



Proposed Pension Reform

City of Atlanta – Mayor's Office
March 16, 2011

DRAFT



Guiding principles and ground rules for pension system reform

Provide a pension promise to employees that the City can keep

- Reduce the annual pension cost in the budget
- Reduce and pay off the City's unfunded liability
- Diversify the City's risk and the employee's risk
- Competitively align with other local jurisdictions
- Leave the benefits accrued to date unaffected
- Promote incentives to save for healthy retirement
- Provide a long-term and sustainable solution for supporting employee retirement

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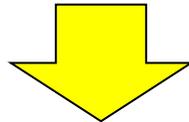
The administration has a two part proposal

I. Change the amortization period from 30-year open to 30-year closed

- It allows the plan to become fully funded at the end of that span
- Closing the amortization reduces the City's unfunded liability by \$2.5B in 2041
- This change requires future increases in annual required contribution

II. Change the structure and cost of the pension plan offered to employees

- The administration proposes two options:
 - Option 1: Shift all employees to City's current 6% DC plan
 - Option 2: Shift all employees Grade 18 and below to a new 8% DC plan with Social Security opt-in



What this means for employees

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The administration proposes two options

OPTION 1: Shift all employees to City's current 6% D.C. 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 the Cabinet are in this plan
- No limit on benefit as percent of salary
- Reduces the City's annual contribution cost by \$27M-31M in the first 5 years
- Reduces the unfunded liability by \$2.5B in 2041 assuming closed amortization

OPTION 2: Shift all employees grade 18 and below to new 8% D.C. plan with Social Security

- Employees given the option to enter Social Security which requires 6.2% contribution from both the employee and employer
- Employer matches up to 8% of employee contributions with Social Security opt in
- Employer matches up to 12% of employee contribution with Social Security opt out
- No limit on benefit as percent of salary
- Reduces the City's annual contribution cost by \$12M-18M in the first 5 years
- Reduces the unfunded liability by \$2.5B in 2041 assuming closed amortization

Changes are NOT being proposed to:

- Earnings accrued
- Retirement age
- Salary calculation
- Vesting period
- Retiree pensions
- COLA

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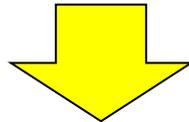
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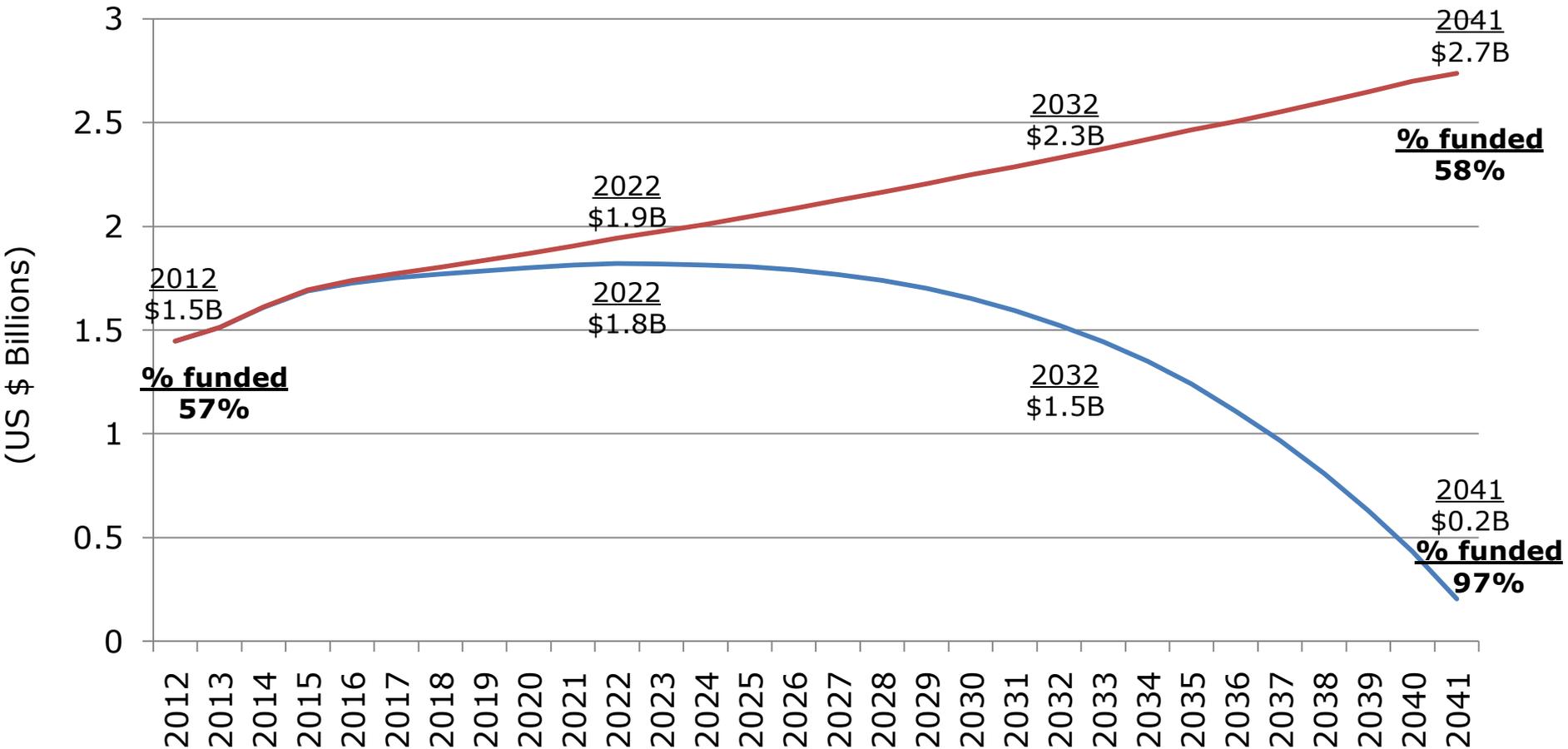
What this means for employees

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Switching to closed amortization will reduce Atlanta's unfunded liability (UAAL)

Unfunded Actuarial Accrued Liability (UAAL)



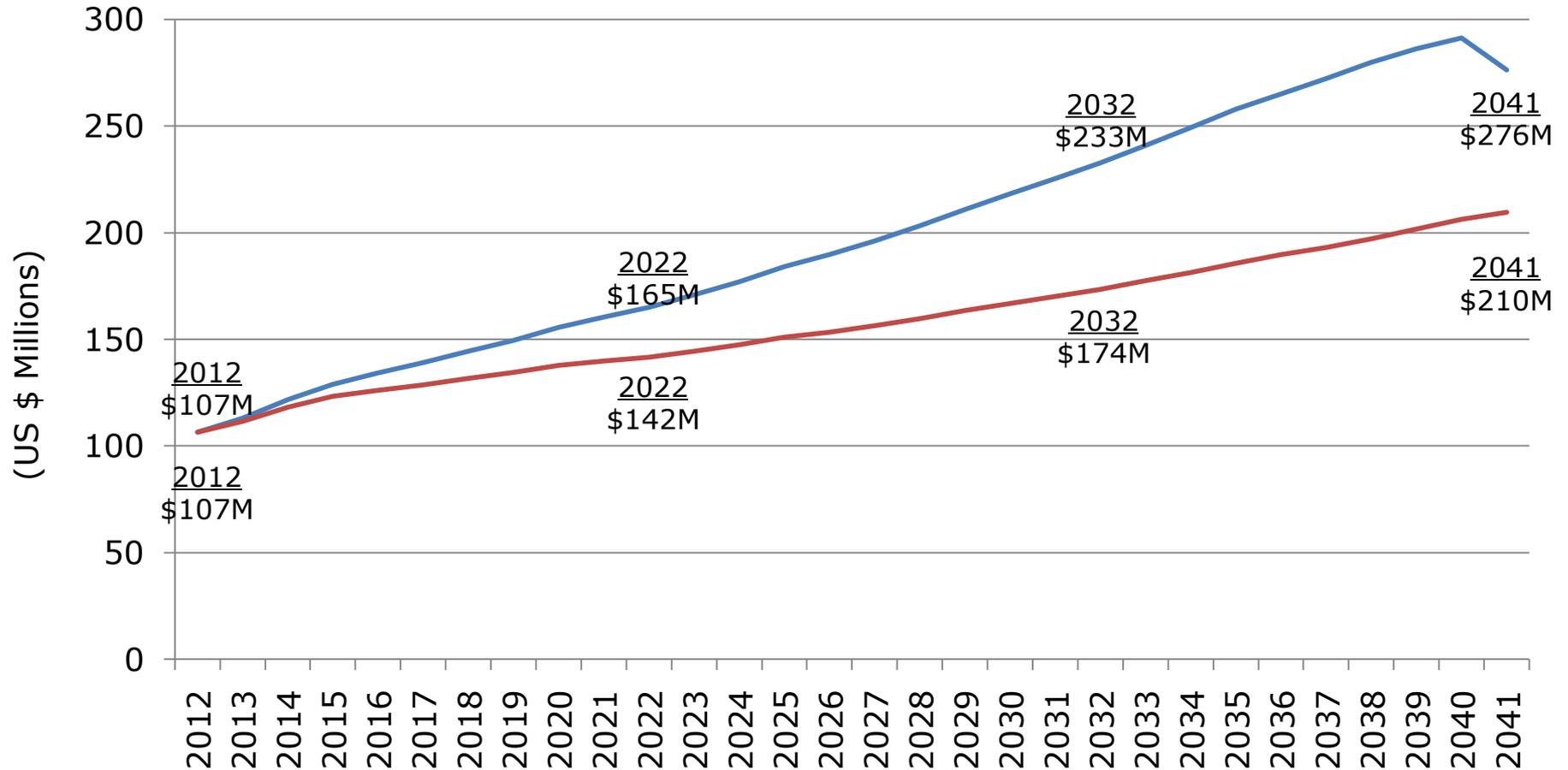
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Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%); Closing amortization leads to elimination of UAAL
 Source: Segal & Co.



However, closed amortization will also require increased annual contributions

Annual Required Contribution (ARC)



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Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%)

Source: Segal & Co.



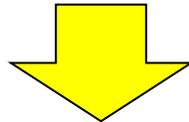
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What this means for employees

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Option 1: 6% Defined Contribution Plan

	Defined Benefit	Defined Contribution	Social Security
<u>Current employees</u>			
Police & Fire	Accrued to date	6%	--
General	Accrued to date	6%	--
<u>Future employees</u>			
Police & Fire	--	6%	--
General	--	6%	--

Savings:

Annual cash contribution: \$27M-31M in the first 5 years

Risk:

Shared by employer and employee

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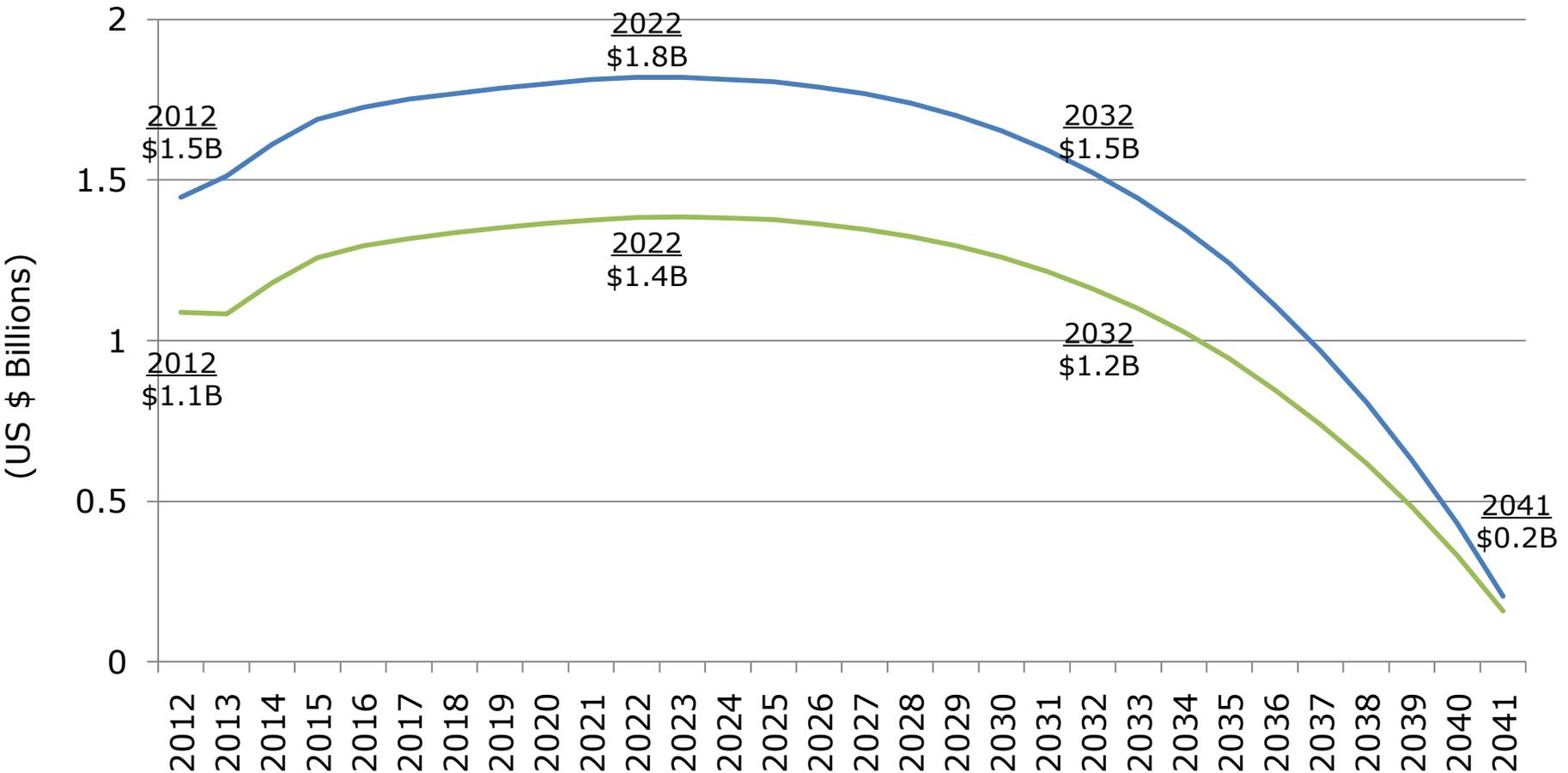
Note: Employer and employee will each contribute a mandatory 6%



Option 1: Projected difference in Unfunded Liability due to hard freeze of defined benefit

Unfunded Actuarial Accrued Liability (UAAL)

■ Current plan (closed amortization)
 ■ Proposed Option 1 (closed amortization)



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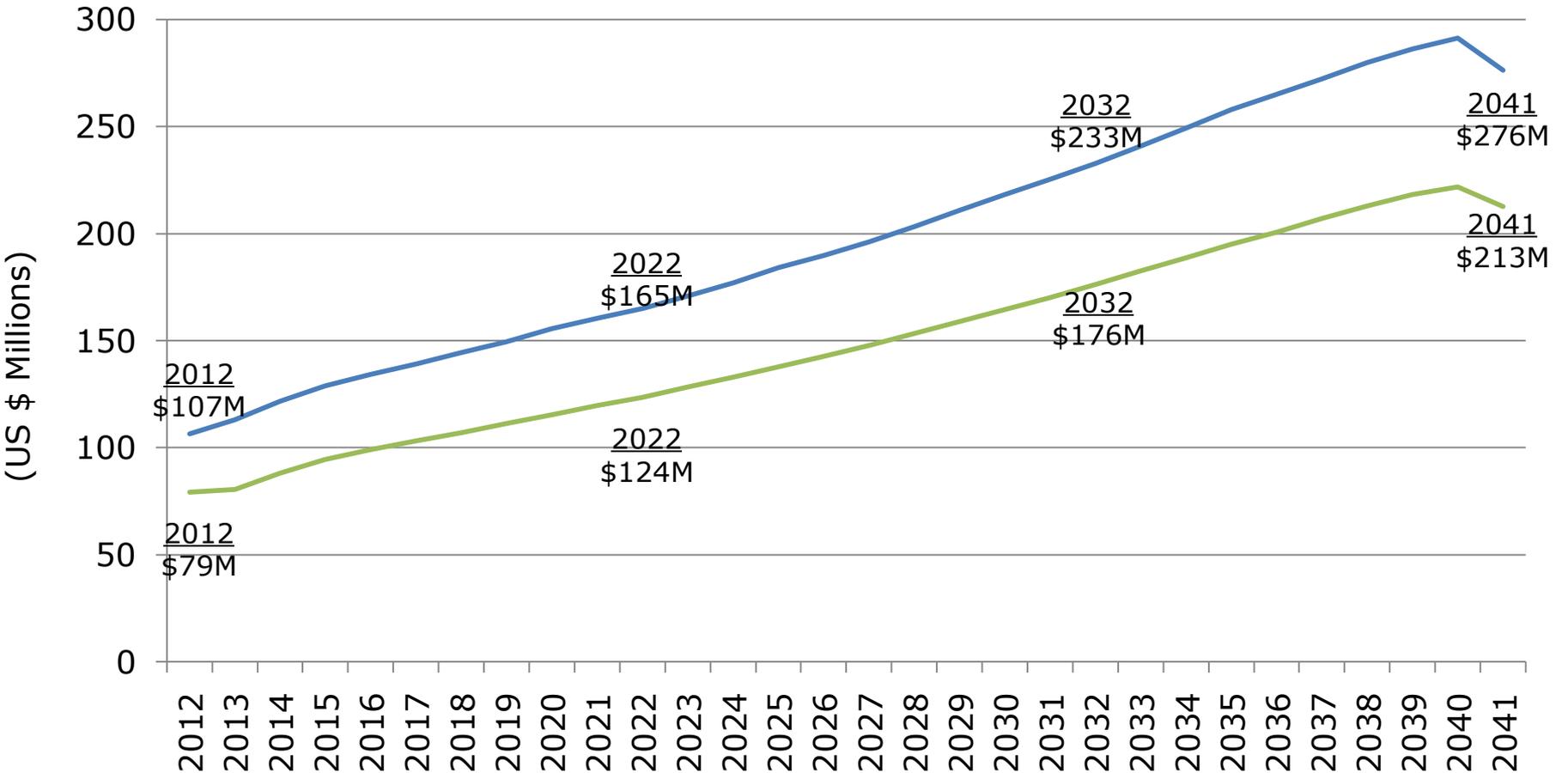
Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%)

Source: Segal & Co.



