Pension Reform
Education Meetings

LOCAL PROBLEM = LOCAL SOLUTION

Meeting Presenters:

David Cooke, City Manager
Susan Alanis, Assistant City Manager
Jay Chapa, Assistant City Manager
Brian Dickerson, Director Human Resources
Margaret Wise, Assistant Human Resources Director – Benefits
Meeting Rules of Conduct

- Please show the meeting presenter respect at all times.
- Please write down your questions during the presentation so you can ask them at the end of each section or during the Q&A portion.
- Please wait until after the meeting to ask very specific or personal pension questions.
- Questions can also be emailed to pension@fortworthtexas.gov if you do not wish to ask it out loud or cannot wait until the end of the presentation.

Thank you for taking the time to attend these meetings to learn more about the changes to the Pension Plan and upcoming vote in February.
PENSION 101

Understanding the Pension Plan and Problem
City has a **defined benefit plan**, consistent with large cities in Texas, allowing Fort Worth to be competitive.

You can retire when your age + years of service = 80 or at age 65 with 5 years of service. Police Officers can retire after 25 years of service.
What Group Are You?

**GENERAL EMPLOYEE**
- **Group I**
  - Hired before July 1, 2011
- **Group II**
  - Hired on or after July 1, 2011

**POLICE OFFICER**
- **Group III**
  - Hired before January 1, 2013
- **Group IV**
  - Hired on or after January 1, 2013

**FIRE FIGHTER**
- **Group V**
  - Hired before January 10, 2015
- **Group VI**
  - Hired on or after January 10, 2015
What’s My Pension Formula?

BLUE SERVICE
3% x years of service x high three years’ salary (including overtime) and applies to all service credit earned prior to pension reform for each employee group below:

• Group I General
• Group III Police
• Group V Fire

Employees with Blue Service also have a survivor benefit included at no cost

ORANGE SERVICE
2.5% x years of service x high five years’ salary (excluding overtime).

Every group has orange service.
How is pension calculated for employees with orange and blue service combined?

October 1, 2013 for Generals & Police January 10, 2015 for Fire

2.5% x years x high 5 salary (w/o OT) and NO COLA or credit for Major Medical/Sick

3% x years x high 3 salary (w/ OT)

10 years

5.8 years

11.2 years

27 Total Years of Service

High 3 with OT
High 5 without OT

EXAMPLE
10 years x 3.0% x $67,923 (high 3 w/ OT) = $20,377
17 years x 2.5% x $63,437 (high 5 w/o OT) = $26,961
Total annual pension $47,338
How does the City fund pensions?

$50,000 General Employee Hired in 2012; Works 30 Years

Investments
City
Employee
City of Fort Worth Pension Investment Returns

The City and member contributions, combined with the investment returns, result in the funds available to pay benefits. The Fund uses a 7.75% rate of return, which is down from 8.5% in the past.

Every percent the fund doesn’t earn that it should is currently the equivalent of $22 million. The current year is projected to end flat at 0%, which is the equivalent of missing earnings of $170 million this year alone.
Accumulating an unfunded liability is sort of like a credit card...

- With the pension, we are taking on a debt that we won’t begin paying in benefits until many years in the future
- Failure to pay enough results in an unfunded liability---so similar to a credit card it’s like only paying the minimum balance each month never paying it off
...but paying off the unfunded liability is sort of like a mortgage

• We have a projected unfunded liability of over $1.6 billion
• The amount of time anticipated to pay off the liability is known as the “amortization period” and is commonly recommended to be around 30 years
TEXAS PENSION SYSTEM

What do other cities in Texas contribute?
## Texas City Comparison Chart

### FY2017

#### Employee Contributions – including Social Security

<table>
<thead>
<tr>
<th>City</th>
<th>General</th>
<th>Fire</th>
<th>Police</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fort Worth</td>
<td>8.25%</td>
<td>8.25%</td>
<td>8.73%</td>
</tr>
<tr>
<td>Austin</td>
<td>14.20%</td>
<td>18.33%</td>
<td>19.20%</td>
</tr>
<tr>
<td>Dallas</td>
<td>13.32%</td>
<td>13.50%</td>
<td>13.50%</td>
</tr>
<tr>
<td>El Paso</td>
<td>15.15%</td>
<td>15.28%</td>
<td>13.89%</td>
</tr>
<tr>
<td>Houston</td>
<td>9.20%</td>
<td>10.50%</td>
<td>10.50%</td>
</tr>
<tr>
<td>San Antonio</td>
<td>TMRS</td>
<td>18.52%</td>
<td>18.52%</td>
</tr>
</tbody>
</table>

