A workshop and informative meeting was held February 28, 2012 at the James P. Austin Community Center beginning at 5:30 p.m. Mayor Mike Carter conducted the workshop.

CITY COMMISSION PRESENT:
Mike Carter, Terrye Howell, John Paul Rogers, Jonathan Thornhill, Betty Wojcik

GENERAL EMPLOYEES RETIREMENT BOARD MEMBERS PRESENT:
Commissioner John Paul Rogers, Linda Kimbrough and Sarah Kirkland
Katie Kinloch, Recording Secretary

GENERAL EMPLOYEES RETIREMENT BOARD MEMBERS ABSENT:

Violeta Salud, Melissa Mayer

FIRE RETIREMENT BOARD PRESENT:

Joe Jenkins, Roy Wilkinson
Suzy Pita, Recording Secretary

FIRE RETIREMENT BOARD MEMBERS ABSENT:
Hugh Holt, Lang Spell

POLICE PENSION BOARD MEMBERS PRESENT:

Joe Elrod, Tyson McClendon, Patrick Quinn
Suzy Pita, Recording Secretary

POLICE PENSION BOARD MEMBERS ABSENT:
Joe Ruggiero

CITY STAFF PRESENT:
Sandra Davis, HR Director; Dorothy Pendergrass, Finance Director

OTHER ATTENDEES: Bradley R. Heinrichs, Foster & Foster Inc.

Mayor Carter read a statement prepared by the City Manager Terry leary. It is as follows;

On December 6, 2011 the City Commission held a workshop meeting concerning the employee pension plans. An outside consultant, Mr. James Linn, was invited to attend to discuss possible alternatives for the City. The City is facing a shortfall of nearly $8 million to fully fund the 3 pension plans. In this fiscal year alone, the City is required to contribute over $1.2 million. If this trend continues, it will be **unsustainable.** It is well known that all cities, especially in Florida, are facing serious revenue problems and many are looking for alternatives in their pension plans.

Our Actuary, Mr. Brad Heinrichs of Foster and Foster, is here tonight to address these issues and to give us an understanding of where we are and where we are going. Mr. Heinrichs has agreed to this initial dialogue between the Boards, City Commission and Unions that looks at actuarial assumptions and methods, before we look to make changes to the plan.

We could ask the pension board to perform projections of future funding requirements for the next 5, 10, 15 years which would establish a baseline. We could then negotiate from that point. The main goal is to make the plans sustainable in the future.

The agenda for this meeting is straightforward and with the help of Mr. Heinrichs and the Pension Boards, we hope to come away with a better road map for the future.

Agenda Item 2: Foster & Foster Presentation
Bradley Heinrichs, Chief Executive Officer, Foster & Foster

Mr. Heinrichs thanked the Commission and the Pension Boards for asking him to make a presentation. He advised that he has been an actuary for about 15 years. He noted that if anyone has any questions regarding the three pension plans he would be able to answer those questions. He presented a PowerPoint presentation and distributed handouts that coincided with the presentation.

He said that the reason that we are here other than being asked to come and speak is that pension fund costs have increased substantially over the last decade. This has become more than a board issue but a national issue. In order to understand how we got to where we are you have to understand the fundamental truth as it pertains to retirement plans. There is one formula that will give you a better understanding of what is going on. That formula is B plus E equals C plus I. Benefits plus expenses equals contributions plus investment income. He said that what comes out of the Plan is financed with what is put into the Plan. If we are doing our job and everything is working the way we like, this is the kind of environment we like to see like good benefits, higher investment earnings and low contributions. Unfortunately what has happened over the last decade in the S & P 500 has been flat. Our investment earnings have not been as high as we would like them to be or expected them to be.

