HISTORY OF THE RETIREMENT FUND TO THE PRESENT

Blue = Benefit change
Red = Contribution Change

1945

- The ERF was created by election of the citizens of Fort Worth pursuant to Article III, Section 51e of the Texas Constitution.
    - The City Council adopts an ordinance on September 12, 1945 to establish a pension system and call for an election to be held on October 2, 1945 for the voters to approve the creation of a retirement fund for police officers and general employees.
    - Firefighters, who are members of their own plan, reject inclusion in the Fund.
    - The citizens of Fort Worth approve the establishment of the Fund.

1949

- The Texas Legislature attempted to move police officers in the ERF to a statutory fund and was rebuffed by the Texas Supreme Court in the Howerton case (City of Fort Worth et al. v. Howerton et al 236 S.W.2d 615 1951).

1952

- The Firefighter Fund is near bankruptcy. The Firefighters go to the state legislature and get legislation passed that allows firefighters to become members of the Fund. The City agreed that the Fund would take on the liabilities and assets of the Firefighter's Pension Fund.

1975

- Texas Constitution Article III, Section 51e was repealed by Texas voters.
- Article 16, Section 67 of the Texas Constitution was adopted stating that retirement systems created under Article III, Section 51e would remain in effect.

1984

- Prior to 1984, the City paid 100% of health care costs (insurance) for retirees.
- Staff recommends to the City Manager that the Retirement Fund assumes its own administrative costs and that the Fund pay 40% of the Retirees Health Insurance for the next year, which is estimate to be $500,000.
- The Retirement Fund Board passed a measure to fund 100% of the Retirees Health Insurance provided that the City reimbursed the Fund "the amount to make sure that it is actuarially sound for the good of the Fund."
- The Retirement Ordinance contained a provision (Section 2-218) that required any change, increase or decrease, related to the City or employee contributions to be approved by the qualified voters of the City.

1985-1988

- The Fund annually voted in favor of continuing to fund retiree health insurance.

November 1988

- The Retirement Fund Board voted to notify the City that they would no longer assume the cost of retiree health insurance. It appears this decision was made based on the actuary's recommendation that escalating health care costs would make the Fund unsound.
- The City begins to look at ways to absorb what is estimated to be $3.7 million in retiree health care insurance costs for the next year. The idea of reducing the City's contribution to the Fund in order to pay the retiree health insurance surfaces. At the time, the contribution rate required to maintain benefits was significantly lower than the actual contributions being paid by the City and employees.

1989

- In April 1989, the City Manager issues an Informal Report to the City Council on the Board's decision to stop payments of retirees health insurance. He recommends two ideas:
    - Ask the Fund to agree to a 5 year phase out of the Fund's payments; or

reducing the City's contribution level from 11.5% to 9%. The letter states that the recent actuarial report found that the level of contribution required to fund pension costs was 2.51% of payroll less than the current contributions by the City and employees. The letter states that the reduction could be made leaving the fund a .52% cushion. The letter makes no mention of repaying the Fund for retiree health insurance.

- On September 12, 1989, on the recommendation of the Retirement Fund, City Council approves an ordinance amendment to the Retirement Fund ratifying the Fund's payment of retiree' health insurance from 1984 through September 30, 1990.

- On September 19, 1989, the City Council hires Gary Lawson as outside legal counsel on retirement matters. Mr. Lawson recommends seeking an IRS ruling on whether the Retirement Fund met the requirements of a "qualified plan."

  - The City and the Fund had been treating the Fund as a qualified plan for years without there ever being a determination that it was.
  - The IRS responded that the City would have to make a number of changes to its ordinance in order to qualify. One of the requirements was for the City to refund the Fund's payment of retiree health insurance. The IRS reasoned that the payments were an improper diversion of trust assets, and ruled that the City would have to pay the Fund back in total to satisfy the "qualified plan" requirements.

1990

- On April 10, 1990, the City Council passed an ordinance amendment to the Retirement Fund to pay back $9,594,966.31 plus 8% interest per annum on the unpaid balance over a period of ten years.

- On May 22, 1990, the Retirement Fund Board makes a presentation to the City Council at its Pre-Council meeting. It states that the Fund is overfunded, and makes benefit recommendations as follows:
  1. 25 and out for all employees
  2. $200.00 minimum benefit for current retirees for every 5 years of service
  3. increase multiplier from 2.0% to 2.5%

  The Board states that the benefits can be granted at the current contribution rates. The statement is based on the following:
  - Total employee/City contribution is 19.17% (11.5% for City and 7.67% for employees). Contribution necessary for increase in benefits is 17.87%, leaving a cushion of 1.3%.

- The City Manager floats the idea of reducing the City's and employee's contributions, which he states will leave the Fund with a bigger cushion than the recommendations by the Fund, while returning money back to the City to offset retiree health insurance.

- June 4, 1990 – The actuary relied on by the City, the Wyatt Company, sends a letter to George Nicolaides, Retirement Administrator, stating that the City Manager's numbers are correct.

- June 5, 1990 – The City Manager issues an Informal Report to the City Council with his recommendations. They are as follows:
  - Increase multiplier from 2.0% to 2.5%
  - Allow retirement at age 50 with a penalty of 5/12% per month for each month commencement of pensions ante date on which employee would have accumulated 80 points
  - Minimum benefit for current retirees of $150.00 for each 5 years of service after the first 5 years.

  The City Manager estimates the cost of the benefits will be 12.69%, leaving a 6.48% cushion. Based on that calculation, the City Manager makes an additional recommendation:
    - **Reduce contributions to the Fund 5%, with a reduction of 3% for the City and 2% for employees.**

  The 5% reduction would leave the Fund a cushion of 1.48%.

- June 12, 1990, the City Council approves an amendment to the Retirement Ordinance. The previous ordinance, in effect since 1984, required any amendment to the contribution (both City and employee contributions) section of the ordinance to be voted on by the qualified voters of the City. The new ordinance removed the language, except where an amendment in the City's contribution rate would require issuance of tax supported bonds.

- June 21, 1990 the City files a lawsuit against the Retirement Fund seeking declaratory judgment as to whether it had the right to amend the contribution provision of the ordinance without a vote by the employees. (Hereinafter referred to as "the contribution lawsuit.").

- July 20, 1990 – The City Manager sends out a letter to all employees entitled "Fact Sheet on Proposed Benefit Improvements to the City of Fort Worth Employees Retirement Fund. The City Manager states the 3% reduction will be placed in an account to fund retiree health care insurance.

- September 14, 1990, a jury reaches a verdict in favor of the Retirement Fund in the contribution lawsuit. The City makes a motion for Judgment notwithstanding the verdict. It is granted.

- September 25, 1990, City Council passes ordinance amendment reducing its contribution to the Retirement Fund to 8.5% and employee contributions to 5.67%.

- October 2, 1990, the court issues an amended order in favor of the City in the contribution lawsuit.

1991

- The funding period for the unfunded actuarial accrued liability (UAAL) of the Fund is 6 years.

1992

- The funding period for the UAAL of the Fund is 1 year.

1993

- The POA, by vote of the officers, asked the City to allow increased contributions by both the City police officers and to allow 25 and out for police officers. There was no collective bargaining/meet and confer at the time.

- In an August 30, 1993, letter to the City Council, Bruce Cox, Chair of the Fund, stated the Board had asked the actuary to review their tables and assumptions to see if there was any room to improve the fund. Subsequent correspondence shows this was done.

- Ordinance No. 11401 passed to:

    - Increase multiplier to 2.7% for general employees who retire under normal retirement and 2.63 (with 5/12% reduction for each month commencement of benefits precedes the member's normal retirement date) for early retirement.
    - Police go to 25 and out with a 2.63 multiplier or normal retirement with a 2.7% multiplier.
    - Police contribution raised to 6.15% to pay for 25 and out.
    - City contribution on behalf of police raised to 9.22% to pay for 25 and out.

- In a September 16, 1993 letter to the Executive Director of the Retirement Fund, the actuary said this could be done while maintaining a 30 year funding period of the unfunded actuarial accrued liability.

- The funding period for the unfunded actuarial liability of the Fund was 0 as of January 1, 1993.

1994

- The funding period is 33 yrs. The actuary states the 33 yr funding period for the year indicates that all funding margins of the current contribution schedule are being fully utilized. Therefore, the intent of previous benefit enhancements has been achieved.

1995

- The funding period is 37 yrs. The actuary states the 37 yr funding period for the year indicates that all funding margins of the current contribution schedule are being fully utilized. Therefore, the intent of previous benefit enhancements has been achieved.

1996

- Multiplier increased to 3.0 for normal retirement and for 25 and out for police officers.
- Multiplier for disability in the line of duty increased to 2.75%. If member was eligible for retirement at time of disability, then 3%.
- Police officer contribution increases to 7.43% (1.28% increase).
- All other members' contribution increase to 6.95% (1.28% increase).
- City's contribution increases to 9.78 for police officers, with further increases to incur over the next three years (10.34% in 1997; 10.9% in 1998; 11.46% in 1999).
- City's contribution increases to 9.06% for all other members, with further increases to occur over the next three years (9.62% in 1997; 10.18% in 1998; 10.74% in 1999).
- The actuary states that those are the increases necessary to fund the 3% multiplier and pay off the unfunded liability within 30 years if the Fund met its assumption rate of 8.5%. (Ordinance No. 12686).
- The funding period is 39 years. There is a letter from the Executive Director to the Mayor which states that according to the actuary, current contributions to the plan are sufficient to provide the current level of benefits now in effect. The letter does say that although it is not anticipated, it is possible that contribution rates might need to be increased in the future if unexpected adverse experiences of the fund develop. It also points out that all funding margins of the current contribution rates have been fully utilized.

1997

- The funding period is 35 yrs.

1998

- The funding period is 28 yrs.
- Fund loses 1.1% as of valuation date of 9-30-98.

1999

- City became a pick-up plan. (Ordinance No. 13673)
- Police officer contribution increased to 8.73%. (Ordinance No. 13674)
- All non-police officer contributions increased to 8.25%. (Ordinance No. 13674)
- 2% guaranteed cost of living adjustment on base salary. (Ordinance No. 13842)
- Changed from High 5 to High 3. (all of the above made in Ordinance No. 13674)
- The funding period as of October 1, 1999 is 20 years.
- Fund earns 14.97%

2000

- The funding period as of October 1, 2000 is 17 years.
- Fund earns 19.34% as of October 1, 2000.

2001

- The funding period as of October 1, is 40 years.
- 9/11 terrorist attacks.
- Fund experiences a **-19.59%** loss as of 9-30-01 valuation date.

2002

- The funding period as of October 1, 2002 is infinite.
- Fund loses 6.81% as of 9-30-02 valuation date.
- September 6, 2002, City Council passes DROP election ordinance and purchase of service credits. (Ordinance No 15334).

2003

- The funding period as of October 1, 2003 is infinite.
- Funds earn 20.05%

- The voters adopted Article 16, Section 66 of Texas Constitution which added a provision to protect accrued benefits from being reduced. This constitutional provision did not affect the ability of the City Council to change the contributions at any time.

<u>2004</u>

- The funding period as of October 1, 2004 is infinite.

- Fund earns 16.08%.

- Actuary Report states increase in unfunded actuarial accrued liability is based on a loss on the actuarial assets due to rate of return on the actuarial value of assets being less than expected and a liability loss due to larger than expected salary increases.

- City Council amends Retirement Ordinance to make back pay retirement contribution upon restatement of a terminated employee. (Ordinance No. 15862)

<u>2005</u>

- The funding period as of October 1, 2005 is infinite.

- Actuary says increase in unfunded liability ($411 million) is due to higher than expected pay increases.

- Actuary Report says there is no immediate crisis. Says it will forward recommendations on addressing the shortfall within 90 – 120 days.

- The ultimate recommendation is for the City Council to amend the Retirement Ordinance to change the guaranteed 2% basic COLA to an ad hoc compounded COLA, and to increase contributions 5% over three years (3% coming from City and 2% coming from all employees).

- Fund earns 15.00%.

<u>2006</u>

- May 23, 2006, the City settles Worker Compensation issues with the Retirement Fund agreeing to pay a $2.8 million settlement to the Fund over a period of three years. (Ordinance No. 16967).

- No valuation in 2006 because the Fund went from a fiscal year valuation to a calendar year valuation.

2007

- The amortization period for the unfunded liability as of January 1, 2007 is infinite.
- **Fund becomes a Statutory Plan** (Article 6243i of the Texas Revised Civil Statutes). The statute requires an employee vote to increase or decrease employee contributions and to decrease city contributions.
- Retirement Fund separates from the City becoming a separate legal entity.
- City increases its contribution to the Fund by 5%. City contribution on behalf of police officers is now 16.46%. City's contribution on behalf of all other employees is 15.74%.
- City passes ordinance adding Ad Hoc COLA.
- City passes ordinance providing an earnings cap for all employees.
- AG opinion is requested on City's earning cap.
- Fund experience a market gain of 5.30%.

2008

- The amortization period as of January 1, 2008 is 13.8 years.
- Based on the amortization period of the Fund as of 1/1/08, the Ad Hoc COLA for 2009 is 4% compounded.
- Fund experiences a **market loss** of 29.4%.
- AG rules that the City's earning cap is unconstitutional as it applies to vested employees. The City amends the Retirement Ordinance to exclude vested employees from the earnings cap.

2009

- The amortization period of January 1, 2009 is infinite.
- Based on the amortization period of the Fund as of 1/1/09, there will be no Ad Hoc COLA for 2010.
- Fund experiences a market gain of 21.28%.

2010

- The amortization period as of January 1, 2010 is 40.5 years.

- Based on the amortization period of the Fund as of 1/1/10, the Ad Hoc COLA will be 0 for 2011.

- Fund experience a market gain of 10.81%.

- City Manager commissions an Ad-Hoc Committee of citizens and employees to study the pension plan. The recommend an increase in City contribution to the plan.

- City increases its contribution to the retirement plan by 4% of payroll. Current contributions are 20.46% of payroll for police and 19.74% of payroll for general employees and fire fighters.

2011

- The amortization period as of January 1, 2011 is 19.5 years

- Based on the amortization period of the Fund as of 1/1/11, the Ad Hoc COLA will be 3% compounded for 2012.

- Fund experience a market gain of 11.24%

- Significant changes are made to the benefit structure of general employees hired on or after 7/1/11:

    - Reduction in benefit multiplier to 2.5%
    - Benefit calculated on "high 5" instead of "high 3"
    - Overtime is no longer part of the "high 5" formula
    - Account established for OT accumulated throughout employment. If employee retires, the amount in the account plus interest will be doubled;
    - There is no COLA;
    - Change in survivor benefit — retiree who wants to select a beneficiary to receive a lifetime benefit after the death of the retiree must agree to a reduction in their retirement benefit based on a formula that takes into account the listed beneficiary.

- Council adopts 5 step plan for pension plans:
    1. City increase in contributions

2. Benefit reduction for general employee new hires with civil service to be negotiated;
3. Change Ad Hoc COLA;
4. Call election for members to vote to increase their contributions to plan;
5. Evaluate changes. If needed, make additional benefit reductions for all employees.

2012

- The amortization period as of January 1, 2012 is 28.4 years

- Based on the amortization period of the Fund, there will be no Ad Hoc COLA increase for 2013.

- On July10, 2012, City Council adopted Resolution notifying the Fund of its intention to make benefit reductions for General Employees and Police Officers.

- October 23, 2012, City Council adopted Ordinance making benefit reductions for General Employees and Police Officers:

  - General Employees Hired After July 1, 2011, for future service:
    - No Overtime

  - General Employees Hired Before July 1, 2011, for future service:
    - Reduction in benefit multiplier to 2.5%
    - Benefit calculated on "high 5" instead of "high 3"
    - Overtime is no longer part of the "high 5" formula
    - 2% simple COLA for future years of service
    - COLA Selection to go to 2% for past years of service

  - Police Officers Hired Before January 1, 2013, for future service:
    - Reduction in benefit multiplier to 2.5%
    - Benefit calculated on "high 5" instead of "high 3"
    - Overtime is no longer part of the "high 5" formula
    - 2% simple COLA for future years of service
    - COLA Selection to go to 2% for past years of service

  - Police Officers Hired After January 1, 2013:
    - Reduction in benefit multiplier to 2.5%
    - Benefit calculated on "high 5" instead of "high 3"
    - No Overtime

    - There is no COLA;
    - Change in survivor benefit — retiree who wants to select a beneficiary to receive a lifetime benefit after the death of the retiree must agree to a reduction in their retirement benefit based on a formula that takes into account the listed beneficiary.

- The City sued the ERF in State Court to determine the constitutionality of the Benefit Reductions. The Court rules that the benefit reductions are constitutional.

- Rick Van Houten and Steve Hall, police officers, sue the City in Federal Court to determine the constitutionality of the City's Benefit Reductions.

<u>2013</u>

- The amortization period as of January 1, 2013 is 36 years

- Based on the amortization period of the Fund, there will be no Ad Hoc COLA increase for 2014.

- The COLA Selection takes place for General Employees and Police Officers.

<u>2014</u>

- The amortization period as of January 1, 2014 is 49.3 years.

- Based on the amortization period of the Fund, there will be no Ad Hoc COLA increase for 2015.

- On January 1, 2014, the City Council adopted a resolution notifying the Fund of its intent to make benefit modifications for Firefighters.

- On September 16, 2014, City Council adopted an Ordinance Amendment modifying benefits for Firefighters as follows:
  - Firefighters hired prior to January 10, 2015, for future service:
    - Reduction in benefit multiplier to 2.5%
    - Benefit calculated on "high 5" instead of "high 3"
    - Only "Built-In" overtime considered as part of the "high 5" formula
    - 2% simple COLA for future years of service
    - COLA Selection to go to 2% for past years of service

- Firefighters hired on or after January 10, 2015:
  - Reduction in benefit multiplier to 2.5%
  - Benefit calculated on "high 5" instead of "high 3"
  - No Overtime, **except built-in overtime**
  - There is no COLA;
  - Change in survivor benefit — retiree who wants to select a beneficiary to receive a lifetime benefit after the death of the retiree must agree to a reduction in their retirement benefit based on a formula that takes into account the listed beneficiary.
- 3 Firefighters sue the City in a different federal court alleging that the City's benefit reductions violate the State Constitution
- The amortization period as of the end of 2014 is 55.7 years.

2015

- The amortization period as of December 31, 2015 is 72.5 years
- Both federal judges issue opinions granting the City's Motions for Summary Judgment and finding that the City's benefit reductions were in compliance with the State Constitution. Those decisions are appealed to the 5th Circuit.

2016

- The amortization period as of December 31, 2016 is infinite
- The Fifth Circuit rules in favor of the City 2-1, finding that the City's benefits reductions were constitutional. Motion for Rehearing is denied.