#### Employer Contributions including Social Security

<table>
<thead>
<tr>
<th>City</th>
<th>General</th>
<th>Fire</th>
<th>Police</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fort Worth</td>
<td>19.74%</td>
<td>19.74%</td>
<td>20.46%</td>
</tr>
<tr>
<td>Austin</td>
<td>24.24%</td>
<td>18.33%</td>
<td>27.51%</td>
</tr>
<tr>
<td>Dallas</td>
<td>22.68%</td>
<td>34.50%</td>
<td>34.50%</td>
</tr>
<tr>
<td>El Paso</td>
<td>21.15%</td>
<td>18.50%</td>
<td>18.50%</td>
</tr>
<tr>
<td>Houston</td>
<td>14.37%</td>
<td>31.89%</td>
<td>31.77%</td>
</tr>
<tr>
<td>San Antonio</td>
<td>TMRS</td>
<td>30.84%</td>
<td>30.84%</td>
</tr>
</tbody>
</table>
## A Closer Look at Dallas’ Police & Fire Pension Solution After Going to the State Legislature in Austin

<table>
<thead>
<tr>
<th>Employee Contributions</th>
<th>What Employees Had Before the Change</th>
<th>The Changes Employees Voted Down</th>
<th>Changes the Legislature Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Contributions</td>
<td>8.5%</td>
<td>9% up to 12%</td>
<td>13.5%</td>
</tr>
<tr>
<td>City Contributions</td>
<td>27.5%</td>
<td></td>
<td>34.5% + $13 million/year for 7 years</td>
</tr>
<tr>
<td>Normal Retirement Age</td>
<td>50 for some employees and 55 for others based on hire date</td>
<td></td>
<td>58 years old</td>
</tr>
<tr>
<td>Pension Formula</td>
<td>2.0% for years 1-20, 2.5% for years 21-25, 3.0% for years 26 until retirement</td>
<td>Members hired after certain date would get a 3% multiplier</td>
<td>2.5%</td>
</tr>
<tr>
<td>Average High 3 salary</td>
<td>Average High 5 salary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COLA</td>
<td>4% Automatic COLA</td>
<td>Automatic COLA tied to the US Treasury rate bond</td>
<td>Variable COLA (criteria means no COLA)</td>
</tr>
<tr>
<td>DROP</td>
<td>• Unlimited DROP</td>
<td>• 10 Year DROP</td>
<td>• 13.5% contribution to Fund while in DROP</td>
</tr>
<tr>
<td></td>
<td>• 4% Contributions to Fund while in DROP</td>
<td>• 3% Interest for 7 years and 0 after 7 years</td>
<td>• No interest on DROP Account</td>
</tr>
<tr>
<td></td>
<td>• Interest on DROP Account</td>
<td>• Option to have annuity-like plans</td>
<td>• No Lump Sum withdrawals - DROP annuity</td>
</tr>
<tr>
<td></td>
<td>• Lump Sum Cash Withdrawal</td>
<td></td>
<td>• Variable COLA up to 4%</td>
</tr>
<tr>
<td></td>
<td>• 4% Automatic COLA on DROP balance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
THE SOLUTION FOR THE FUTURE OF FORT WORTH
CONTRIBUTION INCREASE
ELECTION

We need **ALL 6,800 City Employees** to Vote
Must have 50% + 1 for Vote to Pass
(approx. 3401 votes)
What will you be voting on?

1. Member Contribution Increases

2. Risk-Sharing allowing up to 1.6% additional contribution increases for employee and 2.4% for City no sooner than 2022 and no more than .8% in a single year

3. Authority for unilateral reduction of City’s Risk-Sharing increases if Fund’s health is restored --- will not require another employee vote

4. Apply employee contributions to all overtime earned.
# Total Contributions

Contingent on Successful Election

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>7/20/2019*</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td>8.25%</td>
<td>9.35% (increase by 1.1% for Group II General Members)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.05% (increase by 1.1% + .7% for years of blue service Group I General Members)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Police</strong>**</td>
<td>8.73%</td>
<td>10.53% (1.8%)</td>
<td>12.53% (2%)</td>
<td>13.13% (.6%)</td>
</tr>
<tr>
<td><strong>Fire</strong></td>
<td>8.25%</td>
<td>10.05% (1.8%)</td>
<td>12.05% (2%)</td>
<td></td>
</tr>
<tr>
<td><strong>Tax Payers</strong> (City)</td>
<td>19.74% (General &amp; Fire)</td>
<td>24.24% (General &amp; Fire)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20.46% (Police)</td>
<td>24.96% (Police)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Retroactive to PP1 of calendar year 2019 for City

