

Ad Hoc Retirement Benefit Advisory Group Review of Group's Report and JLARC Report

Staff Comments

During a meeting on January 18, 2012, the Ad Hoc Retirement Benefit Advisory Group (Group) will review their report on City retirement benefits in relation to the JLARC report on state and local retirement benefits. The Group may wish to use this as a discussion document to affirm or modify their November 9, 2011 report.

A. REVIEW OF GROUP'S NOVEMBER 9 FINDINGS & OBSERVATIONS IN RELATION TO JLARC REPORT

- 1) Introduction: The pension/retirement benefit is a part of the City's total compensation package. The JLARC Report is consistent with this finding.
- 2) Overview of Funding: The City has made actuarially required contributions to VRS on time and in full. This is in contrast to the state's funding practices. The JLARC commission briefing makes one passing remark (page 35) that vaguely links the State's under-funding status to the long history of underfunding of the VRS plans.
- 3) Solvency of Plans: The JLARC report is consistent with the Group's finding.
- 4) Sustainability: Ultimately, sustainability is an issue for City Council. The JLARC report provided no insights that would modify the Group's findings.
- 5) Defined Benefit vs. Defined Contribution: The Group found the defined benefit structure preferred by employees. The JLARC Report is consistent with this finding. The Group also found the Defined Benefit structure more cost effective in delivering benefit dollars to the employees.
- 6) City and Employee Contributions: The Group reviewed the changes in employee contribution rates in creating the Firefighters and Police Officers Pension Plan in 2004, and changes to the Supplemental Plan in 2009, and VRS in 2010. These changes were in the spirit with the ideas of the JLARC Report.
- 7) Employee Expectations: The JLARC survey of employees' attitudes about pension found the benefits package, and pension in particular, is an important part of the decision

to accept their position with the state. These expectations were similar to those discussed by the Group and/or included in the findings.

- 8) New Employees: The Group found a two tier system of benefits can result in cost savings but may have some disadvantages. The JLARC report did not mention any disadvantages of a two tier system.
- 9) New Employee Contribution Rate Decision: This finding was unique to the City and there was no analogous issue in the JLARC study.
- 10) Comparability with Other Jurisdictions: Both the Group and the JLARC study acknowledged the need to remain competitive with neighboring jurisdictions.
- 11) Social Security: Both studies acknowledge the value of Social Security and endeavor to use it in determining benefit adequacy.
- 12) Legacy Plan's Lingerin Costs: The City has a legacy plan in an "old" defined benefit plan for firefighters and police officers. The Group acknowledges these costs and endeavored to separate those legacy costs form the cost of the current employees' benefit package. The JLARC study did not distinguish that part of the budget burden attributable to employees' current benefits as opposed to debt burdens from past underfunds or other unrelated issues.
- 13) State Employees Under City Plan: This issue was not discussed in the JLARC Report.
- 14) GASB: The Group did review the impact of GASB. The JLARC Report did not cite GASB explicitly, but it did reflect its impact in stating that a switch to a defined contribution plan would have adverse short term cash flow consequences. The JLARC Report is consistent.
- 15) VRS: The Group did suggest the JLARC Report may have profound impact on pensions within the state and in the City in particular. As it turned out, the JLARC report is largely focused on state employees and in most cases is not specific about local governments. It is yet to be seen if the General Assembly might make any pension plan changes impacting local governments in the 2012 Legislative Session.
- 16) Federal Legislation: The JLARC Report did not comment on federal regulation of public pension plans.

- 17) Retirement Boards: The JLARC report would not impact the governance of the City's plans.
- 18) Employee Education: Both the Group and the JLARC Report called for employee education (in different contexts) so the reports were consistent in this finding.
- 19) Stability: The Group paid notice to the disruption caused by frequent changes. The State has a history of moving cautiously in the retirement area. These findings are consistent with the Group's cautious approach.
- 20) Part time Employee Benefits: Part time employees do not participate in VRS. This is not relevant to the JLARC report.

B. REVIEW OF GROUP'S NOVEMBER 9 RECOMMENDATIONS IN RELATION TO JLARC REPORT

- 1) Continue the Defined Benefit Plans: The JLARC report did not recommend a defined contribution plan or a hybrid/combination plan at this time. This is consistent with the Group's report.
- 2) Board Participation for Members of the Supplemental Retirement Plan: The Group recommended plan governance be extended to the Supplemental Plan members. There was no parallel in JLARC report.
- 3) Adjustment Mechanism: The Group recommended a resilient/dynamic contribution rate that adapted to the financial environment as a way for both the City and employees to share in significant changes in the City's retirement budget contributions. The state has responded to the changing financial environment by exploring changes to the benefit side (rather than potentially increasing employee contributions). Also, the state has not involved employees in the process.
- 4) No Increases in Employee Contributions: The Group recommended there be no increases in employee contributions beyond the Adjustment Mechanism in #3. The JLARC Report explored that possibility in option #6, but did not recommend it.
- 5) Changes To Be Considered by Pension Boards: This option is unique to the implementation of #3, and has no analog in the JLARC report.
- 6) Disparities Between Short and Long Tenured Employees: The Group recommended a review of the growing disparity in benefits between recent hires and those from prior to

2008. The state appears to only provide different benefit levels to new and old based on pensions (VRS 1 vs. VRS 2) and not in other benefits. This issue of disparity may not be as relevant for the state as it is for the City.

- 7) Cost Estimate for VRS Retirement at Age 50 with 25 Years of Service: The City's Uniformed Officers in VRS (deputies, medics, and fire marshals) requested cost estimates for attaining retirement eligibility in VRS at age 50 with 25 years of service. This is not relevant to the State and thus not part of the JLARC Report.
- 8) Portability: In the JLARC Report there is a brief mention in the discussion of defined contribution plan. While not in depth I interpret this to mean the JLARC Report encourages portability when feasible.
- 9) Study for a Supplemental Plan COLA: The Group recommended determining the cost of a COLA for the Supplemental Plan. One of the JLARC Report suggestions for cost savings (Option #3) was to reduce the COLA in VRS 1 & 2 (subject to legal constraints). In this regard the JLARC study and the Group's recommendations took different positions. The Group reaffirms its position.
- 10) Employee Education: This is endorsed by both the Group and the JLARC Report.
- 11) Retiree Health and Life Insurance Summary Plan Description: This is not relevant to the state and the JLARC Report.
- 12) Retiree Health Care Subsidy: The call to review the possibility of increasing the retiree health care subsidy of \$260/month is unique to the City and not relevant to the JLARC Report.
- 13) Part Time Employees Benefits: Part time employees do not participate in VRS so the issue is not relevant to the JLARC Report.
- 14) Supplemental Retirement Plan for State Employees: This issue is relevant to the City and not relevant to the JLARC Report.
- 15) & 16) JLARC Report: The Group asked City Council to delay action on pension plans until release of the JLARC report. At its December 13 meeting, City Council heard a discussion of the Group's work, discussed a work plan, and asked the Group to reconvene in January for the sole purpose of reviewing the JLARC report and the Governor's response to that report.