CITY OF ALEXANDRIA
AD HOC RETIREMENT BENEFIT ADVISORY GROUP

MINUTES OF MAY 25, 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
Jennifer Harris	General Schedule (Alternate)
Nancy McFadden	Medics & Fire Marshals (Alt)
James McNeil	Public
Jarrod Overstreet	Deputy Sheriffs (Alternate)
Lonnie Phillips	Medics & Fire Marshals
James Ray	Public
Len Rubenstein	Public
David Speck (via telephone)	Public
Al Tierney	Police Officers

Marietta Robinson, General Schedule employees

Others:
Steven Bland, Retirement Administrator
Bill Mitchell, Administrator Benefits & Compensation, Human Resources
Theresa Nugent, Retirement Specialist

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

MEETING MINUTES:
Mr. McNeil made a motion to accept the minutes of April 27, 2011 and May 9, 2011. Ms. D'Sylva seconded the motion. The motion passed unanimously.

AGENDA:
Mr. Phillips made a motion to accept the agenda. Mr. McNeil seconded the motion.

DISCUSSION GUIDE:

Mr. Ray provided a review of the May 9, 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.

The group discussed sustainability and the need to determine what this term meant.

Item C 1. (b) On page 30 are highlights of an email from Cheryl Orr. There were discussions of the role of benefits in attracting and retaining employees.

Staff was asked to review handouts 5 (a) through 5 (e).

Handout 5 (a) was first distributed at an earlier meeting. Mr. Gilmore asked that certain items be added or verified. The entry for Alexandria Deputy Sheriffs, Medics, and Fire marshals was completed. The numbers represented the accrued pension.

Mr. Gilmore said that an early retirement factor lowers the numbers displayed. He requested the factors be incorporated. For example, retiring at age sixty with twenty five years of service might lead to an early retirement factor of 70%. Staff suggested that several footnotes be added to reflect the possibility of an early retirement factor for someone with twenty five years of service. However, different retirement ages would lead to different early retirement factors.

Handout 5 (b) was discussed. This graph is based on the data in handout 5 (a). Mr. Phillips and Ms. D'Sylva requested an analogous graph for the general schedule employees.

Staff proposed to ask Arthur Lynch make another graph for general schedule employees. Staff would document, footnote, or explain the issues raised by Mr. Gilmore and others. The revised graphs would hopefully be distributed a few days following the Memorial Day weekend. This would provide others the opportunity to comment or make suggested changes to the graph. Staff asks these comments be returned promptly so that they could be incorporated into the packet for the June 15th meeting. Committee members agreed this was acceptable.

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.

Mr. Phillips said benefits are a consideration once employees are on board. During the recruiting process they rarely know, understand, and appreciate the details. The few informed candidates will go elsewhere.

Ms. Bosley requested information on the state law changed in approximately 2008 permitting uniformed groups in VRS to change retirement eligibility provisions form age fifty and thirty years of service to age fifty and twenty five years of service without also adopting the enhanced supplemental benefit for hazardous duty occupations. This benefit is roughly $1,000 monthly from retirement to Social Security Normal Retirement Age for those with twenty five years of service.

Ms. Bosley asked staff to extrapolate the values for several years. Staff can provide something in terms of contribution rates. However, budgets information should come from the experts, Office of Management and Budget. The question will be referred to Ms. Triggs.

Handout 5 (c) provides a history of past contributions and makes some projections. Beginning with page two of the handout the *Pensions as a Percent of Total Budget* derives employer contributions in dollars. Staff referenced the VRS employer contributions. In FY 2003 they were unsustainably low due to the 1990s bull market being fully reflected in the rates and only a portion of the 2000 – 2002 bear market losses. This is believed to be the all-time low in contribution rates. The FY 2012 rate is 7.78%. This rate represents some of the 2008 – 2009 bear market losses, but not all. Changing actuarial assumptions and recognizing more 2008 – 2009 losses will drive up future contribution rates. This too will not be sustainable. The long term rate is the normal cost, the ongoing cost for new hires. This rate used to be close to 4% of salary plus the 5% employee contribution. After the actuarial assumptions were recently changed the normal cost increased to 5%. This long term rate falls between the .75% low and the more recent 7.78%.

Mr. Rubenstein suggested that 2007 is a better starting point for comparisons. Employer contribution rates as a percentage of total City budget have gone from 5.0% to 5.4% during the period 2007 – 2012. This is not a significant increase.

Page one of handout 5 (c) is *Projecting Contribution Rates*. The graph depicts data for the Fire & Police pension plan. The dashed line represents the 20% contribution rate in effect for the defined contribution plan from 1979 through 2004 and for the first few years of the defined benefit plan. The increase bars show the impact of actuarial valuations calling for higher employer contributions. Using information from the draft 2010 valuation we expect rates to increase further. Finally, the deferred losses from 2008 – 2009 have not been fully reflected. This will increase contributions further still. The first vertical dashed line suggests a change. The significant investment gains from June 30, 2010 to date are not reflected in the actuarial valuations used to the left of the dashed line. This will ultimately lead to lower contribution rates. To the right of the seconded vertical dashed line is the normal cost. Ultimately the unfunded liability will be paid off and the employer contribution will revert to that rate.

