

# 2016 Hybrid Plan



## HYBRID PLAN

Market Based Cash Balance Plan +  
401(a) Defined Contribution

Brian Collins

# KEY POINTS



## CURRENT DEFINED BENEFIT PLAN

- Employee receives guaranteed annuity at retirement
- City takes all market risks

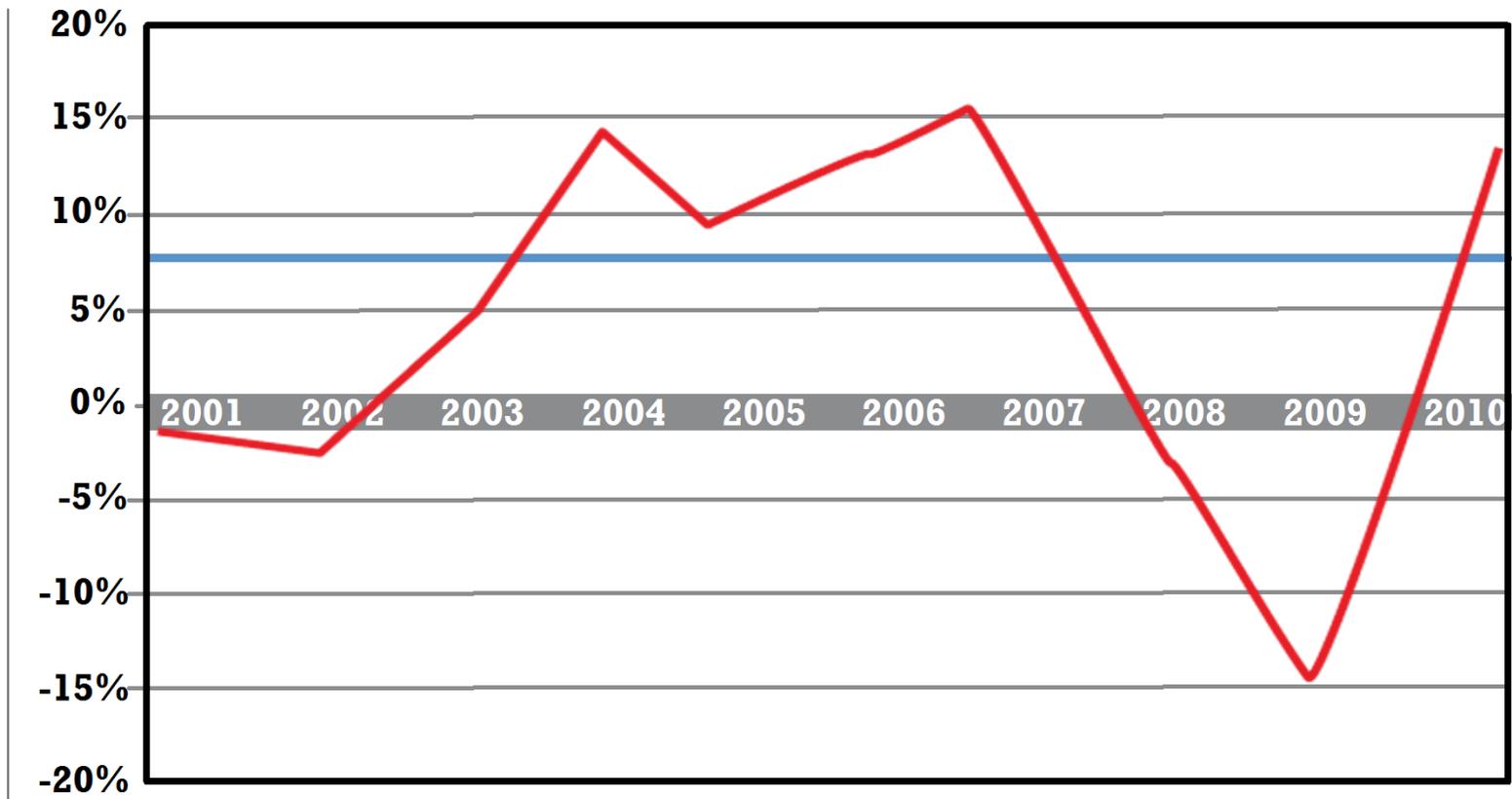
## HYBRID PLAN

- City shares risk with City employees
- **No change for current retirees and employees 7.5 years plus**
- **Only applies to employees with less than 7.5 years and new employees**
- There is an opportunity to earn more money for retirement

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# WHY CHANGE IS NEEDED: MARKET VOLATILITY



