CITY OF JACKSONVILLE

SPECIAL COMMITTEE ON CITY PENSION SUSTAINABILITY

MEETING

Proceedings held on Tuesday, April 7, 2009, commencing at 3:00 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:

HENRY COOK, Jax Retirement System Trustee.
JOHN KEANE, Police/Fire Pension Administrator.
ALAN MOSLEY, Chief Administrative Officer, COJ.
SHEILA SHARP-CAULKINS, Retired Employees Assoc.
DAVID E. KILCREASE, Corrections Advisory Comm.

ALSO PRESENT:

CLAY YARBOROUGH, City Council Member.
CHERYL BROWN, Director, City of Jax.
KIRK SHERMAN, Council Auditor.
THOMAS CARTER, Council Auditor.
DERREL CHATMON, Office of General Counsel.
JESSICA STEPHENS, Legislative Assistant.

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P R O C E E D I N G S

April 7, 2009 3:00 p.m.

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THE CHAIRMAN: Good afternoon, everyone.

We'll call to order the Special Committee on City Pension Sustainability. It is Tuesday, April 7th.

Good afternoon and welcome.

Let the record reflect that we have full committee participation today: Councilmember Reggie Brown, Councilmember Kevin Hyde, I'm Chairman Michael Corrigan, Vice Chairman Warren Jones, and Councilmember Stephen Joost.

We also have with us our subject matter experts: Henry Cook, John Keane, Sheila Caulkins. We have David Kilcrease. He's an addition to our team up here.

David, good to see you.

Alan Mosley, we also have Kirk Sherman and Tommy Carter from the council auditor's office, and Derrel Chatmon is back here in the back.

You want to come up front and sit with the big boys up here?

MR. CHATMON: I didn't see an extra seat. I'll be more than happy to.

THE CHAIRMAN: Come on up here.

So good afternoon and welcome. We appreciate it.

This is meeting two of our process that we're going to work through. I don't think today's meeting is going to be as long as the last one, so I appreciate everybody's patience.

The purpose of today's meeting, really, is to kind of finish the conversation we started last time, but I really want to wrap it up, and that's going to be -- the goal of today's meeting is going to be to finish how we got where we are, is going to be the goal when we finish. And then from -- after today's meeting, we'll start working towards possible solutions or changes that we may want to look at.

One of the things that I stated at our first meeting that I want to continue today is, as we leave a meeting, I want us to clearly understand questions or issues that we want to have researched between meetings and come back and get the answer to that research at the beginning of the next meeting.

The main one that came up last time that we asked to be researched was the 2000 -- year 2000 settlement agreement, and I asked Derrel Chatmon to go back and research that and come back and give us some input.

So, Derrel, if I could, we'd turn it over to you for an update, please.

MR. CHATMON: Thank you, sir, board members -- committee members, rather, subject matter experts.

Mr. Chairman, I'd ask if we could postpone this particular issue until the 21st. There was a matter that I was looking at, and I would like a little bit more time to verify.

There were two points in the directive from the committee last time, not only the 2000 agreement but the contract itself. And in reviewing both the 2000 ordinance, the contract, and its previous and subsequent restatements, there was a point that I wanted to verify with my office, a particular individual, who was not available last week. He just came back, and I would like a little bit more time.

If it isn't too much of an inconvenience for this committee, I'd ask if we can reschedule this particular agenda item to the 21st, which, I believe, is our next meeting, and I'll take it up as the first issue on the agenda, if possible.

THE CHAIRMAN: Okay. That's fine with me because my opinion, and one of the reasons I set this up the way I set it up, is I want the complete answer when we get it. So if you don't have the complete answer, my preference would be to wait until you have the rest of that information. So that's fine with me.

We meet on the 21st, so I assume you can have it ready for that meeting.

MR. CHATMON: Without question.

And just to clarify, as I understand the issue again, it is to look at the 2000 ordinance as well as the agreement to identify not only the elements but any consideration -- I believe the last question was any impediments that might develop in changing any of the terms in those agreements.

THE CHAIRMAN: That was my understanding.

Does anybody have a different understanding than that?

COMMITTEE MEMBERS: (No response.)

THE CHAIRMAN: That is the marching orders, sir.

MR. CHATMON: Thank you, sir.

THE CHAIRMAN: Thank you.

Any questions on that?

COMMITTEE MEMBERS: (No response.)

THE CHAIRMAN: Good. I appreciate it.

The meat of today's meeting is -- as I said, is going to be to kind of finish the discussion of how we got where we are. I thought that would be important for us to hear both from the administration as -- in regards to the general employees pension plan, and also from the police and fire pension fund on the police and fire pension fund.

I had a conversation with John Keane and with Alan Mosley and told them I'd like them to bring a presentation that kind of looked at the various different hurdles and changes that we've been facing and offered them to do -- set that up however they wanted.

After my conversation with John, he said that Dick Cohee would come today and present.

And, Dick, I appreciate you being here.

And we'll start with him, and when he's finished -- you can ask him questions when he's finished with his presentation, and then I'll ask Mickey Miller, who's going to represent the administration, to come up and explain the general employees program.

So, Dick, with no further ado, welcome, good afternoon.

(Mr. Cohee approaches the podium.)

THE CHAIRMAN: Thanks for being here again.

MR. COHEE: Thank you for the repeat invitation.

As the chairman mentioned, we're going to be adding some meat to last week's discussion about how we got to where we are.

On your desks, you should have a little package, a long legal sheet with a lot of numbers on it, Exhibit A on the top right-hand corner. What that is is three separate pieces of materials. The top pages, top five pages are what I will be stepping through today.

The package under that is a little more detail on the verbiage that goes along with it, so you might not have to take very many notes. Everything that I hopefully will be saying will be already written down in the materials that are attached.

And the memorandum to the chairman, that, by the way, is a rehash of all the materials that you had seen previously in conjunction with the December the 23rd memorandum to Council President Fussell.

And the third package with the seal on it is what we'll call just some fun facts on pensions that you might want to review at your leisure to help round out your understanding of the subject.

So let me jump right in with Exhibit A. Exhibit A is the analysis of the City pension contribution rates and all of the reserve account assessments that have happened throughout recent history, dating back to 1978.

I would call your attention to a couple of the columns that have gained significant attention, and that's the PEC, second column in -- further on to the right. The CBSA column, those are the reserve accounts labeled for the two respective pension plans.

You'll notice that starting in 1995 we began to see some assessments against those reserve accounts. And, coincidentally, starting in 1995 was the commencement of the City's millage reduction program. Within that span of time, we dropped the millage rate from 11.32 to 8.48, which is where it is today.

It is our view and our observation that the millage reduction program was facilitated in part by the use of reserve accounts over a period beginning from 1995 to the present date, and that has in some measure contributed to the increase in the unfunded liability as it is today.

At the bottom of the page, the years from 2000 to 2009, that's the recent history. Clearly, the police and fire pension rates have been higher than the general employee rates over that span of history.

However, that's not always been the case. If you look at the top part of the schedule, from 1978 to 1999, you see a much different picture. Over this particular 22-year period of time, the general employee rate was 10.27 percent higher than the police and fire.

If I could now skip -- ask you to skip to the next schedule, Exhibit B. This is merely a graphical representation of Exhibit A so you can see more clearly the details, and hopefully it communicates the story much better and helps to better understand how we got where we are now.

I would call your attention to, once again, the very beginning of the chart, starting with -- from the left to the right, you see the black line, the general employee line, was considerably higher than the police and fire line over that entire period of time that we saw on the earlier schedule. So the difference in the -- the 10.27 percent contribution rate is largely graphically portrayed by that visual image.

You will notice that, again, as I mentioned, in 1995, thereabouts, the use of the reserves began to be commonplace, and that's the highlighted yellow of the chart. That happens to be the use of reserve accounts from the police and fire pension plan. And it is, once again, our view that -- since it coincided with the millage reduction plan, it facilitated the millage reduction success.

So, with that said, you will notice that the use of reserve accounts went away. In more recent history, you see the yellow go away and -- for both pension plans, and that over that period of time, it masked the true impact of the budgetary requirements of the pension plans up until that time, whereas currently we are experiencing the full brunt of the cost of the pension plans.

You will also notice that beginning in the year 2000 and moving forward you -- we see a big ramp-up in the unfunded actual or accrued liability chart, particularly for the police and fire, and that was largely linked to the dot com crash that happened beginning in April 2000 and continuing for the two-year period that continued after 2000.

