

City of Alexandria, Virginia

11  
2-21-04  
~~24~~  
~~2-10-04~~

MEMORANDUM

DATE: FEBRUARY 6, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER

SUBJECT: AN ORDINANCE TO AMEND TITLE 2, CHAPTER 5, ARTICLE D OF THE CITY CODE TO AUTHORIZE THE CONVERSION OF THE RETIREMENT INCOME PLAN FOR FIREFIGHTERS AND POLICE OFFICERS FROM A DEFINED CONTRIBUTION PLAN TO A DEFINED BENEFIT PLAN AND TO INCORPORATE THE DISABILITY INCOME PLAN INTO THE DEFINED BENEFIT PLAN

---

**ISSUE:** Consideration of an ordinance to authorize the conversion of the Retirement Income Plan for Firefighters and Police Officers from a defined contributions (DC) plan to a defined benefit (DB) plan and to incorporate the disability plan into the defined benefit plan.

**RECOMMENDATION:** That City Council pass on first reading and schedule for public hearing, second reading, and final passage on February 21, 2004, an ordinance (Attachment 1) authorizing the conversion of the Retirement Income Plan for Firefighters and Police Officers from a defined contribution plan to a defined benefit plan and to incorporate the existing disability plan for firefighters and police officers into the defined benefit plan.

The City Council Pension Committee, including Mayor Euille and Councilman Smedberg, has met and has recommended that City Council approve the conversion to a DB Plan.

**KEY PLAN PROVISIONS:** The following are the key provisions of the proposed defined benefit plan for firefighters and police officers:

**Benefit Formula:** Upon retirement a participant would receive a benefit equal to 2.5% of their Average Monthly Compensation multiplied by years of Credited Service up to and including 20 years; and 3.2% of the Average Monthly Compensation multiplied by years of Credited Service in excess of 20 years. The maximum benefit of 82% of Average Monthly Compensation is reached with 30 years of Credited Service.

**Average Monthly Compensation:** The Average Monthly Compensation is the highest average earnings received during any 60 consecutive months (5 years) while actively employed by the City and covered by the Plan. (The number of the months counted for monthly average

**compensation may be reduced before February 21 depending on our analysis of the final financial information related to the plan, which was just received.)**

**Credited Service:** Participants are credited for each month of active service, military leave, authorized leave and while disabled under the Plan. Credited Service will accrue from the date the new plan begins.

**Past Service Election:** Participants were given the opportunity to retain their old Defined Contribution account balance or to exchange their old Defined Contribution account balance for pre-2004 Credited Service under the proposed Defined Benefit plan.

**Contributions:** The City will pay the employer required contribution, which is expected to be 20% of payroll, the same contribution the City makes now for police officer and firefighter retirement. Employees will pay a contribution of up to 8% of pension earnings. **(The precise amount will be determined after we complete our analysis of the financial information on the plan, which was just received.)** All employee contributions will be in pre-tax dollars. Police officers and firefighters do not now make an employee contribution.

**Deferred Retirement Option Program (DROP):** A participant who has at least 30 years of Credited Service may voluntarily elect to retire for purposes of calculating his or her accrued pension benefit, continue working as a Covered Employee for a period of up to 3 years, and defer receipt of his or her accrued pension benefit until his or her DROP Retirement Date.

**Normal Retirement:** An employee in the plan will be first eligible for unreduced normal retirement when he/she reaches age 55 with five years of Credited Service, or with 25 or more years of Credited Service regardless of age.

**Early Retirement:** An employee in the plan will be first eligible for early retirement with reduced benefits when he/she reaches age 50 with at least 20 years of Credited Service

**Current Plan:** If Council approves these recommendations and thereby switches to the proposed Defined Benefit plan, the City will cease contributions to the current Defined Contribution plan. All then active sworn fire and police employees will be enrolled in the new plan. The employees will not be given the option to remain in the old defined contribution plan.

**BACKGROUND:** Since 1979, when it switched from a Defined Benefit program, the City offered sworn police officers and firefighters a Defined Contribution program. Under this DC pension plan, the City deposits a specific amount of money into an individual account (i.e., 20% of pay). The money in the account is then invested by the employee to provide income for retirement.

