MIAMIBEACH

City Commission Workshop

City Hall, Commission Chambers, 3rd Floor, 1700 Convention Center Drive
August 29, 2012

Mayor Matti Herrera Bower
Vice-Mayor Jorge R. Exposito
Commissioner Michael Góngora
Commissioner Jerry Libbin
Commissioner Edward L. Tobin
Commissioner Deede Weithorn
Commissioner Jonah Wolfson

Interim City Manager Kathie G. Brooks
City Attorney Jose Smith
City Clerk Rafael E. Granado

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COMMISSION WORKSHOP DISCUSSION REGARDING THE BUDGET ADVISORY COMMITTEE'S PROPOSED RECOMMENDATIONS CONCERNING PENSION REFORM

City Commission Workshop called to order at 5:42:56 p.m.

Mayor Bower welcomed everyone, and thanked the Budget Advisory Committee (BAC) for all the work done in preparing the pension recommendations for this Workshop.

Marc Gidney, Chairperson of the Budget Advisory Committee, introduced the members of the Committee: Jack Beneviste, John Gardiner, Tony Hernandez, Larry Herrup, Steve Hertz, Dushan Koller (who is not present today), Jackie Lalonde and David Lancz.

Mr. Gidney explained that this request came from Mayor Bower over two years ago for this Committee to review and develop recommendations for future pension plans. The Committee reviewed all of the City's retirement plans, but concentrated on the most important; the Fire and Police plan. The Committee had over 20 public meetings, attended by City employees, outside consultants, union representative and members of the public. In the end, all participants understood that the Committee was acting in the best interest of the City and its citizens as a whole. Mr. Gidney thanked all the participants, in particular Adonis Garcia and Alex Bello, for their input and feedback, which was greatly appreciated. Mr. Gidney gave special thanks to the City's professional staff in the Budget and Human Resources Offices. Mr. Gidney acknowledged Interim City Manager Kathie G. Brooks and Human Resources Director Ramiro Inguanzo; and added that Kathie and Ramiro, as well as their staff, had done an outstanding job supporting the Committee. Mr. Gidney explained that through the process the Committee was keenly aware of the human side of the impact of its recommendations. Mr. Gidney added that what will be presented today is fair and equitable, and provides a balance between human and economic impacts of the pension funding and pension reforms. Mr. Gidney introduced Jackie Lalonde and John Gardiner, who will be making presentations.

Jackie Lalonde, Budget Advisory Committee member, gave the first part of the PowerPoint presentation.

John Gardiner, Budget Advisory Committee member, gave the balance of the PowerPoint presentation.

PowerPoint Presentation Summary

To view the entire Presentation, click http://www.miamibeachfl.gov/cityclerk/scroll.aspx?id=66724

The Mayor's charge to the Budget Advisory Committee (BAC) was to:

- Develop recommendations that will address the benefits and funding concerns with the City's pension plans.
- Focus on the Fire and Police pension plan – which generates a significantly greater cost to the City than the General Employees pension plan.
- Provide a series of written, implementable recommendations to address the long-term sustainability of the Fire and Police Pension Plan. Including cost implications, impacts to employees and listing the advantages and disadvantages.

The funded status of City pension plans as of 10/1/10 is as follows:

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

The 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

Standard Rate of Return Model = 8%
Median annual return for most public pension funds in 2011= 4.4%
5 Year Average Return= 3.25%
10-year average= 6%

Options reviewed and recommendations:

During the past year, the Budget Advisory Committee has met accountants, actuaries, lawyers, pension fund managers, employees, administrators and others. The City is reaching a financial "tipping point," and the City can act now or be forced to act later.

The two (2) goals of the BAC reform recommendations are to:
1. Save the City's finances and protect solvency; and
2. Save pensions and retirement benefits for employees.

