FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS APRIL 2017 ON FLORIDA PENSION ISSUES

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Editor's Note: The Florida state legislature has completed 55 days of its 60 day session. There is a budget agreement, but the details are being worked out at this time. We won't know whether any pension legislation is included in the final budget bill until the conference report is released and voted on. (April 28, 2017)

Florida House Passes Retirement System Bill that Favors DC Plans

By Michael Katz, Chief Investment Officer, April 18, 2017

The Florida House of Representatives has approved a bill that proposes changes to the state's retirement system, including shifting its members from defined benefit plans into defined contribution plans. Members of the Florida Retirement System (FRS) currently have the option to choose either a defined benefit plan or a defined contribution plan. Under the current rules, members who do not choose a plan are automatically enrolled into the defined benefit pension plan. However, the proposed legislation would change the default enrollment to a defined contribution plan.

The bill would also prohibit newly elected officials, such as state lawmakers, judges, county commissioners, cabinet members, and school board members, from joining the defined benefit pension plan after July 1, 2018. Those members would instead receive their retirement benefits through the defined contribution plan. Additionally, the bill would limit pension benefits for judges by reducing the annual rate for accruing their retirement benefits from 3.3% to 3% beginning July 1. Based on the results of the special studies, the benefit changes proposed by the bill are projected to have a total negative fiscal impact of $17.3 million in fiscal year 2018. The results of the annual actuarial valuation are expected to have a total negative fiscal impact of $141.2 million in fiscal year 2018.

House approves FRS changes critics say will destabilize the plan

By James Call, Tallahassee Democrat, April 13, 2017

The Florida House wants to limit public workers' access to a traditional pension. Vastly outnumbered in the House, worker advocates could only complain while House Republicans pushed through a change Democrats and labor organizations predict will put the Florida Retirement System at risk. Currently, when new hires fail to choose between a defined benefit plan (a traditional pension) and a defined contribution (a 401(k)-like savings account) the worker defaults into the pension plan. Democrats and labor groups protest that the amendment was added as a significant policy change into a routine bill on what traditionally has been a non-controversial budget provision, one that sets the state contribution rate for FRS. Currently, when new hires fail to choose between a defined benefit plan (a traditional pension) and a defined contribution (a 401(k)-like savings account) the worker defaults into the pension plan. The AFL-CIO said West Virginia tried a version of Caldwell's idea and found it too expensive in the long run — almost doubling pension costs. A financial expert the labor organization contacted said Michigan adopted a similar proposal and its pension plan now is on an unsustainable path. The plan now goes to the Senate where it could very well end up being one of the bargaining chips during House and Senate budget negotiations.

Controversial pension change surfaces in Florida Senate

By Lloyd Dunkelberger, Palm Beach Post, April 21, 2017

A Senate committee will take up a new bill that could move more state public workers into a 401(k)-type retirement plan rather than the traditional pension program. The Senate Governmental Oversight and Accountability Committee is scheduled to take up a proposed bill (SPB 7030) that would move public employees who are hired after Jan. 1, 2018 into the investment plan if they do not actively opt for the traditional pension coverage. Workers defaulting into the investment plan is a major issue for House leaders, who have pushed similar provisions for the last half-dozen years. The issue is already part of the formal budget negotiations between the House and Senate, although the Senate had backed only a bill (SB 7022) adjusting pension contribution rates for public agencies, while the House supported legislation (HB 5007) with the investment-plan default. The emergence of the new Senate bill with the House provision is an indication it is a part of the budget negotiations between the House and Senate in the final weeks of the annual session. Senate Governmental Oversight and Accountability Chairman Dennis Baxley, R-Ocala, acknowledged the new pension bill is a “template” for negotiations on the issue with the House. He also said his committee will take up another bill (HB 7007) that would revamp health-insurance coverage for state workers and is another House priority.

Pension, Health Care Overhauls Advance Through Senate

By The News Service of Florida, WLRN, April 25, 2017

A Senate committee narrowly backed a controversial change in the state pension plan and endorsed an overhaul of the health-insurance program for state employees. The Governmental Oversight and Accountability Committee voted 4-3, along partisan lines, to change the default retirement option for newly hired public employees, including school teachers, county workers and state employees. Under the bill (SPB 7030), new workers who do not actively choose to join the traditional pension plan or a 401(k)-type investment plan will default into the investment plan six months after they are hired. The pension bill as well as legislation revamping the health-insurance program for state workers are House-backed priorities that could be part of the two chambers' final negotiations on a state budget. Democrats opposed the bill because of the default option, although the legislation has other provisions, including expanding eligibility benefits for firefighters who develop cancer “in the line of duty.” An amendment that would have maintained the traditional pension plan as a default was defeated in a voice vote. Another amendment, which would have increased a public agency's match in the investment plan for its employees from 3 to 6 percent, was also rejected.

Jacksonville Pension Solution on the Right Path

By Kyle Baltuch, Florida TaxWatch, April 20, 2017

The proposal, which has been in the news for months, has been touted by some and scrutinized by others. The new plan has two major components that effect the taxpayers and pensioners in Jacksonville. The first step of the plan would end defined benefit pensions for all future City Hall employees, and instead grant the individuals the option to enroll in a 401(k) style retirement account. The second feature of the plan deals with how the city will pay off the current debt levied against the city’s public pension system. The

city plans to use its optional half-penny sales tax revenues (starting in 2031) to pay off the debt. This plan has come under fire as a recent actuarial analysis suggests this method could take upwards of 30 years to pay off the debt, meaning Jacksonville could be dealing with this issue till 2060. For years Florida TaxWatch has written on the crisis related to Jacksonville's pension, in fact our organization was the first to warn the city back in 2008. While TaxWatch applauds the city's attempt to quell the pension problem, the solution that is proposed is not a perfect one and there are still some issues that could continue to affect the city. For one, the proposed plan could leave the city giving out overly generous 401(k) matches (as much as 25 percent for police officers and firefighters.) Furthermore, the city's half-penny sales tax is already dedicated to paying for city construction projects through 2030, meaning the city will not be able to truly start paying off its debt until 2031.
Editor's Note: It sounds from the article that new hires (after October 1) will have the option to enroll in the new 401(k) style retirement account. In fact, there is no option – all new hires are automatically enrolled in this new retirement account.

Study tags 2058 for when Curry proposal fully funds police and firefighter pension plan

David Bauerlein, Florida Times Union, April 21, 2017

Mayor Lenny Curry's proposed pension overhaul would result in full funding of the city's police and firefighter pension plan in 2058, according to a report released that is the first study to pin down a year for that crucial milestone. City Council is poised to vote on a package of legislation that would clear the way for a half-cent sales tax to start around 2031 for paying down the city's massive pension debt. The Police and Fire Pension Fund had its own actuarial firm run a detailed report that determined full funding for its pension plan will arrive in 2058. The Police and Fire Pension Fund will send the GRS Retirement Consulting report to City Council, which is slated to vote on a raft of pension legislation.

Sunday Editorial: City Council should approve pension plan

Editorial Board, Florida Times Union, April 21, 2017

City Council appears ready to pass overwhelmingly the pension reform agreements with city unions. Granted, the agreement is not perfect. But if more action is needed in the future, the costs will be clear. And let's be candid: There is no perfect pension solution. Joining the Florida State Retirement System, which would remove city officials from the temptations, has its own pension issues. It appears that generous benefits given to police and firefighter employees in collective bargaining were the price that Mayor Lenny Curry was willing to pay to get out of the defined benefit business and moving the city into 401(k)-style plans. Curry is right that this move would be historic. There would be more transparency with the 401(k) plans, and that is a major plus for the community. But we do know this: The 3 percent guaranteed COLA and the 8.4 percent guaranteed return on special DROP retirement accounts were largely responsible for creating the unaffordable pension debt in this city. Both were returned for current police officers and firefighters in the recent negotiations. And that 25 percent city match for new police and firefighters looks mighty generous to civilian eyes.
Editor's Note: The Jacksonville city council unanimously gave final approval to all the pension reform proposals. See: City Council says yes to Curry's pension reform package

Guest column: Pension plan looks like an Enron scheme

By Richard Tuten, Chairman, Police and Firefighters Retirement Fund, Florida Times Union, April 25, 2017