Option 1: Projected difference in contributions in the future

Total Annual Contribution



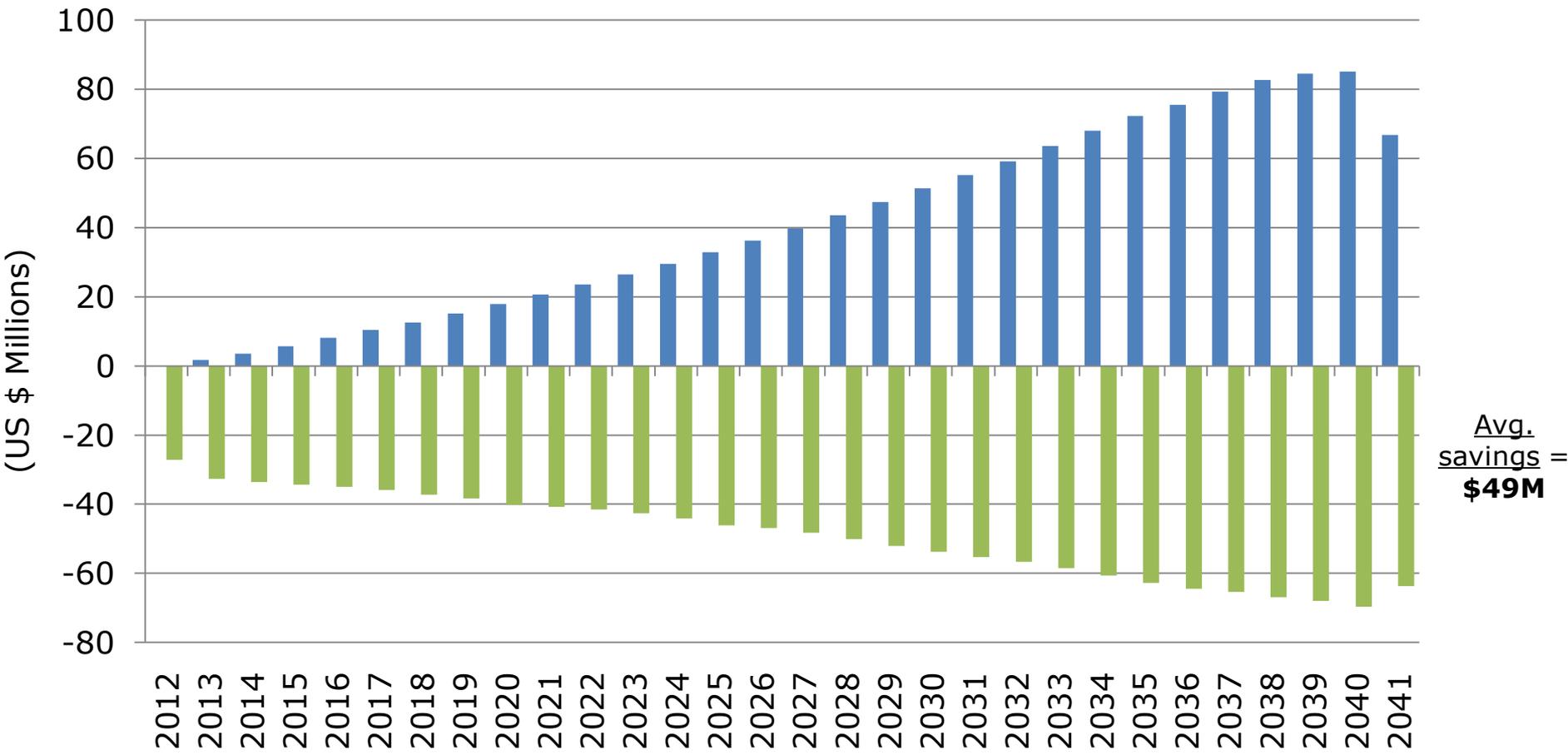
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Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%); Contributions include DC and DB, Source: Segal & Co.



Option 1: The plan will save money, but switching the amortization will cost

Change in Total Annual Contribution



Avg. savings = \$49M

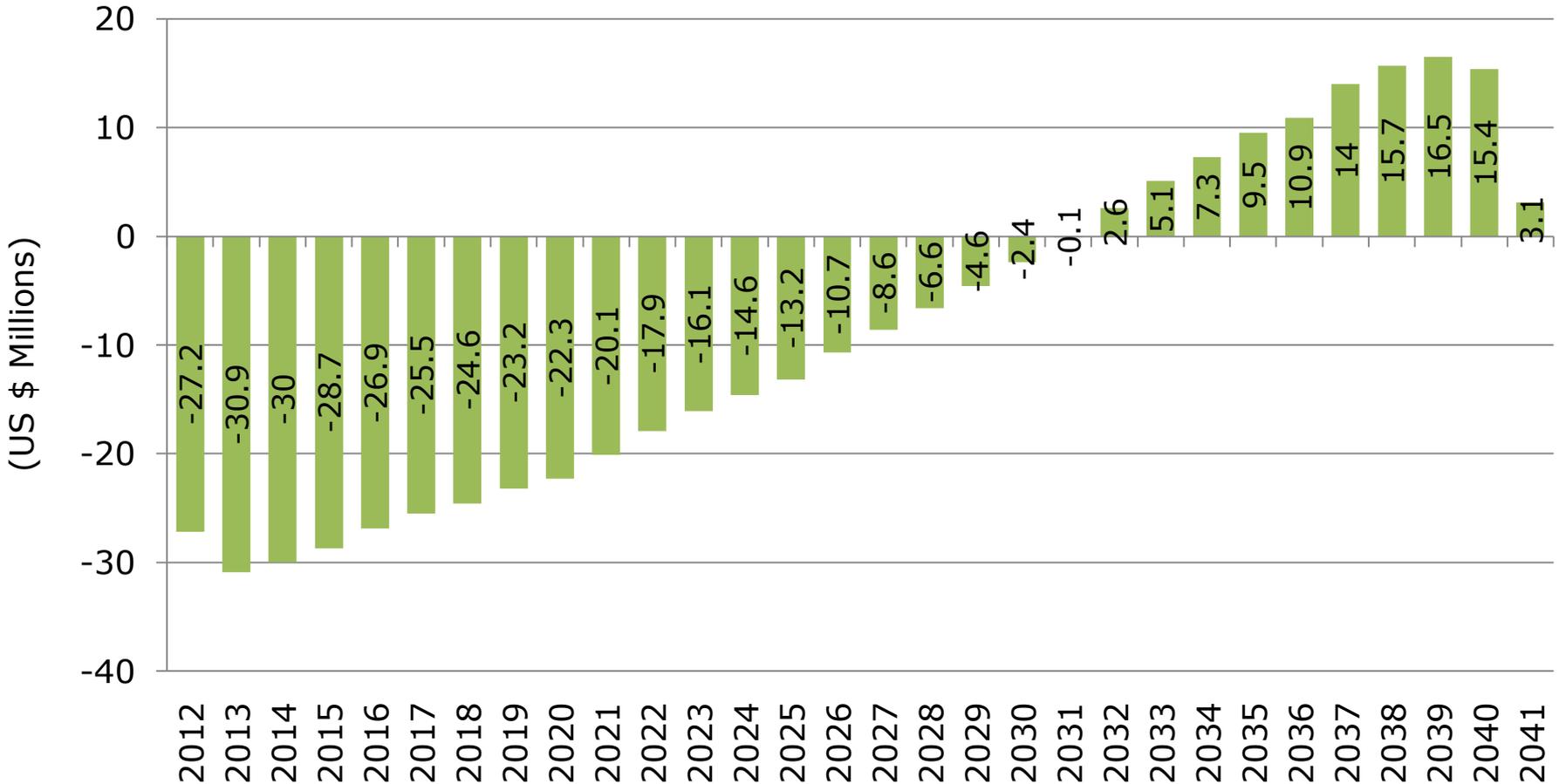
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Note: Differences are shown relative to the current plan under an open amortization
 Source: Segal & Co.



Option 1: Switching plans and closing amortization will reduce the City's cost through 2031

Projected Annual Contribution net change



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Note: Savings are calculated relative to relative to the current plan under an open amortization

Source: Segal & Co.



