

**The City of Lincoln, Nebraska
Police & Fire Pension
Summary for August 3, 2000
Advisory Committee Meeting**

Members present: Dennis Duckworth, Jim George, Mark Meyerson, Ross Hecht, Aaron Drake.

Members absent: A City Council representative (formerly Al McCray) has not selected as yet.

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

Others present: Mark Bowen (Mayor's Chief of Staff)

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.

Dennis Duckworth: Do we have a motion to approve the November 4, 1999 minutes?

Ross Hecht: So moved.

Jim George: Second.

Dennis Duckworth: All in favor?

All members say "Aye."

Dennis Duckworth: Do we have a motion to approve the November 18, 1999 minutes?

Ross Hecht: So moved.

Jim George: Second.

Dennis Duckworth: All in favor?

All members say "Aye."

Dennis Duckworth: Do we have a motion to approve the January 6, 2000 minutes?

Ross Hecht: So moved.

Aaron Drake: Second.

Dennis Duckworth: All in favor?

All members say "Aye."

Dennis Duckworth: Do we have a motion to approve the February 3, 2000 minutes?

Aaron Drake: So moved.

Jim George: Second.

Dennis Duckworth: All in favor?

All members say "Aye."

Dennis Duckworth: Paul please proceed with the transactions.

Paul Lutomski: The transaction list is long, but most are standard items pertaining to purchasing equities. There were a couple transactions precipitated by the lack of increase to the City's contribution to the pension. (please refer to page 24 of the pre-meeting packet for documentation) We need more cashflow because the City contribution did not increase. Therefore we sold a couple zero coupon CMOs and purchased coupon paying CMOs to increase cashflow. Last year the City's contribution increased \$41,198. This year it is set to increase \$74,720. Both of these increases only pay for the normal cost for new employees. We have been asking for a \$200,000 annual increase for the past two years, in addition to the increases needed to cover costs of new employees. We received none of the \$200,000, so we are down \$600,000 in income (200 + 400) over these two years. Police Union was just awarded a 10.23% average increase for FY 2000-01 and the pension's salary assumption is 5%. We don't want to get caught short of cashflow and don't feel it would be prudent to expect a \$600,000 "Catchup" increase next year, so we are converting some zero coupons to coupon paying CMOs.

Ross Hecht: Is the council aware of this? That the pension requires a \$400,000 increase in contributions and it was increased only \$74,000?

John Cripe: My guess is no.

Georgia Glass: I don't talk about the pension at my budget briefing. When Steve Hubka briefs the Council on the budget I don't know what is said about the pension.

John Cripe: In my thirteen years we have never been asked to make a presentation to the Council. We have made written requests to the budget office.

Ross Hecht: My concern is that this will continue. The pension is a high priority item that should be funded. The City will have to bite the bullet some time. I think this is a serious problem. The market won't continue to help us avoid this.

Georgia Glass: This is why I wanted Mark Bowen to come to this meeting. The Mayor has put together a Task Force to look at this topic.

Paul Lutomski: Ten years ago the \$14 million overfunding was a big percent of our total liability. Now we are ahead by \$9 million. It doesn't provide as much of a safety cushion as it used to because liabilities have grown. If the pension has ONE year at 0% instead of the 7.5% assumed rate, the \$9 million is gone, and the recommended contribution is normal cost which is about \$2.6 million. A \$1.6 million increase. Either the City puts that in or the auditors make a note that the City did not fund the pension as needed and the City's bond rating may be affected.

Ross Hecht: I think a realistic amount should be contributed with these issues in mind.

Aaron Drake: Your point is well taken, but we have this conversation every year.

Ross Hecht: I'd like a response from the Mayor's office.

John Cripe: We started at about \$400,000 with Johann's administration. We ask for increases as we see fit, but have not received them. Under Johann's the City's contribution

has increased very gradually to about \$800,000. I told Mayor Wesely we needed \$200,000 annual increases.

