

**Richmond Retirement System (RRS)
Presentation to
Organizational Development Committee**

May 6, 2019



Today's Agenda

- RRS Structure
- Financial Summary
- Experience Study Results
- Membership composition
- Investment rate of return
- Funded status
- Contributions
- COLAs

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Structure of 3 Retirement Plans

- ▶ Defined Benefit (DB) Plan - \$569 mil at 6/30/18
 - Closed plan as of 7/1/06 except for Police, Fire and a small group of Senior Executives
- ▶ Defined Contribution (DC) 401(a) Plan - \$60 mil
 - *Employer* contributions only
- ▶ Defined Contribution (DC) 457(b) Plan - \$115 mil
 - Designed for *Employee* contributions

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RRS Governance Structure

- ▶ RRS is governed by a seven member Board of Trustees
 - There is a seven member Investment Advisory Committee
 - The Executive Director reports to the Board



Financial Summary – DB Plan

- ▶ Funded status is 65.1% at June 30, 2018 compared to 64.0% at June 30, 2017
 - NCPERS 2018 average funded status is 72.6%
 - Unfunded liability is \$306 million, down from \$311 million
- ▶ Investment return net-of-fees:
 - Fiscal year-to-date at March 31, 2019, 1.3% (preliminary)
 - 1 year at June 30, 2018, 7.2%
 - 5 years at June 30, 2018, 7.4%
- ▶ RRS administrative expenses were \$382k, or 22%, under budget last fiscal year.

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Experience Study

- ▶ In accordance with the City code, the Board is required to conduct an Experience Study at least once every five years; the Board completed an Experience Study in late March 2019
- ▶ Demographic and economic assumptions were reviewed by the actuary along with valuation methodology
- ▶ Changes adopted by the Board impact the System's July 1, 2019 Valuation

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Experience Study Results

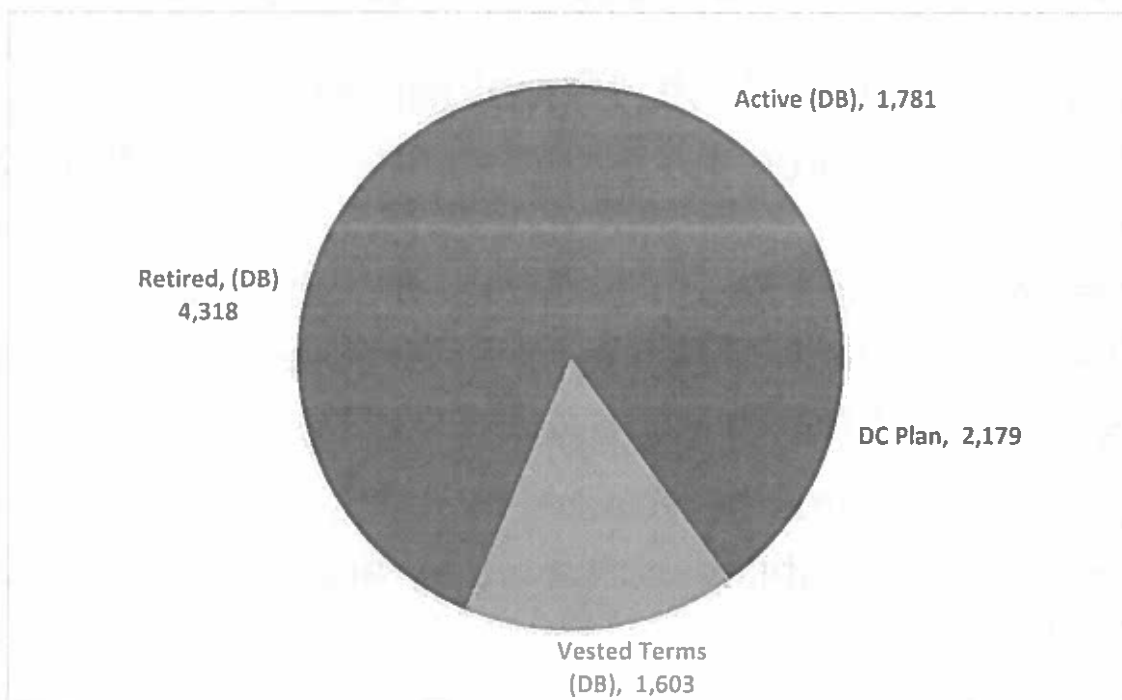
- ▶ Effective for July 1, 2019 Valuation
 - The Board lowered the assumed rate of return from 7.5% to 7.0%
 - A newly released Mortality Table was approved
 - Other assumption changes were enacted
- ▶ As a result of the Experience Study
 - The funded status decreases by 4.4%
 - The unfunded liability increases by approximately \$62 million
- ▶ Employer contributions are projected to exceed \$50 million per year beginning in fiscal year 2021

