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## **A look at the proposed Fire Contract**

by Jim Vokal, Platte Institute for Economic Research, Executive Director

It has been more than five years since the City of Omaha has had a new contract with the fire fighters, and even though that one expired in 2007, the last 5 years have been operational extensions of that contract. Since then, there has been a lot of controversy surrounding the fire union - spiking, pensions, four men on a truck, etc.

The fire contract issue has lingered for five years, Christmas is around the corner, and the people of Omaha are ready to have the fire contract issue resolved and put behind them. Members of the council are lauding the new contract, and it is generally regarded as a legitimate improvement over the last one. But it is important to take the time to examine and analyze specific provisions, which is what we aim to do in this overview.

The good news is that the proposed contract makes strides towards eliminating the practice of pension spiking. Generally speaking, pension spiking is the process whereby public sector employees, in this case fire union members, artificially inflate their retirement compensation in the years immediately preceding retirement in order to "spike" their pensions. This is usually accomplished through working overtime in the final years before retirement. This process increases pension payments to the "spikee" and inflates the burden on taxpayers. Spiking is a significant contributor to the high cost of public sector pensions, and multiple states are taking legislative action to prevent the practice.

In addition to spiking, this contract makes strides with other improvements. Specifically, employee pension contributions are up from 15.40 to 17.15 percent. The Mayor previously negotiated 16.15 percent. Health care contributions also increase under the City Council negotiated contract. Annual savings total \$679,000, which is \$473,000 more than the Mayor's contract.[\[1\]](#)

Unfortunately, the contract is still significantly lacking in several areas. Despite great salesmanship by the council, the fact remains that if this contract were to stay in effect over the long-term, the pension shortfall in this 2012 contract is reduced only \$1.4 million more over the next ten years than the 2011 contract - which was largely considered lacking - that the Mayor negotiated.[\[2\]](#)

This 2012 contract negotiated by the City Council, after they voted to strip the Mayor of this duty, is problematic in part because it is very heavily back loaded, meaning most of the savings occur towards the end of the 50 years of projection window, and it doesn't do much to relieve taxpayers now.

Compounding the savings projected in 50 years are the return projections on investment portfolios. The contract under consideration assumes an eight percent return on investments in the fund portfolio. This rate of return is subjective and varies among different political subdivisions. Further, this investment rate is unrealistic in a good investment market, let alone the challenging one that exists now. To achieve this level of return, the Pension portfolio would need to be composed heavily of equities, a strategy that is both risky and highly improbable for any Pension Board. A more responsible and probable expectation for return is three to five percent.

Realistically, without the eight percent investment return -which is highly improbable- the projected savings, heavily back loaded, in the contract will never actually be realized. In fact, when using a 5 percent return, which is more in line with the average return over the last 20 years for the city, the unfunded liability grows much higher than the current estimate of the \$600 million shortfall. The fire personnel, especially the younger staff, should also advocate for a realistic review of the pension fund and all assumptions. This would lead to a better understanding of future funding and certainty of their retirement plans.

Another contract provision flaw that deserves serious scrutiny is the actuarial requirement of an average of four percent annual wage increase needed to fully fund the pension system by 2055. In order to protect taxpayers and keep the city budget on track, public sector contracts really need to keep automatic wage increases more in line with private sector realities; however, making this change under this contract would only contribute to the underfunding. The contract currently on the table calls for a 2.6 to 2.9 percent wage increases, which is much higher than the private sector wage increase average of 1.8 percent as reported by Bloomberg in 2012.

The Platte Institute acknowledges that without staffing provisions in the contract, the unions would likely not compromise on the issues previously discussed. However, even though no minimum staffing requirement is in effect (the minimum manning ordinance was repealed), this 2012 City Council contract is including contractual staffing provisions. These provisions would limit future City Administrations' flexibility in reducing staffing levels and personnel as a result of demand or even technological advances. Including this provision drives up costs, impacts future negotiations and limits smart staffing decisions.

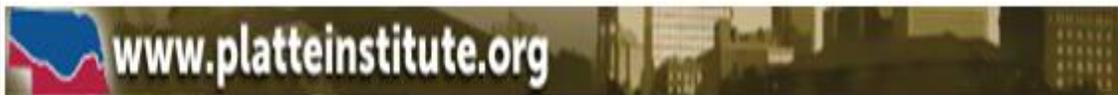
The 2012 contract between the City and the Fire Union is arguably an improvement over previous contracts. But the contract falls well short of meaningful reform that the Platte Institute advocates for Nebraska taxpayers in

light of a looming problem facing many political subdivisions in the state.

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[1] Matt Wynn and Juan Perez Jr., "Firefighters to pay more for health care costs" December 16th, 2012. Available at <http://www.omaha.com/article/20121216/NEWS/121219812>. Accessed on December 17th, 2012

[2] Patrick A. Beckman and Brent A. Banister, "RE: Actuarial Analysis of the Pension Provisions of the 2012 Tentative Agreement", November 20, 2012. Available at <http://www.ci.omaha.ne.us/citycouncil/images/stories/11-20-2012%20Comprehensive%20analysis%20of%202012%20TA%20-%20FINAL.pdf>. Accessed on December 17th, 2012



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