City of Miami Beach
Budget Advisory Committee
Pension Reform Initiative
Recommendation Report

City Commission Workshop
August 29, 2012

Budget Advisory Committee Members

Marc Gidney, Committee Chair
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Mayor's Charge to the Budget Advisory Committee (BAC)

- Develop recommendations that will address the benefits and funding concerns with the City's pension plans.
- Focus on Fire and Police pension plan – <u>significantly</u> greater cost to the City than the General Employees pension plan.
- A series of written, implementable recommendations to address the long term sustainability of the Fire and Police Pension Plan
  - Cost implications
  - Impacts to employees
  - Advantages and Disadvantages
- Subsequently, the BAC may provide recommendations regarding other pension benefits in the City.

Defined Benefit
vs.
Defined Contribution

Defined Benefit Plan (DB):

- Employee pays percentage of salary into DB Plan each pay period
- City pays pension benefit to employee from start of retirement through end of life, and to any surviving qualified beneficiary
- Benefit calculated based on set formula
- City retains Risk

Defined Contribution Plan (DC) :

- Employee pays percentage of salary into DC Plan each pay period
- City pays percentage in employee DC Plan each pay period
- Employee determines how to invest DC Funds
- Retiree receives benefits until DC funds exhausted
- Employee retains Risk

Helpful Terminology

Accrued Liability: The actuarial present value of the plan's pension obligations as determined by an actuarial cost method.

Actuarial Value of Assets: The total value of a plan's assets used for performing an actuarial valuation.

Annual Required Contribution (ARC): The employer's periodic required contributions to a defined benefit plan, as defined by GASB. If an employer's contributions fall below the ARC, the shortfalls must appear in the employer's financial statements.

Buyback – You may purchase eligible periods of employment that have not previously been included as credited service. Purchasing eligible periods of employment increases the amount of your pension benefits

Helpful Terminology

Deferred Retirement Option Program (DROP) – A retirement feature allowing an employee, eligible to retire and receive normal benefits from the defined benefit plan, to defer the monthly benefits while continuing to work. The benefit payments are placed in a separate account until the deferred retirement period ends. During this time the calculation for years of service and final compensation formula used to calculate pension benefits is frozen. DROPs can be used for phased retirement or to retain experienced employees.

Final Average Monthly Earnings (FAME): Formula used to help determine the member's final accrued benefit.

Retiree Cost-of-Living Adjustment (COLA) - An annual increase in the pension plan retirement benefit.

Unfunded Actuarial Accrued Liability (UAAL): The unfunded liability of the plan is the actuarial accrued liability less the actuarial value of plan assets.

Potential Key Drivers of Increasing Pension Costs

- Retiree Cost of Living Adjustments (COLA)
- Benefit Multiplier
- Salary Growth
- Pensionable Pays/Overtime
- Final Average Monthly Earning (FAME)
- Age of Retirement

- Experience Gains or Losses

Just Some Examples of Recent Changes to Public Pension Plans In Florida

Stuart (2007)- All Employees

- All City pension plans terminated
- City joined Florida Retirement System (FRS) for all employees
- City purchased past service credit under FRS for all employees

Ft. Lauderdale (2007) - General

- Closed general employee defined benefit pension plan
- Set up defined contribution plan for new hires

Coral Gables (2009) - Police

- Increased employee contributions for police officers by 5%
- Reduced pensionable earnings (excluded overtime in excess of 300 hrs. and lump sum payments for compensatory time)

Naples (2009) - Fire

- "Stop & Restart" implemented; premium taxes that the City can use to offset City pension contributions increased from $776K to $1.67 million per year
- "Share Plan" set up with excess premium tax revenues

Just Some Examples of Recent Changes to Public Pension Plans In Florida

Delray Beach (2010) General Employees

- Final average compensation period extended from 2 to 5 years
- Normal retirement age delayed to age 62 (was 60)
- Employee contributions raised from 2.5 to 3.05%
- Standard benefit changed to single life annuity (was 60 & joint & survivor annuity)
- Line of duty disability reduced from 75% to 65%

Coral Gables (2010) – General

- [Settlement approved by union members and City Commission in July 2011)
- Pension benefits frozen; reduced benefits for future service
- Pension changes for current and future employees:
- Reduced multiplier for future service (from 3% to 2.25%)
- Increase employee pension contribution by 5% (to 10%)
- 5 year final averaging period (phased in from 3 year average)
- Delay retirement age to age 65 or “Rule of 85” (from age 52 or “Rule of 70”)
- Reduced disability benefits
- Future pension cost increases shared by City and employees
- City may establish defined contribution plan in future for new hires

Just Some Examples of Recent Changes to Public Pension Plans In Florida

Miami (2010) – Pension Changes (All Employees)*

- [Financial urgency declared – City Commission adopted wage and benefit reductions 8/31/10]:
- Later normal retirement age (to "Rule of 70" with minimum age of 50 from Rule 64/68)
- 5 year average final compensation (was highest single year)
- Reduce benefit formula for future service (to 3% from 3.5% after 15 years))
- Normal form of benefit: life and 10 years certain (PF); life annuity (General)
- $100,000 cap on benefits
- * Litigation pending/City may establish defined contribution plan in future for new hires

Hollywood (2011) – All Employees*

- [City declared financial urgency; pension changes approved by referendum on 9/13/11)
- Pension benefits frozen for all employees
- Pension changes for current and future employees:
- Delayed normal retirement date (Police/Fire – age 55 with 10 years or age 52 with 25 years; General – age 65 or age 62 with 25 years or age 60 with 30 years)
- Reduced benefit multiplier 2.5% police/fire; 2.0% - general)
- 5 year final averaging period (now 3 years)
- No COLA for future service
- No DROP
- City will withdraw from participation in Chapter 175 and 185

