

Actuarial Review of The City of Philadelphia's Retirement System Phase I: Background



May, 2013

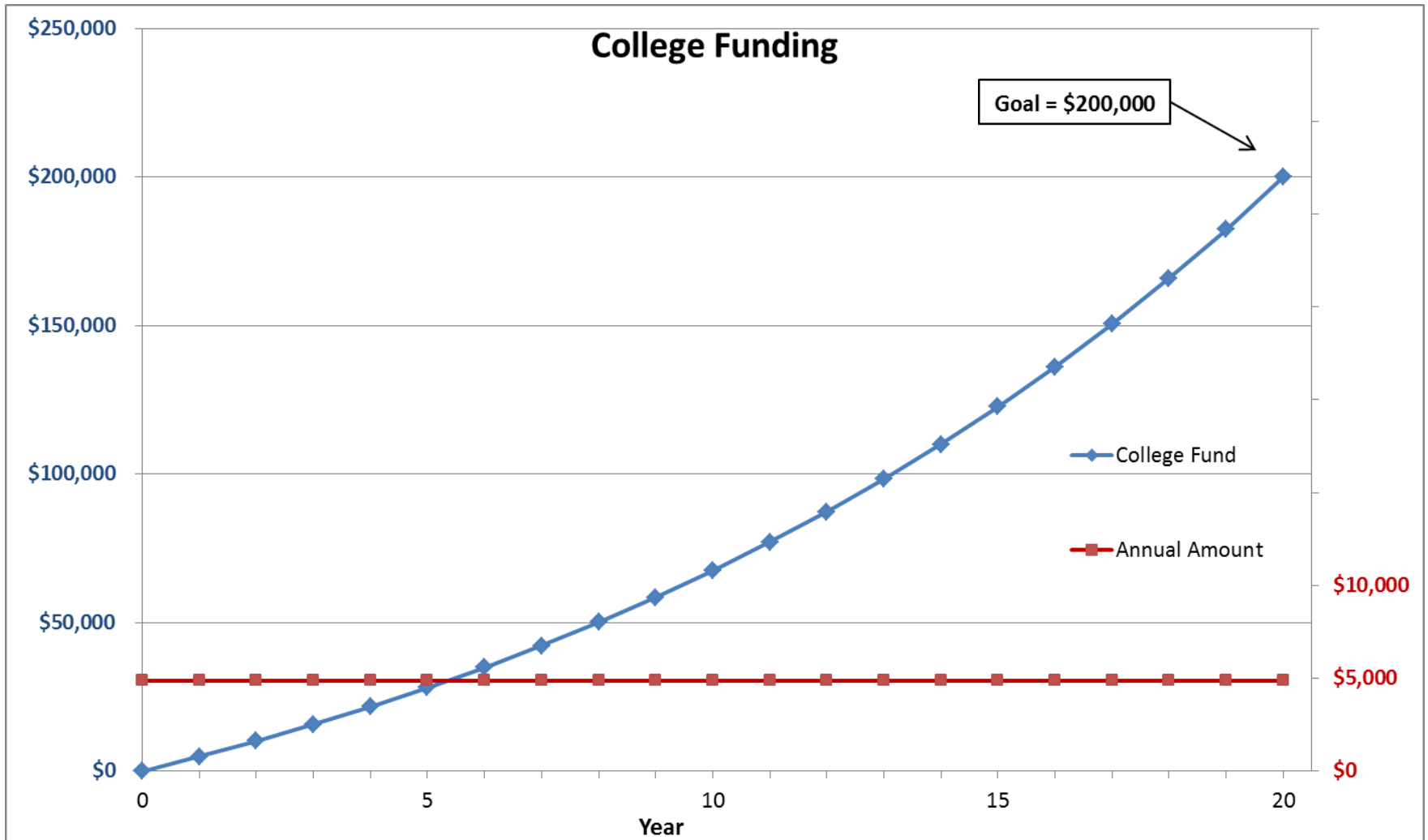
Agenda



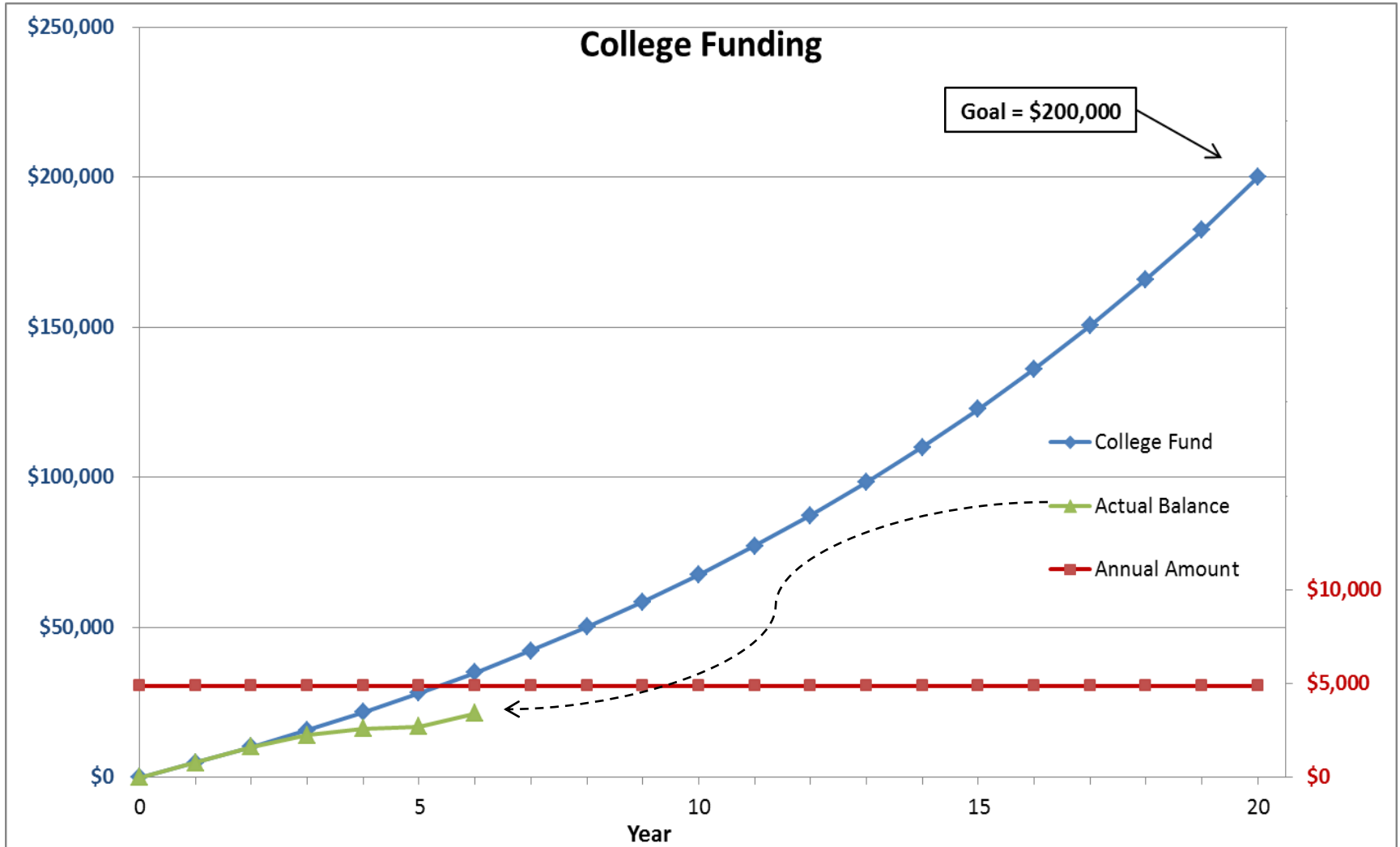
- Pension Funding Background
- Philadelphia Retirement System
 - Past
 - Present
 - Future
- Project Overview

BACKGROUND: How Does Pension Funding Work?

