



State of Louisiana
Division of Administration
Office of the Commissioner

FUNDING REVIEW PANEL

Minutes of Meeting
Monday, January 30, 2012

I. CALL TO ORDER AND ROLL CALL

The meeting was called to order by Dr. Steven Procopio, designee of Commissioner Paul W. Rainwater, at 9:16 AM in House Committee Room 3 of the State Capitol, Baton Rouge, Louisiana. The Secretary called the roll.

ROLL CALL:

Recommendations Committee: voting members

Members Present:

Dr. Steven Procopio, Chair

designee of Commissioner Paul W. Rainwater

Mr. Stacy Birdwell – member of the Firefighters' Retirement System (FRS)

selected by the FRS board of trustees

Mayor J. Lynn Lewis of Delhi

selected by the Louisiana Municipal Association (LMA)

Mayor Randy Roach of Lake Charles

selected by the Louisiana Conference of Mayors (LCM)

Mr. Mike Sands – member of the Municipal Employees' Retirement System (MERS)

selected by the MERS board of trustees

Ms. Rina Thomas

appointed by the Governor

Members Absent:

Cdr. Henry Dean – member of the Municipal Police Employees' Retirement System (MPERS),

selected by the MPERS board of trustees

Advisory Committee: non-voting members

Members Present:

Mr. Charlie Fredieu

selected by the Professional Fire Fighters Association (PFFA)

Senator Elbert Guillory
chairman, Senate Retirement Committee

Mr. Chris Nassif
selected by the International Union of Police (IUPA) from nominations submitted by the Louisiana organizations affiliated with the IUPA

Mr. Dirk Thibodeaux
appointed by the Governor

Members Absent:

Senator Paige Cortez – member of the Senate Retirement Committee
appointed by Senate President John Alario

Representative Kevin Pearson
chairman, House Retirement Committee

Staff Members Present

Ms. Sue Israel – Secretary

Ms. Malerie Cacibauda – Secretary, House Retirement Committee

Mr. Paul Richmond – Manager, Actuarial Services, Office of Legislative Auditor

Mr. Danny Leming – House Sergeant at Arms

Mr. Jaubert Ambeau – Audio-Video Engineer, Speaker’s Office

Others Present

Mr. Don Nijoka – Deputy Director, Louisiana Municipal Association

Mr. Steven Stockstill – Executive Director, Firefighters Retirement System

Mr. Bob Rust – Executive Director, Municipal Employees’ Retirement System

Ms. Kathy Bourque – Executive Director, Municipal Police Employees’ Retirement System

Mr. Gary Curran – Actuary, G.S. Curran and Company, Ltd.

Dr. Procopio welcomed Mr. Mike Sands to the panel. Mr. Sands has been appointed by the MERS board of directors and is replacing Mr. Bob Rust.

Also, Dr. Procopio advised that he had received a request from Cdr. Dean, who could not attend, to have someone take his place on the panel today. With no legislative staff present to give an opinion, Dr. Procopio deferred on that request out of caution.

II. APPROVAL OF MINUTES

Dr. Procopio called for a motion to approve the minutes of the meeting of November 15, 2011. Sen. Guillory motioned; second by Mayor Lewis. The motion passed with no objection.

III. DISCUSSION OF PROPOSALS SENT TO RETIREMENT SYSTEM BOARDS ON NOVEMBER 16, 2011

Dr. Procopio called on the FRS representatives to discuss the response they sent to the panel. Mr. Gary Curran, actuary for FRS (as well as for MERS and MPERS), came forward to explain the analysis he had provided at the request of the FRS board.

Mr. Curran explained that the panel had sent the FRS board a proposal from the LMA to restructure the benefits for new hires and would also divide them into two different groups—hazardous duty and non-hazardous duty—with two different plans. The hazardous duty plan would maintain the same accrual rate as the existing plan, at 3.33% but would change the final average compensation from three years to five years, which is the amount of time over which the retirement benefit is calculated and is also linked to disability and survivor benefits. The proposal also included changing retirement eligibility to 12 years of service at age 55, 25 years of service regardless of age, and 20 years of service regardless of age but actuarially reduced. It also set the employee contribution rate at 9.5%. The existing baseline is 8.0% but can float up as high as 10%.

