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CITY OF OAKLAND
AGENDA REPORT

2010 MAR 11 PM 3:56

TO: Office of the City Administrator

ATTN: Dan Lindheim

FROM: Finance and Management Agency

DATE: March 23, 2010

RE: **Informational Report on Long-Term Liabilities and Possible Solutions Related to the City's Obligations for Retirement Benefits Including: California Public Employees Retirement System (CalPERS), Oakland Municipal Employees Retirement System (OMERS), Police and Fire Retirement System (PFRS), and Other Post-Employment Benefits (OPEB)**

SUMMARY

Providing retirement benefits to City of Oakland employees is costly. As the cost of those benefits continue to rise and the funding ratios of the retirement plans decrease, the City must examine its retirement programs and determine how to address the funding gaps. This report provides an overview of the City's retirement plans, their funding status, the historical and current year costs, and provides recommendations for short and long term solutions.

The City's defined benefit retirement plans consist of the California Public Employees' Retirement System (CalPERS), the Police and Fire Retirement System (PFRS), and the Oakland Municipal Employees' Retirement System (OMERS). In addition, the City pays for health insurance premiums or provides health insurance premium reimbursements for its retirees (depending on their labor agreements). The retiree medical benefits are known as Other Post-Employment Benefits (OPEB). The table in ***Attachment A*** summarizes historical and projected future costs for each pension obligation and OPEB. Summarized below are key aspects of each plan and option(s) for addressing future unfunded liability.

CalPERS

The City contributes to CalPERS on behalf of its employees. CalPERS offers a defined benefit pension plan providing retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. In Oakland, the City and employees share the cost of retirement. Fire employees contribute 13% of their salaries, non-sworn staff contribute 8%, and police sworn will begin contributing 2% in 2013. A survey by the California Society of Municipal Fiscal Officers (CSMFO) showed that of eighty-two (82) cities surveyed, twenty-seven (27) require safety employees to contribute to CalPERS ranging from 1% to 17.02%. A copy of the survey results is included as ***Attachment B.***

Since Fiscal Year 03/04, the City's annual cost for its CalPERS contribution has nearly doubled from $45M to an estimated $74.5M in FY09/10. The cost of the City's participation in CalPERS has increased due to a growing retirement-age population, market trends, poor portfolio performance, and enhancements to the benefits the City offers. In 2004, the City increased its benefits for police to provide a retirement benefit calculated on 3.0% of the employee's highest 12 consecutive months' salary at age 50 (i.e. 3% at 50). In 2005, the City increased retirement benefits for miscellaneous employees to 2.7% of highest salary per year of employment at age 55; and increased the benefit for fire safety members to provide 3.0% of highest salary at age 50.These changes required that CalPERS increase the City's contribution rate to pay for the higher cost of the new benefit. CalPERS has also made other adjustments to the City's rate to account for trends in retirement rates and its portfolio's performance in the marketplace.

During fiscal year ending June 30, 2009, the market value for CalPERS managed assets experienced drastic decreases by approximately 24% due to the severe economic downturn. The impact on the City's share was a decrease in market value of assets from $1.47 billion to $1.12 billion for miscellaneous (non-sworn) employee plan, and from $841 million to $639 million for safety. CalPERS has implemented a 30-year smoothing mechanism to address this sudden drop in assets and to avoid a potential hike in rates. Contribution rates will still increase over the next few years, but the increases will be mitigated by CalPERS smoothing out the loss of asset value as well as a recent improvement in investment returns.

Staff has identified some options that the City can implement to address the anticipated increase in rates and decrease in funding status:

a. **Two-Tiered Retirement System.** Implementation of a two-tiered retirement system, one benefit plan for existing employees, and a less expensive plan for new employees would reduce the City's costs.

b. **Calculation of Final Compensation.** Currently the City offers the most expensive of CalPERS options by calculating final compensation on the highest 12 consecutive months of an employee's salary. There are other options that could be considered.

c. **Employer Paid Member Contribution (EPMC).** As of July 1, 2009, miscellaneous employees pay the full 8% employee contribution, fire contributes 13%, and police contributes 0% (police begins paying 2% on July 1, 2013). Negotiating with bargaining units to pay a greater portion of the EPMC would reduce costs.

d. **Pay All or Part of the Unfunded Liability.** The contribution rates to CalPERS are dependent on the amount of unfunded liability the City has on each plan (Safety & Miscellaneous); funding some of the liability would decrease the City's annual cost.

PFRS

PFRS provides death, disability and service retirement benefits to uniformed employees and their beneficiaries. The plan is a closed plan (no new members) primarily covering retired employees and their spouses. The City Charter dictates how PFRS is managed; the City is required to fund all liabilities for future benefits for all members by June 30, 2026. In order to do this, the City makes contributions at rates established by the actuaries based upon plan valuations. The City issued pension obligation bonds in 1997 to fund PFRS through 2011, giving the City a "holiday" from payment until July 1, 2011. Thereafter, the contribution rates will be established based on July 1, 2010 assets and liabilities.

The plan's funding ratio has decreased from 63.7% in 2007 to a current level of 44.4% as of the last valuation. A lower funding level indicates insufficient assets to pay retirees benefit.

Funded Status	July 01, 2007	July 01, 2009
Liabilities	888.1	782.5
Assets	566.0	347.2
Unfunded Liabilities	**322.1**	**435.3**
Funded Ratio	63.7%	44.4%

As a possible solution, the City has excess revenues from tax override where the City can use to bond to provide funding to the PFRS plan.

OMERS

OMERS provides death, and service retirement benefits to participants of the plan and covers the City's non-uniformed employees hired prior to September 1970 who have not elected to transfer to CalPERS. Historically, the system's assets have exceeded its actuarial liabilities, and contributions have not been required. However, because of the downturn in the market causing poor asset returns over the last several years, the liabilities have exceeded the assets and contributions might be needed in the future. Based on a the preliminary actuarial valuation report prepared by Bartel Associates, LLC on July 1, 2009, the City's liability for OMERS was $518,000, resulting in a 90.6% funded status. At this time, staff does not recommend taking any action because recent favorable market returns will increase the funding level.

OPEB

The City has three programs in place to pay the partial costs of health insurance premiums for certain classes of retirees. The City's OPEB liability is currently computed at $591.6 million. As of June 30, 2009, the City's cumulative annual required contribution (ARC) for post employment benefits was $85.7 million. For fiscal year 2008-09, the City paid $12.5 million on a pay-as-you-go basis for retirees in a City-sponsored PERS health benefit plan, therefore, adding to the already large liability. Staff has identified several options to address the unfunded liabilities:

a. **OPEB Prefunding**: To address the City's OPEB liabilities, the City could implement a prefunding mechanism or dedicated trust to decrease the required funding.

b. **Benefit Cost-Sharing:** The City could consider requiring some or all groups of retirees to share some of the costs of their health benefits as a way of reducing the City's liability.

c. **Two-Tiered System:** The City could consider reducing the benefit employees receive by implementing a two-tiered system, thereby reducing its liability.

