City of Portland Bureau of Fire and Police Disability and Retirement
Agenda for Regular Meeting – Board of Trustees
City Council Chambers – City Hall
1221 SW Fourth Avenue, 2nd Floor, Portland, Oregon 97204
Tuesday, March 26, 2013 – 1:00 p.m.

ADMINISTRATION
The following consent item(s) are considered to be routine and will be acted upon by the Board in one motion, without discussion, unless a Board member, staff member or the public requests an item be held for discussion.

1 Approval of Minutes – January 22, 2013 Meeting
2 Introduce Mayor Charlie Hales

INTRODUCTION OF VISITORS

PUBLIC COMMENT PERIOD
A sign up sheet for members of the public wishing to make public comments will be available at the meeting. The public comment period will not exceed 30 minutes. Therefore, the Board may limit individual comments to three minutes per person. In addition, a sign up sheet will be available prior to the meeting to allow public members the opportunity to sign up for an agenda item which they wish to provide comment on. When discussion on a specific agenda item is to begin, the public member will be allowed three minutes to provide comments, unless additional time is allowed by the Board.

ACTION ITEMS

1 Annual Adjustment Review
   o Issue: What shall be the FPDR Two 2013 benefit adjustment, and how shall FPDR Two benefit adjustments be calculated going forward?
   o Expected Outcome: Board determines FPDR Two 2013 benefit adjustment and gives direction on future steps.

2 Resolution No. 475 – Milliman Contract Authorization
   o Issue: Selection Committee recommends contracting with Milliman to provide actuarial services.
   o Expected Outcome: Board adopts resolution authorizing FPDR Director to enter into agreement for actuarial services.
INFORMATION ITEMS
The following information items do not require action by the Board and are solely for informational purposes unless a Board member, staff member or the public requests an item be held for discussion.

1  Fire Bureau Fitness Updates
2  Legislative Updates
3  FPDR Updates
4  Legal Updates
5  Future Meeting Agenda Items:
   o  HEART Act Plan Amendment
   o  Administrative Rule Updates
   o  Legislative Updates
   o  State of FPDR

Copies of materials supplied to the Board before the meeting, except confidential items and those referred to Executive Session, are available for review by the public on the FPDR website at www.portlandonline.com or at the FPDR offices located at: 1800 SW First Avenue, Suite 450, Portland, Oregon 97201

NOTE: If you have a disability that requires any special materials services or assistance call (503) 823-6823 at least 48 hours before the meeting.

*denotes items will be in Executive Session pursuant to ORS 192.660(2)(f) and not open to the public
#denotes items will be in Executive Session pursuant to ORS 192.660(2)(h) and not open to the public
A regular meeting of the Board of Trustees of the Fire and Police Disability and Retirement Fund was called to order the 22nd day of January, 2013 at 1:02 p.m.

Board Members Present Included:

Mr. Justin Delaney, Citizen Trustee/Chair Pro Tem
Mr. Jason Lehman, Fire Trustee
Mr. Robert Foesch, Police Trustee
Mr. David Dougherty, Citizen Trustee

Also Present Were:

Ms. Linda Jefferson, FPDR Director
Ms. Kimberly Mitchell, FPDR Claims Manager
Ms. Nancy Hartline, FPDR Finance Manager
Mr. Kenneth A. McGair, Deputy City Attorney
Ms. Derily Bechthold, Deputy City Attorney
Mr. Lorne Dauenhauer, Outside Legal Counsel
Ms. Maxine Bernstein, Oregonian
Mr. Gabe Sansone, Fire Liaison
Mr. Brett Williamson, Police Liaison
Ms. Shannon Callahan, Director of Social Policy (Comm. Saltzman’s office)
Mr. Matt Larrabee, Actuary, Milliman
Mr. Scott Preppernau, Actuary, Milliman
Mr. Alan Ferschweiler, President, PFFA
Mr. Jesse Rhinevault, PFFA

Mr. Delaney called the meeting to order. He stated that before the Board moves further, a Chair Pro Tem needed to be designated. **Mr. Dougherty made a motion which was seconded by Mr. Foesch and passed with no objections to designate Mr. Delaney as the Chair Pro Tem.**

Mr. Delaney asked if there were any comments to the minutes of the November 27, 2012 Board meeting.

**Mr. Lehman made a motion which was seconded by Mr. Dougherty and unanimously passed to approve the minutes of the November 27, 2012 Board meeting (Mr. Foesch abstained from the vote as he was not present at the November 27, 2012 meeting).**
Mr. Delaney introduced re-elected Fire Trustee, Jason Lchman, and newly elected Police Trustee, Bob Foesch. Introductions were then made of those in attendance. There were no General Public Comments.

