AGENDA REPORT

Meeting Date: June 3, 2010
Item Number: E-2
To: Honorable Mayor & City Council
From: Scott G. Miller, Director of Administrative Services/CFO
Neil A. Comelo, Personnel Manager
Mark A. Brower, Senior Management Analyst
Subject: REPORT TO MAKE PUBLIC COSTS ASSOCIATED WITH THE GRANTING OF ANOTHER DESIGNATED PERIOD FOR TWO YEARS OF ADDITIONAL SERVICE CREDIT

APPROVAL OF AN EXPANSION OF THE ENROLLMENT PERIOD FOR THE ALTERNATIVE RETIREE MEDICAL PROGRAM (ARMP)

APPROVAL OF THE CASH-OUT RETIREE INCENTIVE OPTION

Attachments:
1. Certification of Compliance with Govt. Code Section 20903
2. Actuarial Letter

RECOMMENDATION

Staff recommends the City Council

- Provides its acceptance of this report which complies with Government Code Section 7507 requiring that the cost to provide the two year additional service credit benefit (as part of the early retirement program) be made public at least two weeks prior to the final adoption of the resolution;
- Authorize the Mayor to execute the Certificate of Compliance attached to this report;
- Authorize the expansion of the second enrollment period for the alternative retiree medical program (ARMP) from June 23, 2010 to November 12, 2010 (original start date was September 13, 2010 to November 12, 2010.)
- Authorize the cash-out retiree incentive option pursuant to the parameters set forth in this report.
- Appropriate $2,500,000 from General Fund and Enterprise Fund balances to fund this program, such funds to be repaid from salary savings resulting from this program.

INTRODUCTION

The economic downturn has had a negative impact on the City's revenue sources and the City's budget in general. As a result, projections for FY 2010/11 are that the City will experience a General Fund budget gap of approximately $9 million if corrective actions are not taken. Consistent with the direction of the Mayor and City Council, staff is undertaking a number of steps to address this projected gap both for the upcoming fiscal year and future years. As part of this budget strategy, staff is recommending the City Council offer eligible employees in certain job classifications the option of an early retirement incentive, which can result in an immediate and sustained cost savings. The Council's specific goal was to provide this cost saving measure only if the cost recovery from this program is possible within two years of its implementation.

The two retirement incentive options are presented below and are eligible only for employees in the five classifications listed in this report:

1. CalPERS – 2 Years of Service Credit

The CalPERS retirement incentive program adds two years of service credit to each eligible employee. The City has currently contracted with CalPERS to only offer this program to miscellaneous employees. Employees who elect this early retirement program must retire within a time period set by the City Council.

2. Cash Out Option

To qualify for the cash-out option an employee must resign from City service and thereafter retire from CalPERS by December 15, 2010. The incentive amount is calculated by multiplying the employee's number of completed years of City of Beverly Hills service in a full time position as of the employee's retirement effective date, by one week's base pay, up to a maximum of $60,000. The cash incentive will be deposited into the tax deferred City sponsored into a 401(k), 457(b) or 415(m) account.

DISCUSSION

CALPERS: The City of Beverly Hills contracts with CalPERS to provide retirement plans for employees. The City may provide early retirement incentives to eligible members who retire during a Council designated period. Tonight's action is the first of two steps required to implement a new enrollment period. This is exactly the same program the City Council approved for the FY 2009-10 budget year.

To provide the CalPERS additional service credit it must be the City's intention, under Government Code Section 20903, to keep all vacancies created by retirements under this section or at least one vacancy in any position in any department or other organizational unit permanently unfilled, thereby resulting in an overall reduction in the work force.

To be eligible for the early retirement incentive, an employee must have reached age 50, completed five years of service credit with CalPERS, and retire during the designated period. The estimated costs were based upon staff recommendations that the Council designate this period as June 23, 2010 to December 15, 2010. In order for the City to participate in the program, the following conditions must be met:

1. The City must certify the following:

   A) Because of an impending curtailment of, or change in the manner of performing services, the best interests of the agency will be served by granting such additional service credit.
   B) The added cost to the retirement fund for all eligible employees who retire during the designated window period will be included in the contracting agency's employer contribution rate for the fiscal year that begins two years after the end of the designated period.
   C) It has selected to become subject to Section 20903 because of impending mandatory transfers, demotions, and layoffs that constitute at least 1 percent of the job classification, department, or organizational unit, as designated by the governing body, resulting from curtailment of, or change in the manner of performing, its services.
   D) Its intention at the time Section 20903 becomes operative is to keep all vacancies created by retirements under this section or at least one vacancy in any position in any department or other organizational unit permanently unfilled thereby resulting in an overall reduction in the work force of such department or organizational unit.

