



**Town of Surfside
Special Joint Town Commission and Pension Board Meeting**

AGENDA

July 6, 2020

9293 Harding Ave, 2nd Floor
Surfside, FL 33154

- 1. Opening**
 - A. Call to Order**
 - B. Roll Call of Members**
- 2. Pension Board Members and Consultant Introduction**
- 3. Pension Presentation**
- 4. Questions and Answers**
- 5. Public Comments**
- 6. Adjournment**

Respectfully submitted,

Guillermo Olmedillo
Town Manager

THIS MEETING IS OPEN TO THE PUBLIC. IN ACCORDANCE WITH THE AMERICANS WITH DISABILITIES ACT OF 1990, ALL PERSONS THAT ARE DISABLED; WHO NEED SPECIAL ACCOMMODATIONS TO PARTICIPATE IN THIS MEETING BECAUSE OF THAT DISABILITY SHOULD CONTACT THE OFFICE OF THE TOWN CLERK AT 305-861-4863 EXT. 226 NO LATER THAN FOUR DAYS PRIOR TO SUCH PROCEEDING.

IN ACCORDANCE WITH THE PROVISIONS OF SECTION 286.0105, FLORIDA STATUTES, ANYONE WISHING TO APPEAL ANY DECISION MADE BY THE TOWN OF SURFSIDE COMMISSION, WITH RESPECT TO ANY MATTER CONSIDERED AT THIS MEETING OR HEARING, WILL NEED A RECORD OF THE PROCEEDINGS AND FOR SUCH PURPOSE, MAY NEED TO ENSURE THAT A VERBATIM RECORD OF THE PROCEEDINGS IS MADE WHICH RECORD SHALL INCLUDE THE TESTIMONY AND EVIDENCE UPON WHICH THE APPEAL IS TO BE BASED.

AGENDA ITEMS MAY BE VIEWED AT THE OFFICE OF THE TOWN CLERK, TOWN OF SURFSIDE TOWN HALL, 9293 HARDING AVENUE. ANYONE WISHING TO OBTAIN A COPY OF ANY AGENDA ITEM SHOULD CONTACT THE TOWN CLERK AT 305-861-4863. A COMPLETE AGENDA PACKET IS ALSO AVAILABLE ON THE TOWN WEBSITE AT www.townofsurfsidefl.gov.

TWO OR MORE MEMBERS OF OTHER TOWN BOARDS MAY ATTEND THIS MEETING.

THESE MEETINGS MAY BE CONDUCTED BY MEANS OF OR IN CONJUNCTION WITH COMMUNICATIONS MEDIA TECHNOLOGY, SPECIFICALLY, A TELEPHONE CONFERENCE CALL. THE LOCATION 9293 HARDING AVENUE, SURFSIDE, FL 33154, WHICH IS OPEN TO THE PUBLIC, SHALL SERVE AS AN ACCESS POINT FOR SUCH COMMUNICATION.

**PENSION BASICS: Understanding the
role of “Defined Benefit” pensions
Retirement Plan for Employees of the
Town of Surfside**

Robert D. Klausner, Esq.
Adam P. Levinson, Esq.
Klausner Kaufman Jensen Levinson



Ask Questions !

- Pension Boards are fiduciaries.
- One of the primary roles of fiduciaries is to ask questions.
- There is no such thing as a dumb question!
- This presentation covers complex subject matter, but is really straightforward when distilled to the basic role pensions have played for hundreds of years.



Background about Defined Benefit Plans

What is a “Defined Benefit” (“DB”) Plan?

- A DB Plan is a “traditional” pension, which is very common in the public sector for governmental employees.
- After completing the required **years of service** or reaching **normal retirement age**, a retiree is eligible to receive a **guaranteed** pension benefit based on a percentage of salary multiplied by the number of years that they have been a member of the Plan.
- Money is contributed to the Plan by the members (8% of pensionable compensation) and the Town (variable contributions calculated by the actuary). The State of Florida contributes to a separate “Share Plan” for police, pursuant to an insurance rebate program established under Chapter 185, F.S.
- Rights are protected by the Florida Constitution, Article 1, Section 10.
- Once you vest your accrued benefit cannot be diminished or impaired.
- The benefit is guaranteed for your life once you retire (no matter how long you live).

