Fort Worth City Council Budget Workshop

August 16, 2018

Presented by David Cooke, City Manager

City Manager's Recommendation

Increase City Contributions	Changes to Benefits/Eligibility	Increase Employee Contributions
3.0%	**5.2%** • 4.0% - 2% COLA on $20,300 for employees with 25 years of service • .2% - one year delay in COLA for active employees • .3% – eliminate future accruals • .7% - minimum retirement age (55)* for Fire and Generals	**2.3%** • General: 1.0% + .5% (Blue Service) • Police/Fire: 2.8% • Police 25 & out: 1.5%

Alternatives with an Additional 4% City Contribution

Increase City Contributions	Changes to Benefits/Eligibility	Increase Employee Contributions
4.0%	**4.2%** • 3.0% - 2% COLA on $30,000 for employees with 25 years of service • .2% - one year delay in COLA for active employees • .3% – eliminate future accruals • .7% - minimum retirement age (55) for Fire and Generals	**2.3%** • General: 1.0% + .5% (*Blue Service*) • Police/Fire: 2.8% • Police 25 & out: 1.5%
4.0%	**4.0%** • 3.0% - 2% COLA for retirees only • .3% - eliminate future accruals • .7% - minimum retirement age (55) *for Fire & General*	**2.5%** • General: 1.0% + .5% (*Blue Service*) • Police & Fire: 3.2% • Police 25 & out: 1.5%
4.0%	**3.8%** • 2.8% - 1% COLA • .3% - eliminate future accruals • .7% - minimum retirement age (55) *for Fire & General*	**2.7%** • General: 1.0% + .7% (*Blue Service)* • Police & Fire: 3.4% • Police 25 & out: 1.5%

COLA Considerations and the Estimated Impact on the 10.5% Funding Gap

Consideration	Impact
Eliminate all COLAs	-6.1%
Reduce all COLAs by 50% (1% COLA)	-2.8%
Eliminate COLAs for future service	-1.0%
Provide COLAs for only retirees with 25 years of service - up to $20,400 of annual pension	-4.0%
Provide COLAs for only retirees with 20 years of service-up to $20,400 of annual pension and pro-rated for <25 years	-3.4%
Provide COLAs for only retirees with 25 years of service - up to $45,800 of annual pension	-2.5%
Provide COLAs for only retirees with 20 years of service - up to $45,800 of annual pension and pro-rated for <25 years	-1.9%
Eliminate COLAs for active employees only	-3.0%
Suspend COLAs for five years for retirees and delay COLAs for five years for active employees	-2.2%
Suspend COLAs for ten years for retirees and delay COLAs for ten years for active employees	-3.6%
Maintain current COLAs for retirees, eliminate future service COLAs and reduce past service COLAs by 50% for actives	-1.8%
Reduce all COLAs to 1.5%, eliminate future service COLAs, and provide COLAs on annual pension up to $45,800	-2.3%

Note: All COLA alternatives assume those employees who elected the ad hoc COLA will receive the same COLA as all other employees in the future.

How the COLA Works

Retired and Current Employees Service Prior to Most Recent Benefit Changes (Blue Service)							
Initial Retirement Benefit	**2% COLA After First Year**	**2nd Year Benefit**	**2% COLA After Second Year**	**3 Year Benefit**	**2% COLA Paid Over 25 Years**	**Benefit After 25 Years**	**Total COLA Value Over 25 Years**
\$100,000	\$2,000	\$102,000	\$2,000	\$104,000	\$48,000	\$148,000	\$600,000
\$50,000	\$1,000	\$51,000	\$1,000	\$52,000	\$24,000	\$74,000	\$300,000
\$25,000	\$500	\$25,500	\$500	\$26,000	\$12,000	\$36,000	\$150,000