Action Item No. 1 – Actuarial Valuation and Levy Adequacy Analysis

Mr. Larrabee came before the Board and provided a presentation of the 1) Actuarial Valuation and 2) Levy Adequacy Analysis. He started with the actuarial valuation and stated that it is conducted biennially and that the valuation was conducted as of a June 30, 2012 snapshot date. He briefly went over the uses and limitations of the valuation. Mr. Larrabee also stated that the actuarial valuation is a very long-term calculation. He stated that the Fund paid out $8 to $9 million per month in retirement and disability benefits in the fiscal year that ended June 30, 2012. He added that in their valuation, those benefits are projected to increase for the next 20 to 25 years and then decrease thereafter. He also went over a chart showing benefit payments on a non-inflation adjusted basis, as well as an inflation-adjusted basis. He went over his valuation results and explained that a 3.5 percent discount rate was used based on current capital market assumptions and applicable financial reporting standards. He added that the biggest number on his results were for accrued liability, which increased to 2.9 billion, with much of that increase attributable to a change in the discount rate and net present value.

Mr. Delaney stated that the discount rate matters only for purposes of calculating the future liability of the Fund and has nothing to do with what they might actually earn since they are not investing money. He stated that he understands that and agrees with the reduction, but wanted to know why for some purposes they talk about anticipated inflation rate (2.75%), but for Mr. Larrabee’s calculation, a discount rate is applied. Mr. Delaney asked why they do not just use the inflationary rate since they are talking about taxpayer money.

Mr. Larrabee explained that the liability calculation and discount rate he used was tied to underlying financial reporting standards from GASB. He explained how they end up with the 3.5 percent discount rate and that it is really more of a budgeting and financial reporting matter for the employer.

Mr. Larrabee then began to explain the components of the levy analysis. He went over the move from FPDR Two to Three (a pay-as-you-go system to a pre-funded program) and explained that the levy will be funding two generations. He added that they will be
transitioning to a less expensive program, but the transition will occur very slowly (more than 20-25 years out). He also explained the basis for the levy adequacy model and went over the development of the final levy and the total requirements. Mr. Larrabee stated that several adjustments were made to the total requirements amount to develop a final levy. He stated that based on consultations with the City Economist and FPDR, the net effects of the adjustments for the years after fiscal year 2012-2013 was a 14.9 percent increase for total requirements up to the final levy. He then went over the final levy chart in dollars and as a rate per $1,000 of RMV. Mr. Larrabee also explained that the Oregon PERS Board had set a policy where the shortfalls due to 2008 are paid off over 20 years, but there is talk to change that to 30 years. He stated that would cause a payroll rate change to Oregon employers of about 3 percent and the shortfalls would be paid over a 30-year period instead of a 20-year period. Mr. Larrabee also explained how the picture would look and how that would affect the levy. He stated that it would help a little bit but would also extend out the period upon which payments are higher before beginning to turn down.

Mr. Delaney also stated that the League of Cities, including Portland, are proposing legislation to refer to voters for a compression fix and one of the ideas being discussed is to reassess property values upon sale. He asked how that would have changed Mr. Larrabee’s analysis. Mr. Larrabee replied that changing market value is really changing the assessed value on sale and his number focuses on the real market value basis rather than an accrued basis.

Mr. Lehman made a motion which was seconded by Mr. Delaney and unanimously passed by a roll call vote of 4-0 to accept the Levy Adequacy and Actuarial Valuation.

<table>
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<th>Aye</th>
<th>Mr. Dougherty, Mr. Delaney, Mr. Foesch, Mr. Lehman</th>
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<tr>
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<tr>
<td>Abstain</td>
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Action Item No. 2 – Adopt 2013-2014 Budget

Ms. Hartline presented the Board with the recommended budget and five-year forecast. She went over pension benefit adjustments. She also recommended maintaining contingency at 9 percent. She went over the risks to the forecast and stated that the tax levy is at $1.72 per $1,000 real market value. Ms. Hartline also provided clarifications of the increase in personnel services expense.

