



Atlanta Pension Panel

Pension Panel Charter

What the Panel will do:

- Delineate the facts – Where are we.
- Identify our options – What we could do.
- Describe the relative path forward – How we could get there.

What the Panel will NOT do:

- Audit and investigate the past
- Recommend, endorse, or champion any single option



Executive Summary

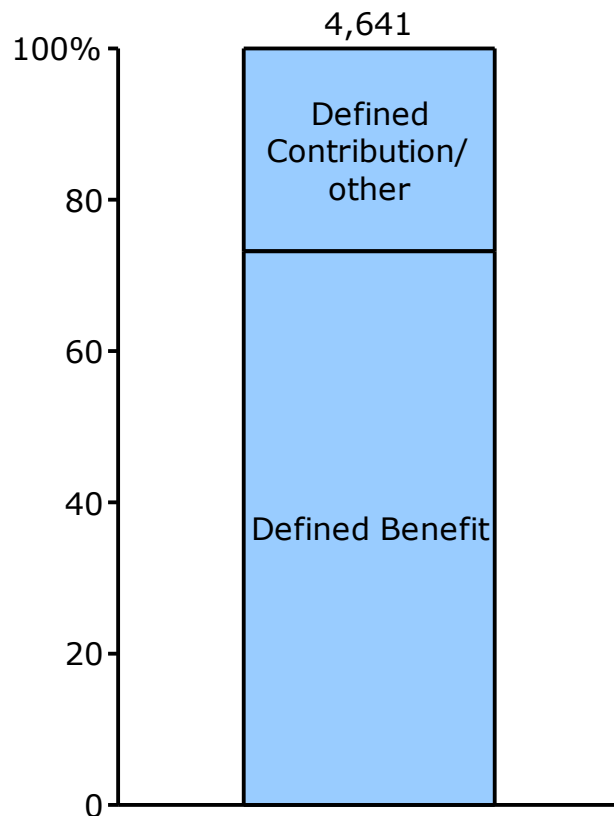
- Annual pension contribution has risen 13% per year over the past ten years and is projected to continue to grow
 - \$144M in 2009, up from \$55M in 2001
 - 70% of the annual pension expense is for the unfunded liability
- The unfunded liability has grown 21% per year since 2001, and the pension funds have dropped from 83% to 53% funded
 - \$1.5B in 2009, up from \$321M in 2001
- Status quo will result in pensions becoming an even greater percentage of the city's annual costs



Current pension plan description

~75% of current plan participants are in a defined benefit plan

City of Atlanta total plan participants (2010)



Plan attributes

- **Defined Benefit Plans**
 - Participants are police, fire and general employees
 - Material attributes of the plan:
 - Multiplier: 3% police & fire, 2.5% general employee
 - Retirement age*: 55 years police & fire, 65 years general employee
 - Vesting: 10 years
 - Employee contribution: 8% with beneficiary, 7% without
- **Defined Contribution**
 - Participants are employees grade 19 and above
 - City contributes 6% of pay
- **Employees do not participate in Social Security**

* May be earlier with sufficient years of service
Source: Office of the CFO, Segal, SAS



Key Terms

Annual Required Contribution (ARC)

- The annual pension cost to the City

=

Normal cost

- Payment for benefits earned in the current year

+

Amortization of unfunded actuarial accrued liability

- Payment required to "catch up" on total pension obligation

Unfunded Actuarial Accrued Liability (UAAL)

- Portion of what the City owes but has not paid toward the pension obligation

=

Actuarial liability

- Total amount of City's pension obligation

-

Value of assets

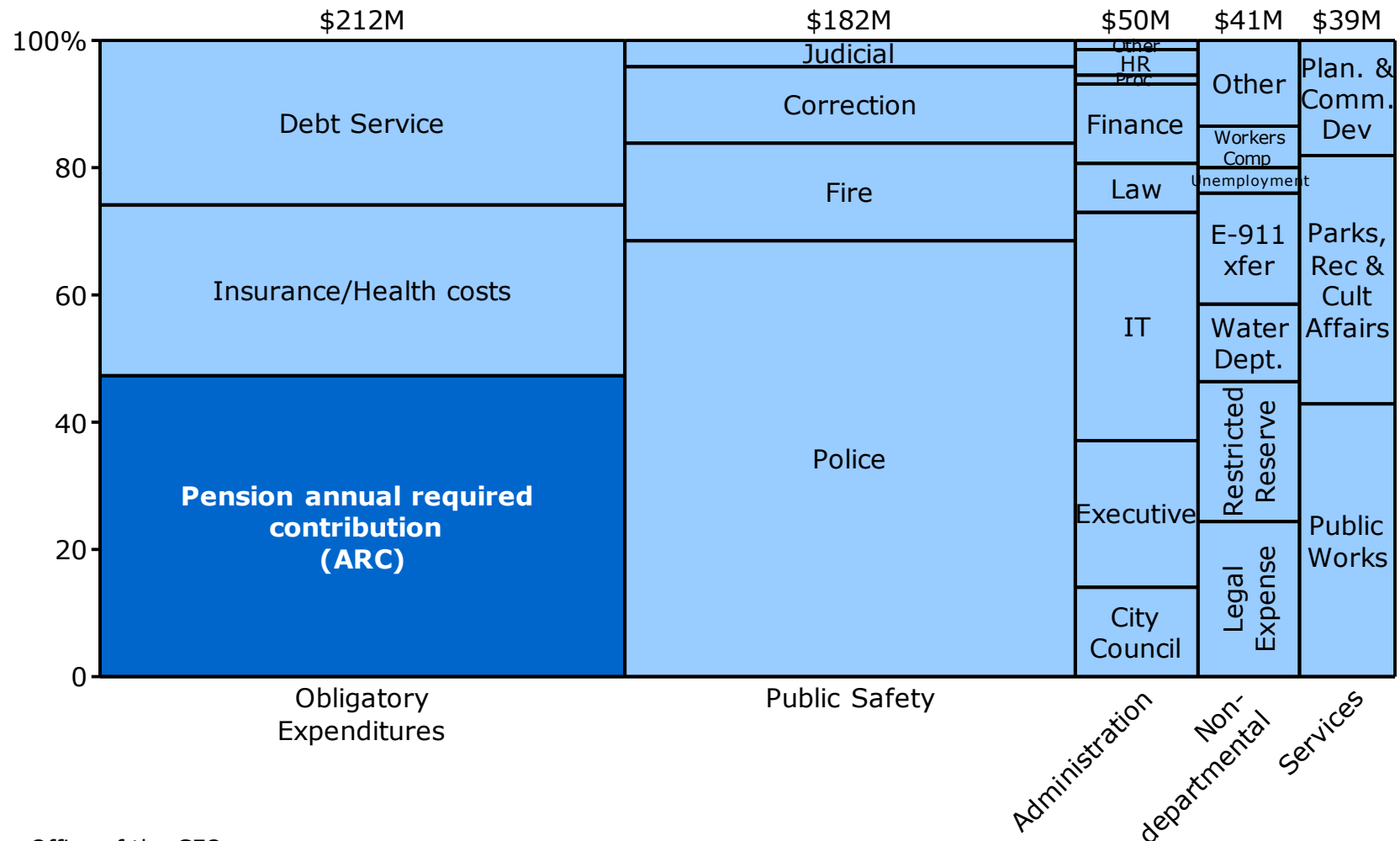
- Estimate of the current value of the pension fund



