

COJ/JPFPPF Meetings

City of Jacksonville Retirement Reform Presentation

May 6, 2014

The Stakes of Retirement Reform

**We're All
in This Together**

Community Questions for which Retirement Reform Can Answer “Yes”

- **Can we stabilize the City budget and start to reinvest in our quality of life?**
- **Will we protect Jacksonville’s strong credit rating and avoid a downgrade?**
- **Do we help Sheriff Rutherford and Chief Senterfitt recruit and retain the best public safety employees?**

Likely Scenarios Without Retirement Reform

- **City's annual PFPF contribution will continue to rise, topping out at \$481M in Fiscal Year 2036**
- **Little to no room in budget for key quality of life investments, including in public safety**
- **Ratings agencies downgrade City of Jacksonville credit rating, which makes borrowing more costly.**
- **Pension uncertainty sends public safety employees to other states, counties, or cities.**

Recent History of Retirement Reform

- **May 2011:** Mayor Peyton reaches pension reform agreement with JPPFF (2011-400)
- **May 2011:** Mayor-elect Brown appoints Pension transition committee
- **June 2011:** Council decides not to enact 2011-400
- **Jan. 2012:** City ratifies wages agreement with FOP through 9/30/14
- **Sept. 2012:** City ratifies wages agreement with Jacksonville Association of Fire Fighters (JAFF) through 9/30/15
- **May 2013:** Mayor Brown reaches pension reform agreement with JPPFF.
- **July 2013:** Pension reform agreement defeated 11-7

Recent History of Retirement Reform, continued

- **August 2013:** Mayor re-appoints Jacksonville Retirement Reform Task Force to study City police and fire pension challenges and recommend solutions.
- **March 2014:** Task Force presents recommendations on pension design, PFPF governance, and unfunded liability.
- **April 2014:** COJ meets with JAFF and FOP. Both unions waive rights to collective bargaining on pension benefits.
- **May 2014:** COJ and JPFPP enter discussions on retirement reform .

