City of New Orleans Employees' Retirement System

Member Relations
Committee Meeting
December 5, 2014

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December 2, 2014

To: Member Relations Committee

From: Michael A. Conefry, Actuary

Re: City of New Orleans Employees' Retirement System
Actuarial Analysis of Proposed Plan Changes as Requested by Councilmember Stacy S. Head In Letter Dated May 22, 2014 - Addendum

This memorandum supplements my memorandum dated August 28, 2014 on the same subject.

Point 5:

The plan currently does not integrate with social security. As part of the review, please provide an analysis of the impact of instituting integration with social security benefits, as follows:

Assume that the plan's benefit will be offset by 50% of each member's primary social security benefit beginning at the earliest time at which a member may:

- ***Begin to receive reduced Social Security benefits; or,***
- ***Begin to receive unreduced Social Security benefits***

Assume that integration* will be effective *as follows:

- ***Only for members with less than five years of service;***
- ***Only for members with less than ten years of service;***
- ***Only for members with less than 15 years of service.***

Response 5:

- ***Begin to receive reduced Social Security benefits; or,***
- ***Begin to receive unreduced Social Security benefits***

Since the reduced Social Security benefits commencing at an age earlier than the Social Security Retirement Age (SSRA) are actuarially reduced, the impact on funding would be substantially the same for both situations.

The following assumptions were used in the actuarial cost estimates:

The current annual salary of each participant was assumed to be the Average Indexed Monthly Earnings (AIME) as of the valuation date for Social Security benefit calculation purposes.

The Social Security Primary Insurance Amount (PIA) at time of retirement was assumed to increase at the same rate as the projected final average earnings from the valuation date to assumed actual retirement.

The Social Security offset was assumed to be 50% of the PIA, multiplied by a fraction, the numerator of which is the number of years of service with the City of New Orleans at time of assumed retirement and the denominator of which is 35, the maximum number of years of earnings on which the PIA is based. The offset calculated in this fashion was assumed to reduce the otherwise determined retirement benefit commencing at the full Social Security Retirement Age (SSRA), which is age 67 for all members born in 1960 or later, and between 65 and 67 for older members.

Results of Cost Estimates:

- **Only for members with less than five years of service:**

This would decrease the total annual funding contribution from 28.578% to 27.887%: 0.691% of payroll , or $639,235, at the January 1, 2014 level. The funded ratio would increase by 0.1% points from 73.6% to 73.7%

- **Only for members with less than ten years of service:**

This would decrease the total annual funding contribution from 28.578% to 27.239%: 1.243% of payroll , or $1,237,766, at the January 1, 2014 level. The funded ratio would increase by 0.2% points from 73.6% to 73.8%

- **Only for members with less than fifteen years of service:**

This would decrease the total annual funding contribution from 28.578% to 26.859%: 1.719% of payroll , or $1,588,908, at the January 1, 2014 level. The funded ratio would increase by 0.3% points from 73.6% to 73.9%

- **For all members as an illustration of ultimate funding results:**

This would decrease the total annual funding contribution from 28.578% to 25.237%: 3.341% of payroll , or $3,088,473, at the January 1, 2014 level. The funded ratio would increase by 1.3% points from 73.6% to 74.9%

Comments on "Integration" of the Plan Benefits With Social Security Benefits

Social Security "Integration" (now called "Disparity") has traditionally been very common in private sector defined benefit plans (of course, private sector defined benefit plans themselves are less common than 20 years ago, but many of the large private ERISA defined benefit plans still exist and are almost universally integrated with Social Security). The main reason historical reason public sector plans have not typically been integrated with Social Security is that the members in most public sector plans have not been covered by Social Security.

Non-participation in Social Security remains true on an optional "grandfathered" basis for many public plans, including most of the larger public plans in Louisiana. The City of New Orleans employees are, of course, covered by Social Security and consideration of "integration" would therefore not be an inappropriate alternative.

The underlying benefit design rationale for such integration is that the employer typically pays for approximately 50% of the Social Security benefits for an employee over his career. To reflect this, integration carves out either a portion of the compensation used in the plan's benefit formula (reflecting the portion covered by Social Security) and provides a lower benefit multiple to that compensation, or uses an offset of a percentage of the Social Security primary benefit to the gross benefit produced by the plan formula.

A change to Social Security Integration would constitute a radical change in the benefit structure of the City of New Orleans Retirement System. Such a change would therefore almost certainly have to be made on a gradual basis, possibly only with respect to future hires, because of legal and Louisiana constitutional issues.

Because of the "inversely graduated" Social Security benefit formula (lower average compensation generates a higher percentage of that compensation as the primary benefit), the lower paid members would have their benefits reduced by a greater percentage amount than the higher paid members in the plan. In converse fashion, of course, these lower paid members are the members most likely to have resulting total retirement income from NOMERS and Social Security combined well in excess of 100% of salary at time of retirement.

