Agenda Item No. 1

File Code No. 120.03

CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: June 10, 2014

TO: Finance Committee

FROM: Administration Division, Finance Department

SUBJECT: Police And Fire Service Retirement Plan Of 1927 Cost Of Living Increase

RECOMMENDATION: That the Finance Committee:

A. Hear a report from staff regarding the funded status of the City's Article XV-A Service Retirement Plan established in 1927 for police and fire employees, which preceded the City's enrollment in the CalPERS retirement plan in the 1960s; and

B. Consider forwarding to City Council a recommendation from the Police and Fire Pension Commission, to increase in monthly pension benefits paid to the remaining four retirees in the plan by 10%, which would increase the total monthly benefits by $596 – from $5,965 to $6,561.

DISCUSSION:

The City currently administers three defined benefit pension plans created for police and fire personnel pursuant to Article XV of the 1927 City Charter. All of these plans were created prior to the City's enrollment in the CalPERS retirement system and are "closed" plans, which means no new members have been added since the City enrolled in CalPERS in the 1960s.

The Article XV-A Service Retirement Plan ("Plan") is governed by a Board of Fire and Police Pension Commissioners appointed by City Council. The Board meets quarterly, primarily to discuss the funding status of the Plan and investment results. The Plan currently has four surviving pensioners.

When the Plan was first created, a retirement trust fund was created into which contributions from both covered employees while employed with the City and the City's General Fund were made based on periodic actuarial valuations performed by consultants. Once all employees retired, the only source of additional funds have come from earnings on plan investments and any contributions the City's General Fund may have made since then.

Although records are not available, it appears the Plan may have been fully funded as early as 1992, which would have been based on an actuarial valuation done at that time. The valuation would have included assumptions as to the expected numbers of years the pensioners would receive benefits and expected returns on invested plan assets. However, from 1992 through 2009, these assumptions proved inaccurate. Most notably, pensioners have exceeded the original life expectancies assumed by the actuarial valuations. As a result, by June 2009 the Plan was underfunded by $493,626. In order to ensure the Plan had sufficient funds to pay the promised benefits, in July 2010 Council approved a one-time contribution of $493,626 from funds available in the Self Insurance Fund that were earmarked for Police and Fire employees.

It is important to note that the General Fund is ultimately responsible for ensuring the Plan has sufficient assets to pay the expected benefits. If any funds remain after all pensioners have passed away, they would return to the General Fund. Likewise, if the benefits payments exceed the assets in the fund, including future earnings, the General Fund would need to make up the difference.

While the Plan is now fully funded based on the most recent actuarial study, pensioners have not received any increases to monthly benefits since 1980. Consequently, the Fire and Police Pension Commission have recommended a 10% increase in benefits to the remaining four pensioners. If approved, the total monthly benefits would increase by $596, from $5,965 to $6,561. This would amount to an average increase to each pensioner of $149 per month.

Based on the most recent actuarial valuation, the total expected benefits to be paid over the remaining lives of the pensioners and any surviving spouse is $556,377. The Plan currently has $555,094 in assets (investments) to pay these benefits. A 10% increase in monthly benefits would correspondingly increase the total expected benefits payments by $55,638 (10%), from $556,377 to $612,015.

If the 10% increase in monthly benefits were approved, the Plan's funded status would decrease from 99.8% to 90.7%, which means the Plan would be actuarially underfunded by $56,921.

After considering the impacts to the Plan, the Pension Commission recommends the 10% increase for the following reasons:

1. It has been more than 20 years since the monthly pensions have been increased. A 10% increase amounts to less than 0.5% per year, well below the CPI.

2. The increase in monthly benefits represents an average of only $149 per pensioner.

3. Although the funded status would decline to 90.7%, the Plan's financial condition is still strong, particularly in relation to other open and active retirement plans across the state, including those administered by CalPERS.

BUDGETARY IMPACT:

There is no immediate budgetary impact to the City since the increase in benefit payments would continue to be funded from assets available in the Plan. However, the City's General Fund may be impacted to the extent the increase in monthly pension benefits results in a shortfall in assets that would have to be made up by the General Fund.

PREPARED BY: Robert Samario, Finance Director

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office