



Legislation Details (With Text)

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Title: Follow up Discussion of Transition of Monthly Payment Dates for the City of Franklin Employee Pension Plan

Sponsors: Eric Stuckey, Kristine Brock, Kevin Townsel

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DATE: March 8, 2019

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Kristine Tallent, Assistant City Administrator/CFO
Kevin Townsel, Human Resources Director

SUBJECT: Transition of monthly payment dates for City of Franklin Pension Plan

Purpose

The purpose of this memorandum is to provide information to the Franklin Board of Mayor and Aldermen (BOMA) with information concerning the transition of monthly pension payment dates for the City of Franklin Employee Pension Plan.

Background

Description of Current Issue

At all three 2018 meetings of the Employee Pension Committee, City staff presented various reports related to a Pension Plan Services Agreement (COF Contract # 2018-0014) between the City of Franklin and the State of Tennessee Consolidated Retirement System ("TCRS") for transition of administrative services for the City's closed single employer employee pension plan effective January 2019. As a result, the first payment administered by TCRS occurred on January 31, 2019. On February 13, 2019, a group of retirees held a meeting with Mayor Moore and City Administrator Stuckey to express various areas of displeasure with the Pension Committee's recommendation and the Board of Mayor and Alderman's ("BOMA's") decision to enter into the agreement with TCRS which thereby necessitated the changing of payment dates from first business to last

business day of the month. Furthermore, on February 26, 2019, five retirees gave public comment to BOMA at their work session. The retirees who spoke on February 26th requested that BOMA provide retirees an additional (13th) payment (either a full or partial payment) in calendar year 2019 as compensation for their inconvenience and hardship that resulted from the two 45-day periods between payments (November 1-December 14, 2018 and December 14, 2018-January 31, 2019) that occurred during the transition from City administration to TCRS.

BOMA referred this issue back to City staff and the Pension Committee for discussion on March 4, 2019, as well as to the next BOMA work session on March 12, 2019.

Background

This section is a recounting of the public meetings and intermediate staff actions during calendar year 2018.

In total, the specific issue of the change in payment dates from first business day to last business day of the month was part of 8 agendas of public meetings held on 6 days during the calendar year 2018.

The Employee Pension Committee was formally introduced to the difference between the City's payment schedule and that of TCRS at its first meeting of the year on March 12, 2018. Staff advised that while the formal agreement with TCRS was still under development, TCRS only pays retirees on the final business day of the month, which is different from our current practice. (The other related transition issue was the TCRS requirement for all payments to occur via direct deposit. Our retirees receiving paper checks were contacted in summer 2018 to change their payroll method.)

At the June 4, 2018, Pension Committee meeting, the minutes reflect that staff presented the Administrative Services Agreement for recommendation along with an effective implementation date of January 2019. Options for mitigating the impact of the 60-day transition (final Dec 1 city payment to January 31, 2019 TCRS payment) are stated in the minutes.

The last COF payment would be December 1, 2018 with the first TCRS payment on January 31, 2019. That long period without a payment would be disruptive for the Recipients. A shorter transition date could be set between the two scheduled dates, or One extra payment from the pension fund totaling \$425,000 could be paid the last day Of December. This would be less disruptive to the recipients, but costly for the pension Fund. Most committee members were not in favor of the pension fund taking a \$425,000 hit.

On June 12, 2018, the recommendation of the Pension Committee to approve COF 2018-014 Administrative Services Agreement with TCRS was presented at work session. The staff memo dated June 5, 2018, summarized the transition issue, options for mitigating the disruption and the Committee's recommendation. BOMA discussed the issue and was most interested in providing sliding payment dates over a multiple month period to reduce the period of days between payments. Staff was charged with investigating this option thoroughly.

