

THE
PEW
CHARITABLE TRUSTS

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



David Draine
The Pew Charitable Trusts
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Three Areas of Focus

1. *Paying down Jacksonville's pension debt*
 - Modeling different funding proposals, including the Mayor's proposal, based on scenarios with 7 percent actual returns and 5.4 percent actual returns
2. *Considering new plan designs for the Jacksonville Police and Fire Pension Fund*
 - Assessing the impact on the benefits of current employees of reducing prospective Cost of Living Adjustments to a 1.5 percent increase
 - Comparing how the MSP defined benefit plan and a potential hybrid plan design at manage investment risk
3. *Governance and investment practices*
 - Initial comments on the governance proposals developed by Chairman Scheu

Paying Down Jacksonville's Pension Debt

Exhibit List

1. Comparison of Contributions under Different Funding Approaches if PFPF Investment Returns are 7%
2. Comparison of Funding Levels under Different Funding Approaches if PFPF Investment Returns are 7%
3. Summary of results for Different Funding Approaches if PFPF Investment Returns are 7%
4. Comparison of Contributions under Different Funding Approaches if PFPF Investment Returns are 5.4%
5. Comparison of Funding Levels under Different Funding Approaches if PFPF Investment Returns are 5.4%
6. Summary of results for Different Funding Approaches if PFPF Investment Returns are 5.4%

