



City of Chester Retiree Information Session

February 15, 2022



Who Are We?

- In June 2020, Michael Doweary was confirmed by Commonwealth Court to be the Receiver for the City of Chester
 - Chester is only the second city in Pennsylvania to be placed in receivership
 - On December 28, 2021, Commonwealth Court extended receivership through December 28, 2023
- The Receiver's role is to take action that will get the City out of its fiscal emergency which means making sure that the City is solvent and that it can continue to provide vital and necessary services
- The Receiver's team includes experts in the area of municipal finance, labor law and pensions/retiree health care



Why Are We Here?

- The City of Chester faces significant financial challenges.
 - Chester has been a “distressed municipality” under Act 47 since 1995 and entered into Receivership in 2020
- Rapidly growing retiree benefit costs, including both pensions and retiree medical benefits, have consumed a great deal of Chester’s revenues
- The City took a multi-pronged approach to bring the City’s budget into balance in Fiscal Year (FY) 2021, much of which was continued into FY 2022:
 - Furloughs
 - Layoffs of civilian staff
 - Tax increases (including an increased Earned Income Tax for pensions)
 - Elimination/reduction in discretionary spending, including overtime
 - Use of one-time federal stimulus under the American Rescue Plan Act (ARPA)



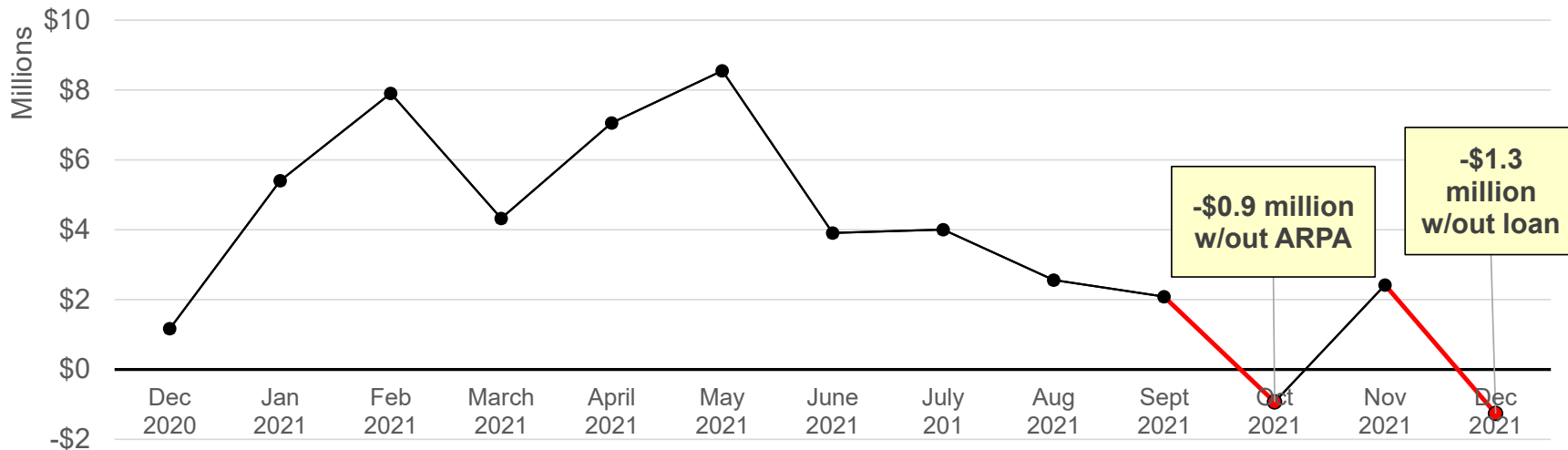
Why Are We Here? (Continued)

- Even with these cost containment and revenue raising actions, the City's revenues cannot keep up with the growth in expenditures, driven largely by retirement benefits
- Historical underfunding of the City's pension plans, coupled with unsustainable benefit enhancements, and lack of pre-funding of Other Post-Employment Benefits ("OPEB" or "retiree medical benefits"), threatens the City's ability to deliver vital and necessary services to residents into the future
- Improving the City's long-term financial condition must include meaningful pension and retiree medical reforms that curb the growth in future costs and create the capacity for the City to set aside appropriate resources to make benefit payments in the future



2021 City Finances Without Federal & State Help

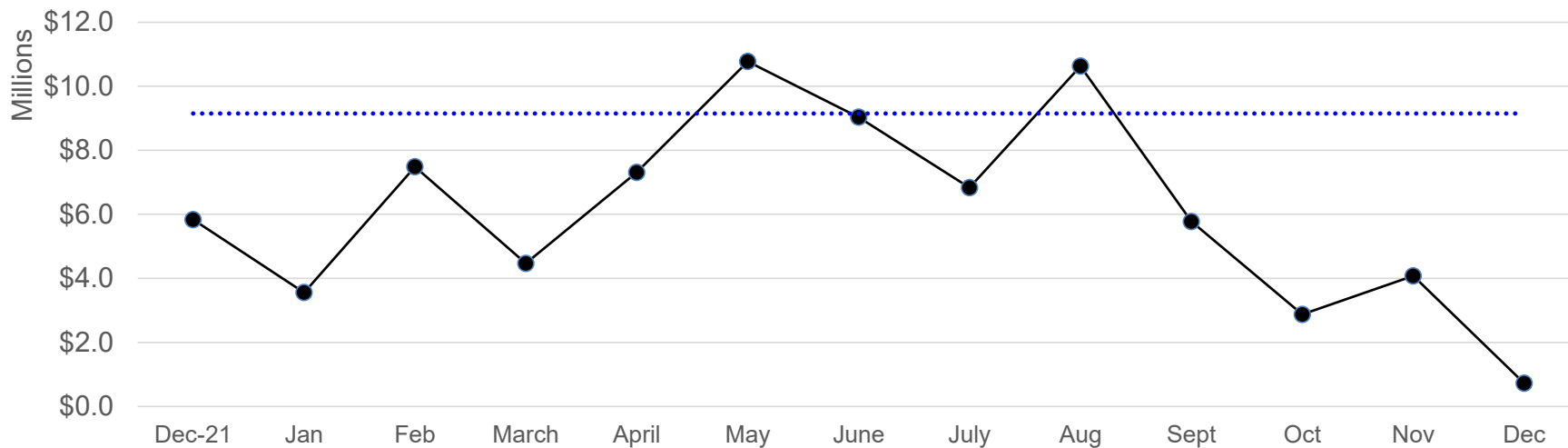
In the Fall, the City used \$2.1 million of its federal allocation under the American Rescue Plan Act of 2021 (ARPA) for “revenue replacement.” **Without ARPA funds, the City would have run out of money in October.** In December, the City received \$5 million for 2022 cash flow needs from a Commonwealth emergency loan. **Without the Commonwealth’s \$5 million emergency loan, the City would have run out of money in December.**





2022 City Cash Flow Projection

We have projected the City’s cash balance at the end of each month during 2022. The 2022 budget assumes \$2.1 million in federal “revenue replacement” to fund capital projects (e.g. City Hall roof repairs, 6th street bridge repairs, playground improvements). **The City starts the year with \$5.8 million (including cash flow loan) and ends it with \$0.7 million which is less than 1 week of expenses, an extremely low amount and without any other reserves.** This does not include any of the approximately \$34.5 million in past due payments to its pension funds.





