A workshop meeting of the City Commission was held on December 6, 2011 at 5:00 p.m. in the Commission Chamber at the Municipal Administration Building. The meeting was called to order by Mayor Michael S. Carter.

COMMISSIONERS PRESENT: John Paul Rogers; Betty Wojcik; Terry Y. Howell; Mayor Michael S. Carter.

COMMISSIONERS ABSENT: Jonathan Thornhill arrived at 5:46 p.m.

CITY REPRESENTATIVES PRESENT: Terry Leary, City Manager; Albert C. Galloway, Jr., City Attorney; Clara VanBlargan, City Clerk; Jacquie Hawkins, Deputy City Clerk

[Meetings are recorded but not transcribed verbatim]

Agenda Item 2. Police & Fire Pension Discussion

The full staff memo is incorporated into the minutes.

[Begin Agenda memo]

For the December 6, 2011 workshop, the Finance Department is seeking City Commission direction relating to the City's Defined Benefit Pension Plans.

The presentation format includes:

From 5:00 to 5:20		Page
	Introduction	2
Section 1.	Unfunded Actuarial Accrued Liability (UAAL)	3
Section 2.	Annual City Contribution & Total Annual Contributions	8
Section 3.	Comparative Analysis Data	13
From 5:20 to 6:00		
Section 4.	City Commission Discussion with James W. Linn associated with Lewis, Longman & Walker, P.A.	15
Section 5.	James W. Linn and Lewis, Longman, & Walker, P.A.	17
Section 6.	Detailed Comparative Analysis Schedules	26

[End Agenda Memo]

Finance Director Dorothy Pendergrass reviewed Agenda Item 2 by a Power Point presentation with hard copies for Commissioners. She said that if there is a Commission consensus to explore alternative options available for pension plans, staff strongly recommends that the Commission obtains independent, outside professional representation for this purpose. Estimated professional fees relating to pension reform are between $70,000 and $100,000, and would include a pension attorney and an actuarial. The actual cost would not be **determined** until it went through the RFP process.

The following were points that were made by Ms. Pendergrass and Mr. James Linn, with Lewis, Longman & Walker, P.A. as well as answers to City Commission questions:

- **Pension Plans**:
  - The City of Lake Wales is not unique in its problem with pension plans. Governments in this country and all over the world are having the same problem with defined benefit plans where benefits are based on a formula, unlike the 401K plan used by the private sector.
  - Pension Plans were compared to a mortgage with the unfunded or underfunded portion being the debt that has to be paid over a period of time. But, unlike a mortgage, the payments are moving targets and not fixed. They can go up during periods of bad investment returns or they can go down.
  - The unfunded liability has been growing steadily over the years due to the economy

- **A Defined Benefit Plan**:
  - A defined benefit plan is based on the average employee compensation, the number of years of service, and a benefit multiplier.
  - The city bears the risk for investment loss.

- **The Report**:
  - The calculations in the report are composed of three components: the assumption and methodology, which is controlled by the Pension Board; and the benefits approved by the City Commission.
  - Calculations were taken out of the actuarial report and were not judgment calls by the Finance Department. The ratio analysis was prepared by the Finance Department based on numbers provided within the actuarial report..
  - Retirees were not calculated into the ratio analysis because they no longer make contributions into the plan.
  - The Comparative Analysis Data includes benchmarks from Foster and Foster and the Finance Department including the best and worst ranking placement for comparison purposes.
  - If the plan does not meet the assumptions, the unfunded dollar contributions made by the City increases.

- **Rate of Return**:
  - The actual rate of return has been 2% to 3% over the past ten years and yet it has been calculated at 8%.
  - The City is responsible for the difference between the assumed rate of 8% and the actual amount of return.
  - The state legislation is putting pressure on the cities to reduce the assumption rate to a more realistic one, but doing so drives up the cost of the plan.
  - For every 1% reduction in the assumed rate of return, the payroll cost increases 10%.

- **The Actuary**:
  - The actuary assumptions are based on when employees are expected to retire and how long they will be expected to live.
  - Police and Fire benefits also include a survivor benefit.
  - It is the responsibility of the Pension Board to make sure the actuary is doing the job.
  - The Commission has no control over the actuaries, investments, or the method used and yet it retains the responsibility.
  - The Commission only has control over the level of benefits, though to change Police and Fire benefits collective bargaining would be required.

  - The pension boards are solely responsible for: engaging the actuary; approving the reports, administering the funds; and investing with the help of several investment managers and, by law, with the help of an investment advisor not being paid by how the investments go.
  - The actuary's fee is determined by an agreement between the Pension Board and actuary.
  - The Pension Plans are responsible for administrative costs, which includes the actuary fees, the attorney fees, and other administrative costs.
- **Options**:
  - Reduce benefits for all employees
  - Reduce benefits for only new hires, though that would not save any money for 8 to 12 years.
  - Increase employee contributions for Fire and Police, as the contribution rate of 5% in the General Fund is adequate.
  - Close out this plan and set up a lower cost plan.
  - Join the Florida Retirement System.
  - Use a hybrid plan which would share the risk and cost, mixing and matching options such as a low-level defined benefit plan combined with an increased contribution plan.

Commission Comments:

Mayor Carter said he would not support any changes for current employees but if they do nothing, fifteen to twenty years down the road things will be worse. He was in favor of starting the RFP process to find out the cost for an actuary and then look at the options.

Commissioner Rogers said the Commission needs to move cautiously so it can make an informed and fair decision based on what is best for the city and the employees. He was in favor of hiring the actuary.

Commissioner Howell said the Commission has a chance to correct the errors made in the past and come up with a new plan to bring the cost down.

Commissioner Wojcik said it was no one's fault and was due to unexpected global finances. She saw the employees as partners in the process rather than adversaries and said together they could start looking at alternatives.

The consensus was for staff to move forward in starting the RFP process.

There being no further business, the meeting was adjourned at 6:09 p.m.

Mike Carter
Mayor/Commissioner

ATTEST:

Clara VanBlargan
City Clerk