



City of San Diego

Retiree Medical Proposal

City Council Presentation

May 13, 2011

Retiree Medical Options

- Purpose of Analysis
- Description of Options Studied
- Comparison of Options
- Appendix

Purpose of Presentation

- This presentation describes the Tentative Agreement and compares it to the current retiree medical program as well as the City's LBFO position
- The analysis is based on the June 30, 2010 valuation that was presented to the City on November 12, 2010
- It is critical to note that the analysis is based on long term projections and actual results will vary based on the actual experience of the plan

Definitions

- AAL – Accrued Liability for the Retiree Health Benefit
- UAAL – Unfunded Accrued Liability (AAL less Trust Assets)
- Trust Assets – value of assets in the California Employers' Retiree Benefit Trust (CERBT) Fund (administrated by CalPERS)
- ARC – Annual Required Contribution (Accounting expense item with no requirement to actually fund)
- PAYGO – the cash cost each year needed to provide the Retiree Health Benefit
- Trust Contribution – the annual amount the City contributes to the CERBT
- Health Reimbursement Account (HRA) – the trust vehicle used to hold the individual retiree accounts

Description of Information Provided

- The current Retiree Health Benefit Program as it exists today
 - We show the AAL, UAAL, and ARC both in total and by bargaining unit
 - The liability for the active employees is specific to each bargaining unit
 - The liability for the deferred terminated employees is allocated based on the active liabilities as the data provided by SDCERS does not show bargaining unit
 - The liability for the Safety retirees is specific to each bargaining unit, but the General retirees are allocated based on the active liabilities as the data provided by SDCERS does not show bargaining unit for these employees

Description of Information Provided

- City's LBFO Position
 - Keep the current plan for existing retirees
 - Provide a maximum benefit of \$8,880 per year with no inflator for active and term-vested employees who were hired before January 1, 1982 (528) and for active and term-vested employees who were hired after January 1, 1982 but are within 1 year of meeting the age and service requirements for retirement benefits as of July 1, 2011(980)
 - Change the minimum age to receive benefits for all active employees not within one year of retirement eligibility to age 55 for Safety and 60 for General employees
 - Based on an estimated \$57.0 million of annual funding, provide a maximum benefit of \$5,500 per year with no inflator for all other eligible active and term-vested employees

Description of Information Provided

- Proposed Tentative Agreement
 - Keep the current plan for existing retirees
 - Extend the current “freeze” for one year (through Fiscal 12)
 - Provide three Options for the current, eligible employees that begin in Fiscal Year 13
 - Option A - Provide a maximum benefit of \$8,880 per year with a 2% inflator; employees would contribute \$100 per month to participate in this option
 - Option B – Provide a maximum benefit of \$5,500 per year with no future inflator; employees would contribute \$50 per month to participate in this option
 - Option C – Provide an HRA account that provides a target annual benefit of \$8,500 per year; the account would be funded in the year the employee reaches eligibility for the benefit (age 55 with 20 years of service for General employees and age 50 with 20 years of service for Safety employees); there is no employee contribution to participate in this option

Description of Information Provided

- Proposed Tentative Agreement (Continued)
 - For all benefit eligible active employees (7,440 employees hired on or before June 30, 2005)
 - Those employees who are age and service eligible to retire on or before April 1, 2012 AND those employees who have 25 or more years of service on April 1, 2012 will make a one time election to participate in either Option A, Option B or Option C.
 - All other benefit eligible employees will make a one time election to participate in either Option B or Option C; these employees cannot participate in Option A.
 - We expect that 30% of the employees would elect Option A, 30% would elect Option B and 40% would elect Option C.
 - City funding for this benefit would not exceed the actual FY11 budget of \$57.782 million in Fiscal 12 through 16.

