

# CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN

## Q & A

### Proposed Fifth Amendment

**Q1.** Item 24 in the minutes of the December 10, 2002 City Council meeting (Resolution 2051) which was passed unanimously by the City Council), Section 4 reads, “Recalculate a participant’s earnings at age 60 (based on the current base salary applicable to other employees holding the same rank and grade) for purposes of computing the “floor” disability benefit at age 60 (described in section 3).

The wording in the proposal has changed and the word “grade” has been removed. This was never discussed in the open sub-committee meetings. Who authorized this change and why has it been slipped in?

**A1.** Prior to December 2002 the plan document called for using the rank and grade at time of disablement. The plan amendment in 2002 also called for using the rank and grade at the time of disablement. Likewise, the current proposed amendment would do the same.

Regrettably one summary in December 2002 might not have been written with sufficient precision. However, our focus here is on the proposed fifth plan amendment and this proposal was neither intended to, nor does it, change the determination of average monthly earnings.

**Q2.** When the Retirement Income Account (Defined Contribution Account) is turned over to the City Of Alexandria will the money be segregated and its earning’s tracked separately?

**A2.** If you elect to turn over your Retirement Income Account it will be commingled with the Defined Benefit Plan funds. The value of your funds at the time of this conversion will grow at 7½% per year – compounded annually - until Normal Retirement Date. You will be credited with 7 1/2 % per year even if the fund earns more or less.

For those who become disabled in the future their rate will be the actuarially assumed investment return for the plan on the date of their election.

**Q3.** Can the Retirement Income Account (RIA) be turned over to the defined benefit plan and taxes paid at that time so that future distributions are tax-free?

**A3.** An outside attorney whose specialty is pension and tax law has reviewed this. This is not possible under current tax law.

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- Q4.** Why are participants given 120 days to make a decision?
- A4.** The decision is based on minimizing financial impact to the trust fund. Right now almost 50% of all Defined Contribution account balances are in Guaranteed Deposit Accounts. While this may be appropriate for some individuals, it is not appropriate for a large diversified trust fund with positive cash flows. The fund anticipates earning a higher return than will be realized in the Guaranteed Deposit Account.
- Q5.** Raising the Normal Retirement Date (NRD) would mean the tax-free distributions from the Disability fund would be paid out longer. Why can't the Normal Retirement Age be raised from 60 to a higher age such as the Social Security retirement age?
- A5.** There is no legal or plan design prohibition from raising the NRD. This project was initiated with a goal of being cost-neutral. This means a participant's decision to turn over their account will not change the Defined Benefit plan's contribution rate to increase or decrease.

There are certain limits on plan design due to federal tax code. However, raising the NRD is a cost issue. If this is done it is outside the scope of the disability committee's original assignment.

- Q6.** If I choose to not turn over my funds to the Defined Benefit Plan will I still receive the recalculated earnings at age 60 (based on the current base salary applicable to other employees of the same rank and grade for purposes of computing the "floor" disability benefit)?
- A6.** The amendment is designed to provide an additional option to you. No rights or benefits are reduced or diminished.
- Q7.** Does the City Of Alexandria want me to turn over my money?
- A7.** The City Of Alexandria wants you to make the best decision for you and your family in consideration of your individual circumstances, upon consultation with an independent qualified professional advisor. The City Of Alexandria is not providing investment advice; it is providing one investment option that may be appropriate for some and inappropriate for others.

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**Q8.** I have a non-service total disability. I am guaranteed 66 2/3% of final average salary. What if my account has more funds than are needed to purchase my benefit.

**A8.** Let's say you elect to sign over your defined contribution account valued at \$400,000 at the time of conversion. The account grows at 7½% compounded annually until your Normal Retirement Date (NRD). The cost of your benefit is determined to be \$550,000 by using the actuarial assumptions used by the pension plan. From today until NRD your account grows with 7½% interest to \$575,000. The overage of \$25,000 (\$575,000 - \$550,000 = \$25,000) will be paid to you at NRD.

The overage cannot be paid you today. The reason is your final average earnings are not known at this time. An overage – if there is one - cannot be determined until your NRD.

**Q9.** What is the City guaranteeing?

**A9.** The City Of Alexandria is guaranteeing in writing:

- The Retirement Income Account (Defined Contribution Account) grows at the actuarially assumed contribution rate from the day you sign it over until your normal retirement date (NRD). If your account is moved in 2007 the rate will stay at 7½% compounded annually. Future changes in the interest rate will only impact those disabled in the future.
- If you die before the NRD your beneficiary will receive the amount of your Retirement Income Account plus interest at the actuarially assumed rate. Again, the rate the pension plan is using for other interest rate calculations at the time of your conversion is the rate applied to your funds.
- The method used for determining money paid from the Disability Income Plan is not changing. However, if you elect to turn over your account within 120 days if the plan amendment passes then the plan will guarantee 50% of average earnings for non-service partial disabilities, 66 2/3% for service related partial disabilities and non-service total disabilities, and 70% for service related total disabilities.
- If your Retirement Income Account (Defined Contribution Account) is larger than the amount needed to purchase your annuity you will receive the overage at NRD.