

# **BURLINGTON RETIREMENT COMMITTEE**

## **Appendix - Compilation of Consultant Reports**

September 28, 2014

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**Goal Development**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard**

**Goal: Unfunded liability**

**Discussion**

As of the 6/30/2013 actuarial valuation, the City's unfunded pension liability (UAL) is \$63.6 million. The UAL represents the present value of future pension benefits the city is obligated to pay.

Based on its funding and amortization methods, the city is projected to amortize its UAL over the 30 years ending in 2044. Assuming all actuarial assumptions are met, the cost to the city of amortizing this obligation is projected to be approximately \$6.0 million annually through 2035, then declining steadily to zero in 2044. This schedule is on page 45 of the actuarial valuation dated 6/30/13.

Per the valuation, roughly 57 percent of the city's UAL is attributable to past service, already accrued by retired and active members; the remainder is attributable to future service, projected to be accrued, for current active members. Thus, a majority of the UAL reflects service that already has been performed; a minority of the UAL reflects service that is expected to be performed.

A UAL, by itself, is not problematic. The UAL becomes a problem when the cost of amortizing it becomes a cause of fiscal stress. Indeed, the real problem with a UAL is not so much the UAL itself, but the cost of paying it off. Identifying a supplemental or alternative means of amortizing the UAL could be considered part or all of a solution to resolving the UAL.

The UAL can be amortized through some combination of the following (these are suggestions for fostering discussion by the committee and are not recommendations):

- Pay down the UAL over a 30-year period on the basis of the plan's amortization methods and actuarial assumptions.
  - This might be considered the "stay on the current path" option.
- Reduce benefits for plan participants who currently are receiving a benefit.
  - Presumably, this option would be limited to making a reduction in future COLAs.
  - Affecting benefits for current beneficiaries is a double-edged sword: it can produce relatively substantial cost savings, but it also affects plan members least able to take corrective action.
- Reduce benefits for plan participants who are currently working.
  - This option could take one or more of multiple forms, including increasing the age or years of service needed to qualify for a retirement benefit, reducing future rates of benefit accrual, reducing COLA provisions, etc.
  - As with the option to affect benefits for those who are currently receiving a benefit, this option also is a double-edged sword: it can produce relatively large

cost savings, but also can negatively affect retirement plans for the city's workers.

- Some states and cities that have implemented this option have made changes that vary based on the member's proximity to retirement, so that those who are near retirement are less or unaffected, and those who are earlier in their career are more affected.
- Reduce benefits for inactive plan participants
  - The same descriptions used for current active members would also apply to this group.
- Increase the amount paid in any one or more years
  - This option could increase short-term fiscal stress for the city, but would reduce the long-term cost of amortizing the UAL.
  - The city could dedicate some or all of any revenues above expected amounts to amortizing the UAL.
- Modify actuarial assumptions, such as the investment rate of return, inflation rate, and rate of expected salary growth.
  - Presumably, the city retirement board believes current actuarial assumptions are appropriate.
- Issue pension obligation bonds.
  - POBs essentially replace "soft" debt, in the form of pension obligations, with "hard" debt, in the form of city-issued debt.
  - A POB is an arbitrage play, in which the plan sponsor, in this case, the City of Burlington, borrows funds at current prevailing taxable rates (currently around 4.5 percent) and invests the proceeds, hoping to generate a rate of return high enough to justify the interest and issuance costs.

**Goal Development**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard**

**Goal: Taxpayer's Contribution**

**Discussion**

Contributions from taxpayers are one of three sources of public pension revenue, complemented by contributions from plan participants and investment earnings. Burlington's retirement ordinance directs the city council to fund the retirement plan on the basis of the normal cost—the cost of benefits accrued each year—plus the cost to amortize the unfunded liability (UAL). Each of these components of the contribution rate can vary depending on the actuarial cost method that is used.

The City of Burlington is to be commended for regularly paying its annual required contribution. This practice is vital to ensuring the plan's long-term financial viability.

In the current fiscal year, the city will contribute approximately \$9.0 million to the retirement plan and employees will contribute roughly \$2.3 million. This means the City of Burlington is paying approximately 80 percent of total contributions. On a national basis, in FY 2012, employers paid approximately 70 percent of all pension contributions.

Of the city's FY 15 general fund budget, approximately 7.9 percent will be spent on pension contributions. Although reliable comparisons with other cities are difficult to make (for a number of reasons), the city's financial commitment to pensions is likely somewhat higher than the national average for other similar-sized municipalities.

**Open vs. closed group**

As illustrated by the city's actuarial consultant in its draft discussion of the use of the open group method, the city's cost of the pension plan under the current, closed group method, is projected to trend gradually downward until dropping sharply in 2034 and again in 2038.

The actuarial cost method does not affect the cost of the pension plan; the method affects the timing of the costs.

As the actuary's analysis shows, were the city to adopt the open group method, the city's cost would drop immediately, by some \$2.5 million (28 percent), but then is projected to climb steadily until leveling off in around 2034. As a percentage of city payroll, the open-group method produces a more stable contribution rate, remaining at around 13% to 14% throughout the measurement period.

If the city is seeking immediate fiscal relief from current pension costs, but also seeks to avoid the persistently higher contribution rates in out years, the city may wish to consider exploring with its actuary a hybrid approach between the closed- and open-group methods. For example, the city could switch to the open-group method while making a larger contribution than that

method requires. This approach would reduce the city's current pension cost immediately and in the near-term, while, by virtue of paying more than is required, also lower costs below the levels projected for this method in out-years.

Such a hybrid approach may be structured to both produce immediate cost savings while also producing a relatively stable rate, and/or one that declines gradually over the funding period. Such a "hybrid" approach could be further complemented with other strategies, such as a) the use of the entry age normal actuarial cost method, rather than the projected unit credit method; b) reductions in the UAL through benefit reductions; c) higher employee contribution rates; and/or d) a city policy to commit a portion of any "excess" or "surplus" revenues in future years to amortizing the UAL.

### **Employee contributions**

Burlington employees contribute a fixed rate of pay: Class A workers contribute 10.8 percent; Class B workers contribute 3.05 percent. By national standards, Class A workers' contribution rate is roughly commensurate with the rate paid by public safety workers who do not participate in Social Security. Compared with other general employees, i.e., non-public safety personnel, Burlington general employees pay less than the median comparable worker in the U.S., who contributes 5.7 percent.

As discussed in the Unfunded Liability discussion paper, the employer cost of the city's retirement plan is tied closely to the size of the plan's UAL. Reducing the size of the UAL would reduce the annual plan cost. The UAL discussion paper presents a number of options that would reduce the UAL and thereby reduce the plan cost.

Another way to reduce the taxpayer's cost of the plan would be to increase the employee's contribution rate. Each one percent of additional contribution paid by Class A and Class B workers would produce approximately \$900,000 and \$300,000 annually in taxpayer's savings. (This estimate reflects the fact that a dollar of employee contribution is less valuable to the plan than a dollar of employer contribution, because some employees will terminate prior to retirement, taking their contributions with them.)

### **Social Security**

Because Class A members do not participate in Social Security, neither they nor the city contribute the 6.2 percent of pay that is paid by Social Security participants and their employers. Likewise, Class A members also will not receive Social Security benefits for the work they perform for the city.

Class B members do participate in Social Security, and they contribute 6.2 percent of pay for that benefit. This means Class B members contribute a total of 9.25 percent of pay toward Social Security and the city's pension plan.

Since Class A members may retire with an unreduced benefit at age 55, they may be able to work in a position after retirement (employed by the city or elsewhere) that is covered by Social Security, thereby enabling them to qualify for Social Security benefits when they reach an age of eligibility.

## Overview of variations to typical cost-of-living adjustments among public retirement systems

Prepared by Keith Brainard, August 2010

A majority of retired public employees participate in a pension plan that offers some form of automatic cost-of-living adjustment (COLA). A COLA is intended to offset the effects of inflation on a pension benefit.

A typical automatic COLA provides an annual benefit increase beginning within the first year of retirement, compounded, based either on a specified percentage of the benefit, such as 2.0 percent or 3.0 percent; or on the Consumer Price Index, a measure of inflation published by the U.S. Bureau of Labor Statistics. Most plans that link their COLA to the CPI also place a limit on its size, such as one-half of CPI, or not to exceed 3.0 percent.

