

Pension Reform Update

December 11, 2018

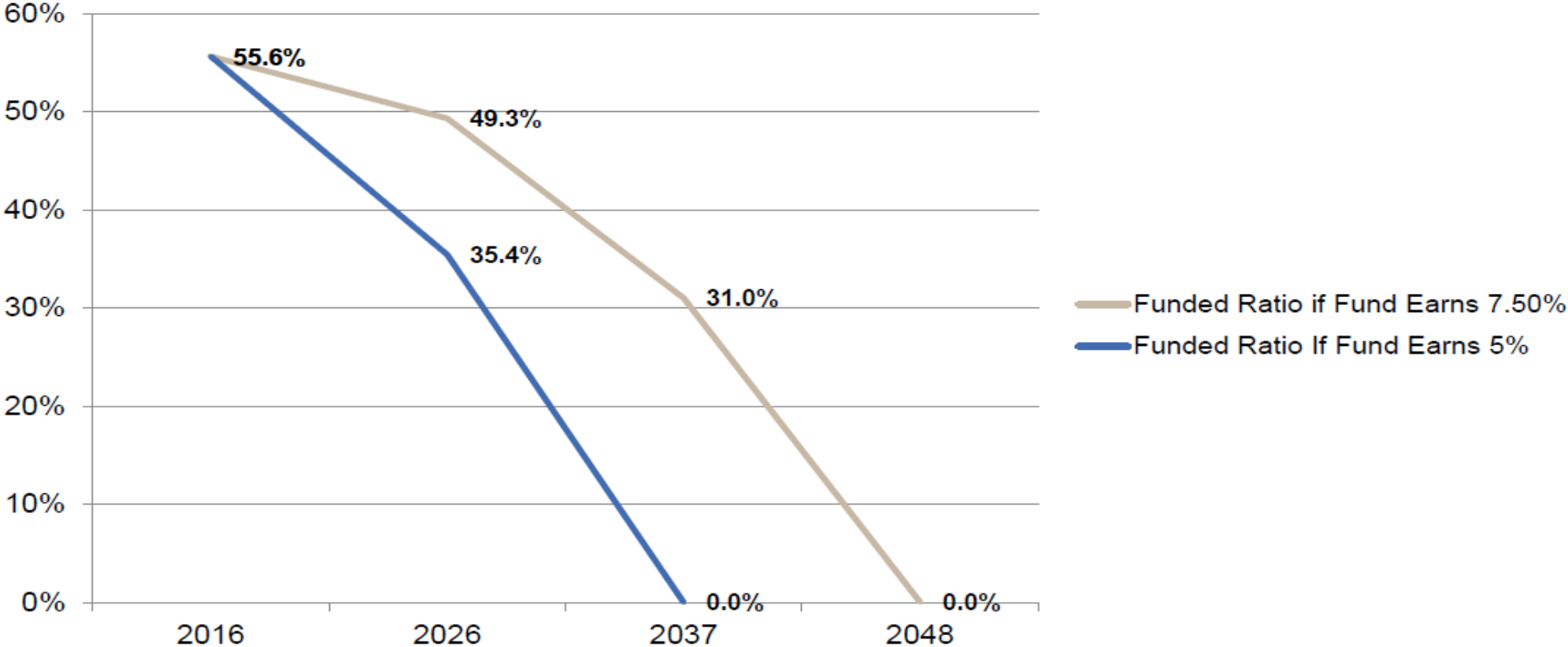
City Council Work Session

David Cooke

City Manager

Consequences of Status Quo

Projected Funded Ratios: No Additional Changes



	City Manager's Compromise Proposal (10.2%)
Increased City Contribution	4.5% (in exchange for support of modified COLA reduction for existing retirees and past service)
Changes to Benefits/ Eligibility	<p style="text-align: center;">3.1%</p> <ul style="list-style-type: none"> • Replace 2% simple and Ad Hoc COLAs with 1% simple COLA • Current retirees only with at least 25 YOS retain 2% COLA on first \$30,000 of benefit • Eliminate COLA for future service • Eliminate service credit for future accruals of major medical and sick leave • Establish minimum retirement age (55) for future service of Fire and General employees
Increased Employee Contributions	<p style="text-align: center;">2.6%</p> <ul style="list-style-type: none"> • General: 1.1% + 0.7% (<i>Blue Service</i>) • Fire: 3.8% • Police: 3.8% + 0.9% (<i>25 and out</i>) • Commence employee contribution increases May 1, 2019 and phase in over two years for Fire and three years for Police

