

The Public Pension Crisis

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The Public Pension Crisis

- Public pension funds that cover retirement benefits for almost 20 million active or retired employees have been significantly underfunded.
- Latest estimate of unfunded pension and healthcare obligations for state and local government, is \$4.4 trillion (from Josh Rauh, finance professor at the Kellogg School of Management at Northwestern University).

How Has This Happened?

- Deterioration in investment performance:
 - Interest rates are at record lows
 - For years a growing economy propelled increases in stock prices. Market's collapse in 2007-2008 only recently recovered (somewhat).

How Has This Happened?

(continued)

- Number of retirees has risen
- Retirees are living longer (and mortality tables were not updated by some actuaries timely)
- To balance their budgets, many public entities have been laying off employees (thereby shrinking the number of people paying into their respective pension funds).

Some Definitions

- Types of Retirement Plans:
 - Defined Benefit Plan, promises a specified monthly benefit at retirement
 - Defined Contribution Plan, does not promise a specific amount at retirement. Employee or the employer (or both) contribute to an employee's individual account.

Government Plans Not Addressed Today

- ***Government plans in Volusia County that are in FRS or Defined Contribution Plans:***
 - Volusia County (FRS and Volunteer Fire DB fully funded)
 - Daytona Beach (Gen employees-FRS and DC)
 - Daytona Beach Shores (FRS and DC)
 - DeBary (DC)
 - Deltona (Gen employees-FRS and DC)
 - Holly Hill (Gen employees-FRS and DC)
 - Lake Helen (Gen employees-FRS)
 - New Smyrna Beach (Gen employees-DC and FRS)
 - Oak Hill (FRS)
 - Orange City (FRS)
 - Pierson (FRS)
 - Ponce Inlet (FRS and DC; Fire DB terminated 3/12)
 - South Daytona (FRS)

