



Palm Beach CIVIC ASSOCIATION

Improving Life in Palm Beach Since 1944

Town Of Palm Beach PENSION PLAN

Al Parven

Civic Association Director

PROJECT MISSION

To provide options to the Town's
Finance & Taxation Committee on the
pension plans for Town Employees:

- General Employees
- Lifeguards
- Police
- Fire-Rescue



What is the Environment?

- ❖ Both public and private pension systems across the country are under stress.
- ❖ Most towns and cities are expressing great concern; municipalities are struggling to meet their commitments within budget restraints.
- ❖ Palm Beach has to face it too – our Town is not immune.



Some Current Articles

- ❖ **Pension Crash, by David Seifman**
 - “City faces GM-like ruin, [Mayor’s] aide warns”
 - New York Post, April 3, 2009, p. 7
- ❖ **Pension Bills to Surge Nationwide, by Craig Karmin**
 - “Many states and cities face hard choices because of market declines”
 - Wall Street Journal, March 15, 2009, p. 1
- ❖ **Prescription for Disaster, by Mike Vogel**
 - “Will too-generous pension and disability benefits turn Florida’s cities into municipal equivalents of General Motors?”
 - FloridaTrend.com, March 2009, pp.66-69
- ❖ **Gilt-Edged Pensions, by Stephane Fitch**
 - Forbes, February 16, 2009, p. 78
- ❖ **Florida’s Looming City Pension Crisis**
 - Florida League of Cities [2009 brochure?]



What are the critical success factors for resolving this problem in Palm Beach?

- 1. Maintaining the ability to attract and retain employees.**
- 2. Affordability of the cost to the Town.**
- 3. Fulfilling commitments to existing Town employees.**



What are the issues to be dealt with?

- ❖ **The Town's pension programs have been successful up to now: employees have been happy with their plans. The problem is the cost to the Town, which has recently (2002 to 2009) increased by \$5.8 million.**
 1. **Employees are happy that the Town has these plans in place, but can the Town keep these commitments?**
 2. **Will any change in the plans hinder the Town's ability to attract and retain high-caliber employees?**
 3. **There is also concern that the Town is not retaining its employees longer in the system because the plans encourage early retirement.**
 4. **Current management of overtime hours provides the potential to game the system for higher retirement benefits.**



