EXHIBIT NO. 1

WS
10-19-10

Information on FY 2011 Approved
Staffing Levels and Status
For Discussion at the City Council Work Session – Oct. 19, 2010

At the start of FY 2009 a soft hiring freeze was imposed in an effort to manage and control the City's vacant positions and workforce levels. This policy was created in response to fiscal and economic projections that forecasted declines in revenue and indicated the need for the City to more carefully monitor its personnel spending. As a result of the soft hiring freeze the Office of Management & Budget (OMB) developed two monthly reports to track the number of vacant positions city-wide and staff utilized each pay period.

City-wide Vacancy Report

Each month, with the assistance of departmental staff, OMB compiles a city-wide report on the number of vacant positions within each department. This report provides a monthly snapshot of the City's vacancy rate and the annualized savings attributable to each vacant position. Additionally, the report shows at what stage vacant positions are in the hiring process. Three attachments from September's City-wide Vacancy Report are included with this memo:

Attachment 1 – shows the total number of vacant positions and annualized savings by month for the past twelve months

Attachment 2 – provides the total number of vacant positions within each stage of the hiring process by month for the past twelve months.

Attachment 3 – is a table showing the number of vacant positions and savings by department for the month of September

City-wide Staffing Report

Each pay period OMB reviews payroll reports to examine the number of full-time equivalents (FTEs) worked in order to determine city-wide staffing levels. In contrast to the vacancy report which shows positions not filled, the staffing report shows position utilization (the number of positions worked). The graph included in this memo contains FTE usage data through pay period #7 (ending Oct. 1, 2010) of FY 2011 as compared to the total authorized FTEs for the current fiscal year. Actual and authorized counts from FY 2009 and FY 2010 are also included for comparative purposes.

Attachment 4 – shows FY 2009-2011 FTE usage by pay period and authorized FTE counts for each fiscal year

Highlights

As of mid-September 2010 there are 202 funded positions vacant in the City which equates to a vacancy rate of approximately 7.5%. Of these 202 vacant positions, 109 have been authorized to be filled yet remain vacant at this time as the hiring process is ongoing. Departments are not currently seeking authorization to fill the remaining 93 positions. The annualized (12 month) savings attributable to the 202 vacant positions is approximately $11.4 million dollars. The annualized savings amount for just the 93 positions not yet approved to be filled is about $5.3 million.

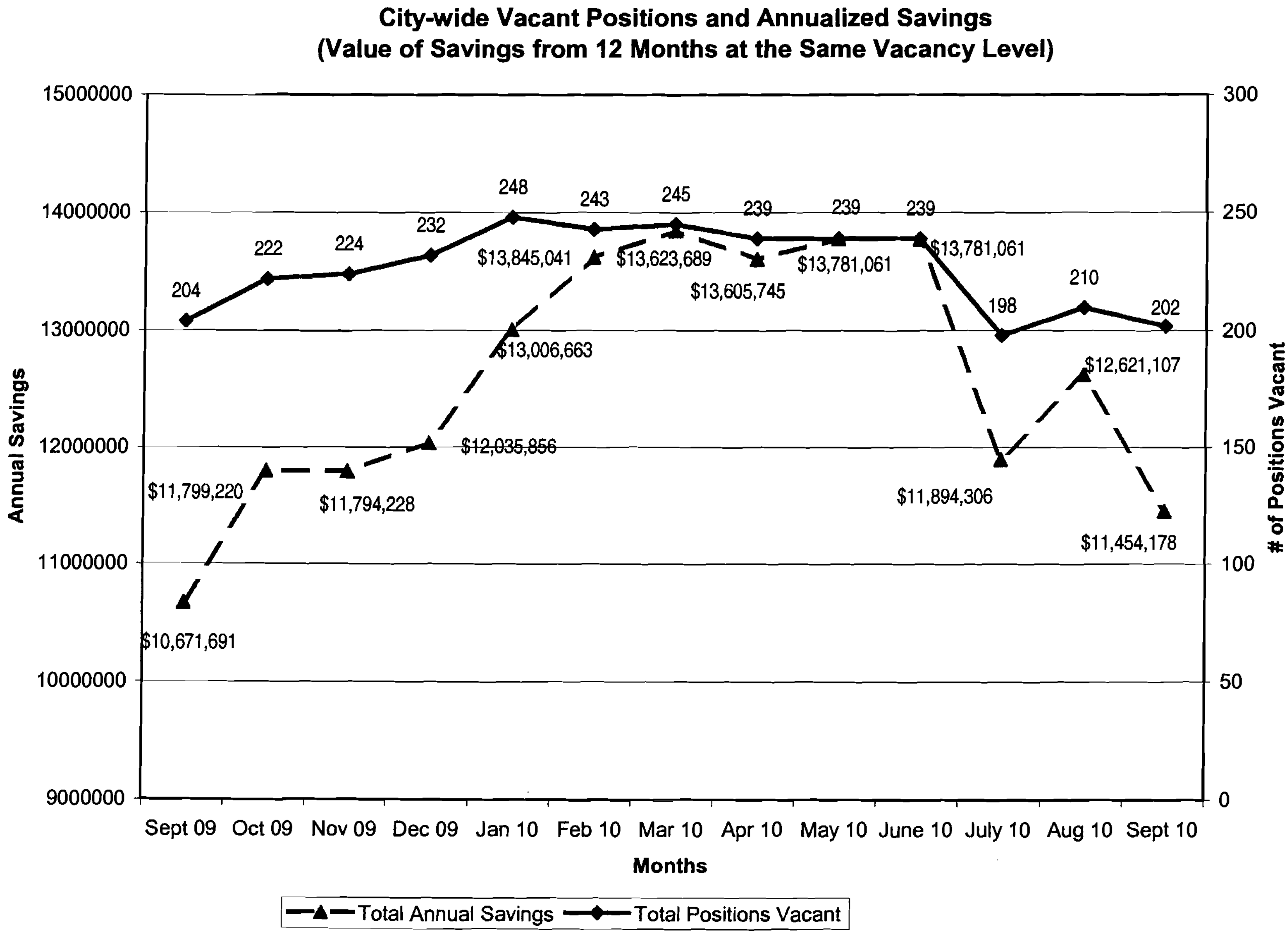
As shown in Attachment 1, the number of vacant positions increased from September 2009 to January 2010 by 44 positions. The increase in the number of vacant positions during the fall and early winter is partially the result of departments holding vacant positions open during FY 2010 in anticipation of reductions for the FY 2011 budget. A similar phenomenon was experienced during the same period of time in FY 2009 prior to approval of the FY 2010 budget.

The caution exhibited by departments to not fill vacant positions is warranted given the budget reductions that were needed in FY 2010 and FY 2011. The vast majority of positions that were ultimately eliminated or unfunded in those two fiscal years were vacant. The large decrease in vacant positions seen in Attachment 1 from June to July represents vacant positions which were eliminated or unfunded in the FY 2011 budget (and subsequently removed from the vacancy report).