The proposed non-hazardous plan was to change the final average compensation from three to five years but also to change the benefit accrual rate from 3.33% to 2.5%. Retirement eligibility age would be increased to 10 years of service at age 60, 25 years of service at age 55, 30 years of service regardless of age, and 20 years of service regardless of age (actuarially reduced). To the extent that the 20 years regardless of age benefits are in fact true actuarial reductions, there really is no impact on the cost because they are structured in a way as to make them neutral.

Mr. Curran said they do not have any statistics on file with the plan separating hazardous duty and non-hazardous duty because there has been no reason to separate them before. So they took their cue from the board in terms of trying to make estimates, as they weren't sure how the definitions would flesh out. Thus they assumed three different possibilities: First, at 0 just to benchmark, assuming all the people would be hazardous duty; then at 4% non-hazardous duty; and then 8% non-hazardous duty. The numbers are ratable, meaning they can prorate the numbers to get an answer if need be, with this being one of the few times that would really work. Using these assumptions, they calculated reductions of normal cost accrual rates. There would be no change in unfunded liability for any of these estimates because that is based on the past and would have no impact on amortization. Each new hire would come in with an average normal cost. Each member would actually have a different cost because of their age when they come into the system. But on average you would get a range of cost reductions, starting with 2.22% on the lower end assuming there would be no non-hazardous duty employees, and at 2.6% on the high end assuming as much as 8% of the population would be in the non-hazardous duty plan. That doesn't mean that rates would drop that much overnight if adopted because the population would still have to be replaced over time. Currently, that replacement rate is somewhere along the lines of 25% over a five-year time frame assuming disability, death, retirement, and termination. So you would expect to see about a 25% reduction in rate after five years, but maybe a little bit less because of the difference in salary. It would take a while for any of these changes to have a big impact on the bottom line.

In concluding his overview, Mr. Curran explained that the two important elements to mention are the normal cost and the unfunded liability. The normal cost of the plan for the current fiscal year is about \$48 million. The unfunded liability would be about \$38 million. This proposal would affect the \$48 million/normal cost and not the \$38 million unfunded liability.

Mayor Roach arrived.

Dr. Procopio said it seemed that the three sources of potential savings the systems were asked to look at were: the change in the final average compensation, the change in the eligibility requirements, and then also to the extent that it was modeled on a hazardous versus non-hazardous mix, which seemed to be the smallest part. Mr. Curran agreed, if it was assumed that the large part of the population would be in the hazardous duty category.

Mr. Nassif arrived.

Dr. Procopio appointed Mr. Nassif as a voting member in place of the absent Cdr. Dean.

Mr. Steven Stockstill, executive director of FRS, came forward to discuss the other information sent by the FRS board in response to the panel's request. He explained that the FRS board outlined a series of observations set out in an email to the panel dated 1/10/2012. He said the board had a full and fair hearing on the proposals submitted by the panel, along with a rather lengthy discussion regarding the LMA proposal, and he would review all point by point. He wanted to first point out that the board's observations were not necessarily made in the spirit of either proponent or opponent of the proposal because the board did not vote on acceptance or any other actions but simply went through an analysis. Also, Mr. Stockstill said he reviewed the proposal for legality or illegality, and he found it to be constitutionally viable.

First, the board observed that the proposed plan should clarify that "firefighters" are not required to be POST certified in order to be considered hazardous duty employees, if the proposal were to advance. He asked Mr. Nassif to explain what POST certified means (Police Officers Standard Training). Mr. Nassif said he knew that in Alexandria the firefighters who are arson investigators attend the police academy and are POST certified so they can do their own warrants when they investigate and effect arrests in cases of arson and criminal acts of fire.

Mr. Stockstill said the FRS board next observed that the LMA plan lists communications, IT, and fire clerks as non-hazardous duty. However, the FRS member database does not contain any information in a member's master file indicating whether the employee is hazardous or non-hazardous duty because this has not been a necessary distinction for them up to this point. In order to distinguish what position and whether the members should be hazardous or non-hazardous duty would require a survey of the employers, which they did not believe could be completed in time to be useful to Senator Guillory and Rep. Pearson in committee meetings and other preparations for the upcoming legislative session. Without that information, the actuary would have to use estimates to conduct his analysis of the actuarial impact of the proposed new plan. With that in mind, the FRS board asked Mr. Curran to conduct his actuarial impact study of the LMA proposal based on a model that assumes 0%, 4%, and 8% of all new hires would be non-hazardous duty employees.

