071211

CITY OF ALEXANDRIA, VIRGINIA
AD HOC RETIREMENT BENEFIT ADVISORY GROUP

DISCUSSION GUIDE
(Updated Per 6/15/11 Meeting)

This document is intended only as a guide for discussions at Advisory Group meetings and does not reflect any decisions made or conclusions reached by the Advisory Group. It is designed to be a "living document" that will be updated as information is gathered and the Advisory Group's discussions progress. In other words, changes to this preliminary document, including corrections, additions and deletions, will be made.

I. Mandate from City Council

City Council Resolution 2432, adopted on January 25, 2011, established the Ad Hoc Retirement Benefit Advisory Group ("Advisory Group"). Section 3 of the Resolution sets forth the following "Tasks of the Advisory Group":

"a) The Advisory Group shall look at the need for any future changes to defined benefit pension plans created under the authority of the City Council.

"b) The Advisory Group shall examine the current financial status of the City's retirement funds, to advise the City Manager and City Council Pension and Compensation Subcommittee on any options that should be considered to meet the following objectives:

"i. To protect benefits already earned (accrued) by retirees and current employees,

"ii. To ensure the City remains competitive with neighboring jurisdictions in recruiting for capable and effective public service employees,

"iii. To provide an opportunity for City employees to save for and have a secure retirement,

"iv. To consider the advantages and disadvantages of defined benefit v. defined contribution pension plans and make recommendations on the structure of future plans, and

"v. To create a fiscally sustainable plan for funding future benefits whether earned or to be earned in the future."

Section 4 of the Resolution ("The Report of the Advisory Group") provides additional guidance on the Advisory Group's mandate:

"a) The Advisory Group shall evaluate need for changes based on:

"i. financial status of City's pension plans based on the outlook for future sustainability of those plans given actuarial outlook and investment risks and expected returns, and

"ii. The assessments of likely federal, state and GASB developments, to the extent known over the next 12 months, in accounting, disclosure and funding rules.

"b) The Advisory Group may offer a variety of options that should be considered by City Council to meet future challenges. Unanimity is not necessarily required for any option in the report.

"c) The Advisory Group Report shall contain an assessment of advantages and disadvantages vis-a-vis the objectives outlined above of each option presented.

"d) The Advisory Group Report shall include in the report an assessment of the ease or difficulty of administrative implementation of any recommended options for consideration."

Section 5 of the Resolution ("Reports, Process, Support and Schedule of the Advisory Group"), among other provisions, sets forth the following schedule for the Advisory Group:

(a) October 2011: the "Advisory Group shall provide an oral report to the City Manager and the City Council Compensation Subcommittee in October of 2011."

(b) November 2011: the "Advisory Group shall present a final written report to the City Manager and the full Council also in November 2011 (in time for use in developing FY 2013 Budget Guidance as part of any budget work session or retreat scheduled at that time)."

(c) Sunset: the Advisory Group "shall terminate after presentation of its written report to City Council, unless the Advisory Group petitions the City Council for an extension and that request is approved by City Council."

Section 5 also includes some additional guidance on the substantive mandate of the Advisory Council: the "Advisory Group may provide any advice it deems appropriate to the City Manager and the City Council at any time before its termination as Council considers any options available for financing the City's costs to participate in the VRS."

II. <u>Pension & Retirement Savings Plans For City Employees</u>

A. Virginia Retirement System

1. Type of Plan: Pooled, multiple employer defined benefit pension plan and trust established by the State of Virginia for State employees, employees of participating political subdivisions, teachers and other school division employees.

2. Two plan levels:

   (a) VRS Plan 1 for all employees hired into VRS-covered positions before July 1, 2010 employment

   (b) VRS Plan 2 for all employees hired into VRS-covered positions after June 30, 2010.

3. City employees covered:

   (a) Automatically covers all regular, full-time City employees who are not covered by the Firefighters & Police Officers Pension Plan.

   (b) Includes General Schedule employees

   (c) Includes Deputy Sheriffs, Emergency Medical Technicians, and Fire Marshals.

   (d) Includes City Council members, City Manager, City management staff

   (e) Excludes Firefighters and Police covered by the Firefighters & Police Officers Pension Plan

   (f) Numbers covered (5/23/2011 data)

      (1) Total = 2626

      (2) 1765 actives (total salary of $114,725,770)

         (i) VRS Plan 1: 1,663 ($109,118,537 salary)

         (ii) VRS Plan 2: 102 ($5,607,233 salary)

      (3) 682 retired or disabled

      (4) 179 terminated vested

4. Funding-Contributions:

(a) City makes all of the employer contributions to VRS at contribution rate set by VRS:

(1) VRS determines the contribution rate separately for each employer based on that employer's experience, a share of the VRS' pooled investment experience, and a share of VRS' administrative expenses

(i) The VRS had been using a 8% per year investment return assumption, then 7.5%, and recently reduced to 7%.

(ii) In most recent valuation, VRS changed its smoothing method for determining actuarial value of assets (suspended use of 80-120% corridor for market value vs actuarial value). This reduced the employer contribution rate from 9.82% of payroll to 7.78%, and saves the City about $2.5 million for FY 2011 and FY2012.

(2) Contribution rate is set every other year, so same rate applies for two years

(b) For City employees covered by VRS Plan 1, the City also contributes 5% of each employee's compensation each month. This is the entire "employee contribution" required by the VRS.

City Council Resolution 898 (June 8, 1982) provided:

"The City of Alexandria will assume and pay all pension contributions required of employees who are participating in the City's agreement with the Virginia Supplemental Retirement System, beginning with the contribution for the month of July, 1982."

(c) For City employees covered by VRS Plan 2, the City also contributes 1% of each employee's compensation each month. This is 1% of the 5% of "employee contributions" required by the VRS.

(d) City employees covered by VRS Plan 1 do not contribute to the Plan

(e) City employees covered by VRS Plan 2 are required to contribute 4% of their gross compensation to the Plan

(f) The City's employer contribution from for FY 2011 is 7.78% of each covered employee's basic compensation.

(1) This contribution rate is 4.01% for the Normal Cost + 3.77% for the Unfunded Liability Amortization

(g) In sum, for FY 2011

(1) For VRS Plan 1 employees, the City contributed $_______________ which is 12.78% of gross base payroll

(2) For VRS Plan 2 employees, the City contributed $_______________ which was 8.78% of gross base payroll

(3) VRS Plan 1 employees did not contribute

(4) VRS Plan 2 employees contributed $___________________ which was 4% of their gross pay

(h) In the June 30, 2010 VRS valuation for the City of Alexandria, the VRS projected that the City's contribution obligations (net of the 5% employee contribution) would be as follows:

FY Ending 6/30/11 = 7.78%
FY Ending 6/30/12 = 7.78%
FY Ending 6/30/13 = 12.34%
FY Ending 6/30/14 = 12.34%
FY Ending 6/30/15 = 14.63%

This projection assumes a 7% per year investment return, a level covered employee population, and plan experience matching exactly all other actuarial assumptions.

Projections are guesses about future developments and are inherently uncertain. There is some sense that these projected rates are inflated because they use a historically conservative investment return assumption.

(i) [Insert Steven Bland's 5/23/11 numbers for Pension Costs?]

4. <u>Plan Design Features</u>:

(a) VRS Plan 1:

(1) Creditable Compensation: base pay only (no overtime, bonuses, shift differentials, etc)

(2) Benefit based on Average Final Compensation x Multiplier x Years of Service Credit:

(i) Average Final Compensation: average of 36 highest consecutive months of Creditable Compensation

(ii) Multiplier: 1.7%

(3) Retirement with unreduced benefit: age 65 with 5 years of service credit; or age 50 with 30 years of service credit

(4) Retirement with reduced benefit: age 55 with 5 years of service credit; or age 50 with 10 years of service credit

(5) Disability retirement benefits provided: unable to perform job due to permanent disability

(i) VRS medical staff determines if an applicant is disabled.

