



# City of Chattanooga

## Fire and Police Pension Fund Task Force Meeting

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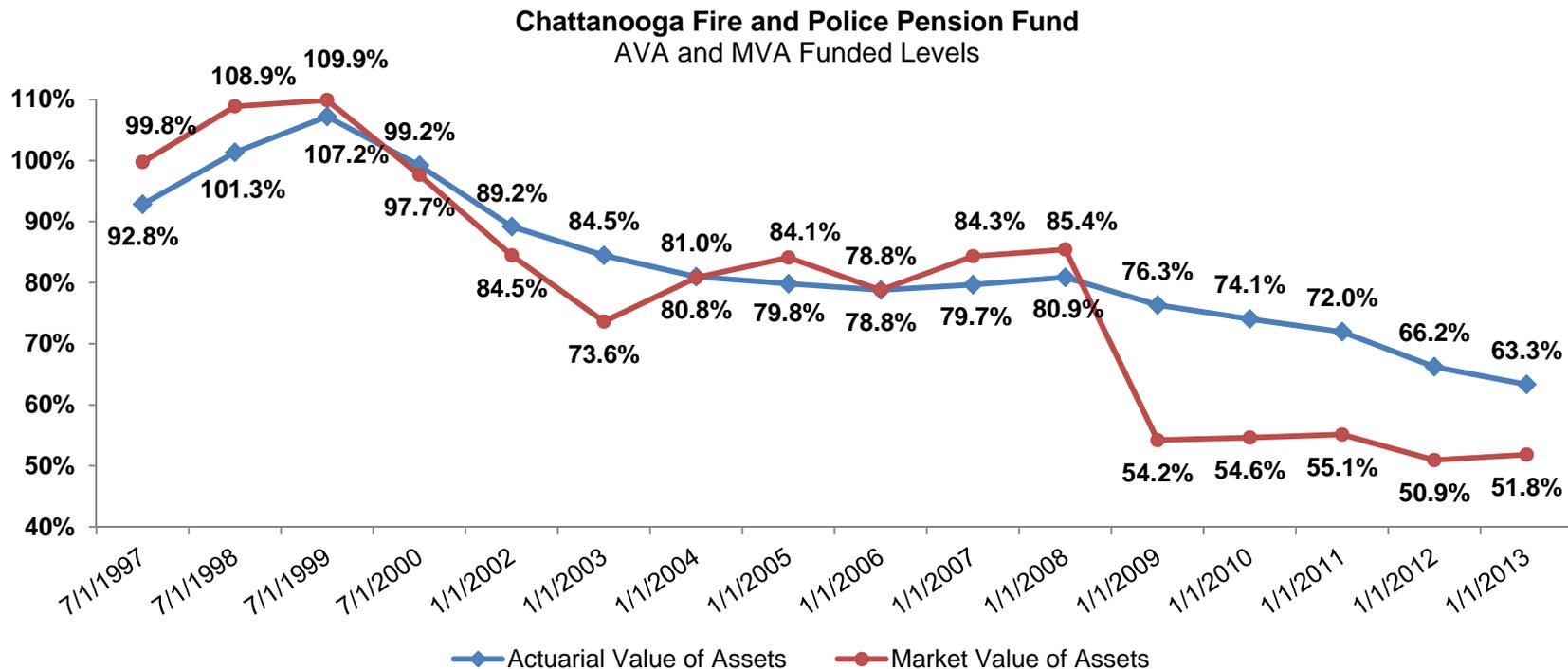
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# **Fund History and Trends**

# AVA and MVA Funded Ratio

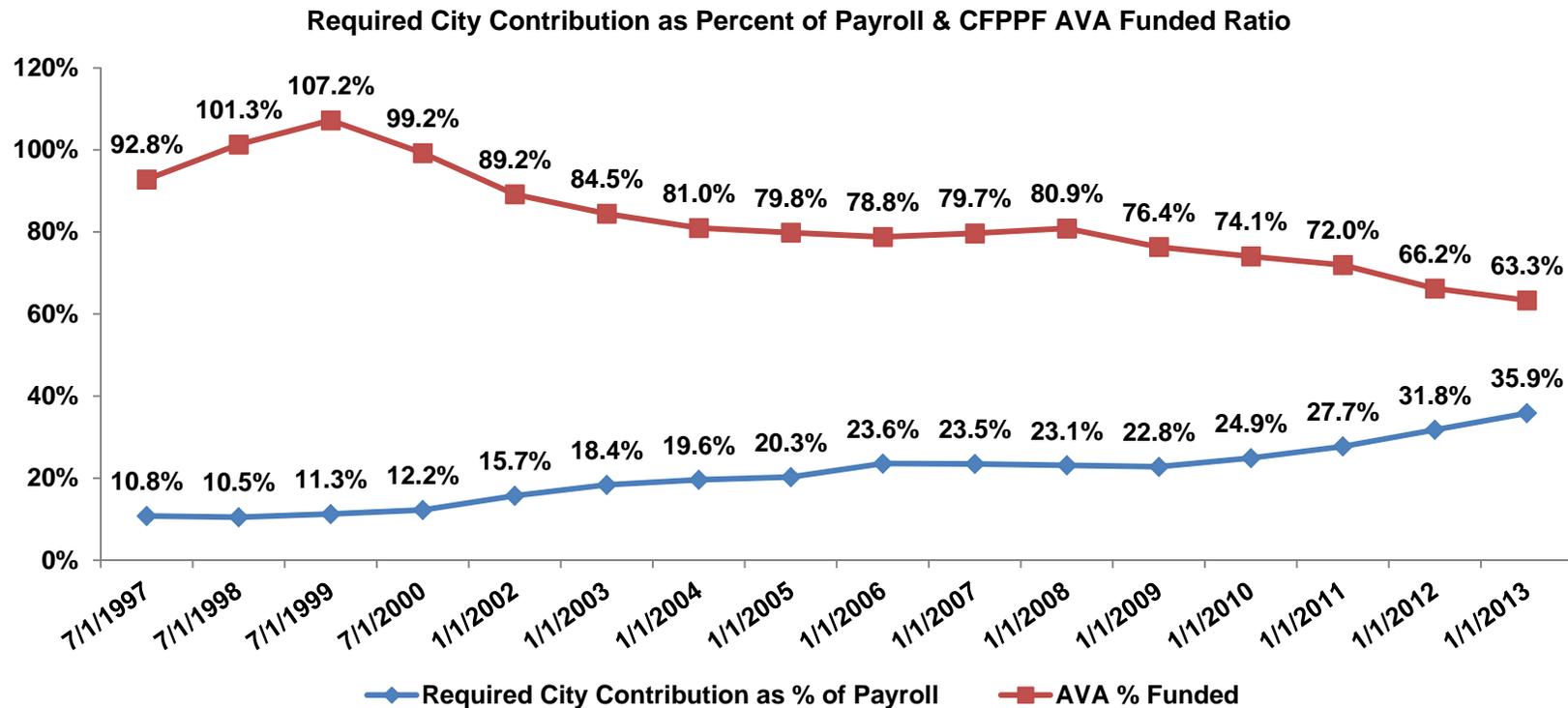
- The following chart reflects the historical funded level of the CFPPF on an actuarial and market value basis. Both the AVA and MVA funded ratios have declined significantly since achieving peak funding levels with the 7/1/1999 actuarial valuation report (107.2% on an actuarial basis and 109.9% on a market basis)
- The funded ratio on a market basis, which removes asset smoothing, reflects the significant impact of the 2007-2008 market crash on the CFPPF. These losses resulted in the MVA funding ratio to decline from 85.4% (1/1/2008) to 54.2% (1/1/2009)



