Burlington Retirement Committee

Minutes of the Meeting of the Committee Members

July 15, 2014 5:00 pm

Members Present: Facilitator Bob Rusten, Mayor Miro Weinberger, Councilor Jane Knodell, Councilor Sharon Bushor, Councilor Karen Paul, Councilor Chip Mason, John Federico (Police), Jim Strouse (BERS), Jeffrey Wimette (IBEW), Susan Leonard (HR), Bill Rasch (AFSCME), Mike Flora (non-union BED), Bob Hooper (BERS), Eileen Blackwood (City Attorney).

Absent: Joe Keenan (Fire), Brian Lowe (Mayor's Office)

Public: Ron Ruloff

Facilitator Rusten called the meeting to order at 5:02 pm.

Agenda: Strouse moved to adopt the agenda as presented, Wimette seconded. Unanimous. Agenda adopted.

July 1, 2014 minutes: Bushor moved to approve the minutes as presented, Knodell seconded. Unanimous. Minutes approved.

Public Comment: Ron Ruloff addressed the unfunded liability.

Consultant Keith Brainard joined the meeting by phone.

Comments on the Last Meeting:

Councilor Bushor: It really made sense to have a model in which everyone agrees ahead of time on what would constitute a necessity for change. I wasn't sure why we were above average and have fallen behind. There was a lot of information in the session, and we will need to engage the public again to bring everyone together.

Keith Brainard Discussion

Overview of Plan Comparison: Chose plans similar to Burlington's and in our region of the U.S. He identified four drivers of the cost of the plan—the primary determinant of the level and cost of benefits--age and years of service, multiplier or factors, employee contribution, COLA in retirement. He has not seen before a plan that offers a choice of multiplier at the time of retirement; sometimes that choice is given at sign-up so that the employee's contribution is adjusted.

Class A: Most public safety officers participate in locally sponsored plans. Like most of these, Burlington's public safety officers do not participate in Social Security. Plans are generally patterned after the military—retirement after 20 years. Recently, a minimum age has been applied to most plans. SS is difficult to pin down. The maximum benefit is $2500 a month; the higher your income, the lower percentage of replacement. The average is hard to find—between mid-thirties % and mid-forties %--about 42%.

He has not seen a plan with more than one year of service credit for one year of work before Burlington's. Burlington firefighters receive this through double counting of overtime—first, through higher salary and then the 17% service premium. Retirement Administrator told him that most firefighters do work OT. [Note: See correction by HR Director below.]

Burlington's benefit for Class A employees who were hired before 2006 and 2007 does exceed the norm, mostly because of the multiplier, but also the COLA, which has a high cap at 6%. This is not unique—FL and CA have 3 or 4 % so they can qualify to replace as much as 90% of salary. He referred to the table Comparison of Retirement Benefit Based on Multiplier Selection. Because the benefits are close at 25 years, he wonders if this is how that was calculated in 1954—this multiplier creates an indifferent benefit by this table, but actuarially it's not the same. The employee with 3.8, no COLA is taking more money out of the plan sooner. So, it looks as though the calculation was mathematical, rather than actuarial. Federico said these multipliers came into effect in 2000, not at original plan design.

Class A contribution is fairly consistent at 10%. One end at 5% is somewhat low, and 20% is at high end. Today employees have different multipliers if they wait to 25 years of service

Class A workers hired today qualify for a retirement COLA of 6% that is higher than most other peer plans. Along with the multipliers, this means the overall benefit is higher than comparable plans.

Councilor Mason thanked Keith for his work in doing these calculations and comparisons. Do any of these plans cover retiree health insurance? Keith agreed we must consider the entire compensation plan, but we must keep in mind our goals and interests.

HR Director Leonard clarified that OT increases a firefighter's service credit, but does not count towards benefits—AFC is calculated on base pay; OT is not included, so it is not double-counted. Keith was told by Administrator Hanker that there was double payment, but this clarification would change the chart. The calculation is that because they work 50 hours a week, they receive credit for more than a year. Federico believes this came into effect in the 1990's.