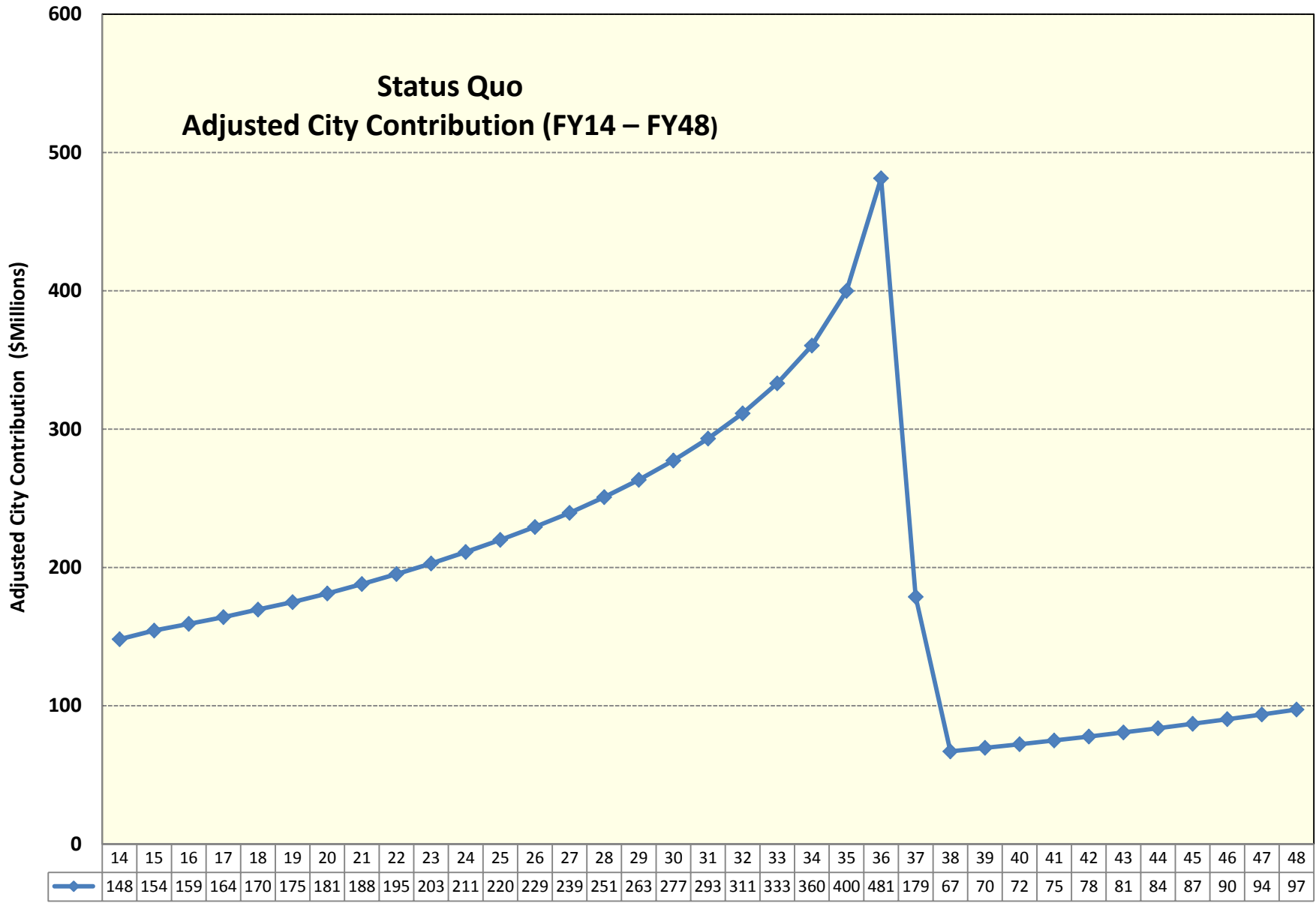
The Stakes of Retirement Reform

Financial Challenges

Annual Pension Costs Increasing

• FY 2001-02	\$ 9.9 million
• FY 2002-03	\$ 9.7 million
• FY 2003-04	\$ 22.1 million
• FY 2004-05	\$ 25.8 million
• FY 2005-06	\$ 34.7 million
• FY 2006-07	\$ 42.9 million
• FY 2007-08	\$ 47.1 million
• FY 2008-09	\$ 49.2 million
• FY 2009-10	\$ 81.1 million
• FY 2010-11	\$ 75.0 million
• FY 2011-12	\$ 77.2 million
• FY 2012-13	\$121.3 million
• FY 2013-14	\$148.0 million
• FY 2014-15 (Projected)	\$154.0 million

**Status Quo
Adjusted City Contribution (FY14 – FY48)**



Immediate Budgetary Consequences

- **Contribution to PFPF projected to increase from \$148 million in FY '14 to \$154 million in FY '15.**
- **This increase could impact possible investments in other priorities (including public safety priorities like personnel, employee compensation, vehicles)**

Other Financial Consequences

- **Fitch Ratings will downgrade COJ credit without reform by end of 2014**
- **Moody's Ratings has COJ on pension-related watch and will also downgrade w/o reform.**
- **Cost of a Downgrade: \$600K-\$2.0M annually and loss of market confidence/trust**

The Stakes of Retirement Reform

Operational Challenges

Uncertainty Hurts Retention and Recruitment, Undermines Stability

“If nothing else, we need certainty about what this thing is going to be.”

– Sheriff John Rutherford, February 19, 2014

“Stability is the key to our success. People have to know what the future holds.”

– JFRD Chief Martin Senterfitt, February 19, 2014

COJ/JPFPPF Meetings

Retirement Reform Issues for Discussion

Issue #1

Pension Benefits

Retirement Reform Task Force

Pension Benefit Recommendations

- Endorsed previously negotiated modified benefits for future employees.
- Recommended additional shared sacrifice from current employees
 - Increase in employee contribution
 - Change in DROP rate of return
 - Prospective COLA change
 - Prospective final average compensation period change (for employees with less than 10 years of service)

New Employee Pension Design

Retirement Benefit	Current System	New Proposal
Benefit Accrual Rate	3% for 20 years, then 2% for a maximum of 80%	2.5% to a maximum of 75%
Benefit Cap	None	\$99,999 (indexed to inflation with 1.5% cap)
COLA	3% starting as early as 3 months after retirement	Capped at 1.5% starting third Jan. after retirement
DROP	Maintained	Abolished (provides Back-Drop option)
Employee Contribution	7%	10%
Final Average Compensation	Based on last 24 months of employment	Based on last 60 months of employment
Retirement Age	20 years of service	30 years of service (may retire at 25 years w/penalty)
Vesting	5 years	10 years

