



JACKSONVILLE CITY COUNCIL

**TRUE COMMISSION
PERFORMANCE COMMITTEE – PENSION ISSUES
MEETING MINUTES
June 25, 2012
10:00 a.m.**

**City Council Conference Room B
Suite 425, City Hall
117 W. Duval Street**

Attendance: Committee Members Ted Wendler (Chair), Joe Andrews
Excused: Diane Brown, Gamal Lyons

Also: Jeff Clements – Council Research Division

The meeting was called to order at 10:00 a.m. by Chairman Wendler.

The role and function of the Police and Fire Pension Fund board was discussed as it relates to the 30-year agreement between the Fund and the City. The effect of the guaranteed 3% cost-of-living-allowance (COLA) on the City's contribution requirements was discussed, as well as the philosophical rationale for the existence of the COLA at all. Mr. Wendler distributed a spreadsheet showing a case study of the benefit payout for a police officer or firefighter working for 20 years, retiring at the age of 45 and living to age 80 who earned \$100,000. Nearly \$450,000 would be contributed by the employee during his/her working life, but over \$2 million would be paid out in benefits to age 80, which is evidence of the unsustainability of the defined benefit pensions (particularly Police and Fire) as currently constructed. The spreadsheet (found at unionwatch.com) can be manipulated to change any of the assumptions to show the effects on ultimate payout and funding needs for a pension plan.

The committee discussed how to proceed with studying the overall pension issue. Should time and effort be devoted to studying the details of the current defined benefit pension system, or should it be written off as a fundamentally unsustainable model and all attention be devoted to defined contribution models? Are there possibilities for a combined DB/DC plan? Perhaps the first step would be to document the inherent unsustainability of the defined benefit system and then turn to examination of other defined contribution options. Mr. Wendler noted the years in the 1990s when the City made its employer contribution from "pension excess contributions" from prior years rather than from current year operating funds. The fundamental problem with defined benefit programs is that the taxpayer is ultimately responsible for making the plan whole regardless of economic trends, stock values, or any other factor.

The group discussed the special circumstances of the police and fire pension covering employees in dangerous occupations, likening it to retirees from the U.S. military who receive much more modest pensions than the City provides. It would be interesting to get statistics on the number of police and firefighters killed or injured in the line of duty as a measure of the danger of the job and the need for a more generous pension. The effect of the retirement of tens of millions of baby boomers on the stock markets was discussed. As those millions of investors need to sell their assets to produce money to live

on, some experts believe that stock prices will be driven lower over time because of the excess of sellers versus buyers, exacerbating the unfunded liability problem as asset values decrease.

A potential report format was discussed: 1) document the inherent weaknesses of defined benefit plans using examples of failed defined benefit plans and a clear explanation of the financially unsustainable nature of the Jacksonville's plans based on average investment returns, number and age of retirees, pension payouts, etc. (long-term cash flow analysis); 2) determine the feasibility of a combined DB/DC program, perhaps using insurance coverage and/or annuity policies to cover risks of disability or premature death; 3) enumerate the benefits of defined contribution plans illustrating the potential returns to individual employees using various assumptions and emphasizing the value of ownership of personal funds (no need to work for the City for 20 or more years to qualify for a pension, ability to borrow against the value of the retirement fund, etc.).

One question to be answered with respect to a defined contribution plan would be the effect on the City's receipt of the "chapter funds" (insurance premium taxes) for the Police and Fire Pension Fund. Would the City still receive those funds for a defined contribution plan?

The task would be a big one, but it's extremely important as it appears that no one else is focused on this issue (City Council, Mayor, unions) and the ramifications for the City's financial future are so dire.

Assignment of tasks:

Andrews – research on failures of specific defined benefit plans

Wendler and Andrews – refinement of spreadsheet

Wendler – cash flow analysis of current DB plan

Wendler – current PFPF unfunded liability

Wendler – spreadsheet/PowerPoint on defined contribution plans

Andrews – use of "chapter funds" under a DC scenario; are they still available?

Next meeting – Wendler will attend the June 29 Legislative Tracking Committee meeting, assuming the meeting is held (depending on the amount of new legislation of interest).

There being no further business, the meeting was adjourned at 12:29 p.m.

Jeff Clements, Chief
Council Research Division
630-1405

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1:00 p.m.