

# **Benefits Overview**

## **An Introduction & Disclaimers**

**4(b)**  
**4/4/2011**

- 1) This is a high level overview, for more detail & more precision see the plan documents (part timers, VA Dept. Health, etc.)
  
- 2) Many abbreviations are used, and some terms vary by plan  
(stop me if I do not explain acronyms, etc.)
  
- 3) Ignore smaller pieces...  
(excess plan, closed plans, part timers, DROP, etc.)

# Social Security

The City of Alexandria participats in Social Security.

The City contributes up to 7.65% of pay.

The employee contributes up to 7.65% of pay.

Benefits are *not* integrated with Social Security.

In comparing plans it is good to check which employee groups are covered by social security.

The Social Security wage base is \$106,800 in 2011.

# Pension Formula

Alexandria's pension structures use three components to determine benefits. Below is a blended hypothetical example and does not represent any one plan.

Benefit	=	Average Final Salary	*	Years of Service	*	Benefit Multiplier
\$30,000	=	\$60,000		20		2.50%

If a salary is 10% higher the benefit will be 10% higher:

\$33,000	=	<b>\$66,000</b>		20		2.50%
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If a service is 10% higher the benefit will be 10% higher:

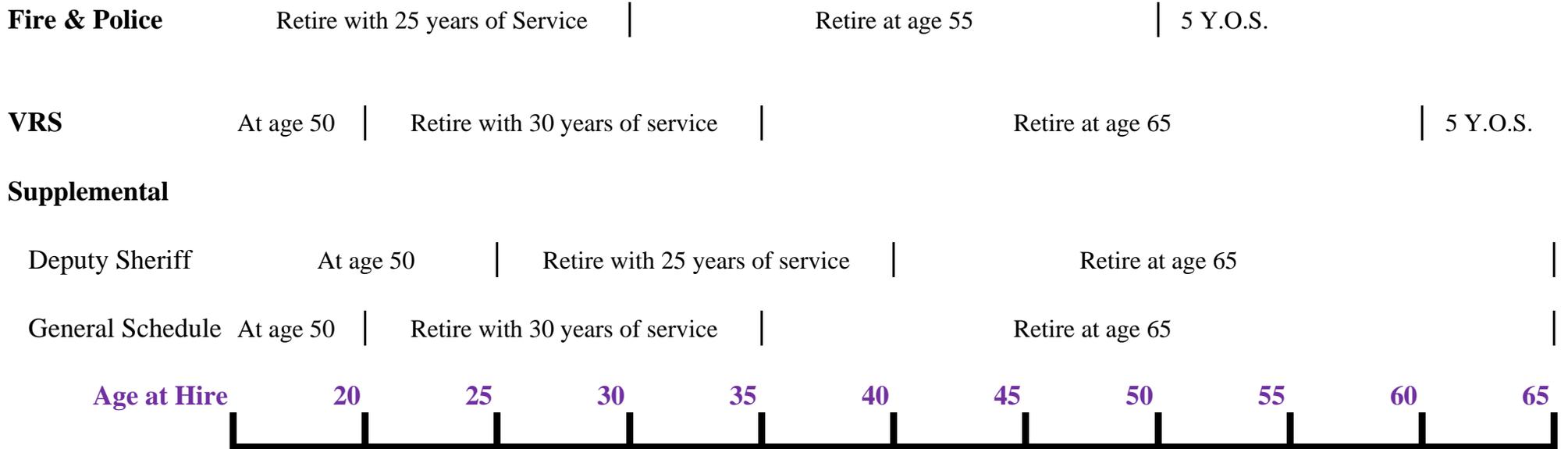
\$33,000	=	\$60,000		<b>22</b>		2.50%
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This is standard in municipal and state plans

It is not universal (military, union plans, social security).

# Normal Retirement Age

This timeline illustrates the various retirement eligibility dates for given hires ages.  
 For example, a Fire & Police member hired any age below 30 is first eligible in 25 years, hired 30 - 50 they are eligible at age 55.



**Fire & Police**      Age 55 & 5 Years of service      VRS      Age 50 & 30 Years of service  
 Age 50 & 25 Years of service      Age 65 & 5 Years of service  
 25 years of service, early unreduced

**Supplemental**      Age 65 & 5 Years of service  
 Age 50 & 30 Years of service - General Schedule  
 Age 50 & 25 Years of service - Deputy Sheriff, Medics Fire Marshals

# Average Final Salary

Average Final Salary (AFS) is defined by each plan. There are two significant components:

- 1) The number of years being averaged.
- 2) The earnings in addition to base pay included in the calculations (overtime, annual leave payouts, sick leave, shift differentials, etc.)

