



**City of Rockville
Mayor and Council
Agenda Item**

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| For the meeting on: | July 23, 2012 |
| Agenda Item Type: | Discussion and Instructions |
| Department: | Finance |
| Responsible staff: | Gavin Cohen, Chief Financial Officer phone: (240) 314 - 8402 email: gcohen@rockvillemd.gov |

Subject

Retirement Plan Design Study

Recommendation

Staff recommends that the Mayor and Council wait until the fall worksession on employee compensation and benefits (tentatively scheduled for October 15) before determining whether to contract for a study of options for changing the design of the Defined Benefit (DB) retirement plan. The fall worksession will provide a full briefing and discussion of the City's pension plan and associated employee benefits that will further inform decision making about a study.

Discussion

Introduction

The Mayor and Council adopted the FY13 operating budget and capital improvements program on May 21, 2012. During the course of the FY13 budget review, staff highlighted fiscal strains and challenges that have been addressed and will be faced in future budgets. In particular, property tax revenue is projected to decrease for FY14, income tax revenue is unpredictable and staff anticipates reductions in revenue from other levels of government. At the same time, some City expenses will grow as the population increases and infrastructure ages. Recognizing these future challenges, the Mayor and Council have requested a series of worksessions in the fall of 2012 on several aspects of the budget, such as the CIP, salaries and benefits, revenues and costs associated with new development and City contracting.

The Defined Benefit Plan is one component of the City's pension plan, which is one component of the employee benefit package, which is one component of personnel expenses of the entire City budget. As such, a study of the Defined Benefit (DB) component of the Pension Plan should be considered in the context of Rockville's total compensation package and in the larger context of the City's overall budget and fiscal health. A DB Plan study should provide a comprehensive assessment of all options (such as participating in another plan) and incorporate all aspects of the pension plan which are relevant to changes in the DB Plan (such as the Supplemental Employee Contribution component of the pension

plan.)

Any change to the employee benefit package has the potential to impact recruitment, retention, morale and ultimately city operations. Recognizing the importance of the entire benefits package to our employees, the City Manager's Office and Human Resources Department will communicate with employees and employee groups to provide continuous information about all Mayor and Council discussion of compensation and benefits, including any study of the DB Plan and other benefits. We will also devise a way for employees to weigh in on potential changes to benefit packages to provide the Mayor and Council additional information for your discussions and decision making.

Considering an investment in a study of the DB Plan in conjunction with the fall worksession on compensation and benefits allows the Mayor and Council to make a more informed assessment of the need for and appropriate scope of a study. It also provides an opportunity to include the new City Manager in these discussions and will allow the Mayor and Council to provide direction for the FY 2014 budget preparation. Staff believes it is a high priority to inform employees and maintain communication with employees about this potential study. Considering the study in the fall provides time for that communication.

Proposed Study

Based on a recommendation by Councilmember Pierzchala, the Mayor and Council requested that this item be placed on the agenda for discussion. Councilmember Pierzchala is the Mayor and Council's representative to the City's Retirement Board.

The proposed study would provide an analysis of costs and potential savings associated with a comprehensive plan redesign. Staff contacted the City's actuary, Adam Reese from the Hay Group, whose proposal for a scope of study is Attachment A. Adam will attend the July 23 meeting to answer any of the Mayor and Council's questions in regards to the proposal. In addition the Mayor and Council should avail themselves of Adam's expertise in public sector pension plans.

Should the Mayor and Council direct staff to include discussion of this study in the fall worksession on employee compensation and benefits, staff will coordinate with the Hay Group to update the attached proposal as necessary.

Should the Mayor and Council proceed with the study at this time, staff recommends that as much information be obtained as possible to inform Mayor and Council's decision making. Scope of Work C as listed on Attachment A provides the most comprehensive study. In addition, staff recommends that all employee groups be studied, which include Police, Union, and administrative groups.

Attachment A provides three options for consideration that provide different amounts of information for different costs.

Scope of Work A will compare leaving the current plan in place against a full freezing of the DB plan for all incumbents and new hires. (Incumbents keep their accrued benefits, but DB plan closes to everyone for earning future benefits.) Scope of work A cost is \$17,500.

Scope of Work B provides an additional level of information to include the option of keeping the DB plan for incumbents, but closing it to new hires. Scope of work B cost is \$22,500.

Scope of Work C has the most information by including a review of a broad array of choices that are available in similarly situated governmental agencies. Scope of work C cost is \$27,500

An additional service offered in the Hay proposal would examine the impact of any change presented in the scopes of work on employees at different ages and years of service. That information would help

determine whether there is a need to grandfather certain groups. The cost of this additional service is \$5,000.

The study will take approximately 6-8 weeks to complete.

Procurement

At the Mayor and Council meeting on June 20, 2011, the Mayor and Council awarded contract #14-08 to the Hay Group for comprehensive actuarial services for a period of five years in the amount of \$149,332. The five year contract was broken out as follows: Year 1 \$44,410, Year 2 \$18,589, Year 3 \$32,321, Year 4 \$19,722, and Year 5 \$34,290. The annual contract amounts included major tasks identified in the scope of services including, but not limited to, experience studies, annual actuarial valuations of the pension system, reporting and consulting services.

The contract also allowed for additional actuarial and consulting services to be ordered through a task order process based on the hourly rates for various labor classifications set forth in the contract.

The total contract to the Hay Group will increase based on the scope of work approved by the Mayor and Council.

Mayor and Council History

On April 25, 2011 Mayor and Council adopted several major design changes to the pension plan that became effective July 1, 2011.

Boards and Commissions Review

The Retirement Board has not discussed this study. Recent correspondence from the Board indicated that they do not feel it appropriate to weigh in on some pension items with budgetary and policy impacts but rather defer to the Mayor and Council. Based on previous responses to the Mayor and Council's request for input, staff believes the Board would view this as outside of their purview.

Fiscal Impact

The FY 2013 budget does not include funding for this study. Should the Mayor and Council proceed with the study, staff recommends utilizing a not to exceed amount of \$40,000 from the City Manager contingency account. The City Manager contingency account was adopted at \$250,000, and has a current balance of \$150,000 (\$100,000 was transferred for derecho storm cleanup). This is a significant reduction in the amount available in the first month of the fiscal year and it may be necessary to use additional City Manager contingency funds to support winter storm response this fiscal year.

The cost of the options as presented in Attachment A are: Scope of Work A \$17,500, Scope of Work B \$22,500, and Scope of Work C \$27,500. These options allow for additional modeling costs of \$5,000 for each scope of work as needed. Accepting all options would cost \$32,500. Depending on how much money the Mayor and Council want to spend relative to the amount of information that the Mayor and Council want to have, each scope of work is separate and distinct.

Attachments

Attachment A - Hay Group Proposal for Retirement Plan Design Study



AttachA_DesignStudy.pdf

Department Head



Department Head: Gavin Cohen, Chief Financial Officer

City Manager



City Manager: Jenny Kimball, Acting City Manager
Approval Date: 07/20/2012