

Update on City Manager's Pension Review Committee



Presented to the City Council and the Fort
Worth Employees Retirement Fund Board
June 21, 2016

City Manager's Review Committee

Charge:

- Define and assess long-term sustainability; evaluate options to improve Fund's current position without directly or indirectly requiring additional contributions from taxpayers/ratepayers

Principles:

- Keep it **simple** (or as simple as possible)
- Don't pass this problem to **future generations** or make current situation worse
- Make decisions with the **long-term** in mind

Activities-to-Date

- Reviewed data
 - 25-year history of Fund financials and plan changes
 - Summary of Texas comparative cities
 - Employee/retiree statistics and turnover rates by employee group
- Reviewed December 31, 2015 Valuation

More Needs to be Done

- Moody's downgrade of City's Credit Rating
- Pension Review Board requires "Funding Restoration Plan" because amortization period is greater than 40 years

Reform Since 2007 when Funding Period was Infinite

- Ad hoc COLA introduction
- Doubled employer contribution
- Future Service of Existing Employees:
 - Reduced multiplier
 - Increased average salary
 - Eliminated overtime
 - COLA restructured to eliminate “leaky bucket”
- New Employees
 - All of the above except eliminated COLA
 - Eliminated “free” survivor benefit

25-Year Review

1990 - 2015

	1990	2015
Age of Fund	45 Years	70 Years
Actuarial Accrued Liability	\$516.1M	\$3.4B
Actuarial Value of Assets	\$481.4M	\$2.1B
Funded Ratio	93.28%	61.3%
Amortization Period	11 years	72.5 years
Multiplier	Just increased from 2.0 to 2.5 <u>retroactively</u>	Just reduced from 3.0 to 2.5 <u>prospectively</u>

- Actuarially-accrued liability has grown by 588% which is faster than all of the other contribution variables

25-Year Review

1990 - 2015

	1990	2015
<u>Employee</u> Contribution (% of payroll)	7.67%	8.25%/8.73%
<u>Employer</u> Contribution (% of payroll)	11.5%	19.74/20.46%*
Total	19.17%	27.99 – 29.19%*

- Subsequently reduced employee contribution by 2% and employer contribution by 3% in 1990 while raising benefits
- Ratio of employer to employee contribution changed from 60/40 to 70/30

* Corrected to reflect range of employer contributions depending on employee group following initial presentation.

Lessons Learned

- Benefits increased beyond level supported by increasing contributions and investment returns of the Fund
- Rating agencies' view of discount rates

Scenarios by Committee

	Funding Gap at 7.75%
25 years	7.17% or \$29M annually
30 Years (Annual Valuation)	5.1% or \$20.6M annually
40 years (Pension Review Board Max)	2.7% or \$10.9M annually

Looking to the Future

- City Manager's Pension Review Committee will continue to evaluate options for the future
- HB3310 will require the City Council and ERF jointly submit a "Funding Restoration Plan" by November 2017 due to 3 consecutive years with amortization period greater than 40 years