Understanding the

City of Marietta Georgia

Consolidated Retirement Plan

Presented by

Davy Godfrey

Director of Human Resources and Risk Management

http://www.mariettaga.gov/city/cityhall/hr/pension

Legalese

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.

Topics

- Introduction
- Vesting Requirements
- Retirement Eligibility
- Breaks in Service
- Pension Formula
- Single Life Formula Examples
- Preretirement Death Benefits
- Joint and Survivor Benefits
- Survivor Benefit Formula Examples
- Social Security Option
- Questions?

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. What does that mean? City/BLW as the employer promises to pay based on a formula related to earnings and tenure of service/age. Third part of the formula is a multiplier, and the City’s is 2.1% (originally passed as 2.0%). Contributions are made by the employee, the employer, or a combination of both. The City is a combination of both. Employees contribute 4% of their pre-tax gross wages other than overtime and expense reimbursements.
- City/BLW assumes all of the risk
- Why is it “Consolidated?” General Employees and Public Safety Employees are all in the same class.
- Covers only full-time employees and elected officials
- Retirement eligibility requires vesting. What is vesting? Performing the service required in order to have an absolute or basic right that cannot be taken away.

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

Has anyone hired on or after January 1, 2009, reached credited service for vesting? No.

When is the first date that will happen? There is an employee who was hired on January 5, 2009, so <u>January 5, 2019</u> is that date.

Retirement Eligibility

Normal

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

Retirement Eligibility

Early: Age 55 to 64 with same vesting requirements

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

Retirement Eligibility

Unreduced Early (80-point pension or “Magic 80”, 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
  - Assuming an employee started working at age 18, when could he/she retire? Age 49
- Hired on or after March 18, 2008: First day of the month following the month turning 55 and added credited service equals 80
  - How much credited service is required to retire under the 80-point pension at age 55? 25 years

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
- Benefit calculated normally, but is no less than 50% of the average of the participant's most recent 12 months of earnings
- Requires certification every two years, and cannot work anywhere

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 counts all service before January 1, 2009

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

- If returning after an absence of 60 months or less, the employee must earn enough service to vest under rules in place and counts 50% of service on or after January 1, 2009
- 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

Final Average Earnings x Credited Service x Multiplier

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 of credit for full-time work up to a maximum of 35 (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)

Dan's Formula Example

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?

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

- ($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%

Molly’s Formula Example

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?

Final Average Earnings x Credited Service x Multiplier

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

  $166,666.66 x .021 = **$3,500 of a normal benefit**

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 $1,748.60 (21% of average salary upon retirement).

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 participant contributions (the 4%), the City-funded life insurance policy, the amount in the Supplemental Pension account, and the 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)

Joint and Survivor Benefits

- 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
- With or without "pop-up": If beneficiary dies before the retiree, monthly benefit increases or "pops" up to the original unreduced benefit (single life)

Joint and Survivor Benefits

- 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 Benefits

- 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%.

Dan’s Formula Example

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?

Dan's Formula Example

$4,375 is his normal benefit (also known as "single life")

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

Molly’s Formula Example

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?

Molly’s Formula Example

$3,500 is her normal benefit

Reduced to $1,748.60 after applying the Early Retirement reduction factor

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 with an 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 65 is $1,209.
- Using the table to find Molly's age at retirement (55) and when she wants to begin drawing Social Security (65), we multiply the Social Security benefit by 0.367 = $443.70.
- Add that amount to the Early Retirement pension: $1,748.60 + $443.70 = $2,192.30 until she begins drawing Social Security.
- After Molly begins drawing Social Security, we subtract the original assumed amount from her City pension and add the Social Security benefit ($2,192.30-$1,209) + $1,209 = $983.30 + $1,209 = $2,192.30 total monthly benefit.

However, with no Social Security option, the monthly pension is $1,748.60 until age 65. The Social Security amount of $1,209 is added to raise the total monthly benefit to $2,957.60.

