

# **AGENDA**

**CITY COUNCIL WORK SESSION  
City of Garland  
Work Session Room, City Hall  
200 North Fifth Street, Garland, Texas  
December 4, 2012**

**Council will meet beginning at 5:00 p.m.**

- 1. Pending/contemplated litigation, settlement offer(s), and matters concerning privileged and unprivileged client information deemed confidential by Rule 1.05 of the Texas Disciplinary Rules of Professional Conduct. Sec. 551.071, TEX.GOV'T CODE.
  - a. Update on pending and upcoming legal matters by the City Attorney.****

## **DEFINITIONS:**

**Written Briefing:** Items that generally do not require a presentation or discussion by the staff or Council. On these items the staff is seeking direction from the Council or providing information in a written format.

**Verbal Briefing:** These items do not require written background information or are an update on items previously discussed by the Council.

**Regular Item:** These items generally require discussion between the Council and staff, boards, commissions, or consultants. These items are often accompanied by a formal presentation followed by discussion.

**[Public comment will not be accepted during Work Session  
unless Council determines otherwise.]**

**NOTICE:** The City Council may recess from the open session and convene in a closed executive session if the discussion of any of the listed agenda items concerns one or more of the following matters:

(1) Pending/contemplated litigation, settlement offer(s), and matters concerning privileged and unprivileged client information deemed confidential by Rule 1.05 of the Texas Disciplinary Rules of Professional Conduct. Sec. 551.071, TEX. GOV'T CODE.

(2) The purchase, exchange, lease or value of real property, if the deliberation in an open meeting would have a detrimental effect on the position of the City in negotiations with a third person. Sec. 551.072, TEX. GOV'T CODE.

(3) A contract for a prospective gift or donation to the City, if the deliberation in an open meeting would have a detrimental effect on the position of the City in negotiations with a third person. Sec. 551.073, TEX. GOV'T CODE.

(4) Personnel matters involving the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee or to hear a complaint against an officer or employee. Sec. 551.074, TEX. GOV'T CODE.

(5) The deployment, or specific occasions for implementation of security personnel or devices. Sec. 551.076, TEX. GOV'T CODE.

(6) Discussions or deliberations regarding commercial or financial information that the City has received from a business prospect that the City seeks to have locate, stay, or expand in or near the territory of the City and with which the City is conducting economic development negotiations; or

to deliberate the offer of a financial or other incentive to a business prospect of the sort described in this provision. Sec. 551.087, TEX. GOV'T CODE.

(7) Discussions, deliberations, votes, or other final action on matters related to the City's competitive activity, including information that would, if disclosed, give advantage to competitors or prospective competitors and is reasonably related to one or more of the following categories of information:

- generation unit specific and portfolio fixed and variable costs, including forecasts of those costs, capital improvement plans for generation units, and generation unit operating characteristics and outage scheduling;
- bidding and pricing information for purchased power, generation and fuel, and Electric Reliability Council of Texas bids, prices, offers, and related services and strategies;
- effective fuel and purchased power agreements and fuel transportation arrangements and contracts;
- risk management information, contracts, and strategies, including fuel hedging and storage;
- plans, studies, proposals, and analyses for system improvements, additions, or sales, other than transmission and distribution system improvements inside the service area for which the public power utility is the sole certificated retail provider; and
- customer billing, contract, and usage information, electric power pricing information, system load characteristics, and electric power marketing analyses and strategies. Sec. 551.086; TEX. GOV'T CODE; Sec. 552.133, TEX. GOV'T CODE]

**(5:15) 1. Written Briefings:**

**a. Police Officer Injury Leave Extension**

*Section 143.073 of the Municipal Civil Service for Firefighters and Police Officers specifies that a firefighter or police officer may be on leave of absence for a line of duty injury and that the leave, if necessary, shall continue for at least one year. At the end of one year, the municipality's governing body may extend the line of duty injury leave at full or reduced pay. Officer Jason Voelz sustained significant injuries when he was struck by a drunk driver while performing his duties as a Garland Police Officer. The officer is not yet able to return. Further medical treatment is required in order to rehabilitate the officer so that he may be able to return to work. If Council concurs, injury leave will be extended, at full pay, until such time that Officer Voelz has received the appropriate medical care for the line of duty injury and is medically cleared to return to work by his treating physician(s).*

**b. Stop Loss for Group Health Insurance Plan**

*Stop loss coverage provides protection to the City, limiting the City's overall risk/liability to the Group Health Insurance Plan. The current vendor is exiting the market effective December 31, 2012. Through the RFP process, Human Resources in collaboration with the City's benefits consulting groups recommend entering into a one-year agreement with Sun Life to provide Specific and Aggregate Stop Loss Coverage. This item is scheduled for formal consideration at the December 4, 2012 Regular Meeting.*

**c. Advance Capital Purchases**

*The purchases of two Landfill articulating dump trucks, emergency enhancements in Castle Drive Landfill's flare unity, and the replacement of a portion of Firewheel's golf carts are scheduled for inclusion in the 2013 Capital Improvement Program (CIP). However, waiting for the annual CIP to be compiled, reviewed, and approved will result in significant costs that can be avoided by Council's concurrence to purchase these items in advance of the CIP. If Council concurs, these items will be scheduled individually for Council's formal consideration at the December 18, 2012 Regular Meeting.*

Item	Key Person
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**(5:20) 2. Verbal Briefings:**

**a. North Texas Municipal Water District** **May/Gordon**

*Jack May and Don Gordon, Council's appointees to the North Texas Municipal Water District, will brief Council on current and future water supply issues for the City of Garland.*

**b. Civil Service Supplemental Retirement Benefits** **Bradford**

*The Administrative Services Committee will brief Council regarding its analysis on providing retirement benefits, in addition to the Texas Municipal Retirement System, for public safety employees through City contributions to a 401k/457 plan. The issue was referred to the Committee during Council's discussion of the 2012-13 Budget.*

**3. Consider the Consent Agenda** **Council**

*A member of the City Council may ask that an item on the consent agenda for the next regular meeting be pulled from the consent agenda and considered separate from the other consent agenda items. No substantive discussion of that item will take place at this time.*

**4. Announce Future Agenda Items** **Council**

*A member of the City Council, with a second by another member, or the Mayor alone, may ask that an item be placed on a future agenda of the City Council or a committee of the City Council. No substantive discussion of that item will take place at this time.*

**(6:45) 5. Adjourn** **Council**

**(Estimated time to consider)**



# Policy Report

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## POLICE OFFICER INJURY LEAVE EXTENSION

### ISSUE

Officer Jason Voelz sustained significant injuries when he was struck by a drunk driver while on-duty performing his duties as a Garland Police Officer. The officer is not yet able to return to work. Further medical treatment is required in order to rehabilitate the officer so that he may be able to return to work at the Police Department.

Section 143.073 of the Municipal Civil Service for Firefighters and Police Officers specifies that a police officer may be on a leave of absence for a line of duty injury and that the leave, if necessary, shall continue for at least one year. At the end of one year, the municipality's governing body may extend the line of duty injury leave at full or reduced pay. A copy of Section 143.073 is set forth below.

### OPTIONS

1. Extend Officer Voelz's injury leave at full pay.
2. Extend Officer Voelz's injury leave at reduced pay.
3. Do not extend Officer Voelz's injury leave.

