PENSION & OPEB REFORM

Frequently Asked Questions

The following questions were submitted by City of Memphis employees. Questions should be sent to pension@memphistn.gov . Answers are provided by staff, our actuaries and expert consultants. Reforming the city's pension and OPEB system is complex and the administration will do its best to provide clear and accurate information whenever possible.

PENSION

Who chose not to fully fund the pension plan – Council (Current Council), Administration (Herenton/Wharton)?

The plan was fully funded through 2008. In 2009, the great recession in the stock market caused the fund to lose nearly $500 million in value, causing the underfunding. Since that time, the City has not had the available funds nor the willingness to raise taxes to pay the total annual required contribution, although it has continued to pay 6% of salary, or about $20 million year. The priority for City of Memphis, in the midst of the economic crisis, was to maintain funding for services needed by the public and to avoid layoffs.

Is this not a criminal or ethical violation?

This is not a criminal violation. Nor do we feel it is an ethical violation. Most municipal governments around the country have underfunded pension funds. In the wake of the Great Recession, Memphis simply did not have the funds available to make the annual contributions it would have liked to make. The City of Memphis has never missed making the annual, legally required pension payment which is now 6% of payroll and has no intention of missing a pension payment. The issue is only how we will raise the money to make pension payments, not whether we will make them.

Where were the funds spent that should have been paid to the pension fund?

The General Fund operating budgets from 2009 to date show where the City spent its money. Theoretically, a portion of those funds could have been used to make pension fund contributions, but other programs – mostly jobs - would have to have been cut. Also, those funds were used to reduce or hold the tax rate steady for many of those years.

Under your proposed Defined Contribution plan, how will counselors help me invest my funds? Will they select the funds because I know nothing about mutual funds, stocks, bonds, etc.?

All employees will have access to financial advisors – in addition to other computer-based tools - to assist in managing their 401 (a) and 457 plans.

The State of Tennessee offers social security with 401 K. Why is the City not offering social security?

The cost of Social Security is very high (6.2% from employee and 6.2% from employer) and the benefits are relatively low. If the City offered SS, there would only be 3.6% of salary left to invest in a 401(a) plan. The administration believes that a total of 16% of salary invested in a 401 (a) is a more beneficial structure for employees.

Why not adopt the state retirement plan for non-vested employees?

The State hybrid plan still has a Defined Benefit component that leaves the City with significant market risk that could lead to further unfunded liabilities. The administration supports a DC plan that eliminates this risk and, at the same time, increases the City's retirement contribution from 6% of salary to 8% of salary.

If I have more than 10 years but less than 11 years can I opt to go into the 401 K? If not, why?

At this time, there is no plan to create options into the 401 (a) plan for vested employees.

I'm planning on getting in DROP in October 2014. Is the DROP going to be available for me?

Council Chairman Jim Strickland is proposing some changes to the city's DROP Plan. The upshot of the proposal is it would limit participation to Police and Fire Employees and cut the DROP program from 3 years to 1 year. Anybody who currently has 25 years of Service would not be impacted by these changes.

Why are Council/Administration choices being taken out on the back of current employee and retirees? We were made a promise when we started 25 years ago and now you chop our head off.

Employees with 25 years will see no change in their pension plan. Employees with less than 10 years of pension credible service would move to 401(a) Defined Contribution Plan effective July 1, 2015. Of the 6,135 participants in the city's pension plan, approximately 2,428 (40%) are unvested. All vested employees would remain in the legacy DB pension plan.

However, most will likely see a change to their health care situation (Medicare ineligible retirees will not). The economy has changed dramatically in the past 25 years. Retiree health benefits have changed for nearly everyone, including municipal employees. These benefits were never guaranteed. Keep in mind that 70% of the city's budget goes to employee wages and benefits. To meet our moral obligation to pay for the Pensions that we promised current retirees and current employees vested in the pension plan by increasing our pension payments from $20M to $90-9$5M over five years, we have to make the difficult choice of taking money out of retiree's healthcare to pay for their pension.