Source: City of Chattanooga Fire and Police Pension Fund, Actuarial Valuation Reports, 1997-2013

# City's Contribution as % of Payroll

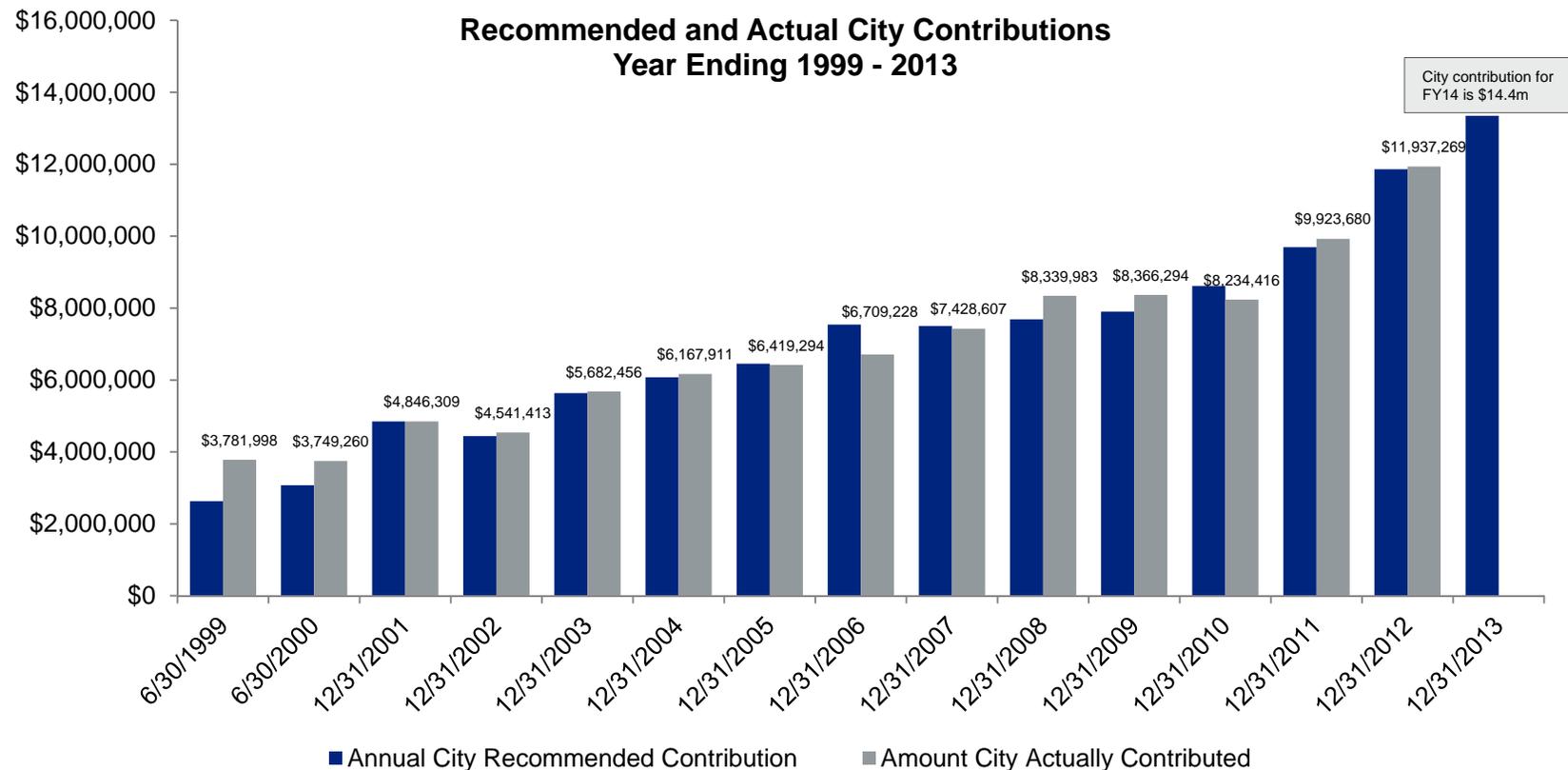
- The City's recommended contribution rate as a percentage of payroll has more than tripled, increasing from 10.8% per the 7/1/1997 actuarial valuation to 35.9% per the 1/1/2013 actuarial valuation. On a dollar basis, the City's recommended contribution over this time period has increased from \$2.6 million as of 7/1/1997 to \$13.3 million as of 1/1/2013, an increase of more than 400%. City will contribute \$14.4 million in FY14



Source: City of Chattanooga Fire and Police Pension Fund

# City's Contributions

- In general, the City has contributed the annual required contribution (ARC) as recommended by the valuation reports. In some years, the City has actually contributed more than required as shown in the table below



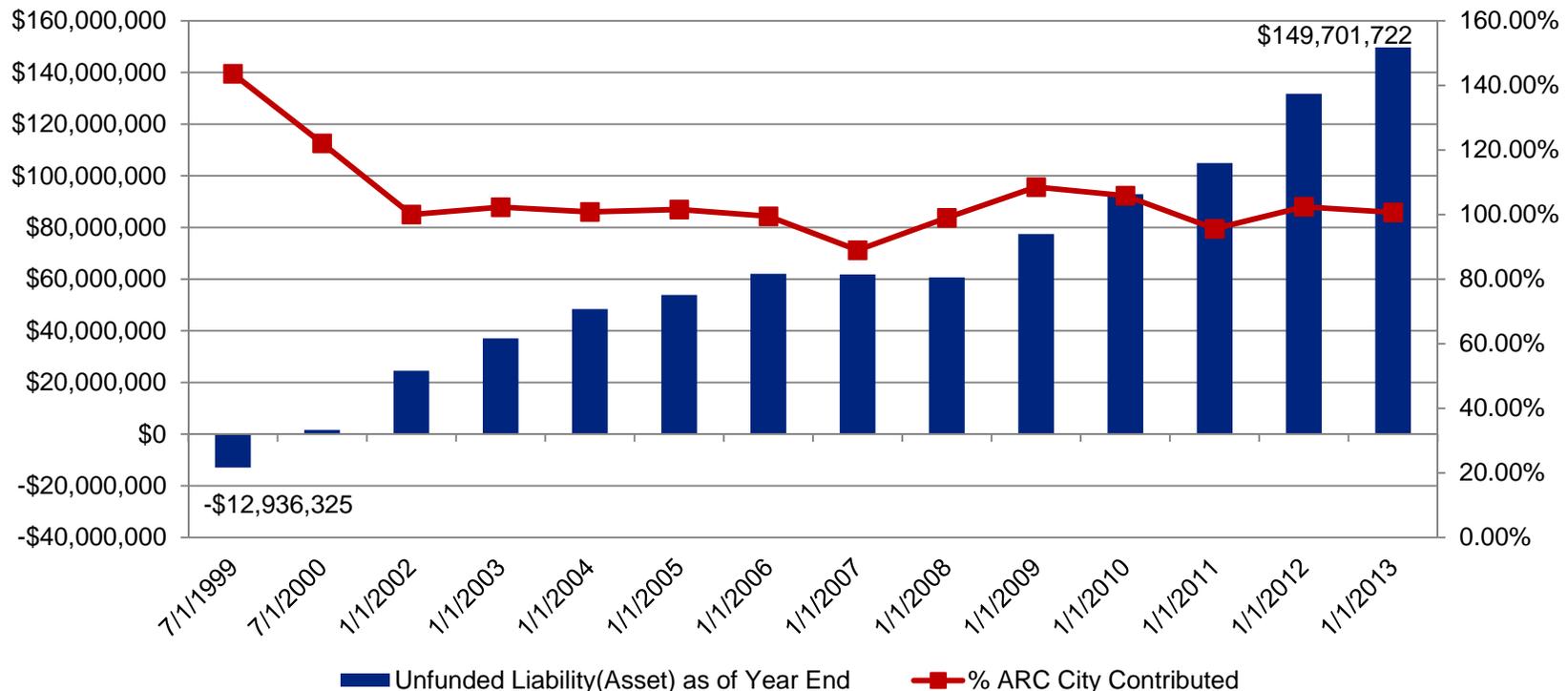
**NOTE:** The City budgets its contribution by applying the % of payroll recommended contribution from the actuarial report to expected payroll. The valuation is done on a calendar year basis (Jan. – Dec.) while the budget is done on a fiscal year basis (July – June). Consequently, the recommended “dollar” contributions in the valuation and the actual contribution may differ.

