WENDLER HANDOUT 10/23/13

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Citizens committee has good insight on pension crisis

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The one positive in Jacksonville s delayed solution to its pension crisis is a renewed appreciation for just how bad this crisis is.

Atlanta s remarkable success in reforming its pensions came with a system that was in better shape than Jacksonville s.

Similarly, the mayor of Lexington, Ky. wrote an opinion column in The Wall Street Journal recently, praising the city s successful pension reform.

But Lexington s unfunded liability amounted to $2,400 per household in 2012. The reform nearly cut that in half. Unfortunately, Jacksonville s unfunded liability is significantly higher than Lexington s.

Yet Jacksonville can learn from some of Lexington s reforms. For instance, Lexington reduced cost-of-living adjustments based on income of the recipients. Once the pension is fully funded, those COLAs may be restored.

Just as Atlanta used an independent citizen s committee, so did Lexington. A third party who is trusted by both sides can acknowledge the emotional issues and yet focus attention on the levers that actually move the numbers," wrote Lexington Mayor Bill Gray.

He also wrote, It is crucial to share the pain." And Demand a full solution ..."

Getting union support is key. Part of that may mean keeping a defined benefit plan. It s fair to assume that moving to a 401(k) type of plan needs to include Social Security.

Bill Scheu, head of the mayor s pension reform task force, recently met with The Times-Union editorial board to encourage more coverage of this complicated issue. For far too long, this has been handled in the shadows.

One valuable resource available to Scheu s task force is the city s TRUE Commission. Never heard of them? It s is a citizens advisory committee tasked with suggesting ways to improve the city s financial soundness, budgeting and management.

Basically, this group digs into difficult financial issues in ways elected officials cannot.

The TRUE Commission earlier this year recommended against the mayor s secretly negotiated pension plan because it was only a partial solution for a long-term problem.

Now the TRUE Commission is nearly ready to issue a report that depends on the hard work of a subcommittee headed by Ted Wendler. A draft of the report shows commendable depth and understanding of the issues. Wendler has spent three years in study.

He notes that the city s contribution to the Police and Fire Pension Fund this year is a mind-boggling 111 percent of covered payroll. Getting it to a more reasonable 20 percent of payroll will be a huge chore.

As Wendler noted in an email, The rank-and-file need to understand that their pensions are included in the unfunded liability, and at 39 percent funding they are really at risk.

The Police and Fire Pension Fund may actually run out of money when the city cannot make the annual required contribution. Then there are no pensions.

If it s a bad deal for the taxpayers it s a bad deal for the police and firemen. The terms and conditions of the agreement are not fair and equitable given the 2008 financial collapse that no party to the agreement could have anticipated."

Among other interesting nuggets in the draft report:

TURNING OVER CITY GOVERNMENT REAL ESTATE

This is risky. It is easier to buy than sell," and property is not easily converted to cash for pension benefits, the report said. It might be better to sell surplus property to a taxable buyer at fair market value and use the proceeds to reduce the unfunded liability."

PENSION OBLIGATION BONDS

These are best used for funds in good shape to justify the gamble on the spread between interest rates and asset returns. Too often, they are issued by the wrong governments at the wrong time." That would be Jacksonville in its current stressed condition.

JOIN FLORIDA RETIREMENT SYSTEM

This may not be possible, but simply investigating the transfer would do several things.

- The state s system is in much better shape. What would it take to join?
- Since the city seems incapable of successful running its Police and Fire Pension Fund it s only about 39 percent funded a transfer to the better managed state system may be the best solution of all.

This also would remove the political shenanigans that have typified the pension fund.

Eliminating the Police and Fire Pension Fund board also would get rid of conflicts in which those responsible for managing the assets have also been involved in bargaining for them.

Any total solution will be tough.

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QUOTABLE ON SMART PENSION REFORM

A conversation about Pews pension work with Project Director Greg Mennis from the website of the Pew Charitable Trust. Pew is being enlisted by the task force led by Bill Scheu to provide expertise.

-The most important task facing states and cities is to pay down their existing pension debt in order to keep the promises already made to retirees and workers.

-This will require years of fiscal discipline and may involve raising revenue, cutting spending or asking employees to contribute more.

-Each state and city will address the issue differently and we know there is no one-size-fits-all solution.

-Policymakers also need to ensure that they have a sustainable retirement system for the future. This can involve keeping the existing retirement plan but doing a better job at funding it."

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Taxation, Revenue and Utilization of Expenditures

(TRUE) Commission

SPECIAL PFPF PENSION FUND REPORT

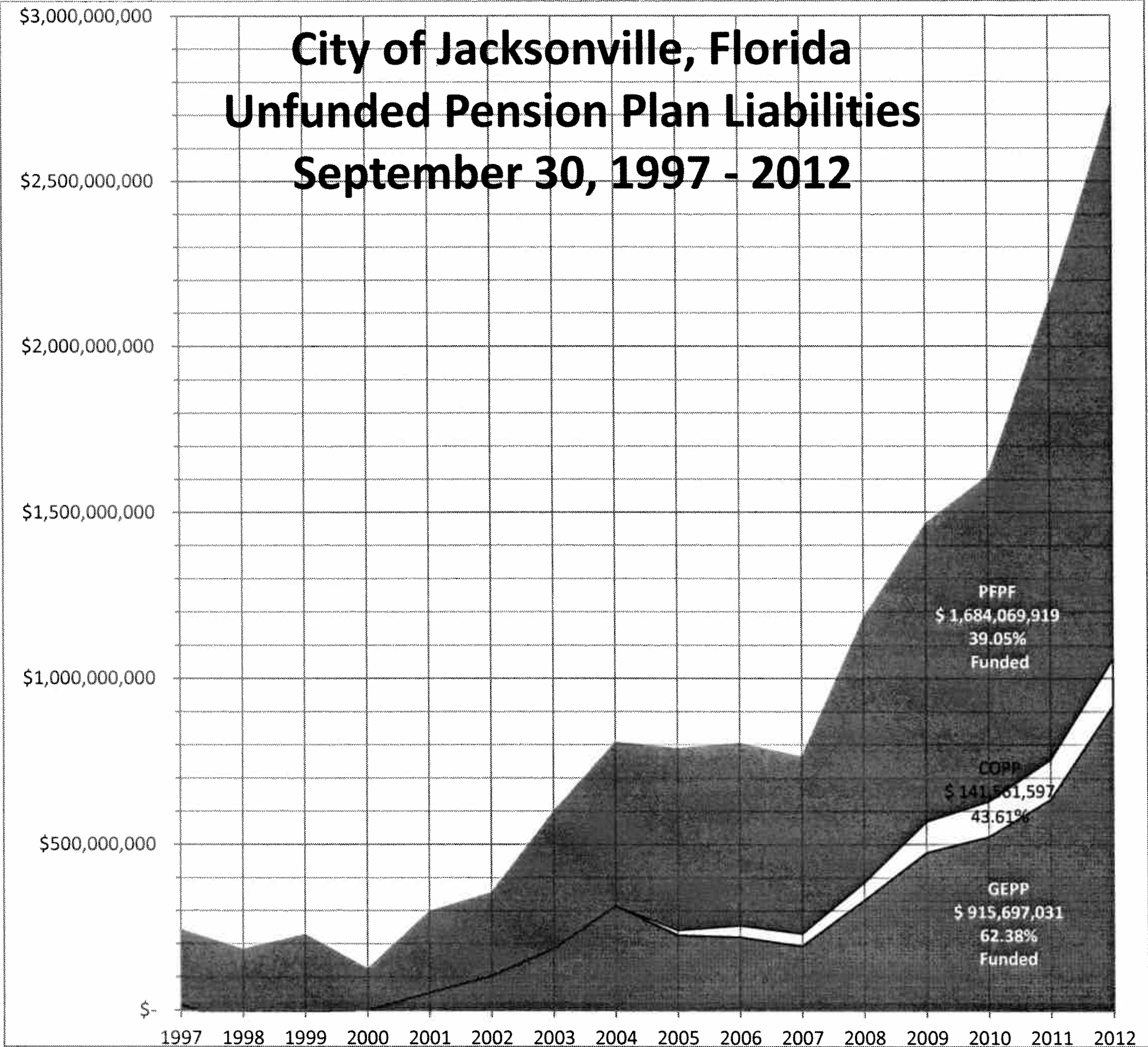
October 2013

Subcommittee Chair

Ted Wendler

Subcommittee Commissioners

Patti Anania, Joe Andrews, Danny Becton, Diane Brown, John Campbell, James Edwards, Keith Johnson, Marcella Lowe, Tom Martin, Greg Radlinski,


City of Jacksonville, Florida
Unfunded Pension Plan Liabilities
September 30, 1997 - 2012
$3,000,000,000
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$-
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
PFPF
$ 1,684,069,919
39.05%
Funded
COPP
43.61%
GEPP
$ 915,697,031
62.38%
Funded

TRUE Commission Conclusions

The public has been concerned that the City cannot afford the Police and Fire Pension Fund. The TRUE Commission has concluded that affordability is a valid concern. In May of this year, the Administration, the PFPF and the Police and Firefighters Union came to terms on changes to the pension plan that purportedly would have saved the City $1.1B over 30 years. It should be noted that the bulk of those saving would only have been realized in approximately 23 years from now. Until then, the City would still have to make payments each year ranging from $150 million to over $400 million by 2036 – if the actuaries are right. The problem with this current solution is that it leaves those already in the pension plan unaffected. By not addressing the current employees, the so-called option only addresses half the problem, leaving the next 23 years of escalating payments, unresolved. Under any solution, the TRUE Commission emphasizes that all future payments have to be reasonable and practical as to the City's capacity to make those payments. City Council, in 2013-14 budget cycle, restored many proposed cuts in spending and opted for a millage increase. The budget shortfall is directly related to pensions.

On June 13, 2013 the TRUE Commission unanimously passed Resolution 2013-2 in opposition to the enactment of Ordinance 2013-366, The Mayor's Pension Fund Settlement Agreement with the PFPF. The Council President discharged the bill from the committee on July 23, 2013 and the City Council rejected the passage of the bill by a vote of 13-6.

In implementing any changes to the Police and Fire Pension Plan the Jacksonville City Council will have to balance any savings and cost increases against the recruitment and retention of the City's Police and Fire services. Additionally, it is important to note that employees on the City's pension plans, are not covered by Social Security and therefore the City does not contribute to Social Security as a benefit. For employees hired before 1986, neither the City nor the employees contribute 1.45% to Medicare - therefore Medicare is not available to these employees.

