



CITY OF ST. LOUIS

**Firefighter Pension Plan Reform
Proposal**

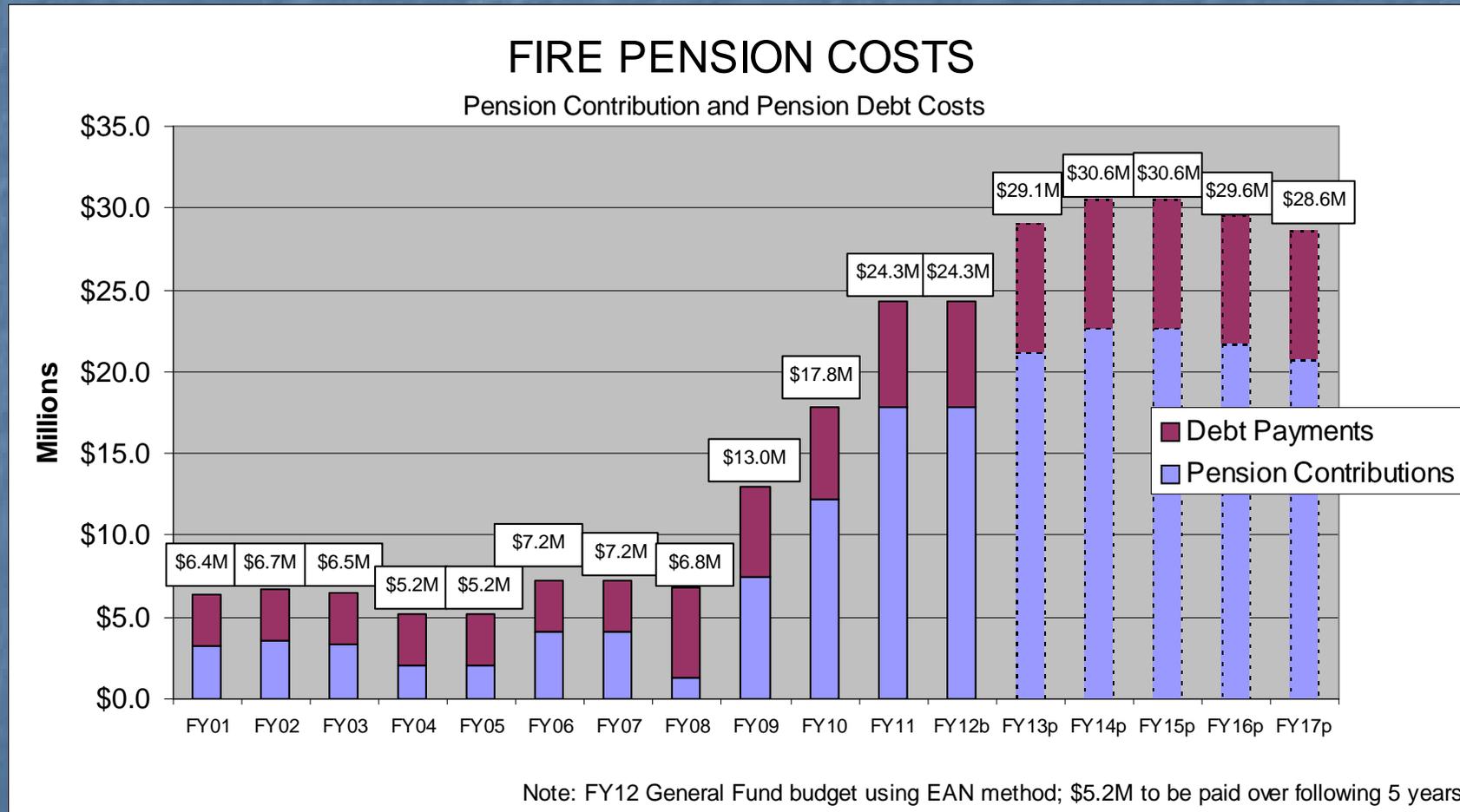
**Presentation to Public Safety
Committee**

March 6, 2012

CITY OF ST. LOUIS

Firefighter Pension Plan Reform Proposal

Firefighter Pension costs have increased 280% since FY01 and are projected to continue to rise over the next several years. (Updated to reflect 2011 results)