Questions?

Disclaimer: This briefing was an overview of the City/BLW’s Consolidated Retirement Plan. It was 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 use the estimate calculator or contact the Benefits Division.

Understanding the

CITY OF
Marietta
GEORGIA

Supplemental Pension Plan

Presented by

Davy Godfrey

Director of Human Resources and Risk Management

http://www.mariettaga.gov/city/cityhall/hr/pension

Legalese

Disclaimer: This briefing is an overview of the City/BLW's Supplemental Pension Plan. It is not meant to provide financial or investment advice. Each employee's retirement is different. If you would like to discuss your investment options, please contact a Principal Financial Group Retirement Specialist at 800-547-7754.

Topics

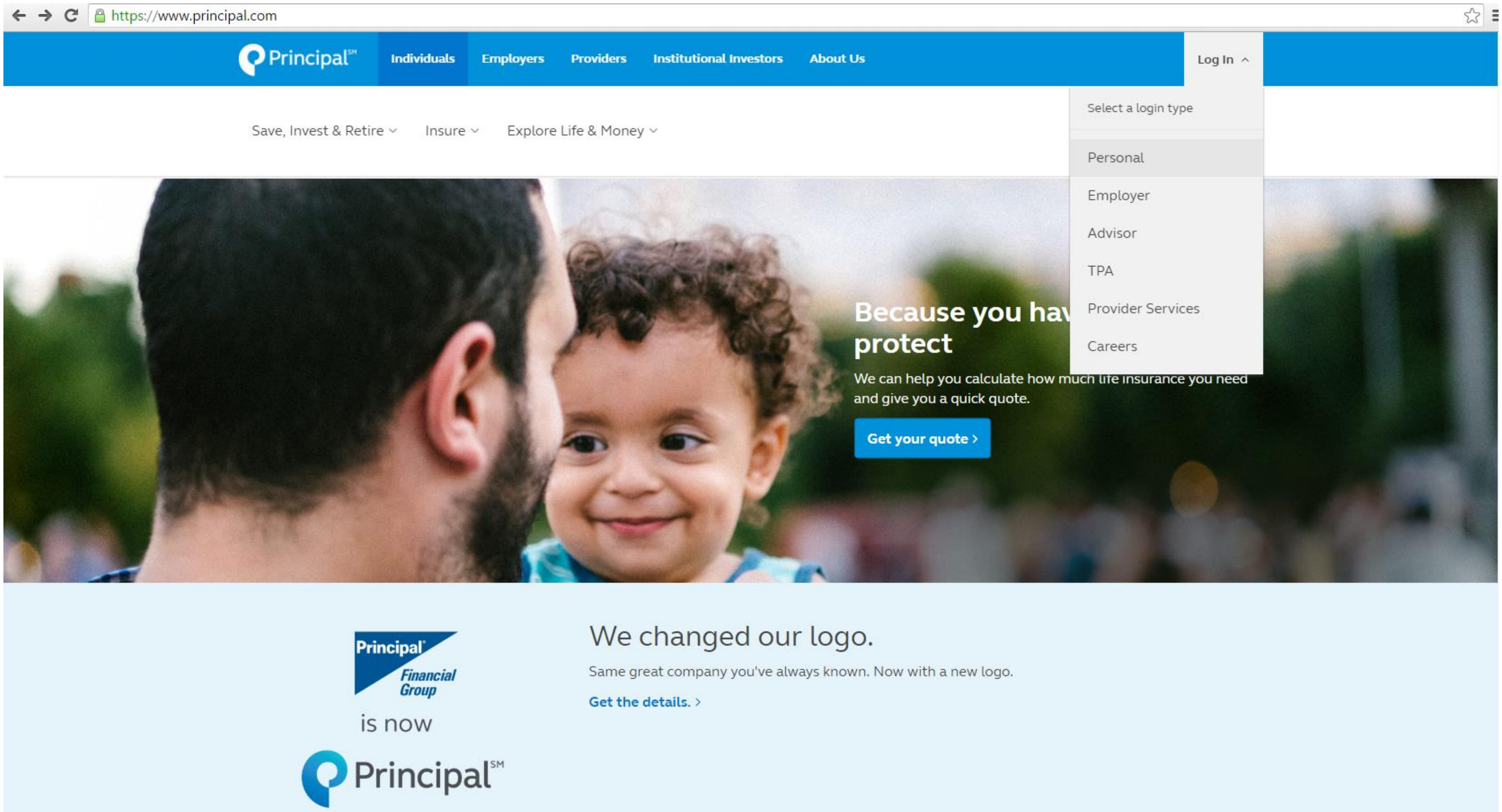
- Introduction
- Registration/Login
- Key Details to Review
- What kind of investor are you?
- Do-It-For-Me
- Principal Lifetime Portfolios
- Do-It-Myself
- Principal’s Planning Center
- Additional Retirement Services
- Questions?