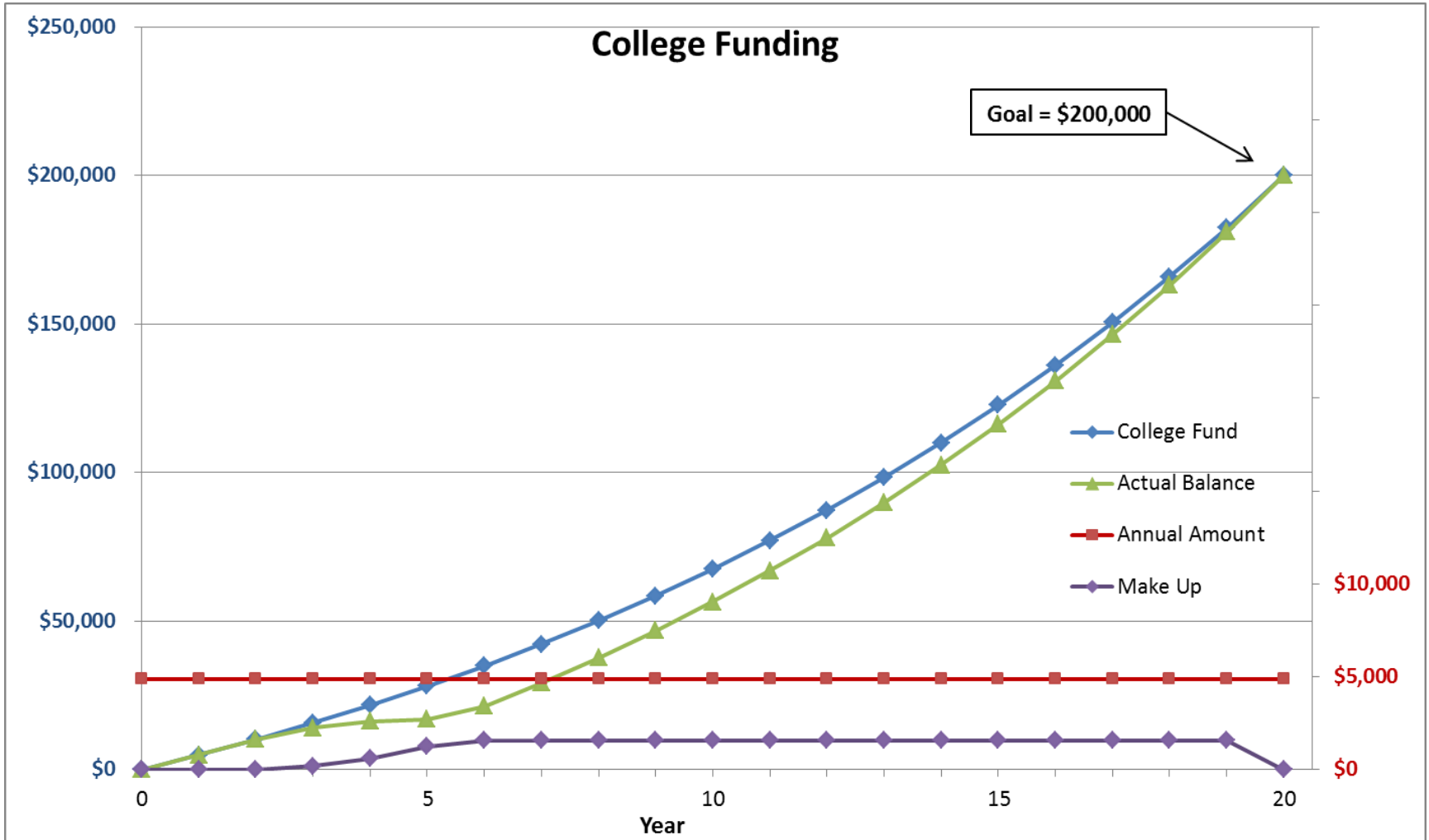
Background



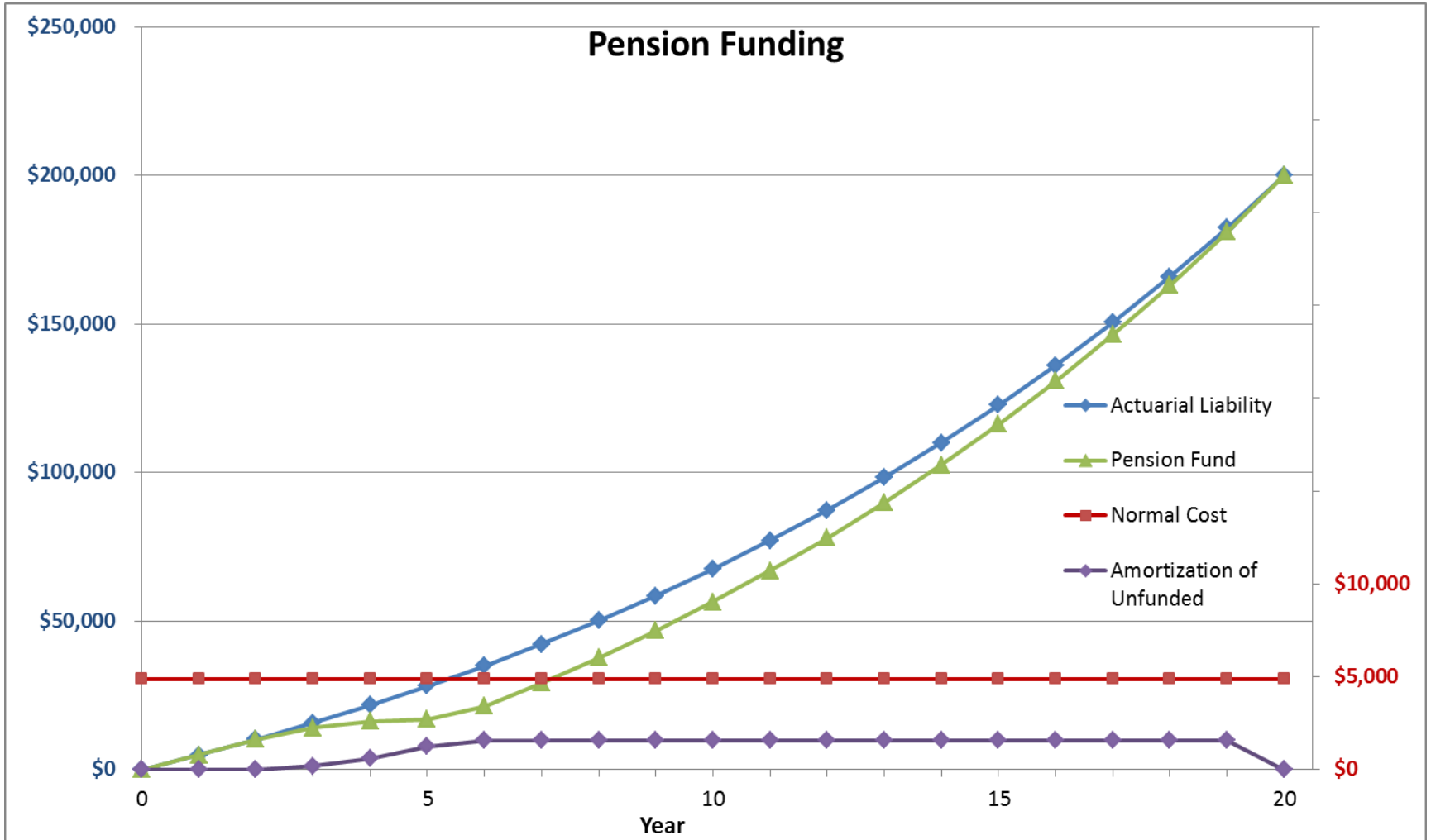
Background



