CITY OF RIVIERA BEACH
PALM BEACH COUNTY, FLORIDA
CITY COUNCIL WORKSHOP MINUTES
TUESDAY, MARCH 27, 2012 AT 5:00 P.M.
MUNICIPAL COMPLEX CITY COUNCIL CHAMBERS

(The following may contain unintelligible or misunderstood words due to the recording quality.)

CITY MANAGER JONES: -- we'll check or (unintelligible) running it as --

CHAIRPERSON DAVIS: I mean, but anybody else need to be here that delays us starting?

COUNCILPERSON: She's going to –

COUNCILPERSON: (Unintelligible) now.

CITY MANAGER JONES: (Unintelligible).

CHAIRPERSON DAVIS: So how -- how long you need?

CHAIR PRO TEM BROOKS: I think I left my phone --(unintelligible) -- so we're waiting for Pam?

COUNCILPERSON: She's gone to get the rest of the (unintelligible).

CITY MANAGER JONES: All right. Go ahead without Miss Ryan.

CHAIRPERSON DAVIS: That's about what I was gonna -- gonna do.

CHAIR PRO TEM BROOKS: What's that?

CHAIRPERSON DAVIS: We were going to go ahead and get started.

CHAIR PRO TEM BROOKS: Yeah.

CHAIRPERSON DAVIS: Okay, everyone. Welcome to the workshop, our pension workshop. Madam Clerk, please call the roll.

DEPUTY CITY CLERK ANTHONY: Mayor Thomas Masters.

COUNCILPERSON: He won't be attending.

DEPUTY CITY CLERK ANTHONY: Chairperson Judy Davis.

CHAIRPERSON DAVIS: Here.

DEPUTY CITY CLERK ANTHONY: Chair pro-tem Billie Brooks.

CHAIR PRO TEM BROOKS: Here.

DEPUTY CITY CLERK ANTHONY: Councilperson Cedrick Thomas. Councilperson Dawn Pardo.

COUNCILPERSON PARDO: Present.

DEPUTY CITY CLERK ANTHONY: Councilperson Shelby Lowe. City Manager Ruth Jones.

CITY MANAGER JONES: Present.

DEPUTY CITY CLERK ANTHONY: Deputy City Clerk Claudene Anthony is present. City Attorney Pamala Ryan.

CHAIRPERSON DAVIS: Okay. Let's all stand for a moment of silence and the pledge. Shall we pledge?

(Everyone stood for a Moment of Silence with the Pledge of Allegiance being led by Chairperson Davis).

CHAIR PRO TEM BROOKS: Madam Chair?

CHAIRPERSON DAVIS: Yes.

CHAIR PRO TEM BROOKS: Do you know if this is being taped?

CHAIRPERSON DAVIS: Mrs. Jones, is this being recorded?

CITY MANAGER JONES: I don't think so.

CHAIRPERSON DAVIS: It should be.

CHAIR PRO TEM BROOKS: (Unintelligible) set yesterday.

COUNCILPERSON: Yeah.

CITY MANAGER JONES: Yeah. It might be. I don't think it's aired. I think it's recorded but not aired.

CHAIRPERSON DAVIS: It's being aired? Thank you.

CHAIR PRO TEM BROOKS: Oh, we just don't see it on the screen. Okay.

COUNCILPERSON PARDO: Hey, welcome back.

COUNCILPERSON THOMAS: How are you doing?

COUNCILPERSON PARDO: Good.

CHAIRPERSON DAVIS: Let the record reflect that Councilman Thomas is here.

COUNCILPERSON THOMAS: Yes, I am.

CHAIRPERSON DAVIS: City Attorney Pam Ryan is also on the dais. Mrs. Jones, item 4.

CITY MANAGER JONES: Thank you, Madam Chair. To the members of council, we have had several dates set aside for workshops leading up to our budget preparation. Tonight I would like for you to consider information as it relates to a defined contribution pension plan. It is my understanding that some 20 years ago the City embarked upon a discussion about a defined contribution plan. However, nothing materialized from that.

As we begin to look at the impact of the pension plans on the City's budget, we realize that at some point we needed to bring forth additional alternatives other than the defined benefit plan that is currently in existence for our general employees, our fire, as well as our police employees.

We solicited the assistance of Michael Montgomery from Montgomery Plan Advisors to sit with us to help us understand the differences between the plans and to make recommendations. As we look toward years out, this is not a quick-fix sort of option. But it is the kind of option that many cities, counties and states are considering as we look at the obligations that entities have toward pensions and that increased obligations and the unfunded obligations that are out there. These plans are not new. But we felt -- I felt as though, as the manager, that it was important for me to bring forward to you an option that I felt would be fiduciarily my responsibility for your consideration as we look toward the future and how we go about administering our pension plans.

I would like to introduce right now Michael Montgomery. He will go through his presentation. In preparation for that, if there are individuals within the audience that would like to make comment during public comment, I would encourage them to fill out the pink public comment card and to bring them forward. And then we will have discussion and questions by council. So right now I would like to introduce Mr. Michael Montgomery.

CHAIRPERSON DAVIS: Good evening, sir.

MICHAEL MONTGOMERY: Good evening. I am Mike Montgomery. I am managing principal of Montgomery Retirement Plan Advisors. We're a firm that deals exclusively with retirement plans, both public sector, as with your plan, and also with 401(k) and not-for-profit 403(b) plans. That we're knowledgeable in the area of defined benefit plans, our area of specialty could accurately be said to be defined contribution plans.

So we've had the pleasure of discussing pros and cons of different types of plans, the financial impact of these, and ways that a plan might be designed to help meet the needs of your employees here. We don't have an advocacy position here, just wanted to describe the facts to you and answer any questions that you have.

CHAIR PRO TEM BROOKS: Madam Chair?

CHAIRPERSON DAVIS: Yes, Miss Brooks.

CHAIR PRO TEM BROOKS: Before we begin, I see that we do have some representatives from both the police and general employees. And I don't know if they heard that they could fill out a card if anyone has any questions. And we would encourage them to do it. And if they don't want to have any questions (unintelligible) they could just not speak.

CHAIRPERSON DAVIS: Okay. We will have public comments. So if you want to fill out a pink card back there, fill it out and give it to Miss Jones. Okay? Go ahead, sir.

MICHAEL MONTGOMERY: Thank you. What I'll cover in a few minutes here is three main areas: basic trends in U.S. pension plans, mostly private or public sector but also with a reference to what trends have been in the private sector. Defined benefit plans, which is what you have now, versus defined contribution plans and describe the pros and cons -- different characteristics, really -- of each of those. And then in our discussions with the committee, with staff, some of the potential changes that you might implement with your retirement plans here in the City. A couple of quotes here just pulled from different sources to help describe the direction things have gone in. Overall in the United States, and really starting first with private sector plans, the defined contribution plans -- and again, I'll be more specific in what that means. It means a fixed percentage of paid benefit or something that is based upon how much goes in, not how much comes out at retirement in a plan.

This type of plan, which includes -- in the governmental world you currently have a 457(b) plan, purely voluntary contributions by employees. And that's defined contribution. No money other than possibly some administrative costs go in to that plan except for out of employee pockets voluntarily there. 401(k) plans -- and in the nonprofit world, 403(b) plans -- these are all defined contribution plans.

Around the United States, the traditional defined benefit plans have all but been phased out in the private sector for a variety of reasons, mostly financial. The big corporations that we all know out there have felt they simply couldn't afford them anymore and so the trend has been toward defined contribution. There are benefits in that and there are downsides to that, as well, which are beyond the details that I'll cover here today. But that has been the trend.

And the defined benefit plans in the private sector really now are primarily remaining in small, closely held companies like doctors, small groups of professionals, for totally different reasons than they were originally intended. Mostly because the high-income individual can put a lot of money into them, frankly, and that's different than the corporate world.

Now, in the public sector, about a third -- this sets the stage more than anything else. About a third of state and local government pension plans in 2006 were less than 80 percent funded. Meaning every year as you have to true-up the books to see if you're on track to be able to pay out all the benefits that you've promised to everybody, a third of them had less than 80 percent of the amount of money. If they'd canceled their plan right away, they would have had to put another 25 percent in the plan to make good on their promises at that point in time. If you've got multi, multi-million dollar plans, that's a lot of money. So that's an issue.

By 2008, after the stock market crash where plans earned much less than they had projected and there were strains put on plans in other areas, as well, the percentage of underfunded plans increased to 46 percent, meaning only 54 percent of plans were adequately funded or even up to the 80 percent level at that point in time. So we ended up with a severe funding crisis in the public sector.

Now, in broad terms, not all -- not even a majority, but a good number of public sector plans have started to follow the private sector and shifted in part, as with the State of Florida plan, or entirely over to the defined contribution concept. We're seeing more of it even out in popular newspapers today as it's becoming more publicly acknowledged. There's a lot more discourse going on publicly among private sector employees, even, as to the tremendous cost of the defined benefit plans. And we think the pressures are going to increase in this area.

Now, the general trend overall or across public sector plans, the retirement systems there have about three and a half trillion dollars of pension liabilities. It's a tremendous amount of money. About 23 percent right now of it is underfunded. That's why the change has started here. And again, this quote that I have up on the screen which is part of a study done at Stanford just underscores that the trend is expected to accelerate over time.

Eleven states now in their primary retirement plans -- and this includes Florida -- have some defined contribution element in their defined benefit plans. I won't go into detail on the State of Florida retirement system. I'm not directly involved with that myself. But basically there's a voluntary option to move over to a defined contribution side. That's the framework what brings us to this point.

Now, as to your specific issue here, here's the dollars and cents of it as the numbers were given to me. If you look up on the screen, in 2012, the projected contribution for general employees is going to amount to a little bit over 37 percent of payroll. The number for fire is 37.11 percent and for police 36.73 percent. Let's average that for discussion purposes and say about 37 percent of payroll overall.

And you see on the right-hand side of the screen what that means in dollars and cents to your organization. To summarize the obvious, that's a very large percentage of the City budget.

COUNCILPERSON THOMAS: Madam Chair?

CHAIRPERSON DAVIS: Excuse me, sir. Mr. Thomas?

COUNCILPERSON THOMAS: Let me just make sure I understand this correctly, sir.

MICHAEL MONTGOMERY: Okay.
COUNCILPERSON THOMAS: Excuse me. Are you telling me that I need to add 3.2, 1.9 and $2 million all together and that's what's going to be our contribution for this year?

MICHAEL MONTGOMERY: As the figures were given to me, that's, yes, my understanding.

CITY MANAGER JONES: Yes.

MICHAEL MONTGOMERY: That is the budget.

CITY MANAGER JONES: As well as staff attended the general employees' pension board meeting last night and they're projecting for 2013 that the City would need to come up with $4,450,000 for the pension.

CHAIRPERSON DAVIS: Which pension is this? Excuse me.

CITY MANAGER JONES: For general.

CHAIRPERSON DAVIS: General.

COUNCILPERSON THOMAS: Alone? General alone is going to be –

CITY MANAGER JONES: For 13.

CHAIR PRO TEM BROOKS: That's almost (unintelligible).

CHAIRPERSON DAVIS: That's where you have the most employees.

COUNCILPERSON THOMAS: Yeah. I understand that. That's -- it's a lot of money. Okay.

MICHAEL MONTGOMERY: So the total would be a little bit less than $8 million for the overall City budget in 2012.

CHAIR PRO TEM BROOKS: Hmm.

MICHAEL MONTGOMERY: So this is what raised the question and I guess why they contacted me initially is that the amount of money involved here is presumably putting a strain on the budget as it is for many municipalities and other governmental units elsewhere.

So the simplest advantage of a defined contribution plan is by its very nature, you set the percentage of your budget that you want to go into the plan so you control that.

And then how that works out in terms of allocation and equity among employees is what comes next.

