



IMPACT OF CLOSING THE DEFINED BENEFIT PENSION PLANS

Review of Defined Benefit Plan Funding Terminology

- **Normal Cost:** The portion of a plan's contribution requirement necessary to provide funding for the benefits accrued during the Plan Year.
- **Amortization Payment:** The portion of a plan's contribution requirement necessary to provide funding for any benefits accrued during previous Plan Years that are unfunded due to benefit or assumption changes and plan experience. To avoid fund depletion, this amount must be sufficient to amortize the unfunded liability over a reasonable period of time.
- **Administrative Expenses:** The portion of a plan's contribution requirement necessary to provide expected plan expenses from sources other than benefit payments or investment expenses.

Impact on Retirement Plan Costs of Closing the DB plan and opening a DC plan for new hires

- Normal Cost
 - In general, reductions to benefits for new hires result in Normal Cost decreasing gradually to its new level as the current population of active employees is replaced with new hires.
 - For the contribution projections, we have assumed that this transition will occur evenly over a fifteen year period.

Impact on Retirement Plan Costs of Closing the DB plan and opening a DC plan for new hires

- Amortization Payment
 - In general, reductions to benefits for new hires do not immediately impact the amount of a plan's unfunded liability.
 - Due to effects on cash flow and the expected lifetime of plan participants, closed plans typically use a more aggressive amortization policy than plans with a steady inflow of new participants.
 - In the contribution projections, the portion of the amortization payment resulting from the change in amortization schedule is labeled as an Amortization Acceleration Amount.

Impact on Retirement Plan Costs of Closing the DB plan and opening a DC plan for new hires

- **Administrative Expenses**
 - We have assumed that the total administrative expenses for the City's retirement plans will not be affected by the proposed changes.

Impact on Retirement Plan Costs of Closing the DB plan and opening a DC plan for new hires

- Projections
 - The following graphs have been developed using information from the most recent actuarial valuations for the three plans.
 - They are estimates for illustrative purposes only.
 - Any plan changes must be valued and the appropriate impact statements prepared by the actuary for each plan.
- Calculation Changes
 - The model presumes a change to a new employee group over 15 years on a straight line basis.
 - Unfunded liability as of the valuation date is amortized over 15 years as a level dollar in the closed plan scenarios.

