Burlington Retirement Committee
Meeting of the Committee Members
Agenda
June 17, 2014 5:30pm – 7:00pm
BCA Art Gallery 2nd Floor Conference Room
135 Church Street, Burlington Vermont 05401

Present: Councilor Bushor, Councilor Mason, John Federico, Joe Keenan, Bob Rusten, Eileen Blackwood, Jim Strouse, Bob Hooper, Brian Lowe

Absent: Councilor Paul, Jeffrey Wimette, Bill Rasch, Mayor Weinberger, Susan Leonard, Councilor Knodell.

Meeting began at 5:33pm

5:30pm – 5:35 pm **Approve Agenda**

Councilor Mason moved to approve, Jim Strouse seconded

5:35pm – 5:40pm **Review and Approval of June 3, 2014 meeting minutes**

Councilor Bushor moved to approve contingent on edits, Jim Strouse seconded

Bob Hooper requested that a line be struck, as it misrepresented his June 3 comment. The line was struck

5:40pm – 5:45pm **Public Comment**

Ron Ruolff: The unfunded liability is increasing, and the City does not have the money to pay for it. The discussions thus far have amounted to little more than dreaming on a cloud because the people in the room will not be here to answer for the actions in 20 years. I invite Councilors or Bob Rusten to come on my TV show to explain the situation. I am open to being corrected if I've misinterpreted the facts.

5:45pm – 6:30 pm **Discuss Unfunded Liability and Taxpayer Contribution Goals**
All with Keith Brainard, NASRA

Prior to the call, Attorney Blackwood explains the City Charter provisions related to the retirement system. BERS has the authority to implement changes to the system. The City Council could change BERS authorities by ordinance, or could appoint additional people to the BERS Board.

Councilor Bushor asks Eileen to provide a copy of the relevant Charter passages.

--Begin Phone Call with Keith Brainard—

Bob Rusten facilitates because Keith cannot see the room.

Keith Brainard: Commends City on examining the retirement systems. The City is fortunate in that it is a growing, vibrant place. The problems it has are manageable in the broader context of a relatively immature system and positive demographic trends.

Keith reviews the "bubble chart," showing Burlington's position relative to 50 states and 76 cities in terms of its unfunded liability. He notes that the funding ratio is a helpful measure, but can mask other issues (and the chart is a snapshot in time that does not show system trends).

Keith walks the Committee through the unfunded liability (UL) paper he has prepared. About 57 percent of BTV UL is attributed to past service. UL itself is not necessarily a problem, it is the fiscal stress it causes – Burlington has reached or feels it has reached that point. The burden is paying off the UL.

He outlines the options Burlington could consider. These are not necessarily exclusive – you could include components of different elements. I also understand that the Committee is not considering changes for those who are retired but have included that here to represent the full universe of possibilities:

- Pay down the UAL over a 30-year period on the basis of the plan's amortization methods and actuarial assumptions.
    - This might be considered the "stay on the current path" option.

- Reduce benefits for plan participants who currently are receiving a benefit.
    - Presumably, this option would be limited to making a reduction in future COLAs.
    - Affecting benefits for current beneficiaries is a double-edged sword: it can produce relatively substantial cost savings, but it also affects plan members least able to take corrective action.

- Reduce benefits for plan participants who are currently working.
    - This option could take one or more of multiple forms, including increasing the age or years of service needed to qualify for a retirement benefit, reducing future rates of benefit accrual, reducing COLA provisions, etc.
    - As with the option to affect benefits for those who are currently receiving a benefit, this option also is a double-edged sword: it can produce relatively large cost savings, but also can negatively affect retirement plans for the city's workers.
    - Some states and cities that have implemented this option have made changes that vary based on the member's proximity to retirement, so that those who are near retirement are less or unaffected, and those who are earlier in their career are more affected.
    - An unprecedented number of legal challenges in the past few years related to proposed changes to active members benefit plans.

- Reduce benefits for inactive plan participants
    - The same descriptions used for current active members would also apply to this group.
    - This is unlikely to generate savings in Burlington as you do not have many

Bob Rusten: Do you mean by "inactives" people who have vested but left the City of Burlington?

Keith Brainard: Yes.

Bob Hooper: Are you speaking about earned benefits in all the examples you have given?

Keith Brainard: No. I don't believe the City could reduce an earned benefit.

Bob Hooper: Good. Then I believe we are all on the same page.

Keith continues reviewing options:

- Increase the amount paid in any one or more years
    - This option could increase short-term fiscal stress for the city, but would reduce the long-term cost of amortizing the UAL.
    - This could be property or sales tax, etc.
    - The city could dedicate some or all of any revenues above expected amounts to amortizing the UAL.

- Modify actuarial assumptions, such as the investment rate of return, inflation rate, and rate of expected salary growth.
    - Presumably, the city retirement board believes current actuarial assumptions are appropriate.

- Issue pension obligation bonds.
    - POBs essentially replace "soft" debt, in the form of pension obligations, with "hard" debt, in the form of city-issued debt (i.e., a general obligation bond)
    - A POB is an arbitrage play, in which the plan sponsor, in this case, the City of Burlington, borrows funds at current prevailing taxable rates (currently around 4.5 percent) and invests the proceeds, hoping to generate a rate of return high enough to justify the interest and issuance costs.
        - You cannot borrow pension obligation bonds tax free

Keith Brainard, continuing: With respect to goals, I recommend reducing UL to a level where it does not cause fiscal stress.

- GF pays roughly 7.9 percent, which is higher than most other cities but not dramatically so.
- You may wish to have a discussion about at what point servicing the retirement debt does not cause fiscal stress – it will take some time to get out of the situation you are in, but it is manageable.
- I would also encourage you to consider this from a position of shared sacrifice to equitably distribute the pain.

Councilor Bushor: If we are going to continue to incur a UL on an annual basis, does your approach make sense?

Keith Brainard: If the plan meets its underlying assumptions, the UL should not continue to grow. The City is paying its full contribution.

Councilor Bushor: That may be true, but I have been told we are not reaching our expected rate of return. If that continues, the UL will continue to grow.

Keith Brainard: That is true. If the plan does not meet the assumptions, the UL grows. If the plan exceeds the assumptions, the UL would be reduced.

John Federico: In your document, you say: "The UAL can be amortized through some combination of the following." Do you mean to say the UAL can be *affected* through some combination of the following?

Keith Brainard: The bullet points I have listed are ways to reduce the UL faster than the current course. It would not, by itself, amortize the UL. The value the City would realize from any one measure cannot be predicted absent information on the magnitude of the change.

John Federico: We have been talking about the funding methods as a strategy to reduce the UL – could those contribute here? Are these methods appropriate to discuss here?

Keith Brainard: My focus – and Bob or Brian please correct me if I'm wrong – is on benefits and contributions. The actuarial assumptions are important but outside the scope – I think your raising, for example, the open method.

Bob Rusten: That is correct Keith. We are pursuing a dual track with BERS examining the actuarial assumptions and our conversations with you focused on examining the system and potential remodeling.

Councilor Mason: Keith, for some additional context, we have been working as a City on this problem for years, and despite implementing some changes we have seen the UL continue to grow rapidly. I understand we are not that bad, not as bad as some others – but as a representative of the taxpayer, I have a more dire sense of the situation. If we know we have faulty assumptions built into the system, our outlook may not look as good as compared to some of the other cities shown on the bubble chart you provided.

Keith Brainard: Two big assumptions: Investment return and mortality table. 8 percent remains the most frequently used measure. Over 3 – 5 year periods, pension funds are hitting this measure. Many public pensions have reduced – some from 8, some from over 8 to 8 or less, and some as low to about 6.75. The trend is to reduce – 7.72 is now the average, down from 8.02 a couple years ago. 8 percent is on the optimistic end of the spectrum, but based on the totality of evidence I have seen, it is not unreasonable.

Bob Rusten: We have a new mortality table from our actuary, and when we bring it into effect, it will substantially increase the UL. Further, the City's contribution has increased dramatically over the last several years at the same time as the UL has increased substantially. Finally, because we have an open system, as we fail to hit actuarial assumptions, we will push our UL total out further into the future.

Keith Brainard: That is helpful. In addition to those factors, the Committee may want to be aware that this is the first full year the City has baked in the investment losses from the 2008 Recession. It is possible this is the high water mark of the City's UL, and it could decline gradually from here.

Bob Rusten: Did I understand you to say that standing pat is the course we should pursue.

Keith Brainard: I'm reticent to offer an opinion on that, but I will say that investment return assumption probably on the high-end, and the mortality table will also impact the UL. Some may suggest you are likelier to see 7 percent than 9 percent, and likewise if the mortality table will change, you have little margin. The Committee, the City, BERS, may want to pursue a strategy that provides a little more margin, given the impact not hitting those assumptions on the City.

John Federico: Do your surveys track the funding methods cities and states employ?

Keith Brainard: Do you mean entry age normal, projected unit credit, and the like? The effect of projected unit credit is to back load the plan. GASB changes will require using entry age normal, which is intended to provide a more level, consistent dollar cost from one year to the next.

John Federico: So you mean the current method back loads the cost to the future – reducing costs now but raising them in the future?

Keith Brainard: Yes.

Bob Rusten: Turn now to Taxpayer Contribution and COLA remain to discuss – which would you prefer?

Keith Brainard: Taxpayer contribution is better to discuss – it is the flip side of the UL discussion. Investments have contributed about 60 percent of pension dollars, with employers providing two-thirds of the remainder. It is worth mentioning that for the periods I have reviewed, the City has paid its full share for most of the years. The City pays about 80 percent of total contributions – which is higher than the 70 percent national average.

About 7.9 percent of the GF budget goes to the retirement system in Burlington. Comparisons with other cities are difficult here, given the variety of financial arrangements for payments into the retirement fund. The City may want to consider a switch to open group (assuming City and Buck are comfortable) coupled with a switch to entry age normal – this would provide some fiscal relief and reduce the peak cost years.

Higher employee contribution rates would reduce the cities cost. Burlington employees contribute a fixed rate of pay: Class A workers contribute 10.8 percent; Class B workers contribute 3.05 percent. By national standards, Class A workers' contribution rate is roughly commensurate with the rate paid by public safety workers who do not participate in Social Security (between 8 – 12 percent). Compared with other general employees, i.e., non-public safety personnel, Burlington general employees page less than the median comparable worker in the U.S., who contributes 5.7 percent. A gap there of about 2.7 percent.

Important to remember that $1 more from the employee does not have same effect as $1 from an employer – actuaries reduce effect employee contributions because not all employees stay and vest in the system.

Each one percent of additional contribution paid by Class A and Class B workers would produce approximately $900,000 and $300,000 annually in taxpayer's savings.

Because Class A members do not participate in Social Security, neither they nor the city contribute the 6.2 percent of pay that is paid by Social Security participants and their employers. Likewise, Class A members also will not receive Social Security benefits for the work they perform for the city. Class B members do participate in Social Security, and they contribute 6.2 percent of pay for that benefit. This means Class B members contribute a total of 9.25 percent of pay toward Social Security and the city's pension plan.

Bob Rusten: Were you also able to look at a comparison of the benefits, for example the Class B contribution was less but maybe the benefits are less?

Keith Brainard: To be honest, I have spent most of my time thus far trying to understand the Class A benefits. I cannot yet speak confidently about Class B.

Bob Rusten: Keith, you should know that those familiar in the room with the retirement system benefits are smiling (about the complexity of Class A) (general consensus / laughter in the room)

Keith Brainard: Yes, understood. With respect to Class A, what strikes me is the premium for years in excess for 25. And, I have never seen a plan that provides more than one year of service for one year worked – usually the statue is that you cannot accrue more than one year of service in any one year of time. My sense is that it is higher than typically for public safety officers around the country.

Looking quickly at Class B, it may be just below the mean or median, but it is pretty consistent with what other public pension systems have around the country.

Mike Flora: Do you find the complexity in BERS is typical?

Keith Brainard: Struck by how it's parsed out by labor affiliation. Usually its tiered by years, but not by labor affiliation. That is unusual.

Bob Rusten: It is almost 7pm. Is meeting again in 2 weeks the correct time, and a sense of the issues then?

Keith Brainard: Yes. Benefit complexity and public confidence in the public pension system in two weeks.

Bob Rusten: Any other questions? (none) Thank you, Keith.

Keith Brainard: Thank you, and please let me know how you would like to adapt the process and how I presented it.

--end call—

Bob Rusten: Feedback for Keith?

Councilor Mason: Need the materials sooner if possible.

John Federico: Footnote the materials.

Councilor Bushor: I'm being bombarded by different options. It would be good to categorize those options – it is hard to understand how we are to piece together all these different tidbits.

Bob Rusten: We have two tracks – one looking at actuarial assumptions, another with Keith looking at the system. Keith is trying to give us a range of options, and we (the Committee) will have to narrow down the options we are considering.

Councilor Bushor: I was surprised he did not offer an answer with respect to whether we should stay the course. Were others?

(Some around table were also surprised)

John Federico: You have to understand the history to answer that question, though, and he does not know that yet.

Mike Flora: Thus far – this is the first meeting.

Jim Strouse: Also important to know that the City has not been budgeting for expenses related to the retirement system – that amount of money is not trivial, and comes right out of the retirement system.

John Federico: Surprised that he didn't know the system funded (that data has been provided)

Bob Hooper: Assumed rate of return is over the long term

Bob Rusten: We do want him to give an opinion ultimately – that's in his scope of work – I think Bill Rasch was quite clear about that, and I can follow up with Keith.

Bob Hooper: When he provides a list, I want it rank ordered in terms of impact

(Consensus)

Meeting ends at approximately 7pm

Next Meeting Time: **Tuesday, July 1, 2014** (BCA 2nd Floor)

Topics for Future Agendas:

- Presentation by John Federico and Bob Rusten on the 20 year history of the system
- GASB 68