


City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 3, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: RESOLUTION TO AMEND THE CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN

ISSUE: Consideration of proposed changes to the City of Alexandria Firefighters and Police Officers Pension Plan.

RECOMMENDATION: That City Council adopt the attached resolution (Attachment) which amends the City of Alexandria Firefighters and Police Officers Pension Plan to:

1. Maintain the tax-free status of non-service partial disability benefits;
2. Maintain the employee's total contribution rate at 8.0 percent;
3. Provide greater flexibility in making needed contribution rate changes and time funding decisions with the City's annual budget process; and
4. Amortize all elements of the unfunded liability consistently.

DISCUSSION: The Firefighters and Police Officers Pension Plan (the "Plan"), a defined benefit or DB plan, became effective January 1, 2004. Prior to that date, the City's sworn firefighters and police officers participated in the Retirement Income Plan for Firefighters and Police Officers (the "Retirement Income Plan") and the Firefighters and Police Officers Disability Income Plan (the "Disability Income Plan"). On February 21, 2004, the Retirement Income Plan was converted into the Pension Plan and the Disability Income Plan was merged into the Plan.

Maintain the tax-free status of non-service partial disability benefits: Benefit payments for non-service partial disability received by disabled members are considered tax-free distributions and are therefore not taxed. This is because of the way contributions are made to the plan. A non-service partial disability is:

"...An illness or injury which prevents a Covered Employee from performing the duties of the job the employee was assigned by the City at the time of suffering

such illness or injury; and, the Administrator determines such partial disability is not reasonably correctable or subject to rehabilitation, the cost of which shall be borne by the City.”

The tax-free distribution of non-service partial disability benefits requires an annual certification letter from the Plan’s actuary. The letter must certify that the employee contributions are sufficient to fund the non-service partial disability benefits. Currently, all members contribute 7.5 percent of their pay before taxes to the defined benefit retirement plan and 0.5 percent after taxes to the disability plan. The total employee contribution is 8.0 percent. The City currently contributes an additional 20 percent of pay to the defined benefit retirement plan and 2.35 percent of pay to the disability plan. Based on recent actuarial studies, the defined benefit rate will increase in FY 2009 to 21.86 percent and the disability rate to 4.4 percent.

Until recently, the plan’s actuary was able to certify that this 0.5 percent employee contribution to the disability plan was sufficient for non-service partial disability benefits to remain non-taxable. However, disabled former police and fire employees are living longer, and the incidence of disability is increasing. That means that the 0.5 percent employee contribution rate is no longer sufficient to allow the actuary to make this certification. Under federal law, future non-service partial disability benefits would become partially taxable, if the employees’ contribution rate remains at 0.5 percent.

Maintain the employee’s total contribution rate at 8.0 percent: Working with the Plan’s actuary and legal counsel, this proposed amendment allows the Plan to maintain the tax-free status for the non-service partial disability benefit. To achieve this, the amendment proposes to have the employee disability contribution increase by 0.1 percent and have the employee retirement contribution decrease by an equal amount. Under the proposed amendment, the total employee contribution (as shown below) would remain at 8.0 percent.

	EMPLOYEE CONTRIBUTION RATES		
	CURRENT	PROPOSED	CHANGE
Disability Income Plan	0.50%	0.60%	0.1%
Pension Plan	7.50%	7.40%	(0.1%)
TOTAL	8.00%	8.00%	-

This amounts to a shift of approximately \$2.50 per pay period from an employee’s defined benefit contribution to an employee’s disability plan contribution income for an officer earning \$65,000 per year. Because the taxable disability portion of the employee contribution would increase to cover the higher cost of the disability plan, the employee would need to pay taxes on this increase. If this member’s income is in the higher tax brackets, the member might have an increase of \$1 per pay period in federal income taxes. The tax increase will be less for others. This shift will prevent non-service disability payments from becoming taxable.

Provide greater flexibility in making needed contribution rate changes and time funding decisions with the City’s annual budget process: The current Plan only permits the City of Alexandria to change the employer contribution rate on January 1. The employer contribution

rate for the disability plan is fixed in the Plan document at 3 percent. The proposed amendment would allow the employer contribution rate to change from 3 percent to the “actuarially required amount” as determined each year by the Plan’s actuary. This proposed amendment would also allow the employer contribution rate to change on July 1 to match the City’s budgeting process and fiscal year.

