Segal Consulting

City of New Orleans Employees' Retirement System

Governmental Accounting Standards Board Statement 67 & 68 Disclosures as of December 31, 2018

June 11, 2019

Jesse Evans, Jr.
City of New Orleans Employees' Retirement System
1300 Perdido Street - Suite 1E12
New Orleans, LA 70112

Dear Jesse:

We are pleased to submit this Governmental Accounting Standards Board Statement 67 and 68 disclosures based on a December 31, 2018 measurement date for employer reporting as of December 31, 2018. It contains various information that will need to be disclosed in order for the System employers to comply with GASB 68.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist the sponsors in preparing their financial report for their liabilities associated with the the System pension plan. The census and financial information on which our calculations were based were provided by the System. That assistance is gratefully acknowledged.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

The actuarial calculations were completed under the supervision of Jeffrey S. Williams, ASA, MAAA, EA, Enrolled Actuary. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in my opinion, the assumptions as approved by the Board are reasonably related to the experience of and expectations for the System.

I look forward to reviewing this report with you and to answering any questions.

Sincerely,

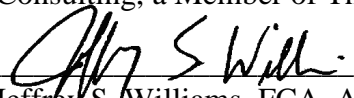Segal Consulting, a Member of The Segal Group, Inc.

By: _____

Jeffrey S. Williams, FCA, ASA, MAAA, EA
Vice President and Consulting Actuary

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GASB 67 and 68 Information

✴ Segal Consulting

GASB 67 and 68 Information

General Information – "Financial Statements", Note Disclosures and Required Supplementary Information

Plan Description

Plan administration. City of New Orleans Employees' Retirement System (the System) is administered by the Retirement Board

Plan membership. At December 31, 2018, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	2,143
Vested terminated members entitled to but not yet receiving benefits	328
Active members	2,873
Total	5,344

Benefits provided. The major plan provisions for participants of the Employees' Retirement System are summarized in Section 4, Exhibit II of the January 1, 2019 actuarial valuation report. The summary is not intended to be, nor should be interpreted as, a complete statement of all plan provisions.

Net Pension Liability

Reporting Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Measurement Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Components of the Net Pension Liability		
Total Pension Liability	$658,352,626	$629,766,451
Plan Fiduciary Net Position	365,737,309	391,827,316
Net Pension Liability	292,615,317	237,939,135
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	55.55%	62.22%

The Net Pension Liability (NPL) for the plan was measured as of December 31, 2018 and 2017. Plan Fiduciary Net Position (plan assets) was valued as of the measurement dates and the Total Pension Liability (TPL) was determined based upon the TPL from actuarial valuations as of January 1, 2019 and 2018, respectively.

Plan provisions. The plan provisions used in the measurement of the NPL are the same as those used in the System actuarial valuations as of January 1, 2019 and January 1, 2018, respectively.

Actuarial assumptions. The TPL as of December 31, 2018 and 2017, that were measured by actuarial valuations as of January 1, 2019 and 2018, respectively, used the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	5.00%
Investment rate of return	7.50%
Other assumptions	See the January 1, 2019 and January 1, 2018 actuarial valuations for a complete description of all actuarial assumptions. These assumptions were developed in the analysis of actuarial experience study for the period January 1, 2006 through December 31, 2010.

Target Asset Allocation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	1.41%
Equity Securities	58.00%	6.79%
Fixed Income	25.00%	2.65%
Real Estate	5.00%	4.08%
Alternatives	10.00%	7.37%

Discount rate. The discount rates used to measure the Total Pension Liability (TPL) was 7.50% as of December 31, 2018 and December 31, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan Fiduciary Net Position (FNP) was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of both December 31, 2018 and December 31, 2017.