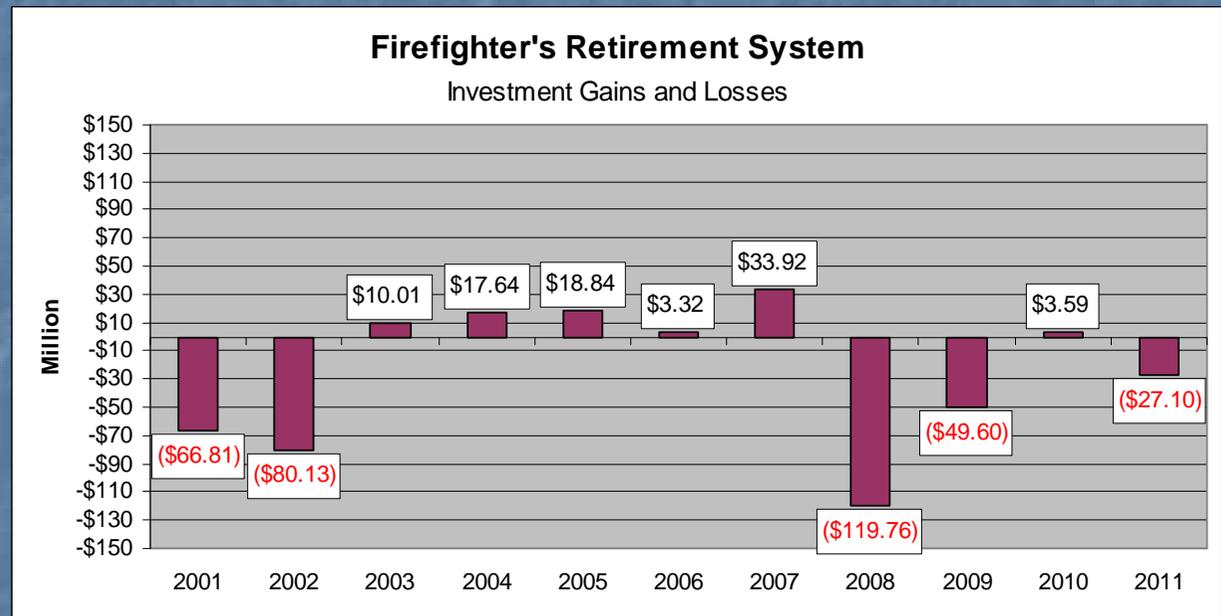


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Firefighter Pension Plan Reform Proposal

Market losses over the last 11 years have played a major part in these increases and costs will continue to rise should investments continue to under perform.

Plan Year	Investment Gain / (Loss)
2001	(\$66,813,450)
2002	(\$80,126,055)
2003	\$10,009,375
2004	\$17,640,613
2005	\$18,839,379
2006	\$3,321,145
2007	\$33,917,163
2008	(\$119,761,241)
2009	(\$49,595,731)
2010	\$3,594,154
2011	(\$27,101,232)
11 Year Total	(\$256,075,880)



Source: Firemen's Retirement System Actuarial Valuation Reports for respective years.

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Meanwhile, certain provisions within the existing plan contribute to its high costs, (e.g. nearly half of retired firefighters are on a disability pension).

Summary of FRS Plan Membership as of October 1, 2011

Active and DROP

Active (Non-DROP)	605
Active (DROP)	65
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	670

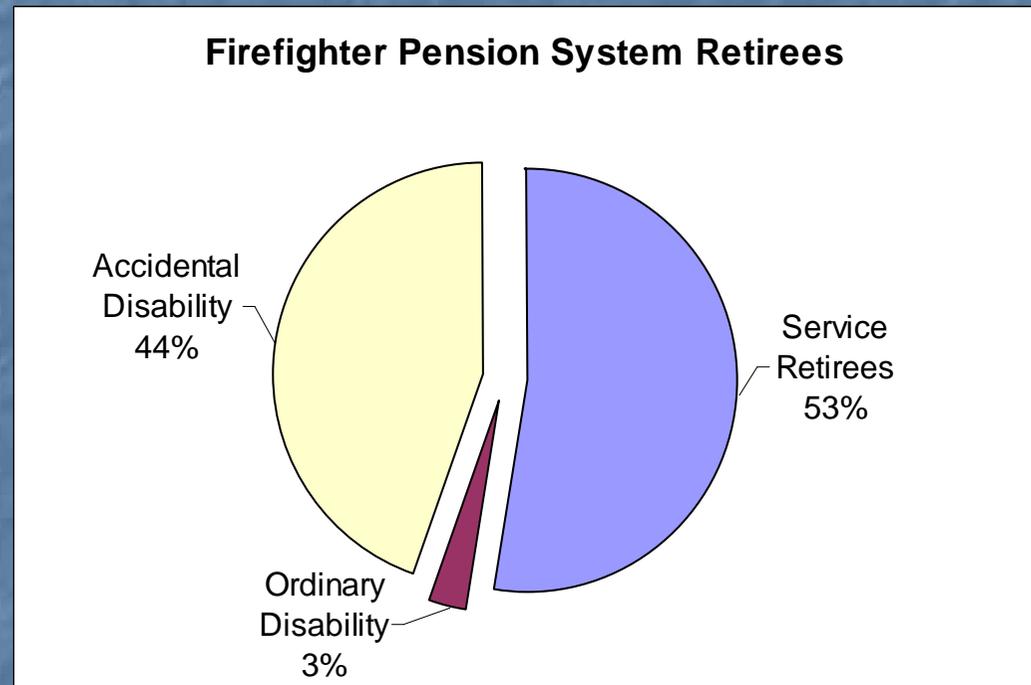
Retirees

Service Retirees	376
Ordinary Disability	21
Accidental Disability	308
	<hr/>
	705

Dependents

Widows	290
Children	21
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	311

Total	<u>1,686</u>
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Source: Firemen's Retirement System Actuarial Valuation Report as of 10/1/11.

