

2016 Hybrid Plan



HYBRID PLAN

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

Brian Collins

KEY POINTS



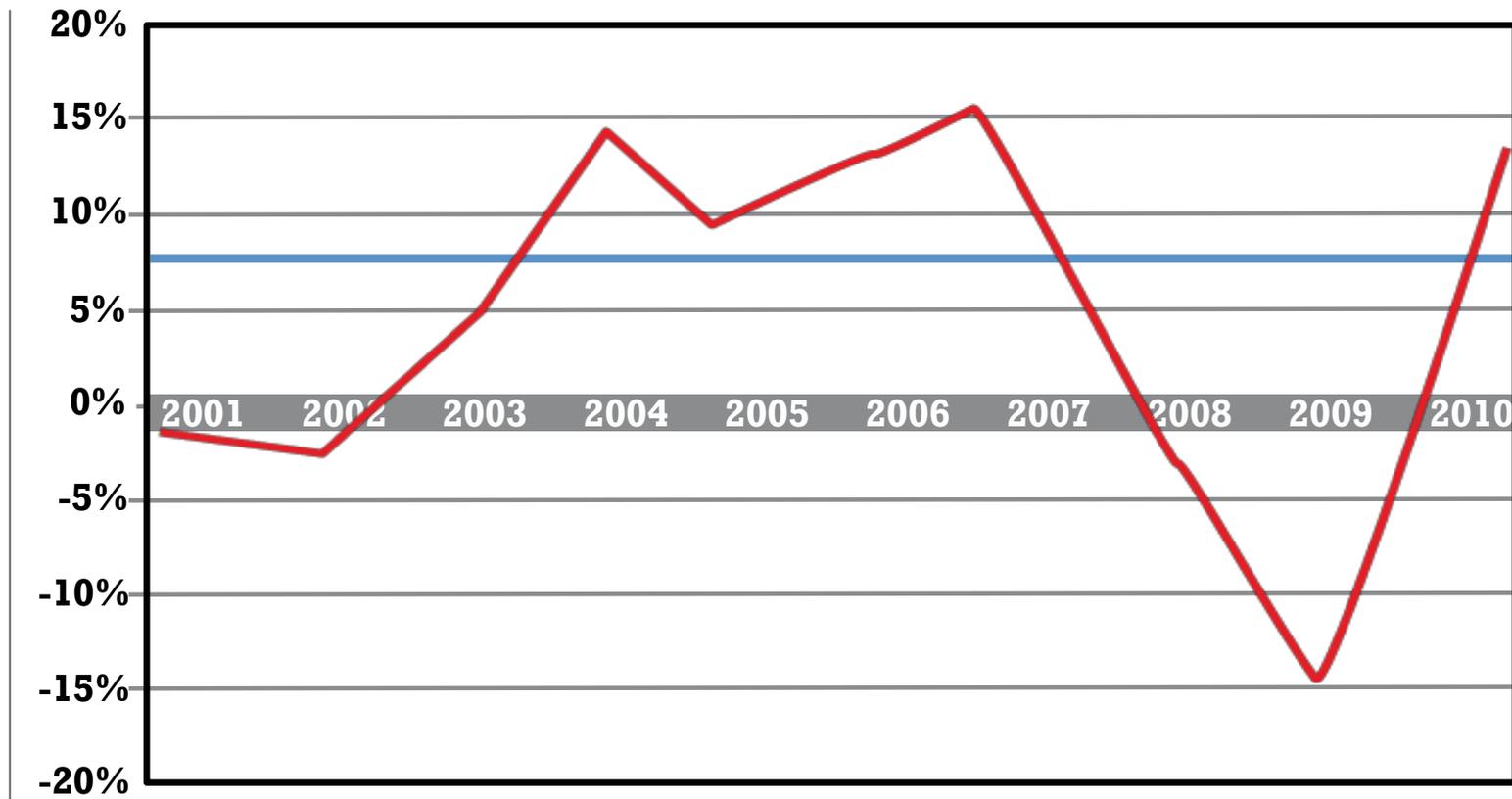
CURRENT DEFINED BENEFIT PLAN

- Employee receives guaranteed annuity at retirement
- City aka taxpayers take all market risks

