

CITY OF FORT WORTH PENSION REFORM UPDATE

City Council Presentation
David Cooke, City Manager
August 7, 2018

Pension Review Committee

Formed

- First meeting - November 2015

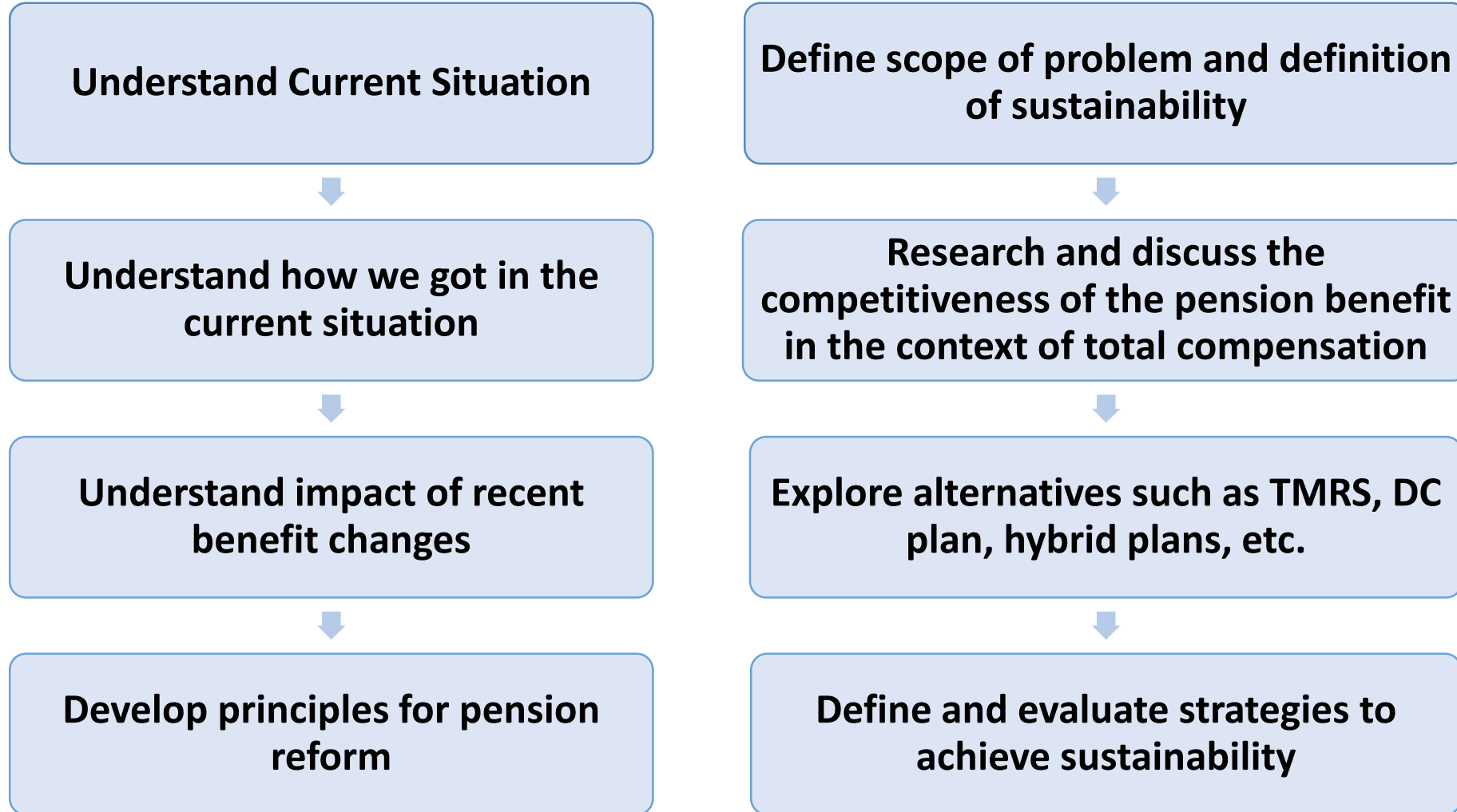
Charge

- Defining and assessing the long-term sustainability of the Fort Worth Employees' Retirement Fund
- Evaluating options to improve the current position of retirement fund, without directly or indirectly – requiring additional contributions from taxpayers/rate payers

