

**KNOX COUNTY RETIREMENT AND PENSION BOARD**

**May 12, 2023**

The Knox County Retirement and Pension Board met in special session on Friday, May 12, 2023, at 10:30 A.M. in Room 640, City-County Building, Knoxville, Tennessee.

The following members were present: Chairman Chris Caldwell, Proxy for Mayor Jacobs, Commissioner Larsen Jay, Vice Chairman, Commissioner Richie Beeler, Secretary, Commissioner Terry Hill, Mr. Chris Simons, Mr. Zac Fullerton, Mr. Matthew Schlosshan and Mr. Jim Snowden. Commissioner Kyle Ward was absent.

Also present at the meeting were:

USI Consulting Group: Mr. Bob Cross, Ms. Brenda Trollope and Mr. Ralph Lehman

Legal Counsel: Ms. Ashley Trotto, Mr. Bill Mason, Ms. Stephanie Coleman and Ms. Sarah Jarrard

Retirement Staff: Ms. Jennifer Schroeder, Ms. Savannah Russell and Ms. Faith Sullivan

Others in Attendance: Mr. Jeremy McCord, KCSO

**IN RE: CALL TO ORDER**

Chairman Caldwell presided and called the meeting to order.

**IN RE: CONSIDERATION OF DEFINED CONTRIBUTION INSTITUTIONAL SHARES COMMUNICATION**

Mr. Simons reported that the investment committee recommendation was included in the packet (attached). USI proposed to charge participants retiring after August 1st, 2023, \$60 per year if they elected installment payments. Currently, USI charges nothing to retirees. USI absorbed these costs in the past and won't be able to continue doing so. This is due to investments moving to iShares. Fees would not apply to current retirees. USI will continue to absorb approximately \$28,000 in annual costs for participants who retired prior to August 1, 2023. Commissioner Jay asked if there are fees assessed with lump sums. Mr. Simons responded that there would be a one-time \$60 fee for lump sums. Mr. Simons then reported that Ms. Schroeder reminded the investment committee that the board currently absorbs the distribution fees for the defined benefit plan retirees. After discussion, Mr. Simons made a motion to approve absorbing the cost of the \$60 annual fee for participants retiring and electing installment payments for the period of August 1st, 2023 through July 31st, 2024. Mr. Simons further moved the absorption of the distribution fee for future retirees be reconsidered by the investment committee and board in spring 2024. The motion was seconded by Commissioner Jay. All members present voted in favor. The motion passed unanimously.

**IN RE: DISCUSSION OF THE UNIFORMED OFFICERS PENSION PLAN**

Ms. Schroeder reported that at the last board meeting the members requested a special called meeting to discuss how the filing of a salary suit by the Sheriff would affect the UOPP and its funding. Commissioner Jay stated that it would be crucial for the Commission while having budget discussions to have a prepared summary of UOPP. Ms. Schroeder stated that new quarter summaries would be provided at the regularly scheduled May board meeting and would be able to be sent to commissioners before budget discussions on Monday.

Mr. Cross stated that USI was asked by the Board to look at the impact of a 30% increase in the salaries of UOPP participants. There are two forms of impact: individual and County impacts. Mr. Cross presented the benefit analysis of individual pensions (attached). Mr. Cross reviewed summary of assumptions for the UOPP plan, average benefit progression according to retirement age, social security benefits and review of total retirement income. Mr. Cross then reviewed the impact of a significant pay increase in 2023 (slide 13 and 14). Scenario 1 would be the case of compensation expected to grow at 3% annually over the course of the UOPP participant's career. Scenario 2 would illustrate compensation if an increase of 30% occurred during 2023 and then 3% thereafter.

Commissioner Hill asked if a retiree at the age of 55 with 30 years of service had the same health insurance regardless of their retirement plan. Chairman Caldwell replied that if they are the age of 55 with 30 years of service, they would qualify for retiree health coverage and the County would pay 30% of the single health care insurance rate and the participant would then be responsible for the difference until they qualify for Medicare. Ms. Schroeder stated that the insurance is the same regardless of their retirement plan. Mr. Cross stated that one of the biggest impediments of retiring before the age of 65 is health coverage.

Mr. Cross reviewed the 20-year projections between 2023 through 2043. Mr. Cross presented the actuarially determined contributions (ADC) and the current funding ratio without increasing officer salaries by 30%. Chairman Caldwell reiterated the ADC is what the County is required to fund each year. Commissioner Jay asked Mr. Cross to confirm that the 2023 ADC of \$10.4 million is expected rise to ~\$16.65 million over the course of 20 years without the salary suit. Mr. Cross and Chairman Caldwell agreed, so long as the assumptions were in line with experience. Mr. Cross stated that USI recently acquired a company named Finley in Nashville. The actuary for that company is also the actuary for the state of Tennessee and he reviewed these projections and agreed with the data presented. Chairman Caldwell explained that ADC considers other assumptions, including a 7% return, raises of 3% to 4%, retirement age, and the mortality rate. If any of those assumptions are different, the ADC can fluctuate depending on how drastic those assumptions are off. Mr. Simons observed the funding ratio is currently hovering around 60%. Mr. Cross responded that the 20-year projection of ADC and funding ratio is also due to the real lifespan of the UOPP plan. Commissioner Jay asked why ADC jumped significantly between the years of 2023 and 2027. Mr. Cross answered that the jump was due, in part, to the smoothing process and the change in the applicable mortality table. Commissioner Jay stated his understanding that generally people are retiring sooner and are living longer.

Mr. Cross reviewed pension liabilities and the GASB funding ratio. He noted that the state looks at the funding status and that 60% is an important threshold. Currently, the funding ratio for UOPP is hovering around 60% and then increases after 2027 due to actuarial assumptions. The key to funding status is the continued County contributions to the plan. Mr. Cross stated that in the past, Knox County has been fiscally responsible with all of their pension plans and has always contributed 100% of the ADC, as required by state law. Mr. Cross then reviewed the impact of increasing officer salaries by 30%. By increasing salaries

30%, there would be an increase in ADC of \$60 million over 20 years. Chairman Caldwell brought attention to pension liabilities increasing by \$75 million over the same 20-year period. Chairman Caldwell noted that when S&P or Moody's does a bond rating, they look at the liabilities on the books. Since the County pays their portion of contributions, that number has been positive. Commissioner Jay asked what the state requires for funding ratios. Mr. Cross stated that the threshold for the State of Tennessee is 60%. If a plan is less than 60% funded, it cannot implement benefit enhancements without state approval. There would be a period of time when the funding ratio status would drop below 60% with the 30% increase in salaries. Commissioner Jay asked if the state would let you do that. Mr. Cross explained that the State of Tennessee says that if the funding status does drop below 60% that the plan would need approval for any increase in pension benefits. Mr. Cross stated that USI believes that the UOPP plan has been actuarially sound due to the continuous contributions of the County. As long as the County contributes the necessary ADC, the discussion then becomes what resources they would need to meet that required ADC number.

