



**KALAMAZOO EMPLOYEES'
RETIREMENT SYSTEM**

PENSION GUIDE

Background

The following guide to pension benefits for the City of Kalamazoo Employees' Retirement System, presented in question and answer form, has been prepared to assist you in planning for retirement and to help you understand the system. By reviewing the main features of the benefit program, we feel you will have a better understanding of the pension system. This benefit program, along with Social Security (for non-public safety members) and your 457 defined contribution plan, will help you meet your financial needs in your retirement.

The City of Kalamazoo's charter requires that the City maintain an employees' retirement system. The City of Kalamazoo Employees' Retirement System was established in 1942 as a *defined benefit* plan that qualifies under Section 401 of the Internal Revenue Code. The Pension Ordinance defines your benefit based on a formula of age, years of service and salary. This benefit is guaranteed to you upon retirement. There are also plan provisions in the event you become disabled or die prior to retirement.

An actuary determines how much money the City of Kalamazoo needs to contribute annually to pay all of the guaranteed future retirement benefits. Employees also contribute to the pension fund to help pay for their retirement benefits. The annual valuation prepared by the actuary is available at the Kalamazoo City web site or upon request.

This guide is intended only to provide information and does not constitute any obligation on the part of the City of Kalamazoo nor is it legally binding. The information will familiarize you with the features of the City of Kalamazoo Employees' Retirement System so that you can make an informed decision.

After reviewing this information, if you have any questions or would like additional information, please contact the Benefits & Retirement Services Manager at 269-337-8180.

1. Who is eligible to be a participant of the Retirement System?

All full time employees and current retirees are members of the Retirement System. Some bargaining units allow part time employees to be members of the retirement system.

2. How is the retirement system funded?

Defined Benefit plans guarantee a benefit upon retirement. The City of Kalamazoo is responsible for providing retirement benefits. The system is funded via three sources: employer funds, employee funds and investment income.

All members contribute pre-tax dollars to help pay for their retirement benefit. The current percentage of pay is as follows:

Non-Bargaining Unit	1.5% hired prior to June 1, 2006
Non-Bargaining Unit	3.0% hired on or after June 1, 2006
AFSCME	1.0%
Public Safety	4.5%
KMEA	1.0%
CSO	1.0%

3. What is credited service?

You receive credited service for the number of years, months and fractions of months you work for the City.

If you leave employment and withdraw your money from the system, you will lose your credited service and, therefore, are not entitled to collect a retirement benefit. If you are rehired, you will have the option to purchase your prior credited service ***if you request to do so within a year of your re-hire date***. You will have up to 5 years to pay back the monies withdrawn.

4. What is vesting and when do I qualify?

An employee is vested, or eligible to receive benefits, from the retirement plan after a specified number of years of service as follows:

Non-Bargaining:	5 years
KMEA hired prior to 1/1/09:	8 years
KMEA hired on or after 1/1/09:	10 years
KPSA, KPSOA(sworn):	10 years
AFSCME prior to 10/3/16:	9 years
AFSCME hired on or after 10/3/16:	10 years
CSO:	10 years

5. What happens if I die before starting to collect my benefit?

If you are vested and die while employed by the city, your spouse will be paid a survivor benefit computed as if you had retired the day preceding the date of death and elected Option B (see page 6), but without a reduction. You may provide for someone other than your spouse by filing an election of Option B and naming a beneficiary who is dependent upon you for at least half of his or her financial support. The election and beneficiary name may be changed at any time prior to your death or retirement.

If there is no pension payable at the time of your death, your accumulated contributions will be refunded to your designated beneficiary.

6. What happens to my money if I quit before I'm vested?

If you leave the system before you are vested, you are entitled to a refund of your contributions and any interest that may have been paid to your account. Your pension contributions and interest are eligible for rollover (into an IRA or another pension program, for example). This will help you save money for retirement.

Application for a refund must be submitted to the City within three (3) years of the date of termination or the funds are forfeited to the retirement system.

7. What is the difference between regular, early and deferred retirements?

A **regular retirement** provides the largest amount you are eligible to collect from the retirement system assuming a straight life allowance. For Sworn Public Safety employees, 25 years of service or age 50 with 10 years of service is required. For all others, the requirement is age 57 with 25 years of service or vested and age 62. AFSCME employees may also qualify for a regular retirement at age 60 with 20 years of service.

An **early retirement** allows you to retire; however, your benefit is reduced because the eligibility requirements of a regular retirement were not met. For Sworn Public Safety employees this is 20 years of service. For all other employees age 55 with 15 years of service, or at age 60 when vesting requirement has been met. (Please see #9)

A **deferred retirement** can be paid to you if you have met vesting requirements and terminate from the City of Kalamazoo prior to reaching retirement age. You can leave your money in the system and begin collecting a retirement allowance when you reach the eligible age. The benefit will be based on your actual years of service, the multiplier in effect at the time you left employment and your final average salary at termination. (Please see #10)

8. What are the different retirement options?

The option you choose is a personal decision made at the time of retirement. It is obviously dependant on your health, the health of your spouse or beneficiary, and other financial considerations.