And so we'll discuss some of this increase in a bit greater detail in the following charts, so now let's skip to Exhibit C.

Exhibit C is a comparison of the unfunded actuarial accrued liability and the comparable funded status of the pension plans, again, dating over the period from 1994 to the current date.

I would remind you that the City's contribution requirements are, once again, made up of two elements, the normal cost and the unfunded actuarial accrued liability. The total of them currently for the police and fire was

32 percent, broken down between 8.18 percent normal cost and the unfunded of 23.93 percent.

The normal cost is a fairly stable element over time. It changes just a little bit, so it's -- has a considerable amount of relative stability over time. The one that is volatile is the unfunded actuarial because it relates to other events unrelated to the normal cost.

So as we look at the basic mission of how we got to where we are, I think that a good place to start that analysis is to analyze in detail the unfunded actuarial accrued liability as the source for this particular answer.

Exhibit C, once again, is merely raw information, and I won't spend too much time on this. I know Mr. Miller's schedule includes this subject matter, so I won't devote a whole lot of time to this issue.

But I would like to ask that we turn now to Exhibit C, which is a graphical representation of --

THE CHAIRMAN: Exhibit D you mean?

MR. COHEE: Exhibit D. I'm sorry. The other long sheet with the colors.

Exhibit D is a graphical -- of Exhibit C.

So, again, we felt it was much more of a better illustration to look at the chart.

Let's go to the far left and look at the numbers. You see, again, the same theme as before. The black line is the general employees plan and the red line is the police and fire plan.

You will notice by the margin that the general employees plan is about 250 million. At that period of history, the police and fire plan was only 50 million unfunded. The reason for that is that the general employees plan had just received a COLA enhancement in 1993, so it had recently been pushed up to acknowledge the cost of that very costly benefit enhancement program.

Much needed at the time, by the way, since many of our retirees were living on 2-, 3-, $400 a month with no Social Security, and so a COLA was accepted as being a very appropriate benefit enhancement during that period of time, but it did, of course, cost money.

As you look at the police and fire line at around $50 million in 1994, you will see, as we moved on to 1996, it did ramp up considerably, and the reason for that was the granting of the COLA benefit for police and fire in the year 1995.

It slowed, it was delayed, the application of the COLA, for the police and fire by two years following the granting of that benefit.

So we then are in 1996 on the red line, and that approximates 179 million there in 1996. There was a small ramp-up between '96 and '97. At that time, there was a change in the actuarial assumption. We moved from 8.75 percent down to 8.4. We dropped the assumption rate in the process, some other actual assumption changes, which had the impact of pushing up the unfunded liability.

So then we're up to 227 million there in 1997. You will notice there is a period of relative stability over the next couple of years through 1999, and so nothing really of great note happened during that particular period of history.

But, as you see, moving from 1999 to the year 2000, a sharp drop happened. That magnitudes -- goes down from 230 million down to 125 million, a very large drop in a single reporting period. And the reason for that was that was a period -- as mentioned by counsel, the 2000 restated agreement is when we did the fresh start, accelerated some gains, and implemented the restated agreement at that time. That had the impact of lowering the City's contribution rate and lowering the unfunded liability by the magnitude that you see there.

The year 2000 marked the beginning of the dot com market crash, a very significant period of our financial history, the second worst at its time, the stock market setback after the Great Depression. So the impact of this had an expected negative impact upon the unfunded actuarial accrued liability, as it is currently doing with the more recent episode in the stock market.

So from the year 2000 to the year 2003, you see very a large increase. The numbers represented there go from 125 million in 2000 to 414 million in the year 2003. So over that three-year span of time is a period that we acknowledge the impact of the dot com crash.

Another slight increase happened between

2003 and 2004, moving up into 400 million of unfunded at that time. And that was in conjunction with another benefit enhancement program, the health supplement.

You may recall in that period of time both pension plans asked for and received an increase in the health supplement from $3 to $5 per month per year of service. And that did have an impact costwise, and we'll show you the impact of that as it relates to the police and fire plan, but both pension plans were granted that at that time, and we then pushed the unfunded at that period in 2004 up to the $500 million neighborhood.

So when we get to 500 million in 2004, again, a relative period of stability through the year 2007 where we continued to hover around in -- generally the low 500 range up through the end of 2007.

And, at that point, the global financial market crisis confronts us and we begin to receive the impact of that, again, very historic event in our history, and we're up now to 789 million, up from the low 500-s, over a single period of time and largely laid at the feet of that -- that global market crisis that we're witnessing currently.

The magnitude of that increase, some 225 million in a single year, was clearly the largest single, one-year increase I would say of both of our pension plans of over -- over a 70-year-plus history of both pension plans. So a very significant event in our history, and it's reflected here in the charts that you see before you.

So, basically, as we look back over the 14-year span, we see a couple of key events: two financial shocks occurring in the year 2000 and, again, in the year 2008. Clearly the biggest driver of the increase in the unfunded over this 14-year span. And two benefit enhancement programs, one dating back to the very beginning of this 14-year period, 1993, for the general employees, and 1995 for the police and fire. A very large, again, benefit enhancement program, the COLA, but at its time very much needed, and a considerably lesser benefit advancement, the health supplement.

So, again, two large economic events, two benefit increases, one large and one on the low end.

So that is basically the rundown. You see a very similar pattern if you were to track the general employees line from the 248 million number at the beginning of 1994. You see a very rapid drop between 1994 and 2000. The 248 million that you see there went away totally.

The unfunded actuarial accrued liability was zero for the general employees plan at the year 2000, and that is in reflection of the bull market that existed throughout most of the 1990s, and you see the benefits that can happen in eating away an unfunded liability when we encounter a very favorable investment climate.

As experienced by the general -- by the police and fire, the general employees experienced a setback in the years after the year 2000, and you can see a ramp-up from the year 2000 at zero, up to 2004, of $314 million in 2004.

And, again, as experienced by the police and fire, a period of relative stability for the three or four years that followed, followed by a large increase in the unfunded in response to the global impacts.

If I could now ask you to skip to my final schedule. We're at 3:22 -- I see it from the computer -- so I've got about seven minutes, and I'll try to be respectful of your time and continue to --

THE CHAIRMAN: You're doing fine.

Thank you.

MR. COHEE: Okay. Exhibit E, since we're trying to drill down a bit more today on how we got to where we are -- as you noted from the previous charts, there was a large increase in the City's contribution rate from the year 2000 up to the current date.

This exhibit attempts to dissect a bit more and to reconcile the elements that caused that large increase over that eight-year period of time.

At the beginning of this episode, 11 percent at the top of the schedule is what you see there as the -- as a rate. That increased to 32 percent at the bottom number in that particular column.

The elements that drove that large increase are several. At the bottom of the table, I've attempted to show you and disclose the relative magnitude of the three -- or the four elements that seem to have caused that increase, and the first being the stock market crash of the -- the dot com, accounting for 53 percent. Clearly, the largest impact that drove this recent increase was the stock market.

The next is actuarial losses. These are the assumptions that we have and the variances. People are living longer, people are retiring earlier, and a whole host of assumptions. We have about a dozen, and they worked against us over this period of time. Twenty-two percent accounts for that element.

The next is benefit enhancements. I mentioned to you the health supplement. That's under footnotes 1 and 2. There were, in fact, two benefit enhancement programs over this period of time, one being a change in the rate of accrual. That was linked to the 2000 ordinance mentioned with the restated agreement commencement. However, that was paid for by an increase in the allocation of chapter funds. So, in our view, the members largely paid for that benefit enhancement from revenues dedicated for benefit enhancements from the State of Florida in the form of the chapter funds.

The other enhancement, the health supplement that I've mentioned, had a 1.77 percent cost. The allocation of chapter funds paid for some of that, half of that, roughly, with the conversion of a temporary allocation to a permanent allocation of chapter funds, where we stand today at 4 percent.

So, in some measure, the employees did, in fact, commit resources to pay for a big chunk of those benefit enhancements over this period of time.

The final is the revenue reductions, 10 percent accounted for from that source. That basically is the Article 5 modifications that you asked that we do some research on and bring back to you. That's the changes in the manner in which the State asked the -- the funding of the court system in the state of Florida. We transferred some expenditures to them and we transferred some revenues to them.

