ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of November 13, 2010

DATE: **October 20, 2010**

SUBJECT: Advertise amendments to Chapters 21 and 46 of the Arlington County Code.

C. M. RECOMMENDATION:

Advertise for a public hearing on December 11, 2010 regarding the proposed amendments to Chapters 21 and 46 (Retirement Systems) of the Arlington County Code.

ISSUES: As part of the regular process, this is a request for authorization to advertise a public hearing for the December 11, 2010 meeting. There are no known issues.

SUMMARY: The proposed amendments provide the following:

1. Authorize the County Manager to create an option for newly hired employees in the Management Accountability Program (MAP) to participate in a (new or enhanced) defined contribution plan in lieu of the Chapter 46 Defined Benefit Retirement Plan.
2. Provide more flexibility in electing the Chapter 46 Social Security Leveling option by allowing the leveling to continue through to a member's Social Security normal retirement age, rather than to age 62 or age 65 as currently codified.
3. Implement a technical change to Chapters 21 and 46 regarding how a former member communicates their desire to receive a deferred vested benefit in the future which will result in streamlined administrative processes.

BACKGROUND: This set of amendments to the Retirement Ordinances provides flexibility to meet current and emerging issues and allows for improving administrative processes that are codified.

DISCUSSION:

The first amendment provides flexibility for the County Manager to develop a defined contribution plan or enhance the current defined contribution plan that would be utilized in lieu

County Manager:

County Attorney:

Staff: Marcy Foster, Human Resources

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of the defined benefit plan for eligible new hires. The new plan would have to meet State requirements and would need to be cost neutral to the County. The purpose of such a plan is to attract employees for executive management positions who would find more value in a defined contribution plan. A sizable portion of our newly recruited management level employees tend to come from the private sector and are coming to the County as a second career. A defined benefits plan rewards long careers and may not be the best option for these employees.

Since last November, when this amendment was previously presented to the Board, the opposing employee groups have been educated on the impact of this amendment and no longer oppose the amendment. This is an <u>option</u> for new hires in the Management Accountability Program only. Since there is a small pool of new hires being provided this option, this amendment will not impact the viability of the pension plan.

The second amendment allows Chapter 46 members a more seamless financial transition from their retirement date until receipt of their Social Security benefits. Currently, Chapter 46 provides a Social Security leveling option that provides an enhanced pension benefit until the member reaches age 62 or age 65 (their choice), then a reduced benefit for the rest of their life. The option was intended to bridge the income gap between retirement and receipt of Social Security benefits. Since the age at which a person may now receive unreduced Social Security benefit varies based on their date of birth, our upcoming retirees will not receive Social Security benefits until after age 65. The current Code language leaves these retirees with an income gap from age 65 until the age at which they may collect unreduced Social Security benefits (a two year gap in the worst case scenario), if they select the Social Security leveling option.

The final amendment allows the Human Resources Department to administer future benefits for vested employees who leave employment prior to being eligible for retirement. Currently, in order to receive a deferred vested monthly retirement allowance upon attainment of normal retirement eligibility, the Code requires employees separating from service to provide in writing that they do not want a return of their contributions. There is no guidance provided for those former employees who do not return a written form at the time of separation. To simplify administrative processes, the Human Resources Department would like to make the conservative assumption that the former employee intends to collect a monthly benefit at normal retirement age so that our records can more accurately reflect potential liability.

FISCAL IMPACT: None of these proposed amendments will increase the cost to the County.

AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 21 (RETIREMENT ORDINANCES) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

§ 21-48. Benefits upon withdrawals from employment or death.

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(b) If a member has ceased to be an employee, other than by death or by retirement, after completion of five (5) or more years of service and has not elected in writing as prescribed by the County Manager ~~not~~ to withdraw the total amount of his contribution account, he will be eligible to receive a deferred vested retirement allowance commencing on his normal retirement date.

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AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 46 (RETIREMENT ORDINANCES) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

§ 46-27. Eligibility requirements.

