

Pension Plan Grading Criteria

Rewarding Younger Workers

Percentage of maximum pension wealth net of employee contributions (as % of salary) that accumulates in first 10 years of service, for 25-year-old hire:

- A: ratio $\geq 10\%$
- B: ratio $< 10\%$, but $\geq 5\%$
- C: ratio $< 5\%$ but $\geq 3\%$
- D: ratio $< 3\%$ but $> 0\%$
- F: ratio = 0

Promoting a Dynamic Workforce

The maximum annual pension accrual, net of employee contributions, that occurs at age 45 or later, divided by the stock of net pension wealth at that age, for 25-year-old-hire:

- A: ratio $\leq .05$
- B: ratio $> .05$, but $\leq .10$
- C: ratio $> .1$, but $\leq .25$
- D: ratio $> .25$ but $\leq .50$
- F: ratio $> .50$

Encouraging Work at Older Ages

Average annual change in the value of lifetime pension benefits, net of employee contributions, associated with working from age 65 to 70 (measured as a percentage of salary):

- A: > 0
- B: else $> -.10$, or DROP is available
- C: else $> -.25$
- D: else $> -.5$
- F: else

EXCEPTION: Police and fire plans compare average annual change in lifetime benefits from age 55 to 60 (or last five years before mandatory retirement if that occurs before age 60).

Plan Funding Ratio

Based on the plan's interest rate and actuarial assumptions

- A: ratio $\geq 100\%$
- B: ratio $< 100\%$, but $\geq 90\%$
- C: ratio $< 90\%$ but $\geq 75\%$
- D: ratio $< 75\%$ but $\geq 60\%$
- F: ratio $< 60\%$

Plan Makes Required Annual Contributions

Based on the average percentage of annual required contributions (ARC) that was contributed in the last four years for which data are available.

- A: average \geq 100%
- B: average \geq 90% and $<$ 100%
- C: average \geq 75% and $<$ 90%
- D: average \geq 60% and $<$ 75%
- F: average $<$ 60%

Retirement Security for Long-Term Employees

Compares income from retirement plan and Social Security (if available) at age 70 to real earnings at age 64 for someone who participates in the plan for 40 years (from age 25 through age 64) and begins collecting pension and Social Security at age 65

- A: replacement rate \geq 80%
- B: replacement rate $<$ 80%, but \geq 70%
- C: replacement rate $<$ 70% but \geq 60%
- D: replacement rate $<$ 60% but \geq 50%
- F: replacement rate $<$ 50%

EXCEPTION: Police and fire plans use 30-year careers (from age 25 to 54) and compare age-70 retirement income to age 54 earnings.

NOTE: The earnings base that serves as the denominator in the ratio is measured in age-70 dollars

Retirement Security for Short-Term Employees

Compares income from retirement plan and Social Security (if available) at age 70 to real earnings at age 64 for someone who participates in the plan in 8-year installments five times and begins collecting pension and Social Security at age 65.

- A: replacement rate \geq 80%
- B: replacement rate $<$ 80%, but \geq 70%
- C: replacement rate $<$ 70% but \geq 60%
- D: replacement rate $<$ 60% but \geq 50%
- F: replacement rate $<$ 50%

EXCEPTION: Police and fire plans use three 8-year careers (25-34, 35-44, 45-54) and a final 6-year career compare age-70 retirement income to age 54 earnings.

NOTE: The earnings base that serves as the denominator in the ratio is measured in age-70 dollars.