

**CITY OF AUBURN  
INTEROFFICE MEMORANDUM**

TO: Fire Relief and Pension Board  
Mayor Nancy Backus, Chair  
Shelley Coleman, Finance Director  
Bill Petersen, Member  
Robert Wigley, Member

FROM: Danielle Daskam, City Clerk

DATE: June 16, 2017

SUBJECT: FIRE RELIEF AND PENSION BOARD AGENDA  
**FOR TUESDAY, JUNE 27, 2017 AT 1:30 PM**  
CONFERENCE ROOM 2, CITY HALL 2<sup>ND</sup> FL

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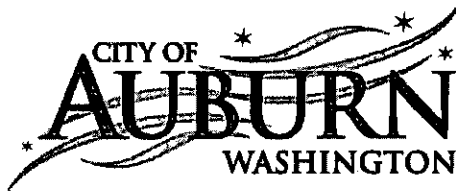
**FIRE RELIEF AND PENSION BOARD  
JUNE 27, 2017 1:30 PM**

**AGENDA**

- I. CALL TO ORDER
- II. APPROVAL OF MINUTES
  - A. Minutes of the June 28, 2016 Fire Relief and Pension Board meeting.\*  
*(Recommendation: Board approve the June 28, 2016 minutes as distributed.)*
- III. UNFINISHED BUSINESS
- IV. NEW BUSINESS
  - A. Actuarial Valuation
  - B. Annual Affidavits Verifying Benefit Eligibility
  - C. Fire Relief and Pension Cost of Living Benefit Adjustments  
*(Recommendation: Board approve the annual pension benefits to pensioners and beneficiaries.)*
  - D. Approval of Claims  
*(Recommendation: Board approve the 2016 expenses.)*
  - E. Investment Authorization  
*(Recommendation: Board authorize the Finance Director of the City to make such investments as may be appropriate from the Fire Relief and Pension Fund.)*
- V. ADJOURNMENT

Fire Relief and Pension Board Agenda for Tuesday, June 27, 2017  
Distribution List:

Nancy Backus, Mayor  
Shelley Coleman, Finance Director  
Bill Petersen, Member  
Robert Wigley, Member  
Dani Daskam, City Clerk



## Interoffice Memorandum

**To:** Shelley Coleman, Finance Director  
**From:** Ronda Stella, Payroll Accountant  
**CC:** File  
**Date:** June 15, 2017  
**Re:** Fire Relief and Pension Benefits

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The following information is for the presentation to the Fire Relief and Pension Board at their annual meeting which is scheduled for Tuesday June 27, 2017. I have included information concerning the COLA and other information below.

- Actuarial Valuation

Milliman Consultants and Actuaries prepare an actuarial valuation of the Firefighters Pension Fund (FPF) every two years as required by the Governmental Accounting Standards Board (GASB). The last report prepared is dated January 1, 2017.

The plan experienced a liability increase due to excess benefits increasing more than anticipated over the past two years and a lower than expected mortality rate.

Since January 1, 2007 there have been no long-term care or other non-pension benefits paid from this fund.

- Annual Affidavits Verifying Benefit Eligibility

In April 2017, all retirees and beneficiaries were sent affidavits requesting updated personal information. The City requested that the affidavits be notarized and returned to the Payroll Department by May 4, 2017. Currently eleven of the affidavits have been received, out of thirteen sent.

Eleven of the thirteen retirees and beneficiaries are receiving a monthly pension benefit from the City. One retiree and one beneficiary are not receiving a monthly pension benefit from the City, as their current monthly retirement allowance from the State covers the percentage of pension benefit required.

- Pension Adjustments for Pensioners and Beneficiaries

Every January 1 the City calculates the total pension payments due based on the salary schedules in the current Firefighter's union contract. On January 1, 2015, per the contract, pension payments increased by 2.2% for all fire ranks. January 1, 2016, per the contract, pension payments increased by 5.335% and 1.1% for the Battalion Chief rank and all other ranks, respectively. The City adjusted its portion of the payment to the retirees to reflect the Firefighter's union contract increases.

Subsequently, on April 1 of each year, the State applies a COLA adjustment to their portion of the pension payments to retirees. This results in an equal reduction in the pension payments made by the City. The City's portion of the pension payments, (as calculated in accordance with RCW 41.18) is reduced by the same amount as the increase in the monthly retirement allowance they receive from the State.

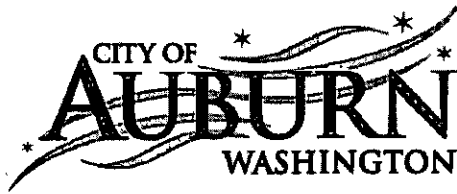
#### Approval of Claims

\$187,004 was paid from the FPF, an increase in the amount of \$9,332 attributed to an increase in the retiree pension benefit payments. This increase was offset by decreased professional services supplied by the City's actuary, Milliman. A full actuarial valuation of the FRP Fund is performed every two years.

