

City of Chattanooga Fire and Police Pension Fund

**Potential Modifications to the Pension Plan for the Task Force's
Consideration as Suggested by the Pension Board**

October 7, 2013



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Current Plan Features

Benefit	Current Provision
1. Social Security	Not provided
2. Service Retirement	<p>Eligibility: any age with 25 years Amount: 2.75% times final average salary times service up to 25 years plus 1.25% times final average salary times service greater than 25 years up to 30 years; Maximum of 75% of final average salary</p>
3. Disability	<p><u>On Duty</u> Eligibility: active when disabled Amount: 60% of final average salary</p> <p><u>Off Duty</u> Eligibility: 3 years of service Amount: 30% of final average salary plus 2% for each year greater than 10 years to a maximum of 60% of final average salary</p>
4. Vesting	<p>Eligibility: 10 years Amount: Refund of employee contributions or a deferred annuity beginning at age 55 of 2.4% per year of service up to a maximum of 25 years</p>
5. Employee Contributions	<p>Hired prior to January 1, 2009, 8% or 9% based on employee election Hired on or after January 1, 2009, 8%</p>

Current Plan Features

Benefit	Current Provision
6. Pre-Retirement Death Benefits	<p>A. \$10,000 lump sum death benefit</p> <p>B. Surviving Spouse Annuity <u>On duty</u> Eligibility: Death while on active service Amount: 60% of final average salary</p> <p><u>Off Duty</u> Eligibility: actively employed Amount: 50% joint & survivor but not less than \$500 a month, if eligible for service retirement then the optional benefit chosen by the decedent if any</p>
7. Post-Retirement Death Benefits	<p>A. If retired prior to November 3, 1992, \$10,000 plus an annuity based on the option chosen, if a life annuity was chosen then \$500 spousal annuity is paid</p> <p>B. If retired on or after November 3, 1992 and hired prior to November 3, 1992, \$10,000 plus an annuity based on the option chosen but not less than \$500 a month for the spouse</p> <p>C. Hired on or after November 3, 1992, \$10,000 plus annuity based on the option chosen</p>
8. Final Average Salary	Average monthly base salary for the highest three years
9. COLA	3% per year

Current Plan Features

Benefit	Current Provision
10. DROP (retroactive DROP with a maximum of 36 months)	<p><u>For members contributing 9%</u> Eligibility: 25 to 30 years of service Amount: Annuity based on service at retro-DROP date and salary at retirement plus a lump sum calculated as the number of monthly payments plus employee contributions in the DROP period plus 7% interest</p> <p><u>For members contributing 8%</u> Eligibility: 25 to 30 years of service Amount: Annuity based on service and salary at retro-DROP date plus a lump sum calculated as the number of monthly payments plus employee contributions in the DROP period plus the assumed valuation interest rate less 3% but not greater than 7%. If hired after January 1, 2009 no interest is added to the DROP lump sum.</p>

Replacement Ratio Targets

- Recent studies have shown that about 70% to 90% of pre-retirement pay at retirement is needed to maintain a retiree's standard of living after retirement. The average 80% typically includes spousal coverage and unless a COLA is included in the plan design, inflation will erode purchasing power over time.
- Traditionally this has included three sources; Social Security, employer pension and employee savings.
- Chattanooga Fire and Police employees do not participate in Social Security so the remaining two sources must fill the retirement needs of the individuals.
- Under the current plan the maximum benefit is 75% of final average pay.

The current plan has a maximum base replacement ratio of 75%. Members who maximize their DROP option improve their replacement ratio to 88%, 80% or 79% for the 9% old members, 8% old members and new hires respectively. Note none of these go above the 90% maximum target. Also remember that employee contributions fund about half of the above replacement ratios for employees hired after 2000.

Potential Modifications

Benefit	Current Provision	Suggested Change
1. Service Retirement	Any age with 25 years	Eligibility: Age 50 with 25 years of service or any age with 30 years of service Amount: For new hires the formula is 2.50% times final average salary times service to 30 years; Maximum of 75% of final average salary
2. Early Retirement	N/A	Attain 25 years of service prior to age 50 Benefit reduced 3% per year prior to age 50
3. Employee Contributions	Hired prior to January 1, 2009, 8% or 9% based on employee election Hired on or after January 1, 2009, 8%	Hired prior to January 1, 2009, 9% or 10% based on employee election Hired on or after January 1, 2009, 9%
4. COLA	3% per year	Based on Plan's market value return 3% if return is at least 8% 2% if return is at least 4% and less than 8% 1% if return is at least 0% and less than 4% No COLA if return is less than -0-

For an employee who maximizes their plan options, the maximized replacement ratio for the suggested plan above is 75%. Employee contributions fund a little more than half of the replacement ratio.

