



*San Rafael*

Agenda Item No: 4.c

Meeting Date: June 17, 2013

**SAN RAFAEL CITY COUNCIL AGENDA REPORT**

**Department:** Management Services

**Prepared by:** Jim Schutz, *JS*  
Assistant City Manager

**City Manager Approval:** *J. McCullo*

**SUBJECT: REPORT AND RECOMMENDATIONS REGARDING CURRENT ACTIONS OF THE PENSION/OPEB SUBCOMMITTEE OF THE SAN RAFAEL CITY COUNCIL**

**RECOMMENDATION:**

1. Adopt a resolution formalizing a pension funding policy.
2. Adopt a resolution authorizing (A) adoption of the California Employers' Retiree Benefit Trust program (CERBT) for pre-funding the City's long-term obligation for providing retiree health benefits for eligible employees; (B) approval of the asset transfer to the CERBT; and (C) designating the City Manager and Finance Director or designees with the authority to request and receive disbursements from the CERBT for payment of future retiree health benefit obligations
3. Accept an informational report from Bartel Associates estimating cost savings due to pension and Other Post Employment Benefits (OPEB) reform measures taken to date.
4. Direct staff to increase transparency of pension and OPEB finances and City initiatives through use of a pension/OPEB-specific page on the City's website.

**BACKGROUND:**

In early 2012, the City Council established seven subcommittees to focus on various high-priority issues. One of these was the Pension and Other Post Employment Benefits (OPEB) Subcommittee which was made up of Mayor Gary Phillips and Councilmember Andrew McCullough. The Subcommittee's charge was to review pension reform actions taken by the City as of that date and consider future actions as appropriate.

One of the Subcommittee's actions was to assemble a Council resolution regarding pension and OPEB reform efforts. On May 7, 2012, the City Council approved the resolution. The report for that item contained an overview of statewide pension issues, background information regarding pension and OPEB specific to San Rafael, the list of pension and OPEB cost saving measures and other reforms already implemented, and a detailed description of the pension and OPEB resolution itself. The resolution included a set of 12 guiding principles and practices including such issues as pension cost controls, benefit formulas, employee contributions, and reserve funding.

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**FOR CITY CLERK ONLY**

**File No.:** \_\_\_\_\_

**Council Meeting:** \_\_\_\_\_

**Disposition:** \_\_\_\_\_

Since the resolution was approved, the Subcommittee has been active meeting with City staff, Boardmembers and staff from the Marin County Employees' Retirement Association (MCERA), actuaries, and interested community members. This effort has led to a number of actions for Council consideration discussed in the next section.

**ANALYSIS:**

At this time, there are four pension and OPEB-related issues for City Council consideration. They include: 1) formalizing a pension funding policy, 2) prefunding the City's OPEB through a trust, 3) accepting a report regarding cost saving measures to date, and 4) creating a new web page focused on San Rafael pensions and OPEB.

***Pension Funding Policy***

The Purpose of this Pension Funding Policy is to provide direction and guidance with respect to the areas of funding and reporting on the City's defined-benefit plans that are within the purview and control of the City. The MCERA Board is charged under the County Employee Retirement Law with administration of the pension system which includes all aspects of determining the contributions required to fund current and future pension obligations.

The City of San Rafael is committed to adopting best fiscal practices in order to fully use the knowledge, resources, and experience available throughout the industry. Public agencies that offer defined benefit pensions to their employees should fund the cost of those benefits in an equitable and sustainable manner. An actuarial valuation provides an employer with crucial information on the amount that needs to be contributed each period to fund the long-term cost of benefits promised to plan participants. Generally accepted accounting principles (GAAP) have required that this actuarially determined amount, known as the actuarially required contribution (ARC), be calculated within standardized parameters and disclosed as part of an employer's annual financial report.

Recently, the Governmental Accounting Standards Board (GASB) changed its approach to pension reporting and moved from one that served both the purposes of accounting/financial reporting and funding to one related solely to accounting/financial reporting. Beginning with the financial reporting in fiscal year 2014-2015, the net pension liability (total pension liability less market value of assets) will be presented on the City's government-wide statement of net assets (balance sheet).

One consequence of this change is that GAAP will no longer require that employers calculate and disclose an ARC in their financial reports. Likewise, the parameters (e.g., actuarial cost method, asset smoothing, and amortization) that have standardized how an ARC is calculated have been eliminated from GAAP. In the absence of ARC disclosures, it may be difficult for stakeholders, including policy-makers, employees and the public to determine whether obligations are being appropriately funded. Consequently, there is a pressing need for widely recognized, standardized guidelines as to what constitutes a sound funding plan for a local government employer that offers defined benefit pensions.

The Government Finance Officers Association (GFOA) and ten other national associations representing state and local governments and retirement systems developed a set of pension funding guidelines to meet this need. The GFOA recommends that every state and local government that offers defined benefit pensions formally adopt a funding policy that provides reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner.

The attached resolution includes the recommended pension funding policy. It would provide reasonable assurance that the costs of the City's defined benefit pensions will be funded in an

equitable and sustainable manner. It states the City's commitment to fund these benefits based on regular actuarial valuations, and to measure and report them in accordance with generally accepted accounting principles (GAAP). Adhering to a funding policy that embodies these funding and accounting principles is a prudent governance practice, and helps achieve intergenerational equity among those who financially support the plan. It also ensures that resources are available to fulfill the City's contractual promises to its employees, and minimizes the chance that funding of these benefits will interfere with the City's ability to provide essential services to the public. Specifically, the policy includes these actions as called out in the resolution:

1. The City will use the actuarially determined contribution (ADC) provided by MCERA to serve as the basis for its pension contributions;
2. The City supports an ADC that is calculated in a manner that fully funds the long-term costs of promised pension benefits, while balancing the goals of keeping contributions relatively stable and equitably allocating the costs over the employees' period of active service.
3. The City supports a policy of funding the full amount of the ADC each year and making the full contribution as determined by MCERA. In the event the City is unable to fund the full amount of the ADC in a given year with current resources (i.e., without borrowing or use of reserves), the Finance Director and City Manager will identify a reasonable transition period to return to full funding.
4. The City will demonstrate accountability and transparency by communicating all of the information necessary for assessing the City's progress toward meeting its pension funding objectives. This will be achieved, in part, by ensuring full and accurate implementation of GASB 68 beginning with fiscal year 2014-2015.
5. As part of the annual budget adoption process, the Finance Director and City Manager will report to the City Council on the following:
  - a) most recent actuarially determined pension contribution (ADC)
  - b) relationship between ADC and budgeted pension contribution
  - c) projected ADC for next three years
  - d) impact of funding full ADC over the three-year planning horizon
  - e) any other significant issues associated with funding the defined benefit pension in a stable and equitable manner as described in #2 above.
6. Staff will monitor changes to and expansions of pension funding best practices, as well as any additional guidance provided by the GFOA that relate to the funding of defined benefit pensions. Staff will return to City Council with modifications to this policy as needed.

The Pension/OPEB Subcommittee recommends the above as a prudent governmental practice to guide the City regarding pension funding equity and sustainability.

### ***OPEB Trust***

The City of San Rafael has had a 401(h) trust fund dedicated to fund post retirement medical expenses for City employees since 1994. This 401(h) fund has been maintained by the Marin County Employees' Retirement Association (MCERA) and currently has a balance of approximately \$12 million. In 2012, MCERA and the City had agreed to identify a new vendor to manage the funds. Both parties acknowledge that a vendor with specialized expertise in the management and compliance issues related to OPEB trusts would be ideal.

The transfer of the medical trust account assets to the City should have no effect on funding of the City's retirement, death and disability benefits through MCERA, as all assets in the medical trust account have been excluded from valuation assets for purposes of determining the funding status of the City's plan and setting contribution rates.

MCERA contacted the Internal Revenue Service (IRS) regarding the proposed transfer to ensure compliance with federal tax requirements. MCERA has since received assurance from the IRS regarding the proper method to transfer of funds to the City

As part of the fund transfer process, the City contracted with SST Benefits Consulting (SST) to implement a Request for Proposals (RFP) process to help identify a vendor. With the help of SST, the City sent out a RFP request to several firms as well as advertised the process on the City's web site to solicit proposals. The City received proposals from the International City Managers Association – Retirement Corporation (ICMA-RC), the Public Agency Retirement Services (PARS), and the California Public Employees' Retirement System (CalPERS). Staff considered various factors including the cost of the services, expertise, and rate of return. Staff recommends CalPERS CERBT as the vendor.

