

2009 Status Report
For Calendar Year 2008

Cobb County Government Employees' Pension Plan

October 13, 2009
J. Virgil Moon, CPA
Chairman, Board of Trustees

Introducing...

Board of Trustees

- Virgil Moon – Chair
- Bill Hutson - Vice Chair
- Gary Bottoms
- Brad Bowers
- Tony Hagler

Master Trustee

SunTrust Bank

- Ken Fillman

Legal Advisor

Troutman Sanders LLP

- Evelyn S. Traub

Investment Advisor

UBS Financial Services, Inc.

- W. Earle Dodd, III
- Vandyke Price
- Allen Wright

Actuary

Cavanaugh MacDonald Consulting, LLC

- Jose Fernandez, Consulting Actuary

County Staff

- John Bergey, Finance Treasurer
- Tracy Minjauw, HR Benefits Manager
- Rhonda Richardson, HR Specialist

Group Statistics As of 12/31/08

Retirees & Beneficiaries Currently Receiving Benefits*:

*includes CIGNA Participants (116)

1,402

Vested Former Employees:

741

Active Employees Eligible For Pension Plan:

4,245

Fully Vested:

2,465

Non-vested:

1,780

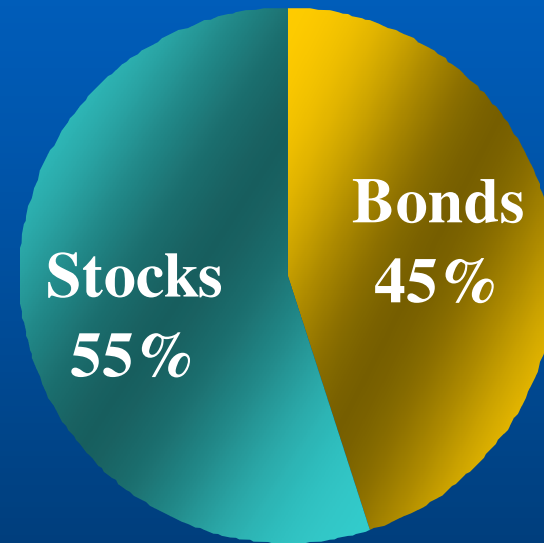
Established in 1971

Focus on the Portfolio: 12/31/08*

Diversified Investments:

Bonds: 5 Managers

Stocks: 12 Managers



*Cost Basis
Per Georgia Code

Fund Managers

➤ Equity (12)

- Westfield Capital Management
- Cadence Capital Management
- Vanguard Total International Stock Fund
- Vanguard S&P 500 Index Fund
- Vanguard MidCap 400 Index Fund
- LSV Asset Management
- Systematic Financial Mgmt
- Alliance Bernstein Value
- Eagle Capital
- Dodge & Cox Funds
- Congress Asset Management
- Thornburg International

➤ Fixed Income (5)

- Vanguard International Bond Fund
- Pacific Mutual Bond Index Fund
- Richmond Capital Management
- Merganser Capital
- CIGNA

Manager Performance

Market Rate of Return for Total Fund

- Goal: 8.00%
- Actual achieved: **-21.00%** (2008)
- Five year period: 1.30%
- Ten year period: 2.20%
- Inception (June 1994) 6.90%

