CITY OF JACKSONVILLE

PENSION REFORM SPECIAL COMMITTEE

MEETING

Proceedings held on Tuesday, March 17, 2009, commencing at 3:10 p.m., City Hall, Council Chambers, 1st Floor, Jacksonville, Florida, before Diane M. Tropia, a Notary Public in and for the State of Florida at Large.

PRESENT:

MICHAEL CORRIGAN, Chair.
WARREN JONES, Vice Chair.
REGINALD BROWN, Committee Member.
KEVIN HYDE, Committee Member.
STEPHEN JOOST, Committee Member.

SUBJECT MATTER EXPERTS:

JOHN KEANE, Police/Fire Pension Administrator.
ALAN MOSLEY, Chief Administrative Officer, COJ.
SHEILA SHARP-CAULKINS, Retired Employees Assoc.

ALSO PRESENT:

CHERYL BROWN, Director, City of Jax.
KIRK SHERMAN, Council Auditor.
THOMAS CARTER, Council Auditor.
DERREL CHATMON, Office of General Counsel.
JEFF CLEMENTS, Chief of Research.
JESSICA STEPHENS, Legislative Assistant.

- - -

P R O C E E D I N G S

March 17, 2009 3:10 p.m.

- - -

THE CHAIRMAN: Good afternoon, ladies and gentlemen.

We will call together the inaugural meeting of the City Pension Reform Special Committee that was appointed by Council President Fussell a couple of weeks ago.

I appreciate everybody being here this afternoon. Today is going to be probably the most interesting day we have because we're kind of going to be a -- at a 100,000-foot level looking at things.

We'll introduce everybody, and then we're going to -- I appreciate Terry Wood being willing to be here with us today to kind of give us Pension 101, which we'll get into in just a couple of minutes.

I've also asked for an overview, one from Mickey Miller on the general employees and the current status of that pension plan, and asked Dick Cohee to be here to give us the current status of the police and fire pension fund, and then we'll talk about our future meetings and also other things that may come up during the process.

To kind of give it -- let me start with introductions. I'm pleased to have -- I'm Chairman Michael Corrigan. I'm pleased to have as my vice chairman Councilmember Warren Jones, Councilmember Stephen Joost as a member of this committee, Councilmember Kevin Hyde, and Councilmember Reggie Brown.

Probably even more exciting to me is the subject matter experts that we've asked to participate -- Council President Fussell asked to participate. They agreed to be here. The first is John Keane. He's the administrator of the Jacksonville police and fire pension plan.

We also have Alan Mosley, who is our Chief Administrative Officer of the City and a longtime employee here at the City.

And then we have Sheila Caulkins, who is here. She's the president of the board of directors of the Retired Employees Association. And, actually, she retired from the City's Human Resources Department a number of years ago.

And we also have former Council President Henry Cook that will be up here as a subject matter expert. Unfortunately, Mr. Cook told me today that we announce that he couldn't be here. He's actually out of town on other retirement pension business, so I appreciate his willingness to serve and his expertise as a former council president.

We also have the support of our council auditor staff. Kirk Sherman and Tom Carter will be taking the lead over there.

We also have Derrel Chatmon, who is here from the Office of General Counsel. And either Peggy Sidman or Steve Rohan will be here in future meetings to help us in the event that we get into a legislative type discussion. They'll be here to support us as well.

So we've got a great team.

I want to welcome visiting council members Clay Yarborough and John Crescimbeni. I appreciate both of you being here today. And, obviously, all the council members are welcome to join us anytime they would like.

We do have Diane Tropia here, who is our court reporter. She will be recording what we're saying. For those of you who have not participated in LUZ before, at times she will get overwhelmed, so I may stop you if we get into multiple people speaking or get someone that's so excited about the subject they're speaking on that they begin speaking too fast. Diane knows just to -- raise your hand, and it will put us in a halt.

I will tell you these meetings will start at 3 o'clock on the first and third Wednesday [sic] of each month. They will pretty much begin shortly after the Recreation and Community Development Committee is finished.

We also have the Land Use and Zoning Committee that meets at 5 o'clock in these very same seats that we sit in right now, so our goal will be to never be longer than an hour and 45 minutes on these meetings. The closer we can get to an hour on a regular basis will probably be preferable because I think that a lot of the work that we may do may be done outside of these chambers.

I will not be afraid during this process to ask one of our subject matter experts to work with one of our individual committee members, to take an issue and go research it and bring back the results to the rest of the committee so that we're not all -- happen to be an inordinate amount -- long hours trying to go over this. And the expertise that I have with my committee members I'm pretty proud of and look forward to being able to accomplish great things, so I appreciate that.

Obviously, today is St. Patrick's Day. Your agendas have been printed on green for that purpose. I do have my traditional St. Patrick's Day hat that I can put on if you need me to. I don't think that's necessary at this time, so we probably will forego with that.

As someone told me, there's always a picture somewhere, so there won't be one of me having that hat on. I can tell you that for sure.

We are getting ready to embark on probably some of the most important work as council members that we'll do in our remaining term here, looking at pension reform. I'm a little nervous just about the name of the committee, to be quite honest with you.

I think we need to look at the pension situation. And as I said at a press conference, we need to look at pension sustainability going into the future.

Derrel Chatmon and I have had a conversation previous to this. There are a number of issues that we could or possibly will discuss during this process that may be a subject of collective bargaining and the collective bargaining process, and I've asked Derrel to have free range to speak up when he thinks we're getting to an issue that might be going into an area that may affect that, and I appreciate his willingness to do that. And if we do that, we will stop you at that point and go in a different direction if we need to.

Also, I think a number of legal questions will probably come up during our work that we'll do as this committee. I've also told Derrel that when a question comes up, I don't really want the answer when it comes up. I really would prefer for the Office of General Counsel to go back and thoroughly research the question to ensure that we're giving the correct answer when we get it.

Most times I'm going to finish at the end of the meeting with a list of questions for the General Counsel's Office to research and bring back the answers to at the beginning of the next meeting.

So that's a little different than we typically do in our legislative process. We typically will ask them for the answers to the questions right away so we can include it as part of the legislation. This is going to be a little different process, and I really want a little more research done before we get the answer to that issue.

We are going to use the queue system here as we're doing this work because there will be multiple questions from multiple people. As you look in front of you, the -- you'll see a row of four buttons, the green, red, yellow, and blue.

The blue button is the queue button. If you -- somebody says something and you'd like to speak, if you could push that. This is for the subject matter experts and the committee members pretty much only. Push the blue button. It shows up here on my screen.

I will take committee members first on the comments and then go to the subject matter experts from that point, but -- that way we can keep -- kind of keep an organized chaos if it gets to that point, because this is a very passionate subject that a number of people are passionate about, and I want to make sure that happens.

Just to let you know, if you haven't ever operated -- when I do call on you to speak, push the "mic" button, which is the microphone button. The microphone to your right is almost always the microphone you'll use. Occasionally there's a blip in the system and somebody else can hand you a microphone and push the microphone button and let you use it if it does.

So make yourself at home. Thank you, again, for everybody being here, and I look to forward to great work on this committee and stand ready to help you.

I will also remind the committee members that our subject matter experts are available for you to work with outside of this meeting. If you want to work with one or even multiple of the subject matter experts, that is a right you have as a council member.

Obviously -- and we all know as committee members -- that if two council members want to get together, that would have to be a noticed meeting and notes taken, as we do with everything else. But as an individual council member, you have the ability to talk to any subject matter expert outside of these meetings, and that's for the committee members and the other council members on an individual basis.

Any questions about what I just said or not?

COMMITTEE MEMBERS: (No response.)

THE CHAIRMAN: Well, good. Let's get right into it.

When I was assigned this responsibility, one of the things I thought was extremely important, for us to kind of frame what pensions are and the systems and everything else, and I asked Alan Mosley and John Keane to get together and come up with a mutually-agreed-upon person they thought could come and give us a pretty good Pension 101 explanation, and both of them, almost simultaneous, said Terry Wood would be perfect to do that.

Terry Wood is a former council member, former council president, understands the legislative process, also understands and has infinite knowledge in the pension process, and I was thrilled that he agreed to come today and speak to us.

And I kind of want to turn over the podium to you, Terry, and let you kind of take us through a Pension 101 lesson, if you don't mind.

(Mr. Wood approaches the podium.)

THE CHAIRMAN: So I appreciate it and thank you for being here today.

MR. WOOD: Thank you.

It's a pleasure to be with you today on this St. Patrick's Day, and we -- I enjoy the opportunity to come and talk to you a little bit about pension plans.

I see some people up there, and I'm getting a little nervous because it's -- it's sort of like telling Noah there was a flood, but other folks, I just -- if we can be of help, we'd love to do it.

There's a couple of quotes I'd like to start with. One of them is from a famous American philosopher named Yogi Berra. And Yogi said, "When you come to a fork in the road, take it." Sometimes when our fork in the road turns out to be a defined benefit plan, there's a tendency to take a U-turn road than to follow one of the other forks, and that's not my tendency. I think there's a very good, strong place for defined benefit plans in the pension mix, and it's just trying to make sure that we have those mixes right.

The other quote is from Albert Einstein, and Albert Einstein is credited with saying, "When the significant problems we have not solved at the same" -- "the significant problems that we cannot solve cannot be solved with the same level of thinking at which we created them," and I think sometimes we have to look at situations anew and just work on the problem at hand.

So this is Pension 101, a short course in retirement plans, and I'm looking forward to being with you today.

Let's make it real simple to start with. Okay? This is a little, simple introduction.

As you can see at the bottom -- actually, it's another attempt at humor that probably didn't go very far, but this actually did come out of an actuarial page where -- of some of the books.

What I'd like to do is talk to you today about the types of retirement plans, the actuarial process, and why pension contributions change from year to year. And I think after we go through this, you'll have a good understanding of where we are.

