Pension Plan Presentment

The Richmond County Special Grand Jury, due to issues raised by previous Grand Juries and concerns expressed by employees and citizens, examined the pension and retirements plans of both Richmond County and the City of Augusta, as well as the plans for the consolidated Augusta-Richmond County government. Focus of the inquiry was narrowed to three major plans the City 1949 pension plan and the County 1945 and 1977 plans. Comparison of the plans to each other and to the plans of other Georgia governments shows a drastic inequity in the 1977 plan, where employees pay more but receive less than any other plan studied. The "enhanced retirement package", used in 1996 to reduce the number of county employees by giving certain employees incentives to retire, was also examined.

Arrangements for employee retirement/pension income in Richmond County and the City of Augusta have been a complex mixture of funded and unfunded pension plans through the years. Plans have closed and been followed by new plans, leaving a total of at least seven different plans with active participants at this time. Four of these are City of Augusta unfunded pension plans, meaning fund assets are not sufficient to cover benefits paid to participants without additional funding from the Augusta-Richmond County general operating budget or from enrollees. Total number of participants receiving payments in these four plans is less than 60.

As defined benefit plans, the Richmond County 1945 and 1977 plans and the City of Augusta 1949 plan guarantee a monthly income for life, calculated according to a formula based on age and years of service at time of retirement. Contributions to the funds are made by employer and employee, with the employer assuming ultimate responsibility for assuring adequate funding to meet obligations to retirees. In Augusta-Richmond County, separate professional organizations are contracted to manage the fund accounts and to manage the benefits.

Robinson-Humphrey has served as the investment manager of the pension funds since 1989. The rate of return on the pension funds investments has generally met the actuarial requirements established by the benefits manager to meet future needs of the funds. However, there is no mechanism to promote competition for funds management. Other firms may be able to manage the funds with higher rates of return and/or lower management fees. Recently, when several firms attempted to submit proposals for management of a portion of the funds, they were given only five minutes in the pension committee meeting to present their proposals. The subject was never fully explored or brought to a vote since there was no interest expressed by the committee to explore other options. To remain with one firm for a long time may seem financially sound, but opportunities might be missed that could yield greater benefits for the retirees. A method to periodically hear proposals from other fund managers should be investigated.

Management of the benefits is contracted with Pension Services Company, an actuarial firm specializing in managing funds of large municipalities. Calculations and disbursement of benefit payments, withholding of taxes, and other tasks are performed by PSC, who also calculate the necessary rate of return on fund assets to keep the pension plans financially sound. If any shortfall in funds occurs, benefits payments would be required from the Augusta-Richmond County general operating budget.

Richmond County employees hired before October 1, 1975, were eligible to participate in the County 1945 Pension Plan. At that time, government employees were not eligible to participate in Social Security. The County 1977 plan was developed to include Social Security as part of an overall retirement plan for enrollees. Both plans are now closed to new enrollees, as is the City of Augusta 1949 plan. Recent employees are covered by plans administered by the state of Georgia, not at the local level. These are not defined benefit plans.

The Special Grand Jury studied benefits offered in each pension plan, noting especially inequities in retirement age and disbursement formula for participants in the County 1977 plan as compared with the County 1945 and City 1949 plans, as well as compared with other municipalities within the state of Georgia (see table following). Major differences between the County 1977 plan and other plans include 1. the penalty for early retirement for law enforcement officers and firefighters who meet the requirement for age and years of service, 2. the amount of the employee's contribution to the pension plan, 3. benefit formula - 2% or more for 1949 and 1945 plans, 1% for the 1977 for each year of employment.

The first inequity involves the risk in carrying out the job of firemen and police officers. This risk is generally recognized and compensated in other municipal governments by allowing public safety personnel to retire at age 55 without penalty. In the 1977 plan which covers most of these employees, the penalty for retirement before the age of 62, regardless of years of service, is 5% per year. An employee who elected to retire at age 55 with 25 or more years of service would be penalized 35% of the retirement benefit payment and Social Security benefits would not begin for another seven years.

Employees in the 1977 plan are faced with the highest deductions from salary compared to the other plans. Payroll deductions for members of the County 1977 plan equal 11.65% of salary (4% for pension, 6.2% for Social Security and 1.45% for Medicare). Employee contributions to the 1949 plan are 8%, or 5% if hired before 7/1/1980. Employee contribution to the 1945 plan was 5%. In 1996, a plan was submitted by PEBSCO, the administrator of these retirement plans, to correct the inequities in the 1977 pension plan. No evidence could be found that this proposal was given serious consideration or that any other option was sought.