HYBRID PLAN

- City aka taxpayers share 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

WHY CHANGE IS NEEDED: MARKET VOLATILITY



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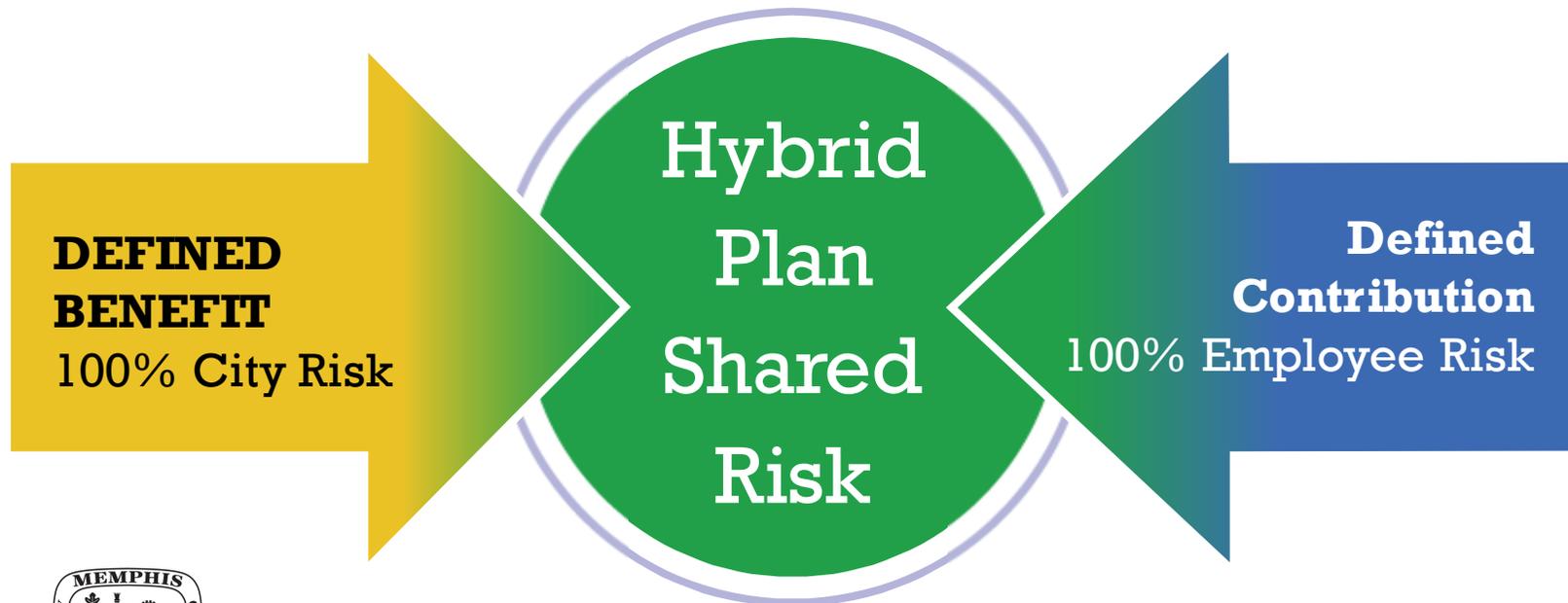
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WHY CHANGE IS NEEDED



- **\$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

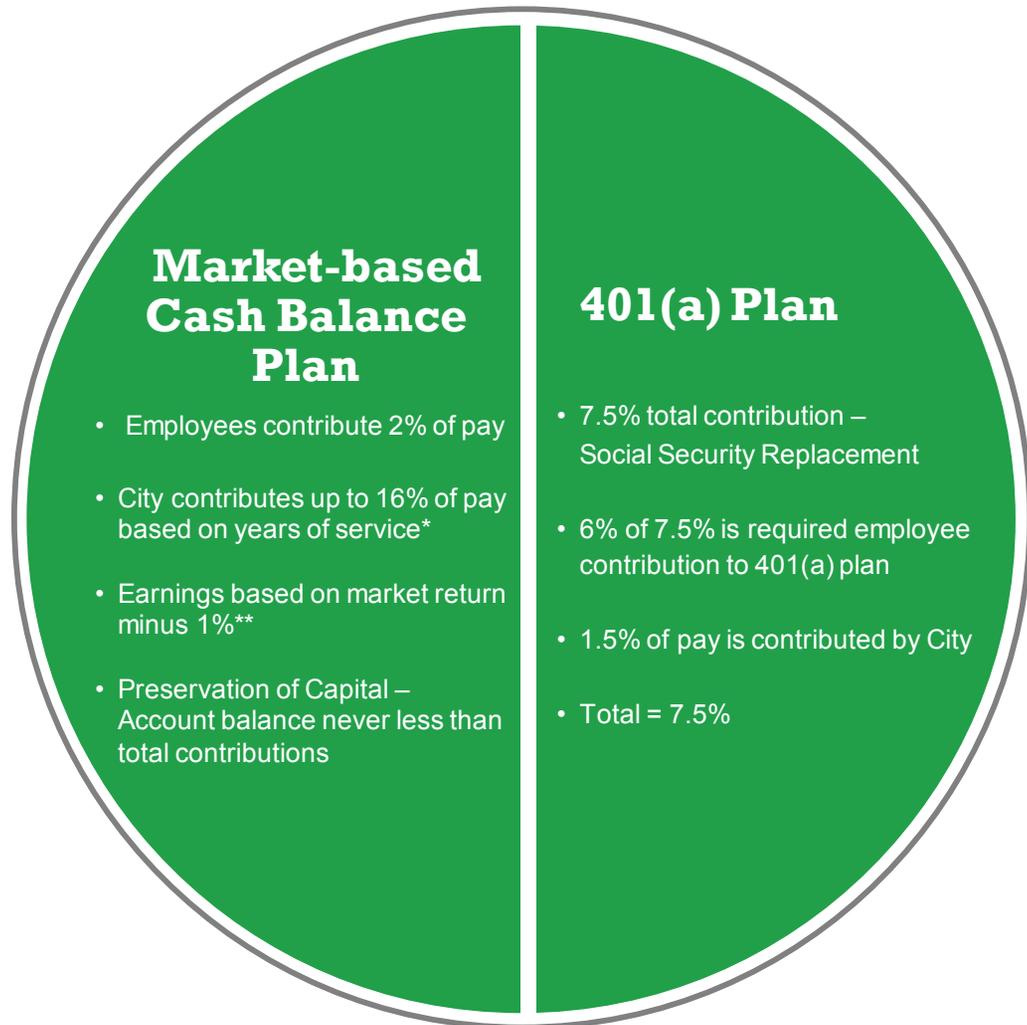
Contributions	Current Plan	Hybrid Retirement Plan	
		Market Based Plan	401 (a) Plan
Employee Contribution	8% of salary	2% of salary	6% of salary
City Contribution	6% of salary	3-16% of salary (depends on years of service and position)	1.5% of salary
Options	(457) Cashed out at retirement		(457) May be 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

