



## AGENDA REPORT

**Meeting Date:** July 2, 2013  
**Item Number:** F-3  
**To:** Honorable Mayor & City Council  
**From:** City Attorney  
**Subject:** AMENDMENT TO THE CITY OF BEVERLY HILLS EXECUTIVE EMPLOYEE COMPENSATION PLAN TO PROVIDE CERTAIN RETIREE MEDICAL BENEFITS TO THE DEPUTY FIRE CHIEF  
**Attachments:**

1. Letter from Bradley Au, MAAA, EA
2. Proposed Amendment

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### RECOMMENDATION

Adopt the proposed amendment to the Executive Employee Compensation Plan to provide that the Deputy Fire Chief who succeeds recently retired Deputy Chief Mark Embrey will receive the same retiree medical benefit that has been provided to employees appointed to the Executive Employee Group between December 1997 and December 31, 2009.

### INTRODUCTION

The Fire Chief and the Deputy Fire Chief are members of the City's Executive Employee Group, and not members of the Beverly Hills Firefighter's Association.

In 2009, the City Council converted the retiree medical benefits of executive employees hired after January 1, 2010 from a defined benefit plan to a defined contribution plan. This change reduced the retiree health care benefits for executives and eliminated the possibility of unfunded liabilities for retiree medical coverage in connection with executive employees hired after January 1, 2010.

Those employees who were employed by Beverly Hills before January 1, 2010, but promoted into the Executive Employee Group after January 1, 2010, were allowed to retain the defined benefit retiree medical plan to which they were entitled as a non-executive employee prior to January 1, 2010.

However, firefighters are not provided their defined benefit retiree medical plan by the City. Instead, they are provided a defined benefit retiree medical plan by the Beverly Hills Firefighter's Association. The Association currently does not provide the benefit to the Deputy Fire Chief and the Fire Chief, as they are members of the executive group, and not members of the Firefighter's Association.

Thus, unlike other executive employees, a firefighter employed by the City before December 31, 2009 who promotes to a position in the Executive Employee Group is

forced to relinquish a significant retiree medical benefit in order to accept the promotion to Deputy Fire Chief or Fire Chief.

### DISCUSSION

The Deputy Chief position in the Fire Department became open due to the retirement of Mark Embrey in December, 2012. The proposed amendment to the Executive Compensation Plan provides that the Beverly Hills firefighter appointed to fill that position will receive the retiree health benefit that was offered before January 1, 2010 to previously appointed executives, including Deputy Fire Chiefs and Fire Chiefs.

This defined benefit plan provides that the Deputy Fire Chief will receive, upon retirement, up to one hundred percent of the difference between the minimum retiree medical benefit required by the California Government Code and the actual cost of medical insurance purchased by the retiree for the retiree and the retiree's spouse or surviving spouse up to a maximum amount that equals the two party rate of the PERS Care health plan offered by PERS.

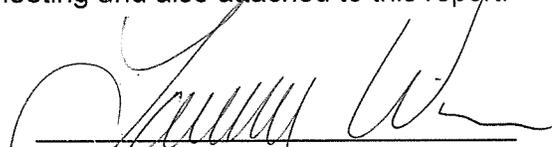
This benefit will be provided only to a Deputy Fire Chief who is promoted from the ranks of Beverly Hills firefighters, retires from the City of Beverly Hills, and remains retired without reinstatement to active status with PERS. In other words, to remain eligible for this benefit, an employee cannot work for another PERS contracting agency and make contributions to PERS to enhance his or her retirement benefit.

At its June 18, 2013 meeting, the City Council received and publically disclosed the estimated future costs of the proposed change, as prepared by an actuarial and as required by Government Code § 7507. With completion of the required two week waiting period, the City Council may now approve the compensation plan amendment adopting the benefit change. Without this change, the Deputy Fire Chief would receive a significantly reduced retiree medical benefit as a consequence of accepting promotion to the Executive Employee group from the Sworn Fire group.

As required by law, the proposal to adopt the change is not presented as part of the consent calendar.

### FISCAL IMPACT

The fiscal impact of the proposed benefit change is disclosed in the letter from Bradley Au, MAAA, EA, presented at the June 18, 2013 meeting and also attached to this report.