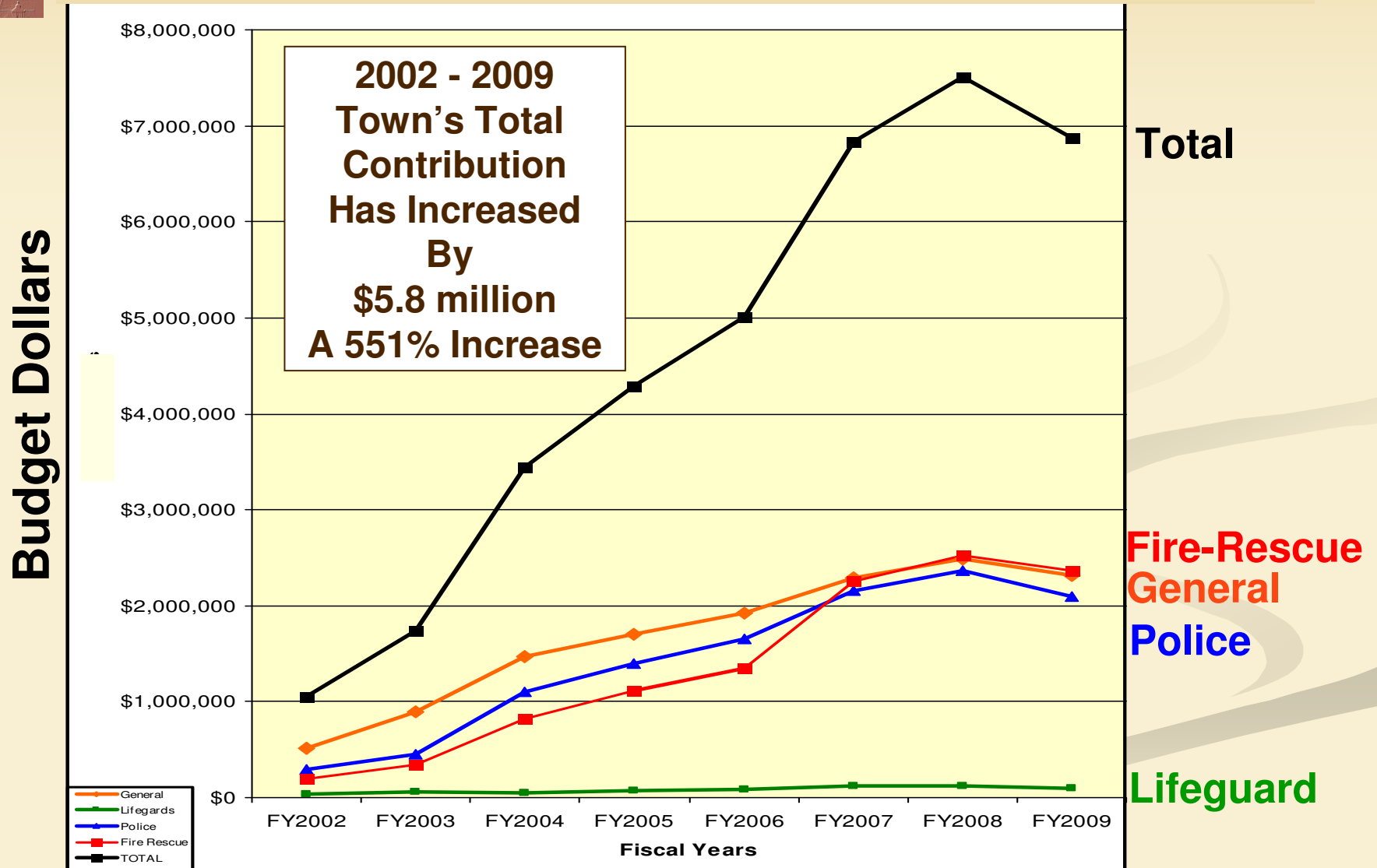
History Back to 1990

- ❖ **1990 – 2002 That decade was overall flat.**
- ❖ **FY2000 funded ratio 125% for General and Lifeguards. 112% for Police and Fire-Rescue.**
- ❖ **General Pension environment at that time in private and public sectors**