According to Paul Zorn at Gabriel, Roeder, Smith, & Co., an automatic COLA of 2.0 percent, compounded annually, will increase the cost of the benefit by 16 percent. To alleviate this cost, or to achieve other retirement plan objectives, or both, some public pension plans have established COLAs different from the typical compounded percentage increase that begins in the first year of the retirement of the plan participant. Some of these variations are described below, with one or more examples of plans that use such methods.

It is generally considered good pension plan policy to pre-fund benefits, including COLAs. This means that the cost of a COLA should be paid during the working life of the plan participant who will receive it. If a COLA is not paid for in advance, a mismatch may result between those who receive public services, and those who pay for them.

### Delayed onset/minimum age of eligibility

- Kansas PERS - For those hired after 6/30/09, automatic 2% beginning at age 65 or the 2nd July 1 after retirement date.
- NM PERF – Automatic after retiree has been retired two full calendar years (i.e., January 1 through December 31), or upon reaching age 65, whichever is sooner
- WY RS - Automatic, lesser of 3% or the increase in the cost of living as determined by the board, effective each July 1 after two full years of retirement
- RI ERS - Based on CPI, up to 3%, (for those hired after 6/30/05, lesser of 3% or CPI) compounded; effective after 3<sup>rd</sup> anniversary of retirement.

### Simple, not compounded

- OH PERS and STRS, CalSTRS and Michigan PSERS – Automatic 3.0% based on original benefit
- Hawaii ERS – Automatic 2.5% percent increase based on original benefit
- Michigan SERS – Automatic 3.0% simple, up to \$300 annually

*According to Zorn, a 3.0% simple COLA costs about the same as a 2.5% automatic COLA*

### Simple until age certain, then compounded

- MS PERS – automatic 3.0% simple until reaching age 55; compounded thereafter

### Tied to investment performance

- AZ SRS and AZ PSPRS – When actuarial investment return exceeds assumption, a proportionate share of “excess earnings” are calculated and distributed as a permanent benefit increase based on years of service (not benefit amount)

#### **Combination automatic and investment performance**

- Los Angeles County ERS – automatic based on CPI, up to 2%, plus a component based on investment performance
- Louisiana SERS - lesser of 2% or CPI, plus up to 1% additional based on investment returns

#### **Tied to funding level**

- SD RS - COLA is linked to CPI or plan funded status as follows: if funded status is 100% or more: 3.1%; if funded status is 80-99.9%, COLA indexed to CPI; 2.1% minimum, 2.8% maximum; if funded status is less than 80%: 2.1% COLA

#### **Funded by employee at employee’s discretion**

- LA TRS – Allows retiring participants to take an actuarial benefit reduction to fund a permanent, annual 2.5% COLA. Retiree must be age 55 to begin receiving COLA.

#### **Applied only to a portion of base benefit, with delayed onset**

- NY STRS -- Automatic, equal to one-half of CPI, with a minimum of 1% and a maximum of 3%, compounded, applied to the first \$18,000 in annual benefits. Retirees must be age 62 and retired 5 years or 55 and retired 10 years to qualify.
- NY SLRS – Automatic, based on one-half the CPI, applied to first \$18,000, compounded. Must be age 62 and retired 5 years, or 55 and retired 10 years, to qualify.
- Massachusetts - Automatic, based on CPI up to 3% on first \$12,000 of benefit

#### **Minimum increase and minimum age**

- New Mexico Teachers - One-half of CPI up to 4%, with a 2% minimum; annuitant must be 65 to qualify for a COLA

#### **Lifetime cap**

- Missouri Teachers - automatic based on CPI, not to exceed 5%, compounded, with a lifetime cap of 80% above base benefit.

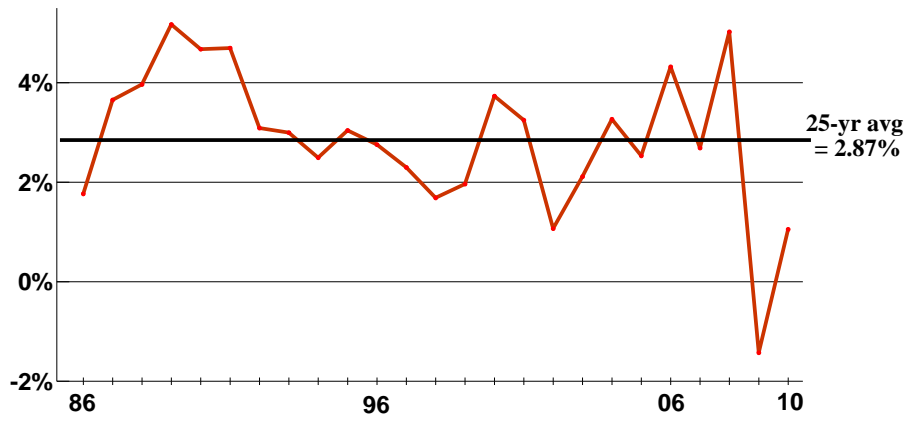
#### **Employer option**

- TN CRS, TX MRS, TX CDRS

#### **In-state residence requirement**

- AK TRS – retirees must reside in state to receive COLA

**Figure A: Twenty-five year history of inflation in the U.S., 12-month periods ended June**



U.S. Bureau of Labor Statistics



**How Other Municipalities Have Addressed Pension Reform**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard, July 12, 2014**

**Discussion**

Although public pension reform is not new, the scope and magnitude of changes made to public pension plans in recent years is unprecedented. Most states and many cities have made changes to their retirement benefits since the 2008-09 market decline, and many of the changes have been considerable.

Responses to pension funding challenges vary widely and depend on such factors as a) the extent of the funding problem; b) the framework of pension legal protections; c) the plan sponsor's fiscal condition; d) the relative political strength of public employees; d) the political culture of the plan sponsor(s); and others. As a result, just as each public pension plan is unique, so is each case of pension reform also unique.

Below is a list of changes commonly made to public retirement plan designs:

- Higher employee contributions
- A higher age or greater number of years of service, or both, needed to qualify for a normal (unreduced), early retirement benefit, or both
- More years added to the Average Final Compensation (AFC) period
- Reduced cost-of-living adjustment
- Higher vesting period
- Restrictions on the definition of compensation that is included in the pension calculation
- Establishment of hybrid retirement plans, in lieu of traditional defined benefit plans

The group(s) of plan participants affected by these changes varies: in some cases, only new hires are affected; in others, current active workers have had their retirement benefit structure altered. In some cases, even members who are retired have had their benefits modified. Which groups have their benefits changed, and to what extent, is chiefly a function of the extent of the funding problem and the framework of pension legal protections in place.

The US Conference of Mayors has prepared two compendiums of municipal pension reform that together comprise some 90 pages in length. Below are selected excerpts from these accounts that are intended to briefly summarize the manner in which some cities addressed pension reform:

**Honolulu, HI**

The mayor of Honolulu said, ““We believe that a key factor in successful reform is communication and dialog early on with all stakeholders including the State, counties, and labor organizations.”

**Pleasanton, CA**

Pleasanton officials believe the successful outcomes were a result of several factors:

- Pleasanton and its employees have enjoyed a strong long-term relationship that formed the foundation for concession bargaining. Clear and consistent parameters focused on achieving sustainable benefits were established at the onset of negotiations and articulated publicly and regularly.
- In advance of negotiations, the City Manager and Assistant City Manager participated as members of a two-county Pension Reform Task Force that developed a “white paper” outlining recommendations for pension reform. Some of these were negotiated with the PPOA.
- Discussions at the table were candid and straightforward. Union leaders understood the impact of the present economy and public concerns for unsustainable retirement benefits. They worked collaboratively with City representatives to address the challenges.

### **Providence, RI**

On April 30 [2011], with negotiations at an impasse, the Providence City Council approved unanimously, and Mayor Taveras signed, a pension reform ordinance built upon more than six months of actuarial analysis, public hearings, and expert testimony. The ordinance suspends all guaranteed annual raises (COLAs) for retirees until the pension system is 70 percent funded, and caps all future pensions at one-and-a-half times the median State household income. The ordinance also reduces the disability benefit from 66.6 percent of an employee’s final salary to 50 percent, and requires all employees to pay into the pension system for as long as they are earning credit toward a pension.

