



Memorandum

TO: Police and Fire Retirement Plan

FROM: Prabhu Palani

SUBJECT: Annual Pre-funding Contributions
By the City

DATE: March 7, 2024

RECOMMENDATION

Discussion and action on the City's prefunding option for fiscal year 2024-25.

ANALYSIS

The attached memorandum from the Plans' legal counsel entitled, "Board Discretion Regarding the Discount Rate Used for Determining Actuarial Equivalence of the City's Pre-Funding Option", dated April 20th, 2015, states that the Municipal Code reserves the exclusive right for the City to elect to pre-fund its contributions. However, the Boards do have the discretion to determine the "actuarial equivalence" when calculating the pre-funding amount.

In 2014, staff began utilizing an incremental reduction approach to determining "actuarial equivalence" predicated on the average duration of business expansions and the absolute returns of broad indices (please see detailed Board approved methodology in the attached memo, "Prefunding Risk Mitigation Process Recommendation", dated September 15th, 2014). At the February 22, 2022 Investment Committee meeting for each Plan, Staff recommended (and the ICs approved) modifying the existing methodology by adding equity valuations as an additional triggering metric for incrementally reducing the pre-funding discount rate ("Staff Recommendation to update Prefunding Discount Rate Calculation," February 22, 2022).

According to the modified methodology, none of the triggers for reducing the discount rate have been activated for FY 2024-25.

CONCLUSION

Staff recommends providing the City with the full discount rate.

Prabhu Palani
Chief Investment Officer

APPENDIX

		Business Cycle		Business Cyl	S&P 500				S&P 500	CAPE Ratio		CAPE Ratio
<u>FY Year</u> <u>(start)</u>	<u>Analysis</u> <u>Date</u>	<u>Most</u> <u>Recent Prior</u> <u>Business</u> <u>Cycle</u> <u>Trough</u>	<u>Months of</u> <u>Expansion</u>	<u>Trigger (>58)</u>	<u>Most</u> <u>Recent S&P</u> <u>500 Trough</u>	<u>S&P 500</u> <u>Trough</u> <u>Level</u>	<u>S&P 500 on</u> <u>Analysis</u> <u>Date</u>	<u>Returns</u>	<u>Trigger</u> <u>(>130%)</u>	<u>CAPE Ratio</u>	<u>2 Std Dev</u>	<u>Trigger</u> <u>(>2SD)</u>
2024	9/01/23	4/30/2020	41	No	3/31/2020	2584.59	4,515.77	75%	No	29.8	31.8	No