The Latest Proposal

Current Proposal (10.3%)

Increased City Contributions	<p style="text-align: center;">4.5%</p> <p style="text-align: center;"><u>Contingent on successful employee vote</u></p>
Changes to Benefits/Eligibility	<p style="text-align: center;">2.9%</p> <ul style="list-style-type: none"> • Eliminate COLA for future service effective 7/20/2019 (1.0%) • Retain current 2% simple COLA or ad hoc for service through 7/19/2019 for members who are retired or entered DROP by 1/1/2021, including early retirement • Convert COLA of remaining active, eligible employees for service through 7/19/2019 to a variable COLA based on Fund performance (1.6%) • Eliminate service credit for future accruals of major medical and sick leave (.3%) <p><u>Contingent upon successful employee vote:</u></p> <ul style="list-style-type: none"> • Six-year DROP upon successful employee vote (0%)
Increased Employee Contributions (subject to employee vote)	<p style="text-align: center;">2.9%</p> <ul style="list-style-type: none"> • General: 1.1% + 0.7% (<i>Blue Service</i>) (.5%) • Police/Fire: 3.8% (1.9%) • Police 25 & out: 0.6% (.2%) • Commence employee contribution increases summer 2019 and phase in over two years for Fire and three years for Police (-.1%) • Employee contributions restored for all overtime (.4%)

Details

- **Minimum retirement age of 55** applies only to General employees hired since July 2011; removed for Fire and future service of Generals
- **Extension of DROP** is contingent upon successful vote and additional year is only available after 7/20/2019 when all changes become effective
 - Impact on expiring DROP members before that date subject to review of IRS rules
- All **vested terminations** revert to variable COLA unless they begin drawing retirement by 1/1/2021

Variable COLA

CONDITIONS:

- No variable COLA if auto risk-sharing contribution increases are still in effect
- Thereafter, Board may, with Council ratification, award lifetime COLA or 13th check if:
 - Actuarially Determined Contribution (ADC) equal to or less than fixed contributions for last 2 years based on actuarial and market value of assets
 - Full cost of benefit is funded
 - Minimum financial criteria met:
 - Thirty-year closed amortization beginning in 2018
 - Discount rate is consistent with the average reported by two independent sources agreed to by the City and the Board
- Increase in any single year may not exceed 4% increase of base pension

RESULT:

- Current employees with blue service who do not DROP or retire by 1/1/2021 are unlikely to ever receive a COLA
- Fund returns would need to consistently be 9-10% in order for a COLA to be triggered