Approximately 18 months ago, police and fire employees asked the City to consider providing them with a DB plan. Unlike the DC plan, the City, not the employees, will assume, under the DB plan, the risk of positive or negative return on investments. We believe this is appropriate as it is the case with most other municipal employees' pensions plans.

Under a DB pension program (Attachment 2), an employee is entitled to a specific monthly income

starting at retirement. The amount is based on a formula, often a percentage of final average monthly salary multiplied by the employee's years of service.

We have worked with a committee of police and fire employee representatives to develop the provisions of the proposed plan. This committee has held many long open meetings in the last 18 months and all parties have worked cooperatively to find a better and fair pension system for police officers and firefighters. Last May, a non-binding survey of all firefighters and police officers was undertaken to determine actual employee interest in a proposed DB plan. The survey asked the sworn police and fire employees to indicate whether they would be willing to transfer their existing retirement account balance to the proposed DB plan in exchange for credit for their service under the DC plan. Of the responding firefighters and police officers, over 80% indicated they would transfer their DC account balance to the DB plan.

On June 24, 2003, Council adopted the proposed DB pension plan in concept, and authorized the City Manager:

1. To proceed with the development of a detailed plan and conversion process,
2. To obtain final binding decisions from the firefighters and police officers who wish to convert and who agree to transfer their DC account balance into the new DB plan,
3. To give employees, as mandated by the current DC plan, 60 days to comment on any changes to the existing plan including commenting on new plan documents, and
4. If appropriate, to present the plan to Council for final adoption.

Documents: Since June, the City has obtained outside pension legal counsel, who have developed *The City of Alexandria Firefighters and Police Officers Pension Plan (Plan)* (Attachment 3). Copies of the Plan along with a draft *Retirement Income Plan for Firefighters and Police Officers Handbook* (Attachment 4) were distributed to the firefighters and police officers. The handbook contains a series of questions and answers designed to be easier for the participant to understand than the formal pension Plan. As mandated by the current DC plan, participants in the current DC plan were given notice of the proposed new DB plan.

Past Service Election: Even though years of Credited Service under the proposed DB Plan are normally based on post-2003 service as a City firefighter or police officer, the provisions of the proposed DB Plan provide that the City is to give firefighters and police officers a one-time opportunity to "exchange" the City funded portion of their account under the current DC Plan for pre-2004 years of Credited Service under the proposed DB Plan. This opportunity to exchange the City funded portion of their retirement income account for pre-2004 years of Credited Service under the proposed DB Plan is referred to as the "Past Service Election."

On December 5, 2003, we distributed three documents to all firefighters and police officers: a Disclosure Statement, an election form and a confirmation form not to elect the past service offer. The 28 page Disclosure Statement gave participants an overview of the past service election, the terms and conditions of the past service election opportunity and factors to consider in deciding whether or not to make the past service election. The election form and the confirmation form not to elect the past service offer were the formal written acceptance or rejection of the City's offer. The forms were to be returned to the City's Pension Administrator in January.

The Pension Administrator received replies from 137 firefighters and 248 police officers. This represents 89% of the firefighters and 86% of the police for a total of 87% of the eligible participants. If a participant did not submit either form, it was assumed under the Plan provisions that the participant had decided not to exchange his/her City funded retirement income account for pre-2004 Credited Service. To ensure the documents were received by employees, staff attempted to contact all the firefighters and police officers who did not respond. Of those contacted, eight stated that they intentionally were not going to respond.

Of the firefighters who submitted a response, 123 or 90% indicated they would exchange their DC account balance for past service in the proposed DB plan; of the responding police officers, 226 or 91% indicated they would make this exchange. Only 10% of responding firefighters and 9% of responding police officers directly stated that they would not exchange their DC account balance. Of the total eligible participants (when the non-responding participants are taken into account), 79% took the opportunity to exchange their DC account balance for past service in the DB plan and 21% did not. It should be noted that while this 21% will retain their DC account balances and not be credited for past service, going forward they will be DB participants.