(6) Forms of benefit: annuity, survivor annuity, partial lump sum

(7) Post-retirement COLA: annual adjustment that first applies on July 1 of second calendar year after retirement; match first 3% increase in CPI-U and one-half of remaining increase up to maximum COLA of 5%

(b) VRS Plan 2:

(1) Creditable Compensation: base pay only (no overtime, bonuses, shift differentials, etc)

(2) Benefit based on Average Final Compensation x Multiplier x Years of Service Credit:

(i) Average Final Compensation: average of 60 highest consecutive months of Creditable Compensation

(ii) Multiplier: 1.7%

(3) Retirement with unreduced benefit: Social Security Normal Retirement Age (66-67) with 5 years of service credit; or when age and service credits equal 90 (*e.g.* age 60 with 30 years of service, or age 65 with 25 years of service)

(4) Retirement with reduced benefit: age 60 with 5 years of service credit

(5) Disability retirement benefits provided: unable to perform job due to permanent disability

(6) Forms of benefit: annuity, survivor annuity, partial lump sum

(7) Post-retirement COLA: annual adjustment that first applies on July 1 of second calendar year after retirement; match first 2% increase in CPI-U and one-half of remaining increase up to maximum COLA of 6%

5. Governance:

(a) State Legislature controls the terms and conditions of the VRS Plans.

(b) Plans are administered by VRS staff. Administrative expenses paid from VRS assets.

(c) Investments are overseen by the VRS Board of Trustees appointed by the Governor

(d) City cannot withdraw from participation in the VRS; once it agreed to participate, its participation is irrevocable (Code of Virginia, Title 51, §51.1-139). If the City becomes financially unable to make contributions for any reason, there is a default procedure under which the City's employees' VRS coverage would be terminated and an amount would be disbursed to them.

(e) Can the City:

(1) exclude new employees from VRS coverage?

(2) exclude employee positions from VRS coverage?

B. City of Alexandria Firefighters and Police Officers Pension Plan

1. Type of Plan:

(a) Defined benefit pension plan as of January 1, 2004.

(b) History:

(1) Prior to 2004, the plan was a defined contribution plan named the "City of Alexandria Retirement Income Plan for Firefighters and Police Officers" ("Retirement Income Plan", described in part C, below). The Retirement Income Plan had replaced an older defined benefit plan (the "Old, Old Firefighters and Police Plan", closed in 1979) for new hires. Plan was converted to a defined benefit plan because of concerns regarding the management of the defined

contribution plan's investments.

(2) When the Plan was converted to a defined benefit plan in 2004, participants were given a one-time opportunity to convert the assets held in their individual accounts (attributable to City contributions) into defined benefit credits under the Plan for their pre-2004 employment (called the "past service election"). Participants converting were immediately vested in their benefits.

(3) Most participants did convert, and so have credits under the defined benefit plan for pre- and post-January 1, 2004 employment as firefighters and police officers.

(4) Participants who did not convert are nonetheless covered by the defined benefit plan for post-January 1, 2004 employment, but they were not immediately vested.

(5) Some participants who converted their account balances attributable to City contributions to the defined benefit plan still maintained accounts in the Retirement Income Plan for assets attributable to their voluntary, after-tax employee contributions or a prior rollover.

(6) As of 2011, 140 participants maintain the individual accounts under the old defined contribution plan (Retirement Income Plan). No further contributions are made to these individual accounts, but the participants continue to self-direct the investments of their accounts among investment choices selected by the Pension Plan Retirement Board.

(c) The formerly separate "City of Alexandria Firefighters and Police Officers Disability Income Plan" was incorporated into the Pension Plan as of February 21, 2004.

(d) Assets of Plan are held in two separate trusts: one for regular pension benefits and the other for disability pension benefits. Contributions are allocated between the trusts in accordance with actuarial recommendation.

2. <u>City employees covered</u>:

(a) Automatically covers all sworn firefighters and police officers employed by the City on or after February 21, 2004.

(1) No other City employees are covered (*e.g.* Deputy Sheriffs, Medics and Fire Marshals are excluded, and are covered instead by VRS and City Supplemental Plan)

(b) Numbers covered (7/1/2010 data: Cheiron valuation)

(1) Total = 650

(2) 462 actives (total annual payroll = $32,638,214)

(3) 82 regular retirees

(4) 66 disabled retirees

(5) 10 DROP participants (retired but still working)

(6) 19 terminated vested

3. <u>Funding-Contributions</u>:

(a) Employee Contributions:

(1) Since 2004, covered employees are required to contribute 8% of their gross base pay. Employee contributions are deducted for each biweekly paycheck.

(2) Total of 8% is allocated between the Basic Plan and the Disability Plan as determined by actuarial valuation.

(i) For FY 2010 and 2009, the 8% was allocated as follows: 7.2% for regular pension benefits, and 0.8% for disability benefits. Prior thereto the allocation was 7.5% / 0.5%.

(ii) The regular pension benefits portion (currently 7.2%) is pre-tax (not included in employee income for income or payroll taxes)

(iii) The disability pension portion (currently 0.8%) is after-tax (included in employee income for income and payroll tax). This is so the disability retirement benefits are not subject to income taxes when received.

(3) City Manager had proposed for FY2012 Budget that the employee contribution rate be increased to 9%. City Council did not adopt the increase as part of the final FY2012 Budget.

(b) City contributions:

(1) City is responsible for funding the benefits not funded by the employees' contributions. The City makes annual employer

contributions in amounts determined by City Council based on advice of the Plan's actuary. The City has a policy of contributing the full amount of contribution recommended by the actuary.

(c) Contributions by year [see part IV below: Steven Bland]

(1) FY 2011 (July 1, 2010-June 30, 2011)

(i) Employees: 8% of gross base pay

(ii) City: $8.3 million = 25.17% of gross base payroll (21.65% for regular pension + 3.52% for disability)

(2) FY2010

(i) Employees: 8% of gross pay = $2,566,597

(ii) City: $8,646,432 = 26.79% of gross base payroll (21.5% for regular pension + 4.94% for disability)

(3) FY2009

(i) Employees: 8% of gross pay = $2,571,087

(ii) City: $8,532,272 = 26.41% of gross base payroll (21.96% for regular pension + 4.45% for disability)

(3) FY2008

(ii) Employees: 8% of gross base pay = $2,865,183

(ii) City: $7,993,002 = 22.35% of gross base payroll (20 % for regular pension + 2.35% for disability)

(4) FY2007

(i) Employees: 8% of gross pay = $2,347,471

(ii) City: $7,127,531 = 22.35% of gross base payroll (20% for regular pension + 2.35% for disability)

(5) FY2006

(i) Employees: 8% of gross pay = $2,269,457

(ii) City: $6,499,440= 22.35% of gross base payroll (20% for regular pension + 2.35% for disability)

(6) FY2005

(i) Employees: 8% of gross pay = $2,062,648

(ii) City: $5,926,422 = 22.35% of gross base payroll (20% for regular pension + 2.35% for disability)

(7) FY2004

(ii) Employees: 8% of gross pay = $658,539 (partial year)

(ii) City: $5,662,508 = 22.35% of gross base payroll (20% for regular pension + 2.35% for disability)

(d) Reasons for contribution increases:

(1) "[M]ainly due to rates of return that were far lower than projected" since July 1, 2008 valuation. [CAFR, p. 92]

(2) Smoothing of market values to produce actuarial value of assets; losses from 2008 are smoothed in over four years reducing asset values. Change in smoothing corridor for 2009 valuation from 80-120% to 75-125% lowered the recommended contribution rates for the Basic and Disability components by nearly $400,000. [CAFR, p. 92]

4. <u>Valuation (as of July 1, 2010 draft)</u>

(a) Basic Plan

(1)	Actuarial Liability (AL) =	$208.3 million
(2)	Actuarial Value of Assets =	$144.1 million
(3)	Market Value of Assets =	$129.5 million
(4)	Funded Ratio (actuarial values) = 69.2%	
(5)	Normal Cost Rate =	10.81%
(6)	Amortization of unfunded AL = (19 yrs left on original 25 yrs period)	14.25%
(7)	Actuarially Recommended Contribution Rate =	25.06% of payroll
(8)	Annual Required Contribution Rate =	$8.2 million
(9)	Investment return assumption =	7.5%

(b) Disability Plan

(1) Actuarial Liability (AL) = $16.5 million
(2) Actuarial Value of Assets = $13.5 million
(3) Market Value of Assets = $11.7 million
(4) Funded Ratio (actuarial values) = 81.9%
(5) Normal Cost Rate = 3.82%
(6) Amortization of unfunded AL = 0.67%
(7) Actuarially Recommended Contribution Rate = 4.49% of payroll
(8) Annual Required Contribution Rate = $1.5 million
(9) Investment return assumption = 7.5%

5. Stress Testing Results (May 2011): Projected growth in contribution rates:

(a) Basic Plan:

(1) 2013 (with lag): City = 28.9%; Employees = 7.2%

(2) 2014-2025: City = 28.6%; Employees = 7.2%

(b) Disability Plan:

(1) 2013-2025: City = 4.9%; Employees = 0.8%

6. Cheiron Presentation (June 2011): Three scenarios showing how investment performance affects City's and employees' contributions for the basic Plan and the Disability Plan.