What is the Pension Board?

As established by Town Ordinance:

- Five member board of trustees who are fiduciaries
- Two (2) trustees appointed by the Town (residents)
- One (1) trustee elected by general employees
- One (1) trustee elected by police officers
- Town Manager
- Finance Director is not a board member but customarily attends meetings

Defined Benefit v. Defined Contribution Plans

DC PLANS

- The Plan is not a “Defined Contribution” plan
- The Plan is not a 401(k) plan
- The Plan is not a 457 “Deferred Comp” plan
- These types of plans can provide additional retirement savings
- Think of retirement as a three legged stool with Social Security, DB plan, DC plan/personal savings

NOT ALLOWED BY A “DB PLAN”:

- Members don’t have a right to underlying pension assets (only monthly pension checks).
- Members cannot receive pension monies prior to separation from service
- Can’t borrow against your pension benefits
- Can’t assign your pension rights to another

Summary of Professionals hired by Board

ADMINISTRATIVE FUNCTIONS

- Pension Administrator (member point of contact and back office for the pension)
- Auditor (prepares annual audit)
- Actuary (calculates liability, funding status and required contributions)
- Attorney (self explanatory)

INVESTMENT FUNCTIONS

- Investment Consultant (heads the investment team and prepares “Investment Guidelines” also called “Investment Policy”)
- Money managers (invest money for different asset classes according to Investment Policy)
- Index funds (least expensive way to get market diversification)
- Custodian (specialized bank for trust funds)

Summary of Key Concepts

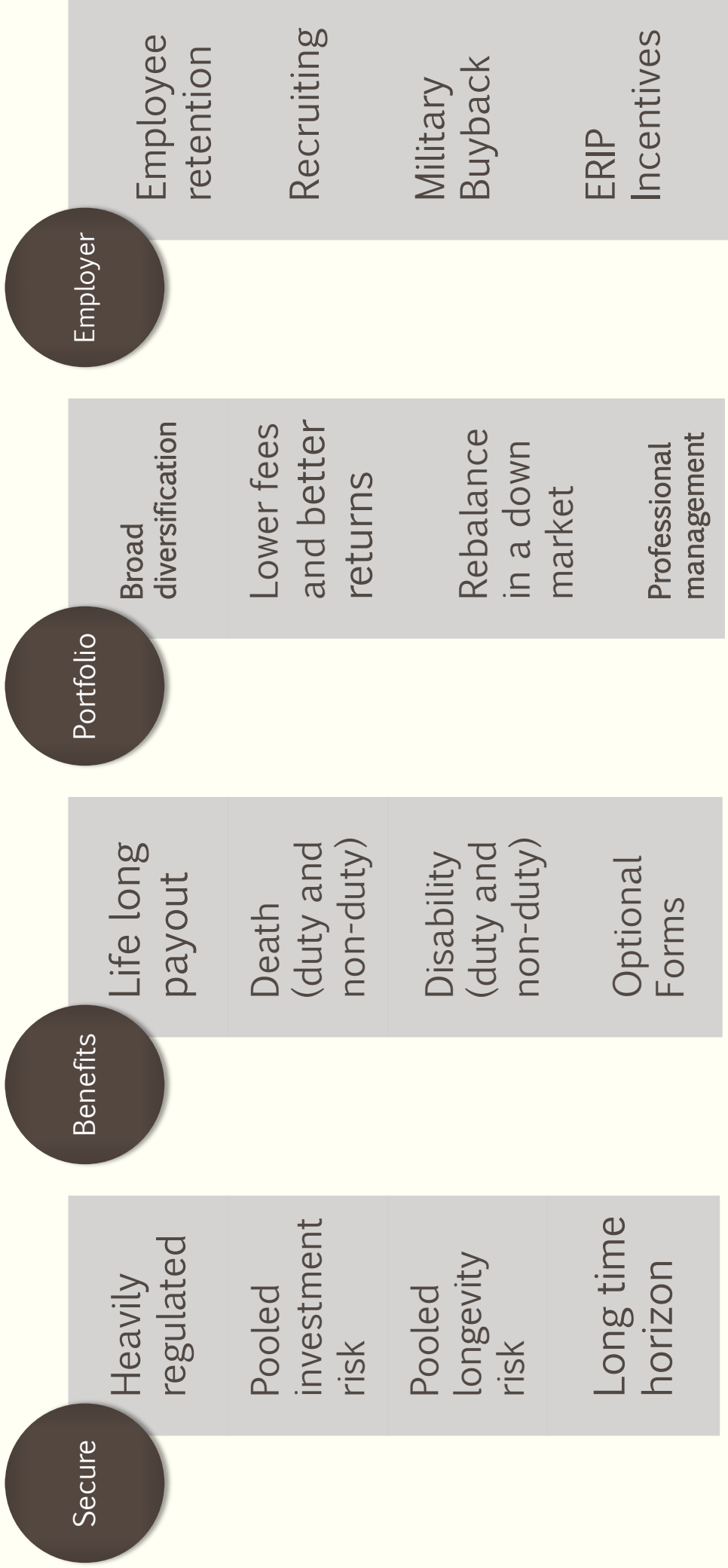
- Pension Board
 - Average Final Compensation (5 highest years)
 - Normal Retirement Age for general employee group: non-sworn (age 50 & 20 years; age 52 & 15 years; age 55 & 10 years)
- Vesting
 - Normal Retirement Date / Age
- Credited Service
 - Optional Forms of Benefit
 - COLA (increased from 1.5% to 2% for members retiring after effective date)
- Multiplier (2.8% for General Employees)
 - DROP (Deferred Retirement Option Plan)

