




Office of the City Manager

CONSENT CALENDAR
September 19, 2006

To: Honorable Mayor and
Members of the City Council

From:  Phil Kamlarz, City Manager

Submitted by: David W. Hodgkins, Director of Human Resources

Subject: Contract: Retiree Medical Plan Actuarial Services

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to execute a contract and any amendments with Milliman, Inc., (hereinafter "Milliman") in an amount not to exceed \$30,000 for actuarial services of the miscellaneous employees Retiree Health Premium Assistance Plan, the Berkeley Fire Fighters Association retiree medical benefit and the Berkeley Police Association retiree medical benefit for the period of September 25, 2006 through June 30, 2007.

FISCAL IMPACTS OF RECOMMENDATION

Total cost for the actuarial analyses will not exceed \$30,000. This is broken down to:

1. \$13,000 for actuarial analysis of the Retiree Health Premium Assistance Plan for non-sworn employees;
2. \$6,500 for actuarial analysis of retiree medical benefits for sworn Fire employees;
3. \$6,500 for actuarial analysis of retiree medical benefits for sworn Police employees.

The additional spending authorization is for unforeseen contingencies that arise in the performance of this work. Milliman bills on a time and expense basis where time charges are based on hourly billing rates that range from \$60 to \$340 per hour. Expenses include equipment and phone charges and any travel costs associated with face-to-face meetings. If the actual time and expense falls below this maximum fee, the lower amount will be billed. Funding for the actuarial service will come from Payroll Deduction Trust Fund, budget code 930-9701-410-3038.

CURRENT SITUATION AND ITS EFFECTS

The Retiree Health Premium Assistance Plan is a retiree health benefit that covers non-sworn retirees who left employment after June 28, 1998 with at least eight (8) years of CalPERS benefited service with the City. There is a Consent Calendar item on this meeting agenda to amend the plan to provide that regular at-will employees will have a one-year vesting period and to provide that either CalPERS or 1937 County Retirement Act service credit with another public

agency would be counted toward the City's Retiree Health Premium Assistance Plan for these employees. The City has implemented a strategy of pre-funding all of the retiree medical 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. When the Retiree Health Premium Assistance Plan was established in June 1998, funding was based on a rolling 40-year amortization of 1% of gross payroll. Funding for the Fire and Police retiree medical plans are based on a similar funding strategy. In creating these plans, one of the stipulations was that the City would undertake periodic actuarial evaluations of the plans to ensure that they were adequately funded.

BACKGROUND

Effective June 28, 1998, the City began providing retiree medical benefits to its non-sworn employees through a Retiree Health Premium Assistance Plan developed by staff in conjunction with significant input from the recognized employee organizations. As part of the development of the Retiree Health Premium Assistance Plan, staff contracted with Milliman to provide actuarial advice and services to determine present and future costs of various plan options. Using this information, staff and the employee organizations were able to design the retiree medical plan for non-sworn employees based on a maximum cost to the City of 1% of gross PERSable payroll each year.

The same process was followed for the sworn Police and Fire retiree health plans. The Police retiree medical benefit began in 1989 but the first benefits were not paid until 1999 based on the terms of the Memorandum of Understanding with the Berkeley Police Association. The actuarial analysis conducted by Milliman allowed the City to establish an appropriate funding strategy to pre-fund the benefit. The Fire retiree medical benefit began in 1996 but the first benefits were not paid until 2001 based on the terms of the Memorandum of Understanding with the Berkeley Fire Fighters Association. Once again, Milliman conducted the actuarial analysis that allowed the City to establish an appropriate funding strategy to pre-fund the benefit.

As part of the agreement, 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. The first actuarial valuations were completed by Milliman, Inc. on September 14, 2001 based on data as of July 1, 2000 and found that the funding was adequate but it was apparent that another study should be conducted in a few years to ensure the funding remained adequate.

