

Coral Gables

**Update Regarding
Pension Funding
Strategy and
Investment Return
Assumption**

City's Current Funding Strategy

- Make extra payments above required amounts
 - Reduces the unfunded pension liability faster than scheduled
 - Increases the funded ratio of the plan
- Address concerns of rating agencies in order to maintain (Moody's) and achieve (S&P) our AAA bond rating.

“If Coral Gables can maintain strong budgetary performance and sustain reserves at or near current levels, while continuing to address its pension liability, we may consider a higher rating.”

- S&P September 21, 2015 RatingsDirect

City's Current Funding Strategy

- Through the adoption of Resolution No. 2015-271, the City Commission has committed to maintain pension funding levels at \$26 million (plus indexing) even though the annual required contribution is expected to be less.
- The extra payments will go towards increasing the funded ratio by funding a portion of the outstanding liability.
- The rating agencies, outside consultants, and City staff embrace the Commission's desire to lower the unfunded pension liability in this manner.

City's Current Funding Strategy

“Strengthening the City’s financial statements, especially in the pension area, is an important goal and these policies should help the City accomplish their objectives.”

“... I believe the City is taking responsible steps to address its pension issues.”

- Memo from Michael Tierney, Actuarial Concepts, the City’s pension actuary

City's Current Funding Strategy

- To date, the City has made additional payments of over \$4 million.
- Each year that the City makes additional payments beyond the annual required contribution, it is making progress at eliminating the unfunded liability and increasing the funded ratio.
- In order for this strategy to start showing success, several more years of extra payments need to be made.

City's Current Funding Strategy

	FYE17	FYE 18	FYE 19	FYE 20	FYE 21
Estimated Required Contrib.*	\$22,907,289	\$22,406,535	\$22,328,309	\$22,404,309	\$22,482,309
Incr. due to implementation of the FRS mortality table**	\$ -	\$ 975,000	\$ 975,000	\$ 975,000	\$ 975,000
Total Required Contribution***	\$22,907,289	\$23,381,535	\$23,303,309	\$23,379,309	\$23,457,309
Total Budget (indexed)	\$26,225,775	\$26,553,597	\$26,885,517	\$27,221,586	\$27,561,856
Available as add'l payment	\$ 3,318,486	\$ 3,172,062	\$ 3,582,208	\$ 3,842,277	\$ 4,104,547

* If all things remain the same from the most recent valuation (10/1/2014), and includes keeping Teamsters at 15% and the effect of implementing the City's funding strategy

**Implementation not required until 10/1/2017 (FYE18), therefore not included for FYE17

*** Does not include any adverse experience from FYE15 or future years

Pension Actuary Recommendation

- The Pension Board is considering lowering the Investment Return Assumption from 7.75% (currently) to 7.0% over the next few years, and requested that the City propose a plan to get there.
- The Pension Actuary, GRS, suggested to ‘phase in’ the lower return assumption over the course of three years by reducing the assumption by 25 basis points each year for the next three years.

Pension Actuary Recommendation

- Approximate impact on Actuarial Valuation Results (vs. 7.75% Assumption with FRS Mortality):
 - 7.50% Assumption:
Approximate \$907,000 increase in City's contribution requirement; 1.2% decrease in Funded Ratio.
 - 7.25% Assumption:
Approximate \$1,839,000 increase in City's contribution requirement; 2.4% decrease in Funded Ratio.
 - 7.00% Assumption:
Approximate \$2,797,000 increase in City's contribution requirement; 3.6% decrease in Funded Ratio.

Pension Actuary Recommendation

- Changing the Investment Return Assumption to 7.0% would, upon implementation, **immediately worsen the funded ratio and increase the unfunded liability**, the opposite of what the City Commission is trying to accomplish.
- This would make the annual required contribution more expensive, leaving less available to go towards reducing the unfunded balance, in effect, derailing the City Commission's funding strategy.

Pension Actuary Recommendation

- It should be noted that at the May 14, 2015 Pension Board meeting, the Pension Actuary recommended, and by a 7-6 vote, the Pension Board approved, early implementation of the FRS mortality tables which will increase the City's contribution requirement on 10/1/16 by approximately \$975,000 (includes cost sharing), thus further reducing the amount going toward the unfunded pension liability.
- Implementation of the FRS mortality tables (per Senate Bill 242) is not required until the 10/1/17 contribution.