Facilitator Rusten asked is it true that some people earn more in retirement than when working. HR Director Leonard confirmed that yes, firefighters do, because of the extra credit. Keith confirmed that this is not unique but is unusual. In CA, employees were allowed to spike their benefits, add accumulated leave to spike their final year's AFC computation. Leonard said it depends on which benefit an employee chooses, but it is not unusual for firefighters to receive more in retirement than they earned while working.

Councilor Knodell asked what factors employees choose? Keith confirmed they choose the COLA and accrual rate at time of retirement. Before 2000, there was one accrual rate and one COLA. Federico chose the ½ COLA recently. Councilor Knodell asked why did the officers want these choices? Federico did not know why. At that time, officers had shortened life expectancy, so they were looking for an earlier retirement. Councilor Knodell noted this seems to add to the complexity, make it harder to calculate the expenses, and requires employees to speculate on inflation. Federico pointed out that out of 90 police officers, 60 or more were hired after 2006, so they don't get this benefit. Hooper noted that this might influence our overall cost. Rusten reminded that David Driscoll told this group that it didn't make any difference to the system which option an employee chose. Councilor Bushor thinks that this change in 2000 was not motivated by the unions, but that management presented it to them; should we ask Brendan Kelleher?

For people hired before 2006, the benefits are significantly higher than comparison plans. Keith reported that until a few years ago, most plans used 3 or 5 years AFC. Now, most plans have moved to 5. CALPERS was at 1 year and moved away. With OT, more often than not, at least some is includable in AFC, but it depends on how much OT is usually worked within the system. Federico noted that there are many plans in this area that include OT in their calculation and use a 2 year AFC. The City does not include OT and uses a 3 or 5 year AFC, depending on year of hire.

Class B: The benefits for employees hired prior to 2006/07 are comparable to those provided to similar workers in comparable plans. The multiplier is a little higher and the employee contributes a little less than comparable workers, but the retirement age is later. Our 7 year vesting period is a little higher than the average of 5 years. The CPI is a little higher at 6%—usually they're capped at 2-3%.

The benefits for employees hired after that time are below those in comparable plans. The normal retirement age and vesting period is on the high end of the range, but the contribution is low and the CPI high.

Federico noted that one thing that isn't considered is that roughly half of an employee's career, at his or similar levels, was paying in at a lower contribution rate before the rate was increased to the current level, and yet benefits are based on the highest years of salary. He wondered if this would pass muster with the actuaries when we start talking about entry age normal, etc.

Rusten asked about the shared risk. Keith said the current plan puts almost all the risk on the employer; since the employee's contribution rate is fixed, the City-employer bears the investment, inflation, and life expectancy risks. Mayor Weinberger noted that only the no-COLA retirees bear the risk of inflation. Rusten noted no risk to employees after 2006 because everyone gets COLA up to 6%. There was discussion about what was meant by this risk. Rasch noted that Class B employees tend to retire later and to take the higher multiplier and no COLA

From the actuarial report, Keith reported, Class A employees: 51% of those retired took highest multiplier with no COLA. 41% took lowest. 8% took middle ground. Keith said it looks as though the actuarial assumptions assume a significantly different pattern, so we might want to discuss with Driscoll whether that is true and if so, how that is affecting the plan.

Rusten pointed out that to change multiplier would require changes to benefits of existing retirees. Is there anything else in this report to look at further? Bushor noted that the contribution rates between the two classes needs to be discussed.

Hooper noted that we can't make changes to retiree benefits or to existing employees over their objection. Rusten asked if there are things that we could change? Bushor noted COLA for new employees. Bushor wants to know what things are worth our time.

