

ATLANTA CITY COUNCIL WORK SESSION



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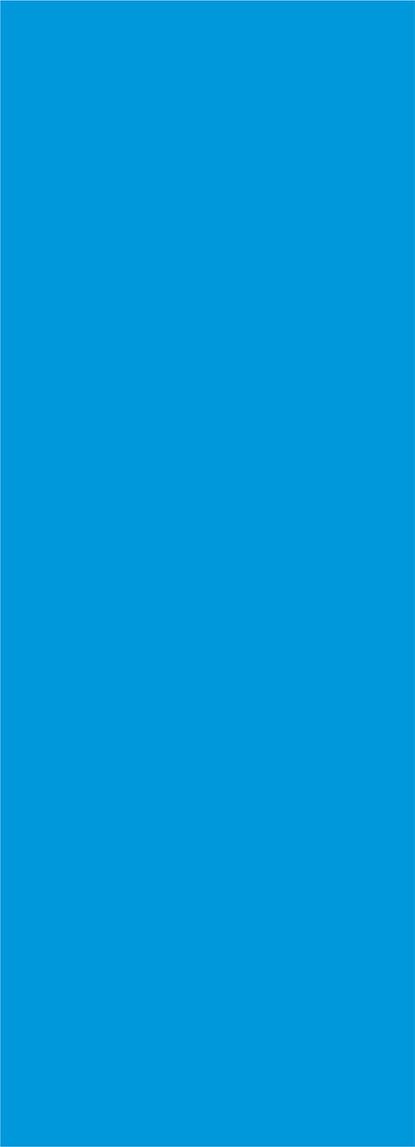
June 21, 2011

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Doc #7398184



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- ① Impact on City of Proposed Plans
 - ② Impact on Employees of Proposed Plans
 - ③ Appendices

Assumptions and Methodology

Discount Rate	8.00% for General; 7.75% for Police and Fire
Investment Return	8.00% for General; 7.75% for Police and Fire annually unless specifically stated
Projection Methodology	<p>Projected liabilities based on July 1, 2010 valuation assuming all Economic and Demographic assumptions are met thereafter;</p> <p>Future Hire age 35 (28 for Public Safety) with average salary of \$35K (\$40K for Public Safety) assumed to replace current employees such that participant counts remain constant; projected salary assumed to increase 3.00% per year</p>
Market Value of Assets	<p>Based on assets as of April 12, 2011 as reported by Gray & Co.;</p> <p>General Employees as of July 1, 2011 = \$850,644,269 ; Fire as of July 1, 2011 = \$414,976,000; Police as of July 1, 2011 = \$611,645,000</p>
Asset Valuation Method	5-year smoothing of investment gains/losses
Funding Method	Entry Age Normal (Segal replacement life methodology – i.e., Normal cost reflects current level of benefits)
Data	General Employees as of July 1, 2009 with age/service adjusted to July 1, 2010; Fire & Police as of January 1, 2010 with age/service adjusted to July 1, 2010
Employee’s Contributions	<i>Assumes employees contribute 11.00% toward retirement</i> (unless specifically stated or required legally)
City’s Contribution	<p>Based on July 1st valuation preceding fiscal year, adjusted for timing;</p> <p>Assumes City fully funds Annual Required Contribution (ARC); $ARC = \text{Normal Cost} + \text{Payment to amortize Unfunded Actuarial Accrued Liability (UAAL) over closed 30-year period increasing approximately 3.50% per year}$</p>

Options Modeled

1

Council Plan #1

- Increase Employee Contributions from 8% to 13% for Current Employees; all other provisions of Defined Benefit (DB) Plan unchanged for Current Employees
- 1.00% DB Plan (based on highest 5-years) with 1.00% COLA plus 100% Matching Defined Contribution (DC) Plan up to 8.00% of Pay for Future Employees; all other provisions of DB Plan unchanged

2

Council Plan #2

- Increase Employee Contributions from 8% to 13% for Current Employees; all other provisions of DB Plan unchanged for Current Employees
- 1.00% DB Plan (based on highest 5-years) with 1.00% Cost-of-living (COLA) plus Social Security for Future Employees; all other provisions of DB Plan unchanged

3

Council Plan #3

- Increase Employee Contributions from 8% to 13% for Current Employees; all other provisions of DB Plan unchanged for Current Employees
- 100% Matching DC Plan up to 8.00% of Pay plus Social Security for Future Employees

4

Adrean Plan

- 1.00% DB Plan with 1.00% COLA plus 100% Matching DC Plan up to 8.00% of Pay for Current Employees; all other provisions of DB Plan unchanged for Current Employees
- 100% Matching DC Plan up to 8.00% of Pay plus Social Security for Future Employees

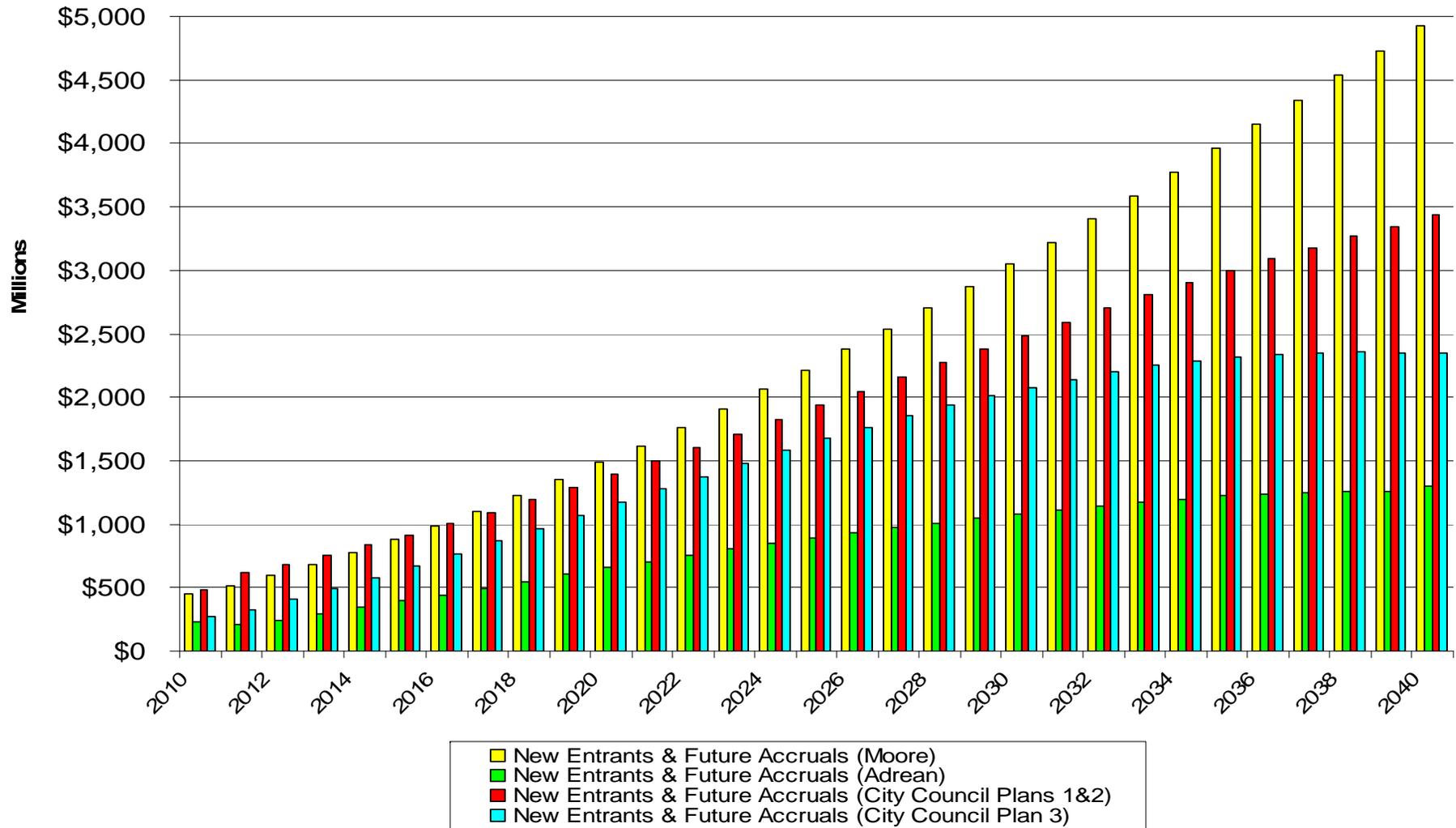
5

Moore Plan

- Increase Employee Contributions from 8% to 13% for Current and Future Employees; all other provisions of Defined Benefit (DB) Plan unchanged for Current Employees
- 2.00% DB Plan (based on highest 5-years) with 1.00% COLA; all other provisions of DB Plan unchanged

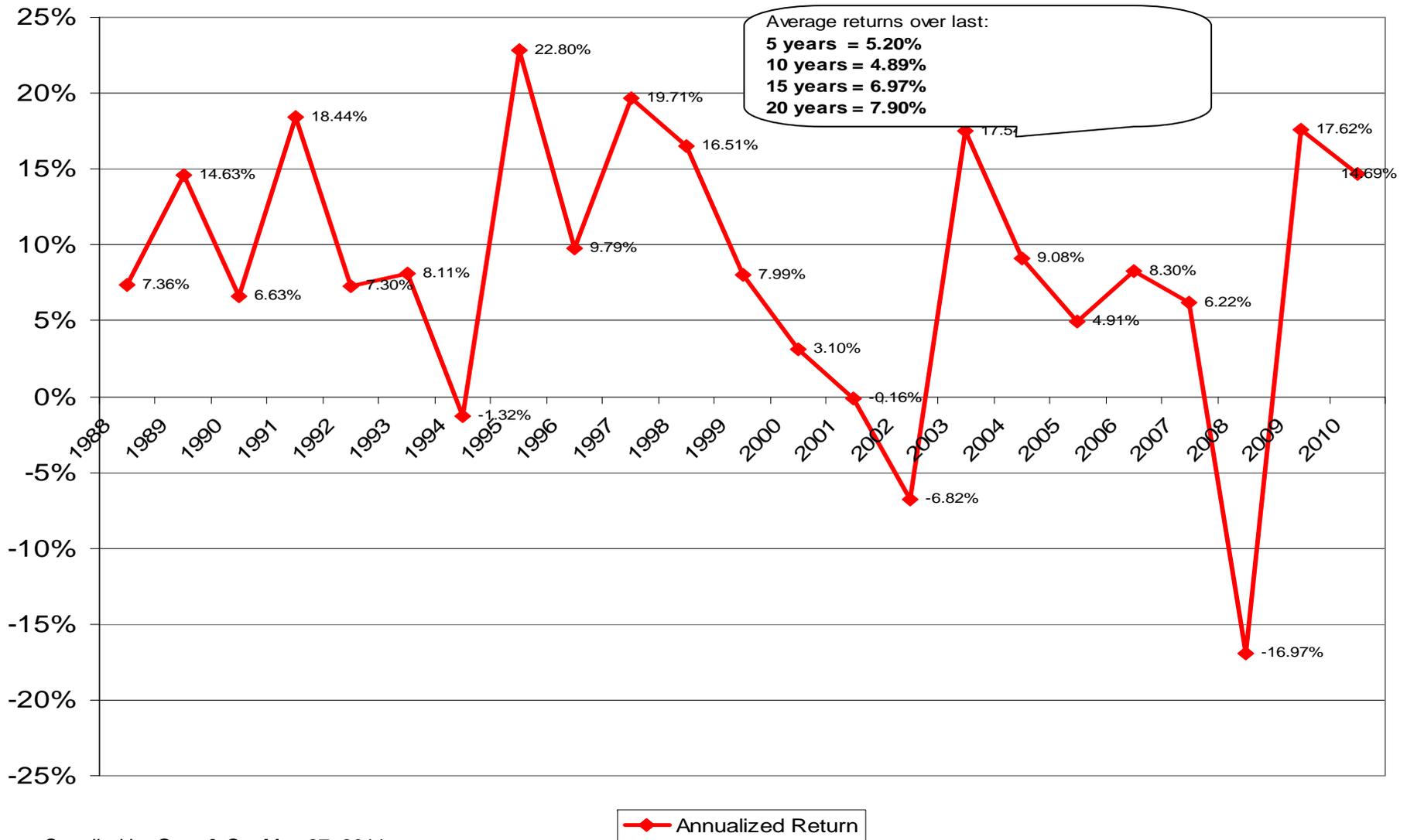
Defined Benefit Plan Liability for Future Benefits: *Adrean, Moore and City Council Plans*