So I've got a couple of slides here that we'll just compare in several areas. What is the difference between defined benefit and defined contribution plans? And again, I know it's easier for me to throw this jargon around here. Defined benefit, again, is what you have now, and defined contribution is what we're discussing here. The benefit -- if I'm an employee here, under the defined benefit plan is, I don't have an account set up in my name and I don't have a fixed contribution that goes in in my name if I'm an employee. Instead I'm given a promise, a legal promise, an important promise that based upon a formula that is in the plan, if I work here X number of years and make a certain amount of money, I'll receive a certain percentage of my pay at retirement.

Now, how much it costs to pay for that benefit for me is the issue on the City's side or any employer's side. It's very loosely analogous maybe to if you have several kids and you'd like to save up for college education for them -- and you'll all be depressed when I finish with this, but the -- if you wanted to save up to put them all through college, you know approximately when they may be going to college. You're not sure what it's going to cost. You may know what you can spend, but you don't know exactly what it's going to cost. And you're not sure what you're going to earn on your money between now and then, but what you have made is a promise to somebody.

And over the years as you're trying to save money to meet that promise, you may have to adjust how much you put in. Maybe you didn't earn as much as you thought. Maybe you earned more. So you can put less in. But the financial burden is on the person making the promise. And that's the situation you're in right now.

Defined contribution, when I get to retirement after working for the City, it's how much money has been put in my account by the City and/or myself plus what I've earned on it. Pure and simple.

So the account is whatever it is grown to, like a savings or investment account. It may be twice what I need to retire comfortably. It may be a fourth of what I need to retire comfortably. It's all a function of how much has been put in, what it earned and how long contributions have been put in. So now we don't have the security, if you will, the certainty of how much I'm going to get out, only how much is going to go into the plan.

How is it paid? I've kind of touched on that. Usually the defined benefit plan pays in a monthly income. Based on this formula, I'm going to get $100 a month or $2,000 a month. It all depends on how the formula works. The defined contribution is, Here's your account. It's all yours. You can pull it out gradually, all at once or whatever you want to do. Roll it to an IRA, but it's defined as a lump sum.

As I mentioned earlier in the third point here, Does the participant have their own account? No, they have a promised benefit under defined benefit. But you have an account you can look at and see under a defined contribution plan.

As to whether it can be distributed before retirement, defined benefits, a lot of these plans have a variety of rules that -- so it's hard to give a hundred percent answer on almost anything, particularly in plans that are government plans that are not covered by the federal legislation called ERISA which governs private-sector plans. But generally speaking, you can't pull money out of a defined benefit plan like yours before retirement except in certain extenuating circumstances like disability or death.

Defined contribution plans, traditionally employees can't just pull their money out any time they want to while they're still working, but they normally do not have to leave it in there until retirement. Usually if you terminate employment and go somewhere else, you can pull your money out. Disability, death, sometimes certain hardships, even. It's, again, subject to certain provisions in the plan. But generally, you don't have to have your money in there until retirement. And this is an advantage and a disadvantage. It means that there frankly is -- more money comes out of defined contribution plans prematurely for other financial needs that we all have. And there's more of a tendency sometimes to not have all the money we need there at retirement if we've pulled it out too early.

Is it portable to another plan? Defined benefit plans, generally there's nothing to roll over to a new plan if they left here and went to work for City of Miami or something like that. You've got a promised benefit if you're vested in the plan.

A defined contribution plan, you normally -- that lump sum we've been talking about, that account in your name, you could take it out, you could move it to a new plan or to an individual retirement account. So it's more -- it is a more portable plan.

Now, the next one is the plan understood by participants. All we can do is generalize. Some understand one plan better than another. As a general rule, defined benefit plans are harder for most of us to understand and to visualize what this means in terms of its value. The formulas can be complicated. There's ifs, ands and buts in there. If you leave before this time, you may not -- you know, the benefit may be adjusted downward. Defined contribution plans, you know, you may say, It's easy for Mike to say it's relatively easy. On one level it's not.

But the basic concept of a defined contribution plan, I have an account. X percent of my pay is going in. It earned this amount of money and I can see online or through some other means what's in there. Employees get that. That's very easy for most of us to understand that. And therefore, sometimes the defined benefit plans are a little under-appreciated. They're worth a little more sometimes than we think they are.

Now, what is the funding cost? How is the funding cost determined? In other words, how much -- how do we know how much the City should have to budget for one of these plans? And this, of course, is a key point. On the defined benefit, as I mentioned with my saving for college analogy there, it's whatever it takes.

You've made a promise to participants and you hire someone as you have, called an actuary, that goes through a lot of calculations and probably comes back to you and says that, This year, here's a high and a low range, and you can kind of pick a number in that range. You need to put in at least this amount. If you have maybe a little more revenues this year, let's get ahead of the game and advance-fund it a little bit more. But you're given a number basically by an actuary and you have to stay on track. The underfunding that was referred to in some of my earlier slides means organizations were not on track.

Now, generally, when you get that far behind, the actuary doesn't come to you and say, You're $6 million behind your ultimate goal. Put it all in this year. They kind of spread it out over a few years, so it eases out some of the ups and downs. If your plan investments were to lose $2 million in one year, the actuary would not come back saying, Put your regular contribution in, plus another 2 million. They would spread it out over a few years. And that's how that works.

Defined contribution is simple in that if you're putting in X percent of pay, that's your budget. You can decide on a number today and walk out of here with your budget number.

COUNCILPERSON THOMAS: Madam Chair?

CHAIRPERSON DAVIS: Mr. Thomas?

COUNCILPERSON THOMAS: I have another question, sir. So that slide that you originally showed us of, I think it was somewhere close to $8 million with all of those plans combined, is that a larger number and this is something that's being spread out? Or is that actually how far the plan is behind?

MICHAEL MONTGOMERY: Not being the actuary or directly involved with your defined benefit plan, I don't have all that information. I don't know where your plan stands in terms of being underfunded or overfunded. Perhaps others here do. From the fact that your percentage is -- my understanding is -- has been going up over the last few years, that would indicate your plan was underfunded. How much, I don't know.

COUNCILPERSON THOMAS: Okay. But in all cases you're saying that the actuary won't request the actual sponsor to put in the entire amount. Is that the standard that you just put it in over the course of time?

MICHAEL MONTGOMERY: That's correct.

COUNCILPERSON THOMAS: Or is that just a practice that's done by some?

MICHAEL MONTGOMERY: No, no. That's standard. I've never seen a -- the only time I've ever seen a lump sum to catch up on a plan is when they're terminated.

COUNCILPERSON THOMAS: Okay.

MICHAEL MONTGOMERY: And then you have to catch up.

COUNCILPERSON THOMAS: And another question: What's the difference between defined contribution and a 401(k)?

MICHAEL MONTGOMERY: A 401(k) is a subset, if you will, of a defined contribution plan. All 401(k)s are defined contribution. Not all defined contributions are 401(k)s. A 401(k) is always a -- under the broad heading of defined contribution is anything that goes into a plan based upon the amount of dollars that go in per participant.

So the 401(k) which is generally structured as employees voluntarily put in a certain percentage of their pay and usually the employer matches. Like, for every dollar you put in, we'll put in 50 cents or a dollar. That's all defined contribution because none of it has to do with a promised future benefit. Just the money that goes in.

Likewise, a 457(b) plan like you already have with the City, which is very much like a 401(k) but without the matching contribution, is kind of the public sector version of 401(k).

COUNCILPERSON THOMAS: And you say we already have one of those?

MICHAEL MONTGOMERY: You have a 457(b) plan; that's correct.

COUNCILPERSON THOMAS: And who has that?

MICHAEL MONTGOMERY: All employees that work for the City, is my understanding. Is it?

DORETHA PERRY: Yes. We have two 457 plans. One is with Nationwide and the other one is with VALIC.

MICHAEL MONTGOMERY: VALIC.

COUNCILPERSON THOMAS: But that's all voluntary? That's –

DORETHA PERRY: Yeah, it's voluntary.

COUNCILPERSON THOMAS: So not all employees are participating in that?

DORETHA PERRY: Yes. And anyone can participate in that plan. And it's voluntary.

MICHAEL MONTGOMERY: Think of that as a payroll deduction plan, if you will.

COUNCILPERSON THOMAS: Okay.

MICHAEL MONTGOMERY: Now, all of those fall under the very broad heading of being defined contribution.

COUNCILPERSON THOMAS: I guess I'm just trying to understand. Is defined contribution just a fancy way of saying 401(k)?

MICHAEL MONTGOMERY: Yes, but it covers more than 401(k). It's a way of saying 401(k) and any other retirement plan that is based upon a certain level of contributions going in.

For example, we don't see them as much anymore but plans that used to be -- well, they're still called profit-sharing plans where, in the private sector, an employer might say, We've made some more profits this year, so we're going to give everybody 3 percent of their pay into this profit-sharing plan. That would be under the broad heading of defined contribution, too.

But it would not be a 401(k). 401(k) just specifically refers to the payroll deduction voluntary contributions by employees into a retirement plan which are tax deductible as they go in, tax deferred, and which is matched generally by money from the employer.

COUNCILPERSON THOMAS: Okay.

MICHAEL MONTGOMERY: Short answer kind of is it's a fancy term for 401(k) but it covers more than 401(k).

CHAIRPERSON DAVIS: I'm going to hold my questions until you're done.

MICHAEL MONTGOMERY: Okay.

CHAIRPERSON DAVIS: Okay.

MICHAEL MONTGOMERY: Thank you.

CHAIRPERSON DAVIS: I do have (unintelligible).

MICHAEL MONTGOMERY: How predictable are the costs? We've touched on this. Defined benefit, it can rise or fall. It tends to be kind of gradual as they spread out everything from employees -- losing employees, hiring on new employees, they tend to try to smooth these out a bit over years.

Defined contribution -- but it does rise or fall. Defined contribution plans are totally predictable because your only promise to the employees is, We're going to put in X percent of pay. So that's the big defining factor right there.

What affects how much the contributions are into the plan; on the defined benefits side, employee demographics. For example, if you tended to hire older employees, that would tend to be more expensive generally in a defined benefit plan. How much you earn in the plan or if you lost a lot of money in 2008, that means you've gradually got to make it up over time. And then past contribution levels. Have you put in the minimum amount every year or have you tended to put in a little bit more to get ahead of your savings a little bit there?

Those all affect the contributions in a defined benefit plan. Expenses do, as well, that are pulled out to pay actuaries and investment companies. Defined contribution plans, really only one thing affects the costs of the plan and that is the amount you choose to put in the plan. There may be some other smaller costs like a fee for an attorney to be involved or if you pay someone like me separately, those could be costs of the plan, too.

Now, the investment risks associated with these. Both of these plans invest in a variety of sorts of investments and that's not the primary scope of this discussion today. But under defined benefit plan, the risks are borne by the employer. If bad investment decisions are made, if you just have bad luck and several years of losses in whatever you invested in, that doesn't hurt the employee. They still have their benefit promised. It means you just have less money in there. It means the employer's got to put it in or earn more.

On the defined contribution plan, if the employee invests in an investment that earns 25 percent, doesn't do you any good or hurts you at the City. They benefit tremendously.

And likewise, if they're invested in a riskier fund and it drops 20 percent, that's their loss. So though employers can make all the investment decisions for defined contribution plans as you do with your defined benefit, very often discretion is given to the employees within a reasonable range of funds to make selections as to how they want to invest. And I believe I touch on that in a later point here.

Is there unfunded liability exposure? Yeah, that's a fancy way of saying, as I mentioned earlier, if there's not enough money in the plan, the employer's on the hook. You've got that risk. If the money's not there, you've got to make it up. On defined contribution, whatever you budgeted and put in that plan, you're done. If you ever terminated the plan, as long as you've put in all the money as you promised it, which you would –

CHAIRPERSON DAVIS: Uh-huh.

