

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

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, with 71.8% indicating that they are participating in the City's 457 Deferred Compensation Plan. Smaller percentages cited real estate, IRA's and personal investments are other saving resources.

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

Recommendations

We recognize that this is a time of ongoing fiscal constraint and shared sacrifice for the City and its employees, and we have developed recommendations with a limited fiscal impact that can be considered in the near term and which directly address the City Council's directives related to this Advisory Group.

Before addressing specific recommendations, it should be noted that 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 .