



City Council Staff Report

DATE: May 18, 2011

Consent

SUBJECT: AMENDMENT TO THE CONTRACT CALIFORNIA PUBLIC
EMPLOYEES' RETIREMENT SYSTEM
NEW 3% @ 55 SAFETY POLICE SECOND TIER WITHIN A NON-
POOLED PLAN (SECTION 20475: DIFFERENT LEVEL OF BENEFITS
PROVIDED FOR NEW EMPLOYEES) – FOR POLICE ONLY

FROM: David H. Ready, City Manager

BY: Human Resources

SUMMARY

City Council adopted Resolution 22830 on November 17, 2010, which approved a Memorandum of Understanding with the Palm Springs Police Officers Association (PSPOA). Article 34.1 of this Memorandum of Understanding agreed to contract with the California Public Employees' Retirement System for a new 3% @ 55 Safety Police Second Tier (Section 20475: Different Level of Benefits Provided for New Employees).

RECOMMENDATION:

1. Adopt Resolution No. ____, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA DECLARING ITS INTENTION TO APPROVE AN AMENDMENT TO CONTRACT BETWEEN THE BOARD OF ADMINISTRATION OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE CITY COUNCIL OF THE CITY OF PALM SPRINGS."

STAFF ANALYSIS:

City Council adopted Resolution 22830 on November 17, 2010, approving a Memorandum of Understanding with the Palm Springs Police Officers' Association (PSPOA). Article 34.1 of this Memorandum of Understanding agreed to contract with the California Employees' Retirement System for a new 3% @ 55 Police Second Tier (Section 20475: Different Level of Benefits Provided for New Employees) – For Police Only.

The Resolution of Intent and the Ordinance amending the California Public Employees' Retirement System contract are actions that must be certified by City Council to comply with the California Public Employees' Retirement System contract amendment procedures.

At this meeting the City Council will consider the adoption of the Resolution of Intent. Staff will bring the required Ordinance to the City Council's June 15 meeting. Pursuant to California Law, the City Council cannot consider the Ordinance until 20 days after the approval of the Resolution of Intent.

Description of Benefit Provisions and Section(s): Section 20475 Different Level of Benefits. Section 21362.2 (3% @ 50 Full Formula) is applicable to only those local safety police members entering membership on or prior to the effective of this amendment to Contract. Section 21363.1 (3% @ 55 Full Formula) is applicable to local safety police members entering membership for the first time in the safety classification after the effective date of this amendment to contract. (Coverage group 75101 will be established for this benefit).

Attached is the California Public Employees' Retirement System's Actuarial Valuation for the proposed contract amendment.

FISCAL IMPACT

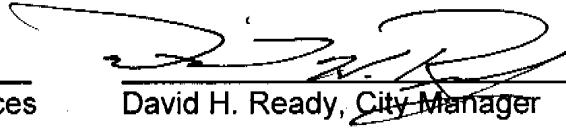
There will be no immediate employer contribution rate impact from this amendment. Ultimately, the employer normal cost will decrease. According to this Actuarial Valuation "if the mix of active member entry ages were the same for both the current continuing first tier employees and the new second tier employees, the ultimate decrease would be 1.4%.

This rate reduction will occur gradually, beginning on July 1, 2013, if there are second tier employees hired on or before June 30, 2011. For fiscal years 2013/2014 and beyond, the projected cumulative of rate reduction expected from introducing a second tier payroll to our total plan payroll two and a half years earlier.

For example if 1/10 of our safety police members were in second tier on June 20, 2011 and the ultimate expected normal cost decrease was 1.4%, the cumulative rate reduction expected by the 2013/1014 fiscal year would be $1/10 \times 1.4\% = 0.14\%$."



Perry Madison, Director of Human Resources



David H. Ready, City Manager

Attachments: Resolution
Amendment to Contract
California Public Employees' Retirement System's Actuarial Valuation

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA, DECLARING ITS INTENTION TO APPROVE AN AMENDMENT TO CONTRACT BETWEEN THE BOARD OF ADMINISTRATION OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE CITY COUNCIL OF THE CITY OF PALM SPRINGS.

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:

New 3% @ 55 Safety Police Second Tier within a Non-pooled Plan (Section 20475: Different Level of Benefits Provided for New Employees) – For Police Only.

THE CITY COUNCIL OF THE CITY OF PALM SPRINGS DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. The City Council of the City of Palm Springs does hereby give notice of its 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, as on file in the office of the City Clerk.