Summary of the Scenarios

- Table 1 summarizes the impact on the liability for the three plans
- The City's LBFO position decreases:
 - the UAAL by \$341 million as compared to the Current Plan
 - the ARC by \$33 million as compared to the Current Plan
- The Tentative Agreement decreases:
 - the UAAL by \$330 million as compared to the Current Plan
 - the ARC by \$33 million as compared to the Current Plan

Summary of the Scenarios

- When comparing the total City cash cost for the 25 year period beginning fiscal 12 and ending fiscal 36
 - The total cash cost under the Current Plan is projected to be \$2.49 billion
 - The total cash cost under the City's LBFO position is projected to be \$1.43 billion
 - This is a savings of \$1.06 billion as compared to the Current Plan
 - The total cash cost under the Tentative Agreement is projected to be \$1.72 billion
 - This is a savings of \$770 million as compared to the Current Plan
 - This is an increase of \$294 million as compared to the City's LBFO position
 - The total cash cost includes the amounts needed to fund the HRA accounts

Summary of the Scenarios

Valuation Results As of June 30, 2010

	<u>Current Plan</u>	City's <u>LBFO Position</u>	Tentative <u>Agreement</u>
AAL			
Retiree	\$547,447,309	\$547,447,309	\$547,447,309
Deferred Terms	\$72,027,609	\$35,469,820	\$0
Actives	\$581,435,239	\$277,358,871	\$323,210,039
Total	\$1,200,910,157	\$860,276,000	\$870,657,348
Assets	\$72,720,145	\$72,720,145	\$72,720,145
UAAL	\$1,128,190,012	\$787,555,855	\$797,937,203
Normal Cost	\$13,461,973	\$5,493,548	\$4,644,884
ARC	\$96,039,709	\$63,138,607	\$63,049,804
Number of Participants			
Retiree	5,416	5,416	5,416
Deferred Terms	800	800	800
Actives	7,440	7,440	7,440

Summary of the Scenarios

	Approximate Annual City Funding	Current retirees	“Grandfathered Group”	All other employees hired before 7/1/2005
Current Plan	\$40 to \$133 Million	Defined benefit with cost inflator	Defined benefit with cost inflator except POA and Local 127 who have a fixed \$8,880 benefit with no inflator	Defined benefit with cost inflator except POA and Local 127 who have a fixed \$8,880 benefit with no inflator
City’s LBFO Position	\$57 Million	Defined benefit with cost inflator	Employees who meet age and service eligibility as of June 30, 2012 OR who were hired before January 1, 1982 have a defined benefit of \$8,880 with no cost inflator	All other benefit eligible employees have a defined benefit of \$5,500 with no cost inflator
Tentative Agreement	\$57 to \$88 Million	Defined benefit with cost inflator	<p>Employees who meet age and service eligibility or have 25 years of service as of 4/1/12 Irrevocable choice between 3 options</p> <p>Option A - \$8,880 benefit with 2% inflator and \$100 per month contribution</p> <p>Option B - \$5,500 benefit with 0% inflator and \$50 per month contribution</p> <p>Option C – HRA account with target \$8,500 benefit that is funded at time of retirement eligibility with no per month contribution</p>	<p>All other benefit eligible employees have an irrevocable choice between 2 options</p> <p>Option B - \$5,500 benefit with 0% inflator and \$50 per month contribution</p> <p>Option C – HRA account with target \$8,500 benefit that is funded at time of retirement eligibility with no per month contribution</p>