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Membership Composition



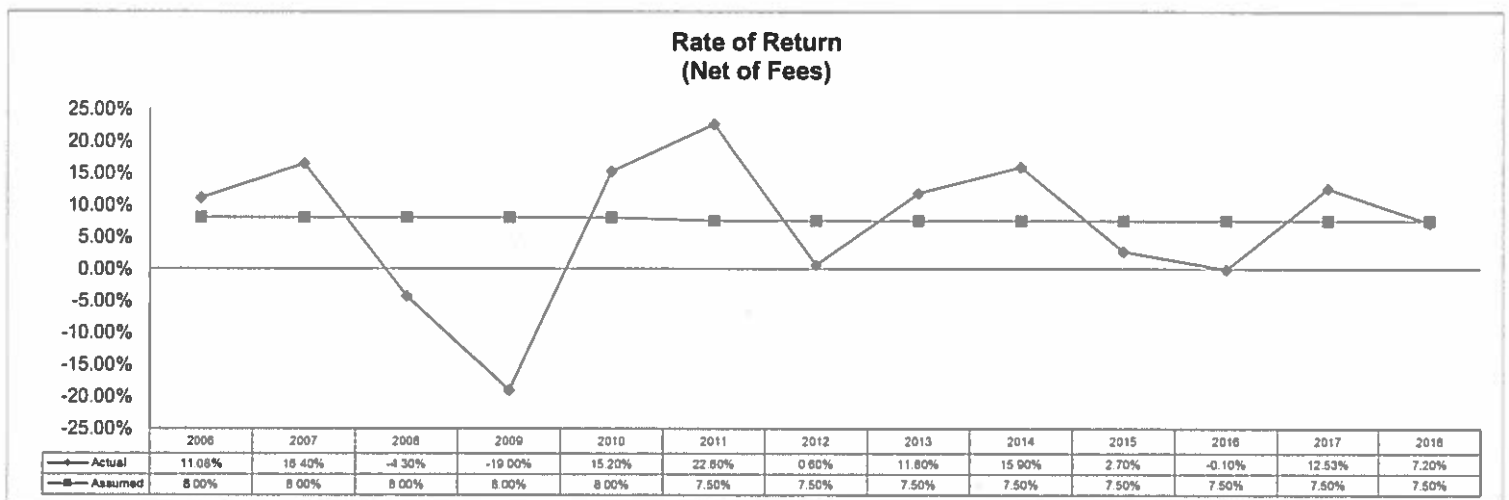
Retirees outnumber active members by more than 2-1 and active DC plan members outnumber active DB plan members.

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Net Investment Rate of Return