Agenda

- Pension Basics
- Chester's Pension Funding Background
- Chester's Retiree Medical Benefits
- Steps Taken
- Next Steps



Pension Basics



What is a Pension?

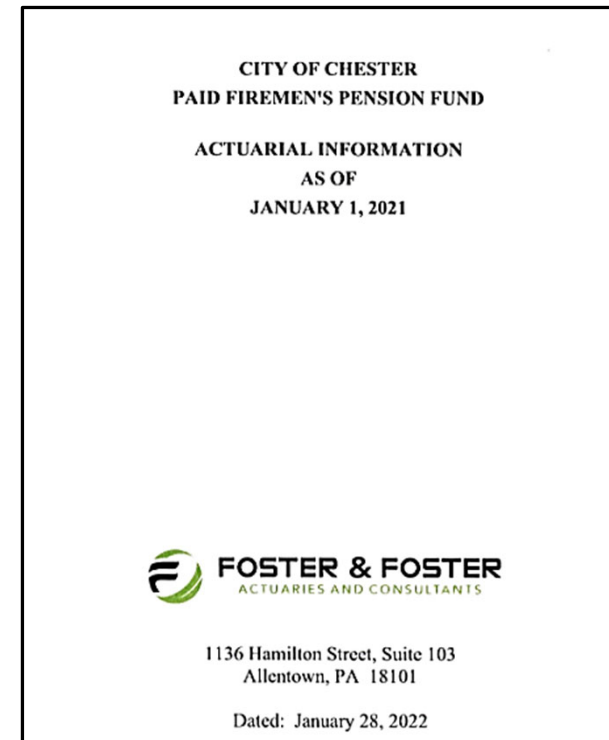
	Traditional Defined Benefit Plan (DB)	Traditional Defined Contribution Plan (DC)
Description	<ul style="list-style-type: none"> • Provides a guaranteed benefit, generally paid in the form of a life annuity, based on a predetermined formula. • Generally calculated by age at retirement, years of service, and final compensation. • Employer contributions are actuarially determined and may vary annually. • May require employee contributions. 	<ul style="list-style-type: none"> • Provides a non-guaranteed benefit based solely on the value of a participant's individual retirement account. • Value of the benefit depends on the value of the individual's account, including earnings and losses attributable to contributions. • Contributions depend upon the plan terms and can include both employer and employee contributions. • In some DC plans, employees may make elective deferrals with pre-tax dollars.

- A defined benefit (DB) pension is an annuity payment made pursuant to a formula that provides monthly income to retirees and beneficiaries who meet certain conditions, commonly years of service and age requirements
- Pensions differ from defined contribution (DC) plans, such as 401(k) plans, in that the monthly annuity amount is set at a specific level and does not vary based upon investment gains and/or losses
- **Investment risk** in a DB plan rests squarely on the employer (i.e., “taxpayers”). In a DC plan, investment risks sit with the employee/retiree



Actuarial Valuation Reports

- **How are pension funding requirements determined?**
 - Pension funds are required to produce an Actuarial Valuation Report that compares a pension fund's assets and liabilities using investment, economic, and demographic **assumptions** according to actuarial standards of practice
 - If a plan's actual experience differs negatively from the actuarial **assumptions** used, it can lead to additional unfunded liabilities and employer costs
 - Chester's most recent Police, Fire, and Officers & Employees (O&E) actuarial valuations were completed as of January 1, 2021





Minimum Municipal Obligation

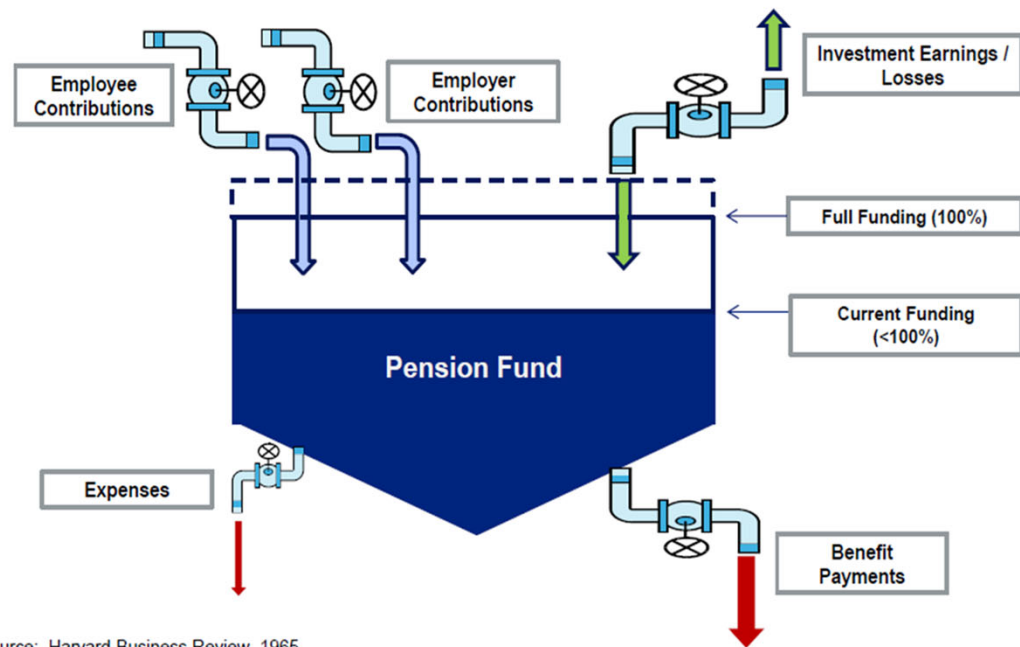
- In addition to the actuarial valuation, which is done every two years, cities are legally required to calculate a Minimum Municipal Obligation (MMO), which establishes a minimum contribution that must be made to a pension fund based on the actuarial results
- As discussed in more detail later in this report, due to severe financial constraints, and inflated benefit costs from improper benefit increases, the City of Chester did not contribute the full MMO to its pension plans from 2014 through 2020