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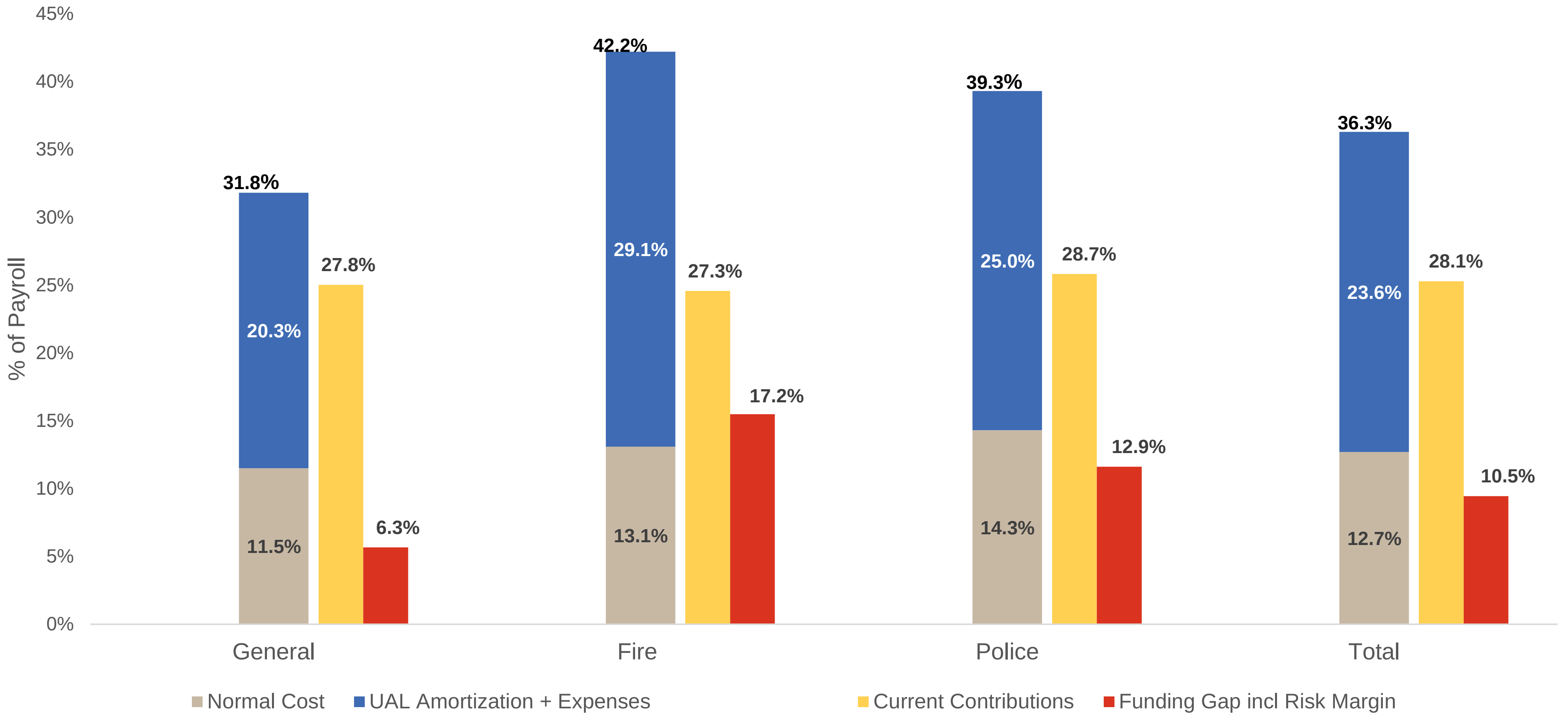
How the COLA Works