Members

- *David Cooke* (City Manager), *Brian Dickerson* (HR Director), *Michael Glynn* (Fire), *Rick VanHouten* (Police), *Joelle Mevi* (Fort Worth Employees' Retirement Fund), *Todd Cox* (Fort Worth Employees' Retirement Fund), *Glenn Balog* (General Employees), *Manny Ramirez* (Police), *Laura Alexander* (the City of Fort Worth financial advisor), *Mike Ward* (citizen representative) and *Marsha Anderson* (retiree representative)

Pension Review Committee Work Effort



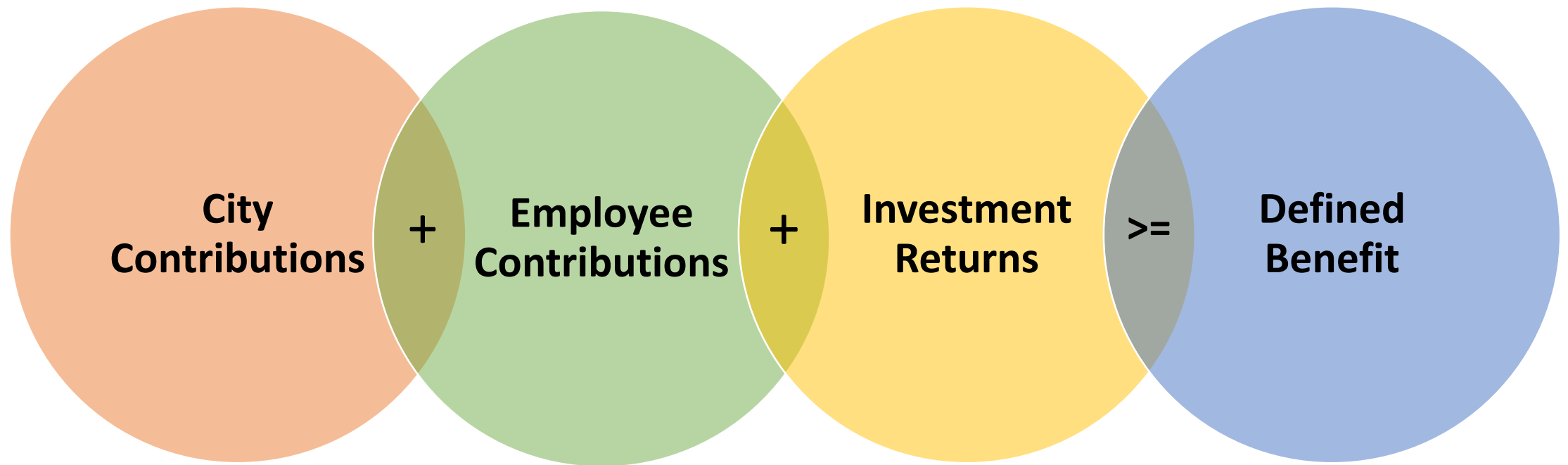
Pension Basics: Changes Made

Defined Benefit	Former	Current*
• Rule of 80 (Years of Service + Age)	✓	✓
• Police: 25 years and out	✓	✓
• Salary formula	Average High 3 years	Average High 5 Years
• Multiplier	3.0%	2.5%
• Overtime	Included	Excluded
• COLA	Yes	No
• Survivor Benefit	75%	Purchase Option

Note: The City of Fort Worth does not participate in Social Security

**General: July 1, 2011; Police January 1, 2013; Fire: January 10, 2015*

Pension Basics: Resources must Pay for Benefits



Pension Basics: Contribution Rates as % of Pay

	City Contributions	Employee Contributions	Total Contributions
General & Fire	19.74%	8.25%	27.99%
Police	20.46%	8.73%	29.19%
Last Increase	<u>2010</u> : 4.0%	<u>1999</u> : 1.3%	

