New Orleans Firefighter Pension Fund
Final Analysis and Recommendations
Presentation to Working Group

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Working Group Meeting #3
April 6, 2015

THE KAPOOR COMPANY
ADVISORS & CONSULTANTS

Outline of Presentation

- Process Background and Timeline
- Updated Scope of Problem
  - Fund assets and investments
  - Longevity Judgment
  - Mandamus Judgment
  - Comparison to State Firefighters Retirement System (FRS)
  - Supplemental Employment Benefits Offset
  - Benefit Interpretation
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  - Overview
  - Structural Changes
  - Benefit Changes and Judgments

The Problem

- We have a severely underfunded pension fund whose financial problems, if not addressed very soon, threaten the pensions firefighters depend upon as well as the city's finances
- Fixing this pension fund and making it highly unlikely that this will ever happen again will take years of dedicated and consistent effort on behalf of all parties working together – firefighters, retirees, the city and taxpayers
- The city, the Fund and firefighters have had years of protracted litigation over pension and compensation issues which has resulted in considerable time and money being spent
- We do not have the luxury of putting off confronting this problem head-on any longer

Principles

- **<u>Everyone</u>** must contribute to this effort – firefighters, retirees, the city, and taxpayers. We must confront the problem head-on and minimize the burden on future generations
- Those who are responsible for paying for these pension benefits should have the say as to what they are **<u>subject to a strong system of checks and balances</u>**
- The city must pay the annual required contributions under a reasonable set of actuarial assumptions, but those contributions must be affordable. Because we know that those contributions will go up, we looked for ways to minimize that impact before asking New Orleanians to pay more in taxes
- It is in the best interest of the residents of the city to attract and retain quality firefighter employees
- All parties must follow the law as written, not unilaterally devised

Steps Taken Already to Address Fund's Problems

- Employee contributions increased from 6% to 10% for firefighters with less than 20 years of service and 0% to 6.66% (10% on 1/1/16) for those with 20 or more years of service
- 2/3rds Board vote requirement for granting COLA/13th check and disability
- City has budgeted the annual required contribution for 2015 ($11 million more than in 2014)
- New hire firefighter pension plan with new multiplier (2.75%) and increased normal retirement age requirement (52)
- Investments
  - Fund is moving out of illiquid assets
  - Fund has hired a new professional investment consultant
  - Fund has passed a policy requiring 2/3rds Board vote for investment decisions

Ground Rules

- Parties agreed to look forward to try to find a solution
  - Working Group discussed "how we got here" at the November 11, 2014 meeting. Presentations from that meeting address those issues
- The goal of the Working Group was to reach a consensus recommendation on a comprehensive and long-term solution for restoring the financial health and long-term viability of the Fund. Piecemeal negotiation was avoided – nothing would be agreed to unless everything was agreed to
- During this process, the parties agreed to "stand down" as it related to current and possible future litigation in order to try to work towards and agreement
- If parties did reach an agreement, all agreed to work in good faith to implement it in its entirety

Process Background and Timeline

Process Background

- City, City Council, pension fund officials, firefighters, legislators, and business and community leaders recognized the need to address the dire financial situation of the New Orleans Firefighter Pension and Relief Fund (the “Fund”)
- The parties agreed to participate in this process in the hope that they could reach consensus on a way forward that stabilizes the Fund. The parties also agreed upon a mediator to facilitate the process and an actuarial firm to review Fund assumptions, provide best practices on pension fund governance, and estimate costs of scenarios. All final cost estimates are subject to the review of the Fund’s actuary.
  - The Kapoor Company mediated the dispute
  - Segal Consulting served as the actuary
- The Working Group held three public meetings – Nov. 11, 2014; Dec. 15, 2014; April 6, 2015
  - Presentations and analysis were posted to city’s website: http://www.nola.gov/firefighters-pension-reform
  - The December 15, 2014 presentation and this meeting was recorded and televised; likewise, this meeting is being recorded and televised
- Although all parties approached this process in good faith, they could not achieve a unanimous consensus prior to this meeting. Therefore, we are presenting several options developed by Working Group members, in consultation with The Kapoor Company and Segal Consulting, for public review, consideration and comment

Process Timeline

October 20, 2014: Pension Reform Working Group Formed

- Mayor Landrieu appoints a 10 member Working Group consisting of community leaders, firefighters and Fund personnel, administration and city representatives. Group is chaired by the Chairman of the Business Council of New Orleans and the River Region (BCNO) (non-voting member)

