

February 22, 2010

Common Council File 091274 contains a substitute charter ordinance relating to annual valuations of the assets and liabilities of the employees' retirement system (ERS).

Public sector defined benefit pension plans, such as the ERS, use an annual actuarial valuation to determine the plan's assets and liabilities. The results of the annual valuation determine the annual employer {plan sponsor} contribution to the plan.

The ERS has used the projected unit credit method (PUCM) since the mid-1990's. While use of the PUCM was established via charter ordinance in 1995, this proposed charter ordinance explicitly states the PUCM as the actuarial cost method for the system.

The annual valuation also uses various financial and projection techniques that collectively are referred to as the "funding policy". In August of 2009 the Annuity and Pension Board adopted a funding policy that guided the most recent annual ERS valuation. Enactment of this charter ordinance also codifies the funding policy for the ERS that the Annuity & Pension Board adopted in August, 2009.

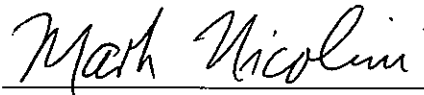
Incorporating actuarially-sound and well-defined actuarial methods in the Charter will allow for a stable fiscal planning environment for the city as ERS plan sponsor. Currently, the Budget Office projects that the city will be responsible for at least \$245 million of employer contributions over the next five years, based on the Board's funding policy and Charter requirements. Maintaining a stable planning environment will enable the city to manage the impact of these obligations on its budget, while ensuring sound funding for pension benefits.

A June 16, 2009 letter from the Budget and Management Director to the Board's actuary, which is included in this file, describes the funding policy that the Board adopted in 2009 and which is incorporated in this proposed charter ordinance. The funding policy is well within the mainstream of actuarial practices that Public Employee Retirement Systems (PERS) use. The primary impact of the funding policy, compared to the policy previously in effect, is to reduce the potential volatility of employer contributions. A June 26, 2009 response from the Board's actuary to the Budget and Management Director, also included in this file, indicates that this funding policy is reasonable and within the bounds of responsible actuarial practice.

Adoption of this proposed charter ordinance does not diminish any benefit obligation to ERS members, nor does it alter the city's responsibility to provide for the entire contribution that the actuarial valuation determines is necessary. The proposed Substitute version also provides that the Board's actuary shall certify that the annual valuation complies with appropriate actuarial standards, and that no changes may be made to the provisions incorporated in this proposed Charter ordinance unless the Board's actuary certifies that such changes comply with actuarial standards. The City Attorney has indicated that

providing for an actuarially sound approach to funding benefit obligations through the City Charter does not diminish the benefit of any ERS member.

**RECOMMENDATION: ADOPT SUBSTITUTE B TO FILE 091274**

A handwritten signature in cursive script, reading "Mark Nicolini".

---

Mark Nicolini  
Budget and Management Director

MN:dmr  
FINANCE:Speedreplies:091274sr