Ms. D'Sylva summarized by asking staff to verify that this meant long term rates will go to the 11% displayed at the rightmost portion of the graph. Staff provided a qualified agreement by saying the best estimate of future contribution rates is 22-23% for the next nineteen years and after that rates would decrease to the normal cost. This also assumes there is no intervening event such as another significant stock market drop. The path contribution rates take for the next nineteen years would not necessarily be smooth. The other plans, VRS and the Supplemental Retirement Plan, would follow somewhat similar patterns.

Handout 5 (d) is meant to demonstrate that efforts are being made to manage the funds efficiently so that as more dollars are going towards benefits and less towards administration and vendors. The initiatives have come from management, the Fire & Police Board, and staff.

Handout 5 (e) is to address questions by Mr. Rubenstein, Mr. Bailey, and Ms. Bosley. At various times they asked about fund performance versus the actuarially assumed rate. Bruce Johnson recommended these pages from the investment consultant's quarterly report and requested they be distributed. The pages are from the Fire & Police, Supplemental, and Post Employment Benefit Trusts. They are for slightly different periods of time but generally show the funds earning roughly 7 ½% annually.

Section VI addresses problems facing the plans and what pressures might increase contribution rates. Mr. Ray referred to Page 28 VI A (3) (c) and raised the question of adverse environment's impact on City employees.

There was mention of a Watson Wyatt Study from roughly 2008. The Company had since been renamed Towers Watson Wyatt.

Staff asked what if there were pressures from those hired after 2007 when there was a series of steps to reduce benefit costs to retiree medical, VRS, and the Supplemental Plan. Efforts to narrow the gap between new hires and old hires might result in increased employer contributions for the newer hires.

Mr. Rubenstein said the City has defined benefit plans. The fundamental question is should the City retain its defined benefit plans? Is it appropriate that risk is born by the employee or employer?

Mr. Gilmore asked if actuarial cost estimates for providing age fifty and twenty five years of service eligibility for the City's uniformed officers in VRS had been provided. Staff said that was done several years ago. A rough estimate was 5% of salary. Mr. Gilmore asked if it could be done again.

The first time the actuarial work was done it cost $1,000. The second time it cost $2,000. Staff did not have the budget authority to approve this expenditure.

Mr. Cochran requested that staff provide the Group the budget memo on the June Council action that led to a four percent employee contribution rate for the Virginia Retirement System. [NOTE: The actual process did not include a budget memo.] Mr. Cochrane also requested a copy of the budget memorandum that accompanied the City's change of post-employment medical insurance coverage provisions that increased the service requirement for full benefits from five years of service credit to twenty five years.

Mr. Bailey suggested the report include a statement that employees prefer a defined benefit plan to a defined contribution plan. Mr. Ray wanted to avoid the appearance that the report was biased. The consensus is that expressing the employee preference can be done in a factual way as proving background and separated from the research or opinions of group members.

Mr. Cochrane asked staff to survey AMRSVA members of their programs to match employee contributions in deferred compensation programs.

Mr. Ray was asked to produce a table of contents to the Discussion Guide handout. Mr. Phillips asked that a reference to payments to the Retirement Income Plan saying no benefits are "due" is changed to no benefits are "paid." The distinction is to focus on the amounts that were actually paid in FY 2011.

Mr. Rubenstein thanked Mr. Ray for producing the document.

Ms. Bosley asked that some of the blanks on page 5 of Mr. Ray's *Discussion Guide* be filled in. Staff acknowledged the request but is concerned data required for the calculation comes from data outside of the Retirement area.

NEXT MEETINGS:
The next meetings were set for:
Wednesday, June 15 at 6:30 p.m. Sister Cities Room 1101
Thursday July 14 at 6:30 p.m. Sister Cities Room 1101

A motion was made and seconded to adjourn. The motion passed unanimously. The meeting adjourned at 9:40 PM.

MEETING HANDOUTS:

Number	Document
	Agenda
2(a)	Draft Minutes April 27, 2011 Meeting
2(b)	Draft Minutes May 9, 2011 Meeting
3	Discussion Guide, revised 5/25/2011
5(a)	Local Comparators Benefit Examples, revised 5/25/2011
5(b)	Local Comparators chart
5(c)	Projecting Contribution Rates
	Pensions as a Percent of Total Budget
5(d)	Recent Efficiency Initiatives
5(e)	Investment Returns – Actual vs. Assumed

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.

May 25, 2011

Mr. Ray requested the Towers Watson study be distributed. (Between the commissioning of the study and today the company name was changed from Watson Wyatt to Towers Watson). **Staff referred this to the Human Resources Department.**

Ms. Bosley requested information on the state law changed in approximately 2010 permitting uniformed groups in VRS to change retirement eligibility provisions from age fifty and thirty years of service to age fifty and twenty five years of service without also adopting the enhanced supplemental benefit for hazardous duty occupations. **This was Virginia Assembly House Bill (HB) HB 273. (http://lis.virginia.gov/cgi-bin/legp604.exe?101+sum+HB273)**

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.**

Mr. Cochrane requested a copy of the Budget Memorandum that accompanied the City's change of post-employment medical insurance coverage provisions that increased the service requirement for full benefits from five years of service credit to twenty five years. **Requested help from OMB in finding this.**

Mr. Cochrane asked staff to survey AMRSVA members of their programs to match employee contributions in deferred compensation programs. **Will bring to June 15th meeting.**

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.**