November 11, 2014: Working Group Meeting #1

- Baseline analysis

December 15, 2014: Working Group Meeting #2

- Benchmarking and Governance analysis

December 2014 – April 2015: Mediation and Dialogue with Parties

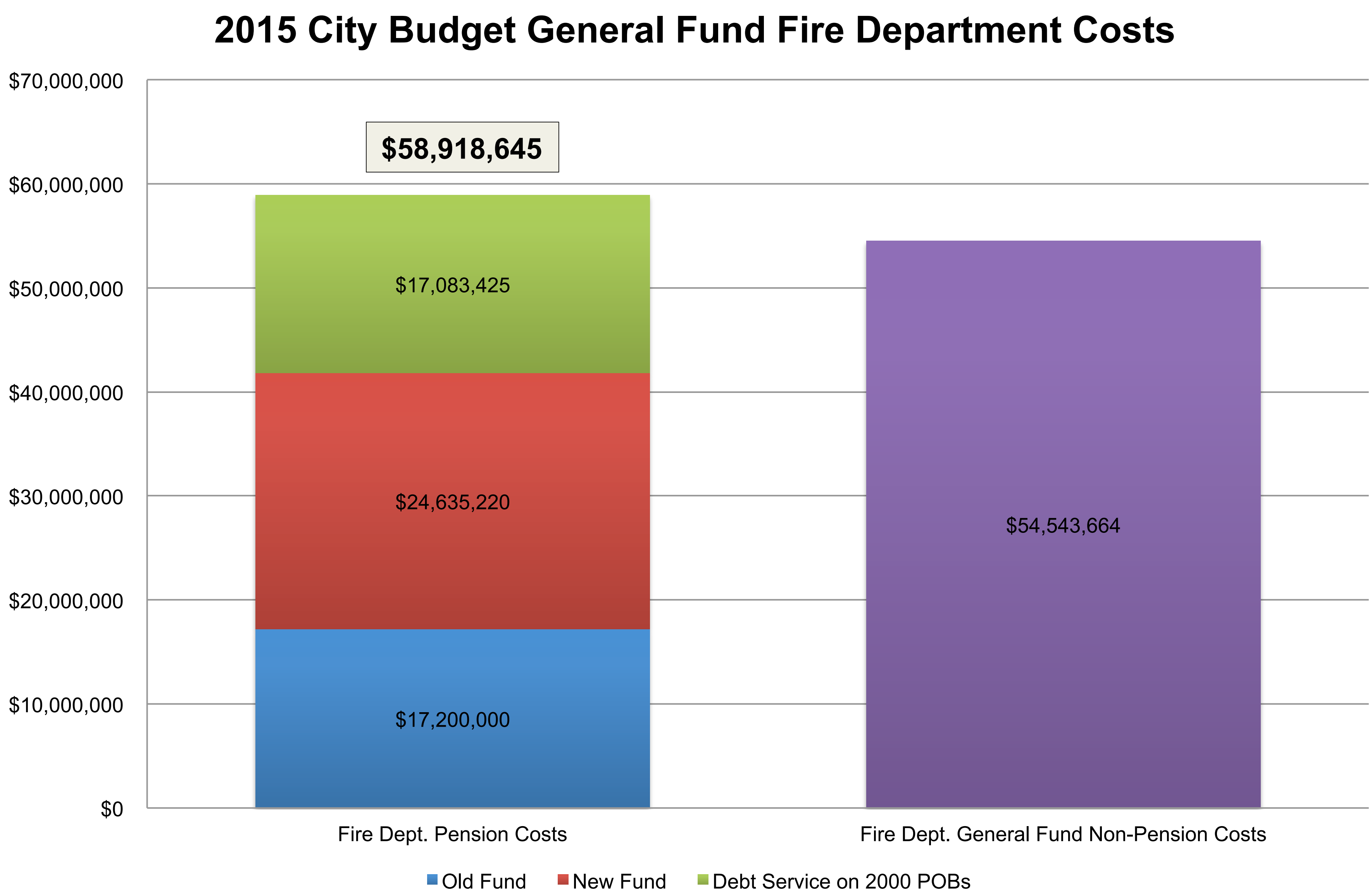
April 6, 2015: Working Group Meeting #3

- Recommendations for consideration

Updated Scope of the Problem

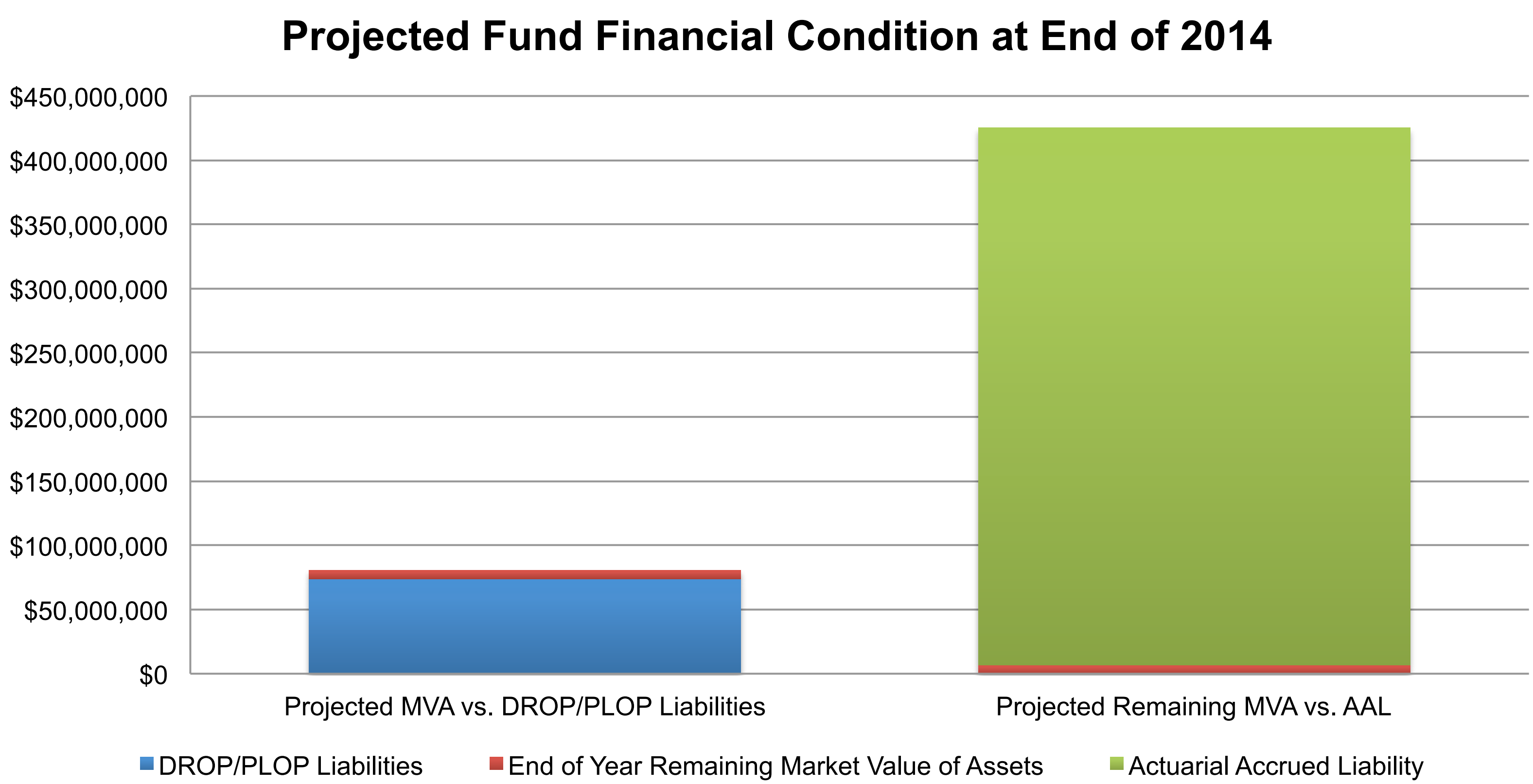
Updated Scope of Problem

Fire Pension Costs vs. Non-Pension General Fund Fire Costs



Updated Scope of Problem
Fund Assets and Investments

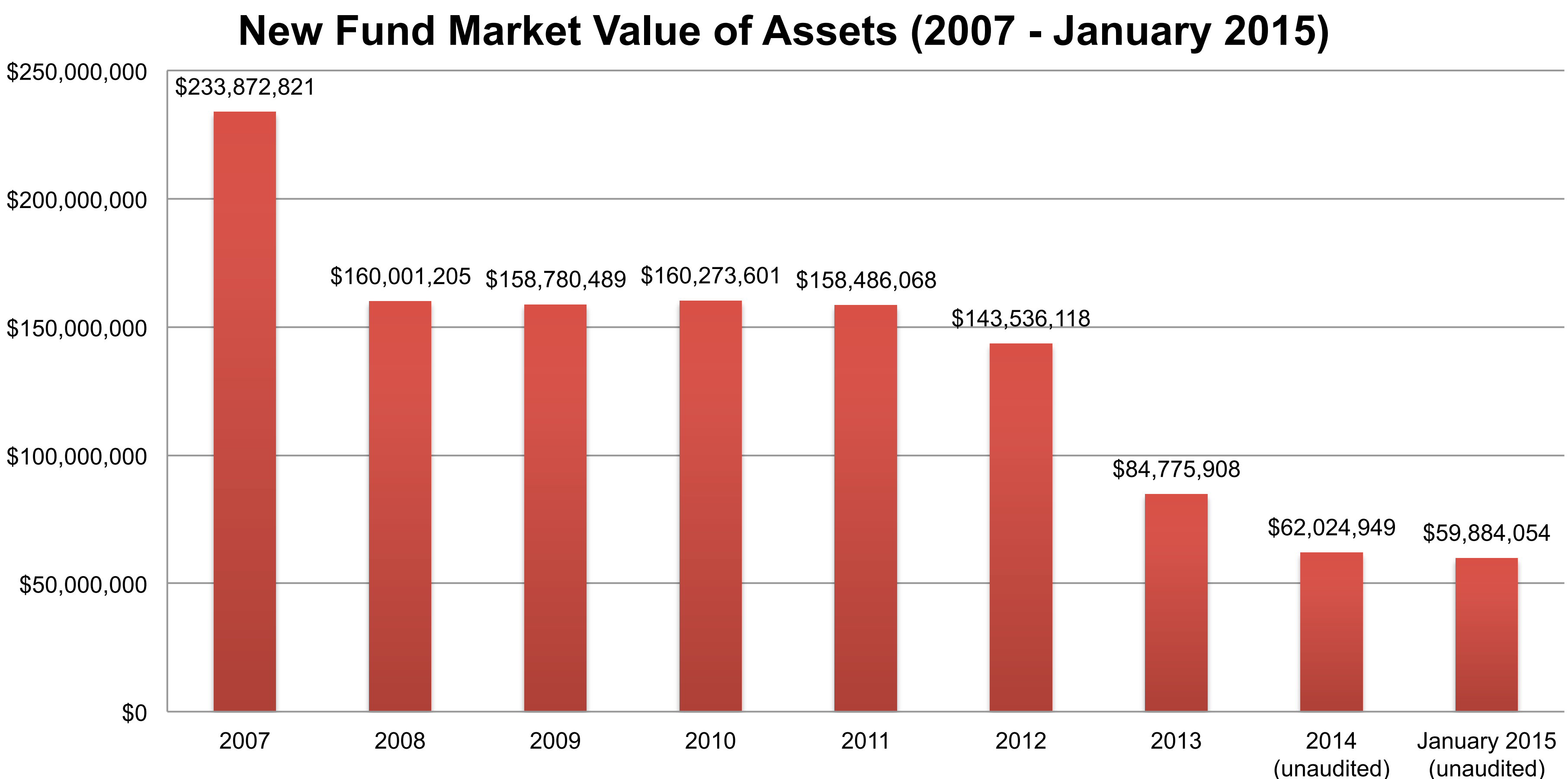
- Using the reported market value of assets and setting aside the monies for the "funded" DROP and PLOP liabilities, by the end of 2014, the Fund only had money to pay for less than 5% of the pension benefits that active and retired firefighters believe that they have accrued. Effectively, this means that city and active firefighter contributions are simply going in and out to pay for benefits with little opportunity to earn an investment return



Note: Above does not reflect any additional City contributions per consent judgment.

Updated Scope of Problem
Fund Assets and Investments

The Market Value of Assets (MVA) of the New Fund continues to decline. At the beginning of this process, the actuary was provided with an MVA of $80.6 million. As of the January 31, 2015 investment report, the New Fund had approximately $59.9 million (unaudited) in assets including liabilities on investments. For every $20 million decrease in assets, the Annual Required Contribution increases by approximately $1.5 million per year



Source: 2011 and 2013 plan audits; December 2014 and January 2015 Monthly Investment Flash Report. Note that as of January 2015, the Old Fund had a balance of $18,576,526.

Updated Scope of Problem
Longevity Judgment

- Although it was not included in its initial charge, the Working Group also devoted attention to a judgment against the city for back pay for certain retired and active firefighters as part of a global settlement
  - We refer to this issue as the "Longevity judgment"
- The matter stems from a lawsuit filed in the 1990s alleging that firefighters had been due 2% raises each year (called longevity), starting in their third year and continuing through their 23rd. The courts found for the firefighters though liability was eventually limited to 1990 and beyond. Pension calculations were adjusted going forward in 2010, but back pay and pension payments from the period of March 1990 and January 2010 remain due and owing. All current firefighters are receiving longevity payments in accordance with the law
- Firefighters' position is that total amounts due stemming from this judgment amount to around $150 million. The city and firefighters submitted an Unopposed Motion to Consent Judgment which provides that the amount due on the judgment is $75.5 million. The parties are not in agreement as to whether this amount resolves all of the issues stemming from this judgment

Updated Scope of Problem
Mandamus Judgment

- The city and the Fund have also litigated the issue of the city's statutorily required contribution (annual required contribution or "ARC") to the Fund. The parties have consented to a back-due amount of approximately $26,827,000
  - We refer to this issue as the "Mandamus judgment"
- Actuarial calculations provided by Segal do not account for any payments towards this judgment. Therefore, any payments made towards the "mandamus judgment" will result in a decrease to the city's annual required contribution assuming that the city makes the future ARC payments (all other things being equal)
  - City has budgeted the full ARC payment for 2015
  - Just as a $20 million decrease in investments would likely result in a $1.5 million increase to the ARC, a $20 million increase in assets would likely result in a $1.5 million decrease to the ARC

Updated Scope of Problem
Comparison to FRS Plan

- During the course of the Working Group's discussions, the issue of comparability to the State Firefighters Retirement System (FRS) repeatedly arose
  - We provided a detailed comparison to the FRS plan and others in our December 15, 2014 presentation
- For comparison, the FRS plan was 76.02% funded on a market value basis as of June 30, 2014. The NOFF plan was 20% funded on a market value basis as of December 31, 2013
- Elements of the FRS plan that are "better" than the NOFF pension plan include a 3 1/3% multiplier for each year of service (up to 100%) and the ability to work 25 years with no age requirement for normal retirement
  - Note: Under Fund interpretation, pension amount for FRS and NOFF plans at 30 years of service and greater is the same (100%)
- Elements of the NOFF pension plan that are "better" than the FRS plan include:
  - Normal retirement age of 50 with 12 years of service (FRS at 55)
  - Ability for NOFF retirees to keep their DROP and PLOP monies with the Fund and receive interest with "no risk"
  - Ability for NOFF members to elect both a DROP and a PLOP
  - NOFF pension plan provided 19 COLAs between 1993-2012; FRS plan provided 11 COLAs over this time period
  - Historically lower employee pension contributions. In 2016, unless there are any changes, both the FRS and the NOFF plans will have the same employee contribution of 10%