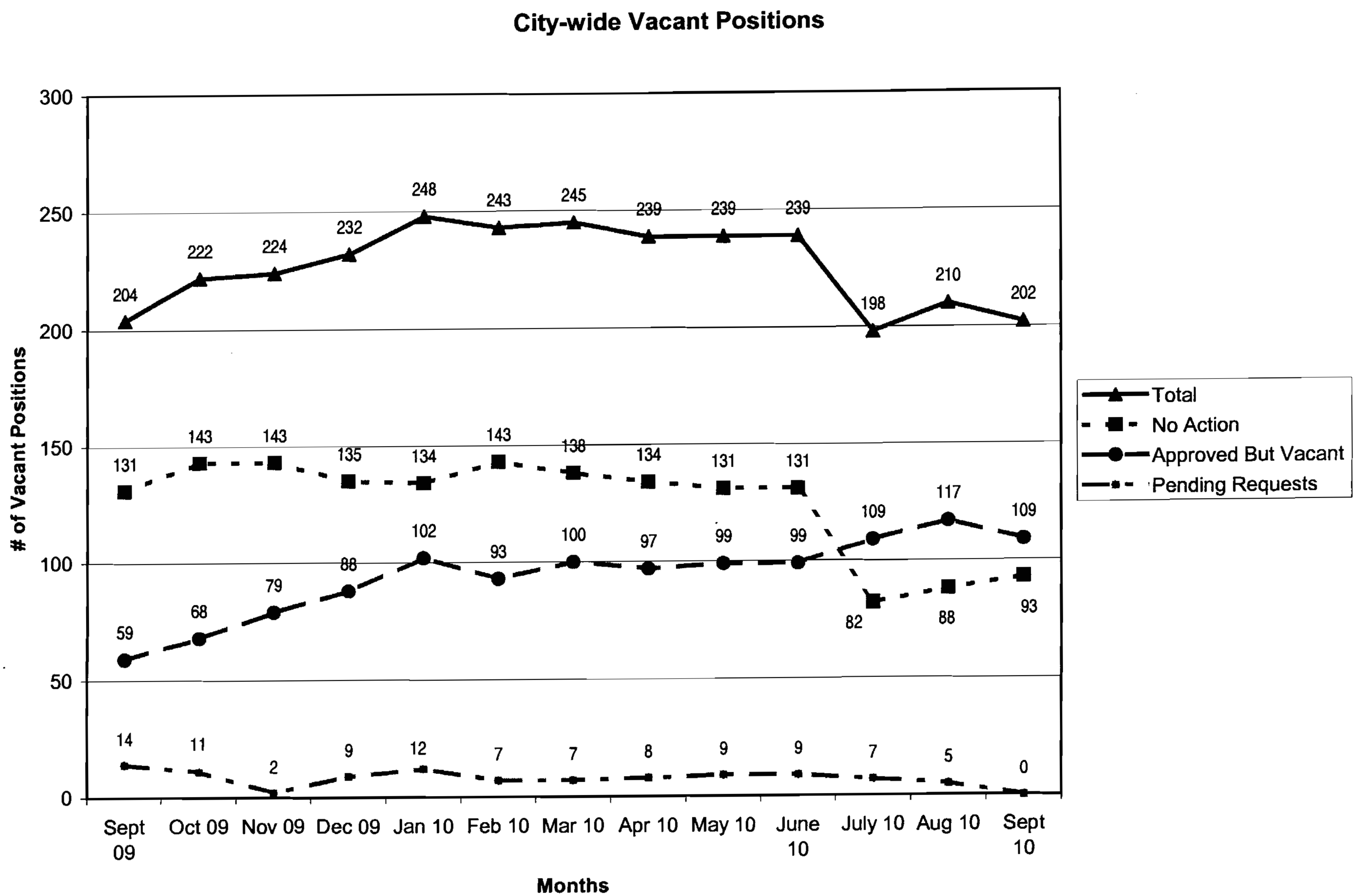
It is also important to note that from these data the City experiences a natural turnover rate of approximately 7-8% throughout the fiscal year. This rate is perhaps best represented by the vacancy levels experienced in the month of September prior to the typical increase in vacant positions as a result of the circumstances described above. For example, in both September 2010 and September 2011 the vacancy rate is approximately 7.5%. The natural turnover rate has stayed fairly consistent since FY 2009. As seen in Attachment 4, the rate of FTE usage is around 94% and this rate has remained unchanged even following reductions to authorized FTE levels in FY 2010 and 2011.

In conclusion, over the past two fiscal years the City has experienced cyclical growth in the number of vacant positions during the fiscal year. This is the result of departments not filling positions immediately due to anticipated reductions as budget discussion take place. After accounting for the annual spike in vacancies, the City's normal turnover rate has remained steady at 7-8% meaning approximately 200 positions are vacant at any given time throughout the fiscal year (it should be noted that these are never the same 200 positions over time). Finally, it appears the natural turnover rate has remained unchanged even after the position reductions taken in FY 2010 and FY 2011.

ATTACHMENT 1



ATTACHMENT 2

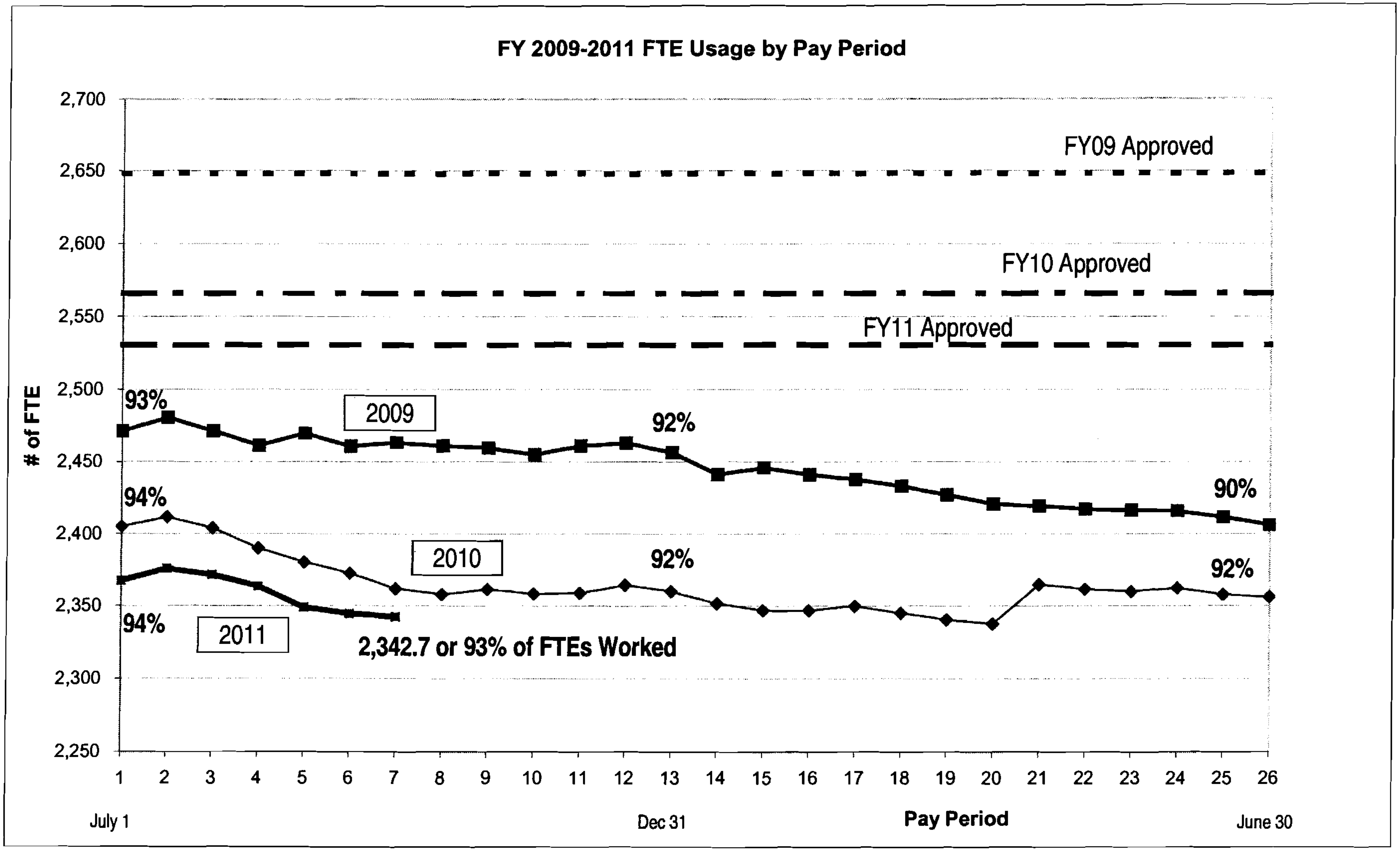


ATTACHMENT 3

City-wide Vacancy Total by Department
As of September 15, 2009

A	B	C	E	F	G	H	I	J
Department	**Total Number of Vacant Positions**	**Total Annual Cost of Vacancies Not Filled**	**No Action as of Sept 15**	**Pending Requests as of Sept 15**	**New Positions/Requests Granted But Still Vacant**	**No Action as of Sept 15**	**Pending Requests as of Sept 15**	**New Positions/ Requests Granted But Still Vacant**
Circuit Court	0	$0	0	0	0	$0	$0	$0
Citizens Assistance	0	$0	0	0	0	$0	$0	$0
City Attorney	0	$0	0	0	0	$0	$0	$0
City Clerk	0	$0	0	0	0	$0	$0	$0
City Manager's Office	0	$0	0	0	0	$0	$0	$0
Clerk of Court	0	$0	0	0	0	$0	$0	$0
Code	1	$67,199	1	0	0	$67,199	$0	$0
Commonwealth's Attorney	2	$66,776	1	0	1	$40,079	$0	$26,697
Communications Office	0	$0	0	0	0	$0	$0	$0
Court Services Unit	2	$89,333	1	0	1	$55,264	$0	$34,069
Emergency Communications	0	$0	0	0	0	$0	$0	$0
Finance	8	$479,099	7	0	1	$405,013	$0	$74,085
Fire	24	$2,000,006	19	0	5	$1,618,431	$0	$381,575
General Services	6	$413,451	1	0	5	$70,563	$0	$342,888
Health	3	$181,518	1	0	2	$28,616	$0	$152,902
Historic Alexandria	6	$141,973	5	0	1	$120,773	$0	$21,201
Housing	2	$135,034	0	0	2	$0	$0	$135,034
Human Resources	1	$99,257	0	0	1	$0	$0	$99,257
Human Rights	0	$0	0	0	0	$0	$0	$0
Human Services	25	$1,702,564	14	0	11	$815,119	$0	$771,232
ITS	3	$270,350	1	0	2	$81,675	$0	$188,675
Internal Audit	0	$0	0	0	0	$0	$0	$0
Library	14	$387,126	11	0	3	$290,652	$0	$96,474
MHMRSA	42	$2,028,251	7	0	35	$369,234	$0	$1,659,017
OMB	2	$155,761	0	0	2	$0	$0	$155,761
Office on Women	2	$131,201	1	0	1	$64,002	$0	$67,199
Planning & Zoning	1	$60,949	0	0	1	$0	$0	$60,949
Police	20	$1,061,268	2	0	18	$63,664	$0	$997,604
Procurement	1	$60,949	0	0	1	$0	$0	$60,949
Real Estate	2	$137,762	1	0	1	$67,199	$0	$70,563
Recreation	15	$729,441	10	0	5	$579,396	$0	$150,046
Registrar	0	$0	0	0	0	$0	$0	$0
Sheriff	4	$320,351	3	0	1	$179,240	$0	$41,945
TES	16	$949,940	7	0	9	$374,624	$0	$575,316
Grand Total	**202**	**$11,669,557**	**93**	**0**	**109**	**$5,290,742**	**$0**	**$6,163,435**