### RECOMMENDATION

Chief Bates recommends that Officer Voelz's injury leave be extended, at full pay (Option 1), until such time that he has received the appropriate medical care for the line of duty injury and is medically cleared to return to work by his treating physician(s).

### COUNCIL GOAL

Consistent Delivery of Reliable City Services

### BACKGROUND

On December 19, 2010, Officer Jason Voelz was struck by a drunk driver while on-duty performing the duties of a Garland Police Officer while on State Highway 190 (George Bush Tollway). The officer sustained multiple, significant injuries. After surgery and months of medical rehabilitation, Officer Voelz was able to return to work. However,

continued medical complications have resulted recently in additional medical treatment, rehabilitation, and an additional surgery. It is anticipated that Officer Voelz should be able to return to full-duty status after recovery from the most recent medical procedures.

## **CONSIDERATION**

Section 143.073 of the Texas Local Government Code (Municipal Civil Service for Firefighters and Police Officers) addresses police officer line of duty injuries and reads as follows:

§ 143.073. LINE OF DUTY ILLNESS OR INJURY LEAVE OF ABSENCE. (a) A municipality shall provide to a fire fighter or police officer a leave of absence for an illness or injury related to the person's line of duty. The leave is with full pay for a period commensurate with the nature of the line of duty illness or injury. If necessary, the leave shall continue for at least one year.

(b) At the end of the one-year period, the municipality's governing body may extend the line of duty illness or injury leave at full or reduced pay. If the fire fighter's or police officer's leave is not extended or the person's salary is reduced below 60 percent of the person's regular monthly salary, and the person is a member of a pension fund, the person may retire on pension until able to return to duty.

(c) If pension benefits are not available to a fire fighter or police officer who is temporarily disabled by a line of duty injury or illness and if the year at full pay and any extensions granted by the governing body have expired, the fire fighter or police officer may use accumulated sick leave, vacation time, and other accrued benefits before the person is placed on temporary leave.

(d) If a fire fighter or police officer is temporarily disabled by an injury or illness that is not related to the person's line of duty, the person may use all sick leave, vacation time, and other accumulated time before the person is placed on temporary leave.

(e) After recovery from a temporary disability, a fire fighter or police officer shall be reinstated at the same rank and with the same seniority the person had before going on temporary leave. Another fire fighter or police officer may voluntarily do the work of an injured fire fighter or police officer until the person returns to duty.

Acts 1987, 70th Leg., ch. 149, § 1, eff. Sept. 1, 1987. Amended by Acts 2001, 77th Leg., ch. 683, § 1, eff. Sept. 1, 2001.

## **ATTACHMENT**

None

Police Officer Injury Leave Extension  
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Submitted By:

Mitchel L. Bates  
Chief of Police

Date: November 21, 2012

Approved By:

William E. Dollar  
City Manager

Date: November 21, 2012



**Meeting:**

**Date: December 4, 2012**

# Policy Report

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## **STOP LOSS FOR GROUP HEALTH INSURANCE PLAN**

### **ISSUE**

Required change to Stop Loss vendor for Group Health Insurance Plan to Sun Life effective 1/1/2013 as a result of proposals submitted in response to RFP 3157-12 for Specific and Aggregate Stop Loss Coverage.

### **OPTIONS**

Being that the current vendor (Humana) is exiting the market effective December 31, 2012, the City must pursue other options and alternatives to provide stop loss coverage. In response to RFP 3157-12, ING and Sun Life were the two carriers that submitted proposals.

### **RECOMMENDATION**

It is recommended that the City accept the proposal provided by Sun Life as identified in the attached Council Item Summary Sheet and pricing sheet and enter into an agreement with Sun Life to provide the proposed services for plan year 2013 (January 1, 2013 through December 31, 2013)

### **COUNCIL GOAL**

Financially Stable Government with Tax Base that Supports Community Needs

### **BACKGROUND**

Stop loss coverage provides protection to the City, limiting the City's overall risk/liability to the Group Health Insurance Plan.

Historically, the City issues RFP's (Request for Proposals) every year for the Stop Loss coverage. The current Stop Loss contract with Humana is set to expire on December 31, 2012 because Humana is exiting the market.

Through the RFP process, the City received two proposals to provide Stop Loss coverage for the Group Health Insurance Plan. Due diligence was conducted on both proposals by the City's benefits consultants including but not limited to:

- Review of Specific Stop Loss Deductible
- Review of Aggregate Stop Loss Corridors
- Review of Contract Terms
- Review of monthly/annual fixed expenses
- Review of overall aggregate exposure

## **CONSIDERATION**

Human Resources evaluated all proposals in collaboration with our benefits consulting groups as to Stop Loss coverage. Staff and its consultants unanimously recommend entering into a one year agreement with Sun Life to provide the services requested and identified in RFP 3157-12 for Specific and Aggregate Stop Loss Coverage.

## **ATTACHMENT**

Financial Exhibit for Illustration of Premiums.

Submitted By:

Priscilla S. Wilson  
Senior Managing Director - HR

Date: November 20, 2012

Approved By:

William E. Dollar  
City Manager

Date: November 26, 2012

City of Garland  
2013 Summary of Stop Loss Proposals - Total  
Current

Stop Loss Carrier TPA / Network	Humana BCBS Choice Plus	ING BCBS Choice Plus	Sun Life BCBS Choice Plus
<b>SPECIFIC RETENTION</b>			
Contract	27/12	24/12	24/12
Active	<b>\$200,000</b>	<b>\$200,000</b>	<b>\$200,000</b>
Retiree	<b>\$125,000</b>	<b>\$125,000</b>	<b>\$125,000</b>
<b>Specific Rates</b>			
Single(Active)                      766	\$33.88	\$36.78	\$33.18
Family (Active)                    1,058	\$89.54	\$102.18	\$87.69
Total                                    1,824			
Single (Retiree)                    190	\$136.73	\$101.68	\$136.73
Family (Retiree)                    120	\$298.79	\$310.89	\$298.79
Total                                    310			
<b>Specific Monthly Premium</b>	<b>\$182,518.90</b>	<b>\$192,900.54</b>	<b>\$180,025.40</b>
<b>Specific Annual Premium</b>	<b>\$2,190,226.80</b>	<b>\$2,314,806.48</b>	<b>\$2,160,304.80</b>
<b>Aggregate Rate</b>			
Composite (Active)	\$2.19	\$2.45	\$2.18
Composite (Retiree)	\$6.12	\$6.67	\$5.85
<b>Aggregate Monthly Premium</b>	<b>\$5,891.76</b>	<b>\$6,538.01</b>	<b>\$5,789.82</b>
<b>Aggregate Annual Premium</b>	<b>\$70,701.12</b>	<b>\$78,456.17</b>	<b>\$69,477.84</b>
<b>AGGREGATE RETENTION</b>			
<b>Aggregate Factors</b>			
Contract	27/12	24/12	24/12
Single (Active)	\$569.49	\$996.60	\$1,057.00
Family (Active)	\$1,515.09	\$996.60	\$1,057.00
Single (Retiree)	\$853.17	\$1,245.35	\$1,057.00
Family (Retiree)	\$1,864.34	\$1,245.35	\$1,057.00
<b>Monthly Attachment Factor</b>	<b>\$2,425,017.66</b>	<b>\$2,203,856.90</b>	<b>\$2,255,638.00</b>
<b>Annual Attachment Factor</b>	<b>\$29,100,211.92</b>	<b>\$26,446,282.80</b>	<b>\$27,067,656.00</b>
<b>Annual Difference</b>	n/a	-\$2,653,929.12	-\$2,032,555.92
%	n/a	-9.12%	-6.98%
<b>TOTAL FIXED COSTS</b>			
<b>Total Monthly Premium</b>	<b>\$188,410.66</b>	<b>\$199,438.55</b>	<b>\$185,815.22</b>
<b>Total Annual Premium</b>	<b>\$2,260,927.92</b>	<b>\$2,393,262.65</b>	<b>\$2,229,782.64</b>
<b>Annual Difference</b>	n/a	\$132,334.73	(\$31,145.28)
<b>Percent Difference</b>	n/a	5.85%	-1.38%
<b>TOTAL Liability</b>			
<b>Monthly Max. Liability</b>	<b>\$2,613,428.32</b>	<b>\$2,403,295.45</b>	<b>\$2,441,453.22</b>
<b>Annual Max. Liability</b>	<b>\$31,361,139.84</b>	<b>\$28,839,545.45</b>	<b>\$29,297,438.64</b>
<b>Annual Difference</b>	n/a	(\$2,521,594.39)	(\$2,063,701.20)
<b>Percent Difference</b>	n/a	-8.04%	-6.58%



