

RESOLUTION NO. 2016-39

**RESOLUTION ADOPTING REVISED PENSION FUNDING POLICY FOR
THE CITY OF FOREST GROVE RETIREMENT PLAN**

WHEREAS, the City of Forest Grove has defined benefit pension plan for some employees known as the City of Forest Grove Retirement Plan (Plan); and

WHEREAS, the City adopted a Plan Pension Funding Policy effective December 14, 2015; and

WHEREAS, the City has changed some actuarial assumption resulting in a need to revise the adopted funding policy.

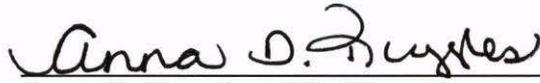
**NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF FOREST GROVE
AS FOLLOWS:**

Section 1. The City Council adopts the City of Forest Grove Retirement Plan Pension Funding Policy marked as Exhibit A.

Section 2. Resolution No. 2015-88 is hereby repealed.

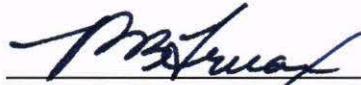
Section 3. This resolution is effective immediately upon its enactment by the City Council.

PRESENTED AND PASSED this 13th day of June, 2016.



Anna D. Ruggles, City Recorder

APPROVED by the Mayor this 13th day of June, 2016.



Peter B. Truax, Mayor

Exhibit A

City of Forest Grove Retirement Plan Pension Funding Policy (Revised June 13, 2016)

Background

The City of Forest Grove Retirement Plan Trust is a tax exempt trust which holds assets and funds benefits under the City of Forest Grove Retirement Plan (Pension Plan or Plan), a governmental defined benefit plan. The Plan's assets are held for the exclusive benefit of participants and beneficiaries under the terms of the retirement plan established by the City of Forest Grove (the City), and cannot be used to pay any benefits or expenses of any other retirement plan or trust. The benefits are funded by employer and employee contributions, and earnings from Pension Plan investments.

Purpose

The purpose of this Pension Funding Policy is to document the primary components of the City's current funding policy. The City may choose to modify the Pension Funding Policy at any time by the City Council approving a resolution to revise the adopted policy.

Overview

The City intends to systematically fund the Plan's liabilities on a sound actuarial basis. The determination of actuarially sound contribution requirements are based upon the following methods:

- Actuarial Cost Method
- Asset Valuation Method
- Amortization Method

The methods chosen by the City are detailed below.

Actuarial Cost Method

The Actuarial Cost Method is the method used to allocate the pension costs (and contributions) over an employee's working career. The policy objective is that each participant's benefit should be fully funded under a reasonable allocation method by the expected retirement date. Benefit costs should be determined as a level percentage of compensation and include expected income adjustments. The Actuarial Cost Method used to determine the Plan's funding requirements shall be the **Entry Age Normal (level percentage of payroll)** method.

Asset Valuation Method

The Asset Valuation Method is the method used to develop the Plan's Actuarial Value of Asset's, which is the asset value used to determine the Plan's funding requirements. For this purpose, the Plan's assets shall be valued at **Market Value**, with no "smoothing" of actuarial gains and losses resulting from investment performance.

Amortization Method

The Amortization Method refers to the length of time and structure of the payments required to systematically funds accrued employee benefits not covered by the Actuarial Value of Assets. The Plan's amortization policy will have an overall goal of stable costs and intergenerational equity. The Amortization Method incorporates the following components:

"Open" or "Closed" Period: Changes in the Plan's unfunded liability will be amortized over a **closed amortization period** (rather than utilizing a "rolling" amortization period).

Amortization Period: Effective July 1, 2014, emerging amortization bases will be amortized over a **15 years**.

Payment Increase Assumption: When developing the amortization schedule for a given amortization base, payments will be assumed to increase at **2.50% per annum**.

Frequency of Calculation

The calculation of the actuarially determined contribution requirement based upon the above methods will be completed annually.

Actuarial Assumptions

In addition to the methods outlined in this document, the Plan's funding requirements for a given year are highly dependent on the actuarial assumptions used to determine the Plan's pension liability. The assumptions used for this purpose will be reviewed annually as part of annual actuarial valuation process. The City has ultimate authority over assumptions used to determine the Plan's funding requirements.

Contributions under Temporary Phase-In Policy

The additional contributions resulting from the adoption of the updated actuarial assumptions in the July 1, 2015 valuation will be phased in over three years. The recommended contributions for the fiscal years ending June 30, 2017 and 2018, from the July 1, 2015 and 2016 valuations respectively, will reflect the temporary phase-in policy. The recommended contribution in both valuations will be calculated under the assumptions from the July 1, 2014 valuation (prior assumptions) and July 1, 2015 valuation (updated assumptions). The final recommended contribution from each valuation will equal the recommended contribution using the prior assumptions plus a percent of the difference between the contributions calculated using the prior and updated assumptions. The percent will equal 33.3% in the 2015 valuation and 66.7% in the 2016 valuation. The recommended contribution for fiscal years ending on and after June 30, 2019 will be calculated solely using the updated assumptions.



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<i>CITY RECORDER USE ONLY:</i>	
AGENDA ITEM #:	<u>10.</u>
MEETING DATE:	<u>6-13-16</u>
FINAL ACTION:	<input checked="" type="checkbox"/>

CITY COUNCIL STAFF REPORT

TO: *City Council*

FROM: *Jesse VanderZanden, City Manager*

MEETING DATE: *June 13, 2016*

PROJECT TEAM: *Paul Downey, Administrative Services Director*

SUBJECT TITLE: *Revised Defined Benefit Retirement Plan Funding Policy*

ACTION REQUESTED:

<input type="checkbox"/>	Ordinance	<input type="checkbox"/>	Order	<input checked="" type="checkbox"/>	Resolution	<input type="checkbox"/>	Motion	<input type="checkbox"/>	Informational
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X all that apply

ISSUE STATEMENT: The City adopted a Funding Policy for the City’s Defined Benefit Retirement Plan (Plan) on December 14, 2015. Since then, the City has changed some of the actuarial assumptions for the Plan resulting in a need to revise the Funding Policy. Attached is a resolution adopting the Funding Policy for the City of Forest Grove Retirement Plan.

BACKGROUND: The actuary presented significant changes to the current actuarial assumptions which the City Council discussed at work session and budget committee meetings. The assumptions if implemented immediately would have added approximately \$1.2 million to the City’s contributions to the Plan. The City decided to make the changes to the actuarial assumptions but implement the financial impact of those changes over three years.

There are two revisions proposed to the current Funding Policy:

- When developing the amortization schedule for a given amortization base, payments will be assumed to increase at 2.50% per annum instead of the previous rate of 2.75%. This change is be consistent with the new inflation assumption for the Plan.
- The other change adds the sections “Contributions under Temporary Phase-in Policy” that describes that the additional contributions resulting from the updated actuarial assumptions will be phased in over three years.

FISCAL IMPACT: Over the next three years, the City will need to add \$1.2 million in ongoing annual contributions to the City’s Defined Benefit Plan contributions. This amount will be allocated to the funds that have employees in the Defined Benefit Plan.

STAFF RECOMMENDATION: Staff recommends approval of the resolution.

ATTACHMENT(s): Resolution