Source: City of Chattanooga Fire and Police Pension Fund

# % of ARC Contributed v. UAAL

- Since 7/1/1999 the City has contributed on average more than 105% of the recommended “dollar” annual required contribution. At the same time, the CFPPF’s unfunded liabilities have grown from - \$12.9 million (7/1/1999 valuation) to \$149.7 million (1/1/2013 valuation)

% of ARC Contributed v. UAAL



**NOTE:** The City budgets its contribution by applying the % of payroll recommended contribution from the actuarial report to expected payroll. The valuation is done on a calendar year basis (Jan. – Dec.) while the budget is done on a fiscal year basis (July – June). Consequently, the recommended “dollar” contributions in the valuation and the actual contribution may differ.

Source: City of Chattanooga Fire and Police Pension Fund

# Average Monthly Payments

*Pre-1999 and Post-1999 Retirements (Excludes Beneficiaries, Disabled)*

Retired Prior to 7/1/99 Changes	
# Retirees	155
Avg. Monthly Benefit	\$2,311
Avg. Annual Benefit	\$27,737

Retired Post 7/1/99 Changes	
# Retirees	357
Avg. Monthly Benefit	\$3,481
Avg. Annual Benefit	\$41,768

Averages by Year of Retirement	Average Monthly Amount	# Retirees
1999	\$2,777	4
1998	\$2,907	16
1997	\$2,596	9
1996	\$2,630	13
1995	\$2,754	16
1994	\$2,590	12
1993	\$2,459	11
1992	\$2,116	8
1991	\$2,092	18
1990	\$2,122	7
Prior to 1990	\$1,743	41

Averages by Year of Retirement	Average Monthly Amount	# Retirees
2012	\$3,194	32
2011	\$3,152	20
2010	\$3,487	17
2009	\$3,327	13
2008	\$3,192	15
2007	\$3,670	14
2006	\$3,382	21
2005	\$3,704	24
2004	\$3,493	27
2003	\$3,436	17
2002	\$3,607	19
2001	\$3,617	49
2000	\$3,560	72
1999	\$3,577	17

# Deferred Retirement Option Program

- The DROP program was instituted in the 1999 plan amendments and first appeared in the actuarial valuation reports beginning with the 1/1/2002 valuation
- Since inception of the DROP, there have been 316 DROP payments, totaling \$31.4 million
- The most recent single-year average DROP payment per the 1/1/2013 valuation report was **\$107,591**. Since inception the average DROP payment has been slightly less, averaging **\$99,377**

Actuarial Valuation Date	DROP Payments	# DROP Payments	Average DROP Payment
1/1/2013	\$2,259,412	21	\$107,591
1/1/2012	\$749,444	9	\$83,272
1/1/2011	\$1,560,753	14	\$111,482
1/1/2010	\$1,481,234	11	\$134,658
1/1/2009	\$2,051,654	15	\$136,777
1/1/2008	\$1,450,209	10	\$145,021
1/1/2007	\$1,205,171	15	\$80,345
1/1/2006	\$2,672,855	28	\$95,459
1/1/2005	\$1,630,214	20	\$81,511
1/1/2004	\$2,459,670	21	\$117,127
1/1/2003	\$3,492,323	36	\$97,009
1/1/2002*	\$10,390,057	116	\$89,569
<b>Total</b>	<b>\$31,402,996</b>	<b>316</b>	<b>\$99,377</b>

\* Includes more than one year (since DROP inception 7/99)

Source: City of Chattanooga Fire and Police Pension Fund

# Plan Membership

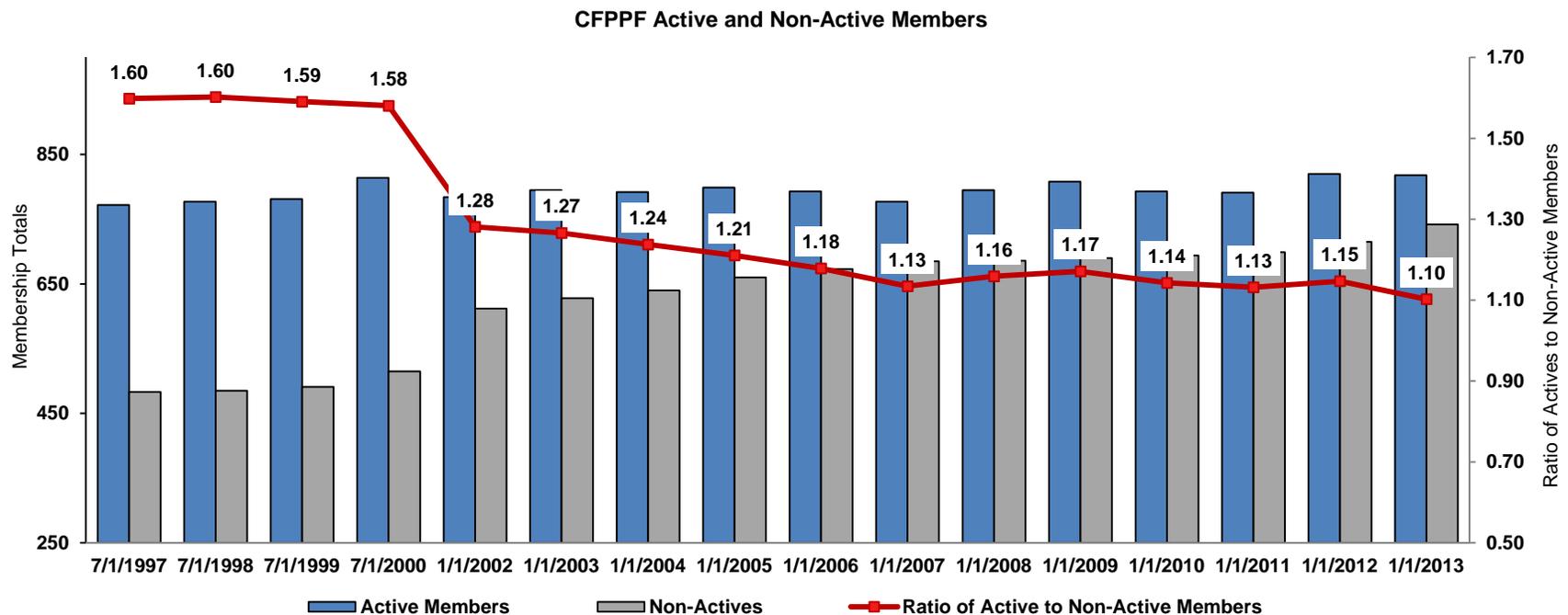
- Police and Firefighters are fully vested after 10 years of service and are eligible for an unreduced retirement benefit after 25 years of service regardless of age
- According to the January 1, 2013 actuarial valuation report, the average age across categories of plan participants was as follows:
  - Active employees: 39.3 years
  - Retirees: 64.9 years
  - Disabled participants: 64.1 years
  - Beneficiaries: 72.3 years