The TRUE Commission concludes that two questions must be answered to resolve the financial problem with the PFPF. Those questions are:

A. Is the 30 Year Agreement Valid?[1]
B. Can Benefits be modified for current non-vested employees?[2]

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[1] "In short, PERC decides who can and can't collectively bargain on behalf of public employees. Similarly, in what may seem obvious, §447.309(5), Fla. Stat., is included in Part II, Chapter 447. Violations of it, too, are preempted in favor of PERC...the legislature intended for the PERA "to provide an exclusive method for resolving labor disputes between public employers and public employees, with the Public Employees Relations Commission (PERC) having preemptive jurisdiction over such matters." Lee vs. City of Jacksonville, 4th Judicial Circuit, Duval County, Fla. (Case No. 16-2011-CA-4348) [Exhibit A]
"The Commission does not have the authority to independently investigate any alleged improper conduct; rather, it adjudicates unfair labor practices filed by public employees, employee organizations or public employers pursuant to Section 447.501 (1) and (2), Florida Statutes (2011), Thus, unless a charge is filed, the Commission would not have the authority to intervene in any matter related to the City's pension plans. Consequently, at this time the Commission is unable to assist in this matter." [Exhibit B]
The Office of General Counsel emails indicate the agreement is illegal and contrary to public policy. [Exhibit C]

[2] The amendment contained in section 17 of chapter 2011-68, Laws of Florida, completely eliminated the COLA for all service performed after the effective date of the act. For employees who were members of the FRS prior to July 1, 2011, their COLA will be calculated as follows: The COLA factor "shall equal the product of 3 percent multiplied by the quotient of the sum of the member's service credit earned for service before July 1, 2011, divided by the sum of the member's total service credit earned." Ch. 2011-68, § 17, at 1053, Laws of Fla., amending section 121.101(4)(c), Florida Statutes. However, under the 2011 amendments, "[s]ubject to the availability of funding and the Legislature enacting

In anticipation of the answers to these questions from the courts or PERC, the TRUE Commission offers the following points that should be considered:

<u>If the 30 Year Agreement is found to be Valid and benefits for current employees are Non-Negotiable:</u>

- Consider transferring surplus City owned property to PFPF to fund City's obligations. However, it is easier to buy than to sell and is not easily converted to cash for pension benefits. It might be better to sell surplus property to a taxable buyer at fair-market-value (generate tax revenue) and use the proceeds to reduce the unfunded liability. Transferring additional property to PFPF lacks sufficient diversity in this class of assets. Diversified and professionally managed Real Estate Investment Trusts (REITs) should be considered for PFPF investments in real estate. They are traded on the open market and easily convertible to cash.
- Consider terminating the Restated Agreement under clause 31 and 32.[3] The City Council should have the actuary determine the "Accumulated Benefit Obligation" (ABO) so the cost of terminating the current plan and replacing it with another plan, including defined contribution or a hybrid plan can be considered.
- City issuance of "Pension Obligation Bonds" (POB) at current reduced interest rates, which is an unreasonably risky alternative. The City currently pays interest on the unfunded liability (UAAL) at the PFPF assumed rate of return (currently 7%). If POBs are issued and there is a subsequent downturn in the economy the City has lost borrowed money and may not be able to borrow more.[4] After the recent financial crisis, most POBs issued since 1992 are in the red. Nevertheless, it appears that POBs have the potential to be useful tools in the hands of the right governments at the right time. Issuing a POB may allow well-heeled governments to gamble on the spread between interest rate costs and asset returns or to avoid raising taxes during a recession. Unfortunately, most often POB issuers are fiscally stressed and in a poor position to shoulder the investment risk. As such, most POBs appear to be issued by the wrong governments at the wrong time.[5]
- Investigate the possibility of transferring PFPF to Florida Retirement System.[6]
- Adjust the COLA as described in Scott vs. Williams, 107 So 3d 379 (Fla. 2013), p.4, Footnote 3, (See footnote 2 in this document).
- Raise taxes, in conjunction with forecasted increase in City's Annual Required Contributions (See Graph 7).

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sufficient employer contributions specifically for the purpose of funding the expiration of the cost-of-living adjustment specified in subsection (4), in accordance with s. 14, Art. X of the State Constitution, the cost-of-living adjustment formula provided for in subsection (4) shall expire effective June 30, 2016, and the benefit of each retiree and annuitant shall be adjusted on each July 1 thereafter, as provided in subsection (3)." See id. Section 121.101(3), as amended in 2011, continues to provide a 3% cost-of-living adjustment to those persons who retired prior to July 1, 2011. [Florida Supreme Court No. SC12-520, p.4, Footnote 3, January 17, 2013]

[3] "31. This Agreement shall have a term extending to September 30, 2030. If for any reason the term shall be challenged as a matter of law, the term of this Agreement shall not be less than the minimum term allowed by law. The terms of this Agreement shall control beyond the expressed term hereof until such time as either party is notified in writing by certified mail, return receipt requested as to its Intention to terminate.

32. The City and the Board of Trustees of the Police and Fire Pension Fund shall meet no later than January 1, 2005, and periodically thereafter to review the provisions of this Agreement, which either party wishes to address. Such future discussion shall be guided by a mutual desire to ensure the continued application of terms and conditions that are fair and equitable given circumstances that may present themselves in the future that are not currently addressed nor presently anticipated by the parties hereto upon execution of this Restated Agreement."

[4] http://www.governing.com/topics/public-workforce/pensions/gov-pension-obligation-bonds-risky-or-smart.html [Governing Magazine January 2013

[5] http://crr.bc.edu/briefs/pension-obligation-bonds-financial-crisis-exposes-risks/ [Center for Retirement Research at Boston College, Number 9, January 2010, p.6]

[6] Part I of Chapter 121, Florida Statutes, and Chapter 60S of Florida Administrative Code.

- Negotiate future COLA based on Fund performance and the absence of an unfunded liability (UAAL).
- Negotiate future City and employee contribution rates.
- Negotiate future new hire benefits similar to 2013-366 and only as it applies to new employees.
- Re-evaluate PFPF investment policies. Remember higher returns present greater risk for the taxpayers.

If the 30 Year Agreement is found to be Invalid and the benefits of all current employees are Negotiable:

- Change vesting dated based on the number of years over a gradual implementation (Example as provided):
  - 5 Years to Retirement – No Change, 20 Years
  - 6 – 10 Years to Retirement – 23Years
  - 11 – 15 Years to Retirement – 26 Years
  - 16 – 20 Years to Retirement – 30 Years.
  - New Employees—increase time service retirement eligibility to 30 years of service and delay receipt until retiree reaches age 62.
- Change the DROP Plan based on the number of years to retirement - a gradual implementation:
  - 10 Years to Retirement – No Change
  - 11 –20 Years to Retirement – No DROP
  - New Employees, No DROP.
- Base COLA on an adjustable COLA Index (Currently constant 3%) - capped at an agreed percentage.
- Increase employee contribution rate. (Currently 7%)
- Salary Basis – Increase number of months (Currently 24 Months)
- Cap maximum retirement benefit (Payout of Salary), currently 80%, at a dollar figure, for example $99,999 regardless of years of service or final or averaged salary.
- Adjust accrual rate – (Currently 3% for 1-20 years; 2% for next 10 years)
- Consider transferring surplus City owned property to PFPF to fund City's obligations. However, it is easier to buy than to sell and is not easily converted to cash for pension benefits. It might be better to sell surplus property to a taxable buyer at fair-market-value (generate tax revenue) and use the proceeds to reduce the unfunded liability. Transferring additional property to PFPF lacks sufficient diversity in this class of assets. Diversified and professionally managed Real Estate Investment Trusts (REITs) should be considered for PFPF investments in real estate. They are traded on the open market and easily convertible to cash.
- Raise taxes, in conjunction with forecasted increase in City's Annual Required Contributions (See Graph 7).
- Negotiate future new hire benefits similar to 2013-366 and only as it applies to new employees.
- Add a fifth member of the Pension Board - appointed by City, based on City's fiduciary responsibility, for future pension values and returns.
- Add employee options of receiving; (1) monthly benefit through employee's lifetime with no benefit to a survivor, (2) reduced monthly benefit but with a guaranteed 10 year benefit to the beneficiary when employee retires, (3) give continued reduced benefit to both employee and a survivor throughout the employee's and survivor's lifetime and (4) an adjusted benefit for employee and survivor but reduced benefits on the event of death of either one.

The TRUE Commission realizes that any solution will involve negotiation of one or more of the above components. Furthermore, the City's actuary must also agree that the resulting changes and projections are realistic and future payments are affordable. It is to the benefit of all, that a solution to this problem be solved soon!

Pension Plan Background

Article 16 of the City Charter ~~Bylaws~~ for the City of Jacksonville established the retirement and pension system for the Consolidated Government. As many of its employees and the City did not contribute to Social Security, the Police & Fire Pension Plan was created to provide a retirement package for the active employees of the Jacksonville Sheriff's Office and Fire and Rescue Department, with the exception of the civilian workforce.

Up until 1971 the plan was administered on a pay-as-you-go basis (PAYGO), i.e. pension benefits were paid to pensioners from current tax revenues with no funds set aside for future pension obligations, creating an unfunded liability for future pension benefit payments. That system was discontinued and replaced by the staircase funding method in which the City agreed to fund up to a level of 73.8% for the GEPP and 35.9% for PFPF of future pension benefits by 1991. Originally that funding level was to remain in place until 2011. In 1976 the staircase funding method was abandoned and replaced with the 20% funding system, where the City funded the plan with 20% of payroll instead of 8%, creating a Pension Excess Contribution account.

DROP was created in 1999, which led to a high retirement participation rate, and the City elected to establish a 0% employer contribution policy while employees contribute 2%. During this time the city guarantees 8.4% return on DROP funds.

In FY2003 the City elected to use excess contributions accumulated through the City's 20% funding method to satisfy the Annual Required Contribution (ARC). The holiday was discontinued in FY2008 and the City paid the Annual Required Contribution in full on a yearly basis. Up until FY2005 the pension fund received 30% of court fines and penalties, but reorganization of the Court system required this share be relinquished to the State of Florida (Article V).

PFPF Board of Trustees

Article 22 of the City Charter established the Police & Fire Pension Board of Trustees. The Board consists of 5 members: two are appointed by the City Council (although there is a movement towards three); one each is selected by the police and fire pension fund members; the fifth member is selected by the first four members and is submitted to the City Council for approval and appointment. All serve for a term of four years.

