



Review of Retirement Benefits  
City of Huntsville, AL  
Emphasis on RSA Tier 1/2 Benefits

City Council Presentation  
Thursday, February 4, 2021



**HUNTSVILLE**  
The Star of Alabama

# Overview

## Active Employee Benefits

- Leave, Health Ins, Other

- Longevity Pay

- Example

## Retirement Benefits

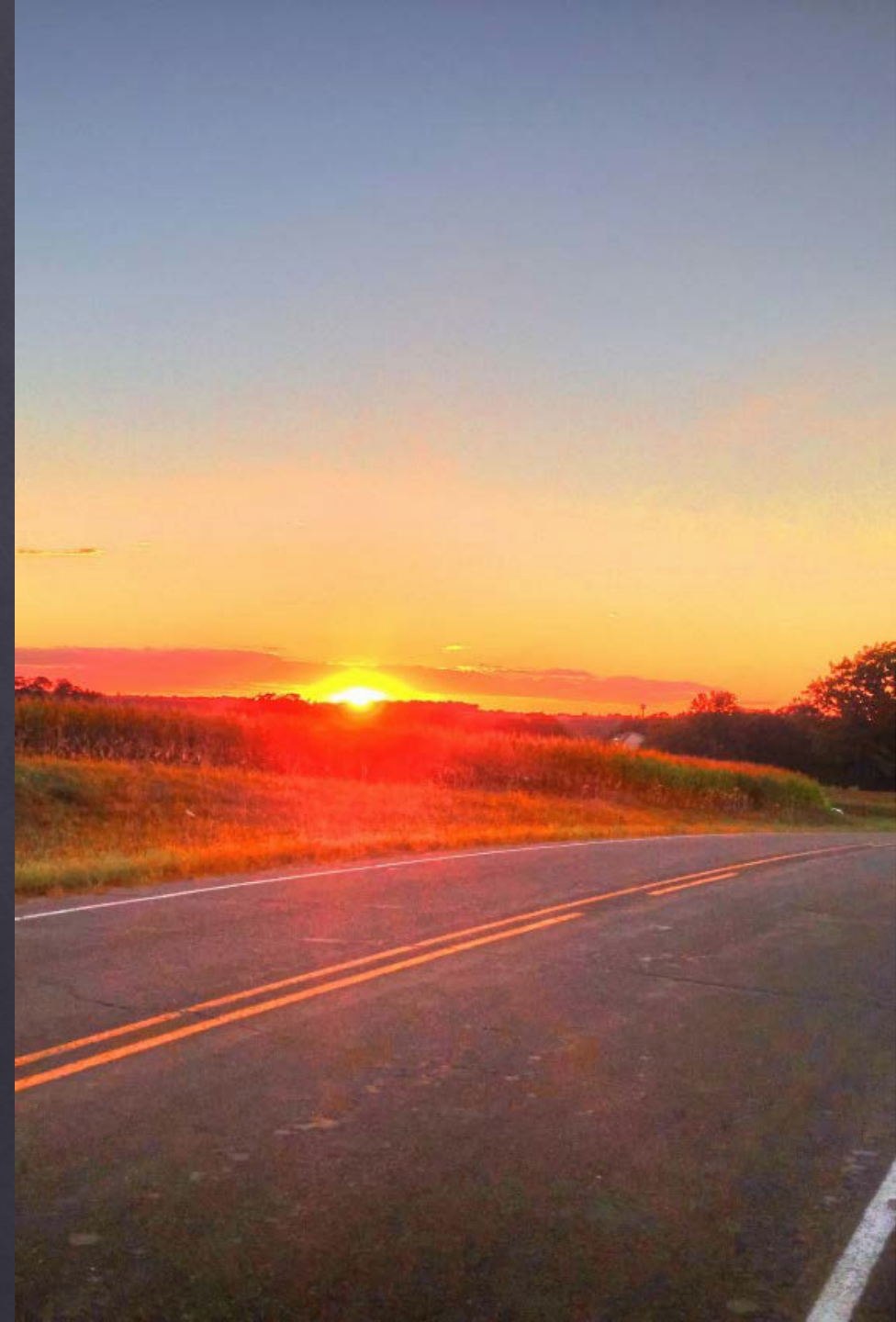
- Longevity Pay

- Health Insurance

- Leave Payout – Sick Leave

## Pension Benefits

- Tier 1 and 2



# Active Employee Benefits - Leave

## Active Employee Benefits

### Annual Leave

- ◇ Carryover Limit is 260 hours
- ◇ Earnings based on years of service:
  - ◇ Less than 10 Years = 4 hours per pay period
  - ◇ 10 – 15 Years = 5 hours per pay period
  - ◇ 15 – 20 Years = 6 hours per pay period
  - ◇ 20 years and up = 7 hours per pay period