Total Fund vs. Total Fund Universe

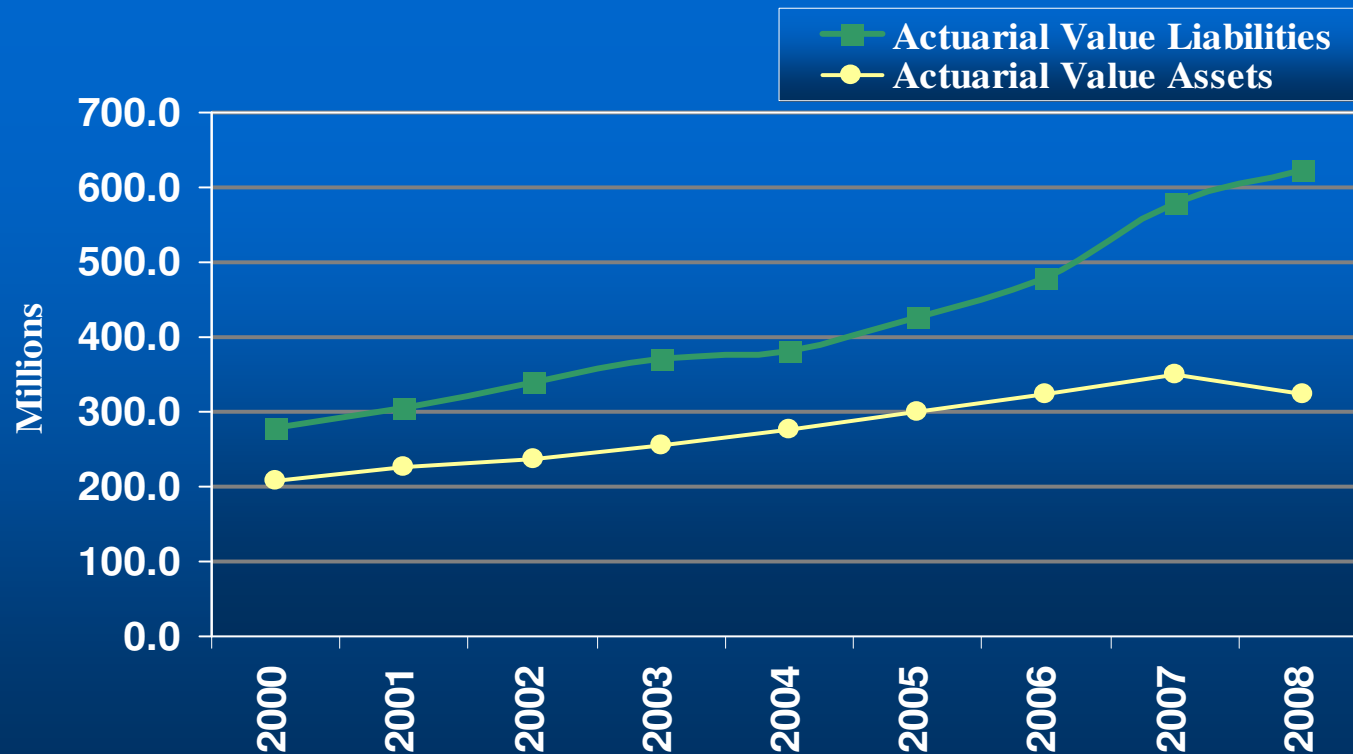
- Goal: 35th Percentile (5 years)
- Actual achieved: 42nd in 2008
- Five year period: 44th
- Ten year period: 62nd

Major Issues

- 
- Liabilities are growing faster than assets

Assets vs. Liabilities

(Actuarial Value as of 12/31/Calendar Year)



