

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

MINUTES OF JUNE 15, 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
David Speck	Public
Laura Triggs	City Manager

Alternates present:

Patrick Evans
Jennifer Harris
Nancy McFadden
Jarrod Overstreet

Staff present:

Steven Bland, Retirement Administrator
Bill Mitchell, Administrator Benefits & Compensation, Human Resources
Theresa Nugent, Retirement Specialist
Cheryl Orr

CALL TO ORDER:

The meeting was called to order at 6:36 PM.

MEETING MINUTES:

Mr. Bailey made a motion to accept the minutes of May 25, 2011. Ms. D'Sylva seconded the motion. Mr. Cochran asked the minutes be amended to reflect that there had been a request for a budget memo on the City Council action that led to a four percent employee contribution rate. The actual process did not include a budget memo. The minutes should include a statement that information on the June council action was requested, but there was not a budget memo.

Ms. Bosley seconded the motion and the motion passed unanimously.

Mr. Cross requested that the docket memo from February 2004 creation of the Firefighters and Police Officers Pension Plan be made available.

AGENDA:

A motion was made to accept the agenda, seconded, and passed.

FOLLOW UP ITEMS

Staff discussed handout *Projecting Contribution Rates*, handout 3a. The first side of the handout was distributed at the May 25 meeting and was unchanged. Staff reported that some members of the Benefit Advisory Group said the report provided very meaningful information that was critical to their forming their opinions on sustainability. Staff said that the original handout conveyed an important idea, but the display was merely a picture. If it was to become a reference then the ideas should be substantiated with quantitative derivation. The opposite side of the handout contained the numbers behind the illustrations.

Staff referenced handout 3b. At the May 25 meeting a member of the group requested information on employer contributions to deferred compensation. Staff surveyed members of the Association of Municipal Retirement Systems of Virginia. Four jurisdictions responded they do have employer contributions.

Staff referenced handout 3c and thanked and complimented Arthur Lynch & Theresa Nugent for their help. The first version of this handout only had graphs for uniformed officers. Given time staff was able to enhance the handout by adding two charts for general schedule employees. The charts showed the replacement ratio for twenty five and thirty years of service. The charts have a mark separating the employer provided portion of the benefit from the employee provided portion. This split is not a published amount but instead reasonable estimate. A fifth page of the handout details the methodology of the assumptions. Staff emphasized this was meant to create an impression but not define with precision.

Mr. Gilmore repeated his concern that Deputy Sheriffs, Medics, and Fire Marshals have more stringent retirement eligibility standards than their local peers. Mr. Gilmore distributed a handout showing the percentage of Final Average Compensation paid to retiring deputy sheriffs if they retired prior to normal retirement age. Staff will bring an excerpt from a VRS publication with that system's early retirement factors.

GASB

Stephen McElhaney of Cheiron made a presentation on the Governmental Accounting Standards Boards recent proposed pension reporting standards and anticipated revisions. His handout is

Update on the GASB Pension Accounting Project. Beginning in 1997 the public pension world worked with GASB 25 & 27. These are for defined benefit plans of state and local governments. Under this program, methods, assumptions, and the like were the same for both accounting and funding. The proposed *Preliminary Views* would make significant changes. Generally GASB has begun the change process with an exposure draft. Exposure drafts are rarely changed much before they become finalized. In this case the pension changes are so dramatic they came out with *Preliminary Views*. Mr. McElhaney expects these *Preliminary Views* are likely to be substantially modified before they become an Exposure Draft.

The Exposure draft will throw out the ARC (Actuarially Required Contribution).

The balance sheet will show the actual contribution, the amount that should be contributed, and the difference. The unfunded liability will show on the accounting statement. The current unfunded liability in the Fire & Police plan is about \$64 million using actuarial value of assets. Under the proposed standards it will likely be displayed on the balance sheet using market value and this would be \$79 million.

GASB 27 required use of a long term investment rate for discounting actuarial liabilities. Preliminary views would use the same rate only to the extent liabilities are funded by assets on hand. Any liabilities beyond that would be funded at a shorter term (and usually substantially lower rate).

Referring to page three of his handout Mr. McElhaney said the Preliminary Views requires use of a single cost method. Since the plan already uses this method it is a non-issue with the City. Also, the COLA issues are not an issue because the City already fully recognizes and prefunds them.