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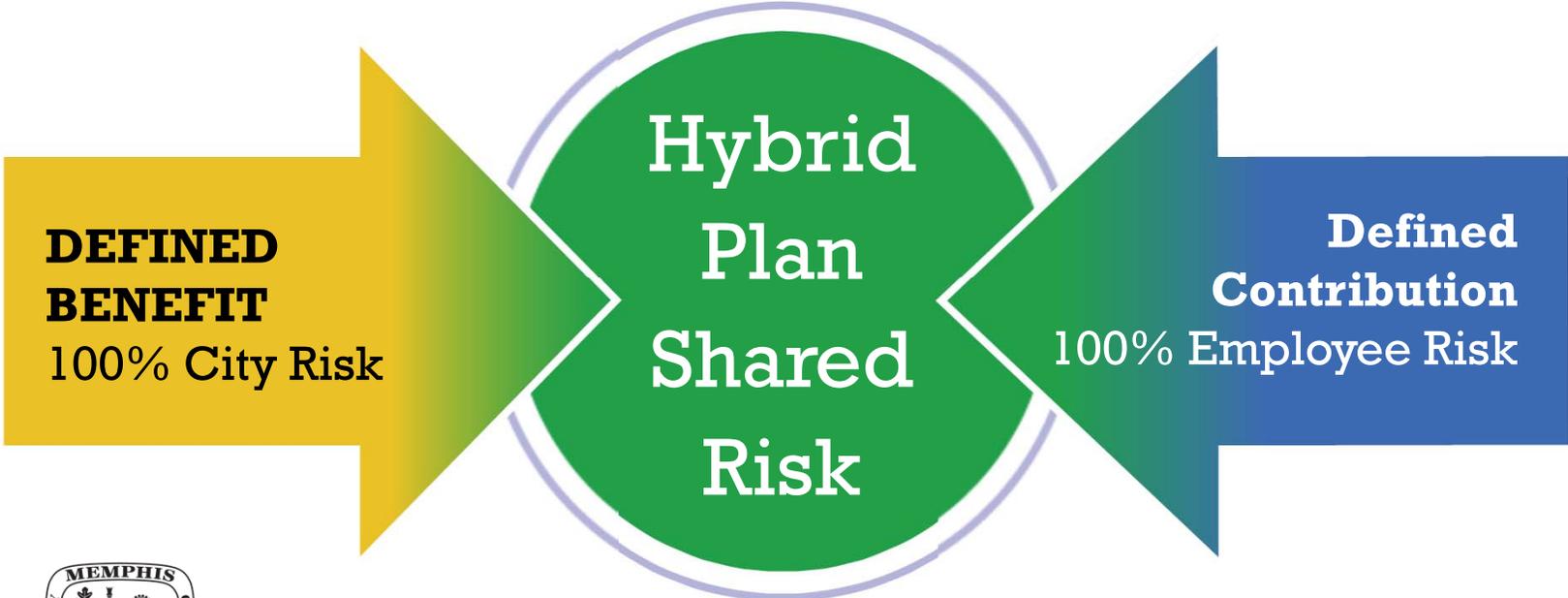
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# WHY CHANGE IS NEEDED



- **\$551M** Current unfunded liability
- **\$78M** Annual Required Contribution (ARC)
- **\$20M** Annual Payment to date
- **Elevated ARC** must be paid until plan is fully funded (several decades)
- More than **\$50M/year** will be unavailable for critical city programs and services

