City of New Orleans Employees' Retirement System

Member Relations
Committee Meeting
October 8, 2014

City of New Orleans Employees' Retirement System

FUND FACTS

Membership
Active – 2207
DROP Members - 120
Retirees and Survivors – 2044

Investment Returns as of 6/30/14
1 Year
16.6%
3 Years
8.4%
5 Years
12.2%
Since Inception
7.8%
Total Plan Assets - $380 million as of 6/30/14

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Historical Financial Data

Year	Net External Cash Flow For Year	Market Value Investment Income For Year	Ending Market Value For Year	Funding Ratio	Investment Performance	EE Contribution Rate	ER Contribution Rate
2004	-$11,698,118	$35,797,958	$390,480,525	98.5%	9.9292%	4.0%	8.735%
2005	-$15,798,710	$17,464,439	$392,146,254	105.5%	4.5649%	4.0%	8.172%
2006	-$29,263,702	$41,708,472	$404,591,034	106.5%	11.0482%	4.0%	12.778%
2007	-$25,563,484	$33,770,375	$412,797,925	94.0%	8.6191%	4.0%	6.486%
2008	-$24,565,671	-$120,890,979	$267,341,275	84.6%	-30.1839%	4.0%	6.909%
2009	-$17,055,427	$59,869,583	$310,155,431	80.9%	23.1323%	4.0%	14.875%
2010	-$18,232,506	$42,485,923	$334,408,848	79.2%	14.1131%	4.0%	21.645%
2011	-$12,523,028	-$4,276,183	$317,609,637	74.8%	-1.3031%	4.0%	23.814%
2012	-$14,844,479	$35,842,303	$338,607,461	74.8%	11.5550%	5.0%	20.655%
2013	-$16,283,003	$50,131,156	$372,455,614	73.6%	15.1698%	6.0%	20.108%
Total	-$185,828,128	$191,903,047					

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QUALIFICATIONS FOR RETIREMENT

<u>Minimum Qualifications for a service retirement</u>
The minimum eligibility requirements for a service retirement are as follows:

Five (5) years of service and sixty-five (65) years of age

Ten (10) years of service and sixty years of age (A 3% reduction in the benefit allowance is assessed for each year under the age of sixty-two (62)

Thirty (30) years of service at any age (no reduction if under age 62)

"Rule of 80" – Age plus years of service equals eighty (No reduction if under the age of sixty-two (62)

Example – Age 55 with 25 years of service qualifies for "Rule of 80".

NOTE: Members electing "Rule of 80" retirements must apply all sick leave for retirement credit and are not eligible to participate in DROP.

<u>Minimum Qualifications for a separation retirement</u>
A member who terminates with at least five (5) but less than ten (10) years of service at termination may collect a pension at age sixty-five (65) with no reduction.

A member who terminates with at least ten (10) years of service at termination may collect a pension at age sixty (60). The member will incur a 3% reduction in the monthly allowance for each year under age sixty-two (62).

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Analysis of Retirees from 2009 – 2013

• 30 Years of service or more:	129 members
• Age 60 with at least 10 years of service:	124 members
• Age 65 with at least 5 years of service:	17 members
• Rule of 80 (Age plus service equals 80):	47 members
• Ordinary Disability:	18 members
• Separation Retirement:	44 members

Actuarial Valuation Facts

• Average Annual Pension:	$20,311
• Average Annual DROP Benefit:	$31,819
• Average Active Member Salary:	$41,809

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Actuarial Analysis of Possible Plan Changes

- Reduce DROP period from 60 months to 36 months
- Setting a minimum retirement age (60, 62, or 65)
- Review of impact of past Cost of Living Adjustments (COLAs)
- Reduce accrual rate to 2.5% for all years
- Social Security Integration

City of New Orleans Employees' Retirement System

Questions

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August 28, 2014

To: Member Relations Committee

From: Michael A. Conefry, Actuary

Re: City of New Orleans Employees' Retirement System
Actuarial Analysis of Proposed Plan Changes as Requested by Councilmember Stacy S. Head In Letter Dated May 22, 2014

Point 1:

The retirement plan currently allows a member to participate in the Deferred Retirement Option Program (DROP) for no more than five years (60 months). Please provide your review of the financial impact and possible cost savings of a reduction of the DROP participation period from five years (60 months) to three years (36 months), effective for any member electing to enter DROP on or after January 1, 2015.

Response 1:

Based on the simple and straightforward nature of the City of New Orleans DROP program, the program is effectively actuarially cost-neutral as to its impact on funding levels and the funded ratio. From the perspective of the retirement system, members entering the DROP are effectively retired, and consequently have the same impact on the system as a retirement would, since benefit amounts are fixed in form and amount at time of DROP entry and benefit accruals cease. While there may be a slight cost impact from members who may tend to enter DROP at an earlier age than they would have actually retired in the absence of a DROP, the absence of benefit accruals from either the affected member or the potential replacement employee who would have joined the system had the DROP member retired instead would tend to have an offsetting effect. Thus, changing the permissible length of the DROP period would have a negligible effect on funding cost.

The only other conceivable actuarial cost in this System's DROP program would involve the interest paid on DROP account balances. There may be short term periods where the guaranteed principal and interest are not covered by the investment earnings of the fund. However, this has not been a significant issue historically because of the seven year averaging of the DROP interest rate and the 2.0% point contingency charge. Also, effective January 1, 2013 the system was amended to segregate new DROP accounts from the remainder of the trust investments and invest those funds separately, thus removing even this issue as one of concern.

