



Government Operations Subcommittee

**Wednesday, February 20, 2013
11:30 AM
Webster Hall (212 Knott)**

ACTION PACKET

COMMITTEE MEETING REPORT
Government Operations Subcommittee
2/20/2013 11:30:00AM

Location: Webster Hall (212 Knott)

Summary:

Government Operations Subcommittee

Wednesday February 20, 2013 11:30 am

HB 599 Favorable With Committee Substitute
Amendment 049579 Adopted

Yeas: 8 Nays: 3

Committee meeting was reported out: Wednesday, February 20, 2013 2:19:12PM

COMMITTEE MEETING REPORT
Government Operations Subcommittee
2/20/2013 11:30:00AM

Location: Webster Hall (212 Knott)

Attendance:

	<i>Present</i>	<i>Absent</i>	<i>Excused</i>
Jason Brodeur (Chair)	X		
Larry Ahern	X		
Frank Artiles			X
Daphne Campbell	X		
Neil Combee	X		
W. Travis Cummings	X		
Erik Fresen	X		
Reggie Fullwood	X		
H. Marlene O'Toole	X		
Ricardo Rangel	X		
Daniel Raulerson	X		
Irving Slosberg	X		
Ritch Workman	X		
Totals:	12	0	1

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COMMITTEE MEETING REPORT
Government Operations Subcommittee
2/20/2013 11:30:00AM

Location: Webster Hall (212 Knott)

HB 599 : Publicly-Funded Defined Benefit Retirement Plans

Favorable With Committee Substitute

	<i>Yea</i>	<i>Nay</i>	<i>No Vote</i>	<i>Absentee Yea</i>	<i>Absentee Nay</i>
Larry Ahern	X				
Frank Artiles			X		
Daphne Campbell			X		
Neil Combee	X				
W. Travis Cummings	X				
Erik Fresen	X				
Reggie Fullwood		X			
H. Marlene O'Toole	X				
Ricardo Rangel		X			
Daniel Raulerson	X				
Irving Slosberg		X			
Ritch Workman	X				
Jason Brodeur (Chair)	X				
Total Yeas: 8		Total Nays: 3			

HB 599 Amendments

Amendment 049579

Adopted

Appearances:

HB 599

Jim Rizzo, Senior Consultant and Actuary - Opponent
 One East Broward Blvd.
 Fort Lauderdale FL 33301
 Phone: 954-527-1616

HB 599

Kraig Conn (Lobbyist) - Opponent
 Florida League of Cities
 PO Box 1757 301 S. Bronough Street, Suite 300
 Tallahassee FL 32301
 Phone: (850)222-9684

HB 599

Lisa Henning, Director Legislative Affairs (Lobbyist) - Opponent
 Fraternal Order of Police
 242 Office Plaza Dr.
 Tallahassee FL 32301
 Phone: 850-766-8808

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Location: Webster Hall (212 Knott)

HB 599 : Publicly-Funded Defined Benefit Retirement Plans (continued)

Appearances: (continued)

HB 599

Robert Suarez, Vice President (Lobbyist) - Opponent
Florida Professional Firefighters
345 W Madison Street
Tallahassee Florida
Phone: 305-984-3299

HB 599

Linda McDonald, Chair-Collier Tiger - Waive In Opposition
Teachers and Education Support Personnel
2810 50th Terr SW
Naples FL 34116
Phone: 239-776-5679

HB 599

Robert E. Livingston (General Public) - Waive In Opposition
274 Galbraith Ave.
Oak Hill FL 32759
Phone: 904-669-8699

HB 599

James Ingle (General Public) - Waive In Opposition
3509 NW 22nd Dr.
Gainesville FL 32605
Phone: 901-483-4800

HB 599

Mike Michelin (General Public) - Waive In Opposition
Working Families
18508 Dakota Rd.
Odessa FL 33556

HB 599

Kathleen Cooney (General Public) - Waive In Opposition
11601 4th St. N #2307
St. Petersburg FL 33716
Phone: 727-329-8142

