**MEETING DATE:** 12/18/06

**AGENDA ITEM:** Consideration of Adoption of a Resolution of Intention to Approve a Contract Amendment between PERS and the City of Culver City to Implement One-Year Final Compensation for Culver City Management Group (CCMG) and Culver City Employees' Association (CCEA) Unit Employees

## ATTACHMENT

| | | Pages |
|---|---|---|
| 1. | Resolution of Intention including Exhibit Amendment to Contract | 1-7 |
| 2. | Actuarial Valuation in accordance with Government Code Section 7507 | 8-16 |

**RESOLUTION NO. 2006-R**

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CULVER CITY, CALIFORNIA, INTENTION TO APPROVE AN AMENDMENT TO CONTRACT BETWEEN THE BOARD OF ADMINISTRATION CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (MISCELLANEOUS MEMBERS).

WHEREAS, the Public Employees' Retirement Law permits the participation of public agencies and their employees in the Public Employees' Retirement System by the execution of a contract, and sets forth the procedure by which said public agencies may elect to subject themselves and their employees to amendments to said Law; and

WHEREAS, one of the steps in the procedures to amend this contract is the adoption by the governing body of the public agency of a resolution giving notice of its intention to approve an amendment to said contract, which resolution shall contain a summary of the change proposed in said contract; and

WHEREAS, the following is a statement of the proposed change:

To provide Section 20042 (One-Year Final Compensation) for local miscellaneous members.

NOW, THEREFORE, the City Council of the City of Culver City, California, DOES HEREBY RESOLVE as follows:

1. That the City Council of the City of Culver City does hereby give notice of intention to approve an amendment to the contract between said public agency and the Board of Administration of the Public Employees' Retirement System, a copy of said

...

...

...



/

amendment being attached hereto, as Exhibit “A”, and by this reference made a part hereof.

APPROVED and ADOPTED this _____ day of __________ 2006.

______________________________
GARY SILBIGER, MAYOR
City of Culver City, California

ATTEST:

______________________________
CHRISTOPHER ARMENTA, City Clerk
A06-00732

APPROVED AS TO FORM:

______________________________
CAROL A. SCHWAB, City Attorney

CalPERS

**EXHIBIT**

California
Public Employees' Retirement System

# AMENDMENT TO CONTRACT

**Between the**
**Board of Administration**
**California Public Employees' Retirement System**
**and the**
**City Council**
**City of Culver City**

The Board of Administration, California Public Employees' Retirement System, hereinafter referred to as Board, and the governing body of the above public agency, hereinafter referred to as Public Agency, having entered into a contract effective August 1, 1945, and witnessed August 9, 1945, and as amended effective October 1, 1947, November 1, 1951, June 1, 1954, January 1, 1960, July 1, 1960, June 1, 1963, December 4, 1967, January 1, 1972, January 1, 1973, August 1, 1973, September 28, 1973, July 4, 1977, October 20, 1980, June 29, 1981, October 14, 1992, July 14, 1994, August 12, 1997, July 6, 1998, November 5, 1999, November 20, 2000, June 17, 2002, July 1, 2002 and June 28, 2004 which provides for participation of Public Agency in said System, Board and Public Agency hereby agree as follows:

A. Paragraphs 1 through 15 are hereby stricken from said contract as executed effective June 28, 2004, and hereby replaced by the following paragraphs numbered 1 through 15 inclusive:

1. All words and terms used herein which are defined in the Public Employees' Retirement Law shall have the meaning as defined therein unless otherwise specifically provided. "Normal retirement age" shall mean age 55 for local miscellaneous members, age 55 for local fire members, and age 50 for local police members.

PLEASE DO NOT SIGN "EXHIBIT ONLY"

2. Public Agency shall participate in the Public Employees' Retirement System from and after August 1, 1945 making its employees as hereinafter provided, members of said System subject to all provisions of the Public Employees' Retirement Law except such as apply only on election of a contracting agency and are not provided for herein and to all amendments to said Law hereafter enacted except those, which by express provisions thereof, apply only on the election of a contracting agency.

3. Employees of Public Agency in the following classes shall become members of said Retirement System except such in each such class as are excluded by law or this agreement:

   a. Local Fire Fighters (herein referred to as local safety members);

   b. Local Police Officers (herein referred to as local safety members);

   c. Employees other than local safety members (herein referred to as local miscellaneous members).

