

# Pensions

Employees of the city, after a certain number of years of service, retire with a pension. This is a **defined benefit** retirement plan that guarantees a specified amount of money received each month for the life of the employee. The City of Jacksonville has three separate pension funds: the **General Employee Pension Plan**, the **Corrections Officers Pension Plan**, and the **Police and Fire Pension Fund**.

For the FY2010 budget, pension obligations will likely exceed 10 percent of the City’s General Fund Budget. On October 1, 2008, the total unfunded liability was estimated to exceed \$1.4 billion – when the Dow Jones stock market measure was at 10,850. After October, the market declined 40 percent before beginning to climb back, further impacting pension funds and increasing the unfunded liability. The projected pension costs are expected to rise rapidly for at least the next 20 years as the current unfunded liabilities are paid down.

## How the Pension Plans Work:

All three pension plans operate in much the same way. Under the City’s defined benefit plans, retired employees receive a guaranteed specific amount of retired pay based on salary history and years of service. The funding model is simple but the assumptions required to forecast the cost of future benefits are not. Both employees and the City contribute to the plans based on a percentage of a person’s salary. However, the employee’s contribution rate is fixed, while the City is required to contribute the amount necessary to maintain the plan, as determined periodically by an independent actuary. In the case of the Police and Firefighters pension, the State of Florida also contributes a small fixed share for benefit enhancements (currently four percent of payroll).

Once contributions are in the plan, the money is invested. Investment income is a key component since it provides a major part of the final pension benefit. While growth of the plan depends on investment income, individual benefits are not exposed to investment fluctuations nor are current retiree pensions affected.

**Definition—Defined Benefit:** A retirement plan where the benefit is determined based on a formula, rather than depending on investment returns.

**Definition—Defined Contribution:** A retirement plan in which contributions go into individual accounts, are invested, and the returns (positive or negative) impact that account. The individual account is then used to provide retirement benefits.

The three plans share the following similarities:

- Each is a “defined benefit” plan.
- Employees pay a portion of their salary into the plan, and the City also pays into the plan.
- Employees are not eligible for Social Security nor do they pay Social Security taxes, except for Medicare taxes for all City employees hired after 1986.
- The City does not pay into Social Security for the employees (which would otherwise be 6.2 percent of payroll).
- Employees in all three plans can be vested in the plan after five years of service.

**Table 7: Pension Plan Descriptions**

	<b>General Employee Pension Plan</b>	<b>Corrections Officers Pension Plan</b>	<b>Police and Fire Pension Fund</b>
<i>Employee Contributions</i>	8 percent of salary	8 percent of salary	7 percent of salary
<i>Chapter Fund Contributions for Employee Participation *</i>			1 percent of salary
<i>Chapter Fund Contributions for Enhanced Benefits *</i>			3 percent of salary
<i>Term of Service Requirement</i>	Any age with 30 years of service, at age 55 with 20 years of service, or at age 65 with five years of service	Any age with 20 years of service, or at age 65 with five years of service	20 years of service, regardless of age
<i>Pension Calculations</i>	Average monthly salary multiplied by years of pension service multiplied by an annual accrual rate	Average monthly salary multiplied by years of pension service multiplied by an annual accrual rate	Minimum benefit of sixty percent of the average salary received for the 52 pay periods (two years) preceding retirement
<i>Maximum Pension Benefit</i>	80 percent of salary (requires 32 years of service)	80 percent of salary (requires 30 years of service)	80 percent of salary (requires 30 years of service)

*Pension plan descriptions as of March 2009. \* Chapter fund contributions are monies received from a fee on property casualty insurance, as established in Florida Statute Chapters 175/185. These funds are earmarked for enhanced pension benefits.*

