The City of Lincoln, Nebraska
Police & Fire Pension
Summary for May 4, 2000
Advisory Committee Meeting

Members present: Dennis Duckworth, Mark Meyerson, Ross Hecht.

Members absent: Al McCray, Jim George, Aaron Drake.

City Staff present: Georgia Glass, John Cripe, Paul Lutomski.

Others present: Jeff Gottbreht, Mark Stahlhut

Dennis Duckworth: We have a quorum, so the meeting is called to order. Paul, will you go over the agenda?

Paul Lutomski: Items A, B, C, and D are the minutes of prior meetings. You haven't had a chance to read those yet, so it's not fair to ask you to vote on those.

Dennis Duckworth: Do we have a motion to wait and read these later and vote on them at the next meeting?

Ross Hecht: So moved.

Mark Meyerson: Second.

Dennis Duckworth: All in favor?

All members say "Aye."

Dennis Duckworth: Ross, before you arrived, we talked about Item E, the transactions, F, the balance sheet and H, the letter of agreement. Would you like to go over those? Again?

Ross Hecht: No, sir.

John Cripe: For purposes of the minutes, Paul needs to go back and say who was present at each of those meetings, such as November 4th and November 18th. The people present at those meetings will be the ones able to vote to approve, amend, the meeting minutes for next time.

Paul Lutomski: Members present at the November 4th meeting were Dennis Duckworth, Al Berndt, Al McCray, Ross Hecht, Jim George and Aaron Drake. Al Berndt has since left the Police Department, so the other folks get to vote on that one. Members present at the November 18th, 1999 meeting were Dennis Duckworth, Al Berndt, Ross Hecht, Jim George, and Aaron Drake. Once again Al Berndt is no longer here. Members at the January 6 meeting were Dennis Duckworth, Al Berndt, Al McCray, Ross Hecht, and Jim George and Aaron Drake. And then at the February 3rd, 2000 meeting, members present Al Berndt, Aaron Drake, Dennis Duckworth and Jim George.

Dennis Duckworth: Can you give us any comments on the City Council's meeting regarding the DROP plan?

John Cripe: Paul and I have talked about the DROP probably every two or three days since our last meeting. We've met with Finance four or five times. We figured out a way to amortize the cost, the initial cost to overfunding, over a ten year period. Therefore, we could go to the City Council in good conscience, tell them that we did not think that the DROP plan was going to be a financial burden on the pension. That was their concern last time. I think having done this preparation work, the DROP ordinance should pass in three readings. We did have Council members mention they had calls from a firefighter that didn't like the DROP, because it continues the employment of employees that should be retiring. That came from the Council, not from us. You might want to get your members on board, so you don't have a lobbying effort from outside.

Georgia Glass: Camp mentioned he had received an anonymous phone call.

John Cripe: We received a letter a while ago that was anonymous.

Jeff Gottbraht: So you got one phone call and you got one letter?

John Cripe: Right.

Jeff Gottbreht: I've got two hundred and fifty-four members. I'm not concerned about one. If we had two hundred and twenty who called, then I've got a problem.

John Cripe: I should tell you that if you have one Council person with a vote,say, "He is concerned for the issue that that one person rose."

Jeff Gottbreht: The votes have to be four to three on the Council, so right now, I'm not real concerned.

Georgia Glass: On the 22nd, the DROP will have a public hearing, and at that time anybody that wants to talk for or against it can speak their peace.

Jeff Gottbreht: What's going to happen with the employee contributions with the DROP plan? Will the employee be able to take that lump sum and roll it into their DROP account?

John Cripe: Jeff, what's your impression of, if that were to happen?

Jeff Gottbreht: Well, if they rolled their refund into the DROP, they would receive a lesser monthly amount and that amount would then go into the DROP account also.

Georgia Glass: You answered the question correctly. It's important that the membership understands that same thing.

John Cripe: If that's the understanding and that's the principle, then I'm fine with the lump sum rollover. If the expectation or the principle is that they take a lump sum and they get their full monthly benefit as if the rollover never happened, then I'm not in favor of it.

Dennis Duckworth: Let's take me for example. I'm in Plan C and I entered the DROP and I have a lump sum refund of $160,000.00 or so. The $160,000 would go into a separate account and then I, instead of maybe drawing $3,000, would draw $1,000 a month, and that whopping $12,000 goes into my DROP account.

John Cripe: That's correct.