Detailed information on the status of the City's retirement obligations and recommendations for addressing the funding status of each program are fully discussed in the Background and Key Impacts section.

FISCAL IMPACTS

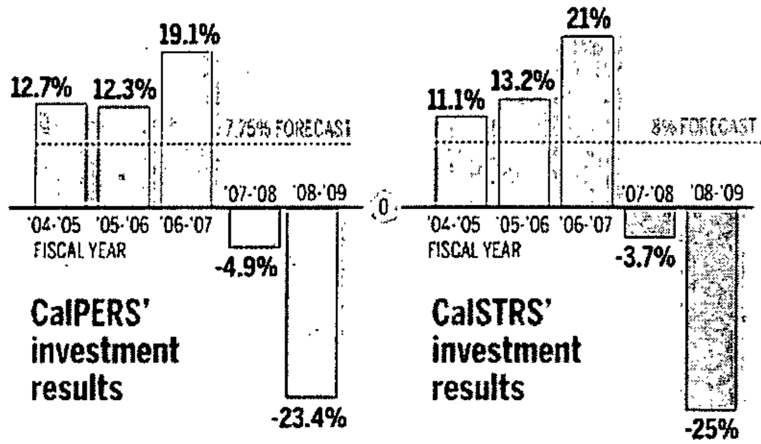
While this report is informational and has no direct fiscal impact, the information provided is critical to the City's budgetary decisions and overall health of the City's finances. For FY 2009/10 CalPERS payments will be $74.5M and PFRS will require a contribution of $43.9M in FY 2011/12. If the City were to fund OPEB up to its Annual Required Contribution, it would have to contribute $85.7M beginning July 1, 2010.

BACKGROUND AND KEY ISSUES AND IMPACTS

The City's long-term financial burden due to employee retirement benefits and retiree medical costs (OPEB) continues to grow each year. Over the past several months, staff has been actively exploring options to address the unfunded liability currently associated with the City's retirement plans and OPEB. During this process, staff has identified some possible solutions to help mitigate these unfunded liabilities. Staff encourages the City Council to discuss these solutions as part of the fiscal year 2010-11 budget process.

California Public Employees Retirement System (CalPERS). CalPERS is a defined benefit plan administered by the State and covers all non-uniformed employees hired after September 1, 1970, uniformed employees hired after June 30, 1976, as well as former members of PFRS and OMERS except those who have not elected to transfer from OMERS. CalPERS acts as a common investment and administrative agent for public entities participating in the State of California retirement system.

Nationwide, the value of assets in pension systems has dramatically decreased over the last two years due to the economic downturn. The chart below, published by the Sacramento Bee on March 3, 2010, presents CalPERS and CalSTRS' forecast of future investments returns. In any given year, actual results can differ greatly from the predictions.



Sources: CalPERS, CalSTRS NAM NGUYEN nnguyen@sacbee.com

There is no specific industry standard of what a prudent funded ratio is, but according to the CalPERS actuary, funding levels below 60% are considered risky.

The City's public safety (police and fire) retirement plan was 77.5% funded as of June 30, 2008. The miscellaneous retirement plan was 85.4% funded during the same time period. Due to the recent destabilization of financial markets, CalPERS experience a sharp drop in asset values resulting in higher unfunded liabilities. CalPERS has indicated that there was a drop of 24% in asset values for the fiscal year ending June 30, 2009. If this trend continues, the City runs the risk of a rapid rise in contribution rates to cover these losses. In an effort to mute the fiscal impact on participants, CalPERS has implemented a method to smooth losses in asset values over a thirty (30) year period. This is expected to result in a more gradual increase in required contribution rates in the near term.

In fiscal year 2008-09, the City's contribution to CalPERS was $74.6 million based on the following rates: 27.877% for public safety and 19.588% for miscellaneous. This amount will continue to increase based on the payroll and increased rates shown below.

The contribution rates are comprised of the normal cost (i.e., the future annual premiums) and the amortization base cost which is determine by CalPERS to bring the system to 100% funded over 30 years. The amortization base cost is dependent on the unfunded liability of the City. The higher the unfunded liability the higher this rate will be to make the plan whole. For example, since the City has an unfunded liability of $254.7 million for the safety plan as of June 30, 2008, the City pays a contribution rate of 28.092% for fiscal year 2010-11. If the City pays that unfunded liability ($254.7M), then the contribution rate would only be 17.689% for fiscal year 2010-11. Because the City has an unfunded liability of $254.7M, CalPERS charges 10.403% (amortization cost) in addition to the normal cost to bring the plan funding status to 100% over time.

In fiscal year 2004, the City increased its benefits for police to provide 3.0% of highest salary at age 50. In fiscal year 2005, the City increased its benefits for miscellaneous employees, increasing retirement benefits to 2.7% of highest salary per year of employment at age 55. In fiscal year 2005, the City increased its benefits for fire safety members to provide 3.0% of highest salary at age 50. These changes in benefits to employees resulted in higher costs to the City and impacted the contribution rates that the City pays to CalPERS. The benefits are summarized below:

BENEFIT	GROUP 1 Miscellaneous	GROUP 2 Fire	GROUP 3 Police
Retirement Formula	2.7% at age 55	3% at age 50	3% at age 50
Employee Contribution to Employer	8%	13%	-
Employer Paid Member Contribution	-	<4% >(1)	9%
Final Compensation	Highest 12 months	Highest 12 months	Highest 12 months
Cost of Living Allowance (COLA)	2%	2%	2%
Post Retirement Survivor Allowance (PERL Section 21624/26/28)	Yes	Yes	Yes
Retired Death Benefit $500 (PERL Section 21620)	Yes	Yes	Yes

(1) Fire employees pay 4% of the City's portion in addition to the 9% employee share.
PERL = Public Employees Retirement Law

The following table provides a six year projection on CalPERS contribution rates and expected general fund payments to CalPERS for retirement benefits. Salaries and benefits payments for miscellaneous and safety employees will continue to be one of the largest General Fund obligations for the City.

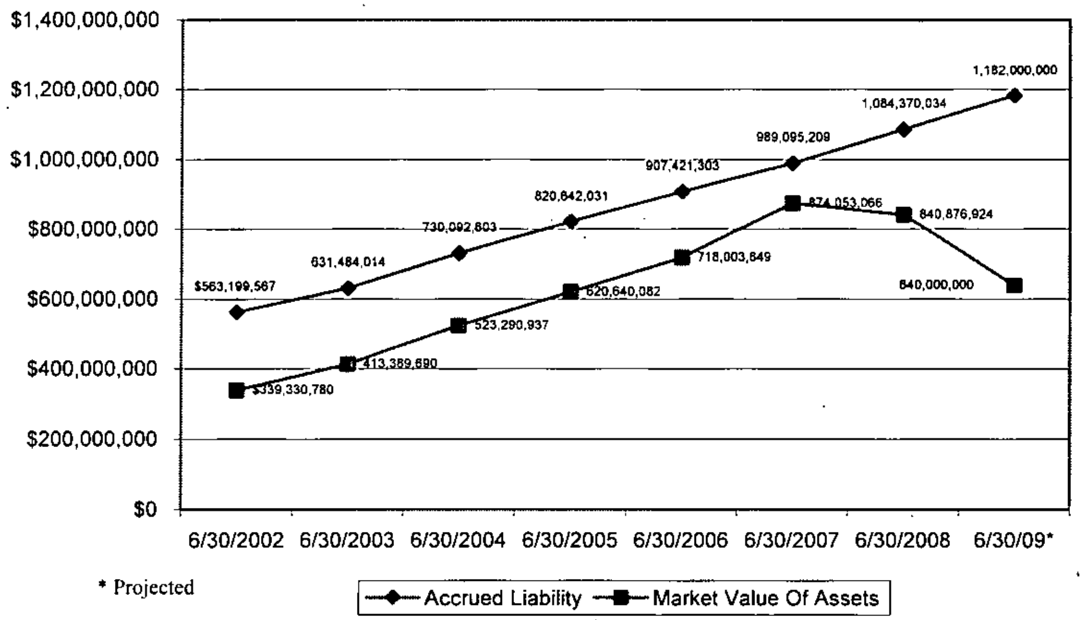
	Safety			Miscellaneous			
Fiscal Year Ending	Rate (1)	Covered Payroll (2)	Contribution Amount (3)	Rate (1)	Covered Payroll (2)	Contribution Amount (3)	Total Contribution
2011	28.1%	152,565,055	42,870,780	19.9%	261,367,831	52,012,198	94,882,979
2012	28.7%	155,616,356	44,661,894	20.6%	266,595,188	54,918,609	99,580,503
2013	30.3%	158,728,683	48,094,791	22.6%	271,927,091	61,455,523	109,550,314
2014	33.2%	161,903,257	53,751,881	25.7%	277,365,633	71,282,968	125,034,849
2015	33.4%	165,141,322	55,157,202	26.1%	282,912,946	73,840,279	128,997,480
2016	33.7%	168,444,148	56,765,678	26.5%	288,571,205	76,471,369	133,237,047

(1) CalPERS' projected rates
(2) Projections are based on a 2% annual increase over the projection period
(3) Projections based on CalPERS Rate

The tables below illustrate the decline in market value of the assets in the plan due to market volatility and the continuing growing rate for employer contribution.

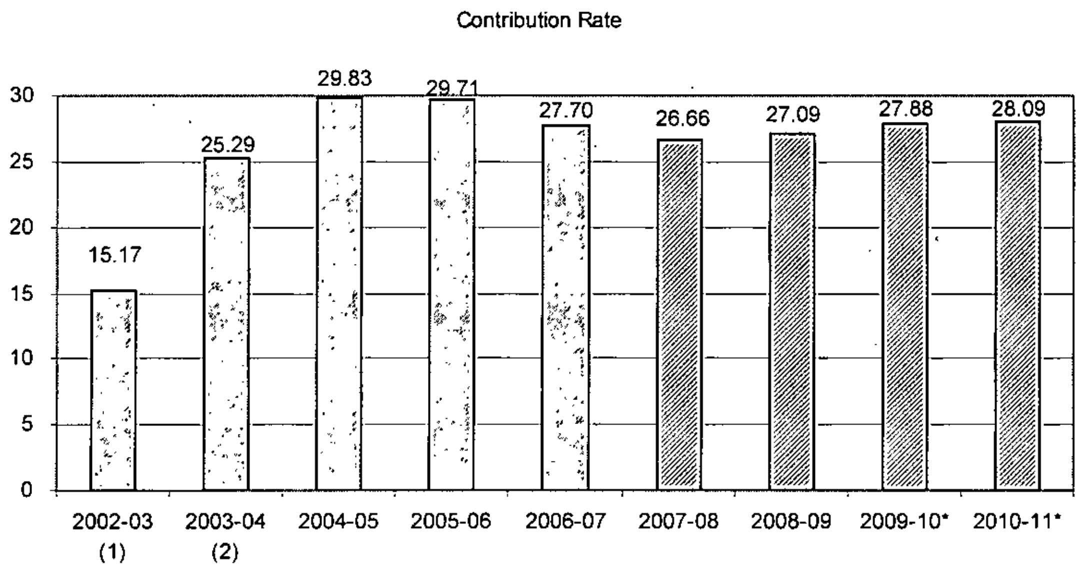
Public Safety Plan

Market Value History:



* Projected

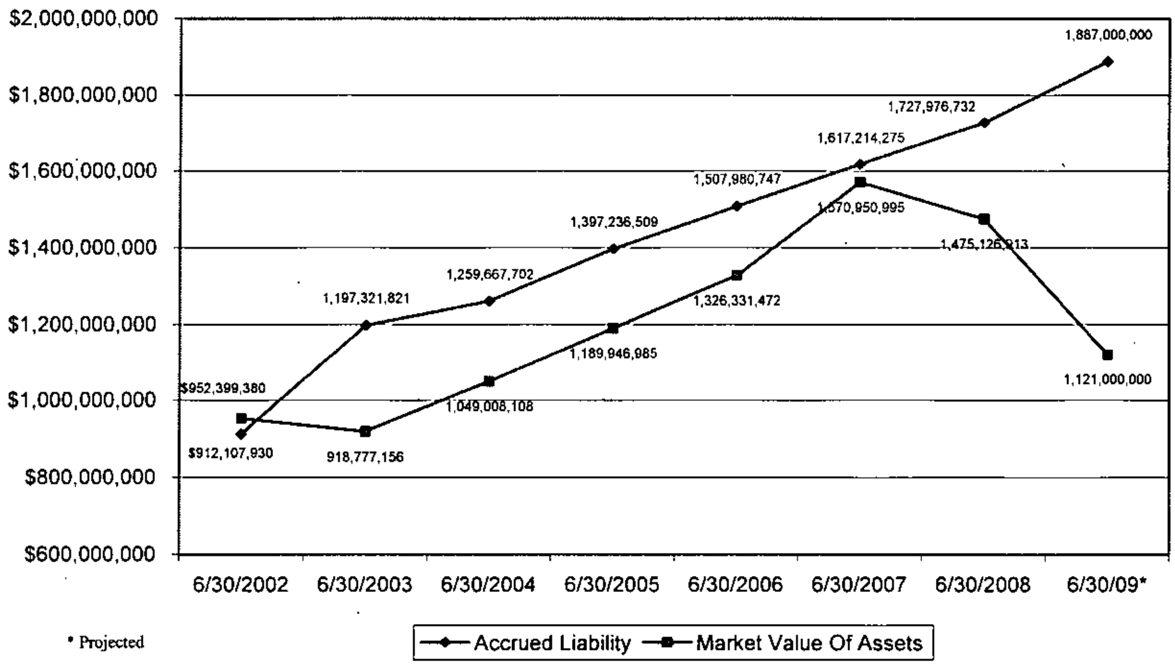
Employer Contribution Rate History:



(1) Police benefit increased to 3% at 50
(2) Fire benefit increased to 3% at 50
* Projected

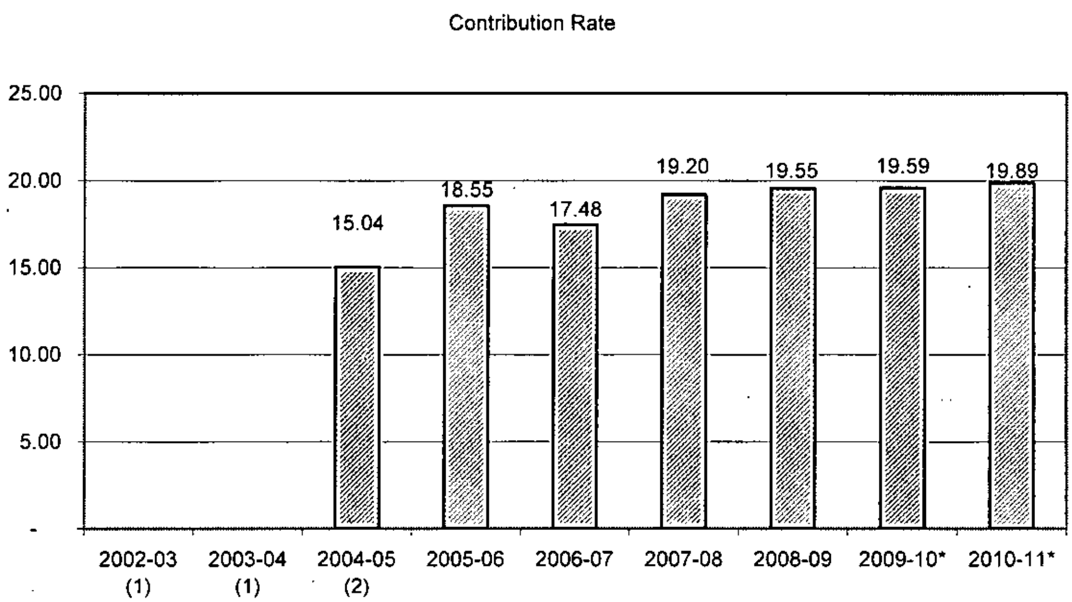
Miscellaneous Plan

Market Value History:



* Projected

Employer Contribution Rate History:



(1) Fully Funded
(2) Benefit increased to 2.7% at 55
* Projected

CalPERS Retirement Cost Savings Options:

a. Two-Tiered Retirement System

A two-tiered retirement system is one in which existing employees are grandfathered in to the current benefit (2.7% at 55 for miscellaneous employees, 3% at 50 for safety) and new employees are given a lesser benefit (e.g. 2.5% at 55 or 2% at 60, etc.) Such a plan would build toward increased savings as the current work force retires or leaves City employment for some other reason and an increasing portion of the workforce is given the lesser benefit. Such a system would result in a decrease in the City's CalPERS Employer Contribution Rate. The following table presents sample of how other cities' two-tiered systems are structured:

Other Cities Two-Tiered Retirement System

City	First Tier (old rate)	Second Tier (new rate)
City of Visalia	3% @ 60 - Miscellaneous Employees	2.5% @ 55 - Miscellaneous Employees
City of San Carlos	3.0% @ 50 - Safety Employees 2.7% @ 55 - Miscellaneous Employees	3.0% @ 55 - Safety Employees 2.5% @ 55 - Miscellaneous Employees
City of Brisbane	2.7% @ 55 - Miscellaneous Employees	2% @ 60 - Miscellaneous Employees

Benefits consultant, Bartel Associates, conducted a study showing that, if the City implemented a two-tiered retirement system for miscellaneous employees in which new entrants to the system would be eligible to earn two percent of salary multiplied by years of service at age 60 (2% at 60), the resulting savings would be $0.58 million in FY 2010-11, with savings increasing up to $6.4 million in FY 2019-20. For safety employees, the resulting savings for 2% at 50 will be $0.27 million in FY2010-11, with savings increasing up to $4.1 million in FY2019-20.

Calculation of Final Compensation

Employees' retirement benefits are based on a calculation of their final compensation. Within the CalPERS system there are different choices employers can make about how this calculation is done. Currently, the City awards retirement benefits based on the employee's highest paid 12 consecutive months of service. If the City were to opt to change to a plan in which retirement was based on an average of the employee's highest three years' pay, it would have the effect of slightly lowering the employer contribution rate to CalPERS.

b. Employer Paid Member Contribution (EPMC)

In July 2009, when Memoranda of Understanding (MOUs) were finalized for the City's contracts with most of its miscellaneous employees' bargaining groups (SEIU Local 1021, IFPTE Local 21, IBEW Local 1245, and DAVSCA), employees in those groups agreed to assume the full 8% of the employee paid contribution to CalPERS. Previously, the City had been paying 5% EPMC and employees were paying 3%. This cost-sharing translated into more than $8.5 million in savings ($3.2 million in the General Fund) for the City each year that the current contracts are in effect. The Fire Department contributes its 9% employee paid contribution and an additional 4% of the City's employer contribution. The City currently pays all 9% of the EPMC for the Police Department, but beginning January 1, 2013, Police will begin to contribute 2%, reducing the City's portion of EPMC to 7%. For comparison purposes, see ***Attachment B*** – the CSMFO survey of California cities on employer/employee paid contributions to CalPERS. Of the eighty-two (82) cities surveyed, twenty-seven (27) require safety to contribute to CalPERS ranging from 1% to 17.02%. Of course, any contributions from employees to CalPERS will alleviate the amount the employer has to contribute to the system.

c. Pay All or Part of the Unfunded Liability. The UAAL is the difference between a pension system's assets and its liabilities. If the City pays any additional portion of the UAAL, it will increase the asset value resulting in a decrease in the contribution rate. For example, if the City pays the unfunded liability of $537.3M, the contribution rate would only be 17.689% instead of 28.092% for safety and 10.918% instead of 19.885% for miscellaneous in fiscal year 2010-11.

Police and Fire Retirement System (PFRS): PFRS is a closed plan covering uniformed employees hired prior to July 1976. As of June 30, 2009, PFRS covered one active employee and 1,194 retired employees as follows:

Participant Profile	July 01, 2007	July 01, 2009
Actives	3	1
Service Retirees	611	555
Disability Retirees	307	301
Beneficiaries	357	338
Total	**1,278**	**1,195**
Actuarial Liabilities ($mil)	$ 888.1	$ 782.5

Members' benefits are summarized below:

Benefit Description		Membership	
		2008	2009
Service Retirement	50% of Salary plus 1.67% for each Year of Service in excess of the eligibility service threshold up to 16.67% (10 years) for a maximum benefit of 66.7% of salary. Benefits are prorated for retirements with less than 20 years of service.	553	531
Duty Disability Retirement	Same as service retirement benefit if 25 or more years of service.	322	311
Non-Duty Disability Retirement	Same as service retirement benefit if age 55 attained.	15	15
Death Allowance	Full continuance paid to widow's of members killed in the line of Duty.	41	40
Surviving Spouses	Upon the member's death a lifetime benefit of 66-2/3% of member's retirement is paid to qualifying spouse.	307	294

The UAAL for PFRS is estimated to be $435.3M, as of June 30, 2009, as opposed to a UAAL of $375.7M, estimated two years ago in June 30, 2007. The plan's funded ratio is 44.4%, a decrease from 63.7% in the prior valuation. This is caused by the losses on PFRS asset due to the economic downturn. The table below presents the value of the PFRS asset as it declined over the years:

Valuation date	UAAL	Value of Asset	% Funded
7/1/2004	$890,200,000	$621,600,000	69.8%
7/1/2005	883,500,000	614,900,000	69.6%
7/1/2007	888,100,000	566,000,000	63.7%
7/1/2009	782,457,000	347,182,000	44.4%

In 1997, the City issued Taxable Pension Obligation Bonds, Series 1997 (1997 POBs) of approximately $420M to fund a portion of the current balance of the City's UAAL for retirement benefits for the members of PFRS. The proceeds of the POBs provided a lump-sum payment equal to the present value of payments the City would otherwise be required to make to amortize the UAAL, calculated at that point in time through June 30, 2011. As a result, the City received a "holiday" from making payments into PFRS until June 30, 2011, and instead covenanted to make debt service payments on the POB through that date.

The "holiday" is set to expire on June 30, 2011, and the City will be required to contribute to PFRS to fund its UAAL. The last actuarial calculation which sets forth the City's obligation estimated a July 1, 2011 contribution of $43.9M. In addition to UAAL, the City will continue to have the obligation to pay the debt service on bonds that are secured by tax override revenues of approximately $58.5M. For fiscal year 2011/12, the City's total obligation on the PFRS unfunded liability as well as bond debt service payments will total approximately $102.4M. Payment obligations in excess of available tax override revenues will have to be paid out of the General Fund. The total of those obligations will exceed the expected receipt of tax override revenue.

PFRS Cost Saving Options:

a. Use of Excess Property Tax Override to issue POBs: Currently, the City has excess revenues from the tax override which could be used to secure additional PFRS pension bonding (see ***Attachment C***).

The City can issue approximately $240 million of additional POBs to fund the system and increase the funding level to above 75%. By increasing the funded ration, the City can negotiate a "holiday" with PFRS which would relieve the general fund from paying into the system for a negotiated period of time.

Oakland Municipal Employees Retirement System (OMERS): OMERS is a closed plan administered by the City, and covers 61 retired employees. On June 20, 2004, the last active OMERS member transferred to CalPERS. The benefits are summarized below:

	Benefit Description	Membership	
		2008	2009
Service Retirement	1.6667% of Final Salary for each Year of Service multiplied by the appropriate factor ranging from .587 at age 52 to 1.4 at 65 and older.	31	26
Non-Duty Disability Retirement	1.5% of Final Salary for each Year of Service, subject to minimum benefits based on service adjusted by salary under the Labor Code for disability or death arising out of the performance of duty. Must have at least 5 years of service and be under age 60 to be eligible.	2	2
Surviving Spouses	Upon the member's death a lifetime benefit of 50% of member's retirement is paid to qualifying spouse.	28	22

Historically, the system's assets have exceeded its actuarial liabilities, and contributions were not required. The system's last valuation report showed the funding ratio at 124.7% as of July 1, 2008 with assets of the fund exceeding its liabilities by $1.855M as shown in the table below. However, a preliminary actuarial valuation report prepared by Bartel Associates, LLC for the OMERS system on July 1, 2009 showed losses on assets due to the economic downturn. According to that report, the City's UAAL for OMERS was $518,000, resulting in a 90.6% funded status.

The table below presents the values of assets for OMERS as it declined over the years:

Valuation date	UAAL	Value of Asset	% Funded
7/1/2006	$6,714,000	$11,668,000	173.0%
7/1/2007	5,277,000	10,595,000	200.8%
7/1/2008	7,516,000	9,371,000	124.7%
7/1/2009*	5,499,000	4,981,000	90.6%

* Preliminary, subject to change

Although the asset has declined, since it is currently funded at more than 90%, staff does not recommend taking any action at this time.

Other Post-Retirement Benefits (OPEB): The City has programs in place to assist retirees in certain classifications with the cost of health insurance premiums; these programs are known as Other Post-Retirement Benefits (OPEB). Retirees meeting certain requirements relating to age and years of service are eligible for health benefits.

In June 2004, the Government Accounting Standards Board issued Statement 45, known as GASB 45, which required that state and local governments report OPEB liabilities in their financial statements. Until then, most state and local governments reported OPEB as an expense on a pay-as-you-go basis. The City paid approximately $12.5 million in FY 2008-09 for retirees under the pay-as-you-go method (see ***Attachment D, Table 1***).

The City reported its OPEB liability in accordance with GASB 45 in FY 2008-2009, however, payments were made only for the current year's liability and funding was not set aside toward the City's future liability for OPEB. The unfunded actuarial accrued liability as of July 1, 2008, is $591,575,250.

The breakdown of the City's unfunded liability by group for OPEB is as follows:

Actuarial Accrued Liability	July 1, 2008
Active participants	
Police	$ 92,830,539
Fire	60,634,482
Miscellaneous	155,163,206
	$308,628,227
Retirees and beneficiaries	
Police	$101,108,426
Fire	76,513,653
Miscellaneous	105,324,944
	$282,947,023
Total	**$591,575,250**

Based on an actuarial valuation report prepared for the City by JP Morgan Chase, as of June 30, 2009, the City's cumulative annual required contribution (ARC) for post employment benefits was $85.7 million. If the City does not fund its ARC, the obligation will continue to worsen. Other scenarios of possible funding are contained in ***Attachment E*** herein.

OPEB Cost Saving Options:

a. OPEB Prefunding: To address the City's OPEB liabilities, the City could implement a prefunding mechanism or dedicated trust. This example of a best practice adopted by many state and local governments, offers a strategy to assess the escalating costs while maintaining health care retirement benefits.

An example of a prefunding mechanism is a governmental trust which allows local government to prefund its OPEB liabilities through the creation of a dedicated trust into which funds are deposited and subsequently invested. This combination of contributions and investment earnings, in turn, provides assets for paying OPEB costs. Furthermore, by using such a trust as an irrevocable trust, the City may be able to employ different actuarial assumptions in calculating liabilities. Specifically, the City may be able to use a higher discount rate, which has the effect of lowering the present value of OPEB liabilities.

b. Benefit Cost-Sharing: The benefits offered to employees are a key element of the City's agreements with its employees. As a legally mandatory subject of bargaining, any changes to those benefits would first have to be discussed and negotiated within the context of labor agreement bargaining before the City could implement changes.