	Year					Final Average Salary
	2007	2008	2009	2010	2011	
System						
Salary	\$74,000	\$76,000	\$78,000	\$80,000	\$82,000	
VRS 1, Supplemental Plan			\$78,000	\$80,000	\$82,000	<b>\$80,000</b>
Three Year AFS						
Fire & Police Plan		\$76,000	\$78,000	\$80,000	\$82,000	<b>\$79,000</b>
Four Year AFS						
VRS 2	\$74,000	\$76,000	\$78,000	\$80,000	\$82,000	<b>\$78,000</b>
Five Year AFS						

Average Final Salary goes by many names, Average Final Compensation, Final Average Salary...

The definition of Average Final Salary may have a significant impact on benefits.

One way to control costs is to increase the AFS period.

VRS did this for those establishing membership after June 30, 2010.

# Benefit Multipliers

## Benefit as % of Average Salary

Years of Service	General Schedule *	Deputy Sheriff, ...	Fire & Police
5	12.5%	11.5%	12.5%
10	25.0%	24.5%	25.0%
15	37.5%	37.5%	37.5%
20	50.0%	51.0%	50.0%
25	62.5%	64.5%	66.0%
30	75.0%	78.0%	82.0%
35	87.5%	91.5%	82.0%

\* General Schedule is the sum of:

$$1.7\% \text{ (VRS)} + .8\% \text{ (Supplemental)} = 2.5\%$$

General Schedule assumes all service is 1988 and later





# Benefit Examples

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Deputy Sheriff, Medic, or Fire Marshal

	6 Years		24 Years
1/1/1982	12/31/1987	1/1/1988	12/31/2011
Hire Date			Retirement Date

Final Average Salary: \$80,000

VRS Benefit:

Salary	*	Service	*	Multiplier	=	Benefit
\$80,000	*	30	*	1.70%	=	\$40,800

Supplemental Plan:

Average Final Salary	*	Service	*	Multiplier	=	Benefit
\$80,000	*	5	*	0.60%	=	\$2,400
\$80,000	*	10	*	0.90%	=	\$7,200
\$80,000	*	<u>15</u>	*	1.00%	=	<u>\$12,000</u>
		30				\$21,600

TOTAL: \$62,400

RIP: A defined contribution plan provides a variable amount determined by each year's budget.

NOTES:

Pre -1988 benefits were frozen along with General schedule employees  
However, a plan amendment changed this in 2005.

# Benefit Examples

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## Firefighters & Police Officers

	13 Years		17 Years
1/1/1991	12/31/2003	1/1/2004	12/31/2020
Hire Date	<= D.C. Plan	D.B. Plan =>	Retirement Date:

Final Average Salary: \$80,000

### Case 1:

In 2004 the member *does* convert defined contribution credits for past service credit in the new Defined Benefit Plan.

Average Final					
Salary	*	Service	*	Multiplier =	Benefit
\$80,000	*	20	*	2.50% =	\$40,000
\$80,000	*	<u>10</u>	*	3.20% =	<u>\$25,600</u>
		30			\$65,600

### Case 2:

In 2004 the member *does not* convert defined contribution credits for past service credit in the new Defined Benefit Plan.

Average Final					
Salary	*	Service	*	Multiplier =	Benefit
\$80,000	*	17	*	2.50% =	\$34,000
\$80,000	*	<u>0</u>	*	3.20% =	<u>\$0</u>
		17			\$34,000

Member also receives the balance of his/her Retirement Income Account (the defined contribution plan) which will reflect 13 years of employer contributions plus investment gains and losses.

# Appendices

- 1) Backloading 1
- 2) Backloading 2
- 3) Early Retirement
- 4) Anti-Selection
- 5) Working More Than 30 Years

# Backloading

- 1 -

Increasing the rate of benefit accruals at career end is often referred to as *backloading* .

Backloading creates a very strong incentive to stay in service.

The Deputy Sheriff backloading is modest.

The Fire & Police backloading is more significant.

	<u>Benefit Multiplier</u>		
	Years of Service		Ratio
	20	30	1.50
General Service	50%	75%	1.50
Deputy Sheriffs, Medics	51%	78%	1.53
Fire & Police	50%	82%	1.64

Pension backloading is consistent with annual leave accrual rates, pay scales, and other seniority based perks.