* Litigation Pending

Just Some Examples of Recent Changes to Public Pension Plans In Florida

Florida Retirement System (2011)*

- 3% contribution effective 7/1/11 (was 0)
- No retiree COLA for service after 7/1/11 (was 3%)
- Delayed normal retirement age for members who join FRS on or after 7/1/11
  - Regular: Age 65 or 33 years (was 62 or 30 years)
  - Special Risk: Age 60 or 30 years (was 55 or 25 years)
- Average final compensation: highest 8 years for members who join FRS on or after 7/1/11 (was high 5)
- 8 year vesting period for members who join FRS on or after 7/1/11 (was 6 years)
- DROP interest = 1.3% for members who enter DROP after 7/1/11 (was 6.5%)
- * Litigation pending

The Growing Need for Pension Change

State of California

- Total pension liabilities are 30 times its annual budget deficit.
- Annual pension costs rose by 2,000% from 1999 to 2009.
- Since 2008 -Four Municipalities in California have already filed for bankruptcy protection

San Diego – 2012 Proposition B*

- Freeze base pay used for pension calculations over the next six years
- Eliminate pension spiking
- All new hires except for police officers into 401-k type retirement plans. It is estimated that the plan would save the city nearly $1 billion over 30 years.

* Litigation Pending

San Jose – 2012 – Measure B*

- Current employees keep pension credits but pay up to 16% more to continue benefit or choose a more modest plan for remaining years on the job
- Future hires required to pay half the cost of a pension
- Suspend current retirees' 3 percent yearly pension raises up to five years if the city declares a fiscal crisis.
- Discontinue "bonus" pension checks to retirees
- Require voter approval for future pension increases

* Litigation Pending

Examples of Recent Changes to Public Pension Plans Around the Country

<u>Atlanta, Georgia   August 2011 Creation of DB Hybrid Plan w/DC Component</u>

- Hyrbrid Plan for All New Hires
- Current Employees hired before 10/1/11 can elect Hybrid Plan w/prior accrued benefits intact or can elect to remain in current DB Plan. If remain in current DB Plan Employee Contribution increases from 8% to 13% (If have designated beneficiary)

  HYBRID PLAN :

  - DB Component - Employee Contribution 8%
  - DC Component – 3.75% of salary mandatory/4.25% of salary voluntarily with 100% match from City not to exceed 8%
  - Multiplier reduced to 1%
  - Maximum COLA of 1%
  - FAME 10 Highest
  - Retirement Age from 55 to 57 (sworn) and 60 to 62 (General Employees)
- Policy Implemented: If ARC exceeds 35% of payroll, additional increase split between City and Employee with max additional employee contribution not to exceed 5%. In addition, an advisory committee would be formed to address ARC for future years.

Growing need for Pension Plan Reform

Rhode Island, 2012

- The new law invokes the "police power" of the state to take actions necessary to preserve the pension system.
- COLAs will be suspended until such time as the plan's financial condition improves sufficiently, and will thereafter be subject to financial-sustainability tests.
- Retirement ages will increase next summer
- Current employees' accrued pension benefits frozen and they will hereafter join Hybrid Plan consisting of Defined Benefit and Defined Contribution with Reduced Multiplier to 1%

In addition, many states have enacted sweeping structural pension reforms in 2012 including:

- Alabama
- Kansas
- Louisiana
- New York
- South Carolina
- Virginia
- Wyoming

Defined Benefit Plan

POTENTIAL FACTORS TO CONSIDER REGARDING THE HEALTH OF A DEFINED-BENEFIT PLAN

- Percent Funded
- Unfunded Actuarial Accrued Liability (UAAL)
- City’s Annual Required Contribution (ARC) as a % of Payroll
- Experience Gains and Losses

Understanding the City Plans Funded Status

- Actuarial Value of Assets / Actuarial Accrued Liability (value of current benefits)
- Provides a measure of how much of current benefits (earned and projected) are funded at a specific point in time
- Funded Status of City Pension Plans as of 10/1/10

	Fire/Police	General
– Act. Accrued Liability:	$818 million	$580 million
– Act. Value of Assets:	$526 million	$431 million
– **Percent Funded*:**	**64.3%**	**74.4%**

According to the Leroy Collins Report Grading Scale for funding: >90% = A; 80-90% = B and 70- 80% = C

Unfunded Actuarial Accrued Liability (UAAL)

The UAAL reflects a snapshot at a point in time based on plan benefits and assumptions.

In order to calculate the total amount that will be paid in the future for plan members. Actuary estimates for member:

- When Retire
- How much paid over remaining lifetime after retire
- How long they will live

The total value of these benefits is then “present valued” to current dollars to determine the Actuarial Accrued Liability.

Understanding the City Plans Pension Legacy Cost
The UAAL Issue

- <u>Unfunded</u> Actuarial Accrued Liability (UAAL) is based on existing employees – changes to benefits for new employees do not impact UAAL.
- Annual UAAL payment is approximately half of the annual required contribution in each plan – these do not go away/could increase due to plan closure, etc.
- By law the **City is responsible for funding the UAAL** – even if employees are transferred to other employers, and even if the current pension plans are closed, frozen or terminated.