2. Consistent with Government Code Section 7507 which requires that the cost to provide the two year additional service credit benefit be made public at least two weeks prior to the adoption of the resolution, listed below is the cost estimate for this benefit. The resolution authorizing the benefit will be on a subsequent City Council agenda for approval.

<u>Cash Out:</u> The enrollment period for selecting the Cash-Out option is June 23, 2010 to December 15, 2010. To qualify for the cash-out option an employee must resign from City service and thereafter retire from CalPERS by December 15, 2010. The incentive amount is calculated by multiplying the employee's number of completed years of City of Beverly Hills service in a full time position as of the employee's retirement effective date, by one week's base pay, up to a maximum of $60,000. The cash incentive will be deposited into the tax deferred City sponsored 401(k), 457(b) or 415(m) account.

Staff also recommends that the Council authorize the CFO to implement the program and the Mayor to execute a Certificate of Compliance with Government Code Section 20903. This information is required pursuant to that section and sets forth the City's intention to comply with the provisions of Section 20903. The early retirement incentive program will be offered in two phases.

<u>Phase 1</u>

Phase 1 will include five classifications, which are listed below. These classifications are eligible for the CalPERS early retirement incentive detailed above. Employees in eligible Phase 1 classifications must retire from City employment during the designated window. The window to accept this early retirement benefit and retire is June 23, 2010 to December 15, 2010.

Only the employees in the following classifications/organization units are recommended to be offered participation in Phase 1 of the retirement incentive benefits. The following employees can either choose the 2 years of CalPERS service credit or choose the Cash-Out incentive. The costs and savings related to the two incentive programs are listed below.

Administrative Clerk I – Public Works
Executive Assistant I - Community Development Department
Principal Planner
Purchasing Specialist
Senior Plan Review Engineer

CalPERS – 2 Years of Service Credit

Cost	1st Year Net Savings	2nd Year Net Savings	2-Year Savings Total
$306,501	$411,961	$718,462	$1,130,423

Cash Out

Cost	1st Year Net Savings	2nd Year Net Savings	2-Year Savings Total
$144,648	$573,814	$718,462	$1,292,276

Phase 2

Phase 2 of the Early Retirement Incentive program is still under development. Staff will be returning to the Council under a separate agenda in the following months to seek authorization for the Phase 2 program. An important component of the Phase 2 will be the substitution of the CalPERS 2 year credit with a Public Agency Retirement Services (PARS) benefit which will be offered along with the Cash-Out option. These programs are intended to further save the City money. The agenda report will include plan documents, cost estimates, list of eligible classifications and governing resolution.

Alternative Retiree Medical Program (ARMP)

The ARMP was an alternative retiree medical program authorized by the City Council on December 15, 2009 designed to provide an incentive to employees to choose an alternative retiree medical benefit program as opposed to the current ones authorized by their individual MOUs. The ARMP gives employees greater flexibility and provides immediate benefits as opposed to the existing plan. As part of the ARMP, the City makes contributions/distributions to the participating employees. The program was designed to reduce the City's current Other Post Employment Benefits (OPEB) liability over 40 years with the reduction increasing as more employees take advantage of the program. It is estimated that the City will save approximately $23 million and decrease unfunded liabilities by $216.9 million over 40 years if 35% of the current employees participate in the ARMP. To date 101 employees or 21% of the City's eligible employees have already elected to participate. It is anticipated that the estimated 35% participation will be surpassed by the end of the second enrollment period, recommended to end in

November 2010. This means that the City will save in excess of the estimated $23 million.

This report seeks Council authorization to expand the second enrollment period from June 23, 2010 to November 12, 2010 (original start date was September 13, 2010 to November 12, 2010) to enable employees eligible for the Early Retirement Incentive program or those affected by layoffs to participate in the program.

There is no cost difference to the City by expanding the enrollment period from the original dates to the dates recommended in this report. In the original report which authorized the ARMP, staff had proposed the two enrollment periods to control implementation costs, encourage participation, and address financing constraints. Since staff will be making the necessary adjustments to the actuarial database, there will be no consultant costs, employees will have only two enrollment periods with a specific deadline, and the end date is not being changed so it does not constrain financing. Thus the recommended expansion of the enrollment period will not jeopardize the original goals.