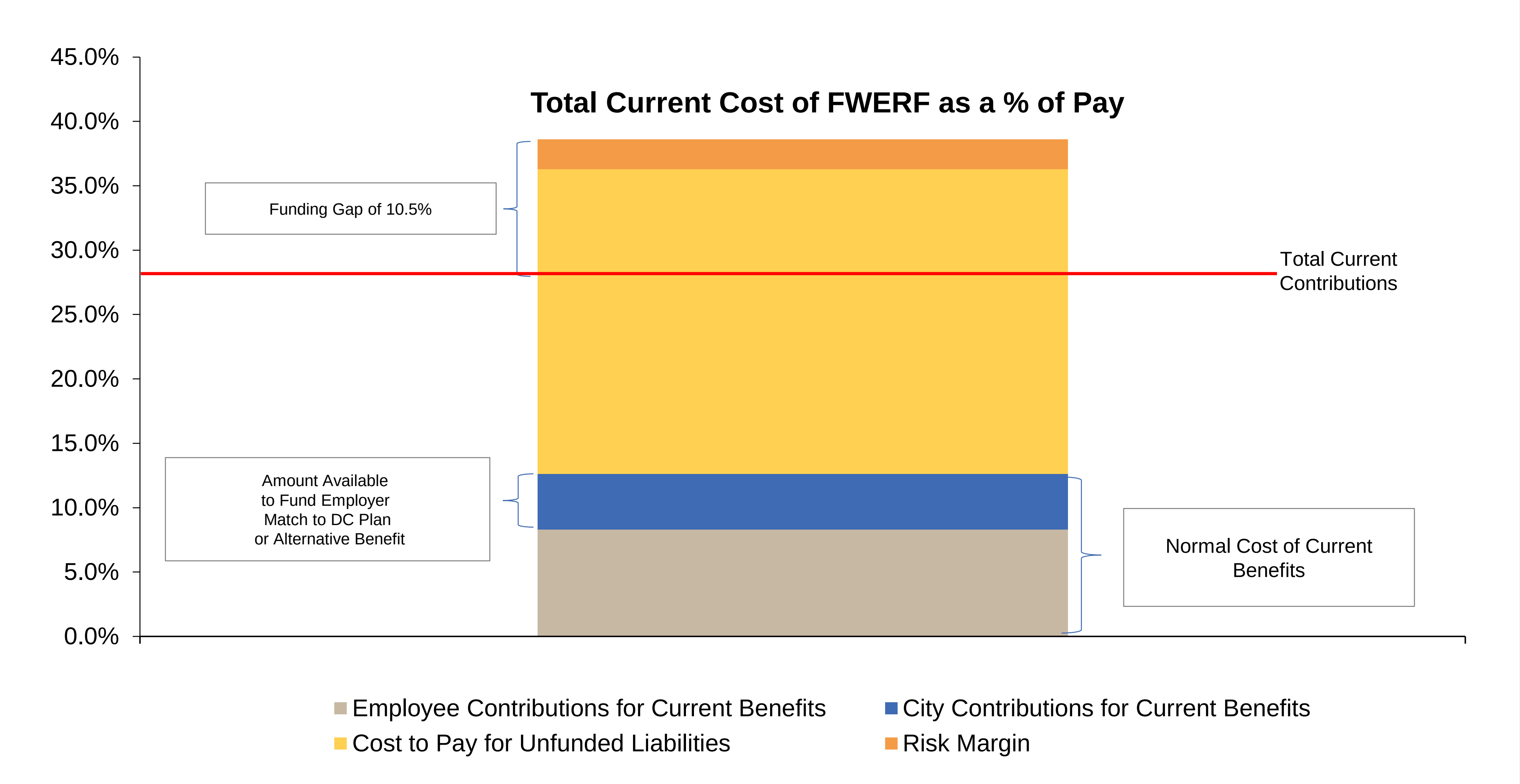
Current Employees Service After Most Recent Benefit Changes (Orange Service)					
Initial Retirement Benefit	**2% COLA after first year**	**2nd Year Base Benefit**	**2% COLA after second year**	**3 year Base Benefit**	**2% COLA Paid over 25 years**
$100,000	$0	$100,000	$0	$100,000	$0
$50,000	$0	$50,000	$0	$50,000	$0
$25,000	$0	$25,000	$0	$25,000	$0

Questions?

