



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: July 13, 2010
TO: Finance Committee
FROM: Administration Division, Finance Department
SUBJECT: Article XV And Article XV-A Service Retirement Plan Funding

RECOMMENDATION: That the Finance Committee:

- A. Hear a report from staff regarding the funding status of the City's Article XV and Article XV-A Service and Disability Retirement Plans established in 1927 and 1937, respectively, for police and fire employees; and
- B. Forward to City Council a recommendation to shift funds accumulated for injured fire and police personnel from the Self-Insurance Trust Fund to the City's Article XV and XV-A Pension Plans to partially offset the unfunded accrued pension liabilities as of June 30, 2009.

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. The plans were later modified under Article XV-A of the 1937 City Charter. All of these plans were created prior to the City's initial enrollment in the CalPERS retirement system and are "closed" plans, which means no new members have been added since the City switched to CalPERS.

The Article XV plan originally covered eight employees. There is currently only one surviving member. Article XV-A covers two groups of pensioners: the Service Retirement Plan, which currently has eight surviving pensioners, and the Service Death and Disability Plan, which currently has nine surviving pensioners.

Article XV-A Plan Details

The Article XV-A Plan is governed by a Board of Fire and Police Commissioners appointed by City Council. The Board meets quarterly primarily to discuss the funding status and investment results.

When the pension 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 paid based on periodic actuarial valuations performed by consultants. Once all employees retired, the only source of additional funds have come from earnings

on the plan assets and any contributions the City's General Fund may have made since then.

Because City records are not available prior to 1992, there is no way to determine what contributions have been made by the General Fund before that date. Since that date, it does not appear that the General Fund made any contributions to the plan. Although records are not available, it appears the plan may have been fully funded as recently 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 benefit and expected return on invested plan assets.

Several years ago it became apparent that the plan was under funded based on a more recent actuarial valuation completed as of June 30, 2005. The change in funding status over the last 15-20 years is presumably due to pensioners living longer than originally projected and possibly lower than expected returns on plan assets.

At that time, the Fire and Police Pension Commission requested staff to develop a plan for addressing the unfunded liabilities. Since there were sufficient funds to cover the required pension payments for several years, staff decided to monitor the plan for a few years to see if any actuarial gains could assist in reducing the unfunded liability. However, based on the most recently completed actuarial valuation, the unfunded liability has now grown to approximately \$495,000 - the difference between plan assets of \$320,000 and projected pension payments totaling \$815,000 as of June 30, 2009.

As of May 1, 2010, the retirement fund's assets are down to approximately \$208,000, which is sufficient only to pay the benefits for less than two years. If and when the plan assets are fully consumed, the City will be obligated to continue making the monthly pension payments out of the General Fund.

The Article XV and Article XV-A Service Death and Disability Plans

These two plans are funded solely from the General Fund. The Fire and Police Pension Commission does not govern these two plans and no retirement trust fund has been created. The activities of the plan are accounted for in the City's general ledger.

As with the Article XV-A Service Retirement Plan, many years ago these two plans were likely fully funded based on an actuarial performed at that time. However, since then, the combination of pension payments, asset performance and retirees living longer than expected has created an unfunded liability of \$1.1 million as of June 30, 2009.

The City has and will continue to fund the pension payments on a "pay as you go" basis; however, the City's General Fund will eventually have to identify funds to cover whatever remaining deficit is left in the fund.

Recommended Funding Strategy

Every two years, the City hires a consultant to complete an actuarial valuation of the City's workers' compensation and general liability programs to calculate the accrued liabilities attributable to the City's self-insured retention levels. The accrued liabilities are based on a number of factors, such as total payroll costs, the size of the organization, the services provided, open claims and the City's loss experience over the last five years.

The City recognizes those liabilities in the Self-Insurance Trust Fund. The actuarial valuation also includes recommended annual premiums chargeable to City funds and departments to fund the estimated accrued liabilities, similar to an insurance company.

Staff recently discovered that the actuarial valuation included in its calculations the liability associated with payments made to safety personnel pursuant to California State Labor Code Section 4850, which provides compensation equal to 100% of the injured employee's salary for up to a year. Because these payments are paid out of the police and fire departments' budget, rather than out of the Self-Insurance Fund, neither the liability nor the accumulated assets to cover the liability belong in the Self-Insurance Fund. As of June 30, 2009, the Self-Insurance Fund had \$717,988 in funds for "4850 benefits."

Staff recommends that these funds be used to: (1) fully fund the unfunded liability in the Article XV-A Service Retirement Pension Plan as of June 30, 2009 totaling \$493,626; and (2) partially fund the Article XV Service Retirement and Article XV-A Death and Disability Retirement Pension Plan from the balance of \$224,362.

Because each year the actual results of the pension will vary from the actuarial assumptions relating to return on assets and mortality rates, it is possible that the City may need to contribute additional funds to the plan in the future; however, it will take at least five years before any additional funds would be needed. In contrast, it is also possible that the plan will be left with a surplus once all surviving pensioners pass. In this case, any remaining assets would be returned to the City's General Fund.

SUBMITTED BY: Robert Samario, Interim Finance Director

APPROVED BY: City Administrator's Office