There are two basic types of pension plans. There are the defined contribution plans. We call them DCs. When you have a defined contribution plan, the contributions are defined -- percentage of payroll is a typical one -- and benefits are determined by what that acquired money will purchase at the end of the plan.

The others are defined benefit plans, DB plans. And DB plans, quite frankly, the benefits are usually defined by the plan and then the contributions are determined through the process of administering the plan.

There's a little formula that we look at, and it's contributions plus interest -- investment income equals the benefits paid and the expenses of the program. These work out in different ways when you're looking -- but basically these -- this is how a pension plan will work in general.

DB versus DC plans. When you're looking at your defined benefit plan -- again, the benefits are defined by the trust or by the actual plan, which is a legal document.

The benefits -- the payments require an actuarial determination to see what the contribution to the plan is going to be, and these periodic actuarial reports determine what -- the contributions and the health of the plan through these actuarial studies.

On a defined contribution plan, we usually set the contribution out and it's defined. The benefits are determined by the plan investments when the person retires.

These plans are also known as money purchase plans, profit sharing plans, 401(k) plans, 401(a) plans, 403(b) plans, 457 plans, depending on where you -- on the type of plan you have. So defined contribution plans take on all sorts of permutations, but they're -- they're neat.

Again, many of your -- of the City employees participate in 457 plans because --

that's known as deferred income, deferred comp plans. And many of our people in the education community or in the health community participate in 403(b) plans, which is the old -- which is tax shelter annuities again. So they're out there.

And all the profit sharing plans that you hear of in the private sector, in -- several years ago, they allowed those to come over on the public side -- are, again, forms of defined contribution plans.

What is the actuarial valuation process? These are how a defined benefit plan contribution is determined, and it takes an actuary, who is enrolled by the IRS or the Department of Labor jointly, to become an enrolled actuary after a lengthy testing and study process.

An actuarial valuation is a financial or a mathematical model that looks at -- that determines the contribution rates that are needed to pay the post retirement benefits. We'll get into some of the factors that go into that.

The actuarial valuation also indicates the plan funding progress or the healthiness of a plan. Sometimes you'll hear that a plan is 90 percent funded, 80 percent funded. That's determined by the annual valuations. In Florida, we try and do them every three years under state law.

The purpose of the valuation is to calculate the contribution rates so that the plan -- that the benefits are prefunded, that we satisfy the legal requirements, because the pension plans in Florida are covered by the state constitution that requires them to be -- that requires them to be actuarially sound. It shows the realistic costing of plan benefit changes and it shows the funding status of the entire plan.

When you do an actuarial valuation, several of the -- items are needed to go in that. Some of them are demographic or a description of the participants that are in the plan, and these datas -- these data come from the plan's sponsor, the City of Jacksonville in our case, and they'll describe the active, retired, and inactive personnel in whatever state they are as long as they're members of the plan.

They also take financial data into account. The financial data is also provided by the plan's sponsor, in this case the City of Jacksonville, through the trustees, where the investments are held.

The plan benefits for the members are defined by you, by the City Council and the City administration.

And the assumptions regarding the future activities of the funds -- the actuary will set out the actuarial assumptions. Those assumptions will include things like the basic actuarial cost method that we use, and there's a number of them. Some of them are unit credit plans. We happen to use the entry age actuarial -- an individual entry age -- sometimes it's called entry age normal or entry -- to establish that.

Essentially, the cost method is a systematic way of setting aside current funds to pay for the future benefits.

The actuarial valuation involves confining all these factors on the valuation date. And I like to say that when you do the valuation on the valuation date, it's like taking a picture of your children or your grandchildren. That's what they looked like on that day.

Now, you may hold them for years or you may hold them for the next two years, but what the valuation shows is how the plan is doing on that day that the valuation is set.

We're going to look at the demographic data, we're going to look at the financial data, we're going to use the selective cost method and those assumptions, but they come together for that one day.

The assumptions -- the focus of the actuarial assumptions is to estimate the future benefits to be paid from the plans so that they can be systematically funded over the life of the plan.

The actuarial assumptions are used to estimate the future actions of the plan and its members. Is it healthy? What can we afford? And those assumptions break out into the economic money assumptions and the demographic people assumptions.

When you do the valuation on the economic side, there's several things that are known leading into it. They're absolute knowns. Part of those are the market value of your investments. Part of those are how the investments are broken out, what type do you have, stock, bonds, other types. And the other one is what's the current value of a dollar, what's today's dollar worth, and then the total payroll of that -- of the group that's -- that's known.

Some things have to be assumed, so some of the assumptions are going to be, what's the plan going to earn in the future, how much money should we expect the plan to return year after year after year, what is inflation going to look like, what's going to be the future value of that one dollar when a person is ready to retire, what's going to be the future growth of payroll, what types of raises is the City of Jacksonville going to be offering over the next 20 years of the work life of this employee? All of those are the types of assumptions that the actuarial [sic] comes up with and recommends to the City and jointly agree on those.

The demographic assumptions. Again, there's items that are known when you sit down to prepare the valuation. You generally know an individual member of the plan, you know the age, you know their current salary, you know gender. And some people smile when you say that, but, quite frankly, if you go to a senior citizen home, you're going to see there's a lot more of one gender than the other sitting there.

If you have an assumption in your plan that there's going to be a 75 percent spousal benefit when they -- when the retiree dies, if you have a female employee, you may not have a spousal person because that male is probably going to die two to three years, minimumly [sic], earlier under these assumptions that are there.

And then the service to date or the date of hire. And one of the reasons that's important is, when you take a look at the plan, you're going to have a point on that plan -- and we'll get to it in a second -- where you look at past service and future service, and we'll just take a peek at that in a minute.

There's also demographic items that are going to be assumed by the actuary, and he'll set -- they'll set assumptions for the plan. One of them, again, will be the future salary increases. The other is going to be the retirement rate. Is everyone going to go out at the earliest date they're eligible to go or how many people are going to stay to accrue a better benefit?

Death rates before and after retirement. We have a disability component, disability rates. We'll look at the population and determine disability rates so we can anticipate that.

And then we look at the other termination rates. Who's going to quit before they're vested, who's going to be partially vested and leave partially vested but will defer their retirement, and how many are going to work 10 or 12 years and then take their money out before they leave. So all of those are other determination rates.

Here's a little chart that takes a look at an individual who has been with the City for 15 years, plans to work probably 30 years, so we're looking at the valuation. When they came to work at 30 -- that's a little old for the City of Jacksonville to come to work, but in this example we're assuming that. So the hire date was 30, the valuation date -- this person is 45 years old, and they're expecting to retire in 15 years at age 60, so they will have a 30-year work life.

When you take a look at the valuation date, there's 15 years of past service credits and there's 15 years of future work time. But if you go all the way to the date of anticipated death, then you have another 20 years that you're going to be paying the benefit, and this is going to be -- and some form of this is going to be your average employee or participant in the plan as you look at that.

On valuation date, we're going to take all of that into account and make a calculation for that individual and all the other individuals that are members of that plan and we're going to add it up, and that's going to become your normal cost for the City of Jacksonville.

Present value. Many of you are in business and understand present value of calculations, but most of the calculations you're going to see are going to be present value calculations or future value calculations on all of these factors that we're looking at.

So the basic idea is, if I owe you $100 and

I'm going to pay you in two years and I want to put it in the bank so I don't have to pay the whole $100 to you -- I know this is a -- what do I have to do?

Well, if the bank is going to pay me 4 percent a year, then all I have to do is put $92.46 in the bank and they'll credit me with 4 percent. And then it will compound, and I'll get another 4 percent, and I'll have my $100 to pay you in two years.

Well, actuaries use that function with the estimated returns of the plan to calculate how much is needed to put in in actual contributions and how much of this is going to be offset by investment gain or interest into the trust.

If you look at our example, again, we've got a 45-year-old, 15 years of service. We're going to assume he had a base annual pay of $30,000 a year. The benefit in this case -- we're using not the regular City's, but it's a 2 percent one, and the assumption is an age 60 retirement, 4-and-a-half percent salary increases, 8 percent return on the investments, and that the person will probably live till they're 80 years old.

Based on that data, at age 60, the benefit will be $33,600 a year for life. It will be a level without a COLA.

At age 45, the $33,600, payable at age 60, has a present value calculation of $10,592. At age 62, that goes down because you have a couple more years of earnings if he defers his retirement. You'll have a present value then of $9,081.

However, by the time this person reaches their 80th birthday and had been [sic] benefits, if you look today at what you were -- the present value of what you will have paid him, it's -- $112,315 is what you would need to have to pay that.

When you look at the present value of future benefits, that -- what we're talking about is the present value of all the future benefits promised by the pension plan. That's the little acronym, the PVFB, and -- that are payable to the current participants. That would be the active, the retired, and the terminated vested. So when you pull all those together, there will be a present value calculation for that entire group.

Then there's the actuarial accrued liability, and that's going to be the part that is accrued by the members on the day of the valuation from their past service. So for all the days that they had been working for the City up to the day of the valuation, that's going to be the actuarial accrued liability. They have accrued that liability to the plan on that given date.

The normal cost is the portion of the present value of future benefits allocated in the current year. And then future normal costs, which, again, will be discounted, is going to be that portion for all of those future contributions that you're going to take a look at.

Is this very clear?

Okay. The normal cost is the value of this year's expected benefit accruals.

And the UAL is the dreaded word or dreaded phrase, the unfunded accrued liability. And what you do with the unfunded accrued liability is you take that previous slide where we had the actuarial accrued liability or your liability to date and then you subtract it from the assets of the plan, and what's left over is the unfunded accrued liability. Sometimes it's called the unfunded actuarial accrued liability, but they're basically the same item, and they're a natural part of any defined benefit plan. Every defined -- well, most defined benefit plans will have that.

