

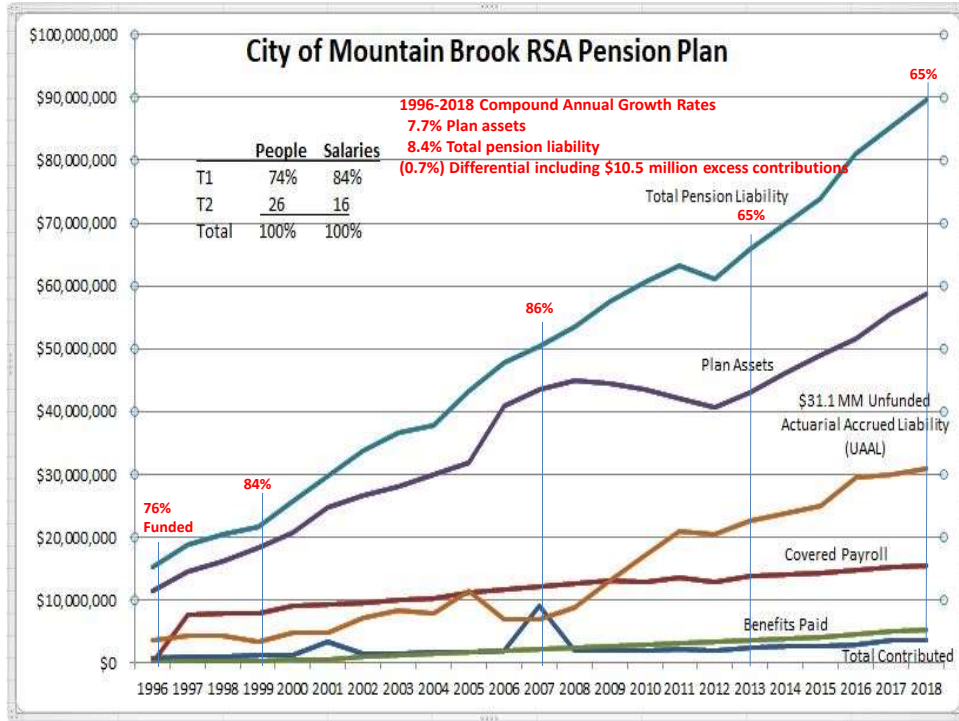
City of Mountain Brook RSA Pension Plan

Evaluation of the Impact of Act 2019-132 (Tier 2 Pension Conversion to Tier 1)

Comparison of Tier 1 and Tier 2 Plans

| Description | Tier 1 | Tier 2 |
|--|--|--|
| Benefit expressed as a % of defined salary | 2.0125% 22% greater than T2 | 1.65% 18% less than T1 |
| Hazardous duty addendum | FLC employees credited with 6 years of service for every 5 years (or portion thereof) worked | Not applicable |
| Minimum age to retire | Any age with 25 years of service or age 60 with 10 years' service | 62 civilians or 56 (FLC) with at least 10 years of service |
| Service credit for sick leave | Allowed if authorized by employer | Not allowed |
| Overtime | Limited to 20% of base salary | Limited to 25% of base salary |

- Tier 1 FLC benefits are **46%** greater than Tier 2 benefits
- Tier 1 Civilian benefits are **22%** greater than Tier 2 Civilians
- Mtn Brook's weighted average difference between Tier 1 and Tier 2 benefits is **35%+**



City's Annual Required Contribution %, Tier 1 Civilian Withholding % and Additional Amounts Deposited by City