Mr. Heinrichs said currently benefits are promised in this defined benefit plan and are promised to our members when they retire. If we can figure out another way to put money in that would be great but I know the pension boards have spent quite a bit of time trying to maximize the returns to minimize risk. He said that essentially with benefits, contributions have to go up or benefits have to go down. He stated that as an actuary Foster & Foster has to predict what these benefits will be and the benefits in a defined benefit pension plan are a function of pay and service. Foster & Foster has to make predictions since we know what the formula is but we do not know how we are getting the investments or what the size of the benefits are going to be. We just know what the formula is and we make projections based upon a listing of assumptions.

Mr. Heinrichs stated that one assumption is what kind of return we are going to get on our money. We make assumptions as to what sort of salary increases will the members in the work force get, We look at the chances of someone quitting during the year, getting fired during the year and what are the chances of someone retiring during the year. He said that those are all assumptions that Foster & Foster has to make and only after making those assumptions do we determine what the level of our investments are. Mr. Heinrichs gave an example of how they determine a benefit pay out projection. He said they have to look at what sort of benefit do we expect to be paying out of this plan until the last person in this plan dies. As an example we might project payments of $250,000 in 2008, $300,000 in 2010, $360,000 in 2012 and so on for antoher 75 years. If these are the projected payouts we come up with the present value of all those venefits we expect to be paying out. We have to look at the value of all those benefits that we expect to be making in the future and what is the value of those benefits today? He said they pick the interest rate that our assets are expected to earn over that 75 years. We project out the benefits and then project out the assets at a certain rate and then we determine how much we have to contribute along the way so that there will be the money to pay out the benefits. The idea is to develop cost and contribution requirements at a level for pension payroll over time. We get the present value of benefit and then we compare it to our assets. As an example we have enough assets to cover right now half of all benefits that we expect to be making. This means we have to make contributions so we say that we have half of it covered and we split the part we do not have covered into two components. One part has to do with future service that police, fire and general employees will earn and one part with all recommended earnings.

Mr. Heinrichs said that there are two terms that talk about the past and the future. The term normal cost is the cost of all the active members accrued service in your plan. The unfunded actuarial accrued liability is what is left over after we have taken into account what we expect for all the future service from the members He said that when he picks up the paper and the Wall Street Journal it talks about pensions and one term that you hear about all the time is the unfunded actuarial accrued liability. People like to think that if we have an unfunded actuarial accrued liability your plan is in dire straits. That is far from the truth.

Mr. Heinrichs discussed the three Plans as follows;

<u>General Plan</u> – He said that the General Plan as of October 1, 2011 has $7,328,691 on an actuarial value of assets basis. The present value of future benefits is $10,103,663 which means that if you have $10.1 million in the fund right now there would not be a contribution requirement from the members or the City indefinitely since there is currently enough cash on hand. We are expecting the fund to grow at a certain rate and we are expecting our members to accrue at a certain rate so there would be no additional money requirements at all. We are 73% funded on that basis. He said that if you look at the actuarial value of assets of $7,328,691 and the present value of accrued benefits of $6,534,639 then the funded ratio on this basis is at 112%. This is what the unfunded ratio is and not what you read about in the papers. If the City were to shut down the Plan today and give every member of the Plan a lump sum value of what they have accrued at this point, we would be over 100% funded. He said that if you look at the middle line on the handout it shows $8,474,199 actuarial accrued liability versus actuarial value of assets of $7,328,691. The difference between those is the unfunded actuarial accrued liability which is at $1,145,508. The funded ratio on that basis is at 86%. Up to this very point we have more assets in our Plan than benefits that have been accrued. The General Plan is in good shape even with the unfunded actuarial accrued liability.

<u>Police Plan</u> - Mr. Heinrichs reviewed the Police Retirement Plan. He said that the Police Plan on a current funded basis is 96% funded based upon current pay and current service. The fund has 96% of the assets necessary to fund the Police Plan, when comparing assets to the present value of accrued benefits. If the City were to shut down the Police Plan it would cost about $400,000. The Plan is fairly well funded. When you look at the actuarial value of assets versus the actuarial accrued liability you may read in the papers that there is a $3.7 million liability and it is not true. The Plan is 96% funded based upon current pay and current service. The actuarial accrued liability includes prior service but also includes projections of salary at about 6.25%. We use current salaries but also project salaries up to retirement for liability purposes. The salary increase assumption is calculated at 6.25%.per year to come up with the

liability figures. The actuarial accred liability is figured into future salaries that have not happened yet. He said that when people talk about actuarial accrued liability they are making it sound worse than it really is.

