

**Retirement Reform Agreement
re: Public Safety Employees
(2013-366)**

Council Finance Committee

June 27, 2013

**Section 1:
Retirement Reform
2013-366**

6 Key Points

\$1.2 Billion in Savings

- **This public safety retirement reform agreement will save \$1.2 billion over 30 years**
- **2011-400 was \$700 million over 35 years**
- **That savings has been confirmed by two pension actuaries:**
 - **Robert Dezube of Milliman**
 - **Jarmon Welch of Pension Board Consultants**

More Significant Reforms than Florida Retirement System

- **65 of 67 counties have their public safety employees in the Florida Retirement System**
- **If adopted by City Council, the Jacksonville public safety retirement plan will be as or more aggressive than FRS on the following benefits:**

Retirement Benefit	Fla. Retirement System	City of Jacksonville
Vesting	8 years	10 years
Years to Retirement	30 years	30 years
Benefit Accrual Rate	3%	2.5%
Employee Contribution	3%	10%
DROP	Maintained	Abolished
Social Security	Provides	Does Not Provide

Significant Reduction in Assumed Rate of Return

- The proposed agreement makes the assumed rate of return more realistic.

Year	Rate of Return
2011-2012 and before	8.5%
2012-2013	7.75%
2013-2014	7.75%
2014-2015	7.75%
2015-2016	7.5%
2016-2017 and beyond	7.25%

- **Florida Retirement System is 7.75%**
- **Average of 491 Local Florida Plans: 7.69%**

Is Next Year's Deficit **\$64 Million or \$19 Million?**

- **Our police and fire pension contribution for the next fiscal year is approximately \$148 million.**
- **As a result of this agreement, our police and fire pension contribution for the next fiscal year would be approx. \$103 million.**
- **The difference? \$45 million**

What does \$45 million mean?

- **\$45 million equals the jobs of 750 City of Jacksonville employees if you assume an average compensation amount of \$60K (salary + benefits).**
- **\$45 million is more than double the current budget for Parks & Recreation.**
- **\$45 million is roughly equal the combined current budgets for Public Libraries and Neighborhoods.**

Yes or No

- Like every other proposed settlement, this agreement is subject to an up or down vote.
- The choice is either to approve or disapprove.
- Amending or “tweaking” the agreement on substantive grounds has the same effect as disapproval.

Risks of Disapproval

- **\$45 million in cuts to services for 2013-2014**
- **\$27 million in cuts to services for 2014-2015**
- **Years of uncertain litigation costing taxpayers millions in legal expenses**
- **Lose a unique opportunity for major reform. Pension issue continues to linger unresolved**