### **Phoenix, AZ**

The Pension Reform Task Force was appointed by the Mayor and City Council in January 2011 to work with management, outside consultants, and other stakeholders to review and recommend changes to the COPERS. The Pension Reform Task Force recommended maintaining a defined benefit pension plan with reforms that include increasing the retirement age, establishing a 50/50 split of pension costs between the City and the employee and other reforms that make the system competitive with the Arizona State Retirement System (ASRS). The Task Force also recommended against moving to a defined contribution plan. Following a thorough review of the plan and actuarial and legal analysis, Task Force recommendations were presented to the City Council on February 14, 2012.

City Council adopted a pension reform timeline and directed staff to conduct an actuarial analysis of three reform models that apply only to new employees. The models are described below:

#### **Model 1**

Model 1 provides for the following changes to new hires:

- Change Rule of 80 provision to Rule of 87
- Change the pension multiplier to a graduated multiplier based on years of service, matching the Arizona State Retirement System (ASRS) schedule
- Increase time of service requirements and eliminate minimum pensions as recommended by the Pension Reform Task Force
- Employee contribution rate is based on 50/50 split of actuarially determined rate

- Allow new City hires with service on account with ASRS prior to 7/1/2011 to join COPERS under current provisions

Under Model 1, the City's contribution rate is projected to decrease by 51 percent and estimated to yield approximately \$596 million in cumulative savings by 2037. The highest employee contribution rate under this scenario is projected to be 13.6 percent of salary.

### **Model 2**

Model 2 provides the same changes as Model 1 with a cap on City contribution rates at 10 percent (Model 2a), 7 percent (Model 2b) and 5 percent (Model 2c) of the actuarially required contribution. In a survey of other defined benefit plans, no other plans had an employer cap, although employee caps or fixed rates were more common. All of the cap options modeled place more than 50 percent of the cost on the new employees immediately upon implementation. This would result in greater volatility of employee net pay and decreases the City's ability to attract and retain high quality employees.

Under Model 2a, the City's contribution rate is projected to decrease by 52 percent and estimated to yield approximately \$726 million in cumulative savings by 2037. The highest employee contribution rate under this option is projected to be 17.2 percent of salary.

Under Model 2b, the City's contribution rate is projected to decrease by 64 percent and estimated to yield approximately \$1,037 million in cumulative savings by 2037. The highest employee contribution rate under this option is projected to be 20.2 percent of salary.

Under Model 2c, the City's contribution rate is projected to decrease by 73 percent and estimated to yield approximately \$1,245 million in cumulative savings by 2037. The highest employee contribution rate under this option is projected to be 22.2 percent of salary.

### **Model 3**

Model 3 provides for a mandatory 401(a) plan for all new hires with a 10% (Model 3a), 7% (Model 3b) and 5% (Model 3c) match by the City. In a survey of the 25 largest cities, only two cities, Washington, D.C. and San Diego, have a defined contribution only plan. All of the defined contribution options modeled substantially increase the City's cost immediately and are more expensive than Model 1 over the next 25 years.

In addition, the defined contribution plans result in lower pension benefits to the employee than Model 1. In the very long run, after the current pension system is paid off, the City has no pension liability under a deferred contribution plan.

Under Model 3a, the City's contribution rate is projected to increase immediately by 20 percent, then decrease by 55 percent by 2037. Model 3a is estimated to cumulatively cost approximately \$415 million by 2037.

Under Model 3b, the City's contribution rate is projected to increase immediately by 20 percent, then decrease by 68 percent by 2037. Model 3b is estimated cumulatively cost approximately \$101 million by 2037.

Under Model 3c, the City's contribution rate is projected to increase immediately by 20 percent, then decrease by 76 percent by 2037. Model 3c is estimated to cumulatively save approximately \$109 million by 2037 with most of the savings occurring near the end of the 25 year projections.

### **San Francisco, CA**

The City's spring 2011 pension reform efforts proceeded on several fronts. Labor unions utilized actuaries funded by Mr. Hellman to research and identify reforms to consider, and Supervisor Elsbernd, Mayor Lee, and the City's pension and labor negotiating teams did the same, aided by analysis from City Controller Ben Rosenfield. Although San Francisco's Charter leaves the structure of its pension benefits to the City's voters, state law requires negotiations with labor unions prior to the placement of such a measure on the City's ballot by the Mayor or Board of Supervisors. In March 2011, therefore, the two processes coalesced in a series of large bargaining sessions convened by the City's Employee Relations Division, under the direction of the Mayor, and attended by representatives of the City's unions.

The City used an unconventional approach to bargaining on the pension initiative: Rather than presenting a draft proposal, and bargaining based on its specific terms, the City presented labor with a plethora of items and ideas it was considering including in the initiative. This brainstorming approach, borrowed from the "interest-based" model of collective bargaining, allowed the unions to have input as to the elements of the legislation from the very beginning. While the unions were initially upset that the City was considering controversial items such as defined contribution or "hybrid" plans for new hires and reductions in pension formulas for prospective service, they ultimately saw that the City was not wedded to any one solution. Over the next two months, subcommittees and the larger group met frequently to tackle tough issues regarding legal issues of vested rights, retiree health elements, new pension formulas, and cost-sharing models. Ultimately, the openness and participatory nature of this process

The voters adopted the City's collaborative pension reform initiative, dubbed "Prop C," despite the existence of a second, competing initiative put forth by Public Defender Adachi in the same election. The broad-based support of labor for Prop C was critical to its success in a town as union-friendly as San Francisco. Some of the most significant elements of Prop C include:

- new, less-expensive pension tiers for future employees that raise the retirement age by three years, cap pensionable salary based on IRS limits, base final compensation for pension calculation on three years rather than the single highest year, and cut retirement cash-out for non-service retirements in half;
- a mandate that supplemental COLAs to retirees will only be paid when the pension system is fully funded;
- comprehensive employee cost-sharing of the employer's pension contributions, so that employees pay higher percentages when plan costs rise, and reduced percentages when plan costs drop;
- required employee contributions to the City's Retiree Health Care Trust Fund, starting in 2016-17;
- restriction on retiree health benefits so that those who are not vested in benefit improvements that were implemented after the date they left service will not receive them; and

- provisions to increase the ability of the Health Service System, which controls City employee health plan design, to address rising costs.

### **Barrington, IL**

Among Tier II changes were an increase in normal retirement age from 50 with 20 years of service to 55 with 10 years; a requirement that the 75 percent maximum salary benefit be based on 96-month salary averaging, rather than no averaging; a shift from a fixed 3 percent COLA to the lesser of 3 percent or one-half of the Consumer Price Index; and a reduction in the free Joint and Survivor Annuity from 100 percent to 66.7 percent. While this legislation was considered a move in the right direction, it was viewed as failing to address the primary cause of declining funding levels: benefits for current employees.

### **Ft. Worth, TX**

Some major benefits for new police and General Employees have been reduced, as have future service benefits for current police and General Employees. Among these:

- Pension earnings will be based on the five highest salary years, rather than three.
- The multiplier that determines the percentage of pay a retiree receives was adjusted to 2.5 percent from 3 percent.
- Overtime will not be included in pension calculations.
- For employees who have selected to have an ad hoc cost of living adjustment (COLA) in retirement, the COLA will revert to 2 percent for future service accrual, with an option to revert to a guaranteed 2 percent for past accrued service.

...

Fort Worth officials believe keys to their progress in resolving the City's pension problems include: a City Council that was collectively committed to resolving the challenges while retaining a defined benefit plan; a supportive business community and supportive citizens; limited union power for police; and a significant educational campaign among employees, with a message of "Sustainability. Affordability. Security. Long-term Fiscal Accountability."

### **Pembroke Pines, FL**

The police pension was reformed by decreasing the benefit multiplier from 4 percent to 3.5 percent for any current member's service time accrued after April 30, 2010. As of that date: the benefit multiplier for new hires decreased to 3 percent; the pension COLA changed from 3 percent to 2 percent per year, and for new hires the COLA was set at 1.5 percent; only accrued time earned before that date is included in the pension calculations, up to a maximum of 1,000 hours; the longevity pay percentage was frozen for current members; and a maximum of 300 hours of overtime may be included in pension calculations. Employees hired after October 1, 2006 have to pay the insurance equivalent (blended rate) to be covered under the retiree health insurance program.

