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"City Retirement Plans are Fiscally Conservative"

Two new ordinances were passed at the recent City of Norfolk council meeting January 7-both having to do with city employee retirement plans.

The first one, Ordinance 5241, was approved in order to bring the city into compliance with a state law concerning police retirement plans. In the 2012 Nebraska State Legislative session, LB1082 was passed which changed the vesting schedule for police retirement plans from a ten year vesting to seven years. Previously, police officers would not be able to receive 100% of their retirement funds until they had been employed for ten years.

Ordinance 5242 changed vesting periods for general city employees. It is a policy of the City of Norfolk to treat all employees equally. Currently, the vesting schedule does not begin until an employee has worked for the city for three years. Under the new ordinance the schedule would begin at two years to match the police employee vesting schedule. After a period of two years of employment 40% of the city employee's retirement funds would become available. Fire department employees have their own vesting schedule that is set up and mandated by state law.

Retirement plans for city workers have recently been scrutinized in larger cities especially Omaha where elected officials struggle to find the money in the city budget to fund their employee retirement funds. The City of Norfolk does not have a similar problem as employees are under a defined contribution retirement plan except for a very few police officers and firefighters who were hired before 1984.

A defined contribution plan is a retirement plan where both the employee and the city contribute a certain amount of money to the employee's retirement fund each pay period. When the employee retires, that amount is the only retirement benefit he or she will receive. Over 90% of all City of Norfolk employees have a defined contribution plan.

In contrast, a defined benefit plan guarantees a specific amount of money to the employee upon retirement.

"Years ago, city leaders recognized that there needed to be a more sustainable retirement plan for city workers that benefitted the employee upon retirement and still allowed the city to be fiscally responsible," said Sheila Schukei, Human Resources Directer for the City of Norfolk.

To fund a defined benefit plan, cities need to set aside large amounts of tax money so that it's available to employees upon retirement. If interest rates go down or if the funds are in a mutual fund that loses money, the city may find that it has an unfunded liability and may need to raise taxes to make up for the shortfall.

In 1984 the Nebraska State Legislature recognized that the majority of cities would not have funds available to pay for defined benefit plans so the law was changed to convert police and fire retirement plans from defined benefit to defined contribution plans in all first-class cities.

Currently the City of Norfolk has no unfunded liabilities and pays retirement benefits that only include the money that the city and the employee have contributed to the employee's retirement account throughout the years of the employment.