

**GRAND JUNCTION CITY COUNCIL
ADDITIONAL WORKSHOP
JUNE 5, 2006, 11:30 A.M.
TWO RIVERS CONVENTION CENTER
159 MAIN STREET**

11:30 a.m. **REQUEST FROM THE NEW HIRE-FIRE RETIREMENT BOARD:**
Members of the New Hire Retirement Board will present information
regarding the request to change the structure of the retirement plan.

[Attach 1](#)

ADJOURN

**Attach 1
New Hire Retirement Plan**

CITY OF GRAND JUNCTION

CITY COUNCIL AGENDA						
Subject	Request from New Hire Fire Pension Board					
Meeting Date	June 5, 2006					
Date Prepared	May 30, 2006				File #	
Author	Ron Lappi Claudia Hazelhurst John Shaver			Admin. Services and Finance Dir. Human Resources Manager City Attorney		
Presenter Name	Kelly Arnold Ron Lappi Claudia Hazelhurst John Williams			City Manager Admin. Services and Finance Dir Human Resources Manager Fire Pension Board Chairman		
Report results back to Council		No	X	Yes	When	
Citizen Presentation		Yes	X	No	Name	
X	Workshop		Formal Agenda		Consent	Individual Consideration

Summary: This item has been scheduled for the City Council Workshop to provide the Council information about the City's New Hire Fire Pension Board request to change from the City's Defined Contribution Retirement Plan back to one of the FPPA sponsored Defined Benefit Plans.

Budget: If approved by the City Council this Resolution may have a short term minimal positive impact on City costs (saving an estimated \$390 per employee annually or \$33,000) in exchange for a long-term exposure to a significant potential liability and cost to the City and its taxpayers to absorb unfunded liabilities.

Action Requested/Recommendation: Consider the request from the New Hire Fire Pension Board. The Authors recommend that the City Council reject the request as not being in the City's best long-term interest. If a majority of the City Council does not choose to schedule this Resolution for further consideration, no additional action is required.

Attachments: Proposed Resolution Requesting the Change
Staff Report Recommending Against Further Consideration
(Prepared August 30, 2005)
Initial Request Letter dated March 23, 2006

Background Information:

The City of Grand Junction's New Hire Fire Pension Board began discussing this matter over a year ago, as the Colorado Fire and Police Pension Association (FPPA) Board proposed legislation that would allow Fire and Police Defined Contribution Money Purchase plans that had previously withdrawn from the FPPA to get back into FPPA. The adopted legislation provides the details for re-entry into the various plans offered by FPPA.

Following an informal affirmative majority vote of plan participants, the Grand Junction New Hire Fire Pension Board voted on February 28, 2006 to bring this proposed Resolution forward to the City Council. The City Manager, Administrative Services and Finance Director and the Human Resources Manager voted against the motion.

The Authors of this Staff Report oppose any group of employees moving to a Defined Benefit Plan from our current Defined Contribution Plans for many sound reasons. Our current plans attempt to balance the benefits for all employee groups and the Fire and Police Plans are some of the richest (in terms of contribution levels) in the State of Colorado. For the past 20 some years the Fire and Police employees have been receiving 33% greater City contributions than the 8% required by state law. This contribution of 10.65% will result in a very attractive retirement at the end of a career that spans 25 to 30 years.

If allowed, the re-entry into FPPA will shift the investment market risk from employees to future generations of citizens and taxpayers unnecessarily. Giving our Fire Department employees or any employee group a guaranteed benefit level without regard to market cycles is not in the City's best interest. The City's share of market risk has more than been taken into consideration in its 33% extra contributions to these plans. As is the case with all employees, the City has and will continue provide our employees with the best tools, training and long-term financial security that is reasonable and available.

The risk that is being transferred from all participants to the City taxpayers under this proposal is the inherent risk from fluctuating returns in the capital markets, and unfunded liabilities in the future that will eventually be born by the taxpayers. In the late 80's and early 90's the City was involved in litigation concerning its withdrawal from FPPA.

