




## MEMORANDUM

TO: Mayor and Town Council

VIA: Kirk Blouin, Town Manager 

FROM: Gillian Barth, Director of People & Culture

RE: Town of Palm Beach Pension Plan – Review and Proposal

DATE: March 5, 2024

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### OPTIONS FOR CONSIDERATION

1. **Increase** Police & Fire Rescue Defined Pension **Multiplier** from **2.75% to 3.0%** prospectively.
2. **Increase** General & Ocean Rescue Defined Pension **Multiplier** from **1.70 to 2.0%** prospectively.
3. **Reduce** Defined Pension Plan **vesting** from ten **(10) years to five to eight (5-8) years** prospectively for General/Lifeguard Staff and to eight (8) years for Public Safety.
4. **Reduce** Defined Contribution Plan **vesting** from **ten (10) years to one (1) year** prospectively.
5. **Increase** DROP<sup>1</sup> period from **five (5) to eight (8) years**
6. In addition to current hybrid pension model, offer new General employees option of fully Defined Contribution Plan 401a in lieu of hybrid model. Public Safety employees will have the option of either a Fully Defined Pension or Defined Contribution (401a).
7. Revise retirement eligibility to match FRS for Public Safety personnel (age 55 if vested or 25 yrs of service)

*Note: All public safety pensionable salary scales and step plan administration were shifted from the 75<sup>th</sup> percentile to the 85<sup>th</sup> percentile in 2023 to increase market competitiveness. This has proven to be successful.*

### GENERAL INFORMATION

In March 2023, Management commenced a review of the TOPB Pension plan. This review was prompted by several drivers:

- Seven (7) years since last review and changes (2017)
- Market shifts and increased competition
- Recruitment and retention challenges facing the Town
- Next generation of employee expectations
- Consistent area of concern on annual employee surveys
- Expression of interest by Town Council for a review

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<sup>1</sup> DROP – Deferred Retirement Option

**Recruitment Context:** Over the past five years, it has been increasingly difficult to fill key staff positions, including Patrol Officers, 911 Telecommunicators, Accountants, Planners, Engineers, Equipment Operators and Water Resource Technicians. While the vacancies can be attributed to several factors, pay and benefits is one area that is regularly cited during candidate interviews and may be contributing to the cause of the disproportionately low number of applicants for each position viewed (see table below). In addition, the Town of Palm Beach publishes all salaries and benefits during recruitment, so they are visible to potential candidates. In response to market forces over the past two years, the Town has made considerable progress in adjusting its salary administration practices as evidenced by the change in compensation approach for the Police Department step plan in 2023. Pensions, however, have yet to be addressed and they are (purportedly) one of the top benefits that attract professionals and top performing employees to commit their careers to civil service.

Recruitment Data	2022	2023	2024
Average # Vacancies in past three years*	28 (8%)	32 (10%)	35 (10%)
Average time to hire**	111 days	92 days	
Average on-line views per job	2736	3740	
Average conversion rates of on-line views to applications***	2.54%	2.09%	
Average # applications per job****	69.51	78.29	
Advertising expenses	\$17,764	\$33,814	
# positions requiring repeat advertising	1	13	

\* Established industry benchmark is 3.5%

\*\* This is partly attributed to the vigorous level of review candidates are subjected to, particularly in Public Safety.

\*\*\* 7-10% is overall industry standard (ref. SHRM, HireHive, JobVite)

\*\*\*\*Despite vigorous automated screening, many applicants who do apply may not be suitable for Town employment.

**Retention Context:** Despite improvements in retention rates since the days following the 2012 pension changes when *voluntary* resignation attrition rates reached peak levels of 34% in 2016, attrition remains higher than desirable. While resignations occur for a wide variety of reasons, the Town’s pension plan remains one of the consistent themes in annual employee engagement surveys. Volunteer employee turnover is costly for an organization in replacement costs, reduced productivity, and remaining employees who shoulder the burden of vacancies.

		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Future Target
Resignations		8%	9%	10%	7%	7%	3-4%
Cost of Voluntary Turnover <sup>2</sup>	\$3.2M	\$617K	\$708K	\$754K	\$548K	\$594K	\$228K

It’s important to note that neither recruitment nor retention should be looked at in isolation but rather as combined factors that impact the Town’s ability to be market competitive and attract the best and brightest talent.

<sup>2</sup>HR Industry standard calc. = Total Cost of Annual Staff Turnover] = [Number of Staff Resignations] multiplied by (([Average Hourly Rate] multiplied by [Hours per Week] multiplied by [Weeks per Year]) multiplied by 1.3) multiplied by 0.25. Note: 1.3 represents the multiplier used to account for things related to lost productivity and hiring expenses. .25 assumes only a quarter of an employee’s annual salary is lost to turnover costs.



**Review Methodology:** Management contracted the services of Senior Consultant and Actuary *Peter Strong of GRS<sup>3</sup>* and, over the past twelve months, examined and costed multiple models and options, including:

- Increasing the defined pension multipliers for both Public Safety and General/Lifeguard Employees prospectively
- Increasing the defined pension multipliers prospectively *and* retroactively to 2012 (when the last significant changes were made)
- Reducing the defined pension vesting from 10 years to 5-8 years (General/Lifeguards), 8 years for Public Safety and to one (1) year for the defined contribution (401a) (Note: reduction in vesting does not necessarily lead to staff turnover – 34% of current staff have reached or exceeded current vesting period of 10 yrs)
- Offering staff the options of the current hybrid program or full direct contribution plan (401a Plan) only

**Current Plan Versus Market:** In addition, Management conducted a review of how the Town’s current plan compares to other municipal and county pension plans to determine overall competitiveness. Results are provided below, segmented by Public Safety and General/Lifeguard employees.