...

Under firefighter pension reforms, the pension COLA for current employees as of April 30, 2010 changed from 3 percent to 2 percent. The benefit multiplier changed as follows:

- For employees hired prior to June 18, 2003, service time accrued as of April 30, 2010 is calculated at 4 percent per year and for subsequent years it is calculated at 3.5 percent.

Employees may remain active until such time that their creditable service would equal a multiplier of 80 percent.

- For employees hired on or after June 18, 2003, service time accrued as of April 30, 2010 is calculated at 4 percent per year and for subsequent years it is calculated at 3.5 percent.
- Employees are eligible to remain active until such time as the accumulated total multiplier under the new plan would equal the amount he/she would have received under the terms of the plan in effect on April 30, 2010.

**Overview of Plan Comparison**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard**

**Discussion**

Accompanying this narrative are two files, identified in the title as “Comparison of Retirement Benefits for Employees Hired Previously” and “Comparison of Retirement Benefits for Employees Hired Today.”

“Hired Previously” compares key elements of the retirement benefits in place for a majority of each plan’s active or retired membership count. “Hired Today” compares retirement benefits provided to employees who are hired currently.

The plans chosen as comparatives with the City of Burlington were selected on the basis of one or more similarities with Burlington, including some combination of Social Security participation (or not); geographic location and proximity to Burlington; similar size and proximity to a major urban area; or a statewide plan (which in most cases contains a large number of employers and participants).

In my view, the retirement benefits provided by the comparative plans listed on the accompanying chart are fairly representative of benefits sponsored or provided by municipalities around the US and especially in the northeastern U.S. The information about the plans presented is believed to be accurate.

This comparison features selected core elements of retirement plan design, namely, the age and years of service needed to qualify for a normal (unreduced) retirement benefit; the retirement multiplier(s); the employee contribution rate; and the retirement cost-of-living adjustment (COLA). Other elements of retirement plan design than can affect the cost and level of benefits, but that are not included in this analysis, include the average final compensation (AFC) period, vesting period, definitions of compensation, early retirement provisions, and others.

The City of Burlington’s retirement plans offer retiring workers hired until 2006-08 (depending on the position) a choice at retirement of retirement multipliers matched with automatic cost-of-living (COLA) provisions. Offering workers a choice of a multiplier is unusual, if not unique, among retirement plans sponsored by states and local governments. (I do not recall seeing such an arrangement elsewhere.)

**Class A**

Most public safety personnel in the U.S. participate in retirement plans that are sponsored by local government, as is the case with the City of Burlington’s employees. Also, like the City of Burlington’s Class A workers, a majority of public safety personnel do not participate in Social Security.

Retirement benefits for many municipal public safety workers in the U.S. traditionally have been patterned after the prevailing military retirement benefit model, i.e., a benefit equal to one-half of final average pay after 20 or 25 years of service. This benefit structure remains prevalent today, although most employers have established a minimum retirement age, typically age 50 to 55, for workers to receive a full (unreduced) pension benefit.

Because the city-sponsored retirement benefit is intended as a substitute for Social Security, it is worth mentioning that Social Security, on average, replaces approximately 42 percent of average lifetime earnings for a typical (median) income earner.

**Class A Hired Previously**

Burlington police officers hired before January 1, 2006 and firefighters hired before January 1, 2007 may elect to receive a pension benefit based on one of three multipliers with a corresponding automatic cost-of-living adjustment (COLA). These options, which apply to the plan participant’s first 25 years of service, are as follows:

- A multiplier of 2.75 with a full COLA, tied to CPI, not to exceed six percent annually
- A multiplier of 3.25 with a COLA equal to one-half of the CPI, not to exceed percent annually (i.e., a COLA not to exceed three percent)
- A multiplier of 3.8 with no COLA.

In addition to these multipliers, city firefighters qualify for an additional retirement service credit, equal to 1.17 years of service for each year in which the firefighter worked an average of 53+ hours per week. According to the city’s retirement administrator, most firefighters receive this service credit for the entirety of their career. I am unaware of another public pension plan that provides more than one year of service credit for one year of service.

In response to my question, the city retirement administrator informed me that the salary provided to firefighters who work overtime reflects the additional time they work. Thus, firefighters who qualify for the 1.17 OT service premium essentially are receiving a retirement benefit based on counting the same overtime service: first, through a higher salary that is used to calculate the retirement benefit; then by increasing the number of years of service used to calculate the retirement benefit.

The table below compares the percentage of average final compensation (AFC) that is replaced by each of the three choices available to members of this group who retire with 25 years of service credit. The column titled AFC replacement with 1.17 OT premium presents the percentage of AFC that is replaced in cases where firefighters receive the 1.17 service credit premium for all the 25 years of service credit.

<b>Multiplier</b>	<b>AFC replacement without additional service credit</b>	<b>AFC replacement with 1.17 OT premium</b>	<b>COLA</b>
2.75	68.75%	80.4%	CPI to 6%
3.25	81.25%	95.1%	½ CPI to 6%
3.8	95.0%	111.2%	No COLA
10 @3.8 + 15 @ 3.6	92.0%	107.6%	No COLA

The benefit provided by Burlington’s retirement plan for Class A workers hired before 2006 or 2007 substantially exceeds the norm provided by peer plans. This is a result of two elements of the retirement plan design: the multiplier, which is higher than the median or average public sector multiplier; and the COLA, whose limit of six percent exceeds that of most plans (although this is not a major factor as long as inflation remains muted, as it has been in recent years). For firefighters, this higher benefit also is a result of the additional service credit available for working overtime, for those participants who qualify.

Although this benefit level is unusual, it is not unique: some municipal public safety plans, particularly in California and Florida, provide benefits similar to those available to Burlington workers hired previously. Many or most of the plans with multipliers of 3.0 and higher have become relatively expensive to maintain, and in many cases, benefits at this level have been closed to newly hired workers.

The 3.8 multiplier option predictably provides the largest immediate benefit, but, with no COLA, the value of that benefit erodes over time with inflation. Assuming some inflation, the benefit options with a COLA eventually generate a higher benefit payment than that provided by the higher multiplier with no COLA.



The contribution rate paid by Burlington Class A workers, 10.8 percent of pay, is roughly consistent with the rate of pay for the group of comparative plans. Rates for this group range from 5.0 percent to around 20 percent.

**Class A Hired Today**

Burlington police officers hired since 2011 (give or take; see table for specific dates) differ for firefighters and police officers. Specifically, Burlington police officers may retire at age 50 (which is toward the low end of the range, but not unusual) for the peer group, and may accrue a proportionately higher benefit, for working after age 50. The retirement benefit of Burlington police officers is based on a multiplier of 2.5 percent for age 50 at 20 years of service, rising gradually to 3.0 percent for attainment of age 55 and 25 years of service.

Firefighters also qualify for a retirement benefit at age 50 with 25 years of service, calculated with a multiplier of 2.65 percent for all years of service.

<b>Multiplier</b>	<b>AFC replacement without additional service credit</b>	<b>AFC replacement with 1.17 OT premium</b>	<b>COLA</b>
2.65 (for firefighters)	66.25%	80.4%	CPI to 6%
3.0 (for police @25 years of service)	75.0%	NA	CPI to 6%

All Class A workers hired today qualify for a retirement COLA of CPI up to 6 percent, which is higher than most of the plans in the peer group (Nevada employees excepted).

By virtue of retirement multipliers and the COLA, Class A workers today receive a benefit that is greater than that provided to participants in comparable plans, although closer to the mainstream than for the benefit provided to those hired previously. The OT service premium, available to eligible firefighters, increases the value of the benefit available to those workers.

**Hired Previously: Class B**

Retirement benefits for Class B employees hired previously by the City of Burlington are roughly comparable to those provided to similar workers in comparable plans.

Like their public safety personnel counterparts, Burlington workers hired before 2006 or 2008 (depending on the employee’s labor affiliation) are permitted to choose from among different multipliers, ranging from 1.6 plus a full COLA to 2.2 (through 2006 or 2008; 2.0 thereafter) with no COLA. Although this multiplier and COLA combination is slightly higher than that provided by peer plans, the retirement age for Burlington workers also is somewhat higher than for other plans, and the employee contribution rate is lower.