Introduction

- Effective since January 1, 1981, the Supplemental Pension Plan is a defined contribution plan that is governed by Section 401(a) of the Internal Revenue Code. What does that mean? Contributions are made by the employee, the employer, or a combination of both. In our case, the City/BLW as the employer makes contributions into the plan of 6.13% of salary for full-time employees after one year of employment (7.5% for part-time, temporary, and seasonal employees immediately). Distributions are paid out based on account value. Employees do NOT make contributions.
- Employee assumes all of the risk
- Covers all employees except for elected officials
- Funds are immediately vested
- No taxes due, including on earnings, until you make withdrawals
- Withdrawals generally subject to 10% penalty from IRS if made before age 59 ½. Must take required minimum distributions by April 1 of the year turning 70 ½ or the year of retirement if older.

Registration/Login

https://www.principal.com



Key Details to Review

- Designate a beneficiary
- Select investments
- Review plan statements

T

What kind of investor are you?

DO-IT-FOR-ME

- You may want a faster way to start saving now
- You're not comfortable with investment concepts
- You want asset allocation assistance

If you fall into the do-it-for-me category, you can choose a do-it-for-me feature available through your organization's retirement plan.

DO-IT-MYSELF

- You prefer to build your own portfolio
- You like to take control of your investment decisions
- You have a good understanding of investment topics
- You enjoy monitoring your own investment options