(a) Basic Plan: Contribution as percentage of salary if Plan earns 7.5% return for all future years

2012 City = 25.0%; Employees = 7.2%
2013 City = 27.8%; Employees = 7.2%
2014 City = 29.4%; Employees = 7.2%
2015 City = 29.4%; Employees = 7.2%
2016 City = 29.5%; Employees = 7.2%
2017 City = 29.4%; Employees = 7.2%
2018 City = 29.3%; Employees = 7.2%
2019 City = 29.2%; Employees = 7.2%
2020 City = 29.1%; Employees = 7.2%
2021 City = 29.0%; Employees = 7.2%
2022 City = 28.8%; Employees = 7.2%
2023 City = 28.7%; Employees = 7.2%
2024 City = 28.5%; Employees = 7.2%
2025 City = 28.3%; Employees = 7.2%

Disability Plan: Contribution as percentage of salary if Plan earns 7.5% return for all future years

2012 City = 4.9%; Employees = 0.8%
2013 City = 5.4%; Employees = 0.8%
2014 City = 5.6%; Employees = 0.8%
2015 City = 5.6%; Employees = 0.8%
2016 City = 5.6%; Employees = 0.8%
2017 City = 5.6%; Employees = 0.8%
2018 City = 5.6%; Employees = 0.8%
2019 City = 5.6%; Employees = 0.8%
2020 City = 5.5%; Employees = 0.8%
2021 City = 5.5%; Employees = 0.8%
2022 City = 5.5%; Employees = 0.8%
2023 City = 5.4%; Employees = 0.8%
2024 City = 5.4%; Employees = 0.8%
2025 City = 5.3%; Employees = 0.8%

(b) Basic Plan: Contribution as percentage of salary if Plan earns 20% return for FY2011 and then 7.5% return for all future years

2012 City = 25.0%; Employees = 7.2%
2013 City = 26.9%; Employees = 7.2%
2014 City = 27.3%; Employees = 7.2%
2015 City = 26.1%; Employees = 7.2%
2016 City = 24.9%; Employees = 7.2%
2017 City = 24.6%; Employees = 7.2%
2018 City = 24.4%; Employees = 7.2%
2019 City = 24.3%; Employees = 7.2%
2020 City = 24.2%; Employees = 7.2%
2021 City = 24.1%; Employees = 7.2%
2022 City = 23.9%; Employees = 7.2%
2023 City = 23.8%; Employees = 7.2%
2024 City = 23.6%; Employees = 7.2%
2025 City = 23.5%; Employees = 7.2%

Disability Plan: Contribution as percentage of salary if Plan earns 20% return for FY2011 and then 7.5% return for all future years

2012 City = 4.9%; Employees = 0.8%
2013 City = 5.3%; Employees = 0.8%
2014 City = 5.4%; Employees = 0.8%
2015 City = 5.3%; Employees = 0.8%
2016 City = 5.2%; Employees = 0.8%
2017 City = 5.2%; Employees = 0.8%
2018 City = 5.2%; Employees = 0.8%

2019 City = 5.1%; Employees = 0.8%
2020 City = 5.1%; Employees = 0.8%
2021 City = 5.1%; Employees = 0.8%
2022 City = 5.0%; Employees = 0.8%
2023 City = 5.0%; Employees = 0.8%
2024 City = 5.0%; Employees = 0.8%
2025 City = 4.9%; Employees = 0.8%

(c) Basic Plan: Contribution as percentage of salary if Plan earns 20% return for FY2011 and then 6% return for all future years

2012 City = 25.0%; Employees = 7.2%
2013 City = 26.9%; Employees = 7.2%
2014 City = 27.5%; Employees = 7.2%
2015 City = 26.5%; Employees = 7.2%
2016 City = 25.9%; Employees = 7.2%
2017 City = 26.4%; Employees = 7.2%
2018 City = 27.1%; Employees = 7.2%
2019 City = 27.9%; Employees = 7.2%
2020 City = 28.9%; Employees = 7.2%
2021 City = 30.1%; Employees = 7.2%
2022 City = 31.4%; Employees = 7.2%
2023 City = 32.9%; Employees = 7.2%
2024 City = 34.6%; Employees = 7.2%
2025 City = 36.8%; Employees = 7.2%

Disability Plan: Contribution as percentage of salary if Plan earns 20% return for FY2011 and then 6.0% return for all future years

2012 City = 4.9%; Employees = 0.8%
2013 City = 5.3%; Employees = 0.8%
2014 City = 5.4%; Employees = 0.8%
2015 City = 5.4%; Employees = 0.8%
2016 City = 5.3%; Employees = 0.8%
2017 City = 5.3%; Employees = 0.8%
2018 City = 5.4%; Employees = 0.8%
2019 City = 5.4%; Employees = 0.8%
2020 City = 5.5%; Employees = 0.8%
2021 City = 5.6%; Employees = 0.8%
2022 City = 5.6%; Employees = 0.8%
2023 City = 5.7%; Employees = 0.8%
2024 City = 5.8%; Employees = 0.8%
2025 City = 6.0%; Employees = 0.8%

6. Plan Design Features:

(a) Generally, normal retirement age benefit based on average earnings x multiplier x years of service credit:

    (1) 2.5% of average monthly compensation for each of first 20 years of service credit; plus

    (2) 3.2% of average monthly compensation for each year of service credit from 21 to 30 years.

(b) Average monthly compensation: average of 48 consecutive highest months of compensation.

(c) Limits:

    (1) No more than 30 years of credit

    (2) Benefit cannot exceed 82% of average monthly compensation

(d) Can retire with unreduced pension:

    (1) age 55 if hired as firefighter or police officer before January 1, 2004;

    (2) age 55 and 5 years if hired as firefighter or police officer on or after January 1, 2004;

    (3) 25 years of service credit regardless of age

(e) Can retire with actuarially reduced benefit at age 50 with 20 years of service credit

(f) Forms of pension include single life annuity, joint and survivor annuity, guaranteed payment option.

(g) DROP option: if completed 30 years of service, allows participant to continue working for City for up to 3 years and have pension benefits paid into a DROP account earning interest.

(h) Post-retirement COLA: pension benefit adjusted annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year with lifetime cap of 100%; different calculation under certain options; benefit can be adjusted down for deflation as well as up for inflation

    (1) COLA history:

        2011 = 1.63%
        2010 = 2.63%

2009 = 0.03%
2008 = 3.00%
2007 = 2.08%
2006 = 3.00%
2005 = 2.96%

(i) If still have Retirement Income Plan individual account, account is payable at retirement in either lump sum distribution or as an annuity.

(j) Disability Benefits:

(1) If participant becomes disabled in or after 2004 while actively employed by the City as a firefighter or police officer before age 55, a disability benefit is payable. The Plan provides two types of disability benefits:

(i) a basic disability benefit that is payable for the period of disability up to age 55; and

(ii) a supplemental disability benefit that is payable after age 55 (in addition to regular pension payable at age 55)

Prior to 2004 the age was 60, not 55.

(2) The amount of the disability benefit depends on the nature of the disability and whether it was service connected.

