

PENSION BENEFITS REFORM



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 aka taxpayers take all market risks

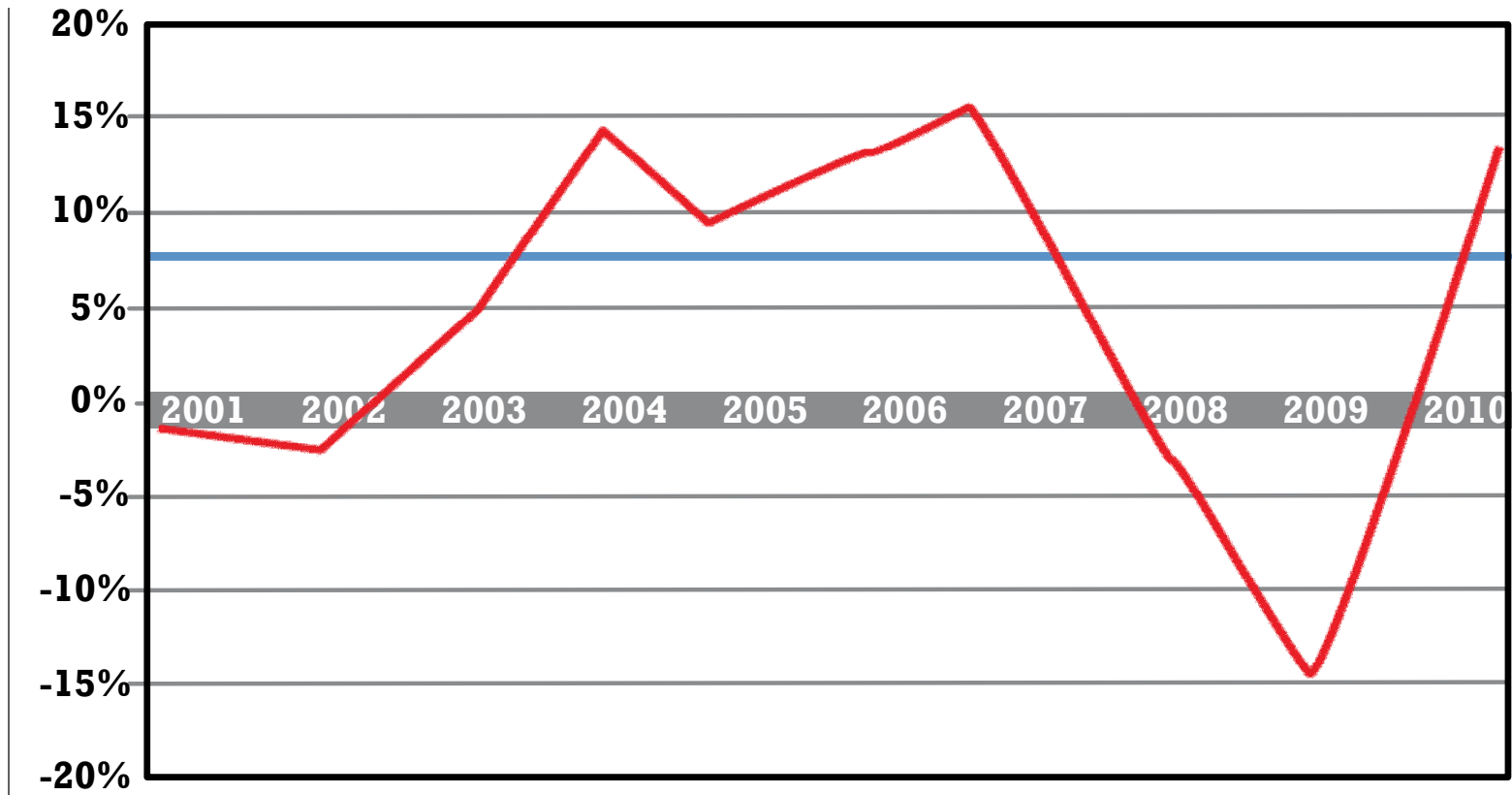
PROPOSED HYBRID PLAN

- " City aka taxpayers share risk with City employees
- " **No change for current retirees and vested employees (10 years plus)**
- " **Only applies to unvested 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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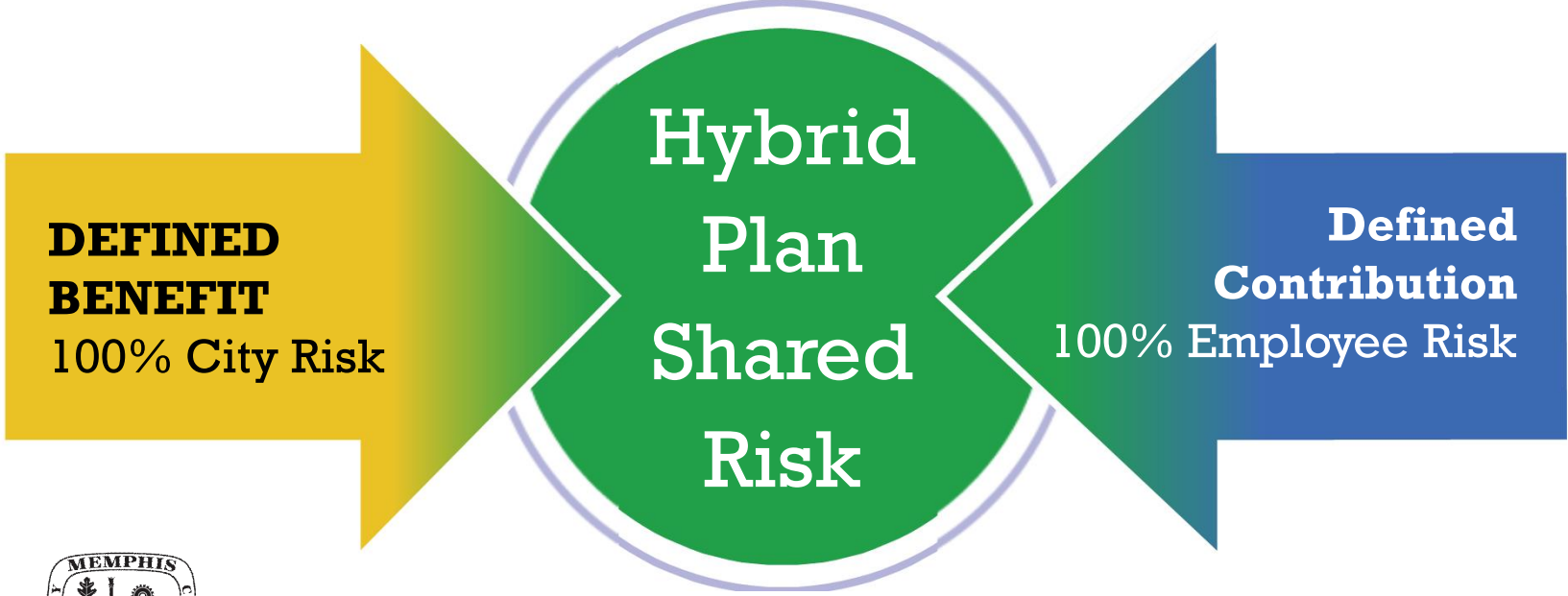
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WHY CHANGE IS NEEDED



