

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: May 5, 2015

INFORMATION

SUBJECT: REVIEW OF THE RETIREMENT PLANS' PENSION, AND POST-EMPLOYMENT HEALTHCARE PLAN ACTUARIAL VALUATIONS AS OF JUNE 30, 2014

On March 16, 2015, the City Council held a study session entitled “*Current Status of Pension Systems and Retirement Reform Ballot Measure (Measure B) Implementation*”. During that study session the Office of Retirement Services and its Actuary (“Cheiron”) presented relevant sections of the Police and Fire Department Retirement Plan Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan as of June 30, 2014 and the Federated City Employees’ Retirement System Actuarial Valuations for the Pension Plan and Postemployment Healthcare Plan (“OPEB”) as of June 30, 2014 (collectively, “Valuations”). Provided below is a brief summary of relevant actuarial data and contribution rates and links to the full Valuation reports. The Valuation reports provide relevant financial information to the Council regarding the two retirement plans and ensure the Council is properly informed on the retirement plans’ funding status and pension costs as recommended by the City Auditor.

BACKGROUND

The Valuations provide detailed information regarding the actuarial value of the assets and pension and OPEB liability of the Retirement Plans as of June 30, 2014. The information is used to determine the employee and employer’s contribution rates in the next fiscal year and is generally divided into the following sections:

- A Summary Section intended to summarize 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 details the effects of assumption changes on the contribution rates and amortization of unfunded liabilities;
- An Accounting Statement Section which contains statements that are required reporting by the Governmental Accounting Standards Board.

A Council Study Session on the two retirement plans was held on March 16, 2015. During the presentation from the Office of Retirement Services, the highlights from Valuations were reviewed and discussed.

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, 2014, the following are the key actuarial results (GASB basis), as compared to the results from the June 30, 2013 Valuations:

- Pension Unfunded Actuarial Liability (“UAL”) increased from \$1.23 billion to \$1.32 billion, decreasing the funding ratio slightly from 59.2% to 59.1% for the Federated Plan; and the UAL for the Police and Fire Plan decreased from \$806 million to \$789 million, increasing the funding ratio from 77.5% to 79.3%.
- Pension Actuarial Liability increased by approximately \$221 million for the Federated Plan and about \$236 million for the Police and Fire Plan. Pension Actuarial Value of Assets increased by approximately \$129 million for the Federated Plan and by about \$253 million for the Police and Fire Plan.
- Although neither Board has approved contribution rates yet nor has the City notified the Board of its intent to prepay the City contributions, in the Pension Valuations it describes the following:
 - The City rate for Federated for fiscal year 2015-16 is 66.15% for Tier 1 or approximately \$127.5 million, based on a projected payroll of \$192.7 million; and 5.71% for Tier 2 or approximately \$2.4 million, based on a projected payroll of \$41.9 million.
 - The City rate for Police Tier 1 is 73.01% or approximately \$77.3 million based on a projected payroll of \$105.9 million and for Tier 2 it is 11.27% or \$1.2 million, based on a projected payroll of \$10.7 million.
 - The City rate for Fire Tier 1 is 74.95% or approximately \$56.9 million based on a projected payroll of \$75.9 million and for Tier 2 it is 11.17% or approximately \$197,000, based on a projected payroll of \$1.8 million.
- OPEB UAL decreased by \$183.5 million, from \$713.2 million to \$529.6, for the Federated Plan, increasing the funding ratio from 18% to 27%. The OPEB UAL decreased by \$12.4 million, from \$625.5 million to \$613.1 million, for the Police and Fire Plan, increasing the funded ratio from 10.7 to 13.8%.

- OPEB Actuarial Liability decreased by \$141.5 million for the Federated Plan, and increased by \$6.1 million for the Police and Fire Plan. OPEB Actuarial Value of Assets increased by over \$42 million for the Federated Plan, and increased by approximately \$18.6 million for the Police and Fire Plan.
- Contribution rates for OPEB are more complicated due to negotiated caps. Again, neither Board has approved contribution rates, but the Valuation Reports contain the following information:
 - Total Federated City contributions for OPEB is approximately \$29.7 million based on an uncapped rate of 11.61% for employees with coverage, and an uncapped rate of 16.07% for employees without coverage. The negotiated cap is scheduled to end and will not apply in Fiscal Year 2015-16.
 - For Police and Fire, the OPEB Valuation contained a total City Contribution of \$19.3 million based on continuing the caps for both Police at 11% and Fire at 10.62%. However subsequent to the OPEB Valuations, an agreement between the City and the POA rolled back the Police contribution rate to 10.31% for the rest of the current fiscal year ending 6/30/15 and FYE2016.

Links to the Pension and OPEB Valuations for each plan are as follows:

P&F 2014 Pension Actuarial Valuation:

<http://www.sjretirement.com/Uploads/PF/Pension%20063014%20Valuation%20Report%20PF~01.08.15.pdf>

P&F 2014 OPEB Actuarial Valuation:

[http://www.sjretirement.com/Uploads/PF/3a\(2\)%20CASJPFCW%202014%20OPEB%20AVR%2001292015%20v14s.pdf](http://www.sjretirement.com/Uploads/PF/3a(2)%20CASJPFCW%202014%20OPEB%20AVR%2001292015%20v14s.pdf)

FED 2014 Pension Actuarial Valuation:

<http://www.sjretirement.com/Uploads/Fed/FED%20Cheirons%20Final%20Pension%20Actuarial%20Valuation%20report%20v.9.pdf>

FED 2014 OPEB Actuarial Valuation:

[http://www.sjretirement.com/Uploads/Fed/3b\(1\)%20%20OPEB%20Actuarial%20Valulation%20v.14.pdf](http://www.sjretirement.com/Uploads/Fed/3b(1)%20%20OPEB%20Actuarial%20Valulation%20v.14.pdf)

/s/

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