

CITY OF OAKLAND

AGENDA REPORT


To: Office of the City Administrator
Attn: Dan Lindheim
From: Finance & Management Agency
Date: July 15, 2008

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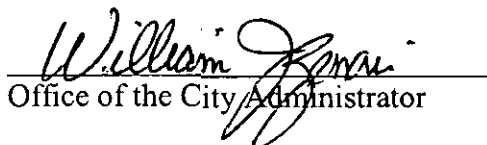
Re: **A Supplemental Report On The Report And Resolution, Submitting On The Oakland City Council's Own Motion, A Proposed Charter Amendment, Entitled, "Measure Allowing All Widows And Widowers Who Remarry To Receive Spousal Retirement Benefits" To Be Submitted To The Electors At The Election Of November 4, 2008; Directing The City Clerk To Fix The Date For Submission Of Arguments And To Provide For Notice And Publication In Accordance With The Law And Authorizing Certain Other Election Activities**

At the request of the Oakland Police and Fire Retirement System (PFRS) Board, the attached supplemental report, providing additional fiscal impact information is submitted for the Council's consideration for a Charter amendment to the voters on November 4, 2008.

Respectfully submitted,


William E. Noland, Director
Finance and Management Agency

APPROVED AND FORWARDED
TO THE CITY COUNCIL:


Office of the City Administrator

Item: _____
City Council
July 15, 2008.

Oakland Police and Fire Retirement System Board
150 Frank H. Ogawa Plaza
Oakland, CA 94612

AGENDA REPORT

TO: City Council
FROM: Police and Fire Retirement Board
DATE: July 15, 2008

RE: **A Supplemental Report On The Report And Resolution, Submitting On The Oakland City Council's Own Motion, A Proposed Charter Amendment, Entitled, "Measure Allowing All Widows And Widowers Who Remarry To Receive Spousal Retirement Benefits" To Be Submitted To The Electors At The Election Of November 4, 2008; Directing The City Clerk To Fix The Date For Submission Of Arguments And To Provide For Notice And Publication In Accordance With The Law And Authorizing Certain Other Election Activities**

SUMMARY

This report is to present the Oakland Police and Fire Retirement System (PFRS) Board's recommendation that the City Council adopt a resolution submitting a proposed Charter amendment, entitled "Measure Allowing Eligible Surviving Spouses Whose Benefits Were Discontinued As A Result of Having Remarried Prior to January 1, 1985 To Resume Receiving Spousal Retirement Benefits."

In 1986, the PFRS retirement plan was amended to allow eligible widows and widowers who remarry on or after January 1, 1985 to continue to receive spousal retirement benefits. (City Charter section 2612(1)(a), amended in 1986.) Before the 1986 amendment, widows and widowers of PFRS members who remarried, were not entitled to receive spousal retirement benefits. In 1984, the California Public Employees' Retirement System ("PERS") plan was amended to allow eligible widows and widowers of PERS members to continue to receive spousal retirement benefits upon remarriage if the remarriage occurred on or after January 1, 1985; like PFRS, widows and widowers of the PERS members who remarried were not entitled to continue to receive spousal retirement benefits before the PERS amendment. Both amendments precluded retroactive application of the amendment and applied prospectively only, eliminating any potential liability to provide retirement benefits to widows and widowers who remarried before the amendments became effective.

The proposed Charter amendment will provide that widows and widowers of PFRS members who remarried before January 1, 1985 are eligible to receive spousal retirement benefits

Item: _____
City Council
July 15, 2008

beginning on the effective date of the 2008 amendment. Eligible widows and widowers must file an application with the PFRS requesting the benefits.

FISCAL IMPACT

Approximately 4,200 closed records of PFRS members were reviewed to help determine the potential fiscal impact on the Plan. There were four records found with notations indicating that their member spouses passed away and the widows remarried prior to January 1, 1985. These widows are presumed to still be alive.

The July 1, 2007 actuarial valuation shows the Plan funded ratio to be 63.7 percent. The unfunded actuarial liability is \$332,096,000. The Plan's actuary provided an estimated cost if continuance benefits were extended to otherwise eligible Police and Fire Retirement System surviving spouses who remarried after member deaths where the death occurred prior to January 1, 1985. Because of the limited amount of information available, the actuary used the June 30, 2007 valuation assumptions as follows:

- Discount rate: 8.0%
- Post-retirement increases: 4.75%
- Spouse mortality: RP-2000 Table for Females
- Where information was unavailable, spouse ages were assumed to be 3 years younger than the deceased member.
- Where information was unavailable, the member was assumed to be age 55 at date of death.