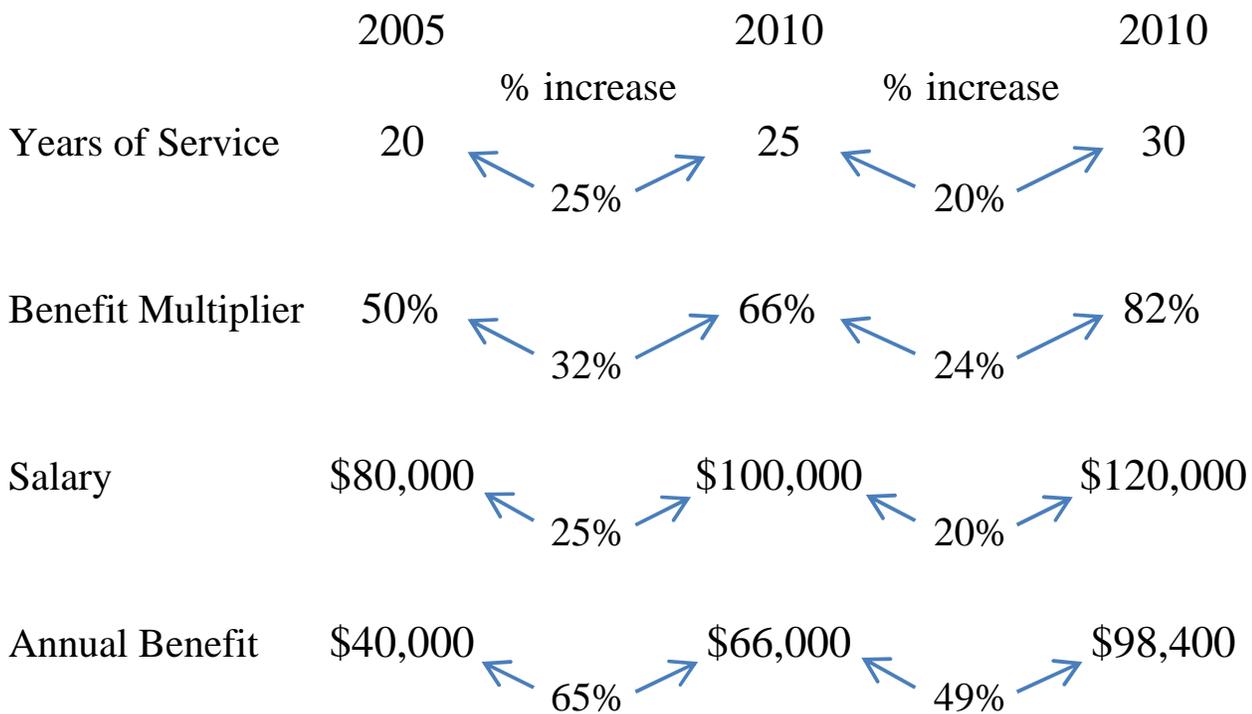
# Backloading

- 2 -

Backloading, combined with increasing salaries, makes for rapidly increasing benefits.

The example below shows the vast majority of benefits can accrue in the last one third of a career.

Example based on Fire & Police Officers:



# Early Retirement

Defined benefit plans are *designed* for career employees who work to normal retirement age.

Lesser benefits are available to those wishing to begin benefit payments prior to normal retirement age.

Example for VRS 1

Hire Age	Attained Age	Years of Service	Average Salary	Annual Benefit	
				Payable at 65	Payable Immediately
35	60	25	\$60,000	\$25,500	#VALUE!
40	65	25	\$60,000	\$25,500	\$25,500

Employment patterns other than working until retirement age will not maximize the defined benefit pension.

VRS 1 Factor for retiring at age 60: 70%.

# Anti-selection

**Anti-selection**, or adverse selection refers to a plan member, when given a choice, will make the selection most advantageous to them, and thus costing the plan.

Example:

A couple, working for the same company, are about to retire. The husband has been diagnosed with cancer and the wife excellent health and her relatives all live to 90 or more. He chooses a benefit option with large survivor benefits while she elects a maximum benefit for herself with no reduction for survivor benefits. The pension plan loses a lot on her longevity but makes up very little on his short remaining lifespan because of the survivor option.

Plans must be careful in designing benefit options to avoid antiselection.

The City's actuary can speak to this in greater detail.

# Working More than 30 Years

The plans provide different incentives for those considering working more than 30 years .

Participants' working beyond normal retirement age is usually a cost savings for a plan.

## Benefit as Percentage of Avg. Salary

Years worked	30	33	35
General Service:	75%	82.5%	87.5%
Deputy Sheriff, et al:	78%	86.1%	91.5%
Fire & Police:	82%	82%	82%

Note: Fire & Police officers may enter the DROP after 30 years.