(i) Service connected total and permanent disability while actively employed: 70% of average monthly compensation

(ii) Non-service connected total and permanent disability while actively employed: 66 2/3% of average monthly compensation

(iii) Service connected partial disability while actively employed: 66 2/3 % of average monthly compensation, less workers compensation benefits

(iv) Non-service connected partial disability while actively employed: 50 % of average monthly compensation

(3) Adjustment in benefits at age 55:

(i) Purpose: to offset disability benefit by retirement benefits under the Plan and the Retirement Income Plan; and so that the participant's combined disability benefit and retirement benefit reflects the average monthly compensation being paid at that time to a firefighter or police officer who holds the same rank or grade occupied when the participant became disabled.

(ii) Add disability benefit being paid, normal retirement benefit under the Plan, and (if the participant has a Retirement Income Plan account attributable to City contributions), the annuitized benefit payable by the Retirement Income Plan;

(iii) Reduce the sum of (ii) so that it is roughly actuarially equivalent to the amount of disability benefits that the participant would have received under the Plan if he:

* had continued to work for the City as a firefighter or police officer until age 55;
* continued to occupy the same rank and grade he held immediately before his disability;
* had compensation equal to the basic pay applicable to such rank and grade (ignoring step increases) for the 48-month period before his 55th birthday; and
* he became disabled and began receiving disability benefits immediately prior to his 55th birthday.

(4) COLA adjustments:

(i) Pre-age 55: annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year and 100% lifetime; benefit can be adjusted down for deflation as well as up for inflation

(ii) Post-age 55: annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year and 100% lifetime. Applies to the benefit amount produced by the adjustment at age 55. Capped at 3% per year and 100% lifetime; benefit can be adjusted down for deflation as well as up for inflation

7. <u>Governance</u>:

(a) City Council: (1) controls the terms and conditions of the Plan, (2) decides the amount of the City's annual contribution to the Plan; (3) reserves right to amend or terminate

(b) Pension Plan Retirement Board may recommend changes in the Plan to the City Council. The Board consists of 8 members appointed by the City Council: 4 representatives of the City, 2 nominees of the Firefighters, and 2 nominees of the Police.

(c) Plan Administrator is appointed by the City Manager. Currently Prudential provides administrative services under contract with the City, and has been providing investment services as well.

(d) Investments are overseen by the Pension Plan Retirement Board. Recently, the City engaged Dahab Associates Inc. (Barry Bryant, Managing Director) to advise the Board on asset allocation and selection of investment managers.

(e) Plan assets have been held in trust with Prudential (Basic and Disability) and SunTrust Bank (Disability). But the Board and City are transitioning to an arrangement under which Coamerica will trustee the assets.

(f) All administrative expenses, including professional service providers' fees, are paid from Plan assets (not from City assets).

(g) City recently engaged a new actuarial firm, Cheiron, to perform July 1, 2010 Actuarial Valuation. Replaces The Segal Company.

C. City of Alexandria Retirement Income Plan for Firefighters and Police Officers (Closed)

1. <u>Type of plan</u>: As noted under B, above, this is a defined contribution, individual account plan that was closed to new participants in 2004 as part of the conversion to the defined benefit plan (the "City of Alexandria Firefighters and Police Officers Pension Plan").

2. <u>City employees covered</u>: 140 firefighters and police officers still have accounts in this Retirement Income Plan:

(a) Participants who elected not to convert their account balances into defined benefit plan past service credits during the one-time "past service election" in 2004.

(b) Participants who converted their account balances attributable to City contributions into defined benefit plan past service credits but maintain their account to hold their voluntary, after-tax employee contributions or a prior rollover.

(c) Participants who were disabled before 2004.

3. Funding-Contributions: No City nor employee contributions since 2004. Prior to then, the City made all contributions (except some voluntary additional contributions by employees).

4. Plan Design Features: Benefits limited to individual participant's account balance

5. Governance:

(a) City Council: (1) controls the terms and conditions of the Plan, (2) reserves right to amend or terminate

(b) Pension Plan Retirement Board may recommend changes in the Plan to the City Council. The Board consists of 8 members appointed by the City Council: 4 representatives of the City, 2 nominees of the Firefighters, and 2 nominees of the Police.

(c) Plan Administrator currently is Prudential under contract with the City.

(d) Non-investment administrative expenses are borne by the City but are minimal.

(e) Investments are participant self-directed. Investment options selected by the Pension Plan Retirement Board

D. City of Alexandria "Old, Old" or "Legacy" Firefighters and Police Officers Pension Plan (Closed)

1. Type of plan: The original defined benefit pension plan closed to new participation in 1979. Replaced by the Retirement Income Plan (itself closed to new participation in 2004).

2. City employees covered: 139 retired (regular and disability) firefighters and police officers; no current employees.

3. Funding: City contributes annually to continue funding already earned benefits. City contributed $1.7 million in FY2011, FY2010, and FY2009. Contributions will continue at this level for 2 - 3 years, and then drop by about $500,000 to about $1.2 million another 15 years. Plan will eventually terminate once all retirees and surviving spouses die.

D. City of Alexandria "Old, Old" or "Legacy" Firefighters and Police Officers Pension Plan (Closed)

1. Type of plan: The original defined benefit pension plan closed to new participation in 1979. Replaced by the Retirement Income Plan (itself closed to new participation in 2004).

2. City employees covered: 139 (regular and disability) retired firefighters and police officers; no current employees.

3. Funding: City contributes annually to continue funding already earned benefits. City contributed $1.7 million in FY2011, FY2010, and FY2009. Contributions will continue at this level for 2 - 3 years, and then drop by about $500,000 to around $1.2 million per year for another 15 years. Plan will eventually terminate once all retirees and surviving spouses die.

E. City of Alexandria Supplemental Retirement Plan

1. Type of Plan: Defined benefit plan established by the City for City employees in 1970.

2. City employees covered:

   (a) Automatically covers all regular, full-time City employees who are not covered by the Firefighters & Police Officers Pension Plan.

   (b) Automatically covers all regular, part-time City employees who are scheduled to work at least 50% time and who are not covered by the Firefighters & Police Officers Pension Plan.

   (c) Includes General Schedule employees

   (d) Includes Sheriff, Deputy Sheriffs, Emergency Medical Technicians, and Fire Marshals.

   (e) Includes City Council members, City Manager, City management staff

   (f) Includes employees of Virginia Department of Health assigned to City of Alexandria (paid by State and covered by the VRS thru the State, but the City provides coverage under the City's Supplemental Retirement Plan)

      (1) Currently 89 employees with annual salaries equal to $5,350,297

      (2) Majority contribute 1% of salary to the Plan

(3) Employees hired after September 1, 2009 contribute 2% of salary

(g) Includes few State employees working for the Courts. [Info to be provided]

(h) Excludes Firefighters and Police covered by the Firefighters & Police Officers Pension Plan

(i) Excludes City school system employees

(j) Numbers covered (July 1, 2010 data):

(1) Total = 3,078
(2) Actives = 2,033 (total payroll = $124,936,457)
(i) Non-uniformed = 1,794
(ii) Uniformed = 239
(3) Retired = 277
(4) Disabled = 20
(5) Terminated vested = 718
(6) Terminated vested (not yet withdraw employee contributions) = 40

3. <u>Funding-Contributions</u>:

(a) City makes annual employer contributions in amounts determined by City Council based on advice of the Plan's actuary.

(b) Employees who were participants in the Plan before July 1, 2009 are not required to contribute to the Plan.

(c) Employees who became participants in the Plan on or after July 1, 2009 are required to contribute 2% of their base pay to the Plan, except for Deputy Sheriffs, Medics and Fire Marshals.

(1) If hired during or after FY2011, new employees are required to pay 2% to the City's Supplemental Plan and 4% to the VRS Plan 2.

(2) Exception: Deputy Sheriffs, Medics and Fire Marshals hired during or after FY2011 only pay the 4% contribution to VRS Plan 2.

(d) Prior to July 1, 2009, the City's contributions included "pick-up contributions" equal to 2% of base pay for each employee. These City contributions were treated as employee contributions that could be withdrawn by an employee upon termination. This enabled short-term employees to withdraw assets that should have stayed in the Plan and been forfeited.