### Sick Leave

- ◇ 4 hours earned each pay period – 104 hours earned per year
- ◇ No limit

# Active Employee Benefits - Insurance

## Active Employee Benefits

### Medical Insurance (Health/Mental):

- ◇ City pays 85% of the cost for active employee health insurance

Example:

- ◇ Employee only – Regular Non-Tobacco Emp - \$106.53/month COH \$437.01/month
- ◇ Family – Regular Non-Tobacco Emp \$237.03/month COH \$1,176.55/month

Dental and Vision Insurance: Lower Rates than marketplace

- ◇ Non-Subsidized

Life Insurance: City pays for \$20,000 Life/AD&D coverage for each employee

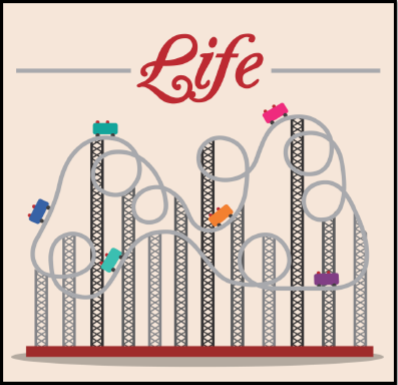
# Active Employee Benefits – Other

## Active Employee Benefits

- ◇ Cancer and Off – the – Job Accident Plans
- ◇ Supplemental Life Insurance / AD&D Coverage
- ◇ Flexible Spending Accounts: Medical and Dependent Care
- ◇ CAREHERE – Health and Wellness Center
- ◇ SmartDollar - Financial Wellness Program
- ◇ CollegeCounts 529 Savings Plan
- ◇ 457 Deferred Compensation Plans:
  - ◇ Nationwide and RSA -1

*2021 Benefit Enrollment Guide*

**Benefits For the Ups & Downs**



**Life**

One thing certain in life is that it has both ups and downs.

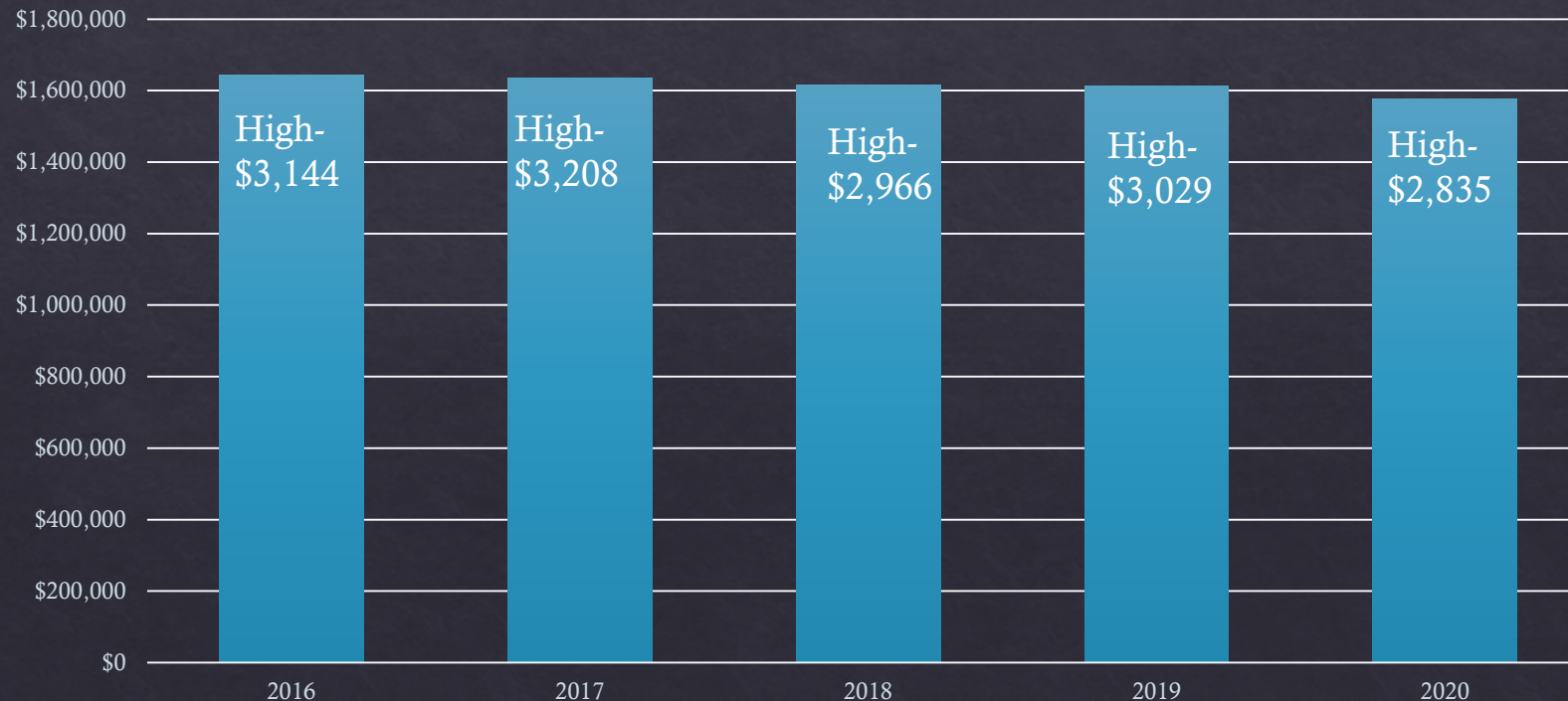
The City of Huntsville has prepared a comprehensive benefit package to help you with the ups and downs of life. We encourage you to educate yourself about the many benefit options so that you may choose the best coverage for you and your family.

