Summary of Changes Made by the Eighth Amendment

The City of Alexandria Firefighters And Police Officers Pension Plan

(September 9, 2008)

The Eighth Amendment to the City of Alexandria Firefighters and Police Officers Pension Plan (the "Pension Plan") provides technical corrections, such as modifications to plan language, and changes necessary for the Pension Plan to comply with the Pension Protection Act of 2006 (PPA). PPA included several provisions required to maintain the tax-preferred status of the Pension Plan. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment. The Pension Plan Board (consisting of representatives of the City, Firefighters and Police Officers) recommends that all of the changes in this amendment be adopted.

BACKGROUND

The Pension Plan provides both retirement and disability benefits to Firefighters and Police Officers. The Pension Plan was adopted on February 21, 2004, when the City of Alexandria Retirement Income Plan (the “Retirement Income Plan”), a defined contribution plan, was converted to a defined benefit plan. A defined contribution plan links benefits to employer contributions and investment return while a defined benefit plan links benefits to the employee’s salary and years of service. The Firefighters and Police Officers Disability Income Plan (the “Disability Income Plan”) became part of the Pension Plan at the same time.

REASONS FOR CHANGE

Although Congress enacted the Pension Protection Act in 2006, the Internal Revenue Service (IRS) and the Department of Labor did not update their regulations for over a year. Once this process was complete, the IRS and Department of Labor set a deadline of December 31, 2008, for public pension plans to comply with the new regulations by making the necessary changes.

The Plan Document is being restated to include changes from all amendments since the Plan Document was originally issued in 2004.

FIRST CHANGE: Compliance with federal regulations

Background

The federal government establishes pension plan rules and guidelines for both public and private pension plans. Along with providing favorable tax treatment for pension plans, the government sets limits on benefits, contributions, and the timing of payouts. Generally, these rules are designed to prevent abuses of pension plans created for small business owners or for the very highly paid. While these rules rarely affect participants in public pension plans, the IRS requires that these provisions appear in our Plan Document.

Reasons for Change

The Pension Plan is required to comply with federal regulations to continue with favorable tax status.

Change

Pension Plan Section 1.6 Definitions

> Definitions of these terms have been added: Annual Addition, Distribution Calendar Year, Life Expectancy, Limitation Year, and Required Beginning Date.
>
> The definitions of these terms have been modified: Beneficiary, Compensation, and Remuneration.

Pension Plan Section 6.8 Maximum Limitation on Benefits is rewritten to meet federal guidelines. In the unlikely event that members are impacted by the IRS rules for highly compensated employees (415 limits), the Restoration Plan will make up any shortfall. The Restoration Plan is outlined in Appendix B.

Pension Plan Section 6.10 Limitations on Death Benefits is rewritten to meet federal guidelines.

Pension Plan Section 7.3 (e) Minimum Distribution Requirements is renumbered as Section 7.4 and language is added and changed to comply with the Pension Protection Act of 2006 (PPA) regulations.

Pension Plan Section 7.4 Eligible Rollover Distributions is renumbered as Section 7.5 and is modified to comply with the PPA regulations in two ways: 1) Roth IRA is added to the list of eligible retirement plans, and 2) Nonspouse beneficiaries are addressed.

Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

SECOND CHANGE: Deferred Retirement Option Program (DROP)

Background

A Participant who has completed at least 30 Years of Credited Service may elect to enter the Deferred Retirement Option Program (the "DROP"). The Participant retires for purposes of calculating their monthly pension benefit, continues working as a Covered Employee for a period of up to three years, and defers receipt of their monthly benefit until their DROP Retirement Date. During the DROP period when the Participant is still working as a Covered Employee, the retirement benefits accumulate in an account to be paid at the DROP Retirement Date.

a. When the Plan Document was created in 2004, the definition of "DROP Effective Date" in Pension Plan Section 1.6 was never completed. The definition should have specified that it is either the first day of a "calendar month" or of a "payroll period." The definition still has both phrases in brackets. Only one date should have been included and the other should have been deleted. Administratively, "DROP Effective Date" has consistently been the first day of a calendar month.

b. The Plan Document provides 1) that DROP benefits are paid at the time the participant exits the DROP (DROP Retirement Date) and 2) that DROP death benefits may be paid following the death of the Participant.

c. The DROP Effective Date is the date a Participant retires as far as the pension plan is concerned. The Participant keeps working as a Covered employee and the pension payments start being accrued in a deferred account.

Reasons for Change

a. The "DROP Effective Date" is used to determine:

- When a Participant will stop making pension and disability contributions;
- The Participant's credited service; and
- The Participant's Average Monthly Compensation.

Contributions are changed on a bi-weekly pay period basis. This can cause administrative issues since credited service and Average Monthly Compensation are calculated on a monthly basis.

The plan document needs to clearly state that:

- The DROP Effective Date is the first day of a calendar month;

- Pensionable salary during the month prior to the DROP Effective Date is eligible for inclusion in Average Monthly Compensation; and
- The Participant will receive service credit for the month prior to entering the DROP.

b. The Plan Document needs to clearly state that the DROP death benefit is payable only once, not both when the Participant dies and on the DROP Retirement Date.

c. The first paragraph of Pension Plan Section 6.4 (h) discusses the "DROP Effective Date" but incorrectly uses the phrase "DROP Election Date."

Change

a. Definitions of DROP Effective Date, DROP Retirement Date, and Years of Credited Service as well as the timing of the cessation of pension and disability contributions are clarified.