Commissioner Jay asked what the upfront cost for the 30% salary increase would be. Chairman Caldwell answered it would be an additional \$13.5 million in the first year for salary and benefits. The gross amount of change is \$17 million if you don't account for what has already been budgeted. The net amount is \$13.5 million only for the first year; not including years 2 through 20. Commissioner Jay reiterated that it is \$13.5 million in additional funding beyond what is proposed if the 30% increase was made. It would cost \$60 million over 20 years for pension benefits. Chairman Caldwell stated the county would still be obligated to pay the additional \$57 million over the years 2 through 20. Commissioner Hill asked what would happen if the officers got 5% instead of 30%. Chairman Caldwell answered that in the assumptions they account for 3% increase year to year. Any salary increases above 3% would have a cost impact on ADC. Commissioner Beeler asked about the funding currently in the budget. Commissioner Caldwell answered that the current funding in UOPP is \$10.5 million without the 30% increase. The current budget proposes a 3% increase in salaries and funding for all 58 vacant positions. The \$13.5 million is only for year one in addition to the \$10.5 million already in the budget. Commissioner Jay asked if going down that road would be committing to the \$60 million over 20 years. Chairman Caldwell responded that once the decision is made, it is permanent. If the county fails to fund it in any given year the state can withhold any shortfall from taxes otherwise apportioned to County on a first dollar basis and pay that amount to the UOPP Trust. Commissioner Jay asked if there was a scenario to buy out UOPP participants and possibly convert them to STAR. Ms. Schroeder stated that is one scenario that was considered by the advisors.

Mr. Mason presented the history of the UOPP plan and reviewed UOPP benefit terms. He stated that the voters closed UOPP by referendum, with UOPP to remain in effect for officers in the UOPP plan, as of 12/31/2013. Commissioner Jay asked why the UOPP plan was put on the ballot to close. Chairman Caldwell answered that it was because of cost of the plan. Commissioner Hill referenced the prior City and County school's merger, where the two retirement plans were unequal, which may have impacted the voters' decision to close UOPP. Chairman Caldwell stated that during that time frame there was an increase of closing pension plans due to cost considerations.

Mr. Mason stated that the Charter makes the Board responsible for the administration of UOPP and empowers the Board to adopt changes to keep the plan financially sound. He summarized the state law requirements of funding UOPP.

Mr. Mason reminded the Board of the UOPP Valuation Results as of January 1, 2023. In the April 2023 Board meeting, the Board accepted that UOPP valuation. The UOPP funded status was 63% with the total pension liabilities of \$316 million. That is an increase of \$40 million over 2022. ADC was \$10 million which was an increase of \$2 million over 2022 ADC. UOPP liability has steadily increased while the funded ratio has declined. Officers' active in UOPP have steadily declined while ADC has increased. Experience shows that UOPP officer compensation has grown more than the assumed 3% annually.

Mr. Mason noted the possible contested salary suit, stating that the Sheriff announced that he will file a salary suit if the County budget does not include a 30% increase for officers (10% for officers ranking above captain).

Mr. Mason presented the potential UOPP impacts if a salary suit resulted in a 30% increase in officer salary. Based on USI's estimates, the total increase in County contributions over the next 20 years would be approximately \$60.2 million. The total increase in GASB expense over the next 20 years would be approximately \$75.3 million. The GASB funded ratio would drop below 60% based on current market values. The County contribution as of 1/01/2024 would increase to \$15 million from \$10 million as of 1/1/2023. Commissioner Hill questioned if this increase would necessarily be pensionable. Mr. Mason answered that it would be a possibility that a judge may decree that the 30% increase would not be pensionable due to the fact of this exponential increase of funding needed. Commissioner Jay stated that there could be further legal action taken to define compensation as it relates to pension benefits.

Mr. Cross explained that the GASB ratio is determined by the market value of assets. As a trend, that ratio has steadily improved. Currently, the UOPP plan is actuarially sound.

Mr. Schlosshan asked if the salary suit was successful, could there be an amended requirement for the employee contributions to be increased to keep the plan actuarially sound. Mr. Mason answered that the dollar amount would increase due to their compensation but the employee 6% contribution is a fixed amount that would need voter approval to change. Ms. Schroeder clarified that a UOPP participant only contributes 6% until they meet 30 years credited service. Mr. Simons asked if UOPP participants can contribute more than 6%. Mr. Mason stated that no additional contributions are permitted. Chairman Caldwell noted that there are approximately 200 civilian and 350 STAR positions in the Sheriff department. An increase of 6% to those who contribute to a Defined Contribution plan would have an increased impact of \$1.2 million. Salary increases do not have a significant impact on DC plans as it would have on the UOPP plan. Mr. Cross stated that driven by the actuarial assumptions, the interest rate was dropped to 7% from 7.5% as a conservative measure. This would decrease the funded ratio and increase the liabilities.

Mr. Mason presented various options for discussion: do nothing; amend UOPP to cap compensation growth at 3% per year; amend UOPP to modify the COLA; or hard freeze to the UOPP by referendum.

The Board discussed considerations and consequences of Option 1.

Option 2, a 3% cap on UOPP compensation growth would require a plan amendment. This change would have no effect on salaries actually paid officers but would limit pensionable compensation growth for UOPP purposes. Mr. Mason provided an example of how an Officer's benefit would be calculated if the 3% cap were applied. This option would restore the original UOPP expectation of 3% Compensation growth. The Board discussed considerations and consequences. Mr. Simons asked about the applicability of this option if the salary suit was unsuccessful. Mr. Mason replied that this option refers back to the original idea that compensation should be increased by 3% per year and is not necessarily related to the salary suit but is a broader alternative for maintaining or enhancing fiscal stability.

Option 3 considers eliminating, capping, or reducing COLAs. The Board discussed alternatives for modifying COLAs, including considerations and consequences thereof.

Option 4 to hard freeze UOPP would require a referendum. The Board discussed considerations, recognizing the freeze could not be accomplished prior to 2025.

Commissioner Jay stated that option 4 may trigger a tremendous wave of retirements in the UOPP plan. Mr. Schlosshan stated that with option 4, there would be a guaranteed mass exodus of UOPP officers. With already 150 vacant correction positions and 30 vacant patrol positions, a mass retirement of those officers would cripple the Sheriff department. 89 UOPP participants will be eligible to retire by the end of 2023 with 75 of those able to retire as of July 1, 2023.

Mr. Cross inquired about the salary suit process. Chairman Caldwell responded that in this salary suit process the Knox County law department would recuse themselves due to obvious conflict of interest issues. Outside counsel will be hired by both the Sheriff and Mayor. The Sheriff will then file the salary suit in criminal court. Then, a judge would be assigned to hear the suit, though a judge may recuse themselves and another judge would have to be assigned. The two parties have a 30-day time period to mediate, then will be brought to an expedited hearing that tends to last between 2 to 3 months. Commission has to approve the budget before the Sheriff can file the salary suit. Commissioner Beeler stated that the Commission has nothing to do with the salary suit and if the case is not adjudicated within 90 days, then it cannot be retroactive and cannot be effective until the next fiscal year. Commissioner Jay stated that if the salary suit was deemed to be successful, it would most certainly cause a property tax increase. There was discussion about the timing of the County budget, elections, property tax dates, etc. Commissioner Beeler stated that suits are to be filed within 30 days of Commissions approval of the budget. The reason being that it would be burdensome to bear the increase in salary and benefits without the funding especially since it cannot be retroactive. Chairman Caldwell stated that contested salary suits within government entities are very uncommon.

Commissioner Jay questioned if buying out participants in UOPP would be an option. Mr. Cross stated that that option would have a major upfront cost. Although, that cost would be recouped in savings overtime. Ms. Schroeder stated that there was also a voluntary workforce reduction done in 2017 and 2019. Commissioner Jay asked if the state has a plan equivalent for officers. Mr. Cross answered that there is a

state retirement system for officers (TCRS). However, there is a low probability that UOPP participants would be willing to voluntarily move to the state retirement system. Ms. Schroeder stated that the County and Sheriff would have to move to the state retirement system as a group. The Schools had a legislative difference that allowed them to move to the state plan without the County.

