

AGENDA



Date: November 6, 2020

The second of two annual public meetings of the Dallas Police and Fire Pension System Board of Trustees as required by Section 3.01 (j-9) of Article 6243a-1 of Vernon's Revised Civil Statutes will be held at **8:30 a.m. on Thursday, November 12, 2020, via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual <https://us02web.zoom.us/j/87136913186?pwd=OFhtSC80RnJUS0kwek0zeWQvSHUrUT09> Passcode: 806351. Items of the following agenda will be presented to the Board:**

- 1. Report on the health and performance of the Pension System**
 - a. January 1, 2020 Actuarial Valuation
 - b. Projected Change in Net Position Bridge Chart

- 2. Public comment**

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by the Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.



DISCUSSION SHEET

ITEM #1

Topic: Report on the health and performance of the Pension System

- a. January 1, 2020 Actuarial Valuation
- b. Projected Change in Net Position Bridge Chart

Attendees: Jeff Williams, Vice President and Consulting Actuary, Segal Consulting
Caitlin Grice, Consulting Actuary, Segal Consulting

Discussion:

- a. Jeff Williams and Caitlin Grice of Segal Consulting, DFPF's actuarial firm, will be present to discuss results of the January 1, 2020 actuarial valuation report, including the GASB No. 67 actuarial valuation.
- b. On a quarterly basis staff presents a Change in Net Position Bridge chart based on actual historical data as part of the quarterly financial statement reporting. The Board requested that the same type of information be presented based on projected data. Staff will present similar information contained in the Change in Net Position Bridge chart based on projected data from the January 1, 2020 Actuarial Valuation report.

*Sec. 3.01 (j-9) of Article 6243a-1 of Vernon's Revised Civil Statutes
Required Public Meeting – Thursday, November 12, 2020*



Dallas Police and Fire Pension System

Annual Valuation Summary as of January 1, 2020

Board of Trustees Meeting

November 12, 2020 / Jeff Williams / Caitlin Grice

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| Agenda

Portrait of a Pension Valuation

Summary of January 1, 2020 Actuarial Valuation Results

Summary of Data

Historical Results

Solvency Projection

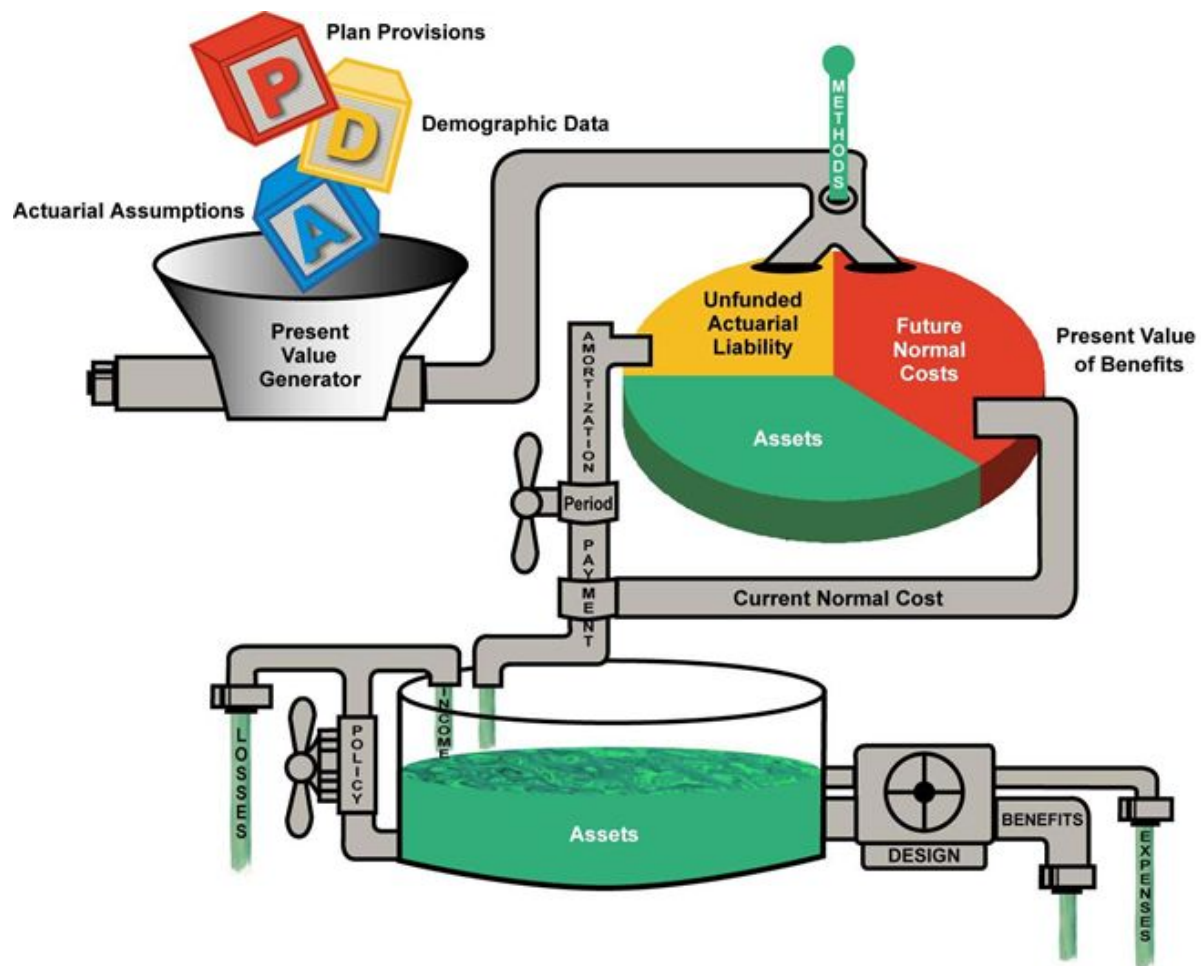
Risk

Importance of Accurate Payroll Projections

GASB Accounting Disclosures

Supplemental Plan Results

Portrait of a Pension Valuation



Combined Plan Results



Summary of 2020 Actuarial Valuation Results

Actuarial Determined Contribution (ADC)

- City's ADC is based on a 30-year amortization of the System's unfunded actuarial accrued liability, in accordance with Texas Code Section 802.101
 - Actual City contributions expected to be less than ADC
 - Unfunded liability is projected to be paid off in **55** years, based on City's Hiring Plan payroll projections (up from **38** years in the 2019 valuation)
- City's ADC for 2020 is \$170.0 million (42.82% of computation pay)
 - Increased from \$152.1 million (41.88% of computation pay) in 2019, primarily due to investment losses, demographic experience and assumption changes
 - Actual City contributions for 2019 were \$155.7 million, or 102.4% of the 2019 ADC
 - Contributions were expected to be approximately \$157.8 million (\$5.571 million for 26 pay periods, plus \$13 million)
 - City contributions for 2020 are expected to be approximately \$161.8 million (\$5.724 million for 26 pay periods, plus \$13 million)
 - If this amount is contributed, it will be 95.2% of the 30-year ADC

Funded ratios

- On an actuarial basis, decreased from 48.10% in 2019 to 45.73% in 2020
- On a market basis, decreased from 45.43% in 2019 to 43.56% in 2020

Summary of 2020 Actuarial Valuation Results

Financial information

- Actuarial value of assets remained level at \$2.16 billion
- Market value of assets increased from \$2.04 billion to \$2.06 billion
- Rates of return
 - Assumed return of 7.25%
 - Market return of 6.25%
 - Actuarial return of 5.05%
 - Lowered assumed return from 7.25% to 7.00% with this year's valuation



Assumption changes

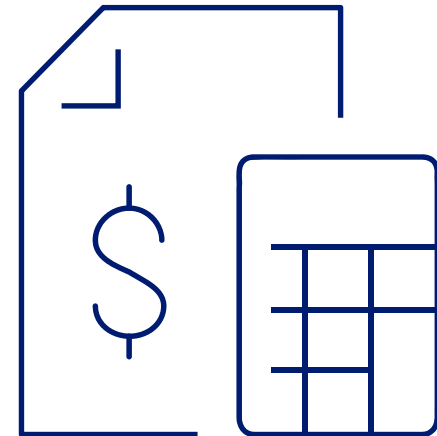
- Variety of assumption changes, as recommended in January 1, 2015 – December 31, 2019 experience study that was presented in May 2020
 - Net investment return assumption
 - Salary scale
 - Payroll growth rate
 - Mortality tables
 - Retirement rates
 - DROP Annuitization interest rate
 - Withdrawal (or turnover) rates
- System provided revised short-term market rates of return to be assumed for projecting assets and funding status
- Ad-hoc COLA timing was updated to reflect all assumption changes

Summary of 2020 Actuarial Valuation Results

Reconciliation of City's ADC (30-year amortization)

- 2019 ADC **\$152.1M**, or **41.88%** of computation pay
- 2020 ADC, prior to assumption changes **\$157.6M**, or **39.71%** of computation pay
- 2020 ADC, after assumption changes **\$170.0M**, or **42.82%** of computation pay

Note: Total computation pay, or valuation pay, shown in the valuation report is the active members' actual payroll for the preceding year, increased by the salary scale applicable for each member to account for their anticipated salary increases in the upcoming year.



Summary of 2020 Actuarial Valuation Results

	2020	2019
Total normal cost, including administrative expenses	\$69,083,972	\$60,600,247
Expected member contributions	<u>-53,588,890</u>	<u>-49,020,851</u>
Employer normal cost	\$15,495,082	\$11,579,396
Total normal cost as % of computation pay	17.40%	16.69%
Employer normal cost as a % of computation pay	3.90%	3.19%
Actuarial accrued liability	\$4,723,972,480	\$4,494,822,504
Actuarial value of assets	<u>-2,160,125,611</u>	<u>-2,161,899,662</u>
Unfunded liability	\$2,563,846,869	\$2,332,922,842
Funded ratio	45.73%	48.10%
Computation pay	\$396,954,743	\$363,117,415
Actuarial Determined Contribution, in dollars	\$169,987,256	\$152,084,297
Actuarial Determined Contribution, as a % of computation pay	42.82%	41.88%
Projected year of full funding, based on City's Hiring Plan Payroll	2075	2057

Summary of Data

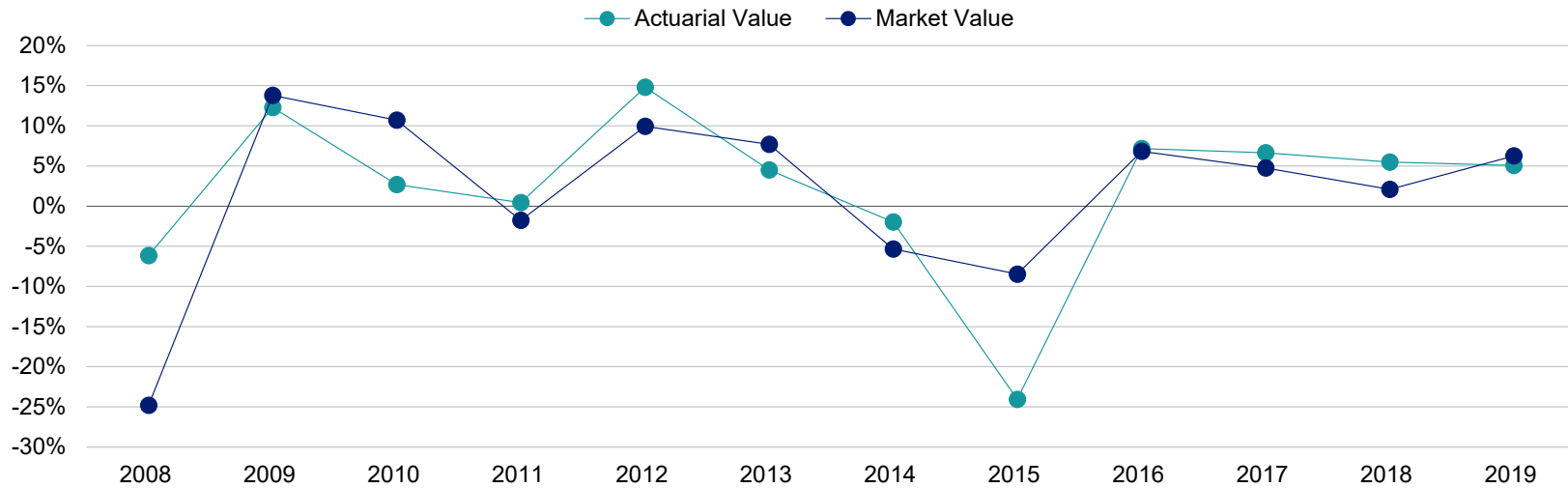
	Year Ended December 31,		Change
	2019	2018	
Active members			
Number	5,121	5,012	2.2%
Average age	39.8	40.1	-0.3
Average service	12.3	12.8	-0.5
Average computation pay	\$77,515	\$72,450	7.0%
Number in DROP	383	483	-20.7%
Total DROP accounts	\$154.2M	\$192.4M	-19.8%
Retirees and beneficiaries			
Number ¹	4,956	4,849	2.2%
Average monthly payment ²	\$4,250	\$4,217	0.8%
Inactive vested members			
Number	242	230	5.2%

¹ Excludes beneficiaries with DROP accounts only

² Includes benefit supplement, excludes annuitization of DROP balances

Historical Results

Asset Returns

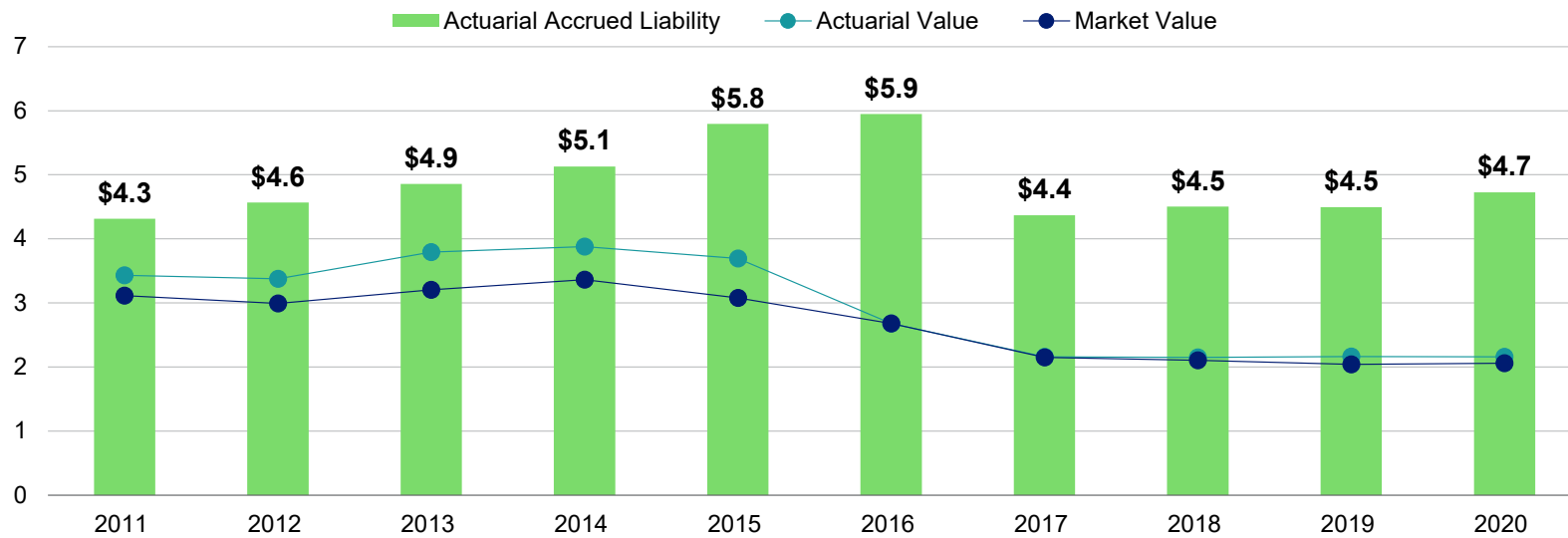


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AVA	-6.14%	12.29%	2.69%	0.43%	14.79%	4.52%	-1.98%	-24.03%	7.16%	6.63%	5.48%	5.05%
MVA	-24.80%	13.78%	10.72%	-1.78%	9.92%	7.70%	-5.35%	-8.47%	6.82%	4.74%	2.09%	6.25%

Note: The actuarial returns for 2012 and 2015 include effects of changes in asset method. The returns for 2014 and 2015 include significant write-downs of the Plan's assets.

Historical Results

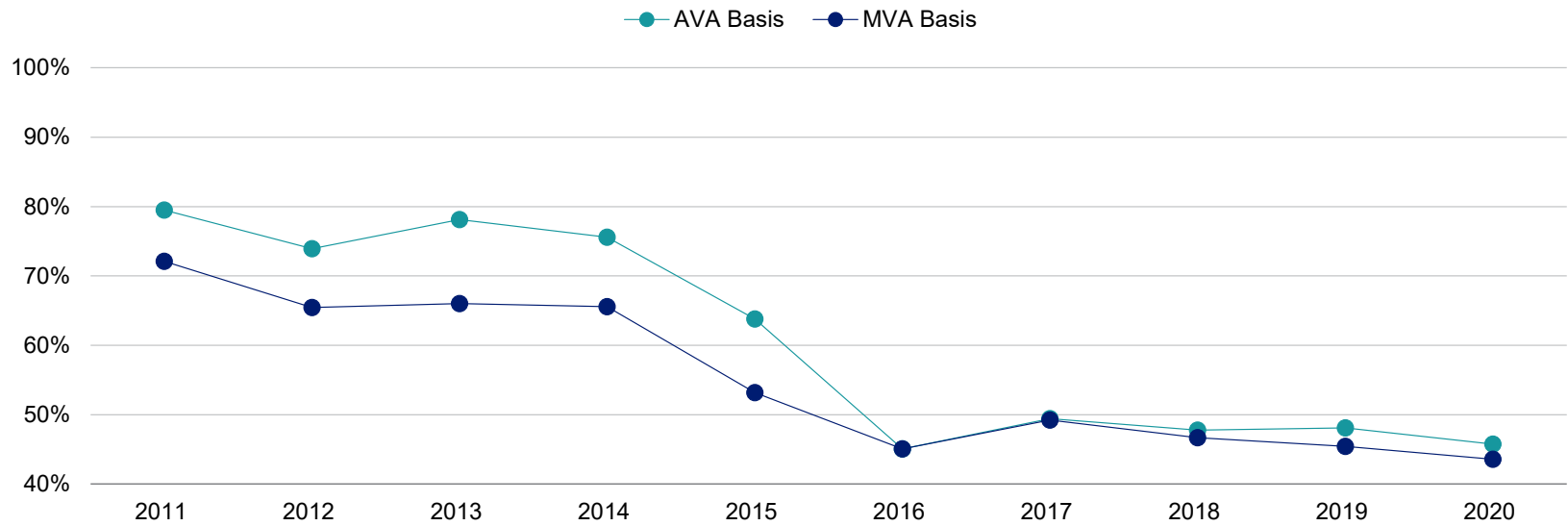
Asset and Actuarial Accrued Liability Values as of January 1
 (\$ billions)



Notes: The significant increase in liability in 2015 is due to the change in discount rate, from 8.50% to 7.25%.
 The liability decrease in 2017 is attributable to the plan changes implemented following the adoption of HB 3158.
 As mentioned previously, the decline in assets from January 1, 2014 through January 1, 2016 is primarily the result of write-downs. The actuarial value of assets was set equal to market value as of January 1, 2016.
 The decline during 2016 reflects the unusually large number of DROP payments made in that year.