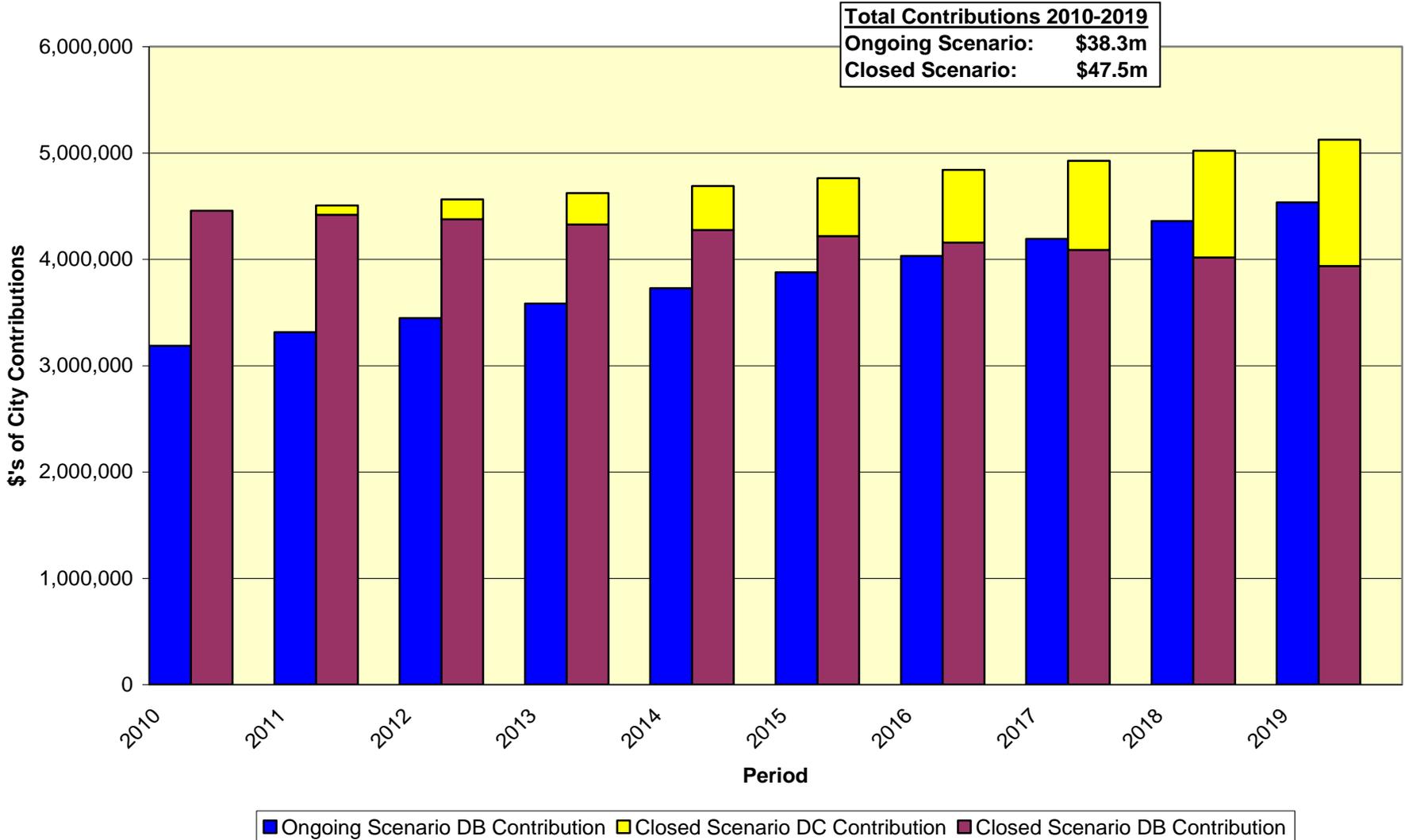
Impact on Retirement Plan Costs of Closing the DB plan and opening a DC plan for new hires

- Projections

- Over the next 10 years, due to accelerated amortization, reduced employee contributions and lowered state contributions, projected contributions are anticipated to be about \$22 million more than currently expected.
- After the initial 10 years, reductions in required contributions are expected.
- We note that this ultimate reduction in contributions is due to a dramatic decrease in the anticipated benefit level for employees who retire from the City.
- The considered DC plan replacement will produce retirement income that is approximately one third of the current plans.

