CITY OF PEACHTREE CITY

INTEROFFICE MEMORANDUM

TO: Mayor and Council

FROM: Bernard J. McMullen, City Manager

DATE: April 30, 2010

SUBJECT: Retirement Plan Presentation
Council Workshop – May 4, 2010

The workshop is being held to discuss Defined Benefit (DB) and Defined Contribution (DC) retirement plans. The presentation will review the goals of a retirement program, and is geared towards providing features of both methods, information about how some other cities in Georgia fund their retirement plans and how that data compares to Peachtree City's plan, as well as corporate and private industry comparison.

The intent of the presentation is that Council may then use this information to help in the decision-making process as we proceed with the development of the FY 2011 budget. The PowerPoint presentation will be best understood through the experience of the discussion and presentation on Tuesday.

The City of Peachtree City
Retirement Plan Workshop

Clark Weeks, WRS Benefits
May 4, 2010

WRS

Presentation Overview

- Goals of a Retirement Plan
- Features & Benefits
  - Defined Contribution Plans
  - Defined Benefit Plans
- Government vs. Private Sector Plans
- Costs

Goals for a Retirement Plan

- Attractive for Hiring New Employees
- Improve Employee Retention
- Make Early Retirement Possible for Physically Demanding Jobs
- Provide Sufficient Assets to Retire at Normal Retirement Age

Features & Benefits

Defined Contribution 401(a)	Defined Benefit
❖ *Employee bears investment risk*	❖ *Employer bears investment risk*
❖ *Currently most popular*	❖ *Perceived as out of style*
❖ *Can be equally valuable to all employees*	❖ *Is more valuable to older employees*
❖ *Usually compensates all employees equally*	❖ *Compensates longer term and older employees more (rewards longevity).*
❖ *Investments are not pooled so there is no pooled risk*	❖ *Investments are pooled so there is pooled risk*
❖ *Administrative costs, as a percent of assets are usually higher and are borne by the employee*	❖ *Administrative costs, as a percent of assets, are usually lower and borne by the employer*
❖ *Perceived as less costly*	❖ *Perceived as more costly*
❖ *Cannot facilitate early retirement*	❖ *Can facilitate early retirement*

Government vs. Private Sector

- 80% of Government Employees Receive Defined Benefit Pensions
- 18% of Private Sector Employees Receive Defined Benefit Pensions

Why the Difference?

Governments tend to last for an extended time; corporations do not

- None of the Dow Jones industrials were the same from 1900 to 2000
- Only 5 of the 25 largest corporations were the same from 1950 to 2000
- Of the 25 largest corporations in 2000, 1 has been liquidated; 4 others have gone bankrupt or received government bailouts in the last 10 years

Sources of 2009 Pension Expense

	2009 Costs	% of Total	% of Payroll*
Budget for Pension Contributions	$ 1,400,000.00	77.80%	12.70%
Deferred Expense	$ 400,000.00	22.20%	3.60%
Total Current Plan Cost	$ 1,800,000.00	100%	16.40%
Structural (Avg.) Plan Expense	**$ 900,000.00**	**50.00%**	**8.20%**
Adverse Plan Experience	$ 460,000.00	26%	4.20%
Adjustments for GMA Conversion, Public Safety Early Retirement Option	$ 440,000.00	24%	4.00%

** Payroll - $11,000,000*

WRS

Why Pension Expense has Risen

- Investment Returns were 1.6% from 2000 to 2008

  This added an annual expense of $460,000 to the pension contribution while leaving a residual deficit of $4,500,000

Where You Rank

Plans of other suburban cities

	Peachtree City	Hapeville	Sandy Springs	Milton	Alpharetta	Cartersville	Johns Creek
Defined Benefit Plan	YES	YES	NO	YES	YES	YES	NO
Employee Contribution	NO	NO	NO	NO	0/2.5%	3.1/4.1%	NO
Formula	2%	1.32/2%		2.57%	2/2.5%	2%	
Employer Structural Contribution*	**8.20%**	**7%**	**Not Offered**	**10.15%**	**8.20%**	**4.60%**	**Not Offered**
Defined Contribution 401(a) Plan	YES	NO	YES	YES	YES	NO	YES
Employer Fixed Contribution	NO	NO	YES	YES	NO/YES	NO	YES
Percent of Contribution			12%	3.75%	0/10%		12%
Employer Match**	YES	NO	YES	NO	YES	NO	YES
Percent of Match	2%		5%		5%		5%
Total Employer DC 401(a) Contribution	**2%**	**0**	**17%**	**3.75%**	**5/15%**	**0**	**17%**
Estimated Average Total Costs as % of Payroll	**9.60%**	**7.00%**	**15.50%**	**14.30%**	**11.7/13.5%**	**4.60%**	**15.50%**

* Average DB cost assumed 4.1% per 1%

** Employer match assumes 70% participation

WRS

Class B City Comparison
(DCA definition: population range 25,000 – 49,999)

- 16 Class B Cities
- 7 responded to staff survey
- ALL 7 have both a DB & DC plan in place

Relative Cost of Unreduced Defined Benefit Versus Defined Contribution At Retirement Age 55 As A Percent of Payroll to Create the Same Benefit

Age	Defined Contribution	Defined Benefit at hire	Defined Benefit at year 10
25	13.5%	0.1%	1.6%
30	14.3%	0.3%	4.3%
35	15.2%	0.8%	9.5%
40	16.1%	2.2%	15.2%
45	17.0%	5.3%	28.5%

Relative Cost of Unreduced Defined Benefit Versus Defined Contribution At Retirement Age 65 As A Percent of Payroll to Create the Same Benefit

Age	Defined Contribution	Defined Benefit at hire	Defined Benefit at year 10
25	10.3%	0.0%	0.6%
30	11.0%	0.1%	1.4%
35	11.6%	0.4%	3.5%
40	12.3%	0.8%	5.6%
45	13.1%	1.9%	10.5%

DC Replacement Cost (RC)
(same level of benefit)

Average Age	43
Age 55 DC Retirement	19.5%
Age 65 DC Retirement	13.8%
Average DB Cost	8.2%

Making Changes to Benefits ...

It is impossible to . . .

- Change Benefits

  \- and -

- Have No Benefit Losses

  \- and -

- Reduce Costs

  \- and -

Support Goals for a Retirement Plan

- Attractive for Hiring New Employees
- Improve Employee Retention
- Make Early Retirement Possible for Physically Demanding Jobs
- Provide Sufficient Assets to Retire at Normal Retirement Age