Amortize all elements of the unfunded liability consistently: The unfunded liability is an actuarially computed estimate of the cost of the plan. The current plan requires a portion of the unfunded liability at plan inception to be amortized over time as a level dollar amount over a 25-year period from the Plan’s inception in 2004. The balance of the unfunded liability is funded as a level percentage of payroll over the same period. This inconsistency, based on review, is believed to have been a drafting error. Information available and distributed to members in 2003 disclosed the assumptions, procedures, and methods the actuary used. These documents consistently disclosed the unfunded liability was amortized as a level percent of pay. In addition, the level percent of pay approach is much more common than the level dollar approach in the public sector. This plan amendment would use the level percent of pay method. This change would not affect the planned employer contribution rate in FY 2009 and beyond.

As required by the Plan documents, these proposed amendments were disseminated to all police and fire Plan participants in September. No significant comments from participants were received.

FISCAL IMPACT: The goal of this set of amendments is to clarify the Plan while being cost-neutral. The Plan’s actuary has stated the changes will not change the contribution rates.

ATTACHMENTS:

Attachment 1. Seventh Amendment to the City of Alexandria Firefighters and Police Officers Pension Plan

Attachment 2. Resolution

STAFF:

Mark Jinks, Deputy City Manager

Michele Evans, Deputy City Manager

Laura B. Triggs, Acting Director of Finance

Steven Bland, Retirement Administrator

SEVENTH AMENDMENT
TO THE CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN

Pursuant to the powers of amendment reserved under Section 12.1 of The City of Alexandria Firefighters and Police Officers Pension Plan (the "Plan"), said Plan shall be and the same is hereby amended by the City of Alexandria, Virginia (the "City"), effective as of the dates noted herein, as follows:

FIRST CHANGE

Section 4.2(a)(1) is deleted in its entirety and the following new Section 4.2(a)(1) inserted in lieu thereof effective with respect to the actuarial valuation for the initial Plan Year (and each Plan Year thereafter):

(a) City Contributions

- (1) After taking into account the contributions made by Covered Employees in accordance with Section 4.2(b), the City shall, from time to time, make contributions to the Fund in amounts necessary, according to sound actuarial principles, (and based upon reasonable actuarial assumptions, funding methods and related matters recommended by the Actuary) to fund the benefits under this Plan and to maintain the actuarial integrity of the Fund. For this purpose:
 - (i) Any unfunded liability attributable to the grant of additional Years of Credited Service pursuant to Section 3.4 shall be amortized over a 25 year period beginning July 1, 2004, in payments, expressed as a level percentage of Compensation; and
 - (ii) The contribution required by the City under this provision shall be (1) based upon the actuarial valuation produced annually by the Actuary; (2) expressed as a percentage of Compensation; and (3) remitted monthly (in arrears), such that the contribution with respect to Compensation paid during a month shall be remitted to the Trustee or deposited

in an Annuity Contract within 15 business days after the close of such month.

SECOND CHANGE

Section 4.2(b) is hereby deleted, and the following Section 4.2(b) is substituted in lieu thereof effective as of July 1, 2008:

(b) Employee Retirement Contributions

- (1) On and after the Date of Adoption, each Participant who is classified as a Covered Employee shall make Employee Retirement Contributions to the Plan in an amount equal to 7.5% of the Participant's Compensation.
- (2) Effective as of July 1, 2008, each Participant who is classified as a Covered Employee shall make Employee Retirement Contributions to the Plan in an amount equal to 7.4% of Compensation.
- (3) In the event of an adjustment in the rate of Employee Disability Contributions pursuant to Section 4.3(b), the rate of Employee Retirement Contributions to the Plan shall be adjusted at the same time, so that the rate of Employee Retirement Contributions to the Plan equals the difference between: (i) 8.0% of the Participant's Compensation, and (ii) the amount of Employee Disability Contributions that the Participant is obligated to make under Section 4.3(b).
- (4) A Participant shall make any additional Employee Retirement Contributions that the Participant is obligated to make under Section 3.5 with respect to Purchasable Service.
- (5) Employee Retirement Contributions required under this Section 4.2(b) shall continue until the earlier of the Participant's (1) Termination Date, or (2) DROP Effective Date, and shall be made in accordance with rules established by the Administrator.
- (6) The Employee Retirement Contributions referred to in this Section 4.2(b) shall be:
 - (i) picked up by the City, as described in Section 414(h)(2) of the Internal Revenue Code;
 - (ii) deducted from the pay of the contributing Participants as salary reduction contributions;
 - (iii) paid by the City to the Trustee or deposited in an Annuity Contract within 15 business days following the end of the month during which such amounts were withheld from the pay of the contributing Participants;

- (iv) made a part of the Participant's Employee Contribution Retirement Benefit, that is, a part of his or her Accrued Pension Benefit; and
 - (v) automatically suspended for any payroll period during which the participant is not a Covered Employee or during which he or she is on an Authorized Leave of Absence.
- (7) Notwithstanding any provisions of this Plan to the contrary, Participant contributions picked up by the City, shall be fully (100%) vested.

THIRD CHANGE

Section 4.3 is hereby deleted, and the following Section 4.3 is substituted in lieu thereof effective as of July 1, 2008:

4.3 Disability Contributions

The cost of providing the Disability Benefits on or after the Date of Adoption shall be borne by contributions by the City and the Participants. The amount of the respective contributions shall be determined as follows:

(a) City Disability Contribution

On and after the Date of Adoption, subject to the limitations contained herein, the City shall, from time to time, make contributions to the Fund in amounts necessary, according to sound actuarial principles, (and based upon reasonable actuarial assumptions, funding methods and related matters recommended by the Actuary) to fund the Disability Benefits under this Plan (other than Disability Benefits attributable to a Non-Service Connected Partial Disability, which shall be funded by contributions made by Covered Employees in accordance with Section 4.3(b)).

(b) Employee Disability Contributions

On and after the Date of Adoption, each Participant shall make an Employee Disability Contribution in an amount required to offset the cost (as determined by the Actuary based upon reasonable actuarial assumptions, funding methods and related matters) to provide for Disability Benefits attributable to a Non-Service Connected Partial Disability under Sections 5.4 and 5.10. Such Employee Disability Contribution shall continue until the earlier of the Participant's (1) Termination Date, or (2) DROP Effective Date. The initial amount of Employee Disability Contribution shall be 0.5% of each Participant's Compensation. Effective July 1, 2008, the amount of the Employee

Disability Contribution shall be adjusted to 0.6%. The rate of the Employee Disability Contribution shall be adjusted thereafter to the extent that the Actuary determines that such change is necessary to maintain proper funding. The amount of the Employee Disability Contribution shall not be picked up by the City under Section 414(h)(2) of the Internal Revenue Code. The Employee Disability Contribution shall only be used to pay for Disability Benefits on account of a Non-Service Connected Partial Disability.

The City of Alexandria Firefighters and Police Officers Pension Plan, as in effect on January 1, 2004, and as previously amended by a First, Second, Third, Fourth, Fifth and Sixth Amendment, and as amended by the foregoing changes, is hereby ratified and confirmed in all other respects.

IN WITNESS WHEREOF, the City has caused this Amendment to be executed by its City Manager on this ____ day of _____, 2007.

CITY OF ALEXANDRIA

By: _____
James K. Hartmann, City Manager

**RESOLUTION
OF THE CITY COUNCIL OF THE
CITY OF ALEXANDRIA, VIRGINIA**

WHEREAS, the Firefighters and Police Officers of the City of Alexandria perform a vital service to our community;

WHEREAS, the City Council sincerely appreciates this service;

WHEREAS, the City has endeavored to design benefits that meet Internal Revenue Service standards so as to provide tax-advantaged benefits;

WHEREAS, the Firefighters and Police Officers Pension Plan Board has unanimously approved the proposed seventh plan amendment;

WHEREAS, the proposed seventh plan amendment to the City of Alexandria Firefighters and Police Officers Pension Plan will not increase costs to the City of Alexandria;

WHEREAS, the plan document calls for public notice, and this notice was made, plan participants were invited to meetings for public comment, and no objections were raised;

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ALEXANDRIA, VIRGINIA:

1. The Council hereby approves the seventh plan amendment to the City of Alexandria Firefighters and Police Officers Pension Plan, in the form attached hereto.
2. This resolution shall take effect immediately upon its adoption.

ADOPTED December 11, 2007

William Euille

Mayor

RESOLUTION NO. 2260
OF THE CITY COUNCIL OF THE
CITY OF ALEXANDRIA, VIRGINIA

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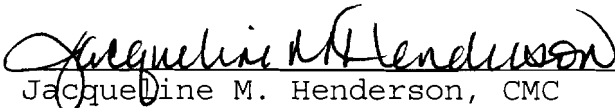
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WILLIAM D. EUILLE MAYOR

ATTEST:



Jacqueline M. Henderson, CMC City Clerk

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