EXHIBIT NO. 1

27
12-14-04

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 9, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: CONSIDERATION OF APPROVAL IN CONCEPT OF A PROPOSED PLAN AMENDMENT TO THE CITY OF ALEXANDRIA SUPPLEMENTAL RETIREMENT PLAN TO IMPLEMENT TWO PROPOSED CHANGES TO MAKE NORMAL RETIREMENT AGE AND THE CALCULATION OF FINAL AVERAGE EARNINGS THE SAME AS THE VIRGINIA RETIREMENT SYSTEM

ISSUE: Consideration of a proposed plan amendment to the City of Alexandria Supplemental Retirement Plan for general City employees.

RECOMMENDATION: That City Council approve the proposed Supplemental Retirement Plan, amendment in concept and authorize the City Manager and the City Attorney to develop the plan documents and present them to Council for final adoption in early 2005. The proposed amendment accomplishes the following:

(1) Allow normal retirement at age 50 with 30 years of service instead of the current age 55 with 30 years of service; and

(2) Calculate the Final Average Earnings using the highest, consecutive 36-month average instead of the current average of the salary on December 1 for the last three years.

DISCUSSION: The Virginia Retirement System Plan (VRS) is the primary retirement benefit for City employees other than public safety employees. This benefit is augmented by the City Supplemental Retirement Plan. Currently, an employee who is eligible to retire under the provisions of VRS may not be eligible to retire under the City Supplemental Plan concurrently. The Supplemental Retirement Plan's normal retirement (age 55 and 30 years of service) and calculation of the final average earnings needs to be changed to align with the VRS retirement age and final average earnings calculation.

Currently, City employees are eligible to receive VRS retirement benefits at age 50 with 30 years of service. The proposed plan amendment will make the City's Supplemental Plan normal retirement age requirements match those of VRS. To receive benefits from the Supplemental Retirement Plan, employees with 30 years of service must be at least 55 years old at the time of retirement. If they leave City employment before age 55, they are not eligible for a retirement benefit under the Supplemental Retirement Plan until they reach age 55.

The final average earnings under VRS is based on a different calculation than the Final Average Earnings for the Supplemental Retirement Plan benefit. VRS retirement benefits are calculated based on the highest, consecutive 36-month average salary. The City Supplemental Plan uses the salary on December 1 for the last three years. Therefore, many employees who qualify for retirement under VRS and would like to retire during the year wait until after December 1 in order to get the maximum benefit from the Supplemental Plan. This December 1 retirement calculation is often a source of confusion and makes it difficult for employees to plan for retirement under the December 1 provision.

FISCAL IMPACT: There are approximately 2,000 active participants in the City Supplemental Retirement Plan. Our actuaries have informed us that changing the Final Average Earnings calculation would have no fiscal impact on the cost of our Supplemental Retirement Plan. They estimated, based on the FY 2003 payroll data, that the proposed change in retirement eligibility would increase the annual pension cost of the Supplemental Plan by approximately $160,000. These funds would come from a proposed increase in the employer's share percentage which the City contributes to the plan.

STAFF:
Mark Jinks, Assistant City Manager
Michele Evans, Assistant City Manager
D. A. Neckel, Director of Finance
Caterina Tarver, Pension Administrator

27
12-14-04

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 14, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: DOCKET ITEM 27 – CHANGE IN THE SUPPLEMENTAL RETIREMENT PLAN

Recently, you received an email from Myla Riggs, an employee in the Department Personnel Services, stating that the change we are proposing in the calculation of "Final Average Earnings" for the Supplemental Retirement Plan will adversely affect employees who plan to retire soon (i.e., at the end of this month or in January). The proposed change uses an employee's highest consecutive 36-month average salary to calculate his/her Final Average Earnings, rather than the employee's salary on December 1 for the last three years, which is how the calculation is now made.

There are two points to be made in response to the e-mail.

First, we do not intend the proposed change to have any effect on employees who have already made a retirement decision. The change will not become effective until after formal plan amendments are drafted and are approved by Council, which will likely be in February or March 2005. Sufficient time will then be provided for employees to make an informed decision on retirement based on this new plan provision.

Second, while the proposed plan change may adversely effect some employees, it will benefit others. This is no different than the current "December 1" provision, which operates to the benefit of some employees but also can harm others.

Employees contemplating retirement have many factors to consider before setting their retirement date. Among these factors are (i) the amount of their pension benefit from the Supplemental Plan (which depends on the calculation of Final Average Earnings), (ii) the amount of their pension benefit from VRS (which also depends on the calculation of Final Average Earnings), (iii) the date they will be eligible to receive their first COLA from VRS, and (iv) the income tax they will have to pay on their accrued vacation and/or sick leave payout. Setting the retirement date can be, and is, a confusing task -- made more confusing by the fact that today the Supplemental Plan and VRS differ in the manner they calculate Final Average Earnings.

The proposed change attempts to make life simpler for employees by bringing the Supplemental Plan's calculation of Final Average Earnings into sync with the calculation method of VRS and other retirement plans. Thus, with the change, both the Supplemental Plan and VRS will look to an employee's highest consecutive 36 month salary to determine his/her Final Average Earnings.

For these reasons, we continue to recommend that you adopt the proposed change.

27
12-14-04

December 13, 2004

Mayor William D. Euille
Vice Mayor Redella S. "Del" Pepper
Councilwoman Joyce Woodson
Councilman Ludwig P. Gaines
Councilman K. Rob Krupicka
Councilman Andrew H. MacDonald
Councilman Paul C. Smedberg
City of Alexandria

Dear Mr. Euille, Mrs. Pepper, and Members of City Council:

On Tuesday you will be reviewing a proposal to make changes to the City Supplemental Retirement Plan for employees of the City. One of these changes involves the method used to compute the average salary under the plan (moving from a formula that is based on the average of the highest three consecutive December 1 salaries to a 36 month calculation). Are you aware that this change could adversely affect employees planning to retire soon under this plan? An example follows:

Under the current calculation method, a long term General Schedule employee at the GS 8 step O level planning to retire January 1, 2005 would have an average salary equal to $42,382. Under the new proposed 36 month method that employee's average salary would be only $41,781 - about $600 less. This will have a negative affect (reduce) that employee's pension calculation under the Supplemental retirement plan.

While the change to the normal retirement age may benefit a small number of employees who are between the ages of 50 and 55 and have 30 years of service, the average salary calculation has the potential to negatively impact many more employees who already meet the age and service requirements for retirement under the plan. It may especially harm employees who are planning to retire early in the year (January tends to be the most popular retirement date for employees because of the advantageous tax consequences involved with leave pay outs made in the new tax year allowing employees to either pay less tax on the payout or contribute the maximum amount into their ICMA deferred compensation program). City employees who are planning to retire have not been provided with any information about this change or the potential affect it will have on their retirement benefits. Most City employees are unaware of these proposed changes which will affect a very important benefit designed to provide for their future.

Please consider requesting further information on the potential negative impact this average salary change could have on employees before moving forward with amending the plan.

Sincerely,

Myla Riggs

Myla J. Riggs
5309 Yorktown Blvd
Arlington, VA 22207