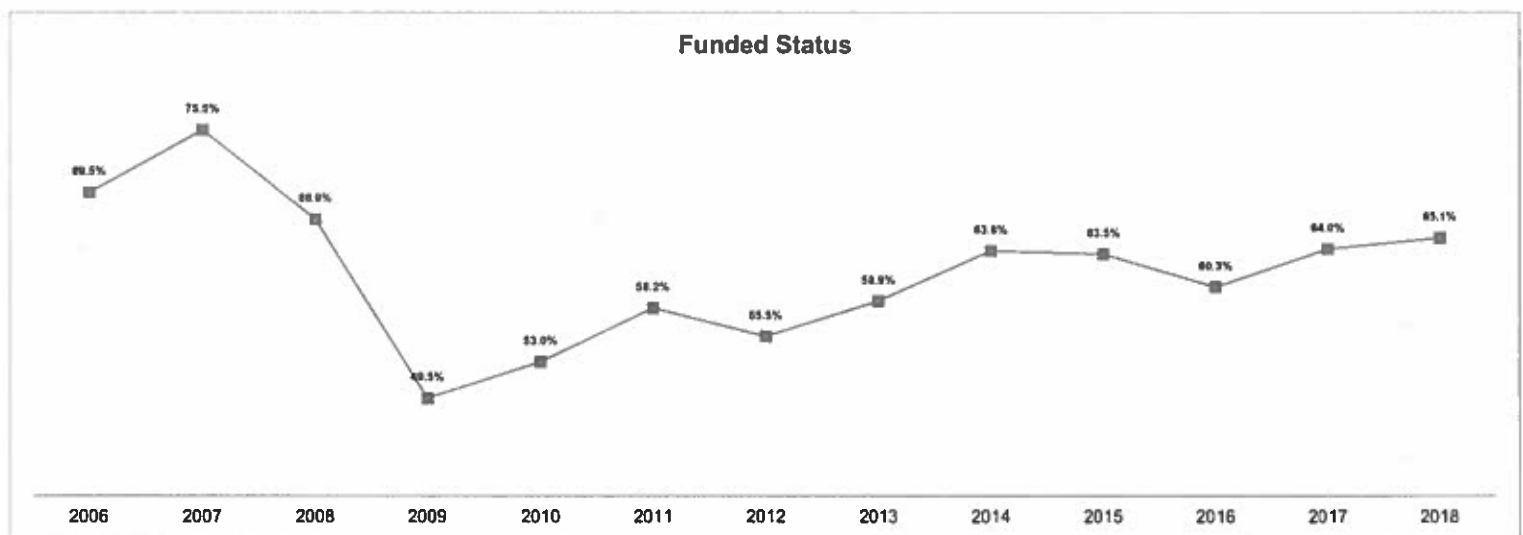
The long term assumed rate of return for purposes of valuing liabilities was lowered from 8.0% to 7.5% on July 1, 2011 and will be lowered again to 7.0% effective July 1, 2019.

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Funded Status



The funded status is below the NCPERS 2018 average funded status of 72.6% but has improved over the past two years and is at its highest level since 2008. However, assumption changes adopted as a result of the 2019 Experience Study will reduce the funded status by 4.4%.

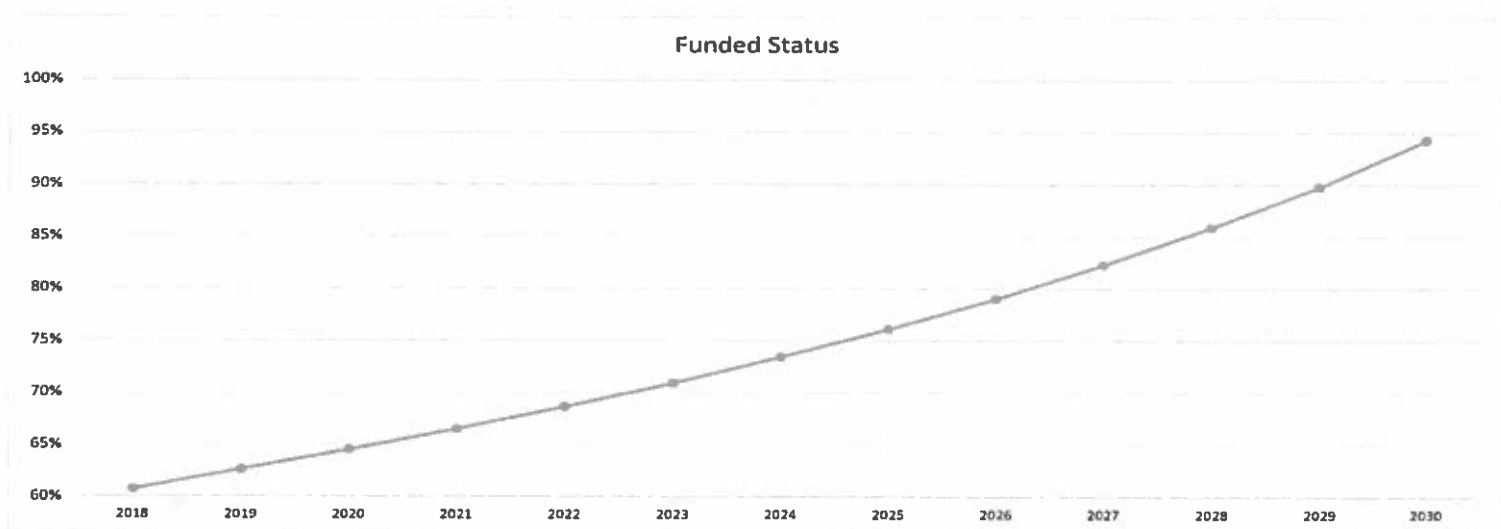
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Projected Funded Status