**Higher contributions for Police to retain the 25 and out benefit**
Additional contribution changes to be automatically implemented if required:

• As early as 2022, if the City and employee contribution is less than the actuarially-determined contribution (ADC) for two consecutive years 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)
  
  o City = 1.2% in one year or 2.4% total
  o Employee = 0.8% in one year or 1.6% total

• Increases may be unilaterally reduced by City Council, without additional 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 may consider additional benefit reductions
<table>
<thead>
<tr>
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<td></td>
<td></td>
<td>10.15% (.8% - max for Group II General Members)</td>
<td>10.95% (.8% - max for Group II General Members)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.05% (increase by 1.1% + .7% for years of blue service Group I General Members)</td>
<td></td>
<td></td>
<td>10.85% (.8% - max for Group I General Members)</td>
<td>11.65% (.8% - max for Group I General Members)</td>
</tr>
<tr>
<td><strong>Police</strong></td>
<td>8.73%</td>
<td>10.53% (+1.8%)</td>
<td></td>
<td></td>
<td>13.93% max (.8%)</td>
<td>14.73% max (.8%)</td>
</tr>
<tr>
<td><strong>Fire</strong></td>
<td>8.25%</td>
<td>10.05% (+1.8%)</td>
<td></td>
<td></td>
<td>12.85% max (.8%)</td>
<td>13.65% max (.8%)</td>
</tr>
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<td><strong>Tax Payers (City)</strong></td>
<td>19.74% (General &amp; Fire) 20.46% (Police)</td>
<td>24.24% (General &amp; Fire) 24.96% (Police)</td>
<td></td>
<td></td>
<td>25.44% (Gen. &amp; Fire) 26.16% (Police)</td>
<td>26.64% (Gen. &amp; Fire) 27.36% (Police)</td>
</tr>
</tbody>
</table>

*Retroactive to PP1 of calendar year 2019 for City

**Higher contributions for Police to retain the 25 and out benefit**
Solution Results

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

Years:
- 2018
- 2019
- 2020
- 2021
- 2022
- 2023
- 2024

Rates:
- Objective
- 7.50%
- 7.25%
- 7.00%
Contributions on Overtime

• With the exception of built-in overtime for firefighters, employees do NOT currently make contributions on earned overtime.

• The City makes contributions on all overtime earned by employees who have any blue service; the City does not make contributions on overtime earned by employees with only orange service.

• A successful election would require employees to begin making contributions on all overtime, including members with only orange service.
COLA
Cost of Living Adjustment
| Retain current COLA level 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 |
| Eliminate COLA for future service effective 7/20/2019 |
Variable COLA

Current employees that have a combination of Blue and Orange Service **who do not retire or enter the DROP by January 1, 2021**, will move to a variable COLA.

This means the COLA will fluctuate based on the performance of the fund.

- Increase in any single year may not exceed 4% increase of base pension
- Fund returns would need to consistently be 9-10% in order for a COLA to be triggered, **which is highly unlikely**
ENTERING THE DROP AND MAJOR MEDICAL
DROP
(Deferred Retirement Option Program)

• A member who is eligible to retire may enter the DROP, while they continue to work and draw a regular paycheck.
• Upon entering DROP the pension amount is calculated and is frozen, as if the employee has retired. Future years of service and pay increases will not be added to the pension benefit.
• The pension amount is deposited into an account that the member can withdraw upon retirement.
• Extension of DROP from 5 to 6 years is contingent upon successful contribution increase vote. If adopted, the effective date for the additional year is 7/20/2019.
Major Medical Leave
(or Sick Leave for Police Officers)

• The current policy allows unused sick leave (civil service) and major medical leave (general) to be applied as service credit at retirement.

• As of July 20, 2019 any future earned sick/major medical leave that is accrued thereafter will not convert to service credit upon retirement.

• Upon retirement all unused sick/major medical leave balances that were accrued prior to July 20, 2019 will continue to convert to service credit.
Any unused major medical or sick leave accrued after July 20, 2019 will no longer be applied as service credit. Upon retirement, unused major medical or sick leave hours will be calculated and applied as service credit based on the salary formula when the Major Medical leave or Sick leave hours were earned.

