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## CITY COUNCIL MEMORANDUM — WORK SESSION

**TO:** *City Council*

**FROM:** *Jesse VanderZanden, City Manager*

**PROJECT TEAM:** *Paul Downey, Director of Administrative Services*

**DATE:** *March 14, 2016*

**SUBJECT:** *Defined Benefit Retirement Plan Work Session*

This work session is intended to discuss the ongoing long-term health of the City's Defined Benefit Retirement Plan (Plan). This discussion will include recommended changes to the actuarial assumptions proposed by Milliman, Inc., the City's actuarial firm. A similar work session was held on January 26, 2015, discussing the Plan. Some of the actuarial assumptions were changed as a result of that work session but no action was taken on other recommendations. Tonight's work session will address those recommendations that were not implemented and discuss adding two other recommended changes.

The recommended actuarial changes center around three areas:

1) Mortality Tables changes – these changes will increase costs to the Plan
2) Change Valuation Interest Rate Assumption – this change will increase costs to the Plan
3) Change Salary Scale Assumption – this change will decrease costs to the Plan

A PowerPoint Presentation will be provided at the work session to discuss the recommended changes and their effect on the City's funding of the defined benefit retirement plan. City staff and the actuaries are finalizing the presentation including options to implement the recommendations over time. The cost of implementing all of the recommendations immediately would be additional contributions to the Plan in FY 2016-17 of $1,223,000 or a 54% increase in contributions. The City cannot afford to make all of those changes at once so a strategy to phase-in the changes over a period of time needs to be developed. Delaying the implementation of the changes for too long will increase the costs of making the changes when they are ultimately implemented.

The City faces similar challenges with its defined benefit retirement plan that many other government agencies are experiencing. Cost pressures from keeping these types of plans adequately funded will challenge some agencies' abilities to maintain services.