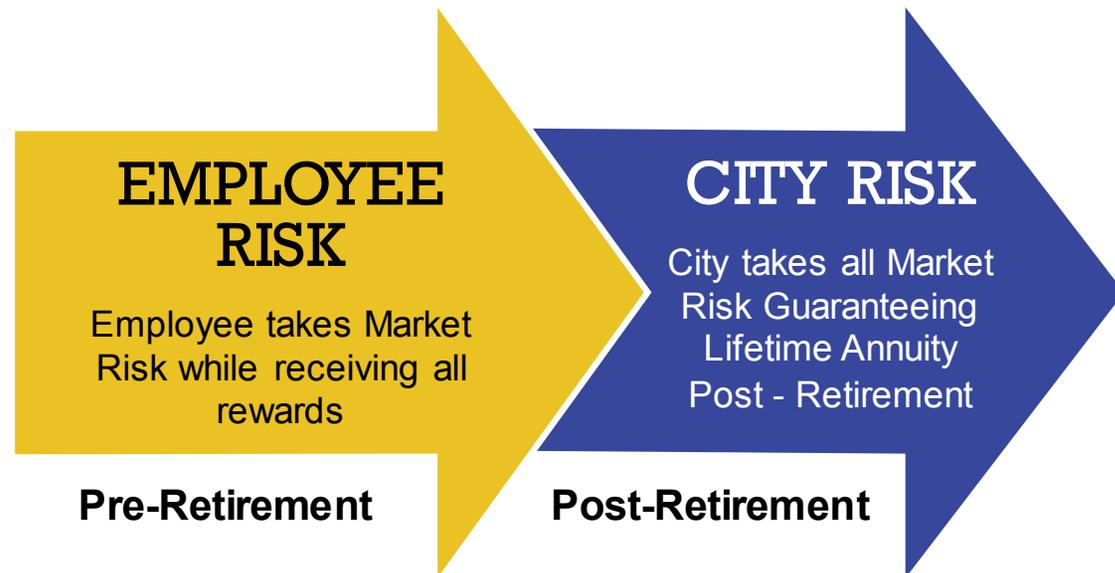
AT END OF EMPLOYMENT (NON-VESTED EMPLOYEES)

