

Pension Benefits Task Force

Presentation to the City of West Palm
Beach Commission

November 15, 2010

The City of West Palm Beach Mayor and City Commissioners created the Police & Fire Pension Task Force because they were concerned that the cost of current pension plans were higher than the City could afford now and in future years

The Task Force held numerous meetings over six months, and has concluded that those concerns were well founded

Task Force Approach

- Active participation
 - City staff and union representation
 - Non-binding discussions
- Engaged Plan Actuaries (GR), Pension Attorneys and Administrators
- Reviewed systemic situation across multiple states and municipalities
- Secured input from League of Cities, FRS, ING and members of Pension Trust Boards
- Analyzed a number of pension plan scenarios

The Actuarial experts for the City of West Palm Beach Police Officers and Fire Fighters have provided information that clearly shows that the annual cost of funding the **CURRENT FIRE AND POLICE PENSION PLANS WILL GROW SUBSTANTIALLY**

Pension Fund	Year	Annual Cost	% of Pay	Pension Fund	Year	Annual Cost	% of Pay	WPB Annual Cost
Police Officers	2011	\$ 4,524,283	20.06%	Fire Fighters	2011	\$ 4,940,081	27.86%	\$ 9,464,364
5 Years later	2016	\$ 7,880,052	28.72%	5 Years later	2016	\$ 7,400,304	33.49%	\$ 15,280,356
In 10 Years	2021	\$12,253,220	36.70%	In 10 Years	2021	\$ 9,662,717	35.09%	\$ 21,915,937



City Police & Fire Pension Expense will increase more than 61% in only 5 years
City Police & Fire Pension Expense will increase by more than 131% in 10 years

Note: The above Pension Expenses do not include any pension benefits for other City Employees

Implications of Future Tax Revenues from Existing Pension Plans

Year	Pension Costs	Operating Revenue	Required Tax Rev.
2011	\$9,464M	6.7%	\$142M
2016	\$15,280M	6.7%	\$228M
2021	\$21,915M	6.7%	\$327M

ANY changes to the Pension Plans are subject to the following

- Existing contracts and collective bargaining process
- Compliance with current State laws, limiting changes in Pension Plans
- Approval of the State Legislature for each Plan change
- October 1, 2012 is the earliest effective date of change

Integrated Relationships

- Employee contributions (negotiable)
- Investment earnings (variable)
- City contributions (variable)

Recommendations

- Protect existing retirees and active employees who have accrued benefits under existing plans to date
- Modify present DB Plan for current and future active employees
- Validate potential administrative efficiencies by combining Fire & Police Pension Plans

Recommendations Continued

- Develop a City **Financial Model** to balance affordable services with tax revenues
- Implement further Police & Fire operating budget changes
 - OT, workforce reductions, VEBA
- Begin collective bargaining process within 60 days

Further Considerations

- Years of service
- Retirement age
- Survivor benefits
- Review Pension Trust Fund Board composition
 - Add 2 additional independent professional members

Further Considerations

FRS for City Police Officers and Firefighters

- Cost of closing DB Plans and funding the unfunded liabilities
- Loss of Share Account earnings

Proposal from County for Police & Fire Rescue services

Defined Contribution Plan considerations

- Cost of closing DB Plans and funding the unfunded liabilities
- Loss of Share Account earnings
- Retention & recruitment issues

Can the City just discontinue its pension plans?

- Yes. But at a significant cost to the attraction and retention of qualified employees and funding the unfunded liabilities

Specific Recommendations to the Current Plans:

1. Identical Multiplier for Police & Fire Fighters (min 2.5% by law)
 - Employee contributions & City contributions would be adjusted
 - Potential **\$42,000,000 savings** through 2026
2. Pensionable Income redefined as base salary
 - City **saves \$24,000,000** through 2026
 - Define Police & Fire retirement “caps” by position
3. Drop and Share Accounts
 - Eliminate current guaranteed rate of return
 - Reduce the rate of return until there is a positive actuarial gain

In Summary

Thanks to all committee members and participants

We encourage the City of West Palm Beach, Police and Fire Unions to **accelerate the collective bargaining process** in order to meet State of Florida legislative timeline

We encourage the **adoption of a modified DB Plan** to retain and attract a highly qualified firefighter and police workforce and allow the City to provide the very best **affordable public safety services**

The **cooperation and communications** amongst the City and the respective unions is paramount in achieving a **competitive affordable pension plan**

The leadership of City officials, firefighters, and police officers needs to focus on both the **tactical** (operational costs) and **strategic** direction (**financial model**) for employee compensation and benefits

Implications of current Police & Fire Pension plans

Know where we are headed and the cost of changing to Sustainability.

Year	Property Tax Revenues using a 3% Annual Growth Rate	Annual Cost of Funding Unchanged Pension Funds	Unchanged Pension Fund Share of Tax Revenues	Pension Fund Cost at 6.66% of Tax Revenue	Required Reduction in Annual Pension Fund Expense
2011	\$142,000,000	\$ 9,464,000	+ 6.66%	\$ 9,464,000	Base Year
2016	\$164,616,919	\$15,280,000	+ 9.28%	\$10,864,717	\$ 4,415,283
2021	\$190,836,126	\$21,915,000	+ 11.48%	\$12,595,184	\$ 9,319,816

The sooner the issues are corrected, the less painful the changes will be.

The City Pension funding problem is growing at an un-sustainable rate!

Year	Property Tax Revenues using a 3% Annual Growth Rate	Annual Cost of Funding Unchanged Pension Funds	Unchanged Pension Fund Share of Tax Revenues	Sustainable Pension Fund Cost at 6.66% of Tax Revenue	Required Reduction in Annual Pension Fund Expense
2011	\$142,000,000	\$ 9,464,000	+ 6.66%	\$ 9,464,000	Base Year
2012	\$146,260,000	\$ 11,383,601	+ 7.78%	\$ 9,747,920	\$ 1,635,681
2013	\$150,647,800	\$ 13,188,010	+ 8.75%	\$10,040,358	\$ 3,147,652
2014	\$155,167,234	\$13,888,300	+ 8.95%	\$10,341,568	\$ 3,546,732
2015	\$159,822,251	\$14,707,674	+ 9.20%	\$10,651,815	\$ 4,055,859
2016	\$164,616,919	\$15,280,000	+ 9.28%	\$10,864,717	\$ 4,308,986
2017	\$169,555,426	\$14,214,888	+ 8.38%	\$11,300,511	\$ 2,914,377
2018	\$174,642,089	\$15,284,323	+ 8.75%	\$11,639,526	\$ 3,644,797
2019	\$179,881,352	\$15,992,007	+ 8.89%	\$11,988,712	\$ 4,003,295
2020	\$185,277,792	\$20,627,283	+ 11.13%	\$12,348,373	\$8,278,910
2021	\$190,836,126	\$21,915,000	+ 11.48%	\$12,595,184	\$ 9,319,816
10 Year Totals	\$1,818,706,988	\$165,946,379	+ 9.12%	\$121,212,978	\$44,733,401

The City needs to reduce pension costs by \$44,733,401 over 10 years for Sustainability.

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