Actuarial Accrued Liability for Future Defined Benefit Accruals and Future Hires



Investment Returns:

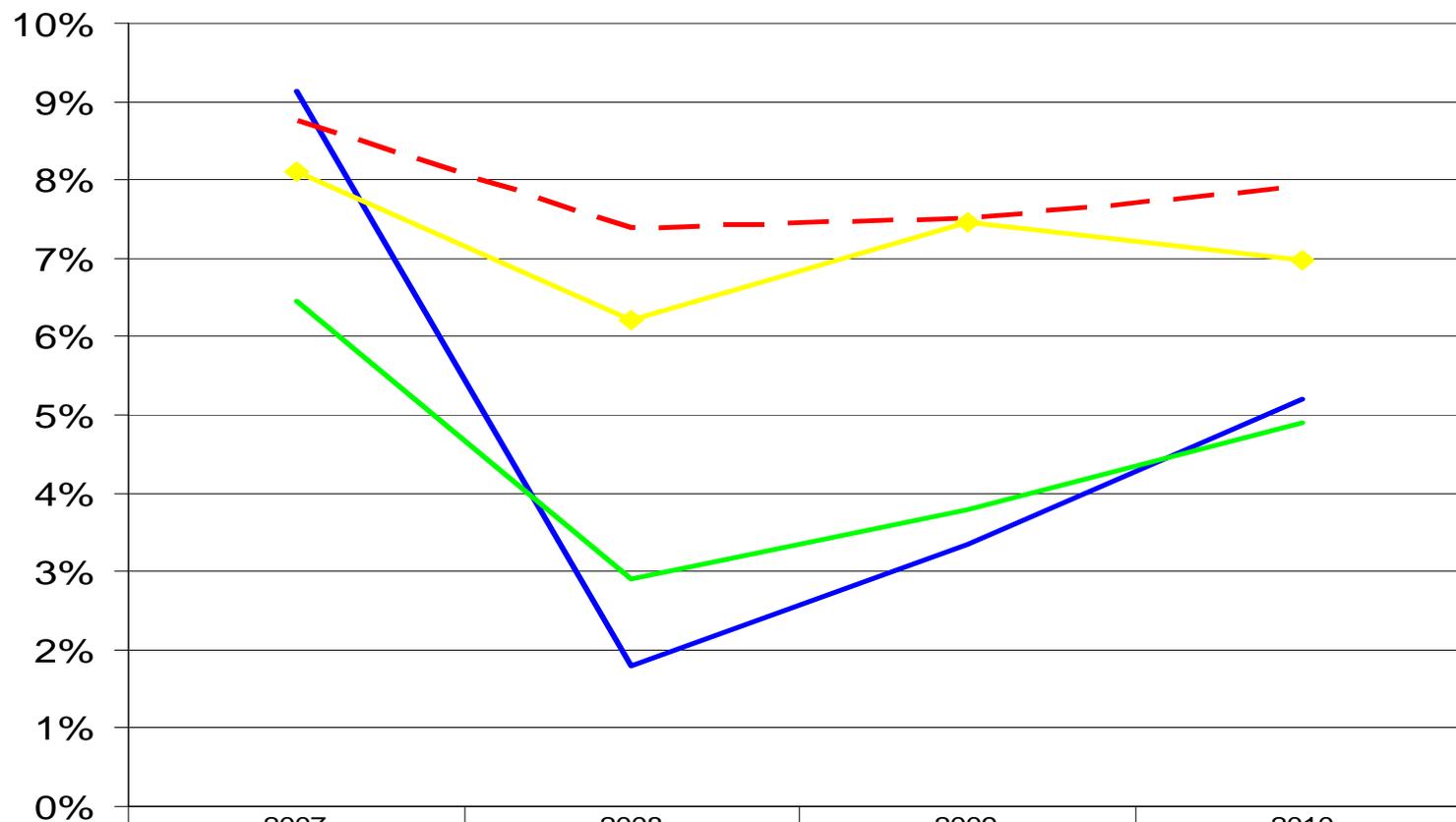
Actual Annualized Investment Returns



Supplied by Gray & Co. May 27, 2011

Investment Returns:

Rolling Average Investment Returns

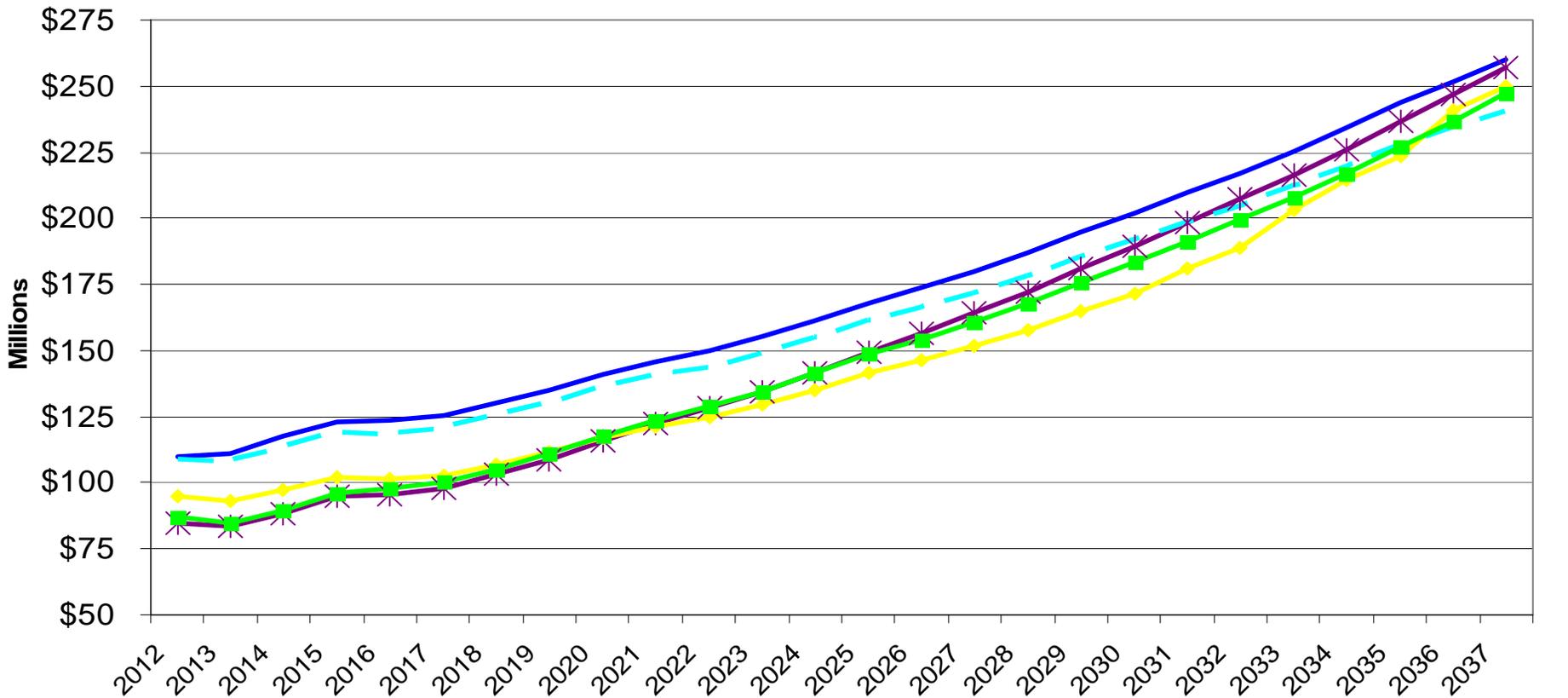


— 5-year Rolling Average	9.12%	1.79%	3.34%	5.20%
— 10-year Rolling Average	6.44%	2.90%	3.78%	4.89%
—◆ 15-year Rolling Average	8.10%	6.21%	7.46%	6.97%
- - 20-year Rolling Average	8.76%	7.37%	7.51%	7.90%