Historical Results

Funded Percentage as of January 1



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
AVA	79.5%	73.9%	78.1%	75.6%	63.8%	45.1%	49.4%	47.7%	48.1%	45.7%
MVA	72.1%	65.5%	66.0%	65.6%	53.2%	45.1%	49.2%	46.7%	45.4%	43.6%

Risk

Investment Risk

- The System's assets are expected to earn less than the assumed rate over the next few years as the investment portfolio is rebalanced
- Beyond that, the System could be at risk of not meeting its funding goals if asset returns are below the assumed long-term rate
- Benefit payments are higher than contribution income making the System reliant on investment income to cover the difference
 - For 2019, benefits and administrative expenses were \$108.3 million more than contributions received

Longevity and Demographic Risk

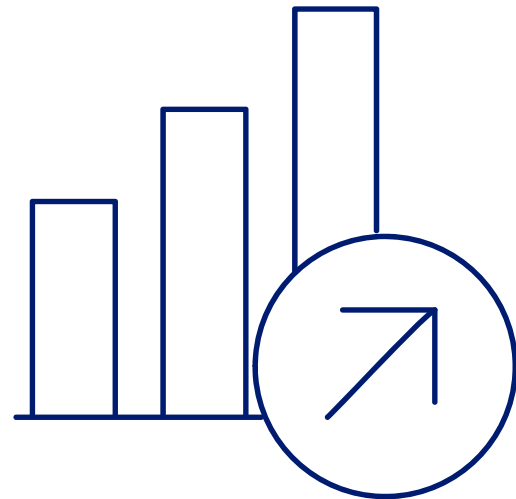
- If members live longer than expected, the benefit payouts will be higher than currently assumed, which will draw down the System's assets
- The plan's costs are also reliant on turnover and retirement patterns

Contribution Risk

- Plan contribution rates are set by statute, but the dollars of contributions depend on the computation payroll to which the rates are applied
- The following slides describe the importance of accurate payroll projections on the System's ability to improve its funding status

The Importance of Accurate Payroll Projections

- Segal strongly recommends an actuarial funding method that targets 100% funding of the actuarial accrued liability
- Payments should be enough to cover normal cost, interest on the unfunded actuarial accrued liability and, ultimately, the principal balance
- The funding policy adopted by the State in HB 3158 meets this standard, if the City's Hiring Plan payroll projections come to fruition
- Assuming the City's Hiring Plan payroll projection is met, the expected full-funding date is 2075, 18 years later than the expected full-funding date from the 2019 valuation
 - Full-funding date may vary on an annual basis due to demographic experience, economic experience, and contributions other than assumed



The Importance of Accurate Payroll Projections

- Through the first four years of the policy (2017-2020), valuation payroll based on participant data is cumulatively \$51.5 million less than the City's projections
- City's long-term contribution rate is scheduled to be 34.50% of computation pay
 - Through 2024 there is a floor on the City's contribution levels
 - Beginning in 2025, City expected to contribute based solely on pay
 - City's plan reflects significant growth in payroll over 20 years, from \$372 million in 2017 to \$684 million in 2037 (average annual growth of 3.1%)
 - Differences between actual payroll and City's Hiring Plan payroll will have an impact on when the System is projected to become fully funded
 - If payroll growth is more modest, or if there is adverse experience in the System that leads to losses, the period required to achieve 100% funding could be significantly longer

If the City's Hiring Plan projections are not met and instead the current valuation payroll of \$397.0 million increases by the assumed payroll growth of 2.50% each year ongoing, and if City and member contributions are based on this projected payroll beginning in 2025, the System is projected to be only 41% funded in 2075, rather than 100%.

City's Hiring Plan Payroll vs. Projected Valuation Payroll

Year	City's Hiring Plan Payroll	Projected Valuation Payroll ¹	\$ Difference
2017	\$372,000,000	\$357,414,472	-\$14,585,528
2018	364,000,000	346,036,690	-17,963,310
2019	383,000,000	363,117,415	-19,882,585
2020	396,000,000	396,954,743	954,743
2021	408,000,000	406,878,612	-1,121,388
2022	422,000,000	417,050,577	-4,949,423
2023	438,000,000	427,476,841	-10,523,159
2024	454,000,000	438,163,762	-15,836,238
2025	471,000,000	449,117,856	-21,882,144
2026	488,000,000	460,345,803	-27,654,197
2027	507,000,000	471,854,448	-35,145,552
2028	525,000,000	483,650,809	-41,349,191
2029	545,000,000	495,742,079	-49,257,921
2030	565,000,000	508,135,631	-56,864,369
2031	581,000,000	520,839,022	-60,160,978
2032	597,000,000	533,859,998	-63,140,002
2033	614,000,000	547,206,498	-66,793,502
2034	631,000,000	560,886,660	-70,113,340
2035	648,000,000	574,908,826	-73,091,174
2036	666,000,000	589,281,547	-76,718,453
2037	684,000,000	604,013,586	-79,986,414
			-\$806,064,125

¹ Valuation payroll is the active members' actual payroll for the preceding year, increased by the salary scale applicable for each member to account for their anticipated salary increases in the upcoming year.

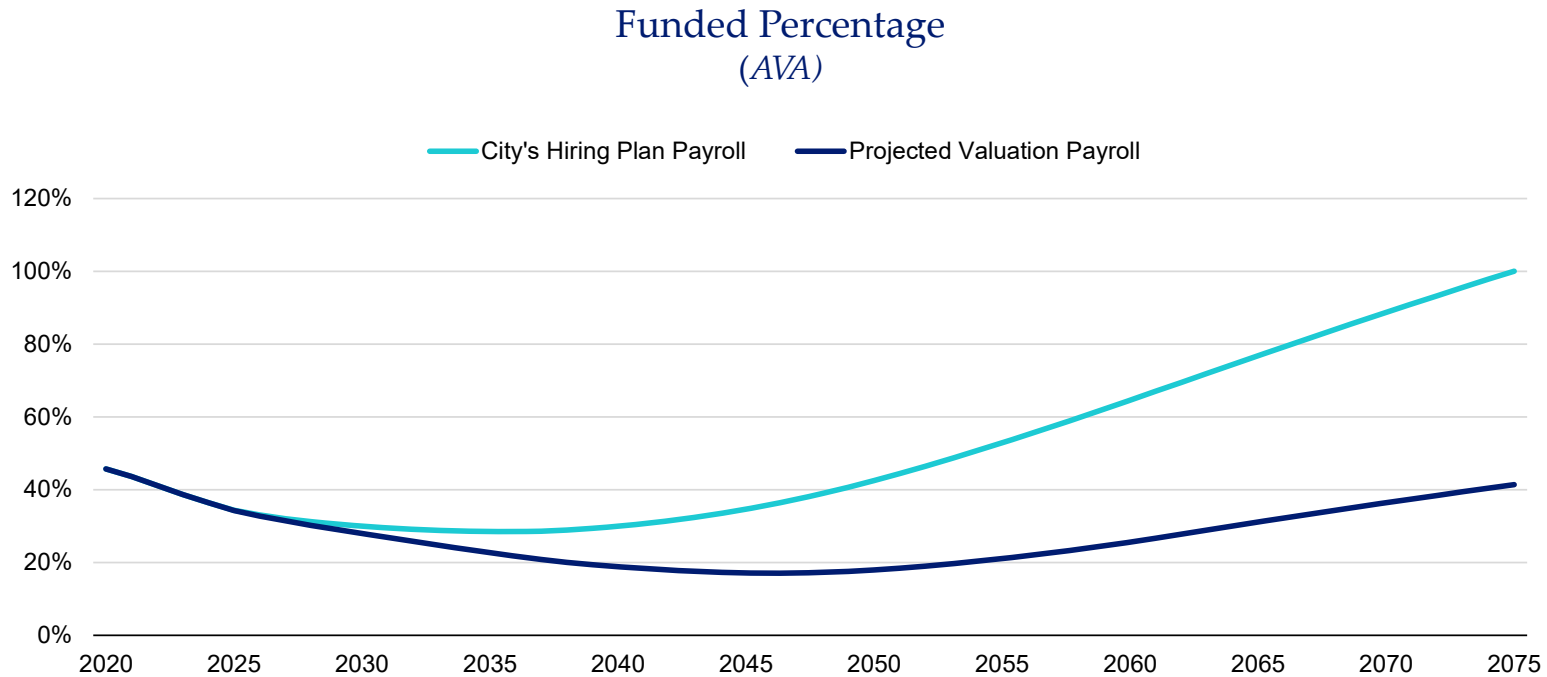
Assumptions

- Valuation payroll projected at 2.5% per year
- Beginning in 2025, the statutory contributions cease and City contributions equal 34.5% of actual computation pay
- Member contributions: 13.5% of computation pay

Findings

- Total City and Member contributions between 2025 and 2037, based on the City's Hiring Plan payroll projections: **\$3.611 billion**
- Total City and Member contributions between 2025 and 2037, based on projected valuation payroll: **\$3.264 billion**
- Difference in total contributions based on these two projections, just for the period of 2025 through 2037: **\$347 million**
- The **\$347 million** gap is down from **\$457 million** last year, because the 2020 projected valuation payroll is about 9% higher than expected based on projecting the 2019 computation pay by the payroll growth assumption

Funded Percentage Projection



The projection above anticipates that all actuarial assumptions are met in the future and all contributions are made as expected. Projections are based on the City's Hiring Plan payroll projections through 2037 for the "City's Hiring Plan Payroll" projection. The "Projected Valuation Payroll" uses the actual January 1, 2020 payroll projected forward each year at the 2.50% growth assumption.

Based on the City's Hiring Plan payroll projections, 100% funding is projected by January 1, 2075. Based on the projected valuation payroll, the funded percent is projected to be 41% on January 1, 2075.

GASB 67 Accounting Disclosures – Net Pension Liability

- The Pension System is required to provide disclosures under GASB Statement 67. The components of the net pension liability are as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Total Pension Liability (TPL)	\$4.73 billion	\$4.50 billion
Plan's Fiduciary Net Position	\$2.06 billion	\$2.04 billion
City's Net Pension Liability (NPL)	\$2.67 billion	\$2.46 billion
Plan Fiduciary Net Position as a percentage of the TPL	43.49%	45.36%

- TPL as of December 31, 2018 includes the DROP revocations between September 1, 2017 and February 28, 2018
- In the event that a pension plan has a projected insolvency date, GASB requires that the unfunded benefits be discounted using a 20-year, tax-exempt general obligation bonds rate rather than the Plan's funding rate
- Based on HB 3158 contribution requirements and the City's Hiring Plan (90% of which was used for projecting computation pay for GASB purposes), City and member contributions are projected be able to pay the benefits of current members. Therefore, GASB liabilities are determined using the valuation discount rate.
 - 7.00% as of December 31, 2019
 - 7.25% as of December 31, 2018

Supplemental Plan Results



Supplemental Plan Results

- City of Dallas contributes to the Supplemental Plan each year based on the normal cost (net of member contributions), interest on the unfunded actuarial accrued liability and the principal balance
 - The funding policy was changed from an open, 10-year amortization period to a closed, 20-year amortization period with this year's valuation
 - Beginning in 2021, future gains or losses each year will be amortized over a closed, 10-year period
- Same assumption changes implemented for the Combined Pension Plan apply to the Supplemental Plan
- Total recommended contribution for the Supplemental Plan decreased from \$1.97 million in 2019 to \$1.86 million in 2020
 - City's portion decreased from \$1.88 million to \$1.78 million; the change in amortization methodology caused the ADC to decrease by \$0.8 million
- Supplemental Plan net assets decreased from \$18.3 million to \$17.3 million
- Funded ratio decreased from 57.6% to 48.3%
- Number of active members increased from 39 to 41
- Number of annuitants increased from 138 to 139
- GASB net pension liability (NPL) is determined using the valuation discount rate of 7.00%
- NPL increased from \$13.5 million to \$18.5 million

Caveats

- This presentation is intended for the use of the Board of Trustees for the Dallas Police and Fire Pension System, and is a supplement to Segal's full valuation reports for the System as of January 1, 2020.
- Please refer to the full valuation reports for a description of assumptions and plan provisions reflected in the results shown in this presentation. The reports also include more comprehensive information regarding the System's membership, assets, and experience during the most recent plan year.
- Projections, by their nature, are not a guarantee of future results. They are intended to serve as estimates of future financial outcomes that are based on assumptions about future experience and the information available to us at the time the modeling is undertaken and completed. The projected future results included in this presentation show how the System would be affected if specific investment return, salary, mortality, turnover, disability and retirement assumptions are met. Actual results may differ due to such variables as demographic experience, the economy, contribution patterns, stock market performance and the regulatory environment.
- The calculations included in this presentation were completed under the supervision of Jeffrey S. Williams, FCA, ASA, MAAA, EA, and Deborah K. Brigham, FCA, ASA, MAAA, EA.

Questions?

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Dallas Police and Fire Pension System

Revised Actuarial Valuation and Review as of January 1, 2020



This report has been prepared at the request of the Board of Trustees to assist in administering the System. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Trustees and may only be provided to other parties in its entirety, unless expressly authorized by Segal. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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Segal



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November 19, 2020

Board of Trustees
Dallas Police and Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219-3207

Dear Board Members:

We are pleased to submit this Revised Actuarial Valuation and Review as of January 1, 2020. This report has been updated from the valuation dated November 6, 2020 to reflect July 2020 amendments to the Board's funding policy. It summarizes the actuarial data used in the valuation, analyzes the preceding year's experience, and calculates the funding requirements for fiscal 2020; actual funding is determined by State law.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Pension System. The census information on which our calculations were based was provided by the System's IT Department, under the supervision of John Holt, and the financial information on which our calculations were based was prepared by the System's Finance Department. That assistance is gratefully acknowledged.

The actuarial calculations were directed under our supervision. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the System.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,
Segal

A handwritten signature in black ink that reads "Jeffrey S. Williams".

Jeffrey S. Williams, FCA, ASA, MAAA, EA
Vice President and Consulting Actuary

A handwritten signature in black ink that reads "Deborah K. Brigham".

Deborah K. Brigham, FCA, ASA, MAAA, EA
Senior Vice President and Consulting Actuary

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Actuarial Valuation Summary

Purpose and basis

This report was prepared by Segal to present a valuation of the Plan as of January 1, 2020. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to provide information for required disclosures under Governmental Accounting Standards Board (GASB) Statement No. 67. The measurements shown in this actuarial valuation may not be applicable for other purposes. In particular, the measures herein are not necessarily appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board;
- The characteristics of covered active members, inactive members, and retired members and beneficiaries as of December 31, 2019, provided by the System's IT Department;
- The assets of the Plan as of December 31, 2019, provided by the System's Finance Department;
- Economic assumptions regarding future salary increases and investment earnings;
- Other actuarial assumptions regarding employee terminations, retirement, death, etc.;
- The requirements of House Bill 3158 (HB 3158), signed into law by the Governor of Texas on May 31, 2017 and
- The funding policy adopted by the Board of Trustees of the Pension System on December 12, 2019, as amended through July 9, 2020.

The majority of assumptions and methods used to value the Plan were set by the Board based on recommendations made by Segal following a five-year experience study for the period ended December 31, 2019.

Certain disclosure information required by GASB Statement No 68 as of September 30, 2020 for the City will be provided in a separate report.

Section 1: Actuarial Valuation Summary

Valuation highlights

This actuarial valuation is based on plan assets as of December 31, 2019. Due to the COVID-19 pandemic, market conditions have changed significantly since the valuation date. The Fund's actuarial status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the Plan Year. While it is impossible to determine how the market will perform over the next several months, and how that will affect the results of next year's valuation, Segal is available to prepare projections of potential outcomes upon request.

1. Segal strongly recommends an actuarial funding method that targets 100% funding of the actuarial accrued liability. Generally, this implies payments that are ultimately at least enough to cover normal cost, interest on the unfunded actuarial accrued liability (UAL), and the principal UAL balance. The funding policy adopted by the Texas Legislature in HB 3158 meets this standard, if future payroll matches the City's Hiring Plan payroll projection. The Board of the Pension System also has a funding policy. This policy was adopted in December 2019 and amended in July 2020. In the Board's amended policy, the provisions of which are reflected for the first time in this valuation, the amortization period was changed from 30 years to a closed, 25-year period. Beginning in 2021, future gains or losses each year will be amortized over separate, closed, 20-year periods. Amortization will remain on a level percentage of pay basis. If the City's actual contributions differ from the actuarially determined contribution (ADC) by more than 2%, the Board can recommend a change in the City's contribution rate. The Board's funding policy also meets the standard of targeting 100% funding of the actuarial accrued liability.
2. The City's ADC for the 2020 plan year, based on a 25-year amortization of the UAL, is \$185.4 million, an increase of \$33.3 million from last year. The ADC as a percentage of computation pay increased from 41.88% to 46.71%. The increase is mainly the result of shortening the amortization period and implementing actuarial assumption changes, and to a lesser extent, losses from investment and demographic experience.
3. The funded ratio (the ratio of the actuarial value of assets to actuarial accrued liability) is 45.73%, compared to the prior year funded ratio of 48.10%. This ratio is one measure of funding status, and its history is a measure of funding progress. Using the market value of assets, the funded ratio is 43.56%, compared to 45.43% as of the prior valuation date. As with the change in ADC, experience losses and assumption changes caused this decline.
4. Actual contributions made by the City during the plan year ending December 31, 2019 were \$155.7 million, 102.4% of the 2019 ADC. In 2018, actual contributions were \$149.4 million, 95.1% of the prior year ADC. The total contributions made during the plan year ending December 31, 2019 were insufficient to reduce the UAL. The Board was advised previously that because the funding policy contributions as outlined in HB 3158 result in a long effective amortization period, it will likely be 20 years or more before the UAL starts to decline.
5. The rate of return on the market value of assets, as calculated by the actuary, was 6.25% for the 2019 plan year. This return was on target with short-term expectations as the System continues to rebalance its investment portfolio. As shown in Section 3, Exhibit E, the System reduced the percentage of the invested portfolio exposed to real assets from 35% to 29%. The reduction in

Section 1: Actuarial Valuation Summary

real assets led to an increase in the equity exposure, from 22% to 28%, and an increase in the fixed income exposure, from 26% to 28%.

6. The return on the actuarial value of assets was 5.05% for the 2019 plan year. This resulted in an actuarial loss when measured against the assumed rate of return of 7.25%. This actuarial investment loss increased the ADC by \$2.8 million. Given the low fixed income interest rate environment, target asset allocation and expectations of future investment returns for various classes, the Board lowered the assumed long-term rate of return on investments from 7.25% to 7.00% with this year's valuation.
7. There was a net experience loss for the year of \$59.9 million, or 1.3% of the actuarial accrued liability. This loss was primarily due to the investment loss mentioned above and, to a lesser extent, salary increases greater than expected. The investment loss was equivalent to 1.0% of actuarial accrued liability, and net losses due to demographic and other factors were 0.3% of liability. The non-investment loss is not significant for actuarial valuation purposes.
8. The actuarial value of assets as of the valuation date is 105.0% of the market value of assets. The investment experience in recent years has only been partially recognized in the actuarial value of assets. As the deferred net loss of \$102.3 million is recognized in future years, the System's ADC is likely to increase unless the net loss is offset by future experience. The recognition of these market losses will also have an impact on the future funded ratio. If the net deferred loss were recognized immediately in the actuarial value of assets, the ADC would increase from 46.71% to 48.42% of computation pay.
9. Included in this valuation for the first time are a variety of assumption changes, as recommended in the January 1, 2015 – December 31, 2019 experience study for the System. The study was presented to the Board in May 2020. Changes were made to the net investment return rate, salary scale, payroll growth rate, mortality tables, retirement rates, DROP annuitization rates, and withdrawal (or turnover) rates. In addition, the System has provided revised short-term market rates of return to be assumed for projecting assets and funding status. The assumption for ad-hoc COLA timing was updated to reflect all of these assumption changes. Details of the new assumptions are summarized in Section 4, Exhibit I. Overall, the assumption changes increased the total normal cost by \$3.5 million and the actuarial accrued liability by \$152.3 million. The total impact was an increase in the ADC of \$12.4 million.
10. Lowering the amortization period for the UAL from 30 years to 25 years, in accordance with the Board's amended funding policy, increased the ADC by \$15.4 million.
11. Assuming the City's Hiring Plan payroll projection materializes, the System's expected full-funding date is 2075. The City's Hiring Plan payroll projection is shown in Section 4, Exhibit I. From 2017 through 2020, valuation payroll based on participant data was cumulatively \$51.5 million less than the City's projection, or 3.40% lower. Even though valuation payroll for 2020 exceeds the City's payroll projection for the first time, this remains an area of concern that needs to be carefully monitored.
12. With 100% funding projected in 2075, the effective amortization period for the UAL is 55 years. This period can vary on an annual basis due to actuarial experience, changes in assumptions, contributions higher or lower than expected, and assumed short-term market value asset returns provided by System staff. In the 2019 actuarial valuation, the projected full funding year

Section 1: Actuarial Valuation Summary

was 2057, and the effective period was 38 years. Through 2024 there is a floor on the City's contribution levels, which is expected to override the long-term contribution rate of 34.50% of computation pay. Beginning in 2025, when the City is expected to contribute based solely on computation pay, differences between actual payroll and the City's Hiring Plan payroll will have an impact on when the System is projected to become fully funded.