In the case of police and fire, we lost some court fines. And we, formally, in 19- -- in the year 2003, we were getting about

$3 million in from the court fines. That, when related to the payroll that existed in 2003, equated to about 2.77 percent of the contribution requirement.

After the impact of the loss of revenues, that revenue stream shrunk considerably down to about 1.2 million and its relative value shrunk to .82 percent. We lost about the equivalent of 2 percent in the contributions, so you could think of -- the current 32 percent contribution rate would have been a 30 percent contribution rate had it not been for the transfer of that particular event.

As far as closing comments -- I see I'm down to about three minutes, so -- we have in the attached memo some discussions about the restated agreement, some of the various ordinance code references that made adjustments and amendments to it over its period of existence.

We've also got a section on a memo -- information about the global financial crisis and the impact for pension plans on a national scale.

Here, we're experiencing some pain in

Jacksonville. There's no doubt about it. We're experiencing pain throughout the state of Florida and the nation.

Some of the articles that I've made reference to in that memorandum -- I've got copies of the articles from Pensions & Investments, and they make reference to some surveys that have been done by some national consulting firms, and they suggest that the funded status for the average pension plan has gone down over the recent year or two from 109 percent funded down to about 72 percent funded. So you can see that what we're experiencing here in Jacksonville is being replicated throughout the country.

The pain is everywhere, and plan sponsors in this national survey are bracing themselves for a large increase moving forward, somewhere up -- up to, in some cases, 50 percent, not just for public pension plans, but also for the private plans across the country.

So that is basically the contents of what I was hoping to convey to you, again, to add a little more meat to the last session and to help you better understand how we got to where we are. And I think, once again, the best way to explain that is through the analysis of the unfunded actuarial accrued liability.

THE CHAIRMAN: Thank you, Dick.

MR. COHEE: Thank you.

THE CHAIRMAN: A quick question for you. Go back to Exhibit E. Is there a dollar value per percentage or -- I mean --

MR. COHEE: The dollar value in current terms is about -- it relates to a $150 million payroll base. So a one percent change is a million and a half.

THE CHAIRMAN: Perfect. Thank you.

MR. MOSLEY: (Inaudible.)

THE CHAIRMAN: Let me get Councilmember Joost, then Mr. Mosley.

MR. JOOST: Thank you, Mr. Cohee, for coming down.

One quick question on the contribution rate at 32.11 percent. I believe I read a letter that said your recommendation is to bump that another 4 and a half percent; is that correct?

MR. COHEE: Yeah. We had -- previously, we were on a course to not perform an actuarial valuation as of September the 30th of '08. And, in that case, we felt that we would ratchet up the amount of the City contributions by the amount of -- 4.75 percent was, I believe, the number that we had shared with you in a memo.

Since we embarked on that course of not performing a valuation at -- September of '08, and merely prepare a GASB update, the update as to the unfunded, we received a series of letters and communication from the State actuary, as did the City, where they challenged the current set of assumptions; they challenged the past impact statements in the case of the general; and, in general, removed their approval for previous valuations that had been in existence dating back to the year 2000.

So that new bit of information caused us to respond to the State actuary. And in order to restate all of the previous valuations and the approvals of them -- which we have approved letters in each prior year. To correct that, we had to proceed with a new updated valuation in '08 in the same manner that cities performing a valuation for its other two pension plans in '08 -- and to work with the State actuary to reconcile the differences that he identified as far as actuarial assumptions -- mortality is one, for instance, that you have asked about -- and that we will now be working through that and bringing a new contribution rate, whatever the negotiated understanding with the State is as to reconciling the differences, and to bring you a contribution rate that would supersede that 4.75 percent.

We don't know the magnitude of it yet, but we are going through the process and we hope to have that resolved in the near future.

We have, however, gotten --

MR. JOOST: So basically because -- I'm assuming the assumptions are lower and not higher? The 4.75 percent is going to go up?

MR. COHEE: Yes. And it's very --

MR. JOOST: Would that be one of your recommendations for this committee going forward, to make sure we are up whatever -- it's not going to be 32 percent. It's going to be 36 percent or higher?

MR. COHEE: It's going to be a higher number.

And it is important to listen closely to what the State actuary says because he has a hammer on withholding State funds. In our case, it's $10 million of chapter funds.

In the City's case, it's state revenue sharing and all the other things that go through the State, so it could be a hundred million plus in the case of the City seeking approval and getting that approval from the State actuary.

So we're taking his concerns and comments very seriously because of the implications it has for both pension plans.

MR. JOOST: Okay. Thank you.

THE CHAIRMAN: Thank you.

Mr. Mosley.

MR. MOSLEY: Dick, your actuary -- your actuarial study for the term in the -- 9/30/08, will be finished in a couple of weeks, something. Would that be ready for publication in a couple of weeks?

MR. COHEE: Hopefully, but the State actuary is in the process of retiring, so he comes back to work periodically. So we don't have that regular, fluid, day-to-day exchange. It's that type of a setting, so we want to --

MR. MOSLEY: We're trying to divide and conquer on that. I think you're dealing with the one retired and we're dealing with the one coming. We'll see who --

MR. COHEE: We'll see how it holds up.

MR. MOSLEY: -- how it goes from there, try to triangulate some.

Dick, one thing I wanted to talk about. These percentages and things get -- right now we -- we have an $800 million unfunded liability, plus or minus. I guess it grew from 534- to 800-. As you smooth it, I guess it's going to -- it will recede, it will come back to something, it will be some number, 700-, 750-, some --

MR. COHEE: Yeah. That is the normal impact on the smoothing concept. Certainly it will come back, but it will go back -- at a time it will go back in the other direction to the extent that the State actuary is successful in having us modify various assumptions, so we -- it's an in-and-out type of a situation. We don't know the final outcome of that.

MR. MOSLEY: How are those contributions and the history that you talked about -- it's my understanding all the City's contributions throughout that history were made pursuant to actuarial studies --

MR. COHEE: Correct.

MR. MOSLEY: -- and that the City always met its obligation associated with that.

MR. COHEE: Correct.

I would mention and ask that you look back at Exhibit B. That's the one with the yellow on it. Notice the very large drop in the City's rate from the year '96 to '97. It almost looks like a Niagara Falls type of transition, and that is a transition from a certain level of conservatism that was embedded in the City's sets of actuarial assumptions to a period of quite not so acute conservatism.

That conservatism and the assumptions was part of the explanation, why you see the big gap in the contribution rate for the general versus the police and fire was that movement and transition almost on an overnight basis, as you see clearly from the chart.

MR. MOSLEY: So it's -- it's safe to say that sometime in that '96/'97 era we began to do actuarial studies similar --

MR. COHEE: Yes.

MR. MOSLEY: We began to look at the plans

in a very similar --
MR. COHEE: Yes.
MR. MOSLEY: -- manner? Okay.
The impact -- I notice on your last sheet, you talked about the impact of benefit enhancements, and I didn't -- I saw the COLA reference in earlier sheets, Dick, but I didn't see it here.
MR. COHEE: Because that went back to 199- --
MR. MOSLEY: Was that the prior --
MR. COHEE: -- 1995.
MR. MOSLEY: I got it.
MR. COHEE: Prior to the recent wrap-up where it was still noticeable of an increase, after the year 2000.
MR. MOSLEY: I got it.
Thank you.
THE CHAIRMAN: What did we do in '95? When you referenced the COLA increase, what happened in '95?
MR. COHEE: In 1995, the COLA was largely paid for by the chapter funds and the reserve accounts that were established during that period.

There was a reserve account that was set up for the general employees -- I mean, for the members of the fund, and a reserve account that was set up for the City.

Over a period of several years, those reserve accounts funded the cost of the COLA for a period of time, and then all of those financing temporary arrangements were made permanent with the adoption of the restated agreement in the year 2000 with that ordinance 2000-1164.

THE CHAIRMAN: Thank you. Appreciate it.

I don't have any other -- anybody else on the queue for that.

Dick, I appreciate it. I appreciate you being here. There may be some more questions when we finish, so I appreciate it.

The second part -- let me acknowledge that Councilman Yarborough joined us a little while ago, so --

Councilmember, good to see you.

Let me now turn to Mickey Miller and let him come up and give a perspective from the general employee pension plan side.

(Mr. Miller approaches the podium.)

THE CHAIRMAN: Mickey, good to see you again. Thank you for being here.