Pension Actuary Recommendation

To illustrate this point:

	<u>FYE17</u>	<u>FYE 18</u>	<u>FYE 19</u>
Estimated Required Contribution*	\$ 22,907,289	\$ 22,406,535	\$ 22,328,309
Incr. due to early impl. of FRS mortality table**	\$ 975,000	\$ 975,000	\$ 975,000
Increase due to 7.50% Assumption	<u>\$ 907,000</u>	\$ 907,000	\$ 907,000
Increase due to 7.25% Assumption		<u>\$ 932,000</u>	\$ 932,000
Increase due to 7.00% Assumption			<u>\$ 958,000</u>
Total Required Contribution ***	<u>\$ 24,789,289</u>	<u>\$ 25,220,535</u>	<u>\$ 26,100,309</u>
Total Budget (indexed)	\$ 26,225,775	\$ 26,553,597	\$ 26,885,517
Available as additional payment	<u>\$ 1,436,486</u>	<u>\$ 1,333,062</u>	<u>\$ 785,208</u>

* If all things remain the same from the most recent valuation (10/1/2014), and includes keeping Teamsters at 15% and the effect of implementing the City's funding strategy

**Implementation not required until 10/1/2017, however already adopted by the Pension Board

*** Does not include any adverse experience from FYE15 or future years

City Staff Recommendation

- City staff recommends following through on the current Commission approved strategy to increase the funded status of the plan by making additional payments to the unfunded liability, while taking into account the Pension Board's desire to reduce the Investment Return Assumption.
- Staff recommends limiting the reduction of the Investment Return Assumption to 7.50% over the next five years at 5 basis points per year. This would increase the City's contribution requirement by approximately \$181,000 each year.

City Staff Recommendation

- Moving to a 7.50% Investment Return Assumption over a five year period will still provide the ability to make significant additional payments towards increasing the funded ratio.
- Keeps the City on a **modified** track towards its goal of more rapidly reducing the unfunded liability.
- The Pension Board Investment Consultant, The Bogdahn Group, has indicated that they are supportive of a decision to move the Investment Return Assumption down slowly each year and stopping at 7.50%, while committing to reviewing it periodically on an on-going basis.

City Staff Recommendation

	FYE17	FYE18	FYE19	FYE20	FYE21
Estimated Required Contribution*	\$ 22,907,289	\$ 22,406,535	\$ 22,328,309	\$ 22,404,309	\$ 22,482,309
Increase - early impl. of FRS mortality table**	\$ 975,000	\$ 975,000	\$ 975,000	\$ 975,000	\$ 975,000
Est. Increase due to 7.70% Assumption	<u>\$ 181,400</u>	\$ 181,400	\$ 181,400	\$ 181,400	\$ 181,400
Est. Increase due to 7.65% Assumption		<u>\$ 181,400</u>	\$ 181,400	\$ 181,400	\$ 181,400
Est. Increase due to 7.60% Assumption			<u>\$ 181,400</u>	\$ 181,400	\$ 181,400
Est. Increase due to 7.55% Assumption				<u>\$ 181,400</u>	\$ 181,400
Est. Increase due to 7.50% Assumption					<u>\$ 181,400</u>
Total Required Contribution***	\$ 24,063,689	\$ 23,744,335	\$ 23,847,509	\$ 24,104,909	\$ 24,364,309
Total Budget (indexed)	\$ 26,225,775	\$ 26,553,597	\$ 26,885,517	\$ 27,221,586	\$ 27,561,856
Available as additional payment	<u>\$ 2,162,086</u>	<u>\$ 2,809,262</u>	<u>\$ 3,038,008</u>	<u>\$ 3,116,677</u>	<u>\$ 3,197,547</u>

* If all things remain the same from the most recent valuation (10/1/2014), and includes keeping Teamsters at 15% and the effect of implementing the City's funding strategy

**Implementation not required until 10/1/2017, however already adopted by the Pension Board

*** Does not include any adverse experience from FYE15 or future years

City Staff Recommendation

- City staff is seeking Commission direction regarding the aforementioned pension funding issues.
- It should be noted that the Retirement Board has scheduled a Pension Workshop on March 16, 2016 regarding funding policy and has invited the City Commission to be a part of that workshop.