Retiree Health Insurance & Pension Task Force

General Employees Pension Plan Recommendations

October 3, 2011

Task Force Mission

- The City Manager established the Pension & Retiree Health Insurance Task Force as an Administrative Committee in September 2008 to assist the City in the identification, review, and analysis of potential modifications to the City's existing Defined Benefit Retirement Plan and current retiree health insurance subsidy program.

- The members were selected based upon their professional expertise, background, and interests as part of a diverse group that was specifically charged with investigating and reporting back options and recommendations regarding the following points:

Task Force Membership

- All but one Task Force member is part of the General Employees Pension Plan, including both pre and post 2003 pension plan classifications. The Task Force membership includes:

- Chair: Tony Delgado, Deputy City Manager
- Greg Finch, Finance Director
- Tim McCausland, City Attorney
- Jennifer Kerr & later Dana Blydenburgh, LRS Director(s)
- Ron Tomlin, Retiree – Lakeland Pension Board Member
- Katrinah Gagnier, COLAR Representative
- Alan Lukhaub, Employees Association Representative
- Added Jeff Stearns, Investment Manager, Tory Bombard, BOM-LE and Liz Rovaldi, Pension Generalist as additional resources available to the group

Recent State Pension Changes

- **SB 1128 amended 112.66, Florida Statutes:**
  - **Restrict pensionable earnings to calculate pension benefits**:
    - Up to 300 hours OT annually may be treated as pensionable
  - **Payments for accrued sick leave or annual leave earned after the effective date may not be included as pensionable earnings:**
    - Effective = Last CBA entered into on or after 7/1/11

Current Defined Benefit Pension Plan

	Pre Oct 2003	Post Oct 2003
Normal Retirement Age	60	62
Early Retirement Age	50	52
Avg. Annual Early Retire Penalty	2.5%	5.0%
Final Average Compensation (FAC)	Highest 3 yrs	Highest 5 yrs

Annual Benefit Multiplier:

First Ten Years of Service	3.0%	2.0%
Ten to twenty five years	3.0%	3.0%
Twenty five to thirty years	1.0%	3.0%
Above thirty years	1.0%	1.0%

Current Defined Benefit Pension Plan

Average Retired City Employee works 22 years and retires at age 56½

Average Benefit Calculation

- Hired Pre Oct 2003 –61% of highest 3 years
- Hired Post Oct 2003 46% of highest 5 years

Retiree COLA

- Up to 4.0% – funded from cumulative actuarial gains since October 1, 1996

Pension Calculation Examples

Assumptions:

- Salary – $50,000 annually
- 25 years of service
- Retire at age 55

Benefit Calculation

- Hired Pre Oct 2003 –$2,812.50 monthly
- Hired Post Oct 2003 – $1,760.42 monthly

Task Force Recommendations

Allow each existing employee to make an election between two options:

A. <u>Retain the current plan (the *Legacy Plan*) with no change to the benefit formula:</u>

- Employee share of plan cost increases from 8.50% to 11% over two years
- Changes the definition of average Final Average Compensation (FAC) pursuant to state legislation

Fiscal Year	Employee Contribution	Employer Contribution
2012	10.00%	18.00%
2013	11.00%	TBD
2014	11.00%	TBD

Task Force Recommendation

B. Or enroll in a New Plan prospectively:

- Employees existing vested accrual (as a percent of payroll) carries forward to the New Plan
- Normal Retirement Age of 62
- Early Retirement Age of 52
- Early Retirement Penalty of 5% per year
- Final Average Compensation over 5 years excluding all sick and vacation payout upon retirement
- Benefit Accrual Rate fixed at 2.41% for all Years of Service (YOS)
- Employee contribution reduced from 8.5% to 6.25%
- Minimum employer and employee contribution of 6.25% into the newly created DB plan
- Supplement with an optional, self-directed Defined Contribution Plan with an employer match (employer match fixed at up to 5% for first three years)

Task Force Recommendations

- <u>**Common provisions applicable to both Defined Benefit Plans:**</u>

  - Cost sharing ratio application to incremental changes in the required contribution shared on a 1.40 (City) to 1.00 (Employee) ratio.
  - An irrevocable opt out provision from the *Legacy* Defined Benefit Plan (prospectively) into a Defined Contribution Plan upon achieving a vested defined benefit equal to at least 30% of Final Annual Compensation (calculated after ALL reductions).
  - Outside of the Task Force plan recommendations, the implementation of a 2.5% across the board salary or merit (based on the installation of a additional step to the current paygrade system) provision to offset the initial impact cost to the members.