Understanding the City Plans
Pension Legacy Cost
The UAAL Issue

Total Unfunded Actuarial Accrued Liability (UAAL) of City pension plans as of 10/1/10 was **$441 million:**

➢ Fire/Police:	$291.9 million
➢ General:	$148.8 million

Fire/Police	MBERP (General Employees Plan)
494 Current Members	1116 Current Members
66 DROP members	67 DROP members
594 Retirees	1023 Retirees
Total Fire and Police Plan Members	Total MBERP Members
1154	**2206**

Historical Snapshot
Percent of Payroll for Past 5 Years

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Fire and Police Plan	47.82%	50.02%	55.32%	66.66%	72.76%	80.92%
MBERP Plan	24.24%	21.57%	25.20%	20.65%	25.54%	31.99%

Understanding the City Plans Cost - Next Five Years Fire and Police

Contribution for Fiscal Year	2011	2012	2013*	2014*	2015*	2016*	2017*
Discount Rate	8.3%	8.2%	8.1%	8.0%	8.0%	8.0%	8.0%
Salary Scale	Current Bargaining Agreement						
Annual Required Contributions (in millions)	34.4	36.2	39.7	43.3	43.9	44.5	45.2
% of Payroll	66.66%	72.76%	77.22%	81.94%	81.76%	81.28%	81.05%

* Projections for 2011 – 2015 based on 10/1/10 valuation data. Actuals for 10/1/11 - ARC of $39.8M and 80.92% of Payroll and a Funded Ratio of 62% based on a discount rate of 8.10%.

Understanding the City Plans Cost - Next Five Years General (MBERP)

Contribution for Fiscal Year	2011	2012	2013*	2014*	2015*	2016*	2017*
Discount Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Salary Scale	Current Bargaining Agreement						
Annual Required Contributions (in millions)	17.6	21.8	25.8	27.7	29.0	29.6	28.2
% of Payroll	25.54%	30.76%	35.34%	36.87%	37.45%	37.12%	34.31%

•Projections for 2011-2015 based on 10/1/10 valuation date. Actuals for 10/1/11 - ARC of $21.2M; 31.99% of Payroll and funded ratio of 70.7% based on a discount rate of 8.15%.
•According to the Leroy Collins Report Grading Scale for funding: >90% = A; 80-90% = B and 70- 80% = C

Plan Assets – Historical Returns

Standard Rate of Return Model = 8%

Some of the nation's largest public pension funds have already announced nearly flat returns
State of California (CALPERS) = 1%
New York City = 1.8%

Median annual return for most public pension funds in 2011 = 4.4%
5 Year Average Return = 3.25%
10-year average = 6%

Historical Snapshot
Rate of Investment Returns
Fire and Police Pension Plan

	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11
Assumed Rate of Investment Return	8.50%	8.50%	8.40%	8.30%	8.20%
Actual Rate of Investment Return	8.18 %	4.87%	4.49%	4.25%	2.57%
5 Year Average Actual Rate of Return					4.87%
10 Year Average Actual Rate of Return					5.36%

Historical Snapshot
Investment Rate of Returns
MBERP Plan

	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11
Assumed Rate of Investment Return	8.75%	8.65%	8.50%	8.35%	8.25%
Actual Rate of Investment Return	12.0%	5.2%	1.1%	5.0%	1.10%
5 Year Average Actual Investment Rate of Return					4.88%
10 Year Average Actual Investment Rate of Return					4.06%*

* Unclassified and General plans merged in 2007. Five year average for Unclassified Plan 2002-2006 = 7.38%

Current Plan Status
Fire and Police Pension Plan

As of 10/1/10 Valuation (FY 2011/12 Budget)*	Fire and Police Pension
Funded Ratio Unfunded Liability as of 10/1/10 (UAAL)	**64.3%** **$291,931,506**
City's Annual Required Contribution (ARC) Pension Bond Payments	$34,416,519 $4,495,500
Total Annual City Payments	**$38,912,019**
City ARC as a % of Payroll (Normal Cost) Amortization of Unfunded Liability Total Employer % of Payroll	32.59% 40.17% **72.76%**
Investment Rate of Return (Assumed = 8.20%)	**2.57%**

- Actuals for 10/1/11 - ARC of $39.8M and 80.92% of Payroll and a Funded Ratio of 62% based on a discount rate of 8.10%.
- According to the Leroy Collins Report Grading Scale for funding: >90% = A; 80-90% = B and 70- 80% = C

Current Plan Status
MBERP Plan

As of 10/1/10 Valuation (FY 2011/12 Budget)*	MBERP
Funded Ratio Unfunded Liability as of 10/1/10 (UAAL)	**74.4%** **$148,766,860**
City’s Annual Required Contribution (ARC) Pension Bond Payments	$14,474,678 $499,500
Total Annual City Payments	**$14,974,178**
City ARC as a % of Payroll (Normal Cost) Amortization of Unfunded Liability Total Employer % of Payroll	10.80% 14.22% **25.02%**
Investment Rate of Return (Assumed = 8.25%)	**1.1%**

•Actuals for 10/1/11 - ARC of $21.2M and 31.99% of Payroll and a Funded Ratio of 70.7% based on a discount rate of 8.15%.

•According to the Leroy Collins Report Grading Scale for funding: >90% = A; 80-90% = B and 70- 80% = C

