



Memorandum

TO: BOARD OF ADMINISTRATION,
FEDERATED CITY EMPLOYEES'
RETIREMENT SYSTEM

FROM: David Sykes

SUBJECT: SEE BELOW

DATE: April 26, 2021

SUBJECT: LUMP SUM PAYMENT OF EMPLOYER PENSION AND OPEB CONTRIBUTIONS AND ESTABLISHMENT OF THE PREPAYMENT AMOUNT FOR FISCAL YEAR 2021-2022

RECOMMENDATION

The City elects to make a single lump-sum contribution towards the Federated City Employees' Retirement System (the "System") Tier 1 members pension contributions and OPEB contribution amounts for Fiscal Year 2021-22 on July 1, 2021. The City requests that the Board of Administration ("Board") of the System request the System's actuary to calculate discounted prepayment contribution amounts using the current assumed rates of return for Tier 1 pension payments and OPEB payments.

Additionally, the City requests that the Board provide estimated Tier 1 pension contribution and OPEB contribution amounts for FY 2022-23 through and including FY 2026-27, assuming the City will prepay either a single lump-sum contribution or a semi-annual contribution at the beginning of the period for future planning purposes.

BACKGROUND

Prior to fiscal year 2008-2009, the City made biweekly contributions to the System in conjunction with each payroll distribution. In some years after, the City has elected to pre-fund employer retirement contributions at the beginning of the fiscal year and has indicated the City's intent to make future lump-sum contributions as resources permit.

In September 2014, the Chief Investment Officer ("CIO") for Retirement Services expressed concerns on behalf of the Boards' Investment Committees, to City staff, of potential investment losses associated with the prefunding, and created a framework for the retirement plans to "incentivize the City to prefund contributions when market valuation are low and the economic cycle is in the early stages of expansion and create a disincentive for the City to prefund contributions when market valuations and/or economic expansions are beyond historic norms."

On Municipal Code Section 3.36.1590(C), the System's legal counsel opined that although the City has a right to elect the lump sum contribution option, the retirement boards have the right to decide how to determine what is "actuarially equivalent" to the monthly or biweekly payment that would otherwise have been required.

Subsequently, the Board adopted an incremental approach to reduce the discount rate by 15% to 45% to determine the actuarially equivalent on the basis of market valuation and the stage of economic cycle.

The System's Actuary, Cheiron, provided preliminary estimates in a letter dated January 13, 2021 which were presented to the System Board on January 21, 2021. At its March 18, 2021 meeting the Board discussed and took action to approve permitting the City to pre-pay based on the full discount of 6.625% for Tier 1 pension prepayments and 6.25% for OPEB.

On April 5, 2021 the Office of Retirement Services ("ORS") staff communicated to City staff that that the City's decision whether to prefund contribution is due on April 30 in order to have the official contributions for the next fiscal year approved by the Board as early as possible. Upon receiving the City's decision whether to prefund, ORS staff will have Cheiron provide contribution letters and a resolution will be presented to the Board in May. This memo serves to notify the Board of the City's intent.

ANALYSIS

Based on the preliminary analysis furnished to the Board in January and the Board's decision in March to provide the full discount to the City for prepayment, the City expects that based on an average life of one half year, the prepayment value equates to approximately a 3.3125% prepayment on Tier I contributions (based on the current Discount Rate of 6.625%), as reflected in the preliminary actuary analysis. Additionally, the prepayment value for OPEB equates to approximately a 3.125% prepayment on OPEB contributions (based on the current Discount Rate of 6.25%). Receipt of the contribution letters will allow the City to proceed with readying funds for a timely prepayment on July 1, 2021.

In order to assess potential risks and continued prefunding financial feasibility and to manage investments liquidity for potential future prepayment dates, the City further requests a multi-year forecast of the prefunding amounts. The City requests the estimated actuarial calculation on pension prefunding amounts for FY 2022-23 through and including FY 2026-27. Recognizing the potential additional work effort to provide the forecasted prefunding amounts, this additional analysis can be provided after providing the FY 2021-22 prefunding amounts and contribution letter.

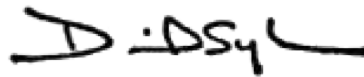
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Subject: Lump-Sum Payment of Employer Pension Contributions

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CONCLUSION

As stated in Section 3.28.940 of the San José Municipal Code, as amended by Ordinance No. 28332, the City Manager may opt to select the periodic basis on which City contributions to the retirement funds will be paid. A notice of intent to exercise this option, including the periodic basis selected and the payment date(s), is required to be provided to the Board on or before April 30 of the fiscal year prior to the fiscal year in which the City wishes to exercise the option. This memorandum serves as the City's "notice of intent" to pay a lump-sum contribution for Tier 1 pension payments and OPEB payments for FY 2021-2022 on July 1, 2021. The City requests this request be placed on the next available Board agenda.

A handwritten signature in black ink, appearing to read "D. Sykes".

DAVID SYKES
City Manager

For questions please contact Julia H. Cooper, Director of Finance, at (408) 535-7011 or Nikolai J. Sklaroff, Deputy Director of Finance, Debt & Treasury Management Division at (408) 535-7832.