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Firefighter Pension Plan Reform Proposal

While the FRS system has been relatively well funded, the losses have taken a toll and retirement Costs Per Employee are high.

	<u>Employee Retirement System</u>	<u>Fire Retirement System</u>		<u>Police Retirement System</u>
Valuations ¹				
<i>(as of 10/1/11)</i>				
Assets - Market Value	\$585.6 M	\$387.2	\$387.2 M	\$596.3 M
Assets - Actuarial Value	\$661.9 M	\$404.1	\$404.1 M	\$695.4 M
Actuarial Accrued Liabilities	\$841.8 M	\$521.8	\$430.8 M	\$950.7 M
Actuarial Unfunded Liability	\$179.8 M	\$117.7	\$26.7 M	\$255.3 M
Funded Ratio - Actuarial Basis	78.6%	77.4%	93.8%	73.1%
Funded Ratio - Market Basis	69.6%	74.2%	89.9%	62.7%
1) Pension Costs				
Employer Contribution	\$28.0 M (prelim)		\$21.2 M *	\$28.5 M
Debt Service	\$3.9 M		\$6.5 M	\$3.2 M
Admin. & Other (net reimbursement)	--		\$1.4 M (EAN agmt)	\$0.3 M
Total	<u>\$31.9 M</u>		<u>\$29.1 M</u>	<u>\$32.0 M</u>
			* FIL	
2) Active Membership				
Active	4,851		605	1,161
Active In Drop	442		65	214
Less Non-City ²	-800		--	--
Less Depts. budgeted separately ²	-200		--	--
Total Active	<u>4,293</u>		<u>670</u>	<u>1,375</u>
3) Projected Pension Costs Per Active Participant	\$7,433		\$43,387	\$23,270
4) Retirement Costs As % of Pay				
Covered Payroll	\$196.5 M		\$37.2 M	\$67.6 M
City's Employer Contribution ³	14.27%		56.99%	42.13%
Pension Obligation Bond Debt	1.97%		17.39%	4.77%
EAN debt agreement	--		3.85%	--
FICA / Medicare ⁴	7.65%		1.45%	1.45%
Retiree Health Insurance ⁵	--		--	11.79%
	<u>23.89%</u>		<u>79.68%</u>	<u>60.14%</u>

Notes:

¹ Based on annual actuarial reports for plan years ending September 30, 2011 for each system respectively.

² Non City ERS members include employees of Zoo, Art Museum, Library and misc. smaller entities. Departments for which ERS payments are budgeted separately include fee offices, FRS and Parking Meter Division.

³ Contribution percentage as % of covered payroll per respective annual actuarial valuation reports as of 10/1/11: Employee Retirement System p.5, Fire Retirement System p. A-1, Police Retirement System pp. 8-9 (incl. interest).

⁴ Employer cost for employee members of ERS at full Social Security and Medicare rate of 7.65%. FRS and PRS do not participate in Social Security however, all employees hired after March 31, 1996 participate in Medicare with employer payroll cost of 1.45% of payroll.

