





Staff Report

City of Manhattan Beach

TO: Honorable Mayor Ward and Members of the City Council

THROUGH: Richard Thompson, Interim City Manager 

FROM: Bruce Moe, Director of Finance 
Henry Mitzner, Controller

DATE: July 6, 2010

SUBJECT: Consideration of Advanced Payment of Employer Pension Costs for Fiscal Year 2010-2011 Which Results in Net Savings of Approximately \$271,412

RECOMMENDATION:

Staff recommends that the City Council approve the advanced payment of the City's FY 2010-2011 employer pension costs to CalPERS totaling \$2,274,970.

FISCAL IMPLICATION:

The City will realize an estimated \$271,412 in savings by prepaying the California Public Employees Retirement System (CalPERS) employer contributions for FY 2010-2011. The prepayment amount is \$2,274,970. The City's liquid cash balances are sufficient to allow for this prepayment.

BACKGROUND:

The FY 2010-2011 budget provides for the pre-payment of the employer share of pension contributions for the City's employees. These payments are based on the employees' salaries as well as contribution rates established by CalPERS. Payments to CalPERS are normally made biweekly in conjunction with each payroll. However, CalPERS offers the option of prepaying the employer contributions at a discount and has provided those payoff amounts based on their assumptions. Council has authorized this prepayment for the past several years due to the fiscal advantages.

DISCUSSION:

The City has an opportunity to realize present value savings by prepaying the Employer portion of the FY 2010-2011 CalPERS contributions¹. It is to the City's advantage to use existing funds, which are projected to earn 1.5% throughout the fiscal year, to prepay expected employer

¹ CalPERS contributions are divided into Employer and Employee portions. Only the Employer contributions are eligible for the prepayment discount.

contributions which are assumed to earn 7.75%. CalPERS calculates expected contributions based on historical trends.

For FY 2010-2011, staff recommends prepaying Miscellaneous and Police plan contributions, but not Fire plan contributions. CalPERS' Fire Department assumptions on which the prepayment calculation is based exceeds the amount the City would pay through bi-weekly payroll. Because Fire is in a pooled account with other like fire departments, overpayment of contributions, which would occur if we pre-pay the employer contribution, does not accrue to the City's sole benefit, rather it benefits all members of the pool. As a result, it does not benefit us to pay in more than our estimated actual costs for the year (if the plan was not pooled, like our Miscellaneous group, any prepayment amount would remain in our account for our sole benefit).

The value of the CalPERS employer payments for Miscellaneous and Police plans via payroll is estimated at \$2,564,831 while the single advanced payment is \$2,274,970 (a difference of \$289,861). By prepaying the contributions, the City will forgo an estimated \$18,449 in interest earnings on the advanced funds. As a result, the net savings through prepayment is \$271,412.

The savings exceed the amount projected during the preparation of the FY 2010-2011 budget (\$80,000) mainly due to differences in the City's and CalPERS' assumptions for Police payroll in the coming year. CalPERS' assumptions, which are three years old, excluded the Employer Paid Member Contribution (EPMC) benefit² for Police that became effective in January 2009, resulting in an understatement of the amount of payroll subject to the calculation and contribution to CalPERS. Staff's assumptions (and the budget) included the benefit, which we would have paid through normal payroll processing. This difference results in CalPERS' full year estimate coming in approximately \$200,000 less than what we had estimated for the year, and would have paid through our bi-weekly payroll.

Because the Police plan is pooled like the Fire plan, excess contributions do not benefit Manhattan Beach specifically, rather they would benefit the pool of which we are a member and would not necessarily result in reduced contributions in the future. Had CalPERS included the EPMC component in their calculations, we have estimated that the true prepayment savings would be approximately \$130,000 (for both Miscellaneous and Police).

Despite staff's inquiries with CalPERS, and discussions about the apparent under funding that results when using CalPERS' outdated assumptions, the prepayment amount will not change or be revised for FY 2010-2011 once the payment is made. However, future rates to the Police pool will necessarily reflect the updated information on the EPMC benefit.

² This benefit is derived from the City reporting the value of the City-paid Employee contribution of 9% for Police and Fire, and 7% for Miscellaneous as compensation, thereby increasing the payroll subject to CalPERS calculation and payment through payroll.