Understanding the

Consolidated Retirement Plan

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http://www.mariettaga.gov/706/Pensions

Disclaimer

This briefing is an overview of the City/BLW's Consolidated Retirement Plan. It is not meant to provide financial or investment advice. Each employee's retirement is different. If you would like to receive an estimate of your retirement benefits using any of the scenarios mentioned, please contact the Benefits Manager.

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Introduction

- Effective since March 1, 1987, the Consolidated Retirement Plan is a defined benefit plan that is governed by Section 401(a) of the Internal Revenue Code.
- City/BLW assumes all of the investment risk
- It is “consolidated” as General Employees and Public Safety Employees are all in the same class, unlike previous retirement plans
- Covers only full-time employees and elected officials
- Retirement eligibility requires “vesting”

Participation and Participant Contributions

- Participation is effective the first day of the month either coinciding with or next following the employment date
- Employees contribute 4% of their pre-tax gross wages, other than overtime and expense reimbursements, beginning with the first full pay period after the participation date is established

Vesting Requirements

- Hired before March 18, 2008: 5 years of credited service*
- Hired between March 18, 2008, and December 31, 2008: 7 years of credited service
- Hired on or after January 1, 2009: 10 years of credited service
- Employees who separate without vesting receive a refund of participant contributions

* = Credited service is measured in years and full months; ***all*** service is credited as long as the employee is not separated

Retirement Eligibility

Normal

- Hired before March 18, 2008: First day of the month following the month turning 65 and meets vested requirements (5 years of credited service)
- Hired between March 18, 2008, and December 31, 2008: First day of the month following the month turning 65 and meets vested requirements (7 years of credited service)
- Hired on or after January 1, 2009: First day of the month following the month turning 65 and meets vested requirements (10 years of credited service)

Retirement Eligibility

Early: Age 55 to 64 and meets vested requirements

- Hired before January 1, 2009: The accrued normal retirement pension is reduced by .25 of one percent (.0025) for each month the participant's age at early retirement is less than 65
- Hired on or after January 1, 2009: The accrued normal retirement pension is reduced by .417 of one percent (.00417) for each month the participant's age at early retirement is less than 65

Retirement Eligibility

Unreduced Early* (80-point pension, colloquially known as “Magic 80,” that was originally passed as 85-point pension)

- Hired prior to March 18, 2008: First day of the month following the month when age plus credited service equals 80
- Hired on or after March 18, 2008: First day of the month following the month turning 55 and added credited service equals 80

* = Only available to those retiring from active service

Retirement Eligibility

Disability

- Must be unable, solely because of disease or accidental bodily injury, to work at his or her own occupation or at any reasonable occupation for which the participant may be engaged, or may reasonably become engaged, fitted by education, training or experience provided, however, that such disability shall not have been (a) self-inflicted; (b) incurred in military service; (c) incurred in the commission of a felonious enterprise; or (d) the result of the use of narcotics and/or drugs and/or alcohol.
- Requires 12 months of continuous service for non-job-related disabilities; must apply within 12 months of separating from service
- Benefit calculated normally, but is no less than 50% of the average of the participant’s most recent 12 months of earnings
- Requires recertification every two years, and retiree cannot work without losing benefit

Breaks in Service

- If a vested employee leaves and later returns to the City, all service is credited cumulatively
- If a non-vested employee leaves and later returns to the City, he/she must earn enough service to vest under rules in place, and then all service before January 1, 2009 is credited

For service on or after January 1, 2009, and for which the employee received a refund of participant contributions for that service:

- If employee returns after an absence of 60 months or less, the employee must earn enough service to vest under the rules in place and then 50% of service on or after January 1, 2009, is credited
- If returning after an absence of more than 60 months, none of the service on or after January 1, 2009, that occurred before the break is credited

Pension Formula

<u>Final Average Earnings x Credited Service x Multiplier</u>

Final Average Earnings

- Hired before January 1, 2009: The average of the annual earnings paid to a participant during any consecutive three-year period preceding his actual date of retirement in which his earnings were highest
- Hired on or after January 1, 2009: The average of the annual earnings paid to a participant during any consecutive five-year period preceding his actual date of retirement in which his earnings were highest

Credited Service: Based on years and full months of credited service for full-time work up to a maximum of 35 years (Employees retiring from active service as Normal or Unreduced Early can add up to one year for unused sick leave or active military service prior to City employment)

Multiplier: 2.1% (2.0% for those who separated prior to December 12, 2001)

Pension Formula Example #1

It is January 1, 2034, and Dan has submitted a retirement notice to the Benefits Manager. Dan was hired February 1, 2009. He will have been a City employee for 25 years on February 1, 2034. He is 55 years old. His highest 60 months of earnings add up to a total of $500,000 ($100,000 per year salary). What will the amount of his monthly pension be when he begins receiving it on February 1, 2034?

