

## Pension Frequently Asked Questions and Answers

### **Q. What is a Hybrid Pension Plan?**

A. “**Hybrid**” Pension Plan is often used to refer to as any **retirement plan** that combines some elements of a traditional defined benefit **pension plan** and a defined contribution **plan** with an individual **retirement** savings account to which the employee and employer contribute money. The City of Memphis Hybrid will allow for employees to still have a great retirement and a pension annuity.

### **Q. What is a Defined Benefit Plan?**

A. A company pension plan in which an employee's pension payments are calculated according to length of service and the salary they earned at the time of retirement.

### **Q. What is a Defined Contribution Plan?**

A. A **defined contribution plan**, on the other hand, does not promise a specific amount of benefits at **retirement**. In these **plans**, the employee or the employer (or both) contribute to the employee's individual account under the **plan**, sometimes at a set rate, such as 5 percent of earnings annually.

### **Q. What is a 401(a) plan?**

A. A **401(a) plan** is a money-purchase retirement savings **plan** that is set up by an employer. The **401(a) plan** allows for contributions by the employee, the employer, or both. Contribution amounts, whether dollar-based or percentage-based, eligibility, and vesting schedule are all determined by the sponsoring employer.

### **Q: Why are we changing pension plans?**

**A:** We are changing plans to help us achieve the following objectives:

- Maintain a reasonable post-retirement standard of living for career employees
- Provide safety net to employees from poor investment return
- Reduce the City’s risk resulting from adverse market returns

### **Q: What does unfunded liability mean?**

A: If every city employee were to retire today, the pension fund would be unable to pay out over the next 30 years.

### **Q. What is a Cash Balance Plan?**

A. A **cash balance pension plan** is a **pension plan** under which an employer credits a participant's account with a set percentage of his or her yearly compensation plus interest charges. A **cash balance pension plan** is a defined-benefit **plan**.

**Q: Who contributes to the hybrid plan? What is the city’s contribution under the new Hybrid Plan?**

A. Employees contribute up to 8% to the pension fund, depending on when they were hired.

CITY’S CONTRIBUTION		
YEARS OF SERVICE	GENERAL EMPLOYEES	POLICE AND FIRE
Less than 5	3%	6%
5 to less than 10	5%	8%
10 to less than 15	7%	10%
15 to less than 20	10%	13%
20+	13%	16%

**Q: At what age can I retire under the hybrid plan?**

A. Rank and file employees must have 25 years of service before they can retire or have at least 10 years of service at age 55. Public Safety employees hired after July 1, 2012 must have 25 years of service and be at least the age of 52 before they can retire. Non-Public Safety employees must be 62 before they can retire.

**Q: Will I still have a pension annuity with the new plan?**

A: Yes, under the new hybrid plan you will still have a monthly annuity.

**Q: Under the new hybrid plan will I receive a cost of living adjustment?**

A. Cost of living adjustments for retirees are recommended by the Mayor and approved by the City Council each year.

**Q: What about social security?**

A: City employees do not pay into social security. Their only retirement from the city is their pension. Any employment the person had outside the city for which they paid into social security is slashed when they receive social security benefits from that employment because they are receiving a government pension. The City of Memphis opted out of Social Security many, many years ago.

**Q: What happens to the money that I have already paid into the old plan? Where does it go? I will be in the new plan on July 1, 2016.**

A: Employees with less than 7.5 years: If these employees become fully vested (minimum 10 years), they will maintain contributions made under the current plan based on the number of years served by June 30, 2016. For general employees and public service employees who elect a semi-monthly annuity payment the amount they maintain will be up to 2.5% of their salary multiplied by the number of years worked as of June 30, 2016 (e.g. \$40,000 x 2.5% x 6.5 = \$6,500). If the public service employees who elect a refund or rollover, they will only receive what they put into the pension plan. However, beginning July 1, 2016, all new contributions will be consistent with the Hybrid schedule. Therefore, at the time of retirement, this group will have two retirement sources

**Q: I am a police officer who resigned and transferred my pension to an individual IRA. If I return to City of Memphis employment, when can I put my money back in to the pension to get my pension credit time?**

A: An employee can do a pension buyback after he/she has been reemployed with the City Of Memphis for at least two years.

**Q: I worked as a part time employee at the library since November 2008 and became a full time employee with benefits in July 2010. Will my part-time employment count toward the 7.5 years so I can keep the old pension plan?**

**A:** Temporary, part time (except for part-time city attorneys and others employees specifically included by a Plan amendment) and employees who contribute to Social Security are excluded from the City of Memphis Pension Benefits. Pension Benefits begin when you become a regular full time employee of the City of Memphis.

**Q: How will line of duty work under the new hybrid plan?**

**A:** If it is determined that you have incurred a Line-of-Duty disability, then you will be entitled to receive a disability retirement benefit equal to the greater of 60% of your average monthly compensation or your accrued benefit as of the date of disability.

**Q: How will ordinary disability work under the new hybrid plan?**

**A:** If you incur a disability that was not in the line of duty (an “ordinary disability) and was not a result of wilful misconduct, you will receive a disability benefit equal to your accrued benefit at the date of your disability.

**Q: If I have pension related questions, who do I contact?**

**A:** City of Memphis at 901-576-6361 or email pension @memphistn.gov