- Return of employee contributions, adjusted with asset return

PAYMENT OPTION

- Joint and Survivor annuity

EQUITABLE RISK SHARING



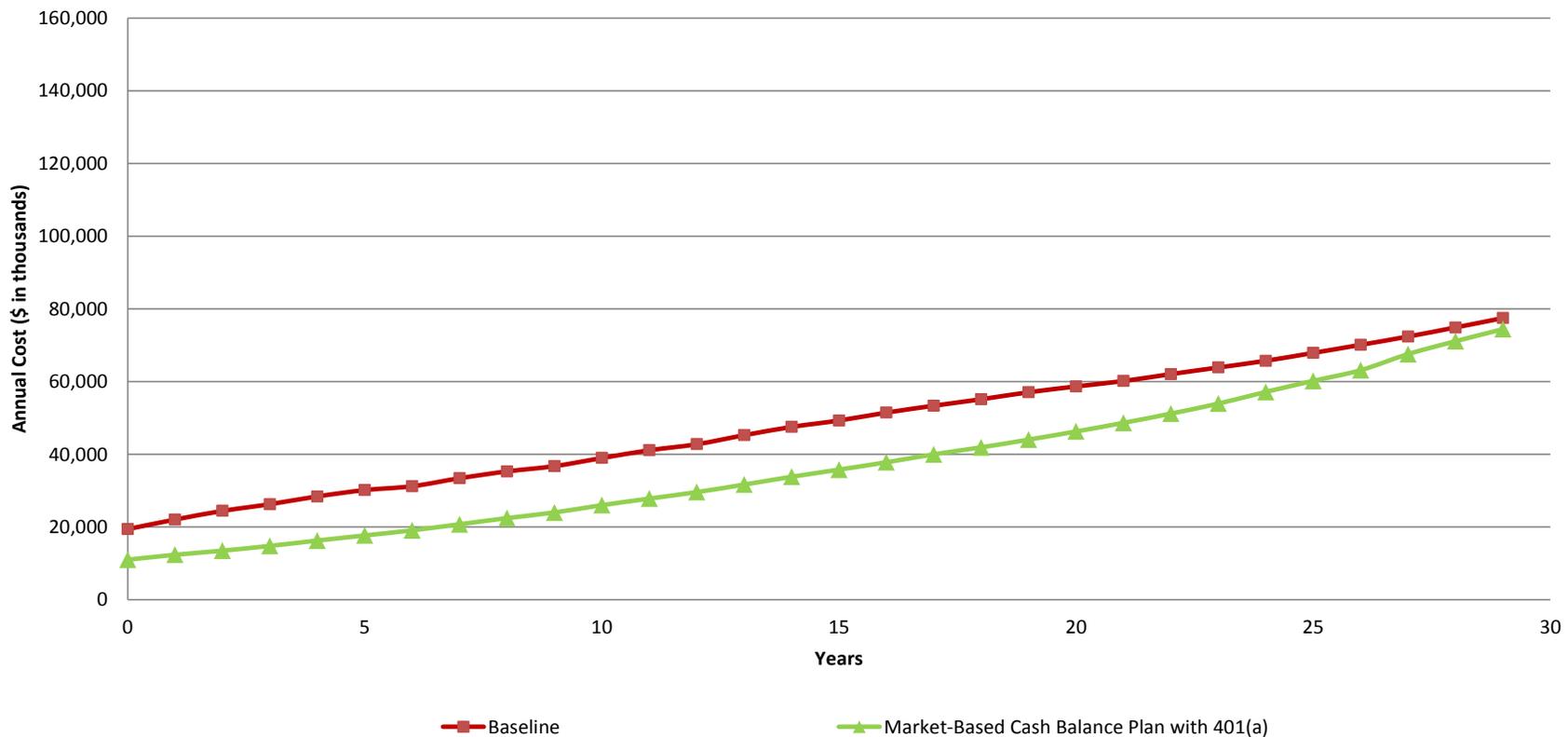


COMPARISON OF CITY COST

MARKET SCENARIO 1: 7.5% ASSET RETURN

The following table illustrates the cost of the current plan and the Hybrid Plan **attributable to non-grandfathered members and new entrants only.**

Annual City Cost (Attributed to Non-grandfathered members only)



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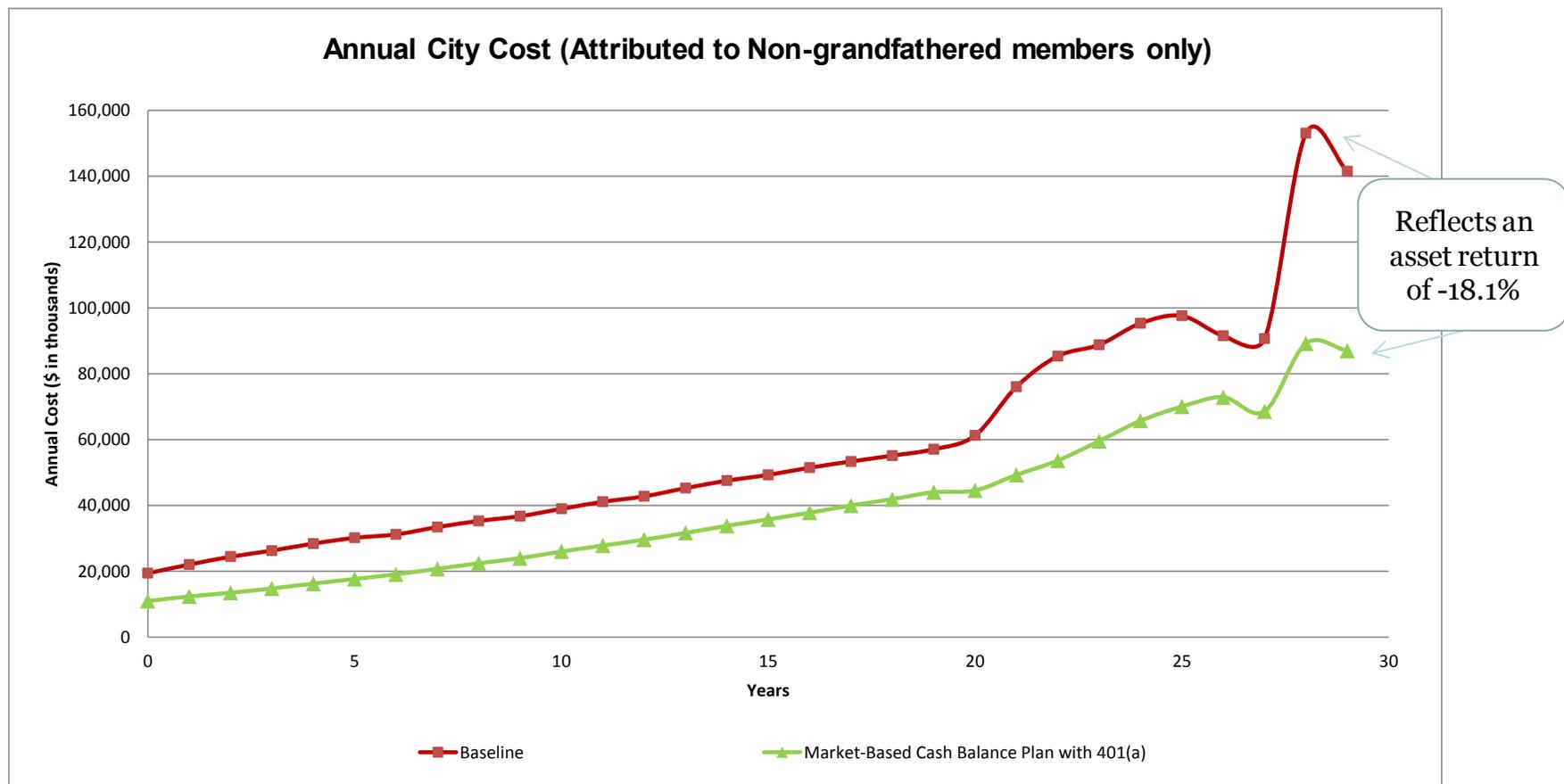


