

OFFICE OF THE CITY MANAGER NO.LTC# 387-2013

LETTER TO COMMISSION

TO:

Mayor Matti Herrera Bower and Members of the City Commission

FROM:

Jimmy L. Morales City Manager

DATE:

October 23, 2013

SUBJECT: Updated Results of Pension Impacts from the Reorganization of the Fire Department

The purpose of this Letter to the Commission is to provide information that was requested from the City's pension actuary, Michael Tierney, at the August 29, 2012 City Commission Workshop on Pension Reform, regarding the impacts to the Fire and Police and Pension Plan as a result to the reorganization of the Fire Department that was negotiated in the 2009 - 2012 collective bargaining agreement between the City and the International Association of Fire Fighters, Local 1510 (IAFF).

Please feel free to contact me if you have any questions or need any additional information.

JML/KGB/SC-T/CMG

Attachment

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Actuarial Concepts

Management Advisors

Benefits Specialists

October 21, 2013

Ms. Sylvia Crespo-Tabak Human Resources Director City of Miami Beach 1700 Convention Center Drive Miami Beach, Florida 33139

Dear Ms. Crespo-Tabak:

<u>CITY OF MIAMI BEACH – PENSION EFFECT OF REORGANIZATION OF</u> CLASSIFICATIONS IN THE FIRE DEPARTMENT

This report updates the results we prepared last fall estimating the effect on pension liabilities and related contribution requirements taking into account the reorganization of classifications in the Fire Department. Actuarial Concepts was retained by the City to perform this analysis.

The actuarial analysis was based on an October 1, 2012 valuation date and used the assumptions and methods used by the plan actuary in the then-latest available actuarial report from 2011. Since only firefighters were affected, the analysis was performed only on the 172 firefighters that were then actively participating in the plan (excluding members in DROP), 38 of which were affected by the reorganization. For this purpose, the combined Police and Fire valuation was split into two separate groups, with pro rata allocation of assets to develop pro forma unfunded liabilities.

As requested, we have performed additional analysis of the long term effect of the reorganization on the pension plan, including a comparison of the future salary increase expectations over a firefighter's career, both pre-reorganization and post-reorganization. The purpose of this analysis was to verify that the actuarial analysis captured all the expected future changes due to the reorganization. City staff was very helpful in assisting with this analysis, and the employee comparison prepared by City staff is attached as Exhibit A to this report. We then back tested this comparison for the 38 employees who were affected by the reorganization to make sure the assumed salary increase assumption used by the plan was sufficient to capture the pay differences due to the reorganization.

Upon review of the comparison, the general conclusion is that even though employees were to reach maximum pay five years earlier, it was still before the expected normal retirement date, and thus the salaries at retirement (upon which the projections were based) ended up about the same, both pre-reorganization and post-reorganization.

Ms. Sylvia Crespo-Tabak October 21, 2013 Page 2

The 38 employees affected by the reorganization with their total pre-reorganization salary and post-reorganization salary are attached as Exhibit B.

As part of the review of the membership data, we discovered that some post-reorganization information was based on averages rather than actual individual pay reported. We have revised our database to use actual premium pays, overtime and off-duty pay.

With the revision to the post-reorganization data, the revised effect on contribution requirements is as follows. The first-year increase in contribution requirements is \$407,000 for the first year, payable annually over the next 30 years, assuming a future payroll growth rate of 3.5% per year. Note that the \$407,000 first year estimate will increase significantly in dollar amount over the next 30 years as payroll increases for these affected members, although the increased percentage of payroll is assumed to remain the same.

