10-C-0056

(Do Not Write Above This Line)

A COMMUNICATION BY MAYOR SHIRLEY FRANKLIN:

SUBMITTING THE CITY OF ATLANTA RETIREMENT REVIEW – PHASES II & III PLAN DESIGN AND FINANCIAL IMPACT REPORT.

Filed

APR 19 2010

- ☐ CONSENT REFER
- ☐ REGULAR REPORT REFER
- ☐ ADVERTISE & REFER
- ☐ 1st ADOPT 2nd READ & REFER
- ☑ PERSONAL PAPER REFER

Date Referred 1/4/10

Referred To: Finance/Exec

Date Referred

Refferred To:

Date Referred

Referred To:

First Reading

Committee

Date

Chair

Referred To

Committee: Finance/Executive	Committee
Date: 1/13/10	Date
Chair	Chair
Action: Fav, Adv, Hold (see rev. side) Other	Action: Fav, Adv, Hold (see rev. side) Other
Members	Members
Refer To	Refer To

Committee: Finance/Executive	Committee
Date: 3/31/10	Date
Chair	Chair
Action: Fav, Adv, Hold (see rev. side) Other: Filed	Action: Fav, Adv, Hold (see rev. side) Other
Members	Members
Refer To	Refer To

FINAL COUNCIL ACTION

☐ 2nd ☐ 1st & 2nd Readings ☐ 3rd

☐ Consent ☐ V Vote ☐ RC Vote

CERTIFIED

CERTIFIED

APR 19 2010

ATLANTA CITY COUNCIL PRESIDENT

CERTIFIED

APR 20 2010

Rhonda Dauphin Johnson

MUNICIPAL CLERK

MAYOR'S ACTION

RCS# 180
4/19/10
3:49 PM

Atlanta City Council

REGULAR SESSION

10-C-0056

SUBMISSION OF FORMER MAYOR FRANKLIN OF CITY OF ATL RETIREMENT REVIEW FILE

YEAS:	14
NAYS:	0
ABSTENTIONS:	0
NOT VOTING:	1
EXCUSED:	0
ABSENT	1

Y Smith	Y Archibong	Y Moore	Y Bond
Y Hall	Y Wan	Y Martin	Y Watson
Y Young	Y Shook	Y Bottoms	Y Willis
B Winslow	Y Adrean	Y Sheperd	NV Mitchell

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MUNICIPAL CLERK
2009 DEC 28 PM 4:40

CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

55 TRINITY AVENUE, S.W
ATLANTA, GEORGIA 30303-0300
TEL (404) 330-6100

December 17, 2009

10- C -0056

Via Hand Delivery
President Lisa M. Borders and
Members of the Atlanta City Council
55 Trinity Ave, SW
Atlanta, GA 30303

Dear President Borders and Members of Council:

As you will recall, in 2008 the City Council created a task force to study various issues related to the City's three pension funds. The findings of that task force were shared with my Administration in mid-2009. I then directed a small team (including the COO, CFO and Lisa Gordon) to engage outside experts and together study pension cost-reduction options consistent with Council's task force report.

I am pleased to report that this team has completed its work and has found viable ways for the City to significantly reduce its annual pension costs, while at the same time providing a fair and competitive pension to future employees. I enclose a detailed final report, as well as a summary presentation, that outlines the issues and options. The City's actuary firm, The Segal Company, provided the outside expertise for the findings.

Of particular note is the option to create a new hybrid pension plan – combining elements of a defined benefit plan along with a defined contribution plan – for all future City employees. This plan could save the City up to $6 million annually at the outset and increase to a $10 million annual savings over time. The report also recommends that the City consider offering incentives to defer retirement for certain employees – commonly referred to as a Deferred Retirement Option Plan (a "DROP") – which could result in additional savings.

As you will recall from previous discussions on pensions, the City cannot legally decrease the benefits provide to current City employees. Accordingly, the report does not explore or recommend any changes that would apply to existing employees.

This report is being transmitted to the City Council and Mayor Elect Kasim Reed for review and action to implement any options deemed appropriate. I hope this report will be useful in your deliberations on the City's pension plans.

Sincerely,

Shirley Franklin

Shirley Franklin

Pension Assessment – Final Report & Recommendations Presentation

December 15, 2009

Presented by Lisa Y. Gordon, CPA

Historical Perspective

- Given the increase to the GF budget dedicated to pension costs 2002-2009, the City Council initiated a Task Force to study rising pension costs.
  - From $43.6 Million in 2002 to $100.4 Million
- The final report was issued and the Mayor's Office initiated an in-depth Pension Assessment.
- The City utilized The Segal Company and identified that we want to find cost savings while still achieving the City's fundamental pension goals:
  - (a) To be competitive in the local marketplace and
  - (b) To ensure that employees receive a fair pension benefit.

FY10 Budget & Re-amortization

- City changed the funding policy of the Plan from being fully funded by January 1, 2025 to an Open 30 year amortization of the Unfunded Actuarial Accrued Liability (UAAL)
- Produced reduction of Annual Retirement Contribution ARC by $25M and $41 M for all funds
- 30 year open re-amortizes liability each year. Over time UAAL increases.
- 5 year Financial plan recommends moving to a 25 year open plan which will add $5M annually to GF and reduce future unfunded liability.