- “ **\$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

PENSION REFORM = SHARED RISK



CONTRIBUTION COMPARISON FOR CURRENT PLAN VS. PROPOSED HYBRID PLAN

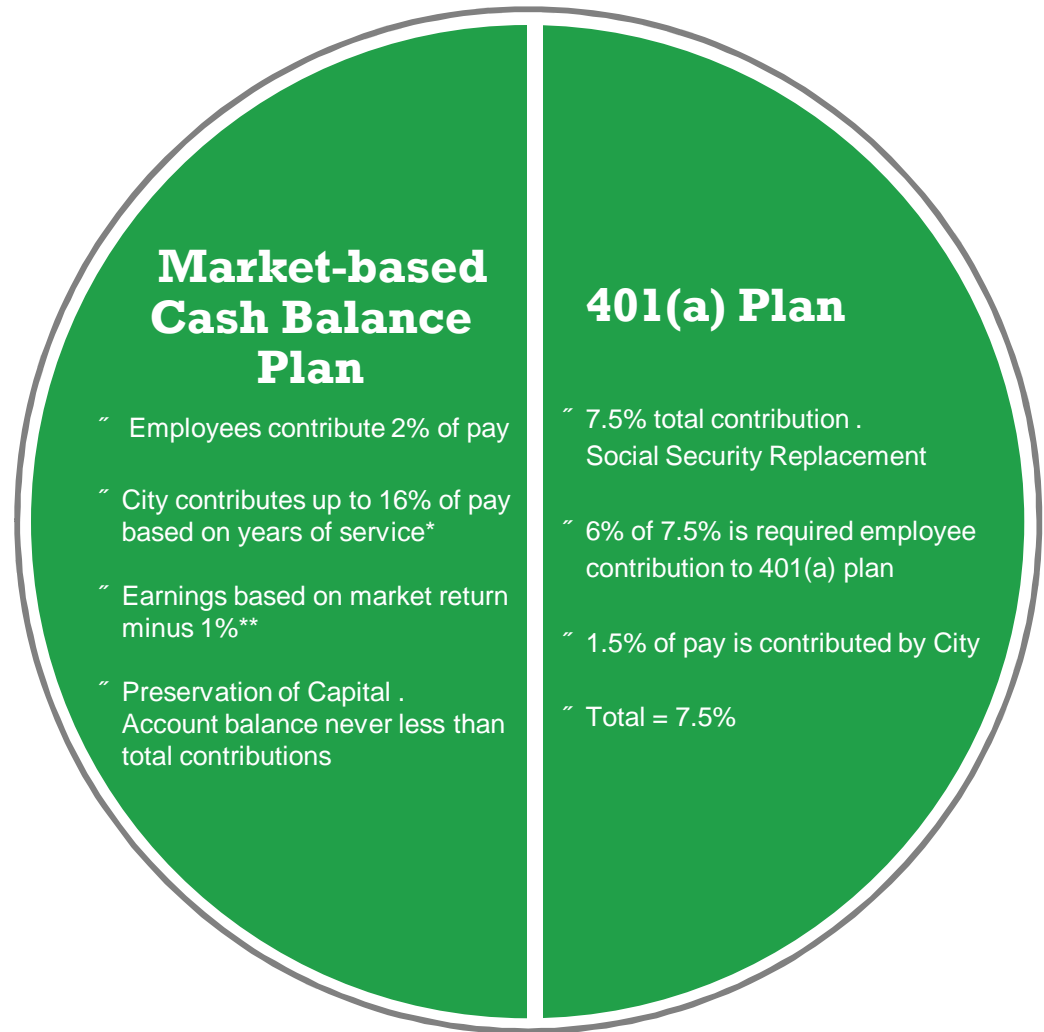
Contributions	Current Plan	Hybrid Retirement Plan	
		Market Based Plan	401 (a) Plan
Employee Contribution	8% of salary	2% of salary	6% of salary
City Contribution	6% of salary	3-16% of salary (depends on years of service and position)	1.5% of salary
Options	(457) Cashed out at retirement		(457) May be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