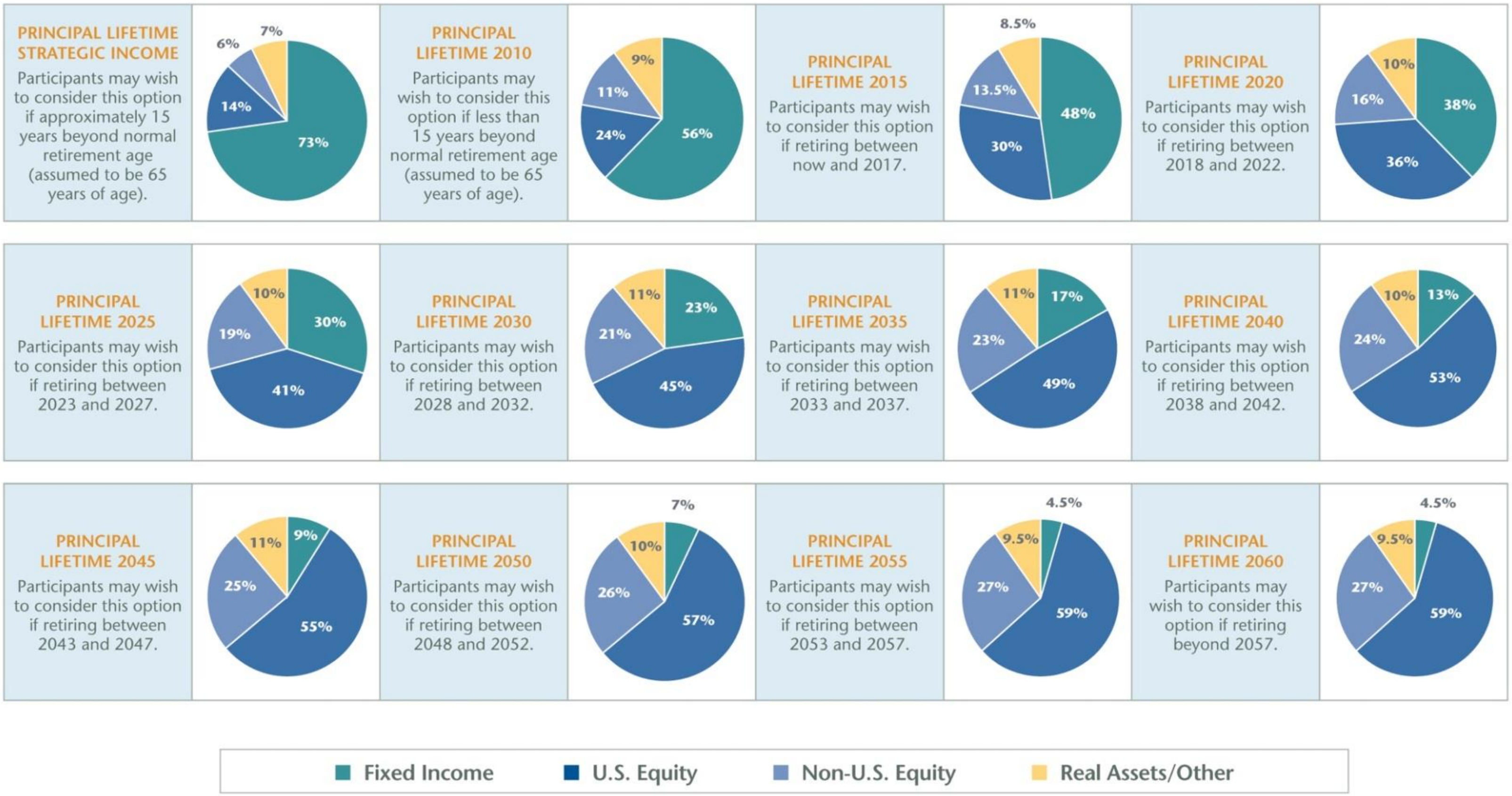
If you're more of a do-it-myself investor, you may wish to choose your own mix of investment options.

Do-It-For-Me

Principal LifeTime portfolios

- You may want a faster way to start saving now
- You may want an investment option that is automatically rebalanced

Principal LifeTime Portfolios



* Allocations based on current allocation targets as of March 2015. They will change over time. No investment strategy, such as asset allocation or diversification, can guarantee a profit or protect against loss in periods of declining values.