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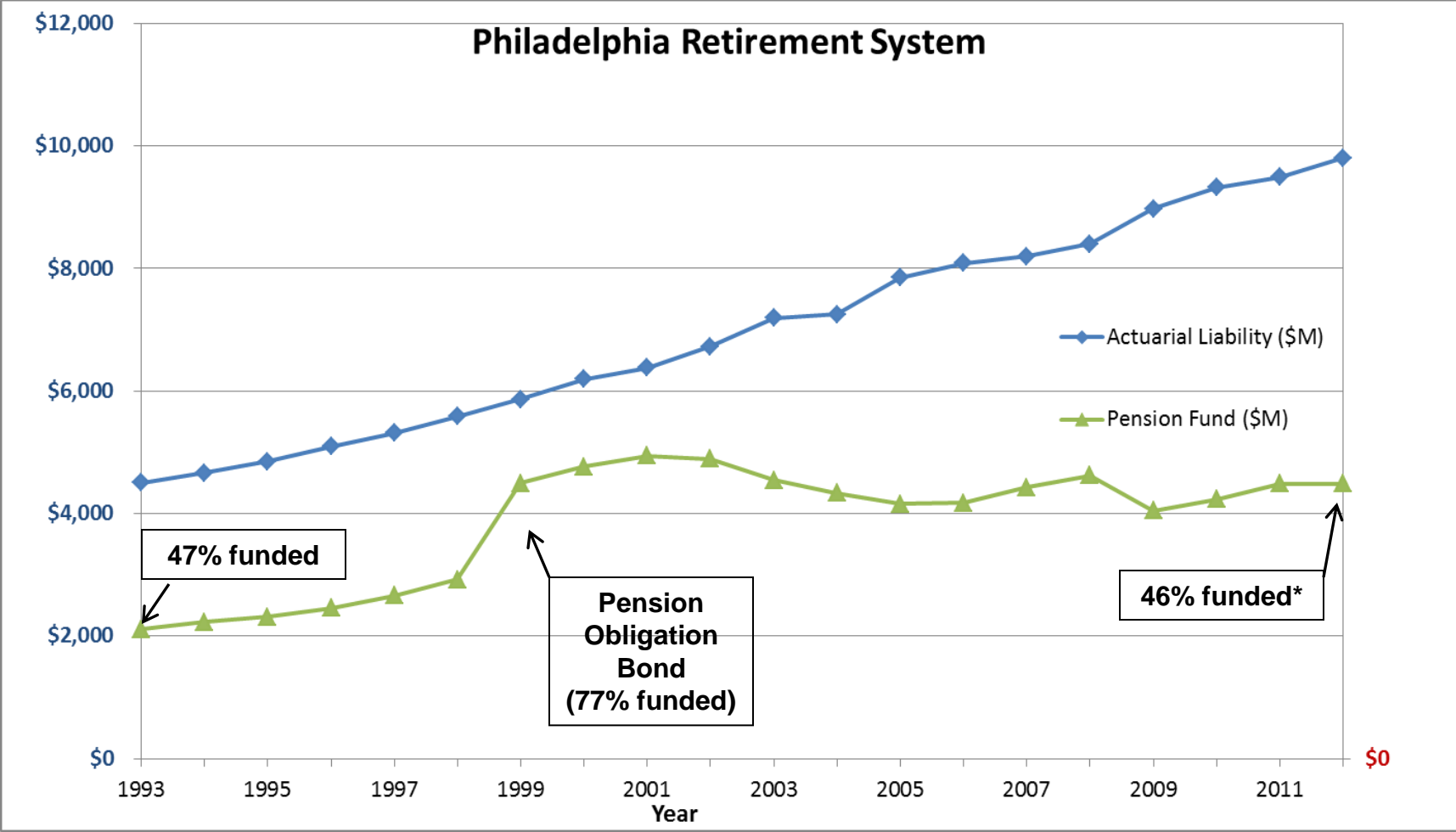
Background



The Philadelphia Retirement System

Note: The historical information presented herein is based on the figures shown in the actuarial valuations.

