

City of New Orleans Employees' Retirement System

Governmental Accounting Standards Board

Statement 67 & 68 Disclosures as of December 31, 2019



This report has been prepared at the request of the Board to assist the sponsors of the System in preparing their financial report for their liabilities associated with the the System. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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July 31, 2020

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, 2019 measurement date for employer reporting as of December 31, 2019. 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 System. 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, FCA, ASA, MAAA, 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

A handwritten signature in black ink that reads "Jeffrey S. Williams".

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

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GASB 67 and 68 Information

General information about the pension plan

Plan Description

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

Plan membership. At December 31, 2019, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	2,130
Vested terminated members entitled to but not yet receiving benefits	298
Active members	3,024
Total	5,452

Benefits provided. The major plan provisions for participants of the Employees' Retirement System are summarized in Section 4, Exhibit II of the January 1, 2020 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, 2019	December 31, 2018
Measurement Date	December 31, 2019	December 31, 2018
Components of the Net Pension Liability		
Total Pension Liability	\$723,145,441	\$658,352,626
Plan Fiduciary Net Position	418,971,331	365,737,309
Net Pension Liability	304,174,110	292,615,317
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	57.94%	55.55%

The Net Pension Liability (NPL) for the plan was measured as of December 31, 2019 and 2018. Plan Fiduciary Net Position (plan assets) was valued as of the measurement dates and the Total Pension Liability (TPL) was determined from actuarial valuations as of January 1, 2020 and 2019, respectively.

Actuarial assumptions. The TPL as of December 31, 2019 and 2018, that were measured by actuarial valuations as of January 1, 2020 and 2019, respectively, used the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	Age-based annual rates ranging from 10% to 3.2% (5.00%, compounded annual for 2019)
Investment rate of return	7.25% (7.50% for 2019)
Other assumptions	See the January 1, 2020 and January 1, 2019 actuarial valuations for a complete description of all actuarial assumptions. These assumptions were developed in the analysis of an actuarial experience study for the period January 1, 2011 through December 31, 2016 for the 2020 valuation and an actuarial experience study for the period January 1, 2006 through December 31, 2010 for the 2019 valuation.

Determination of discount rate and investment rates of return

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 and cash equivalents	2.00%	0.65%
Domestic equity	42.50%	6.40%
International equity	14.00%	7.05%
Fixed income	22.00%	1.15%
Real estate	5.00%	4.50%
Hedge funds and GTAA	9.50%	3.32%
Private investments	5.00%	10.40%

Discount rate. The discount rates used to measure the Total Pension Liability (TPL) were 7.25% and 7.50% as of December 31, 2019 and December 31, 2018, respectively. 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, 2019 and December 31, 2018.

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, 2019, calculated using the discount rate of 7.25%, as well as what the System’s NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability	\$383,928,999	\$304,174,110	\$237,510,321

Schedule of changes in Net Pension Liability – Last two fiscal years

Reporting Date for Employer under GASB 68	December 31, 2019	December 31, 2018
Measurement Date	December 31, 2019	December 31, 2018
Total Pension Liability		
Service cost	\$11,937,129	\$9,107,643
Interest	48,444,849	46,037,729
Change of benefit terms	0	-437,937
Differences between expected and actual experience	-17,742,145	23,954,158
Changes of assumptions	70,869,862	0
Benefit payments, including refunds of member contributions	<u>-48,716,880</u>	<u>-50,075,418</u>
Net change in Total Pension Liability	\$64,792,815	\$28,586,175
Total Pension Liability – beginning	<u>658,352,626</u>	<u>629,766,451</u>
Total Pension Liability – ending	<u>\$723,145,441</u>	<u>\$658,352,626</u>
Plan Fiduciary Net Position		
Contributions – employer	\$33,884,678	\$31,065,227
Contributions – employee	9,134,139	8,246,577
Net investment income	59,043,437	-15,589,616
Benefit payments, including refunds of member contributions	-48,716,880	-50,075,418
Administrative expense	-376,002	-243,972
Transfers into the System	<u>264,650</u>	<u>507,195</u>
Net change in Plan Fiduciary Net Position	\$53,234,022	-\$26,090,007
Plan Fiduciary Net Position – beginning	<u>365,737,309</u>	<u>391,827,316</u>
Plan Fiduciary Net Position – ending	\$418,971,331	\$365,737,309
Net Pension Liability – ending	<u>\$304,174,110</u>	<u>\$292,615,317</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	57.94%	55.55%
Covered employee payroll	\$149,538,039	\$128,530,078
Plan Net Pension Liability as percentage of covered employee payroll	203.41%	227.66%

Notes to Schedule:

Benefit changes: The following plan provisions were effective January 1, 2018 for participants hired or on after January 1, 2018 and were reflected in the December 31, 2018 disclosure:

- Benefit multiplier changed to 1.90% for all years of service
- 80 point provision eliminated for retirement eligibility
- Age 60 with 10 years of service early retirement eligibility eliminated
- Age 62 with 20 years of service retirement eligibility added
- Pensionable earnings capped at \$100,000, periodically adjusted for inflation by the Trustees
- DROP period changed to 36 months
- The funded percentage necessary for the approval of Cost of Living Adjustments (COLA's) was increased to 95%