Under Section 22.04 the Board has the sole and exclusive responsibility to administer the Police and Fire Pension plan. The Board shall cause an annual determination to be made by a competent actuary of the liabilities and reserves of the pension plan and the annual determination of the amount of the contributions required by the city; and maintain the funds of the pension plan on a sound actuarial basis. Anytime there are changes in the plan, the Board of Trustees is to be consulted first. Despite the fact that the Board's responsibility is to administer pension funds, not negotiate benefits, there is a history of the Board leadership negotiating and authoring city ordinances stipulating increases in retroactive and future benefits:

- Ordinance 91-1017 and Signed Agreement
- Ordinance 93-1983-1407-E (implemented COLA in response Ordinance 93-99-41 GEPP COLA Ordinance 97-1103-E
- Ordinance 2000-1164-E & Signed Agreement (shortened period for 80% pension from 32 years to 30 years of service).
- Ordinance 2003-303-E & Unsigned Agreement

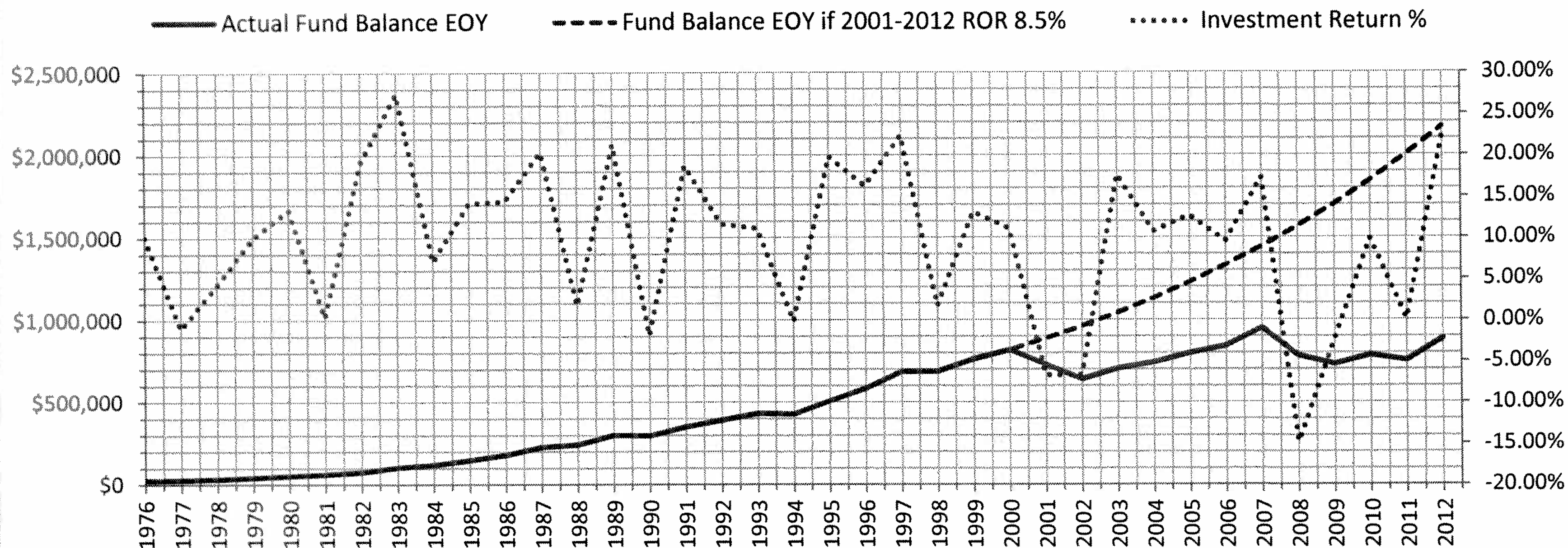
Lawsuits

There are four lawsuits filed in response of the changes of the Police & Fire Pension plan:

- In 2010, the Jacksonville Association of Firefighters filed a lawsuit against the City over the status of the thirty years agreement. [Duval County Circuit Court Case No.16-2010-CA-001494]
- In 2011 Curtis Lee and Concerned Taxpayer of Duval County (CTDC) filed a lawsuit against the City and the Police & Fire Pension Board of Trustees for violation of Florida's Government in the Sunshine law by negotiating public employee retirement benefits in private meetings that were not noticed as required by law. Also, that the thirty year settlement agreement between the City and PFPF is in violation of state law that limits collective bargaining agreement to a maximum of three years. [Case # 16-2011-CA-4348 Division CV-A]
- Three firefighters and a police officer (R. Wyse, L. Jones, M. Roberts & L. Norris v. COJ & PFPF Board of Trustee (2/6/13)) filed a lawsuit to defend the status of the 30 year agreement between the City and PFPF board and to prevent the City from attempting to negotiate potential changes to the pension system directly with the unions instead of with the PFPF board.[Wyse et.al. v. City of Jacksonville et. al. United States District Court, Middle District of Florida, Case No. 3:13-cv-00121-MMH-MCR]. This case led to the Mediation Settlement Agreement and Ordinance 2013-366 which City Council did not pass.
- The Florida Times-Union filed a lawsuit regarding (1) The Mediation Settlement Agreement constitutes official action taken by the City of Jacksonville and the Pension Fund Board.(2) The mediation was not open to the public and was not declared to be open to the public. (3) The mediation procedure was in violation of the Sunshine Law. "Because Section 286.011 was enacted in the public interest to protect the public from 'closed door' politics, the law must be broadly construed to effect its remedial and protective purpose." [Case #: 2013-CA-5799]

The Police and Fire Pension Fund

The Police and Fire Pension Fund (PFPF) had a $ 1,684,069,919 unfunded liability (UAAL)[7] at the end of the last fiscal year (9/30/2012). It will continue to increase for a number of years. The PFPF is 39.05% funded to meet future benefit payments. There are four factors that can affect a UAAL: (1) City contributions; (2) The assets and earnings in the Plan; (3) The calculation of future pension benefits; (4) Changes in actuary's assumptions (5) Changes in the assumed Rate of Return.

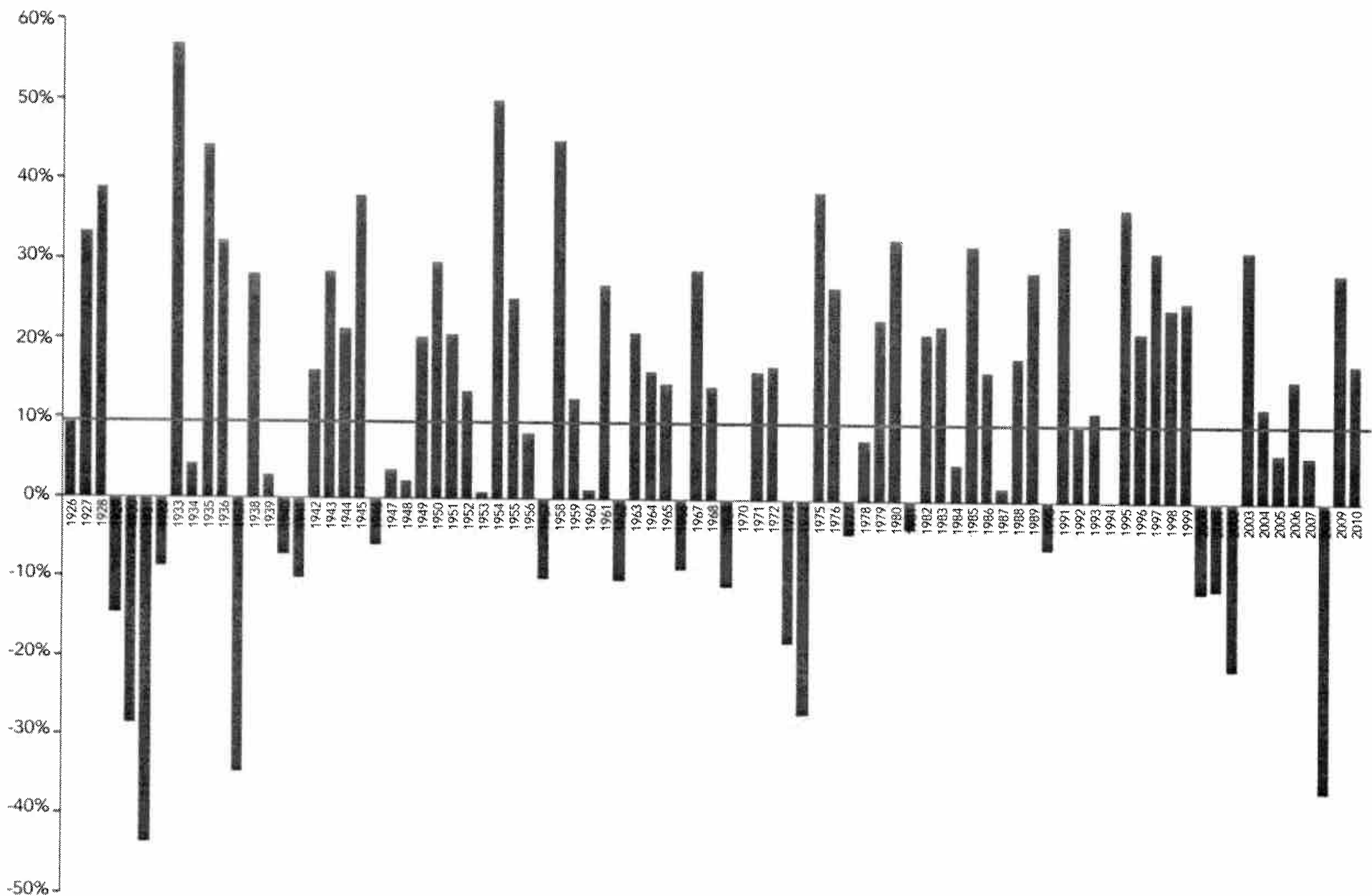


Graph 1

[7] The Government Accounting Standards Board (GASB) officially defines UAAL as "the difference between the actuarial accrued liability and the actuarial value of assets accumulated to finance" a public pension. In simpler terms, if you compare the cost of PFPF pension promises with the actuarial value of PFPF assets, the promises currently exceed the assets. That shortfall is the PFPF Unfunded Actuarial Accrued Liability. A fully funded pension system with no UAAL generally means that all of the actuary's assumptions about the cost of the fund and growth of liabilities have been met, and the present value of the system's accumulated assets are sufficient to pay out the pension promises to plan members.

US Stock Market Returns

CRSP Deciles 1-10 Annual Performance (1926-2010)



Source: Center for Research in Security Prices, University of Chicago.

