

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 17, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES HARTMANN, CITY MANAGER *JH*

SUBJECT: RESOLUTION ESTABLISHING THE VIRGINIA RETIREMENT SYSTEM (VRS) EMPLOYEE CONTRIBUTION RATE FOR CITY EMPLOYEES EMPLOYED JULY 1, 2010, AND BEYOND

ISSUE: Payment of VRS contributions for new City Employees and adoption of required resolution.

RECOMMENDATION: That City Council:

- (1) Defer any change to current practice, and continue paying the member contribution for all employees for FY 2011;
- (2) Refer the issue of having City employees hired after July 1, 2010, pay all or a portion of the required VRS employee contribution (five percent of salary) to the City Council Pension/Compensation Committee for review and discussion over the summer and at Council's fall retreat;
- (3) Consider this issue for action in the context of the FY 2012 budget deliberations; and
- (4) Adopt the attached resolution, as required by VRS, to enable the City to continue to make the VRS employee contribution for new employees.

If Council decides to require new employees to pay all of their VRS member contribution (five percent of salary), no resolution is needed. If Council decides to require new employees to pay a portion, but not all, of their VRS member contribution (one, two, three, or four percent of salary), Council must adopt the attached resolution (Attachment 1) after inserting the percent of salary.

DISCUSSION: At its June 8 meeting, City Council was provided with information on changes to VRS contribution requirements for local government employees hired into VRS-covered positions on or after July 1, 2010 (Attachment 2 compares VRS benefits for existing and new employees, and Attachment 3 compares the monthly benefit for a typical employee under the old and new plans). Council is now required to determine whether these new employees must pay a

portion of their salary (up to five percent) toward their VRS retirement as a member contribution. Staff recommended that the City continue paying the full VRS contribution, and that this issue be studied by Council over the next year and revisited as part of Council's FY 2012 budget deliberations. If Council were to accept the staff recommendation, it has to pass a resolution that would be forwarded to VRS.

At the June 8 meeting, Council did not decide whether new employees will be required to pay a portion of their salary toward their VRS retirement. Instead, they asked staff to return to the June 22 Council meeting with a resolution that could be adopted if Council chose to do so, with the City paying all of the member contribution (five percent), none of it (zero percent), or some amount in between (one, two, three, or four percent). The attached resolution includes the opportunity to indicate the level of City payment (if any) toward the member contribution.

Plans by other Northern Virginia localities. Staff contacted adjoining localities and school systems to see whether they plan to have new employees pay the member contribution or a portion thereof. Since Arlington and Fairfax Counties do not provide retirement benefits through VRS (although their school employees, like all school employees in Virginia, are covered by VRS), this is not an issue for them. Thus far, four counties, cities, and towns in the region have decided to pay the member contribution, as have two school systems; none have yet voted to require new employees to pay any of the member contribution. The Alexandria School Board voted on June 10 to continue paying the member contribution for all employees. Three localities (including the City) and four school boards still have not taken final action on the issue. Attachment 4 shows current and planned employee retirement contribution rates for the Northern Virginia VRS localities. Staff will update this chart orally at the Council meeting with any new information.

Comparison of City retirement benefits with those of other Northern Virginia localities. Staff has attempted to compare City retirement benefits with those of other localities in Northern Virginia since the last Council meeting, but has been unable to complete this because of the complexities involved. Arlington County, for instance, has several retirement plans for its non-public safety employees, depending in part on when they began County service. In addition, although the plan for current employees requires an employee contribution and appears to have a lower multiplier than the multiplier for City employees, the County also provides a deferred compensation payment for its employees. Fairfax County gives employees the option of membership in two different plans with different employee contribution and benefit levels. Fairfax County also allows earlier retirement than the City (as does Arlington), and provides a supplement to those who retire prior to full Social Security eligibility. Staff recommends that Council's Pension/Compensation Committee investigate such comparisons further over the coming year. The issues of City employee contributions to both the VRS and the Supplemental Pension need to be looked at together, and we need to have a thorough discussion of employee pension contributions in the context of the FY 2012 budget. Employees hired beginning July 1 will receive lower VRS benefits no matter what their level of contribution.

A number of changes have been made to benefits for Alexandria City employee in recent years, especially for new employees. Attachment 5 shows the changes to the various benefits.

FISCAL IMPACT: In FY 2009, as noted in the June 8 docket memo, the City hired about 100 employees into VRS-covered positions; for FY 2010, we expect to hire about half that many (50). If FY 2011 new hires approximate the number for FY 2010, the savings to the City will be approximately \$30,000 to \$35,000 for each one percent of salary paid to VRS by new employees, or about \$150,000 to \$175,000 if new employees are required to pay the full five percent member contribution. In future years, as the percentage of staff hired after July 1, 2010, increases, the savings would also increase.

