

A Resolution

NO. _____

TO NOTIFY THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT FUND OF THE CITY OF FORT WORTH THAT THE FORT WORTH CITY COUNCIL INTENDS TO CONSIDER AND VOTE ON AMENDMENTS TO THE RETIREMENT ORDINANCE FOR FIRE FIGHTERS HIRED BEFORE JULY 1, 2014, AND FIRE FIGHTERS HIRED AFTER JULY 1, 2014, THAT WILL REDUCE A NON-ACCRUED BENEFIT PROVIDED BY THE RETIREMENT SYSTEM

WHEREAS, Article 6243i of the Texas Revised Civil Statutes applies to the Employees' Retirement Fund of the City of Fort Worth ("the Fund"); and

WHEREAS, Section 4.03 of Article 6243i of the Texas Revised Civil Statutes requires the City Council to notify the Board of Trustees of the Fund of the City Council's intent to consider and vote on any amendment to the administrative rules governing the Fund that would reduce a benefit provided by the retirement system; and

WHEREAS, the City's analysis projects the Fund to have an infinite funding period for the accrued unfunded liability (market value) if more conservative investment returns are assumed even without booking future potential ad hoc cost-of-living-adjustments (COLAs); and

WHEREAS, the City's analysis considered options to mitigate the risk of not meeting the Fund's investment return assumptions; and

WHEREAS, the City and the taxpayers of Fort Worth currently have the State constitutional obligation to honor earned benefits for employees should the Fund become insolvent and therefore have a critical interest in the affordability of the benefits that are offered to employees; and

WHEREAS, the City controls, within Constitutional constraints and as limited by collective bargaining or meet and confer agreements, the retirement benefits that are offered to employees; and

WHEREAS, the Employee Retirement Fund Board has the legal authority over the investment strategy and management oversight of the contributions once remitted to them; and

WHEREAS, the City Council has endorsed the goal of preservation of a defined benefit plan for employees; and

WHEREAS, the City Council has demonstrated commitment to this goal by increasing the City's contributions to the Fund by 5% of payroll in 2007, by 4% of payroll in 2010 and by making a one-time contribution of \$7 million in 2010; and



WHEREAS, these funding commitments have nearly doubled the City's annual financial commitment to the Fund over a period of four years, representing a \$39 million increased annual expense in FY2012 compared to FY2007; and

WHEREAS, the City has reduced retirement benefits for General Employees and Police Officers, with an understanding that fiscal realities would require the City to consider the same type of benefit reductions for Fire Fighters during the subsequent collective bargaining contract negotiations with the International Association of Firefighters Local 440; and

WHEREAS, the City eliminated cost of living adjustments for General Employees hired after July 1, 2011, and Police Officers hired after January 1, 2013; and

WHEREAS, the City also made changes to the cost of living adjustments for General Employees hired prior to July 1, 2011, and Police Officers hired prior to January 1, 2013, by assigning a 2% simple guaranteed annual adjustment for future accrued years of service; and

WHEREAS, in 2013, the City held a COLA selection process pursuant to section 2.5-8(b)(2) of the Retirement Ordinance for General Employees hired prior to July 1, 2011, and Police Officers hired prior to January 1, 2013, who were subject to the ad hoc COLA, which gave them the opportunity to select a 2% simple guaranteed annual adjustment for past service accrual; and

WHEREAS the City and the International Association of Firefighters Local 440 are parties to a Collective Bargaining Agreement; and

WHEREAS, during the collective bargaining negotiations in 2012 and 2013, regarding a successor Collective Bargaining Agreement, the City considered, in good faith, the pension proposals made by the International Association of Firefighters Local 440, and determined that those proposals did not address the numerous areas of concern that the City Council has consistently expressed about the future health of the Fund, and that those proposals did not present a solution that was consistent with the requirements of the applicable state statutes and constitution; and

WHEREAS, the International Association of Firefighters Local 440 and the City could not reach agreement on the pension issue during negotiations, which led to the declaration of an impasse; and

WHEREAS, after the expiration date of the Collective Bargaining Agreement the City can unilaterally make changes to prospective pension benefits, including cost of living adjustments; and

WHEREAS, the City may not unilaterally reduce its funding commitment to the fund per State law; and

WHEREAS, the City is unwilling to make additional financial contributions to the Fund due to risks to the City's long-term sustainability in terms of operations, staffing, infrastructure and tax rate competitiveness; and



WHEREAS, one of the impediments to improving the health of the Fund is the structure of the ad hoc cost-of-living adjustment (ad hoc COLA) option that was offered in 2007; and

WHEREAS, the ad hoc COLA was originally intended to allow retirees to share in the risk and reward of investment returns with an annual adjustment of 0-4% depending on the amortization period of the unfunded liability each year; and

WHEREAS, ad hoc COLAs to date have been triggered by the City's subsequent contribution increases and benefit reductions for future General employees---not investment returns as intended---diluting the effectiveness of those efforts to improve the health of the Fund; and

WHEREAS there was no ad hoc COLA awarded for 2013 based on the recent actuarial valuation of the Fund, and based on projections by the Fund's actuary, an ad hoc COLA will not be awarded for the next decade even if current Fund assumptions are met and no other changes are made; and