Based on data supplied by Gray & Co. May 27, 2011

Total Retirement Plan Contributions

8% Annual Investment Return

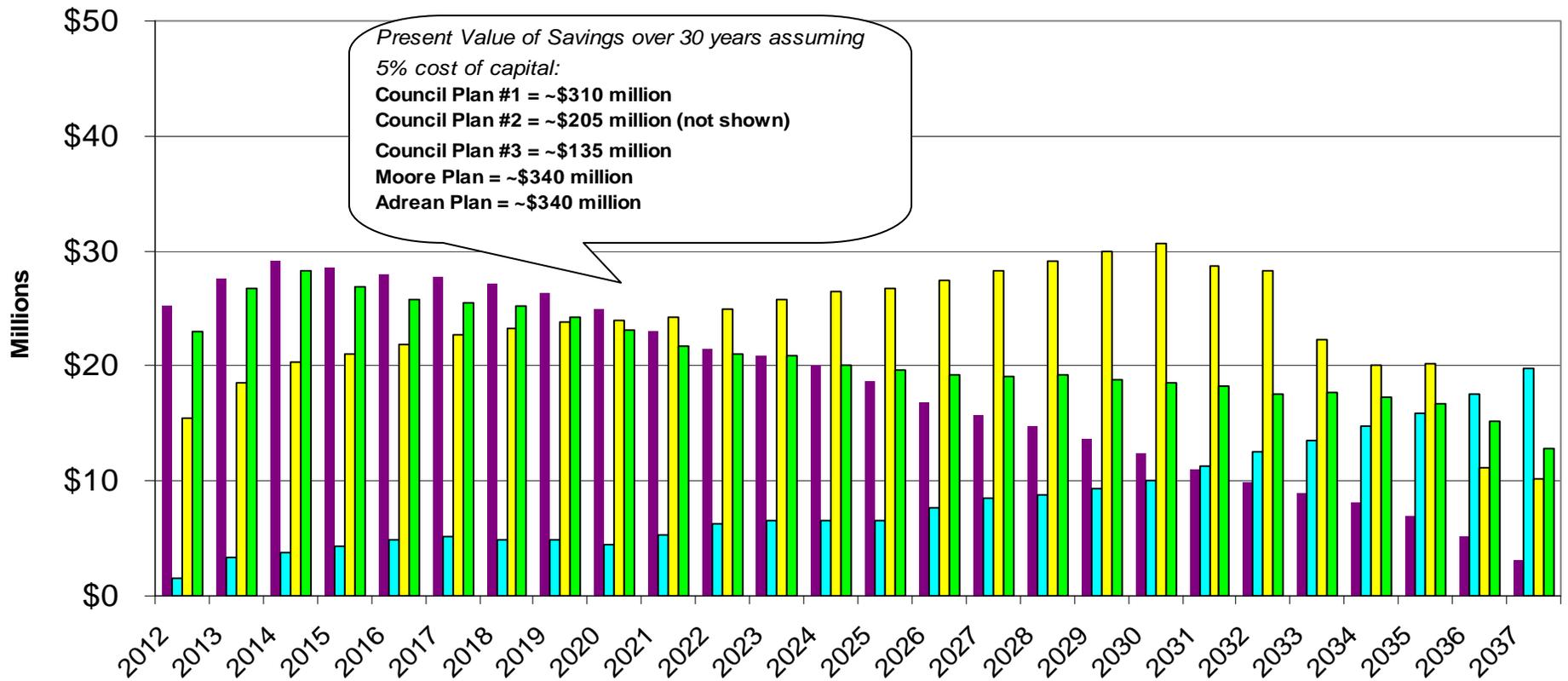


- Current Plan
- ✱ Council Plan #1: Current Plan with 13% Employee Contributions for Current Employees; 1.00% DB w/ 1% COLA, 5-year FAE (8% Employee Contributions) + 100% Matching DC Plan up to 8% for Future Employees*
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* Excludes General Employees in Job Grades 19 and above

Total Retirement Plan Savings

8% Annual Investment Return

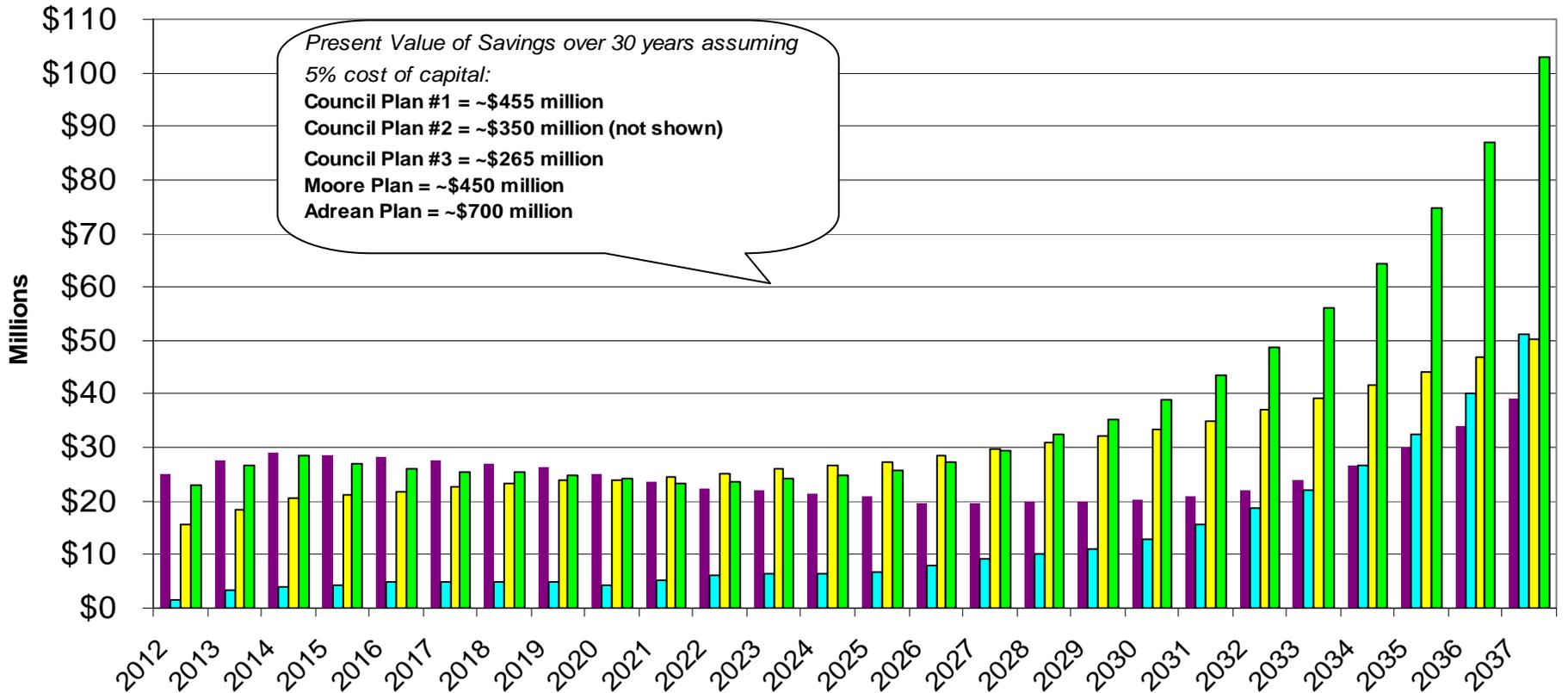


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Total Retirement Plan Savings