Staff also expects future VRS savings even if new employees are not required to pay the member contribution, since other changes in the law (e.g., making employees wait longer to retire) should eventually result in lower VRS rates for the City. VRS has estimated these savings at six-tenths to seven-tenths of a percent of the employee's salary (or \$360 to \$420/year for an employee paid \$60,000 annually).

No fiscal savings were assumed for the FY 2011 budget from requiring new employees to pay a portion of their VRS member contribution.

ATTACHMENTS:

Attachment 1: VRS Resolution

Attachment 2: Comparison of VRS Benefits for Plan 1 (existing) and Plan 2 (new) Employees

Attachment 3: Comparison of Monthly Retirement Benefit for VRS Plan 1 and 2 Employees

Attachment 4: Plans for Payment of VRS Member Contributions by Northern Virginia
Localities and School Systems

Attachment 5: History of Recent Changes to Employment Payment for Benefits; Retirement
Benefits

STAFF:

Cheryl Orr, Director, Department of Human Resources

Bernard Caton, Legislative Director

Sue Story, Department of Human Resources

Steven Bland, Retirement Administrator, Finance Department

Laura Triggs, Director of Finance

Bruce Johnson, Chief Financial Officer

Attachment 1

RESOLUTION No. ____

**Authorization to Pick-up the Employee's Contribution to VRS
Under § 414(h) of the Internal Revenue Code For Plan 2 Employees**

WHEREAS, the Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2 Employees"). The legislation stipulates that Plan 2 Employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h) on a pre-tax basis; and

WHEREAS, the legislation allows certain employers, including the City of Alexandria to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary; and

WHEREAS, the election to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary shall, once made, remain in effect for the applicable fiscal year (July 1 - June 30) and shall continue in effect beyond the end of such fiscal year absent a subsequent resolution changing the way the 5 percent member contribution is paid; and

WHEREAS, employee contributions that are picked-up as an additional benefit not paid as salary are not considered wages for purposes of VA Code § 51.1-700 et seq. nor shall they be considered salary for purposes of VA Code § 51.1-100 et seq.; and

WHEREAS, the City of Alexandria desires to pick-up and pay its Plan 2 Employees' member contributions to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation; and

WHEREAS, VRS tracks such picked-up member contributions and is prepared to treat such contributions as employee contributions for all purposes of VRS;

**NOW, THEREFORE, BE IT RESOLVED
BY THE CITY COUNCIL OF ALEXANDRIA**

1. That effective July 1, 2010, the City of Alexandria shall pick-up member contributions of its Plan 2 Employees to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation subject to the terms and conditions described above; and
2. That such contributions, although designated as member contributions, are to be made by the City of Alexandria in lieu of member contributions; and

3. That nothing herein shall be construed so as to permit or extend an option to VRS members to receive the picked-up contributions made by the City of Alexandria directly instead of having them paid to VRS.

Adopted: June 22, 2010

WILLIAM D. EUILLE, MAYOR

ATTEST:

Jackie M. Henderson, CMC City Clerk

Attachment 2

Comparison of VRS Benefits for Plan 1 (existing) and Plan 2 (new) Employees

PROVISION	Plan I	Plan II
Normal Retirement Age	Age 65 with 5 years of service, or Age 50 with 30 years of service	Social Security Normal Retirement Age; or Age + Years of service = 90
Average Final Compensation	36 Month Average	60 Month Average
Employee Contribution	- 0% -	Employer sets between 0% & 5%
Cost of Living Adjustment	CPI increase up to 3% plus half of the next 4%	CPI increase up to 2% plus half of the next 8%
Early Retirement Eligibility	Age 50 with 10 years of service	Age 60 with five years of service

Attachment 3

Comparison of Monthly Retirement Benefit for Typical VRS Plan 1 and 2 Employees (Non-Public Safety)

Hire Age:	32
Age at retirement	62
Years of service at retirement	30

Salary history in years leading to retirement

	Plan 1	Plan 2
Year 1 Prior to retirement	\$60,000	\$60,000
Year 2 Prior to retirement	\$58,000	\$58,000
Year 3 Prior to retirement	\$56,000	\$56,000
Year 4 Prior to retirement	N.A.	\$54,000
Year 5 Prior to retirement	N.A.	\$52,000
VRS Retirement average salary	\$58,000	\$56,000

Monthly VRS Benefit

	VRS 1	VRS 2
Average Salary	\$58,000	\$56,000
Multiplier	1.7%	1.7%
Monthly Benefit	\$2,465	\$2,380

Attachment 4

Plans for Payment of VRS Member Contributions by Northern Virginia Localities and School Systems

Locality/School System/Other	Decision Expected	Locality/Schools Pay All	Employee Pays All	Locality & Employee Share Cost
LOCALITY				
City of Alexandria	6/22/2010			
City of Fairfax		X		
Loudoun County			X	
Prince William County		X		
Town of Herndon		X		
Town of Leesburg		X		
Town of Vienna	6/21/2010			
SCHOOLS				
Alexandria City Public Schools		X		
Arlington County Public Schools	6/17/2010			
Fairfax City Schools	(decision to be made by Fairfax County Schools for everyone but the Superintendent)			
Fairfax County Public Schools	6/24/2010			
Falls Church Schools	6/28/2010			
Loudoun County Schools		X		
Prince William County Schools		X		

Attachment 5

History of Recent Changes to Employee Payment for Benefits; Retirement Benefits

Benefit	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Payments for Health Insurance						
% of Premium Shared by:						
Current Employee	0%	3.30%	6.60%	10%	10%	13%
New Hires	0%	10%	10%	10%	10%	20%
Payments for Life Insurance						
Supplemental Life	.028/\$1,000	eff: 12/1/06 .20/\$1,000	eff: 12/1/07 .20/\$1,000	eff: 12/1/08 .20/\$1,000	eff: 12/1/09 .22/\$1,000	eff: 12/1/09 .22/\$1,000
Dependents Coverage Option 1*	\$1.25/mo	\$1.20/mo	\$1.20/mo	\$1.20/mo	\$1.32/mo	
Dependents Coverage Option 2**	\$2.50/mo	\$2.40/mo	\$2.40/mo	\$2.40/mo	\$2.64/mo	
Long Term Disability Plan 2***	\$0.11%	\$0.06%	\$0.06%	\$0.06%	\$0.066%	
		of insured earnings	of insured earnings	of insured earnings	of insured earnings	
Payments Toward Pension						
General Govt						
VRS	0%	0%	0%	0%	0%	0%
Supp	0%	0%	0%	0%	New Hires: 2%	----->
Sheriff						
VRS	0%	0%	0%	0%	0%	0%
Supp	0%	0%	0%	0%	0%	0%
Police/Fire	8%	8%	8%	8%	8%	8%
Benefits After Retirement						
Health Insurance Subsidy for Retirees	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)
Retirees' Life Insurance Benefit	2x salary at retirement Ultimately 25% of salary	2x salary at retirement Ultimately 25% of salary	2x salary at retirement Ultimately 25% of salary	2x salary at retirement Ultimately 25% of salary	2x salary at retirement Ultimately 25% of salary	2x salary at retirement Ultimately 25% of salary
			New Hires: See table below*			----->
				New Hires: No longer eligible for benefit		----->

* Option 1-\$5,000 Spouse; \$2,000 each child

** Option 2- \$10,000 Spouse; \$5,000 each child

*** Plan 2 - 90 day eligibility period vs. 120 with City benefit

*City Health Insurance Subsidy Percent For Retired Employees Hired on or after 7/1/08 Based on Years of Service

Years of Service	Subsidy 4%/Year	2007-2008 Max Subsidy/Month
Less Than 5	None	None
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

RESOLUTION NO. 2407

**Authorization to Pick-up the Employee's Contribution to VRS
Under § 414(h) of the Internal Revenue Code For Plan 2 Employees**

WHEREAS, the Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2 Employees"). The legislation stipulates that Plan 2 Employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h) on a pre-tax basis; and

WHEREAS, the legislation allows certain employers, including the City of Alexandria to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary; and

WHEREAS, the election to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary shall, once made, remain in effect for the applicable fiscal year (July 1 - June 30) and shall continue in effect beyond the end of such fiscal year absent a subsequent resolution changing the way the 5 percent member contribution is paid; and

WHEREAS, employee contributions that are picked-up as an additional benefit not paid as salary are not considered wages for purposes of VA Code § 51.1-700 et seq. nor shall they be considered salary for purposes of VA Code § 51.1-100 et seq.; and

WHEREAS, the City of Alexandria desires to pick-up and pay its Plan 2 Employees' member contributions to VRS as an additional benefit not paid as salary in an amount equal to 1% of creditable compensation; and

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**NOW, THEREFORE, BE IT RESOLVED
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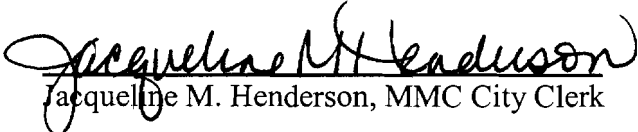
1. That effective July 1, 2010, the City of Alexandria shall pick-up member contributions of its Plan 2 Employees to VRS as an additional benefit not paid as salary in an amount equal to 1% of creditable compensation subject to the terms and conditions described above; and
2. That such contributions, although designated as member contributions, are to be made by the City of Alexandria in lieu of member contributions; and
3. That nothing herein shall be construed so as to permit or extend an option to VRS members to receive the picked-up contributions made by the City of Alexandria directly instead of having them paid to VRS.

Adopted: June 22, 2010



WILLIAM D. EUILLE MAYOR

ATTEST:


Jacqueline M. Henderson, MMC City Clerk