City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 14, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 106 : ADDRESSING RETIREMENT ISSUES TO INCLUDE: SUPPLEMENTAL RETIREMENT PLAN, VOLUNTARY 457 PENSION PLAN, AND LIFE INSURANCE BENEFIT

This memo is in response to a request from Councilman Wilson that the City Council be provided information on possible savings options related to the City's Supplemental Retirement Plan, Voluntary 457 Pension Plan, and Life Insurance Benefit. Specific questions that were asked are addressed below.

Question 1: Cost savings of all City employees sharing the 2% employee portion (currently funded by the City) of the supplemental retirement plan premiums.

If all City employees currently included in the City's Supplemental Retirement Plan were required to share the 2% employee portion of the contribution, which is currently funded by the City, the City would save about $2.38 million in FY 2010. (The proposed budget already includes a proposal for new employees hired on or after July 1, 2009 to pay the 2% employee share, which results in a savings of $185,000).

Question 2: Cost savings from eliminating the supplemental pension altogether for new employees in FY 2010, 2011 and 2012.

We estimate that the annual savings from eliminating the full supplemental pension for new employees would be about $237,400. However, because hiring takes place throughout the year and not just at the start of the fiscal year, it is estimated that the City will only realize half the annual savings ($118,700) in FY 2010 if the benefit is eliminated for new employees. The table below provides approximate cost savings for FY 2010, 2011 and 2012.

To exclude new employees from the Supplemental Plan would mean that no new entries into the Plan would be permitted starting in FY 2010. The Supplemental Plan would still be active however because the City would continue to pay the 5.60% contribution on behalf of current eligible employees. In addition, the City would remain obligated to pay the Supplemental Plan's current unfunded liability which as of the City's most recent evaluation to those employed prior to June 20, 2009 is $41.7 million. The unfunded liability is scheduled to be paid off in 2026 in payments as a level percentage of all salaries. We would not save 5.60% as the costs are spread over <u>all</u> salaries, including new hires.

Estimated Savings if the City Supplemental is Eliminated for New Employees

	FY 2010	FY 2011	FY 2012
FY 2010 New Hires	$118,700	$237,400	$237,400
FY 2011 New Hires	-	$118,700	$237,400
FY 2012 New Hires	-	-	$118,700
Total	$118,700	$356,100	$593,500

In addition, eliminating the supplemental retirement program would place the City below most of our comparator jurisdictions, and would widen the gap between the retirement plan provided to police and fire employees and general employees, deputy sheriffs, and paramedics.

<u>Question 3 & 4</u>: Cost of the City providing a 1% match of a defined 457 retirement savings plan for current enrollees and all employees. Cost of the City providing a 1% match of a defined 457 benefit regardless of whether the employee is currently contributing or not.

Currently a total of 1,231 employees, or 47.24% of the City workforce, voluntarily participate in the 457 plan. The City does not currently provide a match to employee contributions. Below are cost estimates for two scenarios if the City decided to make a 1% match to employee contributions.

- Under the current payroll and if the current employee participation rate remained the same, a 1% match of the current level of employee contributions on the existing voluntary 457 pension plan would cost about $0.78 million.

- It is likely that the participation rate would increase in response to a 1% match offer. If participation rates increased to 100% of employees contributing at least 1%, then a 1% City match would cost up to $1.66 million per year.

It should be highlighted that these estimates are based on current payroll, and are not broken down by full-time or part-time status, or General Salary or Public Safety employees. The exact cost of any match will depend on the exact salary and participation levels of individual employees.

<u>Question 5</u>: Cost savings of eliminating the life insurance benefit for existing employees upon retirement.

Included in the FY 2010 proposed budget, as part of the City's Other Post Employment Benefits (OPEB) contributions, is $900,000 for future life insurance benefit payments. This funding is designated for future life insurance benefit payments for future retirees. Last year the City eliminated retiree life insurance as a paid City benefit for employees hired after July 1, 2008. If current employees hired before July 1, 2008 were no longer provided life insurance upon retirement the level of funding necessary for the life insurance portion of the City's OPEB contributions could be decreased by $900,000. The level of savings would be adjusted downward if life insurance were still provided to certain employees upon retirement, such as those who are eligible to retire within a certain number of years. Decreasing the budget for OPEB contribution for future life insurance payments would not impact funding for the life insurance benefit provided to those already retired from the City.

It should be noted that for current retirees the life insurance benefit declines as follows upon retirement: The life insurance amounts available to a retiree will be reduced by 10% each year, beginning with the first January 1 after the retiree turns 65. This difference is subtracted each year until the January 1 after the retiree turns 70 years of age. After age 70, the retiree will have no further reductions in the life insurance payable. The remaining amount is approximately 25% of the life insurance that was in place at the time the retiree separated from City service.