JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD WORKSHOP MEETING

DATE: January 5, 2016

TIME: 1:55 to 4:15 p.m.

PLACE: Jacksonville Police and Fire Pension Fund
One West Adams Street
Suite 100
Jacksonville, Florida 32202

BOARD MEMBERS PRESENT:

Larry Schmitt, Board Chair
Richard Tuten, III, Secretary
Richard Patsy, Trustee
William E. Scheu, Trustee (via telephone)

ALSO PRESENT:

Beth McCague, Interim Executive Director
John Keane, Board Consultant
Debbie Manning, Executive Assistant
Joey Greive, Fund Treasurer
Devin Carter, Fund Controller

Jarmon Welch, Actuary
Kelly Shelton, Actuary
Pension Board Consultants, Inc.

These matters of the JPFPF Board of Trustees' Workshop Meeting came on to be heard at the time and place aforesaid, when and where the following proceedings were reported by:

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1 W O R K S H O P
2 January 5, 2016 1:55 p.m.
3 - - -
4 CHAIRMAN SCHMITT: All right. This is going
5 to be a workshop. So it will be a little less
6 formal. I guess we'll start out with you,
7 Jarmon.
8 MR. WELCH: Okay. I'm Jarmon Welch. I've
9 been the fund's actuary since 1980. During the
10 '80s, I was actuary for both the General
11 Employees Fund -- I know Joey -- and also the
12 Police and Fire Fund.
13 I have a boutique firm in Atlanta that
14 specializes in public retirement funds. I've
15 been the actuary for many public plans around the
16 South, particularly in Georgia and in Florida.
17 And Kelly Shelton has worked with me as
18 associate actuary since 1993. So both of us have
19 worked on the City plans all those years.
20 There's a little brochure so if you want to refer
21 to our name.
22 What has happened here -- I'll give you the
23 summary right off of what's happened, and then we
24 will go to some of the backup details and so
25 forth.

1 So if you would turn to the Actuarial
2 Valuation Report of your file here on page 1.
3 MR. TUTEN: What page was it, Jarmon?
4 MR. WELCH: Page 1.
5 Actuaries typically have three reports that
6 they present their actuary accounting numbers
7 with. They have a funding report that's required
8 by the State of Florida, and they have a GASB 67
9 report that's required for the plan's financials,
10 and they have a GASB 68 report that's required
11 for the City's financials.
12 And typically each of the reports -- the
13 first one has 50, 60 pages. Each of the next two
14 have 20 or 30. So you've got, like, 100 pages.
15 But I've developed a user-friendly way -- I
16 hope Joey will appreciate it because he gets it
17 both ways -- of putting it all in 26 pages. So I
18 go right to the heart of what the changes are,
19 hopefully in a user-friendly way.
20 So, now, if you look here, this is the guts
21 right here. The Number 1 is the guts of what
22 happened during the year. We collected data and
23 we ran it through our software, computer
24 software, we analyzed it, and we put it together,
25 and this is what you end up with.

1 This is what sets the new funding, and all
2 the other pages that you'll see around are based
3 on that.
4 And so what happened during the year? Well,
5 the year started October 1, 2014. That's the
6 first column. At that point in time the pension
7 liabilities that had been earned to date were 755
8 million by active employees. And 2 billion 2.56
9 million dollars by the retirees and DROPS and a
10 few terminated people.
11 So you had a $3 billion debt that's already
12 been earned, and it's invested. It's guaranteed,
13 in the sense that these things.
14 And how much money do we have? Well, Number
15 2, the Gross Market Value was $1,473,000,000 and
16 we have -- and we'll go into it a little bit
17 later why we have a few separate accounts.
18 They're separate accounts set up for special
19 reasons.
20 And to the Net Market Value we could apply
21 is 1,389,000,000.
22 MS. McCAGUE: Excuse me, Jarmon. We have
23 another who is going to join by phone. So Debbie
24 is going to call him right now.
25 (Off the record)

1 MR. SCHEU: Bill Scheu.
2 MS. McCAGUE: Hi, Bill. It's Beth McCague.
3 MR. SCHEU: Hi, Beth. Happy New Year.
4 MS. McCAGUE: Thank you. Same to you.
5 We've got a roomful of people here around
6 the table. And Chairman Schmitt's at one end,
7 and Jarmon Welch, our actuary, is at the other,
8 and he's just started the meeting.
9 Do you have with you his report, I hope, in
10 electronic format?
11 MR. SCHEU: I've got it. Yes.
12 MS. McCAGUE: Okay. Great. He's taken us
13 to page 1 of his Valuation Report.
14 MR. SCHEU: Thank you. Sorry to be late.
15 MR. WELCH: Hi, Bill. We're going through
16 column 1 on page 1. And I just explained that
17 the Number 1 item of 3 billion is the value of
18 all pensions earned to date, as of October 1,
19 2014. That's our last report. So we're going to
20 go forward from that to this report.
21 And at the same time, the assets, except for
22 the two small special accounts, that are used to
23 offset this 3 billion is 1,389,000,000 shown in
24 item 2. Item 3 is the unfunded, of
25 1,622,000,000.

1 So that unfunded is paid in terms of 18
2 different year-by-year bases that have been set
3 up that average, like, 21 years. And the payment
4 on it for that year is 111 million.
5 And the Normal Costs, that's the value of
6 the new year. So 111 -- the funds, the amount
7 for prior years that hadn't been put up, the
8 money hadn't been put up, the part that hadn't
9 been put up, and the 47 million is the amount for
10 the new year coming.
11 And we also have in it the manager fees and
12 the administrative expenses of the staff. So
13 that's 169 million to go in.
14 And where is that money coming from? It's
15 coming from 10 million by employees and 5.3
16 million in Chapter funds, 887,000 in court fines,
17 and then the City pays the rest.
18 The City pays the rest with a one-year
19 lapse. Anything we calculate is not paid in the
20 coming fiscal year. It's paid in the following
21 fiscal year after that. So there's a one-year
22 lapse before this applies.
23 But during that period of the one year
24 between October 1, 2014 and October 1, 2015, as
25 you know, Ordinance 304-E was passed, and that

1 reduced some of the benefits that were there for
2 the current members. And I can go into that, but
3 it's being mentioned later.
4 But the impact of that was sent in a letter
5 to the state to ask for approval and appears on
6 the Police and Fire website. So the net amount
7 that the City would want to recognize changes
8 over to this 148 million figure.
9 The Chapter money changes just a little bit
10 because the formula for allocation of Chapter
11 money changed in the ordinance a bit. And so the
12 City is budgeting an amount, with figures that
13 are approximately similar to mine, that will end
14 up with at least 148 million going in there.
15 And then we go into this year's
16 calculations. And in this year's calculations,
17 we not only have new data and new assets, lower
18 assets, as you know, because the market went
19 down; but we had a charge from the ordinance that
20 we were supposed to use the most readily
21 available mortality table, even if it wasn't
22 generally accepted, as legally allowed.
23 But going forward one more year, what's
24 legally required is to use the mortality tables
25 that the FRS uses. So we were in the position

1 that the ordinance says make a change this year
2 and we know we're going to make a change next
3 year.
4 So we went ahead and made the change, but we
5 took a small step. One, because we didn't
6 want -- the new mortality tables that have come
7 out, if you went all the way on them, unless you
8 modified them some kind of way because of your
9 local experience, are powerful things.
10 I mean, they have -- they can have 5 percent
11 impact on costs -- like liabilities. Look back
12 up to 3 million. They can -- they can have $150
13 million increase in these three negative figures,
14 even more. Some of them goes up to almost twice
15 that.
16 So I looked at it and I thought, Well, I've
17 got to take some step. Bad times to push too
18 forward, so I will take a small step. And I did
19 a rather strange thing when I did it. I used a
20 completely new table, but I increased the ages of
21 everybody two years. And that let me end up with
22 my small step. I ended up between a 1 and 2
23 percent increase.
24 Now, you could say, How did he increase the
25 tables two years? Well, I reviewed the mortality

1 pattern. I also reviewed the City's mortality
2 table. They increased their ages four years.
3 But, anyhow -- and I discussed it with the
4 state actuary. But, anyhow, so that was one
5 change we made.
6 Another change that we made is that when the
7 actual impact statement was done, I did it a
8 certain way, which is fine with the state, but
9 when the prior chairman of the Board wanted a
10 letter to go over to the City, he brought up the
11 idea that the City had reduced its contribution a
12 bit over several years because it wasn't really
13 getting a full salary increase over those years
14 that the rate specified.
15 So he suggested that I reduce my 4 percent
16 rate, 1 percent a year for 3 years. And I said,
17 Well, it's reasonable to do that. In the last
18 six years, they've gotten raises of 2.8 percent.
19 So it would be better to do this as part of an
20 experience study and as part of a Board
21 presentation and all that.
22 So that's the way I've ended up with it.
23 It's in this new set of numbers. It just happens
24 I get 148 million, the way I ended up doing the
25 others, which was what Joey was focusing in on

1 anyhow. So it didn't disturb Joey's budget,
2 evidently, by the way I ended up recognizing
3 that.
4 And the final change I made. People have
5 been leaving a lot quicker than my table said. I
6 was expecting 2.4 percent of the people in their
7 twenties and thirties to leave, and I'm getting a
8 lot more than that.
9 So I felt that if I'm going to do an
10 experience study, I need to collect that. That
11 made it, like, a million-dollar decrease in
12 costs. But it was appropriate to do. So those
13 were the three changes.
14 So what did I end up in after making the
15 three changes? Well, we start off -- we start
16 off with the odd fact that payroll -- and we
17 don't use DROP payroll. None of DROP payroll.
18 Payroll went down from 134 million to 132
19 million. It went down because, although you
20 hired a particular fair number of new officers,
21 you had an extra lot of people DROP evidently
22 because of the changes that were going on
23 locally, that some people figured, well, they
24 would take their pension.
25 So we had a big spike in DROPS. And so that

1 meant the payroll. When you DROP, your payroll
2 don't count. So that counted for the reduced
3 payroll.
4 And so we look at Number 1 again, and these
5 pension things tend to increase from
6 year-to-year. Well, inflation sort of increases
7 pensions, right? So -- but, anyhow, we ended up
8 with 732 million, the actual accrued liability,
9 and 2.4 billion for the retirees and DROPS.
10 So we've got 3.142 million. But you look
11 down at Assets. Assets actually decrease. They
12 went down to 1 billion 341. And so we end up
13 with unfunded of 1.8 billion, which is roughly a
14 couple hundred million more than what we had
15 before.
16 And then, correspondingly, if you go down to
17 the cost things, to what the City has paid, this
18 amount the City pays went from 148 million to
19 159-. So, of course, you -- it would be
20 interesting to see if that $11 million cost
21 increase -- while intuitively you'd think if a
22 couple of hundred million dollars in liabilities
23 increased and we've got to pay for it, and
24 interest is at 7 percent, well, 7 percent of 200
25 million is 14 million. So if we only pay 11

1 million, we're not paying the full interest.
2 Well, that's the standard methodology that's
3 used around Florida, but not everywhere. It's
4 used around Florida. It slow pays.
5 So let's look at Number 1. Number 1 at the
6 bottom, it reconciles this 11 million. Number 1
7 says -- because we only -- we earned a negative
8 395-, we were 159 million short, and this
9 increased costs 8 and 1/2 million.
10 So if we had paid 7 percent interest on it,
11 it would have over 11 million. So we
12 recognized -- we didn't recognize 3 million of
13 the interest. We deferred it to down the road.
14 The assumption changes. Actually, when you
15 put them all together, they have very little
16 impact. And they were sort of designed to do
17 that because they were appropriated, as I said
18 earlier, to take a small step in one direction
19 and a step back in a couple directions.
20 So the experience losses were 24 million.
21 And what that comes from, when people DROP sooner
22 and take their pensions sooner than the tables
23 expect, well, then values go up. Getting your
24 pension at an earlier date always increases
25 values in most plans.

1 So since we had extra people going out over
2 the past year, then the values went up. This
3 increased costs 1.3 million.
4 And the one thing that is often
5 misunderstood, even though I say it from time to
6 time, but it's kind of a hard thing to get a
7 grasp of, though a couple folks here work for
8 banks or brokerage firms and such, it's that the
9 way that we pay off debts in this plan and the
10 way it works throughout Florida -- in a way it's
11 sort of like a teaser mortgage, where in the
12 early years you underpay, and then you figure,
13 well, bigger pay is coming down the road so I'm
14 going to be able to afford more, so I'm going to
15 underpay in the earlier years.
16 But we do it in a very particular way. We
17 say that we're going to increase our payment 3.25
18 percent a year. So rather than have a level
19 dollar amount that we pay, we reduce it
20 considerably because it's going to increase 3.25
21 percent a year every year thereafter, no matter
22 what. No matter what the salaries or anything
23 are, this amortization number increases 3.25
24 percent.
25 Well, when I go forward one year and the

1 costs go up, the amortization amount goes up 3.25
2 percent. So that's $3 million this year.
3 But the good news is that of these 18 bases
4 that we've set up, Kelly and I happen to notice
5 that one of them falls off. So you get a couple
6 million-dollar bases because one of them is fully
7 funded. It doesn't fall off in the current year,
8 so it's actually there.
9 But these numbers are being projected
10 forward one more year, and it goes -- it goes
11 away after this year. So, anyhow, that's where
12 the 11 million came from.
13 MR. TUTEN: Jarmon, can I ask you two quick
14 questions?
15 MR. WELCH: Yeah.
16 MR. TUTEN: Since we're on page 1.
17 Under Section 1, Inactive Participants,
18 that's current guys on the DROP, or are they
19 considered active?
20 MR. WELCH: No, they're inactive.
21 MR. TUTEN: Okay. That's what I figured.
22 Now, let me ask you another question too
23 about that, the section, the far heading, where
24 it says Inactive Participants, and then it has,
25 offsetting assumption changes, the $2.4 million

1 with the liability --
2 MR. WELCH: Right.
3 MR. TUTEN: We had a huge DROP class, I
4 guess, starting whenever the DROP started and
5 five years later. I mean, I know we get people
6 in the DROP all the time, but do you ever see a
7 point where that starts to, if not drop off a
8 cliff obviously, but at least start to go down
9 because of such a large number of people in that
10 initial DROP class? Do you understand what I'm
11 saying?
12 MR. WELCH: Yeah. It doesn't, because a
13 retiree and a DROP are recognized by our computer
14 system as being exactly the same thing.
15 So, in other words, Kelly takes the man's
16 pension, multiplied it by an annuity factor, and
17 that's what it's worth. So she doesn't care
18 whether he's in a DROP getting that annuity or
19 whether he's a regular retiree getting the
20 annuity. So, no, it has no impact.
21 What this does show is you have a lot of
22 people DROP. 2 million 2 went to 2 million 4.
23 So it went up a lot.
24 Oh, yeah, we recognize in a certain place
25 that the DROPs contributed 2 percent of their

1 pay, you know. But that's not what you're
2 talking about.
3 MR. TUTEN: No. Okay. I was just curious.
4 MR. WELCH: Right. Yeah. So it doesn't
5 matter.
6 What I thought we would do now is Kelly
7 would go through the Experience Study, and I've
8 tried to make that user-friendly to where it has
9 some fun things in it.
10 One of the charts that I show in there is
11 how the rich are getting richer and the poorer
12 are getting poorer, because I have to project
13 salaries going forward. And do I have a rosy
14 picture of the future that this may pick up
15 something?
16 Some actuaries do. They go back and they --
17 some actuaries today predict a 6 percent salary
18 increase on top of the 30 years. Well, I can't
19 do that here, or any other client, for that
20 matter. So I put in some charts that show why.
21 I have that kind of weird thinning.
22 Anyhow, let's go to that --
23 MR. PATSY: Before you go on, I have a
24 question. On page 1 you're showing Net Market
25 Value. Is that truly market value or is that

1 smooth?

