



**RETIREMENT BOARD MEETING  
SEPTEMBER 7, 2012**

**AGENDA ITEM VI**

**CHANGING PLAN DATE TO FISCAL  
YEAR**



*Handwritten notes in green ink:*  
10/2/12  
by  
\_\_\_\_\_  
and  
MP  
\_\_\_\_\_  
unapproved

**MEMORANDUM**

September 7, 2012

TO: Retirement Board

FROM: Gavin Cohen, Executive Secretary *[Signature]*

SUBJECT: Plan Year Date

**Recommendation**

Staff recommends that the Board receive the report and provide direction as needed.

**Background and Discussion**

At the meeting held on June 1, 2012, the Board requested that staff review the implications of changing the pension plan date to a fiscal year date so that the plan date would coincide with the pension plan funding mechanism, the City's fiscal year.

Staff has spoken to Prudential, the Plan administrator and record-keeper, Venable LLC, the Plan legal advisor, and the Hay Group, the Plan actuary. A memorandum from Venable LLP is attached for the Board to review.

Based on these conversations, there appears to be no downside to make this change, no impact to current retirees, no change in accruals or benefits earned for participants. Consequently staff can recommend moving forward with a plan amendment that will change the Plan date from April 1 through March 31 to July 1 through June 30. This change if approved by the Board would require a plan amendment and approval by the Mayor and Council.

This subject was reviewed by the Board at a meeting held on November 14, 2005 where the Board decided against making the change.

Attachments:

- Memorandum from Barbara Schlaff, Venable LLP
- Board Agenda Report November 14, 2005

## MEMORANDUM

To: Gavin Cohen  
From: Barbara Schlaff  
Re: Possible Change in Plan Year

The City of Rockville Pension Plan is currently operated with a plan year beginning on April 1 and concluding on the following March 31. You are considering changing the plan year to July 1 through June 30. It is contemplated that other changes may have to be made to the Plan due to a changed plan year.

Typically, plan years are run on 12-month periods; plan years longer than 12 months are generally not permitted. If the particular 12-month period being used is changed, this will create a “short” plan year which begins after the old plan year ends, and ends immediately before the new plan year begins. For your Plan, this means that there will be a short plan year starting on April 1, 2013 and ending on June 30, 2013.

Because of the way your Plan is structured, I don’t believe that there will be a big impact on it in the event you change the plan year as you have described. For example, Credited Service under the Plan is granted for each full year of continuous service and fraction thereof; plan years are largely irrelevant in any determination of continuous service. Similarly, there are some references to particular dates in the Plan for things like crediting interest (last day of calendar year) and for determining if the City will require additional employee contributions (April 1); again, these dates are not tied specifically to the plan year. There are, however, some language changes that will need to be made to the Plan:

- Obviously, the definition of plan year will have to be changed.
- Section 1.14 states that “annual earnings taken into account in determining benefit accruals in any Plan Year and allocations for any Plan Year...shall not exceed \$200,000, as adjusted to reflect changes in cost of living as provided in Section 401(a)(17) of the Code.” In a short plan year this limit must be prorated; for the 3-month short plan year, the limit will be 25% of the otherwise applicable limit. This applies to both the defined benefit and thrift plan options.
- Pursuant to Section 415 of the Code, Section 15.9 of the Plan limits “annual additions” to the thrift plan option to the lesser of \$40,000 (as adjusted to reflect changes in cost of living), or 100% of an employee’s compensation. As above, the applicable dollar limit must be prorated for the short plan year.

Other than the tweaks already described in this memo, I don’t think there should be any other changes required.



City of Rockville

**M E M O R A N D U M**

November 14, 2005

TO: Retirement Board

FROM: Gavin Cohen, Executive Secretary

SUBJECT: Plan Dates April through March

The funding mechanism for the City's retirement plans is the City budget. The City's budget is funded on a fiscal year basis that runs July 1<sup>st</sup> through June 30<sup>th</sup>. In order to provide sufficient, and accurate funding in a timely manner, not only should the City receive its actuarial valuation report earlier, but also the plan year should be in alignment with the funding mechanism.

Staff is recommending that the Retirement Board authorize the following:

- That Principal Retirement Group review the plan dates and what cost if any there would be to align the plan dates with funding mechanism dates i.e. change the plan dates from April 1 through March 31<sup>st</sup> to July 1 through June 30<sup>th</sup>.
- That Principal Retirement Group provide the actuarial valuation reports in time for the City's Budget process so that the costs can be incorporated and be part of the budget process. This can be done regardless of whether the plan dates change.
- That Principal Retirement Group provide at least two years worth of estimates to facilitate better planning and to allow for multi-year budgeting. This can be done regardless of whether the plan dates change.