Simple Pension Formula

$$C + I = B + E$$

- “C” equals Contributions (from employer, employee, state premium taxes, for public safety)
- “I” equals Investment Returns (market fluctuates but increases over time)
- “B” equals Benefits
- “E” equals Expenses

Top Advantages of DB Plans



Reporting

- Annual Report by Plan Administrator to Division of Retirement
- Annual Actuarial Valuation
- Quarterly Performance by Investment Consultant
- Annual Audit
- Periodic Updates to Summary Plan Description (SPD)



FINANCIAL REPORTS

DEPARTMENT LINKS

[TELL US HOW WE ARE DOING](#)

[FREQUENTLY ASKED QUESTIONS](#)

[DOCUMENTS AND FORMS](#)

[BIDS AND RFPS](#)

[CERTIFICATE OF USE, LOCAL BUSINESS TAX RECEIPT, AND DECORATIVE INFORMATION](#)

Actuarial Valuation Report

[2018 Actuarial Valuation Report](#)

[2017 Actuarial Valuation Report](#)

[2016 Actuarial Valuation Report](#)

[2015 Actuarial Valuation Report](#)

[2014 Actuarial Valuation Report](#)

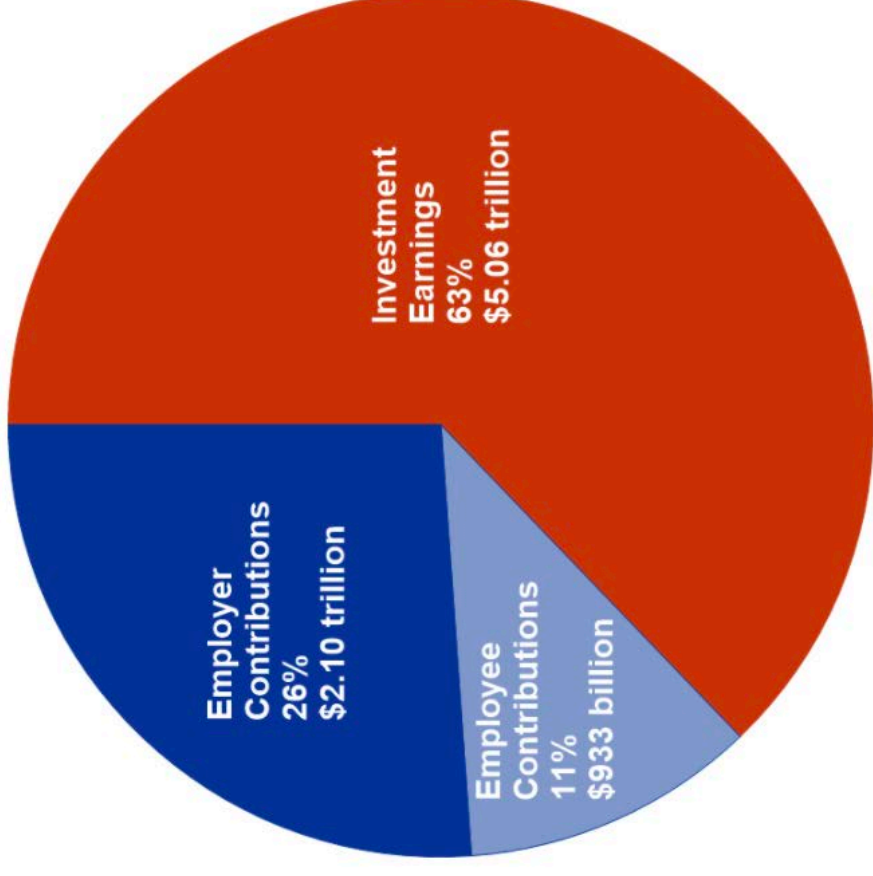
[2013 Actuarial Valuation Report](#)