**SMART**  
Benefits...

# Active Employee Benefits - Longevity Pay

- ◇ Longevity is paid to all active full-time employees that have been employed for at least a year.
- ◇ \$5.25 for each month of service.

**Total Longevity Payout by Fiscal Year**



<u># of Years</u>	<u>Payout</u>
1	\$ 63
5	315
10	630
20	1,260
30	1,890

# Example: Employee Total Compensation for FY20

Employee A is currently a Grade 12/Step 19

Employer Paid Benefit	City Cost for Employee A
Annual Salary for FY21	\$54,689.97
FICA	\$2,984.69
Medicare	\$698.04
Medical Insurance	\$14,929.38
Retirement	\$7,975.61
Group Life/AD&D	\$105.56
Longevity Paycheck	\$1,197.00
<b>Total Compensation</b>	<b>\$82,580.25</b>



# Continuing into Retirement Benefits

- ✓ Current Benefits
- ✓ Longevity Pay
- ✓ Example

## **Retirement**

Health Insurance

Leave Payout – Sick Leave

Pension Benefits

Tier 1 and 2

# Retiree Benefits - Insurance

## Medical Insurance: Can be kept until Medicare-Eligible

- ◇ City pays between 45% - 65% of the cost for retiree health insurance
- ◇ Retiree Only – Regular Non-Tobacco Retiree \$353.16/month COH \$266.89/month
- ◇ Access to Health and Wellness Center

## Dental and Vision Insurance: Can be kept indefinitely

- ◇ Non-Subsidized

## Retiree Life Insurance: Can be kept until the age of 65

- ◇ Non-Subsidized

Retiree  
Benefits

# Retiree Benefits - Leave Payouts

## ◆ Annual Leave

- ◆ Maximum payout of 260 hours (364 for fire suppression)

## ◆ Holiday Leave

- ◆ Maximum payout of 240 hours (336 for fire suppression)
- ◆ Total payout includes current year, prior year, and frozen holiday balances combined.

## ◆ Comp Time

- ◆ Maximum payout of 240 hours (336 for fire suppression)
- ◆ Maximum payout for exempt employees is 160 hours.
  - ◆ Total payout includes current year and prior year balances combined.

