



Legislation Text

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File #: 16-6360, Version: 1

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City of Alexandria, Virginia

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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]

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**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