MICHAEL MONTGOMERY: -- you're paid up. There's no fear of never being able to get out of the plan because you could never raise the money to catch up on the funding. So you don't have that risk.

And a final couple of things; I just touched on this a second ago. Who makes the investment decisions? The employer. On the defined contribution plans, the employer may make the decisions, but the trend is in the direction more and more of allowing the employees to make choices from among a reasonable selection of funds.

Now, I repeated the who bears the investment risks again there. The employer does on defined benefit and employees on the defined contribution side.

CHAIRPERSON DAVIS: Uh-huh.

MICHAEL MONTGOMERY: And a last point which kind of gets back to the investment decision making. Who monitors them? Who's responsible for the investments, for picking the funds, how the investments are made, when it's time to replace a bad fund manager with one you think is better? Who does all that? Who makes sure the fees being paid to investment people are reasonable for what they're delivering?

The unfortunate answer really there is the employer's liable on both sides, even if they're not controlling the investment decisions. On the defined benefit plan, it's easy. You have a pension board and they pick the investment managers that you're using in your defined benefit plans. And therefore, they bear fiduciary liability, actually on a personal basis, for those decisions. So it's a very serious responsibility.

COUNCILPERSON LOWE: Madam Chair?

CHAIR PRO TEM BROOKS: Madam Chair? Oh.

MICHAEL MONTGOMERY: On the employees -- if you have –

CHAIRPERSON DAVIS: One second.

COUNCILPERSON THOMAS: Hold on, sir.

CHAIRPERSON DAVIS: One second.

MICHAEL MONTGOMERY: I'm sorry.

CHAIR PRO TEM BROOKS: He was first.

CHAIRPERSON DAVIS: Okay. Mr. Lowe, then Miss Brooks and then I have a question.

COUNCILPERSON LOWE: I'm speaking in reference to the -- you said who monitors the investment accounts and the liability.

MICHAEL MONTGOMERY: Yes.

COUNCILPERSON LOWE: What type of liability would exist for the contribution? Would it be the same liability assumed under the defined benefit? 'Cause you're saying there is some liability.

MICHAEL MONTGOMERY: Yes.

COUNCILPERSON LOWE: What liability is that?

CHAIR PRO TEM BROOKS: That was my question, too.

MICHAEL MONTGOMERY: There's liability on both sides. How you deal with the liability is what differs between the two kinds of plans. Specifically on the defined benefit plan, you have a pension board -- or is it multiple boards for the different plans?

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: Okay. You have a pension board that literally picks the investments. And I presume they have outside investment experts to help them with that. Were the board in that situation to either, one, not have the expertise themselves but then not hire an outside expert, they probably would be carrying a lot of liability because they would be doing something they weren't trained for. And they could bear personal liability for that.

COUNCILPERSON LOWE: Uh-huh.

MICHAEL MONTGOMERY: So the board on the defined benefit side bears the liability and they deal with that by hiring an outside expert to help them. And then their due diligence at that point primarily becomes to make sure they've investigated who that expert is.

COUNCILPERSON LOWE: Uh-huh.

MICHAEL MONTGOMERY: You never know for sure but how many other plans do they deal with? What are their credentials, who monitors them, and all of that. And so as a layperson who doesn't consider yourself an expert, perhaps it would be just make sure you know who you hire to help you with those decisions.

The defined contribution plan is similar but a little bit different. Here, especially if you're allowing employees to pick from a group of funds -- let's say, you're going to have 20 mutual funds, some of them that are guaranteed and won't lose money, some of them that are investing in overseas stocks. Some of them are investing in big U.S. stock companies. Maybe real estate funds. The various types of mutual funds that are available there. And you give these 20 funds to the employees and say, Y'all have the right individually to pick them. So maybe the older people want to be more conservative and the younger ones more aggressive, that sort of thing.

Where your liability comes is in who picks those 20 funds. There's 20,000 mutual funds out there. And so now it's a different sort of selection there. Who picks that menu. A lot of organizations think that the provider, the VALIC or Nationwide is a fiduciary. And unfortunately, this is not true. I'll stay off my soapbox on that but it's kind of a little scary sometimes when organizations realize the folks they thought were responsible really would not probably be so if there was a lawsuit.

So who picks those 20 funds? And the answer is just like with the defined benefit plan. If you're not an expert yourself, you hire an expert to help you do that, to pick those funds. One who has the credentials and has a system that they can document why they picked this particular fund and all of that.

And then, ultimately, the employee making the decision from those pre-selected groups of funds, it shifts some of the liability to the employee. And there's certain rules, if you follow them, you provide proper education, communication and a right selection of funds. So you didn't just give them a bunch of funds, all of which could go way down in value. There were safer ones there, that sort of thing. Then it helps relieve fiduciaries of liability in that regard.

So we relieve fiduciary liability on the defined contribution side by picking the right funds and then by helping employees make good decisions. And what the emerging trend is across all defined contribution plans, 401(k) and these types of plans, because to the surprise to those of us in the industry who enjoy all this stuff, most employees aren't in these plans to have fun. They just want to save money for retirement, and of course that makes perfect sense.

So what's emerged over the last 10 or 15 years is funds that do it all for you, that will say, Look, if you're an aggressive investor, just check this box and professionals are going to put your money among five or six funds that are a suitable portfolio. You don't have to try to become a personal expert as an employee in the plan. Those have become very popular. Some of them are based upon how old the employee is. If I've got 10 years to go until retirement, I'll check this box and it's going to be fairly conservative because I'm approaching retirement. So it's kind of a long answer to your question and I apologize but –

COUNCILPERSON LOWE: Yeah. Well, it clears it up. And I think you've answered a lot of questions in itself.

MICHAEL MONTGOMERY: Okay. Okay.

COUNCILPERSON LOWE: And I realize those liabilities are common to both, you know, the contribution and the benefit side now that you've explained it. So I appreciate that.

MICHAEL MONTGOMERY: You're welcome. And your understanding is correct. The liability doesn't go away. It's like any other liability in other areas, public safety and everything else. It's how you deal with it.

COUNCILPERSON LOWE: But if an employer -- the employee doesn't like the funds, the 20 funds picked, they just go after their own board, then?

MICHAEL MONTGOMERY: Yes. Yeah.

COUNCILPERSON LOWE: Okay.

CHAIRPERSON DAVIS: Miss Brooks?

CHAIR PRO TEM BROOKS: Okay. Mr. Montgomery, I'm trying to get a picture now of what changes we as a plan sponsor will assume with this new concept here, the new program.

MICHAEL MONTGOMERY: Okay.

CHAIR PRO TEM BROOKS: We have three pension boards rights now. We've cited those, listed those. When we come over to the defined contribution side of this, we're the employer. We have a fiduciary responsibility to this new program, the new pension, defined contribution program.

MICHAEL MONTGOMERY: Correct.

CHAIR PRO TEM BROOKS: Whereas the pension boards now, they govern, they hire and determine who the investment manager going to be. When we come over on this side, who is going to be the person that will work with the City to help with the monitoring of that fund? Because we're talking about really two different pension plans under the City.

MICHAEL MONTGOMERY: Yes. Yes.

CHAIR PRO TEM BROOKS: So as a plan when we come over to the new role, how is this going to be structured and will we, like, need another position, a person in place for this new pension plan?

MICHAEL MONTGOMERY: That's an excellent question and I'll quickly, without getting ahead, want to mention that what's not being proposed is to terminate the old plans.

CHAIR PRO TEM BROOKS: Correct. Uh-huh.

MICHAEL MONTGOMERY: But to introduce this new plan for new hires.

COUNCILPERSON LOWE: Absolutely.

CHAIR PRO TEM BROOKS: Right.

MICHAEL MONTGOMERY: Okay? I gotcha.

CHAIR PRO TEM BROOKS: And that's what -- I'm assuming that.

MICHAEL MONTGOMERY: Okay. So -- how would you do –

CHAIR PRO TEM BROOKS: But I just wanna know how we are going to now as a different kind of plan sponsor or an employer working with new people in a program, our role here -- and since you mentioned about liabilities, is this a liability that would place us to be sued if the employee finds that their investment is not giving the kind of return that they desire? So it's just trying to get some clarification here specifically to where our liabilities are, because such a liability will have a cost.

MICHAEL MONTGOMERY: Yes. Those are all excellent questions. I may answer them in reverse order here. Your liability is not greater or less than it is on the defined benefit side. It's just the mechanisms you put in to deal with it. But are you more or less likely to be sued on the defined contributions side? I don't think so. I think it's, you know, about the same. It's all -- you know, if you were irresponsible with one of the plans like the new one and very responsible with the old one, obviously you would be more likely to be sued on the new one. There's ways of dealing with it on both sides. And that's what I'll describe the second half of my question.

So no, this is not -- you should no more be afraid of the fiduciary liability on the defined contribution plan than you are on the defined benefit plan or, for that matter, under your current 457(b) plan. The fact that it's voluntary money only going in does not mean you do not have fiduciary liability.

In fact, arguably could put you more under the spotlight because it's all employee money that you're dealing with there. So the liabilities are there. It's not greater with the defined contribution plan, no. There's also been -- you have the benefit of decades of law, both in public sector and in private sector, where litigation that has taken place in the 401(k) field –

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: -- yours is not a 401(k) plan but it, again, is defined contribution. It's under the same umbrella. And we know where the safe harbors are. We know what you need to do to fulfill fiduciary responsibilities to where you can sleep well at night knowing that you've fulfilled your role and, therefore, cannot be successfully sued.

Now, to the first part of your question there about the pension boards and committees. Yes. You need to set up -- call it a board or a committee, whatever governing body there is. As you have on the defined benefit plans, you need to set one up over the defined contribution plans. It may be some of the same people. It may be one of the existing boards. You know, it could be whomever you feel is appropriate. And that's a good discussion, you know, that I'd be happy to guide you through at some point. But you do need an oversight committee.

CHAIR PRO TEM BROOKS: Uh-huh. Uh-huh.

MICHAEL MONTGOMERY: And it will probably keep down the number of volunteers for that if you remind them they're all fiduciaries, just like the pension board –

CHAIR PRO TEM BROOKS: Right.

MICHAEL MONTGOMERY: -- is fiduciaries to the plan. Having set that up, you want to leave proper documentation upfront. There's something called an "investment policy statement."

CHAIR PRO TEM BROOKS: Policy. Yeah. Uh-huh. Uh-huh.

MICHAEL MONTGOMERY: I'm sure you have them on your defined benefit. It will be different, but the same kind of a document –

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: -- under a defined contribution plan. It will read things like, The objective of our investments is to, you know, avoid extremely high-risk funds. We want to give a suitable –

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: -- variety of funds, so that employees can have secure funds and ones that may earn more over time appropriate to older and younger demographics, that sort of thing.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: You establish that in writing. And then it's a matter of simply having regular processes for monitoring those funds with a recognized investment monitoring system. Unfortunately, you know, our firm's been looking for that crystal ball for years and we haven't found it. And there's five or six nationally recognized fine investment monitoring systems that aren't relying on anyone's hunches.

CHAIR PRO TEM BROOKS: Uh-huh. Right. Right.

MICHAEL MONTGOMERY: You know, it's all about the numbers. So have a proper process. Have the meetings. Keep the minutes just like you do on the board side. As to who you hire, you could hire, you know -- I didn't come here to do an advertisement. Our firm does this, but I've been engaged right now simply for this study.

CHAIR PRO TEM BROOKS: Right.

MICHAEL MONTGOMERY: There are other fine firms, as well. If you liked our work here, we'd love to be involved. If there's a reason you wanted to hire someone who lives locally, that's fine, too. You know, but just hire an outside expert.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: Because your liability at that point is going to primarily rest upon who you hire and whether you follow the processes that they set up for you.