6% Annual Investment Return

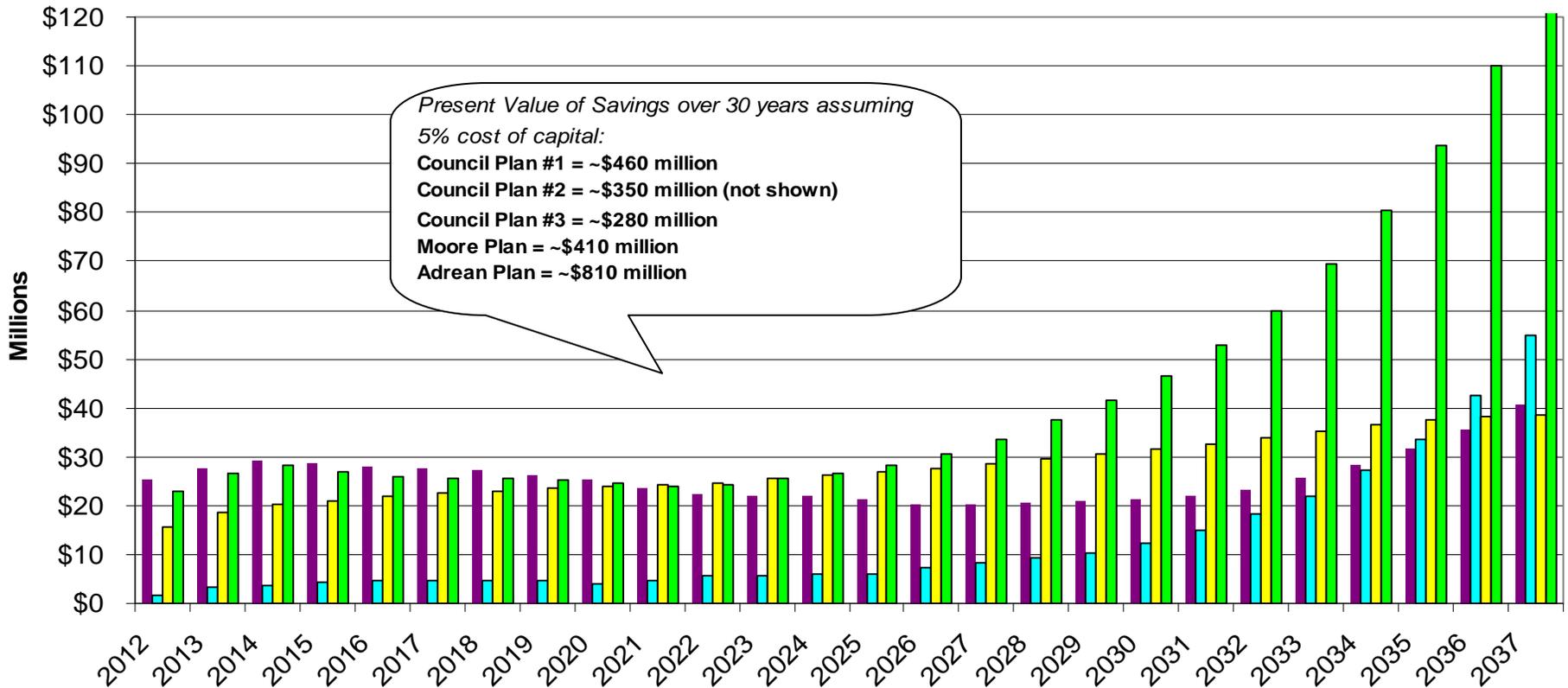


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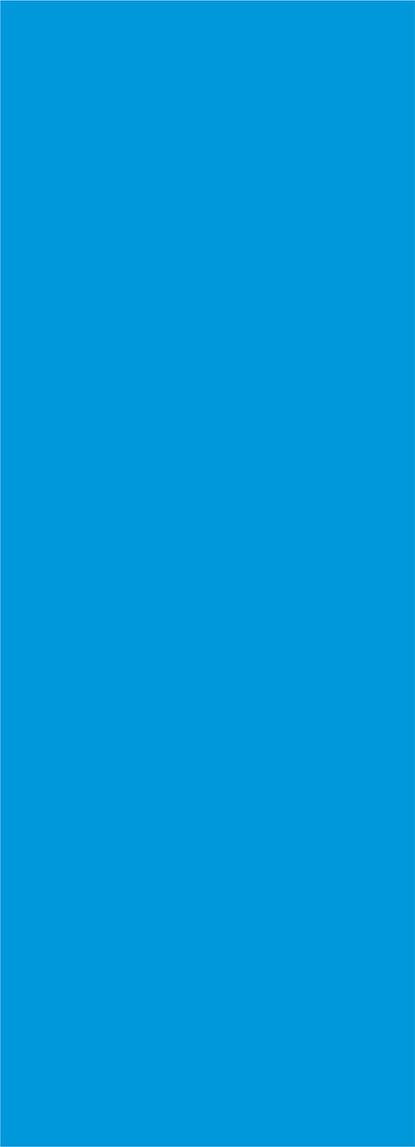
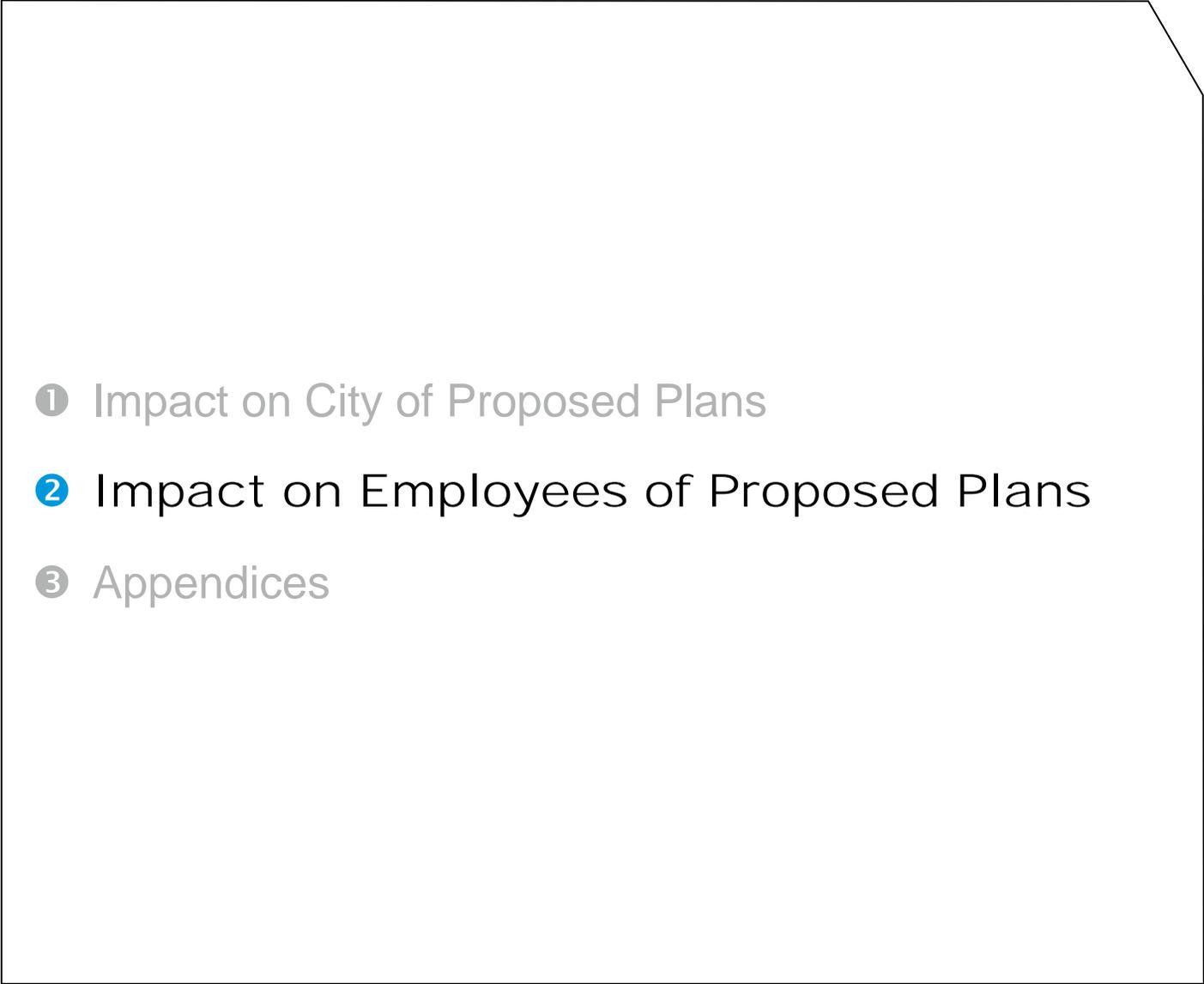
Total Retirement Plan Savings

3% Annual Investment Return



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Impact on Employees:

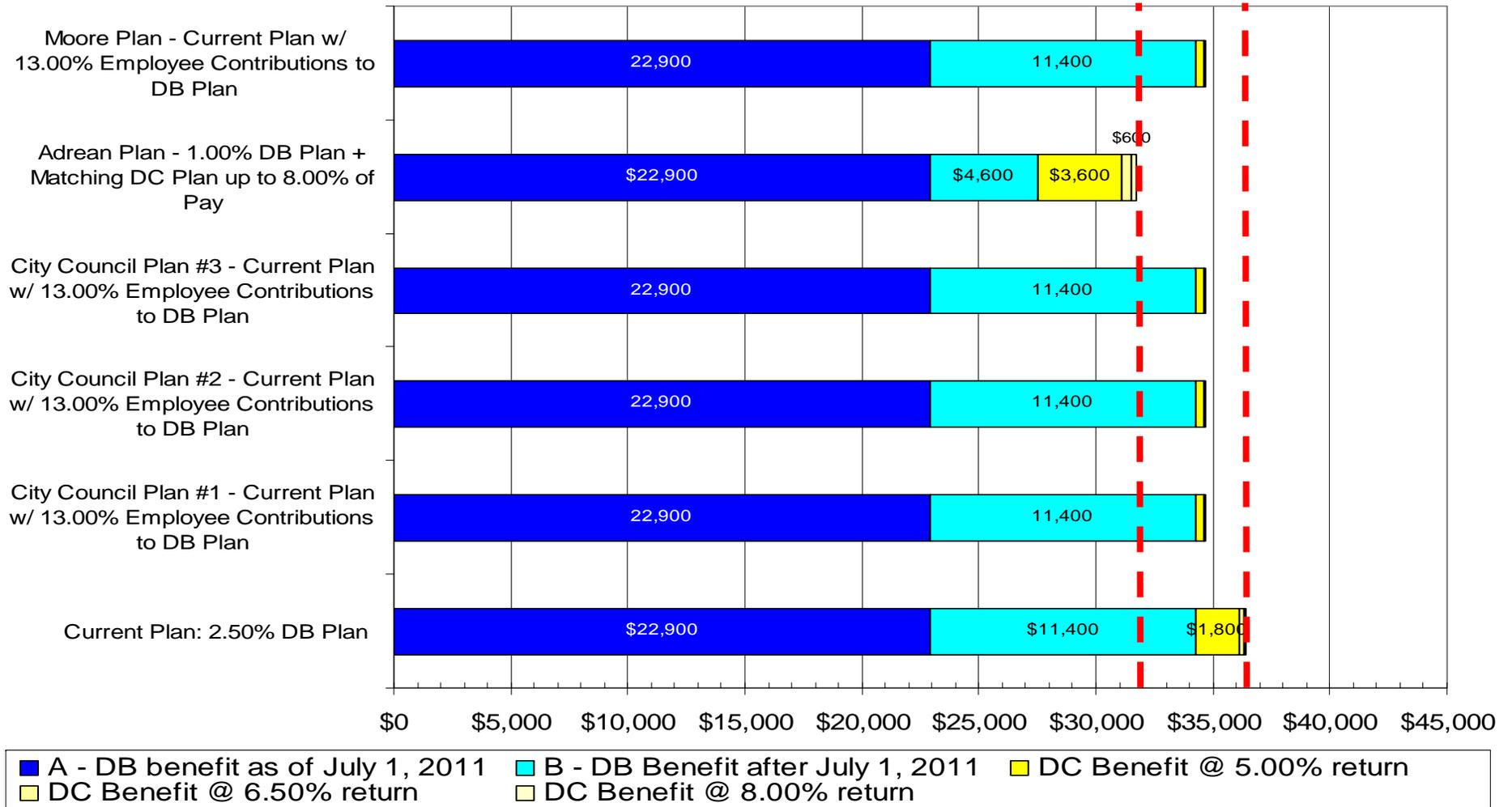
Employee Examples Assumptions and Methodology

Salary growth	2.00% annual increase in salary;
Investment return	5.00%, 6.50% and 8.00% annual investment return on Defined Contribution (DC) and Savings Plans
Conversion of DC balances to annual annuities	Assumes employee balances in Defined Contribution and Savings plans converted to annuity at retirement based on RP-2000 mortality table (blended 50/50) at 1.94% rate;
Beginning DC and Savings balances	\$0 personal Savings or DC account balances assumed as of effective date
Employee Contributions	Assumes 8.00% of salary contributions to DB plan (where applicable) unless specifically stated; 14.00% of salary total toward retirement;
Retirement Age	Age 55 for Public Safety; Age 60 for General Employees
Social Security	Amount payable at Age 62 shown at retirement ages for illustrative purposes only; not available before Age 62
Other	The samples do not make an adjustment for inflation in the 1.0% COLA (the Current Plan and DC balances are assumed to keep pace with inflation)

General Employee: *20 Years of Service Today, Retires after 30 Years of Service at Age 60*