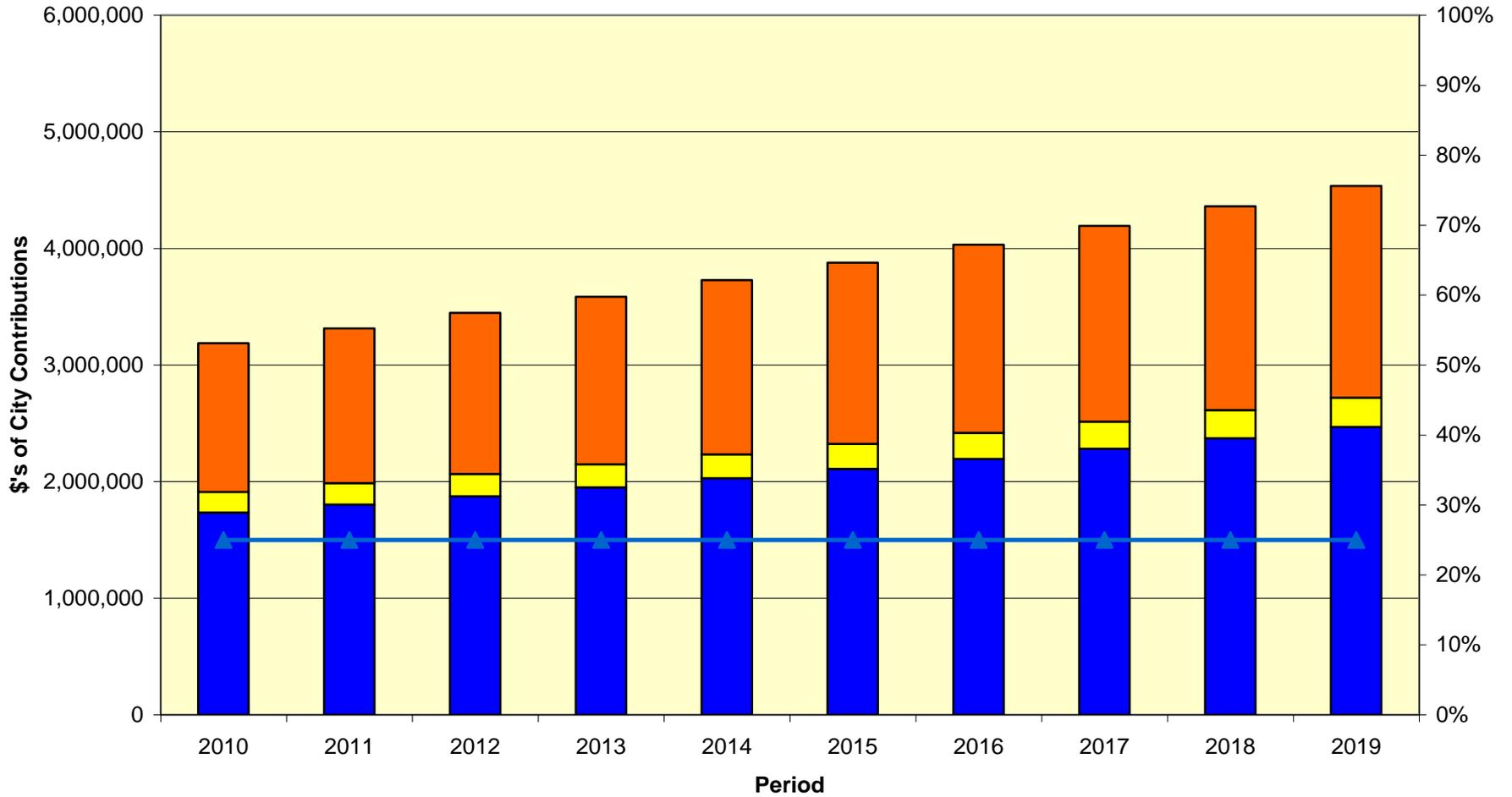
General Employees

Comparison of Required Contributions for Ongoing DB Plan and Closed DB Plan Scenarios



