ARC Board Overview of Retirement Benefit Updates

August 26th, 2020
Retirement Benefits Analysis Objectives

Objectives set in March 2019

• Review the coverage/products offered to employees interested in retirement
• Analyze the current cost sustainability of the (current & potential) plans considering future expected demand and industry standards
• Accept status quo (‘do nothing’) or, as directed, provide design recommendations for a way forward that is competitive, attractive, and cost effective
Retirement Benefits Analysis Overall Timeline

2019 – Decision Due Diligence

- Identify and capture the objectives
- Finalize targets of Pension Analysis (e.g. Target Replacement Ratio, Risk-Sharing)
- Define approach and scenarios for analysis

Pension Board
Major Decisions

2020 – Analyze, Develop, and Implement

- Conduct scenario analysis
- Finalize target/ optimal changes to retirement plan – Go / No Go decision
- Socialize and align Executive Leadership
- Launch RFP to engage 3rd Party to analyze Plan options

3rd Party Engagement for Benefit Change analysis & options

- Design choices for current/new FTEs
- Develop implementation plan
- Refine/re-design the enrollment process
- Design and develop communication plan
- Finalize 2020 launch timing
- Preliminary Employee engagement for input, buy-in, etc.

Implementa
tion

- Go Live 2021

Timing TBD
Findings and Conclusions leading to the Recommended updates

**Employee Perception and Benchmarking**
- Upper end of Competitive range
- Employees willing to bear some of investment and longevity risk
- Retiree medical subsidy higher than peers
- Valued benefit and current employees willing to pay more to maintain

**Trends and Innovations**
- Shifting cost and investment risk for newer hires
- More stringent retiree health eligibility
- Increasing retiree cost
- Exploring individual market

**Sustainability and Security**
- Fund Pension and OPEB plans over reasonable period using reasonable assumptions
- Target fringe rate of about 60%
- Fringe cost projected to increase significantly above 60% after 15 years primarily due to increasing active medical cost
Retention Plan and Benefits Updates for future ARC employees

Updates to the Retirement Plan

- Reduced the agency’s risk by reducing the “multiplier” by 50% which is ARC’s flat contribution to each employee’s retirement
- However, each employee will receive an annual automatic cost of living adjustment rather than ad-hoc
- Each new employee will be able to contribute in increased amount toward their defined contribution plan and the agency will match this 100%

Updates to Other Post-Employment Benefits

- Reduced the premium paid toward eligible Medicare retirees
Recommended Changes for future hires within the **Retirement Plan and Benefit**

### Retirement Plan

<table>
<thead>
<tr>
<th>Factors</th>
<th>Current Plan</th>
<th>Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit % of Retirement Income</td>
<td>66%</td>
<td>50%</td>
</tr>
<tr>
<td>Multiplier</td>
<td>2.5%</td>
<td>1.25%</td>
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<tr>
<td>Cost of Living Adj.</td>
<td>Ad-Hoc</td>
<td>Automatic/ Yearly</td>
</tr>
<tr>
<td>Employee Contribution</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Defined Contribution Match</td>
<td>50% up to 3.0%</td>
<td>100% up to 4.5%</td>
</tr>
<tr>
<td>Plan Max Contribution</td>
<td>1.5%</td>
<td>4.5%</td>
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</tbody>
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### Other Post Employment Benefits

<table>
<thead>
<tr>
<th>Factor</th>
<th>Current Plan</th>
<th>Recommended</th>
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</thead>
<tbody>
<tr>
<td>Premium subsidy for Medicare retirees</td>
<td>85%</td>
<td>75%</td>
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