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Laurence S. Wiener  
City Attorney

# **Attachment 1**



June 13, 2013

Mr. Noel Marquis  
Assistant Director of Administration Services/ CFO  
City of Beverly Hills  
455 N Rexford Dr.  
Beverly Hills, CA 90210

**Re: City of Beverly Hills Postretirement Health Benefits  
– Cost study of enhanced benefits for Deputy Fire Chief**

Dear Noel,

As requested, we reviewed the estimated cost for the City of Beverly Hills to change postretirement health plan provisions for the position of Deputy Fire Chief.

In particular, we estimated the impact of changing from the most recent valuation provisions for the Deputy Fire Chief (2 party PORAC to age 65, PEMHCA post 65) to the Executive provisions (2 party PERSCare for life) for the individual currently holding the position. We further assumed the current Deputy Fire Chief and eligible spouse will not be Medicare eligible.

**Summary of Results**

The estimated additional costs (see attachment for definitions) for the current Deputy Fire Chief as of July 1, 2013 are as follows:

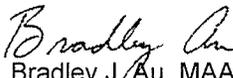
	(Pre-65) PORAC to PERSCare	(Post-65) PEMHCA minimum to PERSCare	Total
Present Value of Benefits (PVB)	\$85,000	\$265,000	\$350,000
Actuarial Accrued Liability (AAL)	\$77,000	\$243,000	\$320,000
Normal Cost	\$2,000	\$6,000	\$8,000
Annual Required Contribution (ARC)	\$6,000	\$19,000	\$25,000

The breakdown illustrates the additional cost of providing the more valuable healthcare plan (pre-65) relative to providing lifetime healthcare coverage above the CalPERS minimum amount (post-65).

These estimates are based on the information and assumptions used in the July 1, 2011 Actuarial Valuation of the City's Postretirement Health Plan, including a 5.00% interest rate and CalPERS Public Agency Fire demographic assumptions. It should be noted that the cost impact could vary considerably under other assumptions.

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

Sincerely,

  
Bradley J. Au, MAAA, EA  
Partner

Tel: 213-996-1729  
Brad.au@aonhewitt.com

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## Liability Terminology

**Present Value of Benefits (PVB)** – total liability representing the discounted value of all projected benefits expected to be paid to current and future retirees; attributable to past and future service

**Actuarial Accrued Liability (AAL)** – portion of the PVB attributable to past service

**Normal Cost** – portion of the PVB attributable to the valuation year (or for a single year of service)

**Annual Required Contribution (ARC)** – actuarially determined annual cost; basis for determining Annual Pension/OPEB Cost under GASB accounting rules; components include normal cost and amortization of the unfunded AAL.

# **Attachment 2**

AMENDMENT TO THE CITY OF BEVERLY HILLS EXECUTIVE EMPLOYEE  
COMPENSATION PLAN TO PROVIDE CERTAIN RETIREE MEDICAL BENEFITS TO  
THE DEPUTY FIRE CHIEF

The Executive Employee Compensation Plan is amended by adding the additional sentence below to the exiting paragraph for Retiree Medical Benefits granted to Employees Hired on or after January 1, 2010, as follows:

VII. Other Benefits

D. Retirement Medical Benefit

4. Employees Hired on or after January 1, 2010

Third existing paragraph:

Employees who promote into the Executive Employee group on or after January 1, 2010, who were City employees as of December 31, 2009, will receive retiree medical benefits (based on their years of service with the City) in accordance with the benefits and plan under which they were covered immediately prior to the promotion.

Addition to third existing paragraph:

In addition, an employee promoted to Deputy Fire Chief from the sworn fire group between December 29, 2012 and July 10, 2013, who is a “Member” of the Beverly Hills Firemen’s Association Post-Retirement Medical Benefit Plan and Trust (“Plan”), as defined in the Plan, on the date of promotion and who would be eligible for post-retirement benefits under the Plan as a “Participant,” as defined in the Plan, except for the fact that the employee will no longer be a Member solely as a result of the promotion, will receive a substitute benefit consisting of the same benefit under the same terms as provided to other employees promoted to the Executive Employee group between December 2, 1997 and December 31, 2009, as provided in Section VII, Paragraph D, Sub-Paragraph 2, above.