COMPARISON OF CITY COST

MARKET SCENARIO 2:

ASSET RETURN VOLATILITY AFTER 20 YEARS

The following table illustrates the cost of the current plan and the Hybrid Plan **attributable to non-grandfathered members and new entrants only.**



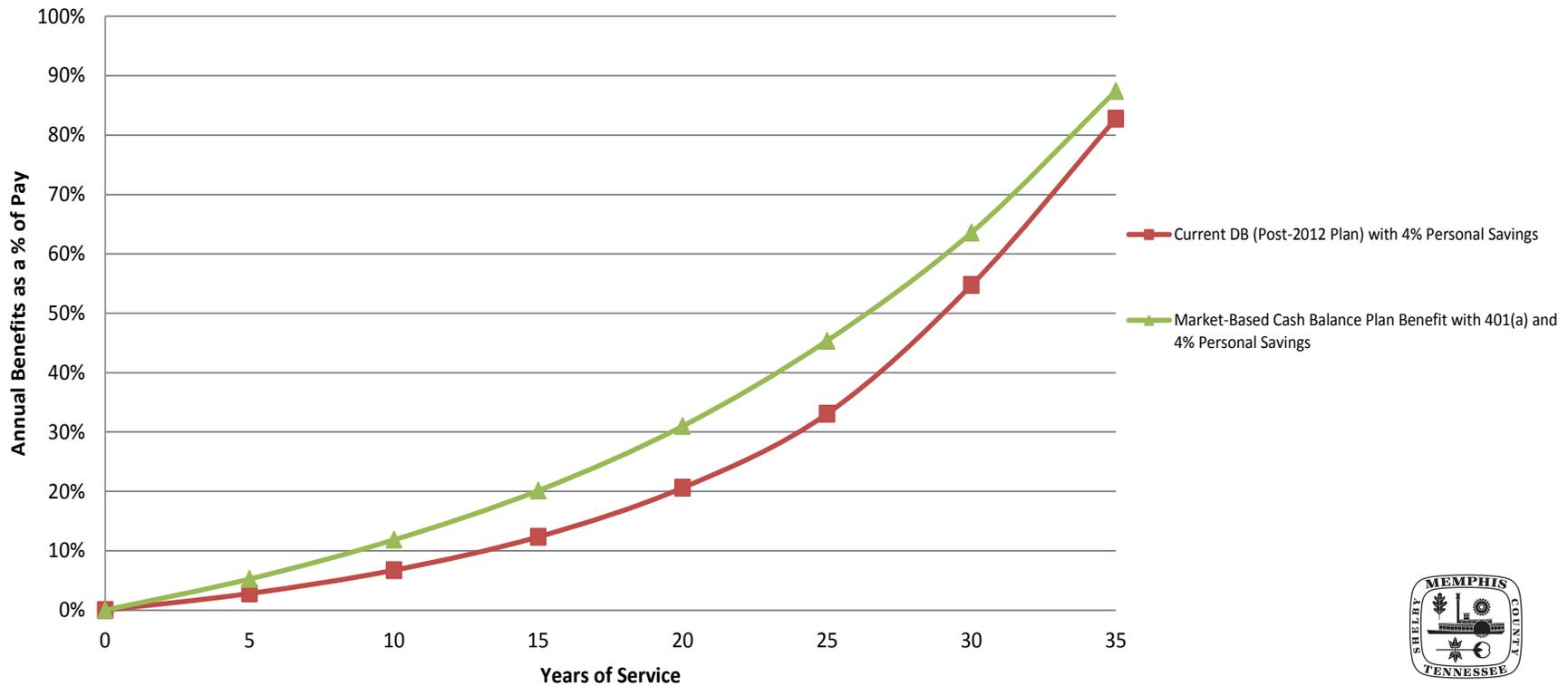
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 1: 7.5% PLAN ASSET RETURN

