COUNCIL AGENDA: 05-01-07
ITEM: 2.13

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Board of Administration for the Police and Fire Department Retirement Plan

SUBJECT: **Ordinance to Permit Police Members to Redeposit Previously Withdrawn Contributions, Purchase Federated Service Credits, to Purchase Service Credit for Unpaid Leave of Absence**

DATE: 04-11-07

COUNCIL DISTRICT: **City-Wide**
SNI AREA:

RECOMMENDATION

Approval of an ordinance amending Chapter 3.36 of Title 3 of the San Jose Municipal Code (Police and Fire Department Retirement Plan) to permit members of the Police and Fire Department Retirement Plan who are employed in the Police Department to:

1. Redeposit previously withdrawn contributions at any time prior to retirement,
2. Purchase service credit for previous Federated Service at any time prior to retirement, and
3. Purchase service credit in the Plan for time on unpaid leave of absence.

OUTCOME

Approval of the ordinance would implement provisions of the Police MOA that was approved December 7, 2005. This ordinance will allow members of the Police and Fire Department Retirement Plan who are employed in the Police Department to redeposit previously withdrawn contributions, purchase service credit for previous Federated Service and to purchase service credit for unpaid leave of absence at anytime prior to retiring from service.

BACKGROUND

During negotiations of the current Memorandum of Agreement (MOA), dated March 1, 2004 – June 30, 2008, between the City of San Jose and the San Jose Police Officer's Association (SJPOA) both parties agreed to implement three changes to the Retirement Plan with the total cost to be paid by the affected employee:

1. Eliminate the ninety-day window for the redeposit of withdrawn contributions, allowing active employees to make the redeposit at any time prior to retirement.
2. Eliminate the ninety-day window for the purchase of service credit for previous Federated Retirement service credit, allowing an active employee to purchase the service credit at any time prior to retirement.
3. Permit an active employee to purchase service credit for time on unpaid leave of absence.

This amendment to Chapter 3.36 of Title 3 of the San Jose Municipal Code will codify the above mutually agreed upon retirement plan amendments and make them a part of the Police and Department Retirement Plan.

ANALYSIS

During labor negotiations both the City of San Jose and the SJPOA agreed to amend the Police and Fire Department Retirement Plan to allow Police employees to purchase service credits related to withdrawn contributions, previous Federated service time and unpaid leave of absences. These changes were memorialized in the MOA between the City and the SJPOA on December 7, 2005. With the ratification of the MOA it is necessary that the San Jose Police and Fire Department Retirement Plan be amended to implement the provisions that were agreed upon by both parties.

Redeposit of Withdrawn Contributions

If a member of the Plan separates from City service, the person may elect a refund of employee contributions made to the Plan. Presently persons who are rehired as employees of the San José Police Department or Fire Department may redeposit withdrawn contributions and receive credit for the prior service only if they elect to do so within the first 90-days of again becoming a member of the Police and Fire Department Retirement Plan. Beginning July 1, 2006 the City of San José and the SJPOA have agreed to eliminate the 90-day requirement for Plan members who are employees of the Police Department so those members can elect to redeposit withdrawn retirement contributions at any time prior to retirement.

Prior to the person's retirement the person must file with the Police and Fire Department Retirement Board a written election to redeposit the withdrawn contributions. The person must

pay into the Police and Fire Department Retirement Plan an amount equal to the contributions that were previously withdrawn plus the interest that would have been earned on the accumulated contributions at the actual rate earned by the Retirement Plan. If the person elects to pay the amount due in installments then the person will pay interest on the unpaid balance until the full amount is paid into the retirement fund. The interest will be calculated on the actuarially assumed interest rate.