Where employees in comparable plans pay at a contribution rate of 5.0 percent or so, Burlington workers pay 3.05 percent.

Notably, the normal retirement age and the required vesting period for Burlington workers is on the higher end of the range compared to peer plans. A more common arrangement, particularly for workers hired before many reforms were made in recent years, permits a full (normal) retirement benefit at age 60 to 64, usually with five or fewer required years of service.

The COLA available to Class B workers, CPI up to four percent, is somewhat higher than that available in comparable plans. A more common arrangement, if an auto-COLA is available at all, provides a COLA that either is capped at two to three percent, or that is a fraction of CPI, such as one-half.

Not included in the comparable table, but worth mentioning, is that Burlington workers have a seven-year vesting period, somewhat longer than a more typical, five-year vesting requirement.

**Hired Today: Class B**

Retirement benefits for Class B Burlington employees hired today by the city are slightly below those provided to employees in comparable plans. The value of this lower level of benefits is offset, to some extent, by the lower contribution rate (3.05 percent of pay) paid by employees.

As with Class B workers hired previously, the normal retirement age and the required vesting period for Burlington workers is on the higher end of the range compared to peer plans. A more common arrangement, particularly for workers hired before many reforms were made in recent years, permits a full (normal) retirement benefit at age 60 to 64, usually with five or fewer required years of service. However, reforms made in recent years in many states and cities have increased the required age or years of service, or both, needed to qualify for an unreduced retirement benefit.

As with workers hired previously, the COLA available to Class B workers, CPI up to four percent, is somewhat higher than that available in comparable plans. A more common arrangement, if an auto-COLA is available at all, provides a COLA that either is capped at two to three percent, or that is a fraction of CPI, such as one-half.

**Discussion**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard**  
**July 2014**

**Topic: Plans that have experienced a larger-than-average decline in funding level**

**Discussion**

The average decline in funding level from FY 01, which was at or near the collective peak in public pension plans' funding level, to FY 13, was approximately 28 percent from around 101 percent to 73 percent.

Predictably, there is variability in this experience: some plans experienced smaller declines, while others experienced larger declines.

I reviewed around 20 plans that experienced declines in their funding level of more than 30 percent. The cause of the extraordinary funding level decline varies by plan, but one or more of several factors were present in each case:

- Failure by the employer to pay the Annual Required Contribution
  - The most common factor contributing to extraordinary declines in funding level has been a consistent failure by the employer to adequately pay the ARC.
- Modification of benefit levels, in most cases in the 1995 to 2000 timeframe, without adequately altering the plan's funding requirement
  - Benefit levels for many plans, particularly those that had attained funding levels well in excess of 100 percent, were increased during the late 1990s. In some cases, the actual cost of benefit changes was underestimated when actuarial experiences played out.
- Adjustment of actuarial assumptions or methods
  - Many public pension plans have altered their actuarial methods and assumptions over the last 15 years. The most popular change (and usually the one with the greatest effect on the plan's funding level and cost) has been to reduce the plan's investment return assumption. Reducing the investment return assumption increases the plan's unfunded liability and reduces its funding condition.
  - Some plans have increased the length of the period over which the plan phases in investment gains or losses. A plan that has lengthened its smoothing period recently (of which at least two did in the examined group) would have had the experience of recognizing all or most of the 2008-09 market decline, but still is phasing in its investment losses.
  - Similarly, altering a plan's amortization policy, such as by reducing the length of its amortization period, also can reduce its funding level.
  - Finally, instituting a new mortality table, which assumes plan participants will live longer, also worsen a plan's funding condition.

- Substandard investment performance
  - Investment performance also can affect a pension plan's funding condition. The median annualized public pension fund investment return for the 10-year period ended June 30, 2013 was 7.1 percent, but actual results vary widely, ranging from below six percent to above eight percent. Underperforming by even one percent on an annual basis over a decade can have a significant effect on a pension plan's funding condition.

In some cases, a combination of these factors took place, such as a failure to receive the full ARC, combined with changes in the investment return assumption.

Additionally, it is possible that some plans have had an actuarial experience that has not been recognized but that is having an effect on the plan's actuarial condition. For example, a larger than expected percentage of participants could have retired and are receiving benefit, but the cost of that experience has not yet been measured or funded.

**HIRED TODAY**  
**Class A (public safety officers, not participating in Social Security)**

	<b>Age/years of svc to qualify for a normal (unreduced) retirement benefit</b>	<b>Benefit formula</b>	<b>Employee contribution rate</b>	<b>Cost-of-living adjustment</b>	<b>Notes</b>
<b>Burlington, VT police (hired after 12/08/10)</b>	50/20	2.5%, rising gradually to 3.0% for attainment of 25 years of service	10.8%	CPI up to 6%	
<b>Burlington, VT fire (hired after 10/6/11)</b>	50/25	2.65%	10.8%	CPI up to 6%	Participants with average workweek of 53+ hours receive 1.17 years of credit for each year worked. Per the BERS administrator, most retiring firefighters qualify for this provision for all their years of service.
<b>Portland, ME police officers and firefighters</b>	50/25, 65/5	2.0%	7.0%, rising one-half of one percent each year until reaching 8.0%	CPI up to 3%, following 12 months of retirement	Per a MainePERS benefits officer, the benefits provided to Portland public safety officers are typical of those provided to other cities that participate in the plan.
<b>Massachusetts municipal</b>	55/any	2.5% for retirement at age 57, declining by 0.15% for each year of age under 57; reduction is less for	9.0% of first \$30k in salary; 11.0% thereafter	Based on election of local retirement board; CPI up to 3% on first \$12k of benefit	Max benefit is 80% of final average salary

		retirees with 30+ years of service			
<b>Connecticut municipal</b>	55/5, any/15	2.0%	5.0%	60% of CPI up to 6% plus 75% of CPI above 6%	Reflects benefits for employees of the 14 non- Social Security cities that participate in the CT MERS

<b>Ohio municipal</b>	52/25	2.50% for first 20 years plus 2.0% for years 21-25 plus 1.5% for years 26-33	11.50%, rising to 12.25% July 1, 2015	Lesser of 3% or CPI, simple, delayed until age 55 except for survivors and disabilitants	Reflects benefits for municipal employees from 500+ police departments and 300+ fire departments that participate in the Ohio Police & Fire Pension Fund.
<b>Nevada municipal</b>	65/5, 60/10, 50/20, any/30	2.50%	Currently around 20%	Tied to CPI	Employees share the cost of the benefit equally with employers. All public employees in the state participate in the NV PERS.
<b>Springfield, IL firefighters</b>	50/20	2.5%	9.455%	Lesser of one-half of CPI or 3%	
<b>Springfield, IL police</b>	55/10	2.5%	9.91%	Lesser of one-half of CPI or 3%, upon attainment of age 55	

*Plan design details are based on information available on-line or via interviews with retirement system officials, and is believed to be accurate.*

**Class B (general employees, participating in Social Security)**

	<b>Age/years of svc to qualify for a normal (unreduced) retirement benefit</b>	<b>Benefit formula</b>	<b>Employee contribution rate</b>	<b>Cost-of-living adjustment</b>	<b>Notes</b>
<b>Burlington, VT (IBEW workers hired since 10/30/12 and AFSCME workers hired after 6/7/11 and non-union workers hired since 1/1/06)</b>	65/7	1.4%	3.05%	Based on CPI up to 4%	
<b>Vermont municipal</b>	65/5, 55/35	1.4%	2.5%	50% of CPI, up to 2% per year	Reflects benefits for Group A participants, the largest benefits tier maintained by the VT MERS
<b>State of Vermont</b>	65/5 or Rule of 87	1.67%	6.40% thru 6/30/16; 5.10% thru 6/30/19; 4.85% thereafter	Based on CPI up to 5%	Max benefit is 60% of final salary
<b>New Hampshire municipal</b>	65/any	1.515%	7.0%	Ad hoc as approved by legislature	Reflects benefits in place for employees of the 250+ cities and other political subdivisions that participate in the NH state system
<b>New York State municipal</b>	63/10	1.66% for retirement with less than 20 years of service; 1.75% for 20 years of service; 2.0% for years of service above 20	Based on salary: 3.0% on first \$45k, rising incrementally to 6.0% for salary above \$100k	One-half of CPI applied to first \$18k of benefit; must be age 62 and retired 5 years, or 55 and retired 10 years to receive COLA; may not exceed 3% per year	Reflects benefits in place for employees of the 1000+ cities and other political subdivisions that participate in the NY state system
<b>New Jersey municipal</b>	65/10	1.67%	6.5%, rising gradually to 7.5% by 2018	60% of CPI, but was suspended in 2011 until plan funding level reaches 80%. Suspension is under legal challenge.	Reflects benefits in place for employees of the 1000+ cities and other political subdivisions that participate in the NJ state system
<b>Connecticut</b>	55/5, any/15	1.50%	2.25% up to	60% of CPI up to	Reflects benefits in