FINANCIAL REQUIREMENT AND MINIMUM MUNICIPAL OBLIGATION BUDGET FOR 2021		
<i>NAME OF MUNICIPALITY:</i>	CITY OF CHESTER	
<i>COUNTY:</i>	DELAWARE	POLICE PENSION PLAN
1 TOTAL ANNUAL PAYROLL <i>Estimated Payroll</i>		\$7,800,000
2 NORMAL COST AS A PERCENTAGE OF PAYROLL <i>(Derived from latest actuarial valuation)</i>	1/1/19	17.71%
3 TOTAL NORMAL COST <i>(Item 1 x Item 2)</i>		\$1,381,380
4 AMORTIZATION REQUIREMENT <i>(Derived from latest actuarial valuation)</i>		\$7,740,117
5 TOTAL ADMINISTRATIVE EXPENSES <i>(Based on Estimate)</i>		\$36,000
6 FINANCIAL REQUIREMENT <i>(+ Item 3 + Item 4 + Item 5)</i>		\$9,157,497
7 TOTAL MEMBERS CONTRIBUTIONS		\$624,000
8 FUNDING ADJUSTMENT <i>(Derived from latest actuarial valuation)</i>		\$0
9 MINIMUM MUNICIPAL OBLIGATION <i>(+ Item 6 - Item 7 - Item 8)</i>		\$8,533,497
10 MINIMUM MUNICIPAL OBLIGATION BASED UPON MARKET VALUE OF ASSETS		\$8,866,450



Funded Level or Ratio

- A plan's funded level or funded ratio is a benchmark for evaluating whether a plan's assets can cover current and future liabilities
 - Calculated by Assets divided by Liabilities and expressed as a %
- This diagram reflects the hypothetical inflow and outflow of pension fund's assets that determine funding level



Source: Harvard Business Review, 1965



Chester's Pension Funding Background



Defined Benefit Pension Plans

- **Chester has three (3) employee pension plans:**
 - Police Pension Plan (PPP) for police retirees and beneficiaries
 - Fire Pension Plan (FPP) for fire retirees and beneficiaries
 - Officers and Employees Pension Plan (O&E) for eligible retirees and beneficiaries not in the PPP or FPP (non-union/non-uniformed, elected officials, and Teamsters)



Money Owed to Funds

- When calculating how much the City needs to contribute to its pension funds, the actuary assumes that money that should have been previously contributed into the plans but was not, is actually already in the plan assets. These amounts are called *receivables*
- Per the 2021 actuarial valuations, the receivables were as follows:

Police	Fire	O&E	Total
\$32,409,383	\$2,134,220	\$2,064,368	\$36,607,971

- This means that for the City to be current on its pension payments, it will need to pay both the **\$36,607,971** owed as well as its annual pension contribution



Chester's 2021 Funded Levels

- When the funding levels are reflected using the **Market Value of Assets** (i.e., excluding the receivables from the Plan's assets), the magnitude of the financial problem becomes clear
- As shown below, the Police Pension Plan had **\$1.52 million** in assets and a funded ratio of **1.5%**. Across all three plans, the City's aggregate pension funding level is **22.9%** when the receivables are excluded. Unfortunately, no matter how the funding levels are examined, they are completely inadequate to pay for the current level of benefits provided

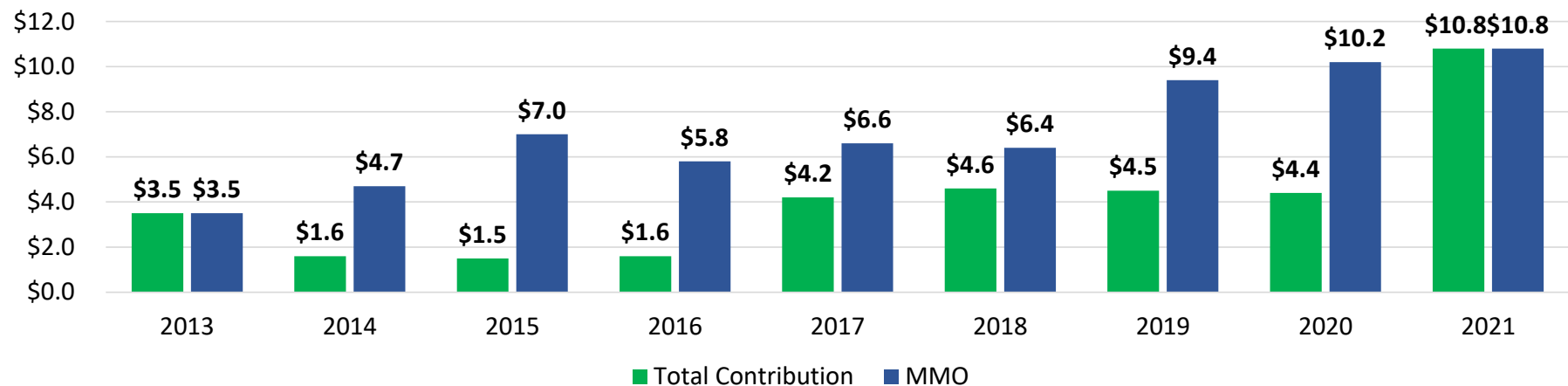
	Police	Fire	O&E	Total
Liabilities	\$98,405,971	\$47,775,979	\$8,715,193	\$154,897,143
Assets (<u>Excl</u> Receivables)	\$1,520,484	\$31,912,899	\$2,052,300	\$35,485,683
Unfunded Liability	(\$96,885,487)	(\$15,863,080)	(\$6,662,893)	(\$119,411,460)
Funded %	1.5%	66.8%	23.5%	22.9%



MMO Payments

- In 2021 the City made its MMO payment for the first time since 2014. However, these MMOs assumed the receivables were in the fund and therefore the “true” MMOs should have been higher