To illustrate how the pension amount is determined, a typical service retiree with 25 years of service will receive 50 percent of the salary of his or her active rank. Upon the death of the member, the widow or widower would typically receive 2/3 of the pension amount paid to the member. If the City negotiates a Memorandum of Understanding with the union that provides a 4 percent increase in salaries for active police officers, the widow's or widower's pension also would increase by 4 percent.

This issue was presented to the PFRS Board by a widow whose husband died in the line of duty. She remarried before January 1, 1985 and recently submitted an application asking the PFRS Board to grant her a continuance of her spouse's retirement benefits. Based on the rank from which that widow's spouse retired (police officer), her pension amount is estimated to be \$60,200 (50% of the compensation currently paid to police officers). Because PFRS pensions are based on the compensation currently paid to members of the police or fire department who hold the rank that the widow's spouse held when he/she retired, the pension amount will increase proportionately as salaries increase.

The estimated cost to provide lifetime annuities to the four widows mentioned above is approximately \$1.3 million as of January 1, 2008.

Additionally, the one-time cost to place the item on the November 4, 2008 ballot is estimated to be up to \$301,000. The cost will be covered by the PFRS fund. We note however, that because the City is ultimately responsible for funding the PFRS retirement plan, the amendment has the potential to increase the amount of funding that will be necessary to fully fund the retirement plan by allowing a new class of widows and widowers (i.e. those who remarried before January 1, 1985) to receive spousal retirement benefits. The ongoing pension payment to eligible surviving spouses will be paid as part of the normal retiree payroll process each month.

BACKGROUND

The Police and Fire Retirement System (PFRS) is a closed defined benefit plan, which was created in 1951 pursuant to Article XXVI of the City Charter. A defined benefit plan provides its members a prescribed retirement pension based on the plan formula.

Article XXVI of the Oakland City Charter established the Police and Fire Retirement System to provide retirement benefits for Oakland Police and Fire sworn employees and created the Police and Fire Retirement System Board to manage and administer the PFRS fund.

The PFRS plan pays its retired members a percentage of the compensation currently paid to sworn personnel who hold the rank the retired member held prior to retirement. Surviving spouses of PFRS members may receive up to two-thirds of the member's pension amount as spousal retirement benefits, except under special circumstances such as members killed in the line of duty, which results in a 100 percent spousal retirement benefit. Payment of spousal retirement benefits is approved by the PFRS Board by Resolution during its monthly meetings. PFRS differs from PERS which bases its pensions on the employee's highest twelve months' of salary plus an adjustment for changes in the cost of living.

On June 3, 1986, Measure I was passed by the voters authorizing eligible widows and widowers of members of the Police and Fire Retirement System and the Oakland Municipal Employees' Retirement System to continue receiving spousal benefits upon remarriage, if the remarriage occurred on or after January 1, 1985. Prior to the amendment widows and widowers who remarried were not eligible to continue to receive spousal retirement benefits.

KEY ISSUES AND IMPACTS

Like the PERS statute on which the Charter provision was based, the Charter provision currently in place treats spouses who remarried prior to January 1, 1985 differently than those who remarried on or after January 1, 1985. If a widow or widower remarried on or after January 1, 1985 he/she is eligible to continue to receive spousal retirement benefits; if he/she remarried before January 1, 1985 he/she is not eligible to continue to receive spousal retirement benefits. Both the PERS and PFRS amendments were designed to apply prospectively to avoid any potential liability for coverage of widows and widowers who remarried before the amendment took effect.

The PFRS Board finds this situation to be inequitable to spouses of members who remarried prior to January 1, 1985, particularly those whose spouses were killed in the line of duty.

RECOMMENDATION(S) AND RATIONALE

The Police and Fire Retirement Board recommends that City Council adopt a resolution submitting to the voters an amendment to Article XXVI of the Charter of the City of Oakland Police and Fire Retirement System that would remove the January 1, 1985 date and permit all widows and widowers of members of the Police and Fire Retirement System who remarry to receive spousal retirement benefits.

ACTION REQUESTED OF THE CITY COUNCIL

The Police and Fire Retirement Board requests that the City Council adopt a resolution submitting a Charter amendment to the voters on November 4, 2008 that would provide spousal benefits to all eligible widows and widowers of the Police and Fire Retirement System, including those who remarried prior to January 1, 1985.

Respectfully submitted,

POLICE AND FIRE RETIREMENT BOARD

By: Robert Crawford by ysh
Robert Crawford, President

Prepared by:
Yvonne S. Hudson, HR Manager
Retirement and Benefits

Item: _____
City Council
July 15, 2008