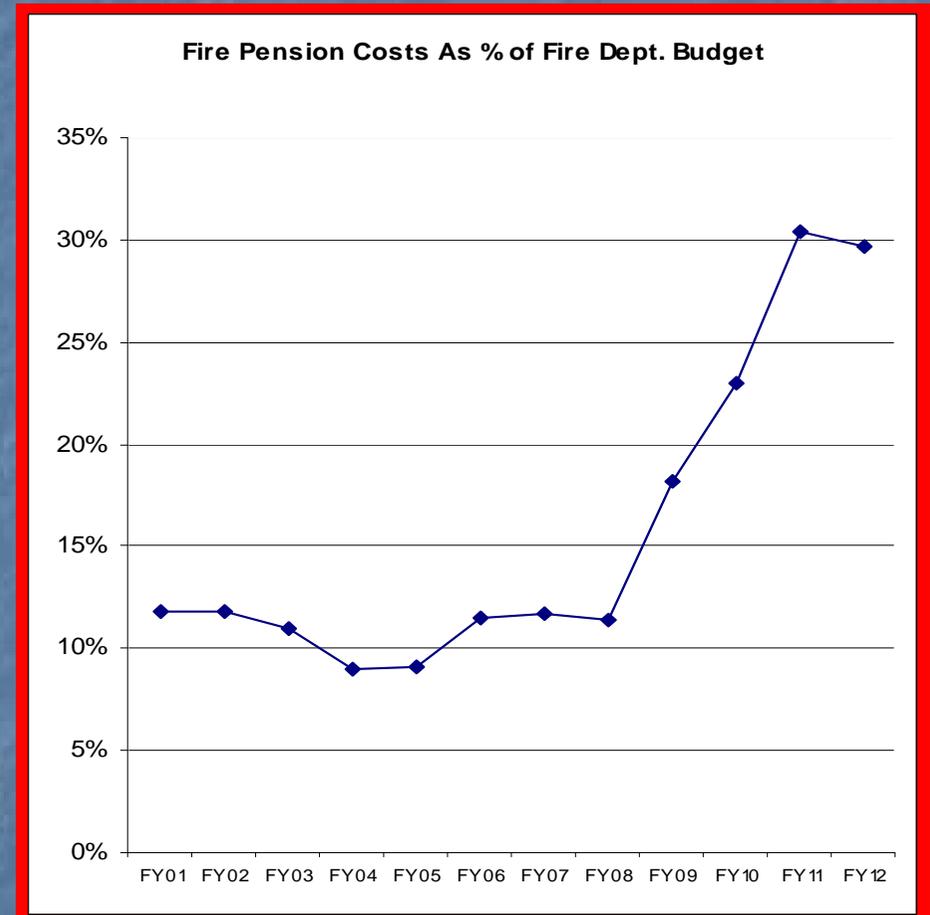
⁵ Represents SLPD FY12 budget for retiree health insurance of \$9.4M (of which est. 85% is for retired officers) as % of covered payroll.

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Firefighter Pension Plan Reform Proposal

Approximately 1/3 of the Fire Department's budget is now consumed by Pension Costs. This level of funding is unsustainable and has forced cuts in fire department operations.

Fiscal Year	Fire Dept. Oper. Budgets	Fire Pension (excl. Airport)	Total Fire Budget	Fire Pension As % Of Budget
FY01	\$42,959,567	\$5,731,482	\$48,691,049	11.8%
FY02	44,610,957	5,979,632	50,590,589	11.8%
FY03	47,217,723	5,835,587	53,053,310	11.0%
FY04	47,303,702	4,692,539	51,996,241	9.0%
FY05	47,070,101	4,677,085	51,747,186	9.0%
FY06	50,214,038	6,542,560	56,756,598	11.5%
FY07	49,359,670	6,539,172	55,898,842	11.7%
FY08	50,964,287	6,535,373	57,499,660	11.4%
FY09	53,637,933	11,896,073	65,534,006	18.2%
FY10	53,721,717	16,004,590	69,726,307	23.0%
FY11	50,122,301	21,886,898	72,009,199	30.4%
FY12b	50,522,718	21,303,348	71,826,066	29.7%



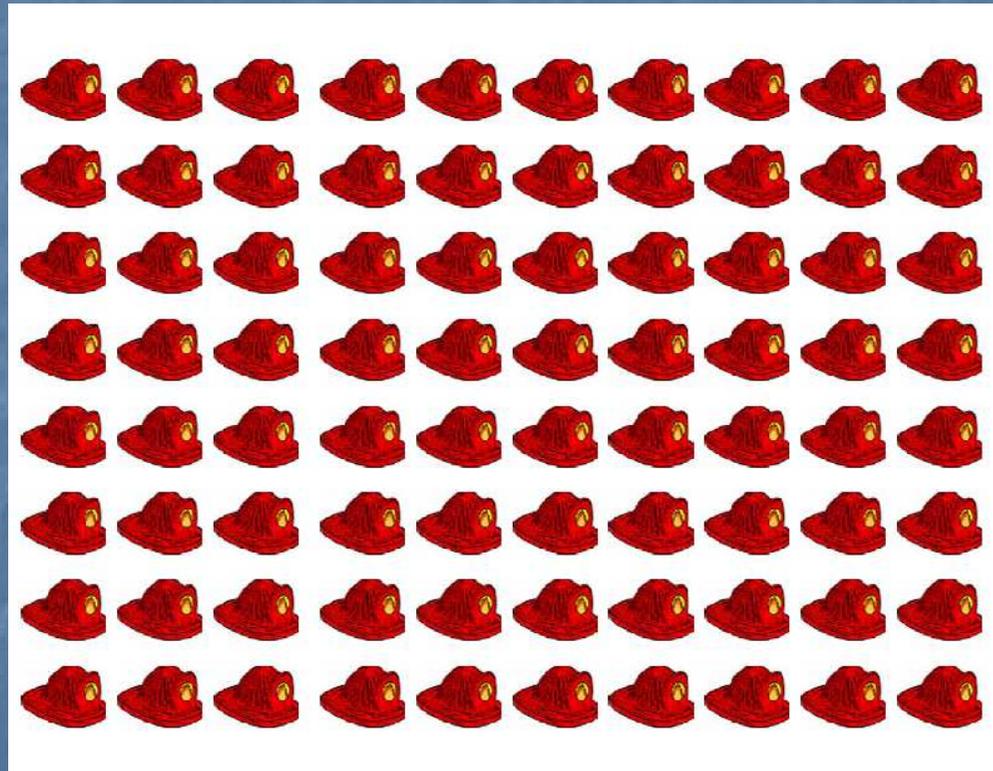
Note: FY12b assumed switch to EAN; actual % under existing valuation method would exceed 34% of budget

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Firefighter Pension Plan Reform Proposal

At approximately \$900k per year to staff a single fire company, the anticipated increase of \$5M in FY13 pension costs alone would be sufficient to fund about 5 fire companies or nearly a sixth of the Fire Department's entire engine fleet.

\$5M = Over 5 Fire Companies & 80 Firefighters



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Firefighter Pension Plan Reform Proposal

Problem:

Under the current structure, the City has been unable to enact changes that would bring these costs down to more sustainable levels.

- Needing to go to state for what is essentially a local issue?
- The City currently does not control its own fate with regard to these costs.

Solution:

Local Control of FRS

- Enact changes that would ensure system sustainability.

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Firefighter Pension Plan Reform Proposal

Proposed Benefit Changes:

- Changes in benefits for current retirees or their dependents:
NONE
- Changes for current employees (active firefighters):
TO KEEP VALUE OF ALL BENEFITS ACCRUED AS OF IMPLEMENTATION DATE

Focus to be on preserving base benefit while reducing costly ancillary benefits on going forward basis only:

- Employee contribution to increase to 9% of pay (currently at 8%)
- Future contributions to be non-refundable at retirement
- Must wait until age 55 to receive full pension benefit
- Change in disability benefit
- Increase in benefit to widow(er)s for those killed in line of duty

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Firefighter Pension Plan Reform Proposal

Proposed Benefit Changes:

- Changes for new employees:
 - Contributions at 9% of pay
 - No return of contributions at retirement
 - No DROP
 - Average Final Compensation based on final 3 years
 - 35 years to maximum 75% benefit (change in multiplier)
 - Must wait until age 55 to receive full pension benefit
 - Change in disability benefit
 - Change in COLA
 - 10 Year vesting (currently 20 years)
 - Increase in benefit to widow(er)s for those killed in line of duty

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Firefighter Pension Plan Reform Proposal

Proposed Changes In Governance:

- No change in current Board of Trustees
 - make-up of board to remain the same with new elections to be held and new terms to begin after first year

(3 active firefighters, 1 retired firefighter, 1 Fire Chief,
2 members appointed by Mayor, 1 City Comptroller or Deputy)
- Staffing
 - patterned after ERS
 - trustees may opt to convert existing staff to civil service
 - staff to report to Director of Public Safety
- Trustees role limited to fiduciary duties only;
 - cannot challenge City on issues of plan establishment, amendment or design

CITY OF ST. LOUIS

Firefighter Pension Plan Reform Proposal

What About Disability Benefit ?

Pension Benefits	Current System	Proposed Changes Board Bill No. 175 (revised)	Proposed Changes New Plan
Disability Benefit (incurred in line of duty)	<p>75% of highest annual salary in highest step in rank at time of disability;</p> <p>Line of duty presumption (after 5 yrs) includes diseases of the heart and lung.</p>	<p>If disability prevents work in any occupation, 75% of average compensation;</p> <p>If disability prevents work as a firefighter but not other gainful employment: Benefit of 25% of compensation, plus 2.75% for each year greater than 10 but no more 25 years of service; if more than 25 years, then total benefit is 75%;</p> <p>Option for tuition reimbursement at state university for up to five years for passing grades in a degree program plus 70% pay. If between 20-25 yrs of service could waive education benefit to add flat 40% benefit to 25% base. (65% total).</p> <p>Line of duty presumption adds infectious diseases and cancer</p>	<p>If disability prevents work in any occupation, 75% of average compensation;</p> <p>If disability prevents work as a firefighter but not other gainful employment: Benefit of 25% of compensation, plus 2.75% for each year greater than 10 but no more 25 years of service; if more than 25 years, then total benefit is 75%;</p> <p>Option for tuition reimbursement at state university for up to five years for passing grades in a degree program plus disability pay as described above;</p> <p>Line of duty presumption includes lung only. (unless rebutted by evidence of habitual smoking)</p>
Disability Benefit (not incurred in line of duty)	<p>Greater of 90% of accrued pension benefit or 25% of average final compensation;</p> <p>If 20 or more years of service, regular service retirement granted</p>	No change	No change

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Firefighter Pension Plan Reform Proposal

What About Disability Benefit ?

Pension Benefits	Current System	Proposed Changes Board Bill No. 175 (revised)	Proposed Changes New Plan
Cost of Living Adjustments	<p>3% per year to age 60 then 5% up to max 25% after 60;</p> <p>(Each year limited by CPI; any amounts in CPI over limit can be applied to future years to max 25%)</p>	<p>If disability prevents work in any occupation – no change.</p> <p>Otherwise if 25 years of service or less: 1% per year to age 60 then 5% per year for 5 years</p> <p>If more than 25 years of service: 2 ¼% per year to age 60 then 5% per year for 5 years</p> <p>Same CPI provisions</p>	<p>Lesser of the annual increase in CPI or 3% per year up to a maximum aggregate of 25%</p>
Disability Benefit (reviews and offsets)	<p>Medical exam reviews. Reduction for earnings from subsequent employment so that total compensation does not exceed 150% of avg. compensation.</p>	<p>No change.</p>	<p>Medical exam reviews. Reduction for earnings from subsequent employment so that total comp. does not exceed 100% of pay; (e.g. cannot make more than before becoming disabled)</p> <p>Workers' Comp. payment offset (e.g. cannot be paid twice for same disability)</p>

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Firefighter Pension Plan Reform Proposal

Other Pension Reform Details:

Pension Benefits	Current System	Proposed Changes Current Employees	Proposed System New Employees
Multipliers	2% for first 25 years 5% for each additional year to maximum 75%; Unused sick leave (frozen as of Sept. 26, 2010) can be added to service	No Change	2% for first 25 years 2.5% for each additional year to maximum 75%; No sick leave credit applied to pension service
Average Final Compensation	Final 2 year average salary	No Change	Final 3 year average salary
Normal Retirement (unreduced annuity payable immediately)	20 Years – no age requirement	No change for benefit accrued prior to effective date; For service accrued on or after effective date, 20 Years and Age 55	20 Years and Age 55
Employee Contributions	Current contribution of 8% of pay refunded at retirement	To increase to 9% of pay All contributions made <u>before</u> effective date to be refunded upon retirement. No refund of contributions at retirement for contributions on or after effective date of change, balance to remain as benefit to system.	9%, not refundable at retirement; Refunded for unvested terminated members; optional refund in lieu of an early retirement pension or a vested deferred pension

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Firefighter Pension Plan Reform Proposal

Other Pension Reform Details (cont.)

Pension Benefits	Current System	Proposed Changes Current Employees	Proposed Changes New Employees
Vesting	20 years	No change.	10 years
Employee Terminating Employment Prior to 20 Years	Receives refund of contributions With interest	No change.	<p>If less than 10 years of service, refund of contributions with interest</p> <p>If 10 or more years of service (but before 20 years of service); option to receive: (a) refund of contributions with interest; or (b) vested deferred pension beginning at age 62</p>

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Firefighter Pension Plan Reform Proposal

Other Pension Reform Details (cont.)

Pension Benefits	Current System	Proposed Changes Current Employees	Proposed Changes New Employees
Early retirement pension	20 years and no age requirement.	No change except for actuarial reduction from Age 55 for future accruals.	If at least 20 years of service (but under age 55), a deferred pension beginning at age 55; with an option to receive an immediate pension actuarially reduced from age 55. Optional refund of contributions plus interest, in lieu of pension.
Sick leave conversion	<p>Three options for sick leave based on sick leave hours accrued as of Sept. 26, 2010: (date sick leave for pension benefit was frozen)</p> <ol style="list-style-type: none"> 1. 100% of accrued sick leave deposited into DROP account; 2. 50% of accrued sick leave deposited into DROP account and include 25% of sick leave in compensation and apply 25% of sick leave to buy service credit; or 3. 100% of sick leave applied to service credit for pension benefit (up to 30 yrs.) 	No change.	No sick leave conversion.

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Firefighter Pension Plan Reform Proposal

Other Pension Reform Details (cont.)

Pension Benefits	Current System	Proposed Changes Current Employees	Proposed Changes New Employees
Deferred Retirement Option Plan (DROP)	Can remain in DROP for 5 years while continuing to work and benefit paid into DROP account; employee contributions reduced to 1% of pay while in DROP; option to have 100% of accrued sick leave deposited into DROP account; or to have 50% of sick leave deposited into DROP account and include 25% in compensation and apply 25% to buy service credit.	No change except for actuarial reduction from Age 55 for future accruals.	No DROP plan.
Cost of Living Increases	<p>< 25 Years: 1.5% per year to age 60; 5% per yr. thereafter to max 25% after 60</p> <p>25<30 Years: 2.25% per year to age 60; 5% per yr. thereafter to max 25% after 60</p> <p>>30 Years: 3% per year to age 60; CPI or 5% per yr. thereafter to max 25% after 60</p> <p>(Each year limited by CPI; any amounts in CPI over limit can be applied to future years to max 25%)</p>	<p>No change except for disability retirees.</p> <p>For disability retirees, lesser of the annual increase in CPI or 3% per year up to a maximum aggregate of 25%</p>	Lesser of the annual increase in CPI or 3% per year up to a maximum aggregate of 25%

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Firefighter Pension Plan Reform Proposal

Other Pension Reform Details (cont.)

