Meeting Date: **5/5/2015**

Report Type: Consent

Report ID: 2015-00405

City of SACRAMENTO 08

City Council Report
915 I Street, 1st Floor
www.CityofSacramento.org

Title: Policy Adoption: Pension Funding Policy

Location: Citywide

Recommendation: Pass a Motion adopting the Pension Funding Policy.

Contact: Dennis Kauffman, Operations Manager, (916) 808-5843; Leyne Milstein, Director, (916) 808-8491, Department of Finance

Presenter: None

Department: Finance
Division: Finance
Dept ID: 06001011
Attachments:
1-Description/Analysis
2-Attachment 1-Pension Funding Policy Final

City Attorney Review

Approved as to Form
Sandra Talbott
4/29/2015 2:49:28 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 4/28/2015 1:00:24 PM

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Description/Analysis

Issue Detail: The City does not currently have a Council-adopted Pension Funding Policy. *Pension Funding: A Guide for Elected Officials*, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

1. **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
2. **Funding Discipline**. A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
3. **Intergenerational equity**. Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
4. **Contributions as a stable percentage of payroll**. Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
5. **Accountability and transparency**. Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

The proposed City Pension Funding Policy reflects the recommendations in the Pension Funding report and includes the following attributes:

- Documents the method the City will use to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants;
- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

Policy Considerations: The proposed policy (Attachment 1) is consistent with the Mayor and Council's budget priority to adopt financially sound policies and procedures that are prudent and take into account long-term financial planning and stability. A sustainable budget must be evaluated in a longer-term rather than a short-term context.

Economic Impacts: None.

Environmental Considerations: None.

Sustainability: None.

Commission/Committee Action: The Pension Funding Policy was presented to the Budget and Audit Committee on April 7, 2015. The Committee approved a Motion to forward the policy to the City Council for adoption.

Rationale for Recommendation: The purpose of the Pension Funding Policy is to adopt a best practice and guide prudent financial management of the City's defined benefit pension plans.

Financial Considerations: Adoption of the Pension Funding Policy will have no direct effect on the annual budget because the City already follows the proposed policy. The policy will formalize procedures already in place.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of this report.

Pension Funding Policy

1. PURPOSE

The City's Pension Funding Policy documents the method the City will use to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants. The policy also:

- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

2. BACKGROUND

The City provides defined benefit retirement benefits through the California Public Employees' Retirement System (PERS) and the Sacramento City Employees' Retirement System (SCERS). PERS is a multiple-employer public employee defined benefit pension plan. SCERS is a single-employer defined benefit pension plan.

All full-time and certain part-time City employees hired after January 28, 1977 and City safety employees, regardless of date of hire, are eligible to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance.

All full-time, non-safety employees hired before January 29, 1977, were eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by the City Charter.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the City will utilize to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants.

Pension Funding: A Guide for Elected Officials, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

1. **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
2. **Funding Discipline**. A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
3. **Intergenerational equity**. Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
4. **Contributions as a stable percentage of payroll**. Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
5. **Accountability and transparency**. Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

3. POLICY

3.1 CalPERS ADC

CalPERS actuaries will determine the City's ADC to CalPERS based on annual actuarial valuations. The ADC will include the normal cost for current service and amortization of any under-funded amount. The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions approved by the CalPERS Board of Administration.

The City will review the CalPERS annual actuarial valuations to validate the completeness and accuracy of the member census data and the reasonableness of the actuarial assumptions.

3.2 SCERS ADC

The City will determine its ADC to SCERS using the following principles:

a. The ADC will be calculated by an enrolled actuary and will include the normal cost for current service and amortization to collect any under-funded amount.

b. The normal cost will be calculated using the entry age normal cost method using the following assumptions:
    i. Economic assumptions such as the investment rate of return and average salary increase will be reviewed with the actuary to confirm reflection of the best anticipated experience.
    ii. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc. shall be determined by City management in consultation with the actuary to reflect current experience.
c. The unfunded actuarial accrued liability, or the difference between the accrued liability and actuarial value of assets, will be amortized over a declining number of years given the closed status of the plan.
d. The actuarial value of assets will be determined using a 3-year smoothed market value to minimize volatility of the City's ADC.
e. The City's ADC to SCERS will be stated in an annual contribution amount, rather than as a percentage of pay, given the closed status of the plan.

3.3 Transparency and Reporting

Funding of the City's pension plans should be transparent to vested parties including plan participants, annuitants, the SCERS Administrative, Investment, and Fiscal Management (AIFM) Board, the City Council and Sacramento residents. In order to achieve this transparency, the following information shall be available:

a. Copies of the annual actuarial valuations for the City's CalPERS plans shall be made available to the City Council.
b. A copy of the annual actuarial valuation for SCERS shall be made available to the City Council and the SCERS AIFM Board.
c. The City's Comprehensive Annual Financial Report shall be published on its website. This report includes information on the City's annual contributions to the pension systems and their funded status.
d. The City's annual operating budget shall include the City's contributions to SCERS and CalPERS.

3.4 Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. As such, the City will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated.