



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** September 20, 2016

**TO:** Finance Committee

**FROM:** Administration Division, Finance Department

**SUBJECT:** Report On The City's Retirement System

### **RECOMMENDATION:**

That the Finance Committee hear a report from staff in response to a request from the Committee for certain information regarding the City's retirement system.

### **EXECUTIVE SUMMARY**

In connection with the development of the Fiscal Year 2017 budget, the Finance Committee requested staff to present certain information regarding the City's retirement system. The presentation was originally scheduled for May 24<sup>th</sup>, 2016; however, due to time constraints, the presentation was deferred.

The presentation now scheduled for September 20, 2016 will provide the same information that was intended for May 24<sup>th</sup>.

### **DISCUSSION:**

The City of Santa Barbara offers a retirement plan to all permanent employees through the California Public Employee's Retirement System (CalPERS). The retirement program provides a defined benefit plan whereby employees receive a pension upon retirement for life based on three factors: (1) number of years of service and participation in CalPERS; (2) either single highest salary or highest three years salary; and (3) a prescribed percentage based on the appropriate retirement plan (Police, Fire, or Miscellaneous Plan) and when the employee was hired.

Both the City and its employees make contributions to the plan each payperiod to prefund the benefit while the employee is actively working so that, ideally, the benefit is fully funded by the time the employee retires. The annual contributions are determined a year in advance by CalPERS based on an actuarial study, which evaluates actual results of the prior year and current trends. The employee pays the statutorily determined employee portion, with the larger share paid by the City.

The annual contribution rates are also calculated in a manner that will amortize any unfunded liabilities. As a result of several factors, the largest being the significant investment losses affecting the monies held by CalPERS during the recession of 2008-2009, participating agencies are facing a relatively large funding gap between the monies actually held by CalPERS for active employees and how much should be on hand. CalPERS has taken action recently to ensure the unfunded liabilities created by the investment losses of 2008-2009 are recovered by 2020 by implementing rate increases over a five-year period starting in 2016 and ending in 2020. They have also implemented new funding policies that reduce the amortization period for any actuarial gains or losses (e.g., lower rate of returns than the 7.5% target) from fifteen years to three years. While this will help ensure losses do not "stack up", it will translate into more rate volatility.

In Fiscal Year 2016, the City paid approximately \$24.3 million to CalPERS to fund employee pensions. This represents approximately 8% of total operating expenses citywide. The General Fund portion of the \$24.3 million was approximately \$16.9 million, which represents approximately 16% of total General Fund operating expenses.

As of June 30, 2014 (the last valuation date), there were 999 active City employees who are members of CalPERS and 1,182 retirees receiving benefits.

During Fiscal Year 2015, a total of 45 employees retired from the City. Their combined salaries averaged \$89,065. A breakdown by plan is shown below.

<u>Plan</u>	<u>Count</u>	<u>Average Salary</u>
Non-Safety	35	\$ 80,354
Fire Sworn	3	112,651
Police Sworn	7	122,510
Totals	45	89,065

More details of the information provided in this report will be presented at the September 20, 2016 meeting.

**PREPARED BY:** Robert Samario, Finance Director

**SUBMITTED BY:** Robert Samario, Finance Director

**APPROVED BY:** City Administrator's Office