Section 2: The Challenge

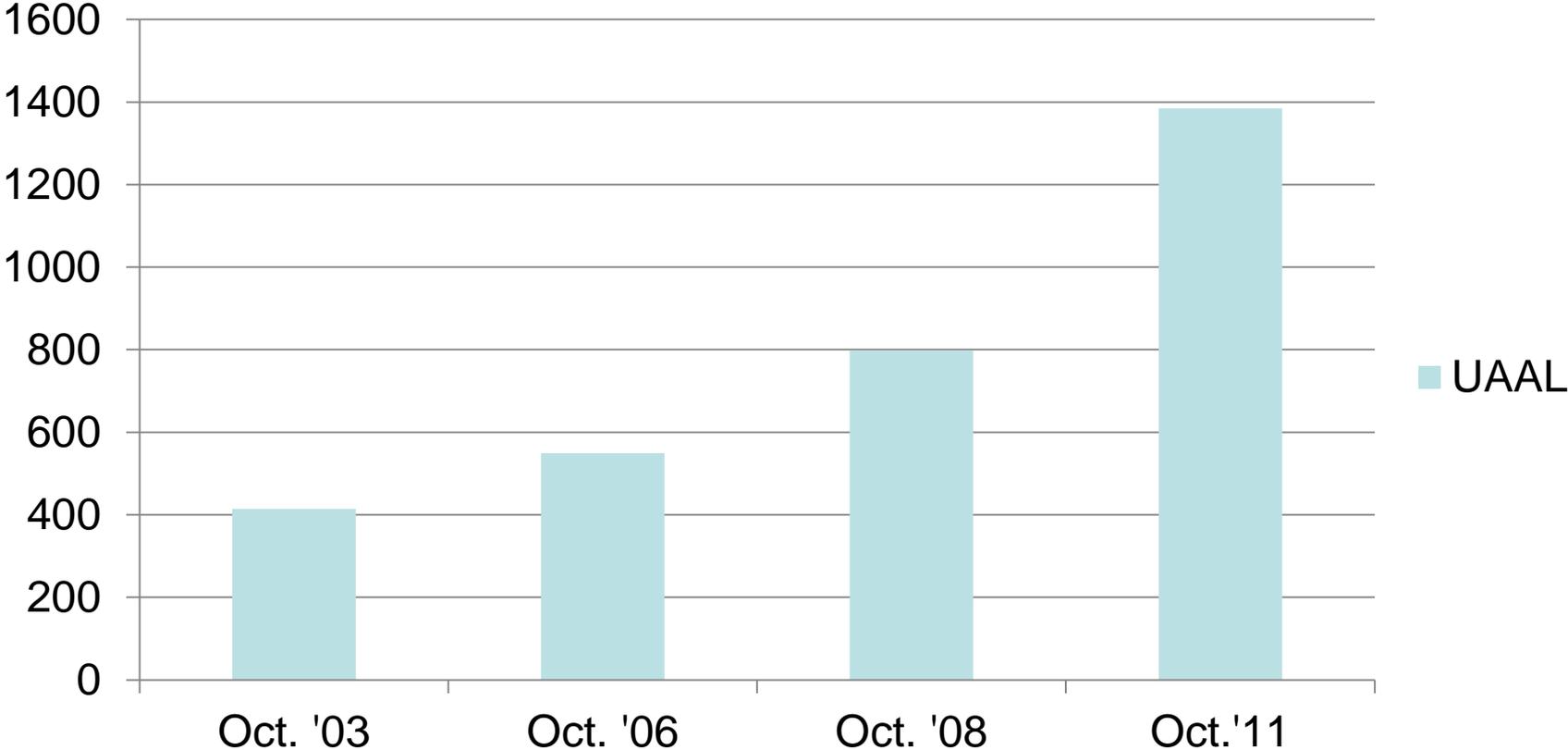
Costs Increasing

City PFPF Contributions (General Fund) FY 2002-FY 2013

- FY 2001-02 \$ 9.9 million
 - FY 2002-03 \$ 9.7 million
 - FY 2003-04 \$ 22.1 million
 - FY 2004-05 \$ 25.8 million
 - FY 2005-06 \$ 34.7 million
 - FY 2006-07 \$ 42.9 million
 - FY 2007-08 \$ 47.1 million
 - FY 2008-09 \$ 49.2 million
 - FY 2009-10 \$ 81.1 million
 - FY 2010-11 \$ 75.0 million
 - FY 2011-12 \$ 77.2 million
 - FY 2012-13 \$121.3 million
-
- Increase in Contributions: 1,125%

PFPF Underfunded

UAAL



Recent PFPF Funding Data

- **In December 2012, PFPF investment advisers' report concluded:**
 - **PFPF was only 38% funded as of 10/1/11**
 - **PFPF will not exceed 50% funding for another decade**
 - **Recommended remedies: modifying benefits, increasing contributions, increasing investment returns**

Section 2: Reform Process

Retirement Reform Process

- **Peyton Administration laid foundation with 2011-400**
- **For the Brown Administration, this process started back in June 2011 with the detailed work of then Mayor-elect Brown's Pension Transition Committee.**
- **Once Mayor Brown took office, we studied the challenges of the Police and Fire Pension Fund and best practices from around Florida and the nation to develop our retirement reform initiative.**

Retirement Reform Experts

- We also turned to two experts:
 - **Attorney Jim Linn of Lewis, Longman, and Walker in Tallahassee**
 - **Actuary Robert Dezube of Milliman in Virginia to evaluate the PFPF and assist in making reform recommendations**
(Milliman is the actuary for the FRS)

Section 3: Reform Timeline

Collective Bargaining (FOP)

- Oct. 29, 2012: MAB presents reform plan to Fraternal Order of Police
- October 31, 2012 FOP President Nelson Cuba refuses to negotiate, leaves bargaining table
- Nov. 19, 2012: City, FOP at impasse

Collective Bargaining (JAFF)

- Dec. 27, 2012: MAB presents reform plan to Jacksonville Association of Fire Fighters

JAFF declines to negotiate pension benefits
- Jan 7, 2013: City, JAFF at impasse

Federal Court Litigation

- Feb. 2013: Several individual public safety officers sued the City of Jacksonville and joined the Police and Fire Pension Fund as a party
- March 2013: Federal Court refers the parties to mediation

MYTH #1: “Violated Sunshine”

MYTH: The City and the public safety unions engaged in secret collective bargaining sessions in violation of the Sunshine Law.