(1) As of July 1, 2009, newly hired employees are required to contribute 2%, as noted above.

(2) For employees who were participants before July 1, 2009, the City will continue to make the 2% additional contribution, but these contributions will no longer be treated as employee contributions.

(e) Recent history of contributions for General Schedule employees: [Steven Bland to provide dollar figures]

FY2011: City: $___________________ 19.17% of payroll (thru ____, 2011)

Employees: $________________ (thru _________, 2011)

FY2010: City: $________________ = 17.67% of payroll (thru___________, 201__).
Projected at $_____________for whole FY

Employees: $196,870 (thru___________, 201__)

FY2009: City: $9,567,122 = 17.71% of payroll
Employees: $________________

FY2008: City: $5,936,354 = 16.98% of payroll

FY2007: City: $_____________________ = 16.98% of payroll

FY2006: City: $_____________________ = 11.00% of payroll

FY2005: City $_____________________ = 11.00% of payroll

FY2004: City $_____________________ = 9.25% of payroll

FY2003: City: $_____________________ = 8.75% of payroll

FY2002: City: $_____________________ = 9.00% of payroll

FY2001: City: $_____________________ = 10.06% of payroll

FY2000: City: $_____________________ = 13.90% of payroll

(e) Recent history of City contributions for Deputy Sheriffs, Medics, and Fire Marshals (including Supplemental Plan and Retirement Income Plan): [Steven Bland to provide dollar figures]

FY2011: $_____________________ = 22.52% of payroll (18.52% for new employees)

FY2010: $_____________________ = 22.35% of payroll

FY2009: $_____________________ = 22.35% of payroll

FY2008: $_____________________ = 22.41% of payroll

FY2007: $_____________________ = 22.41% of payroll

FY2006: $_____________________ = 22.35% of payroll

FY2005: $_____________________ = 22.35% of payroll

FY2004: $_____________________ = 22.35% of payroll

FY2003: $_____________________ = 22.35% of payroll

FY2002: $_____________________ = 23.00% of payroll

FY2001: $_____________________ = 22.96% of payroll

FY2000: $_____________________ = 23.00% of payroll

Pursuant to a compensation parity practice or policy for uniformed employees, the City has a practice or policy that if the sums of its contributions to the Supplemental Plan and VRS for a year do not exceed 22.35%, the City will contribute the difference between actual percentage contribution and 22.35% to the "City of Alexandria Retirement Income Plan for Deputy Sheriffs, Medics, and Fire Marshals" (see below). If the City's contribution to the Supplemental Plan exceeds 22.35%, the City will make no contribution to the Retirement Income Plan.

(f) Plan not liable for benefits of pensioners who retired before 2000. Those liabilities and associated Plan assets were transferred to the Principal Financial Group in or before 1999 when pensioners were insured at retirement.

(g) Actuarial valuation report [Steven Bland to provide most recent report pending Cheiron completion of new valuation]

4. <u>Plan Design Features</u>:

(a) Generally, benefit based on average earnings x multiplier x years of service credit:

(1) Earnings include base pay only (no overtime, bonuses, shift differentials, etc)

(2) Average earnings: average of any 36 consecutive months of creditable service within the 180 full calendar month period preceding retirement or termination.

(3) Benefit formula for General Schedule employees:

  (i) 0.8% of average earnings multiplied by years of credited service earned after December 31, 1987; plus

  (ii) 1.625% of Past Service Compensation up to $100 plus 0.25% of Past Service Compensation in excess of $100, multiplied by Years of Credited Service earned between July 31, 1960 and August 1, 1979; plus

  (iii) 1.625% of Participants' Average Earnings up to $100 plus 0.25% of the Participant's Average Earnings in excess of $100, multiplied by the Years of Credited Service earned between July 31, 1970 and January 1, 1988 increased by 50%

(4) Benefit formula for Deputy Sheriffs, Medics and Fire Marshals:

  (i) 0.6% of average earnings multiplied by first five years of credited service ; plus

  (ii) 0.9% of average earnings multiplied by years 6-15 of credited service ; plus

  (iii) 1.0% of average earnings multiplied by years 16+ of credited service .

(5) Retirement with unreduced benefit:

  (i) General Schedule employees: age 65 with 5 years of service credit; or age 50 with 30 years of service credit

  (ii) Deputy Sheriffs, Medics and Fire Marshals: age 65 with 5 years of service credit; or age 50 with 25 years of service credit (as a Deputy Sheriff, Medic, or Fire Marshal).

(6) Retirement with reduced benefit:

  (i) age 55 with 5 years of service credit;

(ii) age 60, regardless of service, if full-time employee

(iii) age 66, regardless of service, if part-time employee

(7) Disability retirement benefits provided: active vested employee who is eligible for Social Security disability benefits (total and permanent disability)

(8) Forms of benefit: annuity, survivor annuity, guaranteed income, lump sum

(9) No post-retirement COLA

5. Assets, Liabilities & Annual Required Contribution

(a) per draft 7/1/10 actuarial valuation by Prudential

(b) Actuarial Value of Assets = $81,356,870
(vs $69,806, 595 as of 7/1/09)

(c) Market Value of Assets = $81,356,870
(vs $69,806, 595 as of 7/1/09)

(d) Present Value of Accrued Benefits = $106,344,779
(vs $98,415,615 as of 7/1/09)

(e) Present Value of Projected Benefits = $166,065,765
(vs $158,920,110 as of 7/1/09)

(f) Annual Required Contribution = $9,193,421

6. Governance:

(a) City Council: (1) controls the terms and conditions of the Plan, (2) decides the amount of the City's annual contribution to the Plan; (3) reserves right to amend or terminate

(b) Plan is currently administered by the Prudential under contract with the City [Steven Bland to review]

(c) Plan's investments are overseen by City's Chief Investment Officer within the Department of Finance's Pension Administration Division, but final authority rests with City Manager.

(d) City recently engaged a new actuarial firm, Cheiron, to perform new July 1, 2010 Actuarial Valuation. Prudential has been the actuary.

(e) Plan's administrative expenses, including professional service provider fees, paid from Plan assets.

F. City of Alexandria Retirement Income Plan for Deputy Sheriffs, Medics, and Fire Marshals

1. Type of Plan: Defined contribution, individual account pension plan

2. City employees covered:

   (a) Automatically covers all permanent, full time Deputy Sheriffs, Medics and Fire Marshals employed by the City.

   (b) 239 covered employees (all actives)

3. Funding-Contributions:

   (a) City contributes percentage of each covered employee's compensation. The contribution rate is determined each year by the City Council.

   (b) City Council has been contributing to the Plan the difference, if any, between (1) and (2) in any given year:

      (1) total percentage of payroll contributed for the permanent, full time Deputy Sheriffs, Medics and Fire Marshals to the VRS and City Supplemental Plan, and

      (2) 22.35% of total payroll for the permanent, full time Deputy Sheriffs, Medics and Fire Marshals.

   This practice or policy is subject to change.

   (c) For FY2011, the City's contribution to the Plan is zero percent / zero dollars. The total percentage of payroll contributed for the permanent, full time Deputy Sheriffs, Medics and Fire Marshals to the VRS and City Supplemental Plan exceeds 22.35%, so no contribution is paid.

   (d) No employee contributions allowed.

4. Plan Design Features:

   (a) Normal retirement at age 60. Benefit payable is account balance.

   (b) Termination, disability, death prior to retirement: distribution or rollover of account balance

5. Governance:

   (a) City Council: (1) controls the terms and conditions of the Plan, (2) decides the amount of the City's annual contribution to the Plan; (3) reserves right to amend or terminate

   (b) Plan is now administered by ICMARC under contract with the City. ICMARC also administers the City's Deferred Compensation Plan.

   (c) No administrative expense to the City, except minimal amount of staff time.

6. Investments: Investment of individual accounts is self-directed by participants using Prudential platform, but will soon transition to ICMA-RC platform.

