CITY OF LINCOLN
POLICE & FIRE PENSION ADVISORY COMMITTEE MEETING
3:00 P.M., THURSDAY, MAY 3, 2001
PERSONNEL DEPARTMENT CONFERENCE ROOM

Members present: Jim George, Aaron Drake, Mark Meyerson, Ross Hecht, Mark Westphalen. Entering later: Joe Yindrick.

Members absent: None.

City staff present: Paul Lutomski, and John Cripe enters toward the end of the meeting.

Meeting called to order.

Aaron Drake: Paul, will you give a summary of recent activities?

Paul Lutomski: Synopsis minutes of the August, November and February meetings need to be voted on for approval or amendment.

Aaron Drake: I will accept the motion for the August meetings.

Ross Hecht: I make a motion to approve.

Jim George: Second.

Aaron Drake: All in favor, please say AAye≅.

All members unanimously): Aye.

Aaron Drake: I=ll accept a motion regarding the November minutes.

Jim George: Motion to approve the minutes.

Mark Meyerson: Second.

Aaron Drake: All in favor?

Every member: Aye.

Aaron Drake: I will accept a motion regarding the February minutes.

Jim George: I make a motion to approve.

Mark Meyerson: Second the motion.

Aaron Drake: All in favor?

All members: Yes.

Paul Lutomski: The second item of recent activities is that Alvin Banks was awarded a duty disability pension on March 6th, 2001.

Mark Meyerson: How much is that?

Paul Lutomski: A duty disability pension will pay 58% of Mr. Banks= highest 26 consecutive base pay amounts for the rest of his life. It=s about $2200.00 per month. There is a three year review in the Executive Order and in the pension ordinance that allows us, if we wanted to, to retest Mr. Banks at the end of the three year period to see if he=s okay.

Mark Westphalen: What does the three year review involve?

Paul Lutomski: Sometime in the next three years we have the option of asking Mr. Banks to be reevaluated to see if he=s still disabled. If he is, we continue paying him. If he=s determined ***not*** to be disabled by the same process that originally made the determination B in other words, a committee and the Mayor determination B if he=s determined not to be disabled, he=ll be offered his job back, he=ll be restored all his seniority will be restored, and then he won=t have to pay us back any of the disability payments that we paid to him. If he then declines to accept his job, we will stop making monthly disability payments to him.

Ross Hecht: What if he can=t be a line officer, but he could work a desk job?

Paul Lutomski: The person has to be able to do all facets of the Police Officer job. They can=t just do the desk aspect. Also, there=s a rotation policy and so if a person=s on the desk, eventually they could be rotated out to the street. The other rational for that emergency situation all officers should be available to help. It=s a little different during the recovery period. Plan A members have six months that can be supplemented with any accrued sick leave. Plan B and C members have a flat twelve months in which to recover. During the recovery period, if the Department has light duty positions, such as a desk job, that the employee can do, then the employee is expected to do those duties, but when the time runs out, they have to be fully recovered, and be able to do all the responsibilities of their job.

Ross Hecht: Does that work the same as the Fire Department=s?

Jim George: Yes. If there's light duty work that needs to be done, the Fire Department will ask you to do that, and then you have to come in and do it.

Paul Lutomski: The three year reevaluation was instituted was because there were reports that people, after having been granted a duty disability, seemed to have recovered, and the City and labor unions agreed upon a three year period as a sufficient time for the review. Past that point, the disability pension can never be revoked.

Mark Meyerson: I didn=t know about the next item.

Paul Lutomski: Yes, we normally report any duty disability applications. Union President Police Officer Mark Stahlhut applied for a duty disability pension on April 25, 2001.

Mark Meyerson: Why?