Ms. Bosley asked if GASB specifies a rate of return assumption. Mr. McElhaney said no, that was up to the actuary and the Board or Plan Administrator. Investment consultants used to say equities would earn 10% for the long haul. Now they are saying 8% - 8.4%

Referring to page four of his handout Mr. McElhaney discussed investment gains and losses. No corridor will be permitted. He then discussed the accounting treatment of changes in assumptions and plan amendments.

Ms. Bosley asked if all this goes into the balance sheet. Mr. McElhaney said yes, but not all goes into current expense.

Referring to page five of his handout Mr. McElhaney mentioned the effective date. GASB wants plans to roll forward liabilities and use actual liabilities. For instance, liabilities from the June 30, 2010 actuarial valuation would be projected forward to June 30, 2011 and actual assets from 2011 would be used.

Referring to page six of his handout Mr. McElhaney discussed the transition and effective dates.

Ms. Bosley asked if things will change, will the City continue to fund pensions using the same procedures, methods, and protocol. At this point it appears the funding process would be unchanged.

Ms. Orr asked a question about amortizing liability gains and losses. Mr. McElhaney said they will likely be amortized over ten years.

Staff asked Mr. McElhaney to send the pdf version of his illustrations to staff so that they can be forwarded to the entire group.

Ms. Bosley asked what if investments go down. Ms. Triggs said we would have to ask if the investment return assumptions are still valid. Mr. Gilmore said Mr. Bryant (the investment consultant from Dahab Associates) said 7 ½% was okay.

Mr. McElhaney had projections of the Fire & Police plan's funding status:
If the plan earns 7 ½% for fifteen years the funding ratio will reach 92%.
If the fund earns 20% followed by 7 ½% for fourteen more years the funding ratio will be 94%.
If the fund earns 20% and then 6% for the next fourteen years the funding ratio will be 84%.

The meeting recessed at 8:12 PM.
The meeting resumed at 8:22 PM.

WATSON WYATT STUDY

Watson Wyatt performed a study of employee benefits and delivered it February 13, 2009 to City Council. Since then the company name was changed to Towers Watson. The report used 2008 data and did not reflect newer employees contributing 4% to VRS and 2% to the Supplemental Plan as well the increase in the employee share of the medical premiums. The report also did not reflect any of our peer comparators' changes in benefit structures.

City provided employee benefits are compared to those of:

1. Montgomery County,
2. Prince William County,
3. Fairfax County
4. Arlington County, and
5. Prince George's County

The first step in the process is to review the various plan documents.

Referring to page 6 Ms. Orr said in each chart the City's benefit is listed as 100 and the value of other jurisdictions' benefits are scaled proportionately.

Referring to page 8 Ms. Orr said annual leave was lower than comparator jurisdictions so in fiscal year 2010 annual leave accruals were increased 4 hours.

Ms. Orr said she had three reports of approximately 150 pages that covered portions of the summary report in much greater detail. These were available on request.

Ms. Orr said general benefit information was available from the Local Government Personnel Association. Members of this organization are from the D.C., Northern Virginia, and Baltimore area. There are almost 100 participants. There is also the Human Resources Association National Capital Area.

Mr. Speck asked once Watson Wyatt has created the template is it possible to redo the report. Ms. Orr said for comparison to the five key comparators they could just call the five entities. However, for a broader reach a survey may be appropriate. Mr. Speck said the City Council had adopted a philosophy that the City should be neither a leader nor a laggard in compensation and benefits.

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.

Mr. Cochran spoke about life insurance as a retirement benefit.

Mr. Gilmore mentioned that retirement benefits for new Deputy Sheriff employees had decreased in three ways:

1. New employees are now contributing to the Supplemental Plan and to VRS 2; VRS 2 provides a lesser benefit than VRS 1;
2. The Deputy Sheriffs used to have money deposited in the Retirement Income Plan which is not budgeted in the current nor upcoming fiscal year; and
3. The retiree medical plan is less generous than a few years ago

Ms. Orr is to provide an overview of health and life insurance benefits at the next meeting.

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.

Mr. Cochran said the Watson Wyatt study was good in that it engaged employees.