Current State

- City provides a Defined Benefit ("DB") plan for General Employees below job grade 18, and Fire and Police. General Employees in job grades above 18 are provided with a 6% City to a 401(a) Defined Contribution ("DC") Plan
- The DB plan multiplier is 2.5% for General Employees and 3.0% for Fire and Police
- All employees in the DB plan contribute 7% (8% if married) of pay
- The City does not participate in Social Security
- The following summarizes the funding requirements for the City as of the most recent valuations

	(1)	(2)	(3) = (1) ÷ (2)	(4)	(5)
Employee Group	Projected City Total Contribution*	Projected Payroll*	Contribution as % of Projected Payroll	Unfunded Actuarial Accrued Liability*	Projected Funded Percentage*
A. General Employees in DB Plan	$ 56,600,000	$196,500,000	28.8%	$ 670,000,000	56.5%
B. General Employees in DC Plan	4,200,000	69,800,000	6.0	—	N/A
C. Fire	25,600,000	48,300,000	53.0	285,800,000	59.2
D. Police	38,600,000	88,800,000	43.5	365,800,000	62.8
E. Total	**$125,000,000**	**$403,400,000**	**31.0%**	**$1,321,600,000**	**58.8%**

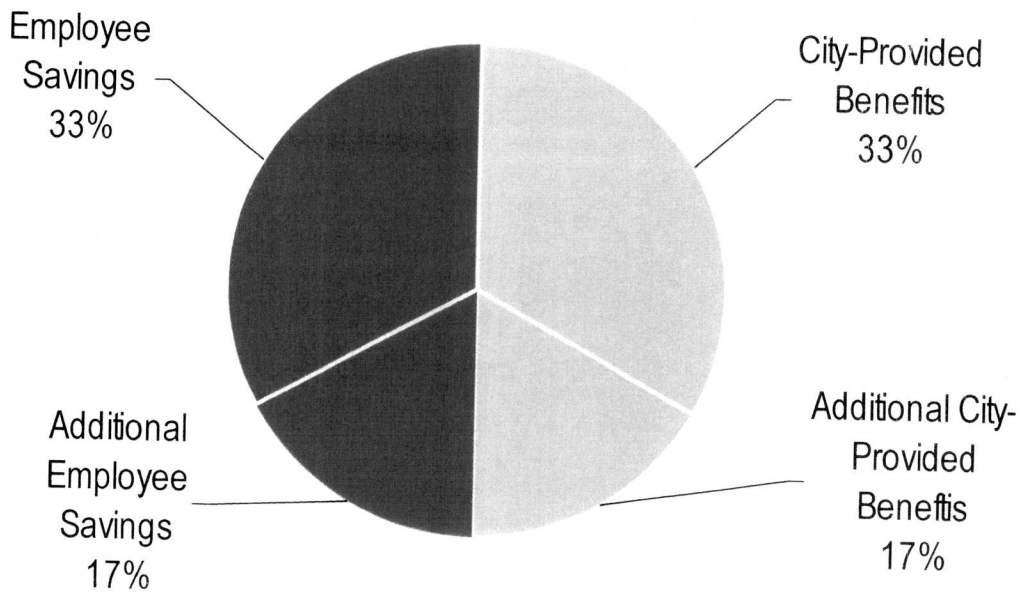
* Estimated based on most recent actuarial valuation.

"Three legged stool"

- An employee's retirement income is the equal responsibility of the employer (City), employee and federal government (i.e., Social Security)

Since the City does not contribute to Social Security, it feels that it should contribute up to half that portion of an employees retirement income

CITY OF ATLANTA'S PHILOSOPHY TOWARD RETIREMENT INCOME RESPONSIBILITY



Replacement Ratio and Targeted Range

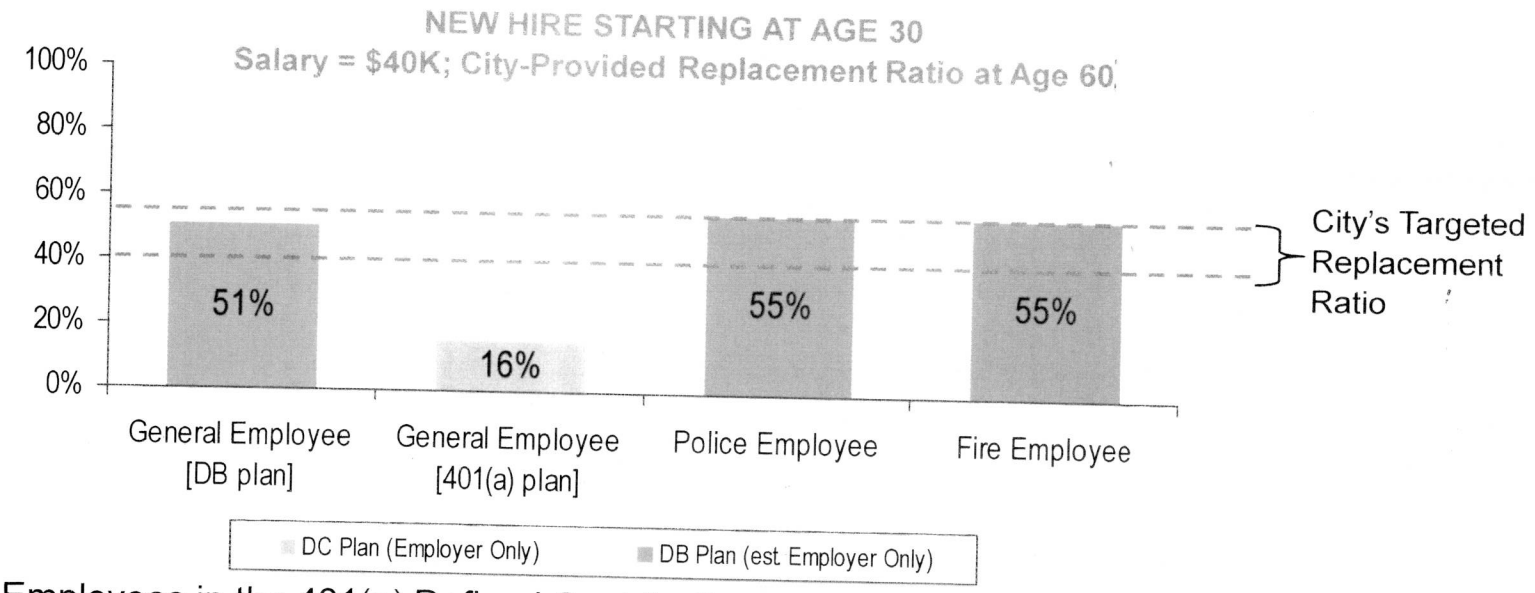
- **A common approach used to analyze and compare retirement programs is to measure the relative income provided by the retirement plan as a percentage of the employee's final salary prior to retirement.**
  - **The measure of annual income provided at retirement to the employee's final salary is known as the retirement income replacement ratio ("replacement ratio")**