Options evaluated and considered:
The Budget Advisory Committee considered six (6) options; from an extreme Defined Contribution (DC) (i.e. 401K) plan to other Defined Benefit (DB) plans, and they also developed policies and guidelines for the future. The plans evaluated were:

I. Florida Retirement System (FRS) + Social Security Changes to the Existing Pension Plan (Note Recommended);
II. Defined Contribution Structured at a level similar to FRS + Social Security Equivalent Contribution (Not Recommended);
III. Hybrid Plans - DB and DC Combined (Recommended);
IV. Changes to Existing Pension Plan - Past/Future Service Approach with a Combined Benefit (Not Recommended);
V. "Freeze" Current Plan for Past Accruals and Create a "Minimum" Benefits Plan (Not Recommended); and
VI. Package of Items Incorporated into the Collective Bargaining Agreements in 2010 (Not Recommended.)

Of the six (6) options considered, the BAC recommends Option III – the Hybrid Plans – a combination of DB and DC plans.

<u>OPTION III –</u>

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

- The BAC recommended 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, the BAC recommended Option IIID2, and they do not recommend the other hybrid plans because although they reduced the risk to the City, they did not generate the Net Present Value (NPV) savings of Option IIID2.

- HYBRID OPTION IIID2 –

  1. Summary of Plan Hybrid Option IIID2

     New and Non-Vested Employees - Provides a Defined Benefit component for Police and Fire non-vested and new hire employees to equal the minimum benefits to receive premium taxes from the State as defined by Florida Chapter 175/185 and a defined contributing component of 11% funded by the City, with employees providing a matching 5% contribution.

     Existing Vested Employees (Employees having worked for 10 years or more/approximately 200 current employees) – Provided for continuation with the 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

  2. 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.

3. Plan Savings

This results in reduction of pension benefits as a percentage of payroll to 21% over 30 years and a net present value (NPV) saving of $74 million over 30 years. In addition, year 1 savings are estimated at $2.5 million.

While the savings can be achieved by other means, the reduction of risk through a hybrid plan is the key benefit to the City. The City will retain risk on the Defined Benefit portion of the pension; however; the City will have no risk on the Defined Contribution portion. In this regard, the City’s risk is reduced by 40-50%. The employees will have a new risk associated with the Defined Contribution portion of this plan; however, (1) this is a risk of investment that a majority of the public faces, and (2) along with the risk comes the reward as well to the extent that the employee invests wisely.

In addition to the above referenced Pension recommendation, the BAC urges the City Commission to institute the following pension reform policies and guidelines:

- If the City’s portion of the total annual cost of retirement benefits contribution exceeds 25% of payroll for general employees and 60% 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.

- 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.

- 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%, the City should strive to implement approaches to increase the funded ratio to that level over five (5) years.

- Salary growth should not exceed the average actuarially assumed salary growth in each of the City’s pension plans.

- The City should strive to maintain a funded ratio of at least 80% for each of its Defined Benefit pension plans.

- 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.

- 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.

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

- 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.

- 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), which is subject to City Commission approval and with a maximum of 3% annually.

- 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.

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

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

(Power Point presentation concluded)
(Question and Answer Portion of Presentation)

Mayor Bower thanked the BAC members, and stated that it was a very good presentation, and that she knew this would be a difficult task. She thanked the Committee for all the meetings, the debates and discussion; and stated that the BAC's work is very appreciated by the entire Commission and particularly by her.

Kathie G. Brooks, Interim City Manager, stated that Michael Tierney, Pension Actuary, needs to leave, and if there are any questions for him they should be asked first.

Commissioner Libbin echoed the Mayor's comments, and added that he appreciates the hard work done by everyone that participated in the process. It was a well thought-out presentation, and he appreciates it. He asked what would be the impact of taking the 200 current employees who are new or not vested out of the pension plan, as it exists today with Defined Benefits. He is trying to understand it, and the way he sees it, there is a "pot" of money in the pension fund, a percentage of that is deposited on behalf of the new and these 200 employees. If the City is going to offer them a separate plan, are the funds that have been contributed on their behalf to be placed in a different "pot?" What is the effect on the remaining funds in the pension fund? What percentage should be expected on the return of those funds? Would it be a greater financial impact to the City to have to make up the difference based on the smaller pension fund?

Michael Tierney, Pension Actuary, stated that the answer is that the funds stay in the plan and, if the benefit structure is changed for those non-vested employees, it does not mean the funds are moved somewhere else. They stay in the plan with a modified set of provisions.

Commissioner Libbin asked if the dollars contributed on their behalf stay in the "total pot."