The valuation results pre- and post-reorganization are summarized below:

			Fire	Only		
	Pre-	reorganization	Post-	reorganization	Net	<u>Changes</u>
		(000)		(000)		(000)
<u>Liabilities</u>						
Total APV* of Active Member						
Projected Future Benefits (PVB)	\$	1 59,75 6	\$	166,275	\$	6,519
UAAL**		30,317		33,272		2,956
<u>Funding</u>						
Normal Cost		7,196		7,435		239
UAAL Amortization	•	2,207		2,389		182
Service Buyback		1,276		1,298		22
Less Member Contributions		2,127		2,163		36
Total 1st Year Impact						407

^{*}Actuarial Present Value

Sincerely,

Michael J. Tierney

Michael Jierney

Actuarial Concepts

^{**}Unfunded Actuarial Accrued Liability - portion of active member PVB assigned to past periods

Exhibit A

Promotional Process-Pre-Reorganization Scenario (Example: Firefighter 1)

Hired: March 72, 2012 (Probationary period ends 3/12/13) (Please note that employee falls under new pension plan per changes ratified in 2010). Evelio Aleman, Firefighter I

Evello Aleman, Firenghter I	gnter 1	Hired. March 12, 2012 (FIG	red. March 12, 2012 (F10ballohary period ends 2/12/13) (Treast note that employee hans direct new periodic print	inployed talls and the person plan for energical control of
Classification	Step	Salary	Date	Assumptions/Comments
Firefighter I	3	\$50,449.54 (salary	March 12, 2012	Hire date
		as or 4/9/12)		Y GO
Firefighter I	A	\$53,104 76	September 12, 2012	Step increase after 6 months as per CBA
Firefighter I	В	\$55,737.01	March 12, 2013	Assumes merit increase* and probationary period is complete
Firefighter I	C	\$58,538.87	March 12, 2014	Assumes merit increase*
Firefighter I	D	\$61,567.77	March 12, 2015	Assumes merit increase*
Firefighter I	E	\$64,595.53	March 12, 2016	Assumes ment increase and eligible to apply for Firefighter II examinations ^{1,2}
Firefighter II	Ľ.	\$78,446.70	December 1, 2017	Assumed appointment date.
Firefighter II	Ð	\$82,369 99	December 1, 2018	Assumes ment increase*
Firefighter II	H	\$86,519.94	December 1, 2019	Assumes merit increase*
			August 2020	Assumes that Aleman becomes eligible to apply for Lieutenant examinations.
				However, due to current CBA process, must wait until approximately February
				2023 to apply ³ .
Firefighter II	Ξ	\$86,519.94	December 1, 2020	Assumes Aleman is maxed out and receives no further step increase
Firefighter II	H	\$86,519 94	December 1, 2021	Assumes Aleman is maxed out and receives no further step increase
Firefighter II	Н	\$86,519.94	December 1, 2022	Assumes Aleman is maxed out and receives no further step increase
			February 2023	Assumes Aleman participates in Lieutenant promotional process examination (next
				scheduled Captain promotional process, which Aleman is eligible).
Fire Lieutenant**	ഥ	\$90,783.23	December 1, 2023	Assumes new appointment date to Lieutenant position.
Fire Lt.	g	\$95,379.99	December 1, 2024	Assumes ment increase*
Fire Lt.	Н	\$100,147 13	December 1, 2025	Assumes merit increase*
Fire Lt	Н	\$100,147.13	December 1, 2026	Assumes eligible to apply for Captain examinations However, due to current CBA
				process, must wait until approximately September 2026 to apply.
Fire Lt.	H	\$100,147.13	December 1, 2027	
Fire Lt.	H	\$100,147.13	December 1, 2028	
			Approx. February 2029	Assumes Aleman participates in Captain promotional process examination
Captain**	ı	\$105,154.48	December 1, 2029	Assumes new appointment date to Captain position.
Captain	ß	\$110,412.21	December 1, 2030	Assumes ment increase*
Captain	н	\$115,932.82	December 1, 2031	Assumes merit increase*
				Assumed eligibility retirement date is November 2, 2031 (with or without the mirchase of his probationary time).

Additional assumptions:
Assumes the current CBA promotional provision does not change.

Assumes the current IAFF compensation plan does not change.

**Assumes Aleman is ranked #1 on the promotional eligibility list for Firefighter II, Fire Licutenant and Fire Captain and that there is an immediate vacancy for Firefighter II, Fire Licutenant and Fire Captain.

³ Given prior assumptions that FFII eligibility list is established approximately December 1, 2017, with eligibility period of 3 years. Eligibility list would expire approximately November 30, 2020. The current IAFF CBA provision mandates commencement of promotional process at least 9 months prior to the existing eligibility list expiration, which is approximately February 2020. Aleman's eligibility to participate in the Lieutenant's promotional process would be approximately August 2020 (2 years of regular status as FFII). Therefore, Aleman would not be eligible to participate in Lt. promotional process until 2023 (the next scheduled process).



^{*}Assumes no COLA increase

Assumes that Aleman's eligibility to participate in the promotional exams coincide with the expiration of the prior list/new promotional process commencing. Assumes the FFII promotional exam process starts immediately upon his starting Step E and process completing within less of a year (9 months).

Exhibit A

Promotional Process-Post-Reorganization Scenario (Example: Firefighter 1)

tion plan per changes ratified in 2010)

Evelio Aleman, Firefighter I Hired: Ma	thter I Hired:]	March 12, 2012 (Probation	nary period ends 3/12/13) (Please note that empl	arch 12, 2012 (Probationary period ends 3/12/13) (Please note that employee fails under new pension plan per changes ratified in 2010)
Classification	Step	Salary	Date	Assumptions/Comments
Firefighter 1	3	\$50,449.54 (salary	March 12, 2012	Hire date
		as of 4/3/12)		100
Firefighter I	A	\$53,104.76	September 12, 2012	Step increase after 6 months as per CBA
Firefighter I	В	\$55,737.01	March 12, 2013	Assumes merit increase*
Firefighter I	C	\$58,538.87	March 12, 2014	Assumes ment increase
Firefighter I	D	\$61,567.77	March 12, 2015	Assumes merit increase*
Firefighter I	В	\$64,595.53	March 12, 2016	Assumes merit increase and becomes eligible to apply for Fire Lieutenant
ı				examination ⁴ .
Fire Lieutenant**	Ŀ	\$90,783.23	December 1, 2017	Assumed appointment date.
Fire Lieutenant	g	\$95,379,99	December 1, 2018	Assumes merit increase*
Fire Lieutenant	Ξ	\$100,147,13	December 1, 2019	Assumes merit increase *
			August 2020	Assumes that Aleman becomes eligible to apply for Captain examination.
)	However, due to current CBA process, must wait until approximately February
				2023 to apply ⁶
Fire Lieutenant	I	\$100,147 13	December 1, 2020	Assumes Aleman is maxed out and receives no further step increase
Fire Lieutenant	I	\$100,147.13	December 1, 2021	Assumes Aleman is maxed out and receives no further step increase
Fire Lieutenant	H	\$100,147,13	December 1, 2022	Assumes Aleman is maxed out and receives no further step increase
			February 2023	Assumes Aleman participates in Captain promotional process examination. (Next
				scheduled Captain promotional process, which Aleman is eligible)
Fire Captain**	L.	\$105,154.48	December 1, 2023	Assumes new appointment date to Captain position
Fire Captain	9	\$110,412.21	December 1, 2024	Assumes merit increase*
Fire Captain	H	\$115,932.82	December 1, 2025	Assumes merit increase*
Fire Captain	Н	\$115,932.82	December 1, 2026	Assumes Aleman is maxed out and receives no further step increase
Fire Captain	H	\$115,932 82	December 1, 2027	Assumes Aleman is maxed out and receives no further step increase
Fire Cantain	Н	\$115,932.82	December 1, 2028	Assumes Aleman is maxed out and receives no further step increase and same pay
7				continues until retirement or Unclassified promotion
				Assumed eligibility retirement date is November 02, 2031 (with or without the
				purchase of his probationary time)

Additional assumptions.
Assumes the current CBA promotional provision does not change.
Assumes the current IAFF compensation plan does not change.

⁶ Given prior assumption that Fire Lieutenant eligibility list is established approximately December 1, 2017, with eligibility period of 3 years. Eligibility list would expire approximately November 30, 2020. The current IAFF CBA provision mandates commencement of promotional process at least 9 months prior to the existing eligibility list expiration, which is approximately February 2020. Aleman's eligibility to participate in the Captain's promotional process would be approximately August 2020 (2 years of regular status as Fire Lieutenant). Therefore, Aleman would not be eligible to participate in Captain promotional process until 2023 (the next scheduled process).



^{*}Assumes no COLA increase.

⁴ Assumes that Aleman's eligibility to participate in the promotional exam coincides with the expiration of the prior list/new promotional process commencing.

⁵ Assumes the Fire Lieutenant promotional test process starts immediately upon his starting Step E and process completing within less of a year (9 months).

Exhibit B

EMP#	Classification (Pre- reorg)	Total Pay Pre Reorg	Classification (Post-reorg)	Total Pay Post Reorg
15192	FIREFIGHTER II	140,361.11	Lieutenant	130,368.04
14565	FIREFIGHTER II	140,278.25	Lieutenant	130,368.04
15268	FIREFIGHTER II	137,647.95	Lieutenant	130,368.04
16847	FIRE LIEUTENANT	147,104.51	Captain	143,173.57
14705	FIREFIGHTER II	133,981.00	Lieutenant	130,368.04
16565	FIREFIGHTER II	132,788.97	Lieutenant	130,368.04
12759	FIRE LIEUTENANT	155,270.10	Captain	152,948.09
14333	FIREFIGHTER II	132,508.84	Lieutenant	130,368.04
15120	FIREFIGHTER II	131,681.66	Lieutenant	130,368.04
12993	FIRE CAPTAIN	144,203.52	Fire Division Chief	142,965.84
16857	FIREFIGHTER II	127,561.07	Lieutenant	130,368.04
15121	FIRE LIEUTENANT	149,459.58	Captain	152,948.09
14945	FIREFIGHTER II	122,358.42	Lieutenant	126,104.82
17591	FIREFIGHTER II	126,067.01	Lieutenant	130,368.04
17043	FIREFIGHTER II	125,565.05	Lieutenant	130,368.04
16594	FIREFIGHTER II	124,897.94	Lieutenant	130,368.04
14334	FIREFIGHTER II	124,052.43	Lieutenant	130,368.04
18156	FIREFIGHTER II	123,332.74	Lieutenant	130,368.04
16614	FIREFIGHTER II	123,329.35	Lieutenant	130,368.04
17525	FIREFIGHTER II	123,021.94	Lieutenant	130,368.04
16621	FIREFIGHTER II	120,224.16	Lieutenant	130,368.04
16613	FIREFIGHTER II	119,221.27	Lieutenant	130,368.04
16617	FIREFIGHTER II	113,311.39	Lieutenant	126,104.82
15008	FIRE LIEUTENANT	132,603.37	Captain	147,940.67
17594	FIRE LIEUTENANT	127,714.30	Captain	143,173.57
14326	FIRE LIEUTENANT	124,352.13	Captain	143,173.57
16566	FIRE LIEUTENANT	123,644.24	Captain	143,173.57
18149	FIREFIGHTER II	105,877.36	Lieutenant	126,104.82
16611	FIRE LIEUTENANT	131,320.34	Captain	152,948.09
18148	FIREFIGHTER II	108,551.10	Lieutenant	130,368.04
16572	FIREFIGHTER II	108,394.57	Lieutenant	130,368.04
18152	FIREFIGHTER II	107,944.81	Lieutenant	130,368.04
15018	FIREFIGHTER II	120,700.90	Captain	143,173.57
17825	FIREFIGHTER II	102,585.58	Lieutenant	126,104.82
17833	FIREFIGHTER II	106,396.54	Lieutenant	130,368.04
18157	FIREFIGHTER II	106,175.30	Lieutenant	130,368.04
17834	FIREFIGHTER II	99,535.35	Lieutenant	126,104.82
16584	FIRE LIEUTENANT	112,004.92	Captain	143,173.57