Mayor's Pension Proposal

Further Explanation

April 28, 2011

DRAFT

<u>IMPORTANT NOTE:</u> This document contains only a summary discussion of the City's pension plans and certain changes to those plans currently being considered by the City. Not all terms of the pension plans which affect the calculation of and eligibility for pension benefits are discussed in this summary. For a complete discussion of the terms of the pension plans and how those terms apply to you, please direct your attention to the pension plans themselves. Also, to the extent there are any differences between this summary description and the terms of the pension plans, the pension plans will control.

Why is pension reform required and why is the proposal reasonable?

1. The **pension promise** that employees have today is **not real**
   - We only **have about half the money** we would "owe" employees
   - Our growing **pension cost** is higher than other governments and unbalanced between employer and employee
   - Without change the pension cost will **consume a bigger piece of the budget pie** each year, peaking at about 50% more than the current burden

2. The **proposed plan is reasonable**
   - The plan is **competitive** with surrounding governments
   - The plan **"only" reduces benefits by 0 to 6%*** if employees contribute 14% and you assume 2% salary growth
   - The plan saves a modest amount of money to put towards **better funding of our debt to employees** (closed amortization), stopping RIFs, and more consistent raises

*Assumes 5% market return; **Reduction is 0% to 23% if you assume 4% salary growth**

Why we need to solve this now

- At 53% funded, the pension plans have an unfunded liability of $1.5B for benefits already earned
- If employees were able to "cash out" their pension benefits earned today the City would need about $1B immediately
- Closing and freezing the plan today would still require annual cost of $62-172M over the next 30 years to fund the past
- Any future benefits are a cost on top of the $62-172M in cost
- If the City held its pension cost steady at $100M, and keeps the current plans, the pension funds would run out of money within 30 years

The administration has proposed 2 options

OPTION 1:
Shift all employees in the DB plans to City's current 6% DC plan provided to those above grade 18

- **Requires a 6% employee contribution**
- **Requires a 6% employer contribution**
- **No Social Security or Defined Benefit**
- Has been the pension plan for all City employees above grade 18 hired after 2001
- The Mayor and cabinet members are in this plan
- No limit on benefit as percent of salary
- Disability and survivor benefits equivalent to the current levels will be provided
- Reduces the City's annual contribution cost by $27M-31M in the first 5 years

Changes are not being proposed to:

-Benefits accrued	-Vesting period
-Retirement age	-Retiree benefits
-COLA	-Salary calculation

