3(b)
9/27/2011

changes in terms and conditions of employment. In addition, the February 2004 memoranda from City Manager Sunderland discussed above reflect a view that City employees should not have to bear the cost investment losses in the FPOPP or SRP, if not the VRS.

7. Another commonly used approach among public employee plan sponsors is to create a new plan or a new plan tier with lower benefits or employee contribution requirements for new employees only. The rationale for this approach is that the employer has no pre-existing obligations or commitments to new employees, and a new employee who accepts employment on these inferior pension terms cannot legitimately complain. Furthermore, the employer can improve the pension coverage in the future, prospectively or retroactively.

   The City has used this approach by covering new employees under VRS-2 and requiring them to contribute 4% of their salaries to VRS. Even if the employees were not required to contribute, the City's contribution obligations would be less for these employees than for VRS-1 employees because of the lesser benefit package under VRS-2. In addition, new General Schedule employees are required to contribute 2% of salary to the SRP.

   A disadvantage of this new employee approach include the following:

   (a) It does not provide cost relief in the near term, but only as more senior employees leave and new employees are hired. Eventually all employees will be covered under the less costly plan, but that transition can take many years.

   (b) It can create resentment among employees and human resources problems. These risks can be particularly acute where one employee hired just before the cutoff date works with an employee hired just after the cutoff.

   Lack of awareness of cost long new employees.

   (c) Multiple tiers of benefit programs can make administration difficult and more costly.

8. Comparing the City's pension coverage to that provided by other jurisdictions, including Alexandria's "comparator jurisdictions", is a difficult exercise because there are many variations in plan terms and conditions from jurisdiction to jurisdiction and some favorable provisions in one plan may be offset by some unfavorable provisions in the same plan. Some plans might require employee contributions, and others not. Some plans might allow salary enhancements in determining benefit levels, and others not. Some plans might have a relatively higher normal retirement age but a less favorable benefit formula. And, in any

Isn't this because these employees receive a salary supplement from the City?

be that the City receives something of value from the State for providing this coverage, but consideration should be given to whether this practice should be continued.

12. The Resolution requested that the Advisory Group consider the effects on the City's pension costs of the Government Accounting Standards Board's (GSAB) proceedings to set new accounting standards for the reporting of public pension plan liabilities. The Advisory Group received briefings on GASB's proposals and their effect on the City from Steve McElhaney of Cheiron and Laura Triggs. And, in July 2011, GASB issued an Exposure Draft of its proposed new standards.

    Importantly, the proposed new standards distinguish between pension plan funding and accounting by employer for pension plan obligations. The standards, once finalized, are not expected to have any effect on the City's pension contribution obligations so long as the City continues its longstanding policy of contributing 100% of actuary's annual recommended contribution. Further, the FPOPP and SRP should be able to continue using 7.5% as their long-term investment return assumption.

    But, the new standards, once they become effective, will affect City's accounting for its pension obligations: unfunded actuarial liability will go on the City's balance sheet rather than merely disclosed in the notes. This change in reporting may create a false impression of the City's pension obligations to the general public, but it should not affect the more expert perceptions of the City's creditors and rating agencies.

13. As noted in the Resolution, VRS contribution requirements are a major driver of the City's cost increases. The VRS contribution costs are largely beyond the City's control, as discussed above. The City can affect its contribution obligations through the number of employees it hires and retains in VRS-covered positions and the salaries they are paid. The City may also be able to exercise some influence over VRS decisions through the normal political process inasmuch as the VRS is a creature of State government.

    The State's Joint Legislative Audit and Review Commission is currently conducting a formal study ("Followup Review of Retirement Programs for State and Local Employees") to update its 2008 report. The results of this study are due by the end of 2011, and JLARC may make recommendations for reducing VRS costs.

14. The Resolution also asks the Advisory Group to assess the prospects for Federal legislation imposing additional pension costs on the City will be enacted

the SRP for State employees. As discussed above, the Advisory Group is not privy to the reasons for coverage of non-City employees under a City sponsored pension plan, so we cannot opine on whether the City is receiving value in exchange that is worth the substantial cost of the contributions. Only the City Council can make that judgment.

3. We recommend that a "trigger mechanism" be developed to protect the City and its employees from the future risk of runaway contribution costs. As discussed above, all parties have a strong interest in avoiding runaway pension costs. Working out the details of the mechanism is beyond the abilities of the Advisory Group; certainly within the time constraints set by the Resolution. However, we offer the following ideas.

Request a study before adoption w/ opp. for employee input.

   (a) The occurrence of a certain event (or events) in the future would trigger a reduction in the pension benefit accrual rate under the FPOPP and / or the SRP. The reduction would remain in effect, year-to-year, until the event that triggered the accrual rate reduction ends.

   (b) The triggering event could be:

      (1) the City's required contribution rate for a year exceeds a certain level (*e.g.* if the City's total required contribution to the VRS and SRP for a year exceeds a certain percentage of payroll, the future accrual rate under the SRP would be reduced);

      (2) the actuarial funding percentage of the plan (e.g. if the funding percentage of the FPOPP falls below a certain level, the future accrual rate would be reduced).

   (c) In addition to deciding what would be the triggering event (or events), factors to be decided include:

      (1) by how much the future benefit accrual rate would be reduced; and

      (2) when a benefit accrual rate reduction would end and the prior rate restored in whole or in part.

   (d) Advantages of this trigger mechanism include:

      (1) It provides comfort that future pension contribution costs can be controlled.

      (2) The reduction of future benefits is generally preferable to a

reduction in employees' current income. Employees' salaries would be reduced if the City imposed employee contribution requirements or if salary reductions or unpaid furloughs became necessary to contain labor costs. Salary rates are the most important condition of employment for retaining and attracting qualified employees.

(3) This approach focuses on what future benefits can be provided for the contributions that the City is able or willing to pay.

(4) A reduction in the accrual rate is a quicker way to reduce contribution costs than imposing employee contributions or lower benefits on new employees.

(5) If future conditions permit, the reduced accrual rate can be retroactively increased (past service benefit increase).

(e) Disadvantages include:

(1) If the accrual rate is reduced, employees will receive lower monthly pensions when they retire (unless the rate is retroactively restored). This may more severely affect employees who are in the latter stage of their careers and closer to retirement when the reduction occurs.

(2) [Others???] Could impact emplee take home pay, unpredictable

4. We recommend that the retiree health policy and retiree life insurance policy be described in a plainly written document and made readily available to all potentially eligible employees.

5. We recommend that the City Council or other appropriate City official request VRS to calculate the cost of providing a full retirement benefit at age 50 with 25 years of service for Deputy Sheriffs, Medics and Fire Marshals, recognizing that VRS will charge a modest fee for performing the calculation. The performance of this calculation will provide some relief from a long-festering grievance and enable the City management and the affected employees to engage in an informed discussion about whether and under what terms such a benefit improvement would be provided.

6. We recommend that any tinkering with the plan design of the FPOPP be done through the FPOPP Pension Board, and that tinkering with the SRP's design be done through the expanded or to-be-created joint pension board. The Advisory