

**NOTICE OF PROPOSED AMENDMENT TO  
THE CITY OF ALEXANDRIA FIREFIGHTERS AND  
POLICE OFFICERS PENSION PLAN**

DATE: OCTOBER 10, 2007

TO: PARTICIPANTS IN THE CITY OF ALEXANDRIA  
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN

FROM: STEVEN BLAND, RETIREMENT ADMINISTRATOR

SUBJECT: PROPOSED PLAN AMENDMENT

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An additional meeting has been scheduled to discuss the proposed Seventh Plan Amendment to the City of Alexandria Firefighters and Police Officers Pension Plan. The proposed amendment is described in the attached memo.

A meeting will be held:

Date: Tuesday, October 16, 2007

Time: 8:30 AM – 10:30 AM

Location: CIS Roll Call Room  
Hoffman Building  
2034 Eisenhower Avenue

There will be a short (5-10 minutes long) presentation at the beginning, but you may drop in anytime during the meeting time for information.

To access the plan proposed amendment go to the City's website (*Departments/Finance Department/Pension Administration/Firefighters and Police Officers Plan*). If you have any questions please call Steven Bland, the City's Retirement Administrator, at (703) 838-4505 or e-mail [steven.bland@Alexandriava.gov](mailto:steven.bland@Alexandriava.gov). After discussions are held it is planned that these plan amendments will be scheduled for City Council consideration.

**NOTICE OF PROPOSED AMENDMENTS TO  
THE CITY OF ALEXANDRIA FIREFIGHTERS AND  
POLICE OFFICERS PENSION PLAN**

DATE: SEPTEMBER 19, 2007

TO: PARTICIPANTS IN THE CITY OF ALEXANDRIA FIREFIGHTERS AND  
POLICE OFFICERS PENSION PLAN

FROM: JAMES K. HARTMANN, CITY MANAGER  
SHERIFF DANA LAWHORNE, CHAIRMAN, FIREFIGHTERS AND POLICE  
OFFICERS PENSION BOARD

RE: PROPOSED PLAN AMENDMENT

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As you are aware, you are a member of the City of Alexandria Firefighters and Police Officers Pension Plan (the "Plan") for sworn officers of the Fire and Police Departments. The Plan is administered by the City with policy advice provided by the Plan's employee-management comprised Board of Trustees. The Board also oversees Plan investments.

Recently, a Plan Amendment has been proposed to the Plan. It is the Seventh amendment. This amendment makes technical changes to the Plan and does not change benefits. This memo summarizes these amendments.

**A. CONTRIBUTION RATES AND AMORTIZATION OF THE PLAN'S  
INITIAL UNFUNDED LIABILITY**

The purpose of this amendment to the Plan is to:

1. Maintain the tax-free status of non-service partial disability benefits;
2. Maintain the employee's total contribution rate at 8.0 percent;
3. Provide greater flexibility in the funding and budget process; and
4. Amortize all elements of the unfunded liability consistently.

Benefit payments for non-service partial disability received by disabled members are considered tax free distributions and are therefore not taxed. This is because of the way contributions are made to the plan. A non-service partial disability is:

"an illness or injury which prevents a Covered Employee from performing the duties of the job the employee was assigned by the City at the time of suffering such illness or injury; and, the Administrator determines such partial disability is not reasonably correctable or subject to rehabilitation, the cost of which shall be borne by the City."

The tax-free distribution of non-service partial disability benefits requires an annual certification letter from the plan’s actuary. The letter must certify that the employee contributions are sufficient to fund the non-service partial disability benefits. Currently, all members contribute 7.5 percent of their pay before taxes to the retirement plan and 0.5 percent after taxes to the disability plan. The total employee contribution is 8.0 percent. The City contributes an additional 20 percent of pay to the retirement Plan and up to an additional 3 percent of pay to the disability plan.

Until recently, the plan’s actuary certified that this 0.5 percent employee contribution to the disability plan was sufficient for non-service partial disability benefits to remain non-taxable. However, participants are living longer and the incidence of disability is increasing. That means that the 0.5 percent employee contribution rate is no longer sufficient to allow the actuary to make this certification. Future non-service partial disability benefits would become partially taxable if the employees’ contribution rate remains at 0.5 percent.

Working with the Plan’s actuary and legal counsel this amendment allows the Plan to maintain the tax-free status for the non-service partial disability benefit. To achieve this, the amendment proposes to have the employee disability contribution increase by 0.1 percent and the employee retirement contribution will decrease by an equal amount. Under the proposed amendment, the total employee contribution (as shown below) is expected to remain at 8.0 percent as long as the benefits and the investment environment remain unchanged.

	Employee Contribution Rates		
	Current	Proposed	Change
Disability Income Plan	.50%	.60%	+.1%
Pension Plan	7.50%	7.40%	- .1%
<b>Total</b>	<b>8.00%</b>	<b>8.00%</b>	<b>NC</b>

Because the taxable disability portion of the employee contribution would increase to cover the higher cost of the disability plan, the employee will pay taxes on this increase. This amounts to approximately a \$2.50 per pay period increase in taxable income for an officer earning \$65,000 per year. If this member’s income is in the high tax brackets, the member might have an increase of \$1 per pay period in federal income taxes. The tax increase will be less for others.

The current Plan only permits the City of Alexandria to change the employer contribution rate on January 1. The employer contribution rate for the disability plan is fixed in the Plan Document at 3 percent. The proposed amendment would allow the employer contribution rate to change from “3 percent” to the “actuarially required amount” as determined each year by the Plan’s actuary. This proposed amendment would also allow the employer contribution rate to change on July 1 to match the City’s budgeting process and fiscal year.

The unfunded liability is an actuarially computed estimate of the cost of the plan. The current plan requires a portion of the unfunded liability at plan inception to be amortized over time as a level dollar amount over a twenty five-year (25) period from the Plan's inception in 2004. The balance of the unfunded liability is funded as a level percentage of payroll over the same period. This inconsistency, based on review, is believed to have been a drafting error. Information available and distributed to members in 2003 disclosed the assumptions, procedures, and methods the actuary used. These documents consistently disclosed the unfunded liability was amortized as a level percent of pay. In addition, the level percent of pay approach is much more common than the level dollar approach in the public sector. This plan amendment would use the level percent of pay method.

**B. AMENDMENT PROCESS**

The Plan document calls for a 60-day notice to members of proposed changes to the Plan. During this period, participants may examine the text of the proposed amendments. Also, meetings are scheduled by the Retirement Office to discuss the proposal. There will be a short presentation at the beginning, but you may drop in anytime during the meeting time for information. See below for meeting times. Additional meetings may be scheduled. See the City's website for information on additional meetings. To access the plan proposed amendment go to the City's website (*Departments/Finance Department/Pension Administration/Firefighters and Police Officers Plan*). If you have any questions please call Steven Bland, the City's Retirement Administrator, at (703) 838-4505 or e-mail [steven.bland@Alexandriava.gov](mailto:steven.bland@Alexandriava.gov). After discussions are held it is planned that these plan amendments will be scheduled for City Council consideration.

<b>Meeting Location</b>	<b>Address</b>	<b>Date &amp; Time</b>	<b>Room</b>
Lee Center	1108 Jefferson St.	September 26, 2007 8:30 – 11:00 AM	Gold Room 2
Lee Center	1108 Jefferson St.	October 4, 2007 8:30 – 11:00 AM	Gold Room 1

cc: Members, Board of Trustees of Firefighters & Police Officers Pension Plan