



GENERAL SECRETARY-TREASURER

FRANK V. LÍMA**SENIOR TRANSITION TEAM****IAFF INTERNAL PENSION SYSTEMS****OVERVIEW**

The Pension subcommittee is charged with reviewing the pension systems administered by the IAFF. These systems impact the operations of the organization and fall under the constitutional authority and responsibility of the office of the General Secretary-Treasurer (GST). The committee has made recommendations for compliance and/or improvements considering best practices. The committee identified short-and long-term concerns.

The Pension subcommittee interviewed current and former IAFF employees, contractors, and consultants for other non-profit organizations on best practices, reviewed Pension committee reports, IAFF Executive Board minutes, IAFF Executive Board policies, the IAFF Executive Board Ethical Practices Committee (EPC) recommendations, Claims Committee Report, and consultant reports.

FINDINGS

The IAFF is responsible for two pension plans and a principal officers retirement plan. The first is available to all non-exempt employees represented by OPEIU Local 2. It is known as the "Employee" plan. Personnel in management and elected roles are participants in the "Staff" plan. The third plan is for the principal officers only and is referred to as the "Officers" plan. All employees and elected officers also have access to an IAFF 401(k) plan.

RECOMMENDATIONS**1. Move to Ad Hoc indexing **Under Consideration****

The current design of the employee and staff plans gives retirees an annual increase of 3% on their pension benefits. Average inflation was 1.73% over the last 10-year period. While inflation is an important benefit to have contained in the plan, it is the most expensive benefit contained within the IAFF pension plans. As past earned benefits cannot be changed, sharing risk with employees is difficult to do. One area it can be achieved is changing to Ad Hoc indexing. A policy can be put in place allowing the IAFF executive board to decide any yearly increase.

2. Redesign Early Retirement provision for the Staff plan **Under Consideration**

The second most expensive benefit of the staff plan is the early retirement provision which has recently been at the center of debate. All scenarios should have liability implications assessed. There seems to be a wide mix of interests trying to be achieved. Perhaps removing the early retirement provision and moving to an additional retirement component would allow a plan participant to retire at normal age 64 or after meeting a factor, for example. The factor is determined by adding the participant's age and years of service. This process helps to create flexibility when considering the different age categories that participants join the plan. If a member retires but does not meet the factor required, their age continues while the service time is frozen. They would then reach the factor in retirement or when they reach age 64. This is easy for participants to understand and to plan for.

3. Evaluate the costs of the pension plans to a consistent comparable **Under Consideration**

Contributions for the pension plans are 100% employer paid and liabilities change on an annual basis. It would be beneficial to have a matrix that compares the pension to a set variable. It can be the IAFF budget, overall salary costs or anything that makes yearly analysis consistent.

4. The plans should be viewed in a holistic manner as part of total compensation **In Progress**

The pension plans are a large part of the overall employee compensation package which involves many moving pieces. Any changes to pension plan benefits should be viewed by analyzing the impact on the total employee compensation plan. For example, if you increased the 401(k) provisions, which are jointly shared, it may then make it easier to reduce pension plan benefits that are the sole responsibility of the IAFF.

5. Develop a policy on/enhance how to record and index pension plan changes **In Progress**

There has been a lot of discussion recently over changes that were made to the plan historically that were not well known. To avoid confusion and dissention going forward, the official plan documents should have an appendix that lists the revisions and the dates they were implemented. Methods to file changes should be looked at for enhancements. A historical review should also be undertaken to ensure captured changes have been properly recorded and archived.

6. Develop a policy on both timing and procedure on the methods used to update pension plans In Progress

There should be a set period when the staff and employee pension plans and principal officer's retirement plan get evaluated in terms of design and sustainability. While the plan is evaluated annually in terms of funding, historically, evaluation seems to only occur when it becomes an issue with the IAFF Executive board. A policy that creates a review every four years regarding plan design would establish a disciplined approach. Additionally, allowing third party/staff recommendations to the Board can help alleviate any conflict concerns.

7. Provide education and training to board members from a fiduciary aspect In Progress

Fiduciary duty requires board members to stay objective, unselfish, responsible, honest, trustworthy, and efficient. Board members, as stewards of public trust, must always act for the good of the organization, rather than for the benefit of themselves. They need to exercise reasonable care in all decision making, without placing the organization under unnecessary risk. These are complex considerations and training in that area would show good governance.

8. Consider giving strategic responsibility of the various IAFF pension systems to one office Completed

There currently does not seem to be a focus at the strategic level on the IAFF pension plans and how they work in combination with other compensation benefits. Having an office working at a high level looking at all plans and benefits will ensure nothing falls through the cracks and the pension plans are viewed as they affect the organization.

9. Evaluate a more open dialogue with the membership on the IAFF pension plans and include appropriate updates In Progress

The IAFF pension plans have been openly discussed both within and outside the IAFF membership. Regular and transparent communication with the membership should be evaluated. There should be some frequency in communicating with IAFF members about the health of the plans.

10. Ensure all potential plan changes are considered with information from both a legal and an actuarial liability perspective Completed

While the IAFF Legal Department is consulted and helps develop the language on changes, the IAFF needs to better understand the ramifications of such adjustments. IAFF actuaries should be front and center on any changes to

pension benefits. It should be clearly shown what the liability ramifications and impact are for the plan.

11. Establish funding goals for each plan in relation to point number 3 considering the comfortable liability of each plan **In Progress**

The IAFF should create and maintain a policy for the level of funding with which the organization is comfortable. Setting a goal of percentage of payroll set to pension obligations and total funding for the pension plans will allow for better planning and a more consistent experience for the IAFF.

12. Evaluate all current 3rd party providers in terms of pension services **In Progress**

Staff should be consulted regarding their experiences with all current providers. The structure of each contract should also be evaluated. A policy on reviewing the providers should be developed with reviews performed in offsetting years. Changing all providers in the same year should be avoided to create consistency over the long term and avoid turmoil in any one year.

13. Evaluate the liability costs of the current final year salary benefit in relation to other terms **In Progress**

Final year salary calculations for pension purposes can create issues. If an employee goes through any increment increases, they can then choose to leave that year. It makes it more difficult to maintain a consistent work force. Final year calculations also create greater liabilities. This committee recommends that pension benefits be calculated on a two-to-five-year final average salary to create consistency and reduce plan liabilities.

14. The IAFF reaffirms that only Defined Benefit Pension plans are the proper vehicle for employee pension plans **In Progress**

It should be clearly communicated and understood that maintaining a defined benefit pension plan is the fundamental value behind any discussions of the IAFF pension plans.