Illustration of Market History

Graph 2

Has the City Made the Annual Required Contributions?

According to independently audited financial statements and actuarial reports, the COJ has paid at least 100% of the ARC every year.
The yearly ARC is made up of two parts.

1) The Normal Cost [8]
2) A payment respecting the Unfunded Actuarially Accrued Liability (UAAL). [9] Each UAAL is paid over a 30 year period with interest at the Plan's assumed rate-of-return.

Critics of the City often claim that occasionally it did not make an Annual Required Contribution. That, they say, is a "pension holiday." However, the City has paid 100% of its Annual Required Contribution to the PFPF each and every year. See page 15 ("Did the City take Pension Holidays?") for further discussion.

[8] The Normal Cost is the sum of the individual normal costs for all active participants. For an active participant, the normal cost is the participant's normal cost accrual rate multiplied by the participant's current compensation. The normal cost accrual rate equals
(i) The present value of the future benefits for the participant, determined as of the participant's entry age, divided by
(ii) The present value of the compensation expected to be paid to the participant for each year of the participant's anticipated future service, determined as of the participant's entry age. In calculating the present value of future compensation, the salary scale is applied both retrospectively and prospectively to estimate compensation in years prior to and subsequent to the valuation year based on the compensation used for the valuation. The accrued liability is the sum of the individual accrued liabilities for all participants and beneficiaries. A participant's accrued liability equals the present value, at the participant's attained age, of future benefits less the present value, at the participant's attained age, of the individual normal costs payable in the future. A beneficiary's accrued liability equals the present value, at the beneficiary's attained age, of future benefits. The unfunded accrued liability equals the total accrued liability less the actuarial value of assets. Under this method, the entry age used for each active participant is the participant's age at the time he or she would have commenced participation if the plan had always been in existence under current terms, or the age as of which he or she first earns service credits for purposes of benefit accrual under the current terms of the plan.

[9] The funding requirements are defined in Florida Statutes 112.64(2) "From and after October 1, 1980, for those plans in existence on October 1, 1980, the total contributions to the retirement system or plan shall be sufficient to meet the normal cost of the retirement system or plan and to amortize the unfunded liability, if any, within 40 years; however, nothing contained in this subsection permits any retirement system or plan to amortize its unfunded liabilities over a period longer than that which remains under its current amortization schedule."

Has the Fund Earned the Assumed Rate of Return?

Has the PFPF earned the assumed rate-of-return (8.5% thru 2011), (7.75% in 2012) & (7% in 2013) per year?

The average rate-of return for the PFPF:

1981 – 1990 = 12.4% 1991 – 2000 = 12.54% 2001 – 2012 = 5.76% 1976 – 2012 = 9.59%

The actual annual rate-of-return is shown in the first graph as a red dotted line – it varies considerably.

The average rate-of-return is not a very good measure of PFPF performance. For example, if you start with a $ 100 investment and there is a market loss of 30% in one year, it takes nine years at 10% (not 3 years X 10%) to get back to where your investment would have been five years earlier without the market loss – six years of compounded returns have been lost. At 8.5% it takes more than ten years.

	No Losses			Make up for Loss @ 10%			Make up for Loss @ 8.5%		
	Start Balance	Rate of Return	End Balance	Start Balance	Rate of Return	End Balance	Start Balance	Rate of Return	End Balance
Year 1	100.00	8.50%	108.50	100.00	-30%	70.00	100.00	-30%	70.00
Year 2	108.50	8.50%	117.72	70.00	10%	77.00	70.00	8.5%	75.95
Year 3	117.72	8.50%	127.73	77.00	10%	84.70	75.95	8.5%	82.41
Year 4	127.73	8.50%	138.59	84.70	10%	93.17	82.41	8.5%	89.41
Year 5	138.59	8.50%	150.37	93.17	10%	102.49	89.41	8.5%	97.01
Year 6				102.49	10%	112.74	97.01	8.5%	105.26
Year 7				112.74	10%	124.01	105.26	8.5%	114.20
Year 8				124.01	10%	136.41	114.20	8.5%	123.91
Year 9				136.41	10%	150.05	123.91	8.5%	134.44
Year 10							134.44	8.5%	145.87
Year 11							145.87	8.5%	158.27

Table 1

How Can There Be Such A Large Unfunded Liability (UAAL)?

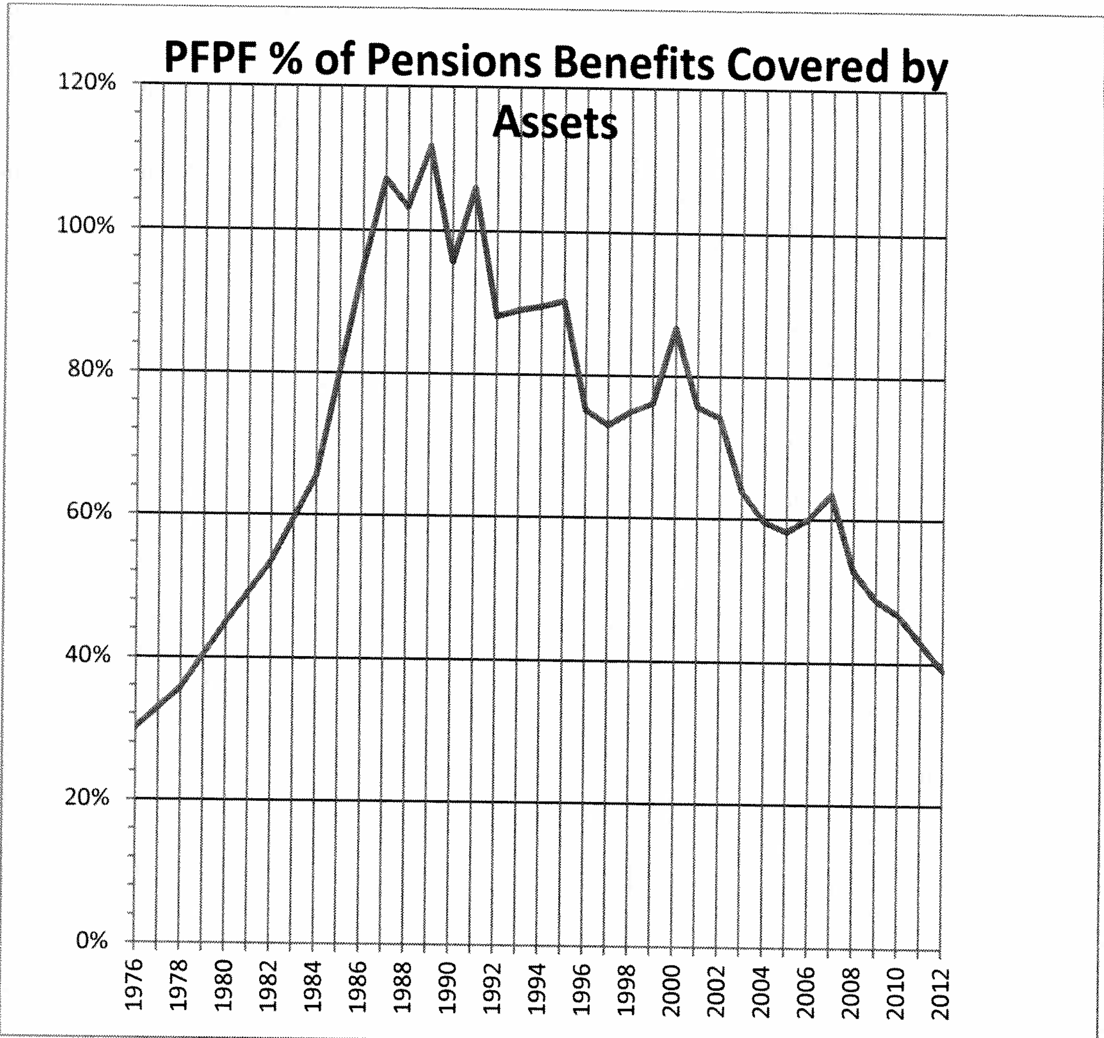
The answers to the previous questions beg the question – how can there be a large unfunded liability?

The "Percent Funded" is a better measure of pension plan health. It is the percentage of projected benefit payments that is covered by assets. At 100 %, a pension plan has sufficient assets to pay all benefits earned to date by all its members. At 39.05 % it could pay 39¢ of every dollar of all benefits earned to date by all its members. The other 61% is the unfunded liability (UAAL).[10]

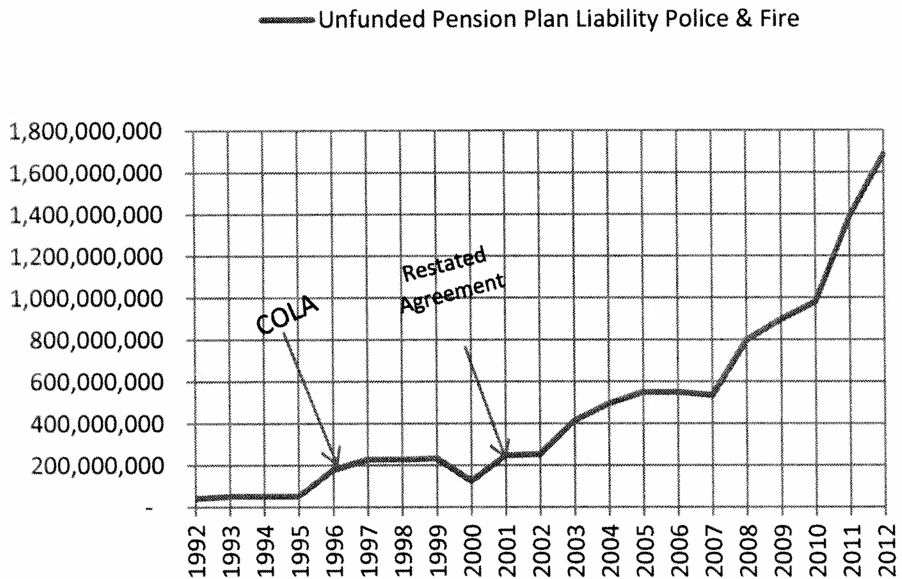
If the PFPF investment returns had been 8.5% EACH year from 2001-2012 there would not have been a UAAL (the blue-dashed line in the first graph above). The Fund assets at 9/30/2012 were about the same as they were 9/30/2006.