ATTACHMENT 4



Human Resources & Compensation

- FY 2011 Approved Staffing and Status
- Current Services Estimates for Compensation & Benefits for FY 2012
- Inventory of Current Benefits
- Benchmark Analysis Results & Options
- Retirement Options

FY 2011 Approved Staffing and Status

- 2,542.6 Full-time Equivalents (FTEs) budgeted in FY 2011
- Since FY 2009, the City's FTE count has decreased by 122.2 (4.6%) as a result of position reductions
- FY 2011 marked the second consecutive year of FTE reductions

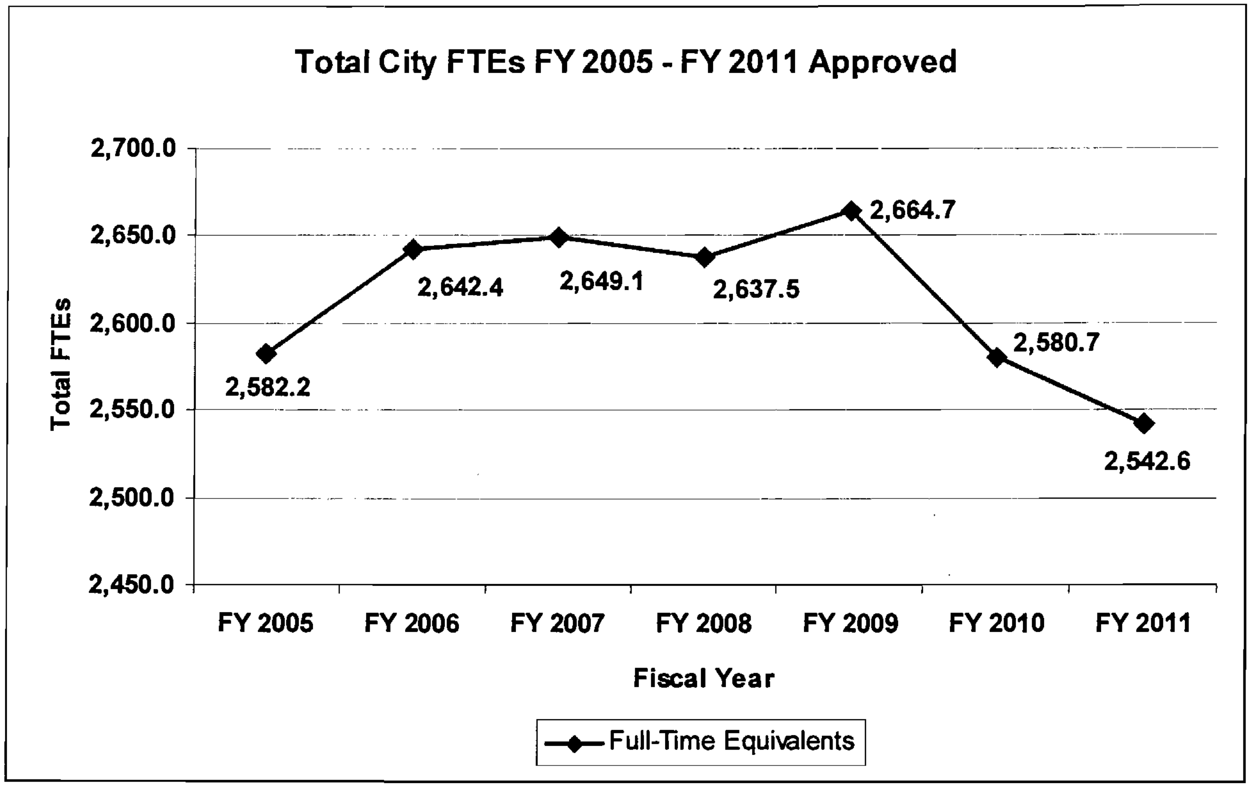
FTE Changes from FY 2009 - FY 2011 Approved

	FY 2009 Approved	FY 2010 Amended	FY 2011 Approved	Change FY 2009 - 2011 #	%
Full-time Permanent	2,405.0	2,348.0	2,325.0	(80.0)	(3.3%)
Part-time (FTE)	202.7	193.7	182.5	(20.2)	(10.0%)
Approved Overhire	57.0	39.0	35.0	(22.0)	(38.6%)
Total (FTE)	**2,664.7**	**2,580.7**	**2,542.6**	**(122.2)**	**(4.6%)**

FY 2011 Approved Staffing and Status

- The total number of FTEs have been declining since FY 2009, following several years of growth

- Current funded FTE levels are 39.6 below those funded in FY 2005

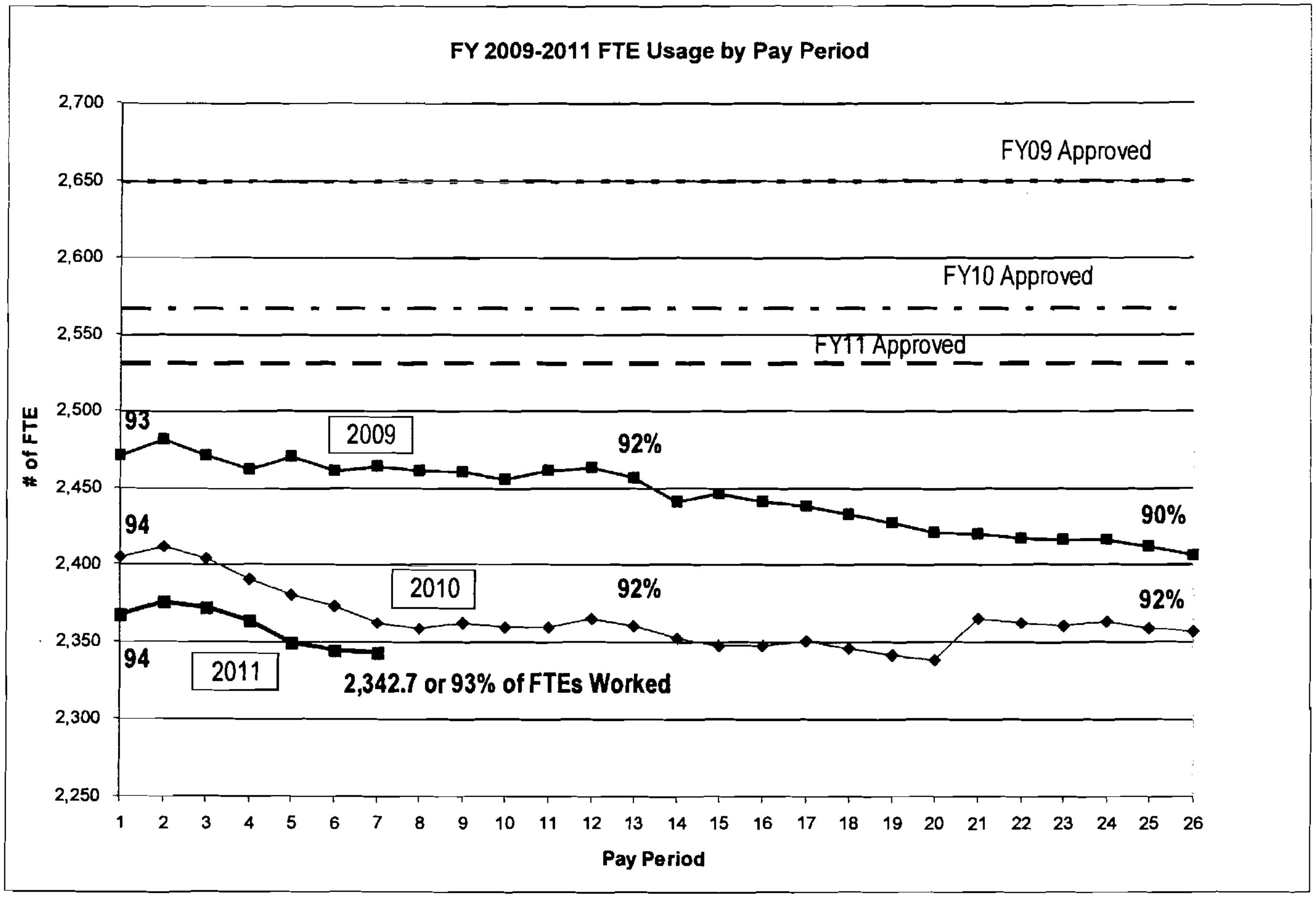


FY 2011 Approved Staffing and Status

- OMB tracks monthly the number of FTEs worked and the number of approved positions that are vacant
- This information provides a snapshot of current staffing strength
- Data assists with position and budget control throughout the fiscal year

