## City of Alexandria, Virginia

## **MEMORANDUM**

DATE: APRIL 5, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #36: GROWTH IN RETIREMENT BUDGET/ACTUALS

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This memo responds to a Council request made at the February 21, 2007 Personnel Compensation work session for analysis of the growth in the retirement budget over the years. The City currently operates several different retirement plans for its employees.

## • <u>Virginia Retirement System (VRS)</u>

- Employer Paid Share: 11.66% Employee Paid Share: 0.00%<sup>1</sup>
- This plan covers all full-time General Schedule employees, Deputy Sheriffs, Fire Marshals, and Emergency Rescue Technicians (ERTs).

## • <u>City Supplemental Plan</u>

General Schedule Employees

- Employer Paid Share: **5.32%** Employee Paid Share: **0.00%** 

Deputy Sheriffs, Fire Marshals and ERTs

- Employer Paid Share: 10.75% Employee Paid Share: 0.00%
- This plan also covers regular part-time employees.
- Firefighters & Police Officers Pension Plan: Defined Benefit and Disability Plans Defined Benefit Plan:

- Employer Paid Share: **20.00%** Employee Paid Share: **7.50%** 

Disability Plan:

- Employer Paid Share: 2.35% Employee Paid Share: 0.50%
- These plans cover Sworn Firefighters and Police Officers.

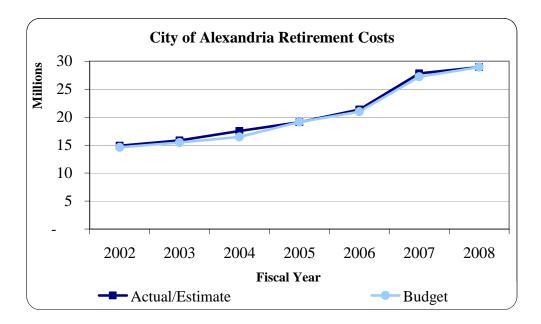
Please see pages 85-94 of the City's FY 2006 CAFR for a more comprehensive overview of the City's employee retirement systems, including information on the closed plans.

The main driver in changes to retirement costs recently has been in VRS, for which contribution rates are amended every two years. Contribution rates to pension plans tend to be cyclical (i.e., dropping after the stock market performs well and increasing after the stock market drops). VRS recognizes each year's loss and earnings for actuarial purposes over a number of subsequent

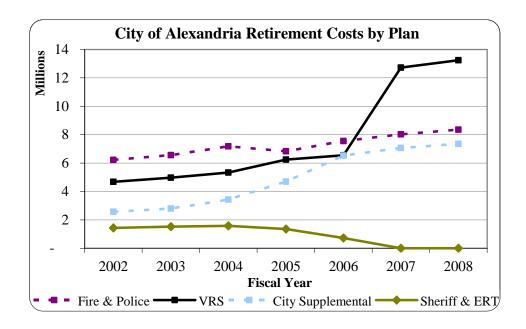
<sup>&</sup>lt;sup>1</sup> Of the 11.66% employer share for VRS, 5.00% is actually the employee share of which the City pays 100%. The employee share is paid by the City in lieu of a salary increase/COLA during the 1980's.

years, and therefore the loss from 2001 and beyond did not impact the City until FY 2007. In addition during this time, many City employees chose to buy back prior service years in other covered jobs. This resulted in the increase in years of service which is part of the formula used to calculate retirement benefits. In FY 2007, the rate increased to 11.66% from 6.50% in FY 2006, based on the actuarial report and past market conditions. The stock market decline after 9/11 was a major factor causing the rate increase. The rate remains at 11.66% for FY 2008. However, it will be revised for FY 2009 and may drop by some unknown amount since it will be based on improved financial market conditions that occurred during the last several years.

The following chart shows the trend of overall budgeted and actual retirement costs since FY 2002. FY 2007 is an estimate of the actual cost and FY 2008 is equal to the budget. The increase over time reflects: (1) an increase in the value of the City's payroll, as well as (2) the large VRS increase starting in FY 2007.



The chart on the following page breaks down retirement costs by each plan. The large increase in FY 2007 reflects the substantial increase in the VRS rate.



It should be noted that before FY 2007, the City contributed to the Retirement Income Plan for Deputy Sheriffs and ERTs. The City contributed 5.1% to this plan in FY 2006, which was intended to supplement their VRS and City Supplemental plans in order to approximate the total City contribution that Fire and Police Officers received (of 22.35%). However, as the VRS rate increased in FY 2007 (so the City now contributes 22.41% for Deputy Sheriffs and ERTs through the combination of the VRS and City Supplemental plans), the City is not continuing to contribute additional funds to the Retirement Income for Deputy Sheriff and ERT plan in FY 2007 or FY 2008. In the future, if the VRS and City Supplemental contributions become a smaller percentage of pay as anticipated, contributions to the Retirement Income Plan for Sheriffs and ERTs will resume to equal the 22.35% total City contribution rate to the Firefighters and Police Officer's Pension Plan.