## ◆ Sick Leave

- ◆ 50% payout of final sick leave balance paid at hourly rate effective upon retirement

# Total City Annual Retiree Payout History

	Sick Pay (50%)	Annual	Comp Time	Def. Holiday	Frozen Holiday	Longevity	Total Payout
FY20	\$1,222,268	\$452,413	\$167,150	\$56,401	\$737	\$93,058	\$1,992,027
FY19	744,977	343,116	102,380	64,555	1,915	65,476	1,322,420
FY18	870,194	373,117	92,299	42,633	12,546	70,295	1,461,084
FY17	948,689	333,621	120,227	51,222	1,215	62,584	1,517,559
FY16	1,294,673	468,578	111,539	55,286	5,788	68,980	2,004,843
FY15	422,036	172,103	44,216	33,343	4,088	37,081	712,867

# Actual Retirement Breakdowns

Retiree	Service Time	Sick Pay (50%)	Annual	Comp Time	Def. Holiday	Longevity	Total Pay Out
Retiree 1	33 yrs. 9 mos.	\$ 55,209	9,195	1,798	1,486	529	\$ 68,216
Retiree 2	37 yrs. 4 mos.	\$ 36,534	10,389	26	699	592	\$ 48,241
Retiree 3	20 yrs. 3 mos.	\$ 13,515	7,641	1,434	235	319	\$ 23,145
Retiree 4	19 yrs. 11 mos.	\$ 11,867	4,021	-	354	314	\$ 16,556
Retiree 5	25 yrs. 11 mos.	\$ 4	24	-	-	408	\$ 436
Retiree 6	30 yrs. 5 mos.	\$ 4,104	341	-	-	476	\$ 4,922

# Retiree Leave Payouts - Sick Leave

Total Sick Leave Payout by Fiscal Year



# City of Huntsville Pension Plan

- ◆ The City of Huntsville participates in the Employees' Retirement System (ERS) through the Retirement Systems of Alabama (RSA).
- ◆ RSA is an entity created by the State of Alabama.
- ◆ ERS has a 13 member board: 4 are Ex Officio; 3 are Governor Appointees; 2 are elected retirees; and 4 are elected current employees.
- ◆ This is a defined benefit plan with a lifetime benefit for the member. If eligible, participation is mandatory.

# History of City Contributions

	COH Contributions	Employee Contributions	Total Contributions	% of COH Contributions to Total	COH Employees Enrolled in RSA	Average Annual City Contribution per Employee
FY 2020	\$ 16,425,721	\$ 6,915,043	\$ 23,340,764	70%	2443	\$ 6,723
FY 2019	16,175,028	6,641,609	22,816,637	71%	2362	6,848
FY 2018	14,711,371	6,387,154	21,098,525	70%	2296	6,407
FY 2017	14,454,647	6,087,380	20,542,027	70%	2258	6,402
FY 2016	14,319,746	5,886,795	20,206,541	71%	2207	6,488
FY 2015	15,526,233	6,147,328	21,673,561	72%	2243	6,922
FY 2014	14,523,200	5,770,405	20,293,605	72%	2209	6,575
FY 2013	12,571,573	5,384,402	17,955,975	70%	2118	5,936
FY 2012	11,893,656	5,148,491	17,042,147	70%	2109	5,639
FY 2011	12,943,172	5,142,539	18,085,711	72%	2098	6,169

# Comparison of Tier 1 vs 2

## Tier 1

- ◇ Retirement Eligibility:
  - ◇ Age 60 with 10yrs service
  - ◇ Or 25yrs service
- ◇ Employees contribute 5% of pay.
- ◇ Certified police and fire contribute 6% of pay.
- ◇ Benefit Factor: 2.0125%

## Tier 2

- ◇ Retirement Eligibility:
  - ◇ Age 62 with 10yrs service (Age 56 PS)
  - ◇ --
- ◇ Employees contribute 6% of pay.
- ◇ Certified police and fire contribute 7% of pay.
- ◇ Benefit Factor: 1.6500%

	Tier 1 Employees	Tier 2 Employees
<b>FY 2020</b>	<b>1563</b>	<b>880</b>
<b>FY 2019</b>	<b>1641</b>	<b>721</b>
<b>FY 2018</b>	<b>1727</b>	<b>569</b>
<b>FY 2017</b>	<b>1819</b>	<b>439</b>

# History of Huntsville Contribution Rates and Change (YoY)



	Tier 1			Tier 2	
	Rate	Change		Rate	Change
FY11	13.70%				
FY12	12.41%	-9.4%			
FY13	12.72%	2.5%	10.42%		
FY14	13.92%	9.4%	11.62%	11.5%	
FY15	14.01%	0.6%	11.71%	0.8%	
FY16	13.62%	-2.8%	11.77%	0.5%	
FY17	13.53%	-0.7%	11.05%	-6.1%	
FY18	13.38%	-1.1%	10.75%	-2.7%	
FY19	14.40%	7.6%	11.54%	7.3%	
FY20	14.33%	-0.5%	11.45%	-0.8%	

The Contribution rate calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 7.70%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries

Year	Tier 1			Tier 2			Total
	# Emp	#Δ	%Δ	# Emp	#Δ	%Δ	# Emp
2017	1,819			439			2,258
2018	1,727	(92)	-5.1%	569	130	29.6%	2,296
2019	1,641	(86)	-5.0%	721	152	26.7%	2,362
2020	1,563	(78)	-4.8%	880	159	22.1%	2,443

# Act 2019-132

This act allows local government employers that participate in the RSA to provide Tier 1 benefits to Tier 2 members.