The administration has proposed 2 options

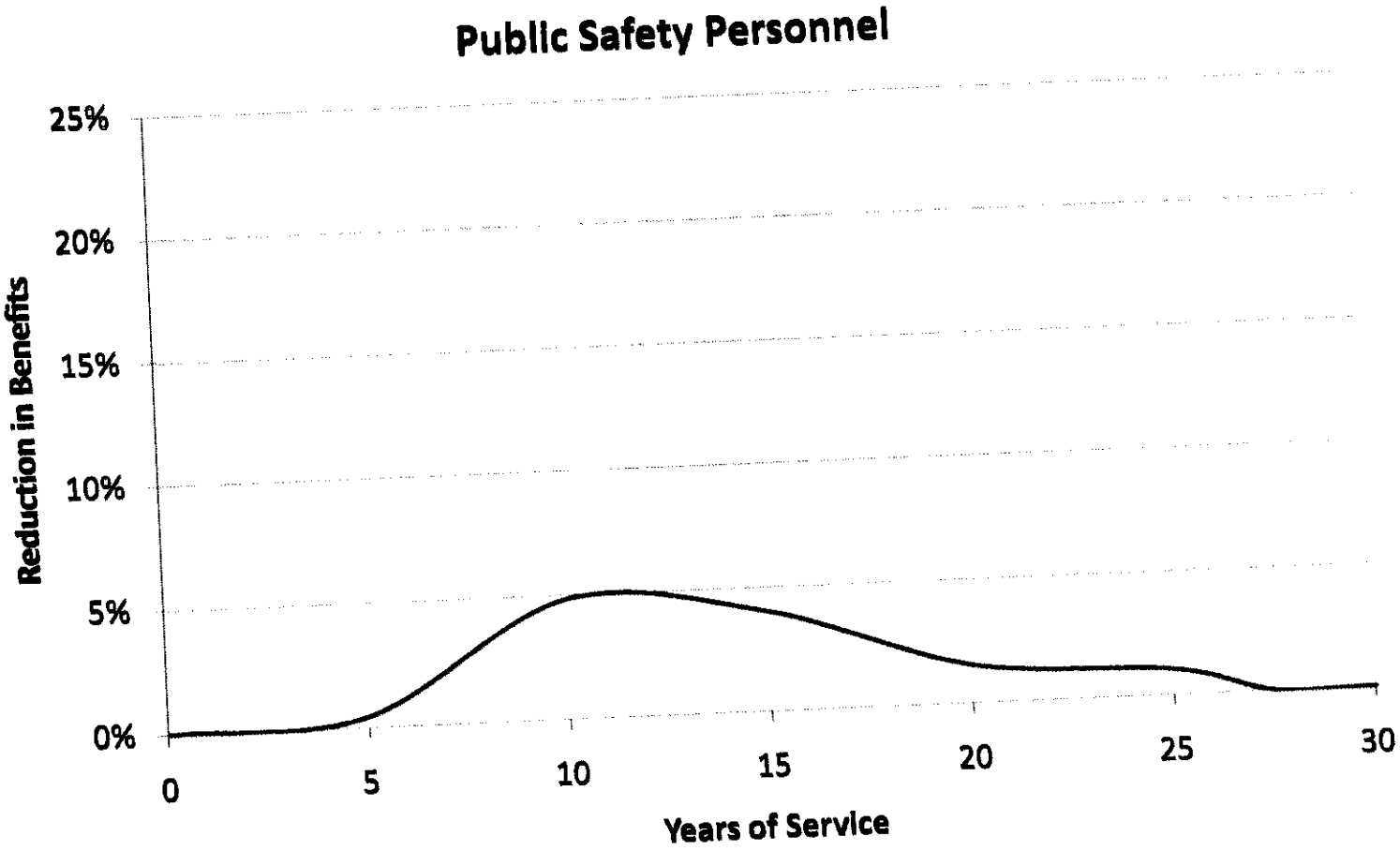
OPTION 2:
Shift all employees in the DB plans to a new 8% DC plan with Social Security

- **Employees given option to enter Social Security which requires 6.2% contribution** from both the employee and employer
- **City matches up to 8% of employee contributions <u>with Social Security opt in</u>**
- **City matches up to 12% of employee contribution <u>with Social Security opt out</u>**
- No limit on benefit as percent of salary
- Disability and survivor benefits equivalent to current levels will be provided
- Three streams of income at retirement: defined benefit plan, defined contribution and social security (if opted in)
- Reduces the City's annual contribution cost by $11M-15M in the first 5 years

<u>Changes are not being proposed to:</u>

-Benefits accrued
-Retirement age
-COLA
-Vesting period
-Retiree benefits
-Salary calculation

