Third Report of the Pension Subcommittee of the City Council
for the City of Rancho Palos Verdes

Summary of Meeting of July 1, 2011

Members: Councilmember Steve Wolowicz and Mayor Tom Long

Consultants: Andy Belknap and Tim Sullivan, Management Partners, Inc.

The Subcommittee reaffirms its observations from its initial two reports. For ease of reference those two reports are attached.

Goals of the project

- Consider recommendations to the Council for possible changes in RPV's pension structure to assure long term sustainability that does not expose the City to risk of litigation or deteriorated employee relationships.
- Provide the Subcommittee with advice and confirmation of issues that the Subcommittee has encountered during the preliminary gathering of information. Also include comments and advice as to the potential implementation or probable roadblocks of the adoption of a defined contribution-type plan.
- Sustainability generally means ensuring that pension expenditures become a predictable and generally flat percentage of payroll.
- Management Partners will assist the Council Subcommittee in reaching a recommendation and will prepare further interim reports after each meeting with the sub-committee.
- Present a final report to the City Council in September, ideally at the first meeting of that month.

Areas to consider in formulating recommendations:
Given the preliminary information obtained by the Subcommittee, the Consultants are to provide advice as to the expected viability of adopting an expected "second tier" defined benefit plan for new employees.

- Whether to move from a single highest year salary basis to a three year average salary basis.
- How to provide protection against any possible retirement spiking, by for example converting vacation or sick leave into compensable pay for purposes of retirement calculation
- Whether to offer a one-time 5% salary increase in exchange for increasing employee contribution from 1.5% currently as follows:
    - Current employees pay 8% retirement contribution and stay in 2.5% @ 55 plan
    - Future employees pay 8% retirement contribution and move to 2% @ 55 plan or 2% @ 60 plan.

- Whether to offer a Second Tier Plan to current employees on a voluntary basis with some incentive such as lower contribution rate or employer matching in a Deferred Compensation plan. Also consider employer matching in a Deferred Compensation plan generally for the possible Second Tier Plan.
- Determine how to ensure that any new pension plan does not require Social Security coverage

Desired action items:

- Examine and comment on assumptions in the Subcommitee's two prior reports.
- Confirm staff's data as submitted to the Subcommittee and the Consultant.
- Determine the City's actual turnover rate for the past 10 years.
- Determine if the annuity percentage for 2.5% @ 55 and 2% @ 55 even out at any age.
- Cite potential pension reform ballot issues (David Crane and Marcia Fritz or other credible expected sponsors of pension reform initiatives likely to be proposed to California voters) in the report.
- Explore the assumption and explain why it is not feasible or practical to move beyond the concept of sustainability (i.e., a defined contribution play).
- Establish the credibility of the data and numbers.
- Determine which cities to include in comparisons:
    - Coastal contract cities without public safety employees
    - Those with similar demographics
    - General Law
    - High cost of living
- Show the experience agencies with their own pension plans (e.g., Orange County) have had.
- Gather historical records of CalPERS contributions for unfunded future liability.
- Address the issue which some raise that pension reform must come from the State level.
- Be able to say to staff, "Yes, these changes will cost you more but it will assure plan sustainable. You don't want to be a member of a retirement plan that is not sustainable. "
- Also be able to explain the reasons that now exist which are likely and valid reasons which now prevent discontinuation of defined benefit plans in favor of defined contribution plans.

Questions to answer by the Consulting Advisors:

- If the City moves to a two tier plan (2.5% @ 55 for current employees and 2% @ 55 for new employees with all employees paying 8% retirement contribution) will they reach a level percentage of payroll within 3-5 years? If not what would be a reasonable period of time within which to reach a level percentage of payroll?
- Assess the uncertainties associated with CalPers including:

- Variability / volatility of contribution rates?
- Unfunded future liability? Note: It is expected that the Advisors must be prepared to fully explain the importance or lack of importance as to this issue,

- What is the status of the IRS ruling on Orange County?
- For the possible new Second Tier Plan, is it possible to include a voluntary DC Plan (457 Plan)?
- Can a 2% @ 60 Plan be enriched by adding a deferred compensation component?
- Is it legal and otherwise advisable for the City to make contributions to a deferred compensation plan based on age or years of service (as an incentive for staff to work beyond age 55)?
- A critical and important part of the consultants' advice includes a full description of all viable, legal and practical alternative retirement plans which reasonably considered for adoption by the City.

<u>Timeline:</u>

Develop a draft report for review by the Council Subcommittee, in advance of a final report presentation for the September 6, 2011 Council meeting.