FPDR BOARD OF TRUSTEES MATERIALS
May 23, 2023
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Note: There are no handouts for Information Items 2, 3, and 4 of the agenda

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, May 23, 2023 – 1:00 p.m.

In accordance with Portland City Code and state law, The Fire and Police Disability and Retirement Board of Trustees will hold hybrid public meetings, which provides for both virtual and limited in-person attendance. Members of the board will elect to attend remotely by video and teleconference, or in-person. FPDR has made several avenues available for the public to listen to the audio broadcast of this meeting, including the City's e-GovPDX YouTube Channel, Channel 30, and www.portlandoregon.gov/video

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 – April 4, 2023 Meeting

INTRODUCTION OF VISITORS

Public comments will be heard by electronic communication (internet connection or telephone), or in-person. If you wish to sign up for public comment by electronic communication, please register at the following link:
https://us06web.zoom.us/webinar/register/WN_Bt9NdjITQOGaQKup6CHoEA
You will be asked to provide your name, phone number, email address, agenda item number(s) you wish to provide comment on and zip code. After registering, you will receive a confirmation email containing information about joining the electronic/virtual meeting. Individuals will have three minutes to provide public comment unless otherwise stated at the meeting. The deadline to sign up for the May 23, 2023 hybrid board meeting is Monday, May 22, 2023 at 3:00 p.m. Individuals can also provide written testimony to the Board by emailing the FPDR Director Sam Hutchison at sam.hutchison@portlandoregon.gov by May 19, 2023.

IN-PERSON PUBLIC COMMENT PERIOD

	1	Delmar Stevens, Retired Firefighter – Public comment regarding the creation of a committee to review FPDR member benefits
	2	Delmar Stevens, Retired Firefighter – Public comment will occur after Action Item 1 regarding ETOB testing

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	Discussion of Equal To or Better (ETOB) test results o Issue: The Board has requested a presentation on the ETOB test and its methodology. o Expected Outcome: Board discusses ETOB with Jake Winship from PERS & Aeron Riordon from Independent Actuaries.
	2	Resolution No. 549 – Tax Anticipation Notes (TANs) o Issue: Each year, FPDR issues TANs to maintain a positive cash balance until the receipt of November property tax revenues. o Expected Outcome: Board authorizes TANs sale.

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	FPDR Summary of Expenditures
	2	Legislative Updates
	3	FPDR Updates
	4	Future Meeting Agenda Items

*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.portlandoregon.gov/fpdr or at the FPDR offices located at: 1800 SW First Avenue, Suite 250, 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.*

FIRE AND POLICE DISABILITY AND RETIREMENT BOARD OF TRUSTEES MEETING	**MINUTES**

This meeting was held remotely via a Zoom webinar platform.

Date and Time: April 4, 2023, at 1:00 p.m.; Meeting adjourned at 2:11 p.m.

Board Members Present:
Catherine MacLeod (Citizen Trustee); James Huang (Citizen Trustee); Kyle MacLowry (Fire Trustee); Christopher Kulp (Police Trustee)

Board Members Absent:
Margaret Carter (Board Chair)

Also Present:
Sam Hutchison (FPDR Director); Stacy Jones (FPDR Deputy Director/Finance Manager) Kimberly Mitchell (FPDR Claims Manager); Julie Hall (FPDR Legal Assistant); Lorne Dauenhauer (Outside Legal Counsel); Franco Lucchin (Sr. Deputy City Attorney); Del Stevens (Retired Fire Member); OpenSignal PDX

Motions Made and Approved:

- Motion by Trustee Kulp that was seconded by Trustee Huang and passed (4-0) to approve the January 23, 2023, minutes.
- Motion by Trustee MacLowry that was seconded by Trustee Huang and passed (4-0) to approve a 2% benefit adjustment for FPDR 2 Retirees.
- Motion by Trustee Kulp that was seconded by Trustee Huang and passed (4-0) to approve the Milliman actuarial contract.

A text file produced through the closed captioning process for the live broadcast of this board meeting is attached and should not be considered a verbatim transcript.

Fire and Police Disability and Retirement

By________________________________
Sam Hutchison
FPDR Director

Closed Captioning File

[Captioner on standby]

Director Hutchison: It is 1:00 and we have the quorum to go with it. Catherine, would you like to lead? You are on mute.

Trustee MacLeod: Thanks for that reminder. All right let's get started. As I understand it, the first agenda item is always approval of the minutes from the prior meeting, so from January 23. Does anyone have any comments or questions about those minutes.

Trustee Kulp: I will make a motion.

Trustee Huang: Seconded.

Trustee MacLeod: Approve the minutes as drafted?

Trustee Kulp: Yes.

Trustee MacLeod: We will vote. Everyone in favor say aye.

Trustee MacLowry: Aye.

Trustee Kulp: Aye.

Trustee Huang: Aye.

Trustee MacLeod: Aye. Motion passes and the minutes are approved from the last meeting. Next is introduction of visitors and public comments. Sam or Julie, do we have any visitors here?

Director Hutchison: Who you see is who you have. This meeting we didn't have public comment. The people who want to talk are in the main meeting.

Trustee MacLeod: Sounds like we are ready for some action. So, let's go to action item one, the annual adjustment review for the FPDR 2 retirement benefits. Do we have a presentation on this?

ACTION ITEM NO. ONE – ANNUAL ADJUSTMENT REVIEW

Stacy Jones: Yes, I am here to talk about that. For the record, I am Stacy jones, the FPDR Pension and Finance Manager. Every year about this time I come to talk to you about whether the board would like to award a cost-of-living adjustment to our FPDR 2 retirees and surviving spouses, which the board has historically done and awarded on July 1st every year. We like to talk to you about it early so you have a couple of meetings to talk about it if there are questions and issues. Before I share my screen, let me say a few words. You all know normally I have a whole presentation about this, but I decided to spare you all that this year because we don't have any new trustees. All of you went through this process at least once last year, some of you have been through it many times. So, I didn't want to waste the board's time going through all the background, at least in great detail. We'll have to do that next year, because we'll at least have a new board chair. For this year, I didn't think you needed to sit through all of that background again. In addition, the economic situation is really very similar to last year, which led me to believe that since we have the same board as we did last year and a similar economic situation, it is most likely the board is going to want to take similar actions. So, I also have not prepared a whole spectrum of different options for the board to consider this year. All of that said, if I'm wrong about any of that, and the board wants to take a look at some additional options after I hit the highlights of the memo I sent you all, we are happy to have my staff go back and take a look at different options and come back to you at the May meeting to solidify the board's direction on a cost-of-living adjustment for FPDR 2s. So that is why I don't have my normal long presentation this year. But I do want to walk through the highlights of the memo before I turn it over to you for further discussion.

So let me go ahead and share my screen. Let me know when everyone can see that. There we go, okay. So first I just wanted to mention the FPDR 1s. There is no action or decision for the board to take with respect to FPDR 1s because their pensions are just a percent of active-duty police officer and firefighter pay on July 1st each year. So, this is just informational. You can see up on the screen, sorry, I'm looking to my right, which is where it is on my screen, that active-duty police officers are going to receive a 5% cost-of-living adjustment on July 1st. So, our FPDR 1 police retirees will receive a 5% cost of living adjustment. You can see how that impacts our beneficiaries and the total cost for the fund next year will be less than $30,000. My costs throughout this assume that no one in our population dies or no new retirees happen, which is, of course, silly. That is not going to happen, but just to give you a sense of the scale of the cost. The cost is small because we only have 141 retirees.

The Portland Fire Fighter Association contract is not settled yet. Their contract expires June 30. So, we don't know quote-unquote what COLA they are going to get on July 1 yet, but if we assume they get the same 5%, the cost will be similar, around $25,000, and there are a few fewer fire beneficiaries than police. Also, just for everyone's information, if the fire contract settles after July 1st, as often happens, let's imagine it settles in the December, there is a cost-of-living adjustment retroactive to July 1st to our active-duty firefighters, then we will give that 5% COLA to FPDR 1 fire retirees and surviving spouses retroactive to July 1st. So that is how that works. So now, are there any questions about the FPDR 1s? And remembering those are folks who for the most part was already retired in 1991 or the surviving spouses of folks who retired in 1991 or earlier.

