January 25, 2021

BACKGROUND AND RECOMMENDATION: TO PROVIDE TIER I BENEFITS TO TIER II PLAN MEMBERS

BACKGROUND: Council consideration to approve a resolution to provide Tier I benefits to Tier II Plan members effective October 1, 2021. Act 2019-132 allows the City of Foley, as a participant in the Employee's Retirement System (ERS), to provide Tier I retirement benefits to its Tier II members. Those converted Tier II members will pay member contribution rates of 7.5% for regular employees and 8.5% for fire fighters and law enforcement officers. The most recent actuarial estimates that the additional cost to the employer (City of Foley), beginning October 1, 2022, would be approximately $116,367 (actuarial attached).

RECOMMENDATION: Approval of the attached resolution to provide City of Foley Tier I benefits to City of Foley Tier II Plan members and authorize the Mayor to execute an employer plan to increase Tier I Member contribution rates only in the event that the City of Foley is unable to make its required employer contribution.

BACKGROUND: In 2019, the Alabama Legislature passed and the Governor signed into law the Retirement Systems of Alabama (RSA) Act 2019-132 that provided an opportunity for participating local governments to convert their Tier II employees to Tier I. Subsequently, Cavanaugh Macdonald Consulting, LLC prepared an analysis of the estimated costs associated with the City converting employees hired after 2013 from Tier II to Tier I which is attached. The City of Foley currently has a total of 313 employees in the RSA member plan. There are a total of 172 Tier I employees of which 67 are public safety employees. There are a total of 141 Tier II employees of which 30 are public safety employees.

Tier I employees currently contribute 5.0% and Public Safety employees contribute 6.0% of their salary for RSA pension benefits while Tier II regular employees currently contribute 6.0% and Public Safety employees currently contribute 7.0%. Contributions for all current Tier II employees would increase 1.5% if they are converted to Tier I. This would result in a contribution rate of 7.5% for existing Tier II regular employees and 8.5% for existing Tier II Public Safety employees. The Division of Human Resources believes it is critical to the City's ability to successfully recruit and retain employees, particularly with regard to public safety personnel.

There are several problems with having the two tier system including:

- Tier I employees can retire with 10 years of service at age 60 and Tier II cannot retire until age 62, with the exception of Public Safety employees who can retire 5 years earlier at age 56 since the Public Safety (FLC) employees receive one additional year credit for every 5 years worked.
- Tier I employees with 25 years of service can retire at any age; Tier 2 cannot.
- Tier I employees have a much higher retirement factor of 2.0125% per years of service vs. Tier II employees having only a 1.650 per year of service which results in a higher monthly/annual pension than Tier II employees.
- Tier II employees and public safety officers have higher disability retirement standards than Tier I.

Scenario 1: A 20 year old goes into Fire or Public Safety work under Tier II and works until age 45, but won't be able to retire until age 57. Conversely, a 20 year old who had been hired under the Tier I system would be able to retire at age 45 with pension benefits and often start a second career. Historically, this early retirement benefit has always been a significant incentive for public safety personnel and this disparity creates a morale problem for Public Safety management that could be addressed by converting the Tier II employees to Tier I status.

Scenario 2: By itself, we believe the higher retirement factor of 2.0125% per year of service for Tier I public safety officer vs. a Tier II public safety officer at 1.650% per year of service is significant enough to consider as illustrated below:

- Tier I Police Officer that retires with 25 years (averaging $75k for the las 3 years of employment) annual pension would be $3,144.53 per month.
- Tier II Police Officer that retires with 25 years (averaging $75k for the last 5 years of employment) annual pension would be $2,578.13 per month.

PREVIOUS COUNCIL ACTION: The City of Foley with RSA implemented the combination of the Tier I and Tier II retirement plans effective fiscal year 2013.

BUDGET IMPLICATIONS: The first year cost of implementing the plan with the start of the FY22 Budget cycle (October 1, 2021), once RSA accepts the 2011-676 implementation plan, would be approximately $116,367 which is estimated to cost the City an additional 1.04% per year of its current contribution.

ATTACHMENTS: Act 1029-132 analysis received from Cavanaugh Macdonald Consulting, LLC; draft resolution; draft employer plan to increase Tier I contribution rates only in the event the City is unable to make its required contribution