APPENDIX

25 Year Cash Flows - Current Plan

<u>Fiscal</u>		<u>Deferred</u>		
<u>Year Ending</u>	<u>Retiree</u>	<u>Term</u>	<u>Active</u>	<u>Total</u>
2012	\$39,114,460	\$261,602	\$6,967,549	\$46,343,611
2013	\$40,212,615	\$392,111	\$10,823,466	\$51,428,192
2014	\$41,219,139	\$507,512	\$14,523,543	\$56,250,194
2015	\$42,119,601	\$684,445	\$18,432,084	\$61,236,130
2016	\$42,712,484	\$876,099	\$22,687,227	\$66,275,810
2017	\$43,250,048	\$1,174,724	\$26,949,763	\$71,374,535
2018	\$43,611,815	\$1,673,888	\$31,239,103	\$76,524,806
2019	\$43,867,413	\$2,271,827	\$35,389,964	\$81,529,204
2020	\$43,796,803	\$2,974,377	\$39,640,459	\$86,411,639
2021	\$43,665,874	\$3,568,306	\$43,953,750	\$91,187,930
2022	\$43,504,141	\$4,259,265	\$48,209,856	\$95,973,262
2023	\$43,340,204	\$4,924,766	\$52,385,896	\$100,650,866
2024	\$43,101,727	\$5,624,164	\$56,677,764	\$105,403,655
2025	\$42,747,149	\$6,326,570	\$60,711,316	\$109,785,035
2026	\$42,234,832	\$7,122,113	\$64,639,385	\$113,996,330
2027	\$41,634,295	\$7,991,164	\$68,478,052	\$118,103,511
2028	\$40,841,095	\$8,649,743	\$71,827,262	\$121,318,100
2029	\$39,943,200	\$9,284,427	\$74,964,963	\$124,192,590
2030	\$38,915,468	\$9,760,187	\$77,916,963	\$126,592,618
2031	\$37,741,658	\$10,371,127	\$80,618,880	\$128,731,665
2032	\$36,445,674	\$10,866,800	\$83,099,862	\$130,412,336
2033	\$34,999,385	\$11,252,088	\$85,200,068	\$131,451,541
2034	\$33,461,992	\$11,712,730	\$87,130,163	\$132,304,885
2035	\$31,767,049	\$12,024,748	\$88,531,861	\$132,323,658
2036	\$29,992,318	\$12,289,649	\$89,544,839	\$131,826,806

25 Year Cash Flows - City's LBFO Position

Fiscal Year Ending	Current Plan	Defined Benefit	Beginning of Year	CalPERS Trust			Total City Cost
				City Additions	City Withdrawals	End of Year	
2012	\$46,343,611	\$45,584,030	\$103,355,956	\$11,415,970	\$0	\$122,782,013	\$57,000,000
2013	\$51,428,192	\$49,193,873	\$122,782,013	\$7,806,127	\$0	\$140,103,746	\$57,000,000
2014	\$56,250,194	\$52,221,678	\$140,103,746	\$4,778,322	\$0	\$155,740,108	\$57,000,000
2015	\$61,236,130	\$55,144,755	\$155,740,108	\$1,855,245	\$0	\$169,665,212	\$57,000,000
2016	\$66,275,810	\$58,092,359	\$169,665,212	\$0	\$1,092,359	\$181,721,906	\$57,000,000
2017	\$71,374,535	\$61,411,944	\$181,721,906	\$0	\$4,411,944	\$191,393,410	\$57,000,000
2018	\$76,524,806	\$64,599,312	\$191,393,410	\$0	\$7,599,312	\$198,627,088	\$57,000,000
2019	\$81,529,204	\$67,247,413	\$198,627,088	\$0	\$10,247,413	\$203,773,274	\$57,000,000
2020	\$86,411,639	\$69,475,782	\$203,773,274	\$0	\$12,475,782	\$207,089,921	\$57,000,000
2021	\$91,187,930	\$71,691,300	\$207,089,921	\$0	\$14,691,300	\$208,448,090	\$57,000,000
2022	\$95,973,262	\$73,839,203	\$208,448,090	\$0	\$16,839,203	\$207,763,614	\$57,000,000
2023	\$100,650,866	\$75,824,176	\$207,763,614	\$0	\$18,824,176	\$205,041,118	\$57,000,000
2024	\$105,403,655	\$77,625,276	\$205,041,118	\$0	\$20,625,276	\$200,306,529	\$57,000,000
2025	\$109,785,035	\$79,215,353	\$200,306,529	\$0	\$22,215,353	\$193,614,932	\$57,000,000
2026	\$113,996,330	\$80,468,835	\$193,614,932	\$0	\$23,468,835	\$185,151,255	\$57,000,000
2027	\$118,103,511	\$81,436,590	\$185,151,255	\$0	\$24,436,590	\$175,063,887	\$57,000,000
2028	\$121,318,100	\$81,961,327	\$175,063,887	\$0	\$24,961,327	\$163,670,011	\$57,000,000
2029	\$124,192,590	\$82,256,389	\$163,670,011	\$0	\$25,256,389	\$151,098,047	\$57,000,000
2030	\$126,592,618	\$82,204,540	\$151,098,047	\$0	\$25,204,540	\$137,603,606	\$57,000,000
2031	\$128,731,665	\$81,855,533	\$137,603,606	\$0	\$24,855,533	\$123,412,353	\$57,000,000
2032	\$130,412,336	\$81,217,925	\$123,412,353	\$0	\$24,217,925	\$108,758,885	\$57,000,000
2033	\$131,451,541	\$80,137,836	\$108,758,885	\$0	\$23,137,836	\$94,049,863	\$57,000,000
2034	\$132,304,885	\$78,829,703	\$94,049,863	\$0	\$21,829,703	\$79,509,024	\$57,000,000
2035	\$132,323,658	\$77,156,538	\$79,509,024	\$0	\$20,156,538	\$65,514,436	\$57,000,000
2036	\$131,826,806	\$75,290,936	\$65,514,436	\$0	\$18,290,936	\$52,300,868	\$57,000,000