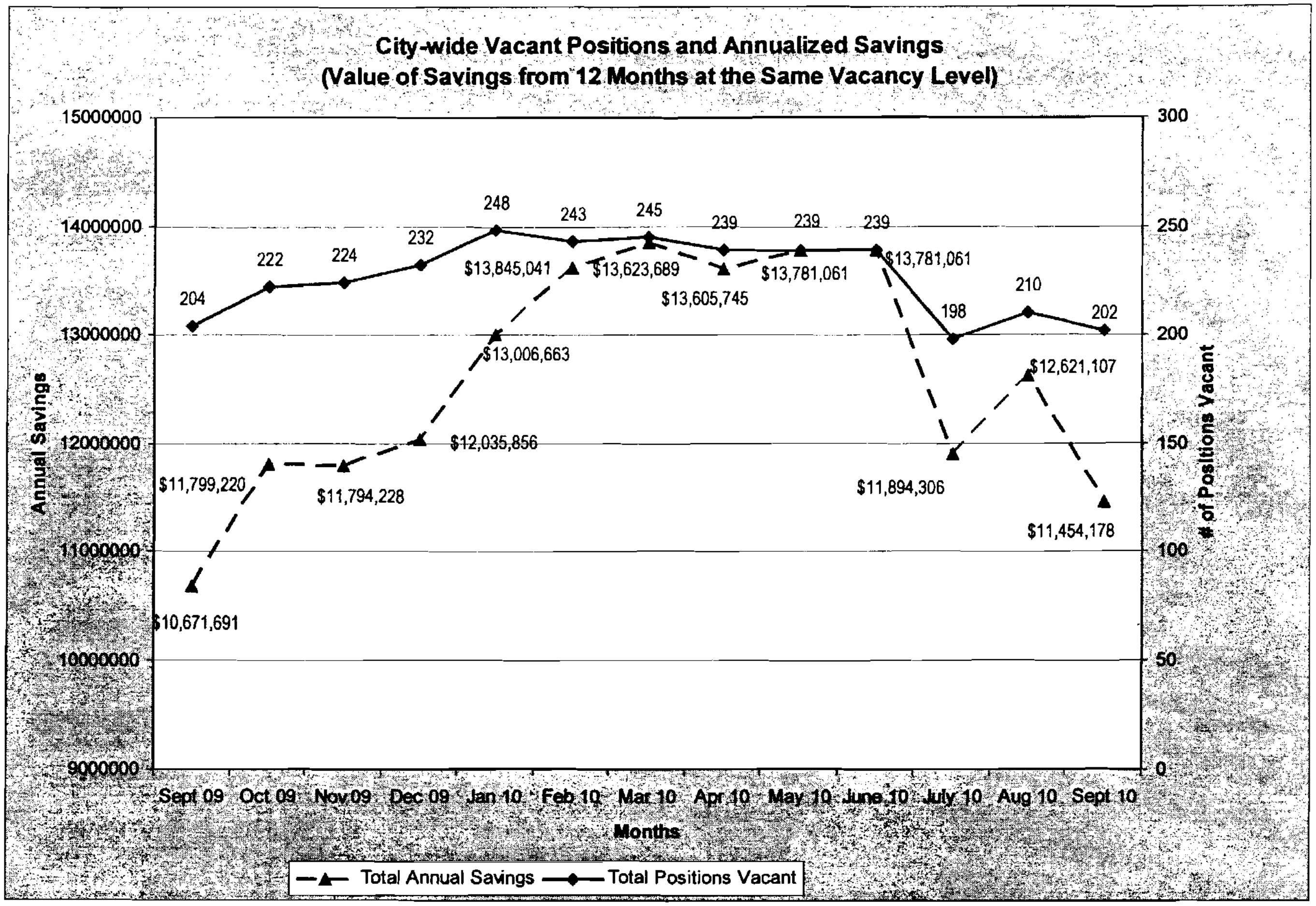
FY 2011 Approved Staffing and Status

- This chart shows authorized FTE levels and actual usage since FY 2009
- The percent of FTEs worked is typically highest at the start of the fiscal year and then decreases
- Currently the City is using 2,342.7 FTES, or about 93% of the FY 2011 authorized FTE level



FY 2011 Approved Staffing and Status

- This chart shows the number of vacant positions for the past 12 months
- Currently 202 funded positions are vacant, however 109 are in the process of being filled
- The annual savings attributable to 202 vacant positions is approximately $11.4 million.



FY 2011 Approved Staffing and Status

- Currently the City is utilizing 93% of authorized FTEs
- 202 positions are vacant
  - 109 have been given authorization to be filled
  - 93 positions are not currently seeking authorization to be filled
    - These positions are concentrated in the following departments:
      - Fire (19)
      - DHS (14)
      - Library (11)
      - RPCA (10)
      - Finance (7)
      - MH/MR/SA (7)
      - T&ES (7)

FY 2011 Approved Staffing and Status

- The City typically experiences a vacancy rate of approximately 7-9% throughout the fiscal year
- As the number of vacancies increases, the FTE usage level decreases
- The vacancy rate is the result of two things:
  - Natural turnover
  - Departments holding positions vacant as budget deliberations take place during the Fall and Winter if reductions are anticipated

OVERVIEW OF
CITY OF ALEXANDRIA'S
BENEFITS PACKAGE

CITY OF ALEXANDRIA
BENEFITS SUMMARY

Kaiser Permanente (Vision Included)		
HMO	Employee Pays: 13% of Individual Premium	Copays: $15 (PCP); $25
PPO	Employee Pays 13% + remainder	
Prescription Cost	$10 Generic; $20 Preferred Brand; $35 Non Preferred Brand	
United Health Care (Vision included)		
Choice (HMO)	Employee Pays: 13% of individual Premium; Copays: $15 (PCP); $25	
Choice Plus (PPO)	Employee Pays: 13% + remainder	
Prescription Cost	Tier 1 $10; Tier 2 $25; Tier 3 $40	
Dominion Dental		
DHMO	Employee Pays: 100 % of Cost and $10 copay	
PPO	Employee Pays: 100 % of Cost and $10 copay	
Ceridian		
Flexible Spending	Totally funded by employee	
Dependent Care	Totally funded by employee	
Standard Insurance Company		
Group Life Insurance	2 X Annual Salary paid by City (up to $750,000)	
Long Term Disability	90 day and 120 day Plans: 60% of salary once window is met Employee Cost: 90 days= $.06/per hundred dollars—120 days= $None (City Cost $.022/$100)	
Accidental Death	Up to $200,000; Life 100%; 50% hand, foot, sight-one eye; 100% two or more limbs 25% finger	
Short Term Disability (CILB-Catastrophic Illness Leave Bank)	Covers period prior to LTD Employee donates a full day equivalent of annual leave six months after starting employment to fund the bank	
Prudential		
Long Term Care	100% premium paid by employee - only new employees can enroll	
Holidays	11 Holidays a year	
Annual Leave	Starts at 4.0 hours per pay period	12 days/year 13 days/FY2010

Sick Leave	Starts at 3.69 hours per pay period	12 days a year
Tuition Assistance	$2,000 FY2009 $1,500 FY2010 Full-Time $750 Part-Time	
Pretaxed Commuter Benefits	City pays up to $75; Employee pays remainder on pretax basis, DASH pass provided for bus commute	
Telecommuting	Available	
Flexible Schedules	Available	

Octboer 2010

HEALTH CARE REFORM

TIMELINE OF REQUIREMENTS

Health Care Reform Timeline

- Accounting charge – RDS (1st qtr)
- Temporary reinsurance program for early retirees (ages 55-64) established (2nd qtr)

Comparative effectiveness research tax

- Health Care FSA contributions capped
- Medicare Hospital Insurance tax

High-cost insurance excise tax (Cadillac tax) established

Part D "donut hole" filled

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

- Lifetime dollar limits prohibited
- Annual dollar limits restricted
- Dependent child coverage expanded to age 26
- Pre-existing condition exclusions prohibited for dependents under 19 years of age
- Uniform explanation of coverage effective
- Cost reporting and rebates effective
- Phase out of Part D "donut hole" begins
- Long-term care program (CLASS Act)
- W-2 reporting for 2011 begins
- OTC drugs ineligible for FSA, HSA, HRA
- Medicare Advantage funding reduced

- Annual dollar limits prohibited
- Pre-existing condition exclusions prohibited for all enrollees
- Auto enrollment required
- Waiting periods over 90 days no longer permitted
- State health insurance exchanges established
- Individual and employer mandates effective
- Low income premium subsidy in the exchange
- Employee "Free-Choice" vouchers for exchange

Selected provisions for large, grandfathered, calendar-year plans (as of March 30, 2010)

HEALTH CARE REFORM

COMPARISON: MANDATES APPLICABLE TO GRANDFATHERED AND NONGRANDFATHERED PLANS AS IT RELATES TO THE CITY OF ALEXANDRIA.

Comparison: HCR Mandates Applicable to Grandfathered and NonGrandfathered Plans

Grandfathered Plans	Non-Grandfathered Plans	City of Alexandria Health Plans (Kaiser and UHC)
Beginning on or after September 23, 2010	*Beginning on or after September 23, 2010*	*Beginning on July 1, 2011*
No lifetime dollar limits on "essential benefits" (ambulatory patient, emergency, hospitalization, mental health and substance use disorder, prescription drugs, rehabilitation services and devices, prevention and wellness and chronic disease management and pediatric, including oral and vision care)	Same	No Change
"Restricted" annual dollar limits on "essential benefits" allowed prior to 1/1/14. Limits that may be imposed – • $750,000 for the plan year beginning on or after 9/23/10 but before 9/23/11 • $1,250,000 for the plan year beginning on or after 9/23/11 but before 9/23/12 • $2,000,000 for the plan year beginning on or after 9/23/12 but before 1/1/14	Same	Not Applicable
No preexisting condition exclusion limits on children under age 19	Same	City Plans do not have this limitation now
No rescissions except for fraud or misrepresentation	Same	Not Applicable
Dependent coverage until age 26. May deny if eligible for other employer-sponsored health coverage	Dependent coverage until age 26 even if eligible for other employer-sponsored coverage	City Plans put this in place in 2010
	No cost sharing for preventive care or immunizations. *See* http://www.healthcare.gov/center/regulations/prevention/recommendations.html	Kaiser already has this in place, UHC does not
	Must provide internal appeals and external review process	Kaiser already has this in place, UHC does not
	Insured plans: no discrimination in favor of highly compensated employees	Not Applicable
	If a plan requires or provides for the designation of a primary care provider (PCP), must allow a participant to designate any participating PCP who is available to accept the patient	Not Applicable
	Cannot require any preauthorization or referral to access an OB/GYN. Must treat care by participating OB/GYN as though it were provided by PCP	Kaiser already has this in place, UHC does not
	Must cover emergency services without need for preauthorization and treat as in-network	Both Plans have this
	For a child, plan must allow a participating pediatrician to be designated as the PCP	Both Plans have this
	Must report various plan data to HHS, the states and the public	Not Applicable
	Annual report to HHS and enrollees on	Not Applicable

	quality of care programs	
Beginning on or after January 1, 2014	***Beginning on or after January 1, 2014***	
No annual dollar limits	Same	City Plans comply now
No waiting periods in excess of 90 days	Same	City Plans comply now
No PCE limits on any covered individual	Same	City Plans comply now
Dependent coverage until age 26 for adult children	Same	City Plans comply now
	HIPAA wellness reward increased from 20% to 30% (HHS has discretion to increase to 50%)	Not Applicable
	No discrimination based on health status	City Plans comply now
	Prohibition on discrimination against providers	City Plans comply now
	Cost sharing cannot exceed HSA limits for 2014, indexed on/after 2015 by the premium adjustment %	City Plans comply now
	Must not prohibit participation in clinical trials and must cover routine costs related to participation	Not Applicable

Additional Materials To Be

Provided on Monday,

October 18, 2010

Plan Comparison 1
(Plans for Employees Other than Firefighters & Police Officers)

	Virginia Retirement System (Plan 1)	**Virginia Retirement System (Plan 2)**	**City Supplemental Retirement**	**Retirement Income for Sheriff & ERT**
Type of Plan	Defined Benefit	Defined Benefit	Defined Benefit	Defined Contribution
Covered Employees	General Employees, EMT, Dep. Sheriff	General Employees, EMT, Dep. Sheriff	General, EMT, Sheriff, Fire Marshalls	Deputy Sheriff, Medics, Fire Marshals
Active Participants	1,820		2,068	244
Retirees & Beneficiaries	757		259	N.A.
Normal Retirement: Age and/or Years of Service (YOS)	65 & 5 YOS or 50 & 30 YOS	Age plus service = 90 or Social Security NRA	65 or 50 & 30 YOS (Sherriff: 50 & 25 YOS)	60
Benefit Formula	1.7% per year of service; Minimums apply	1.7% per year of service; Minimums apply	**Sliding Scale** .6% to 1.0% per year of service	Contributions plus investment gains or losses
Vesting (years)	5	5	5	5
Disability	Social security offset	Social security offset	Yes	N.A.
Death Benefit	Yes	Yes	Yes	Yes
Average Final Compensation	36 Months	60 Months	36 Months	N.A.
COLA	CPI to 3.0%, then ½ of CPI to 7%; Max 5%	CPI to 2.0%, then ½ of CPI to 6%	None	N.A.
Funding Ratio 2009	77%	77%	71%	N.A.
Service Credit		Full Time	Proportionate to regularly scheduled hours	
2009 Assets			$69 million	$14 million
2010 Assets			$81 million	$15 million
City Contribution	12.78%	8.78%	5.18 – 7.18% *	N.A.
Employee Contribution	0%	4%	0 - 2%	N.A.

*For General Employees; higher for Deputy Sherriffs, Medics & Fire Marshalls

Plan Comparison 2: Fire Fighters & Police Officers

	Firefighters and Police Officers Pension Plan			**Pension for Firefighters & Police**
	Defined Benefit Component	Disability Component	Defined Contribution Component	
Type of Plan	Defined Benefit	Defined Benefit	Defined Contribution	Defined Benefit
Active Participants	446	446	76	0
Retirees & Beneficiaries	103	80	N.A.	151
Open or Closed	Open	Open	Closed	Closed
Normal Retirement: Age and/or Years of Service (YOS)	55 & 5 YOS or 25 YOS	55	60	60 or 50 & 20 YOS
Benefit Formula	**Based on Years of Service** 2.5% per year first 20 years 3.2% per year next 10 years	**Percentage of Salary** *Total & Permanent Disability* Duty-Related: 70% Non-Duty-Related: 66.66% *Partial Disability* Duty-Related: 66.66% Non – Duty-Related: 50%	Contributions plus investment gains or losses	2.5% per year of service
Vesting (years)	5	5	5	10
Disability	Yes	Yes	N.A.	Yes
Death Benefit	Yes	N.A.	Yes	Yes
Average Final Compensation	48 months	48 months	N.A.	36 Months
COLA	Lesser of 3.0% & CPI		N.A.	N.A.
Funding Ratio 2009	71%	71%	N.A.	62%
Service Credit	Full Time	Full Time	N.A.	N.A.
2009 Assets	$110 million	$10 million	$17 million	$27 million
2010 Assets	$129 million	$11 million	$17 million	$26 million
City Contribution	21.65%	3.52%	N.A.	N.A.
Employee Contribution	7.20%	.80%	N.A.	N.A.

Prognosis for Pensions and Strategies for the Future

Virginia Municipal League
Annual Conference
October 4, 2010

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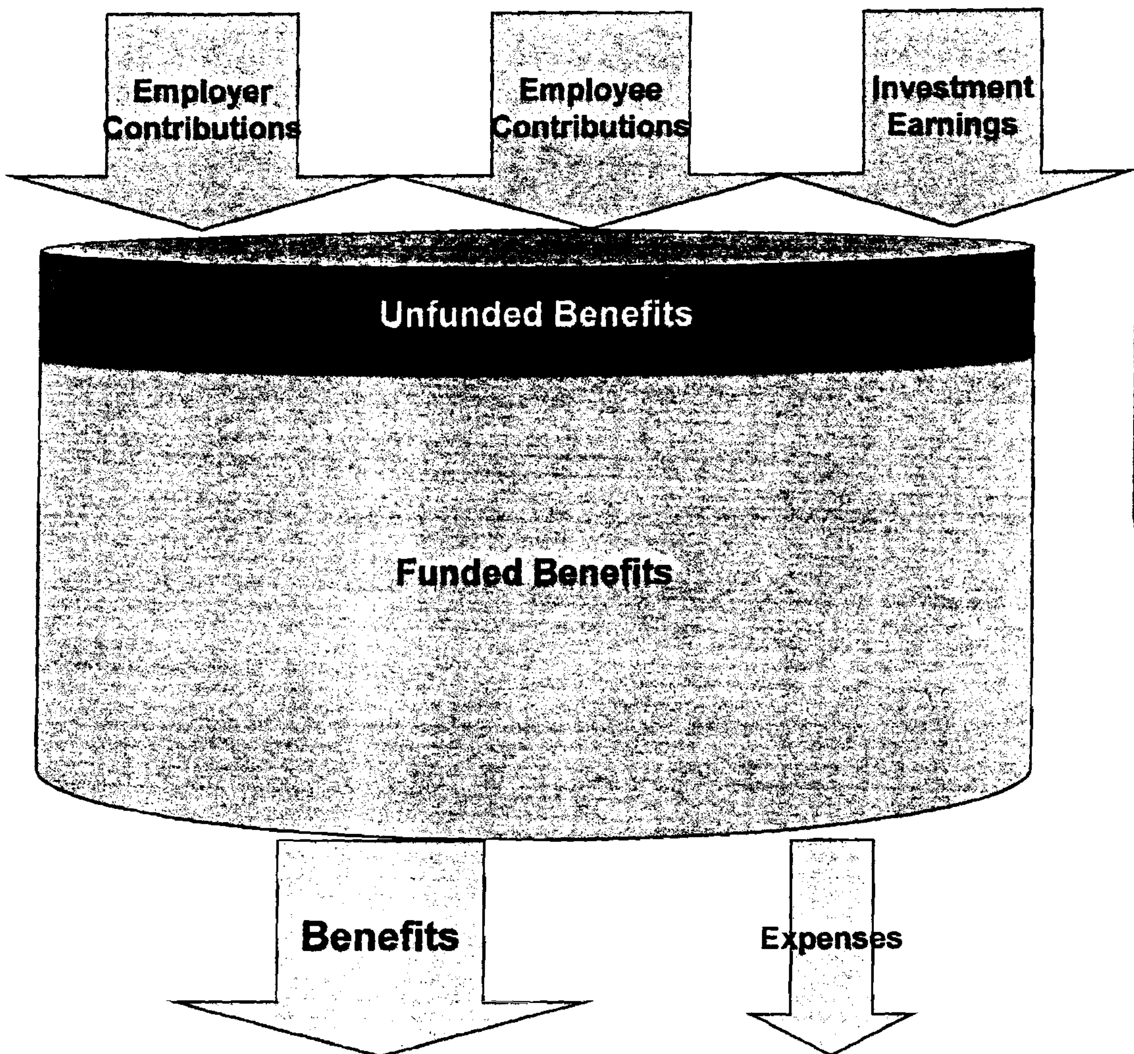
State of the Union

