

**To the Mayor and Members of the City Council**

**July 10, 2012**

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**SUBJECT: RESOLUTIONS NOTIFYING EMPLOYEES' RETIREMENT FUND OF PROPOSED BENEFIT CHANGES**

The City Council agenda for July 10, 2012, contains three resolutions providing 90-day notice to the Employees' Retirement Fund Board that the City Council is considering reductions to the benefits provided by the Fund. The City Council intends to consider the associated ordinance changes on October 16, 2012. It is anticipated that any adopted changes would be effective on or after January 1, 2013, depending on the timing of the cost-of-living adjustment selection process and the administrative effort required to implement any changes.

As a reminder, the proposed changes are intended for the Police Officers and General Employees only since the Fire Fighter benefits are currently protected by a Collective Bargaining Agreement. Negotiations with the Fire Fighters will commence in October of this year.

In summary, the resolutions are:

**1. Cost-of-Living Adjustments (COLA):**

| Police Hired Before 1/1/13                                |                | Police Hired on or After 1/1/13 | Generals Hired Before 7/1/11                              |                | Generals hired on or after 7/1/11 (already adopted) |
|---|----------------|---------------------------------|---|----------------|---|
| Past Service  | Future Service |                                 | Past Service  | Future Service |   |
| Selection for those on ad hoc COLA to revert to 2% simple | 2% simple      | 0%                              | Selection for those on ad hoc COLA to revert to 2% simple | 2% simple      | 0%  |

The selection process would occur in the Fall after the adoption of related ordinances. All retirees and members in the Deferred Retirement Option Plan will be allowed to participate in the selection process.

**2. Benefit Reductions**

The resolutions reflect the proposed benefit changes as outlined previously for the City Council. In addition, they maintain the death and disability benefits for in the line of duty incidents for current employees. All other reductions for retirements prior to the normal retirement date are reflected. A summary of the changes for each group is outlined in the table on the next page.

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|   | Police Hired Before 1/1/13 |                    | Police Hired on or After 1/1/13 | Generals Hired Before 7/1/11 |                    | Generals hired on or after 7/1/11 (already adopted unless marked *) |
|---|----------------------------|--------------------|---------------------------------|------------------------------|--------------------|---|
|   | Past Service               | Future Service     |                                 | Past Service                 | Future Service     |   |
| Compensation Base   | High 3                     | High 5             | High 5                          | High 3                       | High 5             | High 5  |
| Normal Multiplier   | 3%                         | 2.5%               | 2.5%                            | 3%                           | 2.5%               | 2.5%  |
| Vested Termination Drawing Benefits Before Normal Retirement Date | 2.75% plus penalty         | 2.25% plus penalty | 2.25% plus penalty              | 2.75% plus penalty           | 2.25% plus penalty | 2.25% plus penalty  |
| Death in Line of Duty   | 3%                         | 3%                 | 2.5%                            | 3%                           | 3%                 | 2.5%*   |
| Disability in Line of Duty  | 2.75%                      | 2.75%              | 2.25%                           | 2.75%                        | 2.75%              | 2.25%   |
| Death <u>Not</u> in the Line of Duty                              | 2.75%                      | 2.25%              | 2.25%                           | 2.75%                        | 2.25%              | 2.25%*  |
| Disability <u>Not</u> in the Line of Duty                         | 2.75%                      | 2.25%              | 2.25%                           | 2.75%                        | 2.25%              | 2.25%   |
| Overtime in Pension Calculation                                   | Yes                        | No                 | No                              | Yes                          | No                 | No  |
| Overtime Cash Account   | N/A                        | No                 | No                              | N/A                          | No                 | Yes but frozen for future contributions*                            |
| Survivor  | 75%                        | 75%                | Voluntary Actuarially Neutral   | 75%                          | 75%                | Voluntary Actuarially Neutral                                       |
| Minimum Retirement Age  | N/A (25 and out)           | N/A (25 and out)   | N/A (25 and out)                | N/A                          | N/A                | 55  |

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In addition to the base benefit changes outlined above, the following are provided for:

- For future Police Officers, "double-credit" to achieve the Rule of 80 for post-employment years for employees who separate from the City prior to retirement eligibility is eliminated. This was already addressed for General employees hired after July 1, 2011
- The current ordinance allows vested terminated employees to have pensions calculated with the formula in place at the time they begin drawing a benefit rather than the formula in place at the time of termination. The change will ensure their rights to benefits already earned are protected.
- Effective October 23, 2007, all non-vested and future employees became subject to a 12% cap on the year-over-year increases in the high-3 calculation for pension. As a result, all employees hired on or after October 23, 2002 (except Generals hired after July 1, 2011) could continue to be subject to this provision for high-3 calculations for service occurring prior to January 1, 2013. Staff stipulated that it is the intent to continue this provision but is studying the financial and administrative impact with the Employees' Retirement Fund to make a final recommendation for the ordinances.
- Current pension calculations include any compensation for which contributions are made by the employee and the City. Currently, this includes vacation sell-back and wellness pay which are voluntary and increase pay for reasons other than work performed. Staff is recommending that these two pays be explicitly excluded in the ordinance for Generals hired after July 1, 2011 and Police Officers hired after January 1, 2013, if applicable in the future.

**3. Fort Worth Police Officers' Association Proposal**

On Friday, June 29, 2012, the City received a formal proposal from the Fort Worth Police Officers' Association (POA) that proposes a series of contribution increases in lieu of many of the benefit changes. However, they have also proposed a handful of benefit changes for new Police Officers related to vesting period, minimum age to draw benefits and a cap on the maximum pension benefits. In addition, they have proposed to apply the 12% year-over-year cap for compensation base increases in the benefit calculation for future service of existing Police Officers. While these proposals are not consistent with the current proposal of the City Manager's Office, staff intends to study the financial consequences and engage in discussions with the POA on their merit. As a result, staff also recommends providing notice to the ERF Board that the City Council is considering these options for both Police Officers and General Employees in the event that they become viable alternatives.

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Separately, the City Council has indicated a concern about the long-term appropriateness of a 0% COLA for new General Employees hired on or after July 1, 2011 and new Police Officers hired on or after January 1, 2013. While that issue and how to fund it is being set aside until a later date, the POA expresses support for a COLA for new employees but with a 5-7 year deferral at the beginning of retirement. This will be taken into consideration at a later date and does not require additional notice to the ERF Board at this time.

If you have any questions, please call Assistant City Manager, Susan Alanis, at 817.392.8180.

**Tom Higgins**  
**City Manager**