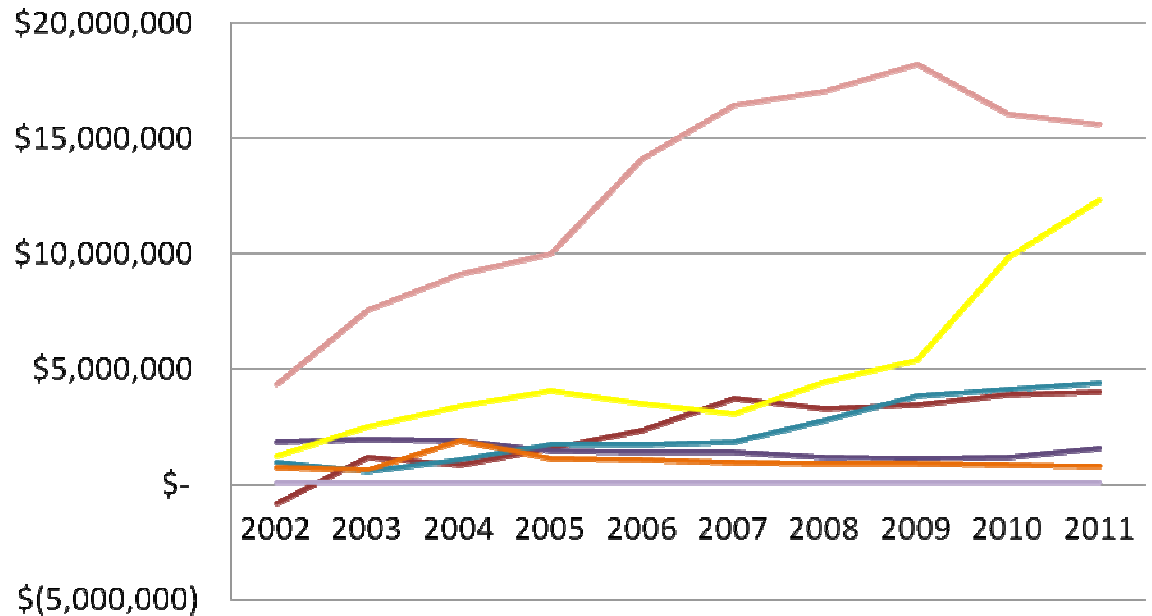
Government Plans Addressed Today

- Daytona Beach – Police & Fire DB (1 plan)
- DeLand – Gen Employees, Police, and Fire DB (3 plans)
- Deltona – Fire DB
- Edgewater – Gen Employees, Police, and Fire DB (3 plans)
- Holly Hill – Police and Fire DB (2 plans)
- Lake Helen – Police DB
- New Smyrna Beach – Police and Fire DB (2 plans)
- Ormond Beach – Gen Employees, Police, and Fire DB (3 plans)
- Port Orange – Gen Employees, Police and Fire DB (3 plans)