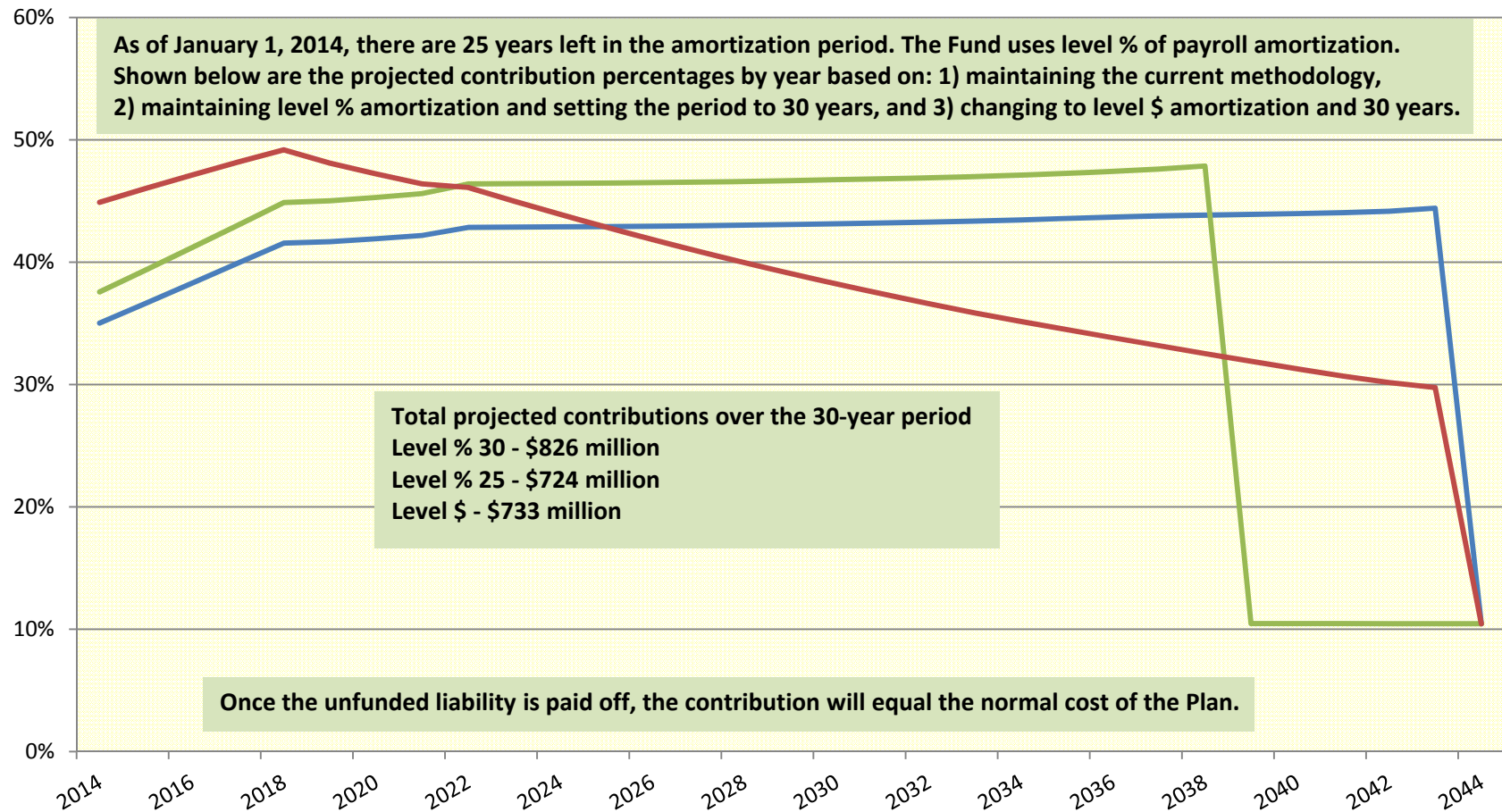
Actuarial Valuation Methods and Assumptions