Paul Lutomski: When you exit the DROP, you have those two lump sum accounts you can access, and then instead of paying you $12,000 per year into your DROP account, we pay that to you directly. The $12,000 stays at $12,000, it does not go up to the $30,000 as if you hadn't taken a refund.

John Cripe: And then we have the tax issues that we need to address.

Georgia Glass: In terms of timing, can we start the RFP process before the IRS has given approval?

John Cripe: Yes.

Paul Lutomski: Well, in fact, I think we should have a vendor selected and ready to go, just in case we need to implement on September 1st or the first of the month after the IRS approval. One company would be in charge of both of those separate accounts. When the employee retires-in-fact the City would need to write or notify the third party vendor that the employee has in fact left, so that the employee then takes control of the money. In other words, has access to it and can take it out. Legally and according to the IRS while that employee is still working, in other words not retired in fact, that money belongs to the Police and Fire Pension Plan, so we need a release to give that to them.

John Cripe: And there would be payout options available. They could leave it there. They could roll it to an IRA, or another eligible plan. They could annuitize it to receive monthly payments from that vendor. Whatever options are available from the IRS, we want the employee to have.

Dennis Duckworth: When someone in Plan A retires, do they continue to contribute 8% of their salary?

Paul Lutomski: No.

Dennis Duckworth: So they'll be drawing their full salary and their full pension benefit at the same time?

John Cripe: Correct.

Paul Lutomski: I may be jumping the gun on the tax simplicity, but it might be as easy as what we're currently doing with Plan A folks. Their investment in contract is repaid to them every month. So let's say, if $50 is repaid every month, we just tell the vendor that fifty is to be accumulated and reported at the end of the DROP period as non-taxable, since they've already paid it, but we should check that out for sure.

John Cripe: I don't know if, under the IRS's simplified formula regulations whether they would have been considered retired when they enter the DROP or when they exit the DROP and retire in fact. If it's the second, when they retire in fact, then they don't have to do this accumulation stuff and we just start from that point.

Ross Hecht: John, do you have any idea on what percent of the people will take advantage of the DROP?

John Cripe: We think we'll have a large number. We have 84 right now that could get into it.

Mark Meyerson: Is this a recent change where people in Plan A don't contribute once they enter the DROP?

Paul Lutomski: For the past two or three months it's been like that, where we haven't expected any contributions during the DROP period.

John Cripe: I don't want to jump ahead too far, but we're preparing an executive order for people to be able to switch again from Plans B and C into Plan A.

Paul Lutomski: Tomorrow I'm going to try to send a letter out to each person's home with the specifics on the DROP plan in addition to having some meetings at work areas real soon after that.

Mark Meyerson: But it's definite that we can tell the members of the A Plan that they won't be contributing during the DROP period?

John Cripe: Absolutely.

Georgia Glass: Over the long time period when this has been in the works, there have been a lot of different scenarios that have been discussed.

Mark Meyerson: I don't understand this last page.

Paul Lutomski: That's funding methodologies and we're not going to be mailing that kind of thing out to the employees.

Mark Meyerson: The pension is difficult to understand.

Ross Hecht: Well, we've made it complicated by giving them all these different options.

John Cripe: Defined benefit plans are complicated in general. Most people are used to defined contribution plans, so when they talk about pensions with their friends, it's defined contributions and they expect then when we earn money in the defined benefit that their benefit goes up and that's not how a defined benefit works.

Dennis Duckworth: I have a question on people changing from B to C to A. What's the agenda on that? What has to happen?

John Cripe: We need an executive order allowing that to happen. The employee would have to make up the difference in the contributions between what the 8% and what they actually paid. They may have to mortgage their house or something to collect the pay back money.

Jeff Gottbreht: By the time I get to retire, Plan A will be up to 80% anyway.

Paul Lutomski: Can we write the executive order on the switch to Plan A so there is not window?

John Cripe: I think we have to have a window.

Jeff Gottbreht: So if you decide to switch and you owe $3500, is the City going to want you to pay that all at one time?

John Cripe: Yes, because effectively you start on the new plan immediately after you switch. The contributions would be post-tax, not pre-tax, so we'll have to track those, that switch payment contribution, differently from the pre-tax ones.

Jeff Gottbreht: How long of a window of opportunity will there be to switch?

John Cripe: I'm hoping for three months.

