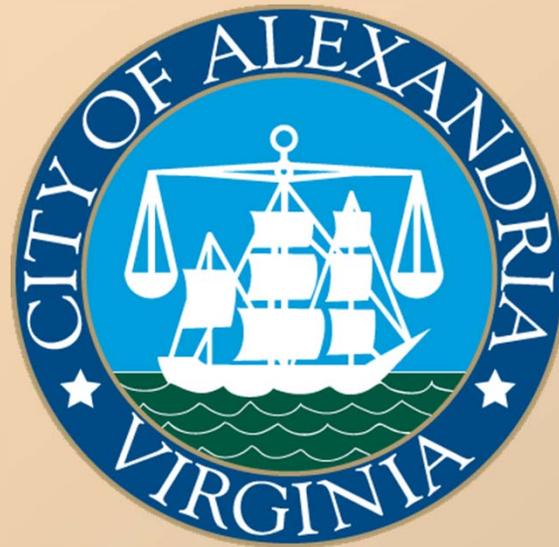
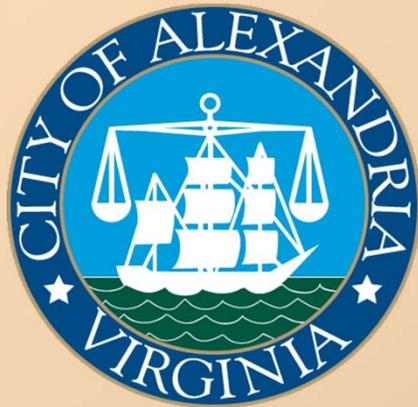


# Budget Work Session



**October 19, 2010**

# **Public Pension Plans for Alexandria Employees in FY 2012 and Beyond**



- **Public Pension Plans**
- **Private Sector Pension Plans**
- **Options for FY 2012 and Beyond**

# State and Local Government Public Pension Plans

- GAO Report Issued September 2010 (GAO-10-175)
- In FY 2008 19.1 million employees and over 7.5 million retirees and survivors covered paying out \$175.4 billion in benefits
- 79% of eligible state and local employees participated in defined benefit plans as of 2007
- Investment losses and underfunding in these plans will likely require increased contributions or plan design changes

# Pressures on All Public Pension Plans

1. Desire across the U.S. for immediate and long term budget savings
2. Decline in use of defined benefit plans in private sector
3. Difficult investment environment in which recent returns over last few years have lagged target rate of growth
4. Reports of severe problems for public pension plans in other states and localities leading to major changes
5. Possible changes in accounting rules for measuring pension costs/liabilities may increase measure of unfunded liability and increase volatility of valuations

# Desire Across The U.S. For Immediate And Long Term Budget Savings

- For FY 2012 and foreseeable future State and Local government budgets remain greatly constrained
- In Alexandria
  - No room for growth in spending or programs under current tax policies
  - Flat budget outlook, but better than most other governments
  - Pressure to ensure competitive salary levels going forward
  - Pressure to provide a limited number of service enhancements
  - Pressure for funding strategic goals and initiatives will grow in long term

# Private Sector

- Decline in use of defined benefit plans in private sector prior to “great recession” of 2007-2009
  - Switched to defined contribution plans (e.g. 401K)
- During “Great Recession”
  - Accelerated switch to defined contribution plans
  - Reduction in employer matches for defined contribution plans
  - Increased underfunding of existing defined benefit plans
  - Changes in remaining private sector defined benefit plans features to lower costs and future liabilities

# Difficult Investment Environment

- No public pension plans did “well enough” to meet investment objectives over last several years
- Return assumptions used by public pension plans generally range from 7% to as high as 8.5%
  - Alexandria uses 7.5% and VRS now uses 7.0%
- GAO found that recent downturn in investment markets has significantly diminished asset values.
  - From June 2008 to December 2008 large public pension funds lost \$621 billion – 22% of market value

# Problems and Changes in Other Public Pension Plans

## Problems

- Investment losses
- Generous benefits
- Lack of adequate funding for budgetary reasons

## Changes

- Some have increased employee contribution rates (either all employees or just new employees)
- Some have shifted to defined contribution plans
- Some have reduced pension benefits through plan design changes

# Accounting Changes on the Horizon

- Government Accounting Standards Board (GASB) issued “preliminary views” on pension accounting and financial reporting last June
- GASB governs accounting rules used by independent auditors who issue public financial statements
- Preliminary views would be radical departure and would bring pension reporting and disclosure for public pensions much closer to those used for private pensions
- Impact would be larger unfunded liabilities reported on balance sheets and increased volatility in reported unfunded liability as investment values rise and fall