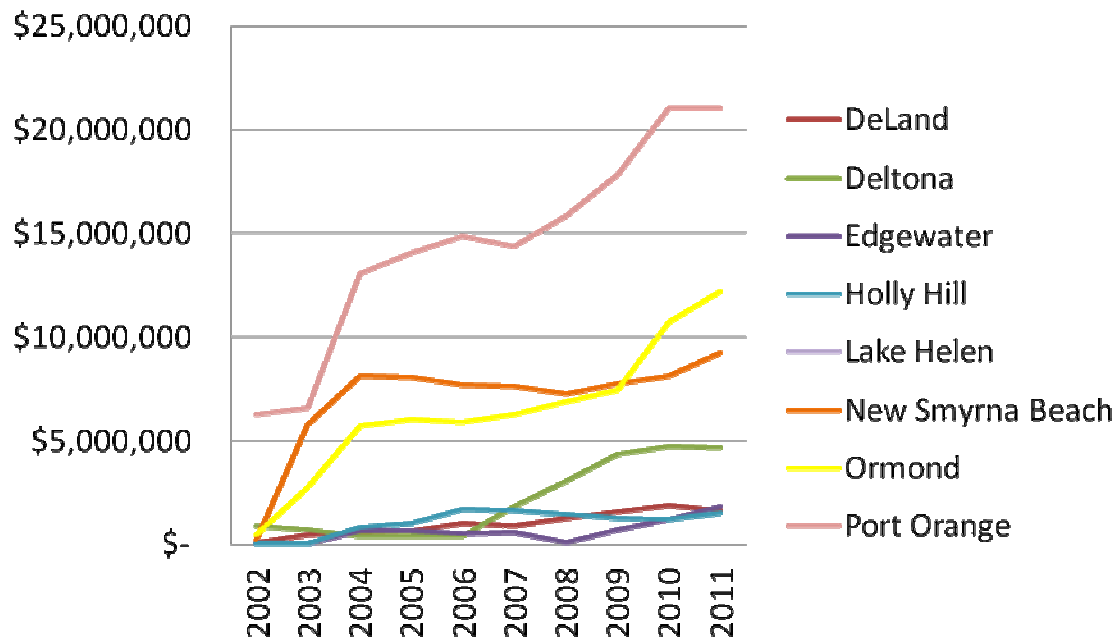
Defined Benefit Plans

Total Unfunded AAL

Police



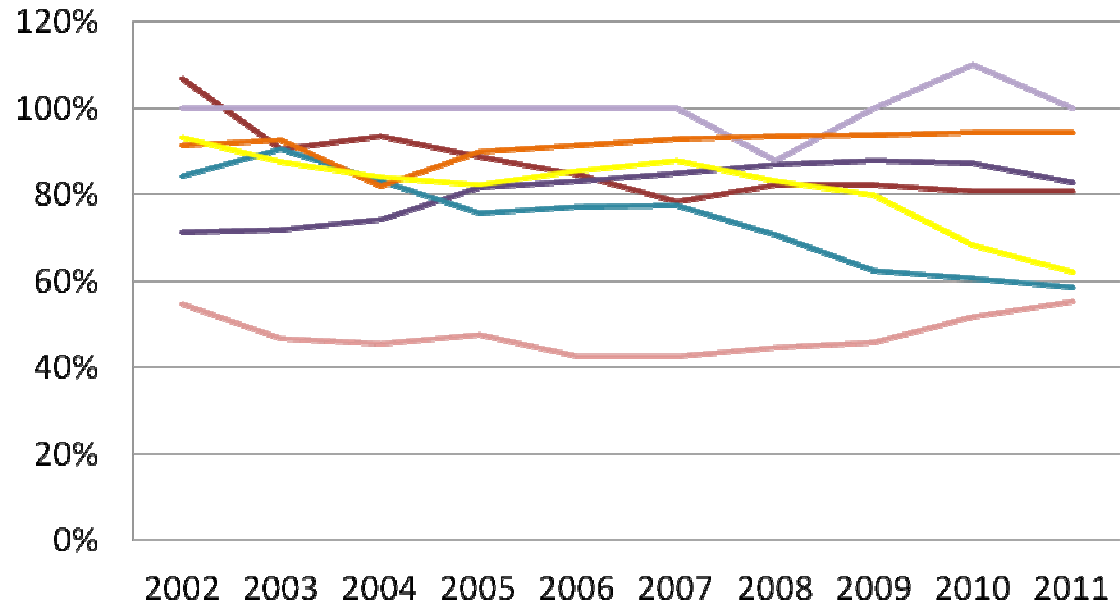