# Policy Report

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## ADVANCE CAPITAL PURCHASES

### ISSUE

The purchases of two Landfill articulating dump trucks, emergency enhancements in Castle Drive Landfill's flare unit, and the replacement of a portion of Firewheel's golf carts are scheduled for inclusion in the 2013 Capital Improvement Program (CIP). However, waiting for the annual CIP to be compiled, reviewed, and approved will result in significant costs that can be avoided by Council's concurrence to purchase these items in advance of the CIP.

### OPTIONS

- (1) Approve going forward with requested capital purchases.
- (2) Delay purchases until the approval of the 2013 CIP in February.

### RECOMMENDATION

(1) Approve going forward with requested capital purchases. If Council concurs, these purchases will be scheduled individually for Council's formal consideration at the December 18, 2012 Regular Meeting.

### COUNCIL GOAL

Financially Stable Government with Tax Base That Supports Community Needs

### BACKGROUND

#### Two Articulating Dump Trucks - \$1,214,000

The Landfill utilizes two articulating dump trucks to apply dirt cover to disposed refuse as required by the Landfill Permit. Both of these pieces of equipment are beyond their useful life, and one of them is currently out of service. The unit that is out of service is being replaced by a rental unit at a cost of \$7,500 per month. The unit that is still in service has over 10,500 hours of operation and has been requiring extensive repairs and maintenance to keep in service. Both units have been scheduled for replacement in the 2013 CIP. However, it is being requested that these units be approved in advance to prevent ongoing rental costs, expensive repairs, and the potential for regulatory violations. The cost of the articulating dump trucks is \$607,000 each for a

## ADVANCE CAPITAL PURCHASES

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total of \$1,214,000.

### Castle Landfill - Flare Unit Improvements – \$75,105

Gases produced at the Castle Landfill during the decomposition of waste are collected by gas wells and then pumped to a flare unit where they are ignited. In order to stay in compliance with both State and Federal environmental regulations, several items need emergency repairs or improvements. These items include a new flare tip and assembly (\$25,634), a new flame arrestor to confine and control the flame (\$8,239), a new programmable logic circuit (PLC) control panel that is essential for safe operation (\$33,733), and replacement of an air compressor that is used to remove liquids from the gas wells enabling the system to operate without interruption (\$7,500). The emergency repairs and improvements total \$75,105.

### Firewheel Replacement Golf Carts – \$367,050

Various carts at the Firewheel Old and Lakes Courses are in need of replacement including 120 golf carts, a tow cart, two beverage carts, and a driving range picker. The equipment is significantly past its useful life and was scheduled for replacement in the 2013 CIP. However, battery failures have become common resulting in significant operational difficulties and stranded golfers. Replacing the batteries at a price of \$600 per cart would not be cost-effective given the age of the equipment. The cost of the requested cart replacements is as follows: 120 golf carts (\$465,000), one tow cart (\$5,350), two beverage carts (\$10,300), and a range picker (\$6,400), for a total of \$487,050. This amount is partially offset by a trade-in allowance of \$120,000, bringing the net cost to \$367,050.

## **CONSIDERATION**

Combined, the three capital requests total \$1,656,155 and would be purchased using cash reserves. A Reimbursement Resolution would be issued allowing the reserves to be replenished in March 2013 when Certificates of Obligation (COs) are issued to fund these requests and the remainder of the 2013 CIP. No tax rate impact is anticipated as a result of these purchases. Each of the requested items would appear separately for Council approval on the Regular Session Agenda for December 18<sup>th</sup>.

Submitted By:

Bryan L. Bradford  
Assistant City Manager

Date: November 26, 2012

Approved By:

William E. Dollar  
City Manager

Date: November 26, 2012



# City Council Item Summary Sheet

**Work Session**

Date: December 4, 2012

**Agenda Item**

## North Texas Municipal Water District Briefing

### Summary of Request/Problem

Jack May and Don Gordon, Council's appointees to the North Texas Municipal Water District (NTMWD), will brief Council on current and future water supply issues for the City of Garland.

### Recommendation/Action Requested and Justification

Council discussion.

**Submitted By:**

**Approved By:**

**William E. Dollar**  
**City Manager**



# City Council Item Summary Sheet

**Work Session**

Date: December 4, 2012

**Agenda Item**

## Civil Service Supplemental Retirement Benefits

### Summary of Request/Problem

The Administrative Services Committee (ASC) will brief the full Council regarding its analysis on providing retirement benefits, in addition to the Texas Municipal Retirement System, for public safety employees through City contributions to a 401k/457 plan. The issue was referred to the ASC during City Council's discussion of the 2012-13 Budget.

### Recommendation/Action Requested and Justification

For informational purposes only.

**Submitted By:**

**Bryan L. Bradford  
Assistant City Manager**

**Approved By:**

**William E. Dollar  
City Manager**



# **Civil Service Supplemental Retirement Benefits**

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**Garland City Council  
Administrative Services Committee**  
November 20, 2012



# Issue and Proposal

Assigned to Administrative Services Committee

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## Issue:

**Social Security Benefits** – City funds 6.2% towards Social Security benefits for General employees but not for Civil Service (Police and Fire). General employees have an equal 6.2% deducted from their pay, whereas Civil Service do not.

## Proposal:

**401K/457 Plan Proposal** – In lieu of Social Security coverage, provide a 3% contribution into a supplemental retirement plan for Civil Service employees at a cost of \$1.5 million.



## Surveys and Analysis Performed

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- (1) **History of Social Security in Garland** – How did we get to a point where General employees had coverage and Civil Service did not?
- (2) **Comparison with Other Cities** - How do pay and retirement benefits for Civil Service compare with other Metroplex cities?
- (3) **Comparison with Private Sector** - How do current retirement benefits for Civil Service compare to those provided in the private sector?
- (4) **Comparison between Civil Service and General Employees (Internal)** - How do compensation structure and retirement benefits compare between Civil Service and General employees?