| City of Mountain Brook T1 Pension Contribution History | | | | |
|--|--------|----------|--------|----------------------------|
| Year | City | Employee | Total | Extra Paid by City |
| 1995 | 5.48% | 5.00% | 10.48% | |
| 1996 | 5.48% | 5.00% | 10.48% | |
| 1997 | 6.70% | 5.00% | 11.70% | |
| 1998 | 8.25% | 5.00% | 13.25% | |
| 1999 | 9.45% | 5.00% | 14.45% | |
| 2000 | 9.45% | 5.00% | 14.45% | |
| 2001 | 9.45% | 5.00% | 14.45% | \$ 2,000,000 |
| 2002 | 9.45% | 5.00% | 14.45% | |
| 2003 | 8.31% | 5.00% | 13.31% | |
| 2004 | 9.83% | 5.00% | 14.83% | |
| 2005 | 10.90% | 5.00% | 15.90% | |
| 2006 | 10.90% | 5.00% | 15.90% | |
| 2007 | 11.51% | 5.00% | 16.51% | \$ 7,000,000 |
| 2008 | 7.98% | 5.00% | 12.98% | \$ 300,000 |
| 2009 | 9.06% | 5.00% | 14.06% | |
| 2010 | 8.84% | 5.00% | 13.84% | |
| 2011 | 9.96% | 5.00% | 14.96% | |
| 2012 | 8.42% | 7.50% | 15.92% | Act 2011-676 |
| 2013 | 9.65% | 7.50% | 17.15% | |
| 2014 | 11.70% | 7.50% | 19.20% | |
| 2015 | 12.39% | 7.50% | 19.89% | |
| 2016 | 12.55% | 7.50% | 20.05% | |
| 2017 | 13.30% | 7.50% | 20.80% | \$ 600,000 |
| 2018 | 13.30% | 7.50% | 20.80% | \$ 610,000 |
| 2019 | 15.47% | 7.50% | 22.97% | \$ 638,000 |
| 2020 | 15.64% | 7.50% | 23.14% | \$ 640,000 |
| 2021 | 16.02% | 7.50% | 23.52% | \$ 11,788,000 and Counting |

Increased Pension Cost
 \$350,000 2019
 \$280,000 2020
 \$650,000 2021
 \$1.3 million increase 2019-2021

2012-2021: 7.5% compound annual growth rate

RSA Case Study Summarized

1. Immediate increase in the UAAL by

\$334,000 (retroactive Tier 3 service credit)

2. Year 1 increase in City's pension cost of

\$80,500 (due to prospective 35%+ increased Tier 3 pension benefit)

Is that all?

Case Study Results

2.10% City

4.05% Park Board

0.82% Library

2.06% Weighted Average
(years 1-15)

1.90% Weighted Average
(years > 15)

Financial Impact of Act 2019-132

UAAL (for T3 retroactive benefit increases)

- \$334,000 one-time increase in the UAAL (as of 9/30/2018)

Future City Contributions

- \$30,500/year for 15-years
0.18% of payroll added to the Accrued Liability component of the contribution
- Plus \$50,000 in year one of implementation
- The long-term difference:

| Unit | Incr in Normal Cost | Pens Wages | Incr in Employer Cost |
|---------|---------------------|----------------------|-----------------------|
| City | 1.92% | \$ 13,703,353 | \$ 263,104 |
| Library | 0.60% | 1,625,954 | 9,756 |
| Parks | 3.71% | 732,217 | 27,165 |
| | | <u>\$ 16,061,524</u> | <u>\$ 300,025</u> |

General Fund Expense Summary

| Line Item | 09/30/2019 Amount | % of Total Expenses | % of Salaries |
|---|----------------------|------------------------|---------------|
| Salaries/Overtime | \$16,327,056 | 41% | |
| Longevity | 440,000 | 1% | |
| FICA | 1,243,149 | 3% | 7% |
| Pension (ARC) | 2,165,767 | 5% | 13% |
| Pension (Extra) | 647,000 | 2% | 4% |
| Medical (Employees) | 1,712,833 | 4% | 10% |
| Medical (Retirees) | 354,303 | 1% | 2% |
| Medical (OPEB Trust) | 300,000 | 1% | 2% |
| Work Comp | 204,238 | 1% | |
| All Other | 186,483 | 0% | |
| Total Labor Cost | 23,580,809 | 59% | 59% |
| All Other Expenses | 16,368,483 | 41% | |
| Total General Funds Expenses and Transfers | \$39,949,292 | 100% | |

Compound annual growth rate 10%+
(7.5% rate increase plus 3% wage growth)

Medical trend per OPEB actuaries 5.5%+

The Tier 2 Conversion Only Gets More Costly

1. After implementation, pension costs will increase annually
2. As Tier 1 employees retire, instead of being replaced with Tier 2 workers they will be replaced with Tier 3 workers whose benefits are 35%+ greater than the Tier 2's
3. Mountain Brook's expense differential after the Tier 3 transformation will be **\$300,000+** annually based on the RSA case study estimates
4. Mountain Brook's total cost (employee + City) after the Tier 3 transformation will be **\$540,000+** annually
5. Mountain Brook has already increased its Tier 1 employee withholdings (Act 2011-676). How does this action make its RSA case study results different from another city's who has not?

Everyone Else

1. Another city could see a pension expense decrease once they implement Tier 3 plan based on their RSA case study
2. The savings will be achieved by transferring a portion (2.5%) of its pension cost to the Tier 1 employee
3. This cost transfer does not impact in any way the total cost of the pension plan—only who is paying the cost
4. Tier 1 wages will decrease over time as they retire and so will this 2.5% cost transfer savings
5. Mountain Brook has been there and done that, what happened?