Next, Mr. Stockstill explained that if FRS uses a survey asking employers to identify which of their employees are or are not hazardous duty, there may be differences in the ways departments define a hazardous duty position. For example, a large department might say a training officer is non-hazardous because he doesn't respond to fires, but a smaller department (with fewer available firefighters) might require its training officer to respond to fires, especially where a response is an all-alarm fire requiring all employees to respond. That would create a disparity of

treatment between employees holding the same civil service position. A statutory definition of non-hazardous duty positions might resolve disparate treatment.

Another board observation was that most employees are initially hired as firefighters, making them hazardous duty employees, at least initially. The board felt there should be a provision in place for handling of hazardous duty employees who later move into non-hazardous positions later in their career (i.e., training or fire prevention bureau, etc.). Mr. Stockstill stated that these points, although only illustrated on paper right now, are the real issues that would arise and have to be addressed if this type of legislation were to move forward.

Mayor Roach said he thought that he and the other panel members realized that there would be administrative challenges if this type of change were adopted and asked Mr. Stockstill to point out any issues he would consider to be major obstacles as he explained the FRS board's observations. Mr. Stockstill said there are a few that he considered major and would point those out as he presented those points.

Mr. Stockstill said the FRS board felt it should be explored whether the Workers' Compensation Administration guidelines can assist in determining if a person is a hazardous-duty employee.

Next, Mr. Stockstill said, the FRS board also pointed out from a fiscal standpoint that such a plan change could possibly affect the FRS disability rate. If a firefighter is injured in such a way that he could continue on the job in an administrative position, but not as a firefighter, then he may be more inclined to take a disability retirement and secure the benefit attributable to that type of retirement as compared to going into the non-hazardous portion of the plan. The disability benefit rate has not been a driving cost in the plan, but that could change.

He said it is also possible that the division into two plans may impact personnel availability. Consider an employee with ten or more years in the hazardous plan. That employee has accumulated a good amount of knowledge and skill. But a person in that position might not leave the fire line to take a job as chief of training because it would shift him into non-hazardous duty and change his pension accrual.

One of the significant challenges is found in the rules regarding reciprocal recognition of credit that would have to mesh where the employee has credit in both the hazardous duty and non-hazardous duty plans. Questions that came to mind: Is it meshed on a prorated basis? Can an employee retire from one subplan and be treated as a deferred vested member of the other subplan?

Mr. Stockstill said another significant challenge, one that is currently a pervasive problem for them, in that FRS is involved in a statewide class-action lawsuit dealing with earned compensation about how employers report what is earned compensation for retirement purposes. There are questions of whether employers are able to correctly report when an employee moves from a hazardous to non-hazardous duty position and vice versa. They question whether it is administratively practical and what the potential is for lawsuits against municipalities that fail to properly report such changes.

Next, regarding realization of savings, the board made the observation that there will probably not be a sudden realization of savings 12 years after the sub-plan is implemented, as might be expected. The impact of the new sub-plan will be gradual. For example, a communications officer that is in FRS now might not retire for another 10 years or more. Then his replacement will be hired into the non-hazardous sub-plan. But, by contrast, the payment of contributions during the years leading to retirement will be lower, thereby providing some interim cost relief. This is something that would have to be analyzed very carefully by an actuary in producing a fiscal note.

Finally, Mr. Stockstill said, it was also observed that the LMA proposal, if used as stated, could result in a reduction of the employee contribution rate. However, it was further observed that while this was probably not the intent, it would probably need to be addressed in any legislation.

Mayor Roach said the panel had also asked for the system boards to provide any suggestions that would produce cost savings, particularly immediate savings, and asked if the FRS board had provided any suggestions. Mr. Stockstill stated that they had not had adequate time to discuss those ideas.

