



AGENDA REPORT

Meeting Date: November 19, 2013
Item Number: D-4
To: Honorable Mayor & City Council
From: Jeff Kolin, City Manager
Subject: ACTUARIAL REPORT - ENHANCED MEDICAL RETIREMENT BENEFIT COSTS FOR DEPUTY FIRE CHIEF AND FIRE CHIEF

Attachments: 1. Report Dated November 7, 2013 By Aon Hewitt

RECOMMENDATION

Receive and publically disclose cost study of enhanced retiree medical benefit for the Deputy Fire Chief and Fire Chief positions.

INTRODUCTION

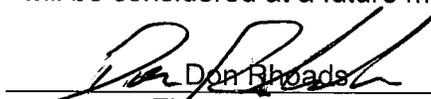
Staff is requesting City Council consideration of a change to the retiree medical benefit for current and future Fire Chief and Deputy Fire internal appointments. As part of this process, Government Code § 7507 requires the City Council to make public at a public meeting the future costs of the proposed changes prior to adoption. This agenda item is to comply with this process.

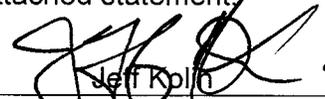
DISCUSSION

When considering changes in the retiree medical benefits, the City is required to secure the services of an enrolled actuary to provide a statement of the actuarial impact of the proposed changes. The future costs of the changes must be made public at a public meeting at least two weeks before adoption of any changes. To comply with this law and to assure transparency in City actions, the actuary's statement is attached and will be publically available for review in the City Clerk's Office. A proposal to adopt the change analyzed in the actuary's statement is scheduled to be presented at the December 5, 2013 City council meeting. As required by law, the proposal to adopt the change will not be part of the consent calendar.

FISCAL IMPACT

There is no fiscal impact at this time. The fiscal impact of the proposed benefit change that will be considered at a future meeting is disclosed in the attached statement.


Don Rhoads
Finance Approval


Jeff Kolin
Approved By

Attachment 1



November 7, 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 Fire Chief / Deputy Positions, including Future Hires

Dear Noel,

As requested, we further reviewed the estimated cost for the City of Beverly Hills to change postretirement health plan provisions for the positions of Fire Chief and Deputy Fire Chief. It is important to understand the assumptions used for these estimates, which are discussed below.

In particular, we estimated the impact of changing from the most recent valuation provisions for both Fire Chief (and Deputy) positions (2 party PORAC to age 65, PEMHCA post 65) to the Executive provisions (2 party PERSCare for life) for current and future eligible individuals promoted from within the department to the positions. The additional cost is dependent upon the age and service of the individual promoted, and we show estimated costs based on sample demographics. We assume the impacted individuals will be Medicare eligible. If not Medicare eligible, costs may be higher.

Summary of Results

The estimated additional costs (see attachment for definitions) as of July 1, 2013 are as follows:

Prior Deputy Fire Chief (age 51, 27 years of service)

	(Pre-65) PORAC to PERSCare	(Post-65) PEMHCA minimum to PERSCare	Total
Present Value of Benefits (PVB)	\$14,000	\$85,000	\$99,000
Actuarial Accrued Liability (AAL)	\$12,000	\$79,000	\$91,000
Normal Cost	\$500	\$1,500	\$2,000
Annual Required Contribution (ARC)	\$1,000	\$6,000	\$7,000

Current Acting Deputy Fire Chief (age 44, 18 years of service)

	(Pre-65) PORAC to PERSCare	(Post-65) PEMHCA minimum to PERSCare	Total
Present Value of Benefits (PVB)	\$11,000	\$80,000	\$91,000
Actuarial Accrued Liability (AAL)	\$8,000	\$58,000	\$66,000
Normal Cost	\$500	\$2,000	\$2,500
Annual Required Contribution (ARC)	\$1,000	\$5,000	\$6,000

Future Promotions from within Department – Assume 5 Current Personnel (age/service – 46/22, 41/17, 36/12, 31/7, 26/2) will eventually be promoted

	(Pre-65) PORAC to PERSCare	(Post-65) PEMHCA minimum to PERSCare	Total
Present Value of Benefits (PVB)	\$55,000	\$375,000	\$430,000
Actuarial Accrued Liability (AAL)	\$30,000	\$190,000	\$220,000
Normal Cost	\$2,000	\$13,000	\$15,000
Annual Required Contribution (ARC)	\$3,000	\$23,000	\$26,000

Note that changes in combinations of age and service will have differing impact on the various costs. The breakdown illustrates the additional cost of providing a more valuable healthcare plan (pre-65) relative to providing lifetime healthcare coverage above the CalPERS minimum amount (post-65).

The Future Promotions results are intended to estimate the cost attributable to current Fire department personnel expected to be promoted into these positions in future years. It should be noted that any future hires are eligible for *defined contribution* retiree healthcare benefits, rather than the *defined benefit* program in place for hires before July 1, 2012, and would not impact these results. Based on experience, management estimated promoting an individual into these positions every five years, which would yield approximately five participants currently within the department that would eventually receive the enhanced retirement benefits. As a result, we valued five individuals with varying current age and years of service.

Assumptions

These estimates are based on the information and assumptions used for July 1, 2013 Actuarial Valuation results of the City's Postretirement Health Plan, including a 5.00% interest rate, CalPERS Public Agency Fire demographic assumptions with mortality improvement projections, and 2014 CalPERS health plan premiums. It should be noted that the cost impact could vary considerably under other assumptions.

It is important for the City to understand how the costs shown may change over time and which items are more relevant for decision making. We look forward to discussing this analysis at your convenience to assist management in utilizing these tools effectively. Please call me if you have any questions.

Sincerely,

Bradley J. Au, MAAA, EA
Partner

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Brad.au@aonhewitt.com



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.