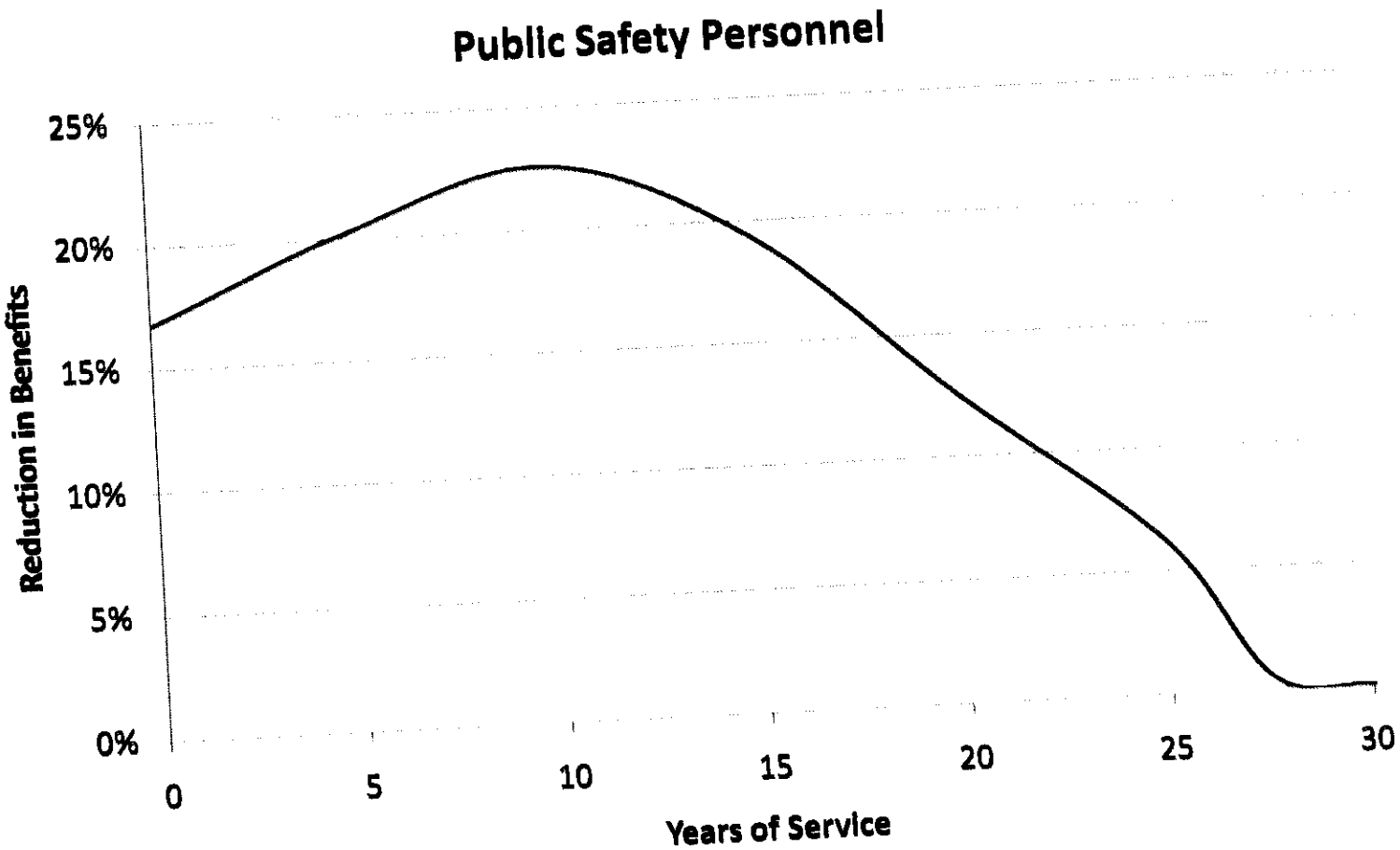
Option 2: Reduction in employee benefits by tenure (2% salary growth and 14% contribution)



PRELIMINARY

Note: Assumes employee contribution of 14%, average salaries adjusted for years of service

Option 2: Reduction in employee benefits by tenure (4% salary growth and 14% contribution)