Mason asked what ability do we have to make changes? He believed that we could bargain changes through a bargaining unit. Attorney Blackwood gave a quick synopsis of the legal standards that apply to our considerations—that the constitutional contract clause applies so that the City cannot unilaterally take away benefits that have already been earned, but that changes to the system may be negotiated or changes made that stabilize a system but still offer the employee the promised benefit. Federico agreed and suggested that the idea is to come up with the most rationale system we can. Rusten suggested that rather than looking at the legal limitations first, we should start with our goals and proposals and then come back to whether we can do them, legally.

What Other Municipalities Have Done

Keith summarized the written report he provided. These examples represent the gamut of options from affecting no existing workers to affecting all of them and doing it by consensus or imposition. Federico asked if Providence RI and Phoenix AZ were the most extreme? Keith noted that RI state is an outlier because it changed benefits for even existing retirees. In Providence, there was no agreement, so they made unilateral changes. AZ had recent state court rulings that prohibited an employer from affecting existing plan recipients.

Keith suggested that it would be helpful to get clarity on the legal framework in VT. You can always make changes that affect new hires. To the extent that the stakeholders can come together to recognize the size and scope, that will make outcome the most probable.

Next time (July 29): He has on his calendar to talk about retention of employees, Champlain and New Brunswick plans. He'd also like to discuss other plans that have had a funding drop similar to ours. Then on Aug. 19 we will discuss possible models to meet our goals.

Keith signed off at 6:42 pm.

BERS Board Report from Special Meeting

BERS Chairperson Strouse reported that BERS agreed to hire an actuary to expand on the spreadsheet he gave us earlier—that is, to run all variables like entry age normal at the same time. He will have this done by Aug. 1. So, Strouse is planning on a special meeting on Aug. 8 to discuss this. Rusten asked that he also look beyond past service so we could understand the future impacts of these decisions. We should be able to get a snapshot of the system 30 years out. The idea is to get to the combined effect of various changes in assumptions or practices.

Rusten reported that the BERS also discussed with Driscoll about the new mortality table. It's a national table with longer longevity than we would see here in VT. Driscoll felt he could look more accurately at the VT mortality rate, so BERS has asked him to do so. Rusten also noted that Barry from Dahab is doing more analysis of the effect of the way VPIC has structured its assets under current market conditions, as well as 2008, and they will invite the Treasurer to address BERS on the subject once they hear from Barry.

Flora asked how this ties into our mission here. He hopes we can whittle down to some recommendations for the system. Rusten reminded that we are on two tracks—BERS is looking at actuarial assumptions and funding methods. This group is looking at other changes to the system. Does a hybrid system make sense? Flora noted we should not be afraid of change. Knodell noted the idea of a menu of choices that an employee could choose seems attractive. Do we want to continue to have different benefits for new employees? Rusten said we'll discuss that at the meeting without Keith in Aug. Bushor asked about some of the recommendations of the 2007 task force that we tried to bargain. If we look at all those factors, where does that get us? She doesn't want to open Pandora's Box if they won't help. She'd like to have a report on what has/hasn't been applied of the 2007 recommendations and how they have succeeded.

A discussion of the legal landscape in VT. Attorney Blackwood suggested the committee work toward recommendations, and these could then be analyzed. Bushor asked how will we bring unions and employees into the discussion? Wimette said he's disseminating information to his members, as we go along. Any change is going to be negotiated and finalized. He's here to hear what we're talking about and to give input about how it affects BED. Bushor hopes this is a shared responsibility. Rasch thinks this committee is important and that the ideas brought forth will be discussed at the negotiating table. But he is concerned that the problem is that the system is not earning enough money to pay the benefits already promised. Knodell responded to Bushor's concerns that there was hard work done in bargaining and it did make a difference—but the changes will show more effect over a longer term. Federico noted the complexity is part of the problem. What's a rational, respectable pension system that meets our goals? Wimette recommended showing employees a chart of what a benefit will look like in the long run. That's what they need to consider their options.

Next meeting: Tuesday, July 29 in Contois at 5 pm. The meeting was adjourned at 7:18 pm.