Commissioner Hill asked Mr. Schlosshan if he had an opinion regarding the options that were already presented. Mr. Schlosshan stated that option 3, reducing COLAs, may open up the Board to lawsuits from retirees. Mr. Mason stated that there were lawsuits regarding COLAs in the past (Chattanooga Firefighters) and Mr. Schlosshan's opinion in regard to possible officer reaction would be a fair assumption. Mr. Schlosshan asked for clarification on option 2 capping UOPP compensation growth at 3% per year. Officers would get the raise, but only 3% of any raise received would be pensionable. Mr. Schlosshan stated that he would not be in favor of options 3, reducing COLAs, or 4, a hard freeze. He would entertain option 2, capping UOPP compensation growth at 3%, for the purpose of maintaining the financial soundness of the UOPP plan. Commissioner Jay explained that the Board was dealt this matter and did not cause this predicament. However, the question is whether to make those changes before a salary suit is filed or to address it when a judge issues a judgment. Mr. Simons commented that capping salary increases for pension benefits should have been in the original plan document to avoid situations like these. Chairman Caldwell stated that the UOPP plan document assumed a 3% increase each year, but officers are retiring earlier and living longer. Therefore, it has drastically increased the liabilities in the plan.

Chairman Caldwell suggested the Board select the options they are most interested in and allow Ms. Schroeder to put together information with the actuary and counsel on how those options would be administrated and the potential cost impacts. Then, another Board meeting could be scheduled to further discuss those options in detail.

Commissioner Beeler asked to explore more "hard data" with options 2 and 3. Commissioner Hill questioned what would be fair for anybody in the UOPP plan. In order to keep the plan fiscally sound and to allow participants to continue to be paid, exploring fair options and looking at more details would be best in order to make that decision. Mr. Schlosshan questioned if opening UOPP for new participants to contribute at a higher rate would lessen the cost to the County. Chairman Caldwell replied that type of change would have to be placed on the ballot for voter approval. Additionally, there are very few new defined benefit plans being opened currently due to the cost considerations. Ms. Schroeder stated that with the "hard freeze" the current UOPP participants would have a hybrid benefit in retirement with portion of their benefit being defined benefit and a portion being defined contribution. With the "hard freeze", everyone would contribute to the STAR plan, or a similar defined contribution plan. For illustration purposes only, Chairman Caldwell stated that eliminating COLAs for all participants would reduce next year's ADC from \$10million to about \$3 million. There was further discussion around other factors to reduce ADC and if goals should be set to reduce that.

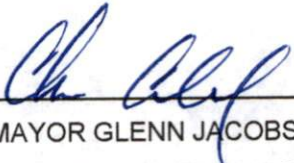
A motion was made by Commissioner Jay to direct the administration to meet with and use all tools necessary to explore options 2 and 3 with the goal of identifying cost saving recommendations to make the

UOPP plan more fiscally sound. Additionally, to schedule further Board meetings to discuss those options for UOPP amendments in greater detail. The motion was seconded by Mr. Simons. All members present voted in favor. The motion passed unanimously.

Ms. Schroeder stated that all 3 presentations would be emailed to the Board members. Those are attached to these minutes.

**ADJOURNMENT**

Chairman Caldwell asked if there was a motion to adjourn. Commissioner Jay made a motion to adjourn, which was seconded by Commissioner Beeler, and the meeting was adjourned.

  
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MAYOR GLENN JACOBS, CHAIRMAN  
BY PROXY, CHRIS CALDWELL

  
\_\_\_\_\_  
COMMISSIONER RICHIE BEELER, SECRETARY

1. Investment Committee Summary and Recommendation
2. Benefit Analysis Presentation
3. Smoothed ADC with & without 30% Increase
4. Special Board Presentation (Salary Suit)

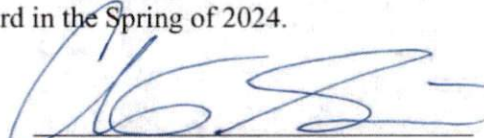


**Investment Committee  
Summary and Recommendations  
May 9, 2023**

Defined Contribution Plan Distribution Fees:

USI presented a proposal to charge Retirees a \$60 per year fee for administration of distributions, including preparation of Forms 1099-R, for participants retiring on or after August 1, 2023, who elect to receive installment payments. Mr. Cross noted that, with the change to iShares, USI would not continue to absorb this fee and that it must either be covered by the Board or passed on to Retirees. Mr. Cross confirmed that USI would continue to absorb the fee for ~475 current Retirees and those who retire prior to August 1, 2023. Ms. Schroeder reminded the Committee that the Board currently absorbs the distribution fees for Defined Benefit Plan Retirees.

**Recommendation:** The Investment Committee recommends that the Board consider and approve absorbing the cost of the \$60 annual fee for participants retiring August 1, 2023 through July 31, 2024 who elect installment payments. Absorption of the distribution fee for future Retirees to be reconsidered by the Investment Committee and Board in the Spring of 2024.



Chris Simons, Chairman



**MAY 2023**  
**KNOX COUNTY EMPLOYEE BENEFIT SYSTEM  
UNIFORMED OFFICERS PENSION PLAN  
RETIREMENT BENEFIT COMPARISON**

USI Consulting Group | [www.usicg.com](http://www.usicg.com)



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## REVIEW OF BENEFITS AT RETIREMENT

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### Summary of Data and Assumptions

- As of 7/1/2023, there are approximately 75 UOPP participants who have met the age and service requirement to commence an unreduced retirement benefit.
  - The average age of this group is 55.5.
  - The average service of this group is 29 years.
  - The average 2022 compensation for this group was \$73,700.
- To illustrate the benefit at retirement, and growth due to the annual Cost-of-Living adjustment, we will assume the following:
  - Participant retires with 30 years of service and final average compensation of \$75,000.
  - Participant receives an annual 3% Cost-of-Living adjustment following commencement.
  - Benefit is payable as a life annuity for a single participant and a 50% J&S annuity for a married participant.
  - We vary the participant's current age for sensitivity.

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### Benefit Progression by Age at Retirement



	55	60	65	67
Retiring at age 55	56,250	65,209	75,595	80,199
Retiring at age 60		56,250	65,209	69,180
Retiring at age 65			56,250	59,676

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## REVIEW OF BENEFITS FROM SOCIAL SECURITY

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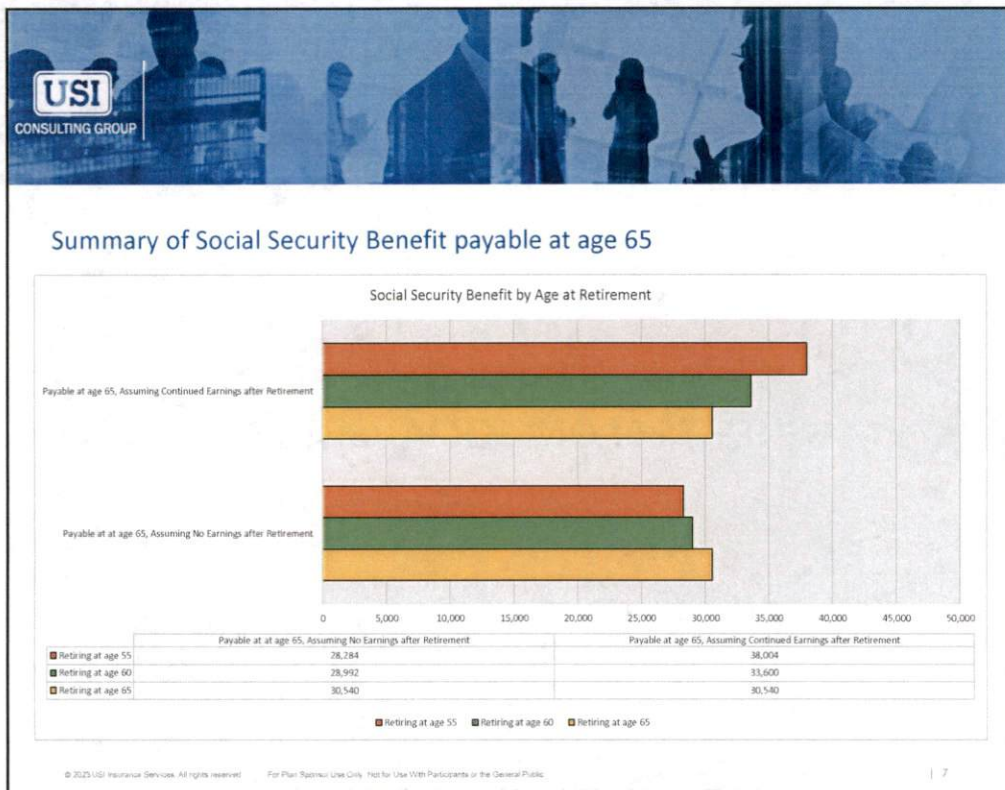
### Summary of Assumptions