25 Year Cash Flows - Tentative Agreement

<u>Fiscal</u> <u>Year Ending</u>	<u>PAYGO</u>	City Trust <u>Contrib</u>	City Trust <u>Withdrawal</u>	Employee Trust <u>Contrib</u>	Contribution to HRA <u>Accounts</u>	Total City <u>Contrib</u>	CalPERS <u>Trust</u>
2012	\$45,576	\$10,071	\$0	\$3,115	\$2,135	\$57,782	\$124,551
2013	\$49,642	\$5,189	\$0	\$2,608	\$2,951	\$57,782	\$142,001
2014	\$53,395	\$1,053	\$0	\$2,165	\$3,335	\$57,782	\$156,225
2015	\$56,998	\$0	(\$2,416)	\$1,790	\$3,200	\$57,782	\$167,706
2016	\$60,352	\$0	(\$4,038)	\$1,438	\$2,913	\$59,227	\$178,104
2017	\$63,498	\$0	(\$6,100)	\$1,118	\$3,309	\$60,708	\$186,925
2018	\$66,300	\$0	(\$7,060)	\$847	\$2,986	\$62,225	\$195,199
2019	\$68,912	\$0	(\$8,328)	\$610	\$3,197	\$63,781	\$202,609
2020	\$71,103	\$0	(\$8,850)	\$409	\$3,122	\$65,376	\$209,871
2021	\$72,984	\$0	(\$45,483)	\$247	\$39,508	\$67,010	\$180,900
2022	\$74,360	\$0	(\$45,187)	\$144	\$39,513	\$68,685	\$149,877
2023	\$75,426	\$0	(\$37,320)	\$78	\$32,296	\$70,402	\$124,251
2024	\$76,233	\$0	(\$37,432)	\$45	\$33,361	\$72,162	\$96,494
2025	\$76,851	\$0	(\$28,273)	\$23	\$25,388	\$73,966	\$75,723
2026	\$77,311	\$0	(\$29,160)	\$12	\$27,664	\$75,816	\$52,444
2027	\$77,582	\$0	(\$18,684)	\$6	\$18,813	\$77,711	\$37,831
2028	\$77,632	\$0	(\$16,299)	\$2	\$18,321	\$79,654	\$24,466
2029	\$77,604	\$0	(\$11,991)	\$1	\$16,032	\$81,645	\$14,372
2030	\$77,157	\$0	(\$8,537)	\$0	\$15,066	\$83,686	\$6,949
2031	\$76,259	\$0	(\$3,056)	\$0	\$12,576	\$85,778	\$4,431
2032	\$75,081	\$0	(\$268)	\$0	\$13,110	\$87,923	\$4,507
2033	\$73,584	\$0	\$0	\$0	\$10,040	\$83,624	\$4,856
2034	\$71,836	\$0	\$0	\$0	\$6,446	\$78,283	\$5,232
2035	\$69,721	\$0	\$0	\$0	\$6,087	\$75,808	\$5,638
2036	\$67,271	\$0	\$0	\$0	\$5,363	\$72,634	\$6,075

