



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** June 17, 2014

**TO:** Mayor and Councilmembers

**FROM:** Administration Division, Finance Department

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

### **RECOMMENDATION:**

That Council introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Increasing the Service Retirement Benefit for the Fire and Police Service Retirement Pension Fund.

### **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, the funds 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 amounts to an average monthly benefit increase of \$149 to each of the remaining pensioners.

Based on the most recent actuarial valuation, the total expected benefits to be paid over the remaining lives of the pensioners and any surviving spouses 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.

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

1. It has been more than 30 years since the monthly pensions have been increased.
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.

On June 10, the Finance Committee considered the recommendation from the Fire and Police Pension Commission and unanimously recommended Council's approval.

**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



# CITY OF SANTA BARBARA



Police & Fire Retirement Plans of 1937  
Proposed CPI Increase  
June 17, 2014

# BACKGROUND

- ◆ Three defined benefit plans currently administered by the City
  - 2 Service Retirement Plans
    - Article XV plan has 1 surviving spouse – aged 98
    - Article XV-A plan has 4 remaining pensioners
  - 1 Service Death and Disability Plan
    - Article XV-A plan has 11 remaining retirees or spouses
- ◆ All 3 plans were closed to new employees in 1965

# BACKGROUND - Continued

- ◆ Article XV-A Service Retirement Plan
  - 4 individuals receiving a pension
    - 2 retirees – Ages 73 and 78
    - 2 surviving spouses – Ages 88 and 94
  - Governed by a Board of Police and Fire Pension Commissioners
  - Funding of benefits ultimately the responsibility of the General Fund
  - Appears to have been fully funded in 1992
  - As of June 2009, underfunded by \$493,626

# BACKGROUND - Continued

## ◆ Service Retirement Plan

- In July 2010, City deposited \$493,626 into Service Retirement Plan to address unfunded liability
- With economic downturn, Plan became underfunded temporarily
- Now back to fully funded
  - Better investment returns
  - Death of several pensioners ahead of mortality assumptions

# Commission Recommendation

- ◆ Increase monthly pension benefit payments by 10%
  - From \$5,965 to \$6,651 (average increase of \$149 each)
  - Funded status would go from 99.8% to 90.7%
- ◆ Rationale
  - It's been at least 20 years (perhaps 30 years) since pensioners received a CPI increase
  - A funded status of 90.7% is still quite strong



# Fiscal Impacts

- ◆ No immediate fiscal impact
- ◆ Actuarially, Plan will be underfunded by \$56,921
- ◆ City's General Fund may have to cover the \$56,921

# Funded Status of Other Plans

- ◆ Accrued Liabilities
  - Article XV Plan (1 member) - \$125,540
  - Article XV-A Plan (11 members) - \$402,372
- ◆ Total assets available = - **\$754,276**
- ◆ Unfunded liability = \$1,282,188
- ◆ Starting July 1, 2014 – Budgeted \$120k
  - Annual benefits - \$102,000
  - Real deficit to contend with is \$754,276

# Staff Perspective

- ◆ Extremely small number of beneficiaries creates more volatility in funded status
  - Errors in assumptions have a greater impact, particularly mortality assumptions
- ◆ Any remaining shortfall or surplus will accrue to the General Fund
  - Likelihood of Plan assets exactly matching expected benefits is remote
- ◆ Should be treated (ultimately) as a request for funding from the General Fund



# Finance Comm. Recommendation

- ◆ Voted 3-0 to recommend approval of the CPI increase by Council