AGENDA REPORT

Meeting Date: December 15, 2009

Item Number: E-3

To: Honorable Mayor & City Council

From: Roderick J. Wood, City Manager

Scott G. Miller, Chief Financial Officer and Administrative Services Dir.

Subject:

APPROVAL OF THE ALTERNATIVE RETIREE MEDICAL PROGRAM INCLUDING SHORT TERM FINANCING FOR THE PROGRAM

Attachments: Exhibit 1 Program Guidelines
Exhibit 2 Draft Conversion Program Agreement Form
Exhibit 3 ICMA-RC 415M Deferred Compensation Plan Agreement
Exhibit 4 Financing Term Sheet
Exhibit 5 Actuarial Projected Costs

RECOMMENDATION

It is recommended that the City Council: 1) Approve the Alternative Retiree Medical Program (ARMP), direct staff to implement the program including communication with the City's Employee Association Groups as part of the implementation, 2) Approve the financing for the program, 3) approve the implementation of a 415(m) Deferred Compensation Plan at no cost to the City as part of the ARMP and authorize the Chief Financial Officer to align the City's current defined compensation programs with the 415(m), and sign all necessary documents and forms to establish and implement the deferred compensation plan.

INTRODUCTION

Over the last several years, the City Council has directed staff to analyze and develop programs to help reduce long term city salary and benefit costs yet keep the salaries and benefits of employees highly competitive in the market place for recruitment and retention. Staff has developed a five-program plan to help achieve this direction. Three of these programs have been already developed, approved by the City Council and implemented in conjunction with most of our employee association negotiations, with the exception of the Police and Fire Associations, which come up for renewal in the next 1-2 years.

Tonight's report is asking Council to approve and authorize the fourth program of that five-program plan. This fourth Program, the Alternative Retiree Medical Program (ARMP), gives current employees the opportunity to participate in this program as compared to their current retiree health program, giving them greater flexibility and creating significant savings for the City over the next 40 years and beyond.

The details of the ARMP are attached as Exhibit 1- Program Guidelines. Generally the ARMP allows all non-safety, vested/partially vested and non-vested employees who are eligible, under their individual Employee Associations' MOU or Compensation Plan, to choose an alternative program to their current Retiree Medical Plan, with similar new features and flexible benefits as the program that new employees (those employees hired on or after January 1, 2010) will receive including: portability, allowance for beneficiaries to receive benefits when the employee passes, direction of the funds by the employee, not the City, allows employees to have the City make contributions from the one-time program ARMP tenure amount to any number of City tax deferred compensation plans or even a cash retention bonus (as allowed under the tax rules), and revises a major City benefit to fit not only current employees needs but makes it more attractive to younger generations of employees while saving the City millions of dollars.

DISCUSSION

Over the last several years, it has been the goal of the City Council to develop more cost efficient benefit programs for our employees that will provide competitive benefits, yet give the City control of the expenses related to these to make them more efficient and to reduce the City's expenses.

To that end, under Council direction, staff developed a five-program plan to achieve the above-mentioned goals. These five programs are:

- Program 1 *(Implemented)* - Tied employee salary and benefit levels (called total compensation) in employee negotiations to market driven models

- Program 2 *(Implemented)* - Revised and enhanced the City's employee medical benefits program into an enhanced flexible benefit cafeteria plan which gives employees maximum flexibility and gives control of these benefits back to the City which can significantly reduce the City's costs

- Program 3 *(Implemented)* - Developed, negotiated and implemented a Two-Tier Defined Contribution Benefit Plan for Employee Retiree Health for all new employees hired on or after January 1, 2010 (except for non-executive sworn police and fire personnel)

- Program 4 *(Under Consideration Tonight)* - Develop and implement (upon council approval) an alternative retiree medical program that would allow current employees to choose a different program than their current retiree health benefit plan as offered in their employee associations' memorandum of understanding/compensation plan. This alternative program is much more flexible for employees, does not require employees to retire from the City, makes the program portable and allows the employee to pass program benefits to beneficiaries while saving the City significant funds in the long term, and

- Program 5 *(Future Implementation)* - Work with the State and other professional groups to develop and implement a Two-Tier employee retirement program for new employees.

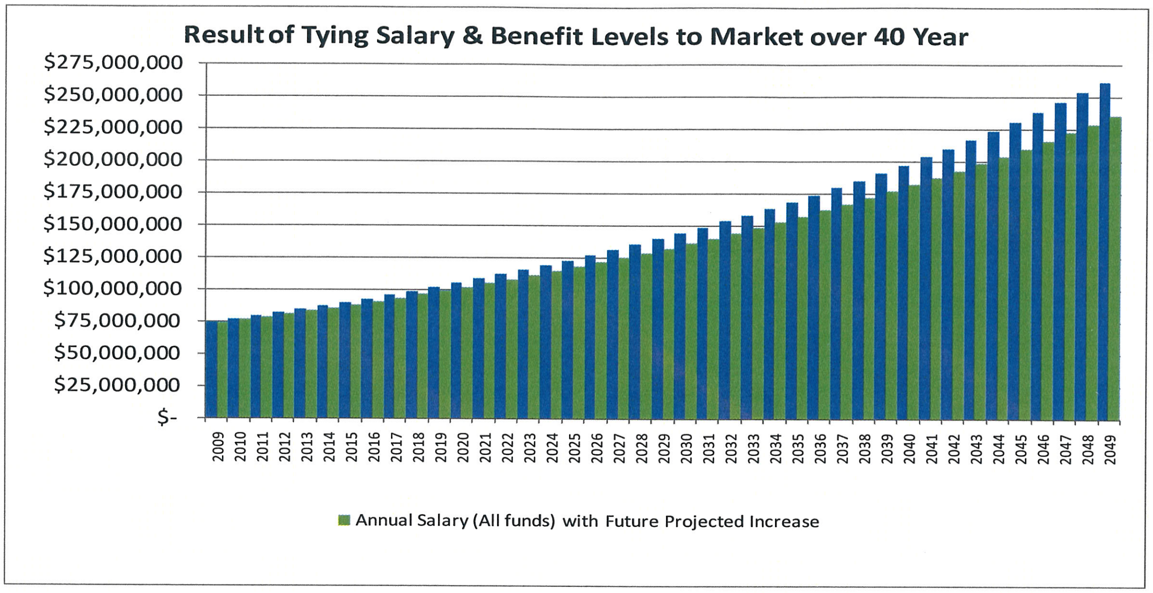
The following are descriptions of the cost saving programs either implemented or directed by Council and the future financial impact on the City they are projected to have.

Program One *(Implemented)* - Tying Employee Salary and Benefit Levels Negotiations to Market Driven Models

Over the last several years, the Council's labor negotiators, at Council direction, have used a market driven approach to negotiate salary and benefit levels (called total compensation) in employee association negotiating sessions. This has been a win-win approach for the City and the employees. Comparisons are now based on a total compensation model rather than just salary driven considerations. This negotiating model has enabled "the market" to drive the City's labor costs, rather than an arbitrary salary formula with no consideration of the City's cost of providing benefits. This approach has saved the City considerable dollars in negotiating with the City's employee associations, yet keeping city salaries and benefits at very competitive levels thus allowing the City to attract and retain the best employees in our comparable job markets.

The following graph estimates the dollar savings for the City using market levels to drive total compensation levels as opposed to the method the City used before this program was implemented:

Graph 1



The graph above shows that the City is estimated to save approximately $374,408,000 over a 40 year period if the City Council continues to use this market driven model.

