



Office of the City Manager

CONSENT CALENDAR
April 2, 2013

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: David Abel, Acting Director, Human Resources

Subject: Contract No. 7722D Amendment: Milliman, Inc. for Actuarial Services

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to amend the existing Contract No. 7722D with Milliman, Inc., (hereinafter “Milliman”) by increasing expenditure authority in an amount not to exceed \$120,000, for a total contract amount of \$369,999 through June 30, 2015 for actuarial services pertaining to retiree medical benefit plans.

FISCAL IMPACTS OF RECOMMENDATION

Funding for the amendment is available in the various retiree medical benefits trust funds.

Original Contract Amount	\$49,999
September 22, 2009 Amendment	\$40,000
June 10, 2010 Amendment	\$40,000
September 20, 2011 Amendment	\$60,000
July 17, 2012 Amendment	\$60,000
Proposed Increase (this amendment)	\$120,000
Total New Contract Amount	\$369,999
Budget Codes:	
930-9701-410-3038	\$49,999
010-9701-410-3038	\$40,000
010-9701-410-3038	\$40,000
010-9701-410-3038	\$60,000
010-9701-410-3038	\$60,000
Proposed Increase – Various Retiree Medical Benefits Trust Funds (this amendment)	\$120,000
Total Expense Budget for Contract	\$369,999

The contract management system number for this amendment is CMS No. FNFNV.

CURRENT SITUATION AND ITS EFFECTS

The City provides post-employment medical benefits through the Retiree Health Premium Assistance Plan for non-sworn retirees and spouses/domestic partners who left employment after June 28, 1998 with at least eight (8) years of CalPERS benefited service with the City. The City also provides post-employment medical benefits to retired former sworn Fire employees and spouses/domestic partners who left employment on or after July 1, 1997 with at least 10 years of service with the Berkeley Fire Department. The amount of the increase in the City contribution to both the Fire and non-sworn plans is capped at 4.5% per year.

The City also provides post-employment medical benefits to retired former sworn Police employees and spouses/domestic partners under two separate plans. For a closed group of sworn Police employees who retired on or after July 1, 1989 and before September 19, 2012, with at least 10 years of service with the Berkeley, the City is obligated to pay the retiree an amount equal to the active two-party active Kaiser HMO rate. In a newly created plan, for sworn Police employees who retire from the City of Berkeley on or after September 19, 2012 with at least 10 years of service with the Berkeley Police Department, the City provides post-employment medical benefits through a Retiree Health Premium Assistance Plan for sworn Police retirees and spouses/domestic partners. The City's base contribution for sworn Police retirees is an amount equal to \$1,200.00 per month for two-party coverage for the retiree and a qualifying spouse/domestic partner, or \$600.00 per month for single-party coverage. The amount of City contribution to the new Police sworn plan is limited to 6% above the base rate (\$1,200 or \$600) per fiscal year or the amount of the Kaiser retiree medical premium for that year, whichever is less.

The City has implemented a strategy of pre-funding all of the post-employment benefit plans and contracts for periodic actuarial studies to ensure the plans are meeting the financial assumptions to be able to pay the benefits in future years. In creating these post-employment benefit plans, one of the stipulations was that the City would undertake periodic actuarial evaluations of the plans to ensure that they were adequately funded. Furthermore, to ensure continued viability of the Plans, the City management has applied this same requirement to any proposed modifications to the negotiated benefit which may be proposed as a result of contract negotiations.

The City's current contract with Milliman went into effect on July 1, 2008 through June 30, 2010. The term of this contract was extended to June 30, 2013. The original contract amount was for \$49,999; an additional \$40,000 was approved by the City Council on September 22, 2009; an additional \$40,000 was approved on June 1, 2010; an additional \$60,000 was approved on September 20, 2011; and an additional \$60,000 was approved on July 17, 2012. Currently, the actuarial work on the sworn Fire Retirement Income Plan will be necessary for current contract negotiations with Berkeley Fire Fighters Association, Local 1227. Because of the complexity of the work and the policy objectives is to have actuarial studies performed on a regular basis and

when evaluating modifications to the negotiated benefit, it is necessary to provide additional funding for this service and extend the term of the contract to June 30, 2015.

