

THE  
**PEW**  
CHARITABLE TRUSTS

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



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1. Considering pension plan design for the Jacksonville Police and Fire Pension Fund

## Paying Down the Pension Debt

Policymakers have three options:

- Cut spending
- Raise revenue
- Ask current employees to contribute more

Whatever Jacksonville decides to do, it needs a credible plan to pay down the existing pension debt without threatening key government services, forcing unsustainable tax increases, or breaking the promise to workers and retirees.

Just like paying a credit card bill, the faster Jacksonville pays this debt off, the smaller the eventual cost will be.



## Plan Design for Jacksonville: Four Components of a Good Plan

1. Fully funded benefits; employers never skip contributions.
2. Secure path to retirement; all vested workers should accumulate meaningful retirement savings.
3. Use of professionally managed, low-fee investments; public plans should keep fees low and balance returns and risk on behalf of both employees and employers.
4. Access to annuities; workers should be able to get a lifetime benefit that will never run out.

## **Plan Design for Jacksonville: Two Questions to Ask**

- What is the best way for Jacksonville to provide a retirement benefit for public employees in terms of both offering retirement security and giving the right workforce incentives?
- What plan design will be affordable, sustainable, and secure over the long-run?



## **The Task Force requested we look at two different potential plan designs for new police and fire workers in Jacksonville.**

- One is based on the recommendations of the Mediated Settlement plan and includes modifications to the existing defined benefit plan. We were also asked to look at what is referred to as a "stacked hybrid plan" that includes both a defined benefit and defined contribution plan. These plans are designed to have similar costs if all assumptions hold, although any final plan recommended by the Task Force could be made more or less generous.
- Our analysis is to help the Task Force better understand these potential plan designs based on cost, risk, and benefits. Ultimately any successful plan design will offer retirement security to police and fire workers while being affordable and sustainable.
- The modeling work is based on the assumptions used by the Jacksonville Police and Fire Pension Fund. The assumed rate of return is 7 percent. All figures assume the current share of Chapter Funds devoted to paying the ARC continue to do so and are used to defray the normal cost.
- These are preliminary numbers and we are working on our analysis in order to be able to share final numbers with the Task force.

## Plan Parameters: Current Plan

**Retirement Eligibility:** After 20 years of service.

**Vesting Eligibility:** Five years of service.

**Benefit Formula:** 3 percent of final average salary per year of service for the first 20 years, 2 percent for subsequent years with a cap of 80 percent.

**Salary Calculation:** Final average salary based on past two years.

**Employee Contribution:** 7 percent of pay.

### Other Notes:

- Ancillary benefits, such as built-in 75 percent spousal benefit and the DROP plan, add to costs.
- Benefits include a 3 percent compounded COLA.
- The drop-off in the formula gives a substantial incentive to retire after 20 years of service; the plan assumes that 40 percent of employees who hit that point will retire or enter the DROP program in their 20<sup>th</sup> year.



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

**Retirement Eligibility:** After 30 years of service.

**Vesting Eligibility:** 10 years of service.

**Benefit Formula:** 2.5 percent of final average salary per year of service with a cap of 75 percent.

**Salary Calculation:** Final average salary based on past five years.

**Employee Contribution:** 10 percent of pay.

### Other Notes:

- Employees who leave before 25 years need to wait until 62 to retire and only get 2 percent of final salary per year—this lowers benefits substantially.
- COLAs are capped at 1.5 percent and only are granted three years post retirement.
- DROP is eliminated and annual benefits are capped at \$100,000.



