

**CITY OF KNOXVILLE EMPLOYEES'
PENSION SYSTEM**

FOR EMPLOYEES IN

DIVISION H – GENERAL GOVERNMENT

SUMMARY OF PLAN PROVISIONS

PLEASE READ THIS CAREFULLY
AND KEEP FOR FUTURE REFERENCE.

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Welcome to the Plan

As an eligible employee of Division H – General Government of the City of Knoxville (the City), you are a participant in the Division H – General Government City of Knoxville Pension Plan (the Plan), a Division of the City of Knoxville Employees' Pension System.

The Plan was established to provide you with a level of financial security at your retirement - one of the most important long-range goals for you and your family.

The Plan provides a monthly benefit at retirement based on the larger of a Defined Benefit annuity or the annuity value of your Plan H Hypothetical Account.

This booklet describes the main features of the Plan. Please take the time to read this information so that you and your family will know what benefits the Plan provides and how your benefits are determined. If you have any questions after reading the booklet or if you would like to discuss the details further, members of the Pension Board Office staff will be glad to help you.

This is only a summary of your pension benefits. The City Charter, together with the Supplemental Plan Provisions (SPPs) adopted by City Council, determines and governs your rights under the Plan. If there are any inconsistencies or conflicts between the plan provisions in the Charter and SPPs and the information in this booklet, the Charter and SPPs will prevail. You may obtain a copy of the relevant Charter provisions by referring to Article XIII, Section 1381 of the Charter of the City of Knoxville, Tennessee.

The Charter is available on the Internet by going to: <http://www.ci.knoxville.tn.us/> and clicking on *City Hall*, then clicking on *Ordinances and Charter*. You may also request a copy of the Charter provisions and the SPPs by writing to:

The City of Knoxville Pension Board
917B East Fifth Avenue
Knoxville, TN 37917-7737

Or you may call this office during regular business hours at (865) 215-1444.

Eligibility and Participation

If the City hired you as an employee on or after January 1, 2013, the effective date of Division H, you are a participant in the Plan as a condition of your employment. If you are rehired on or after January 1, 2013, you are also a participant in Division H and will accrue benefits during your period of reemployment only under Division H

Employee Contributions

As a participant of this Plan, you contribute 6% of your monthly wages to the Plan through automatic payroll deduction. These payroll deductions are taken before taxes are withheld (also known as pretax deductions).

Employer Contributions

The City of Knoxville makes contributions to the Plan based on the annual actuarial valuation. This valuation is performed by an independent third party. The purpose of the valuation is to determine the City's required contributions to properly fund the Plan. The actuarial valuation takes into consideration the amounts currently being paid to retirees, beneficiaries and disabled members, the number of employees approaching retirement, performance of the Plan's investments, as well as other factors.

Hypothetical Account

As a participant of this Plan, you will have a Hypothetical Account that will receive an allocation of

6% of your compensation as employee contribution credits and 8% of your compensation as employer contribution credits. Your Hypothetical Account will also receive investment credits based on the net return of the Pension Trust Fund investments applied on a quarterly basis.

Once an employee is within two (2) years of normal retirement, the employee may irrevocably elect to receive investment credits based on a more conservative bond index rate as set forth in the SPPs.

Beneficiary

As a participant in this Plan, it is important that you elect a beneficiary to receive your benefits in the event of your death. If no beneficiary is elected, your benefits will be paid as explained in the Section titled "Payment of Benefits After Your Death" on page 7. If you have not named a beneficiary or would like to change your beneficiary, contact the Pension Board.

Your Retirement Benefit

Your benefit at retirement will be the greater of the following:

1. The Defined Benefit annuity that is calculated based on your years of service and your average compensation; or
2. The monthly annuity that is actuarially equivalent to your Hypothetical Account balance.

Years of Service. Your years of credited service are your total completed years, months and days of employment with the City of Knoxville while you are a contributing member to the Pension System. At the time you end your employment with the City, you may elect to convert unused sick leave into additional months of service for benefit calculation purposes if you have at least 160 hours accrued. You will receive one month of service for every 20 days (160 hours) of unused sick leave that you convert.

Compensation. Your compensation is the total amount you are paid for services to the City, excluding overtime payments.

Average Compensation. Your average compensation is calculated by taking the average of your highest compensation for any five (5) annual periods, each consisting of 12 continuous months. Average compensation is limited to a cap of \$40,000, such cap to be indexed up in future years.

Normal Retirement

You may retire from Division H and receive full benefits at age 63 with 10 years of service.

Calculating your Normal Retirement Benefit

To calculate your Defined Benefit payable for your lifetime, multiply your average compensation by 2.0%. Then multiply this amount by your Years of Service. To find out the amount of your monthly benefit, divide your annual benefit amount by 12.

If the amount of the annuity that is based on your Hypothetical Account balance is greater than your calculated Defined Benefit, you will receive that amount rather than the amount calculated under the Defined Benefit formula.

For example:

Joe was with the City for 27 years. His average compensation over the past five years is \$39,000.

Based on annuity value of his Hypothetical Account, Joe would receive a monthly annuity of \$1,650.

His Defined Benefit is calculated as follows:

$$\$39,000 \times 0.02 = \$780$$

His annual retirement benefit is:

$$\$780 \times 27 \text{ years} = \$21,060$$

The monthly benefit for his lifetime is:

$$\$21,060 \div 12 \text{ months} = \$1,755$$

Therefore, Joe would receive the Defined Benefit payment of \$1,755 per month because this is greater than the payment he would receive based on his Hypothetical Account.

Forms of Benefit Payment

The Plan allows you to choose how you would like your retirement benefit payments to be paid to you and/or your beneficiary. For instance, if you would like your spouse to continue receiving your retirement benefit

after you die, you must elect the appropriate payment option to do so. Your payment option may be elected or changed at any time prior to your retirement. Your monthly retirement benefit will be adjusted appropriately based on the option you elect. The total actuarial value of your benefit paid from the Plan remains the same, regardless of the option you elect.

The forms of benefit payment available to you upon retirement are as follows:

Normal Form – Life Annuity

The amount of the normal form of payment is the monthly benefit amount as described in the section titled "Calculating your Normal Retirement Benefit" above. This benefit will be paid until the time of your death. You may instead elect one of the following payment options. If you do not elect one of the payment options listed below, your benefits will be paid in the normal form.

Option A - Joint and Survivor Annuity

This payment option continues monthly benefit payments to your spouse after you die. You may elect to have 50%, 75% or 100% of your benefit payment paid to your spouse for his or her lifetime.

Under this Option A, you may also elect a modified Joint and Survivor option, commonly referred to as the "pop up" election. The optional pop up election is the same as the regular joint and survivor benefit except that if your spouse dies before you, your benefit is reinstated or "pops up" to the amount of the normal form (as if no option had been elected).

For example:

Tom's normal form of benefit is \$2,000 per month, and he retires with a 100% Joint and Survivor monthly benefit of \$1,800. If he elects a 100% pop up option, his lifetime monthly benefit will be reduced to \$1,770. If he dies before his beneficiary, this benefit will continue for his beneficiary's lifetime.

If Tom's spouse dies first, the monthly benefit payable for Tom's lifetime will be reinstated or "pop up" to the original \$2,000 per month normal form the month immediately following his spouse's death.

Option B - Life Annuity with Guaranteed Payments

This payment option provides for a guaranteed period of monthly benefit payments. You may choose to "guarantee" payments for 60, 120 or 180 months after you retire. *Your* benefit is a lifetime benefit. If you live beyond the guaranteed period, your benefit will continue until your death. If you die during the guaranteed period, your beneficiary(ies) will receive monthly payments until the end of the guaranteed period.

Option C - Cash Refund Annuity

This form of benefit payment provides a monthly benefit until the time of your death. After your death, if the sum of the payments made to you before your death is less than the total actuarial value of your benefit at the time you retired, your beneficiary(ies) will receive the difference as a lump sum payment.

For example:

Ed retired with a benefit of \$1,000 per month that was worth \$100,000 (total actuarial value of his benefit). He died after receiving 60 monthly payments (\$60,000). Ed’s beneficiary received a lump sum payment of \$40,000.

Partial Lump Sum Option

With any of the optional forms above, you may elect to receive up to 10% of the value of your retirement benefit as a single lump sum payment. The remaining annuity value will be reduced by the value of the single sum payout.

Termination of Employment

Termination of Employment before Vesting

If you end your employment with the City before you are vested – that is, before you have completed ten years of credited service – you may request a refund of your plan contributions with simple interest, or you may leave your contributions in the fund.