**The following graphs are based
on Town budget figures for the
costs of funding the
Three Retirement Plans.**



Town Retirement Funding History FY2002 to FY2009





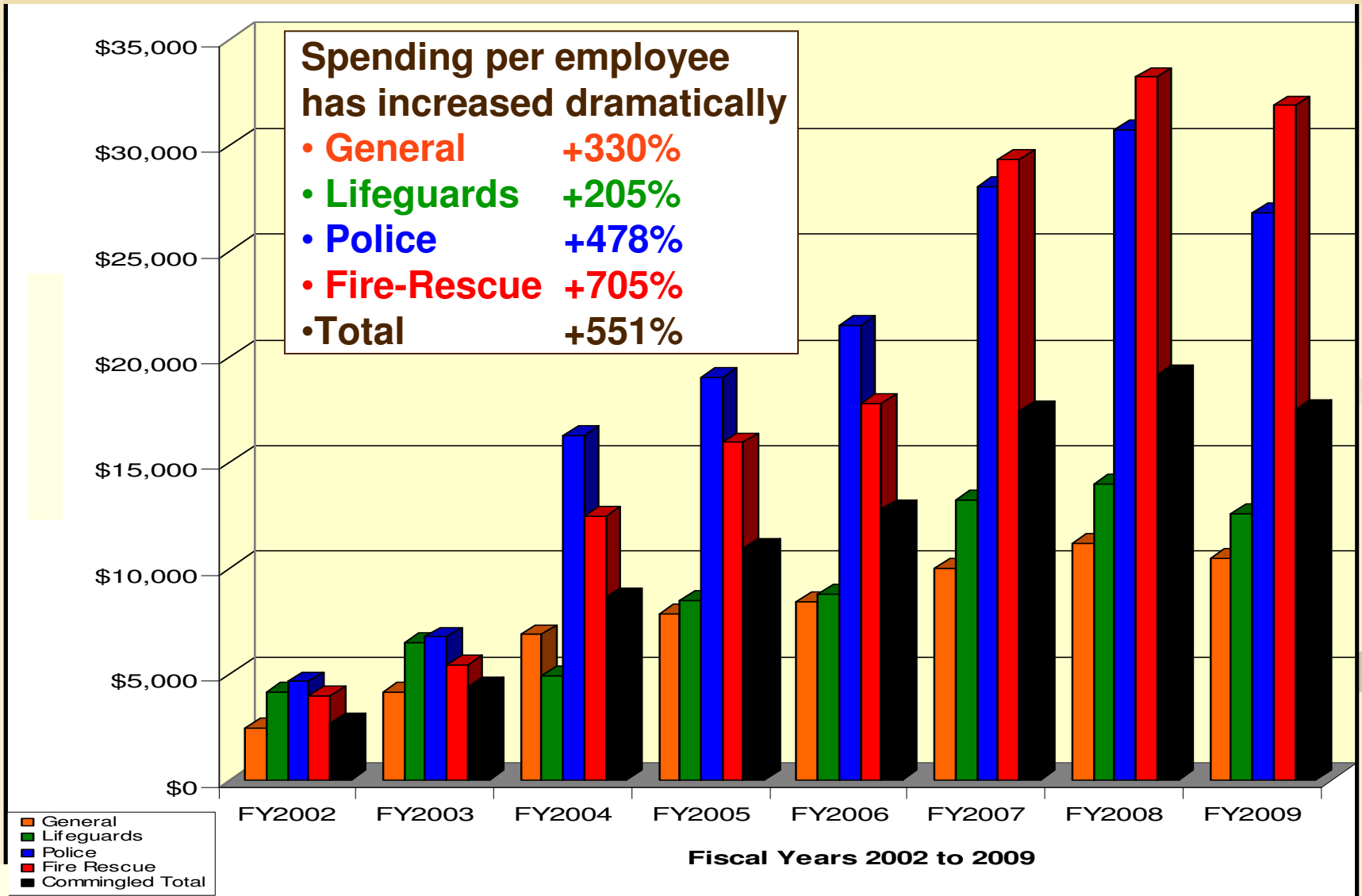
Town Retirement Funding History FY2002 to FY2009 - Detail

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
General	\$516,344	\$893,843	\$1,475,454	\$1,705,300	\$1,919,026	\$2,296,302	\$2,488,986	\$2,319,374
Lifeguards	\$41,336	\$58,142	\$44,204	\$76,252	\$87,955	\$118,863	\$125,916	\$100,754
Police	\$299,892	\$452,334	\$1,106,450	\$1,395,026	\$1,652,583	\$2,158,494	\$2,366,346	\$2,090,160
Fire Rescue	\$197,289	\$337,218	\$822,201	\$1,116,151	\$1,351,449	\$2,258,786	\$2,525,215	\$2,359,327
TOTAL	\$1,054,861	\$1,741,537	\$3,448,309	\$4,292,729	\$5,011,013	\$6,832,445	\$7,506,463	\$6,869,615