Michael Tierney, Pension Actuary, stated that "yes," moneys contributed on their behalf stay in the plan with two sets of accounting within the plan.

Commissioner Libbin stated that with two sets of accounting, it does not factor those dollars; for example, $100 million represent the 200 employees. The remaining $400 million experience a 6% gain in the market, and it was budgeted projected at 8.0%. The City lost 2% on the $400 million. He then asked, if that costs the City's ARC more money because the extra $100 million was not in the "pot"?

Michael Tierney, Pension Actuary, explained that the "pot" is the same, but the contributions associated with those investments are less because the future promises have been reduced. Down the road, the future moneys that go in there for these employees are less, and the assets that are in the plan would be less than it would have been, thereby reducing the City's risk.

Commissioner Libbin stated that the entire fund amount is there to invest, and the cost to the City will be less on the 200 employees.

Discussion continued.

Commissioner Libbin asked if new and non-vested employees would actually receive two separate pension checks (hybrid plan).

Michael Tierney, Pension Actuary, stated that the checks could be combined into one, but the moneys will come from two separate places.

Commissioner Libbin explained that the 11% that the City will contribute and the 5% that the employees will contribute is the 16% that can grow, but he thought that this was in lieu of the Defined Benefits. He asked where the money is going to come from for those employees to receive 60% of their salaries.

Michael Tierney, Pension Actuary, stated that the money comes from the reduction of the 90% to 60% benefits.

Jackie Lalonde, Budget Advisory Committee member, added that by adopting the hybrid plan, part of the benefits that the employees will be receiving comes from the Defined Benefits, and the other part is in a separate pile for them in an individual account. In that separate pile, the employee can choose how to withdraw that money. Since the City is not funding the 90% level of benefits, the money comes from there.

Commissioner Libbin stated that today the City has an approximate $53 million dollar contribution, the ARC, and that is the actuary's assumption for today's Defined Benefit plan. He asked where does the extra 11% that the City needs to contribute come from?

Michael Tierney, Pension Actuary, explained that the $53 million is composed of two pieces, one is the normal cost of the plan and the other is the unfunded mortgage. The 11% means that if the City cuts the normal cost of the Defined Benefit plan by 11%, that 11% can be put it in the Defined Contributions. The City is not trying to save money; they are just moving it to a different risk-sharing place. The 11% comes from the reduction in the normal cost component, and we moved it to the Defined Benefit component.

Commissioner Tobin stated that six months before Mayor Bower referred the entire issue of the pension to the Budget Advisory Committee, he referred the issue of the executive reorganization of the Fire Department. He explained that he did not have the figures with him, but he believes that 30 or 40 new Lieutenant and Captain positions were created. When this was proposed by the Fire Union, he asked for the fiscal impact of this reorganization, and what he received was the fiscal impact through 2015, yet the plan did not go into effect until 2012. He asked Mr. Tierney if he could give the City Commission the fiscal impact of this Fire reorganization, which will go into effect in 30 days, barring action of the City Commission. He added that some lower cost positions were eliminated, but were replaced with the new executive positions. Commissioner Tobin asked if this is something in Mr. Tierney's field of expertise.

Michael Tierney, Pension Actuary, stated that actuaries can do anything, and he answered that they need to have the right statistics, salary grades and where these employees were when they entered the salary grade. The City needs to do a salary study first before it is given to the actuaries. He added that he can do that, but it is all based on the information provided, and if the analysis of the promotions is not done correctly it becomes a guess.

Discussion continued.

Commissioner Tobin requested from Kathie G. Brooks, Interim City Manager, and the staff present, to obtain a fiscal impact to the pension aspect for the proposed changes in the Fire Department and stated that this would be his motion.

Mayor Bower explained that this is a workshop and there are no motions taken. She requested that an item be placed on the City Commission Agenda by Commissioner Tobin.

Commissioner Tobin explained that the City Charter states that there should be a five-year fiscal impact before voting on any item.

Jose Smith, City Attorney, opined that he can give direction that this be done.