\$102,671 was paid from the General Fund for LEOFF 1 Firefighters' medical expenses who are covered by the FPF. The total 2016 expenses paid from the FPF Fund and General Fund are \$289,675, a 13.8% decrease. The decrease is due to decreased medical insurance premiums and medical reimbursement requests submitted by retirees in 2016.

#### Investment Authorization

2016 fund assets in the amount of \$2,420,286 are invested in the Washington State Investment Pool, treasury notes, and bonds. The average investment return in 2016 was approximately .46%, up .28% from the previous year.



**Interoffice Memorandum**

**To:** Fire Pension Fund Committee  
**From:** Shelley Coleman, Finance Director  
**CC:** Nancy Backus, Mayor  
**Date:** June 15, 2017  
**Re:** Fire Pension Fund and Liability

The City has a Fire Pension Fund (FPF) and it is obligated to pay retirement benefits to active members as of March 1, 1970. Currently the FPF has 13 retired members which includes four survivors as beneficiaries. The Fund operates on a pay-as-you-go basis.

For those retired after 1970, the City must pay the excess of the FPF benefit over the LEOFF benefit. The LEOFF benefits increase with the CPI for Seattle, while most of the FPF benefits increase with wages of the current active firefighters in the rank the members held at retirement. For this reason, the benefits are highly sensitive to the spread between wage increases and CPI increases. Wages have typically grown at a faster rate than CPI and are expected to continue to do so in the future.

Example of the benefit calculation:

Suppose that a member has an FPF benefit of \$4,000 per month and a LEOFF benefit of \$3,500 per month. The City paid benefit is \$500 per month. If wages increase at 3.25%, while the CPI increases at 2.25%, the benefit increases look like the following:

	Current Year	Increase	Following Year
FPF	\$ 4,000.00	3.25%	\$ 4,130.00
LEOFF	\$ 3,500.00	2.25%	\$ 3,578.75
City Paid Benefit	\$ 500.00	10.25%	\$ 551.25

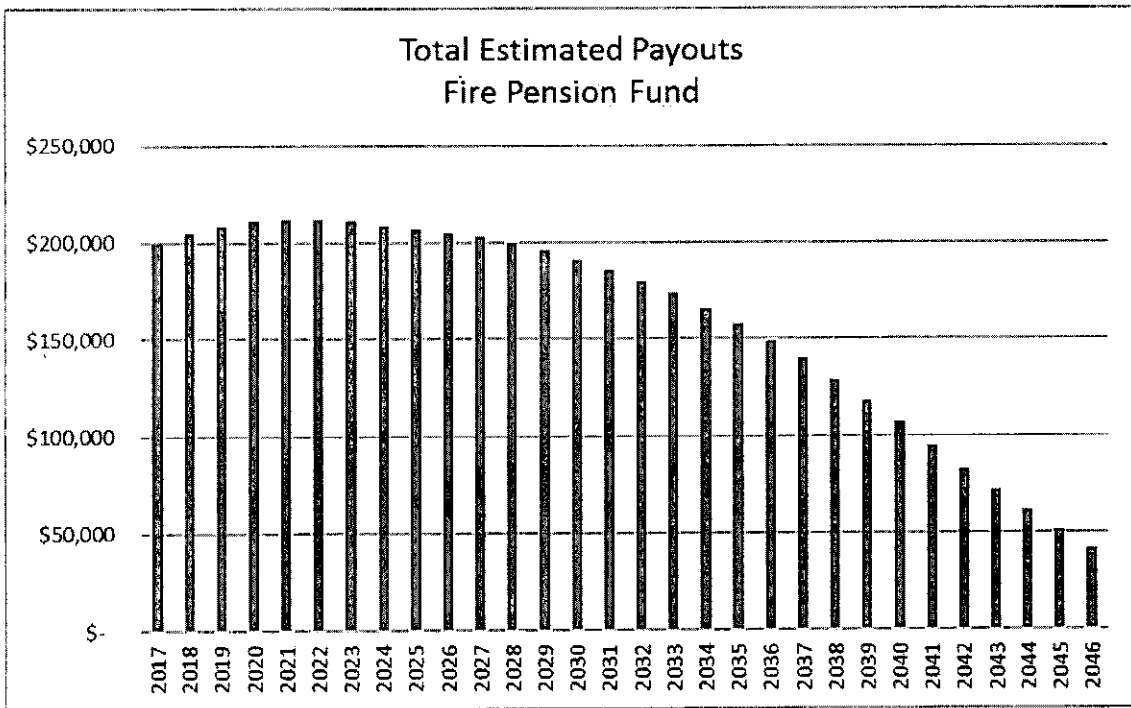
As of January 1, 2017, the actuarial present value of the future excess pension benefits to be provided by the City is \$3,300,526, which was 10% higher than expected due to a 4% increase in demographic experience and 6% increase due to changes in benefit amounts compared to expectations.