Paul Lutomski: I can=t tell you any more about it. I can give you general information on the process. A person applies for a disability pension. They write us a letter explaining why they think this is necessary. We ask them to sign medical releases so that we can gather histories, medical histories, on the specific reasons they state for their disability application. We contact those doctors , collect that information, and once the information is collected we make an appointment with one or more physicians for a second opinion. We send that information, a job description, and some questions to the second opinion physician. We ask them, ABased upon your review of the medical history and the job description and your examination of the patient, can they perform the duties of their job? If not, is it temporary or permanent? If temporary, what needs to be done and what recovery time is expected?≅ If permanent, we ask them to go into a little more detail about exactly why it=s permanent. When we get their information back, we=ll schedule a meeting with the Disability Review Committee. That committee consists of the Health Department Director B or in this case, Carole Douglas, the Mental Health Director Dean Settle, and the Finance Director Don Herz. That committee will review the information and make a recommendation. If the recommendation is anything other than what the employee asked for, the employee gets to bring their attorney, or whatever representation they would like, and talk to the committee and try to persuade them otherwise. After that, the Committee makes a final recommendation to the Mayor, the Mayor looks at all the information and his decision is final. If granted, the Mayor signs an executive order to put the person on pension. If denied we write a letter notifying the person that the disability pension has been denied, and then the employee=s only recourse is to go through District Court.

Paul Lutomski: The next item, Item D, Police Officers David Schmehl, Dana Harrison, Stacey Apollonio, Amanda Reasoner, Andrea Marsh have resigned and Police Officer Jeffrey Butt has retired. Mr. Butt was a 28 year employee.

Ross Hecht: What about the others?

Mark Meyerson: Three of the five were recruits and the other two were about 5 year employees.

Ross Hecht: Why did they leave?

Mark Meyerson: Two officers are boyfriend/girlfriend and they went to Florida. The other three are recruits and the job, I guess, just wasn=t for them.

Aaron Drake: I think we had a Firefighter/Paramedic that left during that period, too.

Paul Lutomski: That=s right. Richard Tast. I didn=t list him, because I haven=t paid him out yet. Item E. In February, the Fire Department EMS fund began making $17,000 approximately monthly payments to cover Police and Fire Pension normal costs for the staff that is under that fund.

Ross Hecht: Why?

Paul Lutomski: The EMS fund is a revenue fund. They are supposed to bill for the services they provide, and then their income is to be used to pay for ambulances, all their supplies, the salaries, benefits, health care, life insurance, and pension while the employees are working under that fund.

Aaron Drake: Does the fund actually pay their salaries?

Paul Lutomski: From what I understand, it for the portion of time they work for the fund. If you=re a Paramedic, you=re not always working for the EMS fund, you=re working for the Fire Department sometimes, too. I adjusted the document for the Mayor=s

Special Task Force regarding pension funding to include the $17,000 monthly from the EMS fund.

Mark Westphalen: I talked to a Public Service Officer that works in close proximity with Police Officers and I=m wondering if it=s a problem or a concern that the Public Service civilian positions get theoretically a better pension than the professional Police Officer or Firefighter positions.

Mark Meyerson: Yes, it does. There=s always discussions on which plan is better, defined benefit or defined contribution. It=s been argued both ways.

Ross Hecht: Did any of the previous Rural Metro employees move over and work for the Fire Department?

Aaron Drake: Yes, most of them had the opportunity to take a position and several of them are working for us right now. They usually got a pretty big raise in most cases.

Paul Lutomski: Then we have Item F, developments on the DROP and switch to Plan A. February 2002, the IRS said that we needed to complete the long application form, rather than the easier, short one, and then send a $1,250.00 fee with that form. This was done on March 5th. Pages 2 and 3 regard that.

On April 23rd, the Mayor signed the executive order and DROP contracts making it official that Smith Hayes is the investment manager for the DROP funds, that Milliman & Robertson is going to be the records and that Circle Trust will be the custodian for the funds.

And then recently IRS examiner told us that we could expect a letter in May sometime, but he also asked that we change the ordinance to include some standard qualified plan language. That language is shown on pages 4 through 7. Page 4, the gist of it is that pension assets can only be used for paying legitimate obligations of the pension. Page 5 says that if the pension were ever discontinued, that members are immediately vested in their benefits at that point. Page 6, that we promise to pay benefits beginning no later than April 1st of the calendar year following the year in which a member turns 70 2. The 4th and final one change is that the plan will be qualified under section 401 of the Internal Revenue Code and that we will administer it as such. Just standard language the reviewer said needed to be included in the qualified plan.

I=m passing around a piece of vinyl that is an example of the cover of a three-ring 1 2 A notebook that we=re going to distribute to all Police and Fire

Pension members. The picture of the cover and the spine is on pages 8 and 9. The vinyl is white and the printing is blue. That=s exactly how it will look.

April 30th, there was an announcement in Pensions and Investments newspaper we had awarded the DROP investment management to Smith Hayes. A copy of that is on page 10.