13. The City's plan reflects significant growth in payroll over 20 years, from \$372 million in 2017 to \$684 million in 2037. The average annual growth in the City's Hiring Plan payroll projections is 3.09%, compared to the valuation assumption of 2.50%. If payroll growth is more modest, or if there is adverse actuarial experience, it will significantly impact the progress towards improved funding. For instance, if the City's Hiring Plan projections are not met and instead the current valuation payroll of \$397.0 million increases by the assumed payroll growth of 2.50% each year, and City and member contributions are based on this level of payroll beginning in 2025, the System is projected to be only 41% funded in 2075, rather than 100%.
14. The System's normal cost (for benefits accruing each year) plus expenses is 17.40% of computation pay. Members contribute 13.50% of computation pay, and the City covers the balance. All remaining City contributions pay down the UAL. Although it is important for the System to meet its 7.00% annual rate of return assumption, the assets currently cover a relatively low percentage of the liabilities and investment returns alone cannot close the funding gap. It is therefore vital that the City's payroll projections are accurate, or that the long-term level of contributions is at least 34.50% of those payroll projections, for the System to achieve full funding.
15. Since the actuarial valuation results are dependent on a given set of assumptions, there is a risk that emerging results may differ significantly as actual experience proves to be different from the assumptions. Segal has not been engaged to perform a detailed analysis of the potential range of the impact of risk relative to the System's future financial condition, but have included a brief discussion of some risks that may affect the System in Section 2. A more detailed assessment would provide the Board with a better understanding of the inherent risks. This could be important because:
 - The outlook for financial markets is uncertain due to COVID-19.
 - The Plan's asset allocation has potential for a significant amount of investment return volatility, particularly as rebalancing occurs.
 - Retired participants account for most of the System's liabilities, leaving limited options for reducing costs in the event of adverse experience.
 - Actual payroll has been less than the City's Hiring Plan payroll projections in recent years, and potential future shortfalls could result in additional funding challenges in the future.
 - The current political and social environment could impact the turnover and retirement patterns of public safety employees, as well as the availability of new hires.

Section 1: Actuarial Valuation Summary

16. This report constitutes an actuarial valuation for the purpose of determining the ADC under the Plan's funding policy. The information contained in Section 5 provides the accounting information for Governmental Accounting Standards Board (GASB) Statement No. 67, for inclusion in the plan and employer's financial statements as of December 31, 2019. The Net Pension Liability (NPL) and Pension Expense under GASB Statement No. 68 for inclusion in the plan and employer's financial statements as of September 30, 2020 will be provided separately.
17. The Net Pension Liability (NPL) is equal to the difference between the Total Pension Liability (TPL) and the Plan's fiduciary net position (equal to the market value of assets). The NPL as of December 31, 2019 is \$2.7 billion, an increase from \$2.5 billion as of December 31, 2018.

Section 1: Actuarial Valuation Summary

Summary of key valuation results

		2020	2019
Contributions for plan year beginning January 1, adjusted for timing:	• Total actuarially determined contribution (City and member)	\$240,861,543	\$202,851,063
	• Expected member contributions	55,432,779	50,766,766
	• City's actuarially determined contribution (ADC)	185,428,764	152,084,297
	• City's ADC as a percent of computation pay	46.71%	41.88%
	• Actual City contributions	--	\$155,721,087
	• Amortization period for determination of ADC	25 years	30 years
Actuarial accrued liability for plan year beginning January 1:	• Retired members and beneficiaries	\$3,268,076,451	\$3,098,053,613
	• Inactive vested members	32,099,477	30,007,756
	• Active members	1,422,388,061	1,365,339,051
	• Inactive members due a refund of employee contributions	1,408,491	1,422,084
	• Total actuarial accrued liability	4,723,972,480	4,494,822,504
	• Employer normal cost including administrative expenses	15,495,082	11,579,396
Assets for plan year beginning January 1:	• Market value of assets (MVA)	\$2,057,857,317	\$2,041,914,130
	• Actuarial value of assets (AVA)	2,160,125,611	2,161,899,662
	• Actuarial value of assets as a percentage of market value of assets	104.97%	105.88%
Funded status for plan year beginning January 1:	• Unfunded actuarial accrued liability on market value of assets	\$2,666,115,163	\$2,452,908,374
	• Funded percentage on MVA basis	43.56%	45.43%
	• Unfunded actuarial accrued liability on actuarial value of assets	\$2,563,846,869	\$2,332,922,842
	• Funded percentage on AVA basis	45.73%	48.10%
	• Projected year of full funding based on City's Hiring Plan payroll projections	2075	2057
Key assumptions	• Net investment return	7.00%	7.25%
	• Inflation rate	2.50%	2.75%
GASB information	• Discount rate	7.00%	7.25%
	• Total pension liability	\$4,731,959,822	\$4,501,670,375
	• Plan fiduciary net position	2,057,857,317	2,041,914,130
	• Net pension liability	2,674,102,505	2,459,756,245
	• Plan fiduciary net position as a percentage of total pension liability	43.49%	45.36%
Demographic data for plan year beginning January 1:	• Number of retired members and beneficiaries	5,039	4,919
	• Number of inactive vested members	242	230
	• Number of active members	5,121	5,012
	• Number of inactive members due a refund of employee contributions	434	431
	• Total computation pay ¹	\$396,954,743	\$363,117,415
	• Average computation pay	77,515	72,450

¹ Total computation pay, or valuation pay, is the active members' actual payroll for the preceding year, increased by the salary scale applicable for each member to account for their anticipated salary increases in the upcoming year.

Section 1: Actuarial Valuation Summary

Important information about actuarial valuations

An actuarial valuation is a budgeting tool with respect to the financing of future projected obligations of a pension plan. It is an estimated forecast – the actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

In order to prepare a valuation, Segal relies on a number of input items. These include:

Plan of benefits	Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. Even where they appear precise, outside factors may change how they operate. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan summary included in our report to confirm that Segal has correctly interpreted the plan of benefits.
Participant data	An actuarial valuation for a plan is based on data provided to the actuary by the System. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
Assets	The valuation is based on the market value of assets as of the valuation date, as provided by the System. The System uses an “actuarial value of assets” that differs from market value to gradually reflect year-to-year changes in the market value of assets in determining the contribution requirements.
Actuarial assumptions	In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments. The projected benefits are then discounted to a present value, based on the assumed rate of return that is expected to be achieved on the plan’s assets. There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results that does not mean that the previous assumptions were unreasonable.

Section 1: Actuarial Valuation Summary

The user of Segal's actuarial valuation (or other actuarial calculations) should keep the following in mind:

The actuarial valuation is prepared at the request of the Board. Segal is not responsible for the use or misuse of its report, particularly by any other party.

An actuarial valuation is a measurement of the plan's assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

Actuarial results in this report are not rounded, but that does not imply precision.

If the Board is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.

Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The Board should look to their other advisors for expertise in these areas.

As Segal has no discretionary authority with respect to the management or assets of the System, it is not a fiduciary in its capacity as actuaries and consultants with respect to the System.

Actuarial Valuation Results

Member data

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, inactive vested members, retired members and beneficiaries. This section presents a summary of significant statistical data on these member groups.

The average number of active members in the most recent four years is 7% less than the average for the preceding six years, and the number of retirees and beneficiaries has climbed by over 19% in the last four years. The number of active participants does appear to be climbing again, however, after the significant decline in 2016-2017.

More detailed information for this valuation year and the preceding valuation can be found in *Section 3, Exhibits A, B, and C.*

Member Population: 2010 – 2019

Year Ended December 31	Active Members	Inactive Vested Members ¹	Retired Members and Beneficiaries	Total Non-Actives	Ratio of Non-Actives to Actives
2010	5,482	135	3,535	3,670	0.67
2011	5,376	128	3,669	3,797	0.71
2012	5,400	96	3,783	3,879	0.72
2013	5,397	122	3,890	4,012	0.74
2014	5,487	157	4,069	4,226	0.77
2015	5,415	200	4,230	4,430	0.82
2016	5,104	215	4,456	4,671	0.92
2017	4,952	226	4,756	4,982	1.01
2018	5,012	230	4,919	5,149	1.03
2019	5,121	242	5,039	5,281	1.03

¹ Excludes non-vested terminated members due a refund of employee contributions

Section 2: Actuarial Valuation Results

Active members

Plan costs are affected by the age, years of service and pay of active members. In this year's valuation, there were 5,121 active members with an average age of 39.8, average years of service of 12.3 years and average computation pay of \$77,515. The 5,012 active members in the prior valuation had an average age of 40.1, average service of 12.8 years and average computation pay of \$72,450.

The number of Firefighters increased from 1,996 to 2,013 as of December 31, 2019. The average age of this group is 39.6, the average years of service is 11.3 and the average computation pay is \$78,301. Last year these averages were 39.5, 11.9 and \$71,424, respectively.

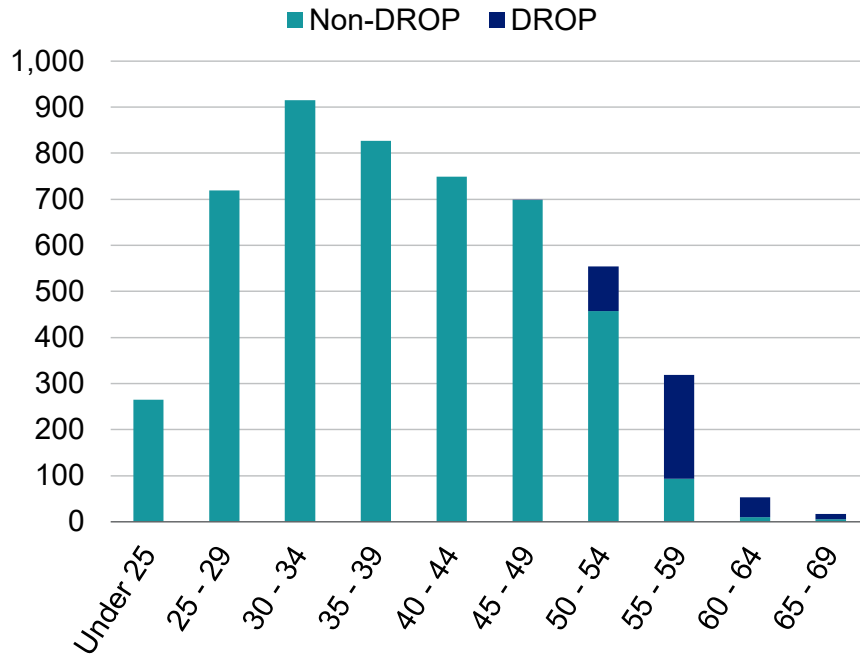
The number of Police Officers increased from 3,016 to 3,108 as of December 31, 2019. The average age of this group is 39.9, the average years of service is 12.2 and the average computation pay is \$77,006. Last year these average were 40.5, 13.3 and \$73,128, respectively.

The number of active participants in DROP decreased from 483 at the end of 2018 to 383 at the end of 2019.

Section 2: Actuarial Valuation Results

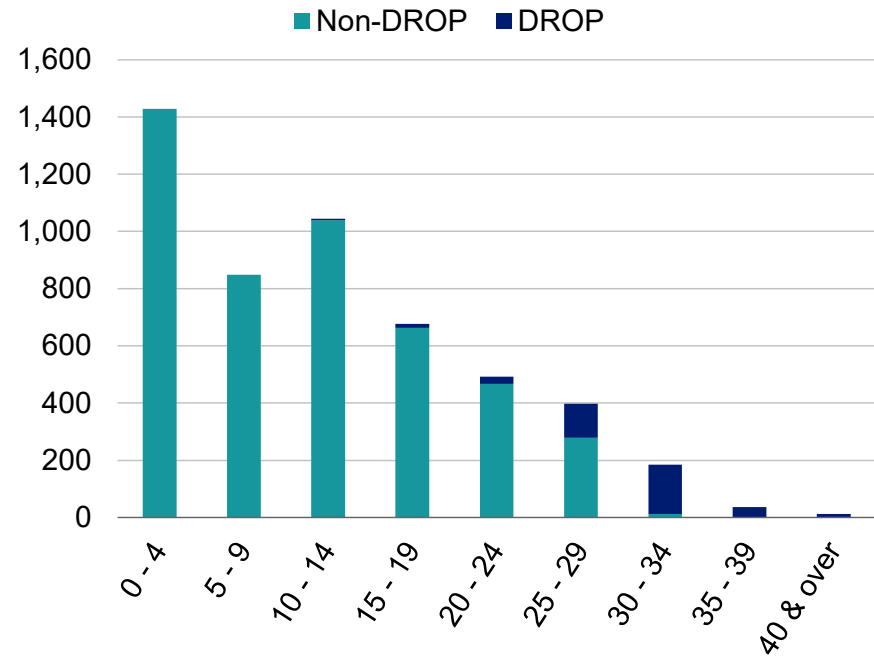
Distribution of Active Members as of December 31, 2019

Actives by Age



Average age	39.8
Prior year average age	40.1
Difference	-0.3

Actives by Years of Service



Average years of service	12.3
Prior year average years of service	12.8
Difference	-0.5

Inactive members

In this year's valuation, there were 242 members with a vested right to a deferred or immediate vested benefit. In addition, there were 434 members entitled to a return of their member contributions.

Section 2: Actuarial Valuation Results

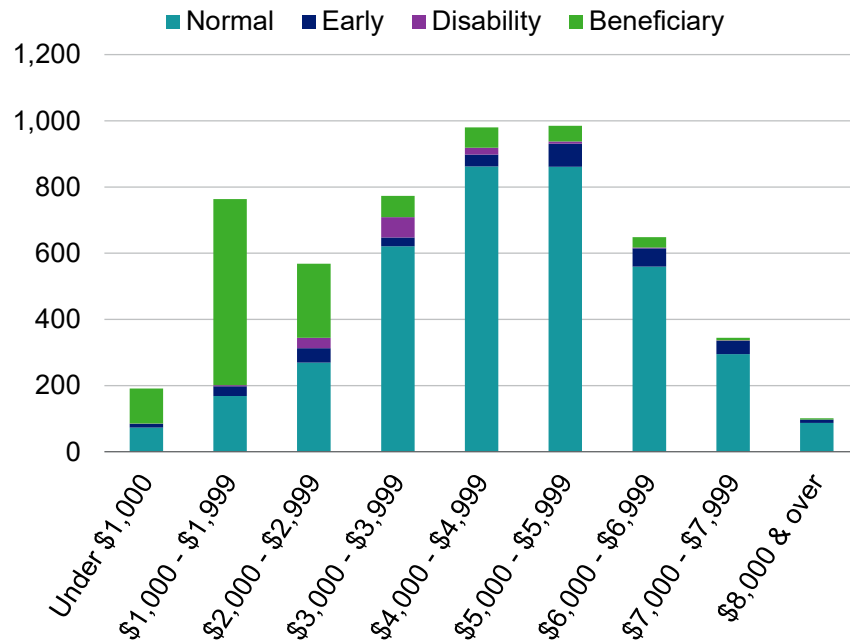
Retired members and beneficiaries

As of December 31, 2019, 3,803 retired members and 1,153 beneficiaries were receiving total monthly benefits of \$21,064,497. For comparison, in the previous valuation, there were 3,717 retired members and 1,132 beneficiaries receiving monthly benefits of \$20,449,452. These amounts do not include 83 beneficiaries with annuitized DROP accounts only and no lifetime annuity; there were 70 last year.

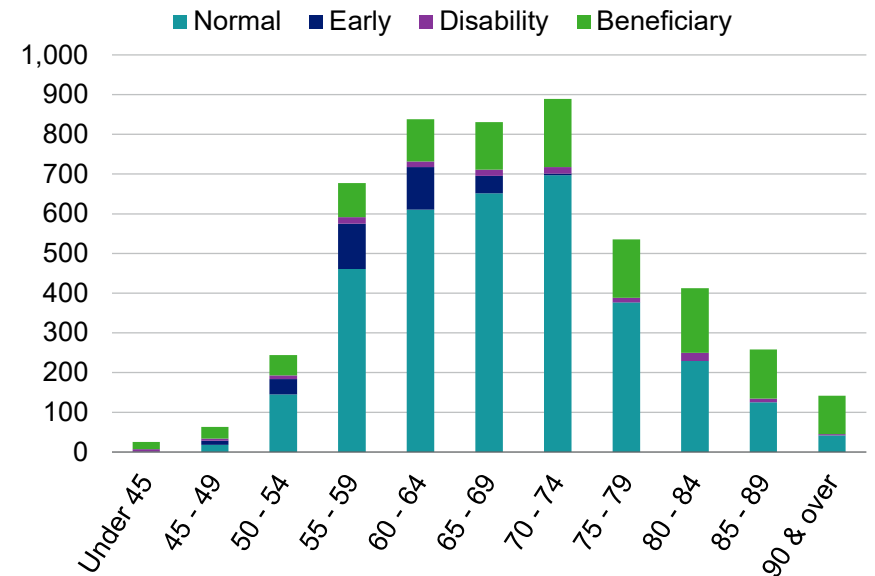
As of December 31, 2019, the average monthly benefit for retired members is \$4,250, compared to \$4,217 in the previous valuation. The average age for retired members is 68.7 in the current valuation, compared with 68.4 in the prior valuation.

Distribution of Pensioners as of December 31, 2019

Pensioners by Type and Monthly Amount



Pensioners by Type and Age



Section 2: Actuarial Valuation Results

Historical plan population

The chart below demonstrates the progression of the active population over the last ten years. The chart also shows the growth among the retired population over the same time period.

Member Data Statistics: 2010 – 2019

Year Ended December 31	Active Members			Retired Members and Beneficiaries ¹		
	Count	Average Age	Average Service	Count	Average Age ²	Average Monthly Amount ³
2010	5,482	41.1	14.4	3,535	--	\$3,251
2011	5,376	41.3	14.5	3,669	--	3,380
2012	5,400	41.3	14.5	3,783	--	3,429
2013	5,397	41.3	14.4	3,890	--	3,543
2014	5,487	41.2	14.2	4,069	68.8	3,699
2015	5,415	41.4	14.3	4,182	69.0	3,826
2016	5,104	41.4	13.0	4,414	68.7	4,102
2017	4,952	40.6	13.4	4,706	67.7	4,171
2018	5,012	40.1	12.8	4,849	68.4	4,217
2019	5,121	39.8	12.3	4,956	68.7	4,250

¹ Does not include DROP only beneficiaries

² Information for December 31, 2013 and earlier is not available.

³ Average benefits for December 31, 2013 and earlier include terminated vested members; average benefits for December 31, 2014 and later include the benefit supplement.

Section 2: Actuarial Valuation Results

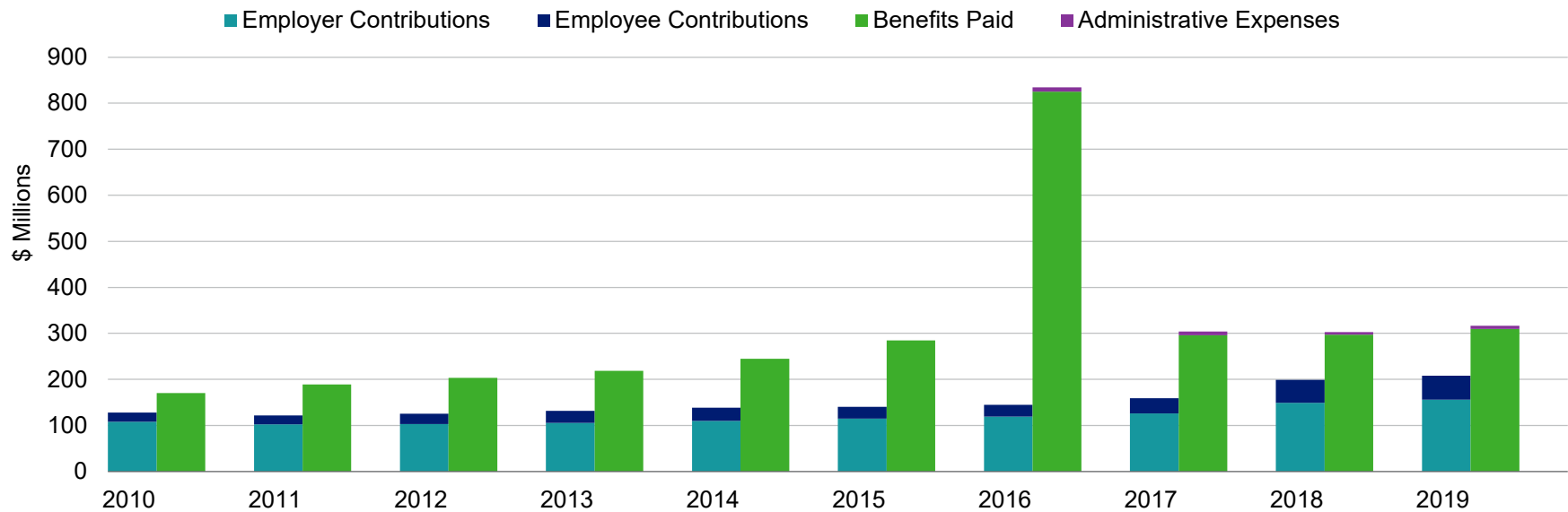
Financial information

Retirement plan funding anticipates that, over the long term, both contributions (less administrative expenses) and investment earnings (less investment fees) will be needed to cover benefit payments. Retirement plan assets change as a result of the net impact of these income and expense components.