PUBLIC SAFETY (POLICE & FIRE RESCUE)													
	TOPB Current			TOPB 2024 Options			Florida Retirement System (FRS)			Non-FRS Entities (PB County Municipalities)			State of Florida Average
	Multiplier <sup>4</sup>	Vesting Period <sup>5</sup>	Employee/ Employer Contribution	Multiplier	Vesting Period	Employee/ Employer Contribution	Multiplier	Vesting Period	Employee Contribution	Multiplier Avg.	Vesting Period Avg.	Employee/ Employer Contribution Avg.	Multiplier
Defined Benefit Plan	2.75%	10 yrs	8.5%	3.0%	8 yrs	8.5%	3.0%	8 yrs	3.0%	3.04%	9.5 yrs	8.11%	3.05
Defined Contribution Plan (401a)	N/A	N/A	N/A	N/A	1 yr	3%/3%	N/A	1 yr	3%/16%	N/A	N/A	Limited Examples	
DROP	5 yrs			8 yrs			8 yrs			Variable			
Investment Only Option	No			Yes			Yes			Variable			
Portability	No			No			Yes			Not published			
COLA Adjustment	No			No			Yes (3%) <sup>6</sup>			Limited 2% COLA			
Retirement Eligibility	Age 55 with 10 years of service Age 52 with 25 years of service			Age 55 if vested, or 25 years of service			Age 55 if vested, or 25 years of service			Variable (many mirror the FRS 25 years)			

<sup>3</sup> Mr. Strong and GRS also serve as contracted actuaries to the Town’s Retirement Board.

<sup>4</sup> Pension multiplier calculation = (# years of service x multiplier x final five (5) years average salary).

<sup>5</sup> Number of years of service required to qualify for employer’s contribution to pension benefits.

<sup>6</sup> House Bill 151 passed the House but has not yet been heard in the Senate. Reports suggest that it has not been included in the current State budget so may not be implemented until the 2025 budget.

## GENERAL & LIFEGUARDS

	TOPB Current (Hybrid Plan)			TOPB 2024 Options			Florida Retirement System (FRS)			Non-FRS Entities (PB County Municipalities)			State of Florida Average
	Multiplier	Vesting Period	Employee/ Employer Contribution	Multiplier	Vesting Period	Employee / Employer Contribution	Multiplier	Vesting Period	Employee/ Employer Contribution	Multiplier Avg.	Vesting Period Avg.	Employee/ Employer Contribution Avg.	Multiplier
Defined Benefit Plan	1.70	10 yrs	3.5%	2.0	5-8 yrs	3.5%	1.60	8 yrs	3.0%	2.3%	7 yrs	6.26%	2.43
Defined Contribution Plan (401a)	N/A	10 yrs	3%/3%	N/A	1 yr	3%/3%	N/A	1 yr	3.0%/8.3%	N/A	1 yr	6%/11%	
DROP	5 yrs			8 yrs			8 yrs			Variable			
Investment Only Option	No			Yes			Yes			Variable			
Portability	No			No			Yes			Not published			
COLA Adjustment	No			No			Yes (3%)			Variable			
Retirement Eligibility:	DB - age 62 / DC - IRS rules			DB – age 62 / DC – IRS rules			DB – age 65 / DC IRS rules			Variable between 62 and 65			

**FUNDING/FISCAL IMPACT**

**Funding Impact of Retirement - Current Plan vs Proposed  
3% Public Safety and 2% Gen Employ/Ocean Rescue Multiplier**

Budget YR	Town Contribution (ADEC) before \$5.42M			Funded Ratio		Unfunded Actuarial Accrued Liability	
	Current Plan	3% PS; 2% GE	Difference	Current Plan	3% PS; 2% GE	Current Plan	3% PS; 2% GE
2025	13,926,310	14,499,594	573,284	73.70%	73.20%	99,114,858	101,643,725
2026	15,130,742	15,826,395	695,653	72.70%	72.10%	105,348,959	108,507,707
2027	15,612,354	16,371,316	758,962	73.90%	73.30%	101,542,409	104,744,897
2028	15,848,751	16,728,540	879,789	73.70%	73.00%	103,355,480	107,160,405
2029	15,666,357	16,694,605	1,028,248	76.90%	76.00%	92,120,463	96,592,474
2030	15,383,575	16,556,750	1,173,175	80.10%	79.20%	80,123,643	85,037,794
2031	14,964,578	16,203,121	1,238,543	83.40%	82.50%	67,799,125	72,471,946
2032	14,380,653	15,679,527	1,298,874	86.60%	85.80%	55,228,345	59,523,554
2033	12,662,033	13,954,516	1,292,483	89.80%	89.10%	42,570,574	46,430,870
2034	10,192,756	11,401,106	1,208,350	92.90%	92.30%	29,997,605	33,366,963
2035	8,947,548	10,162,166	1,214,618	95.60%	95.10%	18,701,993	21,589,863
2036	7,350,188	9,027,599	1,677,411	97.80%	97.30%	9,558,544	12,058,161
2037	6,169,217	6,940,582	771,365	99.70%	99.20%	1,376,076	3,488,820
2038	6,333,421	7,165,638	832,217	100.00%	100.00%	0	0
2039	6,535,859	7,403,119	867,260	100.00%	100.00%	0	0
	179,104,342	194,614,574	15,510,232				*

\* the present value of the 15 year additional cost would be approx. \$8.1M