CITY OF KNOXVILLE EMPLOYEES' PENSION SYSTEM

SUMMARY PLAN PROVISIONS FOR DIVISION G2

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WELCOME TO THE PLAN

As an eligible employee of Division G of the City of Knoxville (the City), you are a participant in the Division G2 City of Knoxville Pension Plan (the Plan), a Division of the City of Knoxville Employees' Pension System. You either made the election to participate in Option 2 of Division G in the spring of 1997, when this option was introduced, or during the election period after you completed ten years of service.

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 is a defined benefit pension plan, which means that it uses a formula to determine the monthly benefit you will receive during your retirement. Your benefit is calculated using your highest income and the number of years you were employed by the City.

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 1371 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 click 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 a general government employee between January 16, 1963 and January 1, 1997, you are a participant in the Division G Plan as a result of your retirement election effective July 1, 1997. You also made an election to participate in the Option 2 benefit—the Enhanced Defined Benefit Plan. If you were hired as a general government employee on or after January 1, 1997 through the plan closure as of December 31, 2012, you became a participant in this plan option (Division G2) as a result of your election to transfer from the Division G1 Plan after ten years of service. When you transferred to Division G2, you gave up any rights to benefits earned in Division G1 (or Division A).

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.

YOUR BENEFICIARY

As a participant in this Plan, it is important that you elect a beneficiary. Your beneficiary will 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 is calculated using your years of service and your average compensation.

Years of service. Your years of service are the total completed years, months and days as a participant in the City of Knoxville Pension System. Your years of service begin on your date of hire and run through your date of termination, less interruptions in employment during which you did not make contributions to the pension system. If you transferred from Plan A, your years of service include your employment while you were a participant in Plan A. At the time you retire, you may elect to convert unused sick leave into additional months of service for benefit calculation purposes. 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 during any two 12-month periods, whether these periods are consecutive or not.

Normal Retirement

You may retire from Division G2 and receive full benefits on the first day of the month coincident with or next following the earlier of when you reach age 62 or when you meet the Rule of 80. You pass the Rule of 80 if, at the time of your separation from service, your age plus your total years of service equals 80 or more.

Calculating your Normal Retirement benefit. To calculate your annual normal retirement benefit payable for your lifetime, multiply your average compensation by 2.1%. 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.

For example:
John is retiring at age 62 with 28 years of service. His highest salaries over two 12-month periods were $34,000 and $38,000, making his average compensation $36,000. His retirement benefit is calculated as follows:

$36,000 x 0.021 = $756

His annual retirement benefit is:

$756 x 28 years = $21,168.

The monthly benefit for his lifetime is:

$21,168 ÷ 12 months = $1,764

Early Retirement

You are eligible for early retirement if you complete 25 years of service prior to reaching age 62. Under early retirement, you may elect one of the following:

- a deferred monthly benefit payment to begin once you reach age 62; or
- an immediate monthly benefit payment, beginning on the first day of the month after your early retirement date.

If you elect to receive immediate payments before age 62, your benefit will be permanently reduced by 0.25% for each month between your early retirement date and your 62nd birthday.

In all cases, the form of benefit payment option (see "Forms of Benefit Payment" on page 4) you elect will determine the amount of the monthly benefit paid to you and/or your beneficiary.

For example:
Mary is retiring at age 50 with 25 years of service. Her highest incomes over two 12-month periods were $30,000 and $32,000, making her average compensation $31,000. Mary's early retirement benefit, which is payable at age 62, is calculated as follows:

$31,000 x 0.021 = $651

Her unreduced annual retirement benefit, payable immediately, is:

$651 x 25 years = $16,275

The reduction factor for number of months before age 62:

12 years x 12 months x .25% = 36%

Her reduced annual retirement benefit is:

$16,275 x (100% -36%) = $10,416

The monthly benefit for her lifetime is:

$10,416 ÷ 12 months = $868

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

The amount of the normal form of payment is the monthly benefit amount as described in the section titled "Calculating your Normal Retirement Benefit" on page 3. 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 Option A, you may also elect a modified Joint and Survivor option, commonly referred to as a "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 spouse, this benefit will continue for his spouse'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 paid 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(ies) received a lump sum payment of $40,000.