# Overview of Current (Open) Alexandria Pension Plans

- See handout for detailed plan comparison
  - 5 Open Retirement Plans, 1 Open Disability Plan and 2 Closed Plans
  - All current full-time employees covered and part-time employees working at least ½ time
  - 1350 retirees and beneficiaries receiving benefits
  - Total assets in plans managed by City = \$196 million at end of FY 2009 and \$259 million at end of September 2010

# Assets of City Managed Pension and Disability Plans

## Pension Plan Asset Balances

	<u>30-Jun-09</u>	<u>30-Sep-10</u>	\$ <u>Change</u>	% <u>Change</u>
Police/Fire Pension	\$ 110.4	\$ 144.4	\$ 34.0	30.8%
Police/Fire Disability	\$ 10.8	\$ 12.6	\$ 1.8	16.0%
City Supplemental	\$ 69.8	\$ 89.9	\$ 20.1	28.8%
Other Post Employment Benefits	\$ 4.5	\$ 11.8	\$ 7.3	161.9%
<b>Total Pension Assets</b>	<b>\$ 195.5</b>	<b>\$ 258.7</b>	<b>\$ 63.1</b>	<b>32.3%</b>

Notes: 1. OPEB Plan received catch up contributions of \$2.8 million from General Fund Balance in FY 2010 and \$2.5 M from General Fund Operating Budget

# City Operating Budget Costs of Pension Plans

	<b>FY 2011</b>	<b>FY 2012</b>	<b>\$ Change</b>	<b>% Change</b>
All Open Plans (includes effects of merit/steps)	\$33.2	\$35.5	\$2.3 M	6.9%
Fire/Police Defined Benefit Closed Plan	\$1.7 M	\$1.7 M	\$0.0 M	0.0%
Total City Pension Costs	\$34.9 M	\$37.2 M	\$2.3 M	6.6%

FY 2012 Pension & Disability Benefit Plan  
 City/Employee Contribution Rates  
 (after combination of plans as % of salary)

Time of Hire	General Schedule	Dep. Sheriffs/ERTs	Fire & Police
Emp. hired before FY 10	19.96%/0.0%	23.59%/0.0%	28.22%/8.0%
Emp. hired in FY 10	17.96%/2.0%	23.59%/0.0%	28.22%/8.0%
Emp. hired FY 11 & after	13.96/6.0%	19.59%/4.0%	28.22%/8.0%

# Options for FY 2012

- Keep changes to pension plans, if any, simple in FY 2012
  - Council could direct City Manager to examine options for simple, non structural changes in pension plans in developing the FY 2012 budget
- Could consider increase in employee sharing of the costs of all open defined benefit plans to extent allowed by law
  - If applied to all City employees for all plans within City's authority to change, an additional 1% of salary contributed by employees would save \$2.3 million for the City

# FY 2012 Value of 1% Change in City Contribution Rates Per Pension Plan

Date of Hire	VRS Plans	Supplemental Plan	Police/Fire Plan
Pre FY 2010 Gen. Govt.	Cannot be changed by City	\$1.1 M	NA
Pre FY 2010 Dep Sher/EMTs	Cannot be changed by City	\$0.5 M (max. change is @1%)	NA
Post FY 2010 Gen. Govt. & Dep Sher/EMTs	\$0.1 M (max. change is +1%)	\$0.2 M	NA
Total	\$0.1 M	\$1.8 M	\$0.4 M

# Options for the Long Term

- Form Pension Advisory Group
  - Look at potential need for any future changes to defined benefit plans
  - Examine the current financial status of the City's pension funds
  - Advise City Manager and City Council Pension and Compensation Subcommittee on any options that should be considered to meet the following objectives:

# Suggested Objectives for the Review

1. To protect benefits already earned (accrued) by retirees and current employees
2. To ensure the City remains competitive in competing with neighboring jurisdictions for capable and effective public service employees
3. To provide an opportunity for City employees to save for and have a secure retirement
4. To consider pros and cons of defined benefit vs. defined contribution plans and to make recommendations on the structure of future plans
5. To create a fiscally sustainable plan for funding future benefits whether earned or to be earned in the future

# Suggested Composition and Timeline

- The membership of the Commission would be determined later by Council but could include:
  - Representatives of employee groups
  - Citizen representatives
  - Experts in public pensions
- The Commission would present its views to City Council Pension and Compensation Subcommittee by the Fall of 2011 for consideration in the FY 2013 budget process