	<b>Employer Plan to Increase Tier I Member Contribution Rates</b> Employees' Retirement System of Alabama PO Box 302150, Montgomery, Alabama 36130-2150 877.517.0020 • 334.517.7000 • www.rsa-al.gov	
<b>Employer Information</b>	Name of Agency _____ <small>Full name, no initials please</small>	
	Unit Code _____	
<b>Plan Information</b>	As required by that Act 2019-132, employer submits the following plan to the Employees' Retirement System (ERS) to increase the member contribution rates for its Tier I plan members from 5% to 7.5% of earnable compensation, and for Tier I plan members who are firefighters or law enforcement officers, as defined by Ala. Code § 36-27-59(a), from 6% to 8.5% of earnable compensation.	
<small>If employer has not increased Tier I member contribution rates as provided by Act 2011-676 and has passed a resolution to elect to provide Tier I retirement benefits to Tier II plan members as provided by Act 2019-132, employer must complete the following section.</small>	<b>Plan Options</b>	
	Employer shall increase the rates as set forth above if and when (Check One):	
	<input type="checkbox"/> Employer's funding level drops below _____%.	
	<input type="checkbox"/> Employer's contribution rate increases above _____%.	
	<input type="checkbox"/> Employer is unable to make its required employer contribution.	
	<input type="checkbox"/> On _____ (insert date).	
	<input type="checkbox"/> Other (insert other circumstances): _____	

- ◆ To adopt this Act, the following must be completed:
  - ◆ Tier 2 employee contribution rate must increase from 6% to 7.5% (7% to 8.5% for certified police and fire)
  - ◆ City of Huntsville has the option to change Tier 1 contribution rates from 5% to 7.5% (6% to 8.5% for certified police and fire)
  - ◆ A resolution must be passed by the City of Huntsville, which sets forth a plan of when Tier 1 rates increase to match Tier 2.
    - ◆ Note – Eventually Tier 1 employees will graduate from the system.
  - ◆ City of Huntsville's contribution rate will change based on the actuarial study.

# Tier 2 Employee Comparison

## ◇ Employee A: Grade 17/ Step 13

Before Act 2019-132	After Act 2019 -132
<b>Annual Salary:</b> \$72,820.80	<b>Annual Salary:</b> \$72,820.80
<b>Gross Bi-Weekly Rate:</b> \$2,800.80	<b>Gross Bi-Weekly Rate:</b> \$2,800.80
<b>Taxes and Deductions:</b> \$769.58	<b>Taxes and Deductions:</b> \$769.58
<b>RSA at 6%:</b> \$168.05	<b>RSA at 7.5%:</b> \$210.06
<b>Net Pay:</b> \$1,862.37	<b>Net Pay:</b> \$1,821.16

Difference in Net Pay: \$41.21

## ◇ Employee B: Grade 10/ Step 5

Before Act 2019-132	After Act 2019 -132
<b>Annual Salary:</b> \$34,923.20	<b>Annual Salary:</b> \$34,923.20
<b>Gross Bi-Weekly Rate:</b> \$1,343.20	<b>Gross Bi-Weekly Rate:</b> \$1,343.20
<b>Taxes and Deductions:</b> \$376.31	<b>Taxes and Deductions:</b> \$376.31
<b>RSA at 6%:</b> \$80.59	<b>RSA at 7.5%:</b> \$100.74
<b>Net Pay:</b> \$886.30	<b>Net Pay:</b> \$866.15

Difference in Net Pay: \$20.15

# Benefit Calculations - Current

Example: Average Final Salary \$51,902 and Service Credit of 25yrs

	<u>Tier 1</u>	<u>Tier 2</u>
Avg Final Salary	\$ 51,902.00	\$ 51,902.00
Multiply by Service Credit	25	25
Multiply by Benefit Factor	0.020125	0.0165
<i>Annual benefit</i>	\$ 26,113.19	\$ 21,409.58
Divided by 12 Months	12	12
Monthly Benefit	<u>\$ 2,176.10</u>	<u>\$ 1,784.13</u>
Difference	\$ 391.97	

The Tier 2 employee will take home \$391.97 less per month than the Tier 1 employee with the same final salary and service time.