So now let's move on to the decision the board does have to make, which is for the FPDR 2 beneficiaries, which is the vast majority of our retiree population. I'm going to scroll up in my memo, sorry if I'm making everyone dizzy. Just as a reminder, the board can award any percentage rate increase it wants between 0% and 2%. So, you don't have to award anything and the maximum you can give is 2%. If anyone needs me to recap why that is I'm happy to, but that's a charter limitation. Historically, the board has always awarded some kind of a cost-of-living adjustment, and it's always been effective July 1st. The first thing the board usually wants to know is about inflation, so I have highlighted that in my memo here. There are a lot of different indices, but the index we use, as does PERS for this is purpose, is the CPI-U West. That was 6.25% for calendar year 2022. It's not as bad as 2021, but it is still very high by historical standards. Last year the board explicitly, because inflation was similarly high, the board wanted to award the maximum 2% COLA to all of the FPDR 1 beneficiaries, so I have assumed that is at least where the board wants to start the conversation again this year. Again, if that is not the case, I'm happy to come back in May with other options, additional information, any analyses the board might want. Excuse me, spring break also brought a lovely cold to our house. So included in this memo, I have just shared with the board what a 2% COLA would look like. You can see, we have a lot of more FPDR 2 beneficiaries, it would cost $250,000 next year to give them all a 2% COLA. That would result, in dollar terms, a median increase of about $128 a month for those folks. The range is very large because the size of the pensions is very large. The median increase is actually not that different, than for the FPDR 1s, even though this is a 5% adjustment versus only 2% for FPDR 2s because the FPDR 2 pensions are so much larger than the FPDR 1 pensions. And again, just noting in reality, this cost will be a little bit higher because I have not assumed any underlying changes in the population, but in reality, there will be a few more FPDR 2 retirees than we have right now next year, but not significantly different. So that is what a 2% COLA would look like.

Also in the memo, just a really brief recap of the historical background for the COLA. You have all at least heard about it a time or two. I also just listed some considerations and various issues that the board has talked about over the years when they have been talking about the COLA. Obviously, inflation, which since the purpose of a COLA is to help maintain purchasing power for retirees, so of course the board always wants to know how inflation is comparing to any COLA that we give. Obviously, the maximum COLA you can give this year will be significantly below inflation. But the board also, of course, is concerned with taxpayer costs. Any risk of a COLA approach or methodology, any risk that entails for hitting the cap in the levy at some point, and whether the board wants to maintain a connection to the PERS methodology, which is referenced in the charter but only with regard to setting a limitation on the amount of the COLA. And, of course, the whole economic context that both taxpayers and retirees are living in are some of the things that the board has wanted to talk about in the past. So that is my very brief presentation for this year and probably this year only since we are lucky enough to not have new trustees. So, before I take questions, and ask if any additional information is desirable, let me tell the board what you can do today. You can approve a 2% COLA for all retirees. option 1. You can approve another COLA, nothing to 2%, or three, you can tell me you want more information and analysis to take options for May. Let me know if there are any questions? Skipping over the background, I have never done that, I have made you sit through excruciating detail. Does anybody need me to recap any of that or go over any of that?

Trustee MacLeod: I have just one question, and I think I know the answer, but I think it's good to say it out loud. The actuarial valuation for liability purposes and tax levy analysis is anticipating a 2% COLA in all year. Is that correct?

Stacy Jones: Actually, that is not correct. They have continued to assume a blend because the 1.75% and 2% blend split around the October service is what the valuation assumes. And they did that, we actually talked about that quite a bit with this most recent valuation, because they felt that the board had really explicitly said we're going with the two percent because of this very high inflation. Their assumptions don't assume that that very high inflation continues over the life of the plan. We did go with that blend, now practically speaking the difference between 2% and a 1.75%-2% blend is not enormous. But the valuation does reflect that blend right now. But on the other hand, the five-year forecast includes the 2%.

Trustee MacLeod: Okay, so the 5% forecast does keep it in there, but the long-term valuation is assuming that blending at the 1.75% and the 2%. Okay, thank you for clarifying that. Does anybody else have any questions or comments about the background.

Trustee MacLowry: Actually, if I may ask for Stacy or Sam. You put under considerations, Stacy, the third bullet, desirability or not of maintaining a connection to the PERS COLA methodology. I mean clearly, it's undesirable in last year's instance for our retirees. The 2% cap, it represents an erosion of benefits for those retirees and their surviving spouses. That consideration, as I understand it, was not even really available for discussion before. That was the way the charter reads. There is no way to get around that without charter change language. Sam, is that correct?

Director Hutchison: That is correct. It's explicit in the charter that we don't exceed PERS maximum amount.

Trustee MacLowry: Okay, so it's not really a consideration. We don't have that ability to consider that. It's already written in the charter.

Stacy Jones: Trustee MacLowry, what I meant by that was not the desirability or not of maintaining that cap, that limitation, that 2%. You don't have a choice about that, it's just written in the charter. I meant the desirability or not of maintaining a connection to the PERS methodology, specifically the PERS methodology, which the board did maintain from, most of the time, from 2015 onwards, the board maintained a connection to the PERS methodology, which was to split around service credit pre and post October of 2013. That is what I meant. The board has talked about, hey, we are stuck with this limitation. The limitation is there. Prior to the first COLA methodology changing, the board used the PERS COLA methodology. The methodologies were identical. So, after the PERS methodology changed the board had an interest in maintaining a connection to that exact PERS methodology. But some board members have said, why are we doing that? The PERS methodology reflects a PERS reality, it doesn't reflect FPDR's reality. We are stuck with the limitation, 2%, but we don't have to use their methodology. That was the debate I was trying to highlight there.

Trustee MacLowry: Okay. Thank you.

Trustee MacLeod: Okay. Would someone like to make a motion about the level of the COLA for this July 1 increase?

Trustee Kulp: I would like to make the motion to at least discuss the 2% as we did last year. Looking at the individual numbers, 128 bucks extra doesn't seem extreme to me for the FPDR 2 folks. The FPDR 1 folks I don't think 165 bucks a month extra is too much of an increase as well, considering what they are facing currently. Does anyone have any opposition to that?

Trustee MacLeod: None from me. Any other trustees have thoughts or comments?

Trustee MacLowry: My only comment, if I may, I remember we had a long discussion about this last March, I believe. In the end, it was I think Trustee MacLeod said it was a no-brainer that we land on 2%. I feel like we're in the same position today.

Trustee Huang: I agree, I think it's reasonable in light of the cost of living, I mean in light of inflation. I wish we could go higher, but unfortunately, we are at that cap. So, I agree with 2% as well.

Trustee MacLeod: That is a nice sentiment, it would be nice to have more flexibility, but we have what we have and 2% is the maximum. Would someone like to make a motion about the specific COLA.

Trustee MacLowry: I would like to make a motion we make the COLA 2% at the maximum for the next year, starting July 1st.

Trustee Huang: I second.

Trustee MacLeod: Okay. All those in favor of the motion to approve the 2% COLA increase signify by saying aye.

Trustee MacLowry: Aye.

Trustee Kulp: Aye.

Trustee Huang: Aye.

Trustee MacLeod: Aye. Opposed? Alright, motion passes. Thank you, Stacy.

Stacy Jones: You guys made that really easy. That is the fastest we have ever approved a COLA.

Trustee MacLeod: The economics made that, as trustee MacLowry said, a no-brainer.

ACTION ITEM NO. TWO – MILLIMAN CONTRACT AUTHORIZATION

Stacy Jones: It is nice to have the same set of trustees who have all the background and a good grasp on that. The next action item is mine as well. Chair MacLeod, if it’s alright I will get right into it. It is the Milliman contract or the actuarial contract. Let me talk about that a little bit. A few weeks ago, when we first sent the board materials to you, we didn't quite have a fully hammered out contract, but now we do. The good news is we are asking the board to approve the entire contract right now. We are not asking you to just approve the key contract parameters and authorize Sam to complete the detail negotiations. We have completed negotiations with a fully in place contract at this point. It still has to go through because they won't complete this until you approve it because of the high-level procurement review and legal review, so it is always possible they will make us change a word or two. It has already been through legal review both on our side and on Milliman’s side and has gone through final negotiations. So, I have a final contract to go over with you today.

