



City Attorney's Office
Request for City Attorney Opinion

To: City Attorney
 From: Kadira Coley Finance Date: 5/10/17
 Name Department

Description of documents to be reviewed or statement of legal questions to be addressed:
Confirm document for City Manager's signature

Is this a City Council docket item? Yes No If yes, for what meeting? May 4, 2017 - Docket memo: Signed Resolution attached

Response needed by: _____

Attachments: Plan Amendment, Signed Resolution, Docket Memo

Reference No.: _____ Date received in CAO: 5/11/17

Attorney to whom assigned: OPF-17-01482

Anticipated date of response: Christina Zechman Brown

Please send to CMD once signed



City Manager's Office
TO THE CITY MANAGER FOR SIGNATURE

Date 5/10/2017

From: Finance (Department)

Kadira Coley (Name)

Reviewed and approved by Department Head *AC* (Initials)

If applicable, authorized by City Council: 5/4/2017 (Date)

If has fiscal impact, reviewed by: Approved as part of 2018 budget (OMB)

When signed, return to: Nicole Bradshaw (Name)

3895 (Extension)

Signature Required: City Manager Deputy City Manager

Explanation/Comments:

City Council Approved Supplemental Retirement Plan amendment on May 4th, 2017. Please sign the attached plan amendment.

*Resolution signed by
the Mayor. \$ Plan
amendment needs
the Manager's
Signature.*

KG

Signature Item

Signature Item

**FIRST AMENDMENT TO
THE CITY OF ALEXANDRIA SUPPLEMENTAL RETIREMENT PLAN,
AS AMENDED AND RESTATED EFFECTIVE AS OF JANUARY 1, 2014**

Pursuant to the powers of amendment reserved under Section 14.1 of The City of Alexandria Supplemental Retirement Plan, as amended and restated effective as of January 1, 2014 (the "Plan"), said Plan shall be and the same is hereby amended by the City of Alexandria, Virginia (the "City"), effective except as may be specifically provided herein as of the earlier of a) the date this amendment is adopted, or b) the date the provision is required to be effective in order for the Plan to retain its qualification under Section 401(a) of the Internal Revenue Code, as follows:

FIRST CHANGE

Section 1.1(d) is amended to read as follows with respect to distributions occurring on or after the dates specified:

- (d) The "**Actuarial Equivalent**" of a value means the actuarial equivalent determined using the interest and mortality tables set forth in the Addendum to the Plan. The Administrator shall adopt new or revised interest rates and/or mortality tables at such future times as determined appropriate by the Actuary, and any such new or revised interest rates and/or mortality table shall be set forth in the Addendum to the Plan. No pension or other benefit earned prior to the time of the adoption of a mortality table under this Section 1.1(d) shall be reduced as a result thereof, except to the extent necessary to enable the Plan to meet the requirements for qualification under the Code or the requirements of any governmental authority.

SECOND CHANGE

Section 3.2(b) is amended by adding the following sentence at the end thereof with respect to Employees whose Employment Commencement Date is on or after May 5, 2017:

Solely for purposes of determining the amount of an employee's Pick-Up Contribution, Earnings shall be determined without regard to the limit on Earnings imposed by Code Section 401(a)(17).

THIRD CHANGE

Section 10.7 is hereby amended to read as follows:

In the event of the Participant's felony conviction or plea of guilty or *nolo contendere* to a felony crime that arose out of the performance of his or her duties for the City, the Participant shall forfeit and cease to have any right to receive his or her Accrued Benefit (or any other benefit under the Plan except the Employee Retirement Contributions which shall be refunded to the Participant without interest). A forfeiture pursuant to this Section 10.7 may be appealed to the Administrator in accordance with the provisions of Section 12.10.

