Actuarial Audit Discussion

San Antonio Fire and Police Pension Fund

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Agenda

- Purpose and Scope of the Actuarial Audit
- Primary Result of Actuarial Audit
- Areas of Review

Purpose and Scope of the Actuarial Audit

Purpose

- Review the actuarial work over the past five years and confirm that the results are reasonable
- Assure the actuarial condition of SAFPPF is accurately measured, and assess whether the level of contributions, together with the current assets, is sufficient to provide the benefits promised
- Satisfy actuarial audit requirement under Texas Government Code
    - Effective 2008, applies to certain Texas public retirement systems with total assets of at least $100 million
    - Actuarial audit required every five years
    - Fourth cycle for the City of San Antonio

Scope

- Focus on January 1, 2023 actuarial valuation
    - Review inputs: demographic data, actuarial assumptions
    - Review outputs: liability calculations, contribution requirements, funding period
- Review Actuarial Experience Study for the period ending December 31, 2018
- Assess SAFPPF Actuarial Funding Policy

Primary Result of Actuarial Audit

The City's contribution to SAFPPF is currently consistent with the Board's desired funding policy which should result in an expected reduction in the Unfunded Liability each year.

Based on our review of the census data, experience study documents, liability replications, and actuarial valuation reports, we believe the January 1, 2023 actuarial valuation for SAFPPF is reasonable, based on reasonable assumptions and methods, and the report generally complies with the Actuarial Standards of Practice.

Milliman offers a series of observations and recommendations that we believe could further enhance the reporting and governance of SAFPPF going forward.

Areas of Review

- Actuarial Liabilities
- Actuarial Assumptions
- Funding
- Membership Data
- Content of Actuarial Valuation Report

Report includes nine recommendations for consideration by the retained actuary for SAFPPF in their next actuarial valuation report. SAFPPF has agreed to include or consider for inclusion these recommendations in future actuarial reports. None of the recommendations would result in a material restatement or adjustment to SAFPPF's actuarial valuation results.

Appendix

Actuarial Liabilities

Milliman replicated the SAFPPF actuarial liabilities for the total plan using the same census data and actuarial assumptions

- There will always be differences in the calculated liabilities when different software is used by different actuaries; however, the results should not deviate significantly
- Milliman's replications show a high level of consistency with the January 1, 2023 actuarial valuation
- Provides assurance that the results of the valuation reasonably reflect the aggregate liabilities of SAFPPF based on the assumptions and methods
- Recommend that retained actuary review the definition of service used in valuation programming for determination of retirement eligibility to ensure service used for each decrement is consistent with terms of the plan

Exhibit 4-2: Total Liability Comparison

Comparison of Total Actuarial Accrued Liability

	Retained Actuary	Milliman	Ratio
Active participants	$ 1,807,615,236	$ 1,794,366,175	100.7%
Retired participants	2,467,869,867	2,465,870,606	100.1%
Beneficiaries	281,150,188	281,287,726	100.0%
Disabled participants	34,198,019	34,201,344	100.0%
Inactive participants	1,227,352	1,028,876	119.3%
Total	**$ 4,592,060,662**	**$ 4,576,754,727**	**100.3%**

Actuarial Assumptions

Milliman reviewed assumptions used in the January 1, 2023 actuarial valuation and the Actuarial Experience Study for the period ending December 31, 2018

- Economic assumptions used in the January 1, 2023 actuarial valuation were reasonable
  - Includes 7.25% investment return assumption
- Demographic assumptions used in the January 1, 2023 actuarial valuation were also reasonable
  - To minimize actuarial gains and losses in the future, we encourage the retained actuary to consider reviewing the demographic assumptions using an “amount-weighted” approach as part of the next actuarial experience study for termination and retirement
  - We recommend that the retained actuary include additional detail of their analysis of each assumption in the next experience study report

Actuarial Assumptions

Milliman reviewed assumptions used in the January 1, 2023 actuarial valuation and the Actuarial Experience Study for the period ending December 31, 2018

- Demographic assumptions used in the January 1, 2023 actuarial valuation were also reasonable (cont.)
  - We recommend that the retained actuary closely review the assumption for 13th/14th checks in the next experience study and consider method to assess this difficult-to-measure plan provision
    - Retained actuary incorporates the potential cost of these checks into the actuarial valuation as follows: active liabilities are loaded by 0.03% and non-active liabilities are loaded by 0.1%
    - Liability produced by the current load assumption captures the cost of a 13th check being paid roughly every 7 years
    - SAFPPF has paid five 13th/14th checks in the past 20 years

Funding

Milliman reviewed the calculation of the Board Recommended Contribution (BRC), Effective Amortization Period, and the application of the Board's Actuarial Funding Policy

SAFPPF Board most recently reviewed the Actuarial Funding Policy on November 22, 2021:

- Goals of Actuarial Funding Policy
  - To assure long-term funding of the benefits provided by SAFPPF
  - To provide a framework for considering plan modifications
  - To maintain a policy that is both transparent and accountable to the stakeholders of SAFPPF
  - To attain a 100% funded ratio or more by December 31, 2044
- Contribution developed under the Policy is called the Board Recommended Contribution (BRC)
  - BRC will equal the statutory required contribution rate
  - If the effective amortization period is not sufficient to reach a 100% funded ratio by December 31, 2044, BRC is comprised of the Normal Cost plus a contribution to amortize the Unfunded Actuarial Accrued Liability by December 31, 2044.
- Provides the Board with a method to assess the appropriateness of the statutory contributions

Funding

Milliman reviewed the calculation of the Board Recommended Contribution (BRC), Effective Amortization Period, and the application of the Board's Actuarial Funding Policy

- Effective amortization period based on the statutory contribution rates was 20.11 years at January 1, 2023
- Board's Actuarial Funding Policy includes a goal of attaining a 100% funded ratio by December 31, 2044, which is 22 years from the valuation date
- Retained actuary calculates the Board Recommended Contribution (BRC) based on an effective amortization period of 20 years (or, attaining a 100% funded ratio by December 31, 2042).
  - 20-year amortization period is a good standard to set
  - Most likely resulting in positive amortization (i.e., reduction) in the UAAL
  - Currently a higher standard than the Board's Actuarial Funding Policy
- Actuary's recommended contribution calculation is reasonable, but it has no direct basis in the Board's Actuarial Funding Policy
- Improve transparency by clearly disclosing both the actuarially determined contribution calculated in accordance with the existing Actuarial Funding Policy as well as the actuary's recommended contribution rate

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Other Areas of Review

Membership Data

- Performed tests on both the raw data supplied by SAFPPF and the processed data used by the retained actuary in the valuation
- We feel the individual member data used is appropriate and complete

Actuarial Value of Assets

- SAFPPF method is a “Model Practice” according to Conference of Consulting Actuaries whitepaper
- We found the calculations to be reasonable and the methodology to be appropriate and in compliance with actuarial standards of practice

Content of Actuarial Valuation Report

- Reports meet the applicable Standards of Practice
- Actuarial audit report includes recommended improvements for the next valuation that will enhance the overall communication and disclosure in the actuarial valuation report

Caveats and Disclaimers

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The consultants who worked on this assignment are retirement actuaries. Milliman's advise is not intended to be a substitute for qualified legal or accounting counsel.