	Number	% of Total
Actives	818	52.4%
Retirees	512	32.8%
Disabled Participants	57	3.7%
Beneficiaries	164	10.5%
Vested Terminated Participants	9	0.6%

*Source: City of Chattanooga Fire and Police Pension Fund, Actuarial Valuation as of January 1, 2013*

# Plan Membership Changes

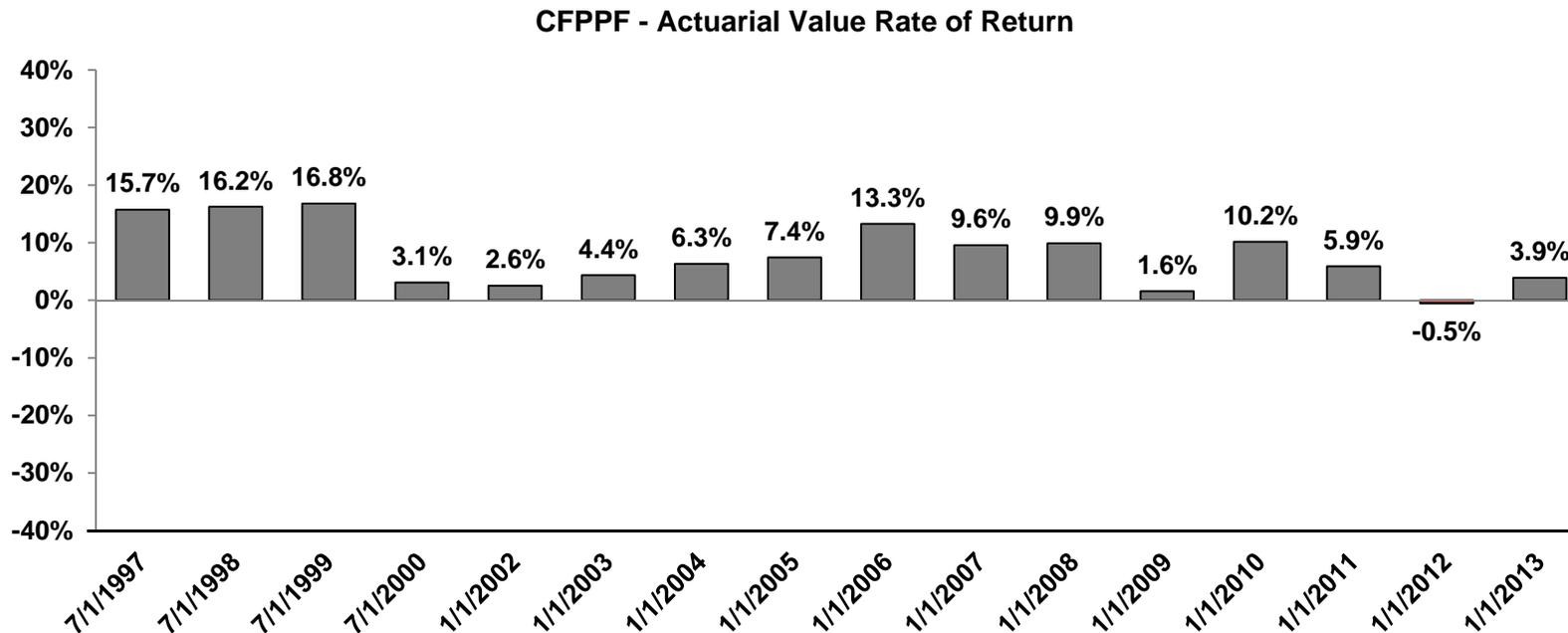
- The number of CFPPF non-active members – retirees, beneficiaries, disabled pensioners, and vested terminated employees – relative to active members has increased
- A growing base of annuitants combined with a low or negative rate of growth in active members reduces a retirement system’s external cash flow and investment risk, as system contributions decline while payouts for benefits and administrative expenses rise
- In addition, as the ratio of actives to annuitants declines, underfunded plans are exposed to greater investment risk as the unfunded liability must be amortized over a smaller active payroll base



Source: City of Chattanooga Fire and Police Pension Fund, Actuarial Valuation Reports (1997 – 2013)

# Actuarial Value Investment Rate of Return

- On an actuarial basis, the average investment rate of return over a 5-year and 10-year period was 4.14% and 6.53% respectively
- An unfunded liability is incurred during each year in which the actual rate of return is less than the assumed return rate (7.75% per the 1/1/2013 actuarial valuation report)

