

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 27, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

THROUGH: MARK B. JINKS, CITY MANAGER *m/j*

FROM: MORGAN ROUTT, ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET *MR*

SUBJECT: BUDGET MEMO #33: FOLLOW UP TO QUESTION ON THE CLOSED FIREFIGHTERS AND POLICE PENSION

This is a follow up to the questions raised by Councilman Wilson regarding the cost to fully fund the City's remaining obligations to the Pension Plan for Firefighters and Police Officer Plan ("Plan") that was closed to new participants in 1979. The plan currently has 120 retired participants receiving benefits. There are no active participants in this plan.

The City has a contract with the benefits administrator that was put in place many years ago essentially purchasing annuities that guarantee the initial payment amounts. Thus a significant portion of the plan liabilities are insured and at retirement most plan participants were given a certificate guaranteeing their initial payment. Benefits payable to any participant retiring after the contracts were issued or any cost of living increase awarded after the contract are not included in the guarantee.

The contract includes a provision that requires the City to maintain a minimum funding level. If assets drop below the minimum level only the guaranteed portion of the benefits would be paid.

Currently, the City contributes \$1.7 million per year to ensure adequate funding of this liability. Funding levels are also offset by on-going benefit payments and investment interest earnings.

Our contractual agreement for the City to fully fund the obligation for all participants would require a payment of at least \$9 million dollars plus the cost for future payments for COLAs. There would a requirement to provide future COLAs and the projected cost of this obligation would be in addition to the estimated \$9 million.

From a policy perspective, closing out this plan would reduce the number of plans that staff currently administers, but since it is already a closed plan, the administrative burden is very small since there is no enrollment responsible.

It is important to note that there is an inverse relationship between the interest rates and liability costs. The projected liabilities for the plan increase as interest rates decrease and there may be an advantage to waiting for interest rates to rise before considering a change to this plan.