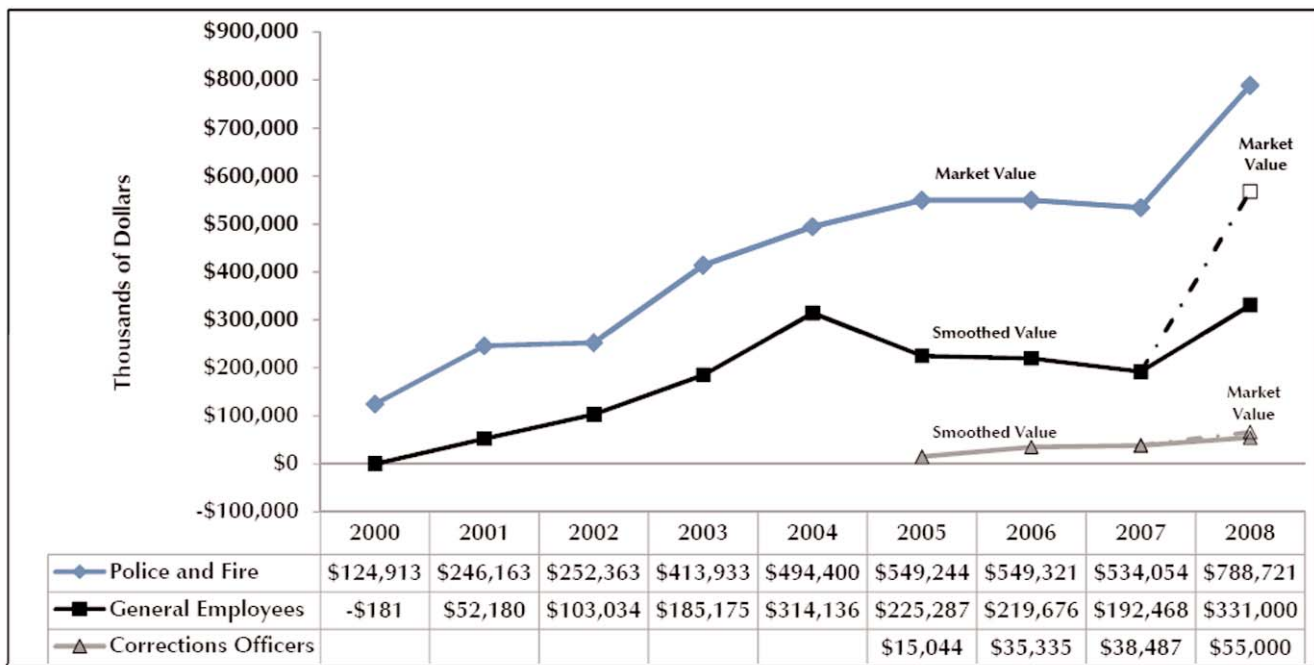
## The Pension Problem: Unfunded Liability

The **Unfunded Actuarial Accrued Liability** – the total amount of money estimated to be required over the retirement lifetimes of the people currently in the plan, minus the total amount currently invested in the plan – was \$1.4 billion at the end of FY2008, calculated at the pension plans’ market value. By plan, the unfunded liabilities were:

General Employees Pension Plan (GEPP):	\$568 million
Corrections Officers Pension Plan (COPP):	\$ 66 million
Police and Fire Pension Fund (PFPF):	\$789 million

**Market value** is only one way to calculate unfunded liabilities. The City uses a **smoothing** methodology for the GEPP and COPP calculations, which spreads changes (positive and negative) in market value over a five-year period. Using the smoothed values, the unfunded liabilities for the GEPP was \$331 million and for the COPP \$55 million. The Police and Fire Pension Fund is moving to a smoothed value system, which is the industry norm.