Now, there are -- in the past -- I doubt if there are very many today -- on the corporate side of life, there were some plans that were overfunded. And the reason why corporations tended to do that is rather than coming up and just calculating the minimum contributions, on a -- when you do a corporate plan or a for-profit plan, you calculate a minimum contribution and a maximum contribution, and that refers to the minimum amount to fund the plan and the maximum amount you can fund and receive a tax contribution for it. And that comes right off the 1120, so people are happy to do that in many aspects -- you know, many times. But sometimes those plans will become -- in good investment years, they'll become overfunded and you can't make a contribution to the plan in those cases and take a tax deduction for it.

Reasons for the valuation are easy. The actuarial experience will not match what has been assumed in any given year, basically. If you're assuming that the City of Jacksonville is going to give 4-and-a-half percent raises across the board, that assumption may or may not be realized when it comes to budget time. But the plan has built a -- I believe ours is 3-and-a-half percent, but there -- an assumption is going to change over time.

The current results reflected in an additional year's worth of new information is not the same as the assumptions that were made, and they usually never are.

Costs may change due to new information. We may come in and find out that our employees are leaving earlier or some of them aren't leaving as we expected them to because we're in times like we are today and if you've got a job, you keep it. So rather than seeing our turnover tables work the way we want to, they hold on to their jobs and they work longer.

So all of this means that you have to do the valuation because your assumptions aren't going to be a hundred percent.

Why contributions change. It's for the same reason. They change -- changes in the benefits to be valued. If you give a benefit, then that's -- you'll have a study that will come and say this is going to increase .011 -- Kirk -- percent of payroll to grant this benefit.

Again, that's based on best assumptions and best studies that you can do. But when that starts to realize and mature in the plan, you may find that that actually creeps up to being 1.025 -- or something -- percent of payroll and that that benefit changes over time.

Changes in actuarial assumptions or the methods. Sometimes, particularly in some private plans, if they ran into an overfunded situation, they may change the actual methods so that they can have taxable contributions again.

The experience changes, the demographics change, or the plan assets change. There are techniques that are used to try and solve some of the changes. Some of them are changing the cost method; change the amortization period, although traditionally public plans use about a

30-year amortization; funding valuing of assets. A plan sometimes has losses in years like we're -- in the economies that we're -- like we're in today.

And then there's stabilization reserves. In -- the City of Jacksonville established -- and for both of the pension plans -- I think it's called a PEC, but it's the previous overcontributions, above the minimum that was required, and you create a stabilization.

This is what -- this is what -- how they work, hopefully, in a plan (indicating). This is a chart that shows you, when you start the plan -- at the left-hand side and going up is the percentage of active member payroll, and you start over time. And you have the employee and the employer contributions, you have the level -- you grow to a level contribution, you have the investment income, and then you have the pay -- the contributions that come into the plan.

And, hopefully, what those -- the above dotted lines are going to be the benefits that you pay out and the below line is going to be -- the solid line is going to be the cash benefits that you pay out.

And the contribution of -- the contributions that come in, plus the gain on your investments will equal your cash benefits, plus your expenses, and you're going to be in great shape.

Things to remember from what we've been talking about today:

Pension plans are designed to be long-term in nature, 50-plus years, sometimes a hundred years.

The pension valuation is a snapshot of the plan and how it's doing. Again, it's like taking a picture of your children or your grandchildren. That's what they looked like on that particular day, when they're happy. It's what happens on that day, and that's -- you can make the assumptions, but that's what the valuation does.

And the fact that all defined benefit plans are more -- are going to have an unfunded actuarial accrued liability. It's the nature of the beast and it's going to be there, but it needs to be managed, and that's what -- that's what your job is going to be, is to stay on top of it and to manage those plans.

So if there's any questions or -- I'll be here, or we can come back and -- if there's anything I didn't make clear for you, I'd be more than happy to try and do that.

THE CHAIRMAN: Thank you, Terry. I appreciate that. That was a very good overview.

Any questions from the committee or anyone else on the dais up here?

COMMITTEE MEMBERS: (No response.)

THE CHAIRMAN: Good.

Well, I appreciate it, Terry. Thank you. Thank you for your presentation and your willingness to stick around. There's questions that may come up.

Next on our agenda -- I kind of wanted to get a -- as Terry said, a snapshot of where we currently are. And before I do that, one of the things that John Keane offered to do for me, which I was very thrilled to do, was -- you'll see a handout that's got the seal on the front of it. That is a handout of the definitions that you'll hear during this process, words that you may or may not totally understand.

Obviously, we'll stop at any point and

explain anything that is not understood by the people up here, but it also is something you can use as you do reading between our different meetings.

We do have it on CD. We will -- if there's a term that was left out, which I'd be surprised if there is one, but if there is something left out, we can update it and give you an updated one if you'd like.

So, John, I appreciate you taking care of that for us.

Let's turn to an overview of our current pension plans. We have three primary pension plans. One is the general employees pension, one is the corrections pension, and the final is the police and fire.

The general employees and corrections is uniquely different than police and fire, and Mickey Miller, I've asked him to come today to kind of give us a -- today's snapshot of what the -- both the general employees and corrections pension plan.

(Mr. Miller approaches the podium.)

THE CHAIRMAN: Mickey, good afternoon. Thank you for being here.

MR. MILLER: Good afternoon.
Please feel free to ask questions. If, by chance, the question will come up on a subsequent page, I'd like to try to defer, but I will try to answer all your questions at the time that they're asked.
We can do this a number of different ways. I'm just trying to use a -- some basic terms, keep it relatively simple, and talk about the current situation.
Whoops. Wrong plan. One second.
THE CHAIRMAN: Mickey, while you're getting set up, is -- the status update, is the PowerPoint --
MR. MILLER: Yes. It looks like a status update for the general employees and corrections. You should have a hard copy in front of you and it should now be up on the screen.
THE CHAIRMAN: Some of us have two, and there was a change at the end. What was the -- is there a certain --
MR. MILLER: When I get to that page, I'll explain it.
THE CHAIRMAN: Okay. Perfect.

Just pick one, and if you get to the page that -- we may have you switch.

Go ahead.

MR. MILLER: Actually, it's on the second page.

If you have the one that has two different 88s, one was an error in the presentation that showed 88 as disabled and 88 as inactive. It was only supposed to -- the correct plan only has one. So the total number is 641, not a higher number.

And I apologize for that. It was found and corrected, but apparently both copies are outstanding.

So if you have the one that doesn't show just 641 as the number of participants -- active and inactive when the -- with regard to the correction, it's the wrong one.

THE CHAIRMAN: So with the correction, the total should be 641?

MR. MILLER: Yes.

THE CHAIRMAN: And now I only have two other entries on it. So if you had the other copy, you can just drop it in the trash can. That would be --

MR. MILLER: That's the only difference between the two documents, and I -- we did make a correction on that. We -- and corrected it on the PowerPoint.

Now, one of the issues is how mature is the plan. And the last -- one of the last slides that Terry put up there showed you the difference between how much you pay out versus how much you put in.

For example, right now in -- the general employee plan is putting in about $28 million. They can -- paying out a hundred. So it's 98-, $99 million in benefits being paid out, but the required contribution as established by the actuary is only $28 million.

That is a relatively mature plan. As you show here, with 4,300 retirees and 5,000 active employees, that's a relatively mature plan, as to when you start a program, you'll have almost no retirees. When you have as many retirees as you have active, you've got a fairly mature program. And both the police and fire and the general employee plans are quite mature.

Now, you might think that corrections should be more mature, but we only broke that out a couple of years ago. It's only been, like, 2004, and we left all the retirees that were previously in the general employee plan in the general employee plan.

So we started the new corrections plan with no initial participants, no initial beneficiaries. They had to retire after that plan was created to be a beneficiary of that plan because we left all the people who retired as correction officers in the old plan or in the general employee plan without moving those people and changing that circumstance.

So you presently have -- here's your numbers regarding the two plans (indicating). This shows you the last three years.

The way the system works -- we get an actual report on a given date. For example, the report for -- that we receive on 10/1/2008 produces the funding strategy for '09/'10.

So we get that information typically in January or February and we use it to develop a budget for the fiscal period starting the following October. So the report shows you here significant change.

We also need to remember that within the general employee plan -- another page like this for corrections (indicating).

But within the general employee plan, we also have JEA. So we're a -- the breakdown on the bottom -- I would love to have the numbers for the three, but the actuarial didn't provide it to me, so I'm just showing you that -- it's about 60 percent City, and about 36, 37 percent JEA, and then the residual is just a number of other entities, individual members, and a couple different independent agencies.

So, basically, the -- you had a fairly level contribution for the two years and you had a significant increase between what we are now paying in '08/'09 and what we expect to pay in '09/'10. That's primarily related to the recent market difficulties which occurred prior to 9/30/2008.

Now, we will have additional issues with the losses we've had since then, but that will not come into play until we do the actual report for 2009.

Again, you have similar numbers: the total contribution, minimum contribution, and the residual City contribution.

We'll come back and talk about normal costs and amortization of prior service costs in a later slide.

This just is talking about dollars, so you look at the relevancy with regard to the dollars and the pension plan on these slides. But, again, you see a significant jump up.

Now, this does include for '09/'10 the recently improved benefit by the City Council with regard to the Phase III of the corrections phased implementation of the benefit increases.

Now, funding status. You hear a lot about that. This will show you some examples at three points in time. And, again, it is a snapshot. And as an accountant, I need to let you understand, there's no way to track from one actual report to the next actual report. You cannot start with a beginning balance and end up with an ending balance and track the pieces because it literally is a snapshot in time.

I've tried. It's not doable. So what really makes it difficult, that it is that one snapshot in time at a various particular point.

You show here that the funding status improved between the actuary report for '06, '07, '08. These are 10/1 dates. And this latest number, 2008, shows the funding status, which has gone down. We'll come back in a second to a smoothing. There's a valuation smoothing part of this process.

If you have an actuarial loss of investments, two things happen. You'll need -- you'll smooth the actuarial value typically over a four- or five-year period. And equally and separately, you'll create actuarial loss, which will typically be amortized over 25 or 30 years, so -- both of which are -- created smooth effects over a longer period of time.

