

**CITY OF ALEXANDRIA  
AD HOC RETIREMENT BENEFIT ADVISORY GROUP**

**MINUTES OF APRIL 4, 2011**

<b>Members Present</b>	<b>Representing</b>
Janine Bosley	Public
Shane Cochran	General Schedule
Michael Cross	Firefighters
Brenda D'Sylva	General Schedule
Robert Gilmore	Deputy Sheriffs
Bruce Johnson	City Manager
James McNeil	Public
Ed Milner	Police Officers
Lonnie Phillips	Medics & Fire Marshals
James Ray	Public
Len Rubenstein	Public
David Speck	Public

Nominated to be Alternates (not yet designated by Mayor Euille):

Nancy McFadden, Medics & Fire Marshals

Jarrold Overstreet, Deputy Sheriffs

Marietta Robinson, General Schedule employees

Others:

Steven Bland, Retirement Administrator

Michele Evans, Deputy City Manager

Theresa Nugent, Retirement Specialist

Laura B. Triggs, Deputy CFO

The meeting began at 6:33 PM.

Mr. Johnson introduced himself and was followed by each Group member.

Mr. Milner made a motion to accept the March 24, 2011 meeting minutes. The motion was seconded and passed unanimously (12-0)

Mr. Johnson suggested the vote for chair and co-chairs is moved to the end of the meeting after members had an opportunity to work together and get to know each other a little better. Mr. Ray

made a motion to amend the agenda by moving the election of officers to the end of the meeting. Mr. McNeil seconded the motion.

Staff referenced handout 4(a), *Plan Membership, Demographics*. The focus is on active membership and the groups of covered employees. Quite a few people are in multiple plans so caution must be used to avoid double counting. The retiree numbers for the Supplemental Plan do not include the retirees receiving benefits with the insured contract with Principal or the retirees who took lump sum payments from the plan. Turning to *Plan Membership, Retirees*, staff explained that the ratio of retirees to actives in the Supplemental and Fire & Police plans was much smaller than one might expect. The plans' being young or "immature" is important, and detailed later in the presentation.

Staff referred to handout 4 (1), excerpted pages of the 2009 Firefighters & Police Officers Pension Plan valuation. Page 1 has active participants. This number steadily declines for retirements, terminations, etc., and then suddenly has a significant increase coincident with a recruit class of new fire or police officers. The number of retirees and beneficiaries is increasing rapidly. Pages 2 & 3 have demographic distributions. Page 24 shows a breakdown of age and service. The Fire & Police employees are a fairly homogeneous group. Ms. Bosley noted that the plan seems to have an aging population.

Staff referred to handout 4(b), *Benefits Overview*. The City participates in Social Security. The City contributes well over \$10 million annual to Social Security, and the amount is matched by employees. When it comes time to comparing the City's benefits to those of others it is good to include the question of whether or not the other jurisdiction also participates in Social Security.

The pension formula is a function of salary, years of service, and a benefit multiplier. The examples were a blended hypothetical example and did not represent any one plan.

The Normal Retirement Age began with a clarification of the subtle difference between Normal Retirement Age and unreduced early retirement.

The Average Final Salary is used to limit abuses and salary manipulation. The salaries used in the City's pension plans include base salary only and exclude overtime, shift differentials, annual leave, sick leave, etc. Staff noted a typographical error and emphasized the incremental compensation items are excluded from the average final salary calculation. Public plans that have addressed their respective pensions by revisiting: retirement eligibility, employee contributions, and the definitions of average final salary.

The Benefit Multipliers page shows the percentage of final average salary a member would receive annually for various years of service. The concept of back-loaded pension plans is introduced. This serves as a retention device.

Examples illustrate pensions given 30 years of service for the three employee groups. Quirks of the systems are discussed: the pre 1988 service in the Supplemental plan, the increasing scale for Deputy Sheriffs, Medics, and Fire Marshals, and the back-loaded Fire & Police plan providing more for years 20 - 30 than for years 0 - 20.

Staff referred the committee to the Appendices for review at a later date.

Staff referred to handout 4(c) *Pension Contribution: FY 2011 Contribution Components and Timeline* on the reverse side. The ongoing nature of the Normal Cost was contrasted with the Unfunded Liability. The ongoing cost is what is needed to fund benefits that are being earned each year. The Unfunded Liability would still need to be paid off even if a plan were to close. Once the Unfunded Liability is paid down, the cost of sustaining the system is the ongoing Normal Cost.

The *Timeline* shows the time lags involved in the budget process between the year of plan experience, completing the valuation, submitting the values into the budget process, and contributing to the plans.

Staff referred to handout 4(3), excerpted pages of the 2010 VRS valuation. Page 7 displays projected contributions. The projections are based on 2008 data and losses from the 2008-2009 market drop have not been entirely recognized. Recognition of these losses would lead to increased contribution rates. Also, a reduction in the valuation interest rate assumption leads to increased contribution rates. Staff suggested maybe these large increases could be thought of as the high end of a range, but not the midpoint.