Fire



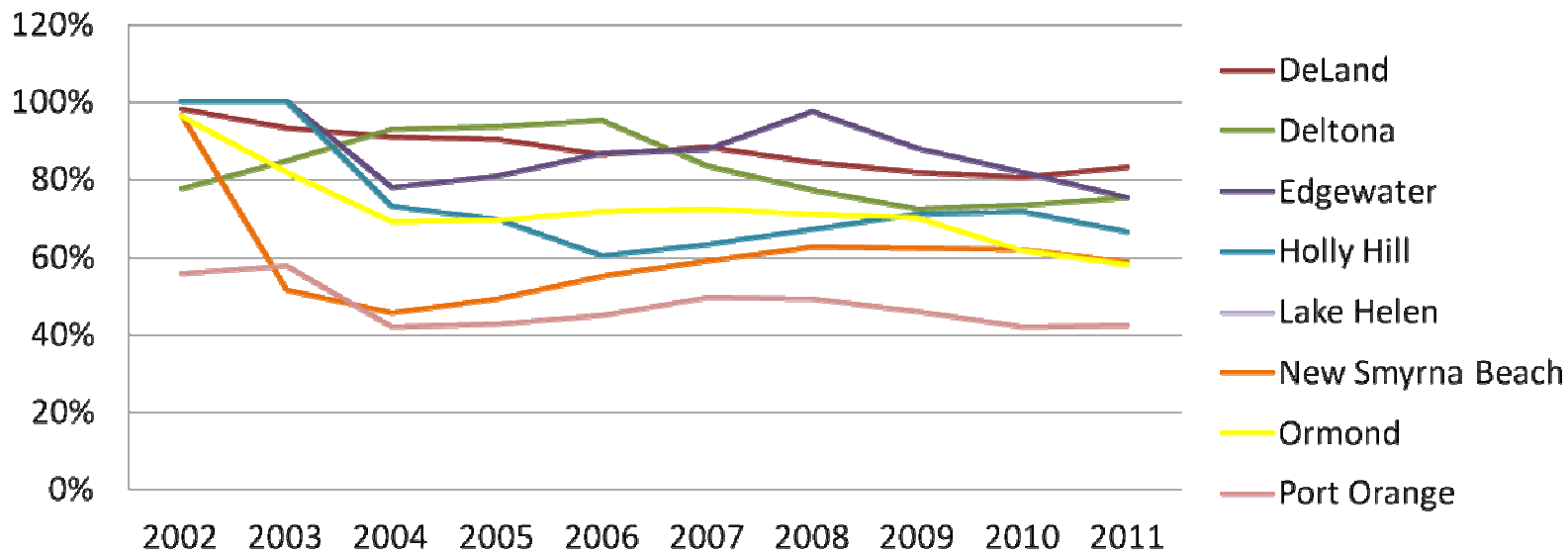
Defined Benefit Plans

% Funded

Police



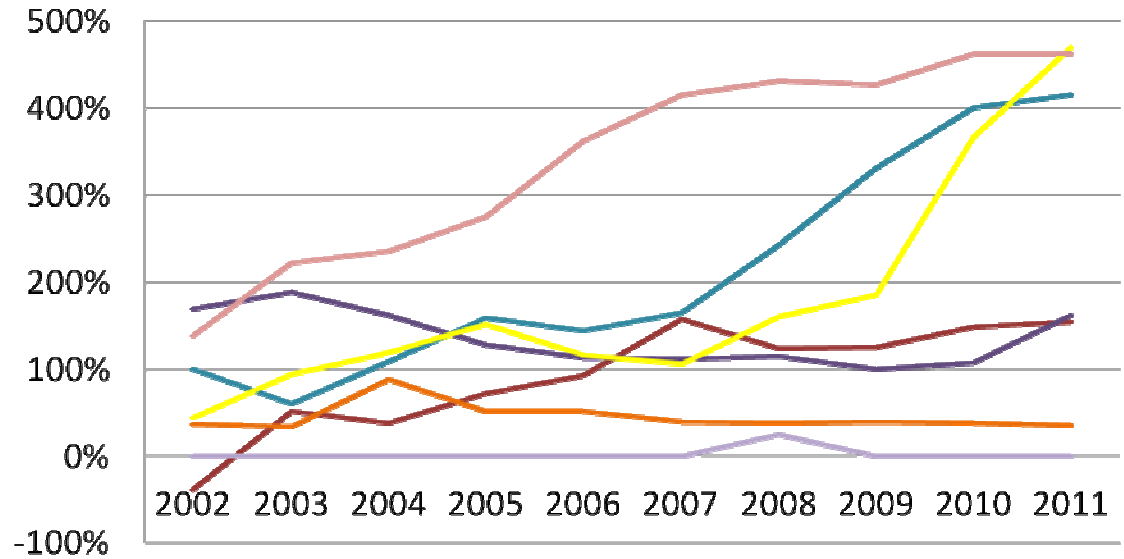
