BUDGET FISCAL ANALYSIS TASK FORCE
Meeting Notes
January 11, 2010

The meeting was opened at 5:10 PM. Present were Task Force members Yvon Alexandre, Joe Kask, Tim Sullivan, and Lyle Wray. Also present were Councilmen Jim Boucher, Pedro Segarra, and Larry Deutsch, members of the public Vinnie Carbone, Jessica Velez, and Hyacinth Yennie, City Treasurer Kathleen Palm Devine, City staff David Panagore, Santiago Malave, John Byrne, and Richard Pokorski, and Linda Bayer, staff to the Task Force. Tim Sullivan chaired the meeting.

Pension Costs

Kathleen Palm Devine, City Treasurer gave an overview of how pension funds are administered. Most of the cost of pension payouts is covered by investment income. The gains and losses of investment income are "smoothed out" over a four-year period, since investment returns vary on an annual basis. For example, in 2001, the City made no contribution to the pension fund because investment income was sufficient to cover costs. The contribution for 2009-10 is $11.5 million. The 15 year average of the City's contribution to the pension fund is $6.5 million. The value of the pension fund is approximately $900 million. The annual pension benefit obligation is approximately $85 million for approximately 3,000 retirees. The cost of administering the plan is $6.0 million per year.

The Treasurer noted that pension investments are very diversified and performed better than many pension funds during the recent downturn. The investment target for last year was 8% and the actual return was -11%, but many other funds throughout the country had negative returns of up to -40%.

There are many different pension plans which are negotiated by the City through collective bargaining. The Treasurer administers the plans but is not a party to the process of collective bargaining. Over the years, many bargaining units secured pension enhancements in lieu of pay increases. Cost of Living Adjustments (COLAs) are not automatic in Hartford's pension plans.

One issue raised by the Task Force was how police pensions are calculated. For officers hired before 1999, individuals can retire after 20 years and pensions are calculated at 2.65% of an average of the highest 3 years in a five year period. Officers hired after 1999 can retire after 25 years and income is averaged over their entire career. Currently, police officers who are close to retirement tend to work as much overtime as possible and to take as many private jobs as possible. A private job is generated when a business is required to hire police officers. The business pays the City and the Police Officer is paid for the hours he works by the City. That income "counts" in calculating his/her pension. The Treasurer noted that Police and Fire uniformed services are not covered by Social Security and they contribute 8% of their income to the pension plan, as compared to other employees who contribute between 4 and 6%.

Task Force members asked if the City had considered moving to a defined contribution plan and away from defined benefits. The Treasurer indicated that she was not aware of such a move, but noted that about 800 employees participate in a deferred compensation program, which is offered in addition to the pension plans. She gave as her opinion that defined-contribution plans are not appropriate for non-college educated employees; it is not reasonable to expect most to have the capacity to manage the investment of their pension funds.

Members of the public asked questions and gave opinions about the topics as the presentation proceeded.

Health Benefit Costs

Representatives of the Personnel Department outlined the operation of the City's health insurance program. The City hires Anthem to administer its health benefits program and pays it a fee for that service. When employees use benefits, Anthem draws funds down from the City's accounts. As an example, in 2007-08, it cost $3.8 million to administer $86 million in claims. There is a $250,000 stop-loss provision; over that amount in claims, Anthem pays. Claims average $4,200 per person covered (includes family members), as compared to an industry average of $3,500 per capita. Staff indicated that costs are in line with other municipal employers. They also indicated that co-pays recently rose and the City is focusing more attention on wellness.

As with pensions, health benefits vary with union contracts. There are approximately 65 different plans at the Board of Education and 35 on the City side. The Task Force wondered how many individuals in the plans are current employees and how many are retirees. Staff indicated they would provide that information, but noted that at 65, retirees go onto Medicare.

The Task Force discussed the possibility of Health Savings Accounts (HSAs) as a substitute for the current arrangement. Such plans do not shift costs to employees. They can be complex, however, and there must be extensive education during the transition to an HSA. Members of the public participated in the discussion of this topic.

Next Steps

The Task Force decided that the two areas which might generate the greatest amounts of cost savings are defined contribution pension plans and health savings accounts. After some discussion, it was decided to propose that analysis of these two options be conducted in order to get hard data. They will inquire as to whether there are funds available to hire someone to conduct the analysis. If there is not, it was decided a) to request the MetroHartford Alliance to look for individuals or firms in its membership who could conduct the analysis and b) to request the City to provide the data which is to be analyzed. Linda Bayer will draft a letter for the Task Force to send.

Next Meeting: The Task Force will meet on Monday, January 25, 2010 at 5 PM with the Tax Collector, Management & Budget Director, and Development Services staff to discuss the following revenue topics: taxes, fees and permits, ARRA funds, and grants management.

Adjournment: The meeting was adjourned at 7 PM.

Respectfully submitted,

Linda A. Bayer
Staff