G. Deferred Compensation Plan (IRC Section 457)

1. Type of Plan: Defined contribution, individual account pension plan

2. City employees covered:

   (a) voluntary plan; eligible employees have to elect to join

   (b) any permanent full-time employee of the City is eligible to join

   (c) any permanent part-time employee of the City scheduled to work at least 50% time is eligible to join

   (d) eligible employees include General Schedule employees, Firefighters, Police Officers, Deputy Sheriffs, Medics, Fire Marshals and City Council members

   (e) Total number of participating employees is 1,836 (actives and retirees)

3. Funding-Contributions:

   (a) Only voluntary employee contributions; pre-tax, payroll-deducted in participant-elected amounts up to annual deferral limit set by IRC.

   (b) No City contributions.

4. Plan Design Features: after separation from City employment, participant (or beneficiary, in event of death) can receive distribution of individual account balance in various forms. Participant loans and hardship withdrawals available under IRS rules.

5. <u>Governance</u>: City Council controls terms and conditions of Plan. ICMARC administers the Plan under contract with the City.

6. <u>Investments</u>: Investment of individual accounts is self-directed by participants using ICMA-RC platform.

H. ICMARC Payroll Deduction Roth IRA Accounts

Voluntary individual retirement savings plan sponsored by ICMARC. City allows any regular employee to make after-tax contributions through payroll deduction. The "plan" is not considered to be sponsored by the City, and the City does not make any contributions.

I. Social Security & Medicare

1. All City employees are covered by the federal Social Security system.

2. Employees contribute (tax):

   (a) Social Security (2011): 4.2% of earnings up to $106,800

   Temporary reduced rate. Normally 6.2%

   (b) Medicare (2011): 1.45% of all earnings

3. City, as employer, contributes (tax):

   (a) Social Security (2011): 6.2% of earnings up to $106,800

   (b) Medicare (2011): 1.45% of all earnings

III. <u>Retiree Health Insurance Policy</u>

1. No formal retiree health plan for retired City employees.

2. But, City Council has policy:

   (a) City retirees who were full-time City employees and are receiving a pension from VRS or the Firefighters and Police Pension Plan are permitted to participate in the City's health insurance plan for active employees on a self-paid basis.

(1) Enables retirees to benefit from pooled rates; in effect, actives subsidize retirees.

(2) Pooling effect has been valued at about $300 per year. Will be worth more as cost of health plan coverage increases.

(b) City gives pre-Medicare retirees a monthly stipend towards their monthly health insurance premiums under the City's health plan or another health plan [???].

(1) Retiree must have been a full-time City employees and be receiving a pension from VRS or the Firefighters and Police Pension Plan

(2) Ceases at age 65 (when Medicare eligible)

(3) Stipend is $260 per month ($3,120 per year) for retiree who had 25 years of service with the City

(4) Retirees with less service receive lower, proportional stipend amounts

(5) City Council has not raised the $260 per month stipend in at least 5 years.

(6) Before 2008, the full $260 per month stipend was payable to retirees with as little as 5 years of service. Eligibility was tightened in 2008.

(7) City pays the stipend from general revenues; no pre-funding, no trust fund.

(c) No plan document or other documentation of policy; not well known among City employees. [???]

IV. <u>Retiree Life Insurance Policy</u> [??? Presentation to be made @ July 14th meeting]

A. Provides 2 x final salary life insurance for retiree until age 65

B. From age 65 to 70, phased in reduction in coverage until 50% of final salary at age 70

C. Insured under group policy, but not start to pre-fund until 2008.

D. unfunded vested liability of $10 million

V. Pension Costs & City Budget

A. Overall

The City's contribution costs for the following pension programs: VRS, Fire & Police Pension Plan; City Supplemental Plan, and "Old, Old" Fire & Police Plan

Fiscal Year	Contribution Total	Total City Budget	Pension as % of Budget
FY2012	$39.7m	$699m	5.7%
FY2011	$37.0m	$660m	5.6%
FY2010	$34.8m	$642m	5.4%
FY2009	$35.2m	$658m	5.3%
FY2008	$31.5m	$630m	5.0%
FY2007	$31.7m	$616m	5.1%
FY2006	$24.2m	$563m	4.3%
FY2005	$21.3m	$520m	4.1%
FY2004	$18.6m	$478m	3.9%
FY2003	$17.3m	$437m	4.5%

Note: These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) cost of any other post-retirement benefits provided by the City.

B. First Component: City Contributions To Current Firefighters & Police Officers Pension Plan

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2012	$9.5m	28.22%*	$34m**

* Projected and not adjusted for smoothing or investment gains through FY2011. If adjusted for investment gains, smoothed in, could be 22-23%.

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2011	$8.3m	25.17%	$33m
FY2010	$8.6m	26.79%	$32m
FY2009	$8.8m	26.41%	$33m
FY2008	$7.5m	22.35%	$33m
FY2007	$7.3m	22.35%	$33m
FY2006	$7.1m	22.35%	$32m
FY2005	$6.5m	22.35%	$29m
FY2004	$5.6m	22.35%	$25m
FY2003	$6.0m	23.00%	$26m

Note: These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) cost of any other post-retirement benefits provided by the City.

C. Second Component: City Contributions For Deputy Sheriffs, Medics, Fire Marshals To VRS, City Supplemental Plan, Retirement Income Plan

Fiscal Year City's Contribution: $ and % of Salary Total "Pensionable" Salary

FY2012	$4.2m	25.59%	$16.6m*

* Assumes 2% salary increase.

FY2011	$4.0m	24.52%	$16.2m
FY2010	$3.6m	22.35%	$15.9m
FY2009	$3.6m	22.35%	$16.0m
FY2008	$3.6m	22.41%	$16.2m
FY2007	$3.5m	22.41%	$15.5m
FY2006	$3.2m	22.35%	$14.2m
FY2005	$2.9m	22.35%	$13.1m
FY2004	$2.7m	22.35%	$12.0m
FY2003	$2.5m	22.35%	$11.2m

Note: These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) cost of any other post-retirement benefits provided by the City.

D. Third Component: City Contributions For General Schedule Employees To VRS and City Supplemental Plan

Fiscal Year	City's Contribution: $ and % of Salary	Total "Pensionable" Salary
FY2012	$22.6m 19.96%	VRS-$100m / CSP-$113m*

* Assumes 2% salary increase.

FY2011	$21.3m 19.17%	VRS-$98m / CSP-$111m
FY2010	$19.3m 17.67%	VRS-$96m / CSP-$109m
FY2009	$19.5m 17.71%	VRS-$100m / CSP-$110m
FY2008	$18.7m 16.98%	VRS-$98m / CSP-$110m
FY2007	$18.3m 16.98%	VRS-$93m / CSP-$108m
FY2006	$11.3m 11.00%	VRS-$86m / CSP-$103m
FY2005	$10.0m 11.00%	VRS-$80m / CSP-$91m
FY2004	$8.4m 9.25%	VRS-$78m / CSP-$90m
FY2003	$7.0m 8.75%	VRS-$74m / CSP-$80m

Note: These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) cost of any other post-retirement benefits provided by the City.

E. Fourth Component: City's Legacy Contributions To Closed "Old, Old"Firefighters & Police Officers Pension Plan

Fiscal Year	City's Contribution
FY2012	$1.7m
FY2011	$1.7m
FY2010	$1.7m
FY2009	$1.7m
FY2008	$0.9m
FY2007	$1.5m

FY2006	$1.1m
FY2005	$0.9m
FY2004	$1.0m
FY2003	$0.9m

VI. <u>Comparisons To Local Jurisdictions</u>

A. Caveats

1. A comparison of pension plans and other retirement benefits among jurisdictions can be tricky because there are many variations in plan terms and conditions from jurisdcition to jurisdiction and some favorable provisions in one plan may be offset by some unfavorable provisions in the same plan. Some plans might require employee contrinbutions, and others not. Some plans might allow salary enhancements in determining benefit levels, and others not. Some plans might have a relatively higher normal retirement age but a less favorable benefit formula.

   Also, how a particular plan's terms are viewed by an individual employee may depend on his or her circumstances.

   In short, a true "apples to apples" comparison is difficult to achieve.