Annual Retirement Income at Age 60

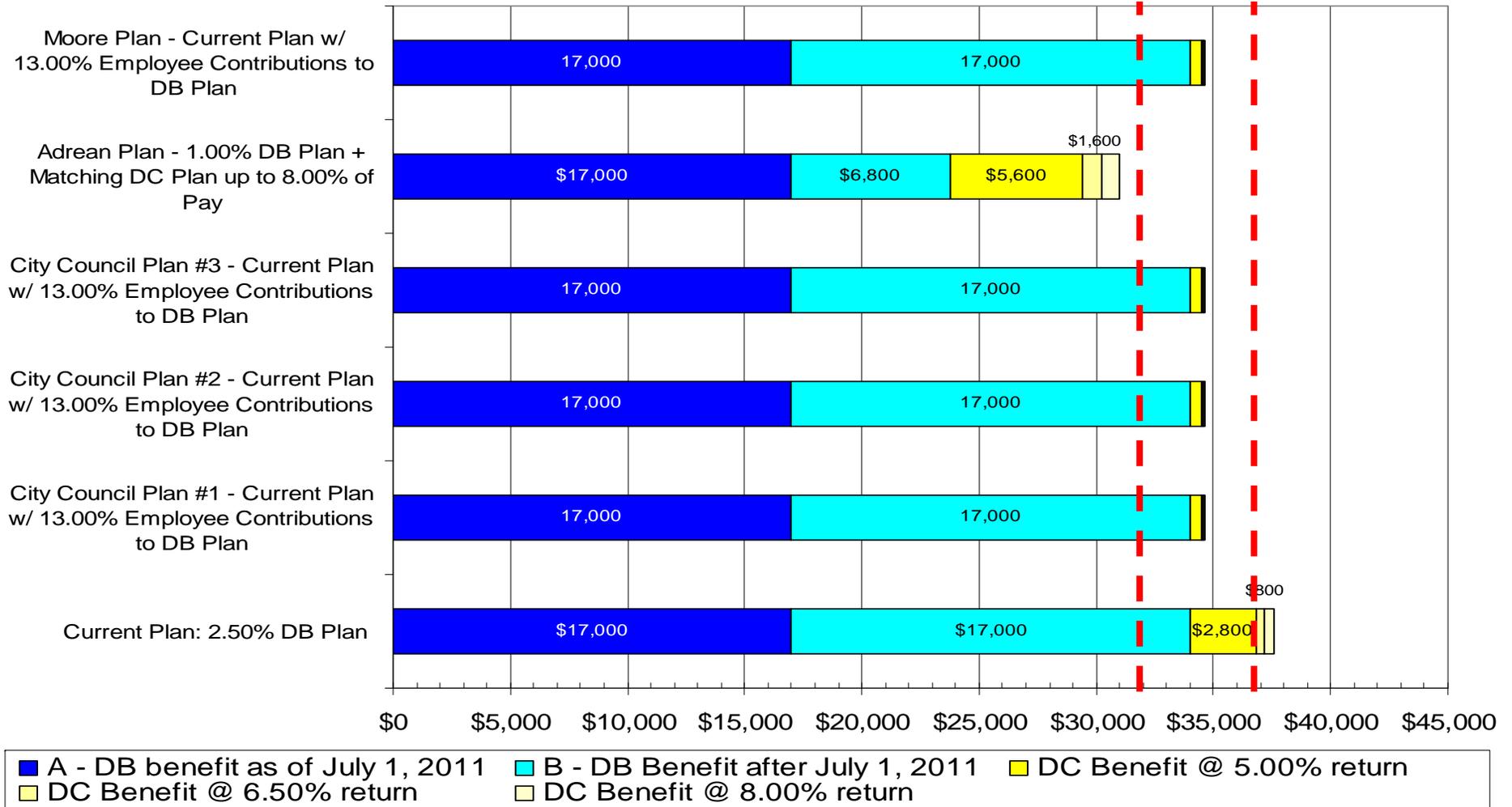
Current Age = 50, Current Service = 20, Current Salary = \$39.0K, Avg Salary at Retirement = \$45.8K



General Employee: *15 Years of Service Today, Retires after 30 Years of Service at Age 60*

Annual Retirement Income at Age 60

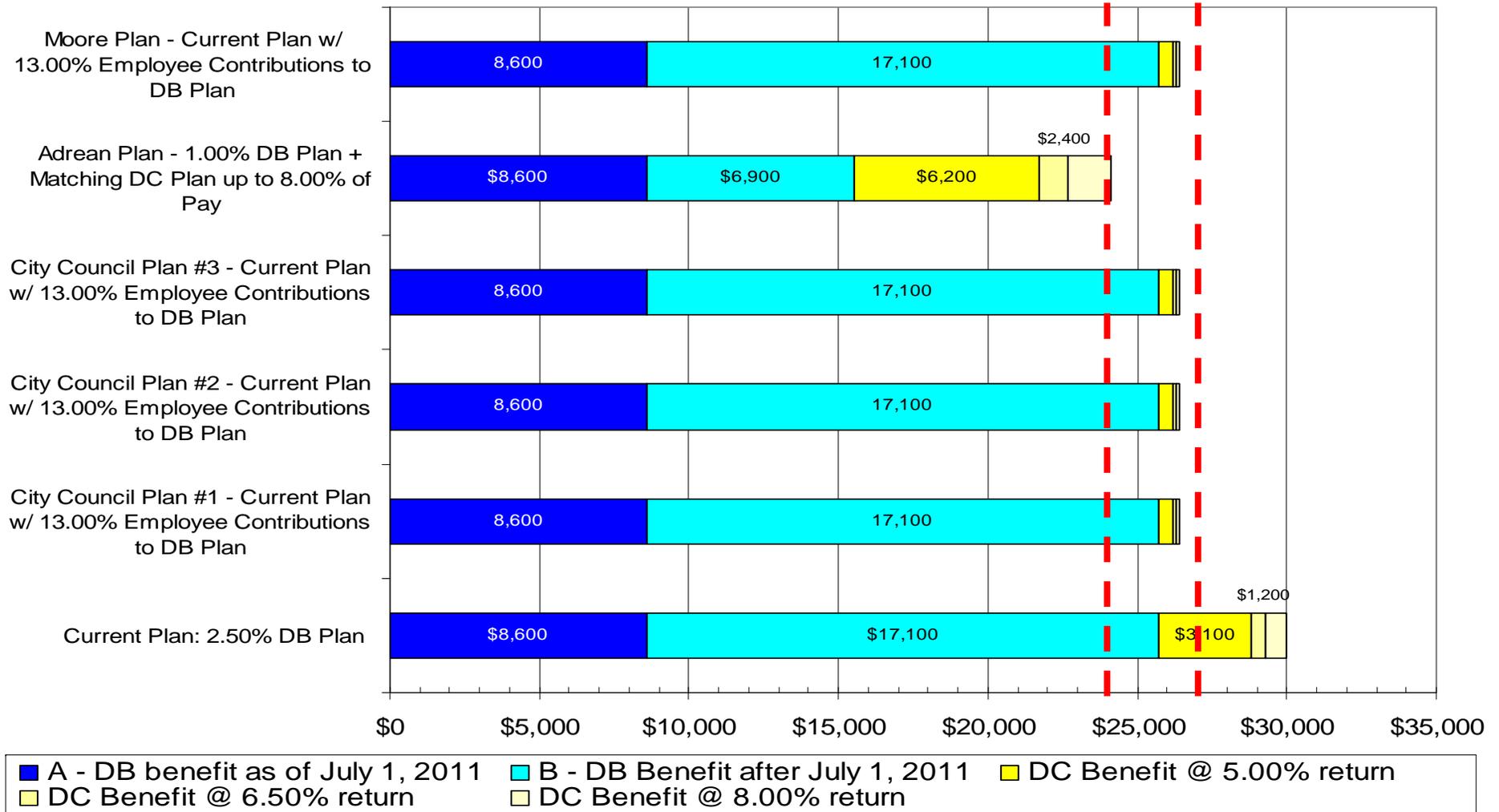
Current Age = 45, Current Service = 15, Current Salary = \$35.0K, Avg Salary at Retirement = \$45.3K



General Employee: *10 Years of Service Today, Retires after 30 Years of Service at Age 60*

Annual Retirement Income at Age 60

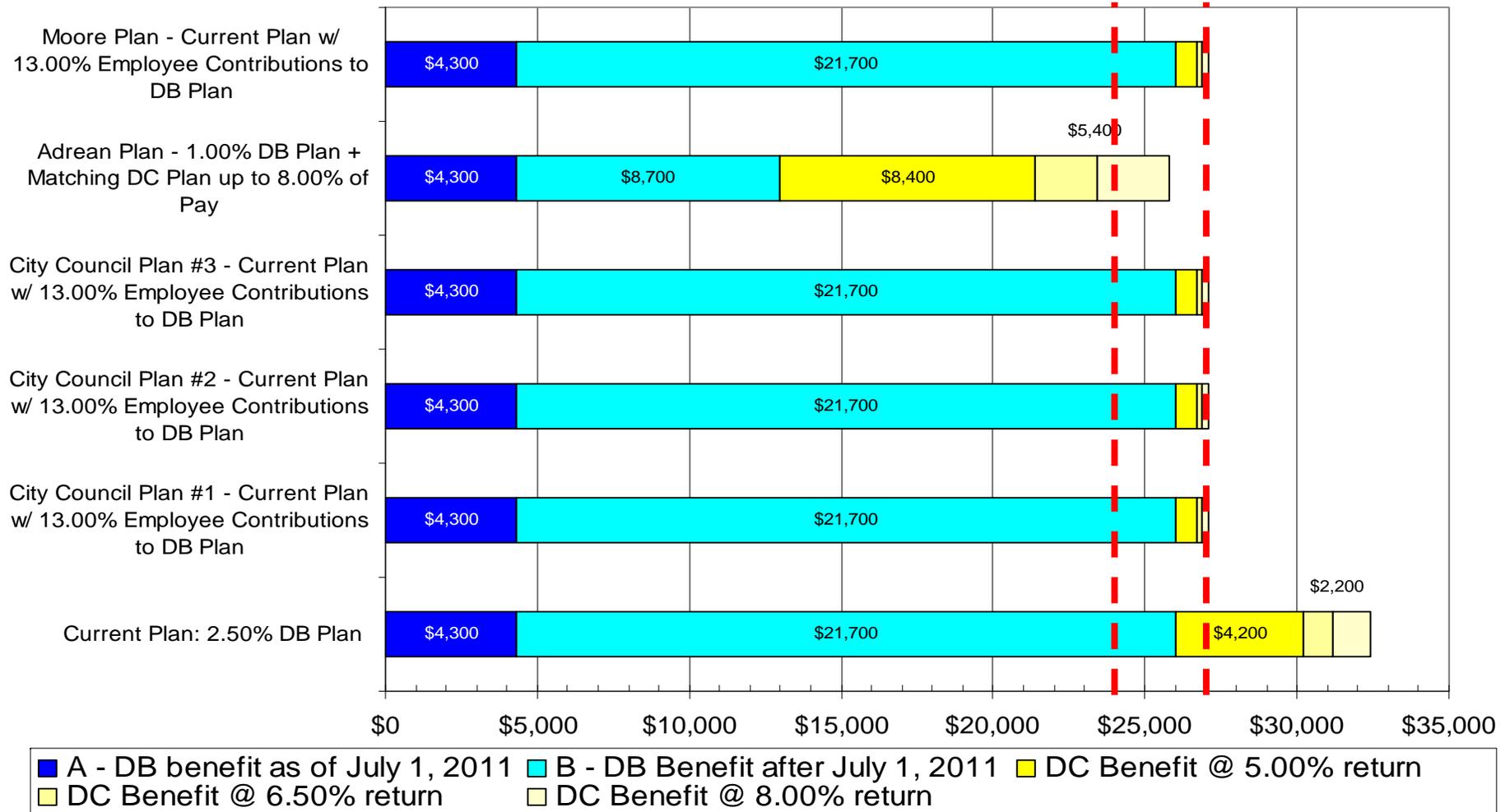
Current Age = 40, Current Service = 10, Current Salary = \$24.0K, Avg Salary at Retirement = \$34.3K