The next item is that we are still working with Information Services to get the data for a comparison letter that we=re going to send to Plan B and C members regarding how much it would cost to switch to Plan A, what their Plan A benefits would be compared to Plan B or C benefits at certain dates and how things would look when you incorporate the DROP plan with either their B and C or the, if they wanted to switch to Plan A, what that would provide. They were trying to get all the supporting data available to be put on a CD so that we can share that with SmithHayes because we have hired them, of course, to help us disseminate this information. When we get the letter done and printed, I=m going to meet with SmithHayes to talk about the letter and educate them as to how it can be used to help people decide if they want to switch to Plan A, and/or use the DROP at a future date. Then I=ll schedule meetings where Smith Hayes can present a Power Point presentation to firefighters and police officers, and then they=ll have the back up data, hopefully, that they can use, if someone wants to consult with them on detailed information regarding switching a DROP.

We have Item G, transactions for the last three months on pages 11 through 13. They are pretty much the standard stuff. We sell a Treasury bond or agency, buy a $1,200,000 a month in equities.

Item H are return rates on Page 14. Calendar year to date through April 30th equity is down 4.2%. Debt is up 3.2%. Since we have about 75% of our assets still in debt investments, total portfolio overturn is 1.4% on the positive side for this year and then you can see the 1, 2, 3, and 5 year rates. One year is 9.2%. Two year average 4.2%. Three year is 6.1%, and 5 year average for the total portfolio is 8.6%.

Mark Meyerson: What happened with Jeffrey Butt?

Paul Lutomski: Jeffrey Butt was a Police Officer who had 28 years of service. He came in and talked to John. John gave him a retirement estimate off of the computer, and then when he talked to me, I gave him a final, not an estimate, and the final was approximately $60 per month less than the estimated amount. There was a problem with the estimate program . We wrote Mr. Butt a letter, explaining the problem, verified that his final numbers were correct, sent him copies of all the payroll data that we used to create the final number, how his monthly pension number was calculated using the actuarial tables and the reduction taken for his lump-sum refund withdrawal - and eventually everything turned out okay and he=s fine. The problem is that we need to go through the pension analysis estimate program thoroughly now because it=s been in effect for 10 years there=s been a lot of minor changes to it. This has brought up the need for a thorough review. We=ve already fixed the problem that affected Jeffrey Butt We made the program act like a person X figure out when the next pay period would be X in other words, every two weeks X and then using his regular rate of pay, longevity and shift differential, and just add that in every two weeks, subtracting off the lower amount from the earliest high 26 set of figures.

Jim George: I=m having a lot of people ask when the comparison letter is going to be mailed out.

Paul Lutomski: We had a problem with that. We mailed it out and then we told everyone to throw it away. One of the problems was what affected Jeff Butt. You see the estimate is used in the comparison. Well, if the estimate is not correct, the comparison is not correct. And, as I said, we have fixed the estimate, and we=re working on a couple of other minor things in the comparison. I really hope that we can get the letter out of here before the next pay check, which is the 17th of May.

Mark Meyerson: How many people have switched to Plan A.

Paul Lutomski: Six.

Mark Meyerson: That=s it?

Paul Lutomski: Yes. I have had some calls from people telling me that they=re interested in switching, but they want to wait until the IRS says Ayes≅ to the DROP plan, because it doesn=t make any sense for them to switch if the DROP plan won=t be waiting for them when they attain Plan A retirement eligibility, otherwise they=ll have to keep contributing 8%.

Jim George: The comparison letter should be very good in helping people decide, but there=s also data that was used to create the letter that can be looked at if they want to get into more detail and they need to talk to Paul about that.

Paul Lutomski: Yes, there=s a mountain of backup data behind the comparison letter and that=s the supporting data, that I said we=re trying to get Information Services put on a

CD for us. That way we can make several copies, some for Smith Hayes, some for the Advisory Committee members if they have access to a CD reader, and then we can all get together and talk about the letter. When people come to you with questions, you=ll be better prepared to answer them. In addition to the presentations, the Police and Fire will also have videotapes available that folks can check out, videotapes of the presentations.

Mark Westphalen: When people sign up for the DROP, will that be public information?