Mr. Dougherty made a motion which was seconded by Mr. Lehman and unanimously passed by a roll call vote of 4-0 to adopt the Recommended Budget as the FPDR Requested Budget.
Action Item No. 3 – Resolution No. 473 – Amend Managed Healthcare Northwest Contract

Ms. Jefferson went over Resolution No. 473 and explained that medical bill audit and payments have been done by ExamWorks. However, she stated that ExamWorks was changing their business model and would no longer be available for medical bill audits. She added that there was a vacant staff position, and when they reevaluated what their needs were going to be going forward, they determined that they needed greater support rather than a disability analyst position. Therefore, she stated that the position was reclassified so the bill payment process could be done entirely in-house. She also stated that ExamWorks has paid for the portion of the cost savings rendered from medical bill payments to providers on the Managed Healthcare Northwest (MHN) contracted panel providers to MHN. Ms. Jefferson stated that the FPDR will now need to pay the cost savings directly to MHN and explained that Resolution No. 473 would amend the MHN contract to do so.

Mr. Dougherty made a motion which was seconded by Mr. Lehman and unanimously passed by a roll call vote of 4-0 to approve Resolution No. 473.

Action Item No. 4 – Resolution No. 474 – Administrative Rules Section 5.1 – Procedural Rules Governing Rulemaking

Ms. Jefferson explained that the amendment to Section 5.1 provides detail as to the notice for rulemaking. Mr. Delaney questioned 5.1.04(B) and proposed an amendment to add additional language and to combine the date, time and location into one subsection.

Mr. Delaney made a motion which was seconded by Mr. Foesch and unanimously passed to approve Resolution No. 474 as amended.
Aye | Mr. Delaney, Mr. Foesch, Mr. Lehman, Mr. Dougherty
Nay | None
Abstain | None
Absent | None

Information Item No. 1 – New Fire Bureau Liaison

Ms. Jefferson introduced Gabe Sansone as the new Fire Bureau Liaison to FPDR.

Information Item No. 2 – FPDR Update

Financial Audit:
Ms. Hartline stated that the FPDR had another clean audit report. She added that there was a new report at the back of the report on internal control and compliance and there were no issues raised.

Actuarial Services Request for Proposals:
Ms. Hartline reported that because the actuarial services contract with Milliman expires at the end of June, a request for proposals has been posted. She added that Trustee Dave Dougherty has agreed to be on the selection panel.

Succession Plan Update:
Ms. Jefferson reported she filled one of the vacancies. When disability manager Suzanne Bates retired at the end of December, one of their two senior analysts moved up to that position. Therefore, she is looking to fill the analyst position and she reported that they have just closed recruitment for that position and by the next board meeting will have an idea of how soon they can fill that position.

Internal Bill Audit Processing and Payments:
Ms. Jefferson explained that they were transitioning the bill audit process to bring it in-house and provided the Board with an update.

Miscellaneous:
Ms. Jefferson shared that City Council did approve their state legislative package, which includes one initiative and one position statement policy that deals with FPDR matters. She explained that the initiative has to do with the independent authority of FPDR and wanted the Board to be aware that the Government Relations Office will be promoting the initiative. Mr. Delaney clarified that it was a bill being introduced in the legislature to make FPDR independent from collective bargaining in the same manner as the PERS system.
Ms. Hartline also reported that the policy position that is included in the City Council's package is to oppose legislation that would impose unfunded mandates on local governments to follow actuarial standards other than those required by the Government Accounting Standards Board.

**AT 2:44 P.M. THE BOARD OF TRUSTEES WENT INTO EXECUTIVE SESSION PURSUANT TO ORS 192.660(2)(h).**

**AT 3:56 P.M. THE BOARD OF TRUSTEES CAME OUT OF EXECUTIVE SESSION AND RESUMED THEIR REGULAR ORDER OF BUSINESS.**

There being no further business, the meeting was adjourned at 3:57 p.m.

[Signature]

Linda L. Jefferson
FPDR Two Benefit Adjustment

March 26, 2013
Issues Before the Board

- Determine FPDR Two benefit adjustment methodology for 2013
- Decide whether to maintain the annual review of benefit adjustments or determine a methodology for staff to calculate future adjustments
Background

- Charter Section 5-312 gives the Board discretion in FPDR Two benefit adjustments, subject to not exceeding the PERS rate for sworn retirees

- Prior to 2011, staff followed the original Administrative Rule and calculated FPDR Two adjustments equal to the PERS rate or rates

- In 2011 the Administrative Rule was changed to have the Board annually review FPDR Two adjustments
Considerations: Fiscal Sustainability

- FPDR Two benefit adjustments are an expensive component of the FPDR plan and the only part over which the Charter gives the Board discretion.

- 2012 CPI* change was 2.31%.

- FY 2013-14 budget includes $1.5 million for FPDR Two pension benefit adjustments, assuming 2% increase.