Purchase of Service Credit for Previous Federated Retirement Service Credit

Currently, members of the Police and Fire Department Retirement Plan may purchase service credit for time they were in City service while members of the Federated City Employees' Retirement System. The election to purchase prior Federated service must be made within a 90-day window after they become members of the Police and Fire Department Retirement Plan. During the contract negotiations it was agreed that the 90-day window would be eliminated for members of the Plan employed in the Police Department. Beginning July 1, 2006, a member who is employed in the Police Department may purchase Federated service at any time prior to retirement if the following conditions are met: (1) there was no break in service between the Federated City Employee's Retirement System and the Police and Fire Department Retirement Plan, (2) service was for monthly or biweekly compensation, (3) the person was entitled to credit for service immediately prior to the time of entering the Police and Fire Department Retirement Plan, and (4) the member ceases membership in the Federated City Employees' Retirement System. Prior to the person's retirement the person must file with the Police and Fire Department Retirement Board a written election to transfer service credit. The person then must pay into the Police and Fire Department Retirement Plan sufficient contributions to equal what the contributions would have been if the person had been a member of the Police and Fire Department Retirement Plan during the Federated service. The person must also pay into the Plan the interest that would have been earned on the accumulated contributions at the actual rate earned by the Retirement Plan. If the person elects to pay the amount due in installments then the person will pay interest on the unpaid balance until the full amount is paid into the retirement fund. The interest will be calculated on the actuarially assumed interest rate.

Purchase Service Credit for Time on Unpaid Leave of Absence

Currently there are no provisions in the Plan that allow a member to purchase service credit for time the person is on an unpaid leave of absence for reasons other than military service. On or after July 1, 2006, members who are employed by the Police Department would be allowed to purchase service credit in the San José Police and Fire Department Retirement Plan for eligible time on unpaid leave of absence. Eligible time does not include:

- Time prior to becoming a member of the Plan
- Military service that would be eligible for service credit in other provisions of the Plan
- Time that a member receives service credit in a reciprocal system

- Time that a person was absent from service because of suspension or other disciplinary action

The member requesting the purchase of service credit for unpaid leave will need to file a written notice with the Secretary to the Retirement Board. The member will also need to submit sufficient payment in advance for the cost actuarial services necessary to determine the cost of the additional benefits to be purchased. The member will then need to pay the retirement fund the full cost of the additional benefits related to the unpaid leave of absence.

PUBLIC OUTREACH

Not applicable.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, and the Office of Employee Relations. The Office of Employee Relations forwarded a draft of the amended ordinance to all of the bargaining unit representatives that are covered under the Plan and no concerns were received. The Police and Fire Department Retirement Board of Administration approved the proposed ordinance at its meeting of April 5, 2007.

COST IMPLICATIONS

There should be no additional costs to the San José Police and Fire Department Retirement Plan because the full costs to redeposit withdrawn contributions, purchase service credit for Federated time and to purchase service credit for time on certain unpaid leaves of absence is to be paid in full by the employee.

CEQA

Not a project.

Thomas J. Webster
Acting Secretary, Board of Administration
392-6704

MERCER
Human Resource Consulting

City of San José Police and Fire Department Retirement Plan

Actuarial Valuation as of June 30, 2003 for Three Proposed Ordinances Related to the Purchase of Prior Service

MERCER
Human Resource Consulting

Executive Summary

Background

We have studied the cost associated with the following three proposed ordinances:

1. Ordinance amending provisions relating to redeposit of withdrawn contribution.
2. Ordinance amending provisions relating to purchase of service credit for previous Federated service.
3. Ordinance for purchase of service credit for time on unpaid leave of absence.

We studied the cost under the following two scenarios:

- Funding Scenario #1 – The increase in contribution rates will be shared by the City and all employees.
- Funding Scenario #2 – The cost will be borne only by the affected employees.

Under Funding Scenario #1, we assume the current cost sharing arrangement between the City and the members will continue to apply. Under that arrangement, increase in the Unfunded Actuarial Accrued Liability will be paid for entirely by the City: while 8/11 and 3/11 of the increase in Normal Cost will be paid for by the City and the employees, respectively.

Results and Analysis

Proposals #1 (Redeposit of Withdrawn Contributions) and #2 (Purchase of Previous Federated Service) will eliminate the current 90-day window after the date of membership with the Police and Fire Plan to repurchase such service. A member who pays interest at the rate assumed in the valuation (currently 8% per annum) will be allowed to buy back such service prior to his or her retirement.

The cost associated with these two proposals will be dependent on the number of members who will elect to repurchase service under these two proposals.

The members who may be impacted can be divided into the following two categories:

Category #1 Members whose 90-day election windows have not expired. This also includes members who have not yet entered the plan.

Category #2 Members whose 90-day election windows have already expired.

Cost for Members in Category #1

We understand from our discussion with the System that currently most members with purchasable service (on average, about 6 members redeposit their withdrawn contributions and 2 members purchase their Federated service every year) choose to make a purchase within the current 90-day election window. If the current 90-day window is eliminated, it is not unreasonable to assume that most of those members will wait and only choose to purchase their service within a few years from actual retirement to make sure they can get a value from the purchase. This may be the case even though they have to pay additional interest of 8% for each year they delay their decision to purchase such service.

We anticipate that the initial cost to extend the purchase period will be lower than the current contribution rate that reflects 8 purchases every year as there will be fewer purchases when those members just entered/re-entered the Police and Fire Plan. However, the cost will eventually go back up as those members get closer to retirement and decide to purchase such service (i.e., allowing the System to recognize the purchase at a much later date). If the exact same members in Category #1 will elect to repurchase such service prior to retirement instead of within the current 90-day window, we believe it is not unreasonable to assume that the "savings" associated with not having to pay for the 8 total purchases a year, can be used by the System to pay for the exact same purchases as the members get closer to retirement.

Again, the most important assumption is that extending the current 90-day window will not attract more members to purchase their service during their career. Otherwise, there may be an extra cost but this cost can only be calculated after enough actual experience is available.

Cost for Members in Category #2

For members in Category #2, the System has provided us with data on who may benefit as a result of eliminating the current 90-day window.

The contribution requirements under Funding Scenarios #1 and #2 for members in Category #2 are summarized below. We assume in our calculations that these members are in addition to the 8 purchases built-into the current contribution rate and there are no "savings" available to offset the cost of the purchases.

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Proposal #1 (Redeposit of Withdrawn Contributions) – One member affected

Funding Scenario #1 *(Paid by City and all Employees)*	% of Payroll	Annual Amount
Increase in Employer Contribution	0.0003%	$560
Increase in Employee Contribution *	0.0000%	$0

* *Individual employee affected will still have to pay $11,218 in redeposited contributions.*

Funding Scenario #2	One-Time Lump Sum
(Paid by Affected Employees)	$17,929

Proposal #2 (Purchase of Previous Federated Service) – Six members affected

Funding Scenario #1 *(Paid by City and all Employees)*	% of Payroll	Annual Amount
Increase in Employer Contribution	0.0083%	$15,600
Increase in Employee Contribution *	0.0014%	$ 2,600

* *Individual employees affected will still have to pay a total of $120,309 in redeposited contributions.*

Funding Scenario #2	One-Time Lump Sum
(Paid by Affected Employees)	$316,238

Proposal #3 (Service for Unpaid Leave of Absence) is not currently in the City ordinance.

The members who may be impacted can be divided into two categories:

Category #1 Members who will incur unpaid leave of absence in the future.
Category #2 Members who have prior unpaid leave of absence and can benefit immediately.

Cost for Members in Category #1

There is no accurate way to estimate the future cost of this proposal as it is dependent on the number of members who will elect to purchase such service. However, if the data provided by the System on who has unpaid leave of absence (a total of 21 since 1995 and the average duration of such unpaid leave of absence is 0.257 years) is indicative of the number of members who will incur such unpaid leave of absence in the future, the cost for the City and the members will not be significant.

There may be an extra cost if more members accrue such unpaid leave (or the average duration of the unpaid leave is longer than the 0.257 years we studied for members in Category #2) but this cost can only be calculated after enough actual experience is available.

Cost for Members in Category #2

The System has provided us with data on members who have prior unpaid leaves of absence and will benefit immediately under this proposal.

The contribution requirements under Funding Scenarios #1 and #2 for the members provided by the System are summarized below:

Proposal #3 (Service for Unpaid Leave of Absence) – 23 members affected

Funding Scenario #1 *(Paid by City and all Employees)*	% of Payroll	Annual Amount
Increase in Employer Contribution	0.0004%	$800
Increase in Employee Contribution *	0.0001%	$200

* *Individual employees affected will still have to pay a total of $141,331 in redeposited contributions.*

Funding Scenario #2	One-Time Lump Sum
(Paid by Affected Employees)	$151,152

A detailed analysis of the three proposals is provided in the next section. A summary of the data used in the analysis is provided in Attachment A.

#1: Ordinance Amending Provisions Relating to Redeposit of Withdrawn Contributions

Background

Under this Ordinance, the current 90-day window period to redeposit previously withdrawn employee contributions from the Police and Fire System will be repealed. A member may make such redeposit at any time prior to the member's retirement.

Members who redeposit withdrawn contributions will be required to pay interest from the date of withdrawal to the date the contribution is actually redeposited at the interest rate assumed in the actuarial valuation (currently 8% per annum).

Analysis of Cost

The maximum cost to provide members with the right to redeposit withdrawn employee contributions after the current 90-day window can only be answered precisely after collecting and comparing the following:

Figure 1

(a.)	A list of all members who have not redeposited withdrawn contributions and will benefit under this Ordinance;
(b.)	A determination of the value of the contributions withdrawn, together with interest that needs to be repaid by the members; and
(c.)	A determination of the value of the additional service retirement benefit, duty disability benefit, etc. that will be paid by the System after the redeposit.

The actual cost will also depend on which employees elect to redeposit contributions. In calculating the value of the additional benefit under (c.), we performed a detailed analysis of whether or not the member is expected to collect a service retirement benefit, duty disability benefit, etc. using the actuarial assumptions we established for the actuarial valuation. In other words, some members who purchase this service are expected to retire while others are expected to become disabled or even withdraw their contributions according to the actuarial assumptions. Also we project which members are expected to retire and receive a 2.5% FAS benefit per year of service (i.e. with less than 20 years of service at retirement), and which are expected to receive a 3.0% or 4.0% FAS benefit as predicted by the actuarial assumptions.

The members who may be impacted by this Ordinance can be classified in two categories.

Category #1 - Members whose 90-day election windows have not expired

The first category consists of members who are still within the current 90-day election window as well as those who will re-enter the Department after withdrawal of contributions in the future.

We understand from our discussion with the System that currently most members with purchasable service (on average, about 6 members redeposit their withdrawn contributions every year) choose to make a purchase within the current 90-day election window. If the current 90-day window is eliminated, it is not unreasonable to assume that most of those members will wait and only choose to purchase their service within a few years from actual retirement to make sure they can get a value from the purchase. This may be the case even though they have to pay additional interest of 8% for each year they delay their decision to purchase such service.

We anticipate that the initial cost to extend the purchase period will be lower than the current contribution rate that reflects 6 purchases every year as there will be fewer purchases when those members just re-entered the Police and Fire Plan. However, the cost will eventually go back up as those members get closer to retirement and decide to purchase such service. If the exact same members in Category #1 will elect to repurchase such service prior to retirement instead of within the current 90-day window, we believe it is not unreasonable to assume that the "savings" associated with not having to pay for the 6 total purchases a year, can be used by the System to pay for the purchases as the members get closer to retirement (i.e., allowing the System to recognize the purchase at a much later date). Furthermore, charging interest at 8% per annum will make the timing of the redeposit irrelevant (as we assume the fund to also earn 8% per annum). However, by expanding the window of opportunity, more employees may take advantage of this opportunity than would have otherwise.

There is no accurate way to estimate how the change in the election window will impact the future cost which depends on the number of additional employees who will redeposit their contributions after the 90-day election window in the future.

However, the Board may want to review our analysis below for members whose 90-day election windows have expired to get a sense of the cost involved.

Category #2 - Members whose 90-day election windows have expired

The second category consists of those members with withdrawn contributions who did not choose to redeposit within the original 90-day window. The maximum cost to change the Ordinance for those members can only be determined after we compare the value of contribution the System will collect in (b.) (See Figure 1 on previous page) with the benefit the System will pay in (c.) (See Figure 1). Charging interest at the assumed rate of 8% instead of the current practice of 2% will substantially reduce the potential cost to the System and may provide a financial disincentive which would reduce the number of members who can afford the purchase. However, the cost is still driven by the number of members in (a.) (See Figure 1) who elect the option and the difference in the value of (b.) and (c.).

The data provided by the System included a calculation of the interest the member would be required to pay through December 31, 2002 if the member were to redeposit contributions at that time. We have verified those interest calculations and projected them forward to June 30, 2003.