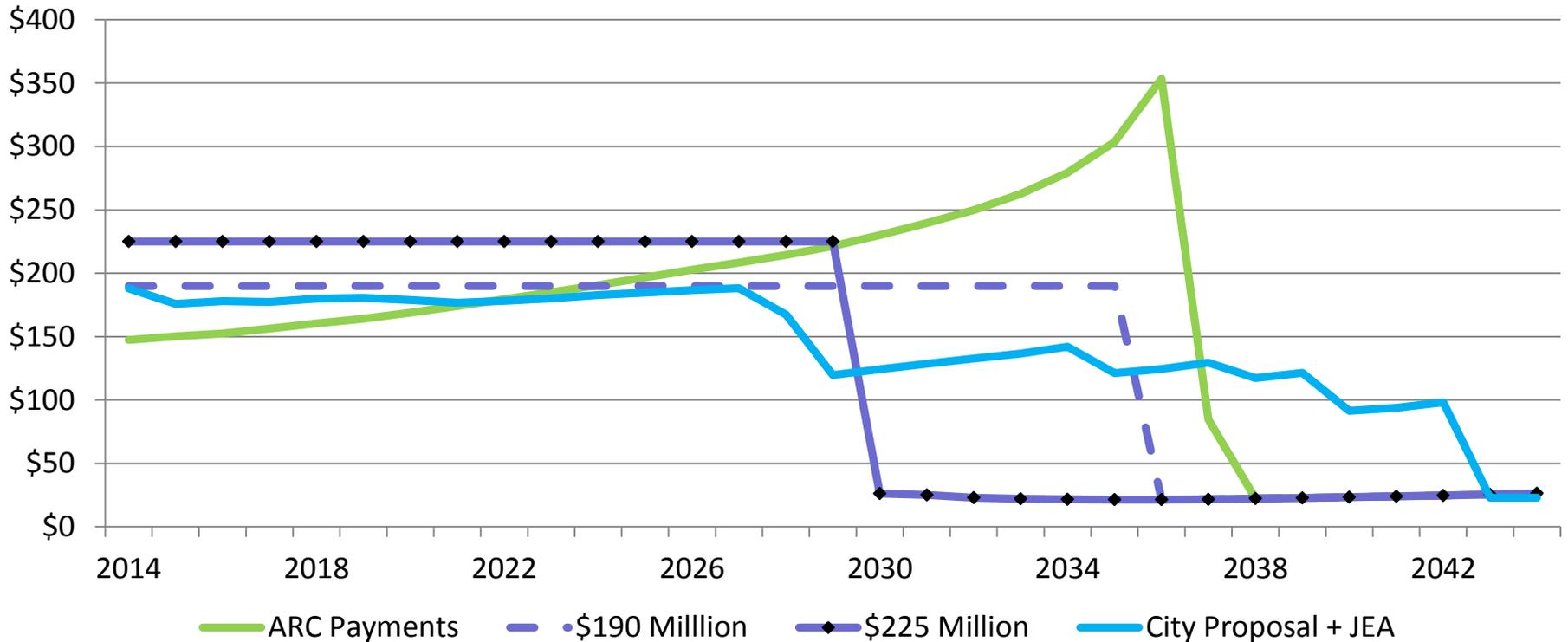
Modeling Contribution Policies

- For each scenario, we assumed that new employees went into the plan described in the Mediated Settlement Agreement and current employees were required to make contributions equal to 10 percent of salary.
- We looked at contributions from 2014 through 2044 under the different funding approaches to assess both annual and total costs.
- Under the Mayor's proposal, we included the impact of changing COLA benefits for current employees. Figures for the Mayor's proposal were provided by Milliman.
- We looked at the percent of liabilities that were funded by Fund assets to compare how fast each approach dealt with the existing unfunded liability.
- We modeled two investment scenarios—one in which investment returns from the Fund were consistently 7 percent and one in which investment returns were just 5.4 percent. We used 5.4 percent returns as, based on the plan's assumptions, actual returns are projected to have a 75 percent chance to be above that figure. Under the 5.4 percent return scenario, the assumption used by the Fund remains 7 percent but actual returns fall short of that assumption.

Four Funding Plans

- **Paying the ARC:** The cost of the current pension debt for the Jacksonville Police and Fire Pension Fund is managed through paying the Actuarially Recommended Contribution.
- **Stable payments of \$190 million:** The City of Jacksonville will make fixed payments of \$190 million, or the ARC, whichever is greater. Once the plan is fully funded, the additional payments stop and the ARC is paid going forward.
- **Stable payments of \$225 million:** The City of Jacksonville will make fixed payments of \$225 million, or the ARC, whichever is greater. Once the plan is fully funded, the additional payments stop and the ARC is paid going forward.
- **Mayor's Plan:** The City of Jacksonville will make the full ARC payment. Additional annual payments of \$40 million from the JEA as well the half of Chapter Funds currently going to employee benefits will be used to reduce the unfunded liability. Both additional payments cease when the plan is 80 percent funded. In addition to changes to new hire benefits, current employees will have their COLA's reduced prospectively to 1.5 percent for future benefits.

Annual Employer Pension Costs, 7% Returns Payments owed by the City of Jacksonville

