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Burlington Retirement Committee
Meeting of the Committee Members
Agenda

July 1, 2014 **5:00pm – 7:00pm**
BCA Art Gallery 2nd Floor Conference Room
135 Church Street, Burlington Vermont 05401

Present: Mayor Weinberger, Mike Flora, Councilor Bushor, Bill Rasch, Eileen Blackwood, Jeffrey Wimette, Councilor Knodell, Jim Strouse, Bob Hooper, Councilor Mason, John Federico, Bob Rusten, Brian Lowe, Joe Keenan, Councilor Paul

Absent: Susan Leonard

5:00pm – 5:05 pm **Approve Agenda**

Councilor Mason moved and John Federico seconded. Approved unanimously.

5:05pm – 5:10pm **Review and Approval of June 17, 2014 meeting minutes**

Mike Flora moved and Councilor Bushor seconded. Approved unanimously.

5:10pm – 5:15pm **Public Comment**

None

5:15pm – 5:40 pm **Review June 17 Discussion of Unfunded Liability and Taxpayer Contribution Goals: What Key Points Did the Committee Take Away From the Discussion?**
All with Keith Brainard, NASRA

Councilor Bushor: I learned that it is not the unfunded liability that is the issue, but the fiscal stress it causes. I also learned the City could contribute some savings to help pay down the UAL more quickly. I also learned about where we are relative to other communities – here the City pays about 80 percent, where as other municipalities contribute 70 percent. My main question is how to take this knowledge and convert it to an agenda for the group.

Councilor Mason: Keith’s analysis of our plan relative to the national standard – I took away:

- That Class B employees were contributing less than the national average, about 3.5 percent as compared with about 5 percent nationally
- For Class A employees, 25-plus years of service had unique benefits, and that compared to other municipalities it is abnormal to earn more than one-year of service per one year of work
- Dramatic differences in our plan compared to others when based on labor group affiliation rather than years of service
- That the discussion needs to be focused on shared sacrifice – not borne wholly by employees or taxpayers.

Keith: I did not offer an opinion last week, but will here: All else held equal, good to reduce UAL. Were I on City Council or Retirement Board, I would seek to reduce the UAL. The devil in the details – 8 percent investment return assumption is one issue. Actuarial cost method will increase cost to

City – there is little buffer remaining for City. As we continue to discuss plan design and related issues, we may have opportunities to address UAL.

Keith, continuing: Last time, I was also asked for an opinion about employee contribution rate – I do not feel ready to comment on that. It is a complicated structure in Burlington, and in two weeks I feel like I may be better prepared to offer an opinion on this.

Councilor Bushor: Class B employees participate in Social Security.

Keith Brainard: The City contributes 6.2, employees contribute 6.2 (both for Social Security), and Class B employees also contribute 3.05 percent for their retirement plans. Class A and Class B need to be addressed separately.

Jeffrey Wimette: I contribute a lesser amount, but at the end of the day I receive a lesser pension – that needs to be considered.

Keith Brainard: Agreed.

5:40pm – 6:25pm **Discussion of Benefit Complexity and Public Confidence in the Retirement System**
All, with Keith Brainard, NASRA

Benefit Complexity:

Keith Brainard (material taken from his three-page overview): Overview of DB and DC plans, noting the relative complexity of DB plans and the different ways risk is allocated within those plan types. According to Keith, the inherent complexity of DB plans makes them more difficult to explain and defend to the uninitiated observer - complexity of retirement plan design can diminish public support for a retirement benefit. A key risk of a DB plan is that its complexity (“tinkering with the plan”) can increase the likelihood of plan malfunction. Such malfunction could take any of multiple forms, such as miscalculation of costs or liabilities. This, in turn, could result in a misallocation of costs among generations.

Tinkering with a plan can create a culture of making small changes over time – better plans tend to have less tinkering.

The goal in designing and maintaining a retirement benefit should be not solely to simplify the plan, but also to strike a balance between these key objectives: simplicity, adequacy of benefits, cost stability, and affordability. The Burlington ERP appears to fall short in three of these areas – on simplicity, cost stability, and affordability.

Keith offers the following recommendations to the City regarding plan complexity:

- Resolve to establish and maintain a retirement plan design that is a) simple; b) comprehensible to casual observers; and c) that aligns the benefit with the employer’s key objectives: to attract and to retain qualified workers, and to enable those workers to retire in a predictable and orderly manner. Perhaps the city’s goal could be to describe the plan design on a single side of a 3 x 5 index card.
- Resolve that the city’s retirement benefit plan design shall be changed only under pre-defined conditions (for example, attainment of a specified funding level or a UAL equal to a designated percentage of city payroll), and that such changes shall also be pre-defined (for example, adjustments in employee or employer contribution rates).

Councilor Bushor: Do other municipalities with multiple unions negotiate over retirement benefits? If it is not that uncommon, how do you avoid tinkering?

Keith Brainard: It is not unusual for a pension plan design to become part of negotiations. Burlington's changes are not unique in that respect. There can be some flexibility in the plan – money inputs and benefit outputs. New Brunswick is an example where when pre-determined thresholds are met, the plan structure automatically changes

Mike Flora: I see on this handout (benefit complexity) 22 examples of shared sacrifice – the tinkering to the plan. Yet, the taxpayer contribution has continued to increase. The inability to hit investment targets, changes in mortality drives some of this, but the continued increase of the taxpayer contribution and UAL speaks to a larger problem.

Jane Knodell: Quantitative analysis missing from this document – when I saw the appendix, I thought I would see the benefit complexity.

Mayor Weinberger: One of the complexities in our system is that, because of the numerous changes to the system, you have essentially different tiers within the Class A and Class B, and those tiers have a number of different plans.

Joe Keenan: There have also been changes to the inputs over the years – not just the outputs. The plan is complex, but all these tiers represent lower benefits. In that sense the complexity benefits the system.

Keith Brainard: I should add this list is not exhaustive – it does not capture employee cost, contribution, & COLAs. And I agree that avoiding complexity is not the goal. The plan has become less generous over time, reducing the cost of the plan. Complexity can shake public confidence in the system.

Mayor Weinberger: The first of the major changes took place toward the end of the Clavelle administration, and these changes are in some ways the result of pulling back from what quickly became understood to be too expansive an extension of benefits around the turn of the century. Further, while we are around the national average with respect to our UAL, the recent trajectory has been quite stark – rapidly increasing taxpayer contributions at the same time we have a growing unfunded liability.

Keith Brainard: I appreciate that, it is helpful to me. Compared with the nation's public pensions as a whole, Burlington does appear to have fallen, and fallen farther, than the national average. Burlington was above the national average, and now is below.

Jim Strouse: It was a confluence of substantial benefit increases with a collapse of the stock market at the same time – that took us from 120 percent to where we are now.

John Federico: The story does not end there. The City did fail to meet its ARC at times. The City's history does not necessarily imply it was the benefit increase – it could have been just the stock market collapse.

Bob Rusten: I believe data does help with empirical questions like this. Our funding level declined substantially at the same time that the City's contribution rate increased. It would be interesting to understand where we stand relative to other communities – this would help us assess how much of an outlier our system actually is.

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Keith Brainard: This is known as an attribution analysis – an actuary will attribute causes in fund performance outcomes. One thing I have not been able to see is Burlington’s investment performance. Your plan has some similarities to the CA Teachers plan – they dropped from about 120 percent funded to the high sixties, though this was tied to lack of ARC payments. Calpers was at about 115 – 120, and always paid its contributions, but did increase benefit levels through retroactive benefit enhancements. That had a costly impact on the funding status of that plan.

Bob Rusten: If you can make additional, simple comparisons to plans that are similar, so that we can put to rest the debate over the relative role of the stock market or benefit increases

Jeffrey Wimette: Over time complexity will be reduced as older workers age out.

Keith Brainard: Some plans that have changed tiers based on date have seen a quick turnover.

Councilor Mason: The 2007 Task Force Report has good information and is available on the website – for Keith and for all members of the Committee, this is a useful document. It is important to review this, as it is directly relevant to our conversation.

Mayor Weinberger: In the New Brunswick study, I think the idea of pre-established protocols for making changes to the system, based on changes in the plan’s financial condition, is worth exploring.

Bob Rusten: Tinkering reminds me of Act 60, which has been tinkered with to the point of being incomprehensible. I think it may make more sense to make changes to simplify the system as a whole, without changing the goals.

Keith Brainard: Agreed, provided that it balances the different criteria I alluded to before - simplicity, adequacy of benefits, cost stability, and affordability.

Public Support:

Keith Brainard notes the connection between complexity and public support. It is important the public perceives the shared sacrifice. The examples he cites are Colorado and Minnesota. Public concern about retirement benefits for state and local government workers is predictable at a time when the cost of those benefits has risen as much as it has in recent years. In Burlington, the cost of the city’s pension plan to taxpayers has risen nearly 60 percent since FY 2008, far outpacing growth in city revenues and employee payroll.

Some key discussion points to consider in discussions about retirement benefits for public workers include:

- Retirement security benefits everyone
- Pensions work - efficient and effective method for providing a retirement benefit
- Pensions support local economies – pension beneficiaries live in the same area they worked
- Pensions operate over the long-term – no quick fixes

Keith believes in Burlington the City Council, the Retirement Board, this task force, or some combination of these bodies should host one or more public forums to discuss the retirement challenges and possible solutions facing the City to make it easy for the public to understand. These forums should include a presentation and plain-language discussion of the problem and possible solutions, including their potential costs, savings, and effects. Committee members should consider social media, news outlets, etc., for a fact-based discussion about the issues and a way to improve public awareness.

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Councilor Knodell: I do not think we are at a point of crisis – people appreciate the good work the City’s employees do. There is a great deal of uncertainty about the future. People know there is an unfunded liability, for example. I think the Committee needs to have a public meeting and get the word out, if we are able to conclude something positive.

Councilor Paul: I think it depends on who you ask [*i.e., the level of concern varies depending on who you ask*] – a lot of people do pay attention to it. The change in the City’s contribution, from several hundred thousand to more than seven million is kind of staggering.

Councilor Bushor: The public is aware, and has concerns about the fiscal stability of the City overall. How the retirement system fits in is an important component of that question. We should have some kind of public forum at the conclusion of this process.

John Federico: People have their interests and this is no different than any other City issue. There’s not a lot of disagreement that there are issues to work on. The goal is to put something on the right course – this committee is not going to solve everything tomorrow, but it can get us on the right course. The Mayor noted the idea of pre-determined protocols in the New Brunswick study, which could be a good idea. We’ve gotten where we are together, but try to identify mistakes, get us on the right course, and help ensure public confidence in the system.

Councilor Paul: If we leave this Committee with an agreement that we need to find a shared risk approach, it would be a major step forward. I had actually seen the New Brunswick plan before. We could adopt some version of this plan as effort to move forward.

Bob Rusten: If we put retirement system tax increases to voters, would they have supported it? Should we expect them to support this? I want to ask Keith what other communities do as well.

Councilor Bushor: Voters don’t always come together – I can’t in good faith say that voters would have supported these measures every time.

Mike Flora: That is a tough question – there is an emotional component to it, too. If Joe and the BFD show up in less than four minutes and save someone’s house, yes of course that person is going to support the retirement system. But if someone is having a tough time at work, it’s not certain they would support the system.

John Federico: I don’t know that it’s a fair question

Mike Flora: The 22 changes were all in the last 8 years – the plan was relatively stable up to that point.

Councilor Mason: I think this is a complicated question – many voters do not have pensions to draw from, and have a hard time supporting

Mike Flora: I think the public would vote for a predictable, stable plan for the public and the employees.

6:25pm – 6:45pm **Review BERS Role and Keith Brainard’s Role**
All

Jim Strouse: BERS will be having a special meeting on July 8 at 9:00am to work through agreements on directions we would like to go once this is finalized – a new mortality table, the entry age normal method vice the projected unit credit, and some other actuarial assumptions.

Bob Rusten: And the hope is that by mid-September, BERS will come back in early or mid-September on the Burlington's tiered system, the open group v. closed group method, and the asset management.

Jim Strouse: PIMCO has confirmed for Dahab that VPIC's portfolio would perform worse now than it did in 2008.

Bob Rusten: Comments on Keith's presentation?

Mike Flora: He is generating some good discussion, and flushing out some good points.

Councilor Bushor: Fewer aha! moments today, but sometimes it takes me a bit of time to digest the info.

John Federico: I was surprised by the CalPers comparison – he may have been focusing on the unfunded liability, but it feels like comparing apples to oranges here.

Bob Rusten: Brian and I can talk with Keith about this and emphasize the apples to apples comparison.

Meeting ends at 6:40pm

6:45pm – 6:55pm **Review Summer Schedule and Attendance**
All

Keith Brainard: Identified patterns of every other Tuesday between now and early September

PROPOSED SCHEDULE:

July 1

- Goals
 - Benefit Complexity
 - Public confidence in and support for pension systems

July 15

- Comparison of Burlington retirement benefits with other plans
- Discussion of how municipalities similar to Burlington with similar pension issues successfully addressed their issues and achieved similar goals

July 29

- Goal: Recruit and retain staff by having a good system
- Discussion of retirement plan models
 - Champlain University
 - New Brunswick

August 19

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- Discussion of possible models of plans that will meet Burlington's goals

September 2

- Discussion of steps needed to implement retirement plan changes

Committee decides to meet with Keith on these dates, and to meet additionally on August 5, in preparation to discuss and channel ideas to Keith for the meeting August 19th

6:55pm – 7:00pm **Input for Next Meeting Agenda, Summer Schedule, and Action Items**
All

Next Meeting Time: **Tuesday, July 15, 2014** (BCA Art Gallery, 2nd Floor Conference Room)