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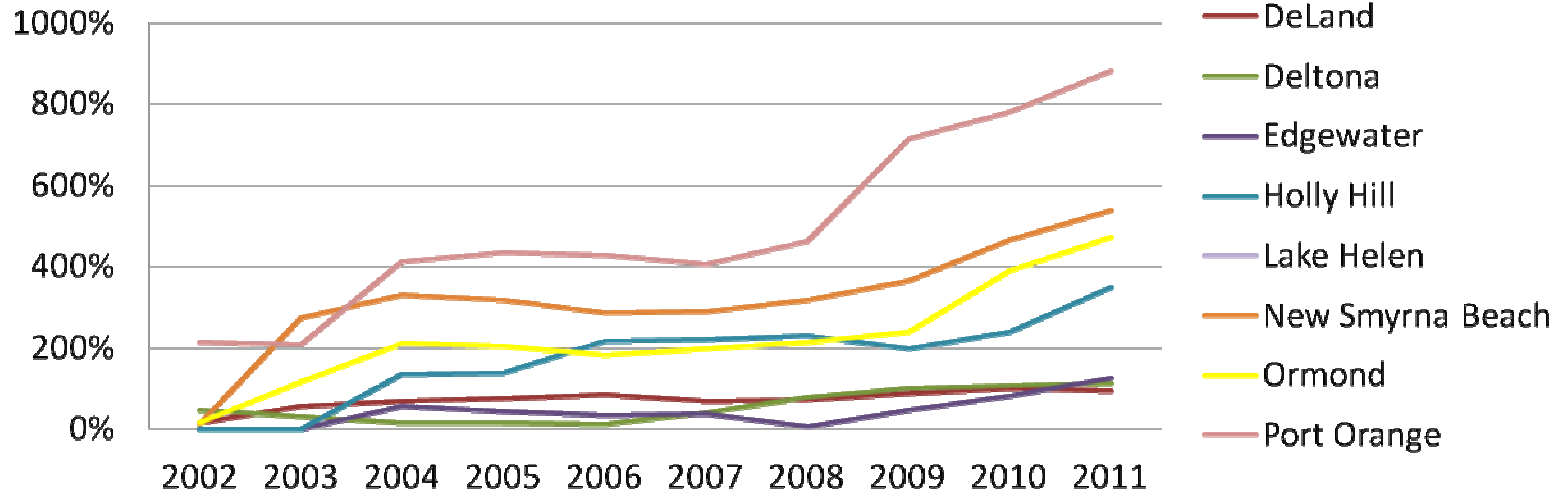
Defined Benefit Plans