So, our current actuarial services contract expired last Friday, on March 31st. The memo I sent the board, you have a memo on this topic, tries to explain why we have to have actuaries. We’re legally required to have actuaries calculate our plan liability every two years and to prepare all of the required financial reporting schedules for both our stand-alone audit and for the city's annual comprehensive financial report since we are a blended component unit of the city. And then we also use actuaries for some other things that are not legally required. We use the actuaries to conduct a levy analysis in concert with the plan liability calculation. So, they do that every two years, and you are all familiar with that. We have them as a best practice conduct an experience study of our plan every five or six years to develop a lot of the long-term assumptions that we use both in the valuation and in our budget and for some other purposes throughout FPDR and around the city. We also have the actuaries calculate pension divisions in accordance with court orders related to divorces when we need to spread those over expected life. We also can use actuaries to do any actuary analysis or provide actuarial guidance that either FPDR staff or the board feel they need on an ad hoc basis.

So those are the reasons that we need a contract with an actuarial firm. We did the full-blown, full-competitive RFP process under the city procurement rules and guidelines, issued an RFP on December 15, 2022, and proposals were due on January 31, 2023, and a selection committee spent several weeks reviewing the proposals we received and scoring them. And then that selection committee did recommend that we award our current actuarial firm, Milliman, the new contract as well. We are proposing a five-year contract. So let me tell you a little tiny bit about the selection process. The selection committee was myself, Trustee MacLeod, who as you all know is an actuary, the Portland city controller, a Financial Analyst on my team and an evaluator from the city's minority evaluator program. And then points are awarded based on a very rigid system based on project approach, cost, the proposed project team, the firm's overall capabilities and then corporate responsibility. So that was how the proposals were evaluated. Milliman received the most overall points and was also the top scorer for each individual member of the selection committee. So, that made it a fairly easy decision. Let me once again share my screen and run through highlights of that memo and that contract and I will answer questions. Let me know when you can see the contract deliverables pricing table.

So, in red and strike through here, I have the two changes from the memo that you received from your original board materials. We have increased the price of the experience study to $40,000. That is because I told Milliman I wanted an actual formal experience study report. They always do an experience study presentation to the board, but I wanted a fully detailed appendices report so that's going to cost an extra couple thousand dollars. I also wanted a cap on the annual price increases they wanted to connect to the CPI-W, just given recent experience. So Milliman agreed to a 5% annual cap on price increase. Some things don't have price increases, they are not going to increase our pricing each year for DROs for example, but some do, and those will follow the CPI-W. So those are the two things that changed at the last minute just to let you guys know about that. Looking down at the not-to-exceed amount, and we are proposing a not-to-exceed amount of $350,000 for a five-year contract, and this is what that $350,000 is made up of. If you look at all of these deliverables and pricing really just in this top half, these are the things we know for sure are going to happen. We will have to have an experience study, two plan valuations, two tax levy analyses, we will need GASB schedules, these are the financial reporting schedules I mentioned, we need those every year, and we will need DROs calculated, those are the pension divisions associated with divorces. So, this is estimated because we never know how many DROs we'll get in any given year. The other thing that's estimated is inflation. So how much will Milliman's prices will go up for those items that are going to go up with inflation, that is also estimated. But we do know all of these things will be delivered. And then we've built in some cushion and some time for any ad hoc work the board might want to have over the next five years. It is hard to anticipate what that might be. So, we always want a little room for that and a little bit of cushion mostly to manage if inflation is higher than I'm projecting here. These are the city economist's inflation projections or if there are more DROs than we are estimating. So that's how we get to that $350,000.

So, the next steps really for the board before I take questions, just so you all know, is that, like I said, I have struck out because these minor items we reached agreement on, we don't need to do that. We don't need to complete negotiations, we've done that. If the board were to approve this contract today with any changes that you want to see or anything like that, and then we will go on for Milliman to sign the contract and the city attorney's office and chief procurement officer to signs it and it gets it to the city auditor's office and into the system so that we can move forward with the work. So that is the whole process. I do know that a member of the public submitted some written testimony about that as well. But before we talk about that, let me ask if there are any questions from the board about the contract, the work, the selection process, any concerns?

Trustee Huang: Stacy, I have a quick question about the experience study. Any reason why, maybe I'm not reading this correctly. Going back to the cap, sorry, the next page.

Stacy Jones: Here?

Trustee Huang: Keep going down. Any reason why you stuck with $38,000?

Stacy Jones: I just didn't update that.

Trustee Huang: Okay.

Stacy Jones: Pure typo right there. Actually, that would be $352,000, but since we built in a bunch of cushion, I forgot that was down in here and needed to be adjusted as well. Sorry.

Trustee Huang: No worries, thanks. And the purpose for a formal written report is for validation?

Stacy Jones: It is more because that is one of the things that gets somewhat widely shared around the city. And so, you know, anything that is on the presentation that I want more detail on or I want to dig into, I'll pick up the phone and talk to Milliman and we'll talk through it. But having a really formal report is useful to other folks at the city, like the police and fire bureaus are very interested in the probability of people retiring and getting disabled and those things as well. So, it's a little more shareable. And the other piece is anyone who reads our valuation, seriously, which I don't know how broad the audience is for that, will know that all of the assumptions, the underlying assumptions mostly come from that experience study. And having a really well documented experience study increases faith in that valuation. It's not out of any concern, it's just to have a nicer, neater, more formal deliverable for that product.

Trustee Huang: We agree, thank you.

Trustee MacLeod: And I agree as well. In work that I have done, I'm surprised the number of times going back to review the formal issue report is helpful as opposed to just looking at the tables that were derived and applied. So, it gives you good background about when an assumption was or wasn't changed or to what extent. It helps compare the actual to expected results and you can see the new revised assumption. I think it is helpful to see a formal report. That's a good question. Does anybody else have any other questions about the contract itself? Or the approval process? All right, before we go to approving this contract, shall we hear the comments that were submitted?

Stacy Jones: Yes. And Julie, I don't know if we read them. When someone submits written testimony, I'm not sure how that works.

Julie Hall: I'm not sure either. I thought Mr. Machiz would join us. But if you like, I could read it.

Trustee Huang: Or can we perhaps enter that commentary into the record, and someone can just basically summarize his points and for someone like myself that would be helpful to understand the conflict he raised with respect to the contract versus the ASOP number four.

Trustee MacLowry: For full transparency, Julie, can you read it, so we know exactly what he says?

Julie Hall: Definitely. This was an email to Sam. It says:

Director Hutchison,

I am submitting this written public comment in reference to the April 4, 2023, Board Materials, specifically a memo from staff to the FPDR Board of Trustees regarding an actuarial services contract with Milliman under Action Item 2. The memo's description of the contract's purpose is inconsistent with Actuarial Standard of Practice No. 4, *Measuring Pension Obligations and*

Determining Pension Plan Costs or Contributions ("ASOP No. 4"), which was adopted by the Actuarial Standards Board in December 2021 and became effective February 15, 2023. ASOP No. 4 states that the actuary should "calculate and disclose a reasonable actuarially determined contribution."

This memo states that the purpose of the contract shall include assessing "the adequacy of the capped FPDR tax levy to fully fund FPDR plan benefits over 20-year periods in concert with the biennial plan valuation." The memo goes on to claim that "FPDR's status as a pay-as-you go plan means that FPDR does *not* require" actuarial services that would include calculating "a required annual contribution to maintain the funded level of the plan and/or develop a strategy and recommendation to pay down any unfunded liability."