CHAIR PRO TEM BROOKS: Well, because we're looking at perhaps implementing this in October. And, of course, all that you're saying to me I'm just thinking about action plan, action plan, which I'm sure the city manager is already looking at that, too. Because then we would need to have this amount of time to begin to do what we need to do in terms of research and finding agencies or programs or whatever to help us get this started.

MICHAEL MONTGOMERY: I believe that we've set up some preliminary timetables. In fact, we're originally, I believe, looking for July 1. And we could have hit that one. I believe October 1 is -- in our timetables we end up with a couple of months in there of more time than we need as long as you move along at a steady but not overly pressured pace. So I believe that timetable is fine if y'all are comfortable with it as you examine it.

CHAIR PRO TEM BROOKS: Yeah. There was a timetable there. Okay.

MICHAEL MONTGOMERY: Yeah.

CHAIR PRO TEM BROOKS: Uh-huh. Okay.

COUNCILPERSON THOMAS: Madam Chair?

CHAIRPERSON DAVIS: Mr. Thomas?

COUNCILPERSON THOMAS: I have a question here. Sir, what is it that the fire pension is doing that the police and general are not doing. How come the fire pension is higher funded than the -- than the police and general?

MICHAEL MONTGOMERY: To be honest, I don't know, beyond being given some basic numbers. Not being involved with your plans, I just don't know the background there.

CHAIR PRO TEM BROOKS: No, they got (unintelligible) funded (unintelligible).

CHAIRPERSON DAVIS: (Unintelligible).

COUNCILPERSON THOMAS: They're what, now?

CHAIRPERSON DAVIS: That's half of their pension.

CHAIR PRO TEM BROOKS: I would just try to answer that.

COUNCILPERSON THOMAS: Well, what's the –

CHAIR PRO TEM BROOKS: They really have excellent investment managers and that's the big difference.

CHAIRPERSON DAVIS: Right.

CHAIR PRO TEM BROOKS: You've got to have people who are excellent in investing, and they do it. And some, you know, others are holding on to people's that's not doing anything for them.

CHAIRPERSON DAVIS: Uh-huh.

COUNCILPERSON THOMAS: Well, let me –

CHAIR PRO TEM BROOKS: And they need to get rid of them.

COUNCILPERSON THOMAS: -- let me ask you this: Do we have any oversight of that? I mean, because I would like to see the general and the police, as well, be funded actually higher than what the fire is. But the fire is funded over 85 percent in most cases. I mean, do we have oversight to say that they need to be looking at different investment managers or –

COUNCILPERSON: Get the same one.

MICHAEL MONTGOMERY: That would be the responsibility of your pension board.

CHAIR PRO TEM BROOKS: Board, yeah.

MICHAEL MONTGOMERY: And the advisors to the plan -- again, I don't know who they are, but I know you have an actuary. The actuary might render an opinion on whether your investment managers were doing their job if you ask them. But most actuaries don't consider themselves to be investment experts. They usually would not say, Hey, you're dealing with a bad organization, you know, or a weak organization.

COUNCILPERSON THOMAS: No. Let me make you understand further what I'm trying to get at.

MICHAEL MONTGOMERY: Okay. Certainly.

COUNCILPERSON THOMAS: If, okay, like, the slide that you had up a few slides ago -- say, for instance, we have to put in $3.9 million.

MICHAEL MONTGOMERY: Okay.

COUNCILPERSON THOMAS: If they have invested -- I don't want to call them bad, but if they have investors that are not doing as well as the others, why wouldn't we mandate for them to use that that will lessen the load on the City to have to contribute?

MICHAEL MONTGOMERY: Why wouldn't you mandate that they change investment managers, are you saying? Or –

COUNCILPERSON THOMAS: I'm saying how come there's no oversight that this board can say, Hey, listen. You need to look at this particular investment because that lessens what the City has to put in.

MICHAEL MONTGOMERY: I would think the city council would certainly have that authority to do that. It rests with the board. If the board didn't take action, then I imagine the city council could make that an issue with the boards.

COUNCILPERSON THOMAS: Do the three -- and you might not know this, but Miss Jones or Miss Perry, the three of these boards, do they ever meet together? Do they ever have, like, a tri-meeting or a joint meeting to, you know, see what one board is doing or -- that may be something that we want -- do they?

DORETHA PERRY: No, they don't. No. They don't have meetings together and that's what I was just sharing with Miss Jones, is that we don't know if the general is aware of the fire and the police investment and what percentage they're funded. I really don't know that. They might not know it.

COUNCILPERSON THOMAS: Well, the reason why it's causing me pause is because when you start looking at the general funded 20 percent less than the fire, that's a major number when you're talking about a multi-million dollar fund. I mean, the police aren't as far off, but you have more participants in the general. I believe you have more participants in the general. And they're funded at the least amount. That causes me concern because that's the -- that's the greatest exposure we have, 'cause it's more people in that. So are all boards -- do they get the same information? Are they, you know -- is everything standard across or –

DORETHA PERRY: Well, they have their own investment managers. They have their own actuaries.

CITY MANAGER JONES: They do. But they're all separate.

CHAIR PRO TEM BROOKS: Uh-huh.

DORETHA PERRY: Now, the general and the police have the same actuary.

CHAIR PRO TEM BROOKS: We can recommend, I'm sure –

DORETHA PERRY: The fire has –

COUNCILPERSON THOMAS: The general and the police have the same actuary but not the same investment –

CHAIR PRO TEM BROOKS: Uh-huh.

DORETHA PERRY: Right.

COUNCILPERSON THOMAS: Okay.

DORETHA PERRY: Right. But what -- and the fire has -- they also use the same actuary but they use a different firm. The firm is out of town and –

CHAIRPERSON DAVIS: The monitors and the firms, yeah.

DORETHA PERRY: -- the other firm is more local; the actuary's more local.

COUNCILPERSON THOMAS: Okay. But the actuary has nothing to do with investing, correct?

DORETHA PERRY: Right.

CHAIR PRO TEM BROOKS: Uh-uh. Uh-uh.

COUNCILPERSON THOMAS: So I'm trying to get to the point of the investment. Is that something that we can have them do -- have the firms -- have the pensions all meet, like, maybe quarterly or at least, you know, once a year or something to come together and say, Hey, listen, your fund is performing a little bit better. You know, what do we need to do to get ours up?

COUNCILPERSON: Uh-huh.

COUNCILPERSON THOMAS: That caused me a lot of pause because it's 20 percent underfunded than the highest ones that we have.

COUNCILPERSON: Uh-huh. Uh-huh.

COUNCILPERSON THOMAS: And they have the most participants in it.

CHAIRPERSON DAVIS: Uh-huh.

DORETHA PERRY: I'm sure they could all meet together and -- because, you know, this is my first time seeing this, also. So, you know, they might be unaware that they're performing a little higher than the others.

CHAIR PRO TEM BROOKS: Let me just interject here, if you will. Because, you know, every quarter, whenever they meet, they get a report on what is going on with the fund. And I believe it's called the monitor, the person who tell –

UNIDENTIFIED SPEAKER: Consultant.

CHAIR PRO TEM BROOKS: The consultant. The consultant, yes, is the one who should say whether or not the fund is being adequately managed by these investment managers. And all we need to ask for is the quarterly reports and look at these reports and see what the consultants are recommending. You know, the –

MICHAEL MONTGOMERY: I agree, yeah.

CHAIR PRO TEM BROOKS: -- the fire people, they have got, you know, just excellent investment people. And we should be encouraging all of the pension boards, the police and the general, to look at some of these investment –

COUNCILPERSON THOMAS: That's what I'm saying.

CHAIR PRO TEM BROOKS: -- firms who are making money for the fund.

CITY MANAGER JONES: Yes.

CHAIR PRO TEM BROOKS: It's just as simple as that.

CHAIRPERSON DAVIS: Yeah.

CHAIR PRO TEM BROOKS: But we have not been watchful over this as we should have been. And I had said that I really wanted to be a liaison person for these different boards, having been the chair of the police fund for a few years. Because at least I could report and let you know what is going on.

We can't mandate that they change investment managers, but certainly we should be able to strongly recommend. And if you've got people on that board who is allowing this to go on in spite of a consultant's recommendation, then we need to look at the makeup of the board.

CHAIRPERSON DAVIS: Absolutely.

COUNCILPERSON: Uh-huh.

CHAIR PRO TEM BROOKS: So, you know, it is what it is right now. This is a wake-up call. This is a wake-up call. What are we to do going forward? You know, we don't want to solve it here. We can't solve it right now because the, you know -- we're here to talk about this defined contribution.

But this is -- we need to get the chairs. We need to have whomever from each of those boards come to us and talk to us in plain language about what's going on. Because they can give you graphs and charts and I tell them I don't care about the graphs and chart and what color they are. Am I making money or not? If I'm not making money, then I don't need that person. If we show that a history is that they've been losing money to a fund, you get rid of them. Hire somebody else.

CHAIRPERSON DAVIS: And my question to this is: Can we mandate that the boards talk to each other?

COUNCILPERSON THOMAS: That's what I just asked, yes.

CHAIRPERSON DAVIS: And that's, you know -- I mean, if they're separate individual, you know, boards, general, fire and police, can we mandate that they meet? You know? I mean –

COUNCILPERSON THOMAS: I guess if you put it in the bylaws. If we put it in the bylaws then –

CITY MANAGER JONES: I don't see why you cannot.

CHAIRPERSON DAVIS: But I don't see why we can't, either, but is there -- is that step necessary, to put it in the bylaws, you know, to say, Hey, y'all meet on a quarterly basis or whatever. You know –

COUNCILPERSON: Once a year.

CHAIRPERSON DAVIS: -- to share ideas.

COUNCILPERSON: Something.

CHAIRPERSON DAVIS: You know?

COUNCILPERSON THOMAS: I asked the attorney. She said she –

CHAIRPERSON DAVIS: But -- okay.

COUNCILPERSON THOMAS: -- she said she didn't know at this time.

CHAIRPERSON DAVIS: You know, okay. But I -- and I have a couple other questions. Why is there no -- why are there no numbers for general and fire for 2011?

CITY MANAGER JONES: Just received last night the actuarials for general. So they come in at different times.

CHAIRPERSON DAVIS: Okay. Well, I know that for a few years, there was, like, two or three years that we didn't have figures for one of them. And I believe it was fire. I'm not sure. And it could have been police. But, you know, if we're going to be -- have to put money in, you know, then at least we should be getting the reports on time.

CITY MANAGER JONES: Yeah.

CHAIRPERSON DAVIS: You know, in a timely manner.

CITY MANAGER JONES: So general's is up to date with what was presented on last evening.

CHAIRPERSON DAVIS: Uh-huh. So we don't know what 2011 figures are.

COUNCILPERSON THOMAS: It's not on here, though.

CITY MANAGER JONES: No. We just got –

DORETHA PERRY: Well, yeah, we haven't –

CITY MANAGER JONES: -- this document. We haven't –

DORETHA PERRY: -- received the actuarial –

CITY MANAGER JONES: -- (unintelligible) –

DORETHA PERRY: -- reports from police and fire yet. We just received it –

CHAIRPERSON DAVIS: Well, police's is on here.

COUNCILPERSON PARDO: Well, police is on there.

DORETHA PERRY: Okay. Uh-huh. We don't have fire. Yeah. We have -- fire is doing it tonight? Yeah. Fire is meeting tonight. So we'll probably get that tomorrow.

CHAIRPERSON DAVIS: Okay.

CITY MANAGER JONES: And we'll be able to fill in those numbers for you.

COUNCILPERSON THOMAS: Well, Madam Chair, I -- my issue is -- were you finished?

CHAIRPERSON DAVIS: Go ahead. Go ahead.

COUNCILPERSON THOMAS: Well, my issue is we're looking at another plan because of the amount that we have to continue to contribute to this.