Chart 17: Unfunded Pension Fund Liability, FYs 2000-2008



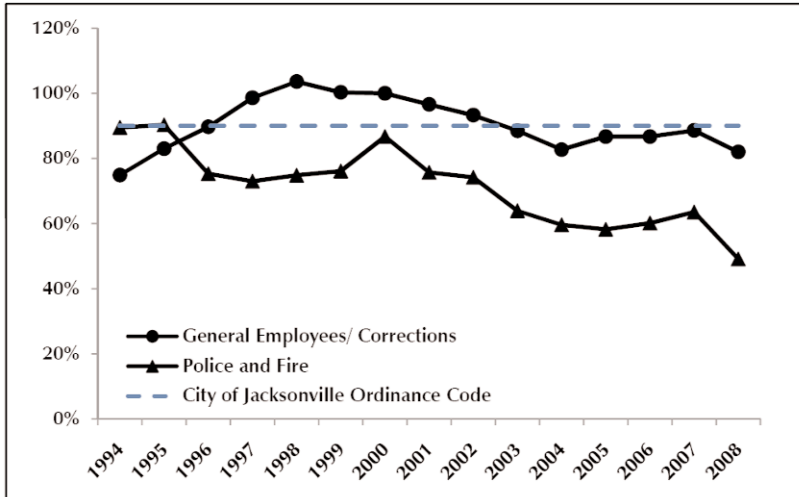
Source: Florida TaxWatch, using City of Jacksonville data

Future projections of unfunded pension liabilities vary. If the markets rebound strongly and the investments perform well, the future liabilities will decline. However, even before the 2008-09 market declines, the unfunded liabilities combined were over \$750 million; the past strong markets did not, by themselves, eliminate the unfunded liabilities.

A key measure of the health of a pension fund is its funded percentage – the ratio of the assets of a fund to its financial obligations. Jacksonville City Ordinance calls for the pension funds to be at least 90 percent funded before a pension can add new benefits. State law requires that all pension obligations be met.

Among Florida’s 10 largest cities, Jacksonville’s pension funds are among the worst funded.

**Chart 18: Percent Funded of Jacksonville Pension Plans**



Source: Police and Fire Pension Fund. For comparison purposes, the Corrections pension plan data are included within the General Employees Pension Plan.

**Table 8: Funded Percentages**

Year	General Employees/ Corrections	Police and Fire
1994	74.9%	89.5%
1995	83.0%	90.3%
1996	89.7%	75.3%
1997	98.6%	73.0%
1998	103.6%	74.8%
1999	100.3%	76.1%
2000	100.0%	86.7%
2001	96.6%	75.7%
2002	93.3%	74.2%
2003	88.5%	63.9%
2004	82.7%	59.6%
2005	86.7%	58.2%
2006	86.7%	60.1%
2007	88.6%	63.5%
2008	82.0%	49.1%

If the GEPP were restated at market value, the funded percentage would be 70.4 percent.

**Funded Percentages, Pension Funds of 10 Largest Florida Cities**

Below 80 percent is critically unhealthy\* – 90 percent meets Jacksonville ordinance code thresholds – over 100 percent means the fund has enough to meet its obligations.

City	Funded Ratio	City	Funded Ratio
<b>Jacksonville</b>		<b>Orlando</b>	
General employees	82%	General employees	82%
Police and Fire	49%	Police	92%
		Fire	92%
<b>Miami</b>		<b>Tallahassee</b>	
General employees and sanitation	86%	General employees	111%
Police and Fire	107%	Police	104%
		Fire	101%
<b>Tampa</b>		<b>Fort Lauderdale</b>	
General employees	98%	General	76%
Police and Fire	109%	Police and fire	82%
<b>St. Petersburg</b>		<b>Cape Coral</b>	
General employees	98%	Police	80%
Police	87%	Fire	77%
Fire	78%		
<b>Hialeah</b>		<b>Port St. Lucie</b>	
All employees	99%	Police	70%

Source: Florida Trend, March 2009. Most funded ratios are from Sept. 30 or Oct. 1, 2007. Jacksonville’s General Employees Pension Plan was added to Florida Trend’s list for comparison purposes. Funded ratios as represented are before the 2008-09 market declines.  
 \* See The Pew Center on the States, Promises with a Price: Public Sector Retirement Benefits, December 2007

## How Pension Plans Are Funded

Each year the City, out of General Revenues, pays into each fund a **Normal Cost**, which is the standard percentage of total payroll required to fund one additional year of the plan, plus an **Amortization of Actuarial Accrued Liability Cost**, which takes the total unfunded plan liability and spreads the cost out over time (up to 30 years). For the Police and Fire Pension Plan in the FY2009 budget, for example, the Normal Cost is 8.18 percent of the combined Police and Fire payroll of plan participants, while the Unfunded Actuarial Accrued Liability cost is 23.93 percent of payroll.