Benefit payments in 2016 totaled \$825.1 million, of which \$606.3 million were DROP lump-sum payments. This was a one-time event, as members reacted to pending changes in the plan provisions. DROP balances have been annuitized, resulting in more stable projected benefit payment levels in the future.

Additional financial information, including a summary of transactions for the valuation year, is presented in *Section 3, Exhibits D, E and F*.

Comparison of Contributions Made with Benefits and Expenses Paid
for Years Ended December 31, 2010 – 2019



Section 2: Actuarial Valuation Results

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable. The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

Determination of Actuarial Value of Assets for Year Ended December 31, 2019

1	Market value of assets, December 31, 2019				\$2,057,857,317
2	Calculation of unrecognized return	Original Amount¹	Percent Deferred	Unrecognized Amount²	
	(a) Year ended December 31, 2019	-\$19,852,697	80%	-\$15,882,158	
	(b) Year ended December 31, 2018	-105,891,055	60%	-63,534,633	
	(c) Year ended December 31, 2017	-52,151,589	40%	-20,860,636	
	(d) Year ended December 31, 2016	-9,954,337	20%	-1,990,867	
	(e) Total unrecognized return				-\$102,268,294
3	Preliminary actuarial value: (1) - (2e)				2,160,125,611
4	Adjustment to be within 20% corridor				0
5	Final actuarial value of assets as of December 31, 2019: (3) + (4)				<u>2,160,125,611</u>
6	Actuarial value as a percentage of market value: (5) ÷ (1)				105.0%
7	Amount deferred for future recognition ³ : (1) - (5)				-\$102,268,294

¹ Total return minus expected return on a market value basis

² Percent deferred applies to the current valuation year

³ Deferred return as of December 31, 2019 recognized in each of the next four years:

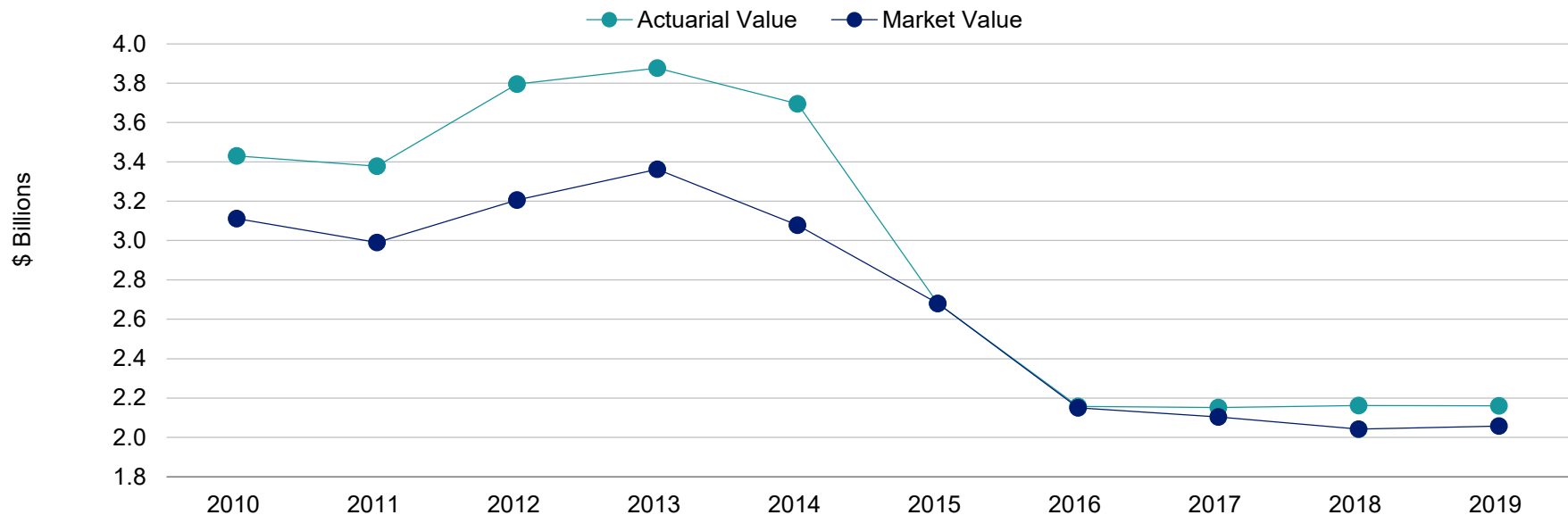
(a) Amount recognized on December 31, 2020	-\$37,569,935
(b) Amount recognized on December 31, 2021	-35,579,068
(c) Amount recognized on December 31, 2022	-25,148,751
(d) Amount recognized on December 31, 2023	-3,970,540

Section 2: Actuarial Valuation Results

Both the actuarial value and market value of assets are representations of the Plan's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the Plan's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

The decline in asset values from 2013 to 2015 was primarily the result of significant write-downs in the System's asset holdings. The decline from 2015 to 2016 reflects the unusually large number of DROP payments made in 2016.

Actuarial Value of Assets vs. Market Value of Assets as of December 31, 2010 – 2019



Section 2: Actuarial Valuation Results

Actuarial experience

To calculate any actuarially determined contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), any contribution requirement will decrease from the previous year. On the other hand, any contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss is \$59,891,559, which includes \$46,268,886 from investment losses and \$13,622,673 in net losses from all other sources. The net experience variation from individual sources other than investments was 0.3% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

Actuarial Experience for Year Ended December 31, 2019

1	Net loss from investments ¹	-\$46,268,886
2	Net gain from administrative expenses	2,127,930
3	Net loss from other experience	-15,750,603
4	Net experience loss: 1 + 2 + 3	-\$59,891,559

¹ Details on next page

Section 2: Actuarial Valuation Results

Investment experience

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Plan's investment policy. The rate of return on the market value of assets was 6.25% for the year ended December 31, 2019.

For valuation purposes, the assumed rate of return on the actuarial value of assets was 7.25% for the year ended December 31, 2019. The actual rate of return on an actuarial basis for the 2019 plan year was 5.05%. Since the actual return for the year was less than the assumed return, the Plan experienced an actuarial loss during the year ended December 31, 2019 with regard to its investments. The Board lowered the assumed rate of return from 7.25% to 7.00% for the plan year beginning January 1, 2020.

Investment Experience

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Market Value	Actuarial Value	Market Value	Actuarial Value
1 Net investment income	\$124,259,607	\$106,542,369	\$42,822,297	\$115,113,957
2 Average value of assets	1,987,755,920	2,107,741,452	2,051,218,652	2,098,912,524
3 Rate of return: 1 + 2	6.25%	5.05%	2.09%	5.48%
4 Assumed rate of return	7.25%	7.25%	7.25%	7.25%
5 Expected investment income: 2 x 4	144,112,304	152,811,255	148,713,352	152,171,158
6 Actuarial gain/(loss): 1 - 5	<u>-\$19,852,697</u>	<u>-\$46,268,886</u>	<u>-\$105,891,055</u>	<u>-\$37,057,201</u>

Section 2: Actuarial Valuation Results

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the actual market value investment return for the last 12 years, including averages over select time periods.

Investment Return – Actuarial Value vs. Market Value: 2008 - 2019

Year Ended December 31	Actuarial Value Investment Return		Market Value Investment Return	
	Amount ¹	Percent	Amount ²	Percent
2008	-\$199,538,242	-6.14%	-\$838,497,127	-24.80%
2009	371,704,709	12.29	347,054,071	13.78
2010	90,332,398	2.69	303,461,949	10.72
2011	14,561,313	0.43	-54,844,275	-1.78
2012	493,841,725	14.79	292,719,981	9.92
2013	169,425,156	4.52	243,514,011	7.70
2014	-75,632,075	-1.98	-176,940,296	-5.35
2015	-1,406,733,309	-24.03	-254,829,470	-8.47
2016	167,318,581	7.16	159,355,111	6.82
2017	138,187,578	6.63	98,457,176	4.74
2018	115,113,957	5.48	42,822,297	2.09
2019	106,542,369	5.05	124,259,607	6.25
Most recent five-year average return		-7.18%	1.48%	
Most recent ten-year average return		-0.67%	2.90%	
Most recent 12-year average return		-0.04%	0.88%	

Note: Each year's yield is weighted by the average asset value in that year.

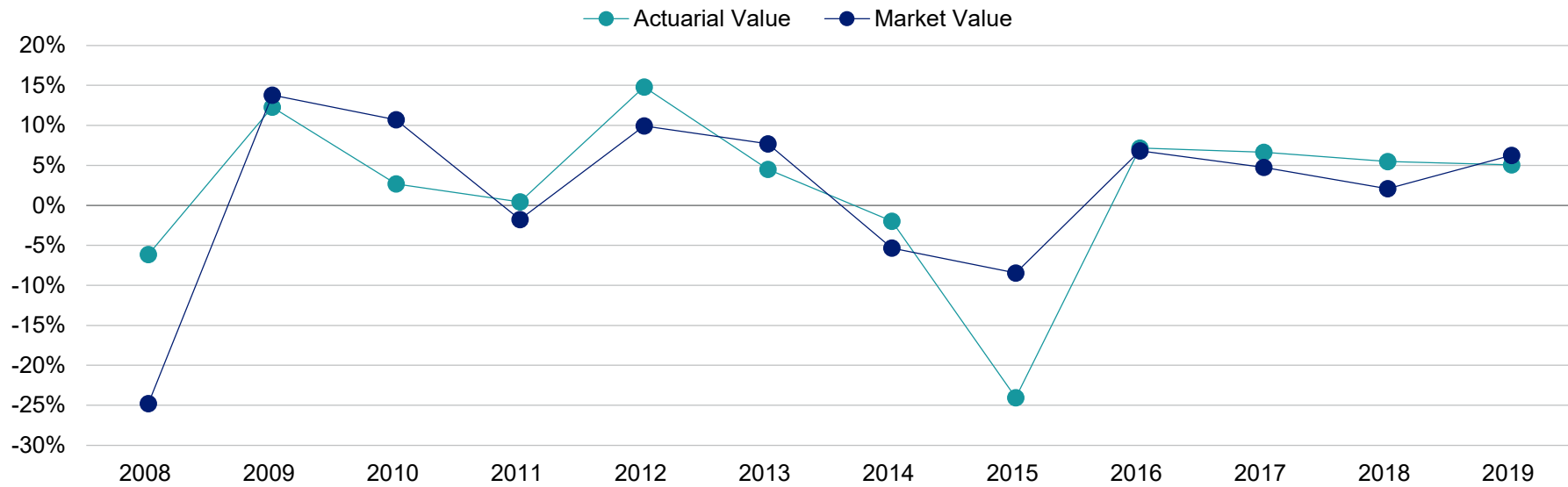
¹ Includes a change in asset method for plan years 2012 and 2015.

² Returns for years 2014 and 2015 include significant write-downs in the Plan's assets.

Section 2: Actuarial Valuation Results

As described earlier in this section, the actuarial asset valuation method gradually recognizes fluctuations in the market value rate of return. The goal of this is to stabilize the actuarial rate of return and to produce more level pension plan costs.

Market and Actuarial Rates of Return for Years Ended December 31, 2008 - 2019



Section 2: Actuarial Valuation Results

Non-investment experience

Administrative expenses

- Administrative expenses for the year ended December 31, 2019 totaled \$6,445,251, as compared to the assumption of \$8,500,000. This resulted in a gain of \$2,127,930 for the year, when adjusted for timing. Because it is expected that these expenses will increase, we have maintained the \$8,500,000 assumption for the current year.

Mortality experience

- Mortality experience (more or fewer than expected deaths) yields actuarial gains or losses.
- The average number of deaths for nondisabled pensioners over the past five years was 73.6 per year compared to 73.5 projected deaths per year. The assumed mortality table for that five-year period was the RP-2014 Blue Collar Healthy Annuitant Table, set forward two years for females. The assumption has been updated in this valuation to the Pub-2010 Public Safety Retiree Amount-Weighted Table, set back one year for females. The Pub-2010 family of tables were published by the Society of Actuaries in 2019, and the public sector tables are appropriate for the valuation of this plan.

Other experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among members,
- retirement experience (earlier or later than projected),
- the number of disability retirements (more or fewer than projected), and
- salary increases (greater or smaller than projected).

The net loss from this other experience for the year ended December 31, 2019 amounted to \$15,750,603, which is 0.3% of the actuarial accrued liability.

Section 2: Actuarial Valuation Results

Actuarial assumptions and methods

- The following actuarial assumptions were approved by the Board and changed with this valuation, following the completion of a five-year experience study for the period ended December 31, 2019:
 - The net investment return assumption was lowered from 7.25% to 7.00%
 - The salary scale assumption was updated based on the 2019 Meet and Confer agreement, with a new ultimate rate of 2.50%.
 - The payroll growth assumption was lowered from 2.75% to 2.50%.
 - The mortality rates were updated to the Pub-2010 Public Safety Amount-weighted Mortality Tables, with varying adjustments by status and sex, projected generationally with Scale MP-2019.
 - The withdrawal rates were updated and the ultimate 0% rate was moved up from 38 to 25 years of service.
 - The DROP retirement rates were increased at most ages and the ultimate 100% retirement was updated from the earlier of age 67 or 8 years in the DROP to the earlier of age 65 or 10 years in the DROP.
 - The non-DROP retirement rates were lowered at most ages and simplified from three sets to two sets of rates.
 - The retirement assumption for inactive vested participants was updated to include an assumption that 75% of those who terminate with a vested benefit prior to age 40 will take a cash out at age 40.
 - The DROP annuitization interest rate for account balances as of September 1, 2017 was lowered from 3.00% to 2.75%.
- Based on a projection of the System's funded ratio, taking into account 2020 data, new long-term assumptions, and the System's near-term asset expectations, the ad-hoc COLA assumption was updated to begin October 1, 2063. Last year, the COLA was assumed to begin October 1, 2050.
- The System's expectations for near-term market returns were lowered to -6.00% for 2020, +5.25% for 2021, +5.75% for 2022, and +6.25% for 2023. For valuation purposes, these return assumptions are used for determining the projected full-funding date and the projected COLA start date.
- These changes increased the actuarial accrued liability by 3.33% and increased the total normal cost by 6.08%.
- The Board adopted a new funding policy in December 2019 and it was amended in July 2020. In the Board's amended policy, the provisions of which are reflected for the first time in this valuation, the amortization period was changed from 30 years to a closed, 25-year period. Beginning in 2021, future gains or losses each year will be amortized over separate, closed, 20-year periods. Amortization will remain on a level percentage of pay basis. If the City's actual contributions differ from the actuarially determined contribution (ADC) by more than 2%, the Board can recommend a change in the City's contribution rate.
- Details on actuarial assumptions and methods are in Section 4, Exhibit I.

Section 2: Actuarial Valuation Results

Plan provisions

- There were no changes in plan provisions since the prior valuation.
- A summary of plan provisions is in Section 4, Exhibit II.

Section 2: Actuarial Valuation Results

Development of Unfunded Actuarial Accrued Liability for Year Ended December 31, 2019

1	Unfunded actuarial accrued liability at beginning of year	\$2,332,922,842
2	Normal cost at beginning of year	60,600,247
3	Total expected contributions	-207,989,380
4	Interest	
	• For whole year on 1 + 2	\$173,530,424
	• For full year on 3	<u>-7,451,364</u>
	Total interest	<u>166,079,060</u>
5	Expected unfunded actuarial accrued liability	\$2,351,612,769
6	Changes due to:	
	• Net experience loss	\$59,891,559
	• Assumptions	<u>152,342,541</u>
	Total changes	<u>212,234,100</u>
7	Unfunded actuarial accrued liability at end of year	<u>\$2,563,846,869</u>

Section 2: Actuarial Valuation Results

Actuarially determined contribution

The actuarially determined contribution is equal to the employer normal cost payment and a payment on the unfunded actuarial accrued liability. As of January 1, 2020, the actuarially determined contribution is \$185,428,764, or 46.71% of computation pay. The funding policy used to calculate the actuarially determined contribution as of January 1, 2020 is based on a closed amortization period of 25 years, established as of January 1, 2020. For prior years, including 2019, an open amortization period of 30 years was used. Amortization is on a level-percentage-of-pay basis.

Under the provisions of HB 3158, the City contributes mandated biweekly amounts through 2024 (but no less than 34.50% of computation pay), plus \$13 million per year. Beginning January 1, 2025, the City will contribute 34.50% of computation pay. The effective amortization period, based on the City's Hiring Plan payroll projections, is 55 years. This is a significant increase from last year's effective period of 38 years, primarily due to two factors: (1) the System's staff anticipates lower asset returns in the next few years than were assumed previously, including a -6.00% return for 2020, and (2) the actuarial assumptions have been updated.

The contribution requirement as of January 1, 2020 are based on the data previously described, the actuarial assumptions and Plan provisions described in *Section 4*, including all changes affecting future costs adopted at the time of the actuarial valuation, actuarial gains and losses, and changes in the actuarial assumptions.

Actuarially Determined Contribution for Year Beginning January 1

	2020		2019	
	Amount	% of Projected Pay	Amount	% of Projected Pay
1. Total normal cost	\$60,866,712	15.33%	\$52,392,570	14.43%
2. Administrative expenses	8,217,260	2.07%	8,207,677	2.26%
3. Expected member contributions	<u>-53,588,890</u>	<u>-13.50%</u>	<u>-49,020,851</u>	<u>-13.50%</u>
4. Employer normal cost: (1) + (2) + (3)	\$15,495,082	3.90%	\$11,579,396	3.19%
5. Actuarial accrued liability	\$4,723,972,480		\$4,494,822,504	
6. Actuarial value of assets	<u>2,160,125,611</u>		<u>2,161,899,662</u>	
7. Unfunded actuarial accrued liability: (5) - (6)	\$2,563,846,869		\$2,332,922,842	
8. Payment on unfunded actuarial accrued liability ¹	163,765,670	41.26%	135,274,585	37.25%
9. Adjustment for timing ²	6,168,012	1.55%	5,230,316	1.44%
10. Actuarially determined contribution: (4) + (8) + (9)	<u>\$185,428,764</u>	<u>46.71%</u>	<u>\$152,084,297</u>	<u>41.88%</u>
11. Total computation pay ³	\$396,954,743		\$363,117,415	

¹ The 2020 payment was calculated using a 25-year amortization period and the 2019 payment was calculated using a 30-year amortization period.

² Actuarially determined contributions are assumed to be paid at the middle of every year.

³ Total computation pay, or valuation pay, is the active members' actual payroll for the preceding year, increased by the salary scale applicable for each member to account for their anticipated salary increases in the upcoming year.

Section 2: Actuarial Valuation Results

Reconciliation of actuarially determined contribution

The chart below details the changes in the actuarially determined contribution from the prior valuation to the current year's valuation.

Reconciliation of Actuarially Determined Contribution from January 1, 2019 to January 1, 2020

	Amount
Actuarially Determined Contribution as of January 1, 2019	\$152,084,297
• Effect of expected change in amortization payment due to payroll growth	3,852,543
• Effect of maintaining 30-year amortization period under Board's prior funding policy	-2,463,749
• Effect of shortening amortization period from 30 years to 25 years under amended funding policy	15,441,508
• Effect of changes in actuarial assumptions, including COLA timing	12,369,202
• Effect of contributions more than actuarially determined contribution	-327,650
• Effect of investment loss	2,825,727
• Effect of other gains and losses on accrued liability	831,962
• Net effect of other changes, including composition and number of members	<u>\$814,924</u>
Total change	\$33,344,467
Actuarially Determined Contribution as of January 1, 2020	\$185,428,764

Section 2: Actuarial Valuation Results

History of employer contributions

A history of the most recent years of contributions is shown below.