General Employees

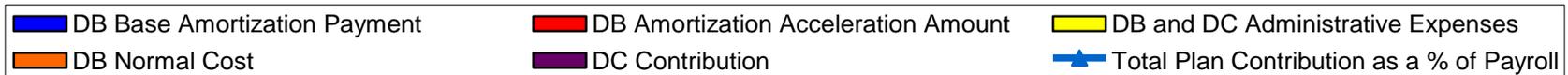
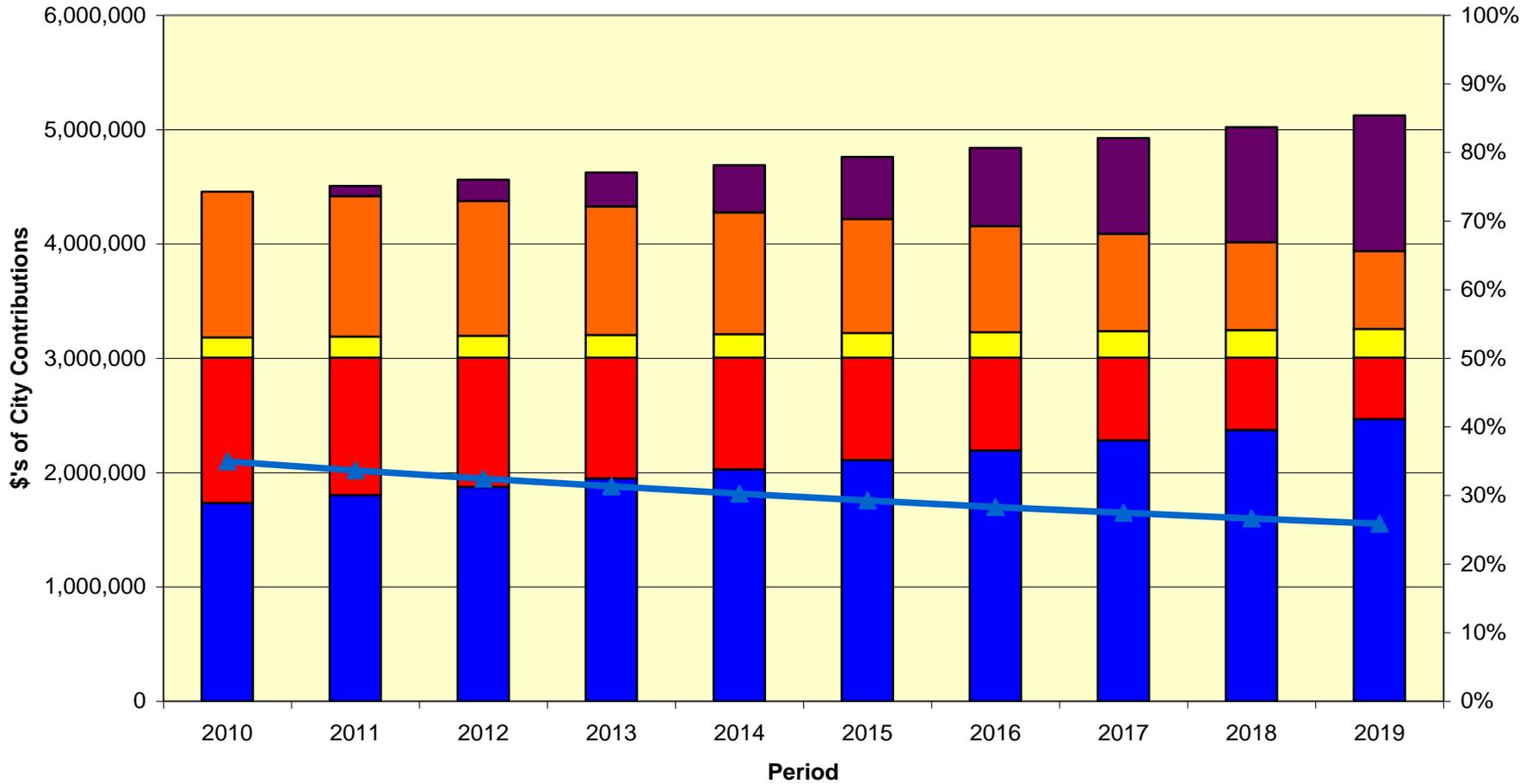
Required Contributions for Ongoing DB Plan



■ Amortization Payment
 ■ Administrative Expenses
 ■ Normal Cost
 ▲ Total Plan Contribution as a % of Payroll