FOURTH CHANGE

Section 12.9 is hereby amended to read as follows:

Domestic Relations Order Approval Procedures

- (a) The Administrator shall approve a domestic relations order and direct that payment of a Participant's benefit be made in accordance with the terms of such order provided that all of the following requirements are met:
 - (1) The order creates or recognizes the existence of an "alternate payee's" right to, or assigns to an "alternate payee" the right to, receive all or a portion of the Participant's Accrued Benefit under the Plan.
 - (2) The order clearly specifies the following:
 - (i) the name and last known mailing address, if any, of the Participant and of each "alternate payee" covered by the order;
 - (ii) the amount or percentage of the Participant's Accrued Benefit to be paid to each "alternate payee," or the manner in which such amount or percentage is to be determined (provided, however, that the determination of an amount payable to an alternate payee shall not require the Administrator to perform any calculation other than a determination of the benefit that would be payable to the Participant as of a specific date);

- (iii) the number of payments or the period to which such order applies; and
 - (iv) the name of the Plan.
 - (3) The order does not require the Plan to provide any type or form of benefit, or any option, not otherwise provided under the Plan.
 - (4) The order does not require the Plan to provide any pre-retirement death benefit to an alternate payee who is a former spouse, or require the payment or commencement of any benefit prior to the Participant's Termination Date or, if later, the first date on which the Participant would be entitled to distribution or commencement of benefits under the Plan.
 - (5) The order does not require the Plan to provide increased benefits (determined on the basis of actuarial value).
 - (6) The order does not require the payment of benefits to an "alternate payee" which are required to be paid to another "alternate payee" under another order previously approved by the Administrator.
 - (7) The order does not provide for payment to the "alternate payee" in the form of a joint and survivor annuity with the "alternate payee's" subsequent Spouse as beneficiary.
- (b) The Administrator shall promptly notify the Participant and "alternate payee" of its receipt of the domestic relations order and of the Plan's procedures for approval of domestic relations orders. Within a reasonable period of receipt of such order, the Administrator shall determine whether the order meets the requirements established under this Section and shall notify the Participant and each "alternate payee" of its determination.
- (c) During the period of time following the Administrator's receipt of a domestic relations order and prior to the Administrator's determination as to whether the order meets the requirements of this Section, the Administrator shall separately account for those amounts that would have been payable to the "alternate payee" if the order had been approved (the "segregated amounts") in accordance with such procedures as may have been adopted by the Administrator. If within 6 months of the date the first payment would have been made under the domestic relations order, such order is approved by the Administrator, the Administrator shall pay the segregated amounts to the appropriate "alternate payee," with interest

thereon. If within such 6-month period the order is disapproved by the Administrator, or the Administrator has not yet resolved whether the order meets the requirements of this Section, the Administrator shall pay the segregated amounts to the person or persons to whom payment would have been made if there had been no order. If the Administrator later approves the order, such order shall be applied prospectively only.

- (d) For purposes of this subsection, the following terms shall have the following meanings:
- (1) An “alternate payee” means any Spouse, former Spouse, child or other dependent of a Participant who is recognized by a domestic relations order as having a right to receive all, or a portion of, a Participant’s benefit under the Plan.
 - (2) A “domestic relations order” means any judgment, decree, or order (including of a property settlement) that:
 - (i) relates to the provision of child support, alimony payments, or marital property rights to a Spouse, former Spouse, child, or other dependent of a Participant; and
 - (ii) is made pursuant to a state domestic relations law (including a community property law).

FIFTH CHANGE

The following paragraph is hereby added at the end of Section 13.6:

The City Manager may also delegate, by written authorization, the authority to take specific actions on behalf of the City Manager (including, without limitation, executing plan documents and amendments thereto).

SIXTH CHANGE

Section 15.4 is amended to read as follows:

Notwithstanding any other provision of the Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Code Section 414(u). A Participant shall receive Credited Service upon reemployment for a period of leave of Absence due to qualified military service to the extent required by the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended (“USERRA”), and Code Section 414(u) (but without any requirement for such Participant to make Pick-Up Contributions upon his or her reemployment for the period of his or her qualified military service). A Participant who dies on or after January

1, 2007 while on a leave of absence for qualified military service under USERRA shall be treated as having died while actively employed as an Employee and shall receive additional death benefits (other than benefit accruals), if any.