'09 pension costs took up ~20% of the City's general fund budget, second only to Police

Atlanta's 2009(E) General Fund expenditures by category

Total = \$523M

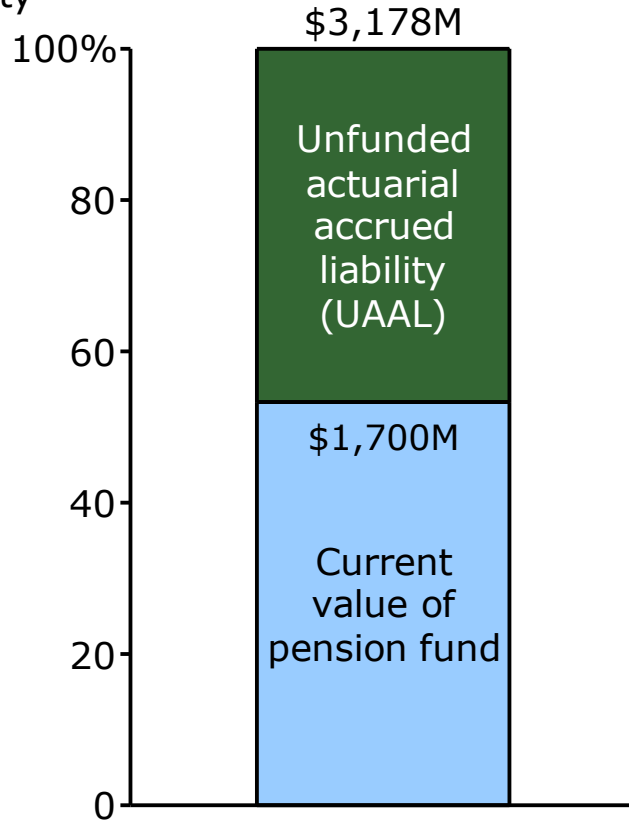


Source: Office of the CFO

The payment on the City's unfunded liability is ~70% of the annual pension cost

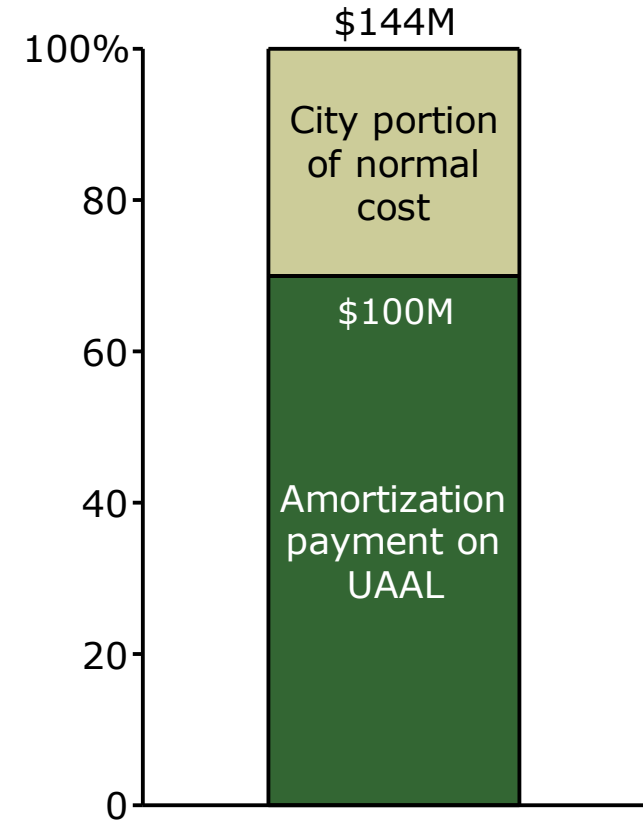
In FY09 the City had funded ~53% of their total pension obligation...