-**The City views retirement income as a three-legged stool composed equally (i.e., 33%) of: City-provided benefits, Employee Savings and Government-provided benefits or Social Security**

- The City-provided retirement benefits should replace about 55% (i.e., 80% target replacement ratio x City's share of 67%) of an employee's pre-retirement income if the City seeks to replace all of Social Security benefits.
- If the City desires to replace half of Social Security benefits then it would target a retirement benefit program that replaces about 40% (i.e,80% total target replacement ratio x City's share of 50%) of an employee's pre-retirement income.

Benchmarking against Retirement Philosophy – *Age 60*

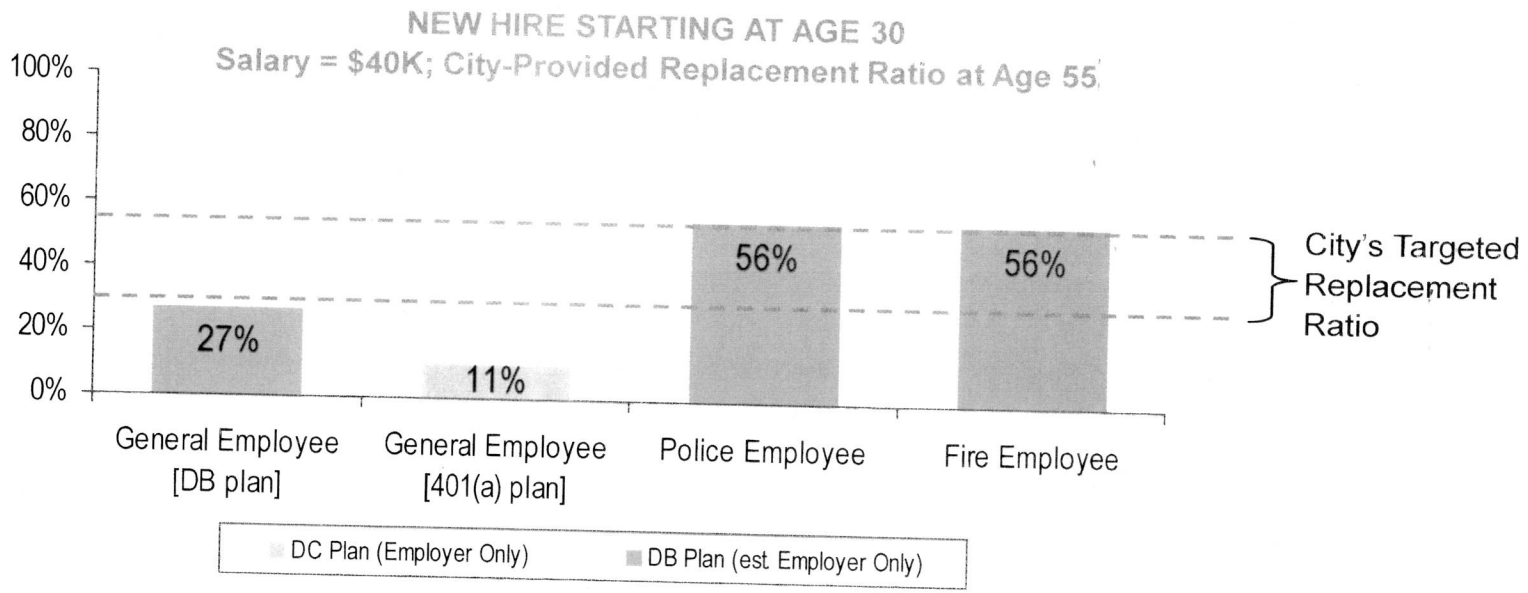
The graph below illustrates how the City's current retirement benefits for a new employee compare against the City-provided targeted replacement ratios at Age 60



- The General Employees in the 401(a) Defined Contribution plan are provided with a replacement ratio that is ***below*** the City's targeted range.
- The General Employees in the Defined Benefit plan are provided with a replacement ratio at the ***top end*** the City's targeted range.
- The Fire and Police Employees are provided with a replacement ratio at the ***top end*** of the City's targeted range.