- Over the past few years, public sector defined benefit retirement systems across the US have seen their funded status drop to the lowest point in recent memory due to investment losses
- Contribution rates will increase substantially in the future in the absence of a significant market recovery or a change in benefit strategy
  - Exacerbated by the fact that most plans are "smoothing" the impact of recent investment losses
- Think-tanks and the media have been whipped into a frenzy by gloom and doom scenarios for the future of public pensions
- Governing bodies can no longer take a head-in-the sand approach

In the news…

- “Localities should be looking at the economic value of benefits using a risk-free rate of return; current valuations are woefully understating the unfunded liability”
- “If you work one day your benefits are guaranteed forever”
- “We can only change benefits for new employees but we can capture future gains in our current funding strategy”
- “Overtime”
- “Public pensions will be the next bailout”

Filling the Retirement Bucket: Then



Inflow exceeds outflow

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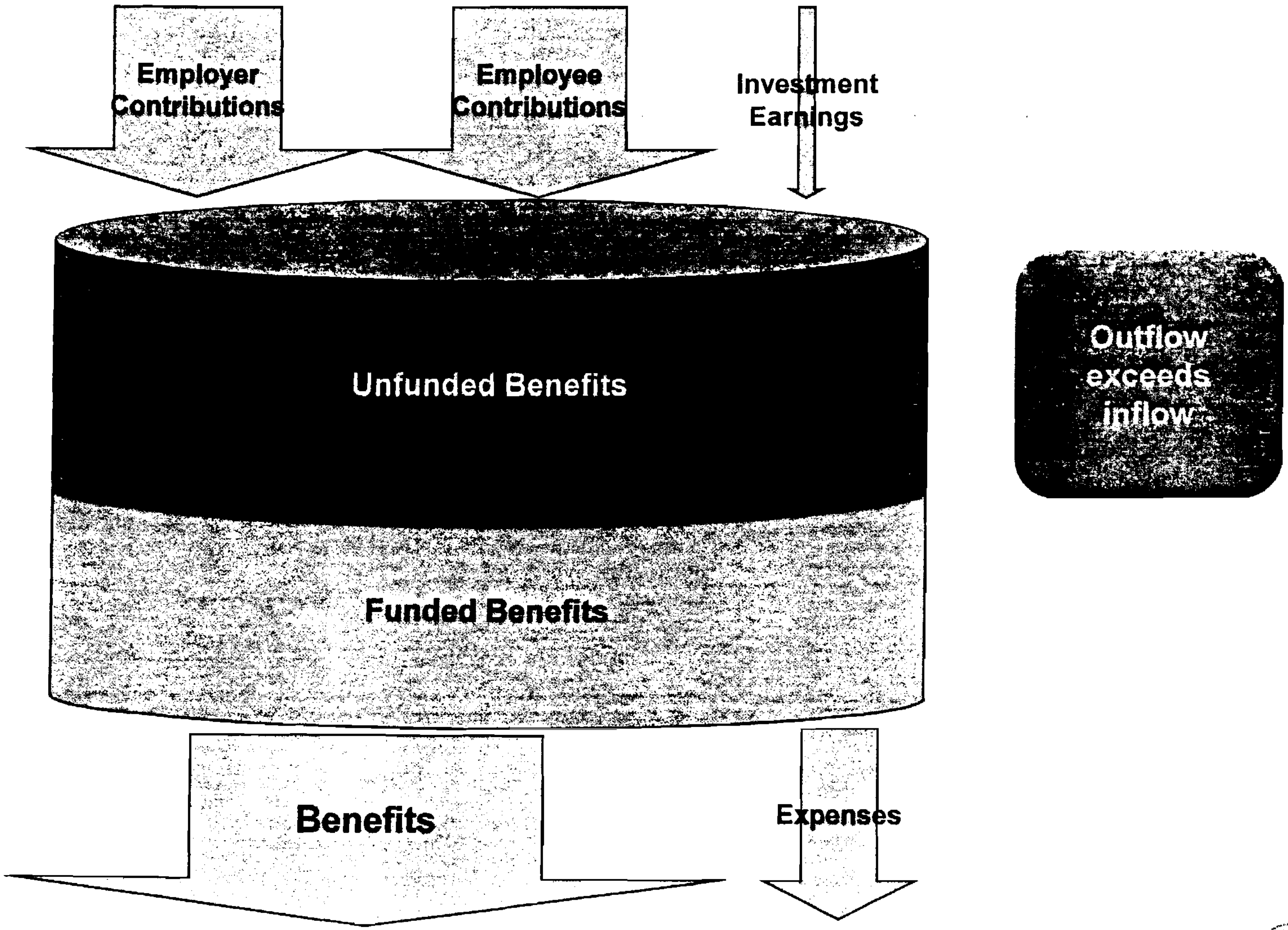
Filling the Retirement Bucket: Now



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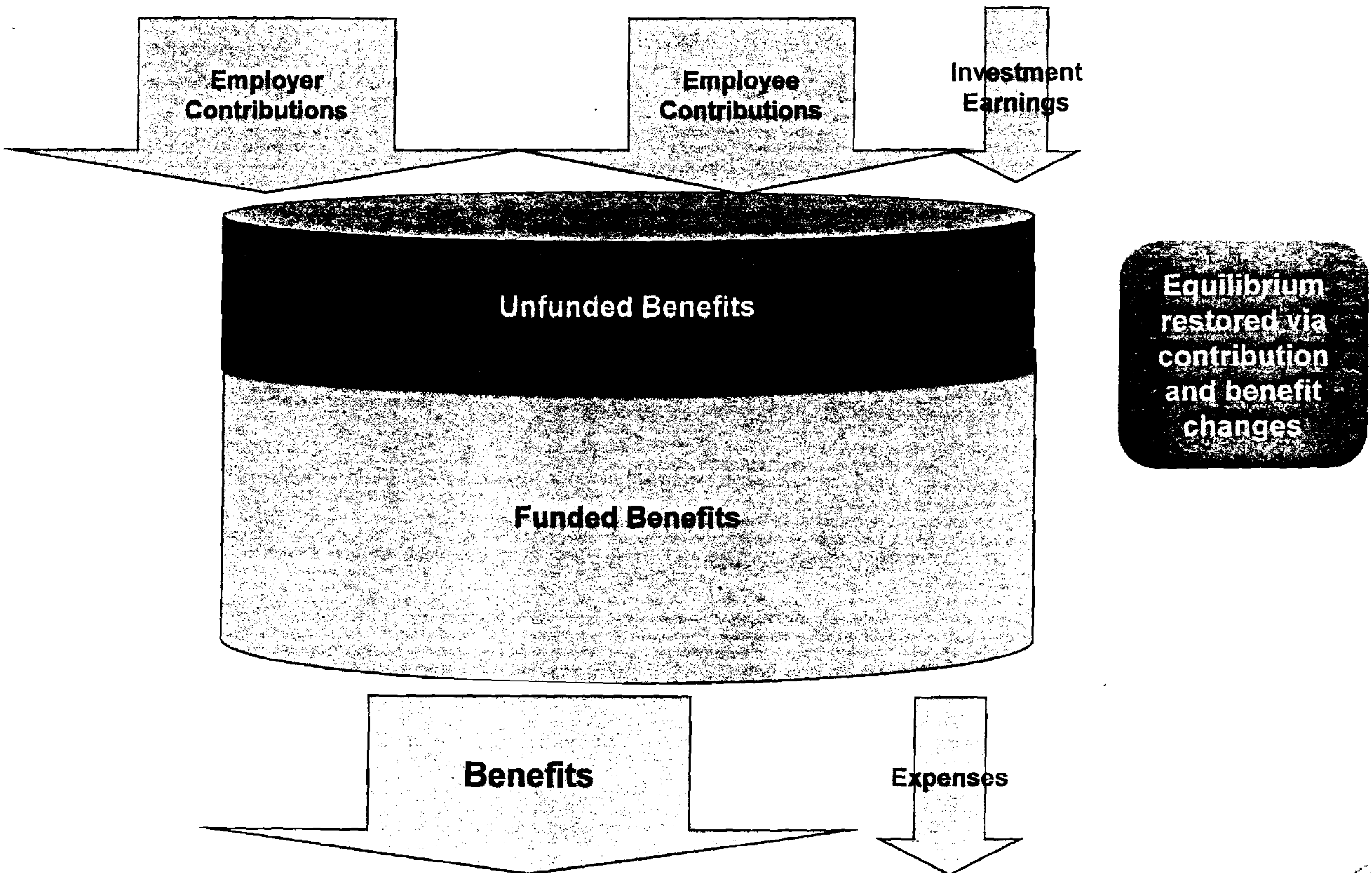
Filling the Retirement Bucket: Future