On June 26, 2018, Staff presented a detailed memo to BOMA dated June 15, 2018, summarizing the details of three primary options for transition of payment dates and stating both positive and negative considerations of each option. Below is the exact text from the memo entitled "Summary of Master Services Agreement

Between TCRS and the City of Franklin for its Closed Pension Plan”:

Transition Items from City Administration to TCRS

- a. Direct Deposit of all monthly payments-** Human Resources staff contacted remaining recipients of paper checks in May 2018 advising of the transition to direct deposit. HR to effect transition throughout the summer of 2018.
- b. Change of Payment Dates-** The City makes payments on the first business day of the month. Conversely, TCRS makes payments on the final business day. Upon transition from the City’s administration to TCRS, recipients will receive payment on the first day of the month and receipt their next payment approximately 60 days later on the final day of the next month. Below are options for transitioning the change of payment dates:
 - i. Adjust the December 2018 payment date from December 1 to December 14-** To reduce the number of days between US Bank and TCRS serving as custodial bank, the December 2018 payment is issued December 14. TCRS makes their first payment on January 31. There is a 45 day span between the November 1 and December 14th payments and the December 14th and January 31 payments. Pro- Least amount of one-time cost to the Pension Fund. Least number of months of disruption (change) for retirees. Retirees will receive one 1099 for 2018. Con- two 45 day periods between payments for retirees. Staggering payment dates may cause confusion for some retirees.
 - ii. Utilize the City’s internal Payroll operation to stagger additional payments in late 2018-** The City’s custodial bank, US Bank, is unable to make more than one change of payment date. If additional months of staggering are preferred, the City may internalize the payment function for additional months before TCRS takes over in January 2019. For example, US Bank makes payments through September 1. City Payroll makes payments on October 9, November 16 and December 21. Pro- reduce the number of days between payments to approximately 40 during the transition period. Con- More months of disruption (change) for retirees. Retirees will receive two 1099 forms for 2018 (US Bank and City). Costs to Pension Fund for transaction fees and establishment of new fiduciary bank account during City transition period.
 - iii. Make a one time additional payment from the pension plan at a cost of approximately \$425,000-** US Bank makes December 1 and one-time additional transition payment on December 31. TCRS begins with January 31. Pro- Least amount of disruption to retirees. Maintain 30 day period between payments delivered by US Bank and TCRS. Retirees receive one 1099 for 2018. Con- One time additional payment to the pension plan of approx. \$425,000. (One-time fee may be considered offset by reduced annual investment management fees of approx. \$500,000.)

At the June 26, 2018, work session, BOMA directed Staff of the preference for option 1, which called for establishing a 45-day transition period of payments beginning with the November 1, 2018 payment, a

December 14, 2018 payment and the first payment from TCRS on January 31, 2019. At their voting meeting on the same night, BOMA approved Contract 2018-004 between the City and TCRS for Pension Administrative Services.

At the August 14, 2018, work session, BOMA was presented Resolution No. 2018-62 to Adopt the Amended and Restated Pension Plan Effective January 1, 2018 and To Adopt the First Amendment to the Amended and Restated Pension Plan Effective January 1, 2018. This plan restatement incorporated seven amendments to the plan document that was adopted in previous years. The First Amendment of the Restated Plan allowed for the change of the payment date in accordance with COF Contract 2018-0014 Agreement between TCRS and the City as well as amended the Lump Sum section to eliminate the option of a partial lump sum withdrawal for employees who retire after the date of the amendment. Attached to this item was a schedule listing the remaining 2018 and all of 2019 payment dates. Please see table below.

Tuesday, September 4, 2018	US Bank as Payin g Agent
Monday, October 1, 2018	
Thursday, November 1, 2018	
Friday, December 14, 2018	
Thursday January 31, 2019	TCRS as Payin g Agent
Thursday February 28, 2019	
Friday March 29, 2019	
Tuesday April 30, 2019	
Friday May 31, 2019	
Friday June 28, 2019	
Wednesday July 31, 2019	
Friday August 30, 2019	
Monday September 30, 2019	
Thursday October 31, 2019	
Wednesday November 27, 2019	
Monday December 30, 2019	

At their August 14, 2018, voting meeting, BOMA adopted Resolution 2018-62.

On September 11, 2018, the HR Department notified retirees in writing of the new payment schedule. On October 23, 2018, the HR Department mailed refrigerator magnets to all retirees listing the remaining 2018 and all of the 2019 payment dates.

The final public meeting in which the change was discussed was at the October 15, 2018, Employee Pension Committee meeting. At the beginning of the next page is the section of the minutes for this item, without any alteration.

Report on Transition of Payroll Services to TCRS.

