



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: April 5, 2019

SUBJECT: REVIEW OF THE RETIREMENT PLANS' PENSION AND POST-EMPLOYMENT HEALTHCARE PLAN ACTUARIAL VALUATIONS AS OF JUNE 30, 2018.

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, 2018; and
- b. Federated City Employees' Retirement System Postemployment Healthcare Plan Actuarial Valuation as of June 30, 2018; and
- c. Police and Fire Department Retirement Plan Actuarial Valuation (Pension) as of June 30, 2018; and
- d. Police and Fire Department Postemployment Healthcare Plan Actuarial Valuation as of June 30, 2018.

OUTCOME

Council review of the Federated City Employees' Retirement System Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2018 and the Police and Fire Department Retirement Plan Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2018 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, 2018. 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 Actuarial Section of the CAFR which contains schedules that are required reporting by the Governmental Accounting Standards Board for the CAFR.

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, 2018, the following are the key actuarial results (GASB basis), as compared to the results from the June 30, 2017 Valuations:

- Pension Unfunded Actuarial Liability ("UAL") increased from \$1.82 billion to \$1.92 billion, decreasing the funding ratio from 53.6% to 53.1% for the Federated Plan; and the UAL for the Police and Fire Plan increased from \$1.02 billion to \$1.10 billion, decreasing the funding ratio from 77.1% to 76.6%.
- Pension Actuarial Value of Assets increased from \$2.10 billion to \$2.18 billion for the Federated Plan and from \$3.44 billion to \$3.60 billion for the Police and Fire Plan. Pension Actuarial Liability increased from \$3.92 billion to \$4.10 billion for the Federated Plan and from \$4.46 billion to \$4.70 billion for the Police and Fire Plan.
- The following is a summary of the contribution rates shown in the pension actuarial valuations. Both Boards will approve contribution rates at their May meetings.

PENSION	Federated		Police	Fire
	FY19-20		FY19-20	FY19-20
Member Contribution Rates				
Tier 1 Member	7.06%		10.70%	11.46%
Tier 2 Member	8.33%		14.06%	15.39%
City Contribution Amounts and Rates				
Tier 1 UAL Payment	\$137.4 million		\$70.0 million	\$55.0 million
Tier 1 Normal Cost / Admin	\$28.9 million <i>19.34%</i>		\$29.1 million <i>31.43%</i>	\$23.4 million <i>32.25%</i>
Tier 2 Contribution	\$13.3 million <i>8.33%</i>		\$6.1 million <i>14.06%</i>	\$2.6 million <i>15.39%</i>
Total City Contribution	\$179.6 million 58.17%		\$105.2 million 77.27%	\$81.0 million 90.69%

- OPEB UAL decreased by \$9.0 million, from \$382 million to \$373 million for the Federated System. This, along with contributions and experience changes, led to an increase in the funding ratio from 39.4% to 42.6% for the Federated System. The OPEB UAL increased by \$47.0 million, from \$537.7 million to \$584.8 million for the Police and Fire Plan. This, along with contributions and assumption changes, led to an increase in the funding ratio from 21.0% to 21.7%.
- OPEB Market/Actuarial Value of Assets increased by \$29 million from \$248.6 million to \$277.3 million for the Federated System and increased by \$20 million from \$142.5 million to \$162.5 million for the Police and Fire Plan. OPEB Actuarial Liability increased by \$19.6 million from \$630.5 million to \$650.1 million for the Federated System and increased by \$67.1 million from \$680.2 million to \$747.3 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.

OPEB	Federated	Police	Fire
	FY19-20	FY19-20	FY19-20
Member Contribution Rates			
Federated Member	7.50%	N/A	N/A
Police and Fire Member	N/A	8.0%	8.0%
Explicit Subsidy Members	\$9.9 million	\$6.9 million	\$5.5 million
City Contribution Amounts and Rates			
Actuarially Determined Amount (Explicit Subsidy)	\$21.8 million	\$15.0 million	\$9.4 million
Estimated City Optional Cap (Explicit Subsidy – 14% for Fed and 11% for PF of payroll)	\$43.2 million	\$24.8 million	
City's Implicit Subsidy Payment	\$4.3 million	\$4.2 million	\$2.5 million
City's Total Payment for Healthcare (Explicit and Implicit Subsidy)	\$26.1 million	\$19.2 million	\$11.9 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 December, January, and March, which were open to the public. This memorandum will be posted on the City's Council Agenda Website for their April 16, 2019 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.

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CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

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

For questions, please contact Benjie Chua Foy, Division Manager, at (408) 794-1030.