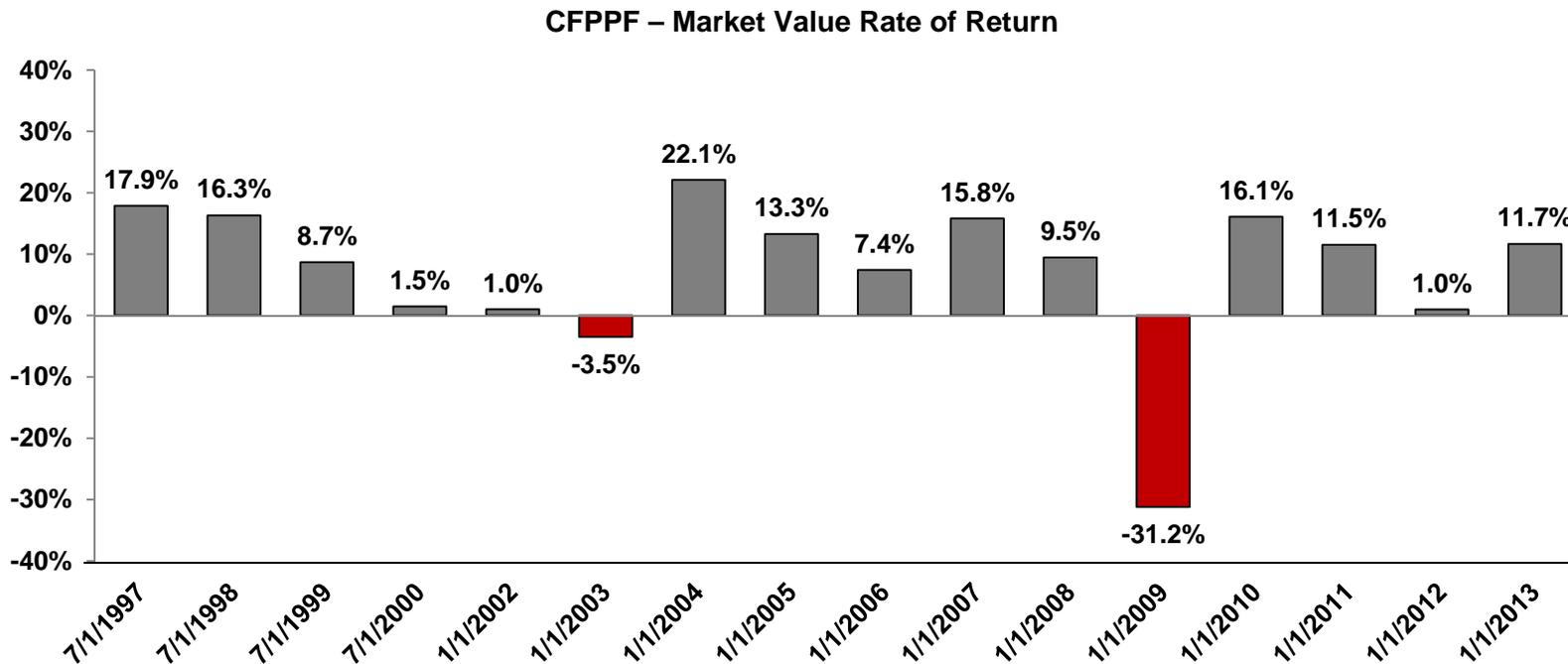


Note: The 5-year and 10-year average return is weighted by the average asset value in that year.

Source: City of Chattanooga Fire and Police Pension Fund, Actuarial Valuation Reports (1997 – 2013)

# Market Value Investment Rate of Return

- On a market value basis, the CFPPF posted significant investment losses in plan year 2008 (1/1/2009 actuarial valuation) and losses in 2002, but positive results in other years
- The CFPPF's 5-year and 10-year average rate of return on a market value basis was -0.8% and 6.3% respectively



Note: The 5-year and 10-year average return is weighted by the average asset value in that year.

Source: City of Chattanooga Fire and Police Pension Fund, Actuarial Valuation Reports (1997 – 2013)

# Service Retirement – Plan Changes

## 1992

- Service Retirement
  - 60% of 3-year Final Average Base Salary (FAS) for top Police Private base pay at 25 years of service
  - 1.69% enhancement for each additional year, for a maximum of 68.45% at 30 years of service
  - Note: During 1992, Preceding the 1993 benefit changes, the City offered a six-month-salary retirement incentive to those who were eligible to retire.

## 1/1/1993

- Service Retirement
  - 60% of FAS for top Police Private base pay at 25 years of service
  - 2% enhancement for each additional year, for a maximum of 70% at 30 years of service
  - Anyone hired after 11/03/1992
    - Must attain age 55 and have 25 years of service
    - Then a 2% enhancement after both age and service conditions were met

## 7/1/1993

- Service Retirement
  - FAS increased to top Police Sergeant base pay

## 7/1/1999 (passed in 2000)

- Service Retirement
  - 68.75% of individual member's FAS (with a 3-year phase-in) at 25 years of service
  - 1.25% enhancement for each additional year with a maximum of 75% at 30 years of service
  - Back-DROP implemented (See "DROP – Plan Changes" slide for additional detail)
  - Current retirees receiving less \$750, brought up to \$750
  - Note: Effective 07/01/1999, the City offered up to 2-year-full-salary retirement offset incentives to those retirement eligible, with guarantee that City will directly pay those taking the incentive the equivalent retirement benefit if not passed by referendum.

*Source: City of Chattanooga Fire and Police Pension Fund*

# Disability Retirement – Plan Changes

## Pre-1993

- Job Related Disability (JRD)
  - 60% of FAS for member's own base salary, not to exceed 60% of FAS for a top-paid Police Private's base salary
- Non-Job Related Disability (NJRD)
  - Graded for years of service
  - Calculated as a percentage of FAS for member's own base, not to exceed 50% of JRD Benefit

## 1993

- Job Related Disability (JRD)
  - 60% of FAS for member's own base salary, not to exceed 60% of FAS for a top-paid Police Sergeant's base salary
- Non-Job Related Disability (NJRD)
  - Graded for years of service
  - Calculated as a percentage of FAS for member's own base, not to exceed 50% of JRD Benefit

## 7/1/1999

- Job Related Disability (JRD)
  - 60% of FAS for member's own base salary
- Non-Job Related Disability (NJRD)
  - Graded for years of service
  - Calculated as a percentage of member's FAS, not to exceed 60% of FAS
- Permanent and Total Disability (PTD) (passed 2002)
  - Member unable to perform any gainful employment
  - 68.75% of FAS
  - \$500/month stipend for each minor child, not to exceed \$1000
  - Scheduled to sunset 12/31/2007
  - Extended to 12/31/2008 (Board requested permanent PTD provision)

Source: *City of Chattanooga Fire and Police Pension Fund*

# Joint & Survivor Benefits – Plan Changes

## 1/1/1993

- Actuarially Equivalent J&S (survivor receives a percentage of participant's benefit upon participant's death)
  - Reduces monthly benefit
  - 100% J&S
  - 75% J&S
  - 50% J&S
- Surviving Spouse Benefit
  - Surviving Spouses of Members who retired prior to 11/03/1992 and not chosen a J&S receive \$300/month
- Automatic J&S
  - For Members active on 11/03/1992
  - If Member declines all J&S options, the Surviving Spouse will receive a benefit as if the member had elected a 50% J&S option

## 1/1/1997

- “Pop-up” Options added
- Permits a Member's benefit to increase if his/her beneficiary pre-deceases him/her
- Actuarially equivalent Modified 100%, 75%, 50% options

## 1999

- Surviving Spouse benefit increased to \$500/month

## 2012

- Automatic J&S eliminated for those not retirement eligible by 12/31/2012 (See Automatic J&S above)
  - Only available to spouse to whom participant was married at retirement
  - Only available to current spouse for retired members
- Surviving Spouse Benefit
  - Only available to current spouse for retired members
  - Remains at \$500/month

Source: *City of Chattanooga Fire and Police Pension Fund*

# COLA – Plan Changes

## 1/1/1993

- COLA tied to CPI, not to exceed 3%
- Paid in January
- Must be age 55
- Must be retired at least one year
- Members that retired prior to 1981 begin receiving COLA
- No age restriction for Members who retired prior to 1988 or catastrophically disabled
- Surviving Spouses begin receiving COLA

## 7/1/1999 (passed in 2000)

- 3% COLA
- Paid in January
- Must be retired a least one year
- No age restriction
- Members that retired between 1988 and 1992 who never received a COLA received an immediate 3% benefit increase upon passage of referendum

Source: *City of Chattanooga Fire and Police Pension Fund*

# DROP – Plan Changes

## 7/1/1999

- Back-DROP implemented
  - Maximum 36-months
  - 7% annual interest
  - Monthly benefit calculated based upon years of service at the retro-DROP start date and final average salary at the beginning of the DROP period
  - Participation window
    - Must have more than 25 years of service, and
    - Not past 30<sup>th</sup> anniversary

## 2009

- DROP Plan modified in agreement with the City to create 3 tiers
- Tier 1: Pre-2009 hires
  - Original 3-year back-DROP
  - Requires additional 1% employee contribution (up to 9.0%)
    - 64% of current active participants increased contributions
- Tier 2: Pre-2009 hires
  - Modified 36-month back-DROP
  - Does not require additional 1% employee contribution (remains at 8.0%)
    - Variable interest applied (AAR less 3%, currently 4.75%)
    - No increase in employee contribution
- Tier 3: Post-2008 hires
  - Modified 36-month back-DROP
    - No interest applied
    - No increase in employee contribution