2 MR. WELCH: No. I don't smooth. I'm one of

3 the few actuaries in the country that doesn't

4 smooth, and I don't because I want to kind of

5 have a little nudge in the trend of slow-funding,

6 the way public plans do.

7 So if it takes -- if I smooth, it wouldn't

8 be 8 million down there, Number 1. See, this

9 increased costs 8 million because you lost 159-.

10 If I had smoothed it over five years, it would be

11 one-fifth of that recognized.

12 MR. PATSY: Why?

13 MR. WELCH: Here we're recognizing 3 million

14 less than the interest that's on it. If I

15 smoothed, I would recognize 20 percent of the 8

16 1/2 million, or 1.7 million. So I would be

17 recognizing 10 million less than the interest.

18 MR. PATSY: Right.

19 MR. WELCH: To me, that's too little, too

20 little. And for 30 years? Eventually after five

21 years you do go to the regular rate, but even

22 that's at this depressed, you know, level we're

23 talking about.

24 MR. PATSY: Yeah. I've never seen that in a

25 public plan. You don't see it a lot in corporate

1 plans either.
2 MR. WELCH: Yeah.
3 MR. PATSY: So I'm -- I'm . . .
4 MR. WELCH: Well, the thing is that we've
5 had the problem in Jacksonville that liberal
6 approaches have been taken in funding the pension
7 plans.
8 An agreement in 1992 designed by the City
9 actuary, the interest rate was set at 8.75
10 percent, plus the 40 basis points that you make.
11 Over 9 percent. It was -- it was one of the
12 highest rates in Florida.
13 And then the very basic model, the very
14 basic model that we have in which we do not pay
15 interest in the early years -- it takes 20 years
16 to pay the interest -- the very model is flawed
17 like these Wall Street models got flawed. It
18 doesn't work, and you-all see how in situations
19 like this, that has happened here, it doesn't
20 work.
21 So I try to take every step I can to slow
22 that down, to not be as liberal.
23 MR. PATSY: Investment returns are pretty
24 volatile.
25 MR. WELCH: Right. But you've got 30 years

1 to recoup that. I mean, if you had five years to
2 recoup, like -- even they don't let you smooth.
3 MR. PATSY: So why wouldn't you smooth it
4 over 30 years, then, like you did liabilities?
5 MR. WELCH: Well, then, you would end up --
6 this is your real assets. Here you are, what you
7 recognize. You would end up a big distance from
8 reality.
9 The actuaries have talked about smoothing as
10 long as six or seven years or something like
11 that.
12 MR. PATSY: Right.
13 MR. WELCH: You would think the idea was
14 less smooth, but we're market cycle, which used
15 to be thought of as three to five years.
16 But, I mean, all that happens -- we can get
17 rid of the word "smooth." You just asked me the
18 question, Why doesn't Joey pay just 1.7 million,
19 pay 10 percent less on the interest than paying 3
20 million less on the interest? Rather than pay 3
21 million less in this year's coming interest, pay
22 10 million less this coming interest.
23 And if that were the desire of the Board,
24 we'd do it. I don't recommend it. I mean, my
25 God, to me, I would pay the interest. You see,

1 here's what happened. Here's why this flawed
2 model became in the first place.
3 Back in good times, actuaries looked at it,
4 and salaries always went up. And so everybody
5 said, We'll start out low, we'll pay less now,
6 and we'll pay more and more as salaries increase.
7 And, in fact, they would define a model.
8 How much flow would you pay? In this plan
9 it was -- we assume pay went up 4 1/2 percent a
10 year. That was the original assumption back
11 then.
12 And if you looked at, like, the '90s, you
13 know, '80s and '90s, it happened. But in this
14 case, pay hasn't increased in ten years. So the
15 model we made up to spread it out over, it got to
16 a point it didn't work.
17 MR. PATSY: I think I see what you mean, but
18 it certainly adds to the volatility of what they
19 have to pay into the plan. I mean, one year you
20 make your assumed rate of return, another year
21 you don't.
22 MR. WELCH: Well, let's suppose -- let's
23 look at what the different contribution schedules
24 are.
25 The contribution schedule is, in the first

1 year, you pay, like -- under a five-year
2 smoothing, you pay for the asset lot. You pay,
3 like, 1.7.
4 In the second year, 3.4, and then you keep
5 going, until after five years, you're recognizing
6 the whole thing. But then when you recognize the
7 whole thing, you're still paying less in
8 interest. And then you go forward for 25 years,
9 and 15 of those years it takes you until you
10 start really paying the interest.
11 Where is the volatility? It's just a
12 question of, I'm really short and so do I
13 underpay 15-, 2 million, or a little over 20
14 million for four years while I'm paying these
15 hundreds of millions? Do I give myself a break
16 right now, you know, give myself a temporary
17 break?
18 The reason that it came about was salaries
19 were going to increase, and if you have curves
20 like that, then the curve line, when you
21 smooth -- when you don't smooth, it spikes like
22 this. When you smooth, it spikes less, unless
23 you have something that destroys the whole model,
24 which we had.
25 CHAIRMAN SCHMITT: And I understand the

1 whole concept of smoothing for budget purposes,
2 and there's a benefit there. But when I look at
3 the percentage of funding that we have now, which
4 is now under 48 percent, I'd be more concerned
5 about putting too much in if we were near 100
6 percent funding. We're nowhere near 100 percent
7 funding.
8 Again, I understand the benefit of smoothing
9 for budget purposes, but if we really want to
10 smooth out for budget purposes, then consistently
11 put in more than the minimum required.
12 MR. PATSY: Yeah, but doesn't that get
13 captured in the amortization payment?
14 CHAIRMAN SCHMITT: Which is spread out over
15 30 years, so we've got smoothing on that side.
16 You know, if we keep double smoothing --
17 MR. PATSY: I just --
18 CHAIRMAN SCHMITT: Yeah, I --
19 MR. PATSY: -- even corporate plans where we
20 mark our liabilities to market, you know, the
21 vast majority of us still smooth our assets.
22 MR. WELCH: Look at one real way, what's
23 happened with this smoothing method. Turn to
24 page 3.
25 CHAIRMAN SCHMITT: And that's where I was --

1 my next question was going to be. You might have
2 answered it already.
3 MR. WELCH: Now, the first big change that
4 occurred in this plan was 1996. Let's look down
5 at the 1996 line.
6 At one point in time -- of course, all the
7 numbers were at a lower level back then, and the
8 numbers go up every year for inflation and
9 whatnot.
10 They put in a 3 percent COLA. And it
11 applied not only to the new benefits you're going
12 to earn in the future, it applied to benefits
13 that had been earned in the past. And so we had
14 a debt of 126 million.
15 And we smoothed the payment for it. We made
16 a contribution for the following year. We
17 smoothed it. And we used that 30-year funded and
18 we increased the pay 4 1/2 percent. And today,
19 gentlemen, our unfunded is 146 million.
20 We haven't paid any of it. And for 20 years
21 we paid out these cost-of-living increases.
22 Doesn't that show there's something wrong with
23 the methodology?
24 Now, what you're doing now with your
25 suggestion, the 159 million, you know who it's

1 going to move to? 20 years from now all the
2 current employees, mostly all, are going to be
3 gone. It's going to be these new people in the
4 much lesser plan, and they're going to be dealing
5 with 159 million living against their pay.
6 I had a city once that had the same
7 situation, East Point, Georgia. And they would
8 not give any kind of -- they had very, very low
9 pensions for the current people and had them
10 contributing a lot, because that prior burden was
11 brought over to the current people.
12 And I sat there as actuary in a meeting
13 dominated by the old folks. Eventually I was
14 fired for bring it up. I said, You guys went out
15 in a 20-out plan. These other fellows have a
16 plan that's worth a third of that and then they
17 don't even have Social Security.
18 And I said that -- they're talking about
19 even more cutbacks for them, talking about
20 putting them in a DC plan, paying just a few
21 percent and all that kind of stuff. And I said,
22 The problem is we didn't fund the thing that's
23 there; we should fund the thing that's there.
24 So they didn't like hearing that because
25 they figured the City would cut out their

1 medical, and they ended up cutting out the
2 actuary.
3 So, I mean, the point is, you've got to get
4 the money up. And anybody who has a reasonable
5 methodology, if they don't get the money up, it
6 doesn't work.
7 Anyhow, so going on --
8 CHAIRMAN SCHMITT: On each of these years,
9 can you explain why every year doesn't have an
10 amortization? It skips years, but there's a
11 reason for that.
12 MR. WELCH: We didn't do a valuation every
13 year.
14 CHAIRMAN SCHMITT: Okay.
15 MR. PATSY: I'm sorry. What?
16 MR. WELCH: We didn't do a report every
17 year.
18 MR. PATSY: That's why these blanks are
19 here?
20 MR. WELCH: Yeah.
21 CHAIRMAN SCHMITT: So you can see, since
22 2011, we've done one every single year.
23 MR. WELCH: Florida law requires you do one
24 once every three years. Some plans in Florida,
25 and properly so, the smaller ones, wanted to save

1 money by not paying for an actuary every year.
2 You figure, well, you know, I mean, if a
3 rate goes up, we'll pay it the next time around.
4 But particularly when you get big enough and
5 you get in trouble, you do need to look at it
6 every year, you know.
7 MR. PATSY: I would have thought in 2009 and
8 2010, you would have wanted to do a report.
9 MR. WELCH: Well, of course. But, I mean,
10 they -- they . . .
11 MR. GREIVE: Not doing one in '9 and '10 led
12 to a pretty big surprise, you know, in 2011 when
13 that report came out.
14 MR. WELCH: Well, maybe there was too much
15 hope that things would turn around, just like
16 your point about smoothing. We have this big
17 loss and we don't -- we recognize just a little
18 bit of it. The next year we got a big gain. We
19 recognize some of that, so the world works out.
20 It works out.
21 But suppose you don't have a big gain? Then
22 you've got this big loss and you didn't pay
23 hardly anything for it. So it remains to be
24 paid. Not only that, but the interest you didn't
25 pay.

1 MR. PATSY: I understand what you're saying,
2 but over the vast majority of time, as long as
3 you have a reasonable asset allocation, you
4 should beat your assumed rate of return. The
5 years that you don't are an anomaly.
6 MR. WELCH: Well, let me go -- I entered the
7 profession in 1964. At that time the Dow was
8 875. In 1982, 18 years later, you know what the
9 Dow was? 874. We didn't earn any money for 18
10 years my first year in the profession. We used 3
11 to 4 percent valuation rates. And, of course, we
12 got dividends, which were better than the
13 dividends we're at now.
14 And then we turn around from 1982 to the
15 year 2000, we earn 13 and 14 percent. So our
16 actuaries raised the 3 and 4 percent interest
17 rates up to this 8 and 9 percent you're talking
18 about.
19 So what you're saying is not quite true. We
20 don't live in times that go along like that
21 anymore than the stockbrokers did in the -- the
22 models didn't. They've had models based on
23 regular things happening over and over. And they
24 were very good, highly -- Ph.D, Harvard and all
25 that, models.

1 But when the regular things happen --
2 doesn't happen, and you get the black swan or
3 even a small black swan, well, then your systems
4 don't work. So the one thing you always have to
5 do is to at least put up a reasonable amount of
6 money. You always have to.
7 MR. PATSY: I don't disagree with that.
8 MR. WELCH: And we did not back then. We
9 did not back then.
10 MS. McCAGUE: Rick, the corporate plans that
11 you're familiar with, are they closer to being
12 fully funded than the plan we're looking at?
13 MR. PATSY: Ours is. And we smooth on the
14 asset side of it. We don't smooth on the
15 liability side of the equation.
16 You raise a good point. On the corporate
17 side you have a lot of pension plans that are
18 closed, and they have an incentive to use market
19 value because (inaudible) to try to hedge your
20 liabilities, and that's a little bit different
21 approach. But the vast majority of them smooth.
22 MR. WELCH: Okay. And what interest rate do
23 you use?
24 MR. PATSY: I'm sorry?
25 MR. WELCH: What interest rate do you use

1 for funding?
2 MR. PATSY: I was the what?
3 MR. WELCH: What interest rate do you use
4 for funding?
5 CHAIRMAN SCHMITT: Assumption rate.
6 MR. PATSY: Well, corporate plans use two
7 rates. You know, we use our expected return on
8 the asset side of the equation, and then we use a
9 corporate bond rate, you know, to discount our
10 liabilities.
11 MR. WELCH: So you use a corporate bond rate
12 for funding?
13 MR. PATSY: Right.
14 MR. WELCH: You use 5 percent?
15 MR. PATSY: Next year we're using 4.3 and
16 that's up from last year.
17 MR. WELCH: If you-all want to go to 4.3, I
18 would 100 percent recommend smoothing, believe
19 me.
20 CHAIRMAN SCHMITT: Yeah, me too. I'm all
21 in.
22 MS. McCAGUE: I don't think Joey is in on
23 that, right?
24 MR. PATSY: I'm looking at it from the
25 perspective, corporate bond rates are pretty

1 wild.