PASSED, APPROVED AND ADOPTED BY THE PALM SPRINGS CITY COUNCIL THIS 18TH DAY OF MAY, 2011.

DAVID H. READY, CITY MANAGER

ATTEST:

JAMES THOMPSON, CITY CLERK

CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss.
CITY OF PALM SPRINGS)

I, JAMES THOMPSON, City Clerk of the City of Palm Springs, hereby certify that Resolution No. _____ is a full, true and correct copy, and was duly adopted at a regular meeting of the City Council of the City of Palm Springs on this 18th day of May, 2011, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

JAMES THOMPSON, CITY CLERK
City of Palm Springs, California




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 Palm Springs



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 January 1, 1957, and witnessed December 3, 1956, and as amended effective July 14, 1965, January 14, 1973, January 1, 1975, September 5, 1976, July 10, 1977, October 15, 1978, April 29, 1979, February 27, 1983, July 1, 1984, June 29, 1986, April 18, 1998, August 23, 1998, April 18, 1999, August 19, 2001, April 28, 2002, May 25, 2003 and January 4, 2004 which provides for participation of Public Agency in said System, Board and Public Agency hereby agree as follows:

- A. Paragraphs 1 through 13 are hereby stricken from said contract as executed effective January 4, 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 50 for local fire members and those local police members entering membership in the police classification on or prior to the effective date of this amendment to contract, and age 55 for local police members entering membership for the first time in the police classification after the effective date of this amendment to contract.

PLEASE DO NOT SIGN "EXIST" ONLY

2. Public Agency shall participate in the Public Employees' Retirement System from and after January 1, 1957 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. Public Agency agrees to indemnify, defend and hold harmless the California Public Employees' Retirement System (CalPERS) and its trustees, agents and employees, the CalPERS Board of Administration, and the California Public Employees' Retirement Fund from any claims, demands, actions, losses, liabilities, damages, judgments, expenses and costs, including but not limited to interest, penalties and attorneys fees that may arise as a result of any of the following:
 - (a) Public Agency's election to provide retirement benefits, provisions or formulas under this Contract that are different than the retirement benefits, provisions or formulas provided under the Public Agency's prior non-CalPERS retirement program.
 - (b) Public Agency's election to amend this Contract to provide retirement benefits, provisions or formulas that are different than existing retirement benefits, provisions or formulas.
 - (c) Public Agency's agreement with a third party other than CalPERS to provide retirement benefits, provisions, or formulas that are different than the retirement benefits, provisions or formulas provided under this Contract and provided for under the California Public Employees' Retirement Law.
 - (d) Public Agency's election to file for bankruptcy under Chapter 9 (commencing with section 901) of Title 11 of the United States Bankruptcy Code and/or Public Agency's election to reject this Contract with the CalPERS Board of Administration pursuant to section 365, of Title 11, of the United States Bankruptcy Code or any similar provision of law.
 - (e) Public Agency's election to assign this Contract without the prior written consent of the CalPERS' Board of Administration.
 - (f) The termination of this Contract either voluntarily by request of Public Agency or involuntarily pursuant to the Public Employees' Retirement Law.
 - (g) Changes sponsored by Public Agency in existing retirement benefits, provisions or formulas made as a result of amendments, additions or deletions to California statute or to the California Constitution.

4. 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).
5. 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:

NO ADDITIONAL EXCLUSIONS

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 April 28, 2002 shall be determined in accordance with Section 21354 of said Retirement Law, subject to the reduction provided therein for service prior to December 31, 1974, termination of Social Security, for members whose service has been included in Federal Social Security (2% at age 55 Full and Modified).
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 April 28, 2002 shall be determined in accordance with Section 21354.5 of said Retirement Law, subject to the reduction provided therein for service prior to December 31, 1974, termination of Social Security, for members whose service has been included in Federal Social Security (2.7% 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 fire member and those local police member entering membership in the police classification on or prior to the effective date of this amendment to contract 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 current service as a local police member entering membership for the first time in the police classification after the effective date of this amendment to contract 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. Sections 21624, 21626 and 21628 (Post-Retirement Survivor Allowance).