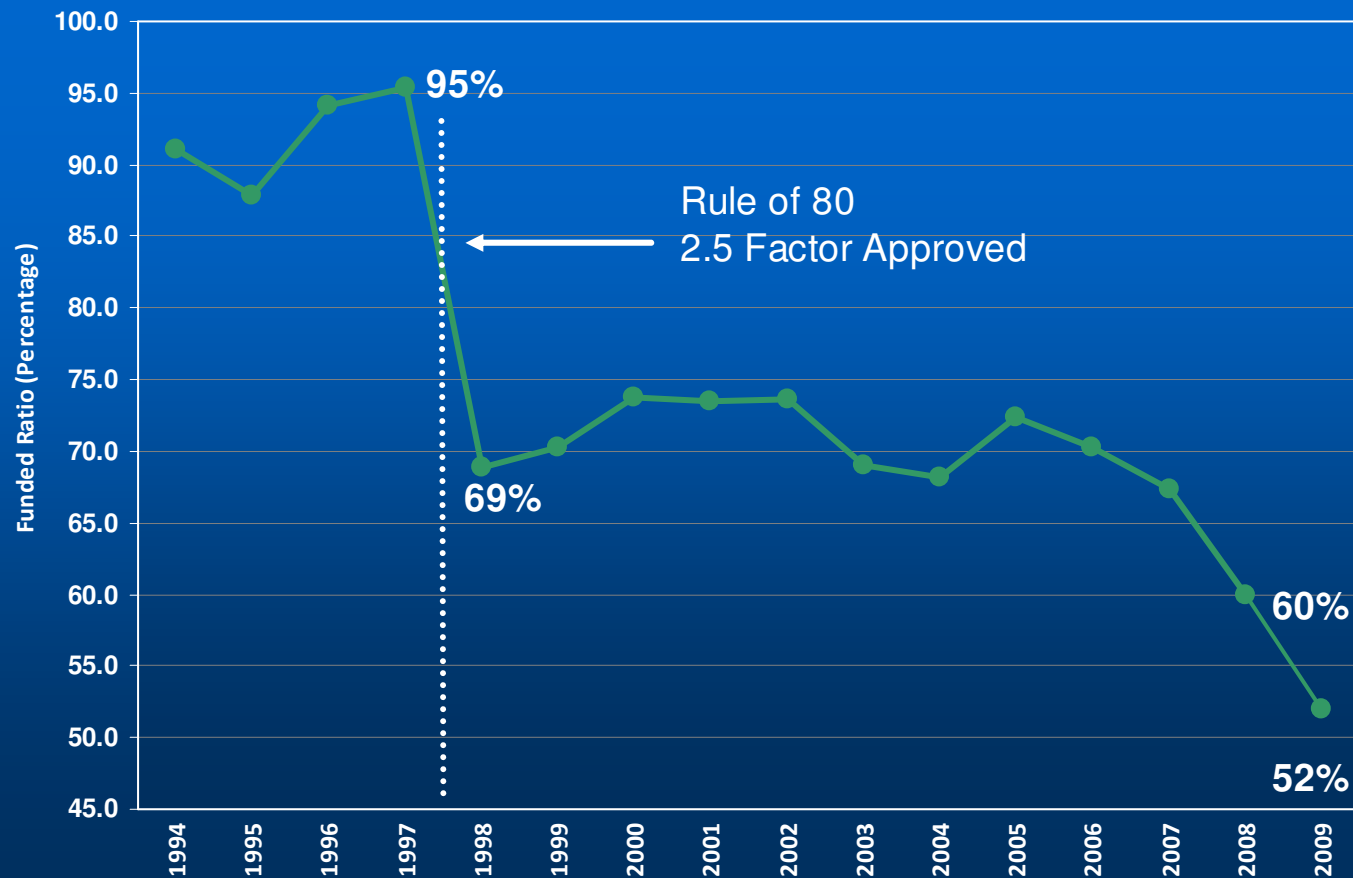
Market value of assets as of 12/31/2008 = \$270,127,536

Major Issues—Continued

- Cobb Funding status decreased to 52%
 - Pension Plan lost \$69 million (21%) in 2008 due to downturn in practically all markets
- Economy not improving quickly
- Needs to be 90-100% funded
- Long term our Plan is not sustainable without major changes

Pension Funding Status By Year

As of 01/01/Calendar Year



Overall Goal

- **Maintain a fiscally sound plan**
 - **Defined Benefit plans look at the long term (30 years)**
 - **To be over 90% funded in 30 years**

Goals Of Proposed Changes

- To Keep County contribution affordable
- To keep County employee contribution affordable
- To reduce benefits as minimally as possible
- To affect as few employees as possible

Recommendations—Current Retirees and Beneficiaries

- **1,402 Former employees and beneficiaries
as of 12/31/2008**
- **No changes**

Recommendations--Current Vested Employees as of 12/31/2009

- **Vested employees: have 7 or more years of service as of 12/31/2009**
- **2,465 current vested employees plus 741 former vested as of 12/31/2008**

Recommendations--Current Vested Employees as of 12/31/2009

- **To stay in the current Defined Benefit Plan with no benefit changes**
- **Employee contributions will increase over a 13 year period from 5% in 2009 to 8.75% in 2023**
- **County contributions will increase from 11.25% in 2009 to 13.5% in 2015**

Recommendations--Current Non-Vested Employees as of 12/31/2009

- **Non-vested employees: have less than 7 years of service as of 12/31/2009**
- **1,780 current non-vested employees as of 12/31/2008**
- **Can choose between two options**

Recommendations—Current Non-Vested Employees as of 12/31/2009

- **Option I—Stay in current Defined Benefit Plan**
 - **No benefit changes**
 - **Employee contributions will increase over a 13 year period from 5% in 2009 to 8.75% in 2023**
 - **County contributions will increase from 11.25% in 2009 to 13.5% in 2015**

Recommendations—Current Non-Vested Employees as of 12/31/2009

- **Option II—New Hybrid Defined Benefit/Defined Contribution Plan**
 - This new plan has two components—a Defined Benefit component and a Defined Contribution component
 - This plan will provide the portable benefits of a Defined Contribution Plan while at the same time securing a specific monthly pension payment upon retirement that a Defined Benefit Plan provides

