



Memorandum

TO: Board of Administration for the
Federated City Employees' Retirement System

FROM: Prabhu Palani

SUBJECT: Annual Pre-funding Contributions
By the City

DATE: March 17, 2022

RECOMMENDATION

Discussion and action on the City's prefunding option for fiscal year 2022-23.

ANALYSIS

The attached memorandum from the Plans' legal counsel entitled, "Board Discretion Regarding the Discount Rate Used for Determining Actuarial Equivalence of the City's Pre-Funding Option", dated April 20th, 2015, states that the Municipal Code reserves the exclusive right for the City to elect to pre-fund its contributions. However, the Boards do have the discretion to determine the "actuarial equivalence" when calculating the pre-funding amount.

In practice, staff has recommended implementing an incremental reduction approach to determining "actuarial equivalence" predicated on the average duration of business expansions and the absolute returns of broad indices (please see detailed methodology in the attached memo, "Prefunding Risk Mitigation Process Recommendation", dated September 15th, 2014), which has been approved by both Boards. At the February 22, 2022 Investment Committee meeting for each Plan, Staff recommended modifying the existing methodology by adding equity valuations as an additional triggering metric for incrementally reducing the pre-funding discount rate ("Staff Recommendation to update Prefunding Discount Rate Calculation," February 22, 2022).

CONCLUSION

Staff recommends adopting the modified methodology for determining the prefunding discount rate and providing the City with a 15% reduction to the full discount rate.

Prabhu Palani
Chief Investment Officer