Based on the actuarial valuation prepared by JPMorgan dated October 2009, the current assumption for health care costs for safety and miscellaneous employees grows at 8% in 2009 declining to 5% by 2015 and thereafter.

Currently, the City pays up to the Kaiser Bay Area family rate (Maximum in 2010 = $532.56 single; $1,065.2 2-party; $1,384.66 family) for ALL active employees. For FY 2008-09, the City paid $9 million for Police, $5.1 million for Fire and $26.1 million for Miscellaneous employees for a total of $40.2 million. For the same period, the City paid $3.9 million for Police, $2.2 million for Fire and $6.4 million for Miscellaneous for a total of $12.5 million to retirees.

In addition, Assembly Bill 2544 states that beginning in 2008, retiree contributions should be equal to the number of years the City has been in the Public Employees' Medical and Hospital Care Act Plan (PEMHCA) program (18 years as of 2009), multiplied by 5% of the current employer contribution for actives, but should not increase more than $100 per month per year for all employees. The amount paid to CalPERS increases annually until it is equal to 100% of the employer contribution for active employees. As indicated above, this is can be costly to the City to bring retirees to active employees level over time. For details on Police and Fire retiree pays, **see Attachment D, Table 2.**

The City pays $105 per month into CalPERS for miscellaneous employees, which increases annually with Consumer Price Index ("CPI"). The City also pays a flat rate benefit of $425.42 for its miscellaneous employees who retired with at least 10 years of service with the City. Some of the health benefits currently offered to retirees are dictated by the City's contract with CalPERS, but most of them are offered as the result of bargaining agreements.

By restructuring the benefit plans, reducing certain benefits, or restricting growth in allowance, OPEB liabilities could be further reduced. The City could consider requiring retirees to share some of the costs of their health benefits as a way of reducing the City's liability.

c. **Two-Tiered System:** Other potential cost savings opportunities would be to reduce or eliminate adjustments for medical inflation, reduce the number of people eligible, or reduce premiums through benefit changes. A two-tiered system could also be implemented to change benefits for new hires and replace current retiree medical benefit with another type of plan.

SUSTAINABLE OPPORTUNITIES

There is no impact to economic, environmental or social equity opportunities following actions under this report.

DISABILITY AND SENIOR CITIZEN ACCESS

There is no impact to disability or senior citizen access following actions under this report.

RECOMMENDATION(S) AND RATIONALE

Staff recommends Council's acceptance of this informational report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that Council accept this informational report.

Respectfully submitted,

JOSEPH T. YEW, JR.
Finance Director/City Treasurer

Prepared by:
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Treasury Division

Attachment A – Historical and Current CalPERS Retirement Benefit Costs
Attachment B – CSMFO Employer Paid Contribution to PERS Survey Result
Attachment C – Excess Property Tax Override
Attachment D – City's Contribution to OPEB and Summary of Retiree Health Benefits
Attachment E – Possible Funding Scenarios for OPEB

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:

Office of the City Administrator

HISTORICAL AND CURRENT CALPERS RETIREMENT BENEFIT COSTS

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
CalPERS								
- Police								
Retirement Benefit	3%@50	3%@50	3%@50	3% @50	3% @50	3% @50	3% @50	3% @50
Payment to PERS	$21,256,670	$26,180,067	$22,504,623	$20,610,074	$22,526,614	$26,491,903	$25,087,709[1]	$27,498,430[1]
Employer Rate	25.288	29.828	29.711	27.700	26.663	27.088	27.877	28.092
Employer Paid Member Cont. [1]	9.000	9.000	9.000	9.000	9.000	9.000	9.000	9.000
Employee Pickup	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
City's Net Rate	34.288	38.828	38.711	36.700	35.663	36.088	36.877	37.092
- Fire								
Retirement Benefit	3% @55	3% @50	3% @50	3% @50	3% @50	3% @50	3% @50	3% @50
Payment to PERS	$13,310,869	$14,296,390	$15,026,745	$13,799,912	$14,357,869	$14,799,733	$14,014,082[1]	$15,360,719[1]
Employer Rate	25.288	29.828	29.711	27.700	26.663	27.088	27.877	28.092
Employer Paid Member Cont. [1]	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Employee Pickup	(9.000)	(13.000)	(13.000)	(13.000)	(13.000)	(13.000)	(13.000)	(13.000)
City's Net Rate	16.288	16.828	16.711	14.700	13.663	14.088	14.877	16.092
- Miscellaneous								
Retirement Benefit	2% @55	2.7% @55	2.7% @55	2.7% @55	2.7% @55	2.7% @55	2.7% @55	2.7% @55
Payment to PERS	10,436,707	$23,200,745	$31,654,976	$29,527,808	$34,388,154	$33,341,653	$35,368,504[1]	$38,672,196[2]
Employer Contribution	0.000	15.042	18.552	17.479	19.199	19.553	19.588	19.885
Employer Paid Member Cont. [1]	5.000	5.000	5.000	5.000	5.000	5.000	-0-	-0-
Employee Pickup [3]	(3.000)	(3.000)	(3.000)	(3.000)	(3.000)	(3.000)	(8.000)	(8.000)
City's Net Rate	2.000	17.042	20.552	19.479	21.199	21.553	19.588	19.885
Total Payment to CalPERS	**$45,004,246**	**$63,677,202**	**$69,186,344**	**$63,937,794**	**$71,272,637**	**$74,633,289**	**$74,470,295**	**$81,531,345**

(1) Total EPMC requirement for Safety is 9% and Miscellaneous is 8%

(2) Projected numbers

(3) Local 21 pickup additional 3% in FY03-04

OTHER RETIREMENT PLANS AND COSTS

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
PFRS								
- Payment to PFRS [1]	-0-	$17,709,888 [2]	-0-	-0-	-0-	-0-	-0-	-0-
OMERS								
- Payment to OMERS [3]	-0-	-0-	-0-	-0-	-0-	-0-	-0-	$131,000[4]
OPEB								
- Pay-as-you-go to OPEB	$2,375,499	$2,639,614	$2,978,954	$3,305,251	$10,966,605	$12,474,203	$14,888,854[5]	$16,572,712[5]

(1) City has holiday until June 30, 2011, however, on July 1, 2011, the City will have to make a payment of $43.9M.

(2) If fiscal year 2005, the City made an advance contribution of $17,709,888 because of bond restructuring

(3) OMERS was overfunded for these years so the City was not required to make any payments.
However, as of July 1, 2009, OMERS is has an unfunded liability of $518,000 due to market volatility.

(4) Based on a preliminary Actuarial Valuation report prepared by Bartel Associates, Inc. on July 1, 2009.