## Plan Parameters: Stacked Hybrid Plan

**Retirement Eligibility:** Age 60 or 30 years of service.

**Vesting Eligibility:** Five years of service.

**Defined Benefit Formula:** 1 percent of final average salary per year of service.

**Salary Calculation:** Final average salary based on past five years.

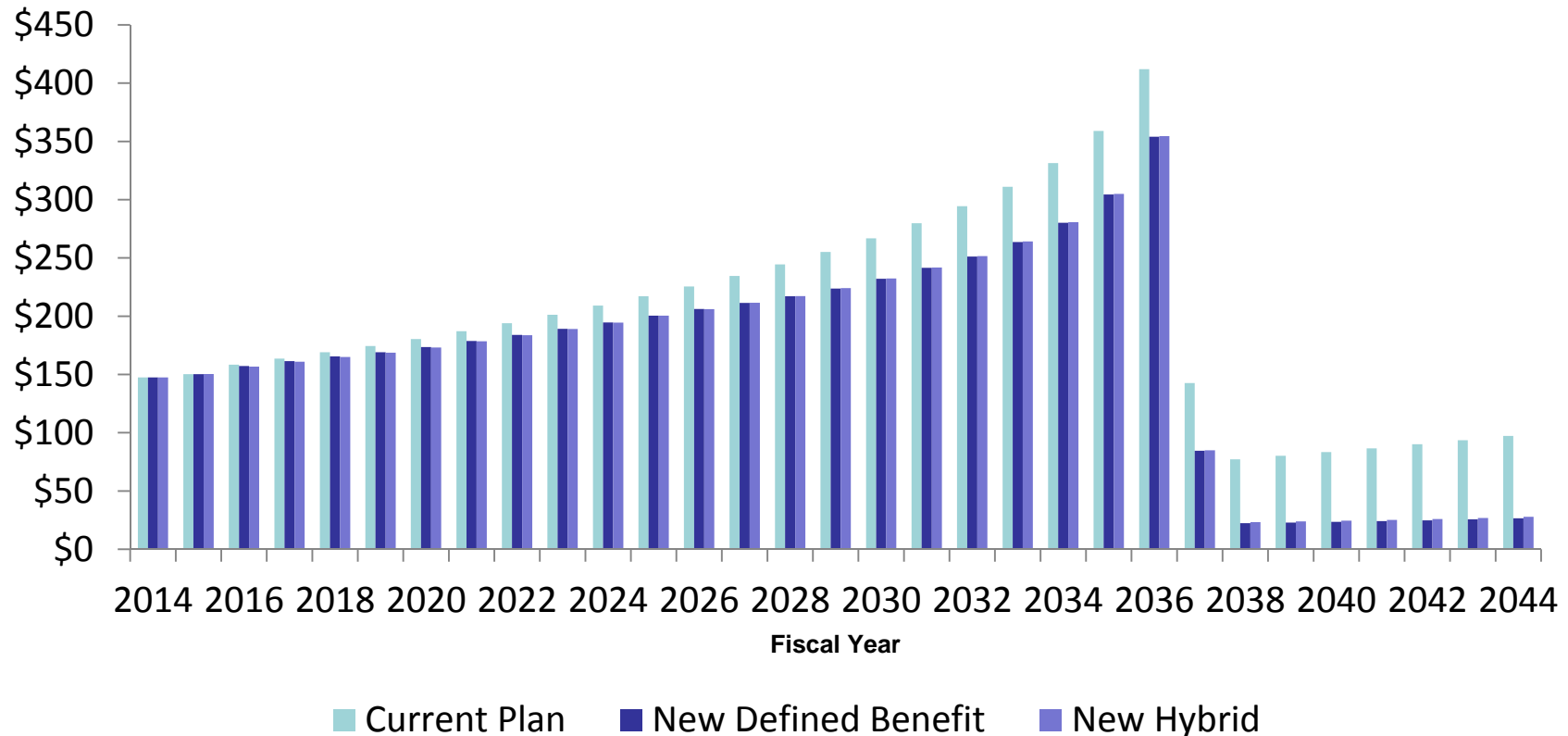
**Defined Contribution Pay Credit:** 4 percent of pay from the employer, 10 percent of pay from the employee.

**Employee Contribution:** 10 percent of pay.

### Other Notes:

- Benefit is based on the defined benefit formula and the defined contribution account.
- The defined contribution account needs appropriate investment options and workers should have the opportunity to convert the benefit to an annuity.
- Benefit projections assume plan meets investment targets.