2009 estimated actuarial liability



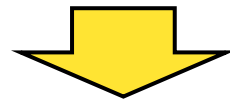
...which is why the payment against the UAAL is ~70% of the pension cost

FY09 ARC



Current actuarial assumptions used to calculate the overall liability do not match experience

- Total liability calculated using current actuarial assumptions may be subject to challenge
 - The assumptions regarding asset performance have only been met twice in the past ten years
 - Assumed rates: 8% General, 7.75% Police and Fire
 - The assumed retirement rates do not match actual history
 - Police: 47% by 55 vs. actual of 90%
 - The assumed disability rates are higher in practice
 - Police: 0.9% vs. 10%
 - Increases in salaries due to promotions not included in fire and police calculations



Actuarial assumptions must be reviewed to assure that Actuarial Liability and UAAL are not materially understated



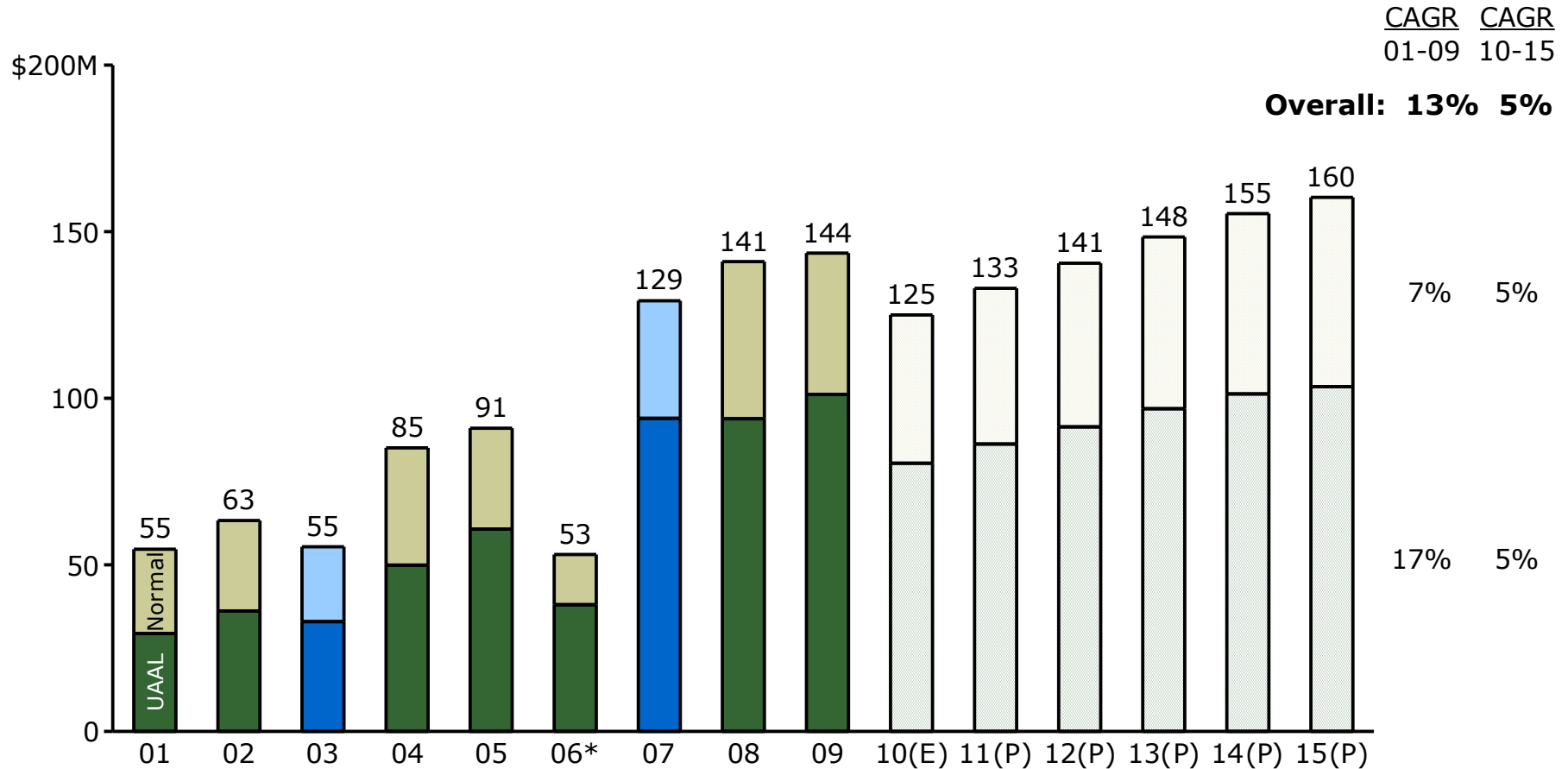
In the last ten years, the pension plans have been amended three times


- 2001
 - Police multiplier changed from 2% to 3% retroactively
 - Fire multiplier changed from 2% to 3%, NOT retroactively
- 2005
 - Fire 3% multiplier made retroactive
 - General employee multiplier changed from 2% to 2.5% retroactively
 - Amortization period extended from 14 to 20 years, closed
- 2009
 - Amortization period extended from 20 years closed to 30 years open (rolling)



The ARC has grown 13% p.a. since 2001, and is projected to grow to ~\$160M by 2015

