Best Practices for Pension Fund Management

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Independence and impeccable reputation
- GRS has the largest public sector practice in the country, serving over 800 public plans

A 75 year focus on public sector employers
- We understand the financial, operating and political environments of public sector plan sponsors

Familiarity with the large Texas retirement plans
- Texas Municipal Retirement System (TMRS), Employees Retirement System of Texas (ERS), Teachers Retirement System of Texas (TRS), Houston MEPS and POPS, Dallas ERF, Austin ERS

A national awareness
- We bring perspectives from clients in other areas of the country
- GRS has seven fully-staffed regional offices
Scope

- Analysis of amendment proposal from Fire and Police Pension Fund (PFFP)
- Review of pension fund best practices pertaining to funding and plan modifications
- Comparison to City’s peer group
**Key Remarks**

- FPPF is in a strong financial position due to continued financial commitment from the City as well as effective management from the Fund’s Board and staff.

- City needs to “lay out a road map”, or written funding policy, that clearly communicates the City’s contribution commitment to FPPF and potential for future benefit modifications.

  - To maintain or improve the strong financial position.
In September, the Board of FPPF approved a package of proposed changes:

- Increase COLA for subset of retirees
- Give FPPF Board discretion to grant similar increases in the future
- Increase benefit multiplier for members retiring with less than 30 years of service
- Reduce the City’s contribution rate from 24.64% of payroll to 23.25%
Amendment Proposal

- Estimates of impact on financial health of FPPF prepared by FPPF’s retained actuary are reasonable

- Due to potential for further COLA changes, all stakeholders may want to know the ultimate cost of providing enhanced COLA to all retirees
  
  ▶ Currently, members retired before October 1, 1999 receive a COLA equal to 100% of CPI (actual inflation) and all others receive 75% of CPI
  
  ▶ Enhanced COLA for three different subsets of retirees in the last 10 years
Lower City contributions help short-term budgeting but delay full funding

Expected contributions needed to eliminate UAAL

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<thead>
<tr>
<th></th>
<th>Years 1-7</th>
<th>Years 8-13</th>
<th>Total</th>
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<tbody>
<tr>
<td>Current</td>
<td>$38.0</td>
<td>$0.0</td>
<td>$266.0</td>
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<tr>
<td>Proposed</td>
<td>$33.7</td>
<td>$33.7</td>
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<td>Difference</td>
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Comparison of current funding and benefit arrangement to the comprehensive proposal. Amounts based on current payroll levels and stated in millions.
Funding Policy

- Current best practice encourages public retirement systems and their sponsors to adopt a written funding policy
  - Systematic set of procedures used to determine the level of City contributions and document the City’s approach towards benefit modifications
  - Provide stakeholders with a clear understanding of the City’s contribution commitment to FPPF and the potential for future benefit modifications
Funding Policy

- Reduces uncertainty of all stakeholders as a pension plan approaches a fully funded status
- Well written funding policy will codify the City’s approach when plan is fully funded
  - Level of budget relief
  - Circumstances for benefit modifications
  - Procedures for reducing risk in contribution commitment
Peer Group Comparisons

- Benefits provided by the Fund are comparable with peer group
  - Retirement Eligibility, Value of Benefit, Contribution Rate, etc.
- Most notable trend with benefit changes has been to institute new tiers of less costly benefits for new hires
- Funding period for FPPF is significantly less than the funding period for the other systems in the peer group
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