

**Richmond Retirement System (RRS)**  
**Presentation to**  
**Organizational Development Committee**  
**March 6, 2017**



# Today's Agenda

- ▶ Structure of three city retirement plans
- ▶ RRS governance structure
- ▶ Membership composition
- ▶ Investment rate of return
- ▶ Funded status
- ▶ Contributions
- ▶ Two types of COLAs
- ▶ Recommendations

# Structure of 3 Retirement Plans

- ▶ Defined Benefit (DB) Plan - \$550 mil
  - Closed plan as of 7/1/06 except for Police, Fire and a small group of Senior Executives
- ▶ Defined Contribution (DC) 401(a) Plan - \$45 mil
  - *Employer* contributions only
- ▶ Defined Contribution (DC) 457(b) Plan - \$95 mil
  - Designed for *Employee* contributions
- ▶ RRS administers the DB and 401(a) DC Plans
  - HR administers the 457(b) DC Plan

# RRS Governance Structure

- ▶ The DB Plan is a fiduciary *trust* fund governed by a seven member Board of Trustees
  - Five Council appointees which include two classified employees. Two Mayoral appointees
  - Currently, the Board has seven members
  - Terms and term limits exist
- ▶ Five - seven member Investment Advisory Committee (IAC)
  - Appointed by the Board
  - Currently, the IAC has seven members
  - Terms and term limits exist
- ▶ The Executive Director reports to the Board

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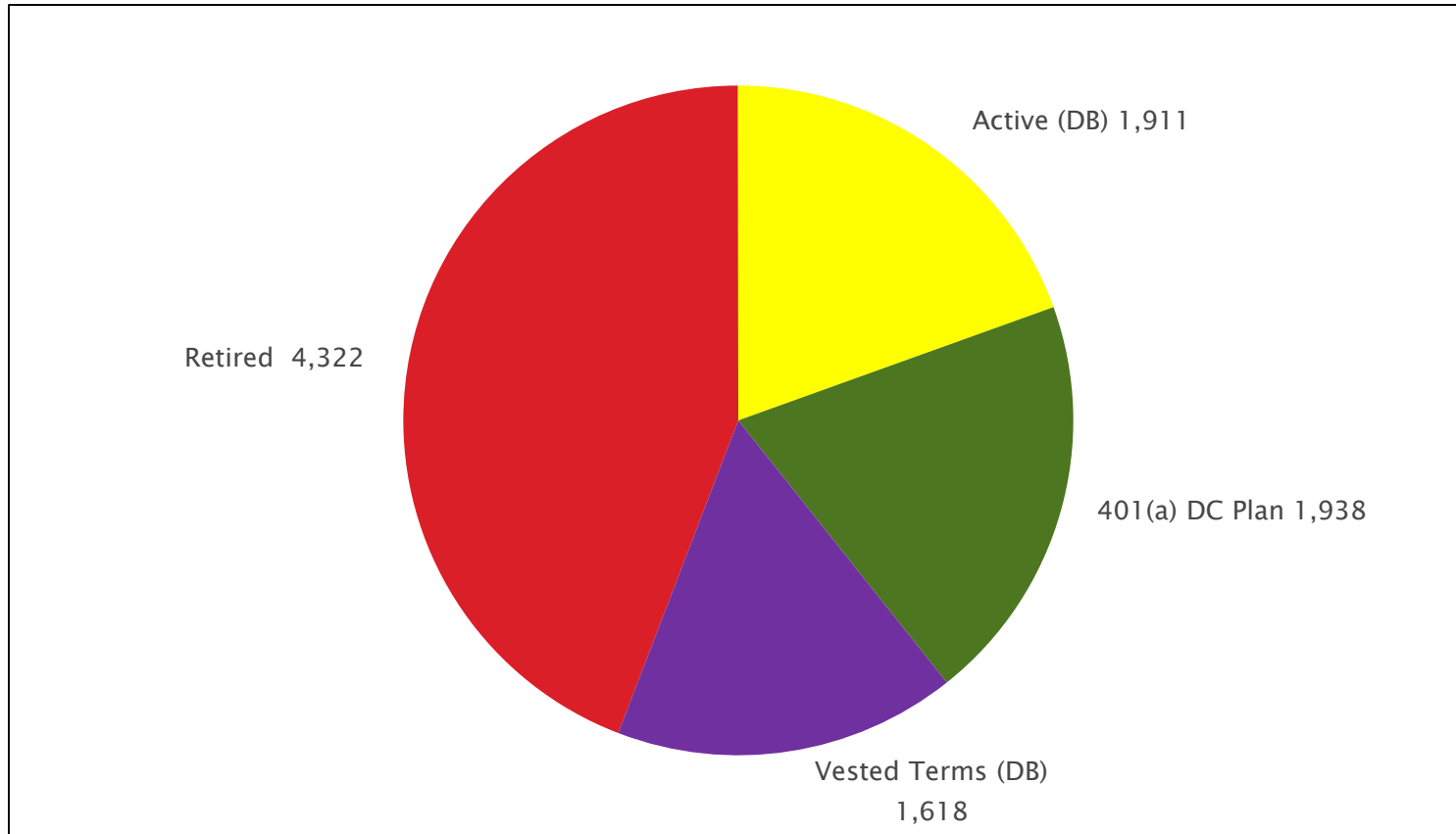
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# Executive Summary – DB Plan