Final Average Earnings x Credited Service x Multiplier

- ($500,000/60) x 25 x .021 = $8,333.33 x 25 x .021 =

$208,333.25 x .021 = **$4,375 of a normal benefit, or $52,500 per year (52.5% of average salary upon retirement)**

There is no reduction applied to Dan as he met the 80-point pension requirement for an Unreduced Early Retirement.

What is the maximum percentage of an employee's annual salary can he/she receive in retirement? 35 years x 2.1% = 73.5%

Pension Formula Example #2

It is January 1, 2029. Molly was hired February 1, 2009, on her 35th birthday. She has been a City employee for 20 years. Her highest 60 months of earnings add up to a total of $500,000 ($100,000 per year salary). What will the amount of her monthly pension be when she begins receiving it at age 55 on February 1, 2029?

<u>Final Average Earnings x Credited Service x Multiplier</u>

- ($500,000/60) x 20 x .021 = $8,333.33 x 20 x .021 =

  $166,666.66 x .021 = **<u>$3,500 of a normal benefit</u>**

However, Molly does not meet the 80-point pension requirement; therefore, we must apply the reduction. There are 120 months between Molly's age and the normal retirement age, so we apply a reduction of 120 x .00417 = 50.04%. Reducing her normal benefit by 50.04% leaves Molly with <u>$1,748.60 (21% of average salary upon retirement)</u>.

Had Molly remained employed another 2.5 years, she would have avoided the reduction entirely.

Preretirement Death Benefits

- The Consolidated Retirement Plan does ***not*** offer preretirement death benefits in the form of an employee’s pension
- If an employee dies while serving as a City employee, beneficiaries receive the employee's participant contributions (the 4%), the City-funded basic life insurance policy, the amount in the Supplemental Pension account, the employee's final paycheck (note: Georgia law allows for payment of the first $2,500 of final paycheck, but must have Personal Representative documents for estate to receive the remainder), and any employee-funded voluntary life insurance policy or deferred compensation account balance

Joint and Survivor Option

- Retiring employees may elect to receive an actuarially reduced monthly retirement benefit so that the beneficiary may receive 50%, 75%, or 100% of the benefit for their entire life
- If married, spouse must consent for employee to retire without a survivor benefit
- "Pop-up” option: If beneficiary dies before the retiree, monthly benefit increases or “pops up" to the original unreduced benefit amount (reverts to a single life option)

Joint and Survivor Option

- 50%: 88.0% plus 0.4% for each full year that the beneficiary is older than the participant or 88.0% minus 0.4% for each full year that the beneficiary is younger than the participant (87.5% with pop-up feature)
  - If disability retirement, 77.5% plus 0.4% for each full year that the beneficiary is older than the participant or 77.5% minus 0.4% for each full year that the beneficiary is younger than the participant (77.0% with pop-up feature)
- 75%: 83.5% plus 0.5% for each full year that the beneficiary is older than the participant or 83.5% minus 0.5% for each full year that the beneficiary is younger than the participant (82.9% and 0.5% with pop-up feature)
  - If disability retirement, 70.0% plus 0.5% for each full year that the beneficiary is older than the participant or 70.0% minus 0.5% for each full year that the beneficiary is younger than the participant (69.4% with pop-up feature)

Joint and Survivor Option

- 100%: 79.0% plus 0.6% for each full year that the beneficiary is older than the participant or 79.0% minus 0.6% for each full year that the beneficiary is younger than the participant (78.3% with pop-up feature)
  - If disability retirement, 63.0% plus 0.6% for each full year that the beneficiary is older than the participant or 63.0% minus 0.6% for each full year that the beneficiary is younger than the participant (62.3% with pop-up feature)
- If beneficiary is older, percentage will not exceed 99%.