Fund Split as of 12/31/16



Total Current Cost of FWERF as a % of Pay



TMRS Option for New Employees*

- TMRS provided preliminary rate estimates of a typical plan for new General hires
- Cost is estimated to be higher than Tier II Normal Cost
- TMRS will not permit including existing employees
- Initial indications are that the most common plan regionally would have a higher normal cost to the City, while leaving the cost of the past unfunded liability unchanged.
  - This excludes any future unfunded liability that may emerge and require amortization
  - The effect of cash flow on the legacy plan is a consideration

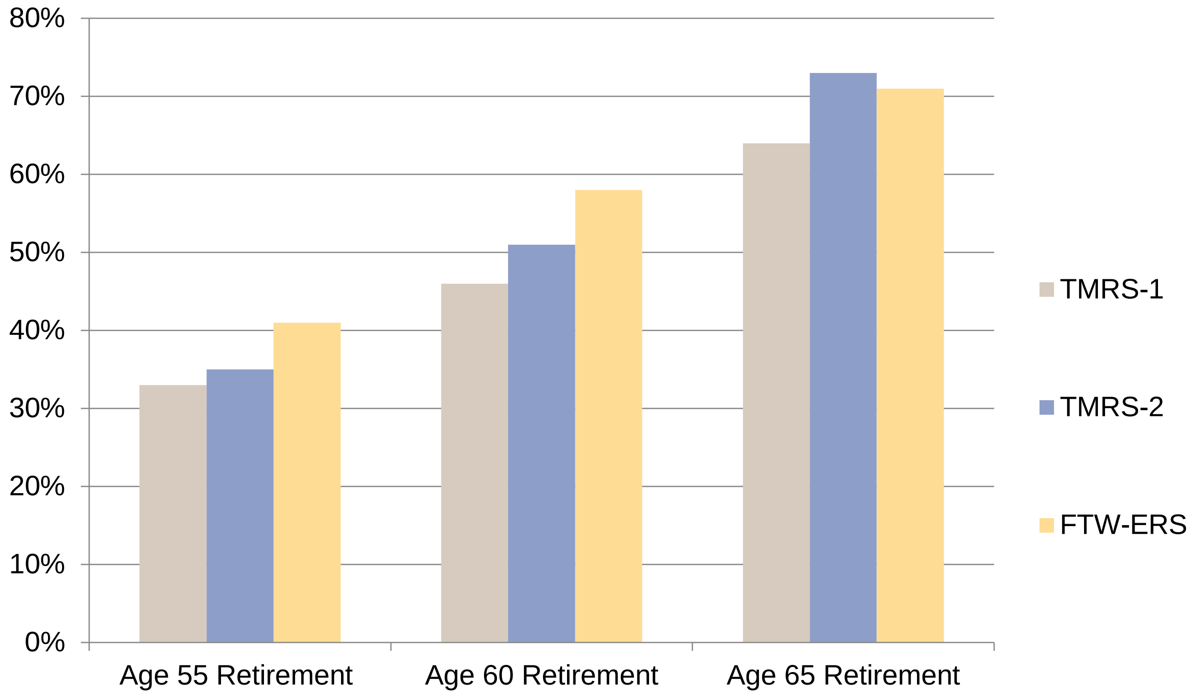
	Current Tier II	TMRS Representative Plan
Benefit	2.5% DB multiplier	Minimum 5% interest on EE + ER contributions
EE Contributions	8.25%	7%
ER Contributions: Normal Cost/ New Service	3.2%*	7.4%
Normal Retirement Eligibility	Age + YOS $\geq$ 80 (Minimum Age 55) Age 65 with 5 YOS	Age 60 with 5 YOS Any age with 20 YOS
COLA	None	None