- ▶ Funded status is 60.3% at June 30, 2016
  - Wilshire public plan median funded ratio in 2015 was 74%
  - Unfunded liability is \$340 million
  - Goal is to improve the funded status to 80% or more over a reasonable period of time
- ▶ Investment returns net of fees (target is 7.5% over time)
  - 6 mos. year-to-date at Dec. 31, 2016, 4.2%
  - 1 year at June 30, 2016, (0.10)%
  - 5 years at June 30, 2016, 6.0%
- ▶ Required employer contributions in future years projected at \$45-\$50 million per year through 2027

# Membership Composition



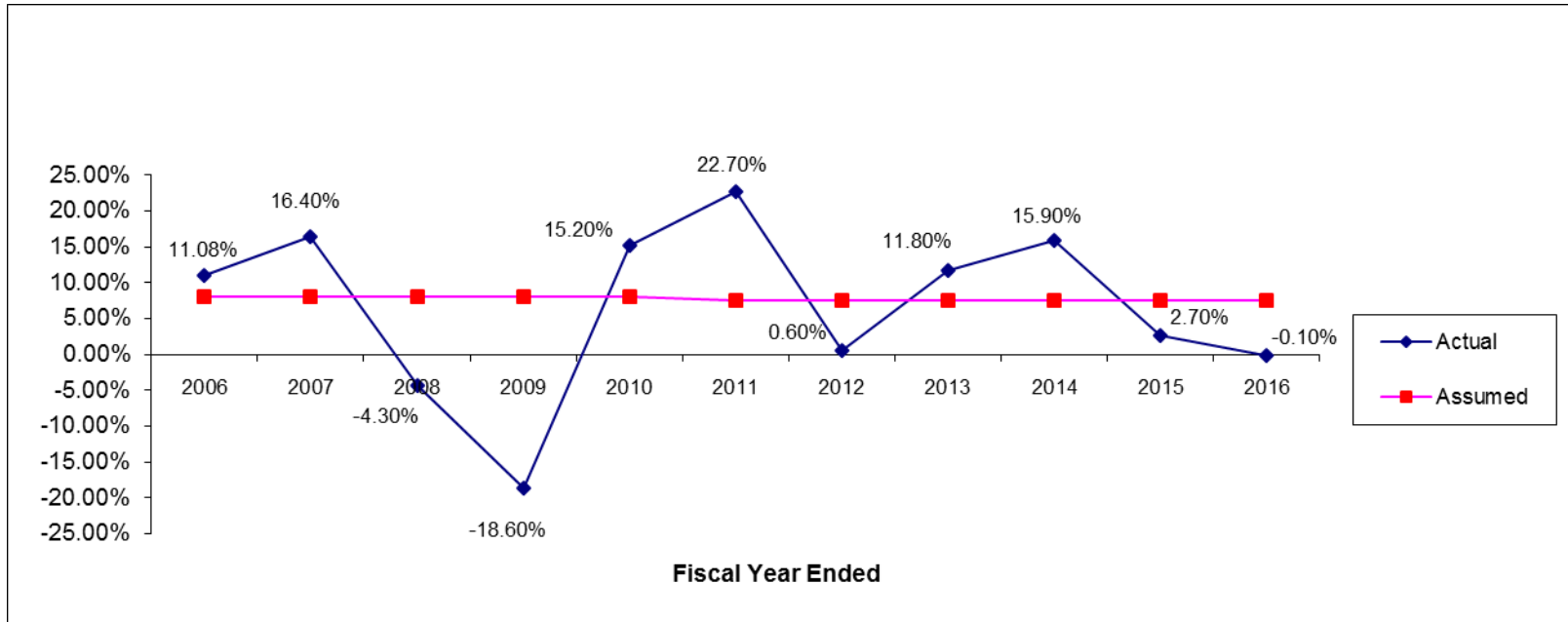
Retirees currently outnumber active members by more than 2-1 and active DC plan members now outnumber active DB plan members.