*PERS uses the annual Portland-Salem Consumer Price Index-All Urban Consumers rate.
Considerations: Purchasing Power

- Benefit adjustments exist to maintain – to some extent – a benefit’s purchasing power over time

- FPDR Two members are eligible to retire at age 50 with 25 years of service or age 55, so the benefit is paid for 30 years or more

- Assuming a 2% adjustment in 2013:
  - Class of 1990’s purchasing power about 80%
  - 20-year retirees’ purchasing power about 90%
  - 10-year retirees’ purchasing power about 97%
Considerations: PERS Changes?

- Board is not constrained by PERS changes unless the change affects the maximum rate PERS uses.

- Board may decide to follow PERS adjustment methodology changes.

- Several bills have been introduced in Salem regarding PERS adjustments, and the Governor’s and the Ways and Means Co-Chairs’ budget proposals include savings from a change to the adjustment methodology.
Considerations: PERS Changes?, cont.

A proposal to apply the adjustment rate to up to some limit of the monthly base benefit amount may not make as much sense for FPDR with its more homogeneous group of participants and higher median benefit as it may for PERS

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Considerations: Equal to or Better

- If the Board continues the annual review of adjustments, FPDR should note this in its report to the PERS Board on the 2012 Charter changes, per the requirement to report benefit changes for possible ETOB review.

- Most recent ETOB review via preliminary determination was 125-150% of the PERS employer-funded benefit.

- Current PERS adjustment could account for up to 25% of the expected benefit.

- If the PERS Board requests an ETOB review, it may possibly take the form of a full test.
Considerations: ETOB, continued

- Key differences between PERS Tier One/Two and FPDR Plan for the ETOB test:
  - ETOB tests the employer-funded benefit:
    - PERS benefit had 6% of payroll member contributions through 2003
    - No member contributions for FPDR Two benefit
  - Benefit multiplier with minimum survivor benefit:
    - PERS Tier One/Two 2.0% of final pay
    - FPDR Two 2.8% of final pay
Milliman Analysis

- We have asked Milliman to present information regarding fiscal sustainability and purchasing power
Board Direction

- 2013 methodology
- Ongoing process
COLA Policy – Financial Modeling
FPDR

March 26, 2013

Matt Larrabee, FSA, EA, MAAA
Scott Preppernau, FSA, EA, MAAA

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appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who
receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when
reviewing the Milliman work product.
Introduction

- At the January Board meeting, we presented:
  - Results of our June 30, 2012 actuarial valuation
  - A levy adequacy analysis assessing the magnitude and potential volatility of future levies required to fund FPDR, including contributions to Oregon PERS for FPDR Three members

- Today, we will help inform the Board as it considers policy regarding annual cost-of-living adjustments (COLAs) for FPDR Two retirees
  - Relationship between COLA policy and projected benefit payments
  - Effect policies would have on levy adequacy modeling results
  - Effect alternative policies may have on retention of purchasing power
Projected Pension Benefit Payments

- Both our actuarial valuation and our levy adequacy model work are based on a long-term projection of benefits expected to be paid under the plan
  - Those analyses both assumed future FPDR Two COLAs will be 2% per year

- Our current long-term annual inflation assumption is 2.75%
  - The assumption is set to estimate average annual inflation over a long time horizon
  - This assumption will be reviewed in the upcoming actuarial experience study
Projected Pension Benefit Payments

- The graph shows 40 years of projected benefit payments from our recent valuation (does not include future hires or FPDR Threeprefunded benefits)
  - Benefits for projected post-2012 FPDR Two COLAs are shaded green

The present value of future 2% FPDR Two COLAs is approximately $810 million
Levy Adequacy Modeling

- Our model projects the annual **Total Requirements** for FPDR
  - Pay-as-you go costs for FPDR program benefits and expenses
  - Pre-funded costs for FPDR Three OPSRP benefits, including both PERS defined benefit and Individual Account Program (IAP) contribution rates
- Several adjustments are made to the Total Requirements amount to develop a **Final Levy** for Board and Council review
  - Decrease to account for other revenue sources
  - Increase to reflect the effects of discounts and delinquencies
  - Increase to reflect the effects of tax compression on some properties
- The Final Levy is converted to a rate per $1,000 of projected Real Market Value (RMV)
Basis for the Levy Adequacy Model

- June 30, 2012 FPDR census
- Plan provisions reflecting 2006 and 2012 Charter reforms
- RMV provided by the City of $79.9 billion as of January 2012, which was used in the 2012 levy request to fund FPDR for the 2012-2013 fiscal year (also known as fiscal 2013)
- RMV growth from 2012 to 2013 of 2.0% and median annual growth in subsequent years of 5.0%, based on input from the City of Portland’s economist.
  - A wide variety of potential RMV growth patterns were modeled
- A financial model projecting Oregon PERS contributions using the most recent valuation and 11/30/2012 investment returns
The effect of adjustments made to the Total Requirements amount to develop a Final Levy was assumed to be a 14.9% increase for years after fiscal 2012-2013