Unfunded AAL as a % of Covered Payroll

Police



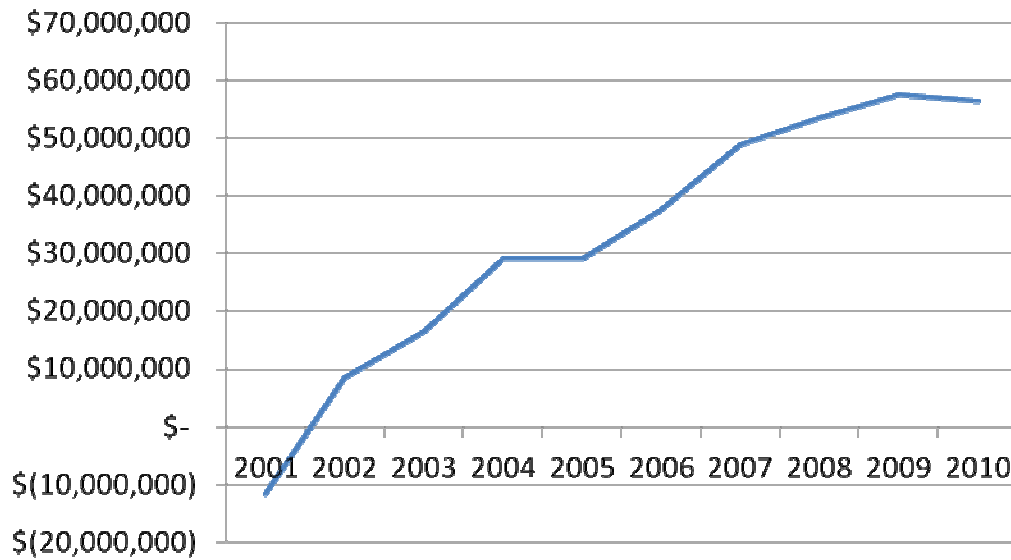
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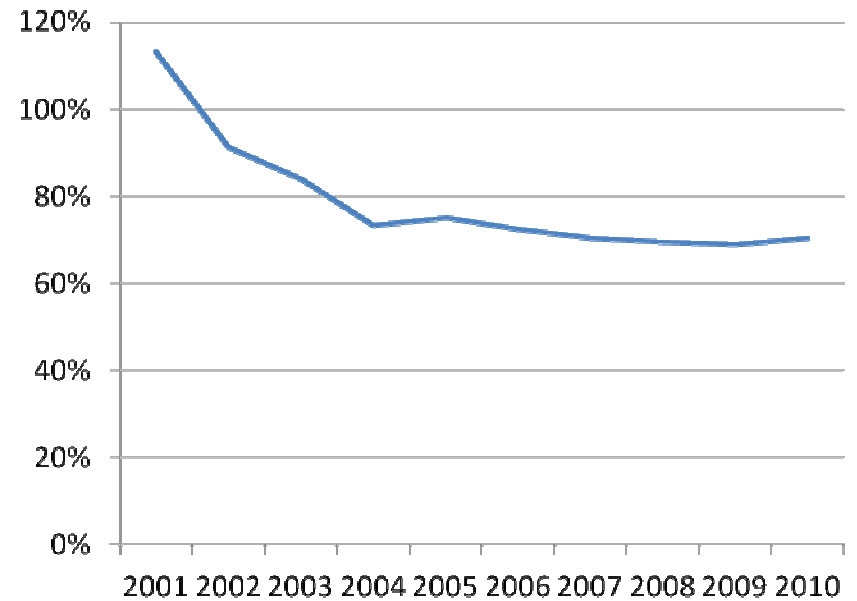
Defined Benefit Plans

