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REPORT OF THE CITY OF ALEXANDRIA AD HOC RETIREMENT BENEFIT ADVISORY GROUP TO THE CITY COUNCIL AND CITY MANAGER

Pursuant To City Council Resolution 2432 (January 25, 2011)

November ____, 2011

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Addenda

REPORT OF THE CITY OF ALEXANDRIA
AD HOC RETIREMENT BENEFIT ADVISORY GROUP
TO THE CITY COUNCIL AND CITY MANAGER

November ____, 2011

To the Honorable Mayor William D. Euille
and the Honorable Members of City Council

Greetings:

In compliance with City Council Resolution 2432 (January 25, 2011)[1], the Ad Hoc Retirement Benefit Advisory Group presents this report to the City Council and City Manager for their consideration.

I. Executive Summary

[TO BE INSERTED ONCE REPORT IS FINALIZED]

II. Mandate From City Council

Resolution 2432 established the Advisory Group and assigned to it the following tasks:

"Section 3: Tasks of the Advisory Group

"a) The Advisory Group shall look at the need for any future changes to defined benefit pension plans created under the authority of the City Council.

"b) The Advisory Group shall examine the current financial status of the City's retirement funds, to advise the City Manager and City Council Pension and Compensation Subcommittee on any options that should be considered to meet the following objectives:

"i. To protect benefits already earned (accrued) by retirees and current employees,

"ii. To ensure the City remains competitive with neighboring jurisdictions in recruiting for capable and effective public service employees,

"iii. To provide an opportunity for City employees to save for and have a secure retirement,

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1 A copy of the full Resolution is appended hereto as Addendum A.

"iv. To consider the advantages and disadvantages of defined benefit v. defined contribution pension plans and make recommendations on the structure of future plans, and

"v. To create a fiscally sustainable plan for funding future benefits whether earned or to be earned in the future."

"Section 4: The Report of the Advisory Group

"a) The Advisory Group shall evaluate need for changes based on:
"i. financial status of City's pension plans based on the outlook for future sustainability of those plans given actuarial outlook and investment risks and expected returns, and

"ii. The assessments of likely federal, state and GASB developments, to the extent known over the next 12 months, in accounting, disclosure and funding rules.

"b) The Advisory Group may offer a variety of options that should be considered by City Council to meet future challenges. Unanimity is not necessarily required for any option in the report.

"c) The Advisory Group Report shall contain an assessment of advantages and disadvantages vis-a-vis the objectives outlined above of each option presented.

"d) The Advisory Group Report shall include in the report an assessment of the ease or difficulty of administrative implementation of any recommended options for consideration."

III. Advisory Group's Membership

In accordance with the Resolution, Mayor William D. Euille, after consultation with the full City Council, appointed the following individuals to serve on the Advisory Group and represent various interested constituencies:

Member	Constituency Represented
Russell Bailey	Public
Janine Bosley	Public
James McNeil	Public
James S. Ray	Public
Len Rubenstein	Public
David Speck	Public

Shane Cochran	City Employees (General Schedule)
Michael Cross	City Employees (Firefighters)
Brenda D'Sylva	City Employees (General Schedule)
Robert Gilmore	City Employees (Deputy Sheriffs)
Edward Milner	City Employees (Police Officers)
Lonnie Phillips	City Employees (Medics & Fire Marshals)
Laura B. Triggs	City Manager

Public members James S. Ray and Janine Bosley were elected by the Advisory Group's members to serve as Co-Chairs and preside alternately at meetings.

Bruce Johnson, an original member of the Advisory Group, withdrew upon his appointment as the Acting City Manager in late April 2011. Laura Triggs was appointed to succeed him as the City Manager's representative.

Lisa Chimento was originally appointed as a Public representative, but she was unable to serve for unexpected medical reasons and withdrew. Russell Bailey, originally an Alternate, was re-appointed as a regular member.

As required by the Resolution, all of the Public members have knowledge or experience through education or work experience in one or more of the following fields: financial / budget management; pension law and administration; actuarial science; and human resource management.

The following individuals served as Alternates for the City Employee members of the Advisory Group:

Patrick Evans: Firefighters
Jennifer Harris: General Schedule Employees
Nancy McFadden: Medics/Fire Marshals
Jarrod Overstreet: Deputy Sheriffs
Marietta Robinson: General Schedule Employees
Al Tieney: Police Officers

The Advisory Group was ably and diligently assisted by several members of the City's staff, particularly:

Steven Bland, Retirement Administration Director
Michele Evans, Deputy City Manager
Bill Mitchell, Assistant Retirement Administration Director
Theresa Nugent, Pension Public Information Specialist
Cheryl Orr, Human Resources Director

IV. Advisory Group's Proceedings

The Advisory Group held meetings on the following dates: March 24, 2011; April 4, 2011; April 27, 2011; May 9, 2011; May 25, 2011; June 15, 2011; July 14, 2011; August 2, 2011; September 8, 2011; September 19, 2011; September 28, 2011; and...

The meetings were typically held in City Hall (Sister Cities Room) and lasted at least 3 hours each. The meetings were open to the public. Advance notice of the meetings was posted on the City's website and television channel and was otherwise advertised to the public. An agenda for each meeting was posted on the City's website.

Official minutes of each meeting were kept and subsequently approved.

The City's website, under the Finance Department, included an easily findable, dedicated page for the Advisory Group on which was posted extensive information including: (a) a statement of the Advisory Group's purpose; (b) a list of the Advisory Group's members; (c) the approved meeting minutes; (d) all of the documents presented to the Advisory Group; (e) a Discussion Guide used by the Advisory Group to keep track of relevant information and issues.

The Advisory Group's web-page included a "Group Seeks Public Comment" section that stated as follows:

> *"As part of its tasked duties, the Group must provide the City Council with a written report of its recommendations by November 2011. In preparation for drafting its report to the City, the Advisory Group is seeking public feedback primarily based on the City Council's evaluation criterion and the Discussion Guide. The Group will consider all feedback; however, feedback that relates to the Discussion Guide and the criterion will be most useful to the report's development. The criterion listed in Resolution 2432 includes: protection of established benefits, competitiveness with neighboring jurisdictions, encouragement of employee retirement savings, the advantages and disadvantages of defined benefit versus defined contribution retirement plans as well as present and future fiscal sustainability of any existing or recommended retirement benefit program(s). To comment, please click on the word Comment at the top of the page."*

This section was highlighted on the City's main website home page under "Special Features". The Advisory Group thanks Jennifer Harris, City Communications Officer, for her able and enthusiastic assistance in developing and implementing this public outreach.

During its meetings, the Advisory Group also received valuable input and other assistance from various members of the City's staff, particularly Retirement Administration Director Steven Bland, who participated in every meeting, and Laura B. Triggs, Deputy CFO/Finance Director, who participated in most meetings and became a member of the Advisory Group. Important information was also provided by Cheryl Orr, Human Resources Director, who attended several of our meetings.

The Advisory Group received and discussed verbal and written presentations from Stephen McElhaney of Cheiron, the new actuary for the City's pension plans, and a verbal presentation by Barry Bryant of Dahab Associates , the investment consultant for the City's pension plans who was first hired in 2005 and whose contract was renewed in 2010.

In addition, the City Employee members made special presentations to the Advisory Group regarding issues of particular importance to their respective constituencies.

Documents presented to and considered by the Advisory Group (and posted on the City's website) include:

Retirement Summary: Firefighters and Police Officers

Retirement Summary: Deputy Sheriffs, Medics & Fire Marshals

Retirement Summary: General Schedule Employees

Summary of Activity as of December 31, 2010 for the Fire and Police Pension Plan

Summary: Voluntary Savings Plans

Letter from General Assembly calling for review of the Virginia Retirement System

Budget Memo #16 employer and Employee Retirement Contribution Rates FY 1988 - FY 2012 Proposed

Comprehensive Annual Financial Report (CAFR) July 1, 2009 to June 30, 2010 (excerpts)

Benefits Overview of City Retirement Benefits with examples

Pension Contributions: FY2011 Contribution Components

Timeline: Valuation, Budgeting, Contribution Changes

Valuation 2009 Fire and Police Plan (excerpts)

Valuation 2010 Supplemental Retirement Plan (excerpts)

Valuation 2010 Virginia Retirement System (excerpts)

Local Comparators: retirement benefits

History of Pension Changes - City and national

Local Comparators, revised April 27, 2011

Local Comparators-Benefit Examples

Projecting Contribution Rates

Pensions as a Percent of Total Budget

Social Security Offsets/Integration (peer comparisons)

Local Comparators Benefit Examples, revised April 27, 2011

Recent Retirement Plan Changes Virginia Public Plans

Recent Efficiency Initiatives by City

Investment Returns: Actual vs. Assumed

Trends in Public Pensions (caveat: data outdated)

VRS Plan 1 and Plan 2 Effective July 1, 2010 - 2010 Legislative Changes Affecting Future Members

2011 General Assembly Summary

Data Summary: 2008 Comparative Study of Major Public Employee Retirement Systems

City Resolution No. 868 adopted June 8, 1982 (City makes the 5% VRS member contributions for covered employees)

City of Alexandria-Preliminary Results of Benefits Study by Towers Watson (formerly Watson Wyatt), February 13, 2009

City of Alexandria-Memorandum from City Manager Sunderland to the Mayor and City Council, February 13, 2004 regarding conversion of Firefighters and Police Officers defined contribution plan to a defined benefit plan (Ordinance No. 4336)

City of Alexandria-Memorandum from City Manager Sunderland to the Mayor and City Council, February 6, 2004 regarding conversion of Firefighters and Police Officers defined contribution plan to a defined benefit plan

City of Alexandria-Memorandum from City Manager Hartmann to the Mayor and City Council, June 16, 2010 regarding City's Employee Compensation Philosophy

City of Alexandria-Memorandum from City Manager Hartmann to the Mayor and City Council, June 17, 2010 regarding employee contributions to the Virginia Retirement System

City of Alexandria, Budget Work Session, October 19, 2010 Powerpoint Presentations: FY2012 Preliminary Compensation and Benefits; Overview of City of Alexandria's Benefits Package; Public Pension Plans for Alexandria Employees in FY2012 and Beyond.

Article, Pensions & Investments, December 13, 2010, by Doug Halonen: "Battle lines form over public plan disclosure" (GASB)

Cheiron-Client Advisory: GASB Preliminary Views on Pension Reporting Point to Radical Shift in Accounting Practices

Cheiron: Update on the GASB Pension Accounting Project

Letter from Stephen McElhaney of Cheiron dated June 22, 2011 (with enclosed charts) concerning Funding Projections-Firefighters and Police Officers Pension Plan

Presentation on behalf of Firefighters and Police Officers by Michael Cross and Edward Milner, including: excerpt Docket Items 11 and 12 of February 21, 2004 City Council Docket; NASRA Brief: Public Pension Plan Investment Return Assumptions

Sample Early Retirement calculations

Enhancing Sustainability, Parts 1 & 2: submission by City staff

Pensions as a Percent of Total Budget, revised (includes contribution history)

Eligibility for City of Alexandria Retiree Health Benefits

Presentation on behalf of Deputy Sheriffs by Robert Gilmore

Presentation on behalf of Medics presented by Lonnie Phillips

Presentation on behalf of General Schedule employees presented by Shane Cochran and Brenda D'Sylva

Discussion Guide ("living" document used to track and organize information received by the Advisory Group from meeting-to-meeting)

[INSERT DOCUMENTS FROM SEPTEMBER & OCTOBER MEETINGS]

V. Pension Plans And Other Retirement Income Programs For City Employees

In order to address the issues raised in Resolution 2432, the Advisory Group had to first learn about the various pension plans and other retirement income programs by which City employees are covered.[2] Several of the Advisory Council's meetings were devoted to developing a common understanding of the history, terms and conditions, and status of the plans. The Advisory Group found as follows.

A. Virginia Retirement System ("VRS")

A-1. The VRS is a pooled, multiple employer defined benefit pension plan and trust established by the Commonwealth of Virginia for State employees, employees of participating political subdivisions, teachers and other school division employees.

A-2. The City of Alexandria elected to participate in VRS for most employee classifications in 1957 (City Code Section 2-5-52). The City cannot withdraw from participation in the VRS with regard to employee positions already identified as VRS-covered. Once the City agreed to participate, its participation is irrevocable (Code of Virginia, Title 51, §51.1-139).[3] If the City becomes financially unable to make

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[2] Other post-retirement benefits for City employees are discussed in a following section of this report.

[3] Arlington and Fairfax, two of the City's "Comparator Jurisdictions", do not participate in VRS. [???]

contributions for any reason, there is a default procedure under which the City's employees' VRS coverage would be terminated and an amount would be disbursed to them.

A-3. All regular, full-time City employees who are not covered by the Firefighters & Police Officers Pension Plan are covered by the VRS. This includes: all General Schedule employees; all Deputy Sheriffs, Emergency Medical Technicians (Medics), and Fire Marshals; the City Manager and City management staff; and City Council members. It does not cover Firefighters and Police Officers, who are covered by their own pension plan, as discussed below. Participation is mandatory for all employees in VRS-designated positions.

A-4. VRS offers two levels of pension plans ("VRS-1" and "VRS-2") depending on an employee's date of hire in a covered position.

(a) VRS-1 applies to all City employees hired into VRS-covered positions before July 1, 2010 employment.

(b) VRS-2 applies to all City employees hired into VRS-covered positions after June 30, 2010.

A-5. As of May 23, 2011, a total of 2,626 current and former City employees were participating in VRS. The numbers by category of participant are as follows:

(a) 1765 active employees (total collective salary = $114,725,770)

(1) VRS-1: 1,663 (collective salary = $109,118,537 salary)

(2) VRS-2: 102 (collective salary = $5,607,233)

(b) 682 retired or disabled employees (all VRS-1)

(c) 179 vested, non-retired former employees (all VRS-1).

