

# Policemen's and Firefighters' Retirement Fund (PFRF)

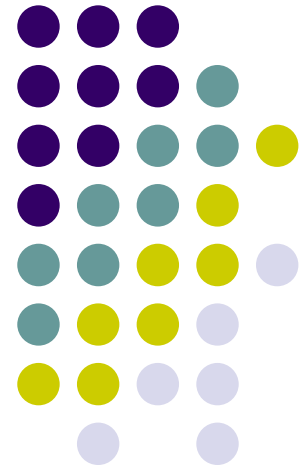
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Presentation to the Urban County Council Work Session

Doug Martin

10<sup>th</sup> District Councilmember

Lexington-Fayette Urban County Council



# Unfunded Actuarial Accrued Liability

Date	UAAL	Outstanding Pension Debt	UAAL + Pension Debt	UAAL Medical Benefits <sup>1</sup>	Total
7/1/97	\$61,099,855		\$61,099,855		
7/1/00	\$79,082,844		\$79,082,844		
7/1/02	\$107,673,881		\$107,673,881		
7/1/04	\$137,702,278		\$137,702,278		
7/1/06	\$221,490,170		\$221,490,170		
7/1/07	\$230,227,624		\$230,227,624		
7/1/08	\$246,624,318		\$246,624,318	\$181,181,934	\$427,806,252
7/1/09	\$258,078,308		\$258,078,308		
7/1/10	\$221,880,771	\$103,605,000	\$325,485,771	\$211,706,877	\$537,192,648
7/1/11	\$257,781,662	\$100,095,000	\$357,876,662	\$226,969,349 <sup>2</sup>	\$584,846,011 <sup>3</sup>
<b>Increase 1997 - 2010</b>	<b>322%</b>		<b>486%</b>		

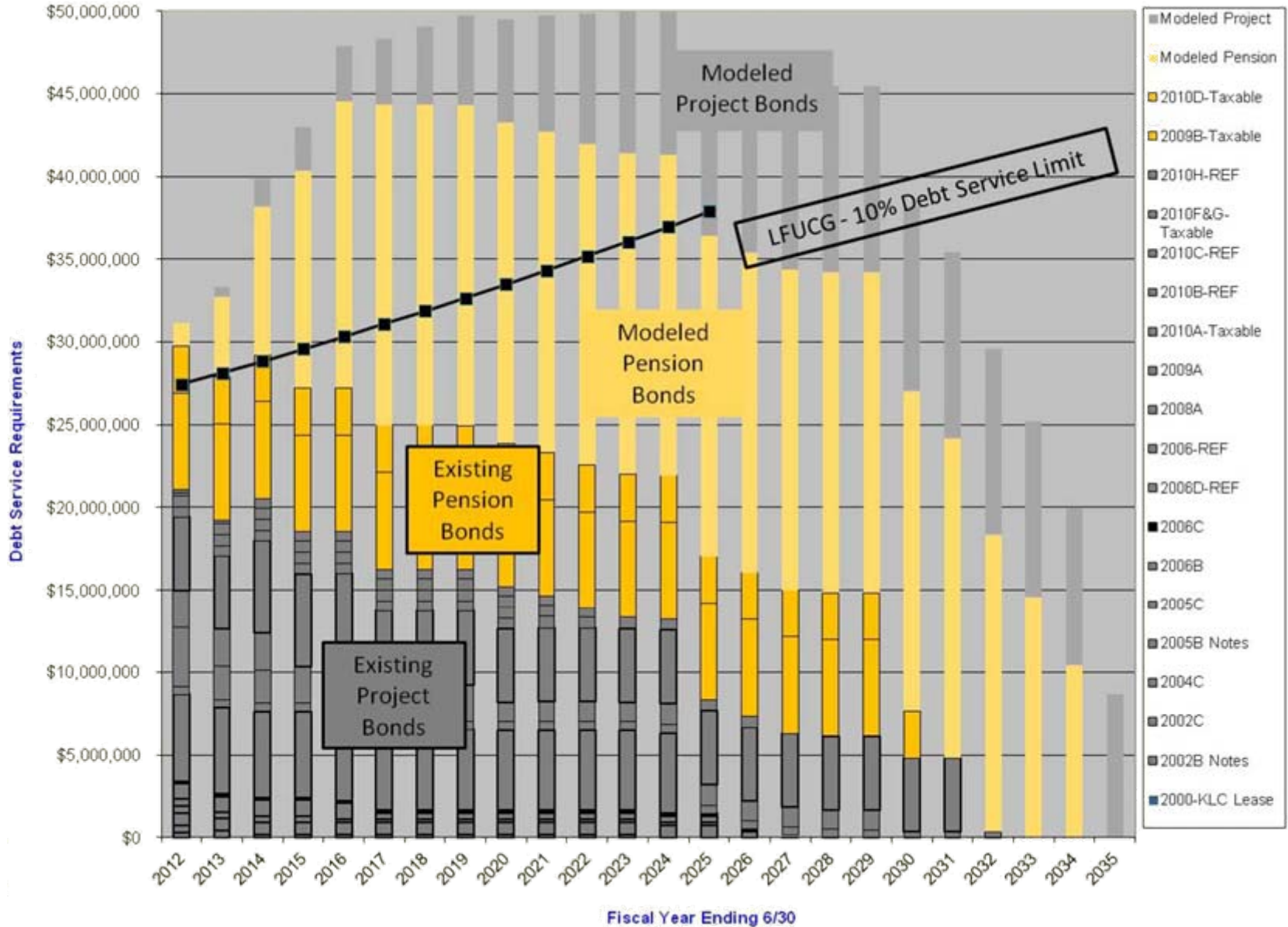
Source: LFUCG Comprehensive Annual Financial Reports

<sup>1</sup>Includes County Employees Pension Fund (CEPF), a closed pension plan for non-public safety LFUCG employees. There are currently no active members of this plan. In FY 2010, 97% of the cost of this benefit was paid to retirees and beneficiaries in the PFRF, with 3% paid to CEPF participants.

<sup>2</sup>2011 Medical UAAL is an estimation based on historical growth of about \$15 million per year. Other Post Employment Benefits (OPEB) Valuations (i.e. retiree medical benefits) are only completed every other year. Changes to the employee medical premiums made in FY 2012 may have an impact on the OPEB liability.

<sup>3</sup>The total liability includes an estimation of the OPEB liability described in note 2.

# Projected Pension Bond Debt



Source: LFUCG Finance and Administration Note: Projections do not include any future shortfalls in the police & fire pension fund or OPEB.

Doug Martin, 10<sup>th</sup> District Councilmember

# LFUCG Pension Contributions

Fiscal Year	Annual Required Contribution (ARC)	LFUCG Contribution	Difference	% of ARC Contributed	Percent Funded
2011	28,216,938	14,408,809	(13,808,129)	51.1%	66%
2010	30,665,280	49,469,806	18,804,526	161.3%	69.40%
2009	28,689,989	84,023,573	55,333,584	292.9%	63.10%
2008	26,980,795	18,791,796	(8,188,999)	69.6%	62.90%
2007	17,541,055	16,506,722	(1,034,333)	94.1%	63.30%
2006	12,691,844	14,114,178	1,422,334	111.2%	62.80%
2005	17,048,783	11,689,068	(5,359,715)	68.6%	68.30%
2004	17,048,783	10,244,350	(6,804,433)	60.1%	70.50%
2003	14,314,388	10,027,620	(4,286,768)	70.1%	66.10%
2002	14,314,388	9,604,845	(4,709,543)	67.1%	73.00%
2001	12,078,971	9,222,902	(2,856,069)	76.4%	77.60%
2000	12,078,971	7,980,585	(4,098,386)	66.1%	77.70%
1999	9,895,934	6,781,764	(3,114,170)	68.5%	83.60%
1998	9,341,031	5,907,023	(3,434,008)	63.2%	85.30%
1997	9,917,990	5,363,231	(4,554,759)	54.1%	77.90%
1996	11,733,278	4,749,667	(6,983,611)	40.5%	70.80%
1995	8,742,268	4,548,367	(4,193,901)	52.0%	61.00%
1994	8,004,887	4,419,000	(3,585,887)	55.2%	68.10%
1993	8,030,940	4,445,456	(3,585,484)	55.4%	68.10%
1992	8,030,940	4,183,002	(3,847,938)	52.1%	
1991	6,751,640	3,963,083	(2,788,557)	58.7%	
<b>Total</b>	<b>283,902,155</b>	<b>286,036,038</b>	<b>2,133,883</b>	<b>81.9%</b>	<b>70.53%</b>

Source: LFUCG Comprehensive Annual Financial Reports 1993-2011 Note: Annual Required Contribution (ARC) and percent funded are based on various assumption made by actuarial consultants retained by the Police & Fire Pension Board. The assumptions may vary year to year. ARC is based on a 3% COLA. Current assumed rate of return is 8%.

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# Actuarial Assumptions

	Assumed Rate of Return
<b>LFUCG Police and Fire Pension Fund (previous assumed rate of return)</b>	8.00%
<b>LFUCG Police and Fire Pension Fund (as of May 9, 2012)</b>	7.50%
<b>CERS</b>	7.75%
<b>Kentucky Retirement System</b>	7.75%
<b>State Police Retirement System</b>	7.75%
<b>Kentucky Teachers Retirement System</b>	7.50%

**Source:** Cavanaugh McDonald Consulting LLC, Actuarial Studies; Kentucky Retirement System

**Note:** In March 2011, Callan Associates, the PFRF investment advisors, based their Asset Liability Study on a 7% rate of return, and advised the PFRF Board that an 8% rate of return was unrealistic. The Police and Fire Pension Board adopted a 7.5% assumed rate of return on May 9, 2012.

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# PFRF Actual Rates of Return

	1995	1996	1997	1998	1999	2000
<b>Rate of Return</b>	25.51%	12.73%	23.90%	13.73%	3.61%	12.60%