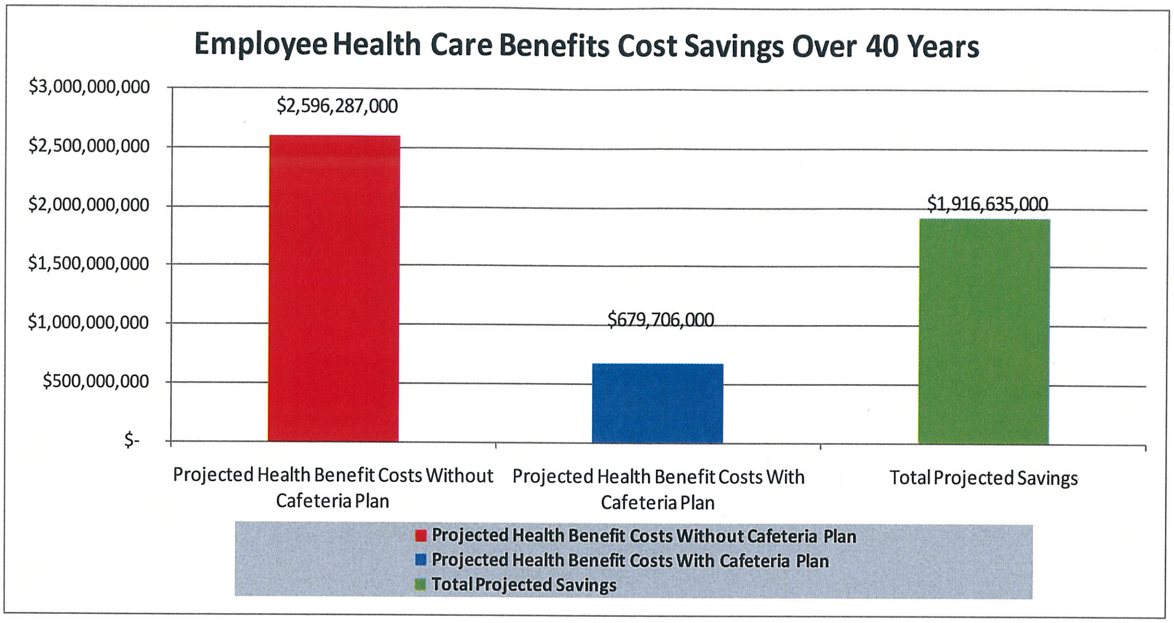
Program Two *(Implemented)* - Developing and Implementing an Enhanced Flexible Benefit Cafeteria Benefits Plan

This program is set to begin on January 1, 2010 for all non-police current and future full time employees. The enhanced cafeteria benefits plan enables employees to choose which health benefits and what level (standard or enhanced) of health benefits from a list of benefits that the City/CalPERS offers. Also, employees can choose to move their benefit levels up or down to take advantage of the cash-out provisions of the benefit plan as outlined in their individual MOU's.

In providing this cafeteria style of benefits and giving employees choices, the City can then control the costs it incurs in providing most of the health benefits through labor negotiations, instead of giving automatic increases in benefits as they occur. Employee's have a choice of various benefits including cash-out incentives to depending on their chosen benefit levels.

The following graph estimates the dollar savings the City has saved in implementing the enhanced flexible cafeteria levels to drive total compensation as opposed to the method the City used prior to this program's implementation.

Graph 2



The graph above shows the City is estimated to save approximately $1,916,635,000 over a 40 year period if the City continues to use this program and keeps increases in monthly healthcare cash benefit allotments to a reasonable level during labor negotiations. These cost savings will increase significantly if the Police Association and the Police Management Association agree to join the enhanced cafeteria benefits plan as well.

Program Three *(Implemented)* - Developing and Implementing a Two Tier Defined Contribution Benefit Plan for Non-Safety Employee Retiree Health

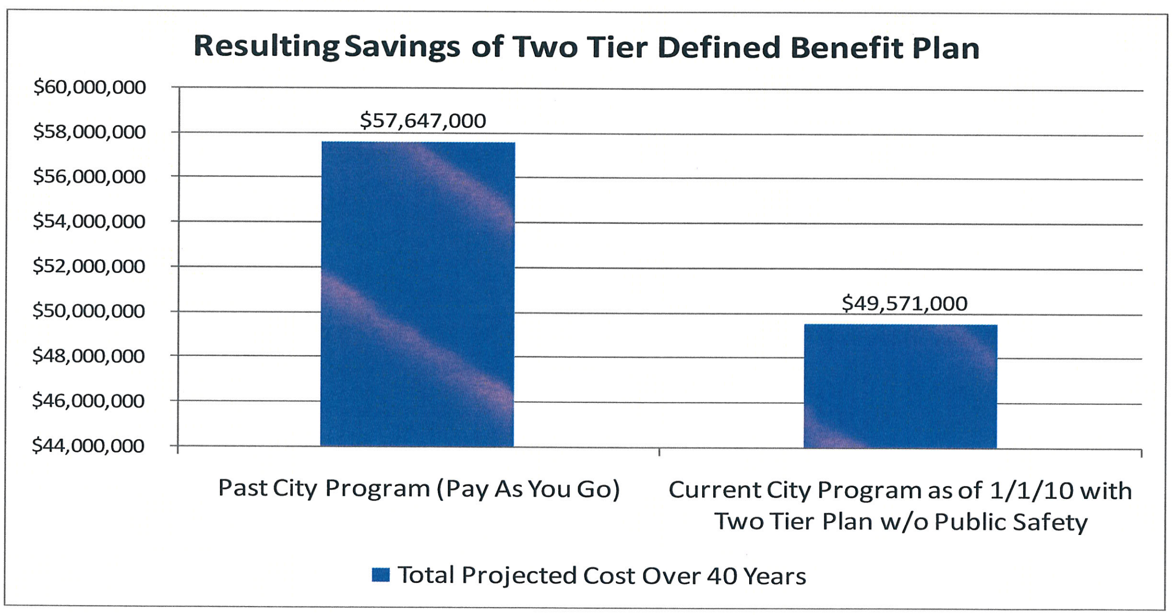
This plan is set to begin on January 1, 2010 for all new non-safety employees hired by the City. This plan only affects new employees and does not affect current or retired employees.

As the City Council learned in the GASB 45 presentation given to the Council earlier this year, the City's unfunded liability for retiree medical health benefits had been calculated to be over $39M. Today, the valuations are now estimated to be over $42M and growing. If the City had not negotiated a second Tier system for new non-safety employees, depending on market conditions and cost of health benefits over the next 40 years this unfunded liability is estimated to be over $300M.

To begin limiting the City's future liabilities, a Second Tier Retiree Health Program was adopted and negotiated with all but the Safety Associations. The benefits for the employees in this new plan include:

1) Gives employees much more flexibility and choices than the First Tier plans by allowing employees to choose which medical benefits (as allowed by law) they want to pay for,
2) Allows employees to have this benefit immediately without having to vest in the plan through retirement in the City, thus making this benefit a "portable" plan,
3) Allows an employee to pass these benefits on to their beneficiaries as the law allows (which the current First Tier benefit does not),
4) Employees earn dollars immediately, in their first month of employment and vest in the funds after only one year with the City. They continue to earn funds until they reach the maximum of 20 years of employment. Monthly funds are deposited into each new employee's RHS account after one year of service, which the employee will have complete control over the accounts they can choose to invest the funds in. The RHS is a tax free in and tax free out tax-free account (including interest income earned) with ICMA-RC, our current deferred compensation plan administrators.
5) This Second Tier benefit was designed to be more attractive to newer generation employees who don't plan to stay 20 years with the City, yet receive some medical retiree benefits for as long as they stay with the City.

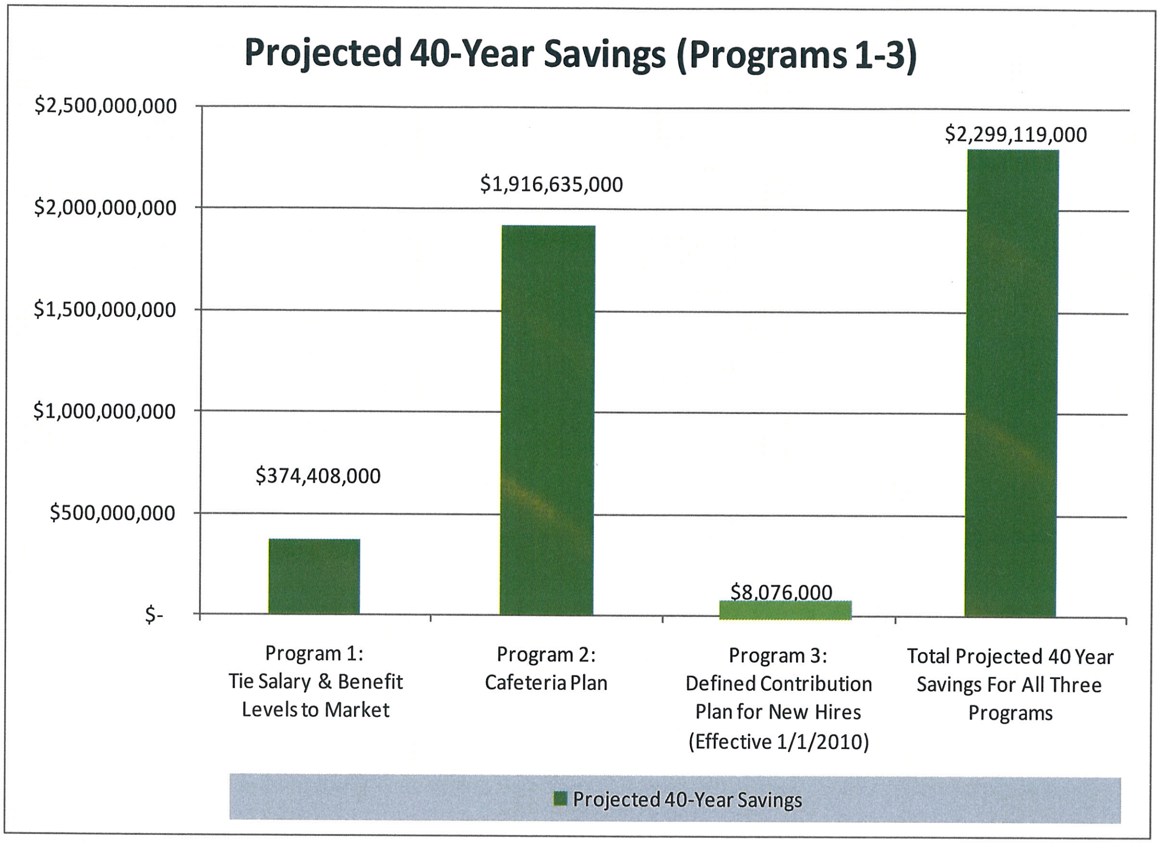
<u>Graph 3</u>



This is a value added benefit for new employees, yet will save the City an estimated $8.0M over 40 years and reduce the City's future unfunded liability.

The fiscal impacts of Program 1-3 are projected to result in an estimated cost savings to the City of $2,299,119,000 over the next 40 years.

Graph 4



Program Four- Allowing Current Employees to Participate in an Alternative Retiree Medical Program (ARMP) instead of their existing Defined Benefit Retiree Health Plans as Detailed in their applicable Memorandum of Understanding/Compensation Plan

Tonight's report focuses on Program 4 – the proposed implementation of the ARMP program that would allow current employees to choose from the alternative retiree medical program or the existing retiree medical benefits program.

Current IRS Codes and Statutes as applied to the ARMP, distinguish two classes of current employees. One class is current employees who have already vested or have partially vested in their Retiree Health Benefit Program under their existing Memorandums of Understanding/Compensation Plan and the second is current employees who have not yet vested.

While the IRS differentiates between these two groups, for developing and implementing the ARMP, staff is suggesting a conservative approach to the ARMP program and recommending we treat all employees (those vested, partially vested and non-vested) as the same and receive the same benefits as any of the others in the group. Following is a summarized description of the Program, with details explained in the Program Guidelines in Exhibit 1. Generally the ARMP process/benefits are as follows:

- Most current employees, Vested, Partially Vested and Non-vested who sign up for the program, will receive 1) the statutory minimum contribution to the CalPERS medical program (required by state law and will be $105 per month, beginning calendar year 2010) upon retirement, 2) an actuarially calculated one-time ARMP tenure amount benefit which will be applied as City contributions on behalf of that employee with 20% of that benefit going into that employee's RHS account and the rest as City contributions to various deferred compensation programs offered by the City or in cash (to the extent permitted under the IRS rules) and 3) monthly contributions into the employee's RHS account for partially vested or non-vested employee until they reach an equivalent actuarially derived fully vested benefit amount.

- If an employee wanted to take any part of the actuarially calculated one-time ARMP tenure amount benefit in cash (as opposed to putting the entire amount into the various defined benefit plans the City offers), that cash amount could not be released to the employee until the calendar year following the year the employee makes that choice. This IRS requirement does not distinguish between amounts- so whether its one dollar or $10,000- this rule would apply. Thus, an employee would need to sign up in calendar year 2010 and then would receive the cash amount in calendar year 2011.

- If an employee designated to take all of the actuarially calculated one-time ARMP tenure amount benefit and put the entire amount into any of the City's tax deferred compensation plans (i.e. the 457, 401(k), Roth 401(k) and our new 415(m)) as allowed by IRS Guidelines, they would get the above benefits in the same calendar year (2010). If they elected to accept any of amounts in cash however, the cash portion would not be received until the following calendar year as stated before.

<u>Employee Benefits:</u> Some of the advantages to the employee of this program include:

1) Allows employees an alternative retiree medical benefit from their current fixed benefit that requires certain years of service with the City and retirement from the City before you are eligibility for the program;
2) Gives employees additional flexibility and choices, other than their current plans;
3) Allows employees to have this benefit immediately without having to retire thus making this benefit a "portable" plan;

4) Allows an employee to pass these benefits on to their beneficiaries as the law allows (which the current benefit does not);
5) Employees can choose to at the time of electing this benefit, to take some of one-time ARMP tenure amount into cash for any purpose after a certain vesting period (receiving the cash in the calendar year following the year they sign up in the program); and
6) For "partially vested or "non-vested" employees is allows them to continue on with the City and receive monthly benefits into their RHS accounts until they accumulate the full vestment amount (which is equivalent to a 5, 15, or 20 year full vestment depending on that employees current retire medical benefit plan) which the current program does not allow.

City Benefits: The benefits to the City include:

1) A significant reduction in its current OPEB unfunded liability amount over 40 years (with the reduction increasing as more employees take advantage of the program);
2) It saves the City literally millions of dollars over the next 40 years as more employees take advantage of the program;
3) It eliminates the worst aspects of our current retiree health benefit program and modifies the program to be more attractive to newer generation potential employees; and
4) Allows the City to control its retiree health program costs through labor negotiations instead of being at the mercy of Cal-PERS and future health care costs.

The net present value cash calculation of the one-time ARMP tenure amount and the monthly amounts was developed by an independent actuarial firm using actuarial models that incorporate the Government Accounting Standards Board Provision 54 provisions and the same elements that Cal-PERS uses in their actuarial calculations as well. This allows the City to develop a fair and accurate net present value for the employees and the City itself.