- b. Section 21024 (Military Service Credit as Public Service).
 - c. Section 20042 (One-Year Final Compensation).
 - d. Section 20965 (Credit for Unused Sick Leave) for local fire members only.
 - e. Section 21574 (Fourth Level of 1959 Survivor Benefits).
 - f. Section 20475 (Different Level of Benefits). Section 21363.1 (3% @ 55 Full formula) is applicable to local police members entering membership for the first time in the police classification after the effective date of this amendment to contract.
11. Public Agency, in accordance with Government Code Section 20790, ceased to be an "employer" for purposes of Section 20834 effective on September 5, 1976. 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 miscellaneous members and 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
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

CITY COUNCIL
CITY OF PALM SPRINGS

BY _____
DARRYL WATSON, CHIEF
CUSTOMER ACCOUNT SERVICES DIVISION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BY _____
PRESIDING OFFICER

Witness Date

Attest:

Clerk

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Actuarial and Employer Services Branch

Public Agency Contract Services

(888) CalPERS (225-7377)

SUMMARY OF MAJOR PROVISIONS

3% @ 55 Formula (Section 21363.1)

Local Safety Members

SERVICE RETIREMENT

To be eligible for service retirement, a member must be at least age 50 and have five years of CalPERS credited service. If provided by the employer's contract, mandatory retirement age for local safety members is age 60.

The monthly retirement allowance is determined by age at retirement, years of service credit and final compensation. The basic benefit is 3% of final compensation for each year of credited service upon retirement at age 55. If retirement is earlier than age 55, the percentage of final compensation decreases for each quarter year of attained age to 2.40% at age 50. The allowance is limited to 90% of final compensation.

Final compensation is the average monthly pay rate during the last consecutive 36 months of employment, or 12 months if provided by the employer's contract, unless the member designates a different period of 36 or 12 consecutive months when the average pay rate was higher. Certain items of special compensation earned during your final compensation period will be included in your final compensation, in accordance with Board regulations.

DISABILITY RETIREMENT

Members substantially incapacitated from performing the usual duties for the position for his/her current employer would be eligible for disability retirement provided they have at least five years of service credit. The monthly retirement allowance is 1.8% of final compensation for each year of service. The maximum percentage for members who have between 10.000 and 18.518 years of service credit is one-third of their final compensation. If the member is eligible for service retirement the member will receive the highest allowance payable, service or disability. If provided by the employer's contract, the benefit would be a minimum of 30% of final compensation for the first five years of service credit, plus 1% for each additional year of service to a maximum benefit of 50% of final compensation.

INDUSTRIAL DISABILITY RETIREMENT

Members permanently incapacitated from performing their duties, as defined above under Disability Retirement, and the disability is a result of a job-related injury or illness may receive an Industrial Disability Retirement benefit equal to 50% of their final compensation. If provided in the employer's contract and the member is totally disabled, the disability retirement allowance would equal 75% of final compensation in lieu of the disability retirement allowance otherwise provided. If the member is eligible for service retirement, the service retirement allowance is payable. The total allowance cannot exceed 90% of final compensation.

PRE-RETIREMENT DEATH BENEFITS

Basic Death Benefit: This benefit is a refund of the member's contributions plus interest and up to six months' pay (one month's salary rate for each year of current service to a maximum of six months).

1957 Survivor Benefit: An eligible beneficiary may elect to receive either the Basic Death Benefit or the 1957 Survivor Benefit. The 1957 Survivor Benefit provides a monthly allowance equal to one-half of the highest service retirement allowance the member would have received had he/she retired on the date of death. The 1957 Survivor Benefit is payable to the surviving spouse or registered domestic partner until death or to eligible unmarried children until age 18.

1959 Survivor Benefit: (If provided by the employer's contract and the member is not covered under social security.) A surviving spouse or registered domestic partner and eligible children may receive a monthly allowance as determine by the level of coverage. This benefit is payable in addition to the Basic Death Benefit or 1957 Survivor Benefit. Children are eligible if under age 22 and unmarried.

Pre-Retirement Option 2W Death Benefit: (If provided by the employer's contract.) The spouse or registered domestic partner of a deceased member, who was eligible to retire for service at the time of death, may to elect to receive the Pre-Retirement Option 2W Death Benefit in lieu of the lump sum Basic Death Benefit. The benefit is a monthly allowance equal to the amount the member would have received if he/she had retired for service on the date of death and elected Option 2W, the highest monthly allowance a member can leave a spouse or registered domestic partner.

Special Death Benefit: A surviving spouse, registered domestic partner, or eligible children or step children may receive a monthly allowance equal to one-half of the final compensation. If the cause of death is due to external violence or physical force while on the job, and there are eligible surviving children in addition to a spouse or registered domestic partner, the allowance may be increased to a maximum of 75%.

