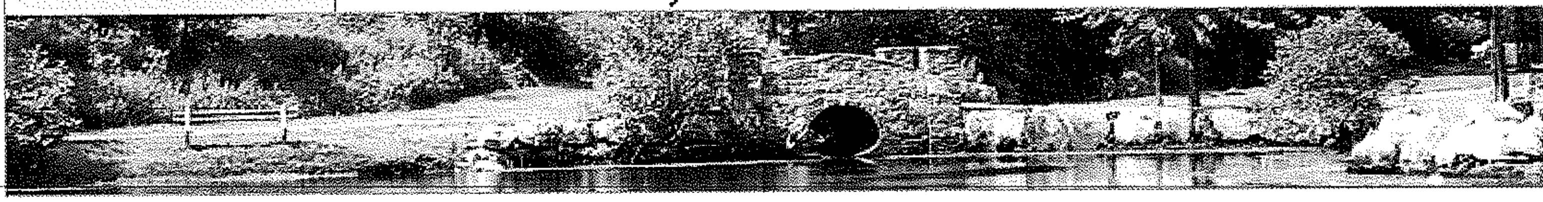
TOWN OF TRUMBULL, CT

Trumbull Town Hall
5866 Main St.
Trumbull, CT 06611



Date: March 8, 2011

To: Mr. Timothy Herbst, First Selectman
Town Council

Re: **Pension Board Annual Report**

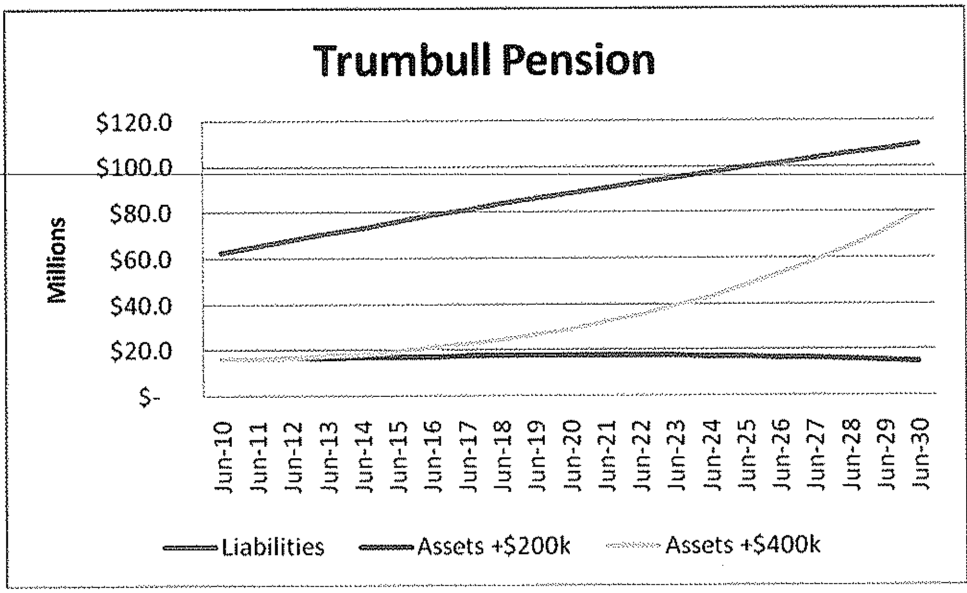
EXECUTIVE SUMMARY

- ***The pension investments continue to perform at our targeted benchmarks.***
Our target is currently 7.5% with a blended risk profile, in line with best practices. Our investment advisor, Fiduciary Investment Advisors, has completed their first full year with us and was named "Retirement Team Plan Advisor of the Year" at the 2009 Plan Sponsor Magazine Annual Awards Dinner.

- ***The Bi-annual actuarial valuation was completed and shows continued growth of the Unfunded Liability to $40 - $46 million dollars.*** The Plan's funding stands at 27% - 29%, critically below the Board's target of 80% - 90%. The current assets are $18 million (up $2 million from the actuarial study). ***The Board recommends that the Town establish a long term corrective action plan in 2011.***

- ***An audit was completed on the administration of the Plan, by RSM McGladrey.*** The audit disclosed some process deficiencies around the processing of benefits and death notices that resulted in additional funds being sent to participant's beneficiaries. The town took immediate process improvement steps to avoid a repeat and is currently trying to recover these funds from the former Plan Trustee. ***The Board is satisfied with these steps.***

UNFUNDED LIABILITY CONTINUES TO GROW



The Unfunded Liability of the Plan continues to grow ... this is a situation that has existed for more than 15 years ... and is reaching a point that, if not addressed, will limit the Town's options to resolve over a measured long term. It is important to point out that the current and past town administrations have budgeted and increased the town's contribution to this plan by $100,000 to $200,000 every year. While admirable, ***any amount below an incremental $400,000 will not reverse this trend over the long term.***

The current Unfunded Liability stands at $40 to $46 million, which is $8 million higher than the study completed in 2008. This increase is driven by:

• Benefits paid > Contributions (Defunded)	$1.4	
• Insufficient Funding Future (below Actuarial req.)	$2.4	
Sub-total: Plan Funding (Defunding)	$3.8	
• Shortfall in Investment Returns & Assumptions	$3.3	(market driven)
• Other Changes in actuarial Assumptions	$0.9	
Sub-total: Change in Actuarial Assumptions	$4.2	
Total Change in Liability	**$8.0**	

One key driver in the actuarial assumption is the number of participants in the Plan. This number appears to be growing unabated by increases in the Board of Education participants, which the Board understands are part-time positions. (See chart below)

Group	2006	2008	2010	Increase from 2006	
Town	167	175	156	(11)	- 7%
Bd. Of Ed.	230	254	297	+67	+29%
Total	**397**	**433**	**453**	**+56**	**+14%**

Under the current set of assumptions and continued funding level by the town and the participants the Plan's assets will continue to decline and the Unfunded Liability will continue to grow.

Projected Liability in 2027 (16 years)	$103 million
Projected Assets in 2027	$ 16 million
Projected Unfunded Liability in 2027	**$ 87 million**

The Board estimates that if the contributions to the plan were increased by $400,000 per year that the Unfunded Liability would stabilize in the short term and then start to decline in the longer term to a fully funded state in 2034 (23 years). An annual increase of $1,000,000 would bring the Plan to a fully funded state in the next 15 years.

Recommendations

The Board recommends that the Town establishes a long term plan that will fix this problem permanently, compared to a short term fix of adding some additional incremental funding. There are many scenarios and combinations for the Town to consider in building this long term plan.

- Keep the current plan and increase funding annually of at least $400,000 per year.
- Re-negotiate the plan for increased contributions, currently at ~~2.5%~~3% to 5%, which is ~~very~~ low compared to similar plans around the state.
- Re-negotiate the plan benefits to lower future liability.
- Re-negotiate to limit eligibility to only full time workers (1,200 to 1,400 annual hours), especially on the Board of Education side.
- End this plan for all current participants (hard freeze) or for just new participants (soft freeze). Establish a Defined Contribution Plan (457 Plan) for the town, that by design will always be funded, for new participants and offer conversion to current participants.

The Board believes that establishing a Defined Contribution plan (designed with a matching feature) is the best long term solution for the town and plan participants.

The private sector has been moving in this direction for the past decade and currently many municipalities are considering this as a long term solution.

Your Board has a talented, diverse team that has invested considerable time and resources to fully understand and monitor this Unfunded Liability. We do not believe we are at crisis mode and believe that the best approach is a long term (15 to 20 years) solution to reverse this trend and to build a fully funded plan for the participants and for the tax payers of Trumbull. We stand ready to assist you in any further analysis you may request.

Respectfully the Pension Board,

Michael Charland	Elaine Hammers	Maria Pires
Bruce Pine	John Ponzio	William Schietinger

HOOKER & HOLCOMBE, INC.
Benefit Consultants and Actuaries

65 LaSalle Road | West Hartford, CT 06107-2397 | *Founded in 1956*

Confidential

January 26, 2011

Ms. Maria Pires
Director of Finance
Town of Trumbull
5866 Main Street
Trumbull, CT 06611

Re: Town of Trumbull Pension Plan

Dear Maria:

We are pleased to present our review of the Town's Pension Plan as of July 1, 2010.

Compared with the prior valuation (July 1, 2008), the contribution this valuation develops has increased from $3,911,000 to $4,472,000. The contribution also increased as a percent of covered compensation (22.4% in the prior valuation, 24.4% in this valuation).

There are generally two liability measures to which plan assets are compared when determining how well a plan is funded. The actuarial accrued liability is a function of the cost method and is based upon projected salaries. If assets equal the actuarial accrued liability, the plan is considered to be "fully funded" (meaning that actuarial accrued liabilities for all prior service have been funded.)

The following shows the history of the ratio of the *actuarial value* of assets to the plan's actuarial accrued liability (expressed as a percent):

Valuation	% of Actuarial Accrued Liability Funded
1990	50%
1992	46
1994	46
1996	55
1998	58
2000	59
2002	51
2004	40
2006	38
2008	34
2010	27

The second liability measure, the present value of accrued benefits, represents the value of benefits all participants have earned as of the valuation date. This liability is based upon the valuation assumptions, using each participant's actual service and salary history through the valuation date. Maintaining assets at this level is generally not perceived as having a "fully funded" plan if the objective is to keep costs level as a percentage of covered payroll. The present value of accrued benefits is smaller than the actuarial accrued liability because salaries are not projected.

The following shows the history of the ratio of the *market value* of assets to the present value of accrued benefits (expressed as a percent):

Valuation	% of Present Value of Funded Accrued Benefits
1990	66%
1992	62
1994	56
1996	60
1998	70
2000	68
2002	50
2004	46
2006	43
2008	36
2010	29

Sizable unfunded liabilities continue. In the absence of investment returns appreciably greater than expected, larger Town contributions will be needed to avoid a continued deterioration in the plan's funded status.

After you have reviewed this report, please feel free to call me if you have any further questions.

Sincerely,

Ronald O. Schlee

Ronald O. Schlee

/mmh
Enclosure

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