Mr. Fredieu said that it is not always the case that members of the firefighters plan are always working either hazardous or non-hazardous duty. For example, in Shreveport he knows there are some who work in training and also are needed to fight fires from time to time. He also wanted to point out that the LMA proposal was based on changes made to a state retirement system, and FRS doesn't really fit that mold. He said they needed to base decisions on their own system and not necessarily on a state system.

Mr. Stockstill said he understood Mr. Fredieu's point, which reminded him of a point he had forgotten to make before. And that was when trying to distinguish if a training officer is hazardous duty or not, as Mr. Fredieu pointed out, it was concluded by the FRS board, at the time and in that context, that the best way to approach legislation of this standpoint was the way they had listed certain occupations as hazardous or non-hazardous. If you had that list, then there is no question; it becomes the law. Then it just becomes a matter of legislative philosophy based on the input of professionals such as Mr. Fredieu, Mr. Birdwell, and others.

Mr. Birdwell said looking at the actuarial numbers, it appeared that 30 years down the road, when all of your current plan members are gone, with the segregated plans you would be saving 38 hundredths of one percent in the plans, and he questions if it was worth the extra expenses and trouble to even look at doing two different classes.

Dr. Procopio said some work had been done by MERS, and he asked MERS Executive Director Bob Rust to come forward to talk about that.

Mr. Rust said they had been studying this for some time, being cognizant of the costs. They are the only volunteer system in the state and are constantly looking at what is an appropriate benefit and what is an appropriate cost. The benefit committee had recommended to the board, the board had passed, and Sen. Guillory had been instrumental in helping them prepare legislation proposing changes to the benefit structure. There are five bills offered specific to benefits. The first bill (SB 7) is to go from three to five years final average compensation for all *existing*

employees. It would phase in the five years over 24 months so no benefit would be taken away from someone retiring today. Mr. Rust said they put in a five-year final average compensation for all new hires about three of four years ago, and it is already having a fairly dramatic impact on the cost structure of the system and reducing the costs.

Another bill they are offering (SB 9) will be to change the employee contribution rate, which is set by statute for employees at 9.25% for Plan A (not integrated with Social Security) and at 5% for Plan B (for those municipalities that chose to continue contributing to Social Security). The board is asking to move those contribution rates from 8% to 10% in Plan A and from 4% to 6% in Plan B and to have those set annually by the board. So the board can see what the cities are contributing and can determine the appropriate rate to be paid by the employees. The idea is that, as it has gotten more and more expensive for the cities, that all the costs should not be borne by the cities and the employees should pay a somewhat higher amount for the benefit as well.

The third bill (SB 49) is to change the benefit structure altogether for new hires hired after January 1, 2013. The structure would provide for retiring with 7 years at age 67, with 10 years at age 62, with 30 years at age 55, and for early retirement that would be actuarially reduced from age 62 with 25 years.

Asked by Mr. Rust, Mr. Curran said in the long run the savings would be about .7% of payroll for Plan A. Because of the funding method used by this plan, they would get those savings in about four years.

Mr. Rust said the last bill that affects cost (SB 15) is to reduce the accrual rate going forward for elected officials in the state (mayors and other officials) that participate in this system, which are greater than for all other employees in the system. They are seeking a reduction from 3.5% to 3.0% for Plan A and from 2.5% to 2.0% for Plan B. The mayors and members on their board felt they should equalize that. This change will not greatly affect costs, but is more of an egalitarian move to try to be fair, but they think it is the prudent thing to do.

He said the last bill they are putting in (SB 8) doesn't affect costs, but they are seeking changes to the statutory make-up of the board.

Dr. Procopio asked if the LMA would like to comment on what had been presented. Mr. Don Nijoka, Deputy Director of the LMA, appeared in place of Mr. Tom Ed McHugh, who is recovering from surgery. Mr. Nijoka said they have not seen the system responses but would like to get copies of those to take back to the office so they can review with their staff. Dr. Procopio said a lot of them revolved around the division to hazardous and non-hazardous. Mr. Nijoka commented that it appears from the announcements made this week that the state is realizing that they have some major problems with funding for their systems as well. He said everyone is in the same boat and they all need to work together for the good of everyone. They're not trying to take anything away from anyone, but they are trying to save the systems.

