

August 7, 2018

## Cobb County Employee Pension Update

Today the Pension Board of Trustees held a regular scheduled meeting. I counted 16 employees in attendance including Chief Boggess, Troy Lang, and Keith Fields. Two asset managers made presentations, Eagle and Black Rock. UBS made a presentation about our pension fund's performance and the market outlook. From what I gathered, our pension investments are well managed. The fees are low and investment return consistently beats the benchmarks. With the challenges our pension is facing, it's nice to know asset return is not an issue.

The annual report to the Board of Commissioners is tentatively planned for February 2019.

At the last Trustee meeting, Mr. Virgil Moon made a remark about the hybrid pension requiring a County contribution for the first time in 2019. This peaked my curiosity and after thorough investigation, I have come to the opinion that a portion of hybrid employee contributions have been used to pay retiree benefits and subsidize the old pension since 2010. I addressed this issue during the public comment portion of the meeting. See attached email for more information.

Matt Babcock  
Pension Advocate  
Cobb Professional Firefighters  
770-851-9030  
mattbabcock@live.com

Email to the Trustees sent 8-7-2018:

Good Afternoon Trustees,

I wanted to follow up regarding the concerns I brought up during the public comment portion of today's meeting. Please forward this email to Mr. Virgil Moon as I am unable to find his email address.

Hybrid pension participants have contributed in excess of the actual cost to fund their pension benefits. These excess employee contributions may have been used to subsidize the old traditional pension and pay current retiree benefits. This use of employee contributions may be in conflict with Ga. Code Ann. § 47-20-10(g).

Page 6 of the 2015-2017 actuary reports breaks down the Normal Cost as a percentage of payroll by plan type. The actuary reports set the employee and county contribution rates for the following fiscal year. Each of those three years, the hybrid employees have contributed in excess of the Normal Cost for their currently accruing benefits. This excess contribution has varied from 0.21% to 0.39% of hybrid payroll during FY2016-FY2018, but was presumably much higher when the employee contribution rate was previously 5% from January 2010 through December 2013. The total amount of these excess contributions for a firefighter hired in early 2010 is roughly estimated at \$4,000-\$5,000. If the hybrid pension assets were managed separately, then these excess contributions would result in a hybrid pension funding status above 100%, even with zero county contributions. But the hybrid and traditional pension assets are pooled resulting in an overall funding ratio of about 52%. These excess contributions are expressed on the actuary report as a credit against the county's annual required contribution. Every excess dollar contributed by an employee reduces the county's required contribution by a dollar.

The required county contribution that's being offset by hybrid employee contributions funds several things:

1. Currently accruing traditional pension benefits for employees hired before 2010.
2. Currently accruing benefits for the judges' supplemental pension plan.
3. The unfunded actuarial accrued liability (UAAL). The UAAL represents benefits that were accrued in the past, but not adequately funded at the time. These unfunded benefits include current retiree benefit payments and accrued benefits of traditional (and possibly judges) pension participants who have not yet retired.

Georgia law forbids the use of current employee contributions to fund current retiree benefits: "In no event will employee contributions of active members of a retirement system be used to pay benefits to beneficiaries under the retirement system." (Ga. Code Ann. § 47-20-10(g))

See the attached page from the 2017 actuary report as an example for FY2018.

I have compiled this information in good faith, but I am not a financial expert or legal expert. Please let me know if I have made an error so that I may make a correction. I know that \$5,000 isn't going to make a huge difference in a firefighter's retirement security, but if those contributions were in fact misused, then I would like to see the county do the right thing and give them back. The Board of Trustees has made it very clear they do not make "recommendations" to the BOC. But the Board of Trustees does have a fiduciary responsibility to the pension members and I believe that responsibility includes advising the BOC of a potential misuse of employee contributions.

Thank you,

Matt Babcock  
Pension Advocate  
Cobb Professional Firefighters  
770-851-9030  
mattbabcock@live.com



## Section II - Plan Contribution Development

### Normal Cost

The Normal Cost component of the contribution represents active participant benefits accruing during the 2017 plan year. The following tables show the Normal Cost attributable to plan benefits under the current plan.

	January 1, 2017	January 1, 2016
<b>1. Normal Cost (End of Year)</b>		
a. Retirement Benefits	\$ 21,627,145	\$ 21,621,457
b. Termination Benefits	1,578,741	1,648,530
c. Death Benefits	<u>519,976</u>	<u>522,474</u>
d. Total	\$ 23,725,862	\$ 23,792,461
<b>2. Valuation Payroll</b>	\$ 226,975,245	\$ 220,949,172
<b>3. Normal Cost as a Percent of Payroll (1) ÷ (2)</b>	<b>10.46%</b>	<b>10.77%</b>

Normal Cost by Employee/Employer and Plan Type			
	Total	Employee	Employer
<b>1. Normal Cost Dollar Amount (End of Year)</b>			
a. Traditional Plan	\$21,720,011	\$11,083,346	\$10,636,665
b. Hybrid Plan	1,978,620	2,131,012	(152,392)
c. Judges Plan	<u>27,231</u>	<u>0</u>	<u>27,231</u>
d. Total	\$23,725,862	\$13,214,358	\$10,511,504
<b>2. Valuation Payroll</b>			
a. Traditional Plan	\$153,757,405	\$153,757,405	\$153,757,405
b. Hybrid Plan	71,033,729	71,033,729	71,033,729
c. Judges Plan	<u>2,184,111</u>	<u>2,184,111</u>	<u>2,184,111</u>
d. Total	\$226,975,245	\$226,975,245	\$226,975,245
<b>3. Normal Cost as a Percent of Payroll</b>			
a. Traditional Plan [1(a) / 2(a)]	14.13%	7.21%	6.92%
b. Hybrid Plan [1(b) / 2(b)]	<u>2.79%</u>	<u>3.00%</u>	<u>(0.21)%</u>
c. Judges Plan [1(c) / 2(c)]	<u>1.25%</u>	<u>0.00%</u>	<u>1.25%</u>
d. Total [1(d) / 2(d)]	<b>10.46%</b>	<b>5.82%</b>	<b>4.64%</b>