



OFFICE OF THE CITY MANAGER
301 King Street, Suite 3500
Alexandria, Virginia 22314-3211

JAMES K. HARTMANN
City Manager

(703) 838-4300
Fax: (703) 838-6343

April 4, 2008

Mr. Patrick Cozza
President
Alexandria Sheriff's Association
2001 Mill Road
Alexandria, Virginia 22314

Dear Mr. Cozza:

This is in response to your March 19 letter about the employer contribution rate to the Sheriff/EMT/Fire Marshal Pension Plan (SEFM Plan). It is important to discuss this matter in the context of what has occurred since the City first agreed to change its pension contribution rate for deputy sheriff and emt employees in 1988, more than twenty years ago. There have been significant changes in our public safety pension plans since then, and the City's 1988 action on the pension contribution is affected by the more recent changes in public safety pension benefits.

While we empathize with you and understand how the interpretation of the February 5, 2005, City Council docket item that you cite in your letter could be interpreted to say that the City's contributions to public safety pension plans would always be the same, that was never intended to be the City's policy once the Police and Firefighter Pension Plan was converted from a Defined Contribution (DC) pension plan to a Defined Benefit (DB) pension plan.

In 1988 City police officers and firefighters participated in a Defined Contribution (DC) Pension Plan. These employees received a set DC contribution from the City (20% of salary). In addition, the City provided 3% to help fund the 3.5% cost of the disability portion of the plan. In total the City was funding a 23% contribution rate for police officers and firefighters. The employees invested their DC pension contributions by choosing from several investment options provided by Prudential and were responsible for their own investment decisions. The City's obligation to the employees was to provide its DC pension contribution, but the City did not guarantee a set pension upon retirement.

In 1988 City Council decided to provide deputy sheriffs and emts a pension contribution equal to the City contribution provided to police officers and firefighters under their defined contribution plan (23%).

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The deputy sheriff and emt employees were then participants in VRS and the City's Supplemental Retirement Plan, both Defined Benefit (DB) plans for which the City assumed a long-term financial contribution to ensure a set benefit for these employees in retirement.

With the additional pension contribution the City established Defined Contribution (DC) accounts for the deputy sheriff and emt employees at Prudential, and the employees were offered investment options for this account. In addition the City's stated policy was if the City's contribution to the DB plans (VRS and the Supplemental Plan) that covered the deputy sheriffs and emts exceeded 23%, the contribution to this added DC plan would be eliminated (as was the case in FY 2007 and FY 2008).

In 2004 City Council eliminated the police officer and firefighter Defined Contribution (DC) plan and replaced it with a Defined Benefit (DB) Plan. The City assumed the obligation to fund set pensions for these employees. The vast majority of police and fire employees chose to join the new DB Plan, and the money in their DC accounts was transferred to the City to help offset the cost of the new pension plan. From FY 2004-FY 2008 the City contribution for the new DC plan was 22.35% with 20% funding the DB plan and 2.35% funding the disability plan. The employee contribution for the DB plan was 7.5% of salary.

In 2005, City Council approved an enhancement to the Supplemental Retirement Program for deputy sheriffs and emts and added fire marshals to the plan. This enhanced DB plan funded by the City provided for a change in the terms of the plan to provide for earlier retirement and a higher pension benefit multiplier for this group of employees **with no added contribution from the employees**. This resulted in an increase in the defined pension benefit from less than 75% to 78% of salary after 30 years of service. The amended DB plan required a contribution of 10.75% of pay which meant that the 10.6% of pay contributed previously to separate Defined Contribution (DC) accounts for these employees was reduced to 5.1 % and the balance was applied to the added cost of the enhanced Defined Benefit (DB) supplemental pension plan. Eventually the City eliminated the City contribution to the separate Defined Contribution plan for deputy sheriffs and emts, since these funds were needed to pay for the City's contribution to the enhanced DB supplemental pension plan.

In your letter to me you cite a February 2, 2005, City Council docket item as the source of your contention that the City's contribution to the deputy sheriff, emt and fire marshall DB supplemental plan should be the same as the contribution for the police and firefighter DB pension plan. It should be noted that in FY 2007 and FY 2008 the City's contribution for the deputy sheriff, emt and fire marshal Supplemental (DB) Plan was 22.41%, which is more than the 22.35% contributed for the police and firefighter DB plan during that same time period. Thus the contributions for these two plans have not always been the same.

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For FY 2009, it is the City contribution rate for the police and fire firefighters pension plan that increases from 22.35% to 26.41%. This is due primarily to actuarial calculations related to police and fire disability costs and retiree longevity, not because of an increase in benefits. It should be noted that the participants in the police and firefighter pension plan will contribute 7.4% of pay in 2009 and 0.6% of pay for the disability plan. The deputy sheriffs, emts and fire marshals continue to make no employee contribution for their supplemental pension plan or for their VRS plan.

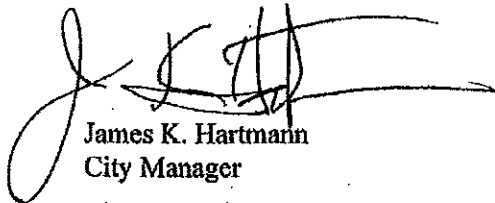
Further, for FY 2009 because of actuarial calculations related to cost and experience in the deputy sheriff, emt and firefighter pension plan, defined benefit (DB) costs are projected to decrease from 22.41% to 22.35 % thereby creating the ability for the City to re-establish an approximately 1.79% employer paid defined benefit (DB) contribution account as we have had in prior years. (The final amount to be applied to these accounts will not be set until VRS formally sets its contribution rates for the City in FY 2009.)

The bottom line is that the deputy sheriff, emt and fire marshal and police officer/firefighter pension plan employer contributions are not equal, but if the police officer/firefighter employer contributions falls below 22.35%, the City policy would be to keep the deputy sheriff, emt and fire marshal employer contribution rate at 22.35 % and not lower it. Therefore, while the deputy sheriff, emt and fire marshal pension plan contribution rate could not rise above 22.35% to fund a DC contribution if the police fire rate does go higher than 22.35% (such as in FY 2009), the City's 22.35% deputy sheriff, emt, fire marshall contribution rate would not fall below 22.35% if the police/fire rate falls below 22.35%. In conclusion, if the DB portion of the City contribution rate for your plan does go above 22.35% (as in FY 2007 and FY 2008) then the City would plan to cover the amount above 22.35% for the current plan.

Finally, I want to make it clear that these funding policies are plans and are subject (as is the funding of any City pension plan) to change by the City Council.

I hope that this clarifies this issue for you and your members.

Sincerely,



James K. Hartmann
City Manager