Updated Scope of Problem

Comparison to FRS Plan

Year	FRS Employee Contribution	NOFF Employee Contribution
2006	8%	6% prior to 20 years of service, then 0%
2007	8%	6% prior to 20 years of service, then 0%
2008	8%	6% prior to 20 years of service, then 0%
2009	8%	6% prior to 20 years of service, then 0%
2010	8%	6% prior to 20 years of service, then 0%
2011	10% for Firefighters with earnings greater than poverty level; 8% for those with less	6% prior to 20 years of service, then 0%
2012	10% for Firefighters with earnings greater than poverty level; 8% for those with less	6% prior to 20 years of service, then 0%
2013	10% for Firefighters with earnings greater than poverty level; 8% for those with less	6% prior to 20 years of service, then 0%
2014	10% for Firefighters with earnings greater than poverty level; 8% for those with less	Less than 20 years of service: 8%; 20 or more years of service: 3.33%
2015	10% for Firefighters with earnings greater than poverty level; 8% for those with less	Less than 20 years of service: 10%; 20 or more years of service: 6.66%
2016	10% for Firefighters with earnings greater than poverty level; 8% for those with less	10%

Updated Scope of Problem

Supplemental Employment Benefit (SEB) Offset

- As part of discussions regarding disability issues, the Working Group members became aware of an offset issue regarding Supplemental Employment Benefits or SEBs
- SEBs are paid when a firefighter is determined to be permanently disabled from firefighting and retires. (Note: this does not mean he/she cannot work any job, just firefighting). SEBs are paid in addition to pension benefits for a period of up to 10 years
  - SEBs are calculated based upon an employee's salary just prior to going on disability up to a maximum of approximately $30,000 annually
- Under the current practice, when SEBs and pension benefits are added together, it is possible for a disabled firefighter to receive more than 100% of his/her salary in retirement for up to 10 years. The FRS plan requires a pension "offset" for any SEB payment or other earnings so that the disabled individual receives no more than the full amount of his/her average final compensation
- In 2014, according to the city, $6.1 million in SEBs were paid. Parties will work to understand how the Fund might administer SEBs and other offsets to achieve savings
- Litigation risk to applying offset for those currently receiving SEBs

Updated Scope of Problem
Benefit Interpretation Issues

- A disputed point in the negotiations concerned the fundamental question of what benefits does the law permit the Fund to provide
- The disputed benefit interpretations involved:
  - Application of the pension multiplier
  - Ability of the Fund to provide PLOP interest on accounts for individuals who have terminated employment, but have elected to keep their PLOP money with the Fund
- Multiplier issue was raised by the Bureau of Governmental Research (BGR) in its April 2013 report “Sound the Alarm” (see p. 2)

Updated Scope of Problem
Benefit Interpretation Issues

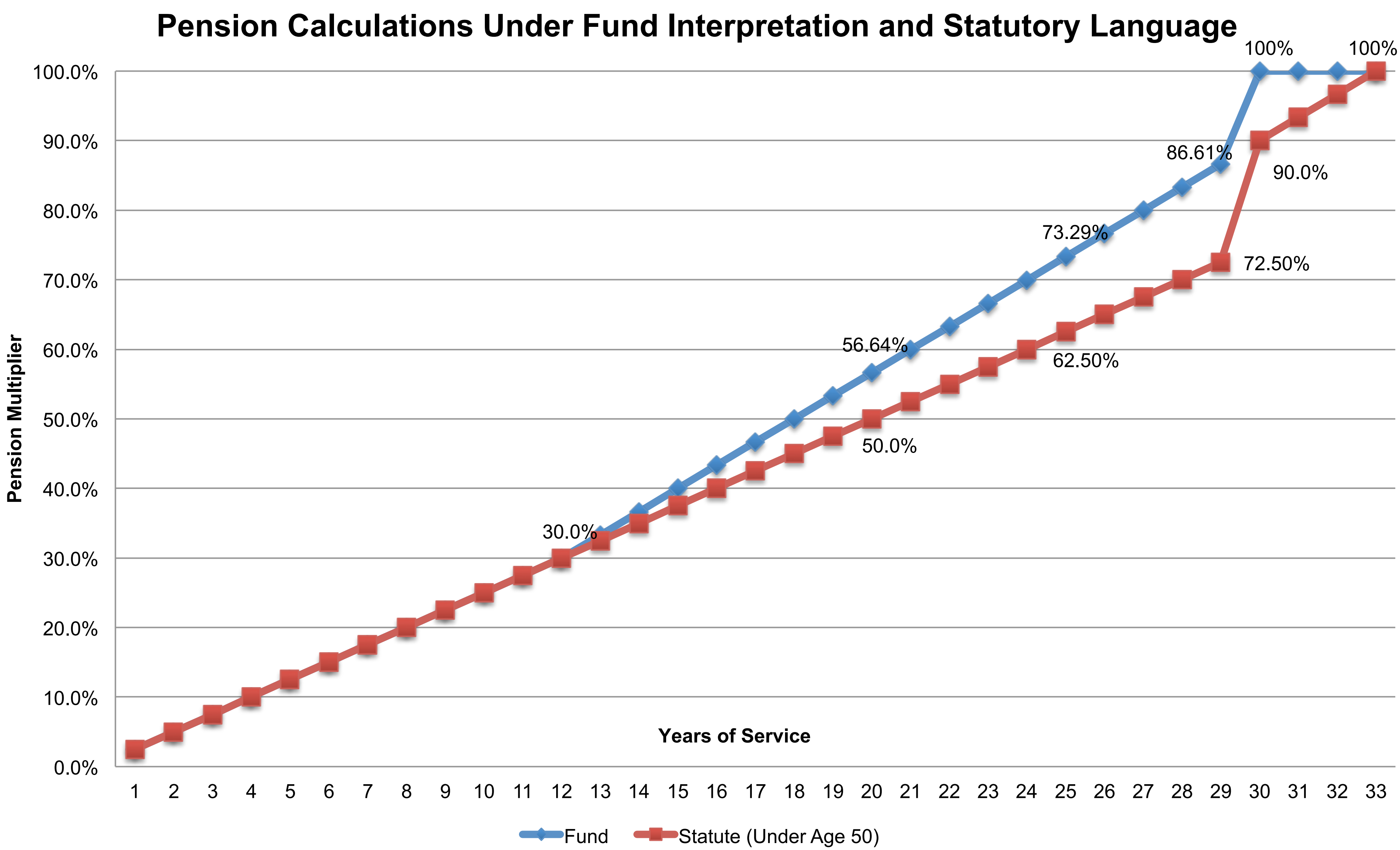
- Louisiana Revised Statute 11:3384(B) reads:
  - "If the firefighter has worked one or more hours of service after December 31, 1995, he shall receive a retirement benefit equal to 2.5% of his average compensation based on the 5 highest consecutive years of employment, multiplied by the number of years of creditable service.
  - If the member continues to remain a member of the system beyond 12 years of service and such member attains the age of 50, the retirement benefit for each year or portion of a year beyond 12 years of service **and after age 50** shall be an amount equal to 3 1/3% of the average annual compensation for each year or portion of a year. (*emphasis added*)
  - If the member continues service beyond 30 years, the retirement benefit for each year or portion of a year **beyond 12 years of service** shall be an amount equal to 3 1/3% of the average annual compensation for each year or portion of a year. (*emphasis added*)
  - However, the retirement benefit shall not exceed a total of 3 1/3% each year. The service benefits of such firefighter shall not exceed 100% of the average compensation earned during any 5 highest average consecutive years of service preceding retirement."

Updated Scope of Problem
Benefit Interpretation Issues

Years of Service	Pension Calculation Fund Interpretation*	Pension Calculation Statutory Language*
0 – 12	2.5% for each year	2.5% for each year
13 – 29	2.5% for years 1-12, then 3 1/3% for years 13–29 (no additional age requirement)	2.5% for each year, **unless** member is also age 50 in that year. If member is also age 50 in that year, 3 1/3% for that year
30	Fund changes the 2.5% for years 1-12 to 3 1/3% so that pension is 100% at 30 years of service	2.5% for years 1-12, then 3 1/3% for years 13+ (eliminates the age 50 requirement in 13-29 above). At 30 years of service, pension would be 90%.
33	100%**	Calculation above will equal 100%

*Note: New hires receive a 2.75% multiplier for each year of service.
** Does not include possible 3 years of DROP for years 30-33

Updated Scope of Problem
Benefit Interpretation Issues



*Note: New hires receive a 2.75% multiplier for each year of service.

Updated Scope of Problem
Benefit Interpretation Issues

The following table shows the number of active firefighters (not in DROP) who would be impacted by the multiplier interpretation issue (i.e., administering benefits in accordance with the statutory language)

Description	Number	% of Dept.
Over 33 years of service	5	1%
Between 30 and 33 years of service, impacted by Interpretation issue	14	2.5%
Between 12 and 30 years of service, impacted by Interpretation issue	248	44.8%
Between 12 and 30 years of service, not impacted by Interpretation issue	10	1.8%
Under 12 years of service, not currently impacted by Interpretation issue	276	49.9%
TOTAL	**553**	

NOTE: Data analyzed from source file provided by Fund actuary to Segal. Data as of 1/1/14. Analysis conducted assumed date of 2/20/15.