Determination of Cost for Members in Category #2

Data

The data we used in our Study is summarized below:

	Number of Employees	Service History	Amount of Withdrawn Contribution
Provided by Retirement System	1	Yes	Yes
Provided After Discussions with POA and Local 230	2	No	No

We understand that it will require a substantial amount of research to validate the service history and accurately determine the contributions withdrawn for the two members provided on the list after the System's discussions with the POA and Local 230. We have therefore excluded the two employees from our calculations. The results in this study will have to be reviewed once the Ordinance is approved by the City.

Analysis and Results

For Funding Scenario #1, we estimated the additional Normal Cost and Unfunded Accrued Liability (UAAL) as of June 30, 2003 after the redeposit. We assumed that the above member would choose to redeposit contributions as of June 30, 2003. Finally, we offset the liability with the amount of contributions redeposited with interest. This provides an estimate of the cost to the Plan.

The results of our study are provided in the following tables:

Funding Scenario #1 – Increase in rates will be shared by the City and all employees. *

Increase in Contribution (2003 – 2004 Plan Year)

Employer	% of Payroll *
Normal Cost:	0.0000%
UAAL:	0.0003%
Total City Rate Impact:	0.0003%
Estimated Annual City Amount:	$560

Employee **	% of Payroll *
Normal Cost:	0.0000%
Estimated Annual City Amount:	$0

* *Based upon projected June 30, 2003 payroll of $187,587,000. This payroll was estimated assuming the payroll used in the June 30, 2001 valuation would increase with the 4.5% assumed annual rate of inflation for two years.*

** *Individual employees benefiting under this proposal still have to pay $11,218 in redeposited contributions.*

Funding Scenario #2 – Increase in cost will be paid for by the affected employees only.

Under Funding Scenario #2, we calculated the difference between the present value of benefits with the pre-withdrawal service and the value without that service.

The following chart displays the payments required for each of the employees provided by System. The payments under Scenario #2 are increased with interest to June 30, 2003.

Number	Service Available for Purchase	Redeposited Contributions	Additional Cost Under Scenario #2
1	Insufficient Data		
2	1.000	11,218	6,711
3	Insufficient Data		

#2: Ordinance Amending Provisions Relating to Purchase of Service Credit for Previous Federated Service

Background

This Ordinance is very similar to the first Ordinance except that members are allowed to repurchase their Federated service. It should be noted that the member would be required to pay the contributions as if the service had been in the Police and Fire Retirement Plan, along with interest to the date that the purchase is made. Similar to the first Ordinance, the members who may be impacted can be divided into categories:

Category #1 Members whose 90-day election windows have not expired. This also includes members who have not yet entered the plan.
Category #2 Members whose 90-day election windows have already expired.

Cost for Members in Category #1

We understand from our discussion with the System that currently most members with purchasable service (on average, about 2 members purchase their Federated service every year) choose to make a purchase within the current 90-day election window. If the current 90-day window is eliminated, it is not unreasonable to assume that most of those members will wait and only choose to purchase their service within a few years from actual retirement to make sure they can get a value from the purchase. This may be the case even though they have to pay additional interest of 8% for each year they delay their decision to purchase such service.

We anticipate that the initial cost to extend the purchase period will be lower than the current contribution rate that reflects 2 purchases every year as there will be fewer purchases when those members just entered the Police and Fire Plan. However, the cost will eventually go back up as those members get closer to retirement and decide to purchase such service. If the **exact** same members in Category #1 will elect to repurchase such service prior to retirement instead of within the current 90-day window, we believe it is not unreasonable to assume that the "savings" associated with not having to pay for the 2 total purchases a year, can be used by the System to pay for the purchases as the members get closer to retirement (i.e., allowing the System to recognize the purchase at a much later date).

Again, the most important assumption is that extending the current 90-day window will not attract more members to purchase their service during their career. Otherwise, there may be an extra cost but this cost can only be calculated after enough actual experience is available.

As we stated in Proposal #1, there is no accurate way to estimate if the exact same members will in the future elect to repurchase such service prior to retirement instead of within the current 90-day window.