The City's most recent actuarial studies of: 1) the Retiree Health Premium Assistance Plan for non-sworn employees, 2) the sworn Fire employees retiree medical benefit, and 3) the sworn Police employees retiree medical benefit were conducted by Milliman, Inc., and completed on May 25, 2004 for the fiscal year ending June 30, 2004. The funding policy of these plans, based on the actuarial analysis performed by Milliman, Inc., is equal to the service cost for active employees in the current year of service plus an amount to amortize the unfunded actuarial liability over 40 years as a level percentage of payroll. Contributions are placed into separate trust funds and all benefits are paid from the fund. The plans are funded 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 budget.

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 43, Financial Reporting for Post-employment Benefit Plans other than Pension Plans. This new standard will require Other Post Employment Benefits (OPEB) benefit trusts sponsored by government employers to disclose the financial status of the trust, including trust assets as of the beginning and end of the plan year, and a statement of the plan's unfunded benefit obligation. This new GASB Statement is effective for the fiscal year beginning after December 15, 2005 for governments with total annual revenues in excess of \$100 million.

In August 2004, GASB issued Statement No. 45, Accounting and Financial Reporting for Employers for Post-employment Benefits other than Pensions. This new standard requires government employers to account for post employment benefits other than pensions during an employee's employment service with the City instead of during retirement on a "pay-as-you-go" basis. The new Statement is effective for the fiscal year beginning after December 15, 2006 for governments with total annual revenues in excess of \$100 million.

The actuarial analyses conducted by Milliman will include the calculation of financial information that the City will need to comply with the aforementioned GASB Statements et. al., and will include a calculation for the Annual Required Contribution (ARC) as required by GASB 45.

RATIONALE FOR RECOMMENDATION

The City has not had an actuarial study completed of the several retiree health benefit plans since 2005, using data from June 30, 2004. With the rising number of retirees and increasing health costs, we need to ensure the amount we are currently collecting will adequately fund the retiree medical plan. If the study shows the plan will be under-funded, we will need to meet and confer with the unions in order to increase funding contributions.

It is important for the City to ensure that the aforementioned retiree medical benefit programs are adequately funded and that the City meets the requirements of GASB 43 and GASB 45. The City's last actuarial valuation was conducted with data from June 30, 2004. Staff believes that a new actuarial study bringing the data current is a prudent risk management strategy.

ALTERNATIVE ACTIONS CONSIDERED

The first alternative option considered was not having the actuarial studies performed. Staff does not believe this option to be viable because the City needs up-to-date financial information as part of its budget and policy making responsibility. The type of actuarial work is fairly specialized and we do not believe City staff could undertake it. City staff worked with actuaries at 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. The City also consulted with Milliman when the retiree health plans were developed for the Police and Fire retirees and have conducted actuarial studies on these plans from time to time.

Staff will conduct a full Request for Proposal process for the next actuarial valuation of the retiree medical benefit plans.

CONTACT PERSON

David W. Hodgkins, Director of Human Resources, 981-6805

Attachments:

1: Resolution

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

CONTRACT FOR RETIREE MEDICAL PLAN ACTUARIAL SERVICES

WHEREAS, there is a need for actuarial services for determining future liabilities for the City's Retiree Health Premium Assistance Plan and the retiree health benefits for sworn Police and 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 requirements; 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 the next time this type of work is required; and

WHEREAS, the maximum charge for the actuarial services will be \$30,000, 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 \$25,000; and

WHEREAS, funds are available in the Payroll Deduction Trust Fund (Budget Code 930-9701-410-3038).

NOW THEREFORE, BE IT RESOLVED that the Council of the City of Berkeley hereby authorizes the City Manager to execute and implement a contract and any amendments for the period of September 25, 2006 through June 30, 2007 for actuarial services with Milliman, Inc., for the Retiree Health Premium Assistance Plan and the Police and Fire retiree health benefits in an amount not to exceed \$30,000. A fully executed original of said contract to be on file in the Office of the City Clerk.