Legislation Text

File #: ID#17-3372, **Version:** 1

SUBJECT/RECOMMENDATION:
Accept the January 1, 2017 Annual Actuarial Valuation for the Employees' Pension Plan.

SUMMARY:
Per the actuary report dated January 1, 2017, a minimum city employer contribution of $8.65 million, or 10.91% of covered payroll, is required for fiscal year 2017. This is a decrease of $285,000 over the fiscal 2016 required contribution of $8.93 million, or 11.13% of covered payroll.

The calendar year 2016 investment return was a gain of 6.70%, net of investment fees, versus the assumed rate of 7.0%. The five-year smoothed investment return based on the actuarial value of the assets was 8.22% versus the assumed rate of 7.0%. During calendar years 2012 through 2016, investment returns were 13.92%, 16.90%, 7.99%, (0.28%), and 6.70%, respectively.

The plan experienced a net actuarial experience gain of $18.1 million for the year. The gain is primarily due to the actuarial gain from the actuarial investment return of 8.22% versus the assumption of 7.0%.

The Plan's funded ratio at January 1, 2017 was 105.38% (including the credit balance) versus 102.92% for the prior year. The actuarial value of assets exceeds the market value of assets by $22.4 million as of January 1, 2017.

The plan's credit balance, which reflects actual contributions in excess of actuarially required contributions for prior years, increased from $15.6 million to $19.4 million during calendar 2016. This $3.8 million increase was due to the City's budgeted overfunding of the fiscal 2017 required contribution. The City contributed approximately 15% of salaries, versus the actuarially required 11.13%, to increase the plan's credit balance reserves for future volatility in required contributions.

The Employees' Pension Plan is highly leveraged on investment returns in comparison to most pension plans, which means changes in investment earnings cause significant increases or decreases in required employer contributions. This year-to-year volatility necessitates building reserves, such as the plan's credit balance, during periods of positive investment earnings experience. This provides the City the ability to subsidize increased employer contributions during periods of negative investment earnings experience with contributions from accumulated reserves.