"An 80% funded ratio often has been cited in recent years as a basis for whether a pension plan is financially or "actuarially" sound. Left unchallenged, this misinformation can gain undue credibility with the observer, who may accept and in turn rely on it as fact, thereby establishing a mythic standard. ~~This issue brief debunks that myth and clarifies how actuaries view funding levels for pension plans and how the funded ratio relates to the general idea of "soundness" or the "health" of a pension plan or system.~~ The Pension Practice Council of the American Academy of Actuaries finds that while the funded ratio may be a useful measure, understanding a pension plan's funding progress should not be reduced to a single measure or benchmark at a single point in time. Pension plans should have a strategy in place to attain or maintain a funded status of 100% or greater over a reasonable period of time....Actuarial funding methods generally are designed with a target of 100% funding—not 80%. If the funded ratio is less than 100%, contribution patterns are structured with the objective of attaining a funded ratio of 100% over a reasonable period of time....Higher funded ratios are to be expected following periods of strong economic growth and investment returns such as at the end of the 1990s. Lower funded ratios are to be expected after recessions or years of poor investment returns such as the economic downturn that began in 2008. Whether a particular shortfall affects the financial health of the plan depends on many other factors—particularly the size of the shortfall compared to the resources of the plan sponsor."[11]

[11] http://www.actuary.org/files/80_Percent_Funding_IB_071912.pdf



Graph 3



Graph 4

Did the City Take Pension Holidays?

According to independently audited financial statements and actuarial reports, the COJ has paid at least 100% of the Annual Required Contribution each and every year. Some critics claim that the city took a Pension Holiday by not making the annual contribution in full. However, the correct definition of a "pension holiday" is when the City transfers funds from "reserve accounts" to satisfy any part of the Annual Required Contribution rather than funding its contribution from the General Fund. These reserve accounts were a result of previous year "overfunding" contributions and were set aside as future funding assets.

The reserves are included in the total assets of the PFPF. [12]

The August 11, 1992 Agreement between the City and the PFPF provided equal sharing of actuarial gains and losses. Three reserve accounts were created by the Agreement:

The Base Benefit Reserve Account (BBRA) was established to account for City contributions in excess of its funding requirements and earnings thereon, for the purpose of cushioning against actuarial losses in the base benefits fund, recognizing actuarial gains in the base benefits fund and giving the City greater flexibility in its funding of the Fund. The base benefits fund consists of the assets pledged to provide fund benefits.

The Member Reserve Account (MRA) was established to hold member contributions in excess of their contribution requirements and earnings thereon, for the purpose of cushioning against the actuarial losses in the base benefits fund, recognizing actuarial gains in the base benefits fund and giving members the flexibility to provide additional money to the enhanced benefits account.

The enhanced benefits account (EBA) was established to provide benefits in excess of base benefits.
The City has used reserve accounts funds eighteen times to meet its funding requirements as follows:

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	
Reserve	292,000	1,529,000	2,749,000	1,962,000	6,767,000	5,175,000	5,901,000	8,144,000	3,170,000	10,389,200	
Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Reserve	10,881,681	768,514	8,753,301	2,105,596	(4,358,257)	442,776	329,448	(5,014,820)	1,162,380	3,130,000	64,278,819

Table 2

The City (BBRA) and Member's (MRA) reserve account were created to hold "excess contributions" – the result of higher than projected investment returns. The City used the BBRA to reduce the contribution (ARC) from the General Fund. The PFPF used the MRA to provide enhanced benefits. [EXHIBIT D]

[12] On August 11, 1992 the City and the PFPF entered into an eight year agreement (Ordinance 91-1017-605) retroactive to January 1, 1992. This agreement established the "Base Benefit Reserve Account" (BBRA) to hold City contributions in excess of City funding requirements and the earnings thereof, for the purpose of:

1) Cushioning against actuarial losses in the Base Benefits Fund;
2) Recognizing actuarial gains in the Base Benefits Fund;
3) Giving to the City greater flexibility in its funding options.

The agreement states: "Nothing contained herein shall force the City to apply actuarial gains to the BBRA as opposed to reducing its funding requirement. The City may use monies in the BBRA to help meet the City funding requirements, in lieu of additional City contributions."

How Do the Actuary's Calculations Affect Taxpayers' Contribution to PFPF?

Calculations can vary considerably from one actuarial report to the next due to investment performance, experience or changes in assumptions. It is based on the actuary's opinions, evaluations and interpretation of past and future uncontrollable events.

Two PFPF actuarial reports, prepared for two consecutive three-year periods (2008 and 2011), by the same actuary, with "expected UAAL" for the same future years differ by nearly $ 600,000,000.

The PFPF Actuarial Report dated October 1, 2011 includes an "Expected Amortization Payment" for the years 2011 through 2040.[13] Remember, the "Annual Required Contribution" is the "Normal Cost" plus a payment on the unfunded liability (UAAL).

Assumptions:

1. "Normal Cost" remains the same as shown in the 10/01/2011 Actuarial Report [page 4, line 6c].
2. "Total Member Contributions" remain the same as shown in the 10/01/2011 Actuarial Report [page 34, for 2011]. Employee contributions are fixed at 7% of payroll.
3. Any contributions other than employee contributions are paid by or thru the City (e.g. Chapter 175, 185 Funds, Court Fines).

- The computation the $ 85,038,060, Required Amortization, for 2011 is shown in Table 4.
- The Annual Required Contribution (ARC) is the "Normal Cost" + "Expected Amortization Payment" (See Table 3).
- Subtract the "Employees Contributions" and the result is the "City's Contribution".

[13] Jacksonville Police and Fire Pension Fund Actuarial Valuation Report as of October 1, 2011, page 7.

Annual Required Contribution

Year	Normal Cost	Expected Amortization Payment	Employees Contributions	City's Contribution
2011	$ 49,769,761	$ 85,038,060	(11,607,345)	$ 123,200,476
2012	49,769,761	89,137,095	(11,607,345)	138,906,856
2013	49,769,761	93,148,264	(11,607,345)	142,918,025
2014	49,769,761	96,809,459	(11,607,345)	146,579,220
2015	49,769,761	101,165,885	(11,607,345)	150,935,646
2016	49,769,761	103,582,852	(11,607,345)	153,352,613
2017	49,769,761	107,707,136	(11,607,345)	157,476,897
2018	49,769,761	109,252,152	(11,607,345)	159,021,913
2019	49,769,761	110,417,227	(11,607,345)	160,186,988
2020	49,769,761	115,284,099	(11,607,345)	165,053,860
2021	49,769,761	120,471,883	(11,607,345)	170,241,644
2022	49,769,761	126,651,980	(11,607,345)	176,421,741
2023	49,769,761	132,351,319	(11,607,345)	182,121,080
2024	49,769,761	138,307,128	(11,607,345)	188,076,889
2025	49,769,761	144,530,949	(11,607,345)	194,300,710
2026	49,769,761	125,290,625	(11,607,345)	175,060,386
2027	49,769,761	121,940,534	(11,607,345)	171,710,295
2028	49,769,761	128,502,960	(11,607,345)	178,272,721
2029	49,769,761	134,285,593	(11,607,345)	184,055,354
2030	49,769,761	140,328,445	(11,607,345)	190,098,206
2031	49,769,761	145,372,951	(11,607,345)	195,142,712
2032	49,769,761	151,914,734	(11,607,345)	201,684,495
2033	49,769,761	127,218,706	(11,607,345)	176,988,467
2034	49,769,761	132,943,548	(11,607,345)	182,713,309
2035	49,769,761	117,275,748	(11,607,345)	167,045,509
2036	49,769,761	122,553,157	(11,607,345)	172,322,918
2037	49,769,761	83,876,309	(11,607,345)	133,646,070
2038	49,769,761	87,650,743	(11,607,345)	137,420,504
2039	49,769,761	91,595,026	(11,607,345)	141,364,787
2040	49,769,761	198,315,541	(11,607,345)	248,085,302

Table 3

JACKSONVILLE POLICE AND FIRE PENSION FUND Section II: Statement of Actuarial Position as of October 1, 2011 Schedule of Minimum Required Amortization of Unfunded Actuarial Accrued Liability					
Date Established	Initial Amount	UAAL as of 10/01/11	Remaining Period 10/01/2011	Required Amortization 10/1/2011	UAAL as of 10/01/2012
1-Oct-76	$ 52,267,000	$ 21,894,160	5	$ 4,651,071	$ 18,579,428
1-Oct-82	(3,089,846)	(260,595)	1	(260,595)	-
1-Oct-84	5,630,273	1,352,924	3	464,855	956,894
1-Oct-86	(36,179,120)	(13,827,509)	5	(2,937,438)	(11,734,052)
1-Oct-87	3,868,562	2,294,690	6	412,317	2,028,257
1-Oct-88	17,910,698	15,521,970	7	2,426,260	14,110,628
1-Oct-89	19,019,326	19,004,375	8	2,637,839	17,634,943
1-Oct-90	508,620	547,686	9	68,571	516,247
1-Jan-92	(15,877,911)	(17,423,362)	10.75	(1,873,368)	(16,755,119)
1-Oct-92	11,433,880	13,330,097	11	1,405,758	12,848,476
1-Oct-96	126,129,419	162,448,250	15	13,302,563	160,704,478
1-Oct-97	44,127,813	57,081,155	16	4,444,374	56,716,132
1-Oct-98	(5,280,099)	(6,845,275)	17	(508,713)	(6,827,646)
1-Oct-01	6,296,677	7,998,228	20	526,710	8,050,561
1-Oct-03	158,527,905	194,592,195	22	11,972,801	196,772,397
1-Oct-06	111,179,581	127,768,607	25	7,203,704	129,908,683
1-Oct-08	230,168,269	251,153,449	27	13,464,842	256,109,474
1-Oct-11	550,672,339	550,672,339	30	27,636,509	563,571,107
Total	**$ 1,277,313,386**	**$ 1,387,303,384**		**$ 85,038,060**	**$ 1,403,190,888**

Source: Police and Fire Pension Fund Actuarial Report 10/01/2011, page 6.

Table 4

How Does The PFPF Defined-Benefit (DB) Plan Compare To A Defined-Contribution (DC) Plan?

For illustrative purposes assume a participant in the PFPF:

1) started working in 1990 at age 22
2) worked 20 years - retired at age 42
3) average pensionable payroll $ 55,000 over the last 52 pay periods
4) Life expectancy 75 years of age.

