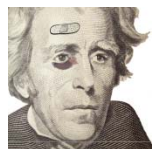


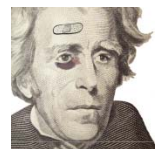
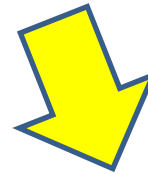
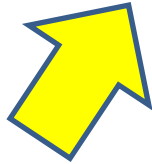
Freeze, 40, and Forward

**Police & Fire Pension Fund Reform Recommendations
Presented to the Jacksonville Retirement Reform Task Force**

Tom Majdanics – February 12, 2014

jaxpensionreform@yahoo.com







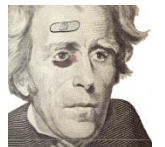
jaxpensionreform@yahoo.com

The condition of the Fund is presently the greatest threat to the short- and long-term financial health of our city government and Jacksonville's future quality of life.

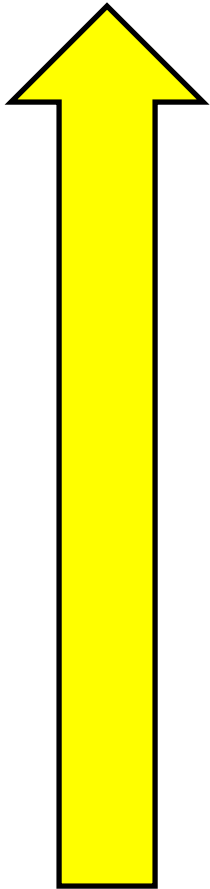
\$1,684,069,919 unfunded liability

879,602 Jacksonville residents

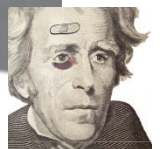
= \$1,915 for every man, woman and child



City contributions to the Fund have skyrocketed over the past decade.



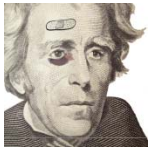
FY 2014: \$148 MM
FY 2013: \$121 MM
FY 2012: \$77 MM
FY 2011: \$75 MM
FY 2010: \$81 MM
FY 2009: \$49 MM
FY 2008: \$47 MM
FY 2007: \$43 MM
FY 2006: \$35 MM
FY 2005: \$26 MM
FY 2004: \$22 MM
FY 2003: \$10 MM
FY 2002: \$10 MM



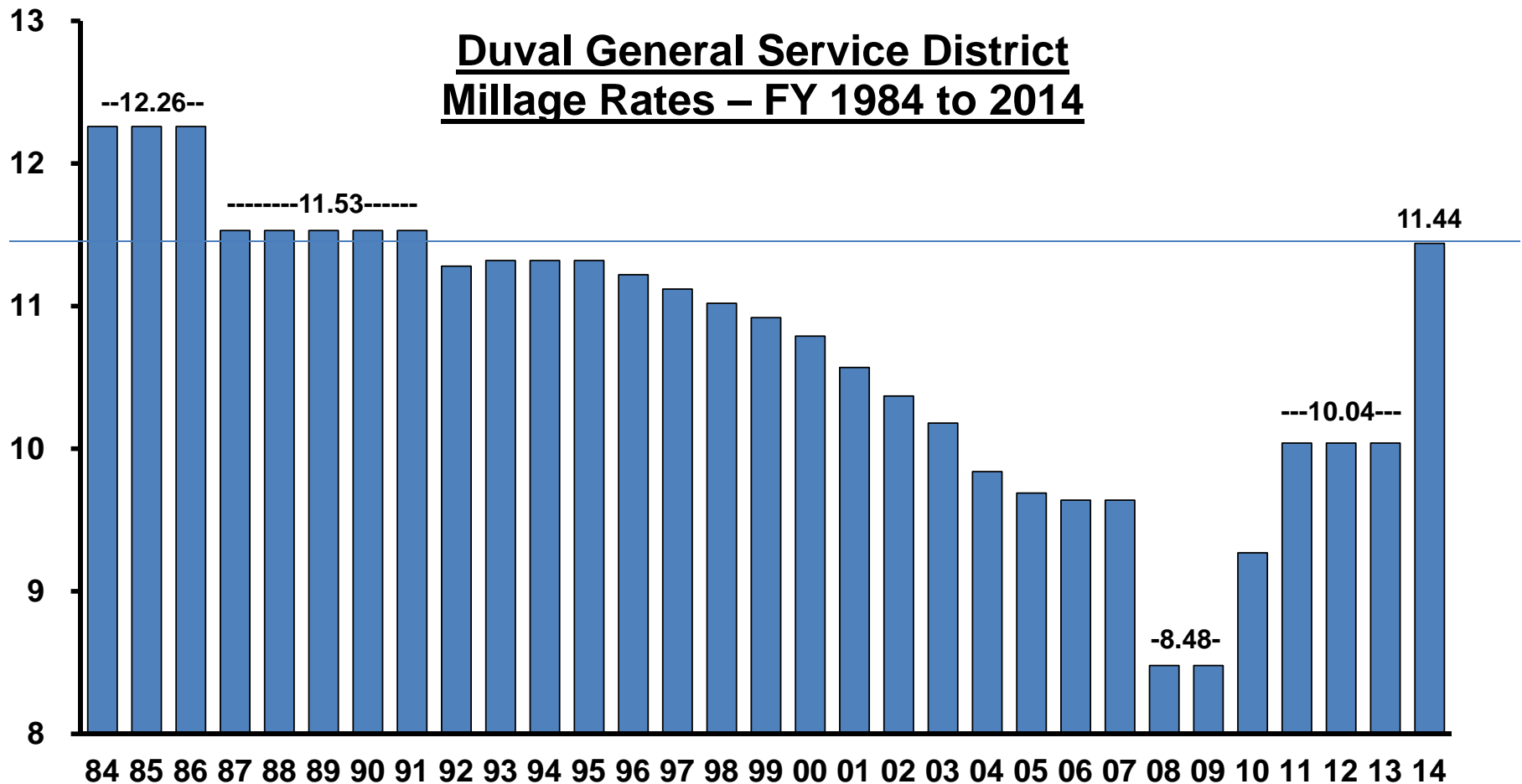
The Fund's \$148 million allocation in FY 2014 exceeds the combined budget of several critical public services that are the core of Jacksonville's quality of life.

