

# 2016 Hybrid Plan



## HYBRID PLAN

Market Based Cash Balance Plan +  
401(a) Defined Contribution

Brian Collins

# KEY POINTS



## CURRENT DEFINED BENEFIT PLAN

- Employee receives guaranteed annuity at retirement
- City takes all market risks

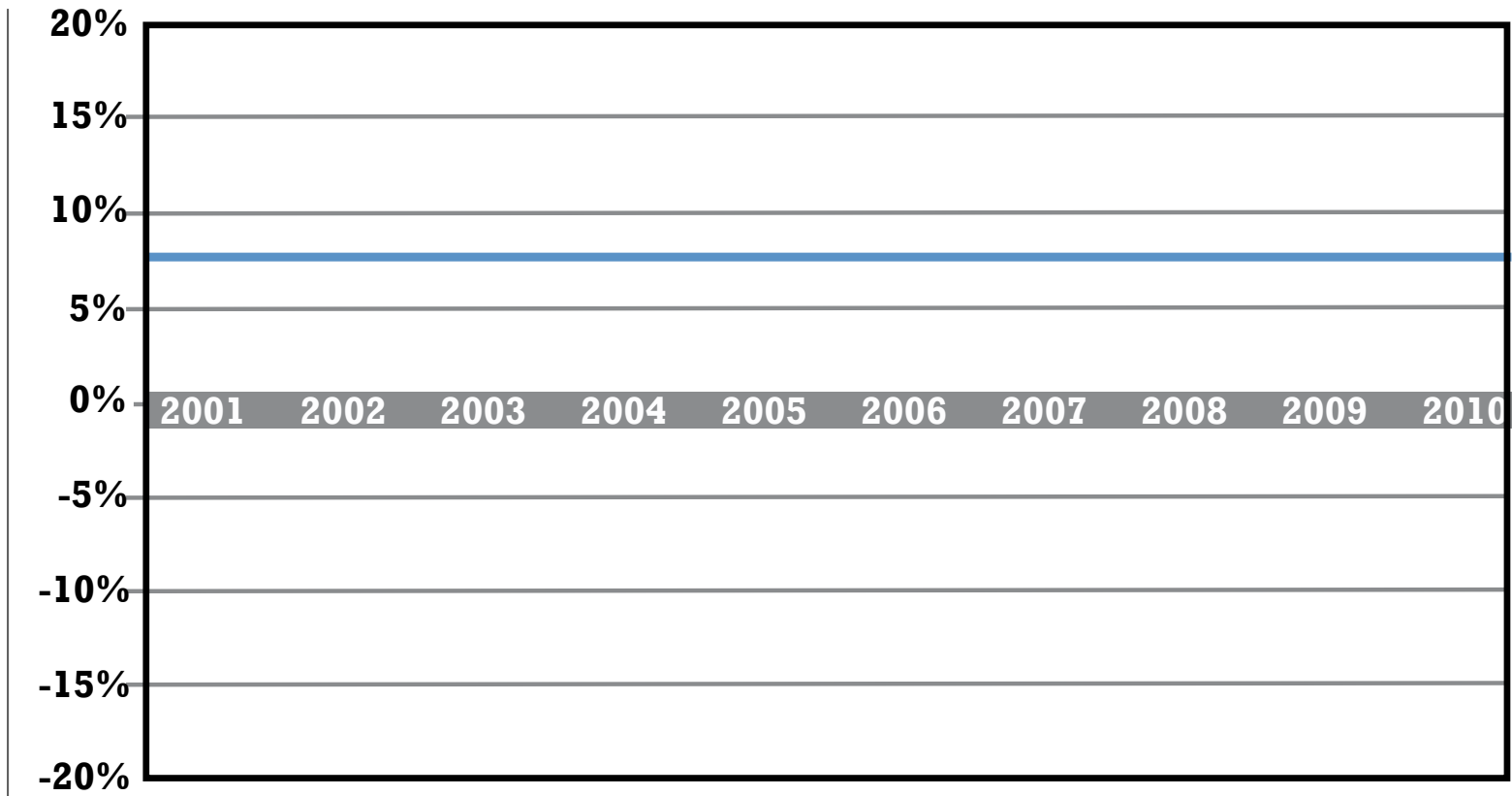
## HYBRID PLAN

- City shares risk with City employees
- **No change for current retirees and employees 7.5 years plus**
- **Only applies to employees with less than 7.5 years and new employees**
- There is an opportunity to earn more money for retirement