25 Year Liability and ARC Projection - Current Plan

Fiscal		Trust		Normal	Estimated
<u>Year Ending</u>	<u>AAL</u>	<u>Assets</u>	<u>UAAL</u>	<u>Cost</u>	<u>ARC</u>
2012	\$1,252,487	\$103,356	\$1,149,131	\$12,353	\$96,463
2013	\$1,300,716	\$103,356	\$1,197,360	\$11,584	\$99,224
2014	\$1,346,124	\$103,356	\$1,242,768	\$10,838	\$101,803
2015	\$1,388,820	\$103,356	\$1,285,464	\$10,120	\$104,209
2016	\$1,428,477	\$103,356	\$1,325,121	\$9,360	\$106,352
2017	\$1,464,793	\$103,356	\$1,361,437	\$8,580	\$108,230
2018	\$1,497,463	\$103,356	\$1,394,107	\$7,849	\$109,891
2019	\$1,526,240	\$103,356	\$1,422,884	\$7,142	\$111,290
2020	\$1,551,038	\$103,356	\$1,447,682	\$6,472	\$112,435
2021	\$1,571,753	\$103,356	\$1,468,397	\$5,815	\$113,295
2022	\$1,588,235	\$103,356	\$1,484,879	\$5,168	\$113,853
2023	\$1,600,200	\$103,356	\$1,496,844	\$4,516	\$114,078
2024	\$1,607,455	\$103,356	\$1,504,099	\$3,934	\$114,026
2025	\$1,609,675	\$103,356	\$1,506,319	\$3,389	\$113,644
2026	\$1,606,946	\$103,356	\$1,503,590	\$2,877	\$112,932
2027	\$1,599,146	\$103,356	\$1,495,790	\$2,407	\$111,891
2028	\$1,586,086	\$103,356	\$1,482,730	\$2,019	\$110,548
2029	\$1,568,422	\$103,356	\$1,465,066	\$1,666	\$108,902
2030	\$1,546,233	\$103,356	\$1,442,877	\$1,370	\$106,981
2031	\$1,519,764	\$103,356	\$1,416,408	\$1,106	\$104,779
2032	\$1,489,033	\$103,356	\$1,385,677	\$867	\$102,291
2033	\$1,454,254	\$103,356	\$1,350,898	\$646	\$99,525
2034	\$1,415,841	\$103,356	\$1,312,485	\$492	\$96,559
2035	\$1,373,809	\$103,356	\$1,270,453	\$369	\$93,360
2036	\$1,328,814	\$103,356	\$1,225,458	\$266	\$89,963

25 Year Liability and ARC Projection - City's LBFO Position

Fiscal Year Ending	AAL	Trust Assets	UAAL	Normal Cost	Estimated ARC
2012	\$857,761	\$103,356	\$754,405	\$5,041	\$60,260
2013	\$874,139	\$122,642	\$751,496	\$4,727	\$59,733
2014	\$887,716	\$139,437	\$748,279	\$4,423	\$59,193
2015	\$898,703	\$154,043	\$744,660	\$4,130	\$58,635
2016	\$907,149	\$166,466	\$740,683	\$3,820	\$58,034
2017	\$913,165	\$176,911	\$736,254	\$3,501	\$57,391
2018	\$916,689	\$185,345	\$731,344	\$3,203	\$56,734
2019	\$917,753	\$191,738	\$726,016	\$2,914	\$56,055
2020	\$916,441	\$196,192	\$720,249	\$2,641	\$55,360
2021	\$913,013	\$198,902	\$714,112	\$2,373	\$54,642
2022	\$907,373	\$199,810	\$707,563	\$2,109	\$53,899
2023	\$899,414	\$198,814	\$700,600	\$1,843	\$53,123
2024	\$889,046	\$195,891	\$693,155	\$1,605	\$52,341
2025	\$876,314	\$191,103	\$685,211	\$1,383	\$51,537
2026	\$861,201	\$184,478	\$676,723	\$1,174	\$50,707
2027	\$843,854	\$176,139	\$667,715	\$982	\$49,855
2028	\$824,372	\$166,239	\$658,133	\$824	\$48,996
2029	\$802,930	\$155,076	\$647,854	\$680	\$48,100
2030	\$779,579	\$142,763	\$636,816	\$559	\$47,171
2031	\$754,514	\$129,546	\$624,968	\$451	\$46,196
2032	\$727,918	\$115,641	\$612,277	\$354	\$45,169
2033	\$699,961	\$101,272	\$598,689	\$264	\$44,085
2034	\$670,964	\$86,831	\$584,133	\$201	\$42,956
2035	\$641,139	\$72,530	\$568,608	\$151	\$41,770
2036	\$610,737	\$58,733	\$552,004	\$109	\$40,512