Category #2 - Members whose 90-day election windows have expired

For members whose 90-day election windows have already expired, there will be a benefit associated with eliminating the 90-day window. The System has provided us with data on who may benefit.

Determination of Cost for Members in Category #2

Data

The data we used in our Study is summarized below:

	Number of Employees	Service History	Amount of Redeposit Contribution
Provided by Retirement System	1	Yes	Yes
Provided After Discussions with POA and Local 230	5	Yes *	No

* *Service history was supplied by the members and accepted by Mercer without verification. If the proposed Ordinance is adopted, the service provided by the member has to be validated by the System. The cost in this study may have to be adjusted if the years of purchasable service and other estimates used in this study have to be revised.*

Analysis and Results

For Funding Scenario #1, we estimated the additional Normal Cost and Unfunded Accrued Liability (UAAL) as of June 30, 2003 for these members both before and after the purchase of service credit. We assumed that each member would choose to purchase service as of June 30, 2003. Finally, we offset the liability with member contributions required for the purchase.

We understand after our conversation with the Retirement System that for the 5 members provided by the POA and Local 230, we should assume that those members do not have contributions at the Federated Plan which can be used to offset the cost associated with the purchase of Military Service.

The results of our study are provided in the following table:

Funding Scenario #1 – Increase is rates will be shared by the City and all employees

Increase in Contribution

Employer	% of Payroll *
Normal Cost:	0.0038%
UAAL:	0.0045%
Total City Rate Impact:	0.0083%
Estimated Annual City Amount:	$15,600

Employee **	% of Payroll *
Normal Cost:	0.0014%
Estimated Annual City Amount:	$2,600

* *Based upon June 30, 2003 payroll of $187,587,000. This payroll was estimated assuming the payroll used in the June 30, 2001 valuation would increase with the 4.5% assumed annual rate of inflation for two years.*

** *Individual employees benefiting under this proposal still have to pay $120,309 in redeposited contributions.*

Funding Scenario #2 – Increase in cost will be paid for by affected employees only.

Under Funding Scenario #2, we calculated the difference between the present value of benefits with and without the purchased service.

The following chart displays the payments required for each of the employees in the data provided by System. The payments under Scenario #2 are cost increased with interest to June 30, 2003.

Number	Service Available for Purchase *	Redeposited Contributions	Additional Payments Under Scenario #2
1	3.300	5,874	12,158
2	3.000	34,718	55,606
3	5.000	34,729	66,757
4	0.500	5,407	7,342
5	1.333	17,021	14,612
6	3.000	22,561	39,252

* *Some of the service history was supplied by the members and accepted by Mercer without verification. If the proposed Ordinance is adopted, the service provided by the member has to be validated by the System. The cost in this study may have to be adjusted if the years of purchasable service and other estimates used in this study have to be revised.*

#3: Ordinance for Purchase of Service Credit for Time on Unpaid Leave of Absence

Background

We understand that under SJMC 3.36.670, members who are absent without compensation are not entitled to receive credit for the time away from City service.

We understand from the proposed Ordinance, members will be allowed to purchase service credit for such time away by paying into the retirement fund the full cost of the additional benefits to the members as determined as follows:

(a.) Paying the City as well as the member contributions required during the unpaid leave of absence plus interest at the interest rate assumed in the actuarial valuation (currently 8% per annum), or

(b.) Using a method that has yet to be specified in the Ordinance.

Our analysis is based on (a.).

The members who may be impacted can be divided into two categories:

Category #1 Members who will incur unpaid leave of absence in the future.
Category #2 Members who have prior unpaid leave of absence and can benefit immediately.

Cost for Members in Category #1

There is no accurate way to estimate the future cost of this proposal as it is dependent on the number of members who will elect to purchase such service. However, if the data provided by the System on who has unpaid leave of absence (a total of 21 since 1995 and the average duration of such unpaid leave of absence is 0.257 years) is indicative of the number of members who will incur such unpaid leave of absence in the future, the cost for the City and the members will not be significant.

There may be an extra cost if more members accrue such unpaid leave (or the average duration of the unpaid leave is longer than the 0.257 years we studied for members in Category #2) but this cost can only be calculated after enough actual experience is available.