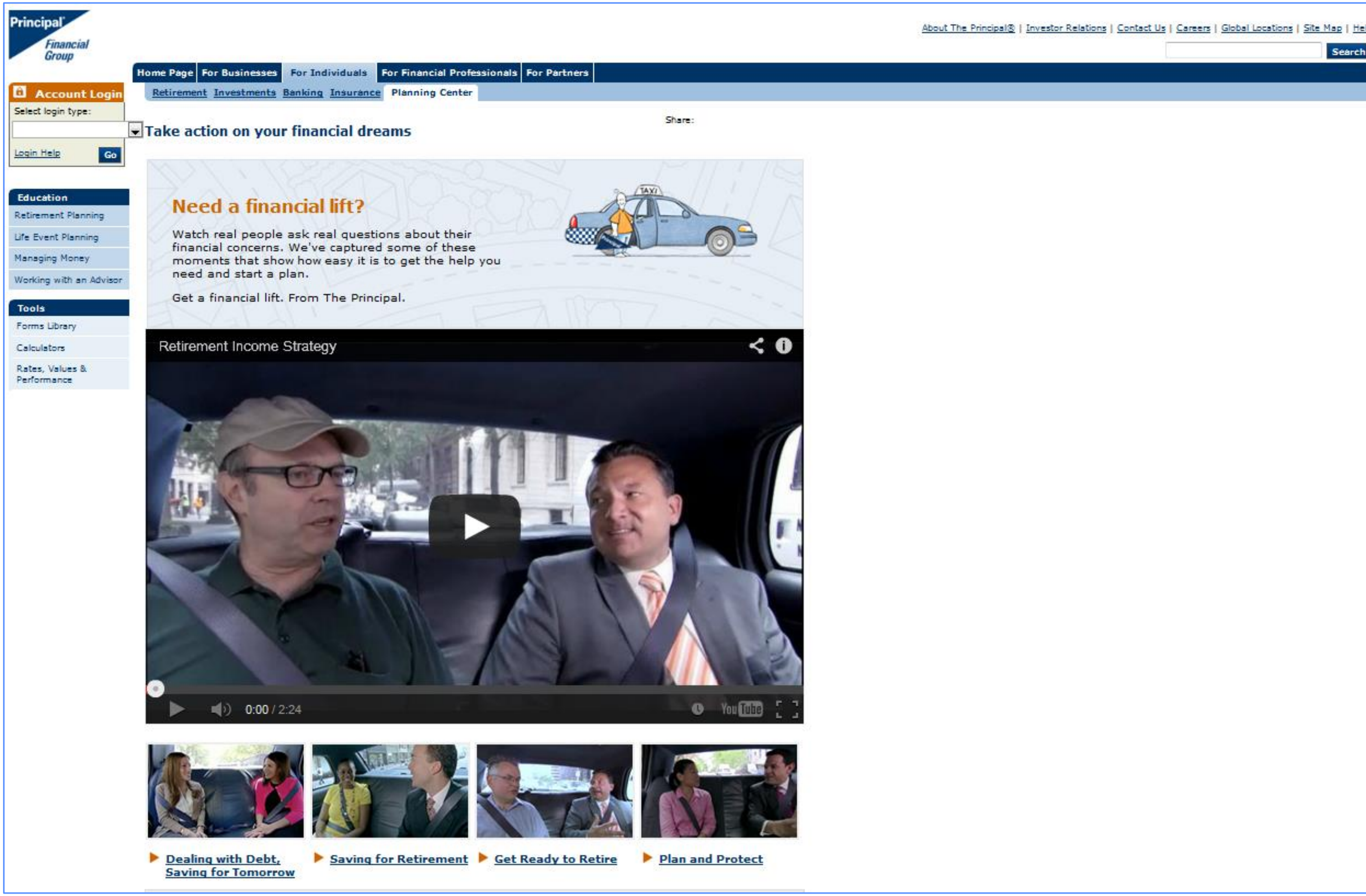
** The individual Principal LifeTime Funds may be combined with the Principal Strategic Income Fund if the Board of Directors of Principal Funds, Inc., determines at the time that the combination is in the best interests of Fund shareholders. Principal LifeTime Separate Accounts invest wholly in the Institutional share class of the corresponding Principal LifeTime Fund.

For all portfolios the retirement age is assumed to be 65 years of age.

Do-It-Myself

Choose from the investment options available.

Principal.com/planningcenter



Additional Retirement Services

- Regular retirement account statements
- Online statements at **principal.com**
- Participant e-magazine
- Monthly Webinars: principal.com/learnnow
  - Medicare, Financial Fitness, Move to the Green, Retirement Income, Investments, Roth vs. Non-Roth, Social Security

Questions?

Disclaimer: This briefing was an overview of the City/BLW's Supplemental Pension Plan. It was not meant to provide financial or investment advice. Each employee's retirement is different. If you would like to discuss your investment options, please contact a Principal Financial Group Retirement Specialist at 800-547-7754.