City of Dover

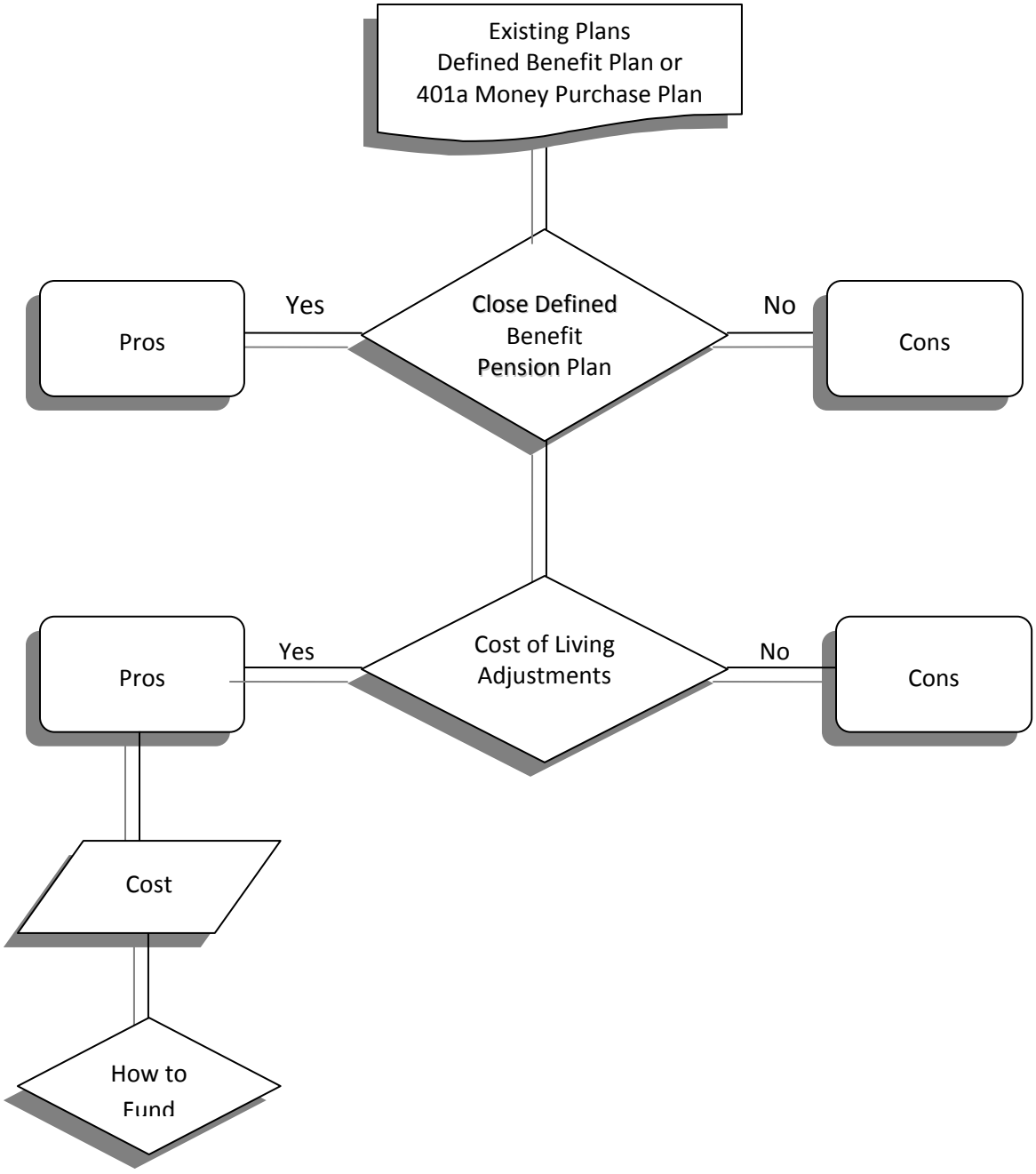
Council Workshop

November 3, 2008 – 7:30 p.m.

AGENDA

Defined Benefit Pension Plan

City of Dover
Pension Plan Presentation
November 3, 2008



City of Dover
Civilian Pension Plans
Features

General Employee Pension Plan

Inception Date:	July 1, 1967
Type:	Defined Benefit Plan
Ownership:	City of Dover – Pension Trust Fund
Cost of Living Adjustments:	Not provided for in Pension Ordinance; There is a history of prior COLA recommendations by Board of Trustees and approval by Council; Motion to discuss Ad Hoc COLA each January;
Investment Management:	Pension Board of Trustees and Asset Management Advisor
Investment & Non-Investment Risk:	City of Dover
Employee Contributions Required:	Yes, Effective 7/1/83
Employee Contribution Percentage:	3 ½ % of gross salary, exclusive of unscheduled overtime
City Contribution:	Actuarially Determined; 4.12% Normal Cost & 22.92% Unfunded Liability
Vesting Requirement:	Yes, 10 years
Participation:	Active Employees – 199 Retired/Disabled Employees – 172 Vested - 13
Retirement Eligibility:	
Prior to May 1, 1994	Age 65 with 10 years of continuous service Age 50 with 20 years of continuous service Any age with 25 years of continuous service
On or After May 1, 1994	Age 65 with 10 years of continuous service Age 55 & years of continuous service is equal to or greater than 80
Reduced benefit	Age 55 with 10 years of continuous service
Accounting Requirements:	Actuarial Analysis and Recognition of Unfunded Liabilities