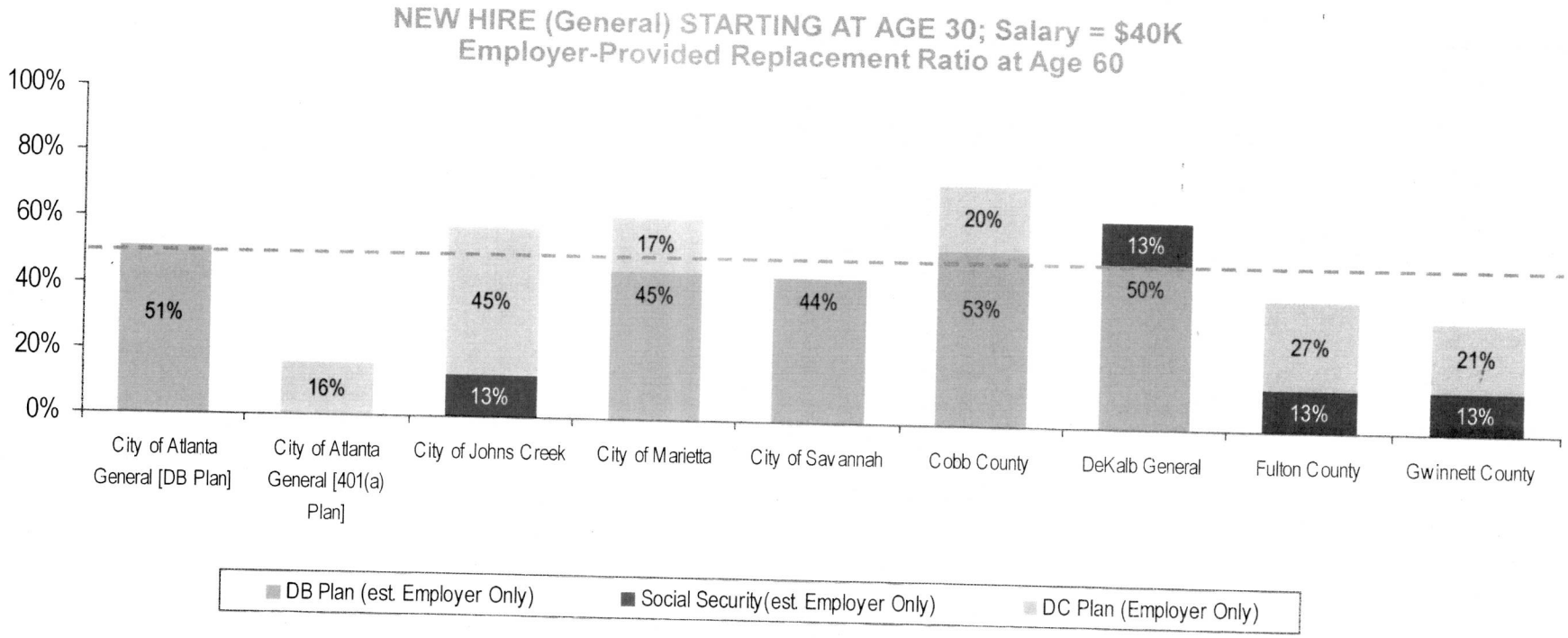
Benchmarking against Retirement Philosophy – *Age 55*

The graph below illustrates how the City's current retirement benefits for a new employee compare against the City-provided targeted replacement ratios at Age 55 or early retirement age.



- The Fire and Police normal retirement age is age 55.
- The General Employee's normal retirement age is 60 and thus the sample employee is considered an early retirement under the current plan provisions. Therefore, the sample employee's benefit is reduced 30% for early retirement