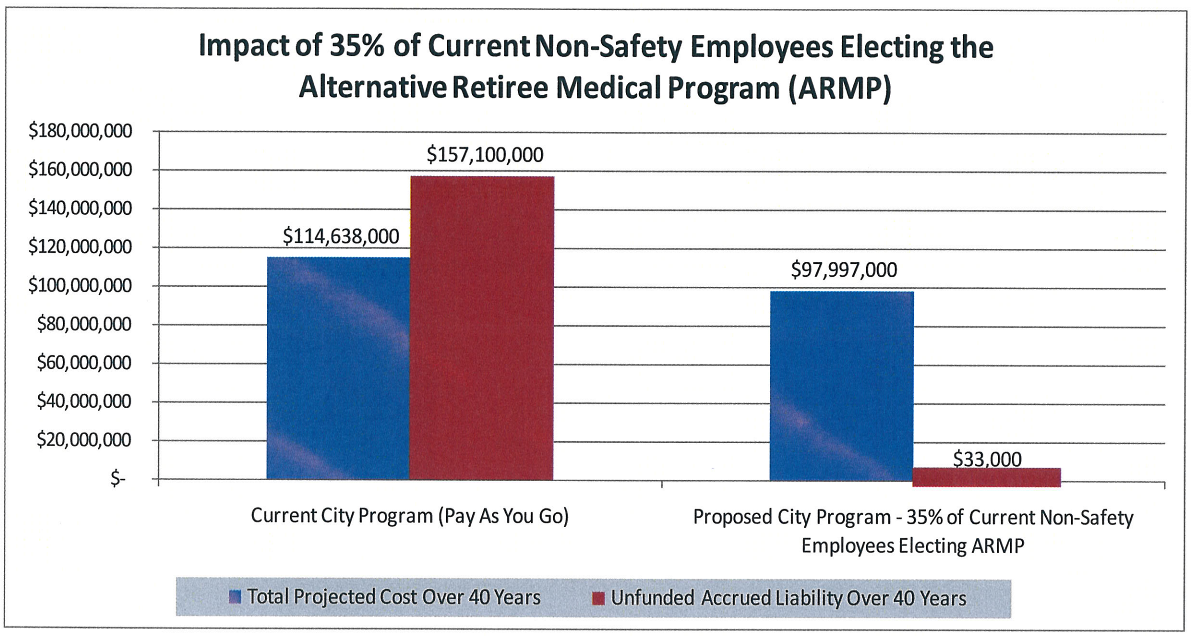
General provisions in the recommended ARMP include (see Program Guidelines Exhibit 1):

- Intend to offer this Program two times only. First between February 1 and May 1, 2010 and a second time from September 15 to November 15, 2010. This is 1) to control the costs and time of staff and the actuary who would be required to constantly update the 500 plus individuals each month that passes while the conversion program is in effect, 2) to provide a limited time for this program so employees take it seriously and understand this is a limited time offer and it will not be repeated again, and 3) to keep the financing of this program within reasonable timeframes and not cause undue hardship or undue costs in the financing of this program;

- Once an employee agrees and participates in the ARMP, it is irrevocable thus an employee cannot convert back to their original plan; and

- The actuarially calculated one-time ARMP tenure amount and the monthly contributions into the employees RHS for "partially vested" and "non-vested" will not be negotiated or altered with employees. These actuarially developed amounts will be considered as "take it or leave it" amounts since they were fairly developed by an independent actuary, using nationally recognized models for GASB 45 and CalPERS. This is especially true since participation in ARMP is purely voluntary.

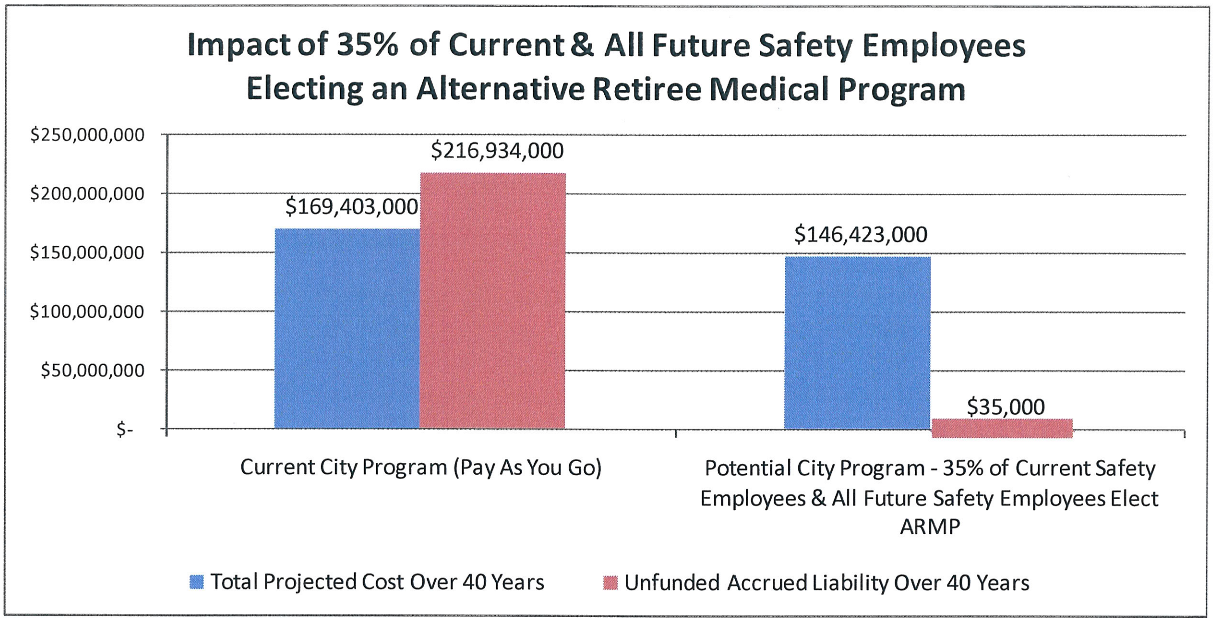
Graph 5



As the graph above shows (using a 35% employee use example), this program could save the City $16.6M in expenses and decrease unfunded liabilities by $157.1M over 40 years. These numbers could change depending on how many employees actually take advantage of the plan.

The following graph shows the additional savings the City would receive, in expenses and decreased unfunded liabilities if the Safety Employees also took advantage of the program (at the illustrated 35% level).

Graph 6



As this graph above shows (using a 35% employee use example), this program could save the City an additional $23.0M in expenses and decrease unfunded liabilities by $216.9M over 40 years. These numbers could change depending on how many employees actually do take advantage of the plan.

Program 5- Work with the State and other professional groups to develop and implement a Tier 2 employee retirement program for new employees

As described to you in the Council's report on Pension Reform, several initiatives have been proposed to achieve pension reform. These include state legislative initiatives, proposed constitutional ballot measures, and individual city/county efforts. The League of California Cities has established a Pension Reform Task Force, as well.

Several factors have made it challenging to achieve immediate pension reform. Vested pension rights are generally regarded to have ironclad protection under contract law. Courts in California have ruled that reductions in pensions can only be approved in exchange for something of equal value. As a result, proposed 'two-tier' programs would only impact newly-hired employees.

As mentioned in that same memo, there are several initiatives introduced to achieve public pension reform. Staff is committed to working with the League of California Cities and other groups to help achieve reform and to accomplish the 5^{th} Program in our 5 Program Plan.

Approval of a 415(m) Deferred Compensation Plan

To implement the ARMP, an additional deferred compensation plan needs to be approved. Since the City's current 457, 401(k) and Roth 401(k) plans contributions are significantly limited by current IRS Code, the 415(m) Deferred Compensation Plan would be needed for employees who choose to place their entire ARMP benefit into various deferred compensation plans. This plans primary use is as an overflow deferred compensation plan and can only be used if an employee's 457 and either the 401(k) or Roth 401 (k) has reached their legal IRS mandated limits.

Staff recommends adopting this plan and aligning the City's other deferred compensation plan terms of agreement with this plan.

This plans description is detailed in Exhibit 3. There is no cost to the City to approve and implement this plan since all costs for this plan are paid for by the plans participants.

Financing of the ARMP Program

Since this is the first program of its kind with the City of Beverly Hills, staff has no indications of how many employees will sign up for the program. Employee surveys and other such gauges are not reliable in predicting actual employee results for programs such as these. Staff believes the first phase of the program may likely be slow but the second phase will produce more participation.

In the last year, several governmental agencies outside of California have offered somewhat similar types of programs with employee participation levels anywhere between 10% - 70%. Many of these were Counties and Special Districts in Ohio, Michigan, and Florida, some of them purely voluntary, some negotiated with employee groups and some just mandatory, while various California public agencies are dealing with retiree costs, no other cities in California we have a solution similar to this proposed program.

