



Police and Fire Pension Reform Agreement

Presentation to Council
March 12, 2013

The road to reform

October, 2011

Mayor announces Police and Fire Pension Task Force



September, 2012

Mayor asks Task Force to form consensus by end of year; recommends consultant



January, 2013

Consensus reached among City, unions, pension board representatives; Actives and retirees approve with 76%; Task Force unanimously votes to approve



March, 2013

Agreement signed into state law



Consensus

“The proposed changes to Lexington’s Police and Fire Pension in this presentation put the fund on solid ground for the first time in a generation. These common-sense reforms represent shared sacrifice, with the city as well as active, retired and new public safety workers all contributing to create a sustainable plan that provides dignified retirements for the long-term.”

- **Captain Chris Bartley**, IAFF President Local 526
- **Detective Larry Kinnard**, pension board member
- **Detective Rob Sarrantonio**, Vice President of FOP
- **Captain Drew Short**, pension board member, IAFF 526 Second-Shift Representative
- **Detective Mike Sweeney**, FOP President
- **Mayor Jim Gray**



Team effort

Mayor Jim Gray and staff

Council Members

Pension Task Force: Tim Kelly, Gene Vance and others

Commerce Lexington / Lexington Industrial Foundation

Mike Sweeney, Rob Sarrantonio, Larry Kinnard

Chris Bartley, Drew Short

Rep. Ruth Ann Palumbo, the state legislature and the
Governor

Dozens of others



The big picture

Lexington's Police and Fire pension system had spiraled out of control but, pension benefit changes + guarantee of more money from the city

took the unfunded liability from \$296M to \$161M

which lowered the city's annual payment to an affordable amount

enabling the city to pay down the liability over the next 30 years

(with no more bonding)

which makes the fund sustainable and affordable, while maintaining a dignified retirement for policemen and firefighters.



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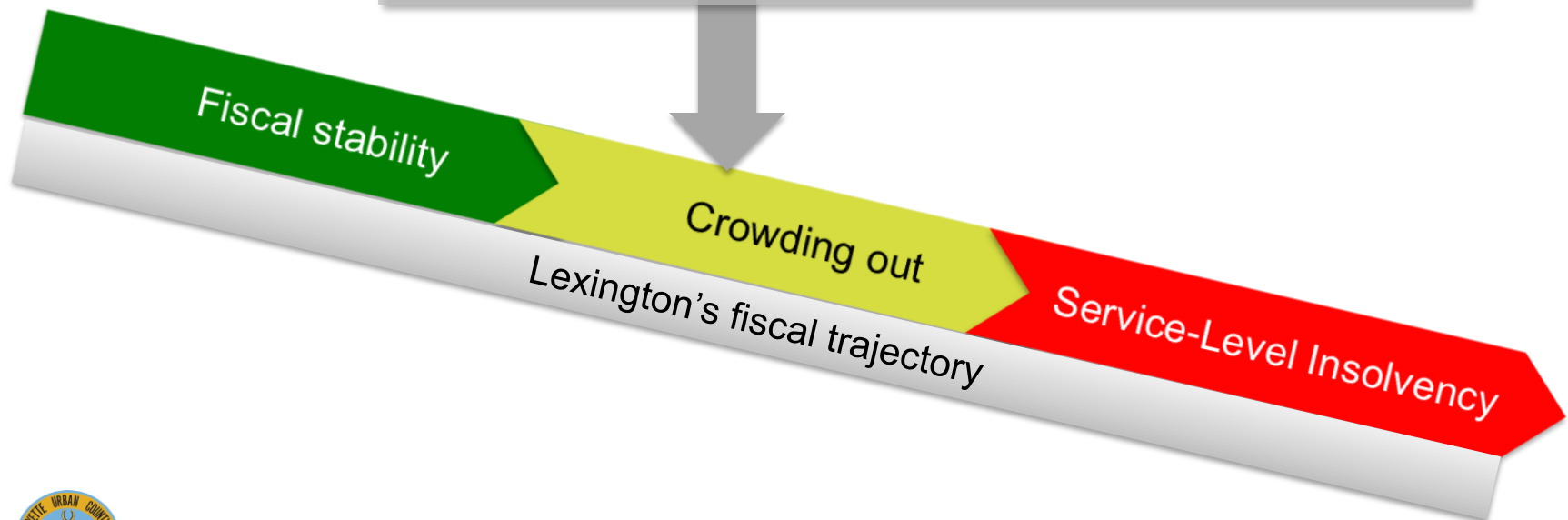
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PFRF spiraling out of control

- Annual required contribution to police and fire pension quadrupled from 2000 to 2012, from \$7M to \$29M
- \$18M hole in budget
- Hitting bonding ceiling
- Underfunding core items like Social Services
- \$900M in infrastructure needs
- Little room for investment



Pension Costs (PFRF + CERS)

2000	2012
7% of General Fund	22% of General Fund



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Pension Changes: New Hires

- 25 years of service
- 50 year minimum age to draw pension
- 12% contribution rate
- 50% annuity for disability with current scale for catastrophic injuries
- Ghost time for military service only, up to four years
- 2.25% benefit factor

Cont'd...



Pension Changes: New Hires

- Cost of Living Adjustments

Annual Pension Income	COLA Benefit
Up to \$39,999	2.0%
\$40,000 to \$74,999	1.5%
\$75,000 to \$99,999	1.0%

- If the fund exceeds 85% funding level, the COLA rate of between 0% and 3% may be reinstated by the pension board, provided that the given COLA does not reduce the funding level below 85%



Pension Changes: Actives

- Increase employee contribution from 11% to 12%
- Establish 41-year minimum retirement age
- Reduce disability pension from 60% of pay to 50% with current scale for catastrophic injuries
- As actives retire, they receive no COLAs for five years or until age 50, whichever is sooner
- Increase line-of-duty death benefit from 60% to 75%

Cont'd...



Pension Changes: Actives

- Cost of Living Adjustments

Annual Pension Income	COLA Benefit
Up to \$39,999	2.0%
\$40,000 to \$74,999	1.5%
\$75,000 to \$99,999	1.0%
\$100,000 +	0.0% from July 1, 2013 to January 1, 2016, then 1.0%

- If the fund exceeds 85% funding level, the COLA rate of between 0% and 3% may be reinstated by the pension board, provided that the given COLA does not reduce the funding level below 85%



Pension Changes: Retirees

- Cost of Living Adjustments

Annual Pension Income	COLA Benefit
Up to \$39,999	2.0%
\$40,000 to \$74,999	1.5%
\$75,000 to \$99,999	1.0%
\$100,000 +	0.0% from July 1, 2013 to January 1, 2016, then 1.0%

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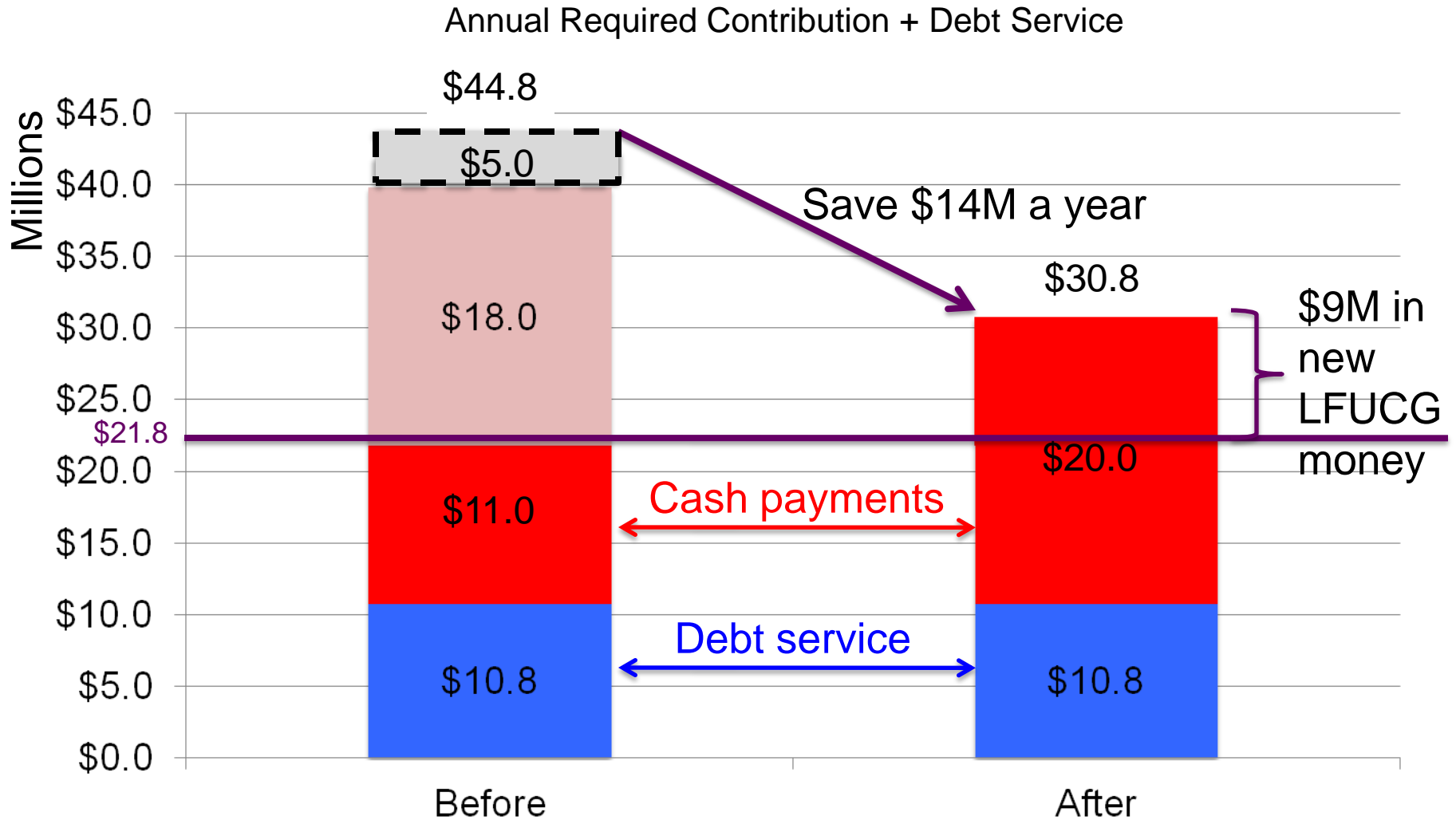
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More money from LFUCG



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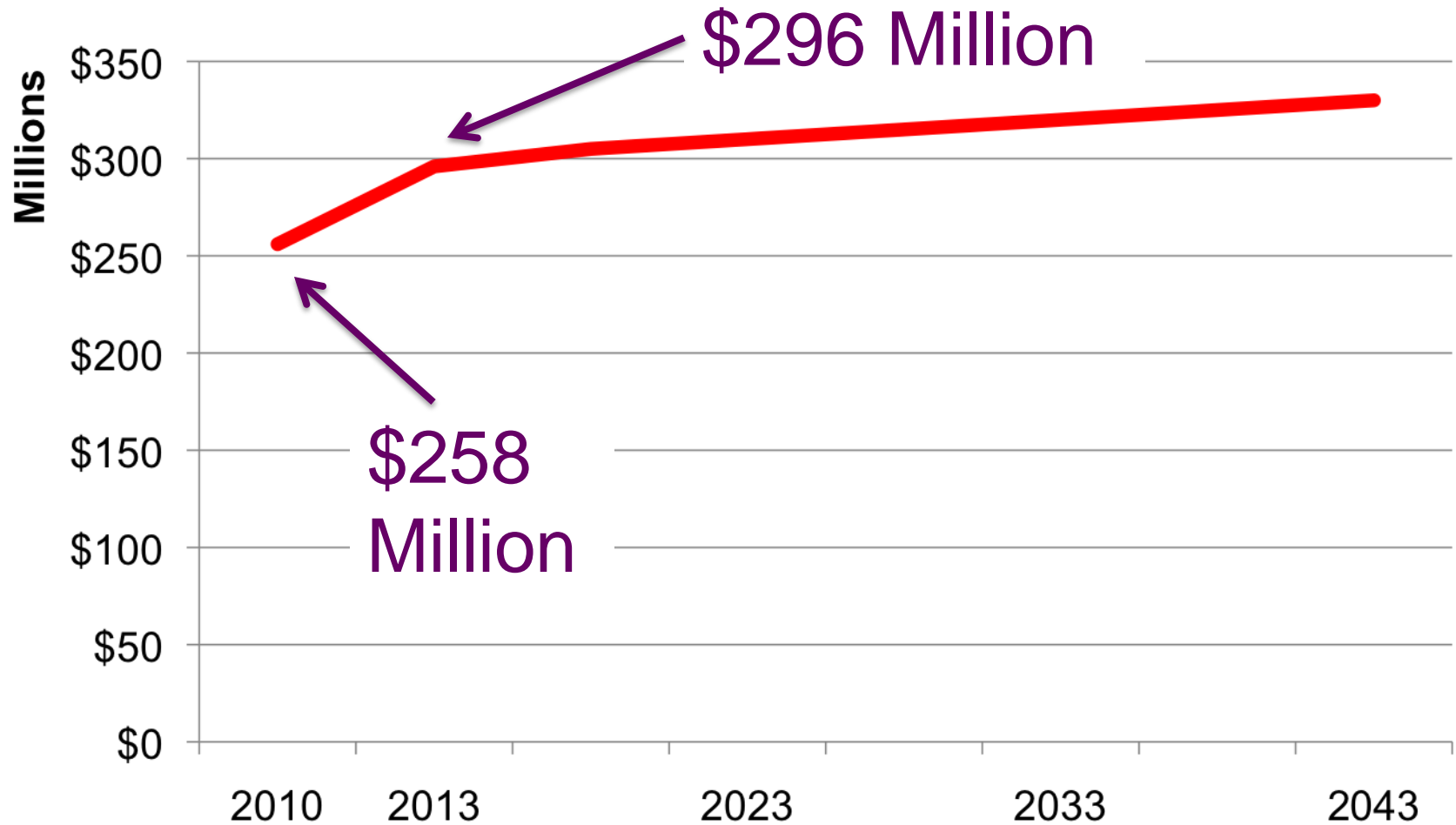
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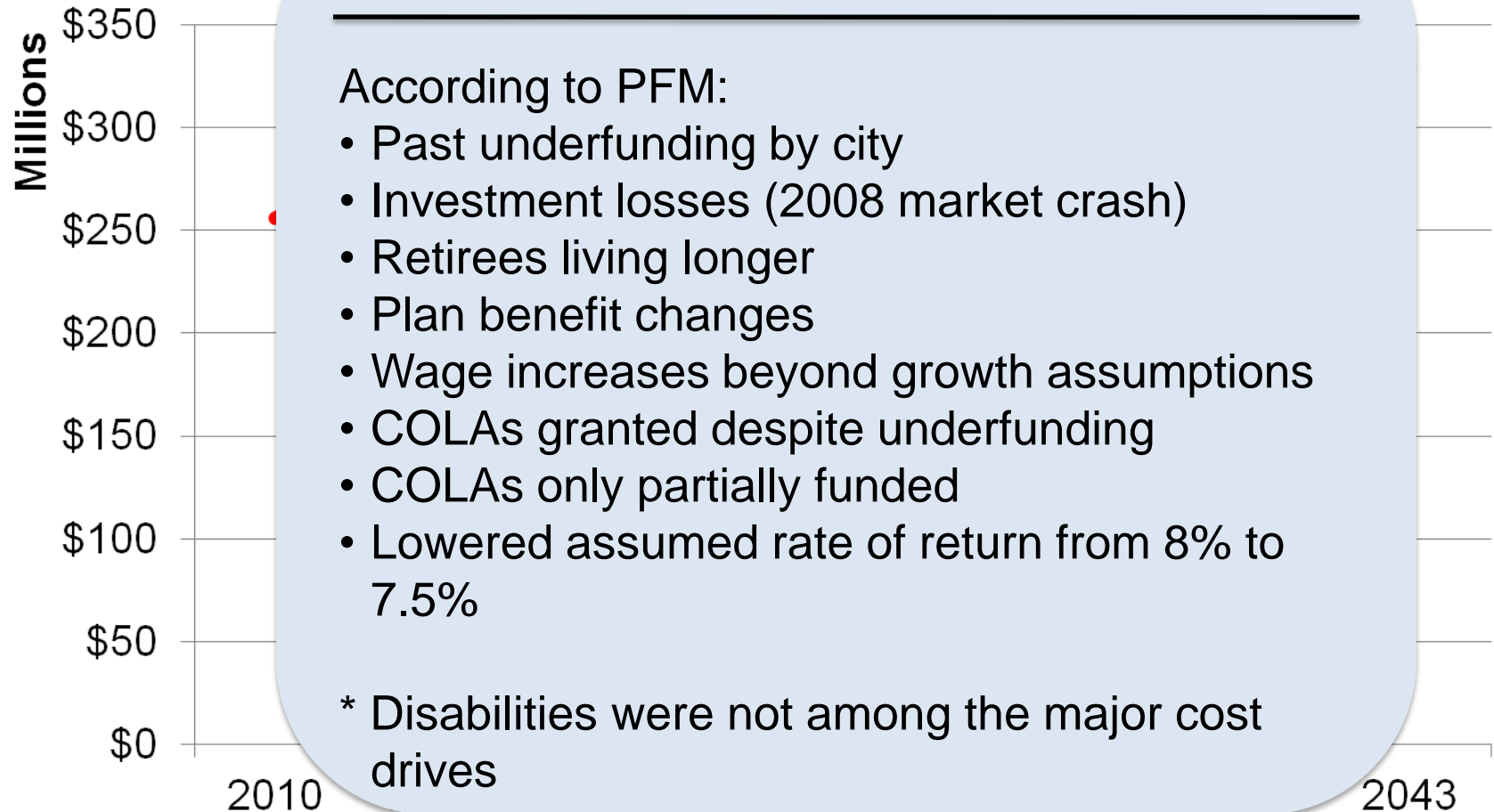
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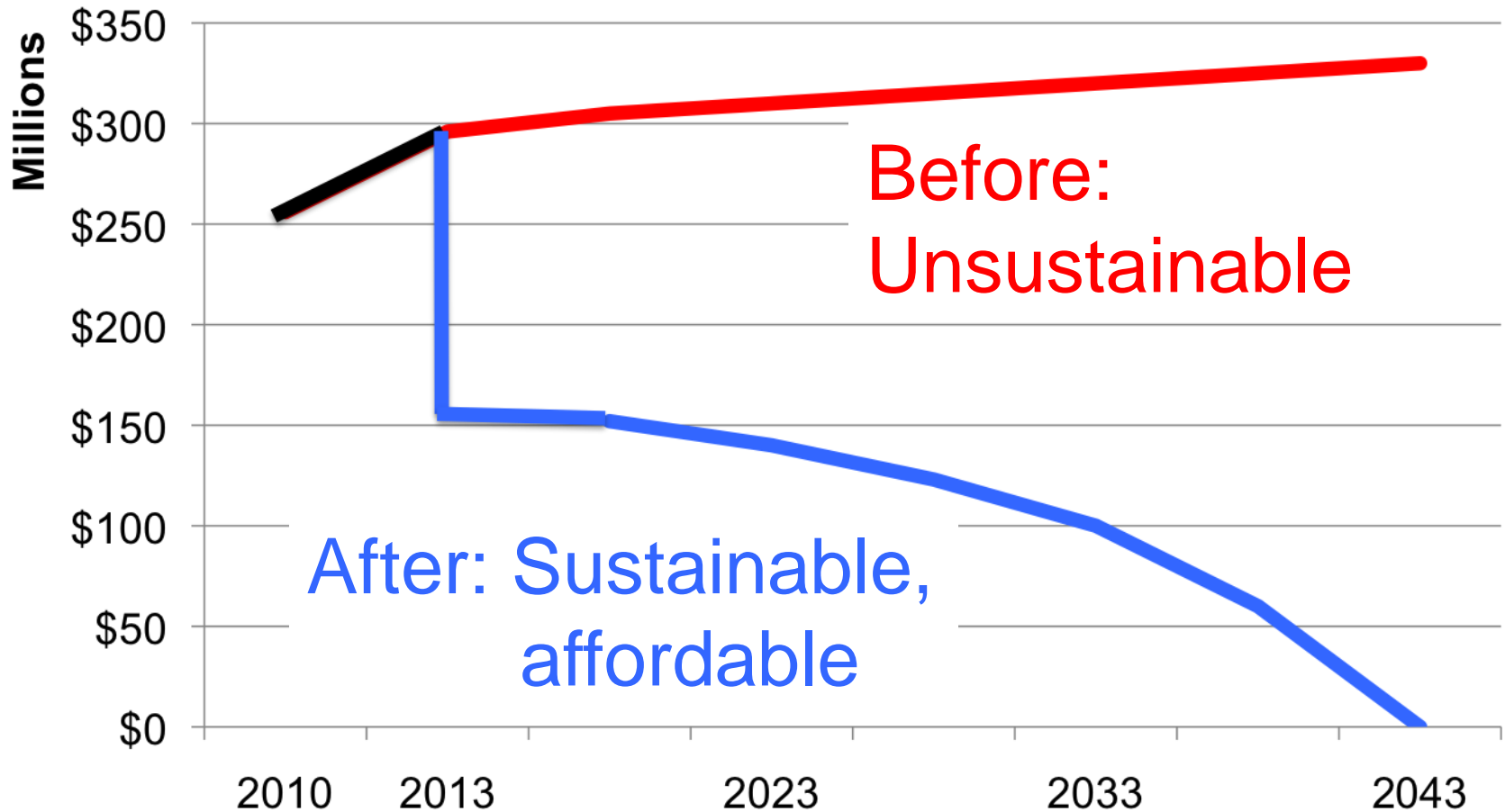
