



CITY COUNCIL AGENDA ITEM

REQUESTED COUNCIL MEETING DATE 2/7/06

SUBJECT: Military Buy Back

DEPARTMENT: CITY MANAGER

RECOMMENDED MOTION:

Staff recommends that Council authorize the following:

1. Authorize the General Employees Pension Plan to allow individuals who have served as a member of the military to acquire up to 3 years of military service;
2. Authorize the City Attorney to work with the Pension Board to draft the necessary ordinances to modify the Plan;
3. Authorize the Board Actuary to compute the cost to the Plan and the employee with employee being required to pay the total anticipated cost for this benefit in a lump sum payment to the General Employees Pension Plan;
4. Authorize the City Attorney to include in the ordinance that current employees and future employees must exercise this option within three years of becoming a member of the General Employees Pension Plan (for definition purposes of current members of the Plan, the three years would start from their date of employment or from the adoption of the defined benefit pension program).

SUMMARY:

Some months ago, the City Council indicated they may be interested in allowing employees covered by the General Employees Pension Plan to acquire credits for up to three years of military service. This acquisition would be totally and completely at the expense of the employee. The amount required to be contributed would be based upon the Plan's Actuary preparing a report and giving it to the Board and employee. The employee would determine how many years, up to a maximum of three years, that they would desire to acquire. If it is the desire of the Council to provide this benefit, the Ordinance would have to be amended to insert this benefit into the authorizing Ordinance. As you will recall, the Pension Board has not recommended this change.

(See attached)

ATTACHMENTS: Ordinance Resolution Budget Resolution

Other Support Documents/Contracts Available for Review in Manager's Office

DEPARTMENT HEAD	Signed	Date
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FINANCE DEPARTMENT	Approved as to Budget Requirements	Date
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CITY ATTORNEY	Approved as to Form and Legality	Date
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CITY MANAGER <i>[Signature]</i>	Approved Agenda Item For:	2/7/06
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COUNCIL ACTION: Approved as Recommended Disapproved Tabled Indefinitely Continued to Date Certain Approved with Modification:

The reason they have not recommended including this benefit is based upon the following factors:

1. After surveying employees, there was only one employee willing to acquire military service. There was interest from employees if the plan would provide them with a financing option rather than a lump sum payment. The lump sum payment is necessary to make sure the plan is properly funded.
2. There was a concern about the long-term impact on the plan by adding this benefit. The later in the employee's career that this option is exercised, the less time the plan has to build investment revenues to pay the accrued benefit. Also, there was a concern that the plan would have to absorb the cost during a down market. Please be aware that this concern applies to any changes to the plan.

Currently, only one employee has indicated that they would take advantage of military service purchase option if it is included in the Plan document. We may want to place some restrictions on the timeframe in which this option must be exercised. For example, the option to acquire military years of service must be exercised within three years of becoming a member of the General Employees Pension Plan. Current members are still in that window and that would allow them to purchase time. The deposit to the Pension Fund must be made in a lump sum payment.

How would this translate into benefit cost? If the employee worked 17 years and had acquired 3 years of military time, they would retire with a benefit of a 20 year City employee. Instead of receiving about 36% benefit, the employee would be eligible to receive a 42.5% benefit. Again, the employee has paid to the Plan a sum of money to acquire the benefit. However, the Plan has guaranteed the benefit with the City agreeing to fund the Plan in accordance with the actuarial report submitted to the City by the Plan's Actuary.

Although the employee is making the initial deposit into the Plan in an amount equal to the current funding requirements based upon the actuarial calculation, there is a potential that this would have a financial impact on the Plan, should the Plan not meet the actuarial assumptions.