CHAIRPERSON DAVIS: Uh-huh. Right.

COUNCILPERSON THOMAS: This may not be -- because basically, you know, you have a government job for these type of pension plans and for these type of benefits. You know, so if you're going to entertain taking that type of benefit away, would it not be prudent for us to see if we can get the investment managers to do the same type of investments that fire is doing before we start to entertain taking this type of benefit away?

CITY MANAGER JONES: And sir, Councilman Thomas, the individuals that are currently in defined benefit will stay.

CHAIRPERSON DAVIS: Right.

CITY MANAGER JONES: We're not taking it away from them.

CHAIR PRO TEM BROOKS: Right.

CITY MANAGER JONES: But it is important that we make sure that the investments for the pension board and for all three of them are sound investments.

CHAIR PRO TEM BROOKS: Right.

CITY MANAGER JONES: And assist them any way we can in getting them to change.

CHAIR PRO TEM BROOKS: Uh-huh.

CITY MANAGER JONES: The defined contribution plan would only be for new hires after a set date.

COUNCILPERSON THOMAS: Right. And I understand that. But I'm looking at the quality of employee that we might be losing because we don't have that same type of benefit.

DORETHA PERRY: If you look at a lot of municipalities around, they do offer defined contribution plans, because you've got to realize –

COUNCILPERSON THOMAS: They offer it as the sole –

DORETHA PERRY: Yes.

CHAIRPERSON DAVIS: Uh-huh. Yes.

DORETHA PERRY: Yes.

COUNCILPERSON THOMAS: I mean, do you have those? Do you have those, a list of those cities?

DORETHA PERRY: And then some –

COUNCILPERSON THOMAS: Maybe it's something we could look into.

DORETHA PERRY: Yeah, I can get you the information.

COUNCILPERSON THOMAS: Okay.

DORETHA PERRY: But then some of them have offered it -- those persons in the defined benefit, they have placed them in the defined contribution. We're just being sort of nice and just allowing those individuals who are in it to stay in it and then it'll be -- those who are new hires will then enroll in this plan. But this is not –

COUNCILPERSON THOMAS: Are you saying that the cities just took them out of their pension plan and put them in a –

DORETHA PERRY: That's correct.

CHAIRPERSON DAVIS: That's right.

DORETHA PERRY: Yes. That's correct.

CHAIR PRO TEM BROOKS: Uh-huh. They sure have.

COUNCILPERSON THOMAS: With no repercussion at all?

DORETHA PERRY: You know, they had a fight with the unions and the, you know, pension -- yeah.

CITY MANAGER JONES: The governor tried to do that in the first session.

DORETHA PERRY: Oh, yeah.

CITY MANAGER JONES: That's what he wanted to do.

CHAIR PRO TEM BROOKS: That's what he wanted to do?

DORETHA PERRY: Yeah. I mean, it's because -- and it's not -- I mean, they have the investments fine. But the actuaries indicated last year, because of, you know, governmental investments, you know, everybody who has these defined benefit plans are losing money. So, you know, that's why we want to introduce this so that we don't have to pay all that money in the defined benefit plan. But this isn't -- this isn't uncommon. It's something that's really going, you know -- is worldwide.

COUNCILPERSON LOWE: Madam Chair?

CHAIRPERSON DAVIS: And you know -- and you know –

DORETHA PERRY: And then it allows employees to put in not just -- like we put in 6 percent, they might want to put in 12 percent, you know, 10 percent and so forth.

COUNCILPERSON THOMAS: Uh-huh.

CHAIRPERSON DAVIS: And even if -- even with it being -- with some of our units doing much better than others, you know, there's still going to be that unfunded amount that the City is going to have to place in, you know, each of them. And I mean, fire is almost 2 million, 1.8. Police is a little over 2 million. So it's going to always be that if we don't do something to move away from it. Mr. Lowe, I think I heard you.

COUNCILPERSON LOWE: Yes. What's the ratio of employees coming in to going out?

MICHAEL MONTGOMERY: That would be a personnel question.

COUNCILPERSON LOWE: And the point I'm trying to get at is even if we do decide to go with the defined contribution, any benefits would be long term for us. We wouldn't realize anything the first year 'cause it might, you know -- we might hire one or two employees within the next year.

MICHAEL MONTGOMERY: You're correct. Yeah, the effect of going to a defined contribution plan would be to stop incurring more liabilities for new employees.

COUNCILPERSON LOWE: Right. You're stopping the bleeding now.

MICHAEL MONTGOMERY: Exactly. It's going to gradually start hitting you in the right direction. To the point about examining investment managers, you know, making sure you're using the best investment managers possible, making sure the expenses are reasonable for what you're paying and making sure you're putting in as much as you can to keep the plans funded and doing something to curtail future liabilities are all reasonable provisions. But all of them together are going to have only a gradual effect over time.

COUNCILPERSON LOWE: Right. It wouldn't be a major impact.

MICHAEL MONTGOMERY: This is the beginning of the solution. It's not the solution overnight.

COUNCILPERSON LOWE: The beginning.

CHAIR PRO TEM BROOKS: Uh-huh. Uh-huh.

MICHAEL MONTGOMERY: Yes, sir. Exactly.

COUNCILPERSON LOWE: And our reason here today is to talk about the defined contributions?

MICHAEL MONTGOMERY: Yes.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: I have just a couple more slides at the time you're ready to describe some of the proposed provisions.

COUNCILPERSON LOWE: Okay. I'm ready but I think I'm sold. 6:00.

MICHAEL MONTGOMERY: There you go. All right. Fortunately, my remaining slides aren't quite as detailed for the most part. Why would you change to defined contribution? I think we've covered that well here. Bottom line is reduce your retirement plan costs for new hires from 37 percent to about 13 percent on average for future hires. So that's a pretty easy number to relate to there. It increases employee awareness of their retirement benefits to my earlier point about them understanding it a little more. But it's mostly about the cost.

Proposed provisions there in the discussions we've had is to have eligible employees for the new plan be police, fire and general employees hired on or after October 1, 2012. The current employees are not forced into the plan at all.

Those in the current pension plan, those who are not vested currently can change over to the new 401 -- these are all -- just to throw another term out there, they're called 401(a) plans, too, but the new defined contribution plan for future contributions.

So if you're not vested in any way in the defined benefit plan, you may voluntarily decide that you want to -- that you like the defined contribution plan better, even if you are an existing employee. The plan also would be available to elected city council members and the mayor.

Now, specifics, I said it would average about 13 percent. That's kind of a ballpark there on average. The contribution would be 12 percent for general employees, police and fire. Slightly higher for executives, 15 percent and 15 percent of pay for elected officials. That puts the numbers around that -- I shouldn't be giving myself a math test when speaking publicly here, but if somebody was making $40,000 a year, the 15 percent would be $6,000. And no one knows what 12 percent of that is. No, it would be something a little bit less than that. So about $6,000 if you're making $40,000 and you're an executive in the plan.

Now, the employees -- you know, make no mistake, the short answer, if an employee says, "Am I better off in the defined benefit or the defined contribution?" obviously you're not spending a third as much money and getting a greater benefit.

So I mean, if you could put in 12, 13 percent of pay and give more money to more people over the long haul than the defined benefit, that should have been the plan everybody was in all along and that wouldn't have been. So there's obviously some cutback. So the average employee who is eligible for the defined benefit plan with maybe some exceptions will be better off being in the defined benefit plan. It's that simple.

However, if you want to give a financial incentive to employees who want to shift over to the defined contribution plan, what's been done in other parts of the country is to give a financial incentive to sweeten the pot, if you will, for them to make the decision to shift voluntarily from the defined benefit to the defined contribution plan. And the numbers discussed were to put in an additional 15 percent of pay for that employee who voluntarily joins. In the first year 12 percent and the second year and 10 percent in the third year if they make the shift over.

Now, anticipating kind of the obvious question there, and it's a difficult answer, is: Can we give some certainty to the employee who understandably is saying, Well, for me, at my age and income and how long I've worked here, am I better off in one or the other? That is a very difficult question.

CHAIRPERSON DAVIS: Uh-huh.

MICHAEL MONTGOMERY: We could give -- just being candid -- and you want to be very careful. You don't want to -- for ethical reasons, as well as legal, you don't want to steer somebody in the wrong direction even if you mean well.

COUNCILPERSON: That's right.

MICHAEL MONTGOMERY: And just -- you're just wrong, you know, with the answer inadvertently and that could happen to me, too. The more precise way to give that answer would be to hire an actuary to run some hypothetical comparisons of if you stayed in this plan or you went to the defined contribution. If you wanted to give such an illustration to every employee, it could be done. It's still based on assumptions. Like, assuming you earned X percent per year in the defined contribution plan, but it could be done -- you frankly have to spend a pretty fair amount of money on an actuary to do that.

On a more informal basis, you could give a more general answer saying, Most employees in this age range making this amount of money may be better off staying in the defined benefit or the defined contribution. I guess my advice to you was to the committee that I've been meeting with here, is that it's not to over-promise to employees how easy a decision that will be.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: And certainly no one wants -- again, for ethical, as well as legal reasons -- to be too good at selling somebody on dropping their current defined benefit and moving to the defined contribution.

CHAIRPERSON DAVIS: Question for you: By statute, Miss Brooks, we have to have a pension board. Right?

CHAIR PRO TEM BROOKS: Uh-huh.

CHAIRPERSON DAVIS: Okay. But companies like VALIC or MetLife or whoever, could we possibly contract with them to do that kind of work?

MICHAEL MONTGOMERY: For the defined benefit pension plans?

CHAIRPERSON DAVIS: Yes. To do the comparisons for employees?

MICHAEL MONTGOMERY: They would not -- in my opinion, my professional opinion is that would not at all be your best choice. They're a product provider.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: They're in the business of providing investments.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: They're fine in both of those companies, as well as dozens of others are good at what they do.

CHAIRPERSON DAVIS: Uh-huh.

MICHAEL MONTGOMERY: What they don't put themselves forth as is being independent or objective advisors, and particularly in the defined benefit area.

CHAIRPERSON DAVIS: Okay.

MICHAEL MONTGOMERY: So you would hire -- in my opinion, you would hire any one of a number of independent fiduciary investment advisory firms that have expertise in that particular area, not one of the product providers. Even though if they're not handling the investments for those plans, it's not really the fox guarding the chicken coop.

CHAIRPERSON DAVIS: Uh-huh.

MICHAEL MONTGOMERY: It would be if they did have investments.

CHAIRPERSON DAVIS: Okay. Got it.

MICHAEL MONTGOMERY: But you're kind of getting somebody who comes from a different orientation.

CHAIR PRO TEM BROOKS: I have a question. All right. I –

CITY MANAGER JONES: As well as –

CHAIR PRO TEM BROOKS: Okay. Go ahead.

CITY MANAGER JONES: As well as we understand that, and there was one concern that we had, and even though it's up here that individuals in defined benefit can elect to move over, we were only offering that to individuals with five years or less.

CHAIR PRO TEM BROOKS: Okay.

CHAIRPERSON DAVIS: Right.

CITY MANAGER JONES: We were not considering anyone that had five years or more.

CHAIRPERSON DAVIS: Okay.

CITY MANAGER JONES: Because we felt as though it might be too risky for them. So employees with five years or less could have the option to move over, but if someone had more than five years, we were not considering them as a part of the voluntary plan. And there's approximately 102 individuals in the City with five years or less.

CHAIR PRO TEM BROOKS: Oh, you answered my question. How many?

CHAIRPERSON DAVIS: Right. 102.

CITY MANAGER JONES: 102.

CHAIR PRO TEM BROOKS: 102. Okay.

DORETHA PERRY: And that's seven in fire. Police is 38 and it's 57 in general.

CITY MANAGER JONES: Run that by me again. What numbers were those?