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(a) Except for employees who are covered by section 46-44(h) and persons appointed as county manager who elect not to become members within sixty (60) days after appointment, employees of the county board hired after February 8, 1981, who have not reached normal retirement age (age sixty-two (62)), or in the case of police officers, firefighters, and deputy sheriffs, age fifty-two (52) as of the first day of employment, and all employees of the school board hired after February 8, 1981, and before July 1, 2001, who have not reached normal retirement age (age sixty-two (62)) are members of the system. Notwithstanding the foregoing, retirement benefits under this Chapter shall not be provided to employees who have entered into an agreement for inclusion in a deferred compensation plan when the agreement prohibits inclusion in any other retirement system established by the county, pursuant Virginia Code 51.1-800(d). Notwithstanding the foregoing, there shall be no age restrictions on membership for persons hired on or after January 1, 1991. Employees who did not meet the eligibility requirements related to age at the time of hire shall have the option to join the system and elect to purchase service credit for service back to January 1, 1991. Such election must be made by December, 1991.

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§ 46-55. Social Security Option.

A member who has retired from service pursuant to Section 46-37 (service retirement) may elect to receive an increased retirement allowance until ~~age sixty-two (62) or until age sixty-five (65)~~ his Social Security full retirement age as defined as of January 1, 2001 or at the early Social Security reduced benefit age if the member elects to receive Social Security at an early age and a decreased retirement thereafter, so that a member will receive a uniform or nearly uniform retirement allowance when the member's retirement allowance is added to the member's anticipated federal Social Security primary benefits.

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§ 46-44. Benefits upon withdrawal from employment or death.

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(b) If a member has ceased to be an employee, other than by death or by retirement, after completion of five (5) or more years of service and has not elected in writing as prescribed by the County Manager ~~not~~ to withdraw the total amount of his contribution account, he will be eligible to receive a deferred vested retirement allowance commencing on his normal retirement date.

nyhart

October 28, 2010

PERSONAL AND CONFIDENTIAL

Amy Rozier
Employee Services Division Chief
Arlington County Government
2100 Clarendon Blvd. Suite 511
Arlington, VA 22201

Dear Ms. Rozier:

Per your request, we have analyzed the proposed pension changes described in the C.M. Recommendation dated October 20, 2010 and believe the cost impact for each change to be cost-neutral to the County.

1. Authorize the County Manager to create an option for newly hired employees in the Management Accountability Program (MAP) to participate in a new or enhanced deferred compensation plan in lieu of the Chapter 46 Defined Benefit Retirement Plan.

   This change will be cost neutral if the annual aggregate contribution for the newly hired MAP employees is the same aggregate contribution the County would have funded for those employees if they participated in the Defined Benefit Retirement Plan. Below is an example of how the cost neutrality can be achieved.

   Assume the County's 2015 employer contribution for the Defined Benefit Retirement Plan is $100,000 (10% x $1,000,000 in MAP payroll for newly hired employees). To remain cost-neutral, the County should contribute $100,000 to the newly created Defined Contribution Plan for MAP employees. As the employer's contribution rate in the Defined Benefit Retirement Plan is changed so should the MAP employer contribution.

2. Provide more flexibility in electing the Chapter 46 Social Security Leveling option by allowing the leveling to continue through to a member's Social Security normal retirement age, rather than to age 62 or age 65 as currently codified.

   The cost neutrality of this change is achieved by using updated actuarial equivalence factors that reflect the member's Social Security normal retirement age. The plan administrator responsible for the individual pension calculations will need to update their administration factors and processes for this change.

3. Implement a technical change to Chapters 21, 35, and 46 regarding how a former member communicates their wish to receive a deferred vested benefit in the future which will result in streamlined administrative processes.

   This change is an improvement to the internal procedures for administering the Defined Benefit Retirement Plan and does not affect the actuarial calculations needed to determine the funding requirements for the plan.

Please let us know if you have questions or need anything else.

Randy Gomez

Randy Gomez, FSA, EA, MAAA

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