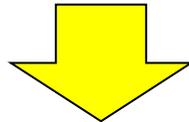
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- This change requires future increases in annual required contribution

II. Change the structure and cost of the pension plan offered to employees

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What this means for employees

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Option 2: Defined Contribution and Social Security plan

Current employees (Social Security opt in)

Police & Fire

General

Current employees (Social Security opt out)

Police & Fire

General

Future employees

Police & Fire

General

	Defined Benefit	Defined Contribution	Social Security
Accrued to date		Up to 8%	Opt in
Accrued to date		Up to 8%	Opt in
Accrued to date		Up to 12%	Opt out
Accrued to date		Up to 12%	Opt out
--		Up to 8%	Yes
--		Up to 8%	Yes

Savings:

- Annual cash contribution: \$12 – 18 million in the first 5 years

Risk:

Shared by employer, employee, and Federal Government

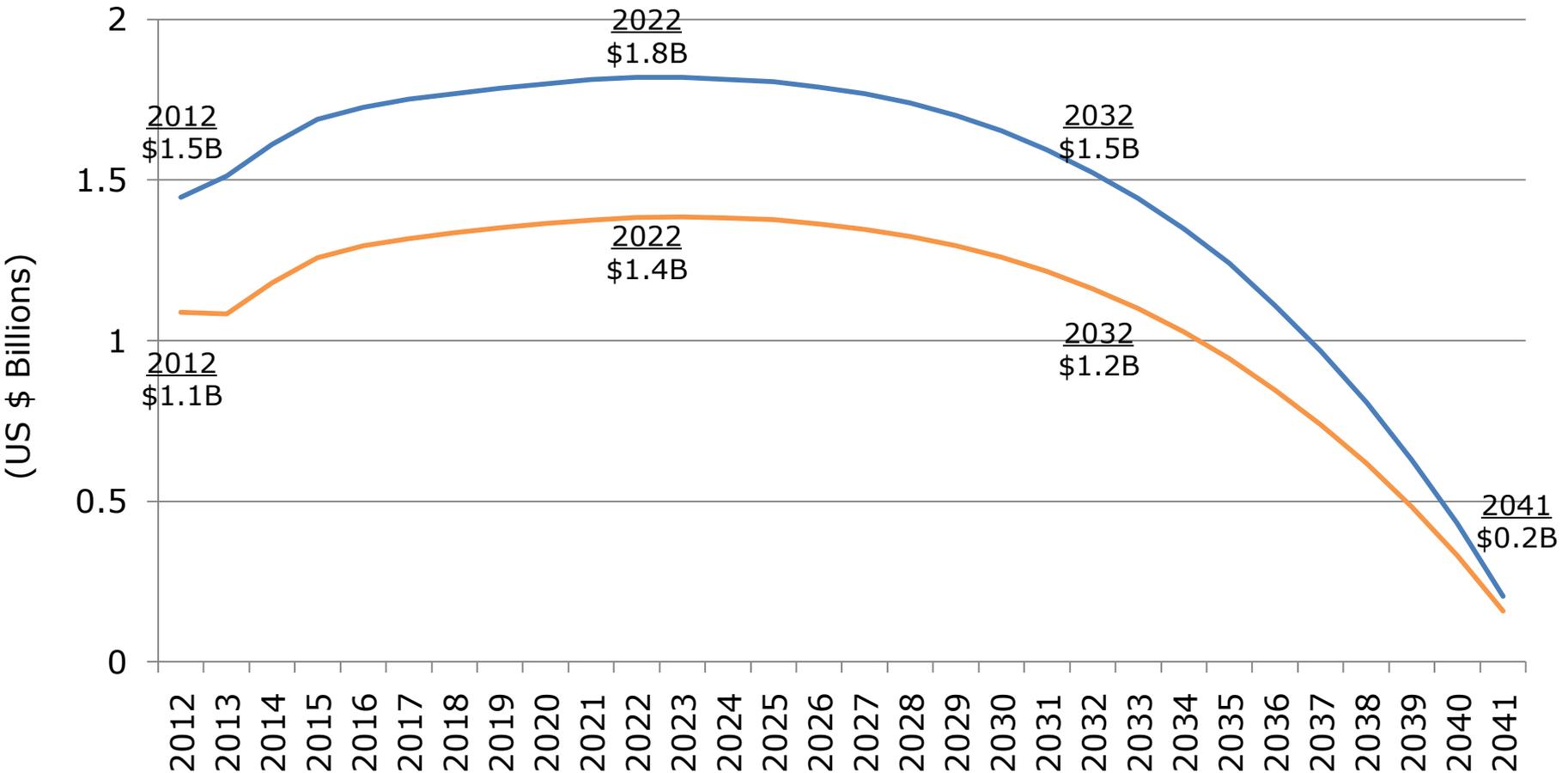
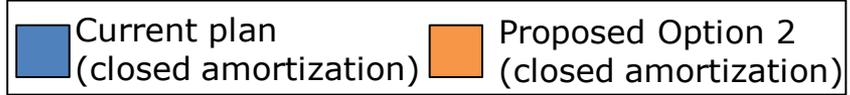
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Note: All DC employer contributions require a matching contribution from the employee; Assumes that all employees Grade 19 and above that are currently in the 6% DC plan stay within that plan.



Option 2: Projected difference in Unfunded Liability due to hard freeze of defined benefit

Unfunded Actuarial Accrued Liability (UAAL)



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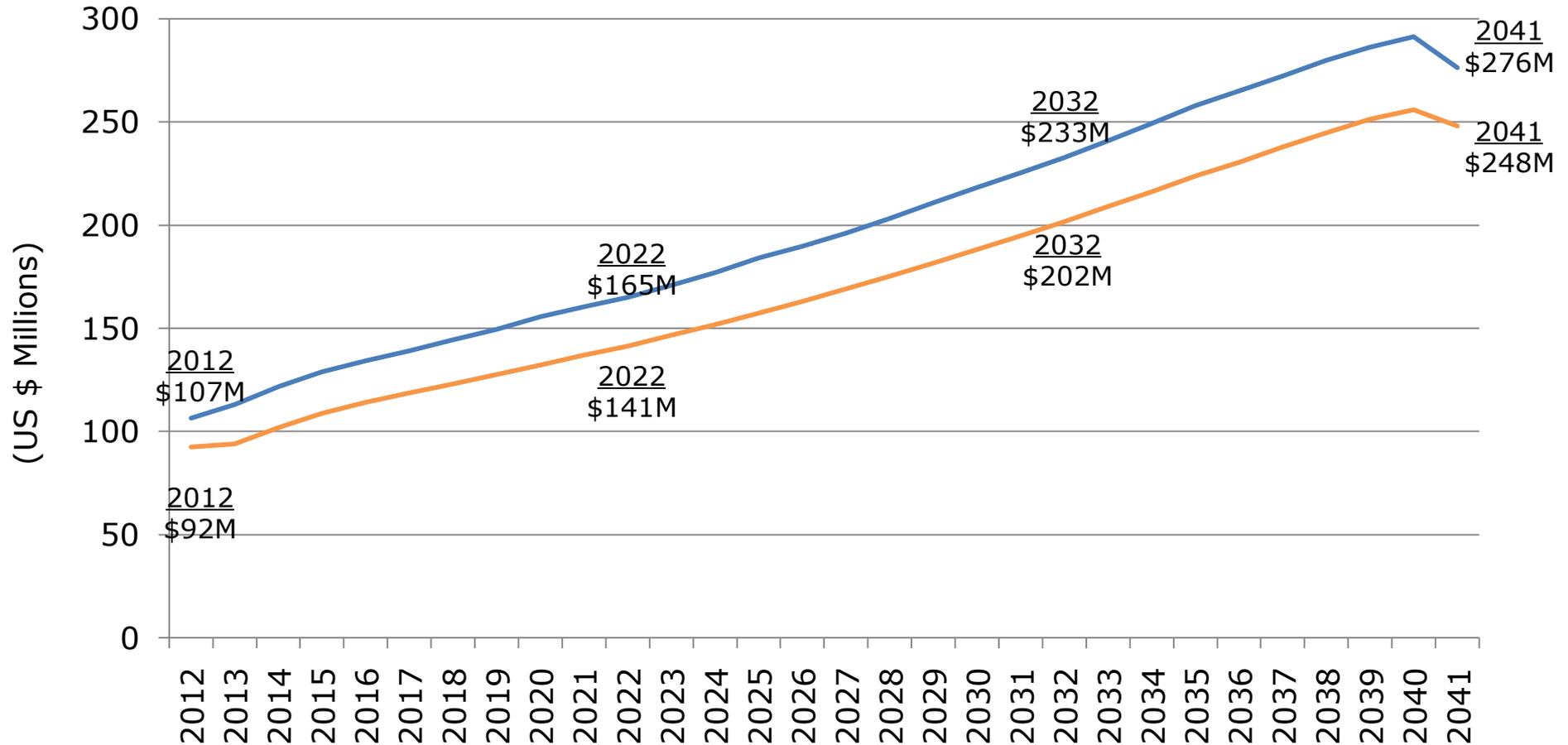
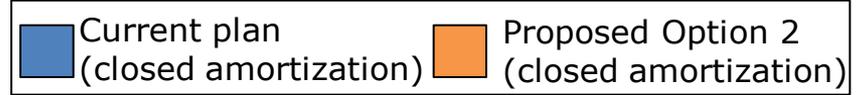
Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%)

Source: Segal & Co.