Item	Current Provision
1. Funding Method	Entry Age Normal – Ultimate Benefit Type
2. Asset Smoothing	10 years with a 20% corridor
3. Investment Return	7.75%
4. Inflation	3.25%
5. Amortization	Closed 30-year period with 26 years remaining at January 1, 2013; amortization is as a level percent of pay with payroll increasing 3.25% per year
6. Other Assumptions	Mortality, employment termination, disability, retirement, % married, salary increases in the first 10 years of service, retirement start date, administration expenses

The current methods and assumptions were adopted by the Board of Trustees in consultation with the City based on an experience review of the Plan for the period January 1, 2005 to December 31, 2009. The next experience review is scheduled for the period January 1, 2010 to December 31, 2014.

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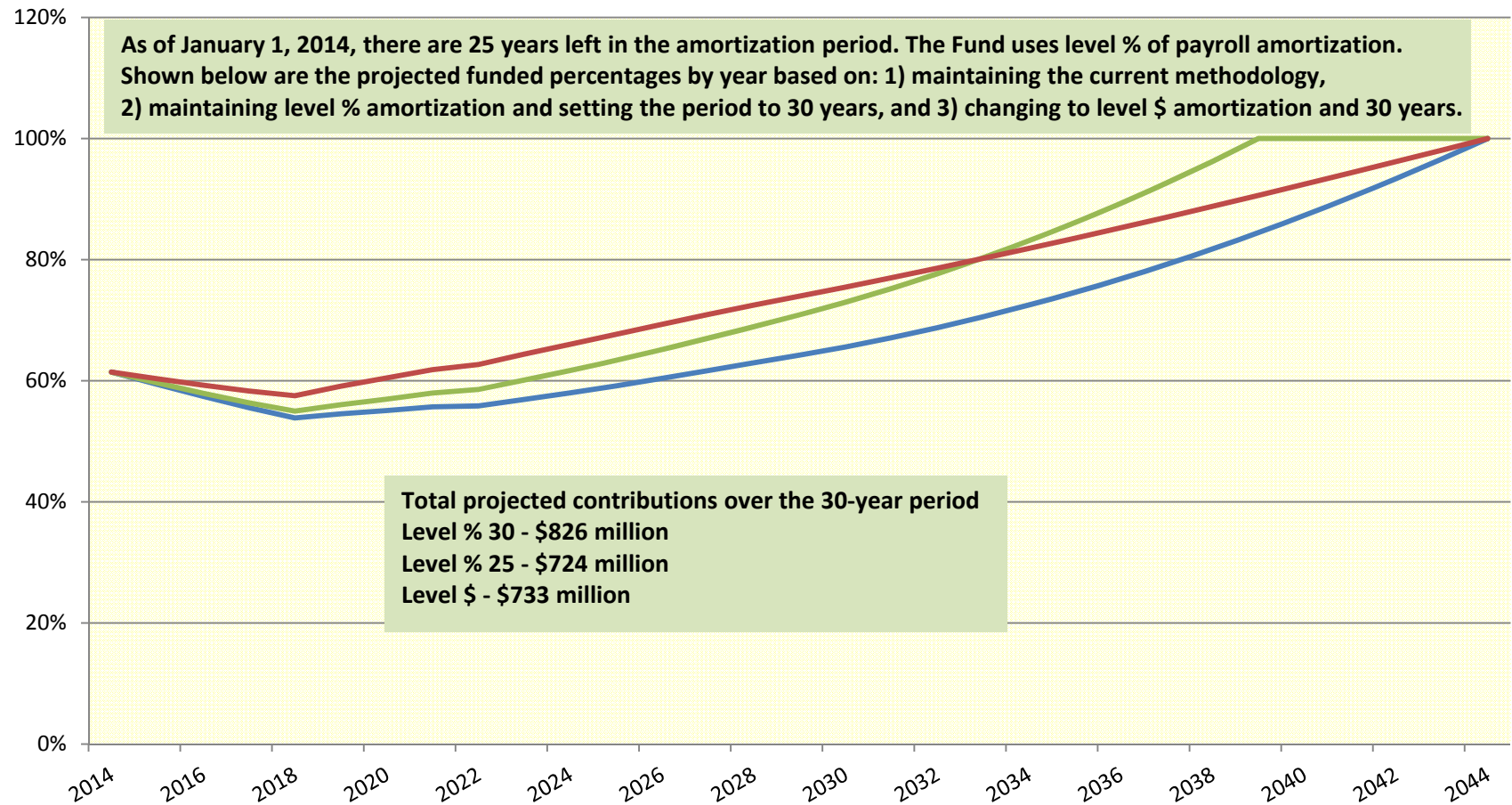
Current Plan – Comparison of Contribution % By Amortization Method