Similar Reforms to FRS

- **65 of 67 counties have their public safety employees in the Florida Retirement System**
- **This plan will be comparable to FRS on the following benefits:**

Retirement Benefit	Fla. Retirement System	City of Jacksonville
Vesting	8 years	10 years
Years to Retirement	30 years	30 years
Benefit Accrual Rate	3%	2.5%
Employee Contribution	3% (9% w/Social Security)	10%
DROP	Maintained	Abolished for Back-DROP
Social Security	Provides	Does Not Provide

City Proposal #1: New Employees

- Re-adopt new employee benefit proposal from Mediated Settlement Agreement (as endorsed by Jacksonville Retirement Reform Task Force)--***Task Force Report, Page 38***
- Proposed term of agreement: **October 1, 2014 through September 30, 2017**
- Any future benefit determinations would be made through collective bargaining/Public Employee Relations Commission process with designated bargaining agents (currently ***Jacksonville Association of Firefighters*** and ***Fraternal Order of Police***)

Current Employee Pension Design

Retirement Benefit	Current System	Task Force Proposal
COLA (> than 10 years of service)	3% starting as early as 3 months after retirement	Capped at 1.5% and starts 3rd January after retirement
COLA (< than 10 years of service)	3% starting as early as 3 months after retirement	Capped at 1.5% and starts 3 rd January after retirement (but no earlier than age 55)
DROP	Maintained with guaranteed 8.4% rate	Maintained with actual rate of return (Rate floor of 0% and rate cap of 10%)
Employee Contribution	7%	10% (8% now, 10% when cuts restored)
Final Average Compensation (< than 10 years of service)	Based on last 24 months of employment	Based on last 60 months of employment (Not less than amount at 24 months)

Notes on Proposed Current Employee Modifications

Retirement Benefit	Task Force Proposal	Notes
COLA (> than 10 years of service)	Capped at 1.5% and starts 3rd January after retirement	FRS ended its COLA for all service after July 1, 2011
COLA (< than 10 years of service)	Capped at 1.5% and starts 3 rd January after retirement (but no earlier than age 55)	Average Social Security COLA from 2010 to present: 1.53%
DROP	Abolish guaranteed 8.4% return. Use actual rate of return, with a rate floor of 0% and a rate cap of 10%.	According to Summit, 10 year return was 6.65% net of fees
Employee Contribution	10% (8% now, 10% when cuts restored)	City of Tampa: 13.26% City of Miami: 10% Fire, 13% Police

City Proposal #2: Current Employees

- No changes to benefits already earned by date of plan implementation (***October 1, 2014***)
- Adopt recommendations from Retirement Reform Task Force
--Task Force Report, Page 39
- Proposed term of agreement: **October 1, 2014 through September 30, 2017**
- Any future pension benefit determinations would be made through collective bargaining/PERC process with designated bargaining agents (currently ***Jacksonville Association of Firefighters*** and ***Fraternal Order of Police***)

Issue #3

Governance

Why does governance matter?

- **Enhanced governance will have positive impacts:**
 - ✓ **Better investment returns**
 - ✓ **Lower unfunded liability**
 - ✓ **Maximize use of taxpayer/member dollars**

Retirement Reform Task Force Governance Recommendations

- **Provide COJ with appointment of the fifth member of the PFPF Board**
- **Establish a Financial and Investment Advisory Committee**
- **Mandate increased financial disclosure from PFPF investment managers, investment advisors, and board members.**
- **Set criteria for next PFPF Executive Director and PFPF Board members**
- **Require annual PFPF actuarial valuations and ensure delivery to COJ no later than February 1 of each year for budgeting purposes**
- **Require annual PFPF financial statements and ensure delivery to COJ no later than March 15 of each year**