FPDR's Levy Adequacy Analysis and any potential accompanying formal report document on the same subject would meet the definition of a funding valuation under ASOP No. 4. ASOP No. 4 defines a funding valuation as "a measurement of pension obligations or projection of cash flows performed by the actuary intended to be used by the principal to determine plan contributions or to evaluate the adequacy of specified contribution levels to support benefit provisions." The Annual Comprehensive Financial Report of the City of Portland further confirms reliance on this analysis:

The current levy is $1.20 per $1,000 of taxable real market value. This dedicated property tax levy has been sufficient in all years to meet required annual benefit payments, and its adequacy to make future payments is tested regularly. The most recent levy adequacy analysis, completed as of June 30, 2020, by the FPDR Plan's independent actuary, again confirmed the ability of the tax levy to fully cover future benefits and plan expenses when due under a wide range of most likely scenarios.

ASOP No. 4 directs that "when performing a funding valuation, except where the actuarially determined contribution is based on a prescribed assumption or method set by law, the actuary should also calculate and disclose a reasonable actuarially determined contribution."

ASOP No. 4 defines an actuarially determined contribution as "a potential payment to the plan as determined by the actuary using a contribution allocation procedure. It may or may not be the amount actually paid by the plan sponsor or other contributing entity."

In conclusion, I hope the FPDR Board of Trustees see the inherent value of transparency as the Actuarial Standards Board did in adopting this newly effective Actuarial Standard of Practice.

Kevin Machiz, CFA, FRM

Opinions expressed herein reflect only the author's

Stacy Jones: I think I'm going to turn it over to Lorne who we asked to double check this issue for us. Scott and Matt, our principal actuaries with Milliman, we had already had a conversation a year ago because Scott was involved in the professional association and developing interpretations and tool kits for that, and we came to the same conclusion that Lorne and Trustee MacLeod came to independently and we conferred on last week. So, I'm just going to turn it over to Lorne, remembering that Lorne is both an attorney and actuary.

Lorne Dauenhauer: I'm a recovering actuary, I couldn't do any actuarial work at this point to save my life. So, when we looked at his comments and ASOP No. 4, he is right. There is a new ASOP that was published, I believe in 2021 and it went into effect in mid-2023. It says if actuaries do work or issue a report after February, I think 23rd of 2023, something like that, they need to reflect new actuarial standards of practice, No. 4. And what this new ASOP does is if an actuary is providing to a governmental agency what's called a funding valuation, that funding valuation is required to include certain projections and disclosures and conclusions on contributions that would be required by the plan sponsor to fund the plan. And it requires a number of things, you have to develop an actuarial funding procedure, which is something that Mr. Machiz has been trying to get the fund to do. He says if we are not funding it, we should at least be looking at how much it would take if we wanted to fund it or if the city wanted to fund it. But his whole comment is predicated on the conclusion that he reached that the work Milliman is doing satisfies ASOP No. 4's definition of a funding valuation. And the new ASOP No. 4 has a new definition of what a funding valuation is, and we reviewed the definition and compared it to the work product that Milliman has been doing, both for the actual valuation report as well as for the funding levy adequacy report and have concluded that neither of them are reports that talk about funding. All they're doing is valuing the liabilities in the case of the main valuation report. And that main valuation report is being done in order to provide the city's treasurer and city accountants with the expensing information they need they need to disclose on the city's financial statements as required by GASB. So, that's not a funding valuation, that's just a valuation to determine your liabilities.

And then there's the levy adequacy. Well, again, the purpose of the funding that the levy adequacy report is not to determine whether the plan is sufficiently funded at a given benefit level. It's rather to review the benefit payments that are likely going to be made into the foreseeable future and to review whether the funding requirements, the amount of funding that would be required to pay those benefits might bump up against the levy. Now, if they were to hit the levy, what would that mean? Well, that wouldn't mean that the plan wouldn't get the money to pay the benefits. It just means potentially that the city couldn't look to the levy to fund 100% of the money that's required to pay the benefits. Again, in the unlikely event that were to happen, the city's general fund probably would be the one to have to pay the benefits; the money and the benefits have to be paid from somewhere. So, in neither case is Milliman's work being undertaken to perform what meets the ASOP No. 4 definition of a funding valuation. And because they are not conducting funding valuations, the sections of the new ASOP No. 4 that Mr. Machiz is saying we need to comply with, or the actuaries should comply with, simply don't apply. So, again, I think he is misinterpreting what ASOP No. 4 means as a funding valuation. Again, we have never looked at what would it take to fund the plan. Those valuations are being done for very specific purposes. Again, one is to evaluate the plan's liabilities for accounting purposes, and the other is really just an informational item, being good stewards of the city's money. Is there at any point at which we think that the levy might get tapped out so that the city needs to be made aware of that. Neither of those are funding valuations. Those are just regular old actuarial valuations to which ASOP No. 4 doesn't apply, or at least this particular aspect of ASOP No. 4 doesn't apply to it.

I spoke with Milliman, and they confirmed that they don't believe what they are providing are funding valuations within the meaning of ASOP No. 4. We don't think there is anything we need to do to address ASOP No. 4 in this contract renewal.

Trustee MacLeod: Thank you, Lorne. I likewise share your interpretation of those facts and don't believe that ASOP No. 4 applies to the work being requested by Milliman by the way I read it. Do any of the other trustees have questions or concerns about this aspect of it before we talk about contract approval?

Trustee MacLowry: I guess I have one quick question, not being an actuary and not understanding the rules governing that work. As far as ASOPs go, are they recommendations for work done by actuaries or mandates?

Lorne Dauenhauer: I will let Cathy respond to that in more substance, but it is basically a practice. When an actuary does work that is governed by a particular ASOP number, they're supposed to comply with those ASOP rules. So, when you read ASOP No. 4, what they are worried about is if you had a municipality or public fund that was trying to fund the benefit, like for example PERS. PERS has an actual trust fund and they are actually contributing money to that trust fund, and they're investing that money and they're trying to get the plan funded. And they actually annually set contribution rates for the various employers in PERS and those contributions, to my understanding Milliman is the actuary for that fund, is the ones who are doing the actuarial work to calculate those contribution amounts. So, if the state was to try to tell Milliman, we want you to use this set of actuarial assumptions for calculating that funding valuation, Milliman might not want to use that particular set of valuation assumptions. And so Milliman, under the ASOPs, wouldn't have to. They could say the state asked us to use these assumptions, but we concluded they are not the appropriate assumptions so we will do our own. Again, it just governs what an actuary report needs to include. I'm guessing there are some things are mandatory and some things that are guidelines. Cathy, do you want to put some gloss on that.

Trustee MacLeod: I think that's a very good summary. I think overall, the actuarial profession is like many other professions. It is a self-regulated profession, and the standards of practice are considered and are put forth as either definitive or strongly recommended, or depending on the specific subject matter, so that actuaries act in good faith and with good experience and knowledge and they don't do work they are not qualified for, etc. The goal is to prevent to act with utmost professionalism so that an outside body doesn't come in and regulate instead, so we feel like we are the best stewards of our own good quality work. That is the purpose of the ASOPs is to provide that. We have a board of counseling and discipline, and if the actuaries don't act in accordance with the ASOPs or other guidance, they are reported to the board of counseling and discipline, and appropriate action is taken. So, I think I'll leave it there. But in this particular case, the funding of a plan is a tricky word because funding for actuarial purposes in a pension plan typically means prefunding through a trust. All the benefits are funded eventually, and maybe a distinguishing word is to be financing. So, this particular program is being financed through the levy.

Trustee MacLowry: Yeah.

Trustee MacLeod: Which is directly paying the benefits each year. It's not being prefunded through a trust.

Trustee MacLowry: I think you answered my question, it's in the normal scope of practice for the actuarial company to choose the ASOPs that are going to apply to what they are doing for that specific analysis.

Trustee MacLeod: I would say it differently. The ASOPs do specifically apply to the subject matter at hand. It's the actuary's job to be familiar with, know, and follow the ASOPs in their everyday work.