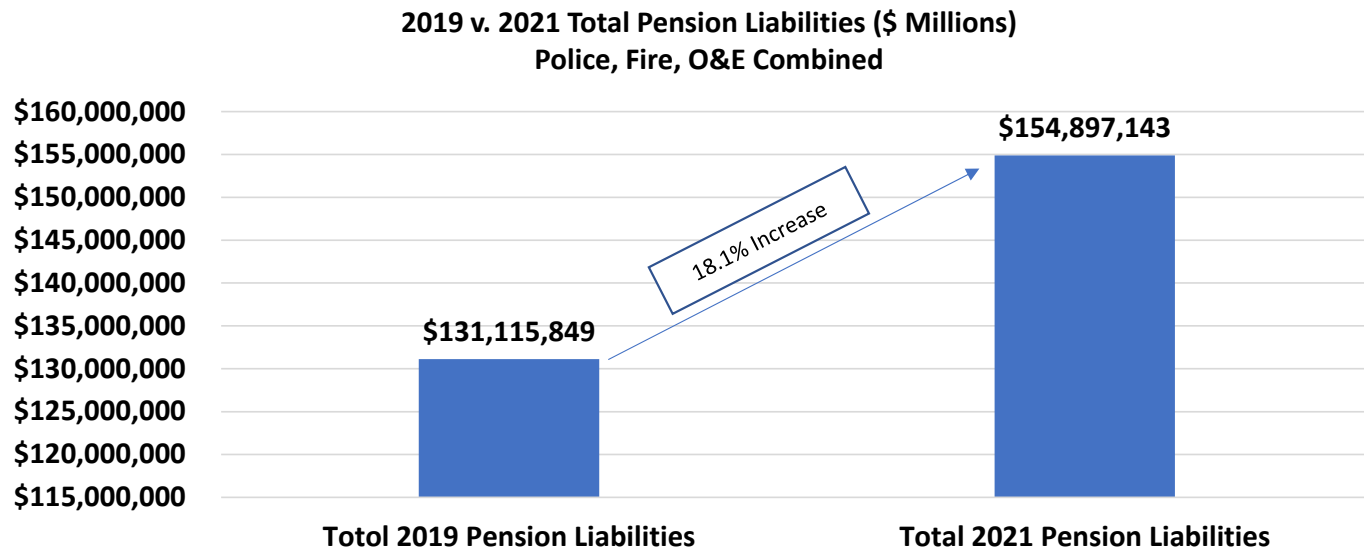
City Contributions Relative to MMOs (\$ Millions)
2013-2021





Significant Increase in Pension Liabilities

- The 2021 valuations reflect a 18.1% increase in total pension liabilities compared with 2019. This significant increase is largely due to changes in actuarial assumptions that better reflect actual outcomes, including a reduction in the expected rate of return from 7.5% to 6.5%

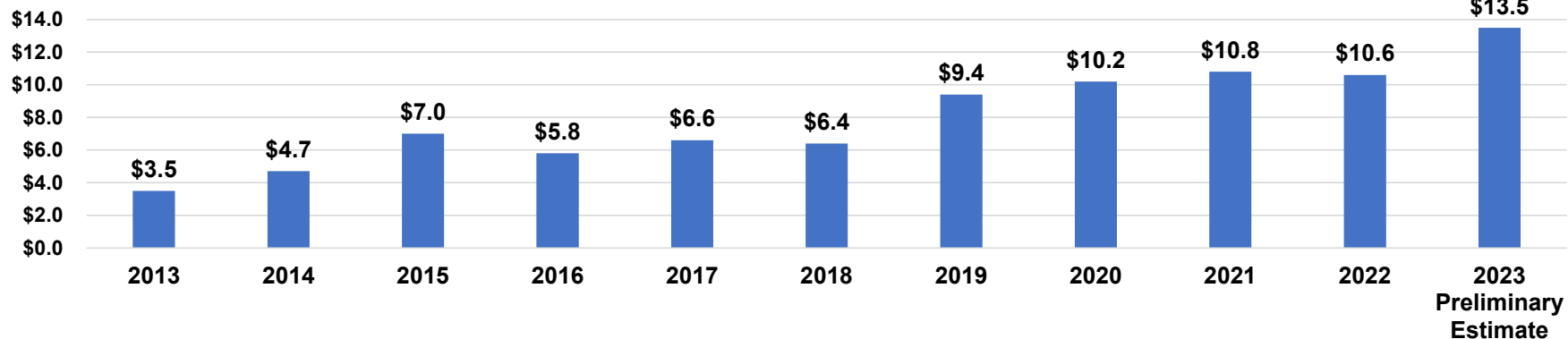




MMO Cost Growth

- The City's combined MMO more than tripled from 2013 through 2022. Importantly, the MMOs should have been even higher than what is reflected in the chart since they assume receivables were plan assets when they really were not. Our preliminary 2023 MMO estimate is approximately \$13.5 million (note that this will need to be calculated by the actuary)

City Minimum Municipal Obligations (\$ Millions) 2013 - 2022





Benefit Enhancements Contribute to Funding Challenges

- While discussions have historically focused on the fact that the City underfunded the police pension fund – which is true – pension benefit enhancements over the years also contributed to the significant benefit costs faced today. The following slides discuss the police pension benefit enhancements that contributed to these significant benefit costs
- The history shows that Chester appeared to be on the course to contain pension costs; however, pension benefit increases – some of which were agreed to – undid prior reforms



Police Pension Benefit History

- In conducting our analysis, we reviewed collective bargaining agreements, memoranda of understanding (MOUs) and interest arbitration awards dating back to 1972 to trace the changes in the police pension benefit and retiree health care
- The history showed an increasing pension benefit level until the period around 1987-1989 where reforms were agreed to in a MOU that created new benefit tier for police officers hired after 1987
- Many of those reforms were eliminated in the 2003-2005 MOU and the pension benefit was also enhanced in a 2012 interest arbitration award
- Additionally, in 2009, it appears that the City Pension board improperly enhanced the benefit for certain police officers by changing the final average salary from the last 3 years to the last 12 months which allowed pension spiking



Pension and Retiree Benefit History

- The tables that follow use the key outlined below to highlight historical changes to retiree benefit plans
- Enhancements are highlighted green and reductions are highlighted red

Key

Benefit Established

Enhancement

Reduction



Pension and Retiree Benefit History

Source	Applicability	Action
1972 Arbitration Award	Pension	Established retirement eligibility at Age 50 with 20 YOS
	Pension	Increased Service Connected Disability retirement from 50% to 70% of final average salary
1977 Arbitration Award	Pension	Eliminated Social Security offsets for disability retirements
	Pension	Established guaranteed minimum of 25% of salary for Non-Service Connected Disability retirements with 5 YOS, up from previous 2.5% per year of service
1978-1979 Arbitration Award	Pension	Established new killed in service survivor benefit
1980 Agreement	Retiree Medical	Allowed post-1/1/1980 retirees to participate in City healthcare plans, but required employees to pay 100% of premiums
1981 Reopener on Disability	Pension	Increased Service Connected Disability after 1/1/1982 to 100% of W-2 earnings in last 12 months



Pension and Retiree Benefit History

- In 1987-1988, the City started paying 100% of the monthly premiums for retiree health benefits (2-party coverage level), which was previously paid in full by retirees

Source	Applicability	Action
1983 -1984 Agreement	Pension	Established vesting at 20 YOS (must also be age 50 to collect pension)
	Pension	Increased final average salary to 50% of W-2 earnings in 12-month period prior to retirement
	Pension	Added Workers' Compensation payments to definition of final average salary for Service Connected Disability retirements
1987-1988 Agreement	Pension	Added provision to convert Service Connected Disability retirements to a regular pension benefit (50%) at their normal retirement eligibility (from 1987 arb award)
	Pension	Reflects 12-month final average salary formula for all Officers
	Retiree Medical	City pays 100% of premiums for BC/BS + Rx (\$2) for employees retired after 1/1/1987 at 2-party coverage level, up from 100% employee paid