Risk Sharing

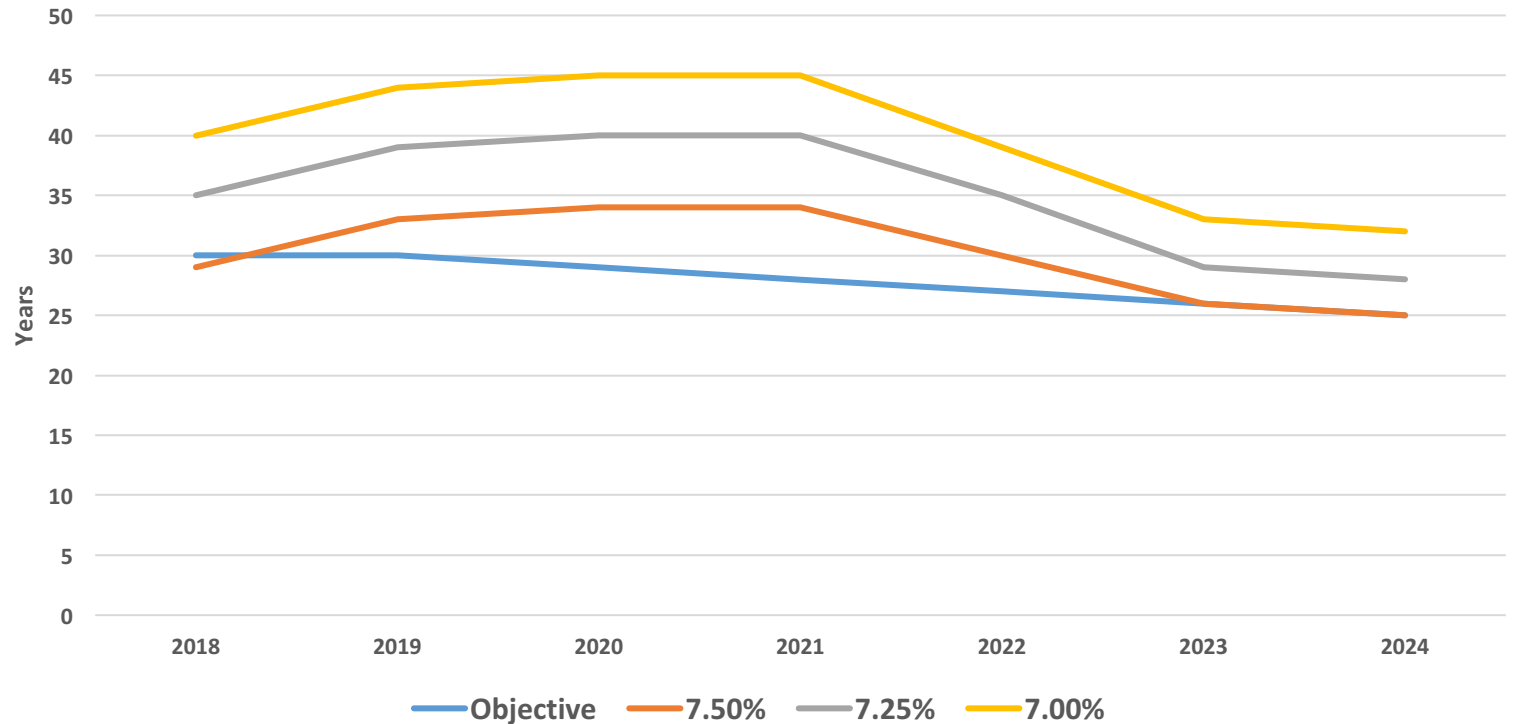
Additional changes to be automatically implemented if required:

- Not sooner than the first pay period of calendar year 2022 (following the valuations for calendar years 2019 and 2020), **if the contribution is less than the ADC** for two consecutive years based on the actuarial valuation with minimum financial criteria:
 - Thirty-year closed amortization beginning in 2018
 - Discount rate consistent with the average reported by two independent sources agreed to by the City and the Board
- **The City and employee contributions will be increased** as required to meet up to 2% of pay in one year or 4% of pay in total in a 60%/40% proportion (City/employee)
- **Increases may be unilaterally reduced** by City Council, without approval of members, if two consecutive actuarial valuations indicate the ADC will be met without those contributions
- If maximum contribution increase has been applied and the following actuarial valuation indicates the actual contribution is still insufficient, the City Council must consider **additional benefit reductions**

Results

- Objective: Amortize unfunded liabilities over a declining 30 years beginning in 2019
- No investment return assumed in 2018; all assumptions assumed to be met after 2018
- **Auto adjust feature of 4% of pay additional contributions kicks in 50% effective pay period 1 of calendar year 2022 and the remainder effective pay period 1 of calendar year 2023**

Estimated Amortization Periods at Different Investment Return Assumptions after Proposed Changes and Automatic Adjust Feature



Contributions

	Current	7/20/2019 (retroactive to PP1 of calendar year 2019 for City)	First pay period of Calendar Year 2020	First pay period of Calendar Year 2021	Risk Trigger: First pay period of Calendar Year 2022	Risk Trigger First pay period of Calendar Year 2023
General	8.25%	9.35 - 10.05% (1.1% + .7% blue)			10.15 – 10.85% (.8%)	10.95 – 11.65% (.8%)
Police	8.73%	10.53% (1.8%)	12.53% (2%)	13.13% (.6%)	13.93% (.8%)	14.73% (.8%)
Fire	8.25%	10.05% (1.8%)	12.05% (2%)		12.85% (.8%)	13.65% (.8%)
Tax Payers	19.74 – 20.46%	24.24 – 24.96% (4.5%)			25.44 – 26.16% (1.2%)	26.64 – 27.36% (1.2%)

Schedule

Date	Action
January 7 – February 1 (4 weeks)	Employee and Retiree Meetings
February 4 – February 22 (3 weeks)	Contribution Election
February 27	ERF Board certifies election results
March 5 (tentative)	Joint ERF Board – City Council Meeting

QUESTIONS