CHAIR PRO TEM BROOKS: Now tell me this.

DORETHA PERRY: In fire there are -- less than five -- employees with less than five years, that's seven. And for police it's 38 and for general it's 57.

COUNCILPERSON: With less than five years?

DORETHA PERRY: Yes.

CHAIRPERSON DAVIS: Uh-huh.

CHAIR PRO TEM BROOKS: Madam Chair?

CHAIRPERSON DAVIS: Yes, ma'am.

CHAIR PRO TEM BROOKS: Now, I want to be clear on this, what we're offering, this voluntary change from the current to a defined contribution. The monies that we have already collected, will that money then be given and transferred over to this new fund or how will that work? For the employees who have been here five years or less.

MICHAEL MONTGOMERY: Are you referring to the money that the employees were required to contribute out of their own pocket?

CHAIR PRO TEM BROOKS: Correct.

MICHAEL MONTGOMERY: Out of their own paycheck?

CHAIR PRO TEM BROOKS: What happens to that money?

MICHAEL MONTGOMERY: Well, we're actually doing some legal research on that now and getting a couple of different opinions. What it appears the answer -- and really what we were researching is whether they could be forced to roll the money over.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: The answer right now, which I'll say we're about 85 percent sure on -- we're still looking into this -- is that they could not roll the money over voluntarily or on a mandatory basis to the new plan. But that they would keep that money in the old plan until such date that they –

CHAIRPERSON DAVIS: Left.

MICHAEL MONTGOMERY: -- had what we call a distributable benefit, meaning they got to retirement.

CHAIR PRO TEM BROOKS: Oh.

MICHAEL MONTGOMERY: So it would be kind of held for them there.

CHAIRPERSON DAVIS: What if they just left the City?

MICHAEL MONTGOMERY: If they left the City?

CHAIRPERSON DAVIS: Yeah.

MICHAEL MONTGOMERY: They would follow the same provisions you have right now, which should be that they can access that money.

CHAIRPERSON DAVIS: Right. Okay.

MICHAEL MONTGOMERY: It appears fairly certain that's the answer now. We're still drilling down on that and it may ultimately be something we have a legal counsel write an opinion on.

CHAIR PRO TEM BROOKS: Uh-huh.

COUNCILPERSON THOMAS: Madam Chair?

MICHAEL MONTGOMERY: But it doesn't appear you can roll it over.

CHAIR PRO TEM BROOKS: Okay. Okay.

CHAIRPERSON DAVIS: Mr. Thomas?

COUNCILPERSON THOMAS: Yes. So I want to make sure I heard you correctly. You say that they can't voluntary move the money over, and they can't be mandated to move it over?

MICHAEL MONTGOMERY: You can't make them do it. That's right.

COUNCILPERSON THOMAS: But their money would be left in the pension that they won't be a part of, so the pension is benefiting off their money? But they won't get a chance to benefit off their own?

MICHAEL MONTGOMERY: Until such time as they have a -- they would have otherwise received a benefit, yes.

COUNCILPERSON THOMAS: Well, I mean, something about that just doesn't seem right. Why couldn't they -- why would you just keep their money and they can't benefit off of it. But the people who are in the plan that they're not in are benefiting off of it?

MICHAEL MONTGOMERY: It's all around the laws on what -- when employees can pull money out of a plan.

CHAIRPERSON DAVIS: Uh-huh.

MICHAEL MONTGOMERY: If you terminated those defined benefit plans, you not only could, you would have to contribute the money to everybody there.

CHAIRPERSON DAVIS: You'd have to. Uh-huh. Uh-huh.

MICHAEL MONTGOMERY: But you've got a plan that still exists.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: And so unless your plan otherwise made provision for what we call in-service withdrawals -- in other words, unless they could have taken it out anyway, what we call a distributable event or an event that would trigger the ability for somebody to take money out of the plan any way, if that hasn't occurred, it appears they will not be able to pull it out prior to a normal benefit time, like retirement.

Now, again, that's a very complex question. We've actually gone to several sources and we're probably ultimately going to have to put it back to your legal counsel on that to get a definitive explanation.

COUNCILPERSON THOMAS: Well, I just want to make sure that I'm understanding this, because if they're no longer going to be in that plan, is that not the same as them just starting over in a new plan? I mean, that would be the same as them leaving the plan if they went to another job or if they went to, you know, something else. That's where I'm kind of foggy.

MICHAEL MONTGOMERY: From a common-sense perspective, I agree with you. From the legal perspective, it's as if nothing's happened.

COUNCILPERSON THOMAS: Uh-huh.

CHAIR PRO TEM BROOKS: Madam Chair?

CHAIRPERSON DAVIS: Miss Brooks?

CHAIR PRO TEM BROOKS: The Division of Retirement, have you asked their attorney for an opinion on this? The Division of Retirement?

MICHAEL MONTGOMERY: The State of Florida?

CHAIR PRO TEM BROOKS: Yeah.

MICHAEL MONTGOMERY: No. No, I have not. We've –

CHAIR PRO TEM BROOKS: Because they're the one who wrote the 175, the 185 that we –

MICHAEL MONTGOMERY: Right.

CHAIR PRO TEM BROOKS: -- live by.

MICHAEL MONTGOMERY: Yes.

CHAIR PRO TEM BROOKS: So I would certainly go to them to see if there's something in those provisions that might allow this.

MICHAEL MONTGOMERY: There's a lot more that can be researched on that. It was an important but kind of ancillary question to the more core plan design that we were doing here. We were asked to look into that.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: We looked to a few sources and got answers that were pointing in a certain direction but were not totally definitive. So, yes. But we just don't have the matter resolved right now.

CHAIR PRO TEM BROOKS: Okay. I just thought they wrote the bible on retirement for the State of Florida and that we all go by, so I thought that maybe they could give us a legal opinion.

MICHAEL MONTGOMERY: We'll be happy to talk with them. Yes.

CHAIR PRO TEM BROOKS: Okay. Okay.

COUNCILPERSON THOMAS: Are we going to have that answer before you're asking us to vote on this?

CHAIR PRO TEM BROOKS: We're not voting on it tonight.

COUNCILPERSON THOMAS: I know. That's what I'm asking.

CITY MANAGER JONES: Tonight all you're asked for is a consensus as to whether we can go out on the street for the RFP to begin the process for a defined contribution plan.

COUNCILPERSON THOMAS: But are you going to have the information to those questions before you ask us for this consensus?

CITY MANAGER JONES: It's a legal opinion. We will not have the answer to that question tonight. And it's an unfortunate -- but I understand what they're saying. I have money left in a plan in a state that I left 17 years ago. And until I get to the retirement age, my money is still sitting in that state's plan until I get to retirement age. And it's just kind of the way pensions work when you have a defined benefit plan.

COUNCILPERSON THOMAS: But that's not what I'm understanding right now. That's my issue. You can pull your money out now. You can pull your money out if you wanted, if you want to.

CITY MANAGER JONES: If you –

CHAIRPERSON DAVIS: No, you can't.

COUNCILPERSON THOMAS: Wait a minute. I just want to hear one person say that 'cause –

CITY MANAGER JONES: -- if you are terminated –

COUNCILPERSON THOMAS: If you are terminated or if you leave, you can pull your money out.

CHAIR PRO TEM BROOKS: Right.

CITY MANAGER JONES: You can pull your money out but that's not saying you can roll it over in this plan.

COUNCILPERSON THOMAS: Okay. I understand that. My issue is whether you are terminated or whether you leave or not, it's your option whether you want to take your money or you want to leave it there, correct?

CHAIRPERSON DAVIS: If you stay, you can't.

CITY ATTORNEY RYAN: Where are you talking about? Are you talking about Riviera Beach or are you in Atlanta?

COUNCILPERSON THOMAS: No, I'm talking about Riviera Beach. I'm not concerned about Atlanta.

CITY MANAGER JONES: No. But if they stay in the -- employed with us, it's like they're still under our employ, so it's not like they have been terminated. So the money stays in the defined benefit plan as long as they are employed with the City.

COUNCILPERSON THOMAS: Okay.

CITY MANAGER JONES: Once they leave the City, they can take their money.

COUNCILPERSON THOMAS: Can you walk with me through this just for a second, though? If you decide to leave the City, you could take your money, or you can leave it there?

CITY MANAGER JONES: Correct.

COUNCILPERSON THOMAS: If you are terminated from the City, can you take your money or leave it there, as well?

CITY MANAGER JONES: Yes.

CHAIRPERSON DAVIS: Uh-huh.

CITY ATTORNEY RYAN: Hold on. Wait a minute. Miss Perry, help me out exactly.

DORETHA PERRY: Yes.

CITY ATTORNEY RYAN: If you are not vested –

COUNCILPERSON THOMAS: Uh-huh.

CITY ATTORNEY RYAN: -- if you've worked here for two years and you leave the City, you cannot leave your money in the pension plan.

CITY MANAGER JONES: You have to take it.

DORETHA PERRY: You have to take it.

COUNCILPERSON THOMAS: If you're under 10 years you have to take it.

CITY ATTORNEY RYAN: Eight years is vesting, is partial vesting at the City.

DORETHA PERRY: Eight, yeah.

COUNCILPERSON THOMAS: Okay.

DORETHA PERRY: But that's from the general –

CITY ATTORNEY RYAN: For general employees. For general employees.

DORETHA PERRY: General. Ten is for police and fire.

CITY ATTORNEY RYAN: Right. So you cannot leave your money in if you are not already vested.

COUNCILPERSON THOMAS: Got you. So my issue is we're talking about five years or less employees.

CHAIR PRO TEM BROOKS: Uh-huh.

COUNCILPERSON THOMAS: They're starting a new, if they chose to go over to that system -- they're starting something new.

CHAIR PRO TEM BROOKS: Uh-huh.

COUNCILPERSON THOMAS: My issue is I don't understand why they are mandated to leave it there and they can't voluntarily roll it over there and they can't be mandated to put their money over there. I just think -- this is personal -- I think that's an unfair scenario for someone when their money is sitting over there to help fund a pension that they're not even going to be a part of. That's where I'm having the issue.

CHAIRPERSON DAVIS: Is that something we need to research and –

COUNCILPERSON LOWE: Their money still gains and loses.

CHAIR PRO TEM BROOKS: Well -- Madam Chair?

DORETHA PERRY: Okay. That's something that Mr. Montgomery is still researching. But I understand what you're saying.

COUNCILPERSON THOMAS: But you're asking us to make a decision.

DORETHA PERRY: But I understand what you're saying but Miss Jones just explained to you, because they're still employed, then the money stays there. But now, if they were to leave or to retire, then that's when they can take it. But that's what Mr. Montgomery has to research.

COUNCILPERSON THOMAS: No. I understand that. I'm just saying to me, the scenario is not fair.

DORETHA PERRY: Yeah, I understand. Yeah, I understand what you're saying. I understand what you're saying. Yeah. Yeah.

COUNCILPERSON THOMAS: Yeah. I understand that. And –

DORETHA PERRY: But that's what he has to research.

MICHAEL MONTGOMERY: Yeah. I think in our discussions everybody considered it to be a desirable thing, to allow them to move their money over or, you know -- if they could then. So I –

DORETHA PERRY: Or roll it over or something.

MICHAEL MONTGOMERY: -- I don't think there's any question there. It certainly is important that that question be answered before we present the facts to any employee and they're making that decision. 'Cause right now, you know, no one, of course, who is an existing employee has to join the new plan and, therefore, no one has to leave any money behind. But they certainly need that opinion, that decision prior to making -- before having the information presented to them.

COUNCILPERSON THOMAS: When do you think we would get that information, was the initial question I was asking.

MICHAEL MONTGOMERY: If you want the definitive answer on that, I'm going to suggest you hire -- will arrange for legal counsel. You're going to want a written legal opinion on that. And that could be obtained probably in the next three or four weeks.