Annual required contribution, all funds



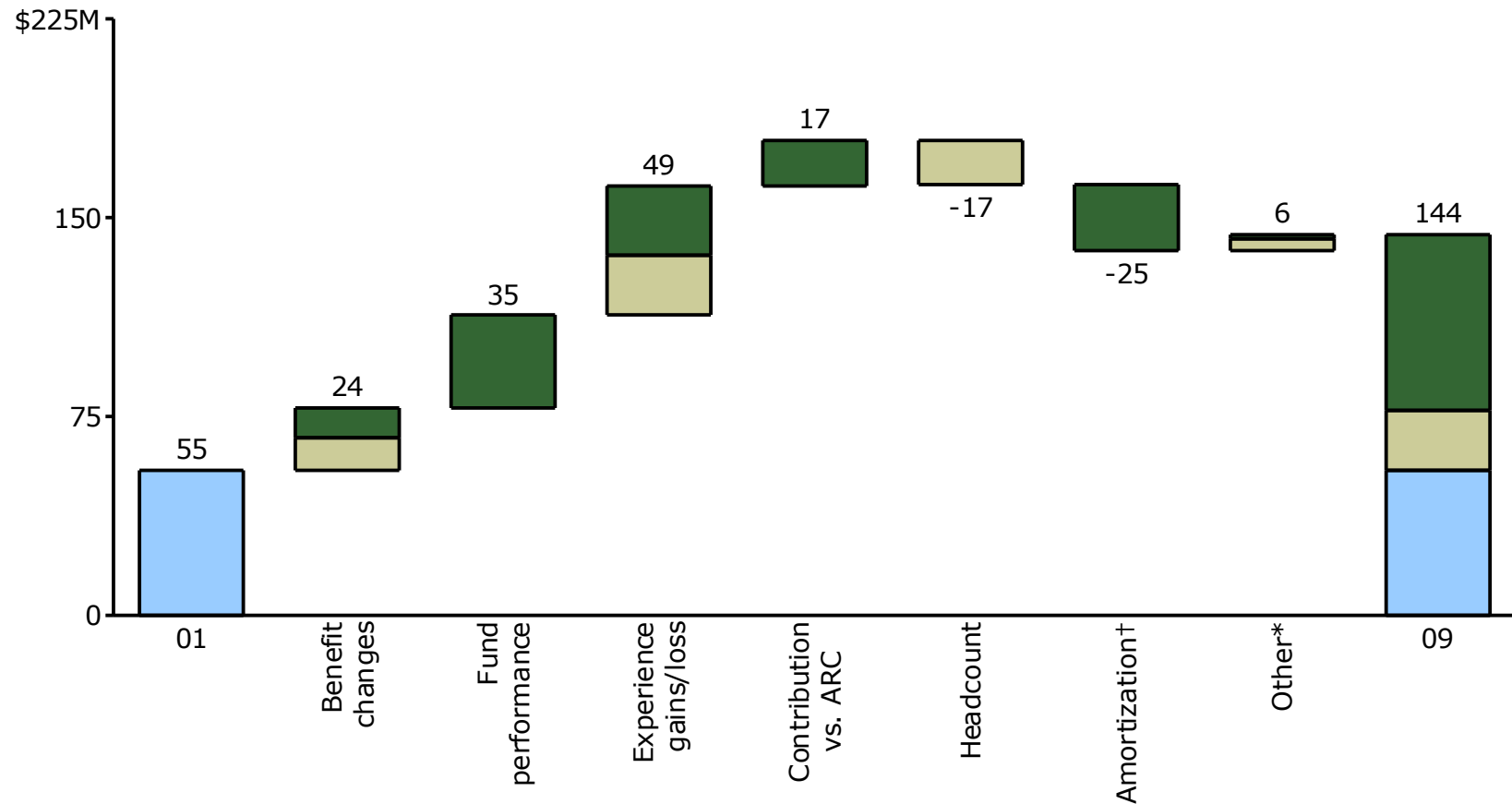
 Years where funds met or beat actuarial expectations†

*FY change, payment reflects 6 months 1/06-6/06
 †Annual returns of 8% general, 7.75% police & fire
 Source: Office of the CFO



Actuarial experience, fund returns, and benefit changes account for the bulk of the ARC increase

Components of ARC growth, '01-09



% of decrease

% of increase

18%

27%

37%

13%

40%

60%

5%

† Does not include effect of 30-year rolling amortization change in 2009, estimated additional ~\$18M impact in FY2010

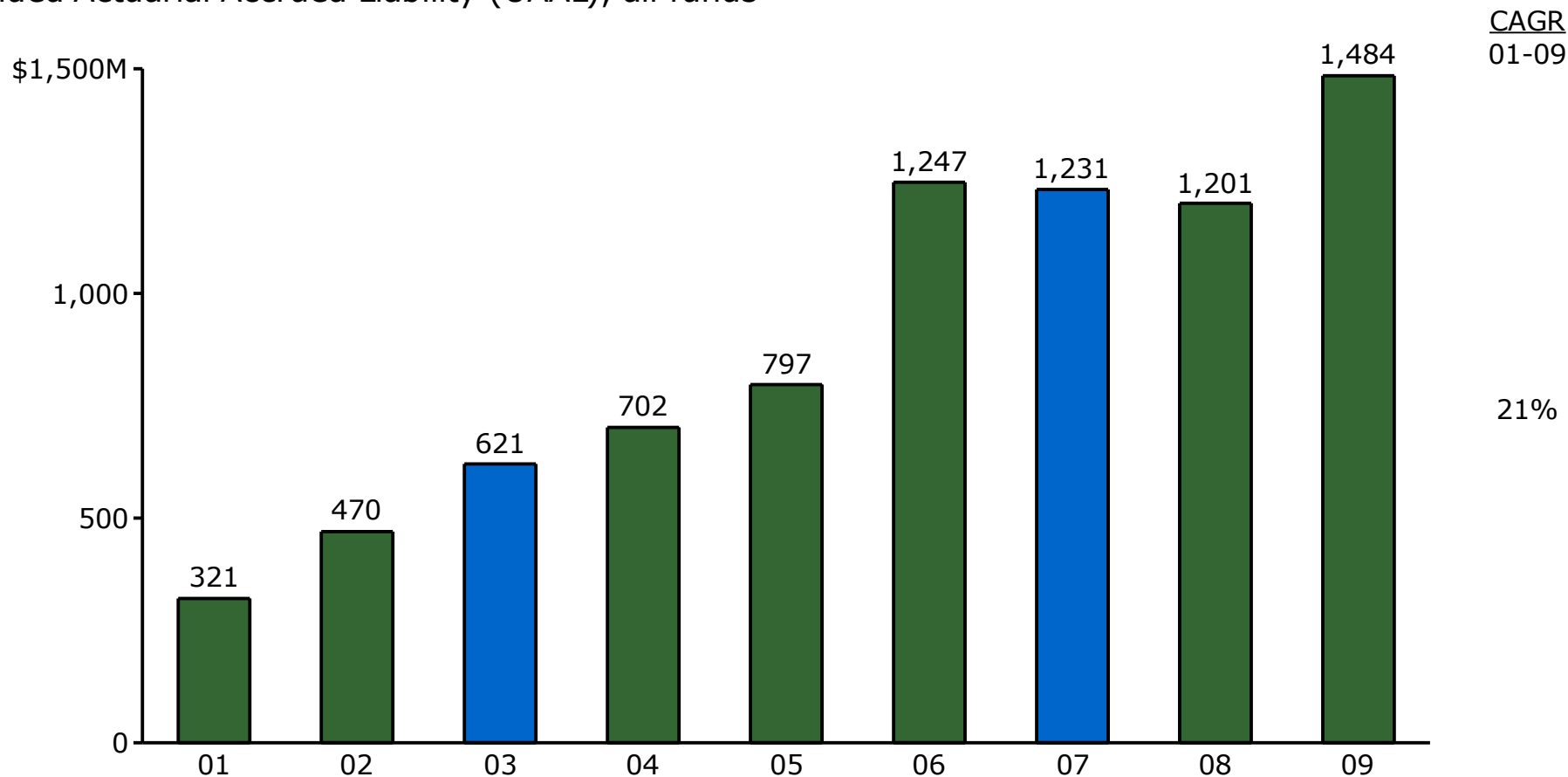
* Includes the impact of interest payments, changes in actuarial assumptions, and audit corrections