# Social Security Coverage

## City History

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- 1) **1935 - Social Security Act** – excluded local government employees from coverage.
- 2) **1950 - SSA Amended** – to allow coverage for local government employees – except for Police and Fire if they were covered under a separate retirement plan.
- 3) **1959 - Coverage Extended** – to General employees only.
- 4) **1964 - SSA Amended** – allowed coverage to be extended to Police and Fire.
- 5) **1964 - Council Approved a Civil Service Referendum** – allowing Police and Fire to vote on opting into coverage. Both Police and Fire voted not to opt into Social Security.
- 6) **1981 - Council Starts Process to Opt Out** – of coverage for General employees in two years.
- 7) **1983 - Social Security Closes Option** – for employers to opt out of coverage.
- 8) **Current – General Employees** must remain in Social Security.
- 9) **Current – Civil Service** may vote to opt into Social Security with Council approval.

# Comparison with Other Cities

## Civil Service Pay Structure

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- **Pay Structure** - Garland's Civil Service pay structure targets the average Metroplex top-out pay in each rank.
- **Actual Pay** - Due to budget constraints, Garland is approximately one year behind the market and its target pay levels.

### Percentages Below Target/Market

Ranks	Police	Fire
All Ranks – Top Step Avg.	(3.4%)	(1.6%)
All Ranks – All Steps Avg.	(0.8%)	(0.8%)
Police Officer/Firefighter Rank	(2.6%)	(0.4%)
Assistant Chief	(6.3%)	(3.3%)

# Comparison with Other Metroplex Cities

## Retirement Benefits

- **TMRS Retirement Benefits** – Are similar and include a matching contribution of 14% to the employees' 7%.
- **TMRS COLA** – Garland and Irving do not currently provide a TMRS Cost of Living Allowance (COLA) to retirees.
- **Social Security** – Five of the nine cities do not offer employees Social Security coverage. Of these five, three contribute to a supplemental retirement plan:

Contributions to 401K/457	Max
Garland	0%
Irving (Fire/Other Employees)	0% /1.42%
Plano	3.23%
Carrollton	2.35%
Arlington	3.00%



# Comparison with Private Sector

## Retirement Benefits

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- **Largest Private Sector Garland Employers** – Average maximum retirement contribution is 4.5% based on a 1:1 match. GISD provides a 6.4% contribution.

▪ GISD	6.4%	1.1:1
▪ Raytheon	4.0%	1:1
▪ Walmart	6.0%	1:1
▪ Baylor Hospital	5.0%	1:1
▪ Atlas Copco	3.0%	1:1
- **Bureau of Labor Statistics 2010 Survey** – Median match of 3.0% for those employers that provide a matching contribution.



# Comparison - Civil Service and General Employees

## Pay Structures and Components

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- **Additional Pay Components** – Pay components (overtime, education pay, certification pay) calculated as a percentage of base pay.
  
- **Additional Pay Percentages** – as a percentage of average base pay:

(1) General Schedule	7.56%
(2) Fire	7.96%
(3) Police	12.32%
  
- **Equalized Base Pay** – when base pay is equalized between employee classifications:
  - (1) Fire Additional Pays Exceed General Employees by 0.37%.
  - (2) Police Additional Pays Exceed General Employees by 4.43%.

# Comparison - Civil Service and General Employees

## Social Security Benefits vs. 401K/457 Plan Benefits

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- (1) Analysis performed by GRS Actuaries.
- (2) Compares Social Security benefits to what could be provided if a Civil Service employee contributed 6.2% (the amount not withheld for SS) to 401K/457 Plan.
- (3) Social Security benefits are based on current policy and does not anticipate possible changes.
- (4) 401K/457 benefits based on purchasing an annuity with the balance of the plan.

Retirement Plans	Annual Benefits
Social Security	\$37,299
401K/457 Annuitized	25,435
Difference	\$11,867
Percentage Difference	32%



# Recap of Survey and Analysis

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## **Comparison with Other Cities**

- ❑ Compensation structure for Civil Service is based on market.
- ❑ Actual Civil Service pay is approximately a year behind the market.
- ❑ TMRS retirement benefits are comparable with other cities – except for COLA.
- ❑ Cities are split on whether or not they provide Social Security benefits.
- ❑ Garland differs in that cities that do not provide Social Security typically contribute to a 401K/457 Plan.

## **Comparison with Private Sector**

- ❑ Private employers typically contribute significantly less towards employee retirement than public employers.

## **Comparison of Internal Equity**

- ❑ Pay structures are, on the whole, equitable between General and Civil Service employees.
- ❑ Civil Service employees cannot provide retirement benefits equal to current Social Security benefits by investing 6.2% in a 401K/457 Plan.

**CITY OF GARLAND**  
**ADMINISTRATIVE SERVICES COMMITTEE**  
**Analysis Related to Supplemental Retirement Benefits**  
**For Civil Service Employees**

**SUMMARY FOR CITY COUNCIL**

**History of Social Security Benefits**

**(1) Non-Civil Service Employees**

In 1959, City employees, with the exception of Police and Fire personnel, became eligible for social security coverage. Under the Social Security Act, Police and Fire were excluded if they were already covered by a retirement system. In 1981, the City began the process of withdrawing non-civil service employees from social security with the intent of being out of the system in 1984. In 1983, however, the Social Security Administration discontinued allowing employees to exit the system. As a result, non-civil service employees remained in Social Security.

**(2) Civil Service Employees**

Police and Fire personnel became eligible for social security coverage under the Social Security Act of 1964. That same year, the City Council approved referendums allowing Police and Fire to vote on whether or not they wished to be covered. Both referendums failed, resulting in no extension of coverage. Under current law, Police and Fire may conduct an election among its members at any time to opt into Social Security, if approved by the City Council.

**Comparison with Other Cities**

**(3) Compensation Comparison with Other Metroplex Cities:**

Garland's Civil Service pay structure targets the average Metroplex top-out pay in each rank and, therefore, is comparable with other Metroplex cities. However, due to budget constraints, Garland is below market with the largest gaps being in the upper ranks.

**(4) Analysis of Retirement Benefits Offered by Other Metroplex Cities:**

With the exception of Irving, metroplex suburbs offer similar TMRS retirement benefits. All the TMRS cities provide for a 2:1 match with the City contributing 14% and the employee 7%. Garland and Irving, however, do not currently provide a COLA option. It should be noted that the lack of COLA in Garland is considered "temporary" based on the previous direction from Council, which was to restore COLA when funding and affordable options become available. New COLA options will not be available to the City until 2015, and funding will depend on the recovery of the tax base.

**(5) Analysis of Supplemental Retirement Benefits (401K/457 Plan) in Cities that do not have Social Security Coverage:**

Of the nine suburban cities, five do not fund Social Security Benefits for at least one class of employees. Of these five that do not provide Social Security benefits:

- (a) Garland does not contribute to a supplemental retirement plan.
- (b) Irving does not provide supplemental retirement for Fire employees but does contribute 1.42% to a 457 for Police and General Schedule employees.
- (c) Plano, Carrollton and Arlington provide maximum contributions to supplemental retirement accounts ranging from 2.35% to 3.23%.