(5) Projections

ATTACHMENT B

Employee Paid Contribution to CalPERS Survey Results

Agency	Contribution From MISC?	Contribution From SAFETY?	% Employee pays Misc	% Employee pays Safety	Notes
City of Albany	Y	Y	Entire Portion	100%	
City of Alhambra	Y	Y	8%	9%	
City of American Canyon	Y	Y	7% (of 7%)	9% (of 9%)	
City of Brisbane	Y	Y	Entire Portion	Police 0%; Fire 100%	
City of Carlsbad	Y	Y	1%	1.08%	
City of Daly City	Y	Y	Entire Portion	100%	
City of Foster City	Y	Y	8%	9%	
City of Irvine	Y	Y	2.55%	9%	
City of La Mesa	Y	Y	8% (of 8%)	9% (of 9%)	
City of La Verne	Y	Y	1% (of 8%)	Police 0%; Fire/Paramedic 2.75%; Fire & Bat Chiefs 0%; (of 9%)	Misc - Effective 7/1/10, employee pays 1.574 % (of 8%). Firefighter/Paramedic, Engineers and Captain - those hired after 2/1/10, employees pay full 9% of 9%.
City of Menlo Park	Y	Y	8% (of 8%)	9% (of 9%)	
City of Mill Valley	Y	Y	Labor 2%; Mgt, Tech & Conf 0%; (of 8%)	*Police 0%; Fire* 3%; Bat Chiefs 0%; (of 9%)	
City of Morgan Hill- AFSCME (all other employees)	Y	Y	1% (of 8%)	1% (of 8%)	
City of Morgan Hill- POA, CSOA, and Management	Y	Y	8% (of 8%)	9% (of 9%)	
City of Morro Bay	Y	Y	1% (of 8%)	Police 9% (of 9%); Fire 0% (of 9%)	Executive, Management, and Confidential: Employee pays 8% but salaries inflated by 7%. Police pays 9% but salaries are inflated by 9%.
City of Newark	Y	Y	Entire Portion	100%	Plus employee pays a portion of the employer share. Currently, Misc picks up 2.729% and Safety picks up 3.413% of employer costs.
City of Palo Alto	Y	Y	2%-8% (of 8%)	0% - 9%	Effective 11/21/09 Non mgmt pays entire 8%, mgmt pays 2%. Effective 1/2/10 Fire pays 9%, Fire Mgmt pays 0% and Police pays 0%
City of Poway	Y	Y	3%	3%	
City of San Luis Obispo	Y	Y	varies (of 8%)	varies (of 9%)	The percent paid by employee is all or nothing depending on position.
City of San Rafael	Y	Y	8.73% to 15.46%	9.25% to 17.02%	Not part of PERS, part of Marin County Employee's Retirement Association. Employee rates are based on age of entry and bargaining group.
City of Santa Rosa	Y	Y	8% (of 8%), City Mgr/City Atty: 3% (of 8%)	Non-mgmt: 0% (of 9%); Mgmt: 9% (of 9%)	
City of Shasta lake	Y	Y	Mgmt: 2%; IBEW 0%; Teamsters 4%; (of 8%)	N/A	
City of Union City	Y	Y	3.5% (of 8%)	0% (of 9%)	
City of Vista	Y	Y	8% (of 8%)	8% (of 8%)	
Rosamond CSD	Y	Y	100%	100%	
Town of Paradise	Y	Y	3.50%	4.50%	
Twin Cities Police Authority	Y	Y	3.5% (of 8%)	0% (of 9%)	
City of Alturas	N	N	0% (of 8%)	0% (of 9%)	
City of Baldwin Park	Y	N	3%	0%	
City of Bell Gardens	N	N	0%	0%	
City of Calexico	N	N	0% (of 7%)	0% (of 9%)	
City of Chino	N	N	0%	0%	
City of Chula Vista	N	N	0% (of 8%)	0% (of 9%)	
City of Clayton	N	N	0% (of 7%)	0% (of 9%)	
City of Concord	N	N	0% (of 8%)	0% (of 9%)	Participates in EPMC
City of Covina	N	N	0% (of 7%)	0% (of 9%)	Excludes Executive group (pays their own 7%) and Police Management (pays their own 9%.)
City of Diamond Bar	N	N	0%	0%	
City of El Cerrito	N	N	0% (of 8%)	0% (of 9%)	
City of Elk Grove	N	N	0% (of 8%)	0% (of 9%)	
City of Larkspur	Y	N	1% (of 8%)	0% (of 9%)	
City of Newman	Y	N	2% (of 8%)	0% (of 9%)	
City of Palm Springs	N	N	0% (of 8%)	0% (of 9%)	
City of Pleasanton	N	N	0%	0%	
City of Rancho Cucamonga	N	N	0%	0%	
City of Red Bluff	N	N	0% (of 7%)	0% (of 9%)	

Agency	Contribution From MISC?	Contribution From SAFETY?	% Employee pays Misc	Safety	Notes
City of Riverside	N	N	0%	0%	
City of Selma	Y	N	5% (of 8%)	0%	
City of Sierra Madre	N	N	0%	0%	Plus EPMC Benefit
City of Taft	N	N	0% (of 7%)	0% (of 9%)	
City of Tracy	N	N	0% (of 8%)	0% (of 9%)	
City of Yuba City	N	N	0%	0%	
Montecito Water District	N	N	0%	0%	
Town of Mammoth Lakes	N	N	0% (of 8%)	0% (of 9%)	
Carpinteria Valley Water District	N	N/A	0% (of 7%)	N/A	
City of Carpinteria	N	N/A	0%	N/A	
City of Cupertino	Y	N/A	2% (of 8%)	N/A	
City of Dublin	Y	N/A	1% (of 8%)	N/A	
City of Goleta	N	N/A	0% (of 7%)	N/A	
City of Highland	N	N/A	0% (of 7%)	N/A	
City of Irwindale	N	N/A	0% (of 7%)	0% (of 9%)	
City of Laguna Niguel	N	N/A	0%	N/A	
City of Laguna Woods	N	N/A	0% (of 7%)	N/A	
City of Lake Elsinore	N	N/A	0%	N/A	
City of Lake Forest	N	N/A	0%	N/A	
City of Lynwood	N	N/A	0% (of 8%)	N/A	
City of Mission Viejo	Y	N/A	6% (of 8%)	N/A	2.7% at 55
City of Riverbank	N	N/A	0%	N/A	
City of San Clemente	N	N/A	0% (of 7%)	N/A	
City of Thousand Oaks	N	N/A	0% (of 7%)	N/A	2% at 55
City of Twentynine Palms	N	N/A	0% (of 8%)		
City of Victorville	N	N/A	0% (of 8.6%)	N/A	
City of Walnut	N	N/A	0% (of 7%)	N/A	2% at 55
City of Wasco	Y	N/A	9.143% (of 9.143%)	N/A	
Dublin San Ramon Services District	Y	N/A	10% (of 10%)	N/A	2.7% at 55
Helix Water District	N	N/A	0%	N/A	
Laguna Becah County Water District	N	N/A	0%	N/A	
Marina Coast Water District	N	N/A	0% (of 7%)	N/A	
Nevada Irrigation District	Y	N/A	8% (of 8%)	N/A	2.5% @ 55
Ramona Municipal Water District	Y	N/A	1%	N/A	
Vallecitos Water District	N	N/A	0% (of 8%)	N/A	
Valley Center Water District	Y	N/A	6.49%	N/A	
Ventura County Transportation Commission	N	N/A	0% (of 7%)	N/A	
Total	**Y-39; N-43**	**Y-27; N-26**			