4. In addition to the classes of employees excluded from membership by said Retirement Law, the following classes of employees shall not become members of said Retirement System:

   **a. AUDITORIUM HELPERS; CROSSING GUARDS; RECREATION LEADERS; LIFEGUARDS; LOCKER ROOM ATTENDANTS; AND CASHIERS HIRED ON OR AFTER AUGUST 2, 1973.**

5. Prior to January 1, 1975, those members who were hired by Public Agency on a temporary and/or seasonal basis not to exceed 6 months were excluded from PERS membership by contract. Government Code Section 20336 superseded this contract provision by providing that any such temporary and/or seasonal employees are excluded from PERS membership subsequent to January 1, 1975. Legislation repealed and replaced said Section with Government Code Section 20305 effective July 1, 1994.

6. The percentage of final compensation to be provided for each year of credited prior and current service for local miscellaneous members in employment before and not on or after July 1, 2002 shall be determined in accordance with Section 21354 of said Retirement Law, subject to the reduction provided therein for service on and after January 1, 1956, the effective date of Social Security coverage, for members whose service has been included in Federal Social Security (2% at age 55 Full and Modified).

PLEASE DO NOT SIGN "EXHIBIT ONLY"

7. The percentage of final compensation to be provided for each year of credited prior and current service for local miscellaneous members in employment on or after July 1, 2002 shall be determined in accordance with Section 21354.4 of said Retirement Law, subject to the reduction provided therein for service on and after January 1, 1956, the effective date of Social Security coverage, for members whose service has been included in Federal Social Security (2.5% at age 55 Full and Modified).

8. The percentage of final compensation to be provided for each year of credited prior and current service as a local police member shall be determined in accordance with Section 21362.2 of said Retirement Law (3% at age 50 Full).

9. The percentage of final compensation to be provided for each year of credited prior and current service as a local fire member shall be determined in accordance with Section 21363.1 of said Retirement Law (3% at age 55 Full).

10. Public Agency elected and elects to be subject to the following optional provisions:

    a. Section 21571 (Basic Level of 1959 Survivor Benefits) for local miscellaneous members only.

    b. Section 20425 ("Local Police Officer" shall include employees of a police department who were employed to perform identification or communication duties on August 4, 1972 and who elected to be local safety members).

    c. Sections 21624 and 21626 (Post-Retirement Survivor Allowance) for local safety members only.

    d. Section 21317 (One-Time 15% Increase for Certain Local Safety Members Who Retired for Service Retirement). Legislation repealed said Section effective January 1, 2002.

    e. Section 21319 (One-Time 15% Increase for Local Miscellaneous Members Who Retired or Died Prior to July 1, 1971). Legislation repealed said Section effective January 1, 2002.

    f. Section 20903 (Two Years Additional Service Credit).

    g. Section 21548 (Pre-Retirement Optional Settlement 2 Death Benefit).

h. Section 21574 (Fourth Level of 1959 Survivor Benefits) for local safety members only.

i. Section 20042 (One-Year Final Compensation).

j. Section 21024 (Military Service Credit as Public Service).

11. Public Agency, in accordance with Government Code Section 20790, ceased to be an "employer" for purposes of Section 20834 effective on October 20, 1980. Accumulated contributions of Public Agency shall be fixed and determined as provided in Government Code Section 20834, and accumulated contributions thereafter shall be held by the Board as provided in Government Code Section 20834.

12. Public Agency shall contribute to said Retirement System the contributions determined by actuarial valuations of prior and future service liability with respect to local miscellaneous members and local safety members of said Retirement System.

13. Public Agency shall also contribute to said Retirement System as follows:

a. Contributions required per covered member on account of the 1959 Survivor Benefits provided under Section 21574 of said Retirement Law. (Subject to annual change.) In addition, all assets and liabilities of Public Agency and its employees shall be pooled in a single account, based on term insurance rates, for survivors of all local safety members.

b. A reasonable amount, as fixed by the Board, payable in one installment within 60 days of date of contract to cover the costs of administering said System as it affects the employees of Public Agency, not including the costs of special valuations or of the periodic investigation and valuations required by law.

c. A reasonable amount, as fixed by the Board, payable in one installment as the occasions arise, to cover the costs of special valuations on account of employees of Public Agency, and costs of the periodic investigation and valuations required by law.

14. Contributions required of Public Agency and its employees shall be subject to adjustment by Board on account of amendments to the Public Employees' Retirement Law, and on account of the experience under the Retirement System as determined by the periodic investigation and valuation required by said Retirement Law.