Source: *City of Chattanooga Fire and Police Pension Fund*

# Contributions – Plan Changes

## 7/1/1993

- Employer Contribution was 20% of gross sworn payroll; required 12.73% contribution based on a 40-year amortization period
- Employee Contribution was 8% of own pay, including overtime, not to exceed 8% of maximum base salary of Police Sergeant at maximum of the pay range

## 10/1/1993

- Employee Contribution increased from 8% to 8.5% of own pay, including overtime, not to exceed 8.5% of the highest ranking Sergeant's base salary

## 10/1/1994

- Employer Contribution was 20% of gross sworn payroll; required 20.92% contribution based on a 40-year amortization period (AAR reduced from 9% to 8.25%)
- Employee Contribution increased from 8.5% to 9% of own pay, including overtime, not to exceed 9% of the highest ranking Sergeant's base salary

## 10/1/1995

- Employee Contribution increased from 9% to 9.5% of own pay, including overtime, not to exceed 9.5% of the highest ranking Sergeant's base salary

## 10/1/1996

- Employee Contribution increased from 9.5% to 10% of own pay, including overtime, not to exceed 10% of the highest ranking Sergeant's base salary

## 7/1/1997

- Employer Contribution decreased from 20% of gross sworn payroll to 10.78% of gross sworn payroll based on 40-year amortization period
- Employee Contribution decreased from 10% to 8% of own pay, including overtime, not to exceed 8% of the highest ranking Sergeant's base salary

*Source: City of Chattanooga Fire and Police Pension Fund*

# Amortization & Discount Rate

## Plan Changes

### Amortization

#### 1993

- 40-year open amortization period
- 3-year smoothing

#### 1999

- 40-year open amortization period
  - One-time write-up to Market Value of Assets (MVA)
- 5-year smoothing

#### 2005

- 30-year closed amortization period
  - Reduction required by GASB
  - One-time write-up to MVA
- 5-year smoothing

#### 2009

- Amortization reset to 30-year closed
- 5-year smoothing
  - 20% Corridor of MVA to AVA temporarily removed

#### 2010

- 29-year closed amortization period
- 10-year smoothing
  - 40% Corridor of MVA to AVA
    - Reduce 5% each year, until
    - 20% Corridor re-established

### Discount Rate

#### 1993

- 9.00% AAR

#### 1994

- 8.25% AAR

#### 2003

- 8.00% AAR

#### 2009

- 7.75% AAR

Source: City of Chattanooga Fire and Police Pension Fund



# **Benchmarking and Trends**

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# CFPPF Current Benefit Structure

- The Chattanooga City Code (Article III, Division 18, Sections 2-400 – 2-429) sets out the specific parameters regarding the Chattanooga Fire and Police Pension Fund (CFPPF) and the benefits available to members
- The CFPPF is funded through a combination of City and member contributions and investment earnings
- **Police and fire fighters are NOT in Social Security**

City of Chattanooga	
Plan Name	Fire and Police Pension Fund
Employee Contribution	Pre-1/1/2009 hires: Optional 8% or 9% contribution* Post-1/1/2009 hires: 8%  <i>*Election impacts DROP account interest rate (see below)</i>
Normal Retirement Age	Any age with 25 years of service
Vesting	10 years
Participate in Social Security	No
Basis for Average Final Compensation (AFC)	Highest 3 years of base salary, excludes overtime
Benefit Formula	2.75% of FAC x YOS up to 25 years + 1.25% of FAC x YOS from 25 to 30 years, up to 75% maximum
Post-Retirement COLA	3.0% received on each January 1
Deferred Retirement Option	Available to employees with 25 YOS (retroactive): Contribution of 9%: 7% interest Contribution of 8%: Valuation rate less 3% (7% max) Post-1/1/2009 hires: No interest

Source: City of Chattanooga Fire and Police Pension Fund, Actuarial Valuation as of January 1, 2013

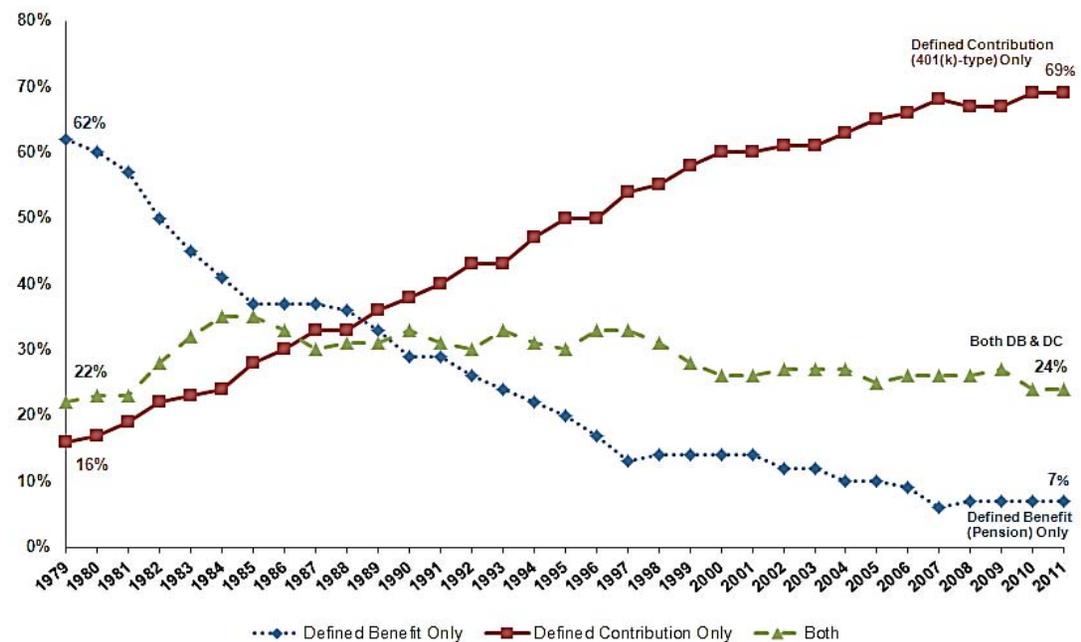
# Private Sector Trends

- As shown in the data below as compiled by the Employee Benefit Research Institute, workers in U.S. private industry have seen a significant shift away from defined benefit (DB) retirement plans over the past several decade

- Towers Watson, which has tracked the retirement plan types offered by Fortune 100 companies since 1985, has reported a similar trend. Among their key findings:

- The number of *Fortune* 100 companies offering a defined benefit plan declined from 89 in 1985 to 11 in 2012
- The number of *Fortune* 100 companies offering a hybrid pension plan (e.g., cash balance or hybrid DB-DC) increased from 1 in 1985 to 19 in 2012
- The number of *Fortune* 100 companies offering only a defined contribution plan increased from 10 in 1985 to 70 in 2012

Private-Sector Participants in an Employment-Based Retirement Plan by Plan Type, among those with a plan (1979-2011)



Sources: Employee Benefit Research Institute (EBRI), Accessed 9/30/2013; Towers Watson, Retirement Plan Types of Fortune 100 Companies in 2012, October 2012

# Benchmarking

- PFM examined the retirement benefits for police and fire fighters in the 4 largest cities in the State of Tennessee (including Chattanooga) and 10 cities throughout the southeastern United States
- In addition, PFM reviewed the retirement benefits available to law enforcement and fire fighters employed by the Tennessee Valley Authority, which has a presence in the City of Chattanooga
- In total, PFM examined the retirement benefit available to public safety employees in 15 jurisdictions (including Chattanooga)