A-6. As a VRS participating employer, the City is required to make periodic contributions to VRS to fund the pensions being earned by its covered employees. In addition, the City's covered employees may be, and are to a certain extent, required to make pre-tax contributions from their salaries to VRS to help fund their pensions.

(a) City's "Employer Contributions [4]: VRS-1 & VRS-2

(1) VRS determines the contribution rate separately for each employer based on that employer's experience, a share of the VRS' pooled investment experience, and a share of VRS' administrative expenses. The contribution rate is set based on an actuarial valuation every other year, so the same contribution rate applies for two years.

(2) The City's contribution rate is affected by various factors outside of the City's control. In most recent valuation, VRS changed its smoothing method for determining actuarial value of assets (suspended use of 80-120% corridor for market value vs actuarial value). This reduced the employer contribution rate from 9.82% of payroll to 7.78%, and deferred about $2.5 million in costs that would have been incurred in FY 2011 and FY2012.

(b) City's "Employee" Contributions: VRS-1

VRS-1 provides for participating employees to contribute 5% of their salaries to VRS. However, the City Council decided in 1982 to have the City start paying this "employee contribution", in addition to its own "employer contribution", instead of a general increase in employees' salaries.

City Council Resolution 898 (June 8, 1982) provided, in pertinent part:

> *"WHEREAS, the City Council of the City of Alexandria, Virginia, believes that wages and benefits for City employees should be maintained at levels which are properly competitive in the metropolitan labor market; and*
>
> *"WHEREAS, sufficient funds have been provided in the approved FY 1982-83 operating budget to provide approximately comparable increases in wages and benefits for all City employees;*

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[4] The City's "employer contributions" to VRS are really substitute salary. If the City did not pay contributions to VRS, all or at least some portion of this money would have been paid to employees as salary. If paid as salary, this money would have been subject to income taxes and payroll taxes. Provisions of the Federal and State tax codes exclude employer contributions to qualified pension plans from the employees' taxable income and exclude the contributions from payroll tax obligations of both the employer and the employee, reflecting a public policy of encouraging retirement savings over current consumption.

"WHEREAS, the Code of Virginia permits the City of Alexandria to assume and pay all of the contributions required of the City's employees who are participating in the City's agreement with the Virginia Supplemental Retirement System; and

"WHEREAS, a number of other Virginia jurisdictions have utilized this method and found it mutually beneficial to the employer and the employees because it reduces federal taxes and increases employee take-home pay;

"NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Alexandria, Virginia that the following benefits or pay adjustments will be provided to City employees in lieu of a general pay increase:

"A. The City of Alexandria will assume and pay all pension contributions required of employees who are participating in the City's agreement with the Virginia Supplemental Retirement System, beginning with the contribution for the month of July, 1982."

The Resolution went on to provide for various pay increases for all City employees who were not covered by VRS.

(c) City's "Employee" Contributions: VRS-2

VRS-2 also provides for participating employees to contribute 5% of their salaries to VRS. Instead of assuming the full cost of this 5%, as it had for City employees covered by VRS-1, the City Council decided at its June 22, 2010 meeting that City employees covered by VRS-2 (post-June 30, 2010 hires) would have to pay 4% of their salaries to VRS and the City would make the remaining 1% "employee contribution".

(d) "Employees' Contributions": VRS-1

As stated above, VRS-1 provides for "employee contributions" of 5% of salary, but the City has been paying this 5% contribution for the City employees covered by VRS-1 since 1982.

(e) "Employees' Contributions": VRS-2

As stated above, VRS-2 provides for "employee contributions" of 5% of salary. The City employees covered by VRS-2 are contributing 4% of their salaries, and the City is paying the other 1%, since the effective date of VRS-2 on July 1, 2010.

A-7. The most significant plan design features of VRS-1 are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit.

(b) Benefit at retirement is based on Average Final Compensation x Multiplier x Years of Service Credit.

(c) Creditable Compensation for purposes of determining the Average Final Compensation is only base pay, and does not include pay for overtime, bonuses, shift differentials, etc.

(d) Average Final Compensation is the average of the 36 highest consecutive months of Creditable Compensation.

(e) The Multiplier is 1.7%

(f) Years of Credit are generally the years of employment with the City in a VRS-covered position. There is no maximum number of years for which an employee may earn credit.

(g) A covered employee may retire and receive VRS-1 pension benefits when he or she meets the following age and service characteristics:

(1) Normal Retirement (retirement with an unreduced benefit):

(i) age 65 with 5 years of service credit; or

(ii) age 50 with 30 years of service credit

(2) Early Retirement (retirement with an actuarially reduced benefit)[5]:

(i) age 55 with 5 years of service credit; or

(ii) age 50 with 10 years of service credit

(3) Disability Retirement: vested and determined by VRS medical staff to be unable to perform job due to permanent disability

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5 INSERT % OF REDUCTION AT SAMPLE AGES

(h) Forms of benefit: annuity (monthly benefits for life after retirement), survivor annuity (monthly benefits for life of pensioner and for surviving spouse), and partial lump sum (part of pension in an immediate lump sum with balance paid in form of monthly benefits for pensioner's life).

(i) Post-retirement cost-of-living increase in monthly benefits (COLA): annual adjustment that first applies on July 1 of second calendar year after retirement; match first 3% increase in CPI-U and one-half of remaining increase up to maximum COLA of 5%.

A-8. VRS-2 (post-June 30, 2010 hires) offers a lesser benefit plan than VRS-1 in that a VRS-2 participant must wait longer to retire, the average compensation used for calculating benefits is lower, and the COLA is lower. The most significant plan design features of VRS-2 are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit. (Same as VRS-1.)

(b) Benefit at retirement is based on Average Final Compensation x Multiplier x Years of Service Credit.

(c) Creditable Compensation for purposes of determining the Average Final Compensation is only base pay, and does not include pay for overtime, bonuses, shift differentials, etc. (Same as VRS-1)

(d) Average Final Compensation is the average of the 60 highest consecutive months of Creditable Compensation. (VRS-1 is 36 highest consecutive months.)

(e) The Multiplier is 1.7% (Same as VRS-1.)

(f) Years of Credit are generally the years of employment with the City in a VRS-covered position. There is no maximum number of years for which an employee may earn credit. (Same as VRS-1.)

(g) A participant may retire and receive VRS-1 pension benefits when he or she meets the following age and service characteristics (later than under VRS-1):

(1) Normal Retirement (retirement with an unreduced benefit):

(i) Social Security Normal Retirement Age (66 or, if born after 1960, 67) with 5 years of service credit; or

(ii) when age and service credits equal 90 (*e.g.* age 60 with 30 years of service, or age 65 with 25 years of service)

(2) Early Retirement (retirement with an actuarially reduced benefit)[6]:

(i) age 60 with 5 years of service credit

(3) Disability Retirement: vested and determined by VRS medical staff

(h) Forms of benefit: annuity (monthly benefits for life after retirement), survivor annuity (monthly benefits for life of pensioner and for surviving spouse), and partial lump sum (part of pension in an immediate lump sum with balance paid in form of monthly benefits for pensioner's life).

(i) Post-retirement cost-of-living increase in monthly benefits (COLA): annual adjustment that first applies on July 1 of second calendar year after retirement; match first 2% increase in CPI-U and one-half of remaining increase up to maximum COLA of 6%. (Compared to VRS-1 which matches first 3% increase in CPI-U and one-half of remaining increase up to maximum COLA of 5%.)

A-9. Key actuarial assumptions used by VRS include a long-term investment return of 7.0% as of June 30, 2010. Before then, the assumed rate used through the June 30, 2009 valuation was 7.5%. This change in rate caused an increase in the contribution rate. No other key economic assumptions were changed.

A-10. Governance: The State Legislature controls the terms and conditions of the VRS Plans. VRS is administered by VRS staff and the expenses of administration are paid from VRS assets. Investments are overseen by the VRS Board of Trustees appointed by the Governor.

B. City of Alexandria Firefighters and Police Officers Pension Plan ("FPOPP")

B-1. The Firefighters and Police Officers Pension Plan (FPOPP) is a pooled defined benefit pension plan covering all sworn firefighters and police officers employed by the City on or after January 1, 2004. No other City employees are covered. Participation is mandatory for all sworn firefighters and police officers employed by the City.

By Ordinance No. 4336 (February 21, 2004), the City Council amended the Code of the City of Alexandria (Section 2-5-51) to establish FPOPP as a replacement

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[6] INSERT % OF REDUCTION AT SAMPLE AGES??

for a defined contribution, individual account plan named the "City of Alexandria Retirement Income Plan for Firefighters and Police Officers" ("F&P Retirement Income Plan") and for a pooled defined benefit plan called the "City of Alexandria Firefighters and Police Officers Disability Income Plan". The F&P Retirement Income Plan itself had replaced an older defined benefit plan (the "Old, Old Firefighters and Police Plan", closed in 1979) for new hires.

The FPOPP was the product of a deliberate, collaborative (City, employees and professionals) decisionmaking process during 2003-2004 as described in a series of City documents including memoranda dated February 6, 2004 and February 13, 2004 to the Mayor and City Council from City Manager Phil Sunderland. The February 6th memorandum stating that the *"City Council Pension Committee, including Mayor Euille and Councilman Smedberg, has met and has recommended that City Council approve the conversion to a DB Plan."* The City Manager recommended that City Council authorize *"the conversion of the Retirement Income Plan for Firefighters and Police Officers from a defined contribution plan to a defined benefit plan and to incorporate the existing disability plan for firefighters and police officers into the defined benefit plan."*

In describing the new defined benefit plan and how it developed, City Manager Sunderland's February 6th memorandum made the following pertinent points:

(a) *"Contributions: The City will pay the employer required contribution, which is expected to be 20% of payroll, the same contribution the City now makes for police officer and firefighter retirement. Employees will pay a contribution of up to 8% of pension earnings. (The precise amount will be determined after we complete our analysis of the financial information on the plan, which is just received.) All employee contributions will be in pre-tax dollars. Police officers and firefighters do not now make an employee contribution."*

(b) *"Conclusion: As a long-term policy, we believe that, instead of having the public safety employees bear 100% of the investment risk for their entire pension, it is more appropriate for the City to assume the risk. The City is far better able to handle fluctuations in the equity and bond markets and in earnings over time than individual employees. An employee near retirement is especially less able to handle such fluctuations. Moreover, the City now takes this same type of risk under the retirement programs that cover most other City employees (through VRS and other pension programs). It is reasonable for the City to take a similar risk for sworn police officers and fire fighters.*

"The proposed DB program ensures that a definite retirement income not-affected-by-investment-returns will be available throughout the retirement

years of a firefighter and police officer. For some, this might be less than they would have been able to receive under the DC plan. For others, this will be more than what the DC plan would have delivered. But for all there will be no investment risk. We believe it is desirable that public safety employees receive similar retirement benefits for similar service to the City, regardless of their investment acumen or the state of the economy, particularly in their later years of service."

(c) *"Fiscal Impact: The City has been and is currently paying 20% of payroll into the firefighters and police officers DC plan. This percentage does not change over the years as the investment market changes. If the City adopts a DB pension plan, initially the cost to the City will be 20% of payroll. However, the City's 20% cost could increase if the market value of the pension plan assets and investment earnings decrease or if plan retirement cost experience is higher than projected. Conversely, the City's 20% cost could decrease if the market value of the pension plan assets and investment earnings increase beyond projected returns or if plan retirement costs are lower than projected."*

City Manager Sunderland's February 13, 2004 memorandum made the following pertinent points regarding updates in the costs of the FPOPP:

(a) *"The actuaries' cost projection for the Plan, an annual contribution equal to 26.5 percent of the covered payroll, is a reduction from the original estimate of 28.07 percent. As a result of this reduction in the cost projections, after discussing this with the police and fire representatives, staff has revised the Plan by (1) lowering the Average Monthly Compensation used to calculate a retiree's benefit from 60 months to 48 months (which increases the projected annual Plan cost to 27.25 percent of payroll), and (2) by lowering by 0.5 percent the Employee Contribution from 8 percent top 7.50 percent."*

(b) *"Fiscal Impact: The City is currently paying 20% of covered payroll into the existing defined contribution plan. Under the defined benefit retirement plan, initially the cost to the City will be 20% of payroll. However, the City's 20 percent cost could increase when the market value of the pension plan assets and investment earnings decrease. Conversely, the City's 20 percent cost could decrease if the market value of the pension plan assets and investment earnings increase."*

B-2. When the FPOPP was converted to a defined benefit plan in 2004, participants were given a one-time opportunity to convert the assets held in their individual accounts (attributable to City contributions) under the Retirement Income Plan into defined benefit credits under the FPOPP for their pre-2004 employment (called the "past service election"). Participants converting were immediately vested in their accrued benefits for their pre-2004 as well as subsequent covered service.

Most participants did convert, and so have service credits under the FPOPP for pre- and post-January 1, 2004 employment as firefighters and police officers.

Participants who did not convert are nonetheless covered by the FPOPP for post-January 1, 2004 employment, but they were not immediately vested in their accrued benefits and had to continue in covered service to meet the vesting requirement under the FPOPP rules.

Some participants who converted their account balances attributable to City contributions to the defined benefit plan still maintained accounts in the Retirement Income Plan for assets attributable to their voluntary, after-tax employee contributions or a prior rollover. As of 2011, 140 participants maintain the individual accounts under the Retirement Income Plan. No City or employee contributions are made to these individual accounts since the 2004 conversion, but the participants continue to self-direct the investments of their accounts among investment choices selected by the Pension Plan Retirement Board.

