

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

MINUTES OF JULY 14, 2011

Members Present	Representing
Russell Bailey	Public
Janine Bosley	Public
Shane Cochran	General Schedule
Michael Cross	Firefighters
Brenda D'Sylva	General Schedule
Robert Gilmore	Deputy Sheriffs
Ed Milner	Police Officers
Lonnie Phillips	Medics & Fire Marshals
James Ray	Public
Len Rubenstein	Public
Laura Triggs	City Manager

Alternates present:

Patrick Evans, Firefighter  
Jarrod Overstreet, Deputy Sheriff  
Marietta Robinson, General Schedule

Staff present:

Steven Bland, Retirement Administrator, Finance Department  
Bill Mitchell, Assistant Director, Total Compensation, Human Resources  
Theresa Nugent, Retirement Specialist, Finance Department  
Cheryl Orr, Director of Human Resources

CALL TO ORDER:

The meeting was called to order at 6:30 PM.

AGENDA

A motion was made and accepted to approve the meeting agenda.

MEETING MINUTES:

Ms. Orr reviewed the draft meeting minutes prior to the meeting and emailed comments to Ms. Nugent. Ms. Orr asked that the meeting minutes be updated to reflect those comments.

Mr. Ray made a motion to accept the minutes of June 5, 2011 with changes requested by Ms. Orr. Ms. Triggs seconded the motion.

## DISCUSSION GUIDE

Mr. Ray distributed an updated Discussion Guide and reviewed those portions of the Discussion Guide that had been updated since discussions at the June 15 meeting:

- Pages 9 -10-11 numbers were added
- Page 12
- Pages 12 – 14 A section was added for Cheiron
- Page 29 was updated to reflect Mr. Cochrane's comments on retiree health care
- Page 35 was amended to show the discussion of the Watson Wyatt (Towers Watson) study.
- Page 38 GASB is discussed
- Page 39 Various sections are updated
- The Table of Contents is created

Chair Bosley asked the Benefit Advisory Group members to review these changes before the next meeting.

The Chair noted that GASB had adopted an Exposure Draft on *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans*. The Chair asked staff if it was appropriate to report at this time. Staff said the lengthy and complicated standard had been available less than a week. It would take time to review it. Also, the City had two vendors (the actuary and the auditor) that were expected to review the accounting standard and publish a review on the standard. Using these reviews would facilitate staff's efforts. The item should be part of a future meeting.

## PRESENTATIONS

At the June 15 meeting the Group made a motion that at the July 14<sup>th</sup> meeting there would be presentations by each of the three employee groups, public representatives, and staff. The presentations are to cover the retirement plan's strengths and weaknesses, and any proposed change should be made in the context of City Council Resolution 2432.

Mr. Cross and Mr. Milner distributed handouts. The first handout was of the slide presentation they made. The second handout was an ordinance and resolution from February 6, 2004 that created the Firefighters and Police Officers Pension Plan. The third handout was the NASRA Issue Brief: Public Pension Plan Investment Return Assumptions. The Chair summarized the discussion of the docket memo by saying the City was in better position to assume investment risks than the employees. Mr. Cross agreed that was a key point.

Mr. Cross and Mr. Milner collaborated on the presentation and report. Mr. Cross made most of the presentation with Mr. Milner providing support. Mr. Cross summarized the presentation:

- 1) It is costly for the City to concurrently fund the “Old” and new fire and police plans. Should the City consider a defined contribution plan the city would probably exacerbate the cash flow issue by making contributions to a potential new plan and also paying off the unfunded liability to the two defined benefit plans at the same time?
- 2) The retirement benefit needs to be competitive with those of neighboring jurisdictions.
- 3) The retirement program should enable the employee to create and save for a secure retirement.
- 4) The City Council Resolution calls for the Group’s report to compare defined contribution and defined benefit plans. Mr. Cross discussed the attributes of the two types and why the defined benefit plan was preferred. Mr. Rubenstein said the consensus was the group agreed.
- 5) The plans as structured are fiscally sustainable.

Both Mr. Cross and Mr. Milner felt the underlying cause for the issues that City Council is asking the Group to address are largely due to increased contributions required by VRS and not the Fire and Police employer contributions.

Mr. Cross believes issues related to the Fire and Police Plan should be referred to the Fire & Police Board. The Chair asked Mr. Cross to provide an overview of the Pension Board, its composition and its authority. Mr. Cross reported that the Board is comprised of employee representatives of Firefighters and Police Officers along with representatives of City management. The Board makes decision on the investments of the Plan. However, the Board has also made recommendations to the City Manager for benefit changes to the Plan.

Mr. Milner said Police and Fire plan participants contribute eight percent of salary. General schedule employees contribute less, and many contribute nothing at all.