- 1,040 hours (6 months) earned during Blue Service = \( \frac{1}{2} \) of one year \times 3.0\% \times \text{high 3}
- 520 hours (3 months) earned during Orange Service = \( \frac{1}{4} \) of one year \times 2.5\% \times \text{high 5}
- 130 hours (1 month) earned after July 20, 2019 = 0
WHEN AND HOW TO VOTE

The Fort Worth Retirement Fund Office will administer the vote
## Pension Reform Plan Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 7 – February 1 (4 weeks)</td>
<td>Employee and Retiree Meetings</td>
</tr>
<tr>
<td>February 4 – February 22 (3 weeks)</td>
<td>Contribution Election</td>
</tr>
<tr>
<td>February 27</td>
<td>ERF Board certifies election results</td>
</tr>
<tr>
<td>March 5 (tentative)</td>
<td>Joint ERF Board – City Council Meeting</td>
</tr>
</tbody>
</table>
Voting For A Solution

- Voting ballots will be mailed out February 1, 2019
- Voting occurs from February 4 – February 22
- You can vote three ways:
  - Mail voting ballot to be received before or on February 22
  - Vote securely online
  - Vote securely over the phone
What will you be voting on?

1. Member Contribution Increases

2. Risk-Sharing allowing up to 1.6% additional contribution increases for employee and 2.4% for City no sooner than 2022 and no more than .8% in a single year

3. Authority for unilateral reduction of City’s Risk-Sharing increases if Fund’s health is restored --- will not require another employee vote

4. Apply employee contributions to all overtime earned.
Breakdown of Employee Vote

- **Fire (Group V)**: 802 employees
- **Police (Group IV)**: 488 employees
- **Police (Group III)**: 1,222 employees
- **General Employees (Group I)**: 1,927 employees
- **General Employees (Group II)**: 2,082 employees
HELP/COMMUNICATIONS
WHERE TO FIND MORE INFORMATION
On the city’s Pension webpage you can learn more about:

- Information on contribution changes for general employees, police officers and firefighters
- Pension Schedule (voting dates)
- Educational Meeting Dates
- Pension Education Presentation (also on YouTube)
- Frequently Asked Questions (FAQs)
- Spanish translations of the pension presentation, pension glossary and handouts are available online

Visit the City’s Pension Page

http://fortworthtexas.gov/benefits/pension/
Where do I go to get information about a specific question I have about my personal pension?

Email: pension@fortworthtexas.gov
Phone: 817-392-7737
457 PLAN
AN ADDITIONAL RETIREMENT SAVINGS OPTION FOR EMPLOYEES
457 Deferred Compensation Plan TIAA

- Set aside pre-tax or post-tax (ROTH) money for retirement
- Minimum contribution $10.00/pay period
- **Enroll online anytime through TIAA’s website**
  - www.tiaa.org/fortworth
- Investment in a variety of funds available
- 2019 maximum $19,000
- 2019 catch-up contribution
  - $6,000 over age 50
  - Special catch-up contribution within 3 years of retirement
  - Contact Benefits or TIAA
- You can contribute a percentage of your salary for 2019
Contributions to the Pension Fund are changing, but the benefit has been preserved and will remain the same.

Employee contribution changes must be approved by a majority vote from employees – **Feb 4 - Feb 22**

A local Fort Worth pension problem should be solved in Fort Worth – not by the state legislature in Austin.
QUESTIONS
GLOSSARY

Important Pension Terms You May Want To Know
## Important Pension Terms to Know

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Defined Benefit Plan</strong></td>
<td>A type of pension plan that promises a specified monthly benefit at retirement</td>
</tr>
<tr>
<td><strong>COLA</strong></td>
<td>Cost of living adjustment</td>
</tr>
<tr>
<td><strong>Ad Hoc COLA</strong></td>
<td>Allows employees to share in the risks and benefits of investment returns.</td>
</tr>
<tr>
<td><strong>Simple COLA</strong></td>
<td>Calculated on a fixed percentage rate. The simple COLA in the city's plan is 2%</td>
</tr>
<tr>
<td><strong>Variable COLA</strong></td>
<td>Fluctuates based on the health/performance of the fund</td>
</tr>
<tr>
<td><strong>DROP</strong></td>
<td>Deferred Retirement Option Program which allows an employee to defer retirement while accumulating a lump-sum benefit payable upon retirement</td>
</tr>
<tr>
<td><strong>Amortization Period</strong></td>
<td>The number of years in which the city will pay off the unfunded liability, if all plan assumptions are met, typically 30 years</td>
</tr>
<tr>
<td><strong>Rule of 80</strong></td>
<td>When combination of an employee’s years of service, added to their age, equals 80. Once a General Employee or a Fire Employee reaches the Rule of 80, he or she is eligible to retire</td>
</tr>
</tbody>
</table>