15. Contributions required of Public Agency and its employees shall be paid by Public Agency to the Retirement System within fifteen days after the end of the period to which said contributions refer or as may be prescribed by Board regulation. If more or less than the correct amount of contributions is paid for any period, proper adjustment shall be made in connection with subsequent remittances. Adjustments on account of errors in contributions required of any employee may be made by direct payments between the employee and the Board.

B. This amendment shall be effective on the _____ day of _______________, ______.

| | |
|---|---|
| BOARD OF ADMINISTRATION<br>PUBLIC EMPLOYEES' RETIREMENT SYSTEM | CITY COUNCIL<br>CITY OF CULVER CITY |
| BY_______________________________<br>LORI MCCARTLAND, CHIEF<br>EMPLOYER SERVICES DIVISION<br>PUBLIC EMPLOYEES' RETIREMENT SYSTEM | BY_______________________________<br>PRESIDING OFFICER |
| | _______________________________<br>Witness Date |
| | Attest:<br><br>_______________________________<br>Clerk |

## Actuarial Cost Estimates in General

What will this amendment cost? Unfortunately, there is no simple answer. There are two major reasons for the complexity of the answer:

- First, all actuarial calculations, including the ones in this cost estimate are based on a lot of assumptions about the future – demographic assumptions about the percentage of your employees that will terminate, die, become disabled, and retire in each future year, and economic assumptions about what salary increases each employee receives and the most important assumption: what the assets at CalPERS will earn for each year into the future until the last dollar is paid to current members of your plan. While CalPERS has set these assumptions as our best estimate of the real future of your plan, it must be understood that these assumptions are very long term predictors and will surely not be realized each year as we go forward. For example, the asset earnings for the past 15 years at CalPERS have ranged from -7.2% to 20.1%, yet the 15 year compound return has been 9.7%, well above our assumption.

- Second, the very nature of actuarial funding produces the answer to the question of amendment cost as the sum of two separate pieces:

  1. The increase in Normal Cost (i.e., the increase in future annual premiums in the absence of surplus or unfunded liability) expressed as a percentage of total active payroll, and

  2. The increase in Past Service Cost (i.e., Accrued Liability – representing the current value of the increased benefit for all past service of current members) which is expressed as a lump sum dollar amount.

- The cost is the sum of a percent of future pay and a lump sum dollar amount (the sum of an apple and an orange if you will). To communicate the total cost, either the increase in Normal Cost (i.e., future percent of payroll) must be converted to a lump sum dollar amount (in which case the result is called the increase in the present value of benefits), or the Past Service Cost (i.e., the lump sum) must be converted to a percent of payroll (in which case the result is the increase in the employer's rate). Converting the Past Service Cost lump sum to a percent of payroll requires a specific amortization period. So, the new employer rate can be computed in many different ways depending on how long one will take to pay for it. And don't forget the first bullet point above; all of these results depends on all of the assumptions being exactly realized.

## Rate Volatility

As is stated above, the cost estimates supplied in this communication are based on a number of assumptions about very long term demographic and economic behavior. Even if these assumptions are exactly realized (terminations, deaths, disabilities, retirements, salary growth, and investment return) there will be differences on a year to year basis. This year to year difference between actual experience and the assumptions is called gains and losses and serve to raise or lower the employer's rates from year to year. So, the rates will bounce around, especially due to the ups and downs of investment returns.

The volatility in annual employer rates may be affected by this amendment. The reason is that higher benefits and earlier retirement ages require the accumulation of more assets per member earlier in their career. Rate volatility can be measured by the ratio of plan assets to active member payroll. Higher asset to payroll ratios produce more volatile employer rates. To see this, consider two plans, one with assets that are 4 times active member payroll, and the other with assets that are 8 times active member payroll. In a given year, see what happens when assets rise or fall 10% above or below the actuarial assumption. For the plan with a ratio of 4, this 10 percent gain or loss in assets is the same in dollars as 40% of payroll; and for the plan with a ratio of 8, this is equivalent to 80% of payroll. If this gain or loss is spread over 20 years (and we oversimplify by ignoring interest on the gain or loss), then the first plan's rate changes by 2% of pay while the second plan's rate changes by 4% of pay.

