



CITY OF MEMPHIS RETIREMENT SYSTEM  
2016 CASH BALANCE PLAN AND 2016 DEFINED CONTRIBUTION PLAN  
SUMMARY PLAN DESCRIPTION  
GENERAL EMPLOYEES

## **Introduction**

The 2016 Cash Balance and Defined Contribution Plan (Hybrid Plan) as defined in the City Ordinance 5573, Chapter 25, sec. 25-210 to 25-274, is a tax-deferred Cash Balance/Defined Contribution retirement plan qualified under Internal Revenue Code Section 401(a). The Plan is established to provide retirement benefits for eligible employees and their beneficiaries. The purpose of this Summary Plan Description (SPD) is to provide General Employees with an informal guide to the key provisions of the Hybrid Plan. Every effort has been made to summarize the Hybrid Plan. However, in the event of a conflict between this Summary Plan Description and Ordinance 5573, the ordinance, as amended from time to time, will govern.

**This Summary Plan Description is for use by General Employees only.**

While the City of Memphis Government (the “City”) expects to continue the Hybrid Plan, it is the City’s position that there is no implied contract between employees and the City to do so. Pursuant to Tenn. Code Ann 9-3-506, as amended from time to time, the City reserves the right to freeze, suspend or modify benefits, employee contributions, plan terms, and design. However, any benefits earned prior to any adjustment shall remain an enforceable right unless the benefits may be forfeited upon termination of service.

The Hybrid Plan is administered, along with the other City Retirement Plans, by the City of Memphis retirement system organization. To find out information about your benefits, please visit our web site at [www.benefitsmemphis.com](http://www.benefitsmemphis.com) or [www.memphistn.gov](http://www.memphistn.gov)

## **WHO PARTICIPATES IN THE HYBRID PLAN?**

### **Eligibility**

You are eligible to participate in the 2016 plan if you are a regular full-time employee who:

- was hired on or after July 1, 2016 or
- is a Transferred Participant

If you are an eligible full-time employee who was hired on or after July 1, 2016, or you are a Transferred Participant, you are required to participate in the 2016 Hybrid Plan. You cannot participate in the 1948 or 1978 defined benefit plans, nor can you change plans.

A Transferred Participant is a general employee participant who was actively employed as of June 30, 2016 but who had at that time less than seven and one-half (7.5) years of service with the City and who was a participant in City of Memphis Retirement System.

Certain employees are not eligible to participate in the 2016 Plan. These include employees of the light, gas and water division of the City and temporary and part time employees mandated by law to contribute to the federal Social Security system and not eligible to be a participant based on job classification.

## **Former Participants who are Reemployed**

A Reemployed Participant is any former participant under this 2016 Plan or the 1978 plan, as amended in 2012, or the 1948 plan, who is reemployed as an employee. If you are a Reemployed Participant you will enter the 2016 Plan as of your reemployment commencement date.

There is a “grandfather rule” applicable if you are an employee whose reemployment start date occurred on or after July 1, 2016, and if you terminated your employment as a member in the City retirement system under the 1948 or 1978 plan. To be covered by the grandfather rule, you must have properly elected a deferred pension or actually retired as a participant under the 1948 or 1978 plan. If you qualify for coverage under the grandfather rule, you will continue to be a member in of the 1948 plan or 1978 plan, whichever is applicable to you, as of your reemployment start date, and you will not be a participant in the 2016 Plan.

## **WHAT IS THE HYBRID PLAN?**

The Hybrid Plan is a tax-deferred retirement plan funded with both employee contributions and employer contributions. The Hybrid Plan has two component parts, the Cash Balance Plan and the Defined Contribution Plan. Your benefit under the Hybrid Plan at retirement will be based on the value of your account in the Cash Balance Plan and the Defined Contribution Plan.

### **Cash Balance Plan Contributions and Allocations**

Effective July 1, 2016, each Plan participant who is a general employee is required to make a contribution to the Cash Balance portion of the Plan equal to two percent (2%) of compensation. You must make this contribution so long as you are employed by the City. Contributions will be made by payroll deductions. The Plan provides the employee contributions will be made on a pre-tax basis. You will make a Cash Balance Plan contribution in addition to any Defined Contribution Plan contribution you make under the Hybrid Plan.