It has amazed and dismayed me watching this plan unfold. Politicians raked former Mayor Alvin Brown and Mayor John Peyton over the coals were for their proposals but they have given this plan glowing recommendations without even knowing the numbers. The mayor has no backup plan, no contingency, if his rosy estimates are not met. Why should he? He's going to Tallahassee to work for the governor. (You think the port is going to deepen itself with only pension savings?) Enron accounting deceptions led to the bankruptcy of the company, and the dissolution of Arthur Anderson Accounting. People lost their 401(k)s, their pensions. If this plan by the mayor goes south, guess what, kids and grandkids? The pension plan will go bankrupt and the taxpayers will be paying for it. Much like John the Baptist in the Bible, I can only offer a warning. My 14 years as a trustee, as well as my economics degree, have offered me exposure and insight into the world of finance, investments and municipal planning. I have had numerous conversations with very smart people. Over the years, they have each responded to what this city has done with our pensions in the same way — utter bewilderment. Don't believe me? Read every JCCI report on the pensions. The trustees and our former administrator have offered many ways to help the city pay down its debt, about 50 through the years. Each time, we have been shot down due to politics. Just because the mayor keeps repeating false accusations doesn't make them true.

Audit finds $30 million in bookkeeping errors in Sarasota pensions

By Zach Murdock, Herald Tribune, April 24, 2017

A Sarasota pension employee is on administrative leave after the annual city audit found more than $30 million in accounting errors in the Sarasota's pension fund ledgers. The audit identified a series of corrections, labeled material weaknesses, were needed to correct the formal end-of-year documents for the city's employee, police and firefighters' pension plans. The errors were only on paper — the $30 million was never gone, simply misreported on general ledgers for those accounts — but city officials are raising questions about whether the problem is indicative of bigger issues in the office of City Auditor and Clerk Pamela Nadalini. Nadalini acknowledged she is not proud of the audit's findings and that the department is adjusting its internal controls to ensure the errors do not happen again. Overall, each of the three pensions received clean, unmodified opinions from the audit, she said.

Pew Research: Gap Between Promises and Assets Widens for State Pensions

Written by Bob Adelmann, New American, April 24, 2017

After reviewing the investment results for 230 public pension plans for the last two years, Pew reported last Thursday that, despite strong recent stock market performance, the gap between liabilities (promises) and assets for those plans widened by 17 percent, to $1.4 trillion. Put another way, those plans should have nearly $4 trillion in assets to enable them to keep their promises. The latest data shows them with just over $2.5 trillion instead. There are numerous options — none of them attractive. One is to change the plan design so that the investment risk falls on the beneficiaries and not on the states or cities (and their taxpayers) offering the plans. Another is to put in place more realistic investment returns. Most plans estimate their assets will earn between 6.5 and 8 percent every year. For the last two years they have earned only 3.6 percent. Still another option is to increase employer and worker contributions to close the gap. Some states have already implemented this option (e.g., Wisconsin), but they haven't closed the gap. According to Pew, only 14 states are contributing enough to start closing the gap, known as net amortization. Another more painful option would be to reduce further the interest assumptions in those 230 plans, in anticipation of additional future disappointments in stock market returns.

Think Public Pensions Can't Be Cut? Think Again.

By Chuck Reed, Governing, April 26, 2017

It's happened several times in just the last few years. With so many systems severely underfunded, it's likely that more government employees will to be blindsided. The only truly secure guarantee that a public employee has is a fully funded pension system. But that's a guarantee that's likely to become rarer as cities face mounting fiscal strains. All public-sector retirees deserve safe and secure futures, not to be reduced to poverty when their pension plans fail them. Retirement benefits should be sustainable and predictable for current and future public employees. To live up to this expectation, governments need to fully fund their plans. Today's pension crisis may be due to policy decisions made years ago, but it's incumbent upon current policymakers to turn the tide and make their systems sustainable. Public employees and retirees didn't create this mess, and they shouldn't be left wondering what happened when the money runs out.

Bill calls for more audits of state pension system

By James Call, Tallahassee Democrat, April 18, 2017

Rep. David Richardson, D-Miami, Tuesday called out what he sees as a sneak attack on the Florida Retirement System launched by a Jacksonville legislator. Rep. Jason Fischer wants to impose five-year audits on 30-year-rate-of-return on investment expectations for public employee pensions. He said his goal is to protect workers from unrealistic promises made by politicians and bureaucrats. Lower than anticipated returns created a $2.8 billion pension debt for the City of Jacksonville. Fischer said the debacle led to a slew of broken promises to workers and tax increases for residents. He told lawmakers that having a periodic review by independent auditors would ensure the health of publicly funded pensions. A House analysis found there were 247 local governments, like Jacksonville, which offer local pension plans. They currently provide benefits to more than 90,000 retirees.