History of Employer Contributions: 2016 – 2020

Fiscal Year Ended December 31	Actuarially Determined Employer Contribution (ADEC)		Actual Employer Contribution		Percent Contributed
	Amount	Percentage of Pay	Amount	Percentage of Pay	
2016	\$261,859,079	71.70%	\$119,423,106	32.70%	45.61%
2017	168,865,484	47.25%	126,318,005	35.34%	74.80%
2018	157,100,128	45.40%	149,356,565	43.16%	95.07%
2019	152,084,297	41.88%	155,721,087	42.88%	102.39%
2020	185,428,764	46.71%	N/A	N/A	N/A

Section 2: Actuarial Valuation Results

Risk

Since the actuarial valuation results are dependent on a given set of assumptions and data as of a specific date, there is a risk that emerging results may differ significantly as actual experience differs from the assumptions.

This report does not contain a detailed analysis of the potential range of future measurements, but does include a brief discussion of some risks that may affect the System. Upon request, a more detailed assessment can provide a better understanding of the risks inherent in the Plan. This assessment may include scenario testing, sensitivity testing, stress testing and stochastic modeling.

- **Investment Risk** (the risk that returns will be different than expected)

The System has experienced some of the challenges associated with investment risk, and has had to write down the value of its assets significantly in recent years. Recognized market returns have been well below the long-term assumption as the System rebalances the investment portfolio, and are expected to continue to be below average in the short-term.

The market value rate of return over the last ten years has ranged from a low of -8.47% to a high of 10.72%.

- **Contribution Risk** (the risk that actual contributions will be different from expected)

Plan contributions are set by statute. Periodic projections are prepared by the actuary to determine if expected statutory contributions are sufficient to fund the System and to ensure the payment of promised benefits.

Although State law establishes minimums on the City contributions through 2024, the contribution is scheduled to be a flat 34.50% of computation pay beginning in 2025. If the payroll growth matches the City's Hiring Plan projections, and if all other assumptions are met, the System is projected to be fully funded by 2075. The City's plan reflects significant growth in payroll over 20 years, from \$372 million in 2017 to \$684 million in 2037. The annual average growth in the City's Hiring Plan is 3.09%, compared to the valuation assumption of 2.50%. If payroll growth is more modest, or if there is adverse experience in the System that leads to losses, the period required to achieve 100% funding could be significantly longer.

Through the first four years of the policy (2017 through 2020), valuation payroll based on the participant data is cumulatively \$51.5 million less than the City's projections. Valuation payroll for 2020 is projected to exceed the City's payroll projection for the first time. If the City's Hiring Plan projections are not met and instead the current valuation payroll of \$397.0 million increases by the assumed payroll growth of 2.50% each year, and City and member contributions are based on this projected payroll beginning in 2025, the System is projected to be only 41% funded in 2075, rather than 100% funded.

- **Longevity Risk** (the risk that mortality experience will be different than expected)

The actuarial valuation includes an expectation of future improvement in life expectancy. Emerging plan experience that does not match these expectations will result in either an increase or decrease in the actuarially determined contribution.

Section 2: Actuarial Valuation Results

- **Demographic Risk** (the risk that participant experience will be different than assumed)

Examples of this risk include:

- Actual retirements occurring earlier or later than assumed. The value of retirement plan benefits is sensitive to the rate of benefit accruals and any early retirement subsidies that apply.
- More or less active participant turnover than assumed.

- **Actual Experience Over the Last Ten years and Implications for the Future**

Past experience can help demonstrate the sensitivity of key results to the Plan's actual experience. Over the past ten years:

- The annual market value investment experience has ranged from a loss of \$473 million (including write-downs) to a gain of \$63 million. If all investment returns were equal to the assumed rates of return over the last ten years, the market value of assets as of the current valuation date would be approximately \$4.5 billion as opposed to the actual value of \$2.1 billion.
- The funded percentage on the actuarial value of assets has ranged from a low of 45.1% to a high of 79.5% since 2011.

- **Maturity Measures**

As pension plans mature, the cash need to fulfill benefit obligations will increase over time. Therefore, cash flow projections and analysis should be performed to assure that the Plan's asset allocation is aligned to meet emerging pension liabilities.

Currently the Plan has a non-active to active participant ratio of 1.03. For the prior year benefits and administrative expenses paid were \$108.3 million more than contributions received. As the Plan matures, more cash will be needed from the investment portfolio to meet benefit payments.

Section 2: Actuarial Valuation Results

GFOA funded liability by type

The Actuarial Accrued Liability represents the present value of benefits earned, calculated using the plan's actuarial cost method. The Actuarial Value of Assets reflects the financial resources available to liquidate the liability. The portion of the liability covered by assets reflects the extent to which accumulated plan assets are sufficient to pay future benefits, and is shown for liabilities associated with employee contributions, pensioner liabilities, and other liabilities.

The Government Finance Officers Association (GFOA) recommends that the funding policy aim to achieve a funded ratio of 100%. As noted previously, the funding policy adopted by the State in HB 3158 meets this standard, with full funding projected in 2075, if the City's Hiring Plan payroll projections come to fruition. City and member contributions as well as investment returns will be necessary to increase the assets sufficiently to cover the System's liabilities.

GFOA Solvency Test as of December 31

	2020	2019
Actuarial accrued liability (AAL)		
• Active member contributions	\$317,953,770	\$292,370,335
• Retirees and beneficiaries	3,268,076,451	3,098,053,613
• Active and inactive members (employer-financed)	<u>1,137,942,259</u>	<u>1,104,398,556</u>
Total	\$4,723,972,480	\$4,494,822,504
Actuarial value of assets	\$2,160,125,611	\$2,161,899,662
Cumulative portion of AAL covered		
• Active member contributions	100.00%	100.00%
• Retirees and beneficiaries	56.37%	60.35%
• Active and inactive members (employer-financed)	0.00%	0.00%

Section 2: Actuarial Valuation Results

Actuarial balance sheet

An overview of the Plan's funding is given by an Actuarial Balance Sheet. In this approach, first the amount and timing of all future payments that will be made by the Plan for current members is determined. Then these payments are discounted at the valuation interest rate to the date of the valuation, thereby determining the present value, referred to as the "liability" of the Plan.

Second, this liability is compared to the assets. The "assets" for this purpose include the net amount of assets already accumulated by the Plan, the present value of future member contributions, the present value of future employer normal cost contributions, and the present value of future employer amortization payments for the unfunded actuarial accrued liability.

Actuarial Balance Sheet

	Year Ended	
	December 31, 2019	December 31, 2018
Liabilities		
• Present value of benefits for retired members and beneficiaries (non-DROP)	\$2,387,770,133	\$2,269,533,590
• Present value of benefits for retired members and beneficiaries (DROP)	880,306,318	828,520,023
• Present value of benefits for inactive vested members	33,507,968	31,429,840
• Present value of benefits for active members	<u>1,964,594,153</u>	<u>1,805,794,095</u>
Total liabilities	\$5,266,178,572	\$4,935,277,548
Assets		
• Total valuation value of assets	\$2,160,125,611	\$2,161,899,662
• Present value of future contributions by members	490,778,245	408,403,137
• Present value of future employer contributions for:		
• Entry age cost	51,427,847	32,051,907
• Unfunded actuarial accrued liability	<u>2,563,846,869</u>	<u>2,332,922,842</u>
Total of current and future assets	<u>\$5,266,178,572</u>	<u>\$4,935,277,548</u>

Supplemental Information

Exhibit A: Table of Plan Coverage

Category	Year Ended December 31		Change From Prior Year
	2019	2018	
Active members in valuation:			
• Number	5,121	5,012	2.2%
• Average age	39.8	40.1	-0.3
• Average years of service	12.3	12.8	-0.5
• Total computation pay	\$396,954,743	\$363,117,415	9.3%
• Average computation pay	77,515	72,450	7.0%
• Accumulated contribution balances	317,953,770	292,370,335	8.8%
• Total active vested members	3,692	3,677	0.4%
Active members (excluding DROP):			
• Number	4,738	4,529	4.6%
• Average age	38.4	38.3	0.1
• Average years of service	10.9	10.9	0.0
• Total computation pay	\$361,290,222	\$319,138,812	13.2%
• Average computation pay	76,254	70,476	8.2%
Active members (DROP only):			
• Number	383	483	-20.7%
• Average age	57.3	56.8	0.5
• Average years of service	30.6	30.1	0.5
• Total computation pay	\$35,664,520	\$43,933,603	-18.8%
• Average computation pay	93,119	90,960	2.4%
• DROP account balances	154,232,068	192,374,548	-19.8%
Inactive vested members			
• Number	242	230	5.2%
• Average age	40.8	40.6	0.2
• Average monthly benefit	\$1,232	\$1,247	-1.2%
Terminated members due a refund of contributions:			
• Number	434	431	0.7%
• Accumulated contribution balance	\$1,408,491	\$1,422,084	-1.0%

Section 3: Supplemental Information

Retired members:			
• Number in pay status	3,676	3,583	2.6%
• Average age	67.4	67.2	0.2
• Average monthly benefit	\$4,886	\$4,862	0.5%
Disabled members:			
• Number in pay status	127	134	-5.2%
• Average age	68.1	67.6	0.5
• Average monthly benefit	\$3,605	\$3,591	0.4%
Beneficiaries:			
• Number in pay status	1,153	1,132	1.9%
• Average age	72.9	72.4	0.5
• Average monthly benefit	\$2,294	\$2,250	2.0%
Beneficiaries with DROP only:			
• Number	83	70	18.6%

Section 3: Supplemental Information

Exhibit B-1: Total Members in Active Service as of December 31, 2019 by Age, Years of Service, and Average Pay

Age	Years of Service									
	Total	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 & over
Under 25	265	265	--	--	--	--	--	--	--	--
	\$59,695	\$59,695	--	--	--	--	--	--	--	--
25 - 29	719	608	111	--	--	--	--	--	--	--
	62,826	62,062	\$67,012	--	--	--	--	--	--	--
30 - 34	915	373	375	167	--	--	--	--	--	--
	67,781	61,641	69,750	\$77,074	--	--	--	--	--	--
35 - 39	827	133	216	414	64	--	--	--	--	--
	74,097	61,553	70,329	77,839	\$88,674	--	--	--	--	--
40 - 44	749	38	100	265	263	83	--	--	--	--
	83,071	57,986	69,631	79,321	91,708	\$95,355	--	--	--	--
45 - 49	699	10	28	138	210	258	83	--	--	--
	90,175	81,104	70,373	77,523	90,732	96,961	\$95,335	--	--	--
50 - 54	554	1	13	36	95	118	258	55	--	--
	91,265	63,463	69,725	78,022	90,207	93,633	96,961	\$85,160	--	--
55 - 59	319	2	4	16	37	28	95	117	20	--
	93,847	75,130	74,940	77,463	89,074	92,517	96,147	96,029	\$99,617	--
60 - 64	53	--	2	1	7	5	11	11	13	3
	91,582	--	70,467	74,694	88,699	97,970	91,987	92,660	95,031	\$86,984
65 - 69	17	--	--	6	--	--	1	1	3	6
	93,233	--	--	84,418	--	--	85,428	93,472	103,015	98,418
70 & over	4	--	--	--	--	--	--	--	--	4
	119,404	--	--	--	--	--	--	--	--	119,403
Total	5,121	1,430	849	1,043	676	492	398	184	36	13
	\$77,515	\$61,510	\$69,572	\$78,087	\$90,731	\$95,646	\$95,966	\$92,565	\$98,244	\$102,236

Section 3: Supplemental Information

Exhibit B-2: Police Members in Active Service as of December 31, 2019 by Age, Years of Service, and Average Pay

Age	Years of Service									
	Total	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 & over
Under 25	194	194	--	--	--	--	--	--	--	--
	\$59,374	\$59,374	--	--	--	--	--	--	--	--
25 - 29	430	347	83	--	--	--	--	--	--	--
	62,813	61,912	\$66,578	--	--	--	--	--	--	--
30 - 34	497	157	228	112	--	--	--	--	--	--
	67,700	60,880	68,287	\$75,852	--	--	--	--	--	--
35 - 39	491	60	101	279	51	--	--	--	--	--
	74,183	59,637	68,287	76,840	\$88,439	--	--	--	--	--
40 - 44	435	30	49	165	144	47	--	--	--	--
	81,161	58,121	68,494	78,229	89,655	\$93,340	--	--	--	--
45 - 49	456	7	22	102	128	159	38	--	--	--
	88,443	88,055	70,317	76,822	89,198	95,475	\$98,238	--	--	--
50 - 54	389	--	11	30	63	71	183	31	--	--
	90,183	--	70,398	76,579	89,129	92,483	94,407	\$82,304	--	--
55 - 59	174	--	2	12	21	19	56	58	6	--
	92,738	--	82,086	75,356	87,516	91,913	96,507	94,385	\$100,847	--
60 - 64	32	--	1	1	6	4	7	9	4	--
	91,947	--	73,055	74,694	89,615	94,384	92,370	92,711	99,586	--
65 - 69	9	--	--	4	--	--	--	--	2	3
	90,781	--	--	85,629	--	--	--	--	93,295	\$95,973
70 & over	1	--	--	--	--	--	--	--	--	1
	123,319	--	--	--	--	--	--	--	--	123,319
Total	3,108	795	497	705	413	300	284	98	12	4
	\$77,006	\$61,004	\$68,272	\$77,016	\$89,174	\$94,192	\$95,284	\$90,410	\$99,168	\$102,810

Section 3: Supplemental Information

Exhibit B-3: Fire Members in Active Service as of December 31, 2019 by Age, Years of Service, and Average Pay

Age	Years of Service									
	Total	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 & over
Under 25	71	71	--	--	--	--	--	--	--	--
	\$60,571	\$60,571	--	--	--	--	--	--	--	--
25 - 29	289	261	28	--	--	--	--	--	--	--
	62,847	62,262	\$68,300	--	--	--	--	--	--	--
30 - 34	418	216	147	55	--	--	--	--	--	--
	67,877	62,193	71,856	\$79,562	--	--	--	--	--	--
35 - 39	336	73	115	135	13	--	--	--	--	--
	67,877	63,128	72,122	79,905	\$89,594	--	--	--	--	--
40 - 44	314	8	51	100	119	36	--	--	--	--
	73,971	57,480	70,724	81,123	94,192	\$97,939	--	--	--	--
45 - 49	243	3	6	36	82	99	17	--	--	--
	85,712	64,885	70,578	79,508	93,126	99,349	\$102,961	--	--	--
50 - 54	165	1	2	6	32	47	53	24	--	--
	93,427	63,463	66,024	85,237	92,329	95,370	98,177	\$88,849	--	--
55 - 59	145	2	2	4	16	9	39	59	14	--
	93,816	75,130	67,793	83,782	91,119	93,793	95,630	97,644	\$99,090	--
60 - 64	21	--	1	--	1	1	4	2	9	3
	95,178	--	67,878	--	83,205	112,314	91,318	92,429	93,007	\$86,984
65 - 69	8	--	--	2	--	--	1	1	1	3
	91,26	--	--	81,995	--	--	85,428	93,472	122,455	100,862
70 & over	3	--	--	--	--	--	--	--	--	3
	95,991	--	--	--	--	--	--	--	--	118,098
Total	2,013	635	352	338	263	192	114	86	24	9
	\$78,301	\$62,144	\$71,407	\$80,320	\$93,177	\$97,918	\$97,666	\$95,020	\$97,782	\$101,981

Section 3: Supplemental Information

Exhibit C: Reconciliation of Member Data

	Active Members	Inactive Vested Members ¹	Disableds	Retired Members	Beneficiaries ²	Total
Number as of January 1, 2019	5,012	230	134	3,583	1,132	10,091
• New members	396	N/A	N/A	N/A	N/A	396
• Terminations – with vested rights	-38	38	0	0	0	0
• Terminations – without vested rights	-18	N/A	N/A	N/A	N/A	-18
• Retirements	-158	-10	N/A	168	N/A	0
• New disabilities	0	0	0	N/A	N/A	0
• Return to work	4	-4	0	0	N/A	0
• Deceased	-6	0	-7	-75	-44	-132
• New beneficiaries	N/A	N/A	N/A	N/A	70	70
• Lump sum payouts ³	-71	-12	0	0	0	-83
• Certain period expired	<u>N/A</u>	<u>N/A</u>	<u>0</u>	<u>0</u>	<u>-5</u>	<u>-5</u>
Number as of January 1, 2020	5,121	242	127	3,676	1,153	10,319

¹ Excludes terminated members due a refund of contributions.

² Excludes beneficiaries with a DROP only.

³ Members who terminated and requested a refund of member contributions.

Section 3: Supplemental Information

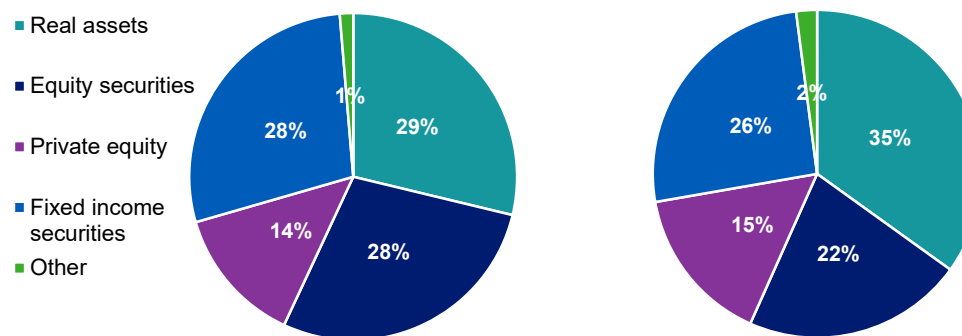
Exhibit D: Summary Statement of Income and Expenses on a Market Value Basis

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net assets at market value at the beginning of the year	\$2,041,914,130	\$2,103,345,471
Contribution income:		
• Employer contributions	\$155,721,087	\$149,356,565
• Member contributions	52,268,293	49,332,262
• Less administrative expenses	<u>-6,445,251</u>	<u>-5,861,410</u>
<i>Net contribution income</i>	<i>\$201,544,129</i>	<i>\$192,827,417</i>
Investment income:		
• Interest, dividends and other income	\$38,127,259	\$45,250,992
• Recognition of capital appreciation	94,213,367	5,588,891
• Less investment fees	<u>-8,081,019</u>	<u>-8,017,586</u>
<i>Net investment income</i>	<i><u>\$124,259,607</u></i>	<i><u>\$42,822,297</u></i>
Total income available for benefits	\$325,803,736	\$235,649,714
Less benefit payments:		
• Benefit Payments	-\$307,243,319	-\$294,447,006
• Refunds	<u>-2,617,230</u>	<u>-2,634,049</u>
<i>Net benefit payments</i>	<i>-\$309,860,549</i>	<i>-\$297,081,055</i>
Change in market value of assets	\$15,943,187	-\$61,431,341
Net assets at market value at the end of the year	\$2,057,857,317	\$2,041,914,130

Section 3: Supplemental Information

Exhibit E: Summary Statement of Plan Assets

	December 31, 2019	December 31, 2018
Cash equivalents and prepaid expenses	\$89,113,933	\$50,053,963
Invested securities lending collateral	12,916,355	20,376,453
Capital assets	12,225,827	12,377,791
Total accounts receivable	60,827,238	42,282,571
Investments:		
• Real assets	\$562,450,805	\$695,162,373
• Fixed income securities	550,746,613	511,184,404
• Equity securities	550,594,317	432,055,193
• Private equity	265,352,308	310,090,215
• Other	<u>25,746,727</u>	<u>40,680,894</u>
Total investments at market value	\$1,954,890,770	\$1,989,173,079
Total assets	\$2,129,974,123	\$2,114,263,857
Total accounts payable	-72,116,806	-72,349,727
Net assets at market value	\$2,057,857,317	\$2,041,914,130
Net assets at actuarial value	\$2,160,125,611	\$2,161,899,662



Section 3: Supplemental Information

Exhibit F: Development of the Fund through December 31, 2019

Year Ended December 31	Employer Contributions	Member Contributions	Net Investment Return ¹	Admin. Expenses ²	Benefit Payments	Market Value of Assets at Year-End	Actuarial Value of Assets at Year-End	Actuarial Value as a Percent of Market Value
2010	\$108,060,956	\$19,790,189	\$303,461,949	\$0	\$170,272,496	\$3,112,686,542	\$3,430,818,823	110.2%
2011	102,437,115	19,493,460	-54,844,275	0	188,829,489	2,990,943,353	3,378,481,222	113.0%
2012	103,310,264	22,490,884	292,719,981	0	203,099,511	3,206,364,971	3,795,024,584	118.4%
2013	105,711,435	26,044,579	243,514,011	0	218,884,493	3,362,750,503	3,877,321,261	115.3%
2014	109,791,512	28,969,429	-176,940,296	0	245,176,251	3,079,394,897	3,695,273,876	120.0%
2015	114,885,723	25,676,327	-254,829,470	0	285,003,174	2,680,124,303	2,680,124,303	100.0%
2016 ³	119,423,106	25,518,317	159,355,111	9,492,445	825,092,132	2,149,836,260	2,157,799,730	100.4%
2017	126,318,005	32,977,425	98,457,176	8,089,584	296,153,811	2,103,345,471	2,151,039,343	102.3%
2018	149,356,565	49,332,262	42,822,297	5,861,410	297,081,055	2,041,914,130	2,161,899,662	105.9%
2019	155,721,087	52,268,293	124,259,607	6,445,251	309,860,549	2,057,857,317	2,160,125,611	105.0%

¹ On a market basis, net of investment fees and administrative expenses

² Administrative expenses were subtracted from net investment return prior to the 2016 valuation.