**Comparison with the Private Sector**

**(6) Analysis of Retirement Benefits Offered by the Private Sector:**

While the City of Garland's retirement benefits are conservative compared to most Metroplex suburban cities, they are considerably more generous than the typical private sector retirement plan. Based on the Bureau of Labor Statistics' 2010 National Compensation Survey, 61% employers offer a 401K plan for employees but only 49% of those employers provide a matching contribution. The match in the private sector typically ranges from 50% to 100% of the employees contribution. The median employer match contribution is 3%.

**Comparison between Civil Service and General Schedule Employees (Internal Comparison)**

**(7) Analysis of Pay Components Offered to General Schedule and Civil Service Employees:**

This analysis attempts to compare compensation between very dissimilar jobs. To do so, it expresses Additional Pay components (such as overtime, education pay, certification pay) as a percentage of base pay. In performing the analysis, appropriate adjustments were made to base pay to compensate for Fire's unique shift schedule.

The analysis indicates that the average General Schedule employee receives 7.56% of his base salary in Additional Pays, Fire Fighters receive 7.96%, and Police Officers receive 12.32%. If the base pay was \$60,000 for each of the employee classifications and Additional Pays are added based on the above percentages, a General Schedule employee would make \$64,536 annually, a Fire Fighter \$64,776, and a Police Officer would make \$67,392. Based on the Analysis of Additional Pays – when base pay is equalized, the compensation for a Fire Fighter exceeds that of a General Employee by 0.37% and a Police Officer exceeds the General Employee by 4.43 %.

**(8) Analysis of 401K/457 v Social Security Benefits:**

This analysis prepared by Gabriel Roeder Smith (GRS) actuaries compares Social Security retirement benefits to what could be provided if a Civil Service employee contributed 6.2% (the amount not withheld for Social Security) to a 401K/457 plan. GRS' analysis indicates that with 35 years of service and waiting until 67 to draw full Social Security benefits, the annual retirement benefit from an annuitized 401K/457 plan would be as follows:

Social Security	\$37,299
401K/457	<u>25,432</u>
Difference	<u>\$11,867</u> (32%)

Represented in 2012 dollars. Important details and assumptions are included in the attached letter from GRS.

## **History of Social Security Coverage**

**CITY OF GARLAND  
HISTORY OF SOCIAL SECURITY COVERAGE**

	<b>Civil Service Employees</b>	<b>Non-Civil Service Employees</b>
<b>1935 Social Sec Enacted</b>	<i>Local government excluded over constitutional issues - ability to tax tax-exempts.</i>	<i>Local government excluded over constitutional issues - ability to tax tax-exempts.</i>
<b>1950 SSA Amended</b>	<i>Police and Fire excluded by Act - if already covered by a retirement system.</i>	<i>Local government allowed to opt into Social Security.</i>
<b>1951</b>		<i>Texas allows Social Security for non-civil service employees.</i>
<b>March 1, 1952</b>	TMRS Coverage Begins	TMRS Coverage Begins
<b>June 16, 1959</b>		Council approves employee referendum to opt into Social Security. Res 459 and Social Security extended to non-civil service.
<b>SSA of 1964 (July 2)</b>	<i>Authorizes Social Security coverage for Police and Fire personnel.</i>	
<b>August 18, 1964</b>	Council approves Police referendum to opt into Social Security. Res 862  Council approves Fire referendum to opt into Social Security. Res 863	
<b>No Record</b>	No record of results.	
<b>March 24, 1981</b>		Res 4082 - states Garland's intention to opt out of Social Security in two years.
<b>April 20, 1983</b>		Social Security closes option for employers to opt out. Non-civil service employees remain in Social Security.
<b>Current</b>	Police and Fire may have an election among its members to opt into Social Security - if approved by the Council.	No option exists to exit Social Security coverage.

## **Police and Fire - Social Security Participation**

When the Social Security Act was passed in 1935, state and local governmental employees were excluded from participation out of concern that it might not be constitutional to tax state and local governments for the employer's share of Social Security taxes.

In 1950, Congress amended the Social Security Act and section 218, authorizing states to enter into voluntary agreements ("Section 218 agreements") with the Social Security Administration to provide Social Security insurance benefits to state and local government employees; provided, however, that firefighters and police officers of a political subdivision that had a retirement system were excluded by law from participation.

Texas entered into its Section 218 Agreement with the Social Security Administration in 1951. In order for a political subdivision to obtain benefits under the state's 218 agreement, it had to enter into an agreement with the state under which the political subdivision designated which employees were to be covered by social security and which were to be excluded from coverage for its eligible employees. Political subdivisions enter into a voluntary agreement with the State of Texas by entering an agreement with the Employees Retirement System of Texas, as provided in Tex. Gov't Code, Sec. 606.022.

June 16, 1959 - Council passed Resolution 459 requesting Texas State Department of Public Safety (predecessor to the Employees Retirement System of Texas) to hold a referendum of members of the retirement system to determine whether or not to participate in the Social Security program. Minutes show that motion made excluded firefighters and police officers (as they were excluded by law from coverage).

In 1959, the City of Garland entered into a 218 Agreement obtaining coverage for all City employees, except those excluded by law (police and fire) and elected positions, emergency positions, and fee-based positions.

July 2, 1964 - Law changed allowing Texas police officers and firefighters that were covered by a pension system to participate in Social Security program, including coverage for Medicare, but only through the applicable referendum procedures.

August 18, 1964 - City Council passed Resolutions 862 (police) and 863 (fire) requesting Texas State Department of Public Safety to hold a referendum of policemen and firemen who were members of the retirement system to determine whether or not to participate in the Social Security program. (No record of the outcome of the referendum can be located).

March 24, 1981 - City Council passed resolution 4082 authorizing the City Manager to notify the Employees Retirement System of Texas of Garland's intent to opt out of the Social Security Program at the end of two years from the date of the resolution. The City was unable to opt out due to an amendment of the Social Security Act that became effective April 20, 1983 that prohibited a municipality from opting out, without regard to whether a notice of termination was in effect.

## **Comparison with Other Metroplex Cities**





# TMRS Rate Comparison of Metroplex Cities – 9/2012

RATE	Garland	Arlington	Carrollton	Grand Prairie	Irving*	McKinney	Mesquite	Plano	Richardson
Benefit Rate	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Contribution Rate	11.70	16.47	13.66	17.97	10.61	15.40	10.63	18.75	14.61
Social Sec General	Y	N	N	Y	N	Y	Y	Y – Prior to 1983 N – After 1983	Y
Social Sec Civil Svs	N	N	N	Y	N	Y	Y	Y – Prior to 1983 N – After 1983	Y
Supp Death	Y	Y	N	Y	Y	Y	N	N	N
COLA	0%	50% R	50% R	70% R	0%	70% R	50% A	70% R	50% R
Updated Svs Credit	100% R/T	100% R/T	75% R	100% R/T	100% R/T	100% R/T	100% A/T	100% R/T	50% R
Funding Method 2012	Full Rate	Full Rate	Full Rate	Full Rate	Full Rate	Phase-In 13.97%	Full Rate	Phase-In 17.67%	Full Rate
Changes 2013	N	N	N	N	N	N	COLA Reduced from 70% A	N	N