Pension and Retiree Benefit History

- Importantly, the City and Union took steps in the 1989 agreement to begin curtailing the unsustainable benefit levels by creating a new pension benefit tier for police officers hired after 1987. Unfortunately, as we will see, most of these changes were reversed in the 2003-2005 agreement, unilateral action taken by the pension board in 2009 and were further enhanced by an arbitration award covering 2012 through 2016

Source	Applicability	Action
1989 MOU	Pension	Added military service credit option
	Pension	Raised normal retirement to Age 53 with 25 YOS for post-5/19/1988 hires
	Pension	Benefit level established at 50% of highest average pay for 3 calendar years for post-5/19/1988 hires
	Pension	Reduced Non-Service Connected Disability formula to 2% average pay per YOS up to 50% maximum for post-5/19/1988 hires



Pension and Retiree Benefit History

- The last signed, consolidated collective bargaining agreement between the City and the police union covered 1998 through 2002.* That document memorialized two significant items – 1) removing the conversion of service-connected disability retirement to regular retirement and 2) memorializing the pension tier for police officers hired on/after January 1, 1988

Source	Applicability	Action
1994-1997 CBA and 1998-2002 Agreement (last signed, consolidated agreement)	Pension	Removed conversion of Service Connected Disability retirement to regular retirement for post-5/19/1988 hires (meaning that it stayed at 100% rather than dropping to 50% once the disabled officer reached retirement age)
	Pension	Defines the “second tier” pension formula for police officers hired on/after January 1, 1988, as 50% of average annual salary received during the last 3 years of service immediately preceding retirement

* Note: This language also appeared in the 1994-1997 collective bargaining agreement which was passed by City resolution, but only signed by the City. The 1998-2002 CBA was signed by the FOP and the City.



Pension and Retiree Benefit History

- Much of the work to reduce pension costs was undone in the 2003-2005 agreement and the 2012-2016 interest arbitration award. The 2003-2005 agreement changed the retiree eligibility by removing the age eligibility and reduced the years of service requirement to 20 years. Importantly, however, it did not change the final average salary calculation.
- Additionally, in 2009, the Pension Board unilaterally changed the final average salary calculation from 3-year to last 12 months for all police officers

Source	Applicability	Action
2003-2005 MOU	Pension	Changed retirement eligibility to Any Age with 20 YOS for post-1/1/2004 retirees (no mention of any changes to final average salary calculation)
2009 Pension Board Minutes	Pension	Pension board unilaterally enhanced the benefit from 3-year final average salary to final 12 months for all police officers, which allowed pension spiking
2012-2016 Arbitration Award	Pension	Service increment increased from \$100 to \$500 per month for service in excess of 20 years
	Retiree Medical	Added dental and vision coverage to retiree medical benefits
2017-2021 MOU	Pension	Creation of new pension tier (see next slide) for police officers hired on/after February 1, 2017



Current Benefits

Police Pension Plan

- Positive steps have been taken to contain benefit costs, but pre-2/1/2017 benefit levels continue to hamper financial sustainability
- Chester currently has a two-tier system for Officers hired pre- and post-February 1, 2017

Key Benefit Provisions	Pre-2/1/2017 Hires	Post-2/1/2017 Hires Third Class City Code
Service Retirement Benefit Formula	50% of FAS	50% of FAS
Final Average Salary (FAS)*	Officers have received highest 12 months, but should be average of last 3 years preceding retirement	Greater of 12 months or 5 year average
Compensation included in FAS	All W-2 earnings, including overtime	Base pay + longevity only
Age & Years of Service (YOS) Requirement	Any age with 20 YOS	Age 50 and 25 YOS
Service Credit	Up to 5 YOS for Military Service	Up to 5 YOS for Military Service
Service Disability Retirement	50% of FAS/70% of FAS for in the line of duty disability	50% of FAS/70% of FAS for in the line of duty disability
Deferred Retirement Option Program	Yes @ Age 50 with 20 YOS	Yes @ Age 50 and 25 YOS
Employee Contribution	8.0%	8.0%



Retiree Medical Benefits



Retiree Medical Overview

- In addition to pension benefits, the City of Chester offers a generous retiree medical benefit (Other Post-Employment Benefit or “OPEB”) to most of its employees and retirees, with the City of Chester paying between 95% and 100% of monthly premiums
 - Police hired after 2/1/2017 are no longer eligible to receive retiree medical benefits, though both Fire and Civilians hired after this date continue to receive medical benefits in retirement
- The benefit plan designs are also rich, with low medical and prescription drug copays, deductibles, etc.
- A summary description of OPEB benefits available to Chester employees are provided on the following pages



Retiree Enrollment

- A significant majority (86.6%) of the City’s retirees are enrolled in the Select POS plan and the Select EPO plans
 - Select POS are all police retirees and Select EPO are all fire retirees
- **As shown on the next slide, the Select POS and Select EPS plans are very rich**

Plan	Retirees	% Total
Select POS	94	63.1%
Select EPO	35	23.5%
EPO	18	12.1%
POS	2	1.3%
Total	149	100.0%



Summary Plan Design

Benefits	PROPOSED PLAN				
	EPO Base Plan	EPO BuyUp	Select EPO	POS	Select POS
In-Network					
Deductible	\$1,500 / \$3,000	\$0 / \$0	\$0 / \$0	\$0 / \$0	\$0 / \$0
Coinsurance	80%	100%	100%	100%	100%
Out-of-Pocket Max	\$7,500 / \$15,000	\$6,600 / \$13,200	\$500 / \$1,000	\$6,600 / \$13,200	\$500 / \$1,000
Preventive	100%	100%	100%	100%	100%
PCP Copay	\$20 Copay	\$15 Copay	\$5 Copay	\$15 Copay	\$5 Copay
Specialist Copay	\$40 Copay	\$30 Copay	\$5 Copay	\$30 Copay	\$5 Copay
Lab Services	\$20 Copay	\$15 Copay	100%	\$15 Copay	100%
X-Ray	\$40 Copay	\$30 Copay	100%	\$30 Copay	100%
Complex Imaging	80% after Ded.	100% after Ded.	100% after Ded.	100% after Ded.	100% after Ded.
Inpatient Hospital	80% after Ded.	\$500 Copay	100%	\$500 Copay	100%
Outpatient Surgery	80% after Ded.	\$50 Copay	100%	\$50 Copay	100%
Emergency Room	\$250 Copay	\$250 Copay	\$100 Copay	\$250 Copay	\$100 Copay
Out-of-Network					
Deductible				\$1,500 / \$4,500	\$500 / \$1,000
Coinsurance				50%	80%
Out-of-Pocket Max				\$10,000 / \$30,000	\$3,000 / \$6,000
PCP Copay	Not Covered	Not Covered	Not Covered	50% Coinsurance	80% Coinsurance
Specialist Copay				50% Coinsurance	80% Coinsurance
Inpatient Hospital				50% Coinsurance	80% Coinsurance
Outpatient Surgery				50% Coinsurance	80% Coinsurance
Emergency Room Copay	\$250 Copay	\$250 Copay	\$100 Copay	\$250 Copay	\$100 Copay
Prescription Drug (Retail/M.O)					
Generic	\$10 / \$20	\$5 / \$10	\$1 / \$1	\$5 / \$10	\$1 / \$1
Preferred Brand	\$20 / \$40	\$10 / \$20	\$3 / \$3	\$10 / \$20	\$3 / \$3
Non-Preferred Brand	\$50 / \$100	\$25 / \$50	\$3 / \$3	\$25 / \$50	\$3 / \$3
Specialty	\$50	\$25	\$3	\$25	\$3