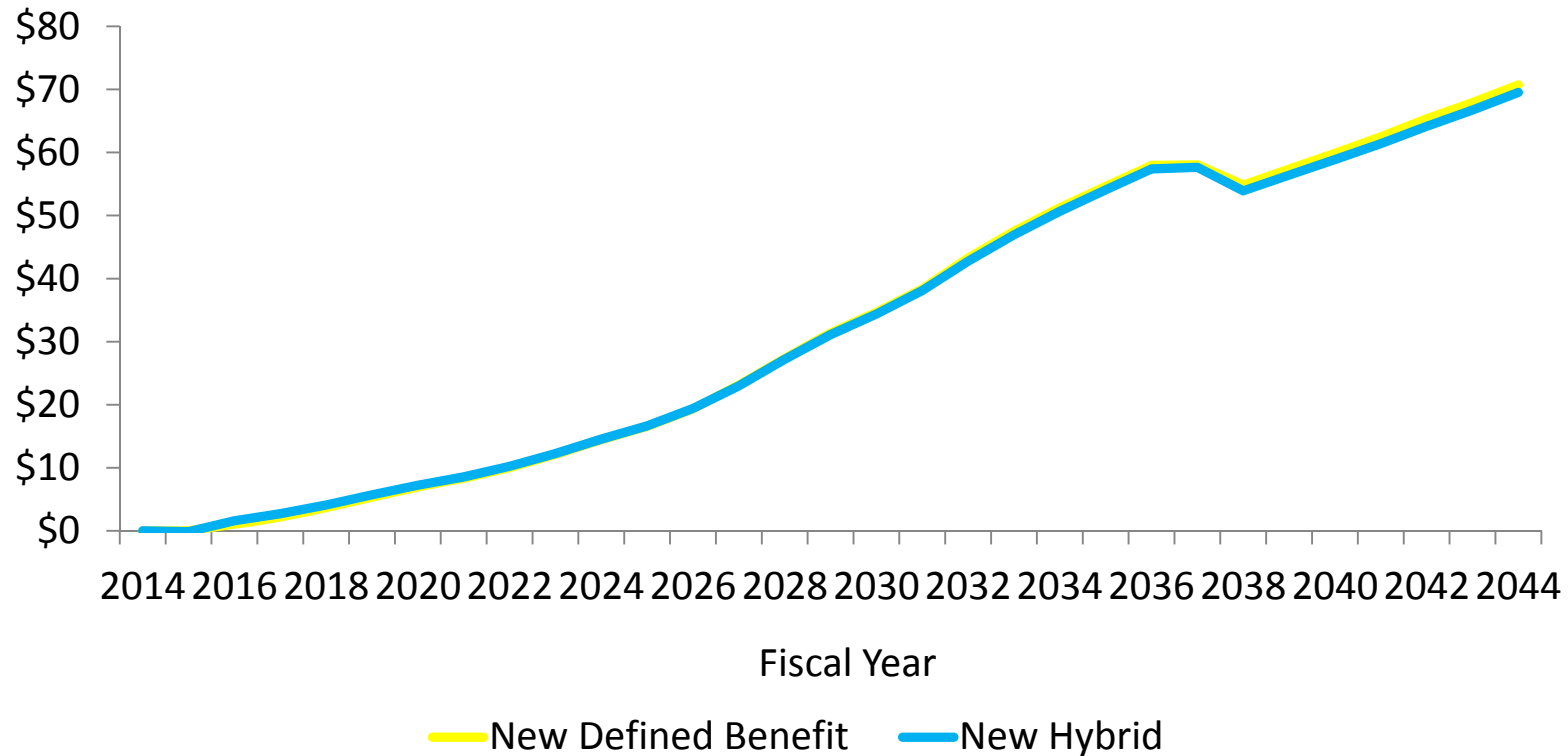
## Annual Plan Costs Under Current Assumptions



Source: The Terry Group, 2014  
 These figures are based on a 7 percent investment return assumption and do not include any changes to current employees.

All figures are in millions of dollars.  
 Figures have not been adjusted for inflation

## Annual Savings From Potential New Plans



Source: The Terry Group, 2014  
 These figures are based on a 7 percent investment return assumption.