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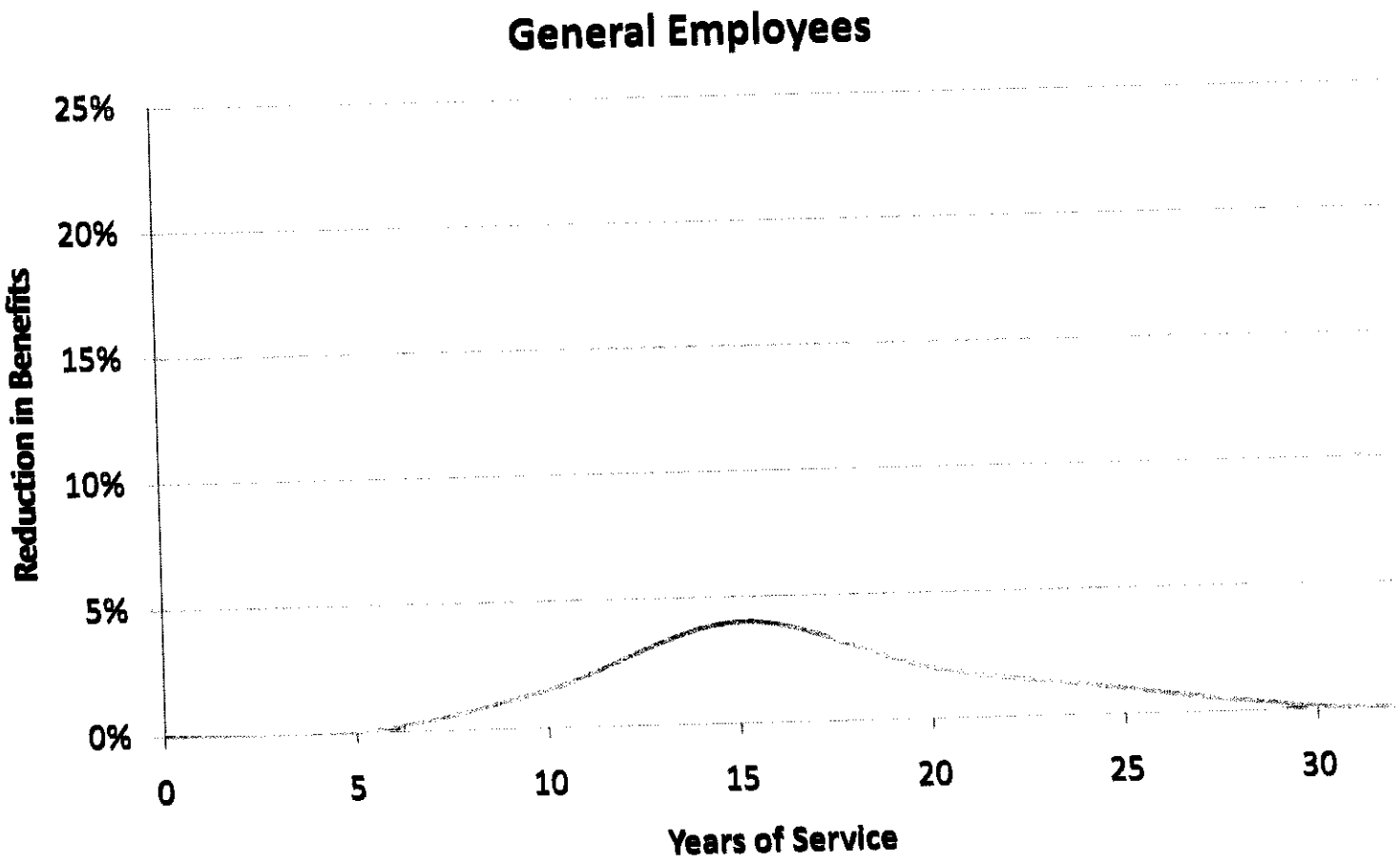

