City of Atlanta Police Officers' Pension Fund

Pension Work Session - May 24, 2011

Pension Redesign What's at Stake?

<u>Significant Changes to:</u>

- Promised Benefits
- City Cost Structure

The Proposed Pension changes will have a SIGNIFICANT long-term impact. Careful consideration through a Structured Process is highly recommended

Standard Plan Redesign Approach

<u>Steps</u>

1. Define Objectives
2. Benchmarking
3. Specifically Define 3 or 4 Viable Alternatives
4. Comprehensive Cost/Benefit Analysis of Each Alternative
5. Make an “Informed” Decision

Step 1 - Define Objectives

<u>Sample Objectives</u>

- Recruiting and Retention
  - What are competitors offering?
  - How can we attract and retain the best officers?
- Address special needs of police officers
  - Early Retirement
  - In-Service Disability
  - In-Service Death
- At least maintain current level of benefits
- Effectively utilize financial markets to fund benefits

Step 1 - Define Objectives continued

<u>Sample Objectives</u>

- Minimize complexity so that plan benefits can be effectively communicated and appreciated
- Who will bear the risk (Employer or Employee)?
  - Investment Risk
  - Longevity Risk
  - Early Retirement Risk
  - Preretirement Death and Disability Risk
- Reduce overall costs by x%

Step 1 - Define Objectives continued

Sample Objectives

- Maintain a retirement program that is fair among plan participants
- Minimize transition costs
- Minimize administrative costs

Step 1 - Define Objectives continued

<u>Actual Objectives from Ordinance</u>

- Reduce annual pension cost
- Reduce and pay-off unfunded pension liability
- Competitively align retirement options with other jurisdictions
- Provide long-term and sustainable solution for supporting employee retirement plans

Step 2 - Benchmarking

- Identify peer group employers
- Create peer group benefit matrix
  - Consider “all” benefits
  - Consider compensation
- Collectively analyze results
- Summarize and discuss observations

Step 2 - Benchmarking Sample Peer Group Matrix

Organization	DB Plan	DB Formula	Early Retirement Benefit	Death Benefit	Disability Benefit	DC Plan Formula	Social Security Benefit	Employee Contribution Requirement
Dekalb County								
Cobb County								
City of Macon								
etc.								

Step 3 – Define Alternatives

Must be ***extremely specific*** in defining plan features for each alternative so that costs and benefit levels can be compared.

Step 4 - Cost/Benefit Analysis

- Compare projected “Total” cost
- Compare changes in benefit levels (retirement, death and disability)?
- Who are the winners and losers?
- Perform Replacement Ratio analysis
- Impact on various officers (new hire, mid-career, nearing retirement)

Proposed Ordinance - Questions

Benefit Levels

- Will the new retirement plan meet the unique needs of police officers?
- Are overall benefits under the proposed plan better or worse than the current plan?
- Are there specific employee groups who will be particularly negatively affected?
- Have the replacement ratios changed?
- What benefits will Social Security provide if we opt in this year? What if some employees opt out?

Proposed Ordinance - Questions

What are the Total Costs for Retirement Plan 1 and Retirement Plan 2 compared to the current arrangement? Must consider cost of:

- Ongoing Frozen DB Plan
- DC Plan
- Disability Insurance
- Life Insurance
- Social Security
- Administration
- Transition
- Actuarial projection future annual costs