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TWO HALVES OF HYBRID PLAN DEFINED



*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

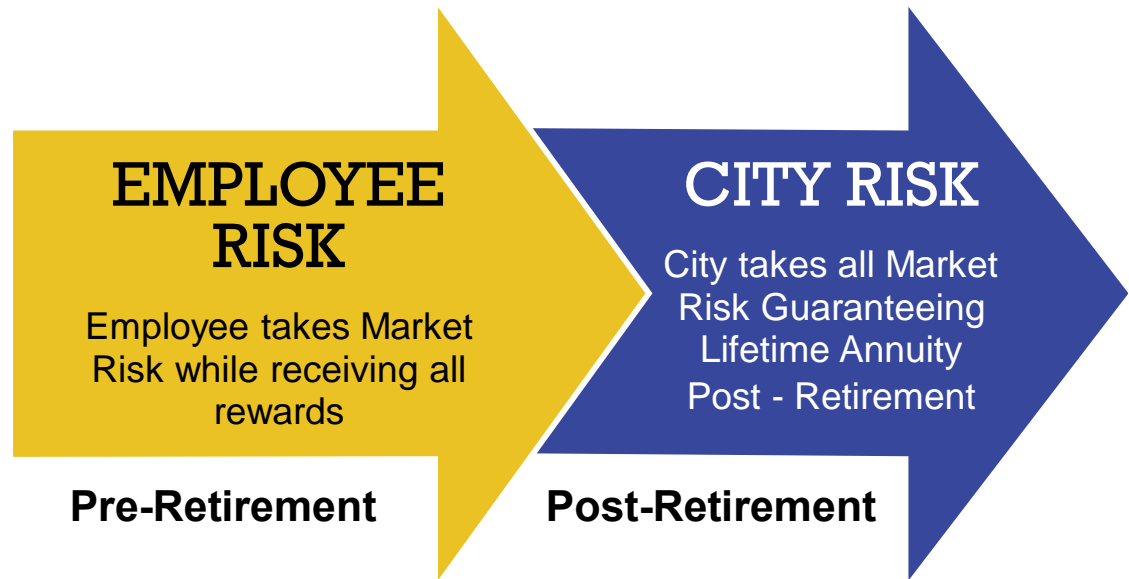
PAYMENT OPTION

“Joint and Survivor annuity

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EQUITABLE RISK SHARING



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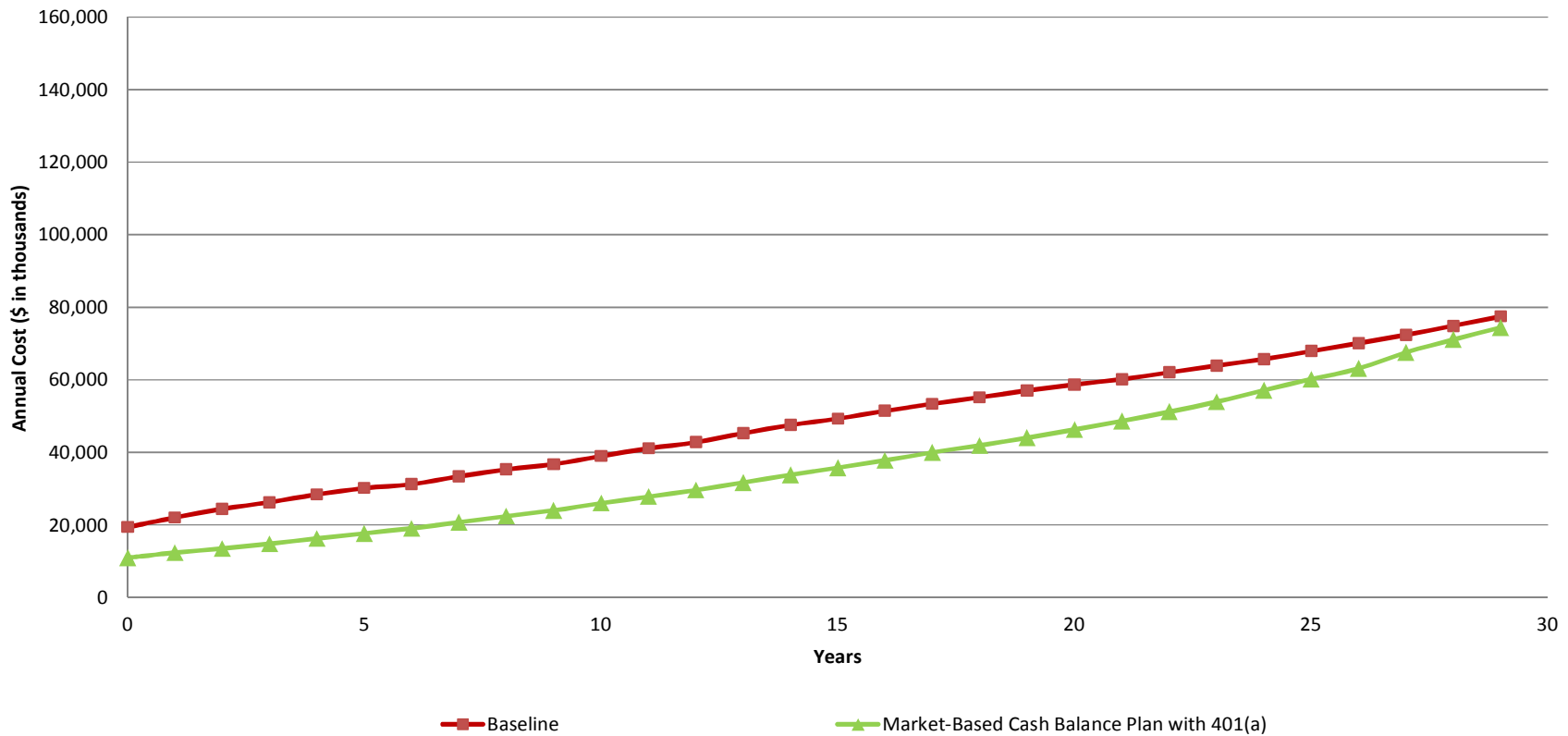


COMPARISON OF CITY COST