Recommendations Focused Primarily on Fire and Police Pension Plan

- Mayor’s Charge

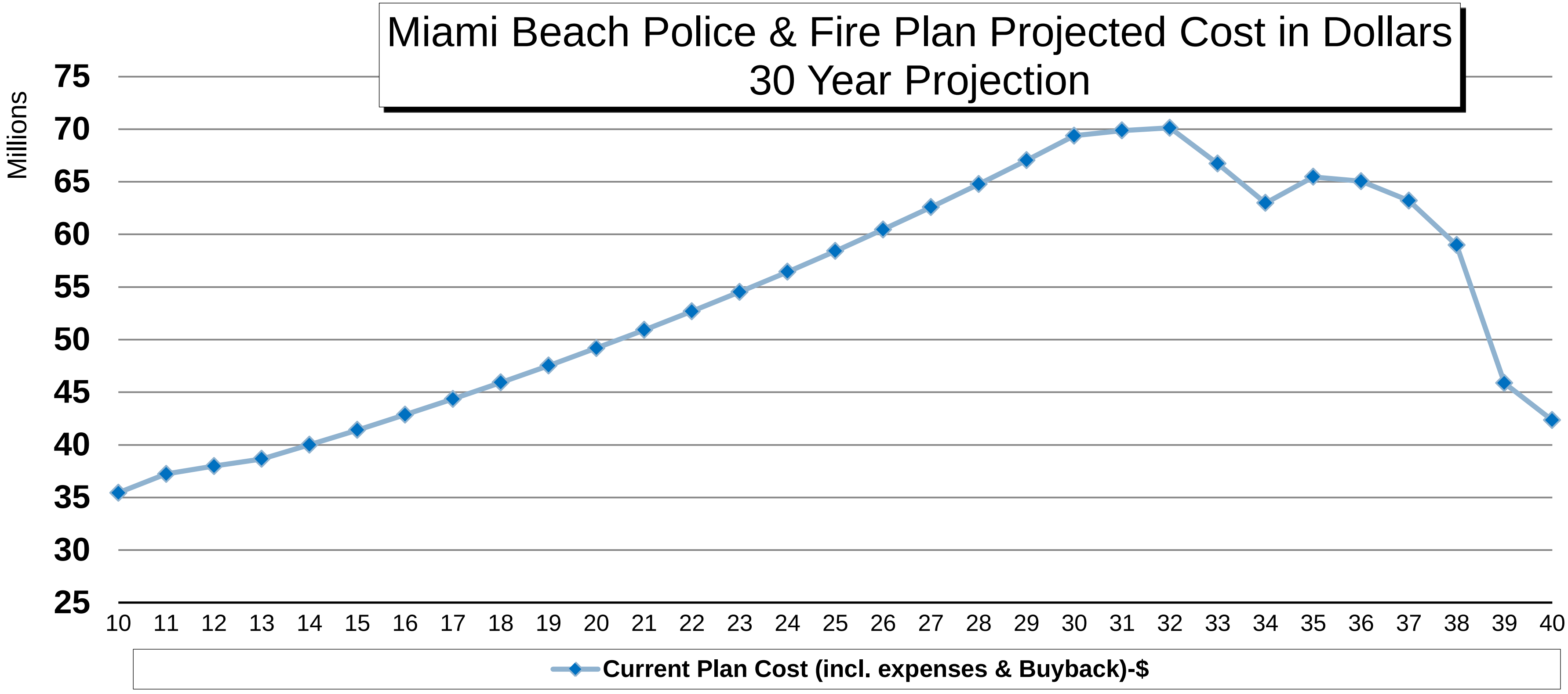
- Higher Cost
  - City’s Annual Required Contribution (ARC)
  - Cost as a Percent of Budget
  - Cost per employee

- Greater Unfunded Liability

Options Reviewed and Recommendations

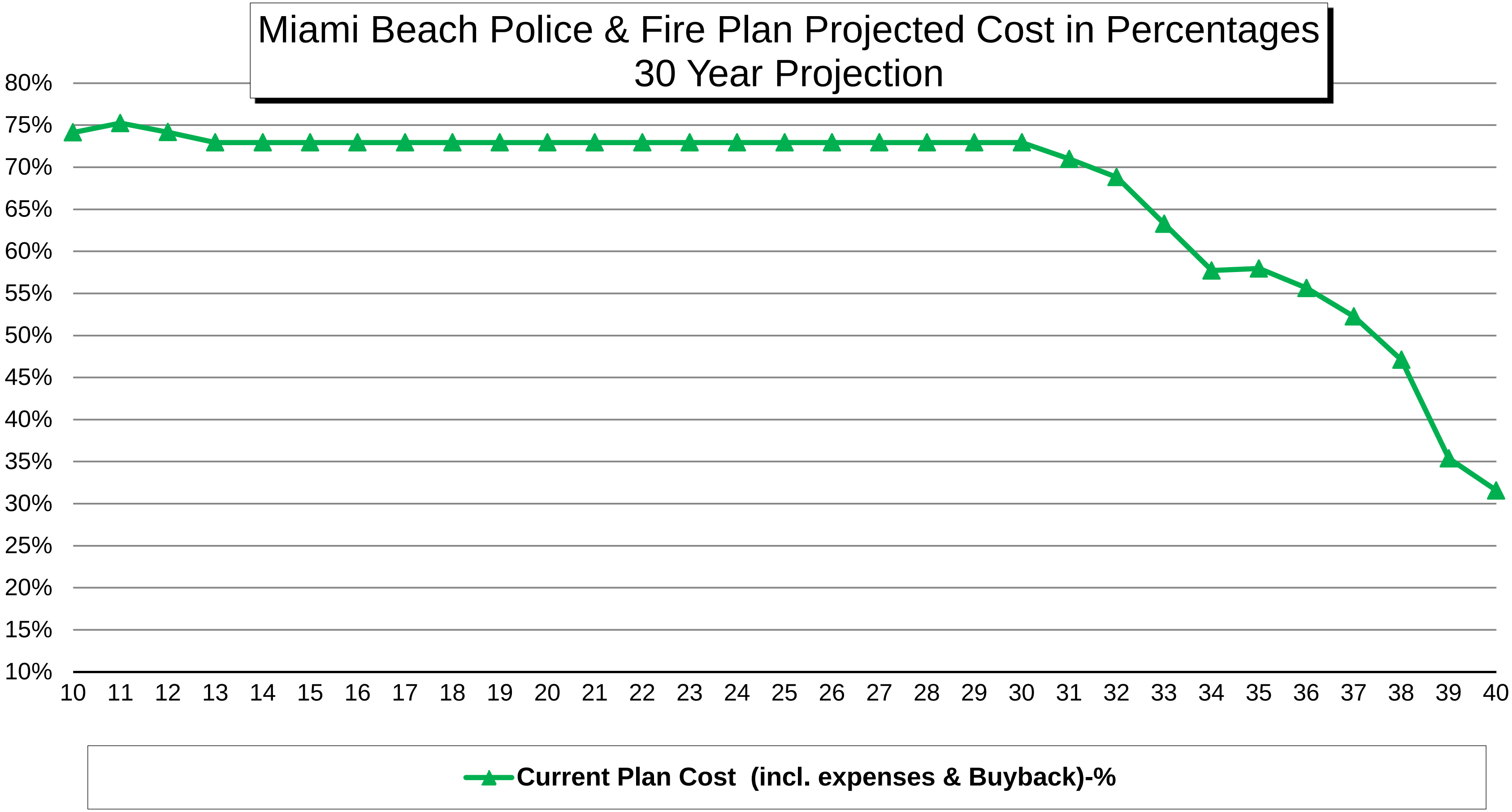
- During the past year we have met accountants, actuaries, lawyers, pension fund managers, employees , administrators and others.
- As shown in the prior slides, we are reaching a financial "tipping point" and we can act now or be forced to act later.
- The 2 goals of reform:
  – Save the city's finances and protect solvency
  – Save pensions and retirement benefits for employees