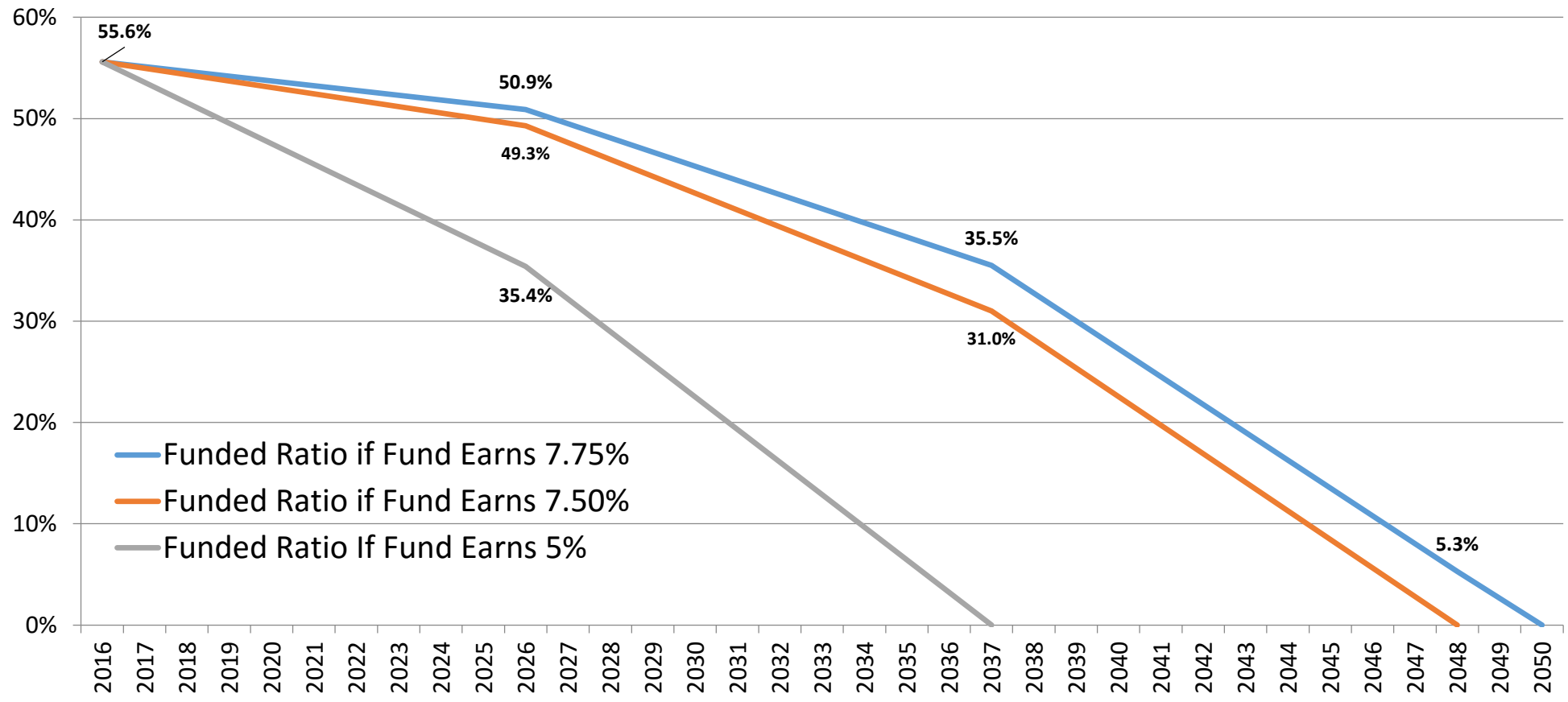
Pension Basics: Unfunded Liabilities

Unfunded Liabilities As of December 31, 2017	
Actuarial Value of Assets	\$2,288,265,169
Actuarial Accrued Liability	\$3,956,724,359
Unfunded Actuarial Accrued Liabilities	\$1,668,459,190

How to address unfunded liabilities:		
A. Increase assets	B. Reduce Liabilities	C. Both A & B

Projected Funded Ratios: No Additional Changes

Based on 12/31/2016 Actuarial Valuation by GRS



Principles of Reform

1. Should be ***sustainable*** and structured to lessen the need for further interventions
 - A. Ensure that assumptions are set to reduce risk and budgetary volatility, increase sustainability and resiliency, and provide the best estimate of the future obligations of the plan
 - B. Proposed reforms should result in a sustainable system

2. Costs should be ***shared equitably*** among the City and its employees:
 - A. City taxpayers and the employees should both contribute to a framework that eliminates the current funding gap
 - B. The framework should also address benefit elements that have contributed toward the current unfunded liability
 - C. A funding mechanism should be established to share risk and automatically fund liability increases that occur after the framework is implemented

