

# SUMMER STUDIES 2017

## Police and Fire Pension Options

Summer Study 17-013

Office of the City Manager

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# Summer Studies

## *Police and Fire Pension Options*

### Background

Similar to the Transportation Fund Summer Study, this Study does not pose a specific solution to a problem that will be resolved in FY17/18. What this Study does is create an understanding of the complex issue that has become known as “Pension Reform.”

Please indulge this City Manager with this short story. During a recent 50<sup>th</sup> birthday celebration, the City Manager was approached by a couple who said “we have to thank you.” After saying “you are welcome, but why are you thanking me,” they told a very important story about how their police pension, which they were now enjoying as retirees (both had been Miami Beach police officers and gotten married many years ago) had been protected by a City Manager who was tough in negotiating pension reform. The reforms which were bitterly fought by the union and the rank and file had been adopted by the City Commission after a four-hour public hearing. The persons speaking about the reforms were Ricky Pomeranice’s widow (he had been the beloved Chief during the 1968 and 1972 Presidential Conventions) and Scott Rakow’s widow and daughter (Officer Rakow had been killed in the line of duty while his wife was pregnant.) The union counsel was Joe Kaplan, who could best be described as an old fashioned, in your face, Boulwarist. Interestingly, Joe Kaplan’s son is Mitch Kaplan, who owns Books and Books.

Toward the end of the hearing, the Mayor said, “Mr. Kaplan, do you have a closing statement?” Mr. Kaplan looked at the City Manager and said “Will you change your recommendations?” The City Manager said “Mr. Kaplan, the answer is no.” The Mayor then gaveled the meeting closed after he said “Go back to the bargaining table and solve the problem.” The contract was closed at 11:59 pm on the night of its last day and most of the reforms were accepted by the members of the union.

To anyone who has taken the time to read this little story...that is how the process should work. Tough but fair bargaining with both sides of the table wanting a sustainable pension.

Are there demons in this process? No! No! No! Everyone has a role. The players are the unions and its members, the City Commission and the City Attorney and/or labor counsel, the Police and Fire Pension Board and their attorney and actuary, the State of Florida regulators and legislators, and the citizens of Hallandale Beach who pay the taxes that fund it all.

All these people have roles and to demonize any one is not the way to solve the critically important issue of long term sustainability for the Police and Fire Pension Plan. We all support our men and women in uniform and we all want excellent police and fire/rescue departments that are highly respected throughout the community.

### **What are the Key Issues?**

For FY17/18, the cost of the Police and Fire pension is 58.95 percent of police and fire sworn employees' salaries. This percentage, coupled with all other fringe benefits is 76.98 percent of salary costs plus the police and fire have deductions for FICA and pension. This is unsustainable in the long term and must be reduced. The route to reducing fringe benefit costs has many paths which all have to be collectively bargained. We should not focus on pension alone. There are other ways to reduce fringe benefits costs and all possibilities need to be brought to the bargaining table. The actuarial assumptions which are used to derive the annual contribution by the City are flexible in some cases and mandated by the State in others. For example, the mortality table defines what ages the workforce are assumed to attain and continue to collect their pension. The longer people live, the more money the pension requires. The tables are mandated by the State.

On the other hand, the expected earnings from the invested funds assumption is flexible to a point. Over the years, the estimated earnings percentage has been higher than the historical earnings so the Pension Board has a goal of reducing the estimated percentage over time. Each tenth of point reduction in the earnings estimated would cost the City millions of dollars over time. This cost center is controllable by the Pension Board.

The current multiplier for each year of service is 3.0 percent. This means that the number of years of service times the earnings that are creditable to the calculation determines the monthly pension earned by a retiree. Adjusting the multiplier is possible to save money, however, this must be done at the bargaining table. It should be clear that this also reduces the pension paid to the employees over the years.

There are many, many permutations and combinations that are addressed in a bargaining scenario. Eventually, closure is reached through bargaining or impasse resolution. Ultimately, both the union members and the City Commission approve a contract. The disturbing trend is that certain employees who are unsatisfied with pension-related bargained outcomes are using the Police and Fire Pension Board for a second bite at the apple. The Administration and City Attorney are resisting this process which will cost the City millions of dollars in the near future, and we may have to go to court to protect the taxpayers from bearing the burden of the Pension Board's overreach.

