

City Of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 19, 2008
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: BUDGET MEMO # 38 : RESPONSE TO QUESTIONS REQUESTING INFORMATION ON POTENTIAL CHANGES TO EMPLOYEE PENSION PLAN CONTRIBUTIONS

Councilman Wilson requested information on the cost of potential changes to employee pension plans. This information includes:

- 1. Cost savings of all City employees sharing the 2% employee portion (currently funded by the City) of the supplemental retirement plan premiums.
2. Cost savings of only new employees sharing the 2% employee portion of the supplemental retirement plan premiums, FY 2009 through FY 2011.
3. Cost of the City providing a 1% match of employee contributions on the existing voluntary 457 pension plan (currently the City does not provide a match).
4. Cost of the City providing a 1% contribution to the existing voluntary 457 pension plan regardless of whether the employee is currently contributing or not.

While the above changes to the City's employee retirement contribution policies are policies that some other local governments may have, I do not recommend that they be implemented in FY 2009 as the Watson Wyatt study is just getting under way. This study will provide a comparison of total compensation between the City and comparator jurisdictions (with whom we compete for employees) in the areas of pay and benefits (including retirement benefits). After receiving that comprehensive analysis, Council will be in a better position to make decisions going forward on retirement funding as it will be put in context of the total compensation package.

Question 1- Savings from City employees sharing 2% employee share of Supplemental plan

As part of the FY 1983 budget adoption, City Council adopted the City Manager's recommendation to provide funds for City assumption of the 5% employee cost of VRS in lieu of a 5% general wage adjustment. In the same FY 1983 budget, City Council approved funds to improve the fringe benefit package for general City employees by having the City assume the costs for the general employees' 1% contribution to the City's supplemental retirement program.

That employer paid employee contribution increased to 2% in FY 1991. For more information, please see FY 2007 Budget Memo # 107, available on the OMB web page.

If employees are required to contribute the 2% employee share in FY 2009, this would result in a savings to the City of \$2.50 million, as well cost shifting to employees of \$2.50 million per year. The post-tax cost to employees would be less than \$2.50 million because the employee retirement reduction would be taken out of gross pay used to determine Federal and State income tax liability. (The amount absorbed by pre-tax treatment would depend on the employee's income tax bracket.) If a 1% MRA is assumed in FY 2009, the savings would be about \$2.52 million to the City.

If Council decides to require an employee contribution to the supplemental retirement plan, Council needs to review the supplemental retirement plan for Alexandria Public Schools employees to ensure both employees are treated equitable. Schools employees also do not contribute to their supplemental retirement plan.

Question 2- Savings if new employees pay 2% employee portion of City Supplemental plan

The chart below depicts the multi-year City cost savings of a policy such as this. If new employees hired in FY 2009 start paying the 2% employee portion of their City Supplemental plan, it will then affect later fiscal years as they continue paying the share. Therefore, the first row, "FY 09 New Hires" shows the estimated savings in FY 2009 from new employees and the multi-year cost savings of these same employees in FY 2010 and FY 2011 from this policy. Similarly, the "FY 10 New Hires" row shows the savings of the policy for new employees hired in FY 2010 and multi-year savings from those same employees in FY 2011.

In order to determine the total savings in any year, an estimated number of new employees as well as their estimated salary is necessary. The assumption used to determine the number of new employees is based on CY 2007 turnover amounts for full-time GS employees (152 employees), part-time employees working at least than 50% (46 employees), and sheriff employees (11 employees). These turnover rates were multiplied by the appropriate average salaries for those groups to arrive at the total estimated covered payroll. The 2% employee share of the City Supplemental plan was calculated from the total covered payroll, after making corrections for the fact that positions are not usually filled immediately after they are vacated, and attrition in the out-years that may have taken place. The "Total" row shows the estimated savings for each of the years. The savings by FY 2011 are estimated to be over half a million dollars in that year. After FY 2011, this savings would grow by about \$0.2 million per year, and taper off over time.

Estimated Savings if New Employees Paid 2% City Supplemental

	FY09	FY10	FY11
FY 09 New Hires	\$112,856	\$214,992	\$219,721
FY 10 New Hires	-	105,182	214,992
FY 11 New Hires	-	-	105,182
Total	\$112,856	\$320,173	\$539,895

Questions 3-4- Cost of 1% match of a defined 457 retirement savings plan for current enrollees and all employees

Currently, a total of 1,236 employees voluntarily participate in the 457 plan, and contribute about \$6.8 million per year with no employer match. The chart below shows the current covered payroll of full and part-time General Schedule employees as well as sworn Public Safety employees, and the effect of a 1% employer paid match at different participation rates.

- Under the current covered payroll and at current participation rates, a 1% match of employee contributions on the existing voluntary 457 pension plan would cost about a maximum of \$0.85 million¹.
- It is likely that the participation rate would increase in response to the 1% match offer. If participation rates increased to 100% of employees contributing at least 1%, then a 1% match could cost up to \$1.59 million per year.
- Under the current covered payroll, a 1% contribution to the 457 pension plan for all eligible employees regardless of current enrollment would cost the City about \$1.59 million per year.

It should be highlighted that these estimates are based on current covered payroll, which will increase in FY 2009 due to step increases. Therefore, actual costs would potentially be up to 2.2% (average increase in budgeted salary) higher. Any other salary adjustments, such as a market rate adjustment, would increase this estimate by the percent of the MRA.

¹ This assumes that all participating employees are currently contributing at least 1% themselves. We do not currently have information to verify this assumption, so the calculation establishes an upper limit.

\$ in Millions

	General Employees	Police & Fire (Uniformed)	Total Annual Cost
<i>Current covered payroll</i>			
<i>Full and part-time employees</i>	\$126.30	\$32.70	\$159.00
<i>Current payroll participation rate</i>	0.483%	0.734%	0.535%
<i>Cost to City of 1% contribution if...</i>			
<i>No change in current participation</i>	\$0.61	\$0.24	\$0.85
<i>0.85% participation rate</i>	\$1.07	\$0.28	\$1.35
<i>1.00% participation rate</i>	\$1.26	\$0.33	\$1.59

As was stated earlier in this memorandum, creating a 457 match program should be considered after the Watson Wyatt study when all benefits are reviewed and comparisons with neighboring jurisdictions completed.