Determination of Cost for Members in Category #2

The System has provided us with data on members who have prior unpaid leaves of absence and will benefit immediately under this proposal.

Data

The data we used in our Study is summarized below:

	Number of Employees	Service History	Amount of Employer and Employee Contribution
Provided by Retirement System	21	Yes	Yes
Provided After Discussions with POA and Local 230	3	Yes *	No

* *Service history was supplied by the members and accepted by Mercer without verification. If the proposed Ordinance is adopted, the service provided by the member has to be validated by the System. The cost in this study may have to be adjusted if the years of purchasable service and other estimates used in this study have to be revised.*

Analysis and Results

For Funding Scenario #1, we estimated the actuarial accrued liability as of June 30, 2003 for these members both before and after the purchase. We assumed that each member would choose to purchase service as of June 30, 2003. We then calculated the liability using the actuarial assumptions we have established for the actuarial valuation. Finally, we offset the liability with the amount of contributions required with interest.

The results of our study are provided in the following table:

Funding Scenario #1 – Increase in rates will be shared by the City and all employees.

Increase in Contribution (2003-2004 Plan Year)

Employer	% of Payroll *
Normal Cost:	0.0003%
UAAL:	0.0001%
Total City Rate Impact:	0.0004%
Estimated Annual City Amount:	$800

Employee **	% of Payroll *
Normal Cost:	0.0001%
Estimated Annual City Amount:	$200

* *Based upon June 30, 2003 payroll of $187,587,000. This payroll was estimated assuming the payroll used in the June 30, 2001 valuation would increase with the 4.5% assumed annual rate of inflation for two years.*

** *Individual employees benefiting under this proposal still have to pay $141,331 in redeposited contributions.*

Funding Scenario #2 – Increase in cost will be paid for by affected employees only.

Under Funding Scenario #2, we considered the difference between the present value of benefits both with and without the purchased service using our actuarial assumptions.

The following chart displays the payments required for each of the employees in the data provided by System. The payments under Scenario #2 are cost increased with interest to June 30, 2003.

Number	Service Available for Purchase *	Redeposited Contributions	Additional Costs Under Scenario #2
1	0.038	841	0
2	0.600	12,013	0
3	0.075	1,822	1,119
4	0.417	10,434	0
5	0.115	2,028	0
6	Insufficient Data	–	–
7	0.077	1,873	27
8	0.038	1,083	0
9	0.692	15,674	2,416
10	0.154	2,828	0
11	0.115	2,663	813
12	0.225	5,589	932
13	0.115	2,663	52
14	0.500	8,110	0
15	0.962	32,868	0
16	0.038	1,061	374
17	0.115	2,240	1,529
18	0.038	721	0
19	0.346	7,880	299
20	0.038	898	104
21	0.308	7,053	0
22	0.154	3,433	0
23	0.525	12,351	2,081
24	0.231	5,205	96

* *Some of the service history was supplied by the members and accepted by Mercer without verification. If the proposed Ordinance is adopted, the service provided by the member has to be validated by the System. The cost in this study may have to be adjusted if the years of purchasable service and other estimates used in this study have to be revised.*

Attachment A – Data Used In Our Analysis

Because the benefit changes we studied are highly individualized, the accuracy of our results is heavily dependent on data.

In February, your office provided us with data for 22 members who would be entitled to purchase service under Proposal #1, #2, or #3.

The data file was prepared after examining members who have eligible service covered under Proposal #1, #2 or #3 and maintained in the System's Pension Gold Database. We understand that the data file is not comprehensive as the System has only been maintaining this type of data since 1995. Since the costs of the three proposals, especially under Funding Scenario #1, are directly related to the number of members entitled to a benefit, we worked with the System in exploring alternative means of completing the data.

After several discussions, the System concluded that a complete file could only be compiled if the System conducted a manual research for each and every active member. In order to get an order of magnitude as to how many members might be excluded with pre-1995 service; we suggested that the System contact the POA and Local 230 to determine if they would be able to supply us with any of the required data.

In May, the System provided us with 11 additional members with service under Proposals #1, #2 and #3 after discussions with the POA and Local 230. However, both the POA and Local 230 advised the Retirement System that the list of 11 members might not be comprehensive either.