Updated Scope of Problem
Benefit Interpretation Issues

The following table shows the benefit impact for those active firefighters who would be impacted by the multiplier interpretation issue (i.e., administering benefits in accordance with the statutory language)

Benefit Impact for Between 12 and 30 Years of Service of Interpretation	Number	% of Group
10%-15% reduction	86	34.7%
8%-9.99% reduction	64	25.8%
5%-7.99% reduction	34	13.7%
Under 5% reduction	64	25.8%
TOTAL	**248**	

NOTE: Data analyzed from source file provided by Fund actuary to Segal. We believe data is as of 1/1/14. Analysis conducted assumed date of 2/20/15.

Updated Scope of Problem
Benefit Interpretation Issues

- In addition to the multiplier interpretation, there is also the question of whether the Fund may provide interest to PLOP accounts for members who elect to keep those monies with the Fund after they retire and terminate from service
  - Currently, the Fund's practice has been to credit those accounts with the same interest as provided to DROP accounts
- In contrast to statutory language permitting and setting DROP interest for those who terminate from employment but kept their DROP monies in the Fund, the statute is silent as to permitting PLOP interest for those who elect to keep those monies with the Fund after they retire and terminate from service
  - In connection with IRS determination letter issuance, statute was amended in 2014 to provide a formula for DROP interest for those who terminated from employment but kept their monies in the Fund and to authorize Trustee rule making to maintain tax qualification. Previously, the statute was silent on DROP interest
- Fund estimates that between 1/4 and 1/3 of DROP and PLOP liabilities are as a result of interest on these accounts

Updated Scope of Problem
Benefit Interpretation Issues

- The implications of the Fund potentially providing benefits in excess of what the law allows are significant and could impact:
  - Monthly pensions for current and retired firefighters (including recoupment of retirement benefits)
  - DROP and PLOP accounts and payouts
- On February 13, 2015, the Louisiana Supreme Court ruled that the City's Finance Director has standing to assert breach of fiduciary duty claims in court. The "interpretation" issues will likely be litigated
- Segal estimated applying the multiplier as set forth in the statute to active firefighters (not those who are retired or in DROP) would reduce the ARC by between $1.2 million and $1.3 million per year. Segal was not able to provide a cost estimate as to retired firefighters for lack of sufficiently detailed information and time constraints

Recommendations for Consideration

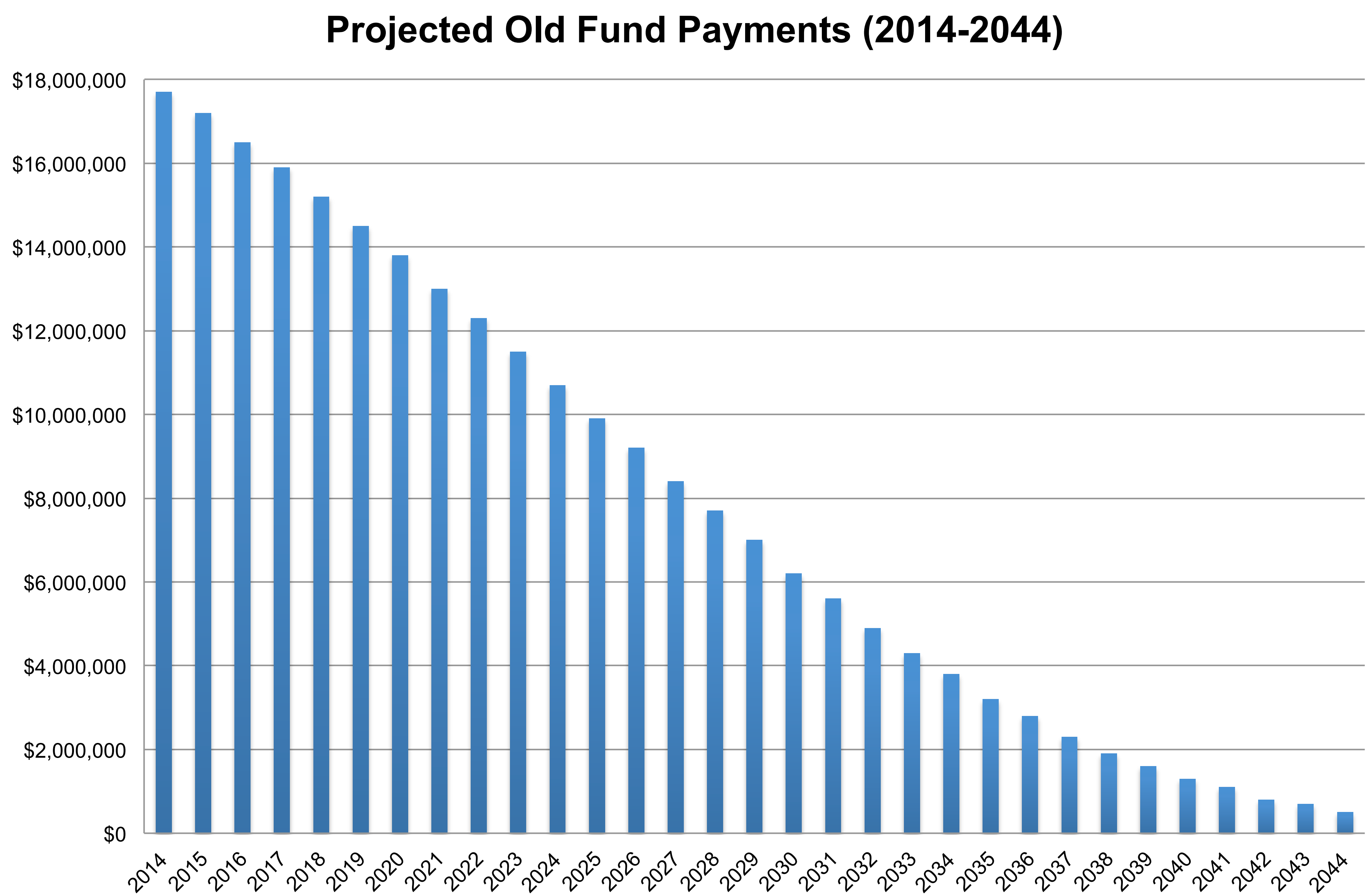
Overview

Recommendations for Consideration

Overview

- Working Group members developed, for public comment and consideration, comprehensive options that addressed the pension administrative, governance, control and benefits issues as well as the longevity and mandamus judgments
- The parties took a comprehensive approach and considered all the firefighter pension-related issues as well as judgments
- **<u>Each option is intended as a separate package and not for piecemeal negotiation – if any element is changed, then the entire package is withdrawn</u>**
  - For example, Options 2 and 3 (discussed later) are dependent upon the proposed millage passing
  - Also would include actions by courts or legislative bodies
- **The cost projections that are provided in this document and by Segal are estimates – final cost projections need to be verified by Fund actuary**

Recommendations for Consideration
Overview – Old Fund Liability Decreasing

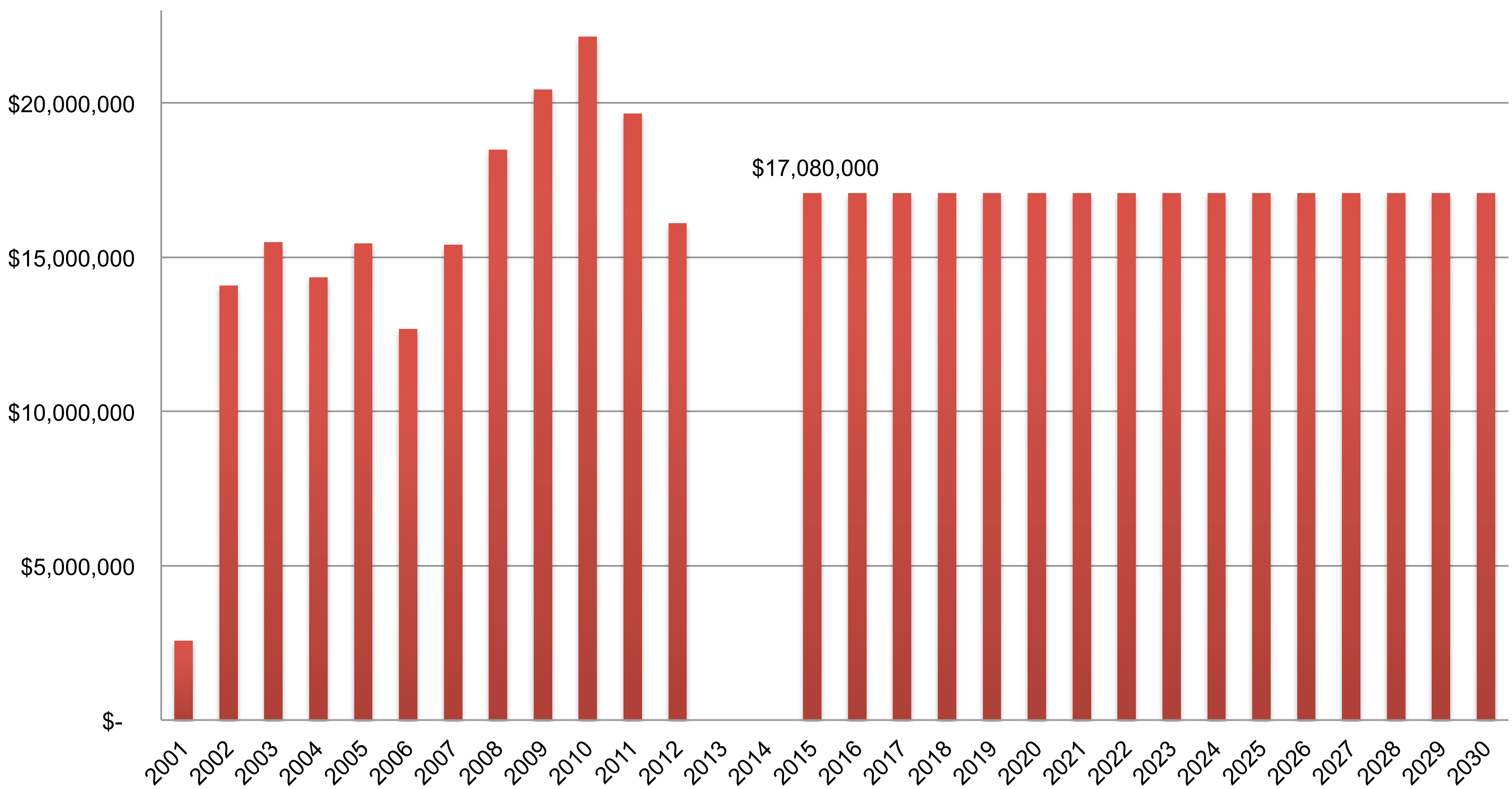


Source: Projections by Segal Consulting

Recommendations for Consideration
Overview – Debt Service from Pension Bonds

Despite exhausting the proceeds from the 2000 pension obligation bond, the City will continue to pay annual debt service of $17,080,000 through 2030 on these bonds

