10/11/06 HANDOUT
FILE

Southeast Metro Stormwater Authority

Retirement Plan Summary

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Background Information -
Arapahoe County's Existing Retirement Plan

Retirement timing options

- Normal Retirement – First of the month after turning age 65 with full benefits based on years of credited service and final average monthly compensation at retirement
- Special Early Retirement – As early as age 55 with full benefit provided your age and years of credited service total 75 (Rule of 75)

Eligibility to participate

- Full-time – working 40 hours per week and 12 months per year
- Not eligible if: part-time, leased, or contract employee

Other plan features

- Contribution from employee of 6% of compensation is required as a cost sharing of benefits. Employee contributions are before tax and credited with a 4% interest rate of return.

- Retirement Benefit at Age 65 or later is payable for lifetime with 120 payments guaranteed. Formula to determine benefits uses credited years of service and final average monthly compensation (FAMC). FAMC is averaged over the 36 highest paid consecutive calendar months in the last 120 completed calendar months of employment.

- Formula: Monthly Benefit = FAMC x 2.3% x Credited Service

Two Types of Pension Plans Considered

Defined Benefit

- Benefit at retirement is based on a formula that includes salary and a percent multiplier times years of service
- Employer bears risk of investments
- Administratively more complex
- Costs to employer can fluctuate from year to year based on investment performance, long term liability unknown
- New federal regulations with stricter funding requirements

Defined Contribution

- Benefit at retirement based on account balance and earnings
- Employee bears risk of investments
- Costs to employer are more predictable year to year
- Employees can monitor and manage account balance

Objectives in creating the Southeast Metro Stormwater Authority Plan

- The goal of the new plan is to match the benefit level at retirement that the County employees would have received had they remained County employees
- To accomplish this goal, we will combine benefits earned under the County's plan with future contributions to the new plan
- Use age 65 as target for comparison
- Consider recognizing Arapahoe County years of service towards vesting and benefit calculations under SEMSWA plan. This prevents the employees from having to "start over" on the vesting schedule.
- Allow flexibility of investment choices for plan participants
- Employees can realize investment gains, bear investment losses
- Consider County's vesting schedule, but simplify and improve upon as needed

Goal can be achieved by using two Defined Contribution plans working together

401(a)

- Two options to approximate current benefit level:
  - Calculate based on age and pay
  - Calculate based on service and pay
- Only the Authority will contribute to this plan, for employees' benefit

19-20% ($/30K/yr.)

457

- Assume only employees contribute to this account
- Mandatory 6% employee contribution
- By having both the 401(a) and the 457 plans, the employees have the ability to contribute a greater amount of money, if they desire

Other Considerations

- Financial education can be provided to employees
- Variety of investment options will be developed and offered
- Vendor selection for recordkeeping, plan administration, and investments is underway

Next Steps

- Employee meetings to describe plans and get input
- Develop final recommendation for Board approval
- Finalize vendor selection
- Set up and enroll employees in the plan