<i>Public Works:</i>	<i>\$35 million</i>
<i>Public Library System:</i>	<i>\$34 million</i>
<i>Parks & Recreation:</i>	<i>\$26 million</i>
<i>Children's Commission:</i>	<i>\$23 million</i>
<i>Neighborhoods Department:</i>	<i>\$15 million</i>
<i>Economic & Downtown Dev:</i>	<i>\$5 million</i>
<i>Cultural Council and PSGs:</i>	<i>\$5 million</i>
<i>Special Events:</i>	<i>\$3 million</i>
<i>Veteran's Services</i>	<i>\$1.4 million</i>

Total ***\$147.4 million***



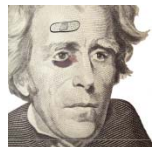
After enacting the largest one-year increase in a generation, Jacksonville's property tax rates are at their highest level since FY 1991.



The \$1.7 billion liability isn't the problem – it's the symptom of system with numerous flaws that have metastasized for over a decade.

	2012	2008	2004	2000
Assets	\$1,078,907	\$894,903	\$727,955	\$814,889
Liabilities	\$2,762,977	\$1,692,975	\$1,222,355	\$939,802
UAAL	\$1,684,070	\$798,071	\$494,400	\$124,913
Percent Funded	39%	53%	60%	87%

The unfunded liability has grown by \$130 million per year since 2000.



Evidence-based Claim #1 - Lifetime pension benefits are set at financially unsustainable levels.

\$3,419,677

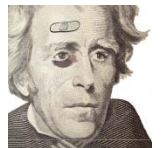


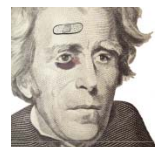
Exhibit 1: Pension Example - Standard Police Officer, Jacksonville Sheriff's Office

<u>Year</u>	<u>Salary</u>	<u>7% officer contribution</u>
1	\$ 36,325	\$ 2,543
2	\$ 39,999	\$ 2,800
3	\$ 43,673	\$ 3,057
4	\$ 47,348	\$ 3,314
5	\$ 51,022	\$ 3,572
6	\$ 54,696	\$ 3,829
7	\$ 55,428	\$ 3,880
8	\$ 56,160	\$ 3,931
9	\$ 56,891	\$ 3,982
10	\$ 57,623	\$ 4,034
11	\$ 58,355	\$ 4,085
12	\$ 59,087	\$ 4,136
13	\$ 59,819	\$ 4,187
14	\$ 60,551	\$ 4,239
15	\$ 61,282	\$ 4,290
16	\$ 62,014	\$ 4,341
17	\$ 62,476	\$ 4,373
18	\$ 62,476	\$ 4,373
19	\$ 62,476	\$ 4,373
20	\$ 62,476	\$ 4,373
Total	\$ 1,110,177	\$ 77,712
	Salary	Contribution

<u>Pension - 60% of average of last two years of salary with 3% annual COLA</u>			
<u>Year</u>	<u>Pension</u>	<u>Year</u>	<u>Pension</u>
1	\$ 37,486	21	\$ 67,703
2	\$ 38,610	22	\$ 69,734
3	\$ 39,768	23	\$ 71,826
4	\$ 40,962	24	\$ 73,981
5	\$ 42,190	25	\$ 76,201
6	\$ 43,456	26	\$ 78,487
7	\$ 44,760	27	\$ 80,841
8	\$ 46,103	28	\$ 83,266
9	\$ 47,486	29	\$ 85,764
10	\$ 48,910	30	\$ 88,337
11	\$ 50,378	31	\$ 90,987
12	\$ 51,889	32	\$ 93,717
13	\$ 53,446	33	\$ 96,529
14	\$ 55,049	34	\$ 99,424
15	\$ 56,700	35	\$ 102,407
16	\$ 58,401	36	\$ 105,479
17	\$ 60,153	37	\$ 108,644
18	\$ 61,958	38	\$ 111,903
19	\$ 63,817	39	\$ 115,260
20	\$ 65,731	40	\$ 118,718
Total collected pensions		\$ 2,826,461	

<u>Survivor Benefit - 75% of last benefit with 3% annual COLA</u>	
<u>Year</u>	<u>Benefit</u>
41	\$ 91,710
42	\$ 94,461
43	\$ 97,295
44	\$ 100,214
45	\$ 103,220
46	\$ 106,317
Total	\$ 593,215

Grand Totals:	Total Salary Earned in 20 years of service	\$ 1,110,177
	Total Employee Contributions to Pension Fund	\$ 77,712
	Total Retiree Benefits - Pension plus Survivor Benefit	\$ 3,419,677

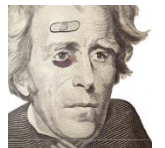


Lifetime pension benefits are set at financially unsustainable levels.