2 MR. GREIVE: City Council controls the purse

3 strings.

4 CHAIRMAN SCHMITT: Yeah.

5 MR. PATSY: Yeah. Corporate bond rates are

6 pretty volatile. And having to mark that to

7 market is onerous because one year you're making

8 a very large payment, the next year rates are up,

9 the liability falls, and you don't have to make

10 any. And it's a tail chase.

11 And smoothing, you're right, it -- it

12 smoothes it out, but it makes planning much more

13 easy.

14 MR. WELCH: Well, I think that's more true

15 on the corporate side than it is on the public

16 side.

17 MR. PATSY: On the corporate side, we can

18 react on a very short term.

19 MR. WELCH: Right.

20 MR. PATSY: It doesn't literally take an act

21 of Congress or an act of City Council to make a

22 pension contribution.

23 On the public side, you know, when you have

24 that kind of volatility and you've got to change

25 what your contribution is, literally it becomes

1 more challenging.
2 MR. WELCH: I have a little public pension.
3 I used to be a public pension actuary for Texaco
4 and Johnson & Johnson and other Fortune 500
5 companies until I went to the public field 25
6 years ago. I have a little corporate pension
7 plan. And my little corporate pension plan lost,
8 like, 15 percent last year. I followed a lot of
9 Warren Buffett's investments.
10 But when do I make it up? Do I make it up
11 30 years with future rates? No. I have to make
12 it up over seven years.
13 So this -- you're talking about using
14 smoothing, but you're talking about using it with
15 a 4 or 5 percent interest rate and a 7-year
16 make-up of gains. Well, I mean, you've got --
17 that's a completely different animal. You're in
18 a good conservative company already. I mean, but
19 we're not.
20 MR. PATSY: But even my experience on the
21 public side, you know, I've never seen a -- mark
22 your assets to market.
23 MR. WELCH: But that's not an answer to the
24 models on Wall Street, one of the models that
25 didn't work, or coming up saying to the guy

1 running the model, saying to him, I never saw
2 anybody do it other than the way you did it; even
3 though you lost on your way, that's the way to do
4 it.
5 What we have to do is be creative and look
6 at the situation and make changes that are
7 appropriate.
8 But, anyhow, you know, that's my view of it.
9 I know a lot of actuaries would agree with you.
10 Yeah, of course.
11 MR. GREIVE: I know we probably want to move
12 on from this top, but just a quick comment.
13 MR. WELCH: Yeah.
14 MR. GREIVE: We use smoothing across the
15 street over at GEPP and Corrections. And it can
16 go both ways. I see what Jarmon is saying, you
17 know, you don't want to defer things for too long
18 because you've already got that built-in deferral
19 mechanism through the percentage of payroll
20 amortization of the unfunded liability.
21 A lot like Jarmon says, it's like a mortgage
22 based on your income where you pay less today and
23 pay more tomorrow. Well, if you just paid the
24 amount you should have been paying all along, it
25 would be more in the early years and less -- you

1 know, but be the same amount forever.
2 So you are -- you know, you're controlling
3 for that mechanism by using this to offset it.
4 And I get that, so I understand where you're
5 going with that.
6 I understand where Rick is going in that
7 they are two separate concepts in my mind.
8 You're using one to offset the other, but in my
9 mind they are two separate concepts.
10 And the markets are very volatile and we all
11 know that governmental finances don't fluctuate,
12 aren't very nimble from year to year. It's not
13 as easy to be nimble.
14 And on the flip side, when you have a period
15 of good times, like if you have a really good
16 year, if you use smoothing, you're not taking
17 full credit for all those gains the first year,
18 requiring the employer to put in more money the
19 next year than they otherwise would have had you
20 used mark-to-market.
21 So it can go both ways. My preference is
22 for smoothing applied on a consistent basis over
23 time and never change, just stay with smoothing.
24 You know, don't change smoothing, mark-to-market,
25 mark-to-market back to smoothing and so on.

1 So I just think it's the right policy stance
2 to be in if you're a governmental plan. It's
3 your call as a Board, obviously, in working with
4 Jarmon. He has a valid point as far as using
5 this mechanism to help offset the pain of the
6 other mechanism.
7 But on the flip side, it can work both ways
8 in that smoothing methodologies can require the
9 employer to put in more in years when they
10 otherwise wouldn't have had to, you know, had
11 market performance been good. So it goes both
12 ways.
13 MR. WELCH: Most of the actuaries in the
14 country, I would say 90-odd percent, would agree
15 with you.
16 But I would point out another thing. If we
17 use market value, not only there on the
18 accounting side but we use it on the funding
19 side, then everybody knows exactly where their
20 real money is.
21 But when you go into smoothing where you've
22 got this other thing up there, an actual value,
23 it -- it kind of boggles the mind over what the
24 real money is we have, and it even can be used at
25 times in a way that it wasn't set up. It can be

1 used for not smoothing.
2 For example, if you took $100 million out of
3 your smoothed amount and you recognize it
4 immediately because you had a reason you wanted
5 to do it --
6 MR. GREIVE: That's (inaudible) -- of the
7 exceptions.
8 MR. WELCH: Well, I mean, that wasn't what
9 the smoothing method was set up to do.
10 So, I mean -- but, anyhow, we've all --
11 we've talked enough about this. You certainly
12 have the right point. I have no objection if the
13 Board wants to go to a smoothing method.
14 I would have an objection if you wanted to
15 go way out, like, 12 years or 10 years or long
16 periods. If you wanted to go to the typical
17 five-year smoothing method, that's certainly okay
18 with me.
19 But I did it with all my clients because
20 there was a good perception among a lot of them,
21 and you-all are a lot more sophisticated than
22 some folks are in this, is that there's real
23 money and there's this artificial number of
24 money. And that real money doesn't have the
25 importance it should have because it's real money

1 you're living on. Anyhow . . .
2 MR. PATSY: Is it -- how onerous would it be
3 for you to show us what smoothing looks like
4 using this report?
5 MR. WELCH: It would reduce the cost by -- 8
6 1/2 million was the increase, with no smoothing.
7 If you had smoothing, you would only recognize --
8 you know, I'm talking for that one line item, $8
9 1/2 million, you would only recognize 20 percent
10 of it, not 8 1/2 million. You would recognize an
11 increase of 1.7 million.
12 So you would have a 6.8 million reduction in
13 Joey's $11 million increase.
14 MR. PATSY: But wouldn't you -- if we use
15 five years smoothing, wouldn't you go back five
16 years and smooth those five years as well? Or
17 would you go back --
18 MR. GREIVE: You could go back and restate
19 to this point.
20 MR. WELCH: Well, you could. I mean, get a
21 fresh start to smoothing. I talked -- discussed
22 this with the state the day before yesterday.
23 And they said, We don't mind you changing from
24 back and forth as long as you've got a good
25 reason and don't do it too often.

1 MR. GREIVE: Yeah.
2 MR. WELCH: But the manner you change would
3 be, you know. I could do it either way. You
4 could go backwards or you could do it forward
5 smoothing. They both are done.
6 See, there are certain things the actuary
7 sets. If you told me to use 11 percent interest
8 rate or something like that, if you told me to
9 use something that was too far out, that's -- but
10 that's really mostly the actuary's call.
11 But things like how -- the period over which
12 you fund it, 30 years or 20, 15 years -- and that
13 30 years, as Joey and I have been dialoguing with
14 each other, the actual profession issued two
15 white papers last year. And they call for not
16 using 30 years anymore for spreading these things
17 out, but 15 to 20 years. 30 years is too long.
18 And the cities around -- major cities in
19 Florida have plans and have been adopting that.
20 I looked at their financials to do that. And, of
21 course, as Rick would say, he has seven years to
22 capture -- to spun his over.
23 So we're not just talking about the 30
24 years. If we look to get rid of the five-year
25 smoothing, which is a deliberalization -- which

1 is a liberalization, if we get to five-year
2 smoothing, which is liberalization, at the same
3 time we should look at reducing the 30-year
4 funding period. It should be 15 to 20 years, not
5 30 years for any new base.
6 MR. GREIVE: Well, or you can go back and
7 retroactively apply it over the last five-year
8 gains, too, to unliberalize it because you'd have
9 deferred gains still to recognize from the '9,
10 '10, '11, '12 good run. You could deliberalize
11 it that way.
12 MR. WELCH: Well, yeah (inaudible) but they
13 don't have a lot of impact. They're small.
14 MR. GREIVE: So to go back to my point,
15 Mr. Chairman, if I may, you know, I'm preaching
16 from the policy side, which just for governmental
17 entities, I think it's better to use smoothing
18 over time.
19 If the compromise -- because I don't want it
20 to be seen as a liberalization step. So if you
21 want to offset that by going back and restating
22 the last five years, I would be fine with that.
23 I'm just thinking from a policy standpoint, it's
24 better to be on a smoothing basis for assets.
25 But, you know, we've beat this horse to death.

1 MR. WELCH: Yes. Well, I'll conclude by
2 saying, if you want me to go to five years, I
3 will. But at the same time, I would like to look
4 at dropping the 30 years down to 15, 20, so the
5 Board will have -- you know, because the two go
6 together.
7 And also -- and this may be required by the
8 state -- we assume payroll is going 3.25 percent
9 a year in setting that pattern; and then going up
10 at all, and the state could come back and they
11 could say, actually say, that you have to use
12 zero and you would have to put in 42 million more
13 right now.
14 MR. GREIVE: Yes.
15 MR. WELCH: So I talked them out of it last
16 year.
17 MR. GREIVE: Yeah. So to that point, I
18 talked to Robert Dezube, the City's actuary too,
19 on that topic last year because I was a little
20 worried about it. I'm glad you talked to the
21 state actuary and got that waiver from them.
22 And Robert Dezube was saying, You know, the
23 state is kind of taking the stance now that,
24 yeah, that statute exists, but as long as the
25 rest of your package of assumptions are

1 reasonable, we'll give you a pass on that.
2 So he acknowledges that too in that the
3 state actuary is being a little more lenient with
4 one assumption. They're looking at more of a
5 basket approach.
6 So you feel pretty confident that you're
7 going to get that waiver again?
8 MR. WELCH: No, I'm not saying that. I
9 think I will, but I think he might come back and
10 say, You've got to reduce this from 3.25 down to
11 2 1/2 percent, which is my -- assumption.
12 I mean, last year, in Joey's plan, as Joey
13 can tell it, the state made them, made them, drop
14 their rate and put in a bit more money. But that
15 didn't have a great deal of impact on them, and
16 they also had that hundred million they moved at
17 the same time.
18 MR. GREIVE: Yeah. We used some offsetting.
19 MR. WELCH: But to you, it's a big impact.
20 It's 7 million more, if they go from 3.25 to 2.5.
21 Now, their plan, they reduced the inflation
22 assumption to 2.75 percent, and that's what they
23 used.
24 Our inflation assumption is 2 1/2 percent.
25 So it would be large enough for us to do it. So

1 I do think that the state actuary is probably
2 going to say to me, I'll let you get away with it
3 again this year because you're putting in so much
4 otherwise, but you're going to have to go to 2
5 1/2 next year, maybe next year. Yeah.
6 Okay. Let's go to the Experience Study.
7 MS. McCAGUE: Except just to say, in this
8 era where we're working very hard on
9 transparency, I would ask the question, would
10 this be the right time even to think about
11 changing the way we calculate the payments due?
12 CHAIRMAN SCHMITT: Well, I think the
13 important thing is the disclosure. I mean, the
14 method used, whatever that method is, we're
15 staying with the current method, that needs to be
16 clearly stated and I think it is.
17 And if we're going to change for whatever
18 reason, then the change needs to be clearly
19 stated and the reason why we would make that
20 change. So whatever the policy is needs to be
21 clearly stated.
22 If we're going to decide to change the
23 policy, the reasons why and what the policy
24 change is going to be needs to be clearly stated
25 to be completely transparent.

1 MR. SCHEU: Alongside that question, it
2 would seem to me -- this has been very helpful to
3 me, just as a --
4 THE REPORTER: Could you speak up, please?
5 MR. SCHEU: It seems to me that the more
6 communication we could add -- I don't know if any
7 press is there today, for example, or any City
8 Council members.
9 But, boy, something like this would be money
10 well spent if they come to have this sort of
11 detailed explanation be more public.
12 MR. TUTEN: Jarmon, let me ask you a quick
13 question about that. I read on page 4 of your
14 little summary there -- or Experience Study.
15 Did the state say what we would have to
16 use -- we could use? I mean, did they say we can
17 use 2.5 coming up next September?
18 MR. WELCH: No, no, no. We haven't had that
19 discussion.
20 MR. TUTEN: Well, see, that's -- I mean,
21 when you showed them -- I mean, Lord knows, I've
22 talked about our lack of pay raises enough, but
23 when you do these numbers, they are what they
24 are. And you can't make up the fact that we
25 haven't had pay raises for ten years. That's

1 going to be a zero in your equation.
2 I mean, the City's got to understand that,
3 you know, that 42 million extra in their unfunded
4 liability -- I assume that's unfunded liability,
5 or is that an increase in 42 million in their
6 payment?
7 MR. WELCH: In their annual payment. But
8 it's a going-forward thing. I pick up everything
9 that's coming ahead. But going forward, if I
10 say, Oh, no, they're not going to have 3.25
11 percent raises going forward; they're going to
12 have no raises, so then that thing happens.
13 That's -- that's unreasonable. You've got
14 to have raises. People would quit working here,
15 wouldn't they?
16 MR. TUTEN: Well, that was my point. So if
17 their payment was up 120 million next year based
18 on the 2.5, then if it goes to zero, it would be
19 162 million, in other words?
20 MR. WELCH: Yes.
21 MR. TUTEN: Maybe I'll get a raise after
22 all.
23 MR. WELCH: But, Joey, the dialogue that I
24 did have, and the Chairman, I asked him, I said,
25 You gave us a waiver in the prior year, and it

1 looks like we're in the soup again. So will you
2 give us a waiver this year? He said, You wrote
3 me a two- or three-page letter last year
4 explaining why you need a waiver. Refer to that.
5 I took that as a hint. So, anyhow.
6 Okay. Here we go. Kelly.
7 MS. SHELTON: Okay. Experience Study is in
8 the packet if you don't have it out already. We
9 were just talking about it. This Experience
10 Study is a review from October 2011 through
11 September of 2015. So it included those four
12 plan years.
13 On page 2, just briefly, I'm not going to
14 spend a lot of time on each of these. I'm just
15 going to try to highlight the ones that we saw
16 that needed change, and then if we need to go
17 back and talk about any of the others, we can.
18 But on page 2 are the actuary assumptions as
19 of 10/1/14, which was last year's valuation,
20 prior to making any kind of assumption changes
21 this year.
22 So there were five economic assumptions:
23 Investment yield at 7 percent; salary increase
24 was at 4 percent annually. There was a pensioner
25 COLA built in, a load on liabilities for DROP

1 interest greater than 7, and our payroll increase
2 we've been talking about at 3.25.
3 MR. PATSY: What's the DROP load?
4 MS. SHELTON: Interest is credited on DROP
5 accounts at 8.4 rather than the 7 percent assumed
6 rate. So we need to put in a load for that.
7 We had five demographic assumptions. We
8 have our mortality table, which, of course, we'll
9 get into. We have withdrawal and disability
10 turnover rates. We have a married assumption and
11 a retirement assumption. So those are our
12 probabilities of those particular events
13 happening.
14 MR. TUTEN: You're on page --
15 MR. SCHEU: Is this a different report than
16 was sent out? I have the actuarial report, but I
17 don't think I have the Experience Study.
18 MS. McCAGUE: This is the Experience report.
19 MS. SHELTON: This is the Experience Study.
20 MR. WELCH: This is the Experience Study,
21 page 2.
22 MR. SCHEU: I don't think I have that. I'll
23 just listen, though.
24 MR. TUTEN: It should be three of them in
25 there, in the folder.