The present value of total assets available to fund future excess pension benefits is \$2,412,576 leaving an actuarial deficiency of \$887,950. The shortfall is because the available assets do not include the state tax on fire insurance premiums, which is \$75,000 per year. This revenue stream may not be available in future years and therefore was not included in the funding scenario in the most recent study. Previous studies assumed this revenue stream through 2024.

<b>Derivation of Contributions Required for Pension Benefits</b>		
	<b>2015</b>	<b>2017</b>
A. Actuarial PV of benefits not provided by LEOFF system	\$ 3,130,000	\$ 3,300,526
B. Assets of the Fund		
Investments less Liabilities	\$ 2,609,000	\$ 2,412,576
C. PV of future fire insurance premiums (thru 2024)	\$ 741,000	-
D. Total Assets (B + C)	\$ 3,350,000	\$ 2,412,576
Actuarial deficiency (A - D not less than zero)	\$ -	\$ 887,950

The City requested the actuary to provide a contribution schedule to address the deficit over a 5-year period at the assumed rate of return of 3.5% and 2.00%. The required contribution over 5 years, beginning in 2017, would be \$192,000 per year at a 3.5% rate of return or \$307,000 per year at a 2% rate of return.

Finance will be presenting this information to Council in August for their consideration in the 2018 budget discussions.



Currently there are 13 people receiving pension payments from the FPF:

Retired for Service	
Age	Number
70-74	1
75-79	1
85-89	1

Disabled in the Line of Duty	
Age	Number
65-69	1
75-79	3
80-84	1
90-94	1

Survivors	
Age	Number
65-69	1
70-74	1
80-84	1
90-94	1

City of Auburn, Washington  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
December 31, 2016

	Fire Relief Pension Trust Fund
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 2,420,286
Receivables:	
Customer Accounts	-
Total Assets	<u>2,420,286</u>
<b>LIABILITIES:</b>	
Current Payables	7,710
Due to Other Governmental Units	-
Total Liabilities	<u>7,710</u>
<b>NET POSITION</b>	
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 2,412,576</u>

City of Auburn, Washington  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
For the Year Ended December 31, 2016

	Fire Relief Pension Trust Fund
<b>ADDITIONS:</b>	
Fire Insurance Premiums - Transferred from General Fund	\$ 76,569
Investment Earnings	10,454
Total Additions	87,023
<b>DEDUCTIONS:</b>	
Benefit Payments	173,534
Insurance Expense	500
Administrative Expenses	12,970
Total Deductions	187,004
Change in Net Position	(99,981)
Net Position - Beginning	2,512,557
Net Position - Ending	\$ 2,412,576

**Actuarial Valuation of  
Firefighters' Pension Fund**

**City of Auburn  
January 1, 2017**

**Part I – PENSION FUND VALUATION REPORT**

**SECTION 1**

**Conclusions and Recommendations**

The City's obligations under the FPF are limited to the benefits provided to firefighters who retired prior to March 1, 1970, plus payments of excess retirement benefits to active members as of that date. To meet these obligations, the City may contribute annually to the Fund the amount raised by levying all or part of a tax of up to \$0.45 (only \$0.225 of which can be in excess of the property tax limit pursuant to Revised Code of Washington (RCW) 84.52.043) per \$1,000 of true and fair market value, the maximum provided by law for maintaining the Fund. Contributions also include donations and income from the state fire insurance premium collection.

The Fund is operating on a pay-as-you-go basis.

As of January 1, 2017, the actuarial present value of future excess pension benefits to be provided by the City is \$3,301,000.

As of January 1, 2015 (the date of our last valuation), the present value of excess pension benefits was determined to be \$3.130 million. The expected value as of January 1, 2017 based upon our 2015 valuation was \$2.996 million. The actual present value of \$3.301 million was 10% higher than expected for reasons summarized in the following chart:

<b>Reason</b>	<b>Liability Increase (Decrease) as a Percentage</b>
Demographic experience	4%
Changes in benefit amounts compared to expectations	6%
<b>Total</b>	<b>10%</b>

Lower than expected mortality led to a liability increase. Further increasing liabilities was the fact that excess benefits increased more than anticipated over the past two years.

The plan remains sensitive to demographic experience that deviates from expectations due to the small size of the plan membership. The plan also remains sensitive to deviations in the excess benefit amounts from expectations.