City of Fort Worth Pension

A 25-Year Perspective

Context: Why a 25-year perspective?

Pensions and the funding of defined benefit programs are complicated subjects and increasingly in the news. Recently, the City of Fort Worth was downgraded by Moody's in its general obligation bond rating mainly attributable to long term pension liabilities. Moody's performs its own calculation of a City's pension liability using a discount rate based upon a high-grade, long-term taxable bond index (Citibank Pension Liability Index). Fitch uses their own discount rate to standardize pension liabilities across local governments. GASB (Government Accounting Standards Board) has issued a new rule for how local governments calculate pension liabilities. Needless to say, pensions are getting a lot of attention.

At the same time, we did not get here over night. And, we won't fix the situation in one fiscal year or even two. In looking toward solutions, we must adhere to several basic principles:

- Keep it simple (or as simple as you can);

  CONTRIBUTIONS (employer and employee) + INVESTMENT RETURNS = BENEFIT PAYOUTS + EXPENSES

- Don't make this a problem for future generations to solve; At the same time, don't make the current situation worse;

- Look long-term and make decisions with the long-term in mind.

Starting with this last principle, it may be instructive to look back 25 years and review—now with history in our rear view mirrors—what decisions have been made and their collective impacts. The purpose is to learn lessons from the past, not place blame or credit on past decisions.

Back in 1990: The Fort Worth Employees' Retirement Fund is 45 years old . . . .

- The employer contribution was 11.5% of salary for all employees.
- The employee contribution was 7.67% of salary for all employees.
- The Actuarial Accrued Liability (AAL) was $516. 1 million.
- The Actuarial Value of Assets (AVA) was $481.4 million.
- The Unfunded Actuarial Accrued Liability (UAAL) was $34,693,000.
- The funded ratio (AVA/AAL) was 93.28%.
- The amortization of the unfunded liability was calculated at 11 years.

- In 1990, the City approves increasing the benefits and reducing the employer and employee contributions. On the benefit side, the multiplier is increased from 2.0 to 2.5. The benefit increase is retroactive for active employees.
- For comparison purposes, a 5-year US Treasury was 7.87%; a 30-year US Treasury was 8.0%

The next ten years—benefits are increased (1990 to 2000):

- On the benefit side, the multiplier is increased to 2.7 in 1993 and 3.0 in 1996 and a guaranteed 2% COLA is introduced in 1999. In addition, the calculation of salaries for benefit purposes in changed from High 5 to High 3 in 1999. The benefit increases are retroactive for active employees.
- Police vote for a 25 year and out option in 1993.
- Employer contributions are increased in 1993 (Police only), 1996, 1997, 1998, and 1999.
- Employee contributions are increased in 1993 (Police only), 1996, and 1999.
- In 2000, the funded ratio was 96.17% and the amortization period was calculated at 17 years, and the Unfunded Actuarial Accrued Liability was $51,720,477.

Things Change (2000 to 2007):

- The funded ratio drops below 80% even though the Actuarial Value of Assets (AVA) increases from $1.3 billion to $1.66 billion, a 28% increase. Actuarial Accrued Liability (AAL) increases to $2.07 billion in 2007, an increase of 78% over 2000.
- In 2007, employer contributions are increased by 47% for general employees and Fire and 44% for Police; employee contributions remain the same.
- In 2007, an Ad Hoc COLA is introduced.
- In 2007, the Unfunded Actuarial Accrued Liability grows to $410,661,556, an increase of 694% over 2000.
- The amortization period in 2007 is *infinite.*

Benefits are reduced (2007-2014/2015):

- Even though employer contributions increase again in 2010 to 19.74% and 20.46% respectively, the Actuarial Accrued Liability increases at a faster rate than the Actuarial Value of Assets and the funded ratio drops to 61.3% in 2015.
- On the benefit side, the multiplier is reduced to 2.5 for new general employees (2011), new Police employees (2012), and new Fire employees (2014). A COLA is eliminated for new general employees (2011), new Police employees (2012), and new Fire

employees (2014). In addition, the calculation of salaries for benefit purposes is changed to High 5 (from High 3) for new general employees (2011), new Police employees (2012), and new Fire employees (2014).

- In 2015, the Normal Cost for a new employee (which is the cost to provide one year of benefit accruals for an active participant) was 11.64%, meaning that of the total contributions of 27.99% (or 29.19%) 16.35% (or 17.55%) went to support other participants' unfunded retirement benefits and 11.64% went to cover his/her future retirement benefit. The amortization period is 62 years.
- For comparison purposes, in 2015 (January), a 5-year US Treasury paid 1.61%; a 30-year US Treasury was 2.69%.

So, Where Are We Now and What Can We Learn From a Historical Review?

As of December 31, 2015, the Actuarial Accrued Liability is $3.513 billion and the Actuarial Value of Assets is $2.155 billion establishing a funded ratio of 60.6%. The amortization period is calculated at 72.5 years.

A comparison from 1990 to 2015 is provided below:

	1990	*2015*	*% change*
AVA	$481,429,000	$2,155,000,000	348%
AAL	$516,112,000	$3,513,000,000	580%
Employer contribution	11.5%	19.74%	68%
Employer contribution—Police	11.5%	20.46%	78%
Employee contribution	7.67%	8.25%	8%
Employee contribution—Police	7.67%	8.73%	14%

Conclusions

- The AAL continues to grow at a faster rate than AVA.
- Benefits were increased (1990-2000) beyond the level supported by increasing employer and employee contributions and investment fund returns of the Fund.
- Rating agencies do not believe discount rates used by pension funds portray a realistic future, or at least, are overly optimistic.
- The employer contributions increased from 60% of total contributions to 70% and 71%, of total contributions.