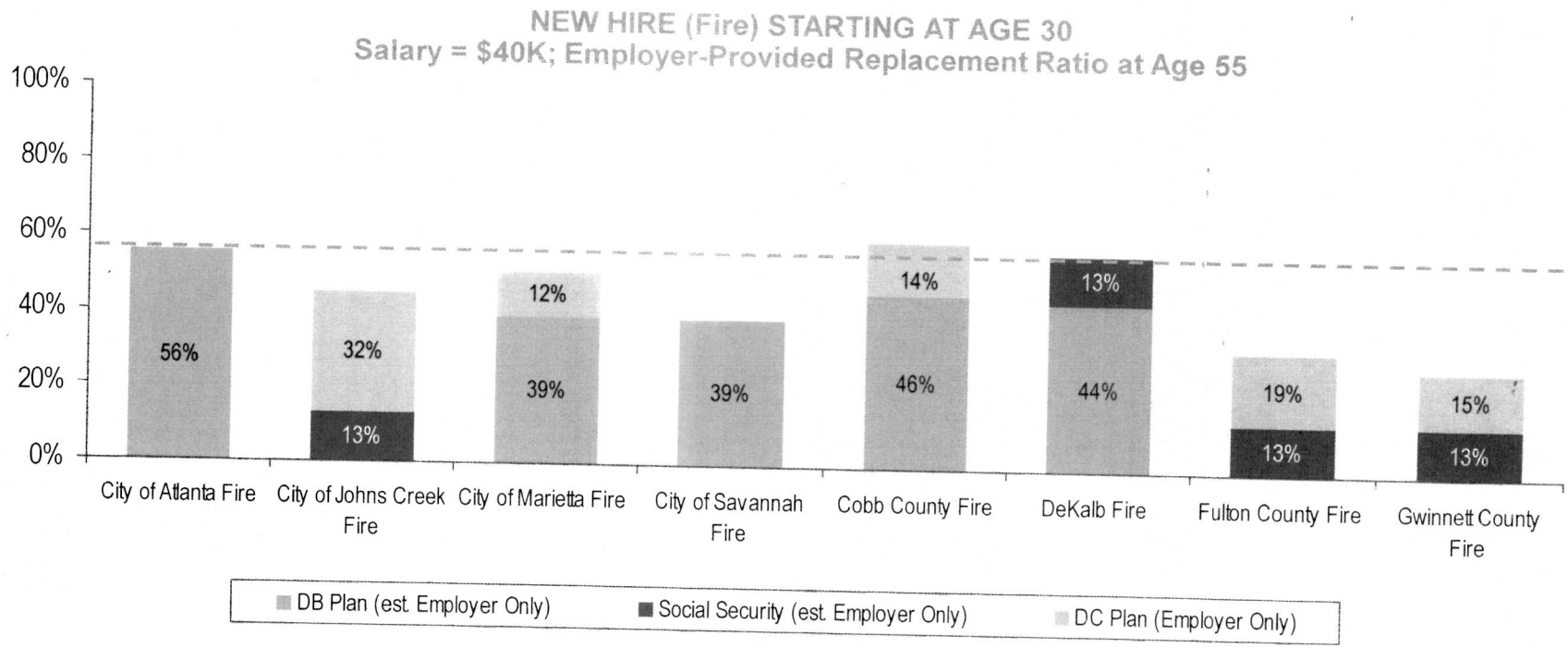
Competitive Assessment – *General Employees*



The City-provided benefits for a new General Employee in the Defined Benefit Plan are competitive with the City's peers. General Employees in the 401(a) Defined Contribution Plan retirement benefits are less than competitive and trails all of the City's peers.

The City-provided benefits trail all of its local peers except for the Fulton and Gwinnett County.

Competitive Assessment – *Fire*

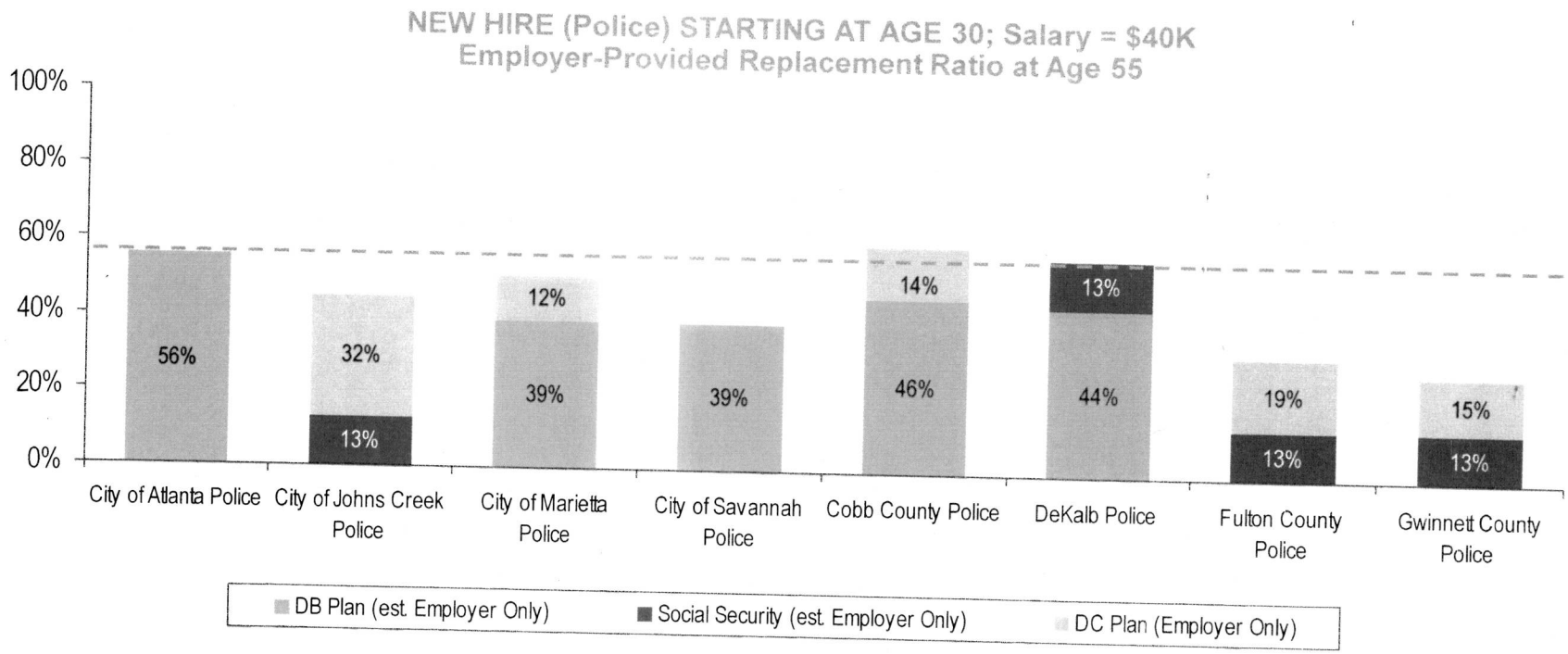


Overall, the City's Fire benefits are ***more than*** competitive with its peers after 25 years of service.