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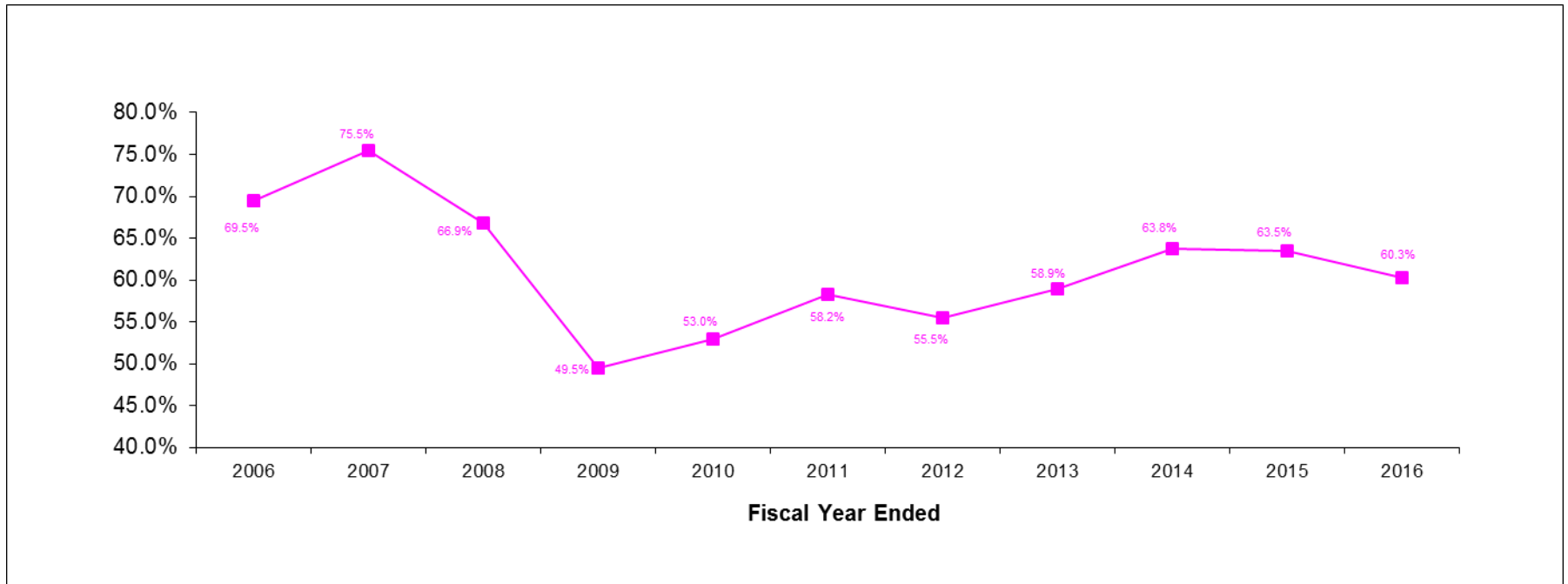
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# Net Investment Rate of Return



The long term assumed rate of return for purposes of valuing liabilities was 8% until 2010 and 7.5% thereafter.

