

THE
PEW
CHARITABLE TRUSTS

**Presentation to the
Jacksonville Pension
Reform Task Force**

February 19, 2014



David Draine
The Pew Charitable Trusts
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Designing a Pension Plan for New Workers

Any good plan will help put workers on a secure path to retirement while keeping costs affordable and sustainable for the employer. The Jacksonville Task Force has reviewed multiple plan designs to try to identify the pension benefit that will best fulfill those goals.

The Task Force has requested analysis on four plans:

- 1) The final average salary defined benefit plan that was developed as part of the Mediated Settlement Agreement
- 2) The final average salary defined benefit plan proposed by the Civic Council
- 3) A hybrid pension plan with a defined benefit component based on a 1 percent multiplier along with an individual defined contribution account
- 4) A hybrid pension plan with a defined benefit component based on a 2 percent multiplier along with an individual defined contribution account



Plan Parameters: Final Average Salary Defined Benefit from the Mediated Settlement Agreement

Normal Retirement: Age 62 or 30 years of service

Early Retirement Eligibility: 25 years of service

Early Retirement Reduction: Replacement rate reduced by 3 percentage points for every year of service below 30, with a floor of 53.5 percent of pay

Vesting Eligibility: 10 years of service

Benefit Multiplier Per Year of Service:

- 2.5 percent with 25 or more years of service
- 2 percent with fewer than 25 years of service

Final Average Salary: Last 5 years

Employee Contribution: 10 percent of pay

COLA:

- Begins after three years in retirement
- Indexed to the Consumer Price Index
- Cap of 1.5 percent

Other Notes:

- DROP is replaced with a Back-DROP plan that does not include a guaranteed return
- Annual benefits are capped at \$100,000 or 75% of final average salary



Plan Parameters: Final Average Defined Benefit from the Civic Council Proposal

Retirement Eligibility: 25 years of service

Vesting Eligibility: 10 years of service

Benefit Multiplier Per Year of Service:

- 2 percent of final average salary per year for first 25 years of service
- 2.5 percent of final average salary per year for next 6 years of service

Final Average Salary: Last 5 years

Employee Contribution: 10 percent of pay

COLA:

- Indexed to the Consumer Price Index
- Cap of 1.5 percent
- Only available if plan as a whole is at least 80 percent funded

Other Notes:

- DROP is eliminated
- Annual benefits are capped at \$100,000 or at 65% of final average salary



Plan Parameters: Stacked Hybrid Plan w/ 1% DB Multiplier

Retirement Eligibility: Age 60 or 30 years of service

Vesting Eligibility: 5 years of service

Benefit Multiplier: 1 percent

Final Average Salary: Last 5 years

Contributions:

- Defined Benefit
 - Employer – 6 percent
 - Employee – None
- Defined Contribution
 - Employer – 4 percent
 - Employee – 10 percent

COLA:

- No COLA is provided for the DB benefit
- The annuity options for the DC benefit can include appropriately priced COLAs

Other Notes:

- Benefit is based on the defined benefit formula and the defined contribution account.
- The provisions regarding COLAs, vesting, retirement eligibility, and salary calculation are based on the benefits offered to new public safety workers enrolled in the Florida Retirement System pension plan
- The defined contribution plan should offer a limited set of professionally managed, low fee investment options and should provide workers with appropriately priced annuities



Plan Parameters: Stacked Hybrid Plan w/ 2% DB Multiplier

Retirement Eligibility: Age 60 or 30 years of service

Vesting Eligibility: 5 years of service

Benefit Multiplier: 2 percent

Final Average Salary: Last 5 years

Contributions:

- Defined Benefit
 - Employer – 10 percent
 - Employee – 2 percent
- Defined Contribution
 - Employer – None
 - Employee – 8 percent

COLA:

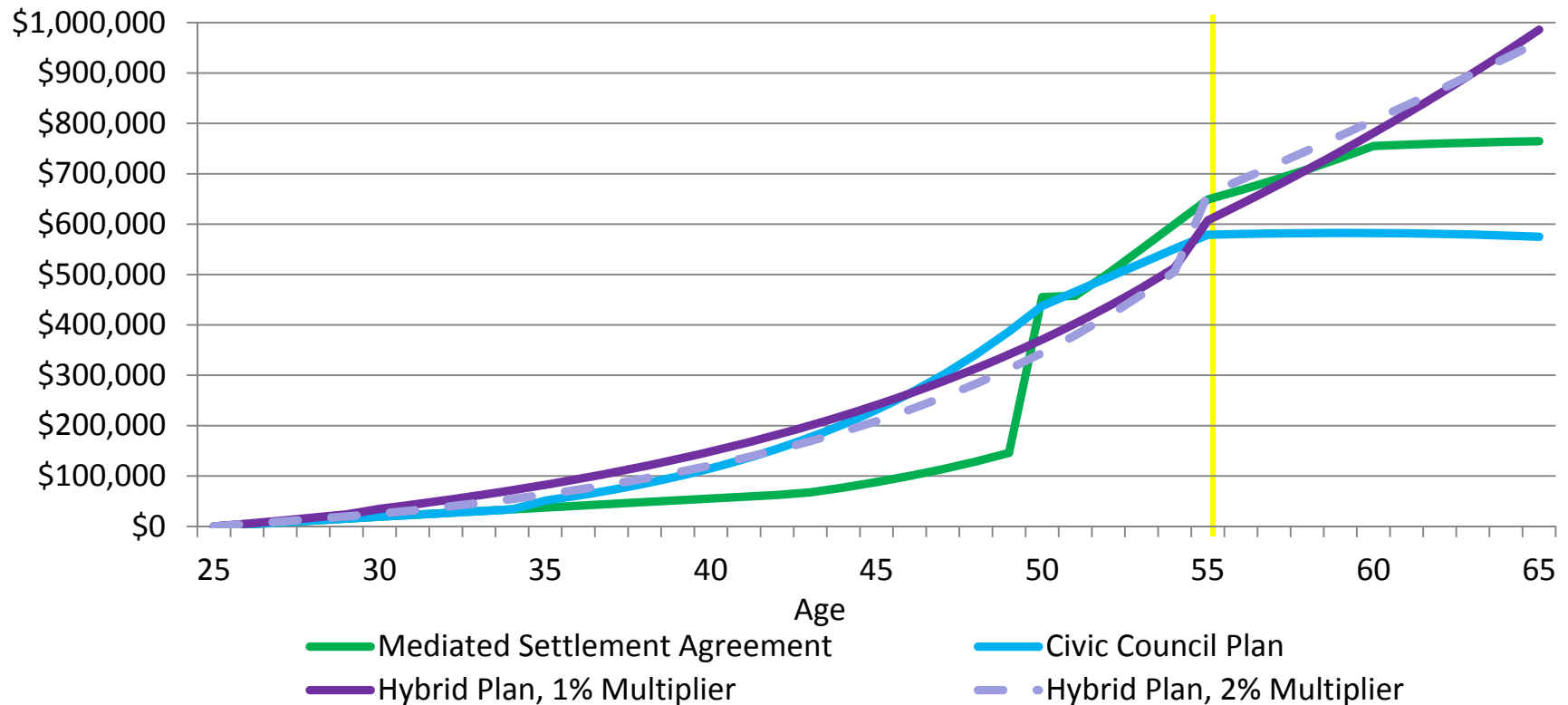
- No COLA is provided for the DB benefit
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Retirement benefit accrual over a career under potential plan designs

The value of earned retirement benefits



Source: The Terry Group, 2014

Analysis based on new employee entering at age 25

and is based on plan assumptions, including 7 percent investment returns

Hybrid benefits include both the defined benefit and defined contribution components

Adjusted for Inflation



Pension benefits provided by potential plan designs

Sample employee starting at age 25 and leaving at age 55 with 30 years of service

Plan	Salary At Departure	DB Annuity	DC Account Balance At Retirement	Annuity from DC Account	Total Projected Annuity	Replacement Rate	COLA	Present Value of Benefits at Age 55
Mediated Settlement Agreement	\$60,959	\$41,302	\$0	\$0	\$41,302	68%	1.5%	\$649,017
Civic Council Plan	\$60,959	\$35,795	\$0	\$0	\$35,795	59%	1.5%	\$579,159
Hybrid, 1% Multiplier	\$60,959	\$16,521	\$388,793	\$31,038	\$47,559	78%	None	\$607,568
Hybrid, 2% Multiplier	\$60,959	\$33,042	\$222,168	\$17,736	\$50,778	83%	None	\$659,717

Source: The Terry Group, 2014

DC accounts are assumed to receive 7 percent annual investment returns and are converted into annuities based on plan longevity assumptions and the assumed 7 percent rate of return.