The City-provided Fire benefits rank near the top of the range of its local peers, trailing only Cobb County.

The benefit provided by the City's Fire Defined Benefit Plan is more than competitive with its national peers and more than competitive with its local peers. Many of the City's peers also provide their employees with Social Security and/or a Defined Contribution Plan.

Competitive Assessment – *Police*



Overall, the City's Police benefits are ***more than*** competitive with its peers after 25 years of service.

The City-provided Police benefits rank near the top of the range of its local peers, trailing only Cobb County.

The benefit provided by the City's Police Defined Benefit Plan is more than competitive with it's national peers and local peers. However, many of the City's peers also provide their employees with Social Security and/or a Defined Contribution Plan.

Summary

- City-provided benefits at Normal Retirement Age (60 for General; 55 for Fire/Police) are at the top end of the City's targeted range for all employees covered by a Defined Benefit plan.
- General Employees covered by the 401(a) Defined Contribution plan are provided with a replacement ratio that is below the City's targeted range.
    - In fact, the City provides a replacement ratio for employees covered by the Defined Benefit plan of about three times that of those not covered after 30 years of service.
- The City-provided benefits for General Employees are less than competitive with the City's peers. However, the benefit provided by the City's DB plan for General Employees is competitive with its peers' DB plans.
- The City-provided benefits for Fire and Police are more than competitive with the City's peers.
    - In fact, the City-provided benefits are competitive with its national peers and more than competitive with its local peers.

Plan Alternatives – Slight Modifications to Current Plans ("Haircut")

Cost Drivers for Savings

- The Normal Retirement Age is moved back 5 years from Age 60 (Age 55 for Fire/Police) to Age 65 (Age 60 for Fire/Police)
- The eligibility for early retirement is more stringent (from 15 years of service to combination age plus service (i.e. "points")
- The penalty for early retirement is more severe
- Also, the current plans require employee contributions of 7% for a single employee (i.e., Single Life annuity) but the alternatives require 8% employee contributions

Plan Alternatives – Hybrid Plan (DB/DC Tiered)

Combination Defined Contribution and Defined Benefit Plan ("Tiered DB")

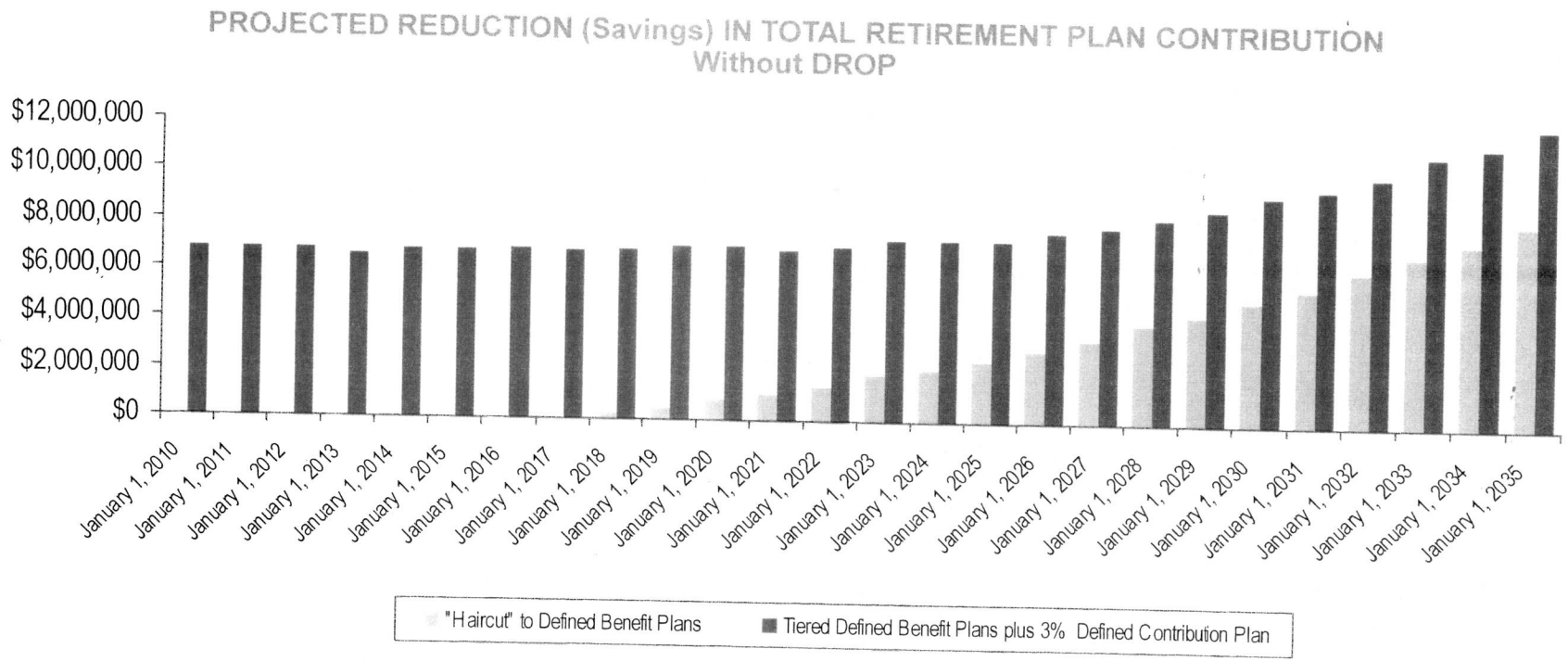
- ***Plan provides a lower multiplier that increases during service (tiered multiplier) Significant savings in Police & Fire plans.**