Option 2: Projected difference in contributions in the future

Total Annual Contribution



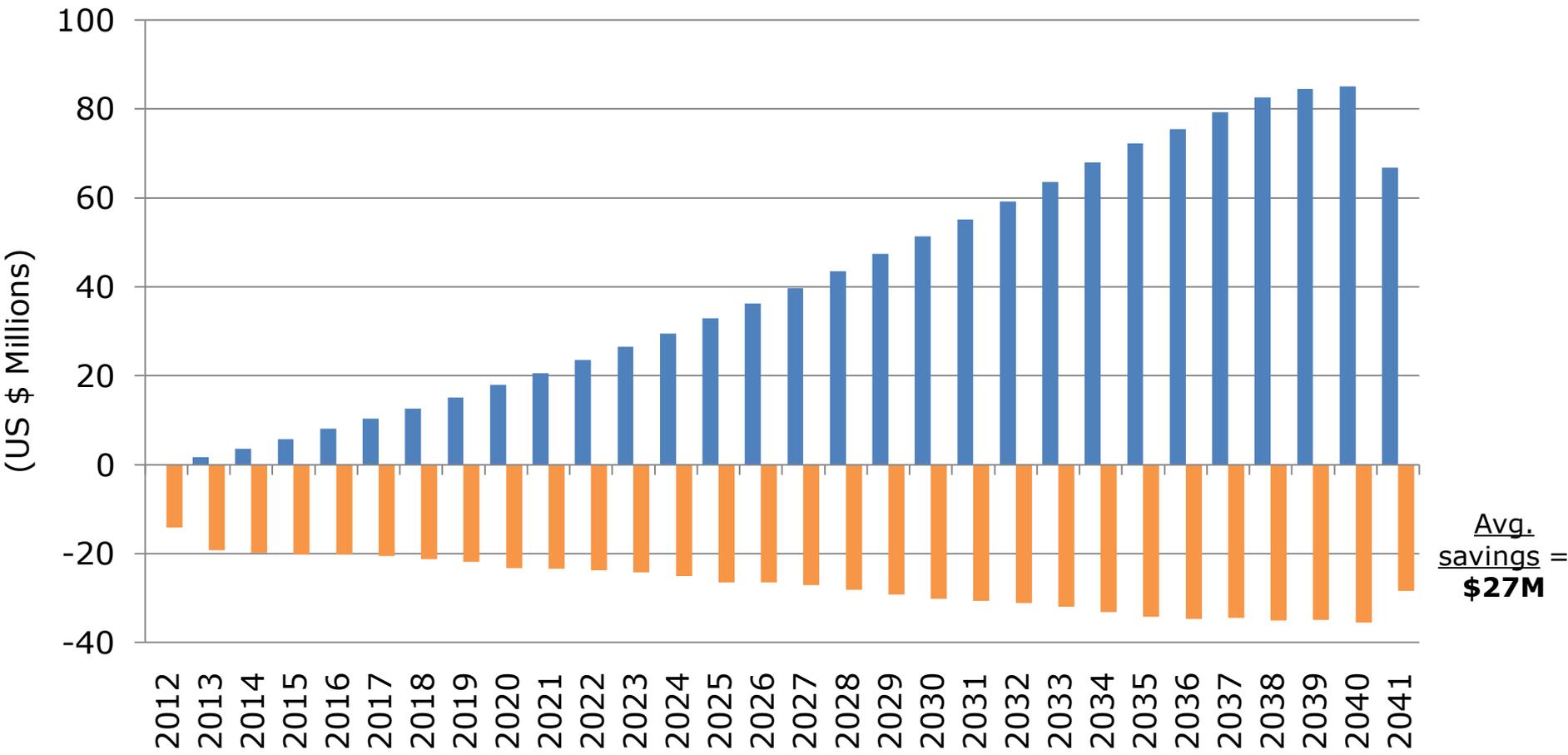
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Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%); contributions include DC , DB, and SS
 Source: Segal & Co.



Option 2: The plan will save money, but switching the amortization will cost

Change in Total Annual Contribution



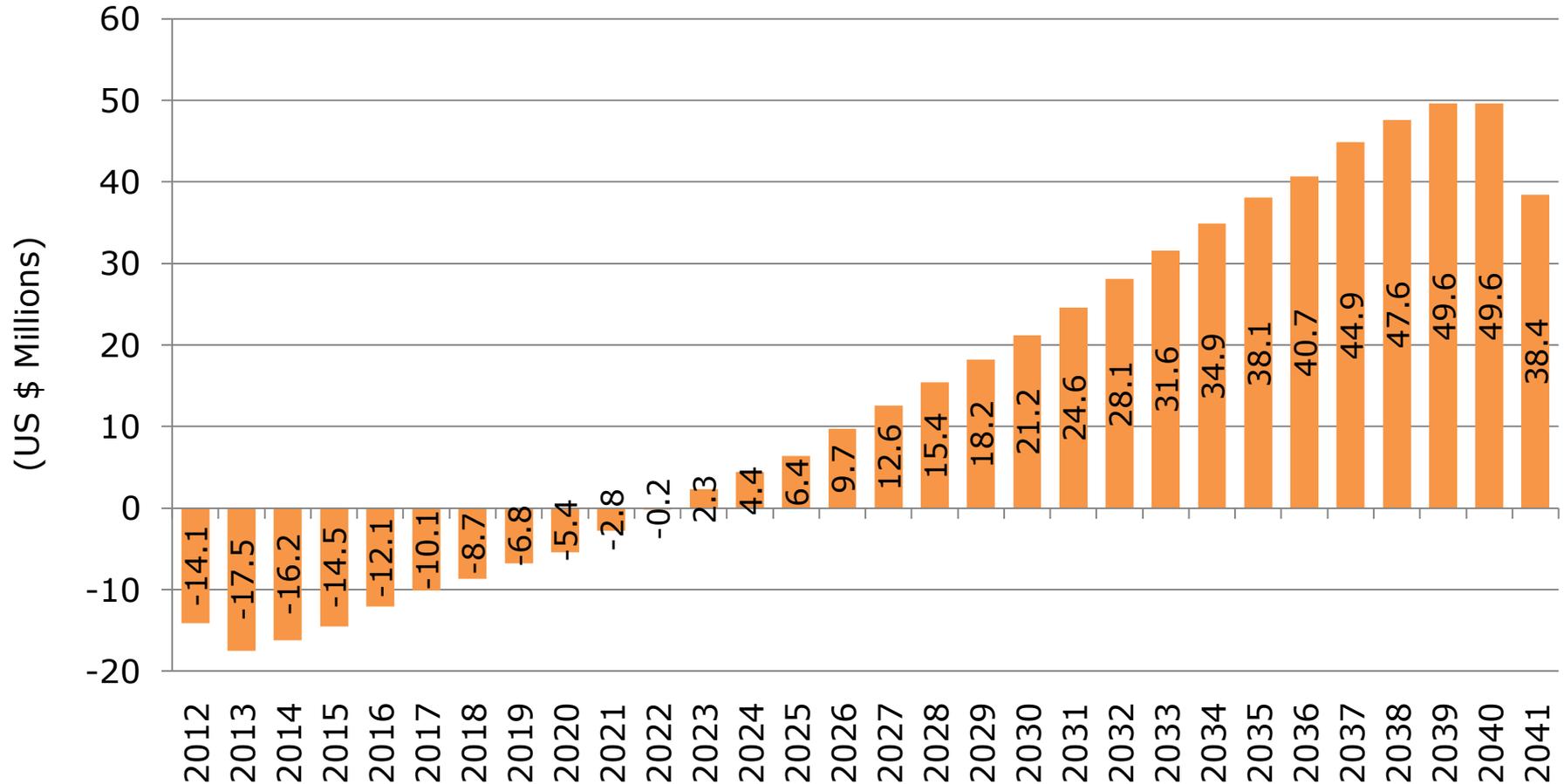
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Note: Differences are shown relative to the current plan under an open amortization
Source: Segal & Co.



Option 2: Switching plans and closing amortization will reduce the City's cost through 2022

Projected Annual Contribution net change



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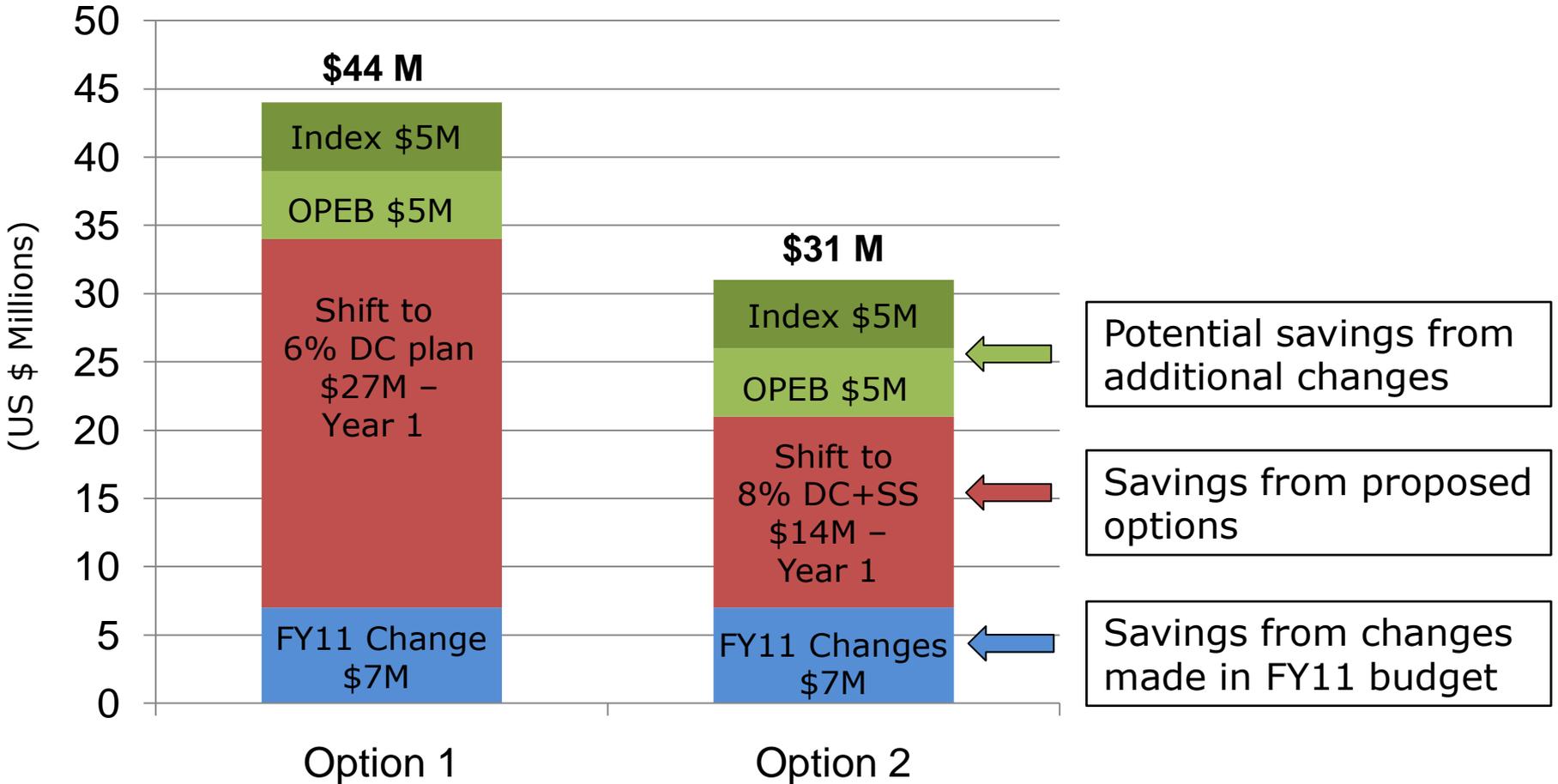
Note: Savings are calculated relative to the current plan under an open amortization

Source: Segal & Co.



Comprehensive Scope of Initial Savings from Retirement Plan Changes

Cost savings





Proposed changes will bring us in line with peer jurisdictions going forward

Jurisdiction	Social Security	Employee contributions		Current plan	Previous plan
		Defined Benefit	Defined Contribution		
Fulton County	Y	N	6.0%	<u>After 1999</u> 8% ER contribution to DC Plan 2% maximum ER contribution to 457 Plan	<u>Before 1999</u> 2% DB Plan Automatic 3% COLA
Gwinnett County	Y	N	2.5%, 5.0% or 7.5%	<u>After 2007</u> 7% ER contribution to DC Plan + 1% ER match if contributes 2.5% to 457 Plan	<u>Before 2007</u> 2.50% DB Plan Automatic 1% COLA or 11.5% DC Plan
State of Georgia	Y	1.25%	Min 1.0% up to 5.0% (401K plan) – optional	<u>After 2009</u> Hybrid Plan 2% DB Plan multiplier Matching DC Plan up to 3%	<u>Before 2009</u> 2% DB Plan Ad hoc COLA
Clayton County	Y	5.5%	Voluntary \$10 per pay period	2.5% DB Plan multiplier Automatic COLA for those retired at least 7 yrs No ER matching for DC Plan	2.5% DB Plan Automatic COLA for those retired at least 7 yrs, No ER match for DC Plan
Cobb County	Y	5.0%	Min 1.0% up to 4.0%-optional	<u>After 2010</u> Hybrid plan – 1.0%DB Plan +2.0% DC Plan	<u>Before 2010</u> 2.5% DB Plan No COLA
DeKalb County	Y	8.38%*	N	<u>After 2005</u> 2.25% DB Plan multiplier No COLA	<u>Before 2005</u> 2.75% DB Plan No COLA

Source: Publicly available sources, including websites, CAFR and plan administrators

*Employee contributions will increase to 8.6% in 2012

Note: ER(Employer); EE(Employee)

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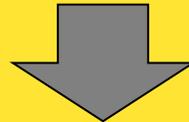
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What this means for employees



Option 1: Benefits that have already been accrued will not change (1A)

Example employee profile

- Current age 55
- Final average salary = \$45,000
- 25 years of service at transition
- Planning to retire after 30 total YOS

No change to current plan

Annual annuity

1986

\$28,125

Current DB Formula
2.5% * 25 years of service * \$45K salary = **\$28,125 annuity**

2011

\$5,625

Current DB Formula
2.5% * 5 years of service * \$45K salary = **\$5,625 annuity**

2016



Total annuity = **\$33,750**

75% salary replacement

Shift to proposed DC plan

Annual annuity

1986

\$28,125

Current DB Formula
2.5% * 25 years of service * \$45K salary = **\$28,125 annuity**

2011

\$1,996

Proposed Formula
6% ER, 6% EE DC, 2% EE savings contribution = \$36,006 total balance = **\$1,996 annuity**

2016



Estimated yearly retirement income = **\$30,121**

67% salary replacement

Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.

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Option 1: Benefits that have already been accrued will not change (1B)

Example employee profile

- Current age 50
- 20 years of service at transition
- Final average salary = \$45,000
- Planning to retire after 30 total YOS

No change to current plan



1991

2011

2021

Current DB Formula
2.5% * 20 years of service * \$45K salary = **\$22,500 annuity**

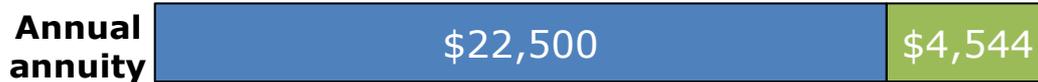
Current DB Formula
2.5% * 10 years of service * \$45K salary = **\$11,250 annuity**



Total annuity = **\$33,750**

75% salary replacement

Shift to proposed DC plan



1991

2011

2021

Current DB Formula
2.5% * 20 years of service * \$45K salary = **\$22,500 annuity**

Proposed Formula
6% ER, 6% EE DC, 2% EE savings contribution = \$81,960 total balance = **\$4,544 annuity**



Estimated yearly retirement income = **\$27,044**

60% salary replacement

Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.

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Option 1: Benefits that have already been accrued will not change (1C)

Example employee profile

- Current age 45
- 15 years of service at transition
- Final average salary = \$45,000
- Planning to retire after 30 total YOS

No change to current plan

Annual annuity

1996

\$16,875

2011

\$16,875

2026

Current DB Formula
2.5% * 15 years of service * \$45K salary = **\$16,875 annuity**

Current DB Formula
2.5% * 15 years of service * \$45K salary = **\$16,875 annuity**



Total annuity = **\$33,750**

75% salary replacement

Shift to proposed DC plan

Annual annuity

1996

\$16,875

2011

\$7,796

2026

Current DB Formula
2.5% * 15 years of service * \$45K salary = **\$16,875 annuity**

Proposed Formula
6% ER, 6% EE DC, 2% EE savings contribution = \$140,610 total balance = **\$7,796 annuity**



Estimated yearly retirement income = **\$24,671**

55% salary replacement

Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.

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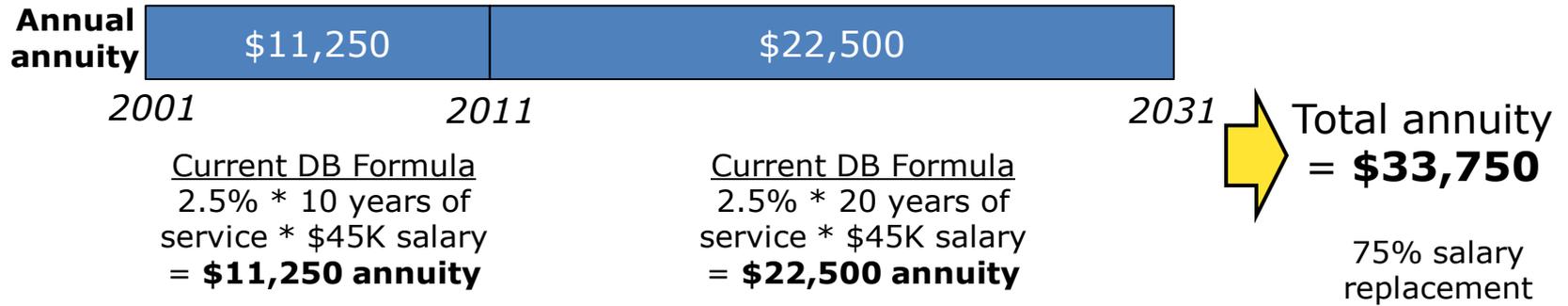


Option 1: Benefits that have already been accrued will not change (1D)

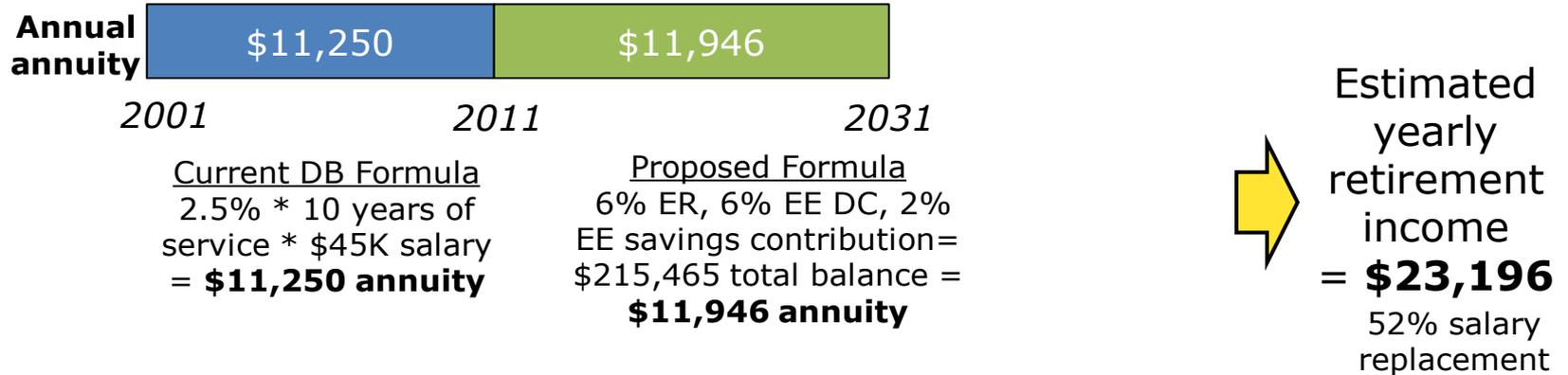
Example employee profile

- Current age 40
- 10 years of service at transition
- Final average salary = \$45,000
- Planning to retire after 30 total YOS

No change to current plan



Shift to proposed DC plan



Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit
 Source: Segal & Co.

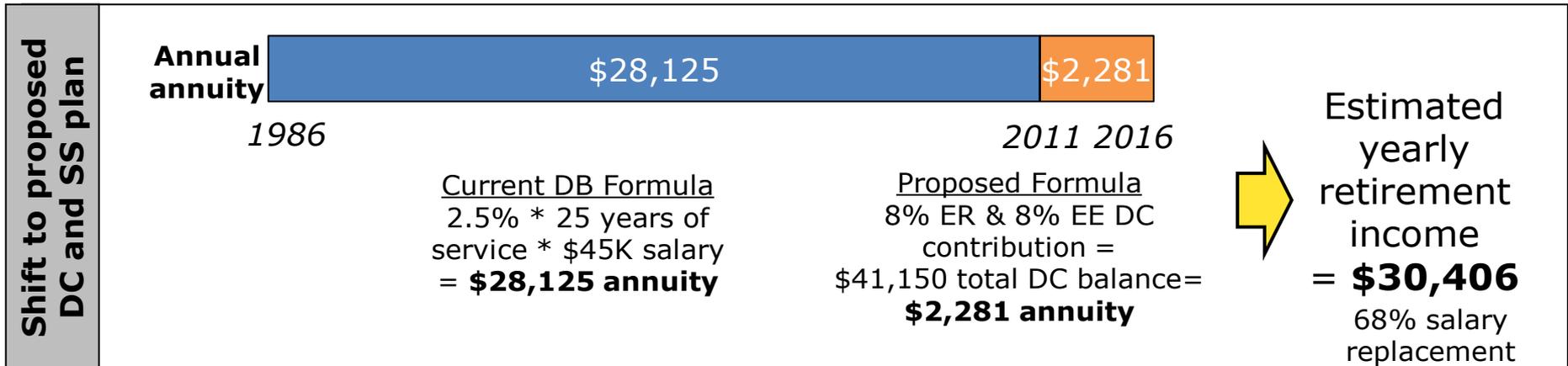
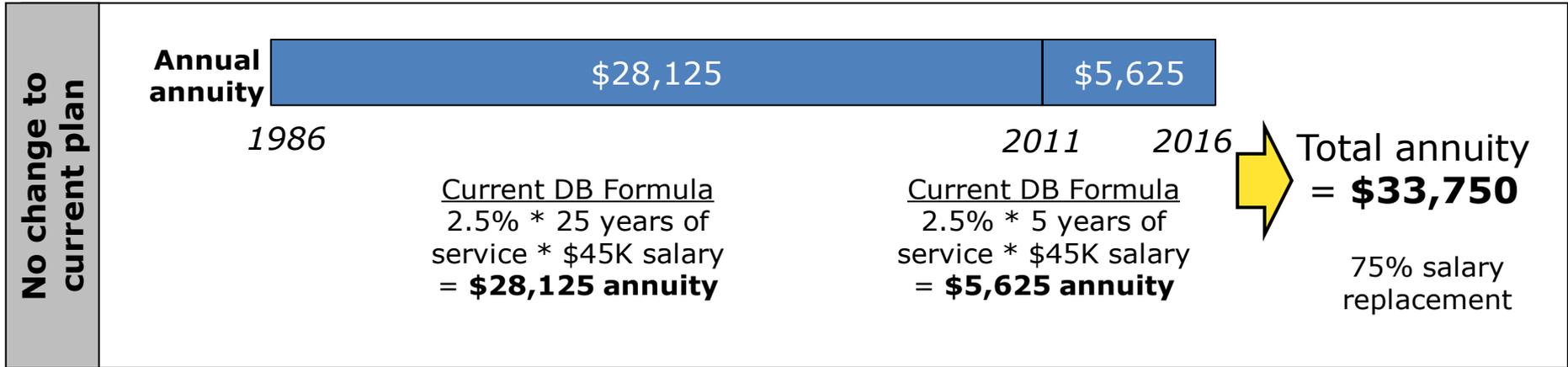
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Option 2: Benefits that have already been accrued will not change (2A)

Example employee profile	• Current age 55	• 25 years of service at transition
	• Final average salary = \$45,000	• Planning to retire after 30 total YOS

*Assumes employee opts out of Social Security



Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit
 Source: Segal & Co.

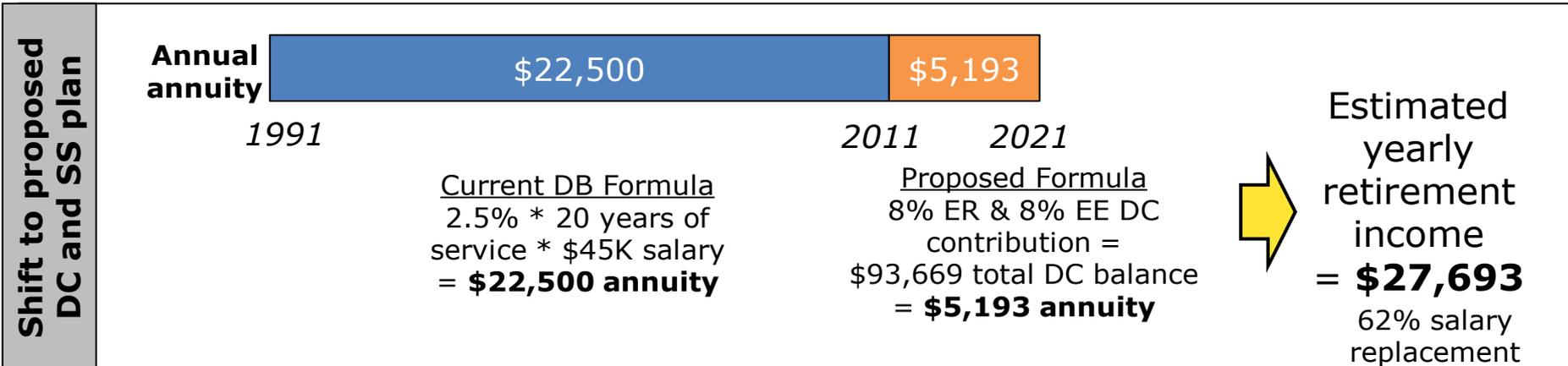
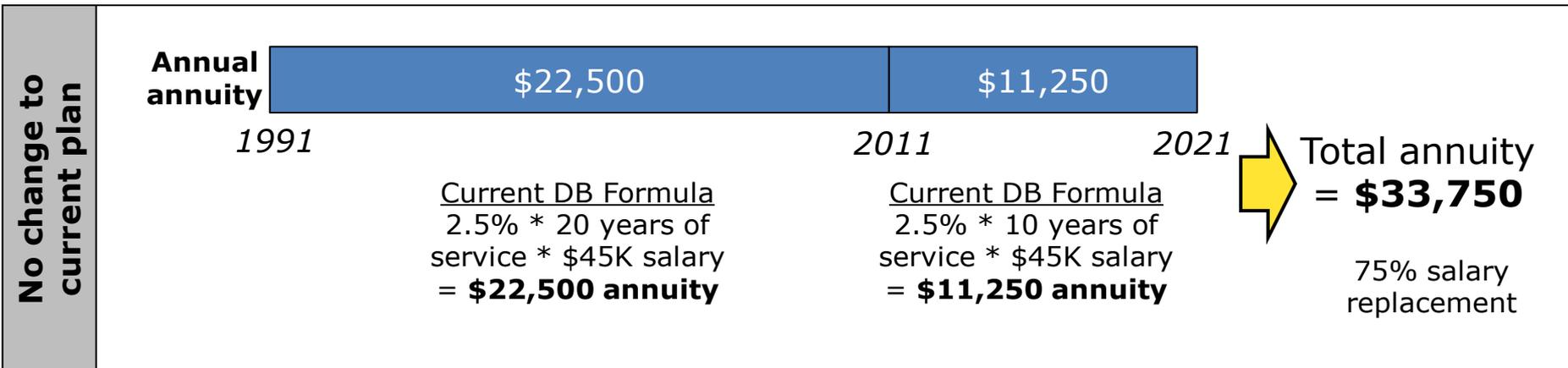


Option 2: Benefits that have already been accrued will not change (2B)

Example employee profile

- Current age 50
- Final average salary = \$45,000
- 20 years of service at transition
- Planning to retire after 30 total YOS

*Assumes employee opts out of Social Security



Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit
 Source: Segal & Co.