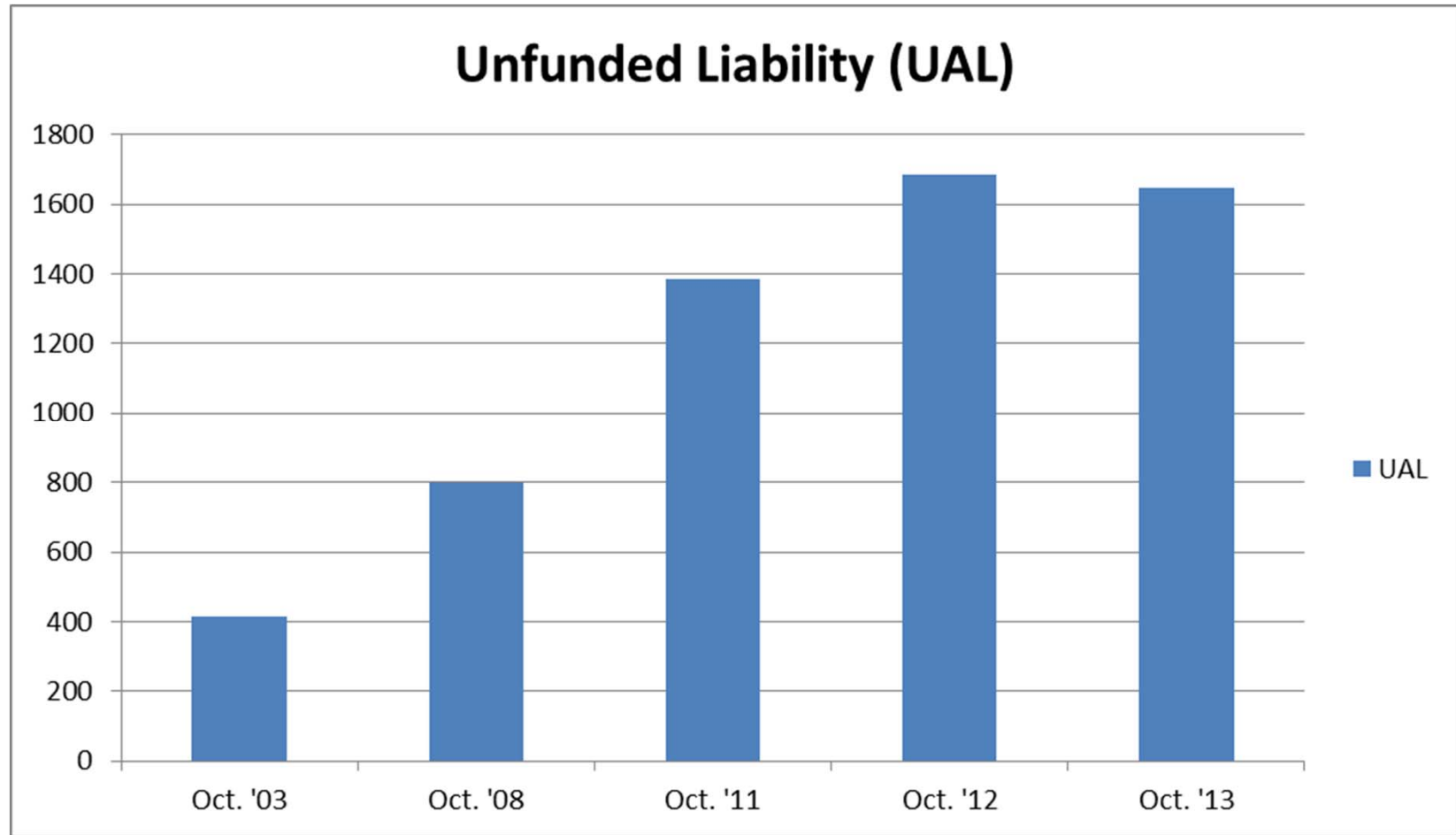
City Proposal #3: Governance

- Adopt governance recommendations from Retirement Reform Task Force
-- Task Force Report, Pages 22-29
- Proposed term of agreement: ***Effective October 1, 2014***

Issue #4

Unfunded Liability

PFPF Underfunded

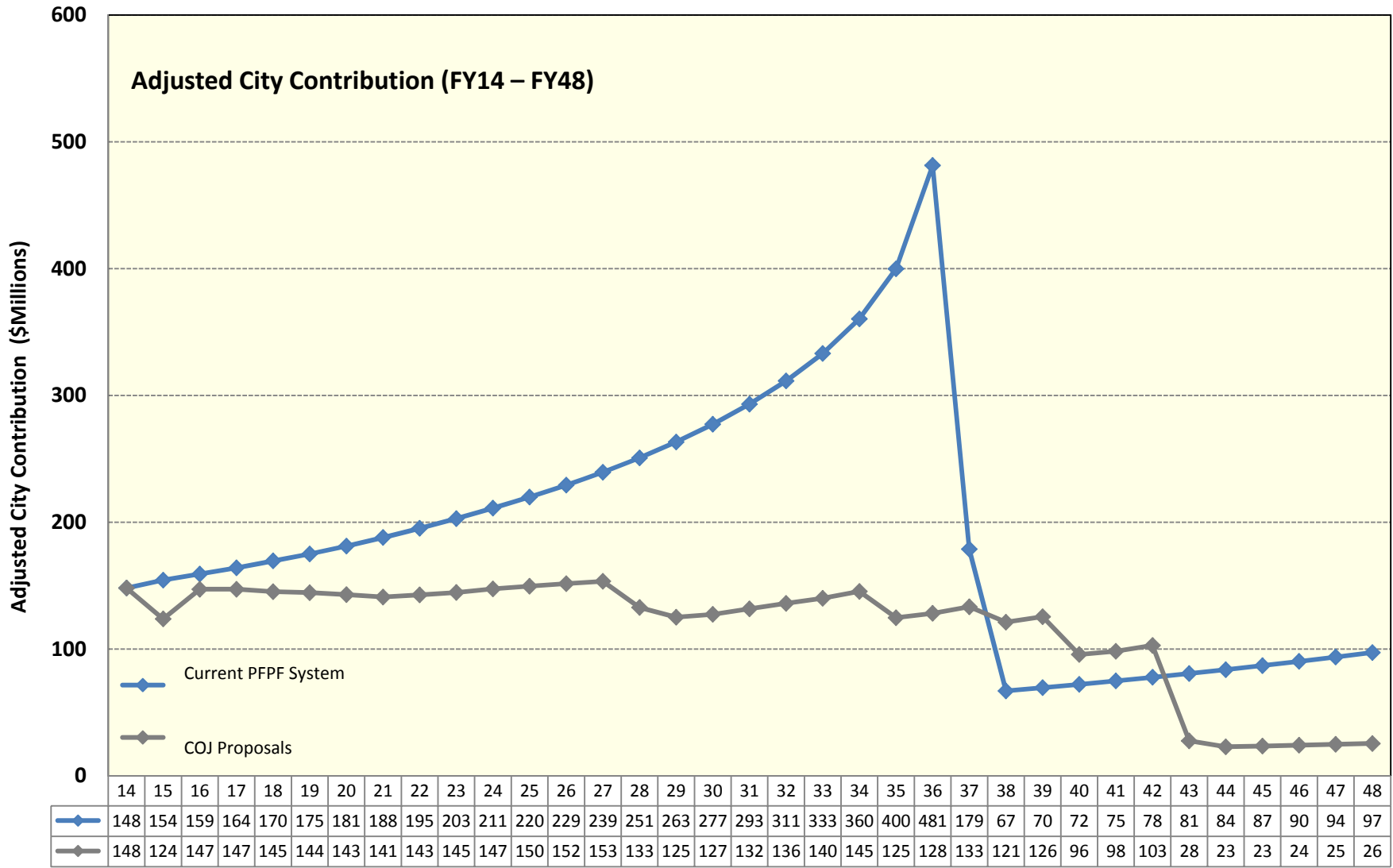


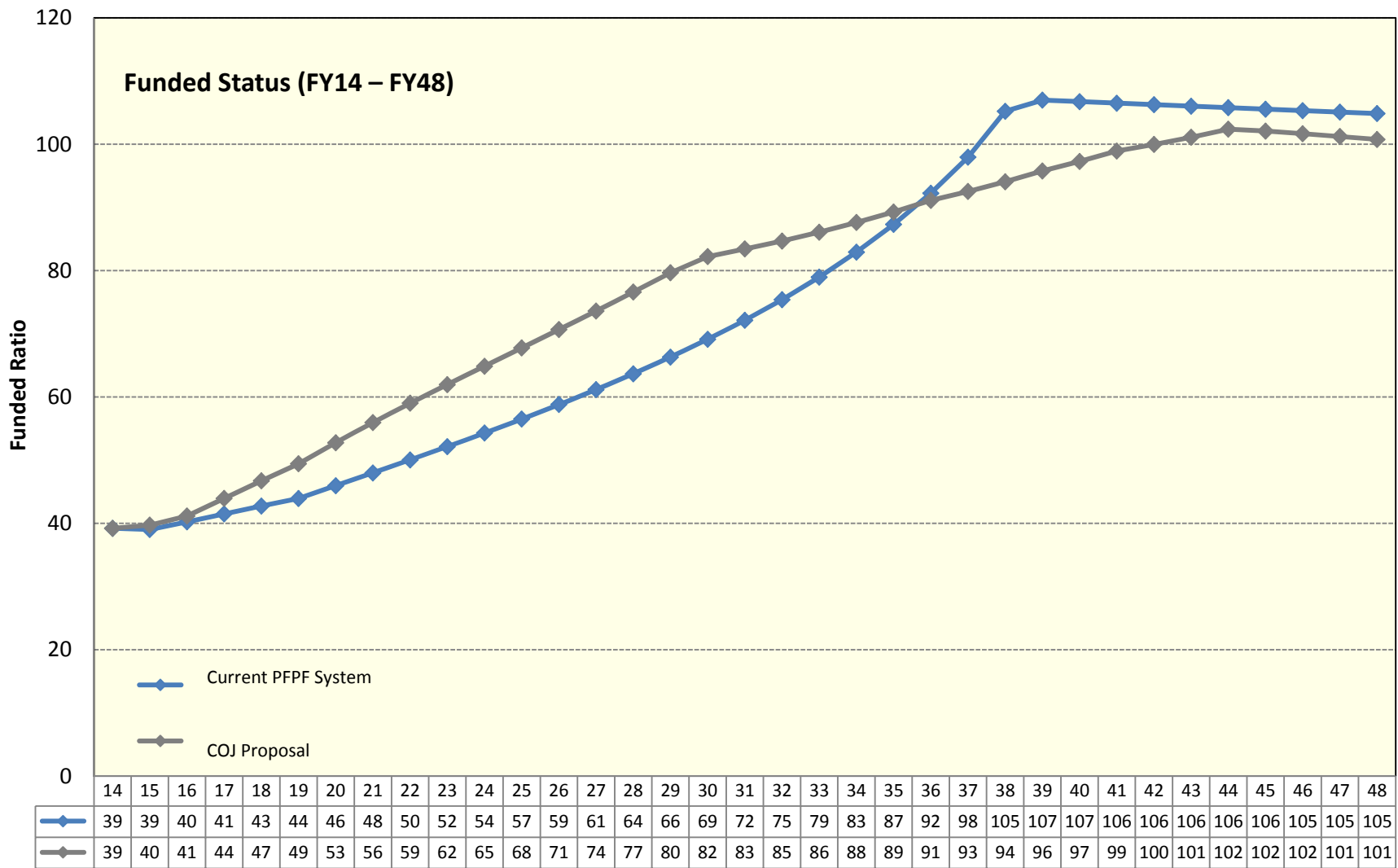
Retirement Reform Task Force Unfunded Liability Recommendations

- **COJ Must Pay Actuarially Required Contribution (ARC) each year**
- **Make supplemental payment each year of difference between ARC and \$200 Million (between \$40M and \$60M annually) until PFPF reaches 80% funded status**
- **Dedication of half of Chapter 175/185 funds until PFPF reaches 80% funded status**

City Proposal #4: Unfunded Liability

- **COJ will make additional unfunded liability payments subject to appropriation, until plan is at least 80% funded, if:**
 - **Parties agree on Proposals 1, 2, &3**
 - **PFPF dedicates its half of state chapter funds to unfunded liability payment until plan is 80% funded**





Summary of COJ Proposals to PFPP

- **Proposal #1: COJ proposes consensus pension design for future employees.**
- **Proposal #2: COJ proposes Task Force recommendations for current employees**

Summary of COJ Proposals to PFPF, Continued

- **Proposal #3**: COJ proposes Task Force governance reforms
- **Proposal #4**: COJ will make additional unfunded liability payments subject to appropriation, until plan is at least 80% funded, if:
 - *Parties agree on Proposals #1, #2, and #3*
 - *PFPF dedicates its half of state chapter funds to unfunded liability payment until plan is 80% funded*