CITY ATTORNEY RYAN: Are you suggesting that we not -- I mean, I think the council has the ability to not arrange it that way if you don't want –

COUNCILPERSON: That's what I was saying.

CITY ATTORNEY RYAN: You're saying you don't want the employees who have been here for five years or less to have to leave their money in the City's pension plan?

COUNCILPERSON THOMAS: Not if they don't want to. I mean, I think it's unfair for them. If it was my option, I would want my money to go into the plan to make it sound for the plan that I'm in. I don't think it's a fair scenario to say I'm going over to this other plan, whether it's by choice or not -- at this point it's by choice -- but I have to leave my money over in another plan that I'm not a part of.

CHAIR PRO TEM BROOKS: Let me just say something. Madam Chair?

CHAIRPERSON DAVIS: Miss Brooks?

CHAIR PRO TEM BROOKS: Well, they're not going to be in a losing position in that they're going to get whatever's guaranteed to them at the time they do retire. It's on us. We ought to be pushing that we can give them that option to take their money, because there's less on us.

COUNCILPERSON THOMAS: Well, I mean, that's what I'm trying to get at. That's what I'm trying -- that's the point I'm trying to get to.

CHAIR PRO TEM BROOKS: You understand what I'm saying? Yeah. So we are very favorable toward them being able to get their money out and go over to the other plan, because that's less on us.

CHAIRPERSON DAVIS: Right.

CHAIR PRO TEM BROOKS: Because they're going to get -- at the time they retire, we're obligated to give them whatever they are due. So they're not going to lose as long as they stay in a defined benefit.

COUNCILPERSON THOMAS: Right. I'm not saying that they're going to lose.

CHAIR PRO TEM BROOKS: Yeah. I know.

COUNCILPERSON THOMAS: I'm saying they're going to have to wait another 20 years to get money that's been –

CHAIR PRO TEM BROOKS: To get their money.

COUNCILPERSON THOMAS: -- that's in another system gaining interest for the people who are in that system but they're not able to benefit from that money. That –

CHAIRPERSON DAVIS: Okay. Can we –

CHAIR PRO TEM BROOKS: They will in 20 years if they stay 20 years.

MICHAEL MONTGOMERY: Yeah. It's like a lot of other areas in retirement plans. The normal answer and what's normally done is employees can't move their money over. Any time we want to do something different than the norm to benefit employees, that's where things get tough and that's where you'll hire attorneys and they drill down on it. But, you know, the shorter answer is it's not commonly done.

CHAIRPERSON DAVIS: But did I understand you to say that someone who is not vested cannot roll over their funds to the new defined contribution?

MICHAEL MONTGOMERY: That's correct. They cannot. That's the issue.

CHAIRPERSON DAVIS: Okay. And that's the legal opinion on that?

MICHAEL MONTGOMERY: I wouldn't call it a legal opinion. It's our preliminary -- it's what our research is telling us is that they cannot roll it over.

CHAIRPERSON DAVIS: Okay.

MICHAEL MONTGOMERY: They're -- I just –

CHAIRPERSON DAVIS: All right. Well –

MICHAEL MONTGOMERY: -- you know –

DORETHA PERRY: but also, if they were to leave their money in there, then they can get interest on that money once they receive a refund upon their termination.

CHAIR PRO TEM BROOKS: Uh-huh. Uh-huh.

COUNCILPERSON THOMAS: Or upon their –

DORETHA PERRY: They will get interest on it.

COUNCILPERSON THOMAS: -- upon their retirement. Upon –

DORETHA PERRY: Retirement or, you know, when they terminate.

COUNCILPERSON THOMAS: So they will be able to receive the interest on the money that sits in there?

DORETHA PERRY: Correct. Yes.

CITY MANAGER JONES: It's not just sitting in there without collecting (unintelligible).

CHAIR PRO TEM BROOKS: Right.

MICHAEL MONTGOMERY: It should be treated the same way it's treated right now.

CHAIR PRO TEM BROOKS: Right.

CHAIRPERSON DAVIS: Yes.

MICHAEL MONTGOMERY: Is really what it comes down to.

CHAIRPERSON DAVIS: Yes.

COUNCILPERSON LOWE: Madam Chair?

CHAIRPERSON DAVIS: Mr. Lowe?

COUNCILPERSON LOWE: I'm looking at the timetable and I'm seeing that the request for proposal distributed -- anticipating April 6^{th}? So you guys already have an RFP?

MICHAEL MONTGOMERY: Yeah, this is preliminary but we have a draft of an RFP, yes.

COUNCILPERSON: Ready to go.

COUNCILPERSON LOWE: Okay. Well, we'll need to see that before it hits the street.

COUNCILPERSON: Uh-huh.

COUNCILPERSON LOWE: So, how do you plan on doing that? Introducing that?

CHAIRPERSON DAVIS: (Unintelligible) before.

COUNCILPERSON LOWE: At the next meeting?

CITY MANAGER JONES: That's why this work session is before your next council meeting. So that –
COUNCILPERSON LOWE: But will we see it before the next council meeting?

CITY MANAGER JONES: You will see it in the packet.

COUNCILPERSON LOWE: Will we see that RFP?

CHAIR PRO TEM BROOKS: Itself, the RFP.

CITY MANAGER JONES: In the packet.

CHAIRPERSON DAVIS: And yours is (unintelligible)?

CITY MANAGER JONES: Yes.

COUNCILPERSON LOWE: Which, the packet we'll get next Wednesday?

CITY MANAGER JONES: No. The meeting is next Wednesday. Your packet comes out this week.

COUNCILPERSON LOWE: Okay. Well, you know what I'm saying.

COUNCILPERSON THOMAS: Tomorrow. Tomorrow.

CITY MANAGER JONES: You will see it in advance.

COUNCILPERSON LOWE: Okay. All right. Well, you might need to put the RFP out on the second meeting instead of the first meeting.

CITY MANAGER JONES: And we can always slot a time. This was just

COUNCILPERSON LOWE: Yeah. 'Cause I mean, this doesn't seem like it's a rush-rush thing, because the benefit, you know -- but still, I just wanted to point that out. I think we need to -- you need to push your date back.

MICHAEL MONTGOMERY: All of these times –

CITY MANAGER JONES: Oh, yeah, 'cause this was –

MICHAEL MONTGOMERY: -- we -- we've changed the timetable, I think, three or four times already just as we've discussed things. These are all just starting points. We have no trouble hitting the -- we could lose a month and a half or so out of this schedule all together and still hit the October 1 with comfort.

CHAIR PRO TEM BROOKS: Madam Chair, I would just like to see the list. I mean, how extensive will be the RFP distribution? Is it nationwide?

MICHAEL MONTGOMERY: Who you're sending it to or how long is the RFP?

CHAIR PRO TEM BROOKS: No, I mean, is it going to be nationwide, kind of search –

MICHAEL MONTGOMERY: Well, it's up to y'all. As we discussed the protocol for it, I'm happy to put up a list of probably eight to 12 organizations that I know are involved in this. Y'all may have others that come to mind, people you know, etc. And you may want to post it on your website and let anybody who wants to put a quote in do that, as well.

But, you know, probably 10 or 15. Probably 10 or 15. The challenge is always it's a start-up plan. Some organizations out there that want to deal with just very, very large plans may either, one, not participate or may price themselves too high –

CHAIR PRO TEM BROOKS: Uh-huh. Uh-huh.

MICHAEL MONTGOMERY: -- out of there. So that's going to narrow the field a little bit.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: But, yeah, to answer your question, I'd say 10 or 15 companies.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: And remember, the RFP is for the investment companies like VALIC and Nationwide, not toward brokers. You know, there's the broker who may be able to go to a lot of companies so that, you know, there you have an unlimited number of people.

CHAIR PRO TEM BROOKS: Okay. I was just trying to get an idea of --

MICHAEL MONTGOMERY: Yeah. What we call the providers, 10 or 15.

CHAIR PRO TEM BROOKS: -- (unintelligible).

MICHAEL MONTGOMERY: When we went -- we've gone to bid in the last couple of years with City of Dunedin, City of Largo, for example.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: And both of them -- both went to a few providers directly to make sure they noticed it.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: And posted it publicly on their website.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: And I believe we got in both cases something in the range of 15 to 18 responses. You know, the next thing there, of course, is to narrow it down to a manageable number. Since in a meeting like this, you'd never want to be discussing 18 companies. So you narrow it down to three or four finalists and then discuss things with them in detail.

COUNCILPERSON PARDO: Madam Chair?

CHAIRPERSON DAVIS: Miss Pardo.

COUNCILPERSON PARDO: I have a question for the city manager. Okay. So this gentleman is saying that, you know, we'll go out to 15, 20 companies. Will those companies that he's recommending be in the RFP draft that we're getting this week?

CITY MANAGER JONES: They will receive the RFP.

COUNCILPERSON PARDO: No, no. I would like to know will we know prior to the RFP going out on the street --

CITY MANAGER JONES: Who they are.

COUNCILPERSON PARDO: -- what companies that this gentleman is recommending.

CITY MANAGER JONES: We can put that in the packet, yeah.

COUNCILPERSON PARDO: Yeah. I would really like to see that --

MICHAEL MONTGOMERY: Okay. Sure.

COUNCILPERSON PARDO: -- in the draft that we get this week, please.

MICHAEL MONTGOMERY: Sure. We can put that together in 20 minutes. Yeah.

CHAIRPERSON DAVIS: Okay. Do we need to finish this? Do you have more that you need to go through?

MICHAEL MONTGOMERY: I'll be extremely brief.

CHAIRPERSON DAVIS: Okay, go ahead.

MICHAEL MONTGOMERY: I know folks have got to be getting hungry. I never want to stand between somebody and their dinner. The employee contributions will exist for the defined contribution plan, as well.

Four percent for police, general and fire; 6 percent mandatory employee contribution for the executives; 3 percent for the elected officials that are involved in the plan. Money that participants put in, those mandatory contributions, as with your defined benefit plans, they are always 100 percent vested in. "Vesting" means ownership and so that means every nickel they put in, that they're required to put in, plus all the earnings on those, will always be theirs regardless of circumstances. The employer contribution, that 12 percent of pay or 15 percent of pay that goes into the plan, they will have a gradual vesting schedule.

Now, this goes back to their date of employment. So somebody who had already worked here four years didn't have to come over to the defined contribution but chose to do so, would go into the schedule with four years of vesting in the new plan already. It doesn't mean you put back money in. You just give them -- you just go into the schedule.

In my example there it's 60 percent. They would not be vested at all in the employer contribution in year one, and then they become 20 percent vested each year thereafter, so that after six years of employment here, they would be a hundred percent vested, not only in their own contributions and earnings, but all of the money that the employer has put in for them, as well. So it's a fairly rapid vesting schedule.

CHAIR PRO TEM BROOKS: Uh-huh. Uh-huh.

MICHAEL MONTGOMERY: And I'll just mention it's fairly typical for what we see in private sector, as well.

CHAIR PRO TEM BROOKS: Uh-huh.

MICHAEL MONTGOMERY: This is the most common schedule.

CHAIR PRO TEM BROOKS: Yeah. Okay.

MICHAEL MONTGOMERY: Employees can choose to invest their money among the accounts. We touched on that earlier so I won't belabor it here for you. Finding an advisor, of course, to help select those funds and then monitor them is a critical role unless you have true experts on the committee overseeing it..

And we touched on the timetable a couple of minutes ago, as well. This is very flexible. You'll see we've got a pretty big gap there after the time the decision is made, even in this preliminary schedule there, July, August and September, which gives plenty of time to negotiate sound contracts and implement the plan appropriately without being at a rush. And that's the conclusion of my comments here. I'd be happy to field any other questions you may have.

