

## **CITY AUDITOR'S IMPARTIAL FINANCIAL ANALYSIS OF MEASURE J**

### **SUMMARY**

The Police and Fire Retirement System (PFRS) was established by Oakland City Charter Article XXVI in 1951 to provide retirement benefits for sworn Police and Fire personnel.

The PFRS fund was closed in 1976 when the City elected to utilize the California Public Employees' Retirement System (PERS) for all subsequent City employees, both for sworn Police and Fire personnel and non-sworn employees.

The City must continue to contribute to the closed PFRS Plan each year so that all PFRS financial liabilities are fully-funded by July 1, 2026 (Full-Funding Deadline), as currently defined in Article XXVI, Section 2619 (6) of the City Charter.

Voter approval of Measure J would authorize the City to extend the Full-Funding Deadline to a later date if mutually agreed upon by the PFRS Board and the City Council and supported by an actuarial study. Such extension(s) would reduce the City's current annual payment obligation to PFRS however it would not reduce the plan's unfunded liability.

Additionally, to mitigate market volatility, Measure J states that beginning 10 years prior to the Full-Funding Deadline, each year's gains and losses shall be amortized over a period of years from the year such gains or losses are incurred. The amortization period shall be set by the Board based on an actuarial study commissioned by the Board.

### **FINANCIAL IMPACT**

Measure J would likely extend the City's pension obligation over a longer period of time, thereby reducing the City's annual payment obligation currently at \$45.6 million starting July 1, 2011. The current actuary projects that benefit payments to PFRS beneficiaries may extend beyond 2050.

Measure J however, does not produce savings as the City's total obligation to fund PFRS over the life of the PFRS Plan – currently estimated to be \$494 million – remains the same. Instead, Measure J reduces the City's current obligation by spreading its annual payments to PFRS over a longer period.

The magnitude of the City's annual payment reduction depends on several factors, including market volatility and the extension of the Full-Funding Deadline. An actuarial study, as required in Measure J to reset the Full-Funding Deadline, would determine the date the plan could be extended to

that assures the ability of the PFRS assets to provide for the members' retirement benefits.

Measure J would also smooth gains and losses over an actuarially sound period of time approved by the PFRS Board and the City Council beginning ten years prior to the Full-Funding Deadline. This could reduce large swings in the City's annual cash payments due to market performance as the Full-Funding Deadline nears, thereby mitigating the City's exposure to market volatility. However, actual impact on the City's cash flow from the smoothing mechanism cannot be estimated given unpredictable market conditions.

We relied on the best data available at this time; however, actual results would be dependent upon variables such as the actuarial studies, Full-Funding Deadline, and market volatility as described above.