



# **Police Pension Plan Transition to LAGERS**

## **City Council Work Session**

*October 26, 2009*

# General Overview

- **The Mayor, City Council, and employees are committed to meeting the needs of our community through professional leadership and operational excellence**
- **City employees are the greatest resource to delivering the services desired by our citizens**

# General Overview

- **City must take actions that are in the interest of the department's (City) future**
- **Every employee's situation is different – must do what is in the best interest of the whole (department / City)**
- **Need to address pension issue is not limited to Police Department**

# General Overview

- **There is a finite amount of resources to address the needs of the community – need to establish priorities for preparation of next year's budget**
- **There are no magical, quick fix solutions. Problems created over several years will have to be addressed over several years**

# General Overview

- **The Mayor and City Council are the final decision makers regarding employee benefits, including pension plans**
- **The purpose of this presentation is to provide background information and seek direction from Council regarding preparation of FY 2011 budget**

# Need to Address the Problem

- **Police Pension fund is actuarially underfunded\***
  - 67.1% Police Pension
  - 82.7% Fire
  - 94.5% LAGERS
- **Department is experiencing turnover in staff**
  - 17 officers hired since January 1, 2006
  - 5 officers hired did not pass field training program
  - 7 vacancies were created by officers taking positions w/ other departments, 3 vacancies by officer resignations
  - 6 vacancies were result of retirement

\* - Figures taken from 2008 presentation

# Need to Address the Problem

- **Employee benefits are instrumental to recruiting quality candidates**
- **Essential to retaining seasoned officers**
- **Police Department spends approximately \$30,000 training new employees\*\***
  - 14 weeks salary attending academy
  - 14 weeks field training
  - Certification on fire arms and other equipment

*\*\* Does not include the time of the field training officer or time spent by employees doing background checks*

# Options Previously Considered

- **Transition entire plan to LAGERS**
  - Cost to purchase annuities was estimated at \$5.3 M. Plan had \$4.8 M in assets
  - LAGERS contribution rate was estimated at 24% of payroll (\$400,000 additional cost)
- **Would have ended City managed pension fund**
- **Was determined to be cost prohibitive**

# Option Currently Being Considered

## ➤ Transition pension from a fixed date forward to LAGERS

- After established date all employees (existing and future) participate in LAGERS
  - New hires automatically enrolled in LAGERS
  - Existing employees begin earning YOS in LAGERS
- Existing employees have their YOS in Police Pension plan vested
- Is a long term transition plan – Police Pension plan will exist for many years to come

# Employee Impact Examples

- **Employee with 23 years of service, works for an additional 3 years**
  - Payment from Police Pension plan calculated based upon 23 years of service, and second payment from LAGERS calculated based 3 years of service
- **Employee with 15 years of service, works for an additional 10 years**
  - Payment from Police Pension plan calculated based upon 15 years of service, and second payment from LAGERS calculated based upon 10 years of service

# Employee Impact Examples

- Years of service in the Police Pension plan count towards vesting in LAGERS, but do not count towards benefit calculations
- Over an extended period of time the Police Pension plan will fulfill its obligations and can be eliminated at some future date

# Impairment Issues

- **Transitioning from one pension plan to the other cannot reduce the benefits offered (legal interpretation)**
- **Example**
  - Full retirement through the Police Pension is at age 52 whereas LAGERS is at age 55.
  - Employees are willing resolve impairment issues for the benefits offered through LAGERS (annual COLA)

# Budget Impact of Current Proposal

- **Employees would discontinue contribution to Police Pension fund - \$15 / month / employee (\$7,920 annual contribution)**
  - Employee funds previously contributed would remain in the pension fund as they will draw from pension at future date
- **Contribution to LAGERS would be paid from General Fund**
  - Estimated contribution rate of 15% of payroll (projected contribution of \$260,000 for coming fiscal year)

# Addressing Unfunded Liability

- **Transitioning the plan does not fully resolve unfunded liability issues**
  - Liability for existing years of service will continue increasing unless wages for benefit calculation purpose are frozen
  - Existing obligations are greater than plan revenues – eroding principal
- **Will require additional contributions from City to fulfill obligations to pension plan**
- **Begins transferring liability from the Police Pension Plan to the General Fund**

# Addressing the Unfunded Liability

- **Dedicated property tax for Police Pension fund will continue until all obligations are fulfilled**
- **Contributions to LAGERS would be paid from the General Fund as part of the Police Department's annual operating budget (similar to other employees)**
- **Additional revenues to Police Pension will be needed to ensure viability of the pension fund**
  - Amounts and timing of contribution still to be determined

# **Steps / Actions Required to Initiate Transition to LAGERS**

- **LAGERS must perform updated actuarial study to determine contribution rate (Requested earlier this month)**
- **Ordinance amending Police Pension Plan to achieve vesting of years of service for all employees and resolving any impairment issues (e.g. 22 and out).**
  - Amending the benefits would require actuarial study to determine the impact to the fund

# Next Steps

- **Questions or concerns regarding the overview of the proposal to transition Police Department to LAGERS**
- **Direction to staff regarding preparation of the FY2011 budget**