Dr. Procopio said MPERS had Mr. Curran provide them an analysis as well, which they were not ready to discuss. It's very similar with a lower number overall, which they can provide later. He asked if there were any questions regarding understanding the issues and the discussion.

Mr. Sands said it appears that, on the LMA/FRS proposal, we have a result stated as a reduction in the employee normal cost accrual rate and asked Mr. Curran if there was a result stated as an employer contribution.

Mr. Curran said those numbers were fairly close to each other. The employer cost is composed of two pieces: the normal cost and the amortization payment on the unfunded liability. Because of the way MERS is funded, it would not change the unfunded liability payments. The effect on the employer payment would be very close to that percent as being a percent of payroll. There are some short term issues including some rounding issues, but in the long term that cost should converge to the normal cost accrual rate shift. The final number for employers is required to be rounded to the nearest 1/4%. Mr. Sands asked if the LMA/FRS proposal would look like a 1/2% change over five years, and Mr. Curran answered yes, somewhere in that neighborhood.

At this point, the panel digressed into a discussion of item 4. See below.

Dr. Procopio mentioned that the report to the legislature would be the next point on the agenda after discussion of the proposals was complete. Mayor Roach said he was looking at the legislative agenda and the timeline for filing retirement bills states that they must be filed by Friday, January 27. He asked what would be the timeline to get something introduced at this point. Dr. Procopio said he was not legislative staff, but he was relatively certain the panel could still get something introduced past the filing date.

Dr. Procopio thought the report should include the proposals and discussions that had taken place in the meeting thus far, and he asked if anyone had any concepts for the report they would like to introduce at this point.

Mayor Roach said a report is obviously owed to the legislature, and it needs to summarize the work that has been done thus far. So, if there are no other issues to be discussed in this committee today, he thought that the report should reflect the work that has been done, the recommendation made by the LMA, the responses that had been provided by the FRS and Mr. Curran; and the MERS bills as discussed by Mr. Rust should be summarized as well. At a minimum, he thought the report should contain that information. Based on the legislative calendar, it says that a member may file five additional bills by no later than Monday, April 2 and then be introduced on Tuesday April 3, and that the retirement bill be advertised twice at least 30 days prior to introduction. You would have to advertise by March 2 and do it at least twice. That's something to be considered and provides the opportunity to meet one more time before the deadline. Of course, the panel is getting very close to being able to do anything in this legislative session. In that report, he thinks the panel needs to point out that they did, as a committee, invite each system to make recommendations relative to any other ideas they might have relative to dealing with this problem because the problem is not going to go away. He said they had just learned that the employer contribution for the police is increasing to 31%, and they are getting to the point that they simply cannot afford to continue with cost increases. He said the municipalities had cried wolf long enough, and he thought they may have to ask the mayors to stop being creative and just let the bottom fall out so that people would recognize that this is something that cannot be ignored. He said the taxpayer expects the cities to fix it, and the cities must use their creative abilities to do that, but he is concerned that there hasn't been more constructive progress. He said this is a very real problem for municipalities in this state.

Dr. Procopio said as it stands right now, the panel has no recommendations. The panel can do a summary of what it's done and meet its statutory requirement. Then perhaps the panel can meet next month and continue to discuss potential recommendations. If that's the case, he asked if panel members have things they want to look at and if they want to look for MERS-type recommendations for the other two systems. He said he just wanted to be certain that, if the panel meets again, it can be productive.

Mayor Roach said, while Mr. Rust didn't ask for this, he thought it would be helpful for the panel to review the MERS legislation and hopefully make a favorable recommendation to support it. That would certainly represent a statement as to the proposal and speak well that MERS is coming forward with these suggestions. He said any change in the retirement system is going to be difficult, but we have got to move forward.

Mr. Birdwell asked Mr. Curran to give a total of savings to be derived from all four of the MERS bills.

Mr. Curran explained that there are two different plans. For Plan A, with the cut in the final average cost for existing members, they would expect a decrease in the normal cost of 1.83% immediately following adoption. The other change to new hires only, in about three or four years he would expect to get a cut of about .68% of pay. If you add those two together, you get something along the lines of 2.5% after about four years, most of that being in the first year. For Plan B, the numbers would be significantly less because the benefit structure is less. There would be a 1.06% reduction in Plan B immediately, and then approximately an additional 17/100% within four years after that was added on top.