Funding pie chart

- Investment earnings are the largest contributor to Plan funding
- Investment earnings over time exceed employer and employee contributions



Public Pension Sources of Revenue, 1989-2018



ROBERT D. KLAUSNER
(954) 916-1202

bob@robertdklausner.com

Klausnerkaufman.com

PENSION BENEFIT IMPROVEMENTS PROPOSED BY PENSION BOARD

Pension Board's Outside Legal Counsel
Klausner Kaufman Jensen Levinson



Overview of Pension Benefits

Surfside sponsors a defined benefit pension plan (“Pension Plan”) for full time employees.

- A defined benefit pension is a “traditional” pension, which is very common in the public sector.
- The Pension Plan pays benefits for vested employees at their Normal Retirement age.
- Benefits are calculated based on a benefit formula (years of service multiplied by percentage of salary).
- Benefits for General Employees capped at 68% of compensation.
- Town contributions fluctuate based on actuarial experience.
- Employees contribute a flat 8% of pay.



What is the Pension Board?

Board structure dates back decades:

- Five member board of trustees
- One (1) trustee selected by general employee membership
- One (1) trustees elected by police membership
- Two (2) trustees appointed by the Town Commission
- Town Manager
- Finance Director customarily attends Board meetings and works closely with the Pension Board

History and Chronology of Amendments

- 1960: Pension Plan created by Town Ordinance
 - Plan is also governed by state statutes
 - Police benefits are subject to collective bargaining
 - **2003: Employee contributions increased to 6% to cover cost of 2.5% multiplier**
 - **2009: Tax treatment of employee pick-up contributions updated (pre-tax v. post-tax)**
 - **2011: Town Manager and Town Attorney permitted to opt out of Plan**
 - **2012: Police Normal Retirement updated to earliest of: (1) age 52 & 20 years of service, (2) age 62 & 5 years of service or (3) completion of 25 years of service.**
 - **2013: DROP amended to include General Employees at no cost to the Town**
 - **2016: Non-public safety amendments:**
 - Created a Senior Management member class
 - Increased maximum benefit cap for General Employees (60% to 68%)
 - Increased maximum benefit cap for Management (60% to 80%)
 - Lowered vesting for Town Attorney to 7 years
 - **Increased employee contribution from 6% to 8% to cover cost**
 - Increased the multiplier for General Employees to 2.8% and 3% for Management
 - **2019: Town agreed to create contribution reserve to further enhance Plan funding**
- The last time the Town paid for a pension change that benefited the General Employees was back in 2003. The cost of the 2003 amendment was shared between the Town and employees.**

What is the Issue?

- **Issue 1:** Based on the 2018 Actuarial Study, there are 56 General Employees of which 35 will hit the cap before Normal Retirement eligibility.
 - This issue impacts approximately 63% of the General Employee population.
 - This is a non-issue for Police Officers due to their higher pension benefits, early retirement ages, higher multipliers and lower vesting requirements.
- **Issue 2:** Administration desires to improve employee recruitment and retention when the Town's benefit structure is compared to neighboring municipalities, in a low unemployment environment?