Recommendations—Current Non-Vested Employees as of 12/31/2009

- **Option II—New Hybrid Defined Benefit/Defined Contribution Plan**
 - **Current non-vested employees will have a one-time option to voluntarily change from current plan to the New Hybrid Defined Benefit/Defined Contribution Plan**
 - **Deadline for choosing option extended 60 days (from November 30, 2009 to January 31, 2010) for February 26th paycheck**

New Hybrid Plan

—Defined Benefit Portion

- **The Defined Benefit component is mandatory and the contribution amount is determined by the County**
 - **Employee Contribution Rate will be 5% and should not increase over time**
 - **Employer Contribution Rate will be 10% increasing to 11.5% by 2015**

New Hybrid Plan

—Defined Benefit Portion

- **Unreduced early retirement eligibility – Rule of 80 if hired before 1/1/2007**
- **Unreduced early retirement eligibility – Rule of 80 with 35 years of service or Rule of 80 with minimum age of 55 if hired after 12/31/2006**

New Hybrid Plan

—Defined Benefit Portion

- **Normal retirement eligibility – 65 years of age with 10 years of service**
- **Early retirement eligibility – 55 years of age with 10 years of service with reduced benefit**
- **For new hires – Social Security Full Retirement age 66, 67 if born after 1960**

New Hybrid Plan

—Defined Benefit Portion

- **Earnings used to determine benefits will be the average of the highest 5 consecutive years of salary out of the last 10 years**
- **No overtime will be used in the calculations**
- **No contributions will be based on overtime earnings**

New Hybrid Plan

—Defined Benefit Portion

- **Military service prior to employment will no longer count as service time.**
 - **Only service and benefits required to be granted under applicable federal law will be provided**

New Hybrid Plan

—Defined Benefit Portion

- **Employees will be vested after 7 or 10 years from date of hire not from date of starting in the Hybrid Plan**
 - **If employees leave before becoming vested, they will receive their contribution back plus interest**
 - **Vesting determination**
 - **7 years: if hired before 1/1/2009**
 - **10 years: if hired after 12/31/2008**

New Hybrid Plan —Defined Benefit Portion

- The benefit formula is: multiplier factor (1%) x average salary x years worked

New Hybrid Defined Benefit Portion

<u>Years Worked</u>	<u>Multiplier Factor</u>	<u>5 Year Average Salary</u>	<u>Retirement Yearly Benefits</u>
10	1%	\$50,000	\$5,000
20	1%	\$50,000	\$10,000
35	1%	\$50,000	\$17,500

New Hybrid Plan

—Defined Benefit Portion

- **Upon retirement, a current non-vested employee who chooses the new program will receive a benefit that is equal to the greater of:**
 - **Current benefit (2.5 factor) for years up to change to the new plan plus new plan benefit (1.0 factor) for remaining years or,**
 - **New Plan benefit (1.0 factor) for entire time of service**

New Hybrid Plan

—Defined Contribution Portion

- In addition to the 5% contribution of their salary to the Defined Benefit Plan, employees may contribute a portion of their salary each year into the Defined Contribution Plan up to the maximum amount permitted by the IRS
 - Currently \$16,500
 - 50 years or older: \$22,500
 - Catch-up option: \$33,000 last 3 last years only

New Hybrid Plan

—Defined Contribution Portion

- **The employee's contribution will be incorporated into our current 457 Defined Comp Plan and the County's contribution will go to a new 401a Plan per IRS rules**

New Hybrid Plan

—Defined Contribution Portion

- **Contributions by employees who currently participate in the 457 Defined Comp Plan will be counted as their contribution toward the County match**
- **The investments in the 401a Plan will be identical to the employee's investments in his/her 457 Defined Comp Plan**

New Hybrid Plan

—Defined Contribution Portion

➤ **Matching Schedule**

- **The County will make a 50% matching contribution up to 2%**

<u>Employee % Contribution</u>	<u>County Matching Contribution</u>
1%	0.5%
2%	1.0%
3%	1.5%
4% and more	2.0%

New Hybrid Plan

—Defined Contribution Portion

- **Vesting Schedule for County Match**
 - Will be a graduated schedule at 20% vesting per year of service with 100% vested after five years of service.
 - Current non vested employees who elect to move to the Hybrid DB/DC plan will be vested in the DC component (*457 Defined Comp employee portion and 401a County Match portion*) based on this vesting schedule and their years of service as of 1/1/2010. However, employer contributions to the DC component will not be retroactive.