Staff referred to excerpts from the CAFR handout out at the March 24 meeting. On page 91 the totals column shows \$26 million in contributions and \$19 million in payouts. This means the plans listed had a cumulative positive cash flow. This is one measure of financial strength. Also, it provides for investment flexibility. The totals are for all plans except VRS.

Page 93 has demographics and identifies the administrators.

Page 94 lists actuarial assumptions and displays information of the funding status. Staff argued that the actuarial assumptions are reasonable and slightly conservative. This would be a factor in determining financial strength. The Funding ratio is split by plan, the weighted average is approximately 75%. Staff suggested that it was not appropriate to seek one magic value, and that a funding ratio above that was good and below that bad. Instead the funding ratio should be considered in the context of investment markets which will ebb and flow like tides. Mr. Rubenstein referred to articles that have been appearing in the paper recently on pension plans. Staff noted that ERISA (pension law for private plans) is modeled after bankruptcy law. This model is inappropriate for an AAA rated public entity such as Alexandria.

Page 96 develops the Net Pension Obligation (NPO) and displays the Actuarially Required Contribution (ARC). Staff said this was used to measure the plan sponsors making pension payments vs. the actuary's recommended payment. Staff agreed with the concept, but argued it left out the important notion of the quality/conservatism of the actuary's recommended payment. Also, the City has an effective procedure. The actuary's recommendations are made in full, albeit with a time lag (as was illustrated in the handout *Timeline* discussed earlier). This time lag leads to the appearance of underfunding.

Page 105 notes the City is funding smaller amounts to the Pension Plan for Fire and Police (Old Plan). The funding assumptions have changed for this plan. They are now 5.5% and used to be 7.5%. Additionally, this fund invests money in low return type investments.

Staff provided reasons City pensions are sound and that the pension plans are in better shape than the funding ratio may indicate:

- City has AAA rating and works to keep this rating,
- The benefit design of the plans are rational,
- The City is funding the ARC, and
- The funds have positive cashflows.

Mr. Johnson indicated staff would review 5(a) Local Comparators and 6(a)(1) during the next meeting. He noted the 2009 FOIA update with all pages was included in the meeting package. Staff will meet with the City Attorney's Office to get final information on the outstanding FOIA questions. Unless we hear otherwise the Group should assume all emails are subject to FOIA rules.

Mr. Ray asked about the comments in local papers regarding employee concerns on proposed pension changes. Mr. Johnson explained that as part of the Budget process the City has recommended a 1% increase in employee contributions.

Mr. Speck noted that independent cities across the U.S. are struggling to balance their budgets. He feels Alexandria has some critical concerns because the City will be the same size in 20-50 years and there won't be many new revenue sources.

Staff suggested the Group view the City Council meeting from late June 2010 to get an indication of City Council's feelings on these matters.

Ms. D'Sylva felt the City has to look back at 1982-83 and 1989 when City employees were offered pension contributions in lieu of salary increases.

Mr. Cochran asked about inclusion of OPEB in the sustainability conversations. Mr. Milner said that was not part of the City Council resolution and therefore would distract the committee from its task.

Mr. Gilmore requested that the example from handout 4(b) showing benefits for Deputy Sheriffs with 30 years of service be repeated for the Deputy who only has 25 years of service.

The Group then elected the chairs and vice chairs. Mr. Milner nominated Mr. Cross as a vice chair for Firefighters and Police Officers. Mr. Phillips seconded the nomination. The Group voted in favor 12-0. Mr. Gilmore nominated Lonnie Phillips to be vice chair for the Deputy Sheriffs, Medics, and Fire Marshals. Mr. Milner seconded the motion. The Group voted in favor 12-0. Mr. Cochran nominated Ms. D'Sylva to be vice chair for the General Schedule employees. Mr. Milner seconded the motion. The Group voted in favor 12-0.

Mr. Milner nominated Mr. Speck be chairman and Mr. Speck declined. Mr. Ray proposed that he and Ms. Bosley be co-chairs. The Group discussed concerns about having co-chairs. The public representatives indicated that they felt the duties of chair were too great for any of them to handle individually. The co-chairs will work together and one will be designated as the chair of each meeting. Mr. Speck nominated Mr. Ray and Ms. Bosley as co-chairs. Mr. McNeil seconded the motion. The Group voted in favor 12-0.

The next meetings were set for Wednesday, April 27, and Monday, May 9. Both meetings will begin at 6:30 p.m.

Mr. Milner made a motion to adjourn. Mr. Ray seconded the motion. The motion passed unanimously (11 – 0). The meeting adjourned at 9:00 PM.

## **Follow Up Items as of the Most Recent Meeting Date Listed**

Tasks on the follow up list will be addressed at the next meeting or will remain on the list until addressed.

### April 4, 2011

Contact City Attorney on outstanding FOIA questions.

Provide benefit example for Deputy Sheriff, Medic, Fire Marshall retiring with 25 YOS.

Provide information on 1982-83 and 1989 changes to pension contributions.

### March 24, 2011

Mr. Phillips and Mr. Speck asked several questions about FOIA which are to be referred to the City Attorney's Office.

Mr. Phillips asked several questions arose about this and is referred to the City Attorney's Office.

Mr. Speck asked about emails between members and if it was subject to FOIA. Staff will follow up with Chris Spera.