Staff valued that CalPERS assumed the full fiduciary responsibility to manage the fund and direct investments since CalPERS requires minimal administrative oversight through a portfolio management approach. The City's funds are pooled with those from other agencies, amounting to over \$2.6 billion of public employer assets. CalPERS has more than 300 public employers participating in its OPEB trust program. The CalPERS CERBT contract is for a minimum term of three years.

CalPERS, as well as the other two proposals, suggested a Section 115 Integral Part Trust as the instrument by which the City should fund its OPEB obligation. According to the last actuarial report based on data from June 30, 2011, the City has an OPEB liability of approximately \$35 million and an OPEB trust balance of approximately \$11 million making the unfunded portion of the OPEB liability approximately \$24 million. The City's health insurance plans are fully insured through CalPERS. It is anticipated that the City would fund the Annually Required Contribution (ARC) of approximately \$2.5 million annually directly out of the operating budget with no distribution from the fund until the ARC falls below the pay-as-you-go amount.

The targeted rate of return of the portfolio selected by the City is 7.6% which is close to the current estimate of 7.5% that was used in the previous actuarial valuations. CalPERS refers to this as the "moderate" portfolio. The targeted rate of return and thus the mix of investments can be changed by the City. Staff expects to review the rate of return at least each time the OPEB actuarial study is conducted every two years.

In short, the attached resolution authorizes the agreement with MCERA to, among other items, transfer the funds currently held in the 401(h) account to a Section 115 trust chosen by the City and adopts that trust vehicle. The funds held in the Section 115 account will grow over time and be used exclusively for payment of future retiree health benefit obligations.

### ***Estimated Savings***

The extraordinary investment losses brought on by the "Great Recession" have increased the contributions required by employers to fully fund pension systems. Many public agencies responded by implementing measures designed to reduce short and long term costs related to pension and OPEB. The most typical sort of reforms included requiring employees to pay some or all of the "employee share;" creating a new (lower) benefit tier; and basing pensions off of the average of three years of compensation rather than the single, highest year. San Rafael

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implemented each of these and other measures as well (see May 7, 2012 staff report for complete list).

The below chart is taken from an actuarial analysis (attached) performed by Bartel Associates, LLC of savings over the next 30 years associated with various City of San Rafael pension and OPEB reform measures. It does not cover all of San Rafael efforts, but includes those with the greatest financial impacts. The first, equaling \$93.5 million, is the value of the employees assuming full responsibility of the employee pension share. Prior to this action, the City was contributing 7% toward the employee portion of pension costs for safety employees and 5% toward that of non-safety employees. During this period, the City also provided a pension benefit enhancement by retroactively changing the pension benefit formula to 3% at 55 for safety and 2.7% at 55 for non-safety employees. This enhancement is estimated to cost the City \$101.6 million over the full term of the next 30 years.

Subsequent to the above, there were a number of additional cost saving measures. In the order shown on the chart, the next is pension savings valued at \$21.7 million related to new (lower) pension tiers that were negotiated with employees and became effective July 1, 2011. These new pension tiers for safety and non-safety employees were prior to the California Public Employees' Pension Reform Act of 2013 (PEPRA). Those tiers, shown on the chart as saving \$60.3 million, became effective on January 1, 2013 thus creating a three-tier structure in San Rafael. The final change shown in the pension category is a provision of PEPRA that encourages additional employee contributions and allows jurisdictions to require such changes starting on January 1, 2018 if they are not already in place by that time. Staff will be working with the bargaining units to implement this provision.

On the OPEB side, the first measure shown on the chart stems from the City Council's May 7, 2012 resolution #13344 which states the Council's intent to not increase retiree health benefits other than those required by law or existing resolutions. Over the 30-year term, this is valued at \$41.9 million. The final measure shown comes from labor negotiations that took place in 2009 and 2010 that reduced the retiree health benefit to the minimum allowed by law for new hires after those dates. This action will save \$9.3 million.

Action	Savings/Costs (in 000's)
<b>Pension</b>	
2000-2004 City contributions cease for emp. portion	93,500
2003-2007 benefit enhancements	(101,600)
7/1/11 Tier 2 plan change	21,700
1/1/13 PEPRA benefit change	60,300
2018 increased employee contributions	6,800
<i>Pension Savings total</i>	<i>\$80,700</i>
<b>OPEB</b>	
2012 Council Resolution #13344 freezing caps	41,900
2009 and 2010 Tier 2 PEMHCA minimum benefit	9,300
<i>OPEB Savings total</i>	<i>\$51,200</i>
<b>Total Savings</b>	<b>\$131,900</b>

Such actions demonstrate the City's commitment to reforms and cost management related to pensions and OPEB. Aspects such as new pension tiers and medical benefit changes demonstrate the employee groups' recognition of the financial situation and willingness to be part of the solution.

Even after factoring the pension benefit enhancement in the early/mid 2000s, the City will experience a note-worthy savings of almost \$132 million over the next 30 years through various pension/OPEB reform measures. This is an 18% drop in the pension and OPEB liability due to these efforts.

**Web Presence**

The Pension/OPEB Subcommittee recognizes that such employee benefits can be a complicated topic especially when considering multiple types of public employers, federal and state retirement law, contract clauses of federal and state constitutions, court decisions, labor law, difference in actuarial methodology, differences in organizational make-up and financing, etc. The Subcommittee has always advocated for transparency and awareness of the financial challenges related to pension and OPEB and the City's responses. One way to further these goals is to enhance the City's web presence focused specifically on pension and OPEB.

With the Council's concurrence, staff would create a new web page linked to the overall City of San Rafael website that focuses directly on pension and OPEB and is updated on a regular basis such as when a new actuarial analysis is complete or when the Council takes specific action on pension or OPEB issues.

It is envisioned that the web page would include, but not be limited to:

- A "plain English" overview of pension and OPEB;
- The key financial details such as assets, liabilities, debts, reserves, etc. updated with each new actuarial report;
- Links to pension actuarial reports back to 2002 (as they are available through the MCERA website);
- Any actuarial audits of past valuations;
- Actions the City has taken to reform or manage costs associated with pension and OPEB;
- Key City Council policies or resolutions intended to guide these issues;
- Grand Jury reports on these subjects and the City's formal responses; and
- Charts or graphs that demonstrate pension/OPEB projections over time.

It is anticipated that these improvements to the City's website will not take significant staff time as much of the financial data changes only annually. Staff expects to start creating the pension/OPEB web page soon after receiving Council direction with more information added over time.

**FISCAL IMPACT:**

There is no direct fiscal impact of adopting a pension funding policy, however the policy itself will guide future funding decisions and methods. Cost for the OPEB trust management and investment services will be approximately \$16,500 per year which is taken from plan investment returns. There is no fiscal impact of accepting the Bartel Associates report on pension/OPEB savings, though it should be noted that the report identifies almost \$132 million in savings over the next 30 years due to the reforms and cost saving techniques implemented or identified to date. There is no fiscal impact of increasing the City's web presence outside of staff time.

**OPTIONS:**

- Approve the Resolutions
- Modify Resolutions and/or direct staff to return with modifications

**ATTACHMENTS:**

Attachment A: Resolution adopting a pension funding policy  
Attachment B: Resolution pre-funding the City's OPEB through a trust (with exhibits)  
Attachment C: Bartel Associates LLC Actuarial Report





RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
SAN RAFAEL ADOPTING A PENSION FUNDING POLICY**

**WHEREAS**, the City of San Rafael is committed to adopting best fiscal practices, in order to fully use the knowledge, resources and experience available throughout the industry; and

**WHEREAS**, Public agencies that offer defined benefit pensions to their employees should fund the cost of those benefits in an equitable and sustainable manner; and

**WHEREAS**, the City desires to demonstrate accountability and transparency by communicating all of the information necessary for assessing the City's progress toward meeting its pension funding objectives.

**NOW, THEREFORE, BE IT RESOLVED**, that the City Council of the City of San Rafael does hereby approve and adopt the following Pension Funding Policy:

Purpose: The purpose of this policy is to provide reasonable assurance that the costs of the City's defined benefit pensions will be funded in an equitable and sustainable manner. It codifies the City's commitment to fund these benefits based on regular actuarial valuations, and to measure and report them in accordance with generally accepted accounting principles (GAAP). Adhering to a funding policy that embodies these funding and accounting principles is a prudent governance practice, and helps achieve intergenerational equity among those who financially support the plan. It also ensures that resources are available to fulfill the City's contractual promises to its employees, and minimizes the chance that funding of these benefits will interfere with the City's ability to provide essential services to the public.