To earn the same benefits, over the same time period: (See EXHIBIT E)

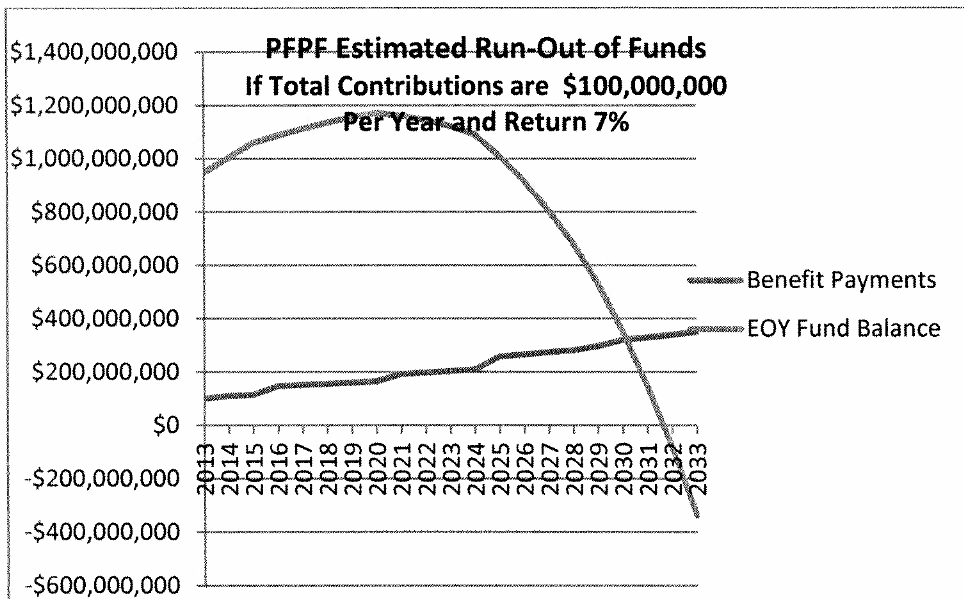
Issue	PFPF	Defined Contribution/IRA/401(k)	Social Security
Investment Required	7% of payroll for 20 years = $ 51,830 an average of $ 2,592 per year.	(1) $ 14,400 per year for 20 years at 7% compound interest needed to accu-mulate $ 590,352. (2) $ 39,347 per year for 20 years at 3% compound interest to accumulate to $ 1,057,828.	6.2% of payroll for 20 years = $ 45,906 an average of $ 2,295 per year.
1st Year of Retirement	55,000 x 60% = $ 33,000	$ 33,000	At age 62 = $ 10,320; at 67 = $ 14,652[14]
33rd Year Retirement Benefit	$ 84,978 due to 3% COLA each year	$ 84,978	Depends of Social Security COLA
34th Year Retirement Benefit	$ 87,527 plus 3% each year until death.	No money left after 33rd benefit year.	Depends of Social Security COLA
Spousal Benefit	75% of benefit for surviving spouse's lifetime.	Balance in the account at death.	Same amount as deceased spouse's benefit.

[14] http://www.socialsecurity.gov/OACT/anypia/download.html

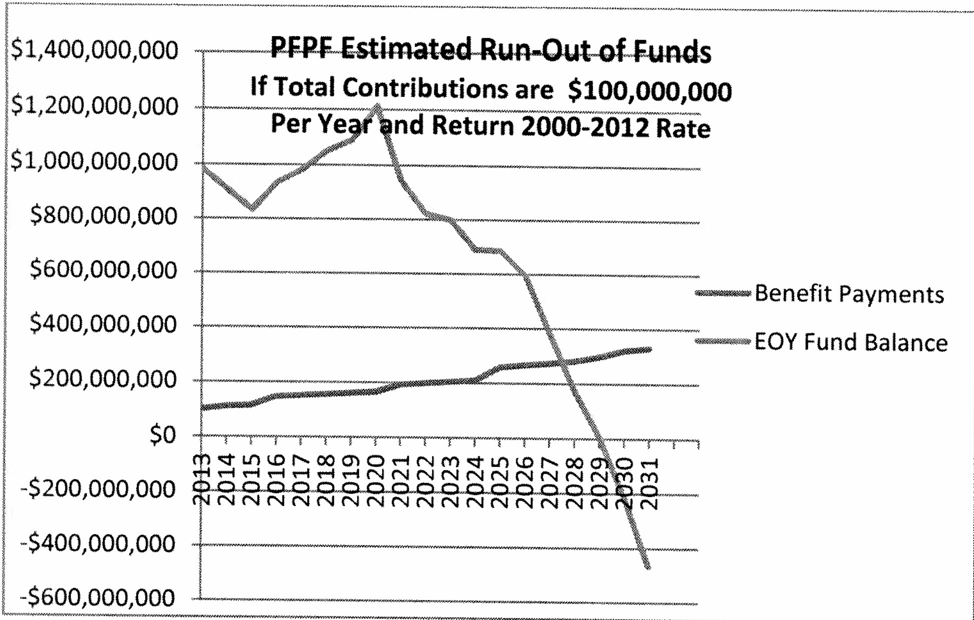
Will the PFPF run out of money?

As long as the City pays the Annual Required Contribution (ARC) the PFPF will not run out of funds to pay retirees. If the City cannot afford to contribute the ARC this may no longer be true. The combined contributions to the PFPF ($ 138,906,856), GEPP ($ 78,981,840 x 25% = $ 19,745,460) and COPP ($ 14,451,421) for the year ending September 30, 2013 are projected to be $ 173,103,737 – about 18 % of the General Fund Budget. The contribution is projected to increase each year (see below) for more than 20 years. The annual required contributions will increase if the PFPF investment income is less than the assumed 7.0% in any year. The past decade had net investment losses in 2001 (-6.72%), 2002 (-6.68%), 2008 (-14.88%), 2009 (-2.46%) and no gain in 2011 (+.05%) while the assumed rate of return was 8.5%.

If the City determines that for services to be adequate the total contributions from all sources can be $ 100 million, earning 7%, the PFPF could run out of funds by 2032 (See Graph 5). If the investment performance is similar to 2000-2012 then it could run out by 2029 (Graph 6).



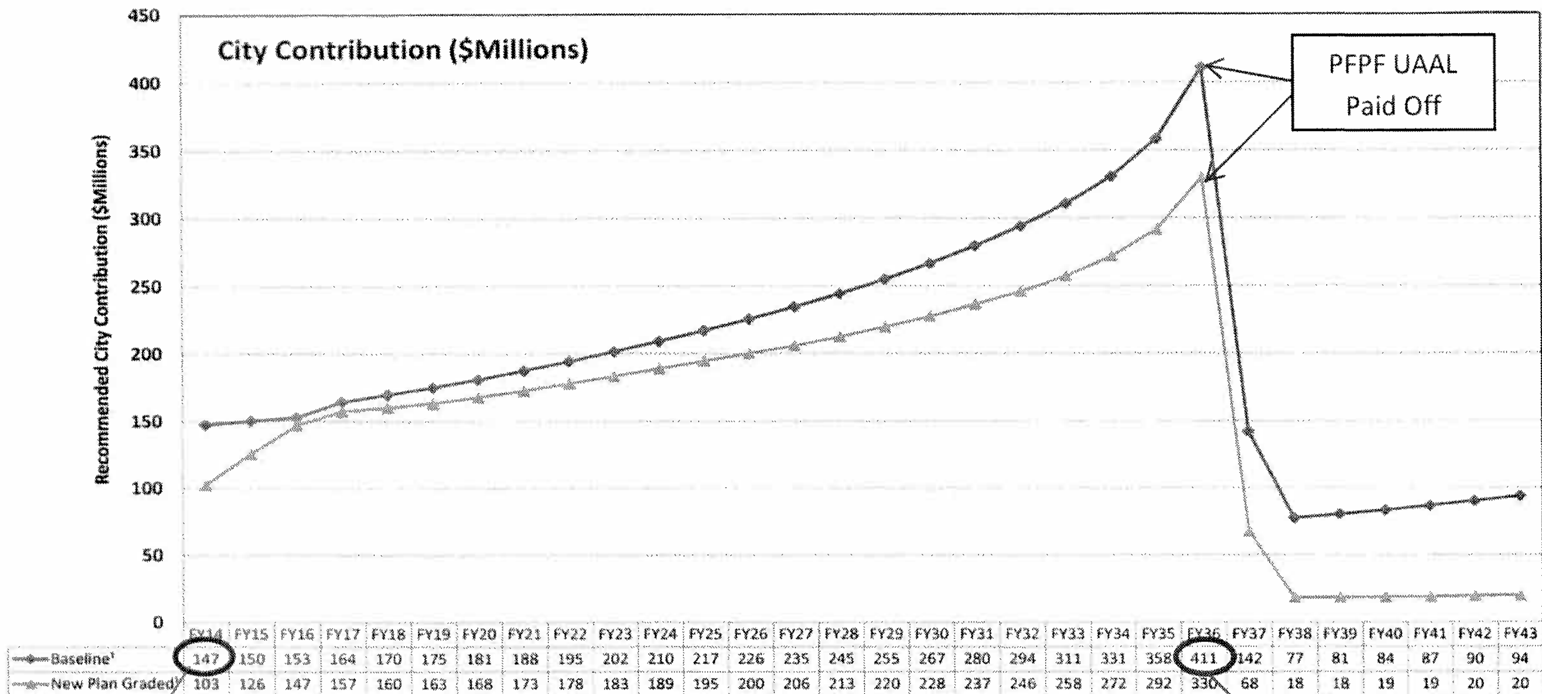
Graph 5



Graph 6

Demographics:

Currently there are 2,213 active PFPF participants and 2,097 retirees and beneficiaries receiving benefits. In eight years (2021) there will possibly be 2,213 actives and 3,214 retirees and beneficiaries.



	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Baseline[1]	147	150	153	164	170	175	181	188	195	202	210	217	226	235	245
New Plan Graded	103	126	147	157	160	163	168	173	178	183	189	195	200	206	213

	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40	FY41	FY42	FY43
Baseline[1]	255	267	280	294	311	331	358	411	142	77	81	84	87	90	94
New Plan Graded	220	228	237	246	258	272	292	330	68	18	18	19	19	20	20

[1] Excludes employee contributions, State Chapter Funds allocation (i.e. premium-tax refunds) and expected court fines and penalties. State laws make the City responsible for the difference between the actuarially determined contribution and these amounts.

Graph 7

Will the taxpayers run out of money? The budget deficit for the 2013-2014 year for Government Operations is $60 million; to provide this money taxes have to increase by 15% (to 11.5353 mills from 10.0353). If it takes 15% to raise $60 million how much more is required to get an additional ($ 411,000,000 – 147,000,000 =) 264,000,000? The answer is 66% + 15% = 81%. That is if everything goes as the actuaries predict – that is not likely (See Graph 4 and Table 4).