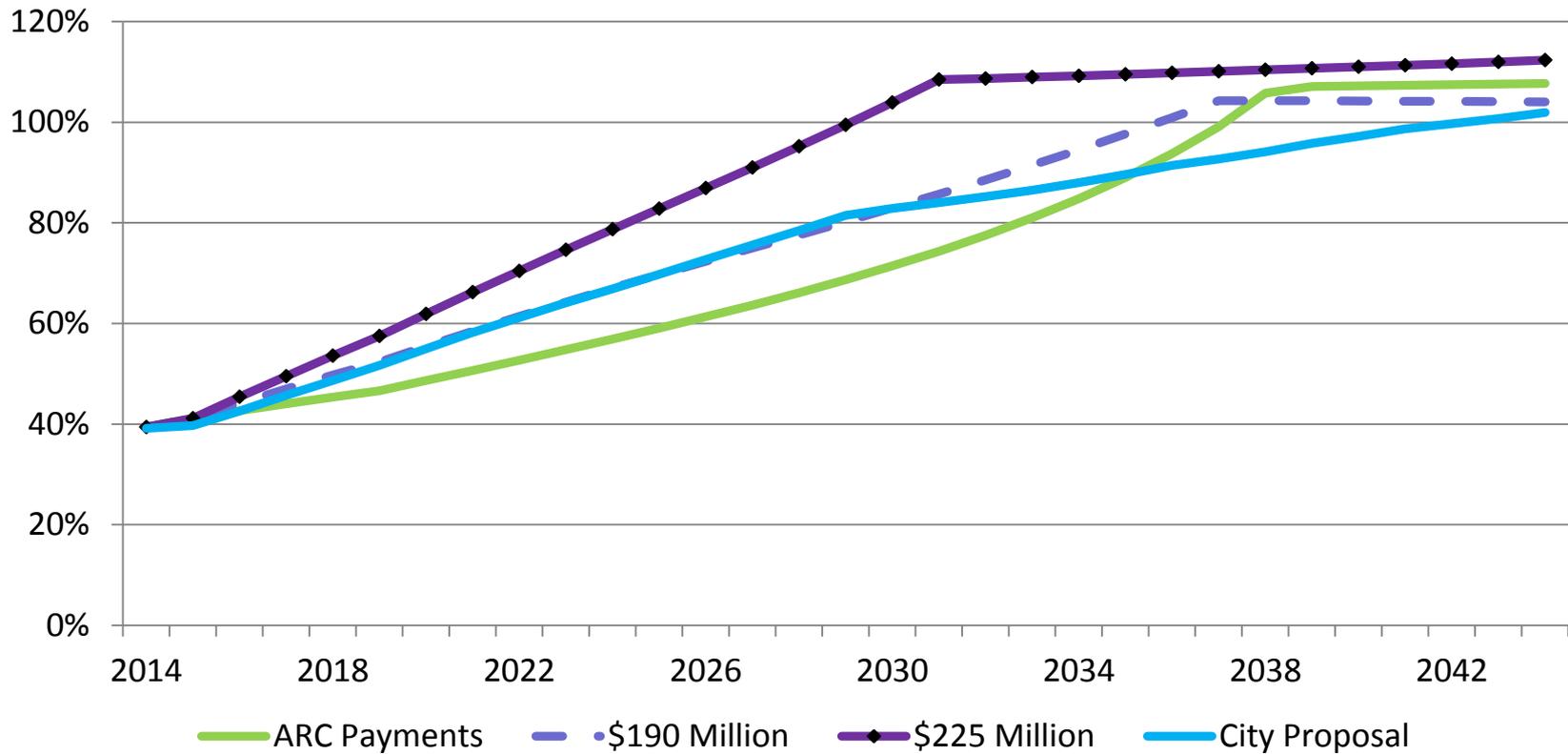


Source: The Terry Group, 2014
City Proposal figures were provided by Milliman

Millions of Dollars,
Not Adjusted for Inflation

Plan Funding Levels over Time, 7% Returns

Percent of Plan Liabilities Matched by Assets



Source: The Terry Group, 2014

City Proposal figures were provided by Milliman

Comparison of Funding Approaches, 7% Returns

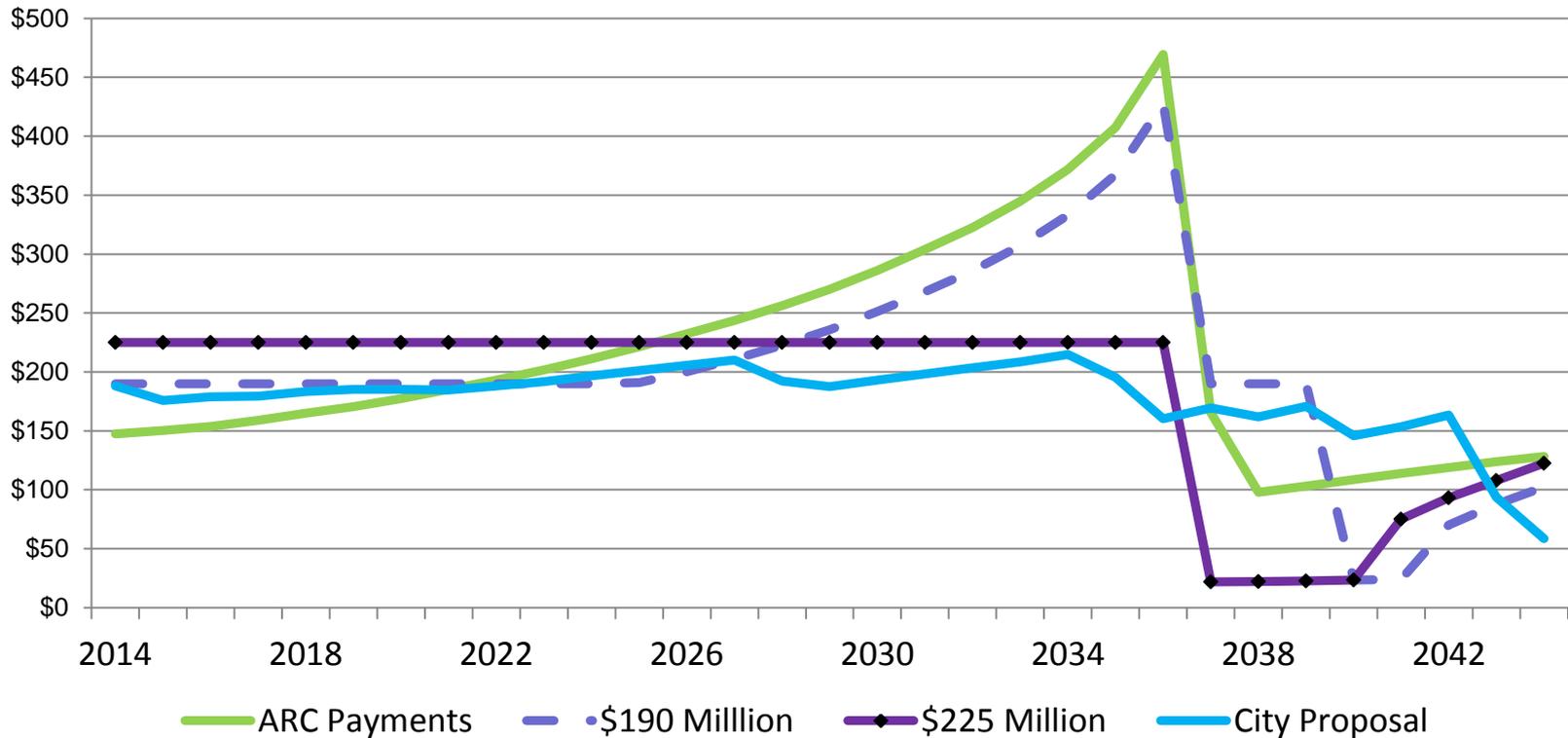
Approach	Total Cost (\$ millions)	Total Cost (\$ millions, adjusted for inflation)	Fiscal Year to Hit 80% Funded	Fiscal Year to Hit 100% Funded
Pay The ARC	\$5,045	\$3,695	2033	2038
Flat Payments of \$190 million	\$4,392	\$3,377	2029	2036
Flat Payments of \$225 million	\$3,952	\$3,211	2025	2030
City Proposal (Including JEA Payments)	\$4,431	\$3,311	2029	2042

Source: The Terry Group, 2014

City Proposal figures were provided by Milliman

For each funding approach, new workers are assumed to be in the plan described in the Mediated Settlement Agreement and current employees are required to make contributions of 10 percent of their salary. The City Proposal also includes reductions in prospective COLA for current workers.

Annual Employer Pension Costs, 5.4% Returns Payments owed by the City of Jacksonville