MARKET SCENARIO 1: 7.5% ASSET RETURN

The following table illustrates the cost of the current plan and the Hybrid Plan **attributable to non-grandfathered members and new entrants only.**

Annual City Cost (Attributed to Non-grandfathered members only)



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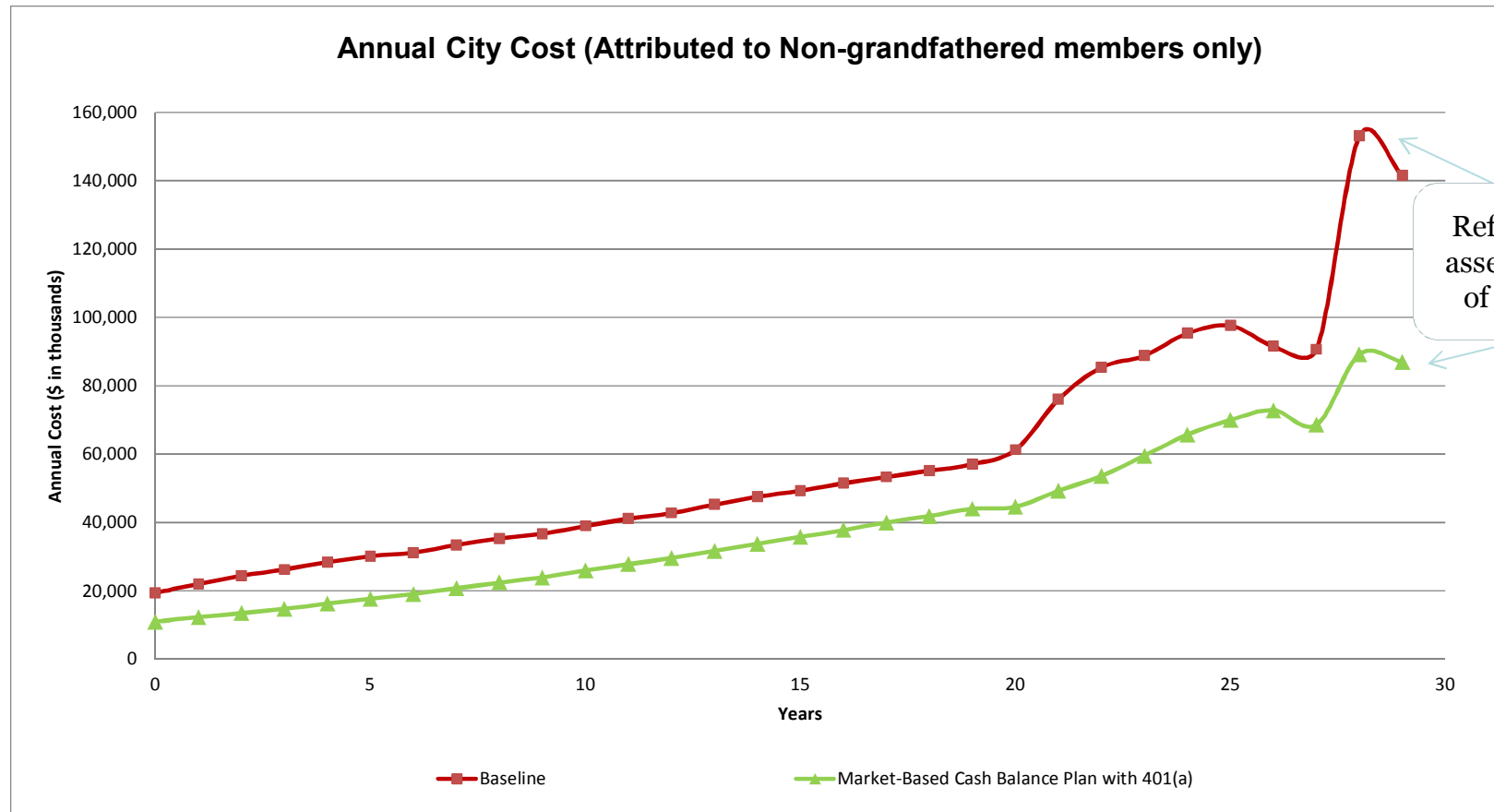
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COMPARISON OF CITY COST

