



Legislation Text

File #: 19-1211, **Version:** 1

Resolution to Approve an Agreement with Aon Consulting, Inc. for Advisory Services Related to De-Risking the City's Pension System (\$38,500.00) **(8 Votes Required)**

In FY2008 the City's pension system was funded at 100%. As a result of the Great Recession, the system's funded status dropped to a low of 80% (on an actuarial basis) in FY2013. Through strong financial market returns, increased city and employee contributions and plan design changes, which transferred some of the future liability to employees, the pension system's funding level improved to 86% by FY2015. For the past several years the funded status has remained between 85% to 87%. When the plan is less than 100% funded, the City is required to make additional contributions above the amount of benefits earned by employees in each year. During this time the City's contributions have increased from approx. \$8 million in FY2009 to approx. \$15 million in FY2019.

As a result, the City of Ann Arbor is seeking the expertise and services of a consultant to evaluate the feasibility and cost for the City to purchase an annuity to pay its pension benefits. The purchase of an annuity will in essence sell the City's pension liability to a third party (anticipated to be an insurance company) thereby eliminating the volatility of future City contributions related to fluctuations in financial markets. Additionally, the City desires to know if there are other alternatives it should explore to eliminate the City's financial exposure for all or a portion of the plan members. The consultant will address existing accrued benefits, duty death benefits, as well as other plan provisions. The final report will include at a minimum an actuarial assessment of the cost, estimated pricing from sellers of annuities, options to fund the purchase of an annuity, and alternative strategies to reduce the City's exposure to increasing plan contributions. If this first phase is completed and Council desires to pursue an annuity, the City will go back out to the marketplace for best pricing and services for implementation.

In April 2019, the City issued an RFP for respondents to provide advisory and implementation services. Five companies responded. Staff evaluated each respondent for professional qualifications, past involvement in similar projects, proposed work plan, and fee proposal. Aon had the best ranking and lowest cost.

Staff recommends approval of a contract with Aon Consulting, Inc. for the advisory services only (Phase I).

Budget/Fiscal Impact: The cost of \$35,000 is the need to complete the first phase of evaluating the feasibility of purchasing an annuity and obtain other ideas for de-risking the plan. A ten percent contingency is also requested. Funding for this project was not included in the FY20 Financial Services budget, so a one-time budget appropriation is required.

Prepared by: Tom Crawford, Chief Financial Officer

Reviewed by: Betsy Blake, Senior Assistant City Attorney

Approved by: Howard S. Lazarus, City Administrator

Whereas, The City's pension system is 87% funded and has not materially increased in the past several years;

Whereas, The City's contributions have increased in accordance with Council's Pension Policy;

Whereas, Staff desires to explore the feasibility of other alternatives to de-risk the plan, including the purchase of an annuity to fund benefits; and

Whereas, An RFP was issued, five firms responded, and Aon Consulting, Inc. was the lowest qualified respondent;

RESOLVED, That City Council approve the attached Agreement with Aon Consulting, Inc. in the amount of \$35,000.00 for advisory services on de-risking City's pension system;

RESOLVED, That the City Council approve a ten percent (10%) contingency to be expendable from the General Fund fund balance, subject to the City Administrator's approval;

RESOLVED, That City Council amend to increase the Financial Services expenditure budget by \$38,500.00 for this contract funded by use of General Fund fund balance without regard to fiscal year;

RESOLVED, That Mayor and City Clerk be authorized and directed to execute said agreement, after approval as to form by the City Attorney, and approval as to substance by the City Administrator; and

RESOLVED, That the City Administrator be authorized to take all necessary actions to implement this resolution including execution of any changes or amendments that do not exceed the budgeted (inclusive of contingency) amount.