1 MS. MANNING: They don't have that one.
2 This was the only one we made extra copies of.
3 CHAIRMAN SCHMITT: But I think most of what
4 she's covering is also on page 5 in the Actuarial
5 Valuation Report.
6 MS. SHELTON: You can follow it on page 5 in
7 the Actuarial Report. That's the end result, and
8 I'm talking about how we're going from 14
9 assumptions to the end result that's on page 5 in
10 the Actuarial Report.
11 MR. SCHEU: Okay. Thank you.
12 MS. SHELTON: If you have the Experience
13 Study, on page 3 of the Experience Study are the
14 summary of the expected versus what we found to
15 be the actual experience in this four-year
16 period.
17 We can go to each of the exhibits that
18 support this, but if you follow down page 3,
19 under the economic assumptions, we're not
20 changing the 7 percent investment yield. We
21 didn't find any need to do that at this time.
22 Number 2. The salary assumption, our 4
23 percent is going to be shown in our data that
24 this is actually proved historically in the last
25 six years to be a 2.8 percent for everyone as far

1 as the salary.
2 Our pensioner COLA has changed as a result
3 of the ordinance. And our 3 percent that we were
4 studying also has an impact here.
5 Number 4, the DROP load. We're not changing
6 anything on the DROP load at this point.
7 And Number 5. We've already had discussions
8 about the 3.25, and I can show you some charts
9 that will take you through that with a little bit
10 of backup.
11 The demographic details are here at the
12 bottom of the page. If you look at the expected
13 deaths versus the actual deaths under the
14 mortality assumption, it's broken down into
15 retired and DROPS, the disabled, the surviving
16 spouses and the active deaths. And all of what
17 we expected to happen was pretty well actual.
18 I mean, we don't -- there's not a lot of
19 variance in expected and actual deaths.
20 As far as the turnover, withdrawal and
21 disability, withdrawal -- there is a big change
22 there, a big variance between we expected 64
23 withdrawals and we had 176 in that four-year
24 period.
25 MR. TUTEN: Do you have -- well, I won't ask

1 you why the reason -- I think I know part of the
2 reason for that.
3 But what -- the time periods, do you know,
4 were they within the last two years or were they
5 spread evenly, or do you have an idea of the
6 withdrawal? Because that's almost --
7 MR. WELCH: I think there was one year that
8 there was a big -- or a couple years ago there
9 was a whole lot left.
10 MR. TUTEN: Yeah. I was just curious. I
11 mean, that's almost three times what we expected.
12 MS. SHELTON: That's more of a recent spike
13 than a previous spike.
14 MR. WELCH: Let me mention one point here,
15 the mortality. Anyone looking to mortality,
16 which I said, the comp tables are okay because
17 they predicted what happened. Yes, they
18 predicted what happened, but it doesn't have
19 sufficient mortality improvement in it.
20 And the big new studies that come out show
21 that guys like me are going to live two years
22 longer than we thought, and ladies are going to
23 live two and a half years longer than previously
24 thought.
25 So it's not the way we're dying right now.

1 Our tables are okay. It's how long we're going
2 to live that we have to add on, you know. We
3 have to strengthen our tables to pick up the
4 longer expected lifetime.
5 MS. McCAGUE: But you said earlier that you
6 adjusted by two years; is that right?
7 MR. WELCH: Yes. So in effect I got rid of
8 most of what the table does, the new table does.
9 But I left some. I increased the value of 1 to 2
10 percent.
11 MR. GREIVE: So you left generational
12 improvement projections in, but you set forward
13 the partially offset. But then when the state
14 makes us go back to the FRS tables next year, it
15 should kind of be a wash, right? I mean --
16 MR. WELCH: I'm not sure.
17 MR. GREIVE: -- it depends on what they
18 adopt.
19 MR. WELCH: Yeah, yeah.
20 MR. GREIVE: But are they still using the
21 RP-2000 with the generational projection?
22 MR. WELCH: Yes. And the BB projection
23 table, BB.
24 MR. GREIVE: So the payment that we're
25 taking this year should be about as much pain as

1 we're going to be taking with mortality tables,
2 unless the state does something silly in the next
3 year and adopts something --
4 MR. WELCH: Well, we're using AA, not BB.
5 So our projection table was weaker, and we
6 weren't using blue collar.
7 MR. GREIVE: We use blue collar for our
8 corrections officers.
9 MR. WELCH: You do?
10 MR. GREIVE: Yeah. Are you saying we're not
11 going to be able to do that next year here?
12 MR. WELCH: I think there will be some,
13 maybe 1 percent in total. Yeah.
14 MR. GREIVE: Okay. But minimal impact next
15 year, hopefully.
16 MR. WELCH: Yeah, probably.
17 Go ahead.
18 MS. SHELTON: Okay. There's a chart -- if
19 you flip back to page 15, there's a chart back
20 there that shows visually an example of the
21 impact of what Jarmon was talking about as far as
22 the projection.
23 This is the expected lifetime of a
24 65-year-old female, and you can see the prior, or
25 old mortality, in blue and then the extension of

1 that in gray that the new mortality is pushing.
2 (Phone disconnected.)
3 MS. SHELTON: So at a 50-percent probability
4 of survival rate, the age moves from 86 to 88.
5 MR. TUTEN: So it goes up about 10 percent,
6 pretty much uniformly across the -- pertaining to
7 age.
8 MS. SHELTON: Yeah. So that little gray
9 wave is the extension due to the new mortality.
10 MR. TUTEN: Gotcha.
11 MS. SHELTON: That's where the projection --
12 MR. WELCH: It's on 14 and 16 too.
13 MS. SHELTON: Yeah. Page 14 shows it not
14 in -- but in terms of what's happening to your
15 annuity values. You can see that the younger
16 age, the increase is not near the impact as when
17 you get up to somebody that's in their 70s and
18 80s. The impact on that annuity is much greater.
19 MS. McCAGUE: And as you do your
20 calculations, Kelly, you're incorporating all of
21 that in for the different age groups?
22 MR. WELCH: Yes, in a watered-down fashion,
23 because this is not necessarily blue collar.
24 MS. SHELTON: Right.
25 MR. WELCH: It's while collar. And also for

1 other reasons (inaudible) this year.
2 If you take one gentleman sitting at the
3 table that I did an individual compilation for,
4 his annuity value went up by 3 percent. I won't
5 say who it is.
6 But you see here, I mean, this is powerful.
7 Look at how powerful it is for a 75-year-old. I
8 am. John isn't. But 10 percent? My gosh. So
9 there are pocket plans -- you-all must have
10 addressed that -- putting in this table yet?
11 It's not required -- it's not required by
12 the IRS table. You're using the IRS tables like
13 I am, yeah. It may be required, though. They
14 have a review right now to see if it's required.
15 MR. TUTEN: When they do these mortality
16 tables, this is just general population, right?
17 This isn't, like, special high-risk workers,
18 stuff like that? Do they have mortality tables
19 for those, like us? Or do they -- because I know
20 we don't live as long as the general public.
21 MR. WELCH: Even though they have a blue
22 collar, they call them, and the state requires
23 that high-risk be 90 percent blue collar and 10
24 percent administrative.
25 But even that, the old RP-2000 table had a

1 blue collar table in which the higher-paid blue
2 collars had better mortality than regular folks,
3 and the lower-paid blue collars had worse
4 mortality.
5 And they picked out some kind of pay level,
6 like 50- or something thousand, and I said, Well,
7 my folks, they're all -- they've got better
8 mortality. But that wasn't what my data showed
9 when I viewed the death. But these tables, you
10 have to play with them to make sure they work.
11 MR. TUTEN: I was just curious.
12 MR. GREIVE: What was the dollar impact, the
13 change in the mortality tables this year,
14 roughly?
15 MR. WELCH: In terms of cost, 1- to 2
16 million increase.
17 MR. GREIVE: Like ARC. And then the
18 unfunded liability?
19 MR. WELCH: Well, in the -- in the unfunded
20 liability, it was essentially washed out. It was
21 20-something million, something like that. But
22 it was worse than that by these other changes.
23 MR. GREIVE: Yeah. So, you know, a 1-,
24 1-1/2-million-dollar cost, I mean, that's an
25 added cost, but it's the right thing to do to

1 have the right mortality tables in place.
2 MR. WELCH: Yeah.
3 MR. GREIVE: The stronger mortality tables
4 reflect reality, a little closer to reality.
5 MR. WELCH: In particular, we don't want to
6 be like some cities where you're looking at using
7 this old mortality. Turn that page.
8 MR. GREIVE: Oh, there's people with 1994
9 tables still in place.
10 (Mr. Scheu is reconnected.)
11 MS. MANNING: Can you hear us?
12 MR. SCHEU: Yes, yes. Thank you.
13 MR. WELCH: Bill, Jarmon Welch, actuary.
14 We're looking on page 16 at the mortality
15 tables that have been used going back to the last
16 50 years. And we see that back in the '90s --
17 1980s, that males were supposed to live to be 80
18 years old. If you're 65 years old then, you're
19 supposed to live to be 80.
20 And now if you're 65, you're supposed to
21 live to be 88. So you've had a 10 percent
22 increase in your life expectancy for a
23 65-year-old.
24 But in order to make that big change, we
25 went through six different mortality tables. And

1 each time we put in people living longer, until
2 finally we got smarter and said, We should put in
3 a mortality table that projects them living
4 longer and we don't have to redo the table every
5 time.
6 So now we have projected improvements. So
7 it's become a very complicated field to project
8 mortality. Okay.
9 MS. SHELTON: Okay. The other chart that's
10 in here that's probably just to back up your
11 prior conversations, page 12 shows the average
12 annual growth in the payroll in the last ten
13 years.
14 So we're talking about state and whether we
15 had to do a zero percent, which this shows that
16 annual increase over the last ten years is 0.18
17 percent. So no increase, and what the state
18 would allow.
19 On page 13, the following page, this is for
20 demonstration purposes. This is not the exact
21 numbers. But on page 13, if the average period
22 for the unfunded is 21 years, and we did it based
23 on just that average, not on the individual 18
24 bases, but just on an average bases, the first
25 column shows you how the payment towards that

1 unfunded goes up 3.25 percent, which is the
2 assumption that we settled on at this point.
3 If we were forced to move to 2.5, which is
4 the inflation assumption, that second column
5 shows you what would happen to the payments for
6 the unfunded.
7 And then the third column to the far right,
8 if you were at zero percent. So in other words,
9 there was no increase, you were just on a level
10 amortization payment, it would go up to $166
11 million.
12 So that kind of backs up the prior
13 conversation of what's the state going to require
14 and can we get that waiver at 3.25 for another
15 year.
16 MS. McCAGUE: In that 20-, 21-year payback
17 period, Kelly, that is negotiated?
18 MS. SHELTON: That's an -- that's an average
19 period based on the current 18 bases that you
20 have. Those current 18 bases that you saw, we
21 talked about, from page 3 of the report, are all
22 at varying periods of time.
23 And I just took them and rolled them
24 together and said, if we had an average of 21,
25 for demonstration purposes, this is what would

1 happen to the unfunded payment.
2 MR. WELCH: There are 18 bases, as we'll
3 look at in a moment, or we did before, that are
4 out there, and they expired different periods.
5 The latest one we just put in expires 30
6 years from now. The earliest one expires one
7 year from now.
8 So an actual pattern of payments is a
9 zig-zag thing. If the base goes away, your
10 payments go down and you increase it and so
11 forth.
12 But this -- if we had tried to show the
13 actual, it would have been -- took a lot of work,
14 and this actually makes the point, you know. It
15 shows, if they make us go one of these ways,
16 we've got to put up a whole lot of money.
17 So even the zig-zag pattern would have come
18 up with something similar to this for right now.
19 MR. GREIVE: But when you do each year's
20 actual evaluation, it will be based on that
21 zig-zag pattern.
22 MR. WELCH: Yes.
23 MR. GREIVE: It just would have been too
24 much work for the purposes of this meeting.
25 MS. SHELTON: For the purposes of this