Current Status of Police and Fire Pension Plan



* Assumes all assumptions are met.

Current Status of Police and Fire Pension Plan



* Assumes all assumptions are met.

Options Evaluated and Considered

We considered 6 options from one extreme Defined Contribution (DC) (i.e. 401K) to the other Defined Benefit (DB), and we also developed policies and guidelines for the future.

1. Florida Retirement System (FRS) + Social Security Changes to the Existing Pension Plan
2. Defined Contribution Structured at a level similar to FRS + Social Security Equivalent Contribution
3. Hybrid Plans- DB and DC Combined
4. Changes to Existing Pension Plan - Past/Future Service Approach with a Combined Benefit
5. "Freeze" Current Plan for Past Accruals and Create a "Minimum" Benefits Plan
6. Package of Items Incorporated into the Collective Bargaining Agreements in 2010

- Additional Policy Changes

Options Evaluated and Considered

OPTION I: Florida Retirement System (FRS) - a Defined Benefit Plan

- Results in a normal cost equivalent to approximately 25 percent of projected payroll, with a NPV of savings of approximately $22 million for only new employees and $51 million for both new and non-vested employees over the next 30 years.

- **NOT RECOMMENDED** because the City's loss of control of expenses to Tallahassee, ongoing litigation regarding FRS pension changes implemented in 2011, news of projected shortfalls and payment increases and loss of the premium insurance payments.

* Evaluated for New and Non-Vested Fire and Police Employees

Options Evaluated and Considered

OPTION II: A defined contribution plan structured at a level similar to FRS, including a Social Security equivalent contribution

- Designed similar in cost to FRS and results in a normal cost equivalent to approximately 25% of projected payroll, with a NPV of savings of approximately $22 million for only new employees and $51 million for both new and non-vested employees over the next 30 years.

- **NOT RECOMMENDED** although this option completely eliminates City's risk, because of concerns with savings potential given the relatively early ages for retirement eligibility, the impact on morale for existing non-vested employees and the potential that this may prove to be unattractive to recruit police and fire employees in the future.

* Evaluated for New and Non-Vested Fire and Police Employees

Options Evaluated and Considered

OPTION III: Hybrid Plans – A combination of DB ad DC plans

- Result in a range of normal costs equivalent to between 20-25% of projected payroll, with a NPV savings of approximately $37 million for only new employees and $74 million for both new and non-vested employees.

- **WE RECOMMEND** the City adopt a hybrid plan approach because it keeps a DB plan together with a new DC plan that will reduce risk. In particular, **WE RECOMMEND** Option IIID2, and we do not recommend the other hybrid plans because although they reduced the risk to the City, they did not generate the NPV savings of Option IIID2.

* Evaluated for New and Non-Vested Fire and Police Employees

Options Evaluated and Considered

OPTION IV: Changes to the Existing Pension Plan

- Negotiate changes to existing plan including buyback provision, COLA, FAME, retirement age, multiplier, etc. Can result in significant reduction of percent of payroll and significant savings, but will not eliminate future risks.

- **NOT RECOMMENDED** for non-vested and new employees because they do not reduce risk, however **RECOMMENDED** in regards to vested employees in order to meet savings targets and Policies and Guidelines identified in Section IV.

* Evaluated for New and Non-Vested Fire and Police Employees

Options Evaluated and Considered

OPTION V: Freeze Current Plan for Past Accruals and Create a "Minimum" Benefits Plan

- Results in a normal cost equivalent to approximately 12 percent of projected payroll, with a net present value of savings of approximately $167 million for new and all existing employees who have not yet reached normal retirement age, over 30 years. It is important to note that this is a low normal cost for a plan for high risk employees that does not include Social Security.

- **NOT RECOMMENDED** because although this option can achieve very high savings, it is the most draconian approach, and will have a negative impact on morale for existing non-vested employees and the potentially unattractive to new recruits in the future.

* Evaluated for ALL Fire and Police Employees

Options Evaluated and Considered

OPTION VI: Package of Items Incorporated into the Collective Bargaining Agreements in 2010

- Results in a normal cost equivalent to approximately 23 percent of projected payroll, with a net present value of savings of approximately $33 million for new employees, over 30 years. In 2010, Buck Consultants, the actuary for the Fire and Police Pension Plan, estimated the impacts to existing employees to be minimal.