Termination of Employment after Vesting but before Normal Retirement

If you are vested at the time you terminate, you may request a refund of your plan contributions with simple interest, or you may leave your contributions in the fund and receive a deferred monthly benefit on the date you would have become eligible for your retirement benefit had you continued to work for the City.

For example:

If Ed was hired at age 30 and terminated employment at age 54, his deferred retirement benefit payment calculated under the Defined Benefit formula would be:

$$\begin{aligned} &2\% \times \$39,000 \text{ (average compensation)} \times \\ &24 \text{ (actual years of service)} = \\ &\$18,720 \text{ per year payable beginning at age 63.} \end{aligned}$$

Ed’s actual retirement benefit will be the greater of the benefit calculated under the Defined Benefit formula described above or the annuity value of his Hypothetical Account.

Immediate Early Retirement Benefit

If you complete at least 20 years of service and terminate employment before reaching age 63, and on or after age 50, you may elect to receive a reduced immediate early retirement benefit each month for the duration of your life. The benefit is calculated as the greater of the benefit based on your Hypothetical Account balance or the Defined Benefit annuity as calculated above, but reduced 4% per year from your normal retirement age.

In all cases, the payment option you elect will determine the amount of the monthly benefit paid to you and/or your beneficiary.

Reinstatement of Benefits

If you elected to withdraw your contributions plus interest upon your termination from employment

(whether vested or not) and are rehired within six years of your termination date, you may make application to have this prior employment reinstated as creditable service with the Plan in accordance with the following provisions:

- You complete one year of service after you are rehired;
- You submit your application within six months after you have completed one year of reemployment; and
- You repay the amount of your refund plus interest determined from the date of your refund to the date of the repayment.

Payment of Benefits if You Become Disabled

The Plan is designed to provide you with a benefit if you become disabled and are unable to perform your duties as an active employee of the City. If you are an eligible employee, you will receive a benefit from the Plan for as long as you are disabled whether or not the disability was caused while in the course of duty. Determination of disability and plan payments are subject to the approval of the Pension Board.

Disability in the Course of Duty

If you become disabled in the course of your duty, regardless of your years of service with the City, your monthly benefit will be calculated using the following assumptions:

- you have attained age 63; and

- you have worked for the City until reaching age 63.

Your monthly benefit will be paid for the duration of your disability or your lifetime.

For example:

Vic is disabled due to a work-related accident. He is 40 years old and has worked for the City for 13 years. His Defined Benefit will be calculated as if he were already 63 years old with 36 years of service (13 years of actual service plus 23 years of assumed service from age 40 to age 63). Vic's disability benefit will be the greater of the benefit calculated under the Defined Benefit formula or the annuity value of his Hypothetical Account.

Disability Not in the Course of Duty

If your disability is caused while not in the course of duty and you have less than ten years of service with the City, you may receive a refund of your Plan contributions plus simple interest.

If you have ten or more years of service, your monthly benefit payment is calculated using your normal retirement formula based on your years of service at your date of disability.

This monthly benefit will be paid for the duration of your disability or your lifetime.

For example:

Bob is 45 years old and has worked for the City for 20 years. He was seriously injured in a car accident *while*

not working and is unable to work. His average annual compensation is \$36,000. His monthly Defined Benefit is calculated as:

$$2\% \times \$36,000 \times 20 \text{ years} \div 12 \text{ months} = \$1,200.$$

Bob's monthly disability benefit will be the greater of \$1,200 or the annuity that is actuarially equivalent to Bob's Hypothetical Account balance.

Payment of Benefits After Your Death

In the event of your death, benefits are paid in accordance with the payment option you elected. (See "Forms of Benefit Payment" on page 3.)

There is one important exception. If benefit payments have not started and your spouse is your sole primary beneficiary, and if the payment option you elected produces a smaller benefit than your spouse would receive had no election been made, then your spouse may void the election and receive the greater benefit.

If you do not elect a payment option, your benefit payment will be paid as described in one of the following sections:

- Death Before Retirement
- Death After Retirement

Death Before Retirement

If you have less than ten years of service at the time of your death, your beneficiary will receive a refund of your plan contributions with simple interest.

If you have ten or more years of service, your beneficiary will be paid benefits in one of the following ways.