MARKET SCENARIO 2: ASSET RETURN VOLATILITY AFTER 20 YEARS

The following table illustrates the cost of the current plan and the Hybrid Plan **attributable to non-grandfathered members and new entrants only**.



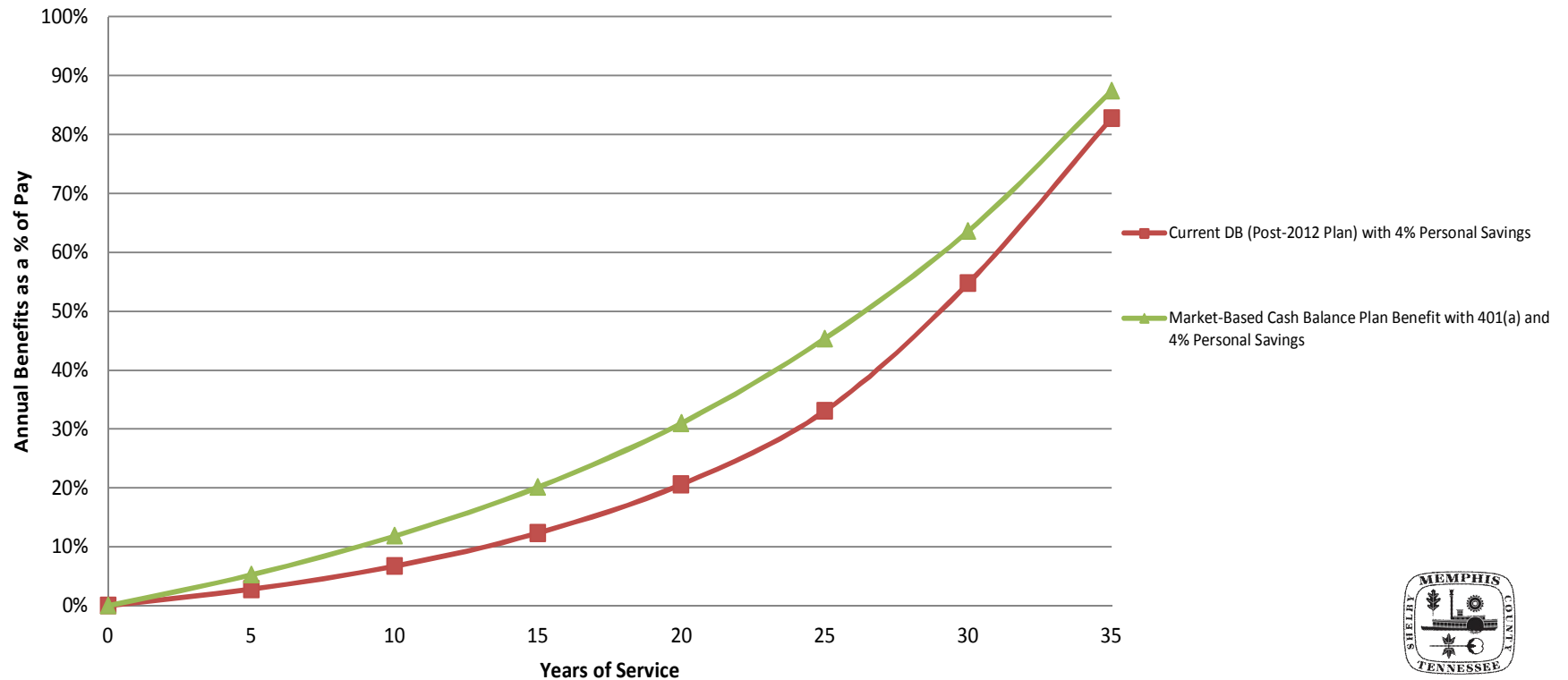
Reflects an asset return of -18.1%

ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 1: 7.5% PLAN ASSET RETURN

General Employees –