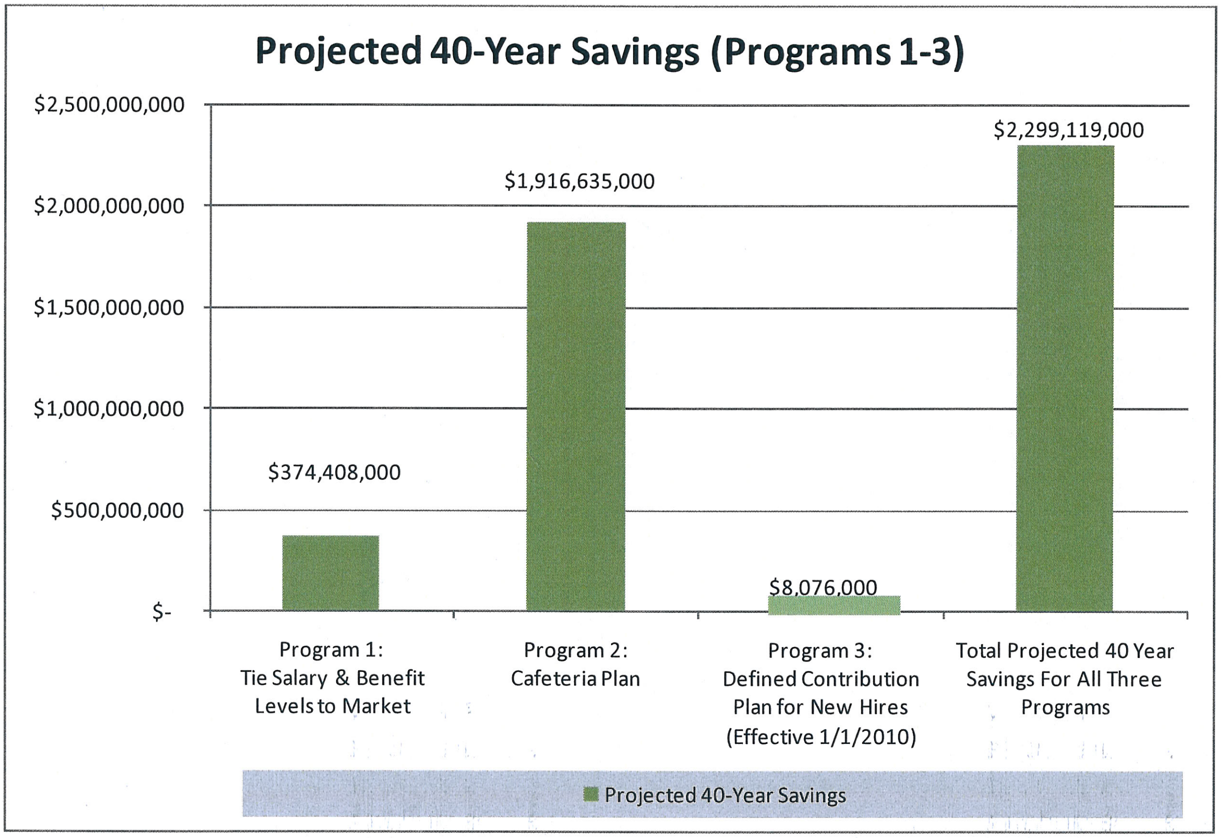
To allow the fullest participation possible by employees, staff has negotiated unsecured financing with City National Bank for the ARMP. This financing allows the City to fund the program up to $20M. Our example in this report anticipates a 35% rate of participation with an initial cost of $12.3M. This can go up or down depending on the employee participation rate, until we reach the $20M maximum.

The details of the credit line are illustrated in Exhibit 4. It's a 12 year term of unsecured credit, at 5.00% to 6.00% simple interest. Since interest rates go up and down each day, once Council approves the plan, an interest rate will be locked in with the bank. These rates are very competitive since going out to the bond market would cost us 7.00% - 8.00% interest plus significant financing costs, which this financing does not require.

FISCAL IMPACT

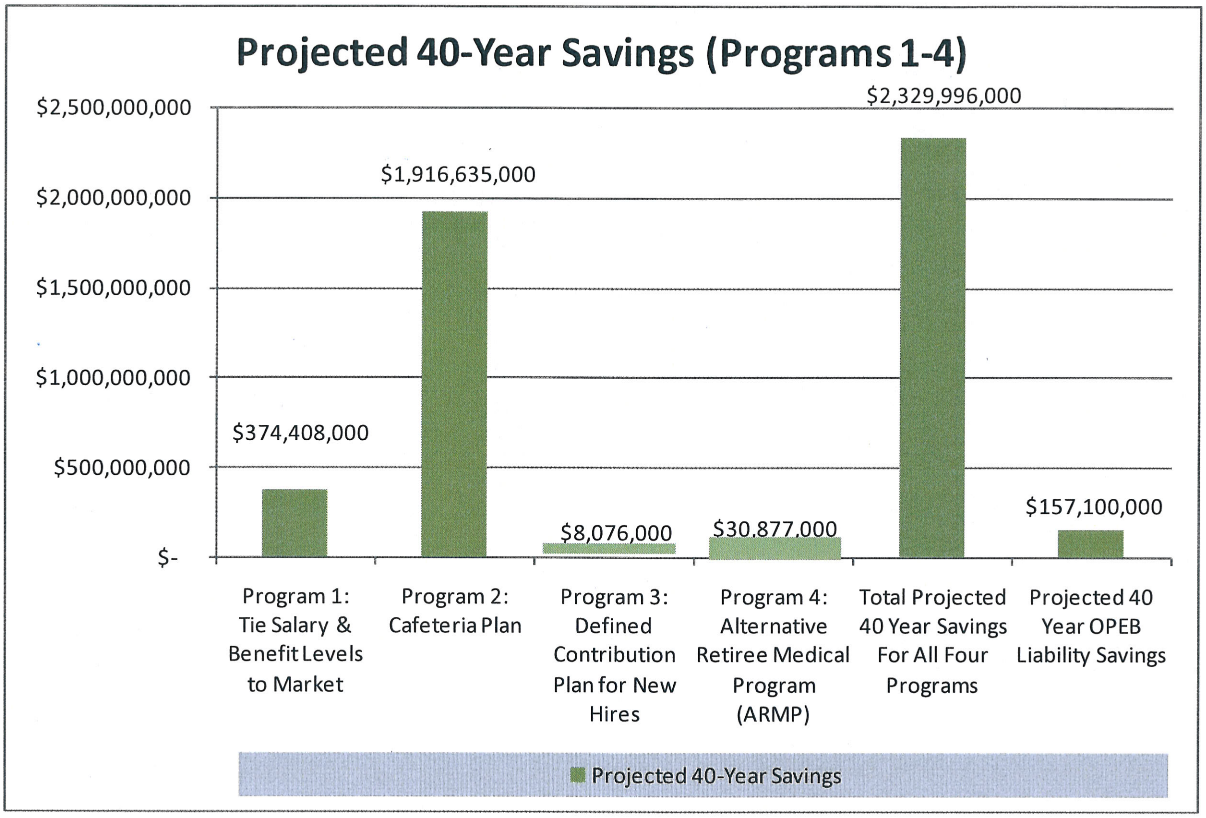
The fiscal impacts of Program 1-3 are projected to result in cost saving for the City over the next 40 years that is projected to be $2,299,119,000.

Graph 7



If implemented as recommended, Program 4 – ARMP (35% of employee participation) is projected to save an additional $30.9M and significantly lower the City's estimated unfunded OPEB liability. Unfunded OPEB liability is projected to decrease by $157.0M as a result of Program 3 and Program 4. Programs 1-4 are projected to save the City $2,329,996,000 over 40 years.

Graph 8



Much greater savings would be found if the Police and Fire Associations were in the Program 2 - Expanded Cafeteria Plan, the Program 3 - Two Tier Defined Contribution Benefit Plan and the Program 4 - ARMP Plan. Staff estimates if the Police and Fire were included in all these plans under the same program guidelines as the non-safety groups, the City would realize an additional $12.7M in cost savings and additional $216.9M in lowered OPEB unfunded liability over the 40 years.

RECOMMENDATION

The Council's Audit and Finance Committee reviewed the Alternative Retiree Medical Program and recommends it be brought to Council for review and approval.