Source: Office of the CFO, Segal, SAS, Towers Perrin



The unfunded liability has grown 21% p.a. since 2001, to ~\$1.5B today

Unfunded Actuarial Accrued Liability (UAAL), all funds



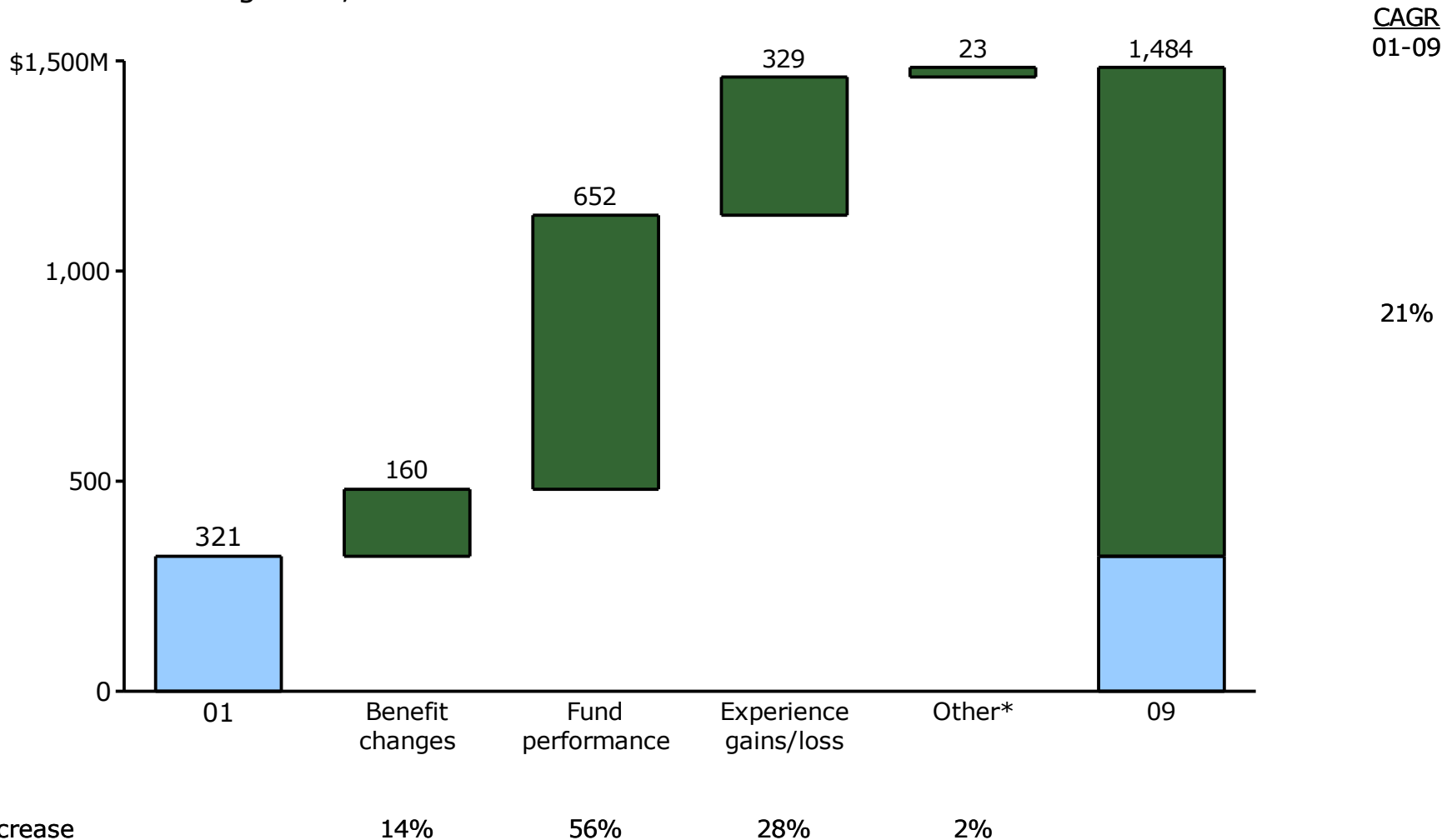
■ Years where funds met or beat actuarial expectations†

