



Atlanta Pension Panel

Final Presentation

February 1, 2011

Pension Panel Charter

What the Panel will do:

- Delineate the facts – Where are we?
- Identify our options – What we could do?
- Describe the relative path forward – How we could get there?

What the Panel will NOT do:

- Audit and investigate the past
- Recommend, endorse, or champion any single option

Agenda

- Summary of work to date
- Benefit design options
- Other options independent of basic design
- Other Post Employment Benefits (OPEB) – Retiree Healthcare
- Investment practices
- Path forward

Summary of Work to Date

- Focused initial analysis on deriving baseline financial information
 - Pension 53% funded
 - Annual costs +20% of budget and rising
 - 70% of expenses are for past service – cannot be undone
 - 2/3 of the increase in liability and costs is due to investment performance in the last 10 years, 1/3 due to changes in plan design
- Engaged professional services firms to conduct deeper analysis and create a range of benefit design options
 - Lawyers, actuaries and consultants
 - Funds raised in private sector for services

Summary of Work to Date

- Employee and employer perspective
- Defined healthy pension system
 - Manages risk
 - Efficient
 - Regionally competitive
 - Adequately funded
 - A healthy retirement replaces 80% of salary
 - “three-legged stool”
- Benchmarked existing pension system vs. peers
 - Higher risk elements – no Social Security
 - Higher costs
 - Average benefit

Where We Are

- Overall investment performance has dramatically increased our cost over the last decade, however the City has no control over the market
- We cannot change the past
- We do have control over plan design going forward
- The options have been vetted by the professional team and represent the most common pension plan designs available
- Future events will dictate future changes

Healthy Retirement

- A person should target to replace about 80% of their salary to maintain their lifestyle in retirement
- Three sources of income in retirement – the “three-legged stool”
 - Employer contributions, historically defined benefits and defined contribution programs
 - Social Security
 - Personal savings, often tax deferred (IRA’s, 457’s, 401K’s)

Atlanta is Different

- Comparing Atlanta to benchmarked peers, the City is different
 - Defined benefit program only
 - No Social Security
 - City financially responsible and at risk for employee pensions

Benefit Design Basics

- Defined Benefit
 - Benefit definitely determinable - benefit based on earnings and length of service
 - Must be vested
 - Risk borne by employer
- Defined Contribution
 - Benefit not definitely determinable - based on contributions and investment earnings
 - Portable after vesting
 - Risk borne by employee
- Social Security
 - Defined benefit based on career average
 - Earliest start age 62
 - Risk borne by federal government
- **All options will be a combination of these three elements**

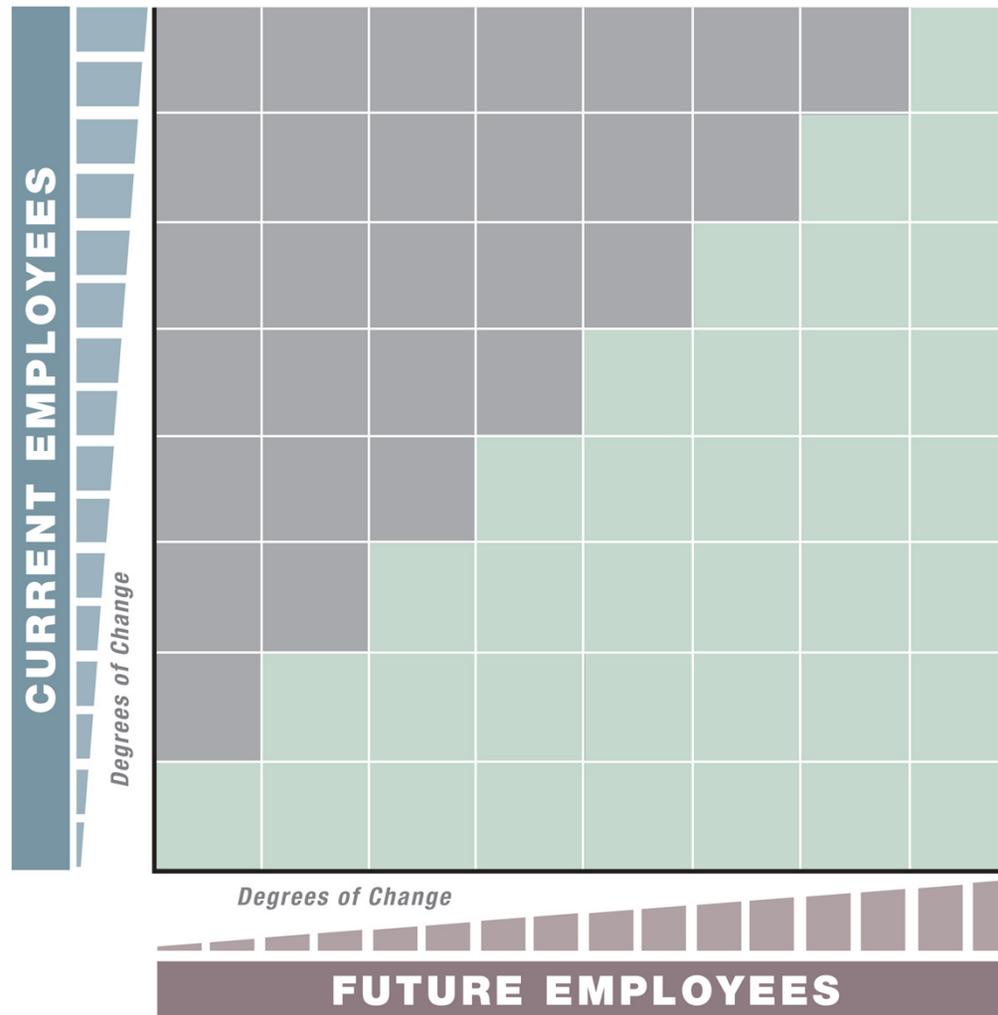
Benefit Design Options – Philosophy

- Fundamental questions for community
 - Pensions
 - What role should an employer play in an employee's retirement?
 - What percent of the goal should the employer shoulder and how much should the employee bare?
 - How should risks and opportunities be allocated?
 - Should employees be required to participate?

Benefit Design Options – Philosophy

- Atlanta Pensions
 - Should current employees be treated the same as future employees?
 - To what degree should current vested employees be protected – “grandfathering”?
 - Should Police and Fire have enhanced benefits vs. other employees?
 - Should Atlanta enter the Social Security system, and if so, all or some employees?

Degrees of Change



Benefit Design Options – Key Concepts

- **Hard Freeze**
 - Benefit based on salary and service at freeze date
- **Soft Freeze**
 - Benefit based on service at freeze date and salary at retirement
- **Career Average Benefit**
 - Pension benefit is calculated using the average earnings over a career vs. last few years
- **Cost-of-Living Adjustment (COLA)**
- **Social Security**
 - 6.2% contribution each for City and employees (4.2% for employees in 2011)
 - Multiple ways to enter Social Security

Benefit Design Options

- **Each option will be presented with key attributes as follows:**
 - Basic description
 - The financial impact on the City
 - Estimated change in annual cash contribution
 - Estimated change in the liability
 - The financial impact on employees
 - The estimated salary replacement percentage for an average employee
 - An index of the degree of difficulty to implement and maintain
 - Change in risk – both parties
- All options are permitted under existing federal and state law

Benefit Design Assumptions

- Employees contribute a total of 11% to overall retirement plan
 - Currently 8% required contributions
- Average current employee
 - Police/Fire: Age 39, employed 11 years, earning \$50,000
 - General: Age 46, employed 11 years, earning \$45,000
- Average future employee (New hire profile)
 - Police/Fire: Age 28, earning \$40,000
 - General: Age 35, earning \$35,000
- 15 year vesting
 - Retirement age 55 police & fire; 60 general
- 5% returns for employee investments
- 7.25% return for pension funds
- 30-year closed amortization
 - All options assume 30-year closed amortization (departure from current funding policy)

Current Pension System

Current Pension System

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	3.00% Final Average	--	No	81%
	General	2.50% Final Average	--	No	64%
Future (July 2010)	Police & Fire	2.00% Final Average	--	No	56%
	General	2.00% Final Average	--	No	52%

Current:

- Annual Cash Contribution : \$160 - \$165 million
- Liability: \$3.96 billion

Implementation Index:

- Transition: N/A
- Ongoing Admin: N/A

Risk:

- City bears risk

Option 1

Option 1 – Current plan Maximum 2% COLA

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	3.00% Final Average	--	--	73%
	General	2.50% Final Average	--	--	58%
Future	Police & Fire	2.00% Final Average	--	--	51%
	General	2.00% Final Average	--	--	47%

Savings:

- Annual cash contribution: \$0 - \$5 million
- Liability: \$110 million

Risk:

- City continues to bear risk

Implementation Index:

- Transition: 1
- Ongoing admin: 1

Option 2

Option 2 – Career average for all employees

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	3.00% Career Average	--	No	68%
	General	2.50% Career Average	--	No	55%
Future	Police & Fire	2.00% Career Average	--	No	41%
	General	2.00% Career Average	--	No	39%

Savings:

- Annual cash contribution: \$12 - \$15 million
- Liability: \$130 million

Risk:

- City continues to bear risk

Implementation Index:

- Transition: 2
- Ongoing admin: 2

Option 3

Option 3 – Hybrid plan

Defined benefit + defined contribution for all employees

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	1.25% Final Average	3.00%	No	58%
	General	1.25% Final Average	3.00%	No	51%
Future	Police & Fire	1.25% Final Average	3.00%	No	42%
	General	1.25% Final Average	3.00%	No	41%

Savings:

- Annual cash contribution: \$15 - \$25 million
- Liability: \$240 million

Risk:

- Shared between City and employees

Implementation Index:

- Transition: 6
- Ongoing admin: 6

Option 4

Option 4 – General employees into Social Security

Career average for all employees

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	3.00% Career Average	--	No	68%
	General	1.00% Career Average	--	Yes	62%
Future	Police & Fire	2.00% Career Average	--	No	41%
	General	1.00% Career Average	--	Yes	42%

Savings:

- Annual cash contribution: \$8 - \$10 million
- Liability: \$200 million

Risk:

- Shared with City, Federal government and employees

Implementation Index:

- Transition: 4
- Ongoing admin: 7

Option 5

Option 5 – Defined contribution + SS for all future employees General employees into Social Security

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	3.00% Career Average	--	No	68%
	General	1.00% Career Average	--	Yes	62%
Future	Police & Fire	--	6.00%	Yes	44%
	General	--	4.00%	Yes	40%

Savings:

- Annual cash contribution: \$3 - \$8 million
- Liability: \$200 million

Risk:

- Shared between City, employees and Federal government

Implementation Index:

- Transition: 9
- Ongoing admin: 10

Option 6

Option 6 – Shutdown plan with soft freeze Social Security only for all employees

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	--	--	Yes	62%
	General	--	--	Yes	57%
Future	Police & Fire	--	--	Yes	34%
	General	--	--	Yes	34%

Savings:

- Annual cash contribution: \$20 - \$30 million
- Liability: \$470 million

Risk:

- Shared with employees and Federal government

Implementation Index:

- Transition: 4
- Ongoing admin: 3

Option 7

Option 7 – Shutdown plan with hard freeze

Savings plan for all employees

No future benefits provided

		Defined Benefit	Defined Contribution	Social Security	Average Employee Salary Replacement %
Current	Police & Fire	--	--	No	30%
	General	--	--	No	30%
Future	Police & Fire	--	--	No	19%
	General	--	--	No	20%

Savings:

- Annual cash contribution: \$50 - \$60 million
- Liability: \$640 million

Risk:

- Shifts to employees

Implementation Index:

- Transition: 5
- Ongoing admin: 3

Options Summary

Option	Annual Cash Contribution/ Liability Savings in millions	Implementation/ Administration Index	Salary Replacement Percentage			
			Current		Future	
			P&F	General	P&F	General
Current	--	--	81%	64%	56%	52%
1	\$0-\$5/\$110	1/1	73 %	58%	51%	47%
2	\$12-\$15/\$130	2/2	68 %	55%	41%	39%
3	\$15-\$25/\$240	6/8	58%	51%	42%	41%
4	\$8-\$10/\$200	4/7	68 %	62%	41%	42%
5	\$3-\$8/\$200	9/10	68%	62%	44%	40%
6	\$20-\$30/\$470	4/3	62%	57%	34%	34%
7	\$50-60/\$640	5/3	30%	30%	19%	20%

Appendix contains 17 options, not all presented today

Changes Independent of Basic Design

- Cost of grandfathering
- Career average (freeze date)
- Increase normal retirement age
- For each 1% increase in employee contribution, City saves \$3 million
- Changes in OPEB can impact retirement behavior which will impact cost

Retiree Healthcare - OPEB

- OPEB impact pension costs
 - Pension costs increase with early retirements due to longer pension payouts
- Benefit provides healthcare to former or retired employees
 - 10 year vest, employee does not have to be retired to start benefit
 - Intent to provide “gap coverage” for early retirees prior to Medicare
 - Plan does not act as retention mechanism
 - Benchmark indicates unusually high benefit
 - Similar coverage not provided by peer group
- Actuarially calculated liability \$1.1 billion
 - City on a pay-as-you-go basis - \$80 million/year
 - Governmental Accounting Standards Board (GASB) currently requires footnote disclosure

Retiree Healthcare - OPEB

- Redesigning OPEB benefit could reduce overall City costs
 - Impact on retirement behavior
 - Actual health care costs
- If, on average, employees work one year longer, we found minimal impact on pension cost pension cost, but impact on OPEB liabilities significant
- Three ways to change the cost of the benefit
 - Lengthen vesting period
 - Limit benefit's start date (55 years old)
 - Create sliding scale employee contribution

Retiree Healthcare - OPEB

- Not in scope of pension panel's work
- Recommend commissioning professional firm to analyze impact and design programs that meet needs and objectives of community

Investment Practices

- Limited analysis of investment practices and performance
- Key observations:
 - Investment performance is at best average for all three plans:
 - General and Police funds underperform benchmark
 - Expected due to high number of fund managers and positions, and limits placed by State of Georgia
 - While fees are competitive relative to other active managers, the portfolio is not getting additional return for the active management
 - Combined fees equal 39 basis points
 - Average index portfolio pays 10 basis points
 - If indexed, annual savings equals \$5 million

Investment Practices

- Recommend conducting comprehensive review of investment practices
 - Evaluate key professional relationships: investment consultants and managers, plan administrators
 - Solicit proposals from key professional service providers and investment firms
 - Review investment policies and governance structure
 - Institute marketplace “best practices”
- Unleash the power of the marketplace
 - Competition will bring practices and fees in line with market

Summary

- Options for change exist under current state and federal law that would reduce City's annual costs and unfunded liability
- Benefits earned and accrued to date cannot be changed
- Three avenues for change
 - Reduce services
 - Raise taxes
 - Lower benefits for employees

Path Forward

- Ordinance required to change, must be passed by two-thirds of Council
- 2011/12 budget must be adopted by June 30, 2011
- If City decides to amend plan, because implementation is complex, the City should begin immediately upon adoption of ordinance

Panel Wrap-Up

- Professional services team and panel chair available to transfer all information and data to the City
- Thank you to all for your support and counsel