BACKGROUND

As part of the development of the several post-employment benefit plans, staff contracted with Milliman to provide actuarial advice and services to determine present and future costs of the several plans. The actuarial analysis conducted by Milliman allowed the City to establish an appropriate funding strategy to pre-fund the benefit. As part of the negotiated agreements to provide these post-employment benefits, the City and the employee organizations agreed that there would be periodic actuarial valuations conducted to ensure that there was adequate funding for the program.

In Fiscal Year 2009, the City segregated assets and present and future liabilities by bargaining unit (and in some cases by representation unit). The last actuarial review for non-sworn and sworn-Police employees was received from Milliman on November 2, 2012 for the fiscal year ending June 30, 2012. Milliman has been engaged to conduct an actuarial analysis for sworn Fire retiree medical benefit plan as well as prospective changes to this plan.

On November 16, 2010, the City Council received the City Auditor's report on "Employee Benefits: Tough Decisions Ahead" that included a recommendation that the City Manager determine which employee benefits are the highest risk to the City and, if appropriate, perform actuarial valuations annually, rather than biennially. In addition, the City has also utilized the services of Milliman to provide actuarial analysis of proposed prospective changes to benefits as a result of collective bargaining. The City's objective is to recognize current and future liabilities and to establish a funding policy so that assets are available to pay the premium costs as employees retire and not place an undue one-time strain on the City's budget.

The actuarial analyses conducted by Milliman include the calculation of financial information that the City needs to continue to comply with Governmental Accounting Standards Board (GASB) requirements, and will include a calculation for the Annual Required Contribution (ARC) as required by GASB Statement No. 45.

RATIONALE FOR RECOMMENDATION

The City had a need for extensive actuarial work on the post-employment benefit plans over the past year. With a rising number of retirees and increasing health costs, as well as current negotiations, we need to ensure that the amount we are currently collecting and will collect, should any changes to the plan result from collective bargaining, will adequately fund the retiree medical plans.

It is important for the City to ensure that the aforementioned post-employment benefit plans are adequately funded and that the City meets the requirements of GASB Statement No. 43, GASB Statement No. 45, and GASB Statement No. 27. Staff believes that updated actuarial studies are a prudent risk management strategy.

ALTERNATIVE ACTIONS CONSIDERED

The type of actuarial work is fairly specialized and staff does not believe the City staff could undertake it. Staff believes the City needs up-to-date financial information as part of its budget and policy making responsibility. City staff worked with actuaries from Milliman on the creation of the Retiree Health Premium Assistance Plan, so they are intimately familiar with all aspects of the plans, saving time and money over other actuary firms.

CONTACT PERSON

David Abel, Acting Director, Human Resources, 981-6807

Attachments:

1: Resolution

RESOLUTION NO. ##,###-N.S.

CONTRACT NO. 7722D AMENDMENT: MILLIMAN INC. FOR ACTUARIAL SERVICES

WHEREAS, from time to time the City enters into agreements with employee organizations on health and welfare matters that require technical opinion, advice and services on the assets and current and future liabilities of these post employment benefits; and

WHEREAS, there is a need for actuarial services for determining future liabilities for the City's Retiree Health Premium Assistance Plan, retiree health benefits for sworn Fire employees; and

WHEREAS, this type of actuarial work is specialized within the professional accounting field and is done by persons who are familiar with professional accounting and actuarial standards and reporting requirement; and

WHEREAS, Milliman, Inc., was selected for this project as part of a continuing engagement extending back several years and the City intends to put the contract for these services out to bid at the expiration of this contract; and

WHEREAS, the charge for the actuarial service will be \$120,000, and Article XI, Section 67.5 of the Charter of the City of Berkeley and Section 7.18.010 of the Berkeley Municipal Code requires City Council approval of contracts that exceed \$50,000.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is authorized to execute and implement an amendment to Contract No. 7722D for the period July 1, 2008 through June 30, 2015 for actuarial services with Milliman, Inc. for the Retiree Health Premium Assistance Plans, including the Fire retiree health benefits, in an amount not to exceed \$120,000 with an aggregate maximum of \$369,999 (various retiree medical benefits trust funds, CMS No. FNFNV). A fully executed original of said contract amendment to be on file in the Office of the City Clerk.

