A REVIEW OF THE PENSION PLAN

SPONSORED BY THE METROPOLITAN GOVERNMENT

THE STUDY AND FORMULATING COMMITTEE

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This material was prepared by Richard Chapman, one of the members of the Study and Formulating Committee of the Metropolitan Government. It was provided to the other members of the Study and Formulating Committee and posted as part of the public record but was not adopted by that Body.

BACKGROUND

Responsibility for administration of pension benefits for employees and retirees of the Metropolitan Government is assigned to the Metropolitan Employee Benefit Board. The Board is composed of ten members: four employee members selected from specified employee groups, a retiree, three mayoral appointees approved by the Council and two Metro officials [the Finance Director and the Director of Human Resources]. The Metro Charter requires the establishment of an Investment Committee of the Benefit Board to manage the investment of funds committed to the retirement plan. The Investment Committee is composed of the Finance Director and the three appointees designated by the Mayor.

Support services for the Benefit Board are provided by the Office of Human Resources which also provides information to both employees and retirees. Legal services are provided to the Benefit Board by the Metropolitan Department of Law. The Benefit Board is also authorized to engage investment advisors, actuaries and benefit consultants.

The Board's current actuary is the successor owner of a Nashville actuarial firm which has contracted with Metro since the early 1970's.

ACTUARIAL VALUATION

Annually the Benefit Board directs its actuary to conduct an Actuarial Valuation. The purpose of the Actuarial Valuation is to enable the Board to assess the funding status of the plan and to determine the appropriate percentage of covered payroll necessary to finance the retirement benefit due covered employees. This cost is composed of three items; 1) additional benefits earned during the year [the normal cost], 2) the amortized amount of any unfunded liability and 3) interest.

The most recent Valuation suggests desirable characteristics of contribution rate:

- Fund benefits as they are earned
- Keep the plan well-funded (assets equal at least 80 percent of estimated liabilities)
- Attempt to establish a reasonably level contribution rate
- Be predictable

The Valuation released in February, 2020, which utilized the profile of employees and retirees as of June 30,2019, examined the characteristics of 24,652 individuals.

The Valuation incorporates several key findings:

- The market value of plan assets exceeded $3.2 billion on June 30, 2019
- Over the 20 years since 1999 the number of disabled retirees declined by over 50 percent (from about 900 to just over 400), Metro's return to work activities are largely responsible for this trend
- The average age and average length of service for both general government and fire/police participants have been fairly constant during the past 15 years
- During the twelve months ending June 30, 2019 Metro contributed in excess of $77 million to the plan and the investment income exceeded $237 million
- The present value of benefits earned by employees and retirees was about $3.8 billion

- For each of the four years ending July 2019, the plan funding ratio exceeded 92 percent
- The recommended contribution rate was 12.057% of payroll; the Board adopted a level rate of 12.340%

A new Valuation is being provided to the Benefit Board so it can set the contribution rate for the next Fiscal Year which begins July 1, 2021.

ACTUARIAL EXPERIENCE STUDY

Every five years the actuary completes an Actuarial Experience Study primarily to assess the accuracy of the Valuation assumptions. The Valuation assumptions are modified as appropriate and the cost impact of the modifications determined.

In the case of the most recent Study completed by the Board's actuary, the time frame of the employee data was 2012 through 2016. The Study reviewed 59,000 employee records, 35,000 retiree and survivor records and 7,000 disabled records. The Study noted that most of the employees/retirees are in the data set five times. Two types of assumptions are evaluated; demographic – about the workforce and current retirees – and economic – about financial considerations. The assumption reviewed in the 2012 – 2017 Actuarial Experience Study Included:

Demographic

- Pre-retirement mortality
- Post-retirement mortality
- Disability mortality and recovery
- Disability
- Turnover
- Retirement

Economic

- Compensation increases
- Investment return rates
- COLA adjustment for retirees
- Asset valuation method

The most recent Study which was released in February 2018 resulted in four significant assumption changes: the anticipated rate of return on investments was lowered by 0.25%, the COLA assumption was decreased by 0.25%, mortality decreased [consequently retirees are expected to collect a benefit for a longer duration] and employee turnover declined.

ASSETS

The assets of the Pension Plan are held in three distinct trust funds: Trust Fund A for disability retirees, Trust Fund B for general government employees and Trust Fund C for Fire and Police. On June 30, 2019 the market value of the Pension Plan's assets totaled $3,254,983,820.

