

**CITY OF WASHINGTON
POLICE PENSION FUND**

TO: Mayor Manier and City Council
FROM: Joanie Baxter, Controller *JJB*
DATE: January 4, 2019
SUBJECT: Police Pension Fund Actuarial Valuation Report

Enclosed is a Summary Report from the Actuarial Valuation Report for the Police Pension Fund as of May 1, 2018, and as applicable to the fiscal year ended April 30, 2020. This report has been prepared for the third consecutive year by the actuarial firm of Foster & Foster. If you would like to receive the full 49-page report, please let me know and I will email to you.

A meeting was held with the Police Pension Board on October 22, 2018, to review and discuss the preliminary results of the study and the Committee of the Whole discussed on November 12 as well. As a result of these discussions, all assumptions were kept intact except for as explained on page 6 in regard to the 2017 Department of Insurance experience study. The interest rate assumption remains at 6.75% and it was recommended by Jason Franken that this assumption be reviewed by the Board sometime prior to the next valuation as it is a bit aggressive in the current economic market. The market value of assets rate of return for the fiscal year was 5.58% and the 5 year-smoothed rate for actuarial purposes was 4.43%.

The increase due to investment returns falling short of the assumed interest rate was largely offset by decreases due to changes in assumptions. As a result, the recommended employer contribution decreased slightly from \$550,691 to \$550,231, of which \$15,000 may be satisfied with Personal Property Replacement Tax. The resulting tax levy requirement is \$535,231 rounded to \$535,300. This is a \$400 decrease from the prior year tax levy of \$535,700. Funding at this level will result in a slight improvement to the percent funded to 61.7% (59.5% in the prior year).

Acceptance of this report and authorization to submit to the Department of Insurance will be placed on the Consent Agenda of the January 7, 2019 meeting of the City Council. The Department of Insurance has notified the City through correspondence dated September 29, 1994 that utilizing an enrolled actuary retained by the Fund or the municipality to determine the tax levy requirement is allowed by statute. Accordingly, following acceptance, a copy of the report will be submitted to the Department of Insurance as notification of the City's election to utilize the tax levy requirement determined by Foster & Foster

CITY OF WASHINGTON
POLICE PENSION FUND

ACTUARIAL VALUATION
AS OF MAY 1, 2018

CONTRIBUTIONS APPLICABLE TO THE
PLAN/FISCAL YEAR ENDING APRIL 30, 2020

GASB 67/68 DISCLOSURE INFORMATION
AS OF APRIL 30, 2018

SUMMARY OF REPORT

The regular annual actuarial valuation of the City of Washington Police Pension Fund, performed as of May 1, 2018, has been completed and the results are presented in this Report. The contribution amounts set forth herein are applicable to the plan/fiscal year ended April 30, 2020.

The contribution requirements, compared with those set forth in the May 1, 2017 actuarial report, are as follows:

| | | |
|----------------------------------|------------------|------------------|
| Valuation Date | 5/1/2018 | 5/1/2017 |
| Applicable to Fiscal Year Ending | <u>4/30/2020</u> | <u>4/30/2019</u> |
| Total Recommended Contribution | \$685,910 | \$683,157 |
| % of Projected Annual Payroll | 50.1% | 51.1% |
| Member Contributions (Est.) | 135,679 | 132,466 |
| % of Projected Annual Payroll | 9.9% | 9.9% |
| City Recommended Contribution | 550,231 | 550,691 |
| % of Projected Annual Payroll | 40.2% | 41.2% |

As you can see, the Total Recommended Contribution shows a slight increase when compared to the results determined in the May 1, 2017 actuarial valuation report. However, due to changes in the estimated member contributions, the City Recommended Contribution shows a small decrease. The increase in Total Recommended Contribution is primarily attributable to a natural increase in the plan's amortization payment due to the prior year payroll growth assumption of 4.00% and lower than expected investment returns. The plan experienced an investment return of 4.43% (Actuarial Asset basis) that fell short of the 6.75% assumption. The increase was mostly offset by a decrease associated with a change of assumptions.

Plan experience was favorable overall on the basis of the plan's actuarial assumptions. The primary sources of favorable experience were more turnover than expected and average salary increases that were less than assumed. These gains were offset by losses associated with no inactive mortality.

CHANGES SINCE PRIOR VALUATION

Plan Changes Since Prior Valuation

No plan changes have occurred since the prior valuation.

Actuarial Assumption/Method Changes Since Prior Valuation

Based on the results of the 2017 Department of Insurance experience study, the following assumption changes were made:

- Updated retirement, termination and disability rate tables.
- Updated assumed salary increase rates.
- Updated the percentage of disabilities assumed to be in the line of duty from 70% to 60%.
- Updated the percentage of deaths assumed to be in the line of duty from 5% to 10%.

In addition, the assumed payroll growth rate was reduced from 4.00% to 3.50%.

There were no method changes since the prior valuation.