Illustration of Accrual Pattern
as a Percentage of Pay

Annual Benefits as a % of Pay



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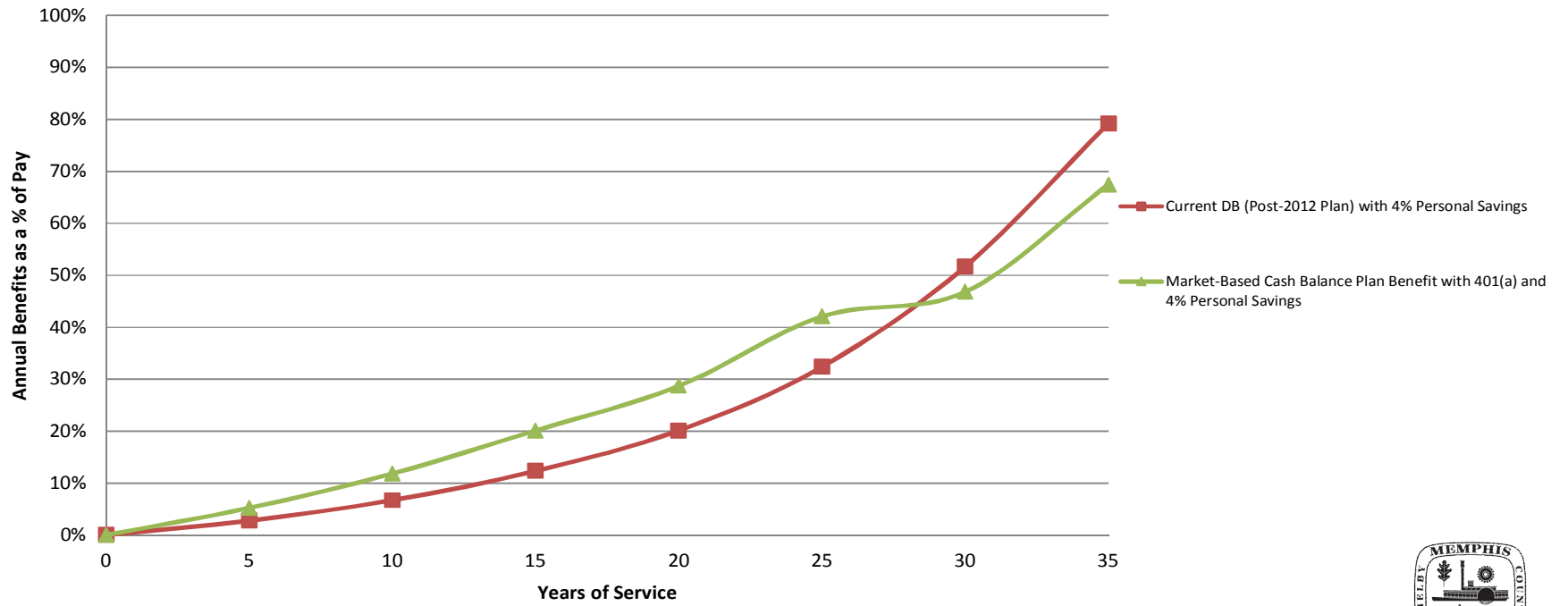
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2: ASSET RETURN VOLATILITY AFTER 20 YEARS

General Employees –
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Annual Benefits as a % of Pay