- Select POS & Select EPO plan features:
 - ✓ \$0 deductible
 - ✓ Low out-of-pocket maximum (\$500/\$1000)
 - ✓ \$5 copay for PCP/Specialist visits
 - ✓ \$1 generic /\$3 preferred /\$3 non-preferred Rx drug copays



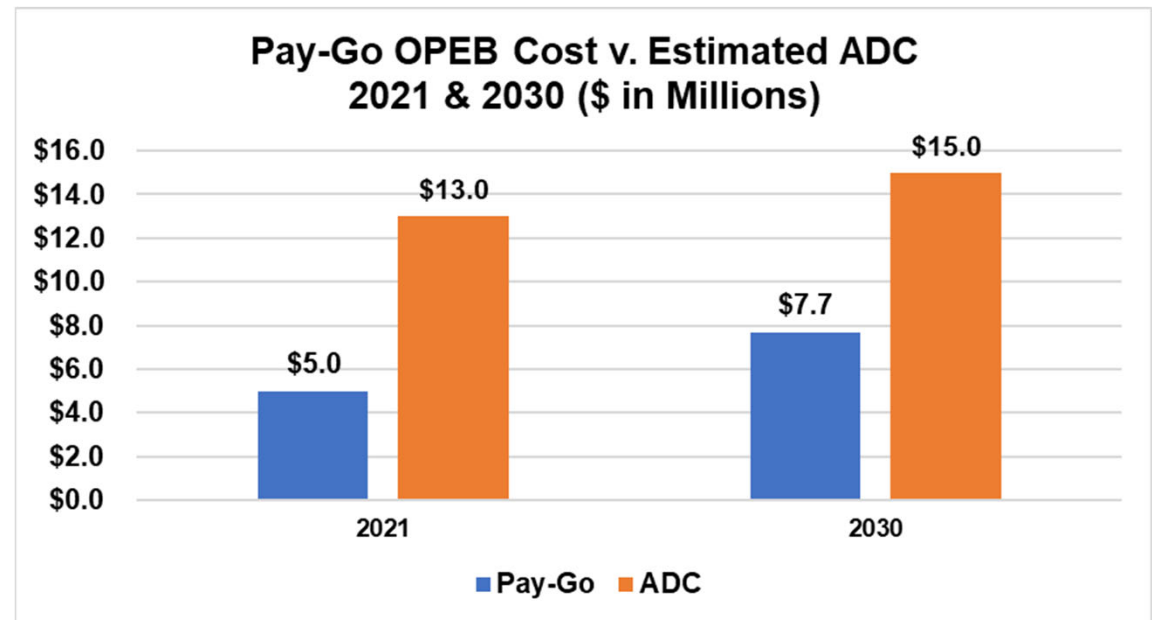
OPEB Funding Levels

- Chester funds OPEB on a pay-as-you-go basis only, meaning it covers the monthly premium expense for retiree medical benefits as they come due, rather than setting aside resources when the benefits are earned, as is generally considered a best practice. Therefore, Chester's retiree medical program is **0% funded**, meaning not a single dollar is currently set aside to meet future OPEB costs
- If the City was prefunding the benefit, it would be recommended (but not required) that the City annually contribute an amount equal to the Actuarial Determined Contribution (ADC) for the plan. The estimated ADC would range from \$13 million in 2021 to \$15 million in 2030 compared to the pay-as-you-go costs of \$5 million in 2021 to \$7.7 million in 2030



Actuarially Determined Contribution

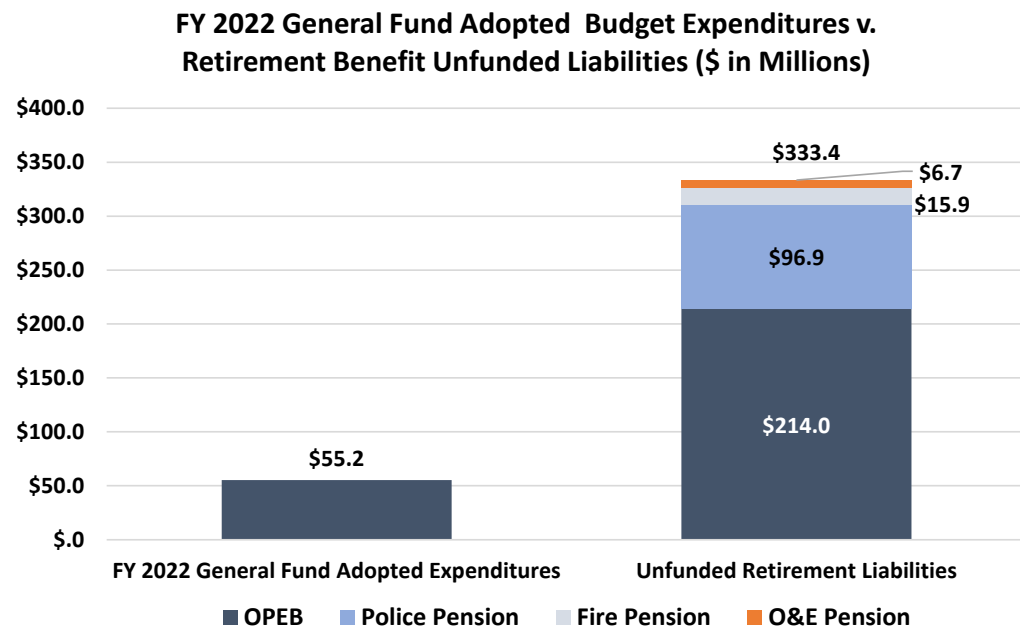
- As shown in the chart, full funding of the City's ADC in 2021 would require an additional **\$8 million** above the current pay-go amount (\$5 million pay-go v. \$13 million ADC)





