AGENDA ITEM NO. 4-1(a) 12/1/14

CITY OF BROOKSVILLE
201 HOWELL AVENUE
BROOKSVILLE, FL 34601

PENSION WORKSHOP MINUTES

April 29, 2014 **6:00 P.M.**

Brooksville City Council met in workshop session with Mayor Kevin Hohn, Vice-Mayor Frankie Burnett, Council Members Joe Bernardini and Joseph E. Johnston, III present. Also present were Cliff Taylor, Assistant City Attorney; T. Jennene Norman-Vacha, City Manager; Janice L. Peters, City Clerk; Jim Delach, Assistant Finance Director; George Turner, Police Chief and Tim Mossgrove, Fire Chief.

The workshop was called to order by Mayor Hohn at 6:00 p.m.

City Manager Norman-Vacha introduced Patrick Donlan of Foster & Foster and Peter Strong of Gabriel Roeder Smith & Company.

FIRE PENSION 2013 ACTUARIAL REPORT

Patrick Donlan of Foster & Foster reviewed the 2013 Actuarial Valuation Report.

Pg. 5 Funding requirements went down from 2012. Total required contribution of the plan went from 58.05% to 57.82% of payroll, or non-drop members. No contributions are made for the drop members. Members contributed 3.29% of pay and the State contribution was $85,840, with the City requirements was 41.3% of payroll.

Pg. 23 Assets for 2013 are up from 2012 to $5,249,323.35. Returns for 2013 were 10.35%. The 4-year average is above the assumption at 8.96%. The higher return lessens the City's costs.

Pg. 29 Liabilities. He advised there are 17 non-drop firefighters, 3 drop members and 15 retirees. There are 9 terminated firefighters still in the plan.

Pg. 14 Unfunded Actuarial Accrued Liability, a measure of where we are compared to where we want to be, as of 10/01/12 was $1,641,378; and 2013 is $1,594,970. He advised 2014 brings GASB & State changes to the plan.

Pg. 10 Normal Cost went from 23.87% last year to 22.03% this year, which includes administrative costs, and unfunded costs.

Pg. 8 Market value of assets went from $4,937,000 to $5,456,000. The present value of all future benefits of active and inactive members went from $7.4 to $7.7 million. There is $2.2 million that has to be funded in the future.

Pg. 9 Present value of accrued benefits, what people have earned to date, is $6.4 million, an increase from 81% to 86% funded.

PRESENTATION OF INFORMATION BY GABRIEL ROEDER SMITH & COMPANY REGARDING THE FIRE PENSION.

Pete Strong, Lead Actuary of GRS, reviewed two letter reports, current Actuarial Assumptions and Methods and additional commentary with 30-Year Projections.

APPROVED BY BROOKSVILLE CITY COUNCIL ON 12/1/14 INITIALS JL

He advised the City of Brooksville is in line for return assumptions with the rest of the state at around 7.75%. He reviewed return assumption data of eight independent investment consultants, which reflect what is happening in the market at this time. A 7% return assumption is expected to be the nominal return going forward over the next 20 years.

He reviewed four different projections using a few different scenarios and assumptions for costs over the next 30 years as follows:

Projection #1 - Baseline Projection - Using Current Valuation Assumptions

This projection is optimistic in that it assumes actual experience which will match all current assumptions throughout the projection period, including annual investment returns of 7.75% net of expenses every year.

In this projection, emerging experience is expected to match the assumptions, so no new experience gains/losses emerge and all unfunded liability is paid off. The annual contribution is approximately equal to the normal cost (the cost of the annual benefits earned each year).

Projection #2 - Using Current Assumptions for Future Annual Valuations, but Using Recommended Assumptions for Actual Year-to-Year Experience

This projection uses the same assumptions as the first projection for each future annual valuation, but assumes actual experience from year to year matches the recommended assumptions from Letter Report #1 (including actual net investment returns of 6.5% per year on the market value of assets, salary increases of 5.25% per year, and recommended mortality and turnover rates).

The funded ration in this projection never reaches 100% (and it actually begins to decline after peaking at 91.9% in 2032. The salary increase assumption rate was scaled back in this projection by the same amount as the investment return assumption, from 6.5% to 5.25%.

Projection #3 - Current Assumption for Future Annual Valuation; Recommended Assumptions for Actual Year-to-Year Experience; -15% Investment Return in 2017

This projection is just like the second projection, except it assumes that a "black swan event" takes place at some point within the next 5-10 years, which reflects a 15% loss in the market value of assets in 2017, which would be phased in over a 4-year period in the actuarial (smoothed) value of assets. The loss would have to be made up by City contribution, causing an increase in the City/State contribution rate over the next several years, over which time it would climb as high as 70% of covered pay.

Projection #4 - Using Recommended Assumptions for Annual Valuations and Experience

This projection assumes the recommended assumption are used for all purposes (future annual valuations and actual year-to-year experience). This would then be the baseline projection for all subsequent projections (which illustrate the impact of changing certain key benefit provisions). The City/State contribution rate starts out higher, reflecting the use of the revised assumptions, but it declines to the normal cost rate after 20 years once the unfunded liability is paid off and the funded ration becomes 100%.

Mr. Strong advised GRS believes in defined benefit plans as the most efficient means of providing lifetime incomes to groups of employees and retirees. They pool longevity risk so that individuals do not have to "guess" how long they are going to live and manage their own money. Further, defined benefit plans are 25% less expensive to provide retirement income than retirement savings vehicles. They do however still carry risks associated with investment, which is the largest and most important risk.