System Name	
Chattanooga, TN	City of Chattanooga Fire and Police Pension Fund
Alexandria, VA	City of Alexandria Firefighters and Police Officers Pension Plan
Athens, GA	Athens-Clarke County Employees' Pension Plan
Birmingham, AL	City of Birmingham Retirement & Relief System and the Firemen's and Policemen's Supplemental Pension System
Charlotte, NC	North Carolina Local Governmental Employees' Retirement System
	Charlotte Firefighters' Retirement System
Columbus, GA	Columbus, GA Pension Plan For Employees of the Department of Public Safety
Knoxville, TN	City of Knoxville Pension System
Lexington, KY	Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund
Memphis, TN	City of Memphis Retirement System
Montgomery, AL	City of Montgomery Retirement System
Nashville, TN	Metropolitan Government of Nashville and Davidson County Tennessee Pension Plan
Newport News, VA	Virginia Retirement System
Sarasota, FL	City of Sarasota Police Officers' Pension Fund
	City of Sarasota Firefighters' Pension Fund
Spartanburg, SC	South Carolina Police Officers Retirement System (PORS)
Tennessee Valley Authority	Tennessee Valley Authority Retirement System

# Benefit Plan Design

	Social Security	EE Contribution	Normal Retirement (Age/YOS)	Vesting	Benefit Formula	Basis for Average Final Compensation (AFC)	Overtime in AFC?
Chattanooga	No	8.0% or 9.0%	Any/25	10 years	2.75% of AFC x YOS up to 25 + 1.25% of AFC x YOS from 25 to 30	Highest 3 years	No
Alexandria	Yes	8.0%	55/5; Any/25	5 years	2.5% of AFC x YOS up to 20 years + 3.2% of AFC x YOS from 21-30	Highest 4 years	No
Athens	Yes	0.0%	60/10	10 years	1.85% of AFC x YOS up to 31 + .25% of AFC x YOS after 31	Highest 3 of final 10 years	Yes
Birmingham	No	11.72%	Any/20	20 years	50% of AFC with 20 YOS + .5% for each year above 20 YOS	Highest 3 of last 10 years	No
Charlotte (Police)	Yes	6.00%	55/5; Any/30	5 years	1.85% of AFC x YOS	Highest 4 consecutive years	Yes
Charlotte (Fire)	No	12.65%	50/25; 60/5; Any/30	5 years	2.6% of AFC x YOS	Highest 2 years within the last 5 years of membership service.	No
Columbus	Yes	8.0%	65/Any	10 years	2% of AFC x YOS up to 30 years	Highest 5 of final 10 years	Yes
Knoxville	Yes	6.0%	50/25	5 years	2.5% of AFC x YOS up to 30 years	Highest 2 years (does not have to be consecutive)	No
Lexington	No	12.0%	50/25	25 years (min. age of 50)	2.25% of AFC x YOS	Highest 3 consecutive years	No

Notes:

*Chattanooga: Option 8% or 9% contribution for employees hired prior to 1/1999.*

*Birmingham: Employee contributions include 5.22% contribution for Supplemental Pension Plan (SPP) and 6.5% for the Retirement & Relief Plan (R&R). Benefits shown for employees in the SPP. The SPP benefit ends on the date the employee would have attained 30 years of service had they continued working. At that time the benefit payable under R&R System commences. The R&R System benefit provides Police Officers and Firefighters with 75% of their final monthly salary.*

*Lexington: Benefits shown for employees with service date on or after 3/14/2013.*

# Benefit Plan Design

	Social Security	EE Contribution	Normal Retirement (Age/YOS)	Vesting	Benefit Formula	Basis for Average Final Compensation	Overtime in AFC?
Chattanooga	No	8.0% or 9.0%	Any/25	10 years	2.75% of AFC x YOS up to 25 + 1.25% of AFC x YOS from 25 to 30	Highest 3 years	No
Memphis	No	8.0%	55/10; 52/25	10 years	2.25% of AFC x YOS up to 25 + 1% of AFC x YOS above 25	Highest 3 consecutive years	No
Montgomery	No	6.0%	Any/25; 55/Any	10 years	2.5% of AFC x YOS	Highest 1 of final 5 years	No
Nashville	Yes	0.0%	Age + YOS = 75 (min age of 53)	5 years	2% of AFC x YOS up to 25 + 1.75% of AFC x YOS after 25	Highest 5 consecutive of final 15 years	Yes
Newport News	Yes	5.0%	60/5; 55/25	5 years	1.85% of AFC x YOS (\$13,128 annual hazardous duty supplement until SSNRA)	Highest 5 consecutive years	No
Sarasota (Police)	No	8.0%	50/10; Any/25	10 years	3% of AFC x YOS	Highest 5 of final 10 years	Overtime >300 hours is excluded
Sarasota (Fire)	No	8.0%	50/10; Any/25	10 years	3% of AFC x YOS	Highest 3 of final 10 years	Yes
Spartanburg	Yes	7.8%	55/8; Any/27	5 years	2.14% of AFC x YOS	Highest 5 years	Yes
Tennessee Valley Authority	Yes	TVA employees hired after 1/1/1996 participate in a Cash Balance and 401(k) plan. Cash Balance: Employees do not contribute toward the Cash Balance plan. Employer contributes 6.0% into individually tracked account that is credited with interest equal to the change in CPI + 3.0% (6.0% minimum and 10.0% maximum) 401(k): Employee is automatically enrolled with 6.0% contribution (may opt to change). Employer matches 75% of employee contribution up to 4.5% maximum.					

Notes:

Memphis: Benefits shown for employees hired after 7/1/2012.

Newport News: Benefits shown for employees hired after 3/2010 participating in the Virginia Retirement System's Hazardous Duty Plan. The City's plan has been closed to new hires.

# Post-Retirement COLA

- 8 of 14 jurisdictions surveyed with a DB pension including Chattanooga, provide automatic cost-of-living adjustments
  - 4 of the 8 jurisdictions (Alexandria, Knoxville, Nashville, and Newport News) provide an automatic COLA that is tied to CPI
- 6 of 14 jurisdictions surveyed provide post-retirement COLAs on an ad hoc basis (generally requires the approval of pension board, City Council, Mayor, or combination of all three)
- The TVA was excluded as they have a Cash Balance and 401(k) plan

Post-Retirement COLA	
Chattanooga	Automatic: 3% annually
Alexandria	Automatic: Lesser of 3.0% or the change in CPI
Athens	Ad hoc
Birmingham	Ad hoc
Charlotte (Police)	Ad hoc
Charlotte (Fire)	Ad hoc
Columbus	Ad hoc
Knoxville	Automatic: 3.0% + one-half of the change in CPI in excess of 3.0%, up to 4.0% maximum
Lexington	Automatic: <\$40k: 2.0% \$40k - \$75k: 1.5% \$75k - \$100k: 1.0% >\$100k: 0.0% until 1/1/2016, then 1.0% (Previously automatic between 2% and 5%)
Memphis	Ad hoc
Montgomery	Ad hoc
Nashville	Automatic: 80% of the change in CPI up to 5%, applied to the original benefit
Newport News	Automatic: tied to CPI, up to 3.0% maximum
Sarasota (Police)	Automatic: 1.0% after attaining age 65
Sarasota (Fire)	Automatic: 3.5%
Spartanburg	Automatic 1% up to \$500 maximum
Tennessee Valley Authority	N/A