Dr. Scott G. Miller
Chief Financial Officer and
Director of Administrative Services

Mr. Roderick J. Wood
City Manager

EXHIBIT 1

Alternative Retiree Medical Program Guidelines

The City Council of the City of Beverly Hills has authorized a one-time program, the Alternative Retiree Medical Program (ARMP), giving employees hired before January 1, 2010, and not yet retired, an opportunity to participate in an alternative retiree medical program as compared to their current retiree health program, under their existing Memorandums of Understanding or Compensation Plans

Under the ARMP and due to IRS Code treatment, there are two classes of employees that meet the criteria above. One is current employees who have already fully vested or partially vested (have reached their minimum 5, 5+, 15, or 20 years or are fully vested in their Retiree Health Benefit Program under their existing Memorandums of Understanding/Compensation Plans and current employees who are not vested in their Retiree Health Benefit Program under their existing Memorandums of Understanding/Compensation Plans.

The Alternative Retiree Medical Program has the following general guidelines:

- The Program will only be offered 2 times in the 2010 Calendar Year and is not intended to be offered again.
- Participation in the ARMP is purely voluntary and individual employees are free to participate or not participate as they choose. The ARMP itself is not a bargained benefit with any Employee Association and is being provided at the sole discretion of the City.
- Once a decision by an employee is made to sign up for the ARMP and the proper paperwork signed, this decision is irrevocable and cannot be reversed.
- The dollar amount of the ARMP (i.e. the statutory minimum contribution to the CalPERS medical program, the actuarially calculated one-time transition amount and, if appropriate, and the monthly amount vested in the City's RHS plan as long as they remain employed until they reach the maximum net present value equivalent of the fully vested medical retirement plan) are not negotiable.
- Once employees choose to participate in the ARMP, they must follow all the Program guidelines and make the appropriate choices as written in this document and the application they will need to sign to participate in the Program.

- The actuarially calculated amounts of the ARMP were independently calculated using the base model and many of the assumptions as CalPERS uses in their actuarial tables for GASB 45 requirements and are meant to be fair and accurate. The amounts were calculated based on the full retiree benefit as described in each employee associations' Memorandum of Understanding or Compensation Plan and are not further negotiable nor debatable.

- At this time, only non-safety full time employees hired on or before December 31, 2009 are eligible to participate in this program. Employees already retired from the City are not eligible for this program.

- Any interpretations of the ARMP or questions are the responsibility of the Chief Financial Officer. The Program would be administered through the Administrative Services Department.

ARMP VESTED/PARTIALLY VESTED EMPLOYEES

If a current non-safety, "vested or partially vested" employee wanted to take advantage of the Alternate Retiree Medical Program (ARMP), the process would be as follows:

1. There will be two time periods that employees will have to take advantage of this program- they are tentatively scheduled for February 1 to April 30, 2010 and then September 15 to November 15, 2010. Employees not signing their forms with these two periods are not eligible for the ARMP.

2. Each interested employee would be given a letter stating program rules and the independent actuary calculated one-time transition amount value equivalent to their current retiree medical program under their existing Memorandums of Understanding or Compensation Plans at a 20 year net present value. This amount is calculated using most of the same GASB 45 model and assumptions CalPERS uses in arriving at retirement benefit costs.

   Thus, if an employee who chooses this plan has a fully or partially vested right (5, 5+, 15, 15+ or 20 years of service per their Association MOU), they would receive a calculated one-time transition amount equal to the net present value of the vested retiree health benefit (at the level outlined in their current MOU) as if they had retired from the City.

   If they are only partially vested in their plan, with some level of service years (5, 5+, 15, 15+ or 20 years of service), but not fully vested with the 5 or 20 years of service, they would receive the initial one-time transition amount plus a monthly amount (for each future month of service with the City) up to their full vestment at 5 or 20 years benefit equivalent. These monthly amounts will be deposited in the employees Retiree Health Savings Account administered by ICMA-RC.

If the employee has already reached the 5 or 20 year equivalent, they have reached the maximum the City would give as their calculated one-time transition amount and would receive no additional monthly amounts.

For example: If the employee was in the Technical Services Association and participated in this Program, with 20 years of employment with the City, they would get an actuarially calculated one-time transition amount that parallels the equivalent of their current retiree medical program under their existing Memorandums of Understanding at the 20 year equivalent.

If that same employee had only16 years of service, they have, according to the Technical Services Association MOU, have "vested" in the 16 years and would get the one-time transition amount equal to the net present value of their 16 years of vested service and would also begin to receive a monthly contribution in their RHS account for up to an additional 4 years or 48 months to equal 20 years of service that equals the amount under their existing Memorandums of Understanding as of 12/15/2009.

If the employee left after 18 years of service (not reaching the 20 years), they would keep the one-time transition amount, and what they already received each month in their RHS account up to the month they left. Both the one-time transition amount and the contributions into the RHS accounts would be theirs to take with them.

3. Once an employee decided to participate in the program, the employee would be given, upon completion of the appropriate paperwork, a form to make his/her selections on the distribution portion. The distribution would work this way:

    a. Out of the employee's one-time transition amount, 20% would be deposited into their Retirement Health Savings plan account (RHS).

    b. After that, the employee could do a number of things with the other 80% of the one-time transition amount. They could:

        i. Take the rest of one-time transition amount and split it into the employee's various deferred compensation plans- like the City's current 457, 401(k) plan and Roth 401(k) plan (which is taxable in but not taxable out) and the newly formed City tax deferred 415(m) plan account, and/or some combination thereof (as allowed per IRS Code), or

ii. Take the rest of one-time transition amount all in cash and use it for anything they wanted (understanding that taking any of this one-time transition benefit in cash, per IRS Statute and Regulations, would result in the funds being given to the employee after the initial vestment period in February, 2011 and thus making it taxable, or

iii. As mentioned before, take some of the one-time transition amount in cash (which cannot occur until after the vestment period in February 2011- which would be taxable) and divide the rest amongst the various city deferred compensation plans as mentioned in sub-section ii above- which would occur 15-30 days, after the employee signs the proper forms.

4. All these funds, from the one-time transition amount and the monthly amounts put into the employees RHS account would remain with the employee (even when they transitioned from City employment) and could leave to their spouse or beneficiaries as allowed by IRS regulations.

5. Plus, any employee taking advantage of this Program and retiring from the City, would receive the statutory minimum contribution to the CalPERS medical program (which we are required to do by state law and will be $105 a month-beginning calendar year 2010) upon that retirement.

ARMP NON-VESTED EMPLOYEES

If a current non-safety, "non-vested" employee wanted to participate in the ARMP, the same process and benefits would apply to them as described in ARMP Vested/Partially Vested section except the following:

1. Each interested employee would be given what the independent actuary calculated as their calculated one-time transition amount that parallels the net present value of the number of years they have so far with the City and its actuarial equivalent of the fully vested value (depending on the current Memorandum of Understanding/Compensation Plan as of 12/15/2009).

   Thus, if an employee who chooses this plan is non-vested amount of years with the City, they would receive the calculated one-time transition amount equal as stated above, plus would receive the monthly actuarially derived amount (for each month they stayed employed with the City) to give them the equivalent of the full vested benefit amount (which will be deposited in the City's RHS program on that monthly basis). Once reaching the full vested amount, monthly payments would discontinue.

For example: If the employee was in the Management and Professional Association and participated in this Program, with 4 years of employment with the City. They would receive the actuarially calculated one-time transition amount that's equal to the net present value of the number of years they have with the City equaling their actuarially calculated full vested retiree health benefit at time of retirement (in this example- 4 years of the full benefit of 20 years of service) which is the full retiree medical program benefit equivalent under their existing Memorandums of Understanding as of 12/15/2009.

If that same employee had 5 or more years of service, they would fall under the "vested/partially vested" employee category since according to the current Professional and Management Association MOU, employees partially "vest" after the 5th year of service with 25% of single plan CalPERS-Care Health Plan and gain 5% after that until reaching 20 years.

