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CITY OF GAINESVILLE
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FLORIDA

Inter-Office Communication

Administrative Services *334-5013* *Box 7*

To: Honorable Mayor and Members of the City Commission

From: Becky L. Rountree
Administrative Services Director

Via Russ Blackburn, City Manager

Date: October 22, 2009

SUBJECT: Addition of Temporary Service to Eligible Pension Service

On October 1, 2009 during the citizen comment portion of the City Commission meeting, employee Judy Raymond requested the City consider including temporary service time as credited service in the City's General Employee's Pension Plan. The request was made for her and other employees with similar circumstances. A review of the record indicates she identifies the similar situated employees as "those who were hired in a temporary position that was ultimately converted to a regular position". Coupled with the request for the additional pension credits, a request was made to allow participation in the early separation incentive which was offered to employees who met certain eligibility criteria and ended on September 30, 2009. Total pension credits requested equals five years in this case, the additional credits would vary based on each effected members actual temporary time.

Members of the Plan and Credited Service

The General Pension Plan has a section entirely devoted to membership and service. Section 2-523 explains in detail who is and is not a member of the Plan. According to Section 2-523 (a) (3), an eligible member is any person hired as a regular employee on the first day of the month following (or coinciding with) the date of the employment as permanent employees. That is, once an individual becomes a permanent/regular employee, they are eligible for membership in the plan. In some cases, certain employee classes required an affirmative election to become members of the Plan. Typically, these classes of employees included those who had the choice between a deferred compensation program (either the 401A or 457 Deferred Compensation Plan) or the General Pension Plan. In all cases, access to any pension or deferred compensation program required employment in a regular/permanent position. Finally, within Section 2-523 (d) the Plan specifically addresses temporary, part-time and seasonal employees as "not members of this plan" and further goes on to specify that he/she shall not receive credited service for the period of employment as such. There is an exception for period of employment in the 1970's while a "CETA" employee. Research indicates that including this time for employee benefits purposes was a condition of receiving CETA funds.

In general, pension credit service time includes all eligible time when the employee and/or the employer were making contributions to the pension fund. As a non eligible employee, individuals in temporary position(s) did not make contributions to the plan consistent with their status as non eligible members, nor were employer contributions made during such period. Staff could not find any instance of ineligible service time being provided to current or former employees without including a requirement for payment.

Request for access to Voluntary Early Separation Incentive

In addition to the request for temporary time, there was an additional request to also allow for participation in the voluntary early separation incentive. This was a plan amendment approved by the City Commission in August. The original intent was to provide additional pension service to qualified employees in exchange for a voluntary termination of employment no later than December 31, 2009. The amendment had a specified application period which recently expired. Extending the application period would require an amendment to the ordinance and could be incorporated into the other proposed changes as directed. It would require a retro date and also require a new election period for effected employees. The new election period could apply to everyone who meets the qualifying criteria or just those who now qualify as a result of the temporary service credit change. Either way, staff would have to re-notice all eligible employees.

Create a Temporary Time Buy Back Program

There are two options to consider with respect to temporary time for pension service credit; 1) the purchase of temporary service time and 2) gifting of temporary service time at no cost to the employee. There is no precedence for the gifting of time in the City's plan, other than the 1970's CETA related time described earlier and more recently, in the Consolidated Police Officers and Firefighters Retirement Plan, for active military service during their employment with the City. It should be noted that there was no employee contribution to the plan during the time frame in which CETA employees were given their CETA time and the changes to the Consolidated pension plan were mandated by Florida Statute(s) 175 and 185.

In the case of the option to purchase temporary service time, the Plan already has buy back programs that could be used as a model. There are two types of buy backs.