We'll have a slide talking about the smoothing effects with regard to the valuation, but clearly you moved up and down.

The 83, if you took all the market value adjustments, probably it's down around 70. But because of a five-year-forward smoothing, it shows it reflectively at this time only 83, but I'm not trying to hide that. That's just a part of the process and part of the exercise.

Simple type of numbers, but you have two impacts here with regard to corrections. One is the market value changes, but equally a significant benefit increase, which has just been taken into consideration for the first time. So you have both those factors weighing on the significant change that occurred between '07 and '08, which will affect fiscal years '08/'09 and '09/'10 with regard to corrections as a smaller program.

Now, here we are with percentage of pay. We always like to talk about percentage of pay numbers, and this will show you the percentage of pay on general employees. It shows you the normal costs and it shows you the amortization of UAAL.

We treat and typically would treat the employee contribution as a reduction in normal costs. In essence, what that does is make the UAL, the obligation of -- like Alan Cousins (phonetic) likes to say, the mother ship or the principal government, but basically the employee contributions typically are treated as a reduction in the normal costs.

The state premium dollars can go both ways, but that's -- I'm not going to get into that discussion at this time, but basically will reflect that the normal cost payable by the City is about -- less than 6 percent, 5-and-a-half percent. And the amortization of UAAL was down in the 5 percent range, but as we partially have recognized this loss, the smoothing of the valuation, we're starting to see the UAL number jump.

I think that number may jump up around 20, 18 to 20, when we get to affecting it, but right now because of the -- both the smoothing of the loss over a four 30-year [sic] period and the smoothing of the valuation over a five-year period, you've only got a partial recognition at this point in time.

And, yes, it does get complicated.

Same type of issues here (indicating). Here you see the normal cost changing for corrections as well as the UAL because benefits have changed.

Remember, now, every time you change the benefit, every time you change an assumption, you will have a -- typically, an impact on both the normal costs and the UAAL.

As you change the mortality assumption, how long we're expected to live, that will have a pact [sic] on what the -- the normal cost is what this -- this current year's increase in benefits should cost the entity, the government, the employer, the corporation.

But if you basically expect to live longer, then that will affect the normal cost as well as the portion that's attributed to the time before the benefit was granted.

Now, if you do a benefit increase and you say it's going to cost 2 percent of pay, well, it's going to affect 2 percent of pay. Part of that will be your normal costs because it's going to increase what you pay each year for that one year of additional benefit earned. It's also going to have an impact on the prior service cost because the people with five years of service, ten years of service, twenty-five years of service automatically have this increased benefit if they retire tomorrow.

So you'll have a -- the benefit increase has a significant increase impact, if you will, on the prior service cost because it will affect all that years of service that existed for all the active participants in your program at the point in time their benefit is granted.

So the significant change here, both in the normal cost and the UAAL, are a result of the impacts of the benefit that has recently been granted or the Phase III sets of benefits granted over a three-year period to guard the corrections program.

Now, valuation smoothing. You know, you have good years and bad years. The valuation smoothing, there are four- and five-year options. This list came out of the late '70s. We've been doing asset valuation smoothing in the corporate world starting back in '82 and '83 and the government world largely signed on in the mid to late '80s. So most major local government plans may be using some form of smoothing technique over the last 20 years or longer.

Now, if you have -- if you think about ours, we have a five-year funding of smoothing that is front-weighted. It's, if you will, five-fifteenths, four-fifteenths, three-fifteenths, two-fifteenths, and one-fifteenth. So if you think about that, that's a front load because in the first two of those five years you will have gone through ten of the fifteen or two-thirds of the cost in the first year and the second year combined.

If you look back five years, some may be positive, some may be negative. You'll have offsetting numbers regarding the five-year history, but it creates a smooth effect, if you will, moderating or modulating the amount of -- percentage of pay change that may have occurred from year to year in allowing for the more orderly addressing of long -- long-term obligation over time.

Now, clear -- clearly, you have a significant smoothing effect here because 237 hasn't been recognized yet. You've recognized that five-fifteenths, but you haven't recognized the other ten-fifteenths of the losses that occurred through September 30.

And, obviously, we haven't recognized any losses since then because they haven't gotten to the 10/1/2009 actuary report, which may be losses, or maybe with a little bit of luck we'll start to see some stability, maybe a little capture. I'm not forecasting right now, but I'd love to see some stability at some point in this particular cycle we're going through.

But this is not hiding anything. This is the way the smoothing process works that's been adopted by, I think, all the plans. There have been some questions recently regarding police and fire, but I've been told that they're going back to a smoothing method, by reliable sources, and so we all are fairly common in the way this is addressed.

I think I only have a couple more slides here.

The impact, again, on corrections. It's much smaller in its aggregate, although the percentage of pay number is getting to be a troubling element because, obviously, instead of being at teens, it's in the 30s and will go higher because the actuarial -- the losses regarding the investments go through fiscal year '09 and possibly '10, depending how they all -- turns out.

'08 and '09, I'm sorry. The last fiscal year through September 30th, '08, and then the current year we're in. Hopefully, 2010 will be a good year. Time will tell.

Some other things you should be aware of: We recently received, both Mr. Keane with regard to the police and fire plan and the mayor's office with regard to the general employee plan, letters of inquiry from the Division of Retirement questioning and actually putting in some degree of uncertainty of recent actuarial reports over the last three to five years and asking for a great deal of information.

Now, I can tell you a lot of different reasons why that might have happened. One of the more realistic reasons is the person's retiring. The gentleman who's been dealing with this issue as the state's actuary for 20-plus years is on the verge of retirement.

They tried to put out some new administrative procedures in the summer -- last summer, and that process seemed to come a little unglued, so now they're still dealing with the existing administrative procedures but have put out a rash of letters across the state. We're by no means unique in that circumstance, but we did receive them both for the general employee plan and for the police and fire plan.

There was an explanation of a fresh start with regard to the general employee plan, which we'll have to have some discussions on. And since the City's general employee plan and police and fire plans do annual actuarial reports, they have questioned the '05, the '06, and the '07 reports. I think they've questioned the '06 and the '04 report with regard to police and fire, but Dick Cohee will be more than happy to talk to you about that issue.

Concerns appear to address the earnings assumption and may address other statistics, we don't know yet. Mortality table could be one. Those are, if you will, two of the major drivers in funding and actuarial reports, what is your mortality table and what is your earnings assumption.

But just making you aware that even if we have an actuarial report today, the actual -- they have to be accepted by the State. So the State could tell us to do it over, the State can tell us to change the earnings assumption. It's a bit of a barter, a bit of discussion, a bit of an opportunity to try to work it out, but at some point in time they -- there is risk by not working something out with the State with regard to lost revenues to the general fund and lost revenues to the police and fire pension board.

We have -- like I said before, the '08

report is designed to help us create a tool for developing the budget, for the '09/'10 year. We may have to redo it -- time will answer that question -- as we continue our dialogue with the State.

We will have -- there are hidden issues regarding the smoothing of the asset valuation that have not been fully recognized. But if we do, then, using the same smoothing techniques since the late '80s -- presumably in many instances, smoothing, recognition of gains -- presumably, what's good for the goose should be good for the gander. So if you have the systems in place, when you use these for a long period of time, using it to recognize smoothing gains and then smoothing losses are all part of the same process over a long period of time. That have [sic] been true of 2001, 2002, and it's -- clearly is true of however long our current circumstances tend to last.

With that, I believe, Mr. Chairman, I'd be happy to answer any questions you have. Nobody has asked me one yet, but I'd be happy to try to address whatever is before me.

THE CHAIRMAN: Your streak has come to an end. Councilmember Joost has a question for you.

MR. MILLER: Yes, sir.

MR. JOOST: Thank you, Mr. Miller, for coming down today.

What are your assumptions in the 2009 budget on rates of return?

MR. MILLER: The earnings assumption presently for the pension -- the general employee pension plan is 8.4 percent, which would have been set forth in the actuarial report 10/1/2007 and would be effective for the '08/'09 fiscal year.

MR. JOOST: Now, why don't we have an actuarial report for 10/1/08?

MR. MILLER: We do, but it's designed to create a funding mechanism for '09/'10. When we get the number, specifically -- it's effective 10/1. We normally see it in January or February --

MR. JOOST: What's the assumption rate in '08?

MR. MILLER: I do not believe it has changed.

(Simultaneous speaking.)

MR. JOOST: -- the actuary report?

MR. MILLER: I do not believe it has changed. It currently continues to be, I believe, at 8.4 percent. The police and fire's number, I believe, is 8.5.

MR. JOOST: While I'm shuffling all these papers I have here, I've done some research on other retirement plans where their assumptions are lower than ours. For example, here -- I think down in Fort Lauderdale they assumed a 7.75 percent return, in Tallahassee it's 7.75 percent, Miami is 8.1, St. Petersburg is 8, Orlando is 8, and California -- and I don't have it with me. I know theirs was, I believe, 7.75.

Why, in all these other plans and in their assumptions -- why are their assumptions lower than ours? I mean, are we doing that much better of a job investing our money than they are and, therefore, we can have a higher assumed rate of return?

MR. MILLER: I don't know that there's a material difference in how we manage versus how they would manage. I've not done any research on that subject.

The typical norm for the last 10 or

15 years has been 8 percent. In recent years, some movement have been -- from 8 percent down to 7 and three-quarters or 7 and seven-eighths.

Also, on your list, the state of Florida has moved from 8 to 7 and three-quarters.

Over a 30 --

MR. JOOST: What I'm getting at is I don't believe the 8.4 percent is realistic.

I mean, you keep saying a five-year moving average. If you take where the stock market was five years ago and where it is today, in terms of pure numbers, it's a negative rate of return.

MR. MILLER: Yes.

The projections are based on what would be a 20- or 30-year forward-looking expectation.

There are those who would argue --

MR. JOOST: But, see, the problem is, in a mature plan, where you've got -- and, to me, it would be -- it would be easier if you have a young plan because you're not drawing money on those assets for a substantial period in the future, and in a mature plan you're drawing money every day on those assets.