Lorne Dauenhauer: It's not to say ASOP No. 4 doesn't apply to what Milliman is doing. It does apply to what Milliman is doing, but the only parts of ASOP no. 4 that apply to what Milliman is doing are the parts that talk about the general rules governing actuarial valuations performed by an actuary for a governmental plan. If this fund was like PERS, funding for the benefit, actually putting money aside and trying to hit a target, then Milliman would typically be asked, hey, could you prepare a funding valuation so that we can determine the contributions we need. And if they were doing that, the ASOP No. 4 would guide them in terms of what assumptions can you use in performing that work. But, again, we are saying they're not performing the work covered by the particular section of ASOP No. 4 that Mr. Machiz is referencing. I think it is section 3.21, which I would agree if Milliman was performing the funding valuation for you, then Milliman should likely have to include in those reports' information about what level of contribution would be required to fund the plan, but again, it is a false premise because we are not using a funding valuation in this particular instance.

Trustee MacLowry: Thank you.

Stacy Jones: I wanted to say one final thing about this to put it more in context. When Milliman and I were talking about this the other day, they said, listen, if we thought the ASOP required us to do this we would do it whether your board told us to do it or not, because that's what we do as actuaries. They're going to comply with the ASOPs whether the board directed them to provide an ARC or not, it's not relevant to them. If they think the ASOPs require that, they're going to provide it. The other thing I just wanted to say is, an ARC is just a number and if you want one, we can get one for you. It is a meaningless number in this context. Sorry, Lorne.

Lorne Dauenhauer: I would agree it's a meaningless number, and again, being good stewards of public money, if we ask Milliman to do it, we will have to pay them to do it. Why would we pay them to provide a worthless number?

Stacy Jones: It's a totally meaningless number in the context of our plan.

Trustee MacLowry: You broke up. You said blank is just a number?

Lorne Dauenhauer: ARC, actuarial required contribution is what it is sometimes called.

Trustee MacLowry: Thank you.

Trustee MacLeod: Thank you, Lorne. Thank you, Stacy.

Lorne Dauenhauer: You're welcome.

Trustee MacLeod: That is a good question trustee MacLowry. The other thing about this plan that is somewhat unique, is typically when a plan is not prefunded through a trust, which people will say funded but prefunded is the way to do it for a trust, typically when that is not happening it's called a pay-as-you-go plan. You pay benefits when they are due. Oftentimes in that kind of situation, there is no designated source of money for paying the benefits, it's just out of current operating revenues or reserves, et cetera. There is no clearly designated source for the money, which is why generally speaking, a pay-as-you-go program is not a well-considered one. You have benefit promises, but no promised way to pay the benefit. That's where this program is different, in the sense that it does have this specifically designated levy to cover the cost of paying the benefits and that has been forecasted. And the projected liabilities per year are expected to fall way below that, and that's the significance of that analysis. While it is technically called a pay-as-you-go program, it is a very unique one in the sense that it has a clearly designated source of financing, and I will use financing as opposed to funding because funding typically means a trust.

All right, so, tricky topic. I do think it's always good to hear the actuary saying, hey, if we were required to do this by the standards of ASOP, we would do it regardless of what you asked me to do. With that background, any comments about taking action with those public comments. I have none? All right then, would someone like to make a motion about accepting the Milliman contractors? I should go back to any specific questions about Milliman's contract other than the one that brought up about the experience study.

Trustee Kulp: I make a motion to accept the contract.

Trustee MacLeod: Do I have a second.

Trustee Huang: Second.

Trustee MacLeod: All those in favor signify by saying aye.

Trustee Kulp: Aye.

Trustee Huang: Aye.

Trustee MacLeod: Aye.

Trustee MacLowry: Aye.

Trustee MacLeod: Opposed? All right, the motion is passed. Thank you.

Stacy Jones: Thank you.

Julie Hall: Alright, before we move on to information items, Del Stevens is on the call and would like to make comment about Action Item 1 cost-of-living adjustment. So, let's get him on the call. Hello, Del, can you hear me?

PUBLIC COMMENT – ACTION ITEM NO. ONE ANNUAL ADJUSTMENT REVIEW

Trustee Huang: He's on mute, I believe.

Julie Hall: Okay. Del, are you still there? Del, can you hear me? There you go. HI, Del.

Del Stevens: Hello. Can you hear me?

Julie Hall: I can hear you. You may want to speak a little louder than normal. Let's start the public comment section for you so you can talk about the cost-of-living adjustment. You have three minutes. Okay. Go ahead. Del, can you still hear us?

Del Stevens: Hello, can you hear me?

Julie Hall: I can hear you yes. Go ahead and make your comments, please.

Del Stevens: Okay, I will go. First of all, I want to just identify myself. I'm a former trustee of the board myself, and I spent a term of three years on there, and I was also on the mayor's task force for an entire year in 1989 when we reformed our fire and police pension. And at that time, we had a lot of issues that had to be dealt with, and I stayed in touch on all of those. And I could speak to a lot of other issues that the pension should be dealing with at the same time, but right now I will confine my comments to the COLA, because I know that is your agenda item.

I would just like to say that the city has not kept up with the COLA that is necessary for the retirees to maintain a standard of living based on the amount that they retired at. And I have the actual CPI figures from 2021, January 20th to January 21st, and at that time the CPI was 7.5% for all consumer items. And in 2022, from December 21st to December 22nd, the CPI was 6.5%. Those two years alone add up to 14% CPI cost of living increase. During that time our retired members received a 2% increase on their COLA. And that means that in two years they received 4%, but they lost 10%. Does everybody understand what I'm saying on that? If anybody wants to address that or question me, I would be happy to take a question. If not, I'll go right ahead. and I would just like to say that the retired members are depending upon the fire and police pension board.

[BELL RINGING TO DENOTE ONE MINUTE OF COMMENT SECTION REMAINS]

Del Stevens: Hello. Can you hear me?

Trustee MacLeod: Yes.

Del Stevens: Anyway, the retired members are depending upon the fire and police pension board to maintain their pension so that they have a livable lifestyle. The federal cost of living in the year of 2022 was estimated to be $47,000 a year to live in the city of Portland. That's all expenses considered, food, lodging, medical, and other issues. The 2% that you are debating about is not adequate, and the PERS pension has the ability to authorize an ad hoc increase to allow the pensioners to maintain their standard of living. And I think it is time that the City of Portland step up and stand up for their retired members. When we are losing 10% in two years of the value of our pension, it's an unfair system, and it needs to be corrected. I have more comments I would love to make, but I probably have exceeded my three minutes already. Did you hear everything I said okay, Julie.

Julie Hall: Hi, Del. We heard you. I'm going to mute you now and we will continue the conversation. Thank you for your comments.

Del Stevens: Thank you so much for letting me speak.

Julie Hall: Of course.

Trustee MacLeod: Thank you. Is anybody able to make any comments about this? At this point we have no more flexibility to go beyond the 2% unless Sam or Stacy wants to speak about where that would come from for doing any more? I think we are limited. I think the best we are probably allowed to do under our authority is, in subsequent years when inflation is less than 2%, that we continue approving 2% increases to allow some catchup and that is the greatest latitude we've got in the future.

Stacy Jones: Yeah, that's correct. The only other form of latitude would be a change to the city charter or a change in the PERS approach. Since the charter does limit the board to the percentage rate of change shall not exceed the percentage rate applied to retirement benefits payable to police and fire employees by the public employee's retirement system of the state of Oregon, and in 2022 that maximum was 2%.

Trustee MacLeod: Sam, last month you provided a brief outline how requested changes to the charter come about and what has to happen there. So, if and when there's motivation within the various forces to try and bring that and start a process such as that, I think we are kind of limited. Any other discussion on that? Okay, I appreciate his comments and certainly sympathize. Shall we move on to information items?

Director Hutchison: Sure. I have a few things to cover here for you. The first thing is you all have received a copy of Margaret Carter's resignation as board chair. I met with representatives from the mayor's office and Commissioner Gonzalez's office to start the search for the mayor's delegate to chair the FPDR board meetings. So, the chair is supposed to be the mayor, but the mayor can officially delegate it. It's the mayor's responsibility to select the delegate and then present it to the city council for approval. I was very impressed that the mayor's office and the commissioner's office both jumped on this within less than two weeks from when we heard that Chair Carter was resigning. In the past they've waited two to four months before they've even started the process, so I'm optimistic they will get moving ahead on this pretty quick. The new chair targeting for May 23 board meeting. That is an optimistic goal, but realistic if everybody gets moving fast on that. We will keep you up to date when we hear anything, or when the mayor makes a selection.