# PENSION REFORM = SHARED RISK



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# CONTRIBUTION COMPARISON FOR CURRENT PLAN VS. PROPOSED HYBRID PLAN

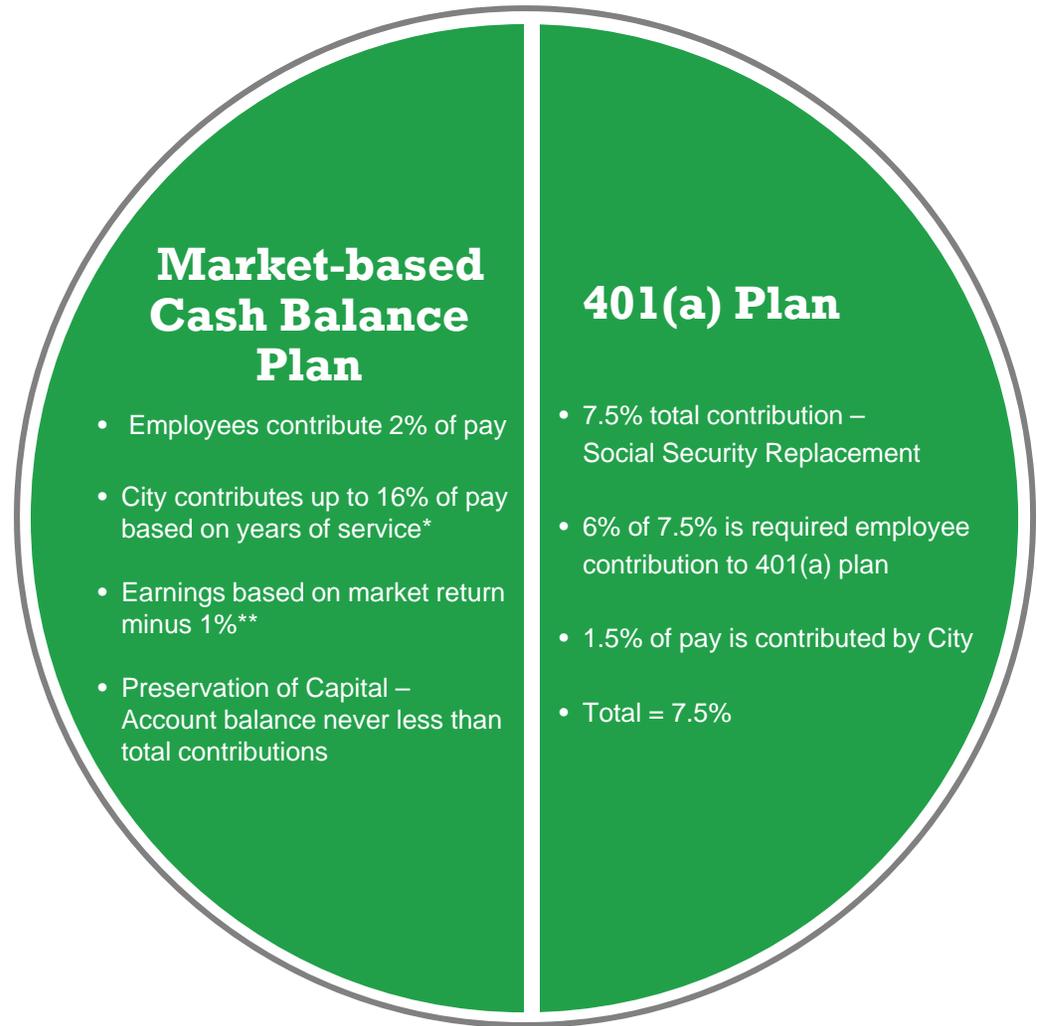
Contributions	Current Plan	Hybrid Retirement Plan	
		Market Based Plan	401 (a) Plan
Employee Contribution	8% of salary	2% of salary	6% of salary
City Contribution	6% of salary	3-16% of salary (depends on years of service and position)	1.5% of salary
Options	(457) Cashed out at retirement		(457) May be rolled over into an annuity
Management	No employee involvement	Professionally Managed Fund	Employee Directed Investments



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# TWO HALVES OF HYBRID PLAN DEFINED



\*City contribution based on years of service and status as general or commissioned public safety employee

\*\*1% used to cover cost of death and disability coverage

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**The City of Memphis will strongly encourage employees to contribute an additional 4% of pay to either the 457 Plan or to personal savings**

# GUARANTEED ANNUITY



## AT RETIREMENT (VESTED EMPLOYEES)

- Accumulated principal and investment returns from Cash Balance and 401(a) plans are combined (along with 457 – optional)
- The city provides lifetime annuity based on total combined funds, 5% interest rate and current IRS Mortality Table

## AT END OF EMPLOYMENT (NON-VESTED EMPLOYEES)

- Return of employee contributions, adjusted with asset return

## PAYMENT OPTION

- Joint and Survivor annuity

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# EQUITABLE RISK SHARING



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# APENDIX: ANCILLARY BENEFITS



Plan Design	Death/Disability Benefits	Non-Vested End of Employment Benefits
Hybrid Plan - Market-based CB Plan Plus 401(a) Plan	<b>Greater of either:</b> <ul style="list-style-type: none"> <li>• Cash balance account plus 401(a) plan account converted to annuity at 5% interest rate and disability mortality table OR</li> <li>• 60% of pay</li> </ul>	Return of employee contributions with investment return
Current Plan (Baseline)	<b>Greater of either:</b> <ul style="list-style-type: none"> <li>• Accrued benefit with early commencement reduction OR</li> <li>• 60% of pay</li> </ul>	Return of employee contributions with applicable multiplier

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