†Annual returns of 8% general, 7.75% police & fire
Source: Office of the CFO



Fund returns, actuarial experience, and benefit changes account for almost all of the UAAL increase

Components of UAAL growth, '01-09



* Includes interest, changes to actuarial assumptions, and audit corrections
 Source: Office of the CFO, Segal, SAS, Towers Perrin



The legal environment is complex, governed by case law, and offers no remediation process

- 1984 Georgia law regulates municipal pensions
 - Case law follows, regulatory boundaries become unclear
- Law requires 100% funding of ARC
- Minimum benefits established by State
- Plans can be improved by governments
 - Reduction in benefits may require approval of plan participants
- No clear and orderly remediation process exists
 - Litigation is a possibility
- Maneuverability is limited under current Georgia law



**Legislative relief may be a
necessary course**



Here's Where We Are

- Asset performance and retroactive changes in plan design have increased the unfunded liability and annual recommended contribution
- Georgia law:
 - Requires 100% payment of the ARC
 - May require employee approval to amend plans
- Current Actuarial Liability is ~\$3.2B, and current Unfunded Liability is ~\$1.5B (~53% funded)
 - May be higher under different assumptions



**2010 annual pension costs are
~\$125M and projected to grow**



Options to reduce annual costs include plan design changes and/or reducing the UAAL

Single-tier plan

Two-tier plan

Eliminate current plan

Create single new plan for all employees

Create two new plans, one for new hires and one for current employees

Maintain current plan

No change to plan design

Create new plan for new hires, keep old plan for current employees

Plan changes

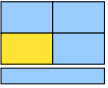
UAAL

Potential options to address UAAL

- Address retroactivity
- Bond off liability
- Lump sum payout



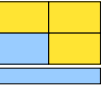
No changes to plan design requires finding the resources to maintain current benefits



	Description	Pros	Cons
Raise revenue/ taxes	<ul style="list-style-type: none">• Increased millage• Special purpose local option sales tax (SPLOST)	<ul style="list-style-type: none">• Does not require service cuts	<ul style="list-style-type: none">• Adverse economic impact• Negative taxpayer/business reaction
Cut services/ costs	<ul style="list-style-type: none">• Furloughs• Layoffs	<ul style="list-style-type: none">• Does not require raising taxes	<ul style="list-style-type: none">• Impacts essential services
Increase employee contribution	<ul style="list-style-type: none">• Raise the contribution percentage required of employees	<ul style="list-style-type: none">• Does not require cuts or raising taxes	<ul style="list-style-type: none">• Creates tension with employees• May raise difficulty of recruiting



Three levers can be used, singularly or in combination, to design new plans



- **Modify Defined Benefits**

- Leave current employee plan as is and design a new plan for all future employees
- Design a new plan for all current and future employees
- Design a new plan for current employees and a different (less rich) new plan for future employees

- **Enter Social Security System**

- **Expand use of Defined Contribution plans**

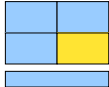


**The objective is to create
an optimal outcome**



There are multiple pros and cons to each plan approach that should be considered

New plan new hires, old plan current employees



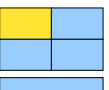
Description	Pros	Cons
<ul style="list-style-type: none"> Redesign plans for new hires only, maintain existing plans for current employees 	<ul style="list-style-type: none"> Does not require legislation Does not accelerate UAAL amortization 	<ul style="list-style-type: none"> Has only minimal impact on cost in near-term Takes multiple years before impact is seen Hurts recruiting & retention

Two new plans, one new hires and one current employees



<ul style="list-style-type: none"> Create two-tiered plan, with richer benefits for current employees than new hires 	<ul style="list-style-type: none"> Lessens impact on current employees Has immediate cost impact Reduces employee exposure to single payer risk 	<ul style="list-style-type: none"> May require legislation May be challenged through litigation Takes some time to realize full cost impact May accelerate UAAL amortization
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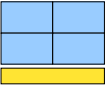
Single new plan for all employees



<ul style="list-style-type: none"> Redesign plan to apply to all employees, current and new 	<ul style="list-style-type: none"> Most flexibility to impact cost Has immediate impact Reduced complexity of two systems Reduces employee exposure to single payer risk 	<ul style="list-style-type: none"> May require legislation May be challenged through litigation May accelerate UAAL amortization
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There are three main options for addressing the UAAL



	Description	Pros	Cons
Address retroactivity	<ul style="list-style-type: none">Remove, in part or in whole, the retroactive aspects of the plan changes	<ul style="list-style-type: none">Reduces the UAAL	<ul style="list-style-type: none">May require legislationMay not be constitutionalMay be challenged through litigation
Lump-sum payout	<ul style="list-style-type: none">Provide discounted lump-sum payout of pension benefits to employees	<ul style="list-style-type: none">Eliminates UAAL for employees that select this option	<ul style="list-style-type: none">May require legislationEffect is a reduction in employee benefitsMay be challenged through litigation
Bond off the liability	<ul style="list-style-type: none">Issue municipal bonds to pay off UAAL	<ul style="list-style-type: none">Eliminates variability in debt obligationPossibility to arbitrage against fund performance	<ul style="list-style-type: none">Does nothing to reduce obligationRequires significant financial discipline to manage



Other Issues

- Other Benefits (OPEB)