Discount Rate Sensitivity

Sensitivity of the Net Pension Liability to changes in the discount rate. The following presents the Net Pension Liability (NPL) of the the System as of December 31, 2018, which is allocated to all employers, calculated using the discount rate of 7.50%, as well as what the the System's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

Total for all Employers	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	$374,914,879	$292,615,317	$237,600,483

Schedule of Changes in Net Pension Liability – Last Two Fiscal Years

	December 31, 2018	December 31, 2017
Reporting Date for Employer under GASB 68		
Measurement Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Total Pension Liability		
Service cost	$9,107,643	$9,447,990
Interest	46,037,729	45,680,973
Change of benefit terms	-437,937	0
Differences between expected and actual experience	23,954,158	13,756,022
Changes of assumptions	0	0
Benefit payments, including refunds of member contributions	-50,075,418	48,198,171
Net change in Total Pension Liability	$28,586,175	$20,686,814
Total Pension Liability – beginning	629,766,451	609,079,637
Total Pension Liability – ending	$658,352,626	$629,766,451
Plan Fiduciary Net Position		
Contributions – employer	$31,572,422	$27,169,921
Contributions – employee	8,246,577	7,677,009
Net investment income	-15,589,616	51,906,523
Benefit payments, including refunds of member contributions	-50,075,418	-48,198,171
Administrative expense	-243,972	-337,564
Other	0	0
Net change in Plan Fiduciary Net Position	-$26,090,007	$38,217,718
Plan Fiduciary Net Position – beginning	391,827,316	353,609,598
Plan Fiduciary Net Position – ending	$365,737,309	$391,827,316
Net Pension Liability – ending	$292,615,317	$237,939,135
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	55.55%	62.22%
Covered employee payroll	$128,530,078	$120,808,711
Plan Net Pension Liability as percentage of covered employee payroll	227.66%	196.96%

Schedule of Contributions – Last Ten Fiscal Years

Year Ended December 31	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency / (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2009	$17,066,353	$12,614,236	$4,452,117	$89,366,260	14.12%
2010	21,281,308	13,031,810	8,249,498	85,926,577	15.17%
2011	20,850,837	19,917,899	932,938	93,636,301	21.27%
2012	18,828,419	19,010,841	-182,422	92,881,497	20.47%
2013	20,228,129	18,544,682	1,683,447	92,440,354	20.06%
2014	20,871,424	20,306,887	564,537	97,243,872	20.88%
2015	21,891,996	22,447,281	-555,285	105,691,915	21.24%
2016	22,713,296	27,304,527	-4,591,231	115,504,517	23.64%
2017	26,857,512	27,169,921	-312,409	120,808,711	22.49%
2018	28,015,495	28,095,672	-80,177	128,530,078	23.26%

Methods and assumptions used to establish "actuarially determined contribution" rates for the fiscal year ended December 31, 2018:

Valuation date	Actuarially determined contribution rates are calculated using a January 1 valuation date
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level dollar
Remaining amortization period	15 years, open
Asset valuation method	Actual market value performance over a seven year period ending on the valuation date. The market value performance is averaged over the seven year period by reflecting the actual external cash flow and adjusting each prior year's market value to the current valuation date using the actuarial interest assumption in effect for each year.
Actuarial assumptions:	
Investment rate of return	7.50%
Real across-the-board salary increase	5.00%
Other assumptions	Same as those used in the January 1, 2018 funding actuarial valuation.

Notes:

Based on the December 31, 2017 through December 31, 2018 employer contributions as provided by the System.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan Fiduciary Net Position (plan assets). The TPL for each membership class is obtained from internal valuation results. The Plan Fiduciary Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ratio of the total the System Plan Fiduciary Net Position to total the System valuation value of assets.

For purposes of the above results, we have assumed that the reporting date for the employer under GASB 68 is December 31, 2018. The reporting date and measurement date for the plan under GASB 67 are assumed to be December 31, 2018. This means that assets and liabilities are determined as of January 1, 2019 and are not adjusted or "rolled forward" to December 31, 2018. Other results, such as the total deferred inflows and outflows would also be allocated based on the same proportionate shares determined above.

The following items are allocated based on the corresponding proportionate share within each membership class:

➤ Net Pension Liability
➤ Pension Expense

Pension Expense

Reporting Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Measurement Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Components of Pension Expense		
Service cost	$9,107,643	$9,447,990
Interest on the Total Pension Liability	46,037,729	45,680,973
Current-period benefit changes	-437,937	- -
Expensed portion of current-period difference between expected and actual experience in the Total Pension Liability	5,988,538	1,719,503
Expensed portion of current-period changes of assumptions or other inputs	- -	- -
Member contributions	-8,246,577	-7,677,009
Projected earnings on plan investments	-28,993,284	-26,007,390
Expensed portion of current-period differences between actual and projected earnings on plan investments	8,916,580	-5,179,827
Administrative expense	243,972	337,564
Other	- -	- -
Recognition of beginning of year deferred outflows of resources as pension expense	20,398,994	17,937,983
Recognition of beginning of year deferred inflows of resources as pension expense	-7,089,222	-1,167,804
Net amortization of deferred amounts from changes in proportion and differences between employer's contributions and proportionate share of contributions	- -	- -
Pension Expense	**$45,926,436**	**$35,091,983**