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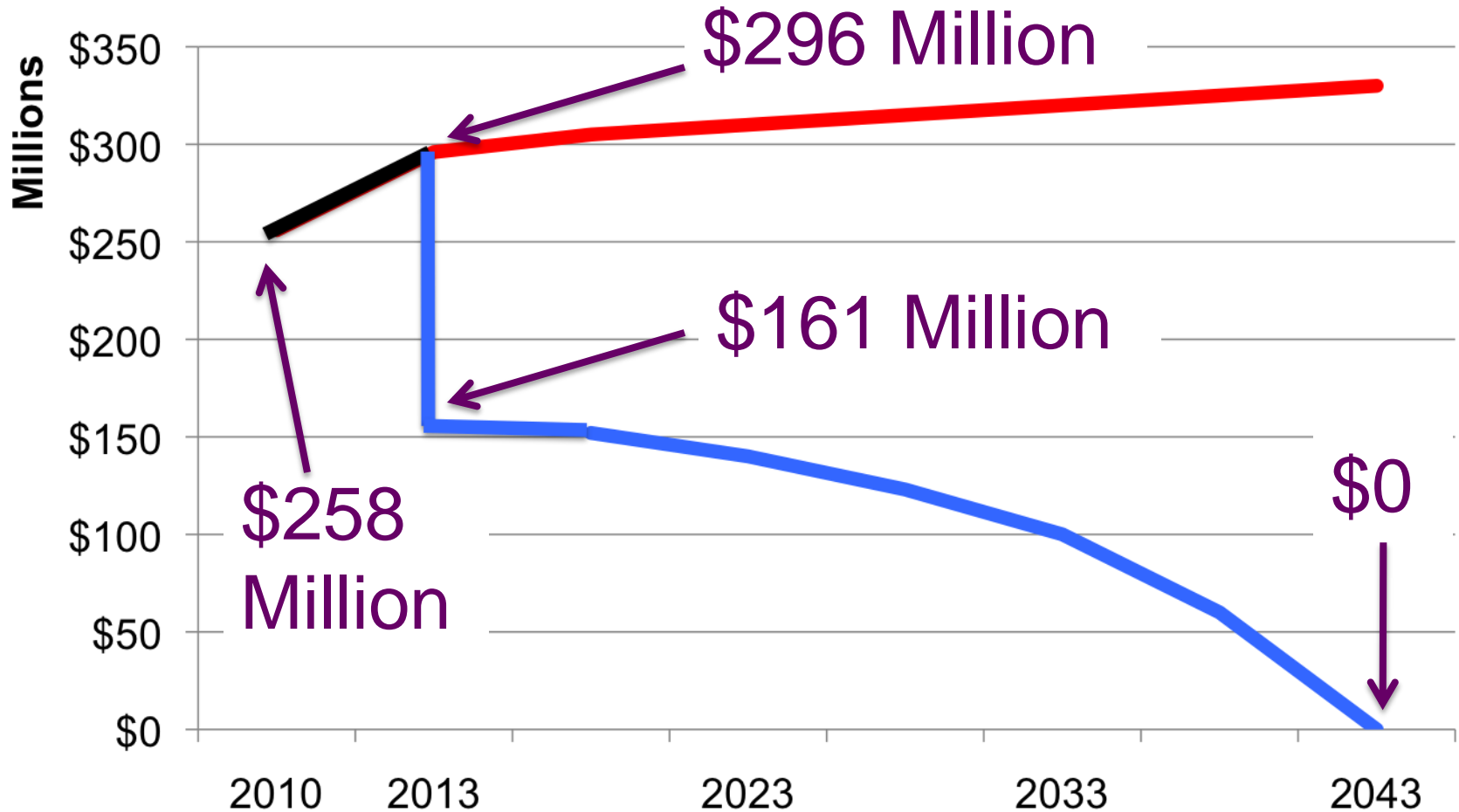
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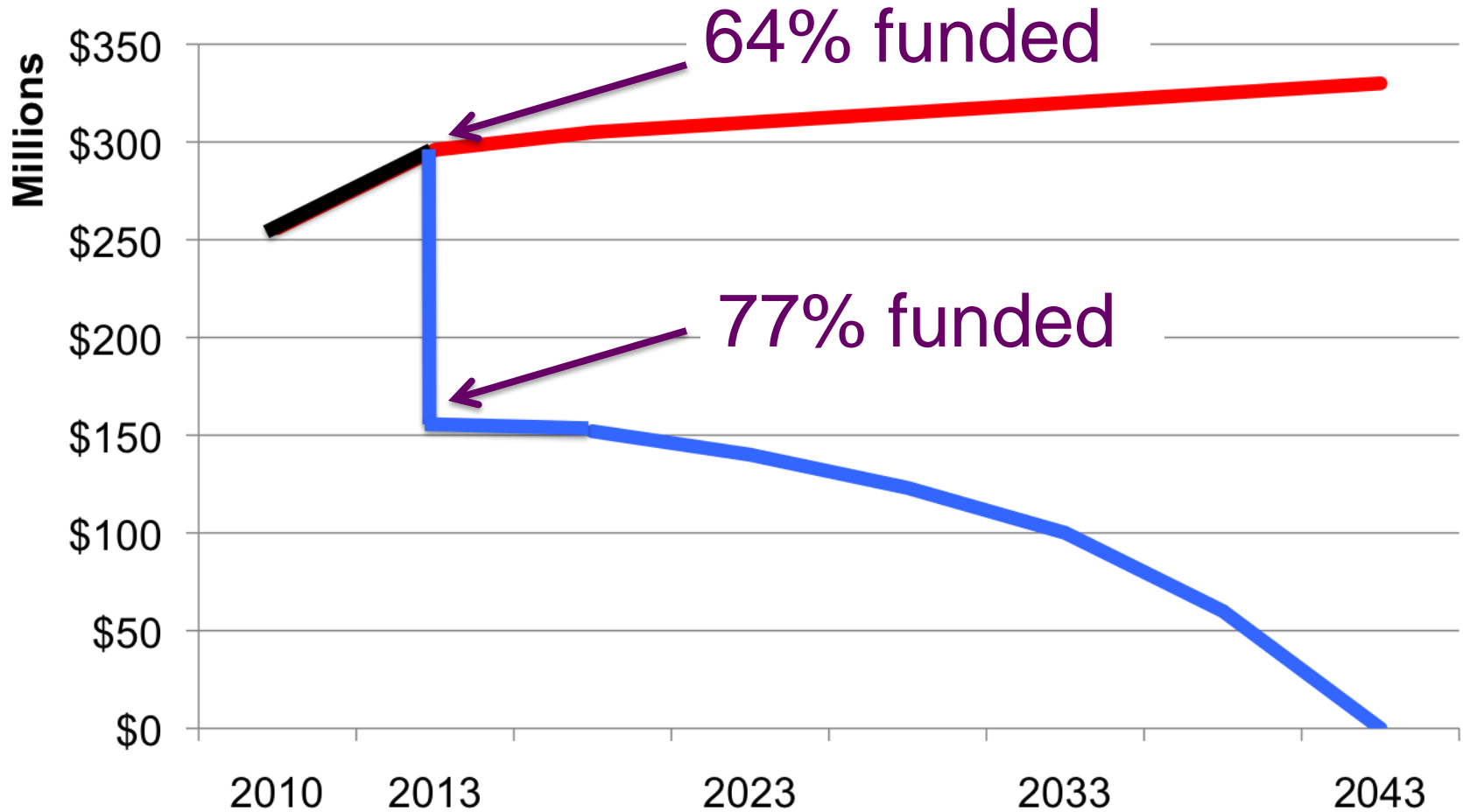
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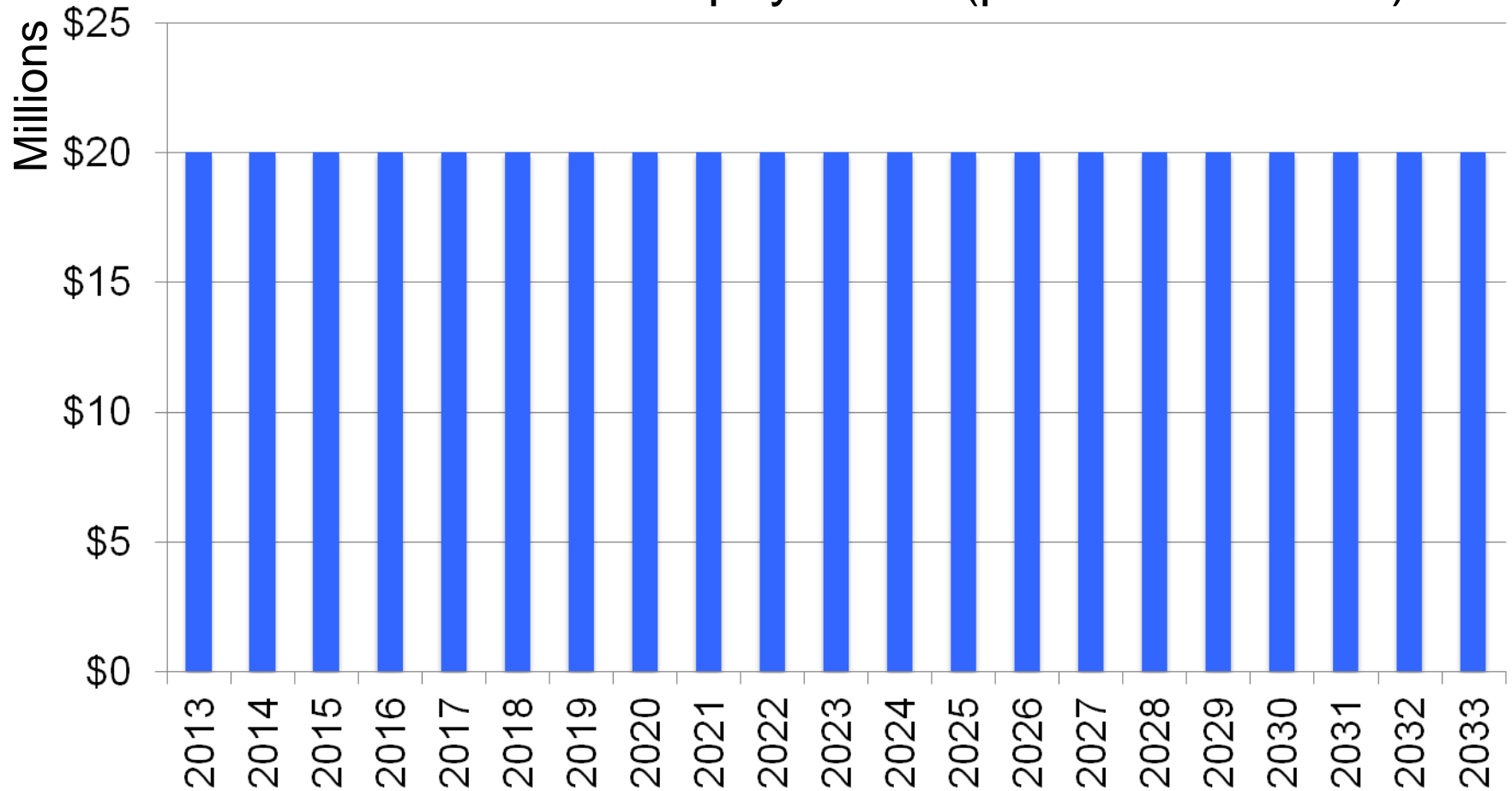
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Conservative “Level Dollar” method

Predictable annual payments (plus debt service)



LFUCG Commitment

In KRS, LFUCG must pay at least \$20 million per year to the police and fire pension



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Bonding limit avoided

- With the \$34 million pension bond budgeted for this year, Lexington had been scheduled to exceed the threshold recommended by ratings agencies
- With this agreement, no bond will need to be issued
- Preliminary feedback from ratings agencies is very positive



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Things to think about

- Employers hold all the market risk with defined benefit plans
 - Assumed rate of return: 7.5%
 - In last 17.5 years, for which we have records, rate of return has been 8.125%, but past performance does not guarantee future results
- Losses and gains are smoothed over the rest of the amortization, which can make payments more volatile in later years
- GASB changes
- Disability issue improved; more work needs to be done
- Vesting options a likely addition to the plan



Questions?