- Based on discussions with the City Economist and FPDR
- Additional detail is provided in the Appendix
Interpreting Analysis Results

- Economic conditions vary from year-to-year, sometimes substantially
- Both near-term conditions and long-term averages for metrics such as inflation and PERS investment returns are unpredictable
- As such, our analysis results are shown as a probability distribution, rather than a single amount
  - The distribution is based on a stochastic simulation using 1,000 trials
  - The economic scenarios were developed by Milliman’s national team that specializes in capital market models after consultation with the City’s economist

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Interpreting Analysis Results

- In our distribution charts, the dots represent median outcomes.
- We graphically display results from the 5th to 95th percentiles.
  - Ten percent of model outcomes fall outside of the depicted range.
- The chart format is shown below for average annual inflation.

### Annualized Average Inflation

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Legend:
- 75th - 95th Pct
- 50th - 75th Pct
- 25th - 50th Pct
- 5th - 25th Pct
- Median

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Variability in Analysis

- A levy adequacy forecast is not a guarantee of what will occur, and our analysis illustrates the potential variability of outcomes.

- The two largest items that drive variability are:
  - Changes in Real Market Value (RMV) that deviate from the baseline forecast
  - Oregon PERS investment experience varying from baseline forecast
    - Variability due to this factor increases over time as a greater percentage of total payroll becomes FPDR Three

- In many of the poor economic scenarios modeled, low RMV growth and poor OPERS investment results are linked, leading to a leveraged upward effect on the levy calculated as a fraction of RMV.
COLA Policies Modeled

- We modeled three policies for future (post-2012) COLA crediting
  - 2% annual COLA crediting
    - These results are identical to our January Board levy adequacy model results and our actuarial valuation
  - CPI crediting; 2% annual cap with no “memory”
  - 0% annual COLA crediting

- These policies were chosen for two reasons:
  - Illustrative of a wide range of potential policy choices
  - Ability to model in an efficient manner

- We believe that if the Board was to adopt a formal policy that it would fall inside of the range modeled by our analysis
2% COLA Crediting: Total Requirements
Pre-Funded Costs Subcomponent

- Increases as the portion of payroll that is FPDR Three grows; more volatile than pay-as-you-go costs since OPSRP contribution rates are linked to variable investment results

Excludes administrative & operating expenses and short-term disability and medical costs
2% COLA Crediting: Total Requirements
Pay-As-You-Go Costs Subcomponent

- Relatively predictable; increasing until FPDR Two actives retire; FPDR Three disability and inflation-linked values of future FPDR Two benefits add volatility in later years

Includes administrative & operating expenses and short-term disability and medical costs

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2% COLA Crediting: Total Requirements

- This is the combination of the two subcomponents

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Includes administrative & operating expenses and short-term disability and medical costs.

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2% COLA Crediting: Final Levy

- This shows the estimated Final Levy request as a dollar amount

Includes administrative & operating expenses and short-term disability and medical costs

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2% COLA Crediting : Final Levy

- This shows the estimated Final Levy request as a rate per $1,000 of RMV; the City Charter limits the levy to $2.80

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Memoryless CPI Crediting

- Assumes a 2% cap on annual FPDR Two COLA increases, but without the "memory" feature
  - When the relevant inflation measure is 2% or greater, COLA is 2%
  - When inflation is lower, COLA is equal to actual inflation (subject to not lowering benefits below initial level)

- Compared to the modeled 2% COLA results, this will lower Pay-As-You-Go costs and thus the Final Levy in scenarios with inflation below 2% in some years
Memoryless CPI Crediting: Total Requirements
Pay-As-You-Go Costs Subcomponent

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0% COLA Crediting

- Assumes no future COLA increases are provided for FPDR
  Two benefits
- Illustrates the portion of projected benefits and levy requirements that are independent of COLA policy
Includes administrative & operating expenses and short-term disability and medical costs

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Comparing Policies

- Financial effects of COLA policies are most pronounced many years in the future
- The next slide shows how estimated Final Levy in 2032 as a dollar amount and rate compares under modeled policies for different economic scenarios, as illustrated by the arrows on slide 22:
  - 5th percentile (highest cost shown in model output charts)
  - 50th percentile (average cost)
  - 95th percentile (lowest cost shown)
- While control can be exercised over COLA policy and other benefit policy, it cannot be exercised over market conditions