Assumption changes: The following assumptions were changed with the January 1, 2020 valuation, based on an experience study for the period of January 1, 2011 through December 31, 2016 conducted by another actuary employed by the City:

- Update the mortality rates to use the PubG-2010 mortality tables for healthy lives, and PubNS-2010 Disabled Retiree table for Disabled lives, and project the mortality improvement for all participants with Scale MP-2018
- Change the retirement rates to use age-based rates, rather than 100% at selected eligibilities
- Lower the assumed rate of investment return from 7.50% to 7.25%
- Change the salary scale to use age-based rates that reflects decreasing pay growth as a participant ages, rather than use 5% increases for all ages
- Update the turnover rates to reflect recent experience
- Update the disability rates to only begin after ten years of service, and stop at age 60

Deferred outflows of resources and deferred inflows of resources

Reporting Date for Employer under GASB 68	December 31, 2019	December 31, 2018
Measurement Date	December 31, 2019	December 31, 2018
Deferred Outflows of Resources		
Changes of assumptions or other inputs	\$53,152,398	\$0
Net difference between projected and actual earnings on pension plan investments	0	26,881,806
Difference between expected and actual experience in the Total Pension Liability	<u>50,086,751</u>	<u>65,806,855</u>
Total Deferred Outflows of Resources	\$103,239,149	\$92,688,661
Deferred Inflows of Resources		
Changes of assumptions or other inputs	\$0	\$0
Net difference between projected and actual earnings on pension plan investments	9,816,296	0
Difference between expected and actual experience in the Total Pension Liability	<u>15,642,214</u>	<u>3,503,410</u>
Total Deferred Inflows of Resources	\$25,458,510	\$3,503,410
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:		
2019	N/A	\$25,785,610
2020	\$24,463,193	17,547,461
2021	25,204,789	18,289,057
2022	25,563,873	18,648,141
2023	829,283	7,195,481
2024	1,719,501	1,719,501
Thereafter	0	0

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, 2019 is four (4) years.

Schedule of recognition of change 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	Differences between Expected and Actual Experience	Recognition Period (Years)	2018	2019	2020	2021	2022	2023	2024	Thereafter
2014	-\$9,342,430	8.00	-\$1,167,804	-\$1,167,804	-\$1,167,804	-\$1,167,802	\$0	\$0	\$0	\$0
2015	20,288,669	8.00	2,536,084	2,536,084	2,536,084	2,536,084	2,536,081	0	0	0
2016	43,807,817	8.00	5,475,977	5,475,977	5,475,977	5,475,977	5,475,977	5,475,978	0	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	1,719,501	0
2018	23,954,158	4.00	5,988,538	5,988,540	5,988,540	5,988,540	0	0	0	0
2019	-17,742,145	4.00	N/A	<u>-4,435,537</u>	<u>-4,435,536</u>	<u>-4,435,536</u>	<u>-4,435,536</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net increase (decrease) in pension expense			N/A	\$10,116,763	\$10,116,764	\$10,116,766	\$5,296,025	\$7,195,481	\$1,719,501	\$0

Increase (Decrease) in Pension Expense Arising from the Recognition of the
Effects of Assumption Changes

Reporting Date for Employer under GASB 68 Year Ended December 31	Assumption Changes	Recognition Period (Years)	2018	2019	2020	2021	2022	Thereafter
2019	\$70,869,862	4.00	N/A	<u>\$17,717,464</u>	<u>\$17,717,466</u>	<u>\$17,717,466</u>	<u>\$17,717,466</u>	<u>\$0</u>
Net increase (decrease) in pension expense			N/A	\$17,717,464	\$17,717,466	\$17,717,466	\$17,717,466	\$0

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

Reporting Date for Employer under GASB 68 Year Ended December 31	Differences between Projected and Actual Earnings	Recognition Period (Years)	2018	2019	2020	2021	2022	2023	Thereafter
2014	\$12,146,823	5.00	\$2,429,363	\$0	\$0	\$0	\$0	\$0	\$0
2015	41,190,753	5.00	8,238,151	\$8,238,149	0	0	0	0	0
2016	-3,707,960	5.00	-741,592	-741,592	-741,592	0	0	0	0
2017	-25,899,133	5.00	-5,179,827	-5,179,827	-5,179,827	-5,179,825	0	0	0
2018	44,582,900	5.00	8,916,580	8,916,580	8,916,580	8,916,580	8,916,580	0	0
2019	-31,830,992	5.00	N/A	<u>-6,366,200</u>	<u>-6,366,198</u>	<u>-6,366,198</u>	<u>-6,366,198</u>	<u>-6,366,198</u>	<u>0</u>
Net increase (decrease) in pension expense			N/A	\$4,867,110	-\$3,371,037	-\$2,629,443	\$2,550,382	-\$6,366,198	\$0