WHEREAS, current retirees who have the ad hoc COLA would have been materially the same since the inception of the program with a simple 2% COLA and all employees would be well-served from a predictable COLA during retirement; and

WHEREAS, the Fund will be able to more accurately project and book the cost of a simple 2% COLA to allow more accurate analysis of benefit modifications that can improve the health of the Fund; and

WHEREAS, in principle, the City believes it is important for employees to have a predictable COLA to facilitate long-term financial planning; and

WHEREAS the opportunity for any additional attempts to improve the health and security of the Fund for the members and the City cannot be considered until the ad hoc COLA dilemma is resolved; and

WHEREAS, in order to pay for 2% guaranteed annual adjustment and to improve the health of the Fund for the security of employees and the citizens of Fort Worth, additional benefit reductions are necessary for the future service accrual of existing employees

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FORT WORTH, TEXAS:

That this Resolution serve as Notification to the Board of Trustees of the Employees' Retirement Fund of the City of Fort Worth that the Fort Worth City Council intends to consider and vote on amendments to the Retirement Ordinance, at a meeting to be held on or after May 13, 2014:

- 1. To reduce benefits for future service accrued by current Fire Fighters hired prior to July 1, 2014 by:**
 - a. Changing the compensation base for determining pension benefits from highest three-year average to highest five-year average;**
 - b. Changing the multiplier for normal retirement from 3.0% to 2.5%;**
 - c. Changing the multiplier from 2.75% to 2.25% for vested termination prior to the employee's normal retirement date, commonly known as "early retirement";**



- d. Changing the multiplier from 2.75% to 2.25% for death while not in the line of duty or disability while not in the line of duty;
 - e. Elimination of overtime from the definition of earnings and from the pension calculation, other than the “built in” overtime that occurs when a suppression Fire Fighter works his or her regularly-scheduled shifts.
 2. To reduce benefits for Fire Fighters hired on or after July 1, 2014 as follows:
 - a. Changing the compensation base for determining benefits from highest three-year average to highest five-year average;
 - b. Changing the multiplier from 3.0% to 2.5% for normal retirement;
 - c. Changing the multiplier from 2.75% to 2.25% for vested termination prior to the employee’s normal retirement date, otherwise known as “early retirement”;
 - d. Changing the multiplier from 3.0% to 2.5% for death while in the line of duty;
 - e. Changing the multiplier from 2.75% to 2.25% for death while not in the line of duty unless the employee was eligible for normal retirement in which case the multiplier is 2.5%;
 - f. Changing the multiplier from 2.75% to 2.25% for disability while in the line of duty or not in the line of duty unless the employee is eligible for normal retirement in which case the multiplier is 2.5%;
 - g. Elimination of overtime from the definition of earnings and from the pension calculation, other than the “built in” overtime that occurs when a suppression Fire Fighter works his or her regularly-scheduled shifts, and no cash account;
 - h. Voluntary actuarially-neutral survivor benefit;
 - i. Changing the vested termination benefit for normal retirement to when the member’s age plus actual years of service with the City of Fort Worth total eighty (80) or age 65, whichever occurs first.
 - j. Modification of the definition of earnings to explicitly exclude vacation sell-back (if applicable in the future) and wellness pay.
 3. To stipulate vested terminated Fire Fighters who draw a benefit on their normal retirement date shall have pensions calculated using the benefit formula that was in effect at the time the member’s employment with the City terminated;
 4. To stipulate that active Fire Fighters who were hired before July 1, 2014 and become vested terminated employees on or after October 1, 2014 shall have pension calculations based on the following:
 - a. The benefit formula in effect on September 30, 2014 for all credited service that is earned or purchased on or before September 30, 2014
 - b. The benefit formula in effect at the time that credited service is earned or purchased on or after October 1, 2014
 5. To stipulate that Fire Fighters who are hired on or after July 1, 2014 and become vested terminated employees shall have pension calculations based on the benefit formula in effect on the date of termination;



6. To stipulate that Fire Fighters hired between October 23, 2002 and September 30, 2014 (inclusive) will continue to have a 12% cap applied for “high 3” calculation for service prior to October 1, 2014;
7. The City intends to modify benefits to assign a 2% guaranteed annual adjustment for future accrued years of service, beginning with service on October 1, 2014, for Fire Fighters hired before July 1, 2014.
8. All active Fire Fighters hired before July 1, 2014 who are subject to the ad hoc COLA will be offered the opportunity to select the 2% simple guaranteed annual adjustment for their past service accrual.
9. All Retired Fire Fighters who were members of the Bargaining Unit as defined in the 2010 Collective Bargaining Agreement, and who are subject to the ad hoc COLA will be offered the opportunity to select the 2% simple guaranteed annual adjustment based on their starting pension amount with the first payment occurring in January 2015.
10. Elimination of the cost of living adjustment for all Fire Fighters hired on or after July 1, 2014.

Adopted this _____ day of _____ 2014.

ATTEST:

By: _____

Mary Kayser, City Secretary