For the 22 members complied by the System, we were provided with contributions and interest at 8% that needed to be paid back by the members under Proposals #1, #2 and #3.

For the 11 additional members, we estimated the contributions payable by the members by assuming:

(1) Service available for purchase were for the period immediately before their date of membership at the System
(2) Salaries earned could be estimated by taking the members' salaries as of June 30, 2001 and projecting them backward using the salary increase assumptions adopted by the Retirement Board for the June 30, 2001 valuation.
(3) The contributions could be estimated using the member and employer contribution rates calculated in the June 30, 2001 actuarial valuation.

MERCER
Human Resource Consulting

Attachment A (Cont'd)
(All Values Were Determined As Of June 30, 2003)

Study #1 - Redeposit of Withdrawn Contributions

Seq ID	SSN	Credit Years of Service	Contribution w/ Interest	Increase in PVB*	Increase in UAAL*	Increase in PVFNC*
1****	570-96-xxxx	-	-	-	-	-
2**	114-48-xxxx	1.000	11,218	6,711	6,304	407
3****	565-84-xxxx	-	-	-	-	-
Total		1.000	11,218	6,711	6,304	407

Study #2 - Purchase of Credit for Previous Federated Service

Seq ID	SSN	Credit Years of Service	Contribution w/ Interest	Increase in PVB*	Increase in UAAL*	Increase in PVFNC*
1	554-29-xxxx	3.300	5,874	12,156	4,859	7,300
2**,***	548-84-xxxx	3.000	34,718	55,806	55,786	21
3**,***	553-47-xxxx	5.000	34,729	66,757	15,526	51,231
4**,***	411-94-xxxx	0.500	5,407	7,342	4,897	2,445
5**,***	564-74-xxxx	1.333	17,021	14,612	14,612	-
6**,***	572-27-xxxx	3.000	22,561	39,252	-	39,252
Total		16.133	120,309	195,929	95,680	100,249

Study #3 - Purchase of Credit While On Unpaid Leave of Absence

Seq ID	SSN	Credit Years of Service	Contribution w/ Interest	Increase in PVB*	Increase in UAAL*	Increase in PVFNC*
1	623-16-xxxx	0.036	841	-	-	-
2	562-38-xxxx	0.600	12,013	-	-	-
3	546-62-xxxx	0.075	1,622	1,119	1,056	63
4**	558-38-xxxx	0.417	10,434	-	-	-
5	607-05-xxxx	0.116	2,028	-	-	-
6****	488-58-xxxx	-	-	-	-	-
7	549-84-xxxx	0.077	1,673	27	-	27
8	572-25-xxxx	0.036	1,063	-	-	-
9	560-15-xxxx	0.692	15,874	2,416	-	2,416
10	553-65-xxxx	0.154	2,828	-	-	-
11	566-90-xxxx	0.115	2,663	813	357	456
12	567-71-xxxx	0.225	5,569	932	-	932
13	545-19-xxxx	0.115	2,663	52	-	52
14	554-61-xxxx	0.500	8,110	-	-	-
15	555-15-xxxx	0.962	32,668	-	-	-
16	035-34-xxxx	0.036	1,061	374	276	98
17	559-15-xxxx	0.115	2,240	1,528	263	1,265
18	518-64-xxxx	0.036	721	-	-	-
19	484-96-xxxx	0.346	7,660	299	-	299
20	551-31-xxxx	0.036	696	104	-	104
21	552-61-xxxx	0.308	7,053	-	-	-
22	558-61-xxxx	0.154	3,433	-	-	-
23	258-17-xxxx	0.525	12,351	2,061	-	2,061
24**	567-25-xxxx	0.23[illegible]	5,205	98	-	98
Total		5.918	141,331	9,621	1,952	7,669

* PVB = Present Value of Benefit
UAAL = Unfunded Actuarial Accrued Liability
PVFNC = Present Value of Future Normal Cost (Employer + Member)

** Additional services for these members were provided by the members and have not been verified by the Retirement System as valid purchasable service. Contributions w/ interest were estimated based on the salary, contribution rate and other actuarial assumptions used in the valuation as of 6/30/2001.

*** Not offset by member contributions (if any) available from the Federated System.

**** There was insufficient data to determine cost.