And so in a mature plan, the five- or

ten-year outlook is much more critical than in a new plan because in a new plan you're not going to have people retiring from 20 or 30 years. And these plans we have today, people retire every day of the week.

And so I believe that 8. -- you know, while it sounds good -- you know, you can do the blending average and all that. The 8.4 percent is much more critical in the near time frame, in the next five or ten years in these plans because, in your words -- and I agree -- in these more mature plans people are relying on those payouts and, therefore, the assumptions of the rate of return that we're getting on those assets is much more critical.

And so, you know, what concerns me -- and, Mr. Chairman, my point is, in order for us really to begin to tackle the issues, we have to know what the scope of the problem is. Okay? And the only way we're going to get to the scope of what the real financial problem is in the City is to have realistic assumptions.

And I know my -- for example, my broker was so happy, they came out with a plan last year that said we actually almost got 5 percent on this plan, we suggest you go into it. I'm glad I didn't because then it promptly lost about 20 percent the next week.

And with that said, I don't think that my brokers at Morgan Stanley are investing in the same stocks and funds as, you know, the pension guys are, and they're bragging on a 5 percent rate of return on a plan that they had last year. And so I don't understand the disconnect where we can keep saying we're going to get 8.4 percent on our assets, you know, when I've got people telling me you're doing great to get 5 percent.

MR. MILLER: Okay. I'm not exactly sure of the question there, but I'll try to address --

MR. JOOST: The question is, when are we going to go back and readjust what our assumed rates of return are? Because I don't think 8.4 percent is realistic at this juncture.

MR. MILLER: As you're aware, I have been raising some questions about the numbers for some time.

I'm torn, I guess, between two different directions. I know, because of the market losses, we're already going to see a significant increase in pension contributions if we change no assumptions at all. That number between the three plans could be in the 15- to $20 million increase in costs year over year without a change of assumption.

We also, right now, have information that suggests if you change the plan by half a point, move down to 8 percent, then the contribution increase -- in addition to the numbers I've just mentioned -- will probably be another 15- to $18 million.

I just -- it's just -- those numbers are staggering, I fully admit that.

And, then, of course, if the mortality table further changes --

MR. JOOST: This is just on the corrections and general employees side or is this all of them?

MR. MILLER: No. I'm speaking aggregately.

MR. JOOST: So a half of a percent change equates to 15- to $20 million?

MR. MILLER: The numbers we have seen so -- from both the general employee and police and fire suggests the numbers in the -- half a point would cost us somewhere in the 15- to

$18 million range, separate and apart from an additional increase that may equal that.

The increase between the three plans, with doing nothing on assumptions, because of the market losses, could easily be in the 15- to $25 million range.

MR. JOOST: So we're -- so with just a half percent drop in the assumed rate of return, plus what the market has lost, we could be looking at 30-, $35 million in extra costs on top of the 63 million we contributed this year?

MR. MILLER: The three plans together, total contributions are somewhere in the neighborhood of 90 million -- yeah, $90 million.

MR. JOOST: So you can say we're looking in the neighborhood of 120 million or more next year?

MR. MILLER: If you were to change the earnings assumptions and do nothing else, the exaggeration of the current expected increase could be an additional 15 and you could be talking 30 or more between the two, the market change and the earnings assumptions.

MR. JOOST: See, that's what I'm saying.

Now we're starting to get to the scope of the situation. And I'm not saying the market is never going to recover, but we could be in a protracted era of -- certainly there are ten-year period examples where the market didn't recover. I think one of the periods from the mid '60s to the early '80s is an example where the market didn't perform well. And if we get in one of these protracted periods, because we have mature pension plans, that is going to have a huge financial impact on the City.

And so that's -- you know, that's why these assumed rates of returns, I think, are extremely critical, and I believe -- if I'm not mistaken, one of the actuary reports was delayed. I'm not sure what it is. And we need an actuary or what you call an expert witness -- what did you call them before? An expert witness to come back and tell us, yes, this is valid, or we need to readjust those because I just read, you know, half a dozen examples of other cities -- you know, many of them here in Florida -- that have lower assumed rates of return than we do.

THE CHAIRMAN: I don't disagree with you.

I think Mr. Keane and Mr. Mosley both had some input on that.

Do you want to touch on that, John, or not?

MR. KEANE: I wanted to ask --

THE CHAIRMAN: John, grab that microphone and use it, if you will.

MR. KEANE: I generally don't use these things because I talk so loud.

Mickey, on page 7, you show a reduction in the projected employee contributions. Is that a typographical error? It shows that -- the employee contribution going down to 7.75?

MR. MILLER: No. The -- it's not a typographical error. It should be 7.7 even, I just noticed.

We are introducing the hybrid DB/DC, which costs -- it's a separate -- the disability element out of the defined benefit program, so -- the employee 8 percent contributions being broken up into a .3 percent going into disability and a 7.7 percent going into pension.

I apologize for the 7.75. I just noticed as I see it here that it's slightly off.

But, no, because of the introduction of a hybrid, allowing new employees to pick DB or DC, there will be a reduction in the employee contribution pension plan.

But, remember now, the disability, which is part of the plan, has been taken out and put into a separate bucket. So the future disability benefits will be paid out of that -- if you will, a separate trust fund, which is the disability trust fund.

So we had an actuarial [sic] calculate what the -- portion of the 8 percent the employee was contributing will be attributable to disability, and we are creating a new disability plan, like we created the corrections plan a few years ago.

MR. KEANE: Thank you.

MR. MILLER: And, yes, there is a reduction in the employee contribution to the pension plan.

THE CHAIRMAN: All right. Alan, do you want to comment on Mr. Joost's comments earlier?

MR. MOSLEY: There is no doubt, the 8-and-a-half, I think -- John and I have talked about it. The 8-and-a-half, we are in the higher quartile, if you will, of pension plans, and we are getting some pressure from the State actuary to address that. And we will address it, but there is a -- there is a need to really go into it with your eyes wide open.

I mean, we have -- we do have actuarials [sic] that are doing annual actuarial studies. Both plans will have an actuarial study completed to deal with everything going up to 9/30/08, so we'll have some clear and concise actuarial study from an actuarial professional on what the state of the pension funds are as of 9/30/08.

Embedded in both of those, I suspect, is the 8 -- the 8-and-a-half percent assumption on fire is going to remain and the 8 and 4 on the general employees pension plan is going to remain.

Whether or not the State actuary allows those to hold or requires us to begin to come back towards 8 is a question that we have to answer.

THE CHAIRMAN: Thank you.

Let me go to Councilmember Hyde.

MR. HYDE: Thank you, Mr. Chairman.

There's really two questions and then one just to -- a topic for you, Mr. Chairman, to put on your list of things to talk about.

One, Mickey, when we're talking about -- and follow up on what Mr. Joost has said about resetting of our actuary -- or our assumptions, are there any constraints on us setting a different assumption, say, if we wanted to move from 8 to 7.5 or something, whether it be collective bargaining or a cycle for our assumptions, anything like that?

MR. MILLER: No. Right now -- I think around the state you'll find all the major cities have been discussing whether -- their number, which has normally been 8.

I also did some recent research which complements on what the councilman did, and it -- basically the same results. The numbers are either 8.8 percent or 7.75.

But could we move down to 7 and a quarter and then 7 -- 8 and a quarter and then 8? That's a question we haven't really discussed in great length with our actuary. It may have a bearing whether to do annual reports or every-three-year reports. You may find that doing that over a three -- every-three-year reports is a pretty slow movement if you believe the current number is a challenge or a problem.

He may challenge other aspects, like I mentioned before, mortality. But we have not gone through that -- completed that discussion, so we don't know if it's a single topic point of discussion, being the earnings assumption, or if there are more pieces to that puzzle.

MR. HYDE: And that really was the question, Mr. Chairman.

Assuming that we can't convince -- that it needed to be moved, I just want to know from the outset whether -- what the impediments are, if any, for us making that move so maybe if we go through our list of questions just to -- I'd like to understand what obligations we have on that.

Secondly, we've all read about -- there's obviously recent articles in Florida and other places about where we stand versus our unfunded actuary liability versus other cities.

And I understand this is a loaded question, but in terms of -- where are you comfortable in terms of our unfunded liability being? If you can address it on the general employees and corrections side and maybe Dick or John on the other side.

And I also understand with the recent market activity, that's a -- may be a difficult way to express it as well.

MR. MILLER: It's somewhat of a philosophical question, and I'll try to address it in the manner in which it was presented, I believe.

Most pension plans have to put money in Social Security. We do not. So the question would be, what number would you pay if you were also having to pay into Social Security? Because, presumably, if you don't, maybe you can put the two numbers together and get to a somewhat larger number.

Since '86, we've been paying 1.25 percent with regard to Medicaid or -- Medicaid or Medicare, one of the two. So our 7.5 number is really more like 6.2 with regard to that element.

Ideally, I'd like to see the number of the employers' contribution, in addition to what Social Security would provide for, hopefully be less than 15 percent.

MR. HYDE: And, finally, Mr. Chairman, this is just -- you were probably going to address this in future topics, but the -- we just spoke today -- and, Terry, I really appreciate your presentation. It was on defined benefit plans, but the issue of defined contribution plans as well, tee that up for discussion at some point, and I realize that's an entirely different topic from what we've been discussing today.

THE CHAIRMAN: Perfect. Thank you. I appreciate it.

Councilman Joost, and then I think Councilman Yarborough has a question too.

MR. JOOST: Just real quick, what are you projecting -- you know, ballpark -- the total budget for the City will be next year?

I think last year it was about 950 million?

MR. MILLER: Roughly 970- last year.

We're working on some numbers. We're expecting property tax numbers to be -- the valuation, potentially, to be negative, flat to negative. Sales tax numbers and state revenue share numbers are likely to be off, so --

MR. JOOST: So basically what we're talking about here is 120 million out of 970 million, which is about 13 percent of our total budget would go for the unfunded liability next year?