General Employees –
Illustration of Accrual Pattern
as a Percentage of Pay

Annual Benefits as a % of Pay



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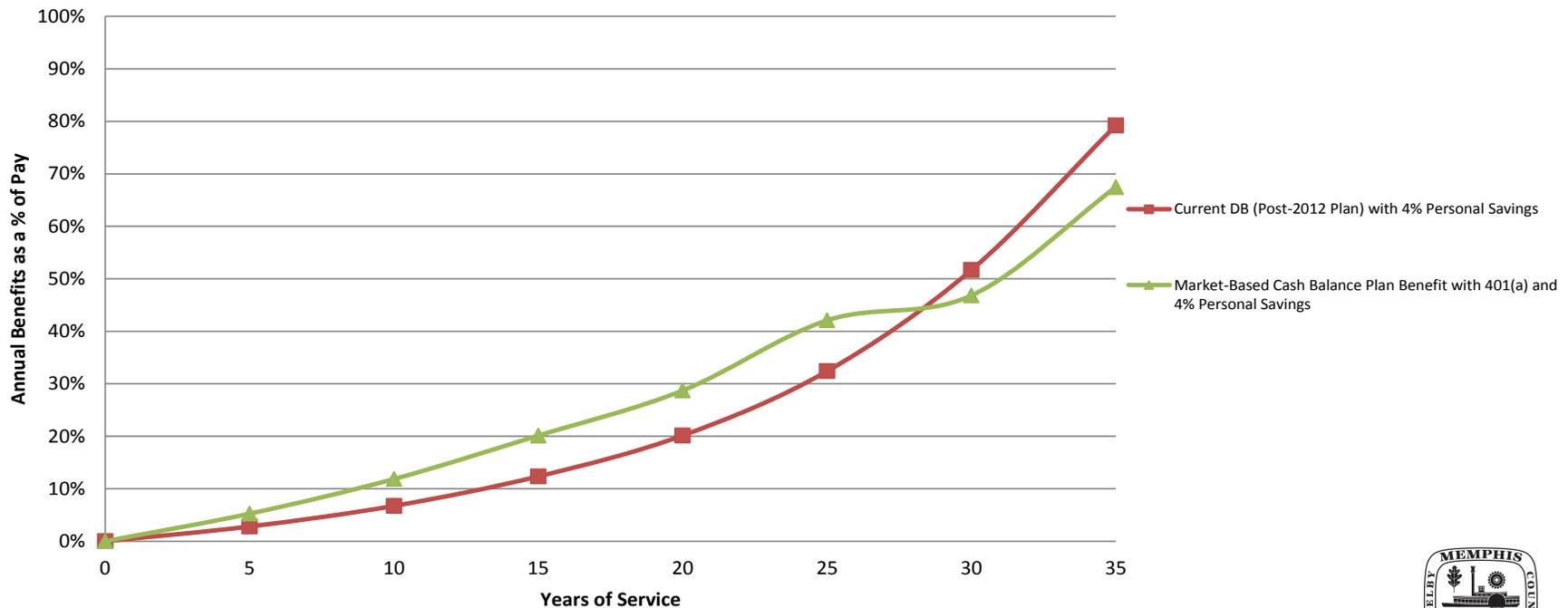
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2: ASSET RETURN VOLATILITY AFTER 20 YEARS

General Employees –
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Annual Benefits as a % of Pay