Possible Solutions to Align Cap & Retirement Age

- **Increase the Benefit Cap:** This will reduce, but not eliminate the alignment issue (some employees will still not meet the age requirement to retire).
 - This option increases the potential benefit. If the cap is increased to 80% then $.80 \div .68 = 1.1764$ approximately a 17% increase.
- **Benefit CAP comparison:**
 - The Pension Actuary (GRS) stated that the majority of the plans do not have a cap (other than the statutory 100%). Of those that do, the cap typically ranges from 75% to 90%.
 - The Pension Board's General Counsel reports that of all the plans they represent, Surfside's benefit cap is the lowest.
 - Bal Harbour is 100%, Bay Harbor is 100%, Miami Beach 90% or 80%.

Possible Solutions to Align Cap & Retirement Age

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- **Increase the COLA (cost of living):** This will reduce but not eliminate the alignment issue (employees will still not be able to retire after reaching the cap unless retirement eligibility is lowered).
- **COLA comparison:**
 - The Pension Actuary stated that the average COLA is 2%.
 - The FOP has requested an increase of their COLA to 2.5%. The Town Administration has tentatively agreed to increase it to 2% for future retirees.
 - Bal Harbour is 2.5%; Miami Beach 2.5% Tier A and Tier B; 1.5% Tier C.

Possible Solutions to Align Cap & Retirement Age

- **Reduce Retirement Age:** This will directly address the alignment issue.
- **Retirement Age comparison:**
 - The Town of Surfside's Retirement Age requirements are the highest of surrounding municipalities: 62 and 15 years of service or 65 and 10 years of service.
 - The FOP has requested to reduce Police retirement age to 50 and 20 years of service.
 - Bay Harbor: 52 and 20 years of service (since 1999), or 55 and 10 years of service, or 65 regardless of years of service.
 - Miami Beach: 50 and 5 years of service, or 55 and 5 years of service, 55 and 30 years of service, or 62 and 5 years of service (all based on CBA).
 - Bal Harbour: 57 regardless of service, or 55 and 25 year of service, or 30 years of services regardless of age.

Possible Solutions to Align Cap & Retirement Age

Reduce Retirement Age: Specific Examples

- Lower Retirement Ages will directly benefit employees who are not clerical office workers (ie: solid waste and public works) by providing the opportunity to retire and enter the DROP program earlier.
 - Example: Refuse Collector hired in 1992 (27 years of service) and is 58 years old.
- Other employees who were hired at a young age, will not have to work and wait 35+ years to collect their pension. This will encourage employees to remain employed by the Town after vesting, rather than seeking employment elsewhere.
 - Example: employee hired 1998 (21 years of service) and 44 years old who's current normal retirement date is in the year 2037 (39 yrs later). Another example is an employee hired in 2018 and whose normal retirement is 2059 (41 yrs later).
- Upon separation of service of those who opt to retire, the Town will more likely hire someone at a lower salary than the retiree's salary. In addition, the minimum requirements for the position may have changed to include more experience and education.

Advantages of Proposed Ordinance

Recruitment and Retention:

- Anecdotal evidence: HR reports that the disparity between Surfside and the surrounding municipalities is a challenge
- Empirical evidence of turnover: The Plan's actuary reviewed turnover over the last five (5) years for twelve (12) local General plans as compared to the turnover for the Surfside General Employees.
 - The turnover for the Surfside plan was approximately 30% higher.
- Costs: Higher turnover can contribute to higher recruitment and training costs, along with lower productivity and the loss of institutional knowledge.

Low Unemployment Environment

Nationally and locally, unemployment is near historic lows.

- National unemployment rate of 3.5% as of 11/2019

Bureau of Labor Statistics: <https://www.bls.gov/eag/eag.us.htm>

- Florida unemployment rate of 3.2% as of 10/2019

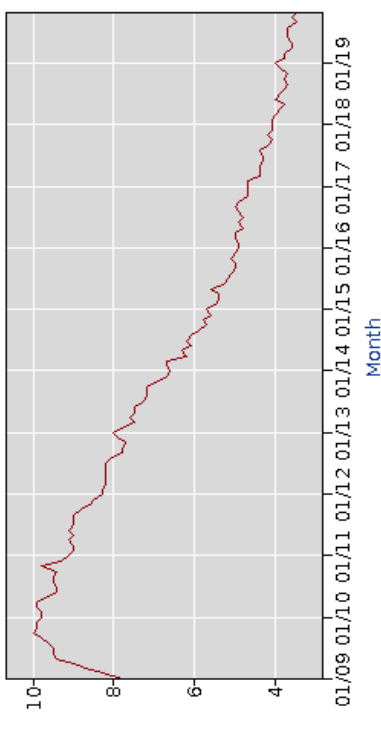
Bureau of Labor Statistics: <https://www.bls.gov/eag/eag.fl.htm>