Fire Plan - Mr. Heinrichs discussed the Fire Plan. He said it is 56% funded on an actuarial accrued liability basis or a $4.6 million unfunded actuarial accrued liability. The Plan is 68% funded when comparing assets to present value of accrued benefits which means that if you are to terminate the Fire Plan the City would have to come up with $2.8 million.

Mr. Heinrichs explained how Lake Wales compares to other cities in Florida. He said that Foster & Foster has about 170 clients that are Police and Fire Plans. The average is a little more than 70% on the actuarial accrued liability basis. The Police Plan for the City is above the middle of the pack and the Fire Plan is around the middle of the pack.The average is around 70. The General Plan for the City is one of their better funded Plans. The average is about 76 and the General Plan is in the high 80%. He said overall the Plans at the City are doing quite well. When you compare City contribution rates for Police and Fire it show similar statistics. Police is average and Fire is a little above average. The General contribution rate is one of the best they have. The average for all Plans that they have is about 25%. Member contributions for Police and Fire are lower than the average with the General being about average.

Mr. Jimmy Nelson asked Mr. Heinrichs where he gets the numbers since they do not match some of the information. Mr. Heinrichs responded by saying that the numbers are from the 2010 actuarial valuation and it is not the most updated. He said that every year Foster & Foster prepares a valuation and the most recent was in 2011. Since Foster & Foster has not completed all the valuations for all of their clients, they have not been able to compile all the data for current statistics. He said the statistics that are in the report are about one year old. Mr. Heinrichs said the big assumption that an actuary makes in a report is the investment return number. We have to look at what sort of return will be made over the next 75 years. This assumption has gotten a lot of scruntiny and the reason is because what has happened in the last ten years. We have been expecting 8.0% over the last ten years but we have not gotten much of a return at all. You might ask if this assumption is reasonable. The pension boards have an investment consultant they rely upon to give them advice as far as what they can anticipate what the return should be over the short term and the long term. For an actuary the term for funding purposes means until the last member of the plan dies.

Mr. Heinrichs stated that all pension Board members have a fiduciary responsibility to its members and as the actuary; Foster & Foster has a responsibility to our clients. The pension Boards are charged with administering a plan and we can not be misguided by what we think is going to happen in the next twelve months or what will happen in the next twelve years. We ask what chance do we have of having 8.0% over the next 75 years than ten years ago and we have to look at what is happening around the country. We work for about 300 pension Boards in about ten different states. The average investment assumption is still close to 8.0% nationwide. In Florida the average return assumption is about 7.8%. The Florida Retirement System uses 7.75%. Several questions that might come to mind right now are if this really matters, and why not be more conservative and move it down to 7.0% or even 6.0%. This might make it easier to hit the target however it also means that Foster & Foster will be assuming lower investment earnings over the next 75 years. When you compound that, the impact on the funding requirements is huge. Every .25% that we lower the investment return assumption, the City's cost will go up about 3.0% to 4.0% of payroll. The job of Foster & Foster to the Boards is to pick assumptions that will give the best estimate of future experience.