2000 Pension Bond Debt Service from City General Fund



Source: City Department of Finance

Recommendations for Consideration

Structural Changes

Recommendations for Consideration – Structural Changes
Administration

- City to pay ARC under following actuarial assumptions:
  - Fund actuary must use an initial closed amortization (no longer than 30 years). Future gains/losses may not be amortized over a closed period greater than 5 years; assumption changes no greater than 10 years, and plan changes no greater than 15 years
  - Amortization shall be done on a level dollar basis
  - Actuarial smoothing method must meet actuarial standards of practice
- Fund to procure actuary at least every 5 years and must be confirmed by Board by a 2/3rds vote
- Fund to undertake an experience study immediately and then at least every 3-5 years
- Fund to undertake an actuarial audit every 3-5 years by an actuarial firm that is not the current plan actuary. Selected firm must be confirmed by Board by a 2/3rds vote

Recommendations for Consideration – Structural Changes
Administration

- Board members shall have the opportunity to verify that they agree upon a retiree's benefit calculation prior to voting to grant or disallow the pension
- Fund to undertake an audit to verify correct benefit payments to retirees
  - City proposed to select auditor and to pay for this audit
- Fund to make semi-annual (as of June 30th and December 31st) public reports to City Council as to its financial health and progress towards being fully funded
  - Note: This does not require Fund to undertake an additional actuarial valuation, nor to change current ARC budget method
- Fund to develop a Summary of Benefits Document that outlines the benefits and how the Fund interprets those benefits. That document and the resulting policy require a 2/3rds vote of the Board to be agreed upon initially and to change
- Greater transparency of finances – Board to agree upon additional financial reports to be developed and posted to website

Recommendations for Consideration – Structural Changes
Administration

- Enact into law the current Board policy that investment policy requires approval of 2/3rds of Board membership
- Fund cannot incur debt or arbitrage
- Reaffirm Fund ethics policy regarding investment, managers and advisors
- Create an independent investment advisory board to advise Board on investment policy and decisions
  - Advisory Board will consist of up to five members with investment experience
    - Community/taxpayer groups will have ability to appoint up to 3 members. Union and city shall each have one appointment
  - Advisory Board shall be advisory only and shall not be considered fiduciaries of the Fund
  - Fund and investment consultant shall consult with Advisory Board prior to any change in investment policy or investments

Recommendations for Consideration

Benefit Changes and Judgments

Recommendations for Consideration
Benefit Changes and Judgments

- The general structure of these proposed options and some key provisions/principles are informed by key concepts of rehabilitation plans for underfunded private sector pension funds (note: this list is not exhaustive)
  - No increased benefits until the plan is sufficiently funded
  - No COLAs or 13th checks until the plan is sufficiently funded
  - Sustained and increased employer contributions
  - Minimizing lump sum distributions to help ease cash flow problems
- The overall structure also relies on a strong system of checks and balances that seeks to ensure that the parties adhere to the agreement and make it highly unlikely that this will ever occur again

Recommendations for Consideration
Benefit Changes and Judgments

- Under these options, the city, the Fund, and the Firefighters' Union would enter into a Cooperative Endeavor Agreement permitted by statute which will be referred to as the "Rehabilitation Plan" or "the Plan"
  - The Plan will define all aspects of the benefits, funding requirements, and other operations of the Fund. The Plan will be considered a contract among the parties. Neither the State Legislature nor any party shall have the ability to abridge the Plan (public sector contract provisions apply). A yet to be named community organization/business group or its designee shall have standing to sue to enforce specific performance regarding adherence to the Plan
  - The Plan will remain in effect until the Fund is **<u>80% funded</u>** using the actuarial assumptions set forth in the Plan. At that point, the Plan expires but the terms of the Plan will be the law
    - No change to the current board composition of 4 members selected by firefighters or retirees, 2 administration representatives and 1 mayoral appointee
  - Upon the Rehabilitation Plan's expiration (when the Fund reaches 80% funded), any future changes related to the Fund (including benefits and funding amounts) must be approved by both the Fund's Board and City Council by majority votes. Rehabilitation Plan will include express provision(s) designed to prevent changes to the pension benefits or funding terms by the Louisiana Legislature

Recommendations for Consideration

Benefit Changes and Judgments - Overview

- No enhancements to the benefit structure or reductions to employee contribution as presented herein until the Fund is at least 80% funded and would remain that way if the changes were enacted
- No COLAs or 13th checks until respective Fund is at least 80% funded and remains that way if COLA or 13th check granted
- If Fund is 80% funded, Board has the discretion to provide a COLA (simple interest) or 13th check up to 2% provided that such COLA or 13th check will not result in the Fund dropping below 80% funded
  - Such decision is still subject to 2/3rds vote
- City to move to a pre-tax method for collecting employee contributions

Options for Consideration

Option #1

- No change to current Fund interpretation of benefit multiplier, employee contribution, or normal age requirement
- City may offer an optional "hybrid" plan
- No change to DROP or PLOP period for current firefighters. New hires receive a DROP benefit of no greater than 36 months
- Eliminate ability to select both DROP and PLOP for new entrants; participants can choose one or the other, not both
- No change to current interest rate for DROP and PLOP accounts left in Fund after termination (as currently administered by the Board)
- For future DROP and PLOP accounts left in Fund after termination, same interest rate structure as FRS plan less 2% administrative fee or money market account
- Supplemental Employment Benefits (SEBs) Offset: Offset same as for FRS
- City payment for Mandamus Judgment: $26,827,000
- City payment for Longevity Judgment: $150,000,000
- Millage/Funding: Millage, other tax increases, or increased costs to be addressed within existing city budget
- Projected increased city payments from 2015 to 2016: $29.1 million

Options for Consideration
Option #2

- For active firefighters, 3 1/3% for all years of service (maximum of 100%). No change to current Fund interpretation of benefit multiplier for firefighters in DROP or to current new hire plan
- City may offer an optional "hybrid" plan
- No change to current retirement age, however if FRS increases employee contribution, NOFF will increase by the same amount
- No change to current active firefighter contribution, however if FRS increases employee contribution, NOFF will increase by the same amount. Employee contribution for those in DROP
- No change to DROP period or PLOP for current firefighters
- Eliminate ability to select both DROP and PLOP for new entrants; participants can choose one or the other, not both
- For current and future DROP and PLOP accounts left in Fund after termination, same interest rate structure as FRS plan less 2% administrative fee or money market account
- Supplemental Employment Benefits (SEBs) Offset: Offset same as for FRS. Savings from offsets to Fund credited towards City's ARC contribution dollar for dollar
- City payment for Mandamus Judgment: Satisfied if City funds future ARC
- City payment for Longevity Judgment: Satisfied if recoupment from retirees not sought and benefit structure increases as set forth above
- Millage/Funding: 2 mils, sunset December 31, 2021. Package contingent on millage passing
- Projected increased city payments from 2015 to 2016: $6.5 million

Options for Consideration
Option #3

- For active firefighters and those in DROP, benefit multiplier as set forth under statutory language. City may offer an optional “hybrid” plan
- No change to current normal retirement age for active firefighters
- New hire benefit multiplier of 2.5% and normal retirement age increased to 55
- Employee contribution increases to 11% on 1/1/17, 12% on 1/1/19 and 13% on 1/1/21. Employee contribution for those in DROP
- No change to DROP period for current firefighters. New hire DROP limited to 36 months
- Eliminate PLOP benefit for those not already in PLOP
- For current and future DROP accounts left in Fund after termination, money market account rate
- No PLOP interest
- Supplemental Employment Benefits (SEBs) Offset: Offset same as for FRS. Savings from offsets to Fund credited towards City’s ARC contribution dollar for dollar
- City payment for Mandamus Judgment: Satisfied if City funds future ARC
- City payment for Longevity Judgment: Payments to be funded between 2016 and Dec. 31, 2027 from fire millage (2 mils) remaining after ARC paid using 2015 as baseline. Maximum of $45 million
- Millage/Funding: 2 mils, sunset December 31, 2027. Package contingent on millage passing
- Projected increased city payments from 2015 to 2016: $6.0 million

Options for Consideration
Option #4

- For active firefighters and those in DROP, benefit multiplier as set forth under statutory language. City may offer an optional “hybrid” plan
- No change to current normal retirement age for active firefighters
- New hire benefit multiplier of 2.5% and normal retirement age increased to 55
- Employee contribution increases to 11% on 1/1/17, 12% on 1/1/19 and 13% on 1/1/21. Employee contribution for those in DROP
- No change to DROP period for current firefighters. New hire DROP limited to 36 months
- Eliminate PLOP benefit for those not already in PLOP
- For current and future DROP accounts left in Fund after termination, money market account rate
- No PLOP interest
- Supplemental Employment Benefits (SEBs) Offset: Offset same as for FRS. Savings from offsets to Fund credited towards City’s ARC contribution dollar for dollar
- City payment for Mandamus Judgment: Satisfied if City funds future ARC
- City payment for Longevity Judgment: No payment as part of this agreement
- Millage/Funding: No millage. Any increased costs to be addressed within existing city budget
- Projected increased city payments from 2015 to 2016: $4.1 million

