



# *Memorandum*

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Roberto L. Peña

**SUBJECT:** SEE BELOW

**DATE:** April 6, 2018

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**SUBJECT: REVIEW OF THE RETIREMENT PLANS' PENSION AND POST-EMPLOYMENT HEALTHCARE PLAN ACTUARIAL VALUATIONS AS OF JUNE 30, 2017.**

## **RECOMMENDATION**

It is recommended that the Council review the following actuarial valuation reports:

- a. Federated City Employees' Retirement System Actuarial Valuation (Pension) as of June 30, 2017; and
- b. Federated City Employees' Retirement System Postemployment Healthcare Plan Actuarial Valuation as of June 30, 2017; and
- c. Police and Fire Department Retirement Plan Actuarial Valuation (Pension) as of June 30, 2017; and
- d. Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation as of June 30, 2017.

## **OUTCOME**

Council review of the Federated City Employees' Retirement System Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2017 and the Police and Fire Department Retirement Plan Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2017 and the (collectively "Valuations") will provide relevant financial information to the Council of the two retirement plans and ensure the Council is properly informed on the retirement plans' funding status and retirement benefit costs.

## **BACKGROUND**

The Valuations provide detailed information regarding the actuarial value of the assets and pension and Other Postemployment Employee Benefit ("OPEB") liability of the Retirement Plans as of June 30, 2017. The information is used to determine the employee and employer's contribution rates in the next fiscal year and are generally divided into the following sections:

- A Summary Section intended to recap the most important information of the report;
- An Asset Section that details the calculation of the actuarial value of the plans' assets;
- A Liability Section that discloses the present value of all future benefits, normal cost and changes in unfunded actuarial liabilities;
- A Contribution Section that details the effects of assumption changes on the contribution rates and amortization of unfunded liabilities; and
- An Accounting Statement Section which contains schedules that are required reporting by the Governmental Accounting Standards Board.

## **ANALYSIS**

The Valuations are prepared by the Boards' Actuarial Consultant, Cheiron Inc. The report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board.

The credentialed actuaries who prepared reports meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in the reports.

For the Valuations as of June 30, 2017, the following are the key actuarial results (GASB basis), as compared to the results from the June 30, 2016 Valuations:

- Pension Unfunded Actuarial Liability ("UAL") increased from \$1.75 billion to \$1.82 billion, decreasing the funding ratio from 53.7% to 53.6% for the Federated Plan; and the UAL for the Police and Fire Plan decreased from \$1,058.9 million to \$1,024.5 million, increasing the funding ratio from 75.7% to 77.1%.
- Pension Actuarial Value of Assets increased by \$66.7 million to \$2.10 billion for the Federated Plan and by \$142.9 million to \$3.44 billion for the Police and Fire Plan. Pension Actuarial Liability increased by \$137.2 million to \$3.92 billion for the Federated Plan and about \$108.4 million to \$4.46 billion for the Police and Fire Plan.
- The following is a summary of the contribution rates shown in the pension actuarial valuations. Neither Board has approved contribution rates yet nor has the City notified the Board of its intent to prepay the City contributions.

<b>Pension Rates</b>	<b>Federated</b>		<b>Police</b>	<b>Fire</b>
	<b>6/30/19</b>		<b>6/30/19</b>	<b>6/30/19</b>
Tier 1 Member	6.85%		10.28%	11.09%
Tier 1 City	18.61%		30.28%	31.20%
Tier 1 City - UAL	80.55%		67.27%	67.29%
Total City – Tier 1	99.16%		97.55%	98.49%
<b>Total Tier 1</b>	<b>106.01%</b>		<b>107.83%</b>	<b>109.58%</b>
Tier 2 Member	8.28%		13.71%	15.13%
Tier 2 City	8.28%		13.71%	15.13%
<b>Total Tier 2</b>	<b>16.56%</b>		<b>27.42%</b>	<b>30.26%</b>