2. The value of the City's pension coverage is only one component of employee compensation, and only one consideration in a prospective employee's decisionmaking as to whether to accept employment with the City.

3. The value of the City's pension coverage is only one consideration in a current employee's decisionmaking as to whether to stay with the City or accept employment in another jurisdiction.

   However, the attractiveness of one City pension plan's terms (e.g. Fire & Police) relative to another (VRS & City Supplemental) may affect decisions by City employees to transfer positions within City employment.

4. To our knowledge, no local jurisdiction has terminated or frozen its defined benefit plan and replaced it with a defined contribution plan. However, some local jurisdictions are making, or recently made, adjustments in their pension plans. [????]

B. Income Replacement Value of Local Jurisdictions' Plans

1. See Steven Bland's "Local Comparators" charts from June 15, 2011 meeting [document 3(c)]

(a) Local comparators for uniformed employees (Fire & Police, Deputy Sheriffs, Medics, Fire Marshals) with 25 and 30 years of credited service at normal retirement age.

(b) Local comparators for general schedule employees with 25 and 30 years of credited service at normal retirement age.

2. Alexandria Deputy Sheriffs, Medics & Fire Marshals:

(a) See Addendum To Local Comparators Chart [June 15, 2011 meeting]

(b) Retirement age with 25 years of service = total pension (VRS & CSP) as % of final salary:

age 65 = 64.5% (VRS only = 34%)
age 60 = 51.75% (VRS only = 23.8%)
age 55 = 51.75% (VRS only = 15.64%)
age 50 = 41% (VRS only = 10%)

C. Value Of Employee Contributions To Pension Plans

1. See Steven Bland's chart from June 15, 2011 meeting [document 3(c), last page]

2. Employee Funded Pension Benefit As Percentage Of Final Salary

(a) Alexandria:

DS, M & FM (pre-7/10 hire):	0% employee contribution
DS, M & FM (post-6/10 hire):	4% employee contribution produces 9.5% of benefit @25 years of service; 11.8% of benefit with 30 years of service
Fire & Police:	7.2% employee contribution (Basic) produces 16.9% of benefit @25 years of service; 21.3% of benefit with 30 years of service

(b) Arlington:

All employees [???]:	4.0% employee contribution produces 9.3% of benefit @25 years of service; 11.8% of benefit with 30 years of service

(c) Fairfax:

Police:	10% employee contribution produces 23.3% of benefit @25 years of service; 29.6% of benefit with 30 years of service
Fire & Dpty Sher:	7.08% employee contribution produces 16.3% of benefit @25 years of service; 20.9% of benefit with 30 years of service

(d) Montgomery:

Police:	8.5% employee contribution produces 19.8% of benefit @25 years of service; 25.1% of benefit with 30 years of service
Fire:	8.5% employee contribution produces 19.8% of benefit @25 years of service; 25.1% of benefit with 30 years of service
Dpty Sher:	8.5% employee contribution produces 19.8% of benefit @25 years of service; 25.1% of benefit with 30 years of service

(e) Prince George's:

Police:	8.0% employee contribution produces 18.7% of benefit @25 years of service; 23.6% of benefit with 30 years of service
Fire:	4.0% employee contribution produces 9.3% of benefit @25 years of service; 11.8% of benefit with 30 years of service
Dpty Sher:	11.0% employee contribution produces 25.6% of benefit @25 years of service; 32.6% of benefit with 30 years of service
Corrections:	13.0% employee contribution produces 30.3% of benefit @25 years of service; 38.5% of benefit with 30 years of service

(f) Prince William:

Police:	VRS: 0% employee contribution
Fire:	VRS: 0% employee contribution
Dpty Sher:	VRS: 0% employee contribution

D. Watson Wyatt Benefits Study: Preliminary Results Report, Feb. 13, 2009

1. Distributed and discussed at June 15, 2011 meeting (Cheryl Orr).

2. 2008 data from Alexandria, Arlingon County, Fairfax County, Montgomery County, Prince Georges's County, and Prince William County

   (a) Pre-dates VRS-2

   (b) Pre-dates City employees being required to contribute to VRS and CSP.

3. Ranked value of Alexandria employee benefits plans and programs relative to the value of other jurisdictions' employee benefit plans and programs using a Watson Wyatt proprietary methodology for determining value

4. General employees: Alexandria's retirement pension plan coverage value was ranked 1st; retiree medical ranked 4^{th}; retiree life insurance ranked 1^{st}.

5. Police: Alexandria's retirement pension plan coverage value was ranked 4th; retiree medical ranked 3d; retiree life insurance ranked 1^{st}.

6. Sheriff: Alexandria's retirement pension plan coverage value was ranked tied for 3d; retiree medical ranked 3d; retiree life insurance ranked 1^{st}.

7. Fire: Overall ranking considering pension, retiree medical and retiree life insurance was 4^{th}.

8. ERT: Overall ranking considering pension, retiree medical and retiree life insurance was 1st.

E. Survey of Other Jurisdictions Deferred Compensation Plan Matching Policies

1. See Steven Bland's report from June 15, 2011 meeting [document 3(b)]

2. The following jurisdictions have employer matching: Arlington, Falls Church, Roanoke, State of Virginia

3. The following jurisdictions do not have employer matching: Alexandria, Charlottesville, Danville, Fairfax County, Fairfax County Schools, Richmond, Norfolk

VII. Cost Containment Measures

Some measures to contain cost increases have already been implemented, and others are being implemented. Further, the City's pension plans do not include some features that have driven up the costs of other public employee retirement systems.

A. VRS

1. Coverage of all new employees hired after July 1, 2010 (other than employees covered by the Firefighters and Police Officers Pension Plan) by VRS Plan 2, instead of Plan 1, will reduce the City's contribution obligations and increase employee contribution obligations (4% of pay).

2. Normal cost of VRS 2 is less than the normal cost of VRS 1 (recently measured at 0.81% of salary less).

3. Eventually all City employees will be covered by VRS Plan 2 through attrition (but, depending on the rate of attrition, could take many years to have meaningful impact).

B. Firefighters and Police Officers Pension Plan

1. Benefits are based only on basic salary; cannot be enhanced with overtime, paid leave.

2. Changes in actuarial smoothing method (short term cash flow advaqntage, but not lower cost)

3. New actuary

4. New investment consultant regarding asset allocation and selection and oversight of investment managers.

5. Change in plan administrator?

6. Change in trustees / custodians of assets ?

C. City Supplemental Plan

1. Employees hired on or after July 1, 2009 are required to contribute 2% of their base pay (except for Deputy Sheriffs, Medics and Fire Marshals).

2. As of July 1, 2009, City will not "pick up" employee contributions (so short term employees will not be able to withdraw City contributions upon termination).

3. Benefits are based only on basic salary; cannot be enhanced with overtime, paid leave, shift differential, etc

4. New actuary

5. New investment consultant regarding asset allocation and selection and oversight of investment managers.

6. Change in plan administrator?

7. Change in trustees / custodians of assets?

8. No COLA

   (a) In contrast to other jurisdictions that have significant COLA provisions and related costs.

D. Retiree Health Policy

1. Increased the service obligation for full benefit from 5 years to 25 years

2. Have not increased the maximum benefit ($260 per month).

VIII. <u>What, If Any, Problems Does Each Plan Present For The City & Employees? (What Problems Are We Trying To Solve Or Prevent?)</u>

A. Current Financial Status of Each Plan

1. Sense is that none of the City's Plans is in financial trouble at the present time.

2. Recent contribution increases mainly due to investment losses in 2008 and actuarial smoothing of those losses.

3. Concern is for possible future developments that could increase the cost of maintaining the City's Plans:

   (a) City's budgetary constraints:

      (1) Balanced budget requirement?
      (2) Stable revenues but limited growth potential?

   (b) Increase costs to City to point that is not sustainable

      (i) Political decision for City Council: what portion of the City's budget can be devoted to employee compensation including pensions

(ii) Effect on ability to retain and attract quality employees

(c) Possible impact on City employees:

(i) Lower salaries?

(ii) Reduction in benefits for actives and retirees?