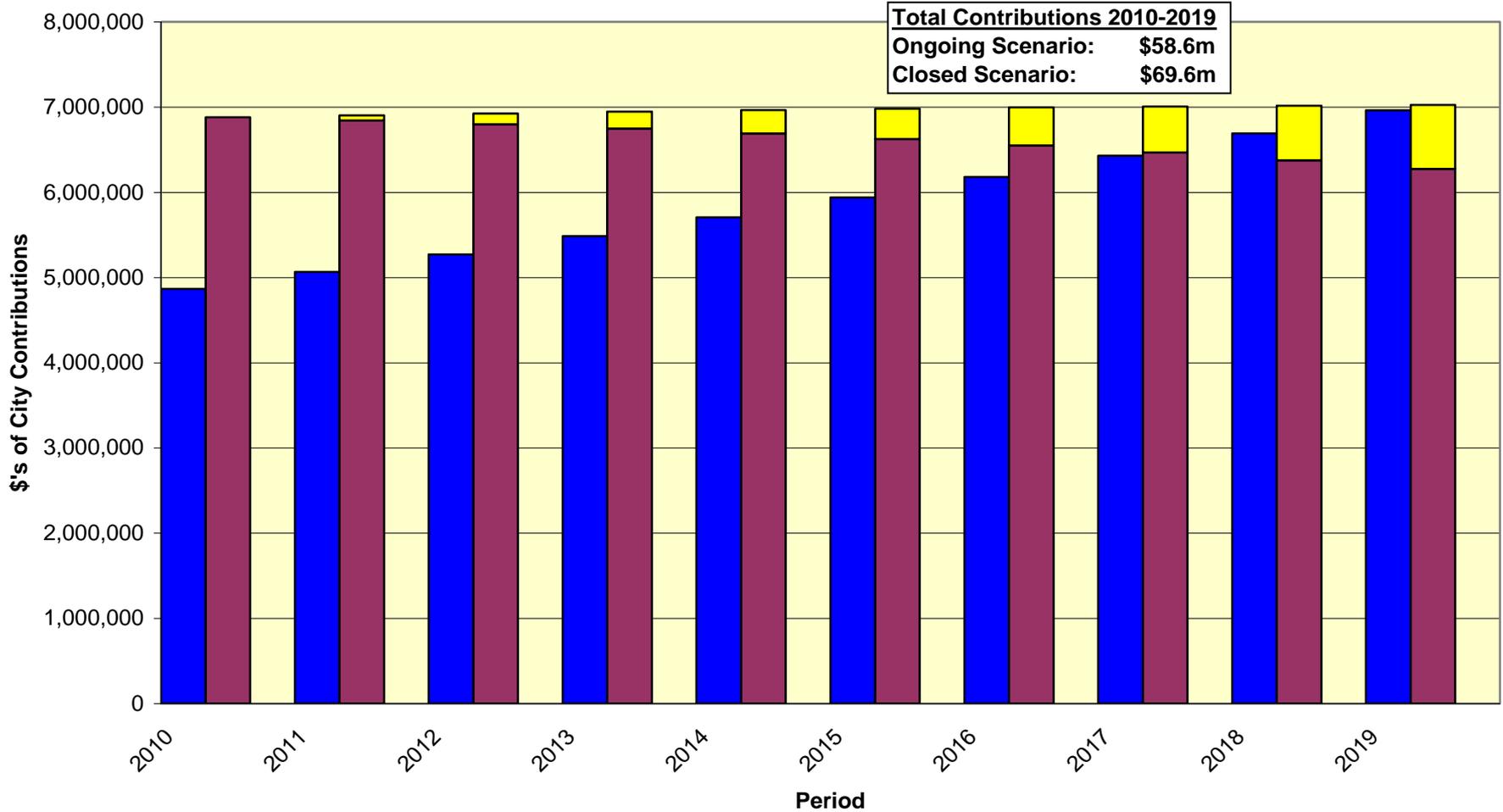
General Employees

Required Contributions for Closed DB Plan and DC Plan for New Hires



Police and Fire

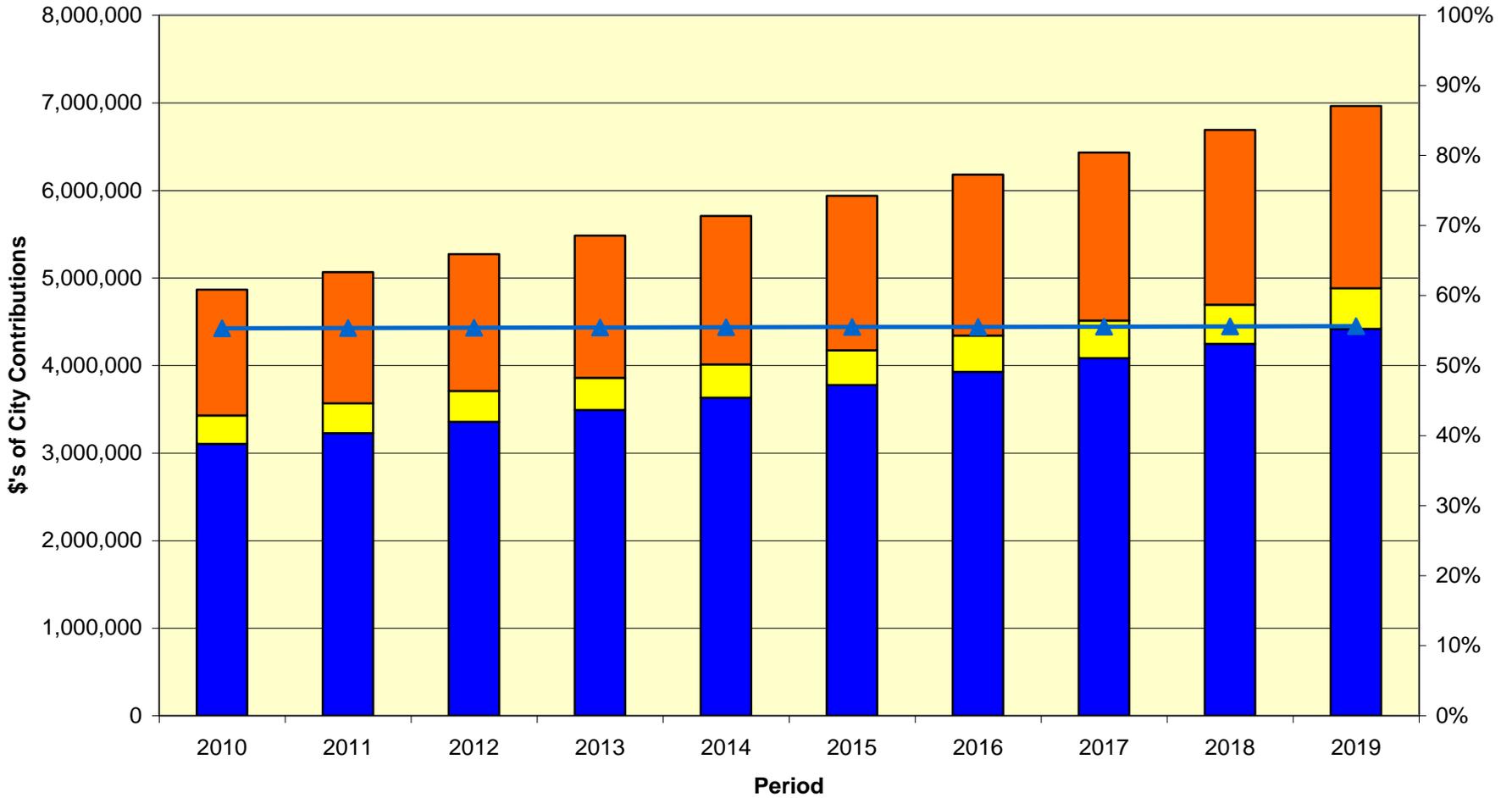
Comparison of Required Contributions for Ongoing DB Plan and Closed DB Plan Scenarios



■ Ongoing Scenario DB Contribution
 ■ Closed Scenario DC Contribution
 ■ Closed Scenario DB Contribution