STRAIGHT LIFE ALLOWANCE:

Employees other than Sworn Public Safety

You receive the maximum pension benefit during your life. The benefit ceases at the time of your death. Your beneficiary receives nothing thereafter other than unpaid accumulated contributions, if any.

STRAIGHT LIFE ALLOWANCE:

Sworn Public Safety Employees

You receive the maximum pension benefit during your life. Your surviving spouse to whom you are married both at the time of retirement **and** date of death shall receive an allowance equal to 50% of your benefit. The 50% survivor benefit would cease upon your surviving spouse's remarriage.

OPTION A:

Cash Refund Annuity terminates upon your death. Any balance of your contributions in the monthly portion of your reduced allowance will be refunded to your designated beneficiary. For example, you receive a \$1,500 monthly benefit and \$500 of that benefit is funded by your contributions. If your total contribution to the system while employed was \$30,000 and you die before the \$30,000 is exhausted, your beneficiary receives the balance.

OPTION B:

100% Survivor Allowance. Your benefit is actuarially reduced to allow for continued payments beyond your death. The reduced allowance will continue upon your death to be paid to your designated beneficiary.

OPTION C:

50% Survivor Allowance. Your benefit is actuarially reduced to allow for continued payments beyond your death. Fifty percent (50%) of your reduced allowance will be paid to your designated beneficiary upon your death.

OPTION D:

10 Year Certain and Life Retirement Allowance. You receive a reduced allowance throughout your lifetime. If you die before 120 monthly payments have been made, the allowance will continue to be made to your designated beneficiary for the remainder of the 120 months.

OPTION E:

15 Year Certain and Life Retirement Allowance. You receive a reduced allowance throughout your lifetime. If you die before 180 monthly payments have been made, the allowance will continue to be made to your designated beneficiary for the remainder of the 180 months.

OPTION F:

Option B Allowance is actuarially reduced again. In the event your designated beneficiary dies before you, your retirement allowance becomes the straight life retirement amount.

OPTION G:

Option C Allowance is actuarially reduced again. In the event your designated beneficiary dies before you, your retirement allowance becomes the straight life retirement amount.

9. How is my benefit affected if I retire early?

Employees (other than Sworn Public Safety)

If you are at least age 55 and have at least 15 years of service or at least age 60 and have met vesting requirements, your benefit is computed as a regular retirement but reduced 4/10 of 1% for each month you retire prior to age 62 with less than 25 years or age 57 if you have 25 or more years of service.

For example, if you are 55 and have 25 years of service, your benefit would be reduced 4/10 of 1% for each month to age 57. If you are 55 and have 17 years of service, your benefit would be reduced 4/10 of 1% for each month to age 62.

Sworn Public Safety employees

If you have 20 years of service regardless of age, you may retire early with a multiplier reduced from 2.7% to 2.0%.

10. What is a deferred retirement?

Employees (other than Sworn Public Safety)

If you leave the City after being vested in the Retirement System, you may leave your accumulated benefit in the system until you decide to draw at age sixty (60) or fifty-five (55) for early retirement. If you had at least 15 years of service, you may begin to draw at age 55, but your benefit would be reduced in the same manner as an early retirement (see above). If you had less than 15 years of service, you may begin to draw at age 60.

Sworn Public Safety employees

If you leave the City after being vested in the Retirement System, you may begin to draw a deferred retirement at age 50 computed at the 2% multiplier.

All employees

You may be eligible for a deferred retirement benefit under the Reciprocal Retirement Act. Your eligibility for this benefit will depend on your other public employment in the State of Michigan. (Please see #16)

11. How is my retirement benefit calculated?

A “benefit formula” is applied which will determine the actual benefit to be paid when the day of retirement arrives. The expected retirement benefit can be estimated now by applying the same formula to current salary and years of service, or by projecting what circumstances are expected to be at retirement age. Three factors make up the benefit formula:

1. Service Credit
2. Final Average Compensation (FAC)
3. The Percentage Factor (Multiplier)

Employee Group	Percentage of FAC
Non-Bargaining	2.3%
AFSCME	2.1%
Sworn Public Safety	2.7%
KMEA	2.1%
CSO	2.1%

12. What is final average compensation?

Your final average compensation (FAC) is the average of your salary over a 36-month period (3 years). Since the highest 36 consecutive months are used, this is typically your last three years of service; however the 36 consecutive months must be within your last ten (10) years of credited service.