Compensation for purposes of the Hybrid Plan is pay received for services, including shift differential pay, hazardous duty pay, longevity pay and incentive pay, but excluding overtime pay or any double-time compensation for holidays.

As of the end of each Plan Year, the City will make a contribution to the Cash Balance accounts of each general employee participant as follows. If you change employment classifications during a plan year (*e.g* from general employee to commissioner officer or from commissioned officer to general employee), for purposes of determining the City contribution your employment classification is the classification you have as of the end of the Plan Year:

**Cash Balance General Employees  
Years of Service.....City of Memphis Contributions**

Completed Years of Service	City Cash Balance Plan allocation General Employees
Less than 5 years	3% of compensation
5 years but less than 10	5% of compensation
10 years but less than 15	7% of compensation
15 years but less than 20	10% of compensation
20 or more	13% of compensation

In addition to City contributions, the Cash Balance Plan account of each 2016 Plan participant will receive an interest credit based on the Plan's return on assets for the plan year less one percent (1%). For periods of less than twelve (12) months, the interest-crediting rate will be based on earnings during a partial year period (as provided in the ordinance) less one percent (1%). Each participant's interest credit shall be allocated to their Cash Balance Plan Account as of the last day of each plan year.

The following example is for General Employees and illustrates how interest is credited to the participant's account as of the end of a Plan Year *assuming a 4% hypothetical* interest rate.

Year	Yearly Salary	Employee Required Contribution (ERC)	Annual Investment Earnings 4% (AIE)	Employee Account Balance (EEAB)	City's Required Contribution (CRC)	Annual Investment Earnings 4%	City's Account Balance (CEAB)	Total Ending Account Balance
1	\$50,000	\$1,000	\$20	\$1,020	\$1,500	\$30	\$1,530	\$2,550
2	\$50,000	\$1,000	\$61	\$2,081	\$1,500	\$91	\$3,121	\$5,202
3	\$50,000	\$1,000	\$103	\$3,184	\$1,500	\$155	\$4,776	\$7,960

**Benefit formula**

**Employee Required Contributions (ERC)** = Employee Salary x Employee Contribution (2%)

**Annual investment earnings (AIE)** =  
(Beginning Account Balance (AB) x 4%) + (Employee Required Contribution (ERC) x 4% ÷ 2)

**Employee Ending Account Balance (EEAB)** =  
Beginning Account Balance (AB) + Employee Contribution (ERC) + Investment Earnings (AIE)

**City Required Contribution (CRC)** =  
Employee Salary x Cash Balance Plan Allocations

**City's Annual investment earnings (CIE)** =  
(Beginning account balance x 4%) + (City contribution x 4% ÷ 2)

**City's Ending Account balance** =  
Beginning account balance + City contribution (CRC) + Annual investment earnings (CIE)

**Total ending Account Balance** =  
**Employee Ending Account Balance (EEAB) + City's Ending Account balance (CEAB)**

The account balance continues to grow like this each year you continue working and paying into the Cash Balance Plan.

Your Cash Balance Plan account is invested as a part of the trust fund holding the 1948 and 1978 retirement benefits for the City. Once the City pays contributions to the trust fund, the City no longer has rights to the money transferred. The trustee is obligated under law to maintain the Hybrid Plan assets exclusively for the benefit of participants and beneficiaries.

The Cash Balance Plan is designed to preserve the principal of amounts contributed to it. If you take normal retirement or deferred retirement, or die in the line of duty (or otherwise without having elected deferred retirement), the value of your Cash Balance Plan account at the date your monthly retirement benefit begins will not be less than the sum of your accumulated participant Cash Balance Plan contributions. If you terminate employment for any reason other than death, and you are not otherwise entitled to receive your normal retirement benefit or a deferred retirement benefit, then your Cash Balance Plan account will not be less than your accumulated participant Cash Balance Plan contributions.

### **Defined Contribution Plan Contributions and Allocations**

Each 2016 Plan participant who is a general employee is required to make a contribution to the Defined Contribution Plan portion of the retirement plan equal to six percent (6%) of his/her compensation. If you are a general employee, you must make this contribution as long as you are employed by the City. This contribution will be made by payroll deduction. The Defined Contribution Plan provides that the contributions will be made on a pre-tax basis. This Defined Contribution Plan contribution is made in addition to any Cash Balance Plan contribution which you may be required to make to the Plan.