INFORMATION ITEM NO. ONE – FPDR STRATEGIC PLAN

Director Hutchison: The next thing I want to talk to you about is FPDR is starting a strategic plan effort. This is the first time FPDR has had a formal strategic plan. This plan we're going to build will encompass the next five years of growth and change within the bureau and our members. FPDR has to prepare for a changing environment, which includes staff retirements. We have probably a third of our staff that can retire over the next five years, so we have to be prepared for that. There are new technologies presenting themselves to make us more effective and efficient, as well as allow our members to interact with us more effectively. We have changing member expectations, because I think we have different age groups coming in and they have different expectations of what they want as far service we offer and how we offer it. We're also starting to see our membership change, 50% are FPDR 3 and 50% are FPDR 2. Each group has slightly different expectations, because FPDR 3 only looks at FPDR as their workers compensation carrier, whereas FPDR 2 members look to us both for pension and worker's comp.

We also have a new form of government coming in January 2025, though the charter changes will have very minimal effect on FPDR. How the city may run the government could change how we do some of our operations with, not how we deliver goods and services to our members, benefits, but it could change how we operate and who we operate within the city. So, we need to prepare for all of that, and that's why we are doing the strategic plan. So again, we're looking to create a comprehensive future conscious plan including concrete goals, roles, and accountability framework and including initial messages for our audience, for our members, what they can expect from us over the next five years. We're partnering with a firm called Pregame, it's a Portland-based independent consulting firm. They will guide us through the process and help us create the document. Pregame has consulted with other city bureaus, and recently worked with Portland Fire and Rescue to create their strategic plan so they're familiar with the way the city operates. We've used them for a couple of other consulting efforts, so they have some familiarity with how FPDR works. So, one of the things we'll do when we create this plan is reach out to a lot of stakeholders and ask them their opinions. So, we're reaching out with the FPDR staff. I'm going to reach out to all of you later this week to set up times to meet and talk over what to expect from FPDR in the future. We're going to involve the fire and police liaisons, Chief Boone and Chief Lovell, both have agreed already to conservations with Pregame. We're going to meet with the PPA, PPCOA, and PFFA union presidents. Two of the three presidents have already confirmed time to meet with Pregame to discuss. They're going to reach out to active duty FPDR 2 groups and active duty FPDR 3. We'll have slightly different surveys and focus groups for the two, because again of how they interact and what they look to FPDR for as far as benefits is different. We're also going to contact and do some surveys and phone interviews with retirees and survivors. So, that will be happening over the next couple of months, and we expect to have the final plan completed by June 30. You'll be able to see a preliminary part of that sometime in early June. I think this is a great opportunity for FPDR to get focused on what we want to do over the next five years. Again, a lot of change is happening, and it is time we have a formal strategic plan on how to proceed. Does anybody have any questions about that?

Trustee MacLeod: No, but it sounds like there are a lot of significant things, so it is probably really good timing.

Director Hutchison: It really is. We went through two years of craziness with the pandemic, and that really reinforced that we need a plan for how to move ahead, go forward and be able to be adaptable to future issues coming on.

Trustee MacLeod: Yeah. Thank you.

Trustee Huang: I agree. I think certainly this work is important for the future of FPDR. I'm glad you guys have engaged an outside consultant to help you through that process. One question that I have is, was this in the planned budget for this year, and how does that affect the budget for the remainder of the year?

Director Hutchison: Stacy, go for it.

Stacy Jones: We budgeted for this as part of our consulting services budget for the year, yes.

Trustee Huang: Great.

Stacy Jones: Good question.

Director Hutchison: Just to let you know, Pregame, what they did for us before, is they went with the disability team with Kim's oversight to do process improvements. We went very quickly from paper file to paperless file, and we needed to catch up with it and used them to help us look at our processes on that. And then also we had two very tenured employees retire this year and so we asked them to take them out to lunch and do an in-depth interview, what they thought was working well with FPDR and suggested changes, because they have a lot of knowledge and had seen a lot of things come and go with FPDR. So, we really wanted to get their input, which turned out to be very valuable. We'll probably see a little bit of both those efforts working their way directly or indirectly into the strategic plan.

Trustee MacLeod: Thank you.

<u>INFORMATION ITEM NO. TWO – FUTURE MEETING AGENDA ITEMS</u>

Director Hutchison: The last thing on my list is future meeting agenda. So, May 23rd is our next board meeting. It will be in person/hybrid if we need to. So, we will not be doing the annual benefit adjustments. I will strike that off the agenda since that was settled today. We will do tax anticipation notes, authorization for those, and Stacy will lead that discussion. We will have the PERS, and independent actuaries do their ETOB test presentation they were going to do at the last meeting. I'll give you a legislative update, we'll probably be at that point 90% of the way through the legislature so I can tell you some of the bills that will impact directly or indirectly FPDR. July 25th, typically it's a meeting that gets canceled every so often, so tentatively we have the final legislative update because we'll definitely know what bills have gone through at that time. And there are a couple of bills that we may want to not copy the bill but copy some of the intent of the bill into some of the FPDR administrative rules. Kim and I will talk about those, and we may present you the concept on July 25th. At the September 26th meeting we'll have the state of FPDR, and if we do have any rule changes, we will formally present them to you at that time for a vote. That's everything that I've got on the list for today.

Trustee MacLeod: Okay, thank you. As far as the PERS equal to or better than test, I know that generated comments from members about the test. I know we are going to have actuaries present to talk about the results of the analysis and methodology and the rules. Whether we talk about it here or not, do we need to allow some time perhaps in July to take up any questions that may come up relating to that ETOB test?

Director Hutchison: Well, I think you can, that's up to you all. If you feel there is any outstanding issues that the board needs to address regarding the ETOB. I do know that there will be one to maybe two retirees that will come in and provide their input on the ETOB. At the end of that meeting you can make a decision if you want to add that to the agenda item in July.

Trustee MacLeod: Okay.

Trustee MacLowry: Sam, I sent you a list of questions regarding the ETOB. Did they get forwarded to the actuaries?

Director Hutchison: Yes, they have it and they will be answering all those questions for you.

Trustee MacLeod: Perfect.

Director Hutchison: The staff put together a series of questions that we often have heard from our members and stakeholders and so we added those into the list, too.

Trustee MacLeod: I appreciate that. With luck, we will have everything resolved during that May meeting and won't need any follow-up, but we can make that decision next month as the time comes. Any other topics, trustees, anything else you want to consider for agenda or anything else before we adjourn?

Trustee MacLowry: I don't have an agenda topic, but I do have a quick question, if I may, regarding the meeting notes that are sent out before each meeting. It was my impression we talked about them five or six months ago, that we were going to use auto dictation format for the notes.

Director Hutchison: Right.

Trustee MacLowry: Are they being read by staff for small editing or being sent straight out through the editing software or dictation software that's being used?

Director Hutchison: Julie, do you want to talk about what you do before you publish them?

Julie Hall: Yes. We are provided a transcript from our captioning service. Basically, what I do is I organize them, and then I do listen to the meeting and read along and make sure that anything is not misrepresented. Sometimes there are, of course, some typos and words that weren't understood, especially when you are talking about the more detailed things like the actuarial services and stuff like that. But I do go through them, and I make sure that everything that is being said is represented in the minutes that are passed out.

Trustee MacLowry: Okay. Thank you.

Julie Hall: You're welcome, thank you.

Director Hutchison: The default is the recording of the meeting minutes on the website. We don't correct if somebody says something maybe didn't want to say, sorry, you said it in the recording. We capture that as it was stated.

Trustee MacLeod: So, all of our ums and ahs are included?

Director Hutchison: They are good, they don't include those, but I think there have been a couple of times we have seen some people, me being one, get tongue tied. So, the tongue tiedness comes across in the minutes. So basically, what I'm saying is we don't edit the content. We make sure it matches to what was said on the recording.