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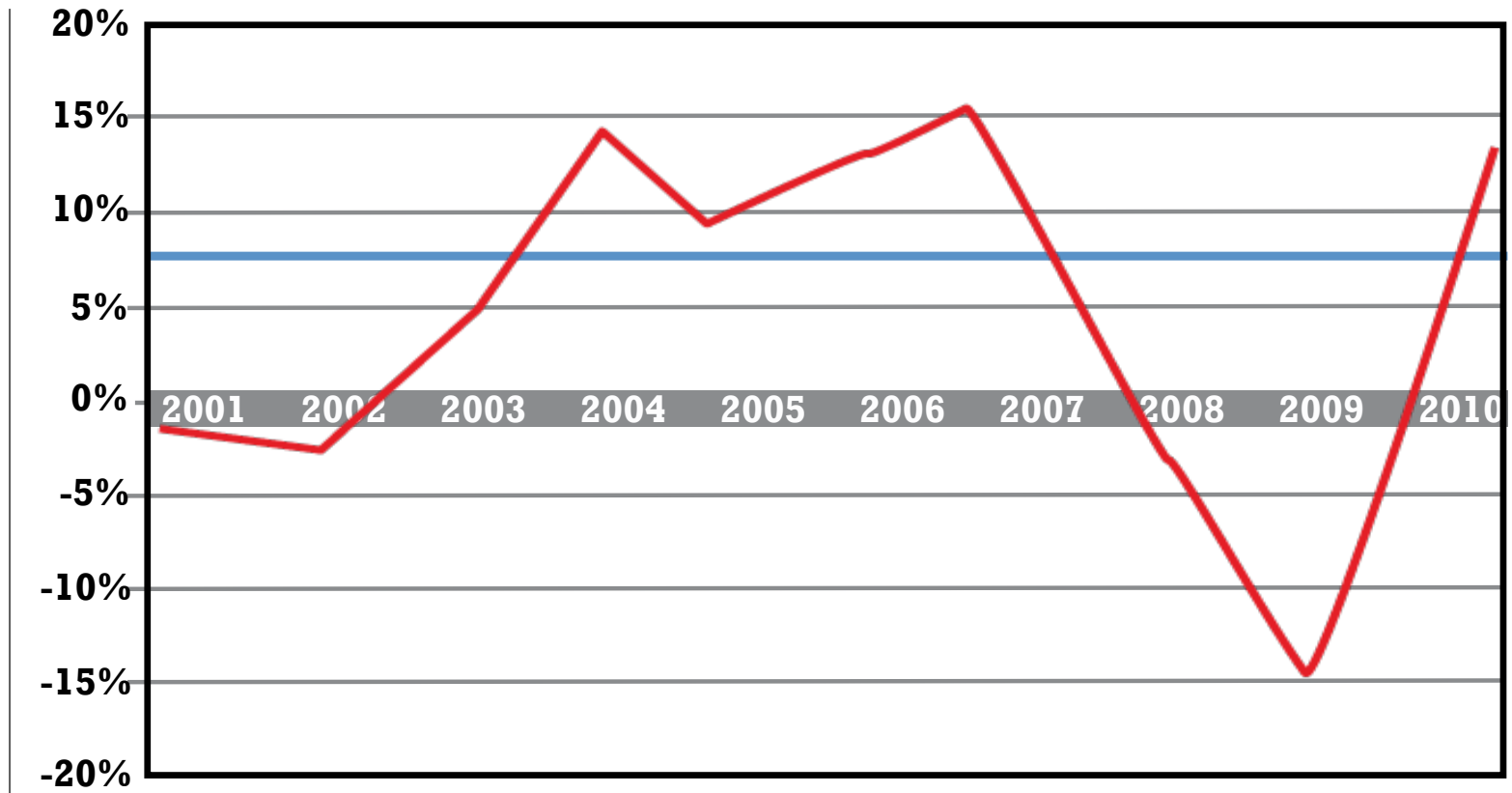
# WHY CHANGE IS NEEDED: MARKET VOLATILITY