The City will make a contribution to the Defined Contribution Plan on behalf of each general employee member of the Hybrid Plan. The contribution is 1.5% of your compensation. If you change employment classifications during a plan year (*e.g* from general employee to commissioner officer or from commissioned officer to general employee, for purposes of determining the City

contribution your employment classification is the classification you have as of the end of the Plan Year

An account will be set up for you which will receive all of your Defined Contribution amounts under the Plan, including both your employee contributions and the City contributions on your behalf. You will be able to invest this account by choosing among different investment choices that the Pension Board will make available.

Please note that if you fail to direct your investment among the various funds available, all contributions you make and those made by the City on your behalf will be invested in a default fund. The default fund is currently a target date investment fund based on your date of birth and a projected retirement date of age 65. You will always have the ability to change the investment of your account in accordance with procedures established by the Pension Board. You will receive these procedures from the Human Resources Department. Your participant directed account will be charged or credited with the net earnings, gains, losses and expenses as well as any appreciation or depreciation in market value based on your investment elections.

### **WHEN AND HOW ARE MY BENEFITS PAID?**

#### **Normal Retirement Benefits**

If you are a general employee hired on or after July 1, 2012, you will be entitled to receive a retirement benefit when you:

- Attain age 65 (sixty-five) and complete 5 (five) years of service, or
- Complete twenty-five (25) years of service and submit a written election designating the date you will retire not less than thirty (30) days before such designated date. A Participant shall be entitled to receive a retirement benefit equal to his or her accrued benefit reduced by 5.0% per year for each year that his or her early retirement date precedes the date the Participant will attain age 62 (sixty-two).

You will generally trigger the payment of your retirement benefits by filing an election with the Pension Board at least thirty days before the date you designate for your retirement.

On your retirement, you will be entitled to receive a monthly retirement benefit equal to your accumulated benefit in the Hybrid Plan, based on the amounts credited to you under the Plan. Your accumulated benefit in the Hybrid Plan is referred to as your “accrued benefit.” Your accrued benefit will be a monthly benefit determined as of the start date for your retirement benefit payable semimonthly, equal to the actuarial equivalent of the sum of (i) your Cash Balance Plan account, (ii) your Defined Contribution Plan account, and if applicable, (iii) any Rollover Account (specifically, any account containing funds contributed to the City 457(b) Deferred Compensation Plan while you were employed with the City of Memphis—see discussion below under “Can I Roll Over Any Funds To The Hybrid Plan”) you elect to contribute to the Hybrid Plan. Amounts that are “actuarially equivalent” are mathematically equivalent in value based upon calculations using plan interest rates and mortality tables. For instance, the total annuity

payable to you as a single person based on your accrued benefit will be actuarially equivalent to the monthly benefit payable to you if you are married, with your spouse entitled to a survivor benefit, although the actual monthly amount you would receive in each case would be different.

Your retirement benefits will be paid to you for life, provided you do not return to employment with the City.

If you are receiving retirement benefits under the Hybrid Plan, and you are reemployed by the City, your benefits under the Plan will stop for so long as you remain employed. Your benefits to be paid when you subsequently terminate employment with the City will be based on your accumulated benefits at that time, less the actuarial value of any benefits received by you before you were reemployed. However, your benefits when you subsequently terminate employment with the City will not be less than the amount you were receiving before you were reemployed.

### **Termination of Service with the City Before Normal Retirement**

For purposes of this Plan, you terminate service with the City if you:

- Retire; or
- Receive a distribution of your employee contributions; or
- Terminate employment, or take a leave of absence and do not return to active employment within (i) two (2) years from the beginning of the leave of absence, or (ii) the end of the leave of absence, whichever is earlier.

If you terminate service before you become entitled to a normal retirement benefit, the benefit you will receive depends upon the time that you have worked for the City and the value of your Cash Balance Plan Account and your Defined Contribution Plan Account.

If you terminate service with the City after ten or more years of service, you will receive a retirement benefit, payable in monthly benefit form, when you reach age sixty. However, you must not have engaged in an act determined harmful to the City by the Board which resulted in a felony conviction, or involved illegal manipulation of books and records of the City, theft from the City, or embezzlement of City assets. In lieu of this monthly benefit commencing at age sixty you may elect to receive a refund of your Cash Balance Plan employee contributions and interest credits allocable to your employee contributions and your Defined Contribution Plan account balance attributable to your employee contributions.