**Cost for General employees alone*

TMRS Option for New Employees

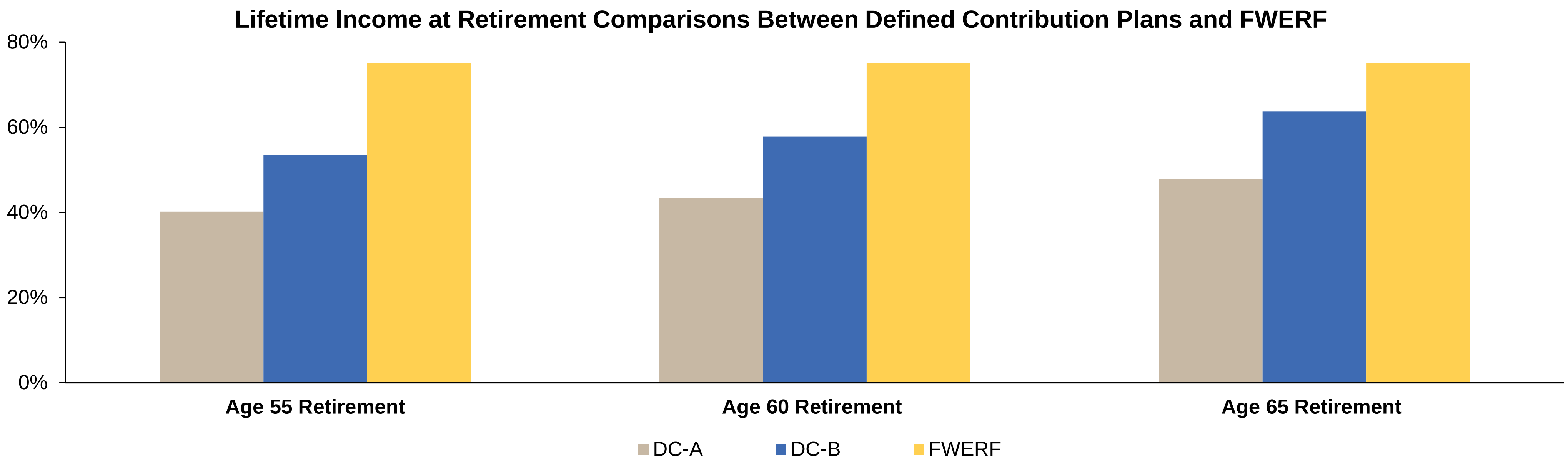
- Most TMRS participating employers also participate in Social Security and have elected the highest options
- TMRS retirement benefits are significantly less than Tier II FWERS benefits without updated service credit, and particularly at early retirement with or without updated service credit
- TMRS is a defined benefit plan and continues the employer risk for adequate funding – however, the structure and assumptions result in significantly less risk
  - The more conservative structure and assumptions also account for much of the relative disparity between estimated costs and benefits

Lifetime Income Replacement as a % of Final Pay Comparisons



Assumes employment at age 35 in 2020 and 3% annual pay increases
TMRS –1: 7% employee contribution, 2/1 match, 0% updated service credit
TMRS –2: 7% employee contribution, 2/1 match, 100% updated service credit
FTW-ERS: Tier II, General Employees, adjusted for FAC and early retirement

Lifetime Income at Retirement



Assumptions:

- Employee has 30 years of service
- Lifetime benefits are shown as a percent of FAC (five-years)
- FWERF benefits are for Tier II employees
- DC contributions equal 8.25% of pay for employees and 4.29% of pay for City
- DC-A: DC account earns 6.5% each year, annuity based on a 4% effective discount rate.
- DC-B: DC account earns 7.5% each year, annuity based on a 5% effective discount rate.