Mr. Rust said the MERS board didn't ask Mr. Curran to do an analysis of what the increase in the employee contribution rate would be, although that would certainly have an effect on employer cost if the employees were picking up some portion of it. Mr. Curran agreed, stating that when you raise the employee rate, you don't get an exact dollar reduction for the employer rate because of the refund feature, but he thought that number was in the high 80s or the low 90s in terms of the impact it would have. That would have an additional offset if they did decide to increase the employee contribution rate.

Mr. Rust said, if you put them all together, it's a couple of percentage points in the first year or so, but what the MERS board feels is important is that, if you don't start to change things and change the long-term cost structure of the system, you keep going with the same cost structure and never get where you need to be. The long-term benefits are going to be in place. He said if they had done some of these things a couple of years ago, they would be feeling the impact now, which in turn would be helping the cities out now and they would have a more affordable system. He said it's a long trip and this is maybe the first couple of steps, but they think it is well worth doing.

Mr. Curran said it was important to note that something was done a couple of years ago with the new hires accrual rate and change to final average compensation, and they are seeing results even now. With new hire gains, he said they are getting some offset. It's not a huge amount, but it's certainly not insignificant either. The asset experience loss for this year in Plan A was 2.28%, but there was a new hire gain that was more than 3/4% that helped offset that to some extent.

Mr. Fredieu said there wasn't anything anyone could do about the stock market crash of a few years ago, but it seemed to him they need to look at ways to get people to stay in the system longer. He said they can debate on what it costs, but nothing is going to take those losses off the books. The longer you stay in the system, the less it costs the system. He said they had talked before about the 5-year DROP, which he thought would save employees money and save the systems money, and he thought that was worth more discussion.

Mr. Rust said Mr. Fredieu was absolutely correct. He said these retirement plans were put in place for all the right reasons, but with changes in mortality, what we now have are middle-age retirement plans that are expensive. They are paying out benefits over longer periods than people actually work, and that needs to change. He said the board had asked Mr. Curran to provide an analysis on the hiring of a 20-year-old man making \$18,000, what his benefit would look like after 30 years of service. The answer was they expected his final average compensation to be about \$65,000; he would have put in over \$100,000 of his own money into the plan; and he would have a life expectancy at retirement of 31 years. They don't know what the employer contribution would be because that varies from year to year. And based on those numbers, they would expect this man to receive over \$2 million in retirement benefit over his life expectancy of 31 years. It's that length of time that they're paying out benefits that's the problem. This is the reason why Social Security is having problems and why many others are having problems also. This is also why they are putting forth a bill to encourage people to work longer. And if they don't work longer, they will still get a benefit, but it will be actuarially reduced so it will be an affordable benefit. The systems are paying out benefits for a very long time, and that is part of the reason for the costs.

Dr. Procopio suggested the panel try to have another meeting fairly quickly in February to further discuss and decide when they would include in the report to the legislature. He envisioned looking at the bills MERS has proposed and vote on them as a panel as to whether they will support them or not, and that would send a message. The panel can also decide if there is anything they want to look at for the other retirement systems, such as final average compensation, retirement eligibility, and accrual rates, which are all part of the LMA plan, and see if they want to make any recommendations there. And if they want to vote to make some recommendations on these things at that meeting and hopefully effect some legislation, that is when it can be done. If there are some other things panel members would like to discuss, that can certainly be done. (Mr. Rust agreed to send copies of the MERS bills for the panel to review.) At that point, the panel will put together a report to the legislature based on what it has done.

(The panel moved back into discussion of item 3.)

Having covered the first of the three proposals the FRP had sent to the three boards, Dr. Procopio asked for feedback on the second proposal, that being that the three systems bring any cost-saving ideas to the panel for discussion, to include reviewing and providing feedback on an idea drafted by the Louisiana Fire Chiefs Association for a cost-reducing, affordable benefit.

Mr. Birdwell asked Mr. Stockstill to confirm that the FRS board had reviewed the LFCA's idea and had approved a motion opposing that proposal. Mr. Stockstill confirmed, stating that the

main reason was that there wasn't enough information available on how that would impact departments that also participate in Social Security, among other things.

