

Portland FPDR Funding Policy

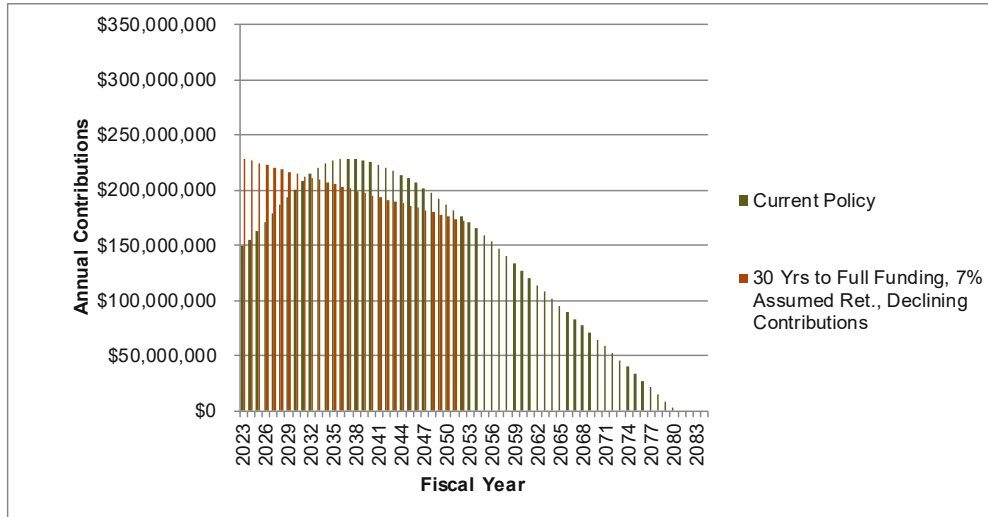
Kevin Machiz, CFA, FRM

Kevin.machiz@gmail.com

For Consideration

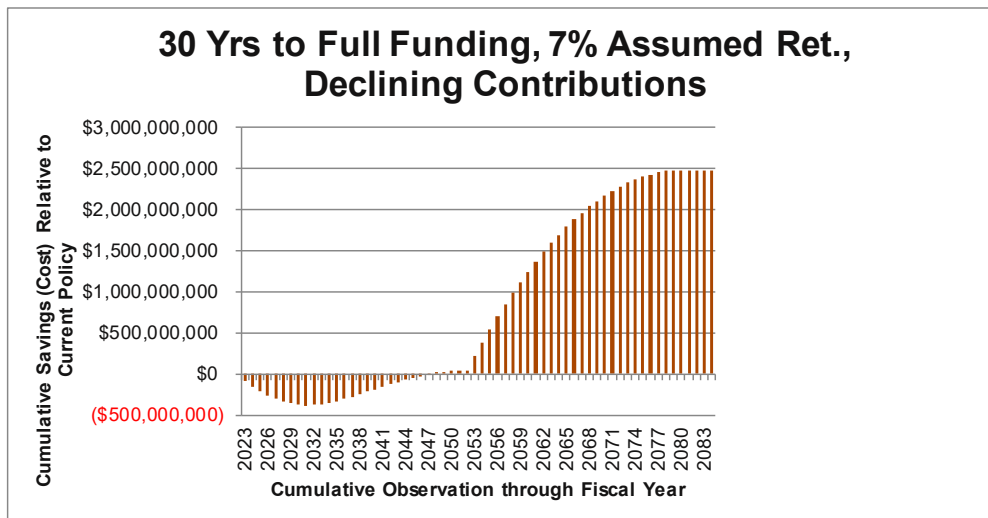
- ▶ The City should request its actuary provide an analysis of a Comprehensive Actuarial Funding Policy covering the following
 - ▶ Inputs
 - ▶ Various amortization periods
 - ▶ Pension Obligation Bonds
 - ▶ Combinations of the above
 - ▶ Outputs
 - ▶ Cumulative long-term cost savings
 - ▶ Analysis of the impact of FPDR on property tax compression, including in worse-case scenarios
 - ▶ This may require collaboration with the City Economist or an economic consulting firm given that it has not been done before

Current Policy (Green) vs. Illustrative Alternative (Red)



► This alternative is expected to reduce costs by \$2.5 billion over the plan's life

- Annual costs are lower than the Current Policy by year 10
- Cumulative costs never reach \$400 million
- This alternative policy reaches breakeven by year 22



Portland's Funding Policy: Unique, not New

1920s

- Comprehensive actuarial funding policies are extremely rare

1978

- Most public pensions in the US had abandoned pay-as-you go (17% remained)

Until 2017

- Portland was the only pay-as-you-go system, then Puerto Rico entered pay-as-you-go status

1948

- Creation of FPDR (pay-as-you-go) after previous versions failed financially

Late 1980s

- Nearly all public pensions in the US had abandoned pay-as-you-go

National Experts: Red Flag

- ▶ David Draine of Pew Charitable Trusts:
 - ▶ Portland's negative amortization: https://www.pewtrusts.org/-/media/assets/2021/05/municipal_pension_funding_increases_final.pdf
 - ▶ Portland's unfunded liability: https://www.pewtrusts.org/-/media/legacy/uploadedfiles/pes_assets/2013/pewcitypensionsreportpdf.pdf
- ▶ Alicia Munnell and Jean-Pierre Aubry of the Center for Retirement Research at Boston College:
 - ▶ Portland's pension cost burden: https://crr.bc.edu/wp-content/uploads/2016/10/wp_2016-11.pdf
- ▶ Independent national experts can engage directly with the City, but only by invitation

Portland City Council Meeting - Wednesday, June 14, 2023 2:00 p.m.

Agenda Item	First Name	Last Name
506-01	Kevin	Machiz
506-02	Robin	Castro