SEVENTH CHANGE

The Addendum is amended to read as follows:

This Addendum lists all of the Actuarial Assumptions necessary to be included in a Plan document. This Addendum, which may be amended from time to time by the Board (without the necessity of formal amendment to the Plan) to make necessary adjustments in the Actuarial Assumptions, is intended to be incorporated by reference into and made a part of the Plan. Except as otherwise permitted by law, no amendment to this Appendix A shall reduce any Participant's Accrued Pension Benefit calculated as of the later of the effective date or the adoption of such an amendment.

Appendix A

Actuarial Equivalence

Early Commencement Reduction Factors

Number of Years from Annuity Starting Date to Normal Retirement Date:	Factors:
1	93.33%
2	86.67%
3	80.00%
4	73.33%
5	66.67%
6	63.33%
7	60.00%

Number of Years from Annuity Starting Date to Normal Retirement Date:	Factors:
8	56.67%
9	53.33%
10	50.00%

Note: When a partial year is involved, the factor will be appropriately adjusted. Factors for other years and months will be determined in a manner consistent with the manner used in determining these factors.

Late Commencement Adjustment Factors

Number of Years from Normal Retirement Date to Annuity Starting Date:	Factors:
1	106.00%
2	112.36%
3	119.10%
4	126.25%
5	133.82%
6	141.85%
7	150.36%
8	159.38%

Number of Years from Normal Retirement Date to Annuity Starting Date:	Factors:
9	168.95%
10	179.08%

Note: When a partial year is involved, the factor will be appropriately adjusted. Factors for other years and months will be determined in a manner consistent with the manner used in determining these factors.

Interest Rates

For all computations except those set forth in the above charts, the interest rate used shall be as follows:

For purposes of this Appendix, “Current Employee” shall be defined as all current employees as of May 4, 2017.

- (a) **Single Sum Payment Before January 1, 2018 for Current Employees:** Except as provided in (b) and (c), below, the interest rate for purposes of a single sum payment shall be the annual rate of interest on 30-year Treasury securities for the second calendar month preceding the Plan Year in which the distribution is made
- (b) **Single Sum Payment After January 1, 2018 for Current Employees:** With respect to the Accrued Benefit of a Participant whose Employment Commencement Date was before May 5, 2017, effective for distributions made on or after January 1, 2018, the interest rate shall be five percent (5%).
- (c) **Single Sum Payment After the Date of Amendment for New and Reemployed Employees:** With respect to the Accrued Benefit of a Participant whose Employment Commencement Date (or if reemployed) is on or after May 5, 2017, the most recent assumed rate of return approved by the Board to determine Plan funding on or before the first day of the Plan Year in which the distribution is made. From May 5, 2017, this will be 7.25% (which rate may change from time to time in accordance with the determination by the Board).

- (d) **All Other Actuarial Computations Before January 1, 2018:** The PBGC interest rates used at the beginning of each Plan Year.

For purposes of this Appendix, the “PBGC interest rate” means the immediate or deferred rates utilized by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution on Plan termination as in effect at the beginning of the Plan Year in which the present value of the Participant’s benefit is being determined. For Participants who have reached Normal Retirement Date at the time present value is being determined, the PBGC interest rate shall be the immediate rate. For Participants who have not yet reached Normal Retirement Date at the time present value is being determined, the PBGC rate shall be the deferred rate.

- (e) **All Other Actuarial Computations After January 1, 2018:** The most recent assumed rate of return approved by the Board to determine Plan funding on or before the first day of the Plan Year in which the distribution is made. As of January 1, 2018, this will be 7.25% (which rate may change from time to time in accordance with the determination the Board).

Mortality Tables

For all computations except those set forth in the above charts, the mortality tables used shall be as follows:

a. Single Sum Payments

The mortality table shall be the prevailing commissioners’ standard table, described in Code Section 807(d)(5)(A), used to determine reserves for group annuity contracts issued on the date as of which present value is being determined (without regard to any other subparagraph of Code Section 807(d)(5)).

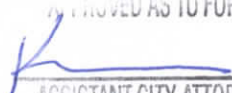
b. All Other Actuarial Computations

The mortality table shall be the 1984 Uninsured Pensioner Mortality Table (UP-84 Table).