Mr. Fredieu said he wanted to point out that the idea had not come from the LFCA but had actually come from an individual.

Mr. Rick Tassin, President of the LFCA, came forward to explain that the information he had presented to the panel at its last meeting and requested that they review was his own idea and had not come from the LFCA. He had come up with the idea on his own and presented it to the panel to see if they thought it had merit. He said he would like to sit down with Mr. Stockstill at a later date to discuss.

Mr. Birdwell then spoke about the third proposal the panel sent to the three boards, which was asking the boards to review and explore the feasibility of expanding DROP from 3 to 5 years. He said this idea would also keep members in the system longer, which would result in a stronger system. He used Shreveport as an example. He said they presently have an annual payroll for firefighters currently in DROP of \$3,753,576. Taking into account 25% of that payroll, that is \$938,394 that the city does not have to pay in pension contributions. Thus, he said it stands to reason that a savings of \$1 million per year in pension contributions because of DROP would result in a substantial savings if DROP were extended 2 more years. He said this was probably the most substantial savings to the municipalities of any of the proposals that the panel had been discussing. He added that he understood if you go with eligibility of 25 years of service and 5 years of DROP, it would not work. They currently have 25 years of service with 3 years of DROP, but if it were set at 27 and 5, it would keep employees in the system for an additional 2 years before they would sign up for drop and then keep them for an additional 2 years of DROP, probably extending the majority of members' careers by 4 years by going to a 5-year DROP implemented at 27 years of service. He said he used 27 years as the number because it meant no one could retire earlier than they can now.

Mr. Curran said anything involving a change in the DROP is a complex animal because there are so many alternatives for how members can receive their benefits, and the results are based on a whole host of things that are not really static elements. Things such as how much of a pay raise they will get, how much service they have when they enter DROP, are they entering DROP with the minimum amount of service or are they going past that, what effect this will have on other members, accrual rate (how much of a "give up" for being in DROP). Also to consider is how well people really evaluate their choices. He said they sometimes don't evaluate in their own self-interest because they don't have all the information they need to do so. There is a matrix of things that will get you a high level of uncertainty. He said they could take another look and could certainly design something to keep members in the system longer. Another element is that cost may be somewhat sensitive to economic conditions because members are locked in to their final average compensation upon entering DROP.

Dr. Procopio asked if it is correct that there is a savings when a person is in DROP because there is no employer contribution to the plan on their behalf during that time. Mr. Curran said that is correct, but something to consider is that participation in DROP could be forcing increases to normal cost. That may or may not happen, but you could be forcing up other costs that would offset savings, so there are two pieces to be looked at.

Mr. Fredieu asked Mr. Curran if it is true that members working longer would end up saving the system money. Mr. Curran said, DROP aside, the longer a person works, the cheaper it is to the system. But that is not always true because there are variables such as accrual rate versus how long you work, and a lot of that can depend on the economy and other factors. For example, if you have a plan with a 2% accrual rate and everyone is getting a 2% pay raise every year, it probably is cheaper to keep them around longer. However, if you have a 5% accrual rate with everyone getting 10% pay raises each year, it's probably cheaper to the system to go ahead and retire them. There is a balancing point at which you get to crossover.

Mayor Roach said when DROP was originally proposed, it was supposed to have no cost. However, it's his understanding that this has not always been the case. He asked Mr. Curran to explain a little about that.

Mr. Curran said that any generalization of DROP is very dangerous because there are too many variables. But looking back, when DROP was first introduced to some of the state systems, some cost was expected. However, it turned out that there had been some savings that came because some people had entered DROP at the wrong time, reducing their benefit by as much as 30%, that is, when you compared the value of the benefits they received with what they would have received had they not gone into DROP. That's probably not true for all plans, and it would depend on the provisions of the DROP, on the economy, and on the demography of the group. But you can have a shift in economic conditions that affects the size of pay raises that people are getting, and the results change. He thought the biggest problem with DROP may not be with its cost, but with its uncertainty, and that uncertainty lies not only with the member but also with the employer group. If DROP decisions were made in the best interest of all those who chose to enter, you would expect there to be some cost. But if you have even a few members who make poor decisions or get locked in and later get a promotion or pay raise that can't be figured into their final average compensation, then there certainly can and will be a savings to the system.

