Pension Analysis Update

AUSTIN POLICE RETIREMENT SYSTEM (APRS)
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM (COAERS)

AUDIT AND FINANCE COMMITTEE
JUNE 3, 2020

Agenda

- City Manager's FY2020 Initiative

- System Boards, Working Group, Process and Timeline

- Pension Analysis Report - Public Financial Management (PFM)

- Board Recommendations

- City Staff Recommendations

- Staff's Next Steps

- Audit and Finance Committee Discussion and Possible Action

City Manager's FY2020 Initiative

- Work closely with our partners at the Police and Employees' Retirement Systems to develop long-term strategies and options for ensuring their financial health

- FY2020 Budget included funding for consulting assistance

- Pension experts to assist City in identifying and evaluating options to ensure the retirement systems' long-term sustainability
  - Compare retirement benefits and contribution levels to peer cities

- Collaborative work with system's Board of Trustees and Executive Directors

- Engage multi-department City team

Pension Analysis
System Board of Trustees and Executive Director

APRS

- ✓ Tyler Link – Chair
- ✓ Keith Harrison (Sergeant)– Vice-Chair
- ✓ Kathie Tovo
- ✓ Thomas Hugonnett (Sergeant)
- ✓ Scott Askew (Sergeant)
- ✓ Michael Cowden (Sergeant)
- ✓ Nicholas Moore (Corporal)
- ✓ Carl Zimmerman (Lieutenant)
- ✓ Ed Van Eenoo
- ✓ Belinda Weaver
- ✓ Chelsey Wood
- ✓ Pattie Featherston – Executive Director

COAERS

- ✓ Eyna Canales-Zarate – Chair
- ✓ Ed Van Eenoo – Vice-Chair
- ✓ Leslie Pool
- ✓ Stephanie Beach
- ✓ Frank Merriman
- ✓ Randy Spencer
- ✓ Michael Benson
- ✓ Amy Hunter
- ✓ Chris Noak
- ✓ Yuejiao Liu
- ✓ Anthony B. Ross, Sr.
- ✓ Chris Hanson – Executive Director

Pension Analysis
City Staff Team

- ✓ Austin Energy – Mark Dombroski

- ✓ Budget Office – Ed Van Eenoo, Brad Sinclair

- ✓ Financial Services – Elaine Hart

- ✓ Government Relations – Brie Franco, Ida Musgrove

- ✓ Human Resources – Joya Hayes, Karen Haywood

- ✓ Labor Relations – Deven Desai

- ✓ Law – Lee Crawford

- ✓ Police – Troy Gay

- ✓ Treasury – Belinda Weaver

Pension Analysis Timeline
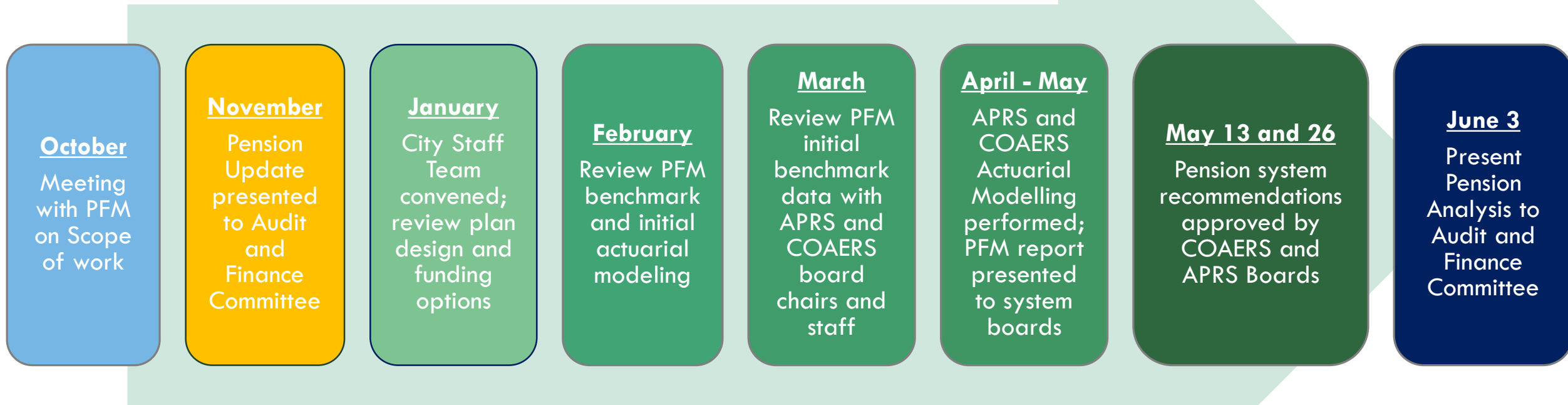
October
Meeting with PFM on Scope of work