# Funded Status



The funded status remains significantly below the goal of becoming at least 80% funded.

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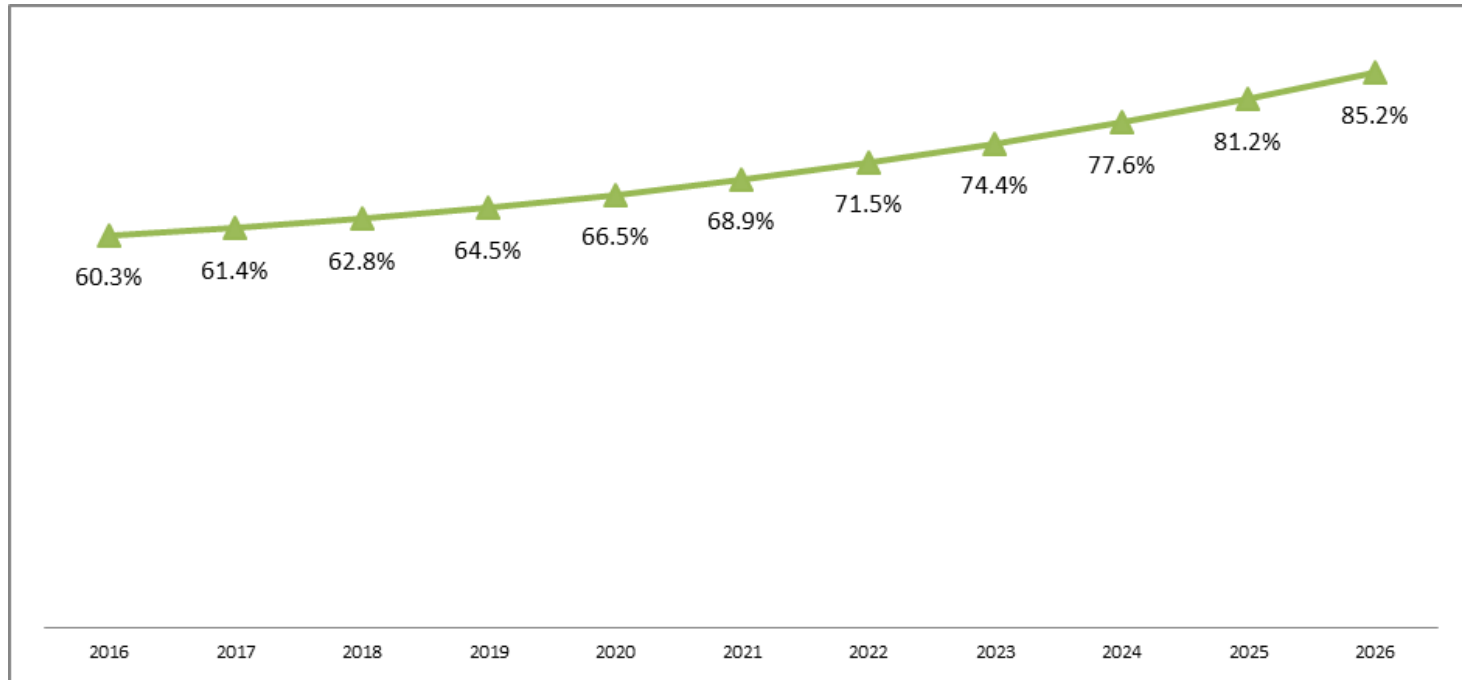
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# Projected Funded Status

Fiscal Years Ended June 30



The funded status is projected to cross the 80% threshold in 2025 if all assumptions are realized