Mr. Phillips said the study did not include pay. Ms. Orr said the original intent was for City Council to budget for across the board salary increases. Later it was decided to focus on those positions that were most behind on salary.

Mr. Ray felt the Group should add the life insurance to the Group's report.

DISCUSSION GUIDE:

Mr. Ray provided a review of the May 25, 2011 meeting dialogue of the Discussion Guide. At the May 9 meeting the document was titled *Resource Guide*. It was clearly stated and agreed that the document is evolving and subject to review, edit, and change.

Staff with the help of OMB should endeavor to complete as many of the blanks as possible

- Page 5 item (3) (g)

- Pages 10-11 items (c) (2) – (7)
- Page 17 items D 2 & 3.
- Page 19 - 21 item 3
- Pages 26 – 27 IV.
- Page 31 item A 4
- Page 36 item (c)
- Page 36

Long Term Care (LTC) is not mentioned in the document. Some say this as an omission. Others did not think it should be discussed at length because LTC is employee paid. The consensus is to mention it in passing because it provides access to a benefit at group rates.

The group discussed organizing the report to City Council.

Ms. Bosley said the report should reflect that if group members believed some or all of the retirement benefits that were not broken they should explain why not.

Mr. Gilmore said there was no unreduced retirement after twenty five years of service for deputy sheriffs, medics, and fire marshals.

Ms. Bosley suggested the committee break into groups and the groups bring back their ideas.

Mr. Speck suggested each group make a specific list of pros and cons.

Mr. Cochran would like to survey employees. There was discussion but little consensus on how and when to get feedback from employees. It was agreed that the uniformed employees are more organized and it is easier to communicate with them. Mr. Cochran and Ms. D'Sylva will work with Ms. Orr on surveys or other employee communications.

Ms. Bosley encourages the groups to each bring back lists of aspects of the retirement plans that are broken or are not broken.

Staff asked for clarification if the feedback was to come only from the employee representatives at the table. There were alternates, public representatives, and staff. Should they also bring comments and suggestions? Mr. Ray said yes, they should. Mr. Milner said he would work with the Fraternal Order of Police and bring back a list. Mr. Cochran might design a survey with H.R.

Mr. Cross asked if there was a request for a wish list of benefit enhancements. It was then clarified this was not to be a wish list of benefit enhancements but items that were consistent with the Council resolution.

Mr. Milner suggested Ms. D'Sylva may have to educate employees on some technical aspects of their retirement benefits.

Mr. Ray asked Ms. Triggs to make sure there are comments from City Management's perspective.

Mr. Speck asked if there should be a voice from retirees. The consensus was that this would cause alarm and do more harm than good. Retirees would not be surveyed.

Mr. Phillips made a motion that at the July 14th meeting the Benefits Advisory Group identify pros and cons of the retirement system and document their concerns with references to the Discussion Guide.

Discussion: Ms. Bosley asked that all committee members bring an outline.

The motion passed unanimously.

NEXT MEETINGS:

The next meetings were set for:

- Thursday, July 14, beginning at 6:30 p.m. Sister Cities Room 1101
- 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

A motion was made and seconded to adjourn. The motion passed unanimously. The meeting adjourned at 9:58 PM.

MEETING HANDOUTS:

<u>Number</u>	<u>Document</u>
	Agenda
2(b)	Draft Minutes May 25, 2011 Meeting
3(a)	Pension Contribution Rates
3(b)	Employer Match to Deferred Compensation
3(c)	Local Comparators (revised from 5/25/2011)
3(d)	<i>Preliminary Results of Benefits Study</i> , Watson Wyatt
4	Update on the GASB Pension Accounting Project Discussion Guide, revised 5/25/2011

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.

June 15, 2011

Revise May 25 minutes before posting. **The minutes were revised and posted June 21.**

Mr. Cross requested that the docket memo from February 2004 creation of the Firefighters and Police Officers Pension Plan be made available.

Staff will bring an excerpt from a VRS publication with that system's early retirement factors.

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 14th 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. **The documents were requested June 21 and expected for the July 14th meeting.**

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.**

Ms. Orr is to provide an overview of health and life insurance benefits at the next meeting.

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.**

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.**