

NOTICE OF PROPOSED AMENDMENT

THE CITY OF ALEXANDRIA DEPUTY SHERIFFS, EMERGENCY RESCUE TECHNICIANS, AND FIRE MARSHALS

DATE: MARCH 11, 2011

TO: PARTICIPANTS IN THE CITY OF ALEXANDRIA RETIREMENT INCOME
PLAN FOR DEPUTY SHERIFFS, MEDICS, AND FIRE MARSHALS

THRU: STEVEN BLAND, RETIREMENT ADMINISTRATOR

FROM: LAURA B. TRIGGS, DIRECTOR OF FINANCE

SUBJECT: PROPOSED CHANGES TO THE RETIREMENT INCOME PLAN FOR
DEPUTY SHERIFFS, MEDICS, AND FIRE MARSHALS AND
INFORMATIONAL MEETINGS

The City maintains the Retirement Income Plan for Deputy Sheriffs, Emergency Rescue Technicians [now called Medics], and Fire Marshals (the “Plan”). The City is proposing **two changes** to the Plan, which are expected to be sent to City Council for consideration in May. Should City Council adopt these changes, they will become effective immediately. The proposed changes **do not affect how the City-paid contributions are determined, who is eligible to receive the contributions, or the investment decisions employees make to grow their accounts.** The City is proposing these changes as part of simplifying the administration of the City defined contribution plans; in response to complaints from employees regarding Prudential’s administration of the City retirement plans; and in conjunction with a proposed change to another City retirement plan.

The Plan is qualified under section 401(a) of the Internal Revenue Code as a defined contribution plan. A defined contribution plan links benefits to contributions and investment returns. A 401(a) plan is meant to provide benefits to participants after normal retirement age (age 60 for this Plan). Participants who retire or terminate earlier than age 60 may receive benefits at that time. However, these benefit payments may be subject to an additional federal penalty tax of ten percent for participants who have not turned 59 1/2. The City contributes a percentage of employees’ pay to the Plan as approved during the budget process each year. This contribution is linked to contributions to the Virginia Retirement System (“VRS”) and the City Supplemental Plans maintained for the benefit of employees. There was no contribution to this Plan for FY 2011.

First Proposed Change to Administration of the Plan

Contributions for this defined contribution plan are currently made to Prudential who administers the Plan’s various funds. The City proposes making any future budgeted Plan contributions into the employees’ City 457 Deferred Compensation Plan (the “457 Plan”) accounts administered by ICMA-RC. A 457 plan is a savings plan available to state and local government employees that allows them to save through payroll contributions deducted on a pre-tax basis. Participants may

withdraw account money after retirement or leaving City employment. Withdrawals are subject to federal and state taxes but are not subject to any penalty for early distribution.

As part of the proposed change, the Plan accounts held at Prudential will be closed. All account balances will become 100% vested at that time. This means employees own all contributions and earnings in their accounts and will not forfeit, or lose, any part of their account balance if they have less than five years of service in the Plan. Participants will choose where to move their current account balances (“401(a) money”) when the plan is closed. At that time, participants may do one of the following:

- Roll-over their current balance to their own individual qualified plan at Prudential and defer paying taxes at the time the account is rolled over;
- Roll-over their current balance to their City 457 account at ICMA-RC and defer paying taxes at the time of the roll-over (the money rolled over from the Plan to the 457 account will still be treated as 401(a) money which means the 401(a) provisions still apply to these funds);
- Roll-over their current balance to another qualified plan, such as an IRA, and defer paying taxes at the time of the rollover; or
- Withdraw their account balance **subject to current federal and state taxes as well as a possible additional ten percent tax for early distribution.**

Taxation of Withdrawals and Roll-Overs from the Plan

The contributions and earnings accrued in the Plan have not been taxed to employees and are subject to taxes if they are withdrawn instead of rolling over to a qualified plan. Participants who withdraw money without rolling it over will be liable for the applicable federal and state taxes in the year of the withdrawal. Additionally, participants who withdraw money before age 59 ½ may be subject to an additional ten percent tax for early distribution. Participants who are planning to withdraw their account balance may want to consult with a tax advisor to discuss the tax impact of such withdrawal.