- Bureau of Labor Statistics: Miami-Miami Beach-Kendall: 2.9% as of 10/2019

Bureau of Labor Statistics: https://www.bls.gov/regions/southeast/fl_miami_md.htm

Labor Force Statistics from the Current Population Survey

Series Id: LNS14000000
Seasonally Adjusted
Series title: (Seas) Unemployment Rate
Labor force status: Unemployment rate
Type of data: Percent or rate
Age: 16 years and over



How Does Surfside Compare?

Surrounding municipalities offer:

- higher maximum benefit cap (or no caps),
- lower vesting requirements,
- lower retirement ages and
- in some cases higher cost-of-living adjustments (COLAs).

How Does Surfside Compare?

Surfside has evolved over the years since the Plan was created in 1960, but the Retirement Age and Cap has not materially changed:

- The Surfside pension and its benefit cap was created at a time when it was common for transplants/retirees from the Northeast to be hired for a second career
- This is less true today for General Employees, but remains the case for police

How Does Surfside Compare?

Surfside has lower pension costs compared to surrounding municipalities:

- The average Employer contribution rate of 24 open, General Employee plans in Florida (excluding Surfside) as of 10-1-2018 was approximately 30%.
- Surfside's Employer contribution rate has hovered around 8% for General Employees and 24% for Police.
 - Bal Harbour ER contribution: 47.68%/8% EE contribution
 - Miami Beach ER contribution: 37.35%/10% EE contribution
 - Bay Harbour ER contribution: 27.4%/6.11% EE contribution

How Does Surfside Compare?

Surfside has higher Employee contributions compared to surrounding municipalities:

- The average Employee contribution rate of 24 open, General Employee plans in Florida (excluding Surfside) as of 10-1-2018 was approximately 6%.
- The contribution by Surfside General Employees is 8%.

Proposal by Pension Board

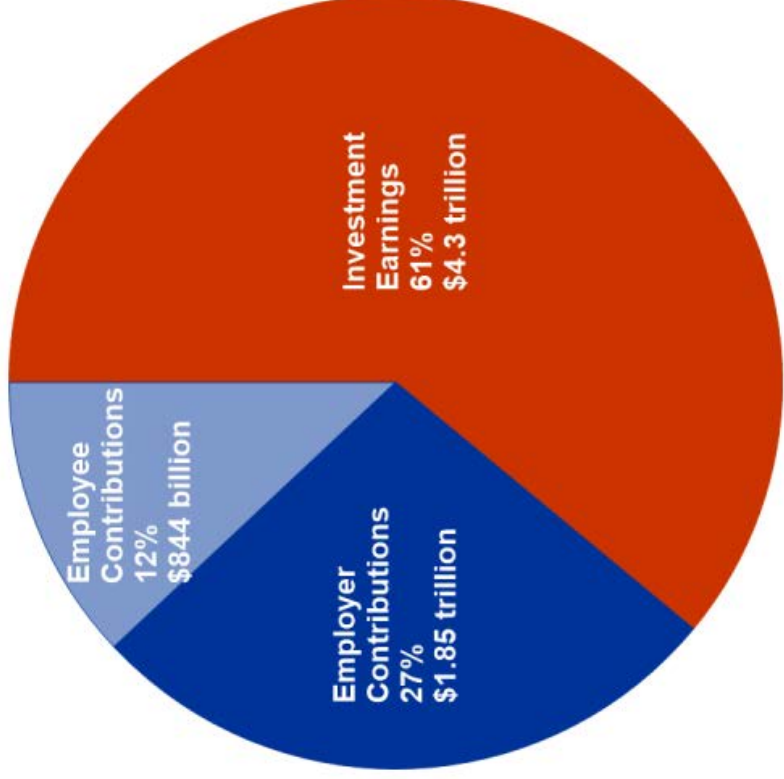
1. Lower Retirement Age to the earlier of:
 - Age 50 and 20 years of service, or
 - Age 52 and 15 years of service, or
 - Age 55 and 10 years of service.
2. Increase COLA from 1.5% to 2%
3. Increase maximum benefit cap from 68% to 80%