Pension & OPEB Unfunded Liabilities

- The present value of Chester’s total projected OPEB liability is **\$214 million**, for which the City has **\$0** in assets set aside
 - GASB 74/75 now requires local governments to report the current portion of these unfunded OPEB liabilities on their balance sheet
- Collectively, the City has more than **\$333.4 million** in unfunded pension & OPEB liabilities, which is more than **6X** the City’s FY 2022 adopted budget





Steps Taken



Steps Taken

- Pennsylvania law restricts cities from making certain changes to pensions and retiree health benefits for existing employees and retirees
 - Effectively, the two ways to change pensions and retiree health benefits for existing employees and retirees is either by agreement with the employees/retirees or through a federal bankruptcy action
- The Receiver has taken two significant steps that have reduced pension and retiree health care costs
 - Moved eligible retirees to Hartford medical plan
 - Recalculation of improperly calculated police pension benefits

Movement of Retirees to Hartford Plan



- Under collective bargaining agreements, retirees can be moved to a Medicare supplemental health care plan once they are Medicare eligible
 - This change does not alter the level of benefits, but rather it directs that Medicare pay first and the City cover certain costs that Medicare does not cover
- The Receiver and City took action last year to move employees to the Hartford plan which saves the City approximately \$1 million per year

Receiver's Order Regarding Improperly Calculated Police Pension Benefits



- On 10/25/2021, the Receiver issued an order to the City of Chester's Pension Board to change the way that it has calculated pensions for police retirees hired before February 1, 2017, and to investigate and adjust the pension benefits for police retirees hired after January 1, 1988 and prior to February 1, 2017, who retired on a normal retirement
- Based on the Receiver team's analysis, certain police retirees have been receiving a pension benefit greater than what they were entitled to under their collective bargaining agreements. This appears to have been happening for years
- Specifically, certain police retirees' pensions were incorrectly calculated using the final pay over the retirees' last 12 months of employment rather than the average of the last 3 years. The incorrect calculation allows police officers to artificially "spike" pensions
 - The order does not apply to police officers hired after February 1, 2017 or those hired prior to January 1, 1988 who retired on a normal retirement

Police Pension Recalculation Update (continued)



- Since the Receiver's order in October 2021, the City's actuary has been recalculating the pensions of police officers hired after January 1, 1988 and prior to February 1, 2017, beginning with the most recent retirees and working backwards
 - To date, the actuary has recalculated the pensions of 27 police officers. Based on the new calculations of just these 27 police officers, we estimate that the police pension fund will save approximately \$445,425 per year going forward
 - Additionally, if DROP overpayments were recouped from the 19 police officers who left service, we estimate that the police pension fund would receive an additional \$814,688. Applying the new calculation to the DROPs of those still in the program saves \$167,125
 - If previous pension payments were recouped from the 19 police officers who left service, we estimate that the police pension fund would receive an additional \$908,516
 - **Therefore, assuming recoupment from the 27 police officers, the police pension fund would receive ongoing of savings of \$445,425 and one-time savings of \$1,890,329 for a total of \$2,335,754 in one year which is approximately 35% of total pension payments of the fund in one year**



Actual Impact - Annual Pensions

8 Current DROP Enrollees

- The average annual pension for 8 DROP enrollees was originally calculated at \$88,654 per year
- Under the Receiver's Order the average benefit will reduce to \$74,347 per year

Employee	Annual Pension			
	Original	Revised (Oct. 2021)	Variance (\$)	Variance (%)
1	\$106,957	\$91,993	(\$14,964)	-14.0%
2	\$50,845	\$51,542	\$697	1.4%
3	\$96,435	\$90,275	(\$6,160)	-6.4%
4	\$80,565	\$70,319	(\$10,246)	-12.7%
5	\$90,656	\$78,222	(\$12,434)	-13.7%
6	\$108,073	\$77,768	(\$30,305)	-28.0%
7	\$65,673	\$58,888	(\$6,785)	-10.3%
8	\$110,027	\$75,767	(\$34,261)	-31.1%
Average	\$88,654	\$74,347	(\$14,307)	-14.4%
Total	\$709,232	\$594,775	(\$114,457)	-14.4%

Ongoing Annual Savings = \$114,457



Actual Impact - DROP Balances

8 Current DROP Enrollees

- The account balances were reduced for 7 of 8 DROP enrollees as well
- The average reduction in DROP account balance across the 8 enrollees was \$20,891

Employee	DROP Account Balance			
	Original	Revised (Oct. 2021)	Variance (\$)	Variance (%)
1	\$240,654	\$206,985	(\$33,668)	-14.0%
2	\$50,845	\$51,542	\$697	1.4%
3	\$120,544	\$112,844	(\$7,700)	-6.4%
4	\$93,992	\$82,039	(\$11,953)	-12.7%
5	\$181,313	\$156,444	(\$24,868)	-13.7%
6	\$153,104	\$110,172	(\$42,932)	-28.0%
7	\$120,400	\$107,961	(\$12,439)	-10.3%
8	\$110,027	\$75,767	(\$34,261)	-31.1%
Average	\$133,860	\$112,969	(\$20,891)	-14.4%
Total	\$1,070,879	\$903,754	(\$167,125)	-14.4%

Total One-Time Savings = \$167,125



Additional 19 Police Pensioners

- The City recently re-calculated the monthly pension benefit for an *additional* 19 retirees, all of whom are already retired and receiving a pension. 13 of the 19 retirees also participated in DROP