All figures are in millions of dollars.  
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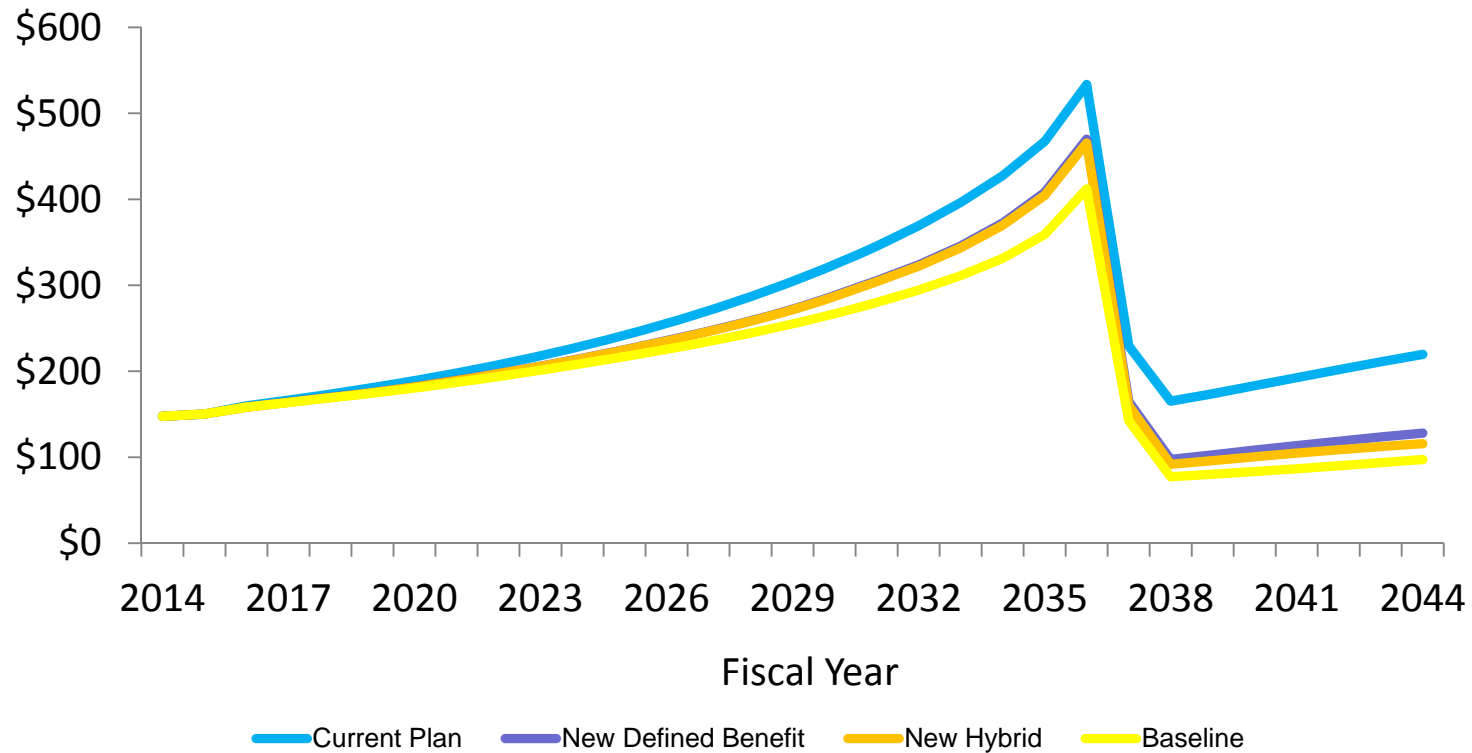
## Annual Savings From Potential New Plans

	Current Plan	New Defined Benefit	New Hybrid
Total Cost	\$6,117	\$5,111	\$5,120
Savings	\$0	\$1,006	\$997

Source: The Terry Group, 2014  
 These figures are based on a 7 percent investment return assumption..