Participants may defer paying taxes if they roll over their current account balance to another qualified plan, such as a qualified plan offered by Prudential, the 457 Plan, a traditional IRA (not Roth), or another qualified plan. Participants who roll over their current account balance to a plan other than the 457 Plan should contact that plan to determine if and how withdrawals of roll-over money will be taxed.

Any money that ICMA-RC receives directly from participants’ current account balances will go into their 457 accounts. Since the money will be identified as a roll-over from a 401(a) account there is **no** change in tax or withdrawal provisions for current account balances transferred to the 457 Plan. ICMA-RC will track the 401(a) money separately from any City or participant contributions designated as 457 contributions since 401(a) money may be subject to an additional ten percent tax for early withdrawal.

Reason for the Proposed Change

The consolidation also offers the following advantages to participants:

- More choices in the types of investment funds;

- Greater access to individual in-person and web-based customer service;
- Greater access to financial education on the website and through live seminars provided by ICMA-RC;
- Access to an ICMA-RC representative, who is available to meet with employees five days a week at a time and location convenient to them;
- Consolidation of assets from the Plan and the 457 Plan; and
- Your assets are available for transfer to another plan or withdrawal at the time of the Plan closing if the participant chooses.

The change just discussed is in the proposed amendment called the “Second Amendment to the Plan.”

Second Proposed Change to Allow Eligible Employees to Transfer Money to a City Plan

The City is also proposing another amendment. This amendment is proposed in conjunction with a proposed change to the Firefighters and Police Officers Pension Plan (the “Fire and Police Plan”). This second proposed amendment will allow eligible Firefighters and Police Officers who have assets in this Plan a one-time opportunity to roll over their Plan assets to the Fire and Police Plan to purchase service in that plan. To be eligible, employees had to be previously employed with the City as a Deputy Sheriff, Emergency Rescue Technician, or Fire Marshal.

Informational Meetings

The Pension Administration Division has scheduled the following meetings to discuss proposed amendments to City retirement plans, including the proposed amendment to the Fire and Police Plan. Information on that change is being sent to Firefighters and Police Officers. During each meeting listed below all proposed changes to the City retirement plans may be discussed.

Date	Time	Location
Tuesday, March 22, 2011	5:00 – 7:00 p.m.	Public Safety Roll Call Room 2003 Mill Road
Wednesday, March 23, 2011	5:00 – 7:00 p.m.	Public Safety Roll Call Room 2003 Mill Road
Tuesday, March 29	1:00 – 3:00 p.m.	CIS Roll Call Room, Suite 210 2034 Eisenhower Avenue

Employee Action Required if City Council Adopts Proposed Amendments

Should Council adopt the proposed changes to the City retirement plans, the Pension Administration Division will begin taking steps to implement all of the proposed changes. Detailed information and a schedule for moving the administration of the Plan to the 457 Plan, as

well as information on moving current account balances, will be sent to Deputy Sheriffs, Medics, and Fire Marshals. Additional participant meetings will be scheduled at that time to discuss the Plan closing process. Prudential will be invited to provide information to participants on the qualified plans they offer. Afterwards, ICMA-RC will be invited to provide information regarding roll-overs to the 457 Plan.

Assuming Council adopts all of the changes to the retirement plans proposed by the City, the Plan closing will be scheduled to take place after the transfers to the Fire and Police Plan for the purpose of purchasing service have taken place. Employees who do not have a 457 account with ICMA-RC will be provided with enrollment forms at that time.

Please plan to attend one of the employee meetings listed earlier for answers to your questions. If you still have questions after the March 23 meeting you may contact Steven Bland, the City's Retirement Administrator, by e-mail at Steven.Bland@alexandriava.gov or by phone at (703) 746-3886.

ATTACHMENT: Memo regarding February 2, 2011 Compensation and Benefits Committee Meeting

CC: Bruce Johnson, Chief Financial Officer
Michele Evans, Deputy City Manager
Steven Bland, Retirement Administrator
Christopher Spera, Deputy City Attorney