13. How is my retirement calculated?

To estimate the annual retirement benefit (d), apply the following formula inserting the numbers that apply for (a) FAC, (b) Percentage Factor and (c) Years of Service. This is known as a “Straight Life” benefit.

$$\text{FAC (a) x Percentage (b) x Years of Service (c) = Annual Benefit (d)}$$

One or more of the following will reduce the annual straight life benefit:

1. Early retirement
2. If an election other than straight life is chosen (Options A through G)

Examples

Regular Retirement

A non-bargaining employee who is fifty-seven (57) years of age and has been with the City for the past twenty-five (25) years with a FAC of \$60,000 would calculate the annual benefit as follows:

$$\begin{array}{r}
 \quad 60,000 \\
 \mathbf{x} \quad 2.3\% \\
 \hline
 = \quad 1,380 \\
 \mathbf{x} \quad 25 \text{ years} \\
 \hline
 = \quad \$34,500 \text{ Annual} \\
 \text{Benefit}
 \end{array}$$

A Sworn Public Safety employee, who is fifty (50) years of age at retirement, has twenty-five (25) years of service and a FAC of \$70,000 at the time of retirement would calculate the annual benefit as follows:

$$\begin{array}{r} \quad 70,000 \\ \mathbf{x} \quad \quad 2.7\% \\ \hline = \quad \quad 1,890 \\ \mathbf{x} \quad \quad 25 \text{ years} \\ \hline = \quad \$47,250 \text{ Annual} \\ \quad \text{Benefit} \end{array}$$

14. What happens if I become disabled?

If you are vested (waived for a duty disability) and the Medical Doctor and the Pension Board of Trustees approve your application for disability, you will receive a disability retirement allowance. This allowance is computed the same way as a straight life retirement allowance. If the injury was on the job, (duty disability) you will be given service credit to your voluntary retirement age. Ex. If you were injured while at work and 45 years old with 15 years of service, your benefit would be calculated as if you worked until age 55 (25 years of service for Sworn Public Safety members) and you would receive 10 additional years of credited service (10 years for Sworn Public Safety).

If the injury was not job-related, you will receive a benefit based on actual years worked, however there will be no reduction for early retirement. Ex. You are 45 years old with 15 years of service and you were in a car accident and unable to return to work. Even though you are not 55, you would receive an unreduced pension based on 15 years of credited service.

In both duty and non-duty disability cases, the Pension Board has the right to require you to submit to an annual medical examination whenever there is reason to believe you are no longer disabled.

Under some circumstances, your disability benefits may be subject to limitations because of receipt of workers' compensation benefits.

15. What is military service credit or military buy back?

You may purchase up to three (3) years of active duty service based on your time in the military. Member contributions to the pension system are based on the percentage he/she pays to the system upon employment. Application must be made within one (1) year of hire date and payment must be completed within five (5) years.

16. What is the Reciprocal Retirement Act?

The City is a “reciprocal unit” under the provisions of the State Reciprocal Retirement Act. This Act allows employees who have worked for more than one municipal unit to combine years of service for vesting purposes only.

If an employee leaves the City and begins working for another governmental agency, which is also a reciprocal unit, it may be possible to combine the service credit of the two units of government for vesting purposes only.

In addition, if an individual has been a City employee for at least thirty (30) months after working for another participating governmental agency, it may be possible to combine the service credit of the two units of government for vesting purposes only.

If an individual becomes vested using the Reciprocal Act, at retirement age a benefit would be derived from each unit based on the retirement formula of each governmental unit.

Example: You work for the County of Kalamazoo for 5 years and then become employed by the City. You work for the City for 15 years. County employees are vested after 8 years. In addition to your City pension, you are entitled to a five-year pension from the County when you reach the eligible County retirement age, since the combined years of service are more than 8 years.

If you have questions or wish to apply for reciprocal service, contact the Benefits & Retirement Services Manager at 269-337-8180.

17. What is a Post-Retirement Adjustment?

A post-retirement adjustment (PRA) is a compounded annual increase to a retiree’s benefit to help keep pace with inflation. Most employees currently receive an annual PRA ranging from 1.0% to 2.0% a year. For the specific amount for you, please contact Retirement Services at 269-337-8180.

18. Who administers the retirement system?

A five-member Board of Trustees administers the system. The Board is comprised of:

A City Commissioner, selected by the Commission

The City Manager

A citizen appointed by the Commission

A Public Safety member elected by the Public Safety employees

A General Member elected by the General Member and Metro Transit employees

19. Who invests the assets of the retirement system?

The City's Retirement System has an appointed Investment Committee which manages and invests all pension assets on behalf of the City of Kalamazoo. Investments are made in quality securities in accordance with the provisions of Michigan law. The assets of the Retirement System must be held and used for the exclusive benefit of members and their beneficiaries.

20. What should I do when I'm ready to retire?

Before you retire, you should

1. Contact the Benefits & Retirement Services Manager at (269) 337-8180 to schedule a meeting to discuss all of your benefits.
2. And get an estimate of your retirement benefit.

Calculate Your Own Benefit

Using the following format as a guide, calculate your own projected annual retirement benefit by inserting your FAC, the percentage factor that pertains to your group, and the number of years service credit you expect to have accumulated by the time you retire.

Remember, this calculation is only an estimate. The actual benefit dollars will be determined at the time of retirement.

Information needed:

- (a) Your FAC = _____
- (b) Your percentage factor = _____
- (c) Your years of service = _____

The Calculation:

- (a) FAC (average of the best three (3) consecutive years of the last ten (10) years) _____
- (b) Multiplied by percentage factor _____
- (c) Multiplied by years of service _____
- Equals*
- (d) Annual Benefit _____