Georgia Glass: Hubka put the \$200,000 annual increase in his 5 year budget projections.

John Cripe: But it never made it to the council for a vote.

Aaron Drake: How many years were we overfunded?

Paul Lutomski: Overfunding started in 1979. City contributions have varied around the actuarial recommendation (see attached "Long Term Contribution Analysis")

Ross Hecht: How long might the overfunding last?

Paul Lutomski: At the current city contribution rate we would be okay for about 3 years if we earn 7.5%. Last year, per the actuary's recommendation, we changed to a 4 year smoothing method to help funding and become comparable with other funds practices.

Ross Hecht: The lid is a major contributor to this problem.

Jim George: After we talked to Mayor Wesely after the first year, I did not think this would happen again. There are a lot of cities that have a mandated pension contribution.

Aaron Drake: This can't be a surprise. I wrote an analysis spelling out this exact scenario for Mayor Wesely when he was running for mayor.

Paul Lutomski: The initiator of this conversation was that we sold bonds and reinvested the proceeds to increase monthly cashflow. Primarily due to the City's lack of contribution and secondarily in preparation for the DROP. If all eligibles enter the DROP annual cash outflow could increase \$900k.

Ross Hecht: DROP was said to decrease overfunding. Is that taken into consideration?

John Cripe: The actual cost will depend on participation.

Paul Lutomski: Regarding cost, if August is flat we will close the fiscal year at about 6%. We need another 1.5% in August to make our assumption. It is possible. As you can see (on "Fiscal Year Return Data") there were 4 other months above 1.5%. (Paul talks about graphs/data on pages 27 to 32.) I would like to ask that we committee members sign the letter of agreement to change the way the 26 highest base pay amount is translated into a monthly figure. The new way is to divide the highest 26 total by 364 days and then multiply by 365.25 days, then divide that by 12 months. That's all for recent events.

John Cripe: New Business item A is to increase the monthly payment to retirees, beneficiaries and deferred annuitants. The committee already looked at this and approved it in a prior meeting, but we did not bring it to the council because we were discussing DROP with them and did not want to mix the issues. This is not the first time we have increased benefits. It really is kind of sad that we are paying some people around \$300. This plan targets an amount around \$600.

Aaron Drake: The plan is self-limiting because the largest raises will go the people receiving the least benefit which are usually the oldest. I make a motion to bring this before the council at the soonest appropriate time.

Jim George: Second.

Committee votes to take this item to council.

Dennis Duckworth: I need to announce my resignation as committee chairman and also a committee member. (Discussion ensues regarding this issue and it is decided that the first item of business in the November meeting will be to elect a new chairman.)

Another issue. If a person DROPs do they need to start contributing to Social Security?

John Cripe: No they don't contribute to Social Security. As DROP members they are not actually retired. They are still covered under the Police and Fire Pension.

Dennis Duckworth: My second issue is the number of vendors. Police wants the ability to be able to invest in anything.

John Cripe: That would be a decision for the DROP vendor selection committee. I wouldn't think a large number of vendors would be feasible, but it would be up to them.

Dennis Duckworth: Finally, does seniority for vacation and sickleave etc. continue during DROP?

John Cripe: Yes, everything continues the same during DROP except Plan A member do not make a pension contribution.

Dennis Duckworth: Do we need to have an agreement to that effect.

John Cripe: No.

Jim George: Some DROP ordinances do have that written in them.

Paul Lutomski: I talked to Don Taute. He didn't think it was necessary. It's a perception issue. The City doesn't see the status of the member as being any different. Although they are in the DROP they are still in the PF Pension. Members might perceive it as though they are not in the pension, but they still are.

Dennis Duckworth: Any other new business? If there is no new business I would like to thank everyone here for their time and effort. I appreciate your participation.

John Cripe: Thank you for your service.

Dennis Duckworth: I would entertain a motion to adjourn.

Aaron Drake: Move.

Ross Hecht: Second.

Dennis Duckworth: All in Favor? (Aye) Meeting adjourned.