1 demonstration.
2 MR. GREIVE: Okay.
3 MR. WELCH: Okay. Are we through there?
4 MS. SHELTON: Unless there are any
5 questions.
6 MR. WELCH: Okay. Let's go back. There's a
7 couple of interesting things in the Actuarial
8 Report.
9 Let's go back to page 3. What I'm fixing to
10 mention now is one of the most important things I
11 have to say here today. And it's a way I've
12 figured out how to handle the new money coming
13 in, following the rules of the ordinance.
14 It can be done in different ways. But, to
15 me, it's natural to do it what I'm fixing to
16 suggest.
17 So the ordinance says that these payments
18 are supplemental. These are extra payments.
19 This 350 million by the City and 110 million from
20 the plan's account, and that's 460 million, is
21 going to supplement the regular City
22 contribution.
23 So then I thought, Supplement means not
24 reduce the City's contribution. But how can I
25 not reduce the City's contribution if I'm going

1 to take some of that money and throw it in a
2 reduced unfunded, and then calculate the City's
3 reduced contribution based on this new unfunded?
4 And I thought, Well, it's sort of like the
5 issue of someone says, I have a mortgage over a
6 certain period and I'm going to throw in some
7 extra money against it. Do I reduce my monthly
8 amount, payment amount, and keep the same period,
9 or do I keep the same payment amount and reduce
10 the period?
11 So if we're reducing the period, then the
12 City has to pay -- and keep the same payment
13 amount, then the City has to pay the same payment
14 and we, in fact, are following the ordinance, not
15 using to reduce.
16 But what does that mean in practice? I
17 thought, Well, here I am saying it would be nice
18 if we didn't fund bases up to 30 years; we fund
19 them over 20 years. So then I thought, Suppose
20 we use the extra money to cut off the tails of
21 all the bases, that the payments that are due in
22 the 20- to 30-year, that we use that extra money
23 to cover those payments.
24 And mathematically it will just about match.
25 So that means that we can take the extra money

1 coming in, and we can use it to reduce these
2 periods.
3 Now, what would it look like on the thing?
4 Next year, for example, what do you expect, the
5 last column? We start with the one at the
6 bottom. Get rid -- make a payment against the
7 biggest period first.
8 Next year, the -- the amount that would be
9 paid is 11 million. If you take that 11 million
10 and you project it down to the last year that
11 it's paid, to the 30th payment, you come up with
12 28 million, because it increases 3.25 percent a
13 year for those 29 years. We come up with 28
14 million.
15 If you take that 28 million that's due at
16 the 30th payment and you reduce it back to -- by
17 7 percent interest a year, so you reduce it more
18 than you increase it, you reduce it more, what do
19 you get?
20 You get 3.9 million. In other words, if you
21 could put up an extra 3.9 million this year, you
22 could kill that 30th payment.
23 Now, Joey is going to put in 5 million
24 extra, and we're going to put in 5 million extra
25 from one of our accounts. So not only can we

1 kill the 30th payment, we can kill the 29th and
2 the 28th.
3 So that means that when I do it again next
4 year, I'll still show the City's required
5 contribution as being 11 million 371-, times
6 1.035, but I'll show that only -- there's 27
7 payments left.
8 And we keep doing that. When he puts in
9 more money the next year, the plan does, then I
10 chop, I chop, I chop down. But once I get them
11 down to, like, the 20th or something, I move on
12 to the next level. Like the 29th one will be the
13 biggest one then after you chop away a few
14 against the 30th, then the 29th will come.
15 So, in effect, what we can say that the City
16 has done is, by the ordinance, the City has put
17 up the money so that the payments that were
18 supposed to be made on the unfunded from year 20
19 to 30 are being covered by the payments in the
20 ordinance. That's great.
21 So 20 years from now, according to the
22 theory -- of course, there will be gains and
23 losses and things happening in the future,
24 whatever, but we're not considering that --
25 according to the theory, 20 years from now you

1 won't have an unfunded.
2 CHAIRMAN SCHMITT: Now, that's if we don't
3 take our current year and each year after and
4 amortize that over 30 years, because each time we
5 do this and add another year, we're 30 years out
6 again. But if we adopt the policy that we're not
7 going to go over 20 years, then --
8 MR. WELCH: Yeah, we do that too. We got --
9 CHAIRMAN SCHMITT: -- in 20 years, we'll
10 still have one 20 years out.
11 MR. WELCH: Yeah. So I think that we need
12 to adopt a policy that any new base, any new
13 base --
14 CHAIRMAN SCHMITT: Right.
15 MR. WELCH: -- is maxed, 20 years, 20 years.
16 Meanwhile, we're chipping away at all the
17 20- to 30-year bases.
18 CHAIRMAN SCHMITT: Right.
19 MR. WELCH: And we'll get it down.
20 What do you think about that, Joey, from
21 your view on it on the City technical side,
22 funded?
23 MR. GREIVE: Well, thanks for the
24 transparency in bringing it up and talking about
25 it.

1 As you know, City Council members control
2 the purse strings of the City. And I think my
3 initial reaction is that I would want to talk to
4 some of them --
5 MR. WELCH: Okay.
6 MR. GREIVE: -- at least the leadership, to
7 hear their thoughts.
8 I think when the powers that be voted to
9 approve 2015-304 with the supplemental 5-, 10-,
10 15-, and 32-million-dollar payments for 10 years,
11 they would have, in their minds, if you asked
12 them, Are we going to treat this like additional
13 payments on your car loan where the car -- you
14 know, the loan company is going to apply it to
15 the back end, or are we going to treat this as
16 additional payments down on the unfunded
17 liability now, which are going to result in a
18 recalculation of your mortgage payment, your
19 unfunded liability, they would have thought that
20 you were going to do it that way.
21 You know, reduce your unfunded liability by
22 the amount of those additional payments and
23 recalculate the ARC to reflect those. That's my
24 initial reaction.
25 MR. SCHEU: Joey, Greg Anderson was on the

1 Task Force, and he probably -- he needs to get
2 the full discussion, I think. But I think
3 he's -- and also the mayor's office, I guess
4 that's you, because we really don't know what
5 they're planning to do either.
6 MR. GREIVE: Yeah. And then on the second
7 part, the 20 years. You know, that's a great,
8 you know, ideological goal. And I think from a
9 policy perspective it would be fantastic to do
10 that.
11 You know, you referenced a lot of reports
12 around the country and Georgia and Florida, where
13 people are trying to reduce their amortization
14 periods to, you know, 12, 15, 20 years from the
15 current 30s, and I think that's a great goal to
16 strive for.
17 I wonder how many of those who are doing
18 that have a $1.8-billion problem, you know, on
19 their hands to cover. Because the numbers get
20 pretty big when you start adjusting these periods
21 by ten years. It's a pretty big jump, you know,
22 from 30-year amortization down to 20 or to 15,
23 whatever you choose.
24 It's jumping from the deep end to the
25 shallow end, and you can get hurt, you know, if

1 you dive into the shallow end too quickly.
2 So it's food for thought. I mean, I need
3 time to digest it, think about it, talk to our
4 actuary and some of the policymakers that I
5 report to.
6 MR. WELCH: Well, second point needs to be
7 made about the 1.8 billion. You're quite right.
8 Of course, there aren't many public plans in
9 America that have a 1.8 billion City plan. There
10 are some.
11 But the second point is, how many have a
12 much weaker plan for the employees that they're
13 going to lay that on if they don't fund it in
14 this short period?
15 I mean, there's folks that have a big
16 unfunded, but are not ready to lay it on the new
17 employees by giving them a much lower plan.
18 CHAIRMAN SCHMITT: From my perspective,
19 sitting through both the pension reform committee
20 and our discussions, that -- those extra
21 payments, the 5-, 10-, 15- and 32- for 10 years
22 were supposed to be above and beyond --
23 MR. TUTEN: Yeah.
24 CHAIRMAN SCHMITT: -- what the ARC is. In
25 other words, the calculation -- those extra

1 payments will not, cannot, reduce the normal cost
2 that the City would have to pay each and every
3 year during each of those years.
4 In no way is that extra payment supposed to
5 reduce what the City would be required to make.
6 In other words, those payments have no impact.
7 It's as if they did not exist on what the City is
8 calculating or what is calculated that the City
9 is required to make each of those years.
10 MR. WELCH: That was -- that was where --
11 I'm not a lawyer, but I have to read the things
12 to do my work. That was the way I understood it.
13 I also understood that there's two ways of
14 looking at the ARC. Joey and I both agree that
15 certainly they do not reduce this year's ARC.
16 But his point is, does it reduce next year's ARC?
17 CHAIRMAN SCHMITT: And I disagree with that.
18 MR. WELCH: Yeah.
19 But one other thing mentioned that's worth
20 noting, that I still -- even though we'll keep
21 the same City payments, I still would apply it to
22 reduce the unfunded.
23 CHAIRMAN SCHMITT: Yes.
24 MR. WELCH: Once the money comes in and when
25 we track down accounts -- you know what I mean --

1 this will be an account that will -- would reduce
2 the unfunded. The money that comes in from that
3 will reduce the unfunded in the Financial
4 Statement. It will show a reduction.
5 CHAIRMAN SCHMITT: And that was part of the
6 discussion with -- during the commission,
7 Mr. Cannon's point is, down the road, the City
8 using these extra payments to reduce their
9 payments. That was the whole point of these
10 extra payments, is to make sure that the City
11 wasn't using those extra payments to get out of
12 their regular payments.
13 MR. WELCH: Well, if you do use the extra
14 payments --
15 MR. GREIVE: That's not what I was saying,
16 by the way.
17 MR. WELCH: -- to reduce the City's payment,
18 after a period of time you haven't done anything.
19 I mean, I give you some money to give it back to
20 me.
21 CHAIRMAN SCHMITT: Right.
22 MR. WELCH: We've got a loan left.
23 CHAIRMAN SCHMITT: Right.
24 MR. WELCH: Now we have an interesting thing
25 on the next page.

1 MR. SCHEU: Just as a word.
2 My recollection on the Task Force was that
3 they were to reduce the payments because we --
4 there was a schedule and a chart in the Task
5 Force Report that showed the annual ARC going up,
6 but then starting down and crossing, I think, 24
7 years out, is my recollection.
8 So there would be a -- Joey, is that your
9 recollection?
10 MR. GREIVE: I'll have to -- I'll have to
11 pull that report back up, Bill. It's been a
12 while, but I'll look at it.
13 MR. WELCH: Well, of course, you're quite
14 right, Bill. I mean, as I said, it would cut the
15 30-year funded down to 20 years. So up to 20
16 years, Joey would get the benefit of it.
17 The fund to fund would be gone. But we
18 can't keep it away forever. We just have him
19 continue his regular funding for 20 years, and
20 then we've cut off the next 10, so he doesn't
21 have any funding left at all on that point,
22 theoretically.
23 MR. SCHEU: I can't see the council
24 objecting if in the same period of time it's
25 essentially the same result. But, I guess, I'm

1 not doing budgets from year-to-year for other
2 City purposes either.
3 MR. WELCH: Okay. On page 4.
4 Now, Beth, what they did back in '92 when
5 the City actuary drafted up an agreement for how
6 things would work, they set up what's called a
7 City Budget Stabilization Account.
8 It meant that if Joey and them pay in a
9 different amount than what the state minimum is
10 that's shown in my report, well, then, that's --
11 if he pays in more, that goes in -- not the base
12 fund, but it goes into this account. It's used
13 later if the City pays less.
14 And as you will see on a sheet later, a fair
15 amount of money has built up because there have
16 been times when the City really paid in quite a
17 bit more because the council at one point said,
18 Pay greater of this dollar amount or percent of
19 pay, and then we had a big pay decrease because a
20 lot of people dropped, and so we end up with
21 extra money going in. So we accumulated that.
22 So that money was in the City Budget
23 Stabilization Account, which is what the
24 ordinance used, the 45 million, to fund this new
25 account that's going to help out now.

1 And so this page 4 of the Actuarial Report
2 shows the 45 million going into this new account,
3 and it shows the money that was in the Enhanced
4 Benefit Account. The Enhanced Benefit Account is
5 a collection of the member part of the Chapter
6 money that comes, insurance payments that come
7 back of about 10 million a year.
8 So the agreement gave a 4 percent of pay
9 over to the City account and gave the rest to the
10 Chapter account. The new ordinance gives
11 50/50/50.
12 So, anyhow, that 33 million went into the
13 Enhanced Benefit Account -- from the Enhanced
14 Benefit Account one year. And then we had the
15 Chapter deposit after this new account was set
16 up. The new account was set up on June 19, and
17 we had a Chapter amount that came in in August.
18 And so -- but during the year, we had a retiree
19 bonus that was paid out in December.
20 And the end of the year, the way -- the way
21 I calculated it, I knew how I was supposed to --
22 calculation is rather complicated because you
23 have several different times and several
24 different market amounts being earned and this,
25 that and the other.