Based on the past service election, Segal Company, the City's pension actuarial consultants, determined that the proposed DB plan is financially feasible.

**Employees:** While most employees are in favor of the new plan, it should be noted that some employees have asked that the City maintain two plans: (a) a new DB plan for employees who wish to exchange their DC account balances for past service in the proposed DB Plan; and (b) a DC plan for employees who do not wish to make such an exchange and, instead, wish to remain in the current DC plan. Unfortunately, for a DB plan of the nature that has been proposed to be financially feasible, all employees must move to the new plan if it is established, including those who elect not to exchange their DC account balance for pre-2004 Credited Service. The finances of the DB plan leave no room for employees to remain, in the future, in the DC plan. The reasons for this all-or-nothing requirement are the following:

1. The proposed DB plan would not be fiscally feasible if the plan's normal cost and past service cost are not distributed as a percentage of the entire payroll. If individuals were able to opt out entirely from the DB plan and not make the employee contribution, the DB plan's annual cost would need to increase to a level that would render the plan unaffordable. The proposed DB plan works because everyone shares the cost.
2. There would be significantly higher administrative costs for maintaining two types of pension plans for the same employee group. The City would be required to maintain two types of investment monitoring systems, two types of employee pension files and reporting requirements, and two separate annual actuarial calculations and financial reports covering the same employee group.

**CONCLUSION:** As a long-term policy, we believe that, instead of having the public safety employees bear 100% of the investment risk for their entire pension, it is more appropriate for the City to assume the risk. The City is far better able to handle fluctuations in the equity and bond markets and in earnings over time than individual employees. An employee near retirement is especially less able

to handle such fluctuations. Moreover, the City now takes this same type of risk under the retirement programs that cover most other City employees (through VRS and other pension programs). It is reasonable for the City to take a similar risk for sworn police and fire employees.

The proposed DB program ensures that a definite retirement income not-affected-by-investment-returns will be available throughout the retirement years of a firefighter and police officer. For some, this might be less than they would have been able to receive under the DC plan. For others, this will be more than what the DC plan would have delivered. But for all there will be no investment risk. We believe it is desirable that public safety employees receive similar retirement benefits for similar service to the City, regardless of their investment acumen or the state of the economy, particularly in their later years of service.

**FISCAL IMPACT:** The City has been and is currently paying 20% of payroll into the firefighters and police officers DC plan. This percentage does not change over the years as the investment market changes. If the City adopts a DB pension plan, initially the cost to the City will be 20% of payroll. However, the City's 20% cost could increase if the market value of the pension plan assets and investment earnings decrease or if plan retirement cost experience is higher than projected. Conversely, the City's 20% cost could decrease if the market value of the pension plan assets and investment earnings increase beyond projected returns or if plan retirement costs are lower than projected.

**ATTACHMENTS:**

Attachment 1. Ordinance

Attachment 2. Proposed Defined Benefit Pension Plan Summary

Attachment 3. The City of Alexandria Firefighters and Police Officers Pension Plan

Attachment 4. City of Alexandria Retirement Income Plan for Firefighters and Police Officers Handbook

**STAFF:**

Daniel A. Neckel, Director of Finance

Michele Evans, Assistant City Manager

Mark Jinks, Assistant City Manager

Henry Howard, Personnel Services Director

Caterina Tarver, Pension Administrator

Myla Riggs, Division Chief, Personnel Services



Attachments were provided at the February 10, 2004 meeting.

ORDINANCE NO. 4336

AN ORDINANCE to amend and reordain Section 2-5-51 (RETIREMENT PLAN – ADOPTED FOR POLICE, FIRE DEPARTMENT AND SHERIFF PERSONNEL; EFFECTIVE DATE; SIGNING OF CONTRACTS, ETC.), and Section 2-2-65 (ALTERATION, AMENDMENT OR REPEAL OF PLANS), of Article D (RETIREMENT AND INSURANCE), Chapter 5 (OFFICERS AND EMPLOYEES), Title 2 (GENERAL GOVERNMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended.