All cities are 7% TMRS; 2:1 Match; 20-Yr Retirement for all cities except GP and Richardson who are 25 Years. \*Irving Firefighters are not part of TMRS (Irving Fire belongs to Firefighter Assoc. Pension). A = Annual Non-Repeating, R=Repeating, T=Accepts Transfer for USC

**City of Garland  
Supplemental Retirement Plans Survey**

City	Pay FICA SS	401K/457 match	Employee Contribution	401K/457 match rate	401K/457 match maximum	Other Notes
Garland	No	No	Up to \$17,000	0%	0%	
Plano	No	Yes - Note (1)	0%	NA	3.23%	
Carrollton	No	Yes - 457	4.65%	Note (2)	2.35%	
Arlington	No	Yes - 401K	Optional	50%	3.00%	
Irving Police and General Only	No	Yes - 457			1.42%	
Fire	No	No - Note (3)			0%	Not in TMRS

**Notes:**

- (1) Retirement Security Plan is a Defined Benefit trust. The plan was initiated in 1983 to replace Social Security. Employees do not contribute. Current contribution rate is 3.23%. Contribution rate is actuarially determined bi-annually.
- (2) Employee minimum is 4.65%, The city will then contribute 2.35% maximum
- (3) General employees and police participate in TMRS - Fire does not. General and police also participate in a supplemental savings plan with a city contribution currently set at 1.42%. Fire has a separate pension plan. The city contributes 12%. The combination of TMRS and supplemental for general and police is kept in parity with the fire pension plan. By ordinance, total city retirement contributions cannot exceed 16%.

	General & Police	Fire
TMRS contribution	10.60%	0.00%
Supplemental savings plan	1.42%	0.00%
Fire pension plan	0.00%	12.00%
Total city contribution	12.02%	12.00%

- (4) Richardson, McKinney, Mesquite, and Grand Prairie provide Social Security coverage for civil service employees.

**Retirement Benefits  
Comparison with Private Sector**

**SURVEY OF PRIVATE SECTOR RETIREMENT PLANS AND GISD  
SUMMARY OF CONTRIBUTION RATES  
OCTOBER, 2012**

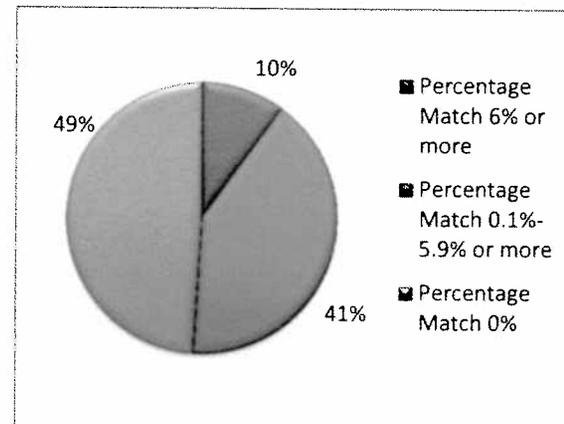
(A)	<u>Entity</u>	<u>Number of Employees</u>	<u>(Max Match) Employee Contribution</u>	<u>(Max) Employer Contribution</u>	<u>Contribution Ratio</u>
	City of Garland		7.00%	14.00%	2:1
	GISD	7,300	6.00%	6.40%	1.1:1
<b><u>Private Sector:</u></b>					
	Raytheon	2,200	4.00%	4.00%	1:1
	Walmart	1,200	6.00%	6.00%	1:1 Also have ESOP
	Baylor Hospital	1,185	5.00%	5.00%	1:1
	Atlas Comp Co	727	3.00%	3.00%	1:1 Also have ESOP
	Garland Avg - Excluding COG			4.88%	1:1
	Garland Avg - Excluding COG and GISD			4.50%	1:1

**Notes:**

See attached detail explanations for Kraft's pension plan benefits.

**(B) Bureau of Labor Statistics  
2010 National Compensation Survey**

* Employers Offering a 401K	61.00%
* Median Match	3.00%
<b>Of Those That Offer a 401k:</b>	
Percentage Match 6% or more	10.00%
Percentage Match 0.1%-5.9% or more	41.00%
Percentage Match 0%	49.00%
	<u>100.00%</u>



**Comparison Between Civil Service and General Schedule  
Employees (Internal Comparison)**

**TOTAL ANNUAL PAY COMPARISON - CIVIL SERVICE AND GENERAL EMPLOYEES**  
**(As Percent of Base Pay)**

	Average Yrs Service	Base Pay	Additional Pays	Overtime Pay	Allowance Pay	Longevity/ Stability Pay	Total Pay
<b>Police Officer</b>							
Total Pay		\$16,438,280	\$304,291	\$1,520,038	\$28,077	\$173,646	\$18,464,331
Average / Employee	15.83	\$64,718	\$1,198	\$5,984	\$111	\$684	\$72,694
Percent of Base Pay		100.00%	1.85%	9.25%	0.17%	1.06%	112.32%

<b>Fire Fighter</b>							
Total Pay		\$6,614,370	\$983,627	\$162,938	\$2,487	\$57,801	\$7,821,223
Average / Employee	11.62	\$57,020	\$8,480	\$1,405	\$21	\$498	\$67,424
Percent of Base Pay		100.00%	14.87%	2.46%	0.04%	0.87%	118.25%

<b>General Non-Exempt</b>							
Total Pay		\$38,518,413	\$104,486	\$3,659,353	\$68,607	\$657,375	\$43,008,234
Average / Employee	10.65	\$41,687	\$113	\$3,960	\$74	\$711	\$46,546
Percent of Base Pay		100.00%	0.27%	9.50%	0.18%	1.71%	111.66%

**Notes:**

1. Data includes 26 pay periods ending 9/15/12
2. Data includes only those employed during entire 26 pay periods
3. "Police Officer" includes only Police Officer rank
4. "Fire Fighter" includes only Fire Fighter rank and includes scheduled overtime (FSA) in base pay
5. "General Non-Exempt" includes only regular full-time non-exempt employees
6. "Base Pay" includes all pay components within annual work schedule (2,912 hrs Fire shift, 2,080 hrs all others)  
(example - regular, training, sick, vacation, holiday, funeral, etc.)
7. "Additional Pay" includes certification pay, education pay, assignment pay, etc.
8. "Allowances" include cell phone stipend, tool allowance, etc.

