

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 15, 2008

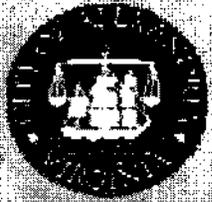
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: FUNDING OF POST-RETIREMENT BENEFITS LIABILITIES (BUDGET MEMO #4)

Attached you will find information from the October City Council Retreat on a proposed funding plan for post-retirement benefits (i.e., health and life insurance benefits for retirees). This issue will be discussed at the Council work session on employee compensation.

Attachment



OPEB – Health and Life Insurance for Retirees

- Governmental Accounting Standards Board (GASB) and SEC disclosure and reporting mandates for post-retirement benefits
- Historically, near universal practice of pay-as-you-go cash accounting
- Mandate requires reporting, recording, and accounting for long-term
- FY 2008 GASB reporting requirement in CAFR
- SEC, bond rating agency expectations



Health Insurance for Retirees

- Current Programs (City Government)
 - Must be enrolled in City Health Plan at retirement
 - \$260 per month/\$3,120 per year maximum
 - 683 total participants
 - 446 in City health plans, currently 237 reimbursed
 - \$2.0 million estimated pay-as-you-go cash cost in FY 2008



Life Insurance for Retirees

- City pays for Basic Life Insurance
- 2 x basic annual earnings
- Amount decreases after age 65 to 50% of basic annual earnings by age 70
- Example: $2 \times \$75,000 = \$150,000$ value of life insurance which declines by age 70 to $\$37,500$ and remains at that level until death



Post Retirement Benefits for Retirees

- Liability calculated by actuaries using trust fund model with 7.5% annual return assumed

	Estimated Unfunded Liability	Annual Required Contribution (ARC)
City ^{1,3}	\$88.8 M	\$12.3 M
Schools ²	\$39.0 M	\$4.9 M
	\$127.8 M	\$17.2 M

¹ 2007 draft study

² 2006 study

³ assumes no change in \$260 monthly rate



Post Retirement Benefits for Retirees

Post Retirement Benefits Interjurisdictional Comparison (excludes schools, \$ in millions)¹

	(AAL) Liability	(ARC) Annual Contribution
Alexandria	\$88.8	\$12.3
Arlington	\$516.0	\$50.0
Fairfax County	\$191.0	\$16.0
Loudoun	\$234.0	\$31.0
Prince William ²	\$67.4	\$7.4
Montgomery (MD)	\$2,600.0	\$240.0

¹ Source: Fall 2007 survey

² Includes schools

76

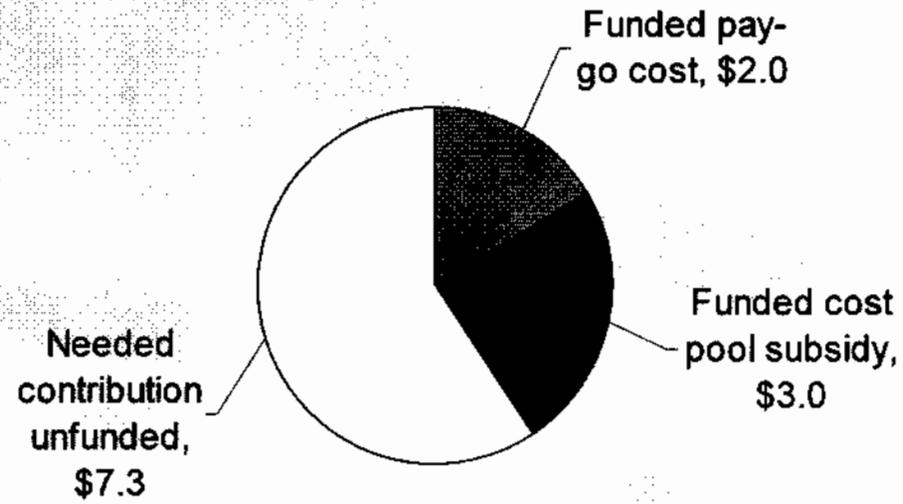
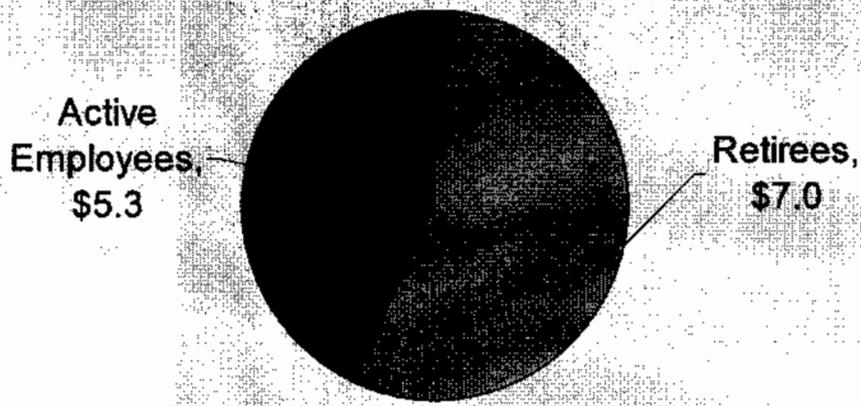


Post Retirement Benefits for City Government Retirees

Annual Required Contribution (ARC)

Uses

Sources



\$12.3 million estimated ARC

75



Post Retirement Benefits for City Government Retirees

Proposed Funding Plan for \$12.3 million ARC¹

	FY 2009	FY 2010	FY2011	FY 2012	FY2013
Current "pay-go"	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
Costpool subsidy	3.0	3.0	3.0	3.0	3.0
F.B. designation draw down	4.2	3.1	2.0	1.4	-
New funding	1.4	2.8	4.2	5.6	7.3
TOTAL	\$10.6	\$10.9	\$11.2	\$12.0	\$12.3
% ARC Funded	86%	89%	91%	98%	100%

¹ Figures subject to periodic actuarial analysis, trust fund earnings, health insurance costs, and assumed no change in the \$260 monthly reimbursement rate.



Post Retirement Benefits for Retirees

Summary

- FY 2009 Budget Impact
 - \$1.4 City + \$0.8 Schools = +\$2.2 million
- FY 2013 Budget Impact
 - \$7.3 City + \$4.1 Schools = +\$11.4 million
- Proposed 5-year funding phase-in for City and Schools
- Establish trusts before end of FY 2008
- Creation of separate trusts by City and Schools