TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES
DATE: JULY 17, 2006 CMR: 301:06
SUBJECT: RESOLUTION OF INTENTION AND FIRST READING OF AN ORDINANCE TO AMEND THE CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM CONTRACT TO IMPLEMENT THE PRE-RETIREMENT OPTIONAL SETTLEMENT 2 DEATH BENEFIT FOR THE INTERNATIONAL ASSOCIATION OF FIREFIGHTERS, LOCAL 1319

RECOMMENDATION

Staff recommends that Council approve the attached resolution stating its intent to amend the contract between the California Public Employees’ Retirement System (CalPERS) and the City of Palo Alto to provide Section 21548 Pre-Retirement Optional Settlement 2 Death Benefits for City fire employees. This report also requests that Council hold the first reading of an ordinance to amend said contract as indicated.

BACKGROUND

The City of Palo Alto contracts with CalPERS to provide a retirement plan and benefits for regular employees. As a contracting agency, the City may amend its contract to provide various optional benefits offered by CalPERS, one of which being the Pre-Retirement Optional Settlement 2 Death Benefit. This benefit was negotiated by the International Association of Firefighters (IAFF), Local 1319 in 2004 when the City agreed to amend its contract with CalPERS to provide IAFF employees Section 21548 Pre-Retirement Optional Settlement 2 Death Benefits no later than June 30, 2006. Council authorized this benefit change when it approved the resolution to adopt the Memorandum of Agreement with IAFF, Local 1319 on August 9, 2004. (CMR 382:04.)

DISCUSSION

The Pre-Retirement Optional Settlement 2 Death Benefit allows the spouse or domestic partner of a member who dies before retirement but who was age-eligible to retire for service at the time of death to elect an alternative to the lump sum Basic Death Benefit. The alternative provides a monthly allowance equal to the amount the member would have received if he or she had retired from service on the date of death and elected the highest monthly allowance a member can leave a spouse or domestic partner. In order to amend the CalPERS contract to permit this alternative for IAFF members, CalPERS regulations require that Council approve a Resolution of Intention giving public notice of the intention to approve a specified amendment to the CalPERS contract. The CalPERS
contract must be amended by ordinance, the first reading of which may be done concurrently with the Resolution of Intention, with a second reading no earlier than 20 days after adoption of the Resolution of Intention.

**RESOURCE IMPACT**

Amending the CalPERS contract for City fire members to provide Section 21548, Pre-Retirement Optional Settlement 2 Death Benefit, increases the accrued liability of the retirement plan benefits by $131,296 and increases the present value to $212,404 over a 20-year period. This change will increase the City’s employer contribution rate by 0.118% according to the CalPERS actuarial cost analysis conducted in February 2006, which used 2004 data as the valuation basis. This change represents an increase of approximately $12,000 annually over the City’s current payment for the employer share of pension costs. This increase is in contrast to the previous CalPERS actuarial cost analysis presented in 2004, which used 2002 data as the valuation basis, when CalPERS estimated the increase in the accrued liability of the retirement plan benefits to be $26,428 with an increase in the present value of $43,814, representing an approximate $4,000 increase to the City’s annual pension contribution. The resulting increase over the 2002 change to annual cost is estimated at $8,000. According to CalPERS, since the 2002 valuation, its assumptions changed based on the firefighters demographic profile, which now indicates a projected retirement age greater than 50. This change increases the City's exposure for payment of this death benefit and, accordingly, increases the annual cost. The 2006-2007 Adopted Budget has sufficient funds to cover the $12,000 annual cost for this benefit and no additional budget adjustments are necessary.

**POLICY IMPLICATIONS**

This request represents a change to the contract between the California Public Employees’ Retirement System (CalPERS) and the City of Palo Alto.

**ENVIRONMENTAL REVIEW**

This is not a project under the California Environmental Quality Act (CEQA).

**ATTACHMENTS**

2. Resolution of Intention to approve an amendment to the contract between the California Public Employees’ Retirement System (CalPERS) and the City of Palo Alto to provide Section 21548, Pre-Retirement Optional Settlement 2 Death Benefit for local fire employees, IAFF, Local 1319.
3. Ordinance Authorizing An Amendment to the Contract between the California Public Employees’ Retirement System (CalPERS) and the City of Palo Alto.