<b>municipal</b>			Social Security taxable wage base (approximately \$115k), plus 5.0% thereafter	6% plus 75% of CPI above 6%	place for employees of the ~140 Social Security cities and other political subdivisions that participate in the CT MERS
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*Plan design details are based on information available on-line or via interviews with retirement system officials, and is believed to be accurate.*

**PREVIOUS HIRES**  
**Class A (public safety officers, not participating in Social Security)**

	<b>Age/years of svc to qualify for a normal (unreduced) retirement benefit</b>	<b>Benefit formula</b>	<b>Employee contribution rate</b>	<b>Cost-of-living adjustment</b>	<b>Notes</b>
<b>Burlington, VT firefighters hired before 6/30/06 (excludes those who join management)</b>	45/25	Choice of <ul style="list-style-type: none"> <li>• 2.75% for 1<sup>st</sup> 25 years, plus COLA</li> <li>• 3.25% for 1<sup>st</sup> 25 years, plus ½ COLA</li> <li>• 3.8% for 1<sup>st</sup> 25 years for service up to 6/30/06, 3.6% for 1<sup>st</sup> 25 years thereafter, with no COLA</li> </ul>	10.8%	CPI up to 6%	Participants with an average workweek of 53+ hours receive 1.07 years of credit for each year worked thru 6/30/96 and 1.17 years of credit for each year worked thereafter
<b>Burlington, VT police hired before 6/30/06 (excludes those who join management)</b>	55/7 or 42/25	Choice of <ul style="list-style-type: none"> <li>• 2.75% for 1<sup>st</sup> 25 years, plus COLA</li> <li>• 3.25% for 1<sup>st</sup> 25 years, plus ½ COLA</li> <li>• 3.8% for 1<sup>st</sup> 25 years for service up to 6/30/06, 3.6% for 1<sup>st</sup> 25 years thereafter, with no COLA</li> </ul>	10.8%	CPI up to 6%	
<b>Burlington, VT fire hired after 1/1/07 thru 10/6/11 (excludes those</b>	45/25	2.65%	10.8%	CPI up to 6%	Participants with an average workweek of 53+ hours

who join management)					receive 1.17 years of credit for each year worked thereafter
<b>Burlington, VT police hired after 7/1/06 thru 1/10/11 (excludes those who join management)</b>	55/7 or 45/25	2.65%	10.8%	CPI up to 6%	
<b>Portland, ME police officers and firefighters</b>	any/25; 60/5	2.0%	6.5%	CPI up to 4%, following 6 months of retirement	Per a MainePERS benefits officer, the retirement benefits provided to Portland public safety officers are typical of those provided to other cities that participate in the plan.
<b>Massachusetts municipal</b>	55/any	2.5%	9.0% of first \$30k in salary; 11.0% thereafter	Based on election of local retirement board; CPI up to 3% on first \$12k of benefit	Max benefit is 80% of final average salary
<b>Connecticut municipal</b>	55/5, any/15	2.0%	5.0%	60% of CPI up to 6% plus 75% of CPI above 6%	Reflects benefits for employees of the 14 non-Social Security cities that participate in the CT MERS
<b>Ohio municipal for those hired before 7/1/13</b>	48/25	2.50% for first 20 years plus 2.0% for years 21-25 plus 1.5% for years 26-33	11.50%, rising to 12.25% July 1, 2015	Lesser of 3% or CPI, simple, delayed until age 55 except for survivors and disabilitants	Benefit max of 72% of final average salary.
<b>Nevada municipal</b>	65/5, 55/10, 50/20, any/25	2.50% thru 7/1/01; 2.67%	16% to 20% over last	Tied to CPI	Employees share the cost

		thereafter	decade		of the benefit equally with employers
<b>Springfield, IL firefighters</b>	50/20	2.5%	9.455%	Lesser of one- half of CPI or 3%	
<b>Springfield, IL police</b>	55/10	2.5%	9.91%	Lesser of one- half of CPI or 3%, upon attainment of age 55	

*Plan design details are based on information available on-line or via interviews with retirement system officials, and is believed to be accurate.*

**Comparison of Retirement Plans**  
**City of Burlington Class B (general employees, participating in Social Security)**

	<b>Age/years of svc to qualify for a normal (unreduced) retirement benefit</b>	<b>Benefit formula</b>	<b>Employee contribution rate</b>	<b>Cost-of-living adjustment</b>	<b>Notes</b>
<b>Burlington, VT (IBEW hired before 5/4/08 and AFSCME and non-union workers hired before 6/30/06)</b>	65/7	Choice of <ul style="list-style-type: none"> <li>• 1.6% for 1<sup>st</sup> 25 years, plus COLA</li> <li>• 1.9% for 1<sup>st</sup> 25 years up to 5/4/08, plus 1.8% for svc up to 25 years thereafter, plus half COLA</li> <li>• 2.2% for 1<sup>st</sup> 25 years up to 5/4/08, plus 2.0% for svc up to 25 years thereafter, with no COLA</li> </ul>	3.05%	Based on CPI up to 4%	School workers generally receive this same level of benefits.
<b>Vermont municipal</b>	65/5, 55/35	1.4%	2.5%	One-half of CPI, up to 2% per year	Reflects benefits for Group A participants, the largest benefits tier maintained by the VT MERS
<b>State of Vermont</b>	62/5 or any/30	1.67%	5.0%	One-half of CPI, up to 5%	
<b>New Hampshire municipal</b>	60/any	1.667 at age 60, reduced to 1.515% upon attainment of age 65	5.0%	Ad hoc as approved by legislature	Reflects benefits in place for employees of the 250+ cities and other political subdivisions that participate in the NH state system
<b>New York State municipal</b>	62/5	1.66% for retirement with less than 20 years of service; 1.75%	3.0%	One-half of CPI applied to first \$18k of benefit; must be age 62 and retired 5	Reflects benefits in place for employees of the 1000+ cities and other political

		for 20 years of service; 2.0% for years of service above 20		years, or 55 and retired 10 years to receive COLA; may not exceed 3% per year	subdivisions that participate in the NY state system
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<b>New Jersey municipal</b>	60/10	1.82%	5.0%	60% of CPI, 24 months following retirement date. COLA was suspended in 2011 until plan funding level reaches 80%. Suspension is under legal challenge.	Reflects benefits in place for employees of the 1000+ cities and other political subdivisions that participate in the NJ state system
<b>Connecticut municipal</b>	55/5, any/15	1.50%	2.25% up to Social Security taxable wage base (approximately \$115k), plus 5.0% thereafter	60% of CPI up to 6% plus 75% of CPI above 6%	Reflects benefits in place for employees of the ~140 Social Security cities and other political subdivisions that participate in the CT MERS
<b>Public Fund Survey median</b>	Age 60-64 with 5-10 years of required service	1.82%	5.0%	Approximately 60 percent of public workers participate in a plan with an automatic COLA. A typical auto-COLA is linked to inflation and capped at 2-3 percent.	Reflects benefits for a broad group of Social Security-eligible general employees and public school teachers.

*Plan design details are based on information available on-line or via interviews with retirement system officials, and is believed to be accurate.*

**Goal Development**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard**

**Goal: Benefit Complexity**

**Discussion**

By their nature, DB plans are complex. Unlike defined contribution plans, which focus solely on a simple input—the contribution—DB plans focus on a complicated output: a benefit to be paid years in the future, with a specific value, over a time period that is unknowable. Maintaining a DB plan is akin to hitting a moving target. Determining the amount necessary to contribute each year, in order to appropriately fund a DB plan benefit, involves considerable effort and complexity.

