



## JACKSONVILLE CITY COUNCIL

### TRUE COMMISSION PERFORMANCE COMMITTEE MEETING MINUTES December 6, 2012 3:00p.m.

City Council Conference Room B  
Suite 425, City Hall  
117 W. Duval Street

**Attendance:** Committee Members Ted Wendler (Chair), Joe Andrews, Tom Martin, Greg Radlinski, Danny Becton, Daniel Blanchard, Alex Marrero and Diane Brown

**Also:** Jeff Clements – Council Research Division

The meeting was called to order at 3:10 p.m. by Chairman Wendler who presented a revised version of his pension individual benefit calculation spreadsheet, which now incorporates the pension changes Mayor Alvin Brown proposed in November, all of which, if adopted in whole or in part, change the calculations considerably. Mr. Wendler suggested that a combination defined benefit/defined contribution plan might be created that would solve the current defined benefit plan's problems, possibly in the form of a defined benefit plan along the lines of Social Security, with a separate defined contribution savings element. Commissioner Martin questioned why the City opted out of covering its employees under Social Security. Presumably it was done to save the employer contribution to both plans.

The committee tried altering different components of the spreadsheet, including changing the maximum annual benefits accrual percentage, the cost of living percentage, and the assumed rate of return on investments. Eliminating the annual cost of living adjustment entirely eliminated any deficits, as did reducing the percentage of benefit accrual from 3% per year to 1.67%. On the other hand, reducing the assumed return on investment from 7.75% to 5% (considered by many of the committee members to be much more realistic) dramatically increased the overall deficit, even if the COLA was eliminated entirely. Keeping the 3% COLA and reducing the assumed rate of return to 5% produced huge deficits very quickly. Mr. Wendler continues in his efforts to get the audited financial statements from past years from the Police and Fire Pension Fund so as to plug the actual rates of return into the model so that it can be run to show the pension contributions and payout obligations for employees who began work in the 1970s or 1980s and are now retired.

There was general consensus that the big stock market returns of the 1980s and 1990s are not likely to be seen again, at least in the foreseeable future. Net returns over the past 6 years have been negligible, so that represents 6 lost years during which the funds are falling further and further behind on their assumed rates of return, making the UAAL ever larger.

The committee discussed the COLA and how it could be adjusted to be a more realistic reflection of the actual inflation rate. Using Social Security's annual adjustment was suggested, which Congress adopts based on a formula. The committee also discussed the fact that City employees who have worked in other

jobs covered by Social Security will have their earned Social Security benefit reduced upon retirement because of the “windfall elimination” provision. Government employees with defined benefit pensions have their Social Security payments reduced by up to \$350 per month by the provision because, with guaranteed pensions, these employees don’t “need” the full Social Security amount like other retirees without defined benefit plans. Commissioner Becton noted that every retirement savings plan – defined benefit and defined contribution alike – has been badly hurt by the economic downturn of the last 5 years. The difference is that the taxpayers are on the hook to guarantee the payment of full benefits to City retirees, while those taxpayers are seeing their own defined contribution savings plans shrinking. The poor returns of the last 5 years are what has brought the pension crisis to a head and made it visible.

The committee noted that the Police and Fire Pension Fund has been granted some small increases in the percentages of investments it can hold in somewhat riskier, higher-return potential instruments like foreign stocks and real estate, but none of those investments has done well in recent years. The fund’s current condition was not helped by the practice of taking “pension holidays” some years ago, when employer contributions were made from “pension excess contributions” resulting from good stock market returns and not from annual General Fund contributions. Using the gains from good investment return years to pay contributions on other years effectively skimmed off the high returns and left only average and below-average years to fund a growing pension obligation. The power of compounded returns was therefore lost.

There being no further business, the meeting was adjourned at 3:58 p.m.

Jeff Clements, Chief  
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5:00 p.m.