MR. MILLER: Mr. Chairman, thank you very much.

In the second package that should be on your desk -- and the top of it should look like three columns. There's a three-page document and a one-page document and they were clipped together. I'd like to start with the top of the three-page document that should be before you.

Again, sometimes we get lots of paper and some -- I'll potentially summarize it in a way to keep it all in a limited number of pages.

This particular chart on page 1 compares basic elements of the benefit calculation, how benefits are calculated, what normal retirement is for the various different circumstances, the spousal benefit. There are similarities in some of these between the three pension plans -- general employee, police and fire, and corrections -- and some substantial differences.

Clearly, the general employee plan, you need to work 30 years unless you're 55 years of age or some of the options for early out, but basically it's a 30-year retirement, where police and fire, and more recently corrections, as of the last change, basically went and required 20 years to potentially be able to either retire or to go into DROP.

The spousal -- the DROP itself, one is a back DROP and two are a forward DROP. With regard to the back DROP, you know all the information at the time you're making your decision. If you are potentially going to be a DROP for a five-year period, then there's a calculation of what the three-year base pay would have been that ended five years earlier or the three-year base pay that would have ended at the time of the retirement, which produced different numbers.

If you're in the police or fire or corrections, then you're a forward DROP, so you know what your benefit is going to be, and it starts going in every two weeks into a retirement account and earns money while it's in the DROP account.

It also talks about the COLA, and it also -- the health supplement.

Now, a lot of this happened in the '90s and later, and I'll give you an example here in a second, but this is meant to be a fairly quick reference to some basically fundamental information. This is not meant to be in any way controversial, just a matter of allowing you to refresh your memory with a simple reference to a page.

Page 2 of this document, again, going back to the early '90s, somewhat of an eye test possibly, but it shows you a great deal of information regarding the -- it covered payroll. This is on the general employee plan.

There's been considerable discussion regarding the use of PEC. If you look in the contributions from the PEC and the other, there's a column there that shows those numbers.

As you look at the employer contributions, the employee contributions, the use of PEC, it gets to a total contribution, which should approximate the required contribution.

Remember, Florida law, by constitution, requires the local government to fund their pension plan consistent with an actuarial strategy. So it isn't really a matter of local preference or good business practice, although those would have you do the same, it's really a function of both a constitutional obligation as well as a statutory obligation, to basically have an orderly, structured manner, which is an actuarial strategy for funding a pension plan over time.

This information comes out of the CAFR, comprehensive annual financial report, of the City, as well as coming out of the actuarial reports, and provides a great deal of data of how the money is and where it came from.

There was some discussion on this page about a three-year full holiday. And if you look at 2001, '2, and '3, you'll find that the employer contributions were effectively, almost exclusively taken out of the PEC account to the tune of 42 million, $43 million, and not taken out of the general fund in the way of employee con- -- employer contributions. There's been quite a bit of notoriety of that.

You also remember in 2005, we came forward with a policy wanting to discontinue the use of PEC or the use of funding from the reserve account because basically we should be putting -- every year, should be putting in a reasonable amount to contribute to the overall well-being of the pension plan, as well as the protection of our retirees.

THE CHAIRMAN: Mickey, let me interrupt you a second.

Could you give us an explanation of what PEC, P-E-C, is.

MR. MILLER: Past excess contributions.

It's calculated in a couple of different ways. You have that, and you also find in the police and fire, you have a stabilization reserve. They come about in similar ways. It's a calculation by the actuary of how much you did contribute and how much you might -- should have contributed had you done it a different way. So it comes from a perception of being -- overcontributing over time.

THE CHAIRMAN: So it is over 100 percent of funded or is it just overcontributed that year?

MR. MILLER: Just overcontributed of what the actuary might have otherwise caused you to do at the time. So not particularly 100 percent at all.

THE CHAIRMAN: The likelihood of us having a PEC in the near future is slim? Would you say that?

MR. MILLER: Well, we have a little bit of PEC here, although we have a policy to not use it.

If you look over on the column on -- the second to the right, you'll find there's a nominal amount of money, about $7.4 million in this one and a little bit more in the general employee --

THE CHAIRMAN: I guess --

MR. MILLER: -- and police and fire.

THE CHAIRMAN: I guess my confusion is, if we're so far underfunded, how can we have a PEC?

MR. MILLER: That's an interesting question. I didn't -- I had to find out what the definition was when I came to Jacksonville. I had never even heard the term before. I'd only been, at that point, managing pension assets for over 25 years and didn't know the term existed, so it -- although Jacksonville is not the only one to have used it, I had to go back to school to learn a little bit about something I'd never even seen or heard of before.

THE CHAIRMAN: Okay. I appreciate it.

Go ahead and continue with what you were talking about.

MR. MILLER: One of the footnotes, the -- on the note side, shows you certain benefit changes were put into place. I'll come back and talk about how benefit changes can be somewhat complicated to look at. In this format, it's supposed to -- drilling down more into the details of those changes.

But the funding status, one of the key elements here would show where the -- how the funding status has changed over this almost 20-year period, where we are today.

Now, yes, the 83 percent funding status is one using smoothing. I believe that whole column is using of a smoothing methodology, which is a five-year smoothing, both of excess earnings and losses.

What is smoothing? If the actuary assumes you earned a number -- let's say for discussion 8 percent or 8.4 or 8.5. General employees use 8.4. Police and fire use 8.5.

If you make zero or if you made absolutely nothing, you, effectively, by actuarial point of view, lost 8.4 or 8.5 because they expected you to make what it predicted you would make.

On the other hand, if you made 15 percent, you have an excess contrib- -- excess earnings, which would be the 15 percent less the 8 and a half you were assumed to have made.

So basically you have excess earnings or losses based on how the performance portfolio compares to that target number, in this instance 8.4 or 8.5 percent.

Now, for the year ending '08, you had a 12 percent -- 12.5 percent loss on -- I think on police and fire, and a 15 percent loss on general employee. But, again, those are measured against zero. You really have to add the 8.4 or the 8.5 to measure what that actuarial loss is.

They then smooth it over a five-year period using a -- five-fifteenths, four-fifteenths, three-fifteenths, two-fifteenths, one-fifteenth. So it's somewhat front-loaded, but it's still a five-year smoothing methodology of either gains or losses, and that's the way -- that's --

Most private sector plans since the early

'80s have been using smoothing, and most public sector plans picked it up from the private sector but started introducing smoothing probably in the mid '80s.

So the use of smoothing has been around for the better part of 25 years on both the private sector or -- and the public sector plans, so it's fairly common.

Whether it's four years or five years, there are numerous methods within those approved by ERISA, which controls the private sector -- not the public sector -- pension plans.

THE CHAIRMAN: Mickey, hang on a second.

Councilman Joost has a question.

MR. JOOST: Thank you. Thank you, Mr. Chairman.

How do you calculate the smoothing, per se? Because if I look at it and say, okay, five years ago the stock market was at X -- say, like, 8,000 -- and today it's basically at 8,000, give or take. Over five years the return has been zero. So when you say "smoothing," are you smoothing out percentages? Are you smoothing out --

MR. MILLER: Annual 10/1, 10/1 number

percentage change, year to year, compared to what we might have predicted it to be.

MR. JOOST: Because -- or let's say I bought an investment at a hundred and I had a 50 percent loss. My investment would be at 50. But then if I had a 50 percent gain, okay, on 50, I would be at 75. I'm still minus 25 overall on my investment value. But if I was just looking at percentages, it would look as if it's zero because one year I lost 50 percent, the next year I gained 50 percent. So when -- I'm a little confused.

Are you smoothing percentages or are you smoothing the actual investment dollars --

MR. MILLER: We're smoothing dollars, but it turns then to be presented as a percentage of -- market to market on a point in time. So October 1 -- October 1 over a one-year period, over a two-year period, over a three-year period.

State law would allow you to do it every three years. We, by ordinance, are doing it -- at least for the general employee plan -- on an annual basis, but it is --

MR. JOOST: So you're actually smoothing

the investment dollars and not --

MR. MILLER: It's always stated as a percentage.

MR. JOOST: Okay. Thank you.

MR. MILLER: But, again, there's a great deal of information here on this page.

There's a comparable page on the next page with regard to police and fire, again, taken out of the CAFRs, and quite complementary -- both of these complement the -- the line graphs that Dick has provided to you.