25 Year Liability and ARC Projection - Tentative Agreement

Fiscal Year Ending	AAL	Trust Assets	UAAL	Normal Cost	Estimated ARC
2012	\$891,319	\$103,356	\$787,963	\$4,074	\$61,749
2013	\$907,661	\$124,551	\$783,110	\$3,656	\$60,976
2014	\$920,158	\$142,001	\$778,156	\$3,254	\$60,211
2015	\$928,914	\$156,225	\$772,689	\$2,863	\$59,420
2016	\$933,859	\$167,706	\$766,153	\$2,448	\$58,527
2017	\$935,088	\$178,104	\$756,984	\$2,008	\$57,415
2018	\$932,628	\$186,925	\$745,703	\$1,597	\$56,179
2019	\$926,627	\$195,199	\$731,428	\$1,199	\$54,735
2020	\$917,268	\$202,609	\$714,659	\$828	\$53,138
2021	\$904,923	\$209,871	\$695,053	\$514	\$51,389
2022	\$889,765	\$180,900	\$708,865	\$315	\$52,201
2023	\$872,063	\$149,877	\$722,186	\$182	\$53,042
2024	\$852,028	\$124,251	\$727,777	\$109	\$53,378
2025	\$829,883	\$96,494	\$733,388	\$53	\$53,734
2026	\$805,496	\$75,723	\$729,773	\$31	\$53,447
2027	\$778,991	\$52,444	\$726,546	\$13	\$53,192
2028	\$750,361	\$37,831	\$712,530	\$4	\$52,158
2029	\$719,597	\$24,466	\$695,131	\$1	\$50,881
2030	\$687,488	\$14,372	\$673,116	\$0	\$49,269
2031	\$653,689	\$6,949	\$646,740	\$0	\$47,338
2032	\$618,554	\$4,431	\$614,123	\$0	\$44,951
2033	\$582,285	\$4,507	\$577,778	\$0	\$42,290
2034	\$545,134	\$4,856	\$540,278	\$0	\$39,546
2035	\$507,302	\$5,232	\$502,070	\$0	\$36,749
2036	\$469,124	\$5,638	\$463,486	\$0	\$33,925

25 Year Comparison of the ARC Projections

Fiscal <u>Year Ending</u>	Estimated ARC		
	Current <u>Plan</u>	City's <u>LBFO Position</u>	Tentative <u>Agreement</u>
2012	\$96,463	\$60,260	\$61,749
2013	\$99,224	\$59,733	\$60,976
2014	\$101,803	\$59,193	\$60,211
2015	\$104,209	\$58,635	\$59,420
2016	\$106,352	\$58,034	\$58,527
2017	\$108,230	\$57,391	\$57,415
2018	\$109,891	\$56,734	\$56,179
2019	\$111,290	\$56,055	\$54,735
2020	\$112,435	\$55,360	\$53,138
2021	\$113,295	\$54,642	\$51,389
2022	\$113,853	\$53,899	\$52,201
2023	\$114,078	\$53,123	\$53,042
2024	\$114,026	\$52,341	\$53,378
2025	\$113,644	\$51,537	\$53,734
2026	\$112,932	\$50,707	\$53,447
2027	\$111,891	\$49,855	\$53,192
2028	\$110,548	\$48,996	\$52,158
2029	\$108,902	\$48,100	\$50,881
2030	\$106,981	\$47,171	\$49,269
2031	\$104,779	\$46,196	\$47,338
2032	\$102,291	\$45,169	\$44,951
2033	\$99,525	\$44,085	\$42,290
2034	\$96,559	\$42,956	\$39,546
2035	\$93,360	\$41,770	\$36,749
2036	\$89,963	\$40,512	\$33,925