B-3. Assets of FPOPP are held in two separate trusts: one for regular pension benefits and the other for disability pension benefits. Contributions are allocated between the trusts in accordance with actuarial recommendation.

B-4. As of July 1, 2010, a total of 650 current and former City employees were participating in FPOPP. The numbers by category of participant are as follows:

(a) 462 active employees (total collective annual payroll = $32,638,214)

(b) 87 regular retirees

(c) 71 disabled retirees

(d) 10 DROP participants (retired but still working for City)

(e) 20 vested, non-retired former employees

B-5. FPOPP is funded by a combination of employee and City contributions which are invested on a pooled basis.

(a) Employee Contributions: Since 2004, all covered employees are required to contribute 8% of their gross base pay. Employee contributions are deducted for each biweekly paycheck.

(1) The 8% is allocated between the Basic Plan and the Disability Plan as determined by actuarial valuation.

(2) For FY 2010 and 2009, the 8% was allocated as follows: 7.2% for regular pension benefits, and 0.8% for disability benefits. Prior thereto the allocation was 7.5% / 0.5%, then 7.4% / 0.6%.

(3) The regular pension benefits portion (currently 7.2%) is pre-tax (not included in employee income for income or payroll taxes)

(4) The disability pension portion (currently 0.8%) is after-tax (included in employee income for income and payroll tax). This is so non-service partial disability benefits are not subject to income taxes when received.

(b) City contributions: City is responsible for funding the benefits not funded by the employees' contributions. The City makes annual employer contributions in amounts determined by City Council based on advice of the Plan's actuary. The City has a policy of contributing the full amount of contribution recommended by the actuary, and has consistently complied with this policy.[7]

B-6. The most significant plan design features of FPOPP are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit (except automatic vesting in 2004 for participants who converted their Retirement Income Plan account balances attributable to City contributions into credits under the FPOPP).

(b) Benefit at retirement based on Average Final Compensation x Multiplier x Years of Service Credit.

(c) Creditable Compensation for purposes of determining the Average Final Compensation is only base pay, and does not include pay for overtime, bonuses, shift differentials, etc.

(d) Average Final Compensation is the average of the 48 highest consecutive months of Creditable Compensation.

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[7] Unlike many State and local jurisdictions around the Nation, the City has not skipped or shorted contributions recommended by the actuary.

(e) The Multiplier is:

(1) 2.5%: for the first 20 years of Service Credit; plus

(2) 3.2%: for Service Credit in excess of 20 years up to a maximum of 30 years.

(f) Years of Credit are generally the years of employment with the City as a sworn firefighter or police officer.

(g) Benefit limits:

(1) Service Credit will be granted for no more than 30 years of covered service

(2) No pensioner's benefit at retirement can exceed 82% of his or her Average Monthly Compensation

(h) A participant may retire and receive FPOPP pension benefits when he or she meets the following age and service characteristics:

(1) Normal Retirement (retirement with an unreduced benefit):

(a) age 55 if hired as firefighter or police officer before January 1, 2004;

(b) age 55 and 5 years if hired as firefighter or police officer on or after January 1, 2004;

(c) 25 years of service credit regardless of age

(2) Early Retirement (retirement with actuarially reduced benefit)

(a) age 50 with 20 years of service credit

(3) Disability Pension: see discussion of special disability rules below.

(i) Forms of pension include single life annuity (monthly benefits for life after retirement), joint and survivor annuity (monthly benefits for life of pensioner and for surviving spouse), guaranteed payment option (monthly benefits for the longer of the pensioner's lifetime or a pre-determined number of years).

(j) DROP option: if an participant has completed 30 years of service (that is, has "maxed out" on Service Credit), he or she may "retire" but continue working for City for up to 3 years. During the period of continuing employment, the participant's monthly pension benefits are paid by the City into a notional DROP account, for the participant's benefit, rather than to the participant. The notional assets in the participant's DROP account are still part of FPOPP and are invested along with FPOPP's other assets, and the City pays 3% per year interest on the DROP account balance.

(k) Post-retirement COLA: pension benefit adjusted annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year with lifetime cap of 100%; different calculation under certain options; benefit can be adjusted down for deflation as well as up for inflation.

(j) Disability Benefits: As noted above, the former "City of Alexandria Firefighters and Police Officers Disability Income Plan" was merged into the FPOPP at the inception of FPOPP, although the FPOPP assets dedicated to disability benefits are still maintained in a separate trust from the regular retirement plan's assets. FPOPP provides the following disability pension benefits:

(1) If participant becomes disabled in or after 2004 while actively employed by the City as a firefighter or police officer before age 55, a disability benefit is payable. FPOPP provides two types of disability benefits:

(i) a basic disability benefit that is payable for the period of disability up to age 55; and

(ii) a supplemental disability benefit that is payable after age 55 (in addition to regular pension payable at age 55)

Prior to 2004 the age was 60, not 55.

(2) The amount of the disability benefit depends on the nature of the disability and whether it was service connected.

(i) If a participant incurs a service-connected total and permanent disability while actively employed, his or her pension benefit is equal to 70% of his or her Average Monthly Compensation

(ii) If a participant incurs a non-service-connected total and permanent disability while actively employed, his or her pension benefit is equal to 66 2/3% of his or her Average Monthly Compensation

(iii) If a participant incurs a service-connected partial disability while actively employed, his or her pension benefit is equal to 66 2/3% of his or her Average Monthly Compensation, less his or her workers compensation benefit.

(iv) If a participant incurs a non-service-connected partial disability while actively employed, his or her pension benefit is equal to 50% of his or her Average Monthly Compensation

(3) Adjustment in benefits at age 55 for those disabled before age 55: A participant who begins receiving disability pension benefits before age 55 will have his or her benefits recalculated upon attaining age 55.

The purpose is to offset disability benefit by regular retirement benefits under FPOPP and the Retirement Income Plan; so that the participant's combined disability benefit and retirement benefit reflects the average monthly compensation being paid at that time to a firefighter or police officer who holds the same rank or grade occupied when the participant became disabled. The recalculation proceeds as follows:

(i) Add disability benefit being paid, normal retirement benefit under the Plan, and (if the participant has a Retirement Income Plan account attributable to City contributions), the annuitized benefit payable by the Retirement Income Plan;

(ii) Reduce the sum of produced under (i) so that it is roughly actuarially equivalent to the amount of disability benefits that the participant would have received under the Plan if he:

* had continued to work for the City as a firefighter or police officer until age 55;

* continued to occupy the same rank and grade he held immediately before his disability;

* had compensation equal to the basic pay applicable to such rank and grade (ignoring step increases) for

the 48-month period before his 55th birthday; and

* he became disabled and began receiving disability benefits immediately prior to his 55th birthday.

(4) Special COLA adjustments for Disability Pensions:

(i) Pre-age 55: annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year and 100% lifetime; benefit can be adjusted down for deflation as well as up for inflation

(ii) Post-age 55: annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year and 100% lifetime. Applies to the benefit amount produced by the adjustment following age 55. Capped at 3% per year and 100% lifetime; benefit can be adjusted down for deflation as well as up for inflation.

B-7. Key actuarial assumptions used by the FPOPP include a long-term investment return of 7.50%, salary increases of 3% plus merit increases, and inflation at 2.7%.

B-8. Governance & Administration: FPOPP is a City-sponsored pension plan, and the City controls all aspects of its governance and administration, including the professional service providers.

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City's annual contribution to the plan; (3) reserves right to amend or terminate the plan under City Code Section 2-5-65.

(b) Under the terms of the FPOPP, there is a Firefighters and Police Officers Pension Plan Retirement Board The Board consists of 8 members appointed by the City Council: 4 representatives of the City, 2 nominees of the Firefighters, and 2 nominees of the Police. The Board oversees investment of FPOPP assets, and may recommend changes in FPOPP's provisions to the City Council.

(c) The FPOPP's plan administrator is appointed by the City Manager. Currently Prudential provides administrative services under contract with the City, and has been providing investment services as well.

(d) Recently, the City engaged Dahab Associates Inc. (Barry Bryant, Managing Director) to advise the Board on asset allocation and selection of investment managers.

(e) Plan assets have been held in trust with Prudential (Basic and Disability) and SunTrust Bank (Disability). But the Board and City are transitioning to an arrangement under which Coamerica will trustee the assets.

(f) All administrative expenses, including professional service providers' fees, are paid from FPOPP assets (not from City assets).

(g) The City recently engaged a new actuarial firm, Cheiron, to perform July 1, 2010 Actuarial Valuation.

C. City of Alexandria Retirement Income Plan for Firefighters and Police Officers ("F&P Retirement Income Plan")(Closed)

C-1. The F&P Retirement Income Plan is the defined contribution, individual account plan that was closed to new participants in 2004 as part of the conversion to the defined benefit plan (the "City of Alexandria Firefighters and Police Officers Pension Plan"), as discussed above.

C-2. Currently, 140 participants still maintain the individual accounts under the F&P Retirement Income Plan. No City or employee contributions have been made to these individual accounts since 2003, but the participants continue to self-direct the investments of their accounts among investment choices selected by the Pension Plan Retirement Board. The 140 remaining participants can be categorized as follows:

(a) Participants who elected not to convert their individual account balances attributable to City contributions into FPOPP defined benefit plan credits during the one-time "past service election" in 2004.

(b) Participants who converted their account balances attributable to City contributions into FPOPP service credits in 2004, but chose to maintain their account to hold their voluntary, after-tax employee contributions or a prior rollover.

(c) Participants who were disabled before 2004.

C-3. Benefits are limited to an individual participant's account balance.

C-4. Governance:

(a) City Council: (1) controls the terms and conditions of the plan, (2) reserves right to amend or terminate the plan.

(b) The Firefighters and Police Officers Pension Plan Retirement Board may recommend changes in the Plan to the City Council. Although the investments are participant self-directed, the investment options that participants may choose from are determined by the Pension Plan Retirement Board

(c) The City hired Prudential to provide administrative services.

(d) The non-investment administrative expenses of the F&P Retirement Income Plan are borne by the City (but are minimal).

D. City of Alexandria "Legacy" Firefighters and Police Officers Pension Plan (Closed)

D-1. This is the original defined benefit pension plan established and maintained by the City for firefighters and police officers, but closed to new participation in 1979 when the F&P Retirement Income Plan was established to replace it.

D-2. Currently, 139 retired (regular and disability) firefighters and police officers or their surviving spouses are still drawing monthly benefits from this closed plan. No current City employees are covered by the plan.

D-3. The City contributes annually to continue funding retirees' monthly pension benefits. The City contributed $1.7 million in FY2009 - 2012. Contributions will continue at this level for 2 - 3 years, and then drop by about $500,000 to about $1.2 million for another 15 years. The plan will eventually terminate once all retirees and surviving spouses die.

D-4. City Council controls the terms and conditions of the plan, and reserves right to amend or terminate the plan.

D-5. The administrative expenses of the plan are paid through the plan. The City incurs some minor staff time expenditures.

E. City of Alexandria Supplemental Retirement Plan ("SRP")

E-1. The SRP is a pooled defined benefit plan established in 1970 by the City for City employees not covered by the firefighters and police pension plan as a supplement to the VRS pension coverage (City Code Section 2-5-54). Participation is mandatory for covered City employees.

E-2. The SRP covers:

(a) All regular, full-time City employees who are not covered by the FPOPP;

(b) All regular, part-time City employees who are scheduled to work at least 50% time and are not covered by the FPOPP;

(c) Employees of the Virginia Department of Health assigned to the City of Alexandria:

(1) Although their salaries and VRS contributions are paid by State, the City provides coverage under the SRP at the City's expense.

(2) There are currently 89 employees with annual salaries equal to $5,350,297.

(3) Most of these employees contribute 1% of salary to the SRP, but employees hired after September 1, 2009 contribute 2% of salary.

(d) A few State employees working for the Alexandria courts.

Accordingly, SRP coverage includes: all of the City's General Schedule employees; all Deputy Sheriffs, Emergency Medical Technicians, and Fire Marshals; all City Council members; the City Manager; and the City's management staff. Excluded from SRP coverage are firefighters and police officers and City school system employees.

E-3. As of July 1, 2010, a total of 3,078 current and former City employees were participating in the SRP. The numbers by category of participant are as follows:

(a) 2,033 active employees (total collective annual payroll = $124,936,457)

(1) non-uniformed = 1,794

(2) uniformed = 239 (Deputy Sheriffs, Emergency Medical Technicians, and Fire Marshals)

(b) 277 regular retirees

(c) 20 disabled retirees

(d) 718 vested, non-retired former employees

E-4: The SRP is funded primarily by City contributions, although new General Schedule employees have been required to contribute a portion of their salaries since July 2009. All contributions are invested on a pooled basis.

(a) City contributions: The City is responsible for funding the benefits not funded by the employees' contributions. The City makes annual employer contributions in amounts determined by City Council based on advice of the Plan's actuary. The City has a policy of contributing the full amount of contribution recommended by the actuary, and has consistently complied with this policy.

(b) Employee contributions:

(1) Employees who were participants in the SRP before July 1, 2009 are not required to contribute any of their salaries to the SRP.

Prior to July 1, 2009, the City's contributions were deemed to include a 2% "employee contribution". This enabled short term employees to receive a distribution of the "employee contributions" made by the City for them upon termination of their employment.

As of July 1, 2009, no part of the City's contributions to the SRP are considered "employee contributions".

(2) For employees who were participants before July 1, 2009, the City will continue to make the 2% additional contribution, but these contributions will no longer be treated as employee contributions.

(3) General Schedule employees who became participants in the SRP on or after July 1, 2009 are required to contribute 2% of their base pay. (See Budget Memorandum #86 (April 9, 2009), and Budget Memorandum #106 (April 14, 2009)).