Police and Fire

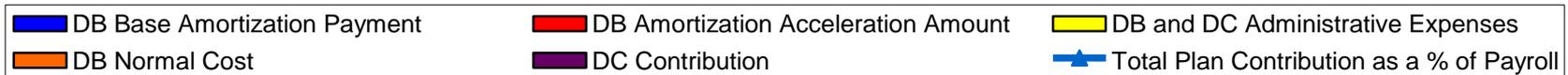
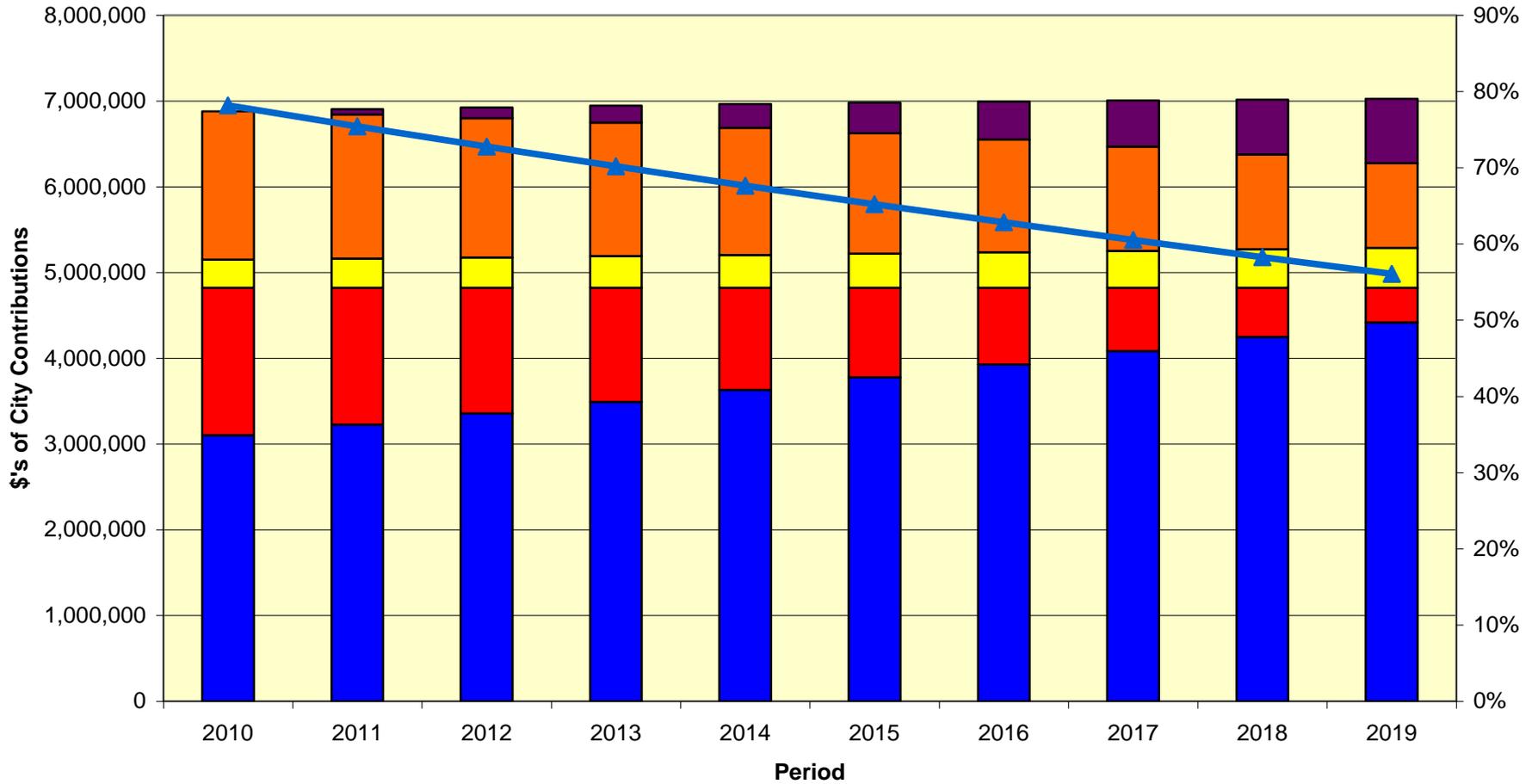
Required Contributions for Ongoing DB Plan



■ Amortization Payment
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Police and Fire

Required Contributions for Closed DB Plan and DC Plan for New Hires



General Management

Comparison of Required Contributions for Ongoing DB Plan and Closed DB Plan Scenarios