Town Funding per Employee FY2002 to FY2009

Dollars per Employee





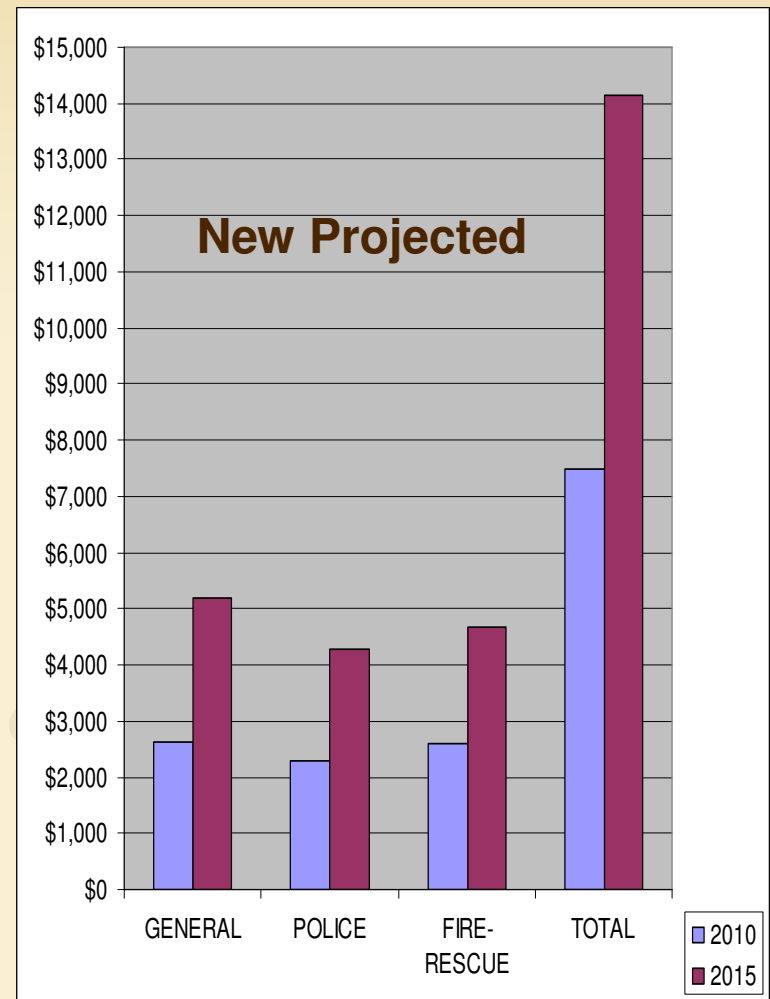
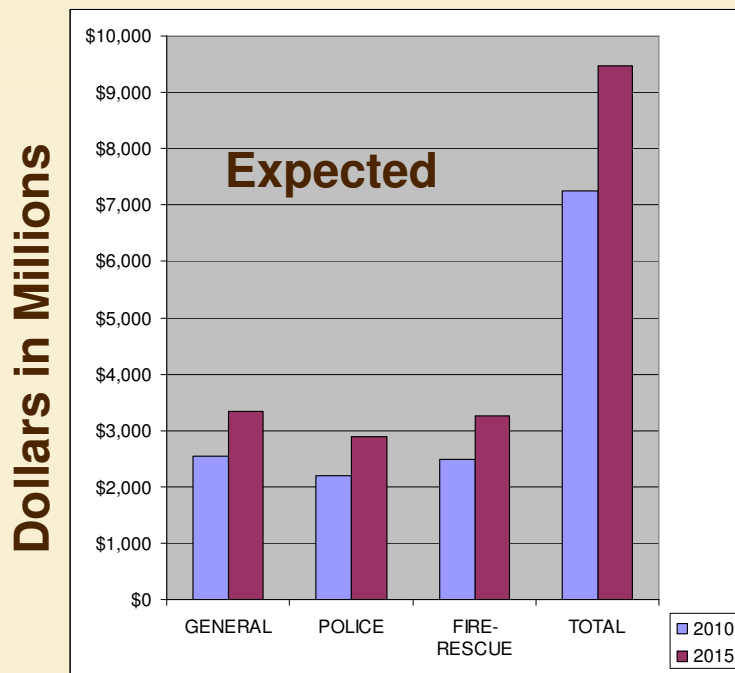
Town Funding per Employee FY2002 to FY2009 - Detail

