Analysis of the Proposed Pension Reform Agreement between the City of Jacksonville and the Jacksonville Police and Fire Pension Fund

David Draine, Pew Charitable Trusts

Following our work with the Jacksonville Retirement Reform Task Force, we have continued to monitor the pension discussion in Jacksonville. Now a new proposed pension reform agreement has been announced between the City and the Jacksonville Police and Fire Pension Fund that draws heavily from the consensus recommendations of the Task Force but differs in several key areas. Following the request of Task Force Chair Bill Scheu for further analysis and in order to help Jacksonville's policymakers make an informed decision, we have analyzed the impact of the proposed agreement both in relation to the current pension policy status quo as well as the original Task Force recommendations. Pew's analysis is that this proposal contains the vast majority of the Task Force's recommendations and offers a comprehensive solution to Jacksonville's public safety pensions.

The Task Force's deliberations led to recommendations based on the following conclusions:

- Newly hired police officers and firefighters would receive a reformed defined benefit pension plan based on prior deliberations between the City and the Police and Fire Pension Fund.
- Current employees would be part of the shared sacrifice through changes to employee contributions, reductions in cost of living adjustments for benefits not yet earned, changes in the interest on DROP accounts, and a change in how salary is calculated for retirement benefits for workers with less than 10 years of service.
- Retirees would experience no loss or change in benefits.
- The City of Jacksonville would go above the minimum requirement in funding police and fire pensions—both to pay down the debt faster and to buffer against future investment losses.
- Additional contributions would be best funded through a voter approved sales tax increase.
- Plan governance and disclosure would be improved to reduce the risk of future funding crises.

The agreement from the City and the Fund differ from the Task Force recommendations in five ways:

1) Changes to the cost of living adjustments for current employees are no longer in the agreement.
2) The Fund has agreed to use $117 million in Chapter Funds (currently used to enhance retiree benefits) and Reserve Funds to help pay down the pension debt.
3) The pattern of payments is different though a commitment to going above the minimum payment requirements is maintained—specifically rather than committing to making flat payments of $200 million until the plan is 80 percent funded, the City is instead committing to making an additional $40 million payment above the required contribution for 10 years.
4) There is no explicit funding source for the $40 million payments; instead an "Additional Unfunded Liability Payment Committee" will be formed to identify funding sources for FY 2016 and subsequent years. The FY 2015 $40 million payment will be paid from Chapter Funds and Reserve Funds transferred from the Fund to the City.
5) Proposed changes to the Fund board are not in the proposed agreement although the bulk of the other governance recommendations were included.

Table 1 shows estimated savings under two investment return scenarios for four policies. The investment scenarios are the assumed rate of return for the Police and Fire Pension Fund (7 percent returns) and a 25th percentile scenario (5.4 percent returns, under plan assumptions 75 percent chance that long-term returns will be at or above this level). The four policy options are the current status quo (baseline), the recommendations of the Task Force, the latest agreement if COLA changes were kept in, and the latest agreement without the recommended changes to the COLA. The total cost is the sum of city contributions—both the actuarial required payments and any additional supplemental payments—from fiscal year 2014 through fiscal year 2044.

Table 1—Estimated Cost of Jacksonville Police and Fire Pension Fund—2014 through 2044

7% Returns				
Approach	*Total Cost , Not Inflation Adjusted*	*Savings*	*Total Cost, Inflation Adjusted*	*Fiscal Year to Hit 80% Funded*
Baseline	**$6,117**	**$0**	**$4,348**	**2033**
Task Force Recommendations	**$4,346**	**$1,772**	**$3,324**	**2028**
City-Fund Agreement + COLA	**$4,337**	**$1,780**	**$3,069**	**2029**
City-Fund Agreement	**$4,574**	**$1,543**	**$3,426**	**2029**

5.4% Returns				
Approach	*Total Cost , Not Inflation Adjusted*	*Savings*	*Total Cost, Inflation Adjusted*	*Fiscal Year to Hit 80% Funded*
Baseline	**$7,819**	**$0**	**$5,353**	**2035**
Task Force Recommendations	**$5,822**	**$1,997**	**$4,170**	**2036**
City-Fund Agreement + COLA	**$5,647**	**$2,172**	**$3,750**	**2040**
City-Fund Agreement	**$5,989**	**$1,830**	**$4,236**	**2040**

Source: The Terry Group, 2014

Assumptions based on Police and Fire Pension Fund assumptions when applicable, including a 2.5 percent assumed inflation rate.

The finding from this analysis is that both the Task Force recommendations and the City-Fund agreement represent substantial savings from sticking to Jacksonville's current pension policies—$1.77 billion under the Task Force recommendations and $1.54 billion from the City-Fund agreement. While eliminating the COLA changes reduces the savings for the City by approximately $237 million, it is partially made up by changes in how the Chapter Funds are allocated (approximately $117 million in Chapter Funds and Reserve Account Funds). In addition, the changes to the final average salary calculation are preliminarily estimated to save $26 million.

These numbers are approximate but they give a useful sense of scale and scope to policymakers looking to compare current policy, the Task Force Recommendations, and the latest City-Fund agreement. Final numbers for budgeting purposes should come from the official plan actuary.

The latest agreement incorporates many of the key principles of the Task Force and achieves approximately 87 percent of the anticipated savings. It does not propose a funding source for the additional payments (though it does suggest a process for finding one) and the additional pension payments are cut off after 10 years whether or not the fund has hit 80 percent funded—both aspects can be fixed outside of the negotiation process between the City and the Police and Fire Fund. In particular, by capping the extra payments to 10 years, it delays when the Fund reaches 80 percent funded in the low investment return scenario.

Taking into account the changes from the original recommendations, this agreement represents substantial long-term savings to the City, achieves the new plan design recommended by the Task Force, commits Jacksonville to a disciplined funding approach, and includes virtually all of the governance recommendations. Pew's analysis is that this proposal contains the vast majority of the Task Force's recommendations and offers a comprehensive solution to Jacksonville's public safety pensions.