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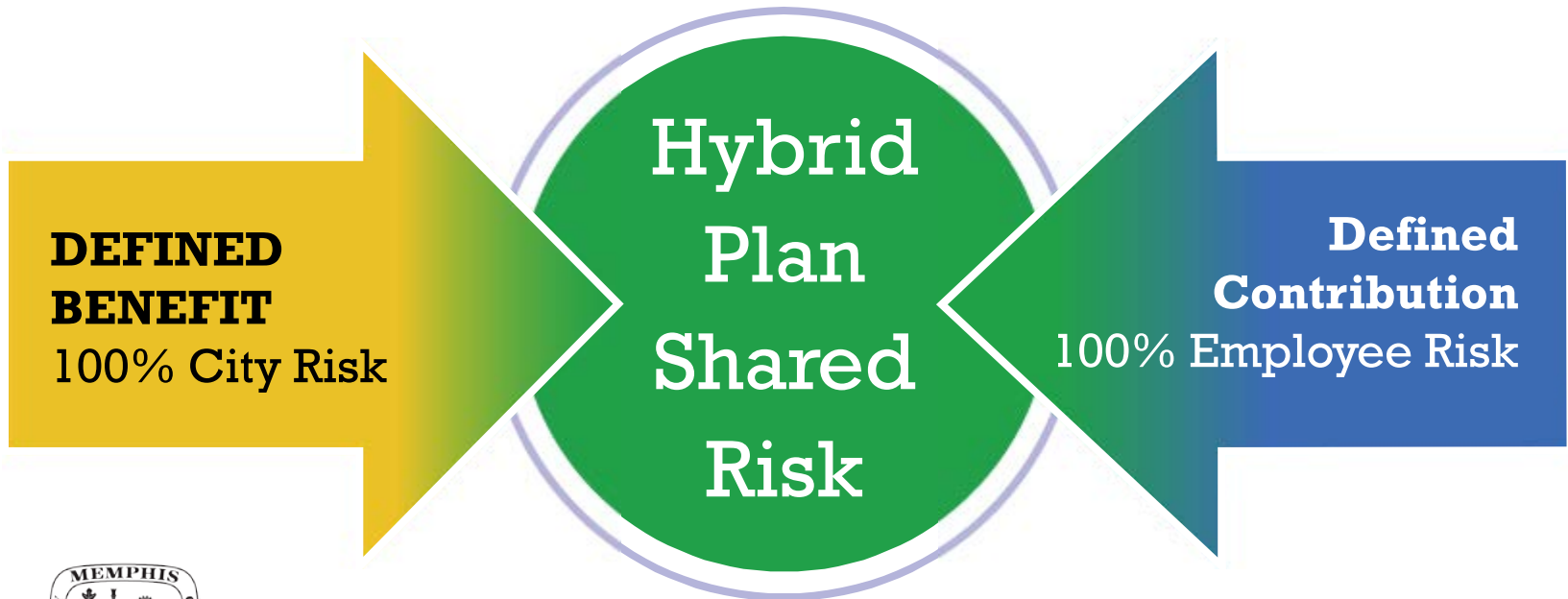


- **\$551M** Current unfunded liability
- **\$78M** Annual Required Contribution (ARC)
- **\$20M** Annual Payment to date
- **Elevated ARC** must be paid until plan is fully funded (several decades)
- More than **\$50M/year** will be unavailable for critical city programs and services

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# PENSION REFORM = SHARED RISK



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# CONTRIBUTION COMPARISON FOR CURRENT PLAN VS. PROPOSED HYBRID PLAN

Contributions	Current Plan	Hybrid Retirement Plan	
		Market Based Plan	401 (a) Plan
<b>Employee Contribution</b>	8% of salary	2% of salary	6% of salary
<b>City Contribution</b>	6% of salary	3-16% of salary (depends on years of service and position)	1.5% of salary
<b>Options</b>	(457) Cashed out at retirement		(457) May be rolled over into an annuity
<b>Management</b>	No employee involvement	Professionally Managed Fund	Employee Directed Investments