Fiscal Years Ended June 30



The funded status is projected to approach 90% over a decade, if all current assumptions are realized (actual results will vary)

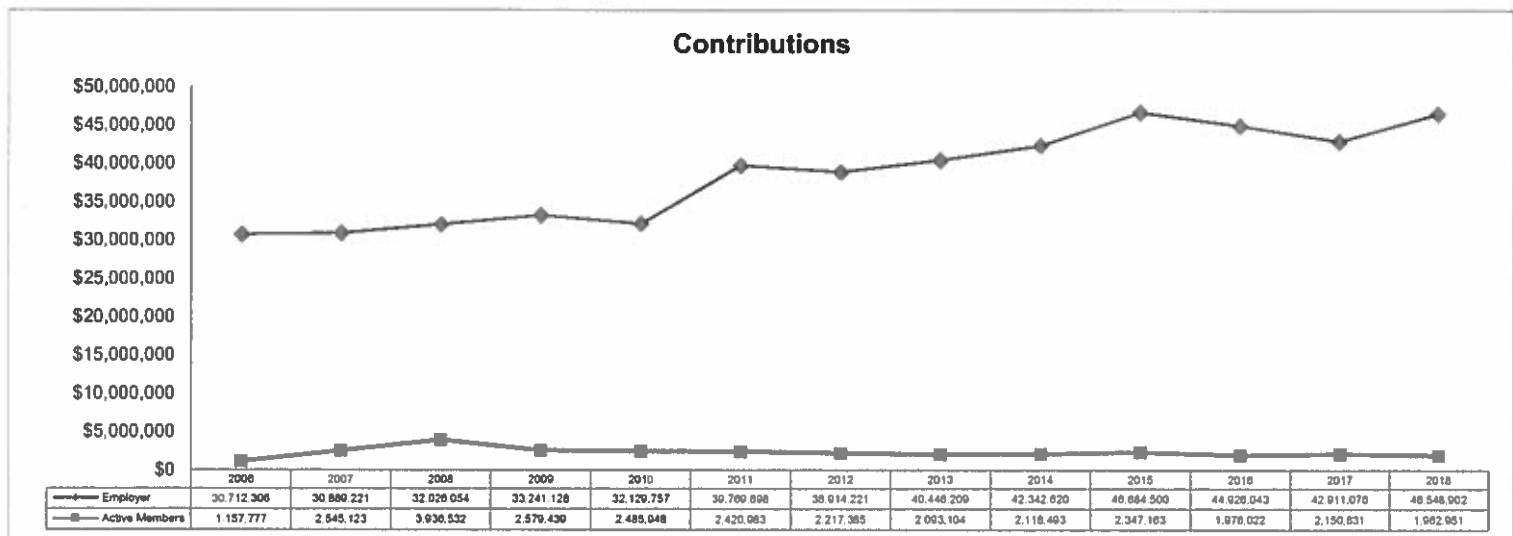
- 7.0% assumed investment return
- No benefit enhancements or ad hoc retiree COLAs are included in the projections
- Assumes the employer(s) continues to fully fund the actuarially determined contribution

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Contributions



The City provides the majority of the funding for the DB Plan. In addition, the City contributed \$5.2 mil to the 401(a) DC Plan in FY 2018.