If that employee left after 14 years of service (not reaching the 20 years), they would keep the one-time transition amount, and what they already received each month in their RHS account up to the month they left. Both the one-time transition amount and the contributions into the RHS accounts would be theirs to take with them.

2. All the other provisions of the ARMP are the same as the Vested/Partially Vested section.

EXHIBIT 2

Alternate Retiree Medical Program

Name: ____________________________ Contribution Amt.: _______________

Age: __________ Gender: ________ Bargaining Group: ________________

By signing this Election Form I acknowledge agreement with the following terms:

- Your choice to participate in the Alternative Retiree Medical Program is voluntary. Nobody has pressured you into signing this Election Form or made any representations to you (other than in this Election Form and Attachment A to this Form and any other materials that have been provided by the City to you as part of this process) about the Program or about benefits or programs that the City might or might not offer in the future.
- You are releasing any rights that you may have to benefits under the Pre-2010 Retiree Medical Program and instead will participate under the Alternative Retiree Medical Program and receive the benefits that will be provided by the City under the Alternative Retiree Medical Program.
- You are acknowledging that you understand that there may be different tax consequences for benefits provided under the Pre-2010 Retiree Medical Program and the Alternative Retiree Medical Program. The tax rules are complicated and can change at any time. You should discuss any effect this may have on your personal situation with your personal counsel or financial advisor before making your decision regarding filing this Election Form
- Your agreement to participate in the Alternative Retiree Medical Program on this Election Form will be governed by and construed in accordance with the laws of the State of California.

$______________	$______________	$______________	$______________	$______________
RHS 20%	457(b)	401 (k)	Roth 401 (k)	415 (m)

By signing this Election Form, I agree to become covered by the Alternative Retiree Medical Program under the terms and conditions described on this Election Form, Attachment A to this Election Form, and any accompanying materials.

______________________________ ______________________________

Date Signature

EXHIBIT 3

DRAFT: ICMA RETIREMENT CORPORATION

GOVERNMENTAL EXCESS BENEFIT PLAN 415(m)

ARTICLE I

PURPOSES OF THE PLAN

The Employer maintains the ICMA Retirement Corporation Governmental Excess Benefit Plan (the "Excess Plan") for the purpose of providing benefits for employees participating in the ICMA Retirement Corporation Governmental Profit-Sharing Plan or the ICMA Retirement Corporation Governmental Money Purchase Plan (the "Qualified Plan") whose contributions are limited by section 415(c) of the Internal Revenue Code of 1986, as amended (the "Code").

The Excess Plan is a "qualified governmental excess benefit arrangement" described in Code section 415(m). Thus, the Excess Plan is maintained solely for the purpose of providing benefits otherwise payable under the terms of the Qualified Plan that exceed the limitations on contributions. Further, no election is provided under the Plan at any time to a participant (directly or indirectly) to defer compensation.

The Excess Plan is an unfunded arrangement. Benefits under the Excess Plan are not paid from a trust forming part of the Qualified Plan. Further, Code sections 409A and 457(f) do not apply to the Excess Plan because it is a qualified governmental excess benefit plan.

ARTICLE II

DEFINITIONS

Unless the context indicates otherwise, the following words and phrases shall have the meanings hereinafter indicated:

1. ACCOUNT—The bookkeeping account maintained by the Administrator for each Participant which is credited with the Participant's Excess Annual Additions and earnings (or losses) attributable to the Investment Options selected by the Participant, and which is debited to reflect distributions.

2. ACCOUNT BALANCE—The total amount credited to a Participant's Account at any time, including the portions of the Account allocated to each Investment Option.

3. ADMINISTRATOR—The person(s) or entity named to carry out certain nondiscretionary administrative functions under the Excess Plan, as hereinafter described, which is the ICMA Retirement Corporation or any successor Plan Administrator.

4. ANNUAL ADDITIONS – Annual addition as defined in the Qualified Plan.

5. BENEFICIARY—The person or persons designated as the Participant's beneficiary under the Qualified Plan.

6. CODE—The Internal Revenue Code of 1986, as amended.

7. EMPLOYER —The unit of state or local government or an agency or instrumentality of one (1) or more states or local governments that executes the Adoption Agreement as defined in the Qualified Plan.

8. ELIGIBLE EMPLOYEE —An employee who is designated by the Employer as eligible to participate, whose Annual Additions to the Qualified Plan are limited by Code section 415, and who satisfies such additional requirements for participation in Excess Plan as the Employer may from time to time establish.

9. EXCESS ANNUAL ADDITIONS—The amount credited to a Participant's Account under Article III.

10. INVESTMENT OPTION—A measure of investment return pursuant to which Excess Annual Additions credited to a Participant's Account shall be further credited with earnings (or losses). The Employer shall designate the Investment Options that are available under the Excess Plan.

11. PARTICIPANT—An Eligible Employee for whom Earnings have been deferred under this Excess Plan; the term shall include a former employee whose Account Balance has not been fully distributed.

12. QUALIFIED PLAN—The ICMA Retirement Corporation Governmental Profit-Sharing Plan or the ICMA Retirement Corporation Governmental Money Purchase Plan or any successor plans.

13. EXCESS PLAN—The ICMA Retirement Corporation Qualified Governmental Excess Benefit Plan, as amended from time to time.

14. YEAR—The Limitation Year under the Qualified Plan.

ARTICLE III

EXCESS ANNUAL ADDITIONS

1. Amount of Excess Annual Additions. Each Year, the following calculations shall be performed for each Participant:

(a) His or her Annual Addition shall be calculated under the Qualified Plan, with regard to all of the limitations imposed by Code section 415.

(b) His or her Annual Addition shall be calculated under the Qualified Plan without regard to any of the limitations imposed by Code section 415.

The difference between (b) and (a) is the Excess Annual Addition for the Year and shall be credited to the Participant's Account under this Excess Plan.

ARTICLE IV

CREDITING OF ACCOUNTS

1. Crediting of Excess Annual Additions. Excess Annual Additions shall be credited to a Participant's Account as of the day on which such amount would have been credited to the Participant's account under the Qualified Plan.

2. Crediting of Investment Earnings. Earnings shall be credited to a Participant's Account based on the Investment Option or Options to which his or her Account has been allocated, beginning with the day as of which any amounts (or any reallocation of amounts) are credited to the Participant's Account. Any amount distributed from a Participant's Account shall be credited with earnings through the day on which the distribution is processed.

3. Selection of Investment Options. The amounts credited to a Participant's Account under this Excess Plan shall be allocated among the Investment Options in accordance with a Participant's investment direction.

ARTICLE V

VESTING

1. Vesting. A Participant shall vest in his or her Account according to the vesting schedule that applies to the Participant under the Qualified Plan.

2. Forfeitures. The forfeiture and reinstatement of forfeiture provisions under the Qualified Plan shall apply.

ARTICLE VI

PAYMENT OF BENEFITS

1. General. The Employer's liability to pay benefits to a Participant or Beneficiary under this Excess Plan shall be measured by and shall in no event exceed the Participant's Account Balance. All benefit payments shall be made in cash and, except as otherwise provided, shall reduce allocations to the Investment Options in the same proportions that the Participant's Account Balance is allocated among those Investment Options.

2. Time and Form of Payment. A Participant's Account Balance shall be paid at the same time and in the same form as benefits under the Qualified Plan.

3. Tax Withholding. To the extent required by law, the Employer or the Administrator shall withhold from benefit payments hereunder, or with respect to any amounts credited to a Participant's Account hereunder, any Federal, state, or local income or payroll taxes required to be withheld and shall furnish the recipient and the applicable government agency or agencies with such reports, statements, or information as may be legally required. However, the amount of the Excess Annual Addition to be credited to a Participant's Account will not be reduced or adjusted by the amount of any tax that the Employer is required to withhold with respect thereto.