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Section 2-5-51 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same is, amended and reordained to read as follows:

Sec. 2-5-51 Retirement plan--adopted for police, fire department and sheriff personnel; effective date; signing of contracts, etc.

- (a) The “defined benefit” retirement and disability income plan known as the “City of Alexandria Pension Plan for Firefighters and Police Officers,” as the same may be adopted and amended from time to time by resolution of the city council, is hereby adopted for the personnel of the police and fire departments of the city covered by such plan and first employed before February 13, 1979, unless prior to May 30, 1979, an employee covered under such plan has elected to convert to a “defined contribution” plan as provided for such employees prior to January 1, 2004.
- (b) The “defined contribution” retirement plan known as the “City of Alexandria Retirement Income Plan for Firefighters and Police Officers,” as the same may be adopted and amended from time to time by resolution of the city council, for the personnel of the police and fire departments of the city first employed on and after February 13, 1979, and covered by such plan, is hereby converted from a defined contribution plan to a combined defined contribution plan and defined benefit plan effective January 1, 2004, subject to the provisions of Section 2-5-65 of this code, and shall be known as the “City of Alexandria Firefighters and Police Officers Pension Plan.” On and after February 21, 2004, all benefits shall accrue under the defined benefit portion of such plan.
- (c) The “defined contribution” retirement plan known as the “City of Alexandria Retirement Income Plan for Deputy Sheriffs and Emergency Rescue Technicians,” as the same may be adopted and amended from time to time by resolution of the city council, is hereby adopted for the personnel of the fire department and sheriff covered by such plan.
- (d) The “defined benefit” disability income plan known as the “City of Alexandria Firefighters and Police Officers Disability Income Plan,” as the same may have been adopted and amended from time to time by resolution of the city council, for



personnel of the police and fire departments of the city first employed on and after February 13, 1979, and covered by such plan, is hereby merged into and made part of the "City of Alexandria Firefighters and Police Officers Pension Plan," effective February 21, 2004, subject to the provisions of Section 2-5-65 of this code.

- (e) The plans designated in this section shall be administered by the city manager or his designee, or by a board comprised of representatives of the city and the plan participants and appointed by the city council, as provided in the plan documents adopted and from time to time amended by resolution of the city council.
- (f) The city manager, and such other person or persons as may be provided in the plan documents, are authorized to sign all contracts and papers for and on behalf of the city in connection with the plans designated in this section.

Section 2. That Section 2-5-65 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same is, amended and reordained to read as follows:

Sec. 2-5-65 Alteration, amendment or repeal of plans.

The city council reserves the right to alter, amend or repeal any provision of the plans adopted and established by this article; provided, however, that the amount of benefits which at the time of such alteration, amendment or repeal shall have accrued for participants or beneficiaries shall not be affected thereby; and provided, further, that to the extent an altered, amended or replacement plan permits, a plan participant may elect to transfer, exchange or forego all or part of such participant's previously accrued benefit for participation in, or benefits under, such altered, amended or replacement plan. If the city council repeals a plan, it shall, except to the extent an election has been made pursuant to this section, continue to be administered as to the amount of benefits which shall have accrued prior to the repeal in accordance with its terms and provisions and those of the aforesaid sections of this code for the sole benefit of the then participants, any beneficiaries then receiving retirement allowances or benefits and any future persons entitled to receive benefits in accordance therewith who are so designated by any of the said participants.

Section 3. That upon the date and at the time of its final passage this ordinance shall become effective as of January 1, 2004, *nunc pro tunc*.

WILLIAM D. EUILLE  
Mayor

Final Passage: February 21, 2004

11  
2-21-04

Concerned Employees Against  
Pension Proposal  
February 12, 2004

Mayor William D Euille  
Room 2300  
301 King Street  
Alexandria, VA 22314

Dear Mayor Euille;

The City Council is set to vote Saturday, February 21, 2004 on a dramatic change in the pension system for police and firefighters. However, the members of the Council need to be made aware that the proposed changes will have a severe and negative impact on both the City of Alexandria and many of its employees. These workers have banded together and would like to have representatives meet with you to explain the many negative effects this proposal will have on the City of Alexandria and them.