Commissioner Tobin gave direction to the Administration to prepare a fiscal impact to the pension aspect for the proposed changes in the Fire Department. Commissioner Tobin also asked when he can expect the report and explained that Kathie G. Brooks, Interim City Manager, told him it would be better if this were done by an outside party. **Ramiro Inguanzo and Michael Tierney, Pension Actuary, to handle.**

Kathie G. Brooks, Interim City Manager, explained how the report given to Commissioner Tobin was prepared based on percent from the last valuation payroll and the recommendation was to reach out to the actuaries to have a more detailed estimate.

Discussion continued.

Commissioner Tobin requested Human Resources Director Ramiro Inguanzo, to assist Mr. Tierney and to keep the Interim City Manager and the City Commission informed as to the progress of this analysis. **Ramiro Inguanzo and Michael Tierney, Pension Actuary, to handle.**

Mayor Bower asked for a very simple answer to the following question: “The 11% that will be going to the hybrid plan, is that an extra 11% to what is contributed today or not?”

Michael Tierney, Pension Actuary, answered “No.”

Jackie Lalonde, Budget Advisory Committee member, added that it is money coming from the DB side. It is not additional money; it is what would have been put in the DB side and rerouted to the Defined Contributions.

Discussion continued.

Jackie Lalonde, Budget Advisory Committee member, explained that there is an amount that the City is required to give to meet the Defined Benefits requirements. The money has been adjusted so that no new money is going into the Defined Contribution side, but actuarially is worked out so 11% will go to the Defined Contribution side. It is not new money.

Commissioner Weithorn asked for the ballpark figure in dollars for each percentage or half of a percent change to the discount rate.

Michael Tierney, Pension Actuary, stated that there is no absolute. He gave an example and added that this is negative leverage and whatever small adjustment is made to the rate is magnified to the bottom line. It could be a 30 to 40% impact, even though the liability is only affected by 7.5% to 10%.

Discussion continued.

Kathie G. Brooks, Interim City Manager, explained that based on the latest draft of the October 2011 report for Fire and Police, taking the percentage from 8.1% to 8.2%, or 1 tenth of 1%, represents $800,000.

Commissioner Libbin stated that on page 49 of the Commission Workshop Agenda, there was an explanation of the premium taxes in the shared plan. He quoted from the book that in 2010 the City received a total of $3 million, and further down it says that only $120,000 is used to offset City costs, and the balance of $1.9 million went to the shared plan. He added that the calculation does not seem correct; there should be $ 2.88 million left.

Michael Tierney, Pension Actuary, answered that he assumes that all the premium taxes are going to the shared plan.

Discussion continued.

Michael Tierney, Pension Actuary, explained that it is subject to collective bargaining. They have to follow the 175/185 Rules, but what goes in the shared plan is a negotiated item.

Commissioner Weithorn requested Administration to find an explanation for the new GASB mandates.

Kathie G. Brooks, Interim City Manager, suggested discussing the GASB issue, and how it affects the City at committee.

Commissioner Weithorn referred the issue of the GASB, rates and impact, to the Finance and Citywide Projects Committee**. Patricia Walker to place on the committee agenda and to handle.**

Commissioner Weithorn added that the Government Accounting Standards Board Statement (GASB) is mandating that the City not look any further than 20 years instead of 30 years. She asked if anyone is working on this, and has anybody checked if municipalities are moving in that direction.

Michael Tierney, Pension Actuary, answered that "of course not." He talked to two cities today, and they have decided not to do early implementation.

Commissioner Weithorn is not suggesting early implementation, but she is asking that if they are going to do pension reform, it would make sense to look at changes in the same terms that the GASB is looking at, and forget about anything after 20 years, since they are not counting them**. Ramiro Inguanzo, Human Resources Director, Michael Tierney, Pension Actuary and Patricia Walker to handle.**

Discussion continued.

Michael Tierney, Pension Actuary, stated that he does not have a problem with a smaller or shorter implementation of any unfunded liability repayments. One of his concerns is that the further it is pushed up, it affects future generations. He added that GASB does not affect what you pay, it is only on the Financial Statements.

Commissioner Weithorn stated that it could affect the bond rating in the long term; and if it affects the City's bond rating the City's costs increase.

Discussion continued.

Commissioner Tobin stated that he appreciates all the hard work done by everyone and added that he will support the hybrid plan. The only problem he has with supporting it is that he is concerned with the employees that are not yet vested. It bothers him because even though these employees may not have reached the ten years, they are expecting the pension that they were originally promised.