Mr. Heinrichs advised that one of the things that all three Boards has done is to perform Experience Studies where they look at every single assumption in the valuation and see how it compares to the past and to make modifications if necessary. The last one that all three Boards did was in 2008. Some changes were made based on those studies. The Police and Fire Boards have looked at lowering the investment return assumption and you have to keep in mind that this will make things worse. As the actuary we set the investment return assumption and each year at the end of the year, we measure it. If we came up short then we say the City must make up the difference. We might tell the City that they have to make it up over the next ten years or over a longer period of years. One of the things that the Boards looked at was lowering the rturn to 7.75% as the Division of Retirement had recommended. They also looked at the number of years that the difference would be made up. Police and Fire also looked at elongating the mortgage of what the City has to pay and looked at refinancing so to speak to lower the payments. It does not change the ultimate cost of the plan but it gives the City some relief. He said the City contribution rate as developed at 10/1/10 and for the fiscal year we are currently in is 27.7%. When we delivered the 10/1/11 actuarial valuation report using the same assumption method, the cost went up to 32.3%. The reason for this was the investment returns. The Fire and Police Boards said to lower the investment assumption to 7.75% and increase the amortization period from ten to thirty years. The City's cost would remain unchanged for next fiscal year. He said that the Fire board looked at doing something similar. The City cost was 41.0% for the current year and would have gone up to 49.3. Fire decided to go back to 2010 and make the change retroactive to 2010 which impacts this current year's funding. This would actually lower the city's funding requirement from 41.0 for this fiscal year down to 34.5. In 2013 the funding requirement would be 38.5%. This is still a lot but it is less than the scheduled contribution requirement for this fiscal year.

Mr. Heinrichs said that if the Boards were to ask what else could be done without changing benefits, he would advise to look at the salary increases over the last several years. He said that with the salary increase back to 1992 our assumption is 6.25 and since 1992, the average was not far from 6.25. If you look a little bit closer over the last five years we did not come anywhere near that number. If we are going to lower what our investments are going to do, we could also lower our assumptions as to salaries and in the future as well to lower the funding requirement. This has nothing to do with what is negotiated. It is an assumption that the Pension Board makes. This is just an assumption of what we are anticipating of those that are in the work force. He said with the Police Plan you can see the same thing. Over the last twenty years or so we are looking at 6.25. Over the last five years it is much lower. The General Plan has the same story. It is pretty close to 6.25 over twenty years and the last five years it has been considerably less. The average investment returns for the General is about 7.0%. Up until 2008 it was above 8.0% and this was with Police and Fire as well. The biggest problem when I look at the chart is how much money we had in any of the funds in late 1990 versus how much we have in there today. The timing of these investment returns has caused these unfunded liabilities. We have quite a few more million dollars in 2011 than in 1998 so if we earned 24% in 1996; we are earning less money than what we lost in 2008. This is another unfortunate reality of why we are in the situation we are in. If we move these numbers around we will still have 6.97%. The Fire average is 4.6%, 4.1% and 4.1% and this is for Police and General respectively for the last five years. This is where the Boards could change assumptions and it would be justifiable. This is up to the Pension Boards and not the decision of the unions, the commission or the City.

Mr. Heinrichs stated that one of the ideas for coming to the workshop was to talk about some other things you can do to lower the funding requirements without having to change benefits.

This however would not change the ultimate cost of the Plan. He said that the equation (B plus E equals C plus I) has nothing to do with assumptions. An actuary can monkey with assumptions and artificially lower the costs but if our assumptions are too aggressive, it will cost more. If the assumptions are too conservative, it will cost less in the future. The objective is to set assumptions based on our best estimate of future experience. Senate Bill 1128 was passed last year and it will have an impact on all three Plans. One of the things that SB1128 said was that lump sum sick and vacation salary calculation after the effective date will change. The City will want to address this if it has not been done already. The General Board already made this change and the City Commission is adopting the ordinance. Normally with the current Plans Foster & Foster would expect a 10% increase in the final year pay associated with lump sum sick and vacation however, with tSB1128 this will change and will actually help all three Plans lower cost over time. There will not be a 10% assumption in the final year salary especially now with the new legislation.

Mr. Heinrichs stated that if the City were to decide to change benefits, the Police and Fire unions and the City would negotiate the changes. This has nothing to do with the Pension Boards at all. The job of the Pension Boards is to administer the Plan. There is some things that you must consider if you decide to change benefits. You have to look at what happens if you change benefits and how this will change the funding requirements. Sometimes it is forgotten is that there is an impact on the benefits for all the members that are currently in the Plan. You have to consider if what the City does will affect your current members. He said that when dealing with the Police and Fire Plans, it is important to know that the State of Florida helps fund Police and Fire. The Plans are administered in accordance with Chapters 175 and 185 and the State will redistribute these back to the funds in the way of contributions and these contributions go to these pension funds. If the City decided to reduce any benefits in the Police and Fire Plans below that what was in effect in March 12, 1999 the State will take that money and hold it and not give it to the funds. This can be a significant impact on the funds. This would make the cost to the City go up. The Commission has to look at the fact if it is worth it to reduce benefits to the level where members end up with a whole lot less and the City only saves a percent. This is the kind of thing you really want to pay attention to when looking at reducing benefits.

Mr. Heinrichs discussed the terms that are usually metioned when talking about pensions and many times are often misused. They are as follows;

1. Closing the Plan – means shutting the door on the plans and not letting any new people in and those that are in the Plan continue as usual
2. Freezing the Plan – means taking it one step farther. There are no new members let in the Plan and those currently in the Plan can no longer accrue more benefits so any future service or pay increase will not impact the pension at all
3. Terminating the Plan – means getting out of the Defined Benefit business.
4. Tier Benefit Plan - refers to different levels of benefits. Those that are hired as new members will get a different level of benefit. This type of Plan does not save money right away.

He said that any of these will save money eventually. If you close a Plan you will have to pay out faster if the Plan has a definite end. After the last person dies then the Plan is done. Typicaly the City's cost goes up. There is no more State money when you close a Plan. If you freeze the Plan costs can go either way. The future retirement for members is greatly reduced however you will then have a couple of adverse issues that will pop up for the City. When you lose the State funding and you will have to pay off your unfunded liability over a shorter period of time. The cost could be offset by the retirement benefits being lower. He said that any changes in benefits would have to be analyzed by each Board, the actuary, each attorney and the Division of Retirement. Mr. Heinrichs said he would encourage the City and the unions to utilize the resources of the Pension Boards whether it would be the attorney, the actuary or the investment consultants when negotiating benefit changes. Board resources are far cheaper than going outside.

Mr. Heinrichs asked if anyone had any questions. Pat Quinn from the Police Officers Board stated that Foster & Foster uses a four year smoothing technique in the yearly valuations. He asked Mr. Heinrichs to explain what happens when the last year falls off since it is a negative number. Captain Quinn also asked him to explain how it affects the four year smoothing when used as far as contributions are concerned. Mr. Heinrichs responded that it depends upon what happens subsequent to that and what it is replaced with. He said that it is great that 2008 is falling off since it was a negative year for everyone. The 2009 to 2011 period was not great and most Plans need about 20% or so in this fiscal year in order to keep the funding requirements the same. He said that even if the 2008 falls off there are still two others that are not great so it will not make a huge difference at this point. It really depends what happens this year.

Joe Elrod from the Police Board asked if Senate Bill 1128 was considered by the actuary in the report. Mr. Heinrichs said that Foster & Foster has not made any changes associated with this bill. The changes will be significant since you can not add in the lump sum sick and vacation to the final pay. If we look at today as the effective date for example and the collective bargaining agreement has the same date of today, you can no longer have any lump sum sick and vacation added in. A decision will have to be made about the hours that are accrued after that date. Does this need to be negotiated and what pay rate will be used at time of retirement? The Boards will have to decide if the rate of pay is to be the one last July or what it is at retirement. Once the new collective bargaining agreement is put together and the changes are made then Foster & Foster would have to do an impact statement. Mr. Elrod asked if the bargaining units come up with an agreement would next year's assumption show the change. Mr. Heinrichs said it would show the significance depending upon what they negotiated.

Commissioner Wojcik asked if the Pension Boards have approved the 7.75% and have they approved the 30 year amortization. (Note for clarification – General Pension Board approved the 7.75 and Police and Fire approved the 7.75 and the 30 year amortization) She asked how does the City determine how much to budget, does Foster & Foster give the City a figure to build into the budget for the unfunded liability. Mr. Heinrichs said that they provide the Boards with the number. It would increase the unfunded liability but decrease the payment on the unfunded liability since you will be paying off on 30 years as opposed to ten years. By reducing the return to 7.75 the cost actually went up. The unfunded liability goes up but the payment over thirty years goes down. Commissioner Wojcik said that you would not look at that as increasing debt. Mr. Heinrichs responded that all they are changing is the route they are taking for these problems. She asked if it were a million today in unfunded liability would it be a million in thirty years from now. Mr. Heinrichs said by using the 7.75 instead of the 8.0% the million dollars actually would go up but the payment will still be less with the 30 year mortgage. Commissioner Wojcik asked

Mr. Heinrichs to explain why there is such a difference between the Police and Fire Plans. He said the firefighters tend to have a lower turn over rate than the Police officers and Police have a lower turn over than the General employees. This is the historical nature of what we see and it matters a great deal with Pension Plans. He said that if someone has worked for several years, decides to leave but has not met the vesting period of seven years, the money that the City has been contributing stays in the fund. The employee gets back what they put in for those years. He said the more turn over that the City has the cheaper the cost. There are other factors as well that will play into the cost of the Plan. He said that the older the employee is when hired the higher the cost. This is something that you do not think about because you are hiring the best people you can however if they happen to be older it is a higher cost to the Plan.

Mayor Carter stated that he wanted to make it very clear that in no way is he going to talk about reducing benefits for the current employees. He said he would not support that. He said he was disappointed in what Mr. Heinrichs has been telling the group because whatever modifications are made the cost will go up. Mayor Carter said that what we are doing is unsustainable and the City can not do this. It will get to the point that we will have to make a choice to continue at this level or reduce services in antoher part of the City. He said he is disappointed that there is not another option or alternative. He said that when Foster & Foster looks at their actuarial strategies and looks out in the future 75 years this is what they have to do. The City has to keep in mind how we are going to pay for this next year and the year after that. Mayor Carter said he is very appreciative of what the Boards have done to help reduce the cost and he is not sure if the 7.75% is realistic since we are not sure if the economy is going to turn around. He said he has not heard a solution and would like to find a way to solve it.

Mr. Heinrichs responded that the reason there is not a real healthy solution or easy way to address these issues is because of how the Florida Statutes are written. If the Division of Retirement's interpretation of the statute is one way that is the way we must proceed. In Florida if you change benefits for Police or Fire Plans below what they were in 1999 for new hires, you will lose State money and the City immediately has a 10% increase in cost. This is the way the statute reads good or bad. All the Police and Fire Boards can do is sharpen the pencil and do the best they can to keep the cost down. He said that what he is seeing around the state is a set of new benefits for new hires and the benefits will be exactly what they were in March of 1999 and nothing more.

Mr. Heinrichs discussed other options to be considered. They are as follows;

1. Pension Obligation Bond – you float a bond that pays off the unfunded liability and paying back the note at whatever the interest rate is
2. Forfeit the state money – You can decide to do whatever you want and not receive the state money but you can not change what people have already accrued
3. Increase in member contributions – members have to increase their contribution to the pension over the current percentage that has been in place

Mr. Heinrichs said that if you do not see an increase in investments you will have to either increase contributions or lower benefits. He said that he has found that Lake Wales has been willing to work with the Pension Boards to solve problems and he has seen around the state that not all situations are as cooperative as in Lake Wales.

Commissioner Howell said that in the information she has been given there are things you can not do with the current members due to the Florida Statutes. Mr. Heinrichs said you can not give new hires of Police and Fire less benefits than what you were giving in March of 1999. She said that she understands that you can not change what they have accrued so far but you can change what they accrue from this point forward. She said that we need to make it better for the City because of the situation from this day forward stopping things we can not afford anymore. We need to figure out what it is and how to do that. She said that the people that are in the DROP have been in for a number of years and are still here. Mr. Heinrichs said that a member is in the DROP for five years only. She asked if the DROP is something the Commission can change or is this has to be someone else. Mr. Heinrichs said that any Plan changes have to be negotiated between the City and the unions and the Boards need to sign off on them too. He said the most economical way is to use the Pension Boards resources. He said that if Foster & Foster is given a number and parameters then they can come up with options to get you where you need to be. At the end of the day when it comes to implementing the Plan it has to be negotiated with the unions and the Pension Boards. Commissioner Howell asked what happens if they can not get to common ground. He responded that there would be an impasse and then other proceedings.

Commissioner Wojcik asked if Foster & Foster can put together projections. She said that the City certainly has to make some changes that are purely to make sure the City's contributions is more sustainable. Joe Elrod with the Police Pension Board said that what they did already along with the legislation that was passed last year will help to lower the cost. He said that in 2008 everything was doing great in the market and then it went down. There is no other way for it to go now but back up and things should stabilize soon. Commissioner Wojcik said that one of the things that would be helpful would be to have the previous projections along with the new projections of what the City's contribution is going to be. Joe Elrod said that when you drop off the 2008 investment returns and even with the 2009 to 2011 not being great, it will be better this year than last year. He said with all of the things that have been done by the Board and with the legislation that was passed it will be better. Commissioner Wojcik asked if the Pension Boards look at different things and discuss options to make it better. Mr. Heinrichs said that this is the job of Foster & Foster to look at options and recommend them to the Boards. He said there is an Experience Study that was done every five years and the last time it was done for all three Boards was in 2008. Every year we have a discussion with all three Boards dealing with these issues. Commissioner Wojcik said that one of the things that she was concerned about was that if you are looking at this over a ten year period, you really see it is not a sustainable number. If you look at it over the thirty year period it will look a lot different. Mr. Heinrichs said that when you go to a longer amortization period it tends to dampen out the volatility in times of good or bad years where the contribution does not change as much. Joe Elrod said that with the 30 year payment it will average things out over time.

Mr. Heinrichs said that one misconception he hears about is the unfunded actuarial accrued liability and no one is doing anyting about it. He said over half of the City's funding requirement as it pertains to Fire is to pay down the actuarial accrued liability. It is not just that it is sitting there and no one is doing anything about it. In this case it is 27.6% of payroll and once this has been paid off the pension fund will cost quite a bit less. There has been a bunch of investment losses that have built up and will have to be paid off over time. Mayor Carter said that they have to deal with this on an annual basis even if it takes time to recover.

Joe Jenkins from the Firefighter Pension Board asked Mr. Heinrichs to explain how the DROP works so he can clarify this matter. He explained that when a member reaches normal retirement age as based on the Plan, the member can enter the DROP. Foster & Foster calculates the benefit as if they are retiring at that point. It is based on current pay and current service. Once they enter the DROP the City does not have to contribute to the pension for that employee and the employee does not contribute either. Joe Jenkins stated that it is cheaper for the pension for that member to be in the DROP than to continue to work another five years where the City has to contribute to that member. Mr. Heinrichs said that the DROP is not a high cost to the Plan. When other cities are looking at Plan changes this is not the area where they want to start. Tyson McClendon of the Police Board asked if the expected rate of return has been the biggest problem. Mr. Heinrichs responded that if you look at the handout it shows what each year obtained for each Plan and when you get a negative number this is a loss.

Pat Quinn said that if you look at the long term there were years that the fund did well and met the return and in some cases went over the expected rate of return. The cost has gone up due to the investments going down after 2008. Commissioner Wojcik said that you have an amount that has to be contributed and if you lower the assumption down to 4.0% to be conservative, the City would then have to come up with the contribution. Mr. Heinrichs said that if you take the assumption from 8.0 to 7.0 it would increase the City's cost by 12% of payroll. He also said that if you really wanted to squeeze more you can look at the salary assumptions. The salary increases have been lower than what has been assumed. By lowering the salary assumption we would project smaller benefits.