First, it is important for the Council to understand the fiscal impact in that an unfunded liability debt of at least fifty million dollars will be created with the adoption of this plan. A debt created not for the purchase of any tangible asset or for the future needs of the City, but a debt created for employee service the City has already paid for. The debt will have to be paid off by the employees who remain in the police and fire departments - bringing the wages of City employees further below other area jurisdictions.

Second, the morale in the departments has been traumatized by the lack of an actual vote on whether the plan should go forward or not. Members of the City's public safety staff were only asked if they wanted to move their defined contribution accounts over to the new plan. Staff members were never given an option of turning the plan down. Many people felt forced into moving the money and now those choices are being misrepresented to you as evidence of a widespread acceptance of the proposal.

Third, the possible legal ramifications are numerous. People were provided with only a forecast of how much they would get under the new pension plan - they were never told how much money they would have to contribute out of pocket to get that pension. Under the proposal, employees are not treated equally. Departing employees will not have to make any contributions, yet newer employees who never get promoted during their career will each be left paying over \$200,000 out of pocket for a smaller benefit than the people who paid nothing.

Throughout the process various alternatives have been suggested that could alleviate objections to the proposed plan. But those options have never been thoroughly explored by the ad-hoc committee. Many questions have been raised about how the plan was structured and presented and the response has only been that everyone needs to trust the people doing the work. No real answers have been provided and people have been left not informed of all of their possible options regarding this pension plan conversion.

These are only a few of the issues that have deeply troubled many of the City's public safety employees. Our group would like to have a few people meet with you and / or any designated members of the City Council and briefly explain why the proposed changes will be so harmful to the City and its employees. We will contact your office to inquire as to when would be a good time to meet with you. At that time we can also bring you a listing of other employees that have asked us to express their objections to the proposed plan.

Sincerely yours



Tony Brown, Officer  
Alexandria Police



Linda Erwin, Sergeant  
Alexandria Police



Patrick J McGee, Jr., Officer  
Alexandria Police



<jack.compton@ci.alexandria.va.us>

02/20/2004 12:00 PM

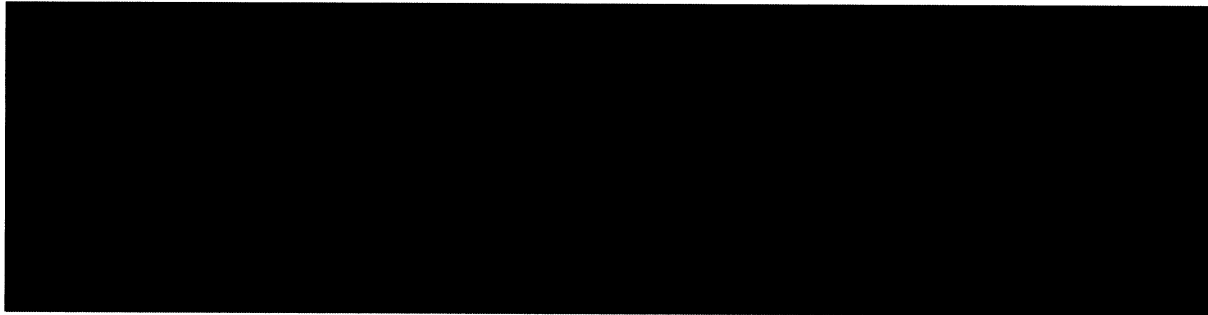
Please respond to  
jack.compton

To: <alexvamayor@aol.com>, <delpepper@aol.com>,  
<council@joycewoodson.net>, <councilmangaines@aol.com>,  
<rob@krupicka.com>, <macdonaldcouncil@msn.com>,  
<paulcsmedberg@aol.com>, <rose.boyd@ci.alexandria.va.us>,  
<jackie.henderson@ci.alexandria.va.us>, <thraycroft@msn.com>

cc:

Subject: City of Alexandria Website Contact Us - EMail for Mayor, Vice-Mayor  
and Council Members (alexvamayor@aol.com, delpepper@aol.com,  
council@joycewoodson.net, councilmangaines@aol.com,  
rob@krupicka.com, macdonaldcouncil@msn.com,  
paulcsmedberg@aol.com, rose.boyd@ci.alexandria.va.us,  
jackie.henderson@ci.alexandria.va.us, thraycroft@msn.com)

11  
2-21-04



Time: [Fri Feb 20, 2004 12:00:06] IP Address: [207.192.134.165]

Response requested: ☐

**First Name:** Jack

**Last Name:** Compton

**Street Address:** 2003 Mill Road

**City:** Alexandria

**State:** VA

**Zip:** 22314

**Phone:** 703-838-6364

**Email Address:** jack.compton@ci.alexandria.va.us

**Comments:** As I will be out of town on Saturday, I will not be able to lend my support for the proposed new police/fire pension plan. However, I wanted to advise you of my feelings. As with any change, there is going to be opposition. And with any change, there are those who feel that the plan can be improved on. While I believe the plan can be improved on, from the standpoint of benefits to the police officers and firefighters, I feel the plan is fair to both the employees and to the City. The City keeps its contributions at 20%, which it is now paying. The employees get a defined benefit plan, which gives us a sort of security blanket. There are no more worries that our retirement money may not last our lifetime. I feel like the committee

of police, fire, and City employees who worked hard on this plan for the past 18 months, have presented you and us with a fair and equitable plan. From the 80% acceptance rate by affected employees, it appears that other police and fire employees feel the same way. PLEASE VOTE FOR THE PROPOSAL.

11  
2-21-04

February 21, 2004

Honorable City Council and City Leaders - Good Morning!

Thank you for this opportunity to talk with you today. It is an honor and a privilege.

My name is Daniel Harden and I work for you as a Fire Lieutenant. I have worked for the City of Alexandria for almost a quarter of a Century and my current job is Battalion Chief's Aide.

I am here to speak against the proposed City of Alexandria Firefighters and Police Officers Pension Plan now before you for a vote.

I am not here representing anyone other than myself and my family so I ask that you please consider how this plan effects just those entities.

This plan in its current form is wrong for the City and harms me and my family and here is why:

Item 1. This plan provides no benefit to my spouse and children in the event that I should die as early as one day after I retire. My wife and children have supported me throughout my entire career. Why should they be left penniless if I die at an early age? The plan allows us to purchase survivor's benefits however the cost is not affordable. For me it would cost over \$7,000.00 dollars annually to provide for my family. So what is the alternative to purchasing survivors benefits? I could purchase Life Insurance. Again Life Insurance is not affordable! How many of you have tried to purchase Life Insurance as a forty six year old male?

Item 2. Ladies and gentlemen when I began my career as a firefighter, you gave me a benefits package along with my salary. I took the retirement funds you gave me and protected those funds exactly as you would want. Twenty four years ago I sat down and planned for retirement for me and my family. The new Retirement plan will cause me to throw all of my families' plans right out the window. How can anyone start retirement planning at age forty six and mid-stream in their career? This surely sets us up for failure.

Item 3. Our family is a single-income family. The proposed cost of this plan to me is 8%. Our family cannot easily sustain what amounts to be an 8% pay cut plus hundreds of dollars a month for life insurance.

Item 4. Considering a change to a new retirement plan for Firefighters and Police Officers has already cost the City citizens. Costs will continue to rise until the plan is solvent. These costs may be in to the millions of dollars. Many employees may be completely "for" this plan because it accomplishes something they could not.... It provides them with retirement income. The plan will for some people "bail them out" because they invested their funds unwisely and are now facing retirement with very few funds in their retirement account. When the stock markets were under performing some people never checked their fund performance until it was too late.

Working together I am sure (you) Our City Leaders and our employee representatives can do better for all parties concerned. Please do not rush into a "yes" vote for the Firefighters and Police Officers Pension Plan in its current form.

Thank you!