Discussion continued.

Vice-Mayor Exposito thanked the Budget Advisory Committee members for the presentation and their efforts, and asked if with these recommendations, they are maintaining the assumptions that exist currently. He specifically asked if they are maintaining the assumption in #2, that in order to achieve these goals they would still be able to have overtime applicable to their pension benefits.

Michael Tierney, Pension Actuary, explained that the assumption is that the City's savings will come the way outlined by the BAC; on the other hand, they believe that the City will have higher savings targets. Those specific items related to vested employees will be negotiated with the specific unions. He did not want go into details of the specific targets.

Jackie Lalonde, Budget Advisory Committee member, answered "yes," overtime is included in some of those calculations.

Discussion continued.

Jackie Lalonde, Budget Advisory Committee member, stated that if they reduce pensionable earnings, reduce overtime to zero, take out the COLA, or they use the most draconian of measures what it does not do, by not adopting the hybrid, is save the 4%. When they talk about risk, they are talking about saving the 4%.

Discussion continued.

Vice-Mayor Exposito asked what would be the cost of shifting to the FRS System.

Michael Tierney, Pension Actuary, explained that one of the losses will be the loss of the 175 or 185 premium insurance, which is a $2 to $3 million a year benefit. The City will essentially be closing or freezing the plan, and adopting the whole FRS System. Yet, Mr. Tierney explained, the City would still owe on the old plan.

Jackie Lalonde, Budget Advisory Committee member, stated that this is one of the things reported by the Unions that they do not want to do.

Discussion continued.

Commissioner Weithorn requested a copy of the implementation of the City of Atlanta hybrid plan. **Carla Gomez to handle.**

Jose Smith, City Attorney, reminded Mayor Bower that they are about to start collective bargaining negotiations with the unions, and recommended to keep an open mind on all of the options, and not make any amendments on any of the options at this point. In reference to the 5/7 vote issue, it is a little hairy because they may want to impose a 5/7 vote to provide more benefits, or more generous benefits, but if they want to restrict benefits, they may not want a 5/7 vote. There are issues to be considered before making commitments on any one of these items.

Adonis Garcia, International Association of Fire Fighters (IAFF) President, thanked the Budget Advisory Committee members for their hard work. He stated that this was a learning experience for him, and although he has an open mind, he respectfully disagrees on many points. He explained that his comments need to be restricted because they are in the process of starting collective bargaining. He is looking forward to a vigorous and fair collective bargaining session, the same as he has had during all the years he has been here and for the history of the City.

Discussion continued.

Alex Bello, Fraternal Order of Police (FOP) President, stated that he feels he has been listening to fiction stories and wanted to clarify. He attended all the 20 meetings and enjoyed doing so. First, Police Officers and Firefighters take these jobs to serve, not for the money, and if they get hurt by taking the risks they take every day they would like their families to be taken care of. The pension payout is very modest compared to the risks involved. He explained that the mortality tables are not accurate because members of the Police and Fire Departments are not the average private sector worker that gets to live to 70 or 80 years of age; they do not live that long. In reference to the overtime, the overtime is capped and cannot be used to spike anything. In addition, the salary is also capped, so there is no need for anything on this area. The tactic used in the past was that it is cheaper to pay overtime than to hire more employees and pay the benefits. This affects salaries by showing that they are very high; when in fact, it includes overtime. Mr. Bello added that most officers do not want to work overtime, and instead rather be with their families. It also affects the number of retirees going into the pension. There are more retirees now because the hiring has not kept up with the need, and the City consistently kept the Police and Fire Department short of active participant into the pension, and therefore less contributions going into the pension. If you eliminate the people that are now vested from contributing into the pension, then who will contribute? It is historical data that the eight percent (8%) return is correct for the Defined Contribution. He feels that there should be much more savings from the previous concessions given by the last contract. It is important that when a promise is made it should be kept.

Mayor Bower thanked everyone for working so hard and staying late so many nights, including the union members and City staff, and added that they are here to accomplish the same thing, to serve the citizens of Miami Beach.

Meeting adjourned at 8:20:23 p.m.

Handouts or Reference Materials:
1. PowerPoint Presentation