1 But the basic philosophy was, the Enhanced
2 Benefit Account, the members' account, earns what
3 the fund earns. I mean -- but the other
4 accounts, originally we set them up to earn what
5 the fund earns, and then we ran into a problem
6 proving to the state that we had enough money in
7 the account, because in a big negative year, when
8 you add the negative, what you put in, the
9 account went negative.
10 So we can't have a negative account. So
11 maybe we could have handled it some other way,
12 but we just thought it simple for all the other
13 accounts to not credit any gain and loss to them.
14 Just give them 7 percent interest, and any gain
15 or loss that occurs goes into the mother account.
16 After all, it's the other mother account's
17 money anyhow at the end, of everything except the
18 enhanced benefit thing.
19 So that's the way we did it. So I worked it
20 up that way, and I knew what I was supposed to
21 end up with. I was supposed to -- the ordinance
22 says that we leave $5 million in the Enhanced
23 Benefit Account. So I gave it a little interest,
24 from June 19 until September 30.
25 The ordinance says that the money that goes

1 over to the members, like half the August tax
2 deposit, is offset by the negative yield that
3 happened in August and September. So I gave
4 that. So they had 5.2 million, or something or
5 other, and they end up with only 5.1 because of
6 the negative. So we knew how we ended up with.
7 So we now have three accounts. We have this
8 account value with 82 million, and we have the
9 two account values -- they have a little over 5
10 million each.
11 It's going to be interesting that I propose
12 to set up a fourth account, because where is that
13 money -- how I am going to do it without mixing
14 it into the mother account?
15 And I have to set up an account to where
16 that money that's being -- come in doesn't flow
17 into the mother account, reduce benefits, but it
18 flows into another account, a holding account,
19 that's really set against the payment stream due
20 from 20 to 30 years from now.
21 This may be a little complicated, but
22 it's -- it's a -- it's an account that's going to
23 cover those payments.
24 So where are the payments coming from? Down
25 at the bottom. The City is supposed to make the

1 payments -- the ordinance says the City makes the
2 first set of payments, and the plan itself makes
3 a second set of payments.
4 And that's another reason to use 7 percent
5 interest on the plan's money, because we have 82
6 million in, and we have an obligation, to the
7 extent that it is an obligation they can't
8 change, to pay out 110 million. So we have to
9 earn 28 million in interest.
10 And we will, you know, over this period at 7
11 percent interest. I think we'll earn -- we'll
12 have a little extra doing that. So we won't let
13 the market disrupt this schedule.
14 Okay. Now we're going forward. The next
15 thing is the Regular Actuarial Assumption that
16 she's already went through.
17 The next thing is the Plan Outline. This is
18 really what goes in the computer when she
19 programs -- and the sub page 7 is a summary of
20 the new hires, the people that are hired after
21 June 19.
22 And we didn't have anybody in this valuation
23 of that category because the City -- one of the
24 reasons that we can get this sooner than Siegel
25 is able to give it to Joey is because we get data

1 as of July 1. We don't wait until October 1. We
2 get it as of July 1.
3 So as of July 1 when we get the data, there
4 weren't any people that were hired between June
5 19 and July 1. So we didn't have any. But next
6 year we'll have an entirely new program and all
7 that kind of thing.
8 And, Larry, I'll be sending a new contract
9 sometime over this summer. My contract was
10 before all this ordinance, so it has to be
11 updated. So, anyhow.
12 In the next -- in the bottom it talks about
13 the relatively small changes that were made in
14 the current plan benefits. The big change that
15 was made is that for the future COLA -- is going
16 to be -- on the Social Security going between 3
17 and 6 percent. Social Security amount from 3 to
18 6 percent rather than a flat 3 percent.
19 Because as the last page of Kelly's
20 Experience Study handout shows, if you went back,
21 like about 20 years, that would have averaged
22 about 2.2 percent.
23 So while we might think that Social Security
24 amount that guys like me are going to get over
25 the next 20 years might be a bit bigger, it

1 probably won't be as big as 3 percent.
2 So there is a savings cutback for the
3 members of putting that in. That was the big
4 change, other than the fact that employee
5 contributions are increased from 7 to eventually
6 10 percent.
7 So now we go along and we look at -- look at
8 the data. Not much to say about that. You can
9 look at it. We go to the Financial Statement.
10 Now, the way I did the Financial Statement,
11 as I said earlier, I felt a sort of neat, compact
12 way of doing it. I went and I took the actual
13 model from GASB 67. It asks you -- this is on
14 page 11. I took the actual model on GASB 67 and
15 I did it the way they did the model.
16 They had an actual firm, Milliman, I think,
17 that helped them work this up. And in it you had
18 to do the plan outline, you had to do verse
19 displays, you had to do this, that and the other.
20 But once you got it, it should satisfy the
21 accountants because they see their model.
22 So this is the model, and essentially what
23 this is trying to say about various things about
24 it, it's trying to tell you how we determine the
25 7 percent interest rate.

1 I mean, you shouldn't just pick an interest
2 rate off the wall or somebody's notion. You
3 ought to have investment considerations, the
4 investment policy statement, your asset
5 allocation, historically what returns are, what
6 investment consultants projected returns going
7 forward, and also the actuary has some kind of
8 input, although most actuaries are not heavily
9 experienced in investment, though we're
10 becoming -- so I've worked a lot in that field,
11 but many actuaries -- I've worked a lot in every
12 field. I'm so old I've been everywhere. But
13 most -- most of them haven't.
14 So what happens is that, if you read the
15 first statements that are put out, some of them
16 will have an interest assumption. Like I looked
17 at one actuary for Ford (phonetic), and he
18 expects to earn 8 percent total on the fund, but
19 he didn't expect any of his categories, of his
20 asset allocation, to earn 8 percent. And I
21 thought, Well . . .
22 And in Miami Police and Fire, I made an
23 allocation, the same thing. Milliman, who has a
24 fine investment consulting thing, came up and
25 said 6 1/2 percent is what they expected to be

1 earned. And the actuary used 7 1/2.
2 And the way the actuary justified it, he
3 said, Good times are going to come again. So
4 this guy has projected 6.1 for 10, 15 years. But
5 I'm projecting longer, and good times are going
6 to come back. So I got that higher rate.
7 Well, most of the money is there in retired
8 liabilities, as you saw early, that 2.4 million.
9 By the time good times come back, if they come
10 back over a 30-year period, we're going to be
11 dead.
12 I'm going to be dead. You-all might still
13 be here. Some of you-all will still be here,
14 right? So, I mean, that kind of logic doesn't
15 work very well.
16 So the next page shows the real return that
17 you expect -- we expect on assets. And I've
18 coordinated with your investment consultant. And
19 I also gave a reference in the Experience Study
20 to the actuary firm -- a fairly sized actuary
21 firm, Horizon, who did about 15, 20 investment
22 consultants' survey and went into all the area,
23 which they do.
24 And so their idea was to -- if you're going
25 to have 50 percent probability, it would be

1 something like 7 percent return. So if you
2 have -- if you have an aim of 7 1/2 percent
3 return and pay the manager fees, the problem,
4 you're under 50 percent probability of reaching.
5 So, okay, on page 14. This shows the power
6 of an interest assumption. The unfunded that we
7 have is 1.8 billion. It would be 1.5 billion if
8 we used the 8 percent assumption. It would be
9 1.3 if we -- 1.3 or so if we went back to 8.75
10 percent assumption that used to be used.
11 So you can see just in changing the
12 assumption, we got, like, a $400,000 increase in
13 the debt. So that's one of the reasons this
14 whole thing arose, because of the liberal prior
15 assumptions.
16 And if we were to go down to 6 percent,
17 which, in my opinion, is the place that the
18 public plan should proceed to, maybe over the
19 next ten years or something -- because public
20 plans can't afford to take the risk.
21 Cities of this size with pension portfolios,
22 that 3- or 4-billion, they're in a business that
23 maybe they never intended to be involved in and
24 they need to lay off the risk to the degree they
25 can.

1 Bill, did you want to say something?
2 MR. SCHEU: Jarmon, yes. Just my
3 recollection, that the way the Task Force got to
4 the extra $40-million-a-year payment was to make
5 the assumption of a 5.4 percent assumed rate of
6 return, but they didn't want to make that
7 mandatory. That's why they left the contract
8 amount at 7, but felt that the contribution ought
9 to be based on 5.4.
10 MR. WELCH: Just one word about this.
11 As I said, most actuaries, until the last 10
12 or 15 years, never studied investments very much,
13 but there were several bright actuaries that
14 worked for Solomon Brothers and other places.
15 And they came back into the field about 15
16 years ago, and they said that we were -- we were
17 doing it wrong, that we were using much too high
18 rates, and they called -- the Society of
19 Actuaries published a book on it called *Financial*
20 *Economics*.
21 And it went into the theory of a risk that
22 was being taken versus expected returns, and it
23 also included the risk that you have and actually
24 have in benefit payments. You have risk when you
25 take that on (inaudible).

1 So if you have -- for example, if you have
2 the old-type bond (inaudible) where your cash
3 flow from your bond is more or less going to
4 match your cash flow from your payments.
5 But then you have a much less risky position
6 than the typical position of having 70-something
7 percent of it in equities and private placements
8 and this, that and the other.
9 So when you have that heavy risk position,
10 the question is, can you afford to lose? Can you
11 afford to lose big? Would you have gotten into
12 that kind of game if you realized where you might
13 end up?
14 Orange County, California, took enormous
15 risks, and for many years the financial officer
16 was a hero in the town, until the bottom fell
17 out. And then he almost went to jail, and they
18 went into bankruptcy.
19 So what I'm saying is, somebody, and it's
20 not me and it's not the actuary for the --
21 somebody should do risk analysis for the City for
22 the two pension plans in the same way they must
23 do it for some of your huge bonds and other
24 things, and the interest rates you go into and
25 all that.

1 So this is a game that people have never
2 played until recent times, and it's a dangerous
3 game. So, anyhow, Kelly says I'm preaching.
4 Let's go to page 17. To me, that's just the
5 most interesting page.
6 MR. TUTEN: If I could stop for a moment,
7 Jarmon.
8 John, what's the assumed rate of return for
9 the state? Is it still 7 3/4 or did it go to 7
10 1/2?
11 MR. KEANE: 7 1/2, I believe.
12 MR. WELCH: 7.65.
13 MR. TUTEN: 7.65?
14 MR. WELCH: Yeah. They wanted to go 7 1/2,
15 but that was too big a hit for them.
16 If you look on page 17, this might look to
17 be a little hard page to deal with at first, but
18 it really isn't. It actually tells you what
19 happened during the year. The accountants did a
20 good job of having us put this together, because
21 we never actually showed it quite that way.
22 I mean, look at last year. Last year, the
23 debt you had, the accrued liability debt, as I
24 said earlier, was a little over 3 billion. And
25 then what happened?

1 We have a new year, and that costs 46
2 million. Well, we have to pay 7 percent interest
3 on that 3 billion and the 46 million. And we
4 also changed the benefits we put in the
5 ordinance, which cut back some of the benefits.
6 So that gave us a $28 million reduction in the
7 debt.
8 And we have some experience deviations,
9 which as I said, was the DROP people and also
10 some people coming over paying 20 percent -- is
11 that it, John, the number that when people come
12 over and buy service and all at 20 percent? And
13 we know we don't have a 20 percent cost plan, so
14 a loss occurs when they come over.
15 And then in any given year, you always have
16 a somewhat strange difference here and there in
17 factors. Sometimes it's (inaudible).
18 Now, the change due to reallocation, which
19 Joey and probably Dezube -- there was
20 something -- we use one of the major actuary
21 firms in the county's software. They've done
22 PPGC and a lot of places.
23 But their software has a peculiarly that if
24 you change the salary scale, when it goes back to
25 the entry age and it accumulates accrued

1 liability and -- see, the pensions are based on
2 what you get every time. It's not based on this
3 year. It's based on retirement allocated to
4 periods.
5 When it allocates, for some reason we change
6 the salary scale, a bit less to the future and a
7 bit more in the past. I don't know how in the
8 world or why they do it, but it's a small thing.
9 And so it affected here. That's what it means,
10 change allocation.
11 That's an unsatisfied answer, but I don't
12 know anymore.
13 But benefit payments are 148 million that
14 went out. So the net change in the pension
15 liability was 129 million. And so it went from 3
16 billion to 129 million more.
17 Now, the next thing shows the category of
18 assets, how your assets flowed during the year
19 and what you ended up with.
20 So you ended up with -- down at the bottom
21 under the next to the last column, as being 42
22 percent funded, which, of course, is what we
23 expect if we -- if we lost -- if we earned 10
24 percent less than we -- 11 percent less than we
25 figured.

1 So this tracks. From year-to-year you can
2 look and kind of see what happens here. I have
3 one plan I have a ten-year schedule in like that.
4 But at any rate, okay. Next thing --
5 MR. PATSY: I'm sorry, Jarmon. I have a
6 question here. I apologize if you said this
7 earlier and I missed it.
8 But the changes due to reallocation. What's
9 reallocation?
10 MR. WELCH: The computer -- when you -- when
11 you change your salary scale, it went from, like,
12 4 percent of pay projection --
13 MR. PATSY: Okay.
14 MR. WELCH: -- to 3 percent and 1/2 percent
15 of pay, it goes all the way back to the entry
16 age. A guy's been around 15 years, and then it
17 changes how you fund his pension over all that
18 time, and it matches together and does the
19 allocation of past and future.
20 So I looked and I said, What? The future
21 costs less than I expect and the past costs a
22 little bit. So it does an allocation of
23 20-something million back to here. But we have a
24 corresponding reduction.
25 And Joey will see that, that when we -- when

1 we did that in the column, they say the normal
2 costs went down. It went down a couple of
3 million because we took away from the normal
4 costs. It's actually funded at a higher rate.
5 We took something and threw it into that. It's a
6 very technical thing. Even I don't completely
7 understand it.
8 MR. PATSY: Okay.
9 MR. WELCH: It's not worth me getting into
10 the nuts of the computer --
11 MR. PATSY: Yeah. I saw the term
12 "reallocation," and I --
13 MR. WELCH: I didn't know what to call it.
14 I didn't want to call it a change in assumption
15 and then in an earlier thing tell you that you
16 had a gain through your change in assumptions in
17 cost, and you had a liability increase to it.
18 That's contradictory.
19 So, okay. Now look at page 18.
20 The first column is the City contribution.
21 We calculated the City contribution, the required
22 City contribution, in a very simple manner.
23 When we do a valuation, we determine at that
24 day, the valuation day, the cost plus percent of
25 pay. So let's say if we calculated the cost to

1 110 percent of pay, that's what we calculated for
2 the one year hence.
3 So now here comes the year. And at the end
4 of the year we look at employee contributions
5 because that's how we're going to determine our
6 pay.
7 That's the basis that people contribute on.
8 The employees contribute 7 percent of their pay.
9 That's their real pay. We don't use rates of
10 some kind. We use their real pay.
11 So now it's 8 percent. But when we take the
12 8 percent, when we take the employee
13 contribution, we divide it by the 8 percent, and
14 that gives us what the pay is that they
15 contributed on.
16 And then we take that pay and we multiply it
17 by the City contribution percent, and so that
18 gives us what the City is supposed to pay. And
19 then we put that in a chart to show the state,
20 and they actually called me about it and said,
21 How do you know the state -- the City paid what
22 it's supposed to pay? I said, Well, look at the
23 percent and look at what the pay was and there it
24 is.
25 But how does the City pay? Well, Joey can

1 tell you a lot about that, but I have a longer
2 history than he does, and this second column is
3 what they actually contributed.
4 Now, you can see what they actually
5 contributed is generally always a different
6 number than what I have. They calculate it
7 somewhat different in some years for a reason and
8 some years for another reason.
9 In the coming years, Joey pointed out,
10 they're going to take the greater of some
11 percent, or 109 percent, XX, and the dollar
12 amount, you know, and then they end up with
13 something.
14 So that becomes the excess. And in some
15 years they were short. So "excess" is in
16 parentheses. So you can see the last three years
17 they put in 29 million, actually. That's what
18 built up that 45 million that we transferred to
19 an account. And that's what we'll continue to
20 do, to put it over like that.
21 So we have 5 million now, a little over 5
22 million in the City Budget Stabilization Account.
23 So as long as Joey doesn't come in and pay less
24 than 5 million, you know, it just flows.
25 Of course, if he uses it up, then we have

1 less flexibility.