Budget Impact

- As calculated by the Pension Board's actuary, the cost of this Pension Ordinance will be approximately 3.0% of pensionable payroll per year as follows:
 - Lower Retirement Age (\$132,292)
 - 2% COLA (\$34,093)
 - Increased maximum benefit cap of 80% (\$41,842).
 - If adopted together, the cost decreases from \$208,227 to \$182,548 (representing a savings of \$25,679).
- There is no budgetary impact this fiscal year.

Pension Funding pie chart – Big Picture

- Investment earnings are the largest contributor to Plan funding
- Investment earnings over time exceed employer and employee contributions



Sources of public pension revenue, 1987-2016

Retirement Benefit Comparison for General Employees
October 2019

RETIREMENT BENEFIT	SURFSIDE	BAL HARBOUR	BAY HARBOR	MIAMI BEACH	Pension Board Proposal
<p>Normal Retirement Date (general employees)</p>	<p>*62 birthday and 15 years of credited service; or * 65 birthday and 10 years of credited service</p>	<p>* Age 57 regardless of service; * 55 birthday and 25 years of credited service; or * 30 years of continuous service, regardless of age</p>	<p>*52 birthday and 20 years of credited service; or * 55 birthday and 10 years of credited service; or * 65 birthday without regard to length of credited service</p>	<p>* Age 50 and 5 years of credited service (Tier A- All other members); or * Age 55 and 5 years of credited service (Tier B - AFSCME hired on or after April 30, 1993; members classified as GSA or other hired on or after August 1, 1993, members of CWA hired on or after February 21, 1994; and unclassified members hired on or after October 18, 1992) * Age 55 and 30 years of service or age 62 with 5 years of service (Tier C - All members hired on or after September 30, 2010 (October 27, 2010 for members of CWA). Benefits for employees hired on or after July 14, 2010 and prior to September 31, 2013- The normal retirement date shall be as provided in sec. 66, except that a member must complete at least five years of creditable service, and must attain age 48 to be eligible for "Rule of 70" retirement.</p>	<p>Attainment of age 50 and completion of 20 years of service; the attainment of age 52 and completion of 15 years of service; or the attainment of age 55 and the completion of 10 years of service</p>

**Retirement Benefit Comparison for General Employees
October 2019**

Benefit CAP	% general; 80 % Senior Mgr	100%	100%	90 % cap for Tier A members; 80% cap for Tier B and C members	Increase maximum benefit cap to 80%
RETIREMENT BENEFIT	SURFSIDE	BAL HARBOUR	BAY HARBOR	MIAMI BEACH	Pension Board Proposal
Current Multiplier	2.8 % general employees, and 3% senior management	3%	2.75%	3%	
Vesting Schedule	5 years of service = 50%; 6 years of service = 60%; 7 years of service = 70%; 8 years of service = 80%; 9 years of service = 90%; and 10 years of service = 100 %	Less than 1 year of service= 0 %; 1 year of service = 10%; 2 years of service= 20%; 3 years of service = 30%; 4 years of service= 40%; 5 years of service = 50%; 6 years of service = 60%; 7 years of service = 70%; 8 years of service = 80%; 9 years of service = 90% and 10 years of service = 100 %	For members who terminate service on or after February 12, 2018 : * Less than 5 completed years of service = none * 5 completed years of service = 100%		
COLA	1.50%	2.50%		2.5 % Tier A and Tier B; 1.5% Tier C	2%

**Retirement Benefit Comparison for General Employees
October 2019**

Member Contribution	8%	8%	<p>At a minimum 2% ; General employee members desiring to increase their benefit accrual rate for membershipservice may at their individual discretion, elect to make additional, voluntary contributionsto the fund such that the total amount will be any full percentage rate from threepercent to ten percent.</p>	12 % Tier A; 10% Tier B and C	
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