As a board member of FPPA for sixteen years, Ron Lappi has heard first hand from most consultants and money managers that FPPA comes into contact with today that they may have serious difficulties achieving the 8% actuarial assumed rate of return in the long term. The world has changed and financial experts project that the next decade will not be like the decade of the 90s.

The Authors of this report certainly understand the Fire Department's interest in a Defined Benefit plan. It is an attractive and safe alternative following the three year decline of the capital markets. However, they are requesting this change at a time when public and private corporations around the country are moving away from Defined Benefit Plans and into Defined Contribution Plans such as the City provides its employees. This trend has been prompted by the burgeoning expense associated with meeting the financial obligations and end benefit promised by these Defined Benefit plans.

Our City Attorney has opined that neither the New Hire Fire Pension Board nor the City Council is obligated to change the plan as the members propose. The board has an obligation to the plan and to the solvency of that plan for the benefit of current and future participants.

The Authors respectfully recommend that the Resolution not be adopted.

**A RESOLUTION REQUESTING COVERAGE UNDER THE
SYSTEM ADMINISTERED BY THE FIRE AND
POLICE PENSION ASSOCIATION (FPPA) FOR MEMBERS
CURRENTLY COVERED BY THE NEW HIRE MONEY PURCHASE
DEFINED CONTRIBUTION PLAN**

Recitals:

Pursuant to Colorado Revised Statutes, (C.R.S.) § 31-31-1101 *et. seq.*, the City of Grand Junction ("City") may elect to cover its fire department members ("Members") under the Fire and Police Pension Association (FPPA) system in lieu of maintaining coverage under the City of Grand Junction New Hire Fire Money Purchase Defined Contribution Plans ("City Plans").

The City's firefighters have expressed an interest in moving to the FPPA system and after consideration by the Fire Pension Board, the Grand Junction City Council has determined that it would be in the best interest of the members of the fire department currently covered by the City of Grand Junction Defined Contribution Plans to partially terminate coverage in the City Plans and provide that all current members of those Plans, as well as all future members, be covered under FPPA. The Council further determines that the election to participate in the FPPA defined benefit plan is irrevocable and that the contribution rates be perpetually set as established herein.

NOW, THEREFORE, the City Council of the City of Grand Junction, Colorado resolves that:

1. The City hereby sets the effective date of coverage as June 1, 2006 ("Effective Date").
2. The City elects to cover all Members hired after the Effective Date under the Statewide Defined Benefit Plan with a contribution rate as established under the Statewide Defined Benefit Plan which is currently 16% of base salary, (as defined by FPPA) and shall be split 8% member and 8% City. (Employers and members both must contribute at least 8%.)
3. The Member and City contribution rate to the FPPA Defined Benefit System for Members who are active on the Effective Date will be 20% of base salary, (as defined by FPPA) and shall be split 10% member and 10% employer.
4. The City elects to offer the Members who are active on the Effective Date the option of participating in one of two plans offered by FPPA: a) the

Statewide Defined Benefit Plan; or b) the Money Purchase Component of the Statewide Hybrid Plan.

5. The City intends to transfer the active Members' account balances, the retired Members' account balances and the 100% vested Inactive Members' account balances to the Money Purchase Component of the Statewide Hybrid Plan.
6. Both the City's and Members' vested contributions to accounts shall be 100% vested upon transfer to the FPPA Defined Benefit System.
7. The City acknowledges that the election for coverage under the FPPA Defined Benefit System is irrevocable once the certification of compliance is filed by the City, the Members have voted to change and the FPPA Board of Directors approves the City's entry in to the FPPA system.
8. Clerical and other support personnel (non-sworn personnel) employed by the City's Fire Department shall not participate in the Plan.
9. In addition to this Resolution, the City understands that the following certification requirements, disclosure statement and member election will be necessary to complete the application process and must be undertaken prior to final consideration by the FPPA Board of Directors.