**TOTAL ANNUAL PAY COMPARISON - CIVIL SERVICE AND GENERAL EMPLOYEES  
ASSUMING SAME BASE PAY FOR CIVIL SERVICE AND GENERAL SCHEDULE**

	General Schedule	Fire Civil Service	Police Civil Service	
<b>Hypothetical Base Pay</b>	60,000	60,000	60,000	
<b>Additional Pay Percentage</b>	7.56%	7.96%	12.32%	(from page (1))
<b>Additional Pay in Dollars</b>	4,536	4,776	7,392	
<b>Total Compensation</b>	<u>64,536</u>	<u>64,776</u>	<u>67,392</u>	
<b>Difference From General Schedule</b>		240	2,856	
<b>Percentage Difference</b>		0.37%	4.43%	

## BENEFIT COMPARISON - CIVIL SERVICE & GENERAL EMPLOYEES

	Police	Fire	General
<b>PAY STRUCTURES</b>			
<b>Pay Adjustments</b>			
Structure adjustment	All pay adjusted with schedule	All pay adjusted with schedule	Affects employees below new min
Market adjustment	Not eligible by statute	Not eligible by statute	Based on market
Merit	Not eligible by statute	Not eligible by statute	Varies at City discretion (historically 0 - 3%)
Step	Based on yrs of service  <u>Officer</u> 6 mo - 5%, yrs 1 to 5 - 5% / yr, yr 10 - 3%, yr 12 - 3%  <u>Supv / Capt / Asst Chief</u> yr 2 - 5%	Based on yrs of service  <u>Firefighter</u> 6 mo - 5%, yrs 1,2,3,5 - 6%, yr 7 - 4%, yr 8.5 - 3%  <u>Driver / Lieut / Capt / BC / Asst. Chief</u> yr 2 - 5%	Not available (except 2 depts with skills test)
Select adjustment	Not available by statute	Not available by statute	Based on retention / equity
Lump sum	Varies at City discretion (historically 0 - 3%)	Varies at City discretion (historically 0 - 3%)	Varies at City discretion (historically 0 - 3%)
<b>ADDITIONAL PAY</b>			
<b>Certification Pay</b>			
Intermediate	n/a	\$25 / mo	0
Advanced	\$75 / mo	\$50 / mo	0
Master	\$95 / mo	\$100 / mo	0
Paramedic	n/a	\$100 / mo	0
Fire Inspector Class A	n/a	\$100 / mo	0
Fire/Arson Investigator	n/a	\$100 / mo	0
<b>Education Pay</b>			
90 hrs college credit		\$150 / mo (Battalion Chief only)	0
Bachelor degree	\$125 / mo	\$200 / mo (Battalion and Asst. Chief only)	0
Masters degree	\$150 / mo	n/a	0
<b>Bilingual Pay</b>			
Verbal skills	\$100 / mo	\$100 / mo	0
Verbal & written skills	\$150 / mo	\$150 / mo	0
<b>Assignment Pay</b>			
Field Training Officer	\$100 / mo.	n/a	0
Intermediate Instructor	n/a	\$25 / mo	0
Advanced Instructor	n/a	\$100 / mo	0
Ambulance	n/a	\$30 / shift	0
Out-of-capacity	Paid for shift work at next higher rank	Paid for shift work at next higher rank	Temporary increase for extended higher level assignment

## BENEFIT COMPARISON - CIVIL SERVICE & GENERAL EMPLOYEES

	Police	Fire	General
<b>LEAVE BENEFITS</b>			
<b>Sick Leave (SL)</b>			
Annual number	120 hrs per yr	Shift - 180 hrs per yr Non-shift - 120 hrs per yr	80 hrs after 1 yr up to 160 hrs after 15 yrs
Basis	Unlimited accrual	Unlimited accrual	Limited annual allotment
Carryover	Unlimited	Unlimited	None
Payable at termination	Up to 720 hrs	Shift - up to 1080 hrs Non-shift - up to 771 hrs	None
Avg payout 2011	\$31,447	\$37,403	0
<b>Vacation Leave (VL)</b>			
Eligibility	After 1 yr	After 1 yr	After 6 mo.
Annual accrual	120 to 160	120 to 160	80 hrs to 160
<b>Injury Leave (IL)</b>			
Pay	100% by statute	100% by statute	100% by city directive
Maximum time	1 yr May be extended additional year	1 yr May be extended additional year	6 months (combined injury and limited duty)
<b>Short Term Disability (STD)</b>			
Eligibility	Not eligible (unlimited sick leave accrual in lieu of STD)	Not eligible (unlimited sick leave accrual in lieu of STD)	After 1 yr
Benefit amount	Sick Leave paid at 100% pay	Sick Leave paid at 100% pay	After 1 yr - 60% After 6 yrs - 70% After 10 yrs - 75%
Elimination period	n/a	n/a	40 hrs
Leave coordination	n/a	n/a	Must exhaust sick & vacation leave
Max hours	n/a	n/a	After 1 yr - 960 hrs After 15 yrs - 880 hrs
<b>Long Term Disability (LTD)</b>			
Plan Participation	Elected by emp w/emp contribution	Elected by emp w/emp contribution	Elected by emp w/emp contribution
Elimination period	180 days	180 days	180 days
Benefit amount	60%	60%	60%
<b>Leave Donation</b>			
Military leave	May donate sick, vacation, holiday, or compensatory leave	May donate sick, vacation, holiday, or compensatory leave	None
Catostrophic illness	May donate vacation leave	May donate vacation leave	May donate vacation leave

## BENEFIT COMPARISON - CIVIL SERVICE & GENERAL EMPLOYEES

	Police	Fire	General
<b>Overtime</b>			
Eligibility	Officer through Asst. Chief	Firefighter through Batt. Chief	All non-exempt emp
Basis	Over 40 hrs worked / wk	Shift - built into schedule plus, all hrs over 168 worked / 3 wks  Non-shift - over 40 hrs worked / wk	Over 40 hrs worked / wk
<b>Longevity/Stability</b>			
Eligibility	After 1 yr	After 1 yr	After 3 yrs
Amount	\$4 / mo for each yr of service	\$4 / mo for each yr of service	\$375 increasing \$75 / yr of service
Payment basis	Emp option - monthly or annual	Emp option - monthly or annual	Annual
Payment for partial year	Yes	Yes	No
Maximum	\$1,200	\$1,200	\$1,275
<b>RETIREMENT</b>			
<b>TMRS</b>			
Employee contribution	7%	7%	7%
City match	2 to 1	2 to 1	2 to 1
Pre-tax health premiums	Health premiums deducted from annuity pre-tax	Health premiums deducted from annuity pre-tax	Not eligible
<b>Social Security</b>			
Employee contribution	0	0	6.2% up to max. \$4,624
City match	0	0	6.2% up to max. \$4,624
<b>Medicare</b>			
Employee contribution	Hired after Apr 1986 - 1.45%	Hired after Apr 1986 - 1.45%	1.45%
City match	Hired after Apr 1986 - 1.45%	Hired after Apr 1986 - 1.45%	1.45%
<b>Deferred Compensation</b>			
Employee contribution	Emp option up to max. \$17,000 / yr	Emp option up to max. \$17,000 / yr	Emp option up to max. \$17,000 / yr
City match	0	0	0

## **401k/457 v Social Security Retirement Benefits**



October 19, 2012

Mr. David Schuler  
Finance Director  
City of Garland  
200 N. Fifth Street  
Garland, TX 75040

Dear Mr. Schuler:

**Subject: Benefit Comparison Study for Public Safety Employees**

Gabriel, Roeder, Smith & Company (“GRS”) appreciates the opportunity to provide actuarial and retirement consulting services to the City of Garland (“the City”). As requested, we have prepared the following comparison of projected benefits provided by different retirement programs.

**Background**

The City currently provides retirement benefits to general employees, police officers and fire fighters through the Texas Municipal Retirement System (“TMRS”). In addition, the general employees of the City participate in Social Security but the police officers and fire fighters are not currently covered by Social Security.

**Plans Considered**

The general employees of the City are currently covered by Social Security. This analysis shows the results of contributions equal to 6.2% of compensation from both the City and the employee to a private savings plan. Additionally, the analysis shows the results of contributions equal to 6.2% of compensation from only the employee to a private savings plan. All projected benefits from the private savings plan include the payment of unused sick time at retirement.