The Special Grand Jury looked into irregularities occurring after consolidation in a designated "enhanced benefit package" in which certain employees who met the requirement for years of service were offered incentives for early retirement beyond the benefits specified in the County 1945 Pension Plan document. These employees were granted up to 100% of salary before retirement, rather than the 60% specified in the plan which other employees were entitled to receive. In addition to the increase in benefits, nine employees were given $25,000, paid out of the general operating budget. The Special Grand Jury questioned why these gifts were made and was surprised to learn that very little objection was expressed by taxpayers who paid $225,000 to employees whose retirement had already been enhanced significantly. Retirees in this plan found it necessary to take legal action to have their benefits increased.

Issues that arise: 1. Can a pension plan be amended to change the benefits formula for certain employees (such as allowing 100% of salary instead of the 60% designated in the plan) and not for all employees covered under the plan? 2. Did the Augusta-Richmond County commissioners make a decision that was unnecessary and irresponsible to the taxpayers? If so, why was this done? 3. Is there a less obvious effect on government employees, such as morale and decisions to find jobs outside of government?

The Special Grand Jury believes the answer to question one is No. In spite of Home Rule, which allows changes to the pension plans to be made at the local level (without state legislation), the changes themselves must be within the law. To make exceptions for certain employees and not for others when all are participants in the same plan and all have contributed the same percent of salary is certainly questionable.

The answer to question two requires an understanding of the limits in the use of tax money. Money generated from taxes is designated for government services to residents within the municipal boundaries. No benefit to the residents of Augusta-Richmond County could be derived from payment of a $25,000 bonus to employees, many of whom had made plans to retire already. In response to the question "why was this done?", no answer could be found.

More difficult to identify is the effect on employee morale resulting from differences in the plan benefits and decisions to leave government jobs. The Special Grand Jury has heard individual testimony from employees who found other jobs because of a number of reasons, one of which was dissatisfaction with pension plan benefits.

Retirees have taken on the role of advocates with their pension plans in the past and over a current issue. In 1988, legal action taken against the City of Augusta was instituted by retirees of the City 1949 plan when almost one million dollars was taken from that plan to purchase real estate on Reynolds Street. Although money to purchase the property was taken from the plan, title to the property was originally placed in the name of the city. Legal action several years later resulted in transfer of title back to the plan. Shortly before consolidation, a proposal was made to take money out of the pension plan to meet salary requirements for the city because of a severe financial crisis and inadequate funds in the general operating budget. Legal action by plan members was taken to prevent this proposal. Currently, legal action is again considered to forestall use of pension money from the City 1949 plan to balance the Augusta-Richmond County budget. The proposal to transfer the cost of providing medical insurance benefits from the general operating budget to the pension plan will be an expense to the plan of at least $700,000 per year, and can be expected to increase as medical insurance coverage increases for the general population. Actively working members of the plan and retirees believe this to be a violation of an agreement made by the city of Augusta to employees covered under the 1949 plan. At this time, the effect on the plan of this decision has not been discussed with the actuarial firm managing the benefits.

The Special Grand Jury was surprised to learn that there was no representation from pension plan participants on the Pension Committee. Without checks and balances, decisions have been made to use pension funds that have provided little return or which were legally challenged and overturned.

Summary

The Special Grand Jury recommends that proposals be sought to correct the inequities in the 1977 plan, and make benefits coverage comparable with employees enrolled in the 1945 and 1949 pension plans.

We recommend that at least two members of the Pension Committee be selected from enrollees in the pension plans and that these members be allowed to vote.

We recommend that proposals be sought from additional investment companies in order to make decisions about the pension plans based on a wide range of investment factors.

We recommend that the firm managing the funds for all pension plans examine the actuarial consequences and be consulted before the Commissioners vote to change a plan. Input from members of the plan should also be sought before these changes are finalized.

The current situation has been referred to as "this patchwork quilt of retirement plans" and making eligibility age and benefits more equitable would likely be supported by some and unpopular to others. The Augusta-Richmond County Commissioners and the Pension Investment Committee should undertake this task.

Comparison of Various Pension Plans

Plan	Minimum Retirement Age	Employee Contribution	Benefit Paid (Times years of Service)
1945 County Plan*	60	5%	2%
1949 City Plan*	62**	5-8%	2.15%
1977 County Plan	65	4%	1%
Fulton County 1991	65**	7%	2%
Cobb County	Rule of 80***	4%	2.5%
Gwinnett County	Rule of 75***	3.5%	2%+$36
Washington County	Rule of 80***	4%	2.25%
Bibb County	60**	0%	2%
Muscogee County	65**	0%	2%
Clarke County	62**	0%	1.6%

* Not covered by Social Security

** Plan allows for earlier retirement for Public Safety or long service employees

*** Sum of age and years of service = 75 or 80