- While this agreement did meet short term objectives tied to recent budgets, it is not a long term solution and is **NOT RECOMMENDED** for same reasons given in Option IV. This Option is a starting point to negotiate terms for vested employees per our final recommendation.

*Negotiated changes applied to all new Fire and Police employees hired after 11/1/10.

Final BAC Recommendation
Hybrid Option IIID2

RECOMMENDATION TO ADOPT A STRUCTURE THAT REDUCES RISKS AND THE COSTS ASSOCIATED WITH THOSE RISKS:

EXISTING VESTED EMPLOYEES (> 10 Years or Age 50)

Continue Existing Plan, earning benefits in existing plan with negotiated reductions necessary to meet spending and savings targets including:

- Buyback
- Retiree COLA
- FAME
- Promotions
- Retirement Age
- Multiplier

*Any changes to current Fire and Police Pension Plan will need to be collectively bargained with the Fire and Police Unions.

Final BAC Recommendation
Hybrid Option IIID2

RECOMMENDATION TO ADOPT A STRUCTURE THAT REDUCES RISKS AND THE COSTS ASSOCIATED WITH THOSE RISKS:

NEW & NON-VESTED EMPLOYEES (Approx. 200 current employees)

Adopt new Hybrid plan structure:

- Provide a defined benefit component equal to minimum benefits to receive Premium Taxes from the State.

- Provide a defined contribution component of 11% funded by the City with employees providing a matching 5% contribution.

*Any changes to current Fire and Police Pension Plan will need to be collectively bargained with the Fire and Police Unions.

Fire and Police Pension Plan
Active Members Years of Service

Years of Creditable Pension Service *	FIRE	POLICE	TOTAL	% of Total Membership
< 1 - 5 Years of Service	35	52	87	19%
5.1 – 7 Years of Service	22	40	62	14%
7.1 – 8 Years of Service	6	12	18	4%
8.1 – 9 Years of Service	7	11	18	4%
9.1 – 9.9 Years of Service	12	8	20	4%
> 10 Years of Service (VESTED)	69	182	251	55%
Total Active Members as of Today	151	305	456	

Includes any buybacks. Service time is verified by the Plan's Administrator at time of buyback or when member becomes eligible for retirement. There are 2 members from Fire and 8 members from police that have <10 years but are reflected as having > 10 years because they meet the Age 50 Retirement Age Eligibility.

Final BAC Recommendation

	Current Plan/Vested Employees	Negotiated Changes for New Employees hired after 11/1/10	Proposed Changes for New and Non-Vested Employees
Multiplier	3% first 15 Yrs then 4% thereafter	3% first 20 Years then 4% Thereafter	2%
(FAME)	2 Years	3 Years	Highest 5 of Last 10 Years
Retiree COLA*	2.5%	1.5% deferred until 1 yr. after DROP	0.0%
Normal Retirement Age	Age + Years of Service = Rule of 70	Minimum Age 48 w/22 Years of Service = Rule of 70	Age 55 w/10 Yrs of Svc. or Age 52 w/25 Yrs. of Svc.
% Employee Contribution to DB**	10%	10%	5%
Beneficiaries	85% / 75% Joint & Survivor w/ 10 Year Certain		85% / 75% with 10 years certain

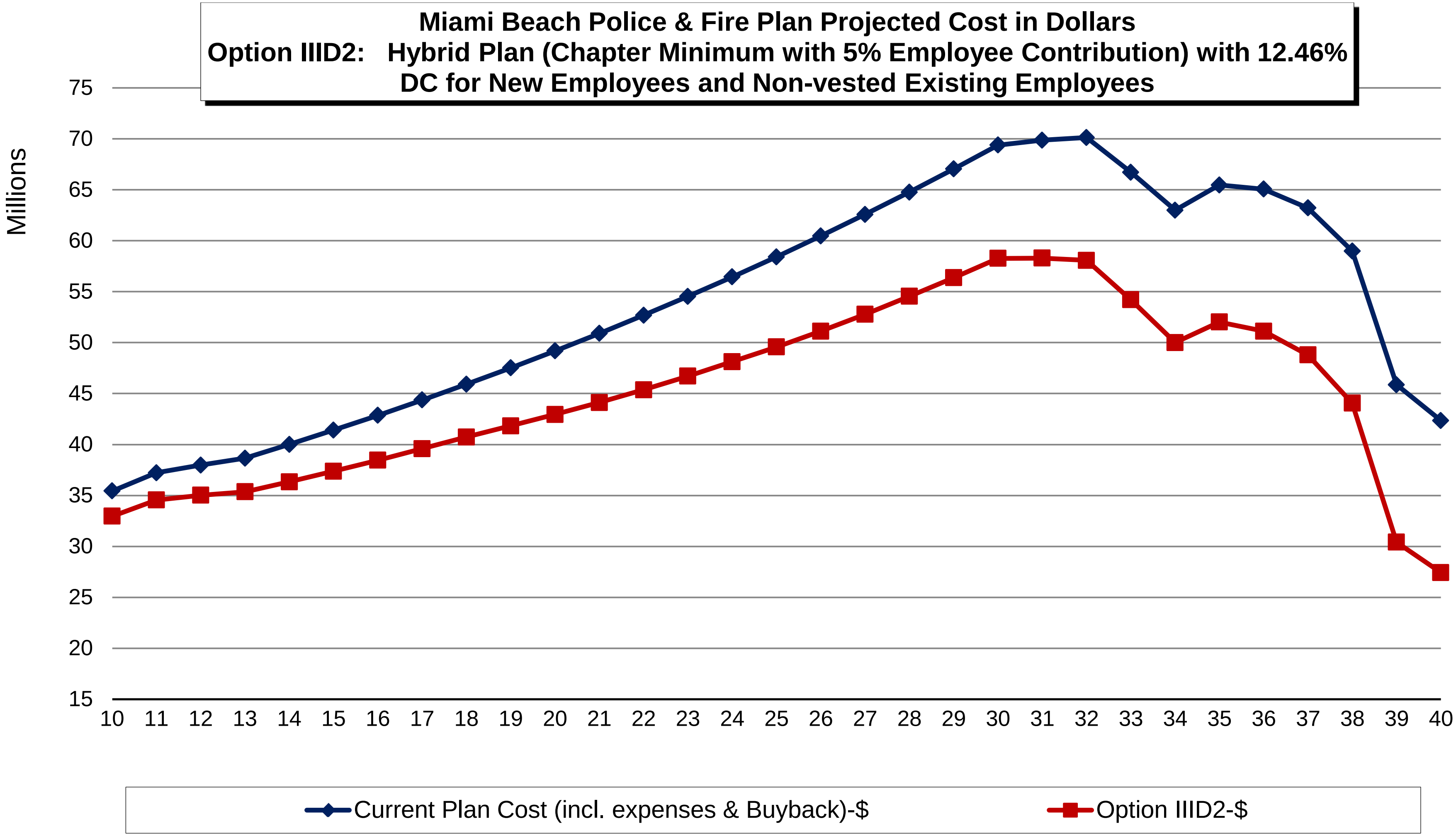
•Provided that the City Commission may periodically adjust the COLA up to 1.5% compounded for a given year, and COLA resets to 0% for following yr. unless Commission affirmatively votes to increase above 0% for next Fiscal Year.
•**This represents a minimum consistent with F.S. 175/185 but the DB employee contribution can be set at any level.
•NOTE – Premium Tax Revenues for Fire and Police are expected to continue.