Mr. Heinrichs said the other problem is that the State of Florida has their own actuaries and if you are getting too aggressive with your assumptions, the Division of Retirement will reject your report. Mr. Jimmy Nelson commented that in looking at the 20 year investment history, the number you are showing is 6.58% in the Police fund and 6.86% in the Fire fund. He said over twenty years this is not 7.75% and what you are showing historically is lower than the 7.75. Mayor Carter responded that this was already explained and what concerns him is funding for the next year. Mr. Nelson said that the assumptions with what you are trying to do does affect your short term funding and is critical to your short term funding. Joe Jenkins responded that you have to look back to the inception of the Plan in 1988. Fire was 8.26%. He noted that if the Division of Retirement does not like what they are presented they will not accept the report.

Commissioenr Thornhill commented that all his questions have basically been answered and we have been told that the City can not reduce benefits below what they had in 1999. He asked about the tier plan and if this would affect the State money. Mr. Heinrichs said that if any new hire comes in and is given any benefit that is lower than what the new hires got in 1999 the State money would be lost. Commissioner Thornhill commented that we do not want to be drastic or do too much of a shift in what we do because we might have to come back and change it back again. He said that he liked the fact that the Boards have been working with the City and take time to discuss ways to reduce cost. He said that what he considers a main part of the pension program is having a lower turn over for Police and Fire. He feels the only things that can be done are to change the multiplier and the member contributions. Mr. Heinrichs responded that you can change member contributions and this would help lower cost. He said that this will have to be worked out with all parties to make sure this is the right thing to do. As the actuary we are always looking for ways where the City will not have to pay out more money.

Commissioner Wojcik asked if the State actuaries will not be accessible or reasonable. Mr. Heinrichs said that he feels they are reasonable. He indicated that Foster & Foster had called the State actuary this morning and broached the topic with them and the Sate did not say yes or no. The reason Foster & Foster insisted the Board go to a shorter amortization scale is we did not want to get into a fight with the State about what is a good or bad assumption. The State may say it should be 7.0% versus 8.0%. Several years ago we asked them if we could use our assumptions and they said if we are wrong, we would have to make up the shortfall over a shorter period of time. The idea is the State does not want to shift the burden on one generation of taxpayers to another generation of taxpayers. They are trying to make sure the cost is being fair to this generation of taxpayers.

Dorothy Pendergrass, Finance Director asked if the Commission is asking for projections from the Boards. Commissioner Wojcik said yes, she is asking for projections. Ms. Pendergrass said that Foster & Foster could look at the assumptions that relate to payroll, she asked the Boards to please consider having this done. She said that they had talked about assumptions before and they talked about the 30 year amortization. She noted that this would make a difference but has no idea what the dollar amount would be as it relates to payroll. It is nice to know that this is a starting place for further discussions the Commission might have with the Boards. Ms. Pendergrass advised that we are six months away from the budget as we will be a half of a million short in recurring revenue. She advised the Commission and the Boards that we need to work on this and not wait until the last minute.

Commissioner Wojcik asked how long it would be before the State would have to review the information again. Mr. Heinrichs said that it would be another two years. Joe Jenkins from the Fire Pension Board said that the Division of Retirement wants Plans to go to the 7.75% and Fire has done that as recommended. Joe Elrod from the Police Pension Board said they would be changing it also. He suggested that if discussions take place about lowering the assumption for raises from 6.25% to 5.0% keep in mind that in five years down the road raises are given again, then it would mean a higher cost to the City by changing the assumption.

Terry Leary, City Manager said that she appreciated the time that Mr. Heinrichs and Foster & Foster has given to the City Commission, staff and the Boards to make the presentation. The information he has provided has given her a much clearer picture of where things are at this point.

Mayor Carter adjourned the workshop.

Violeta B. Salud

Violeta Salud, Chairperson
General Employees Pension Board

Katie Kinloch 5-23-12

Katie Kinloch, Recording Secretary