Total Increase (Decrease) in Pension Expense

Reporting Date for Employer under GASB 68 Year Ended December 31	Total Increase (Decrease) in Pension Expense	2018	2019	2020	2021	2022	2023	2024	Thereafter
2014	\$2,804,393	\$1,261,559	-\$1,167,804	-\$1,167,804	-\$1,167,802	0	0	0	0
2015	61,479,422	10,774,235	10,774,233	2,536,084	2,536,084	\$2,536,081	0	0	0
2016	40,099,857	4,734,385	4,734,385	4,734,385	5,475,977	5,475,977	\$5,475,978	0	0
2017	-12,143,111	-3,460,324	-3,460,324	-3,460,324	-3,460,322	1,719,503	1,719,503	\$1,719,501	0
2018	68,537,058	14,905,118	14,905,120	14,905,120	14,905,120	8,916,580	0	0	0
2019	21,296,725	N/A	<u>6,915,727</u>	<u>6,915,732</u>	<u>6,915,732</u>	<u>6,915,732</u>	<u>-6,366,198</u>	<u>0</u>	<u>0</u>
Net increase (decrease) in pension expense		N/A	\$32,701,337	\$24,463,193	\$25,204,789	\$25,563,873	\$829,283	\$1,719,501	\$0

Pension expense

Reporting Date for Employer under GASB 68	December 31, 2019
Measurement Date	December 31, 2019
Components of Pension Expense	
Service cost	\$11,937,129
Interest on the Total Pension Liability	48,444,849
Current-period benefit changes	- -
Expensed portion of current-period difference between expected and actual experience in the Total Pension Liability	-4,435,537
Expensed portion of current-period changes of assumptions or other inputs	17,717,464
Member contributions	-9,134,139
Projected earnings on plan investments	-27,212,445
Expensed portion of current-period differences between actual and projected earnings on plan investments	-6,366,200
Administrative expense	376,002
Transfers into System	-264,650
Recognition of beginning of year deferred outflows of resources as pension expense	32,874,833
Recognition of beginning of year deferred inflows of resources as pension expense	-7,089,223
Pension Expense	\$56,848,083

Schedule of reconciliation of Net Pension Liability

Reporting Date for Employer under GASB 68	December 31, 2019
Measurement Date	December 31, 2019
Beginning Net Pension Liability	\$292,615,317
Pension expense	56,848,083
Employer contributions	-33,884,678
New net deferred inflows/outflows	14,380,998
Recognition of prior deferred inflows/outflows	-25,785,610
Ending Net Pension Liability	\$304,174,110

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
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	31,065,227	-3,049,732	128,530,078	24.17%
2019	28,689,759	33,884,678	-5,194,919	149,538,039	22.66%

See accompanying notes to this schedule on next page.

Notes to Schedule:**Methods and assumptions used to establish “actuarially determined contribution” rates for the fiscal year ended December 31, 2019:**

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%, net of pension plan investment expense, including inflation.
Real across-the-board salary increase	5.00%
Other assumptions	Same as those used in the January 1, 2019 funding actuarial valuation.

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

Change in Proportion Calculations for the Plan Calendar Fiscal Year Ending 12/31/2019 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		Dollar Change due to change in proportion
							12/31/2018	12/31/2019	
CU	Aviation Board	\$9,614,757	7.480550%	\$11,164,015	7.465669%	-0.014881%	\$21,889,235	\$22,708,632	-\$43,545
OB	Board of Liquidation	\$161,108	0.125346%	\$143,304	0.095831%	-0.029515%	366,782	291,494	-86,367
CU	Canal St. Develop.	\$95,697	0.074455%	\$202,274	0.135266%	0.060811%	217,867	411,444	177,942
CU	Criminal Clerk of Court	\$787,938	0.613038%	\$767,108	0.512985%	-0.100053%	1,793,842	1,560,368	-292,769
OB	Criminal District Court	\$152,944	0.118995%	\$198,467	0.132720%	0.013725%	348,197	403,700	40,163
OB	DA Child Support & Administr.	\$4,146,064	3.225754%	\$3,658,220	2.446347%	-0.779406%	9,439,051	7,441,156	-2,280,663
OB	First City Court (Constable)	\$414,152	0.322222%	\$327,322	0.218889%	-0.103333%	942,870	665,803	-302,368
CU	French Market Corp.	\$1,876,188	1.459727%	\$2,045,542	1.367907%	-0.091819%	4,271,384	4,160,820	-268,677
OB	Mortgage-Conveyance	\$207,315	0.161297%	\$158,982	0.106315%	-0.054981%	471,980	323,384	-160,884
CU	N.O. Mun. Yacht Hbr.	\$186,191	0.144862%	\$198,919	0.133022%	-0.011839%	423,889	404,620	-34,644
OB	Orleans Parish Commun. Dist.	\$4,924,230	3.831189%	\$7,011,149	4.688539%	0.857350%	11,210,644	14,261,321	2,508,737
	All Others (NOMERS)	<u>\$105,963,494</u>	<u>82.442566%</u>	<u>\$123,662,737</u>	<u>82.696508%</u>	0.253943%	<u>241,239,575</u>	<u>251,541,368</u>	<u>743,075</u>
	Totals	\$128,530,078	100.000000%	\$149,538,039	100.000000%		\$292,615,317	\$304,174,110	\$0