➤ To illustrate the benefit at retirement, and growth due to the annual Cost-of-Living adjustment, we will assume the following:

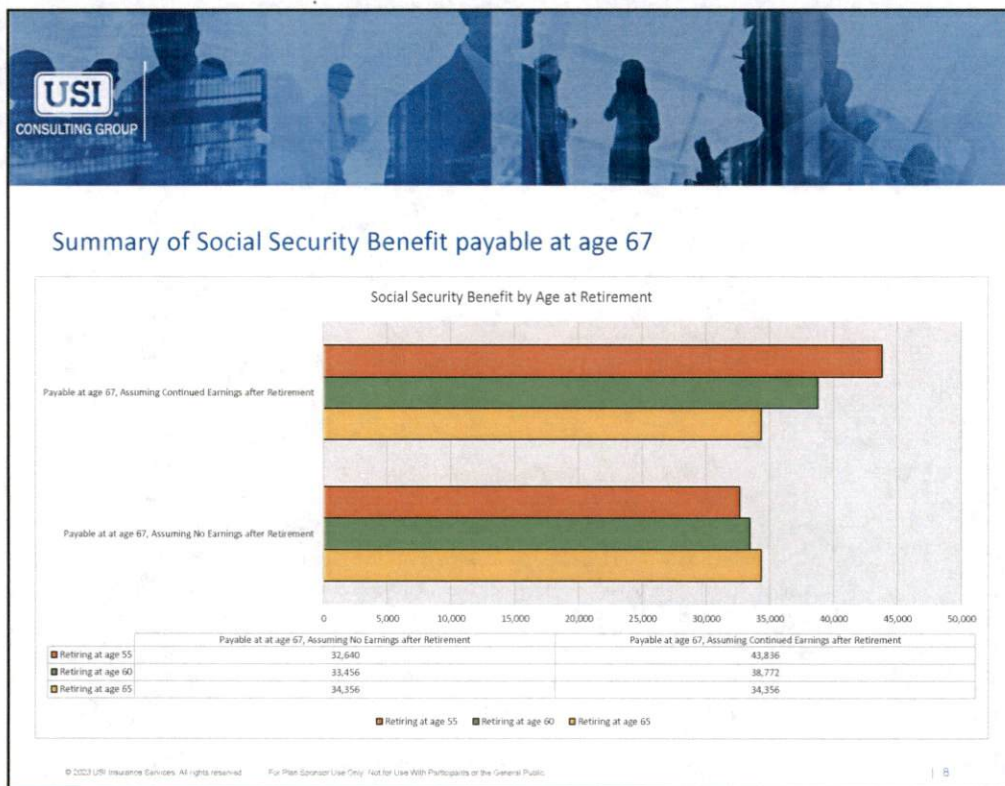
- Compensation history starts at age 20.
- Participants assumed to be making \$75,000 during 2022.
- Retirement from UOPP assumed during 2023.
- Scenario 1 – No Continued Earnings After Retirement.
  - Assumes participant leaves employment with UOPP and does not pay into Social Security under any other employment.
  - Assumes participant draws Social Security at age 65 (first chart) or 67 (second chart).
- Scenario 2 – Earnings continue annually until Social Security Retirement.
  - Assumes participant leaves employment with UOPP and continues to pay into Social Security through subsequent employment.
  - Assumes compensation level stays constant.
  - Assumes participant draws Social Security at age 65 (first chart) or 67 (second chart).
  - CPI and Social Security wage base are also assumed to grow at 3% annually.

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## REVIEW OF TOTAL RETIREMENT INCOME

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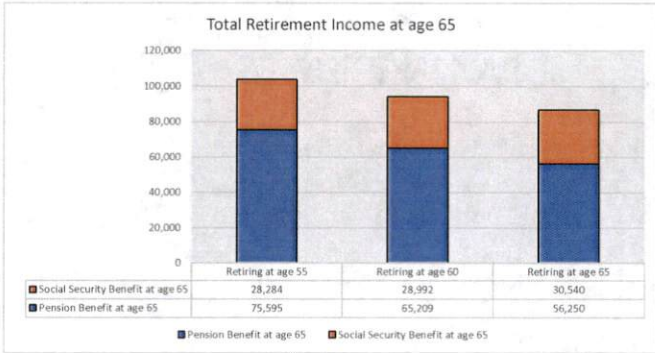
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### Summary of Total Retirement Income at age 65

➤ The following chart illustrates the total retirement income for a participant retiring during 2023 at age 55, 60, or 65. Participant assumed to make \$75,000 during 2022.


➤ No continued employment assumed after retirement for Social Security purposes.



	Retiring at age 55	Retiring at age 60	Retiring at age 65
■ Social Security Benefit at age 65	28,284	28,992	30,540
■ Pension Benefit at age 65	75,595	65,709	56,250

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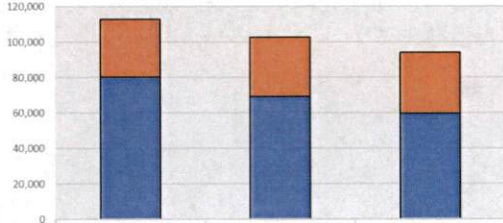


### Summary of Total Retirement Income at age 67

➤ The following chart illustrates the total retirement income for a participant retiring during 2023 at age 55, 60, or 65. Participant assumed to make \$75,000 during 2022.

➤ No continued employment assumed after retirement for Social Security purposes.

**Total Retirement Income at age 67**



	Retiring at age 55	Retiring at age 60	Retiring at age 65
■ Social Security Benefit at age 67	32,640	33,456	34,356
■ Pension Benefit at age 67	80,199	69,180	59,676

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## IMPACT OF PAY INCREASES

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### Summary of Data and Assumptions

- To illustrate the benefit at retirement, and growth due to the annual Cost-of-Living adjustment, we will assume the following:
  - Participant is currently age 50, making \$75,000 in 2022.
  - We will assume the participant has 30 years of service at retirement so that we can isolate the increase in benefit solely due to compensation increases.
  - Scenario 1: compensation is expected to grow at 3% annually
  - Scenario 2: compensation is expected to increase by 30% during 2023 and then 3% thereafter.