   The definitions of DROP Effective Date, DROP Retirement Date, and Year of Credited Service are clarified. The definition of Year of Credited Service in Pension Plan Section 1.6 is modified to clarify that a Participant is credited with a month of service credit for the month prior to entering the DROP. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

   Pension Plan Section 4.2 clarifies that pension contributions stop in the pay period that the participant enters the DROP. No contribution is required during the pay period that a participant crosses over from "active" to the DROP. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

   Pension Plan Section 4.3 also clarifies that disability contributions stop in the pay period that the participant enters the DROP. No contribution is required during the pay period that a participant crosses over from "active" to the DROP. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

b. Death Benefit in DROP

   Pension Plan Section 6.9 (e) clarifies that death benefits are only payable once. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

c. The last phrase of the first paragraph of Pension Plan Section 6.4 (h) is changed to DROP Effective Date.

THIRD CHANGE: Disability

Background

a. Service-Connected disability benefits are offset by Workers' Compensation benefits. This has consistently been interpreted and administered to mean "gross" Worker's Compensation benefit. Workers' Compensation deducts the cost of the participant's state-provided legal costs from the participant's "gross" benefit, leaving the Participant with a smaller net benefit.

b. One step in qualifying for a disability benefit is providing medical reports. Determination of disability is made on the basis of a medical examination performed by an independent diagnostic clinic or physician(s) selected by the Administrator.

Reasons for Change

a. The Plan Document should state clearly that the "gross" Workers' Compensation benefit offsets the disability benefit.

b. Because current practice has been to allow the use of the participant's medical reports, the Plan Document should provide the Administrator with the option of accepting medical reports from the participant's physician in lieu of those from an independent diagnostic clinic or physician(s).

Change

a. Disability benefit offset by "gross" Workers' Compensation benefit

   Pension Plan Sections 5.7 and 5.9 explicitly state that the disability benefit is offset by the "gross" Workers' Compensation benefit. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

b. Determination of disability

   The definitions of "Partial Disability or Partially Disabled" and "Total Disability or Total Disabled" are modified to include language that the Administrator may use the participant's medical reports to determine disability. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

FOURTH CHANGE: Elections

Background

Article 10 of the Pension Plan defines and protects the rights and duties of Participant Representatives and includes the very specific mechanics of a structured election process for Participant Representatives. This article includes temporary rules that were in effect until the Board members were elected and appointed by City Council.

All four Participant Representatives and their alternates serve the same three-year terms. In any election, all new Participant Representatives could be elected, which would result in a significant loss of experience for the Board.

Reasons for Change

The election process is not flexible. Participant's election and representation rights should be guaranteed in the Plan Document, but the Board should adopt administrative policies and election procedures. The temporary rules for the first election in 2004 are part of Article 10 of the Pension Plan, but are no longer necessary since a Board has been appointed by City Council.

Terms for Participant Representatives should be staggered to increase stability and experience among the Participant Representatives.

Change

Pension Plan Section 1.6 - The definition for Participant Representative is modified to reflect rules adopted by the Board.

Pension Plan Section 10 is changed throughout to reflect the temporary rules in place for the creation of the Board are no longer in effect.

The following sections are changed for the reason noted:

Pension Plan Section 10.1 (b) – The Board shall adopt election rules and procedures for nominating Participant Representatives.

Pension Plan Section 10.1 (c) – The Board shall adopt rules for nominating the alternate Participant Representative.

Pension Plan Section 10.2 (a) – Clarifies that a City Representative's term on the Board ends with termination of employment.

Pension Plan Section 10.3 – Clarifies the role of the alternate and creates staggered terms beginning January 2011.

Pension Plan Section 10.3 (e) - The Board shall adopt rules for the election process.

Pension Plan Section 10.3 (h) – Authorizes the Board to appoint a Participant Representative successor in the event of vacancies less than twelve months prior to a scheduled election. A special election is to be held if the vacancy is for more than twelve months.

Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.

FIFTH CHANGE: Sixty-day notice

Background

Notice must be given to the Participants at least 60 days prior to a proposed plan amendment going to City Council. The 60-day notice provision was intended to provide Participants a period of time to review and comment on potential changes to their benefits. However, the provision was written rather broadly so that the 60-day period is required for all proposals – even if the proposal does not affect benefits, eligibility, or contributions.

Reasons for Change

Since federal law or regulations sometimes require that technical corrections be made on tight deadlines, the 60-day notice can delay the process significantly.

Change

Pension Plan Section 12.1, Amendment of Plan, allows the Board to bypass the 60-day notice under limited conditions. The proposed amendment must not change benefits, eligibility, or contributions. Five affirmative votes are required for the Board to bypass the 60-day notice. Current practices are maintained except that the 60-day notice requirement is streamlined; no benefits, contributions, or eligibility will be changed by this amendment.

SIXTH CHANGE: Restatement of Plan Document

Background

Typically, plan amendments do not include the entire text of the underlying Plan Documents they amend. Instead, they only contain the sections of the document that they change. As a plan evolves over time, the original Plan Document plus a series of plan amendments govern it, making it awkward to manage.

Reasons for Change

Combining the Plan Document and all its amendments into one document simplifies plan management.

Change

The Plan Document has been restated to include all changes from all amendments. Current practices are continued; no benefits, contributions, or eligibility will be changed by this amendment.