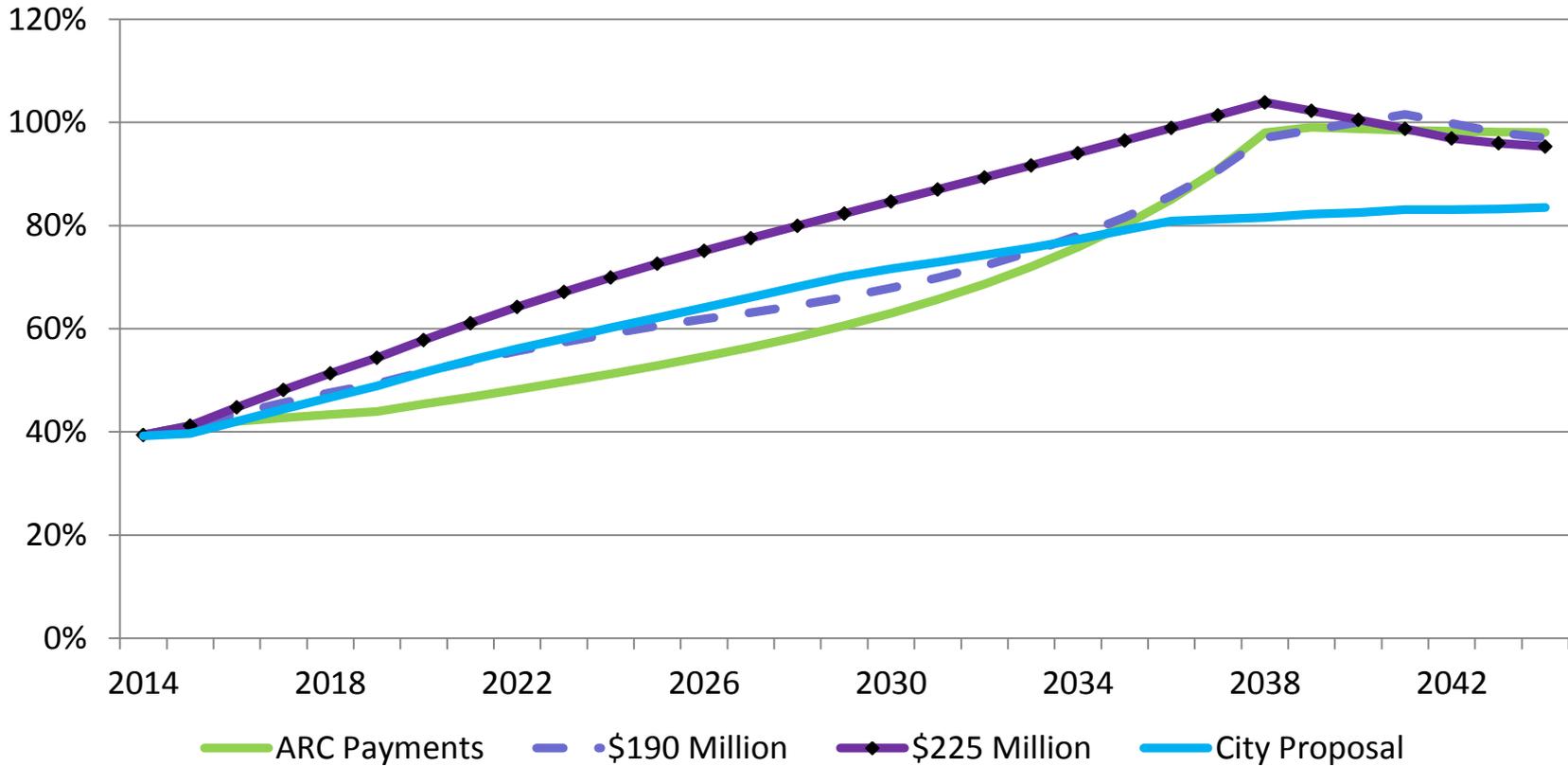


Source: The Terry Group, 2014
City Proposal figures were provided by Milliman

Millions of Dollars,
Not Adjusted for Inflation

Plan Funding Levels over Time, 5.4% Returns

Percent of Plan Liabilities Matched by Assets



Source: The Terry Group, 2014
 City Proposal figures provided by Milliman

Comparison of Funding Approaches, 5.4% Returns

Approach	Total Cost (\$ millions)	Total Cost (\$ millions, adjusted for inflation)	Fiscal Year to Hit 80% Funded	Fiscal Year to Hit 100% Funded
Pay The ARC	\$6,604	\$4,625	2035	Plan is 98 percent funded in 2044
Flat Payments of \$190 million	\$6,268	\$4,478	2035	2040
Flat Payments of \$225 million	\$5,663	\$4,243	2028	2037
City Proposal	\$5,525	\$3,978	2036	Plan is 84 percent funded in 2044

Source: The Terry Group, 2014
 City Proposal figures were provided by Milliman

For each funding approach, new workers are assumed to be in the plan described in the Mediated Settlement Agreement and current employees are required to make contributions of 10 percent of their salary. The City Proposal also includes reductions in prospective COLA for current workers.