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## REVIEW OF 20-YEAR PROJECTIONS

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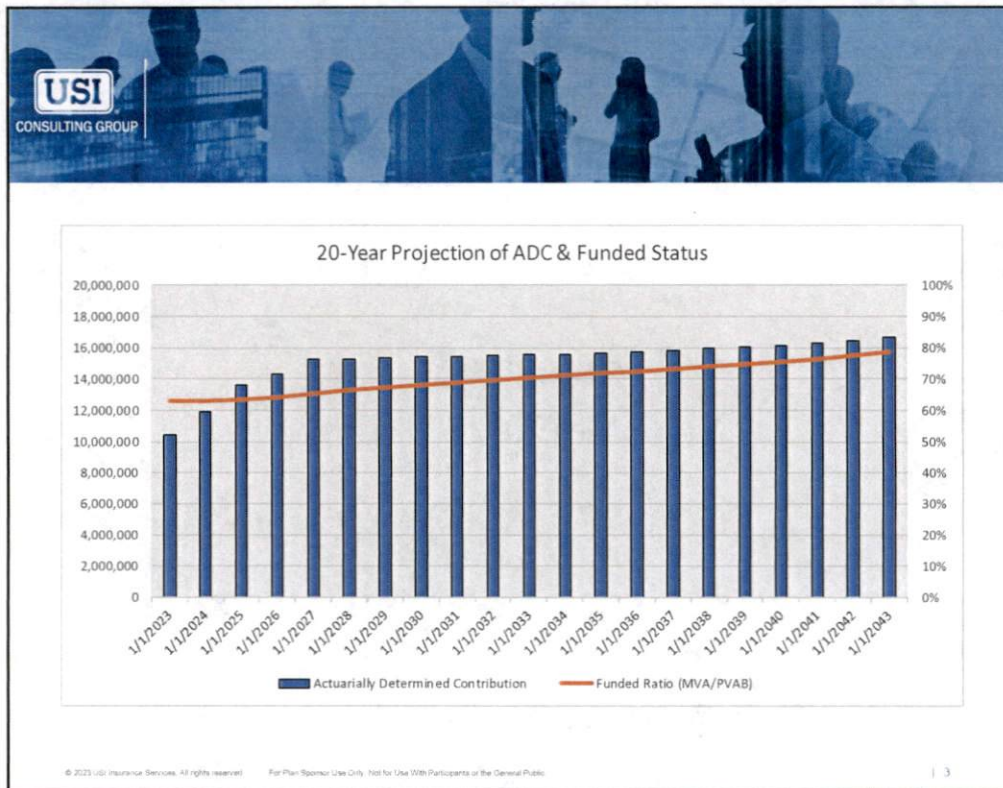


### 20-Year Projection Results under Current Funding Policy

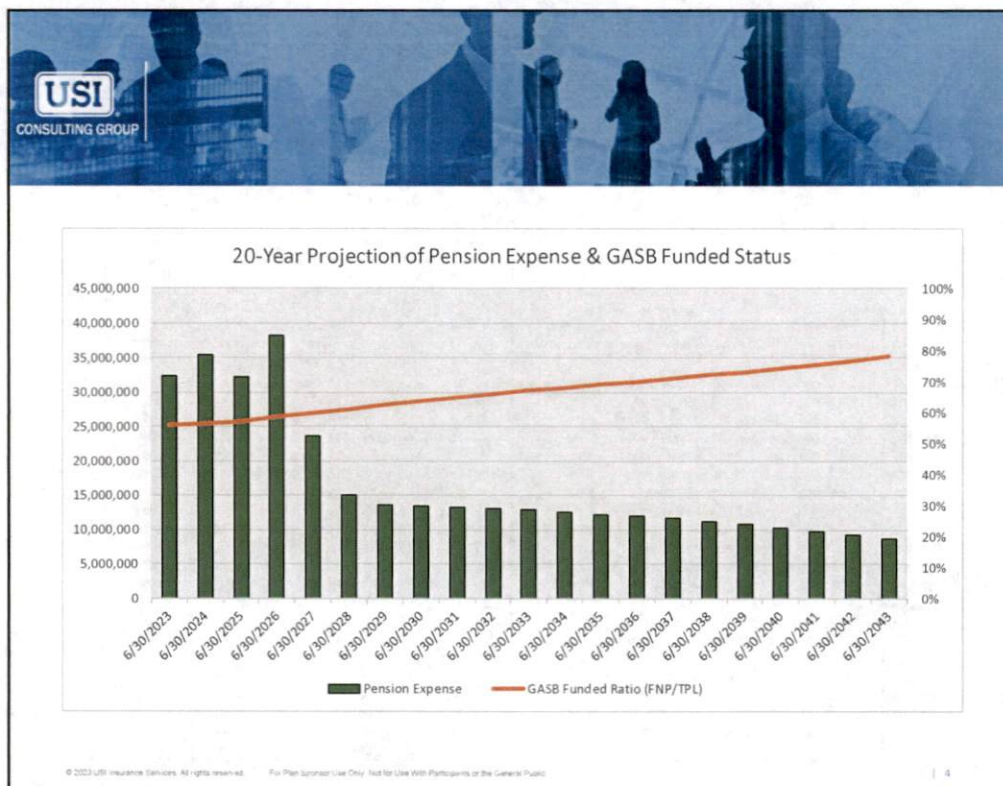
Plan Year Beginning	Funding				Plan Year Ending	Accounting			
	Actuarially Determined Contribution	Market Value of Assets (MVA)	Present Value of Accrued Benefits (PVAB)	Funded Ratio (MVA/PVAB)		Pension Expense	Plan Fiduciary Net Position (FNP)	Total Pension Liability (TPL)	GASB Funded Ratio (FNP/TPL)
1/1/2023	10,484,000	200,254,000	316,378,000	63%	6/30/2023	32,510,000	200,764,000	358,700,000	56%
1/1/2024	11,940,000	209,813,000	332,575,000	63%	6/30/2024	35,354,000	210,155,000	371,521,000	57%
1/1/2025	13,658,000	220,341,000	346,420,000	64%	6/30/2025	32,241,000	220,523,000	383,953,000	57%
1/1/2026	14,374,000	232,127,000	359,987,000	64%	6/30/2026	38,300,000	232,210,000	395,991,000	59%
1/1/2027	15,253,000	244,256,000	373,336,000	65%	6/30/2027	23,617,000	244,258,000	407,610,000	60%
1/1/2028	15,310,000	256,919,000	386,479,000	66%	6/30/2028	15,083,000	256,772,000	418,715,000	61%
1/1/2029	15,370,000	269,111,000	399,099,000	67%	6/30/2029	13,650,000	268,812,000	429,134,000	63%
1/1/2030	15,413,000	280,808,000	411,036,000	68%	6/30/2030	13,523,000	280,344,000	438,851,000	64%
1/1/2031	15,458,000	291,967,000	422,311,000	69%	6/30/2031	13,319,000	291,310,000	447,756,000	65%
1/1/2032	15,507,000	302,524,000	432,787,000	70%	6/30/2032	13,095,000	301,693,000	455,816,000	66%
1/1/2033	15,561,000	312,494,000	442,467,000	71%	6/30/2033	12,858,000	311,357,000	462,850,000	67%
1/1/2034	15,618,000	321,583,000	450,872,000	71%	6/30/2034	12,607,000	320,191,000	468,753,000	68%
1/1/2035	15,689,000	329,893,000	458,141,000	72%	6/30/2035	12,306,000	328,208,000	473,486,000	69%
1/1/2036	15,771,000	337,345,000	464,117,000	73%	6/30/2036	11,992,000	335,428,000	477,035,000	70%
1/1/2037	15,861,000	344,079,000	469,041,000	73%	6/30/2037	11,646,000	341,825,000	479,308,000	71%
1/1/2038	15,949,000	349,842,000	472,326,000	74%	6/30/2038	11,273,000	347,297,000	480,191,000	72%
1/1/2039	16,038,000	354,701,000	473,999,000	75%	6/30/2039	10,843,000	351,948,000	479,736,000	73%
1/1/2040	16,159,000	358,817,000	474,245,000	76%	6/30/2040	10,364,000	355,837,000	477,950,000	74%
1/1/2041	16,288,000	362,144,000	472,817,000	77%	6/30/2041	9,867,000	359,029,000	474,851,000	76%
1/1/2042	16,452,000	364,868,000	469,959,000	78%	6/30/2042	9,304,000	361,663,000	470,502,000	77%
1/1/2043	<u>16,650,000</u>	<u>367,075,000</u>	<u>465,620,000</u>	<u>79%</u>	6/30/2043	<u>8,721,000</u>	<u>363,855,000</u>	<u>464,963,000</u>	<u>78%</u>
	<b>318,803,000</b>					<b>352,473,000</b>			

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## IMPACT OF 30% PAY INCREASE

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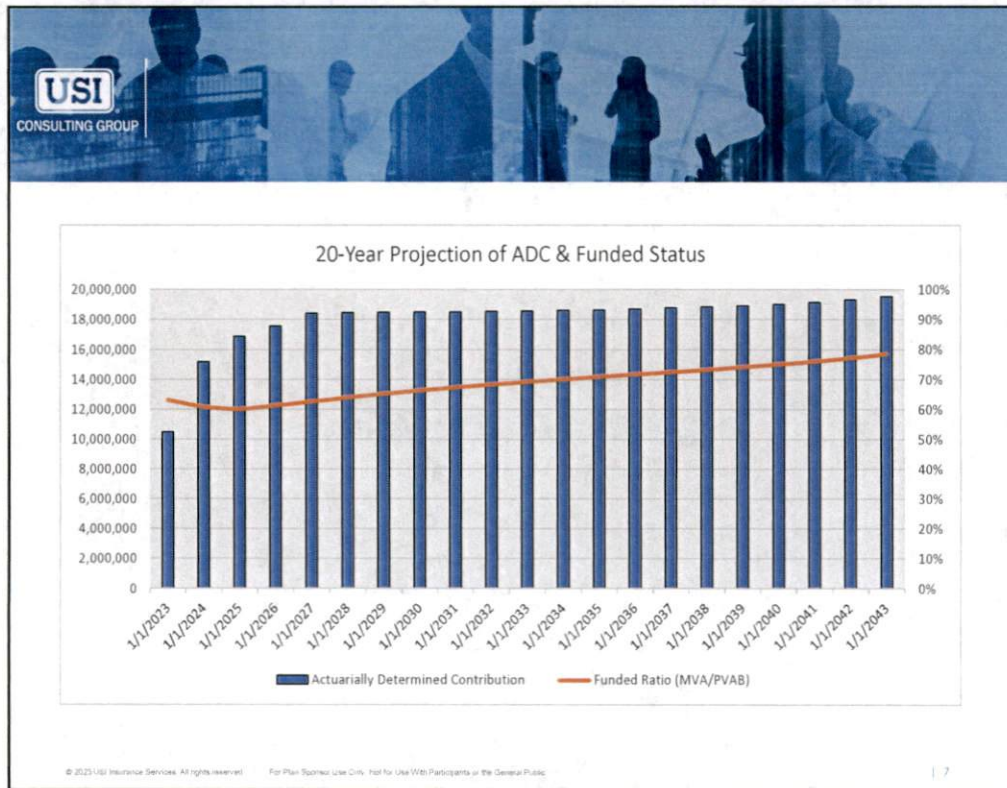


### 20-Year Projection Results under Current Funding Policy

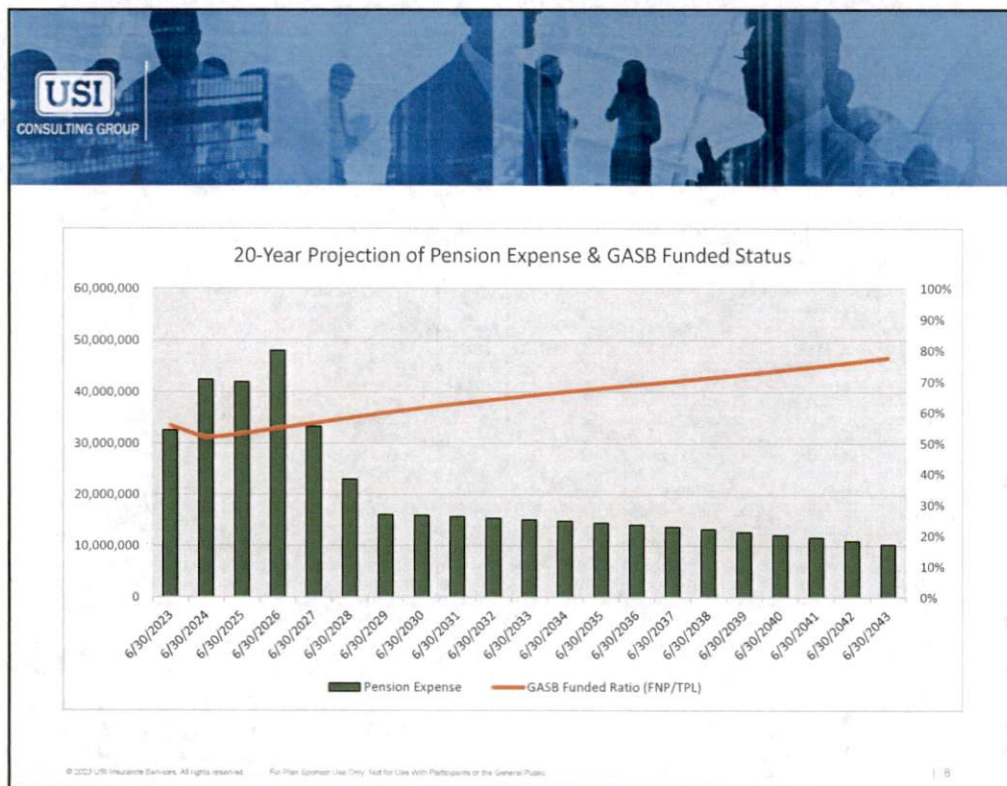
Plan Year Beginning	Funding				Plan Year Ending	Accounting			
	Actuarially Determined Contribution	Market Value of Assets (MVA)	Present Value of Accrued Benefits (PVAB)	Funded Ratio (MVA/PVAB)		Pension Expense	Plan Fiduciary Net Position (FNP)	Total Pension Liability (TPL)	GASB Funded Ratio (FNP/TPL)
1/1/2023	10,484,000	200,254,000	316,378,000	63%	6/30/2023	32,510,000	200,764,000	358,700,000	56%
1/1/2024	15,181,000	209,813,000	345,176,000	61%	6/30/2024	42,522,000	210,110,000	405,515,000	52%
1/1/2025	16,870,000	223,855,000	372,882,000	60%	6/30/2025	42,002,000	224,011,000	420,816,000	53%
1/1/2026	17,559,000	239,156,000	389,795,000	61%	6/30/2026	48,030,000	239,226,000	435,725,000	55%
1/1/2027	18,412,000	254,793,000	406,515,000	63%	6/30/2027	33,312,000	254,797,000	450,207,000	57%
1/1/2028	18,445,000	270,962,000	423,070,000	64%	6/30/2028	22,941,000	270,810,000	464,150,000	58%
1/1/2029	18,481,000	286,616,000	439,070,000	65%	6/30/2029	16,108,000	286,298,000	477,340,000	60%
1/1/2030	18,495,000	301,713,000	454,306,000	66%	6/30/2030	15,951,000	301,208,000	489,755,000	62%
1/1/2031	18,512,000	316,197,000	468,807,000	67%	6/30/2031	15,701,000	315,469,000	501,258,000	63%
1/1/2032	18,533,000	329,986,000	482,403,000	68%	6/30/2032	15,431,000	329,056,000	511,809,000	64%
1/1/2033	18,560,000	343,100,000	495,099,000	69%	6/30/2033	15,144,000	341,804,000	521,190,000	66%
1/1/2034	18,589,000	355,182,000	506,313,000	70%	6/30/2034	14,844,000	353,579,000	529,274,000	67%
1/1/2035	18,637,000	366,347,000	516,208,000	71%	6/30/2035	14,485,000	364,382,000	536,004,000	68%
1/1/2036	18,698,000	376,489,000	524,588,000	72%	6/30/2036	14,113,000	374,232,000	541,360,000	69%
1/1/2037	18,769,000	385,778,000	531,747,000	73%	6/30/2037	13,696,000	383,091,000	545,218,000	70%
1/1/2038	18,839,000	393,889,000	536,951,000	73%	6/30/2038	13,254,000	390,825,000	547,437,000	71%
1/1/2039	18,911,000	400,907,000	540,234,000	74%	6/30/2039	12,745,000	397,560,000	548,077,000	73%
1/1/2040	19,024,000	407,017,000	541,820,000	75%	6/30/2040	12,181,000	403,354,000	547,142,000	74%
1/1/2041	19,146,000	412,156,000	541,393,000	76%	6/30/2041	11,595,000	408,285,000	544,644,000	75%
1/1/2042	19,313,000	416,546,000	539,255,000	77%	6/30/2042	10,935,000	412,514,000	540,662,000	76%
1/1/2043	<u>19,523,000</u>	420,288,000	535,336,000	79%	6/30/2043	<u>10,254,000</u>	416,175,000	535,264,000	78%
	378,981,000					427,754,000			