Options for Consideration

Pension Multiplier

	Current – Fund Interpretation	Current – Statutory Language	Option #1	Option #2	Option #3	Option #4
Multiplier for Active FFs	2.5% for first 12 YOS, then 3 1/3% for each year after 12. 30 or more years: 3 1/3% for each YOS. Maximum 100%	2.5% for first 12 YOS, then 3 1/3% for each year after 12 AND Age 50. 30 or more years: 2.5% for first 12 YOS, then 3 1/3% for each YOS after 12. Maximum 100%	Current Fund Interpretation	3 1/3% for all years of service, to a maximum of 100%	Current Statutory Language	Current Statutory Language
Multiplier for FFs in DROP	Same as for Active FFs (above)	Same as for Active FFs (above)	Current Fund Interpretation	Current Fund Interpretation	Current Statutory Language	Current Statutory Language
Multiplier for New hires	2.75% for all years. Maximum 100%	2.75% for all years. Maximum 100%	2.75% for all years. Maximum 100%	2.75% for all years. Maximum 100%	2.5% for all years. Maximum 100%	2.5% for all years. Maximum 100%

Options for Consideration

Normal Retirement Age and Optional Hybrid Plan

	Current – Fund Interpretation	Current – Statutory Language	Option #1	Option #2	Option #3	Option #4
Normal Retirement Age for FFs Still Working	50	50	No change from current (50)	No change from current (50), unless FRS increases age	No change from current (50)	No change from current (50)
Normal Retirement Age for New Hires	52	52	No change from current (52)	No change from current (52), unless FRS increases age	55	55
Ability for City to Offer Optional Hybrid Plan	No	No	Yes	Yes	Yes	Yes

Options for Consideration
Employee Pension Contributions

	Current – Fund Interpretation	Current – Statutory Language	Option #1	Option #2	Option #3	Option #4
Employee Contribution for Active FFs	Less than 20 YOS: 10%; 20 YOS or more: 6.66% currently, increasing to 10% on 1/1/16	Less than 20 YOS: 10%; 20 YOS or more: 6.66% currently, increasing to 10% on 1/1/16	No change from current	Same as current, except if FRS increases employee contribution (currently 10%), NOFF employee contribution increases by same amount	11% on 1/1/17, 12% on 1/1/19, and 13% on 1/1/21	11% on 1/1/17, 12% on 1/1/19, and 13% on 1/1/21
Employee Contribution for FFs in DROP	None	None	None	Same contribution as active FFs	Same contribution as active FFs	Same contribution as active FFs
Employee Contribution for New Hires	10%	10%	No change from current	Same as current except if state FRS increases employee contribution (currently 10%), NOFF employee contribution increases by same amount	11% on 1/1/17, 12% on 1/1/19, and 13% on 1/1/21	11% on 1/1/17, 12% on 1/1/19, and 13% on 1/1/21
Move to Pre-tax contributions	n/a	n/a	Yes	Yes	Yes	Yes

Options for Consideration

DROP and PLOP Benefits

	Current – Fund Interpretation	Current – Statutory Language	Option #1	Option #2	Option #3	Option #4
DROP Period for Active FFs in DROP	Maximum of 60 months	Maximum of 60 months	No change	No change	No change	No change
DROP Period for Active FFs not yet in DROP	Maximum of 60 months	Maximum of 60 months	No change	No change	No change	No change
DROP Period for New Hires	Maximum of 60 months	Maximum of 60 months	Maximum of 36 months	Maximum of 60 months	Maximum of 36 months	Maximum of 36 months
PLOP Benefit for Active FFs not yet received PLOP	Permitted	Permitted	Permitted	Permitted	Eliminated	Eliminated
PLOP Benefit for New Hires	Permitted	Permitted	Permitted	Permitted	Eliminated	Eliminated
Ability to Select Both DROP and PLOP Benefits for New Entrants into DROP or PLOP	Permitted	Permitted	Eliminated	Eliminated	Eliminated	Eliminated

Options for Consideration

DROP and PLOP Interest for Accounts Remaining in Fund After Termination

	Current – Fund Interpretation	Current – Statutory Language	Option #1	Option #2	Option #3	Option #4
Interest for Current DROP Accounts	5 year composite rate of return or money market; Cannot be negative	5 year composite rate of return or money market; Cannot be negative	5 year composite rate of return or money market; Cannot be negative	Same as FRS Plan – actual rate of return (so may lose money) less 2% admin fee or money market rate	Money market rate	Money market rate
Interest for Future DROP Accounts	5 year composite rate of return or money market; Cannot be negative	5 year composite rate of return or money market; Cannot be negative	Same as FRS Plan – actual rate of return (so may lose money) less 2% admin fee or money market rate	Same as FRS Plan – actual rate of return (so may lose money) less 2% admin fee or money market rate	Money market rate	Money market rate
Interest for Current PLOP Accounts	5 year composite rate of return or money market; Cannot be negative	Silent	Same as FRS Plan – actual rate of return (so may lose money) less 2% admin fee or money market rate	Same as FRS Plan – actual rate of return (so may lose money) less 2% admin fee or money market rate	Not permitted	Not permitted
Interest for Future PLOP Accounts	5 year composite rate of return or money market; Cannot be negative	Silent	Same as FRS Plan – actual rate of return (so may lose money) less 2% admin fee or money market rate	Same as FRS Plan – actual rate of return (so may lose money) less 2% admin fee or money market rate	n/a – benefit eliminated	n/a – benefit eliminated

Options for Consideration
Millage

	Current – Fund Interpretation	Current – Statutory Language	Option #1	Option #2	Option #3	Option #4
Millage Passage Contingency	n/a	n/a	No	Yes	Yes	n/a
Proposed Millage/ Funding	n/a	n/a	Millage, other tax increases, or increased costs to be addressed within existing city budget	2 mils, sunset December 31, 2021	2 mils, sunset December 31, 2027	No millage. Any increased costs to be addressed within existing city budget
Projected Increased City Payments from 2015 to 2016 (see slide 55)	n/a	n/a	$29,100,000	$6,500,000	$6,000,000	$4,100,000

Options for Consideration

SEB Offset and Judgments

	Current – Fund Interpretation	Current – Statutory Language	Option #1	Option #2	Option #3	Option #4
Supplemental Employment Benefits (SEB) Offset	No offset	No offset	Offset same as for FRS	Offset same as for FRS. Savings from offsets to Fund will be credited towards City's ARC contribution	Offset same as for FRS. Savings from offsets to Fund will be credited towards City's ARC contribution	Offset same as for FRS. Savings from offsets to Fund will be credited towards City's ARC contribution
City Payment Towards Mandamus Judgment	n/a	n/a	$26,827,000	Satisfied if City funds future ARC	Satisfied if City funds future ARC	Satisfied if City funds future ARC
Payment Towards Longevity Judgment	n/a	n/a	$150,000,000	Satisfied by agreeing not to seek recoupment from retirees re: interpretation and increasing benefit structure	Payments to be funded between 2016 and Dec. 31, 2027 from fire millage (2 mils) remaining after ARC paid using 2015 as baseline. Maximum of $45 million (see slide 50)	No payment as part of this agreement

Mechanics of Funding Longevity Judgment Payments for Option #3

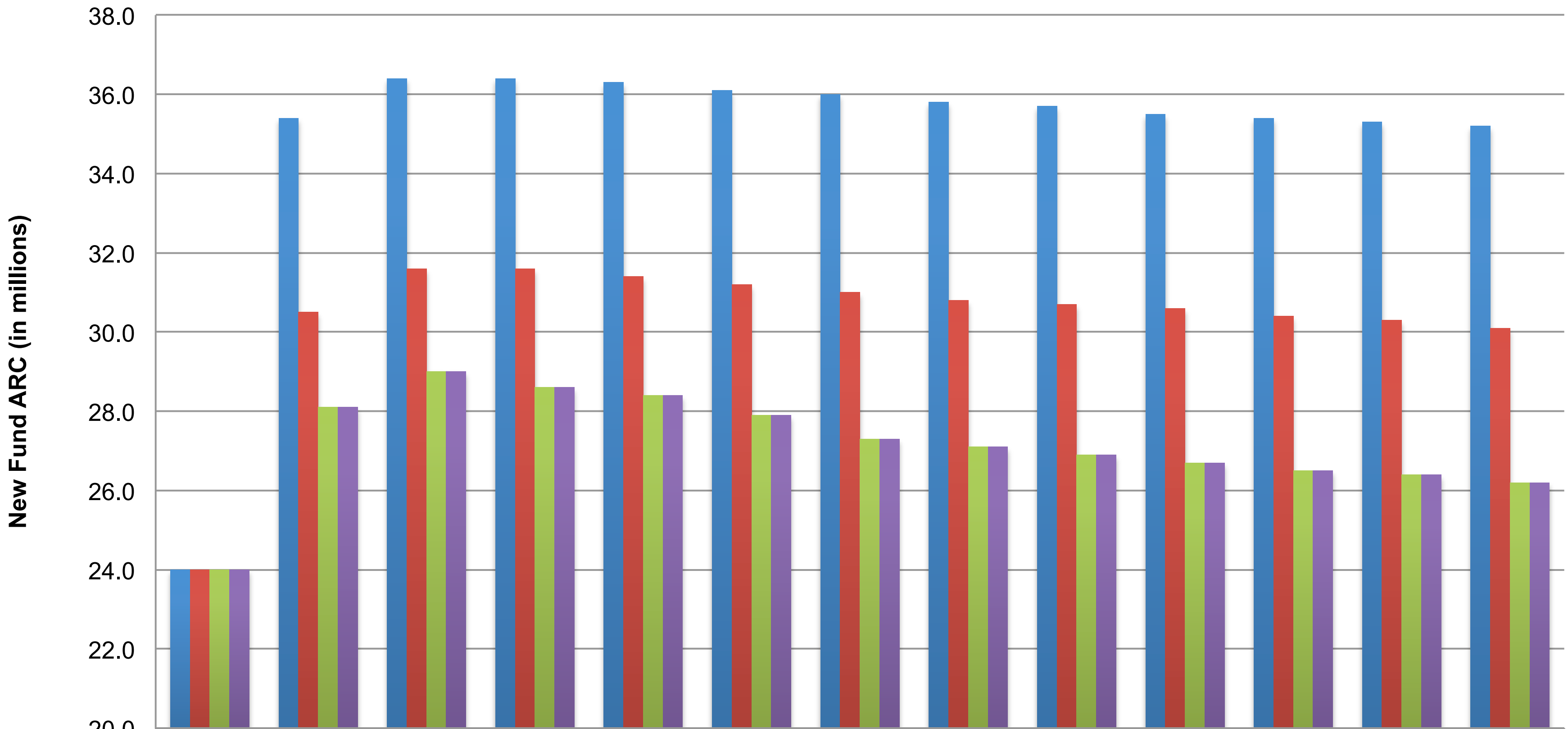
- Concept for funding the longevity judgment payments for Option #3 is the following:
  - Utilize 2015 costs for New Fund ARC as the baseline
  - Requirement that 2 mils ($6,000,000) passes and is implemented in 2016. Assume a growth rate of 3% annually. Millage sunsets after 12 years (December 31, 2027)
  - For 2016 and beyond, apply the impact of Option #3 benefit changes and SEB offsets to the New Fund ARC. This is referred to as the "total New Fund pension cost"
  - Take the difference between the respective years' "total New Fund pension cost" and the 2015 New Fund ARC. Apply the respective years' amount from the 2 mil increase. Any additional amount remaining after "total New Fund pension cost" is paid is put towards paying the longevity judgment
  - Payments end on December 31, 2027
  - Any changes to New Fund ARC, benefits or SEB offset (positive or negative) will impact the "total New Fund pension cost" calculation and consequently any amount put towards longevity judgment. This includes actions by courts and/or legislative bodies
  - Maximum payment for longevity judgment over this period of $45 million
  - Based on projected estimates using benefit structure in Option #3 and methodology above, approximately $44 million is projected to be able to be put towards longevity judgment over this period