Daytona Beach

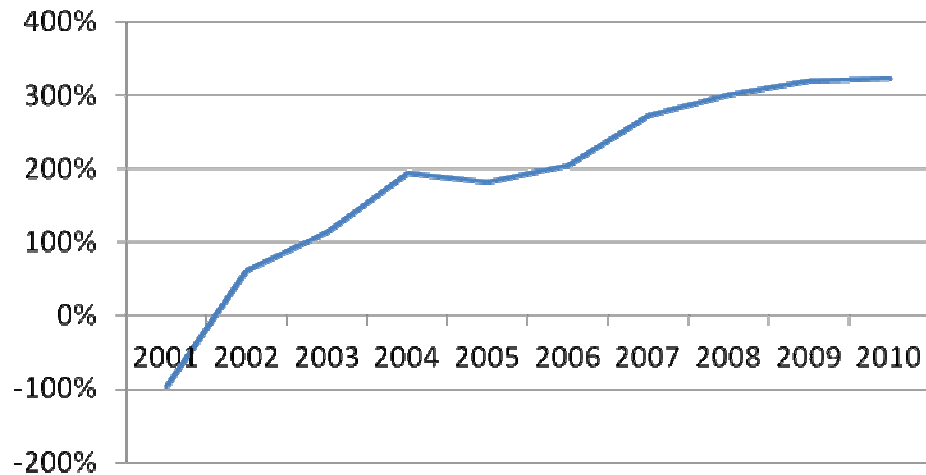
Total Unfunded AAL



% Funded

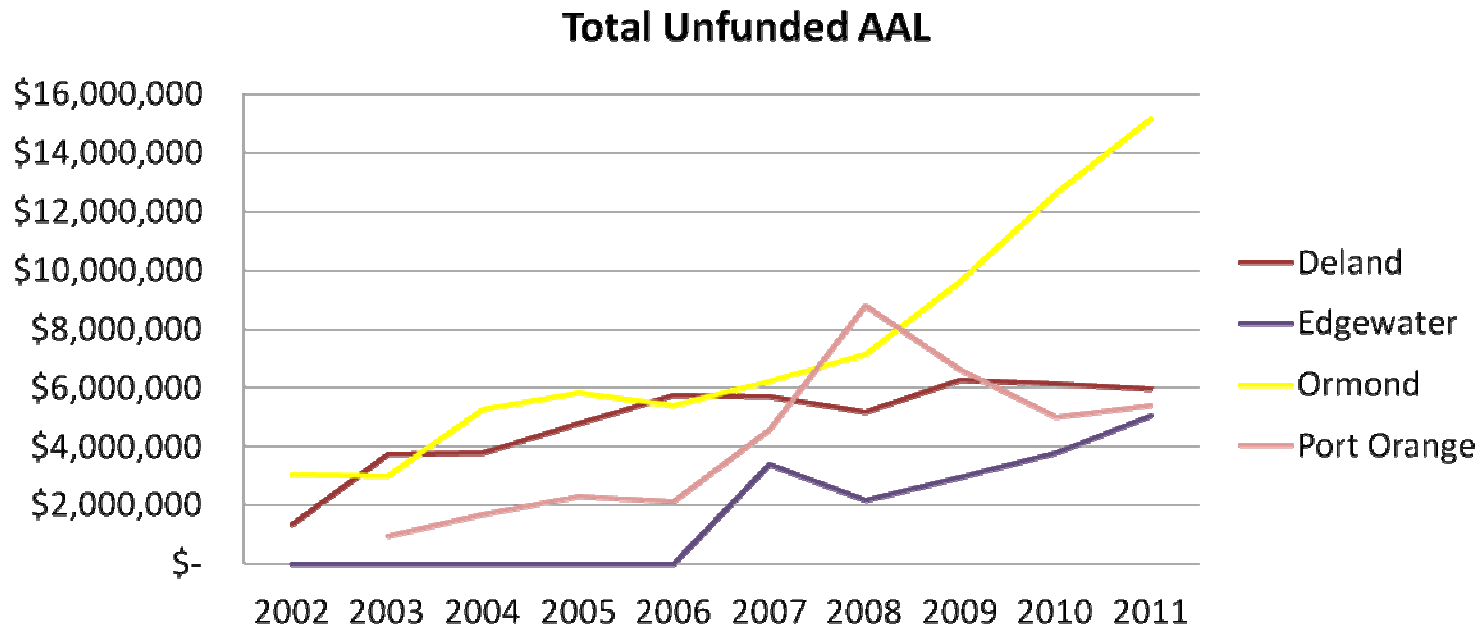
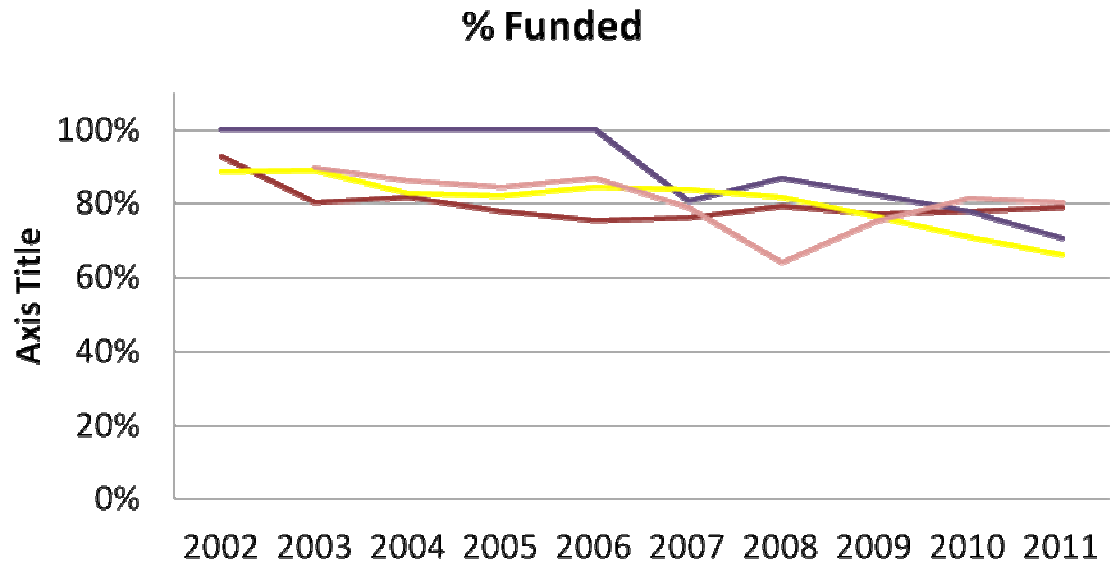