Point 2:

The retirement plan currently allows a retirement when a member is age 60 with at least 10 years of service, age 65 with at least 5 years of service, any age with at least 30 years of service, and when a member's service and age equal 80 or more at separation from service. Please provide your review of the financial impact and possible cost savings if the plan were to:

- ***Set retirement at attainment of age 60;***
- ***Set retirement at attainment of age 62;***
- ***Set retirement at attainment of age 65***

For this purpose, you should assume that the retirement conditions will **not** ***be imposed under two separate situations: if a member is within five years of his or her earliest retirement date; or if a member is within ten years of his or her retirement date,***

Response 2:

- **Age 60 except for those within five years of earliest retirement date:**

This would decrease the total annual funding contribution from 28.578% to 28.474%: 0.104% of payroll , or $96,537, at the January 1, 2014 level. The funded ratio would increase by 0.5% points from 73.6% to 74.1%

- **Age 60 except for those within ten years of earliest retirement date:**

This would decrease the total annual funding contribution from 28.578% to 28.513%: 0.065% of payroll , or $60,731, at the January 1, 2014 level. The funded ratio would increase by 0.2% points from 73.6% to 73.8%

- **Age 62 except for those within five years of earliest retirement date:**

This would decrease the total annual funding contribution from 28.578% to 28.141%: 0.437% of payroll , or $404,378, at the January 1, 2014 level. The funded ratio would increase by 0.8% points from 73.6% to 74.4%

- **Age 62 except for those within ten years of earliest retirement date:**

This would decrease the total annual funding contribution from 28.578% to 28.287%: 0.291% of payroll , or $268,937, at the January 1, 2014 level. The funded ratio would increase by 0.4% points from 73.6% to 74.0%

- **Age 65 except for those within five years of earliest retirement date:**

This would decrease the total annual funding contribution from 28.578% to 27.457%: 1.121% of payroll , or $1,036,862, at the January 1, 2014 level. The funded ratio would increase by 1.4% points from 73.6% to 75.0%

- **Age 65 except for those within ten years of earliest retirement date:**

This would decrease the total annual funding contribution from 28.578% to 27.892%: 0.686% of payroll , or $634,652, at the January 1, 2014 level. The funded ratio would increase by 0.6% points from 73.6% to 74.2%

Point 3:

The plan currently authorizes the Board to retain earnings in excess of an average of 3.5%, to be applied to cost of living increases (COLAs). As the Board has consistently granted an annual bonus, or 13th check, but has not granted a permanent increase in the original benefit since 2008, please provide an analysis of the financial impact of the bonuses, as follows:

- ***Assume that the Board had not granted bonuses, or the 13th checks, during the 10-year period ending on December 31, 2012, what would be the current value of plan assets (using market rather than actuarial values) and what would be the current funding ratio?***

Response 3:

We were provided with data for the twelve year period ending December 31, 2013 in order to answer this question. The actual market value as of December 31, 2013 was $372,455,614 and the funded ratio based on that actual market value was 75.1%. Assuming the Board had not granted any "13th check" bonuses during that **twelve** year period, the hypothetical market value as of December 31, 2013 would have been $397,503,834 and the funded ratio based on that hypothetical market value would be 80.1%

Point 4:

The plan currently calculates benefits by multiplying each member's average compensation by 2.5% per year for the first 25 years of service and 4% per year for years of service in excess of 25. Please provide an analysis of reducing the multiplier to a level 2.5% of compensation for all years, as follows:

Assume for purposes of your calculation that the recent change to the determination of average compensation has been fully phased-in.

Assume that the change will be applied as follows:

- ***Only for members with less than five years of service;***
- ***Only for members with less than ten years of service;***
- ***Only for members with less than 20 years of service.***

Response 4:

- **Only for members with less than five years of service:**

This would decrease the total annual funding contribution from 28.578% to 28.515%: 0.063% of payroll , or $58,799, at the January 1, 2014 level. The funded ratio would increase by 0.0% points from 73.6% to 73.6%

- **Only for members with less than ten years of service:**

This would decrease the total annual funding contribution from 28.578% to 28.457%: 0.121% of payroll , or $112,206, at the January 1, 2014 level. The funded ratio would increase by 0.0% points from 73.6% to 73.6%

- **Only for members with less than twenty years of service:**

This would decrease the total annual funding contribution from 28.578% to 28.297%: 0.281% of payroll , or $259,715, at the January 1, 2014 level. The funded ratio would increase by 0.1% points from 73.6% to 73.7%

Point 5:

The plan currently does not integrate with social security. As part of the review, please provide an analysis of the impact of instituting integration with social security benefits, as follows:

Assume that the plan's benefit will be offset by 50% of each member's primary social security benefit beginning at the earliest time at which a member may:

- ***Begin to receive reduced Social Security benefits; or,***
- ***Begin to receive unreduced Social Security benefits***

Assume that integration **will be effective** ***as follows:***

- ***Only for members with less than five years of service;***
- ***Only for members with less than ten years of service;***
- ***Only for members with less than 15 years of service.***

Response 5:

[NOT YET COMPLETED]