The "inverse graduation" of the Social Security benefit structure results in a primary benefit of approximately the following amounts: 56% of salary at $20,000 annually; decreasing to about 40% to 45% at $40,000 to $60,000 annually, and decreasing to about 27% at the maximum wage level covered by Social Security ($117,000 in 2014). ***Refer to the attached Exhibit I for a more explicit description of the percentage (referred to as a "replacement ratio") of average earnings at retirement represented by the Primary Insurance Amount (PIA).*** The PIA is the monthly benefit payable on behalf of the covered employee's wage history and does not include spouse or family benefit amounts. The distribution of annual salary levels of NOMERS active members in recent years is about 10% at $20,000, 50% between $20,000 and $40,000, 25% between $40,000 and $60,000, and 15% above $60,000.

Benefit Illustrations

Refer to the attached Exhibit II for some individual examples of the effect of the Social Security Offset.

EXHIBIT I

Social Security Benefit Illustrations
Calendar Year 2014

Annual Salary	Current Social Security Wage Base	Annual Salary as Percent of SS Wage Base	Monthly Social Security Primary Insurance Amount (PIA)	Replacement Ratio
21,000	117,000	17.95%	985	56.30%
23,000	117,000	19.66%	1,036	54.05%
25,000	117,000	21.37%	1,087	52.17%
27,000	117,000	23.08%	1,138	50.57%
29,000	117,000	24.79%	1,189	49.18%
31,000	117,000	26.50%	1,239	47.98%
33,000	117,000	28.21%	1,290	46.92%
35,000	117,000	29.91%	1,341	45.98%
37,000	117,000	31.62%	1,392	45.15%
39,000	117,000	33.33%	1,443	44.39%
41,000	117,000	35.04%	1,494	43.72%
43,000	117,000	36.75%	1,545	43.10%
45,000	117,000	38.46%	1,595	42.54%
47,000	117,000	40.17%	1,646	42.03%
49,000	117,000	41.88%	1,697	41.56%
51,000	117,000	43.59%	1,748	41.13%
53,000	117,000	45.30%	1,799	40.73%
55,000	117,000	47.01%	1,850	40.36%
57,000	117,000	48.72%	1,900	40.01%
59,000	117,000	50.43%	1,951	39.69%
61,000	117,000	52.14%	1,975	38.86%
63,000	117,000	53.85%	1,999	38.08%
65,000	117,000	55.56%	2,023	37.35%
67,000	117,000	57.26%	2,047	36.66%
69,000	117,000	58.97%	2,071	36.01%
71,000	117,000	60.68%	2,094	35.40%
73,000	117,000	62.39%	2,118	34.82%
75,000	117,000	64.10%	2,142	34.27%
77,000	117,000	65.81%	2,166	33.75%
79,000	117,000	67.52%	2,190	33.26%
81,000	117,000	69.23%	2,214	32.79%
83,000	117,000	70.94%	2,237	32.35%
85,000	117,000	72.65%	2,261	31.92%
87,000	117,000	74.36%	2,285	31.52%
89,000	117,000	76.07%	2,309	31.13%
91,000	117,000	77.78%	2,333	30.76%
93,000	117,000	79.49%	2,357	30.41%
95,000	117,000	81.20%	2,380	30.07%
97,000	117,000	82.91%	2,404	29.74%
99,000	117,000	84.62%	2,428	29.43%
101,000	117,000	86.32%	2,452	29.13%
103,000	117,000	88.03%	2,476	28.84%
105,000	117,000	89.74%	2,500	28.57%
107,000	117,000	91.45%	2,523	28.30%
109,000	117,000	93.16%	2,547	28.04%
111,000	117,000	94.87%	2,571	27.80%
113,000	117,000	96.58%	2,595	27.56%
115,000	117,000	98.29%	2,619	27.33%
117,000	117,000	100.00%	2,643	27.10%

