Retirement Board Takes Steps to Strengthen County Retirement Plan

Employees who were hired on or after July 01, 2010 are covered under Tier 3 of the Plan. It should be noted that the upcoming changes may affect the retirement benefits of a Tier 3 participant differently than participants covered under Tier 1 or Tier 2 of the Plan.

The Arapahoe County Retirement Board (the Retirement Board) has approved some significant changes to the Arapahoe County Retirement Plan (the Plan) in order to help strengthen the Plan as a whole, to ensure the longevity of the Plan for current and future employees, and to protect the benefits you are entitled to under the Plan as a County employee. The Retirement Board places great emphasis on helping County employees reach a secure retirement and keeping you fully informed of any changes that may have an impact on your future.

All proposed changes highlighted in this notice will be effective January 1, 2014. There will not be an impact on vested benefits that you have accrued in the Plan through December 31, 2013. Additionally, there will be no changes to the age and service requirements as they pertain to the Rule of 85, or any other retirement eligibility under the Plan.

The amount of monthly income you will be eligible to receive upon retirement is determined by a formula based on your years of service with Arapahoe County, your final average monthly compensation, and a multiplier determined by the Plan. In the following pages we provide an example of how this formula can be applied to help you estimate your retirement benefit.

The Retirement Board recognizes the importance that employees place on retirement benefits, and deems these changes necessary in order to ensure the wellbeing and sustainability of the Plan for years to come. Should you have any additional questions or concerns pertaining to the information presented in this notice, you may contact Lew Quigley at the Retirement Administration Office by e-mail at: lquigley@arapahoegov.com or by phone at: 303-795-4484.

- Employer and employee contributions will increase from 7.5% to 8% of compensation
- All retirement benefits accrued under the Plan after 12/31/2013 will be subject to a multiplier of 1.85% instead of 2%
The financial market crisis of 2008 and the Great Recession that followed, created a huge challenge for pension plans. Like other pension plans, our ability to pay benefits is based largely upon employer and employee contributions, and the return on investments in the Plan. When investment returns fall short of expectations, as they did during the Great Recession, changes to the contribution amounts and benefit structure must be made to protect the long-term health of the Plan.

The value of Plan assets dropped sharply in 2008. The impact of these investment losses is illustrated in the chart (above) *The Impact of Investment Losses and the Current Benefit Structure*. Also shown on this chart is the current Unfunded Liability, which is the Plan Liability to pay future benefits in excess of Plan Assets. The Unfunded Liability has increased during the past five years due to the unprecedented losses in 2008 in conjunction with the current benefit structure. Unless contributions are increased and/or future benefits accruals are decreased, the Unfunded Liability will continue to grow.

The Retirement Board consulted experts concerning the Plan’s Unfunded Liability and considered 28 potential solutions to resolve the funding issue and preserve the long-term health of the Plan. After a full analysis of the Plan, the pension experts advised the Retirement Board that an increase to employee and employer contributions of more than 3% of compensation each would be required in order to maintain the Plan’s current benefit structure.

After considering numerous options, the Retirement Board elected to adopt a combination of changes including an increase to employee and employer contributions (0.5% of compensation each) and a modification to the structure for benefits accrued after 2013. In addition to the contribution increase, the change that primarily affects retirement benefits of Tier 3 employees is a lower benefit multiplier. This combination of changes provides for a lower additional cost to the employees and the County, and is expected to reduce the Unfunded Liability in future years.

Overall, the Retirement Board views these changes as a proactive, responsible solution to a problem that would only worsen if ignored.

The table shows how much a 0.5% contribution increase amounts to each pay period. Ultimately, employees will get back every dollar they have contributed to the Plan (and more) whether they choose to receive a guaranteed lifetime pension benefit or a contribution refund.

<table>
<thead>
<tr>
<th>If your annual plan compensation is:</th>
<th>Your contribution will increase each pay period by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$29,120</td>
<td>$5.60</td>
</tr>
<tr>
<td>$39,520</td>
<td>$7.60</td>
</tr>
<tr>
<td>$49,920</td>
<td>$9.60</td>
</tr>
<tr>
<td>$60,320</td>
<td>$11.60</td>
</tr>
</tbody>
</table>
Calculating Your Tier 3 Retirement Benefits

Upon retirement, your monthly lifetime benefit will be calculated by adding together both parts of a two-part formula. “Part A” of the formula applies to benefits accrued under the Plan through December 31, 2013, while “Part B” of the formula will apply to benefits accrued starting on January 1, 2014 through your retirement date. The two formulas that will be added together to determine your retirement benefits are as follows:

**Understanding the Benefit Calculation**

**Part A:**
Final Average Monthly Compensation × 2% × Years of Service through 12/31/2013

**Part B:**
Final Average Monthly Compensation × 1.85% × Years of Service from 01/01/2014

We would like to provide the legal definition of “Final Average Monthly Compensation” for Part A and Part B as it applies to a Tier 3 employee. We will also provide a real world example of how these definitions can be applied to determine a monthly benefit.

- “Final Average Monthly Compensation” (FAMC) is determined by taking 1/60th of your total compensation (limited by Federal regulations) during the 60 highest paid consecutive calendar months (5 years) in the last 120 completed calendar months (10 years) of employment with the County. Special rules apply for job share employees.

### Example of a Tier 3 Calculation

#### Meet Steve.

The example below is based upon our hypothetical Arapahoe County employee and Plan participant, named Steve. In order to calculate Steve’s monthly benefit in the following example, we will make assumptions that Steve:

- Was hired on August 1, 2010 and retires at age 65 on September 15, 2030
- For Part A of the formula Steve had 3.417 years of service through 12/31/2013 and For Part B of the formula he will have 16.706 years of service 01/01/2014 through retirement
- To calculate Part A & Part B FAMC, highest salaries over 60 consecutive months (5 years) were $46,500, $47,500, $49,500, $51,000, and $52,500 respectively
- Add all five together and divide by 60; or $247,000 / 60 = $4,116.67

Remember, your total monthly benefit will be determined by adding Part A and Part B together.

### Calculating Steve’s Monthly Retirement Benefit

<table>
<thead>
<tr>
<th>FAMC</th>
<th>Multiplier</th>
<th>Years</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,116.67</td>
<td>2.0%</td>
<td>3.417</td>
<td>$281.33</td>
</tr>
<tr>
<td>$4,116.67</td>
<td>1.85%</td>
<td>16.706</td>
<td>$1,272.30</td>
</tr>
</tbody>
</table>

**Total Monthly Retirement Benefit** $1,553.63

### Additional Provisions

#### Disability

Disabled employees continue to accrue credited service in the Plan, as long as they continue to receive a Long-Term Disability or Social Security Disability payment. Benefits accrued prior to December 31, 2013 for such employees will fall under Part A of the formula discussed below (right). The disability benefit for any employee that continues to be or becomes disabled after December 31, 2013 will have the portion of their benefit attributable to the period starting on January 1, 2014 calculated under Part B of the formula described below (right).

#### Governing Law and Documents

These changes were made based on Senate Bill 12-149, which permits the Retirement Board to make changes to ensure the sustainability of the Plan. The final plan document will govern all benefits.