This means that a new General Schedule employee is now required to contribute 4% of his or her salary to the VRS-2 and 2% of his or her salary to the SRP.

(4) Deputy Sheriffs, Medics and Fire Marshals who became participants in the SRP on or after July 1, 2009 are not required to contribute 2% of their base pay. (See Budget Memorandum #125 (April 28, 2009)

This means that a new Deputy Sheriff, Medic, or Fire Marshal is now required to contribute 4% of his or her salary to the VRS-2, but is not required to contribute to the SRP.

(5) As for the State employees assigned to the Department of Health

in Alexandria, the employees hired before September 1, 2009 (the majority) contribute 1% of salary to the SRP. Employees hired on or after September 1, 2009 contribute 2% of salary

E-5. The most significant plan design features of the SRP are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit

(b) Benefit at retirement is based on complex formulas, and there are different formulas for General Schedule employees than there are for Deputy Sheriffs, Medics, and Fire Marshals:

(1) Only base pay is considered in calculating the benefit amount; not pay for overtime, bonuses, shift differentials, etc.

(2) Average Final Compensation is the average of any 36 consecutive months of Creditable Service within the 180 full calendar month period preceding retirement or termination.

(3) The pension benefit formula for General Schedule employees only is as follows::

(i) 0.8% of Average Final Compensation multiplied by Years of Service Credit earned after December 31, 1987; plus

(ii) 1.625% of Past Service Compensation up to $100 plus 0.25% of Past Service Compensation in excess of $100, multiplied by Years of Service Credit earned between July 31, 1960 and August 1, 1979 increased by 50%; plus

(iii) 1.625% of Average Final Compensation up to $100 plus 0.25% of Average Final Compensation in excess of $100, multiplied by the Years of Service Credit earned between July 31, 1970 and January 1, 1988 increased by 50%.

(4) The pension benefit formula for Deputy Sheriffs, Medics and Fire Marshals:

(i) 0.6% of Average Final Compensation multiplied by first five Years of Service Credit ; plus

(ii) 0.9% of Average Final Compensation multiplied by years 6-15 of Service Credit ; plus

(iii) 1.0% of Average Final Compensation multiplied by years 16+ of Service Credit.

(c) A participant may retire and receive pension benefits from the SRP when he or she meets the following age and service characteristics:

(1) Normal Retirement (retirement with an unreduced benefit):

(i) General Schedule employees: age 65 with 5 years of service credit; or age 50 with 30 years of service credit

(ii) Deputy Sheriffs, Medics and Fire Marshals: age 65 with 5 years of service credit; or age 50 with 25 years of service credit (as a Deputy Sheriff, Medic, or Fire Marshal).

(2) Early Retirement (retirement with actuarially reduced benefit)

(i) age 55 with 5 years of service credit;

(ii) age 60, regardless of service, if full-time employee

(iii) age 65, regardless of service, if part-time employee

(3) Disability retirement benefits provided: active vested employee who is eligible for Social Security disability benefits (total and permanent disability).

(d) Forms of benefit: annuity (monthly benefits for life after retirement), joint and survivor annuity (monthly benefits for life of pensioner and for surviving spouse at 100%, 66 2/3%, or 50% levels), guaranteed income [benefits for 5, 10 or 15 year periods even pensioner dies), or lump sum (single sum payment of present value of entire accrued benefit).

(e) No post-retirement cost-of-living increase in monthly benefits (COLA).

E-6. Key actuarial assumptions used by the SRP include a long-term investment return of 7.50%. The funding method is entry age normal, the most commonly used method. Assets are valued at market (not “smoothed”).

E-7. Governance & Administration: The SRP is a City-sponsored pension plan, and the City controls all aspects of its governance and administration, including the professional service providers.

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City's annual contribution to the plan; (3) reserves right to amend or terminate the plan under Plan Sections 14.1 - 14.2.

(b) The City hired Prudential to provide administrative services.

(c) The SRP's investments are overseen by City's Chief Investment Officer within the Department of Finance's Pension Administration Division, but final authority rests with City Manager. Recently, the City engaged Dahab Associates Inc. (Barry Bryant, Managing Director) to advise the City on asset allocation and selection of investment managers. There is no joint City-employee pension board for the SRP.

(d) City recently engaged a new actuarial firm, Cheiron, to perform new July 1, 2010 Actuarial Valuation.

(e) All administrative expenses, including professional service providers' fees, are paid from the SRP's assets (not from City assets).

F. City of Alexandria Retirement Income Plan for Deputy Sheriffs, Medics, and Fire Marshals ("DS, M & FM RIP")

F-1. The DS, M & FM RIP is a defined contribution, individual account pension plan established by the City for City employees who are Deputy Sheriffs, Medics, and Fire Marshals in 1990 (City Code Section 2-5-51(d)).[8]

F-2. The DS, M & FM RIP automatically covers all permanent, full time Deputy Sheriffs, Medics and Fire Marshals employed by the City. Currently, there are 239 covered employees (all actives). Participation is mandatory.

F-3. The DS, M & FM RIP is funded solely by City contributions; no employee contributions are permitted. The City contributes a percentage of each covered employee's annual salary, with the percentage determined each year by the City Council. The City Council has been contributing to the DS, M & FM RIP the difference, if any, between the following (a) and (b) in any given year:

(a) total percentage of payroll contributed for the permanent, full time Deputy Sheriffs, Medics and Fire Marshals to the VRS and City Supplemental Plan, and

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[8] This plan is distinct from the closed "F&P Retirement Income Plan" discussed above.

(b) 22.35% of total payroll for the permanent, full time Deputy Sheriffs, Medics and Fire Marshals.

For FY2011 and FY 2010, the City's contribution to the Plan is zero percent / zero dollars. The total percentage of payroll contributed for the permanent, full time Deputy Sheriffs, Medics and Fire Marshals to the VRS and City Supplemental Plan exceeded 22.35%, so no contribution to this plan was made.

F-4. The most significant plan design features of the DS, M & FM RIP are as follows:

(a) The plan is being closed at Prudential and the remaining assets are being transferred to ICMA-RC.

(b) Participants self-direct the investment of their individual accounts using an ICMA-RC platform of investment funds.

(c) A participant is permitted to receive a distribution of his or her entire account balance in a lump sum upon retirement from City employment at age 60 or later.

(d) In the event of termination from City employment or disability, the participant may obtain a distribution of his or her entire account balance or may "rollover" the account balance to another retirement savings vehicle. In the event of the participant's death, his or her beneficiary can receive a distribution of the account balance.

F-5. Governance & Administration: The DS, M & FM RIP is a City-sponsored pension plan, and the City controls all aspects of its governance and administration, including the professional service providers.

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City's annual contribution to the plan; (3) reserves right to amend or terminate the plan under City Code Section 2-5-51(d).

(b) The DS, M & FM RIP is now administered by a third-party administrator, ICMA-RC, under contract with the City. ICMA-RC also provides the investment fund platform.

(c) The administrative expenses of the DS, M & FM RIP are paid through the plan. The City incurs some minor staff time expenditures.

G. Voluntary Deferred Compensation Plan (DCP")

G-1. The DCP is a voluntary defined contribution, individual account pension plan established by the City under Section 457 of the Internal Revenue Code.

G-2. The DCP is available to the following groups of City employees. An employee in an eligible group must affirmatively choose to participate.

(a) all permanent full-time employees of the City; and

(c) all permanent part-time employees of the City scheduled to work at least 50% time.

G-3. At present, 1,836 current and former City employees are participants in the DCP. More than one-half of these employees contribute each pay period. The total balance of all accounts as of June 30, 2011 was $107,480,022. The average account balance as of that date was $58,540..

G-4. Only voluntary employee contributions are permitted to the DCP. The City does not make any contributions. An employee elects how much he or she wants to contribute on a pre-tax salary deferral basis (up to the limits set by the Internal Revenue Code) and the contributions are deducted from his or her periodic salary payments by the City.

G-5. The most significant plan design features of the DCP are as follows:

(a) Participants self-direct the investment of their individual accounts using an ICMA-RC platform of investment funds.

(b) In the event of termination from City employment or disability, the participant may obtain a distribution of his or her entire account balance or may “rollover” the account balance to another retirement savings vehicle. In the event of the participant’s death, his or her beneficiary can receive a distribution of the account balance.

(c) During a participant’s City employment, he or she may obtain loans and hardship withdrawals from his or her individual account, subject to IRS rules. The loan provision is subject to recision or alteration in the future.

G-6. Governance & Administration:

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City’s annual contribution to the plan; (3) reserves right to amend or terminate the plan.

(b) ICMA-RC administers the plan and provides the investment fund platform under contract with the City.

(c) The administrative expenses of the DCP are paid through the plan. The City incurs some minor staff time expenditures (less than one full-time employee equivalent).

H. Voluntary ICMA-RC Payroll Deduction Roth IRA Accounts

H-1. This is a voluntary individual retirement savings plan sponsored by ICMA-RC for any regular City employee who wishes to enroll. The City allows any regular employee to make after-tax contributions through payroll deduction. The "plan" is not considered to be sponsored by the City, and the City does not make any contributions.

H-2. A "snapshot" of current participation is that 1,255 City employees contributed in the pay period that included June 30, 2011.

I. Social Security

I-1. All City employees are covered by the federal Social Security system which provides monthly retirement income, as well as disability and survivors income benefits. Not all public employers participate in the Social Security system. Every employee earns Social Security credits for City employment.

I-2. Social Security normal retirement (full) benefits are designed to replace 40% of the average American worker's income. But, the average American worker's income is less than the average City employee's salary, and an employee's actual retirement benefit amount and its income replacement value will depend on his Social Security credits and earnings record.

I-3. The normal Social Security retirement age at which full benefits are payable is age 66 for employees born during the period 1943-1954, phasing up to age 67 for employees born in 1960 or later. An employee may elect to begin receiving Social Security benefits as early as age 62, but the benefit amount is reduced about one-half of 1 percent for each month earlier than the full retirement age that benefits commence. (For example, if the full retirement age applicable to the employee is 66 and he elects to begin his benefits at age 62, he would receive only get 75% of his full benefit.)

I-4. Social Security coverage is funded by payroll taxes paid to the Federal Government. A portion of the payroll tax is paid by the City and a portion is paid by each employee.

(a) The City, as the employer, pays a tax of 6.2% of employee earnings up to an annual maximum earnings limit ($106,000 for 2011).

(b) Employees normally pay a tax of 6.2% of earnings up to the annual maximum earnings limit, the same as the City's tax rate. However, there is a temporary reduced rate of 4.2% in effect as part of the Federal Government's economic stimulus package. The 4.2% rate is currently schedule to "sunset" as of December 31, 2011 (unless extended by act of Congress).

I-5. There is no Social Security offset from the benefits payable under VRS, the FPOPP or the SRP. It is common for pension plans to include some sort of Social Security offset.

VI. Other Post-Retirement Benefit Programs For City Employees

In addition to the pension plan coverage and other retirement income programs for City employees discussed above, the City also sponsors or contributes to non-pension benefits for retired City employees.

A. Retiree Health Insurance Policy

A-1. The City does not maintain a formal retiree health plan for retired City employees, and has no funding obligation for future retiree health benefits. But, the City Council has long maintained a personnel policy on retiree health insurance.

A-2. Currently, eligibility for the benefits of the policy is limited to City retirees who:

(a) were full-time City employees;

(b) were enrolled in a City health insurance plan at the time of retirement; and

(c) are receiving a pension from VRS, the SRP, or the FPOPP.

A-3. The policy has two components: pooled, self-paid health insurance rates, and a subsidy towards retiree health insurance premiums.

A-4. Pooled Self-Paid Rates: Eligible retirees are permitted to continue their participation in the City's health insurance plan for active employees on a self-paid basis. This enables retirees to pay lower insurance rates by virtue of being pooled with lower aged actives. It has been suggested that the pooling effect saves a participating retiree about $300 per year.

(a) Currently, 1,334 City retirees participate in the City's employee health insurance plan.

A-5. Subsidy: Under the policy, the City pays to eligible retirees a cash subsidy towards their actual health insurance premium costs (for coverage under the City's employee health plan or any other health insurance program that requires the retiree to pay premiums).

(a) The amount of the subsidy varies according to hire date and years of City service.

(1) Retirees hired prior to October 1, 2007 are eligible for a subsidy of $260 per month (or their actual premium costs, if less). This equates to a maximum annual benefit of $3,120 per year.

(2) Retirees hired on or after October 1, 2007 are eligible for a percentage of the maximum subsidy of $260 per month (or their actual premium costs, if less), according to their years of City service at retirement:

(i) Less than 5 years of service, no subsidy is payable.

(ii) For years of service from 5 through 25, 4% of the $260 per year of service.

An employee who had 25 years of City service would receive a maximum annual benefit of $3,120. A retiree with 20 years of City service would be eligible for a monthly subsidy of 80% of the $260, which is $208 per month or $2,496 per year.

(b) The subsidy is payable only until the retiree becomes eligible for Medicare coverage (age 65).

(c) The $260 per month maximum benefit has not been increased by City Council since the policy's inception in [insert date?????]. The policy was revised by imposing the 4% per year phase-in of the $260 maximum benefit for retirees hired on or after October 1, 2007.

(i) This phase-in was recommended in an August 6, 2007 memorandum from Personnel Director Henry Howard to City Manager James Hartmann and announced by letter from Mr. Hartmann in a September 11, 2007 letter.

(d) The subsidies are pre-funded as of FY2008.

(e) A total of [insert number????] City retirees received some subsidy in FY2011. For FY2012, it is projected that 256 City retirees will be eligible for some subsidy.