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If Act 19-132 was adopted and assuming the employee listed above was Grade 10 with 17 years left before retirement eligibility, then the additional salary invested into the retirement system (at 1.5%) would equal: \$11,805  
Then the retired time to receive additional invested salary is 2.5 years.

# Benefit Calculations - Examples

Example: Average Final Salary  
\$39,852 and Service Credit of 23yrs

	Tier 1	Tier 2
Avg Final Salary	\$ 39,852.00	\$ 39,852.00
Multiply by Service Credit	23	23
Multiply by Benefit Factor	0.020125	0.0165
<i>Annual benefit</i>	\$ 18,446.49	\$ 15,123.83
Divided by 12 Months	12	12
Monthly Benefit	\$ 1,537.21	\$ 1,260.32
Difference	\$ 276.89	

If Act 19-132 was adopted and assuming the employee listed above was Grade 6 with 14 years left before retirement eligibility, then the additional salary invested into the retirement system (at 1.5%) would equal: \$7,632

Then the retired time to receive additional invested salary is 2.3 years.

Example: Average Final Salary  
\$67,080 and Service Credit of 15yrs

	Tier 1	Tier 2
Avg Final Salary	\$ 67,080.00	\$ 67,080.00
Multiply by Service Credit	15	15
Multiply by Benefit Factor	0.020125	0.0165
<i>Annual benefit</i>	\$ 20,249.78	\$ 16,602.30
Divided by 12 Months	12	12
Monthly Benefit	\$ 1,687.48	\$ 1,383.53
Difference	\$ 303.96	

If Act 19-132 was adopted and assuming the employee listed above was Grade 14 with 14 years left before retirement eligibility, then the additional salary invested into the retirement system (at 1.5%) would equal: \$12,849

Then the retired time to receive additional invested salary is 3.5 years.

# Actuarial Results for a FY22 Enactment

- ◆ For the City of Huntsville to adopt Act 2019-132, the RSA estimates the increase to be **\$733,106 for the first year**.
  - ◆ \$342,646 of this increase is for the first year's unfunded actuarial accrued liability (UAAL) that is amortized over a closed 15-year period as a percentage of total payroll. This increase is due to the years of service of the Tier 2 members as of September 30, 2019 that will be converted to Tier 1 service.
  - ◆ \$390,460 of the increase is for the estimated impact on the normal cost rate that would be required to fund the ongoing cost of the additional benefits that will be accruing with the new benefit cost structure.

# Other Entities

## Huntsville Utilities

- ◆ 30 year service retirement
- ◆ Leave payouts – Annual, Comp Time (prorated), Sick Leave at 25% with 30 years of service with HU (no payout option for sick leave if the employee has less than 30 years of service with HU).
- ◆ Company paid employee health insurance with 20 years of creditable service with HU.
- ◆ Retirement recognition award (\$10 per year of service)
- ◆ Elected Act 2019 – 132 effective 10/1/20.

## City of Madison

- ◆ Leave Payouts – Annual and Comp Time
- ◆ No Sick Leave Payout – Employees can convert unused sick leave into retirement service credit with RSA
- ◆ Health insurance (until Medicare eligible), life insurance, and Firefighter cancer insurance can be continued for eligible employees at retirement.
- ◆ Health insurance is subsidized by the City for retirees with 25 years of service at age 60 at 50% of the premium for individual coverage.

# Other Entities Cont.

## City of Decatur

- ◆ Leave Payouts – Annual Leave
- ◆ Sick Leave – Can choose to convert unused sick leave toward retirement service time OR be paid for ½ up to 600 hours.
- ◆ Original T1 retirees are eligible to retain health at employee cost share.
- ◆ Dental and vision coverage can be retained until Medicare eligible.
- ◆ Elected Act 2019 – 132.

## Madison County

- ◆ Leave Payouts – Annual Leave
- ◆ Sick Leave – No payout but can convert with RSA into service time
- ◆ Retiree health insurance can be maintained after the age of 65 by being switched to United Health Care when Medicare eligible.
- ◆ No surviving spouse benefit for retiree health insurance.
- ◆ \$10,000 life insurance policy until age 65.



# Questions?

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City of Huntsville, Alabama