**Employer Number: 88**
**Benefit Description: Section 20042, One-Year Final Compensation**

When a plan is amended, liability changes but assets do not. In addition, the desired state is to be 100% funded (i.e., to bring assets to equal accrued liability). Therefore, we disclose the ratio of accrued liability to payroll rather than assets to payroll as a measure of the plan's potential future rate volatility. The higher the ratio, the more volatile the future rate may be. The table below contains these measures of potential future rate volatility.

| As of June 30, 2005 | | Current Plan | | Post-Amendment |
|---|---|---|---|---|
| **Accrued Liability** | $ | 126,596,923 | $ | 128,838,155 |
| **Payroll** | | 24,913,611 | | 24,913,611 |
| **Volatility Index** | | 5.08 | | 5.17 |

It should also be noted that these ratios tend to stabilize as the plan matures. That is, all plans with no past service start their lives with zero assets and zero accrued liability – and so asset to payroll ratio and liability to payroll ratio of zero. However, as time goes by these ratios begin to rise and then tend to stabilize at some constant amount as the plan matures. Higher benefit levels and earlier expected retirements produce higher constant future ratios. For example, our miscellaneous plan pools have ratios that range from 2.75 for the "2% at 60" pool to a ratio of 4.71 for the "3% at 60" pool. For safety pools, the ratios range from 3.02 for the "2% at 55" pool to a ratio of 9.36 for the "3% at 50" pool.

## Present Value of Projected Benefits

The table below shows the change in the total present value of benefits for the proposed plan amendment. The present value of benefits represents the total dollars needed today to fund all future benefits for *current* members of the plan (i.e., without regard to future employees). The difference between this amount and current plan assets must be paid by future employee and employer contributions. As such, the change in the present value of benefits due to the plan amendment represents the "cost" of the plan amendment.

However, for plans with excess assets some or all of this "cost" may already be covered by current excess assets.

| As of June 30, 2005 | | Current Plan | | Post-Amendment |
|---|---|---|---|---|
| **Total Assets at Market Value (MVA)** | $ | 118,785,804 | $ | 118,785,804 |
| **Actuarial Value of Assets (AVA)** | | 115,367,080 | | 115,367,080 |
| **AVA/ MVA** | | 97.1% | | 97.1% |
| **Present Value of Projected Benefits (PVB)** | $ | 160,267,139 | $ | 163,686,398 |
| **Actuarial Value of Assets (AVA)** | | 115,367,080 | | 115,367,080 |
| **Present Value of Future Employer and Employee Contributions (PVB – AVA)** | $ | 44,900,059 | $ | 48,319,318 |
| **Change to PVB** | | | | 3,419,259 |

## Accrued Liability

It is not required, nor necessarily desirable, to have accumulated assets sufficient to cover the total present value of benefits until every member has left employment. Instead, the actuarial funding process calculates a regular contribution schedule of employee contributions and employer contributions (called normal costs) which are designed to accumulate with interest to equal the total present value of benefits by the time every member has left employment. As of each June 30, the actuary calculates the "desirable" level of plan assets as of that point in time by subtracting the present value of scheduled future employee contributions and future employer normal costs from the total present value of benefits. The resulting "desirable" level of assets is called the *accrued liability*.

A plan with assets exactly equal to the plan's accrued liability is simply "on schedule" in funding that plan, and only future employee contributions and future employer normal costs are needed. A plan with assets below the accrued liability is "behind schedule", or is said to have an *unfunded liability*, and must temporarily increase contributions to get back on schedule. A plan with assets in excess of the plan's accrued liability is "ahead of schedule", or is said to have *excess assets*, and can temporarily reduce future contributions. A plan with assets (AVA) in excess of the total present value of benefits is called *super-funded*, and neither future employer nor employee contributions are required. Of course, events such as plan amendments and investment or demographic gains or losses can change a plan's condition from year to year. For example, a plan amendment could cause a plan to move all the way from being super-funded to being in an unfunded position.

The changes in your plan's accrued liability, unfunded accrued liability, and the funded ratio as of June 30, 2005 due to the plan amendment are shown in the table below.

| As of June 30, 2005 | Current Plan | Post-Amendment |
|---|---|---|
| **Entry Age Normal Accrued Liability (AL)** | $ 126,596,923 | $ 128,838,155 |
| **Actuarial Value of Assets (AVA)** | 115,367,080 | 115,367,080 |
| **Unfunded Liability/(Excess Assets) (UAL = AL – AVA)** | $ 11,229,843 | $ 13,471,075 |
| **Funded Ratio (AVA / AL)** | 91.1% | 89.5% |
| **Change to AL** | | 2,241,232 |

## Total Employer Contribution Rate

While the table above gives the changes in the accrued liability and funded status of the plan due to the amendment, there remains the question of what will happen to the employer contribution rate because of the change in plan provisions.