Trustee MacLeod: Thank you. All right, anything else for the good of the order this afternoon? All right, then, I think we are adjourned.

Director Hutchison: Thank you, all.

Trustee MacLeod: Take care.

Questions from FPDR Trustee Kyle MacLowry

1. ETOB Letter from Jake Winship
   - Pg 70/352, 2nd to last paragraph regarding 2 step process - It appears that the 1st step which compares a pay-as-you-go system to a pre-paid pension system, in addition to a 2.8% vs 2.0% defined benefit, FPDR will never fail the ETOB test. Can you explain further.

In the 2 step process, the first step is a comparison is between PERS Full Formula and an employer plan with a defined benefit design. The Oregon Administrative Rule (OAR) 459-030-0025 (7) states that whether the benefits are provided by trust should not be part of the determination. We agree that, if all other provisions are equal, a plan with a 2.8% benefit will never fail the ETOB test when compared with the PERS Full formula 2% benefit.

   - Pg 71/352 - Please say more about the discussion surrounding 'implicit subsidy associated with post-retirement medical (PRM) benefits.'

An implicit subsidy exists when retirees are allowed to remain on the active health plan, even if they pay the full premium amount. This is because the premium itself does not represent the full cost of covering these retirees (since they are older than the active population, retirees can be expected to generate higher medical claims than the average claims of the mostly active employee population). If an employer pays a large percentage of the premium amount for active employees, the employer is considered to be providing an implicit benefit to the retirees (because payment of premiums related to the active employees subsidizes the cost of covering retirees).

The only retiree medical benefit provided under PERS is a $60 monthly stipend applied to PERS-sponsored Medicare supplemental insurance. The value of the PERS benefit is quite small compared to the implicit benefit provided to FPDR retirees. Since we determined that the FPDR benefits were substantially more valuable than PERS without considering any implicit subsidy, we have not reflected any consideration of implicit subsidy in our comparison between PERS and FPDR.

   - Pg 71/352 - The following paragraph talks about the 'employer pickup'. Do I assume that is not relevant to FPDR as only Step 1 of the process was utilized?

The discussion of employer "pickup" contributions is only relevant for plans with mandatory employee contributions. It is a term that has a specific U.S. Federal taxation meaning, and would be considered an employer-provided benefit. For FPDR, mandatory employee contributions only applied prior to 7/1/1990. Since there are only 5 employees in the FPDR census provided with a date of hire prior to 7/1/1990, we did not investigate whether the FPDR mandatory employee contributions could be considered "pickup" contributions.

2. ETOB Determination Report
   - Pg 100/352 - Methodology
     - Define ' level of service retirement'. I assume it is promotion related, but not sure how they compare classifications.

The term "service retirement" does not relate to promotions, rather it simply means retirement from service after attaining required age and service. The other kind of retirement that is considered under the ETOB test is retirement due to disability.

     - Bullet 4 - Please explain what, if any, additional actuarial assumptions were used.

Because FPDR is directly comparable to PERS, there are no assumptions needed for comparison of different types of benefits. In some cases where detail was not available, we made assumptions that would err on the side of increasing the value of the PERS benefits. As an example, since the FPDR consideration of unused sick leave to the determination of pension benefits was not directly addressed in the SPD or valuation reports we received, we made the conservative assumption that FPDR retirement and disability benefits do not consider unused sick leave.

- Bullet 6 - Can you give me a brief summary of the Full Formula calculation method?

The PERS Full Formula method of calculating retirement and disability benefit (whether Tier 1, Tier 2, or OPSRP) is determined by multiplying a percentage (2.0% for Tier 1 & Tier 2, 1.8% for OPSRP) by years of service by average monthly compensation. The average monthly compensation is based on the final three years of employment.

- Where is Social Security represented on the balance of the scale with this methodology? To my knowledge, all other Oregon fire fighters calculate SS into their retirement.

AR 459-030-0025 (8) states that the test may not include Social Security benefits or participation

- Bullets 9&10 - Please explain briefly.

Bullet 9 is not applicable to the comparison between PERS and FPDR, because both plans use a defined benefit design. In a defined contribution plan, the employee typically bears all investment risk. While the value of this risk could be considered in comparison of benefits provided by plans of differing design (defined benefit vs. defined contribution) the subjectivity of such a consideration makes its inclusion in the ETOB test problematic.

Bullet 10 states an exclusion specifically provided for in OAR 459-030-0025 (9). The referenced statutes require police & fire pension benefit increases to match PERS benefit increases for participants who pay Oregon personal income tax on those benefits .

- Pg 102/352, Paragraph 3&4 - Both seem to dismiss the Disability portion of FPDR benefit?

Since FPDR 1 members are retired, they do not require testing. Since FPDR 3 members are covered by OPSRP, they do not require testing. A comparison of the disability benefits under PERS and FPDR 2 is shown in the table which follows paragraph 4.

- Under Covered Compensation - what bonus is being referred to in addition to salary?

Bonus refers to any increase in salary rates due to premium pay.

- Over pages 102/3 where is IAP added into comparison?

PERS IAP is not included in the comparison, because only the Full Formula, Money Match, Formula Plus Annuity, and OPSRP benefit formulas are considered per OAR 459-030-0025 (5)(b)

Questions from FPDR Staff

1. Walk through the test requirements, namely that:
   a. Total FPDR benefits be at least 100% of the value of total PERS benefits AND

When considering aggregate retirement, disability, and postretirement health care, the employer benefit must be shown to be more valuable than PERS per OAR 459-030-0025 (4)(a)

   b. FPDR service retirement benefits must be at least 80% of the value of PERS service retirement benefits AND

When considering only retirement and postretirement health care, the employer benefit must be shown to be at least 80% as valuable as PERS per OAR 459-030-0025 (4)(c)

c. FPDR benefits for retirement after disability be at least 80% of the value of the equivalent PERS benefit

When considering only disability and postretirement health care, the employer benefit must be shown to be at least 80% as valuable as PERS per OAR 459-030-0025 (4)(d)

Our side-by-side comparison showed that in each of the above areas the FPDR is unambiguously more valuable than PERS.

2. Explain the testing process in a *bit* of detail.
   a. For example, do they take a subset of PERS employees and "pretend" they're FPDR employees, to calculate the benefits that person would receive if covered by FPDR, and then compare that to the real PERS benefits?

OAR 459-030-0025 (5)(h) states that a hypothetical PERS member data standard should be used. We have used a hypothetical census based on the PERS police officer and firefighter data used for the 12/31/2020 PERS valuation.

Because our side-by-side comparison revealed that the only PERS provisions which might be more valuable than FPDR provision are the amount of overtime, unused sick leave, and vacation time that are reflected in retirement and disability benefits, we only used the hypothetical data to evaluate the significance of these differences in plan provisions. For example, based on the hypothetical census we estimated the average police officer and firefighter amount of overtime pay that would be considered under PERS, and we applied a corresponding reduction to FPDR benefits because of the fact that overtime pay is not considered.

   b. What does the test include and exclude? For example, does it consider taxability of benefits? Postretirement healthcare benefits? Level and type of Plan Funding?

OAR 459-030-0025 (8) states that the test may not value portability of pension credits, tax advantages, Social Security benefits or participation, or worker's compensation.
OAR 459-030-0025 (4)(c) specifically includes postretirement healthcare.
OAR 459-030-0025 (7) specifically states that whether benefits are provided by contract, trust, insurance should not be considered.

   c. Do you require FPDR to have the same benefit features as PERS?

No. The test considers the actuarial present value of the benefits, not individual plan features.

   d. How do you compare FPDR pension benefits and PERS pensions benefits when they are not exactly equivalent? For example, FPDR pensions have a higher accrual rate (2.8%) than PERS, but FPDR final pay does not include overtime, whereas PERS final pay does. Another example is the fact that the PERS pension is a hybrid benefit (part defined benefit and part defined contribution), which is inherently riskier for the employee. How do you conduct these "apples to oranges" comparisons?

A side-by-side comparison of just the accrual rate is very simple to quantify: this benefit is 140% more valuable (2.80% ÷ 2.00%). Other plan features, such as the value of the normal form of payment of benefits, are also quantifiable using actuarial techniques.