November
Pension Update presented to Audit and Finance Committee

January
City Staff Team convened; review plan design and funding options

February
Review PFM benchmark and initial actuarial modeling

March
Review PFM initial benchmark data with APRS and COAERS board chairs and staff

April - May
APRS and COAERS Actuarial Modelling performed; PFM report presented to system boards

May 13 and 26
Pension system recommendations approved by COAERS and APRS Boards

June 3
Present Pension Analysis to Audit and Finance Committee

Research and Data Collection

Data Review and Actuarial Analysis

Present Recommendations

Pension Analysis Report
Public Financial Management (PFM)

(Separate Presentation Report)

Call to Action

- APRS and COAERS had a combined unfunded liability of $1.9 billion as of the most recent 12/31/2018 actuarial valuation; funding periods for APRS (Indefinite) and COAERS (32 years)

- These key pension metrics have worsened over recent years indicating an overall need to address the long-term financial sustainability of these retirement plans

- No significant easing of these long term funding challenges is expected from investment returns alone

- 87th Texas legislative session that begins January 12, 2021 provides an opportunity to make plan changes that require legislative action

- Rating agencies report concerns on City's overall unfunded actuarial liability noting metrics not in line with those of a "AAA" rated credit and comparable "AAA" cities

- PFM Pension Analysis Report (independent analysis) informs the Board and staff recommendations and Committee for policy guidance

City of Austin Employees' Retirement System Board Recommendations

- Enact a more flexible contribution policy to manage the system's risks and fund the unfunded actuarial accrued liability

- Amend benefit policies to ensure the system's obligations can be met for all members

- Utilize appropriate risk-sharing between the City and employees to manage the risks inherent in funding a defined benefit plan

Austin Police Retirement System Board Recommendations

Reaffirm commitment to achieving long-term sustainability consistent with the system's current Funding Policy

- Address funding deficiencies via discussions with the City
  - If funding period exceeds 30 years by three or more years or if the ADC (actuarially determined contribution) is more than 2% above contribution rates for two actuarial valuations.

- If contribution levels are insufficient, consider and recommend necessary contribution and/or benefit changes to members and the City

- Move to a cost sharing ratio on the combined contribution rate whereby the City pays at least 60% and police officers pay 40% or less

Austin Police Retirement System
Board Recommendations

- Proposed contribution increases
  - City - On 10/01/2020, increase contribution rate or provide lump sum payment (optional) sufficient to secure a funding period of 30 years or less, based on 12/31/2019 actuarial valuation
  - Member - Increase by 2% on January 1, 2021 – Requires a vote of system members
- Benefit changes for <u>new hires</u> after January 1, 2022 or later
  - Contingent on favorable action by Texas Legislature on proposed plan changes
  - Benefit multiplier reduced from 3.2% to 2.5%; retirement eligibility requires age 50 with 25 years of creditable service; final average compensation based on highest 60 months salary instead of 36 months

Austin Police Retirement System Board Recommendations

- Using actuarial valuation data as of December 31, 2022, develop a variable contribution rate arrangement based on Actuarial Determined Contribution (ADC) required to maintain a funding period of 30 years or less

  - Maintain a cost sharing ratio with the City paying at least 60% of needed increases

  - Minimum and maximum contribution rates - when combined with the amount paid by the member to Social Security, the member rate for the system will never exceed a total of 24% of pay

City Staff
Policy Recommendations

- Maintain a funding period of 30 years or less, at a minimum, via implementing reforms

  - Phase increases in employer and employee contributions that maintain an equitable cost-sharing ratio and reflect variations in employee benefit levels

  - Establish a lower benefit tier for new APRS members while maintaining a competitive retirement benefit compared to other large Texas cities

City Staff
Policy Recommendations

- Maintain a funding period of 30 years or less, at a minimum, via implementing reforms

  o Implement a more adaptable, long-term funding strategy based on actuarially determined contributions (ADC) as opposed to the current fixed-rate funding approach

  o Adjust member-option benefit enhancements (e.g., service credit purchases) that lower long-term system liabilities while maintaining a competitive retirement benefit compared to other large Texas cities

Ongoing Pension Analysis Project
Staff Next Steps

- Consider the financial feasibility of phased incremental increases in City contributions for APRS and COAERS beginning in FY2021

- Continue work with APRS Board on potential membership vote on member contribution increases

- Establish a Council legislative working group to provide policy direction on pension reforms for City's legislative program

- Develop legislative packet of retirement system amendments

Audit and Finance Committee

- Questions

- Discussion and possible action on Pension Analysis