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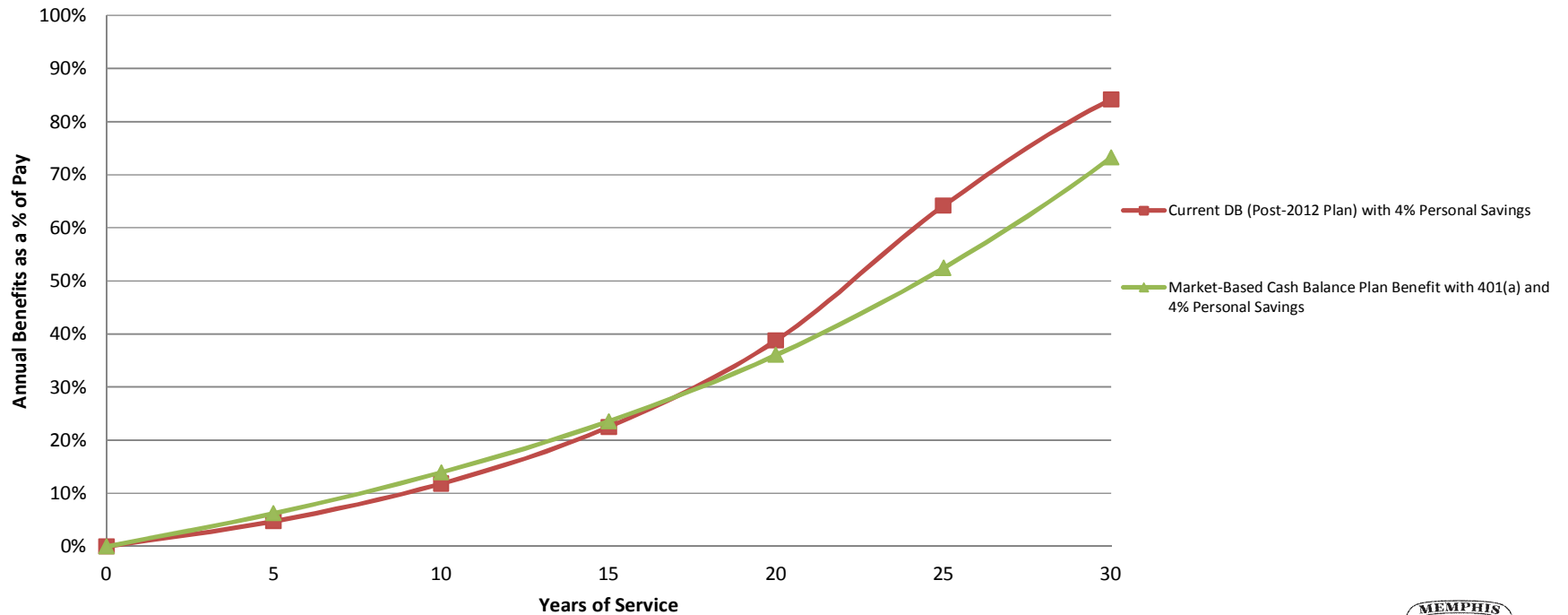
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2: ASSET RETURN VOLATILITY AFTER 20 YEARS

Commissioned Police & Fire –
Illustration of Accrual Pattern as
a Percentage of Pay

Annual Benefits as a % of Pay



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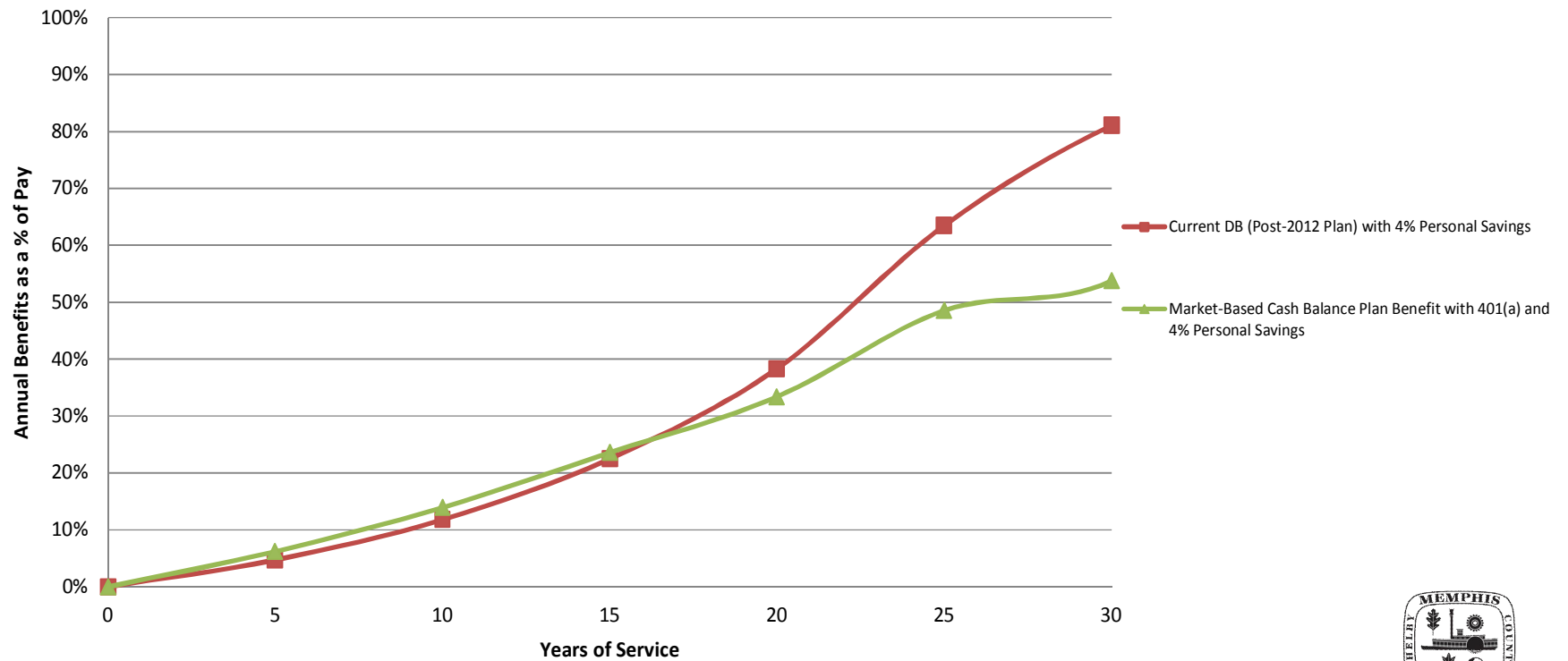
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2A: ASSET RETURN VOLATILITY AFTER 20 YEARS

