

RETIREMENT SERVICES

The mission of the Office of Retirement Services is to provide quality services in the delivery of pension and related benefits and maintain financially sound pension plans.

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The Office of Retirement Services administers two pension plans, the Federated City Employees' Retirement System (Federated) and the Police and Fire Department Retirement Plan (Police and Fire), as well as Other Post-Employment Benefits (OPEB) for City employees and retirees.*

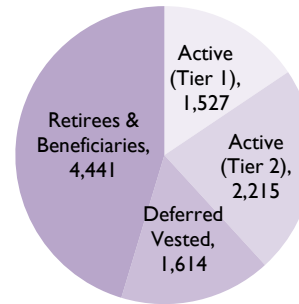
The Office is responsible for administering retirement benefits, including providing retirement planning and counseling; supervising the investment of plan assets; managing contracts; and producing financial reports.

In 2019-20, the Office's personal expenses totaled \$6.8 million, and there were 40 authorized positions (up from 34 positions ten years ago). About \$4.3 million in additional administrative costs, such as professional fees, were paid out of the retirement funds. Total investment fees were \$60.1 million in calendar year 2019, down from \$62.4 million in calendar year 2018.

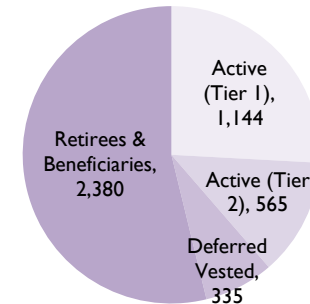
The City's total contributions to the two plans included \$369.8 million for pension benefits and \$53.9 million for OPEB, along with contributions from City employees of \$76.6 million for pension and OPEB. This totals to \$500 million in contributions from the City and its employees. The City's contributions have grown dramatically since the early 2000s and are expected to continue to grow.

*In 2016, the City improved Tier 2 benefits and closed retiree healthcare to new members. Additionally, the City established a Voluntary Employee Beneficiary Association (VEBA), a defined contribution plan for retiree healthcare expenses, which went into effect in 2018. The City also offers a Tier 3 defined contribution plan for new executive and professional employees that is managed by the Human Resources Department. See the Human Resources chapter for more information.

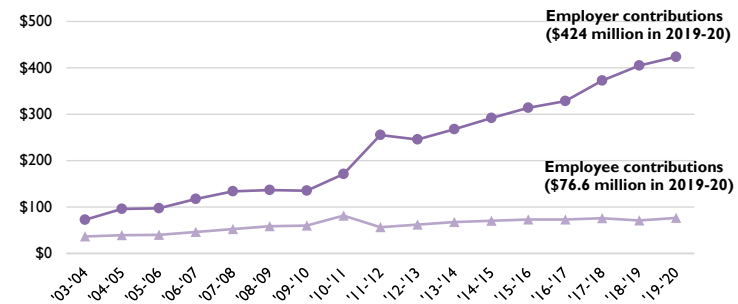
Federated Plan Membership



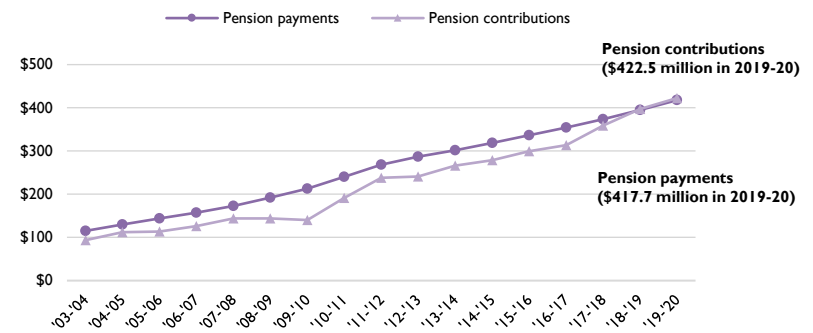
Police and Fire Plan Membership



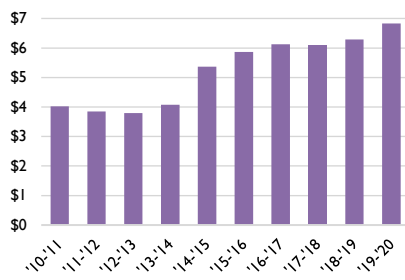
Total Annual Contributions for Pension and Retiree Health and Dental Benefits (\$millions)



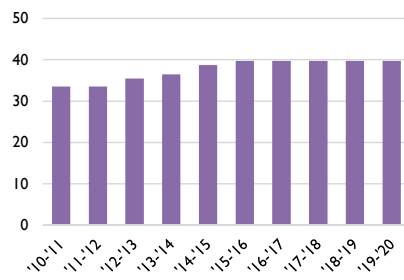
Pension Benefit Payments and Contributions (\$millions)



Retirement Services Personal Services Expenditures (\$millions)



Retirement Services Authorized Positions



Note: The Retirement Services chapter of the City's Operating Budget only includes personal services. Additional administrative expenses and investment expenses are included in the Federated City Employees Retirement System and the Police and Fire Department Retirement Plan Comprehensive Financial Reports.