<b>Pension</b>	<b>Federated</b>		<b>Police</b>	<b>Fire</b>
	<b>6/30/19</b>		<b>6/30/19</b>	<b>6/30/19</b>
Tier 1 City – Rate	99.16%		97.55%	98.49%
Tier 1 City – Amount (beg of year)	\$154.5 million		\$88.7 million	\$72.4 million
Tier 1 Projected Payroll	\$158.8 million		\$96.1 million	\$73.4 million
Tier 2 City – Rate	8.28%		13.71%	15.13%
Tier 2 City – Amount (throughout the year)	\$11.4 million		\$4.3 million	\$1.7 million
Tier 2 Projected Payroll	\$137.9 million		\$14.1 million	\$4.7 million
<b>Total City Amount</b>	<b>\$165.9 million</b>		<b>\$93.0 million</b>	<b>\$74.1 million</b>

- OPEB UAL decreased by \$129.0 million, from \$511 million to \$382 million for the Federated System. This, along with new health assumptions and the implementation of the new lowest cost health plan, led to an increase in the funding ratio from 30.7% to 39.4% for the Federated System. The OPEB UAL decreased by \$77.6 million, from \$489.0 million to \$411.4 million for the Police and Fire Plan. This, along with changes in the health assumptions and the implementation of the new lowest cost health plan led to an increase in the funded ratio from 21.7% to 25.7%.
- OPEB Market/Actuarial Value of Assets increased by \$23 million to \$248.58 million for the Federated System and increased by \$7 million to \$142.5 million for the Police and Fire Plan. OPEB Actuarial Liability decreased by \$106.3 million to \$630.5 million for the Federated System and increased by \$3.8 million to \$680.2 million for the Police and Fire Plan.

- With the implementation of Measure F, health contribution rates were fixed at 7.5% of pay for Federated members and 8.0% of pay for Police and Fire members. The City's contribution toward the explicit subsidy is actuarially determined on an annual basis; and the City will also pay the implicit subsidy based on a pay-as-you-go basis as a part of active health premiums. In addition, the City has an option to limit its contribution to 14% of payroll for Federated and 11% of payroll for Police and Fire.

<b>OPEB Rates and Amounts</b>	<b>Federated</b>		<b>Police</b>	<b>Fire</b>
	<b>6/30/19</b>		<b>6/30/19</b>	<b>6/30/19</b>
Tier 1 Member	7.50%		8.00%	8.00%
Tier 2A Member	7.50%		N/A	N/A
Explicit Subsidy Members	\$10.8 million		\$6.9 million	\$5.5 million
City's Actuarially Determined Contribution Rate	7.16%		11.0%	10.1%
<b>City's Actuarially Determined Contribution Amount (explicit subsidy)</b>	<b>\$21.2 million</b>		<b>\$13.7 million</b>	<b>\$8.8 million</b>
City's Implicit Subsidy Payment	\$3.8 million		\$3.7 million	\$2.0 million
<b>City's Total Payment for Healthcare</b>	<b>\$25.0 million</b>		<b>\$17.4 million</b>	<b>\$10.8 million</b>
Estimated City Optional Cap (explicit subsidy)	\$41.5 million		\$23.1 million	
Projected Payroll	\$297 million		\$120 million	\$84 million

## **EVALUATION AND FOLLOW-UP**

The Office of Retirement Services staff will present the Retirement Plans' Valuations on an annual basis to the City Council per the recommendation of the City Auditor's report on Pension Sustainability (Audit #10-10) to update the Council on the financial status of the Retirement Plans.

## **PUBLIC OUTREACH**

These Valuations were presented to the Federated System and Police and Fire Boards at their meetings in January and March, which were open to the public. This memorandum will be posted on the City's Council Agenda Website for their April 17, 2018, Council Meeting.

**COORDINATION**

Production of the Valuations was coordinated with the Board of Administration for the Federated City Employees Retirement System, the Board of Administration for the Police and Fire Department Retirement Plan, the City Manager's Office, and the Office of Employee Relations.

**CEQA**

Not a project, File No. PP10-69(a) Annual Reports.

/s/  
Roberto L Peña  
Chief Executive Officer  
Office of Retirement Services

For questions, please contact Donna Busse, Deputy Director, at (408) 794-1020.

Attachments