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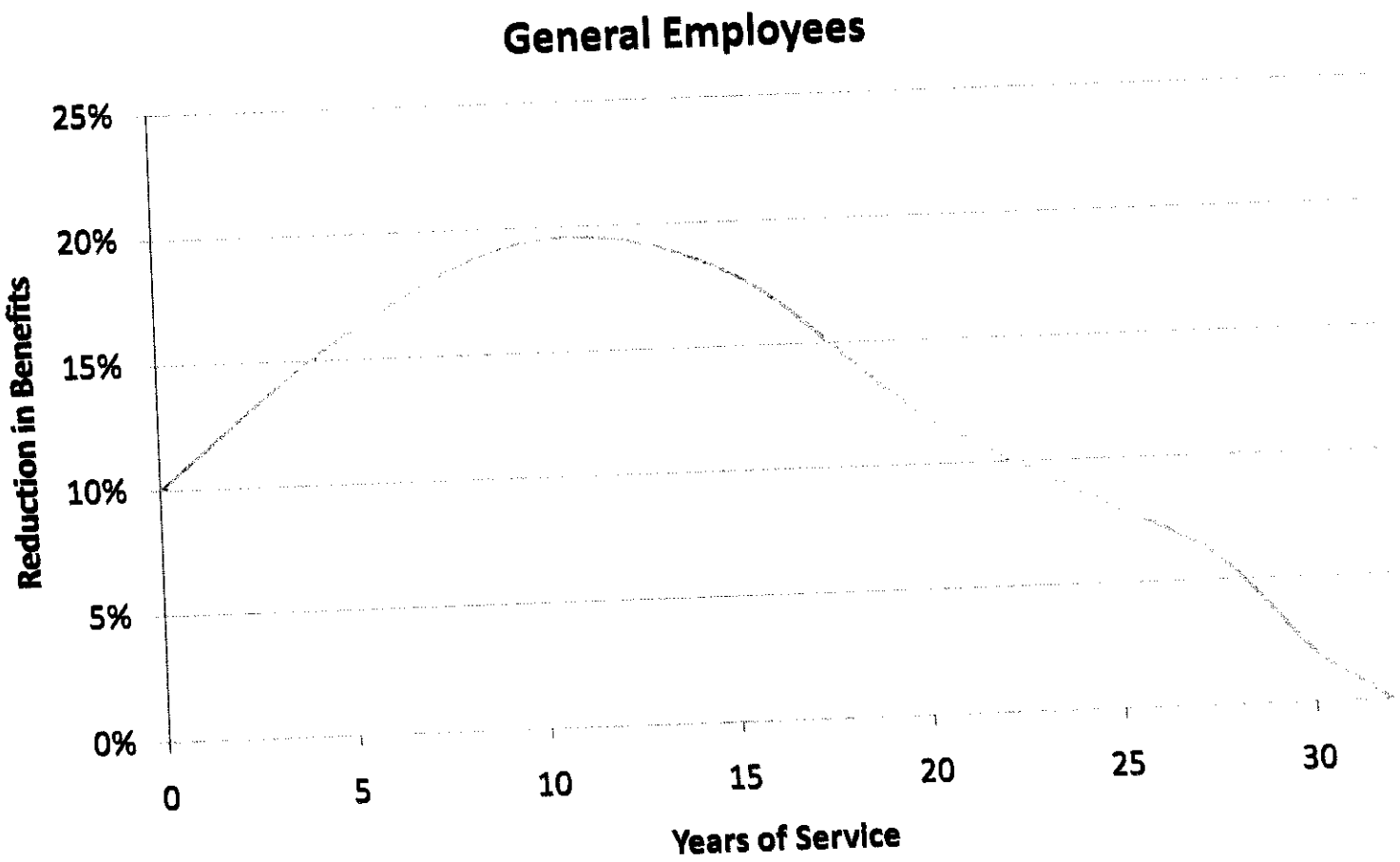
Note: Assumes employee contribution of 14%, average salaries adjusted for years of service

Option 2: Reduction in employee benefits by tenure (4% salary growth and 14% contribution)



PRELIMINARY

Note: Assumes employee contribution of 14%, average salaries adjusted for years of service

Thank you

Example employee profile: Option 2 (Social Security opt-in)

- Average starting salary= $25,990
- Average salary today= $42,400
- Average salary at retirement = $64,279
- Current age 35
- 10 years of service
- Retire at age 55

	Contributions	
No change	8%	$3,092
Future contrib. (min)	6.2%	$2,629
Future contrib.	14.2%	$5,936

		Benefit
No change	8%	$51,424
Future contrib. (min)	6.2%	$33,107
Future contrib.	14.2%	$48,933