General Employee: *5 Years of Service Today, Retires after 30 Years of Service at Age 60*

Annual Retirement Income at Age 60

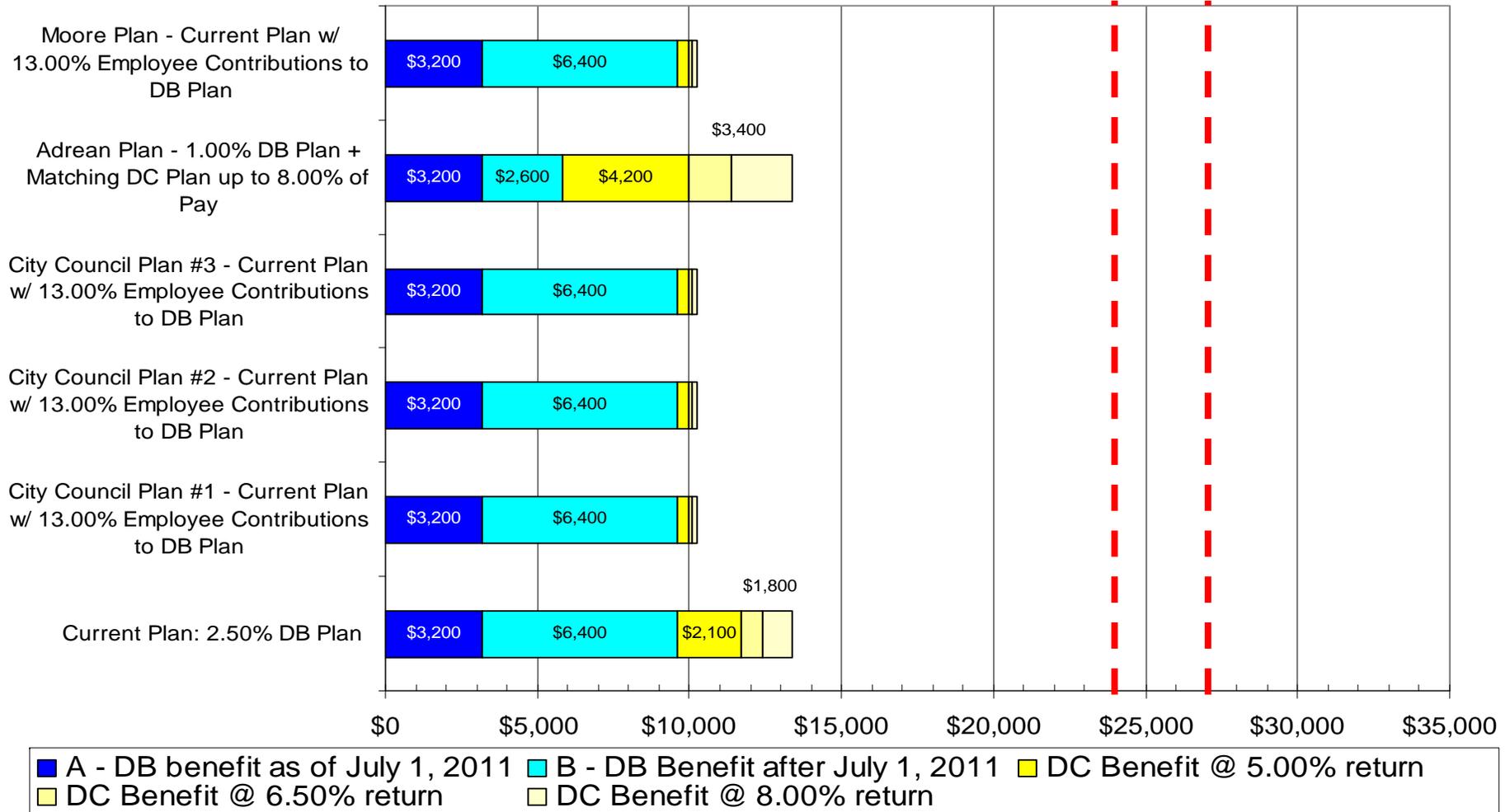
Current Age = 35, Current Service = 5, Current Salary = \$22.0K, Avg Salary at Retirement = \$34.7K



General Employee: 5 Years of Service Today, Terminates after 15 Years of Service, Retires at Age 60

Annual Retirement Income at Age 60

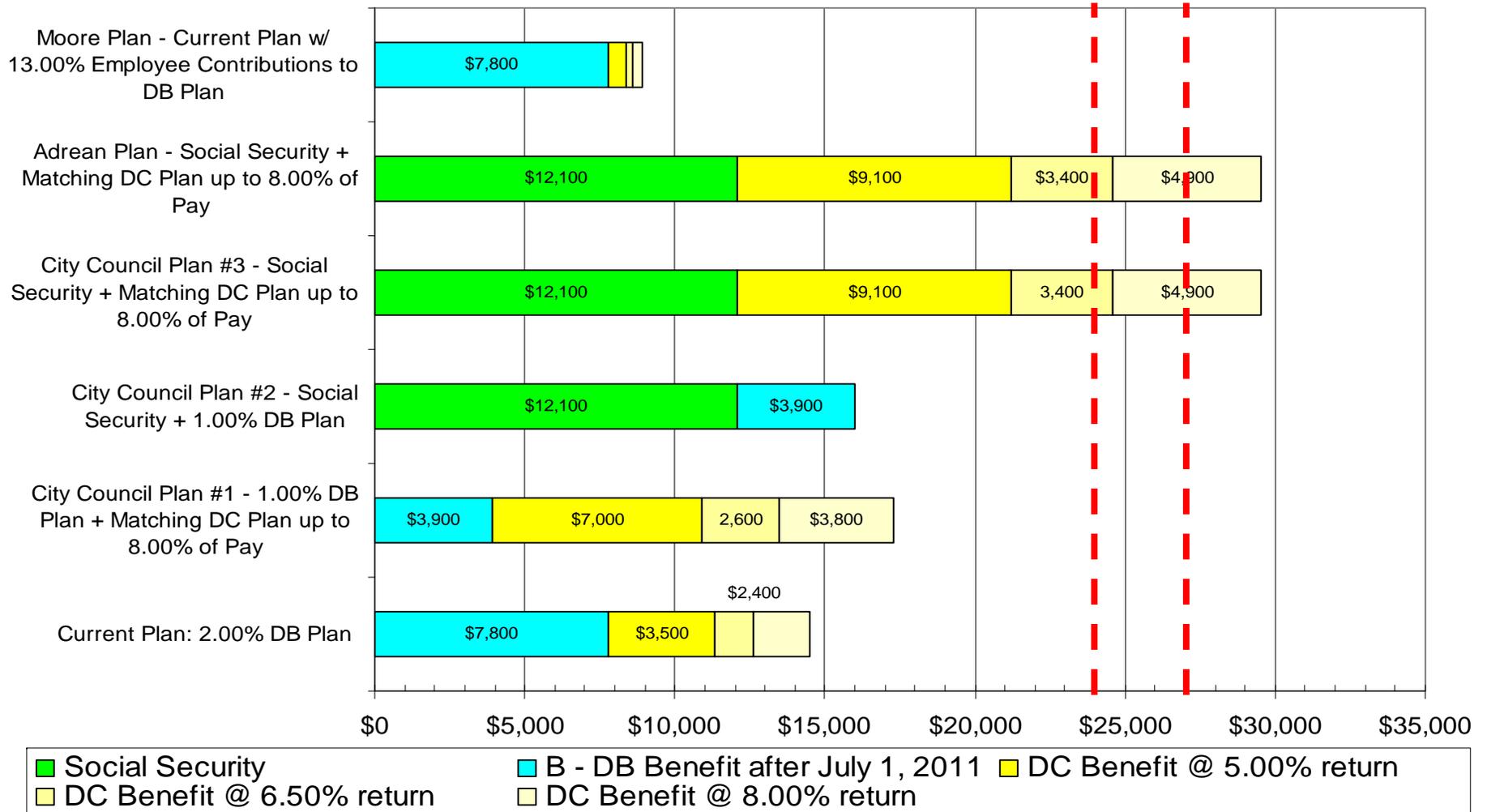
Current Age = 35, Current Service = 5, Current Salary = \$22.0K, Avg Salary at Termination = \$25.8K



New Employee: *Terminates after 15 Years of Service, Retires at Age 62*

Annual Retirement Income at Age 62

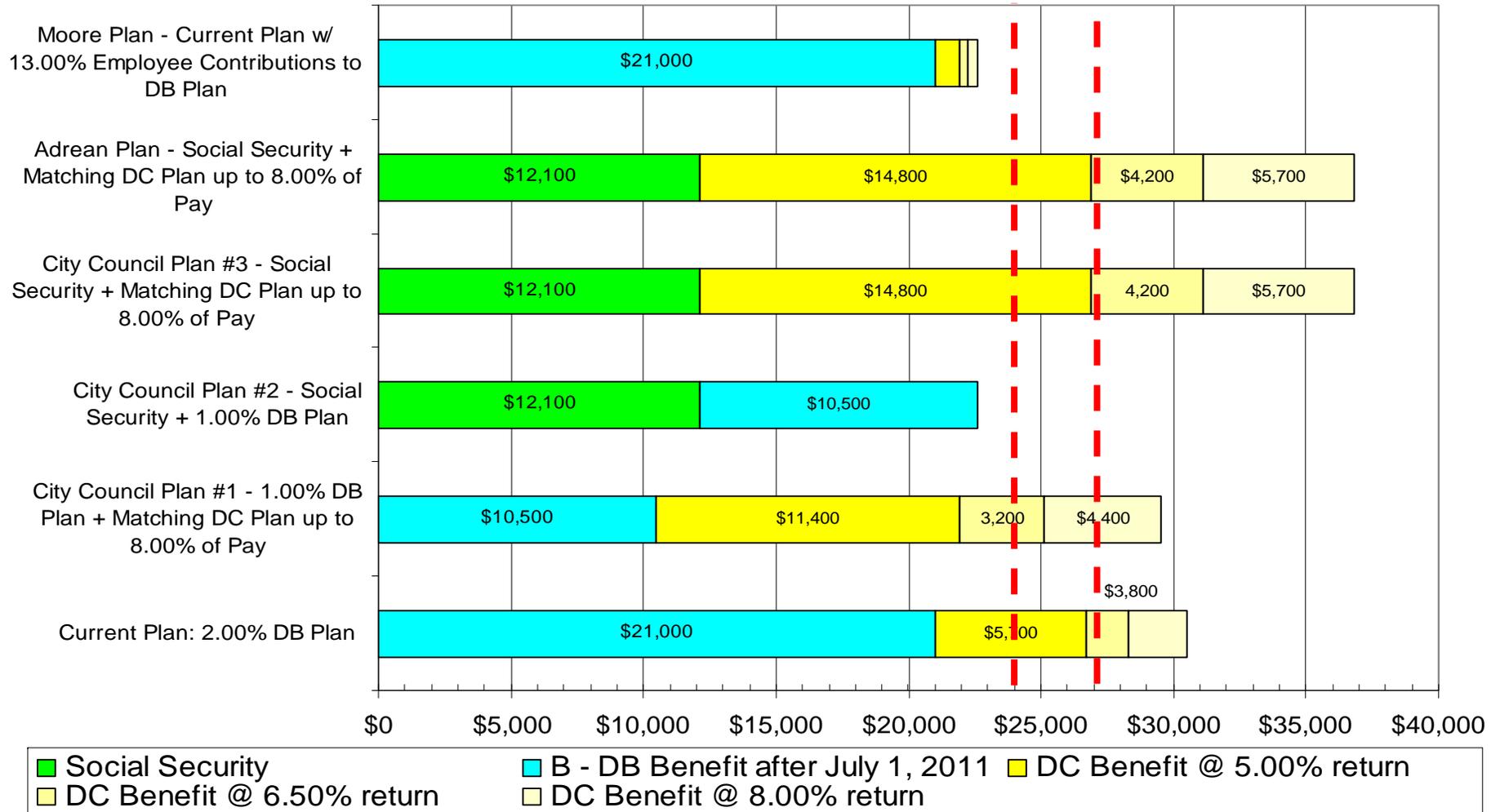
Current Age = 32, Current Service = 0, Current Salary = \$20.0K, Avg Salary at Termination = \$25.8K