In order to achieve the purpose of this policy, the City will take the following actions:

1. The City will use the actuarially determined contribution (ADC) provided by MCERA to serve as the basis for its pension contributions.
2. The City supports an ADC that is calculated in a manner that fully funds the long-term costs of promised pension benefits, while balancing the goals of
  - a) keeping contributions relatively stable; and
  - b) equitably allocating the costs over the employees' period of active service.
3. The City supports a policy of funding the full amount of the ADC each year and making the full contribution as determined by MCERA. In the event the City is unable to fund the full amount of the ADC in a given year with current resources (i.e., without borrowing or using reserves), the Finance Director and City Manager will identify a reasonable period to return to full funding.
4. The City will demonstrate accountability and transparency by communicating all of the information necessary for assessing the City's progress toward meeting its pension funding objectives. This will be achieved, in part, by ensuring full and accurate implementation of GASB Statement No. 68 beginning with fiscal year 2014-2015.
5. As part of the annual budget adoption process, the Finance Director and City Manager will report to the City Council on the following:
  - a) most recent actuarially determined pension contribution (ADC)

- b) relationship between ADC and budgeted pension contribution
- c) projected ADC for next three years
- d) impact of funding full ADC over the three-year planning horizon
- e) any other significant issues associated with funding the defined benefit pension in a stable and equitable manner as described in #2 above.

6.) Staff will monitor changes to and expansions of pension funding best practices, as well as any additional guidance provided by the Government Finance Officer's Association that relate to the funding of defined benefit pensions. Staff will return to City Council with modifications to this policy as needed.

I, ESTHER C. BEIRNE, Clerk of the City of San Rafael, hereby certify that the foregoing resolution was duly and regularly introduced and adopted at a regular meeting of the Council of said City on Monday, the 17th of June 2013, by the following vote, to wit:

AYES:            COUNCILMEMBERS:

NOES:            COUNCILMEMBERS:

ABSENT:        COUNCILMEMBERS:

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ESTHER C. BEIRNE, City Clerk

**RESOLUTION \_\_\_\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN RAFAEL PROVIDING FOR: (1) ADOPTION OF THE CALIFORNIA EMPLOYERS' RETIREE BENEFIT TRUST PROGRAM (CERBT) FOR PRE-FUNDING THE CITY'S LONG-TERM OBLIGATION FOR PROVIDING RETIREE HEALTH BENEFITS FOR ELIGIBLE EMPLOYEES; (2) APPROVAL OF THE ASSET TRANSFER TO THE CERBT; AND (3) DESIGNATING THE CITY MANAGER AND FINANCE DIRECTOR OR DESIGNEES WITH THE AUTHORITY TO REQUEST AND RECEIVE DISBURSEMENTS FROM THE CERBT FOR PAYMENT OF FUTURE RETIREE HEALTH BENEFIT OBLIGATIONS**

**WHEREAS**, the City of San Rafael provides post-employment medical benefits to eligible retirees and their eligible dependents and survivors, and

**WHEREAS**, the City Council wishes to establish a trust to pre-fund these benefits, and

**WHEREAS**, California Public Employees Retirement System (CalPERS) has the California Employer's Retiree Benefit Trust Program (CERBT) for pre-funding the City's long-term obligation for retiree health benefits and staff considered several possible alternatives and believes that the CERBT best meets the City's needs for managing this long-term liability, and

**WHEREAS**, the City Council intends that the CERBT qualify as a trust for purposes of Governmental Accounting Standards Boards ("GASB") Statement 43, pursuant to paragraph 4 of GASB 43, so that amounts held under the CERBT will be treated as offsetting the unfunded OPEB liability that must be reported on the City's financial statements under GASB 45, and

**WHEREAS**, the City Council further intends that contributions and transfers to, and earnings under, the CERBT be exempt from taxes to the maximum extent permitted by law, and

**WHEREAS**, the City Council wishes to begin pre-funding the City's OPEB liability by transferring the current balance in the City's 401(h) fund held by the Marin County Employees' Retirement Association ("MCERA") estimated to be \$12 million.

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of San Rafael does resolve, declare, and determine and order the following:

**SECTION 1.** That the City Council hereby adopts the CERBT, substantially in the form attached as Exhibit A:

- Contributions to the trust will be irrevocable, and assets under the CERBT may not be diverted for any purpose other than funding the City's OPEB liability, unless and until all liabilities associated with those benefits are satisfied, and
- all Trust assets will be irrevocably dedicated to, and will be used for the exclusive purpose of, providing for payments of OPEBs and for paying expenses of administering the CERBT, and will not be available to any of the City's creditors.

**SECTION 2.** That the City Council directs the City Manager to sign and thus enter into the Participation Agreement Regarding City of San Rafael Retiree Medical Trust 401(h) Account with MCERA ("Agreement"), attached as Exhibit B, and in accordance with the terms of the Agreement hereby authorizes and directs MCERA to transfer as soon as administratively practicable after the City's execution of the CERBT and the Agreement, the balance from the City's 401(h) fund to the CERBT.

**SECTION 3.** That the City Manager and Finance Director, or designees are authorized to request and receive disbursements from the CERBT for payment of future retiree health benefit obligations and to certify as to the purpose for which the disbursed funds will be used.

**SECTION 4.** City Clerk shall certify to the passage of this resolution and enter it into the book of original resolutions.

I, Esther C. Beirne, Clerk of the City of San Rafael, hereby certify that the foregoing Resolution was duly and regularly introduced and adopted at a regular meeting of the City Council of the City of San Rafael, held on Monday, the 17<sup>th</sup> of June 2013, by the following vote, to wit:

AYES: Councilmembers:

NOES: Councilmembers:

ABSENT: Councilmembers:

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Esther C. Beirne, City Clerk

**CALIFORNIA EMPLOYERS' RETIREE BENEFIT TRUST PROGRAM ("CERBT")**

**AGREEMENT AND ELECTION  
OF**

CITY OF SAN RAFAEL

(NAME OF EMPLOYER)

**TO PREFUND OTHER POST EMPLOYMENT  
BENEFITS THROUGH CalPERS**

WHEREAS (1) Government Code Section 22940 establishes in the State Treasury the Annuitants' Health Care Coverage Fund for the prefunding of health care coverage for annuitants (Prefunding Plan); and

WHEREAS (2) The California Public Employees' Retirement System (CalPERS) Board of Administration (Board) has sole and exclusive control and power over the administration and investment of the Prefunding Plan (sometimes also referred to as CERBT), the purposes of which include, but are not limited to (i) receiving contributions from participating employers and establishing separate Employer Prefunding Accounts in the Prefunding Plan for the performance of an essential governmental function (ii) investing contributed amounts and income thereon, if any, in order to receive yield on the funds and (iii) disbursing contributed amounts and income thereon, if any, to pay for costs of administration of the Prefunding Plan and to pay for health care costs or other post employment benefits in accordance with the terms of participating employers' plans; and

WHEREAS (3) CITY OF SAN RAFAEL  
(NAME OF EMPLOYER)

(Employer) desires to participate in the Prefunding Plan upon the terms and conditions set by the Board and as set forth herein; and

WHEREAS (4) Employer may participate in the Prefunding Plan upon (i) approval by the Board and (ii) filing a duly adopted and executed Agreement and Election to Prefund Other Post Employment Benefits (Agreement) as provided in the terms and conditions of the Agreement; and

WHEREAS (5) The Prefunding Plan is a trust fund that is intended to perform an essential governmental function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 43 consisting of an aggregation of single-employer plans, with pooled administrative and investment functions;

NOW, THEREFORE, BE IT RESOLVED THAT EMPLOYER HEREBY MAKES THE FOLLOWING REPRESENTATION AND WARRANTY AND THAT THE BOARD AND EMPLOYER AGREE TO THE FOLLOWING TERMS AND CONDITIONS:

A. Representation and Warranty

Employer represents and warrants that it is a political subdivision of the State of California or an entity whose income is excluded from gross income under Section 115 (1) of the Internal Revenue Code.

B. Adoption and Approval of the Agreement; Effective Date; Amendment

(1) Employer's governing body shall elect to participate in the Prefunding Plan by adopting this Agreement and filing with the CalPERS Board a true and correct original or certified copy of this Agreement as follows:

Filing by mail, send to:        CalPERS  
   Affiliate Program Services Division  
   CERBT (OPEB)  
   P.O. Box 1494  
   Sacramento, CA 95812-1494

Filing in person, deliver to:        CalPERS Mailroom  
   Affiliate Program Services Division  
   CERBT (OPEB)  
   400 Q Street  
   Sacramento, CA 95811

(2) Upon receipt of the executed Agreement, and after approval by the Board, the Board shall fix an effective date and shall promptly notify Employer of the effective date of the Agreement.