Total employee & employer Fire & Police contributions for pension and disability are 36% of salary. Mr. Rubenstein asked what a reasonable cost sharing arrangement is. Mr. Cross said contributions began at 22.35% for the City and eight percent for the participant. They are now 28% and 8% respectively. Mr. Cross said the bulk of the increase has been due to the unfunded liability; investment return has not been the only culprit. The change in disability assumptions has been a factor in the disability costs rising.

Mr. Rubenstein acknowledged Mr. Cross’ position and indicated that he did not necessarily favor a change in the current structure. However, he asks, if costs were to escalate to 50% of pay then perhaps there would have to be changes. He then challenged the employee groups to come up with more support, more rationale, for the report to justify no changes. Mr. Cross responded that that is not the current situation and that the Plan has been demonstrating efficiencies from investment changes the Board has made. Mr. Rubenstein repeated his comment and asked for other employee groups to comment. No other employee group commented.

Mr. Ray said the original employee and employer contributions were eight and twenty two percent respectively. Maybe all costs should be split in that ratio.

Mr. Bailey noted that the Group is asked to deal with the unknown. He felt the employee groups need to make recommendations on options if the unknown should occur, i.e., worst case scenarios.

Chair Bosley asked group members to make tight summaries of their positions.

At 8:20 the group recessed. The meeting resumed at 8:25 AM.

Mr. Cochrane suggested that page eight of Mr. Cross' report make comparison to other jurisdictions. It currently makes reference to other employee groups in the city.

Mr. Phillips and Mr. Gilmore reported on their efforts. The multiple shifts and locations have made it challenging to contact all employees. They have met with most but not all employees. Mr. Phillips and Mr. Gilmore will be present their findings at the August 2 meeting.

Mr. Cochrane and Ms. D'Sylva conducted a survey of general schedule employees. Results were just recently completed but had not yet been processed. This review of survey results will be completed soon. Ms. D'Sylva and Mr. Cochrane will present at the next meeting.

Staff provided handouts for recommending changes to enhance sustainability. By way of introduction the emphasis was on concepts and not the specifics. Some numbers were used to facilitate illustration, they were not meant as specific endorsements.

The first four recommendations all fell under the theme of risk management:

- 1) Reduce employer contribution rate volatility. This was essentially a hybrid of a short amortization period for prompt payoff of the unfunded liability and a long amortization for more stability. A series of excel graphs and annotations illustrated this.
- 2) Risk sharing. The current Fire & Police and Supplemental Retirement Plans include employee contributions at fixed rates. The employer bears 100% of gains and losses. Staff recommends a risk sharing where employees share in gains and losses.
- 3) Diversification. The Fire & Police and Supplemental Retirement Plans have both improved their diversification over the last five - six years.
- 4) A financial trigger is created and benefits are modified once that trigger or threshold is breached. Staff said that rather than let the City be in a reactive mode should fiscal times become challenging, the Group could be proactive and design a modest temporary benefit modification in advance. The trigger could be the level of contribution rates, the plan funding ratio, or a percentage decline in plan assets, etc. If the threshold is breached then future benefit accruals are modified. When the threshold is crossed a second time and financial stress is over the plan returns to the base benefit accrual rate. This is administratively complex and not as desirable as the other suggestions.

The next suggestions were grouped under the title of Benefit Refinements:

- 1) Address the lump sum option in the Supplemental Retirement Plan. With the Federal Reserve Board manipulating the yield curve this option leads to plan losses.
- 2) Full time employees vest at age 60. Eliminate this provision and require five years to vest.
- 3) Part time employees vest at age 65. Eliminate this provision and require five years to vest. Mr. Ray asked if this was a significant dollar cost. Staff said it was a modest benefit savings but there were also administrative savings as this peculiar provision led to the TPA regularly making errors.
- 4) Coverage of future part time hires could be eliminated in the Supplemental Plan.
- 5) Benefit accruals for future Fire & Police Plan participants could be made level throughout their career rather than back loaded after year 20.

Staff believes sustainability is a two way street and there should be concern over benefits being too low for recent and future hires. A modest difference between benefit packages for new and old hires is acceptable. Staff suggests the gap between new and old General Schedule hires is too wide and over time the number with lesser benefits would grow, as they aged they would become more interested in retirement benefits, and their package would be unacceptable. Some changes might require changes in state law.

Staff envisions endorsing the work of the Risk Management Oversight Committee (RMOC). The specifics of their efforts are beyond the Benefit Advisory Group's domain. However, the group may endorse the RMOC's general approach of review and sustainability efforts.

Employees of the Virginia Department of Health (VDH) receive Supplemental Retirement Plan benefits. Staff suggests if benefit dollars are limited they should be focused on City employees. Ms. Orr noted the VDH employees are paying 5% to VRS and that they also received a 5% salary increase.

