Taxation, Revenue and Utilization of Expenditures (TRUE) Commission

Wes Benwick, Chair
Jason Fischer, Vice Chair
Joe Andrews, Secretary

RESOLUTION 2011-3

A RESOLUTION REGARDING THE AMOUNT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY IN THE CITY'S EMPLOYEE PENSION PLANS AND PROPOSING THAT THE CITY INVESTIGATE THE COST AND FEASIBILITY OF CONVERTING THE PENSION PLANS FROM DEFINED BENEFIT TO DEFINED CONTRIBUTION PLANS

WHEREAS, the TRUE Commission has the authority and responsibility to gather information on the soundness of the City's current and long-term financial status including long range projections and unfunded liabilities; and

WHEREAS, it is the responsibility of the Commission to provide important information on and raise public awareness of public finance issues by encouraging in-depth media coverage of these issues and by meeting with community, neighborhood, and civic organizations; and

WHEREAS, the Commission may choose to review any aspect of fiscal policy within the consolidated government, including without limitation, the pre- and post-retirement benefit structure for City employees and the potential impact on the financial status of the City; and

WHEREAS, the City' Comprehensive Annual Financial Report of September 30, 2010 stated the Police and Fire Pension Fund (PFPF) was 46.79 % funded; the General Employee's Pension Plan (GEPP) 75.86% funded and the Correctional Officers Pension Plan 47.69% funded, and this calls into question the ability of the City to pay the pension benefits of current and retired employees in the future; and

WHEREAS, the proposed changes to pension benefits for new employees have absolutely no effect on the current unfunded liabilities and create new defined-benefit plans - the current Unfunded Actuarial Accrued Liability is related to only current and retired employees; and

WHEREAS, the Comprehensive Annual Financial Report of September 30, 2010 states the combined Unfunded Actuarial Accrued Liabilities (UAAL) of the City's three pension plans exceeds $1.6 billion dollars and that liability has doubled in three years, and is expected to continue to increase; and

WHEREAS, the Government Accounting Standards Board (GASB) will likely reduce the allowable assumed rate of return for financial reporting on public pension plans which will increase the UAAL and the City's required contributions; and

WHEREAS, the City has made all required contributions to all pension plans as stated in the Actuary's Reports for at least the past ten years; and

WHEREAS, the City's consulting actuary projects future pension plan contributions for current employees, excluding JEA employees, will be more than $ 206,000,000 in 2015 and more than $251,000,000 in 2020; and

WHEREAS, the City is projecting budget deficits for the next four fiscal years of $65 million, $125 million, $150 million and $175 million respectively; and

WHEREAS, after considering recent substantial market investment gains, the combined unfunded liability (UAAL) increased by $141,876,000 for the year ended September 30, 2010. The recent gains have only restored the pension funds to their level of September 30, 2007. The assumed annual rate of return for the PFPF is 8.5%; the average gains for 1 year was 9.33%; for 3 years was -1.81%; for 5 years was 3.45%, and for 10 years, 3.93%. For the GEPP the assumed annual returns were 8.4% while the average returns were: for 1 year, 11.54%; for 3 years, -1.79%; for 5 years, 3.27%; and for 10 years, 4.46%. The pension funds have lost four years of assumed compounded investment growth; and

WHEREAS, there have been eight recessions since 1960, an average of one every six years, where the Dow Jones Industrial Average decreased by an average of nearly 30% and it is reasonable to expect that there will be a recession within the next 5 years that has a 30% drop in the DJIA, a recession that will likely create another increase in the unfunded liability; and

WHEREAS, only defined benefit pension plans can have an unfunded liability where the taxpayers are required to provide for any shortage of funds. The taxpayers' obligation ends when the required contribution is made to defined contribution plans; and

WHEREAS, City employees covered by defined benefit plans do not qualify for Social Security benefits but do contribute to their pension plans; and

WHEREAS, the Unfunded Actuarial Accrued Liability (UAAL) is not mentioned at any time in the public budget process and is only disclosed as a footnote in the Comprehensive Annual Financial Report as required by GASB; therefore, the taxpayers of the City are very likely not aware a UAAL exists nor do they realize its effect on the budget; now therefore

BE IT RESOLVED, that the TRUE Commission hereby recommends the following:

1) According to the City Charter only the City Council can establish benefits. The Council, through an appropriate committee, should consult with competent actuaries, attorneys, other experts and the public to determine the cost and feasibility of converting the pension plans from defined benefit plans to defined contribution plans.
2) The UAAL should be included in all discussions of City debt and throughout the budget process.

Adopted by an 11-0 vote of the Commission this 14th day of July, 2011.

Wes Benwick, Chairman