Projected Costs
Overview

- As noted in Segal's analysis, the assumptions underlying the "baseline" analysis are different than those agreed to by the Fund and the city and being currently used by the Fund actuary
  - Much of the projected increase in City Contributions from $24.0 million in 2015 to $35.4 million in 2016 and beyond in the "baseline" analysis results from the change in assumptions
  - The assumptions used here can be described as being more "conservative." If the following analysis was run using the current Fund assumptions, the projected annual City Contributions for 2016 and beyond would likely be lower

Projected Annual Costs for New Fund ARC
2015-2027

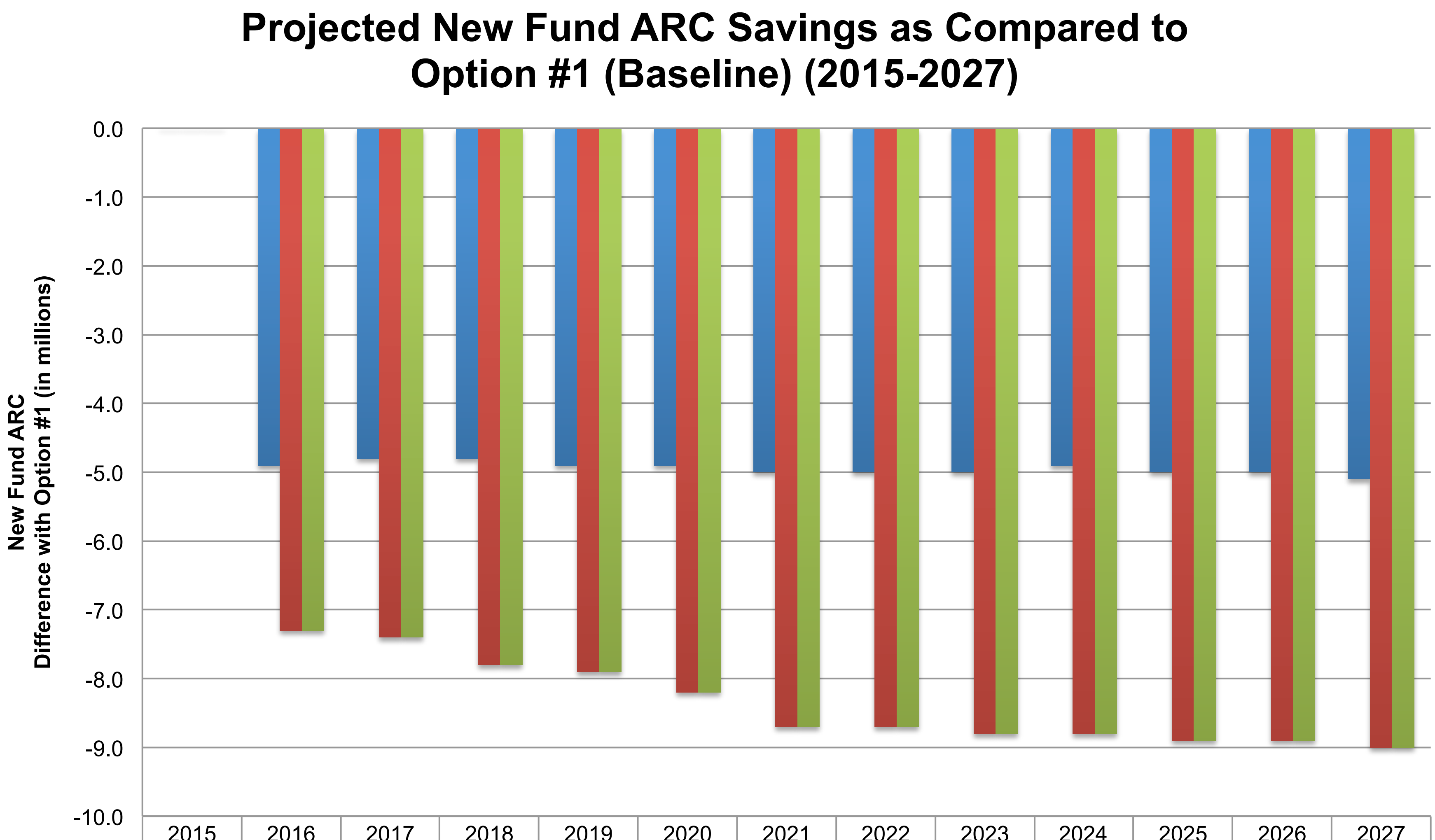
Projected New Fund City ARC Payments Under Benefit Structure of Options (2015-2027)



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Option #1	24.0	35.4	36.4	36.4	36.3	36.1	36.0	35.8	35.7	35.5	35.4	35.3	35.2
Option #2	24.0	30.5	31.6	31.6	31.4	31.2	31.0	30.8	30.7	30.6	30.4	30.3	30.1
Option #3	24.0	28.1	29.0	28.6	28.4	27.9	27.3	27.1	26.9	26.7	26.5	26.4	26.2
Option #4	24.0	28.1	29.0	28.6	28.4	27.9	27.3	27.1	26.9	26.7	26.5	26.4	26.2

Source: Projections by Segal Consulting

Projected Annual Costs for New Fund ARC
2015-2027

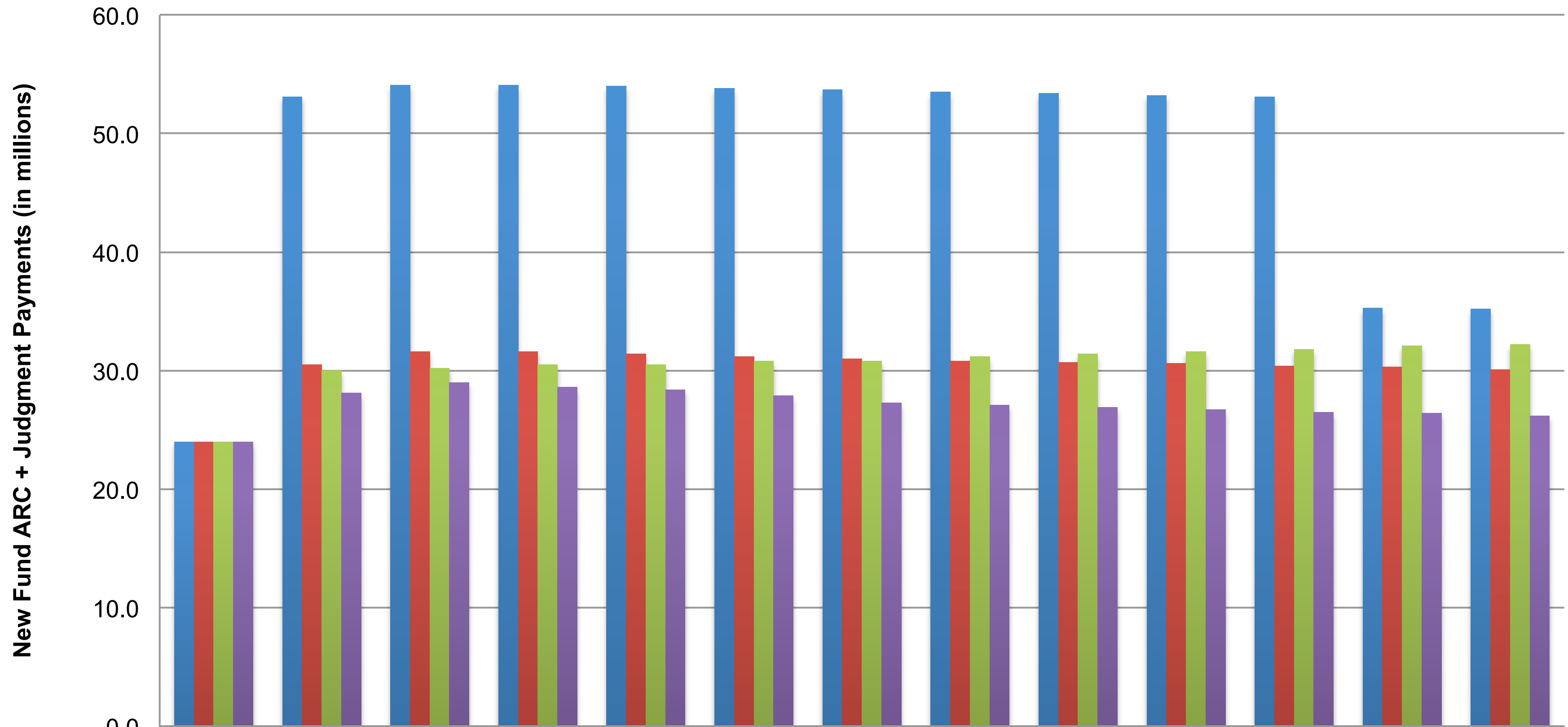


	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Option #2	0.0	-4.9	-4.8	-4.8	-4.9	-4.9	-5.0	-5.0	-5.0	-4.9	-5.0	-5.0	-5.1
Option #3	0.0	-7.3	-7.4	-7.8	-7.9	-8.2	-8.7	-8.7	-8.8	-8.8	-8.9	-8.9	-9.0
Option #4	0.0	-7.3	-7.4	-7.8	-7.9	-8.2	-8.7	-8.7	-8.8	-8.8	-8.9	-8.9	-9.0

