PENSION REFORM, A QUIET REVOLUTION

1. A GORDIAN KNOT – In the third century before Christ Kind Midas of Gordium in Phrygia (present day Turkey) tied a complex knot to the yoke of his ox cart, which for many years no one had been able to untie. When Alexander the Great was told that anyone who loosed the Gordian Knot would lord over the whole of Asia, he raised his sword and sliced the knot in half, fulfilling the prophecy.

Jacksonville's fire and police pension fund is our Gordian Knot carefully constructed over the past 40 years by John Keane with many layers of state and local legislation, and the infamous "thirty year agreement". John had the audacity to tell the JCCI Commission studying city finances that they were wasting their time studying the pension plan because it was totally insulated from any changes until the year 2030.

Your task is to slice our Gordian Knot, by convincing the fire and police employees and their unions, that their pension plan is so burdened with unfunded liability that their pensions will be drastically reduced, or eliminated, unless they share with the city in repairing those plans to at least 80% funding.

There are ways to unravel our Gordian Knot by legislation, or litigation, such as challenging the legality of PFPF collectively bargaining for pension benefits as agents of the unions, and the validity of the thirty year agreement. That approach will take much time, and huge amounts of money, which would be better spent reducing the unfunded liability. The city and the employees cannot afford to pursue new legislation or litigation, if the unions and employees will agree to participate in reducing the unfunded liability, at least until the PFPF is 80% funded.

The Mayor's proposed mediation settlement agreement is a big step in the right direction, and provides a point of beginning for negotiating long term solutions which will prevent the city's pension liability from rising above 50% of payroll and 35% of budget, which will result in bankruptcy for the city.

2. THE PROBLEM IS GREATER THAN WE THINK – We are told our unfunded liability is 1.7 billion dollars, but the assumptions imposed on the actuaries by the pension boards are artificial; 8.5% return, recently reduced to 7.25%, 1994 mortality tables, outdated salary scales, unrealistic estimates on the cost of the DROP Program, the administrative cost of managing the funds, and other factors. It may not be worth the cost and effort to get an actuarial report based on current realistic numbers, but our actual unfunded liability is clearly much more than 1.7 billion dollars, and may be as much as 3 billion dollars. If you decide that 80% of funding is an adequate goal, that will offset to some extent, the additional unfunded liability that actually exists, because it is based on 100% funding. The optimum cost of pensions should be in a range of 5% of budget and less than 20% of payroll, but we are at more than 20% of budget and more than 45% of payroll and rising. The Mayor estimated that his mediation agreement would have been 11% of payroll, but only for a few years. The only problem with the Mayor's agreement is that in the out years the unfunded liability requirements will remain above 30% of budget for many years, which is not sustainable.

3. GOVERANCE – The pension boards must be independent, knowledgeable and competent to perform their task of managing their respective funds, not to bargain for new or increased benefits. The boards should have representation from their unions, but the majority of each board should be appointed by the city council, or by the Mayor, with approval of the council, selected for their knowledge and experience in finance, investments and pensions, and

their independence from the unions and public employees. Their goal should be to work with the city and the unions to improve unfunded liability, in the case of the PFPF from 38% to at least 80%. The ultimate goal should be 100% to 120%, but the funds can be managed so that the employees' pensions are protected, and the city can afford support those pensions, if we can get to at least 80% of unfunded liability. That goal is achievable with relatively little sacrifice by the city and the general employees in the GEPP, but will be much more difficult to achieve in the PFPF.

We should either combine or better yet turn over management of all our pension funds to the State of Florida Retirement Department, which can provide huge economies of scale in management costs, and much higher quality management and investment returns. This would require legislation, which will probably be opposed by fire and police unions all over the state because they fear such a precedent. (Unfortunately for the same selfish reasons, our PFPF board can be expected to resist change for the sake of its staff, not the city, the unions, or the employees).

4. SHARED SACRIFICE – To get to 80% of unfunded liability the PFPF staff and board, the fire and police unions, the fireman and policemen, and the city must reach an accord which includes shared sacrifice by all. The Mayor's mediation agreement is a good point of beginning, which, with some additional changes could be a vehicle to accomplish that purpose:

a. The "chapter" funds from insurance premiums at 10 million dollars per year should be dedicated entirely to reducing unfunded liability until we reach 80% funding, because no additional benefits can be provided to fire and police until then.

b. The DROP Program and the "Back Drop" Program should be eliminated unless it can be salvaged by reducing a pensioner's investment return to the CPI or some other appropriate index, raising retirement age to at least 50, with 30 years' service, and basing pensions on the last five to ten years of salaries, rather than two years. (Similarly in the GEPP retirement age and years of service should be increased to at least age 60 and 30 years' service).

5. Employee contributions including those of current employees should be increased to 10% for both PFPF and the GEPP, at least until such time as 80% funding is achieved.

6. COLA's should be restricted, pending 80% of funding, not to exceed an appropriate index such as the CPI.

7. THE THIRTY YEAR AGREEMENT – The pension fund has filed suit to validate the Thirty Year Agreement, which purports to lock the city in to an unsustainable pension program until 2030. The agreement is probably invalid and Ultra Vires from the city's viewpoint, but the PFPF argues that it has been amended so many times by so many mayors and city councils that it must be deemed valid. Of course if it was invalid in 2000, amendments cannot validate it.

8. THE FUTURE WITHOUT SHARED SACRIFICE – The bottom line is that unless the unions and the employees accept the fact that the city cannot continue to pay the cost of pensions as now formulated, and agree to participate in shared sacrifice, quality of life in the city will continue to deteriorate, culminating in bankruptcy, in which pensions will be drastically reduced or eliminated. Several cities in California, and now Detroit, have had that experience, and many large cities and some states are on the brink of having that experience, as is Jacksonville.

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