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8

# UOPP Cost and Options

Knox County Retirement & Pension Board  
Special Meeting

May 12, 2023

1

## Law Enforcement

- This presentation considers fiscal aspects of UOPP
- Nothing detracts from our respect for the dedication and work of the Sheriff and Officers

2

## UOPP Adoption

3

- 2006 Fraternal Order of Police (FOP) proposed directly to Commission to write UOPP into Charter, the same as City's pension for fire and police officers
- Commission placed addition of UOPP Charter Section 7.05 on November 2006 referendum, which was approved by voters
- UOPP adopted by Board and Commission, effective July 1, 2007
- FY 2008 County issued \$57 million bonds; proceeds paid to UOPP trust to cover initial unfunded liability

3

## 2007 Charter Terms

4

- Like City pension, Charter Section 7.05 included:
  - UOPP Benefit formula using Average Compensation based on highest two 12-month, not necessarily consecutive, periods
  - Automatic 3% annual COLA (+ up to 1% based on CPI)
  - Normal Retirement at age 50 with 25 Years of Service
  - Fully subsidized 50% Spousal benefit
  - Officers contribute 6% for up to 30 years
- UOPP cost anticipated 3% annual Compensation growth

4

## UOPP Close

5

- 2012 Charter Review Committee resulted in referendum, approved by voters, to close UOPP to additional Officers
- UOPP to “remain in effect” for then current Officers, as of 12/31/2013
- STAR effective 1/1/2014 for new and rehired Officers

5

## Charter Requires Financial Soundness

6

- The Board is responsible for administration of UOPP
- Charter 7.05(E) directs that UOPP shall be administered by the Board “as otherwise provided in this Article 7”
  - Charter 7.02(b): “The intent of this Charter is to empower the [Board] to design, adopt, administer and place into effect a financially sound retirement system.”
  - Charter 7.04(B): “The Retirement Board is empowered and shall have all necessary power and authority to design, adopt and administer a financially sound retirement system.”

6

## State Law Requires Funding

7

- Per TN law, UOPP Funding Policy requires County to annually contribute at least 100% of ADC
- If 100% of ADC is not paid, TN Commissioner of Finance and Administration may withhold shortfall from taxes otherwise apportioned to County on 1<sup>st</sup> dollar basis and pay that amount to UOPP Trust
- If UOPP is less than 60% funded, the Board may not establish a “Benefit Enhancement” without approval of the State Treasurer

7

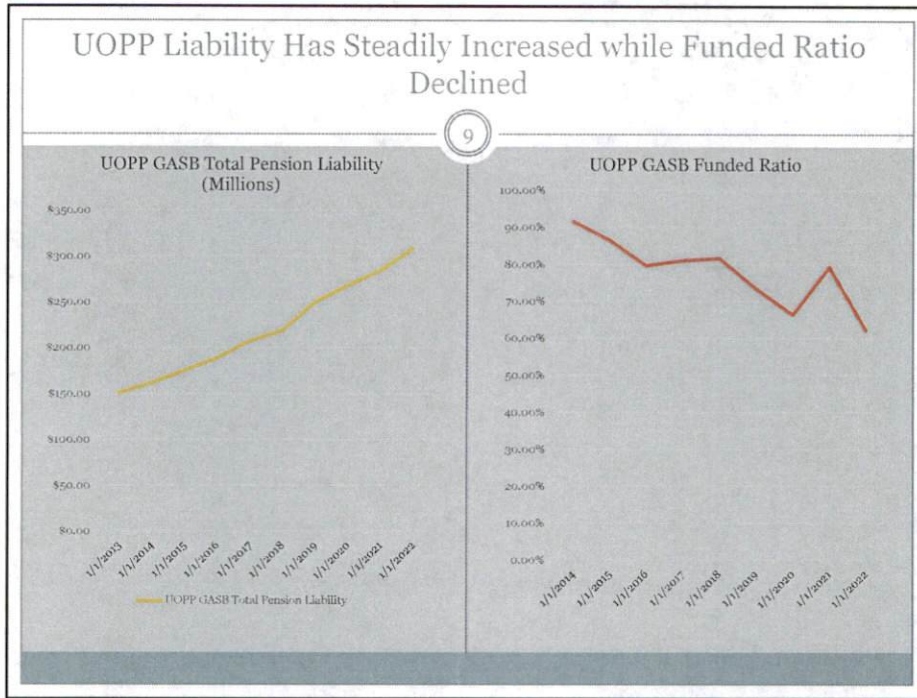
## UOPP Valuation Results as of January 1, 2023

8

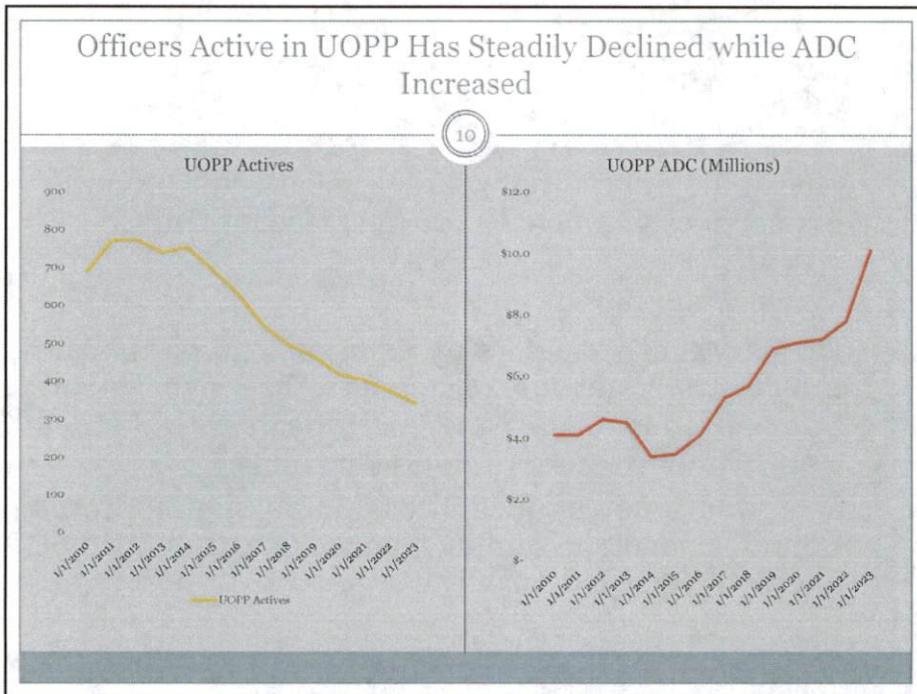
- Funded Status: 63%
- Total Pension Liability: \$316 million
  - Increase of \$40 million over 2022
- ADC: \$10 million
  - Increase of \$2 million over 2022 ADC