(3) The terms of this Agreement may be amended only in writing upon the agreement of both CalPERS and Employer, except as otherwise provided herein. Any such amendment or modification to this Agreement shall be adopted and executed in the same manner as required for the Agreement. Upon receipt of the executed amendment or modification, the Board shall fix the effective date of the amendment or modification.

(4) The Board shall institute such procedures and processes as it deems necessary to administer the Prefunding Plan, to carry out the purposes of this Agreement, and to maintain the tax exempt status of the Prefunding Plan. Employer agrees to follow such procedures and processes.

### C. Other Post Employment Benefits (OPEB) Cost Reports and Employer Contributions

(1) Employer shall provide to the Board an OPEB cost report on the basis of the actuarial assumptions and methods prescribed by the Board. Such report shall be for the Board's use in financial reporting, and shall be prepared at least as often as the minimum frequency required by GASB 43. This OPEB cost report may be prepared as an actuarial valuation report or, if the employer is qualified under GASB 45 and 57, may be prepared as an Alternative Measurement Method (AMM) report.

- (a) Unless qualified under GASB 45 and 57 to provide an AMM report, Employer shall provide to the Board an actuarial valuation report. Such report shall be for the Board's use in financial reporting, and shall be prepared at least as often as the minimum frequency required by GASB 43 and 57, and shall be:
  - 1) prepared and signed by a Fellow or Associate of the Society of Actuaries who is also a Member of the American Academy of Actuaries or a person with equivalent qualifications acceptable to the Board;
  - 2) prepared in accordance with generally accepted actuarial practice and GASB 43, 45 and 57; and,
  - 3) provided to the Board prior to the Board's acceptance of contributions for the valuation period or as otherwise required by the Board.
- (b) If qualified under GASB 45 and 57, Employer may provide to the Board an AMM report. Such report shall be for the Board's use in financial reporting, shall be prepared at least as often as the minimum frequency required by GASB 43 and 57, and shall be:
  - 1) affirmed by Employer's external auditor, or by a Fellow or Associate of the Society of Actuaries who is also a Member of the American Academy of Actuaries or a person with equivalent qualifications acceptable to the Board, to be consistent with the AMM process described in GASB 45;
  - 2) prepared in accordance with GASB 43, 45, and 57; and,
  - 3) provided to the Board prior to the Board's acceptance of contributions for the valuation period or as otherwise required by the Board.

(2) The Board may reject any OPEB cost report submitted to it, but shall not unreasonably do so. In the event that the Board determines, in its sole discretion, that the OPEB cost report is not suitable for use in the Board's financial statements or if Employer fails to provide a required OPEB cost report, the Board may obtain, at

Employer's expense, an OPEB cost report that meets the Board's financial reporting needs. The Board may recover from Employer the cost of obtaining such OPEB cost report by billing and collecting from Employer or by deducting the amount from Employer's account in the Prefunding Plan.

(3) Employer shall notify the Board of the amount and time of contributions which contributions shall be made in the manner established by the Board.

(4) Employer contributions to the Prefunding Plan may be limited to the amount necessary to fully fund Employer's actuarial present value of total projected benefits, as supported by the OPEB cost report acceptable to the Board. As used throughout this document, the meaning of the term "actuarial present value of total projected benefits" is as defined in GASB Statement No. 45. If Employer's contribution causes its assets in the Prefunding Plan to exceed the amount required to fully fund the actuarial present value of total projected benefits, the Board may refuse to accept the contribution.

(5) No contributions are required. If an employer elects to contribute then the contribution amount should not be less than \$5000 or the employer's annual required contribution (ARC), whichever amount is lower. Contributions can be made at any time following the seventh day after the effective date of the Agreement provided that Employer has first complied with the requirements of Paragraph C.

#### D. Administration of Accounts, Investments, Allocation of Income

(1) The Board has established the Prefunding Plan as an agent plan consisting of an aggregation of single-employer plans, with pooled administrative and investment functions, under the terms of which separate accounts will be maintained for each employer so that Employer's assets will provide benefits only under employer's plan.

(2) All Employer contributions and assets attributable to Employer contributions shall be separately accounted for in the Prefunding Plan (Employer's Prefunding Account).

(3) Employer's Prefunding Account assets may be aggregated with prefunding account assets of other employers and may be co-invested by the Board in any asset classes appropriate for a Section 115 Trust.

(4) The Board may deduct the costs of administration of the Prefunding Plan from the investment income or Employer's Prefunding Account in a manner determined by the Board.

(5) Investment income shall be allocated among employers and posted to Employer's Prefunding Account as determined by the Board but no less frequently than annually.

(6) If Employer's assets in the Prefunding Plan exceed the amount required to fully fund the actuarial present value of total projected benefits, the Board, in compliance with applicable accounting and legal requirements, may return such excess to Employer.



## E. Reports and Statements

- (1) Employer shall submit with each contribution a contribution report in the form and containing the information prescribed by the Board.
- (2) The Board shall prepare and provide a statement of Employer's Prefunding Account at least annually reflecting the balance in Employer's Prefunding Account, contributions made during the period and income allocated during the period, and such other information as the Board determines.

## F. Disbursements

- (1) Employer may receive disbursements not to exceed the annual premium and other costs of post employment healthcare benefits and other post employment benefits as defined in GASB 43.
- (2) Employer shall notify CalPERS in writing in the manner specified by CalPERS of the persons authorized to request disbursements from the Prefunding Plan on behalf of Employer.
- (3) Employer's request for disbursement shall be in writing signed by Employer's authorized representative, in accordance with procedures established by the Board. The Board may require that Employer certify or otherwise establish that the monies will be used for the purposes of the Prefunding Plan.
- (4) Requests for disbursements that satisfy the requirements of paragraphs (2) and (3) will be processed monthly.
- (5) CalPERS shall not be liable for amounts disbursed in error if it has acted upon the written instruction of an individual authorized by Employer to request disbursements. In the event of any other erroneous disbursement, the extent of CalPERS' liability shall be the actual dollar amount of the disbursement, plus interest at the actual earnings rate but not less than zero.
- (6) No disbursement shall be made from the Prefunding Plan which exceeds the balance in Employer's Prefunding Account.

## G. Costs of Administration

Employer shall pay its share of the costs of administration of the Prefunding Plan, as determined by the Board.

## H. Termination of Employer Participation in Prefunding Plan

- (1) The Board may terminate Employer's participation in the Prefunding Plan if:

- (a) Employer gives written notice to the Board of its election to terminate;
- (b) The Board finds that Employer fails to satisfy the terms and conditions of this Agreement or of the Board's rules or regulations.

(2) If Employer's participation in the Prefunding Plan terminates for any of the foregoing reasons, all assets in Employer's Prefunding Account shall remain in the Prefunding Plan, except as otherwise provided below, and shall continue to be invested and accrue income as provided in Paragraph D.

(3) After Employer's participation in the Prefunding Plan terminates, Employer may not make contributions to the Prefunding Plan.

(4) After Employer's participation in the Prefunding Plan terminates, disbursements from Employer's Prefunding Account may continue upon Employer's instruction or otherwise in accordance with the terms of this Agreement.

(5) After thirty-six (36) months have elapsed from the effective date of this Agreement or at such earlier date as may be approved by the Board in its sole discretion:

- (a) Employer may request a trustee to trustee transfer of the assets in Employer's Prefunding Account. Upon satisfactory showing to the Board that the transfer will satisfy applicable requirements of the Internal Revenue Code and the Board's fiduciary duties, then the Board shall effect the transfer within one hundred twenty (120) days. The amount to be transferred shall be the amount in the Employer's Prefunding Account as of the disbursement date and shall include investment earnings up to the investment earnings allocation date immediately preceding the disbursement date. In no event shall the investment earnings allocation date precede the transfer by more than 120 days.
- (b) Employer may request a disbursement of the assets in Employer's Prefunding Account. Upon satisfactory showing to the Board that all of Employer's obligations for payment of post employment health care benefits and other post employment benefits and reasonable administrative costs of the Board have been satisfied, then the Board shall effect the disbursement within one hundred twenty (120) days. The amount to be disbursed shall be the amount in the Employer's Prefunding Account as of the disbursement date and shall include investment earnings up to the investment earnings allocation date immediately preceding the disbursement date. In no event shall the investment earnings allocation date precede the disbursement by more than 120 days.

(6) After Employer's participation in the Prefunding Plan terminates and at such time that no assets remain in Employer's Prefunding Account, this Agreement shall terminate.

(7) If, for any reason, the Board terminates the Prefunding Plan, the assets in Employer's Prefunding Account shall be paid to Employer after retention of (i) amounts sufficient to pay post employment health care benefits and other post employment benefits to annuitants for current and future annuitants described by the employer's current substantive plan (as defined in GASB 43), and (ii) amounts sufficient to pay reasonable administrative costs of the Board.