MR. MILLER: That would be the total contribution. That's --

MR. JOOST: Right.

MR. MILLER: -- both normal cost and the unfunded.

MR. JOOST: Right. Okay.

MR. MILLER: Not just the unfunded.

MR. JOOST: .18 percent plus. Okay.

But that's the scope of what we're looking at just next year is possibly 13 percent of the entire City budget, you know, funding the pension cost. And so I think that kind of puts it in perspective as -- you know, as the problem grows from year to year.

THE CHAIRMAN: Good point.

Councilmember Yarborough.

MR. YARBOROUGH: Thank you, Mr. Chairman.

Mr. Miller, on page 3 of your presentation, you explained the top part sufficiently, but I was just wondering what the three figures were in the lower right-hand corner, City, JEA, and other?

MR. MILLER: That is dollars -- dollar-based allocation of the portion that would come from JEA, the City, and the other smaller participants that are part of that program.

So that's a -- the City is about 60 percent and JEA is about 37ish, so there's a couple of minor participants -- two principal participants. So if you break out the 38.6, it breaks it out between the City, JEA, and, collectively, other.

MR. YARBOROUGH: Okay. Well, the --

THE CHAIRMAN: So the -- let me clarify.

So, Mickey, that's -- those three numbers make up the 38.6 of --

MR. YARBOROUGH: That doesn't add up to 38.60.

MR. MILLER: Well, it certainly ought to.

THE CHAIRMAN: It's around it.

MR. MILLER: I'd have to check the math, but basically the --

MR. YARBOROUGH: If the other is 70 cents, it would work, but maybe --

MR. MILLER: Maybe just in the wrong place.

MR. YARBOROUGH: Perhaps. I don't know, but -- okay.

MR. MILLER: But it basically -- trying to indicate that it's -- the 38 is not really a City number as much as it is a combination of City and JEA number.

MR. YARBOROUGH: Okay.

MR. MILLER: Although there are some minor other players -- there are two principal players in that equation.

MR. YARBOROUGH: Okay. Appreciate it.

Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you.

Mickey, I appreciate it.

Obviously, Mickey is always available for anybody in the committee that needs to discuss it further with him.

I appreciate you being here today with us.

Let us move on and get an overview of the police and fire pension plan. Dick Cohee is here. I think all of us know Dick and the great work he does and the expertise that he brings to the table.

(Mr. Cohee approaches the podium.)

THE CHAIRMAN: So, Dick, I appreciate your willingness to be here today to talk to us.

MR. COHEE: Glad to be here.

You should have a nice, large stack in

front of you someplace, about an inch and a half --

THE CHAIRMAN: A small handout, Dick? Is that the small handout?

MR. COHEE: Yes.

I'm going to try to get back a little bit to the --

THE CHAIRMAN: I read it prior to you speaking today, so . . .

MR. COHEE: I'm going to try to get back to the 101 theme of today's meeting and get back to a little bit more basics, some basic documents, reports, and resource materials, specifically with respect to the police and fire pension plan.

But before I do, let me just echo Mickey's remarks about us having mature plans. We too have a mature plan. Retirees and widows count as 1,916. That accounts for 41 percent of all of the actives and retirees. So 41 percent currently are receiving a -- pension distributions of the entire membership. DROPers at 248 account for another 5 percent, and the active workforce that have not joined DROP yet, 2,534, which accounts for 54 percent.

So, once again, reinforcing the theme that, yes, it is a mature plan.

I've got in my package ten items. I'd like to kind of step through, very quickly, each of those ten. Hopefully, by the end of that you'll have a better understanding as to, in particular, the aspects of the police and fire plan and also some numbers in the process. As we go through, I'll elaborate on some of the numbers that relate to the documents.

The first is Section 22, the City charter. That's the charter section that was established, specifically creating the Police and Fire Board of Pension Trustees. It's been around a long time. The charter provisions establish the trustees and name them as the sole entity to administering the police and fire pension plan, the program of benefits that are created.

We are established as an independent agency of the City of Jacksonville, similar to JEA or the other As that are on the organizational chart. The charter provision specifically states that the trustee shall be the entity to develop rules, regulations, and policies, to administer the program of benefits in a manner that is not inconsistent with the law.

One point to point out is that the trustees do not set benefits. They merely administer the program of benefits that are reflected in the ordinance code.

There are five members of the Board of Pension Trustees. Two are elected from the membership and two are named by the City Council, and those four name a fifth. And so, effectively, these -- scope of influence of the council is two-and-a-half votes out of five, so that's that -- that's the sharing of the structure of the naming -- the source of naming of the trustees.

We're very tied to the City in many areas. The City treasurer of the City is the treasurer of the fund. He signs our checks. We run our payroll through him. We pick up the checks from his office. So there's a very close coordination with his office and Mickey's office, and we work very closely together and have much interface.

The charter requires that we do have an annual audit from an independent accounting firm. And that audit, once it is completed, is folded into the City's comprehensive annual financial report.

The trustees, one of their main duties is to establish a statement of investment policy, the program of investments for the fund. And that is, in our case, guided for us by certain provisions of the Florida Statutes. Section 175, 185 guides us greatly, and also provisions of Chapter 112 of the Florida Statutes as well.

We are bound, as any other local governmental public pension plan across the state of Florida, to be -- to adhere to the principles promulgated by Florida Statutes. In particular, Section 112, Part 7 talks about actuarial standards, principles, and we do adhere to them as any other pension plan in the state guides us how we set the contribution rates and actuarial assumptions.

Anytime we do have a change in policy, we do file them with the State of Florida Division of Retirement and the City Council, policy changes with respect to statement of investment policy, where it sits on the table and awaits your comments.

We are -- hopefully, we'll be bringing some of those to you in the near future once the J bill that you approved and some other State legislation goes through the process in this session. We're able to modify our assumptions and programs of investments and policies to incorporate those new, greater latitudes authorized under the law changes.

Once again, no amendments can be pursued by the program without your approval and the ordinance code in terms of benefits.

That's item number 1.

Let's pick up the pace a bit and go to item number 2. Chapter 121, ordinance code, that is the section of the ordinance code that specifically deals with the police and fire pension plan. Its twin, Chapter 120, is the general employees and corrections. So as you go there, you will find the administration of benefits and description of benefits and the administration of the plan. So that is Chapter 121.

Rather than go through 121, I have an outline, which is item number 3. And that is, in fact, a bit of -- in a Reader's Digest abbreviated version of the ordinance code, section 121, and that has many key terms. The credited service there, earnings base. The last two years of average pensionable earnings is the basis to which we apply. No overtime, no salary. Leave payments are incorporated, just straight basic pensionable earnings.

Retirement. Normal retirement is thought of as 20 years of service. In our case, without regard to age. Retirement benefits are based upon a formula of 3 percent for the first 20 years of service and 2 percent for every year after year 20, up to year 30. So we're capped out at 80 percent is the maximum pensionable retirement credited formula that we allow.

Disability benefits. If you get disabled, you get 60 percent pension, basically 20 years of service, the equivalent.

Spouses enjoy 75 percent continuation in the event of the death of the retiree. Children's benefits, $200 a month, up to age 18. If you're in college, it goes to age 22. If you're disabled, you can be an adult disabled child and receive up to 50 percent of the amount otherwise extended to the retiree.

Termination -- on the next page, termination of service. If you retire, if you leave service before five years, you receive a check. If you serve five years or more, you can receive a check or vest for a future entitlement.

The employee contribution is 7 percent. There's an extra one percent added to that from dedicated revenues from the chapter funds totaling eight, which is comparable to the general employees.

Employer contributions, currently 32.11 percent. That continues through the end of this current fiscal year, September of '09. We're currently, as Mickey mentioned, undergoing an actuarial valuation that will reset the new rate. I hope to be bringing that to you in the near future.

COLA, 3 percent per year. And the DROP program, once you attain 20 years of service, you can join DROP. However, past year 32, you are barred from entering DROP and you remain in DROP for a period of five years whereupon you pay 2 percent, during which time the City pays zero percent of contributions.

So that's the -- quickly, the plan outline. Again, those are the high points that I was able to pull out of Chapter 121 that might be of interest to you.

The next item, item number 4, is the summary plan description. This is a document that is designed for the general membership. It's written in English, plain English, and so a very -- a very broad and general outline of the pension structure, so we circulate this to all our membership.

In Chapter 112, Florida Statutes, require that every pension produce one of these on a two-year cycle basis. So that's a summary, plan description. A good document to get a good fundamental understanding of the variables.

The next item is the statement of investment policy. This is not an English document. This is very comprehensive, complex, and detailed. A different audience this is written for.

As I mentioned earlier, one of the main functions of the trustees is to develop the investment policy statement. And this is, again, subject to legal restrictions that are much more narrow than others.

The Florida retirement system and the general employee plans operate under one set of guidelines which are codified in 215.47 of the Florida Statutes. We, on the other hand, must adhere to a more restrictive format, which is under 175 and 185, which has much -- limitations upon our ability to take advantage of various investment opportunities.

The document also is governed by the Prudent Investor Rule. Again, codified under Florida Statutes, under 518.11. We also must adhere to ERISA, the fiduciary standards promulgated in ERISA. So all of our trustees are fiduciaries and must act in the sole benefit interest of the plan participants.

The statement of investment policy that you have before you is -- has a certain structure and form that is expected under Florida Statutes. And we, of course, adhere to that. In fact, the document before you is generally recognized as one of the better descriptions, elaborate descriptions of investment policies in the public investment arena.

Currently, our asset allocation is

50 percent domestic stocks, 10 percent international, 10 percent real estate, and 30 percent bonds. We are hoping to modify those again once the State legislature acts and allows us greater latitude.

Moving on to -- the next document is the audited financial report I mentioned to you that the charter requires and -- that we bear an annual audit, and this is it. This has been transmitted to the City and will be incorporated and folded into the City's larger coffer in the very near future.