\$4.5 million

In total compensation

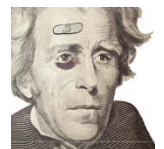
(\$225,000 per year)



Total pension benefits can be estimated for a variety of scenarios.

<u>Ending Salary</u>	<u>Years of Service</u>	<u>Cumulative Salary Earned</u>	<u>Employee Contribution to PFPF (7%)</u>	<u>Total Estimated Pension Benefits*</u>
\$ 50,000	20	\$830K	\$58K	\$2.7MM
\$ 62,476	20	\$1.1MM	\$80K	\$3.4MM
\$ 100,000	30	\$2.0MM	\$140K	\$4.7MM

* For retiree with 20 years service, assumes 40 years of benefits; with 30 years, assumes 30 years of collected benefits; 6 years of survivor benefits for all retirees

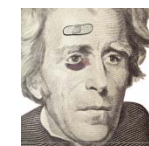


Jacksonville Police & Fire pension benefits compare very favorably to those offered to the Military

<u>Salary at Retirement</u>	<u>PFPF or Military?</u>	<u>Yrs. of Service</u>	<u>Starting Pension as % of Salary</u>	<u>Annual COLA</u>	<u>Employee Contrib. to Pension</u>	<u>Estimated Retiree Pension Benefits</u>	<u>Est. Survivor Benefits</u>	<u>Total Est. Pension Benefits</u>
\$ 50,000	PFPF	20	60%	3% fixed	\$58K	\$2.2MM	\$500K	\$2.7MM
\$ 50,000	Military	20	50%	Inflation *	Zero	\$1.4MM	\$80K**	\$1.5MM
\$ 62,476	PFPF	20	60%	3% fixed	\$80K	\$2.8MM	\$600K	\$3.4MM
\$ 62,476	Military	20	50%	Inflation *	Zero	\$1.8MM	\$95K**	\$1.9MM
\$ 100,000	PFPF	30	80%	3% fixed	\$140K	\$3.8MM	\$900K	\$4.7MM
\$ 100,000	Military	30	75%	Inflation *	Zero	\$3.0MM	\$200K**	\$3.2MM

* Military retirees under the age of 62 have their pension annually adjusted (COLA) at the rate of inflation minus 1%. After age 62, pensions are adjusted at the rate of inflation; inflation is assumed at the 2000-2013 average of 2.4% per year.

** The military requires retirees to purchase a survivor insurance plan for spouses; 6.5% of a retiree's pension is deducted as an insurance premium, unless the spouse elects to opt out. The spouse receives 55% of the retiree's pension as a survivor, with a COLA tied to inflation. The premium is subsidized by the federal government by ~40%. In sum, military survivors receive a benefit that is lower than the PFPF (55% vs. 75%), with a lower COLA (inflation vs. fixed 3%), and the retiree must pay for most of the premium for the survivor benefit. We estimate the value of survivor benefits paid for by the government in the above.



Evidence-based Claim #2 - The cost to provide enhanced pension benefits in the 2001 bargain was severely miscalculated and grossly misrepresented to taxpayers over numerous years.

- As a result of the 2001 bargain, a standard police officer who retires today receives an estimated \$900,000 in additional lifetime pension benefits.
- An initial 8.5% discount rate on liabilities and flawed life expectancies hid the true cost of this benefit expansion.
 - The Fund is presently using the RP-2000 Combined Healthy Mortality Table, apparently last updated in 2003

**City contributions
to PFPF**

FY 2007: \$43 MM

FY 2006: \$35 MM

FY 2005: \$26 MM

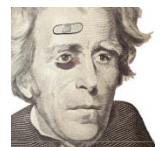
FY 2004: \$22 MM

FY 2003: \$10 MM

FY 2002: \$10 MM

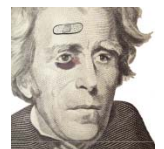


This has led to consistently insufficient funding and the gravely erroneous belief that benefits can be greater, city services can be greater, or taxes lower while still funding benefits securely.



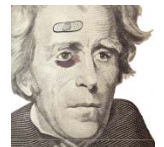
Evidence-based Claim #3: PFPF reporting on performance and long-term viability is proactively infrequent, opaque, and inaccessible, preventing regular external oversight.

- To this day, the Fund's most two key accountability reports are not available online for citizen review (CAFR and Actuarial Valuation Report)
- Actuarial Valuation reports only ordered every 3 years – an eternity in finance
- Bargaining held in private, out of the sunshine.



These three systematic flaws have created a destructive cocktail for Jacksonville.

- **Lifetime pension benefits are set at financially unsustainable levels.**
- **The cost to provide enhanced pension benefits in the 2001 bargain was severely miscalculated and grossly misrepresented to taxpayers over numerous years.**
- **PFPF reporting on performance and long-term viability is proactively infrequent, opaque, and inaccessible, preventing regular external oversight.**

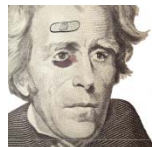




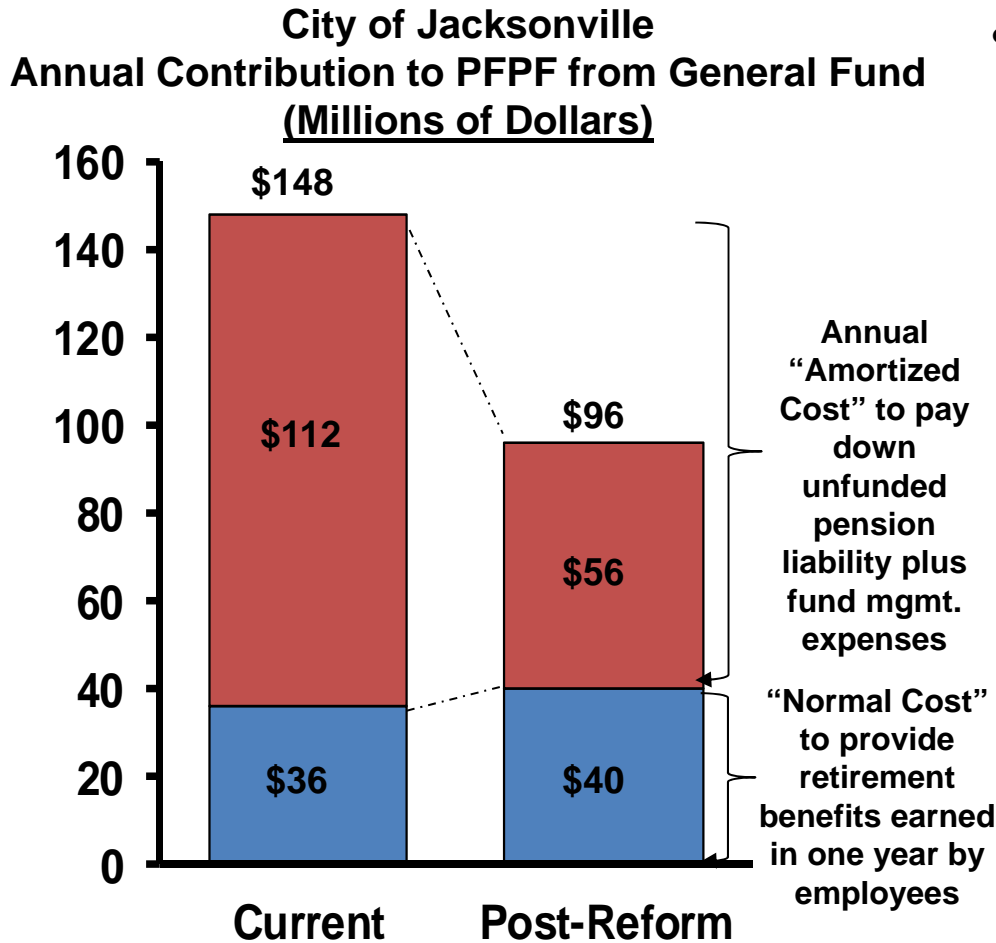
The Pieces of Reform: Guiding Principles and Policy Recommendations

Freeze, 40 & Forward approaches reform with six guiding principles in mind

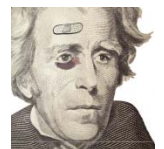
- 1. 50/50 joint responsibility for the \$1.7 billion UAAL between taxpayers and all fund members (current employees and retirees)**
- 2. No new taxes of any kind – we are at the tax “tipping point” in Jacksonville**
- 3. Preserve retiree financial peace of mind**
- 4. Continue to attract and retain a high quality public safety workforce**
- 5. Provide clearest transparency of retiree benefits to everyone**
- 6. Guarantee that another pension financial debacle will never, ever happen again**



Through the “Freeze, 40, & Forward” plan, the City of Jacksonville realizes \$52 million in annual savings, which can be redeployed to reduce property taxes, enhance public safety, and other civic priorities.



- **Freeze & 40 has three components; goal of reducing UAAL to levels where the annual amortized cost to taxpayers is cut in half**
 1. **Freezing of defined benefit pension plan and replacement with modern 401k that is robust, portable and immediately vesting**
 2. **Fee Chopper: \$6 million of annual savings realized by reducing PFPF investment management fees, dedicated to reducing liability**
 3. **Diet COLA: changes to annual cost of living adjustments for younger retirees and those receiving large pension benefits**



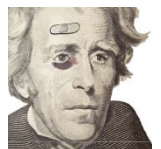
Freeze & 40: Freeze the current (flawed) plan and create a modern 401k benefit that puts a clear price on the risk premium associated with public safety work

Freeze...

- Current defined benefit plan is frozen to all employees
- Employee has earned core value of the defined benefit
- Defined benefit monies are paid out on schedule after retirement age is reached
- DROP is dropped (additional service is compensated via 401k)
- Replacing DB pension is a modern 401k

... 40

- Take \$36 million of estimated normal cost and convert to \$40 million initial 401k pool
- Employer match of 12-to-1; opt-in default
- \$40MM pool by ~2,750 active employees = ~\$14,500 average match
- Average employee = \$60K salary
 - 2% employee contribution = \$1,200
 - 12-to-1 employee match = \$14,400



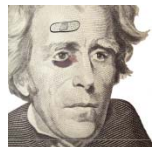
Freeze, 40, & Forward: Replace complexity, unpredictability and opacity with a modern, robust structure that is simple, reliable and 100% transparent

Attractive to employees

- Immediate and significant vesting savings from day 1 of employment
- 5% of income freed up for personal needs
 - 2% 401k employee match vs. 7% pension contribution
 - Employee can choose to save more, pay student loans, buy Jaguars tickets, etc.
- Benefits are fully portable
- 100% owned and controlled by employee; can be borrowed against if needed, willed to heirs

Modern 401k = principled reform

- Robust benefit attracts and retains top quality public safety talent
- Clearest transparency of benefits, 100% predictable
- Any potential changes can be easily monitored by citizens with pencil and paper - no actuary required!
- Can guarantee that another pension debacle will never happen again



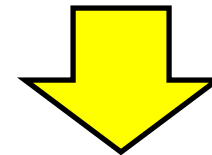
Fee Chopper: Millions can be saved annually by shifting PFPF assets from expensive active to lower-cost index funds and passive management

Pre-reform

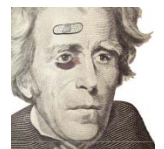
- PFPF - \$1.1 billion in assets
 - 60% equities (40% domestic, 20% int'l)
 - 19% fixed income, 10% real estate, 9% Energy Master Limited Partnerships
 - 83% of equities are actively managed
 - 78 basis points of fees in 2013
 - State of FL retirement system had 30 points of fees in 2011 (most recent year available)

Post-reform

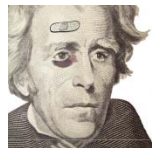
- Proactive shift to greater indexing, move away from expensive investment management fees
 - Goal: Reduce annual fees to 25 basis points or lower



Annual savings of ~\$6 million or more with no impact on investment returns or fund risk profile



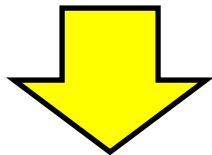
New addition: Support SB 246, which allows state insurance tax premium dollars to be utilized to pay down our unfunded liability.



Diet COLA: 3% fixed COLAs are unsustainable and need to go on a diet.

Pre-2001 bargain

- No cost of living adjustment for first 5 years of a pension
- After that, COLA is the lower of inflation or 3%

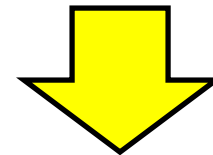


After 40 years, 1 pension dollar would be worth \$2.29

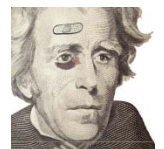
(Assumes 2000-13 average of 2.4% inflation)

Post-2001 bargain

- COLA is fixed, compounded 3%, regardless of inflation, starting in year 1

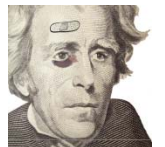


After 40 years, 1 pension dollar would be worth \$3.17, a 38% increase



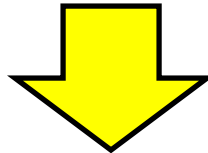
By the end of this decade, the pension of the average retiree is projected to exceed the salary of the average policeman or fireman.

	<u>Oct-08</u>	<u>Oct-09</u>	<u>Oct-10</u>	<u>Oct-11</u>	<u>Oct-12</u>
Avg. Annual Employee Salary	\$ 58,541	\$ 60,224	\$ 60,323	\$ 60,862	\$ 60,523
Avg. Annual Retiree Benefit	\$ 45,952	\$ 47,622	\$ 49,463	\$ 51,395	\$ 53,042
Difference	\$ 12,589	\$ 12,602	\$ 10,860	\$ 9,467	\$ 7,481

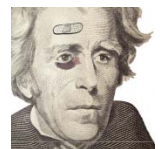


Diet COLA: We borrow from COLA reforms from the Dept. of Defense and Illinois that preserve retiree peace of mind and promote long-term fiscal stability.

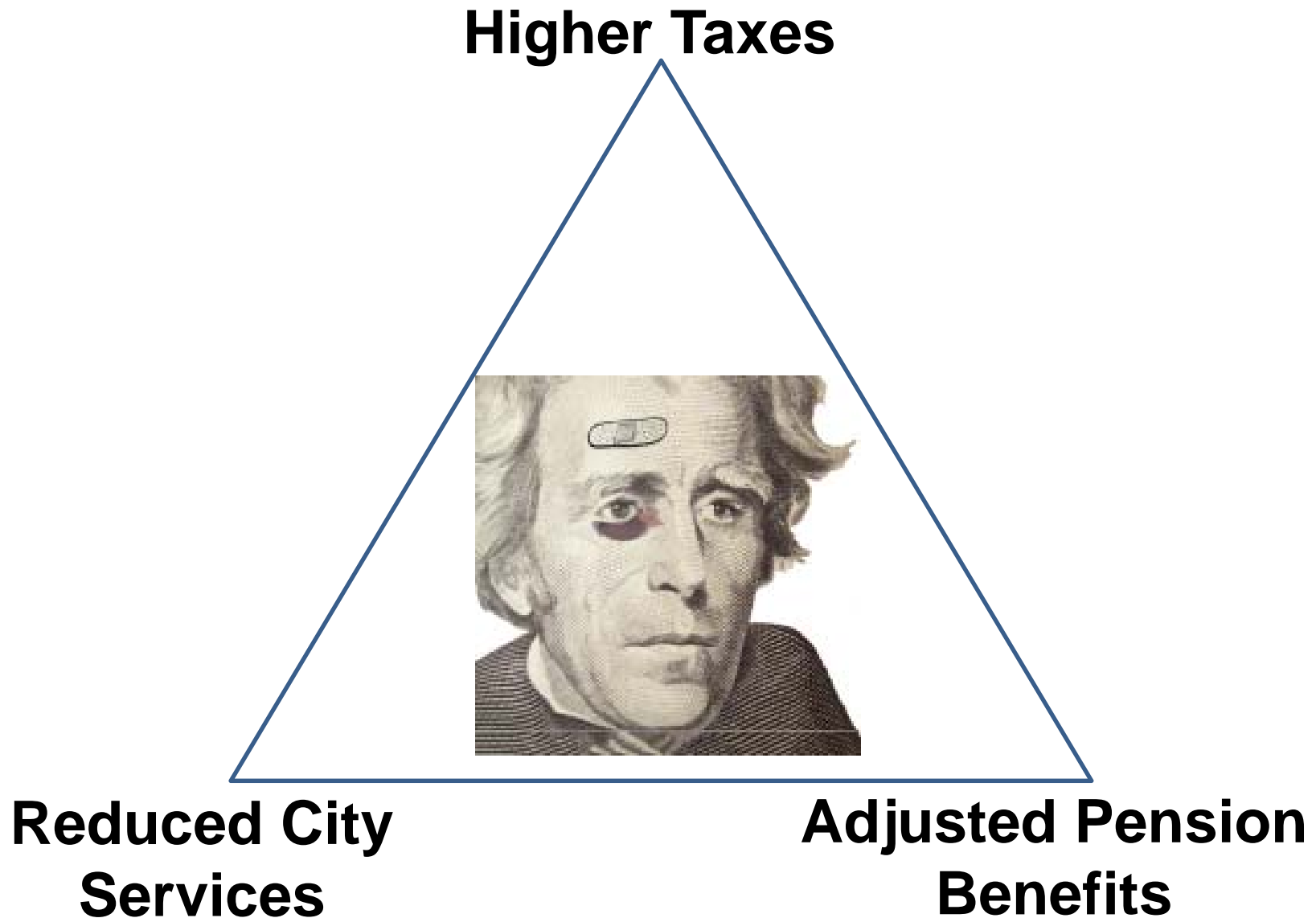
		<u>SIZE OF BENEFIT</u>			
		<u>Lowest</u>	<u>Low-Mid</u>	<u>Mid-High</u>	<u>Highest</u>
<u>AGE</u>	Youngest (< 60)	LOWEST COLA	LOWEST COLA	LOWEST COLA	LOWEST COLA
	Medium (61-70)	MAX COLA	MEDIUM COLA	LOWEST COLA	LOWEST COLA
	High (> 70)	MAX COLA	MEDIUM to MAX	MEDIUM COLA	LOWEST COLA



- **Maximum COLA = inflation**
- **Older retirees with low benefits = 100% inflation-protected COLA**
- **Young retirees = lowest COLA; Retirees with highest benefits = lowest COLA**
- **After impact of first two reform components, backwards solve for COLA matrix levels that reduce UAAL and amortized cost to goal amount**
 - E.g. Lowest COLA = inflation minus 1.5 or 2%?

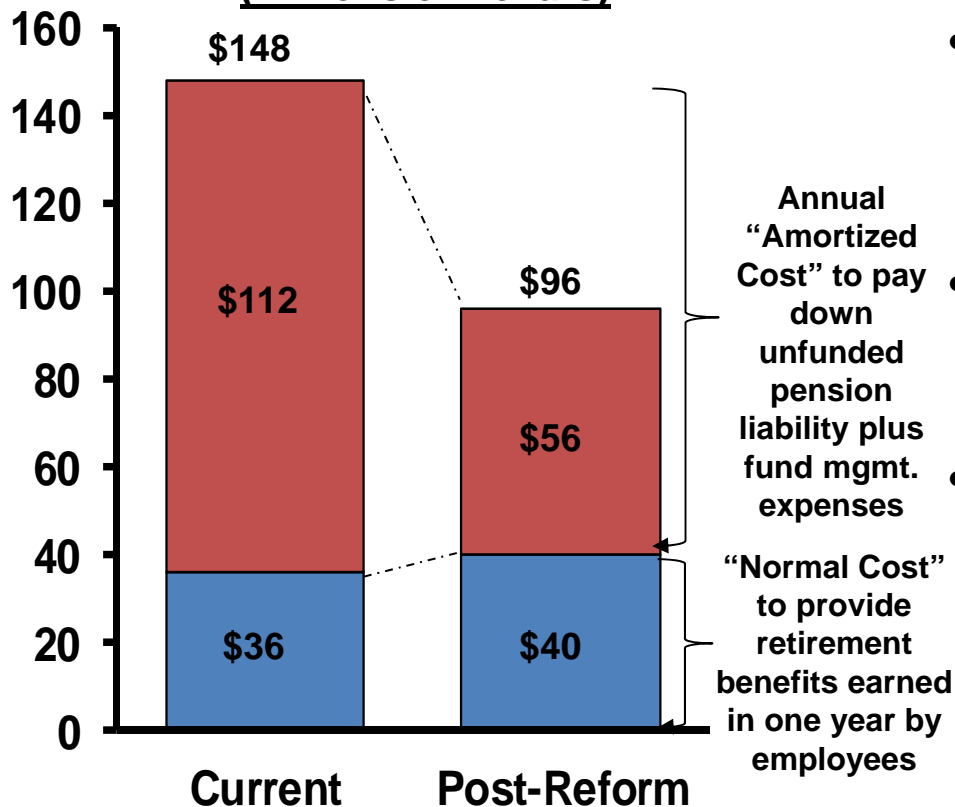


Our choices are limited to solve the problem and need to be balanced.

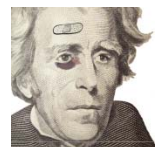


“Freeze, 40 & Forward” is a principled, fair, and joint solution that preserves financial peace of mind of retirees, limits taxpayer burden, and repositions city finances for success.

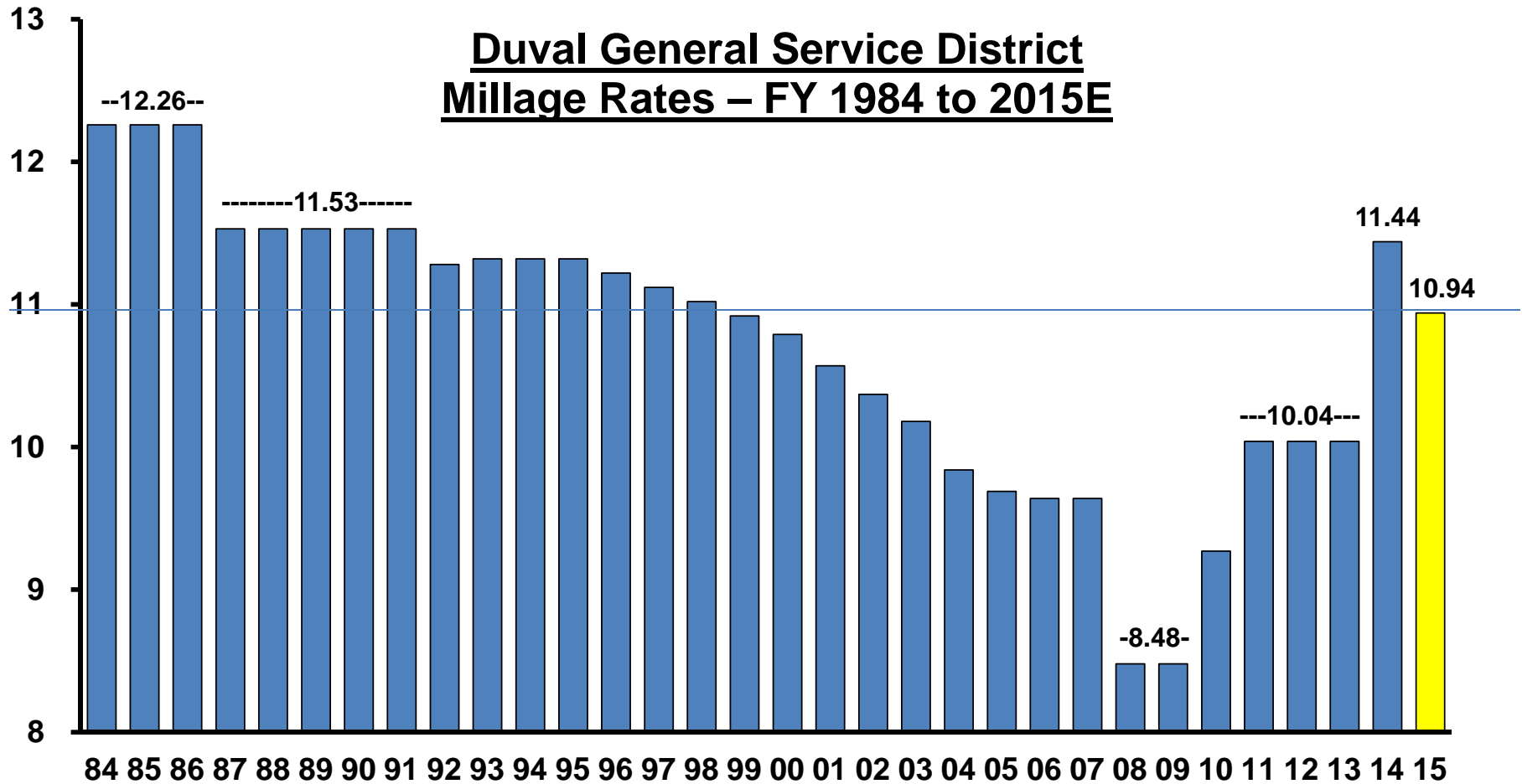
**City of Jacksonville
Annual Contribution to PFPF from General Fund
(Millions of Dollars)**



- Taxpayers get some needed relief, but still pay almost \$100 million per year to clean up the sins of the past.
- Retirees preserve financial peace of mind, but those expecting to become millionaires several times over in retirement will need to adjust expectations.
- City finances repositioned for success; obtains monies to deploy to public services hampered by the recession, including public safety
- All six guiding principles are adhered:
 1. 50/50 joint responsibility
 2. No new taxes of any kind
 3. Preserve retiree peace of mind
 4. Continue to attract and retain a high quality public service workforce
 5. Provide clear transparency of retiree benefits to all citizens
 6. Guarantee that another pension financial debacle will never happen again



We using ½ of the proceeds from Freeze, 40 & Forward to provide a ½ mill property tax cut, reducing rates to 1999 levels, about when this problem first began.



Freeze, 40 and Forward frees up significant dollars which can be deployed to rebuild Jacksonville's quality of life.

Sheriff's Office	\$389 million	} These figures includes \$148 million of pension costs
<u>Fire Department</u>	<u>\$196 million</u>	

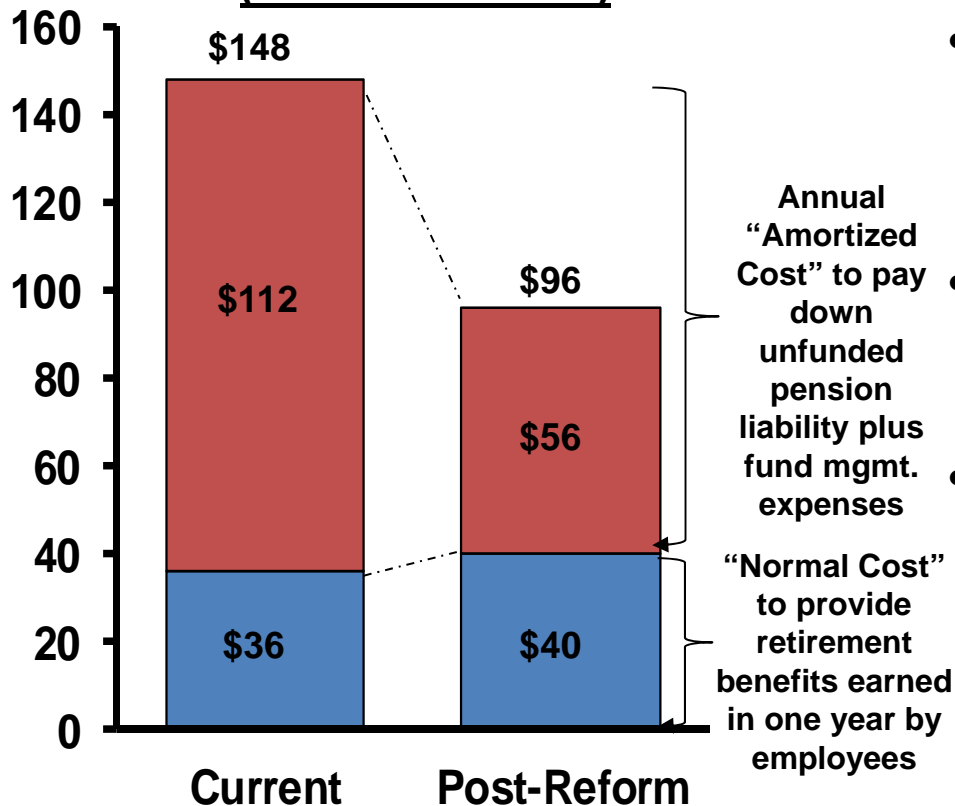
- Public Works:** \$35 million
- Public Library System:** \$34 million
- Parks & Recreation:** \$26 million
- Children's Commission:** \$23 million
- Neighborhoods Department:** \$15 million
- Economic & Downtown Dev:** \$5 million
- Cultural Council and PSGs:** \$5 million
- Special Events:** \$3 million
- Veteran's Services** \$1.4 million

~\$26 million to deploy

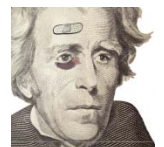


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- Taxpayers get some needed relief, but still pay almost \$100 million per year to clean up the sins of the past.
- Retirees preserve financial peace of mind, but those expecting to become millionaires several times over in retirement will need to adjust lofty expectations.
- City finances repositioned for success with 401k; obtains monies to deploy to public services hampered by the recession, including public safety
- All six guiding principles are adhered:
 1. 50/50 joint responsibility
 2. No new taxes of any kind
 3. Preserve retiree peace of mind
 4. Continue to attract and retain a high quality public safety workforce
 5. Provide clear transparency of retiree benefits to all citizens
 6. Guarantee that another pension financial debacle will never happen again





Questions?

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