Source: CSMFO as of 2/25/10

Excess Property Tax Override

FY (June 30)	Taxable POBs, Series 1997	Taxable POBs, Series 2001	Tax-Exempt Series 2008A-1	Taxable Series 2008A-2	Total Debt Service	Tax Override Revenues	Excess Tax Override Revenues
2010	39,181,314		14,365,400	2,574,541	56,121,255	62,805,647	6,684,392
2011	40,305,000		14,479,650	2,530,483	57,315,133	64,061,760	6,746,627
2012		38,375,000	14,571,300	5,592,886	58,539,186	65,342,995	6,803,809
2013		39,555,000	14,697,750	5,532,247	59,784,997	66,649,855	6,864,858
2014		40,765,000	14,820,750	5,470,053	61,055,803	67,982,852	6,927,049
2015		42,010,000	14,935,550	-	56,945,550	69,342,509	12,396,959
2016		43,285,000	15,073,350	-	58,358,350	70,729,359	12,371,009
2017		44,590,000	15,095,950	-	59,685,950	72,143,946	12,457,996
2018		45,925,000	-	-	45,925,000	73,586,825	27,661,825
2019		47,295,000	-	-	47,295,000	75,058,561	27,763,561
2020		48,700,000	-	-	48,700,000	76,559,733	27,859,733
2021		50,140,000	-	-	50,140,000	78,090,927	27,950,927
2022		51,620,000	-	-	51,620,000	79,652,746	28,032,746
2023		53,130,000	-	-	53,130,000	81,245,801	28,115,801
2024			-	-	-	82,870,717	82,870,717
2025			-	-	-	84,528,131	84,528,131
2026			-	-	-	86,218,694	86,218,694
	79,486,314	**545,390,000**	**118,039,700**	**21,700,208**	**764,616,222**	**1,256,871,056**	**492,254,834**

Table 1
City's Contribution to OPEBs
(Pay-as-you-go)

Fiscal Year	Amount
2002-03	1,725,132
2003-04	2,375,499
2004-05	2,639,614
2005-06	2,978,954
2006-07	3,305,251
2007-08	10,966,605
2008-09	12,474,203

Table 2
Summary of Retiree Health Benefits

RETIREE HEALTH BENEFIT	RETENTION I Police (CalPERS)	RETENTION II Police (PFRS)	Fire	Miscellaneous
Eligibility	At least age 50 and 5 years service or disability in the line of duty	At least age 50 and 5 years service or disability in the line of duty	At least age 50 and 5 years service or disability in the line of duty	At least age 50 and 5 years service
City Contribution for medical coverage	Single/Two/Multi-party $286 - $584/month	60% - 100% paid depending on years of service	Single/Two/Multi-party $323 - $664/month	CalPERS req'd >10yrs: $105/mo.
Medical coverage for survivors of safety personnel killed in the line of duty	Full premium paid by City	Full premium paid by City	Full premium paid by City	-
Additional insurance subsidies	$1500 - $7000/Year depending on years of service	60% - 100% paid Dental depending on years of service	-	-
Annual survivor benefit for other health costs	$750 - $4665/Year depending on years of service	-	-	-
City medical coverage subsidy for retirees with at least 10 years of City service	-	-	-	*Flat Rate up to* $425.42/mo.
Fiscal Year 2008/2009 Costs				

ATTACHMENT E

Possible Funding Scenarios for OPEBs

Implications of advance funding

Postretirement Benefits Program - Net OPEB Obligation with Actual July 1, 2008 - June 30, 2009 Benefit Payments

$ in millions

	Year Ending June 30										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. No advance funding: Discount rate 4.0%											
Police	$30.1	$45.5	$61.5	$78.3	$95.9	$114.3	$133.6	$153.9	$174.9	$196.8	$219.5
Fire	19.8	28.1	36.7	45.4	54.5	64.0	73.9	84.2	94.9	106.2	117.9
Miscellaneous	35.8	54.6	73.7	93.0	112.6	132.5	152.7	173.1	193.8	214.8	236.0
Total	$85.8	$128.2	$171.9	$216.8	$263.1	$310.9	$360.2	$411.1	$463.6	$517.8	$573.5
2. Advance fund 100% of ARC in all years: Discount rate and assumed return on assets 7.75%											
Police	$15.4	$15.6	$15.8	$16.0	$16.2	$16.4	$16.6	$16.8	$17.0	$17.2	$17.4
Fire	10.3	10.4	10.6	10.7	10.8	11.0	11.1	11.2	11.4	11.5	11.6
Miscellaneous	18.5	18.7	19.0	19.2	19.5	19.7	19.9	20.2	20.4	20.7	20.9
Total	$44.2	$44.8	$45.3	$45.9	$46.4	$47.0	$47.6	$48.2	$48.8	$49.4	$50.0
Change from no advance funding scenario	*($41.5)*	*($83.5)*	*($126.6)*	*($170.9)*	*($216.6)*	*($263.9)*	*($312.6)*	*($362.9)*	*($414.8)*	*($468.4)*	*($523.5)*
3. Advance fund greater of 50% of ARC and benefit payment beginning with year ending June 30, 2012: Discount rate and assumed return on assets 6.0%											
Police	$25.4	$35.8	$46.8	$55.6	$64.8	$74.6	$85.0	$95.9	$107.4	$119.6	$132.4
Fire	17.3	23.0	28.8	34.4	40.4	46.7	53.2	60.2	67.5	75.2	83.3
Miscellaneous	30.3	43.4	56.8	67.6	78.8	90.4	102.6	115.2	128.4	142.1	156.2
Total	$72.9	$102.2	$132.4	$157.6	$184.0	$211.7	$240.8	$271.3	$303.3	$337.0	$371.9
Change from no advance funding scenario	*($12.9)*	*($26.0)*	*($39.4)*	*($59.2)*	*($79.1)*	*($99.2)*	*($119.4)*	*($139.8)*	*($160.3)*	*($180.8)*	*($201.6)*

Key assumptions:

1. A stable active population is assumed for all future years.
2. Patricipant census data as of July 1, 2008 and plan design in effect as of July 1, 2008.
3. Entry age normal level percent of pay actuarial cost method is utilized.
4. Unfunded actuarial accrued liability is amortized as a level percent of pay over 30 years on an open basis. Aggregate pay increases are assumed to be 2.5% annually.
5. In advance funding scenarios it is assumed that annual benefit payments are paid from the "OPEB trust".
6. All other assumptions as agreed to with the City of Oakland.