By statute, the City bears the burden of risk associated with maintaining the soundness of the city pension plans. The independent actuary analyzes the plan's funding compared to promised benefits to estimate how much the plan needs to receive in contributions and forecast investment income to pay out to all eligible plan members. Key assumptions include employee attrition, benefit eligibility and levels, how long those who receive pensions will live, and investment income.

## Why Unfunded Liabilities Exist

### Funding decisions:

Some of the differences in the unfunded liabilities of the different pension plans can be seen in how they were funded by the City of Jacksonville over time. When the investments outperform expectations, a portion of the resulting funds are allocated to that pension fund's reserve accounts. During periods of tight budgets, the City at times elected to provide little or no funding to one or the other of the pension programs, relying on each pension's reserve accounts to make up some of the difference. This left the reserves unable to provide a buffer during bad financial markets. (See next page for details.)

### Market declines:

Money paid into pension funds is invested to earn money. The declines in both the stock market and the real estate markets, especially in 2008 and 2009, have been severe.

### Investment policy:

The State of Florida currently restricts how and where pension funds may be invested, which may impact returns.

### Changes in actuarial assumptions:

The formula for anticipating the amount of money needed to pay future benefits makes assumptions about how long people are going to live. As lifespans increase, so do the cost of future benefits.

### Increased benefits:

While a City of Jacksonville ordinance states that pension plans cannot have benefit increases when the plan is less than 90 percent funded, the City Council can override this provision. In 2009, the unfunded liabilities of the Correction Officers Pension Plan rose as the City Council approved additional benefits. Cost of living adjustments can also increase the size of the unfunded liability.

### Changes in payroll:

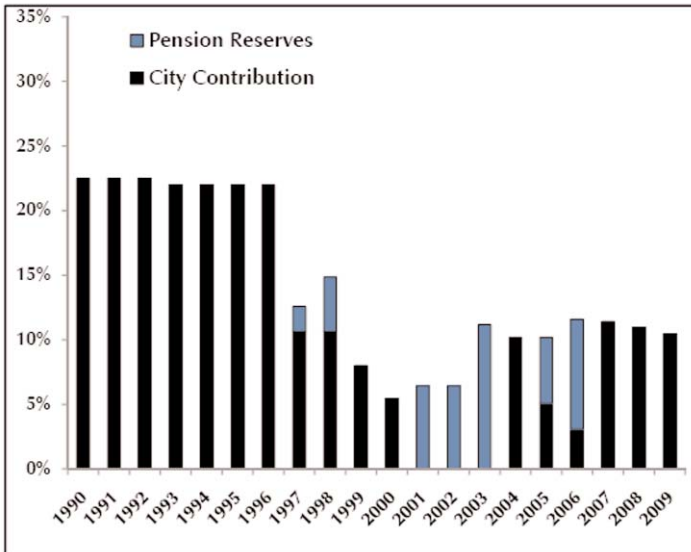
Each new employee hired increases the future benefit costs. Each raise given to employees now increases the future cost of pensions.

In response to the problem of unfunded pension liabilities, the Jacksonville City Council created a special committee in 2009 to examine options. The Committee on Pension Reform (since changed to Committee on Pension Sustainability) is charged to "review the structure, funding mechanism and current and future obligations of the City's General Employees, Correctional Officers and Police and Fire pension funds, and shall consider options and alternatives to ensure both the reasonable and long-term financial security of current and future City retirees and the City's fiscal health and sustainability. The review shall consider the purposes for which the pension plan exists (employee recruitment and retention mechanism, compensation mechanism, etc.) and the history of the plans' structure and funding policies (i.e. changing employer and employee contribution rates, use of pension contribution holidays, investment policies, non-participation in Social Security, etc.)."