CHAIRPERSON DAVIS: Any other questions or comments?

COUNCILPERSON PARDO: Madam Chair, I just have one for staff. I'd like to see the quarterly reports from the three pensions. Now, are those pensions on a calendar year or a fiscal year? Like, I know quarterly reports have to be filed by Friday and then, you know, 45 days they become public.

DORETHA PERRY: It's on a fiscal year.

COUNCILPERSON PARDO: So it's a fiscal –

DORETHA PERRY: I'm sorry. It's a calendar year.

COUNCILPERSON PARDO: -- calendar year?

DORETHA PERRY: Yeah. I'm sorry.

COUNCILPERSON PARDO: Okay. So in the next 45 days or so, we should be getting the new quarterly report, correct?

CITY MANAGER JONES: No, they are on –

DORETHA PERRY: I'm sorry. She said –

CITY MANAGER JONES: -- they're on fiscal years.

COUNCILPERSON PARDO: They are on fiscal years?

CITY MANAGER JONES: October to September.

DORETHA PERRY: Fiscal, yeah.

COUNCILPERSON PARDO: All right. So that's April. Okay. So I'd like to see the most recent quarterly report for each pension.

DORETHA PERRY: Uh-huh.

COUNCILPERSON PARDO: And then do they have an annual report, also?

CHAIR PRO TEM BROOKS: Uh-huh.

DORETHA PERRY: I don't think so. No, they only have quarterly reports.

COUNCILPERSON PARDO: All right. So there's no annual report. Okay. I'd like to see the quarterly reports for the past two quarters, please.

COUNCILPERSON: There is one. The actuary gives an annual report.

COUNCILPERSON: Exactly.

MICHAEL MONTGOMERY: Yeah. That would be an annual actuarial evaluation.

DORETHA PERRY: Yeah, there is.

COUNCILPERSON PARDO: Okay. So do we have that?

DORETHA PERRY: Actuarial.

COUNCILPERSON PARDO: Okay.

DORETHA PERRY: That's the actuarial.

COUNCILPERSON PARDO: I'd like that, please.

CHAIRPERSON DAVIS: For each of them?

COUNCILPERSON PARDO: Thank you.

CHAIRPERSON DAVIS: For each –

DORETHA PERRY: Yeah.

CHAIRPERSON DAVIS: -- unit?

COUNCILPERSON: Uh-huh.

CHAIRPERSON DAVIS: Okay. I'd like to see those, too.

CHAIR PRO TEM BROOKS: Madam Chair, we should -- we have the actuarial reports, don't we? Because we have to have that -- so we have that in the fiscal office.

CHAIRPERSON DAVIS: I know I haven't seen them.

CHAIR PRO TEM BROOKS: No. But -- well, they weren't shared but –

DORETHA PERRY: Yeah, the City gets one but I don't know if they distribute it to the council.

CHAIR PRO TEM BROOKS: -- but I'd like to have a quarterly, as well on them.

COUNCILPERSON PARDO: I'd like to see it, please.

DORETHA PERRY: We'll get it. We'll get it.

CHAIRPERSON DAVIS: We have one public comment card. Betsy Brown?

BETSY BROWN: Hi. Betsy Brown.

CHAIRPERSON DAVIS: Hello.

BETSY BROWN: Vice chair, City of Riviera Beach general pension. The question that I'm going to ask is that: Will the City actually be contributing in this defined contribution plan?

MICHAEL MONTGOMERY: Yes. 12 percent of pay for general employees, police and fire. 15 percent for those in the executive group.

CHAIRPERSON DAVIS: I thought that was for the last (unintelligible).

BETSY BROWN: You would be contributing -- you said you would contribute -- and how much would -- the employee is required –

MICHAEL MONTGOMERY: The employee would put in 4 -- in addition to those numbers, the employee would put in 4 percent for general, police and fire, and 6 percent is what the executives would put in.

BETSY BROWN: Okay. And because this is a workshop, I'm only up here because if we're going to have a workshop, we're not just here for public comments. Because if there were questions along the way, I just wanted to say if you're going to have a workshop, I think people with questions should be able to ask questions, also.

COUNCILPERSON LOWE: I agree.

BETSY BROWN: Instead of only the council.

COUNCILPERSON LOWE: I agree.

CHAIRPERSON DAVIS: All right. Any other questions or comments? Okay. Before we leave, I have a question that doesn't have anything to do with this. But at one point in time -- I'm sorry?

CITY ATTORNEY RYAN: Is there a -- do we have a consensus to --

CITY MANAGER JONES: Do we have a consensus?

CHAIRPERSON DAVIS: For what?

CITY ATTORNEY RYAN: On this issue before you.

CHAIRPERSON DAVIS: I'm fine with it.

COUNCILPERSON LOWE: Oh, yeah.

CITY MANAGER JONES: Okay. So I know to put it on the agenda. I just wanted to know for the agenda. Okay. Thank you.

CHAIRPERSON DAVIS: So you're okay with it, Mr. Lowe?

COUNCILPERSON LOWE: Yeah.

CHAIRPERSON DAVIS: Okay. Miss Brooks?

CHAIR PRO TEM BROOKS: Oh, yes. Yes. Yes.

CHAIRPERSON DAVIS: Mr. Thomas?

COUNCILPERSON THOMAS: No, I'm not.

CHAIRPERSON DAVIS: Okay. I'm okay with it, also.

CHAIR PRO TEM BROOKS: Madam Chair, Miss Brown did bring up a point. Since this is a workshop, I was wondering if there were -- if, as a courtesy, if it's a consensus with the group here, that if there are questions from anyone, if we could give a few minutes --

COUNCILPERSON THOMAS: You got my consensus on that.

CHAIR PRO TEM BROOKS: You know, because we don't want anyone to leave feeling, you know --

CHAIRPERSON DAVIS: That's fine with me.

CHAIR PRO TEM BROOKS: -- if -- okay. And we can --

CHAIRPERSON DAVIS: Anybody have any questions?

CHAIR PRO TEM BROOKS: If so, you can just come up to the -- because you took the time to come here and we respect that. So if you've got a question, we want you to ask it now.

CHAIRPERSON DAVIS: Nobody has any questions.

COUNCILPERSON THOMAS: Miss Jones, did we do any kind of poll among the employees or anything like that, just a general poll or –

CITY MANAGER JONES: No, sir.

COUNCILPERSON THOMAS: Did we do it among the pension boards or anything?

CITY MANAGER JONES: No. We encouraged them to -- we had the information for them, encouraged them to have someone present. Individuals that attended the pension board meeting last night spoke about the fact that this was taking place. As well as the unions, they were also informed that we were going through this process.

CHAIR PRO TEM BROOKS: Madam Chair, were they provided with this presentation? Were they?

CITY MANAGER JONES: Only as a part -- I don't believe they got the presentation.

CHAIR PRO TEM BROOKS: I mean, what we got for our agenda.

CITY MANAGER JONES: You mean the PowerPoint?

CHAIR PRO TEM BROOKS: This presentation that we just had. I was wondering if they got it.

CITY MANAGER JONES: I don't believe they got the PowerPoint.

CHAIR PRO TEM BROOKS: Okay. That's what I mean. Okay. Well, I would make a suggestion, Madam Chair –

CITY MANAGER JONES: Make sure that they get the PowerPoint.

CHAIR PRO TEM BROOKS: -- that we give them the tape, that each pension board be given the copy of the session here, so that they are privileged to show it to their members.

CITY MANAGER JONES: Sure. We'll get those to the heads of each one of those groups.

CHAIR PRO TEM BROOKS: Yes. Yes. Okay.

CHAIRPERSON DAVIS: Okay. Is that it?

CITY ATTORNEY RYAN: And we can give them a copy of the minutes of the meeting, as well. You know?

CITY MANAGER JONES: Yeah. When that's done, yeah. Uh-huh.

CHAIRPERSON DAVIS: Okay.

CHAIR PRO TEM BROOKS: I think the visual is so much better.

CHAIRPERSON DAVIS: Okay. Miss Jones, could you please explain -- I had a person call me, asked -- a firefighter who actually called and asked me about the $175. Could you explain what has taken place with that?

COUNCILPERSON THOMAS: Madam Chair, I just want to ask, are we okay to be talking about this in this meeting?

CHAIRPERSON DAVIS: This is a question that I'm asking the -- and that's fine.

COUNCILPERSON THOMAS: I just want to -- I hear you. I just want to ask the attorney --

CHAIRPERSON DAVIS: (Unintelligible).

COUNCILPERSON THOMAS: -- so I can leave if it's going to be a problem. Are we okay to talk about this during this workshop?

CITY ATTORNEY RYAN: Well --

CHAIRPERSON DAVIS: You talk about other things with our other meetings.

COUNCILPERSON THOMAS: I'm just asking a question for my edification.

CITY ATTORNEY RYAN: Okay. This is a public meeting.

COUNCILPERSON THOMAS: Uh-huh

CITY ATTORNEY RYAN: So if the council wants to ask the city manager ability non-workshop issues, you may do so. But if there is -- I would caution the council that if there will be a lot of discussion back and forth, issues that the public may want to be a part of, I would caution you not to get into one of those kind of long discussions because you want to give the public the opportunity to be a part of the conversation.

CHAIRPERSON DAVIS: Okay. So Miss Jones, please answer my question.

CITY MANAGER JONES: Okay. And I was trying to read the most recent e-mails as it relates to that topic. There was a recommendation that came and went to the –

CHAIRPERSON DAVIS: This is just so the public will know.

CITY MANAGER JONES: -- City from the –

CHAIRPERSON DAVIS: Go ahead.

CITY MANAGER JONES: -- fire pension boards.

CHAIRPERSON DAVIS: Uh-huh.

CITY MANAGER JONES: They sent it to us. We got it. We sent it to our pension attorneys. They have agreed on 90 percent, I would say, of the issues involved.

CHAIRPERSON DAVIS: Uh-huh.

CITY MANAGER JONES: The correspondence and e-mail that I got just today, it says, "The City wants to start the adoption process in April," and that was the last correspondence that we had with the fire pension board.

CHAIRPERSON DAVIS: Uh-huh.

CITY MANAGER JONES: So hopefully we will have that one last issue resolved so that we can complete that process during the month of April.

CHAIRPERSON DAVIS: Okay. Thank you very much. And one last thing. The -- it was asked publicly concerning how -- whether it would be okay to move to the county for fire. And you gave us a document but it never has been spoken of publicly. So -- and I understand there was an additional cost.

CITY MANAGER JONES: Yes, Madam Chair. And unfortunately, I do not have that document in front of me. But I will prepare to answer that question in my comments on Wednesday at the council meeting.

CHAIRPERSON DAVIS: Okay. Well, and maybe you can just explain it a little bit further then. But I think it was $2.7 million in additional costs.

CITY MANAGER JONES: It was in that range but, unfortunately, I don't have that paperwork in front of me.

CHAIRPERSON DAVIS: Okay. All right. Is there anything else?

CHAIR PRO TEM BROOKS: Adjourned.

CHAIRPERSON DAVIS: Okay. All right.

(CONCLUSION OF WORKSHOP)

APPROVED:

THOMAS A. MASTERS MAYOR	BILLIE E. BROOKS CHAIRPERSON

ATTEST:

CARRIE E. WARD MASTER MUNICIPAL CLERK CITY CLERK	Absent DAWN S. PARDO CHAIR PRO TEM
	CEDRICK A. THOMAS COUNCILPERSON
	JUDY L. DAVIS COUNCILPERSON
	SHELBY L. LOWE COUNCILPERSON

MOTIONED BY:	J. DAVIS
SECONDED BY:	S. LOWE
B. BROOKS	AYE
D. PARDO	ABSENT
C. THOMAS	AYE
J. DAVIS	AYE
S. LOWE	AYE

DATE APPROVED: 06/06/2012