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EXHIBIT NO. 1

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City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 2, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: RECEIPT OF THE REPORT FROM THE AD HOC RETIREMENT BENEFIT ADVISORY GROUP

ISSUE: Receipt of the report from the Ad Hoc Retirement Benefit Advisory Group (the "Group").

RECOMMENDATION: That City Council receive the report and thank the members of the Advisory Group for their efforts on behalf of the City. (Note: A work session is being held before City Council's November 9, 2011, legislative meeting to discuss the report with the Group.)

DISCUSSION: On January 25, 2011, City Council adopted Resolution 2432 (see Addendum A of the Report), which created the Ad Hoc Retirement Benefit Advisory Group to:

1. Look at the need for any future changes to defined benefit pension plans created under the authority of City Council, and
2. Examine the current financial status of the City's pension funds to advise the City Manager and the City Council Employee Pension Compensation Committee on options.

The Group members included:

Public Members:	Russell Bailey, Janine Bosley, James McNeil, James Ray, Len Rubenstein, and David Speck
Employee Representatives:	Shane Cochran and Brenda D'Sylva (General Schedule Employees), Michael Cross (Fire Captain), Robert Gilmore (Deputy Sheriff), Edward Milner (Police Sergeant), Lonnie Phillips (Medic, also represents Fire Marshals)

City Manager
Representative: Laura Triggs (replaced Bruce Johnson when he became Acting City Manager)

As required by Resolution 2432, an oral report was presented to the City Council Employee Pension Compensation Committee (Mayor Euille and Councilman Smedberg) on October 27 and the required written report is attached.

The following key sections of the report discuss the Group's major findings and recommendations:

1. Executive Summary (Section 1)
2. Employee Groups' Views (Section XI)
3. Findings and Observations (Section XII)
4. Recommendations (Section XIII)

The remainder of the report is devoted to cost, discussion and description of the City's various pension and other benefit plans and programs. The report also describes the various materials the Group reviewed in order to assess the City retirement plans, the factors involved in funding the City retirement plans and the City budget, and changes being made to other retirement plans locally and nationally. It also discusses reports the Group heard from the Finance Department, the Human Resources Department, the Office of Management and Budget, and the actuary and investment consultants for the City retirement plans.

All meetings were announced and open to the public. A City web page has been maintained since March to make public materials provided to the Group, as well as minutes and video recordings of the meetings. The City web site advertised to the public and City staff and provides the opportunity to provide comments on the Group's tasks through a comment board. The comment board was also advertised in **FYI** Alexandria. Employee groups have also sought feedback from their constituencies. Beginning in August, the group provided persons attending its meetings the opportunity to speak to the Group.

Resolution 2432 provides in Section (6) that the Group shall terminate after presentation of its written report to City Council unless the Group petitioned the city Council for an extension and that request was approved by City Council. City Council may wish to discuss with the Group at its work session recommendations 3 and 16, both of which address the possibility of extending this Group to conduct specific follow-up tasks.

FISCAL IMPACT: This report creates no current fiscal impact. However, some of the Group's recommendations would have a fiscal impact if adopted. Also, studying these recommendations may involve legal, actuarial, or investment consultant fees.

The report's timing, as called for in Resolution 2432, was designed so that City Council may consider as a resolution providing guidance for the FY 2013 budget developed for adoption on November 22, 2011. Of course, it also may be considered during the course of Council's review of the City Manager proposed FY 2013 budget.

ATTACHMENT:
Report from the Ad Hoc Retirement Benefit Advisory Group

STAFF:
Laura Triggs, Acting Chief Financial Officer
Michele Evans, Deputy City Manager
Steven Bland, Retirement Administrator

REPORT OF THE CITY OF ALEXANDRIA AD HOC RETIREMENT BENEFIT ADVISORY GROUP TO THE CITY COUNCIL AND CITY MANAGER

Pursuant To City Council Resolution 2432 (January 25, 2011)

November 9, 2011

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Addenda

The Alexandria Health Department"

Addendum J: Human Resources Department Memorandum dated October 11, 2011 regarding "Retiree Health Insurance Reimbursement History"

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REPORT OF THE CITY OF ALEXANDRIA
AD HOC RETIREMENT BENEFIT ADVISORY GROUP
TO THE CITY COUNCIL AND CITY MANAGER

November 9, 2011

To the Honorable Mayor William D. Euille
and the Honorable Members of City Council

Greetings:

In compliance with City Council Resolution 2432 (January 25, 2011)[1], the Ad Hoc Retirement Benefit Advisory Group presents this report to the City Council and City Manager for their consideration.

I. Executive Summary

Over the course of fourteen public meetings since March 2011, and after considering extensive documentation and verbal presentations, the Advisory Group has developed a good sense of the pension plan coverage and other retirement benefits offered to each group of City employees. Developing a sense of each retirement plan, program, and policy was an essential first step to fulfilling our mandate from City Council. This knowledge is also essential for City Council, the City's management, the City's employees, and anyone else who wishes to affect these plans, programs, and policies in any way. Accordingly, much of this report is devoted to descriptions of the retirement plans, programs and policies, and to their financial aspects. To our knowledge, this is the most comprehensive overview in print.

Based on these facts, and on our collective knowledge and experience, we offer in this report various "Findings and Observations" and sixteen "Recommendations" for your consideration. It is important to note at the outset that Alexandria is <u>not</u> one of those public employers whose employee pension plans are in financial jeopardy and driving the jurisdiction towards bankruptcy. Over the years, Alexandria's government has made a number of significant policy decisions, and its employees have made a number of sacrifices, to ensure the soundness of the City-sponsored plans which are valuable tools for recruiting and retaining quality employees.

The Advisory Group's unanimously adopted recommendations continue in this tradition, reflecting what is best for Alexandria and its human resources and not chasing trends elsewhere. As more fully explained later in the report, the first five are major recommendations, and the eleven subsequent recommendations are comparable in importance and not prioritized. A summary of the recommendations follows:

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1 A copy of the full Resolution is appended hereto as Addendum A.

1. We recommend that the City continue its defined benefit pension plans, and do not recommend that the City create a new defined contribution plan.

2. We recommend that the City Council establish as soon as possible a joint management-employee retirement board for the Supplemental Retirement Plan (SRP) comparable to the Firefighters and Police Officers Pension Plan Retirement Board (FPOPP).

3. We recommend that an "adjustment mechanism" triggered by economic developments be developed as a hedge against runaway contribution costs with regard to the FPOPP and SRP, and to ensure that future plan changes are not arbitrary nor a surprise. A fair, joint process for developing this mechanism and making recommendations to the City Council needs to be established.

4. We recommend that the City not impose additional employee contribution requirements outside of the adjustment mechanism referred to above.

5. We recommend that any change in the plan design of the FPOPP be considered by the FPOPP Board prior to action by City Council, and that any change in the SRP's design be considered by the SRP pension board, if created, prior to action by City Council.

6. We recommend that the City initiate a review of the disparities in employee contribution rates and benefits for new employees and more tenured employees under the VRS and SRP.

7. We recommend the City Council issue a request to the VRS for a calculation of projected City costs to provide full retirement benefits at age 50 with 25 years of service for Deputy Sheriffs, Medics and Fire Marshals.

8. We recommend that the City investigate pension portability so that the benefits of employees who change jobs within City employment are not adversely affected.

9. We recommend that the City undertake a study of the fiscal impact of amending the SRP to add a post-retirement cost of living benefit increase (COLA) provision.

10. We recommend that the City enhance employee education regarding their pension coverage and other employee benefits, including mandatory retirement education.

11. We recommend that the retiree health policy and retiree life insurance policy be described in a plainly written document and made readily available to all potentially eligible employees.

12. We recommend that the City Council review the current retiree health plan premium subsidy policy and consider increasing the longstanding maximum limit of $260 per month as funding permits.

13. We recommend that the City strive to improve pension plan coverage and other employee benefits for part-time employees, including the retiree health plan premium subsidy.

14. We recommend that the City carefully review its contributions to the SRP for State employees to ensure that the historical reasons for maintaining this relationship continue to be appropriate and necessary.

15. We recommend that City Council consider delaying any formal changes to the current pension plans until the release of the upcoming report of the Virginia Joint Legislative Audit and Review Commission (JLARC).

16. We recommend that City Council consider reconvening the Advisory Group following publication of the JLARC report on State pension benefits that is expected before the end of 2011.

II. Mandate From City Council

Resolution 2432 established the Advisory Group and assigned to it the following tasks:

"Section 3: Tasks of the Advisory Group

"a) The Advisory Group shall look at the need for any future changes to defined benefit pension plans created under the authority of the City Council.

"b) The Advisory Group shall examine the current financial status of the City's retirement funds, to advise the City Manager and City Council Pension and Compensation Subcommittee on any options that should be considered to meet the following objectives:

"i. To protect benefits already earned (accrued) by retirees and current employees,

"ii. To ensure the City remains competitive with neighboring jurisdictions in recruiting for capable and effective public service employees,

"iii. To provide an opportunity for City employees to save for and have a secure retirement,

"iv. To consider the advantages and disadvantages of defined benefit v. defined contribution pension plans and make recommendations on the structure of future plans, and

"v. To create a fiscally sustainable plan for funding future benefits whether earned or to be earned in the future."

"Section 4: The Report of the Advisory Group

"a) *The Advisory Group shall evaluate need for changes based on:*

"i. *financial status of City's pension plans based on the outlook for future sustainability of those plans given actuarial outlook and investment risks and expected returns, and*

"ii. *The assessments of likely federal, state and GASB developments, to the extent known over the next 12 months, in accounting, disclosure and funding rules.*

"b) *The Advisory Group may offer a variety of options that should be considered by City Council to meet future challenges. Unanimity is not necessarily required for any option in the report.*

"c) *The Advisory Group Report shall contain an assessment of advantages and disadvantages vis-a-vis the objectives outlined above of each option presented.*

"d) *The Advisory Group Report shall include in the report an assessment of the ease or difficulty of administrative implementation of any recommended options for consideration."*

III. Advisory Group's Membership

In accordance with the Resolution, Mayor William D. Euille, after consultation with the full City Council, appointed the following individuals to serve on the Advisory Group and represent various interested constituencies:

Member	Constituency Represented
Russell Bailey	Public
Janine Bosley	Public
James McNeil	Public
James S. Ray	Public
Len Rubenstein	Public
David Speck	Public
Shane Cochran	City Employees (General Schedule)
Michael Cross	City Employees (Firefighters)
Brenda D'Sylva	City Employees (General Schedule)
Robert Gilmore	City Employees (Deputy Sheriffs)
Edward Milner	City Employees (Police Officers)
Lonnie Phillips	City Employees (Medics & Fire Marshals)

Laura B. Triggs City Manager

Public members James S. Ray and Janine Bosley were elected by the Advisory Group's members to serve as Co-Chairs and preside alternately at meetings.

Bruce Johnson, an original member of the Advisory Group, withdrew upon his appointment as the Acting City Manager in late April 2011. Laura Triggs was appointed to succeed him as the City Manager's representative.

Lisa Chimento was originally appointed as a Public representative, but she was unable to serve for unexpected medical reasons and withdrew. Russell Bailey, originally an Alternate, was re-appointed as a regular member.

As required by the Resolution, all of the Public members have knowledge or experience through education or work experience in one or more of the following fields: financial / budget management; pension law and administration; actuarial science; and human resource management.

The following individuals served as Alternates for the City Employee members of the Advisory Group:

Patrick Evans: Firefighters
Jennifer Harris: General Schedule Employees
Nancy McFadden: Medics/Fire Marshals
Jarrod Overstreet: Deputy Sheriffs
Marietta Robinson: General Schedule Employees
Al Tieney: Police Officers

The Advisory Group was ably and diligently assisted by several members of the City's staff, particularly:

Steven Bland, Retirement Administrator
Michele Evans, Deputy City Manager
Bill Mitchell, Assistant Retirement Administration Director
Theresa Nugent, Pension Public Information Specialist
Cheryl Orr, Human Resources Director

IV. Advisory Group's Proceedings

The Advisory Group held meetings on the following dates: March 24, 2011; April 4, 2011; April 27, 2011; May 9, 2011; May 25, 2011; June 15, 2011; July 14, 2011; August 2, 2011; September 8, 2011; September 19, 2011; September 28, 2011; October 11, 2011; October 18, 2011; and October 27, 2011.

The meetings were typically held in City Hall (Sister Cities Room) and lasted at least 3 hours each. The meetings were open to the public. Advance notice of the meetings was posted on the City's website and television channel and was otherwise advertised to the public. An agenda for each meeting was posted on the City's website.

Official minutes of each meeting were kept and subsequently approved.

The City's website, under the Finance Department, included an easily findable, dedicated page for the Advisory Group on which was posted extensive information including: (a) a statement of the Advisory Group's purpose; (b) a list of the Advisory Group's members; (c) the approved meeting minutes; (d) all of the documents presented to the Advisory Group; (e) a Discussion Guide used by the Advisory Group to keep track of relevant information and issues.

The Advisory Group's web-page included a "Group Seeks Public Comment" section that stated as follows:

> *"As part of its tasked duties, the Group must provide the City Council with a written report of its recommendations by November 2011. In preparation for drafting its report to the City, the Advisory Group is seeking public feedback primarily based on the City Council's evaluation criterion and the Discussion Guide. The Group will consider all feedback; however, feedback that relates to the Discussion Guide and the criterion will be most useful to the report's development. The criterion listed in Resolution 2432 includes: protection of established benefits, competitiveness with neighboring jurisdictions, encouragement of employee retirement savings, the advantages and disadvantages of defined benefit versus defined contribution retirement plans as well as present and future fiscal sustainability of any existing or recommended retirement benefit program(s). To comment, please click on the word Comment at the top of the page."*

This section was highlighted on the City's main website home page under "Special Features." The Advisory Group thanks Jennifer Harris, City Communications Officer, for her able and enthusiastic assistance in developing and implementing this public outreach.

During its meetings, the Advisory Group also received valuable input and other assistance from various members of the City's staff, particularly Retirement Administration Director Steven Bland, who participated in every meeting, and Laura B. Triggs, Deputy CFO/Finance Director, who participated in most meetings and became a member of the Advisory Group. Important information was also provided by Cheryl

Orr, Human Resources Director, who attended several of our meetings.

The Advisory Group received and discussed verbal and written presentations from Stephen McElhaney of Cheiron, the new actuary for the City's pension plans, and a verbal presentation by Barry Bryant of Dahab Associates, the investment consultant for the City's pension plans who was first hired in 2005 and whose contract was renewed in 2010.

In addition, the City Employee members made special presentations to the Advisory Group regarding issues of particular importance to their respective constituencies.

Documents presented to and considered by the Advisory Group (and posted on the City's website) include:

Retirement Summary: Firefighters and Police Officers

Retirement Summary: Deputy Sheriffs, Medics & Fire Marshals

Retirement Summary: General Schedule Employees

Summary of Activity as of December 31, 2010 for the Fire and Police Pension Plan

Summary: Voluntary Savings Plans

Letter from General Assembly calling for review of the Virginia Retirement System

Budget Memo #16 employer and Employee Retirement Contribution Rates FY 1988 - FY 2012 Proposed

Comprehensive Annual Financial Report (CAFR) July 1, 2009 to June 30, 2010 (excerpts)

Benefits Overview of City Retirement Benefits with examples

Pension Contributions: FY2011 Contribution Components

Timeline: Valuation, Budgeting, Contribution Changes

Valuation 2009 Fire and Police Plan (excerpts)

Valuation 2010 Supplemental Retirement Plan (excerpts)

Valuation 2010 Virginia Retirement System (excerpts)

Local Comparators: retirement benefits

History of Pension Changes - City and national

Local Comparators, revised April 27, 2011

Local Comparators-Benefit Examples

Projecting Contribution Rates

Pensions as a Percent of Total Budget

Social Security Offsets/Integration (peer comparisons)

Local Comparators Benefit Examples, revised April 27, 2011

Recent Retirement Plan Changes Virginia Public Plans

Recent Efficiency Initiatives by City

Investment Returns: Actual vs. Assumed

Trends in Public Pensions (caveat: data outdated)

VRS Plan 1 and Plan 2 Effective July 1, 2010 - 2010 Legislative Changes Affecting Future Members

2011 General Assembly Summary

Data Summary: 2008 Comparative Study of Major Public Employee Retirement Systems

City Resolution No. 868 adopted June 8, 1982 (City makes the 5% VRS member contributions for covered employees)

City of Alexandria-Preliminary Results of Benefits Study by Towers Watson (formerly Watson Wyatt), February 13, 2009

City of Alexandria-Memorandum from City Manager Sunderland to the Mayor and City Council, February 13, 2004 regarding conversion of Firefighters and

Police Officers defined contribution plan to a defined benefit plan (Ordinance No. 4336)

City of Alexandria-Memorandum from City Manager Sunderland to the Mayor and City Council, February 6, 2004 regarding conversion of Firefighters and Police Officers defined contribution plan to a defined benefit plan

City of Alexandria-Memorandum from City Manager Hartmann to the Mayor and City Council, June 16, 2010 regarding City's Employee Compensation Philosophy

City of Alexandria-Memorandum from City Manager Hartmann to the Mayor and City Council, June 17, 2010 regarding employee contributions to the Virginia Retirement System

City of Alexandria, Budget Work Session, October 19, 2010 Powerpoint Presentations: FY2012 Preliminary Compensation and Benefits; Overview of City of Alexandria's Benefits Package; Public Pension Plans for Alexandria Employees in FY2012 and Beyond.

Article, Pensions & Investments, December 13, 2010, by Doug Halonen: "Battle lines form over public plan disclosure" (GASB)

Cheiron-Client Advisory: GASB Preliminary Views on Pension Reporting Point to Radical Shift in Accounting Practices

Cheiron: Update on the GASB Pension Accounting Project

Letter from Stephen McElhaney of Cheiron dated June 22, 2011 (with enclosed charts) concerning Funding Projections-Firefighters and Police Officers Pension Plan

Presentation on behalf of Firefighters and Police Officers by Michael Cross and Edward Milner, including: excerpt Docket Items 11 and 12 of February 21, 2004 City Council Docket; NASRA Brief: Public Pension Plan Investment Return Assumptions

Sample Early Retirement calculations
Enhancing Sustainability, Parts 1 & 2: submission by City staff

Pensions as a Percent of Total Budget, revised (includes contribution history)

Eligibility for City of Alexandria Retiree Health Benefits

Presentation on behalf of Deputy Sheriffs by Robert Gilmore

Presentation on behalf of Medics presented by Lonnie Phillips

Presentation on behalf of General Schedule employees presented by Shane Cochran and Brenda D'Sylva

Discussion Guide ("living" document used to track and organize information received by the Advisory Group from meeting-to-meeting)

Memorandum from Acting City Manager Bruce Johnson to the Advisory Group dated September 19, 2011 regarding "Response To The Group's Recommendation Concerning A Pension Trigger Mechanism"

Memorandum from Acting City Manager Bruce Johnson to the Advisory Group dated October 11, 2011 regarding "Response To The Group's Observations And Recommendations"

Memorandum from Deputy City Manager Michele R. Evans dated October 17, 2011 regarding the "City Supplemental Pension And Employees Of The Alexandria Health Department"

"Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers", National Institute on Retirement Security / Milliman report, September 2011

"A Better Bang For New York City's Buck: An Efficiency Comparison of Defined Benefit Pension Plans And Defined Contribution Retirement Savings Plans," National Institute on Retirement Security / New York City Comptroller Office report, October 2011

Human Resources Department Memorandum dated October 11, 2011 regarding "Retiree Health Insurance Reimbursement History"

Budget Work Session October 19, 2010, pages 28 – 44 (excerpts)

Letter from City Manager James K. Hartmann dated April 4, 2008, to Mr. Patrick Cozza, President, Alexandria Sheriff's Association

Comment Postings posted to the Ad Hoc Retirement Benefit Advisory Group webpage

FYI Alexandria, August 2011

Selected Turnover July 2008 – July 2011

Budget Work Session October 17, 2011, page 23 (excerpts)

Draft of Schedule of Funding Progress June 30, 2011

Recommendations General Schedule Employees

Recommendations Deputy Sheriffs

Recommendations Firefighters and Police Officers

V. Pension Plans And Other Retirement Income Programs For City Employees

In order to address the issues raised in Resolution 2432, the Advisory Group had to first learn about the various pension plans and other retirement income programs by which City employees are covered.[2] Several of the Advisory Council's meetings were devoted to developing a common understanding of the history, terms, and conditions, and status of the plans. The Advisory Group found as follows.

A. Virginia Retirement System ("VRS")

A-1. The VRS is a pooled, multiple employer defined benefit pension plan and trust established by the Commonwealth of Virginia for State employees, employees of participating political subdivisions, teachers and other school division employees.

A-2. The City of Alexandria elected to participate in VRS for most employee classifications in 1957 (City Code Section 2-5-52). The City cannot withdraw from participation in the VRS with regard to employee positions already identified as VRS-covered. Once the City agreed to participate, its participation is irrevocable (Code of Virginia, Title 51, §51.1-139).[3] If the City becomes financially unable to make contributions for any reason, there is a default procedure under which the City's employees' VRS coverage would be terminated and an amount would be disbursed to them.

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2 Other post-retirement benefits for City employees are discussed in a following section of this report.

3 Arlington and Fairfax, two of the City's "Comparator Jurisdictions," do not participate in VRS.

A-3. All regular, full-time City employees who are not covered by the Firefighters & Police Officers Pension Plan are covered by the VRS. This includes: all General Schedule employees; all Deputy Sheriffs, Emergency Medical Technicians (Medics), and Fire Marshals; the City Manager and City management staff; and City Council members. It does not cover Firefighters and Police Officers, who are covered by their own pension plan, as discussed below. Participation is mandatory for all employees in VRS-designated positions.

A-4. VRS offers two levels of pension plans ("VRS-1" and "VRS-2") depending on an employee's date of hire in a covered position.

(a) VRS-1 applies to all City employees hired into VRS-covered positions before July 1, 2010 employment.

(b) VRS-2 applies to all City employees hired into VRS-covered positions after June 30, 2010.

A-5. As of May 23, 2011, a total of 2,626 current and former City employees were participating in VRS. The numbers by category of participant are as follows:

(a) 1765 active employees (total collective salary = $114,725,770)

(1) VRS-1: 1,663 (collective salary = $109,118,537 salary)

(2) VRS-2: 102 (collective salary = $5,607,233)

(b) 682 retired or disabled employees (all VRS-1)

(c) 179 vested, non-retired former employees (all VRS-1)

A-6. As a VRS participating employer, the City is required to make periodic contributions to VRS to fund the pensions being earned by its covered employees. In addition, the City's covered employees may be, and are to a certain extent, required to make pre-tax contributions from their salaries to VRS to help fund their pensions.

(a) City's "Employer Contributions [4]: VRS-1 & VRS-2

[4] The City's "employer contributions" to VRS are really substitute salary. If the City did not pay contributions to VRS, all or at least some portion of this money would have been paid to employees as salary. If paid as salary, this money would have been subject to income taxes and payroll taxes. Provisions of the Federal and State tax codes exclude employer contributions to qualified pension plans from the employees' taxable income and exclude the contributions from payroll tax obligations of both the employer and the employee, reflecting a public policy of encouraging retirement savings over current consumption.

(1) VRS determines the contribution rate separately for each employer based on that employer's experience, a share of the VRS' pooled investment experience, and a share of VRS' administrative expenses. The contribution rate is set based on an actuarial valuation every other year, so the same contribution rate applies for two years.

(2) The City's contribution rate is affected by various factors outside of the City's control. In most recent valuation, VRS changed its smoothing method for determining actuarial value of assets (suspended use of 80-120% corridor for market value vs. actuarial value). This reduced the employer contribution rate from 9.82% of payroll to 7.78%, and deferred about $2.5 million in costs that would have been incurred in FY 2011 and FY2012.

(b) City's "Employee" Contributions: VRS-1

VRS-1 provides for participating employees to contribute 5% of their salaries to VRS. However, the City Council decided in 1982 to have the City start paying this "employee contribution," in addition to its own "employer contribution," instead of a general increase in employees' salaries.

City Council Resolution 898 (June 8, 1982) provided, in pertinent part:

"WHEREAS, the City Council of the City of Alexandria, Virginia, believes that wages and benefits for City employees should be maintained at levels which are properly competitive in the metropolitan labor market; and

"WHEREAS, sufficient funds have been provided in the approved FY 1982-83 operating budget to provide approximately comparable increases in wages and benefits for all City employees;

"WHEREAS, the Code of Virginia permits the City of Alexandria to assume and pay all of the contributions required of the City's employees who are participating in the City's agreement with the Virginia Supplemental Retirement System; and

"WHEREAS, a number of other Virginia jurisdictions have utilized this method and found it mutually beneficial to the employer and the employees because it reduces federal taxes and increases

employee take-home pay;

"NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Alexandria, Virginia that the following benefits or pay adjustments will be provided to City employees in lieu of a general pay increase:

"A. The City of Alexandria will assume and pay all pension contributions required of employees who are participating in the City's agreement with the Virginia Supplemental Retirement System, beginning with the contribution for the month of July, 1982."

The Resolution went on to provide for various pay increases for all City employees who were not covered by VRS.

(c) City's "Employee" Contributions: VRS-2

VRS-2 also provides for participating employees to contribute 5% of their salaries to VRS. Instead of assuming the full cost of this 5%, as it had for City employees covered by VRS-1, the City Council decided at its June 22, 2010 meeting that City employees covered by VRS-2 (post-June 30, 2010 hires) would have to pay 4% of their salaries to VRS and the City would make the remaining 1% "employee contribution."

(d) "Employees' Contributions": VRS-1

As stated above, VRS-1 provides for "employee contributions" of 5% of salary, but the City has been paying this 5% contribution for the City employees covered by VRS-1 since 1982.

(e) "Employees' Contributions": VRS-2

As stated above, VRS-2 provides for "employee contributions" of 5% of salary. The City employees covered by VRS-2 are contributing 4% of their salaries, and the City is paying the other 1%, since the effective date of VRS-2 on July 1, 2010.

A-7. The most significant plan design features of VRS-1 are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit.

(b) Benefit at retirement is based on Average Final Compensation x Multiplier x Years of Service Credit.

(c) Creditable Compensation for purposes of determining the Average Final Compensation is only base pay, and does not include pay for overtime, bonuses, shift differentials, etc.

(d) Average Final Compensation is the average of the 36 highest consecutive months of Creditable Compensation.

(e) The Multiplier is 1.7%.

(f) Years of Credit are generally the years of employment with the City in a VRS-covered position. There is no maximum number of years for which an employee may earn credit.

(g) A covered employee may retire and receive VRS-1 pension benefits when he or she meets the following age and service characteristics:

(1) Normal Retirement (retirement with an unreduced benefit):

(i) age 65 with 5 years of service credit; or

(ii) age 50 with 30 years of service credit

(2) Early Retirement (retirement with an actuarially reduced benefit)[5]:

(i) age 55 with 5 years of service credit; or

(ii) age 50 with 10 years of service credit

(3) Disability Retirement: vested and determined by VRS medical staff to be unable to perform job due to permanent disability

(h) Forms of benefit: annuity (monthly benefits for life after retirement), survivor annuity (monthly benefits for life of pensioner and for surviving spouse), and partial lump sum (part of pension in an immediate lump sum with balance paid in form of monthly benefits for pensioner's life).