BUDGET/FISCAL IMPACT

The cost of the proposed retirement incentive is not to exceed $2,500,000, and will be funded using general and enterprise fund reserves. The appropriation of these funds will be part of the FY 2010-2011 budget. The amount used to fund this program will be repaid within two years by the savings resulting from the elimination or downgrading of the positions. Assuming that all six eligible employees take one of the two early retirement incentive options, the two year total savings is estimated to range between $1,130,423 and $1,292,276. It is anticipated however that only four of the six employees will avail themselves of this early retirement incentive program. Since this is a voluntary program the exact cost of the savings cannot be determined until after the end of the enrollment period within which employees must retire.

for Sandra Olivencia-Curtis

Human Resources

for Scott G. Miller

Don Harrison

Department Head

Attachment 1

Certification of Compliance with Govt. Code Section 20903

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Employer Services Division
Contract Maintenance Unit
P.O. Box 942709
Sacramento, CA 94229-2709

CERTIFICATION OF COMPLIANCE WITH GOVERNMENT CODE SECTION 20903

In accordance with Government Code Section 20903 and the contract between the Public Employees' Retirement System, the City Council of the City of Beverly Hills hereby certifies that:

1. Because of an impending curtailment of, or change in the manner of performing service, the best interests of the agency will be served by granting such additional service credit.

2. The added cost to the retirement fund for all eligible employees who retire during the designated window period will be included in the contracting agency's employer contribution rate for the fiscal year that begins two years after the end of the designated period.

3. It has elected to become subject to Section 20903 because of impending mandatory transfers, demotions, and layoffs that constitute at least 1 percent of the job classification, department or organizational unit, as designated by the governing body, resulting from the curtailment of, or change in the manner of performing, its services.

4. Its intention at the time Section 20903 becomes operative is to keep all vacancies created by retirements under this section or at least one vacancy in any position in any department or other organizational unit permanently unfilled thereby resulting in an overall reduction in the work force of such department or organizational unit.

THEREFORE, the City Council of the City of Beverly Hills hereby elects to provide the benefits of Government Code Section 20903 to all eligible members who retire within the designated period, ______________________ through ______________________.

CITY COUNCIL
OF THE
CITY OF BEVERLY HILLS

BY ________________________________
Presiding Officer

Attest:

____
Clerk/Secretary

____
Date

<u>Attachment 2</u>

Actuarial Letter

AON CONSULTING

Bradley J. Au | Senior Vice President

May 26, 2010

Mr. Scott Miller
Administrative Services Director & Chief Financial Officer
City of Beverly Hills
455 N. Rexford Drive
Beverly Hills, CA 90210-4817

Re: CalPERS – Cost Study of Two Years Additional Service Credit Program

Dear Scott,

As requested, we reviewed the estimated cost for the City of Beverly Hills to provide optional contract provisions under California Public Employees' Retirement Law through the California Public Employees' Retirement System (CalPERS).

In particular, we estimated the cost to provide Two Years Additional Service Credit (Section 20903) to certain employees. Under this provision, eligible participants who elect to retire immediately receive an additional two years of service credit towards their pension benefits.

Summary of Results

We were asked to estimate the additional cost for six named individuals, who all benefit under the Miscellaneous 2.5% @ 55 benefit program. Assuming all six participants elect the enhanced benefits, the estimated additional costs follow:

Actuarial Liability (spread over 20 year period)	$290,000 to $530,000
Total Annual Cost	up to $40,000

This estimate is based on CalPERS' assumptions using Miscellaneous group mortality and a 7.75% interest rate.

Commentary

The range of liabilities results from the number of ways one could analyze the cost of the plan amendment, which include methodologies briefly discussed below:

- *CalPERS' Procedure for Calculation of "Additional Employer Contributions"* – as described in the Optional Benefit Listing, this algorithm calculates additional total liability and annual cost estimates based on CalPERS' valuation methodologies and assumptions.

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- *Actuarial Liability Increase* – this is the additional liability created strictly from additional years of service credit, assuming immediate benefit commencement. It is not necessarily the result based on actuarial valuation methodology.
- *Annual Cost Increase* – this can vary depending on whether annual costs changes are analyzed over a period of time (i.e., average costs), or for a particular year (e.g., next valuation year). The range of results shown represents an estimate of the varying cost increases over a number of years. The actual impact on the Annual Required Contribution (ARC), which is the City's funding requirement, is expected to be near the low end of the range initially and increase to the high end of the range over 20 years.

Average demographic information for the six participants used in this analysis includes: average age 56.1, average years of service 15.4, average salary $80,000.

We would be pleased to discuss our analysis at your convenience. Please call me if you have any questions.

Sincerely,

Bradley Au

Bradley J. Au
Senior Vice President

c: Neil Comelo
Mark Brower
Shella Phan
Kate Shiflett

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