Again, it shows you the use of what -- now called reserves, a stabilization reserve, which comes largely from a variety of sources.

The mechanical processes picking for PEC to reserve are comparable, are similar, but basically it is a methodology that would put money aside in the reserve account that could be used in lieu of a contribution in certain times. It doesn't have to be, it could be, has been.

And as you remember in 2005, we came forth with recommendations to cease or discontinue the use of this practice after 2005/'06. It think it was used in the '05/'06 period. But after the '05/'06 period, it was directly -- been discontinued and there's been no use of PEC in the interim.

THE CHAIRMAN: And I'm sure I'm supposed to know this. Why did we do that? Was that a council initiative or --

MR. MILLER: The mayor came forth with a series of policies, one to balance the budget. There were five of them, one to balance the budget using -- not using onetime money, to create an emergency reserve of $40 million, to create a CIP of workable, financially-feasible five-year CIP to create some rolls around the pension, and there was a fifth one that slips my mind at the moment.

THE CHAIRMAN: Okay. Thank you.

MR. MILLER: Again, there's a great deal of information here.

If you look at these percentages that are in your last column to the right, they're a percentage of pay, based on the measure of the actual report.

Now, the actual report has to be submitted every time you want a benefit change. You must have an actual impact statement that is submitted to the City Council. The City Council, by state law, is prohibited from acting without the actual report in their possession at the time of the action.

I'd like you now momentarily to turn to the other page, the separate one-page document that was clipped to your three-page package.

This is an example. It shows you that this is somewhat more of a complex matter. This particularly looks at a particular change, the introduction of COLA or an option between a COLA or a health supplement for the general employee plan. It was approved by City Council in February 1993. It shows you the either/or. You get into the higher of -- whether or not the COLA would help you or would -- the health supplement would help you, but with regard to introducing both.

But basically at the time you introduced it, you also had some actuarial changes. Sometimes when you know a cost is coming, it may cause you -- an increase. It may cause you to reevaluate other mitigating or complementary actuarial effects or changes.

So at the same time in the actuarial

report, you showed the -- 1991, because we'd only done it every other year, actuarial statement -- the restated, based on the benefit -- based on the assumption changes, and then the restatement based on the benefit changes.

Now, in this instance, the total changes between the '01 report and the impact was 9.97 percent. It was effectively mitigated by assumption changes, which would reduce the contribution requirement by 7.52 percent.

So the effective change, even though it was a 9.97 percent increase, ended up being split between the employer and the employee on a 1 percent -- 1.45 percent.

The note you have on the other page shows the 1.5, which is a rounding of the 1.45 to a single decimal, but that impact causes those to go in as alternatives.

Now, remember, we had people retiring in the '50s, '60s, '70s, '80s -- a lot of people prior to this point had never had a cost of living adjustment, so the cost of living -- they were -- they're -- other than potentially sporadic onetime payments, they weren't getting a recurring cost of living adjustment.

In that there's no Social Security in the system, so there's no underpinning to that process, it appeared to be a circumstance where there was some concern of the then administration and then the council to look at that question.

Now, everybody -- sometimes COLAs are introduced only for new employees. This particularly -- COLA was introduced for all existing retirees and spouses because it -- if this -- if at the time of death of retirees there's a living spouse, the spouse continues the benefit of -- beyond that point, which is shown in the earlier schedule, and in each one of those we get a change.

Now, it may get a cost of living up to 3 percent on whatever the base was. And they may not have seen a change for 20 or 25 years, but it's still a forward change, but it applies to all previously retired and/or spousal benefit recipients.

Today we have both. We don't have either/or. The CPI up to 3 percent has been changed from that to a hard 3 percent, and the

$3 per month per year of service has been changed to $5 per month per year of service.

This is when the -- the issues where actually the general employee plan got a benefit increase to 4. Police and fire -- but it wasn't long before police and fire came saying, well, how about us? And that's not uncommon whatsoever. Particularly (inaudible) so they're around, police and fire get to -- the general employees coming and saying, how about us?

But when you look at the various implications of this -- like a COLA or a DROP for one plan, you may very well have to eventually turn around and look at it for other plans that you fund because it -- there is the "how about us" aspect of these conversations.

But what I'm trying to show here is what could have been a 10 percent or 9.97 percent change, because of the concurrent changes in assumptions, ended up being a far more modest increase in the employer's contribution, but that can happen every time directly you have -- so you need to -- it's more than just looking at the raw number. More or less, it's going to cost 1.5 percent.

Okay. Because of what? Did we change actuarial assumptions? Have we mitigated a larger cost with some type of actuarial assumption change?

You know, whether or not the 80 percent number is right or the 8.4 percent number is right, at some point in time you have to pay the bills. So changing assumptions to potentially mitigate increased pension costs could be a deferral mechanism of something that may come home to roost later, based on whether or not the assumptions are real or correct at that point in time.

You may see a benefit where you say, well, it drops -- only going to cost X, 1 percent, 1 and a half percent. What happens if it changes the retirement patterns five years, ten years later?

That 1 percent can become 10 percent because when you get more history on the table, you're able -- a different snapshot in time, a different way of looking at the picture. But if it does, in fact, change retirement patterns more than they had been anticipated, the real costs can be substantially higher than originally may have been anticipated.

And as I said last -- two weeks ago, there's no way to track this from actuarial report to actuarial report. There's no accounting mechanism to get from one to the other. They're literally snapshots in time.

I tried, I promise you. You can't do it. I can't do it, the council auditor can't do it because there really is no accounting tracking -- like a checkbook or something, from one snapshot to the next.

Hopefully the pages presented for you can be informational, help you better understand how potentially complex the matters before you are or the matters -- how actuarial plans or pension plans get funded, and how the potential impact of a change might look to be X at one point in time, but over time it may be a substantially different number than the one originally presented.

Thank you. I'm happy to answer any questions.

THE CHAIRMAN: Thank you.

I've got a couple of questions, Mickey.

You told us the years on the general employees pension -- I want to say pension holiday. Was it the same corresponding years as the police and fire or are they different years?

MR. MILLER: Well, there's a column on each. So there's a column for -- on the police and fire, it's column H. So it runs from '96 down through, what, 2006?

THE CHAIRMAN: Right. But, I mean --

MR. MILLER: So there's a separate column on each plan.

THE CHAIRMAN: But, I mean, which -- when you're talking about pension holidays, I mean -- you may not be the best person to answer this.

I know the general employees, when you talk about pension holidays, 2001, 2002, and 2003 are typically the years we're talking about. Is that the same in police and fire or --

MR. MILLER: Well, the -- let me go back to general employees for a second.

You have a partial holiday in every year that there's a number in that Contribution from PEC column.

THE CHAIRMAN: Sure. So there really was one in '90 all the way through '06?

MR. MILLER: Yes.

THE CHAIRMAN: So --

MR. MILLER: So the numbers are only $4,000. So it's not a huge number.

THE CHAIRMAN: Right.

MR. MILLER: But basically every year that there's a significant number in that column, there's at least a partial pension funding holiday in -- either column, either title, same effect.

THE CHAIRMAN: I guess -- I mean, I'm -- something I've learned since I started doing this work on this committee -- I thought a holiday meant we didn't put any money in. That's not what it meant. It meant that -- every year I see we put money in. We just put less money in and took advantage of additional pots of money.

Was there ever a year that we just didn't put money in and -- we took a holiday and didn't put money in at all?

MR. MILLER: It appears -- if you look at the -- the only years that come close would be the three years on the general employee side, which would be, what, 2001, '2, and '3.

THE CHAIRMAN: Right.

MR. MILLER: Because the numbers are practically de minimis in relative terms, so --

THE CHAIRMAN: So that's the really only true holiday, was those three years on that -- on that particular plan?

MR. MILLER: Well, since the required total was the required total, you have a partial holiday every time there's a number in that column for Contribution from PEC.

THE CHAIRMAN: Right.

MR. MILLER: It's a partial. It's not a complete.

THE CHAIRMAN: Right.

MR. MILLER: But it's all a matter of not putting in what might have otherwise had an obligation to put in.

MR. JOOST: (Inaudible.)

THE CHAIRMAN: Yeah. I mean, every time you did it is what the actuarials [sic] recommended, right?

MR. MILLER: Yes.

When you get down to it, adding all the pieces together, it needs to meet what the actuary recommends in -- both state law and the constitution requires.

