GENERAL EMPLOYEE PENSION PLAN COMMITTEE MINUTES
FRIDAY, MARCH 11, 2016 - 3:00 PM
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA

PRESENT: Jim O'Connor, City Manager; Wayne Coment, City Attorney; Tammy Vock, City Clerk; Cindy Lawson, Finance Director; Gabrielle Manus, HR Director. **Also Present:** Glenn Thomas, Committee Attorney and Kathy Taube, Benefits & Risk Administrator

Mr. Rocky Joyner – Segal Consulting

1. **CALL TO ORDER**

   Today's meeting was called to order at 3:00 p.m.

2. **PUBLIC COMMENT**

   None.

3. **NEW BUSINESS**

A. REVIEW AND APPROVAL OF THE ACTUARIAL VALUATION

Mr. Joyner pointed out that this is the first valuation that reflects the plan freeze effective June 30th 2015, and commented that the numbers in this valuation match up exceedingly well with the impact statement and there were no surprises.

Mr. Joyner further explained that in conjunction with the change in the benefit structure the discount rate was lowered from 7¾% to 6½% and the amortization was changed to one combined 12 year base. At 12 years it is anticipated that the plan will be fully funded, and the City's contribution will consist predominantly of administrative expenses, and any gains and losses at that time.

An issue that will need to be addressed at that point in time will be to structure investment allocations to make sure that the investment returns provide for the payment of benefits. This has not been a concern in the past due to continued contributions covering those benefit payments for the most part.

The recommended contribution went from $4,889,000 to $4,274,000, down $615,000 vs. prior year. Of this decline, a little less than $500,000 was due to the change of the freeze, another $100,000 was due to recognition of good investment returns from prior years, and another small amount was from the recognition of the change of expenses not being incorporated into the summation of total costs.

Ms. Lawson clarified that if, after 12 years goes by, we have some years where our investment returns don't provide adequately for the benefit payments, we would still have had an actuarial valuation each year, and in that circumstance the unfunded liability would be revived and we would continue to make payments. Either way, if the investment returns are adequate nothing changes, but if they are not the City would still have to contribute each year if necessary, actuarially, until the very last retiree passes.

Ms. Lawson further explained that this is the year where we are required to represent our plans differently in our financial statements. This year GASB 68 requires us to show the entire net pension liability of about $32,000,000 related to this plan, about 15 of which is going to fall in the General Fund and the rest is going to be scattered amongst the various enterprise funds. Also, we have to book a pension expense, which recognizes losses in investments and the kinds of things that we smoothed in the actuarial statement, all in one year. So what will happen is the pension expense that it's represented in our financial statements can go up and down quite dramatically based on the Market, and the net pension liability that we show on the books can do the same. Now that the plan is frozen the liability won't change much, but it's the difference between a liability in the market value of the assets. So if we have a tough year in the Market, it will be smoothed and all the net pension liability will go up or down by five or six million dollars, if that's what it is. All of that net pension liability appears on the books as a liability in the government wide statements. It doesn't affect our cash or change what we are actually going to put in, nor does it change our budget, but in terms of the perception of our plan in the financial statements it's not going to be a pretty picture.

Mr. Joyner added that this is being done Nationwide for all plans at the same time. So everyone will have the same change to their own plan, however, where you use to have the net pension assets, which was the difference between what you paid and what you were supposed to pay, on the books, now you have your whole unfunded liability on the books. And the accountants have said, to their credit, the new accounting methodologies are absolutely inappropriate for funding pension plans. They are only to be used for accounting purposes in presenting equitably amongst different entities across the country. They want to be able to compare the books of different plans completely. After talking to Moody's, and other bond rating agencies, they indicate that the GASB changes will have little or no impact on bond ratings because Moody's is already aware of who the good and bad bond people are. They have already taken everything into account in the Moody's derivations. They are essentially telling us, "Don't sweat it."

Ms. Lawson made a motion to accept the actuarial valuation. Tammy Vock seconded. The motion passed unanimously.

Ms. Lawson clarified that this amount includes the employer normal contribution, and therefore this is not an extra $615,000. In the budget for this coming fiscal year a 4.2 million dollar contribution was anticipated, which was the impact statement's contribution toward the unfunded liability. She continued that we were aware we would not have any normal contribution. Most of the savings attributable to the plan freeze wasn't a change in our contribution to the unfunded liability, but due to the fact that we have no more normal contribution.

Ms. Lawson explained that from a budget standpoint there is not a good or bad budget impact for 15-16 because the numbers from the impact statement were used.

Mr. Joyner stated that the funding percentage increased just a small amount from 66.86 to 67.61. The fact that the investment return assumption was lowered from 7¾ to 6½ is the reason it did not increase more. This makes future benefits work more on a 6½% basis vs. a 7¾ basis; however, this should pretty rapidly go up due to our funding period as long as Wall Street behaves. These lowered assumptions decreased risk for what the Markets may or may not do.

The number of active participants went from 339 to 323. This number is expected to continue to decline each year as the system ages in the future.

Mr. Joyner stated that we will continue to employ the five year asset smoothing method, to take some of the aches and pains out of the Market's ups and downs. Right now the market value and the actuarial value are almost the same, with a differential of about $300,000 which is very small for a $72,000,000 plan.

Total contribution income for the year 2015 was $5,230,000, including employee and employer contributions, less administrative expenses. The benefit payout was $6,100,000. Only $900,000 was required from investment income to pay benefits; with interest and dividend income of nearly $1.8 million, this plan is in very good shape.

For the next 12 years the income is expected to be approximately $4.2 million, which is the level dollar amortization of the remaining unfunded liability. As more people retire, more will be taken from interest and dividends to pay benefits. At the end of the 12 year period the contributions are going to shift to almost nothing, assuming we are fully funded, and all of the benefits will come from the investment portfolio.

4. OLD BUSINESS

None

5. ATTORNEY'S MATTERS

None

6. ADJOURNMENT

Ms. Lawson made a motion to adjourn. Ms. Vock seconded the motion. The motion passed unanimously.

The meeting adjourned at 3:35.

/kft