File #: 18-7659, **Version:** 1

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 27, 2018

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 Alexandria's Supplemental Retirement Plan (the "Plan") as described in Attachment 2.

BACKGROUND: The City of Alexandria's Supplemental Retirement 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 in the form of an 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. The Plan currently assumes a 7.25 percent long-term rate of return. As part of the budget process in FY 2018, the lump sum calculation rate was increased to 5 percent for existing employees and the lump sum calculation rate was set equal to the assumed rate of return for the plan for all employees hired after May 4, 2017. At that time Council requested that further employee engagement occur in regard to the multi-year phase in, eventually to get to the assumed rate of return objective. That engagement was undertaken earlier in 2018 and the proposed longer phase in was recommended by the Trustees of the Supplemental Retirement Plan.

This amendment will establish a phased approach to bring the calculation rate used for all employees to the Plan's long-term rate of return.

DISCUSSION: Prior to January 1, 2018, lump sum payments were calculated using the 30-year Treasury Rate, which is currently just under 3 percent. This created an inequity between the lump sum payment option and the three annuity options. Additionally, the significant and large lump sum payouts had 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 2017, the total lump sum payment was just under 20 percent of the pension fund assets and totaled $22.8 million for just 121 employees.

As part of their charge, the employee-led Supplemental Retirement Board ('the 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 payment option should be reviewed. In 2012 City Council created the Supplemental Retirement Board, and in 2014 the Board created a subcommittee tasked with reviewing the lump sum payment option. The lump sum payment 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.

A modified recommendation was included in the FY 2018 Proposed Operating Budget and in May 2017, City Council approved the first year of the recommendation. Staff was directed to gather feedback and return with a new recommendation that took into account employee concerns. In November 2017 the Pension Board made a recommendation to phase in the increase to the lump sum payment option calculation rate over five years instead of three years. This recommendation was included in the City Manager's Proposed Budget Document and reflects the following plan:

Retirement Date After January 1	Employees hired before May 4, 2017
2018	5.00%
2019	5.50%
2020	6.00%
2021	6.50%
2022	7.25%

It should be noted that per the May 4, 2017, plan amendment, the lump sum interest rate for employees hired after May 4, 2017 will be calculated at the Plan's assumed rate of return, which is currently 7.25. The lump sum calculation rate will be adjusted if the Plan's assumed rate of return changes from 7.25 percent.

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 long-term positive impact of the calculation change is estimated to be approximately $1.5M per year when all lump sum calculations are made at the same assumed rate of return as the Plan.

ATTACHMENTS:

1. Resolution to Amend the Supplemental Retirement Plan
2. Amended and Restated Plan Effective May 4, 2017

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