ARTICLE VII

EXTENT OF PARTICIPANTS' RIGHTS

1. Unfunded Status of Plan. This Excess Plan constitutes a mere contractual promise by the Employer to make payments in the future, and each Participant's rights shall be those of a general, unsecured creditor of the Employer. No Participant shall have any beneficial interest in any specific assets that the Employer may hold or set aside in connection with this Excess Plan. Notwithstanding the foregoing, to assist the Employer in meeting its obligations under this Supplemental Savings Plan, the Employer may set aside assets in a trust or trusts described in Revenue Procedure 92-64, 1992-2 C.B. 422 (generally known as a "rabbi trust"), and the Employer may direct that its obligations under this Excess Plan be satisfied by payments out of such trust or trusts. It is the Employer's intention that this Excess Plan be unfunded for federal income tax purposes.

2. Nonalienability of Benefits. A Participant's rights to benefit payments under this Excess Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's Beneficiary.

ARTICLE VIII

AMENDMENT OR TERMINATION

1. Amendment. The Employer may amend, modify, suspend or discontinue this Excess Plan at any time, provided, however, that no such amendment shall have the effect of reducing a Participant's vested Account Balance or postponing the time when a Participant is entitled to receive a distribution of his or her Account Balance.

2. Termination. The Employer reserves the right to terminate this Excess Plan at any time and to pay all Participants their Account Balances in a lump sum immediately following such termination or at such time thereafter as the Employer may determine.

ARTICLE IX

ADMINISTRATION

1. Administrative Committee. The Employer shall maintain the right to appoint a committee to facilitate administration of the Excess Plan and communication to Participants.

2. Delegation and Reliance. The Employer may delegate to the officers or employees of the Employer the authority to execute and deliver those instruments and documents, to do all acts and things, and to take all other steps deemed necessary, advisable or convenient for the effective administration of this Excess Plan in accordance with its terms and purpose. In making any determination or in taking or not taking any action under this Excess Plan, the Employer may obtain and rely upon the advice of experts, including professional advisors to the Employer. No employee of the Employer who is a Participant hereunder may participate in any decision specifically relating to his or her individual rights or benefits under the Excess Plan.

3. Exculpation and Indemnity. Neither the Employer nor any employee of the Employer, nor any other person participating in any determination of any question under this Excess Plan, or in the interpretation, administration or application thereof, shall have any liability to any party for any action taken or not taken in good faith under this Excess Plan or for the failure of the Excess Plan or any Participant's rights under the Excess Plan to achieve intended tax consequences, or to comply with any other law, compliance with which is not required on the part of the Employer.

4. Facility of Payment. If a minor, person declared incompetent, or person incapable of handling the disposition of his or her property is entitled to receive a benefit, make an application, or make an election hereunder, the Employer may direct that such benefits be paid to, or such application or election be made by, the guardian, legal representative, or person having the care and custody of such minor, incompetent, or incapable person. Any payment made, application allowed, or election implemented in

accordance with this Section shall completely discharge the Employer and the Employer from all liability with respect thereto.

5. Proof of Claims. The Employer may require proof of the death, disability, incompetency, minority, or incapacity of any Participant or Beneficiary and of the right of a person to receive any benefit or make any application or election.

6. Claim Procedures. The procedures when a claim under this Plan is denied by the Employer are the claims procedures under the Qualified Plan.

ARTICLE X

GENERAL AND MISCELLANEOUS PROVISIONS

1. This Excess Plan shall not obligate the Employer to continue the employment of a Participant with the Employer, nor does either this Excess Plan limit the right of the Employer at any time and for any reason to terminate the Participant's employment. In no event shall this Plan, either singly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Employer and a Participant. In no event shall this Plan or a Plan Agreement, either singly or collectively, by their terms or implications in any way limit the right of the Employer to change an Eligible Employee's Earnings or other benefits.

2. Any amount credited to a Participant's Account under this Excess Plan shall not be treated as Earnings for purposes of calculating the amount of a Participant's benefits or contributions under any pension, retirement, or other plan maintained by the Employer, except as expressly provided in such other plan.

3. Any written notice to the Employer referred to herein shall be made by mailing or delivering such notice to the Employer at the address contained in the Qualified Plan. Any written notice to a Participant shall be made by delivery to the Participant in person, through electronic transmission, or by mailing such notice to the Participant at his or her place of residence or business address.

4. In the event it should become impossible for the Employer to perform any act required by this Plan, the Employer may perform such other act as it in good faith determines will most nearly carry out the intent and the purpose of this Excess Plan.

5. The provisions of this Excess Plan shall be binding upon and inure to the benefit of the Employer, its successors, and its assigns, and to the Participants and their heirs, executors, administrators, and legal representatives.

6. The validity of this Excess Plan or any of its provisions shall be construed, administered, and governed in all respects under and by the laws of the State where the Employer is located. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

IN WITNESS WHEREOF, the Employer listed below has caused this instrument to be executed effective for the plan year beginning on or after **[Effective Date]**.

EMPLOYER:

Signature: ______________________________________

Name: ____

Position: ______________________________________

Date: ____

WITNESS

Signature: ______________________________________

Name: ____

Position: ______________________________________

Date: ____

EXHIBIT 4

ARMP CITY NATIONAL BANK FINANCING TERMS

Overview:	The City of Beverly Hills has arranged financing through City National Bank to finance early retirement packages and post retirement medical benefits. The details of the financing proposal are below.
Purpose:	To finance early retirement packages and post retirement medical benefits.
Borrower:	General Fund of the City of Beverly Hills
Bank:	City National Bank
Proposed Loan Amount:	$1 Million - $10 Million
Facility and Commitment:	Up to $20,000,000 Multiple Disbursement Term Loan with a 6 month draw period prior to amortization.
Maturity:	Twelve years from closing.
Target Closing Date:	December 31, 2009
Interest Rate:	6.0% fixed
Est. Annual Debt Service:	$117,100 - $1,171,000 (depending on amount borrowed)

EXHIBIT 5

Actuarial Projected Costs: Defined Contribution Plan for Employee Retiree Health Program

	Scenario 1		Scenario 2a		Scenario 2b		Scenario 3a		Scenario 3b	
	Past City Program (Pay As You Go) - 5%		Outside Pre-Funding High - 7.75%		Outside Pre-Funding Low - 5.00%		Current Safety – DB; Current Non-Safety - DB (CalPERS - 7.75%); Future Safety - DB; Future Non-Safety - DC		Current Safety – DB; Current Non-Safety - DB (CalPERS - 7.75%); Future Safety - DC; Future Non-Safety - DC	
Projection	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability
30 Years	154,572,000	(218,812,000)	166,574,000	(1,319,000)	244,404,000	(1,399,000)	162,960,000	(1,319,000)	146,513,000	(1,319,000)
40 Years	284,041,000	(374,034,000)	253,762,000	(83,000)	393,474,000	(79,000)	229,038,000	(83,000)	180,007,000	(83,000)

	Scenario 3c		Scenario 3d		Scenario 4a		Scenario 4b		Scenario 4 (a+b)	
	Current Safety – DB; Current Non-Safety - DB (CalPERS - 7.75%); Future Fire - DB; Future Police - DC; Future Non-Safety - DC		Current Safety – DB; Current Non-Safety - DB (CalPERS - 7.75%); Future Police - DB; Future Fire - DC; Future Non-Safety - DC		Current Safety - 65% elect DB (CalPERS - 7.75%), 35% elect DC (6% Investment Return); Future Safety - DB		Current Non-Safety - 65% Elect DB CalPERS - 7.75%), 35% elect DC (6% Investment Return); Future Non-Safety - DC		Current Safety and Non-Safety - 65% elect DB (CalPERS - 7.75%), 35% elect DC (6% Investment Return); Future Safety - DB; Future Non-Safety - DC	
Projection	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability	Total Projected Cost	Unfunded Accrued Liability
30 Years	149,500,000	(1,319,000)	159,986,000	(1,319,000)	98,244,000	(548,000)	80,358,000	(519,000)	178,602,000	(1,067,000)
40 Years	190,357,000	(83,000)	218,701,000	(83,000)	146,423,000	(35,000)	97,997,000	(33,000)	244,420,000	(68,000)