CONCERNS:

1. Considering the increasing City pension cost trends, is the current 2-tiered plan sustainable?
2. The Tier 2 conversion plan is substantially more expensive than Tier 2. If Tier 2 is questionable, how can a Tier 2 conversion to Tier 1 be justified considering the greater cost?

EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
ACTUARIAL VALUATION AS OF SEPTEMBER 30, 2017
Rates Effective for Period Beginning October 1, 2019



2460 MTB Mountain Brook City of

Employer has elected to increase member contribution rates under Act 2011-676. These rates reflect that increase.

Summary of Employee Census Data

| | Tier 1 | DROP | Tier 2 | Total |
|--|--------------|------------|-------------|--------------|
| Number of active members: | 158 | 0 | 39 | 197 |
| Annual compensation: | \$11,400,693 | \$ 0 | \$1,513,844 | \$12,914,536 |
| | Retirees | DROP | | Total |
| Number of retired members and beneficiaries: | 108 | 0 | | 108 |
| Annual retirement allowances: | \$4,580,442 | \$ 0 | | \$4,580,442 |
| | Vested | Non-vested | | Total |
| Number of inactive members: | 1 | 2 | | 3 |
| Accumulated contributions with interest: | \$54,090 | \$19,292 | | \$73,382 |

Required Employer Contribution Rates

Tier 1 Employees

(applies to all members hired before January 1, 2013)

| | | |
|---|----------|------------------------|
| Normal cost | 1.23% | 9/30/2018 1.30% |
| Accrued liability | 14.04 | 14.35 |
| Pre-retirement death benefit | 0.02 | 0.02 |
| Administrative expense | 0.35 | 0.35 |
| Total Employer Contribution Rate | 15.64% | 16.02% (2.4% increase) |
| 7.5% Employer contribution factor (15.64%/7.5%) | 2.085333 | |
| 8.5% Employer contribution factor (15.64%/8.5%) | 1.840000 | |

Tier 2 Employees

(applies to all members hired on or after January 1, 2013)

| | |
|---|----------|
| Normal cost | 0.03% |
| Accrued liability | 14.04 |
| Pre-retirement death benefit | 0.02 |
| Administrative expense | 0.35 |
| Total Employer Contribution Rate | 14.44% |
| 6% Employer contribution factor (14.44%/6%) | 2.406667 |
| 7% Employer contribution factor (14.44%/7%) | 2.062857 |

1.2% difference
all attributable to the
normal cost component

EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
ACTUARIAL VALUATION AS OF SEPTEMBER 30, 2017

2460 MTB Mountain Brook City of

(Continued)

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets* | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|----------------------------|---|---------------------|--------------|-----------------|---|
| Date | (a) | (b) ¹ | (b-a) | (a/b) | (c) | ((b-a)/c) |
| 9/30/2012 ^{2,4} | \$36,438,570 | \$56,446,649 | \$20,008,079 | 64.6% | \$11,092,983 | 180.4% |
| 9/30/2013 ^{2,5} | \$38,510,729 | \$60,783,982 | \$22,273,253 | 63.4% | \$11,976,227 | 186.0% |
| 9/30/2014 ² | \$41,141,583 | \$64,602,214 | \$23,460,631 | 63.7% | \$12,121,321 | 193.5% |
| 9/30/2015 ² | \$43,506,508 | \$68,234,247 | \$24,727,739 | 63.8% | \$12,421,007 | 199.1% |
| 9/30/2016 ^{2,3} | \$45,611,767 | \$74,738,929 | \$29,127,162 | 61.0% | \$12,684,182 | 229.6% |
| 9/30/2017 ^{2,3} | \$49,017,389 | \$78,386,118 | \$29,368,729 | 62.5% | \$12,914,536 | 227.4% |

¹ Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
² Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.
³ Reflects changes in actuarial assumptions.
⁴ Reflects changes to interest smoothing methodology.
⁵ Reflects implementation of Board Funding Policy.
* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.
Market Value of Assets as of September 30, 2017: \$50,490,591

| | |
|-------------------------------|------------------------|
| Valuation date | 9/30/2017 |
| Actuarial cost method | Entry Age |
| Amortization method | Level percent closed |
| Remaining amortization period | 27.9 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return** | 7.75% |
| Projected salary increases** | 3.25 - 5.00% |
| **Includes inflation at | 3.00% |
| Cost-of-living adjustments | None |

9/30/2018 9/30/2016
27.8 years 28.4 years