

**REGIONAL SCHOOL DISTRICT NO. 13
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

5. PENSION PLANS

A. Regional School District No. 13 Employee Retirement Plan

Plan Description and Benefits Provided

The District is the administrator of a single-employer pension employee retirement system (PERS) established and administered by the District to provide pension benefits for its employees. The Pension Committee, consisting of employees from the District as well as community members, makes recommendations for plan provisions. The recommendations are then approved by the Board of Education. The PERS is considered to be part of the District's financial reporting entity and is included in the District's financial statements as a pension trust fund.

Investment management of the plan rests with the Board of Education, which consists of ten members. Administration of the plan rests with a five-member committee appointed by the Board of Education.

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The pension trust fund's financial statements are prepared using the accrual basis of accounting. Revenues (contributions and investment income) are recognized when they are earned, and expenses (benefits) are recognized when they are due and payable in accordance with the terms of the plan.

Valuation of Investments

Investments are valued at fair value based upon quoted market prices.

Classes of Employees Covered

As of July 1, 2017, the date of the last actuarial valuation, the plan's membership consisted of the following:

Retirees, disabled and beneficiaries currently receiving benefits	33
Terminated employees entitled to benefits but not yet receiving them	14
Current plan members	<u>79</u>
Total	<u><u>126</u></u>

Benefit Provisions

The plan covers substantially all regularly employed, permanent noncertified employees of the District. In order to be eligible for the plan, the employee must complete 1 year of service, work 1,000 hours in a year and attain a minimum age of 21.

The death benefit for the plan is the present value of accrued benefits.

Participants are vested after ten years of service.

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Contributions

Contribution requirements of the plan members and the District are established and may be amended by the Board of Education. Plan members are required to contribute 5% of their earnings to the plan. The District is required to contribute at an actuarially determined rate. The District's contribution for the year ended June 30, 2018 represented 10.66% of covered payroll. Administrative costs of the plan are financed through investment earnings of the plan's assets.

Investments

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Education by a majority vote of its members. It is the policy of the Board of Education to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation
Large Cap Core Equity	30.00 %
Mid Cap Core Equity	15.00
Small Cap Core Equity	10.00
International Equity	10.00
Emerging Market Equity	5.00
Intermediate Duration Inv Grade Tax Fixed	15.50
Short Duration Inv Grade Tax Fixed	12.50
Cash	2.00
	100.00 %

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.93%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the District

The components of the net pension liability of the District at June 30, 2018 were as follows:

Total pension liability	\$ 9,606,885
Plan fiduciary net position	(8,515,023)
District's Net Pension Liability	\$ 1,091,862
Plan fiduciary net position as a percentage of the total pension liability	88.63%

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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.50%
Investment rate of return	7.00%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Core Equity	4.65
Mid Cap Core Equity	5.50
Small Cap Core Equity	5.50
International Equity	5.50
Emerging Market Equity	6.50
Intermediate Duration Inv Grade Tax Fixed	2.25
Short Duration Inv Grade Tax Fixed	-
Cash	-

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the local pension liability.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances as of July 1, 2017	\$ 9,659,535	\$ 8,161,833	\$ 1,497,702
Changes for the year:			
Service cost	371,087		371,087
Interest on total pension liability	735,283		735,283
Differences between expected and actual experience	(604,656)		(604,656)
Changes in assumptions	(92,315)		(92,315)
Employer contributions		335,575	(335,575)
Member contributions		158,650	(158,650)
Net investment income		322,067	(322,067)
Benefit payments, including refund to employee contributions	(462,049)	(462,049)	-
Administrative expenses		(1,053)	1,053
Net changes	<u>(52,650)</u>	<u>353,190</u>	<u>(405,840)</u>
Balances as of June 30, 2018	\$ <u>9,606,885</u>	\$ <u>8,515,023</u>	\$ <u>1,091,862</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District, calculated using the discount rate of 7.00%, as well as what the District's pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Total Net Pension Liability	\$ 2,110,769	\$ 1,091,862	\$ 219,058

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the District recognized pension expense of \$335,575. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Employees' Pension Plan</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$ 551,665
Changes of assumptions	175,171	76,399
Net difference between projected and actual earning on pension plan investments	<u>397,070</u>	<u> </u>
Total	<u>\$ 572,241</u>	<u>\$ 628,064</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending June 30,

2019	\$	101,093
2020		32,614
2021		(31,474)
2022		(61,924)
2023		<u>(96,132)</u>
Total	<u>\$</u>	<u>(55,823)</u>

B. Teachers Retirement

Plan Description

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

Benefit Provisions

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.