(8) If Employer ceases to exist but Employer's Prefunding Plan continues to exist and if no provision has been made by Employer for ongoing payments to pay post employment health care benefits and other post employment benefits to annuitants for current and future annuitants, the Board is authorized to and shall appoint a third party administrator to carry out Employer's Prefunding Plan. Any and all costs associated with such appointment shall be paid from the assets attributable to contributions by Employer.

(9) If Employer should breach the representation and warranty set forth in Paragraph A., the Board shall take whatever action it deems necessary to preserve the tax-exempt status of the Prefunding Plan.

#### I. General Provisions

##### (1) Books and Records.

Employer shall keep accurate books and records connected with the performance of this Agreement. Employer shall ensure that books and records of subcontractors, suppliers, and other providers shall also be accurately maintained. Such books and records shall be kept in a secure location at the Employer's office(s) and shall be available for inspection and copying by CalPERS and its representatives.

##### (2) Audit.

- (a) During and for three years after the term of this Agreement, Employer shall permit the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, at all reasonable times during normal business hours to inspect and copy, at the expense of CalPERS, books and records of Employer relating to its performance of this Agreement.
- (b) Employer shall be subject to examination and audit by the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, during the term of this Agreement and for three years after final payment under this Agreement. Any examination or audit shall be confined to those matters connected with the performance of this Agreement, including, but not limited to, the costs of administering this Agreement. Employer shall cooperate fully with the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, in connection with any

examination or audit. All adjustments, payments, and/or reimbursements determined to be necessary by any examination or audit shall be made promptly by the appropriate party.

(3) Notice.

- (a) Any notice, approval, or other communication required or permitted under this Agreement will be given in the English language and will be deemed received as follows:
1. Personal delivery. When personally delivered to the recipient. Notice is effective on delivery.
  2. First Class Mail. When mailed first class to the last address of the recipient known to the party giving notice. Notice is effective three delivery days after deposit in a United States Postal Service office or mailbox.
  3. Certified mail. When mailed certified mail, return receipt requested. Notice is effective on receipt, if delivery is confirmed by a return receipt.
  4. Overnight Delivery. When delivered by an overnight delivery service, charges prepaid or charged to the sender's account, Notice is effective on delivery, if delivery is confirmed by the delivery service.
  5. Telex or Facsimile Transmission. When sent by telex or fax to the last telex or fax number of the recipient known to the party giving notice. Notice is effective on receipt, provided that (i) a duplicate copy of the notice is promptly given by first-class or certified mail or by overnight delivery, or (ii) the receiving party delivers a written confirmation of receipt. Any notice given by telex or fax shall be deemed received on the next business day if it is received after 5:00 p.m. (recipient's time) or on a nonbusiness day.
  6. E-mail transmission. When sent by e-mail using software that provides unmodifiable proof (i) that the message was sent, (ii) that the message was delivered to the recipient's information processing system, and (iii) of the time and date the message was delivered to the recipient along with a verifiable electronic record of the exact content of the message sent.

Addresses for the purpose of giving notice are as shown in Paragraph B.(1) of this Agreement.

- (b) Any correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission of the party to be notified shall be deemed effective as of the first date that said notice was refused, unclaimed, or deemed undeliverable by the postal authorities, messenger or overnight delivery service.
- (c) Any party may change its address, telex, fax number, or e-mail address by giving the other party notice of the change in any manner permitted by this Agreement.
- (d) All notices, requests, demands, amendments, modifications or other communications under this Agreement shall be in writing. Notice shall be sufficient for all such purposes if personally delivered, sent by first class, registered or certified mail, return receipt requested, delivery by courier with receipt of delivery, facsimile transmission with written confirmation of receipt by recipient, or e-mail delivery with verifiable and unmodifiable proof of content and time and date of sending by sender and delivery to recipient. Notice is effective on confirmed receipt by recipient or 3 business days after sending, whichever is sooner.

#### (4) Modification

This Agreement may be supplemented, amended, or modified only by the mutual agreement of the parties. No supplement, amendment, or modification of this Agreement shall be binding unless it is in writing and signed by the party to be charged.

#### (5) Survival

All representations, warranties, and covenants contained in this Agreement, or in any instrument, certificate, exhibit, or other writing intended by the parties to be a part of their Agreement shall survive the termination of this Agreement until such time as all amounts in Employer's Prefunding Account have been disbursed.

#### (6) Waiver

No waiver of a breach, failure of any condition, or any right or remedy contained in or granted by the provisions of this Agreement shall be effective unless it is in writing and signed by the party waiving the breach, failure, right, or remedy. No waiver of any breach, failure, right, or remedy shall be deemed a waiver of any other breach, failure, right, or remedy, whether or not similar, nor shall any waiver constitute a continuing waiver unless the writing so specifies.

(7) Necessary Acts, Further Assurances

The parties shall at their own coats and expense execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to evidence or carry out the intent and purposes of this Agreement.

A majority of the Employer's Governing Body at a public meeting held on the \_\_\_\_\_ day of the month of \_\_\_\_\_ in the year \_\_\_\_\_, authorized entering into this Agreement.

Signature of the Presiding Officer: \_\_\_\_\_

Printed Name of the Presiding Officer:  Gary O. Phillips

Name of Governing Body:  City Council of the City of San Rafael

Name of Employer:  City of San Rafael

Date: \_\_\_\_\_

BOARD OF ADMINISTRATION  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BY \_\_\_\_\_  
RAND ANDERSON  
AFFILIATE PROGRAM SERVICES DIVISION  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

To be completed by CalPERS The effective date of this Agreement is: _____
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## **PARTICIPATION AGREEMENT**

### **REGARDING CITY OF SAN RAFAEL RETIREE MEDICAL TRUST 401(h) ACCOUNT**

This Participation Agreement regarding the City of San Rafael Retiree Medical Trust 401(h) Account (“Agreement”) is entered by and between the City of San Rafael, a political subdivision of the State of California (“CITY”) and the Marin County Employees’ Retirement Association (“MCERA” and “retirement system”), a public employees retirement system organized and existing pursuant to the County Employees Retirement Law of 1937, as amended, California Government Code Sections 31450 et seq. (“CERL”). CITY and MCERA are sometimes referred to herein individually as the “Party” or collectively as the “Parties.”

#### **RECITALS**

WHEREAS, MCERA provides and administers a multiple employer defined benefit pension plan for the active and retired employees of CITY, pursuant to CERL and other applicable law;

WHEREAS, CITY presently maintains a Retiree Medical Plan (“Retiree Medical Plan”) on behalf of its retired employees and their spouses and dependents. The Retiree Medical Plan assists career employees in maintaining health insurance coverage following their retirement from service;

WHEREAS, CITY provides for the funding of its Retiree Medical Plan through, among other things, a trust vehicle maintained by MCERA that is subject to favorable treatment under the Internal Revenue Code of 1986, as amended (the “Code”);

WHEREAS, in accordance with MCERA Resolution Nos. 2007-08-01 and 92/93-1, adopted under CERL by the MCERA Board of Retirement and affirmed by the Board of Supervisors of the County of Marin, and in accordance with the Code, MCERA makes available to participating employers a Code Section 401(h) account (the “401(h) Account”) to provide a funding mechanism for the retiree health benefits that are established by such employers solely for their former employees who retire under MCERA and their eligible spouses and dependents;

WHEREAS, MCERA has provided such a 401(h) Account in the form of a separate sub-account for CITY in connection with its retiree medical benefits (“CITY’s 401(h) Account”);

WHEREAS, CITY wishes to (1) establish its own retiree health trust under Section 115 of the Code (“CITY’s 115 retiree health trust”); (2) make the CITY responsible for paying all retiree health benefits that its retirees are eligible for, effective on a mutually agreed upon date, but no later than July 1, 2013; (3) relieve MCERA from any future obligations or liabilities to pay retiree health benefits, effective on a mutually agreed upon date, but no later than July 1, 2013; (4) direct MCERA to pay any remaining funds in the CITY’s 401(h) account to the CITY’s 115 retiree health trust, effective on a mutually agreed upon date, but no later than July 1, 2013 (collectively, “CITY Directives”).

WHEREAS, MCERA has sought and obtained approval from the Internal Revenue Service that permits it to comply with the CITY Directives under the Code; thus CITY may now

terminate the CITY's 401(h) Account in accordance with Government Code section 31694.1, subsection (g).