The PERS Full Formula benefit is not a hybrid design, so the consideration of investment risk is not relevant to the comparison of FPDR and PERS.

3. Additional Questions
    a. How does FPDR participate in the testing? Does FPDR have any influence on how the test is conducted? Can FPDR review the test results before they are presented to the PERS Board?

Per OAR 459-030-0015 (2) the test is performed by an actuary retained by the PERS Board. Per OAR 459-030-0030 (1) the actuary issues a written report concluding whether the employer plan meets the standard for exemption for participation in PERS.

    b. If FPDR failed an ETOB test, who would it impact? Would there be any impact to FPDR members already retired, or just those FPDR members still working?

If the FPDR plan were amended to comply with the ETOB requirement, OAR 459-030-0030 (1) states the amendment would be retroactive to the valuation date. The most recent ETOB determination used a valuation date of 12/31/2020. There would be no impact to any FPDR members who retired before this date, only actively employed members accruing benefits as of the date would be affected.

    c. What are the options if FPDR were to ever fail an ETOB test?

If the PERS Board were to deny FPDR's petition for exemption from participating in PERS, FPDR could choose to participate in PERS, or could amend the plan. Then the amended plan would be tested for ETOB.

    d. Who has the authority to change the ETOB test requirements or methodology?

For laws concerning adopting, amending, or repealing the applicable OAR, please contact the PERS Board and the Oregon Secretary of State.

Submitted on 5/8/2023 by Aeron Riordon, ASA, EA, MAAA to the City of Portland Bureau of Fire and Police Disability and Retirement

RESOLUTION NO. 549

WHEREAS, nearly all of the revenues required to fund the benefit and administrative expenses of the Fire and Police Disability and Retirement (FPDR) Fund derive from the FPDR property tax levy; and

WHEREAS, there will be insufficient cash balance in the FPDR Fund and FPDR Reserve Fund to discharge benefit and administrative expenses between August 1, 2023 and November 30, 2023, when the majority of property tax revenues will be received; and

WHEREAS, pursuant to Section 5-202(e) of Chapter 5 of the Charter of the City of Portland, the Board of Trustees is empowered to issue bonds and also to borrow from the City General Fund; and

WHEREAS, the Debt Management Division of the Bureau of Revenue and Financial Services of the City of Portland requests authority from the City Council to issue short-term obligations, including tax anticipation notes and lines of credit, and once authorized by Council, arranges financing on behalf of City bureaus, including the FPDR;

NOW, THEREFORE, BE IT RESOLVED that the FPDR Board of Trustees authorizes the financings of its FY 2023-24 cash flow deficit through the issuance of either tax anticipation notes or a line of credit, working through the City of Portland's Debt Management Division, in an amount not to exceed $38 million and to be repaid prior to June 30, 2024, in order to meet the obligations of the FPDR.

ADOPTED by the Board of Trustees at its regular meeting on May 23, 2023.

Sam Hutchison, FPDR Director

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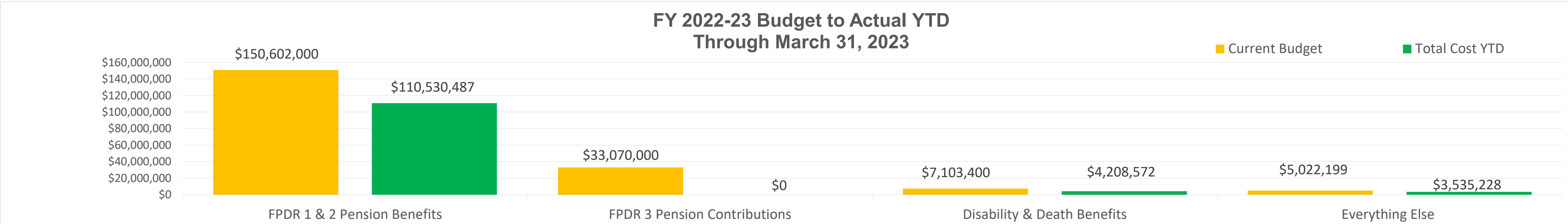

FY 2022-23 Budget to Actual YTD by Month

Mid Level Classification	Detail Classification	Original Budget	July	August	September	October	November	December	January	February	March	YTD Total
Revenues	Beginning fund balance	$25,229,006	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Taxes	$183,485,461	-$1,067,906	$371,844	$459,979	$29,173	$62,588,278	$106,316,562	$1,817,301	$1,279,301	$4,506,804	$176,301,337
	Bond and note proceeds	$45,000,000	$28,000,000	$0	$0	$0	$0	$0	$0	$0	$0	$28,000,000
	Miscellaneous Sources	$789,100	$1,003	$50,381	$107,207	$19,998	$26,887	$214,310	$231,411	$169,115	$174,453	$994,766
	Interfund Cash Transfer Revenues	$750,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Interagency Revenues	$393,900	$631	$644	$1,287	$0	$644	$644	$644	$644	$1,287	$6,423
Revenues Total		**$255,647,467**	**$26,933,728**	**$422,869**	**$568,474**	**$49,171**	**$62,615,809**	**$106,531,516**	**$2,049,356**	**$1,449,060**	**$4,682,544**	**$205,302,526**
Personnel	Personnel	$2,889,429	$223,478	$255,433	$237,382	$217,953	$281,153	$203,305	$232,059	$205,592	$236,653	$2,093,008
Personnel Total		**$2,889,429**	**$223,478**	**$255,433**	**$237,382**	**$217,953**	**$281,153**	**$203,305**	**$232,059**	**$205,592**	**$236,653**	**$2,093,008**
Ext. Mat. & Svcs.	Other External Materials & Services	$805,599	$38,469	$49,464	$80,423	$64,065,920	-$63,899,123	$59,801	$65,633	$62,934	$163,592	$687,113
	FPDR 1 & 2 Pension Benefits	$150,602,000	$12,566	$12,143,557	$24,524,115	$57,979	$12,298,980	$12,317,008	$12,319,742	$12,295,352	$24,561,188	$110,530,487
	Disability & Death Benefits	$7,103,400	$12,010	$508,094	$505,888	$441,401	$477,549	$590,825	$590,184	$517,816	$564,805	$4,208,572
Ext. Mat. & Svcs. Total		**$158,510,999**	**$63,045**	**$12,701,116**	**$25,110,426**	**$64,565,299**	**-$51,122,594**	**$12,967,634**	**$12,975,559**	**$12,876,102**	**$25,289,584**	**$115,426,172**
Int. Mat. & Svcs.	Other Internal Materials & Services	$794,570	$84,672	$61,921	$234,912	$50,856	$60,877	$53,313	$63,767	$50,813	$54,587	$715,717
	FPDR 3 Pension Contributions	$33,070,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Return to Work/Light Duty	$497,600	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Int. Mat. & Svcs. Total		**$34,362,170**	**$84,672**	**$61,921**	**$234,912**	**$50,856**	**$60,877**	**$53,313**	**$63,767**	**$50,813**	**$54,587**	**$715,717**
Capital Outlay	Capital Outlay	$35,001	$0	$3,380	$0	$9,230	$10,270	$5,720	$6,890	$3,900	$0	$39,390
Capital Outlay Total		**$35,001**	**$0**	**$3,380**	**$0**	**$9,230**	**$10,270**	**$5,720**	**$6,890**	**$3,900**	**$0**	**$39,390**
Fund Expenses	Contingency	$13,494,412	$0	$0	$0	$0		$0	$0	$0	$0	$0
	Debt Retirement	$45,434,207	$25,000	$3,356	$0	$20,756	$0	$0	$28,299,880	$0	$0	$28,348,992
	Interfund Cash Transfer Expenses	$921,249	$13,309	$13,309	$13,309	$13,309	$19,075	$13,309	$13,309	$13,309	$13,309	$125,547
Fund Expenses Total		**$59,849,868**	**$38,309**	**$16,665**	**$13,309**	**$34,065**	**$19,075**	**$13,309**	**$28,313,189**	**$13,309**	**$13,309**	**$28,474,539**