- The Normal Retirement Age is moved back 5 years from Age 60 (Age 55 for Fire/Police) to Age 65 (Age 60 for Fire/Police)
- The eligibility for early retirement is more stringent (from 15 years of service to combination age plus service (ie."points")
- The penalty for early retirement is more severe than the current plan
- The Defined Benefit component of this alternative is lower than the current plan but participants are only required to contribute 6% instead of 7% currently
- Participants are expected to contribute an additional 2-3% to the matching DC plan however.

Note: The combination Tiered Defined Benefit Plan plus Defined Contribution alternative and the "haircut" alternative deliver about the same level of benefit for the sample employee. The benefit under the "haircut" alternative is all derived from the Defined Benefit plan while the combination delivers the majority of the benefit through the Defined Benefit plan but also a portion through the Defined Contribution plan

Projected Cost Savings

The following graph shows the total projected savings of the alternative plans.



The tiered Defined Benefit plan plus the Defined Contribution plan allows for enough immediate savings to offset the cost of **allowing the participants covered by the 401(a) Defined Contribution plan**. This is mainly due to the lower benefit for Fire and Police

The "haircut" plan does not allow for enough savings immediately to offset the cost of allowing participants in the Defined Contribution plan to participate since the reduction for Fire and Police are not enough to offset the cost

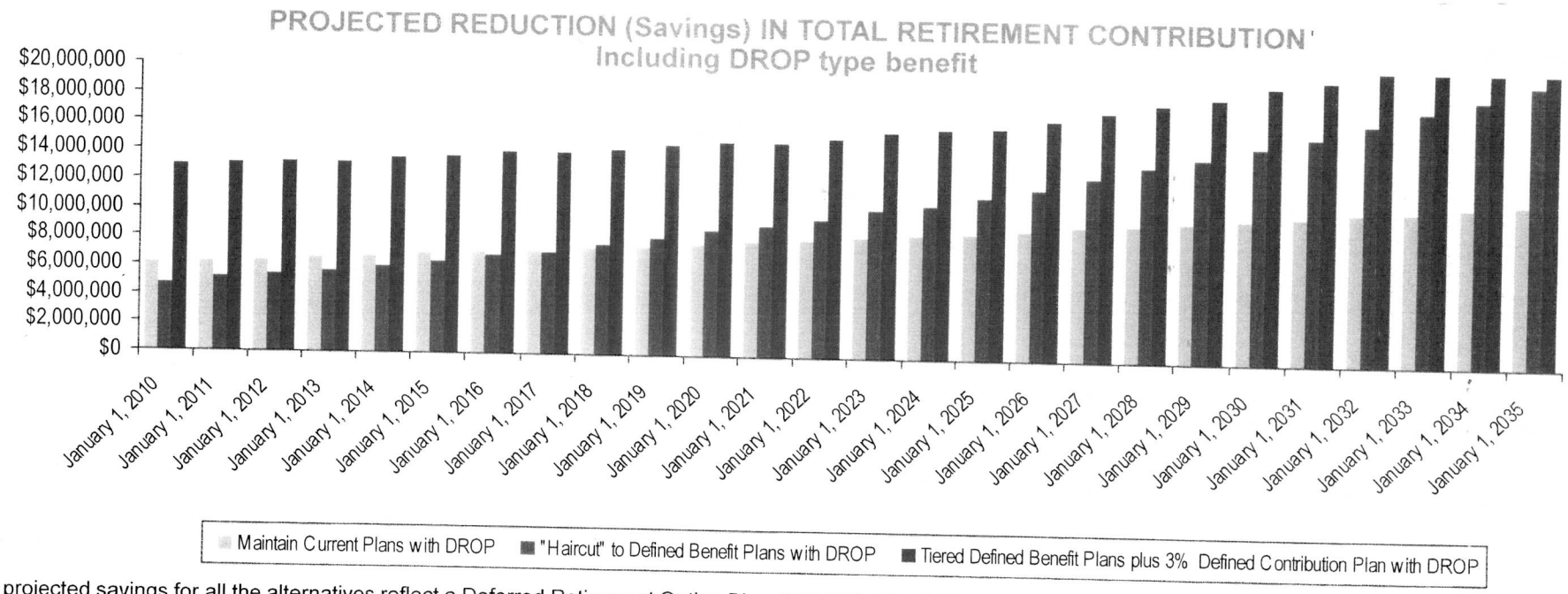
Current Employees in DB Plans

- Deferred Retirement Option Plan (DROP) type arrangement
- Changes in the retiree medical plan

- The DROP type arrangement allows employees between normal retirement age and age 65 to elect to defer retirement in exchange for a lump sum and monthly annuity at retirement.
- Employees who continue working for two years beyond retirement eligibility would be eligible to receive the optional form of payment. They would still receive salary and benefits from the City during the deferral period.
- At the conclusion of the deferral period the employee will have the option to receive a regular annuity or a lump sum plus a reduced annuity from the pension plan.
- **Savings to Pension plan are generated by deferment of retirement . Actual amounts paid will depend on option feature details and actual retirements.**

Projected Cost

The following graph shows the total projected savings of the alternative plans.