Delayed Retirement Option (DROP)

If you are eligible for normal retirement—that is, age 62 or you meet the Rule of 80—you may elect to participate in the DROP. Under this program, your retirement benefit is calculated at the start of the DROP period, and you may continue your employment for up to 24 months. You do not contribute to the pension system during the DROP. At the end of the DROP, you will receive a lump sum payment for the benefit you accumulated while in the DROP, and the monthly retirement benefit that was determined at the beginning of your DROP participation will begin. The DROP may be elected with any of the above payment options.

For example:
Susan is eligible to retire at age 60 with a $1,000 per month benefit. Instead, she elects a one-year Delayed Retirement Option. Her benefit is calculated at age 60, but she will continue to work until age 61 and then retire. When Susan retires, she will receive a lump sum payment of $12,000 (for the delayed 12 monthly payments) plus begin receiving an annuity of $1,000 per month, plus any applicable cost of living increases.

TERMINATION OF EMPLOYMENT

Termination of Employment before Vesting

If you end your employment with the City before you are vested—that is, prior to age 62 or with fewer than five years of employment—you may elect one of the following options.

1. You may request a refund of your plan contributions with simple interest. You will forfeit the right to credit for prior service if you are not reemployed within six years of termination (see "Reinstatement of Benefits" on this page 6); or

2. You may leave your contributions in the plan for up to six years and receive credit for prior service if you are rehired before the end of the six-year period. If you are not rehired within the six-year period, your plan contributions plus simple interest must be refunded to you at the end of the six-year period. You cannot reinstate your prior employment upon reemployment after a six-year "break in service."

Termination of Employment after Vesting but before Normal Retirement

If you are vested at the time you terminate, you may choose one of the following options.

1. You may receive a refund of your plan contributions with simple interest. If the City rehires you, you can reinstate your benefits in the Plan by repaying the amount of your refund plus interest (see "Reinstatement of Benefits" on this page 6); or

2. You may leave your contributions in the fund and defer your retirement benefit payment until your normal retirement date (see "Normal Retirement" on page 3). Your benefit will be calculated in the same manner as your normal retirement benefit.

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 your 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.

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

- you have attained age 62; and
- you have worked for the City until reaching age 62.

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 benefit will be calculated as if he were already 62 years old with 35 years of service (13 years of actual service plus 22 years of assumed service from age 40 to age 62).

Disabled not in the course of duty. If your disability is caused while not in the course of duty and you have 15 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 benefit is calculated as:

2.1% x $36,000 x 20 years ÷ 12 months = $1,260.

PAYMENT OF BENEFITS AFTER YOUR DEATH

Death Benefits before Retirement for Active Employees

If you die before you retire, the benefits paid to your beneficiary will depend on your age at the time of your death and whether you are vested.

If you die before you reach age 62 and you have not completed five years of service, your beneficiary will receive a lump sum payment of your plan contributions plus simple interest.

If you die prior to receiving monthly benefit payments, but after completing five years of service or reaching age 62, 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 62 at the time of death, the calculation will use the age 62 factor, so your spouse's benefit will be calculated as if you were age 62.

   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 five 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, a refund of your plan contributions plus simple interest will be paid to your estate if no pre-retirement option form is on file with the Pension Board.

Death Benefits 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 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 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 service and benefit will be calculated as if you were employed under normal conditions.

Leave of Absence for Education 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

Employees with military service incurred prior to employment with the City have the opportunity to apply to purchase up to four (4) years of prior military service as pension credited service. The member must apply to purchase the service in writing within six months of his or her first employment anniversary date and must pay the actuarial value of the benefit as determined by the Pension Board after consulting with the System's actuary within sixty (60) days after approval by the Pension Board.

The requirement to apply to purchase the service within six months of a member's first employment anniversary date does not apply to employees hired prior to January 1, 2001.

Benefit Adjustment

Your pension benefit is adjusted on January 1 of each year. During your first year of retirement, your adjustment is prorated by the number of months you were retired divided by 12.

The minimum adjustment is 3%. Your benefit may not be adjusted more than the following percentages.

- If you are under age 62, 3% per year.
- If you are age 62 or older, your benefit may be adjusted up to a maximum of 4% per year. This adjustment includes the minimum 3%, plus 50% of the change in the Consumer Price Index (CPI) in excess of 3%.

This benefit adjustment is made to your *current* benefit each year.

For example:
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 x 3% = $12). In 2005, the CPI was 5%. Linda received a 4% increase (3% base + (5%-3%) x 50%), giving her a monthly benefit of $428.48 ($412 x 4% = $16.48).

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.