Paul Lutomski: It would be my preference that it wouldn=t be public information. Current pension information can only be released if the employee approves, and I think that we would be safer by not releasing that information just in case there was a promotion and someone didn=t get the promotion. They might allege that they didn=t get it because their supervisors knew that they would only be around for five years or less. So, we would, we could play it safe by not even telling the departments when the employees entered the DROP plan.

Mark Meyerson: Most of the people that are interested in this are telling everybody anyway.

Jim George: Yes, I would see that at the Fire Department, if you=re inX if you=re going to get into the DROP, you=d let everyone know, and you=d be telling them about your account value.

Jim George: But on the other hand, if I X if I knew a person was in DROP, I would know that they might stay another 5 years.

Aaron Drake: I would like to thank the people involved in the decision to send some of our committee members to the conference. It was an important conference, and I hope we have even greater involvement in future years. I=d like to see the entire committee go, even those people that work for the pension funds report. A lot of good information to learn and a lot of realism is learned as to what is out there. What=s comparable and if we are comparable. This is my second time, and I still learned quite a bit. Mark, do you have anything to add?

Mark Meyerson: Yes, I agree. I thought it was an excellent conference. It was real educational for me, and I learned a lot and then after it was all over, I was kind of disappointed that neither you nor John Cripe could attend, because I thought it would have been great if you guys could have been there too. I think it is definitely worth going to. Hopefully, they=ll send us again next year.

They had a lot of things on DROPs. There=s all kinds of different DROPs that I didn=t even know existed.

Aaron Drake: There are such things as war plans, which are forced type of DROP plan.

Mark Meyerson: The DROP plans without time limits.

Aaron Drake: Retiree health care was another huge issue. A lot of plans pay for or share in a good portion of retiree health care costs. Some are funded from the pension and some are paid out of general obligation. A lot of plans have COLAs. They may call them the 13th check, but they follow a true COLA schedule.

Jim George: Have we ever done any projections on where we would be if we adopted a 3% COLA?

Paul Lutomski: Well, back when the actuary costed that, it was about 11 million dollars, and I think it was 1993 or so.

Jim George: I wonder what the cost difference would be between the COLA or the 13th Check that we have now and a true COLA. Because we=re at about $900 a year right now.

Mark Meyerson: And the 13th Check fund is overfunded like crazy. It should last forever.

Paul Lutomski: There=s about 7 2 B 7.7 million dollars in it.

Mark Meyerson: I don=t know about Fire, but for Police, the COLA=s the one issue that everyone talks about and would really like to see adopted. They=re getting more and more angry about it.

Jim George: Fire would a real COLA too.

Aaron Drake: The main components are the basic level of the pension plan, health care being paid at least partially by the employer and a real COLA.

Let=s not have you initiate a COLA until after the DROP is implemented, but I think this Board should take a serious look at starting up a real COLA. That brings up my next topic. The Fire Union was wanting to talk about pension enhancements. The Mayor and the Fire administration asked the Union not to. The Union executive board said, AOkay.≅ We=re wondering where and when we could make pension enhancements as it seemed *ad hoc*.

Jim George: Well, I=d like to see how much COLA we could afford. Say we do the one time increase, then whatever=s leftover from the COLA pool, we could use that to start a real COLA. What amount of COLA one, two percent would that get us? And then we=d have to add normal cost after that.

Paul Lutomski: *(as John Cripe enters the room)* Hi, John. Here=s a question for you. We=re talking about a real COLA, some frustration that Police and Fire can=t ask for that in this Committee and can=t ask for it in labor negotiations. Want to know when they can ask for it, and how you can help.

John Cripe: Paul and I have been talking for a couple months about looking at the COLA pool, making the one-time increase and then stoping the 13th Check. With the money that is left in the pool find out how much of a real COLA that could support. We don=t have enough money to go to 3%, but we might have the money to at least start something. We couldn=t afford to do a real COLA at the time we did the 13th Check, ... but those are the things that we=d like to do. We need to have the funds available, and we=d have to have cooperation of the Mayor and the Council. Before we didn=t have the funds, so when we did the 13th Check that's the best thing that we could do financially, to share the overfunding and the excess earnings with the employees at the same time. I think there=s a real possibility that as we change the commitment on the part of the City and the Council to fund the pension properly, that there will be a possibility to start a real COLA in the 1-2% range and work for more as funding commitment will allow.

Meeting adjourns.