New Employee: *Stays with City for 30 Years, Retires at Age 62*

Annual Retirement Income at Age 62

Current Age = 32, Current Service = 0, Current Salary = \$20.0K, Avg Salary at Retirement = \$34.8K



Questions

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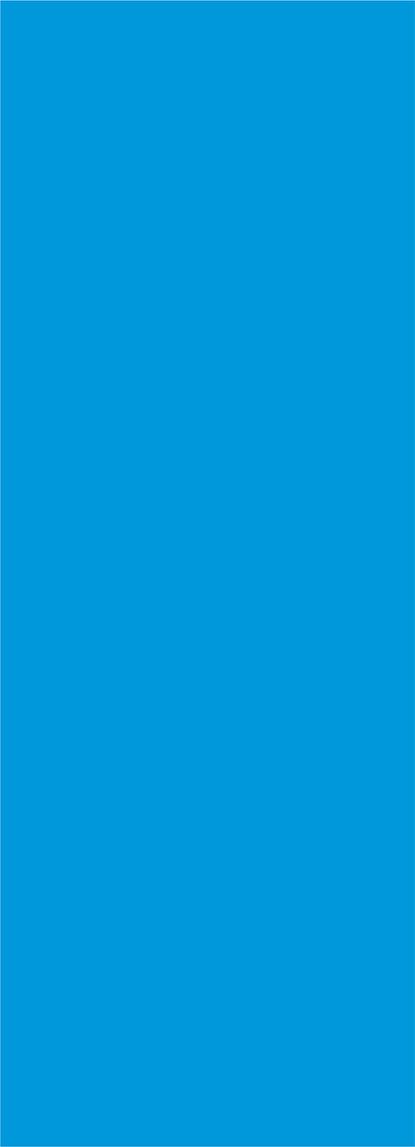
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Sample Decision “Matrix”

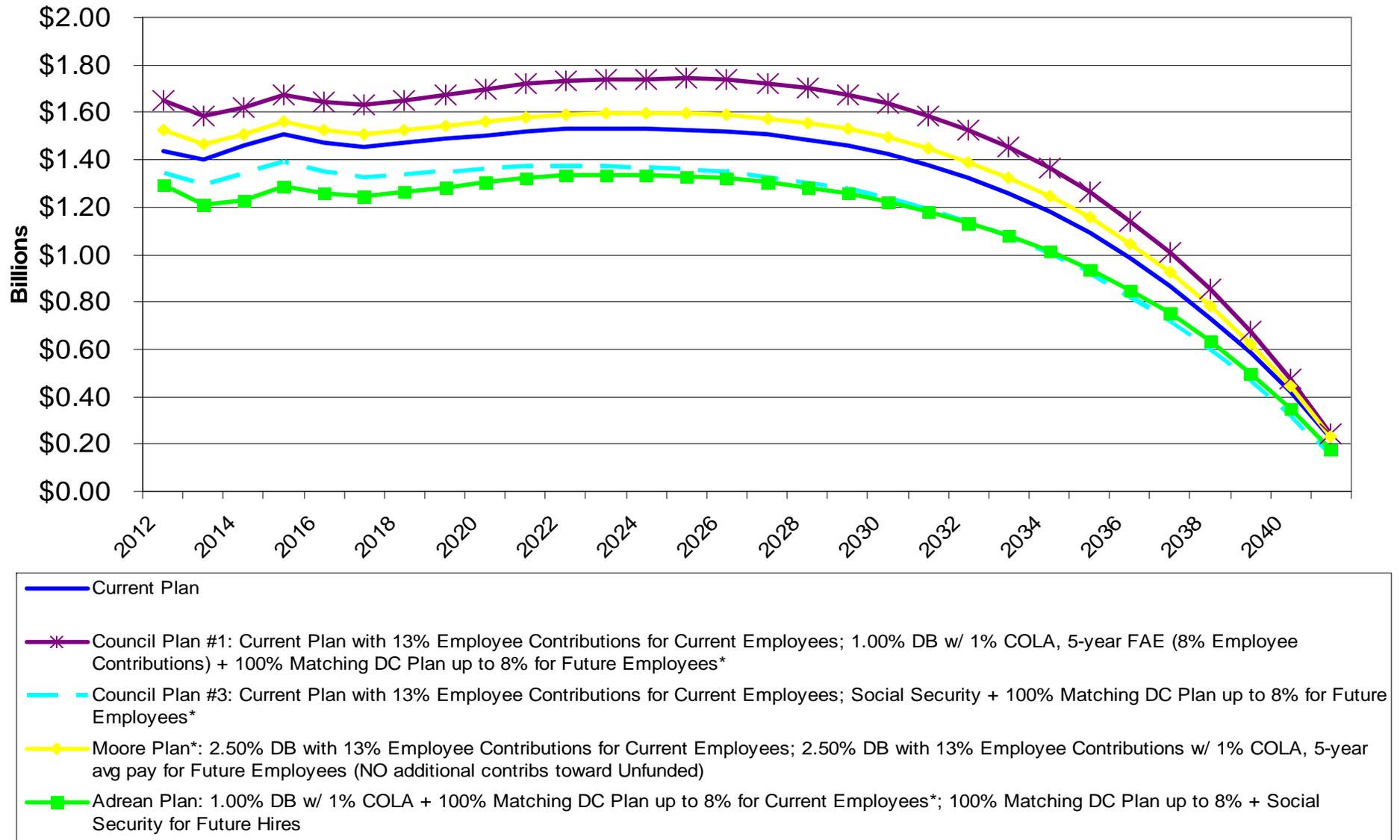
Decision Criteria	Options for Consideration		
	Option 1	Option 2	Option 3
Financial Criteria			
<p>Predictable Cost: Is the contribution predictable based on known information such as participants’ annual compensation, expected annual employee contributions to DC plans, or percentage of general budget? <i>Sample Goal: Predictable annual contribution</i></p>			
<p>Funding Flexibility: Do funding requirements provide for varying contributions; (i.e., prefunding in good years and using the prefunding to help meet contribution requirement in other years?) <i>Sample Goal: Flexibility to meet funding requirements</i></p>			
<p>Reduce Unfunded Actuarial Accrued Liability (UAAL): Does the plan increase, decrease or have no effect on past service liability amounts? <i>Sample Goal: Decrease unfunded actuarial accrued liability by \$200 million</i></p>			
<p>Benefit Security: Who/What/How are the retirement benefits promised to employees guaranteed to be paid? <i>Sample Goal: To have a retirement program the City can afford over the long term and accumulate sufficient assets to pay all retirement benefits</i></p>			
HR Criteria			
<p>Target Income Replacement Ratio: Will the new plan provide a benefit at normal retirement that meets the City’s Target Income Replacement Ratio? <i>Sample Goal: Plan provides at least a 70% income replacement, from all sources.</i></p>			
<p>Meaningful Benefit for Early Career Hires: Is the program designed to provide future early career hires adequate benefits at retirement? <i>Sample Goal: To provide target income replacement ratio within City’s targeted range.</i></p>			
<p>Meaningful Benefit for a Career Employee: Does the plan provide a future career employee a benefit at normal retirement that meets the City’s Target Income Replacement Ratio? <i>Sample Goal: To provide target income replacement ratio within City’s targeted range.</i></p>			

Sample Decision “Matrix” *continued*

Decision Criteria	Options for Consideration		
	Option 1	Option 2	Option 3
HR Criteria (continued)			
<p>Encourage Employee Savings: Will the retirement program provide a means and encourage individual employee savings for retirement? <i>Sample Goal: To encourage employees to save for retirement</i></p>			
<p>Employee Understanding/Appreciation: Will employees know what benefits to expect from the retirement program at retirement. How complicated are the plan benefits to explain and illustrate to participants? Are the plan provisions and eligibility requirements easy to follow? <i>Sample Goal: For employees to know what benefits are promised and their value; To have a benefit plan that is easy to use and understand for the employee</i></p>			
<p>Supports New Employee Recruiting: Are the benefits provided by the new retirement program the type (defined benefit, defined contribution or a combination) wanted by new employees? <i>Sample Goal: To have the retirement program be a positive attraction for new employee recruitment</i></p>			
<p>Positive Influence on Employee Retention: Are the benefits from all sources provided by the retirement program adequate for normal retirement (defined benefit, defined contribution, social security or a combination) wanted by employees? <i>Sample Goal: To have a retirement program that provides adequate benefits at retirement and helps retain employees</i></p>			
Other			
<p>Administrative Complexity: How complicated would the plan benefits be to calculate? Are the complications such that there is an increase on administrative cost? <i>Sample Goal – to have a plan that the City can administer easily and maintains or lowers administrative cost</i></p>			
<p>Predictability of Retirement Benefits: Will the benefits provided be determinable or is the benefit a function of the funds accumulated for the employee? <i>Sample Goal: To have the retirement benefit definitely determinable</i></p>			
<p>Risk of Litigation: Will the new plan limit exposure to litigation risk? <i>Sample Goal: To develop a plan that meets current legal requirements and exposes the City to minimal litigation risk</i></p>			

