



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: November 13, 2012
To: Honorable Mayor & City Council
From: Noel Marquis, Assistant Director of Administrative Services-Finance
Subject: Request by Councilmember Gold for an Overview of City's Efforts to Reduce Employee Related Costs

INTRODUCTION

This report provides an overview of the various steps the City has taken at the direction of the City Council over the last several years to reduce costs associated with employee benefits, including retirement benefits, both PERS and retiree health costs. This report will provide an overview of the programs currently enacted as follows:

1. Implementation of a Cafeteria plan for current employee health programs replacing a City direct payment program
2. Implementation of a defined contribution program for retiree medical replacing a defined benefit program
3. Development of the Alternative Retiree Medical Program - a buyout program for the City's current defined benefit program
4. Two-tier PERS program providing a lower cost retirement program for newly hired employees
5. Employees pay a portion of PERS cost

DISCUSSION

The City, at the direction of the City Council, has started and implemented programs to reduce the costs of escalating health and retirement benefits and their impact on the City's future operating budget. While time consuming in their nature because of the number of employee bargaining groups and the existence of current agreements, considerable progress has been made in meeting the goal of sustainable programs with a reduced impact on the City's future operating needs.

Cafeteria Plan:

When this program was begun the City provided health, dental, and vision to most of its employees and their families at an extremely high level. The escalating costs of this

coverage continued to place a higher burden on the City's budget each year. To address this issue the City developed what is termed a Cafeteria program for employees. This program provides a fixed amount of money for an employee to use when selecting their coverage. The amount of money provided is less than the top tier coverage the City provided before that Cafeteria Plan but adequate to allow the employee to obtain excellent coverage for themselves and family with no or little out-of-pocket expense.

Presently, every City bargaining group is either in the Cafeteria Plan or in the process of converting to the Cafeteria Plan.

Retiree Medical Program:

Much of the costs associated with many of the benefits that were current when the program was begun were the result of benefits that were specifically defined. This is true in the case of health coverage benefit programs for retirees. The program promised a certain level of health coverage to the employee at a future point in time when they were retired. The major problem with this type of program is that no one knows what those future costs will be and nothing was put away to fund those costs.

The first step that the City took to reduce this liability was to change this from a defined benefit to a defined contribution. A defined contribution differs from a defined benefit in that the City is only committing to depositing a set amount of money into a Retiree Health Plan (RHP) for the employee. When the employee leaves the City they take whatever has been contributed to that point in time with them. This program provides several levels of benefit to the City and the employee. As example, employees receive a benefit that is portable similar to what private industry provides and the City reduces its long term liabilities for retiree health insurance.

As of July 1, 2012 every City bargaining group has been converted to this new defined contribution program. Since January 1, 2010 all non-sworn newly hired City Employees were on the new program and as of July 1, 2012 all new hired sworn (Fire and Police) will be on the new program.

The second step that the City took was the Alternative Retiree Medical Plan (ARMP). This is a program to buy out current employees from the existing defined benefit program.

The City offered current employees non-sworn (the program has not yet been offered to Police and Fire sworn personnel) hired before January 1, 2010 who are provided a certain level of retiree medical coverage as defined in their bargaining unit to participate in the ARMP. The ARMP allowed employees to receive the net present actuarial value of their current retiree benefit in exchange for waiving their participation in the defined benefit program when they retired. The amounts offered were specific to each employee based on years toward full vesting, Medicare eligibility and negotiated benefit level and average retirement age (among other factors).

Fifty eight percent (58%) of the eligible participants took advantage of this program and converted their defined benefit to this buy-out program. Due to interest from the remaining eligible employees the City Council approved offering a second opportunity to participate in this program which is currently being developed.

Two-Tiered PERS Program and Employee Cost Sharing

Recent discussions about cost containment within the City have focused around the performance of PERS investments and the sustainability of the program at current benefit levels. Because of the level of benefit (3% per year of service), and low retirement age (age 50) coupled with plan investment losses and lower than anticipated investment returns, PERS costs related to Police and Fire have become a serious concern for the City's operating budget. The non-sworn PERS, or miscellaneous group as it is defined, is also a concern as their costs are impacted by the same plan investment losses and lower investment returns. There has also been an increase in plan benefits in recent years that must be addressed.

Because of these factors there were two areas that the City Council wanted addressed, a reduction in benefit level and participation in the program costs from the City's employees.

The recent negotiations completed with the Police, Police Management and Fire bargaining units have obtained both of these goals. The new agreements with each of these association have resulted in the implementation of a two-tiered public safety PERS program which reduces the benefit level from 3% at age 50 to 3% at age 55. Further, beginning July 1, 2013 (Fire) and January 1, 2014 (Police and Police Management) employees in these bargaining units will begin paying a percentage of their PERS costs.

Recent legislation by the State of California also addresses these concerns and adds different tiers to both Safety and miscellaneous PERS programs, which is mandatory for new PERS members after January 1, 2013. Existing PERS Public Safety members who lateral to Beverly Hills will move to the tier the City has just created.

FISCAL IMPACT

Prognostication is always a difficult endeavor. To assist staff in analyzing the potential benefit, cost or savings of each of these different options the City obtained the services of Senior Vice President Bradley J. Au of Aon Hewitt, a company specializing in analysis of U.S. Retirement Practices and Kung-Pei Hwang an actuary for PERS. Following are the best estimates of what each of these programs provided in cost savings to the City.

1. Cafeteria plan	<u>\$2.1 - \$4.8 million over 5 years</u>
2. Defined Contribution retiree medical	<u>savings \$66.2 million over 40 years</u>
3. ARMP	<u>\$27.0 Million over 40 Years</u>
4. Two-Tier PERS	<u>\$790,000 per year</u>
5. PERS cost sharing	<u>\$3.5 Million over 5 years</u>

RECOMMENDATION

This report is being provided for informational purposes and to aid in future budget and planning discussions. No immediate action is necessary or is being recommended.


Noel Marquis
Approved By