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## Annual Plan Costs if Plan Investments are 5.4%



Source: The Terry Group, 2014  
 These figures are based on a 7 percent investment return assumption..

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### Costs Under Different Return Scenarios

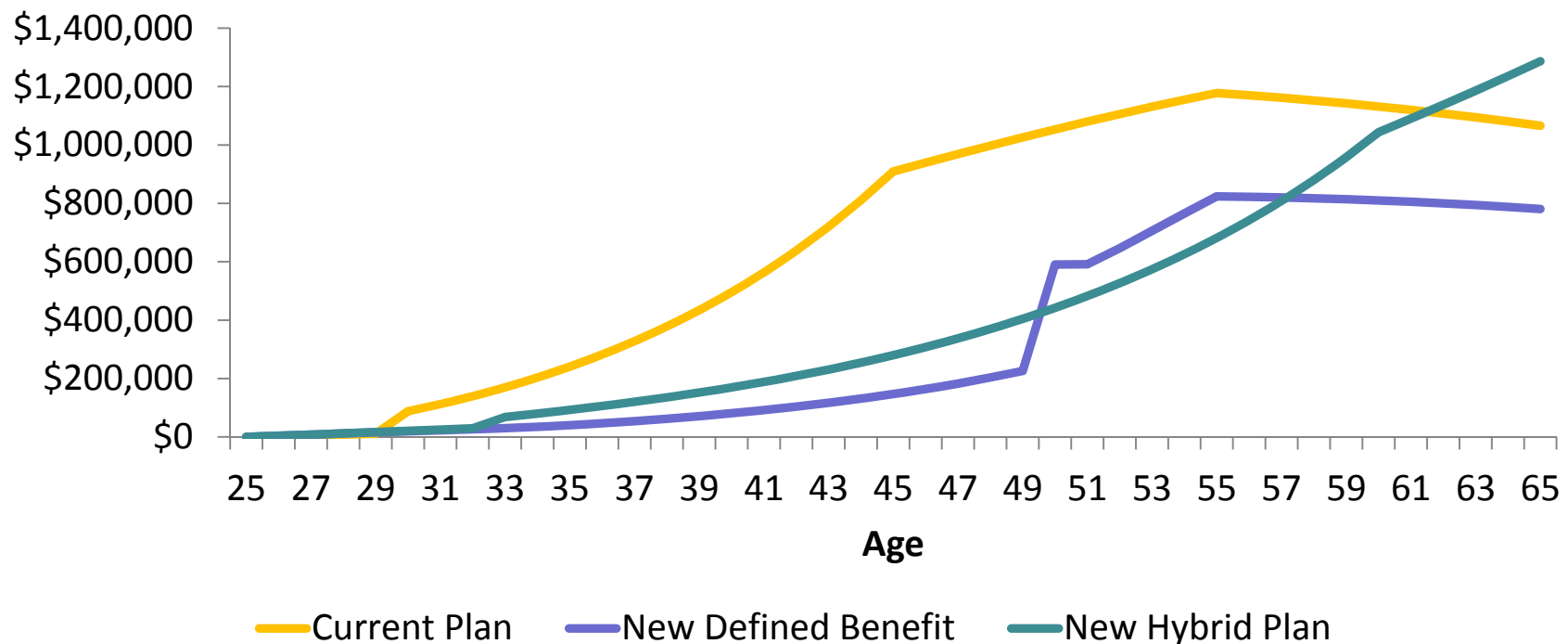
	Current Plan	New Defined Benefit	New Hybrid
Total Cost, 7% Returns	<b>\$6,117</b>	<b>\$5,111</b>	<b>\$5,120</b>
Total Cost, 5.4% Returns	<b>\$7,818</b>	<b>\$6,665</b>	<b>\$6,575</b>
Change	<b>\$1,702</b>	<b>\$1,554</b>	<b>\$1,456</b>
Unfunded Liability in 2044	<b>\$214</b>	<b>\$107</b>	<b>\$36</b>

Source: The Terry Group, 2014  
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## Retirement wealth accrual over a career under potential plan designs

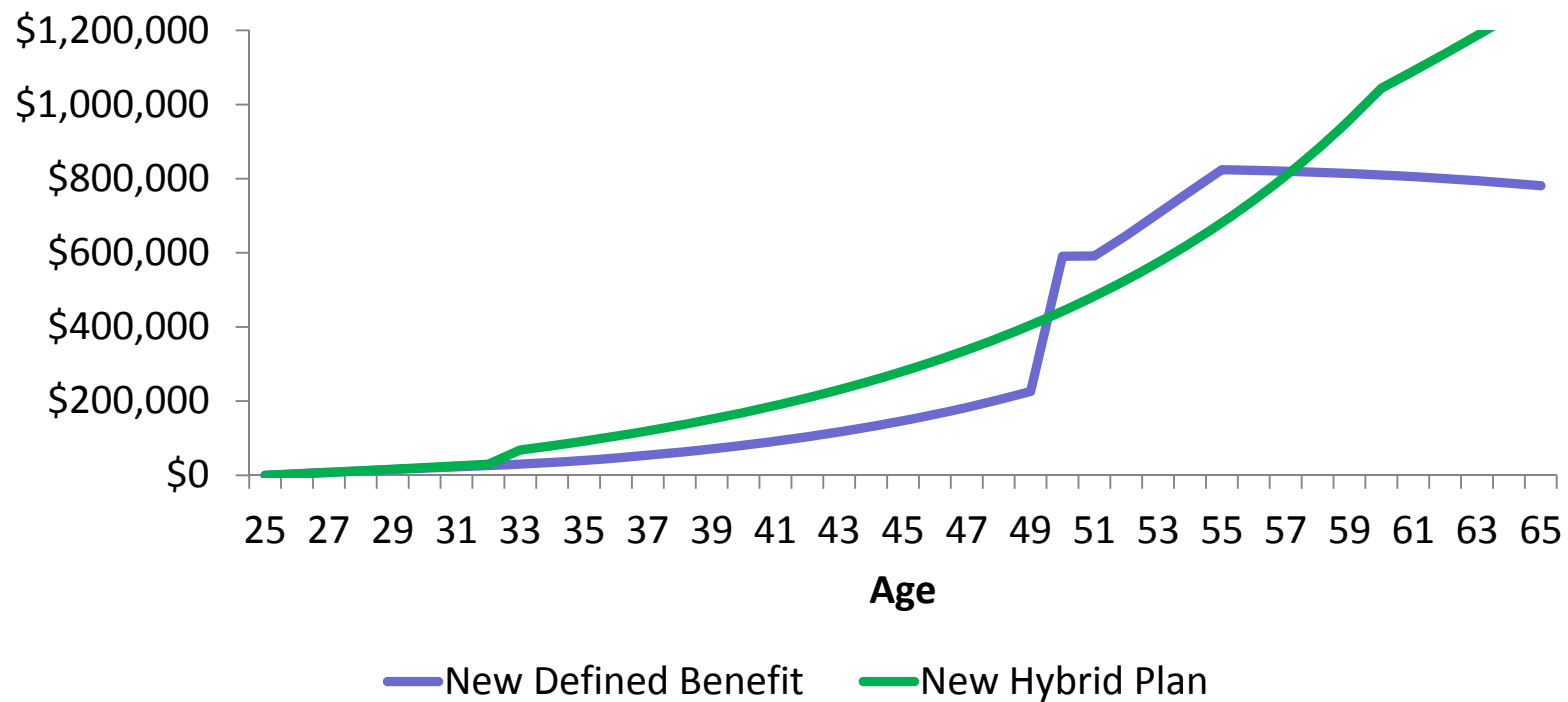
### The value of earned retirement benefits



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

## Retirement wealth accrual over a career under potential plan designs

### The value of earned retirement benefits

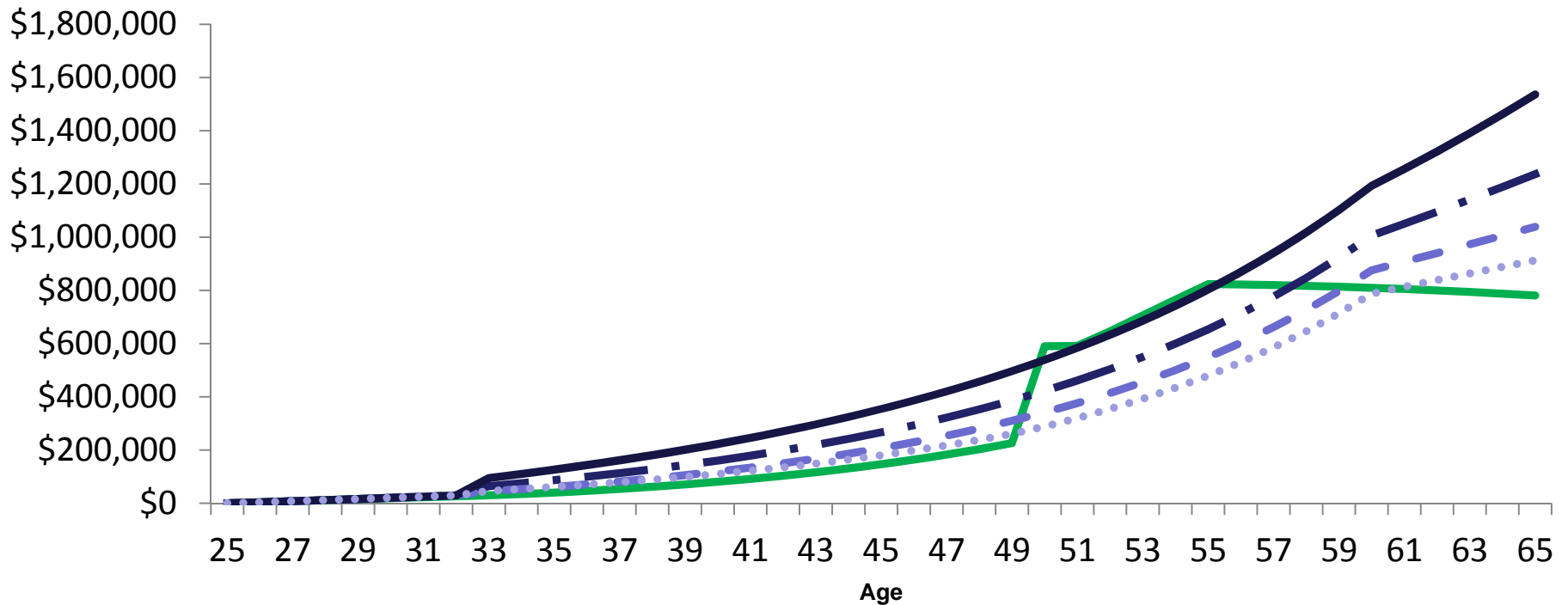


Source: The Terry Group, 2014  
 Analysis based on new employee entering at age 25  
 and is based on plan assumptions.



## Impact of returns on a hybrid pension plan

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.

- New Defined Benefit
- - - New Hybrid Plan, 5.4% Returns
- New Hybrid, 3.9% Returns
- New Hybrid Plan, 7% Returns
- New Hybrid Plan, 8.6% Returns



## 2. Basic benchmarking data for the Jacksonville Police and Fire Pension Fund.

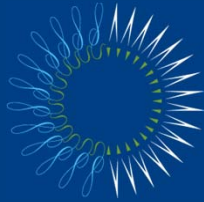


## Benchmarking with Largest FL Cities - Funding

City Name	Plan	Actuarial Valuation Date	Funded Ratio	Assumed Rate of Return	Required Contribution as Percent of Payroll	Member Contribution
TALLAHASSEE	Police	10/1/2009	96.83%	7.75%	26.20%	9.85%
TAMPA	Police & Fire	10/1/2010	91.53%	10.00%	32.30%	6.00 - 25.00 %
GAINESVILLE	Police & Fire	10/1/2010	88.53%	8.50%	24.04%	7.50%
SAINT PETERSBURG	Police	10/1/2011	83.67%	8.00%	44.68%	7.00%
ORLANDO	Police	10/1/2011	83.38%	8.00%	45.89%	8.47%
SAINT PETERSBURG	Fire	10/1/2011	83.37%	8.00%	76.51%	7.00%
ORLANDO	Fire	10/1/2011	80.76%	8.00%	46.52%	7.78%
MIAMI	Police & Fire	10/1/2010	75.28%	7.50%	61.08%	7.00%
FORT LAUDERDALE	Police & Fire	1/1/2012	69.78%	7.50%	60.49%	8.50%
BOCA RATON	Police & Fire	10/1/2011	62.71%	8.00%	60.38%	10.20%
MIAMI BEACH	Police & Fire	10/1/2011	61.05%	8.10%	83.91%	10.00%
JACKSONVILLE	Police & Fire	10/1/2011	42.84%	7.75%	90.49%	7.00%
JACKSONVILLE	Police & Fire	10/1/2012	39.05%	7.00%	118.91%	7.00%
<b>Average Excluding JAX</b>			<b>79.72%</b>	<b>8.12%</b>	<b>51.09%</b>	

## Benchmarking with Largest FL Cities - Benefits

City Name	Plan	Normal Retirement - Required Age or Service	Benefit Accrual Rate	Social Security
BOCA RATON	Police & Fire	Age 55 + 10 years; or 20 years continuous service regardless of age EARLY: 50 + 10 years	<b>POLICE:</b> 3.50% (max is 87.5%) <b>FIRE:</b> 3.40% (max is 100%) plus a lifetime supplement of \$10.50 per month times completed years of continuous service.	No
FORT LAUDERDALE	Police & Fire	Age 55 + 10 years; or 20 years continuous regardless of age; or The date on which a former police officer or firefighter would have attained age 50 + 20 years EARLY: 50 + 10 years	3.38% <b>FIRE:</b> Also, Share Plan funded with accumulated increases and future increases over the 1997 amount.	No
GAINESVILLE	Police & Fire	Age 55 + 10 years; or 20 years regardless of age; or rule of 70. EARLY: None	2.5% for service prior to 10/1/05; 2.625% for service after 10/1/05	No
JACKSONVILLE	Police & Fire	20 years regardless of age	3% for first 20 years of credited service, 2% for next 10 years of service, with minimum of \$400 per month.	No
MIAMI BEACH	Police & Fire	Age 50 regardless of years of service; or Rule of 70 (Age + Years = 70 or more)	3% per year up to 15, thereafter, 4% Maximum 90%	No
MIAMI	Police & Fire	Age 50, or Rule of 70 (Age + Years = 70) EARLY: 20 years regardless of age	3.00%. Also, has Share Plan.	No
ORLANDO	Police	20 years regardless of age; or age 47 + 10 years	70% of AME, plus 2% of average monthly salary for each yr. in excess of 20, with a maximum of 80%.	Yes
ORLANDO	Fire	20 years regardless of age; or age 47 + 10 years	60% of AME + 4% of average monthly salary for each yr. in excess of 20. Includes a Share Plan.	Yes
SAINT PETERSBURG	Police	Age 55 regardless of years of service; or 25 years regardless of age EARLY: Age 50 + 10 years	For service on or after January 1, 2004 - 3%	Yes
SAINT PETERSBURG	Fire	Age 50 + 10 years; or Age 53 regardless of years of service; or 30 years regardless of age EARLY: 25 years regardless of age	3.00%	Yes
TALLAHASSEE	Police	Part C: Age 55 + 5 years; or 25 years regardless of age EARLY: Age 50 + 5 years	Part C: Police: 3% for the first 20 yrs. & 4% for ec year thereafter, with a maximum of 81%, but no less than 2% for all years of svc. Also has Share Plan. Plus, supplement of \$5 x years of svc. Not in excess of 30.	No
TAMPA	Police & Fire	Age 46 + 10 years; or 20 years regardless of age EARLY: Age 46 + 20 years	3.15% all years of service.	No



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