OPEB

How do I know if I qualify for Medicare Parts A & B?

Any city employee hired after September 1, 1986, has been paying into the Medicare system and will qualify for Medicare because they have earned the 40 quarters necessary to qualify for Medicare. Any employee who was hired before that date and is still working for the city was allowed to participate in a Medicare buyback program in 2011 in which the city paid for 24 Medicare quarters and the employees began paying into the Medicare program from that point forward to ensure they earned the 16 quarters needed to qualify for Medicare. This program ensured all of our current employees as of December 2011 would qualify for Medicare.

If health care costs have risen over the years, why were rates not raised accordingly and progressively versus cutting coverage completely for retirees?

Health care costs have steadily increased and are forecasted to continue rising. Gradually raising rates (premiums) would not have solved the problem: the City simply cannot afford to pay the benefit in the long run or the short run. The administration has requested premium increases, including in the 2014 proposed budget, to ensure the healthcare plans break even. Those increases, as well as proposed plan design changes to slow the growth in medical plan costs, have not been approved by Memphis City Council.

Mayor talks about a five (5) year plan. Did the Administration consider giving retirees or soon to be retirees a staggered reduction plan? Current structure is FY 14, 70-30 split, FY 15 60-40 split, FY 16, 50-50 split, FY 17 40-60 split, FY 18 30-70 split, FY 19 20-80 split, FY 20 retiree pays 100%.

This type of approach was considered, but the near-term pressure caused by increasing pension payments made a more gradual transition unfeasible.

Did the City look at basing the retiree health insurance premium based on number of years of service? For example, if you worked less than 15-20 years you pay X%? If you worked 20-30 years you pay X%? If you worked over 30 years you pay X%? Does the city not value dedicated employees who have provided their life to the safety and operations of the city?

The City values the service of all employees. The reality of the situation is that in order to protect the Pensions of those very same employees, rapidly reducing health care expense was determined to be the best course of action.

How much would the city save annually if they used a staggered reduction plan? Would it meet the Comptroller requirements?

The staggered, or ramp-up, approach to paying 100% of the Pension ARC actually costs the City more money in the long run. If the City adopts an approach that funds the Pension ARC more quickly, it will require even more severe cuts across the board.

Why were employees given a bonus with health care funds when the deficits existed?

Paying the bonus was a judgment call based on the belief that employees earned their bonus. As you will recall, this bonus came during the year employees' salaries had been reduced by 4.6%. Further, the amount of money used to pay the bonus would not have materially changed the very large unfunded liabilities faced by the City.

How did we accrue $1.3 billion dollar deficit in OPEB over night? Who was responsible for this?

It did not happen overnight. The OPEB deficit has been building for years. Keep in mind, promised health care benefits have all been paid. The issue is whether we can continue to offer that benefit in the future.

How were OPEB funds managed and by whom?

Almost all OPEB costs are paid on a "pay as you go" basis – meaning the funds come from current income. An OPEB Trust Fund was established a few years ago, but has never had more than $20 or $30 million – against a $1.3 Billion unfunded liability. The same committee that invests the Pension Fund assets also manages the OPEB assets.

Were OPEB funds reported on the City's financials?

All the spending on OPEB benefits and the OPEB trust itself appear in the CAFR every year.

How much are insurance premiums going up for full-time employees?

Premiums have not been increased since January 2010. Because we have delayed making premium increases, it will take a 57% increase in premiums to cover the 2013 and 2014 deficits in the Healthcare Fund, and ensure the fund breaks even in 2015. Keep in mind that the increase, if approved by Council, would not start until January 1, 2015. In past years, we have moved money from other funds to shore up the Healthcare Fund when it ended the year with a deficit. The State Comptroller has said all city funds, including the Healthcare Fund, most balance on a fiscal year basis. The Comptroller's directive also means the city can no longer dip into other funds to balance the HCF except for taking money from reserves.

Are employees going to receive a cost-of-living raise to compensate for the higher premiums?

There is no plan for a cost of living raise at this time.