CERTIFICATION REQUIREMENTS

In order to comply with law it will be necessary for the City of Grand Junction to certify the following to the FPPA Board of Directors:

- a) The City of Grand Junction's New Hire Fire Money Purchase Defined Contribution Plans meet the qualification requirements of the Federal "Internal Revenue Code of 1986" that are applicable to governmental plans;
- b) By separate action, the City has adopted a Resolution to freeze the New Hire Fire Money Purchase Defined Contribution Plans in accordance with the terms of those Plans;
- c) The Resolution does not adversely affect the qualified status of the Plans;
- d) The rights of the members in the Fire Pension plans who were affected by the freezing of the Plans to benefits accrued to the date of freezing are non-forfeitable;

- e) All active Members in the New Hire Fire Money Purchase Defined Contribution Plans as of the Effective Date shall become Members in the FPPA system;
- f) The City will transfer or cause to be transferred to the FPPA system all assets of the New Hire Fire Money Purchase Defined Contribution Plans that are attributable to the vested benefits of the transferred Members, pursuant to the procedure established by the Board;
- g) All City and Employee contributions required to be made to the Fire Money Purchase Defined Contribution Plans as of the date of the freeze have been made;
- h) Members in the Fire Money Purchase Defined Contribution Plans shall not incur a reduction in their account balances determined as of the Effective Date, as a result of their transfer to the FPPA system. For vesting purposes with regard to the Fire Money Purchase Defined Contribution Plans account balances and with regard to the Money Purchase component of the FPPA Defined Benefit System, years of service in the New Hire Fire Money Purchase Defined Contribution Plans shall be combined with Years of Service in the Money Purchase Component of the FPPA Defined Benefit System. For vesting purposes with regard to the Defined Benefit component of the FPPA Defined Benefit System, Years of Service Credit shall be based upon service credit either earned or purchased while in the FPPA Defined Benefit System; and
- i) The City agrees to participate in the FPPA system and to be bound by the terms of the FPPA system and the decisions and actions of the Board with respect to the FPPA system.

DISCLOSURE STATEMENT

The City of Grand Junction will prepare and distribute a disclosure statement that compares and contrasts the main provisions of the New Hire Fire Money Purchase Defined Contribution Plans and the plans offered under the FPPA system, as applicable. The statement will be submitted to FPPA for approval. The City will submit the approved statement to all eligible voters in a plan election as hereinafter set forth as required by the Statewide Hybrid Plan Rules and Regulations.

MEMBER ELECTION

The City of Grand Junction shall hold an election for all members pursuant to the Statewide Hybrid Plan Rules and Regulations 2.02.

The City understands that if the application for coverage under the FPPA System is approved, all future members of the Fire Department who have been covered under the New Hire Fire Money Purchase Defined Contribution Plans will be covered under the Statewide Defined Benefit Plan of the FPPA Defined Benefit System.

This Resolution shall be certified and transmitted to FPPA for processing in accordance with all applicable law and regulations as part of the application process.

PASSED AND ADOPTED THIS _____ day of _____ 2006.

Jim Doody
Mayor

ATTEST:

Stephanie Tuin
City Clerk

CITY OF GRAND JUNCTION

REPORT ON PROPOSED CHANGES TO CURRENT RETIREMENT PLAN FOR NEW HIRE FIRE

(PREPARED August 30, 2005)

The City of Grand Junction's management and elected policy makers should "Oppose" any attempt by Fire Department personnel or any other employee groups to change the current Defined Contribution Plans to a Defined Benefit Plan. Such a move represents poor public policy for our organization by shifting the financial risk from employee to employer to ensure a guaranteed retirement benefit for these public employees.