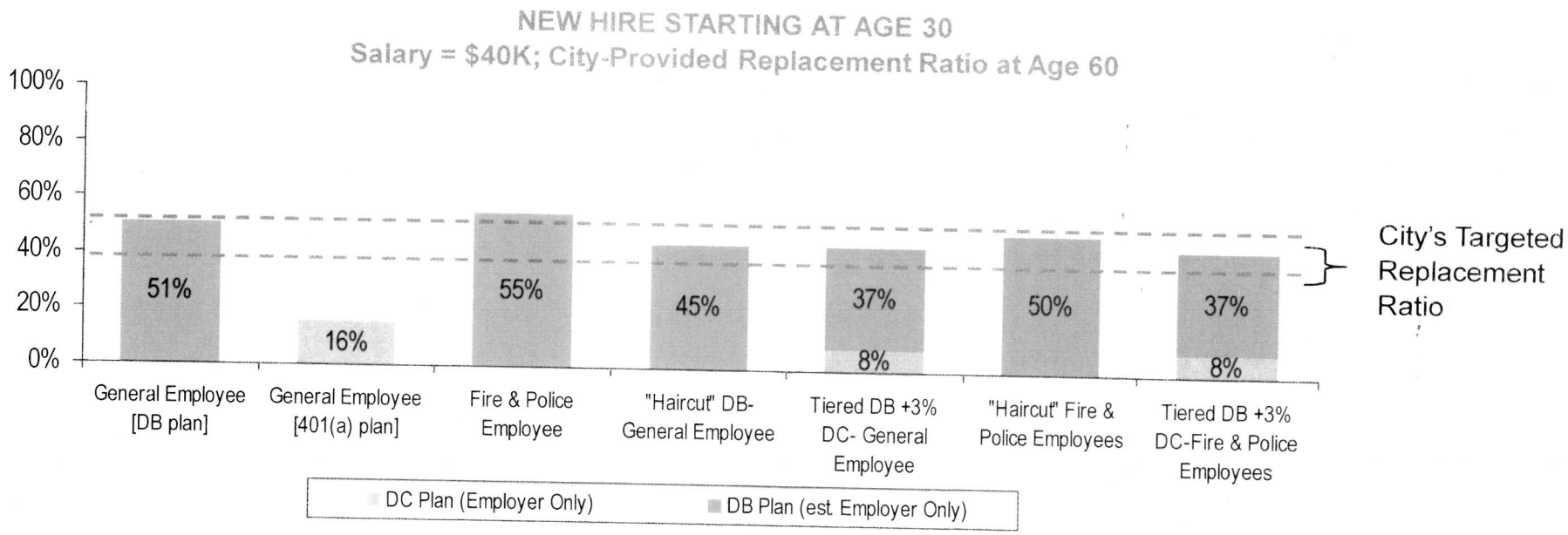
The projected savings for all the alternatives reflect a Deferred Retirement Option Plan ("DROP"). The DROP savings are primarily from changes in employee retirement behavior for those covered by a Defined Benefit plan rather than changes in the structure of the retirement plans

The savings for the Defined Benefit "haircut" plan reflect savings for the DROP that offset the initial increase in cost for allowing the General employees not in a Defined Benefit plan to participate. Over time, the changes in retirement eligibility for future hires exceed the costs of participants in the 401(a) Defined Contribution plan participating in a Defined Benefit plan

The combination tiered Defined Benefit plan and Defined Contribution plan allows for more immediate savings as the lower Defined Benefit accrual is reflected in the Annual Required Contribution ("ARC"), thus allowing a lower contribution to the Defined Benefit plan. The Defined Contribution component of the combination plan will be lower initially as futures hires enter the plan and replace existing employees. Overall, the tiered Defined Benefit plan will result in greater savings than the "haircut" plan due to the reduction in benefits for Fire and Police

Findings & Conclusions

- **City meets retirement philosophy and still competitive with local marketplace under both plan changes**



- **Having all employees in a single plan promotes fairness and equity.**
- **All employees are provided with replacement ratio in targeted range if allowed to participate in new plan(s)**

Savings for Future Hires

- **Tiered DB/DC plan - savings is approximately $6 Million annually across all funds**
  - » Includes adding DC plan participants.
  - » GF savings about 65% of total or $4.0 Million
  - » Savings across all funds approximately $13-15 Million annually if DC participants **not included**
- **Slightly modified DB plan - No immediate savings when you include DC plan participants; Savings begin in about 8-10 years**
  - » Includes adding DC plan participants.
  - » Savings across all funds approximately $7-8 Million annually if DC participants **not included**

Savings for Current Employees

- DROP type arrangement or changes in retiree medical (i.e., non-retirement plan changes that encourage employees to defer retirement) - savings is approximately $6 Million annually across all funds
  - » Includes adding DC plan participants.
  - » GF savings about 70% of total or $4.5 Million