Commissioned Police & Fire –
Illustration of Accrual Pattern as a
Percentage of Pay at 30 Years of
Service

Annual Benefits as a % of Pay



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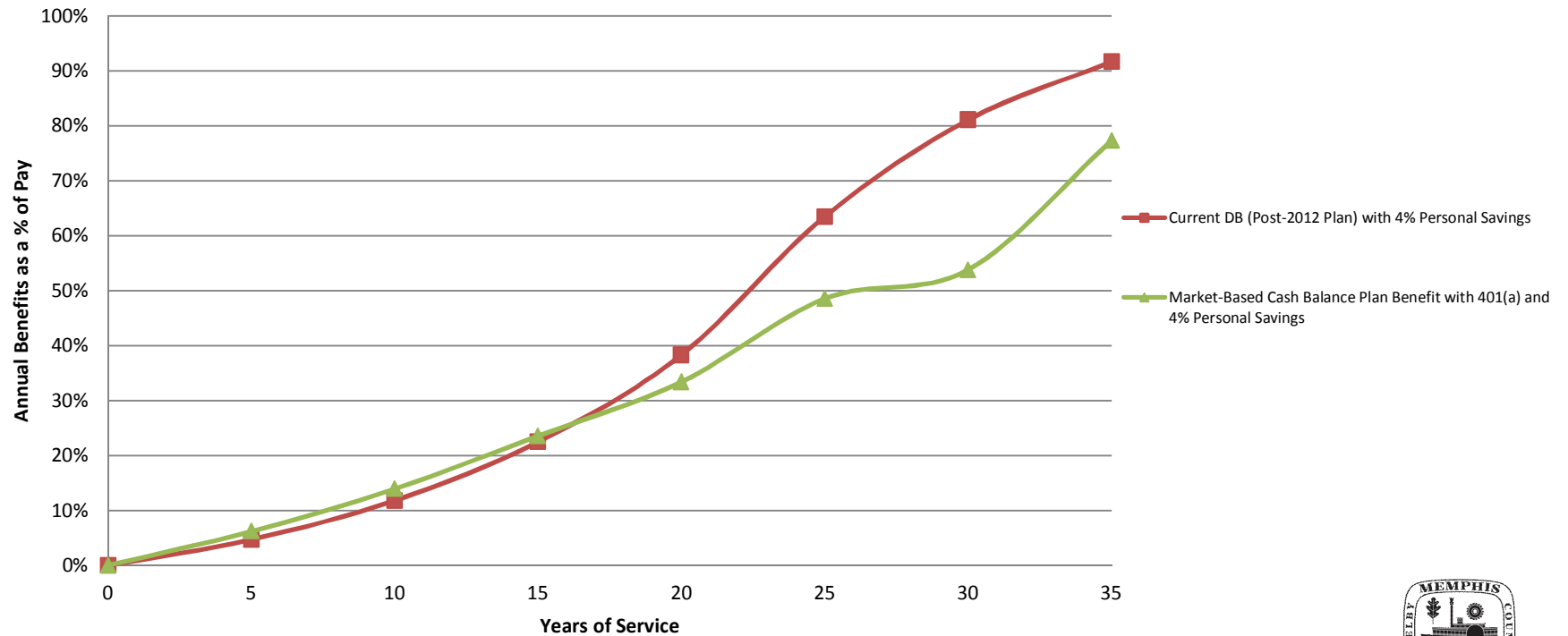
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2B: ASSET RETURN VOLATILITY AFTER 20 YEARS

Commissioned Police & Fire – Illustration of Accrual Pattern as a Percentage of Pay at 35 Years of Service

Annual Benefits as a % of Pay



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APENDIX: ANCILLARY BENEFITS



Plan Design	Death/Disability Benefits	Non-Vested End of Employment Benefits
Proposed Hybrid Plan Market-based CB Plan Plus 401(a) Plan	Greater of either: " Cash balance account plus 401(a) plan account converted to annuity at 5% interest rate and disability mortality table OR " 60% of pay	Return of employee contributions with investment return
Current Plan (Baseline)	Greater of either: " Accrued benefit with early commencement reduction OR " 60% of pay	Return of employee contributions with applicable multiplier

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