³ Unaudited assets were used for the January 1, 2017 actuarial valuation. When the audited financial statements were completed, there were updates to the employer contributions and investment return amounts, resulting in a revision to the market value of assets. Thus, the amounts shown above as of December 31, 2016 differ from the System's and City's Comprehensive Annual Financial Reports. The difference are immaterial to the System's actuarial results.

Section 3: Supplemental Information

Exhibit G: Definition of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Actuarial Accrued Liability for Actives:	The equivalent of the accumulated normal costs allocated to the years before the valuation date.
Actuarial Accrued Liability for Pensioners and Beneficiaries:	Actuarial Present Value of lifetime benefits to existing pensioners and beneficiaries. This sum takes account of life expectancies appropriate to the ages of the annuitants and the interest that the sum is expected to earn before it is entirely paid out in benefits.
Actuarial Cost Method:	A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the actuarially determined contribution.
Actuarial Gain or Loss:	A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., assets earn more than projected, salary increases are less than assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results yield actuarial liabilities that are larger than projected.
Actuarially Equivalent:	Of equal Actuarial Present Value, determined as of a given date and based on a given set of Actuarial Assumptions.
Actuarial Present Value (APV):	<p>The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is:</p> <ul style="list-style-type: none">Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)Multiplied by the probability of the occurrence of an event (such as survival, death, disability, withdrawal, etc.) on which the payment is conditioned, andDiscounted according to an assumed rate (or rates) of return to reflect the time value of money.

Section 3: Supplemental Information

Actuarial Present Value of Future Benefits:	The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund of member contributions or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.
Actuarial Valuation:	The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan, as well as Actuarially Determined Contributions.
Actuarial Value of Assets (AVA):	The value of the Plan's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly plans use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the Actuarially Determined Contribution.
Actuarially Determined:	Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the Plan.
Actuarially Determined Contribution (ADC):	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under the Plan's funding policy. The ADC consists of the Employer Normal Cost and the Amortization Payment.
Amortization Method:	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the Amortization Payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.
Amortization Payment:	The portion of the pension plan contribution, or ADC, that is intended to pay off the Unfunded Actuarial Accrued Liability.

Section 3: Supplemental Information

Assumptions or Actuarial Assumptions:	The estimates upon which the cost of the Plan is calculated, including: <u>Investment return</u> - the rate of investment yield that the Plan will earn over the long-term future; <u>Mortality rates</u> - the rate or probability of death at a given age for employees and pensioners; <u>Retirement rates</u> - the rate or probability of retirement at a given age or service; <u>Disability rates</u> - the rate or probability of disability retirement at a given age; <u>Withdrawal rates</u> - the rate or probability at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement; <u>Salary increase rates</u> - the rates of salary increase due to inflation, real wage growth and merit and promotion increases.
Closed Amortization Period:	A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 20 years, it is 19 years at the end of one year, 18 years at the end of two years, etc. See Open Amortization Period.
Decrements:	Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or withdrawal.
Defined Benefit Plan:	A retirement plan in which benefits are defined by a formula based on the member's compensation, age and/or years of service.
Defined Contribution Plan:	A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.
Employer Normal Cost:	The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.
Experience Study:	A periodic review and analysis of the actual experience of the Plan that may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified based on recommendations from the Actuary.
Funded Ratio:	The ratio of the Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL). Plans sometimes also calculate a market funded ratio, using the Market Value of Assets (MVA), rather than the AVA.

Section 3: Supplemental Information

GASB 67 and GASB 68:	Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 68 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 67 sets the rules for the systems themselves.
Investment Return:	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.
Net Pension Liability (NPL):	The Net Pension Liability is equal to the Total Pension Liability minus the Plan Fiduciary Net Position.
Normal Cost:	The portion of the Actuarial Present Value of Future Benefits and expenses allocated to a valuation year by the Actuarial Cost Method. Any payment with respect to an Unfunded Actuarial Accrued Liability is not part of the Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of member contributions and employer Normal Cost unless otherwise specifically stated.
Open Amortization Period:	An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in each future year in determining the Amortization Period.
Plan Fiduciary Net Position:	Market value of assets.
Total Pension Liability (TPL):	The actuarial accrued liability under the entry age normal cost method and based on the blended discount rate as described in GASB 67 and 68.
Unfunded Actuarial Accrued Liability:	The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative, in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus or an Overfunded Actuarial Accrued Liability.
Valuation Date or Actuarial Valuation Date:	The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

Actuarial Valuation Basis

Exhibit I: Actuarial Assumptions, Actuarial Cost Method and Models

Rationale for Assumptions:	The information and analysis used by the Board in selecting each assumption that has a significant effect on this actuarial valuation is shown in the Experience Study Report for the five-year period ended December 31, 2019.																		
Net Investment Return:	7.00% The net investment return assumption was chosen by the System's Board of Trustees, with input from the actuary. This assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the System's target asset allocation.																		
Salary Scale:	<table border="1"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="3">Rate (%)</th> </tr> <tr> <th>Officers</th> <th>Corporals, Drivers, Senior Officers & Chiefs</th> <th>Sergeants, Lieutenants, Captains, Majors, Deputy Chiefs & Assistant Chiefs</th> </tr> </thead> <tbody> <tr> <td>2020 – 2022</td> <td>3.25</td> <td>3.00</td> <td>2.50</td> </tr> <tr> <td>2023+</td> <td>2.50</td> <td>2.50</td> <td>2.50</td> </tr> </tbody> </table> <p>The salary scale assumption is based on the City's pay plan, along with analysis completed in conjunction with an Experience Study Report for the five-year period ended December 31, 2019 and the 2019 Meet and Confer Agreement.</p>				Year	Rate (%)			Officers	Corporals, Drivers, Senior Officers & Chiefs	Sergeants, Lieutenants, Captains, Majors, Deputy Chiefs & Assistant Chiefs	2020 – 2022	3.25	3.00	2.50	2023+	2.50	2.50	2.50
Year	Rate (%)																		
	Officers	Corporals, Drivers, Senior Officers & Chiefs	Sergeants, Lieutenants, Captains, Majors, Deputy Chiefs & Assistant Chiefs																
2020 – 2022	3.25	3.00	2.50																
2023+	2.50	2.50	2.50																
Payroll Growth:	2.50%, used to amortize the unfunded actuarial accrued liability as a level percentage of payroll.																		
Cost-of-Living Adjustments:	<p><i>Prior to October 1, 2063: 0.00%</i> <i>Beginning October 1, 2063: 2.00%, on original benefit</i></p> <p>The assumption for the year the COLA begins will be updated on an annual basis and set equal to the year the System is projected to be 70% funded on a market value basis after the COLA is reflected.</p>																		

Section 4: Actuarial Valuation Basis

Funding Projections:

Payroll Growth:

For purposes of projecting the System's funded status to project when the System will reach 70% funded on a market value basis (and therefore meet COLA requirements), City contributions beginning January 1, 2025 are assumed to be 34.50% of the City's Hiring Plan projections. Beginning in 2038, after the end of the City's Hiring Plan projection, payroll is assumed to increase by 2.50%.

City's Hiring Plan Payroll Projection (in millions)

Year	Payroll	Year	Payroll
2017	\$372	2028	\$525
2018	364	2029	545
2019	383	2030	565
2020	396	2031	581
2021	408	2032	597
2022	422	2033	614
2023	438	2034	631
2024	454	2035	648
2025	471	2036	666
2026	488	2037	684
2027	507		

Market Value Asset Returns: -6.00% in 2020, 5.25% in 2021, 5.75% in 2022, 6.25% in 2023, and 7.00% annually thereafter

Administrative Expenses:

\$8,500,000 per year, payable monthly (equivalent to \$8,207,677 at the beginning of the year) or 1% of computation pay, if greater

Section 4: Actuarial Valuation Basis

Mortality Rates:

Healthy pre-retirement: Pub-2010 Public Safety Employee Amount-Weighted Mortality Table, set forward five years for males, projected generationally using Scale MP-2019

Healthy annuitants and dependent spouses: Pub-2010 Public Safety Retiree Amount-Weighted Mortality Table, set back one year for females, projected generationally using Scale MP-2019

Healthy contingent beneficiaries: Pub-2010 Public Safety Contingent Survivor Amount-Weighted Mortality Table, set back one year for females, projected generationally using Scale MP-2019

Disabled annuitants: Pub-2010 Public Safety Disabled Retiree Amount-Weighted Mortality Table, set forward four years for males and females, projected generationally using Scale MP-2019

The tables above, with adjustments as shown and projected to the measurement date, reasonably reflect the mortality experience of the System as of the measurement date. The mortality tables are then generationally projected using Scale MP-2019 to anticipate future mortality improvement.

Annuitant Mortality Rates:

Age	Rate (%) ¹			
	Healthy		Disabled	
	Male	Female	Male	Female
55	0.306	0.231	0.670	0.643
60	0.508	0.399	1.078	0.976
65	0.881	0.690	1.732	1.481
70	1.568	1.191	2.893	2.248
75	2.826	2.057	5.057	3.552
80	5.103	3.552	8.308	6.134
85	9.135	6.134	14.238	10.592
90	15.860	10.592	22.306	17.403

¹ Mortality rates shown for base table.

Section 4: Actuarial Valuation Basis

Mortality and Disability Rates Before Retirement:

Age	Rate (%)			
	Mortality ¹		Disabled ²	
	Male	Female	Male	Female
20	0.037	0.016	0.010	0.010
25	0.041	0.020	0.015	0.015
30	0.047	0.027	0.020	0.020
35	0.059	0.036	0.025	0.025
40	0.082	0.049	0.030	0.030
45	0.120	0.067	0.035	0.035
50	0.175	0.091	0.040	0.040
55	0.264	0.123	--	--
60	0.410	0.168	--	--

¹ Mortality rates shown for base table

² 100% of disabilities are assumed to be service-related

Section 4: Actuarial Valuation Basis

Withdrawal Rates Before Retirement:

Years of Service	Rate (%)	
	Police	Fire
0	20.0	10.0
1	5.5	5.5
2	5.5	5.5
3	5.5	5.5
4	5.5	5.5
5	5.5	5.5
6	3.5	5.5
7	3.5	1.0
8	3.5	1.0
9	3.5	1.0
10	3.5	1.0
11-14	2.0	1.0
15-24	1.0	1.0
25 & over	0.0	0.0

Section 4: Actuarial Valuation Basis

Retirement Rates:

DROP Active Members

Age	Rate (%)	
	Police	Fire
Under 50	1.00	0.75
50	10.00	0.75
51	15.00	0.75
52-53	15.00	10.00
54	25.00	10.00
55-57	25.00	15.00
58-62	30.00	40.00
63	40.00	50.00
64	50.00	50.00
65 & over	100.00	100.00

100% retirement rate after ten years in DROP.

Section 4: Actuarial Valuation Basis

Retirement Rates (continued):

Non-DROP Active Members

Age	Rate (%)	
	Member hired prior to March 1, 2011 with at least 20 years of service as of September 1, 2017	Member hired prior to March 1, 2011 with less than 20 years of service as of September 1, 2017 & Members hired on or after March 1, 2011
Under 50	1.0	1.0
50-51	8.0	2.0
52	10.0	2.0
53	15.0	2.0
54	20.0	2.0
55	35.0	2.0
56-57	40.0	2.0
58-60	75.0	25.0
61	75.0	50.0
62	100.0	100.0

100% retirement rate once benefit multiplier hits 90% maximum.

Weighted Average Retirement Age:

Age 58, determined as follows: The weighted average retirement age for each participant is calculated as the sum of the product of each potential current or future retirement age times the probability of surviving from current age to that age and then retiring at that age, assuming no other decrements. The overall weighted retirement age is the average of the individual retirement ages based on all the active participants included in the January 1, 2020 actuarial valuation.

Retirement Rates for Inactive Vested Participants:

Terminated vested members who terminated prior to September 1, 2017 are assumed to retire at age 50
 Terminated vested members who terminated on or after September 1, 2017 are assumed to retire at age 58
 75% of members who terminated prior to age 40 are assumed to take a lump sum cash out at age 40

DROP Utilization:

No members are assumed to elect to enter the DROP

Interest on DROP Accounts:

2.75% on account balances as of September 1, 2017, payable upon retirement
 0.00% on account balances accrued after September 1, 2017

DROP Payment Period:

Based on expected lifetime as of the later of September 1, 2017 or retirement date. Expected lifetime determined based on an 85% male/15% female blend of the current healthy annuitant mortality tables.

Section 4: Actuarial Valuation Basis

DROP Annuitization Interest:	2.75%. Based on United States Department of Commerce Daily Treasury Yield Curve Rates for durations between 5 and 30 years.
Actuarial Equivalence:	Actuarial equivalence for optional forms of benefit payments are based on an 85% male/15% female blend of the current healthy annuitant mortality tables, along with an interest rate of 7.00%
Unknown Data for Participants:	Same age and service as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.
Family Composition:	75% of participants are assumed to be married. Females are assumed to be three years younger than males. The youngest child is assumed to be ten years old.
Benefit Election:	Married participants are assumed to receive the Joint and Survivor annuity form of payment and non-married participants are assumed to receive a Life Only annuity.
Actuarial Value of Assets:	Set to market value of assets as of December 31, 2015. Thereafter, market value of assets less unrecognized returns in each of the last five years beginning with 2016. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial Cost Method:	Entry Age Actuarial Cost Method. Entry Age is the age at the time the member commenced employment. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis, with Normal Cost determined using the plan of benefits applicable to each participant. Actuarial Liability is allocated by salary.
Amortization Methodology:	The actuarially determined contribution is calculated using a 25-year level-percentage-of-pay amortization of unfunded actuarially accrued liability. Beginning January 1, 2021, each year's gains and losses will be amortized over a closed 20-year period.

Section 4: Actuarial Valuation Basis

Justification for Change in Actuarial Assumptions and Methods:

Based on past experience and future expectations, the following actuarial assumptions were changed:

- The net investment return assumption was lowered from 7.25% to 7.00%
- The salary scale assumption was updated based on the 2019 Meet and Confer agreement, with a new ultimate rate of 2.50%.
- The payroll growth assumption was lowered from 2.75% to 2.50%.
- The mortality rates were updated to the Pub-2010 Public Safety Amount-weighted Mortality Tables, with varying adjustments by status and sex, projected generationally with Scale MP-2019.
- The withdrawal rates were updated and the ultimate 0% rate was moved up from 38 to 25 years of service.
- The DROP retirement rates were increased at most ages and the ultimate 100% retirement was updated from the earlier of age 67 or 8 years in the DROP to the earlier of age 65 or 10 years in the DROP.
- The non-DROP retirement rates were lowered at most ages and simplified from three sets to two sets of rates.
- The retirement assumption for inactive vested participants was updated to include an assumption that 75% of those who terminate with a vested benefit prior to age 40 will take a cash out at age 40.
- The DROP annuitization interest rate for account balances as of September 1, 2017 was lowered from 3.00% to 2.75%.
- The ad-hoc COLA assumption was updated to begin October 1, 2063 based on the updated projection of the unfunded actuarial accrued liability; last year, the COLA was assumed to begin October 1, 2050.
- The System's expectations for near-term market returns were lowered from +5.75% for 2020, +6.25% for 2021, +6.75% for 2022, and +7.25% thereafter to -6.00% for 2020, +5.25% for 2021, +5.75% for 2022, +6.25% for 2023, and 7.00% thereafter. For valuation purposes, these return assumptions are used for determining the projected full-funding date and the projected COLA start date.

As a result of an amendment to the System's funding policy, the amortization methodology was changed as follows: Effective with the January 1, 2020 actuarial valuation, the amortization period was changed from an open, 30-year period to a closed, 25-year period.

Effective with the January 1, 2021 actuarial valuation, future gains and losses, along with assumption, plan, and method changes, will be amortized over closed, 20-year periods.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Section 4: Actuarial Valuation Basis

Exhibit II: Summary of Plan Provisions

This exhibit summarizes the major provisions of the Plan included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Plan Year:	January 1 through December 31
Plan Status:	Ongoing

Members whose Participation Began Before March 1, 2011

Normal Retirement:	Benefit Earned Prior to September 1, 2017: <ul style="list-style-type: none">• <i>Age Requirement:</i> 50• <i>Service Requirement:</i> 5• <i>Amount:</i> Greater of 3.0% of Average Computation Pay times years of Pension Service (maximum 96.0%) and \$2,200 per month. The \$2,200 per month minimum benefit is prorated if the Member retires with less than 20 years of service.• <i>Average Computation Pay:</i> 36 consecutive months that reflect the highest civil service rank held by a member, plus Educational Incentive Pay, Longevity Pay and City Service Incentive Pay Benefit Earned Beginning September 1, 2017: <ul style="list-style-type: none">• <i>Age Requirement:</i> 58• <i>Service Requirement:</i> 5• <i>Amount:</i> Greater of 2.5% of Average Computation Pay times years of Pension Service (maximum 90.0%) and \$2,200 per month. The \$2,200 per month minimum benefit is prorated if the Member retires with less than 20 years of service.• <i>Average Computation Pay:</i> 60 consecutive months that reflect the highest civil service rank held by a member, plus Educational Incentive Pay, Longevity Pay and City Service Incentive Pay
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Section 4: Actuarial Valuation Basis

20 and Out Reduced Retirement:

If Eligible as of September 1, 2017:

- *Age Requirement:* None
- *Service Requirement* 20 years
- *Amount:* 20 & Out Multiplier times 36-month (Table 1 Benefit) or 60-month (Table 2 Benefit) Average Computation Pay times years of Pension Service

Benefit Accrued Before September 1, 2017 20 & Out Table 1		Benefit Accrued Beginning September 1, 2017 20 & Out Table 2	
Age	20 & Multiplier	Age	20 & Multiplier
45 & under	2.00%	53 & under	2.00%
46	2.25%	54	2.10%
47	2.50%	55	2.20%
48	2.75%	56	2.30%
49	2.75%	57	2.40%
50 & above	3.00%	58 & above	2.50%

If Not Eligible as of September 1, 2017:

- *Age Requirement:* None
- *Service Requirement* 20 years
- *Amount:* 20 & Out Multiplier times 60-month Average Computation Pay times years of Pension Service

20 & Out Table 2	
Age	20 & Multiplier
53 & under	2.00%
54	2.10%
55	2.20%
56	2.30%
57	2.40%
58 & above	2.50%

Section 4: Actuarial Valuation Basis

Early Retirement:	<p>If at least age 45 as of September 1, 2017 and less than age 50</p> <ul style="list-style-type: none">• <i>Age Requirement:</i> 45• <i>Service Requirement:</i> 5• <i>Amount:</i> Normal pension accrued prior to September 1, 2017 plus the benefit accrued based on the 20 & Out Table 2 for service beginning September 1, 2017, reduced by 2/3 of 1% for each whole month by which the benefit commencement date precedes age 50.
Non-Service Connected Disability:	<ul style="list-style-type: none">• <i>Eligibility:</i> Injury or illness (lasting more than 90 days) not related to or incurred while in the performance of the member's job, preventing the member from performing their departmental duties.• <i>Amount:</i> 3% of Average Computation Pay for service earned prior to September 1, 2017 and the applicable benefit multiplier from 20 & Out Table 2 times Average Computation Pay for service earned beginning September 1, 2017
Service Connected Disability:	<ul style="list-style-type: none">• <i>Eligibility:</i> Injury or illness (lasting more than 90 days) obtained while on duty in the performance of the member's job.• <i>Amount:</i> 3% of Average Computation Pay for service earned prior to September 1, 2017 and the applicable benefit multiplier from 20 & Out Table 2 times Average Computation Pay for service earned beginning September 1, 2017; if the member has less than 20 years of service, the benefit will be calculated as if they had 20 years at the time of disability.
Benefit Supplement:	<ul style="list-style-type: none">• <i>Age Requirement:</i> 55• <i>Service Requirement:</i> 20 years, waived if member is receiving a service-connected disability• <i>Amount:</i> 3% of the total monthly benefit (including any applicable COLA's) payable to the Member when the Member attains age 55. The benefit supplement shall not be less than \$75 per month. <p>Beginning September 1, 2017, only those annuitants already receiving the supplement will be eligible to maintain their current supplement, which will not change ongoing; no additional retirees will be eligible for the supplement.</p>
Termination Benefit:	<ul style="list-style-type: none">• <i>With less than five years of pension service:</i> Upon request, the member's contributions will be returned without interest• <i>With at least five years of pension service:</i> The member may either withdraw contributions or leave contributions in the Plan and receive a monthly benefit to commence no earlier than the member's earliest eligibility for retirement benefits. Retirement benefit is equal to the accrued benefit as of the date of termination.