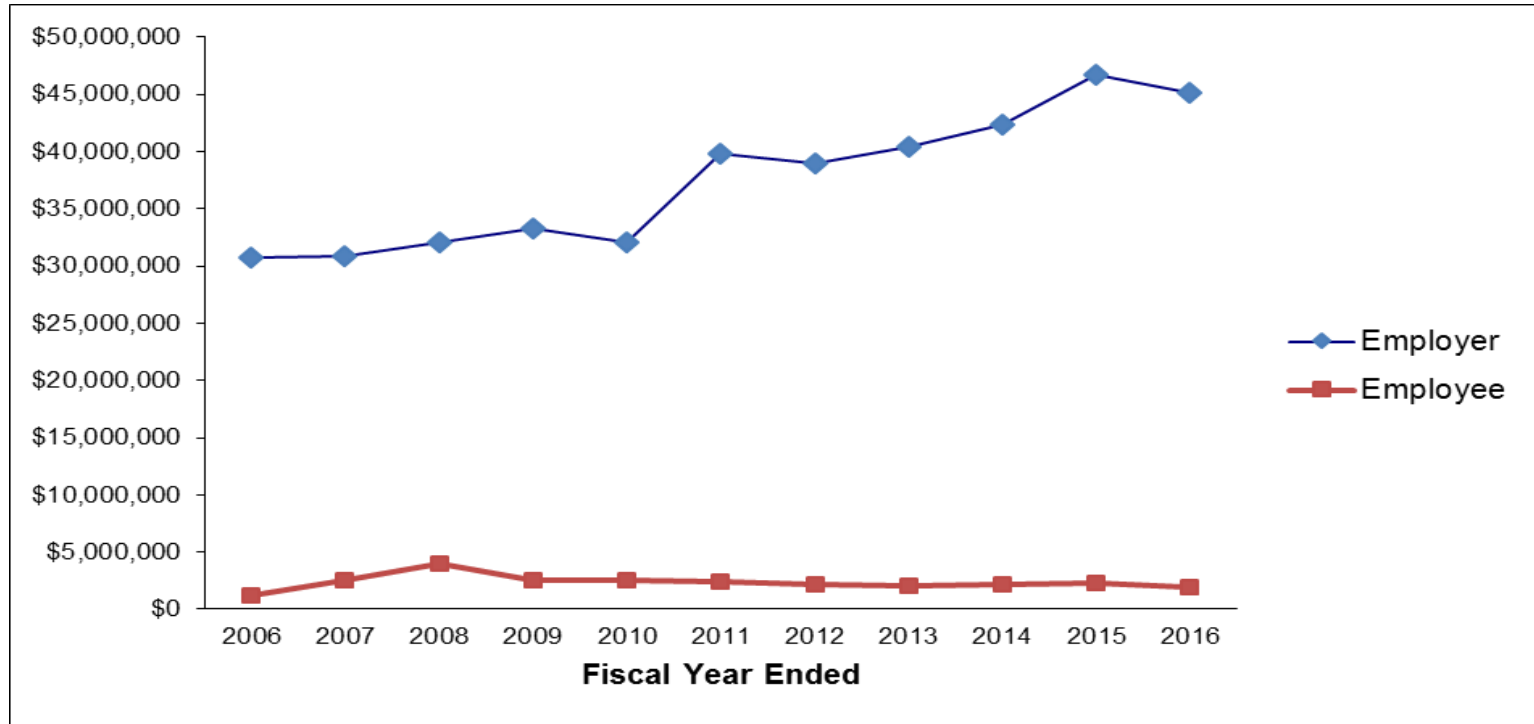
- 7.5% investment return
- No benefit enhancements or ad-hoc retiree COLAs are granted
- The employer(s) continues to fully fund the actuarially determined contribution