Sara Sylvis, Benefits & Risk Manager

All retirees on the closed pension plan received notification of the change in dates they will receive their pension funds during the transition from the City administering the funds to TCRS administration. Ms. Sylvis reported some are not happy with the payments being delayed. She has helped each one understand that the City isn't taking any money away, just shifting the dates they will receive the money. There was concern regarding bills that need to be paid before the money is deposited. Two retirees have not consented to direct deposit and would rather have paper checks. Ongoing effort to get the two retirees to switch to direct deposit.

At the March 4, 2019 meeting of the Employee Pension Committee, one retiree gave public comment stating that she knew retirees who had experienced hardship and inconvenience. She was upset with BOMA for changing the payment date and demanded financial restitution.

Financial Impact

Consideration of a request to fund additional retiree benefits is complex from a financial standpoint.

The January 2019 retiree payroll for the closed City of Franklin pension plan was \$439,392.21, representing payments to 219 recipients. Staff has consulted with the Plan's actuary (Findley) and legal counsel (Evans Petree) for advisement regarding options for making an additional 2019 payment to retirees who were affected by the Dec 2018/Jan 2019 transition. Based on the discussion to date, there appear to be three scenarios to consider:

Option 1 - Maintain the current approach. In one scenario, BOMA maintains the status quo and does not provide additional benefits. For a year, the issue was discussed and deliberated in accordance with the direction provided in 2016 to transition management of the pension plan to TCRS. All actions were taken in accordance with provisions of the pension plan and as stated in the agreement between the City and TCRS. Furthermore, retirees were notified in writing in September and October and BOMA did not receive any comment at public meetings until after the transition occurred. Finally, no current recipient received less benefit due in 2018 or will receive less benefit in 2019 resulting from the transition. The only difference is in the timing of the monthly payment.

Option 2 - Provide an additional benefit to current retirees. A second scenario would provide current retirees a double payment on a future 2019 payment date. An additional payment would require a Plan Amendment adopted by BOMA which allows for a benefit enhancement to this group of 219 retirees (also referred to as a "Window Amendment") since their total 2019 benefit will exceed the benefit calculation as allowed by the plan document. There is an actuarial impact for payment of additional 2019 benefits. If this issue is remedied by a one-time payment of \$440,000, the impact on the funding ratio would be a decline of approximately 0.33%. The impact on the annual contribution would be amortized over a period of 20 years, resulting in an annual contribution increase of roughly \$39,600.

Option 3 - Provide a payment for a potential damage amount. A third scenario would be based upon a financial calculation of potential damage incurred by retirees during the transition. Some retirees have stated that they or other retirees incurred penalties on mortgage payments, loss of interest from savings accounts (moving money from savings to checking due to timing of bills) and borrowing money for 15 extra days during the transition of payment dates. Using estimates of reasonable mortgage penalties (5%), savings rates (2%) and borrowing rates (6%), damage incurred per person could range from \$7 to \$100. Reasonable estimates of incurred damage are far less than the value of the average pension payment of \$2,006. If BOMA wishes to grant additional benefit tied to a high estimate of potential damage, \$100 of additional benefit could be granted to 219 persons for a plan cost of \$21,900. Amortized over 20 years, the plan impact would be approximately \$1,100 per year.

Summary

Throughout 2018, both the Pension Committee and BOMA gave lengthy and serious deliberation to the transition issues associated with transferring pension administration to TCRS. With the closing of the plan to new hires after 12/31/2016, there has been an ongoing process to transition administration to TCRS. Leadership of the State of Tennessee Department of Treasury, of which TCRS is a department, have demonstrated their desire to assist the City of Franklin by providing services at a cost effective rate and in accordance with the same best practices of which the state pension program is operated.

The transition issue was presented directly and clearly to the Employee Pension Committee and BOMA. In their fiduciary roles, the direction of both the Pension Committee and BOMA was for the incorporation of the staggered payment in December 2018 coupled with multiple outreaches of communication to retirees.

Recommendation

It is staff's recommendation to maintain the status quo without payment of additional benefits based on the conclusion that the 2018 process was public, lengthy, transparent and effectively communicated and the risk of unintended consequences resulting from payment of additional benefits after the transition has occurred. Furthermore, it is important to note that employees hired after February of 2010 are required to contribute directly to the Pension Fund in addition to the City's contributions on behalf of all employees. Adding an additional benefit for current retirees from the Pension Fund which is funded, in part, from contributions of active employees that will not receive the same benefit could be problematic.