Of note on this document is that the independent auditors found that this was an unqualified [sic] opinion, that it's a clean opinion, the assets present fairly with no deviations from required accounting principles. So this is a clean document.

In this report also we have a favorable report upon our internal controls. So, again, another check in the good column for us in that regard.

And, finally, the third major document in the financial report is the management letter, and they found nothing of significance to share with the world with respect to our operations. So we're very proud of that document. And much time, effort, and energy is devoted every year into supporting the auditors in that.

I would mention that having an audit specifically on the police and fire pension plan requires a much higher level of auditing application. A much higher testing is required in order for them to form an opinion and express an opinion upon a pension fund like this.

By comparison, the general employees plan is within the larger reporting entity of the City of Jacksonville as a whole. So, as a result, you can visualize that -- in order to form an opinion on a larger entity, you need to test less on a specific small area, like the general employees plan. So we think we have a rigorous process, one that they look at every file cabinet and report on many aspects that are not applied on a larger entity.

The actuarial valuation is the next. The valuation, the most recent one that we have done in 2006. Generally, we're on a two-year cycle, so we're undertaking the 2008 at the present time.

We're operating, budgetarily, off of this document. This document found that the required contribution rate was 32.11 percent, based upon this finding. So there is a delay of one year in this application. So the 32.11 percent is the rate we've been living with over the past two years. It's broken down into two elements, a normal cost, as was mentioned by the previous two speakers, and an unfunded actuarial accrued liability aspect.

The breakdown amongst the 32.11 is 8.18 percent for the normal cost, the basic fundamental cost of maintaining the pension plan, and the other aspect is almost 24 percent required to fund the actuarial deficiency, which hopefully is a temporary phenomenon. And once we get that paid down, paid off, over multiple years, admittedly, we'll be back to a very affordable and sustainable 8.18 percent.

Once again, hopefully, within the next month to 45 days we'll have a final update on the valuation in time for you to consider in your budget planning for the new budget cycle.

The next document of note is the GASB. The Governmental Accounting Standards Board requires that we prepare on an annual basis a GASB report. What you have before you is the update for 10/1/08. That will be folded into our larger valuation that we'll share with you in a month or so, and this includes all the regular funding progress aspects and the annual required contributions that you can see regularly in multiyear tables.

Again, the two largest areas that are -- get most attention -- the two key indicators that are reflected in this GASB are the unfunded actuarial accrued liability and the funded status. Those are the numbers that draw people's eyes to -- first, when they open up these GASB reports. And, expectedly, with the advent of the global economic crisis and the aftermath of the stock market shocks, those have weakened considerably over the last reporting period.

The unfunded for us has gone from 534 million to 789 million, on a market value basis, not smoothed. If it were smoothed, the 789- would be much lower.

And in the case of the funded status, it went from 64 percent the prior year, 2007, down to 49 and change as of this most current period. Again, the 49 percent is calculated on a market value basis, so it would be a fairly [sic] amount higher if we were to have smoothed.

We will employ the smoothing concept moving forward in the next actuarial update.

The settlement agreement is the next large document. You perhaps have heard a considerable amount about the settlement agreement. It dates back to 1992. At that time period, there was considerable litigation throughout the state regarding the use of chapter funds and their allocation and dedication and earmarking for, quote, enhanced benefits.

And we, like many other areas across the state, reexamined our past practices and established the notion that we would change the manner in which that was done and to more formally guide us all in the administration of those and to settle all past disputes.

The ordinance that I've copied for you is 2000-1164-E. This, of course, happened far beyond 1992, but it was a restated definition of the earlier original agreement, and I made a copy of this for you because this is kind of the starting point moving forward as to the understandings that have been reached.

The benefit structure that we currently have in place is referenced in this document. There have been three minor amendments that have happened since then. I can certainly share those with you over the course of your deliberations, but, effectively, the benefit structure that we have in place today is reflected in this document, and the date -- continuation, extension of this understanding extends another 21 years to the period ending September 30th of 2030.

It designates the use of chapter funds to fund the current benefit structure. It has recurring allocations of new flows of revenues to the tune of -- about $6 million a year of new flows are dedicated to support the current structure, and it also has contemplated in previous understandings and provisions of prior agreements the -- the remittance to the City's commitment of 42 million of dollars, lump sum contributions of funds under the control of the membership.

Any discussion about pension reform would necessarily need to consider the existence of this document and what it says. Again, it's been around since '92, has been amended on seven occasions, by three different mayors, Peyton, Delaney, and Austin.

The final document in my handout is investment returns. Everyone is very concerned, as we are, about the recent course of events. This sheet -- the cover sheet summarizes the story in that area. The most recent quarterly report is for the quarter ending December 31 of '08. And the news for that year, as everyone, I'm sure, is -- very much appreciates, is not good.

Over that one-year period, police and fire returned negative 22.59 percent. And over multiple years, still negative numbers going back three years with the -- with the inclusion of that bad year over calendar year '08.

As bad as that was, compared to other pension plans across the state, we still favorably compare. The parenthetical notation of 28 next to that indicates that we're in the 28th percentile or, in other words, have exceeded the returns of 72 percent of other public pension plans across the country.

Stepping down on the page, stepping back to the previous fiscal year ending September 30th of '08, a similar -- not a good number, negative 12.55. For the most recent one-year period ending there, again, however, a favorable relative performance of 20, which means that we exceeded 80 percent of our peer group.

And, by the way, the peer group comparison is the ICC database, the Investment Consultants Cooperative. That's the largest database for comparative purposes established in the country, so -- I think it encompasses over 85 percent of all public pension plans' performance, so it's a very valid comparison.

As bad as the last calendar and fiscal year was, if you stepped back a previous year, to show you how quickly things can change, the one-year period ending September of '07, police and fire returned 15.3 percent. Again, favorable in comparing at 21 percentile versus the peer group.

So I think -- hopefully, the message is -- you can draw from this -- this review and assessment is that we -- yes, there's ups and downs, but even in the good markets and the bad markets, we have been able to manage good returns, again, despite the fact that we have been hampered by our investment restrictions.

So we're very proud of that relative comparison, but, understandably, not a whole lot to celebrate on relative -- performance when relative is negative 22.

Some of the early comments that the councilman had earlier about the 8.5, we too have an 8.5 percent assumption. We're hopeful that in -- past history suggests that we will smartly recover once the recovery gets underway. We saw a little taste of that here this week. We've recovered -- the Dow recovered over 12 percent in the past week, and so this is -- this is a nice change of pace for us.

The past history is, is that once you hit the trough -- and hopefully the first week of March was the trough -- you can expect a 35 percent increase for the one-year, and so we're hopeful that we'll be able to replicate history in that regard and be able to deliver some good returns to you.

So the 8.5, we hope, will be very doable moving forward over the foreseeable future and the -- we're currently working with our consultants, as the general employees and Mickey's team are working with the consultants.

Some strategies, they're working on various asset allocation strategy changes, and we'll be coming to you for both plans with adjustments in the asset allocation profile. They're undergoing some capital market assumptions and have shared some preliminary reviews with the general employee trustees which conclude that just simply continuing what they're doing now in the current marketplace, what's expected in the future, you can expect an 8.6 percent return moving forward. And if they make some tweaks, you can expect to generate something close to 10 percent if you make some small changes in the asset allocation without unduly hampering your long-term volatility.

So, with that said, that's generally what I had come prepared to address. Again, the fundamental basics of the pension plan.

We are working on round two of your meeting coming up, whenever you announce -- certainly drilling down some of these general concepts that I've shared with you and will be coming to you with much more meat for you to chew on.

Thank you.

THE CHAIRMAN: Thank you, Dick. We appreciate that.

I think your presentation generated a couple of questions that I don't think we necessarily can answer today. One would be in regards to the ordinance that was passed that you gave us a copy of, how does that affect the work that this committee is going to do? I don't know if we have enough knowledge today to answer that question.

That may be a question, Derrel, that you go back and research and present to us the next time of -- you know, what are the limitations we have in relation to the ordinance that was passed previously by this council.

So if you could come back next time and present with us -- with that, so we can have a better understanding of that. I'm sure we'll have a chance to look through it in the meantime for that. I would appreciate that.

MR. CHATMON: Yes, sir.

THE CHAIRMAN: The other question I have is on -- in regards to our investment returns.

And, Dick, you can answer this or anybody else up here.

Is it feasible for us to compare how we're doing versus other pension funds or is it impossible to -- is it not apples to apples? I mean, is it -- is it feasible --

MR. JOOST: I was going to say we're doing better because even in the audit report right here, it says we did better than 80 percent of the other pension plans -- public pension plans last year. And over a three-year period, we were in the 39th percentile, which means we did better than 61 percent of the other pension plans.

So, I mean, really a debt of gratitude ought to go out to the pension board for making good investment decisions, because the hole we're in, it could be a lot worse.

THE CHAIRMAN: That's what -- I tend to agree, and -- well, I think that's lost in the conversations about pension and pension problems, and the reason we have a pension reform committee in the first place is -- we're doing pretty good work, it's just we've got some more work to do, and I think that -- that's probably some of the best work that this committee can do, is to help the community understand the good work that's being done.

I mean, there is a -- there's a constant temptation to criticize what we're doing. And it's easy for people to say, golly, you shouldn't give employees pensions, you shouldn't have a pension system, but the reality is that's a benefit and that is what has led and will continue to lead people to be dedicated, long-term employees who do great work in the community, so I think part of our work as a committee is to help explain that to the community.

Is it absolutely perfect? It probably isn't. If it was absolutely perfect, we'd be a hundred percent funded and we'd have an economy that was soaring to new heights, but none of that is happening right now, so we have to work to -- as I said earlier, to work on sustainability of what we have and take the great successes we're having and make it a long-term benefit for everybody. So I appreciate it.

Dick, I appreciate your presentation. Thank you. I don't have any questions up here on my queue.

I've heard a couple of things today that we probably ought to do some research on, one I just talked -- asked Derrel to do, the other is the realistic assumptions that Councilmember Joost brings up. I don't know the best way to research that in going forward. I'm open for suggestions on that, how we do that work.

John, do you want to --

MR. KEANE: We have the statistical analysis performed by the State, which lists the actuarial assumptions for every public pension plan, and we're right in the middle. We're running with all the horses. Of course, we all know that only the first three horses pay off, or dogs, if you go to the dog track, but we -- we're right where most of the people are.

As Mickey pointed out, the State went to 7.75, and that's where they want everyone to head, but the fellow that's leading that is heading out the door and he won't be there in the middle of April to be heading up that program, but we need to get it, and this is a good forum to get it, have the information about other pension funds so that people will understand that we're not running a giant giveaway program here. We have a very well-conceived, well-executed pension policy here in Jacksonville.

We could get some research building on what you pointed out from some of these other cities, and -- so that we can find that, but the bottom line is when the building is on fire and everyone is running out, our members are running in. When the bank is being robbed and lead is flying and everybody is ducking, our members are there standing up to do that. And what comes with that kind of dedication and service is a promise, we're going to take care of you if you get hurt.

We don't pay into Social Security, so, you know, we have to have a good, strong disability program for our members. But as we go through these programs here in the next several months, we'll find out that we have a very good program, a very affordable program, and a program that we think, with some tweaks or adjustments, can be made even better, and that's what we're here for, to help.

Thanks.

THE CHAIRMAN: Thanks, John.

Sheila Caulkins.

MS. SHARP-CAULKINS: I just wanted to say -- because I don't know if everyone really realizes, but when the pension fund was started in 1938, it was not funded at all, and you had people leaving to retire the very next day. So when you start out with an unfunded liability, it's going to continue unless you get ahold of it, and that's what the pension trustees, years past, tried to do. We -- with the assistance of the advisory committee, where they came up with a staircase approach.

This was coming to fruition, but we've had a lot of problems, being, of course, the market and whatever, but I really think our plans are good plans, especially the police and fire. They've had good management. I don't think there's as many problems as a lot of people would think. And the fact that we don't have Social Security, the pension plan is the only thing we've got, most of us, not everyone.

There are some people within our pension plan that have retirements from other places. They can still draw all those retirements and then draw retirement from the City. But if you came to work with the City and this is the only place you've worked, you're stuck. You don't have anything else, no Social Security, no Medicare if you were hired before 1986.

It's a different ball of wax, it really is, and we've got a lot of work to do to make things better. And that's -- to me, that's the goal of our fiduciary responsibilities, is to make sure that that's done.

So I'm glad I'm on this committee.

THE CHAIRMAN: Well, we appreciate you being here, we sure do.

Stephen Joost and then Alan Mosley.

MR. JOOST: And, you know, my goal is, you know, the same as yours is. I want to make sure we can save the pension plan. Okay? And that it's affordable because, you know, we've made a -- they're my employees too, and we want to represent them.

Mr. Cohee educated me on the fact that a defined benefit plan earns 1.5 percent on average more than a defined contribution plan given the same dollars. And over a 30-year period -- you know, that compounding of 1.5 percent over 30 years, that's a lot of money, and I want my employees to have the best benefits also.

So, you know, when I make comments that may sound critical to the pension plan, it's more about the affordability and it's more about, you know, the City owning up to what the scope of the problem is and not to paper it over because, believe me, I would rather them lower the assumed rates of return and me be wrong. I'd rather be wrong, you know, and be more conservative than go with the higher rate and not be correct.

And also I think it's incumbent upon this committee -- at one time the pension had a 20-year window to get to the 8.18 percent. Okay?

And, Mr. Keane, I -- you know, you commented on this. Sometimes we're our own worst enemies. Okay? I don't think a lot of people realize at one point we took over $60 million in the reserve account that was set aside for the pension. And back in -- I believe it was 2003/2004, we took pension holidays. And now all of a sudden that 20-year window, which, you know, we were chipping away at and it was becoming more and more attainable --

What that 20-year window means is -- I think Mr. Cohee said we're at a 32 percent contribution rate, and I believe in the latest pension letter -- it was issued before -- Mr. Keane had recommended we go up another 4 percent.

So we had the potential of going from a 36 percent contribution rate to get this thing fully funded at 8.18 percent, would free up tens of millions of dollars to the City. Okay? That's -- to me, that's really where our long-term goal would be, is if we really get our arms around this -- the pension situation we're in, that the dollars we could free up for all the other things we've got going for with the City would be in the tens of millions. I mean, it would have a huge financial impact.

And so, you know, number one, I'd rather own up to the problem. Number two, I'd like to fix the problems we created, you know, our --

and our predec- -- when I say "we," collectively as a government.

And I'll let Mr. Keane comment on -- we took one step, having no more pension holidays. You know, another step we could take is to put back that reserve account because that is -- that would be a long-term structural change where that money could go into the pension fund, where it used to go.

We took away two big sources of funding for our pensions, the reserve account, and then we used to get 30 percent of the ticket money coming out of Tallahassee. So, you know, we've -- our expenses are going up and we're cutting the revenue intake, and that's -- that's not smart. So there's things we can do on our part to restore what was there.

And, if you will, will you comment on that? Because you're a lot more expert than I am on that.

THE CHAIRMAN: Sure.

John.

MR. KEANE: With the Article 5 court reform, the State is now taking the court fines. They left a little gift for the City.

They started paying the salaries of the folks that work in the clerk's office, but when they took that court money -- we used to get 30 percent of it. That 30 percent has to be made up now out of the general fund, and that was a terrific wallop.

We talked to the members of the legislative delegation to see is there some way we can wiggle that back. The folks that were in charge at the time assured us that we're going to wiggle that back by explaining to the other members of the legislature that 30 percent of this money was committed to the police and fire pension fund. Either they didn't wiggle it back or didn't explain it to them or it fell on deaf ears. At any rate, they ran off with the money. That has a long-term impact on the stability of the fund.

THE CHAIRMAN: John, let me interrupt you for a minute. I think you're getting -- I think you and Councilman Joost are hitting on a subject that needs to take a little bit longer to explain, and we don't have a whole lot of time today.

Let's -- if it's okay with the group,

let's -- next time, let's talk about what you're -- the subject you're on now, the pension holiday, let's look at changes that happened over the years. Let's kind of make that the focus of what we do next time in our meeting.

Let's just focus on those and try to get an understanding of them and then a consensus from this group, okay, we understand that problem, now let's go on from there because I know the unfunded -- the holiday is an issue that needs to be addressed with this committee.

I think --

MR. JOOST: (Inaudible.)

THE CHAIRMAN: Right.

I think John has a great point about the court, the -- those court employees, so let's do that. We'll set that as our main emphasis next meeting and talk about it.

Alan, you want to comment on that or the other --

MR. MOSLEY: Mr. Chairman, I just -- I wanted to -- I mean, the real -- what we heard here today is the real -- the unfunded liability is sitting out there and really -- I mean, it's approaching, even smoothed, probably at the end of '08 approaching $800 million. When we get the actual studies in, it's going to be in the neighborhood of $800 million, and that's a big part of -- it's 32 or 37, 36 percent. Probably when the new actuarials come in, it's going to be even heavier.

The total funding, 40ish percent, 8 percent of it normal, so you're sitting there at a 32 percent cost for unfunded liability.

So I guess one thing I want to -- for us to explore and ask ourselves is how unfunded liability grows. And the way it grows is -- I believe -- I mean, it's pretty -- actuarially, there's three things -- or three major things. Obviously, market gains and losses. So when we rebound, we -- we'll get those gains back.

And I do have confidence that we're going to bounce -- sometime bounce up. We can't continue to go down, I don't believe.

And then you have actuarial assumptions. As they change, they impact the unfunded liability. And then you have pension benefits, and the -- the actuarial assumptions are embedded in the mortality -- actuarial assumptions. Mortality is a big part of the actuarial assumptions, and the granting of pension benefits.

And I think if there's one kind of a thing we really need to look at is -- as a community, set a standard for how we grant new benefits. Right now we have a fire wall, kind of a legislative fire wall of 90 percent funded before you can really come and start asking for new benefits.

Something we need to explore -- because some of the stuff that Terry was talking about -- well, each speaker has talked about -- is the granting of new benefits makes you pay for a 20-year employee while you've not been paying that normal cost every year for that same set of benefits, so your unfunded liability really gets exaggerated then.

And there's certainly no question, the pension holidays, and that -- those are all contributing.

Anything you move or you pull out of funding that unfunded liability or growing it is counter to -- to cause.

And I share -- Mr. Joost, I mean, you're accurate. I -- I'm hoping it's 10 percent, but, you know, a -- the pension contribution next year in the current trajectory is going to approach 10 to -- 10 percent plus of the City's budget.

THE CHAIRMAN: And it's real. It's not imaginary.

So let's -- we've got the Land Use and Zoning Committee starting in about ten minutes, so let's go ahead and stop here today.

I appreciate everybody's willingness to be here. This is, hopefully, the longest of the meetings that we'll have on this issue.

We'll come back next time, on the first Tuesday of April -- no, two weeks from today.

Two weeks from today; is that right? Where is my agenda?

April 7th is the next time that we will get together and meet.

I appreciate everybody's patience today. I think we made great headway to understanding pensions, and I think that -- if we come next time, we'll talk about the things that -- the changes that affected us. That will be a good enough issue to keep us totally involved next time.

And, Derrel, I'll look forward to your information on the effects of the legislation -- have on our work here.

Seeing no other business to come before this committee, we are adjourned.

Thank you.

(The above proceedings were adjourned at 4:55 p.m.)

- - -

C E R T I F I C A T E

STATE OF FLORIDA:
COUNTY OF DUVAL :

I, Diane M. Tropia, certify that I was authorized to and did stenographically report the foregoing proceedings and that the transcript is a true and complete record of my stenographic notes.

Dated this 28th day of March, 2009.

Diane M. Tropia