COST-OF-LIVING ADJUSTMENTS

The cost of living allowance increases are limited to a maximum of 2% compounded annually unless the employer's contract provides a 3, 4, or 5% increase.

DEATH AFTER RETIREMENT

The lump sum death benefit is \$500 (or \$600, \$2,000, \$3,000, \$4,000 or \$5,000 if provided by the employer's contract) regardless of the retirement plan chosen by the member at the time of retirement.

TERMINATION OF EMPLOYMENT

Members who have separated from employment may elect to leave their contributions on deposit or request a refund of contributions and interest. Those who leave their contributions on deposit may apply at a later date for a monthly retirement allowance if the minimum service and age requirements are met. Members who request a refund of their contributions terminate their membership and are not eligible for any future benefits unless they return to CalPERS membership.

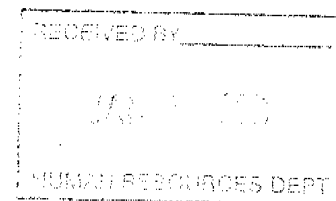
EMPLOYEE CONTRIBUTIONS

Local safety members covered by the 3% @ 55 formula contribute 9% of reportable earnings. Those covered under a modified formula (coordinated with Social Security) do not contribute on the first \$133.33 earned.

The employer also contributes toward the cost of the benefits. The amount contributed by the employer for current service retirement benefits generally exceeds the cost to the employee. In addition, the employer bears the entire cost of prior service benefits (the period of time before the employer provided retirement coverage under CalPERS). All employer contribution rates are subject to adjustment by the CalPERS Board of Administration.



Actuarial Office
 P.O. Box 1494
 Sacramento, CA 95812-1494
 TTY for Speech and Hearing Impaired - (916) 795-3240
 (888) CalPERS (or 888-225-7377) FAX (916) 795-3005



December 21, 2010

Employer Number : 0355
 Employer Name : CITY OF PALM SPRINGS
 Rate Plan: SAFETY PLAN

Re: New 3% @ 55 Safety Police Second Tier within a Non-pooled Plan (Section 20475: Different Level of Benefits Provided for New Employees) – For Police Only

Dear Requestor:

As requested, employer contribution rate information on your proposed second tier follows.

If you are aware of others interested in this information (i.e. payroll staff, county court employees, port districts, etc.), please inform them.

The information is based on the June 30, 2009 annual valuation.

CalPERS offers a choice of two options in implementing a second tier within a non-pooled pension plan. Under both options, if the employee contribution rate changes, that change would take place immediately. The first option, our standard method, reduces the employer rate slowly over time as new employees are hired with second tier lower benefits, which have a lower employer contribution rate. The second option is to temporarily have a different employer contribution rate for new employees as determined by the appropriate risk pool's rates in combination with the first tier plan's current unfunded liability rate. This option will provide more immediate rate relief. Details on both methods are provided below and an election form can be found at the end of this letter.

Standard Method

Under the standard method, there will be no immediate employer contribution rate impact from this amendment. Ultimately, however, your employer normal cost will decrease. If the mix of active member entry ages were the same for both the current continuing first tier employees and the new second tier employees, the ultimate decrease would be **1.4%**.

This rate reduction will occur gradually, beginning on July 1, 2013, if there are second tier employees hired on or before June 30, 2011. For fiscal years 2013/2014 and beyond, the projected cumulative amount of rate reduction you can expect from introducing a second tier is equal to the ratio of your second tier payroll to your total plan payroll two and a half years earlier. For example if 1/10 of your safety police members were in second tier on June 30, 2011 *and the ultimate expected normal cost decrease was 1.4%*, the cumulative rate reduction you can expect by the 2013/2014 fiscal year would be $1/10 \times 1.4\% = 0.14\%$.

To initiate an amendment to the contract, please complete the attached election form and mail or FAX (916) 795-3005 the form with a letter to the Contracts Maintenance Unit, indicating your wish to contract for Section 20475 (Different Level of Benefits) and identifying the group(s) to which the benefit reduction applies.

In sections 20463 (b) and (c), the California Public Employees' Retirement Law requires the governing body of a public agency within five days of receipt of the contract amendment cost analysis, to provide each employee organization with a copy of the analysis. If this cost analysis was requested by an employee organization, the employee organization is also required within five days of receipt of the analysis, to provide a copy of the analysis to the public agency.

If you have questions, please call (888) CalPERS (225-7377).

RICHARD SANTOS, CFA, ASA, MAAA
 Senior Pension Actuary, CalPERS