There are many more opportunities to maintain pension costs that are fair and balanced for all parties concerned. These solutions are bargainable and the Administration supports going to the table in early 2018 so a new contract can be developed before the FY18/19 Budget proposal is finished. During the Budget Workshop, this Summer Study will be discussed in detail. Please review the attached four documents which are key to determining the City's annual contribution to the Police and Fire Pension Fund:

1) **Actuarial Valuation Report:** this is the valuation report prepared by Foster and Foster Actuaries. Actuaries use alchemy and mysticism known as algorithms to predict financial outcomes based on the specifics of our Police and Fire Retirement Plans. Essentially, this report determines how much the City must contribute to the Plan each year. During the Budget Workshop particular items in the actuary report will be pointed out that generate the increase in our costs each year.

2) **GASB No. 67 and No. 68 Statements:** this report is required to meet certain accounting standards and discloses certain 10-year histories. This report is very useful for determining the impacts of potential changes to the method of calculating the City's contribution. This report will also be discussed during the Budget Workshop.

3) **Special Report on \$95,000 CAP Exemption Claim:** this report shows the financial impact of a claim by certain senior employees that the recent collective bargaining settlement regarding the pension cap does not apply to them. The Police and Fire Pension Board has supported this claim, and this Administration and City Attorney are opposed. The projected cost for this claim next year and every year beyond is \$ 677,877 as identified in a

special report dated July 5, 2017, issued by Foster & Foster, the Police and Fire Pension Board Actuary.

**4) Pension Additional Accrual Service Claim Report:** this is another overreach on the part of the Police and Fire Pension Board. The case relates to a number of employees who could make a one-time election after completion of their probationary period to purchase Additional Accrual Service (AAS), also known as “airtime,” in the form of years of pension time at a discounted rate. The problem started in 2005 when the City and the Police and Fire unions negotiated to change the cost of AAS to an actuarially determined rate. Prior to this change, the cost was fixed at 8.4%/year of the salary at that time. Employees were allowed to purchase up to five years of AAS. The Pension Board at that time decided to hire the Plan actuary to calculate the actuarial cost of AAS, and the Plan Administrator was tasked to inform the members. The window of opportunity closed and many employees did not take advantage due to the high cost of buying airtime. Some now allege that they should have been proactively told of this opportunity by either the Pension Board Administrator and/or the Human Resources Department and allowed to buy the time at the lower rate now rather than the current rate which is much higher. The one-time cost of their claim to the City would be millions of dollars due to the different rates, however, future annual pension costs would go up because a large group of employees would be retiring earlier at younger ages.

### **Private Businesses Have Substantial Pension Deficits:**

Attached is an August 7, 2007 Business Week article that explains how the private sector defined benefit plans are also underfunded by billions of dollars. The benefit of reading this article is that it explains how fluctuations in the economy and related stock values impact the underfunded liabilities of defined benefit retirement plans. The Police and Fire Retirement Fund has an underfunded actuarial accrued liability of \$64,428,000 and even in the current Bull investment market it will be impossible to reduce that unfunded liability without substantial plan or actuarial assumption changes.

## Action Item(s)

- ✚ Staff will be calling an Executive Session with this City Commission to discuss labor negotiation strategy in November. It would be appreciated if the questions this City Commission wants answered during the Budget Workshop relative to specific costs and alternatives be limited until the Executive Session because labor negotiation strategy is sensitive and the authority and limits the City Commission gives the bargaining team should not be known to the other side of the table.
- ✚ The Administration will be meeting with the leadership of the Police and Fire unions in the near future to discuss options. This will not be formal collective bargaining, just an exchange of ideas.
- ✚ The City Attorney will continue to pursuit a positive outcome from the Police and Fire Pension Board regarding the issues that should remain in the collective bargaining realm and not be the province of the Board.
- ✚ The Administration is working with the City Attorney to develop amendments to the Police and Fire Pension Board Ordinance to improve the appointment process.

## Conclusion

There are many factors and many people who must work together to remedy the Police and Fire Pension issues that put its viability at risk. That long journey will soon begin. We must all remain flexible and open minded to achieve the goal.

This Administration expresses its appreciation to the Police and Fire Pension Board for their diligent stewardship of the pension fund assets. The course correction back to their fundamental role that is defined in this Summary Study will go a long way to solving the Police and Fire Pension cost and viability concerns of all people involved.