1.) Buy-back of regular/permanent service with the City of Gainesville where the employee was eligible for participation in the plan but elected one of the other pension options offered. Typically these eligible employees participated in either a deferred compensation plan (457 Plan) or a defined contribution plan (401A). This buy back requires the employee to purchase, in full year increments, their eligible time at the actuarial present value of the earned benefit. The purchase cost is determined by the funds actuary and paid for by the employee in a lump sum payment. Once the employee has re-entered the pension plan they will continue to add credited service to their final benefit as long as they remain an eligible member.
2.) Buy-back of what is typically referred to "air time" purchases. This allows current members to purchase additional qualified pension credit for service or time when they were not an eligible employee. The military buy back program is an example of air time purchases. The time purchased was not concurrent with the individual being an eligible employee. Eligible service purchases and air time service purchase are different in the way the time can be used. Under the military buy back provision, the time can be purchased upon vesting in the plan, however, the time is only applied to pension service after an employee has met normal retirement (20 yrs) or age 55 whichever comes first. The purchased time cannot be used to meet normal retirement until an individual is 55 years old. Once the conditions have been met the time is credited as any other time for benefit purposes. Purchased military time cannot decrease the actual time needed to qualify for retirement.

The purchase of Temporary time would be similar to an air time purchase. A temporary employee is not an eligible employee as defined by the pension plan and this is clearly stated in both the pension plan and the temporary job offer and conditions of employment. I have included the two temporary employee job offers signed by Ms. Raymond on June 3, 1991 and January 24, 1992 respectively which include the conditions of employment agreed to by both parties at the time of the job offer. All temporary employees sign a job offer and conditions of employment agreement.
As such, it is appropriate to treat this buy back in the same manner as military buy back. In the case presented to the City Commission, the purchase option would not help the employee with respect to the Early Separation Incentive Program as she does not have the minimum of twenty years of service or meets the age requirements for the "use" of this time for benefit purposes.

Amendments to the General Employees' Pension Plan

Should the City Commission decide to allow for temporary time to count towards pension credit service it would require an amendment to the General Employee Pension Plan. Since, if only the affected employees and/or the City absorbed the cost of the changes, this could be treated as a minor change to the plan that won't impact employee contribution rates, the City would not be required to collectively bargain the change, but would provide the proposed amendments to the plan to the collective bargaining representatives whose members participate in the Plan. Currently, those bargaining units are the Communication Worker's of America (CWA) both general body and supervisory personnel and the Amalgamated Transit Union (ATU). The proposed amendments would be provided to the collective bargaining units at a minimum of thirty days prior to final adoption of the City Commission. In addition, as this is a change to the pension plan, the City would be required to obtain an actuarial impact statement prior to implementation of the new benefits provided in the changes.

Below are the required steps and estimated timeline to complete the process to amend the Plan.

1) Prepare agenda item to discuss pension service credit for temporary service time for City Commission consideration. – Estimated Completion date November 1st.
2) Direction from the City Commission regarding any proposed changes to the Pension Ordinance. – November 19th.
   a) Discuss and define the parameters of the change.
      i) Type of temporary service and individuals who would be eligible.
      ii) Option to Purchase by employee or granted by the City.
      iii) Minor change or a change that requires collective bargaining.
   b) Direct the City Attorney's Office to draft the proposed ordinance.
3) Identify the stakeholders. This will require staff to research all employee personnel files to examine types of temporary service and potential eligibility. Research if and how other public pension plans treat temporary time with respect to pension service credit. – Estimated completion date December 18th.
4) Obtain Actuarial Impact Statement from the Plan Actuary. By statute, prior to implementing any enhancement in benefits, the pension plan must get an actuarial impact study completed and certified that estimates the additional liability associated with the enhanced benefit. The impact statement must be completed prior to the second reading of the ordinance. – Estimated Completion Date February 17th.
   a) If the amendment allows the employee the option to purchased temporary service time, the actuarial value must be calculated for each individual.
   b) If the amendment grants temporary service time, the actuarial value must be calculated to determine the increase in the City's pension contribution rate to pay for the benefit.
5) Prepare Ordinance & Distribute to Collective Bargaining Representatives – Estimated Completion Date January 19, 2010. (Minor changes are provided to the respective collective bargaining representatives for informational purposes 30 days prior to the second reading of the ordinance.)
6) First Reading of Pension Plan Amendment Ordinance – February 4, 2010
7) Second Reading of Pension Plan Amendment Ordinance - February 18, 2010.
8) Notify eligible participants of change and implement change.