Sources for above charts: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Annual Financial Reports

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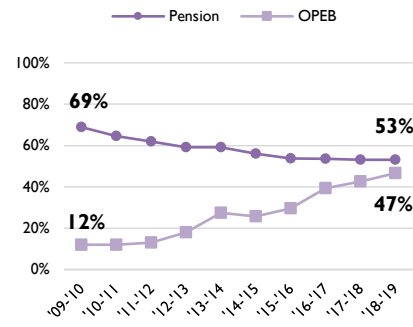
As of June 30, 2020, there were 6,821 retirees or beneficiaries of the plans, up from 5,319 ten years ago. Over that period, the ratio of active members (i.e., current employees contributing to the plans) to beneficiaries has declined to less than 1:1. In 1980, the ratio was nearly 5:1.

The pension and OPEB plans' total liabilities (including future pension payments) exceeded the values of their assets by \$2.5 billion for Federated and \$2 billion for Police and Fire respectively. These net liabilities totaled about \$251,000 per Federated member and about \$450,000 per Police and Fire member.

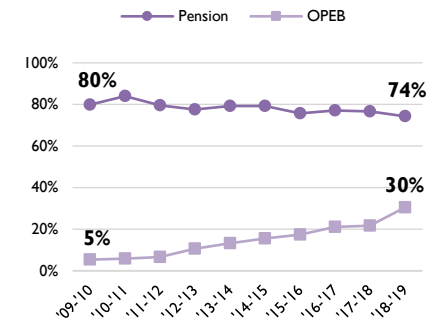
As of the June 30, 2019 actuarial valuations, the Federated and Police and Fire funded ratios (or percent of liabilities covered by plan assets) were 53 percent and 74 percent for the respective pension plans.

The City's Retirement Stakeholder Solutions Group (Group), comprised of representatives from a range of active and retired stakeholder groups, began meeting in November 2019. This group is working to develop a shared understanding of the issues facing the City's retirement systems and to develop a list of recommendations for City Council to consider. The Group is currently looking at options to reduce the City's structural deficits. One of the options under consideration is using pension obligation bonds, which are taxable bonds that fund the unfunded portion of pension liabilities by creating debt.

Federated Funded Status



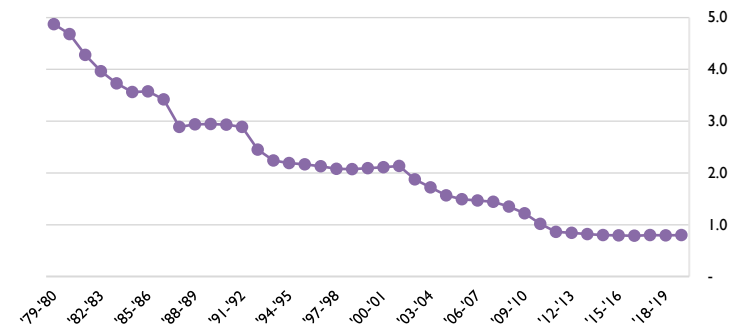
Police and Fire Funded Status



Sources: Federated City Employees' Retirement System and Police and Fire Department Retirement Plan Actuarial Valuations

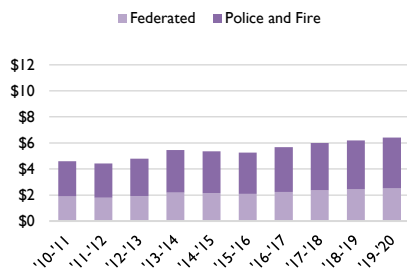
Note: Funded status calculated using the actuarial value of assets, which differs from the market value, as gains/losses are recognized over five years to minimize the effect of market volatility on contributions. As of 2016-17, OPEB funded status reflects changes to asset and liability calculations based on guidance from the Government Accounting Standards Board.

