

**Summary of General Schedule Employee
Survey Results and Recommendations
Presented To the Ad Hoc Retirement Benefit Advisory Group
September 8, 2011**

Findings and Observations Regarding General Schedule Employee Pensions and Benefits

General Schedule Employees noted that recent and ongoing benefit reductions, as well as limited market rate adjustments/cost of living adjustments, mean that these employees have made indirect contributions to their pensions through reduced compensation for many years.

Specifically, the following benefits have been reduced:

FY2006 – the last year that the City’s monthly health care reimbursement for retirees was increased. Since that time, monthly premiums for the City’s most affordable health care option have increased by 46.7% for individual coverage and by 86.2% for family coverage.

FY2007 - health care cost sharing introduced for all employees was introduced. Beginning in FY2013, all employees are scheduled to pay 20% of health care premiums. The significant impact of this change on lower wage employees was noted.

FY2007 – the City instituted a tenure-based system for retiree health coverage for new hires. The retiree must have at least 25 years of service to receive the full benefit, currently \$260 monthly.

FY2010 – Post-employment life insurance coverage was eliminated for new hires.

FY2010 – The cash refund of future City contributions to the City’s Supplemental Pension Plan was eliminated for all employees.

FY2010 – Supplemental Plan amended to require new employees to contribute 2% of salary.

FY2011 – VRS contributions amended to require new employees to contribute 4% of salary to the VRS 2 Plan.

As a result of changes to the City’s two pension plans, new General Schedule employees are now contributing 30.06% of their total pension costs to these retirement plans – a higher percentage of total pension costs than any other employee group, including Police and Fire. In spite of the higher contribution requirement, future benefits for General Schedule employees are the least generous of the three employee groups. In addition, average salaries for Public Safety employees are 10.3% higher than those of General Schedule Employees.

General Schedule employee representatives noted the diversity of the General Schedule workforce. These employees are the trash collectors, the librarians, 911 dispatchers, accountants, and a varied group of talented, well-trained employees. The need for General Schedule Employees to be compensated appropriately now to ensure that the employees will retire at an income replacement rate that reflects their years of service and loyalty to the City. General Schedule Employees retire at an older age with less replacement salary than any other labor group in the City.

Policy decisions made over the past two decades in which General Schedule employees went without pay raises in lieu of the City's promise to fund their pension plans was highlighted. In some cases, other labor groups got pay adjustments at a higher rate than General Schedule Employees. This precedent has led to a chronic stagnation in salary compensation. It is this pay practice that has also led to the General Schedule Employee being at least 7% behind comparator jurisdictions, as discussed in Director of Human Resources Cheryl Orr's presentation to City Council at a budget work session.

General Schedule Employee representatives also noted that, contrary to popular belief, increases in the City's pension costs are not solely attributable to VRS cost increases. Between 2004 and 2012, annual costs to the City to fund the Fire and Police Pension Plan increased from \$5.6 million to \$9.5 million. During the same time frame, total pensionable salaries for Fire and Police increased by 35%, which General Schedule VRS pension salaries increased by only 28%. On a per capita basis, pension costs for the Fire and Police Plan are almost twice as expensive the cost to the City as the cost of pension benefits for General Schedule Employees.

General Schedule Employees provided evidence that early retirement is not generally an option for employees due to the resulting significant benefit reductions. In one example provided, an employee retiring 10 years before their full retirement age of 65 would face a benefit reduction of 68%. For an employee earning \$60,000 annually at retirement, this reduction would provide an annual income at retirement of \$14,256 under a basic/single life annuity benefit. The conservative and responsible administration of the City's pension plans was highlighted, most notably that no opportunities for abusive practices, such as pension spiking, exist within these plans. It was further highlighted that the City's Supplemental Plan provides no cost-of-living increase and that neither VRS nor the Supplemental Plan includes a health insurance component.

Survey Results

General Schedule employees were invited to complete a survey regarding their current retirement benefits, both to assess their priorities and the use of available retirement planning resources. Approximately 500 responses were received, representing the views of nearly one-third of all General Schedule employees. Comments and recommendations in the survey were wide-ranging but reflected a general satisfaction with the City's current retirement benefit plans. The majority

of respondents (90.9%) were hired before June 30, 2009 and a similar percentage (90.5%) indicated that they plan to retire from the City.

In response to the question, “How do the City’s retirement and savings benefits factor into your retirement plans?,” 85.8% of respondents indicated that the plans will represent all or a significant part of their future retirement funds. Given a basic, objective summary of the positives and negatives of both defined benefit plans and defined contribution plans, employees expressed a preference for defined benefits by a 4:1 ratio. The survey indicated that the majority of respondents (80%) are also saving for their retirement through resources outside of the City’s retirement plans.

Particular areas of concern with the City’s retirement plans were:

- benefits for part-time employees,
- education of employees on retirement plans,
- supplemental plan issues such as lack of a COLA and purchase of service opportunities.

Recommendations

The Virginia Joint Legislative Audit and Review Commission (JLARC) is currently reviewing the Virginia Retirement System and will be submitting an initial report in December 2011 with recommendations expected to be presented to the General Assembly in early 2012. Given that the findings of this report and their impact on local government membership in VRS are unknown, we recommend that City Council consider delaying any additional action on employee pensions until this report is issued and to only consider changes in employee contributions as a part of an overall analysis of employee compensation and benefits. Given that any increase in employee retirement contributions to VRS would represent a potential salary reduction for full-time City employees, City Council may want to consider increasing employee compensation to offset any increase in required employee retirement contributions and affiliated salary reductions, such as increases to payroll taxes. Such a change would also benefit employees in that an increase in their average final compensation will result in an increase in future retirement benefits through VRS.

Employee Education and Outreach: One of the key findings of the employee survey was a need for greater education and outreach to employees on saving and retirement resources. Specific recommendations to address this concern are:

Ensure that new employees understand their direct costs related to retirement and health care and that a statement of these costs be included within the individual offer letter.

Provide educational opportunities to ensure knowledge and understanding of retirement webpages and how to use them. Ensure that supervisors encourage employees to understand their retirement benefits and provide adequate time during work hours to access this information.

Establish targeted, mandatory retirement education at 1) the beginning of the employee's service, 2) mid-career, and 3) when the employee is within five years of eligibility for full retirement benefits.

Consider the addition of a staff position in the Pension Administration Division to expand capacity in employee outreach.

City Supplemental Retirement Plan: The City Supplement Retirement Plan provides for no annual cost of living adjustment. This is the only plan that does not keep up with the inflation. Based on the most recent 30-year period of annual inflation, retiring with an allowance of \$15,120 a year in 2011 will amount to the equivalent of \$5,784 a year in 30 years. The City should request an analysis of the supplemental plan to determine the fiscal impact of adding an annual cost of living adjustment factor.

457 Deferred Compensation Plan – As an incentive to encourage employees to begin saving for their retirement, the City should consider offering a matching contribution program. This could be a minimal investment on the City's part to help employees develop a pattern of savings and demonstrate the value of pre-tax contributions. This type of incentive is currently offered by Arlington County and the City of Falls Church.

Governance - Creation of a single Board for all retirement plans, as described in Steven Bland's July 14, 2011 memo "Enhancing Sustainability", would be a welcome change for General Schedule employees. This would provide an opportunity for these employees to participate in pension governance in a way that currently does not exist. This would also address concerns raised in the survey regarding outreach by allowing employees to become more engaged in the details of the supplemental plan.

Purchase of Prior Service in the City Supplemental Plan : Many employees indicated an interest in purchasing prior service credits in the City supplemental plan. While this is often an expensive option, it would provide employees an opportunity to bring both retirement plans into alignment.

Part-Time Employee Benefits: As noted earlier, retirement benefits for part-time employees are extremely limited. These employees have access only to the City's supplemental retirement plan which replaces just 24% of the employee's average final compensation. Given that part-time employment represents a family-friendly employment option for many workers, the City should strive to improve retirement benefits, including access to post-retirement health care benefits.

Request study of a cost-sharing "trigger" in an economic crisis: It is recommended that the City conduct a study to determine the impact of a cost sharing trigger in the event of sharp increases in retirement costs. Elements of this study would include recommendations on the defining characteristics of an economic crisis, how the trigger would be implemented, and a report available to employees on the findings of this study, with an opportunity for employee feedback .