Principles of Reform

3. Costs should be ***shared equitably among employees***:
 - A. Employee groups should contribute fairly based on the cost structure of their group
 - B. Employees should contribute fairly based on the benefit structure of their service
4. Further ***reductions in benefits for future service should be avoided at this time*** in order to maintain competitive compensation and secure retirement, but if recommendations are not implemented then this may be required.
5. ***Manage the risk of the plan*** and improve the overall financial condition on a go-forward basis

Defining Minimum Requirements for Sustainability

Discount Rate /Investment Rate of
Return

• 7.5%

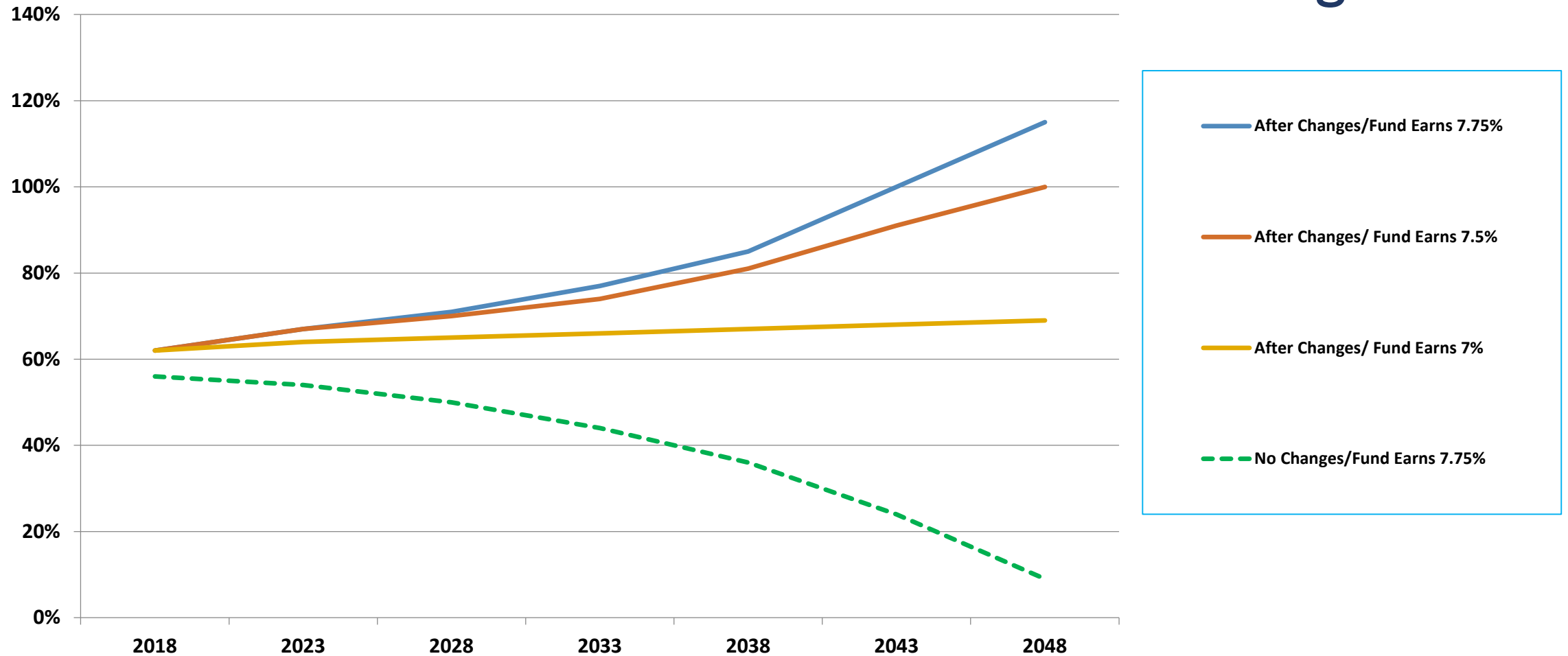
Amortization Period

• 30 years closed

Annual Funding Gap

• \$48 million/year
• 10.5% of payroll

Potential Funded Status After Changes



Strategies

Strategy	Reduce Existing Liabilities	Reduce Future Liabilities	Increase Assets
Increase Taxpayer Contributions			X
Increase Employee Contribution			X
Increase Retirement Age Eligibility	X	X	
Eliminate Future Leave Accruals		X	
Changes to COLA	X		

How Do We Solve the Problem?