In summary, the process to change the definition of credited years would take approximately four months and would include defining what service would be counted, obtaining an actuarial impact statement, drafting and approving the authorizing ordinance and finally implementing the approved changes. By comparison, the project timeline for the most recent amendment for voluntary separation took approximately eight months from concept to final approval, and the military buy back amendment was negotiated over a more than two year period.

Cost Analysis of Additional Time

A cost analysis of the employees request has been completed by staff. The cost analysis compared the earned benefit as of October 1, 2009 and the requested benefit based on adding both the temporary service and the additional three years voluntary separation incentive. There are two components that drive the vast difference in the earned vs. requested benefit. The first component is the additional years of service which adds approximately $484 per month to the annuity payment. The second is the acceleration of those annuity payments when the five years are added to the eligible service. By adding the five years of service, the plan will be required to make an estimated 213 additional annuity payments to the member. This occurs because as a vested member with less than twenty years of service, the annuity payments would not otherwise begin until age 65. By giving the additional five years this adds approximately 17 years to the annuity stream. It is the immediate payment of the annuity that drastically impacts both the additional value to the employee and additional liability to the plan.

Over this employee's expected life time the total additional payments will exceed $495,000 above the benefit earned and paid as prescribed in the plan, thus creating an additional net present value to the employee of over $353,000. The analysis assumes a life expectancy of 80 years of age and uses a discount of 3%. The discount was a proxy for inflation.

Staff also looked at the impact to the pension plan of this enhanced benefit. The analysis focused on the difference in the funds needed in the plan as of October 1, 2009 to fully fund the enhanced benefit. As the funds won't be deposited immediately, the additional benefit will create an unfunded liability. The unfunded liability was calculated comparing the funds needed to pay the earned benefit versus the funds needed for the enhanced benefit. Utilizing the same life expectancy and the Plan's assumed earnings rate (9.25%) as the discount factor, the additional liability associated with these enhancements is estimated to be approximately $204,000. Given the increase in the estimated liability, the purchase price of the additional years may fall around $20,000-25,000 per year.

Conclusion

The requested changes to the pension plan could be made by amending the pension plan based on City Commission direction. An aggressive timeline would suggest the proposed amendments could be completed and ready for implementation in four months. Items for City Commission consideration and direction include:

1) Does the City Commission want to include Temporary Time as pension credited service?
2) If so, how would this time be defined and would there be a limit to how much temporary time would be included in pension credit service?

3) Would the time count towards vesting , benefit eligibility or just benefit calculation?
4) Should the time be "granted" or should the employee pay for the time?
5) If purchase option is chosen, should the time be treated as a concurrent purchase or an "air time" purchase?
6) Should the City reopen the voluntary separation program and to whom should the program be offered?
7) Should this time be included in access to any early separation incentives?

After direction all could be incorporated into the ordinance amendment for City Commission approval.

Recommendation

Staff recommends the City Commission take no action with respect to this request. Cost will be significant. Based on the analysis of this one employee, the impact is over $200,000. Staff cannot estimate the total cost until all effected employees can be identified. Considerable staff time would also be required to determine eligibility including the review of all employee personnel files. Adding unplanned enhanced benefits to the pension plan should be considered only in extreme circumstances and with the full knowledge that they may carry potential negative impacts for the plan's fiscal health.

If any of you wish to have this subject placed on a future City Commission agenda for further discussion, please let me know. If you have any questions regarding this analysis, feel free to call me at x5870.

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