



Best Practices for Pension Fund Management

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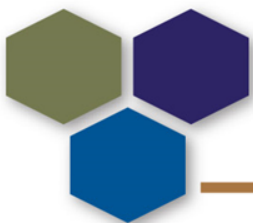
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Scope

- ◆ 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%



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

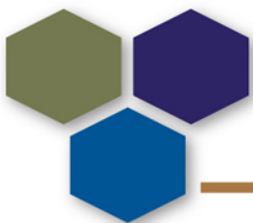
	Years 1-7	Years 8-13	Total
Current	\$38.0	\$0.0	\$266.0
Proposed	\$33.7	\$33.7	\$438.1
<i>Difference</i>	<i>\$(4.3)</i>	<i>\$33.7</i>	<i>\$172.1</i>

*Comparison of current funding and benefit arrangement to the comprehensive proposal.
Amounts based on current payroll levels and stated in millions.*



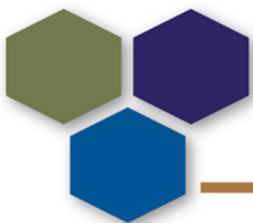
Funding Policy

- ◆ 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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