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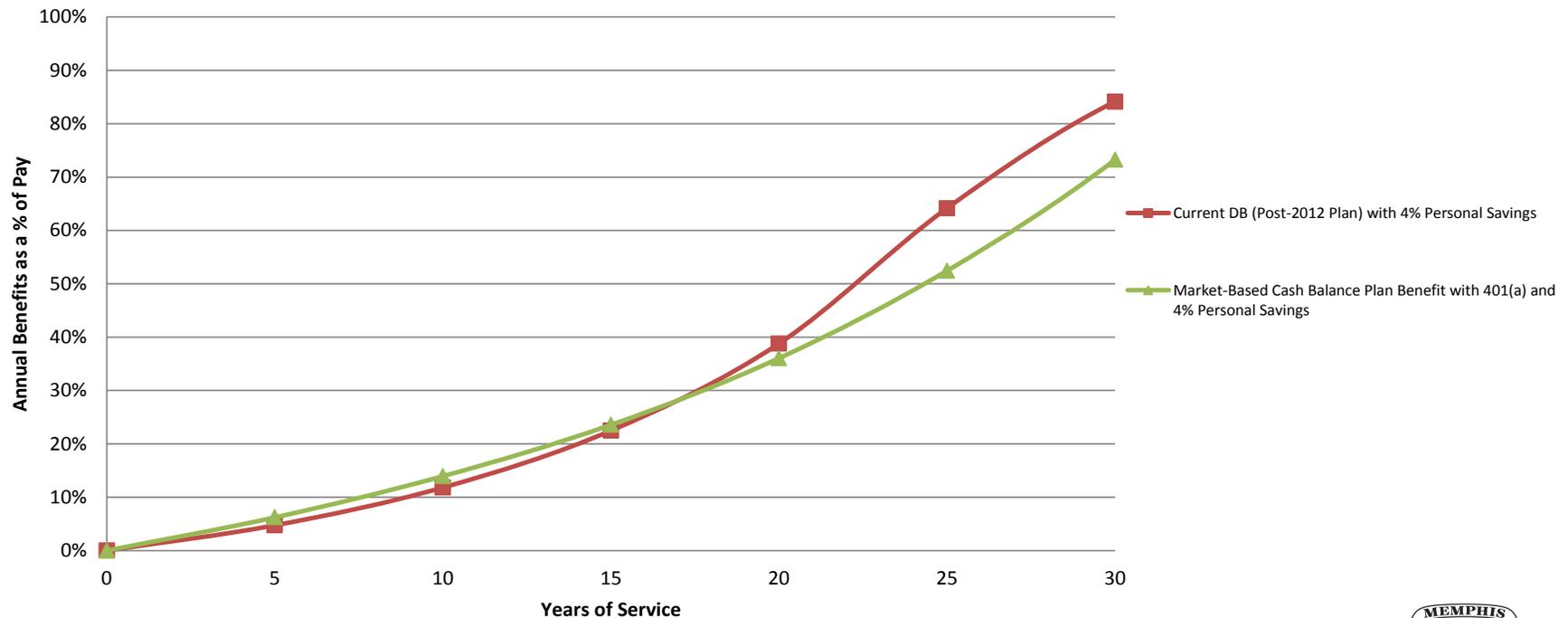
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2: ASSET RETURN VOLATILITY AFTER 20 YEARS

Commissioned Police & Fire –
Illustration of Accrual Pattern as
a Percentage of Pay

Annual Benefits as a % of Pay



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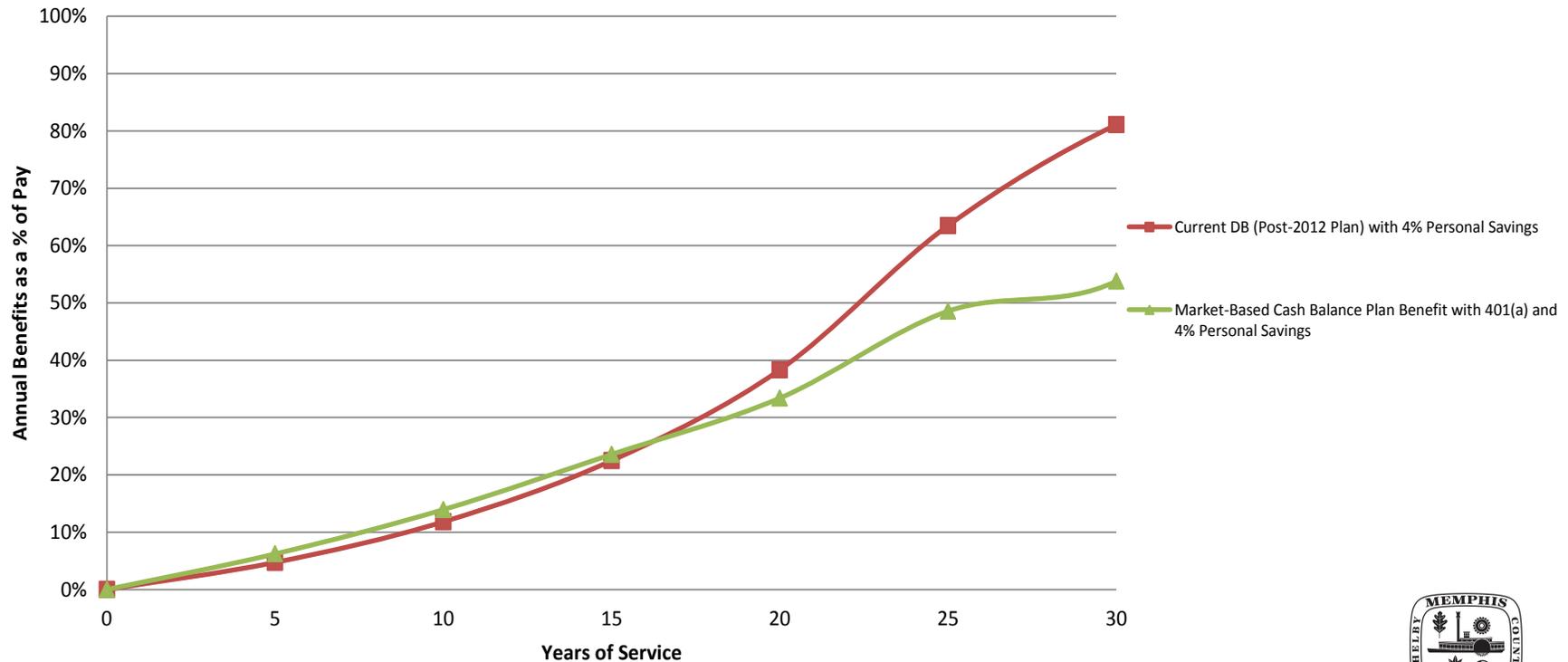
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2A: ASSET RETURN VOLATILITY AFTER 20 YEARS