Source: Calculations made using projections by Segal Consulting

Projected Annual Costs for New Fund ARC and Judgments
2015-2027

Projected New Fund ARC and Judgment Payments (2015-2027)

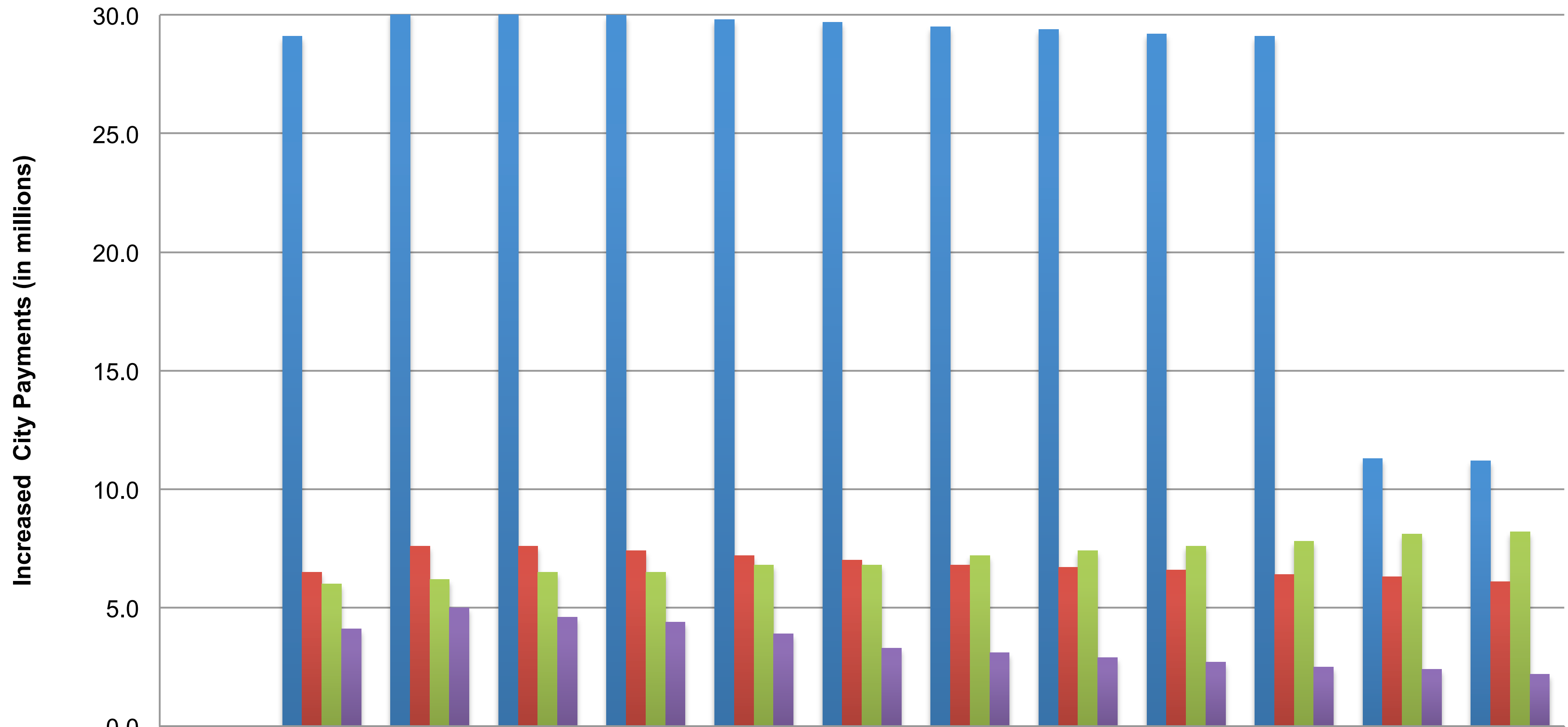


	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Option #1	24.0	53.1	54.1	54.1	54.0	53.8	53.7	53.5	53.4	53.2	53.1	35.3	35.2
Option #2	24.0	30.5	31.6	31.6	31.4	31.2	31.0	30.8	30.7	30.6	30.4	30.3	30.1
Option #3	24.0	30.0	30.2	30.5	30.5	30.8	30.8	31.2	31.4	31.6	31.8	32.1	32.2
Option #4	24.0	28.1	29.0	28.6	28.4	27.9	27.3	27.1	26.9	26.7	26.5	26.4	26.2

Note: Calculations made using projections by Segal Consulting. For Option #1, assumes $17.7 million paid annually for 10 years for judgments. This was done merely for illustration purposes. Option #1 did not have a specific requirement regarding payout.

Projected Annual City Cost Increases for New Fund ARC and Judgments
2015-2027

Projected Increased City Payments (New Fund ARC and Judgment) Compared to 2015 (2016-2027)



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Option #1	0.0	29.1	30.1	30.1	30.0	29.8	29.7	29.5	29.4	29.2	29.1	11.3	11.2
Option #2	0.0	6.5	7.6	7.6	7.4	7.2	7.0	6.8	6.7	6.6	6.4	6.3	6.1
Option #3	0.0	6.0	6.2	6.5	6.5	6.8	6.8	7.2	7.4	7.6	7.8	8.1	8.2
Option #4	0.0	4.1	5.0	4.6	4.4	3.9	3.3	3.1	2.9	2.7	2.5	2.4	2.2

Note: Calculations made using projections by Segal Consulting. For Option #1, assumes $17.7 million paid annually for 10 years for judgments. This was done merely for illustration purposes. Option #1 did not have a specific requirement regarding payout.

Projected Total Costs
2015-2027

	Option #1	Option #2	Option #3	Option #4
Projected City Payments Towards New Fund ARC (2015-2027)	$453,500,000	$394,200,000	$353,100,000	$353,100,000
Projected City Payments Towards Longevity and Mandamus Judgments (2015-2027)	$176,827,000, judgments resolved	$0, judgments resolved	To be determined based on savings, maximum $45,000,000. Judgments resolved	$0, judgments not resolved
Total Projected City Payments (2015-2027)	$630,327,000	$394,200,000	$398,100,000	$353,100,000
Difference with Option #1 ($)	n/a	- $236,127,000	- $232,227,000	- $277,227,000
Difference with Option #1 (%)	n/a	- 37.5%	- 36.8%	- 44%
Additional City Contributions Needed - 2015 Baseline (2015-2027)	$318,500,000	$82,200,000	$85,100,000	$41,100,000

Source: Calculations made using projections by Segal Consulting

Projected Total Costs
2015-2044

	Option #1	Option #2	Option #3	Option #4
Projected City Payments Towards New Fund ARC (2015-2044)	$1,024,600,000	$877,200,000	$766,600,000	$766,600,000
Projected City Payments Towards Longevity and Mandamus Judgments (2015-2044)	$176,827,000, judgments resolved	$0, judgments resolved	To be determined based on savings, maximum $45,000,000. Judgments resolved	$0, judgments not resolved
Total Projected City Payments (2015-2044)	$1,201,427,000	$877,200,000	$811,600,000	$766,600,000
Difference with Option #1 ($)	n/a	- $324,227,000	- $389,827,000	- $434,827,000
Difference with Option #1 (%)	n/a	- 27%	- 32.4%	- 36.2%
Additional City Contributions Needed - 2015 Baseline (2015-2044)	$476,400,000	$151,900,000	$85,600,000	$41,600,000

Source: Calculations made using projections by Segal Consulting

Questions

K Glossary

- **Actuarial Accrued Liability (AAL)** means the portion of the Present Value of Projected Benefits (PVB) that has been accrued (or earned) to date. AAL is also expressed as difference between PVB and actuarial present value of future normal costs, or the accumulated normal costs attributable to the years before the valuation date
- **Annually Required Contribution (ARC)** means the Normal Cost plus an amortized payment of the Unfunded Actuarial Accrued Liability for a particular year.
- **DROP** means Deferred Retirement Option Plan, an optional form of retirement payment.
- **Fund** means the Firefighters' Pension & Relief Fund for the City of New Orleans.
- **Market Value of Assets (MVA)** means the price at which an asset would trade in a competitive auction setting.
- **MPERS** means the Municipal Police Employees' Retirement System.
- **NOMERS** means the New Orleans Municipal Employees' Retirement System.
- **Normal Cost (NC)** means the present value of future benefits that employees accrue over the course of a year for their service.
- **Old Fund Member** means an Active Firefighter who was employed by the Fire Department before January 1, 1968.
- **Partial Lump-sum Option Payment (PLOP)** means, an optional form of retirement payment. PLOP is a partial-lump sum benefit payable at retirement
- **Unfunded Actuarial Accrued Liability (UAAL)** means the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets.