

Pension Reform Frequently Asked Questions

BACKGROUND

On Tuesday, February 1, Atlanta Mayor Kasim Reed's appointed Pension Review Panel presented the final results of its one-year study into the City's pension benefits. The report prepared by the Pension Review Panel discusses a number of different options the City could consider implementing in order to reduce the annual and long-term costs of the City's various pension plans.

FAQs

1. Which pension plans does the City maintain?

- ✓ Defined Benefit (DB) Pension Plans:
 - General Employees' Pension Plan
 - Police Officers' Pension Plan
 - Firefighters' Pension Plan
- ✓ Defined Contribution (DC) Pension Plans:
 - General Employees' Defined Contribution Plan
- ✓ Federal Insurance Contributions Act (FICA) Alternative Plan

2. What is a Defined Benefit (DB) plan?

A DB plan is a type of pension plan where an employee makes annual contributions to the plan consisting of a portion of his or her income, and, once the employee has met all eligibility requirements for one of the retirement options offered under the plan, the employee can retire and begin receiving his or her pension benefit calculated based on a formula set forth in the plan. In most circumstances, the benefit continues to be paid to the retired employee for the remainder of his or her lifetime. Under the three DB plans maintained by the City, normal retirement benefits (there are many different types of retirement benefits offered under these plans) are currently based on the average of an employee's highest three consecutive years of salary, multiplied by the employee's years of service, multiplied by a set multiplier which is different depending of the DB plan an employee participates in and when an employee commenced employment with the City.

For example, using a 2.5% multiplier, a 25-year administrative analyst participating in the General Employees' Pension Plan who retires at age 60 with a three year average salary of \$50,000 could expect an annual benefit of \$31,250 ($25 \times 50,000 \times 0.025 = \$31,250$), or \$2,604.17 per month.

3. What is a Defined Contribution (DC) plan?

In a DC plan (as opposed to a DB plan), pension benefits are not calculated according to a set benefit formula. Rather, an employee makes annual contributions to the plan consisting of a portion of his or her income, and an employer can elect to match a portion of the employee's contribution, and these contributions are then set aside in a plan account specifically for the employee. The contributions in an employee's plan account are invested at the employee's discretion. Whatever amount is vested in the employee's account when he or she retires is what the employee's monthly benefit is based on. When the money in that account is expended the benefit payments stop. Under the current General Employees' Defined Contribution Plan maintained by the City, an employee can contribute up to 6% of his or her income to the Plan, and the City will match that contribution.

4. What is the Federal Insurance Contributions Act ("FICA") Alternative Plan?

The FICA Alternative Plan allows temporary employees to contribute 7.5% of their before-tax wages to a retirement investment account. The employee can then withdraw the money in this account at the time they retire.

5. Which plan do I participate in?

Generally speaking, employees at pay grades up to 18, and employees hired prior to 2001, participate in one of the DB plans maintained by the City. Information about the plan you participate in can be found on your statement of earnings in the section entitled “Pre-Tax Deductions”.

For instance, if you are a Water Meter Mechanic (PG10) with a spouse or dependent and hired in 2007, your online statement of earnings will show a deduction for “Pen Fund 88 Gen,” which means you participate in the 1978 General Employees’ Defined Benefit Plan and you contribute 8% of your earnings to the Plan. Additional codes are as follows:

Pension Codes	Pension Plan Name
Pen Fund 54 Gen	1962 General Employees Defined Benefit
Pen Fund 64 Gen	1962 General Employees Defined Benefit
Pen Fund 78 Fir	1978 Fire Defined Benefit (7% Contribution)
Pen Fund 78 Gen	1978 General Employees Defined Benefit (7% Contribution)
Pen Fund 78 Pol	1978 Police Defined Benefit (7% Contribution)
Pen Fund 88 Fir	1978 Fire Defined Benefit (8% Contribution)
Pen Fund 88 Gen	1978 General Employees Defined Benefit (8% Contribution)
Pen Fund 88 Pol	1978 Police Defined Benefit (8% Contribution)
Pen Fund 2010 78 Fir	2010 Fire Defined Benefit
Pen Fund 2010 78 Gen	2010 General Employees Defined Benefit
Pen Fund 2010 78 Pol	2010 Police Defined Benefit
Pen Fund DC 78 Gen	Defined Contribution Plan
Pens Fund DC 88 Gen	Defined Contribution Plan
FICA Alt 401a	FICA Alternative 401a

6. Why is the City so concerned with changing the pension plans it maintains?

If nothing is done to change the current pension plans maintained by the City, there could be devastating effects for City operations, including layoffs. The costs of maintaining and funding the pension plans account for close to 20% of the City’s annual budget and continue to rise. The pension obligation of the City has now grown to the extent that it has an unfunded actuarial liability gap of \$1.5 billion dollars. The City currently does not have funding to meet about 47% of its pension liability. These increasing costs are unsustainable.

7. What were the final results of the Pension Review Panel?

The Pension Review Panel, which conducted a one-year study of the City’s pension plan liability, prepared a report which discusses a number of different options the City could consider implementing in order to reduce the annual and long-term cost of the City’s various pension plans. These options, which were not exhaustive, were very diverse. The alternatives presented by the Pension Review Panel would produce different levels of pension plan cost reductions.

In a public meeting with the Mayor, the Pension Review Panel highlighted seven different alternatives the Panel had considered, including several reduced versions of the current pension plans. Some options involved utilizing a defined contribution plan similar to those maintained by

many private sector employers. Other options include offering employees the opportunity to enroll in the Social Security system.

The options presented by the Pension Review Panel can be found on the City's website:

www.atlantaga.gov/client_resources/media/pension2011.pdf.

8. What changes to the City's pension plans are being considered?

There are a number of options being reviewed. We will communicate the most viable options to City employees shortly.

9. Will I be affected by these changes?

If you participate in one of the City's three DB plans; then the changes being considered by the City could affect your future pension benefits. If you participate in the City's DC Plan, no changes to this Plan are currently being considered, although some of the changes being considered by the City may provide you with new retirement alternatives.

10. Will the City of Atlanta participate in Social Security?

Social Security is one of the many options still under review.

11. What is Social Security?

The federal Social Security system provides participants who meet certain eligibility requirements with an annual income after they reach a specific retirement age, as well as eligibility for some other benefits such as disability and death benefits. Social Security participants can choose to start receiving their Social Security retirement benefits as early as age 62. The monthly benefit amount will be different depending on the age at which the participant elects to start receiving his or her benefit.

12. Should I retire now, before the "new plan" kicks in?

It is important for employees to understand that any pension benefits already earned will not be reduced. You will keep what you have earned. There is no "beat the clock" scenario where if you retire before the plan changes take place you will get to keep more of your previously earned benefits. The current dollar value of those earnings will remain separate from the pension plan changes being considered.

13. I am a retiree. Will this affect me?

Retiree pension benefits will not be affected by any of the proposed changes being discussed.

14. What are the next steps?

Mayor Reed will consider the options presented by the Pension Review Panel and consult with the Atlanta City Council.

IMPORTANT NOTE: 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.