DB plan complexity manifests itself in several areas, including:

- plan administration
- determining the plan's liabilities and costs
- managing assets for a large group of individuals across the age spectrum, some who are paying in to the plan and others who are receiving a benefit
- communicating the value and benefit of the plan to workers
- communicating the benefit of the plan to other stakeholders, such as taxpayers
- aligning the plan design with the objectives of plan stakeholders

Because DC plans are relatively simple, and because they are the prevailing retirement plan outside the public sector, they tend to be better understood by the general public and the media. Their simplicity and familiarity also make DC plans more prone to simple—and sometimes simplistic—appeals and explanations of their functionality and benefits.

By contrast, the inherent complexity of DB plans makes them more difficult to explain and defend to the uninitiated observer. A key risk of a DB plan is that its complexity can increase the likelihood of plan malfunction. Such malfunction could take any of multiple forms, such as miscalculation of costs or liabilities. This, in turn, could result in a misallocation of costs among generations.

A pension plan is designed to operate on a long-term basis, which is the timeframe needed for a plan to realize its full actuarial experience. Frequent changes made to the design of a pension plan conflict with the plan's long-term nature and can disrupt its actuarial balance.

Ironically, tinkering with a pension plan's design can encourage additional revision, in two ways: first, to offset or respond to the effects of previous tinkering; and also, because plan revisions foster an environment in which tinkering is perceived to be a normal event.

Complexity of plan design, however, is just one factor for policymakers to consider in evaluating a retirement benefit. As mentioned previously, a DC plan may be simple, but it also is an unreliable vehicle for delivering retirement income. The goal in designing and maintaining a retirement benefit should be not solely to simplify the plan, but also to strike a balance



between these key objectives: simplicity, adequacy of benefits, cost stability, and affordability. The Burlington ERP appears to fall short in three of these areas.

Key features of the City of Burlington's retirement plan appear to have been amended on multiple occasions. These amendments appear to have been intended either to reduce employer plan costs or as part of labor negotiations.

Complexity of retirement plan design can diminish public support for a retirement benefit. Members of the public who see a plan a) whose benefits or funding structure are difficult to understand; b) that is or seems to be frequently adjusted; or c) that appears to favor certain groups over others due to workers' affiliation or political influence, may perceive the system tilted in favor of certain groups, whether or not such a perception is justified.

**The city may wish to consider the following goals related to the complexity of the plan:**

- Resolve to establish and maintain a retirement plan design that is a) simple; b) comprehensible to casual observers; and c) that aligns the benefit with the employer's key objectives: to attract and to retain qualified workers, and to enable those workers to retire in a predictable and orderly manner. Perhaps the city's goal could be to describe the plan design on a single side of a 3 x 5 index card.
- Resolve that the city's retirement benefit plan design shall be changed only under pre-defined conditions (for example, attainment of a specified funding level or a UAL equal to a designated percentage of city payroll), and that such changes shall also be pre-defined (for example, adjustments in employee or employer contribution rates).

## **Appendix: Summary of Class A retirement benefit provisions**

- Fire employees hired before 1/1/07: 2.75% plus 0.5% for years between 25 and 35
- Police employees hired before 7/1/06: 2.75% plus 0.5% for years between 25 and 35
- Police employees hired after 1/10/11: 2.5% plus 0.5% for years between 20 and 25
- All others: 2.65% plus 0.5% for years between 25 and 35
- Hired before 7/1/06: may choose 3.25% plus 0.5% for years between 25 and 35, and a one-half COLA, or 3.8% for all service before 6/30/06 for first 25 years; 3.6% for service since 7/1/06 up to 25 years, plus 0.5% for years between 25 and 35
- Fire employees hired after 12/31/06: full COLA only
- Police employees hired after 6/30/06: full COLA only
- Police employees hired after 1/10/11: retirement benefit reduced actuarially for retirement before age 50
- Fire employees hired after 10/7/11: retirement benefit reduced actuarially for retirement before age 50
- Fire employees hired before 10/8/11 who retire after 6/30/13: retirement benefit is reduced actuarially until age 48 for period by which retirement precedes age 55
- All others, prior to age 55, benefit is reduced actuarially for period by which retirement precedes the earlier of 25 years of service and age 55.
- For employees who terminate with 20 to 25 years of service, benefit is reduced by 1.82% for each year that service is less than 25
- For all Class A workers: 1.07 years of credit for each year in which employee worked prior to 7/1/96 and 1.17 years thereafter, in a position regularly assigned a workweek consisting on average of 53+ hours of work per week.

## **Summary of Class B retirement benefit provisions**

- Employees hired prior to 7/1/06: age 65+, greater of 1.6% for years to 25 plus 0.5% for years above 25, or the actuarial equivalent of benefit determined at age 65
- Employees hired after 6/30/06: age 65+, greater of 1.4% for first 25 years of service plus 0.5% at age 65 for years above 25, or actuarial equivalent of benefit determined at age 65
- Or, member may choose 1.9% for service up to 6/30/06 for first 25 years, 1.8% for years since 7/1/06 for first 25 years, plus 0.5% for service above 25 years, and half COLA, or 2.2% for all service before 7/1/06 for first 25 years, 2.0% for service beginning 7/1/06 for first 25 years plus 0.5% for service above 25 years, and no COLA
- With certain exceptions, benefits identified above are reduced by 2% for each year retirement precedes age 65.
- For IBEW workers hired before 5/1/08 who elect a contribution rate of 4%, early reduction is 2% each year retirement precedes age 65
- For IBEW workers hired before 5/1/08 who elect a contribution rate of 3%, benefit is reduced by a factor that varies with age.
- For IBEW workers hired after 5/1/08, benefit is reduced by a factor that varies by age.
- For AFSCME Local 1343 workers hired before 1/1/06 that meet Rule of 82 by 12/7/11 but retire thereafter, reduction is 4% per year at ages 55 to 59 for each year under age 65, and the standard 2% per year reduction for ages 60 to 65.

- For other AFSCME Local 1343 employees retiring after 12/7/11, full actuarial reduction from ages 55 to 59 and standard 2% per year reduction for ages 60 to 65

**Goal Development**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard**  
**July 2014**

**Goal: Recruit and retain staff by having a good system**

**Discussion**

A retirement benefit traditionally has been a key feature of most employer compensation packages in the U.S. This is especially true among public employers. The overarching purpose for sponsoring a retirement benefit is to provide income security in retirement, although an employer-sponsored retirement plan often is intended to also meet other stakeholder objectives, such as to enhance the employer's ability to attract and qualified workers.

A retirement benefit, and usually a defined benefit plan, generally is associated with public employment. According to the U.S. Bureau of Labor Statistics, virtually all employees of state and local government have access to an employer-sponsored retirement plan.<sup>i</sup> Since most public workers are required to participate in their employer-sponsored plan, the total participation rate of full-time public employees is around 95 percent, and 85 percent when part-time workers are included. Moreover, the prevailing retirement benefit among state and local government workers is a pension plan, also known as a defined benefit plan.

The high rate of participation and the expansive use of pension plans among states and local governments contrast with the private sector, where only about two-thirds of the civilian workforce in the U.S. has access to an employer-sponsored retirement benefit.<sup>ii</sup> Not all workers elect to participate in their employer-sponsored plan: all counted, just over one-half of the nation's workforce, including part-time employees, actually participate in an employer-sponsored plan.

Since the 1970s, when participation in private sector pension plans peaked at some 44 percent of the nation's workforce, coverage in a defined benefit plan has declined steadily.<sup>iii</sup> Today, around than one in five employees in the private sector participate in a defined benefit plan,<sup>iv</sup> and of the DB plans still in existence, many are closed to new hires.

Many public sector positions are, in or more ways, unusual or unique. The public sector contains a larger percentage of professional positions, requiring either higher education, specialized training, or a professional certification. Public safety positions often involve physical risk; and most public sector positions traditionally have had a career orientation. Combined with pay that in many cases is below that of or marginally competitive with the private sector, the value of a sound retirement benefit in public employment often takes on greater importance.

A retirement benefit that encourages longevity can align the interests of public employers, taxpayers and employees; pension plans typically are designed to reward longevity of service, an objective that comports with the long-term or career orientation of many public sector positions.

