MINUTES

METROPOLITAN EMPLOYEE BENEFIT BOARD

STUDY & FORMULATING COMMITTEE

January 23, 2015

The Metropolitan Employee Benefit Board's Study & Formulating Committee met on Friday, January 23, 2015 at approximately 2:00 p.m., Sonny West Conference Room, Howard Office Building, 700 2nd Avenue North, Nashville, TN.

Committee Members present: Chair: Michael Shmerling; Vice-Chair: Lucia Folk; Member(s): Debra Grimes.

Member(s) Glenn Farner, Jr., and Ivanetta Samuels were unable to be present.

Benefit Board Member(s) present: Doug Clariday, Veronica Frazier, B.R. Hall, and Richard Riebeling.

Other(s) present: Justin Stack, Metro Human Resources and Nicki Eke, Metro Legal Department.

Michael Shmerling called the meeting to order and gave an opening statement regarding completing the work of the Committee and issuance of a final report.

Michael Shmerling asked if there were any amendments, corrections or questions of the minutes from the last meeting held on September 29, 2014. With one correction, Lucia Folk moved for approval of the minutes. Debra Grimes seconded and the minutes were approved without objection.

1. Discussion of the interim presentation by the PEW Charitable Trusts.

   David Draine from the Pew Charitable Trust was present.

   David Draine reviewed what has been done by the Committee to date and stated that the PEW organization was asked to provide analysis of Metro's pensions and retiree health benefits to the Committee.

   David Draine stated that the presentation today builds on what has already been presented to the Committee with input from stakeholders, Committee discussions thus far and input from the Committee Chair. He stated three topics will be covered today: 1) History of retirement costs; 2) Projections of future retirement contributions; and 3) Potential options to reduce costs. He also stated that feedback from today will determine the work to be done with the Metro's actuaries and consultants.

   David Draine reviewed the interim findings and stated that upon initial review of the retirement plans the biggest driver of increased pension costs have been the investment losses and closed pension plans that have been underfunded and managed on a pay as you go basis. He stated that the future costs are driven by retiree healthcare benefits, with a current unfunded liability of more than 2.4 billion. He also stated that in the previous presentation there was an analysis of the State of TN Hybrid plan, which would make Metro's costs more predictable. He noted that further analysis can be provided based on the Committee's interest.

   David Draine reviewed the growth in retirement costs (open and closed plans) and stated that Metro has been making payments towards those costs and there is a plan in place to pay for the closed plans and therefore the plans will reach full funding over time.

   He reviewed the projected unfunded retiree health care liability of $2.4 billion and stated the eventual liability will be even larger. He reviewed the changes effective in 2012 to reduce the benefits liability for new employees (10 year vesting, prorated benefits by years of service and retiring directly from Metro to qualify for benefits). He reviewed a breakdown of retiree health care costs by job category and by Medicare eligibility (pre and post).

The PEW organization conducted a 50 state analysis of retiree healthcare plans and additionally looked at nine comparison cities. He stated that this review found three basic approaches to offering retiree health benefits. He stated that the most common approach, and typically most expensive, is what Metro currently does, is used by half of the cities and states reviewed (nine states and two cities offer a fixed subsidy; 16 states and 3 cities offer no direct subsidy)

PEW's retirement analysis indicates that under the current policy the total annual retirement cost for Metro will be well over 500 million by 2044 and a small fraction of that will be pension costs, with the main cost driver being retiree medical benefits.

David Draine reviewed some scenarios/assumptions in projecting Metro's retirement costs (baseline based on plan assumptions, moderate downside if assumptions fall short of expectations, upside where key assumptions outperform expectations and severe downside scenario) in order to give an idea as to how retirement costs can vary if actual experience differs from the assumptions.

David Draine stated that based on the feedback from the Committee and stakeholders the organization focused on options for the retirement benefit (no change for any current retiree or beneficiary, no mandatory change for any current employee or former employee eligible for benefits, no impact for police and fire and no change to death or disability benefits).

It was noted that at the request of the Committee Chair, the options to be discussed are based around keeping a defined benefit structure and are only potential options for the Committee to consider, not recommendations.

David Draine reviewed some employee retention stats for general government and public safety employees.

David Draine reviewed some of the potential pension benefit options; changing the multiplier, increasing employee contributions, increasing the retirement age, changing the early retirement formula and taking introducing measures to keep costs stable. He stated that another potential option would be eliminating retirement based on the rule of 85 for new employees.

On the optional lump sum option, David Draine stated that current employees and vested former employees would have the option to receive their benefit as a lump sum equal to the present value of the accrued defined benefit annuity. He stated this option would mean that the worker would no longer receive a pension benefit or be eligible for retiree health care benefits. He also stated that the effects from the change can reduce pension risk and health care costs.

David Draine reviewed some potential retiree health changes for new employees; offer a fixed subsidy instead of a share of premium, reduce or eliminate subsidy for Medicare eligible retirees, Raise age eligibility to qualify for retiree health care and reduce subsidies, reduce or eliminate spousal benefits and pre-fund new employees retiree health benefits.

The Committee discussed the potential options for pension benefits and retiree health benefits, growth and taxable revenue to help fund retirement costs, the impact of the potential changes for new employees, how the potential changes ranked in comparison to other entities.

The Committee was in agreement that they would like to obtain specifics for recommendations related to the potential options for pension benefits and retiree health benefits for new employees (non-public safety) and the lump sum payment options.

With nothing further presented, the meeting adjourned at 5:39 p.m.

ATTEST:

Ms. Veronica T. Frazier, Director
Human Resources

APPROVED:

Mr. Michael Shmerling, Chair
Study & Formulating Committee