HB 599

William Young (General Public) - Waive In Opposition
3291 NE 215th Ave.
Williston FL 32696
Phone: 352-529-7198

HB 599

Willie Bailey (General Public) - Waive In Opposition
8681 NW 3rd Street
Pembroke Pines FL 33024
Phone: 954-447-9766

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Government Operations Subcommittee
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Location: Webster Hall (212 Knott)

HB 599 : Publicly-Funded Defined Benefit Retirement Plans (continued)

Appearances: (continued)

HB 599

J. B. Clark, Lobbyist (Lobbyist) - Waive In Opposition
Florida Electrical Workers Association
2071 Cynthia Drive
Tallahassee FL 32303
Phone: (850)556-8143

HB 599

Leticia Adams, Director of Governance Policy (Lobbyist) (General Public) - Proponent
Florida Chamber of Commerce
136 S. Bronough St.
Tallahassee FL 32301
Phone: (850) 521-1279

HB 599

Gail Marie Perry, Chair (General Public) - Proponent
Communications Workers of America Council of Florida
P O Box 1766
Pompano Beach FL 33061
Phone: 954-850-4055

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A. Introduction

1. My name is Jim Rizzo and I am a Senior Consultant and Actuary with the Gabriel, Roeder, Smith and Company; but I am not here speaking on behalf of GRS.
2. I have over 35 years of experience, nationally and mostly in Florida. This experience includes practical actuarial and consulting (a) with pension boards and (b) with cities engaged in pension reform projects.
3. But also includes experience in more conceptual and academic perspectives.

B. SB 534

1. First, I intend on providing you with a factual basis for going back to the drawing board. I will point out specific paragraphs in the bill that are problematic. These are disclosure requirements that are either: (a) duplicative OR (b) internally inconsistent OR (c) unclear and confusing OR (d) just not relevant to the cost to taxpayers.
2. Second, I intend on providing you with the three primary reasons why many jurisdictions are facing pension challenges today -- across the country and in Florida
3. Finally, I intend on providing you with some broad suggestions for actions that will help solve some of those challenges in Florida -- without throwing the baby out with the wash.

C. SB 534

1. Now for the details:
 - a. I do like the part in the bill about the state not making up any deficit or shortfall of any local system.
 - b. **Paragraph 1(c)** asks for the number of years till the plan runs out of money. The methodology described excludes future payts on the debt from any assets. Of course you will run out of money if you stop paying the debt you incurred for having made promises in the past. Nor does it specify whether future benefit accruals are considered. It would be much more informative to just require the disclosure of what GASB 67 calls the "crossover date". The GASB is the Governmental Accounting Standards Board. They set the standards for financial reporting for govts, including for govt pension plans. **So paragraph 1(c) is of no real value and is even misleading; it is duplicative of a much better disclosure already required by the GASB.**
 - c. **Paragraph 1(d)** talks about the recommended contribution under GASB 67. But GASB 67 does not have any "recommended contributions". In fact, the Chairman of the GASB told me over lunch one day that "actuaries do funding and the GASB does accounting". That divorce of methods for determining funding contributions from methods for accounting and financial reporting was a major concept in the new GASB 67 standard for pension disclosures. **So paragraph 1(d) is confusing and internally inconsistent.**
 - d. **Paragraph 2(a)** refers to the Entry Age method of calculating the costs and liabilities. This is a good choice; but there are a few flavors of Entry Age. For example, FRS uses what is commonly called the Ultimate Entry Age for funding, which I am not particularly fond of, and which the GASB roundly rejected for financial reporting purposes. Also, EA does not work well with a return assumption as described in paragraph 2(b) below. **So Paragraph 2(a) is unclear and confusing.**
 - e. **Paragraph 2(b)** requires a complex 3-segment assumed rate of return for recommended contributions and disclosure purposes. It points to the Internal Revenue Code section for funding private plans for these three segment rates. You see, there is some notion that whatever applies to private sector plans should be applied to public sector plans. But the GASB wrote a White Paper a few years ago on why

govt financial reporting is and should be different from private sector. And the GASB is the final authority on financial reporting.