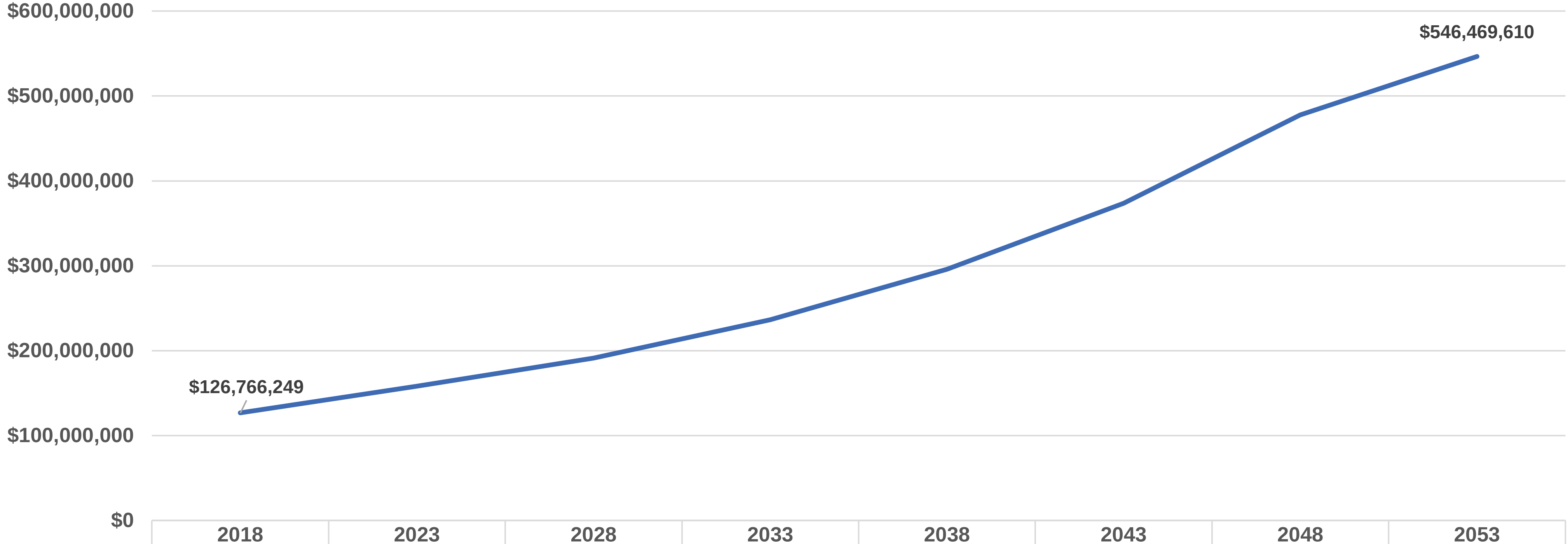
Statutory Framework

- *FWERF became a statutory plan in 2007 when jointly pursued by certain elected officials and the 440*
- *It was not part of City's legislative program but noted as an outcome in Legislative Committee reports*

	Local Plan	Statutory Plan 2007
Organizational Structure	City Department	Separate Legal Entity
Board Composition	<u>13 members</u> 9 active and retired employees elected by group 1 Council Member 2 Council Members or residents (added in 2006) Finance Director (non-voting)	<u>13 members</u> 7 active and retired employees elected by group 5 Mayor Appointees CFO
Voting Requirement for Employee Contribution Increases	75% of <u>affected</u> members (interpreted as those voting) • 1993 Police voted and approved 25 and out • 1996 All voted and approved 3% multiplier including retroactive for retirees • 1999 All voted and approved high 3 (second vote rejected additional increase to apply high 3 to existing retirees)	Employee vote with 50% + 1 of <u>all</u> members of the Fund
Voting Requirement for City Contribution Decreases	N/A	Employee vote with 50% +1 of <u>all</u> members of the Fund
10% cap on member contributions	Provision under state Statute	Eliminated
Additional Requirements		• Notification of benefit reductions • Joint meetings

The Cost of Inaction: If the Current Underfunding Continues, the Future Contributions Required to Catch Up will be Significantly Higher

Estimated Actuarially Determined Contribution if the City Maintains the Current Insufficient Contribution Rate