## General Employees Pension Plan

Recommendations in the 1977 JCCI Study to address the underfunding of the General Employees Pension Plan (GEPP) led to funding percentages between 22 and 31 percent of payroll per year from 1978 through 1996. Then the City cut back on its funding, including a three-year time span when the City provided no direct dollars into the pension fund (between 2001 and 2003.)

Chart 19: Contributions to the GEPP



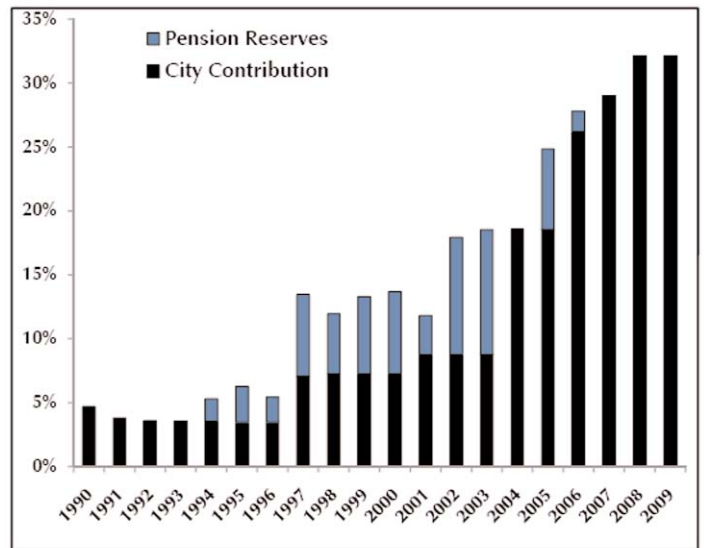
Source: Police and Fire Pension Fund. For comparison purposes, the Corrections pension plan data are included within the General Employees Pension Plan.

General Employees Plan			
Year	City Contribution	Pension Reserves	Combined Rate
1990	22.5%	.00%	22.5%
1991	22.5%	.00%	22.5%
1992	22.5%	.00%	22.5%
1993	22.0%	.00%	22.0%
1994	22.0%	.00%	22.0%
1995	22.0%	.13%	22.1%
1996	22.0%	.04%	22.0%
1997	10.6%	2.0%	12.6%
1998	10.6%	4.2%	14.9%
1999	8.0%	.31%	8.3%
2000	5.4%	.00%	5.4%
2001	0.0%	6.4%	6.4%
2002	0.0%	6.4%	6.4%
2003	0.0%	11.2%	11.2%
2004	10.2%	.00%	10.2%
2005	5.1%	5.1%	10.2%
2006	3.1%	8.5%	11.6%
2007	11.4%	.00%	11.4%
2008	11.0%	.00%	11.0%
2009	10.4%	.00%	10.4%

## Police and Fire Pension Fund

City funding for the Police and Fire Pension Plan (PFPF) was between 20 and 22 percent of payroll from 1978 through 1986, after which the contributions declined to between three and four percent from 1991 through 1996. The City did not return to funding the PFPF at more than 8.75 percent until 2004, when the need to meet unfunded actuarial liabilities increased rapidly.

Chart 20: Contributions to the PFPF



Source: Police and Fire Pension Fund.

Police and Fire Plan			
Year	City Contribution	Pension Reserves	Combined Rate
1990	4.7%	.00%	4.7%
1991	3.8%	.00%	3.8%
1992	3.6%	.00%	3.6%
1993	3.5%	.34%	3.9%
1994	3.5%	1.8%	5.3%
1995	3.5%	2.8%	6.3%
1996	3.5%	1.9%	5.4%
1997	7.1%	6.4%	13.5%
1998	7.3%	4.7%	11.9%
1999	7.3%	6.0%	13.3%
2000	7.3%	6.4%	13.7%
2001	8.8%	3.1%	11.8%
2002	8.8%	9.2%	17.9%
2003	8.8%	9.8%	18.5%
2004	18.6%	6.5%	19.2%
2005	18.6%	6.3%	24.8%
2006	26.2%	1.6%	27.8%
2007	29.0%	.00%	29.0%
2008	32.1%	.00%	32.1%
2009	32.1%	.00%	32.1%