Should employees contribute more money?

If so, should longer service employees put in more than new employees?

Should the City contribute more money?

Should we look at other benefit changes or changes to eligibility?

COLAs?; minimum retirement age?; vesting?; 25 years and out?; rule of 80?; service credit for sick and major medical?

Should we look at TMRS, defined contribution or hybrid system?

“Fairness” Depends on Your Situation

	General	Fire	Police	Total
Retirees & Beneficiaries	2,807	657	1,000	4,464*
Employees hired before benefit changes	1,927	802	1,222	3,951
Employees hired after benefit changes	2,082	122	488	2,692

**as of 6/30/2018*

Original Strawman Proposal to Meet 10.5% of Pay Gap

Increase City Contributions

- **2.0%**

Changes to Benefits/Eligibility

- **6.4%**
- 6.1% - eliminate COLAs
- .3% - eliminate future accruals of major medical leave and sick leave toward service credit

Increase Employee Contributions

- **2.1%**
- All employees: 1.0%
- Blue General: .5%
- Blue Police & Fire: 2.0%
- 25 years & out: .6%

Revised Proposals

Different COLA Scenarios

Minimum Retirement Age

Rule of 80 Modifications

City Increase Contributions to 3.0% of pay

Various Employee Contribution Scenarios

Considerations Leading to Final Framework

- General employees prefer different contributions amounts for blue and orange service
- Police & Fire prefer blended rates for blue and orange service
- Police maintains 25 years & out provision and contributes at level to preserve benefit
- City's contribution increased to 3% of pay
- COLA changes have to be part of the solution
- Retirees want to preserve the COLA

Final Proposals to Meet 10.5% of Pay Gap

Increase City Contributions	Changes to Benefits/Eligibility	Increase Employee Contributions
3.0%	<p>5.2%</p> <ul style="list-style-type: none"> • 4.0% - 2% COLA on \$20,300 for employees with 25 years of service • .2% - one year delay in COLA for active employees • .3% – eliminate future accruals • .7% - minimum retirement age (55)* for Fire and Generals 	<p>2.3%</p> <ul style="list-style-type: none"> • General: 1.0% + .5% (Blue Service) • Police/Fire: 2.8% • Police 25 & out: 1.5%
3.0%	<p>4.0%</p> <ul style="list-style-type: none"> • 3.0% - 2% COLA for retirees only • .3% - eliminate future accruals • .7% - minimum retirement age (55)* for Fire & General 	<p>3.5%</p> <ul style="list-style-type: none"> • General: 1.2% + .7% (Blue Service) • Police & Fire: 4.8% • Police 25 & out: 1.5%
3.0%	<p>7.1%</p> <ul style="list-style-type: none"> • 6.1% - Eliminate COLA • .3% - eliminate future accruals • .7% - minimum retirement age (55)* for Fire & General 	<p>0.4%</p> <ul style="list-style-type: none"> • General: 0.0% • Fire: 0.0% • Police 25 & out: 1.5%

*Grandfather current employees with 15 years of service

City Manager Recommendation

City Manager Recommendation		
Increase City Contribution	Changes to Benefits/Eligibility	Increase Employee Contribution
3.0%	<p style="text-align: center;">5.2%</p> <ul style="list-style-type: none"> • 4.0% - 2% COLA on \$20,300 for employees with 25 years of service • .2% - one year delay in COLA for current employees • .3% – eliminate future accruals • .7% - minimum retirement age (55) for Fire and Generals* 	2.3%
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**Grandfather current employees with 15 years of service*

Proposed Contribution Levels

Current			Recommendation		
	<u>General/ Fire</u>	<u>Police</u>	<u>General</u>	<u>Fire</u>	<u>Police</u>
City Contributions	19.74%	20.46%	22.74%	22.74%	23.46%
Employee Contributions	8.25%	8.73%	9.25 – 9.50%	11.05%	13.03%
Total	27.99%	29.19%	31.99 – 32.49%	33.79%	36.49%
Increase in Contributions			4.00 – 4.5%	5.80%	7.30%

Next Steps