**Benefit Comparisons**

Based on the census data of the City provided to TMRS, the average police officer and fire fighter at the City are hired at age 27. We have compared the projected retirement benefits for this average member based on retirement with each of 25 years of service, 30 years of service, and 35 years of service.

In order to draw appropriate conclusions from the comparison to Social Security, the benefit provided by the private savings plan is based on the following key procedures:

- 1.) Social Security is provided as an annual annuity. As a result, the annual annuities provided by the private savings plan will be based on annuitization of the account balance with an insurance company.
- 2.) The earliest age that an employee can commence their Social Security benefit is age 62. However, two of the hypothetical retirement dates involve retirement before age 62. For

comparison purposes, we have projected the annual annuity provided by the private savings plan assuming that the employee leaves their contributions in the plan until age 62 and age 67 and then purchases an annual annuity. Additionally, we have projected the annual annuity assuming the employee purchases an annual annuity immediately at retirement. The immediate benefit at retirement does not provide an appropriate comparison to Social Security, but it does illustrate the level of benefit provided by the plan design.

- 3.) Benefits provided by Social Security increase based on actual inflation. The annual annuity purchased from an insurance company at retirement is assumed to also include increases consistent with the assumed increases in the Social Security benefit.

For a hypothetical police officer or fire fighter hired at age 27 at the City, the following table shows the projected retirement benefits separately provided by Social Security or a private savings plan.

<i>Immediate Commencement</i>				
<b>Years of Service at Retirement</b>	<b>Age at Retirement</b>	<b>Annual Social Security Benefit</b>	<b>Annual Annuity from Private Savings Plan (6.2%)</b>	<b>Annual Annuity from Private Savings Plan (12.4%)</b>
25	52	N/A	\$5,957	\$11,151
30	57	N/A	9,864	18,863
35	62	\$26,261	16,477	31,946

<i>Age 62 Commencement</i>				
<b>Years of Service at Retirement</b>	<b>Age at Retirement</b>	<b>Annual Social Security Benefit</b>	<b>Annual Annuity from Private Savings Plan (6.2%)</b>	<b>Annual Annuity from Private Savings Plan (12.4%)</b>
25	52	\$20,192	\$13,176	\$24,665
30	57	23,231	14,845	28,387
35	62	26,261	16,477	31,946

<i>Age 67 Commencement</i>				
<b>Years of Service at Retirement</b>	<b>Age at Retirement</b>	<b>Annual Social Security Benefit</b>	<b>Annual Annuity from Private Savings Plan (6.2%)</b>	<b>Annual Annuity from Private Savings Plan (12.4%)</b>
25	52	\$28,676	\$20,388	\$38,072
30	57	32,995	22,914	43,816
35	62	37,299	25,432	49,311

Due to the progressive nature of the Social Security Benefit, the annual annuity provided by the private savings account is projected to provide a superior benefit based on the stated assumptions and methods. Note that the life expectancy for a retiree at age 62 is approximately 21 years.

### **Comments on Social Security**

The Social Security estimates, provided above, assume that the employees only participated in Social Security while working as a police officer or fire fighter with the City. In general, Social Security benefits are progressive in that each additional dollar of compensation provides the employee with a decreasing return in their benefit. As a result, if the employees also contribute to Social Security based on earnings from another source (e.g., private security, second job, etc.) the employee will receive less of a benefit, than indicated above, from their participation in Social Security through the City.

### **Alternatives**

If the City decides to allocate additional funds to the retirement benefits of their police officers and fire fighters, the City will want to ensure that the additional funds will provide the most appropriate benefit. In this context, the most appropriate benefit will depend on factors such as the level of benefit that the City wants to provide, the City's desired level of risk sharing with the employees, and plan administration issues.

The private savings plan in this analysis is a traditional defined contribution plan design where the employee selects the investments from a list of options provided by the plan. Additionally, the employee assumes virtually all of the investment and longevity risk.

Alternatively, Social Security provides a benefit similar to a traditional defined benefit pension plan where a lifetime annuity income is guaranteed. This design may provide an administratively easy plan to administer, but there are a number of inefficiencies including the progressive nature of the benefit and the lack of control over the investment of the contributions.

In between these two traditional plan designs, there are many other plans designs that can meet the employer's goal of providing the most appropriate benefit to its employees. Examples of these plan designs include:

### Cash Balance Plan

A Cash Balance Plan provides members with pay and interest credits in a “virtual account” but the contributions are centrally invested through a trust fund. The interest credits can be handled in various ways. Examples include a set rate of interest credit, such as 5%; an interest credit tied to a yield index at a specific point in time (treasury yields, corporate bonds, etc); and a credit based on the actual performance of the trust fund. Minimums and maximums can be applied along with applying a factor to the credit. For example, the credit could be 2% plus 50% of the actual return of the fund. How the interest credit is formulated dictates how much risk is shared between the member and the City.

A notable plan design is the “100% pass through cash balance plan” where the member’s virtual account is credited with the actual investment return on the underlying asset, determined by a five-year smoothed basis. Therefore, the member holds the majority of investment risk during active employment.

### Pooled Defined Contribution

Similar to a traditional self-directed defined contribution plan, the contributions from the member and City are set and the member is responsible for managing the assets after retirement. However, the assets are professionally invested and managed in a trust fund during the member’s active employment.

If the City would like to explore the merits of plan designs beyond Social Security and the private savings plan, GRS would be happy to provide the City details about the spectrum of additional plan designs and their risk sharing characteristics.

### **Assumptions and Methods**

The following assumptions and methods were utilized to provide the analysis included above. These assumptions and methods are based on analysis GRS has provided for other similar public employers in the State of Texas.

- Compensation for the first 10 years of service is based on the City’s 2012/2013 Salary Schedule for firefighters. After 10 years of service, compensation is assumed to grow over the plan participant’s career at a rate consistent with the assumptions used for the most recent actuarial valuation of TMRS.
- At retirement, police officers and fire fighters receive a gross payment of unused sick leave of \$21,414, on average. The gross payment of unused sick leave is reduced by an assumed 15% effective tax rate and a 7% contribution to TMRS.
- The mortality (i.e., life expectancy) assumption is consistent with the assumption used for the most recent actuarial valuation of TMRS. Additionally, the mortality assumption was blended based with 90% male and 10% female mortality.

Mr. David Schuler  
October 19, 2012  
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- The contribution balance in the participant-directed private savings plan was assumed to accumulate with a 5.3% annual investment return, net of expenses. This return assumption is based on a recent study completed by the Teacher's Retirement System of Texas regarding actual investment returns realized in self-directed retirement programs.
- Annual annuities provided by the private savings plan will be based on annuitization of the account balance with a private insurance company, which entails a 5% discount rate, and a 10% load on mortality for margin, administration, commission, and profit.
- Annual annuities paid by Social Security were assumed to increase at 3% per year.
- The projected retirement benefits have been inflation-adjusted and are stated in terms of 2012 dollars.

If you have any questions about our analysis, please do not hesitate to call or write.

Sincerely,  
Gabriel, Roeder, Smith & Company



Joseph P. Newton, FSA, MAAA, EA  
Senior Consultant



R. Ryan Falls, FSA, MAAA, EA  
Senior Consultant

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