Pension Benefits	Current System	Proposed Changes Current Employees	Proposed Changes New Employees
Death Benefit	Widow(er) to receive 50% of compensation while a widow(er) plus 10% for each unmarried dependent child under age 18, up to 3 children	No change except that for those killed in line of duty, widow(er) benefit is increased 25%	No change except that for those killed in line of duty, widow(er) benefit is increased 25%
Valuation Method	Frozen Initial Liability Valuation Method	Entry Age Normal Valuation Method	Entry Age Normal Valuation Method

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Proposed Pension Reform Examples:

Example	Current System	Proposed Changes Current Employees	Proposed Changes New Employees
<p>EXAMPLE 1</p> <p>Age at Hire: 30 Age on Effective Date: 40 Service on Eff. Date: 10 Yrs. Age at Retirement: 55 Service at Retirement 25 Years</p> <p>Compensation: 2 Year Avg. Final \$70,000 3 Year Avg. Final \$69,000</p>	<p>Pension Start At Retirement: $2\% \times 25 \text{ yrs.} \times 2\text{yr AFC} =$ \$35,000;</p>	<p>Pension Start At Retirement: $2\% \times 25 \text{ yrs.} \times 2\text{yr AFC} =$ \$35,000;</p> <p>Contributions made after implementation date to be non-refundable at retirement.</p>	<p>Pension Start At Retirement: $2\% \times 25 \text{ yrs.} \times 3\text{yr AFC} =$ \$34,500;</p> <p>No return of contributions.</p>
<p>EXAMPLE 2</p> <p>Age at Hire: 25 Age on Effective Date: 35 Service on Eff Date: 10 Yrs. Age at Retirement: 55 Service at Retirement 30 Years</p> <p>Compensation: 2 Year Avg. Final \$75,000 3 Year Avg. Final \$74,000</p>	<p>Pension Start At Retirement: $2\% \times 25 \text{ yrs} +$ $5\% \times 5 \text{ yrs.} \times 2\text{yr AFC} =$ \$56,250;</p>	<p>Pension Start At Retirement: $2\% \times 25 \text{ yrs} +$ $5\% \times 5 \text{ yrs.} \times 2\text{yr AFC} =$ \$56,250;</p> <p>Contributions made after implementation date to be non-refundable at retirement.</p>	<p>Pension Start At Retirement: $2\% \times 25 \text{ yrs.} +$ $2.5\% \times 5 \text{ yrs.} \times 3\text{yr AFC} =$ \$46,250;</p> <p>No return of contributions</p>

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Proposed Pension Reform Examples:

Example	Current System	Proposed Changes Current Employees	Proposed Changes New Employees
<p>EXAMPLE 3</p> <p>Age at Hire: 25 Age on Effective Date: 35 Service on Eff. Date: 10 Yrs. Age at Retirement: 60 Service at Retirement 35 Years</p> <p>Compensation: 2 Year Avg. Final \$80,000 3 Year Avg. Final \$79,000</p>	<p>Pension Start At Retirement: 2% x 25 yrs + 5% x 5 yrs. x 2yr AFC = \$60,000;</p>	<p>Pension Start At Retirement: 2% x 25 yrs + 5% x 5 yrs. x 2yr AFC = \$60,000;</p> <p>Contributions made after implementation date to be non- refundable at retirement.</p>	<p>Pension Start At Retirement: 2% x 25 yrs. + 2.5% x 10 yrs.x 3yr AFC = 59,250;</p> <p>No return of contributions.</p>
<p>EXAMPLE 4</p> <p>Age at Hire: 25 Age on Effective Date: 35 Service on Eff Date: 10 Yrs. Age at Retirement: 45 Service at Retirement 20 Years</p> <p>Compensation: 2 Year Avg. Final \$65,000 3 Year Avg. Final \$64,000</p>	<p>Pension Start At Retirement: 2% x 20 yrs x 2yr AFC = \$26,000;</p>	<p>Pension Start - Age 45: Benefit for years accrued prior to change: 2% x 10 Yrs x 2yrAFC = \$13,000 For years accrued after change: 2% x 10 yrs x 2yrAFC = <u>\$ 5,478*</u> Total \$18,478 (*actuarially reduced prior to age 55)</p> <p>Pension Start - Age 55: Benefit for years accrued prior to change: 2% x 10 yrs x 2yrAFC = \$13,000 For years accrued after change: 2% x 10 yrs x 2yrAFC = <u>\$13,000</u> Total = \$26,000</p> <p>Contributions made after implementation date to be non- refundable at retirement.</p>	<p>Pension Start - Age 45: 2% x 20 yrs x 3yrAFC = \$10,787*</p> <p>(* actuarially reduced prior to age 55)</p> <p>Pension Start - Age 55: 2% x 20 yrs. x 3yr AFC = \$25,600;</p> <p>No return of contributions.</p>