- City pays retiree healthcare, and benefits begin prior to pension
- Currently on a pay as you go basis
- GAAP requires actuarial funding, GASB does not, and there is a movement to adopt GAAP
- Unfunded Liability is currently \$1.1 Billion

- Defined Contribution

- Provides a minimal benefit, not competitive with comparable municipalities or the private sector
- Only applies to those grade 19 and above
- May negatively impact recruitment and retention of professionals



Summary of risks

- Pension costs will continue to grow as a percent of City operating costs
 - Currently ~20% of operating budget
 - The magnitude of the unfunded liability is the primary issue
 - May be underestimating the overall liability
- Legislative changes are likely required to make substantive changes
 - State law limits maneuverability and provides no framework for remediation
- Other issues impacting path forward
 - Reduced/weakened plans may inhibit recruiting
 - Pension board governance is not aligned with City's liability risks
 - OPEB becoming a material component of benefit costs
 - Failure to address issue negatively impacts employee morale



Relative path forward - Next Steps: Begin simultaneous, multi-pronged approach

- Begin well-crafted communication program
 - An intellectually honest conversation with all constituents is required
- Organize team to complete detailed analysis, planning, and implementation
 - Engage subject matter experts
- Legislation
 - Plan changes may require new law
 - Structured Remediation process may allow for orderly and appropriate outcome and may reduce risk of litigation
 - Federal reforms (PPA 2006) may act as guide



Backup



Social Security

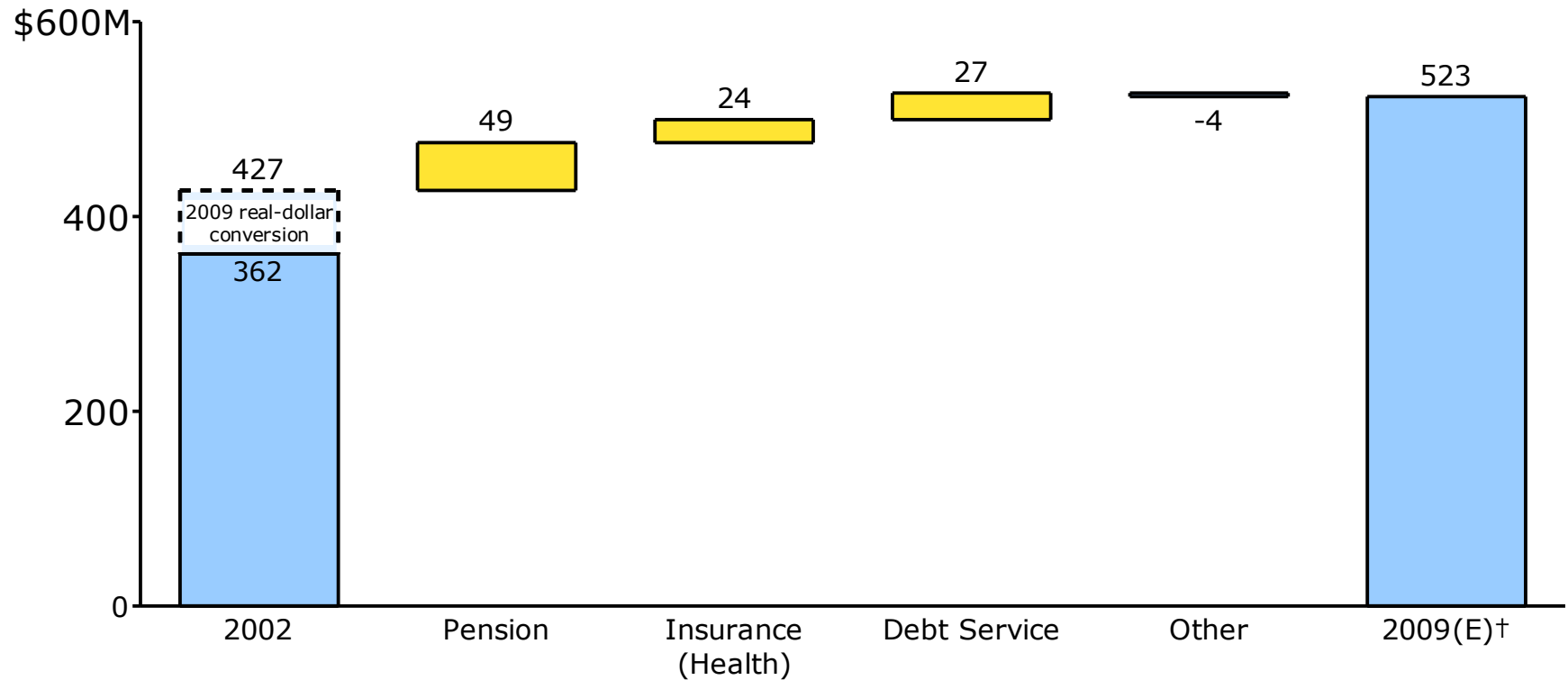
BACKUP

- Under certain circumstance, Social Security can be “a good deal” for employees and employers
 - Many factors determine optimal outcome
 - Lower paid workers benefit most
 - Off-sets create complexity
- Future plan designs should include an evaluation of social security as an option
- Multiple pathways to re-entering the Social Security system
 - Some flexibility exists for who enters



Atlanta's expenditures have risen \$96M in real terms from FY02-FY09, ~\$49M (~51%) of which have been on pension obligations

Annual General Fund expenditures



Note: "Other" category reflects all other City of Atlanta operational spend accounted for in the General Fund