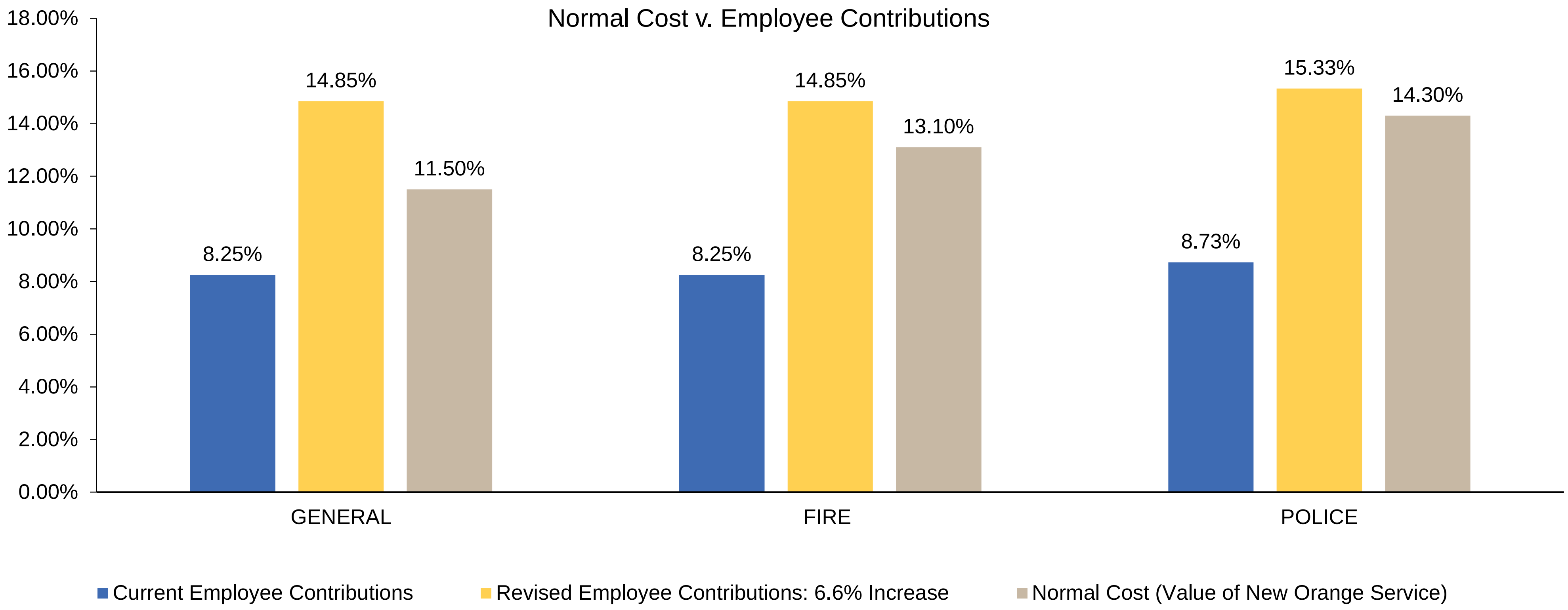


	2018	2023	2028	2033	2038	2043	2048	2053
ADC as % of Pay	28.9%	31.4%	33.3%	35.8%	39.0%	42.6%	47.2%	54.0%
ADC in $	126,766,249	158,152,429	191,399,603	236,408,512	295,991,405	373,719,902	477,654,919	546,469,610

Estimates based on 12/31/2016 Actuarial Valuation

Contributions by Employee Group

- Reducing the funding gap of 10.5% of pay completely through contributions would require an employee contribution increase of 6.6% of pay in order to fund 50% of the gap



Automatic Risk-Sharing Mechanism

The City Manager recommends **additional changes to be automatically implemented** if subsequent actuarial losses occur following the successful implementation of reforms:

- If the total contribution is less than the ADC for two consecutive years according to the actuarial valuation:
  - Any **remaining COLA** could be commensurately reduced or eliminated, and
  - The **total contribution can be increased** by City Council as needed up to 2% of pay in one year or 4% of pay in total – in a 60%/40% proportion (City/employee). Depending upon the final COLA changes, an automatic COLA adjustment could also be included in this initial stage of automatic adjustment
- If the maximum contribution has been applied, and the following valuation report indicates the actual contribution is still insufficient, the City Council must consider **additional benefit reductions**

Consideration of Benefit Improvements in Future

- Based on recommendations of the Board of Trustees and ratification by City
- May include additional COLA benefits for retirees, changes in City/member contributions, and other changes
- Minimum financial criteria before changes are considered:
  - The Actuarially Determined Contribution (ADC) is based on a closed 30-year funding of the Unfunded Liabilities beginning in 2018
  - The ADC is less than the fixed contributions for the last three years
  - The ADC is also currently less than the fixed contributions based on the market value of assets
  - The Funded Ratio exceeds 80% for the last three years based on both actuarial value and market value of assets
- The above minimum financial criteria are met after the improvement is fully recognized
- Benefit improvements will not be considered if the assumed rate of investment return for the Plan exceeds the average assumption reported for similar funds, the recommendations of the independent investment consultant to the Plan, or the recommendation of the actuary for the Plan.