Of course, employers that sponsor a retirement plan should take measures to ensure that the benefit promises being made can be fulfilled. A retirement plan whose cost becomes untenable or unsustainable imperil the employer's ability to honor its retirement benefit promises, to deliver essential public services, and to attract and qualified workers. Thus, maintaining a plan's sustainability is vital to the ability of public employers to serve the public.

**Goal:** Burlington should take measures needed to ensure that the retirement benefits it has promised to current workers can be paid.

**Goal:** Burlington should consider modifying its retirement plan to ensure the city will be able to both continue to deliver essentially public services and to attract and retain qualified workers.

**Discussion of Retirement Plan Models**  
**City of Burlington Retirement Committee**  
**Prepared by Keith Brainard**  
**July 2014**

**Model: New Brunswick Shared Risk Pension Plan (SRPP)**

**Discussion**

The retirement plan in place for employees of the Canadian province of New Brunswick (NB) contains two notable elements: first is the plan design; second is a rule that governs the circumstances under which and how the plan design should be altered. This discussion focuses chiefly on the plan's design.

In 2010, in response to a consensus that the pension plan for the province's public workers had become unsustainable or prohibitively expensive, the NB premier (governor) appointed a task force to study pension reform. The task force "undertook an extensive engagement process, in partnership with unions, private sector leaders and government, to select the most crucial principles which all sectors agreed should form the basis of a new pension model. Building upon these principles, the Task Force put forward a new model for the Province's consideration."<sup>v</sup>

The model the task force proposed is called the "Shared Risk Pension Model" and was established in May 2012 as the Shared Risk Pension Plan. The benefits component of the new model contains two basic parts: core benefits that are (mostly) guaranteed; and cost-of-living adjustments that are dependent on the plan's investment and actuarial experience.

**Summary overview of the New Brunswick SRPP:**

- Conversion of all active workers and new hires from the legacy defined benefit plan to the new plan
- Calculation of new pension accruals based on career salary, rather than the final average salary used by the legacy defined benefit plan
- Incremental introduction of increased retirement eligibility requirements
  - Current workers retain all benefits accrued in the legacy DB plan as of the onset date of the new plan; those become core, (mostly) guaranteed benefits under the new plan
  - Retirement eligibility under the new plan is maintained or increased slightly for those nearest to retirement eligibility, and increases gradually the further one is from retirement eligibility
- Integration with Canada's version of Social Security, i.e., a certain benefit is paid until reaching age 65, and then reduced to reflect the onset of Social Security benefits
- Higher employee contributions, by around two to three percent of pay (depending on salary level)
  - Should the plan's funding level fall below 100 percent for two consecutive years, the following changes will be implemented, in order: a) employee contribution rates rise; COLAs are postponed; and base benefits may be adjusted
  - Cumulative increases or decreases in the employee contribution rate are limited to two percent of pay or 25 percent of the original rate
- A COLA based on plan funding condition, projected to be paid 75 percent of the time

- The new COLA provision also affects those who already are retired
- The cap on the annual COLA is removed
- COLA “shortfalls” can be restored in future years if investment performance is sufficient
- Annual stress-testing of the plan, akin to that performed for banks and life insurance companies. The tests must show a high level of confidence that benefits will be paid. If the plan fails, it must modify its investment, funding, or benefit rules until the plan passes the test.

The NB SRPP model is a variation of a Dutch retirement plan model known as a “collective defined contribution plan.” A key feature of collective DC plans is that the employer contribution rate is fixed (subject to possible narrow adjustments); other features of the plan, including benefit levels, actuarial methods and assumptions, and employee contribution rates, may be adjusted depending on the actuarial and investment performance of the plan. Another key feature of the collective DC plan concept is that measures taken in case the plan falls short of actuarial targets are determined in advance.

**Key plan design features of New Brunswick Shared Risk Pension Plan<sup>vi</sup>**

<b>Member contribution rate</b>	7.5% on first \$52,000 in annual salary; 10.7% on amounts above
<b>Employer contribution rate</b>	12.5%, scheduled to decline gradually to eventually meet the employee contribution rate
<b>Retirement eligibility</b>	Age 65 with 5 years of service for an unreduced benefit; 55/5 for an early retirement benefit
<b>Retirement factor for retirement prior to age 65</b>	2.0%, adjusted for part-time or overtime status, less 5% for each year of age under 65; adjusted at age 65 to the factor for retirement at age 65 and higher (below)
<b>Retirement factor for retirement at age 65 and higher</b>	1.4%, adjusted for part-time or overtime status for salary up to maximum pension earnings level (\$52.5k), plus 2.0% for salary above maximum pension earnings level

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**Model: Champlain College**

**Discussion**

According to a representative of the Champlain College human resources office, in June 2006, the college closed its defined benefit plan, freezing benefit accruals for plan participants and closing the plan to new hires. The college sold the plan's assets and liabilities to an insurance company, who accepted responsibility for paying the plan's liabilities.

Defined benefit plan participants who were at least age 35 with 5 years of service were permitted to keep their pension benefits. Members of that group also qualify for a *discretionary supplemental contribution*, to compensate (at least partly) for the loss of benefits resulting from the closure of the pension plan. The amount of the supplemental contribution is based on an actuarial chart (which I do not have) that pays higher amounts to older workers and those with more years of service in the plan.

The retirement plan in place for Champlain College workers since the pension plan was closed is a defined contribution plan. The employer matches employee contributions on a two to one basis for employee contributions up to five percent of pay: employees who contribute five percent receive an employer contribution to their retirement account of ten percent. Contributions vest immediately.

Champlain College's closure of its DB plan and its sale of its pension assets and liabilities is not unusual for organizations outside the public sector. The Washington Post last week ran a story on companies that have sold off their pension plan to insurance companies (please see accompanying article).

Because Champlain College is not a public entity, its retirement plan is governed by ERISA, the body of federal laws that regulate private sector retirement benefits. Among other provisions, ERISA prescribes how much employers who sponsor a pension plan must contribute to their plan. This requirement, which creates volatility and uncertainty of employer costs, has been identified as a leading cause of corporate decisions to abandon their pension plans in lieu of a defined contribution plan.



## Comparison of Retirement Benefit Based on Multiplier Selection

Average Final Compensation = \$60,000  
Annual COLA = 2.5%

Year	3.8, no COLA	3.25, ½ COLA	2.75, full COLA
<b>Initial</b>	\$57,000	\$48,750	\$41,250
1	57,000	49,359	42,281
2	57,000	49,976	43,338
3	57,000	50,601	44,422
4	57,000	51,234	45,532
5	57,000	51,874	46,671
6	57,000	52,522	47,837
7	57,000	53,179	49,033
8	57,000	53,844	50,259
9	57,000	54,517	51,516
10	57,000	55,198	52,803
11	57,000	55,888	54,124
12	57,000	56,587	55,477
13	57,000	57,294	56,864
14	57,000	58,010	58,285
15	57,000	58,735	59,742
16	57,000	59,470	61,236
17	57,000	60,213	62,767
18	57,000	60,966	64,336
19	57,000	61,728	65,944
20	57,000	62,499	67,593
21	57,000	63,281	69,283
22	57,000	64,072	71,015
23	57,000	64,872	72,790
24	57,000	65,683	74,610
25	57,000	66,504	76,475
<b>Total</b>	\$1,482,000	\$1,486,857	\$1,485,483

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<sup>i</sup> U.S. Bureau of Labor Statistics, Employee Benefits Survey, Retirement benefits: Access, participation, and take-up rates, March 2013

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<sup>ii</sup> Ibid.

<sup>iii</sup> Employee Benefits Research Institute, “The Decline of Private Sector Defined Benefit Promises and Annuity Payments: What Will It Mean?” EBRI Notes, July 2004

<sup>iv</sup> National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007

<sup>v</sup> Canada’s Public Policy Forum, Pension Reform Issues Brief, February 2013

<sup>vi</sup> Public Service Shared Risk Plan: A guide for members: [http://www2.gnb.ca/content/dam/gnb/Departments/ohr-brh/pdf/pensions/pension\\_plans/pssa/PSSRP\\_Booklet.pdf](http://www2.gnb.ca/content/dam/gnb/Departments/ohr-brh/pdf/pensions/pension_plans/pssa/PSSRP_Booklet.pdf)