The Past



* Excludes deferred contributions, 48% if included

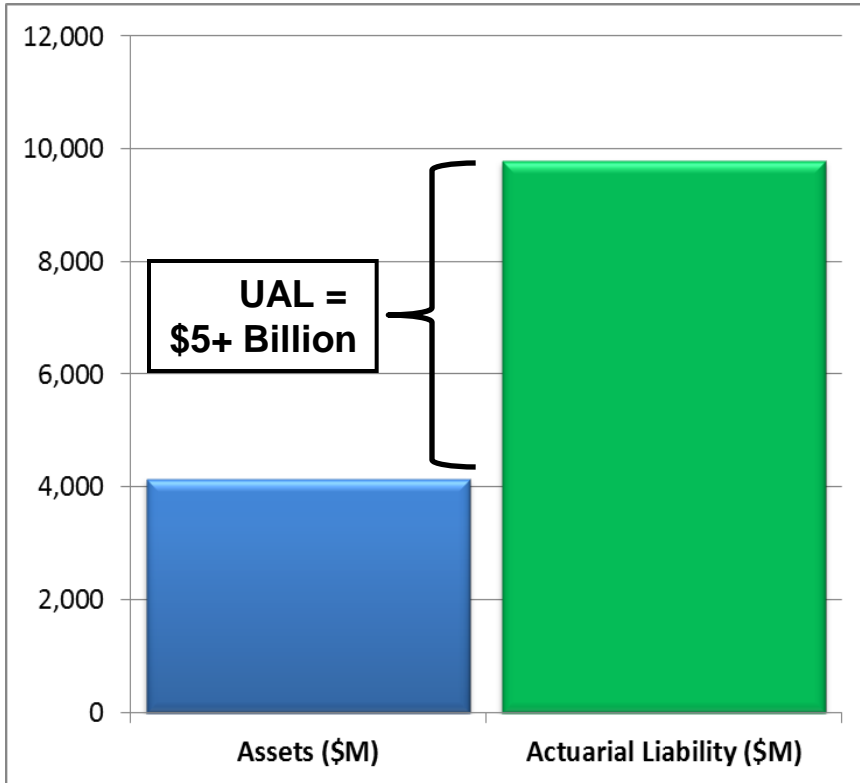
The Past

- Why has funding gap widened since 77% peak in 1999?
 - 1) Investment Returns Lower than Expected
 - 3.8% compound return since 2000
 - Accounts for about \$2 Billion of funding gap, or Unfunded Liability
 - 2) City Contributions Lower than Annual Required Contribution (ARC)*
 - 75% on average since 2003 – impacted by deferred payments
 - Actual contributions have been = the Minimum Municipal Obligation (MMO)
 - Accounts for about \$1.25 Billion of funding gap
 - 3) Decreased Return Expectations
 - From 9.00% in 2004 to 7.95% in 2012
 - Accounts for about \$1.1 Billion of funding gap
 - 4) Many other smaller contributing factors