(iii) Reductions in force: layoffs or hiring freeze

B. Future Challenges

1. Are the City's and employees' contribution obligations to each plan projected to increase? If so, why? By how much?

(a) What are the projected increases?

(1) VRS: See recent report of Virginia Joint Legislative Audit and Review Commission to State Legislature: contributuion rates will have to increase to ensure long-term soundness.

(2) City's Supplemental Plan?

(3) Firefighters & Police Officers Plan?

(4) Reasonable projections? Or, matter of uncertainties?

(b) What factors are causing projected increases in each Plan's costs?

(1) Investment return?

(2) Plan design?

(3) Demographics of City employees?

(4) Accounting standards (GASB)?

(i) See Cheiron presentation at June 15, 2011 meeting

(ii) GASB Exposure Draft issued in July 2011: distinguishes between pension plan funding and accounting by empllyer for pension plan obligations.

(iii) Expected effects: will not affect the City's contribution obligations to the various pension plans because City has longstanding policy of contribuiting 100% of actuary's annual recommended contribution (ARC). City should be able to continue using 7.5% long term actuaial assumption.

But will affect City's accounting for pension obligations: unfunded actuarial liability will go on the City's balance sheet rather than merely disclosed in the notes. May create public / taxpayer perception issues; should not affect City's creditors' perceptions

(5) Credit rating agencies?

(i) City has AAA bond rating

(ii) Credit agencies fine with current status. GASB shouild not alter. [???]

(6) Actuarial standards?

(7) State legislation / regulations?

(i) Not enacted 2011 State legislature proposals, including to authorize parallel VRS defined contribution plan

(ii) Joint Legislative Audit and Review Commission study of Virginia employee retirement programs due end of 2011

(8) Federal legislation / regulations?

(i) Prospects for Congressional action to limit investment return assumptions in public employee retirement plans?

(9) Other?

C. Human Resources / Labor Relations Considerations?

1. Are current plans sufficient to retain and attract quality employees relative to other relevant (neighboring) jurisdictions? (Comparability)

(a) Uniformed Officers: Some concerns that trained, uniformed employees are leaving the City for more attractive compensation packages in Fairfax and other jurisdictions

(b) Concerns by Deputy Sheriffs, Medics and Fire Marshals about having to wait until age 65 with 30 years of service to get unreduced retirement benefit.

(1) Significant number of ransfers into Police Department and Fire Department to gain coverage under Fire & Police Pension Plan with unreduced normal retirement benefit at age 55 with 25 years of

service.

(c) City input per employee exit surveys (5/23/11):

(1) not losing employees any faster than employees coming to the City
(2) 33% of terminated employees retired
(3) 27% of terminated employees left for career change
(4) some employees leave for more money for the same job, but more often for promotional opportunities
(5) currently City is attracting applications from more highly qualified employees, perhaps overqualified, due to employment shortage
(6) if and when the job market becomes more robust, could have trouble attracting qualified employees who look at salary and benefits

2. Would changes in the plans (including employee contribution requirements) diminish the City's ability to retain and attract quality employees?

3. To what extent are the City's contributions to Plans offset by:

(a) lower salaries?
(b) lower benefits?
(c) workforce adjustments (*e.g.* hiring freeze, layoffs, reduced hours)?
(d) other changes in terms and conditions of employment?
(e) In short: how much of the City's contributions are actually being paid by the employees through lower salaries, etc?

4. Promises made to / expectations of current employees? City's expectations?

(a) General Schedule employees gave up salary increases in exchange for not having to contribute to the VRS or City Supplemental Plan [????]

(b) Firefighters and Police Officers believe that they had a deal with the City in 2004 that the City would pay the cost of their pension coverage above the 8% employee contribution; that the City would assume the investment risk [???]

(c) Deputy Sheriffs, Medics, and Fire Marshals have aspirations for coverage under a VRS or City plan that would allow them to retire with 25 years of service with no reduction in pension (25 and out normal retirement pension). Also have aspirations to be covered by the VRS Supplemental Benefit for Hazardous Duty Occupations. [???]

(d) City management may believe that the City's "original commitment" to the Firefighters and Police Officers in 2004 was a defined benefit plan that would cost 20% of payroll, which was the contribution rate to the Retirement Income Plan. But there was no explicit “cap” of 20%. [See Steven Bland’s “Projecting Contribution Rates-Fire & Police Pension Component” chart-5(c) 5/25/11]

5. Impacts of unsustainable costs on employees?

   (a) salary reductions: new and existing employees?
   (b) benefit changes: new and existing employees?
   (c) unpaid furloughs, layoffs, reduction in forces?
   (d) hiring freezes?
   (e) other terms and conditions of employment changes?
   (f) loss of community support / respect?

VIII. <u>Options For Addressing Any Problems With Each Plan</u>?

1. No changes needed in any Plan at this time?

   (a) Wait for guidance from the Virginia Joint Legislative Audit and Review Commission study due by end of 2011.

2. No changes in plans now, but develop contingency plan of action: trigger certain actions (*e.g.* reductions in future benefit accrual rates for current employees, increase in employee contribution rate) in the event that investment performance fails to meet expectations or other developments adversely affect the plans’ assets or liabilities?

3. Adopt a cap on the City’s total contributions to pension plans and Social Security; if cap is exceeded in any year, benefits will be reduced for the following years?

4. Adopt a fixed ratio of City contributions to employee contributions?

5. Replace City Supplemental Plan with defined contribution plan?

   (a) new hires only?
   (b) future service for existing employees?
   (c) advantages and disadvantages: City and employees?

      (1) City employees oppose.
      (2) City would still ahve to make annual contributions for many years to fund already-earned benefits.

         (i) The contribution rate would be somewhat reduced because no further beenfits would be accrued although unvested employees would continue to earn vesting credits.

(3) contributions / funding: fixed and predictable vs. volatile year to year
(4) who bears the investment risks: City vs employee
(5) adequacy of retirement benefit: pre-determined monthly benefit for life vs. whatever is left in the pensioner's account
(6) subsidized early retirement / diasbility pension vs whatever is in the employee's individual account
(7) post-retirement COLA vs no COLA
(8) portable upon termination of employement?
(9) administrative complexity and costs

6. Replace Firefighters & Police Officers Plan with defined contribution plan?

(a) new hires?
(b) future service?
(c) advantages and disadvantages: City and employees?

(1) Employees strongly oppose; already had bad defined contribution plan experience.

(2) City would still ahve to make annual contributions for many years to fund already-earned benefits.

(i) The contribution rate would be somewhat reduced because no further beenfits would be accrued although unvested employees would continue to earn vesting credits.

(3) See paragraph 2(c)(3) - (9), above.

7. Increase employee contributions rate?

(a) new hires only?
(b) all employees?
(c) percentage of salary or percentage of total contributions?
(d) employees share in contribution increases and reductions? (50/50 any increases)
(e) advantages and disadvantages: City and employees?

8. Plan design changes (small and large)?

(a) tie future service benefits to investment performance (*e.g.* adjust accrual rate from year-to-year)?
(b) reduce benefit formulae (e.g. reduce accrual rate to 2.5% for all newly hired Police and Fire employees, and remove 30 year cap)?
(c) eliminate benefits or forms of benefits?

(d) tighten eligibility?
(e) eliminate lump sum as option or change interest rate used in calculating?
(f) reduce multiples for benefit accrual (permanently or as annual trigger)?
(g) apply only to new employees?
(h) advantages and disadvantages: City and employees?

9. Investment changes?

(a) change asset allocation?
(b) change risk profile?
(c) change investment managers?
(d) advantages and disadvantages: City and employees?

10. Actuarial changes?

(a) change investment return assumption?
(b) change other assumptions?
(c) re-amortize unfunded liability?
(d) advantages and disadvantages: City and employees?

11. Administrative simplifications / expense reductions?

(a) complete actions already begun?
(b) combine Plans?

12. Governance changes?

(a) Add general employee and DS,M&FM represetnatives to a CSP pension board like Fire and Police?
(b) Create a single retirement board for all City plans?

13. Other options?

(a) advantages and disadvantages: City and employees?