New Hybrid Plan

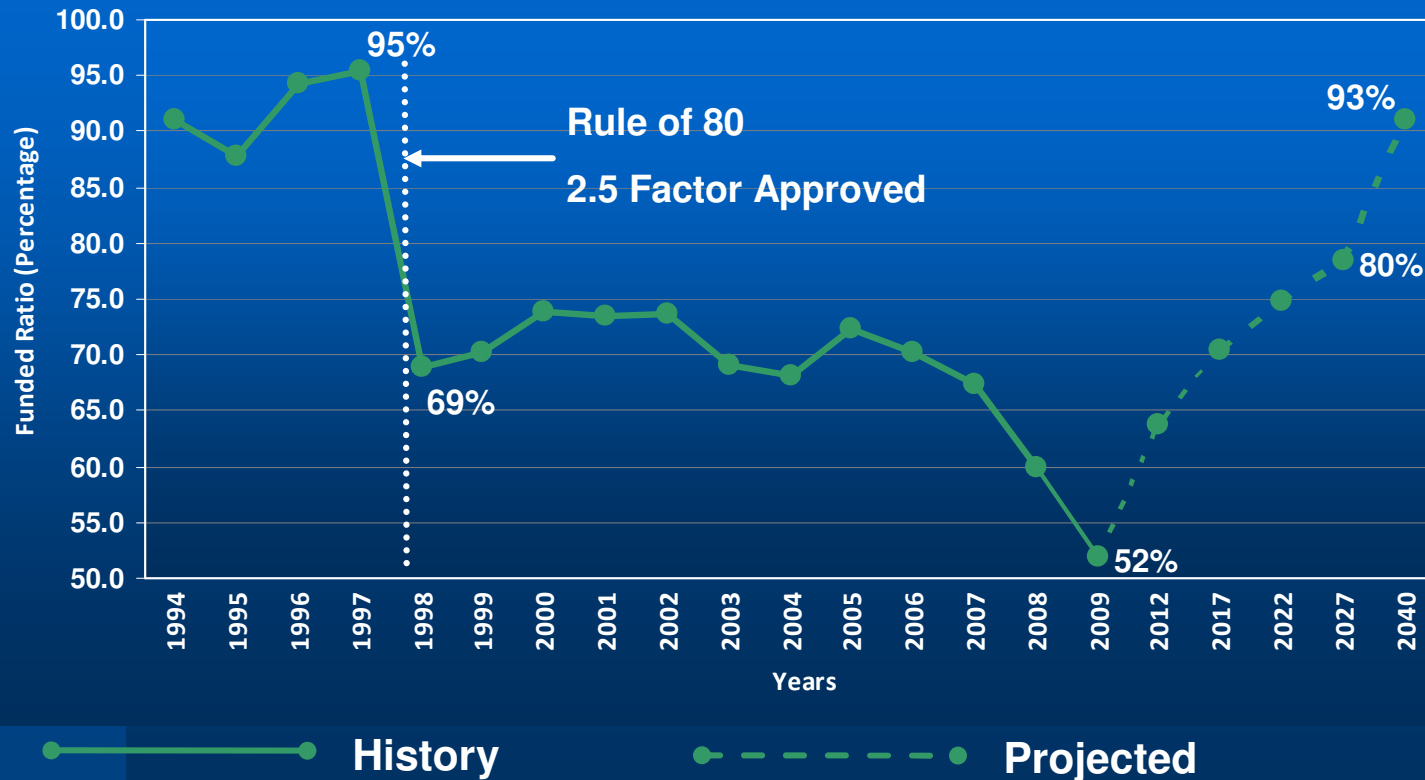
—Defined Contribution Portion

- **The Defined Contribution funds are portable (can be moved) if the employee leaves Cobb County Government**
 - **Portability options: Cumulative dollar amounts can either be distributed in a lump sum subject to IRS rules, or converted to monthly income annuity, or transferred to the employee's new company's plan, or transferred to the employee's individual retirement account**

Recommendations—New Hires after 12/31/2009

- **Will be enrolled in the new Hybrid Defined Benefit/Defined Contribution plan**

Funding Status – Projected Effect of Recommendations



In Closing

We do not make these recommendations lightly. Although our recommendations involve significant changes, we know these are needed to make certain that our Pension Fund will be fiscally sound so that employees will have access to these benefits when they retire.