



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 30, 2015

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Benefit Increase For 1927 Police And Fire Employee Retirement Plan

RECOMMENDATION:

That Council approve an increase in monthly pension benefits paid to the remaining three retirees in the City's 1927 Police and Fire Retirement Plan by 10%, which would increase the total monthly benefits paid to all retirees by \$512, from \$5,123 to \$5,635.

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 three remaining pensioners, with two having spouses that would continue to receive benefits if their husbands precede them.

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, and pensioners not having received a cost of living increase since 1992, the Fire and Police Pension Commission recommended last year a 10% increase in benefits. The 10% increase amounted to \$596 per month, which the City Council approved, and increased monthly payments from \$5,965 to \$6,561.

Since that time, one of the pensioners whose life expectancy was over four years as of June 30, 2014 passed away. This leaves three pensioners, with two having spouses that would continue to receive the benefits if they survive their husbands. With the passing of a pensioner, who was the surviving spouse, the total monthly pension payments dropped from \$6,561 to \$5,123.

Because of the many years the pensioners had gone without a cost of living increase until last year, and the feeling on the part of the Commission that the pensioners may not reach their projected life span relative to the actuarial projections, as evidenced by the premature passing of a surviving spouse this year, the Commission recommends increasing benefits again by 10%.

Based on the June 30, 2014 actuarial valuation, the present value of the total expected benefits to be paid over the remaining lives of the pensioners and any surviving spouse is \$552,063. Since that time, a total of \$46,107 in benefits have been paid from July 2014 through March 31, 2015, which would likely lower that liability to approximately \$525,000 on a present value basis. A 10% increase in monthly benefits would correspondingly increase the total expected benefits payments by \$55,206 (10%), from an estimated \$525,000 to \$577,500. In contrast, as of March 31, 2015 the Plan had \$517,464 in assets (investments) to pay these benefits.

If the 10% increase in monthly benefits were approved, the Plan's funded status would decrease from 98.6% to 89.6%, which means the Plan would be actuarially underfunded by approximately \$60,000.

Finance Committee Recommendation

On Tuesday, June 23, 2015, the Finance Committee received a report from staff and the recommendation of the Police and Fire Pension Commission. The Committee voted unanimously to recommend City Council's approval of the 10% increase in benefits.

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.

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APPROVED BY: City Administrator's Office