City of Columbia, Missouri

Meeting Minutes

City Council

Tuesday, January 17, 2017 5:00 PM	Work Session	Conference Room 1A/1B Columbia City Hall 701 E. Broadway

I. CALL TO ORDER

Mayor Treece called the meeting to order at approximately 5:06 PM. Ms. Nauser arrived at 5:13 and Ms. Peters arrived at 5:16.

Present: 7 - Ruffin, Trapp, Thomas, Nauser, Peters, Treece, and Skala

Police and Fire Pension Assumptions

Attachments: City of Columbia Experience Study 2010-2015

Finance Director Michele Nix explained that pensions are costly and Council would benefit from an overview on the estimates we use and how we calculate numbers. It is best practice to look at estimates so determine accuracy, so we do an experience study every 5-7 years. An experience study was recently completed and the consultant is here to review those results. The Police and Fire Pension Boards have accepted some of the recommendations proposed in the report, which will also have a budget impact to consider. Ms. Nix introduced Mita Drazilov with Gabriel, Roeder, Smith & Company to review the study.

Mr. Drazilov explained that the principal areas of risk which require assumptions about future experience are: Long-term rates of investment return to be generated by the assets of the system; Rates of pay increases to active members; Rates of mortality among active members, retirants, and beneficiaries; Rates of withdrawal of active members; Rates of disability among active members; and the age patterns of retirements. Reasons for this valuation are to establish employer contribution rates for the fiscal year starting a year after the valuation; and to determine the financial position of the system and the portion of the liabilities we think our membership already earned as of the valuation date. He explained that assumptions related to membership can be compared to what we thought would happen. In that respect, assumptions we used were very close and only minor adjustments were needed. The group discussed DROP accounts and how those are funded and dispersed. If that is poorly funded, a lump sum DROP payment puts a strain on that account. Maximum DROP period in the City of Columbia is 5 years.

Mr. Drazilov referred to page E-2 of the report and explained that "exposure" means there is an active employee that is not eligible to retire in that time period and age bracket as shown in the table. "Withdrawals" indicate individuals that actually did opt to retire. Based on previous assumptions, the actual rate of withdrawal was exactly as we anticipated. He then reviewed those rates for Police with less than five years of service noting that assumption has a proposed change to increase expected withdrawals for this group from 16 to 20. This change impacts how much the employer has to pay in, since member contributions for Police and Fire are determined by Ordinance. He briefly reviewed this data for Fire employees as well, with no changes proposed. Police and Fire employees that started prior to 2012 are eligible to retire after 20 years; and 25 years

after 2012.

Mr. Drazilov referred to page F-2 of the report and reviewed rates of disability noting that the Police group had no retirees during this time frame due to disability. The Fire group had 4 of 454 "exposed". No proposed changes were made in this area. Referring to Section G, Mr. Drazilov reviewed some of the economic assumptions noting proposed rate increases to the rates of merit and longevity pay increases for the Fire group, but not the Police group. These increases may be a reflection of the compensation review the occurred for all City of Columbia employees which resulted in salary adjustments for Firefighter I and II's. Mr. Drazilov reviewed mortality rates explaining that people are living longer, which impacts the pension fund as the costs of the system increases. This resulted in an increase of future life expectancy in years and a proposed increase in male and female mortality rates of post-retirement employees.

Mr. Drazilov reviewed economic assumptions such as price inflation, productivity increases, and payroll growth assumptions. Various sources are looked at to make a reasonable assumption for valuation purposes. He reviewed the sources considered for these assumptions. He reviewed current economic assumptions for the system such as the investment return, wage inflation, price inflation, spread between investment return and wage inflation; and the spread between investment return and price inflations found on page C-2 of the report. In regard to price inflation on page C-4 of the report, he noted that long-term and short-term is below the assumption of 3.0%. Based on this data, the recommendation is a price inflation rate between 2.25% and 2.50% is reasonable with the preferred assumption of 2.50%.

He then reviewed investment returns explaining that based on results of the current analysis, the preferred investment return assumption would be 6.50%, based upon a price inflation assumption of 2.50%. However, given the current investment return assumption of 7.50%, they have also presented 7.00% as an investment return assumption for the Board's consideration. The higher the selected investment return assumption by the Board, the less margin that would exist for actuarial standards reasonability purposes in future years if capital market expectations are lowered from their current levels. In other words, if capital market assumptions are lowered from current levels and 7.00% is selected by the Board, it may become necessary to lower the investment return assumption yet further prior to the next experience study. He briefly reviewed wage inflation on page C-10 of the report.

Mr. Drazilov reviewed the actuarial valuation results as of September 30, 2015, based upon the proposed set of demographic and economic assumptions, as shown on pages B-2 and B-3 of the report. He noted the unfunded liability for Police of $32,657,047 (59.7% funded) and $47,721,500 for Fire (60.4% funded). This results in increases needed for FY18 contributions for both Police and Fire.

Mr. Drazilov explained that this is a good process that provided valuable information on future funding for these plans. The City shows a commitment to making changes to the plan as possible, which should be encouraging. Based on Councilperson Peters request, Ms. Nix will provide current and budgeted city contributions by email.

II. ALL OTHER ITEMS THE COUNCIL MAY WISH TO DISCUSS

None.

III. ADJOURNMENT

The meeting adjourned at approximately 6:58 PM.