2 MR. GREIVE: That would take an act of local

3 congress, to Rick's point. Because, you know,

4 the way the City budget ordinance was written

5 this year, as you pointed out, was the greater

6 of, the percentage of payroll contribution rate

7 that's listed in the report, or the dollar amount

8 that's listed in the report, whichever is higher.

9 So the way it actually works is on December

10 1, or as close to there as practical -- I think

11 it was like December 5 or 6 or something this

12 year -- the City sends over a wire of the entire

13 amount to get us up to the 148 million that was

14 in the memo that you sent over, from a cash

15 standpoint.

16 In accounting land, you know, we're running

17 along, contributing at the 110.92, or whatever

18 the number was in the adjusted memo.

19 So on a biweekly basis, we're showing that

20 110 or whatever percent of payroll contribution

21 rate being made to the pension fund in the city's

22 accounting system, which PFPF is on too.

23 You know, if -- if payroll grows faster than

24 your projection, we'll end up putting in more.

25 And if it grows slower than your projection,

1 we'll have -- we'll put in a little less that
2 year.
3 Now, from a cash -- but putting in that
4 floor of the dollar amount, as City Council has
5 done this year, guarantees that we at least make
6 the recommended contribution rate based on your
7 assumptions, as if they had come true. So the
8 City is not going to, you know, under-fund based
9 on the language that's in code today.
10 And I think, John, you've been very vocal
11 about making sure that that "greater of" language
12 makes code every year. And I'm very supportive
13 of that too.
14 So the question will come up of, if we
15 continue to over-contribute, you know, what
16 happens to that City Budget Stabilization
17 Account?
18 Does the City need to at some point say,
19 Well, if we're still racking up this balance
20 that's grown in this account that's not applied
21 to the unfunded liability, you know, what should
22 we do with that? So I would love to probably
23 talk about that at some time.
24 MR. WELCH: Well, at some point, if it
25 actually builds up, you might want me to help you

1 with those payments you have to make, special
2 payments. That's an idea.
3 But, anyhow, that may not be popular for me
4 to say that. Anyhow, it's your money. You can
5 do what you want with it.
6 Go to page --
7 CHAIRMAN SCHMITT: I hope we have to deal
8 with that.
9 MR. PATSY: I ought to be able to tie back
10 the actuarially required City contribution for
11 2015. Shouldn't I be able to tie that back to
12 page 1?
13 MR. WELCH: No. I think -- I think I
14 calculated by taking the employee -- normally I
15 would calculate taking the employee contributions
16 and divide it by 0.07. But you changed the
17 employee contribution rate effective in the
18 ordinance, when the ordinance was effective, like
19 July.
20 So what I did, I took 3 months at 8 percent
21 and 9 months at 7 percent, and that 7.25 percent
22 factor was divided into the actual employee
23 contribution. And that gave me a pay.
24 And then I took that times the City's
25 contribution percent rate and that gave this

1 figure. I didn't show the mathematics in this
2 report. So I know you can't see that.
3 MR. PATSY: You did it here. You did it on
4 page 18, you just didn't show it?
5 MR. WELCH: Yes.
6 MR. PATSY: Where you did it on page 1.
7 MR. WELCH: Well, page 1 is as of that day.
8 It doesn't -- it doesn't follow a flow. We don't
9 even know what the employee contributions are
10 going to be, you know. I mean, it's an estimate
11 as of that date. So, yeah. But I see your point
12 next. Maybe we should show it.
13 But next year will be -- next year it will
14 go back in the schedule. Normally every year
15 until this year, we showed it in the City Budget
16 Stabilization Account.
17 But if we flowed that account -- and you
18 could look it up and see how we calculated the
19 City contribution -- but since we took the City
20 Budget Stabilization Account and threw it all in
21 in June into this new account, it was simpler for
22 me just to do it the way I did it rather than
23 have an accountant break it up that date, then
24 move it over. It was just simpler, because I
25 knew how I was going to end up with it.

1 Go to page 20.
2 Now, Joey, I'm going to send over to Beth
3 and Devin a bill for my work on the GASB 68
4 because that's not a plan expense. So at least
5 to any client that I have, that's considered to
6 be a City expense and that the City pays for.
7 Is that what -- you had any dialogue with
8 the other actuaries about that? Because that's
9 been my experience. The fund doesn't pay for the
10 City financial update.
11 MR. GREIVE: The two pension funds are
12 structured a little differently in that the
13 financial reporting on the City retirement system
14 is included in the city's coffer.
15 This Board produces a separate financial
16 report that's audited separately. That's an
17 interesting question.
18 MR. WELCH: Yeah. And what happened, GASB
19 67 was a whopping, big document. It took the
20 professionals two or three --
21 MR. GREIVE: Oh, yeah.
22 MR. WELCH: -- years to digest.
23 MR. GREIVE: The cost of regulation.
24 MR. WELCH: And then they came out with GASB
25 68, which was another big document. But in

1 reading and in talking to people, I finally
2 figured out that GASB 68 was nothing but GASB 67,
3 plus one page, this page.
4 MR. CARTER: Yeah.
5 MR. WELCH: So then I came up with the fact,
6 Well, if GASB 68 includes GASB 67, who do I bill
7 for GASB 67? And I put the payor thing to sort
8 of split it, but primarily pointed towards the
9 fund.
10 I'm not trying to talk myself into a fee,
11 but I'm just trying to -- well, that's a good
12 idea too, but I'm trying to -- but I'm trying to
13 talk about how these things come about.
14 And they come about because GASB 68 is
15 nothing but a disclosure in the city's financial
16 statements about how much you're supposed to
17 expense for the year. But it's based on all the
18 principles that are in GASB 67.
19 And in the City's financial statements, no
20 doubt they would go to GASB 67 and they would
21 pick up a number of the displays and so forth
22 that are in there. So we think of the two
23 together.
24 Now, what actually is -- what is a pension
25 expense for the year? Well, of course, you have

1 to expense the new year, the GASB -- the service
2 cost of GASB 54 -- of 54 million.
3 But the City doesn't pay for all that. 10
4 million of it is paid for employees. And then
5 you have the interest on the liabilities.
6 Now, with GASB 68, requires the City to take
7 this 1.8 billion liability and to put it on its
8 balance sheet. It becomes a liability on the
9 City's balance sheet. So it doesn't have to
10 expense for it anymore because it's right there
11 as a liability, like any other debt it has.
12 What it has to expense for is changes in it.
13 Like, for example, it has to earn interest. So
14 we put in here 214 million of the interest that's
15 supposed to be earned.
16 But the whole thing doesn't have to earn --
17 the whole accrued liability doesn't go on the
18 balance sheet. It's only the unfunded part of it
19 that goes on the balance sheet.
20 So the funded part earns 7 percent interest
21 on the assets. So what I'm trying to say is that
22 they have to pay interest on the unfunded part
23 that goes on their balance sheet as an expense.
24 And they also have to pay the little $2
25 million -- not little, really, but compared to

1 these numbers -- they have to pay the $2 million
2 fund administrative expenses.
3 Then these various gains and losses that
4 we've talked about, you pick up one year of them.
5 You pick up -- you pick up one year -- for the
6 asset loss, you have five years to pick it up.
7 So you pick up one-fifth of the 159 million asset
8 loss at the current expense. And you put the
9 other four-fifths to be picked up over the next
10 four years.
11 For the other -- other losses, you base it
12 on the actual future working lifetime of the
13 active employees as well as the retirees. Well,
14 the retirees have a zero active tax life, so the
15 way you calculate it is you multiply the number
16 of years expected to actually be working.
17 Like the average service is 11, and people
18 go out about 21 years. So you've got about 10
19 years left for them to work. But take it --
20 2,200 people and multiply by 10, you get 22,000.
21 And then divide it by the 5,000-and-something
22 total people.
23 So, like, Joey asked where I got my
24 4-point-something number. That's how I get it.
25 And some change that you make can be

1 recognized immediately. Like, if you cut back a
2 benefit, that's recognized immediately because it
3 immediately reduces the liability.
4 And the last part, I won't go into the last
5 part. The last part is a pretty useless part
6 that the state has required us to do for
7 20-something years. And we've calculated
8 according to the state law when we give it to
9 them, and they take it and they put it in a
10 warehouse in case anybody was ever to ask.
11 And I don't think anybody has ever asked the
12 question. So it's -- Joey actually asked us a
13 question about what number they have. But it's
14 not used for anything.
15 It was a good-hearted attempt by the Florida
16 State Legislature to get some pension
17 information. But once they got it, they didn't
18 know what to do with it. And they never asked us
19 a question about it, because, you know, it's
20 not . . .
21 MS. McCAGUE: Jarmon, this page 20, are you
22 saying this is not prepared for our financial
23 information; this is prepared for the City's
24 benefit?
25 MR. CARTER: For the City's.

1 MR. WELCH: Right. And I just, for
2 convenience, so I didn't have to give you --
3 because I would have to repeat much of what's in
4 this report, and actuaries do. That's what you
5 do, and give you a thick report saying, Here's
6 GASB 68. And I said, Why do that? I mean, it
7 doesn't help me any. Does it help anybody else
8 any?
9 But they used to bill for that way, if you
10 do a big report. I mean, I've seen some nice
11 bills that way. I mean, really, we're in
12 business, right?
13 Oh, we didn't hand out this correction page.
14 Did we? All right. I don't want to be too cute
15 talking about the changes and things here, but
16 try to add a little humor.
17 But are there any questions or anything
18 about -- the plan is proceeding. The market is
19 not. You're doing -- you've done everything you
20 can do for about four years. We keep it going,
21 it will work out.
22 CHAIRMAN SCHMITT: Okay. So the City's next
23 payment, which will be paid in January 2017, is
24 how much for Jacksonville?
25 MS. McCAGUE: December, right?

1 CHAIRMAN SCHMITT: Yeah. December 2016.
2 MR. WELCH: Yeah. Well, we said it went up
3 11 million, from 148- to 159-.
4 MR. GREIVE: Plus the 10-, so 169-.
5 MR. WELCH: But Joey will deduct for the
6 details.
7 MR. GREIVE: So our pension costs, if we do
8 the 159- plus the additional 10-, depending on if
9 City Council approves that or not, obviously it's
10 in the 2015-304, so you would hope that they will
11 follow through with that -- 169- will be our
12 total Police and Fire pension contributions for
13 next year, based on this report.
14 MR. KEANE: It's 159,463-, page 1.
15 CHAIRMAN SCHMITT: Thank you.
16 MR. SCHEU: Is the meeting over?
17 CHAIRMAN SCHMITT: No, we're still here.
18 MR. WELCH: A bunch of tired folks.
19 CHAIRMAN SCHMITT: Do we have any other
20 questions for Jarmon?
21 And, forgive me. I went out of order a
22 little bit. Do we have any public speaking
23 requests?
24 CHAIRMAN SCHMITT: Sure. Mr. Gassett.
25 MR. GASSETT: My name is Bill Gassett, and

1 in the past I've spoken as an angry taxpayer and
2 unhappy taxpayer, and today I want to speak as a
3 calculating taxpayer.
4 And I guess the first problem I have on
5 this -- well, you can answer perhaps. If you
6 look at page 17, which shows -- I'm sorry. Page
7 1, and I need to have you check me on this on the
8 mathematics.
9 In looking at the page that has the ages and
10 stuff like that. I'm sorry. It's a nice chart
11 that you wrote down here. Page 15 -- page 8. I
12 knew I'd get it.
13 Look at the retired columns, which is the
14 third one down, and I did some quick mathematics,
15 At 557,674 times the number of retirees that
16 you've got. And it looks like that the 1.4 or 5
17 billion that you have, assets right now, just
18 about takes care of the people who are retired,
19 and that those who are still active employees, no
20 dollar has been built up.
21 My other assumption is you talked about
22 smoothing. And there is a smoothing number, I
23 think, and you can check this. It's got to be 7
24 1/2 percent a year, because the -- to take care
25 of the 1785 people, we have to make 7 1/2 to pay

1 them their net 7. And so that is the CD-type
2 account where it has to be paid.
3 And so I'm just wondering if that's not
4 correct to do it. It's not smoothing, but it
5 goes out for the next 20 to 25 years. That's my
6 only comment or thought to think about.
7 MR. WELCH: Well, the -- you're right, that
8 for the -- that the fund of 1.4 billion is almost
9 enough to cover the 1.7 billion in retirees. But
10 then we've got another 700 million in DROPS that
11 make up the 2.4 billion. So we could cover
12 retirees almost, but we wouldn't have any money
13 for DROPS.
14 As regards the 7 1/2 percent, you -- and
15 that's the thing, Joey, that -- nobody much is
16 doing it the way we're doing it. Most places are
17 not paying the management fees and the staff
18 expenses as an add-on to the current costs.
19 They are assuming that the management fees
20 will come out of net earnings. So in other
21 words, it's your basic -- you pay 60 points to
22 the managers, you know, average something like
23 that, that you pay 7 million, 8 million to your
24 managers' fees.
25 So most of them say, We're going to earn

1 this amount of money; we're going to take 8
2 million out, and the rest of it will be money for
3 the fund. So they have to earn 7.6 in order to
4 pay the managers 0.6 and have 0.7 left.
5 But we don't have to do that because we add
6 the manager fees as a cost item. So that's a
7 conservative plus for this plan.
8 But you're right. Normally, normally, you
9 would have to earn 7 1/2.
10 MS. SHELTON: And on that page, the Inactive
11 Participants, that number of 2.4 billion is
12 pensioners -- money due to current pensioners,
13 money due to pensioners who are in DROP, plus the
14 DROP payments that they will collect.
15 MR. WELCH: Exactly. The cash, you're
16 right.
17 MS. McCAGUE: Okay.
18 MR. WELCH: It's almost 300 million cash
19 they have.
20 MR. TUTEN: Jarmon, when they talked -- the
21 state talked to you about that waiver for the
22 raises being at zero -- I'm sorry, 0.18, when was
23 that? Was that over the summer before the fiscal
24 year ended, or about what time was that?
25 MR. WELCH: That was about three or four

1 months ago. And I talked to John about it too.
2 MR. TUTEN: Oh, really?
3 MR. WELCH: Yeah. I was concerned, jumping
4 into this, that --
5 MR. TUTEN: While you were preparing this --
6 I guess I was getting at, for next year, would
7 there be any indication of when maybe you would
8 approach them again as far as --
9 MR. WELCH: Well, what I thought I would do
10 is just send this report up. The one peculiar
11 thing about the state, they require a valuation
12 once every three years, and they can go on and
13 not look at your reports for, like, once every
14 three years. They do it en masse.
15 MR. GREIVE: They may not come and talk to
16 you about it until a few years down the line.
17 MR. WELCH: But we did do that Impact
18 Statement back during the summer, and we would
19 like them to, in due course, reply to that.
20 We did the Impact Statement saying that the
21 new plan would cost 18.5 percent of pay total, 10
22 percent paid by employees, plus a little
23 expenses. And they haven't responded. They will
24 accept it. It's no big deal there, I mean. But
25 they haven't.