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Capital Market Projections

- Recent unscientific survey of 5 investment advisors
- Sample portfolio
  - Domestic Equity 45%
  - International Equity 10%
  - Emerging Markets 5%
  - Core Bonds 25%
  - High Yield Bonds 5%
  - Real Estate 5%
  - Private Equity 5%
- Expected returns - survey says?
  - Low 6.99%; High 8.58%; Mean 7.56%
- What does this mean?
  - No one knows for sure where markets are headed
  - Tendency is toward lower returns, at least in the short run
- Should plans change their assumptions?
  - Median is 8%
  - Trend toward lower assumption results in lower funded status and higher contributions

Reality

- It is highly unlikely that future investment performance will come to the rescue of underfunded plans
  - Funded status will decline in the short and mid-term
  - Contribution and benefit changes will be needed
- It is highly unlikely that public sector employers will abandon defined benefit pension plans the way the private sector has
  - State law interpretations
  - Collective bargaining agreements
  - Implied contracts
  - Political pressure

Reality

- It is highly unlikely that public sector employers can afford to increase their contributions substantially each year in the foreseeable future
  - Too many competing interests for shrinking revenue dollars
- It is highly unlikely that public employees will be willing and/or able to sustain higher and higher contribution levels
- If you only change things for new employees, it takes a long time to feel the impact!
  - But if you never change, you never feel the impact!

Addressing the Problem

- Prudent fiduciary oversight
- Legislative constraint
- Plan design changes
- Additional funding, when available
- "Good Corporate Governance"
  - Realistic assumptions
  - Realistic methods
  - Realistic benefits

Recent Initiatives
Source: NCSL May 2010 Report

- **Contribution Rates and Funding Issues**
  - **Colorado, Iowa, Mississippi, Vermont and Wyoming have required employee contribution increases** from some or all current members of public retirement systems.
  - **Virginia has converted a** noncontributory retirement system to a contributory system for future state and local government employees, although local governments have the option of paying the contribution for their employees, an option not available to state government employers.
  - **Wyoming effectively shifted a** noncontributory system to a contributory system for current state and local government employees.

Recent Initiatives

Source: NCSL May 2010 Report

- **Defined Benefit Plan Changes**
  - **Arizona, Colorado, Illinois, Iowa, Mississippi, New Jersey, Vermont** and **Virginia have substantially** changed the retirement benefits available to future members of various state-sponsored retirement plans (and in some instances to current members of those plans). The specific provisions vary from state to state but include, among the eight states, greater contribution requirements, increased age and service requirements for normal and early retirement, greater service requirements for vesting, longer periods for the calculation of final average salary, caps on final average salary or on benefits as a percentage of final average salary and reductions in the multipliers used for calculating benefits as a percentage of final average salary.

Recent Initiatives
Source: NCSL May 2010 Report

- **Defined Contribution & Hybrid Plans**
  - In addition to the defined benefit plan changes listed above, **Utah closed its defined benefit plans** (which include all state and local employees in the state) to future enrollment as of July 1, 2011, and will replace it with plans between which future employees may choose: a defined contribution plan and an option that includes both a defined benefit plan and a defined contribution plan.

Case Study

- Large public employer with a primary defined benefit pension plan and secondary defined contribution plans
- Ongoing project, still in the strategy stages

Case Study: Plan Design Alternatives

- Plan design alternatives fall into two categories
  - Options related to the provisions of the defined benefit plan
    - Should their be a lower cost/lower benefit option (i.e. Tier 2 benefits)?
      - Could be traditional or Cash Balance design
  - Options related to alternatives to the defined benefit plan
    - Should there be a 401(a) defined contribution alternative to the traditional defined benefit plan (i.e. Optional Retirement Plan (ORP))?
- Who should be affected by the changes?

Case Study: Applicability

- New Employees
  - Could be required to participate in DC plan
  - Could be offered one-time choice of DC plan or less costly DB plan than current plan (i.e. later retirement age, longer average earnings period, lower multiplier, etc.)
- Existing Employees
  - May be offered choice to opt into new DC plan or less costly DB plan than current plan
  - Need to prepare in-depth review of cost, benefit, and administrative considerations before making a decision; would also require extensive employee education

Case Study: Plan Design - Sample Alternatives

		Sample Alternatives		
	Current DB	**DB Tier 2 (Traditional)**	**DB Tier 2 (Cash Balance)**	**ORP**
Average Pay	High 3 years in last 10	High 5 years in last 10	n/a	n/a
Employer Contribution	Actuarially determined	Actuarially determined	Actuarially determined	5%-10% of pay (possibly based on service)
Member Contribution	5% of pay	TBD, but lower than 5%	TBD, but lower than 5%	n/a
Service Retirement				
Eligibility	Age 60 and 10 years or any age with 25 years	Age 65 and 5 years or any age with 30 years	Age 65 and 3 years	Age 65 and 3 years
Benefit	2.00% x Average Pay x Service	1.50% x Average Pay x Service	Accumulated Cash Balance account (contribution and interest credits)	Accumulated ORP account
Early Service Retirement				
Eligibility	n/a	Age 55 and 5 years of service	Age 55 and 3 years of service	Age 55 and 3 years of service
Benefit	n/a	Service Retirement benefit, reduced 4% for each year earlier than age 65	Accumulated Cash Balance account	Accumulated ORP account
Disability				
Eligibility	10 years of service; totally and permanantly disabled	10 years of service; totally and permanantly disabled	3 years of service; totally and permanantly disabled	3 years of service; totally and permanantly disabled
Benefit	Service Retirement benefit payable immediately	Service Retirement benefit payable immediately	Accumulated Cash Balance account	Accumulated ORP account
Vesting				
Eligibility	10 years of service	5 years of service	3 years of service	3 years of service
Benefit	May apply for Service Retirement benefit at age 60	May apply for Service Retirement benefit at age 65 or Early Service Retirement benefit at age 55	Accumulated Cash Balance account	Accumulated ORP account
DROP				
Eligibility	Age 55 and 25 years of service	Age 60 and 30 years of service	n/a	n/a
Benefit	May DROP for 3-5 years; payout equals accumulated DROP, employee contributions, plus interest	May DROP for 3-5 years; payout equals accumulated DROP, employee contributions, plus interest	n/a	n/a
Investment of Plan Assets	Directed by Trustees	Directed by Trustees	Directed by Trustees	Employee Directed
Form of Payment	Various forms of single and joint life annuity	Various forms of single and joint life annuity	Lump sum (eligible for rollover) or various forms of single and joint life annuity	Lump sum (eligible for rollover)

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Case Study: Plan Design - Advantages and Disadvantages

	Current DB	Sample Alternatives		
		DB Tier 2 (Traditional)	**DB Tier 2 (Cash Balance)**	**ORP**
Advantages (employer perspective)	Status quo least disruptive to employees	Lower cost plan	Lower cost plan	Fixed cost
	Effective recruiting tool	Effective recruiting and retention tool	Effective recruiting and retention tool (if credits based on age/service)	Effective recruiting tool
				Investment risk borne by employee (no impact on cost)
Disadvantages (employer perspective)	Vesting too long for mobile workforce; impacts recruiting	Investment risk borne by employer (could impact cost)	Investment risk borne by employer (could impact cost)	Investment risk borne by employee (impacts benefits)
	25 and out contrary to retention objectives			
	Increasing cost due to market decline			
	Investment risk borne by employer			
Advantages (employee perspective)	Status quo least disruptive to employees	Lower cost than current plan	Lower cost than current plan	Lower cost than current plan
	Guaranteed benefit for life	Guaranteed benefit for life	Guaranteed benefit for life (if annuity chosen)	Portability
	Investment risk borne by employer	Investment risk borne by employer	Portability	Shorter vesting period
	25 and out an attractive option	Shorter vesting period	Investment risk borne by employer	Able to direct investments
	DROP an attractive option	DROP an attractive option	Shorter vesting period	
Disadvantages (employee perspective)	Vesting too long for mobile workforce	No portability	Lower benefits than current DB	Investment risk borne by employee
	No portability	Lower benefits than current DB		Required to direct investments
	Increasing cost puts pressure on funding for other initiatives			No guaranteed benefit (possible to outlive)