Mr. Fredieu asked Mr. Curran to speak specifically to the FRS because all plans can't be lumped together because they are all different. For example, with the FRS, DROP participants are not paid any interest until they actually leave DROP. All the interest on the benefits they are deferring during DROP goes to the system, which is not the case for all systems. And if the system is earning all the interest for five years, that's got to mean a savings for them.

Mr. Curran agreed, adding that any analysis for one plan is not valid for another because of all the different factors he had mentioned before.

Mr. Sands asked Mr. Curran if the DROP proposal had a real, substantial possibility of benefit for the FRS. Mr. Curran said in the version they analyzed a few years ago, they thought it was too close to call in terms of the impact it might have. However, if there were some other dimension to it now, they might want to revisit. Mr. Sands said he thought the FRS should pursue extending the DROP if they wanted to, but he did not see the benefit to the other systems.

Mr. Birdwell reiterated that this was not necessarily something that would produce a savings for the system, but would produce a savings for the municipalities. Last year, they came to an agreement where the employer contribution dropped 2% and the employee contribution increased 2%, which benefited the cities and not the system. What they are looking for is

something that would offer additional help to the municipalities, and this DROP extension is something that would do that. He said they currently have 51 people in DROP. That is 51 people who are not drawing their retirement yet, the interest earnings are going to the system, and there are no employer contributions being made for them. This would be an additional two years that those 51 people would not be drawing on their retirement, and the city would not be paying contributions on them nor on the 51 new people that would have been hired to replace them.

Mayor Roach said he appreciated Mr. Birdwell bringing this idea to the panel, appreciated Mr. Fredieu for contributing his comments, and also appreciated the principle in general of trying to keep employees in the system longer to save. He has always had some concerns about DROP because he does not fully understand all the nuances. He also thinks you'd have to be careful not to project savings based on the assumption that people make bad choices, as he thinks you must assume that at some point they will get the right information and will make the right decisions. But he doesn't think you should necessarily discard the idea altogether. There are different systems with different variables, and it seems reasonable to analyze these ideas based on the individuals and not necessarily all. DROP is a benefit for the employee, and if it can be demonstrated that there is no cost to the system, he is open for that, although he doesn't think there is currently enough information to do that. He said when they save money for a community, everyone benefits. The taxpayers benefit and the employees benefit. But if a city finds a savings in some place, it's not something that they simply hoard. There are so many demands and so many needs that the money is spent in providing benefits to the community, which is why this is very important. He is very concerned about the cities' abilities to continue to provide services to their citizens and also provide benefits to their employees, and to bank on an improving economy or a stronger stock market does not seem like the right thing to do. He said we are lucky it hasn't gotten worse, but it will get worse before it gets better. Even small savings add up and make a difference for the bottom line.

IV. DISCUSSION OF REPORT TO BE SENT TO THE LEGISLATURE

Dr. Procopio said the next meeting will be set up as soon as possible, and at that time the panel can discuss the MERS bills, the LMA proposal, and the rest. If anyone has anything else they would like to be brought up at that meeting for discussion, he asked that they let him know within the next week.

Mr. Stockstill requested a motion that the FRS put an item on its agenda to look for cost-saving measures to bring to the panel. Mayor Roach said one of the proposals sent to the boards included a call for the boards to provide suggestions for potential cost-saving measures, and thus he did not think an additional motion was necessary. The panel does want to know what their ideas are and would appreciate hearing from them.

V. DISCUSSION OF FUTURE MEETINGS, SCHEDULE, AND TOPICS FOR CONSIDERATION

Dr. Procopio summarized that another meeting would be held as soon as possible to discuss the issues for the report to the legislature, as previously outlined.

VI. OTHER BUSINESS

There was no other business.

VII. ADJOURNMENT

With no further business, Dr. Procopio asked for a motion to adjourn. Mr. Birdwell motioned; second by Mayor Lewis. The motion passed without objection, and the meeting was adjourned at 11:04 AM.

Respectfully submitted,

Dr. Steven T. Procopio, designee of Commissioner Paul W. Rainwater

Date Approved by the Panel: February 17, 2012