SSPIA14.R1

Social Security Offset Plan Benefit Illustrations
Calendar Year 2014

Annual Salary (1)	Current Social Security Wage Base (2)	SSRA (3)	Actual Retirement Age (4)	Years of Service at Retirement (5)	Gross NOMERS Annual Benefit (6)	Social Security Primary Insurance Amount (PIA) Total Amount (7)	NOMERS Career Portion (8)=(7)x(5)/35	Offset at SSRA (9)=(8)x50%	Annual Net Benefit Commencing at SSRA (10)=(6)-(9)
20,000	117,000	67	55	34.45	20,000	11,517	11,336	5,668	14,332
20,000	117,000	67	55	30.00	16,500	11,517	9,872	4,936	11,564
20,000	117,000	67	55	25.00	12,500	11,517	8,226	4,113	8,387
20,000	117,000	67	60	20.00	10,000	11,517	6,581	3,291	6,709
20,000	117,000	67	60	10.00	5,000	11,517	3,291	1,645	3,355
20,000	117,000	67	67	20.00	10,000	11,517	6,581	3,291	6,709
20,000	117,000	67	67	10.00	5,000	11,517	3,291	1,645	3,355
40,000	117,000	67	55	34.45	40,000	17,619	17,342	8,671	31,329
40,000	117,000	67	55	30.00	33,000	17,619	15,102	7,551	25,449
40,000	117,000	67	55	25.00	25,000	17,619	12,585	6,292	18,708
40,000	117,000	67	60	20.00	20,000	17,619	10,068	5,034	14,966
40,000	117,000	67	60	10.00	10,000	17,619	5,034	2,517	7,483
40,000	117,000	67	67	20.00	20,000	17,619	10,068	5,034	14,966
40,000	117,000	67	67	10.00	10,000	17,619	5,034	2,517	7,483
117,000	117,000	67	55	34.45	117,000	31,712	31,214	15,607	101,393
117,000	117,000	67	55	30.00	96,525	31,712	27,182	13,591	82,934
117,000	117,000	67	55	25.00	73,125	31,712	22,651	11,326	61,799
117,000	117,000	67	60	20.00	58,500	31,712	18,121	9,061	49,439
117,000	117,000	67	60	10.00	29,250	31,712	9,061	4,530	24,720
117,000	117,000	67	67	20.00	58,500	31,712	18,121	9,061	49,439
117,000	117,000	67	67	10.00	29,250	31,712	9,061	4,530	24,720

EXHIBIT II-1

SSSAMP.R1

Social Security Offset Plan Benefit Illustrations
Calendar Year 2014

Annual Salary (1)	Gross NOMERS Annual Benefit (6)	Social Security Primary Insurance Amount (PIA)			Annual Net Benefit Commencing at SSRA (10)=(6)-(9)	Total Benefits and Replacement Ratios at SSRA	
		Total Amount (7)	NOMERS Career Portion (8)=(7)x(5)/35	Offset at SSRA (9)=(8)x50%		Current NOMERS Plan (11)=(6)+(8)	Plan With Social Security Offset (12)=(10)+(8)
20,000	20,000	11,517	11,336	5,668	14,332	31,336 (156.68%)	25,668 (128.34%)
20,000	16,500	11,517	9,872	4,936	11,564	26,372 (131.86%)	21,436 (107.18%)
20,000	12,500	11,517	8,226	4,113	8,387	20,726 (103.63%)	16,613 (83.06%)
20,000	10,000	11,517	6,581	3,291	6,709	16,581 (82.90%)	13,290 (66.45%)
20,000	5,000	11,517	3,291	1,645	3,355	8,291 (41.46%)	6,646 (33.23%)
20,000	10,000	11,517	6,581	3,291	6,709	16,581 (82.90%)	13,290 (66.45%)
20,000	5,000	11,517	3,291	1,645	3,355	8,291 (41.46%)	6,646 (33.23%)
40,000	40,000	17,619	17,342	8,671	31,329	57,342 (143.36%)	48,671 (121.68%)
40,000	33,000	17,619	15,102	7,551	25,449	48,102 (120.26%)	40,551 (101.38%)
40,000	25,000	17,619	12,585	6,292	18,708	37,585 (93.96%)	31,293 (78.23%)
40,000	20,000	17,619	10,068	5,034	14,966	30,068 (75.17%)	25,034 (62.58%)
40,000	10,000	17,619	5,034	2,517	7,483	15,034 (37.58%)	12,517 (31.29%)
40,000	20,000	17,619	10,068	5,034	14,966	30,068 (75.17%)	25,034 (62.58%)
40,000	10,000	17,619	5,034	2,517	7,483	15,034 (37.58%)	12,517 (31.29%)
117,000	117,000	31,712	31,214	15,607	101,393	148,214 (126.68%)	132,607 (113.34%)
117,000	96,525	31,712	27,182	13,591	82,934	123,707 (105.73%)	110,116 (94.12%)
117,000	73,125	31,712	22,651	11,326	61,799	95,776 (81.86%)	84,450 (72.18%)
117,000	58,500	31,712	18,121	9,061	49,439	76,621 (65.49%)	67,560 (57.74%)
117,000	29,250	31,712	9,061	4,530	24,720	38,311 (32.74%)	33,781 (28.87%)
117,000	58,500	31,712	18,121	9,061	49,439	76,621 (65.49%)	67,560 (57.74%)
117,000	29,250	31,712	9,061	4,530	24,720	38,311 (32.74%)	33,781 (28.87%)

EXHIBIT II-2