THE CHAIRMAN: So what if they said that -- recommended you do that and you just ignored them? Would you do that ever or --

MR. MILLER: Well, Dick mentioned it and I'll reinforce it.

With regard to police and fire, you have premium dollar money that's collected on insurance premiums, which is about 9- or $10 million a year, which would be at risk.

For the City, though, all the money shared by the state -- the state revenue sharing, the state sales tax numbers, you're talking over $200 million of leverage, that if we didn't pay what was supposed to be put in, they could potentially hold back.

So there is a bit of a stick or a club or a big mallet that basically says you're supposed to do this and demonstrate the message -- "us" being the state -- that you have, or you're in great risk of losing revenue.

THE CHAIRMAN: Okay. Let me -- I've got two council members. Councilman Joost, followed by Councilman Jones.

MR. JOOST: Okay. Thank you.

Again, going back to this smoothing
concept, because -- I mean, to be honest with
you, I haven't grasped what you're talking
about. Like, for example --
THE CHAIRMAN: The rest of us have it down
totally. I don't know what's wrong with you.
We're so glad you're asking this question.
MR. JOOST: For example, I just looked
up -- five years ago today the market was
basically at 10,500. Okay? Today we're
basically at 7,900. So going back and using --
Now, I know the pension fund has obviously
done better than the Dow Jones Industrial, but
assuming investments kind of follow the
Dow Jones Industrial, how -- what I don't
understand is that you're saying you're using a
five-year smoothing average based on dollars,
and I look at the Dow Jones Industrial Average
at 10,5- five years ago and today it's at
7,900 -- how can you say, when you're using a
smoothing average, that the rate of return
hasn't been negative?
MR. MILLER: Okay.
MR. JOOST: You see what I'm saying?
I don't understand how it works when you're

saying, well, I smooth it out, and my rate of return is still somewhere around 8 percent.

MR. MILLER: No. The assumption is 8 percent and the measurement of plus or minus against the 8.4 or 8.5 number --

MR. JOOST: Well, that's what I'm talking about, because you keep saying, well, we go back to the actuary testing the assumptions and we smooth it out and, you know, it's -- I think at the last meeting you even said we may have to bump it down a little bit, but it's somewhere, you know, between, say, 7 and three-quarters and 8 percent.

MR. MILLER: The --

MR. JOOST: The assumption -- when I look at the five-year smoothing average, it's actually negative, so I don't -- so I don't understand the smoothing concept.

MR. MILLER: Be happy to try to answer your question.

We take a five-year period. All right? In year one you have a positive number. All right? Now, you're going to spread that positive number against the 8 and a half. Let's say it's 15. You're going to take that number, the difference between 8 and a half and 15, and you're going to apply five-fifteenths to year one, four-fifteenths to year two, three-fifteenths to year three, two-fifteenths and one-fifteenth.

The next year we're negative two, but really it -- a negative two is a negative ten. You're going to take that difference between the eight and a half percent assumption and whatever you actually did and apply five-fifteenths, four-fifteenths, three-fifteenths, two-fifteenths and one-fifteenth.

Now, each year you'll have a couple of prior -- each year -- the four old years that are blending into the program and a new year added.

MR. JOOST: So you're applying the percentage difference to the dollar difference?

MR. MILLER: The dollars.

Remember in that time between your 10 and your 8, there was also a 14. So in that five-year period, there was a time when that index would have been 13 and a half, 14.

So it's taking each year, point in time to point in time, October 1 to October 1 --

effectively September 30th to September 30th, and showing what the gain was in dollars and dividing it by the five, four, three over a five-year period.

So each year -- if you had two good years and a bad year, then the two good years are partially going to soften the bad year.

If you have a really bad year, like we did in '08, you're only going to pick up a portion of it.

Now, the five-fifteenths is a bit front-loaded because it could be leveled over five years or leveled over four years. There's a bit of front-loading in the method that both the general employee and -- I believe police and fire both use a similar methodology or --

MR. JOOST: Now, when you say a five-year smoothing average, why are you using 15 as -- you know, if it's -- why are you using 15 instead of 5?

MR. MILLER: It's a formula that was --

MR. JOOST: You're smoothing it out really over 15 years, aren't you?

MR. MILLER: No, sir.

It is a five-year smoothing, but it's --

each number, 5 over 15, 4 over 15, 3 over 15, 2 over 15, 1 over 15 --

MR. JOOST: Okay. Fifteen out -- fifteen after five years.

MR. MILLER: But it is front-loaded because it could be level over five years.

So the fact that -- in some way you recognize the positive or the negative more quickly because it's somewhat front-loaded. It's over a five-year period, but it's not equal each five years. It's the five-fifteenths methodology approach, which is somewhat front-loaded.

But it does -- each year you get a number. That same number five years ago is going to be -- the one-fifteenth in the fifth year or the three-fifteenths in the third year, and it's going to have a -- you'll have four old years, good or bad, but with the front-loading, when you get to the one-fifteenth, you don't really care.

MR. JOOST: Right. Okay.

THE CHAIRMAN: Let me ask John to try to -- an explanation -- same answer, almost different -- the same -- a different answer on the same question.

MR. KEANE: What we'll do to graphically show it -- you know, when Mickey -- he accurately described it, but, you know, these words are over here (indicating).

We'll make you up a nice chart. We'll work with Mickey and we'll send everybody a chart so you can see the impact of the smoothing. You know, maybe that would be more helpful to anybody.

THE CHAIRMAN: That would be great. We appreciate that. Thank you, John.

Councilmember Jones.

MR. JONES: Through the Chair to Mr. Miller, I'm trying to understand this past excess contribution. And in that next to last column, what's the advantage of having a balance in that column? The balance, what's the advantages or disadvantages?

MR. MILLER: There are two different ways to look at it. One can say, well, you could just put it in the fund because the plan is not counting it. It's not being counted against the actuarial obligation because it's in the reserve. So it's being kept there, positive or negative -- well, presumably positive, but it's not being counted in the actual calculation because it's in a reserve not applicable to the -- covering the pension benefit.

The perception being that if you somehow overcontributed in one year, you can capture that separately and you may need or want to -- for budgetary purposes, to offset a subsequent year contribution by a portion of that overcontribution.

Now, part of police and fire -- and I think Mr. Keane may be able to speak to this better than I. There was an agreement that transferred $42 million into the reserve -- the City's stabilization reserve as part of a barter that subsequently was used to create what is euphemistically referred to as pension funding holidays or a reduction in what the employer would otherwise need to contribute.

MR. JONES: The last three years -- '06, '07, '08 -- we really reduced that balance substantially as opposed to -- from '98, I guess, to '04.

MR. MILLER: Well, the first couple of numbers on the -- whichever plan you're looking at, but if you go back and --

MR. JONES: I'm looking at the general employees.

MR. MILLER: The general employees, those first -- the 13,000 and that 4,000 was probably just a matter of truing up to make sure that it showed that you contributed 100 percent of what you were supposed to contribute for that period.

Those are fairly nominal numbers measured in thousands. Obviously they're not when they start measuring in millions or multiple millions.

Like I said, before coming here to the City the second time, I had no idea there was such a thing as PEC. I had to go back and do some research because I never heard that term before coming here in '05.

MR. JONES: All right. Thank you.

THE CHAIRMAN: Sure.

I guess, Mickey, when I first started to work on this, when Council President Fussell asked me to chair this committee, my original thought was, oh, wow. If we hadn't taken those holidays, we wouldn't be in as bad a shape as we're in now. We'd have a lot more money than we have now.

Listening to this conversation today, it makes me think, yes, that's a true statement, but at the same time, we wouldn't have been following the advice of the State, so we could have jeopardized those dollars there, which would have offset the additional dollars we had in the program.

And unless I'm missing something, we still have a really big problem with unfunded liability even if we didn't take those pension holidays.

MR. MILLER: On either circumstance, you may represent 100 of -- at best, 100 of what may be 400 million on one and 700 million on another. So I don't think it's the -- the principal cause of your current circumstance, but it is -- it is a contributing cause, but it's not the principal cause.

If you had taken that same money, dropped it in the pension plan and made those contributions, you'd be X tens of millions of dollars better off.

MR. JOOST: Yeah, because we would have

earned 9 percent on that money.

THE CHAIRMAN: Right. But we still have a significant --

(Simultaneous speaking.)