Staff said that the Fire and Police Board's charter was for investments. However, non-investment issues were sometimes brought to the Board because there was no other forum. This was not to opine good or bad, but to acknowledge the lack of an outlet. Staff suggested the creation of one board for all retirement plans/benefits. This stressed one single board for efficiency. The proposed board might cover the Fire and Police pension plans as well as deferred compensation and retiree medical and life insurance. Staff was endorsing the broader topic of a unified board and not the particular details. Ms. Orr took issue with this concept related to medical and life insurance. Staff explained the recommendation was a concept. The ideas were meant for discussion, including both the plans/benefits being represented and the composition of the board. Ms. Orr was comfortable bringing all these items to the table.

Staff mentioned administrative efficiencies created by some potential trust fund consolidations.

Staff does not recommend any changes to actuarial assumptions or methods other than the amortization period to create smoother funding (discussed previously in the presentation).

#### POST EMPLOYMENT MEDICAL & LIFE INSURANCE

Ms. Orr, Director of Human Resources, distributed a handout on post employment medical and life insurance benefits. The handouts covered eligibility, distribution by plan, distribution by coverage type (individual, family, etc.) and life insurance.

A question was raised about the annual costs of medical and life insurance costs for actives and retirees. Ms. Orr will follow up on this.

A question was raised on the demographic distributions. It appeared the ratio of actives to retirees was 2:1. Several asked Pension Administration Division staff to verify the number of retirees.

Ms. Orr said retiree life insurance was more generous than that of our comparators. She suggested it was a topic for review.

#### GROUP REPORT

The Chair asked for ideas on how the report for City Council will be organized.

#### OLD BUSINESS

Staff reviewed handout 6(a) Sample Early Retirement Calculation. The handout included Early Retirement Factors for VRS and the Supplemental Plan.

#### NEW BUSINESS

Ms. Triggs reported that she discussed public communication issues with the City Manager. He feels the Group should invite comments from the public. This can be done using the City web site. Jennifer Harris, one of the employee alternates, is a Communications Officer and can help with this.

#### NEXT MEETINGS:

The next meetings were set for:

Tuesday, August 2, at 6:30 p.m. Sister Cities Room 1101

Tuesday, August 23, beginning at 6:30 PM in Sister Cities Room 1101

The Chair noted that the Group needs to have most of work done during these two meetings in order to have a report ready for City Council.

A motion was made and seconded to adjourn. The motion passed unanimously. The meeting adjourned at 9:35 PM.

#### MEETING HANDOUTS:

- Agenda
- Draft Minutes June 15, 2011 Meeting [2]
- Sample Early Retirement Calculation [6(a)]
- Discussion Guide, (Updated per June 15, 2011 meeting)
- Firefighter and Police Officer Pension Plan (Mike Cross Presentation #1)
- February 6, 2004 Docket memo (Mike Cross Presentation #2)
- NASRA Issue Brief: Public Pension Plan Investment Return Assumptions
- Eligibility for City of Alexandria Retiree Health Benefits (Cheryl Orr handout)
- Benefits Advisory Group, Enhancing Sustainability (sb handout – word)
- Reduce Employer Contribution Rate Volatility (sb handout – excel)

#### MEETING 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.

July 14, 2011

Revise the June 15 minutes to reflect Cheryl Orr's comments before posting.

Obtain GASB reviews; place the GASB exposure draft on a future meeting schedule.

The popularity of Ms. Orr's handout exceeded the supply. Several in the audience requested copies are forwarded to them. She will also update the information in the handout.

A question was raised about the annual costs of medical and life insurance costs for actives and retirees. Ms. Orr will follow up on this.

A question was raised on the demographic distributions. It appeared the ratio of actives to retirees was 2:1. Several asked Pension Administration Division staff to verify the number of retirees.

Staff was asked to provide the number of VDH employees that are participants in the Supplemental Retirement Plan.

June 15, 2011

Staff asked Mr. McElhaney to send the pdf version of his illustrations to staff so that they can be forwarded to the entire group. **This was requested June 20 and expected for the July 14<sup>th</sup> meeting.**

Ms. D'Sylva asked Ms. Orr for the reports. Ms. Orr said she would forward them to the Pension Administration Division and ask them to post the reports on the Benefits Advisory Group site. **Human Resources provided the reports 2008 Watson Wyatt COMPARISON™ Study reports shortly after the meeting. Links were posted on the Group's web page on 7/26.**

Mr. Ray asked Ms. Orr to find out how much it might cost to update the Watson Wyatt Study and how long it might take to complete. **This was requested June 21.**

May 25, 2011

Ms. Bosley asked for information on exit interviews and attrition rates. **Mr. Mitchell from the Human Resource Department said he would follow up on this. Information will be available at the August 2 meeting and posted on the web page.**

Ms. Bosley asked staff to extrapolate the values of the *Pensions as a Percent of Total Budget* handout for several years. Staff can provide something in terms of contribution rates, but budget information needs to come from Office of Management and Budget. **Referred to OMB and Laura Triggs.**

April 4, 2011

Provide information on 1982-83 and 1989 changes to pension contributions. Resolution 898 regarding the City paying the VRS 5% member contributions is posted on the Group's web page.