Within individual reviews of each projection, the following questions were addressed:

Regarding Projection #1, Mr. Storm clarified that the salary increases were 6.5% per year, the current assumption, over the working career of a firefighter. Historically, this has been the average. Mayor Hohn advised the problem will be with inflation, salaries will need to have to be commensurate. Mr. Strong advised there is conflicting views. The eight independent investment consultants used, their 20-year forecast for average inflation is in the 2.75 - 3% range.

Regarding Projections 2 and 3, Council Member Johnston asked if the required contribution fluctuation is due to anticipated retirements? Mr. Storm advised it has to do with the unique characteristics of when people are assumed to retire and new employees coming in, as well as when amortizations and unfunded liabilities are being paid off.

Regarding Projection #4, Mayor Hohn asked where the $1.3 million in Actuarial Liability increase come from for 2013, a year that already happened. Mr. Strom advised that is the immediate effect of using the recommended assumptions, the impact that would occur on the Actuarial Liability if future cash flows of 6.5% instead of 7.75% are discounted. It also reflects longer expected mortality and turnover rates, as well as the revised salary increase assumption.

Mr. Strong then reviewed the impact of adjusting three key benefit provisions. The benefit multiplier (for future service), the cost-of-living increase (COLA), and the normal retirement eligibility provisions, one at a time and then in combination.

- <u>Scenario A - (Using Recommended Assumptions) Benefit Multiplier Changed from 3.1% to 2.75% Per Year for Future Service.</u>

- <u>Scenario B - (Using Recommended Assumptions) COLA (Applicable from Ages 55-65) Changed from 3.0% to 2.0% for Future Retirees.</u>

- <u>Scenario C - (Using Recommended Assumptions) Normal Retirement Eligibility Changed from (Age 55 with 10 Years or Any Age with 20 Years) to (Age 55 with 10 Years or Age 52 with 25 Years of Service), the Chapter Minimum.</u>

- <u>Scenario D - (Using Recommended Assumptions) All Three Changes (Scenarios A, B and C Combined).</u>

Council Member Johnston asked if these scenarios envision it being implemented immediately and affecting all that are currently employed. Mr. Strong stated yes, and it is possible to apply these changes to future hires only.

In the last part of his presentation, Mr. Strong reviewed the costs of variable defined benefit plans. The concept is the benefit adjusts each year based upon the investment return that year. The hurdle rate can be set at whatever the board or City feels appropriate. Most are set at 5%, or less than the return is expected the return to be. Benefits accrue each year and is adjusted each year based upon the ratio of what was earned on the assets to that hurdle rate. But, there are rules for accrued benefit reductions. He clarified the theory of assumptions and unfunded liabilities.

Council Member Johnston felt the assumptions being made are probably good for actuarial and planning purposes but felt they were very conservative. He stated because of lower wages the City does have some turnover. Mr. Strong advised the most turnover occurs within 1-2 years of hire. He recommended a select rate for the first two years followed by long-term rates.

Public Input

Mayor Hohn asked for public input.

Margaret Bloomquist asked how the City of Brooksville's plan compares with other cities. Mr. Strong advised there are many different components to the plan, but felt the City's is comparable with an average multiplier of just below 3%. For retirement age eligibility, having a 20 and out provision is generous. Over all Mr. Strong felt the City's plan to be a little above average in terms of pay replacement at a given age. What's below is the average pay compared throughout the state. The normal retirement percentage is around 60%. Mrs. Bloomquist asked if employees can contribute more. Mr. Strong advised yes. The current rate is at 3.29% of pay. Mrs. Bloomquist felt it helpful to be able to see the projections. Mr. Strong advised they are mainly presenting projections in this report, seeking direction from Council.

Council Member Bernardini ask for clarification that the benefit for firefighters at retirement is 60%. Mr. Strong advised it is about 62% of final salary, averaged of the last 5 years of employment. He further explained unfunded liability should everyone in the plan decide to retire at one time. Current accrued benefits is funded at 86%.

Mayor Hohn asked if there is a legislative mandate that the unfunded liability has to be paid down over 10 years. Mr. Strong advised no. He confirmed that any changes to the plan must be approved through the State.

Bill Kemerer, referring to Attachment A, regarding the Actuarial Assumptions on salary increases, the examples were 1994-2000 when the rate of return was 12%, salary increase was 7.8%, then in a downturn year, the return was 6.5% and salary increase was limited to 2.75%. It seems the final assumption 6.5% and 5.25%, which is only a 1.25% differential, when the examples given show a 4% differential. Is that because Council has the ability to control the salary increases? Mr. Strong advised that 1.25% differential was chosen because is the current differential. He stressed that these are only assumptions.

Council concurred that they were not prepared to make a recommendation at this time, needing more time to review the assumptions. It was requested that questions or concerns be addressed with the City Manager and to bring the item back for discussion in June.

Mr. Donlan advised they handle 190 public plans in Florida and advise the average is 2.99% benefit accrual rate. He offered to do a comparison of the benefits of the City's plan with other plans. Mr. Storm advised he can offer a lot of the information Mr. Donlan would need.

T. Jennene Norman-Vacha advised the next step is for Council to convey to Mr. Strong and his team what scenarios they would like to see so they can provide the real information as to what the City's contribution will be. Council further commented on the scenarios and assumptions presented. Mr. Strong further commented on the variable defined benefit plan.

Council concurrence was to individually meet with the City Manager to compile input to be provided to Mr. Strong then schedule a workshop.

ADJOURNMENT

There being no further business to bring before Council, the meeting adjourned at 7:53 p.m.

City Clerk

Attest: Mayor