Case Study: Relative Impact of Design Changes

- Although it is not contemplated that wholesale design changes would apply to current employees, we looked at the impact of such changes as if they were applicable to all employees to get a feel for the potential long term impact of possible changes
  - Note: if changes are applicable to new hires only, it will take a long period of time for impact to be realized
- Changes reviewed include

A. Multiplier and Employee Contribution Rate
   - Change multiplier from 2.0% to 1.5%
   - Reduce contribution rate from 5% to 3.75%

B. Average Pay
   - Change from 3 year average to 5 year average

C. Retirement Age
   - Change from age 60 and 10 years or any age with 25 years to 65 and 5 years or any age with 30 years, with reduction for earlier retirement at age 55 with 5 years (4% per year)

D. DROP
   - Eliminate

Case Study: Relative Impact of Design Changes

	Baseline	3.75% EE Contribution 1.5% of Pay	5 Year Average	65 and 5 or 30 Years	No Drop	All Changes
Annual Required Contribution (Using Actuarial Value)						
Employer Contribution						
Normal Cost	6.39%	4.82%	5.91%	4.96%	6.39%	3.44%
Amortization of Unfunded Actuarial Liability	5.45%	4.65%	5.29%	4.92%	5.45%	4.16%
Other (Admin, Death benefits, etc.)	0.38%	0.38%	0.38%	0.38%	0.38%	0.38%
Total	***12.22%***	***9.85%***	***11.58%***	***10.26%***	***12.22%***	***7.98%***
Employee Contribution	5.00%	3.75%	5.00%	5.00%	5.00%	3.75%
Total Contribution	17.22%	13.60%	16.58%	15.26%	17.22%	11.73%
Annual Required Contribution (Using Market Value)						
Employer Contribution						
Normal Cost	6.39%	4.82%	5.91%	4.96%	6.39%	3.44%
Amortization of Unfunded Actuarial Liability	8.05%	6.67%	7.78%	7.14%	8.05%	5.83%
Other (Admin, Death benefits, etc.)	0.38%	0.38%	0.38%	0.38%	0.38%	0.38%
Total	***14.82%***	***11.87%***	***14.07%***	***12.48%***	***14.82%***	***9.65%***
Employee Contribution	5.00%	3.75%	5.00%	5.00%	5.00%	3.75%
Total Contribution	19.82%	15.62%	19.07%	17.48%	19.82%	13.40%

Looked at impact of market losses, if fully recognized

Case Study: Relative Impact of Design Changes

- High impact
  - Multiplier
  - Retirement age
- Medium impact
  - Averaging period
- Low impact
  - DROP

Case Study: Next Steps

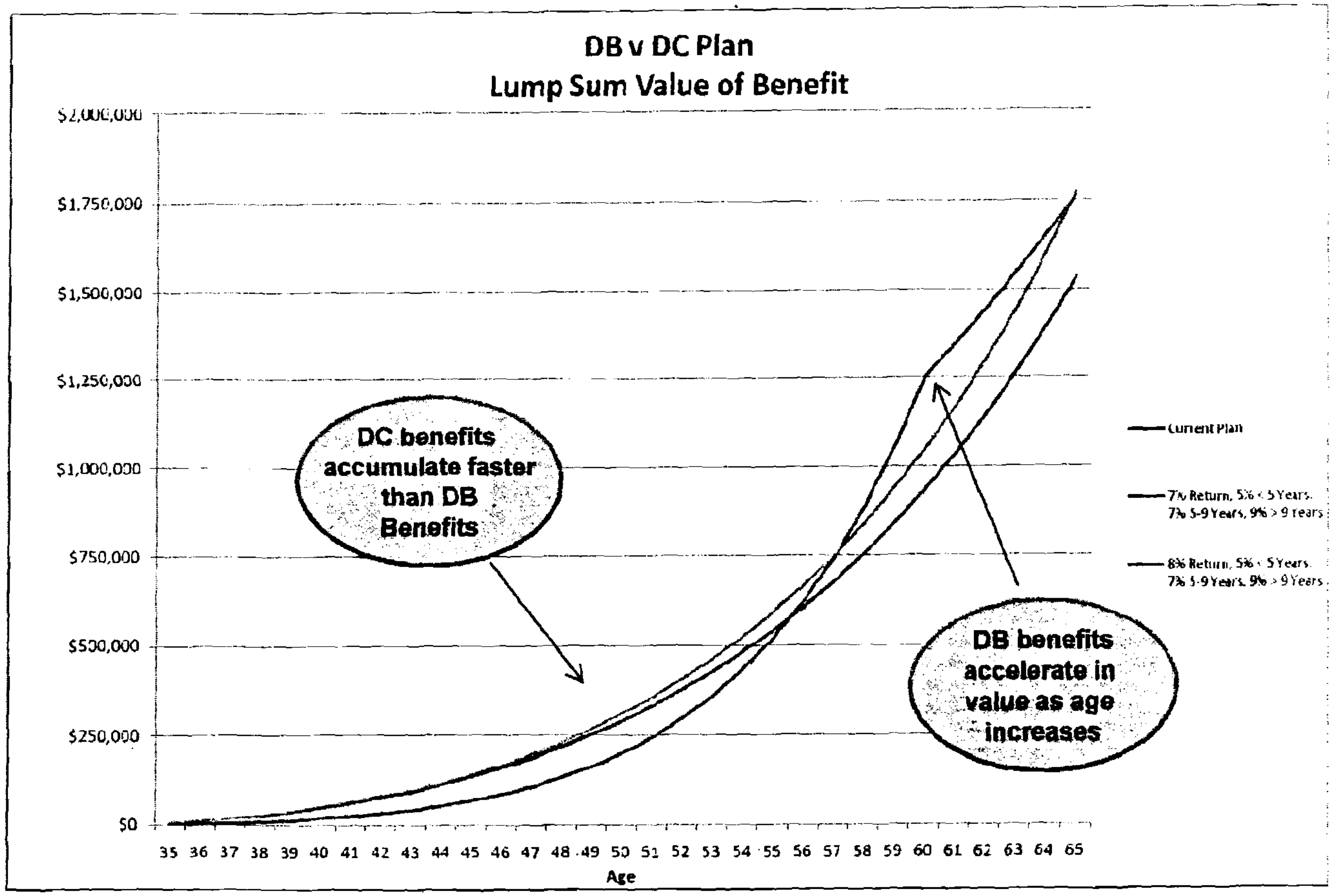
- Initial impressions on information provided
- Identify strategies worthy of further consideration
- Prepare additional cost/benefit illustrations
- Gather additional information
  - Peer group and/or survey data
  - Solicit input from employees
  - Other
- Prepare preliminary recommendations for discussion

Defined Contribution Plans

- Code Section 401(a) provides regulatory parameters for qualified defined contribution plans
- Contributions
  - Employer (typically uniform or tiered based on age and/or service)
  - Employee (typically mandatory pre-tax 414(h) "pick-up")
- Vesting
  - Employer contributions can be immediate, graded (i.e. fixed % per year), or cliff (100% after a fixed number of years)
  - Employee contributions are 100% vested immediately
- Distributions
  - Typically lump sum, which are eligible for rollover
  - Annuities may also be provided
- Investments
  - Typically participant directed to a choice of funds including target date or asset allocation models

Benefits (DB versus DC Plan)

Estimated lump sum value of accrued benefit at various ages



DC plan benefits tend to accumulate in value more rapidly than DB benefits, especially at the younger ages. As a result, early termination benefits can be costly. DB benefits tend to increase in value rapidly as age increases; persons hired later in their careers are impacted the most.

DC Plans: Cost Considerations

- DC plan costs are predictable and not affected by investment performance; risk is shifted to the employee
- Depending on the plan design and demographics of plan participants, contributions can be greater or less than DB Normal Cost
  - Employer DC plan contributions should be set no higher than average DB Normal Cost
- Existing DB unfunded liability will remain and need to be funded in future years; new hires will not subsidize costs for existing DB members because they will not participate in the DB plan
  - Employer and remaining DB plan participants will foot the bill

DC Plans: Ancillary Benefits

- The DB plan provides ancillary benefits for death and disability.
- In a DC plan, the only benefit is the account balance which cannot be "artificially sweetened" at death or disability.
- Consideration should be given to providing supplementary death or disability benefits outside the DC plan for employees covered by the DC plan.

Questions?