Best Practices for Pension Fund Management

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January 28, 2015

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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

Amendment Proposal

- 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%

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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

Amendment Proposal

- Lower City contributions help short-term budgeting but delay full funding
  - Expected contributions needed to eliminate UAAL

	Years 1-7	Years 8-13	Total
Current	$38.0	$0.0	$266.0
Proposed	$33.7	$33.7	$438.1
Difference	*$(4.3)*	*$33.7*	*$172.1*

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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