How will the new Government Accounting Standards Board (GASB) pronouncements affect the City?

The assumed rate-of-return will decrease -- it will further increase the unfunded liability and the annual required contribution. The rate will be a single rate that reflects: (a) the long-term expected rate of return (currently 7.75%).[15] (b) The rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher for benefit payments that occur in years when those amounts are no longer sufficient to cover annual benefit payments.[16] "The conclusion is that employers and plan administrators should be prepared for funded ratios reported in their financial statements to decline sharply under the new rules."[17]

In addition, plans cannot use actuarial smoothing of market gains and losses. Plan assets must be valued at market value - immediately recognizing asset gains and losses results in a funded ratio that clearly demonstrates the degree to which plan funding is tied to the fate of the stock market.[18]

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[15] The plan will project the number of future years in which assets on hand, investment returns, and certain future employer and employee contributions will be sufficient to pay annual benefit payments. So long as the benefit payments are projected to be covered by available assets, they are discounted by expected returns. ***How Would GASB Proposals Affect State And Local Pension Reporting?***, page 3, Center for Retirement Research at Boston College, September 2012. http://crr.bc.edu

[16] ***Statement No. 68 of the Government Accounting Standards Board***, page 11. Effective for years beginning after June 15, 2014.

[17] ***How Would GASB Proposals Affect State And Local Pension Reporting?***, page 1, Center for Retirement Research at Boston College, September 2012. http://crr.bc.edu

[18] ibid.

Comparison of Original Agreement and the Restated Agreement

Topic	August 11, 1992 Agreement (Ord. 91-1017-605)	Restated Agreement - March 5, 2001
Term of Agreement	Eight (8) years. "If for any reason the term shall be challenged as a matter of law, the term of this Agreement shall not be less than the minimum term allowed by law. The terms of this Agreement shall control beyond the expressed term hereof until such time as either party is notified in writing by certified mail, return receipt requested as to its intention to terminate."[19]	Thirty (30) years. **Ord. 93-1983-1407 extended 8/11/1992 agreement to 9/30/2005.** **"If for any reason the term shall be challenged as a matter of law, the term of this Agreement shall not be less than the minimum term allowed by law. The terms of this Agreement shall control beyond the expressed term hereof until such time as either party is notified in writing by certified mail, return receipt requested as to its intention to terminate."[20]**
Cost of Living Allowance (COLA)	None	**The COLA is retroactive to the 5th anniversary of the date of payment of pension benefits after 10/01/1991. The COLA shall be the <u>smaller</u> of 3% or the percentage of increase in the CPI-U published by Department of Labor [21]** **The funding of the new COLA benefits provided from October 1, 1996 through September 30, 2000, shall be provided as follows: (a) The Trustees of the PFPF shall initially transfer funds into the Base Benefits Fund form the Enhanced Benefits Account and subsequently as needed from the Member Reserve Account equal to 50% of the increased contribution requirement attributable to the COLA benefit. The funding requirement is permanent and shall not cease on September 30, 2000. (b) The City shall transfer into the Base Benefits Fund those funds certified by the Plan Actuary equal to fifty (50%) percent of the increased contribution requirement attributable to the new COLA benefit.[22]** **Immediate COLA became a Base Benefit - City provides 100% of funding.**
Surviving Spouse	If any member of the police or fire department shall hereafter be killed or die from effects of an injury or of any illness or disease contracted while a member of the Police or Fire Department, or while retired on a pension, and any such member or retiree so killed or dying shall have a spouse living with said member at time of death, the Trustees shall direct the payment from said Fund of the following sum to the surviving spouse, while unmarried, seventy-five (75%) percent of the pension the deceased member was receiving or would be en-	

[19] Ord. 93-1983-1407, Exhibit A, p.7, paragraph 40.
[20] Ord. 93-1983-1407, Exhibit A, p.7, paragraph 40.
[21] Ord. 93-1983-1407 (4/1/1996), p.3, lines 13-15.
[22] Ibid, p.6, lines 18-22.

Topic	August 11, 1992 Agreement (Ord. 91-1017-605)	Restated Agreement - March 5, 2001
	titled to receive had the member completed twenty-five (25) years of credited service, and survived to receive such pension. If a deceased member served in excess of twenty-five (25) years, the seventy-five (75%) percent of the pension shall be based upon the actual years of service.	

Topic	August 11, 1992 Agreement (Ord. 91-1017-605)	Restated Agreement - March 5, 2001
Member Contribution	A deduction of 7% percent annum from all salaries (base salary, longevity, city college incentive, enhanced certification pay, emergency operation and hazardous duty pay; shift differential, and "upgrade" pay; and excluding all overtime, state incentive pay, reimbursed expenses and allowances such as cleaning/clothes allowances, and payments for unused accrued time) overtime pay, of all members of the police and fire departments participating in this fund, or who will become members hereafter, to be deducted in installments from each periodical paycheck of each of said members, together with a sum equal to not less than the minimum recommended contribution in the most recent actuarial valuation of the fund expressed as a percent per annum of all salaries (as defined above) of all members of the police and fire departments participating in this fund according to the amount thereof as set up in the current budget in each year hereafter, together with such additional sums as may be necessary to administer this fund, which two latter amounts shall be designated by the Board of Pension Trustees and certified to the Council for each fiscal year, and the Council shall thereupon place the amount so designated in the budget for the succeeding year and levy a tax therefor if necessary except that the City may in good faith challenge the City contribution designated by the Board of Trustees. In the event of such a challenge, the Board of Pension Trustees' actuary and the City's actuary shall agree on an impartial third actuary who shall resolve all disputes between the actuaries and whose decision shall be binding and final as between the Board and the City. As of the date of this Agreement, the Member Funding requirement is seven (7%) percent of Payroll. **For future fiscal years, the Member Funding requirement will be adjusted through the ratable sharing of actuarial gains and losses.** If subsequent actuarial reviews determine that the Member Funding Requirement is other than seven (7%) percent, the Member Contribution Rate shall be determined as follows: If the Member Funding Requirement exceeds seven (7%) percent, the City shall deduct the entire funding requirement from Member's Salaries unless the Board submits documentation that Plan Members as a group have authorized the ex-	A deduction of seven percent (7%) per annum shall be increased to eight percent (8%) per annum effective October 1. 1996.[23] This 1% increase is part of the member 50% contribution to the cost of the COLA.[24] **Effective April 1, 2000, the Member Contribution Rate to the Base Benefits Fund shall be seven percent (7%) of payroll.**

[23] Ibid, p.4, lines 11-12.
[24] Ibid, p.6, line 23.

Topic	August 11, 1992 Agreement (Ord. 91-1017-605)	Restated Agreement - March 5, 2001
	penditure of available MRA funds to reduce the Member Contribution Rate, and in that event, the Member Contribution Rate for that year shall be set at the amount authorized by the Plan Members but no less than the amount needed to meet the funding requirement, after taking into consideration available MRA funds.	
Retirement benefits – Time Service	**Time service retirement. Members shall be entitled to a regular time service retirement benefit equal to a maximum of eighty percent of the average salary received by the member for the 52 pay periods immediately preceding the time of retirement, upon the completion of thirty-two years of credited service. For each year prior to the thirty-second year of service that a member retires, the eighty percent retirement benefit shall be reduced by two percent, with the minimum normal retirement benefit being fifty-six percent after completion of twenty years of credited service.**	
Retirement benefits – Disability	Any member, who prior to reaching regular time service retirement becomes permanently and totally disabled from useful and efficient service as a police officer or firefighter, as established by competent medical evidence, shall be entitled to a disability retirement. The Disability retirement benefit shall be equal to sixty percent of the average salary received by the member for the 52 pay periods immediately preceding the time of retirement. The Board shall establish the effective date on which the disability benefit shall commence. The Board of Trustees shall, by rule, establish procedures for the examination of applicants for disability retirement, for the conduct of disability retirement hearings, for review of said hearings by a court of competent jurisdiction, and reexamination of retirees on disability pension.	

Topic	August 11, 1992 Agreement (Ord. 91-1017-605)	Restated Agreement - March 5, 2001
Retirement benefits - Vesting	Members who terminate employment on or after the effective date of this Ordinance with five (5) or more years of credited service and are not otherwise eligible to retire, are eligible to receive either a deferred retirement benefit of two and one-half (2.5%) percent of the average salary received by the member for the 52 pay periods immediately preceding the date of vesting, for each year of credited service prior to the date of vesting, to commence at normal retirement date; or be paid a refund of one hundred (100%) percent of member contributions to the Plan without interest. Within thirty (30) days of a member leaving the payroll prior to normal service retirement, the member must make the election in writing to either vest or the refund will be issued automatically.	
Refund of Member's Contributions	Members whether or not vested, who terminate employment on or after the effective date of this Section, prior to retirement, shall be paid a refund of one hundred (100%) percent of their contributions to the Plan without interest, except as provided in Section 121.107(c). Acceptance of the refund of employee contributions constitutes an irrevocable waiver of all rights to benefits from the Plan.	
Single Member's Death Benefit	In the event of the death of a member who does not have a surviving spouse or children, one hundred (100%) percent of the member's contributions to the Plan without interest shall be payable to the estate of the member to be distributed in accordance with the law of the domicile of the member at the time of death.	
Purchase of Wartime Military Service	Members of the Police and Fire Pension Fund may purchase up to twenty-four (24) months of wartime military service for credited service towards retirement based on the following definitions: World War II, December 7, 1941- December 31, 1946; Korean Conflict, June 27, 1950-January 31, 1955; Vietnam Era, August 5, 1964-May 7, 1975. Members of the Fund must apply for purchase of wartime military service and will be required to pay into the Pension Fund an amount equal to twenty (20%) percent of the base pay the member was earning on the date of application, to be paid as directed by the Trustees.	
Enhanced Benefit Account (EBA)	That account established to hold the Enhanced Benefit Revenues until they are assigned to provide Enhanced Benefits.	**No Change**