A-6. City Council has discretion to amend or terminate any aspect of this personnel policy at any time. Any such amendment or termination may affect current as well as future retirees.

B. Medicare

B-1. All City employees are covered by the federal Medicare program which generally provides medical benefits coverage to individuals commencing at age 65.

B-2. Medicare coverage is funded by payroll taxes paid to the Federal Government. A portion of the payroll tax is paid by the City and a portion is paid by each employee.

(a) The City, as the employer, currently pays a tax of 1.45% of employee earnings.

(b) Employees currently pay a tax of 1.45% of their earnings.

C. Retiree Life Insurance Policy

C-1. The City has had a personnel policy of providing life insurance coverage for eligible retirees at the City's expense as well as allowing retirees to purchase additional coverage at pooled rates.

C-2. Eligibility for the coverage is limited to City retirees who:

(a) were full-time City employees;

(b) were hired by the City before July 1, 2009; and

(c) are receiving a pension from VRS, the SRP, or the FPOPP.

Employees hired on or after July 1, 2009 will not be eligible for any City retiree life insurance when they retire.

C-3. The life insurance benefit provided at City expense is initially 200% of final salary until age 65 (the January 1st following 65th birthday), and then is reduced by age as follows:

(a) reduced to 150% of final salary on the January 1st following 65th birthday;

(b) reduced by 25% of final salary each succeeding January 1st until age 70;

(c) by age 70, the benefit is reduced to 25% of final salary.

C-4. The voluntary life insurance that an eligible retiree may purchase at his or her own expense is initially 100% of final salary until age 65 (the January 1st following 65th birthday), and then is reduced by age so that it is equal to 75% of final salary at age 65 and 25% of final salary at age 70.

C-5. As of June 23, 2011, 224 retirees had 100% of salary coverage and 698 retirees had 200% of salary coverage.

C-6. The City pays the full premium for the retiree life insurance coverage. For FY2011, the City paid $________________ in premiums for the retiree life insurance coverage.

C-7. City Council has discretion to amend or terminate any aspect of this personnel policy at any time. Any such amendment or termination may affect current as well as future retirees.

VII. Employees' Retirement Benefits

Having described the various retirement income and post-retirement benefit programs covering City employees, it may be helpful in understanding how these coverages apply to specific employees to summarize the coverages by employee classifications and hiring dates and their income replacement value.

A. General Schedule Employees

A-1. General Schedule employees are covered by or have available the following pension and retirement income programs:

(a) Virginia Retirement System (mandatory participation)

(1) VRS-1: employees hired[9] into VRS-covered positions before July

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[9] "Hired" includes a full-time employee who was first hired by the City before July 1, 2010, left the City's employment, and returned to City employment without incurring a break in service, even if his or her return to City employment was after July 1, 2010. It also includes City employees who were

1, 2010

(i) No employee contribution

(2) VRS-2 employees hired into VRS-covered positions after June 30, 2010

(i) 4% of salary employee contribution

(b) City's Supplemental Retirement Plan (mandatory participation)

(i) employees hired before July 1, 2009, no employee contribution

(ii) employees hired on or after July 1, 2009 a 2% of salary employee contribution

(c) Voluntary Deferred Compensation Plan (voluntary participation)

Only elective employee contributions

(d) Social Security (mandatory participation)

Employee payroll tax is normally 6.2%; temporarily 4.2%

A-2. The income replacement value of these retirement income programs varies from employee to employee, but some measure of that value in general is a comparison of the normal retirement age benefit to the average salary of the employee group. For General Schedule employees, their combined benefit accrual for VRS coverage and SRP coverage is about 2.5% of Final Average Salary per year of service after 1987. The following chart shows the normal retirement benefit produced by this VRS/SRP accrual rate as a percentage of average salary:

Years of Service	Benefit As Percentage of Average Salary
5	12.5%
10	25.0%
15	37.5%
20	50.0%

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participants in VRS-1 by virtue of employment with another VRS participating employer before July 1, 2010. However, a part-time employee hired before July 1, 2010 who becomes a full-time employee after July 1, 2010 is considered to be hired after July 1, 2010 and so is covered by VRS-2.

25	62.5%
30	75.0%
35	87.5%

This chart does not take into account any Social Security retirement benefit. It also does not show the substantial reduction in benefit amount if an employee retires before attaining normal retirement age under the VRS and SRP.

A-3. General Schedule employees are covered by the following post-retirement benefit programs:

(a) Retiree Health Insurance Policy (voluntary)

Self-paid participation in City health insurance plan, and cash subsidy.

(b) Medicare (mandatory)

Employee payroll tax of 1.45%. Medical coverage at age 65.

(c) Retiree Life Insurance

Term life insurance, but only for employees hired before July 1, 2009.

B. Firefighters and Police Officers

B-1. Firefighters and police officers are covered by or have available the following pension and retirement income programs:

(a) Firefighters and Police Officers Pension Plan

Employees contribute 8% of salary.

(b) Voluntary Deferred Compensation Plan (voluntary participation)

Only elective employee contributions.

(c) Social Security (mandatory participation)

Employee payroll tax is normally 6.2%; temporarily 4.2% (calendar year 2011 only unless extended by new federal legislation).

B-2. The income replacement value of these retirement income programs varies from employee to employee, but some measure of that value in general is a comparison of the normal retirement age benefit to the average salary of the employee group. Based on the Firefighters' and Police Officers' benefit accrual rate under the FPOPP, the following chart shows the normal retirement benefit produced under the FPOPP as a percentage of average salary:

Years of Service	Benefit As Percentage of Average Salary
5	12.5%
10	25.0%
15	37.5%
20	50.0%
25	66.0%
30	82.0%
35	82.0%

This chart does not take into account any Social Security retirement benefit. It also does not show the substantial reduction in benefit amount if an employee retires before attaining normal retirement age under the FPOPP.

B-3. Firefighters and police officers are covered by the following post-retirement benefit programs:

(a) Retiree Health Insurance Policy (voluntary)

Self-paid participation in City health insurance plan, and cash subsidy.

(b) Medicare (mandatory)

Employee payroll tax of 1.45%. Medical coverage at age 65.

(c) Retiree Life Insurance

Only for employees hired before July 1, 2009.

C. Deputy Sheriffs, Medics & Fire Marshals

C-1. Deputy Sheriffs, Medics & Fire Marshals are covered by the following pension and retirement income programs:

(a) Virginia Retirement System (mandatory participation)

(1) VRS-1: employees hired into VRS-covered positions before July 1, 2010.

(i) No employee contribution.

(2) VRS-2 employees hired into VRS-covered positions after June 30, 2010.

(i) 4% of salary employee contribution.

(b) City's Supplemental Retirement Plan (mandatory participation)

(i) No employee contribution by employees who were participants before July 1, 2009.

(ii) Deputy Sheriffs, Medics and Fire Marshals who became participants on or after July 1, 2009 are exempted from the 2% of salary employee contribution.

(c) Voluntary Deferred Compensation Plan (voluntary participation)

Only elective employee contributions.

(d) Social Security (mandatory participation)

Employee payroll tax is normally 6.2%; temporarily 4.2% (calendar year 2011 only unless extended by new federal legislation).

C-2. The income replacement value of these retirement income programs varies from employee to employee, but some measure of that value in general is a comparison of the normal retirement age benefit to the average salary of the employee group. Based on the Deputy Sheriffs, Medics and Fire Marshals combined benefit accrual for VRS coverage and SRP coverage, the following chart shows the normal retirement benefit produced by this VRS/SRP accrual rate as a percentage of average salary:

Years of Service	Benefit As Percentage of Average Salary
5	11.5%
10	24.5%
15	37.5%
20	51.0%
25	64.5%
30	78.0%
35	91.5%

This chart does not take into account any Social Security retirement benefit. It also does not show the substantial reduction in benefit amount if an employee retires before attaining normal retirement age under the VRS and SRP.

C-3. Deputy Sheriffs, Medics & Fire Marshals are covered by the following post-retirement benefit programs:

(a) Retiree Health Insurance Policy (voluntary)

Self-paid participation in City health insurance plan, and cash subsidy

(b) Medicare (mandatory)

Employee payroll tax of 1.45%

(c) Retiree Life Insurance

Only for employees hired before July 1, 2009.

VIII. Comparison To Local Comparators

The Resolution requests information comparing the City's employee pension coverage to other jurisdictions.

A. Towers Watson Benefits Study: 2008 data

A-1. The City commissioned the Towers Watson (formerly Watson Wyatt) consulting firm to perform a comparative study of Alexandria's employee compensation package, including pensions and other benefits, relative to other local jurisdictions using a proprietary methodology for determining "value". Towers Watson produced a "Preliminary Results Report" in February 2009 which was based on 2008 data from Alexandria, Arlington County, Fairfax County, Montgomery County, Prince Georges's County, and Prince William County

The study's results have less value than it might once have had due to the passage of time. The 2008 data pre-dated (a) the City's adoption of VRS-2 with lower benefits and a 4% employee contribution for employees hired after June 30, 2010, and (b) the City's imposition of a 2% employee contribution requirement for General Schedule employees hired after June 30, 2009. In addition, there is a sense that changes have been made in the other jurisdiction's plans since 2008.

A-2. The study's results included the following:

(a) General Schedule employees: Alexandria's retirement pension plan coverage value was ranked 1st; retiree medical ranked 4th; retiree life insurance ranked 1st.

(b) Police: Alexandria's retirement pension plan coverage value was ranked 4th; retiree medical ranked 3d; retiree life insurance ranked 1st.

(c) Deputy Sheriffs: Alexandria's retirement pension plan coverage value was ranked tied for 3d; retiree medical ranked 3d; retiree life insurance ranked 1st.

(d) Firefighters: Overall ranking considering pension, retiree medical and retiree life insurance was 4th.

(e) Medics: Overall ranking considering pension, retiree medical and retiree life insurance was 4th.

B. Informal Inquiries By City Staff

The City staff assigned to the Advisory Group, particularly Steven Bland, obtained information from the "comparator jurisdictions" and other jurisdictions regarding their employee pension plans and prepared a series of helpful, data-rich charts comparing the features of the various plans. Those charts are set forth in Addendum ___ to this report.

IX. Costs: Pension Plans & Retirement Income Programs

The costs and projected costs of maintaining the above-described pension plans and retirement income programs for the City and its employees are described in this section.

A. Overall Costs To City

A-1. The City's contribution costs for the following pension programs: VRS, Firefighters and Police Officers Pension Plan; City Supplemental Retirement Plan, and the "Old, Old" Fire & Police Plan

FYI	Contribution Total	Total City Budget	Pension as % of Budget	Contribution Total w/Soc Sec	% of Budget w/Soc Sec
2012*	$39.7m*	$699m	5.6%*	$48.2m	6.9%
2011	$37.0m	$660m	5.6%	$45.2m	6.9%
2010	$34.8m	$642m	5.4%	$43.0m	6.7%
2009	$35.2m	$658m	5.3%	$43.8m	6.7%
2008	$31.5m	$630m	5.0%	$40.1m	6.4%

2007	$31.7m	$616m	5.1%	$39.6m	6.4%
2006	$24.2m	$563m	4.3%	$32.3m	5.7%
2005	$21.3m	$520m	4.1%	$28.8m	5.5%
2004	$18.6m	$478m	3.9%	$25.8m	5.4%
2003	$17.3m	$437m	4.0%	$24.2m	5.5%

* Projected.

These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Medicare payroll taxes paid by the City; or (c) the cost of any other post-retirement benefits provided by the City.

A-2. The City's contribution obligations to VRS, the City's employee pension plans, and Social Security are affected by the number of employees and the amount of the employees' basic salaries. So, as the City adds employees or increases salaries, it is to be expected that the City's pension costs will increase.

B. Costs By Employee Group

B-1. City Contributions To Current Firefighters & Police Officers Pension Plan

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2012*	$9.5m*	28.22%*	$34m
FY2011	$8.3m	25.17%	$33m
FY2010	$8.6m	26.79%	$32m
FY2009	$8.8m	26.41%	$33m
FY2008	$7.5m	22.35%	$33m
FY2007	$7.3m	22.35%	$33m
FY2006	$7.1m	22.35%	$32m
FY2005	$6.5m	22.35%	$29m
FY2004	$5.6m	22.35%	$25m
FY2003	$6.0m	23.00%	$26m

* Projected and not adjusted for smoothing or investment gains through FY2011. If adjusted for investment gains, smoothed in, could be 22-23%.

These figures include the basic and disability portions of the FPOPP, but do not include: (a) the 8% of salary employee contributions to the FPOPP; (b) the City's annual contributions to the closed "Old, Old" Firefighters & Police Officers Pension Plan; (c) Social Security / Medicare payroll taxes paid by the City; (d) cost of any other post-retirement benefits provided by the City.

B-2. City Contributions For Deputy Sheriffs, Medics, Fire Marshals To VRS, City Supplemental Plan, And Retirement Income Plan

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2012*	$4.2m	25.59%	$16.6m**
FY2011	$4.0m	24.52%	$16.2m
FY2010	$3.6m	22.35%	$15.9m
FY2009	$3.6m	22.35%	$16.0m
FY2008	$3.6m	22.41%	$16.2m
FY2007	$3.5m	22.41%	$15.5m
FY2006	$3.2m	22.35%	$14.2m
FY2005	$2.9m	22.35%	$13.1m
FY2004	$2.7m	22.35%	$12.0m
FY2003	$2.5m	22.35%	$11.2m

* Projected. ** Assumes 2% salary increase.

These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) the cost of any other post-retirement benefits provided by the City.