Deferred Outflows of Resources and Deferred Inflows of Resources

Reporting Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Measurement Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Deferred Outflows of Resources		
Changes of assumptions or other inputs	$0	$0
Net difference between projected and actual earnings on pension plan investments	26,881,806	0
Difference between expected and actual experience in the Total Pension Liability	65,806,855	57,572,300
Total Deferred Outflows of Resources	$92,688,661	$57,572,300
Deferred Inflows of Resources		
Changes of assumptions or other inputs	$0	$0
Net difference between projected and actual earnings on pension plan investments	0	4,038,419
Difference between expected and actual experience in the Total Pension Liability	3,503,410	4,671,214
Total Deferred Inflows of Resources	$3,503,410	$8,709,633

Deferred outflows of resources and deferred inflows of resources related to pension will be recognized as follows:

Reporting Date for Employer under GASB 68 Year Ended December 31:

2018	N/A	$13,309,855
2019	$25,785,610	10,880,490
2020	17,547,461	2,642,341
2021	18,289,057	3,383,937
2022	18,648,141	9,731,561
2023	7,195,481	7,195,481
Thereafter	1,719,501	1,719,501

The average of the expected service lives of all employees is determined by:

➤ Calculating each active employee's expected remaining service life as the present value of $1 per year of future service at zero percent interest.

➤ Setting the remaining service life to zero for each nonactive or retired member.

➤ Dividing the sum of the above amounts by the total number of active employee, nonactive and retired members.

➤ The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined as of December 31, 2018 is four (4) years.

Schedule of Reconciliation of Net Pension Liability

Reporting Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Measurement Date for Employer under GASB 68	December 31, 2018	December 31, 2017
Beginning Net Pension Liability	$237,939,135	$255,470,039
Pension expense	45,926,436	35,091,983
Employer contributions	-31,572,422	-27,169,921
New net deferred inflows/outflows	53,631,940	-8,682,787
New net deferred flows due to change in proportion	0	0
Recognition of prior deferred inflows/outflows	-13,309,772	-16,770,179
Ending Net Pension Liability	$292,615,317	$237,939,135

Schedule of Recognition of Changes in Total Net Pension Liability

Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Differences between Expected and Actual Experience on Total Pension Liability

Reporting Date for Employer under GASB 68 Year Ended December 31:

Reporting Date for Employer under GASB 68 Year Ended December 31	Differences between Expected and Actual Experience	Recognition Period (Years)	2017	2018	2019	2020	2021	2022	2023	Thereafter
2014	-$9,342,430	8.00	-$1,167,804	-$1,167,804	-$1,167,804	-$1,167,804	-$1,167,802	0	0	0
2015	20,288,669	8.00	2,536,084	2,536,084	2,536,084	2,536,084	2,536,084	$2,536,081	0	0
2016	43,807,817	8.00	5,475,977	5,475,977	5,475,977	5,475,977	5,475,977	5,475,977	$5,475,978	0
2017	13,756,022	8.00	1,719,503	1,719,503	1,719,503	1,719,503	1,719,503	1,719,503	1,719,503	$1,719,501
2018	23,954,158	4.00	N/A	5,988,538	5,988,540	5,988,540	5,988,540	0	0	0
Net increase (decrease) in pension expense		N/A		$14,552,298	$14,552,300	$14,552,300	$14,552,302	$9,731,561	$7,195,481	$1,719,501

Increase (Decrease) in Pension Expense Arising from the Recognition of the Differences between Projected and Actual Earnings on Pension Plan Investments

Reporting Date for Employer under GASB 68 Year Ended December 31:

Reporting Date for Employer under GASB 68 Year Ended December 31	Differences between Expected and Actual Experience	Recognition Period (Years)	2017	2018	2019	2020	2021	2022
2014	$12,146,823	5.00	$2,429,365	$2,429,363	0	0	0	0
2015	41,190,753	5.00	8,238,151	8,238,151	$8,238,149	0	0	0
2016	-3,707,960	5.00	-741,592	-741,592	-741,592	-$741,592	0	0
2017	-25,899,133	5.00	-5,179,827	-5,179,827	-5,179,827	-5,179,827	-$5,179,825	0
2018	44,582,900	5.00	N/A	8,916,580	8,916,580	8,916,580	8,916,580	$8,916,580
Net increase (decrease) in pension expense		N/A		$13,662,675	$11,233,310	$2,995,161	$3,736,755	$8,916,580

Total Increase (Decrease) in Pension Expense

Reporting Date for Employer under GASB 68 Year Ended December 31:

Reporting Date for Employer under GASB 68 Year Ended December 31	Differences between Expected and Actual Experience	Recognition Period (Years)	2017	2018	2019	2020	2021	2022	2023	Thereafter
2014	$2,804,393		$1,261,561	$1,261,559	-$1,167,804	-$1,167,804	-$1,167,802	0	0	0
2015	61,479,422		10,774,235	10,774,235	10,774,233	2,536,084	2,536,084	$2,536,081	0	0
2016	40,099,857		4,734,385	4,734,385	4,734,385	4,734,385	5,475,977	5,475,977	$5,475,978	0
2017	-12,143,111		-3,460,324	-3,460,324	-3,460,324	-3,460,324	-3,460,322	1,719,503	1,719,503	$1,719,501
2018	68,537,058		N/A	14,905,118	14,905,120	14,905,120	14,905,120	8,916,580	0	0
Net increase (decrease) in pension expense			N/A	$28,214,973	$25,785,610	$17,547,461	$18,289,057	$18,648,141	$7,195,481	$1,719,501

GASB 67/68 Apportionment Among Outside Boards ("OB") and Component Units ("CU")

Change in Proportion Calculations for the Plan Calendar Fiscal Year Ending 12/31/2018

Employees' Retirement System of the City of New Orleans

Unit Type	Name of Unit	Earnings Prior Year	Percentage	Earnings Current Year	Percentage	Change in Percentage	Net Pension Liability 12/31/2017	Net Pension Liability 12/31/2018	Dollar Change due to change in proportion
CU	Aviation Board	$8,037,959.56	6.959000%	$9,614,756.72	7.480550%	0.521550%	$16,558,184	$21,889,235	$ 1,240,971
OB	Board of Liquidation	$78,468.00	0.067935%	$161,107.66	0.125346%	0.057411%	161,644	366,782	136,604
CU	Canal St. Develop.	$316,800.90	0.274276%	$95,697.33	0.074455%	-0.199821%	652,610	217,867	(475,451)
CU	Criminal Clerk of Court	$807,591.20	0.699186%	$787,937.94	0.613038%	-0.086148%	1,663,637	1,793,842	(204,980)
OB	Criminal District Court	$302,713.49	0.262079%	$152,944.00	0.118995%	-0.143085%	623,589	348,197	(340,454)
OB	DA Child Support & Administr.	$4,009,630.73	3.471406%	$4,146,064.46	3.225754%	-0.245652%	8,259,833	9,439,051	(584,502)
OB	First City Court (Constable)	$201,846.66	0.174752%	$414,152.00	0.322222%	0.147470%	415,803	942,870	350,888
CU	French Market Corp.	$2,008,696.02	1.739063%	$1,876,187.75	1.459727%	-0.279336%	4,137,911	4,271,384	(664,650)
OB	Mortgage-Conveyance	$205,982.82	0.178333%	$207,315.32	0.161297%	-0.017036%	424,324	471,980	(40,535)
CU	N.O. Mun. Yacht Hbr.	$216,253.18	0.187225%	$186,191.49	0.144862%	-0.042363%	445,482	423,889	(100,797)
OB	Orleans Parish Commun. Dist.	$3,125,696.00	2.706124%	$4,924,229.99	3.831189%	1.125064%	6,438,928	11,210,645	2,676,968
	All Others (NOMERS)	$96,192,878.67	83.280621%	$105,963,493.34	82.442565%	-0.838055%	198,157,189	41,239,575	(1,994,062)
	Totals	$115,504,517.23	100.000000%	$128,530,078.00	100.000000%		$237,939,134	$292,615,317	$0