Ratio of Active Members to Retirees and Beneficiaries

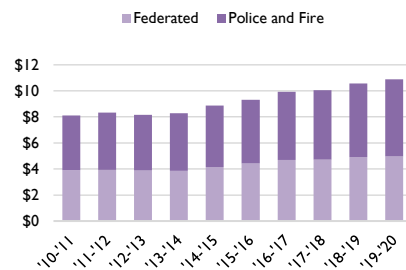


Source: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Financial Reports and Actuarial Valuations

Retirement Plan Net Assets (\$billions)



Retirement Plan Total Liabilities (\$billions)



Source: Police and Fire Department Retirement Plan and Federated City Employees' Retirement System Comprehensive Financial Reports and Actuarial Valuations

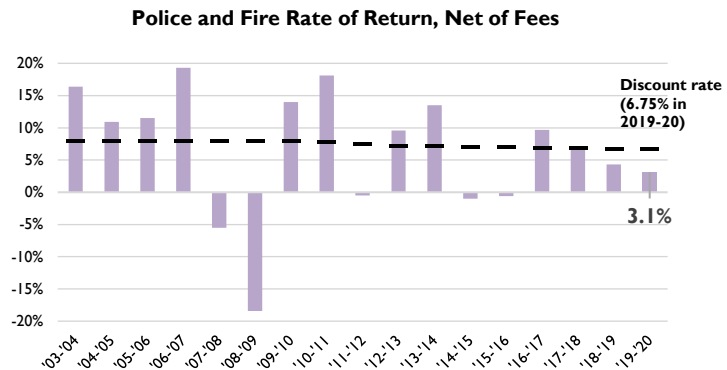
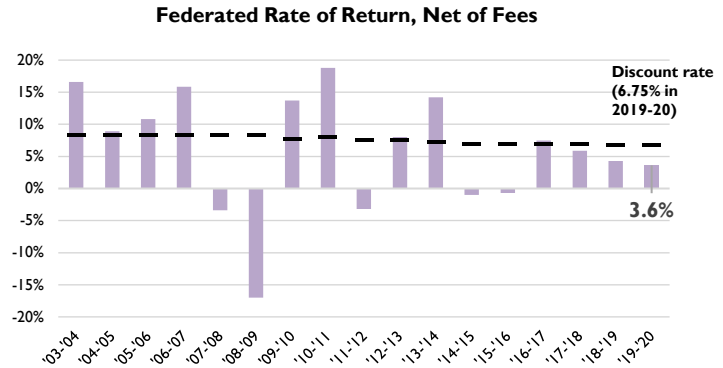
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The retirement plans' assets are distributed among various types of investments, according to each board's investment policies. As of June 30, 2020, both pension plans held the largest portions of their assets in public equities. The Federated public equity asset allocation was 49 percent in 2019-20, up from 30 percent in 2018-19. Similarly, the Police and Fire public equity asset allocation was 46 percent in 2019-20, up from 31 percent last year. The second largest portion of both pension plans were "alternatives," which are generally investments outside of traditional stocks, bonds, or cash.

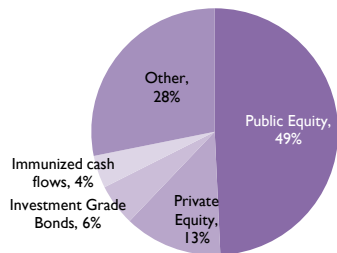
During 2019-20, the Federated pension plan had a net rate of return on pension plan assets of 3.6 percent, down from 4.3 percent last year. The Police and Fire pension plan had a net rate of return of 3.1 percent, down from 4.3 percent in 2018-19. In 2019-20, the assumed rate of return, or discount rate*, for both plans was 6.75 percent, consistent with last year.

Both the Federated and Police and Fire net returns were smaller than last year, but still positive. As a result of the positive investment returns, total plan assets increased from \$6.20 billion last year to \$6.42 billion on June 30, 2020.

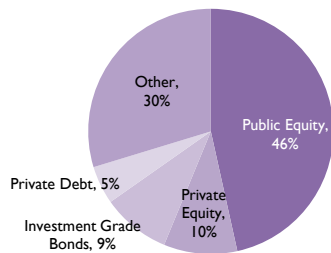
*The assumed rate of return, or discount rate, is the annual rate used to discount pensions expected to be paid in the future to current dollars. For pension plans, it is often based on average expected investment returns over a long time horizon.



Federated Pension Actual Asset Allocation



Police and Fire Pension Actual Asset Allocation



Source: Federated City Employees' Retirement System and Police and Fire Department Retirement Plan Comprehensive Annual Financial Reports. Note: Asset classes not in top four largest categories grouped in "other", such as other bonds, real estate, and cash. Percentages do not add up to 100 due to rounding.