We should oppose this change for the following reasons:

1. There is no business reason for changing or improving these benefits.
 - We have no recruitment or retention problems in our workforce that are attributable to our pay or benefit packages. Most departing employees rate the City's pay and benefits package as good to excellent.
 - Current contributions into the Police and Fire retirement plans exceed the average contributions made by cities in our Front Range market. In fact our two plans at 10.65% are some of the richest in the State of Colorado.
2. We have spent many years educating our work force on how to self-direct investments using a balanced approach in planning for their retirement.
 - Most Police and Fire employees voted to abandon the Defined Benefit Plan under which they had been covered until the early

1980's in exchange for a more flexible, self-directed Defined Contribution Plan that is now in effect.

- Only since the capital markets experienced a three year decline have some employee groups (Fire Department mainly) expressed an interest in going back to a Defined Benefit program.
 - While state law requires an 8% contribution to retirement for Police and Fire, the City of Grand Junction has contributed to the new Fire and Police Plans for many years at the 10.65% level.
 - Because of the City's contribution rate into Police and Fire retirement plans (which is 33% above the statutory contribution level), a career that spans 25 to 30 years will result in a attractive retirement balance available to the employee, their spouse, or their heirs.
3. Defined Benefit plans that fail to achieve the actuarial assumed rate of return in both the short run and long run risk creating a significant unfunded liability over time that must then be funded by the employer. In our case, the burden will fall to the taxpayers of the City of Grand Junction.
- An unfunded liability is not possible with our Defined Contribution Plans; there is no actuarially assumed rate that has to be met over time.
 - In a Defined Contribution plan, employees assume the risk associated with their own investments and with fluctuations in markets over time and receive what is achievable given their investments. There is no guarantee of a certain level of benefits as in a Defined Benefit plan.
 - In spite of the fact that we have no active employees in the plan, the City is currently required to put \$427,000 annually into our Old Hire Police plan and another \$334,000 in the Old Hire Fire plan with only two employees active in that plan. The unfunded liabilities that the City of Grand Junction taxpayers are stuck with from these old Defined Benefit plans total nine million dollars today. This is typical of the risk and exposure that moving back to a Defined Benefit system can create.

4. Changing from a Defined Contribution plan to a Defined Benefit plan will guarantee a set level of benefits to our employees, while shifting all the capital market fluctuation risk and actual changes in actuarial assumptions from employees to the taxpayers of the City of Grand Junction.

- The City's fair share of any capital market risk is being covered by the extra 33% annual contribution we make to the current Defined Contribution plans for the Police and Fire employees.
- Further shifting of the risk to the City and its taxpayers is unnecessary and certainly would be a bad fiscal policy decision.



FIRE

March 23, 2006

Mayor Hill and Grand Junction City Council
250 North 5th Street
Grand Junction, CO 81501

Mayor Hill and Honorable City Council:

On February 28, 2006 the New Hire Fire Retirement Board met to consider whether to support a change from our current Defined Contribution Plan to the Fire and Police Pension Association's (FPPA) Defined Benefit Plan. After much deliberation, the Board voted to change to the FPPA Defined Benefit Plan.

The next step in the process is for the City Council to consider the Board action and, if Council concurs with the recommendation to join FPPA, then for the Council to authorize City management and legal staff to make the necessary steps to affect the change.

Therefore, on behalf of the Board, I am requesting that the City Council schedule a Monday workshop meeting during which this proposed change may be discussed with you. More information about the FPPA Defined Benefit Plan will be provided to you in preparation for the meeting. Once scheduled, I will rely on the City Manager to inform me and the balance of the Board.

Sincerely,

John Williams, Administrative Fire Officer
Chairman, New Hire Fire Retirement Board

- c: New Hire Fire Retirement Board Members
 - Kelly Arnold, City Manager
 - Ron Lappi, Administrative Services Director
 - Claudia Hazelhurst, Human Resources Manager
 - Rick Beaty, Fire Chief
 - John Hall, Fire Unit Supervisor
 - Jim Houlihan, Fire Unit Supervisor
 - John Shaver, City Attorney