Topic	August 11, 1992 Agreement (Ord. 91-1017-605)	Restated Agreement - March 5, 2001
Enhanced Benefit Loss Reserve Account	That subaccount established in this Agreement within the Enhanced Benefit Account which is a cushion against unanticipated actuarial experience impacting enhanced benefits. This account shall not be considered in the determination of the appropriate contribution requirements.	"AG&(L)" associated with Enhanced Benefits are to be borne 100% by the Members from the Enhanced Benefits Account. However, the Enhanced Benefit Account shall not bear 100% of the "AG&(L)" associated with benefits formerly classified as Enhanced Benefits through the period ended March 31 , 2000, which were subsequently reclassified as Base Benefits for periods on and after April1 , 2000.
Enhanced Benefit Revenues	Uncommitted Chapters Funds and all earnings thereon.	Uncommitted Chapter Funds and earnings thereon.
Member Reserve Account (MRA)	That account established in this Agreement to hold Member Contributions in excess of Member Contribution Requirements and earnings thereon, for the purpose of: 1.) Cushioning against actuarial losses in the Base Benefits Fund, i.e. the Members' liability of ratable sharing; 2.) Recognizing actuarial gains in the Base Benefits Fund, i.e. the Members' benefit of ratable sharing; and 3.) Giving to the Members (as an entire group) flexibility to provide additional monies to the Enhanced Benefits Account.	One percent per annum increase in member contribution (from 7% to 8%) may be assessed against the Member Reserve Account.[25] **Effective March 31, 2000, the MRA shall be liquidated and retired from further use with the accumulated balance as of such date being transferred to the City Budget Stabilization Account.**
Post Retirement Enhancement	Enhanced benefits, in the nature of "cost of living" increases to the standard or base level benefits, which are authorized by this Agreement or subsequent City Council action, adopted by the Board, and funded from the Enhanced Benefits Account.	
City's Contribution Rate	The Board will certify that the contribution rates in budget ordinances for fiscal years 1990-91 and 1991-92 comply with actuarial requirements of the Florida Statutes and will not hereinafter challenge the City contribution rates reflected in such budget ordinances. The parties agree that in the 1992-93 fiscal year the City Contribution Rate will be 3.39% of payroll.	**Effective April1, 2000, through September 30, 2002, the City Contribution Rate shall be 8.75% of Payroll. Effective October 1, 2002, through September 30, 2004, the City Contribution Rate shall be at least 9.25% of Payroll.**
Base Benefit Reserve Account (BBRA)	If City contributions in excess of the requirements are made, they shall be credited to a separate account called the Base Benefit Reserve Account (BBRA). It is recognized that since the City has a floating contribution rate, the City's funding requirements may increase or decrease based upon actuarial experience. Nothing contained herein shall force the City to apply actuarial gains to the BBRA as opposed to reducing its funding requirement. The City may use monies in the BBRA to help meet the City funding requirements, in lieu of additional City contributions. In recognition of the resolution of disputes between the City and the Board, the parties agree that the initial balance in the BBRA, supplied from current assets of the	**Replaced by City Budget Stabilization Account (CBSA)**

[25] Ibid.

Topic	August 11, 1992 Agreement (Ord. 91-1017-605)	Restated Agreement - March 5, 2001
	Base Benefits Fund shall be $13,659,113. The City may apply the release of all BBRA funds as needed to compensate for adverse unanticipated experience in the Base Benefits Fund; however, no funds shall be released for any other purpose that will result in a drop in the BBRA below 1% of payroll.	
Actuarial Gain and Loss Sharing	The parties agree to ratably share in the benefits and liabilities of Actuarial Gains & Losses, hereinafter "AG&(L)" attributable to Base Benefits, from the valuation date reflected in Exhibit B through the duration of this Agreement. The parties also agree that "AG&(L)"associated with Enhanced Benefits are to be borne 100% by the Members from the Enhanced Benefits Account. The parties agree that "AG&(L)" shall be utilized for the purpose of reducing (when there are gains) or increasing (when there are losses) City and Member Base Benefit funding requirements. A. Ratable Sharing The parties agree that ratable sharing in the reduction or increasing of Base Benefit funding requirements shall be accomplished through the use of an equal **50-50% sharing of actuarial gains and losses.** (i) "AG&(L)" shall be computed with existing Actuarial Assumptions to determine new total City and Member Base Benefit funding requirements. (ii)The new City and Member Base Benefit funding requirements shall be computed by functioning the ratable shares of actuarial gain or loss into the analysis of City and Member funding requirements. B. Actuarial Assumptions. For the purposes of Implementing this paragraph, the Actuarial Assumptions shall be set consistent with the provisions of Paragraph 31 herein. However, any AG&(L) associated with Enhanced Benefits will be factored out.	**Effective April 1, 2000, the parties agree that "AG&(L)" associated with Base Benefits are the full responsibility of the City**, subject to the application of incremental provisions described in Subsections E and F of Paragraph 8. The parties also agree that "AG&(L)" associated with Enhanced Benefits are to be borne 100% by the Members from the Enhanced Benefits Account. However, the Enhanced Benefit Account shall not bear 100% of the "AG&(L)" associated with benefits formerly classified as Enhanced Benefits through the period ended March 31 , 2000, which were subsequently reclassified as Base Benefits for periods on and after April1 , 2000.
Use of Chapter 175/185 Insurance Rebate Funds	The parties agree that all pre-1992 Chapter Funds as such reference is used by the State Department of Insurance are irrevocably committed to the Base Benefits Fund, but that the fixed amount of $13,659,113 effective the date of this Agreement, is initially withdrawn from the Base Benefits Fund and is assigned to the Member Reserve Account.	

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Unfunded Liability (UAAL)	$ 42,138,873 Agreed 1/1/1992	$ 1,684,069,919 As of 10/01/2012[26]
Annual Cost	As of 1/1/1992: $ 9,875,517 = Normal Cost $ 2,709,377 = Amortization of UAAL $ 12,584,894 = Total 15.49% of Payroll	As of 10/01/2012 $ 46,109,290 = Normal Cost $ 4,500,000 = Expense Load $ 108,273,721 = Amortization of UAAL $ 158,883,011 = Total 118.91% of Payroll
Assumed Annual Net Investment Yield	8.75%	Changed to 7.0% 10/01/2012
Deferred Retirement Option Program (DROP)	None	Ord. 97-1103-E (8/17/1998) created a DROP benefit. Participants elect to participate for a maximum of 48 months. Effective with the date of DROP participation, the member's initial normal retirement benefit, including creditable service, average compensation and effective date of retirement are fixed. Normal retirement benefits, together with annual COLAs, and interest at 8.4% accrue monthly in the fund for participant's benefit. DROP participants contribute 2% of pay to the Fund. The City does not contribute other than the 8.4% interest guarantee.
Base Benefits Defined	Base Benefits shall mean the following: (a) Time Service Retirement - Retirement after 25 years or more of credited service regardless of age. (b) Benefit formula - 2. 5% of the average salary for the last 2 years of the first 32 years of credited service, reduced 2% for each year the member retires prior to completing 32 years of service, with minimum time service benefit of 25 years. (c) Spouse Benefit – 75% benefit continuation to eligible spouse. (d) Child Benefit - $200.00 per month per child, up to maximum member benefit, prorated if exceeding maximum benefit, until child turns 18 years of age. (e) Orphan Benefit- Same as spouse. Combination of benefits prorated for orphaned children cannot exceed maximum member benefit. Benefits end when orphan turns 18 years of age. (f) Disability Benefit - 60% of the average salary for the last 2 years. (g) Preretirement Death Benefits - Spouse's benefit of 75% of projected normal retirement benefit, plus $200.00 for each child to age 18, prorated if necessary, with overall maximum benefit of 100% of projected normal retirement benefit.	It is agreed that Base Benefits shall mean the following: (a) Time Service Retirement - Retirement after 25 years or more of credited Service, regardless of age. (b) Benefit formula- 2.5% of the average salary for the last 2 years of the first 32 years of credited service, reduced 2% for each year the member retires prior to completing 32 years of service, with minimum time service benefit of 25 years. (c) Spouse Benefit - 75% benefit continuation to eligible spouse. Spouse Benefit Includes that benefit defined in in Sections 121.204 and 121.205, Ordinance Code. (d) Child Benefit-$200.00 per month per child, up to maximum member benefit, prorated if exceeding maximum benefit, until child turns 18 years of age. Child Benefit includes that benefit defined in Section 121.206, Ordinance Code. (e) Orphan Benefit· Same as spouse. Combination of benefits prorated for orphaned children cannot exceed maximum member benefit. Benefits end when orphan turns 18 years of age, unless the orphan meets the requirements of Section 121 .207, Ordinance Code. (f) Child Disability Benefit • shall be that as defined In Section 121 .206(d), Ordinance Code. (g) Disability Benefit- 60% of the average salary for the last 2 years. (h) Preretirement Death Benefits· Spouse's benefit of 75% of projected normal retirement benefit, plus $200.00 for each child to age 18, prorated if

[26] PFPF Actuarial Report 10/01/2012.

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	(h) Termination of Service - For termination with less than 10 years of service, refund of 50% of Member contributions or, if over 10 years of service, member may elect to "vest accrued benefit" of 2.5% of average salary of the last 2 years times the years of credited service, with payments to begin at normal time service date. It is agreed that no change in the law shall be deemed to change the definition and scope of Base Benefits as contemplated by this Section.	necessary, with overall maximum benefit of 100% of projected normal retirement benefit. (i) Termination of Service- For termination with less than 5 years of service. refund of 100% of Member contributions or, if over 5 years of service, member may elect to "vest accrued benefit" of 2.5% of average salary of the last 2 years times the years of credited service, with payments to begin at normal time service date. (j) · Cost of Living Adjustments It Is agreed that Base Benefits shall be amended to include the following categories of benefits for periods subsequent to March 31 , 2000: (1) Twenty (20) year retirement element of Ordinance 91-1017-605 (2) Immediate COLA Benefit (3) DROP element of Ordinance 97-1103-E (4) Modifications to the benefit formula increasing the rate of accrual from 2.8% to 3% per year of service over the. first 20 years of service, with 2% thereafter to a maximum of 80% at 30 years of service rather than 32 years (for implementation effective April 1, 2001).
City Budget Stabilization Account (CBSA)	None	The parties agree to the creation and establishment of the City Budget Stabilization Account (CBSA) effective April 1, 2000. The original balance in such account on April 1, 2000, shall be $28,837,723. The City may use monies in the CBSA to help meet the City Funding Requirements for periods subsequent to March 31, 2000, in lieu of additional City contributions; however, the use of the CBSA shall be limited to an amount equivalent to 3.75% of Valuation Payroll through fiscal year ending 2004 and to 3.25% of Valuation Payroll thereafter until the UAAL is fully amortized, plus an amount equivalent to the amortization of any net actuarial loss per year. The Board shall submit an annual report to City Council and the Council Auditors on the beginning balance, additions, deductions and ending balance of the CBSA. This shall be submitted as part of the Board's annual financial statements. Effective March 31, 2000, the MRA shall be liquidated and retired from further use with the accumulated balance as of such date being transferred to the City Budget Stabilization Account.