If you terminate service with the City and you are not entitled to a retirement benefit (normal or deferred), you will receive an amount equal to your total employee contributions to the Cash Balance Plan plus credited interest on your employee contributions and your Defined Contribution account balance attributable to your employee contributions to the Defined Contribution Plan. This amount will be paid to you within two months of your date of termination.

### **WHAT HAPPENS IF I BECOME DISABLED?**

Disability benefits payable under the 2016 Plan are provided pursuant to a long term disability insurance policy purchased by the City. Disability benefits will not be paid by the 2016 Plan except to the extent that the payments under the long term disability policy do not total the following:

In the event of a Line-of-Duty Disability, the greater of:

- 60% of your Average Monthly Compensation, or
- Your accrued benefit as of the date of your disability.

A Line-of-Duty disability is a physical or mental condition arising as a direct and proximate result of an accident sustained by you after becoming a participant in the Plan and while in the actual performance of your duties for the City without willful negligence on your part that totally and permanently prevents you from engaging in the duties for which you are employed. The determination of any Line-of-Duty disability will be made on medical evidence of at least two qualified physicians licensed to practice medicine in Tennessee and designated by the Board.

In the event of an Ordinary Disability:

- Your accrued benefit as of the date of your disability.

An Ordinary Disability is a physical or mental condition arising after you are credited with five (5) or more Years of Service incurred without willful negligence on your part that totally and permanently prevents you from engaging in the duties for which you are employed. The determination of any Ordinary Disability will be made on medical evidence of at least two qualified physicians licensed to practice medicine in Tennessee and designated by the Board. An Ordinary Disability does not include any disability resulting from you chronic alcoholism, self-addiction to narcotics, or participation in a felonious or criminal act or enterprise.

If you are receiving a benefit based on either an Ordinary or Line of Duty disability, from time to time you may be asked to undergo a medical examination to determine whether you continue to suffer from the disability. If you refuse to be examined or it is determined that you have recovered from your disability, your benefits will be discontinued. In addition, if you engage in gainful employment, your disability benefits will be reduced so that the sum of your compensation and disability benefits does not exceed your Average Monthly Compensation as of the date you became disabled.

If you recover from your disability then your disability benefits will be cancelled. You will then be reinstated to City of Memphis employment and will participate in the 2016 Plan again. When you return to work you will receive full credit for all employee contributions and years of service credits made as of the date of your original disability.

If your disability benefit is cancelled for any reason other than returning to city employment, you will receive a refund of your employee Cash Balance plan contributions and Defined Contribution Plan contributions reduced by the amount of any benefit payments previously made to you.



## WHAT IF I DIE WHILE WORKING?

If you die as a direct result of an accident sustained while performing your duties for the City (without willful negligence), your surviving spouse or, if you are not married at the time of your death, your Children or Handicapped Children (defined below), are entitled to a “Line-of-Duty” death benefit. **The Line-of-Duty death benefit for your spouse or Children is equal to the greater of 60% of your Average Monthly Compensation (as defined in the Plan) as of the date of your death or your Accrued Benefit as of the date of your death. The Line-of-Duty death benefit for your Handicapped Children is equal to the greater of 30% of your Average Monthly Compensation or 50% of your Accrued Benefit as of the date of your death.**

**If, at the time of your death, you had not elected a deferred retirement, and your death does not qualify as a Line-of-Duty death, your surviving spouse or, if you are not married at the time of your death, your children will receive:**

- **75% of the retirement benefit you were receiving if you died while receiving a benefit; or**
- **75% of the normal, involuntary, or disability retirement benefit you would be entitled to at the time of your death, provided you die before benefits commence and after completing at least five Years of Service or suffering an Ordinary Disability.**

**Handicapped children will receive 50% of the benefit payment any other child is entitled to receive, payable for their lifetime.**

**If, at the time of your death you had elected a deferred retirement but had not commenced to receive payments, your employee contributions will be refunded.**

### **Definition of Child and Handicapped Child for Purposes of Death Benefits**

**An individual will be considered your child if he or she is your legitimate or legally adopted son or daughter, and he or she has not:**