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

#### AGREEMENT

1. Recitals. The foregoing recitals are true and correct and incorporated herein by this reference.
2. Trust Account in MCERA. MCERA created on the books of the retirement system CITY's 401(h) Account, pursuant to Article 8.6 of CERL and Section 401(h) of the Code, for the exclusive purpose of funding the retiree health benefits provided by the CITY. MCERA has accounted for the assets and liabilities of the CITY's 401(h) Account separate and apart from the assets and liabilities of the retirement system, except for investment purposes as expressly provided for in this Agreement and as authorized by the Code. Assets in the CITY's 401(h) Account are not used for retirement, disability or death benefits or services related to the provision of those benefits, or for payments to any retired CITY employees and their spouses and dependents.
3. Benefits of the Retiree Medical Plan. CITY has been solely responsible for all of the following:
  - A. the level and amount of benefits available to participants;
  - B. the eligibility and participation of retirees, spouses and dependents;
  - C. the health plans to be offered to participants;
  - D. contributions to the 401(h) Account; and
  - E. the level of funding of the 401(h) Account to provide benefits under the Retiree Medical Plan.
4. Funding of the 401(h) Account. CITY has been solely responsible for contributing funds to the CITY's 401(h) Account.
5. Investment of Assets of the 401(h) Account.
  - A. MCERA invests the assets in the CITY's 401(h) Account together with the assets held in the retirement system to pay retirement, disability and death benefits, subject to the same policies and guidelines applicable to such other assets and subject to the requirements of the Code. MCERA accounts for investment gains and losses attributable to the 401(h) Account and reasonably allocates such gains and losses and expenses of investment and administration to CITY's 401(h) Account. Notwithstanding the foregoing, MCERA has no obligation to identify specific investments held by the 401(h) Account or to unitize any of the investment of assets of the 401(h) Account.



B. CITY acknowledges and agrees that MCERA's investment of assets of the 401(h) Account is and has been subject to all applicable investment policies and guidelines established for the investment of the assets held in the retirement system to pay retirement, disability and death benefits; and that such policies and guidelines are suitable and appropriate for the investment of assets in the 401(h) Account.

6. Expenses of Investment and Administration; Reporting. MCERA charges CITY's 401(h) Account with all expenses of investment and administration reasonably attributable to the 401(h) Account. MCERA regularly reports to CITY the nature and amount of such charges. CITY may directly reimburse MCERA for these expenses; MCERA may also debit the 401(h) Account for quarterly estimated charges in advance and reconcile such charges quarterly in arrears.

7. Interest Crediting. MCERA recognizes investment gains and losses in the CITY's 401(h) Account as they are incurred. The "adjusted beginning balance" is determined by subtracting any outflows during the month from, and adding any inflows during the month to, the monthly balance, prorated on the date made or received. The "time weighted rate of return" is determined by MCERA in a manner consistent with industry standards. MCERA notifies CITY within thirty (30) calendar days after the end of each quarter, or as soon as practicable thereafter, as to the amount of interest so credited (or losses so debited) to the 401(h) Account.

No assets or earnings held by MCERA for retirement, disability or death benefits are used to credit interest to or pay expenses of the 401(h) Account, and no assets or earnings held under the 401(h) Account are used to credit interest to or pay expenses of any assets held by MCERA to pay retirement, disability or death benefits.

8. Accounting and Auditing. MCERA accounts for the assets in the 401(h) Account on its books and records and makes such accounting available for CITY's inspection upon reasonable request during normal business hours. As of the end of MCERA's fiscal year, currently each June 30, MCERA provides CITY with an annual audited financial statement documenting the assets and liabilities and income and expenses of the 401(h) Account. All costs incurred in providing the accounting and audited financial statements are charged to the 401(h) Account as an administrative expense or may be paid to MCERA separately by CITY.

9. Termination of 401(h) Account. This Agreement and the 401(h) Account may be terminated in accordance with the provisions of this Paragraph.

A. As permitted by California Government Code section 31694.1, subsection (g), CITY intends to terminate participation in the 401(h) Account and will direct MCERA to transfer the funds held therein to a successor trustee that it will name.

B. CITY intends, no later than July 1, 2013 (1) to establish its CITY's 115 retiree health trust; (2) to make the CITY responsible for paying all retiree health benefits for which its retirees are eligible; (3) to relieve MCERA from any future obligations or liabilities to pay retiree health benefits; and (4) to direct MCERA to pay any remaining funds in the CITY's 401(h) account to the CITY's 115 retiree health trust.

10. Further Actions. Each Party shall take all actions and do all things, and execute, with acknowledgement or affidavit if required, any and all documents and writings, that reasonably may be necessary or proper to achieve the purposes and objectives of this Agreement and the CITY's 401(h) Account.

11. Governing Law. This Agreement and its enforcement shall be governed by both the laws of the State of California and the Code. To the extent the provisions of the Code are in conflict with the California law when interpreting this Agreement, this Agreement shall be interpreted in a manner that preserves the "tax-qualified" status of the 401(h) Account as determined by MCERA.

12. Operative and Effective Dates. This Agreement shall become operative on the full execution of this Agreement by authorized signatories of both Parties.

Dated: \_\_\_\_\_, 2013

Dated: \_\_\_\_\_, 2013

CITY OF SAN RAFAEL, a political  
subdivision of the state of California

MARIN COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION, a public  
retirement system

By \_\_\_\_\_

By \_\_\_\_\_

Print Name \_\_\_\_\_

Print Name \_\_\_\_\_

Its \_\_\_\_\_

Its \_\_\_\_\_

**DRAFT**



BARTEL ASSOCIATES, LLC

**CITY OF SAN RAFAEL**

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**Pension and OPEB  
Benefit Change Estimates**

**Doug Pryor, Vice President  
Bartel Associates, LLC**

May 24, 2013

**Content**

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## BENEFITS

### Pension

	Hire Date	Formula	COLA	FAP
<b>Miscellaneous</b>				
<b>Tier 1</b>	<7/1/11	2.7% <sup>@55</sup>	3%	1 year
<b>Tier 2</b>	7/1/11 - 1/1/13	2.0% <sup>@55</sup>	2%	3 year
<b>Tier 3</b>	≥ 1/1/13 <sup>1</sup>	2.0% <sup>@62</sup>	2%	3 year with cap <sup>2</sup>
<b>Safety</b>				
<b>Tier 1</b>	<7/1/11	3.0% <sup>@55</sup>	3%	1 year
<b>Tier 2</b>	7/1/11 - 1/1/13	3.0% <sup>@55</sup>	2%	3 year
<b>Tier 3</b>	≥ 1/1/13 <sup>1</sup>	2.7% <sup>@57</sup>	2%	3 year with cap <sup>2</sup>

<sup>1</sup> New members on or after 1/1/13.

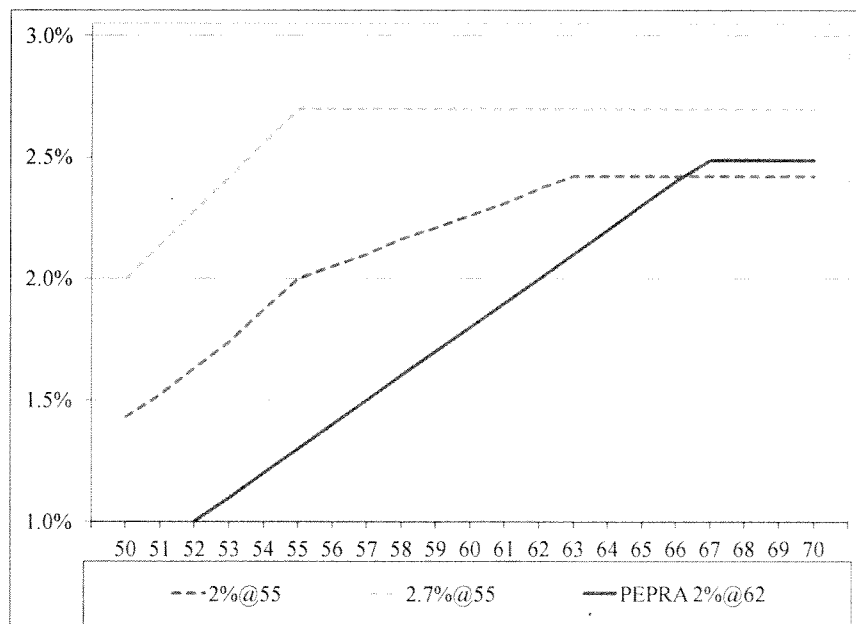
<sup>2</sup> Annual compensation limited to \$136,440 in 2013; indexed with CPI in future years.



