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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** June 24, 2010

**IBA Report Number:** 10-55

**City Council Meeting Date:** June 28, 2010

**Item Number:** 201

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# Amendment to Actuary Services Agreement With Buck Consultants

A proposed amendment to the current actuarial services agreement with Buck Consultants, LLC is being presented to City Council for approval on June 28, 2010. The actuarial services agreement, effective February 9, 2010, resulted from an RFP process initiated in the fall of 2009. Since the \$187,900 contract amount was under \$250,000, it did not require City Council approval.

The RFP issued in the fall of 2009 was for the purpose of obtaining as-needed actuarial services. The scope of work was broad-based, including miscellaneous studies that may be requested by the City, but it did not stipulate a DROP cost neutrality study. Subsequent to choosing Buck as the City's actuary, Jay Goldstone, COO, discussed with Buck the specific need for a DROP cost neutrality study to be undertaken. As a result of this initial discussion, Buck's original cost estimate was \$50,000, based on an analysis of DROP's current configuration and a prospective approach for determining cost neutrality.

After extensive discussions regarding the scope of the DROP cost neutrality study among the COO, the IBA and City labor unions, all parties agreed that the scope needed to be expanded. The scope of the DROP cost neutrality study was expanded to include an historical analysis, including an in-depth examination of changes in retirement behaviors due to DROP. Moreover, in addition to evaluating pension system costs, Buck plans to comprehensively examine other DROP-related costs, including payroll, medical, and other fringe benefits. The prospective analysis will compare the present value of future benefits with and without DROP. The revisions to the scope resulted in a revised cost estimate for the DROP study of \$250,000.

Because of the increase in the estimated cost of the DROP cost neutrality study, Financial Management is requesting that Council approve the proposed amendment to the agreement with Buck Consultants. The amendment would increase the not-to-exceed contract amount from \$187,900 to \$500,000. The proposed amendment would also change the term of the agreement from a one-year period (with two one-year options to renew) to a three-year term (with two one-

year options to renew). Additionally, DROP cost neutrality study activities would be incorporated within the scope of work.

The FY 2011 budget includes \$300,000 in funding for the amended contract. Additionally, the City has requested that its labor unions contribute funding, specifically for the DROP cost neutrality study.

The 2006 Kroll Report recommended the City retain its own actuary, which this requested action supports. Additionally, the DROP cost neutrality study is integral in determining compliance with San Diego Municipal Code section 24.1401, in which it is stated that “DROP is intended to be cost neutral.” For these reasons we recommend approval of the contract amendment.

**[SIGNED]**

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**[SIGNED]**

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