B-3. City Contributions For General Schedule Employees To VRS and City Supplemental Plan

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2012*	$20.9m	19.96%*	VRS-$100m / SRP-$113m**
FY2011	$19.6m	19.17%	VRS-$98m / SRP-$111m
FY2010	$17.7m	17.67%	VRS-$96m / SRP-$109m
FY2009	$18.2m	17.71%	VRS-$100m / SRP-$110m
FY2008	$17.3m	16.98%	VRS-$98m / SRP-$110m
FY2007	$16.6m	16.98%	VRS-$93m / SRP-$108m
FY2006	$10.2m	11.00%	VRS-$86m / SRP-$103m
FY2005	$9.3m	11.00%	VRS-$80m / SRP-$91m
FY2004	$7.7m	9.25%	VRS-$78m / SRP-$90m
FY2003	$6.1m	8.75%	VRS-$74m / SRP-$80m

* Projected. ** Assumes 2% salary increase.

These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) the cost of any other post-retirement benefits provided by the City.

C. Costs By Plan: Virginia Retirement System

C-1. FY2011 actual contributions to VRS

(a) City contributions:

(1) For VRS-1, the City contributed 12.78% of each covered employee's basic salary. Of this amount, 7.78% was "employer contributions" and 5% was "employee contributions" assumed by the City.

(2) For VRS-2, the City contributed 8.78% of each covered employee's basic salary. Of this amount, 7.78% was "employer contributions" and 1% was "employee contributions" assumed by the City.

(3) In total, the City contributed $16.3 million to the VRS for FY2011

(b) Employee contributions:

VRS-2 employees contributed 4% of their salaries, which amounted to $___________________ in contributions

C-2. FY2012 projected contributions to VRS

(a) City contributions

(1) VRS-1: 12.78% of each covered employee's basic salary

(2) VRS-2: 8.78% of each covered employee's basic salary.

(3) Total contribution by City to VRS (projected): $16.6 million

(b) Employee contributions:

VRS-2: employees are contributing 4% of their salaries

C-3: VRS projections beyond FY2012

(a) In the June 30, 2010 VRS valuation for the City of Alexandria, VRS projected that the City's contribution obligations (net of the 5% employee contribution) would be as follows:

FY2011 (ending 6/30/11): 7.78%
FY2012 (ending 6/30/12): 7.78%
FY2013 (ending 6/30/13): 12.34%
FY2014 (ending 6/30/14): 12.34%
FY2015 (ending 6/30/15): 14.63%

(b) This projection assumes a 7% per year investment return (changed from

7.5%) a level covered employee population, and plan experience matching exactly all other actuarial assumptions.

(c) Projections are guesses about future developments and are inherently uncertain. There is some sense that these projected rates may be inflated because they use a historically conservative investment return assumption.

(d) VRS contribution rates are set for two-year periods, and may not reflect most recent developments (good and bad).

C-4. Contributions history:

FY	City Contributions %	Contributions Amount
2010	12.07%	$15.3 million
2009	12.07%	$15.5 million
2008	11.66%	$14.7 million
2007	11.66%	$14.4 million
2006	6.50%	$8.3 million
2005	6.50%	$7.5 million
2004	5.75%	$7.5 million

Note: increases reflect increases in the number of covered employees and creditable salaries.

D. Costs By Plan: Firefighters & Police Officers Pension Plan

D-1. FY2011 actual contributions to the FPOPP

(a) City contributions: 25.17% of each employee's basic salary; $8.3 million

(b) Employee contributions: 8% of salary, which amounted to $2.6 million in contributions

D-2. FY2012 projected contributions

(a) City contributions: 28.22% of each employee's basic salary; $9.5 million

(b) Employee contributions: 8% of salary, which amounted to $2.7 million in contributions

D-3. Contributions history:

FY	City Contributions %	Contributions Amount
2010	26.79%	$8.6 million
2009	26.41%	$8.8 million
2008	22.35%	$7.5 million
2007	22.35%	$7.3 million
2006	22.35%	$7.1 million
2005	22.35%	$6.5 million
2004	22.35%	$5.6 million

E. Costs By Plan: Supplemental Retirement Plan

E-1. City contributions:

(a) For employees hired before July 1, 2009: 7.18% of each covered employee's basic salary

(b) For General Schedule employees hired on or after July 1, 2009: 5.18% of each covered employee's basic salary

(c) For Deputy Sheriffs, Medics and Fire Marshals hired on or after July 1, 2009: 7.18% of each covered employee's basic salary

(d) In total, the City contributed $_________ to the SRP for FY2011

E-2. Employee contributions:

General Schedule employees hired on or after July 1, 2009 contributed 2% of their basic salaries, which amounted to $__________________________ in contributions

F. Costs By Plan: Closed "Old, Old" Firefighters & Police Officers Pension Plan

F-1. City's contributions for FY2011 amounted to $1.7 million, and are projected to be at the same level for FY2012.

F-2. The City contributes annually to continue funding already earned benefits. Contributions will continue at about $1.7 million for 2 - 3 years, and then drop by about $500,000 to about $1.2 million another 15 years. The plan will eventually terminate once all retirees and surviving spouses die.

F-3. History of contributions:

Fiscal Year	City's Contribution
2010	$1.7m
2009	$1.7m
2008	$0.9m
2007	$1.5m
2006	$1.1m
2005	$0.9m
2004	$1.0m
2003	$0.9m

G. Costs By Plan: Deputy Sheriffs, Medics, Fire Marshals Retirement Income Plan

G-1. FY2011: No City contributions were made to the DS, M & FM RIP.

G-2. FY2012: No City contributions are budgeted.

G-3. History of City contributions:

Fiscal Year	City's Contribution: % of salary	& dollars
2012	0.00%	$0.00
2011	0.00%	$0.00
2010	1.58%	$250,000
2009	1.78%	$280,000
2008	0.00%	$0.00
2007	0.00%	$0.00
2006	5.10%	$730,000
2005	5.10%	$670,000
2004	13.10%	$1,580,000
2003	13.10%	$1,460,000

H. Costs By Plan: Social Security

H-1. As noted earlier in this report, Social Security coverage is funded by payroll taxes paid to the Federal Government by both the City and each employee. The amount of the total tax paid by the City varies with the number of employees, their salaries, and the tax rates set by Congress. The payroll taxes paid during FY2011 and projected to be paid in FY2012 are as follows:

(a) City payroll tax paid for CY2011:

(1) 6.2% of employee earnings up to the annual maximum earnings limit of $106,000

(2) total amount of tax paid for Social Security coverage: $9.9 million

(b) Employees payroll tax paid for CY2011:

(1) 4.2% of employee earnings up to the annual maximum earnings limit of $106,000

(2) total amount of tax paid for Social Security coverage: $6.9 million

H-2. Projected Social Security payroll taxes for CY2012

(a) City payroll tax:

(1) 6.2% of employee earnings up to the annual maximum earnings limit of $106,000

(2) total amount of projected tax: $10.1 million

(b) Employees payroll tax:

(1) 6.2% of employee earnings up to the annual maximum earnings limit of $106,000

(2) total amount of projected tax: $10.2 million

H-3. It is problematic to project Social Security tax obligations beyond FY2012 because of the ongoing deficit reduction / economic stimulus discussions between Congress and the Administration.

X. Costs: Non-Pension Post-Retirement Benefit Programs

A. Retiree Health Policy

As described above, the City pays a retiree health plan premium subsidy of up to $260 per month to eligible retirees.

(1) The actual cost of this subsidy in FY2011 for _____ retirees was $_____________.

(2) For FY2012, it is projected that 256 City retirees will be eligible for some

subsidy and that the City will pay a total of $627,548 in subsidies.

B. Medicare

B-1. As noted earlier in this report, basic Medicare coverage is funded by payroll taxes
paid to the Federal Government by both the City and each employee. The amount of the total tax paid by the City varies with the number of employees, their salaries, and the tax rates set by Congress.

B-2. The payroll taxes paid during FY2011 are as follows:

(a) City payroll tax paid for FY2011:

(1) 1.45% of employee earnings

(2) total amount of tax paid for Medicare coverage: $__________

(b) Employees payroll tax paid for FY2011:

(1) 1.45% of employee earnings

(2) total amount of tax paid for Medicare coverage: $__________

B-3. The projected Medicare payroll taxes for FY2012 are as follows:

(a) City payroll tax projected for FY2012:

(1) 1.45% of employee earnings

(2) total projected amount of tax for Medicare coverage: $__________

(b) Employees payroll tax projected for FY2012:

(1) 1.45% of employee earnings

(2) total projected amount of tax for Medicare coverage: $__________

B-3. It is problematic to project Medicare tax obligations beyond FY2012
because of the ongoing deficit reduction / economic stimulus discussions between Congress and the Administration.

C. Retiree Life Insurance

For FY2012, the City's projected premium costs are as follows:

Coverage Amount	No. of Retirees	Annual Premiums
1 x salary:	225	$8,948.16
2 x salary	707	$194,790.76
Total	932	$203,738.92

XI. Employee Groups' Views

During our proceedings, the Advisory Group requested that representatives of each employee group make a presentation describing the covered employees' perspective on the City retirement benefit programs. Presentations were made by Michael Cross, Chairman of the FPOPP's Retirement Board, on behalf of the Firefighters and Police Offices, by Robert Gilmore on behalf of Deputy Sheriffs, by Lonnie Phillips on behalf of Medics, and by Shane Cochran and Brenda D'Sylva on behalf of the General Schedule employees. These presentations were very helpful to the Advisory Group. A summary of each group's presentation is set forth in Addenda to this report.

XII. Observations

Based on the Advisory Group's proceedings as well as our collective knowledge and experience, we offer the following observations.

1. Introduction: The City of Alexandria participates in the VRS and sponsors the FPOPP and the SRP to provide its employees with a sound and decent retirement income after years of service to the Alexandria community. A pension is not a gift. Rather, a pension is deferred compensation earned by an employee for the labor he or she provided to the City over a period of years. The City's "employer contributions" to the pension plans are really substitute salary. If the City did not make these contributions, all or at least some portion of this money would have been paid to the employees as salary.

   Recognizing the importance of retirement savings to individuals, as well as to the public at large, Federal and State tax laws provide valuable incentives for the creation and maintenance of employee pension plans. Employer contributions to plans are not treated as taxable income for the employee for purposes of income and payroll taxes. Taxable employers are entitled to immediately deduct the contributions from their taxable income. The investment income of the plans is not subject to taxation. Pension benefits are taxable to a retiree as income when paid in the future, but presumably at lower tax rates.

Pension plan coverage is a part of the total compensation package (which includes salary and benefits) that the City offers to current and prospective employees. Through various ways, the City tries to maintain a total compensation package that is competitive so as to attract and retain qualified employees. The City, through its Human Resources office, regularly compares salary and benefits to the Market (the City's comparator jurisdictions). These comparisons are used to adjust salaries, City pay scales and possibly benefit contributions and benefit plan design. In 2008, the City commissioned a comprehensive Benefits Comparison Study through the Towers Watson consulting firm. The study looked at the health, dental, security and pension programs of the City's comparator jurisdictions. The study found that some groups of City employees' pay and benefits were below the Market and some were at or above the Market. The report on this study was submitted to City Council in March 2009. As a result of the report, City Council approved additional annual leave for all employees. The City also uses Benchmark studies to evaluate how City employees' compensation compares to its Market, and adjustments to pay scales and/or benefits are made based on the studies' results. This is done to maintain a competitive posture with the market in the region. Cuts in pensions or other benefits would require the City to explore ways to compensate employees in order to maintain a competitive total compensation package for City employees.

On the other hand, sustained increases in pension costs could force the City to reduce other components of the compensation package or otherwise reduce labor costs (salary freezes and reductions, reductions in other benefits, reductions in force through attrition or layoffs, etc.).

In short, although not explicitly stated in the charge to the Advisory Group by the City Council, the members are mindful of the balance that must be struck between the need for a comprehensive and responsive compensation and benefits program for employees and the demand on taxpayers to pay for such a program. One should never be at the sacrifice of the other and when this report and recommendations are read in their entirety, the Advisory Group believes that the employees and taxpayers of the City and the City Council will find that a balance has been struck.

2. <u>Overview of funding</u>: Since the historic investment markets crash of 2008 and the onset of the economic downturn, news media and professional publications have carried a steady stream of articles about public employee pension plan funding troubles and the related political and labor relations battles. Some articles have been thoughtful and constructive, while many others have been overblown and designed to advance political agendas. It is no surprise that the public is confused and worried, that public employees feel scapegoated, and that

some public officials are choosing to simply follow current trends.

No doubt, there are a significant number of public employee pension plans that are seriously under-funded. Many pension plans and retirement savings programs, public and private, suffered deep investment losses in 2008, and it will take time for investment portfolios to recover, particularly with the return of highly volatile markets. A lingering recessionary economy and battered housing market have reduced the revenues of most jurisdictions. Unexpected pension plan obligations have been blamed for cutbacks in public services, tax increases, layoffs, hiring freezes, wage and benefit cuts, and similar unpleasant actions.

But, for many public employee pension plans, the causes of under-funding go beyond the investment markets and revenue declines. Some State and municipal governments irresponsibly failed to make appropriate contributions to their employees' pension plans over the years in the hope that investment performance would cover the shortfall or that later administrations or legislatures would find extra money to fill in the hole. Some public pension plan sponsors deliberately used unreasonable actuarial assumptions to reduce funding obligations, or gambled on risky investments. And, some governmental pension plans have provided overly generous benefits or have been subject to manipulations and mal-administration that drove up costs.

The City of Alexandria government and its employees have made a number of significant policy decisions and contributions to ensure that Alexandria is not one of those jurisdictions whose employee benefit plans are in jeopardy. Among those actions are the following:

(a) The City has consistently made all of the required annual contributions to the Virginia Retirement System.

(b) The City has consistently made all contributions to Firefighters and Police Officers Pension Plan and Supplemental Retirement Plan recommended by the actuary for those plans.

