



# HAINES CITY

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## **CITY MANAGER MEMORANDUM**

**To:** The Honorable Mayor and City Commissioners

**Through:** James R. Elensky, City Manager

**From:** Omar DeJesus, CPA, Finance Director

**Date:** September 22, 2022

**Subject:** ORDINANCE NO. 22-2022 Second Reading of the General Employee Pension Plan Reopening

### **Introduction**

The intent of the agenda item is to request the City Commission the approve the second reading of Ordinance 22-2022 to officially “unfreeze” and “re-open” the General Employee Defined Benefit Retirement Plan.

### **Background**

Retirement systems generally fall into one of two broad categories. Defined benefit (DB) plans calculate retirement benefits using on a DB formula based on years of service and a specified benefit accrual rate. By contrast, defined contribution plans (also known as DC or 401(a) plans) do not promise a particular benefit. Defined contribution plans merely specify the amount of contributions paid into the retirement system. Ultimately, benefits payable to retirees in a DC plan will depend on how the member invested their individual account balance, whereas retirement benefits payable by a DB plan are “defined.”

In March of 2015, Haines City closed its General Employees’ Retirement Plan (hereinafter the “Plan”). As of March 13, 2015, accrued benefits earned by general employees in the Plan were frozen. Effective with the Plan “freeze and closure” in 2015, general employees began accruing service in the City’s defined contribution plan. Based on the 2014 actuarial impact study, the projected City Required contribution was set to be 17.5% for the fiscal year ending 2015 and 16.9% for the fiscal year 2016.

The City then transitioned to a defined contribution 401a/457 plan where it matches 10% of the employee salary. Although the pension plan was frozen, the City was still required to fund 5.1% for FY16 and 4.5% for FY17. This is combined City retirement contribution of 15.1%.

Based on the most recent actuarial impact study, the City contribution to reopen the plan is 12.1%. This is an overall budget savings for the upcoming year which will be used to proactively fund the pension plan in order to stabilize future economic impacts. We have taken into consideration recent market rate returns and made long term forecasted at reduced rates of returns. Additionally, the plan re-opening allows for current employees to make a one-time irrevocable election to stay in the 401a/457 plan if they so choose.

**The proposed ordinance re-opens the General Employee Plan and closes the City's defined contribution (DC) plan, as follows:**

- All existing general employees shall have an irrevocable one-time option to rejoin the re-opened defined benefit Plan, or remain in the City's defined contribution plan.
- The same 5% employee contribution rate shall be used by both the re-opened Plan and the City's defined contribution plan.
- Participation in the Plan shall be mandatory for all future general employees, except for current general employees who elect to remain in the defined contribution plan.
- Benefits in the Plan shall resume at the same rate of 3% per year of service, based on the benefit structure that existed prior to the Plan's closing in March of 2015.
- Current general employees who were members of the Plan prior to March of 2015 will retain their service credit in the Plan unless they withdrew their employee contributions.
- If an employee withdrew their contributions they will have the option to purchase their prior service by contributing 50% of the full actuarial cost.
- Current employees will also have the option to purchase service credit from March of 2015 through December 31, 2022, by paying the full actuarial cost of the prior service.
- All members will also have the option of purchasing up to five years of permissive service credit (which is also known as "airtime").
- Airtime purchases will be treated as service credit for benefit accrual purposes, but will only be applied at a rate of 50% for vesting and retirement eligibility purposes.
- Members who decide to purchase airtime shall be charged the full actuarial cost of the service.

**Organizational Goal(s)**

Personnel: Cultivate an environment that will attract, retain and recognize City employees as the organization's **most valuable resource**.

**Budget Impact**

The required budget impact will be determined by employee selections to remain in the 401a plan receiving a 10% City Contribution or elect the pension plan which requires a 12.1% City Contribution. The 2% contribution difference will be funded from the elimination of funding the frozen plan in addition to the 401a.

**Recommendation**

Staff recommends Commission approval for the second reading of reopening the General Employee Pension Defined Benefit Retirement Plan.