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# TWO HALVES OF HYBRID PLAN DEFINED



## Market-based Cash Balance Plan

- Employees contribute 2% of pay
- City contributes up to 16% of pay based on years of service\*
- Earnings based on market return minus 1%\*\*
- Preservation of Capital – Account balance never less than total contributions

## 401(a) Plan

- 7.5% total contribution – Social Security Replacement
- 6% of 7.5% is required employee contribution to 401(a) plan
- 1.5% of pay is contributed by City
- Total = 7.5%

\*City contribution based on years of service and status as general or commissioned public safety employee

\*\*1% used to cover cost of death and disability coverage

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**The City of Memphis will strongly encourage employees to contribute an additional 4% of pay to either the 457 Plan or to personal savings**



# GUARANTEED ANNUITY



## AT RETIREMENT (VESTED EMPLOYEES)

- Accumulated principal and investment returns from Cash Balance and 401(a) plans are combined (along with 457 – optional)
- The city provides lifetime annuity based on total combined funds, 5% interest rate and current IRS Mortality Table

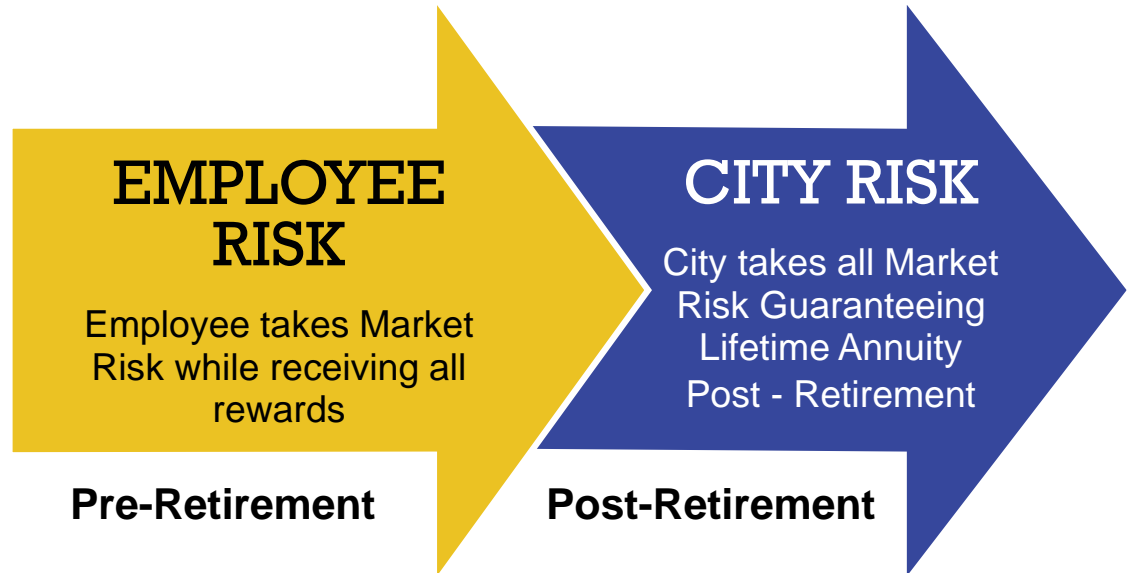
## AT END OF EMPLOYMENT (NON-VESTED EMPLOYEES)

- Return of employee contributions, adjusted with asset return

## PAYMENT OPTION

- Joint and Survivor annuity

# EQUITABLE RISK SHARING



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# APENDIX: ANCILLARY BENEFITS



Plan Design	Death/Disability Benefits	Non-Vested End of Employment Benefits
Hybrid Plan - Market-based CB Plan Plus 401(a) Plan	<b>Greater of either:</b> <ul style="list-style-type: none"> <li>Cash balance account plus 401(a) plan account converted to annuity at 5% interest rate and disability mortality table OR</li> <li>60% of pay</li> </ul>	Return of employee contributions with investment return
Current Plan (Baseline)	<b>Greater of either:</b> <ul style="list-style-type: none"> <li>Accrued benefit with early commencement reduction OR</li> <li>60% of pay</li> </ul>	Return of employee contributions with applicable multiplier

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