



City of Grand Forks Staff Report



**Pension and Insurance Committee – April 15, 2019
City Council – May 6, 2019**

Agenda Item: Actuarial Report for Defined Benefit Pension Plan

Submitted by: Maureen Storstad, Finance Director

Staff Recommended Action: Receive and file report and authorize payment of the employer contribution to the plan at the 2019 Budgeted Amount of \$3,584,369, as well as the remaining 2018 Budgeted amount of \$254,197.

Committee Recommended Action: Motion to receive and file the report and direct staff to authorize payment of the employer contribution to the plan at the 2019 Budgeted Amount of \$3,584,369, as well as the remaining 2018 Budgeted amount of \$254,197, for a total contribution of \$3,838,566.

Council Action:

BACKGROUND: The City of Grand Forks sponsors a Defined Benefit Pension Plan for those employees hired prior to January 1, 1996. The City contracts with Deloitte Consulting LLP to prepare an annual valuation report for the plan.

The recommended employer contribution is \$3,336,703 which is less than the budgeted amount of \$3,584,369. In recent years, staff has recommended contributing at the higher budgeted amount to accelerate the funding in the plan and is recommending that for 2019.

In 2018, staff recommended only paying in the actuarially recommended amount due to uncertain sales tax revenue projections. General fund revenue and expense performed well in 2018, and I am recommending we pay the remaining amount that had been budgeted in 2018, which was \$254,197. The pension committee agreed in making this payment.

ANALYSIS AND FINDINGS OF FACT:

- The City has a Defined Benefit Pension Plan for employees hired prior to January 1, 1996.
- The Pension and Insurance Committee (PAIC) reviewed the Annual Actuarial Report at their meeting on April 15, 2019.
- PAIC recommends payment of the employer contribution at the 2019 Budgeted amount at this time.
- In addition, PAIC recommends payment of the remaining 2018 budgeted amount of \$254,197.

SUPPORT MATERIALS:

- City of Grand Forks Actuarial Valuation Report and Presentation (previously distributed)
- Copy of email summarizing the report material

Lundmark, Sherie

From: Storstad, Maureen
Sent: Thursday, April 25, 2019 10:20 AM
To: City_Council
Cc: Department_Heads; Vatnsdal, Mike; Bergerson, Jessica; Stjern, Candice; Lundmark, Sherie; Bouvette, Tangee; Brown, Michael
Subject: Pension Report Summary
Attachments: Actuarial Valuation Results Presentation 2019.pdf; Actuarial Valuation Report 1-1-19.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Council members,

We held a pension committee meeting last week, and this email will give you a brief summary of items discussed and what will be coming forward to Council (May 6th) for approval.

Phillip Souzek and Pat Ecklund of Deloitte Consulting LLP (actuary) were here to present the actuarial valuation results for 2018. I have attached an electronic version of their presentation material as well as the valuation report. I have summed up the highlights as I have done in previous years in bullet points below. Please let me know if you have any questions as you review the report. This information is related to the City Defined Benefit Pension Plan. This is a closed plan, as it was closed to employees 1/1/96. The plan is managed by the ND State Investment Board.

- There are currently 401 people in the plan as of 1/1/19 (down from 404 previous year); 85 of these are current employees (page 5)
- Assumptions: 7.5% rate of return; 2.75% salary increase; 2.75% inflation (page 6; these assumptions still appear to be reasonable). Some of you may remember, we had lowered the assumed rate of return two years ago from 7.75% to 7.5%. We are right in line with long-term capital market expectations (page 25).
- 7 year history of rate of return (page 7); averages 8.2%
- Market value of assets decreased from \$70.9M to \$66M (page 7)
- Rate of return for 2018 was -3.2% (page 7) due to negative market performance in 4th quarter of 2018; this is net of fees
- Actuarial value of assets increased from \$68.8M to \$69.8M (page 9); this is the value used in computing the funding ratio, which is at 72% (page 12); Funding ratio based on market value is 68%.
- Plan smooths asset gains & losses over 5 years to produce a smoother contribution pattern (page 8)
- 16 years left of our 30 year amortization to fully fund the plan (page 15)
- Total recommended contribution is \$3,336,703 (page 16); **The committee approved paying the full amount budgeted, which is an amount greater than the recommended contribution and this will come to Council for approval on May 6th.** We have a total budget of \$3,584,369. Approximately 70% being general fund. As you may remember, we paid the recommended amount last year rather than the full budget as we had concerns with sales tax collections. As we will report on Monday, General fund revenue and expense performed well in 2018 and I am recommending we pay the remaining amount that had been budgeted in 2018, which was \$254,197. **The committee approved making this payment.**
- Projected contributions based on 7.5% rate of return are shown on page 18. With this assumption, our current budget is sufficient. This is subject, of course, to performance. Contributions would be projected to rise if we do not make our assumed rate of return. I would like to get ahead of this and is why I am recommending a larger contribution based on budget since we have the means to do so. If we rebound with a return greater than our assumption in 2019, the projected contributions would go down.

We also spoke to having a combined meeting next year with representative from the ND State Investment Board to discuss asset allocation and look ahead to timing of when we may want to consider changes in our asset allocation mix. More to come on this.

As this is a lot of information to absorb, please let me know if you have any questions. I will also sum this up in a staff report and this will come to you for approval at the May 6th council meeting for approval. Thank you!

Maureen

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