Section 4: Actuarial Valuation Basis

Pre-Retirement Death Benefit:	<ul style="list-style-type: none">• <i>While in active service:</i> The greater of 50% of the Member's accrued benefit or a benefit based on 20 years of service. The benefit may not exceed 45% of Average Computation Pay.• <i>After leaving active service, with fewer than five years:</i> A lump sum benefit equal to the return of member contributions without interest• <i>After leaving active service, with at least five years:</i> 50% of the Member's accrued benefit, with no early retirement reduction, or a refund of member contributions
Post-Retirement Death Benefit:	50% or 100% of the pension the Member was receiving at the time of their death, depending on the form of joint and survivor annuity chosen; if a life only annuity was chosen, no further benefits will be paid
Qualified Surviving Children Benefit:	50% of the pension the Member was receiving at the time of their death, divided equally among the children, paid until the youngest child is 19 years old or for life if the child becomes handicapped prior to age 23
Minimum Survivor Benefit:	\$1,100 per month, not to exceed the actual amount the Member was receiving upon their death. If there are no Qualified Surviving Children, the minimum benefit to a spouse who is a Qualified Survivor shall be \$1,200 per month. If the Member had less than 20 years of Pension Service, the minimum benefit will be prorated based on actual years of Pension Service.
Special Survivor Benefit	<ul style="list-style-type: none">• <i>Eligibility:</i> Upon leaving active service or joining DROP: a) the Member was at least 55 years old with at least 20 years of pension service, or b) the sum of the Member's age plus Pension Service was at least 78; and Has no Qualified Surviving Children or handicapped children currently eligible for survivor benefits; and Whose Qualified Surviving Spouse is at least 55 years old. The Qualified Surviving Spouse does not have to be 55 years old at the time of the Member's death.• <i>Amount:</i> Once all the eligibility conditions are met, the amount the Qualified Surviving Spouse will receive increases from 50% of the Member's pension benefit to a percentage of the Member's pension benefit based on the Member's applicable benefit multiplier times the number of years of Pension Service the Member worked.
Survivor Benefit if No Qualified Surviving Spouse:	A lump sum that is the actuarial equivalent of 120 monthly payments of the greater of: 50% of the Member's pension benefit at the time of their death, or a benefit based on 20 years of the Member's service.
DROP:	<ul style="list-style-type: none">• <i>Eligibility:</i> Members in active service who are retirement eligible may elect to enter the Deferred Retirement Option Plan (DROP).• <i>Distribution:</i> The DROP account balance will be paid over the expected future lifetime of annuitants.• <i>Interest:</i> Based on United States Department of Commerce Daily Treasury Yield Curve Rates for durations between 5 and 30 years; interest rate is based on the expected lifetime of the members at the time they retire. Interest is only paid on DROP account balances as of September 1, 2017.

Section 4: Actuarial Valuation Basis

Members whose Participation Began On or After March 1, 2011

Normal Retirement:

- *Age Requirement:* 58
- *Service Requirement:* 5
- *Amount:* 2.5% of Average Computation Pay for each year of Pension Service, maximum 90%
The minimum monthly benefit is \$110 times the number of years of Pension Service at retirement, but not greater than \$2,200.
- *Average Computation Pay:* Average Computation Pay uses the 60 consecutive months that reflects the highest civil service rank held by a member plus Educational Incentive Pay plus Longevity Pay plus City Service Incentive Pay.

Early Retirement:

- *Age Requirement:* 53
- *Service Requirement:* 5
- *Amount:* Normal pension accrued, reduced by 2/3 of 1% for each whole month by which the benefit commencement date precedes the normal retirement date.

20 and Out Reduced Retirement:

- *Age Requirement:* None
- *Service Requirement:* 20 years
- *Amount:* 20 & Out Multiplier times Average Computation Pay times years of Pension Service

20 & Out Table 2

Age	20 & Multiplier
53 & under	2.00%
54	2.10%
55	2.20%
56	2.30%
57	2.40%
58 & above	2.50%

Non-Service Connected Disability:

- *Eligibility:* Injury or illness (lasting more than 90 days) not related to or incurred while in the performance of the member's job, preventing the member from performing their departmental duties.
- *Amount:* The Member's accrued benefit, but not less than a pro-rated minimum benefit.

Service Connected Disability:

- *Eligibility:* Injury or illness (lasting more than 90 days) obtained while on duty in the performance of the member's job.
- *Amount:* The greater of 50% of Average Computation Pay and the Member's accrued benefit.

Section 4: Actuarial Valuation Basis

Termination Benefit:	<ul style="list-style-type: none">• <i>With less than five years of pension service:</i> Upon request, the member's contributions will be returned without interest• <i>With at least five years of pension service:</i> The member may either withdraw contributions or leave contributions in the Plan and receive a monthly benefit to commence no earlier than the member's earliest eligibility for retirement benefits. Retirement benefit is equal to the accrued benefit as of the date of termination.
Pre-Retirement Death Benefit:	<ul style="list-style-type: none">• <i>While in active service:</i> The greater of 50% of the Member's accrued benefit or a benefit based on 20 years of service. The benefit may not exceed 45% of Average Computation Pay.• <i>After leaving active service, with fewer than five years:</i> A lump sum benefit equal to the return of member contributions without interest• <i>After leaving active service, with at least five years:</i> 50% of the Member's accrued benefit, with no early retirement reduction, or a refund of member contributions
Post-Retirement Death Benefit:	50% or 100% of the pension the Member was receiving at the time of their death, depending on the form of joint and survivor annuity chosen; if a life only annuity was chosen, no further benefits will be paid
Qualified Surviving Children Benefit:	50% of the pension the Member was receiving at the time of their death, divided equally among the children, paid until the youngest child is 19 years old or for life if the child becomes handicapped prior to age 23
Minimum Survivor Benefit:	\$1,100 per month, not to exceed the actual amount the Member was receiving upon their death. If there are no Qualified Surviving Children, the minimum benefit to a spouse who is a Qualified Survivor shall be \$1,200 per month. If the Member had less than 20 years of Pension Service, the minimum benefit will be prorated based on actual years of Pension Service.
Special Survivor Benefit	<ul style="list-style-type: none">• <i>Eligibility:</i> Upon leaving active service or joining DROP: a) the Member was at least 55 years old with at least 20 years of pension service, or b) the sum of the Member's age plus Pension Service was at least 78; and Has no Qualified Surviving Children or handicapped children currently eligible for survivor benefits; and Whose Qualified Surviving Spouse is at least 55 years old. The Qualified Surviving Spouse does not have to be 55 years old at the time of the Member's death.• <i>Amount:</i> Once all the eligibility conditions are met, the amount the Qualified Surviving Spouse will receive increases from 50% of the Member's pension benefit to a percentage of the Member's pension benefit based on the Member's applicable benefit multiplier times the number of years of Pension Service the Member worked.
Survivor Benefit if No Qualified Surviving Spouse:	A lump sum that is the actuarial equivalent of 120 monthly payments of the greater of: 50% of the Member's pension benefit at the time of their death, or a benefit based on 20 years of the Member's service.

Section 4: Actuarial Valuation Basis

DROP:	<ul style="list-style-type: none">• <i>Eligibility:</i> Members in active service who are retirement eligible may elect to enter the Deferred Retirement Option Plan (DROP).• <i>Distribution:</i> The DROP account balance will be paid over the expected future lifetime of annuitants.• <i>Interest:</i> Based on United States Department of Commerce Daily Treasury Yield Curve Rates for durations between 5 and 30 years; interest rate is based on the expected lifetime of the members at the time they retire. Interest is only paid on DROP account balances as of September 1, 2017.
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All Members

Cost of Living:	The Board may grant an ad hoc COLA based on the actual market return over the prior five years less 5%, not to exceed 4% of the base benefit, if, after granting a COLA, the funded ratio on a market value of assets basis is no less than 70%.
Member Contributions:	13.5% of computation pay for all members
City Contributions:	The City will contribute 34.5% of computation payroll each year. However, in no case shall the City's total contribution amount be less than: \$5,173,000 for the biweekly pay periods beginning with the first biweekly pay period that begins after September 1, 2017 and ends on the last day of the first biweekly pay period that ends after December 31, 2017; \$5,344,000 for the following 26 pay periods; \$5,571,000 for the following 26 pay periods; \$5,724,000 for the following 26 pay periods; \$5,882,000 for the following 26 pay periods; \$6,043,000 for the following 26 pay periods; \$5,812,000 for the following 26 pay periods; and \$6,024,000 for the following 26 pay periods. An additional 1/26th of \$13 Million will be paid biweekly beginning with the first biweekly pay period that begins after September 1, 2017 and ending with the last biweekly pay period that ends after December 31, 2024.
Optional Forms of Benefits:	Life Only Annuity, 50% or 100% Joint and Survivor Pension
Changes in Plan Provisions:	None

GASB Information

Exhibit 1: Net Pension Liability

The components of the net pension liability at December 31, 2019 were as follows:

Total pension liability	\$4,731,959,822
Plan fiduciary net position	2,057,857,317
Net pension liability	2,674,102,505
Plan fiduciary net position as a percentage of the total pension liability	43.49%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Real rate of return	4.50%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

The actuarial assumptions used in the January 1, 2020 valuation were based on the results of an experience study for the period January 1, 2015 to December 31, 2019. Assumptions are detailed in Section 4, Exhibit I of this report.

Section 5: GASB Information

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return ¹
Global Equity	40%	5.29%
Emerging Market Equity	10%	6.47%
Private Equity	5%	8.19%
Short-Term Investment Grade Bonds	12%	0.71%
Investment Grade Bonds	4%	1.00%
High Yield Bonds	4%	3.18%
Bank Loans	4%	2.85%
Global Bonds	4%	0.97%
Emerging Markets Debt	4%	3.58%
Real Estate	5%	3.85%
Natural Resources	5%	5.54%
Cash	<u>3%</u>	0.62%
Total	100%	

¹ The real rates of return are provided by Segal Marco Advisors, and are net of inflation.

Section 5: GASB Information

Discount rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed City contributions will be made in accordance with the provisions of House Bill 3158, including statutory minimums through 2024 and 34.50% of computation pay thereafter. Members are expected to contribute 13.50% of computation pay. For cash flow purposes, projected payroll is based on 90% of the City's Hiring Plan payroll projections through 2037, increasing by 2.50% per year thereafter. This payroll projection is used for cash flow purposes only and does not impact the Total Pension Liability. The normal cost rate for future members is assumed to be 13.83% for all years. Based on these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

With this year's valuation, the long-term expected rate of return on investments was lowered from 7.25% to 7.00%.

Actuarial cost method: In accordance with GASB 67, the Total Pension Liability for active members is valued as the total present value of benefits once they enter the DROP. For the funding valuation, the liability for these members accumulates from their entry age until they are assumed to leave active service.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.00%) or one percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Net pension liability	\$3,212,525,680	\$2,674,102,505	\$2,224,767,375

Section 5: GASB Information

Exhibit 2: Schedule of Changes in Net Pension Liability

	2019	2018
Total pension liability		
• Service cost	\$49,154,908	\$44,792,454
• Interest	318,702,388	318,535,923
• Change of benefit terms	0	16,091,390
• Differences between expected and actual experience	16,723,223	-46,555,548
• Changes of assumptions	155,569,477	-31,459,806
• Benefit payments, including refunds of employee contributions	-309,860,549	-297,081,055
Net change in total pension liability	\$230,289,447	\$4,323,358
Total pension liability – beginning	<u>4,501,670,375</u>	<u>4,497,347,017</u>
Total pension liability – ending (a)	<u>\$4,731,959,822</u>	<u>\$4,501,670,375</u>
Plan fiduciary net position		
• Contributions – employer	\$155,721,087	\$149,356,565
• Contributions – employee	52,268,293	49,332,262
• Net investment income	124,259,607	42,822,297
• Benefit payments, including refunds of employee contributions	-309,860,549	-297,081,055
• Administrative expense	-6,445,251	-5,861,410
Net change in plan fiduciary net position	\$15,943,187	-\$61,431,341
Plan fiduciary net position – beginning	<u>2,041,914,130</u>	<u>2,103,345,471</u>
Plan fiduciary net position – ending (b)	<u>\$2,057,857,317</u>	<u>\$2,041,914,130</u>
Net pension liability – ending (a) – (b)	<u>\$2,674,102,505</u>	<u>\$2,459,756,245</u>
Plan fiduciary net position as a percentage of the total pension liability	43.49%	45.36%
Covered employee payroll	\$396,954,743	\$363,117,415
Net pension liability as percentage of covered employee payroll	673.65%	677.40%

Notes to Schedule:

Benefit changes: The provision of HB 3158 that allows members who entered DROP before June 1, 2017 to revoke the DROP election during a window from September 1, 2017 through February 28, 2018 was reflected in the December 31, 2018 total pension liability.

Change of Assumptions: The assumption changes in 2018 include updates to the salary scale to reflect the 2016 Meet and Confer Agreement, as amended in 2018, and a change in the expected COLA date from October 1, 2053 to October 1, 2050. The assumption changes in 2019 were based on the recommendations in the experience study for the period January 1, 2015 to December 31, 2019 and included lowering the discount rate from 7.25% to 7.00% and changes to the salary scale, mortality rates, withdrawal rates, retirement rates, and DROP annuitization rates. The expected COLA start date was also updated from October 1, 2050 to October 1, 2063.

Section 5: GASB Information

Exhibit 3: Schedule of Employer Contributions

Year Ended December 31	Actuarially Determined Contributions ¹	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency/ (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015 ²	--	\$114,885,723	--	\$383,006,330	30.00%
2016	\$261,859,079	119,345,000	\$142,514,079	365,210,426	32.68%
2017	168,865,484	126,318,005	42,547,479	357,414,472	35.34%
2018	157,100,128	149,356,565	7,743,563	346,036,690	43.16%
2019	152,084,297	155,721,087	-3,636,790	363,117,415	42.88%

¹ The City's contributions are based on statutory rates set by State law and not Actuarially Determined Contributions.

² The Actuarially Determined Contribution was not directly calculated as a dollar amount by the prior actuary for the year ended 2015.

Notes to Schedule:

Methods and assumptions used to determine contribution rates for the year ended December 31, 2019:

Valuation date	Actuarially determined contribution is calculated using a January 1, 2019 valuation date as of the beginning of the year in which contributions are reported
Actuarial cost method	Entry age
Amortization method	30-year level percent of payroll, using 2.75% annual increases
Remaining amortization period	38 years as of January 1, 2019
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Investment rate of return	7.25%, including inflation, net of pension plan investment expense
Inflation rate	2.75%
Projected salary increases	Inflation plus merit increases, varying by group and service
Retirement rates	Group-specific rates based on age
Cost-of-living adjustments	2.00% simple increases starting October 1, 2050

Section 5: GASB Information

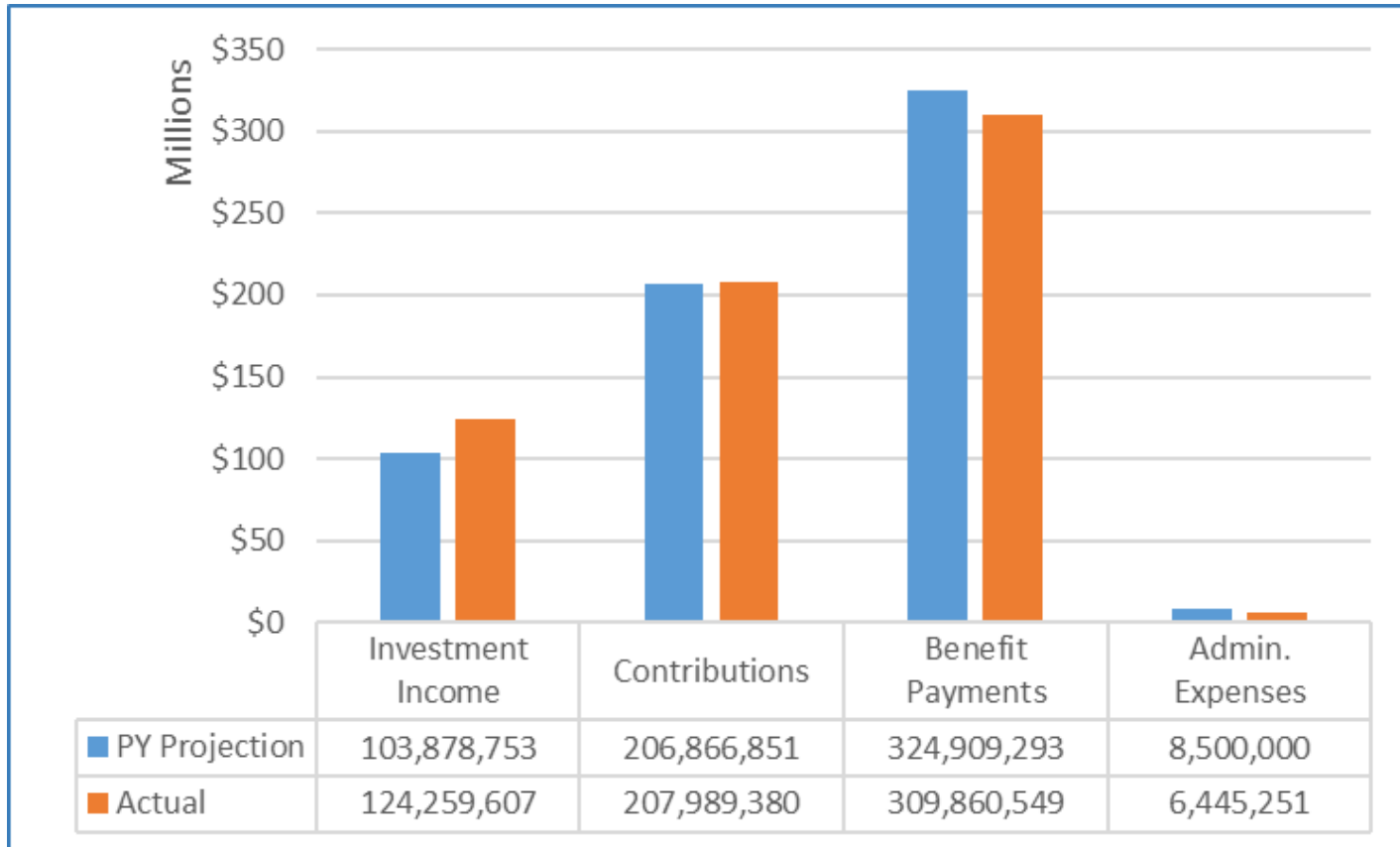
Mortality:	
<i>Pre-retirement</i>	Sex-distinct RP-2014 Employee Mortality Table, set back two years for males, projected generationally using Scale MP-2015
<i>Healthy annuitant</i>	Sex-distinct RP-2014 Healthy Annuitant Mortality Table, set forward two years for females, projected generationally using Scale MP-2015
<i>Disabled</i>	Sex-distinct RP-2014 Disabled Retiree Mortality Table, set back three years for males and females, projected generationally using Scale MP-2015
Other information:	See Section 4 of the January 1, 2019 actuarial valuation for a full outline of assumptions. See Exhibit 2 of this section for the history of changes to plan provisions and assumptions over the last two years.
<i>DROP utilization</i>	0% of Police and Fire members are assumed to elect to enter DROP
<i>Interest on DROP Accounts</i>	Beginning January 1, 2018, 3.00% payable upon retirement on active account balances as of September 1, 2017



