

CITY COMMISSION WORKSHOP
Pension

Senior Center Ballroom
April 11, 2011 5:30 p.m.

I. Call to Order

Mayor Ed Kelley called the meeting to order at 5:33 p.m.

Present were Mayor Ed Kelley, Commissioners James Stowers, Troy Kent, Rick Boehm, and Bill Partington, City Manager Joyce Shanahan, Assistant City Manager Ted MacLeod, City Attorney Randy Hayes, Human Resources Director Shelly Arzola, and Finance Director Kelly McGuire.

Also present were Mr. Jim Linn of Lewis, Longman & Walker, Mr. Michael J. Tierney of Actuarial Concepts, and Mr. Mark Levitt of Allen, Norton & Blue.

II. Presentation by Jim Linn, Lewis, Longman & Walker

Ms. Joyce Shanahan, City Manager, stated that there would be a presentation by the city's pension advisor attorney, Mr. Jim Linn of Lewis, Longman & Walker, and actuary, Mr. Michael Tierney, and the city's labor counsel, Mr. Mark Levitt, was attending.

Mr. Jim Linn stated that many Florida cities were facing challenges of declining revenues and increasing costs, one of them being the rising cost of the employee pension plans. He stated that the city's total annual pension contribution in FY 2009-10 was \$2.63 million and in FY 2010-11 will be \$3.297 million, or a 26% increase. He stated that the numbers continued to grow because of the unfunded liabilities.

Mr. Linn stated that there were two components to the pension costs of the normal cost and the UAAL (Unfunded Actuarial Accrued Liability) amortization payment caused by actuarial losses and plan improvements. He noted that since 2004 in five out of the best seven years, all three pension plans had actuarial losses, even during years with relatively good investment performance, as well as a substantial amount of unrecognized investment losses.

Mr. Linn noted that over the years an increase in the benefit multiplier in the police and fire plans was funded by a substantial increase in the employee contribution rate (in 1992, police 5% to 10.5%; fire 1% to 8.4%) and state premium taxes thereafter. He stated the premium tax money had to be used exclusively for police and firefighter benefit enhancements, as well as

complying with Chapter 175/185 minimum requirements. He stated that over time more and more of the benefit enhancement was paid by the city rather than the premium tax. He stated the city had to make up a shortfall when the premium tax money fell below a “frozen” amount set in 1999.

Regarding current law, Mr. Linn stated that the city will lose state premium tax money if the current police/fire plans were closed, frozen, or terminated, if the city joined the Florida Retirement System (FRS), or if the current plan benefits were reduced below the 1999 levels. He stated a “2 Tier” plan required union agreement and the second tier could not be less than benefits in place in 1999. He stated an increase in member contributions required union agreement and a benefit increase. He stated that the police/fire pension benefits in 1999 were generally the same as today except the benefit multiplier was 2.75%.

Mr. Linn stated that possible alternatives to increasing the benefit multiplier were:

- Share Plan – use excess premium tax revenues for “share plan” instead of formula benefit;
- Stop/Restart – reduce benefits in the defined benefit plan to Chapter 175/185 minimums, then reinstate to current level increasing “frozen” amount of premium tax revenues;
- Hybrid Defined Benefit/Share Plan – reduce benefits in defined benefit plan to 1999 level. All premium tax revenues go to defined contribution “share plan.”
- Opt out of Chapter 175/185 – premium tax revenue now is about 21-25% of the city’s total pension cost.

Police/Fire Pension Reform Options

1. 2 Tier Plan A – current employees keep current benefits until retirement (police 3.3%, fire 3.31%), new employees 2.75% multiplier.

Fire

- No short-term cost savings
- Long-term cost savings of 4.2%
- No loss of premium taxes

Police

- No short-term cost savings
- Long-term cost savings of 4.27%
- No loss of premium taxes

2. 2 Tier Plan B – current employees keep benefits they have already earned; 2.75% multiplier for future service; 2.0% multiplier for new employees.

Fire

- Short-term savings of 2.48% reduction in the first year;

- Long-term cost saving of 9.55% reduction in the normal cost for new employees;
- Loss of premium taxes of 10.6%;
- Net long-term savings of 1.43%.

Police

- Short-term saving to city of 3.27% reduction in the first year;
- Long-term cost saving of 10% reduction in normal cost for new employees;
- Loss of premium taxes of 9.8%;
- Net long-term saving of 3.47%.