Paul Lutomski: I'd like to see a longer switch period. Okay, then Item J. On pages 51 through 56, there's a pension comparison and also a return article. The comparison however needs to be updated, because the civilian pension may be changed soon. The changes will be brought to the Council, also on May 15th, and they are 1) 100% vesting in seven years rather than ten years, 2) contributions will be pre-tax rather than post-tax, 3) portability will be added which means that there will be no forfeiture of City funds for removal of employee funds if separating prior to normal retirement. Number four is that normal retirement eligibility will be changed to fifty and twenty-five years of service rather than age fifty-five and twenty years of service, and last is that employees would contribute 6% all the time rather than 3% of the first $4800 in the calendar year and 6% thereafter.

Dennis Duckworth: You're looking into all of these changes for the rest of the City employees. Why can't we make this option available to us?

Georgia Glass: One answer is that the pension plan for Police and Firefighters are provided in a separate ordinance than the pension for civilian employees. Second part is that allowing Police and Firefighters to be in a civilian type defined contribution pension plan would be a complete change in philosophy. That philosophy would be that for the uniformed officers that they spend their entire career protecting us and now in your retirement we want to protect you by offering you a pension plan that is a defined benefit, not a defined contribution. With a defined contribution plan you could lose your money. With a defined benefit plan, you are guaranteed a pension check every month.

John Cripe: I was talking about this with Georgia just the other day. I said that I would gladly give up my pension plan in order to get back into the Police and Fire Plan, and then I would be out of here retired in fifteen months.

Georgia Glass: Everything that I earned in the fourth quarter of last year and more I have lost in the first quarter of this year. If I were counting on that money to retire, I'd be hurting.

Dennis Duckworth: But there are guaranteed accounts that you could get into and then that would mean you're only getting the 200% return on your contribution. In other words, the City match. I haven't seen a 200% return on our pension.

John Cripe: You probably stopped contributing after twenty-one years of service, and you're still going to get 58% of your benefit at age 53, 68% at age 58, so you are receiving a return on your money, it's just that it's not as easily recognizable. I lost over $50,000 in my pension plan since January 1st.

Dennis Duckworth: I'm guessing that in order for you to lose $50,000 in that time, you must have over $200,000 altogether.

John Cripe: Yes, but that's all I would have. If I were still in the Police and Fire Plan, I would have that plus the City portion, so if I lost the $200,000 on my own, the City would make up the difference and I'd still get my 58% benefit.

Dennis Duckworth: Is the City being paternalistic for its Police and Fire because they feel like they have to take care of us and we are not smart enough to invest?

Paul Lutomski: Historically, Police and Fire Plans have been defined benefit plans. Police and Fire had pension plans before a lot of other folks did, and back then pension plans were all defined benefit. Therefore, that's carrying forward today.

Dennis Duckworth: We haven't even addressed social security yet, which we don't get. I'm throwing out a lot of things here, but the idea is, maybe if we're going to change things, we should open this up.

Georgia Glass: Mayor Wesely has said that he's going to look at the Police and Fire Pension.

John Cripe: I think we should open them both up for whoever wants to make a choice into either one.

Dennis Duckworth: And when making your choice you shouldn't make it based upon what three month return was or wasn't.

Paul Lutomski: The civilian plan and the Police and Fire Plan are completely different. In the civilian plan, you don't even have to get in until you're age 40 and you have been here five years, and that's when we're seeing that most people do get in. They wait until they're forced to get in. Over the long term, why would we think that Police and Fire employees are going to act any different than the average civilian employee? And the other thing is the article that I have in your packet. Page 37. It says that from 1984 to 1996 the average domestic equity mutual fund returned 13%. However, the average domestic equity mutual fund investor only earned 6.2%. It goes on to say that return was less than the 6.45% that could have been earned by just investing in 90 day certificates of deposit during that same time period. And why does this happen? According to the article it happens because a lot of people chase returns. They look and they see that returns have been high for such and such mutual fund and they get into that fund and next year the returns in that fund aren't very good.

Georgia Glass: This discussion is all well and good, but the Mayor has said that he's going to get a committee together to look at the Police and Fire Pension Plan. We'll see what that committee comes up with.

Dennis Duckworth: I've seen employees that earn half or seventy percent of what I earn and they're taking hundreds and hundreds of thousand dollars home more at retirement than I would get. Three hundred, five hundred, eight hundred thousand dollars. The City plan is also changing its eligibility. We've also been told they have to work til 55. Well, now they only have to work til 50 like us. I would take a defined contribution with the two for one match in a heartbeat.

Ross Hecht: Dennis, what do you contribute?

Dennis Duckworth: Seven percent.

Ross Hecht: What does the City contribute to your pension?

Dennis Duckworth: Nothing.

Paul Lutomski: No, that's not true. On average, it's 12%.

Jeff Gottbreht: But they don't put in a true 12% every year. They put in relatively nothing.

Paul Lutomski: It doesn't matter what the City puts in every year. It matters that the City promised a 64% pension at age 50 and 25 years of service. The City needs to pay whatever money that costs and it's average of 12% of salary over the long term.

Jeff Gottbreht: It should be a level playing field. I put in my share. The City needs to put in their share. That way we could get up to 80%.

Mark Stahlhut: Or use that money for retirement health care costs. I'm not on the Board, but there's a whole array of things that we could do. Police and Fire are occupations that shorten lives. I'm 41 years old, and have been diagnosed with a heart problem. I don't have a history o f that in my family, and I take good care of myself, so I'm attributing it to the stress from the job. When the City doesn't put in what it's supposed to every year, claiming that its actuarially sound, the fund will never grow.

Paul Lutomski: I understand what you're saying. I too would prefer that the City funded the pension with more money. However, that's not how the City budget works. And even if the City put more money in, that doesn't necessarily equate to higher benefit levels for the employees. The benefit levels are based, for my understanding, on comparability, and not on the amount of money in the pension plan. Furthermore, even if the City didn't have enough money to make the pension payments out of the pension fund, the payments would still need to be made and the money would come out of the general fund.

Mark Stahlhut: The big picture is like Pine Lake Road. When it was first built, it should have been five lanes, but it was only two lanes, and now to get it up to five lanes, they're going to have to disrupt traffic and the properties on either side of that area to do what they should have done to start with.

Ross Hecht: I was on the City Council, and I raised heck about the same things you're talking about here. The reason is, is that when it was first built, it was in the County, not the City, so the County has to build it according to County standards. Then when it gets incorporated into the City, after a certain traffic count, it has to be upgraded to City standards. Now, why the City doesn't say to the County, "We're going to be taking this over in four or five years. Let's work together and make it bigger right now," I don't know.

Jeff Gottbreht: The developer has had it made in this City. They should have been making those roads wider to start with.

Ross Hecht: Jeff, I don't know about the developers' responsibility for the arterial roads. I know that the developer has to create all the interior roads in the residential areas.

Paul Lutomski: Well, back to the pension, I think we're all in agreement that we would like to see the Mayor and the City Council budget department agree to put more money into the Pension Plan. We have been talking to the Budget Department for years about this. We're trying to avoid any sort of crisis in the future by gradually increasing the City's pension funding year by year, so that there won't come a year when we ask them to put in a million and a half, two million dollars more all at once. We're asking them to go up $200,000 per year.

Dennis Duckworth: Georgia, could you ask the Mayor if getting into the civilian pension plan could be an option, that it would be opened up to the Police and Fire and vice versa? I don't care if civilians want to get into the defined benefit plan.

Georgia Glass: Sure.

Jeff Gottbreht: Johanns was here, and during his time period, he put about $400,000 into the pension plan every year. If you figure 12% of payroll, $400,000 is practically nothing.

Paul Lutomski: Let's move on to Item J, which is page 39 through 44. This is the actuarial cost estimate for increasing the monthly pension payment to retirees, beneficiaries, and deferred annuitants. The actuary estimated a cost of $1,779,000. We plan to ask that this be paid from the COLA pool. The Committee approved this plan with the Pension administration's cost estimate, which was $35,000 lower. It was lower because I did not compute for the combined life expectancy of member beneficiary in cases when the member chose a joint survivor pension option. Tactically, I would recommend we wait until the DROP goes through before we talk to the City Council about this additional cost.

Ross Hecht: Politically, that makes sense. The million seven seventy-nine increase,what is the cost right now?

Paul Lutomski: Annually, we pay out 3½ million dollars in benefits.

Ross Hecht: So that's a 50% increase. That's not insignificant. And the reason we're doing it, this is just because some people just aren't getting enough money. Paul, is there any other reason?

Paul Lutomski: No, that's the reason, just to be nice.

Ross Hecht: Jeff, you said the City doesn't ever do anything nice.