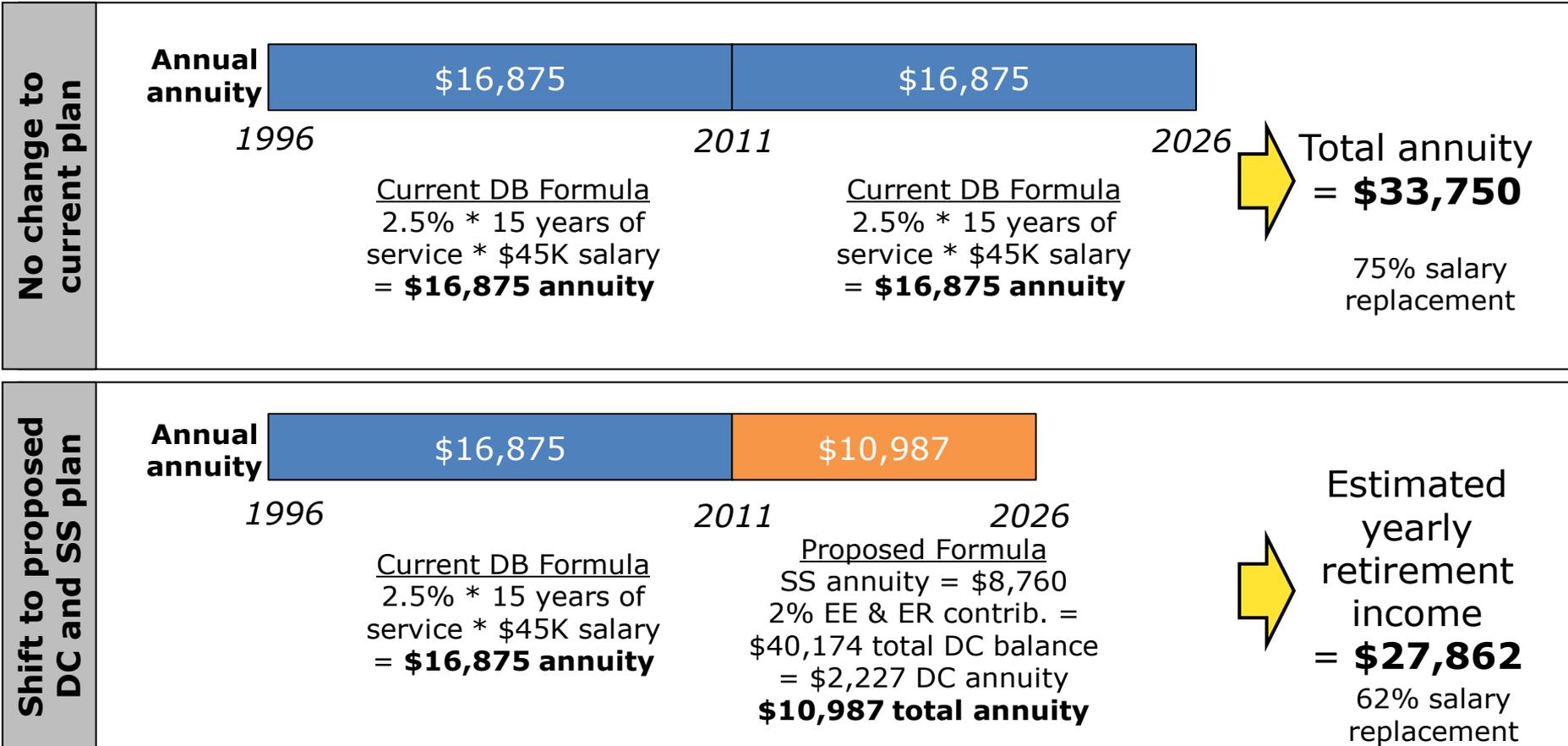


Option 2: Benefits that have already been accrued will not change (2C)

Example employee profile

- Current age 45
- Final average salary = \$45,000
- 15 years of service at transition
- Planning to retire after 30 total YOS

*Assumes employee opts into Social Security



Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.

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Option 2: Benefits that have already been accrued will not change (2D)

Example employee profile

- Current age 40
- Final average salary = \$45,000
- 10 years of service at transition
- Planning to retire after 30 total YOS

*Assumes employee opts into Social Security

No change to current plan

Annual annuity



Current DB Formula
2.5% * 10 years of service * \$45K salary
= **\$11,250 annuity**

Current DB Formula
2.5% * 20 years of service * \$45K salary
= **\$22,500 annuity**

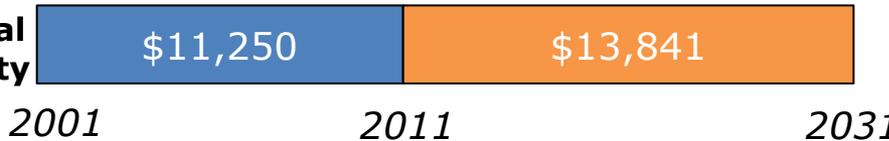


Total annuity = **\$33,750**

75% salary replacement

Shift to proposed DC and SS plan

Annual annuity



Current DB Formula
2.5% * 10 years of service * \$45K salary
= **\$11,250 annuity**

Proposed Formula
SS annuity = \$10,428
2% EE & ER contrib. = \$61,561 total DC balance
= \$3,413 DC annuity
\$13,841 total annuity



Estimated yearly retirement income = **\$25,091**

56% salary replacement

Note: Shows 5% annual return; Assumes employee maintains a flat salary and contributes a total of 8% toward retirement (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.

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Additional employee profiles – Option 1

Age	Current service	Salary	Part 'A' annuity	Part 'B' DB/DC annuity			Total annuity		
				No change	8% EE contrib	11% EE contrib	No change	8% EE contrib	11% EE contrib
55	25	\$45,000	\$28,125	\$5,625	\$1,996	\$2,424	\$33,750	\$30,121	\$30,549
50	20	\$45,000	\$22,500	\$11,250	\$4,544	\$5,518	\$33,750	\$27,044	\$28,018
45	15	\$45,000	\$16,875	\$16,875	\$7,796	\$9,466	\$33,750	\$24,671	\$26,341
40	10	\$45,000	\$11,250	\$22,500	\$11,946	\$14,505	\$33,750	\$23,196	\$25,755
35	5	\$45,000	\$5,625	\$28,125	\$17,242	\$20,937	\$33,750	\$22,867	\$26,562
30	0	\$45,000	\$0	\$33,750	\$24,002	\$29,145	\$33,750	\$24,002	\$29,145

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.



Additional employee profiles – Option 2 with Social Security opt out

Age	Current service	Salary	Part 'A' annuity	Part 'B' DB/DC annuity			Total annuity		
				No change	8% EE contrib	11% EE contrib	No change	8% EE contrib	11% EE contrib
55	25	\$45,000	\$28,125	\$5,625	\$2,281	\$3,137	\$33,750	\$30,406	\$31,262
50	20	\$45,000	\$22,500	\$11,250	\$5,193	\$7,141	\$33,750	\$27,693	\$29,641
45	15	\$45,000	\$16,875	\$16,875	\$8,909	\$12,250	\$33,750	\$25,784	\$29,125
40	10	\$45,000	\$11,250	\$22,500	\$13,652	\$18,772	\$33,750	\$24,902	\$30,022
35	5	\$45,000	\$5,625	\$28,125	\$19,705	\$27,095	\$33,750	\$25,330	\$32,720
30	0	\$45,000	\$0	\$33,750	\$27,431	\$37,718	\$33,750	\$27,431	\$37,718

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.



Additional employee profiles – Option 2 with Social Security opt in

Age	Current service	Salary	Part 'A' annuity	Part 'B' DC/DB annuity			Part 'B' SS annuity			Total annuity		
				No change	8% EE contrib	11% EE contrib	No change	8% EE contrib	11% EE contrib	No change	8% EE contrib	11% EE contrib
55	25	\$45,000	\$28,125	\$5,625	\$570	\$1,426	--	\$3,972	\$3,972	\$33,750	\$32,667	\$33,523
50	20	\$45,000	\$22,500	\$11,250	\$1,298	\$3,246	--	\$7,068	\$7,068	\$33,750	\$30,866	\$32,814
45	15	\$45,000	\$16,875	\$16,875	\$2,227	\$5,568	--	\$8,760	\$8,760	\$33,750	\$27,862	\$31,203
40	10	\$45,000	\$11,250	\$22,500	\$3,413	\$8,533	--	\$10,428	\$10,428	\$33,750	\$25,091	\$30,211
35	5	\$45,000	\$5,625	\$28,125	\$4,926	\$12,316	--	\$12,096	\$12,096	\$33,750	\$22,647	\$30,037
30	0	\$45,000	\$0	\$33,750	\$6,858	\$17,144	--	\$13,776	\$13,776	\$33,750	\$20,634	\$30,920

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.



Historical funding levels for the City's pension funds over the last 10 years

Funded% (MVA/AAL)	Actuarial Value of Assets/Actuarial Accrued Liability		
Valuation Date	Police	Fire	General
1/1/2000	96.03%	92.69%	76.42%
1/1/2001	91.84%	91.14%	71.77%
1/1/2002	74.43%	83.09%	63.07%
1/1/2003	63.04%	68.61%	56.30%
1/1/2004	72.06%	77.80%	60.73%
1/1/2005	74.52%	78.60%	63.90%
1/1/2006	62.29%	65.29%	54.83%
1/1/2007	68.09%	68.41%	57.81%
1/1/2008	67.47%	67.62%	56.18%
1/1/2009	52.34%	48.01%	52.80%