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Firefighter Pension Plan Reform Proposal

Projected Impact on Contributions: (based on 10/1/10 results)

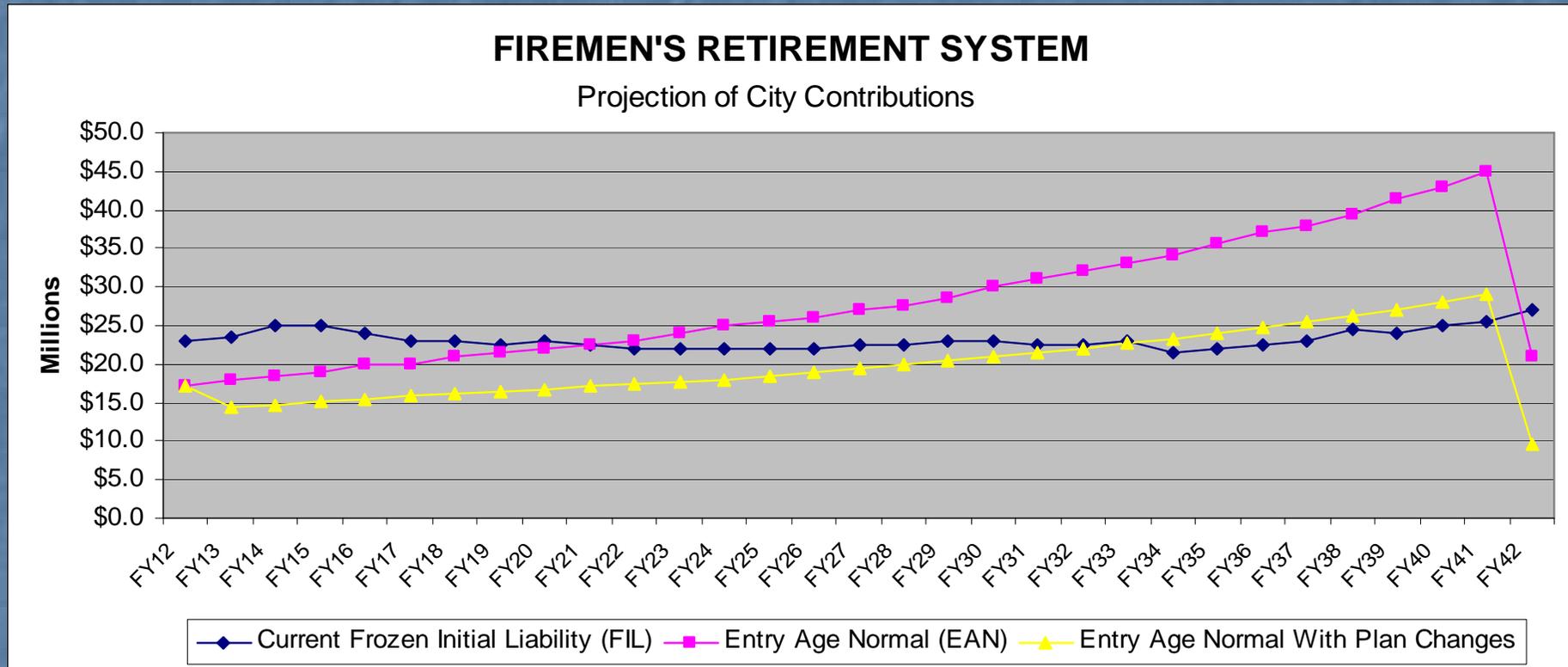
- Switch to EAN - \$5.3M
 - assumes amortization of unfunded accrued liability at level % of payroll (i.e. will increase over time)
- Plan Changes - \$4.1M
- Total Contribution Impact Summary:

	<u>Total</u>	<u>Chg.</u>
Current Plan - FIL Method	\$23.1M	
Current Plan - EAN Method	\$17.8M	(\$5.3M)
Proposed Plan - EAN Method	\$13.7M	<u>(\$4.1M)</u>
		(\$9.4M)

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Firefighter Pension Plan Reform Proposal

Projected Impact on Contributions: Long Term



Based on Summary of Fire Retirement System Actuarial Report dated 2/15/11, utilizing plan data as of 10/1/10.
 EAN methods assume amortization of the unfunded actuarial accrued liability over a 30 year closed period on a level % of payroll.

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Firefighter Pension Plan Reform Proposal

Process and Next Steps:

- Legislation: Two Proposed Board Bills:

Board Bill #270 : Withdraws from existing plan; freezes existing benefits;

Board Bill #271 : Establishes new plan benefits and incorporates accrued benefits of old plan;

- Communications: Materials to be developed for plan members