(c) The City uses reasonable actuarial assumptions as approved by the plans' actuaries, including the assumption that the plans will earn an average annual investment return of 7.5% over the long term.

(d) The City has developed a professionally managed investment program with prudent investment policies that reflect the long-term objectives of the pension plans and produce market returns.

(e) The City has adopted pension plans whose benefits are not overly generous and that minimize the risk of costly manipulation, such as excluding non-basic salary amounts from the benefit formula.

(f) Firefighters and police officers are contributing 8% of their salaries to their pension plan.

(g) New City employees, except for firefighters and police offices covered by the FPOPP, are placed in the lower tier VRS-2.

(h) New City employees are required to contribute a percentage of their salaries towards their pension coverage.

(i) The City and employees are working to implement various administrative efficiencies that will reduce costs of plan administration.

(j) The Pension Administration Division of the City's Finance Department is fully staffed by experienced benefits professionals who carefully monitor the City's employee benefit plans.

3. Solvency of Plans: The City's pension obligations have been increasing as a percentage of pay, in dollars, and as a percentage of the City's overall budget. They are not, at the moment, out of control. But, there is cause to be concerned about the future, primarily because those obligations are heavily affected by investment performance; lower than expected investment returns eventually translate into higher contribution obligations. Even prudent investment programs are necessarily hostage to the vicissitudes of the investment markets. The recent return of turmoil in the investment markets and stall in our Nation's economic recovery have heightened uncertainty about the future.

The City has no control over the VRS' investment performance. VRS investments are overseen by a Board of Trustees appointed by the Governor. The City's contribution obligations to VRS will continue to be determined in large measure by the Board's investment program, and the City cannot mitigate that effect other than by reducing the number of VRS covered employees or controlling creditable salaries.

The City does control the investment program of the SRP and the City's Firefighters and Police Officers Pension Plan Retirement Board oversees the FPOPP's investment program. The plans are long-term investments that need not be overly concerned by short-term fluctuations, and there are actuarial tools for mitigating the impact of such fluctuations on contribution obligations (*e.g.* "smoothing" of asset values). However, there is no denying that the City's contribution obligations will be greatly affected by the investment markets.

4. Defined Benefit vs. Defined Contribution: Some State and municipal governments have abandoned or are considering abandoning pooled defined benefit pension plans and substituting individual account, defined contribution retirement savings plans, as a way of capping their pension contribution obligations.

Under a defined contribution plan ("DC"), the employer simply makes a pre-determined annual contribution to each employee's account. The employee self-directs the investment of his or her account, usually from among a platform of investment funds provided by a third-party administrator. At retirement, the employee gets only what is in his or her account, which may or may not last for the rest of the retiree's life. In other words, the employee takes all of the risks: the investment risk (that the account will lose money or otherwise underperform under his or her direction); the early withdrawal risk (that loans or hardship withdrawals will reduce the account's assets before retirement); the longevity and inflation risks (that the account will be exhausted before death); and the expense risk (the loss of assets due to investment fees and other expenses charged to the account directly or netted from investment returns). The impact of these risks on employees has been sadly demonstrated by the 2008 investment crash that slashed defined contribution account values, and by stories of retirees who are returning to any job they can find before they run out of money.

An advantage of DC plans is that they provide ready portability if an employee changes employers. Typically, the employee can take a distribution of his or her account or roll the account over tax-free into another qualified retirement savings vehicle.

In contrast, under a defined benefit plan ("DB"), the plan promises each employee a monthly retirement income that he or she cannot outlive. The amount of that income is determined by the plan's formula (average salary, years of credited service, accrual rate or multiplier, etc.). The employer periodically contributes to the plan (along with employee contributions, if required) an amount calculated by the plan actuary--on the basis of various assumptions, including investment return, turnover, and longevity–to fund over a period of years each employee's pension. In other words, the employer takes the risk that it will be required to contribute more (or less) than expected due to investment performance and plan experience.

Further, a DB can provide a decent, life-long disability pension to employees who become unable to work. An employee who becomes disabled before retirement under a DC plan is entitled to no more than the amount in his or her account.

Similarly, a post-retirement cost-of-living increase in monthly pension benefits has been a common feature of DBs, although a DC could offer an insurance company variable annuity.

Finally, the question of a DB versus a DC is not a matter of "good or bad, " but fundamentally a question of how the two plans impact the participant. There is certainly the expectation that a DB, which is typically directed by trustees who retain professional investment advisors, should perform well over time while limiting risk. By the same token, a DC can be professionally managed and enjoy superior returns, as well. However, research suggests that individual investors, when investing directly, may not always make the best strategic decisions for their long-term investment needs, especially in the volatile economic and market climate of recent years. But both plans come with certain "trade-offs." A DB provides the participant with the potential for a predictable, lifetime income, while giving up control of the asset for estate planning purposes. However, if the participant lives well beyond a projected life expectancy and if the stock market went through a prolonged decline, the income does not stop. With a DC, the participant has the potential for significant growth of the asset, the ability of the account to generate income, and to have any residual value be part of the participant's estate upon his or her death; but if the account declines in value or excessive amounts of income are withdrawn, there is no guarantee (or guarantor) of a lifetime income. Ultimately, the predictability and reliability of lifetime income will outweigh the potential for significant appreciation and that will be reflected in the recommendations to follow.

Finally, defined benefit plans generally produce higher investment returns than defined contribution plans. They are usually directed by trustees who hire professional advisors who are better able to make prudent investment decisions than individuals managing their own defined contribution accounts, usually have a wider range of investment options available to them, and generally have higher allocations to long-term equities.

The City Council has visited this issue of defined benefit versus defined contribution before; indeed, as recently as 2004 when it deliberately chose to replace the Retirement Income Plan for Firefighters and Police Officers (a defined contribution plan) with the Firefighters and Police Officers Pension Plan (a defined benefit plan). The City came out definitively in favor of defined benefit pension coverage, as noted in City Manager Sunderland's memoranda:

> *"Conclusion: As a long-term policy, we believe that, instead of having the public safety employees bear 100% of the investment risk for their entire pension, it is more appropriate for the City to assume the risk. The City is far better able to handle fluctuations in the equity and bond markets and in earnings over time than individual employees. An employee near*

> *retirement is especially less able to handle such fluctuations. Moreover, the City now takes this same type of risk under the retirement programs that cover most other City employees (through VRS and other pension programs). It is reasonable for the City to take a similar risk for sworn police officers and fire fighters.*
>
> *"The proposed DB program ensures that a definite retirement income not-affected-by-investment-returns will be available throughout the retirement years of a firefighter and police officer. For some, this might be less than they would have been able to receive under the DC plan. For others, this will be more than what the DC plan would have delivered. But for all there will be no investment risk. We believe it is desirable that public safety employees receive similar retirement benefits for similar service to the City, regardless of their investment acumen or the state of the economy, particularly in their later years of service.*
>
> *"Fiscal Impact: The City has been and is currently paying 20% of payroll into the firefighters and police officers DC plan. This percentage does not change over the years as the investment market changes. If the City adopts a DB pension plan, initially the cost to the City will be 20% of payroll. However, the City's 20% cost could increase if the market value of the pension plan assets and investment earnings decrease or if plan retirement cost experience is higher than projected. Conversely, the City's 20% cost could decrease if the market value of the pension plan assets and investment earnings increase beyond projected returns or if plan retirement costs are lower than projected."*

It cannot be said that the City was naive about the investment markets in 2004. During 2000-2003, the Nation had experienced what was then considered the worst investment market in 50 or more years: three consecutive years of negative returns.

The City's employees have expressed strong opposition to replacing the defined benefit plans with a defined contribution model. As noted during our proceedings, and borne out by national experience, many employees feel incompetent to properly direct and monitor the investment of their pension accounts. The market crash of 2008 devastated many self-directed 401(k) plan accounts, and that experience has further soured employee groups on defined contribution plans.

Note also that if the City did decide to "freeze" the FPOPP and SRP and substitute defined contribution plans, the City would still be required to continue contributing to the frozen plans, for many years in the future, to fund the already-earned benefits under those plans. The City has some experience with such dual contribution obligations; it is still continuing to fund the "Old, Old" firefighters and police officers defined benefit plan that was closed in 1979 when the Firefighters and Police Officers Retirement Income Plan was established as a substitute. In other words, the City would be required to continue contributing to the frozen defined benefit plans as well as to the new defined contribution plans.

5. City and Employee Contributions: Notwithstanding the broad language used by City Manager Sunderland, it is unreasonable to expect the City to absorb limitless investment risk for the VRS, FPOPP, and SRP, just as it would be unfair for employees to bear the investment risk. Neither the City Manager's memoranda nor the City Council's action thereon constitute a legally binding commitment never to increase employee contributions, reduce future benefits, or terminate the plans, even though they obviously created expectations among employees. Raising taxes or reducing services to cover unexpected pension costs may not be possible, and pressures would inevitably rise to reduce labor costs to the detriment of the employees. Some accommodation must be reached to protect the City and its workforce against long-term investment under-performance. Our recommendations at the end of this report suggest such an accommodation.

   Some State and local governments have imposed or increased employee contribution requirements in response to pension funding challenges. The City of Alexandria has taken steps in this direction. Firefighters and police officers have been contributing 8% of their salaries to the FPOPP since its inception in 2004. Newly hired General Schedule employees are required to contribute 2% of their salaries to the SRP in addition to 4% of their salaries to VRS-2. New deputy sheriffs, medics and fire marshals covered by VRS-2 are required to contribute 4% of their salaries too, although they have been exempted from the 2% contribution to the SRP.

   Salary rate, currently and prospectively, is the most attractive component of a compensation package. Imposing or increasing employee contribution requirements is the equivalent of a salary reduction for employees. Their current income is reduced to help fund pensions that will not be payable until, for most employees, many years later. Even a 1% or 2% cut in take-home pay can have a significant adverse impact on an employee, yet an employee's pension contribution at that rate would be insignificant to the funding needs of the pension plan.

   The proceeding paragraphs of this Section demonstrate that the City's contributions to the various pension plans may be considered to be substitute salary in whole or in part. That is, the City is contributing to its employees' pension plans money that might otherwise have been paid to its employees as salaries.

Further, there is the matter of the City employees' expectations based on earlier actions by City Council. There is a strong belief among the City's employees that the City Council made deals not to impose an employee contribution requirement on current employees in exchange for groups of employees foregoing salary increases (step and market adjustments) for some periods or accepting other changes in terms and conditions of employment. In addition, the February 2004 memoranda from City Manager Sunderland discussed above reflect a view that City employees should not have to bear the cost investment ~~losses in the FPOPP or SRP, if not the VRS.~~

In 1982, City Council passed a resolution that provided that beginning in FY 1983, it would not require City employees who participated in VRS to pay the 5% employee VRS member contribution (Resolution 868, dated June 8, 1982). Instead, the City would make this contribution on behalf of these employees. In exchange, the City employees in VRS did not receive the 5% in-step increase that would have been provided pursuant to the pay scale that was in effect at that time. Uniformed City employees who participated in the Police/Fire Pension and not VRS received a 5% in-step increase as provided by the pay scale in effect in FY 1983.

The State government made a similar pay decision for its employees in the early 1980s. When the State decided to re-impose the 5% VRS employee share this year, they coupled this with a 5% salary increase for State employees. This salary increase was intended to address the in-step increase not received in FY 1983 and to help address the current budget impact on employees who had to pay the 5% employee share of VRS.
We understand that a large number of the City employees who are members of VRS (General scale employees, deputy sheriffs, medics and fire marshals) believe that the City's agreement to pay the City employee contribution in FY 1983 was a promise to continue this practice in the future. If State law changes, and the City is permitted to change its decision and require City employees in VRS to contribute the 5% employee share of VRS, affected City employees would expect to be compensated for the 5% reduction in take-home pay like their counterparts in State government. Because an adjustment in compensation would result in other costs to both employees and the City, such as increased payroll taxes, employees would expect no net reduction in take home pay as a result of such an increase. In addition, employees would expect that an increase in compensation related to VRS contributions be considered independently from other salary adjustments, such as performance-based merit pay raises and market rate adjustments.

When the City was considering re-establishing the defined benefit retirement program for firefighters and police officers almost eight years ago, a related discussion occurred. In a February 6, 2004 memorandum former City Manager Phil Sunderland concluded: “As a long-term policy, we believe that, instead of having the public safety employees bear 100% of the investment risk for their entire pension, it is more appropriated for the City to assume the risk…An employee near retirement is especially less able to handle such fluctuations. Moreover, the City now takes this same type of risk under the retirement programs that cover most other City employees (through VRS and other pension programs). It is reasonable for the City to take a similar risk for sworn police and fire employees.”

6. New Employees: Another commonly used approach among public employee plan sponsors is to create a new plan or a new plan tier with lower benefits or employee contribution requirements for new employees only. The rationale for this approach is that the employer has no pre-existing obligations or commitments to new employees, and a new employee who accepts employment on these inferior pension terms cannot legitimately complain. Furthermore, the employer can improve the pension coverage in the future, prospectively or retroactively.

The City has used this approach by covering new employees hired on or after July 1, 2010 under VRS-2 and requiring them to contribute 4% of their salaries to VRS, whereas earlier hires are covered by VRS-1 and are not required to contribute.[10] Even if the employees were not required to contribute, the City’s contribution obligations would be less for these employees than for VRS-1 employees because of the lesser benefit package under VRS-2. In addition, new General Schedule employees (hired on or after July 1, 2009) are required to contribute 2% of salary to the SRP, whereas earlier hires are not required to contribute. Newly hired firefighters and police officers contribute 8% of their salaries.