Task Force Recommendations

- DROP earnings rate changed from 6.5% per year to a self directed account. Entrance criteria into the DROP is modified from the current criteria which requires the participant to be a minimum of 60 years of age or 30 years of service to a combination of years and service equal to 75 years. This would allow some level of similarity to the Police and Fire plans which provide a early minimum entry provision and may provide a level of incentive for the pre-2003 Legacy Plan members to remain employed by the City after their 25th year of service (maxing of 3% assumption).
- The 5-year maximum enrollment period is not proposed to be altered. All current members of the DROP will be also be grandfathered under the current program. Early retirement requirements (ages 52 and 50, respectively) would still be in affect.

Task Force Recommendations

- **<u>Retiree Cost of Living Adjustment (COLA):</u>**

- Elimination of existing language providing for a permanent COLA (under unlikely conditions) to be replaced by an annual bonus plan.
- The original recommendation allowed for The Pension Board will have the authority to recommend to the City Commission an annual bonus costing no more than 50% of the cumulative value of the net actuarial gains since October 1, 2010. Providing for the amount of the bonus to be applied as a fixed, one-time lump sum amount paid at the same dollar amount to each retiree regardless of age, years of service and existing benefit levels. After the initial consultation with the City Commission, the task force has modified the recommendation to the following:
- An annual investment performance review will be initiated. Based on the positive investment performance of this particular year and considering the cumulative impacts to the overall funding of the plan the Pension Board can authorize a one-time payment from the plans investment returns to all retirees who have been separated from the plan for minimum of 60 months at an amount based on total years of service to the City based on a years of service x flat amount payment.

Task Force Recommendations

- Example of bonus payment plan (Based on1000 eligible retirees):
  - Payment Pool Amount — $100,000
  - Total Retirees Eligible — 1,000 eligible
  - Sum of all Retirees years of service — 20,000 years of service
  - Value of 1 year of service — $100,000/20,000 years = $5.00/yr

The typical retiree with 25 years of service would receive $125.00.

- City Commission would set the policy regarding the pre-funding of any initial Retiree Bonus payments prior to sufficient earnings in the Plan per the above recommended approach.

Task Force Recommendations

➢ **<u>Defined Benefit Plan Optional COLA:</u>**

- Allow each retiring employee to elect a self-funded, guaranteed annual COLA of 1%, 2% or 3%.

- An actuarial reduction in the starting annual Defined Benefit will be established based on the actuarial cost of the selected COLA – in order to maintain actuarial neutrality to the Plan.

Task Force Recommendations

- **Current 401(a) Plan**
  - The City of Lakeland contributes 15.39% of pay (frozen since Fiscal Year 2009) compared to the 17.04% contributed to the general employees defined benefit plan (which is anticipate to increase to 22.7% absent any pension reform).
  - The contribution amount is comprised of two components:
    - Normal cost – the amount necessary to pay the future benefit accrued by each employee for adding additional years of service to their retirement benefit calculation.
    - Payment of the Unfunded Actuarially Accrued Liability (UFAAL) – this is an additional amount that is to pay the cost of benefits accrued in the past; which includes all cumulative acuarial losses that have occurred since the day the plan was created.
  - It could be argued that the employees in a 401(a) plan should receive the same normal cost rate that employee in the City's Defined Benefit Plan receive. The normal cost rate for the latest actuarial study was 8.63%, however, it has fluctuated to as high as 11.39%. Additionally, the UFAAL changes each year as well, at present it is almost 8% of salary.

Task Force Recommendations

- Additionally, the UFAAL changes each year as well, at present it is almost 8% of salary. Traditionally, a major portion of this payment covers unfunded liability accrued by employees who are already retired, but also covers the impact of investment losses that occurred during the course of an active employees tenure-effectively holding those employees harmless from impact of a declining market. Employees in a DC plan do not receive the same backstop protection. DC plan members insulate the City from the cost of a fluctuating market because their plan assumes all the risk.
- Additionally, the members of the 401(a) plan, like those in the general employees plan, do not receive Social Security benefits. Places these members at a disadvantage to those private sector defined contribution plans that provide both Social Security benefit and a corporate match. Equating to an estimated 6.25% impact.
- The Task Force recommendation maintains the DC plan contribution rate at its' current 15.39% and does not change the eligibility requirements.

Commission Request

- Review a tiered approach to granting future bonus' to the retired members.
- Methodology and further review of cost associated with modifying salary pay bands versus other methods of compensation increases for the Fiscal Year 2012.
- Evaluate all questions and comments from employees and retiree groups prior to any final approval and implementation strategy.

What’s Next?

- Initial Mayor & City Commission Feedback
- Presentations to Employee Groups, COLAR & other Stakeholders
- Direction from City Commission
- Negotiations with Collective Bargaining Groups
- Implementation Strategy & Timetable

Questions & Comments?