# Deferred Retirement Option Programs

	Eligibility	Duration	Interest Credit
Chattanooga	25 YOS	3 years	7.0% / 4.75% / 0.0%
Alexandria	30 YOS	3 years	3.0%
Athens	--	--	--
Birmingham	26 YOS	3 years	5.0%
Charlotte (Police)	--	--	--
Charlotte (Fire)	--	--	--
Columbus	35 YOS or Age 58 with 30 YOS	3 years	Actual return rate less 2.0%
Knoxville	25 YOS	2 years	0%
Lexington	--	--	--
Memphis	25 YOS	3 years	25% of the 90-day Treasury Bill yield
Montgomery	25 YOS	3 years	5.0%
Nashville	--	--	--
Newport News	--	--	--
Sarasota (Police)	25 YOS	5 years	Investment return rate or 2.5% fixed
Sarasota (Fire)	--	--	--
Spartanburg	--	--	--
Tennessee Valley Authority	--	--	--

*Chattanooga: Interest rate varies based on date of hire and employee contribution election for pre-1/1/2009 hires. Pre-1/1/2009 hires contributing 9% receive a 7% interest credit while employees contributing 8% receive the valuation rate less 3% (7% max; currently 4.75%). Employees hired after 1/1/2009 do not receive interest.*

# Funding Ratio and Discount Rate

- Differences in actuarial assumptions and methodologies, as well as differences in valuation dates, can make it difficult to compare pension funding levels across jurisdictions. With this caveat, the Chattanooga Fire and Police Pension Fund reported one of the lowest reported funding levels among the survey group
- In addition, only two jurisdictions (Athens and Charlotte) use a discount rate that is greater than or equal to Chattanooga's 7.75%

	Valuation Date	AVA Funded Ratio	Discount Rate
Charlotte (Police)	12/31/2011	99.80%	7.25%
Athens	10/1/2012	89.40%	8.00%
Columbus	7/1/2012	85.40%	7.00%
Charlotte (Fire)	6/30/2012	85.00%	7.75%
Nashville	6/30/2012	84.70%	7.50%
Knoxville	7/1/2012	77.60%	7.38%
Memphis	7/1/2012	74.40%	7.50%
Spartanburg	7/1/2012	71.10%	7.50%
Sarasota (Police)	9/30/2012	70.70%	7.00%
Montgomery	9/30/2012	70.10%	7.00%
Newport News	6/30/2011	69.90%	7.00%
Alexandria	7/1/2012	65.90%	7.50%
Sarasota (Fire)	9/30/2012	64.70%	7.50%
Lexington	7/1/2012	63.90%	7.50%
<b>Chattanooga</b>	<b>1/1/2013</b>	<b>63.30%</b>	<b>7.75%</b>
Birmingham	7/1/2011	43.5% (Supplemental) 77.0% (Retirement & Relief)	7.00%

Sources: Chattanooga Fire and Police Pension Fund Actuarial Valuation Report (AVR), January 1, 2013; Alexandria City AVR, July 1, 2012; Athens-Clarke County AVR, October 1, 2012; Birmingham Comprehensive Annual Financial Report (CAFR), June 30, 2012; North Carolina Local Governmental Employees' Retirement System AVR, December 31, 2011; Charlotte Firefighters' Retirement System CAFR, June 30, 2012; Columbus, GA Pension Plan for Employees of the Dept. of Public Safety AVR, July 1, 2012; Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund AVR, July 1, 2012; Memphis Retirement System AVR, July 1, 2012; Montgomery CAFR, September 30, 2012; Nashville and Davidson County Pension Plan AVR, June 30, 2012; Virginia Retirement System CAFR, June 30, 2012; Sarasota Police Officers' and Firefighters' Pension Fund AVR, September 30, 2012; South Carolina Police Officers Retirement System AVR, July 1, 2012

# Recent Trends

- Among the survey group, a number of jurisdictions have enacted benefit reforms or are considering making changes to the benefits offered to Fire Fighters and Police Officers. In addition to the reforms enacted in Lexington, KY as discussed during the first pension task force meeting, PFM has identified the following reforms among the survey group:
- **Alexandria:** As part of the FY2014 budget process, the City Manager proposed to increase employee contributions by 2.0%, from 8% to 10% of pay. A workgroup consisting of leaders of employee associations and staff is developing alternative proposals to the 2% employee contribution increase. While no reforms have been adopted, proposals currently being discussed include:
  - Various changes to the non-service connected disability retirement provisions, including the elimination of non-service connected disability for employees hired after 10/22/2013
  - Reduction in the multiplier to 2.5% for all years of service (currently 3.2% for years 21 to 30) and elimination of the DROP for employees hired after 10/22/2013
  - Elimination of interest for members entering the DROP after 11/1/2013
  - Going forward the City contributes toward the ongoing costs of the plan participants earning benefits, fund the original liability, and share equally in the cost of contribution rate changes going forward due to investment results or changes in benefits, assumptions, methods, or ongoing costs
- **Columbus:** Effective July 1, 2012, Fire Fighters and Police Officers participating in the Pension Plan for Employees of the Department of Public Safety hired prior to July 1, 2012, were required to contribute 2% toward the cost of their benefit, up from 0%. Employees hired after June 30, 2012, were required to contribute 6% of pay.
  - Effective July 1, 2013, employee contributions will increase from 2% to 4% of pay for employees hired prior to July 1, 2012 and from 6% to 8% for employees hired after June 30, 2012
  - The vesting period for employees hired after June 30, 2012, was also increased from 5 to 10 years
  - A deferred retirement option program (DROP) was added to the plan.

# Recent Trends

- **Memphis:** Fire Fighters and Police Officers hired after 7/1/2012 are subject to the following pension reforms:
  - Average final compensation (AFC) is based on the highest 3 years of pay, up from the greater of the most recent 12 months or average of the highest 5 consecutive years for pre-7/1/2012 hires
  - Normal retirement age of 55 with 10 YOS or 25 YOS with a 5% penalty for each year an individual retires under age 52. Pre-7/1/2012 hires can retire at age 55 with 10 YOS or 25 YOS regardless of age
  - 8% employee contribution for both current employees and new hires, up from 6.5%. For employees hired prior to 7/1/2012, employee contributions will increase in increments of 0.5% until achieving the full 8% effective 7/1/2014
  - City is again studying pension changes
- **Nashville:** In 2012 the Metropolitan Government of Nashville and Davidson County made changes to the eligibility requirements for retiree medical benefits (OPEB) and increased the pension benefit vesting requirement for employees hired after September 1, 2012, from 5 to 10 years of service
- **Newport News:** Effective March 1, 2010, the City closed the Newport News Employees' Retirement Fund to new employees. Instead, employees hired after March 1, 2010, participate in the Virginia Retirement System (VRS), a multi-employer defined benefit plan
  - Newport News Fire Fighters and Police Officers participate in the VRS hazardous duty plan for political subdivision employees. In 2010, the Commonwealth created VRS Plan 2 for employees hired after July 1, 2010, that had a lower benefit multiplier, higher employee contributions (increased from 0% to 5%), increased vesting period (5 to 10 years), and increased normal retirement eligibility criteria. Subsequent state-level reforms required all members (both Plan 1 and Plan 2) to contribute 5% of pay
  - Civilian employees of participating local jurisdictions hired after January 1, 2014, will be required to participate in a hybrid retirement plan that combines elements of a reduced defined benefit pension with a defined contribution 401(k)-type plan. This hybrid does not apply to VRS hazardous duty employees



# Questions

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