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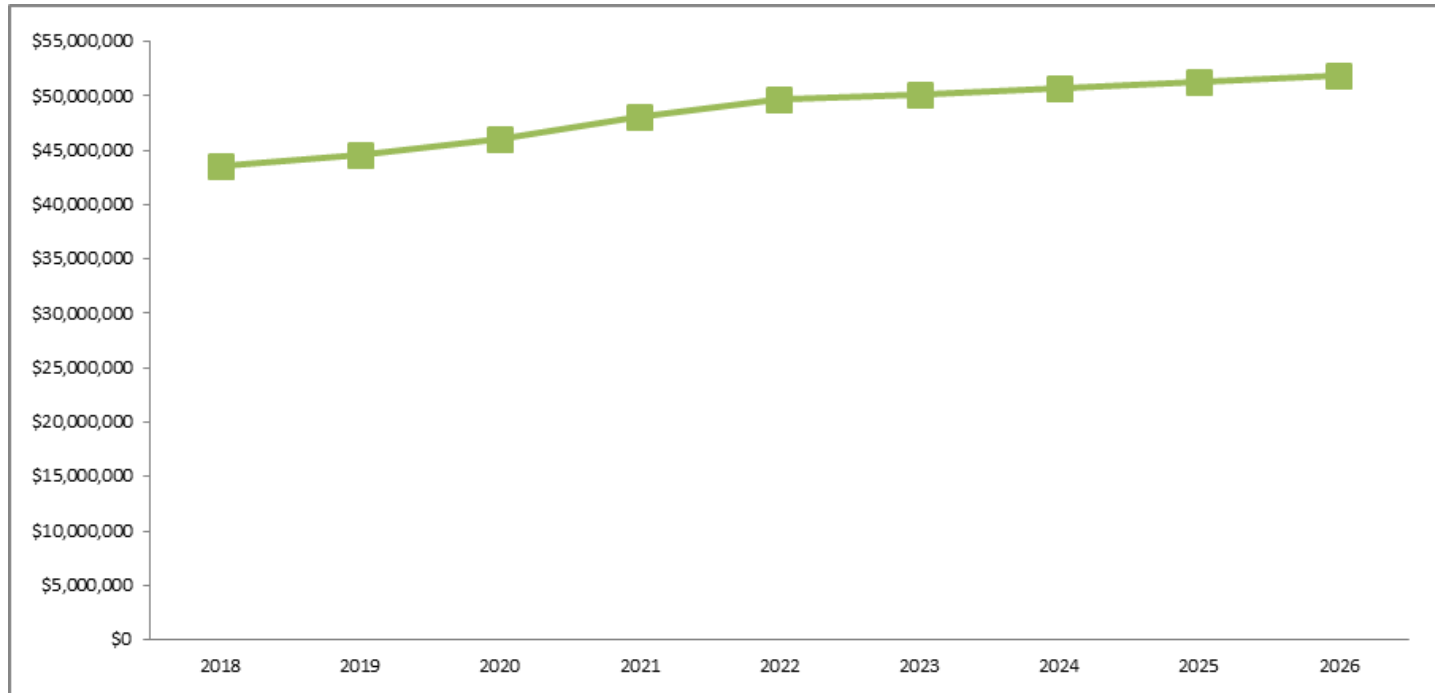
# Contributions



The City provides the majority of the funding for the DB Plan. In addition, for the fiscal year ended June 30, 2016, the City also contributed \$4.7 mil to the 401(a) DC Plan.

# Projected Employer Contributions

Fiscal Years Ended June 30



Employer contributions are projected to average \$45 - \$50M per year if all assumptions are realized

- 7.5% investment return
- No benefit enhancements or ad-hoc retiree COLAs are granted
- The employer(s) continues to fully fund the actuarially determined contribution

# Two Types of COLAs

- ▶ *Automatic and prefunded* though the contribution rate
  - VRS uses this approach
- ▶ *Ad hoc*
  - Richmond uses this approach
  - Triggered by an event, such as the funded ratio reaching 80%
  - City Council has the ultimate authority to grant ad hoc COLAs

# Recommendations

- ▶ The City should give consideration to finding additional funding sources for the pension plan
- ▶ Hold the line on benefit enhancements
  - The Board has recommended against granting an ad hoc COLA due to the funded status of the plan although the City could pay up front for an ad hoc COLA at the cost of approximately \$5.7 mil for each 1% COLA granted
  - Alternatively, the City could adopt an automatic COLA based on some reflection of the CPI and build the additional cost into the annual contribution rate