	Original Pension	Revised Pension	% Decrease	Ongoing Pension Savings	Historical Pension Overpayments	Original DROP	Revised DROP	% Decrease	DROP Savings
1	\$102,481.80	\$67,654.08	-34.0%	(\$34,827.72)	(\$102,956.47)	\$314,451.95	\$207,587.66	-34.0%	(\$106,864.29)
2	\$75,177.96	\$54,464.64	-27.6%	(\$20,713.32)	(\$61,231.98)	\$230,673.67	\$167,117.59	-27.6%	(\$63,556.08)
3	\$52,595.28	\$48,834.72	-7.1%	(\$3,760.56)	(\$9,252.01)	\$131,025.52	\$121,657.17	-7.2%	(\$9,368.35)
4	\$55,056.36	\$51,544.68	-6.4%	(\$3,511.68)	\$0.00	\$41,292.27	\$38,658.51	-6.4%	(\$2,633.76)
5	\$75,818.52	\$54,617.64	-28.0%	(\$21,200.88)	(\$62,673.29)	\$390,594.40	\$281,373.80	-28.0%	(\$109,220.60)
6	\$123,269.04	\$68,999.04	-44.0%	(\$54,270.00)	(\$128,909.84)	\$295,612.92	\$165,467.40	-44.0%	(\$130,145.52)
7	\$80,934.60	\$57,221.88	-29.3%	(\$23,712.72)	(\$119,538.10)	\$0.00	\$0.00	0.0%	\$0.00
8	\$69,360.48	\$53,398.44	-23.0%	(\$15,962.04)	(\$47,186.41)	\$201,263.42	\$154,946.37	-23.0%	(\$46,317.05)
9	\$67,740.72	\$64,780.08	-4.4%	(\$2,960.64)	(\$6,042.95)	\$0.00	\$0.00	0.0%	\$0.00
10	\$101,829.72	\$66,219.12	-35.0%	(\$35,610.60)	(\$31,220.25)	\$84,858.10	\$55,182.60	-35.0%	(\$29,675.50)
11	\$77,874.24	\$63,630.00	-18.3%	(\$14,244.24)	(\$35,044.73)	\$395,175.66	\$322,892.75	-18.3%	(\$72,282.91)
12	\$41,114.16	\$39,621.24	-3.6%	(\$1,492.92)	(\$7,525.95)	\$0.00	\$0.00	0.0%	\$0.00
13	\$98,850.12	\$68,936.88	-30.3%	(\$29,913.24)	(\$86,133.74)	\$293,580.71	\$204,739.63	-30.3%	(\$88,841.08)
14	\$39,125.88	\$29,888.88	-23.6%	(\$9,237.00)	(\$50,436.55)	\$0.00	\$0.00	0.0%	\$0.00
15	\$71,517.84	\$69,361.68	-3.0%	(\$2,156.16)	(\$2,959.55)	\$0.00	\$0.00	0.0%	\$0.00
16	\$99,037.68	\$75,337.20	-23.9%	(\$23,700.48)	(\$58,309.67)	\$246,722.96	\$187,680.25	-23.9%	(\$59,042.71)
17	\$57,642.24	\$52,097.04	-9.6%	(\$5,545.20)	(\$15,967.14)	\$142,373.92	\$128,677.50	-9.6%	(\$13,696.42)
18	\$91,448.64	\$64,384.08	-29.6%	(\$27,064.56)	(\$80,007.29)	\$280,598.11	\$197,554.07	-29.6%	(\$83,044.04)
19	\$54,325.80	\$53,242.32	-2.0%	(\$1,083.48)	(\$3,119.83)	\$0.00	\$0.00	0.0%	\$0.00
				(\$330,967.44)	(\$908,515.74)				(\$814,688.31)



Combined Savings

ESTIMATES AS OF JANUARY 2022	Ongoing	1X Savings
8 Current DROP Enrollees		
Pension	\$114,457	
DROP		\$167,125
19 Additional Retirees		
Pension	\$330,968	
Historical Pension Overpayment*		\$908,516
DROP Overpayment*		\$814,688
Total	\$445,425	\$1,890,329

** Reflects funds that have already been paid to existing retirees.*

Police Pension Recalculation Next Steps



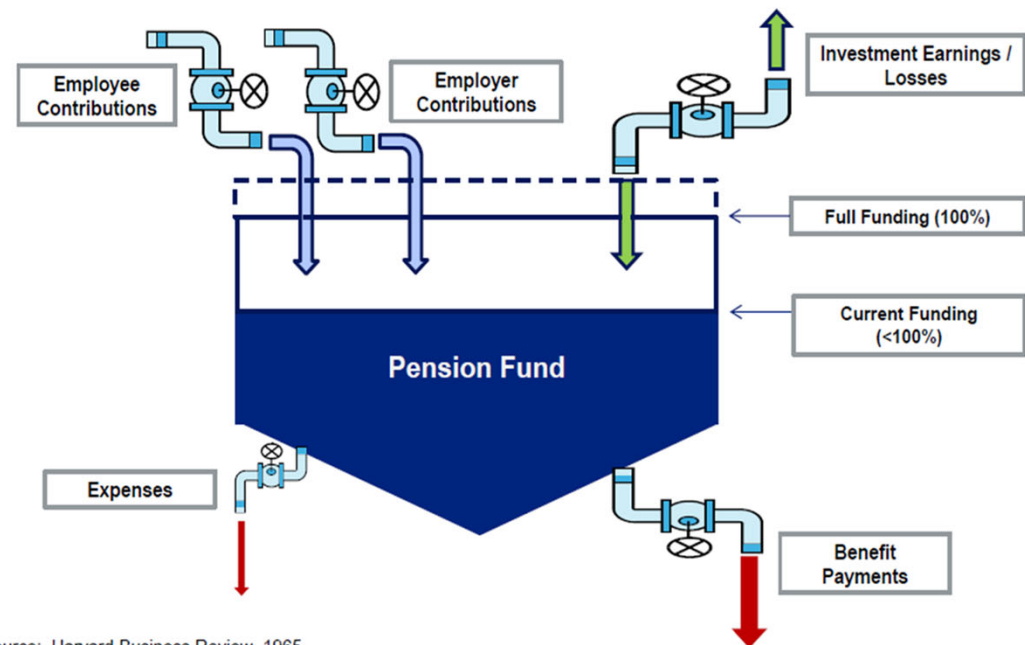
- The Receiver has been asked whether he will also seek to recoup the pension amounts paid as a result of the pension board's improper decision in 2009. The Receiver has not yet made that decision.
- The Receiver has also been asked whether he will seek to recover funds for the police pension plan from the elected officials and pension board members who took action in 2009 to improperly change the pension calculation.
 - The Receiver's team is in the process of investigating and will take all possible steps (including potentially legal action) to recover funds from the elected officials and the pension board members who should have been bonded and who took action in 2009 to improperly change the pension benefit at great cost to the City.



Next Steps

How Do We Fix This?

- Given the staggering pension and retiree health care costs that continue to grow and the City's poor economic condition, the only way forward is through **both** a significant influx of money and a reduction in the benefit costs



Source: Harvard Business Review, 1965



How Do We Fix This?

- Given the staggering pension and retiree health care costs that continue to grow and the City's poor economic condition, the only way forward is through **both** a significant influx of money and a reduction in the benefit costs
- The only asset that that the City has that can come close to the amount of money that the City needs is its water system
 - The Receiver has stated that while monetization of the water system must occur, that does not necessarily mean that the system needs to be privatized



No Easy Solution

- While the Receiver ensured that the City made its MMO contribution in 2021, the consequences of service reductions to City residents are severe
- The City must deliver a sustainable, long-term solution to these financial pressures that balances operating revenues with expenses
- The cost containment actions must be considered against the backdrop of increasing demands for municipal services (i.e., what, if any, services can be reduced further with the least amount of harm to vulnerable populations?)
- The Receiver's team is continuing to look at options for reducing retirement benefit costs. All options must be on the table



For More Information

- For more information on retiree benefit issues, please visit the Receiver's website at: www.chesterreceivership.com/retireeissues
- You can also email us at:
 - info@chesterreceivership.com
- If you would like to be kept up to date on additional meetings/information, please email us at the email address above