Considering New Plan Designs for Jacksonville's Police and Fire Pension Fund

Potential Changes to Current Employees

- Increasing employee contributions
- Changing or eliminating the DROP program
- Reducing COLAs prospectively

Potential Changes to New Hires

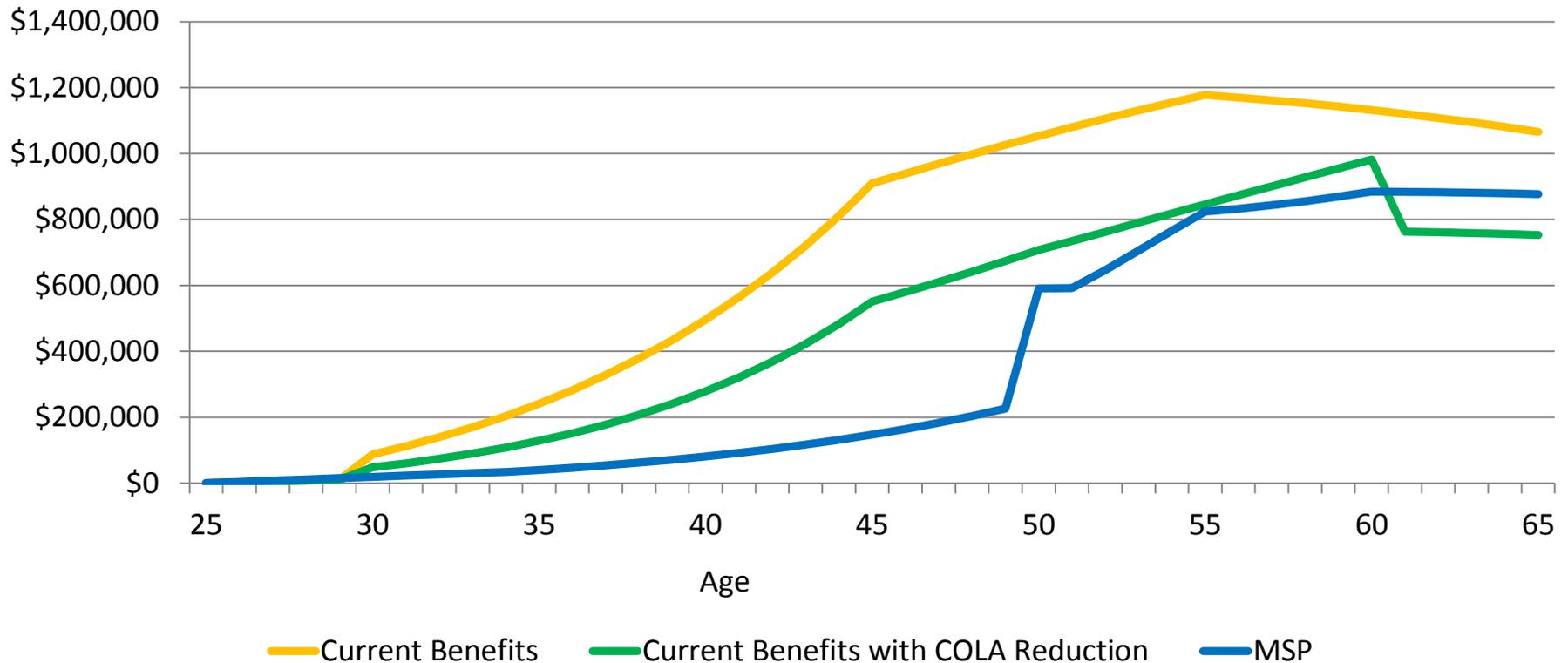
- New defined benefit plan, based on the plan from the Mediated Settlement Agreement
- Hybrid pension plan combining a defined benefit plan and a defined contribution plan

Key Analyses for the Task Force

- How would reducing COLAs impact the benefits for current employees?
- How do the potential plans for new hires handle investment risk?