IN WITNESS WHEREOF, the City has caused this Amendment to be executed by its City
Manager on this 11th day of MAY, 2017.

CITY OF ALEXANDRIA

By: 
Mark Jinks, City Manager

APPROVED AS TO FORM:

ASSISTANT CITY ATTORNEY

RESOLUTION NO. 2774

WHEREAS, the City of Alexandria maintains "The City of Alexandria Supplemental Retirement Plan" (the "Plan"); and

WHEREAS, the City of Alexandria desires to adopt and incorporate certain amendments to the Plan as set forth in the Amendment attached hereto; and

WHEREAS, public notice of the proposed amendments as required pursuant to the terms of the Plan was made. Plan participants were invited to meetings for public comments and significant outreach and education of the Plan amendments was conducted;


NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF ALEXANDRIA, VIRGINIA THAT the Alexandria City Council does hereby recognize, adopt, amend, approve and restate the Plan to incorporate the amendments attached hereto and incorporated fully herein by reference; and

BE IT FURTHER RESOLVED THAT this Resolution shall be effective immediately; provided however, that the amendments hereby approved shall be effective as stated in the Plan.

Adopted: May 4, 2017


ALLISON SILBERBERG MAYOR

ATTEST:


Jacqueline M. Henderson, MMC City Clerk



Legislation Text

File #: 16-6360, Version: 1

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 26, 2017
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Consideration of a Resolution to Amend the City of Alexandria's Supplemental Retirement Plan. [ROLL-CALL VOTE]

ISSUE: Consideration of a Resolution to Amend the City of Alexandria's Supplemental Retirement Plan.

RECOMMENDATION: That City Council pass the resolution to amend the Plan as described in Attachment 2.

BACKGROUND: The City of Alexandria's Supplemental Retirement Plan (the "Plan") is a defined benefit plan, established in 1970. It is intended to supplement retirees' income from the Virginia Retirement System ("VRS"). As a defined benefit plan, it is designed to provide a monthly income for life. Membership in the Supplemental Retirement Plan is provided for all full-time general schedule employees, deputy sheriffs, fire marshals, medics and part-time general schedule employees who are employed in positions that are at least the equivalent of 50 percent of a full-time position.

There are currently four forms of benefit that an employee can select at the time of their retirement. Three of them are a form of annuity. The life annuity provides a monthly benefit for the employee. The two other forms of annuity are calculated to include a benefit for a survivor or beneficiary. Regardless of the form of annuity benefit, the total value provided to the employee or his family is the same.

A fourth benefit option provides a lump sum payment to the member. The intent of the lump sum is to be a single payment of cash at the time of retirement that is the equivalent of the annuity benefits, discounted for present value. As the Plan is currently written, the lump sum present value is calculated at the 30-year Treasury Rate. This rate is set annually. Due to historic low market interest rate conditions not contemplated when the lump sum feature in the Plan was established, this 30-year Treasury Rate is 2.86 percent. The Plan currently assumes a 7.25 percent long-term rate of return. The result of this disparity between the two assumed rates of return is that employees selecting the lump sum payment are receiving a considerably larger benefit than their

counterparts who choose an annuity.

In addition to the lump sum calculation, this resolution includes technical corrections to ensure that the Plan Document reflects actual practice. These changes, which are recommended at this time, make no change to benefits, contributions, or eligibility and are cost neutral to the City.

DISCUSSION: As noted above the use of the historically low 30-year Treasury Rate, which is currently just under 3 percent, creates an inequity between the lump sum payment option and the three annuity options. Additionally, the significant and large payouts have an adverse impact on pension dynamics. The basic financing structure of a pension plan includes contributions from the employer and the employees and the interest earned on the assets (return on investment) offset by benefit payments and administrative costs. Contributions are calculated based on assumed outflows. Currently, two-thirds of all retirees are selecting the lump sum payment. In Calendar Year 2016, the total lump sum payment was equal to 10 percent of the pension fund assets and totaled \$14.5 million for just 72 employees.

