

December 5, 2011

Mayor  
City Council  
Board of Police Commissioners Kansas City  
Chief of Police  
City Manager  
414 E. 12<sup>th</sup> Street  
Kansas City, Missouri 64106

Re: Additional Comments – Pension Task Force  
Recommendations

All,

As discussed during Council Committee testimony on the Pension Task Force Recommendations, I am providing additional comments that will work to illustrate some of my observations and concerns with the recommendations.

First, I believe that all stakeholders in the Pension Systems have a real interest in improving the funding status of the systems. My discussions with Pension System members have illustrated that most, if not all, are fully aware of the economic circumstances and funding choices that contributed to the less than perfect funding status of the systems. Members are also aware that some changes will need to be made to improve the funding status.

Secondly, our pension systems are not in imminent peril nor are they Cadillac systems. The consultants who worked with the Pension Task Force indicated that our systems were middle of the road systems that provided mainstream retirement benefits. The systems that are drawing the most attention around the country are woefully underfunded. Those underfunded systems have chosen to provide twenty (20) year pensions, 3.0% multipliers for each year of service, and allow for pension spiking which produces a larger retirement benefit. Our pension systems in Kansas City do not provide any of these extreme benefits.

Thirdly, all the data indicates that professionally managed defined benefit systems are still the retirement system of choice for most governmental agencies. The reason is that these systems provide the biggest bang for the buck. Also, most studies indicate that when you compare similar positions in the private sector to the public sector, the private sector pays more. In lieu of those dollars being allocated to wages, the public sector has provided additional benefits that work to fill the gap in total compensation.

Based on current assumptions, the systems are not trending in the right direction. With that said, some changes will need to be made in order to improve the overall funding status. These systems are long term systems where, typically, funding status reflects cycles in the markets. With that in mind, things could get markedly better with an upturn in the economy. Making modest changes and then revisiting those changes in five or so years makes good sense.

Regarding the Task Force recommendations, I offer the following:

Funding Objectives: I have no concerns with establishing funding goals as long as they are *goals* and not hard fast rules. The vagaries of the market will produce funding results in which we have no control.

(4) Eliminate the current COLA Policy: COLAs are meant to do one thing and that is to maintain the relative buying power of pensioners – a good thing considering the map and document attached. Considering the ever-increasing cost of health insurance, prescriptions, groceries, gasoline, etc., this modest, non-compounded adjustment works to maintain a reasonable standard of living for those who contributed faithfully to the health and welfare of our city.

The Police Department systems have defined actuarial soundness at a 75% funding ratio and/or certain contribution levels. Before any COLA is considered in the Police Systems, the funding ratios must be at least 75%. I would suggest that all of the systems define actuarial soundness and then tie COLA's to this funding and/or contribution objective. Tying the COLA's to the rolling set of funding objectives could produce a scenario where the system is funded at 89.3%, active employees receive a pay raise and pensioners do not get a COLA because the system is not 90% funded – the inverse of what our Chair testified to at the Committee hearing.

(5) Reduce the multiplier for future benefit accruals for all active members: I cannot support a change in the compensation package for current employees. We promised this compensation package to the employees. We should deliver on our promises to our employees. The other concern I have is that it has been stated that in order to achieve the same benefit a member only needs to work longer. Law enforcement member's pension benefits freeze at thirty (30) years of service. Law enforcement members also face a thirty-two (32) year mandatory retirement. The effect is that they will lose pension benefits if the multiplier is changed for future accruals. They will have no opportunity to work longer to offset the multiplier reduction. Changing the multiplier for new hires is something I can support. Asking current employees to pay more and accept less is something I cannot support.

(6) Benchmark the City's funding obligation: Attached you will find a map of annual pension payouts by Council district for the four (4) pension systems. There is a considerable amount of money going into the local economy. Also attached is a document explaining the multiplier effect of those payments and the City contributions into the four (4) systems. Pension payouts impact the local economy and the City coffers. Pensioners are spending money and those dollars create jobs and additional revenue for the City. Before benchmarking the City's funding obligation to the Pension Systems a comprehensive analysis of the return on investment from pension payments in the community needs to be accomplished.

(10) Legal and Collective Bargaining Ramifications: This issue of pension underfunding was exacerbated by the 2008/2009 fiscal crisis. As the economy improves, so will the health of the pension systems. A rush to make changes will most certainly result in extensive litigation that will prove costly on a variety of fronts. The legalities of changes to current or retired members' benefits are unsettled and evolving. Very careful consideration should be given to the legal ramifications of any changes to the benefits expected by the members or being paid to members. With regard to collective bargaining agreements, any changes must be discussed and negotiated with the members' chosen representatives.

In closing, I would strongly recommend that final recommendations consider the effects on total compensation for the employees, recruitment and retention, morale, productivity, and the overall fairness and equitability of the retirement benefit. In order to fully understand the effects of any changes those responsible for the operational environments and those responsible for the pension systems must be involved in the deliberations.

I appreciate the opportunity to serve on the Task Force. This is an extremely important issue that will require careful consideration and much deliberation before any changes are finally recommended and fully implemented.

Regards,

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