CLEAR Plan Design Summary

Executive Summary

The Council for Law Enforcement and Reinvention (CLEAR) group, a group established at the direction of the Governor, identified pension reform as a key issue and reviewed the concept of a pooled, statewide plan that would improve governance by utilizing industry best practices and ensuring timely and cost-effective delivery of benefits. The group endorsed the following mandatory plan design to provide for sustainable, adequate and effective retirement benefits. **While designed for police and fire, this plan design could be modified to represent a different benefit formula for general employees with social security.**

The CLEAR Plan is designed to be a mandated plan, created by the legislature, for all police and fire plans who are 312 eligible with the objective to provide a pooled, cost-effective retirement solution that provides sustainability and consistency for *both* municipal employers and employees. To accomplish this, benefit provisions **cannot be subject to collective bargaining**, and any future changes would be implemented legislatively.

Plan Design Overview

Modest Defined Benefit - 401(a)

- Cost stabilizing features
- Modest guaranteed lifetime benefit
- Duty and non-duty disability and death benefits

Defined Contribution Savings - 401(a)

- Mandatory savings
- Maximum portability options
- Participant-directed investments
- Flexible distribution options

Retiree Health Care Savings - 115 Trust

- Tax-exempt savings
- Ensures assets are available for medical expenses, including health insurance premiums
- Program has easy to use medical debit card for simplified reimbursements and can be designed to coordinate with private health care exchanges

Optional Supplemental Savings - 457(b)

- Provides for flexible contribution choices
- Gives employees additional flexibility to save for retirement needs

CLEAR Plan Design Summary

The CLEAR Plan has a fixed employer contribution of 15% of pay while employee contributions begin at 10% of pay.

	Employer Contribution	Employee Contribution	Total
Defined Benefit	12%	6%	**18%**
Defined Contribution	1%	2%	**3%**
Retiree Health Care Savings	2%	2%	**4%**
Supplemental Savings	0%	*optional*	***optional***
Total	**15%**	**10%**	**25%**

Modest Defined Benefit – 401(a)

This portion of the plan is intended to be structured as a multiple employer cost sharing plan with a modest, sustainable benefit provision. **Every municipal employer would contribute the same percentage of pay**. This is different from local municipal plans today, as each plan determines its benefit structure—with a wide range of benefits.

Cost Stabilizing Features

While the plan provides for a fixed employer contribution, the design provides various mechanisms to ensure contribution stability and limited liability risk. Features include:

- An assumed investment rate of return of 6%
- The Final Average Compensation calculation is the employee's indexed career average wages, as is done for the computation of Social Security benefits, or long-term average pay. This prevents liability increases by what is commonly referred to as “FAC padding/spiking”.
- The employer contribution for the DB portion will be set at a maximum of 12% (which includes a rate stabilization feature of 2.5%).
    - If the plan is funded at a minimum of 130% for the previous five years, the employer contribution for the DB component may be reduced, and the difference will be contributed to the employee accounts in the DC Savings Plan.
- If the cost of funding the DB portion exceeds 18% of pay, contributions are diverted from the defined contribution *and* retiree health savings components to satisfy the extra requirements, leaving the total employer cost of the plan the same.

In the event the DB portion needs more than 18% of pay (12% employer and 6% employee) to fund it, the following occurs in this order:

1. **The 1% employer DC contribution is diverted to the DB:**

	Employer Contribution	Employee Contribution	Total
Defined Benefit	13%	6%	**19%**
Defined Contribution	0%	2%	**2%**
Retiree Health Care Savings	2%	2%	**4%**
Supplemental Savings	0%	*optional*	***optional***
Total	**15%**	**10%**	**25%**

2. **The 2% Employee DC contribution is diverted to the DB:**

	Employer Contribution	Employee Contribution	Total
Defined Benefit	13%	8%	**21%**
Defined Contribution	0%	0%	**0%**
Retiree Health Care Savings	2%	2%	**4%**
Supplemental Savings	0%	*optional*	***optional***
Total	**15%**	**10%**	**25%**

3. **The 2% employer Retiree Health Care Savings contribution is diverted to the DB:**