- **turned 18, or**
- **turned 25, and (i) is attending an accredited school (or nonaccredited school if its credits are acceptable by an accredited school), (ii) is certified by your child’s school to be carrying a full-time day student’s course load, and (iii) is not employed full-time, married**

**If your child is in high school, or trade or vocational school, he or she will be considered to be full-time if enrolled at least 20 hours per week, in a course of study that requires at least 13 weeks, and the school considers him or her to be a full-time student under its standards.**

**Your child who has disabilities may be entitled to benefits as a handicapped child even if he or she is older than age 18 or 25 and in school as required by the Plan. For your child to be considered a handicapped child, he or she must be 18 or older, unmarried, not in the care of a governmental institution, and so severely disabled by medically determinable impairments that he or she cannot engage in any substantial, gainful activity. You also must be able to demonstrate that the child was handicapped on the last day he or she qualified as a Child (under the above definition).**

### **How Will My Death Benefit Be Distributed?**

The manner in which your death benefits are paid depends on who is receiving those benefits.

- Your surviving spouse will receive death benefits until his/her death or remarriage (if he/she remarries before age 65).
- Your Children or Handicapped Children will begin to receive death benefits after the death or remarriage (before age 65) of your spouse or if you have no surviving spouse, shortly after your death. The payments will continue for as long as they are Children or Handicapped Children, as defined above.

### **CAN I ROLL OVER ANY FUNDS TO THE HYBRID PLAN?**

To the extent allowed by the Internal Revenue Code, if you have an account in the City 457(b) deferred compensation plan, you may roll your 457(b) account into the Hybrid Plan under certain circumstances. Only funds contributed to the 457(b) account while you were employed by the City may be rolled into the Hybrid Plan. If you terminate service with the City, you can transfer your 457(b) account by direct rollover to the Hybrid Plan provided you make the rollover before you begin to receive your retirement benefits, either normal or deferred. Any transferred amount shall be set up in a separate account to be known as a "Rollover Account." This account shall be 100% vested at all times and will not be subject to forfeiture. If you roll your 457(b) account into the Hybrid Plan, however, the account becomes a part of the Hybrid Plan and you can't withdraw the account, or receive a distribution of the account except at times you would otherwise be able to receive distributions under the Hybrid Plan.

Whenever you are entitled to receive your benefits under the Hybrid Plan, the value of your Rollover account will be added to the value of your Cash Balance Plan account and your Defined Contribution Plan account to increase the amount of your monthly retirement benefits payable under the plan.

### **HOW DO I MAKE A CLAIM FOR BENEFITS?**

When you leave employment and you are entitled to benefits from the Plan you will be asked to complete a form giving such information as your address, the name of your spouse or beneficiary, etc. Benefits will be paid automatically to you in accordance with the information you have given. If any of the information you have given changes before your benefits are payable – for instance, if you move- promptly update that information with the City.

## **WILL ANY INCOME TAX BE OWED ON MY RETIREMENT BENEFITS?**

The rules concerning the Federal taxation of your benefit are complex. The Plan can provide you with a “Special Tax Notice Regarding Plan Payments,” that has been prepared by the Internal Revenue Service to describe the tax treatment of your distribution under a variety of situations. You can also call 1-800-TAX-FORM and request a copy of IRS Publication 575, “Pension and Annuity Income” for more information. In addition, because of the complexity of these rules, you may want to consult a professional tax advisor before you take a payment of your benefits from the Plan.

Generally, because all of your contributions are “picked up” (as that term is defined in the Internal Revenue Code) by the City so that they are excluded from your income on an annual basis, your entire retirement benefit payment will be subject to Federal income tax when you receive it, unless all or a portion of your benefit can be rolled over to an IRA or another retirement plan.

You should be aware, however, that under the Plan none of the monthly retirement benefit distributions can be rolled over and are not subject to 20% mandatory withholding.

The taxable amount of such any refund under the Plan is subject to a *mandatory 20% federal income tax withholding* if the amount is paid to you, rather than “directly” rolled over. Such a payment to you will be taxed in the year distributed unless you roll it over by paying it to your IRA or to another qualified plan within 60 days of receipt. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and not rolled over. If you do not roll over the distribution, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59 ½, you also may have to pay an additional 10% tax. Again, because of the complexity of these rules, you may want to consult with a professional tax advisor before taking a distribution.