Unfunded AAL as a % of Covered Payroll



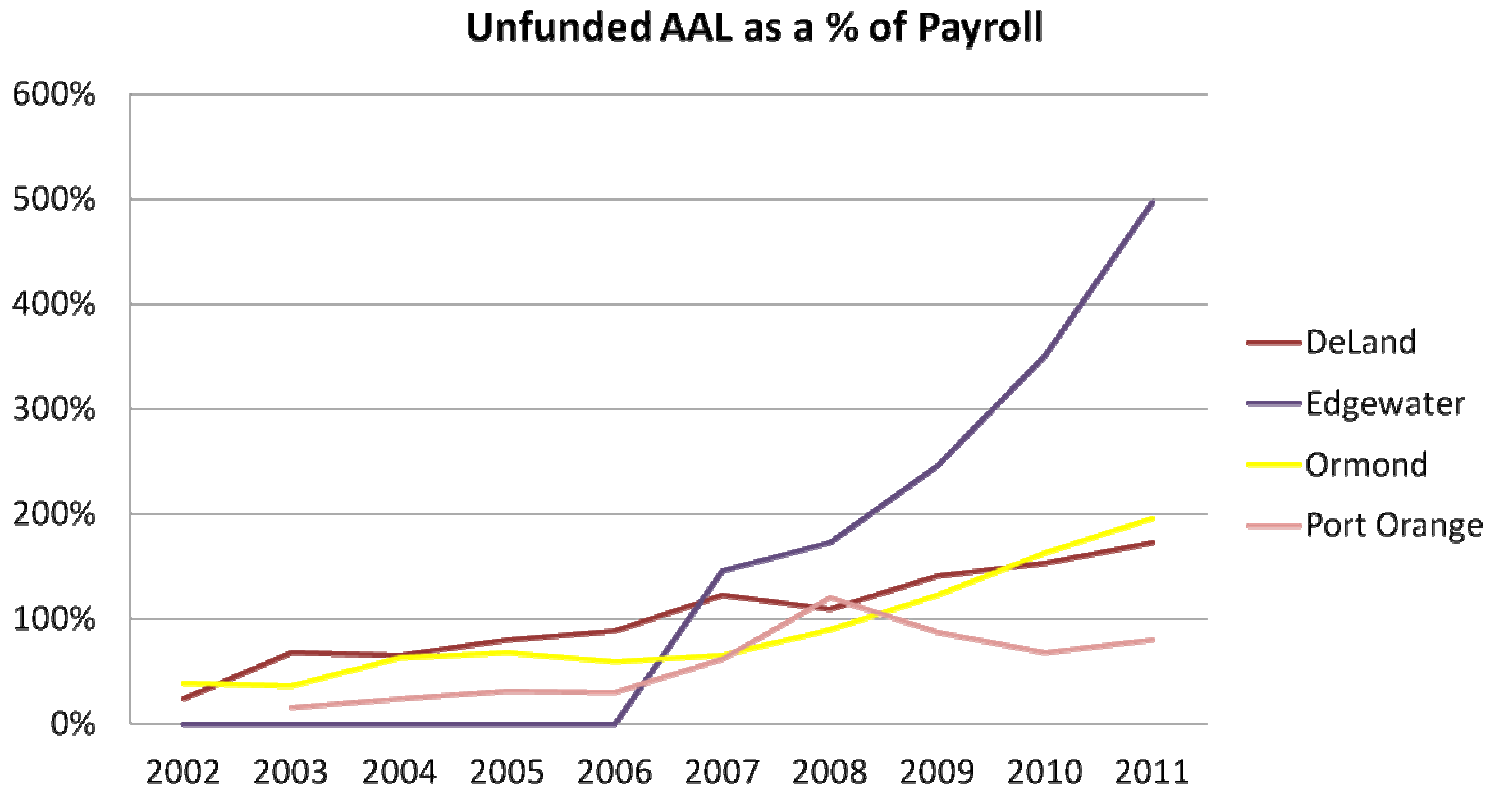
Defined Benefit Plans

General Employees



Defined Benefit Plans

General Employees



Total Obligation Today

(excluding FRS)

- Daytona Beach (2010) - \$56,351,000
- DeLand - \$11,613,594
- Deltona - \$4,687,744
- Edgewater - \$8,444,287
- Holly Hill - \$5,903,511
- New Smyrna Beach - \$10,004,454
- Ormond Beach - \$39,656,000
- Port Orange - \$42,041,191

County-wide Obligation

(excluding FRS)

- **\$178,701,781**

Legal Guidelines

- Changes in retirement benefits and employee contributions are mandatory subjects of collective bargaining.
- Accrued pension benefits (benefits earned in the past) cannot be reduced or taken away.
- Future benefits can be reduced for current employees who have not reach retirement status.
- Local government is ultimately responsible for unfunded pension liabilities.

What's The Solution?

- No Easy Fix
- ERISA (the Employee Retirement Income Security Act) applies only to private-sector pensions.
- Many public sector plans have been prohibited by courts from reducing benefits and increasing contributions (employee).

Options

- Do nothing
- Join FRS
- Reduce benefits for New Hires (2 Tier)
- Reduce benefits for All Employees
- Set up Defined Contribution plan
- Set up Hybrid DB + DC plan
- Increase Employee Contributions

What is the definition of insanity?