CalPERS policy is to implement rate changes due to plan amendments immediately on the effective date of the change in plan benefits. This change is displayed as the "Change to Total Employer Rate" on the following page. If the contract amendment effective date is on or before June 30, 2007, the change in the employer contribution rate should be added to the employer's current rate. In general, the policy also provides that the change in unfunded liability due to the plan amendment will be separately amortized over a period of 20 years from the effective date of the amendment and all other components of the plan's unfunded liability/excess assets will continue to be amortized separately.

However, your actuary may choose to apply different rules to plans with a current employer contribution rate of zero. The pre-amendment excess assets in these plans were sufficient to cover the employer's normal cost for one or more years into the future. A plan amendment will use up some or all of the pre-amendment excess assets. In order to maintain our goal of providing rates that are relatively stable, while taking into account known or expected future events, your actuary may decide to spread any remaining excess assets over a single number of years. This is known as a "fresh start" and will, in no case, be less than 5 years. You may call your actuary to discuss further alternative financing options. If the amendment uses up all excess assets and creates an unfunded liability (i.e., from being ahead of schedule to behind schedule), the total post-amendment unfunded liability may be amortized over 20 years.

In no case may the annual contribution with regard to a positive unfunded liability be less than the amount which would be required to amortize that unfunded liability, as a level percent of pay, over 30 years. The table on the following page shows the change in your plan's employer contribution rate due to the plan amendment for fiscal year 2007-2008.

**CONTRACT AMENDMENT COST ANALYSIS - VALUATION BASIS: June 30, 2005**
**MISCELLANEOUS PLAN FOR CITY OF CULVER CITY**

**Employer Number: 88**
**Benefit Description: Section 20042, One-Year Final Compensation**

| As of June 30, 2005 | Current Plan | Post-Amendment |
|---|---|---|
| **2007-2008 Employer Rate** | | |
| **Payment for Normal Cost** | 7.762% | 8.312% |
| **Payment on Amortization Bases** | 2.829% | 3.631% |
| **Total Employer Rate** | 10.591% | 11.943% |
| **Change to Normal Cost** | | 0.550% |
| **Change to Total Employer Rate** | | 1.352% |
| **Current Amortization Bases** [1] | Multiple Bases | |
| **Amendment Amortization Base** | | |
| **- Fresh Start** [2] | | |
| **- Multiple Base** [3] | | 20-year |
| **2007-2008 Employee Rate** | | |
| **Total Employee Rate** | 7.755% | 7.755% |
| **Change to Total Employee Rate** | | 0.000% |
| **2008-2009** | | |
| **Estimated Employer Rate (recognizing 11% investment return for 2005-2006)** | 10.4% | 11.8% |
| **Projection Amortization Base** | Multiple Base | Multiple Base |

1 – Details of the current amortization base are shown on page 13 of June 30, 2005 annual valuation report. If you have adopted any other subsequent amendments, the current amortization base is the schedule after these adopted amendments.
2 - If a fixed number of years is shown, it means that the current unfunded actuarial liability is projected and amortized over this fixed number of years. This amortization replaces the amortization schedule shown in your June 30, 2005 annual valuation and any other subsequent amendments you have adopted.
3 - If 20-year is shown, it means that the change in liability due to plan amendments is amortized separately over a 20-year period. This amortization schedule is in addition to the amortization schedule shown in the June 30, 2005 annual valuation and any other subsequent amendments you have adopted.

In the above table, the information shown represents the actual initial contribution rate that will apply during fiscal year 2007-2008 if you adopt the amendment. However, these figures do not incorporate the projected 11% investment return in 2005-2006. The estimated employer rates shown for 2008-2009, which incorporate this return, **will give you a good estimate of what to expect in 2008-2009.**

Note that the change in normal cost in the table above may be much more indicative of the long term change in the employer contribution rate due to the plan amendment. The plan's payment on amortization bases shown in the table above is a temporary adjustment to the employer contribution to "get the plan back on schedule". This temporary adjustment to the employer rate varies in duration from plan to plan. For example, a plan with initial excess assets being amortized over a short period of time will typically experience a large rate increase when excess assets are fully amortized. While a plan amendment for such a plan may produce little or no increase in the employer contribution rate now, the change in normal cost due to the plan amendment will become fully reflected in the employer contribution rate as soon as initial excess assets are fully amortized.