FACT: The unions waived collective bargaining, both by actions and in writing. This proposed settlement agreement must go through open Council process to become law.

Section 4: The Agreement

Agreement Highlights

- **Major benefit changes for new public safety employees**
- **Current employees contribute more both short-term and long-term**
- **Significant governance reforms to Police and Fire Pension Fund**

SAVINGS

- **Saves \$1.2 billion over 30 years**
- **The savings includes \$45 million for next budget year**
- **Drives per employee cost down from 34% to 10%**

MYTH #2: “Funny Money”

MYTH: The savings are “smoke and mirrors” and an accounting trick

FACT: The actuarial analysis shows that 83% of the savings come from the very significant retirement benefit changes

FUNDED STATUS

- **Funded status as to last valuation study: 38% (and not expected to rise above 50% for another decade).**
- **Funded status by the end of the next decade: more than 70%**

CHANGES FOR NEW EMPLOYEES

Current System vs. Retirement Reform Agreement

Benefit-by-Benefit Comparison for
New Employees

Vesting

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR</u> <u>BROWN</u> <u>REFORM</u>
5 years	8 years	10 years

Benefit Cap

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR BROWN REFORM</u>
None	None	Cap of \$99,999 indexed to inflation (Social Security COLA) with a cap of 1.5%

Normal Retirement

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR</u> <u>BROWN</u> <u>REFORM</u>
20 years	25 years	30 years

Benefit Accrual Rate

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR BROWN REFORM</u>
3% (for 20yrs); then 2% for cap at 80%	2.8% (for 25yrs); then 2% for cap at 80%	2.5% with a cap of 75%

Average Final Compensation

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR BROWN REFORM</u>
Avg. last 24 mos. (52 pay pds.)	Avg. of last 60 months	Avg. of last 60 months

Vest and Terminate

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR BROWN REFORM</u>
<p>Terminate at any time after vesting, collect at normal retirement age</p>	<p>Terminate after completing 10 years but before 25 years of service, accrual rate is 2.5% with no benefit paid until age 55. Terminate with less than 10 years of service, benefit accrual rate will be 2.5%, with no benefit paid until 65.</p>	<p>For any employee who vests but leaves before completing 25 years, the benefit accrual rate would be 2% with no benefit paid until age 62.</p>

Employee Contribution

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR</u> <u>BROWN</u> <u>REFORM</u>
7%	8%	10%

COLA

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR</u> <u>BROWN</u> <u>REFORM</u>
3%, 3mos. after DROP	3%, 24 mos. after separation	Capped at 1.5%, starts third January after retirement

DROP

CURRENT JAX POLICE OFFICERS & FIREFIGHTERS	2011-400	<u>MAYOR</u> <u>BROWN</u> <u>REFORM</u>
DROP Eligibility at 20 yrs	Delay DROP Eligibility to 25 yrs	Elimination

CURRENT EMPLOYEES

- **\$21.3 million contribution this year**
- **Additional \$750K contribution next year**
- **Increase in employee contribution from 7% to 9% after previous salary reduction is restored**

MYTH #3: “No Shared Sacrifice”

MYTH: This agreement would have saved much more had it made major changes for current employees

FACT: Of the PFPF’s \$2.4 billion in actuarial liability, 90% (\$2.2 billion) is tied up in benefit commitments to current retirees and current employees that cannot by law be changed.

MYTH #3: “No Shared Sacrifice”

MORE FACT: That leaves \$200 million in liability, which decreases even more if we exempt employees with less than 5 or 10 years to retirement.

The remaining liability could only be fully eliminated if we abolish the pension plan altogether (not possible legally or practically)

MEDIUM TERM **SAVINGS OPPORTUNITIES**

- **City Real Estate**
- **Disability Plan**
- **Purchase of Service**

**PFPF
GOVERNANCE
CHANGES**

GOVERNANCE REFORMS

- **Establishes Selection Criteria for Future PFPF Administrator**
- **Provides Selection Guidelines for Fifth Member of PFPF Board**
- **Mandates Open Government Consultations**

WHY 17 YEARS?

- If nothing happens and we are unsuccessful in the underlying litigation, current agreement lasts another 17 years.
- Solidifies major benefit changes
- Provides certainty for finances/employees
- As with FRS, focuses future negotiations on wages and working conditions

QUESTIONS?