(i) Post-retirement cost-of-living increase in monthly benefits (COLA): annual adjustment that first applies on July 1 of second calendar year after

5

retirement; match first 3% increase in CPI-U and one-half of remaining increase up to maximum COLA of 5%.

A-8. VRS-2 (post-June 30, 2010 hires) offers a lesser benefit plan than VRS-1 in that a VRS-2 participant must wait longer to retire, the average compensation used for calculating benefits is lower, and the COLA is lower. The most significant plan design features of VRS-2 are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit. (Same as VRS-1.)

(b) Benefit at retirement is based on Average Final Compensation x Multiplier x Years of Service Credit.

(c) Creditable Compensation for purposes of determining the Average Final Compensation is only base pay, and does not include pay for overtime, bonuses, shift differentials, etc. (Same as VRS-1)

(d) Average Final Compensation is the average of the 60 highest consecutive months of Creditable Compensation. (VRS-1 is 36 highest consecutive months.)

(e) The Multiplier is 1.7%. (Same as VRS-1.)

(f) Years of Credit are generally the years of employment with the City in a VRS-covered position. There is no maximum number of years for which an employee may earn credit. (Same as VRS-1.)

(g) A participant may retire and receive VRS-1 pension benefits when he or she meets the following age and service characteristics (later than under VRS-1):

(1) Normal Retirement (retirement with an unreduced benefit):

(i) Social Security Normal Retirement Age (66 or, if born after 1960, 67) with 5 years of service credit; or

(ii) when age and service credits equal 90 (*e.g.* age 60 with 30 years of service, or age 65 with 25 years of service)

(2) Early Retirement (retirement with an actuarially reduced benefit)[6]:

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(i) age 60 with 5 years of service credit

(3) Disability Retirement: vested and determined by VRS medical staff

(h) Forms of benefit: annuity (monthly benefits for life after retirement), survivor annuity (monthly benefits for life of pensioner and for surviving spouse), and partial lump sum (part of pension in an immediate lump sum with balance paid in form of monthly benefits for pensioner's life).

(i) Post-retirement cost-of-living increase in monthly benefits (COLA): annual adjustment that first applies on July 1 of second calendar year after retirement; match first 2% increase in CPI-U and one-half of remaining increase up to maximum COLA of 6%. (Compared to VRS-1 which matches first 3% increase in CPI-U and one-half of remaining increase up to maximum COLA of 5%.)

A-9. Key actuarial assumptions used by VRS include a long-term investment return of 7.0% as of June 30, 2010. Before then, the assumed rate used through the June 30, 2009 valuation was 7.5%. This change in rate caused an increase in the contribution rate. No other key economic assumptions were changed.

A-10. Governance: The State Legislature controls the terms and conditions of the VRS Plans. VRS is administered by VRS staff and the expenses of administration are paid from VRS assets. Investments are overseen by the VRS Board of Trustees appointed by the Governor.

B. City of Alexandria Firefighters and Police Officers Pension Plan ("FPOPP")

B-1. The Firefighters and Police Officers Pension Plan (FPOPP) is a pooled defined benefit pension plan covering all sworn firefighters and police officers employed by the City on or after January 1, 2004. No other City employees are covered. Participation is mandatory for all sworn firefighters and police officers employed by the City.

By Ordinance No. 4336 (February 21, 2004), the City Council amended the Code of the City of Alexandria (Section 2-5-51) to establish FPOPP as a replacement for a defined contribution, individual account plan named the "City of Alexandria Retirement Income Plan for Firefighters and Police Officers" ("F&P Retirement Income Plan") and for a pooled defined benefit plan called the "City of Alexandria Firefighters and Police Officers Disability Income Plan." The F&P Retirement Income Plan itself had replaced an older defined benefit plan (the "Old, Old Firefighters and Police Plan," closed in 1979) for new hires.

The FPOPP was the product of a deliberate, collaborative (City, employees and professionals) decision-making process during 2003-2004 as described in a series of City documents including memoranda dated February 6, 2004 and February 13, 2004 to the Mayor and City Council from City Manager Phil Sunderland. The February 6th memorandum stating that 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."* The City Manager recommended that City Council 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 existing disability plan for firefighters and police officers into the defined benefit plan."*

In describing the new defined benefit plan and how it developed, City Manager Sunderland's February 6th memorandum made the following pertinent points:

(a) *"Contributions: The City will pay the employer required contribution, which is expected to be 20% of payroll, the same contribution the City now makes 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 is just received.) All employee contributions will be in pre-tax dollars. Police officers and firefighters do not now make an employee contribution."*

(b) *"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 officers and fire fighters.*

"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."

(c) *"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."*

City Manager Sunderland's February 13, 2004 memorandum made the following pertinent points regarding updates in the costs of the FPOPP:

(a) *"The actuaries' cost projection for the Plan, an annual contribution equal to 26.5 percent of the covered payroll, is a reduction from the original estimate of 28.07 percent. As a result of this reduction in the cost projections, after discussing this with the police and fire representatives, staff has revised the Plan by (1) lowering the Average Monthly Compensation used to calculate a retiree's benefit from 60 months to 48 months (which increases the projected annual Plan cost to 27.25 percent of payroll), and (2) by lowering by 0.5 percent the Employee Contribution from 8 percent to 7.50 percent."*

(b) *"Fiscal Impact: The City is currently paying 20% of covered payroll into the existing defined contribution plan. Under the defined benefit retirement plan, initially the cost to the City will be 20% of payroll. However, the City's 20 percent cost could increase when the market value of the pension plan assets and investment earnings decrease. Conversely, the City's 20 percent cost could decrease if the market value of the pension plan assets and investment earnings increase."*

B-2. When the FPOPP was converted to a defined benefit plan in 2004, participants were given a one-time opportunity to convert the assets held in their individual accounts (attributable to City contributions) under the Retirement Income Plan into defined benefit credits under the FPOPP for their pre-2004 employment (called the "past service election"). Participants converting were immediately vested in their accrued benefits for their pre-2004 as well as subsequent covered service.

Most participants did convert, and so have service credits under the FPOPP for pre-and post-January 1, 2004 employment as firefighters and police officers.

Participants who did not convert are nonetheless covered by the FPOPP for post-January 1, 2004 employment, but they were not immediately vested in their accrued benefits and had to continue in covered service to meet the vesting requirement under the FPOPP rules.

Some participants who converted their account balances attributable to City contributions to the defined benefit plan still maintained accounts in the Retirement Income Plan for assets attributable to their voluntary, after-tax employee contributions or a prior rollover. As of 2011, 140 participants maintain the individual accounts under the Retirement Income Plan. No City or employee contributions are made to these individual accounts since the 2004 conversion, but the participants continue to self-direct the investments of their accounts among investment choices selected by the Pension Plan Retirement Board.

B-3. Assets of FPOPP are held in two separate trusts: one for regular pension benefits and the other for disability pension benefits. Contributions are allocated between the trusts in accordance with actuarial recommendation.

B-4. As of July 1, 2010, a total of 650 current and former City employees were participating in FPOPP. The numbers by category of participants are as follows:

(a) 462 active employees (total collective annual payroll = $32,638,214)

(b) 87 regular retirees

(c) 71 disabled retirees

(d) 10 DROP participants (retired but still working for City)

(e) 20 vested, non-retired former employees

B-5. FPOPP is funded by a combination of employee and City contributions which are invested on a pooled basis.

(a) Employee Contributions: Since 2004, all covered employees are required to contribute 8% of their gross base pay. Employee contributions are deducted for each biweekly paycheck.

(1) The 8% is allocated between the Basic Plan and the Disability Plan as determined by actuarial valuation.

(2) For FY 2010 and 2009, the 8% was allocated as follows: 7.2% for regular pension benefits, and 0.8% for disability benefits. Prior thereto the allocation was 7.5% / 0.5%, then 7.4% / 0.6%.

(3) The regular pension benefits portion (currently 7.2%) is pre-tax (not included in employee income for income or payroll taxes)

(4) The disability pension portion (currently 0.8%) is after-tax (included in employee income for income and payroll tax). This is so non-service partial disability benefits are not subject to income taxes when received.

(b) City contributions: City is responsible for funding the benefits not funded by the employees' contributions. The City makes annual employer contributions in amounts determined by City Council based on advice of the Plan's actuary. The City has a policy of contributing the full amount of contribution recommended by the actuary, and has consistently complied with this policy.[5]

B-6. The most significant plan design features of FPOPP are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit (except automatic vesting in 2004 for participants who converted their Retirement Income Plan account balances attributable to City contributions into credits under the FPOPP).

(b) Benefit at retirement based on Average Final Compensation x Multiplier x Years of Service Credit.

(c) Creditable Compensation for purposes of determining the Average Final Compensation is only base pay, and does not include pay for overtime, bonuses, shift differentials, etc.

(d) Average Final Compensation is the average of the 48 highest consecutive months of Creditable Compensation.

(e) The Multiplier is:

(1) 2.5%: for the first 20 years of Service Credit; plus

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[5] Unlike many State and local jurisdictions around the Nation, the City has not skipped or shorted contributions recommended by the actuary.

(2) 3.2%: for Service Credit in excess of 20 years up to a maximum of 30 years.

(f) Years of Credit are generally the years of employment with the City as a sworn firefighter or police officer.

(g) Benefit limits:

(1) Service Credit will be granted for no more than 30 years of covered service

(2) No pensioner's benefit at retirement can exceed 82% of his or her Average Monthly Compensation

(h) A participant may retire and receive FPOPP pension benefits when he or she meets the following age and service characteristics:

(1) Normal Retirement (retirement with an unreduced benefit):

(a) age 55 if hired as firefighter or police officer before January 1, 2004;

(b) age 55 and 5 years if hired as firefighter or police officer on or after January 1, 2004;

(c) 25 years of service credit regardless of age

(2) Early Retirement (retirement with actuarially reduced benefit)

(a) age 50 with 20 years of service credit

(3) Disability Pension: see discussion of special disability rules below.

(i) Forms of pension include single life annuity (monthly benefits for life after retirement), joint and survivor annuity (monthly benefits for life of pensioner and for surviving spouse), guaranteed payment option (monthly benefits for the longer of the pensioner's lifetime or a pre-determined number of years).

(j) DROP option: if a participant has completed 30 years of service (that is, has "maxed out" on Service Credit), he or she may "retire" but continue working for City for up to 3 years. During the period of continuing employment, the participant's monthly pension benefits are paid by the City into a notional DROP account, for the participant's benefit, rather than to the participant. The notional assets in the participant's DROP account are still part of FPOPP and are invested along with FPOPP's other assets, and the City pays 3% per year interest on the DROP account balance.

(k) Post-retirement COLA: pension benefit adjusted annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year with lifetime cap of 100%; different calculation under certain options; benefit can be adjusted down for deflation as well as up for inflation.

(l) Disability Benefits: As noted above, the former "City of Alexandria Firefighters and Police Officers Disability Income Plan" was merged into the FPOPP at the inception of FPOPP, although the FPOPP assets dedicated to disability benefits are still maintained in a separate trust from the regular retirement plan's assets. FPOPP provides the following disability pension benefits:

(1) If participant becomes disabled in or after 2004 while actively employed by the City as a firefighter or police officer before age 55, a disability benefit is payable. FPOPP provides two types of disability benefits:

(i) a basic disability benefit that is payable for the period of disability up to age 55; and

(ii) a supplemental disability benefit that is payable after age 55 (in addition to regular pension payable at age 55)

Prior to 2004 the age was 60, not 55.

(2) The amount of the disability benefit depends on the nature of the disability and whether it was service connected.

(i) If a participant incurs a service-connected total and permanent disability while actively employed, his or her pension benefit is equal to 70% of his or her Average Monthly Compensation

(ii) If a participant incurs a non-service-connected total and permanent disability while actively employed, his or her pension benefit is equal to 66 2/3% of his or her Average Monthly Compensation

(iii) If a participant incurs a service-connected partial disability while actively employed, his or her pension benefit is equal to 66 2/3% of his or her Average Monthly Compensation, less his or her workers compensation benefit

(iv) If a participant incurs a non-service-connected partial disability while actively employed, his or her pension benefit is equal to 50% of his or her Average Monthly Compensation

(3) Adjustment in benefits at age 55 for those disabled before age 55: A participant who begins receiving disability pension benefits before age 55 will have his or her benefits recalculated upon attaining age 55.

The purpose is to offset disability benefit by regular retirement benefits under FPOPP and the Retirement Income Plan; so that the participant's combined disability benefit and retirement benefit reflects the average monthly compensation being paid at that time to a firefighter or police officer who holds the same rank or grade occupied when the participant became disabled. The recalculation proceeds as follows:

(i) Add disability benefit being paid, normal retirement benefit under the Plan, and (if the participant has a Retirement Income Plan account attributable to City contributions), the annuitized benefit payable by the Retirement Income Plan;

(ii) Reduce the sum of produced under (i) so that it is roughly actuarially equivalent to the amount of disability benefits that the participant would have received under the Plan if he:

* had continued to work for the City as a firefighter or police officer until age 55;

* continued to occupy the same rank and grade he held immediately before his disability;

* had compensation equal to the basic pay applicable to such rank and grade (ignoring step increases) for the 48-month period before his 55th birthday; and

* he became disabled and began receiving disability

benefits immediately prior to his 55th birthday.

(4) Special COLA adjustments for Disability Pensions:

(i) Pre-age 55: annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year and 100% lifetime; benefit can be adjusted down for deflation as well as up for inflation.

(ii) Post-age 55: annually (May 1st) based on CPI-U (Washington DC area); capped at 3% per year and 100% lifetime. Applies to the benefit amount produced by the adjustment following age 55. Capped at 3% per year and 100% lifetime; benefit can be adjusted down for deflation as well as up for inflation.

B-7. Key actuarial assumptions used by the FPOPP include a long-term investment return of 7.50%, salary increases of 3% plus merit increases, and inflation at 2.7%.

B-8. Governance & Administration: FPOPP is a City-sponsored pension plan, and the City controls all aspects of its governance and administration, including the professional service providers.

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City's annual contribution to the plan; (3) reserves the right to amend or terminate the plan under City Code Section 2-5-65.

(b) Under the terms of the FPOPP, there is a Firefighters and Police Officers Pension Plan Retirement Board. The Board consists of 8 members appointed by the City Council: 4 representatives of the City, 2 nominees of the Firefighters, and 2 nominees of the Police. The Board oversees investment of FPOPP assets, and may recommend changes in FPOPP's provisions to the City Council.

(c) The FPOPP's plan administrator is appointed by the City Manager. Currently Prudential provides administrative services under contract with the City, and has been providing investment services as well.

(d) Recently, the City engaged Dahab Associates, Inc. (Barry Bryant, Managing Director) to advise the Board on asset allocation and selection of investment managers.

(e) Plan assets have been held in trust with Prudential (Basic and Disability) and SunTrust Bank (Disability). But the Board and City are transitioning to an arrangement under which Comerica will trustee the assets.

(f) All administrative expenses, including professional service providers' fees, are paid from FPOPP assets (not from City assets).

(g) The City recently engaged a new actuarial firm, Cheiron, to perform July 1, 2010 Actuarial Valuation.

C. City of Alexandria Retirement Income Plan for Firefighters and Police Officers ("F&P Retirement Income Plan")(Closed)

C-1. The F&P Retirement Income Plan is the defined contribution, individual account plan that was closed to new participants in 2004 as part of the conversion to the defined benefit plan (the "City of Alexandria Firefighters and Police Officers Pension Plan"), as discussed above.

C-2. Currently, 140 participants still maintain the individual accounts under the F&P Retirement Income Plan. No City or employee contributions have been made to these individual accounts since 2003, but the participants continue to self-direct the investments of their accounts among investment choices selected by the Pension Plan Retirement Board. The 140 remaining participants can be categorized as follows:

(a) Participants who elected not to convert their individual account balances attributable to City contributions into FPOPP defined benefit plan credits during the one-time "past service election" in 2004.

(b) Participants who converted their account balances attributable to City contributions into FPOPP service credits in 2004, but chose to maintain their account to hold their voluntary, after-tax employee contributions or a prior rollover.

(c) Participants who were disabled before 2004.

C-3. Benefits are limited to an individual participant's account balance.

C-4. Governance:

(a) City Council: (1) controls the terms and conditions of the plan, (2) reserves the right to amend or terminate the plan.

(b) The Firefighters and Police Officers Pension Plan Retirement Board may recommend changes in the Plan to the City Council. Although the investments are participant self-directed, the investment options that participants may choose from are determined by the Pension Plan Retirement Board.

(c) The City hired Prudential to provide administrative services.

(d) The non-investment administrative expenses of the F&P Retirement Income Plan are borne by the City (but are minimal).

D. City of Alexandria "Legacy" Firefighters and Police Officers Pension Plan (Closed)

D-1. This is the original defined benefit pension plan established and maintained by the City for firefighters and police officers, but closed to new participation in 1979 when the F&P Retirement Income Plan was established to replace it.

D-2. Currently, 139 retired (regular and disability) firefighters and police officers or their surviving spouses are still drawing monthly benefits from this closed plan. No current City employees are covered by the plan.

D-3. The City contributes annually to continue funding retirees' monthly pension benefits. The City contributed $1.7 million in FY2009 - 2012. Contributions will continue at this level for 2 - 3 years, and then drop by about $500,000 to about $1.2 million for another 15 years. The plan will eventually terminate once all retirees and surviving spouses die.

D-4. City Council controls the terms and conditions of the plan, and reserves the right to amend or terminate the plan.

D-5. The administrative expenses of the plan are paid through the plan. The City incurs some minor staff time expenditures.

E. City of Alexandria Supplemental Retirement Plan ("SRP")

E-1. The SRP is a pooled defined benefit plan established in 1970 by the City for City employees not covered by the firefighters and police pension plan as a supplement to the VRS pension coverage (City Code Section 2-5-54). Participation is mandatory for covered City employees.

E-2. The SRP covers:

(a) All regular, full-time City employees who are not covered by the FPOPP;

(b) All regular, part-time City employees who are scheduled to work at least 50% time and are not covered by the FPOPP;

(c) Employees of the Virginia Department of Health assigned to the City of Alexandria have also been covered by the SRP since the early 1970s.

(1) Although their salaries and VRS contributions are paid by State, the City provides coverage under the SRP at the City's expense.

(2) There are currently 87 such employees. 74 of these employees were hired before July 1, 2009 and contribute 1% of salary to the SRP. The 13 employees hired after that date contribute 2% of salary.

(3) These employees are on the City pay scale and work side-by-side with City employees. Although Arlington and Fairfax took over the operation of their Health Departments from the State and made the Departments' employees County employees, Alexandria has not done so. Rather, the City has chosen to treat Health Department employees like City employees with regard to pensions.

(d) A few other State employees may be working in Alexandria (*e.g.* the courts) may also be covered by the SRP.

Accordingly, SRP coverage includes: all of the City's General Schedule employees; all Deputy Sheriffs, Emergency Medical Technicians, and Fire Marshals; all City Council members; the City Manager; and the City's management staff. Excluded from SRP coverage are firefighters and police officers and City school system employees.

E-3. As of July 1, 2010, a total of 3,078 current and former City employees were participating in the SRP. The numbers by category of participant are as follows:

(a) 2,033 active employees (total collective annual payroll = $124,936,457)

(1) non-uniformed = 1,794

(2) uniformed = 239 (Deputy Sheriffs, Emergency Medical Technicians, and Fire Marshals)

(b) 277 regular retirees

(c) 20 disabled retirees

(d) 718 vested, non-retired former employees

E-4: The SRP is funded primarily by City contributions, although new General Schedule employees have been required to contribute a portion of their salaries since July 2009. All contributions are invested on a pooled basis.

(a) City contributions: The City is responsible for funding the benefits not funded by the employees' contributions. The City makes annual employer contributions in amounts determined by City Council based on advice of the Plan's actuary. The City has a policy of contributing the full amount of contribution recommended by the actuary, and has consistently complied with this policy.

(b) Employee contributions:

(1) Employees who were participants in the SRP before July 1, 2009 are not required to contribute any of their salaries to the SRP.

Prior to July 1, 2009, the City's contributions were deemed to include a 2% "employee contribution." This enabled short term employees to receive a distribution of the "employee contributions" made by the City for them upon termination of their employment.

As of July 1, 2009, no part of the City's contributions to the SRP are considered "employee contributions."

(2) For employees who were participants before July 1, 2009, the City will continue to make the 2% additional contribution, but these contributions will no longer be treated as employee contributions.

(3) General Schedule employees who became participants in the SRP on or after July 1, 2009 are required to contribute 2% of their base pay. (See Budget Memorandum #86 (April 9, 2009), and Budget Memorandum #106 (April 14, 2009)).

This means that a new General Schedule employee is now required to contribute 4% of his or her salary to the VRS-2 and 2% of his or her salary to the SRP.

(4) Deputy Sheriffs, Medics and Fire Marshals who became participants in the SRP on or after July 1, 2009 are not required to contribute 2% of their base pay. (See Budget Memorandum #125 (April 28, 2009)

This means that a new Deputy Sheriff, Medic, or Fire Marshal is now required to contribute 4% of his or her salary to the VRS-2, but is not required to contribute to the SRP.

(5) As for the State employees assigned to the Department of Health in Alexandria, the employees hired before September 1, 2009 (the majority) contribute 1% of salary to the SRP. Employees hired on or after September 1, 2009 contribute 2% of salary.

E-5. The most significant plan design features of the SRP are as follows:

(a) Fully vested in accrued retirement benefit after 5 Years of Service Credit

(b) Benefit at retirement is based on complex formulas, and there are different formulas for General Schedule employees than there are for Deputy Sheriffs, Medics, and Fire Marshals:

(1) Only base pay is considered in calculating the benefit amount; not pay for overtime, bonuses, shift differentials, etc.

(2) Average Final Compensation is the average of any 36 consecutive months of Creditable Service within the 180 full calendar month period preceding retirement or termination.

(3) The pension benefit formula for General Schedule employees only is as follows:

(i) 0.8% of Average Final Compensation multiplied by Years of Service Credit earned after December 31, 1987; plus

(ii) 1.625% of Past Service Compensation up to $100 plus 0.25% of Past Service Compensation in excess of $100, multiplied by Years of Service Credit earned between July 31, 1960 and August 1, 1979 increased by 50%; plus

(iii) 1.625% of Average Final Compensation up to $100 plus 0.25% of Average Final Compensation in excess of $100, multiplied by the Years of Service Credit earned between July 31, 1970 and January 1, 1988 increased by 50%.

(4) The pension benefit formula for Deputy Sheriffs, Medics and Fire Marshals:

(i) 0.6% of Average Final Compensation multiplied by first five Years of Service Credit; plus

(ii) 0.9% of Average Final Compensation multiplied by years 6-15 of Service Credit; plus

(iii) 1.0% of Average Final Compensation multiplied by years 16+ of Service Credit.

(c) A participant may retire and receive pension benefits from the SRP when he or she meets the following age and service characteristics:

(1) Normal Retirement (retirement with an unreduced benefit):

(i) General Schedule employees: age 65 with 5 years of service credit; or age 50 with 30 years of service credit

(ii) Deputy Sheriffs, Medics, and Fire Marshals: age 65 with 5 years of service credit; or age 50 with 25 years of service credit (as a Deputy Sheriff, Medic, or Fire Marshal).

(2) Early Retirement (retirement with actuarially reduced benefit)

(i) age 55 with 5 years of service credit;

(ii) age 60, regardless of service, if full-time employee

(iii) age 65, regardless of service, if part-time employee

(3) Disability retirement benefits provided: active vested employee who is eligible for Social Security disability benefits (total and permanent disability).

(d) Forms of benefit: annuity (monthly benefits for life after retirement), joint and survivor annuity (monthly benefits for life of pensioner and for surviving spouse at 100%, 66 2/3%, or 50% levels), guaranteed income (benefits for 5, 10 or 15 year periods even pensioner dies), or lump sum (single sum payment of present value of entire accrued benefit).

(e) No post-retirement cost-of-living increase in monthly benefits (COLA).

E-6. Key actuarial assumptions used by the SRP include a long-term investment return of 7.50%. The funding method is entry age normal, the most commonly used method. Assets are valued at market (not "smoothed").

E-7. Governance & Administration: The SRP is a City-sponsored pension plan, and the City controls all aspects of its governance and administration, including the professional service providers.

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City's annual contribution to the plan; (3) reserves right to amend or terminate the plan under Plan Sections 14.1 - 14.2.

(b) The City hired Prudential to provide administrative services.

(c) The SRP's investments are overseen by City's Chief Investment Officer within the Department of Finance's Pension Administration Division, but final authority rests with City Manager. Recently, the City engaged Dahab Associates, Inc. (Barry Bryant, Managing Director) to advise the City on asset allocation and selection of investment managers. There is no joint City-employee pension board for the SRP.

(d) City recently engaged a new actuarial firm, Cheiron, to perform new July 1, 2010 Actuarial Valuation.

(e) All administrative expenses, including professional service providers' fees, are paid from the SRP's assets (not from City assets).

F. City of Alexandria Retirement Income Plan for Deputy Sheriffs, Medics, and Fire Marshals ("DS, M & FM RIP")

F-1. The DS, M & FM RIP is a defined contribution, individual account pension plan established by the City for City employees who are Deputy Sheriffs, Medics, and Fire Marshals in 1990 (City Code Section 2-5-51(d)).[6]

F-2. The DS, M & FM RIP automatically covers all permanent, full time Deputy Sheriffs, Medics, and Fire Marshals employed by the City. Currently, there are 239 covered employees (all actives). Participation is mandatory.

F-3. The DS, M & FM RIP is funded solely by City contributions; no employee contributions are permitted. The City contributes a percentage of each covered

6 This plan is distinct from the closed "F&P Retirement Income Plan" discussed above.

employee's annual salary, with the percentage determined each year by the City Council. The City Council has been contributing to the DS, M & FM RIP the difference, if any, between the following (a) and (b) in any given year:

(a) total percentage of payroll contributed for the permanent, full time Deputy Sheriffs, Medics, and Fire Marshals to the VRS and City Supplemental Plan, and

(b) 22.35% of total payroll for the permanent, full time Deputy Sheriffs, Medics, and Fire Marshals.

For FY2011 and FY 2010, the City's contribution to the Plan is zero percent / zero dollars. The total percentage of payroll contributed for the permanent, full time Deputy Sheriffs, Medics and Fire Marshals to the VRS and City Supplemental Plan exceeded 22.35%, so no contribution to this plan was made.

F-4. The most significant plan design features of the DS, M & FM RIP are as follows:

(a) The plan is being closed at Prudential and the remaining assets are being transferred to ICMA-RC.

(b) Participants self-direct the investment of their individual accounts using an ICMA-RC platform of investment funds.

(c) A participant is permitted to receive a distribution of his or her entire account balance in a lump sum upon retirement from City employment at age 60 or later.

(d) In the event of termination from City employment or disability, the participant may obtain a distribution of his or her entire account balance or may "rollover" the account balance to another retirement savings vehicle. In the event of the participant's death, his or her beneficiary can receive a distribution of the account balance.

F-5. Governance & Administration: The DS, M & FM RIP is a City-sponsored pension plan, and the City controls all aspects of its governance and administration, including the professional service providers.

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City's annual contribution to the plan; (3) reserves right to amend or terminate the plan under City Code Section 2-5-51(d).

(b) The DS, M & FM RIP is now administered by a third-party administrator, ICMA-RC, under contract with the City. ICMA-RC also provides the investment fund platform.

(c) The administrative expenses of the DS, M & FM RIP are paid through the plan. The City incurs some minor staff time expenditures.

G. Voluntary Deferred Compensation Plan ("DCP")

G-1. The DCP is a voluntary defined contribution, individual account pension plan established by the City under Section 457 of the Internal Revenue Code.

G-2. The DCP is available to the following groups of City employees. An employee in an eligible group must affirmatively choose to participate.

(a) all permanent full-time employees of the City; and

(b) all permanent part-time employees of the City scheduled to work at least 50% time.

G-3. At present, 1,836 current and former City employees are participants in the DCP. More than one-half of these employees contribute each pay period. The total balance of all accounts as of June 30, 2011 was $107,480,022. The average account balance as of that date was $58,540.

G-4. Only voluntary employee contributions are permitted to the DCP. The City does not make any contributions. An employee elects how much he or she wants to contribute on a pre-tax salary deferral basis (up to the limits set by the Internal Revenue Code) and the contributions are deducted from his or her periodic salary payments by the City.

G-5. The most significant plan design features of the DCP are as follows:

(a) Participants self-direct the investment of their individual accounts using an ICMA-RC platform of investment funds.

(b) In the event of termination from City employment or disability, the participant may obtain a distribution of his or her entire account balance or may "rollover" the account balance to another retirement savings vehicle. In the event of the participant's death, his or her beneficiary can receive a distribution of the account balance.

(c) During a participant's City employment, he or she may obtain loans and hardship withdrawals from his or her individual account, subject to IRS rules. The loan provision is subject to recision or alteration in the future.

G-6. Governance & Administration:

(a) City Council: (1) controls the terms and conditions of the plan, (2) decides the amount of the City's annual contribution to the plan; (3) reserves right to amend or terminate the plan.

(b) ICMA-RC administers the plan and provides the investment fund platform under contract with the City.

(c) The administrative expenses of the DCP are paid through the plan. The City incurs some minor staff time expenditures (less than one full-time employee equivalent).

H. Voluntary ICMA-RC Payroll Deduction Roth IRA Accounts

H-1. This is a voluntary individual retirement savings plan sponsored by ICMA-RC for any regular City employee who wishes to enroll. The City allows any regular employee to make after-tax contributions through payroll deduction. The "plan" is not considered to be sponsored by the City, and the City does not make any contributions.

H-2. A "snapshot" of current participation is that 1,255 City employees contributed in the pay period that included June 30, 2011.

I. Social Security

I-1. All City employees are covered by the federal Social Security system which provides monthly retirement income, as well as disability and survivor income benefits. Not all public employers participate in the Social Security system. Every employee earns Social Security credits for City employment.

I-2. Social Security normal retirement (full) benefits are designed to replace 40% of the average American worker's income. But, the average American worker's income is less than the average City employee's salary, and an employee's actual retirement benefit amount and its income replacement value will depend on his Social Security credits and earnings record.

I-3. The normal Social Security retirement age at which full benefits are payable is age 66 for employees born during the period 1943-1954, phasing up to age 67 for employees born in 1960 or later. An employee may elect to begin receiving Social Security benefits as early as age 62, but the benefit amount is reduced about one-half of 1 percent for each month earlier than the full retirement age that benefits commence. (For example, if the full retirement age applicable to the employee is 66 and he elects to begin his benefits at age 62, he would receive only get 75% of his full benefit.)

I-4. Social Security coverage is funded by payroll taxes paid to the Federal Government. A portion of the payroll tax is paid by the City and a portion is paid by each employee.

(a) The City, as the employer, pays a tax of 6.2% of employee earnings up to an annual maximum earnings limit ($106,000 for 2011).

(b) Employees normally pay a tax of 6.2% of earnings up to the annual maximum earnings limit, the same as the City's tax rate. However, there is a temporary reduced rate of 4.2% in effect as part of the Federal Government's economic stimulus package. The 4.2% rate is currently schedule to "sunset" as of December 31, 2011 (unless extended by act of Congress).

I-5. There is no Social Security offset from the benefits payable under VRS, the FPOPP or the SRP. It is common for pension plans to include some sort of Social Security offset.

VI. Other Post-Retirement Benefit Programs For City Employees

In addition to the pension plan coverage and other retirement income programs for City employees discussed above, the City also sponsors or contributes to non-pension benefits for retired City employees.

A. Retiree Health Insurance Policy

A-1. The City does not maintain a formal retiree health plan for retired City employees, and has no funding obligation for future retiree health benefits. But, since 1979 the City Council has long had a personnel policy on retiree health insurance. The history of the program is described in an October 28, 2011 Human Resources Department memorandum that is attached to this report as Addendum J.

A-2. Currently, eligibility for the benefits of the policy is limited to City retirees who:

(a) were full-time City employees;

(b) were enrolled in a City health insurance plan at the time of retirement; and

(c) are receiving a pension from VRS, the SRP, or the FPOPP.

A-3. The policy has two components: pooled, self-paid health insurance rates, and a subsidy towards retiree health insurance premiums.

A-4. Pooled Self-Paid Rates: Eligible retirees are permitted to continue their participation in the City's health insurance plan for active employees on a self-paid basis. This enables retirees to pay lower insurance rates by virtue of being pooled with lower aged actives. It has been suggested that the pooling effect saves a participating retiree about $300 per year.

(a) Currently, 1,334 City retirees participate in the City's employee health insurance plan.

A-5. Subsidy: Under the policy, the City pays to eligible retirees a cash subsidy towards their actual health insurance premium costs (for coverage under the City's employee health plan or any other health insurance program that requires the retiree to pay premiums).

(a) The amount of the subsidy varies according to hire date and years of City service.

(1) Retirees hired prior to October 1, 2007 are eligible for a subsidy of $260 per month (or their actual premium costs, if less). This equates to a maximum annual benefit of $3,120 per year.

(2) Retirees hired on or after October 1, 2007 are eligible for a percentage of the maximum subsidy of $260 per month (or their actual premium costs, if less), according to their years of City service at retirement:

(i) Less than 5 years of service, no subsidy is payable.

(ii) For years of service from 5 through 25, 4% of the $260 per year of service.

So, for example, an employee who had 25 years of City service would receive a maximum annual benefit of $3,120. A retiree with 20 years of City service would be eligible for a monthly subsidy of 80% of the $260, which is $208 per month or $2,496 per year. The Addendum on retiree health insurance contains a chart showing the breakdown in 5-year increments.

(b) The subsidy is payable only until the retiree becomes eligible for Medicare coverage (age 65).

(c) The $260 per month maximum benefit has not been increased by City Council since 2006. The policy was revised by imposing the 4% per year phase-in of the $260 maximum benefit for retirees hired on or after October 1, 2007.

(i) This phase-in was recommended in an August 6, 2007 memorandum from Personnel Director Henry Howard to City Manager James Hartmann and announced by letter from Mr. Hartmann in a September 11, 2007 letter.

(d) The subsidies are pre-funded as of FY2008.

(e) For FY2012, it is projected that 256 City retirees will be eligible for some subsidy.

A-6. City Council has discretion to amend or terminate any aspect of this personnel policy at any time. Any such amendment or termination may affect current as well as future retirees.

B. Medicare

B-1. All City employees are covered by the federal Medicare program which generally provides medical benefits coverage to individuals commencing at age 65.

B-2. Medicare coverage is funded by payroll taxes paid to the Federal Government. A portion of the payroll tax is paid by the City and a portion is paid by each employee.

(a) The City, as the employer, currently pays a tax of 1.45% of employee earnings.

(b) Employees currently pay a tax of 1.45% of their earnings.

C. Retiree Life Insurance Policy

C-1. The City has had a personnel policy of providing life insurance coverage for eligible retirees at the City's expense as well as allowing retirees to purchase additional coverage at pooled rates.

C-2. Eligibility for the coverage is limited to City retirees who:

(a) were full-time City employees;

(b) were hired by the City before July 1, 2009; and

(c) are receiving a pension from VRS, the SRP, or the FPOPP.

Employees hired on or after July 1, 2009 will not be eligible for any City-paid retiree life insurance when they retire.

C-3. The life insurance benefit provided at City expense is initially 200% of final salary until age 65 (the January 1st following 65th birthday), and then is reduced by age as follows:

(a) reduced to 150% of final salary on the January 1st following 65th birthday;

(b) reduced by 25% of final salary each succeeding January 1st until age 70;

(c) by age 70, the benefit is reduced to 25% of final salary.

C-4. The voluntary life insurance that an eligible retiree may purchase at his or her own expense is initially 100% of final salary until age 65 (the January 1st following 65th birthday), and then is reduced by age so that it is equal to 75% of final salary at age 65 and 25% of final salary at age 70.

C-5. As of June 23, 2011, 224 retirees had 100% of salary coverage and 698 retirees had 200% of salary coverage.

C-6. The City pays the full premium for the automatic retiree life insurance coverage. For FY2012, the City's projected premium cost is $203,738.92.

C-7. City Council has discretion to amend or terminate any aspect of this personnel policy at any time. Any such amendment or termination may affect current as well as future retirees.

VII. Employees' Retirement Benefits

Having described the various retirement income and post-retirement benefit programs covering City employees, it may be helpful in understanding how these coverages apply to specific employees to summarize the coverages by employee classifications and hiring dates and their income replacement value.

A. General Schedule Employees

A-1. General Schedule employees are covered by or have available the following pension and retirement income programs:

(a) Virginia Retirement System (mandatory participation)

(1) VRS-1: employees hired[7] into VRS-covered positions before July 1, 2010

(i) No employee contribution

(2) VRS-2 employees hired into VRS-covered positions after June 30, 2010

(i) 4% of salary employee contribution

(b) City's Supplemental Retirement Plan (mandatory participation)

(i) employees hired before July 1, 2009, no employee contribution

(ii) employees hired on or after July 1, 2009 a 2% of salary employee contribution

(c) Voluntary Deferred Compensation Plan (voluntary participation)

Only elective employee contributions

(d) Social Security (mandatory participation)

Employee payroll tax is normally 6.2%; temporarily 4.2%

A-2. The income replacement value of these retirement income programs varies from employee to employee, but some measure of that value in general is a comparison of the normal retirement age benefit to the average salary of the employee group. For

[7] "Hired" includes a full-time employee who was first hired by the City before July 1, 2010, left the City's employment, and returned to City employment without incurring a break in service, even if his or her return to City employment was after July 1, 2010. It also includes City employees who were participants in VRS-1 by virtue of employment with another VRS participating employer before July 1, 2010. However, a part-time employee hired before July 1, 2010 who becomes a full-time employee after July 1, 2010 is considered to be hired after July 1, 2010 and so is covered by VRS-2.

General Schedule employees, their combined benefit accrual for VRS coverage and SRP coverage is about 2.5% of Final Average Salary per year of service after 1987. The following chart shows the normal retirement benefit produced by this VRS/SRP accrual rate as a percentage of average salary:

Years of Service	Benefit As Percentage of Average Salary
5	12.5%
10	25.0%
15	37.5%
20	50.0%
25	62.5%
30	75.0%
35	87.5%

This chart does not take into account any Social Security retirement benefit. It also does not show the substantial reduction in benefit amount if an employee retires before attaining normal retirement age under the VRS and SRP.

A-3. General Schedule employees are covered by the following post-retirement benefit programs:

(a) Retiree Health Insurance Policy (voluntary)

Self-paid participation in City health insurance plan, and cash subsidy.

(b) Medicare (mandatory)

Employee payroll tax of 1.45%. Medical coverage at age 65.

(c) Retiree Life Insurance

Term life insurance, but only for employees hired before July 1, 2009.

B. Firefighters and Police Officers

B-1. Firefighters and police officers are covered by or have available the following pension and retirement income programs:

(a) Firefighters and Police Officers Pension Plan

Employees contribute 8% of salary.

(b) Voluntary Deferred Compensation Plan (voluntary participation)

Only elective employee contributions.

(c) Social Security (mandatory participation)

Employee payroll tax is normally 6.2%; temporarily 4.2% (calendar year 2011 only unless extended by new federal legislation).

B-2. The income replacement value of these retirement income programs varies from employee to employee, but some measure of that value in general is a comparison of the normal retirement age benefit to the average salary of the employee group. Based on the Firefighters' and Police Officers' benefit accrual rate under the FPOPP, the following chart shows the normal retirement benefit produced under the FPOPP as a percentage of average salary:

Years of Service	Benefit As Percentage of Average Salary
5	12.5%
10	25.0%
15	37.5%
20	50.0%
25	66.0%
30	82.0%
35	82.0%

This chart does not take into account any Social Security retirement benefit. It also does not show the substantial reduction in benefit amount if an employee retires before attaining normal retirement age under the FPOPP.

B-3. Firefighters and police officers are covered by the following post-retirement benefit programs:

(a) Retiree Health Insurance Policy (voluntary)

Self-paid participation in City health insurance plan, and cash subsidy.

(b) Medicare (mandatory)

Employee payroll tax of 1.45%. Medical coverage at age 65.

(c) Retiree Life Insurance

Only for employees hired before July 1, 2009.

C. Deputy Sheriffs, Medics, & Fire Marshals

C-1. Deputy Sheriffs, Medics, & Fire Marshals are covered by the following pension and retirement income programs:

(a) Virginia Retirement System (mandatory participation)

(1) VRS-1: employees hired into VRS-covered positions before July 1, 2010.

(i) No employee contribution.

(2) VRS-2 employees hired into VRS-covered positions after June 30, 2010.

(i) 4% of salary employee contribution.

(b) City's Supplemental Retirement Plan (mandatory participation)

(i) No employee contribution by employees who were participants before July 1, 2009.

(ii) Deputy Sheriffs, Medics, and Fire Marshals who became participants on or after July 1, 2009 are exempted from the 2% of salary employee contribution.

(c) Voluntary Deferred Compensation Plan (voluntary participation)

Only elective employee contributions.

(d) Social Security (mandatory participation)

Employee payroll tax is normally 6.2%; temporarily 4.2% (calendar year 2011 only unless extended by new federal legislation).

C-2. The income replacement value of these retirement income programs varies from employee to employee, but some measure of that value in general is a comparison of the normal retirement age benefit to the average salary of the employee group. Based on the Deputy Sheriffs, Medics, and Fire Marshals combined benefit accrual for VRS coverage and SRP coverage, the following chart shows the normal retirement benefit produced by this VRS/SRP accrual rate as a percentage of average salary:

Years of Service	Benefit As Percentage of Average Salary
5	11.5%
10	24.5%
15	37.5%
20	51.0%
25	64.5%
30	78.0%
35	91.5%

This chart does not take into account any Social Security retirement benefit. It also does not show the substantial reduction in benefit amount if an employee retires before attaining normal retirement age under the VRS and SRP.

C-3. Deputy Sheriffs, Medics, & Fire Marshals are covered by the following post-retirement benefit programs:

(a) Retiree Health Insurance Policy (voluntary)

Self-paid participation in City health insurance plan, and cash subsidy

(b) Medicare (mandatory)

Employee payroll tax of 1.45%

(c) Retiree Life Insurance

Only for employees hired before July 1, 2009.

VIII. Comparison To Local Comparators

The Resolution requests information comparing the City's employee pension coverage to other jurisdictions.

A. Towers Watson Benefits Study: 2008 data

A-1. The City commissioned the Towers Watson (formerly Watson Wyatt) consulting firm to perform a comparative study of Alexandria's employee compensation package, including pensions and other benefits, relative to other local jurisdictions using a proprietary methodology for determining "value." Towers Watson produced a "Preliminary Results Report" in February 2009 which was based on 2008 data from

Alexandria, Arlington County, Fairfax County, Montgomery County, Prince George's County, and Prince William County.

The study's results have less value than it might once have had due to the passage of time. The 2008 data pre-dated (a) the City's adoption of VRS-2 with lower benefits and a 4% employee contribution for employees hired after June 30, 2010, and (b) the City's imposition of a 2% employee contribution requirement for General Schedule employees hired after June 30, 2009. In addition, there is a sense that changes have been made in the other jurisdictions' plans since 2008.

A-2. The study's results included the following:

(a) General Schedule employees: Alexandria's retirement pension plan coverage value was ranked 1st; retiree medical ranked 4th; retiree life insurance ranked 1st.

(b) Police: Alexandria's retirement pension plan coverage value was ranked 4th; retiree medical ranked 3rd; retiree life insurance ranked 1st.

(c) Deputy Sheriffs: Alexandria's retirement pension plan coverage value was ranked tied for 3rd; retiree medical ranked 3rd; retiree life insurance ranked 1st.

(d) Firefighters: Overall ranking considering pension, retiree medical and retiree life insurance was 4th.

(e) Medics: Overall ranking considering pension, retiree medical and retiree life insurance was 4th.

B. Informal Inquiries By City Staff

The City staff assigned to the Advisory Group, particularly Steven Bland, obtained information from the "comparator jurisdictions" and other jurisdictions regarding their employee pension plans, and prepared a series of helpful, data-rich charts comparing the features of the various plans. Those charts are set forth in Addendum B to this report.

IX. Costs: Pension Plans & Retirement Income Programs

The costs and projected costs of maintaining the above-described pension plans and retirement income programs for the City and its employees are described in this section.

A. Overall Costs To City

A-1. The City's contribution costs for the following pension programs: VRS, Firefighters and Police Officers Pension Plan; City Supplemental Retirement Plan, and the "Old, Old" Fire & Police Plan:

FYI	Contribution Total	Total City Budget	Pension as % of Budget	Contribution Total w/Soc Sec	% of Budget w/Soc Sec
2012*	$39.7m*	$699m	5.6%*	$48.2m	6.9%
2011	$37.0m	$660m	5.6%	$45.2m	6.9%
2010	$34.8m	$642m	5.4%	$43.0m	6.7%
2009	$35.2m	$658m	5.3%	$43.8m	6.7%
2008	$31.5m	$630m	5.0%	$40.1m	6.4%
2007	$31.7m	$616m	5.1%	$39.6m	6.4%
2006	$24.2m	$563m	4.3%	$32.3m	5.7%
2005	$21.3m	$520m	4.1%	$28.8m	5.5%
2004	$18.6m	$478m	3.9%	$25.8m	5.4%
2003	$17.3m	$437m	4.0%	$24.2m	5.5%

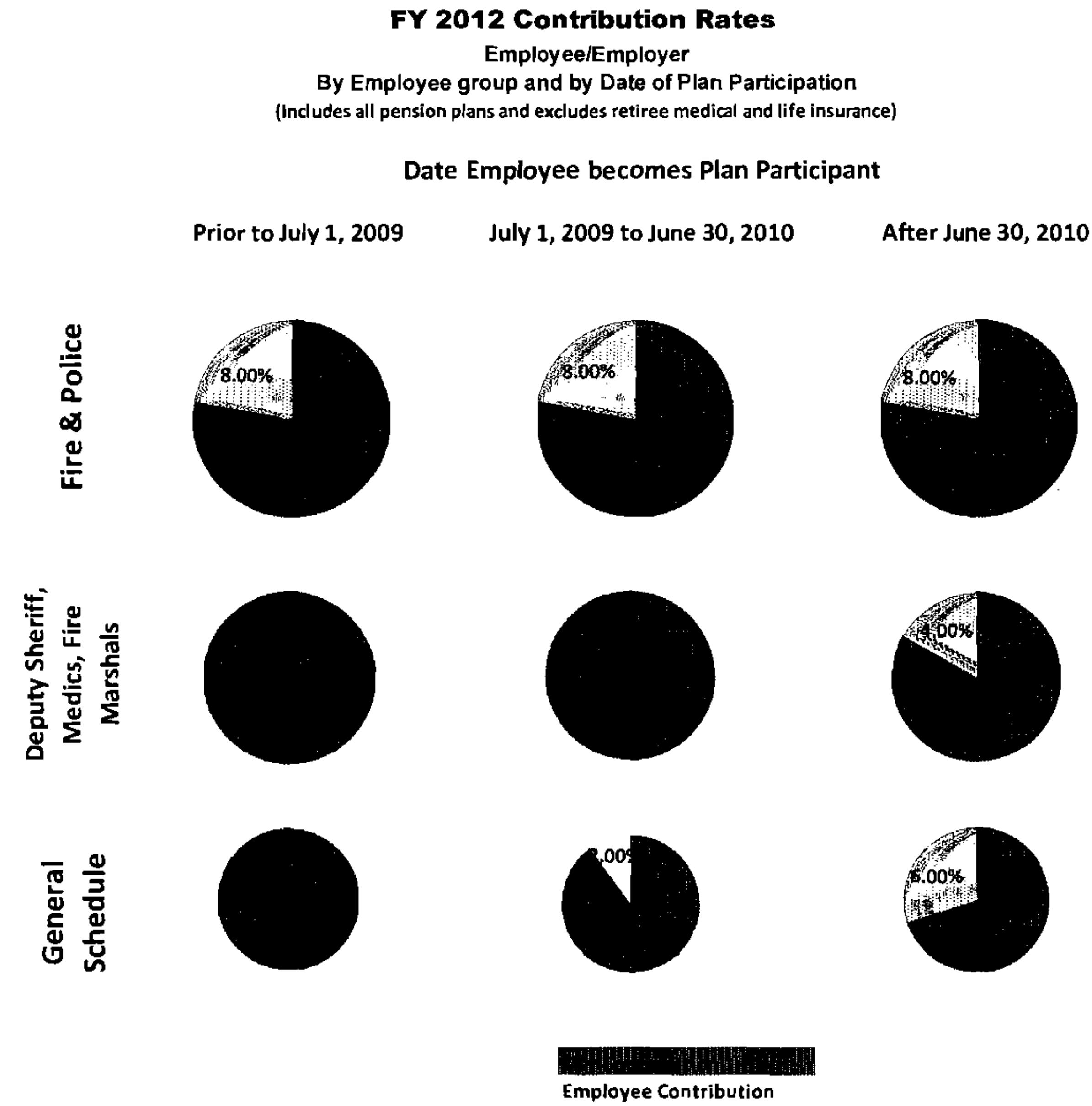
* Projected.

These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Medicare payroll taxes paid by the City; or (c) the cost of any other post-retirement benefits provided by the City.

A-2. The City's contribution obligations to VRS, the City's employee pension plans, and Social Security are affected by the number of employees and the amount of the employees' basic salaries. So, as the City adds employees or increases salaries, it is to be expected that the City's pension costs will increase.

A-3. FY2012 Contribution Rates-City and Employees: The following circle charts show the relative contributions by the City and from employee salaries, by employee group and date of plan participation, for FY2012. The numbers include all pension plans, but exclude non-pension retiree benefits.

(see next page for chart)



B. Costs By Employee Group

B-1. City Contributions To Current Firefighters & Police Officers Pension Plan

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2012*	$9.5m*	28.22%*	$34m
FY2011	$8.3m	25.17%	$33m
FY2010	$8.6m	26.79%	$32m
FY2009	$8.8m	26.41%	$33m
FY2008	$7.5m	22.35%	$33m
FY2007	$7.3m	22.35%	$33m
FY2006	$7.1m	22.35%	$32m
FY2005	$6.5m	22.35%	$29m
FY2004	$5.6m	22.35%	$25m
FY2003	$6.0m	23.00%	$26m

* Projected and not adjusted for smoothing or investment gains through FY2011. If adjusted for investment gains, smoothed in, could be 22-23%.

These figures include the basic and disability portions of the FPOPP, but do not include: (a) the 8% of salary employee contributions to the FPOPP; (b) the City's annual contributions to the closed "Old, Old" Firefighters & Police Officers Pension Plan; (c) Social Security / Medicare payroll taxes paid by the City; (d) cost of any other post-retirement benefits provided by the City.

B-2. City Contributions For Deputy Sheriffs, Medics, Fire Marshals To VRS, City Supplemental Plan, And Retirement Income Plan

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2012*	$4.2m	25.59%	$16.6m**
FY2011	$4.0m	24.52%	$16.2m
FY2010	$3.6m	22.35%	$15.9m
FY2009	$3.6m	22.35%	$16.0m
FY2008	$3.6m	22.41%	$16.2m
FY2007	$3.5m	22.41%	$15.5m
FY2006	$3.2m	22.35%	$14.2m
FY2005	$2.9m	22.35%	$13.1m
FY2004	$2.7m	22.35%	$12.0m
FY2003	$2.5m	22.35%	$11.2m

* Projected. ** Assumes 2% salary increase.

These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) the cost of any other post-retirement benefits provided by the City.

B-3. City Contributions For General Schedule Employees To VRS and City Supplemental Plan

Fiscal Year	City's Contribution: $ and % of Salary		Total "Pensionable" Salary
FY2012*	$20.9m	19.96%*	VRS-$100m / SRP-$113m**
FY2011	$19.6m	19.17%	VRS-$98m / SRP-$111m
FY2010	$17.7m	17.67%	VRS-$96m / SRP-$109m
FY2009	$18.2m	17.71%	VRS-$100m / SRP-$110m
FY2008	$17.3m	16.98%	VRS-$98m / SRP-$110m
FY2007	$16.6m	16.98%	VRS-$93m / SRP-$108m
FY2006	$10.2m	11.00%	VRS-$86m / SRP-$103m
FY2005	$9.3m	11.00%	VRS-$80m / SRP-$91m
FY2004	$7.7m	9.25%	VRS-$78m / SRP-$90m
FY2003	$6.1m	8.75%	VRS-$74m / SRP-$80m

* Projected. ** Assumes 2% salary increase.

These figures do not include: (a) employee contributions actually made by employees (as opposed to "employee contributions" made by the City); (b) Social Security / Medicare payroll taxes paid by the City; or (c) the cost of any other post-retirement benefits provided by the City.

C. Costs By Plan: Virginia Retirement System

C-1. FY2011 actual contributions to VRS

(a) City contributions:

(1) For VRS-1, the City contributed 12.78% of each covered employee's basic salary. Of this amount, 7.78% was "employer contributions" and 5% was "employee contributions" assumed by the City.

(2) For VRS-2, the City contributed 8.78% of each covered employee's basic salary. Of this amount, 7.78% was "employer contributions" and 1% was "employee contributions" assumed by the City.

(3) In total, the City contributed $16.3 million to the VRS for FY2011

(b) Employee contributions:

VRS-2 employees contributed 4% of their salaries, which amounted to about $500,000 on an annualized basis.

C-2. FY2012 projected contributions to VRS

(a) City contributions

(1) VRS-1: 12.78% of each covered employee's basic salary

(2) VRS-2: 8.78% of each covered employee's basic salary

(3) Total contribution by City to VRS (projected): $16.6 million

(b) Employee contributions:

VRS-2: employees are contributing 4% of their salaries

C-3: VRS projections beyond FY2012

(a) In the June 30, 2010 VRS valuation for the City of Alexandria, VRS projected that the City's contribution obligations (net of the 5% employee contribution) would be as follows:

FY2011 (ending 6/30/11): 7.78%
FY2012 (ending 6/30/12): 7.78%
FY2013 (ending 6/30/13): 12.34%
FY2014 (ending 6/30/14): 12.34%
FY2015 (ending 6/30/15): 14.63%

(b) This projection assumes a 7% per year investment return (changed from 7.5%) a level covered employee population, and plan experience matching exactly all other actuarial assumptions.

(c) Projections are guesses about future developments and are inherently uncertain. There is some sense that these projected rates may be inflated because they use a historically conservative investment return assumption.

(d) VRS contribution rates are set for two-year periods, and may not reflect most recent developments (good and bad).

C-4. Contributions history:

FY	City Contributions %	Contributions Amount
2010	12.07%	$15.3 million
2009	12.07%	$15.5 million
2008	11.66%	$14.7 million

2007	11.66%	$14.4 million
2006	6.50%	$8.3 million
2005	6.50%	$7.5 million
2004	5.75%	$7.5 million

Note: increases reflect increases in the number of covered employees and creditable salaries.

D. Costs By Plan: Firefighters & Police Officers Pension Plan

D-1. FY2011 actual contributions to the FPOPP

(a) City contributions: 25.17% of each employee's basic salary; $8.3 million

(b) Employee contributions: 8% of salary, which amounted to $2.6 million in contributions

D-2. FY2012 projected contributions

(a) City contributions: 28.22% of each employee's basic salary; $9.5 million

(b) Employee contributions: 8% of salary, which amounted to $2.7 million in contributions

D-3. Contributions history:

FY	City Contributions %	Contributions Amount
2010	26.79%	$8.6 million
2009	26.41%	$8.8 million
2008	22.35%	$7.5 million
2007	22.35%	$7.3 million
2006	22.35%	$7.1 million
2005	22.35%	$6.5 million
2004	22.35%	$5.6 million

E. Costs By Plan: Supplemental Retirement Plan

E-1. City contributions:

(a) For employees hired before July 1, 2009: 7.18% of each covered employee's basic salary

(b) For General Schedule employees hired on or after July 1, 2009: 5.18% of each covered employee's basic salary

(c) For Deputy Sheriffs, Medics, and Fire Marshals hired on or after July 1, 2009: 7.18% of each covered employee's basic salary

(d) In total, the City contributed $ 9.0 million to the SRP for FY2011

E-2. Employee contributions:

General Schedule employees hired on or after July 1, 2009 contributed 2% of their basic salaries, which amounted to about $200,000 on an annualized basis.

F. Costs By Plan: Closed "Old, Old" Firefighters & Police Officers Pension Plan

F-1. City's contributions for FY2011 amounted to $1.7 million, and are projected to be at the same level for FY2012.

F-2. The City contributes annually to continue funding already earned benefits. Contributions will continue at about $1.7 million for 2 - 3 years, and then drop by about $500,000 to about $1.2 million another 15 years. The plan will eventually terminate once all retirees and surviving spouses die.

F-3. History of contributions:

Fiscal Year	City's Contribution
2010	$1.7m
2009	$1.7m
2008	$0.9m
2007	$1.5m
2006	$1.1m
2005	$0.9m
2004	$1.0m
2003	$0.9m

G. Costs By Plan: Deputy Sheriffs, Medics, Fire Marshals Retirement Income Plan

G-1. FY2011: No City contributions were made to the DS, M & FM RIP.

G-2. FY2012: No City contributions are budgeted.

G-3. History of City contributions:

Fiscal Year	City's Contribution:	% of salary & dollars
2012	0.00%	$0.00
2011	0.00%	$0.00
2010	1.58%	$250,000
2009	1.78%	$280,000
2008	0.00%	$0.00
2007	0.00%	$0.00
2006	5.10%	$730,000
2005	5.10%	$670,000
2004	13.10%	$1,580,000
2003	13.10%	$1,460,000

H. Costs By Plan: Social Security

H-1. As noted earlier in this report, Social Security coverage is funded by payroll taxes paid to the Federal Government by both the City and each employee. The amount of the total tax paid by the City varies with the number of employees, their salaries, and the tax rates set by Congress. The payroll taxes paid during FY2011 and projected to be paid in FY2012 are as follows:

(a) City payroll tax paid for CY2011:

(1) 6.2% of employee earnings up to the annual maximum earnings limit of $106,000
(2) total amount of tax paid for Social Security coverage: $9.9 million

(b) Employees payroll tax paid for CY2011:

(1) 4.2% of employee earnings up to the annual maximum earnings limit of $106,000

(2) total amount of tax paid for Social Security coverage: $6.9 million

H-2. Projected Social Security payroll taxes for CY2012

(a) City payroll tax:

(1) 6.2% of employee earnings up to the annual maximum earnings

limit of $106,000

(2) total amount of projected tax: $10.1 million

(b) Employees payroll tax:

(1) 6.2% of employee earnings up to the annual maximum earnings limit of $106,000

(2) total amount of projected tax: $10.2 million

H-3. It is problematic to project Social Security tax obligations beyond FY2012 because of the ongoing deficit reduction / economic stimulus discussions between Congress and the Administration.

X. Funding Status of City Employee Pension Plans

A draft schedule of the funding progress of the City-sponsored pension plans and the City employees' VRS coverage as of June 30, 2011 follows:

(see next page for schedule)

SCHEDULE OF FUNDING PROGRESS: CITY OF ALEXANDRIA, PUBLIC EMPLOYEE RETIREMENT SYSTEMS, WITH FOOTNOTES

	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1/2)	(5) Annual Covered Payroll	(6) CAAL as a Percentage of Covered Payroll ((2-1)/5)
City Supplemental Pension (a)	06/30/2006	$ 65,143,405	$ 96,974,375	$ 31,830,970	67.18%	$ 116,853,571	27.24%
	06/30/2007	77,046,696	107,983,990	30,937,294	71.35%	123,522,516	25.05%
	06/30/2008	76,275,945	117,964,452	41,688,507	64.66%	126,492,987	32.96%
	06/30/2009	69,806,595	123,842,600	54,036,005	56.37%	125,803,615	42.95%
	07/01/2010	81,356,870	132,010,864	50,653,994	61.63%	124,936,457	40.54%
Pension for Fire and Police**	06/30/2005	$ 33,410,759	$ 43,482,216	$ 10,071,457	76.84%	$ 63,012	15983.40%
	06/30/2006	30,940,298	43,895,855	12,955,557	70.49%	71,935	18010.09%
	06/30/2007	30,875,740	42,511,290	11,635,550	72.63%	72,987	15941.95%
	06/30/2008	29,043,189	47,171,730	18,128,541	61.57%	N/A	N/A
	06/30/2009	27,946,279	44,821,166	16,874,887	62.35%	N/A	N/A
	07/01/2010	26,886,856	41,265,691	14,378,835	65.16%	N/A	N/A
Firefighters and Police Pension	07/01/2005	$ 88,534,386	$ 135,445,004	$ 46,910,618	65.37%	$ 29,132,558	161.02%
	07/01/2006	100,513,967	152,624,962	52,110,995	65.86%	31,961,191	163.04%
	07/01/2007	115,782,806	167,092,854	51,310,048	69.29%	32,564,077	157.57%
	07/01/2008	133,567,658	181,469,715	47,902,057	73.60%	33,485,674	143.05%
	07/01/2009	138,100,526	194,321,125	56,220,599	71.07%	33,261,971	169.02%
	07/01/2010	144,096,425	208,265,626	64,169,201	69.19%	32,638,214	196.61%
Fire and Police Disability	07/01/2005	$ 13,337,719	$ 8,947,524	$ (4,390,195)	149.07%	$ 29,132,558	-15.07%
	07/01/2006	13,830,273	12,568,299	(1,261,974)	110.04%	31,961,191	-3.95%
	07/01/2007	14,398,259	15,638,422	1,240,163	92.07%	32,564,077	3.81%
	07/01/2008	14,305,285	16,804,777	2,499,492	85.13%	33,485,674	7.46%
	07/01/2009	13,542,378	19,153,349	5,610,871	70.71%	33,261,971	16.87%
	07/01/2010	13,534,949	18,477,276	4,942,327	73.25%	32,638,214	15.14%
Virginia Retirement System	06/30/2005	$ 250,705,689	$ 286,667,574	$ 35,961,885	87.46%	$ 93,142,752	38.61%
	06/30/2006	265,845,121	312,274,142	46,429,021	85.13%	100,219,243	46.33%
	06/30/2007	302,085,645	344,775,571	42,689,926	87.62%	108,719,495	39.27%
	06/30/2008	334,817,687	378,308,775	43,491,088	88.50%	114,427,304	38.01%
	06/30/2009	341,519,985	401,354,110	59,834,125	85.09%	115,516,783	51.80%
	06/30/2010	343,465,187	440,562,710	97,097,523	77.96%	112,083,557	86.63%

** The Pension Plan for Fire and Police is a closed plan with no active participant.

(a) The aggregate actuarial cost method was changed to entry age cost method for City Supplemental pension plan during fiscal year 2007. Only five years of information was available. This will be expanded when information becomes available.

Six-year historical information of City's defined benefit pension plans is presented to help users assess each plan's funding status on a going concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of each plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the plan.

XI. Costs: Non-Pension Post-Retirement Benefit Programs

A. Retiree Health Policy

As described above, the City pays a retiree health plan premium subsidy of up to $260 per month to eligible retirees. For FY2012, it is projected that 256 City retirees will be eligible for some subsidy and that the City will pay a total of $627,548 in subsidies.

B. Medicare

B-1. As noted earlier in this report, basic Medicare coverage is funded by payroll taxes paid to the Federal Government by both the City and each employee. The amount of the total tax paid by the City varies with the number of employees, their salaries, and the tax rates set by Congress.

B-2. The payroll taxes paid during FY2011 are as follows:

- (a) City payroll tax paid for FY2011:
  - (1) 1.45% of employee earnings
  - (2) total amount of tax paid for Medicare coverage: $ 2.1 million
- (b) Employees payroll tax paid for FY2011:
  - (1) 1.45% of employee earnings
  - (2) total amount of tax paid for Medicare coverage: $ 2.1 million

B-3. The projected Medicare payroll taxes for FY2012 are as follows:

- (a) City payroll tax projected for FY2012:
  - (1) 1.45% of employee earnings
  - (2) total projected amount of tax for Medicare coverage: $ 2.1 million
- (b) Employees payroll tax projected for FY2012:
  - (1) 1.45% of employee earnings
  - (2) total projected amount of tax for Medicare coverage: $ 2.1 million

B-3. It is problematic to project Medicare tax obligations beyond FY2012 because of the ongoing deficit reduction / economic stimulus discussions between Congress and the Administration.

C. Retiree Life Insurance

For FY2012, the City's projected premium costs are as follows:

Coverage Amount	No. of Retirees	Annual Premiums
1 x salary:	225	$8,948.16
2 x salary	707	$194,790.76
Total	932	$203,738.92

XII. Employee Groups' Views

During our proceedings, the Advisory Group requested that representatives of each employee group make a presentation describing the covered employees' perspective on the City retirement benefit programs. Presentations were made by Michael Cross, Chairman of the FPOPP's Retirement Board, on behalf of the Firefighters and Police Offices, by Robert Gilmore on behalf of Deputy Sheriffs, by Lonnie Phillips on behalf of Medics, and by Shane Cochran and Brenda D'Sylva on behalf of the General Schedule employees. These presentations were very helpful to the Advisory Group. A summary of each group's views is set forth in the following Addenda to this report:

Addendum F:	Summary of Views of the General Schedule Employees
Addendum D:	Summary of Views of the Firefighters and Police Officers
Addendum E:	Summary of Views of the Deputy Sheriffs, Medics, and Fire Marshals

XIII. Findings & Observations

Based on the Advisory Group's proceedings as well as our collective knowledge and experience, we offer the following observations.

1. Introduction: The City of Alexandria participates in the VRS and sponsors the FPOPP and the SRP to provide its employees with a sound and decent retirement income after years of service to the Alexandria community. A pension is not a gift. Rather, a pension is deferred compensation earned by an employee for the labor he or she provided to the City over a period of years. The City's "employer contributions" to the pension plans are really substitute salary. If the City did not make these contributions, all or at least some portion of this money would have been paid to the employees as salary.

   Recognizing the importance of retirement savings to individuals, as well as to the public at large, Federal and State tax laws provide valuable incentives for the creation and maintenance of employee pension plans. Employer contributions to plans are not treated as taxable income for the employee for purposes of income and payroll taxes. Taxable employers are entitled to immediately deduct the contributions from their taxable income. The investment income of the plans is not subject to taxation. Pension benefits are taxable to a retiree as income when paid in the future, but presumably at lower tax rates.

Pension plan coverage is a part of the total compensation package (which includes salary and benefits) that the City offers to current and prospective employees. Through various ways, the City tries to maintain a total compensation package that is competitive so as to attract and retain qualified employees. The City, through its Human Resources office, biennially compares salary and benefits to the Market (the City's comparator jurisdictions). These comparisons can be used to adjust salaries, City pay scales and possibly benefit contributions and benefit plan design. In the past three years, these changes have not been funded by City Council.

In 2008, the City commissioned a comprehensive Benefits Comparison Study through the Towers Watson consulting firm. The study looked at the health, dental, security, and pension programs of the City's comparator jurisdictions. The study found that some groups of City employees' pay and benefits were below the Market and some were at or above the Market. The report on this study was submitted to City Council in March 2009. As a result of the report, City Council approved additional annual leave for all employees.

The City also uses Benchmark studies to evaluate how City employees' compensation compares to its Market, and adjustments to pay scales and/or benefits are recommended based on the studies' results. This is done to maintain a competitive posture with the Market in the region. Cuts in pensions or other benefits would require the City to explore ways to compensate employees in order to achieve a competitive total compensation package for City employees.

On the other hand, sustained increases in pension costs could force the City to reduce other components of the compensation package or otherwise reduce labor costs (salary freezes and reductions, reductions in other benefits, reductions in force through attrition or layoffs, etc.).

In short, although not explicitly stated in the charge to the Advisory Group by the City Council, the members are mindful of the balance that must be struck between the need for a comprehensive and responsive compensation and benefits program for employees and the demand on taxpayers to pay for such a program. One should never be at the sacrifice of the other and when this report and recommendations are read in their entirety, the Advisory Group believes that the employees and taxpayers of the City and the City Council will find that a balance has been struck.

2. Overview of funding: Since the historic investment markets crash of 2008 and the onset of the economic downturn, news media and professional publications have carried a steady stream of articles about public employee pension plan funding troubles and the related political and labor relations battles. Some articles have been thoughtful and constructive, while many others have been overblown and designed to advance political agendas. It is no surprise that the public is confused and worried, that public employees feel scapegoated, and that some public officials are choosing to simply follow current trends.

   No doubt, there are a significant number of public employee pension plans that are seriously under-funded. Many pension plans and retirement savings programs, public and private, suffered deep investment losses in 2008, and it will take time for investment portfolios to recover, particularly with the return of highly volatile markets. A lingering recessionary economy and battered housing market have reduced the revenues of most jurisdictions. Unexpected pension plan obligations have been blamed for cutbacks in public services, tax increases, layoffs, hiring freezes, wage and benefit cuts, and similar unpleasant actions.

   But, for many public employee pension plans, the causes of under-funding go beyond the investment markets and revenue declines. Some State and municipal governments irresponsibly failed to make appropriate contributions to their employees' pension plans over the years in the hope that investment performance would cover the shortfall or that later administrations or legislatures would find extra money to fill in the hole. Some public pension plan sponsors deliberately used unreasonable actuarial assumptions to reduce funding obligations, or gambled on risky investments. And, some governmental pension plans have provided overly generous benefits or have been subject to manipulations and mal-administration that drove up costs.

   The City of Alexandria government and its employees have made a number of significant policy decisions and contributions to ensure that Alexandria is not one of those jurisdictions whose employee benefit plans are in jeopardy. Among those actions are the following:

   (a) The City has consistently made all of the required annual contributions to the Virginia Retirement System.

   (b) The City has consistently made all contributions to Firefighters and Police Officers Pension Plan and Supplemental Retirement Plan recommended by the actuary for those plans.

   (c) The City uses reasonable actuarial assumptions as approved by the plans' actuaries, including the assumption that the plans will earn an average annual investment return of 7.5% over the long term.

(d) The City has developed a professionally managed investment program with prudent investment policies that reflect the long-term objectives of the pension plans and produce market returns.

(e) The City has adopted pension plans whose benefits are not overly generous and that minimize the risk of costly manipulation, such as excluding non-basic salary amounts from the benefit formula.

(f) Firefighters and police officers are contributing 8% of their salaries to their pension plan.

(g) New City employees, except for firefighters and police offices covered by the FPOPP, are placed in the lower tier VRS-2.

(h) New City employees are required to contribute a percentage of their salaries towards their pension coverage.

(i) The City and employees are working to implement various administrative efficiencies that will reduce costs of plan administration.

(j) The Pension Administration Division of the City's Finance Department is fully staffed by experienced benefits professionals who carefully monitor the City's employee benefit plans.

3. <u>Solvency of Plans</u>: The City's pension obligations have been increasing as a percentage of pay, in dollars, and as a percentage of the City's overall budget. They are not, at the moment, out of control. But, there is cause to be concerned about the future, primarily because those obligations are heavily affected by investment performance; lower than expected investment returns eventually translate into higher contribution obligations. Even prudent investment programs are necessarily hostage to the vicissitudes of the investment markets. The recent return of turmoil in the investment markets and stall in our Nation's economic recovery has heightened uncertainty about the future.

   The City has no control over the VRS' investment performance. VRS investments are overseen by a Board of Trustees appointed by the Governor. The City's contribution obligations to VRS will continue to be determined in large measure by the Board's investment program, and the City cannot mitigate that effect other than by reducing the number of VRS covered employees or controlling creditable salaries.

The City does control the investment program of the SRP and the City's Firefighters and Police Officers Pension Plan Retirement Board oversees the FPOPP's investment program. The plans are long-term investments that need not be overly concerned by short-term fluctuations, and there are actuarial tools for mitigating the impact of such fluctuations on contribution obligations (*e.g.* "smoothing" of asset values). However, there is no denying that the City's contribution obligations will be greatly affected by the investment markets.

4. "Sustainability": The Resolution appears to request the Advisory Group's opinion on the "sustainability" of the City's pension obligations. Implicit in the concept of "sustainability" are political judgments that we are not in a position to make; that is the province of the City's elected leaders. To assess whether the City can sustain its current or projected obligations, one must take into consideration a myriad of factors and choices such as the City's revenues prospects, its other obligations, the types and levels of public services to be provided, the levels of employment, salaries and other employee benefits, etc.

5. Defined Benefit vs. Defined Contribution: Some State and municipal governments have abandoned or are considering abandoning pooled defined benefit pension plans and substituting individual account, defined contribution retirement savings plans, as a way of capping their pension contribution obligations.

   Under a defined contribution plan ("DC"), the employer simply makes a pre-determined annual contribution to each employee's account. The employee self-directs the investment of his or her account, usually from among a platform of investment funds provided by a third-party administrator. At retirement, the employee gets only what is in his or her account, which may or may not last for the rest of the retiree's life. In other words, the employee takes all of the risks: the investment risk (that the account will lose money or otherwise underperform under his or her direction); the early withdrawal risk (that loans or hardship withdrawals will reduce the account's assets before retirement); the longevity and inflation risks (that the account will be exhausted before death); and the expense risk (the loss of assets due to investment fees and other expenses charged to the account directly or netted from investment returns). The impact of these risks on employees has been sadly demonstrated by the 2008 investment crash that slashed defined contribution account values, and by stories of retirees who are returning to any job they can find before they run out of money.

   An advantage of DC plans is that they provide ready portability if an employee changes employers. Typically, the employee can take a distribution of his or her account or roll the account over tax-free into another qualified retirement savings vehicle.

In contrast, under a defined benefit plan ("DB"), the plan promises each employee a monthly retirement income that he or she cannot outlive. The amount of that income is determined by the plan's formula (average salary, years of credited service, accrual rate or multiplier, etc.). The employer periodically contributes to the plan (along with employee contributions, if required) an amount calculated by the plan actuary--on the basis of various assumptions, including investment return, turnover, and longevity–to fund over a period of years each employee's pension. In other words, the employer takes the risk that it will be required to contribute more (or less) than expected due to investment performance and plan experience.

Further, a DB can provide a decent, life-long disability pension to employees who become unable to work. An employee who becomes disabled before retirement under a DC plan is entitled to no more than the amount in his or her account.

Similarly, a post-retirement cost-of-living increase in monthly pension benefits has been a common feature of DBs, although a DC could offer an insurance company variable annuity.

Finally, the question of a DB versus a DC is not a matter of "good or bad," but fundamentally a question of how the two plans impact the participant. There is certainly the expectation that a DB, which is typically directed by trustees who retain professional investment advisors, should perform well over time while limiting risk. By the same token, a DC can be professionally managed and enjoy market returns, as well. However, research suggests that individual investors, when investing directly, may not always make the best strategic decisions for their long-term investment needs, especially in the volatile economic and market climate of recent years. But each type of plan comes with certain "trade-offs."

A DB provides the participant with the potential for a predictable, lifetime income, while giving up control of the asset for estate planning purposes. However, if the participant lives well beyond a projected life expectancy and if the stock market went through a prolonged decline, the income does not stop. With a DC, the participant has the potential for significant growth of the asset, the ability of the account to generate income, and to have any residual value be part of the participant's estate upon his or her death; but if the account declines in value or excessive amounts of income are withdrawn, there is no guarantee (or guarantor) of a lifetime income. Ultimately, for most people, the predictability and reliability of lifetime income will outweigh the potential for significant appreciation, and that will be reflected in the recommendations to follow.

The City Council has visited this issue of defined benefit versus defined contribution before; indeed, as recently as 2004 when it deliberately chose to replace the Retirement Income Plan for Firefighters and Police Officers (a defined contribution plan) with the Firefighters and Police Officers Pension Plan (a defined benefit plan). The City came out definitively in favor of defined benefit pension coverage, as noted in City Manager Sunderland's February 6, 2004 memorandum:

> *"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 officers and fire fighters.*
>
> *"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."*

It cannot be said that the City was naive about the investment markets in 2004. During 2000-2003, the nation had experienced what was then considered the worst investment market in 50 or more years: three consecutive years of negative returns.

The City's employees have expressed strong opposition to replacing the defined benefit plans with a defined contribution model. As noted during our proceedings, and borne out by national experience, many employees feel less capable to properly direct and monitor the investment of their pension accounts. The market crash of 2008 devastated many self-directed 401(k) plan accounts, and that experience has further soured employee groups on defined contribution plans.

Note also that if the City did decide to "freeze" the FPOPP and SRP and substitute defined contribution plans, the City would still be required to continue contributing to the frozen plans, for many years in the future, to fund the already-earned benefits under those plans. The City has some experience with such dual contribution obligations; it is still continuing to fund the "Old, Old" Firefighters and Police Officers defined benefit plan that was closed in 1979 when the Firefighters and Police Officers Retirement Income Plan was established as a substitute. In other words, the City would be required to continue contributing to the frozen defined benefit plans as well as to the new defined contribution plans.

6. City and Employee Contributions: Notwithstanding the broad language used by City Manager Sunderland, it is unreasonable to expect the City to absorb limitless investment risk and other risks and expenses for the VRS, FPOPP, and SRP, just as it would be unfair for employees to bear the investment risk. Neither the City Manager's memoranda nor the City Council's action thereon constitute a legally binding commitment never to increase employee contributions, reduce future benefits, or terminate the plans, even though they obviously created expectations among employees. Raising taxes or reducing services to cover unexpected pension costs may not be possible, and pressures would inevitably rise to reduce labor costs to the detriment of the employees. Some accommodation must be reached to protect the City and its workforce against long-term investment under-performance. As shown earlier in this report, contribution costs for the City have been rising as a percentage of the City's total budget over the last ten years and the Standard & Poors' 500 (an index of the prices of 500 large capitalization stocks that is viewed as a leading indicator of the market) has yielded a return well below the 7 to 7 ½ percent investment return assumed by the plans. Resulting changes in actuarial assumptions also have a significant impact on contribution rates. Our recommendations at the end of this report suggest such an accommodation.

   Some State and local governments have imposed or increased employee contribution requirements in response to pension funding challenges. The City of Alexandria has taken steps in this direction. Firefighters and police officers have been contributing 8% of their salaries to the FPOPP since its inception in 2004. Newly hired General Schedule employees are required to contribute 2% of their salaries to the SRP in addition to 4% of their salaries to VRS-2. New deputy sheriffs, medics, and fire marshals covered by VRS-2 are required to contribute 4% of their salaries too, although they have been exempted from the 2% contribution to the SRP.

Salary rate, currently and prospectively, is the most attractive component of a compensation package. Imposing or increasing employee contribution requirements is the equivalent of a salary reduction for employees. Their current income is reduced to help fund pensions that will not be payable until, for most employees, many years later. Even a 1% or 2% cut in take-home pay can have a significant adverse impact on an employee, yet an employee's pension contribution at that rate would be insignificant to the funding needs of the pension plan.

The proceeding paragraphs of this Section demonstrate that the City's contributions to the various pension plans may be considered to be substitute salary in whole or in part. That is, the City is contributing to its employees' pension plans money that might otherwise have been paid to its employees as salaries.

7. <u>Employee Expectations</u>: Further, there is the matter of the City employees' expectations based on earlier actions by City Council. Whether one accepts or does not accept the validity of these expectations, in whole or in part, the fact of these expectations needs to be taken into account in considering any changes to the employees' pension coverage. We are advised that the following beliefs are held by General Schedule employees:

> "In 1982, City Council passed a resolution that provided that beginning in FY 1983, it would not require City employees who participated in VRS to pay the 5% employee VRS member contribution (Resolution 868, dated June 8, 1982). Instead, the City would make this contribution on behalf of these employees. In exchange, the City employees in VRS did not receive the 5% in-step increase that would have been provided pursuant to the pay scale that was in effect at that time. Uniformed City employees who participated in the Police/Fire Pension and not VRS received a 5% in-step increase as provided by the pay scale in effect in FY 1983.
>
> "The State government made a similar pay decision for its employees in the early 1980s. When the State decided to re-impose the 5% VRS employee share this year, they coupled this with a 5% salary increase for

State employees. This salary increase was intended to address the in-step increase not received in FY 1983 and to help address the current budget impact on employees who had to pay the 5% employee share of VRS.

"We understand that a large number of the City employees who are members of VRS (General Scale employees, deputy sheriffs, medics, and fire marshals) believe that the City's agreement to pay the City employee contribution in FY 1983 was a promise to continue this practice in the future. If State law changes, and the City is permitted to change its decision and require City employees in VRS to contribute the 5% employee share of VRS, affected City employees expect to be compensated for the 5% reduction in take-home pay like their counterparts in State government. Because an adjustment in compensation would result in other costs to both employees and the City, such as increased payroll taxes, employees expect no net reduction in take home pay as a result of such an increase. In addition, employees expect that an increase in compensation related to VRS contributions be considered independently from other salary adjustments, such as performance-based merit pay raises and market rate adjustments.

"Maintaining a defined benefit plan as the foundation for retirement security is very important to General Scale employees. When the City was considering re-establishing the defined benefit retirement program for firefighters and police officers almost eight years ago, a related discussion occurred. In a February 6, 2004 memorandum, former City Manager Phil Sunderland concluded: '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...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.'"

We are advised that the following beliefs are held by the Police and Firefighters:

"At the behest of the City of Alexandria, the City of Alexandria Firefighters and Police Officers Pension Plan ("FPOPP") Pension Board was founded for the expressed purpose of implementing a defined benefit plan that incorporated 'a cost containment plan in advance of a crisis as a prudent measure for protecting the City from out-of-control costs and the employees from arbitrary and surprising benefits and/or contribution changes.' The Board is comprised of employee representatives and City staff, and is overseen by City Council.

"In 2004, the FPOPP Pension Board and the City of Alexandria mutually established the FPOPP. This plan was enacted and members voluntarily paid the highest percentage of salary than that of any other participant in a City of Alexandria recognized pension plan. Since its inception, there was the expressed agreement and understanding of the FPOPP Board and its members that we would share the responsibility of managing costs relating to our pension with the City of Alexandria. Additionally, as a result of a failed Defined Contribution plan, it was understood that now the City of Alexandria would assume the market rate fluctuations as the City was in a better position to cope with these market variations rather than an individual employee.

"It should be noted that the pension plan's rates were carefully crafted and negotiated with the City of Alexandria. At the onset of the plan, the employee contribution amount was determined based on an offset of oscillating future social security benefits as well as the variability of the stock market. In spite of increasing healthcare costs and loss of COLA increases, plan participants have remained steadfast in contributions because the FPOPP plan was designed with adjustment rate mechanisms in place to create a solid long term investment despite a fluctuating economy. Other pension plans that operate in the City contribute far less than the members of the FPOPP, thus placing a greater financial burden on the taxpayers of the City of Alexandria."

"Per its pact, the FPOPP Pension Board remained well educated with regard to this pension plan and continued to make recommendations on an as needed basis. The expectation of the FPOPP Board is that the City of Alexandria would also abide by our agreement and discuss any pension changes with the FPOPP Board prior to implementation.

"Additionally, the FPOPP Board recognized that the City of Alexandria has already shifted the employee costs of the pension office and its required worker related disability payments into the total pension costs thus placing an artificial burden on FPOPP members. This shift allowed for the appearance of higher pension costs to the City of Alexandria tax payers. It is the expectation of the FPOPP Board that again prior to the enactment of any change to the FPOPP Pension Plan, these fabricated costs will be considered by the FPOPP, taxpayers, and City Council.

"Furthermore, we are confident that the City of Alexandria will recognize the inequity amongst multiple pension plan contributions and only discuss plan increases with retirement systems that have failed to prepare for an unpredictable economy and encumber City of Alexandria tax payers.

"The FPOPP Board is unwavering in our commitment to work with the City of Alexandria. It is the FPOPP Board's position that the City of Alexandria will continue their commitment to fund minor market fluctuations and furthermore confer with the FPOPP Board on all matters that affect the FPOPP membership.

"The FPOPP Board pledges to continually evaluate the pension plan; however, there is no need for modification of The City of Alexandria Firefighters and Police Officers Pension Plan at this time."

We are advised that the following beliefs are held by the Medics and Fire Marshals:

"The total cost for providing retirement benefits to the Medics has not shown a significant increase since 1992 because the Medics (and the Fire Marshals since they were added in 2005) have had a reduction in total benefits and a break from parity with PD and Fire. Specifically, the cost in 1992 was 23.0% of base salary and the projected cost for 2012 shown in the March 9, 2011 budget memo #3 was 23.59%. This represents a 2.57% increase in twenty years.

"The reason this increase was minor even in light of the significant increase in VRS costs is that the city had an automatically adjusting mechanism. The city would contribute 22.35% - 23.0% of base salary to retirement. From this the required cost to VRS and the required costs to the City Supplemental plan would be subtracted and any additional funds remaining would be deposited into the defined contribution account. For example, in 2004 VRS cost 5.75% and the Supplemental cost 3.5%; thus, the DC account received 13.1%.

"As can be seen from this example, over the years as VRS costs have increased, the Medics, FMs and Deputy Sheriffs' benefit has decreased since they received less or no contribution in their DC account. This account was viewed as a "bridge" to allow some offset of the significant VRS penalty associated with retirement at 25 years of service. It bears emphasizing that the Medics, FMs, and DSs have been sharing in the cost of rising retirement by accepting less benefits.

"We realize it is very difficult to compare a 30 year plan to a 25 year plan since they have significant cost implications and we caution Council to remember this when comparing contribution rates. This is one reason Medics and FMs have asked for the cost of a 25 year plan. Not only would it allow for an informed decision by the employees as to whether they would like to self-fund the benefit but it would also allow the Pension Subcommittee and Council to better compare plans.

"Delaying retirement for medics and FMs will increase the disability costs due to an increase in injuries and will reduce retention when other jurisdictions have 25 year retirements. We have already seen retention issues for Medics. There have been six medic classes hired in the past ten years (excluding the 2010 hiring since they are still on probation). Out of the 45 hired, only 21 remain. This 46.7% retention rate carries a significant impact on our service delivery and training costs to the city.

"Retirement contribution rates have recently been decided not as a result of sophisticated analysis related to long term sustainability but more as a reaction to nationwide trends, incomplete comparisons to the private sector and short term budget shortfalls or perceived shortfalls. Additionally, it has been done without apparent regard for the increased disparity with comparator jurisdictions. This is the reason we agree to an adjustment mechanism being considered. However, we strongly believe it should be determined by the Pension Subcommittee and the to be developed SRP Board but not be instituted for any group of employees unless a recent comprehensive total pay and compensation study shows that that employee group is at or above the average of comparators."

8. New Employees: Another commonly used approach among public employee plan sponsors is to create a new plan or a new plan tier with lower benefits or higher employee contribution requirements for new employees only. The rationale for this approach is that the employer has no pre-existing obligations or commitments to new employees, and a new employee who accepts employment on these inferior pension terms cannot legitimately complain. Furthermore, the employer can improve the pension coverage in the future, prospectively or retroactively.

   The City has used this approach by covering new employees hired on or after July 1, 2010 under VRS-2 and requiring them to contribute 4% of their salaries to VRS, whereas earlier hires are covered by VRS-1 and are not required to contribute. Even if the employees were not required to contribute, the City's contribution obligations would be less for these employees than for VRS-1 employees because of the lesser benefit package under VRS-2. In addition, new General Schedule employees (hired on or after July 1, 2009) are required to contribute 2% of salary to the SRP, whereas earlier hires are not required to contribute. Newly hired firefighters and police officers contribute 8% of their salaries.

Disadvantages of a two-tier approach include the following:

(a) It does not provide cost relief in the near term, but only as more senior employees leave and new employees are hired. Eventually all employees will be covered under the less costly plan, but that transition can take many years.

(b) Inequities can create resentment among employees and human resources problems. These risks can be particularly acute where one employee hired just before the cutoff date works with an employee hired just after the cutoff.

(c) Multiple tiers of benefit programs can make administration difficult and more costly.

The Advisory Group appreciates that the City has left intact the basic defined benefit pension program for new hires rather than switch to a defined contribution plan.

9. 2010 New Employee Contribution Rate Decision: From the record available to the Advisory Group, it appears that City Council decided at a June 2010 public meeting to require new employees not covered by the FPOPP to contribute 4% of their salaries to VRS-2 without any supporting analysis. Notably, the City Manager had recommended that the new employees not be required to contribute to VRS-2 at that time but that the matter is deferred until a more thorough review could be undertaken.

10. Comparability With Other Jurisdictions: Comparing the City's pension coverage to that provided by other jurisdictions, including Alexandria's "comparator jurisdictions," is a difficult exercise because there are many variations in plan terms and conditions from jurisdiction to jurisdiction and some favorable provisions in one plan may be offset by some unfavorable provisions in the same plan. Some plans might require employee contributions, and others not. Some plans might allow salary enhancements in determining benefit levels, and others not. Some plans might have a relatively lower normal retirement age but a less favorable benefit formula. And, in any event, there is a moving target problem; most jurisdictions are reviewing their employee pension plans and considering adjustments based on their specific circumstances. In short, a true "apples to

apples" comparison is difficult to achieve and should be tied in with a total compensation package approach.

What can be said is that the City's pension coverage is about the same on the whole as local jurisdictions. The City states that it is currently able to attract highly qualified employees in all job categories. The City also states that "exit interviews" do not indicate that dissatisfaction with the City's retirement plans is a cause for leaving employment with the City. However, there are some specific outlying issues (such as the higher retirement age for Alexandria's deputy sheriffs, medics, and fire marshals) and some anecdotal evidence that some employees have left City employment for jurisdictions with more generous retirement terms. It may also be said that the attractiveness of one City pension plan's terms (FPOPP) relative to other pension coverage (VRS & SRP) may affect decisions by City employees to transfer positions within City employment.

A more useful assessment of the relative value of Alexandria's pension coverage requires a professional study of the entire employee compensation package, including pensions, like that performed for the City by the Towers Watson consulting group in 2008-2009.

11. Social Security: In discussing the pension coverage provided to City employees, Social Security benefits are often overlooked and they should not be. As a governmental entity, the City is not required to participate in, or contribute to, Social Security on behalf of its employees. Nonetheless, unlike some other local jurisdictions, the City contributes to Social Security in an amount equal to 6.2% of its employees' salaries (up to a maximum salary level of $106,800 in 2011). All employees are required to contribute to Social Security as well; normally 6.2% of salary, but temporarily reduced by law to 4.2% in 2011. Even though full Social Security retirement benefits are not available until age 66 or 67 (with reduced early retirement benefits available at age 62), these benefits will add to a retiree's monthly income from the VRS, SRP or FPOPP.

    Projected outcomes for a variety of retirement scenarios under the City's retirement plans – including Social Security – are attached to this report as Addendum C.

12. Legacy Plan's Lingering Costs: A significant part of the City's annual pension contribution costs relates to the legacy firefighters and police officers defined benefit plan that was closed to new participation in 1979 (the "Old, Old Plan"); about $1.7 million per year for the next 2 to 3 years, but projected to continue at about $1.2 million per year for some years thereafter until the survivors pass on. These contributions fund benefits that were earned by retired employees many years ago. They are legacy costs for which current employees should not be

held accountable.

13. State Employees Under City Plan: The City has been providing coverage under the SRP to State employees who work in the Health Department located in Alexandria but are not employed by the City. Pension coverage of these 87 employees costs the City about $340,000 per year. There are other State employees for whom the City contributes to the SRP.

    Deputy City Manager Michele R. Evans provided the Advisory Group with a memorandum dated October 17, 2011 regarding the "City Supplemental Pension And Employees Of The Alexandria Health Department." This memorandum, which relates the history of this coverage, is attached to this report as Addendum I.

14. GASB: The Resolution requested that the Advisory Group consider the effects on the City's pension costs of the Government Accounting Standards Board's (GASB) proceedings to set new accounting standards for the reporting of public pension plan liabilities. The Advisory Group received briefings on GASB's proposals and their effect on the City from Steve McElhaney of Cheiron and Laura Triggs. And, in July 2011, GASB issued an Exposure Draft of its proposed new standards.

    Importantly, the proposed new standards distinguish between pension plan funding and accounting by employer for pension plan obligations. The standards, once finalized, are not expected to have any significant effect on the City's pension contribution obligations so long as the City continues its longstanding policy of contributing 100% of actuary's annual recommended contribution, although the shorter amortization period bears watching. Further, the FPOPP and SRP should be able to continue using 7.5% as their long-term investment return assumption, according to Cheiron. Acting City Manager Bruce Johnson informed the Advisory Group that "the new standard has proven to be significantly less onerous than anticipated and the final outcome, at this time, may be fiscally and administratively workable for the City."

    But, the new standards, once they become effective, will affect City's accounting for its pension obligations: unfunded actuarial liability will go on the City's balance sheet rather than merely be disclosed in the notes. This change in reporting may create a false impression of the City's pension obligations to the general public, but it should not affect the more expert opinions of the City's creditors and rating agencies.

15. VRS: VRS contribution requirements are a major driver of the City's cost increases because of the relatively large number of City employees that are

covered by the VRS. The VRS contribution costs are largely beyond the City's control, as discussed above. The City can affect its contribution obligations through the number of employees it hires and retains in VRS-covered positions and the salaries they are paid. The City may also be able to exercise some influence over VRS decisions through the normal political process inasmuch as the VRS is a creature of State government.

The State's Joint Legislative Audit and Review Commission is currently conducting a formal study ("Follow-up Review of Retirement Programs for State and Local Employees") to update its 2008 report. The results of this study are due by the end of 2011, and JLARC may make recommendations for reducing VRS costs that impact the City's future contribution obligations.

16. Federal Legislation: The Resolution also asks the Advisory Group to assess the prospects for Federal legislation that would impose additional pension costs on the City.

    The proposed "Public Pension Transparency Act" (HR 567 / S. 347) was re-introduced in the current Congress by its Republican sponsors. Generally the bill would require sponsors of State and local government employee pension plans to annually report specific financial information to the Federal Government (Department of Treasury). Governments failing to report this information would lose their ability to issue tax exempt bonds until they comply with the reporting requirements. However, the legislation also states that it does not alter the existing funding standards for State and local governments or require Federal funding standards for such plans.

    The bill has generated controversy among public officials, and has been referred to committees in the House of Representatives and Senate, but no further action has been taken on it in either chamber and none is expected in the foreseeable future.

17. Retirement Boards: The FPOPP has a Firefighters and Police Officers Pension Plan Retirement Board that plays a significant role in the governance of that plan. As described earlier in this report, the Board consists of 8 members appointed by the City Council: 4 representatives of the City, 2 nominees of the Firefighters, and 2 nominees of the Police.

    Currently, there is no comparable joint board for the SRP which covers the vast majority of City employees, including Deputy Sheriffs, Medics, Fire Marshals, and General Schedule employees.

    Ongoing involvement of employee representatives in pension plan oversight would advance employee understanding and appreciation of the plans. Moreover, such boards serve as a valuable forum for resolving controversies, addressing employee concerns, and discussing future changes in the City's pension coverage. There will be more developments affecting the City's pension obligations (*e.g.* when JLARC reports on VRS at the end of 2011), and pension boards provide a permanent structure for discussion between partners–City government and its employees.

18. Employee Education: There is a need for more education of City employees about the retirement income and post-retirement benefits provided by the City. This is particularly true with regard to the retiree health policy and the retiree life insurance program for which there is no descriptive document for employees, or at least none that was brought to the Advisory Group's attention. Some members of the Advisory Group who are City employees commented that they learned a lot about the City's retirement programs through our proceedings.

    The Acting City Manager informed the Advisory Group that the City plans to develop a summary plan description regarding retiree health insurance and life insurance, and to post it on the City's website and on AlexNet.

19. Stability: Stability in the operation of pension plans is valuable to the City and employees alike. Frequent tinkering in the funding, benefits or other aspects of pension plans is unnecessarily disruptive. If and when changes to City employees' pension plans are necessary or advisable, the changes should be made only after a deliberative, fact-based process.

20. Part-time Employee Benefits: There are approximately 325 City employees who work on a permanent part-time basis and who have limited access to future pension benefits. These employees are enrolled in the City's SRP only and have no opportunity to participate in VRS. Based on the average part-time employee salary of $21,723 provided in the City's FY2012 Approved Budget, a part-time employee retiring with full benefits could expect a total pension of $425 monthly. Further, while part-time employees retiring from the City may continue to purchase health insurance through the City's group plans, they do not have access to the City's monthly $260 health insurance stipend that has been offered to full-time City employees at retirement.

XIV. Recommendations

Mindful of the foregoing findings and observations, the Advisory Group unanimously makes the following sixteen recommendations for the Mayor's and City Council's consideration. The first five are our major recommendations. The subsequent eleven recommendations are of comparable importance; the order of their listing is not intended to suggest any order of priority.

1. We recommend that the City continue its defined benefit pension plans, and do not recommend that the City create a new defined contribution plan.

2. We recommend that the City Council establish, as soon as possible, a joint management-employee retirement board for the SRP comparable to the Firefighters and Police Officers Pension Plan Retirement Board. We further recommend that the activities of the two boards be coordinated as appropriate to minimize duplication and maximize efficiency.

3. We recommend that an "adjustment mechanism" triggered by economic developments be developed as a hedge against runaway contribution costs with regard to the FPOPP and SRP, and to ensure that future plan changes are not arbitrary nor a surprise. By "adjustment mechanism" we mean a plan rule under which the occurrence of an objectively determinable event will cause an automatic change in the future employee contribution rate, the future benefit accrual rate or eligibility, and a reversal of the action upon the occurrence of a countervailing objectively determinable event.

   The adjustment mechanism is intended to ensure that increases in pension cost will be shared to a certain extent by both the City and its employees. It is not intended as a device to shift all of the burdens to the employees. It is our intention that the mechanism be triggered only by significant events.

   The development of an adjustment mechanism will require working out various important details, including what objectively determinable event(s) will trigger the mechanism, what actions will be triggered (including the extent to which the affected employee groups will be given choices), and when the mechanism will go into effect. In other words, any adjustment mechanism must state explicitly and unambiguously (a) what it takes to initiate the change in contributions, benefits, or eligibility, (b) what it takes to return to the original level of contributions, benefits, or eligibility, and (c) what it would take to restore the foregone contributions, benefits, or eligibility.

   The Advisory Group did not have adequate time or technical expertise to consider these essential details. A fair, joint process for carrying on this important work and making recommendations to the City Council needs to be established. We make no recommendation as to the form of this process, but possibilities for the City Council to consider include: (a) assigning the task to the Firefighters and Police Officers Pension Plan Retirement Board and the SRP board that we recommend be created; (b) assigning the task to a special committee composed of the City and employee group representatives who served on the Advisory Group; (c) extending the term of the Advisory Group; (d) creating a new Advisory Group; or (e) some combination of these options.

4. We recommend that the City not impose additional employee contribution requirements outside of the adjustment mechanism referred to above.

5. We recommend that any change in the plan design of the FPOPP be considered by the FPOPP Board prior to action by City Council, and that any change in the SRP's design be considered by the SRP pension board, if created, prior to action by City Council.

6. We recommend that the City initiate a review of the disparities in employee contribution rates and benefits for new employees and more tenured employees under the VRS and SRP. While some disparity may be understandable in light of budget pressures, a disparity that is too wide can negatively impact recruitment and retention of qualified employees.

7. We recommend the City Council issue a request to the VRS for a calculation of projected City costs to provide full retirement benefits at age 50 with 25 years of service for Deputy Sheriffs, Medics, and Fire Marshals. This calculation would allow the City and its affected employees to engage in informed and meaningful discussions regarding whether and under what terms such an additional benefit might be provided.

   Acting City Manager Johnson has commented to us that an earlier VRS retirement for Deputy Sheriffs, Medics, and Fire Marshals would lead to earlier retirements under the SRP by these employees, and he urged that implementation of this recommendation be deferred until the City's new actuary completes the SRP's valuation and a SRP retirement board is created. Assuming that the City Council takes timely action to create a SRP pension board, we recommend that City Council accept Mr. Johnson's suggestion.

8. We recommend that the City investigate pension portability so that the benefits of employees who change jobs within City employment are not adversely affected. This task could be assigned to the pension boards or to an ad hoc committee.

9. We recommend that the City undertake a study of the fiscal impact of amending the SRP to add a post-retirement cost of living benefit increase (COLA) provision. The SRP is the only pension plan covering City employees that lacks a COLA provision.

10. We recommend that the City enhance employee education regarding their pension coverage and other employee benefits. Consideration should be given

to mandatory retirement education for all City employees, and to providing this education in stages at the beginning of City employment, in mid-career, and within five years of full retirement eligibility.

11. We recommend that the retiree health policy and retiree life insurance policy be described in a plainly written document and made readily available to all potentially eligible employees.

    As noted earlier in the report, Acting City Manager Johnson informed us that he will ask the City's Human Resources and Finance Departments to develop a summary plan description regarding these benefits and post it on the City's website and AlexNet. This is a positive step, and we urge that the City follow through on it.

12. We recommend that the City Council review the current retiree health plan premium subsidy policy and consider increasing the longstanding maximum limit of $260 per month as funding permits.

13. We recommend that the City strive to improve pension plan coverage and other employee benefits for part-time employees, including the retiree health plan premium subsidy. Currently, part-time employees have access only to the SRP which provides limited benefits.

14. We recommend that the City carefully review its contributions to the SRP for State employees to ensure that the historical reasons for maintaining this relationship continue to be appropriate and necessary.

15. We recommend that City Council consider delaying any formal changes to the current pension plans until the release of the upcoming report of the Virginia Joint Legislative Audit and Review Commission (JLARC). The finding of the report may present additional opportunities to the City to enhance local sustainability and cost control within the existing VRS system and may reduce the perceived need to additional changes to the SRP.

16. We recommend that City Council consider reconvening the Advisory Group following publication of the JLARC report on State pension benefits that is expected before the end of 2011. The Group is the best group to review the JLARC study and then assess whether it affects any of the Group's recommendations, and make a supplemental report to Council.

XV. Sunset

In accordance with Section 6 of the Resolution, the submission of this report constitutes the final act of the Advisory Group.

Respectfully submitted,

Janine Bosley, Co-Chair
James S. Ray, Co-Chair

Russell Bailey
Shane Cochran
Michael Cross
Brenda D'Sylva
Robert Gilmore
James McNeil
Edward Milner
Lonnie Phillips
Len Rubenstein
David Speck
Laura B. Triggs

Addendum A

City Council Resolution 2432

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Addendum A

Resolution 2432
Establishing an Ad Hoc Retirement Benefit Advisory Group

WHEREAS: The City of Alexandria now participates in seven public employee retirement systems;

WHEREAS: One of those systems is the Virginia Retirement System (VRS), an agent multi-employer public retirement system that acts as a common investment and administrative agent for political subdivisions of the Commonwealth of Virginia and is, therefore, not reflected as a City pension trust fund;

WHEREAS: Of the remaining six systems, four are single-employer defined benefit systems (City Supplemental, Pension for Fire and Police (closed), Firefighters and Police Officers Pension Plan- defined benefit component, and Firefighters and Police Officers Pension Plan – disability component) where a stated methodology for determining benefits is provided. Two are defined contribution plans (Firefighters and Police Officers Pension Plan – defined contribution component and Retirement Income for Sheriff and Emergency Rescue Technicians (ERT), where contribution requirements are not actuarially determined;.

WHEREAS: The City also provides other post-employment benefits for health care and life insurance and has established a trust fund to pay for these current and future benefits, and state legislation will require the City to fund state provided public safety life and health benefits beginning in FY 2012;

WHEREAS: The City complies with all current Government Accounting Standard Board (GASB) rules for the presenting the financial status of trust fund for retirement, disability and other post-employment benefits;

WHEREAS: As of the end of FY 2010, the City held $291,608,031 dollars in various trust funds for these retirement purposes;

WHEREAS: The City also offers a voluntary deferred compensation program under Internal Revenue Service tax code section 457 to its employees through the International City Management Association – Retirement Corporation (ICMA-RC) without any City match. As of the end of December 31, 2010, approximately $102.4 million is held by ICMA-RC on behalf of employees of the City;

WHEREAS: More than 2000 City employees are covered by the VRS and City Supplemental plans, approximately 450 firefighters and police officers are covered by the defined retirement benefit and disability plan, approximately 250 deputy sheriffs and medics are covered by the defined contribution plan, and almost 2000 City employees participate in the ICMA-RC deferred compensation program;

WHEREAS: The City budgeted about $32.9 million for retirement benefits (excluding other post employment benefits (OPEB)) in fiscal year 2011 and this number has increased from about $20 million in FY 2005; .

WHEREAS: The Governmental Accounting Standards Board (GASB) is contemplating changes in the accounting standards for presenting retirement and OPEB benefits in state and local government financial statements and has issued "Preliminary Views" on those changes in June of 2010, and these "Preliminary Views" would create larger, reported unfunded liabilities and increased volatility in those unfunded liabilities;

WHEREAS: The Federal government is considering mandating changes in accounting standards for presenting retirement and OPEB benefits in state and local government financial statements that would also create larger, reported unfunded liabilities and increased volatility in those unfunded liabilities;

WHEREAS: The Governor of the Commonwealth of Virginia is proposing changes in the VRS system, and the General Assembly may enact such changes in 2011 that would give local governments such as Alexandria options in paying for the cost of its participation in the VRS;

WHEREAS: The Government Accountability Office has found that the significant downturn in investment markets in late 2008 has significantly diminished public pension asset values, and additional market declines in 2009 exacerbated those declines;

WHEREAS: The City of Alexandria also experienced declines in the value of its retirement trust portfolios during this time period, but the value of assets on hand in the City's retirement trust funds have fully recovered their value by June 30, 2010, ($282.5 million as of June 30, 2008 vs. $291.6 million as of June 30, 2010 as reported in audited financial statements), and have significantly increased in value since that time to $341.0 million as of December 31, 2010;

WHEREAS: The long term economic and investment market outlook for the City's retirement investment is clouded by the lingering unemployment situation in the United States;

WHEREAS: Currently we are experiencing very large and historically unprecedented Federal government budget deficits, and as a consequence there is talk of significant Federal budget reductions to reduce those deficits that may affect the City, and if they are not reduced, there is a consequent long-term threat of inflation in the United States;

WHEREAS: There is also uncertainty facing the U.S. housing market due to a rise in foreclosures and tighter credit standards and lingering unemployment;

WHEREAS: Other uncertainty and risk is created by the recent unprecedented actions by the Federal Reserve to maintain a sufficient monetary supply to encourage economic recovery (so-called "quantitative easing"), the dangers of the debt crises in Europe, and significant economic uncertainty in emerging markets in nations with developing economies both large and small;

WHEREAS: Given all the uncertainty surrounding the accounting standards to be applied to state and local retirement programs, the uncertainty surrounding the options available to local jurisdictions participating in the VRS program, and the risks created by a volatile economic outlook;

WHEREAS: In a City Council Budget Work Session on October 19, 2010 leading up to passage of Resolution #2426 on November 23, 2010, City Council heard and discussed a staff presentation on "Public Pension Plans for Alexandria Employees in FY 2012 and Beyond." As a result of that presentation, City Council included Section 14 in Resolution #2426 that provides that the City Council shall, by subsequent resolution, form a Retirement Benefit Advisory Group.

NOW THEREFORE BE IT RESOLVED THAT CITY COUNCIL DOES THE FOLLOWING:

Section 1: Establish an Ad Hoc Retirement Benefit Advisory Group

a) City Council hereby establishes an Ad Hoc Retirement Benefit Advisory Group (the Advisory Group).
b) The Advisory Group shall be composed of:
   i.6 Employee Representatives
      1. 2 members of Police/Fire Pension Plan,
      2. 2 members of Deputy Sheriff/EMT Plan,
      3. 2 members of VRS/City Supplemental Plans,
   ii.6 Members of the public, and
   iii.1 Representative of the City Manager.
c) One member of the public shall be a representative from the Budget and Fiscal Affairs Advisory Committee.
d) All public members shall have knowledge or experience through education or work experience of one or more of the following fields: financial/budget management, pension law and administration, actuarial science, and human resource management.
e) The members of the Advisory Group are to be appointed by the Mayor after consultation with the members of Council.

Section 2: Role of the City Compensation Subcommittee

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a) The Advisory Group shall provide City Council Compensation Subcommittee members advance (7 days) notice of meeting time, place and agenda and be invited to attend on an ad hoc basis to observe the activities and discussions of the Advisory Group.

b) The City Council Compensation Subcommittee may provide any commentary or recommendations as an addendum to the Advisory Group's written report.

Section 3: Tasks of the Advisory Group

a) The Advisory Group shall look at the need for any future changes to defined benefit pension plans created under the authority of the City Council.
b) The Advisory Group shall examine the current financial status of the City's retirement funds, to advise the City Manager and City Council Pension and Compensation Subcommittee on any options that should be considered to meet the following objectives:

    i. To protect benefits already earned (accrued) by retirees and current employees,
    ii. To ensure the City remains competitive with neighboring jurisdictions in recruiting for capable and effective public service employees,
    iii. To provide an opportunity for City employees to save for and have a secure retirement,
    iv. To consider the advantages and disadvantages of defined benefit vs. defined contribution pension plans and make recommendations on the structure of future plans, and
    v. To create a fiscally sustainable plan for funding future benefits whether earned or to be earned in the future.

Section 4: The Report of the Advisory Group

a) The Advisory Group shall evaluate need for changes based on:
    i. financial status of City's pension plans based on the outlook for future sustainability of those plans given actuarial outlook and investment risks and expected returns, and
    ii. the assessments of likely federal, state and GASB developments, to the extent known over the next 12 months, in accounting, disclosure and funding rules.
b) The Advisory Group may offer a variety of options that should be considered by City Council to meet future challenges. Unanimity is not necessarily required for any option in the report.
c) The Advisory Group Report shall contain an assessment of advantages and disadvantages vis-à-vis the objectives outlined above of each option presented.
d) The Advisory Group Report shall include in the report an assessment of the ease or difficulty of administrative implementation of any recommended options for consideration.

Section 5: Reports, Process, Support and Schedule of the Advisory Group

a) The Advisory Group shall select from among its members a Chair and a Vice Chair who shall schedule and convene the meetings of the Advisory Group.
b) The Advisory Group shall provide a notice and opportunity for employee and public comment on options under consideration.
c) The Advisory Group shall provide an oral report to the City Manager and the City Council Compensation Subcommittee in October of 2011.
d) The Advisory Group shall present a final written report to the City Manager and the full Council also in November 2011 (in time for use in developing FY 2013 Budget Guidance as part of any budget work session or retreat scheduled at that time).
e) The Advisory Group shall make a representative or representatives of the Advisory Group available to appear in person before City Council at such a time and such a place as Council directs to discuss the report of the Advisory Group.

f) The Advisory Group may provide any advice it deems appropriate to the City Manager and the City Council at any time before its termination as Council considers any options available for financing the City's costs to participate in the VRS.
g) The City Manager shall make available to the Advisory Group City staff including but not necessarily limited to:
   i. Deputy City Manager, Michele Evans,
   ii. Deputy CFO/Finance Director, Laura Triggs,
   iii. Human Resources Director, Cheryl Orr, and
   iv. Retirement Administration Director, Steven Bland
h) The City Manager shall make available to the Group as necessary the actuarial and investment advisory and legal services otherwise available to its Pension Boards.

Section 6 – Sunset of Advisory Group

a) The Advisory Group shall terminate after presentation of its written report to City Council, unless the Advisory Group petitions the City Council for an extension and that request is approved by City Council.

Adopted: January 25, 2011

WILLIAM D. EUILLE MAYOR

ATTEST:

Jacqueline M. Henderson

Jacqueline M. Henderson, MMC City Clerk

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Addendum B

Comparator Jurisdiction Charts

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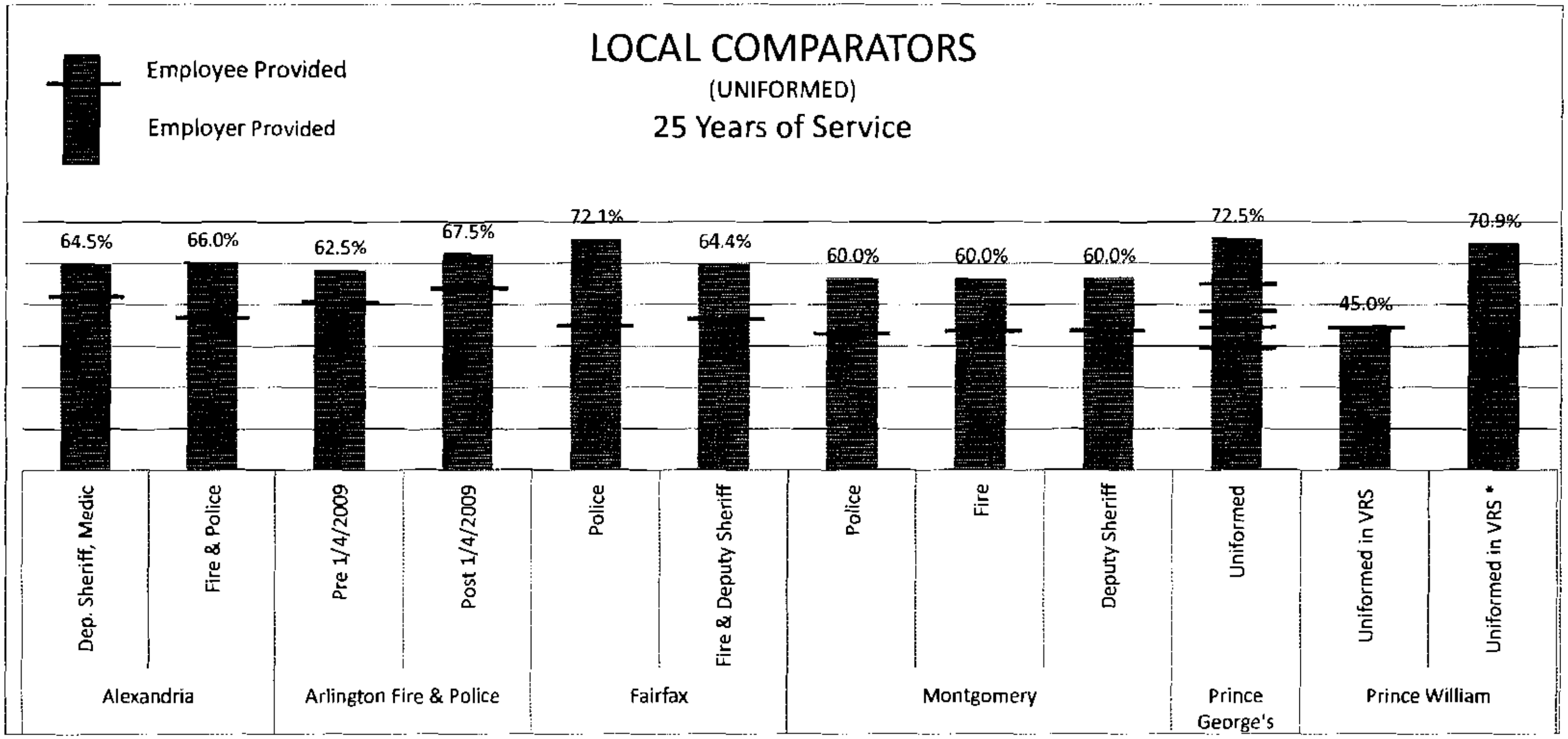
Addendum B

The chart below is to capture the payout of local public pension plans.

It is meant as a starting point and does not include all relevant considerations. See notes below.



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NOTES:

A Percentage is benefit divided by average earnings (not final earnings)

B Inclusion of overtime, annual leave & sick leave cashouts, shift differentials, etc. will vary by plan (Alexandria does not include these).

C Employee contributions vary from 0% to 13% of salary.

D The above reflects defined benefits only. The Alexandria Deputy Sheriffs, (etc.) have received contributions of 0% - 14% in a defined contribution plan.

E The above is the accrued benefit payable at normal retirement date, if members retire prior to that date an early retirement factor may be applicable.

F Salary schedlues vary by jurisdiction. People with the same final salary may not have the same salary pattern resulting in different final average salaries.

G Cost of living adjustments are not reflected. ***Initial value*** may not fully reflect ***total value*** over the retirement lifetime.

H Some retirement plans have subsidized benefits such as joint and survivor benefits or early retirement factors. That is not reflected above.

I For more details on the benefits of the above please see handout 4(a) Local Comparators from the April 27, 2011 meeting.

J The above reflects pension benefits and not total compensation and benefits.

K For P.W. County the Supplemental benefit is paid for 15 years and the VRS Supplemental Benefit is paid until Social Security Normal Retirement Age.

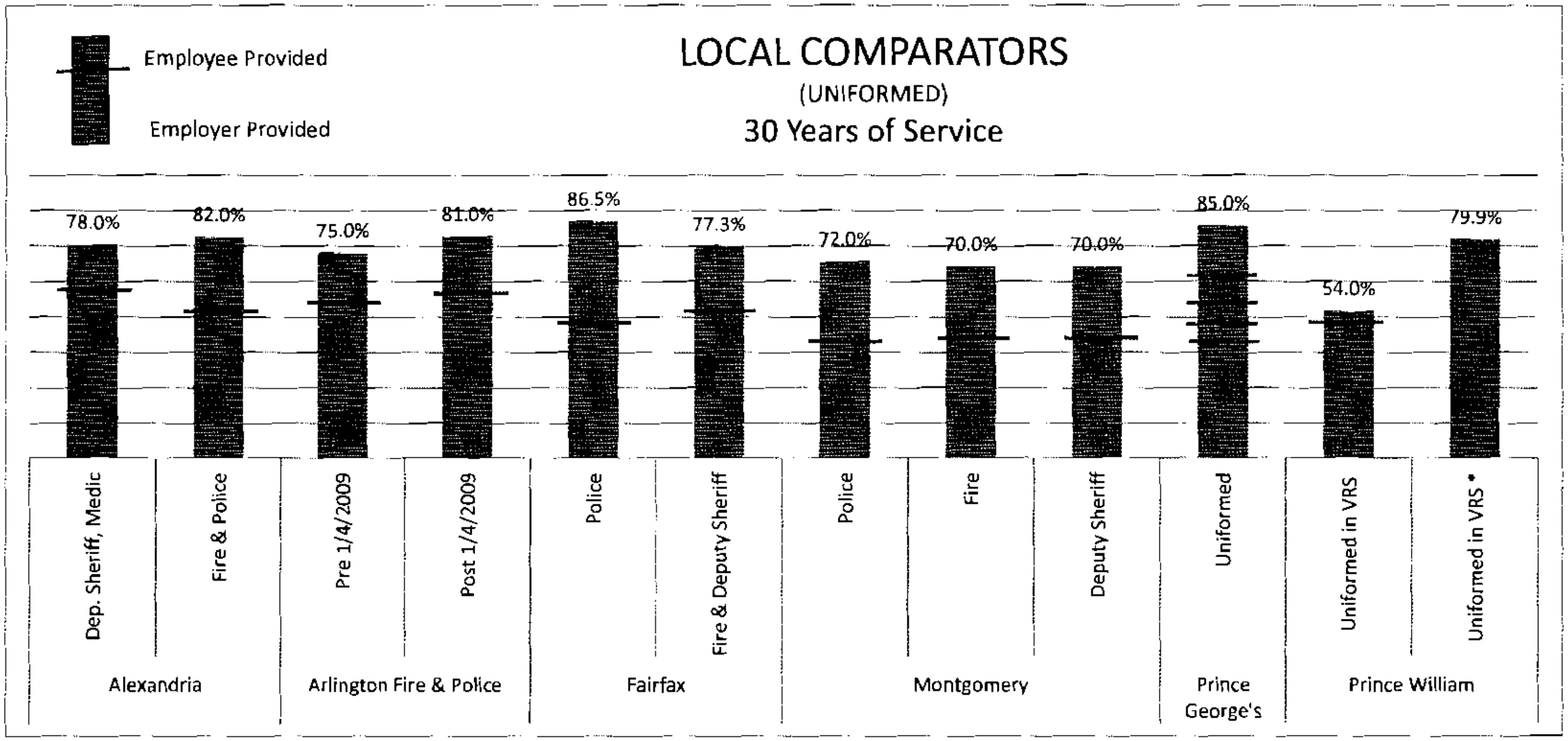
L The above assumes a standard benefit form, options such as the joint and survivor benefit will reduce the above.

M See Page 5 for methods used to derive value of employee contributions.

N Prince William VRS* includes VRS Hazardous Duty Supplement + PWC Supplement payable for 15 years.

The chart below is to capture the payout of local public pension plans.

It is meant as a starting point and does not include all relevant considerations. See notes below.



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NOTES:

A Percentage is benefit divided by average earnings (not final earnings)

B Inclusion of overtime, annual leave & sick leave cashouts, shift differentials, etc. will vary by plan (Alexandria does not include these).

C Employee contributions vary from 0% to 13% of salary.

D The above reflects defined benefits only. The Alexandria Deputy Sheriffs, (etc.) have received contributions of 0% - 14% in a defined contribution plan.

E The above is the accrued benefit payable at normal retirement date. (NRD) For those with 30 Y.O.S. working until NRD is usually not an issue.

F Salary schedlues vary by jurisdiction. People with the same final salary may not have the same salary pattern resulting in different final average salaries.

G Cost of living adjustments are not reflected. ***Initial value*** may not fully reflect ***total value*** over the retirement lifetime.

H Some retirement plans have subsidized benefits such as joint and survivor benefits or early retirement factors. That is not reflected above.

I For more details on the benefits of the above please see handout 4(a) Local Comparators from the April 27, 2011 meeting.

J The above reflects pension benefits and not total compensation and benefits.

K For P.W. County the Supplemental benefit is paid for 15 years and the VRS Supplemental Benefit is paid until Social Security Normal Retirement Age.

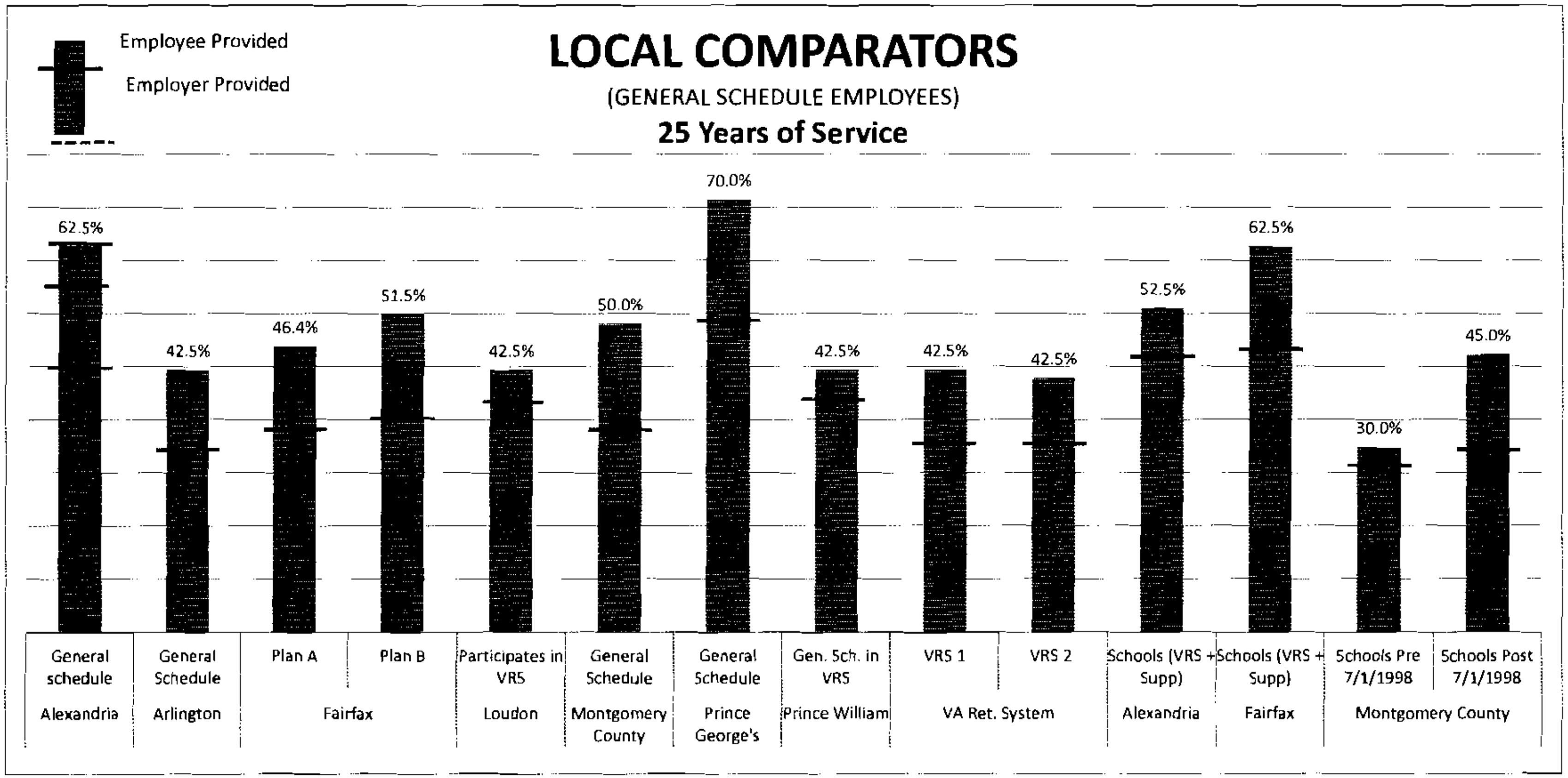
L The above assumes a standard benefit form, options such as the joint and survivor benefit will reduce the above.

M See Page 5 for methods used to derive value of employee contributions.

N Prince William VRS* includes VRS Hazardous Duty Supplement + PWC Supplement payable for 15 years.

The chart below is to capture the payout of local public pension plans.

It is meant as a starting point and does not include all relevant considerations. See notes below.



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NOTES: ------ Depicts the value of the defined benefit accruals plus the defined contribution plan

A Percentage is benefit divided by average earnings (not final earnings)

B Inclusion of overtime, annual leave & sick leave cashouts, shift differentials, etc. will vary by plan (Alexandria does not include these).

C Employee contributions vary from 0% to 6% of salary.

D The above is the accrued benefit payable at normal retirement date, if members retire prior to that date an early retirement factor may be applicable.

E Salary schedlues vary by jurisdiction. People with the same final salary may not have the same salary pattern resulting in different final average salaries.

F Cost of living adjustments are not reflected. ***Initiol value*** may not fully reflect ***total value*** over the retirement lifetime.

G Some retirement plans have subsidized benefits such as joint and survivor benefits or early retirement factors. That is not reflected above.

H For more details on the benefits of the above please see handout 4(a) Local Comparators from the April 27, 2011 meeting.

I The above reflects pension benefits and not total compensation and benefits.

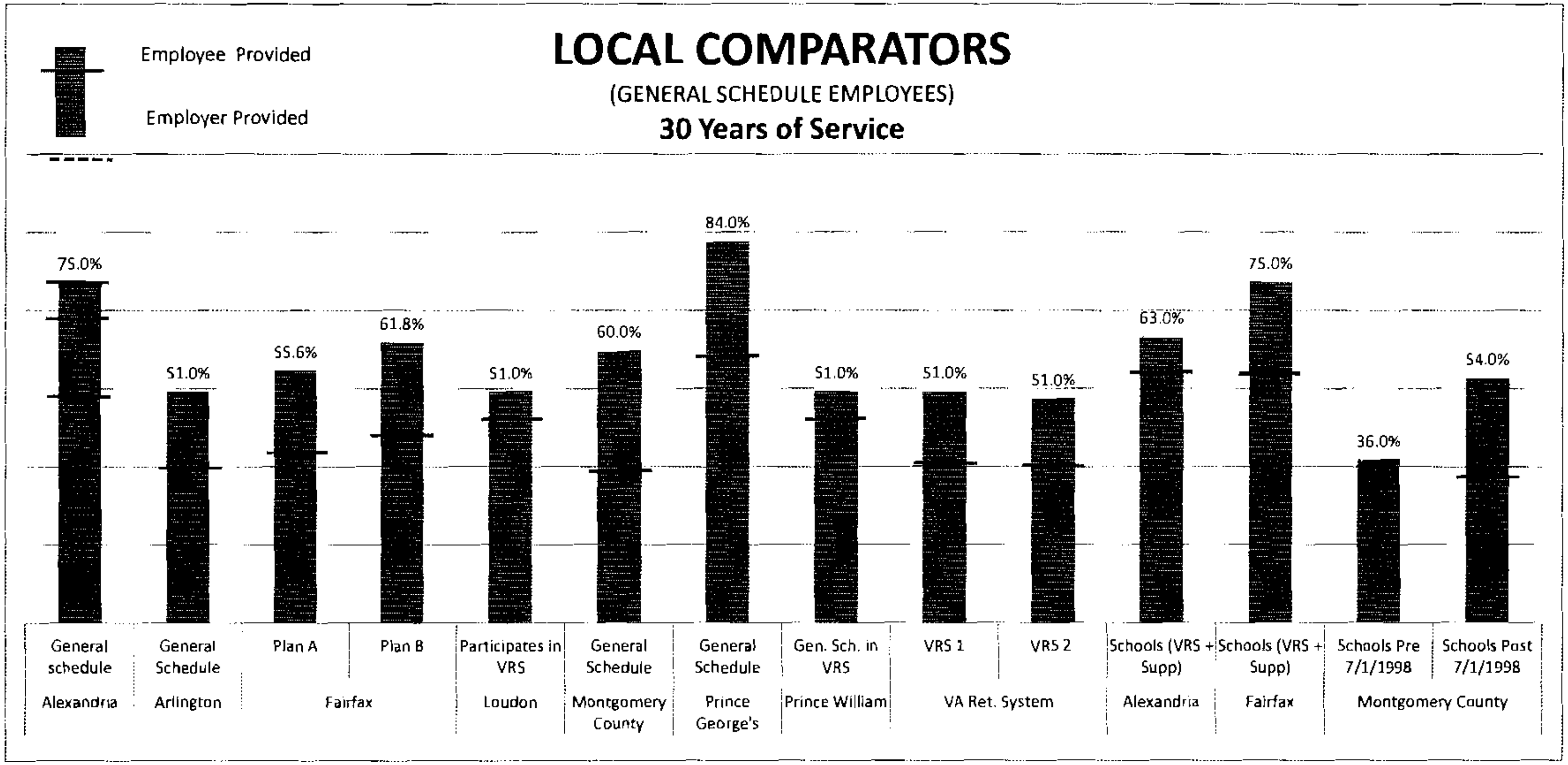
J The above assumes a standard benefit form, options such as the joint and survivor benefit will reduce the above.

K See Page 5 for methods used to derive value of employee contributions.

L VRS employee contributions will vary by employer. However, they will fall between 0% and 5%.

The chart below is to capture the payout of local public pension plans.

It is meant as a starting point and does not include all relevant considerations. See notes below.



NOTES: ------- Depicts the value of the defined benefit accruals plus the defined contribution plan

A Percentage is benefit divided by average earnings (not final earnings)

B Inclusion of overtime, annual leave & sick leave cashouts, shift differentials, etc. will vary by plan (Alexandria does not include these).

C Employee contributions vary from 0% to 6% of salary.

D The above is the accrued benefit payable at normal retirement date. (NRD) For those with 30 Y.O.S. working until NRD is usually not an issue.

E Salary schedlues vary by jurisdiction. People with the same final salary may not have the same salary pattern resulting in different final average salaries.

F Cost of living adjustments are not reflected. ***Initial value*** may not fully reflect ***total value*** over the retirement lifetime.

G Some retirement plans have subsidized benefits such as joint and survivor benefits or early retirement factors. That is not reflected above.

H For more details on the benefits of the above please see handout 4(a) Local Comparators from the April 27, 2011 meeting.

I The above reflects pension benefits and not total compensation and benefits.

J The above assumes a standard benefit form, options such as the joint and survivor benefit will reduce the above.

K See Page 5 for methods used to derive value of employee contributions.

L VRS employee contributions will vary by employer. However, they will fall between 0% and 5%.

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Value of Employee Contributions
Expressed as a Percentage of Final Salary

Employee Contribution	UNIFORMED YOS 25	UNIFORMED YOS 30	Employee Contribution	GENERAL SCHEDULE YOS 25	GENERAL SCHEDULE YOS 30
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
0.5%	1.2%	1.5%	0.5%	1.4%	1.6%
1.0%	2.3%	3.0%	1.0%	2.7%	3.2%
1.5%	3.5%	4.4%	1.5%	4.1%	4.8%
2.0%	4.7%	5.9%	2.0%	5.4%	6.4%
2.5%	5.8%	7.4%	2.5%	6.8%	8.0%
3.0%	7.0%	8.9%	3.0%	8.2%	9.5%
3.5%	8.2%	10.3%	3.5%	9.5%	11.1%
4.0%	9.3%	11.8%	4.0%	10.9%	12.7%
4.5%	10.5%	13.3%	4.5%	12.3%	14.3%
5.0%	11.7%	14.8%	5.0%	13.6%	15.9%
5.5%	12.8%	16.3%	5.5%	15.0%	17.5%
6.0%	14.0%	17.7%	6.0%	16.3%	19.1%
6.5%	15.2%	19.2%	6.5%	17.7%	20.7%
7.0%	16.3%	20.7%	7.0%	19.1%	22.3%
7.5%	17.5%	22.2%	7.5%	20.4%	23.9%
8.0%	18.7%	23.6%	8.0%	21.8%	25.5%
8.5%	19.8%	25.1%	8.5%	23.1%	27.1%
9.0%	21.0%	26.6%	9.0%	24.5%	28.6%
9.5%	22.2%	28.1%	9.5%	25.9%	30.2%
10.0%	23.3%	29.6%	10.0%	27.2%	31.8%
Accumulation Factor	$32.67	$41.38		$32.67	$41.38

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The Accumulation Factor shows the ratio of total employee contributions plus interest to the current year's contributions.

		Employee Contribution	Employee Funded Benefit as Percent Of Final Salary 25 Y.O.S.	Employee Funded Benefit as Percent Of Final Salary 30 Y.O.S.
Alexandria	Dep.Sheriff (Post 6/10)	4.0%	9.3%	11.8%
	Dep Sheriff (Pre 7/1/10)	0.0%	0.0%	0.0%
	Fire & Police	7.2%	16.9%	21.3%
Arlington		4.0%	9.3%	11.8%
Fairfax	Police	10.0%	23.3%	29.6%
	Fire & Deputy Sheriff	7.08%	16.3%	20.9%
Montgomery	Police	8.5%	19.8%	25.1%
	Fire	8.5%	19.8%	25.1%
	Deputy Sheriff	8.5%	19.8%	25.1%
Prince George's	Police	8.0%	18.7%	23.6%
	Fire	4.0%	9.3%	11.8%
	Corrections	13.0%	30.3%	38.5%
	Deputy Sheriff	11.0%	25.6%	32.6%
Prince William	VRS	0.0%	0.0%	0.0%

The verticle bar represents the gross benefit payable at Normal Retirement Date.
The horizontal line splits the benefit into employer and employee provided payout.
The methodology used included the following:

1) We assume employee contributions are made from hire date to retirement.

2) Investment return exceeds salary increases by 2% per year.

3) Retirement age, inflation, and mortality are combined in annuity factors:

Retirement Age	25 Years Of Service	30 Y.O.S.
Uniformed	55	55
Gen. Schedule	65	60

Annuity Factor	25 Years Of Service	30 Y.O.S.
Uniformed	14	14
Gen. Schedule	12	13

These are reasonable but rough approximations and should be used as starting points.

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Addendum C

Retirement Scenarios

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Replacement Ratio #1

Fire & Police

	Age 51	Age 62	Age 67
Salary			
All actives *	$71,734	$71,734	$71,734
Final Average Salary **	$92,971	$92,971	$92,971
Social Security ***	$0	$1,314	$2,030
Social Security Ratio		17%	26%
Monthly Pension ****	$6,353	$6,353	$6,353
	$6,353	$7,667	$8,383
Total Replacement Ratio	82.0%	99.0%	108.2%

* Employed at beginning & end of the year

** Estimated using all active employees with 25 years of service credit

*** Based on average salary & assumes a 35 year work history
NOTE: Amounts are subject to future changes by Congress

**** 30 Year benefit based on single life (maximum benefit)

When the chart was prepared the average monthly pension was $4,552. This reflects work histories that may have been shorter than 30 years, joint and survivor reductions, and pensions for those disabled who have reached normal retirement age.

See last page for illustration of how the benefit formula works.

Replacement Ratio #2

Supplemental Plan plus VRS

	General Schedule		VA. Dept. Health		Part Time *****		Sheriffs, Medics, Fire Mar.		
	Age 62	Age 67	Age 62	Age 67	Age 62	Age 67	Age 51	Age 62	Age 67
Salary									
All actives *	$63,681	$63,681	$55,093	$55,093	$23,095	$23,095	$70,546	$70,546	$70,546
Final Average Salary **	$73,222	$73,222	$58,116	$58,116	$49,895	$49,895	$89,495	$89,495	$89,495
Social Security ***	$1,203	$1,855	$1,085	$1,668	$644	$971	$0	$1,298	$2,005
Social Security Ratio	20%	30%	22%	34%	31%	47%	0%	17%	27%
Monthly Pension ****	$4,576	$4,576	$3,632	$3,632	$499	$499	$5,817	$5,817	$5,817
	$5,779	$6,431	$4,717	$5,300	$1,143	$1,470	$5,817	$7,115	$7,822
Total Replacement Ratio	94.7%	105.4%	97.4%	109.4%	27.5%	35.4%	78.0%	95.4%	104.9%
			City pays Supp. State Pays VRS & Social Security		No VRS Coverage				

* Employed at beginning & end of the year

** Estimated using all active with 25 years of service credit, except Part time which used over age 60

*** Based on average salary & assumes a 35 year work history
NOTE: Amounts are subject to future changes made by Congress

**** 30 Year benefit based on single life payment option. The Monthly Pension estimates may be different if the employee works other than 30 years, receives a disability retirement, or elects to receive a joint and survivor retirement.

***** Part time employees are assumed to be in a position paying $46,190 per FTE, but they are half time earning $23,095 annually. Also, the Final Average Salary reflects the FTE wage, but the pension would use 15 years of service for a 30 year half time employee. Part time employees are not covered under VRS.

For reasonable comparison we illustrate all with 30 year careers. In practice, some groups will approximate 30 years, others much less than that.

See last page for illustration of how the benefit formula works.

Replacement Ratio #3

Benefit Accrual Rate

Years	Fire & Police	Supplemental General Schedule	Deputy Sheriff	VRS
0-5	2.5%	0.8%	0.6%	1.7%
5-15	2.5%	0.8%	0.9%	1.7%
15-20	2.5%	0.8%	1.0%	1.7%
20-30	3.2%	0.8%	1.0%	1.7%
30+	0.0%	0.8%	1.0%	1.7%

Total Benefit

Years	Fire & Police	General Schedule	Deputy Sheriff
5	12.5%	12.5%	11.5%
10	25.0%	25.0%	24.5%
15	37.5%	37.5%	37.5%
20	50.0%	50.0%	51.0%
25	66.0%	62.5%	64.5%
30	82.0%	75.0%	78.0%
35	82.0%	87.5%	91.5%

Total benefit as a percent of final average salary
Assumes retirement is unreduced.

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Addendum D

Summary of Views of the Firefighters and Police Officers

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Addendum D

DATE: OCTOBER 21, 2011

TO: MEMBERS OF THE AD HOC RETIREMENT BENEFITS ADVISORY GROUP (RBAG)

FROM: MICHAEL A. CROSS, FIRE EMPLOYEE REPRESENTATIVE
EDWARD S. MILNER, POLICE EMPLOYEE REPRESENTATIVE

SUBJECT: SUMMARY OF FIRE/POLICE PRESENTATION AND RBAG RECOMMENDATIONS

This document summarizes the firefighter and police officer representative's presentation and provides comments on the recommendations being made by the RBAG. We contend that the City's pension contribution rate includes the required pension contribution to the plan *and* the amount required to pay for the City's obligation to compensate for service-connected disabilities. We also contend that the City has reduced its budgeted expenses by shifting administrative expenses and salaries to our pension plan, which has increase the City's pension contribution rates to our plan. This expense shifting has a neutral impact on the City's overall expenses, but reflects as an increase in pension contributions. And, we contend that a significant portion of the City's pension contribution to our pension plan is compensating for losses in pension values during the defined contribution period attributed to the City's oversight of the plan. Finally, we contend that any evaluation of any pension contributions and/or any increases to the fire and police pension plan should be fairly examined without the shifted expenses and salaries from the City budget *and* without the service-connected disability component that pays for the City's obligation for job-related injuries.

The fire and police representatives made a presentation to the group at the July 14, 2011 meeting on behalf of the participants of the *The City of Alexandria Firefighters and Police Officers Pension Plan*. Below is a summary of the presentation:

History of Fire/Police Pension Plans

The original pension benefits for firefighters and police officers were provided through a defined benefit (DB) pension plan. In 1979, the City changed to a defined contribution (DC) pension plan for firefighters and police officers. In 2004, the City changed back to a DB pension plan after understanding that the retirees of the DC plan experienced all of the financial risk, and were not financially secure through their retirements.

Experience of Fire/Police DC Pension Plan

Some of the problems noted from the DC pension plan are:

- The City never established a Pension Board for the DC plan to maintain an adequate investment platform and provide investment education for participants, which was required by the plan document.

- The participants lost significant retirement gains because:
  - no participant education was provided until 2003. Investment knowledge related to asset allocation, investment diversification and long-term investing strategies are essential for successful individual investing.
  - the investment options were limited to a guaranteed/money market fund until 1992. Participants experienced many years of low interest yields on savings and missed very high market returns provided by the equities markets during that era.
  - the investment platform was very limited through the early-mid 90's.
  - there were numerous underperforming fund managers on the investment platform that were not replaced, even after repeated recommendations by the financial provider, in the late 1990's to early 2000's.

- The firefighters and police officers lack the investment knowledge to individually establish and maintain a well diversified investment portfolio.

- The firefighters and police officers were retiring after 35-40 years of service because of physical inability to perform their duties instead of reaching the financial ability to retire.

- The first group of retirees from the DC plan occurred in the late 1990's. Their experience revealed:
  - The pension values for the retirees were significantly lower than the projections provide in 1978. The projections used the high interest rates of 1978-79 for lifetime interest assumptions.

  - The retirees invested extremely conservatively through their careers, with most participants investing exclusively in the guaranteed/money market fund.

  - The retirees sought professional investment advisors at retirement. These advisors helped diversify their portfolios, but these fund purchases occurred at/near the peak of the market.

  - The market losses in 1998-99 and 2001-02 caused significant retirement financial distress.

Creation of Fire/Police DB Pension Plan

In 2002, the labor organizations engaged in significant discussions with the City about the problems related to the DC pension plan. The City recognized the various problems related to the DC plan, the financial issues of the recent retirees, and the concept that the City through long-term investing of a DB pension plan is in a better position to financially handle the risks of volatile market returns. There were several issues and understandings related to creating the DB pension plan:

- The City agreed to contribute to the pension plan:
  - the amount of the existing contribution rates of 20.0% to pension and 2.35% to service-related disability (totaling 22.35%)

  - any increases/decreases in future rates resulting from the risks/rewards of investment experience.

- The employees agreed to contribute to the plan:
  - a contribution rate of 7.5% to pension and 0.5% to non-service related disability (totaling 8.0%)

  - included the negotiated payment for not having a Social Security offset provision.

- The initial unfunded liability was greater than $40M. This amount was due to low participant DC account balances that were transferred into the plan for service credit.

- Without the large unfunded liability, the City's contribution would be 10.2% to pension and 2.7% to service related disability (totaling 12.9%).

Factors Causing the Increases in Contribution Rates

A significant focus has been placed on investment returns as the reason for the City's contribution increases to pension plans. While the investment losses of 2008-09 have caused contribution increases, there are other factors that have caused most of the City's contribution increases to the Fire/Police pension plan. These are:

- The initial unfunded liability accounted for 9.45% of the City's initial 20.0% contribution rate.

- In 2007, City Council shifted administrative expenses from a non-department budget line item to the pension fund. While lowering the City budget for non-departmental expenses, the pension contribution was increased to pay these expenses (0.6%-0.7% contribution increase). The administrative expenses include: Actuary, Custodian, Financial Advisor, Legal, Plan Administration, etc.

- In 2010, City Council shifted a portion of the salaries for the Pension Administration Division from a departmental line item to the pension fund. While lowering the City budget for FTEs, the pension contribution was increased to pay these salaries (0.4% contribution increase).

- The initial asset allocation established by the City in January 2004 for the pension fund:
  - ➢ was extremely conservative for a long-term investment
  - ➢ was 50% Fixed Income, 40% Large Cap and 10% Small/Mid Cap
  - ➢ missed significantly higher market returns of U.S. and international equities for 30% of the allocation from 2004 until the Pension Board could implemented a new allocation in mid-2006.

- The timeliness of preparing the valuation reports has caused a two-year lag in funding new contribution rates. This causes additional interest accrual payments to be factored into the contribution rates.

- In 2007, City Council added a subsidized buy-back of service for participants with prior fire/police service. The participant subsidy was not funded through general funds, but added $0.5M to the pension plan's unfunded liability.

- Various valuation assumption changes:
  - ➢ The disability assumption considered that a participant needed to be disabled with a Social Security award. The assumption was changed to consider that a participant was unable to perform the job requirements.
  - ➢ The disability mortality table was changed to reflect longer life expectancy of retirees.

- The FY2010 valuation report, which is under consideration for the FY2013 budget, is suggesting the City's contribution rates be:
  - ➢ Pension (participant retirement):
    - Annual required contribution is 25.06% (a 25.3% increase from the initial rate of 20% in FY2004)
    - Normal cost of the benefit is 9.48% (without the unfunded liability and administration costs)
  - ➢ Disability (participant work-related injuries):
    - Annual required contribution is 4.92% (a 200.9% increase from the initial rate of 2.35% in FY04)
    - Normal cost of the benefit is 3.12% (without the unfunded liability and administration costs)

Fire/Police Pension Board

The Pension Board has established itself has a very active and strong steward on behalf of the pension beneficiaries. The board has undertaken numerous strategies and actions to improve the overall investment performance of the plan assets, manage and reduce the operating expenses of the plan, and make recommendations to City Council for benefit adjustments and pension compliance. Some of those accomplishments include:

- Establishing an asset allocation for long-term investing.
- Adding alternate investments to the allocation for greater diversification, reducing the risk profile of the portfolio, and providing negatively correlated investments. These alternates include: private equity, timber, and real estate.
- Initiating tactical asset allocation to adjust for a value tilt when market conditions favored value investing.

- Comingling the pension and disability funds for investment purposes for better returns and lower fees.

- Recommending plan amendments to City Council for benefit, funding and compliance purposes for:
  - Providing a purchase of prior service of prior fire/police service
  - Providing a purchase of prior service of prior service as a sheriff, medic or fire marshal service
  - Providing an annuity option for disabled participants with DC accounts
  - Providing non-service disability beyond normal retirement to comply with recent court rulings related to age discrimination laws
  - Providing an income tax deduction for certain health insurance premiums
  - Adjusting the employees disability contribution rate
  - Adjusting election procedure for employee representatives to the pension board
  - Complying with various Federal law and IRS regulation (ex; PPA of 2006, Section 415, HEART Act)
  - Correcting plan language to meet long-term administrative practices

- Hiring professional consultants through a competitive RFP and interview proves for actuary services, custodial service, investment advisement, and legal counsel.

- Transitioning from a platform of mutual funds to individual investment fund managers for the pension assets

Recommendation related to Fire/Police Pension Plan for the RBAG

- Maintain the DB pension plan

- Any future plan design, benefits and funding issues should be referred to the Pension Board for recommendations.

Comments on RBAG Report Recommendations

We would like to recognize the significant effort this group has taken to understanding the various retirement benefits provided by the City to its employees. There has been a significant amount of negative news coverage nationally about failing public pension systems and excessive retirement benefits. The amount of background of the history of, the evolution of, and the current value of the current retirement benefits was a daunting task, but has proven extremely vital in understanding our retirement benefits. Based on this extensive review, the findings of the group indicate that the current retirement benefits are established in a manner to try to maintain a total compensation that is competitive; the pension costs have increased, but not out of control; the defined benefit pensions should be maintained; and a plan for adjustment mechanisms should be established to prevent arbitrary changes should there be runaway contribution costs.

There appears to be an agreement with the recommendations in the group's report. The is still being discussed by the group, which has prevented a distribution of the final report to participants for detailed review. However, the fire and police representatives have discussed the recommendations within their departments and have held an open participant forum to discuss the report. There have been no significant objections noted.

There is great concern for the recommendation related to adjustment mechanisms. We recognize that pension contribution increases from further economic declines cannot continue unrestrained. Preparing a cost containment plan in advance of a crisis is a prudent measure for protecting the City from out-of-control costs and the employees from arbitrary and surprising benefits and/or contribution changes. Preparing cost containment actions will require defining the economic condition to initiate pre-determined cost savings.

The Fire/Police Pension Board is the best forum for establishing these adjustment mechanism recommendations to City Council on behalf of the Firefighters and Police Officers Pension Plan. The Pension Board membership includes key members of the City administration for financial matters, and employee representatives that have received considerable education on financial and fiduciary matters that will provide a substantial foundation for performing this work. Special vendors, such as an actuary, financial advisor, and legal counsel will be required to propose reasonable adjustment mechanisms. The Pension Board already has contracted with and has a working relationship with these vendors, and routinely engages these vendors for making critical decisions on behalf of the pension fund. We strongly urge City Council task the Fire/Police Pension Board with establishing the recommendations for adjustment mechanisms for the Firefighters and Police Officers Pension Plan.

Finally, we would like to acknowledge and express our appreciation to everyone who participated in the RBAG, with special recognition to the citizen members of the group. Each meeting was filled with an in-depth discussion of the employee's various retirement benefits to afford a full understand the strengths and weaknesses of each benefit. The level of consensus for the reports finding and recommendations is the greatest indicator of group discussions and mutual understanding for the realities of these benefits.

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Addendum E

Summary of Views of the Deputy Sheriffs, Medics, and Fire Marshals

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Summary of Deputy Sheriff's Retirement Committee Presentation

What the Deputy Sheriff's Want:

1. Keep the plan the same for those hired prior to July 1, 2010 (VRS 1). Keep benefits the same with no contributions by employees.

2. Change to a 25-year plan for those hired after July 1, 2010 (VRS 2). The retirement plan needs to be competitive. New employees, who are currently contributing 4% should have a better plan, not a worse one.

With a combination of the Virginia Retirement System (VRS) and the Alexandria City Supplemental Retirement Plan (SRP), Deputy Sheriffs earn a yearly multiplier of 2.3% for years 1-5, 2.6% for years 6-15, and 2.7% for years 16 and beyond. However, deputies do not receive the full amount of this multiplier unless they work for a full 30 years or until age 65 under VRS1. For example, a deputy at age 60 with 25 years of service would take a 30% penalty off of the VRS multiplier that was already earned. The penalty is greater if the individual with 25 years of service is under age 55. VRS2 is worse, requiring work until Normal Retirement Age (age 67 if born after January 1, 1960) or a Rule of 90 (age plus years of service have to equal 90). Therefore, one of our newest deputies, who was hired just after her 21st birthday, will be penalized for leaving early if she retires before working almost 34 and a half years.

The main concern of the Alexandria Deputy Sheriffs with our existing retirement plan is the fact that our VRS plan is a 30-year plan, so deputies are penalized for leaving before 30 years of service or age 65. Every other Sheriff's Office in Virginia has a 25-year plan. However, our deputies understand that changing plans would increase costs during a time when other costs are increasing. We would like for VRS to calculate what the cost increase would be, and we will work with the City to change plans in the future when other costs have come back down.

Our only urgent concern is for the Deputies hired after June 30, 2010. Those Deputies contribute 4% towards a new VRS plan, which has lesser benefits. We need to move these Deputies to a 25-year plan as soon as possible, or we risk losing good people to other jurisdictions soon after we finish paying for all of their training. Because of training costs, each deputy we lose to another agency because of better benefits would cost the City approximately $35,000.

Summary of Presentation for Medics and Fire Marshals

The total cost for providing retirement benefits to the Medics has not shown a significant increase since 1992 because the Medics (and the Fire Marshals since they were added in 2005) have had a reduction in total benefits and a break from parity with PD and Fire. Specifically the cost in 1992 was 23.0% of base salary and the projected cost for 2012 shown in the March 9, 2011 budget memo #3 was 23.59%. This represents a 2.57% increase in twenty years.

The reason this increase was minor even in light of the significant increase in VRS costs is that the city had an automatically adjusting mechanism. The city would contribute 22.35% - 23.0% of base salary to retirement. From this the required cost to VRS and the required costs to the City Supplemental plan would be subtracted and any additional funds remaining would be deposited into the defined contribution account. For example, in 2004 VRS cost 5.75% and the Supplemental cost 3.5% thus the DC account received 13.1%.

As can be seen from this example, over the years as VRS costs have increased, the Medics, FMs and Deputy Sheriffs' benefit has decreased since they received less or no contribution in their DC account. This account was viewed as a "bridge" to allow some offset of the significant VRS penalty associated with retirement at 25 years of service. It bears emphasizing that the Medics, FMs and DSs have been sharing in the cost of rising retirement by accepting less benefits.

We realize it is very difficult to compare a 30 year plan to a 25 year plan since they have significant cost implications and we caution Council to remember this when comparing contribution rates. This is one reason Medics and FMs have asked for the cost of a 25 year plan. Not only would it allow for an informed decision by the employees as to whether they would like to self-fund the benefit but it would also allow the Pension Subcommittee and Council to better compare plans.

Delaying retirement for medics and FMs will increase the disability costs due to an increase in injuries and will reduce retention when other jurisdictions have 25 year retirements. We have already seen retention issues for Medics. There have been six medic classes hired in the past ten years (excluding the 2010 hiring since they are still on probation). Out of the 45 hired, only 21 remain. This 46.7% retention rate carries a significant impact on our service delivery and training costs to the city.

Retirement contribution rates have recently been decided not as a result of sophisticated analysis related to long term sustainability but more as a reaction to nationwide trends, incomplete comparisons to the private sector and short term budget shortfalls or perceived shortfalls. Additionally it has been done without apparent regard for the increased disparity with comparator jurisdictions. This is the reason we agree to an adjustment mechanism being considered. However we strongly believe it should be determined by the Pension Subcommittee and the to be developed SRP Board but not be instituted for any group of employees unless a recent comprehensive total pay and compensation study shows that that employee group is at or above the average of comparators.

Cost out 25 year plan for VRS

- VRS 1
  - Not as costly as for VRS2
  - Employees may be willing to pay for earlier retirement to avoid working this physically and mentally demanding job when they are 55
- VRS 2
  - Rule of 90. Do we really want 60 year old medics?
  - Help minimize impact of 4% charge
- Both
  - Paid considerably in 2005 to get 25 year supplemental in hopes of getting 25 year VRS
  - Had Virginia change VRS law in 2008. Need more follow-up
  - Severe reduction in benefit if not age 65. See Deputy Gilmore's presentation.
  - See comparators. All others have 25 year plan.

Raise Medical Stipend for all Retirees

- Not raised in at least 5 years.
- Should've been tied into charging incumbents an increase in % of their health care premium
  - All city employees are going to be assessed a 25% increase in premiums in FY 2013 BEFORE cost of insurance is calculated
  - Start (or continue to) link payment with years of service

Form New Committee to Investigate Feasibility to Opt out of VRS and City Supplemental

- Or to continue in plan if become FF
- Need to crosstrain for:
  - Better retention of employees
  - Reduce compassion fatigue syndrome
  - Assist with UHU
  - Give more promotional opportunities
  - Allow Department more flexibility in deploying resources
  - Retention. See later statistics
  - Increase defensibility. See later details.

Investigate TOTAL Compensation Package

- Need to take into account salary and when that salary is achieved. Ex. FFX achieves "top out" sooner than Alexandria.

Status of VRS Sustainability

- Page 7 of VRS plan contribution shows FY ending 2012 at 7.78% and 2013 at 12.34% but are they based on June 2009 actuarial valuation?
- GASB Summary- Potential changes create an accounting problem that requires offsetting with assets. Does NOT require additional capital outlay or annual funding.
- Historical data showing average rate of return at 9% but VRS moving projection from 7.5% to 7.0%.
    - Necessary change based on recent performance

      or
- Knee jerk reaction to what HAD happened and now is recovered?
- Compare to PD/Fire performance
- Cost of benefits for DS/Medics was:
    - 1992 23.0%
    - 2011 22.52 %
    - 2012 23.59%

    2.57% increase in 20 years

    Information from March 9, 2011Budget memo #16 page 3

Reinstate Contribution Equity with PD/Fire

- Retroactive pay since deviated in 2009
    - 2009 26.41 vs. 22.35 Difference = 4.06%
    - 2010 26.79 vs. 22.35 Difference = 4.44%
    - 2011 25.17 vs. 22.60 Difference = 2.57%
    - 2012 28.63 vs. 23.67 Difference = 4.96%
- Parity was agreed upon as a pay/benefit philosophy in ~1990
- Parity broken in 2009
- Would like it re-established with retro pay being given to RIP account
- "Value of employee" comment
- Groups ***may be willing*** to not claim 2 years of disparate contribution in exchange for commitment to fund median of:
    1) VRS & Supplemental contribution
    2) PD/Fire Contribution
    3) 22.35%
- Example 1
    1) VRS & Supp = 25%
    2) PD/Fire = 28%
    3) 22.35

    City would fund 25%

- Example 2
  1) VRS & Supp = 21%
  2) PD/Fire = 11%
  3) 22.35

  City would fund 22.35%

Maintain DB Plan with Full City Payment and Frequent Monitoring of Comparators

- Watson Wyatt showed Medics 4th out of 5 comparators in retirement. Not competitive w/ comparators in retirement. Watson Wyatt March 2009 p2 & p4
- Retention of Medics remain a problem
- Latest class hired 10/04/2010. 14 hired and at least 7 are considering leaving Alexandria EMS
  - Other jurisdictions
  - Other departments or divisions
- At a training cost of $60,000 – 70,000 can we afford to continue to lose more than 50% of our employees?

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Addendum F

Summary of Views of the General Schedule Employees

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Summary of General Schedule Employee Survey Results and Recommendations Presented To the Ad Hoc Retirement Benefit Advisory Group September 8, 2011

Findings and Observations Regarding General Schedule Employee Pensions and Benefits

General Schedule Employees noted that recent and ongoing benefit reductions, as well as limited market rate adjustments/cost of living adjustments, mean that these employees have made indirect contributions to their pensions through reduced compensation for many years. Specifically, the following benefits have been reduced:

> FY2006 – the last year that the City's monthly health care reimbursement for retirees was increased. Since that time, monthly premiums for the City's most affordable health care option have increased by 46.7% for individual coverage and by 86.2% for family coverage.
>
> FY2007 - health care cost sharing introduced for all employees was introduced. Beginning in FY2013, all employees are scheduled to pay 20% of health care premiums. The significant impact of this change on lower wage employees was noted.
>
> FY2007 – the City instituted a tenure-based system for retiree health coverage for new hires. The retiree must have at least 25 years of service to receive the full benefit, currently $260 monthly.
>
> FY2010 – Post-employment life insurance coverage was eliminated for new hires.
>
> FY2010 – The cash refund of future City contributions to the City's Supplemental Pension Plan was eliminated for all employees.
>
> FY2010 – Supplemental Plan amended to require new employees to contribute 2% of salary.
>
> FY2011 – VRS contributions amended to require new employees to contribute 4% of salary to the VRS 2 Plan.

As a result of changes to the City's two pension plans, new General Schedule employees are now contributing 30.06% of their total pension costs to these retirement plans – a higher percentage of total pension costs than any other employee group, including Police and Fire. In spite of the higher contribution requirement, future benefits for General Schedule employees are the least generous of the three employee groups. In addition, average salaries for Public Safety employees are 10.3% higher than those of General Schedule Employees.

General Schedule employee representatives noted the diversity of the General Schedule workforce. These employees are the trash collectors, the librarians, 911 dispatchers, accountants, and a varied group of talented, well-trained employees. The need for General Schedule Employees to be compensated appropriately now to ensure that the employees will retire at an income replacement rate that reflects their years of service and loyalty to the City. General Schedule Employees retire at an older age with less replacement salary than any other labor group in the City.

Policy decisions made over the past two decades in which General Schedule employees went without pay raises in lieu of the City's promise to fund their pension plans was highlighted. In some cases, other labor groups got pay adjustments at a higher rate than General Schedule Employees. This precedent has led to a chronic stagnation in salary compensation. It is this pay practice that has also led to the General Schedule Employee being at least 7% behind comparator jurisdictions, as discussed in Director of Human Resources Cheryl Orr's presentation to City Council at a budget work session.

General Schedule Employee representatives also noted that, contrary to popular belief, increases in the City's pension costs are not solely attributable to VRS cost increases. Between 2004 and 2012, annual costs to the City to fund the Fire and Police Pension Plan increased from $5.6 million to $9.5 million. During the same time frame, total pensionable salaries for Fire and Police increased by 35%, which General Schedule VRS pension salaries increased by only 28%. On a per capita basis, pension costs for the Fire and Police Plan are almost twice as expensive the cost to the City as the cost of pension benefits for General Schedule Employees.

General Schedule Employees provided evidence that early retirement is not generally an option for employees due to the resulting significant benefit reductions. In one example provided, an employee retiring 10 years before their full retirement age of 65 would face a benefit reduction of 68%. For an employee earning $60,000 annually at retirement, this reduction would provide an annual income at retirement of $14,256 under a basic/single life annuity benefit. The conservative and responsible administration of the City's pension plans was highlighted, most notably that no opportunities for abusive practices, such as pension spiking, exist within these plans. It was further highlighted that the City's Supplemental Plan provides no cost-of-living increase and that neither VRS nor the Supplemental Plan includes a health insurance component.

Survey Results

General Schedule employees were invited to complete a survey regarding their current retirement benefits, both to assess their priorities and the use of available retirement planning resources. Approximately 500 responses were received, representing the views of nearly one-third of all General Schedule employees. Comments and recommendations in the survey were wide-ranging but reflected a general satisfaction with the City's current retirement benefit plans. The majority of respondents (90.9%) were hired before June 30, 2009 and a similar percentage (90.5%) indicated that they plan to retire from the City.

In response to the question, "How do the City's retirement and savings benefits factor into your retirement plans?," 85.8% of respondents indicated that the plans will represent all or a significant part of their future retirement funds. Given a basic, objective summary of the positives and negatives of both defined benefit plans and defined contribution plans, employees expressed a preference for defined benefits by a 4:1 ratio. The survey indicated that the majority of respondents (80%) are also saving for their retirement through resources outside of the City's retirement plans.

Particular areas of concern with the City's retirement plans were:

- benefits for part-time employees,
- education of employees on retirement plans,
- supplemental plan issues such as lack of a COLA and purchase of service opportunities.

Recommendations

The Virginia Joint Legislative Audit and Review Commission (JLARC) is currently reviewing the Virginia Retirement System and will be submitting an initial report in December 2011 with recommendations expected to be presented to the General Assembly in early 2012. Given that the findings of this report and their impact on local government membership in VRS are unknown, we recommend that City Council consider delaying any additional action on employee pensions until this report is issued and to only consider changes in employee contributions as a part of an overall analysis of employee compensation and benefits. Given that any increase in employee retirement contributions to VRS would represent a potential salary reduction for full-time City employees, City Council may want to consider increasing employee compensation to offset any increase in required employee retirement contributions and affiliated salary reductions, such as increases to payroll taxes. Such a change would also benefit employees in that an increase in their average final compensation will result in an increase in future retirement benefits through VRS.

Employee Education and Outreach: One of the key findings of the employee survey was a need for greater education and outreach to employees on saving and retirement resources. Specific recommendations to address this concern are:

Ensure that new employees understand their direct costs related to retirement and health care and that a statement of these costs be included within the individual offer letter.

Provide educational opportunities to ensure knowledge and understanding of retirement webpages and how to use them. Ensure that supervisors encourage employees to understand their retirement benefits and provide adequate time during work hours to access this information.

Establish targeted, mandatory retirement education at 1) the beginning of the employee's service, 2) mid-career, and 3) when the employee is within five years of eligibility for full retirement benefits.

Consider the addition of a staff position in the Pension Administration Division to expand capacity in employee outreach.

City Supplemental Retirement Plan: The City Supplement Retirement Plan provides for no annual cost of living adjustment. This is the only plan that does not keep up with the inflation. Based on the most recent 30-year period of annual inflation, retiring with an allowance of $15,120 a year in 2011 will amount to the equivalent of $5,784 a year in 30 years. The City should request an analysis of the supplemental plan to determine the fiscal impact of adding an annual cost of living adjustment factor.

457 Deferred Compensation Plan – As an incentive to encourage employees to begin saving for their retirement, the City should consider offering a matching contribution program. This could be a minimal investment on the City's part to help employees develop a pattern of savings and demonstrate the value of pre-tax contributions. This type of incentive is currently offered by Arlington County and the City of Falls Church.

Governance - Creation of a single Board for all retirement plans, as described in Steven Bland's July 14, 2011 memo "Enhancing Sustainability", would be a welcome change for General Schedule employees. This would provide an opportunity for these employees to participate in pension governance in a way that currently does not exist. This would also address concerns raised in the survey regarding outreach by allowing employees to become more engaged in the details of the supplemental plan.

Purchase of Prior Service in the City Supplemental Plan : Many employees indicated an interest in purchasing prior service credits in the City supplemental plan. While this is often an expensive option, it would provide employees an opportunity to bring both retirement plans into alignment.

Part-Time Employee Benefits: As noted earlier, retirement benefits for part-time employees are extremely limited. These employees have access only to the City's supplemental retirement plan which replaces just 24% of the employee's average final compensation. Given that part-time employment represents a family-friendly employment option for many workers, the City should strive to improve retirement benefits, including access to post-retirement health care benefits.

Request study of a cost-sharing "trigger" in an economic crisis: It is recommended that the City conduct a study to determine the impact of a cost sharing trigger in the event of sharp increases in retirement costs. Elements of this study would include recommendations on the defining characteristics of an economic crisis, how the trigger would be implemented, and a report available to employees on the findings of this study, with an opportunity for employee feedback .

Addendum G

Memorandum from Acting City Manager Bruce Johnson to the Advisory Group dated September 19, 2011 regarding "Response To The Group's Recommendation Concerning A Pension Trigger Mechanism"

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Addendum G

City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 19, 2011

TO: MEMBERS OF THE AD HOC RETIREMENT ADVISORY GROUP

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: RESPONSE TO THE GROUP'S RECOMMENDATION CONCERNING A PENSION TRIGGER MECHANISM

This memorandum responds to the Ad Hoc Retirement Advisory Group's (the "Group") recommendation contained in the Co-Chairman's "mark" that the City Council consider a "trigger mechanism" to protect the City and its employees from the risks associated with future pension plan costs. A "trigger mechanism" would be some indicator event that would automatically trigger a pre-determined cost-sharing or cost-saving plan for the duration of any downturn. Since most benefit and compensation events are annual, the "trigger mechanism" would most likely operate on an annual time frame.

The first step would be choosing the type of cost-sharing or cost-saving action that would be triggered, changes to contribution rates or changes to benefits. It is important to note here that currently the Virginia Retirement System Plan could not be included in any "trigger mechanism" as the Plan can only be modified through General Assembly action. In addition, the Supplemental Retirement Plan for Deputy Sheriffs, Medics and Fire Marshals has statutory limitations that would restrict (but not eliminate) the City's options for implementing a "trigger mechanism."

On the other hand, the "trigger mechanism" could cause a temporary cessation of benefit accruals, a temporary reduction in the rate of benefit accruals, or a temporary cessation of service credit for retirement eligibility purposes. With this option, there would be the possibility of establishing a retroactive restoration of benefits when the situation returns to "normal." Absent a retroactive restoration of benefits, some employees would receive smaller monthly benefit payments at retirement.

The City Manager and staff feel that a percentage increase in employee contribution rates would be the most appropriate way to promote financial sustainability. Contribution rates are more easily adjusted (both increases and decreases as the situation requires) and would tie directly to the actuary's recommended contribution rate. Benefit changes would be more complicated to administer, and would have a more complicated and deferred impact on the actuary's recommended contribution rate.

The second step in setting up such a plan would be determining what type of event would be set as the "trigger mechanism." Potential "trigger mechanisms" include:

- A drop in the pension funding ratio (assets/liabilities);
- An increase in the actuary's recommended contribution rate as a percentage of salary;

- An increase in the unfunded liability above a pre-set limit;
- A decline in pension fund investment returns or performance; or
- Some external standard such as a decline in the S&P 500.

It is important to note that the "trigger mechanism" chosen should, as much as possible, be an objective, independent measurement directly related to the City and its pensions, bond rating, etc. and consistent with existing pension and investment policy. These characteristics would bolster employee confidence that the triggered cost-reduction is neither arbitrary nor capricious. The "trigger mechanism" should also be relatively easy to administer and powerful enough that no further City Council action would be required in a future downturn.

The "trigger mechanism" for increased contribution rates could establish FY 2013 contribution rates as the benchmark. (The actuary's recommended contribution rates for FY 2013 represent the latest data available from the actuary and will be the high water mark to date for contribution rates.) If the actuary's recommended contribution rate for a given year were to exceed those for FY 2013, the costs of the increase could be shared by the City and employees. Each employee group will decide what risk sharing ratios are appropriate but options include employees contributing a flat amount, such as one percent, or a specific portion of the increase, such as one half.

The third step would be to establish the benchmark for what a return to "normal" would mean. This benchmark would be directly related to the original "trigger mechanism". So, for instance, if the trigger mechanism was the FY 2013 actuary's recommended contribution rate, contribution rates or benefit accruals would return to normal for future years once the actuary's recommended contribution rate returned to or fell below the FY 2013 rate. If the benefit reduction option is chosen, another benchmark could potentially trigger a full or partial retroactive restoration of benefits reduced during the downturn.

Choosing between the options available for each step will require a careful cost-benefit analysis of each option. However, ideally, the ultimate plan would have certain characteristics:

- The "trigger mechanism" would be an objective, independent measurement directly related to the City and its pensions, bond rating, etc. and consistent with existing pension and investment policy.
- The "trigger mechanism" would be powerful enough that City Council wouldn't need to take further action to control pension costs during a downturn.
- The plan would be relatively simple to administer.
- There would be some consistency among plans.
- There would be no disparate impact or a very limited disparate impact on employee subgroups, such as younger v. older employees.
- The plan would be effective in both the short and long term.
- The plan would have only a short lag from the triggering event to measurement to implementation.

As indicated above, these options can be discussed and debated in full. The answers may vary from plan to plan. In summary, City staff favor a trigger mechanism pegged to the actuarially recommended contribution rate, and that the cost-sharing approach be used to promote financial sustainability by increasing the employee contribution rate by some amount.

Addendum H

Memorandum from Acting City Manager Bruce Johnson to the Advisory Group dated October 11, 2011 regarding "Response To The Group's Observations And Recommendations"

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Addendum H

City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 11, 2011

TO: MEMBERS OF THE AD HOC RETIREMENT ADVISORY GROUP

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: RESPONSE TO THE GROUP'S OBSERVATIONS AND RECOMMENDATIONS

This memorandum responds to the recommendations and observations concerning the City's pension plans included in the Ad Hoc Retirement Advisory Group Chairman's Draft (the "Draft"). For brevity and clarity, most of these recommendations and observations are only summarized below. The full text of each can be found in draft number 1A of the *Ad Hoc Retirement Advisory Group Report* (pp. 50 – 64).

RECOMMENDATIONS:

Recommendation 1: The Draft included a recommendation for the creation of a joint pension plan board either through the expansion of the Fire & Police Pension Board or through the creation of a parallel board. The Draft also included a recommendation that, if such a board is created, City Council include public members nominated by Mayor Euille.

> **Response:** City staff recommend that the wording be changed to highlight **efficient time management** and the precise mechanics would be determined at a later date. It is possible to expand the Fire & Police Pension Board; however, other approaches are also viable to create a joint or parallel Board. Having one unified board would allow for efficiencies, such as ensuring that persons who are members of multiple boards could, for instance, hear presentations once rather than multiple times. However, because of the amount of time already spent in Fire & Police Pension Board meetings, staff needs to weigh the pros and cons of having combined or separate boards to do this efficiently.

Recommendation 2: The Draft included a recommendation that City Council consider terminating SRP coverage for state employees who work in the Health Department.

> **Response:** Michele Evans will provide a memorandum on this topic and her arguments for maintaining SRP coverage for State employees in the Health Department. It should be noted that there are 87 State Health Department employees. Seventy-four of them were hired before July 1, 2009, and contribute 1.0% to the SRP, and 13 were hired after

that and pay 2% to the SRP. The Health Department employees have been on the SRP since the early 1970s. These employees are on the City pay scale and work side-by-side with City employees. Fairfax and Arlington Counties both have taken over the operation of their local Health Departments from the State, and the Health Department employees are County employees. While the City has not taken over the Health Department, it has chosen to treat the Department employees much like City employees over the last 40 years.

Recommendation 3: The Draft included a recommendation for the creation of a "trigger mechanism" plan to control costs.

Response: This issue was covered in detail in a previous memorandum from me dated September 19, 2011. In brief, City staff favor a trigger mechanism that is based on the total contribution rate exceeding that of the FY 2013 Budget. Representatives of City employees in each retirement group would work with City management to determine the appropriate formula to use for their group.

Recommendation 4: The Draft included a recommendation that the retiree health policy and retiree life insurance policy be described in a plainly written document and made readily available to all potentially eligible employees.

Response: I will ask representatives of Human Resources and the Finance Department to develop a summary plan description and to post it on the City website.

Recommendations 5 & 6: The Draft included a recommendation that the City request that the Virginia Retirement System (VRS) calculate the cost of providing a full retirement benefit at age 50 with 25 years of service for Deputy Sheriffs, Medics and Fire Marshals. The Draft also included a recommendation that any "tinkering" with the Fire & Police Plan be conducted by the Fire & Police Pension Board and that any "tinkering" with the SRP be conducted by the board recommended in Recommendation 1.

Response: Since any changes to the VRS retirement eligibility (age & service) could lead to earlier retirement under the SRP, City staff recommend that a request to develop costs for the VRS Plan be deferred until the City's actuaries complete their work on the valuation of the SRP and City Council creates the joint or parallel board recommended in Recommendation 1. If City Council chooses not to create such a joint board, this work should be done through the City Manager's Office. Because of the way VRS allocates contributions, the total contribution rate as a percentage of salary would increase to fund any changes in benefits for Deputy Sheriffs, Medics and Fire Marshals. Through cost sharing or trigger mechanisms, this change may lead eventually to higher employee, as well as employer, costs.

Recommendation 7: The Draft included a recommendation that the City not abandon its defined benefit plans or create new defined contribution plans.

Response: The resolution creating the Ad Hoc Retirement Benefits Advisory Group specifically calls for a review of the high level defined benefit vs. defined contribution structure. City staff's view is that defined benefit plans should remain as the core of the City's retirement benefit package. However, the federal government's split plan, which comprises both defined benefit and defined contribution elements, has merit for new employees and should be considered. New employees may desire more portability in their pension benefits, particularly younger employees or older, but new, employees, who do not plan a long career in Alexandria City government.

Recommendation 8: The Draft included a recommendation that the City not impose additional employee contribution requirements.

Response: It is important to note that:

- Pensions are long term commitments, so funding and benefit decisions should be set and left in place for long periods and not revisited as a matter of routine;
- Pension contributions are a significant percentage of the budget so their impact is significant and they should be monitored and addressed when they become too large; and
- Pension funding, disclosure, benefits, and contributions are deceptively complex, so it is important to resist the temptation to "tinker" and end up with unintended consequences.

The trigger mechanism should greatly diminish any other reasons to change employee contributions in any expected (normal) environment. However, City staff do not want to be absolute and rule out future changes except for the application of trigger mechanisms.

<u>OBSERVATIONS</u>: For brevity's sake, observations with which the City Manager concurs without comment will be left out of this memorandum.

Observation 4: The Draft included the observation that defined contribution plans presented significant risks for employees and provided uncertain returns that may not last for the employee's lifetime while defined benefit plans provide employees with a stable life-long retirement (and disability retirement) income and cost of living increases, but place most risks on the employer. City Council has previously approved a defined contribution plan for fire and police employees and later approved moving these employees back to a defined benefit plan and rejected a change to defined contribution plans. The draft says that employees would object to such a switch. Finally, the Draft included the observation that the City would be responsible for maintaining "frozen" defined benefit plans in the event that the City changes to defined contribution plans.

Response: The City acknowledges the value of the defined benefit plan for career employees and, as discussed above, City staff believe that such plans should remain the core of the City's retirement benefit package. However, there is also value in defined contribution plans. Observation 4 does not adequately portray the risk borne by the employer in defined benefit plans, a full consideration of which would bring more balance to the observation. New employees may appreciate an option to choose between a defined benefit and defined contribution plan.

Observation 5: The Draft included the following observation: "Notwithstanding the broad language used by City Manager Sunderland, it is unreasonable to expect the City to absorb limitless investment risk for the VRS, FPOPP, and SRP, just as it would be unfair for employees to bear the investment risk. Neither the City Manager's memoranda nor the City Council's action thereon constitute a legally binding commitment never to increase employee contributions, reduce future benefits, or terminate the plans, even though they obviously created expectations among employees. Raising taxes or reducing services to cover unexpected pension costs may not be possible, and pressures would inevitably rise to reduce labor costs to the detriment of the employees. Some accommodation must be reached to protect the City and its workforce against long-term investment under-performance. Our recommendations at the end of this report suggest such an accommodation."

Response: In addition to the investment risk mentioned, potential issues include mortality risk, salary/inflation risks, administrative risks, regulatory expenses, etc. A full discussion of some of these issues will provide greater balance to the observation.

Observation 6: The Draft included the observation that the City has taken multiple steps in response to pending funding challenges and notes that increasing employee pension contributions is similar in effect to decreasing employee salary; that benefits are "substitute salary," so City contributions are equivalent to employee contributions; and that employees have certain expectations based on earlier actions and statements by City Council and City management.

Response: The City Manager acknowledges that take-home pay that is one to two percentage points lower than expected financially disadvantages employees; however, it is also true that a layoff of one to two percent of the City workforce is difficult for all involved, both those who are laid off and those who remain but have to do more with less. Decisions that decrease employee income (directly or indirectly) or reduce the City's workforce are difficult; however, exigent fiscal circumstances may require these difficult decisions to be made, as they have in several of the last few years.

Observation 7: The Draft included the observation that the City has made use of the VRS 2 plan for new employees, that this decision produced "pros" and "cons," and that the City would experience costs savings for employees under VRS 2 even if these employees did not make contributions to the plan.

Response: It is important to note that the SRP also has a two-tiered contribution rate structure for employees based on membership before or after June 30, 2009. The Fire & Police Plan is the only City defined benefit plan that has not been modified since the financial crisis of 2008 and the ensuing Great Recession. No new platform has been created under this plan for new hires.

Observation 8: The Draft included the observation that comparing the City's retirement package to those of comparator jurisdictions is a difficult exercise due to significant variation in plan terms and conditions and that, on the whole, the City's pension coverage is "about the same" as comparator jurisdictions' coverage. The Draft also included the observation that a useful assessment of the relative value of the City's pension coverage would require a comprehensive study of the entire compensation package.

> **Response:** City staff acknowledge the difficulty of such comparisons but feels that, given the complexity of the subject matter; such comparisons can still provide useful information.

Observation 11: The Draft included the observation that providing SRP coverage to state employees working in the Health Department is a significant expense and that consideration should be given as to whether this practice should be continued.

> **Response:** Michele Evans is preparing a memorandum for the Group concerning the Virginia Department of Health and the SRP. (See also Recommendation 2 above.)

Observation 12: The Draft included the observation that the Government Accounting Standards Board (GASB) would be releasing new standards concerning the reporting of public pension plan obligations and expressed concerns about how this would affect the City.

> **Response:** So far, the new standard has proven to be significantly less onerous than anticipated and the final outcome, at this time, may be fiscally and administratively workable for the City. I will ask staff to continue to monitor the new accounting standard's implementation.

Observation 16: The Draft noted a need for more employee education concerning retirement income and post-retirement benefits.

> **Response:** City staff agree that communication with employees regarding this matter is appropriate. Subject to budget limitations, the City Manager encourages department managers to approve employee requests to attend City-sponsored retirement seminars. As stated in the response to Recommendation 4, I will ask representatives of Human Resources and the Finance Department to develop a summary plan description regarding retiree health insurance and life insurance and to post it on the City website and on AlexNet since it is applicable to current and retired City employees.

Observation 17: The Draft included the observation that the Resolution appears to request the Group's opinion on the "sustainability" of the City's pension obligations and states that the Group does not feel competent to make this assessment.

> **Response:** The statements in the Draft relating to the fiscal solvency of the plan do speak to this issue in various other sections.

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Addendum I

Memorandum from Deputy City Manager Michele R. Evans dated October 17, 2011 regarding the "City Supplemental Pension And Employees Of The Alexandria Health Department"

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Addendum I

DATE: OCTOBER 17, 2011

TO: MEMBERS OF THE AD HOC PENSION ADVISORY COMMITTEE

FROM: MICHELE R. EVANS, DEPUTY CITY MANAGER

SUBJECT: CITY SUPPLEMENTAL PENSION AND EMPLOYEES OF THE ALEXANDRIA HEALTH DEPARTMENT

The purpose of this memorandum is to provide the history of the participation by employees of the Alexandria Health Department in the City's Supplemental Pension Plan. Alexandria Health Department employees have been included in the Supplemental Pension Plan almost since the Plan was created in the early 1970's for the reasons described below. This is a somewhat complicated history since a variety of factors and City decisions have affected how the City funds the Health Department and the salaries and benefits of its employees. The department has employees who are 100% state-funded, others who are 100% City-funded and grant-funded employees often working together in the same program.

The State employees in our Health Department consistently have contributed 1% of salary as their share of the Supplemental Plan since they joined the Plan in the 1970's. Health Department State employees hired after July1, 2009, contribute 2% of salary for the Supplemental Pension Plan as do other City employees hired after that date.

Effective July 1, 2011, Alexandria State Health Department employees also contribute the 5% employee share of VRS, pursuant to State action requiring State employees to make the VRS employee contribution. Unlike other state employees, since the Alexandria employees are on the City's pay scale and mostly follow City pay rules, they did not receive the 5% salary increase granted to other State employees. Instead the State monies allocated for the 5% salary increase were provided to the City to offset the City's contribution for the Alexandria Health Department budget in accord with City-State Procedure for Processing the Local Salary Supplement.

Background

The City has had a unique relationship with the Alexandria Health Department over the last 40 years. Although the Alexandria Health Department is a state agency, unlike most other cities and counties in Virginia, in many respects the City of Alexandria frequently has treated our Health Department as if it were a City department.

In the 1970's the City Council determined that it was in the interest of the City to provide primary health care services to the City's very low income residents. With a combination of federal grant funds and City funds, the City built the Flora Krause Casey Health Center on the grounds of the then newly-built Alexandria Hospital on Seminary Road. Although the services provided have changed over time, the Casey Health Center has been a location at which the Health Department has provide medical care for many low income Alexandrian beyond the care that was mandated to be provided in the vast majority of Virginia jurisdictions.

With respect to funding the Health Department, the City and the State participate in a State/Local Agreement that defines the expenditures and responsibilities of each. The City's FY 2012 Budget includes approximately $7 million in City funds for the Alexandria Health Department. The state provides about $4 million in FY 2012 for State-mandated and other State programs provided by the Health Department. Generally in the State, the proportion of funding provided to Health Departments is 55% State and 45% locality. Because we have many "City" programs provided by the Health Department, the City's share of the budget is significantly higher. This is the result of a long history of the Health Department including both City (25% of employees) and State (75% of employees) and having employees working side by side to provide a mix of State and local programs.

Because of the extent of the local programs provided in Alexandria, the provision of primary health care to certain uninsured very low income residents, **and as a result of decisions made in the past not only to supplement the salary and retirement of State employees in the Health Department but also to include them in the City's classification and pay plan, the City makes a significant contribution to the Health Department budget. These salary and pension decisions were also made in an effort to ensure that the Health Department was able to recruit and retain employees in the highly competitive healthcare environment in the Northern Virginia/Metropolitan Washington Area.**

The Health Department is responsible for providing mandated services such a family planning, HIV/Aids services, TB and other communicable diseases, well-baby clinics, and services for pregnant women. It also provides pharmacy services and pediatric care for low income children and low-income adults with chronic diseases. The Teen Wellness Center (formerly the Adolescent Health Center) now located at TC Williams High School is a 100% City-funded program provided by the Health Department. The Partnership for a Healthier Alexandria is another 100% City and grant funded City-wide effort that is managed and run by the Alexandria Health Department.

Until the early 2000's the City's Environmental Quality Program (now a part of the Department of Transportation and Environmental Services) was based in the Health Department. Currently the Department has both City and state employees who are responsible for the Environmental Health Division, which oversees inspections of restaurants and other food establishments, swimming pools, massage and health establishments. The Department also participates in the City's emergency management effort, with employees who are key to our emergency planning.

In summary the City of Alexandria has maintained a close cooperative partnership with the Alexandria Health Department, and the department provides important City and State services. The Health Department staff is a mix of City, State, and grant employees. It is in the interest of the City that Health Department employees have similar benefits to the City employees in their department and to general employees in other City Departments. Changing the City policy established more than 40 years ago of including Health Department employees in the City's Supplemental Retirement Plan would send a very negative message to the 89 State Health Department employees at a time when these employees have already absorbed the 5% employee contribution for VRS.

cc: Bruce Johnson, Acting City Manager

Addendum J

Human Resources Department Memorandum dated October 11, 2011 regarding "Retiree Health Insurance Reimbursement History"

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Addendum J

City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 28, 2011

TO: CHERYL D. ORR, SPHR, IPMA-CP, DIRECTOR
HUMAN RESOURCES DEPARTMENT

FROM: KATHLEEN C. OGNIBENE, SPHR, DEPUTY DIRECTOR
HUMAN RESOURCES DEPARTMENT Kathleen Ognibene

SUBJECT: RETIREE HEATLH INSURANCE REIMBURSEMENT HISTORY

The City recognized that retirees did not always stay in the Metropolitan Washington D.C. insurance service area when they retired from the City. Prior to the 2008 merger of Mamsi/Optimum Choice with United Healthcare, there was no national health insurance plan for retirees to join if they moved away from this area. The City created the Retiree Health Insurance Plan Reimbursement program in 1979 to reimburse retirees for their private health insurance premiums when coverage in a City sponsored plan was not available. Between 1979 and 1989, the reimbursement was $5 per month or $60 per year.

In FY1990, the City paid eligible retirees $55 a month toward their private health insurance costs. By July 1, 2005 (FY2006), the rate had risen to $260, which is the current cap today. The table below shows the change in the monthly reimbursement by fiscal year:

Fiscal Year	Reimbursement $
1979 to 1989	5.00
1990	55.00
1991	58.00
1992	75.00
1993	86.25
1994	94.88
1995	99.62
1996	99.62
1997	99.62
1998	99.62
1999	99.62
2000	100.00

Fiscal Year	Reimbursement $
2001	106.83
2002	170.00
2003	197.00
2004	215.00
2005	240.00
2006	260.00
2007	260.00*
2008	260.00*
2009	260.00*
2010	260.00*
2011	260.00*

*Until October 1, 2007, eligible retirees did not require minimum service to earn the full reimbursement subsidy. This was changed on October 1, 2007 when a service based entitlement schedule was enacted. After 5 years of service, retirees earn 4% ($10.40) of the maximum $260 for each year of service completed prior to retirement. The table below illustrates how the monthly subsidy is earned:

Years of Completed City Service	Subsidy +4% per Year	Maximum Subsidy per Month
Less than 5	0%	$0
5 to 10	20% to 40%	$52 to $104
11 to 15	44% to 60%	$114 to $156
16 to 20	64% to 80%	$166 to $208
21 to 25+	84% to 100%	$218 to $260

To receive the subsidy, a retiree must be enrolled in a City health plan at the time of separation, and be receiving a monthly retirement payment from a primary City retirement plan.

The chart below was created on April 14, 2008 in Budget Memo #94. This chart shows the amount of the annual subsidy given to eligible retirees for healthcare coverage. The maximum annual subsidy is unchanged from 2009.