

Pension Glossary

Discussions about the City of Fort Worth's pension can be complicated for people who aren't familiar with some of the concepts and terminology being used. Therefore, this handy reference guide is intended to provide a broad definition for specific terms and language that will be used as part of the education campaign before the employee vote in February.

25-And-Out

The 25-And-Out provision is specific to Fort Worth's Police Officers. Unlike the Rule of 80 – when combination of an employee's years of service, added to their age, equals 80 – which allows General and Fire employees to become eligible for retirement, Police Officers may retire after serving for 25 years.

Actuary

An actuary is a professional who calculates risk and uncertainty, especially in the fields of insurance, annuities and pension funds. These professionals then make recommendations to the City about future cost of benefits and the level of contributions required to ensure long-term sustainability for their fund.

Actuarially-determined contribution

An actuarially-determined contribution is a specific amount of money that, if contributed consistently and combined with investment earnings, is determined by an actuary to be sufficient to pay promised pension benefits in full.

Amortization

The amortization period is the number of years in which the city will pay off the unfunded liability if all plan assumptions are met. A healthy fund typically has an amortization period of no more than 30 years.

Blue Service

During 2011, city management began taking steps to address the growing unfunded liability in the city's pension fund. This included creating a distinction between two different tiers of pension benefits – levels that are now known as "Blue Service" and "Orange Service". Blue Service applies to employees hired prior to the following dates:

- **General Employees** (Group I) hired before July 1, 2011 for service accrued through Oct. 1, 2013.
- **Police Officers** (Group III) hired before Jan. 1, 2013 for service accrued through Oct. 1, 2013.
- **Firefighters** (Group V) hired before Jan. 10, 2015 for service accrued through Jan. 10, 2015.

Blue Service Formula: $3\% \times \text{Years of Service} \times \text{High Three Years' Salary (including overtime)}$

All employees who have been with the City of Fort Worth before these dates, and who continue to work for the city at this time, have a combination of Blue Service and Orange Service. All employees who joined the City of Fort Worth on or after the dates listed above only have Orange Service.

COLA (Cost of Living Adjustment)

The COLA is an annual increase in the monthly retirement benefit to account for inflation. With the proposed pension solution, certain general employees, police officers and firefighters will still be eligible for a COLA under certain conditions – specifically, those employees with years of Blue Service.

There are different types of COLAs:

- **Ad hoc COLA:** An ad hoc COLA allows employees to share in the risks and benefits of investment returns. In the case of the city’s current plan, the ad hoc COLA is between 0 percent and 4 percent annually, depending on the fund’s amortization period. “Ad hoc”, in this instance, means the COLA is not necessarily awarded every year until certain conditions are met.
- **Simple COLA:** A simple COLA is calculated on a fixed percentage rate. The simple COLA in the city’s plan is 2 percent and is awarded every year regardless of the health of the fund. Annual increases are “simple,” not compounded, meaning the percentage of each increase only applies to the initial pension amount.
- **Variable COLA:** A variable COLA fluctuates based on the performance of the fund. In the case of the city’s proposed plan, employees with Blue Service (Groups I, III, and V) who do not retire or enter DROP by Jan. 1, 2021, will see their COLA for service earned before July 20, 2019, become a variable COLA based on the health of the fund. The only difference between a Variable COLA and an Ad hoc COLA is that there are a broader set of financial criteria to be met before the Variable COLA can be awarded. Current projections indicate that this variable COLA will not be awarded in the foreseeable future.

Defined Benefit Plan

A defined benefit plan is a type of pension plan that promises a specified monthly benefit at retirement. The City of Fort Worth’s pension fund is a defined benefit plan. The total benefit is calculated using a formula that takes several factors into account, including salary and service. The city’s formula is:
Average Wage x Multiplier x Years of Service.

DROP (Deferred Retirement Option Program)

DROP is a deferral of retirement that allows an eligible employee to accumulate a lump-sum benefit payable upon their retirement. Currently, when an employee is eligible for retirement, they can enter DROP and continue to work/draw a regular paycheck for up to five years.* Upon entering DROP, the employee’s pension is calculated and frozen, as if the employee has already retired. Future years of service and future pay increases will not be added to the pension benefit.