8

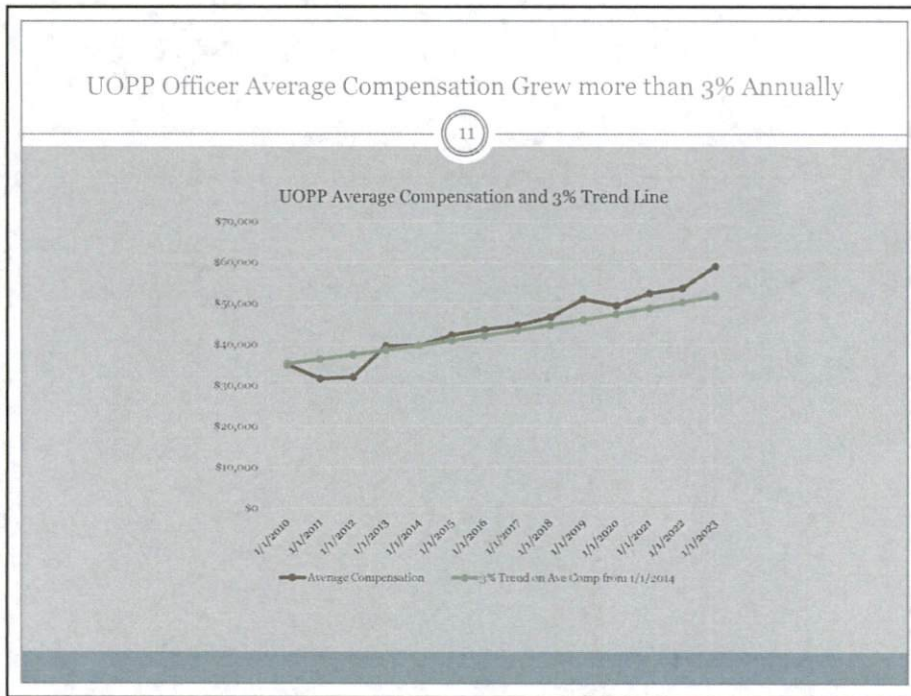




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11

### Possible Contested Salary Suit

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- Sheriff announced he will file a salary suit if County budget does not include 30% increase for Officers
  - 10% for Officers Captain and above
- Mayor proposed 8% increase
- If Salary Suit is successful, additional amounts paid to Officers might be considered UOPP pensionable Compensation, increasing ADC, decreasing funded status, and increasing unfunded liability
- Salary Suit may be filed after Commission approves County budget (assuming budget does not include Sheriff's requested increase)

12

## Potential UOPP Impacts of Salary Suit

13

- **If Salary Suit resulted in 30% increase**
  - Total increase in County Contributions over the next 20 Years: \$60.2 million
  - Total increase in GASB Expense over the next 20 Years: \$75.3 million
  - GASB Funded Ratio drops below 60% (based on market values)
  - County Contribution as of 1/01/2024 increases to \$15 million from \$10 million as of 1/01/2023

13

## Options for Discussion

14

1. Do Nothing
2. Amend UOPP to Cap Compensation Growth at 3%/year
3. Amend UOPP to Modify COLA
4. By referendum, Hard Freeze UOPP

14

## Option 1: Do Nothing

15

- Treat any salary increase, resulting from budget or Salary Suit, as pensionable UOPP Compensation
- Some considerations:
  - No Board action required
  - No change in UOPP administration
  - If Salary Suit successful at 30%
    - \$60 million increase in County Contributions over next 20 years
    - ADC increases by \$5 million in 2024
    - Potential decrease in funded status

15

## Option 2: Cap UOPP Compensation Growth at 3% per Year

16

- Using 1/2022 as base, 3% cap on UOPP Compensation growth
  - Amendment would have no effect on salaries actually paid Officers
  - Compensation used to compute UOPP retirement benefits would be multiplied by a percentage
    - Numerator: average total active UOPP Officer compensation from 1/2022 valuation, increased 3% annually
    - Denominator: average total active UOPP Officer compensation from annual valuation most recently adopted by the Board
  - For example, beginning June 2023 until the January 2024 valuation is accepted, the percentage would be 93%
    - $\$53,711 (2022 \text{ comp}) + 3\% = \$55,322; \div \$59,042 (2023 \text{ comp}) = 93\%$
  - Percentage would not change after retirement, would be announced annually, and would apply uniformly to retirees during next 12 months
- 6/30/2023 benefits of Officers then eligible to retire would be preserved

16

## Option 2: 3% Cap – Continued

17

- **Some considerations:**
  - Restores original UOPP expectation of 3% Compensation growth
  - Administrable with BENXL adjustments
  - Challenging to communicate details of computation
  - Perception of requiring Officers to contribute full 6% if UOPP benefit reduced by a percentage
  - Board position stronger if UOPP amendment adopted prior to filing of and decree in Salary Suit

17

## Option 3: Modify COLAs

18

- **Eliminate, cap, or reduce COLA**
  - Reduce or zero out 3% (plus 1%) COLA for future retirees
  - Prospectively reduce or eliminate COLA for current retirees
- **Some Considerations:**
  - Feasible to administer
  - May affect Retirees
  - Significant immediate savings
  - May cause a rush to retire by Officers currently eligible to retire, to preserve existing COLA

18

## Option 4: Hard Freeze UOPP

19

- **Freeze further accruals**
  - UOPP benefits would be “frozen” as of a certain date
    - No further pensionable Compensation recognized
    - No further credited service allowed
    - No further COLAs
- **Some Considerations:**
  - Leaves decision to voters
  - Requires referendum – could not be accomplished prior to 2025
  - UOPP benefit reduction for shorter service Officers
  - UOPP Officers could be allowed to participate in STAR for the remainder of their careers

19

## Considerations for Options via Amendment

20

- **Earliest effective date upon Board’s 2<sup>nd</sup> reading**
- **Amendments do not require additional funding of UOPP; therefore, Commission action not required**
- **Amendments do not foreclose Option 4 referendum**
- **To extent it is accurate that Officers and prospects currently prefer cash to benefits, UOPP amendments preserve County resources that can be allocated otherwise**

20

## Schedule

21

- Respect for Sheriff, officers and others, suggests Board should decide to act, or not, so that others can be aware of UOPP terms
- Board approved filing of notice for UOPP amendment April 24<sup>th</sup>, which permits but does not require, Board action
- Propose to meet with Sheriff to discuss Board options
- Possible First reading of any proposed amendment May 22<sup>nd</sup>
  - Actuarial impact statement required
- Possible Second reading on June 26<sup>th</sup>
  - Unless Special called meeting is scheduled earlier
- Action by June 30 would be reflected in FY 2023 GASB disclosures

21

## Applicable Case Law

22

- *Blackwell* permits modifications to a pension when necessary to protect/enhance fiscal or actuarial soundness - cannot adversely affect vested and accrued rights
- *Dyersburg* applied *Blackwell*, holding that modifications could be applied to participants who were not then eligible to receive normal retirement benefits
- *Frazier v. Chattanooga* held that COLA is not a vested or accrued financial benefit

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