Hybrid Option IIID2
New and Non-Vested Employees (Cont.)

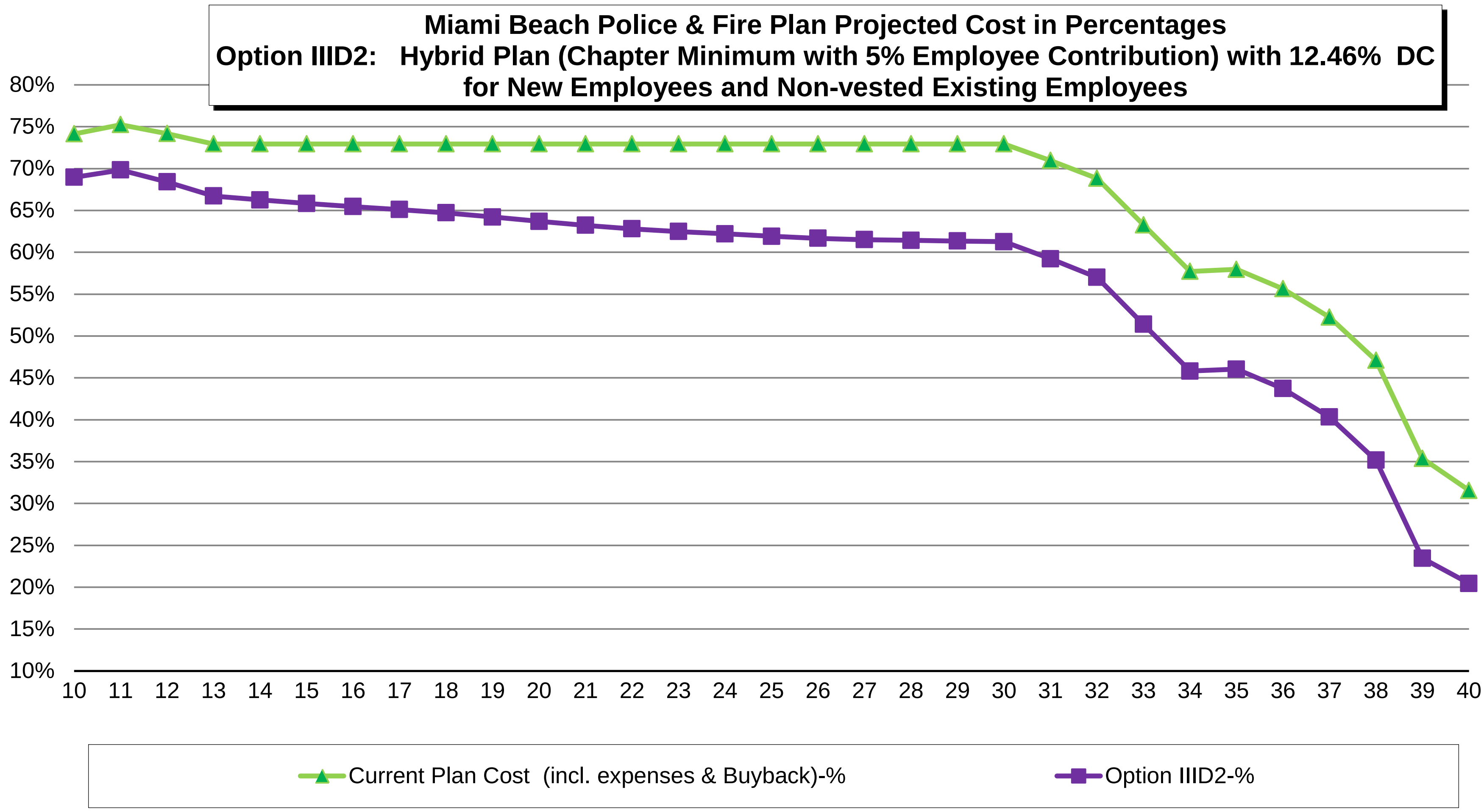
	Current Plan/Vested Employees	Proposed Changes for New and Non-Vested Employees
% Employee Contribution to DC*	0%	5%
% City Contribution to Social Security	0.00%	0.00%
% City Contribution to DC	0%	11%
Share Plan DC**	Yes	Yes
Social Security	No	No

* Employee may increase contributions to extent permitted under Plan and under law.
**NOTE – Premium Tax Revenues for Fire and Police are expected to continue.