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
Level % 30	35%	37%	38%	40%	42%	42%	42%	42%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	44%	44%	44%	44%	44%	44%	44%	44%	44%	10%
Level % 25	38%	39%	41%	43%	45%	45%	45%	46%	46%	46%	46%	46%	46%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	48%	48%	10%	10%	10%	10%	10%	10%
Level \$	45%	46%	47%	48%	49%	48%	47%	46%	46%	45%	44%	43%	42%	41%	40%	39%	38%	37%	37%	36%	35%	34%	34%	33%	33%	32%	31%	31%	30%	30%	10%

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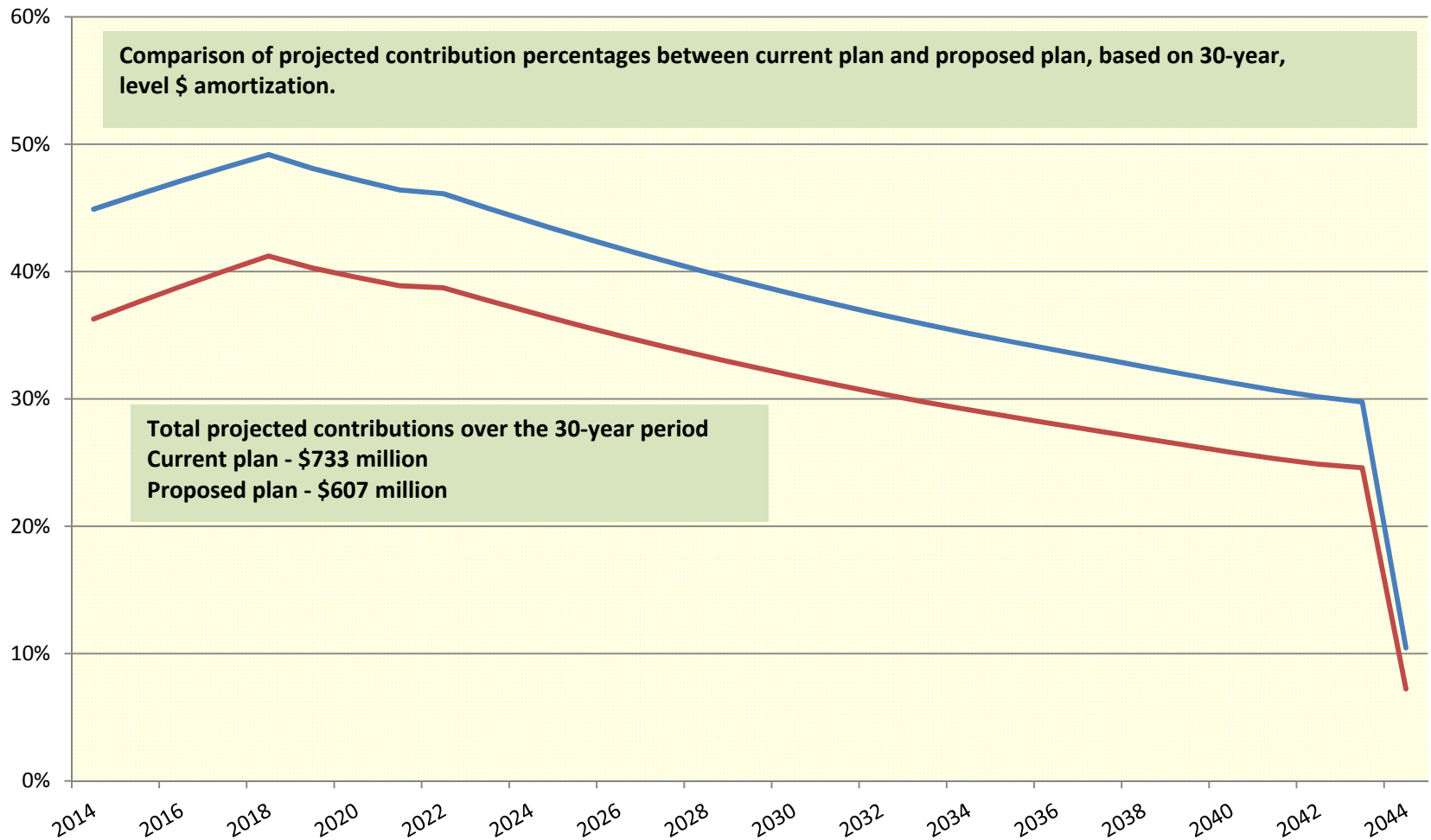
Current Plan – Comparison of Funded % By Amortization Method



