



# Actuarial Review of Fire and Police Pension Funds

Presented by:

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August 27, 2014



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# Overview

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- ◆ Texas Legislature approved HB 2664 in 2008
- ◆ Requires an actuarial audit of public retirement systems with total assets of at least \$100 million
  - ▶ Every five years, the actuarial valuations, studies, and reports of a public retirement system must be audited by an independent actuary
- ◆ Initial audit requirement in completed in 2009
- ◆ The City selected GRS to conduct the current actuarial audits of Police Retirement System and Fire Fighters Relief and Retirement Fund
  - ▶ Foster and Foster is the retained actuary for both plans



# Process

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- ◆ Focused on most recently completed actuarial valuation at the commencement of the project
  - ▶ December 31, 2011 for Fire Fighters
  - ▶ December 31, 2012 for Police
- ◆ Reviewed all aspects of actuarial valuation
  - ▶ Appropriateness and application of actuarial assumptions and methods
  - ▶ Detailed calculations of plan obligations for selected active and retired plan members
  - ▶ Determination of actuarial valuation results
  - ▶ Adherence with actuarial standards and Texas PRB Guidelines



# Findings – Summary

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- Most importantly, the primary finding for both retirement plans:

*“The actuarial valuations, studies, and reports are reasonable, used appropriate assumptions, complied with Actuarial Standards of Practice, and complied with the Texas PRB Guidelines for Actuarial Soundness.”*

- Offered a series of recommendations for future valuations, studies, and reports



# Findings – Actuarial Assumptions

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- ◆ Actuarial assumptions are used to predict the amount of benefits that the plans will pay in the future
- ◆ Actuarial assumptions are within the range of reasonableness and generally established in accordance with Actuarial Standards of Practice

Plan	GRS Comment
Police	We recommend modifying the mortality assumption to provide further margin for mortality improvement.



# Findings – Actuarial Methods

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- ◆ Present Value of Plan Benefits (PVB) calculated in a reasonable manner
- ◆ Actuarial cost method divides PVB between Accrued Liability and Normal Cost
  - ▶ Cost method is generally reasonable and appropriately applied

Plan	GRS Comment
Both Plans	We recommend a few modifications to the method that we think would provide a more appropriate measure of the funded status and amortization period.

- ◆ Asset smoothing method complies with actuarial standards and is reasonable and appropriately applied for the valuations



# Findings – Valuation Results

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- ◆ Liability determination of active and retired participants is generally reasonable and appropriately determined

Plan	GRS Comment
Both Plans	We recommend that the retained actuary more appropriately incorporate IRC Section 415 limits into the liability calculations.
Fire Fighters	We recommend that the retained actuary explicitly value the DROP provisions using the actuarial assumptions for DROP utilization adopted by the Board as part of the 2009 experience study.



# Findings – Communication

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- ◆ We recommend that the retained actuary incorporate a series of enhancements into future actuarial valuation reports in order to improve the ability of the report to communicate the assumptions, methods and plan provisions incorporated into the actuarial valuation.