Joint and Survivor Option Example #1

It is January 1, 2034, and Dan has submitted a retirement notice to the Benefits Manager. Dan was hired February 1, 2009. He will have been a City employee for 25 years on February 1, 2034. He is 55 years old. His highest 60 months of earnings add up to a total of $500,000 ($100,000 per year salary). Dan’s wife, Roseanne, is five years younger, and he wants a survivor benefit option. What are his survivor options for when he begins receiving his pension on February 1, 2034?

Joint and Survivor Option Example #1

$4,375 is his normal benefit (also known as “single life”), no reduction as Dan is eligible for the 80-point pension (see slide 13)

50% option without pop-up: 88% minus (0.4% x 5 years)
Employee’s Benefit: $4,375 x 86% = $3,762.50
Survivor Benefit: $3,762.50 x 50% = $1,881.25

50% option with pop-up: 87.5% minus (0.4% x 5 years)
Employee’s Benefit: $4,375 x 85.5% = $3,740.63
Survivor Benefit: $3,740.63 x 50% = $1,870.32

75% option with pop-up: 82.9% minus (0.5% x 5 years)
Employee’s Benefit: $4,375 x 80.4% = $3,517.50
Survivor Benefit: $3,517.50 x 75% = $2,638.13

100% option with pop-up: 78.3% minus (0.6% x 5 years)
Employee’s Benefit: $4,375 x 75.3% = $3,294.38
Survivor Benefit: $3,294.38 x 100% = $3,294.38

Joint and Survivor Option Example #2

It is January 1, 2029. Molly was hired February 1, 2009, on her 35th birthday. She has been a City employee for 20 years. Her highest 60 months of earnings add up to a total of $500,000 ($100,000 per year salary). Molly’s husband, Mike, is five years older, and she wants a survivor benefit option. What are her survivor options for when she begins receiving her pension on February 1, 2029?

Joint and Survivor Option Example #2

$3,500 is her normal benefit amount

Reduced to $1,748.60 after applying the Early Retirement reduction factor (see slide 14)

50% option without pop-up: 88% plus (0.4% x 5 years)
Employee's Benefit: $1,748.60 x 90% = $1,573.74
Survivor Benefit: $1,573.74 x 50% = $786.87

50% option with pop-up: 87.5% plus (0.4% x 5 years)
Employee's Benefit: $1,748.60 x 89.5% = $1,565
Survivor Benefit: $1,565 x 50% = $782.50

75% option with pop-up: 82.9% plus (0.5% x 5 years)
Employee's Benefit: $1,748.60 x 85.4% = $1,493.30
Survivor Benefit: $1,493.30 x 75% = $1,119.98

100% option with pop-up: 78.3% plus (0.6% x 5 years)
Employee's Benefit: $1,748.60 x 81.3% = $1,421.61
Survivor Benefit: $1,421.61 x 100% = $1,421.61

Social Security Option

- Available to those retiring from active service with an Early, Normal, or Unreduced Early Retirement
- Allows an employee to elect to receive a more level retirement income using the Social Security projected benefit
- Retiree receives higher monthly pension until Social Security benefits begin, and then the pension amount is decreased by the entire amount of the assumed monthly Social Security benefit
- Molly’s Early Retirement monthly benefit was $1,748.60 after applying reduction factor.
- According to the Social Security Administration, Molly’s assumed monthly benefit at age 67 is $1,209.
- Using the table to find Molly’s age at retirement (55) and when she wants to begin drawing Social Security (67), we multiply the Social Security benefit by 0.2810 = $339.73.
- Add that amount to the Early Retirement pension: $1,748.60 + $339.73 = $2,088.33 until she begins drawing Social Security at 67.
- After Molly begins drawing Social Security, we subtract the original amount from her City pension to obtain the new monthly benefit $1,748.60-$339.73 = $1,408.87.
- $1,408.87 plus the Social Security amount of $1,209 is a total of $2,617,87.
- However, with no Social Security option, the monthly pension is $1,748.60 until age 67. At age 67, the Social Security amount of $1,209 is added to raise the total monthly benefit to $2,957.60.

Questions?

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