Disadvantages of a two-tier approach include the following:

(a) It does not provide cost relief in the near term, but only as more senior employees leave and new employees are hired. Eventually all employees will be covered under the less costly plan, but that transition can take many years.

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10 From the record available to the Advisory Group, it appears that City Council decided at a June 2010 public meeting to require new employees to contribute 4% of their salaries to VRS-2 without any analysis and somewhat capriciously. The City’s staff had recommended that the new employees not be required to contribute to VRS-2.

(b) Inequities can create resentment among employees and human resources problems. These risks can be particularly acute where one employee hired just before the cutoff date works with an employee hired just after the cutoff.

(c) Multiple tiers of benefit programs can make administration difficult and more costly.

(d) [LONNIE INSERT??]

The Advisory Group appreciates that the City has left intact the basic defined benefit pension program for new hires rather than switch to a defined contribution plan.

7. Comparability With Other Jurisdictions: Comparing the City's pension coverage to that provided by other jurisdictions, including Alexandria's "comparator jurisdictions", is a difficult exercise because there are many variations in plan terms and conditions from jurisdiction to jurisdiction and some favorable provisions in one plan may be offset by some unfavorable provisions in the same plan. Some plans might require employee contributions, and others not. Some plans might allow salary enhancements in determining benefit levels, and others not. Some plans might have a relatively lower normal retirement age but a less favorable benefit formula. And, in any event, there is a moving target problem; most jurisdictions are reviewing their employee pension plans and considering adjustments based on their specific circumstances. In short, a true "apples to apples" comparison is difficult to achieve and should be tied in with a total compensation package approach.

What can be said is that the City's pension coverage is about the same on the whole as local jurisdictions. The City states that it is currently able to attract highly qualified employees in all job categories. The City also states that 'exit interviews" do not indicate that dissatisfaction with the City's retirement plans is a cause for leaving employment with the City. However, there are some specific outlying issues (such as the higher retirement age for Alexandria's deputy sheriffs, medics and fire marshals) and some anecdotal evidence that some employees have left City employment for jurisdictions with more generous retirement terms. It may also be said that the attractiveness of one City pension plan's terms (FPOPP) relative to other pension coverage (VRS & SRP) may affect decisions by City employees to transfer positions within City employment.

A more useful assessment of the relative value of Alexandria's pension coverage requires a professional study of the entire employee compensation package, including pensions, like that performed for the City by the Towers Watson consulting group in 2008-2009.

8. Social Security: In discussing the pension coverage provided to City employees, Social Security benefits are often overlooked and they should not be. As a governmental entity, the City is not required to participate in, or contribute to, Social Security on behalf of its employees. Nonetheless, unlike some other local jurisdictions, the City contributes to Social Security in an amount equal to 6.2% of its employees' salaries (up to a maximum salary level of $106,800 in 2011). All employees are required to contribute to Social Security as well; normally 6.2% of salary, but temporarily reduced by law to 4.2% in 2011. Even though full Social Security retirement benefits are not available to City employees until age 66 or 67 (with reduced early retirement benefits available at age 62), these benefits will add to a retiree's monthly income from the VRS, SRP or FPOPP. Also notable here is that there is no offsetting of benefits under the VRS, SRP or FPOPP for the amount of Social Security benefits received by City employees.

9. Legacy Plan's Lingering Costs: A significant part of the City's annual pension contribution costs relates to the legacy firefighters and police officers defined benefit plan that was closed to new participation in 1979 (the "Old, Old Plan"); about $1.7 million per year for the next 2 to 3 years, but projected to continue at about $1.2 million per year for some years thereafter until the survivors pass on. These contributions fund benefits that were earned by retired employees many years ago. They are legacy costs for which current employees should not be held accountable.

10. State Employees Under City Plan: For reasons unknown to the Advisory Group, the City has been providing coverage under the SRP to State employees who work in the Health Department located in Alexandria but are not employed by the City. Coverage of these 89 employees (annual salaries $5,350,297) is a significant cost to the City. It may be that the City receives something of value from the State for providing this coverage, but consideration should be given to whether this practice should be continued.

11. GASB: The Resolution requested that the Advisory Group consider the effects on the City's pension costs of the Government Accounting Standards Board's (GASB) proceedings to set new accounting standards for the reporting of public pension plan liabilities. The Advisory Group received briefings on GASB's proposals and their effect on the City from Steve McElhaney of Cheiron and Laura Triggs. And, in July 2011, GASB issued an Exposure Draft of its proposed new standards.

    Importantly, the proposed new standards distinguish between pension plan funding and accounting by employer for pension plan obligations. The standards, once finalized, are not expected to have any significant effect on the City's pension contribution obligations so long as the City continues its longstanding policy of contributing 100% of actuary's annual recommended contribution, although the shorter amortization period bears watching. Further, the FPOPP and SRP should be able to continue using 7.5% as their long-term investment return assumption, according to Cheiron.

But, the new standards, once they become effective, will affect City's accounting for its pension obligations: unfunded actuarial liability will go on the City's balance sheet rather than merely be disclosed in the notes. This change in reporting may create a false impression of the City's pension obligations to the general public, but it should not affect the more expert perceptions of the City's creditors and rating agencies.

12. VRS: As noted in the Resolution, VRS contribution requirements are a major driver of the City's cost increases. The VRS contribution costs are largely beyond the City's control, as discussed above. The City can affect its contribution obligations through the number of employees it hires and retains in VRS-covered positions and the salaries they are paid. The City may also be able to exercise some influence over VRS decisions through the normal political process inasmuch as the VRS is a creature of State government.

    The State's Joint Legislative Audit and Review Commission is currently conducting a formal study ("Followup Review of Retirement Programs for State and Local Employees") to update its 2008 report. The results of this study are due by the end of 2011, and JLARC may make recommendations for reducing VRS costs.

13. Federal Legislation: The Resolution also asks the Advisory Group to assess the prospects for Federal legislation that would impose additional pension costs on the City.

    The proposed "Public Pension Transparency Act" (HR 567 / S. 347) was re-introduced in the current Congress by its Republican sponsors. Generally the bill would require sponsors of State and local government employee pension plans to annually report specific financial information to the Federal Government (Department of Treasury). Governments failing to report this information would lose their ability to issue tax exempt bonds until they comply with the reporting requirements. However, the legislation also states that it does not alter the existing funding standards for State and local governments or require Federal funding standards for such plans.

The bill has generated a lot of controversy among public officials, and is viewed by many as more of a political stunt than a serious measure. While supporters claim that the legislation would improve financial transparency, the opponents argue that the legislation would impose costly, duplicative and misleading reporting requirements.

The bill has been referred to committees in the House of Representatives and Senate, but no further action has been taken on it in either chamber and none is expected in the foreseeable future.

14. City Retirement Board: All City employees have a big stake in the management of the City's pension plans, particularly in light of the employee contribution requirements. The City has recognized the value of employee input in pension matters in establishing and maintaining the FPOPP's Retirement Board.

    Expansion of that joint City-employee Board, or creation of a new board, to include representatives of employees covered by the SRP and the DS, F & FM RIP could be constructive. Ongoing involvement of employee representatives in pension plan oversight would advance employee understanding and appreciation of the plans. Moreover, such a joint board would be a valuable forum for resolving controversies, addressing employee concerns, and discussing future changes in the City's pension coverage. There will be more developments affecting the City's pension obligations (*e.g.* when JLARC reports on VRS at the end of 2011), and a joint board would provide a permanent structure for discussion between partners–City government and its employees.

    The appointment of a few public members to a unified pension board is also worthy of consideration. Other jurisdictions have retirement boards on which public members serve by appointment of the chief executive.

15. Employee Education: There appears to be a need for more education of City employees about the retirement income and post-retirement benefits provided by the City. This is particularly true with regard to the retiree health policy and the retiree life insurance program for which there is no descriptive document for employees; or at least none that was brought to the Advisory Group's attention. Some members of the Advisory Group who are City employees commented that they learned a lot about the City's retirement programs through our proceedings. This is surprising and speaks volumes about the need for more employee benefits education, and argues for the pension board discussed above.

16. "Sustainability": The Resolution appears to request the Advisory Group's opinion on the "sustainability" of the City's pension obligations. Implicit in the concept of "sustainability" are political judgments that we are not competent to make; that is

the province of the City's elected leaders. To assess whether the City can sustain its current or projected obligations, one must take into consideration a myriad of factors and choices such as the City's revenues prospects, its other obligations, the types and levels of public services to be provided, the levels of employment, salaries and other employee benefits, etc.

17. Stability: Stability in the operation of pension plans is valuable to the City and employees alike. Frequent tinkering with the funding, benefits or other aspects of a pension plan is unecessarily disruptive. If and when changes to City employees' pension plans are necessary or advisable, the changes should be made only after a deliberative, fact-based process.

XIII. Recommendations

Mindful of the foregoing observations, the Advisory Group makes the following recommendations for the Mayor's and City Council's consideration.

1. We recommend that you establish as soon as possible a meaningful joint pension plan board in which representatives of all City employees can participate. This may be accomplished by expanding the existing Pension Plan Retirement Board that oversees the FPOPP, preserving the rights of the firefighter and police officer members of the Board with regard to the FPOPP. This may also be accomplished by creating a parallel board for employees not covered by the FPOPP.

   In either case, as discussed above, a joint pension board can be a very valuable forum for discussion and resolution of pension-related matters on an ongoing basis. The somewhat crazy-quilt character of the City's pension coverage is the product of various deals and arrangements made over the years. Whatever the merits or conveniences of such an approach, we believe that the City would be better served with a regular process for addressing pension plan issues.

   We further recommend that the City Council consider including a few public members, by appointment of the Mayor, on a unified pension board, if it is created.

2. We recommend that you seriously consider terminating the City's contributions to the SRP for State employees. As discussed above, the Advisory Group is not privy to the reasons for coverage of non-City employees under a City sponsored pension plan, so we cannot opine on whether the City is receiving value in exchange that is worth the substantial cost of the contributions. Only the City Council can make that judgment.

3. We recommend that a "trigger mechanism" be developed to protect the City and its employees from the future risk of runaway contribution costs. As discussed above, all parties have a strong interest in avoiding runaway pension costs. Working out the details of the mechanism is beyond the abilities of the Advisory Group; certainly within the time constraints set by the Resolution. However, we offer the following ideas.

   (a) The occurrence of a certain event (or events) in the future would trigger a reduction in the pension benefit accrual rate under the FPOPP and / or the SRP. The reduction would remain in effect, year-to-year, until the event that triggered the accrual rate reduction ends.

   (b) The triggering event could be:

      (1) the City's required contribution rate for a year exceeds a certain level (*e.g.* if the City's total required contribution to the VRS and SRP for a year exceeds a certain percentage of payroll, the future accrual rate under the SRP would be reduced);

      (2) a measure of the actuarial funding percentage of the plan (e.g. if the funding percentage of the FPOPP falls below a certain level, the future accrual rate would be reduced).

   (c) In addition to deciding what would be the triggering event (or events), factors to be decided include:

      (1) by how much the future benefit accrual rate would be reduced; and

      (2) when a benefit accrual rate reduction would end and the prior rate restored in whole or in part.

   (d) Advantages of this trigger mechanism include:

      (1) It provides comfort that future pension contribution costs can be controlled, and avoids the need for future "crisis mode" decisions by City Council.9

      (2) The reduction of future benefits is generally preferable to a reduction in employees' current income. Employees' salaries would be reduced if the City imposed employee contribution requirements or if salary reductions or unpaid furloughs became necessary to contain costs. Salary rates are the most important condition of employment for retaining and attracting qualified

employees.

(3) This approach focuses on what future benefits can be provided for the contributions that the City is able or willing to pay.

(4) A reduction in the accrual rate is a quicker way to reduce contribution costs than imposing employee contributions or lower benefits on new employees.

(5) If future conditions permit, the reduced accrual rate can be retroactively increased (past service benefit increase).

(e) Disadvantages include:

(1) If the accrual rate is reduced, employees will receive lower monthly pensions when they retire (unless the rate is retroactively restored). This may more severely affect employees who are in the latter stage of their careers and closer to retirement when the reduction occurs.

(2) [Others???]

4. We recommend that the retiree health policy and retiree life insurance policy be described in a plainly written document and made readily available to all potentially eligible employees.

5. We recommend that the City Council or other appropriate City official request VRS to calculate the cost of providing a full retirement benefit at age 50 with 25 years of service for Deputy Sheriffs, Medics and Fire Marshals, recognizing that VRS will charge a modest fee for performing the calculation. The performance of this calculation will provide some relief from a long-festering grievance and enable the City management and the affected employees to engage in an informed discussion about whether and under what terms such a benefit improvement might be provided.

6. We recommend that any tinkering with the plan design of the FPOPP be done through the FPOPP Pension Board, and that tinkering with the SRP's design be done through the expanded or to-be-created joint pension board. The Advisory Group is not equipped to engage in plan design decisions that require consideration of a myriad of factors and variables.

7. We do not recommend the City abandon its defined benefit plans or create new defined contribution plans. Whatever the public sector or private sector "herd"

may be doing, we do not believe that this would be the right move for Alexandria. As noted above, there is good reason for the City, its taxpayers and its employees to be concerned about runaway pension costs. But, we believe that defined benefit plan costs can be controlled by use of a trigger mechanism like that we recommend.

8. We also do not recommend that the City impose additional employee contribution requirements. To the extent that consideration of additional employee contribution requirements is motivated by cost control concerns, the trigger mechanism should be given a fair trial before the City further reduces salaries by requiring more employee contributions.

XIV. Sunset

In accordance with Section 6 of the Resolution, the submission of this report constitutes the final act of the Advisory Group. The Advisory Group is thereby terminated.

Respectfully submitted,

[List names of AG members and date]