



June 13, 2012

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Russ Truell, Assistant City Administrator/CFO
Shirley Harmon, Human Resources Director

SUBJECT: Employee Pension Plan – First Amendment

Purpose

The purpose of this memorandum is to provide the Board of Mayor and Aldermen (BOMA) with information to consider an amendment to the City of Franklin Employee Pension Plan providing for the return of employee contributed fund to former employee who have left the City prior to vesting in the system.

Background

The City of Franklin maintains a pension program for its employees. The City updated and made significant modifications to the pension program in 2010. One component of the amended pension program was that employees hired after February 15, 2010 were required to make a minimum contribution of 5% of their compensation to their pension. This contribution is required as a part of participation in either the defined benefit or defined contribution program. In establishing the amended pension program, the issue of returning contributions made by employees prior to becoming fully vested in the program was not fully addressed. Vesting occurs after the employee has reached five years of service with the City of Franklin. The proposed amendment provides for the return to the former, non-vested employee of their contributions to the pension. The amendment also provides for the appropriate allocation of interest earnings to the former employees contributions.

Options

The Board may accept, decline or modify the proposed amendment to the Employee Pension Program.

Financial Impact

There no direct impacts on the City's financial obligations as these are contribution made by the former employees to the pension.

Recommendation

Approval of the proposed amendment to the Employee Pension Program is recommended.

**FIRST AMENDMENT TO THE
CITY OF FRANKLIN EMPLOYEES' PENSION PLAN**

WHEREAS, the City of Franklin (the "City") has previously established and currently maintains the City of Franklin Employees' Pension Plan (the "Plan"); and

WHEREAS, the City has retained the right to amend the Plan; and

WHEREAS, the City has most recently amended and restated the Plan in its entirety on January 24, 2012, effective as of January 1, 2010; and

WHEREAS, the Board of Mayor and Aldermen has approved the amendment of the Plan as set forth herein;

NOW, THEREFORE, the Plan is hereby amended in the following respects:

1. Subsection (d) of Section 3.1 of the Plan, "Normal Retirement Benefit," is deleted and replaced in its entirety to provide as follows, effective July 10, 2012:

(d) Mandatory Participant Contributions. Notwithstanding any provision of the Plan to the contrary, a Participant who was first hired by the City on or after February 15, 2010, shall make a mandatory contribution to the Plan in an amount equal to 5% of the Participant's Compensation. Such Participant whose Employment terminates before he is fully vested in his Accrued Benefit shall be entitled to a return of such mandatory contributions, as adjusted for earnings, as soon as is reasonably practicable following termination. For this purpose, earnings shall be equal to the State of Tennessee Local Government Investment Pool rate of return, not to exceed 5%, compounded annually as of the first day of the Plan Year, and shall include an amount equal to pro-rated annual interest on the Participant's mandatory contributions as of January 1 of the year of termination for the period beginning on the first day of the year of termination and ending on the actual date of termination. The return of a Participant's mandatory contributions shall constitute a full payment and release of the Participant's right to any benefit under the Plan that is attributable to such mandatory contributions.

2. Subsection (a) of Section 8.1 of the Plan, "Contributions," is deleted and replaced in its entirety to provide as follows:

(a) Pre-tax Employee Contributions. Employees hired before July 1, 1995 may elect to contribute from three percent (3%) to ten percent (10%) on a pre-tax basis to a cash balance account beginning with the first payroll period after September 1, 1995. Employees hired on or after July 1, 1995 and before December 1, 1996 must, per administrative procedures, contribute at least three percent (3%) on a pre-tax basis to a cash balance account; however, these Employees may make a permanent one-time election to contribute an additional amount of from one percent (1%) to

seven percent (7%) of salary. Employees hired on or after December 1, 1996, who have satisfied eligibility requirements of Section 2.1, must contribute at least three percent (3%) on a pre-tax basis to a cash balance account; however, these Employees may make a permanent one-time election to contribute an additional amount of from one percent (1%) to seven percent (7%) of salary. A Participant who was first hired by the City on or after February 15, 2010, shall make a mandatory contribution to the Plan in an amount equal to 5% of the Participant's Compensation. These contributions are considered to be "picked up" by the Employer under Code § 414(h)(2). Notwithstanding the foregoing, no Participants who were first hired by the City after June 30, 2001, but before February 15, 2010, shall be required to make any mandatory contributions to the Plan, and no Pre-tax Employee Contribution Cash Balance Account shall be maintained for any such Participant. For each Participant who has made a one-time permanent election to transfer the balance in the Participant's Pre-tax Employee Contribution Cash Balance Account as of June 30, 2002 to the City of Franklin Employees' Money Purchase Pension Plan, all future allocations of the mandatory contributions previously designated by the Employee pursuant to Section 3.1(c)(1)(i) shall be made to the electing Employee's Employee Contribution Account under the City of Franklin Employees' Money Purchase Pension Plan.

3. Except as otherwise provided in this First Amendment, the Plan shall remain in full force and effect.

SIGNED this _____ day of _____, 2012, effective as of the dates set forth herein.

CITY OF FRANKLIN, TENNESSEE

By: _____

Title: _____