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
Level % 30	61%	59%	57%	56%	54%	55%	55%	56%	56%	57%	58%	59%	60%	62%	63%	64%	66%	67%	69%	71%	73%	75%	77%	79%	82%	84%	87%	90%	93%	97%	100%
Level % 25	61%	60%	58%	56%	55%	56%	57%	58%	59%	60%	62%	63%	65%	67%	69%	71%	73%	75%	78%	80%	83%	86%	89%	93%	96%	100%	100%	100%	100%	100%	100%
Level \$	61%	60%	59%	58%	58%	59%	60%	62%	63%	64%	66%	68%	69%	71%	72%	74%	75%	77%	79%	80%	82%	84%	85%	87%	89%	91%	92%	94%	96%	98%	100%

Chattanooga Fire & Police Pension Fund

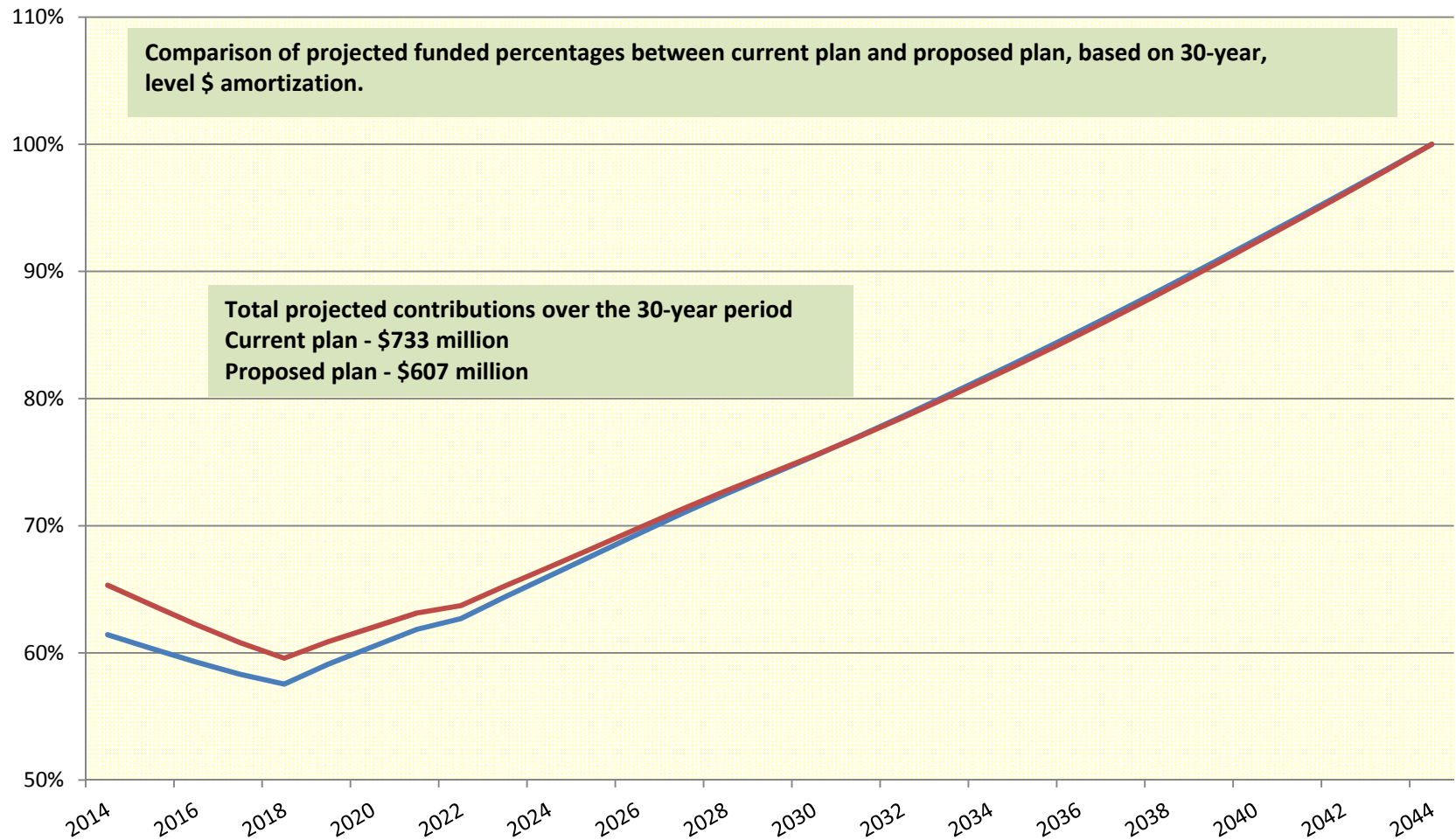
Current Plan vs. Proposed Plan– Comparison of Contribution %