1. The payment of a monthly benefit determined according to the option you elected before death; or
2. If no payment option was elected, your spouse will receive a death benefit based on the Option A 50% Joint and Survivor Annuity form of payment (see "Option A" on page 4). It is calculated as if you had retired on the day before your death. If you are not 63 at the time of death, your spouse's benefit will be calculated as if you were age 63.

Your dependent children will receive a separate benefit in addition to the 50% spousal benefit. If your death does not occur in the course of duty, and you have ten or more years of service, your dependent children will receive a \$75 monthly benefit until age 19 (age 23 if a full time student). If death was in the course of duty, this \$75 monthly dependent children benefit is paid regardless of your years of service.

If you do not have a surviving spouse or a designated beneficiary under another option, a refund of your plan contributions plus simple interest will be paid to your estate.

Death After Retirement

In the event of your death after retirement, benefits are paid in accordance with the payment option you elected (see "Forms of Benefit Payment" on page 4). If you did not elect a payment option, your beneficiary, if living, may receive a benefit. The benefit amount, if any, will

be equal to your contributions to the fund minus all the benefits you received from the fund.

Leave of Absence

If you are granted a leave of absence, for up to two years, you will not lose any rights under this plan, except credited service for your period of absence. However, if you are granted a leave of absence with the City for military service or education, you may have additional rights to credited service in the Plan.

Leave of Absence for Military Service

If you are granted a leave of absence for military service, you receive credit in the Plan for this service when you return to the City's employment pursuant to the terms of the Uniformed Services Employment and Reemployment Rights Act and other applicable federal and Tennessee law.

To receive credit for your military service, you must make all contributions to the Plan that you would have made had you been employed during your leave of absence for military service. These contributions must be made in addition to the current contributions that are deducted from your current wages.

Once all conditions are met, your credited service and benefit will be calculated as if you were employed under normal conditions.

Leave of Absence for Educational or Advanced Training

If you are granted a leave of absence for educational or advanced training, you may be credited for service during your leave if you return to employment within one year after your leave was granted. To be credited for service, you must contribute an amount equal to the contributions that were missed during your leave of absence. Your missed contributions must be paid to the Plan by at least doubling your employee contributions to the Plan until such time as the back payment has been completed.

Prior Military Service

Members who have completed one (1) year of continuous employment with the City of Knoxville have the opportunity to purchase up to four (4) years of prior military service as pension credited service. The member must apply in writing to the Pension Board within six (6) months after his or her one year anniversary with the City. The member must pay the actuarial value of the benefit as determined by the Pension Board after consulting with the system's actuary within 60 days after approval by the Pension Board.

Benefit Adjustment

Your pension benefit is adjusted on January 1 of each year by the increase in the Consumer Price Index (CPI). This increase will be no less than 0% and no more than 3%.

The adjustment will be reduced based on the Funded Ratio of the Plan according to the following:

- 50% reduction if the Funded Ratio is between 80% and 95%.
- 75% reduction if the Funded Ratio is between 60% and 80%.
- 100% reduction if the Funded Ratio is below 60%.

This benefit adjustment applies to your current benefit each year.

For example

Assume the Plan's Funded Ratio is 97%, and the increase in the CPI is 3%. In 2003, Linda's monthly benefit was equal to \$400. In January 2004, she received a 3% adjustment, which provided her with a monthly benefit of \$412 ($\$400 \times 3\% = \12).

Additional Rights and Information

When You Are Ready to Retire – Claiming Your Benefits

Approximately two months before you are ready to retire, you should visit the Pension Board Office, which is located at 917B East Fifth Avenue, Knoxville, TN, so that a Pension Board staff member can help you complete any necessary forms. You should receive your first pension payment on or around the 28th of the month following your retirement date.

Appeal Procedures

The Pension Board interprets the Plan, determines who is eligible to receive benefits and approves the payment of all benefits. It also determines the disability status of an employee or retiree for Plan benefit payment purposes.

If you disagree with the Pension Board's determination of eligibility or calculation on your benefit claim, you have the right to request that the Pension Board review your claim. The Pension Board Office will provide details on the appeal procedure, but you must file your appeal within 60 days of notice of the Board's initial decision. You will not have the right to seek judicial review of your claim if you fail to follow the Board's appeal procedures.

Fiscal Year

The fiscal year for this Plan is July 1 to June 30.