1 MR. TUTEN: Was this our official
2 once-every-three-year appraisal -- appraisal --
3 actuarial study?
4 MR. WELCH: What I'm referring to is the
5 Impact Statement. But here, this is -- yeah, you
6 could go for another -- I don't recommend you do
7 that. You can go for three years on this one.
8 MR. TUTEN: Well, I guess my question would
9 be, then, would the state take this -- would they
10 inquire about the raises as part of your actuary
11 study before the three years is up, or will they
12 wait for the next official one and say, Hey, your
13 numbers last time --
14 MR. WELCH: They wait till they look at it,
15 but we don't know when that is. But the
16 ordinance requires an annual valuation plan. It
17 never did before.
18 But, yeah, it's just a question of when they
19 look at it. But I haven't heard them accept the
20 10-114 yet. So I think they did the 10-113. So
21 it's probably maybe another year or so we'll hear
22 from them.
23 CHAIRMAN SCHMITT: From your actuarial
24 perspective, of the assumptions that we have in
25 place for our plan and the policies that we use

1 for our plan related to calculating the payments
2 due and the unfunded liability, if you had to
3 pick one policy or assumption that is the least
4 conservative, and whether you would recommend
5 changing it or not, what one policy or practice
6 would that be?
7 MR. WELCH: The one that's least
8 conservative?
9 CHAIRMAN SCHMITT: Right.
10 MR. WELCH: 30 years. It's ridiculous since
11 you have that new money to cut it to 20. It's a
12 wonderful opportunity to do it, and in your new
13 base, go to 20.
14 And our idea, you know, our projection is,
15 Yes, you're going to have year-by-year bases.
16 Some are going to be gains and some are going to
17 be losses. But let's let them all be 20 years.
18 MR. PATSY: Jarmon, I've got a question.
19 You mentioned that we're only required to do
20 a report once every three years.
21 On page 18, how did the City know what their
22 contributions was to be during the years where we
23 didn't do a report?
24 MR. WELCH: They stayed on the old
25 percentage.

1 MR. CARTER: Stayed on the old percentage.
2 MS. McCAGUE: Stayed on the old report, the
3 last published report.
4 MR. PATSY: So it was just incrementally
5 increased?
6 MR. WELCH: Like I told Joey, in this
7 report, put up 110 percent of pay. It's add-on.
8 But if we didn't do a report -- the ordinance
9 requires us to -- but if we didn't do one, he'd
10 pay 110 percent for the next three years.
11 MR. GREIVE: Which we did from, like, '08 to
12 2010, until the 2011 report came out. We chugged
13 along at that same -- what was it at the time,
14 like, 49 percent of pay or something like that?
15 It's something pretty low, obviously.
16 MS. McCAGUE: So, Mr. Chairman, tracking
17 back to the earlier, lengthy conversation around
18 smoothing, do we want to ask, as a result of this
19 workshop, Jarmon to go back and do some
20 calculations, showing us what the difference --
21 what difference would there be if we were using
22 smoothing rather than mark-to-market?
23 CHAIRMAN SCHMITT: I think that's a good
24 idea, smoothing and shortening the amortization
25 to 20 years. Each separate and together.

1 MR. WELCH: Okay.
2 CHAIRMAN SCHMITT: So we can see the net if
3 we implemented both changes.
4 MR. WELCH: Okay.
5 MR. CARTER: That's a fair assessment.
6 MR. WELCH: We normally send out real formal
7 copies of the reports, and the ordinance says
8 they have to go to the City people before January
9 31. Of course, the City person is here.
10 But are you-all going to adopt it at the
11 next meeting, or what's it going to be? I'm just
12 asking what the next step is.
13 CHAIRMAN SCHMITT: Well, we don't have
14 all -- I guess we do have enough people here.
15 I'm comfortable with putting this on the agenda
16 for this month, unless any of the other trustees
17 have an issue with putting it on the agenda for
18 this next month -- or this month, I should say.
19 MR. GREIVE: Does that give you enough time
20 to run what the Chairman has asked for?
21 MR. WELCH: Yeah, but, I mean, the -- all
22 I'm going to do is take that 8 1/2 million and
23 divide it into five parts. That answers one
24 question. You know, 1/5th, 2/5ths, 3/5ths,
25 4/5ths, 5/5ths. That's that schedule.

1 The other question is, What about cutting
2 back from 30 to 20 years? Well, what I'm
3 assuming that current extra money coming in is
4 going to automatically do that. Unless you want
5 me to prove it or put it with numbers, I could do
6 that.
7 So that means, the question is, what's the
8 difference, if any, having a new base at 20 years
9 and having a new base at 30 years? That's a
10 simple calculation. So, yeah, I can do that.
11 CHAIRMAN SCHMITT: And it would be each year
12 going forward. On other words, next year we'd
13 have a 20-year base. We wouldn't have a 30-year
14 base next year.
15 MR. WELCH: Right, right.
16 MS. McCAGUE: And our next meeting will be
17 the 15th. So we would need your calculations --
18 CHAIRMAN SCHMITT: Well, do we need those
19 calculations? I think this report is final. I
20 don't see any changes to this report.
21 I think what we're talking about is policy
22 for going forward for this current fiscal year
23 and the report that would be ended September 30,
24 2016.
25 MR. SCHEU: I think Larry's right. It would

1 be -- we need some time to really think through
2 the policies.
3 MR. TUTEN: Well, what's the purpose? Why
4 are we doing all this? In other words, what are
5 we trying to accomplish? I mean, I don't mind
6 the studies themselves, but are we looking for a
7 certain metric we're trying to maybe -- we can
8 use this instead of this or -- because the last
9 time we did this -- unfortunately, I was there --
10 we lowered the assumed rate of return from 8.4 to
11 7 3/4ths, I think, at first.
12 And then the mayor and the City Council
13 said, Oh, that's still too ambitious, you guys
14 are crazy. We lowered it to 7. Well, as you
15 know, as everyone knows, your little tube here,
16 when you lower that assumed rate of return, the
17 contributions are going up from somewhere.
18 Well, they came from the City. Well, the
19 City turned 180 and said, Oh, my goodness, we
20 have a pension crisis; we can't afford this.
21 Look at all this unfunded liability.
22 We said, We told you that was going to
23 happen when we lowered the assumed rate of
24 return. And here we are.
25 And I understand what you're saying about

1 shortening the 20 years and paying down the debt
2 quicker. Lord knows we've been through it.
3 Here's the problem with that.
4 The City turns around and says, You guys
5 have put these parameters on us where now we've
6 got to pay all this money and try to pay off this
7 debt in 20 years. And -- I just think unless
8 we're doing this to either satisfy just personal
9 curiosity or we're going somewhere with it, I
10 think it's going to absolutely serve no purpose
11 other than the fact that it's going to give some
12 administration down the line somewhere an excuse
13 to do what they've done already, which is to say,
14 the pension is unsustainable, look at this
15 unfunded liability, look at all this money we
16 owe, we can't pay it off, we've got to make
17 changes.
18 They agreed to the contract for seven years.
19 It's in here somewhere. It's 5, 10, whatever the
20 payment schedule is, they've agreed to it. Me
21 personally, I like the 30-year average simply
22 because the new agreement is a 30-year agreement.
23 Our agreement, it's a 20-year agreement.
24 Now it's for 30 years. We can stay till 30. But
25 let's face it, we're all getting out at 20. So a

1 20-year amortization schedule makes sense.
2 The new guys, makes no sense. It's a
3 30-year deal. If you leave before 30, you're
4 going to be penalized into oblivion, and you're
5 not going to leave before 30. So I think that's
6 a more realistic scenario for future members.
7 For us, here -- and I apologize if I come
8 across a little strong, but I've been down this
9 road. You try to help the City out with their
10 payments, you try to help them out by lowering
11 their annual contribution, and all this does,
12 inevitably, it gets turned right around on this
13 Board as we're not doing the right thing. We
14 didn't do the right thing. We didn't pay down
15 the debt.
16 And, personally, I just don't see -- I think
17 it's futile. I don't think it ends us anywhere
18 other than where we're at right now, which is
19 make the City pay what they're supposed to, and
20 when they get extra money in the year, they can
21 pay that.
22 MR. SCHEU: I would say you're a cynic,
23 Rich.
24 MS. McCAGUE: Joey, let me ask this
25 question.

1 Should the Board approve this document at
2 its next Board meeting and pass it on to the
3 City, is then this the document and the numbers
4 that the City uses as it builds its budget for
5 the next fiscal year?
6 MR. GREIVE: Whatever report is approved by
7 this Board, which in 2015-304 did say that the
8 report should be produced by January 31, 120 days
9 following the fiscal year-end, that document is
10 used as the Bible for pension contributions for
11 the next fiscal year.
12 MS. McCAGUE: All right. So if we choose --
13 MR. GREIVE: So whether it's that report or
14 if you make amendments, whatever report comes out
15 is what we use.
16 MS. McCAGUE: Okay. So if we turn this in
17 and then look at policy and make a change in
18 policy, that policy would only be accepted by the
19 City in next year's evaluation?
20 MR. GREIVE: Well, I think there's still --
21 there's still an actuarial review process
22 contained in the agreement --
23 MR. CARTER: Right, the City actuaries --
24 MR. GREIVE: -- to where the City, if they
25 wanted to -- you know, you could turn it in by

1 the 31st, and if the City wants to object or
2 contest or has different viewpoints on things,
3 you know, they could have their actuary work with
4 your actuary.
5 And if those two actuaries can't come to an
6 agreement with each other, they get a third-party
7 actuary.
8 So, I mean, that process could drag out for
9 a few months, and the City's budget is not really
10 due for several months from now. But, you know,
11 absent that, we would be using this report or
12 whatever report comes out for this year.
13 MS. McCAGUE: For this year. Okay.
14 MR. SCHEU: Yeah, that's right. There is a
15 process just like that.
16 Beth, I might suggest that we might consider
17 passing it and say, In considering this, these
18 issues have arisen about which we would like to
19 have conversation with the City about.
20 And go ahead and adopt it and say, Here are
21 some of the issues that we think are appropriate
22 to consider, and list those.
23 This has been very helpful to me, but I
24 think your notion of the transparency from the
25 beginning is going to be so important. And I'm

1 not as much as a cynic as Rich, but I agree that
2 sometimes it's like spitting into the wind.
3 MS. McCAGUE: Okay.
4 CHAIRMAN SCHMITT: And to answer the --
5 MR. TUTEN: Well, here's the thing, Bill, my
6 last public statement on the final issue.
7 You know, life isn't money and everything.
8 It's pay me now or pay me later. The City, for
9 ten years, has sat back and decided that we can't
10 afford the employees that we have because they
11 make too much money, yada-yada.
12 We have learned today, and I read the other
13 day at home when Debbie sent the email, that it's
14 now going to cost the City an extra $42 million.
15 If they had just simply -- simply given raises to
16 the employees over the last ten years, they
17 wouldn't be facing an extra humongous payment,
18 which they will, of course, somehow, label the
19 pension board as being responsible for, which,
20 unfortunately, back then, I'm the only one that
21 was there.
22 And it's just frustrating, Bill. I
23 appreciate your willingness to try to work with
24 the City on these types of things. Maybe I'm
25 jaded, brother, but I've been here, I've done

1 that, and it's -- it's futile. I'm just
2 frustrated.
3 MR. SCHEU: Keep that -- that's hitting your
4 head against the wall. I mean, you just have to
5 do it.
6 And it may be that some people will change.
7 I think Greg Anderson does a great job. And I
8 think it's about leadership. I really do.
9 CHAIRMAN SCHMITT: And -- go ahead, Bill.
10 Go ahead and finish.
11 MR. SCHEU: No, I'm done. Thank you, Larry.
12 CHAIRMAN SCHMITT: Okay.
13 My reason for looking at these two items is
14 I like to deal in the knowns. As frustrating as
15 the politics is, I try to keep that to the side
16 and focus on just the true financial impact in
17 the numbers that we're able to calculate outside
18 of politics.
19 So I think it's a good tool to have these
20 two calculation knowns so we can evaluate, as a
21 Board, you know, and get input from the advisory
22 committee and the investment committee on what we
23 think, as a Board, is the best direction to go
24 with these two items.
25 Now, whether the City agrees with it or

1 doesn't agree with it is a totally separate
2 issue, but I think the more information we have
3 and we're able to use to evaluate the direction
4 that we think we need to go, the more prudent
5 we're being and responsible for being as a Board.
6 So that's my reason for wanting these two
7 items calculated.
8 Any other items before the Board -- or
9 before the committee?
10 All right. We're adjourned.
11 (The Workshop concluded at 4:15 p.m.)
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1 CERTIFICATE OF REPORTER

2

3 I, Denice C. Taylor, Florida Professional

4 Reporter, Notary Public, State of Florida at Large,

5 the undersigned authority, do hereby certify that I

6 was authorized to and did stenographically report the

7 foregoing proceedings, and that the transcript, pages

8 2 through 115, is a true and correct computer-aided

9 transcription of my stenographic notes taken at the

10 time and place indicated herein.

11 DATED this 22nd day of January, 2016.

12

13 ______________________________

Denice C. Taylor, FPR

14 Notary Public in and for the

State of Florida at Large

15

My Commission No. FF 184340

16 Expires: December 23, 2018

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