

# Retirement Impacts on the General Fund Forecast

**Retirement Solutions Working Group**  
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# Small Adjustments Can Make a Big Impact

The City's General Fund operates on a very thin margin: February 2019 Five-Year Forecast anticipated deficits or surpluses of approximately 1%

Small input changes can make big impacts on City General Fund resources:

- An increase of 1% for Sales and Property tax receipts would raise revenues by approximately \$6 million
- Increasing salaries by 1% would cost approximately \$8 million
- In 2019-2020, a decrease to the retirement discount rate of  $1/8^{\text{th}}$  of a percentage point had a negative General Fund impact of approximately \$11 million

Annual contributions to the retirement systems is one of the largest cost components for the budget, and is *generally* outside the City's control

# Retirement Impacts on the General Fund Forecast

## 2019 Five-Year Forecast Model

Each “case” or “scenario” contains different assumptions related to economic conditions

Base, Optimistic, and Pessimistic cases include a discount rate of 6.75%, the current Board-approved rate

In addition to an economic downturn, the Recession scenario assumes that the discount rate drops to 6.625% in 2020-2021 and 6.5% in 2021-2022

### General Fund Operating Margins – February 2019

	2020-2021	2021-2022	2022-2023	2023-2024	Four-Year Surplus/ (Shortfall)
Base Case	(\$15.65 M)	(\$13.7 M)	\$11.4 M	(\$ 1.7 M)	(\$19.65 M)
Optimistic Case	(\$12.1 M)	(\$2.1 M)	\$22.1 M	\$17.1 M	\$25.0 M
Pessimistic Case	(\$27.9 M)	(\$28.1 M)	(\$1.5 M)	(\$11.5 M)	(\$69.0 M)
<b>Recession Scenario</b>	<b>(\$38.9 M)</b>	<b>(\$76.6 M)</b>	<b>(\$25.2 M)</b>	<b>(\$8.8 M)</b>	<b>(\$149.5 M)</b>

# Forecast Sensitivity to the Discount Rate

Last fiscal year, both Retirement Boards lowered the discount rate from 6.875% to 6.75%

Lowering the discount rate by 1/8<sup>th</sup> of a percentage point increased the General Fund contribution by approximately \$11 million

If the discount rate was lowered by 1/8<sup>th</sup> of a percentage point each year beginning in 2021-2022, the cumulative result would be a \$33 million negative impact to the General Fund (all else equal)

**Approximated Impacts to Surplus/Shortfall by Lowering Discount Rate**

	2020-2021	2021-2022	2022-2023	2023-2024	Four-Year Surplus/ (Shortfall)
Base Case	(\$15.65 M)	(\$13.7 M)	\$11.4 M	(\$ 1.7 M)	(\$19.65 M)
Discount Rate	6.75%	6.75%	6.75%	6.75%	
Base Case – lowered discount rate	(\$15.65 M)	(\$24.7 M)	\$0.5 M	(\$12.6 M)	(\$52.45 M)
Discount Rate	6.75%	6.625%	6.5%	6.375%	