Note: Expected hard freeze DB benefit of $12,717; 2% salary growth; 5% market return

Example employee profile: Option 2 (Social Security opt-in)

- Average starting salary= $22,400
- Average salary today= $51,000
- Average salary at retirement = $65,983
- Current age 40
- 15 years of service
- Retire at age 55

	Contributions	
No change	8%	$4,080
Future contrib. (min)	6.2%	$3,162
Future contrib.	14.2%	$7,242

	Benefit	
No change	8%	$52,786
Future contrib. (min)	6.2%	$39,350
Future contrib.	14.2%	$50,678

Note: Expected hard freeze DB benefit of $22,950; 2% salary growth; 5% market return

Example employee profile: Option 2 (Social Security opt-in)

- Average starting salary= $19,340
- Average salary today= $60,000
- Average salary at retirement = $70,309
- Current age 45
- 20 years of service
- Retire at age 55

	Contributions	
No change	8%	$4,800
Future contrib. (min)	6.2%	$3,720
Future contrib.	14.2%	$8,520

		Benefit
No change	8%	$56,247
Future contrib. (min)	6.2%	$48,200
Future contrib.	14.2%	$55,652

Note: Expected hard freeze DB benefit of $36,000; 2% salary growth; 5% market return

Example employee profile: Option 2 (Social Security opt-out)

- Average starting salary= $16,680
- Average salary today= $65,000
- Average salary at retirement = $68,988
- Current age 50
- 25 years of service
- Retire at age 55

		Contributions
No change	8%	$5,200
Future contrib. (min)	6%	$3,900
Future contrib.	14%	$9,100

		Benefit
No change	8%	$55,190
Future contrib. (min)	6%	$48,750
Future contrib.	14%	$54,261

Note: Expected hard freeze DB benefit of $48,750; 2% salary growth; 5% market return

Example employee profile: Option 1

- Average starting salary= $25,990
- Average salary today= $42,400
- Average salary at retirement = $64,279
- Current age 35
- 10 years of service
- Retire at age 55

	Contributions	
No change	8%	$3,392
Future contrib. (min)	6%	$2,544
Future contrib.	14%	$5,936

	Benefit	
No change	8%	$51,424
Future contrib. (min)	6%	$24,654
Future contrib.	14%	$32,612

Note: Expected hard freeze DB benefit of $12,717; 2% salary growth; 5% market return

Example employee profile: Option 1

- Average starting salary= $22,400
- Average salary today= $51,000
- Average salary at retirement = $65,983
- Current age 40
- 15 years of service
- Retire at age 55

	Contributions	
No change	8%	$4,080
Future contrib. (min)	6%	$3,060
Future contrib.	14%	$7,140

	Benefit	
No change	8%	$52,786
Future contrib. (min)	6%	$31,446
Future contrib.	14%	$37,109

Note: Expected hard freeze DB benefit of $22,950; 2% salary growth; 5% market return

Example employee profile: Option 1

- Average starting salary= $19,340
- Average salary today= $60,000
- Average salary at retirement = $70,309
- Current age 45
- 20 years of service
- Retire at age 55

	Contributions	
No change	8%	$4,800
Future contrib. (min)	6%	$3,600
Future contrib.	14%	$8,400

		Benefit
No change	8%	$56,247
Future contrib. (min)	6%	$41,589
Future contrib.	14%	$45,315

Note: Expected hard freeze DB benefit of $36,000; 2% salary growth; 5% market return

Example employee profile: Option 1

- Average starting salary= $16,680
- Average salary today= $65,000
- Average salary at retirement = $68,988
- Current age 50
- 25 years of service
- Retire at age 55

	Contributions	
No change	8%	$5,200
Future contrib. (min)	6%	$3,900
Future contrib.	14%	$9,100

		Benefit
No change	8%	$55,190
Future contrib. (min)	6%	$51,294
Future contrib.	14%	$52,989

Note: Expected hard freeze DB benefit of $48,750; 2% salary growth; 5% market return