MR. JOOST: -- (inaudible) $62 million dollars we spent year after year after year.

MR. MILLER: You would have had the same pluses and minuses. It will earn money in certain years and lost money in others.

THE CHAIRMAN: Right.

And would we have potentially upset the apple cart as far as the insurance dollars from the State or not?

MR. MILLER: I don't believe so, no. I don't think --

THE CHAIRMAN: Because you're overfunding, not underfunding, and that's -- underfunding was what would get you into trouble, correct?

MR. MILLER: If you had taken the whole balance and dropped it in the plan, it may have earned money or lost money, but it would have been in the plan. It would have been used to calculate what the funding status was at the various points in time, and you would have had to put more money in from the general -- from the City or from the general fund. These are both exclusively in the general -- well, police and fire is exclusively the general fund, as well as corrections.

Obviously, the general employee, we're only representing about 60 percent of that number, JEA represents about 37 percent of that number, and there are a couple other entities that represent the residual 2 or 3 percent.

THE CHAIRMAN: Okay. Councilmember Joost.

MR. JOOST: I was just going -- through the chairman, I was just going to say, the point of the pension holidays -- when we took over the police and fire pension money, they had $42 million in excess contributions, and we took that money. And so the earnings on that was going to help fund the pension. Basically, we spent all that money for other things.

And so the point of the pension holiday is always to at least put in what the actuary is recommending and not necessarily take it from other sources, you know, because if you use averaged -- average cost dollars, okay -- over time the average return on the pension fund has been 9.-, what, -36 percent, something like that?

MR. KEANE: (Nods head.)

MR. JOOST: And you compound that year after year after year, $42 million at 9.something percent, after ten years it turns into a whole lot more money, you know?

And so the fact is, yeah, the market has gone down 50 percent, basically, from -- well, not quite 50 percent now -- from a high of 14,000. But had you had that other money in there, okay, it would have accumulated up to, say, $100 million. And even if you lose half that value, you're at 50-. You're still $8 million better off when you put the 42 million in, plus, you know, what it had accumulated over all those years.

And so that's the point of the pension holidays, is not to spend what little reserves we have left, and to also always put in what the actuary recommends because even in good times, when the market is at, say, 15 percent, you can't take the difference between the 8 percent he's talking about and the 15 percent and not put that in because what goes up comes down.

THE CHAIRMAN: Right.

I guess -- and this may be a Dick or John or Mickey Miller question.

If you look at what could have potentially been in the reserves if we hadn't taken the holiday and you look at the dot com crash, is it likely we would have probably grabbed a bunch of that money and flattened out that dot com crash with that money or not?

MR. COHEE: If you go back to the December 23rd report to President Fussell, we looked at the reserves that were used up through that period of time, and we went back and -- every year, calculated what the rate of return on investments were each of those years and attempted to project what the monies would have grown to. And I forget the exhibit numbers, but they're in the December 23rd --

The value of the use of reserves for the police and fire would have grown to 125 million and the value of the reserves used for general employees would have grown to almost 150 million. So 125- and 150- would be the number that you would subtract away from the unfunded to attempt to calculate the impact of the use of reserves over the period.

THE CHAIRMAN: Perfect. Okay. Thank you.
MR. JOOST: (Inaudible.)
MR. MOSLEY: Mr. Chairman, I just -- I stipulate to that. I'm looking. It's sheet 12 of the report that Mr. Cohee referenced.

Now, I don't think that that would have taken into account any of the losses that we talked about that we're experiencing now, but police and fire -- if you look at the police and fire pension fund by itself right now and in a smoothed environment, $700 million, then -- if you stipulate that 125- of it is associated with the pension holidays.

And I don't think there's anybody in disagreement that pension holidays are not a good policy, that one should fund within resources, the actuarial contribution rate.

You've still got -- you've still got a big piece of that pie that you've got to track down and figure out, you know, what -- what's the contributing factor to that, and that's going to be actuarial assumption changes and that's going to be -- benefit enhancements and market losses, I guess, would be the balance of those kind of four things.

MR. JOOST: And reductions of revenue.

MR. MOSLEY: That would be -- that's right, market losses.

THE CHAIRMAN: That's right.

A comment on that, Dick.

MR. COHEE: If I could just follow up.

Clearly, the most significant aspect of the 700 million, or the 600 million in the case of the general, is the two market setbacks of 2000 and 2008. That's the big -- the big factor, much more so than the 125- or the 150-.

In my one illustration for the movement from 2000 to 2009, if you remember that 11 percent to the 32 percent, 53 percent of that movement was from the 2000 dot com crash. And if we overlay on top of that the recent episode, clearly, divorce any other aspect -- benefit enhancements, revenue reductions, actuarial assumption changes -- stir it all up and it doesn't come close to the magnitude of the impact from the earnings setbacks.

THE CHAIRMAN: Okay. Thank you.

I asked earlier, and I guess I want to clarify a little bit.

Not using excess -- not taking a pension holiday is not done anymore. Is that codified in the ordinance code?

MR. JOOST: Yes.

THE CHAIRMAN: Okay. So, I mean, the reality is, had that not been done a couple of years ago, that would be probably the first recommendation from this committee, to do that.

So, I mean, we got a good first step before we ever got here as a committee. So that's good.

Any other questions on Mickey's -- Mickey, you got any other comment on that or not?

MR. MILLER: Only that one of the classic arguments between defined benefit and defined contribution is that, are the assumptions right, because you can overstate or understate the current situation by use of assumptions that may not pan out over time.

So they're -- most of the changes in mortality, how long you're going to live after you retire, have been increasing over the last many years that we know. And our largest demographic group is either over 100 or over 80, depending on how you want to measure it because our -- our lifestyles are going longer periods of time. So the only thing we cannot measure here is whatever the future adjustments to actuarial assumptions may need to be to reflect the changes in circumstances as they arise.

THE CHAIRMAN: Perfect. Thank you.

Any other questions or comments?

COMMITTEE MEMBERS: (No response.)

THE CHAIRMAN: I appreciate it. Mickey and Dick, I appreciate those presentations. That was very enlightful [sic].

And I agree with you, Councilmember Joost, that if you look at pension holidays, it's probably -- potentially 25 percent of the quarter -- quarter of our problem that we have, but we have a lot larger problem that we're facing.

Speaking of problems and -- and something that I did after our last meeting -- I meant to mention this when I started today. When we were charged by the council president, we were known as the City -- Special Committee on City Pension Reform. If you look at your agenda today, you'll notice that the title has changed to Special Committee on City Pension Sustainability.

I think the work that we're doing here is how do we sustain pensions in our community, not to reform them. As council members -- all of us know that true reform takes place through the collective bargaining process and the normal process, and we have a responsibility to look at how to keep our pension sustainable.

Our role as reforming pensions is much more of an advisory or findings that we'll present back to the council president at the end of this that hopefully will be used in future pension negotiations.

So I just wanted to -- as you talk about it -- we're trying to get away from the word "reform" and focus on sustainability because that's even more important than reform, is to make sure that, you know, when people that are going to school with our children or our grandchildren have to -- they'll have -- this is how people survive after retirement from working in this government, and we have to make sure that it's sustainable.

Henry Cook has a question.

MR. COOK: Thank you, Mr. Chairman.

As you'll -- made the statement, and I was missing it, the first initial meeting of the -- this committee. And I did have the ability to get a DVD of that meeting, and I sat and watched it a couple of times, and I thought it was a very good presentation.

And it's interesting that you just touched on one of the things that's sort of been lurking in the back of my mind since we began this process, and that is the perception that comes out of it.

I guess after many, many years of being in the political community, you become aware of the perception of what the community gets out of what you do and what you say, and I -- it concerns me that there may be some public perception that there's some sort of sinister plan by employees of the government to create a money flow that isn't deserved, and I hope that that's one of the things that this committee can rectify, that the -- it's part of the pay package when you sign on to become an employee of the government. It becomes a part of the package you receive as far as being rewarded for your efforts and it's in payment of public safety, the police and the fire and the people that maintain our streets and do all those things out there. So it's a part of the pay package for the job that they perform.

So I compliment you on bringing that up, and I -- I hope that we'll continue to pursue that issue, and as well I would like to also state that -- I'm only a new member as a trustee, I've been there a couple of months, but I have found in dealing with the general employee/correction officers trustees that it's a very well-informed and very conscientious group of people, men and women, who are working towards the best interest of handling the fiduciary responsibilities the committee is charged with and making sure those monies are well handled.

