Police Pension Fund Overview
July 20, 2017

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Funding Challenges

Pension Fund Statistic 12-31-2016	Police	Fire (12/15*)	Employees
Number of Active Employees	145	108	510
Number of Other Retirees and Other Members	160	86	566
Total Members	**305**	**194**	**1,076**
Net position per plan member	$69,535	$201,167	$44,547
Liability per Member	($95,558)	($117,981)	($12,228)
Net Pension Liability ($Millions) 12-31-2016	($29.1)	($22.9)	($13.2)
Percent Funded	**41.29%**	**63.03%**	**73.17%**
Years to Amortize the Net Pension Liability			
As of 1-1-16	**47.1 Years**	**50.2 Years**	**13.7 Years**
As of 1-1-17	**48.7 Years**	**N/A**	**13.4 Years**
Investment Return Assumption	8.00%	7.75%	7.25%
Annual salary increase assumption	4.00-7.00%	4.65%	4.40%
Assumed retirement age	45-65	50+	63 Yrs
Contribution Rate by City	12.83%	14.00%	9.00%
Contribution Rate by Active Member	12.00%	16.00%	6.00%
Total Pension Contribution	24.83%	30.00%	15.00%
Social Security Contribution by Employee and City	12.40%	0.00%	12.40%
Required Pension Contrib. for 40 Yr Amortization	25.78%	N/A	15.00%
Cost of One Percent Change in Pension Contribution	$116,538	$80,206	$232,267

* New fire pension plan actuary is completing the 2016 actuarial report with different assumptions shown above. Fire financial information is from draft 2016 audit.

Current Police Plan Issues

- Full funding for current plan is financially unachievable in the short-term.
- Statutory requirements require plans to maintain amortization periods for unfunded liabilities to a period of less than 40 years. The trustees and the City submitted a Funding Soundness Restoration Plan (FSRP) in late 2016 in compliance with requirements.
- The FSRP submitted in 2016 reflected changes that at the time would achieve an amortization below 40 years. The plan agreed to change its vesting period and the City increased its contribution to 12.83 percent.
- The January 1, 2017 Actuarial Valuation report reflects further decline in the fair and actuarial values of plan assets along with an increase in plan liabilities, resulting in an increase in the plans projected unfunded liability to $29,145,290 and an amortization period of its unfunded liability to 48.7 years.
- Actuarial projections indicate the contribution rate would need to increase by .95 percent annually ($110,711) or a lump sum contribution of $2.2 million to decrease the expected amortization to 40 years.
- Expected changes to actuarial assumptions (mortality and rate of return) along with the recognition of the deferred asset loss for the plan’s January 2018 valuation is projected to further increase the unfunded liability. Estimates indicate a minimum funding increase of 2.81 percent ($327,472) or a lump sum contribution of $6.38 million.

Plan Characteristics

PLAN CHARACTERISTIC	POLICE	FIRE	EMPLOYEES
Retirement Eligibility	Age 45 with 20 YCS OR age 65 OR 25 YCS with no age limit	Age 50 with 20 YCS	Age 65 with 10 YCS
Vesting	5 YCS; For plan members after 4/1/17, 50% at 5 YCS, increasing 10% per YCS to 100% at YCS	20 YCS	100% at 10 YCS; 50% at 5 YCS, increasing 10% per YCS to 100% at YCS
Benefit Formula	2.11% per YCS times final 60 months average salary	3% per YCS times highest 60 months average salary	2.25% per YCS times highest 60 months average salary with $50,000 annual maximum benefit
Automatic COLA	No	0.6% compounded not to exceed CPI-U increase if hired prior to 1/1/2013; none if hired after that	No
Deferred Retirement Option (DROP)	None	Back DROP up to 3 Years with employee contribution credited, no interest or COLA	None

Board Authority

PLAN CHANGE AUTHORITY	POLICE	FIRE	EMPLOYEES
Governing Statute	V.T.C.S. Article 6243p	V.T.C.S. Article 6243p	Galveston Code of Ordinances, Part II, Chapter 28
Employer Contributions	Determined by city based on advice of fund's actuary in accordance with governing statute	Determined by TLFFRA statue but city council can adopt a higher rate	Determined by city council
Employee Contributions	Determined by pension fund board in accordance with the governing statute	TLFFRA authorizes plan members to determine their contribution by voting	Determined by city council
Benefits Increases	Board authorized to increase benefits with approval of majority of fund members	TLFFRA allows the board to make prospective benefit modifications after they have approved in a membership vote	Board authorized to make amendments to the plan
Benefit Reductions	Board of trustees authorized to make benefit modifications	TLFFRA allows the board to make prospective benefit modifications after they have been approved in a membership vote; however, changes cannot deprive a member, retiree or eligible survivor of a right to receive accrued benefits	Board authorized to make amendments to the plan

Current Situation

- State law has a standard for adequate funding in a defined benefits plan: full amortization within 40.
- A "Funding Soundness Restoration Plan" must be filed with the State Pension Review Board by November 1 if the amortization period is above the maximum. The PRB must be notified every two years of any updates to progress made toward improved actuarial soundness
- City and the plan must jointly submit the FSRP and updates every 2 years.
- 2016 changes:
  - Increase in employer contribution from 12 to 12.83 percent and the Trustee's modified the vesting period beginning at 50% for five years of service for new employees.
- Current plan perpetuates unfunded liabilities.
- The City lacks equal representation on the board.
- Need: A combination of plan changes and increased contributions to achieve plan sustainability.

Going Forward

- The City must ensure consistent ongoing valuations, the use of realistic actuarial assumptions, and seek actuarial standards resulting in like comparisons between plans.
- The City has hired its own actuary to ensure that assumptions are consistent, realistic, and funding information is timely.
- Work with the Trustees to consider all options including benefit changes, plan changes, funding changes, and legislative action where appropriate.
- City policy determination needs to be made of what percent of payroll will be funded by City for retirement benefit purposes.
- Tax cap of $0.70 per $100 is reduced by ½ percent sales tax aimed at reducing the property tax rate (In FY 2017, this is $0.099 or almost ten cents; it also varies from year to year); current effective cap is approximately $0.60. Approximately $1.6 million.
- Final Question: Will pension funding needs squeeze out other City priorities? In other words, will the cost of addressing this pension deficiency preclude Council from addressing infrastructure, staffing, or other operational needs of the City?