3. Minimum Benefits Plan A – current employees keep benefits they have already earned; all current and future employees receive Chapter 175/185 minimum benefits for future service (2% multiplier).

Fire

- Short-term cost savings of 13.4% reduction in the first year;
- Long-term cost saving of 11.4% reduction in normal cost;
- Loss of premium taxes of 10.6%.

Police

- Short-term cost savings of 15.85% reduction in the first year;
- Long-term cost savings of 17.8% reduction in normal cost;
- Loss of premium taxes of 9.8%.

4. Minimum Benefits Plan B – benefit freeze; current employees keep benefits they have already earned; all current and future employees receive Chapter 175/185 minimum benefits for future service (2% multiplier);

Fire

- Short-term cost savings of 12.5% reduction in the first year;
- Long-term cost savings of 11.4% reduction in normal cost;
- Loss of premium taxes of 10.6%.

Police

- Short-term cost savings of 16.3% reduction in the first year;
- Long-term cost savings of 17.8% reduction in normal cost;
- Loss of premium taxes of 9.8%.

5. 1999 Benefits (2.75% multiplier) – no freeze; current employees keep benefits they have already earned; all current and future employees receive 1999 benefits for future service (2.75% multiplier); excess premium tax revenues to share plan.

Fire

- Short-term savings of 2.48% reduction in the first year for current employees;

- Long-term cost savings of 4.2% reduction in normal cost for new employees;
- No loss of premium taxes, but frozen amount would be reduced.

Police

- Short-term savings of 3.27% reduction in the first year for current employees;
- Long-term cost savings of 4.27% reduction in normal cost for new employees;
- No loss of premium taxes, but frozen amount would be reduced.

Mr. Linn stated that many private sector plans had converted from a defined benefit to a defined contribution plan by doing a benefit freeze.

Mr. Mike Tierney stated that these alternatives were not meant to be recommendations, but alternatives for them to have a feel of what the fiscal impact might be if the multiplier was lowered, if the multiplier was lowered differently for current and future employees, by reducing benefits but keeping premium taxes in place, and/or restarting the current plan.

General Employees' Pension Plan Reform Options

1. 2 Tier Plan A - current employees keep current benefits until retirement (2.5% multiplier)
 - No short-term cost savings;
 - Long-term cost savings of 3.8% reduction in (defined contribution) normal cost for new employees
2. 2 Tier Plan B – current employees keep current benefits until retirement (2.5% multiplier); new employees 2.0% multiplier revised defined benefit plan.
 - No short-term cost savings;
 - Long-term cost savings of 2.5% reduction in defined benefit normal cost for new employees.
3. Plan Freeze with new Defined Contribution Plan – current employees keep benefits they have already earned; 6% defined contribution plan for future; new employees 6% defined contribution plan.
 - Short-term cost savings of immediate reduction in amortization payments estimated at 6.4% of payroll, or about \$500,000 per year;
 - Short-term cost savings of 3.8% reduction in defined contribution normal cost for current as well as new employees.
4. Defined Benefit Restructure for all Employees – current employees keep multiplier they have accrued, benefits not frozen; for future service 2%

multiplier; new employees revised defined benefit plan with 2% multiplier.

- Short-term savings to city of 2.68% reduction in the first year;
- Long-term cost savings of 2.5% reduction in normal cost for new employees.

Commissioner Partington asked about the amortization calculation and the pension boards' control of choosing an actuarial firm that used a more realistic formula vs. a conservative formula, and would that be enough not to have to do any of the above-mentioned options; whereby, Mr. Tierney stated that the pension boards hired the actuary, but there were other options, such as the minimum amortization requirements which were approved by the board and normally suggested by the actuary. He stated that many cities were asking the same questions of why there were huge unfunded liabilities, and were the assumptions wrong or not conservative enough. He stated the answer was yes, as it was a very complicated process, but he did not see anything that was inappropriate in the plans.

Mr. Linn stated in reply to the question of whether the pension boards should shop for a new actuary, he stated that the actuaries operated in the same range of reasonableness to achieve the actuarial assumptions. He stated that any changes in the assumptions would result in a significant increase in the city's contribution. He noted that one of the drivers in the police and fire plans was a change in the mortality table which created an additional liability to the plans.

Mayor Kelley thanked the members of the Budget Advisory Board and Pension Boards for their attendance at tonight's workshop.

III. Close the Meeting

The meeting was adjourned at 6:25 p.m.

Transcribed by: Lois Towey