Specifically, for private sector pension plans, the Internal Revenue Code's three segment rates (incorporated by reference in this bill) are based on corporate bond yields – snapshot yield rates observed in the market.

There are several problems with this approach for govt sector. But the *most important problem* with the bill's use of private sector rates is its failure to capture the "cost to taxpayers". These segment rates measure the cost to settle the obligations in a single sum in the market, like private companies do all the time. But govt plans settle their obligations a little at a time over a long period of time, and the funds they use to pay the benefits when due come mostly from the long-term earnings of the pension fund's portfolio.

The bill's rates are like a plan termination basis, which seldom ever happens. GASB's approach reflects the expected long-term cost to taxpayers. **So paragraph 2(b) is not a relevant disclosure for the cost to taxpayers.**

- f. **Paragraph 2(c)** is about the mortality table; but it doesn't project mortality improvements beyond the valuation date. It is incomplete and does not conform to the Actuarial Standard of Practice No. 35.
 - g. **Paragraph (4)** requires these disclosures within 180 days after plan year end. For many local plans, we do not even get the audited financial statements till near or after that date.
2. You've heard a lot about the GASB. Maybe more than you've cared to learn. The new GASB disclosures under Statement 67 will be required for plans anyway -- beginning in 2014 for all those plans that issue standalone financial reports. The GASB's disclosure requirements (a) were developed over a 6-year period, (b) they were developed with input from all over the country – from those who prepare financial statements, from auditors, from actuaries, from rating agencies, and from economists and (c) they were developed by some of the best independent-thinking minds in financial reporting concepts in the country. Their disclosure rules apply in 2014. While I don't agree with everything they did in Statement 67 and 68, the GASB board is THE nationally recognized standards-setter for govt pension disclosures. **Why would you consider yourselves more qualified to add additional administrative burdens to plans, only to disclose irrelevant numbers?**

NOW . . . ENOUGH OF THE NEGATIVE COMMENTARY ABOUT THIS PARTICULAR BILL.

LET'S MOVE ON TO MORE CONTRUCTIVE SUGGESTIONS FOR SOLVING THE CHALLENGES WE FACE.

D. There are 3 primary reasons for the current pension challenges (nationally and Florida)

1. The underperforming markets during 2001-2011 (the so-called lost decade)
2. Governance, and what economists call agency risk and moral hazard
3. Benefit improvements adopted without sufficient information concerning risk

E. **4 Suggestions for Action –**

1. Adopt a Financial Rating System. The report issued by DMS last year was pretty good (and not expensive to comply with). I suggest you consider returning to that.
2. Require all plans to prepare a standalone financial statement per GASB Statement No. 67. That would ensure that ALL plans would prepare and publish the numbers before they have to go into the employer's financial statement the next year. This dovetails with the Financial Rating System and makes the disclosures more current. It also subjects the plan's GASB-required disclosures to auditor scrutiny sooner.
3. Adopt a more robust funding policy by the Legislature (4 components)
 - a. First - Tighter assumptions guidelines (especially the return assumption)
 - b. Second - Tighter amortization guidelines (think about whether 30-year amortizations simply kick the can down the road to the next generation of taxpayers)
 - c. Third - Specific guidelines for the actuarial value of assets
 - d. Fourth - Require city to adopt a portfolio risk profile for the pension fund to follow (in broad asset allocation terms; no details).
 - e. You might get some hue and cry and push-back on this; but reasonable guidelines in these areas will help the cities and the boards work together better for sustainable pensions
4. Require a more robust actuarial impact statement
 - a. The current one year projection is inadequate to make financial decisions. It should be at least a 10-year projection.
 - b. Using an assumption that the rate of return in every future year will exactly equal the expected rate is inadequate to communicate risk. It should include some measures of the investment risk associated; e.g., sensitivity testing, stress testing or stochastic analyses --- something that will tell the decision-makers about the financial risks of their decision
 - c. This might even be good to include in every annual valuation, not just an actuarial impact statement, as a reminder to the city management and elected officials of the risks they and their taxpayers are bearing.