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
General	\$2,437	\$4,134	\$6,871	\$7,822	\$8,417	\$10,014	\$11,179	\$10,491
Lifeguards	\$4,134	\$6,497	\$4,912	\$8,472	\$8,796	\$13,207	\$13,991	\$12,594
Police	\$4,638	\$6,751	\$16,271	\$19,023	\$21,462	\$28,032	\$30,732	\$26,797
Fire Rescue	\$3,959	\$5,439	\$12,458	\$15,945	\$17,782	\$29,335	\$33,227	\$31,883
Commingled Total	\$2,677	\$4,375	\$8,621	\$10,951	\$12,783	\$17,430	\$19,149	\$17,525



Retirement Fund Contributions

Total Expected and New Projected 2010 -2015



❖ Total Cost Expected 2010: \$7,248,000

❖ Total Cost Expected 2015: \$9,513,000. Increase \$2,265,000 [+31%]

❖ New Projection 2015: \$14,137,000. Increase \$6,689,000 over FY2010 [+95%]



Impact of Increased Town Retirement Contribution on Long Term Financial Plan (LTFP)

	FY2009	FY2010	FY2011	FY2012	FY2013
LTFP Revenues	\$67,335,600	\$66,674,543	\$67,389,182	\$68,864,875	\$70,677,654
Updated Retirement Contributions With New Projections	\$6,869,615	\$7,619,615	\$8,869,615	\$10,169,615	\$11,469,615
Percent of Total Budget	10.20%	11.44%	13.33%	14.38%	15.28%
Amount Needed to Balance Budget		\$74,460	\$642,931	(\$2,596,649)	(\$5,591,974)



Summary – Projected Final Numbers

Percentage of Projected Payroll

	Actual 2009	Projected 2010	Projected 2015
General	17.6%	19.1%	28.9%
Police	36.2%	37.3%	53.6%
Fire-Rescue	39.1%	40.5%	56.1%

Projected Dollar Amount

	Actual	Projected 2010	Projected 2015
GENERAL	\$2,420	\$2,626	\$5,192
POLICE	\$2,090	\$2,277	\$4,275
FIRE-RESCUE	\$2,360	\$2,582	\$4,670

It is now projected that the contributions for all plans will be \$14,137,000 in 2015.



The Options

1. **Status quo:** Retain the defined benefit plan for existing and future employees.
 - **PRO:** Employees would be happy and attraction & retention would be high.
 - **CON:** The long-term cost is not sustainable without substantial impact on the budget and taxes.

2. **Implement a Defined Contribution Plan for all existing and future employees.**
 - **PRO:** It would stabilize Town expenditures and, if properly managed, would be budget neutral.
 - **CON:**
 - ❖ The Town would be in a less competitive position for attraction & retention of new employees.
 - ❖ The portability of pensions may lead to lower rates of retention for existing employees.
 - ❖ There would be no safety net for employees' retirement.
 - ❖ There would be a substantial cost to Town to pay off current obligations.



The Options (continued)

3. **Hybrid Plan:** Many specific plans could be considered but, for example:

- Leave the DB plan in place for current employees, taking into account the need to improve the management of overtime and to examine the vesting and retirement schedules.

AND

- Introduce a minimum DB plan or annuity in addition to a DC plan for new employees.

- **PRO:**

- ❖ There is evidence that other municipalities are taking this direction.
- ❖ It would provide a safety net for future employees (DB or an annuity) while offering the opportunity to self-manage.
- ❖ If properly structured, it should curtail the rising costs of the existing pension

- **CON:**

- ❖ Some existing employees do not favor a two-tier system, even for new employees.
- ❖ It would add to the administrative burden.

- ❖ **Clearly the Finance and Taxation Committee should consider retaining a consultant to flesh out the details of any plan.**