And one of the last things that I read was that our financial advisor, Summit, has already given us the inclination that this should be -- and they are predicting the upturn in the market structure and the returns that we're getting off of the investments and that they are looking forward -- up to 11 percent rate of return. That isn't going to happen tomorrow, but it is in the foreseeable future coming.

So I hope that we keep -- to bear in mind that we do have a very competent group of people that manage these funds and work as well as they can, and that is one of the reasons we're in the middle of the pack, as far as the cost to government, of all of the pension funds in the state of Florida. So we're doing a good job with it, and I hope that continues to be in the forefront of everyone's mind.

Thank you, sir.

THE CHAIRMAN: Thank you, Henry. I appreciate that.

Yeah, it is -- the more I get to work with the people that are managing our employees' future and the future after they leave here the more impressed I am. They really do a good job and they have their eye on the ball. They're not just going free willy on it, so I'm impressed with that.

Any other questions or comments you want to make today?

One of the things I stated last time is, as we leave these meetings, I kind of want to framework what we've talked about and then any questions that we want raised -- or questions we want answered that will leave the room.

I know that Derrel is going to come back with us next time on the 2000 ordinance to give us a full understanding. That will probably be the main key that we have going from this work.

The other thing that I think we've kind of gotten a grasp on, I hope -- and I need to know if we haven't -- is that the -- we are where we are because of a number of decisions that we made, both enhancements and the pension holidays that we've had a pretty good discussion about. And while some have a large percentage on the problem, all of them have contributed to it, but the market really has been the overwhelming factor that does that. And as we make our recommendations, that we need to make sure that a bear market or a bull market is going to be taken into account as we make those.

Councilmember Joost.

MR. JOOST: Mr. Chairman, I would say what's -- one of the things that's come out of this meeting today and what's important for the administration to keep in mind is the contribution rate of 32.11 percent is going to be at least 4.7 percent higher. And when this new report comes out, it's probably going to be even higher than that. So in terms of budgeting for next year, even though right now, today, it says 32.11 percent, it's going to be higher than that, and we need to make sure that's built into the budget next year.

I think some other things the committee should consider is looking at replacing some of the funding that has been taken away. Ten percent of the problem has been funding that was taken away from the pension.

And the other thing that this committee can recommend is, when we have a chance to look at onetime money that comes along, instead of building another building or something that requires maintenance to maintain and costs the City more is that somehow we try and find ways to restore the reserve account, you know, so, therefore, going forward we've created a mechanism that helps restore the funding to the pension plan. It's going to be a multifaceted answer. It's not going to be just one thing.

But I think those are at least, number one, recommendations to the City to make sure they're putting in the right percentage.

And the two other things that can possibly come out of this committee, based on today's conversations, are -- is looking at somehow getting some funding restored from the ticket revenue that was taken away, and looking at -- there's always times -- onetime money seems to come up before the council, and maybe we should consider as a committee making a recommendation, setting some of that onetime money aside for the pension to restore the reserve accounts.

THE CHAIRMAN: Good point.

Mr. Mosley.

MR. MOSLEY: Mr. Chairman, I just -- we are working very closely with the police and fire pension fund, and our actuary is -- we coordinate with the State, and we are making some estimates and embedding those in our performance as we prepare the coming budget.

And the -- how we deal with the unfunded liability is something, I think, this committee can help us with and have a discussion about the potential for some -- some way to get in there and begin to bring that unfunded liability down to us.

Of course the hope always springs eternal that the market recovers and that unfunded liability will contract some, but -- so I -- very, very good advice, and we'll take it from there.

THE CHAIRMAN: Thank you.

And when -- I know we touched on it earlier. When do we anticipate the actuarial report available to us anyway?

MR. MOSLEY: You know, I'll yield to John on the police and fire pension. On ours, we -- we are completed and are working with the State on it.

THE CHAIRMAN: John.

MR. KEANE: Well, Mr. Chairman and members of the committee, as I pointed out a while ago, it's kind of in flux there. One fellow is leaving, who has been there for many years. He's laid out some measures that he wants changed. Our actuary is working to change those.

We are desperately trying to get the report completed and approved so we can get it on up here and let it crank into the budget process. Hopefully we'll have it here in the next couple of weeks.

THE CHAIRMAN: Okay. Perfect. That's close enough.

Alan, do you want to comment on --

MR. MOSLEY: I do want to stipulate, we don't have ours approved yet either. So it's a good -- we've got ours -- as John does. We're both sitting in the State's office waiting for approval.

THE CHAIRMAN: Okay.

MR. KEANE: Well, what they did, Mr. Chairman, the State actuary went all the way back to 2000, and everything that previously had been approved, he took that little pencil and wrote "DIS" in front of it. All the actuarial reports, all the summary plans, everything. The reports that come up here when we want to make a benefit change, everything's been rejected, and we're trying to get all that back into the pot and give it a good stir so we can go forward.

THE CHAIRMAN: I'm almost afraid to ask this. Was this the old guy or the new guy that wrote those notes?

MR. KEANE: Well, what we have -- as Mr. Mosley pointed out, we've divided forces. We're working on the old guy as he leaves and they're going to work on the new guy.

But in following up what Mr. Mosley said, long-term solutions to the unfunded is something we certainly hope that the committee is going to be able to address somewhere in these next three meetings that are left. There's a lot of recommendations and a lot of things we'd like to talk to y'all about which we think will be very helpful and well received.

THE CHAIRMAN: Okay. Thank you.

Councilman Joost.

MR. JOOST: Just one last thing.

And the reason why -- see, we're at a historic opportunity right here today because basically I think everybody feels like the market is pretty much at a low. And why that onetime money is going to be so important is if we put it in now, it's going to appreciate that much more versus putting in onetime money when the market is at an apex.

So I think that -- to me, that is -- you know, I'll just put that out there and we can sort it out later, but I think that would be one of the more important recommendations of the committee because the timing is of the essence right now based on market conditions.

THE CHAIRMAN: That's a good point. And if you want to personally donate some money to the fund, I'm sure I can introduce a resolution at this low point, so . . .

Sheila.

MS. SHARP-CAULKINS: One thing I just wanted to say is there is a lot of work to be done for sure, but I'm just really happy, the fact that they're -- they formed this committee so that we can look at the -- look as to what we need to do before you go do something.

I've been around long enough to see that that isn't always the way it works, and it just irritates me to death, and then they -- it's blamed on somebody else, and it's just good to know that we're studying this to try to get the best, most appropriate, efficient, effective means of correcting or doing something anyway with our system.

The pension fund -- this is the way we gained a lot of good employees, is because we had a decent pension system. And I think I mentioned last time, I had no idea what a pension fund was when I came to work with the

City, but a lot of people have worked elsewhere, and that -- that's what they come for. They know they can have something that they can rely on, and the fact of -- you know, no Social Security, which you're all aware of, and then the elimination -- windfall elimination, that makes a difference on what we can do.

And if you thought you were going to retire and go work somewhere and get you some good Social Security, sorry, you won't get it by the time they do the calculation.

So I'm just really glad that this is being done now, and I appreciate all of you-all keeping an open mind and not a closed mind. That's something that the retirees are so concerned about, so thank you.

THE CHAIRMAN: Well, I appreciate that. Thank you.

I think this committee is a pretty good committee and I think the experts that are with us -- if we get off track, somebody is going to remind us and get us back on track.

Some people touched on it -- at our next meeting, I want to kind of look at, what are our options, what are we going to do. Let's get to work and figure out -- I think we set a pretty good stage of what the problem is at this point, and now let's take a -- what are our options and what can we do.

And I invite you to come ready for that. Obviously, our experts are still available. If you've got an idea or you think you've got the solution, I encourage you to get with them beforehand and talk about it and bring it to this committee.

I'll, obviously, be meeting with the -- with both plans to talk to them about ideas and welcome your input.

I think we're making great headway. I think the -- that we're understanding this better. I think the public is probably going to understand this better as we work through this process, so I appreciate that.

I have nothing else on my agenda to cover. If there's nothing else from the committee or the experts, I appreciate you being here, I appreciate your patience, and we are adjourned.

(The above proceedings were adjourned at 4:30 p.m.)

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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 18th day of April, 2009.

Diane M. Tropia