Projected Change in Net Position Bridge Chart

November 12, 2020

2019 Actual Compared to Data Projections from the 1-1-2019 Valuation



- Ending Net Position

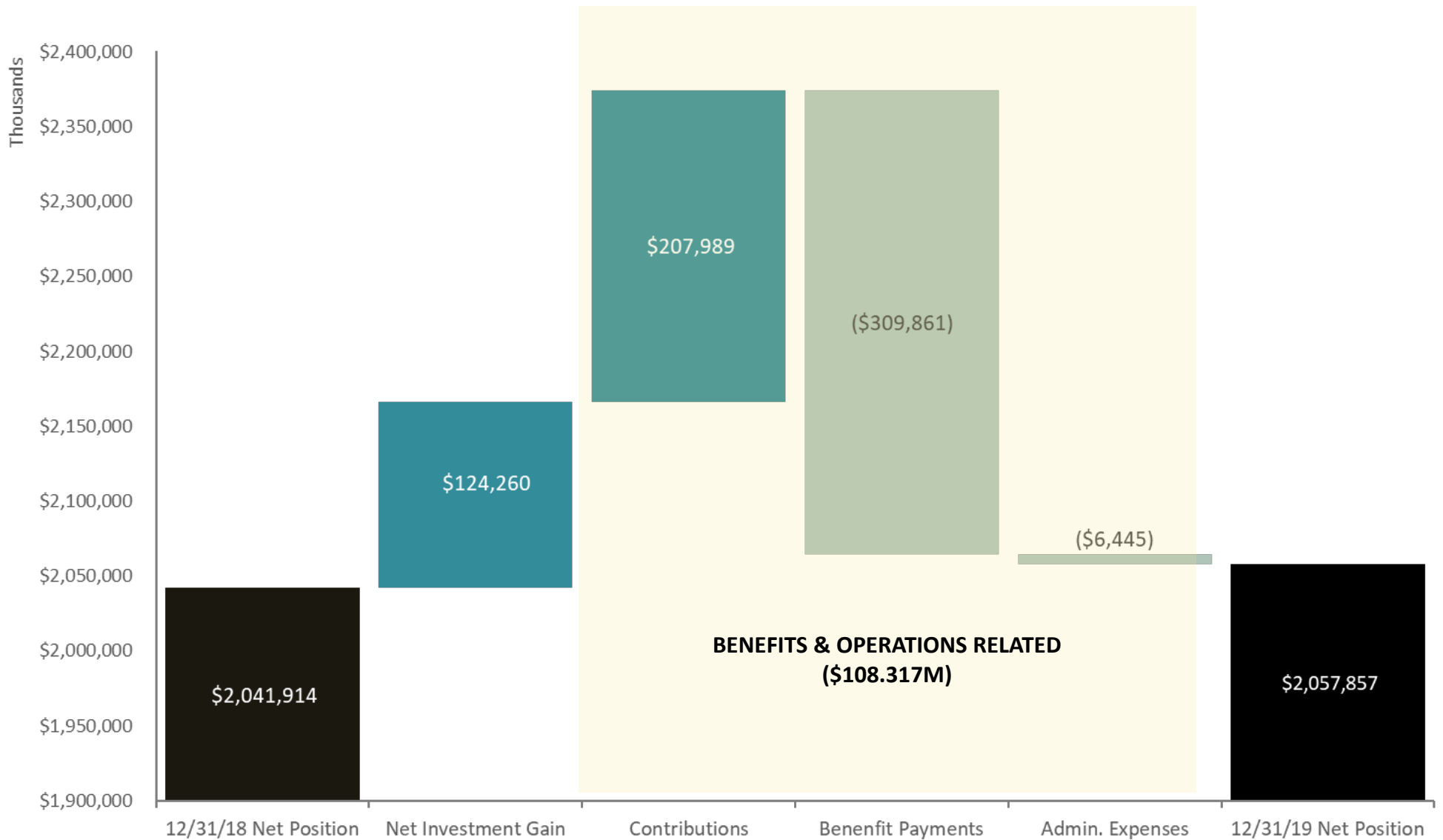
Projection: \$2.019 Billion

Actual: \$2.058 Billion

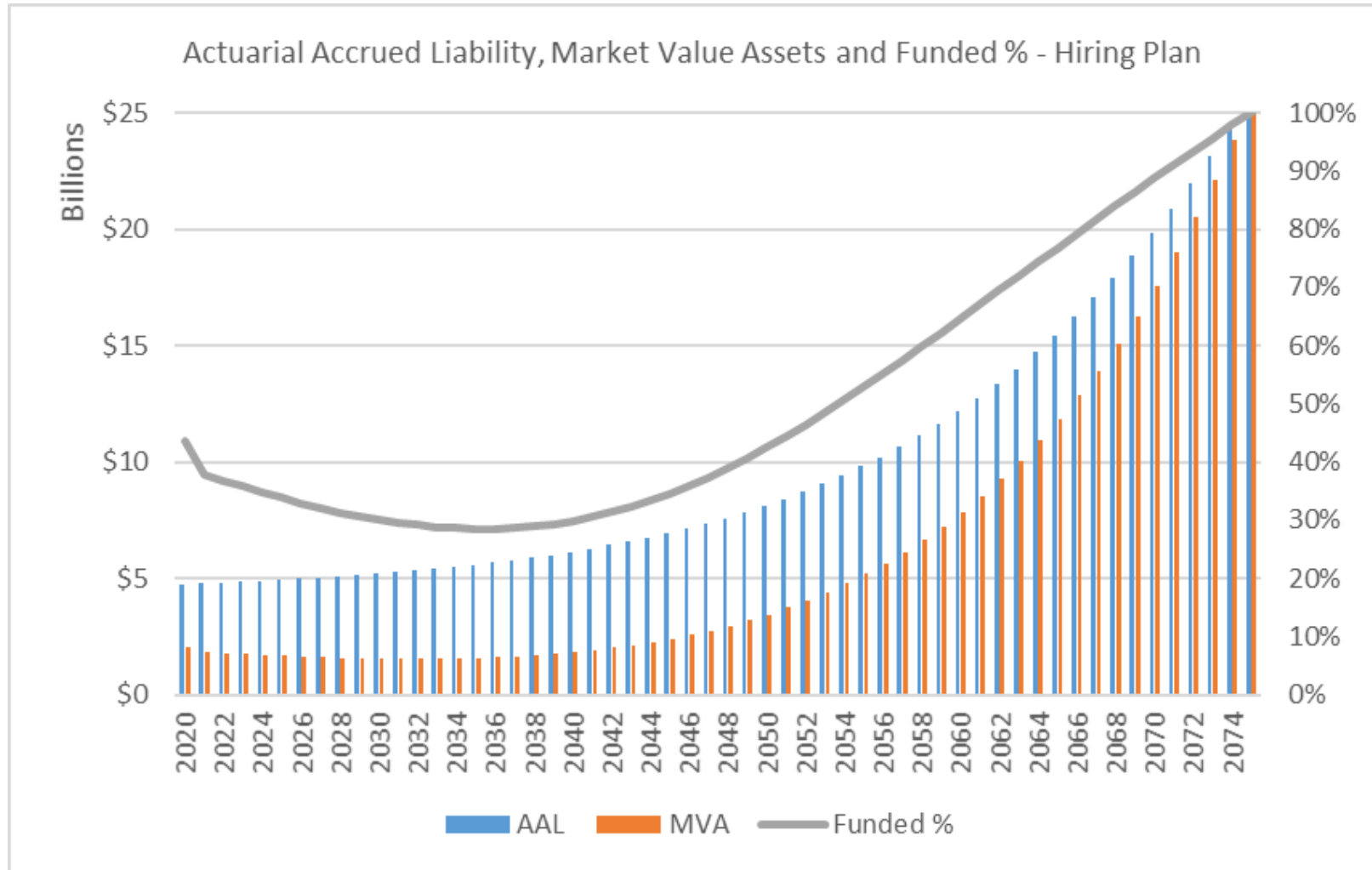
- Actual ending Net Position is \$39 Million more than projected

2019 Projected Change in Net Fiduciary Position

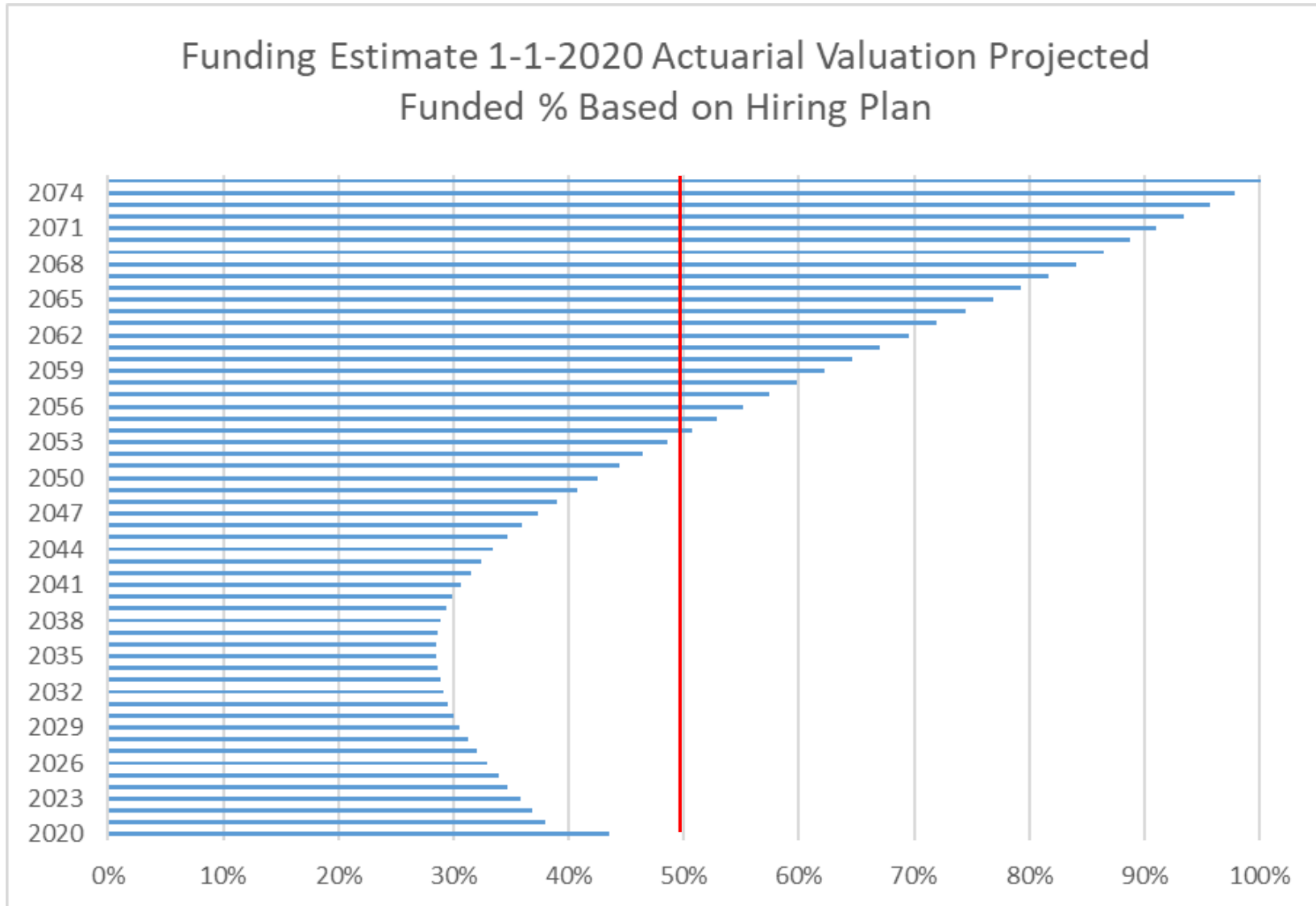
December 31, 2018 – December 31, 2019 – Hiring Plan



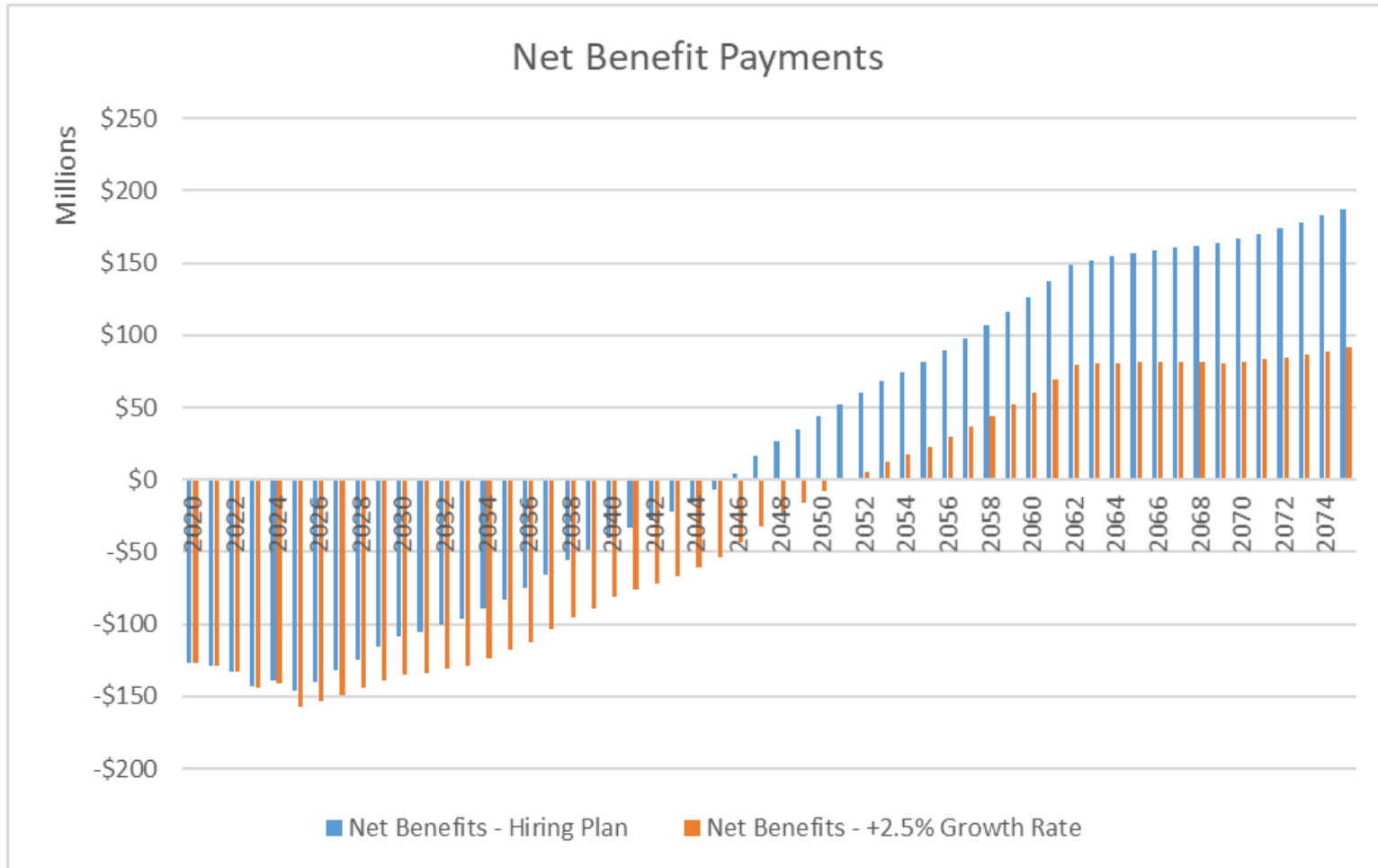
Actuarial Accrued Liability, Market Value of Assets and Funded % Based on City Hiring Plan



Projected Funded Percentage – City Hiring Plan

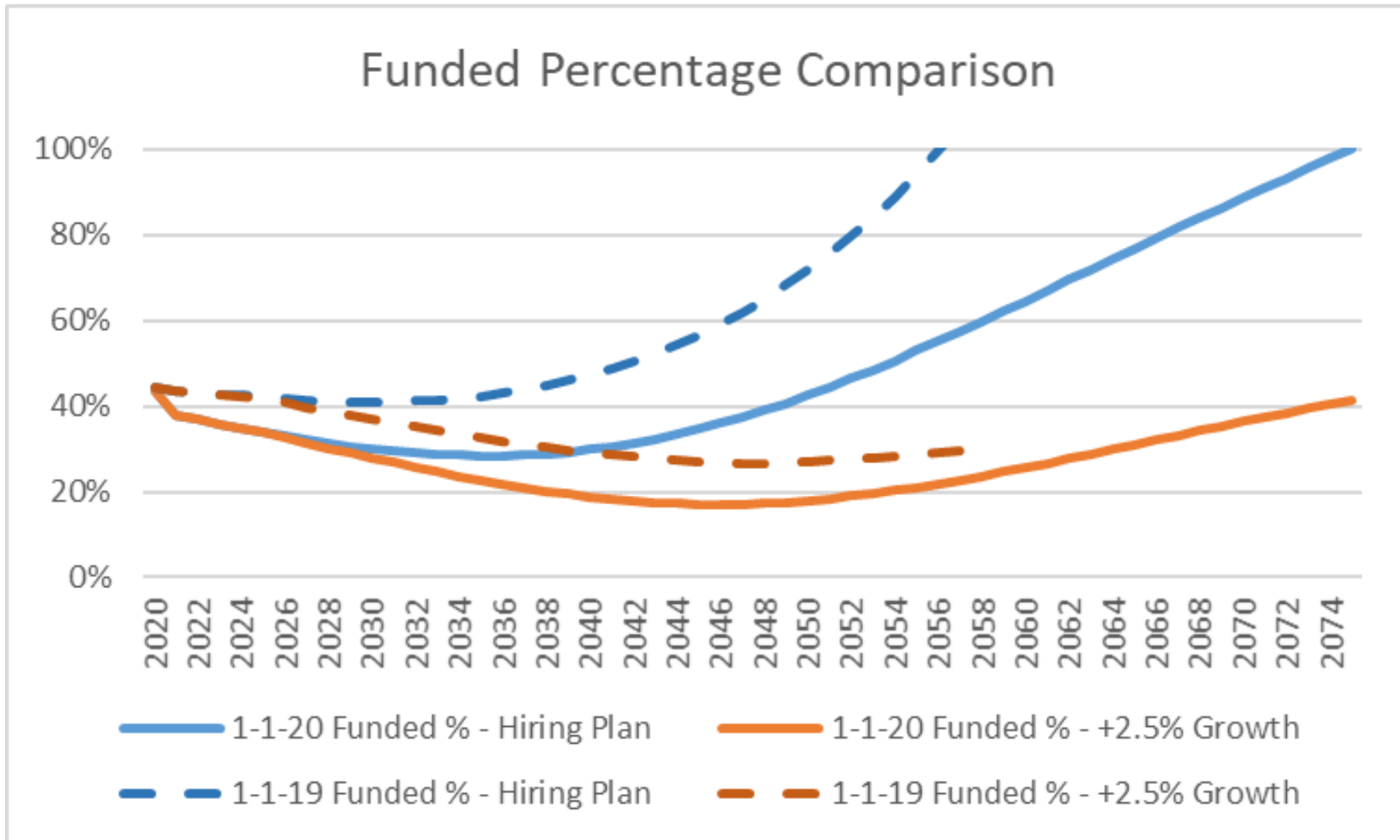


Net Benefit Payments - Benefit payments exceed contributions until 2045 or 2052 depending on the payroll assumption



Note: Benefit Payments include administration expenses

Funded % Comparison



Conclusion

- The projected change in Net Position charts and tables are based on the 1-1-2020 Actuarial Valuation and assumes all assumptions are met.
 - The funded percentage is projected to decline for the next 20 years before it begins to increase.
 - The funded percentage is projected to be below 30% for 11 years, below 40% for 28 years beginning next year. Projections show the funded level below 50% for 34 years until 2054.
 - The funding risk of the plan increased due to a combination of assumption changes. The most significant change was the changing the investment return projection for 2020 from +5.75 to -6.0%.
- If the City does not meet the Hiring Plan projections, and contributions are at the actual level plus the payroll growth assumption of 2.5%, the projected results are as follows:
 - The funded percentage is projected to drop below 20% for 12 years and only be more than 40% funded for 3 of the next 55 years.
- Takeaway: As we knew when HB 3158 was passed, HB 3158 created a path to solvency, but the path is narrow with many risks and little room for error. Any early disruption in achieving the assumptions (both investment returns as well as hiring projections) could have a catastrophic impact on the funding of the plan.



DISCUSSION SHEET

ITEM #2

Topic: Public Comment

Discussion: Comments from the public will be received by the Board.

*Sec. 3.01 (j-9) of Article 6243a-1 of Vernon's Revised Civil Statutes
Required Public Meeting – Thursday, November 12, 2020*