Recommended Option



Recommended Option



Hybrid Option IIID2
Anticipated Savings/Results

- Cost of pension benefits as a percentage of payroll reduced from 74% to 21% over 30 years*.
- Net Present Value (NPV) Savings of $74M over 30 years.
- Estimated Savings for Year 1 = $2.5M
- Reduction of City's Risk by 30% - 40% as the City will carry no risk on the defined contribution portion.
- Hybrid Plan can always be adjusted (subject to negotiations with unions).

** If there were no pension changes made, the UAAL will be reduced down to 35% based on the 30 year amortization payments.*

Plan changes for Vested Employees

In addition to the negotiation points for vested employees (e.g., Buyback, Retiree COLA, FAME, Promotion Levels, Retirement Age, Multiplier), there are additional policy changes to consider:

- Use 100% of 175/185 share plan monies towards benefits provided by the defined benefit pension plan.
- Eliminate the provision that allows for transfer of years of service from Miami Beach Employee Retirement Plan (MBERP) to Fire and Police Pension Plan (proposed by Fire and Police Pension Plan Administration).
- Change purchase of service provisions to be based on actuarial provisions (Government Finance Officers Best Practice and Advisory Papers on Pension Reform).
- Eliminate the use of sick and vacation hours that are currently used to increase “pensionable pay”.
- Reduce the use of overtime to a maximum of 300 hours.

Recommended Pension Reform Policies and Guidelines

Policies and Guidelines Perspectives

1. Affordability and Sustainability
2. Appropriate Benefits to Provide to Employees
3. Recruitment and Retention
4. Management of Risk/Risk Sharing

Recommended Pension Reform Policies and Guidelines

Affordability and Sustainability

- GUIDELINE STATEMENT: If the City's portion of the total annual cost of retirement benefits contribution exceeds 25 percent of payroll for general employees and 60 percent of payroll for high risk employees, the City should review and evaluate potential changes to the collective bargaining agreements between the City and the Unions, applicable towards the next contract negotiations, in order to identify potential approaches to reduce the contributions to these levels over the long term.

- POLICY STATEMENT: The City shall fund at least the normal cost of pension. If this exceeds the amount of the actuarially determined annual required contribution, the excess should be placed in a pension stabilization fund, to be made available for future pension shortfalls.

Recommended Pension Reform Policies and Guidelines

Affordability and Sustainability

- **GUIDELINE STATEMENT:** If the funded ratio (actuarial value of assets minus actuarial liabilities) of either of the City of Miami Beach's pension plans falls below 70 percent, the City should strive to implement approaches to increase the funded ratio to that level over five (5) years.
- **POLICY STATEMENT:** Salary growth should not exceed the average actuarially assumed salary growth in each of the City's pension plans.
- **POLICY STATEMENT:** The City should strive to maintain a funded ratio of at least 80 percent for each of its defined benefit pension plans.
- **POLICY STATEMENT:** The City should require 5, 10 and 20 year projections of required pension contributions as part of the annual actuarial valuations for each of the City's pension plans. These projections shall be based on the current actuarial assumptions for each plan. The projections shall be updated to reflect the cost of any proposed benefit enhancement before the City Commission agrees to the enhancement. The cost of these studies shall be funded separately from the annual contribution to the pension plan.

Recommended Pension Reform Policies and Guidelines

Affordability and Sustainability

- **POLICY STATEMENT:** There shall be an experience study of each of the City's pension plan's actuarial assumptions performed by an actuary that is independent from the pension board. The experience study should be conducted at least once every three (3) years, to compare actual experience to the assumptions. The independent actuary shall make recommendations for any changes in assumptions based on the results of the experience study, and any deviations from those assumptions by the pension board shall be justified to the City Commission.

- **POLICY STATEMENT:** Once pension reform is implemented, a 5/7th vote of the City Commission should be required for any further pension changes.

Recommended Pension Reform Policies and Guidelines

Appropriate Benefits to Provide Employees

- POLICY STATEMENT: The City of Miami Beach should strive to provide a retirement benefit that provides for a replacement of salary at a level at least equivalent to Social Security plus a supplemental retirement benefit.

- POLICY STATEMENT: The City of Miami Beach retirement benefits should be adjusted periodically after retirement to reflect the impacts of inflation, with rates no more than the Consumer Price Index for All Workers - CPI(W), that is subject to City Commission approval and with a maximum of 3 percent annually.

Recommended Pension Reform Policies and Guidelines

Recruitment and Retention

- POLICY STATEMENT: The City of Miami Beach should strive to provide retirement benefits that ensure that the City is competitive in the recruitment and retention of employees.

Recommended Pension Reform Policies and Guidelines

Management of Risk/Risk Sharing

- POLICY STATEMENT: The City of Miami Beach should strive to share some portion of retirement benefit risk with employees.

- GUIDELINE STATEMENT: If the City’s contribution to a defined pension benefit plan exceeds 25 percent of payroll for general employees and 60 percent of payroll for high risk employees, the employee contribution should be reviewed.

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QUESTIONS?