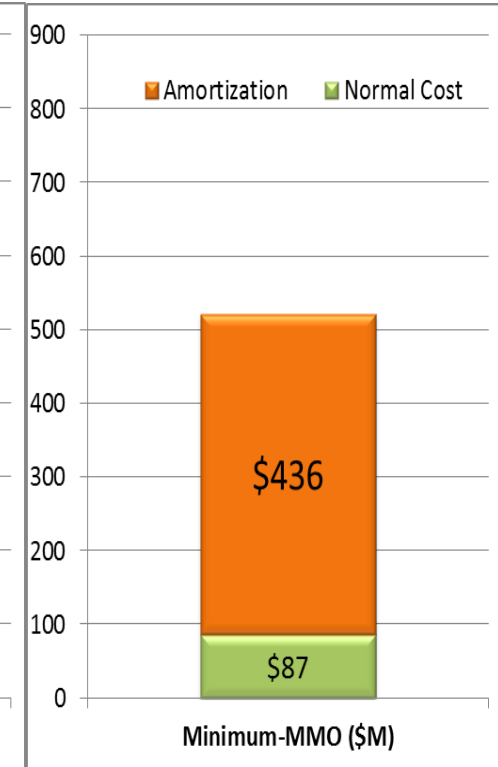
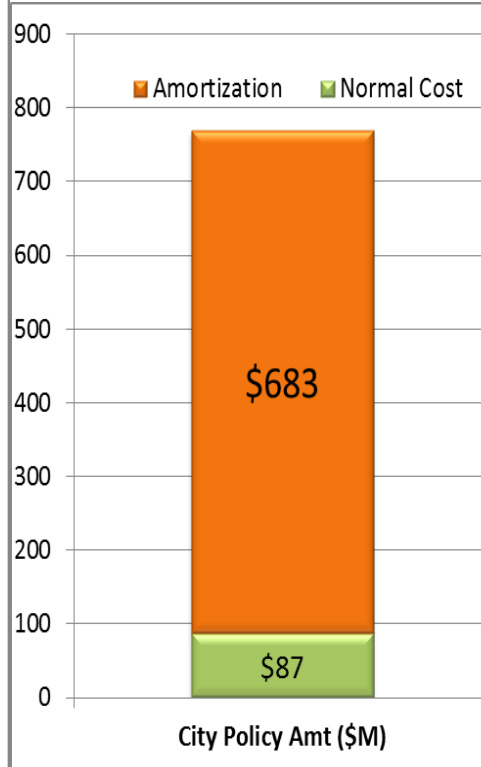
* ARC is based on City Policy

The Present

Philadelphia Retirement System, most recent valuation (July 1, 2012)



Funding Progress



City Contributions
(Member Contributions = \$47 M)

The Present

- Funding Progress (7/1/2012 Valuation)
 - Assets (market) = \$4.15 Billion; Actuarial Liability = \$9.80 Billion
 - Ratio = 42%
 - Shortfall = \$5.65 Billion on market value basis
- City Policy Contributions and MMO (FY2014)
 - Policy Contribution (ARC) = \$770 million; MMO = \$523 million
 - Of these amounts, Total Normal Cost = \$47 (EE) + \$87 (ER) = \$134 M
 - Most of contribution is make-up payments (amortization of unfunded)
- Policies
 - City's Funding Policy is more conservative than state minimum
 - However, Policy has not been followed in terms of actual contributions



The Future

- Significant contributions (many times normal cost) for foreseeable future
- Actuary projects improvement to 75% funding by contributing MMO over next 20 years (95% under City Policy)
 - MMO and City Policy expected to converge within 2 decades
- Are current estimates reasonable?
 - Are actuarial assumptions reasonable?
 - Could the liability/cost actually be higher?
- If actual contributions continue to be lower than policy amounts, this decreases chances of improved funding and exacerbates increases in future costs
- Benefit payments are significant in relation to assets and contributions

Project Overview

Project Overview

- Primary objective: Provide assistance to PICA as an independent actuarial expert in PICA’s assessment of the pension related risks faced by the City

Phase	Boomershine	PICA	Status
I – Background	Presentation to Board	Planning Meeting	Complete
II – Risk Identification	Continued Review of Actuary’s Reports	Discussions with Boomershine	In Early Stages
III – Stress Testing	Discussions with Actuary	Facilitate meetings with Boomershine and Actuary	
IV - Assessment	Evaluation of information from Actuary	Formulate recommendations	

“Actuary” refers to City Retirement System actuary (Cheiron, Inc.)