During the twelve months ending June 30, 2019 the Metropolitan Government contributed $77,276,182 to finance employee pensions. During the same period the investment earnings totaled $237,384,683.

The Investment Committee adopted a revised Investment Policy in November 2018. The assets are managed by an investment consultant with the assets deployed among 110 managers and funds.

Asset Allocation

	June 30,2019	June 30,2018	Policy
Domestic Equity	14.4%	15.7%	17.0%
International Equity	11.5%	11.7%	16.0%
Equity Hedge	6.2%	6.2%	7.0%
Fixed Income	16.6%	17.5%	21.0%
Fixed Income Alternatives	19.2%	20.0%	15.0%
Real Assets	11.6%	10.8%	12.0%
Private Equity	19.8%	17.1%	12.0%
Cash	1.0%	1.0%	0.0%

AUTHOR'S OBSERVATIONS

1. **With a funding level consistently exceeding 90 percent, by all creditable standards the Metro Pension Plan is fully funded. Credit for that status is shared by successive Metro Councils for appropriating the money to fund the benefit and to Mayors for recommending full funding in their budget submittals.**
2. **The structure of the pension benefit yields a monthly payment which enables qualified employees to retire when initially eligible or shortly thereafter. The Benefit Board and the Council deserve credit for establishing a well-designed, affordable benefit package. The benefit package appropriately recognizes the occupational challenges of employee participants in the Fire/Police Pension Plan.**
3. **The obligation to determine the appropriate funding level through a competent, actuarially sound process that reflects realistic, conservative assumptions drives the setting of Metros commitment to employees; the assumptions are clearly fact driven. The Benefit Board's consistent reliance on competent actuarial analysis and advise is an essential component of the Board's very responsible approach to this important employee benefit.**
4. **Similarly, engaging professionally competent fund management entities helps preserve and grow Pension Plan assets**

5. **Metro sponsors five pension plans that predate the creation of the Metropolitan Government in 1963. These plans cover about 1,300 retirees and beneficiaries. Metro contributes about $33.7 million each year to these plans; the plans should be fully funded in 3 to 4 years with no additional contributions expected after that time**
6. **The Metropolitan Government has established a multistep process to modify the terms of the retirement benefit provisions set in the Metro Code, that process results in a predictable retirement for employees and consistency in funding and administrative requirements. Involving citizens through the Study and Formulating Committee, establishing a Benefit Board composed of employees, officials and appointees and engaging the Mayor and the Council in the review of proposals to modify retirement benefits provides for a thorough examination of any proposal.**
7. **By sponsoring a Deferred Compensation Plan, the Metropolitan Government enables employees who elect to participate in the 457 Plan, the ability to provide for personal asset accumulation on a tax deferred basis. This supplemental retirement benefit appears to be as well managed as the regular Pension Plan.**

RETIREMENT BENEFIT SUMMARY

Vesting - 10 years for employees hired on or after January 1, 2013; 5 years 2001-2012

Cost - Metro pays the cost of the retirement benefit

General Government Employees

Unreduced benefit begins at age 60 once age plus years of service equals 85; age 65 with 5 years of service

Monthly Benefit – 1.75% X final average earnings X years of service

COLA and DROP included

Final Average Earnings – highest 60 consecutive months of Metro employment divided by 5 years

Early Retirement Qualification – 50 years of age and 10 years of service

Early Retirement Reduction – 4% per year for 1st 5 years then 8% for each year over 5 years

Disability Retirement – 10 years of service, 50% of average monthly pay last 12 months plus 10% if disabled member has a qualified dependent: on the job disability, no minimum service requirement

Noncertificated employees of the Metropolitan Nashville Public Schools participate in this benefit

Fire and Police Employees

Unreduced benefit begins at age 53 once age plus years of service equals 75; age 60 with 5 years of service

Monthly Benefit – 2.0% X final average earnings X 1st 25 years PLUS 1.75% for each additional year

COLA and DROP included

Final Average Earnings – highest 60 consecutive months of Metro employment divided by 5 years

Early Retirement Qualification – 45 years of age and 10 years of service

Early Retirement Reduction – 4% per year for 1st 5 years then 8% for each year over 5 years

Disability Retirement – 10 years of service, 50% of average monthly pay last 12 months plus 10% if disabled member has a qualified dependent: on the job disability, no minimum service requirement

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