Adjusted for Inflation

Pension benefits provided by potential plan designs, 5.4% Returns

Sample employee starting at age 25 and leaving at age 55 with 30 years of service

Plan	Salary At Departure	DB Annuity	DC Account Balance At Retirement	Annuity from DC Account	Total Projected Annuity	Replacement Rate	COLA	Present Value of Benefits at Age 55
Mediated Settlement Agreement	\$60,959	\$41,302	\$0	\$0	\$41,302	68%	1.5%	\$649,017
Civic Council Plan	\$60,959	\$35,795	\$0	\$0	\$35,795	59%	1.5%	\$579,159
Hybrid, 1% Multiplier	\$60,959	\$16,521	\$305,260	\$24,369	\$40,890	67%	None	\$524,035
Hybrid, 2% Multiplier	\$60,959	\$33,042	\$174,435	\$13,925	\$46,967	77%	None	\$611,984

Source: The Terry Group, 2014

DC accounts are assumed to receive 5.4 percent annual investment returns and are converted into annuities based on plan longevity assumptions and the assumed 7 percent rate of return.

Adjusted for Inflation

Pension benefits provided by potential plan designs

Sample employee starting at age 25 and leaving at age 40 with 15 years of service

Plan	Salary At Departure	Benefits Begin At	Projected Salary When Benefits Start	DB Annuity Benefit	DC Account	Annuity from DC Account	Total Projected Annuity	Replacement Rate	Present Value of Benefits At Age 40
Mediated Settlement Agreement	\$49,022	62	\$67,484	\$13,286	\$0	\$0	\$13,286	20%	\$55,302
Civic Council Plan	\$49,022	50	\$56,688	\$15,032	\$0	\$0	\$15,032	27%	\$115,414
Hybrid, 1% Multiplier	\$49,022	55	\$60,959	\$7,216	\$235,241	\$18,780	\$25,995	43%	\$148,697
Hybrid, 2% Multiplier	\$49,022	55	\$60,959	\$14,431	\$134,423	\$10,731	\$25,163	41%	\$120,986

Source: The Terry Group, 2014

DC accounts are assumed to receive 7 percent annual investment returns and are converted into annuities based on plan longevity assumptions and the assumed 7 percent rate of return.

Adjusted for Inflation

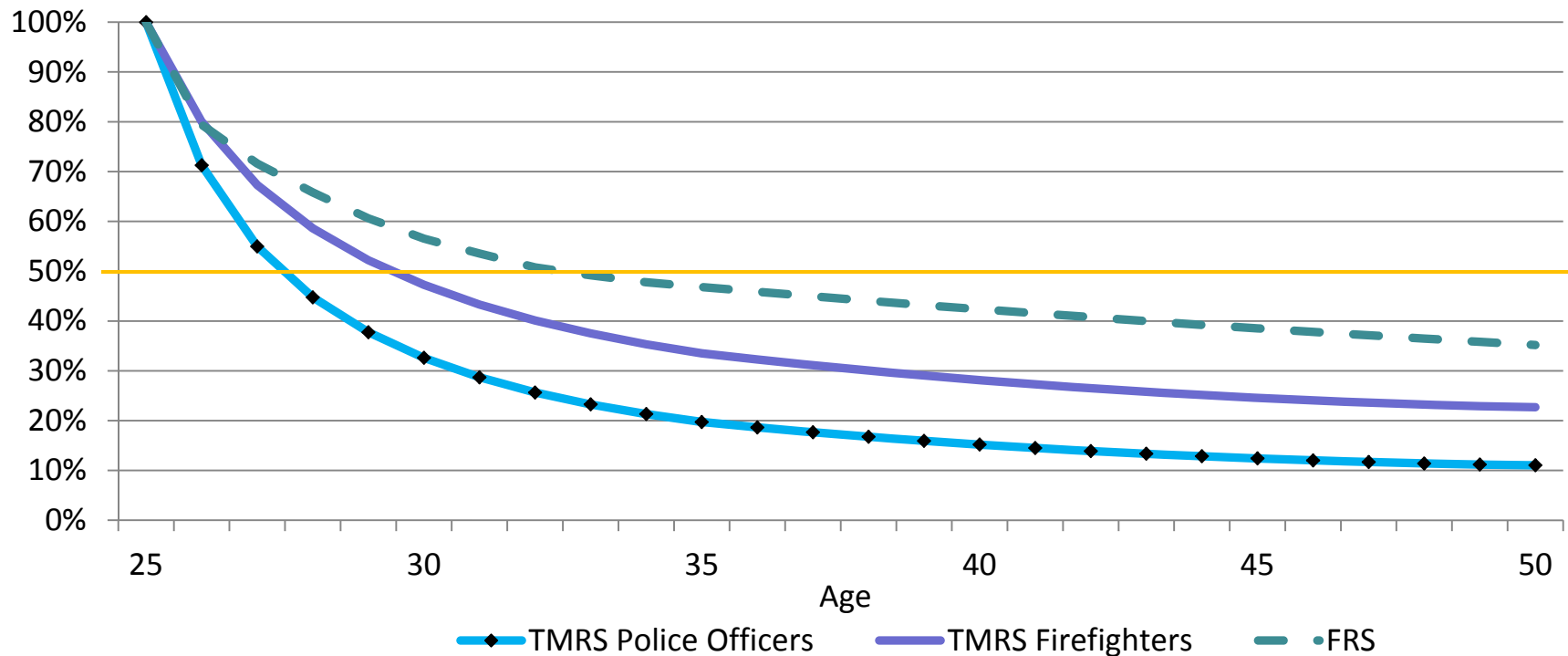


Death Benefits for Police and Fire Pension Fund Members

- Under the current plan, beneficiaries of active employees and retirees who pass away are entitled to 75 percent of the pension benefit payable to the deceased member, with a minimum benefit of 45 percent of final average salary (based on the benefit payable to a member with 20 years of service of 60 percent of final average salary).
- These benefits can be continued under any of the proposed plan designs. There are two considerations for the task force:
 - Should death benefits for future employees be 75 percent of the benefits available under the new plan design or 75 percent of the current benefits?
 - How should employee defined contribution accounts be factored into death benefits?
- Under the proposed Mediated Settlement Agreement plan, spouses and dependents are automatically entitled to 75 percent of benefits upon a retiree's death. Under the hybrid plan designs, retirees have the option of selecting a full spousal benefit and would have their benefits reduced by an actuarially fair amount following the same approach used by the Florida Retirement System. The Civic Council proposal does not explicitly address post-retirement death benefits.

Retention of Public Safety Workers in Texas and Florida

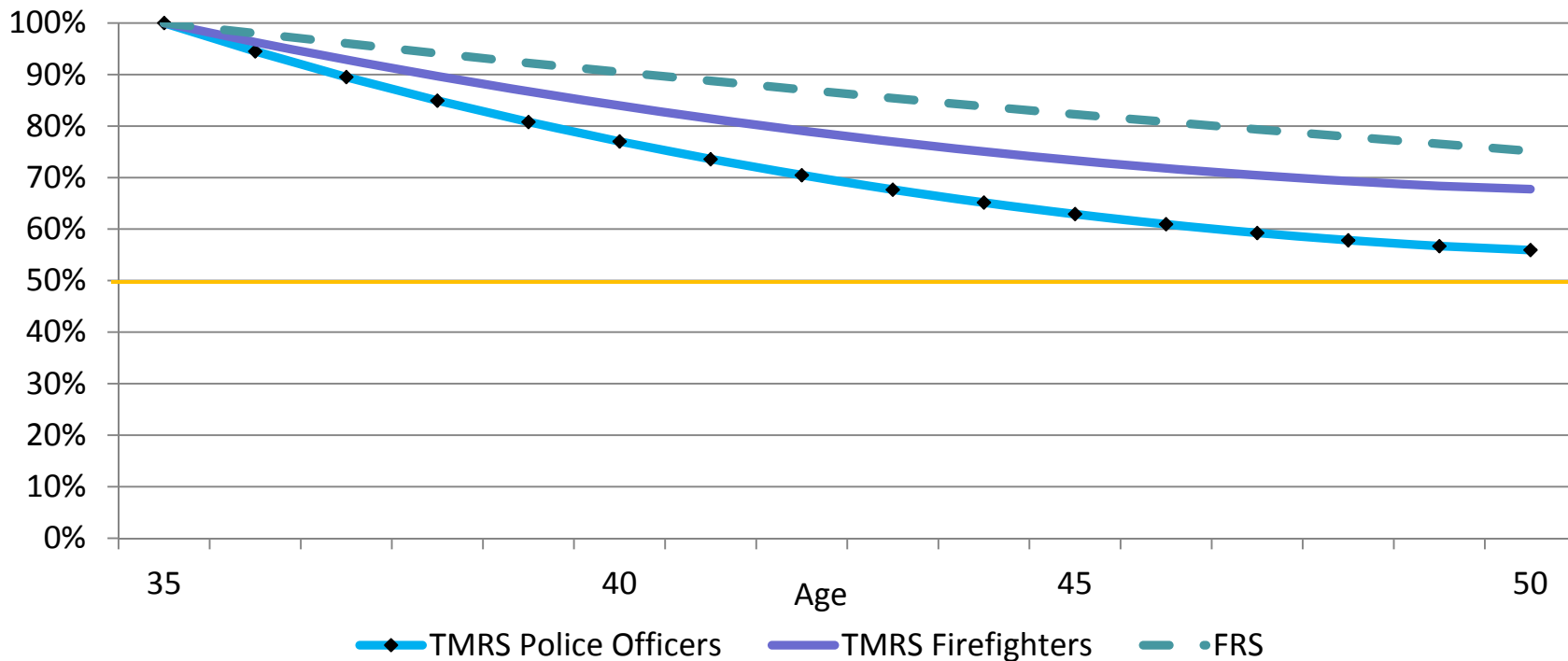
Estimated percentage of public safety workers that join the system at age 25 who stay members of the retirement system by age.



Analysis based on new withdrawal assumptions for public safety workers in the Texas Municipal Retirement System and the Florida Retirement System. There is not enough information presented in either retirement system's documents to understand what drives these differences.

Retention of Vested Public Safety Workers in Texas and Florida

Estimated percentage of public safety workers that join the retirement system at age 25 and remain till at least age 35 who stay members of the retirement system by age.



Analysis based on new withdrawal assumptions for public safety workers in the Texas Municipal Retirement System and the Florida Retirement System. There is not enough information presented in either retirement system's documents to understand what drives these differences.