† Estimates based on annualized savings due to furloughs

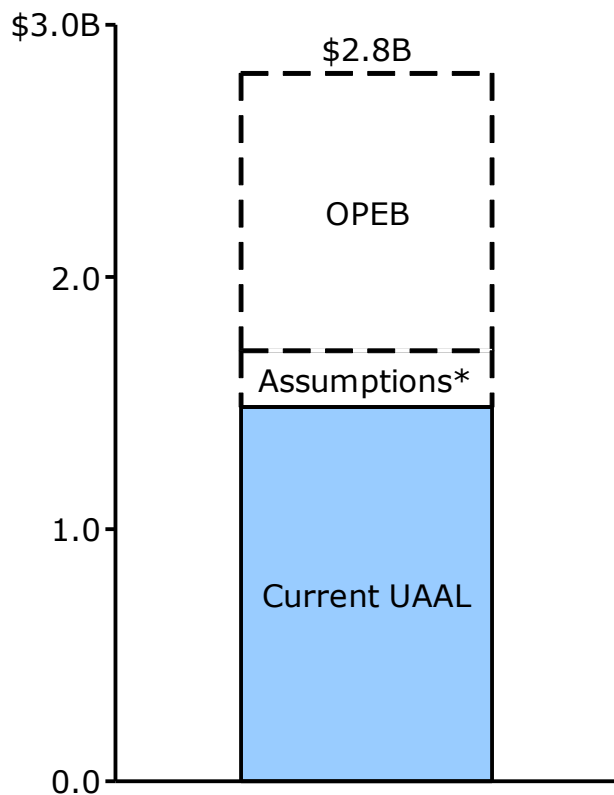
Source: FY2009 budget, FY2002 Budget, FY2002 CAFR, Office of the COO, Office of the CFO, Bureau of Labor Statistics



If all liabilities are included, the City's ARC could be ~\$240M, nearly half of the operating budget

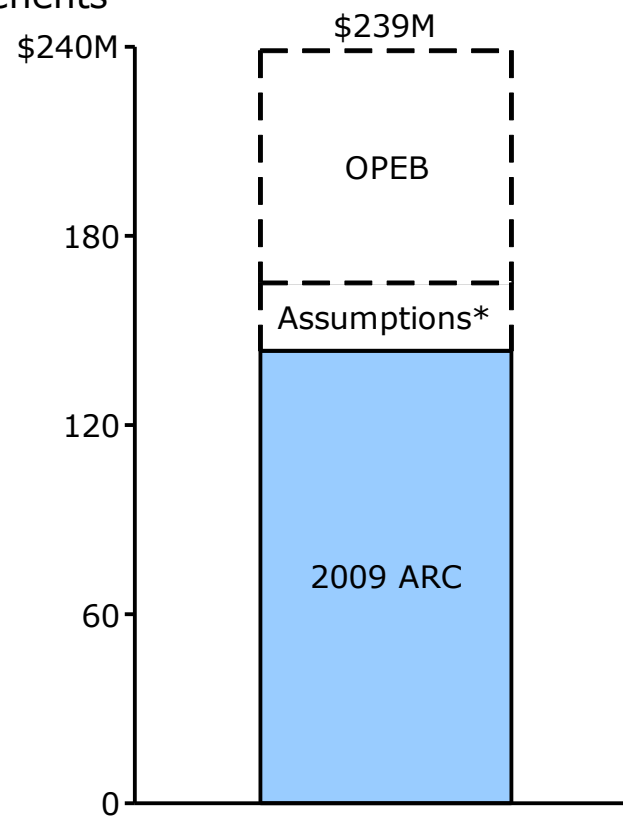
The unfunded liability for all benefits may be as high as \$3B...

2009 potential overall benefit liability



...which would make the annual costs to the city ~\$240M

2009 estimated ARC for all benefits

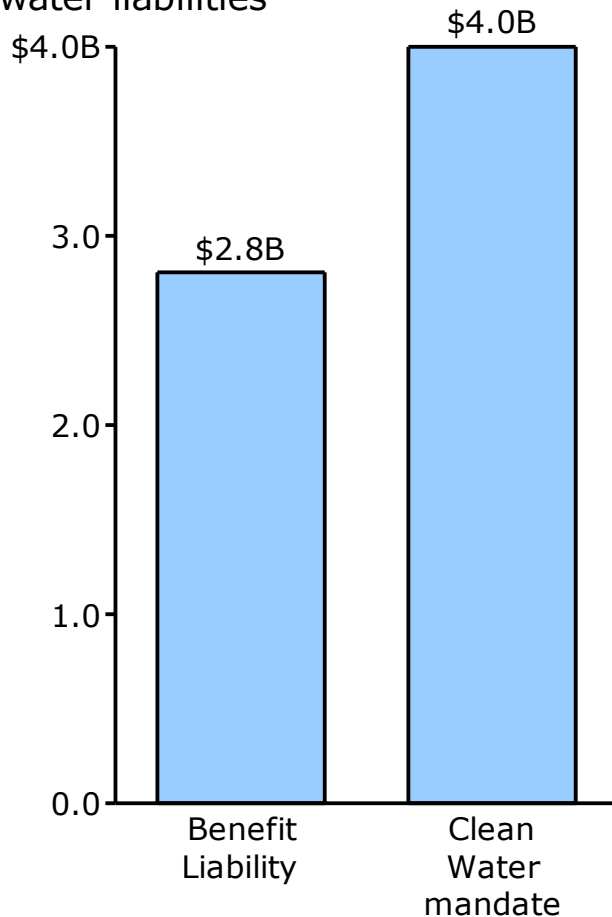


* The impact of adjusting actuarial assumptions to reflect historical performance
Source: Office of the CFO, Office of the COO, Segal, SAS, Towers Perrin

The benefit liability may be nearly as large as Clean Water, and larger on a per-capita basis

The benefit liability is ~30% less than the Clean Water mandate...

Comparison of pension vs clean water liabilities



...but ~35% larger on a per-capita basis

Per capita comparison, benefits vs clean water