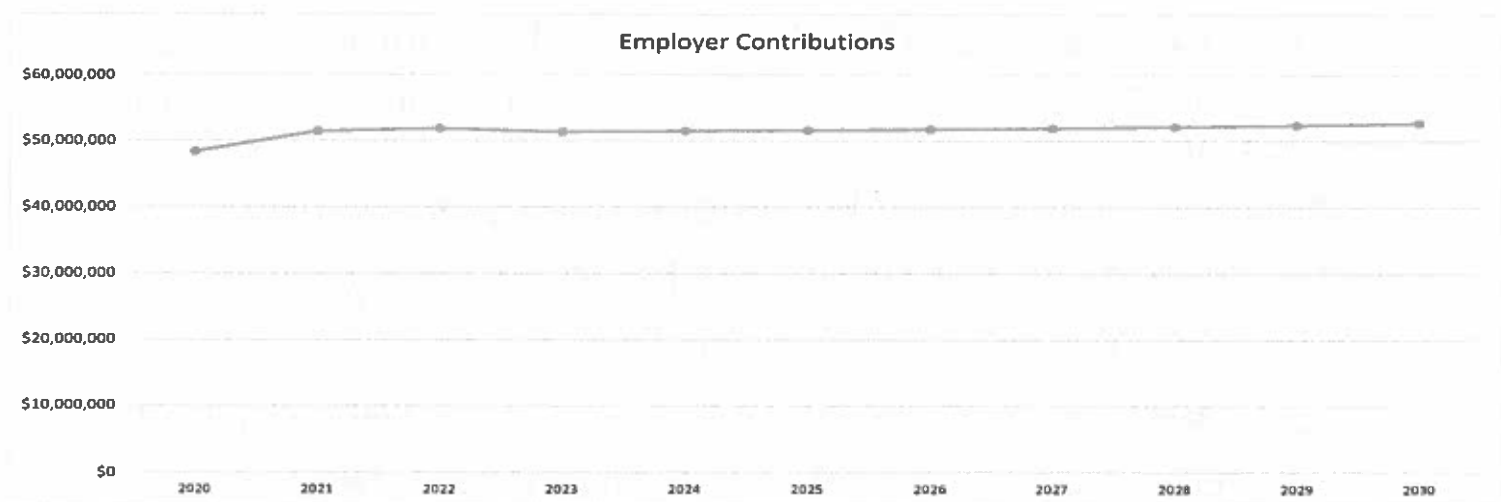
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Projected Employer Contributions

Fiscal Years Ended June 30



Employer contributions are projected to exceed \$50 million per year beginning in FY 2021 if all current assumptions are realized (actual results will vary)

- 7.0% assumed investment return
- No benefit enhancements or ad hoc retiree COLAs are included in the projections
- Assumes the employer(s) continues to fully fund the actuarially determined contribution

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COLAs

- ▶ There are two types of COLAs:
 - ***Automatic and prefunded*** though the contribution rate. This method is used by VRS and the majority of Virginia pension plans.
 - ***Ad hoc*** – The City of Richmond uses this approach
- ▶ City Council is responsible for *benefits' policy*, including the granting of ad hoc COLAs.
- ▶ The Board is responsible for *administration* of the plan per Sec. 22-41 of the Municipal Code.
- ▶ Therefore, the Board no longer makes recommendations on granting ad hoc COLAs as that is a benefits' policy decision, which is outside the scope of the Board's responsibilities.

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Cost of an Ad hoc COLA

- ▶ Upon request, RRS will continue to provide the cost of granting an ad hoc COLA
- ▶ A 2% one-time ad hoc COLA:
 - Increases the liability by approximately \$12.4 million
 - Decreases the funded status by 0.7%
 - Increases the employer contribution by approximately \$1.7 million for ten years

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