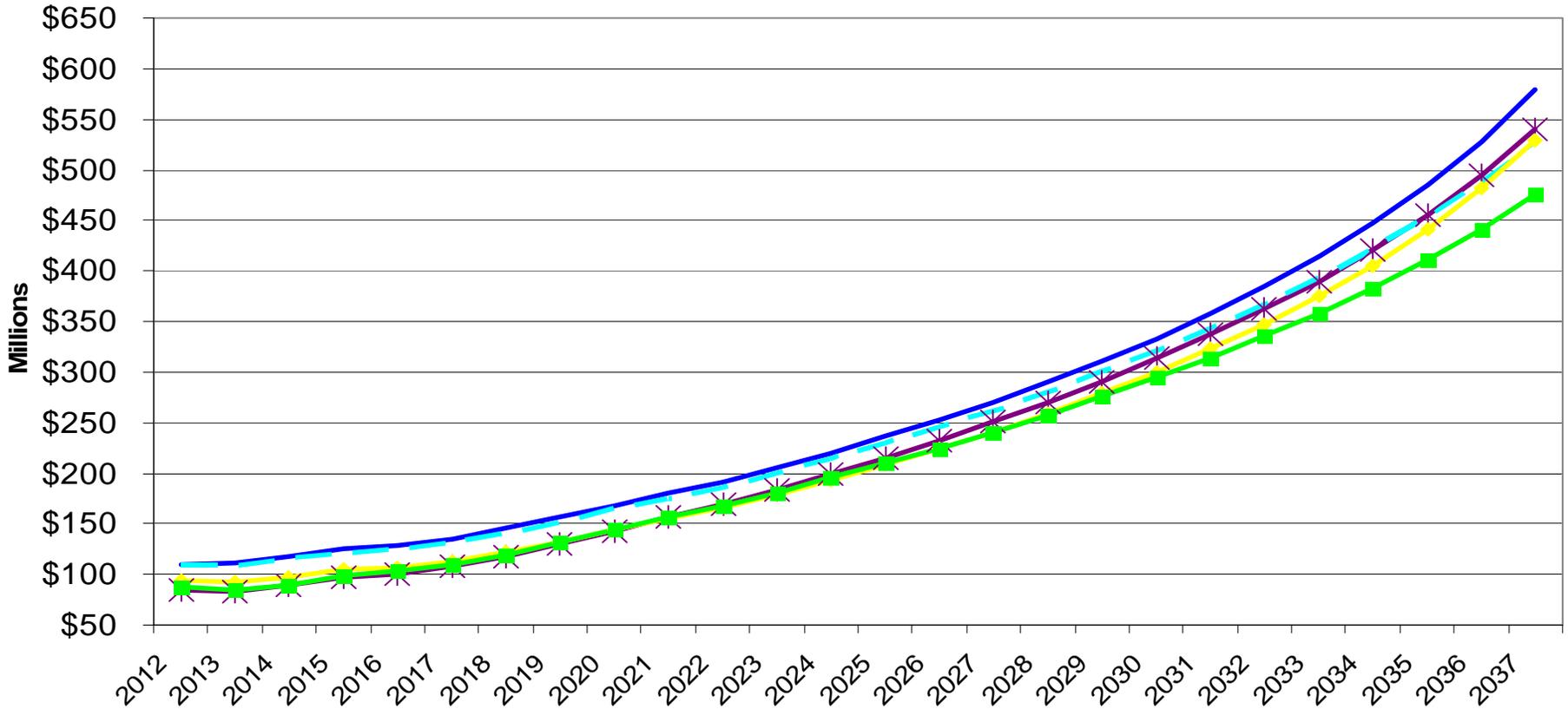
Unfunded Liability

8% Annual Investment Return



Total Retirement Plan Contributions

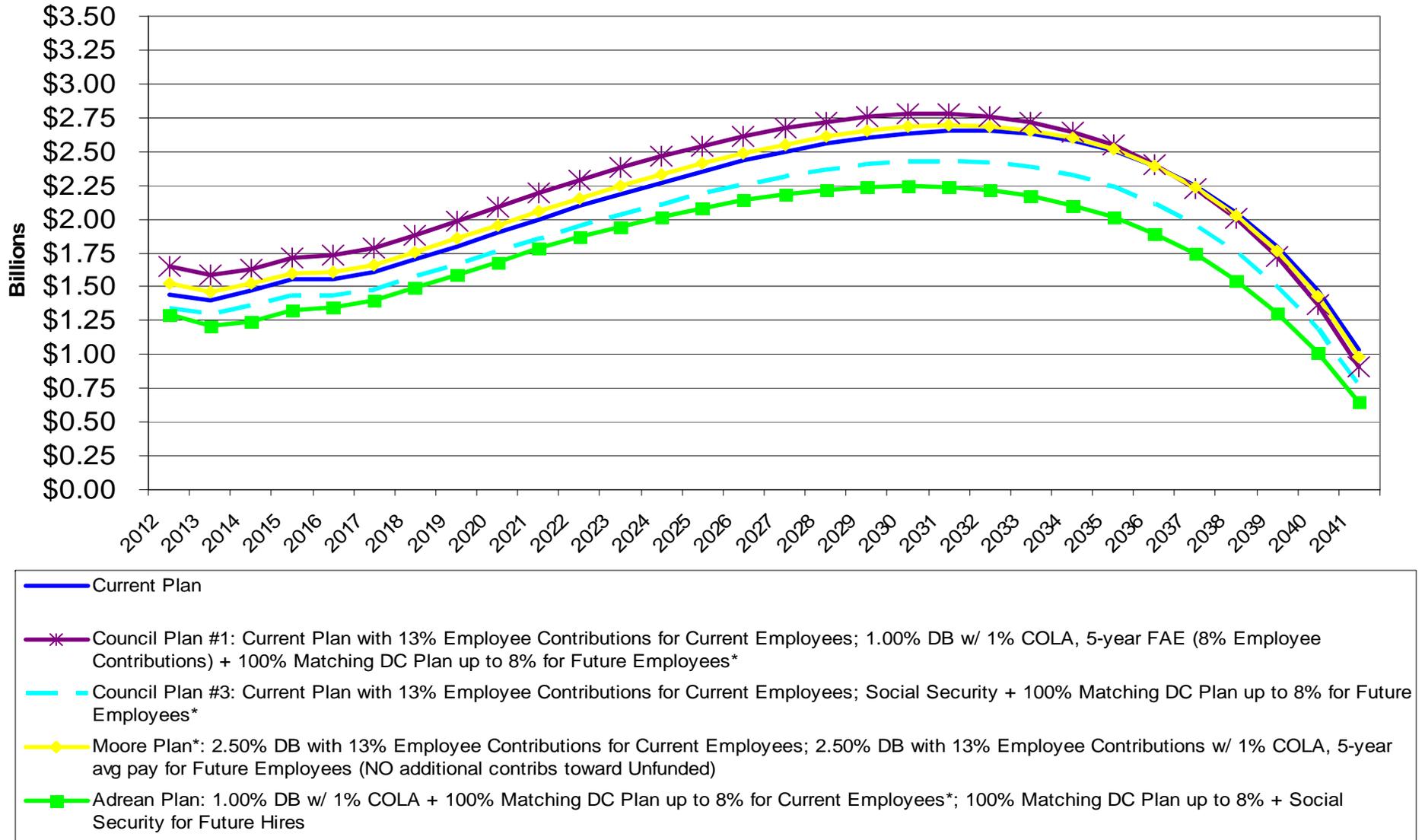
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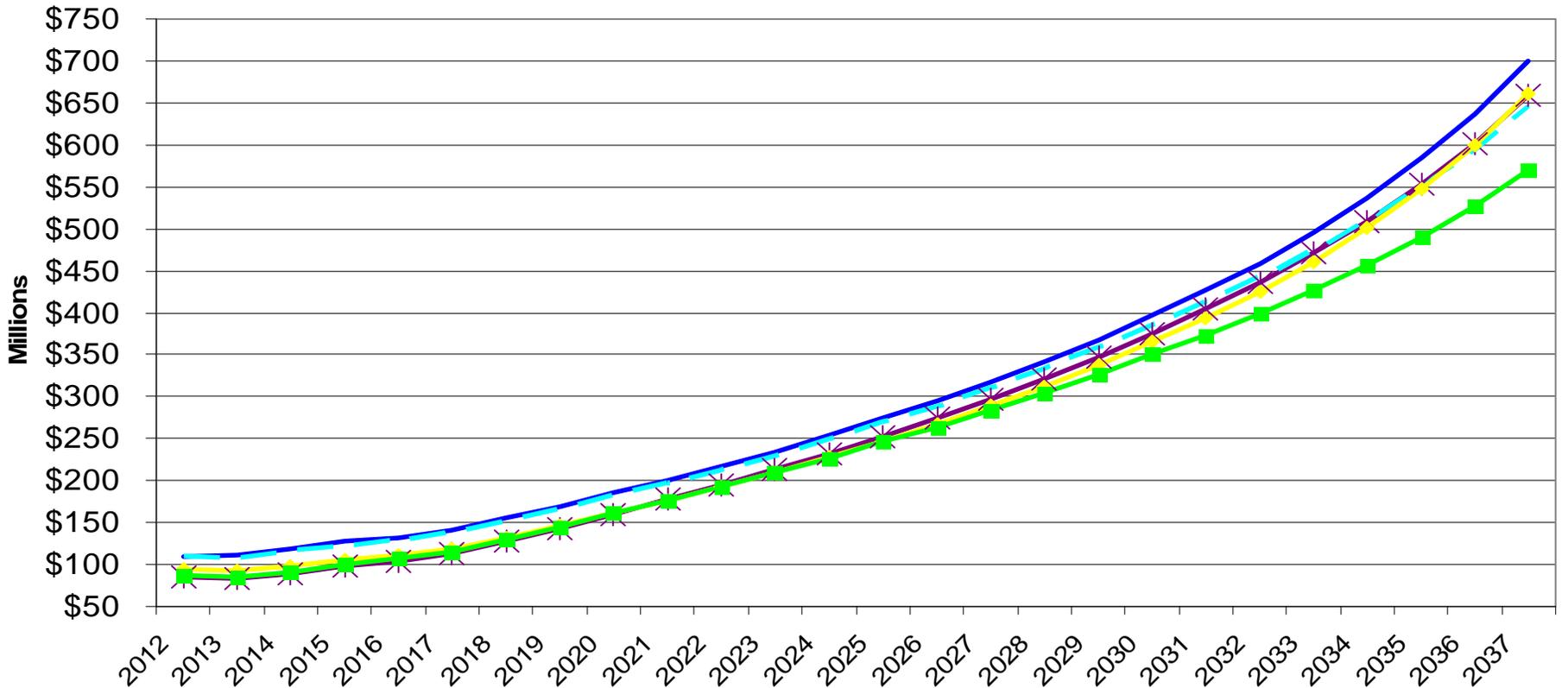
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Total Retirement Plan Contributions

3% Annual Investment Return



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Unfunded Liability

3% Annual Investment Return