Money Purchase Plan – Internal Revenue Code 401a

Inception Date:	July 1, 2000
Type:	IRC 401a Plan
Ownership:	Employee or Retiree
Investment Management:	Employee and Asset Management Advisor
Investment & Non-Investment Risk:	Employee or Retiree
Employee Contributions Required:	Yes
Employee Contribution Percentage:	3% of gross salary, exclusive of unscheduled overtime
City Contribution:	3% of gross salary, exclusive of unscheduled overtime
Additional City Contribution:	If the employee contributes to the 457 Deferred Compensation Plan, the City will also provide an additional match up to 3%; bringing the total contribution up to 6%
Vesting Requirement:	None
Participation:	Active Employees – 80 Retired Employees – 3
Retirement Eligibility:	Same as General Pension Plan
Accounting Requirements:	None; Employee Owned

City of Dover
Defined Benefit Plan
Actuary Analysis

Accounting rules require that each owner of a Defined Benefit Pension Plan conduct an actuarial analysis no less than every two years to determine the funding level needed to provide all participants in the pension plan the benefits promised over their lifetime. This applies to active and retired employees. In order to conduct the analysis, the Actuary makes certain assumptions as follows:

Assumptions –

Valuation Date:	Each analysis is as of a point in time – July 1 each year
Employee Contribution:	3 ½%
Employer Contribution:	Percentage provided in last actuarial analysis
Inflation rate:	3 ½%
Projected salary increases:	4 ½%
Investment rate of return:	7 ½ %
Mortality Table:	1993 Group Annuity Mortality Table
Retirement Years:	Takes into consideration hire date and retirement eligibility for each employee based on plan provisions

After the liability calculation is completed, the Actuary then compares the amount to value of the investments held by the Pension Trust. The difference between the value of the investments and the Actuarial Accrued Liability (AAL) is the Unfunded Liability. This is summarized below for 7/1/08.

Actuarial Accrued Liability	$43,800,212	
Market Value of Assets	$18,325,764	
Deferred Loss (Gain)	1,055,627	(see Note 1)
Adjusted Market Value of Assets	$19,381,391	
Unfunded Actuarial Liability	$24,418,821	
Funding Ratio	41.84%	(see Note 2)

Note 1 – The accounting standards permit you to spread gains greater than the actuarial assumption (7.5%) or losses over a five year period. This past year resulted in investment losses and the Deferred Loss (Gain) includes one fifth of the loss.

Note 2 – The Funding ratio is the Market Value of the Assets divided by the Actuarial Accrued Liability. 100% is a fully funded plan. This plan is less than 50% funded. In order for the City to keep its promise to plan participants it should strive to get the plan fully funded.

City of Dover
Civilian Pension Plans

Pros and Cons of Cost of Living Increases

PROS

- Inflationary adjustment to current benefit
- Retiree morale and goodwill

CONS

- Ability to fully fund a Pension COLA in the budget
  - City Actuary recommends if COLA's continue they be fully funded due to the size of the unfunded liability; Current estimate for a 2% COLA is $595,000, however the calculation is based on meeting the assumptions each year;
- Unfunded liability will increase if the actuarial assumptions are not met each year
- Concern of lack of fairness to participants in the 401a Plan as COLA's are not a feature of their plan; Expectation to provide COLA to the 401a Plan participants;

Pros and Cons of Closing Defined Benefit Plan

PROS

- Reduce investment risk
  - If we don't meet the 7.5% rate of return investment assumption, the City's cost and unfunded liability increases
- Reduce non-investment risk
  - Higher than assumed pay increases
  - Mortality – participants living longer than mortality tables
  - Retirement's sooner than assumed
- Eventual elimination of unfunded liability and annual amortization of the unfunded liability
- Annual budget requirements for the unfunded liability would no longer be necessary, once the plan is fully funded. Current Budget Requirement $1,969,580 for unfunded liability.
- Reduction of liability would enhance bond ratings

CONS

- Employer normal cost contribution up to 6% for 401a Plan versus 4.12% for Defined Benefit Plan
- Recruitment; Defined Benefit Plans are traditionally governmental plans
- No vesting requirement may lead to higher turnover
- The liability has to be spread evenly over the amortization period for a closed plan. An open plan allows the City to increase the cost by 3 ½ % each year. The City's cost will increase the first 8 years and decrease in Year 9 and forward. (Details on following page)

City of Dover
Civilian Pension Plans

Annual Payments to Amortize $24,418,821 Unfunded Liability

	Year Ending 30-Jun	Increasing Amortization	Level Dollar Amortization
1	2009	$1,997,557	$2,484,835
2	2010	$2,067,471	$2,484,835
3	2011	$2,139,833	$2,484,835
4	2012	$2,214,727	$2,484,835
5	2013	$2,292,243	$2,484,835
6	2014	$2,372,471	$2,484,835
7	2015	$2,455,508	$2,484,835
8	2016	$2,541,450	$2,484,835
9	2017	$2,630,401	$2,484,835
10	2018	$2,722,465	$2,484,835
11	2019	$2,817,751	$2,484,835
12	2020	$2,916,373	$2,484,835
13	2021	$3,018,446	$2,484,835
14	2022	$3,124,091	$2,484,835
15	2023	$3,233,435	$2,484,835
16	2024	$3,346,605	$2,484,835
	Total	$41,890,827	$39,757,357