## BENEFITS

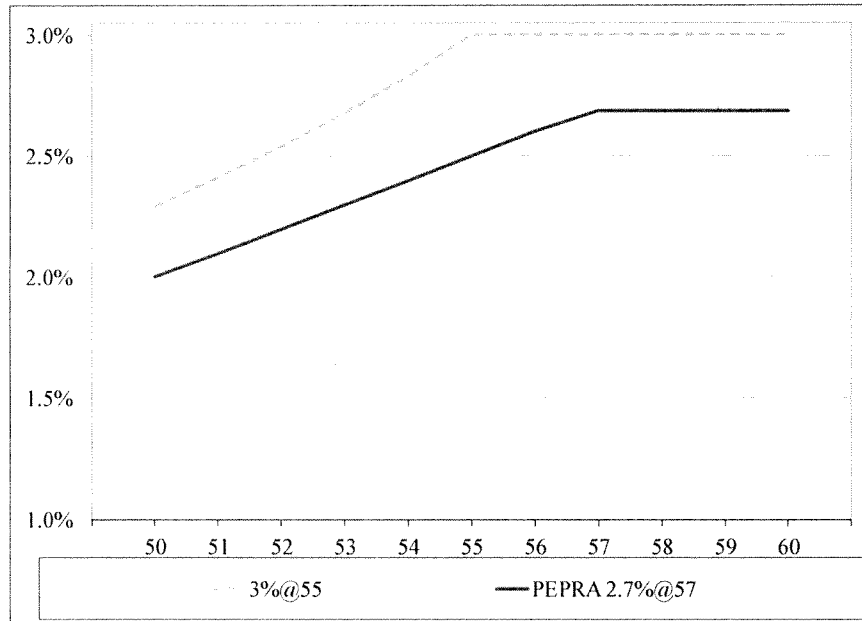
### Pension

#### Miscellaneous Benefit Factors



**BENEFITS**

**Pension  
Safety Benefit Factors**



**BENEFITS**

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**BENEFITS**

**OPEB**

	<b>Hire Date</b>	<b>Formula</b>
<b>Elected Officials, Unrepresented Mid Management &amp; Management</b>		
<b>Tier 1</b>	<1/1/09	Full premium/cap
<b>Tier 2</b>	≥ 1/1/09	PEMHCA Minimum (\$115/month in 2013)
<b>All Other Groups</b>		
<b>Tier 1</b>	<1/1/10	Cap
<b>Tier 2</b>	≥ 1/1/10	PEMHCA Minimum (\$115/month in 2013)



**BENEFITS**

**OPEB**

<b>Bargaining Unit</b>	<b>Monthly Cap</b>	<b>Min Date<sup>3</sup></b>
SEIU Child Care Unit	\$543	1/1/10
Unrepresented Mid-Management Employees	Retired < 12/1/01: \$442 Retired ≥ 12/1/01: Full prem Hired ≥ 4/1/07: \$600	1/1/09
San Rafael Fire Chief Officer's Association	\$557	1/1/10
San Rafael Firefighters' Association, I.A.F.F., Local 1775	\$557	1/1/10
San Rafael Police Association	\$386	1/1/10
San Rafael Police Mid-Management Association	\$566	1/1/10
SEIU 1021	\$752	1/1/10
Public Employees Bargaining Unit (PEU) Local 1	\$659	1/1/10
Unrepresented Management Employees and Council City Clerk and Elected Part-Time City Attorney	Hired < 4/1/07: Full prem Hired ≥ 4/1/07: \$600	1/1/09
Western Council of Engineers (WCE)	\$752	1/1/10

<sup>3</sup> Employees hired on or after date receive only PEMHCA minimum (\$115 in 2013).



## PROJECTIONS

### Data

#### ■ MCERA Information

- June 30, 2003 actuarial valuation report
- June 30, 2006 actuarial valuation report
- June 30, 2011 actuarial valuation report

	Misc.	Safety	Total
➤ Active Members	240	124	364
➤ Active Payroll (in \$000s)	\$17,555	\$14,408	\$31,963

- EFI PEPRA Cost Analysis (dated 12/11/12)
- Tier 2 Normal Cost summary

#### ■ OPEB Information

- June 30, 2011 GASB 45 OPEB actuarial valuation



## PROJECTIONS

### OPEB Savings

- Measured by benefits paid to retirees
- 2012 Council resolution freezing caps  
(previously assumed annual 3.25% CPI increase)
- 2009 and 2010 Tier 2 PEMHCA minimum benefit implemented
- Benefits paid to retirees not affected by 401(h) investments



## PROJECTIONS

### Pension Savings

- Measured by City Normal Cost to MCERA
- Include net remaining savings/cost from benefit enhancements:
  - 2003 valuation Miscellaneous benefit increase 2%<sub>@58.5</sub> to 2.7%<sub>@55</sub>  
(5% City payment towards employee contribution eliminated)
  - 2003 valuation Police benefit increase 2%<sub>@50</sub> to 3%<sub>@55</sub>  
(7% City payment towards employee contribution eliminated)
  - 2006 valuation Fire benefit increase 2%<sub>@50</sub> to 3%<sub>@55</sub>  
(7% City payment towards employee contribution eliminated)
- 7/1/11 Tier 2 plan change
- 1/1/13 PEPRA benefit change
- 2018 increase employee contributions
  - Assumes City imposes cost sharing for current members in 2018.
  - Optional under PEPRA
  - Approximately 0.8% for Miscellaneous, and 3% for Safety



## PROJECTIONS

### Methods

- Assumptions from 6/30/11 actuarial valuations:
  - 3.25% annual payroll growth
  - Payroll in 2011 MCERA report assumed for 2013/14
- Not included in calculations:
  - Savings/cost before 2013/14 not included
  - Impact of later retirement under PEPRA not included in OPEB savings projections





**PROJECTIONS**

**Pension  
Benefit Enhancement Cost Impact Summary<sup>4</sup>**

	<b>Normal Cost</b>	<b>UAAL Amortization<sup>5</sup></b>	<b>Total</b>
■ Miscellaneous	3.0%	7.2%	10.2%
■ Safety			
● Police	2.5% <sup>6</sup>	8.2%	10.7%
● Fire	2.5%	8.4%	10.9%

<sup>4</sup> Estimates derived from 6/30/03 (Miscellaneous and Police) and 6/30/06 (Fire) actuarial valuation reports.

<sup>5</sup> Estimated using 6/30/06 (Fire) actuarial valuation impact.

<sup>6</sup> Primarily due to 16 to 17 year rolling amortization method, payroll changes, and investment return, estimated 2013/14 payments are 6.7%, 8.1%, and 8.5% for Miscellaneous, Police and Fire, respectively.



May 24, 2013



**PROJECTIONS**

**Pension  
Normal Cost Summary**

	<b>City</b>	<b>Employee</b>	<b>Total</b>
■ Miscellaneous			
● Hired < 7/1/11	13.7%	11.0%	24.7%
● Hired 7/1/11-12/31/12	10.9%	7.1% <sup>7</sup>	18.0%
● Hired ≥ 1/1/13 <sup>8</sup>	8.4%	8.3%	16.7%
■ Safety			
● Hired < 7/1/11	20.1%	12.0%	32.1%
● Hired 7/1/11-12/31/12	19.3%	10.8% <sup>9</sup>	30.1%
● Hired ≥ 1/1/13	12.4%	12.5%	24.9%

<sup>7</sup> Estimated based on member rate for average entry age.

<sup>8</sup> Normal Cost rates apply to PEPRAs limited pay.

<sup>9</sup> Estimated based on member rate for average entry age.