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
Current Plan	45%	46%	47%	48%	49%	48%	47%	46%	46%	45%	44%	43%	42%	41%	40%	39%	38%	37%	37%	36%	35%	34%	34%	33%	33%	32%	31%	31%	30%	30%	10%
Proposed Plan	36%	38%	39%	40%	41%	40%	40%	39%	39%	38%	37%	36%	35%	34%	33%	33%	32%	31%	30%	30%	29%	29%	28%	27%	27%	26%	26%	25%	25%	25%	7%

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Current Plan vs. Proposed Plan– Comparison of Funded %



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
Current Plan	61%	60%	59%	58%	58%	59%	60%	62%	63%	64%	66%	68%	69%	71%	72%	74%	75%	77%	79%	80%	82%	84%	85%	87%	89%	91%	92%	94%	96%	98%	100%
Proposed Plan	65%	64%	62%	61%	60%	61%	62%	63%	64%	65%	67%	68%	70%	71%	73%	74%	76%	77%	78%	80%	82%	83%	85%	87%	89%	90%	92%	94%	96%	98%	100%

Additional Assets Option (i. e. POB)

Alternatively, a one-time infusion of cash to the System, through a pension obligation bond or other means, would decrease the unfunded actuarial accrued liability and lower the long-term city contributions.

Using level dollar amortization, and assuming the proposed plan changes, the City's projected 2014 contribution is \$13.9 million, or 36.3% of projected pay, and the plan is projected to be 65% funded.

If the suggested plan changes are adopted, then the following additional assets would modify current funding as follows:

- \$56 million would bring the funded ratio to 80% and reduce the City Contribution rate to 24%, or
- \$94 million would bring the funded ratio to 90% and reduce the City Contribution rate to 15%, or
- \$132 million would bring the funded ratio to 100% and reduce the City Contribution rate to 7%



Mayor Berke's Three Goals for the Pension Task Force

The following are the Mayor's objectives for a consensus approach to pension reform.

- Attract public safety employees and encourage them to have long careers with the City;
- Meet the City's obligations to police officers and firefighters;
- and use taxpayer dollars responsibly in order for Chattanooga to fund present day public safety initiatives.



The Pension Board's suggested changes satisfy each of the above objectives as shown on the next page.

Comparing the Board's Suggested Changes with the Three Goals for the Task Force

The Board's suggested changes meet the goals of the task force as shown below.

- **Attract and Retain Employees** – The suggested Plan encourages careers of 25 to 30 years but with retirement ages of at least 50. The benefit is sufficient to meet the lower end of the targeted replacement ratios of about 75%. The member contributions at 9% and 10% of pay remain reasonable.
- **Meet Obligations to Members** – The suggested plan incorporates changes for both current members and future hires. For current members the basic structure of the benefit is maintained with limitations on retirement eligibility, COLA, and an increase in employee contributions. New hires get a further change in the benefit formula that will encourage slightly longer careers and reduce the value of the DROP option.
- **Use Taxpayer Funds Responsibly** - The suggested plan is projected to lower city contributions over the next 30 years by \$126 million. The normal cost for new hires decreases to 16% of pay of which 9% is borne by the employee leaving a city contribution of 7% for new hires (down from the current 10% for new hires).

Questions?