As the employee continues to work/draw a regular paycheck, the amount that they would have earned as a pension (had they separated from the organization instead of entering DROP) is deposited into an account which becomes available to them upon their separation from the city.

**Contingent upon a successful employee vote, the number of years that a member may participate in DROP will increase from five to six years, effective July 20, 2019.*

Earned Service Credit

“Earned service credit” is the amount of time that an employee has worked at the City of Fort Worth, including the first five years before they are vested.

Fort Worth Employees' Retirement Fund

The Fort Worth Employees' Retirement Fund is the organization that administers the city's pension fund, which is the only municipal pension in Texas that covers all three city employee groups: general city employees, police officers and firefighters. Established by city ordinance in September 1945, the pension is a pool of funds providing eligible employees with a pre-established and predictable source of retirement income. Retirement benefits paid out from the fund come from employee contributions, city contributions and income on investments.

Fully funded

A pension plan is fully funded when it has sufficient current and future assets, including projected investment income, to provide for all promised benefits.

Groups

Employee groups were identified to distinguish between different benefits that are available to employees based on their hire dates.

- **Group I General Member:** a General Employee hired before July 1, 2011.
- **Group II General Member:** a General Employee hired on or after July 1, 2011.
- **Group III Police Member:** a Police Officer hired before Jan. 1, 2013.
- **Group IV Police Member:** a Police Officer hired on or after Jan. 1, 2013.
- **Group V Fire Member:** a Firefighter hired before Jan. 10, 2015.
- **Group VI Fire Member:** a Firefighter hired on or after Jan. 10, 2015.

Orange Service

During 2011, city management began taking steps to address the growing unfunded liability in the city's pension fund. This included creating a distinction between two different tiers of pension benefits – tiers that are now known as "Blue Service" and "Orange Service".

Orange Service applies to all new employees hired after the following dates:

- **General Employees** (Group II) hired on or after July 1, 2011.
- **Police Officers** (Group IV) hired on or after Jan. 1, 2013.
- **Firefighters** (Group VI) hired on or after Jan. 10, 2015.

Orange Service also applies to members hired before the dates listed above, who also have Blue Service for all service credit accrued after the following dates:

- **General Employees** – Oct. 1, 2013
- **Police** – Oct. 1, 2013
- **Fire** – Jan. 10, 2015

Orange Service Formula: 2.5% x Years of Service x High Five Years' Salary (does not include overtime)

All employees who joined the City of Fort Worth on or after the dates listed above only have Orange Service. All employees who have been with the City of Fort Worth before these dates, and who continue to work for the city at this time, have a combination of Blue Service and Orange Service.

Risk sharing mechanism

The risk sharing mechanism provides a way to automatically increase city and employee contributions if the proposed benefit and contribution changes do not restore the health of the pension fund. If and when the risk sharing mechanism kicks in, both city contributions and employee contributions would increase a maximum of 2 percent per year (for a maximum of 4 percent over two or more years), and would be split 60/40 between the city and employees.

Rule of 80

The Rule of 80 is when combination of an employee’s years of service, added to their age, equals 80. Once a General Employee or a Firefighter reaches the Rule of 80, he or she is eligible to retire. (Alternatively, employees can also retire at age 65 after completing five years of service with the city.)

Unfunded liability

An unfunded liability is a projected amount of money a pension fund owes its members that exceeds the value of the projected assets and earnings in the fund. An unfunded liability results when contributions and anticipated investments fall short of projections. The City of Fort Worth currently has a \$1.6 billion unfunded pension liability which is expected to grow as the Fort Worth Employees’ Retirement Fund continues to reduce its assumed rate of return on investments. If changes are not implemented, the fund is projected to run out of money around 2040.

Vested

All eligible city employees are vested in the city’s pension fund after five years of service. Being “vested” means that an employee is eligible for the pension benefit when they meet the plan’s eligibility requirements (Rule of 80, 25-and-Out, or other special circumstances.)

Notes:
