

**City of Memphis  
Pension Reforms**

**August 2, 2011**

# Agenda

Overview

City's Contributions Versus Suggested Contributions

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## Recommended Revisions to the Pension Ordinance

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- PriceWaterhouseCoopers (PwC) Projection of Future Funded Status

## Overview

### Why make changes?

*The City is making reasonable modifications to the pension plan that are necessary to protect and enhance the actuarial soundness of the plan.*

### Who is affected?

*New employees. Employees with 10 years of service or more are not impacted by these changes. For employees with less than 10 years of service, these changes do not impact benefits earned.*

### Effective date?

*October 1, 2011*

## City's Contributions versus Suggested Contributions

Historically, the City has contributed 5% of pay to the Retirement system on behalf of employees. In recent years, the gap between the City's contribution and contributions suggested by our actuaries, PriceWaterhouseCoopers (PwC), has widened. The gap is driven largely by poor market returns in 2008 and 2009. In FY 2011, the City began contributing 6% of pay to the Retirement System.

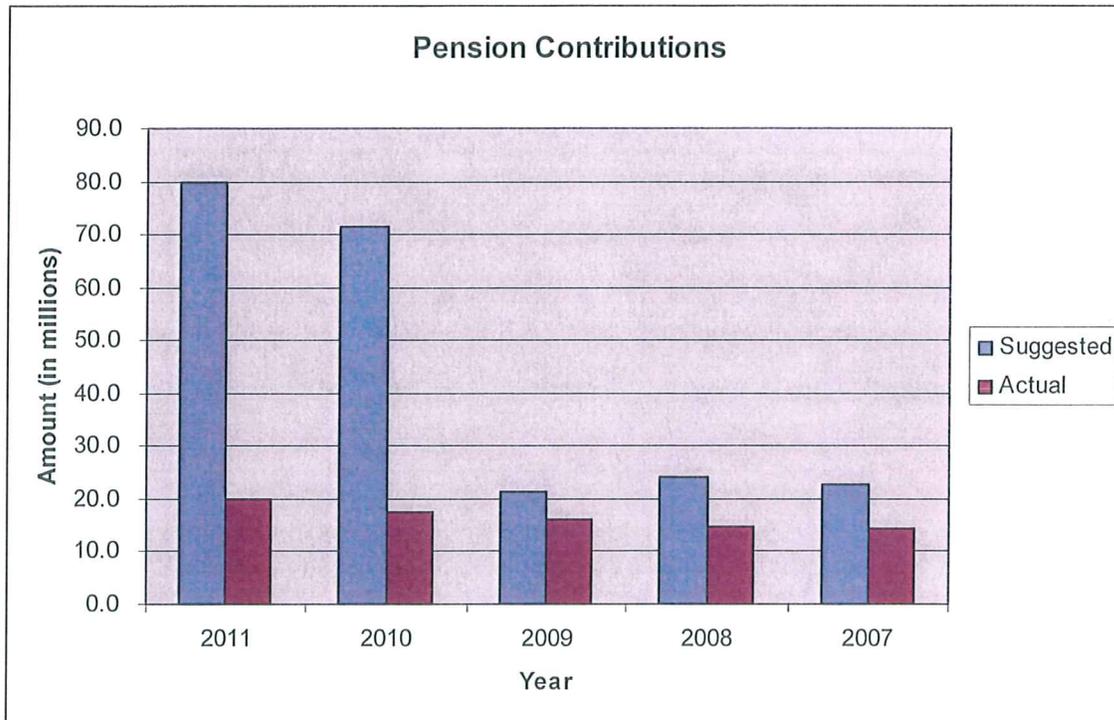
Closing the gap of \$60.0 million annually could result in a property tax rate increase of \$0.533 or 16.7% over the FY 2012 property tax rate of \$3.189.

### SUGGESTED CONTRIBUTIONS versus ACTUAL CONTRIBUTIONS

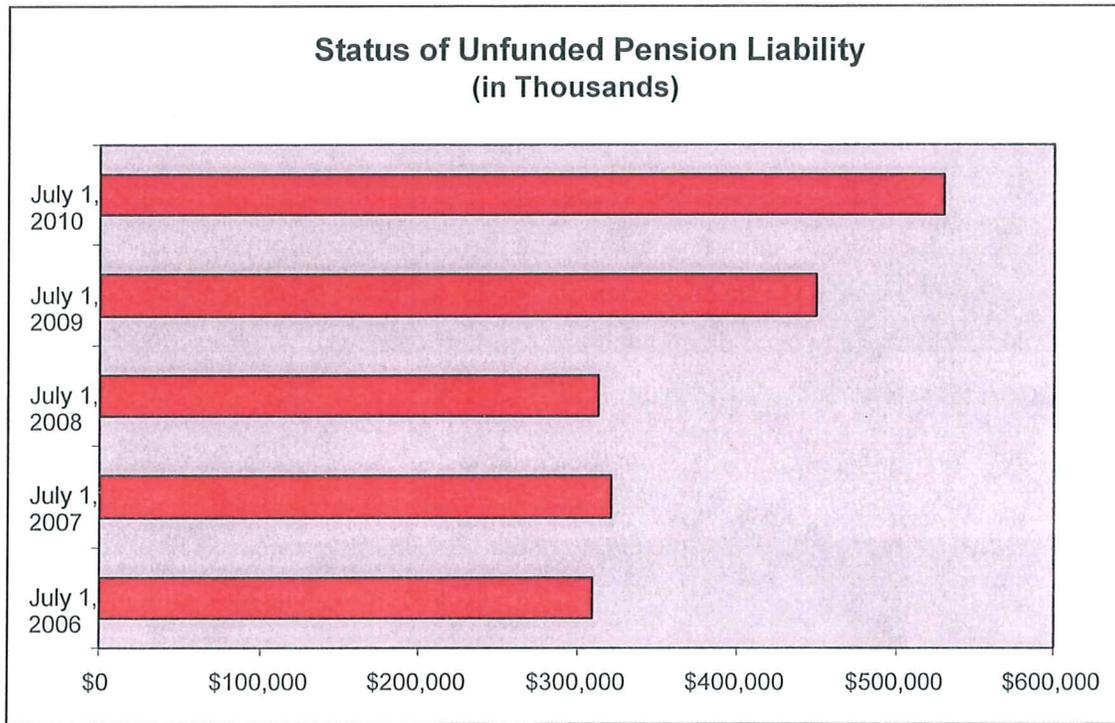
*Fiscal Years 2007-2011*

*(Amounts in millions)*

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Suggested	80.0	71.4	21.2	24.1	22.7
Actual	20.0	17.4	16.2	14.6	14.4



## Status of Unfunded Pension Liability



At the beginning of each fiscal year, the funding status of the Retirement System is assessed by PwC. As the chart above shows, the unfunded pension liability has increased more than 70% from 2006 to 2010 largely due to the poor stock market performance in 2008 and 2009 without a corresponding change to the structure of the pension benefits.

## **Recommended Revisions to the Pension Ordinance**

## Change Eligibility Requirements / Implement Early Retirement Reductions

### Eligibility Requirements

- **Add a minimum age requirement to years of service in order for employees to receive full retirement benefits.**
- The current plan provides for normal retirement with as little as 25 years of service regardless of age.
- Proposed Age Minimums:
  - General Employees – Retirement Age: 65
  - Commissioned Fire and Police Personnel – Retirement Age: 55
- This particular change would have the added benefit of lengthening the time to eligibility for Retiree Medical benefits, thus positively impacting the OPEB liability as well.

### Implement Early Retirement Reductions

- Set a minimum age limit of 65 years for General employees and 55 years for commissioned Fire and Police personnel. **Employees who retire before reaching the minimum age would experience a 5% reduction, per year, in their pension benefits.**
- The current plan provides for a full retirement benefit regardless of age at retirement.
- **Apply early retirement reductions if retirement occurs prior to retirement age.**

*Initial reductions in the actuarial accrued liability and the suggested employer contributions are \$28.7 million and \$3.1 million, respectively. Over the long term, once all active participants are covered by the revised plan, this change is estimated to reduce the annual ongoing cost of the plan by approximately 18%.*

## Change Accrual Rate / Definition of Final Average Compensation

### Accrual Rate

- **Lower the accrual rate from 2.5% to 2.25% for the first 25 years of service.**
- The current plan provides for 2½% of Average Pay times years of service up to 25 years, and 1.0% of Average Pay times years of service for the next 10 years. This means that the Plan provides an annual annuity of 62½% of final pay after 25 years of service and 72½% after 35 years of service.
- The benefit formula would be revised to lower the accrual rate for future service (i.e., service earned after 9/30/11).

### Final Average Compensation

- **Base pension calculations on the average of the highest five consecutive years' pay as the formula for the final average compensation to determine the salary on which to calculate the pension annuity.**
- The benefit would be revised to change the average period to determine Final Average Compensation. **THIS WILL NOT APPLY TO FIRE AND POLICE.**
- General Employees – Final Average Compensation would be determined based on five-year average earnings versus the most recent one year's earnings.

*Initial reductions in the actuarial accrued liability and the suggested employer contributions are \$16.7 million and \$1.8 million, respectively. Over the long term, once all active participants are covered by the revised plan, this change is estimated to reduce the annual ongoing cost of the plan by approximately 10%.*

## **Change the Normal Form of Benefit (Adjust Benefits for Providing Survivor Coverage)**

### *Joint & Survivor Benefit*

- **Reduce the amount of the Joint & Survivor benefit to recognize the value of providing the Survivor protection to the spouse.**
- The City currently provides Survivor protection in the form of a 75% Joint & Survivor annuity for married participants at “no charge.”
- Married participants who become eligible for the Joint & Survivor benefit after 9/30/11 would receive a benefit that is reduced by 10% to reflect the additional Plan cost associated with providing Survivor protection to a retiree’s spouse.
  - This benefit is automatic for surviving spouses.
  - Reductions would apply only to benefits earned after the effective date.

*Initial reductions in the actuarial accrued liability and the suggested employer contributions are \$11.9 million and \$1.3 million, respectively. Over the long term, once all active participants are covered by the revised plan, this change is estimated to reduce the annual ongoing cost of the plan by approximately 8%.*

***In total, these plan changes are expected to generate initial reductions in the actuarial accrued liability and the suggested employer contributions of \$57.3 million and \$6.2 million, respectively. Over the long term, once all active participants are covered by the revised plan, these changes are estimated to reduce the annual ongoing cost of the plan by approximately 36%.***

## **Re-define “Line-of-Duty” Disability**

- Current language defines “Line-of-Duty” Disability as a “job” disability (i.e., an employee is granted disability due to an inability to perform in his/her current job.)
- **Revise language in order to allow an employee to be reassigned to a comparable position within City government – with comparable pay – if the employee is physically able to work within a different capacity.**

## **Transition Employees Disabled via “Line-of-Duty” to Retirement at Age 65**

- **Revise language to state that an employee who is granted “Line-of-Duty” Disability, and is still permanently and totally disabled at age 65, must transition to a regular retirement.**
- The employee’s compensation percentage would then be reduced from 60% to his/her calculated rate.

## **Prohibit Reinstatement of Surviving Spouses**

- Under Chapter 25, Article I, Section 93, surviving spouses can be reinstated to a spousal City pension upon the death of a subsequent spouse.
- **Revise ordinance to state that a surviving spouse shall permanently forfeit his/her spousal pension upon remarriage, regardless of whether the subsequent marriage ends.**

# APPENDIX

## MEMPHIS, TENNESSEE CODE OF ORDINANCES PENSION AND RETIREMENT SYSTEM **AMENDED VERSION**

**An Ordinance to Amend Chapter 25 – Pension and Retirement System of the City of Memphis, Code of Ordinances to Modify the Pension Benefits Allowable Under the Ordinance**

**WHEREAS**, the City of Memphis Retirement System is a single employer public employee retirement system; and

**WHEREAS**, substantially all regular full-time salaried employees of the City are required to participate in either of two contributory defined benefit pension plans- the 1948 Plan and the 1978 Plan (hereafter “the Plans”); and

**WHEREAS**, the Plans provide retirement benefits as well as death and disability benefits to participants of the Plans; and

**WHEREAS**, the City of Memphis Retirement System engages a qualified professional actuarial consultant to complete an annual actuarial valuation of the Plans; and

**WHEREAS**, the actuarial valuation report is used to determine the Plans’ funding status and the annual suggested contribution required to sustain the long-term viability of the Plans; and

**WHEREAS**, the most recent actuarial valuation report prepared by PricewaterhouseCoopers as of July 1, 2010 and dated November 2010 estimated the Plans’ unfunded liability at July 1, 2010 to be \$531 million and recommended a City contribution of \$80 million or 25.9% of covered payroll for the FY2011 Plan year; and

**WHEREAS**, due to declining revenues and other ongoing financial obligations of the City it is not feasible for the City to fully fund the suggested contribution of \$80 million or 25.9% of covered payroll; and

**WHEREAS**, in order to protect the Plans’ actuarial soundness and ensure the long-term financial viability of the Plans it is necessary to amend the Code of Ordinances-Title 4- Pension and Retirement System, so as to reduce the pension benefits allowable under the Ordinance as follows;

**NOW THEREFORE,**

**SECTION 1. BE IT ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS**, that Section 25-1 - Pension and Retirement System, City of Memphis, Code of Ordinances, is hereby amended by adding the following term:

**"Grandfathered Participants" means:**

- a. any employee who has met the eligibility requirements for participation in the 1948 plan as set forth in Chapter 4-24 on or before September 30, 2011, or
- b. any employee who has met the eligibility requirements for participation in the 1978 plan as set forth in Chapter 4-28 and has earned ten (10) or more Years of Service as of September 30, 2011.
- c. any employee who has been approved for a line of duty pension on or before September 30, 2011.

**SECTION 2. BE IT FURTHER ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that the following definitions set forth in Section 25-1, are hereby amended as follows:

**(1) "Accrued benefit" means:**

(a) As of any date, for each **grandfathered** participant, a monthly benefit amount payable semi-monthly in the form of a single life annuity, equal to two and one-fourth percent of his or her average monthly compensation multiplied by the number of years of service completed before January 1, 1990, plus two and one-half percent of his or her average monthly compensation multiplied by the number of years of service completed after January 1, 1990; provided, however, that when a **grandfathered** participant's years of service equals twenty-five (25) years, such participant shall accrue an additional one percent of his or her average monthly compensation for each year of service in excess of twenty-five (25) years for a maximum of ten (10) years; provided, however, if after thirty-five (35) years of service the total percentage of his or her average monthly compensation is less than seventy-two and five-tenths percent, such participant shall accrue an additional one percent of his or her average monthly compensation for each year of service in excess of thirty-five (35) years earned after January 1, 1990, until such total percentage shall equal seventy-two and five-tenths percent;

(b) As of any date, **for each participant who does not meet the definition of a grandfathered** participant, a monthly benefit amount payable semi-monthly in the form of a single life annuity, equal to two and one-fourth percent of his or her average monthly compensation multiplied by the number of years of service completed before January 1, 1990, plus two and one-half percent of his or her average monthly compensation multiplied by the number of years of service completed after January 1, 1990, **but on or before September 30, 2011, plus two and one-fourth percent of his or her average monthly compensation multiplied by the number of years of service completed after October 1, 2011;** provided, however, that when such participant's years of service equals twenty-five (25) years, such participant shall accrue an additional one percent of his or her average monthly compensation for each year of service in excess of twenty-five (25) years for a maximum of ten (10) years; provided, however, if after thirty-five (35) years of service the total percentage of his or her average monthly compensation is less than seventy-two and five-tenths percent, such participant shall accrue an additional one percent of his or her average monthly compensation for each year of service in excess of thirty-five (35) years earned after January 1, 1990, until such total percentage shall equal seventy-two and five-tenths percent;

**(4) "Average monthly compensation" means:**

**b. 1978 plan:**

i. For each **grandfathered** participant, the average monthly compensation, (excluding and disregarding any hiatus in the participant's employment by the city) for his or her five consecutive years of service for which such compensation was the highest. If his or her average monthly compensation for the twelve (12) months next preceding the date of his or her retirement exceeds the average of his or her highest five (5) consecutive years' compensation, then his or her average monthly compensation shall be based upon the twelve (12) month period next preceding the date of his or her retirement, and in the case of death or disability incurred by a participant in the performance of duties before he or she has five consecutive years of service, his or her average monthly compensation shall be the average monthly rate of compensation during all his or her years of service.

ii. For each participant who does not meet the definition of a grandfathered participant, the average monthly compensation, (excluding and disregarding any hiatus in the participant's employment by the city) for his or her five (5) consecutive years of service for which such compensation was the highest. In addition, in the case of death or disability incurred by a participant in the performance of duties before he or she has five consecutive years of service, his or her average monthly compensation shall be the average monthly rate of compensation during all his or her years of service.

27. **"Line-of-duty disability"**: a physical or mental condition arising as the direct and proximate result of an accident sustained by a participant, after he or she became a participant and while in the actual performance of duties for the city at some definite time and place without willful negligence on his or her part which totally and permanently prevents him or her from engaging in **either** the duties for which he or she was employed by the city **or a comparable position with comparable compensation**. The determination of the line-of-duty disability of a participant shall be made on medical evidence by at least two qualified physicians.

**(30) Normal Retirement date:**

**b. 1978 Plan. "Normal retirement date" for grandfathered participants:**

- i. General employees: the first day of the month coincident with or next following the earliest date on which a 1978 plan participant, other than a police officer or firefighter:
- (A) Attains age sixty (60) and completes ten (10) years of service; or
  - (B) Attains age sixty-five (65) and completes five years of service; or
  - (C) Attains twenty-five (25) years of service.

- ii. Police officers and firefighters: the first day of the month coincident with or next following the earlier date on which a 1978 plan participant who is either a police officer or firefighter:
  - (A) Completes twenty-five (25) years of service; or
  - (B) Attains age fifty-five (55) and completes ten (10) years of service.
- iii. Notwithstanding the foregoing, this Subsection (b) shall not apply to elected or appointed employees governed by Chapter 25-181.

**1978 Plan. "Normal retirement date"** for participants who do not meet the definition of "grandfathered participants" means:

- i. General employees: the first day of the month coincident with or next following earliest date on which the participant, other than a commissioned police officer or firefighter:
  - Attains:
    - a. age (sixty-five) 65 and completes five (5) years of service; or
    - b. twenty-five (25) years of service and submits a written election designating the date he or she will retire not less than thirty (30) days before such designated date. Said participant shall be entitled to receive a retirement benefit equal to his or her accrued benefit reduced by 5.0% per year for each year that his or her early retirement date precedes the date the participant will attain age (sixty-five) 65.
  - ii. Police officers and firefighters: the first day of the month coincident with or next following earliest date on which the participant:
    - Attains:
      - a. age (fifty-five) 55 and (ten) 10 years of service; or
      - b. twenty-five (25) years of service and submits a written election designating the date he or she will retire not less than thirty (30) days before such designated date. Said participant shall be entitled to receive a retirement benefit equal to his or her accrued benefit reduced by 5.0% per year for each year that his or her early retirement date precedes the date the participant will attain age (fifty-five) 55.
    - iii. Notwithstanding the foregoing, this provision shall not apply to elected or appointed employees governed by Chapter 25-181.

**SECTION 3. BE IT ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that Section 25-182 Line of Duty Disability retirement (a) is hereby amended as follows:

- (a) "Line-of-Duty Disability. Upon application by or on behalf of the participant or by the director of the city division for which he or she works, any participant determined to have incurred a line-of-duty disability shall receive, during the period he or she suffers from such disability, a retirement benefit equal to the greater of sixty (60) percent of his or her average monthly compensation or his or her accrued benefit as of the date of such disability. The provisions of this subsection shall be effective as of January 1, 1989. **Effective October 1, 2011 for non grandfathered participants, the sixty (60) percent minimum provision will end at the earlier of age sixty-five (65) or the cessation of the disabled status.** At age 65, said participants receiving a line of duty pension benefit will begin to receive the greater between the normal retirement accrued benefit as of the date of disability or (fifty) 50 percent of the line of duty pension benefit.

**SECTION 4. BE IT ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that Section 25-183 (b) **Deferred Retirement** is hereby amended as follows:

- (b) **The annuity commencement date of any participant who is to receive his benefit pursuant to section 25-183(a) shall be the date he reaches age sixty-five (65).**

**SECTION 5. BE IT ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that Section 25-190 (a) **Line of Duty Death Benefit** is hereby amended as follows:

- (a) The beneficiaries described in section 25-190(b) of a participant who dies as the direct and proximate result of an accident sustained by him as a participant, while in the actual performance of duties for the city without wilful negligence on his part, before or after he received a line of duty disability benefit under section 25-182(a), shall receive a death benefit in accordance with section 25-193 equal to the greater of sixty (60) percent of his average monthly compensation or his accrued benefit as of the date of his death. **At age 65, said beneficiary receiving a line of duty pension benefit will begin to receive the greater between the normal retirement accrued benefit as of the date of disability or (fifty) 50 percent of the line of duty benefit.**

**SECTION 6. BE IT ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that Section 25-191, is hereby amended to read as follows:

**Sec. 25-191. Other death benefit.**

- (a) The beneficiaries described in subsection **C** of this section of a **grandfathered** participant who does other than as described in Section 25-190(a), and who has not elected deferred retirement under section 25-183, shall receive a death benefit in accordance with Section 25-193 equal to seventy-five (75) percent of:

- (1)The retirement benefit, if any, the participant was receiving as of his or her date of death; or

(2) If the participant died before his or her annuity commencement date, but after he or she was credited with five or more years of service or suffered an ordinary disability, the retirement benefit to which he or she was entitled under Section 25-178, 25-179, 25-181 or 25-182.

(b) The beneficiaries described in subsection C of this section of a participant who does not meet the definition of a grandfathered participant who does other than as described in Section 25-190(a), and who has not elected deferred retirement under Section 25-183, shall receive a death benefit in accordance with Section 25-193 equal to seventy-five (75) percent of:

1. The retirement benefit, if any, the participant was receiving as of his or her date of death which shall be reduced by ten (10) percent upon election by the participant to receive beneficiary coverage; or

2. If the participant died before his or her annuity commencement date, but after he or she was credited with five (5) or more years of service or suffered an ordinary disability, the retirement benefit to which he or she was entitled under Section 25-178, 25-179, 25-181 or 25-182, reduced by 10% based upon such participant's election to receive beneficiary coverage.

(c) The only beneficiaries of the benefit under subsection a or b of this section shall be the participant's spouse, if married to the participant at the time of his or her death, or, if no such spouse, his or her surviving children and handicapped children.

**SECTION 7. BE IT ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that the following definitions set forth in Section 25-193(a) Distribution is hereby amended to read as follows:

*(a) Beneficiary priority.* The death benefit of section 25-190 or 25-191 shall be paid to the surviving spouse until the spouse's death or remarriage. If there is no spouse, or upon the spouse's death or remarriage, the death benefit shall be made, or shall continue to be paid to or on the behalf of the participant's surviving children and handicapped children, for as long as they are children or handicapped children; provided, however, any handicapped child shall be entitled to receive only fifty (50) percent of the benefit payment any other child of the participant shall be entitled to receive.

**SECTION 8. BE IT FURTHER ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that these changes to the City of Memphis, Code of Ordinances, section 25-Pension and Retirement System shall become effective on October 1, 2011.

**SECTION 9. BE IT FURTHER ORDAINED BY THE COUNCIL OF THE CITY OF MEMPHIS,** that this Ordinance shall take effect from and after the date it shall have been passed by the Council, signed by the Chairman of the Council, certified and delivered to the Office of the Mayor in writing by the Comptroller, and become effective as otherwise provided by law.

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Myron Lowery, Chairman  
Memphis City Council

ATTEST:

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Comptroller

# PwC Projection of Future Funded Status