(Laughter)

Jeff Gottbreht: The City doesn't care. The City didn't bring it up. This was a motion that came from one of our members.

Georgia Glass: But we agreed.

Paul Lutomski: John Cripe brought this up months ago.

Ross Hecht: I think he did. Jeff, it's true Aaron Drake made the motion and the specific proposal that we're going with, but back in the minutes of these meetings, John was the one that initially thought it would be a good idea to raise the minimums.

Jeff Gottbreht: There weren't that many people affected by this, were there?

Paul Lutomski: There are 293 people that are retired in total. 83 of those people will get an increase because of this proposal. There are 48 vested deferred annuitants, and 36 of those people are scheduled to get an increase. Back to the timing of when they should be brought up, I think we need to decide that. I'd also want to mention that the funding is going to be different for this one than the DROP program. We're going to suggest using the COLA pool as the funding source for this monthly minimum increase. What that means is there won't be any impact at all to overfunding or to the normal cost to the City. It will all be paid right out of the COLA pool. Currently the COLA pool has about $7 million, so if we take $1.77 million out, it will have about $5 million in it.

Mark Meyerson: Will the thirteenth check that's paid out of the COLA pool be affected by this?

Paul Lutomski: It's possible. Theorectically, we're only supposed to make the thirteenth check payment if there is money in the COLA pool to make that payment. However, even at the $5 million level, there should be plenty of money in that COLA pool to make payments for years and years. I'll have to run some numbers to get a better idea of that.

Jeff Gottbreht: That's not a true COLA though, is it?

Paul Lutomski: No. The cost of a true COLA was too high. If I remember correctly, it was roughly $16 million initially and then normal cost would have increased also.

Ross Hecht: Is the City making a contribution to the COLA pool?

Paul Lutomski: Not a set amount or schedule. Contributions go into the COLA pool the pension is overfunded, and if it exceeds the actuarially assumed return rate. Then we take that excess return rate, multiply it by the overfunding, multiply it by the percent of our population that is a retirant or beneficiary, and put that money in the COLA pool.

Mark Meyerson: It seems to me and a lot of the guys I've talked to that's the worst part of our pension plan, that your benefit payments never go up. I think if there were a cost of living adjustment attached to the pension, it wouldn't be half bad.

Georgia Glass: How long has it been since we've gone to the City Council with a true COLA proposal?

Paul Lutomski: About 1992.

Georgia Glass: That's a long time. The Mayor has said, he'll get a committee together. Maybe this is one of the things that we'll look at then.

Mark Stahlhut: That's what I was getting at before, because if the City funded the pension correctly, then we might be able to look things like this.

Ross Hecht: That's going to be quite a committee. I'm glad I'm not on it.

Paul Lutomski: You might be. It hasn't been created yet.

Georgia Glass: Timing on the minimum increase, I think we should wait until we get through with the DROP.

Ross Hecht: Me too.

Dennis Duckworth: Well, we only have one more item to go.

Paul Lutomski: Item K. I looked at how the equity investments were performing in February just because I thought that would be a good idea, because it was six months of performance. Actively managed investments outperformed passive indexed funds 57% versus 28%, if you take that six month period and annualize it. That was big to me. Growth type investments outperformed value investments 19% to negative 15%.

: Small cap outperformed large cap, 84% to 10%. So, I thought, "Well, maybe we should make some minor adjustments, based upon these figures." So I increased the active, the growth and the small cap. However, I stayed within the initial guidelines we had discussed for the equity investment

The last two pages show you the before and after contributions that we're making. Page 45, top part shows the allocation, asset allocation in terms of domestic, international index versus active value versus growth, and then bottom portion shows the specific funds that we're investing in. We have a group with American Funds, and a group with Vanguard. Page 45 is the current situation. Page 46 shows how things were tweaked after that six month period. I have a document detailing specifically why these changes were done. If anybody would like a copy of that, please let me know and I'll get it out to you.

Dennis Duckworth: Is there any new business that anyone has to bring forward?

Paul Lutomski: It might be good to have a motion from the committee to allow Plan B and C members to switch to Plan A, directing us to obtain an executive order from the Mayor regarding that switch.

Ross Hecht: I'll make that motion.

Mark Meyerson: Second.

Dennis Duckworth: Discussion. All in favor say "Aye".

All members say "Aye."

Dennis Duckworth: Any other new business? *(Pause)* No? Well, then the meeting is adjourned.

The meeting is adjourned.