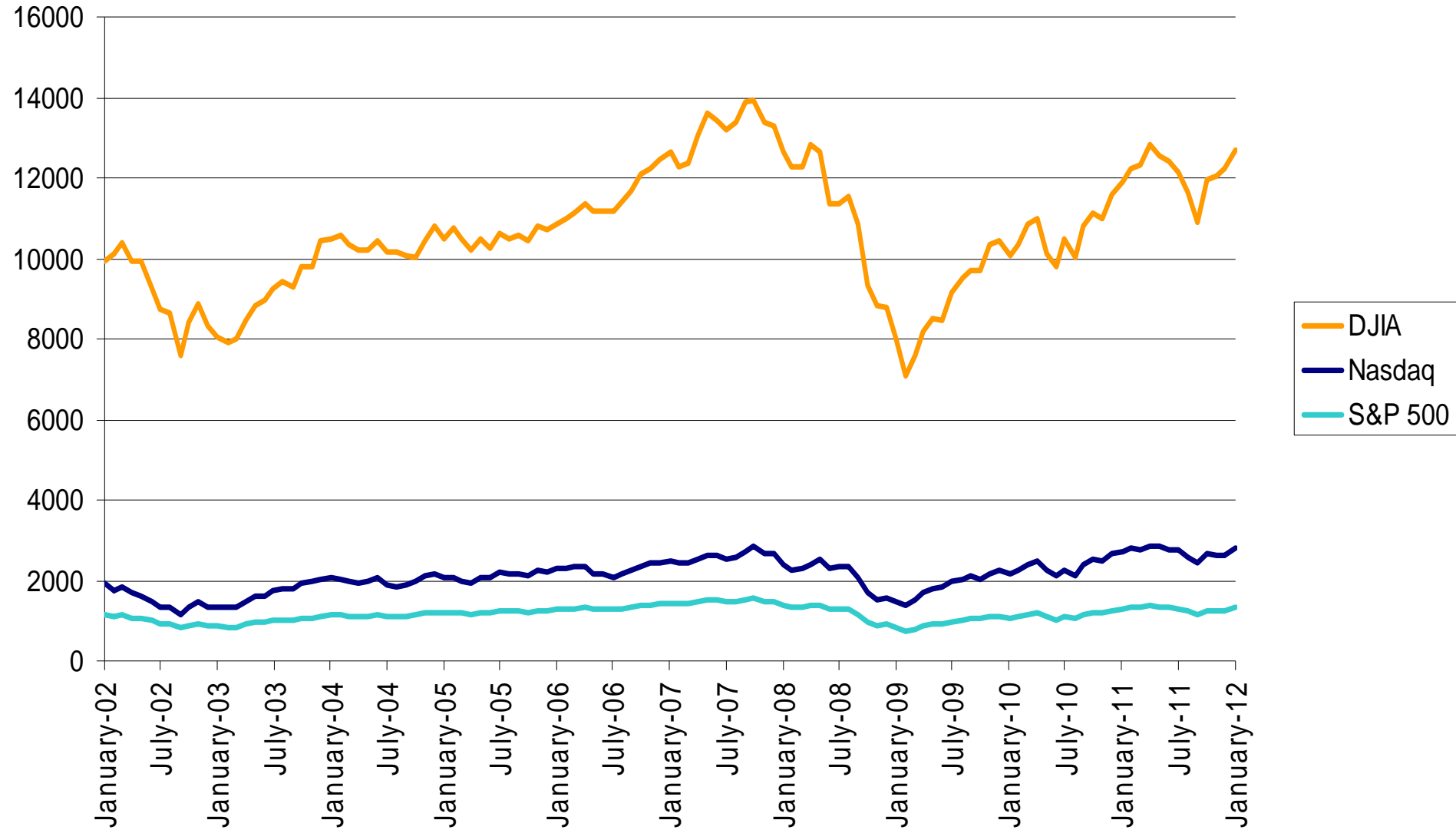
	2001	2002	2003	2004	2005	2006
<b>Rate of Return</b>	2.73%	-5.33%	22.33%	15.48%	8.27%	9.48%

	2007	2008	2009	2010	2011
<b>Rate of Return</b>	9.83%	-26.84%	14.65%	14.14%	2.59%

	Last 5 Years	Last 10 Years	Last 17 Years
<b>Average Rate of Return</b>	1.53%	5.51%	8.63%

Source: Callan Associates. 5,10, and 17 year averages calculated using geometric mean.

# Market Returns



Source: Yahoo! Finance

Note: Calculated using monthly adjusted closing figures for each index.

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# GASB Pension Accounting Changes

- The Governmental Accounting Standards Board (GASB) is finalizing new accounting rules for pension funds that will likely lead to increased annual government payments:
  - Government balance sheets must include present value of unfunded pension liabilities.
  - Funding projections must use different discount rates for each type of pension fund asset, and also include borrowing costs.
  - Unfunded pension liabilities will be amortized over fewer years so that pension benefits will be funded before retirement.
  - GASB will address funding of retiree medical benefits (OPEB) in future accounting rule changes.

Source: GASB



# Legislative Changes Contributing to the Pension Shortfall

- The minimum retirement age was reduced from 50 to 46 in 1994, and then eliminated entirely in 2002.
- Cost of living increases were mandated for retirees, ranging from 2 to 5 percent annually.
- 75 percent salary cap on benefits to retirees was eliminated.

Source: 2008 LFUCG Police and Fire Pension Fund Task Force

# Comparing Retirement Benefits

## Lexington Police & Fire Pension Fund

- Retire at any age with 20 years of service. Members may retire with 16 years of service by purchasing 4 years of “ghost time”.
- 2.5% per year of service.
- 2-5% COLA, set by board.
- Employees contribute 11% of pay.

## County Employees Retirement System

- Retire at any age with 25 years of service, age 60 with 5 years, and age 50 with 15 years (benefit reductions apply).
- 2.5% per year of service for 25 years of service or more. 2.25% for 20 to 25, 1.5% for 10 to 20, and 1.3% for less than 10.
- 1.5% COLA
- Employees contribute 8% of pay for pension, 1% for retirement health benefits.

Source: 2008 LFUCG Police and Fire Pension Fund Task Force

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# Public Safety Salary Increases

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police	1.2%	3.6%	3.2%	23.8%	8.3%	8.3%	9.7%	4.1%	2.5%	3.4%
Fire	1.0%	3.5%	3.0%	30.0%	6.6%	8.2%	7.3%	3.0%	3.1%	2.5%

**Note:** Collective bargaining for public safety employees was passed by the state legislature in 2004.

**Source:** LFUCG Division of Human Resources, Legislative Research Commission

# Public Safety Budget Increases

	Police	Fire and Emergency Services	Community Corrections	Total Police, Fire & Corrections	Total General Fund Budget	Public Safety % of General Fund
<b>2002</b>	\$34,711,890	\$32,276,400	\$20,172,180	\$87,160,470	\$203,497,460	43%
<b>2003</b>	\$36,063,690	\$33,072,310	\$21,399,390	\$90,535,390	\$209,878,620	43%
<b>2004</b>	\$37,327,400	\$33,616,620	\$22,095,190	\$93,039,210	\$208,503,520	45%
<b>2005</b>	\$41,790,050	\$38,327,710	\$26,053,180	\$106,170,940	\$219,917,190	48%
<b>2006</b>	\$49,632,580	\$47,806,850	\$29,366,800	\$126,806,230	\$253,505,850	50%
<b>2007</b>	\$52,764,800	\$49,525,340	\$29,697,350	\$131,987,490	\$258,774,340	51%
<b>2008</b>	\$57,419,880	\$54,579,620	\$30,626,670	\$142,626,170	\$282,700,500	50%
<b>2009</b>	\$54,518,250	\$52,251,160	\$30,466,250	\$137,235,660	\$275,170,360	50%
<b>2010</b>	\$56,530,560	\$54,379,270	\$30,786,380	\$141,696,210	\$280,059,550	51%
<b>2011</b>	\$59,566,470	\$54,961,985	\$31,496,918	\$146,025,373	\$274,481,370	53%
<b>2012</b>	\$55,442,203	\$51,781,678	\$30,459,961	\$137,683,842	\$273,244,140	50%
<b>Difference 2002-2012</b>	\$20,730,313	\$19,505,278	\$10,287,781	\$50,523,372	\$69,746,680	<b>Public Safety % of General Fund Growth</b>
<b>Percentage Increase 2002-2012</b>	60%	60%	51%	58%	34%	<b>72%</b>

Source: LFUCG Adopted Budgets 2002-2012.

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# Disability

Yr	Occupational	Non-Occupational	Service	Total	Disability Percentage
1992	12	1	20	33	39.39%
1993	11	0	25	36	30.56%
1994	16	0	23	39	41.03%
1995	8	0	46	54	14.81%
1996	6	1	29	36	19.44%
1997	5	0	20	25	20.00%
1998	5	0	30	35	14.29%
1999	9	0	14	23	39.13%
2000	5	0	27	32	15.63%
2001	14	1	20	35	42.86%
2002	13	0	34	47	27.66%
2003	22	0	14	36	61.11%
2004	27	0	27	54	50.00%
2005	16	0	11	27	59.26%
2006	6	0	6	12	50.00%
2007	10	1	4	15	73.33%
2008	11	0	16	27	40.74%
2009	11	0	23	34	32.35%
2010	17	1	23	41	43.90%
2011	17	1	24	42	42.86%
<b>Total</b>	<b>263</b>	<b>9</b>	<b>457</b>	<b>729</b>	<b>37.31%</b>

**Source:** Police and Fire Pension Board **Note:** A large number of fire retirements occurred in January 2012.

# Average Public Safety Pensions

<b>2011 Service Retirements</b>	
<b>Average Pension of 2011 Retiree</b>	\$53,754.58
<b>Estimated Payments Over Lifetime</b>	\$2,557,396.49
<b>Estimated Present Value at Retirement</b>	\$1,178,263.31

<b>2011 Disability Retirements</b>	
<b>Average Pension of 2011 Retiree</b>	\$53,790.29
<b>Estimated Payments Over Lifetime</b>	\$2,559,095.41
<b>Estimated Present Value at Retirement</b>	\$1,179,046.05

- “Payments Over Lifetime” assumes the pension will be paid to a retiree for 30 years, with an annual COLA of 3%.
- “Present Value at Retirement” assumes a remaining lifespan of 30 years, with a 5% investment rate of return, and 3% COLA.

**Source:** Average pensions provided by the Police and Fire Pension Fund Board.

# Paying Pension & Medical Liability: Exercise - What would it cost to pay?

<b>Borrowed Amount</b>	\$584,846,011.00
<b>Assumed Interest Rate</b>	5%
<b>Years to Maturity</b>	20 years
<b>Annual Payment</b>	\$46,929,557.23
<b>Total Payments</b>	\$938,591,144.66

**Note:** Borrowed amount covers retiree medical benefits liability and pension liability. The medical liability includes retirees in the County Employees Pension Fund (CEPF), a closed pension plan for non-public safety LFUCG employees. There are currently no active members of this plan. In FY 2010, 97% of the cost of this benefit was paid to retirees and beneficiaries in the PFRF, with 3% paid to CEPF participants. Future medical benefits cannot be bonded. Payments and interest calculated using level debt service payment method.

# Funding Pension & Medical Benefits: Property Tax Increase Scenario

<b>LFUCG Public Safety Property Tax Increase Scenario</b>		
<b>Approximate Fayette Co. Total Taxable Value</b>	<b>Public Safety Tax Scenario Rate (per \$100 of value)</b>	<b>Estimated Public Safety Scenario Tax Revenue</b>
\$22,780,000,000	.2103	\$46,948,213

<b>LFUCG Property Taxes</b>	
Current General Services Rate	0.0800
<b>Public Safety Tax Scenario Rate</b>	<b>0.2103</b>
Total LFUCG Rate	0.2903

**Source:** LFUCG Ad Valorem Tax Rates on Real Property, Fayette PVA.

**Note:** Assumes 98% collection rate. LFUCG collects eight cents per \$100 of value for general services, five cents of the general services rate is allocated to the Lexington Public Library by law, the remaining three cents goes to the LFUCG General Fund.



# Funding Pension & Medical Benefits: Property Tax Increase Scenario

Description	Current Rate	New Rate
State	0.1220	0.1220
School	0.6520	0.6520
General Service	0.0800	0.0800
Public Safety Tax Scenario	0.0000	0.2103
Extension	0.0032	0.0032
Soil and Water	0.0004	0.0004
Health Department	0.0280	0.0280
LexTran	0.0600	0.0600
Full Urban Services	0.1735	0.1735
<b>Total</b>	<b>1.1191</b>	<b>1.3294</b>

**18.8 % Increase**

Property Value	Current Property Tax	New Property Tax	Increase
\$100,000.00	\$1,119.10	\$1,329.40	\$210.30
\$250,000.00	\$2,797.75	\$3,323.50	\$525.75
\$500,000.00	\$5,595.50	\$6,647.00	\$1,051.50
\$1,000,000.00	\$11,191.00	\$13,294.00	\$2,103.00

**Source:** LFUCG Ad Valorem Tax Rates on Real Property

**Note:** Rates shown for full urban services (Tax District 1).

**Doug Martin, 10<sup>th</sup> District Councilmember**

# Closing Thoughts

- Since 2008, our total pension shortfall, including outstanding bond debt and medical benefits, has grown by \$157 million dollars, or about \$52 million per year.
- Payments required for minimum obligations, new shortfalls, and amortization of past shortfalls :
  - \$28 million annual required contribution
  - \$52 million in total annual shortfall growth
  - \$47 million payments on current shortfall
  - \$127 million in total annual payments**

# Conclusion:

Pension bonding and taxes alone will not solve our pension crisis.

Reductions in pension and medical benefits will be necessary.