As part of their charge, the employee-led Supplemental Retirement Board meets monthly to manage pension assets, evaluate fund manager performance and consider plan design changes to ensure long-term sustainability. In 2011 the Ad Hoc Retirement Benefit Advisory Group was established and noted that the lump sum option should be reviewed. In 2012 City Council created the Supplemental Retirement Board, and in 2014 the Board created a sub-committee tasked with reviewing the lump sum option. The lump sum option was reviewed in exhaustive detail by the Board, resulting in late 2016 with a recommendation to make changes to the calculation to ensure equity across all four benefit options.

As part of the Proposed Operating Budget, the City Manager included elements of the Board's recommendations and proposed an implementation plan. His objective was to ensure that the lump sum payout rate of return, which is currently 2.86 percent (the 30-year Treasury rate), equals the Plan rate of return, which currently equals 7.25 percent, so no one option is more lucrative than another. Additionally, it is important to minimize the disparity among various employees based on hire date. Based on City Council guidance on May 1, the plan is proposed to be changed as follows for existing employees:

- Current calculation rate - 2.86 percent (based on the 30-year US Treasury rate)
- January 1, 2018 - 5.00 percent (or the 30-year US Treasury rate, whichever is higher)

If the proposed plan change is adopted, the lump sum payment option for newly hired employees will be calculated using the Plan's assumed rate of return of 7.25 percent.

Given the significant impact on existing employees, in conjunction with the release of the City Manager's Budget, Pension Division staff began a comprehensive outreach effort to ensure that all current employees understood the impact of the proposed change. Letters were mailed to all members of the Supplemental Retirement Plan, outreach meetings were held across the organization and in-person meetings were encouraged with Pension Division staff.

Throughout the balance of the spring and into the summer, City staff and retirement board members will continue to provide opportunities for education and outreach and also to gather feedback from and have discussions with existing employees. Staff will return in early fall with options for City Council to consider regarding longer term sustainability of the Supplemental Retirement Plan, balanced with employee equity and fairness. Current employees wishing to retire under the current calculation rate (2.86 percent) will need to file

their retirement plans by August 15. Staff will be able to report back to City Council in the Fall the outcome and Plan impact of these potential retirements. This information will help to frame the recommendation for phasing in any future calculation rate increases.

OTHER CHANGES: In addition to the lump sum calculation change described above, there are a number of technical adjustments to the Plan that are intended to ensure consistency between the Plan and practice. The bullets below describe the sections in the City of Alexandria Supplemental Retirement Plan that are proposed to be changed with this Resolution:

Section 1.1: Establish new rates for calculating the single sum payment. Establish fixed rates for Optional Form Factors;

Section 3.2: Employee contributions will be based on the entire base salary and not limited to only the earnings imposed by Code Section 401(a)(17) for employees hired after the amendment;

Section 10.7: Update forfeiture of benefit language to be more in line with current VRS process and consistent with Firefighters and Police Officers Pension Plan;

Section 12.9: Update domestic relations order language to be consistent with Firefighters and Police Officers Pension Plan;

Section 13.6: This section is added to allow the City Manager to delegate signature authority;

Section 15.4: This section is amended to allow employees to receive Credit Service upon return to work from active duty Military leave without having to repay contributions;

Addendum: The Addendum is amended to now clearly state the tables and interest rates used in the definitions of actuarial equivalency. This section of the Plan Document can be edited by a motion of the Supplemental Retirement Board.

FISCAL IMPACT: The savings from this calculation change will be achieved through contribution rate savings over the long term. Based on current actuarial valuation, the immediate positive impact of the calculation change is estimated to be approximately \$0.8M in 2018. Further future year savings will be determined by the recommendations made to and adopted by City Council this coming fall.

ATTACHMENTS:

1. Resolution to Amend the Supplemental Retirement Plan
2. List of Section Changes
3. Amendment of the City of Alexandria's Supplemental Retirement Plan

STAFF:

Laura Triggs, Deputy City Manager
Kendel Taylor, Director of Finance
Kadira Coley, Retirement Administrator