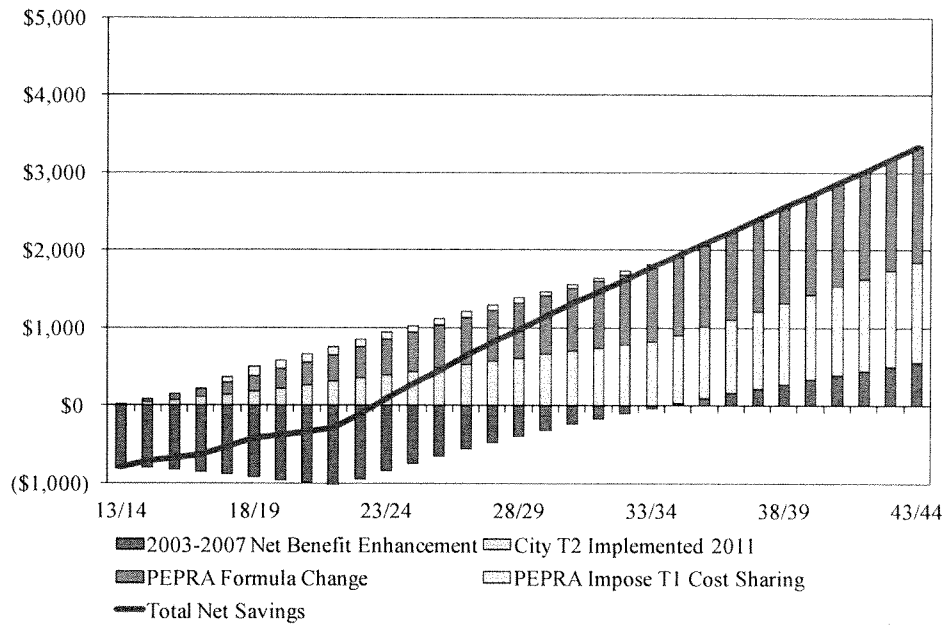


May 24, 2013



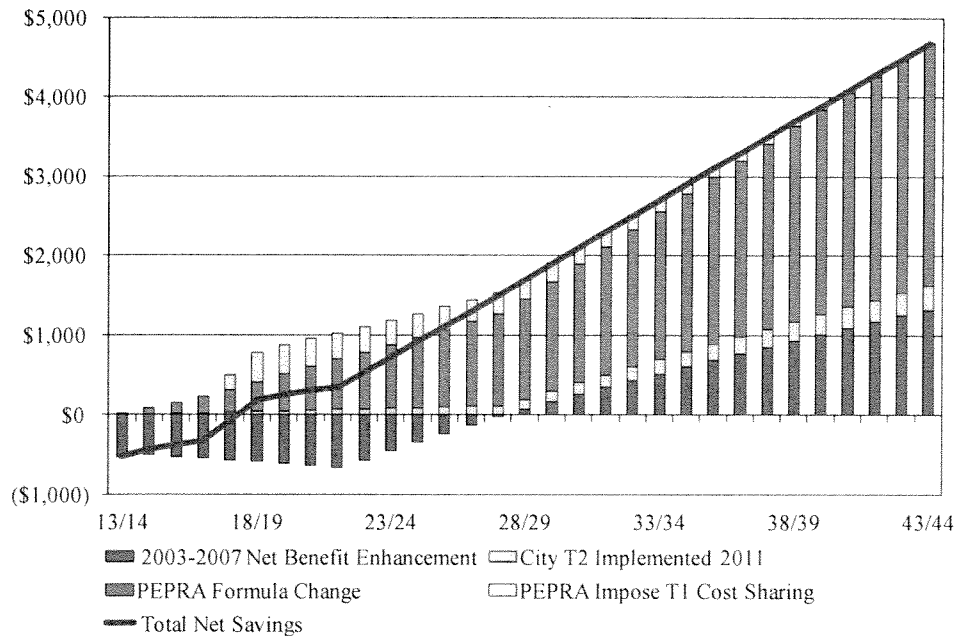
PROJECTIONS

**Pension  
Miscellaneous Savings**  
(in 000's)



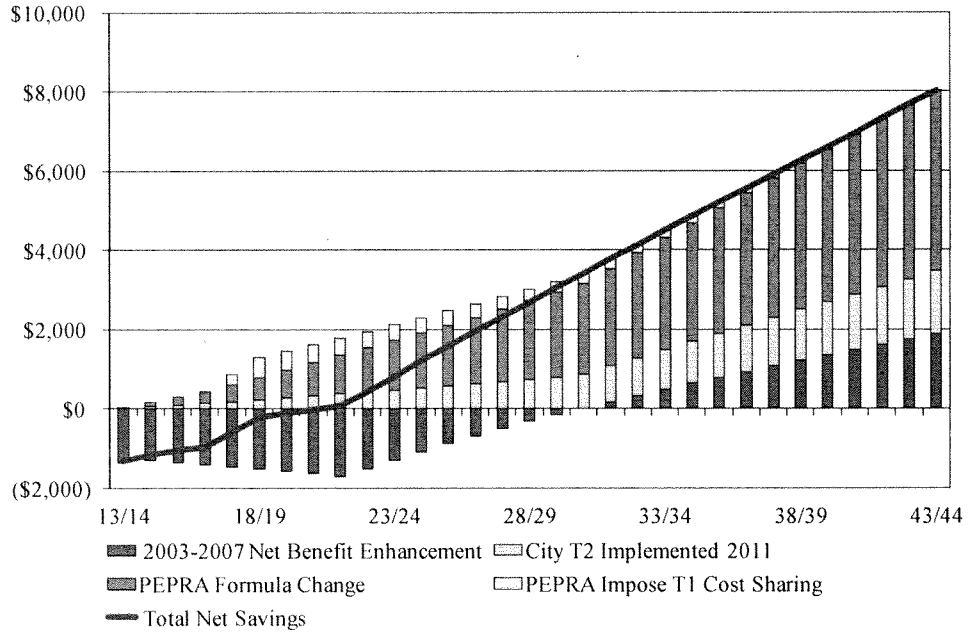
PROJECTIONS

**Pension  
Safety Savings**  
(in 000's)



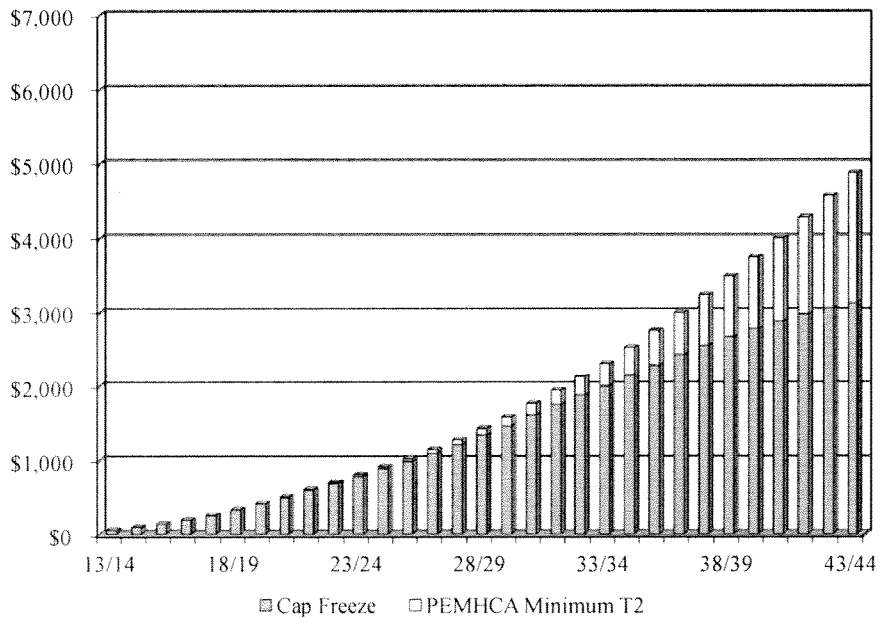
## PROJECTIONS

### Pension Total Savings (in 000's)



## PROJECTIONS

### OPEB Total Savings (in 000's)



**PROJECTIONS**

**Pension and OPEB  
30-year Total Savings  
(in 000's)**

	Savings/(Cost)
■ Pension	
• 2003-2007 benefit enhancements	\$ (101,600)
• Eliminate 5%/7% City contribution on member rate	93,500
• 7/1/11 Tier 2 plan change <sup>10</sup>	21,700
• 1/1/13 PEPRA benefit change	60,300
• 2018 increased employee contributions	<u>6,800</u>
• Total	80,700
■ OPEB	
• 2012 Council Resolution #13344 freezing caps	41,900
• 2009 and 2010 Tier 2 PEMHCA minimum benefit	<u>9,300</u>
• Total	51,200
■ Total	131,900

<sup>10</sup> For employees hired on or after 7/1/11, Final Average Pay changed from 1 year to 3 year average, COLA changed from 3% to 2% and Miscellaneous benefit formula changed from 2.7%@55 to 2.0%@55.



**PROJECTIONS**

**Pension and OPEB  
30-year Total Savings  
Illustrative Present Value  
(in 000's)**

	Discount Rate	
	4%	5%
■ Pension	\$ 31,100	\$24,500
■ OPEB	22,600	18,700
■ Total	53,700	43,200



**PROJECTIONS**

**Pension and OPEB  
Total Savings Comparison (30-year)**  
(in 000's)

	Total Projected City Payments		Savings	
	Before Reforms	After Reforms	Dollar	Percent
■ Pension	\$ 586,000 <sup>11</sup>	\$ 505,000	\$ 81,000	14%
■ OPEB	151,000	100,000	51,000	34%
■ Total	737,000	605,000	132,000	18%

<sup>11</sup>Estimated based on MCERA 30 year contribution projections.  
Assumes EFI projections do not include impact of Tier 2.