Commissioned Police & Fire –
Illustration of Accrual Pattern as a
Percentage of Pay at 30 Years of
Service

Annual Benefits as a % of Pay



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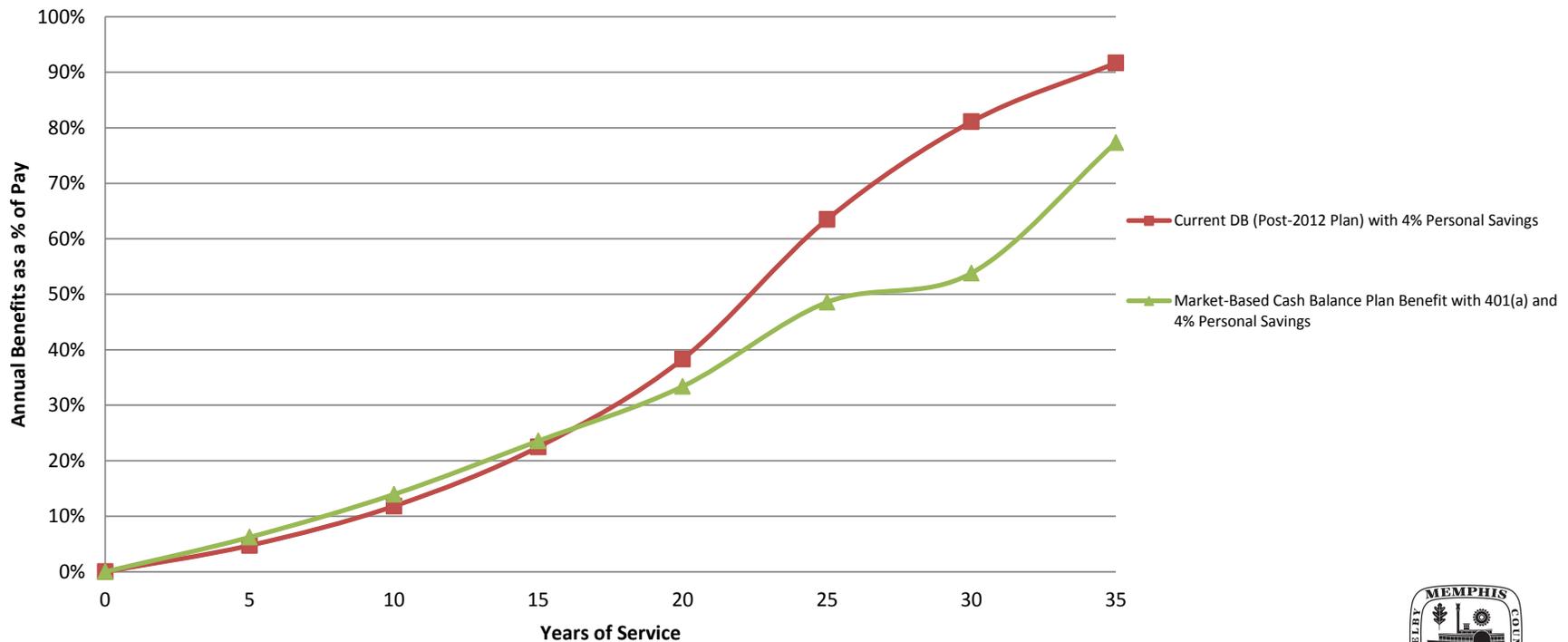
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ANNUAL BENEFITS AS A % OF PAY

MARKET SCENARIO 2B: ASSET RETURN VOLATILITY AFTER 20 YEARS

Commissioned Police & Fire –
Illustration of Accrual Pattern as a
Percentage of Pay at 35 Years of
Service

Annual Benefits as a % of Pay



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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	Greater of either: <ul style="list-style-type: none"> • Cash balance account plus 401(a) plan account converted to annuity at 5% interest rate and disability mortality table OR • 60% of pay 	Return of employee contributions with investment return
Current Plan (Baseline)	Greater of either: <ul style="list-style-type: none"> • Accrued benefit with early commencement reduction OR • 60% of pay 	Return of employee contributions with applicable multiplier