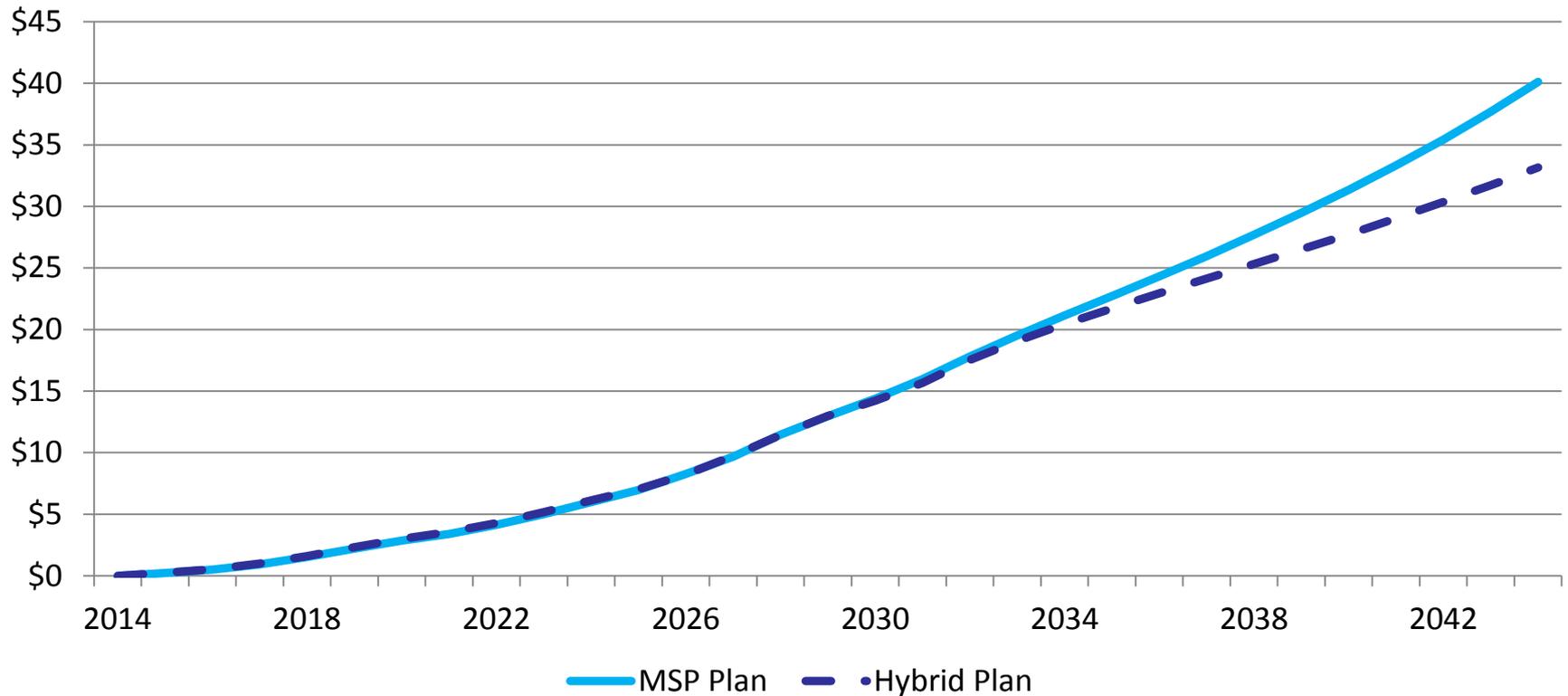
Impact of COLA Changes to Retirement Benefits

The value of earned retirement benefits for a worker with 5 years of service when COLAs are reduced



Source: The Terry Group, 2014

Annual Employer Pension Costs For New Hires Only, 5.4% Returns Payments owed by the City of Jacksonville

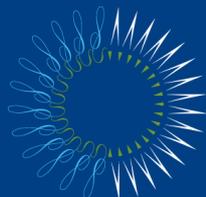


Source: The Terry Group, 2014

Millions of Dollars,
Not Adjusted for Inflation

Governance and Investment Practices

- Chairman Scheu's work on putting together recommendations of governance based on the feedback of multiple stakeholders is commendable and should be the basis of eventual reforms to the Jacksonville Police and Fire Pension Fund's practices going forward.
- Particularly valuable changes include the increased disclosure and transparency and the investment and financial advisory committee.
- Improving the quality, transparency, availability, and frequency of disclosures by the Jacksonville Police and Fire Pension Fund will help the public better understand how the Fund is performing, give policymakers better information to make decisions on pension policy, and make sure that plan administrators have up-to-date information as they run the plan.
- A well-designed and well-run investment and financial advisory committee will bring additional expertise and a greater transparency to the important questions of how to maximize the Fund's investment returns while minimizing risk and fees and how to set actuarial assumptions and financial policies for the Fund.



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

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