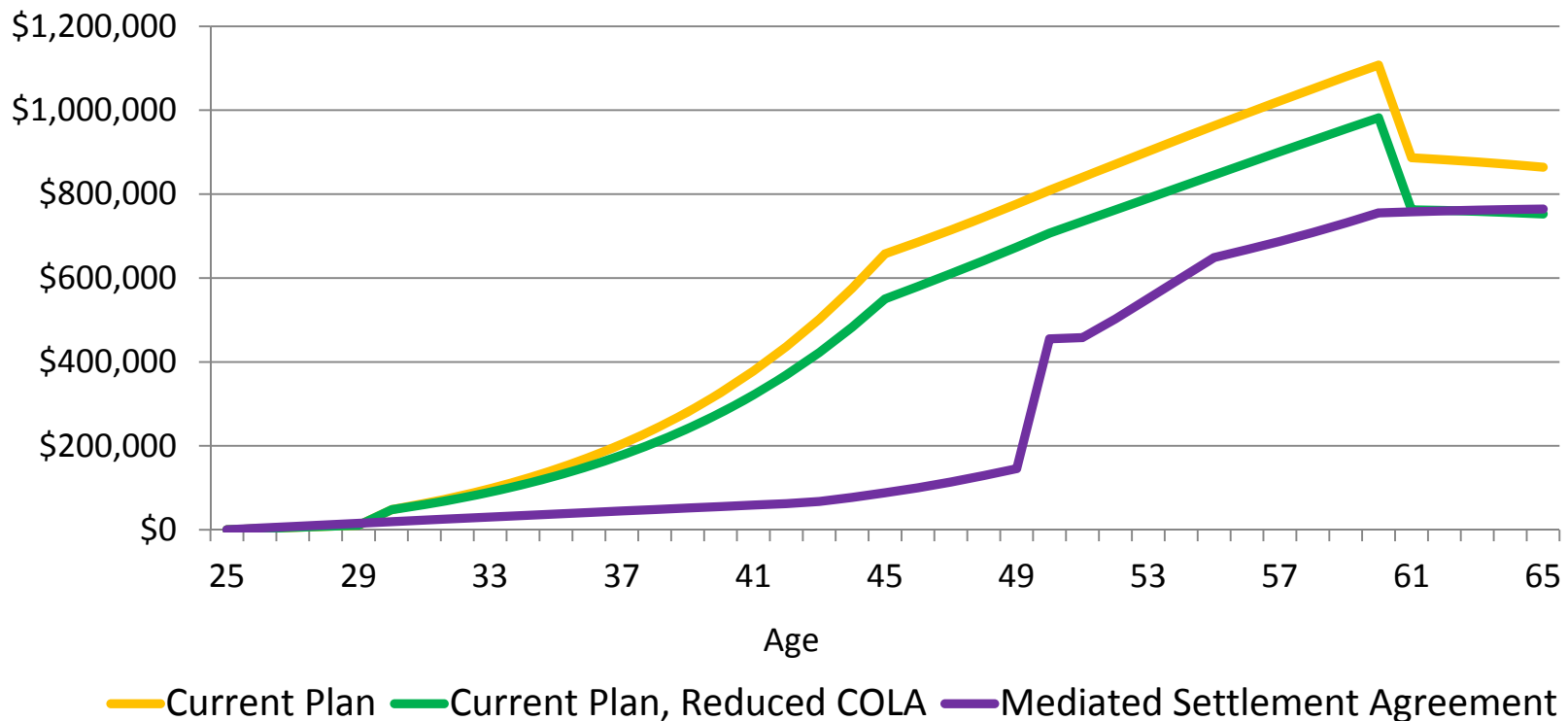


Potential Changes to Current Employees Presented to the Task Force by Policymakers and Stakeholders in Jacksonville

- **Increasing employee contributions**—Proposed to immediately increase from 7 to 8 percent and then subsequently increase to 10 percent following pay raises to make up for recent pay cuts.
- **Changing or eliminating the DROP program**—Current proposal is to change the interest earned from DROP accounts from a guaranteed 8.4 percent to actual plan returns with a minimum return of zero and a maximum return of 10 percent.
- **Reducing COLAs prospectively**—The Mayor has proposed to reduce the Cost of Living Adjustments applied to benefits for current employees that have not yet been earned. Benefits based on current service and present salary will be increased by 3 percent annually in retirement but benefits based on increased service or pay will only get a COLA of 1.5 percent.
- **Allocating Chapter Funds to pay down the unfunded liability**—The Mayor's Office has proposed using the Chapter Funds not currently going towards paying the ARC to help pay down the city's pension debt at an accelerated rate until the plan is 80 percent funded.

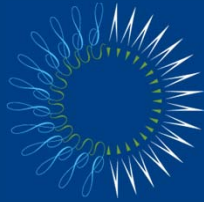
Impact of COLA Changes to Retirement Benefits

The effect of the proposed COLA change on an example employee who currently has 5 years of service.



Source: The Terry Group, 2014
 Analysis based on new employee entering at age 25
 and is based on plan assumptions.

Adjusted for Inflation



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David Draine
Senior Researcher
ddraine@pewtrusts.org
(202) 552-2012

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