WHAT ARE THE ACTUARIAL REALITIES DUE TO COVID-19?

June 3, 2020

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COVID-19 Impact on Pension Plans

- DOW Jones Index down about 9% since 10/1/2019
  - Assume plans are down 7% or so for the fiscal year

- Tax revenues are falling sharply
  - Lack of sales tax (make up 50% of state's revenues)
  - State unemployment claims and health care costs rising
  - When states suffer, then municipalities suffer

Fundamental Truth

$$B + E = C + I$$

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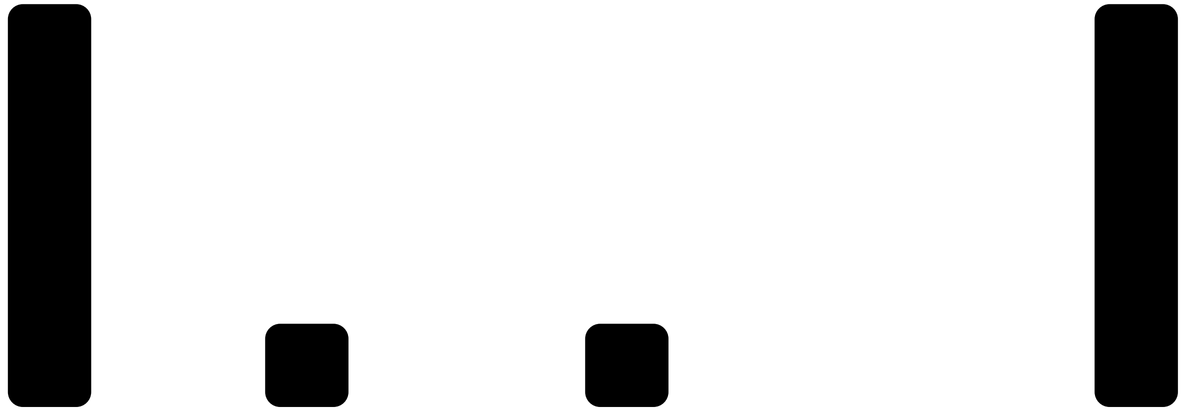
Funding Basics

This is ideal….

Benefits + **E**xpenses = **C**ontributions + **I**nvestment Earnings



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Why Florida Public Pensions Are Going to Survive the Pandemic

- **Timing Lag of Contributions**

  - Actuarial valuation which will first capture the impact of investment losses due to the pandemic will be 10/1/2020

  - The 10/1/2020 valuation SHOULD develop contribution requirements for the City for the fiscal year that BEGINS on 10/1/2021 and ENDS on 9/30/2022
    - Fiscal 2020 and Fiscal 2021 contributions are already established!!
    - Cities will have time to reestablish favorable tax revenues by 2022 when contributions begin to increase

  - The FRS (which local plans are continuously compared) is a 7/1/2020 valuation

  - If your plan does not have this timing lag incorporated into your funding policy, there is no time like the present to establish this!

Why Florida Public Pensions Are Going to Survive the Pandemic

- **Asset Smoothing**
  - Most Florida public plans smooth asset gains/losses over a 4 or 5 year period
  - Some Florida public plans may even have deferred asset gains which provide a cushion against losses this year

Why Florida Public Pensions Are Going to Survive the Pandemic

- **Amortization Periods**

  - Many of our clients have gain/loss amortization periods equal to 10 years
  - Last recession that resulted in market losses was 2008/2009
  - Most, if not all of the investment losses have been repaid by the 2020 actuarial valuation, so any increases will just offset the large declines due to full repayment of 2008/2009 losses
  - Longer amortization funds (up to 30 years) still have bases from 2008/2009, but any new losses are still amortized over such a large period of time that the upward impact of funding requirements won't be substantial

Why Florida Public Pensions Are Going to Survive the Pandemic

- **Federal Stimulus**

  - Currently there are proposed bills that will provide municipalities with stimulus money to supplement the losses incurred during the pandemic

  - May be a good time to actually petition the City for an extra pension contribution if one of the stimulus bills passes

Why Florida Public Pensions Are Going to Survive the Pandemic

- **Trustee/Finance Education**

  - Need to help stakeholders understand that you have safeguards in place to not let your pension plan be a burden for the City/Taxpayer during down economic times

  - Remind stakeholders that while unemployment is at an all-time high since the great depression, the City's pensioners will continue to receive pension checks that will be spent to help support the local economy

  - FPPTA is assisting in these educational efforts

Amount of Projected Cost Increase—Case Study

- **Data:**
  - Fiscal 2020 MVA Return: -7%
  - AVA Smooth Return: 4-6%
  - Assumed Rate of Return: 7.5%

- If amortization period is 10 years, the average expected cost increase is about 1.4%-1.8% of payroll

- If amortization period is 30 years, the average expected cost increase is about 0.8%-1.0% of payroll

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