	Employer Contribution	Employee Contribution	Total
Defined Benefit	15%	8%	**23%**
Defined Contribution	0%	0%	**0%**
Retiree Health Care Savings	0%	2%	**2%**
Supplemental Savings	0%	*optional*	***optional***
Total	**15%**	**10%**	**25%**

4. **The 2% Employee Retiree Health Care Savings Plan contribution is diverted to the DB:**

	Employer Contribution	Employee Contribution	Total
Defined Benefit	15%	10%	**25%**
Defined Contribution	0%	0%	**0%**
Retiree Health Care Savings	0%	0%	**0%**
Supplemental Savings	0%	*optional*	***optional***
Total	**15%**	**10%**	**25%**

5. In the event the above actions do not fully fund the DB portion, **the employee contribution is increased**, but not higher than the total normal cost of the DB plan. In the unlikely event the funds are still insufficient, the prospective benefits may be reduced through legislation.

How the Modest Defined Benefit Works – 401(a)



Benefit Multiplier

The annual benefit is equal to an employee's credited service at time of termination of membership multiplied by 2.0% of the employee's final average compensation (FAC), with a maximum benefit of 60% of FAC (i.e. no additional benefit accrual after 30 years of service, other than possible increases in FAC).

Final Average Compensation

Plan benefits are based on an employee's career average indexed wages or long-term average pay. As done for the computation of Social Security benefits, the career average indexed pay is the average of the employee's pay over the employee's entire career.

Eligibility for Service Retirement

Age 55 with 25 or more years of service; or Age 60 and 10 or more years of service.

Defined Contribution Savings – 401(a)



Participation and Contributions

Participation in this savings portion is mandatory, with employer contributions beginning at 1% of pay and employee contributions at 2%. Depending on the funding needs of the DB portion these amounts may change from time-to-time.

Vesting Schedule

Employee contributions are always 100% vested. For employer contributions, the vesting schedule can be immediate vesting upon participation, or 100% vesting after a stated amount of years, not to exceed 5 years.

Retiree Health Care Savings – 115 Trust

Tax-Exempt Section 115 Trust

This account provides for dedicated *tax-free* medical savings for covering the costs of post-employment medical expenses. Saving for retirement is important, but many people don't take into consideration the rising costs of health care. This account is designed to help employees prepare for these costs after they leave their employer, with an invested account that they manage. The account can be used for post-employment medical expenses, including health insurance premiums, unlike Health Savings Accounts (HSAs).

Participation and Contributions

Participation in this savings portion is mandatory, with employer contributions beginning at 2% of pay and employee contributions at 2%. Depending on the funding needs of the DB portion these amounts may change from time-to-time.

Vesting Schedule

Employee contributions are always 100% vested. For employer contributions, the vesting schedule can be immediate vesting upon participation, or 100% vesting after a stated amount of years, not to exceed 5 years.

Beneficiaries

Spouse and any legal dependent(s) may continue to use the account for *tax-free* medical expense reimbursement. In the event of the employee's death, and no spouse and/or legal dependents, a primary and contingent beneficiary may be named to use the account for *taxable* medical expense reimbursement.

Optional Supplemental Savings – 457(b) Plan

Employees may contribute to the 457(b) Supplemental Savings Plan. Auto enrollment is encouraged for adequate retirement savings.

Plan Advantages

What

Pooled, statewide plan that includes features to minimize liability and risk while providing benefit adequacy

- Certain contribution rate for employers, set at 15%
- Conservative investment rate of return assumption
- Retirement benefit calculated using a longer term average, versus end of career
- Benefit adequacy to include retiree health care savings and optional savings vehicle

Hybrid concept that is similar to the State Police Hybrid Plan, which includes a savings component for retiree health care and optional 457

WHY

Sound, effective public policy

- Local, independent plans have variety of plan designs and costs, vs. a set public policy on retirement benefits for recruitment, retention and portability
- Pooling risk in the event of a catastrophic situation—shared risks, shared costs
- Sustainable plan design that eliminates need for collectively bargaining retirement benefits
- Reduction in future liabilities

Centralized plan governance

- Improved governance by utilizing best practices
- Stable, predictable costs
- Sustainable and adequate retirement benefits

Centralized administration

- Timely and cost-effective delivery of benefits
- Cost-effective investment management
- Legal compliance
- Actuarial services
- Participant education