

City of Roanoke, Virginia
Ensuring a Financially Sustainable Retirement Plan

Local Significance and Value

1. The City of Roanoke undertook a two-year process to evaluate its retirement benefits using an inclusive and employee-focused program that enabled the City to modify retirement benefits to ensure long term financial sustainability while achieving full support of elected officials with minimal employee resistance to the changes.
2. The project was initiated in 2010 as a result of long-term forecasts of pension plan contribution rates that suggested sharp increases in rates over the long term (from 15% of payroll to 25% of payroll within ten years). City leaders viewed such rate increases as being unsustainable. In addition, Roanoke officials felt an increasing need to carefully examine retirement benefits to ensure they were meeting the demands of a changing workforce.
3. Finance staff served as project leaders. The Director of Finance handled much of the presentation to elected officials, both publicly and in individual briefing sessions intended to educate and inform City Council members. The Assistant Director of Finance and Retirement Supervisor played key roles in much of the project analysis, the required update to City Code and in various employee input sessions. One of the entry level staff accountants served on the planning committee in order to ensure there was a team member representing the interests of the young workforce with limited years of service.
4. The project team consisted of 12 members. Those included employees from Finance, City Manager's Office, Budget, and Human Resources. Hundreds of staff hours were contributed to this project. The City engaged Jim Link, Managing Partner of Public Financial Management (PFM) to serve as a financial advisor on this project. The City used the actuarial services of Milliman Actuaries to provide cost estimates of various options.

Technical Significance

One of the really interesting aspects of this project is the number and variety of issues involved. These included:

- Long term financial planning in establishing a financially sound retirement program
- Benefits design in appealing to a diverse workforce
- The use of professionals such as legal, actuarial and financial advisory professionals to assist in plan design
- Compliance with legal, City Code, IRS requirements
- Consideration of the political environment
- Consideration of employee and retiree reaction to plan changes
- Consideration of both current and anticipated accounting standards

A project such as Roanoke's Retirement Sustainability project is important to the public finance profession because it is a great example of what finance officers can do to help lead their organizations. The finance officer can help study an area such as retirement benefits to ensure long-term planning goals are met. Though projects like this can pose political risk, the professional skills the finance officer brings to the table can help ensure a data-driven process where information can be presented in a logical manner to aid decision makers. The finance officer understands the need for transparency in working on projects such as this and has the financial and analytical skills to successfully navigate some of the more technically complex aspects of the project.

Transferability

Organizations all over the country can benefit from the process used by Roanoke in undertaking retirement benefits reform. While Roanoke's project was rather elongated over a two-year time frame, City management believes that patience paid off in undertaking a thorough and very inclusive process in order to gain the stakeholder acceptance to achieve success. Stakeholder contact came in the form of focus group sessions, written communications, individual sessions, open-house type sessions, and small group meetings. Feedback was solicited from any interest group willing to provide comment. This included employees, peers within the Association of Municipal Retirement Systems of Virginia, members of the Pension Board of Trustees, leaders in participating employers in the multi-employer plan, and leadership from the Roanoke Retiree Association. A key concept learned by Roanoke as part of its plan was that while soliciting input brought about risk of change or project disruption, the feedback process was invaluable in both arriving at the best recommendations possible and in ensuring project acceptance.

Documentation

December 5, 2011 City Council Briefing

July 2, 2012 City Council Briefing

July 16, 2012 City Council Report and City Code Amendment

June 2012 GFOA Conference Presentation

October 2012 VGFOA Conference Presentation

Cost/Benefit

Significant staff resources were devoted to this project. The hours were not specifically tracked, but this project entailed several hundred staff hours. Financial advisory services cost \$50,000, outside legal counsel cost \$50,000 and actuarial services cost \$45,000. As a result of this project, retirement benefit provisions have been updated, greater choice of retirement plans is available to our employees, and contribution rates are now expected to be 17% of pay in FY 2032, down from 25% originally projected. Today, each 1% on the pension contribution rate costs approximately \$600,000, therefore the savings brought about by this project are significant.

The significant investment in employee feedback provided an important venue for dialogue between employees and management. The project gave management an opportunity to hear employees' opinions and concerns about overall pay and benefits. It was an opportunity to learn their priorities in this area. Another benefit was employee education that took place. The team realized how little the employees understood their benefits. Our organization plans to focus more on benefits education in the future as a result.

Finally, a poorly designed health care supplement was eliminated, and a health savings account was instituted that better rewards tenure when determining the level of retirement health care benefit.

Complexity

There were many complex components of this project. There were financial, actuarial, legal and political aspects as well as employee-relations and communications issues. However, with the appropriate use of outside experts to augment staff expertise from a cross-section of departments, Roanoke staff were quite capable of leading and executing the project. Depending on the staffing capabilities of an organization, more or less outside assistance may be required.

Originality, Creativity and Innovation

Roanoke's project is certainly not unique in that communities all over the country are undertaking pension and retirement benefits reform. Something unique about Roanoke's project is the extensive employee dialogue undertaken, especially in light of the fact that the benefits modifications did not impact current employees. Roanoke's transparent, open, thorough process helped ensure acceptance of the project. The project received unanimous Roanoke City Council approval with only two employees speaking in opposition of the changes on the date City Council voted.

Other Distinguishing Features

One of the most interesting facts about this project is that only two speakers voiced concerns at the City Council meeting where the vote was taken to amend the Roanoke City Pension Code. This was in stark comparison to a budget public hearing of just a few years before where public safety employees filled the City Council Chamber when reductions in fire stations were recommended as part of the budget. While the retirement benefit changes pose a different kind impact than closing fire stations (which threatened firefighter jobs), employment benefits are a sensitive issue for this group of employees who often align with local unions to protect benefits. Roanoke leaders cite the inclusive, thorough, communication-driven process as the reason for less controversy and the acceptance that was achieved.