
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: September 21, 2005

SUBJECT: City Employee Retirement Projections

STAFF REPORT BY: Sylvia Jones, Research and Policy Analyst

CC: Cindy Gust-Jenson, Rocky Fluhart, Steve Fawcett, Gordon Hoskins, Brenda Hancock, Gary Mumford, Lehua Weaver, Jennifer Bruno

KEY ELEMENTS

In June 2005, the City Council reaffirmed the following legislative intent statement: *It is the intent of the City Council that the Administration compile a list of city workers who are eligible for retirement within the next five years, and address the amount of liability associated with payouts (vacation, leave and other), and propose a plan to the City Council for how to budget for the accrued compensation liability.* In response to the intent statement, the Administration has forwarded a transmittal to the Council which includes a six-year history as well as graphs, trends and projections.

Council staff has reviewed the transmittal and provided the following items as a summary for Council consideration:

1. The retirement liability to be discussed during the briefing relates only to vacation leave payouts and a portion of sick leave payouts when City employees retire. (Retirement premiums are fully funded by the City through the State retirement system.)
2. Vacation leave, compensatory leave, and the portion of sick leave that will eventually be paid are recognized as liabilities as they are earned in the City's enterprise funds. These liabilities are unfunded in the General Fund.
3. In the event of retirement, an employee is reimbursed for 100% of unused accumulated vacation. Employees participating in sick leave *Plan A* are reimbursed in cash for 25% of unused accumulated sick leave upon retirement, or 50% of unused accumulated leave in paid-up health insurance premiums. Employees participating in *Plan B* are reimbursed for 50% of the earned balance of personal leave upon retirement, plus a portion of accumulated sick leave as of the date that *Plan B* became effective (November 16, 1997).
4. Police and Fire personnel are eligible to retire after 20 years of service with the City. All other employees are eligible to retire after 30 years of service, or at age 60 with 20 years of service, or at age 62 with 10 years of service, or age 65 with 4 years of service.
5. To calculate projections, the Administration assumed that historical ratios of the number of actual retirees to eligible employees would remain the same for future years. In addition, an inflationary cost factor of 2% per year was used.
6. In fiscal year 2005, the number of employees eligible to retire was 316 citywide. On average over the last six years, 15.72% of all eligible employees actually retired. The study shows that an average of 22 Fire and Police employees retired, an average of 11 other general fund employees retired; and an average of 14

employees retired from other funds (airport, public utilities, fleet, golf, IMS) for a total six-year average of 47 employees retiring. The six year average payout per retired employee was \$27,503.

CITYWIDE

7. According to the study 690 employees or 25.5% of all city employees are eligible to retire within the next five years.
8. The study projects that 301 employees will retire within the next five years which is 11.1% of the entire workforce.
9. Based on the study, the number of retirees will be increasing over time with a projection that 73 employees will retire in the year 2010, and the annual amount needed to fund the retirement costs at that time will be approximately \$2,205,000 for accumulated vacation and sick leave payouts.
10. The citywide cost for cash payouts at retirement over the next five years will be \$8,823,500 or \$1,764,700 average annually.

GENERAL FUND

11. The City is currently budgeting \$650,000 of general fund monies annually in anticipation of employees retiring. These funds are used mostly for Fire and Police retirees. Police and Fire payouts averaged \$636,470 over the past six years. Other general fund departments cover most retirees' cash payments by leaving positions vacant or by using savings within their department.
12. The study projects that 217 general fund employees will retire during the next five years for a total cost of \$6,360,500. This is an average of approximately \$1,272,000 per year with only \$650,000 currently included in the annual budget.
13. According to the City's financial report as of June 30, 2004, the City's total general long-term compensation liability was \$14,420,000 for the general fund.

MATTERS AT ISSUE /POTENTIAL QUESTIONS FOR ADMINISTRATION:

1. The Administration may not have had time to formulate recommendations as a result of the study. The Council may wish to ask whether the Administration has any proposals at this time. For instance, does the Administration plan to recommend increasing the general fund appropriation for retirement payouts each year, given that the payout costs are projected to increase over time? Should an account be established from some of the amounts that fall to fund balance each year in order to accumulate at least a portion of the unfunded liability?
2. The Council may wish to ask whether the City can do more to eliminate the option of sick leave *Plan A*. For example, what are the pros and cons of the City Council adopting an ordinance or intent statement indicating that *Plan A* will no longer be an option at some point in the future (5 years, 10 years, etc.)? This would give employees on *Plan A* significant advance notice and allow time for them to plan ahead.
3. The Administration's data is based on the average historical percentage of those who have retired in the last six years. Since the work force is aging and Baby Boomers may have more deferred income at their disposal, a larger percentage of those employees eligible may actual retire. The Council may wish to ask whether the Administration has considered this.

SALT LAKE CITY CORPORATION RETIREMENT COSTS

	2005-06	2006-07	2007-08	2008-09	2009-10
Required Contributions	284,000	350,000	357,581	509,193	719,291
Investment Income				650,000	650,000
Net Cost				40,807	-69,291
Reserve Adjustments					
Required Contributions	1,200,000	1,271,514	1,257,581	1,559,530	1,589,739
Investment Income				650,000	650,000
Net Cost				40,807	-69,291
Reserve Adjustments	-40,807	-371,514	-357,581	-309,530	-939,739

- SIX YEAR HISTORY
- FIVE YEAR PROJECTION
- RESERVE ADJUSTMENTS

FACTS

- Police and Fire eligible to retire after 20 years of service.
- All other employees eligible to retire after 30 year of service.
- Early retirement incentive ended 6/30/02. Final costs show up in fiscal year 2002-03 with payments in July of '02 and Jan. '03.
- The average percentage of retirees to eligible employees is 15.72%. In the case of Police & Fire the percentage is 11.79%. This percentage is low because of the cost of insurance after retirement and before medicare is effective.

ASSUMPTIONS

- No major increases in vacation and sick leave accrual for future years.
- Inflationary factor of 2% per year.
- Historical percentages stay the same for future years.
- Average age of all City employees remains consistent.

Six Year History Total City # of Retirements

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Six Yrs. Avg.
Police	10	11	13	14	10	15	12
Fire	12	11	6	12	9	9	10
Other Gen. Fd.	14	12	14	7	11	8	11
Other Funds		4	2			2	1
Airport	4	6	7	8	1	9	6
Pub. Util.	7	9	10	6	7	3	7
Total	47	53	52	47	38	46	47

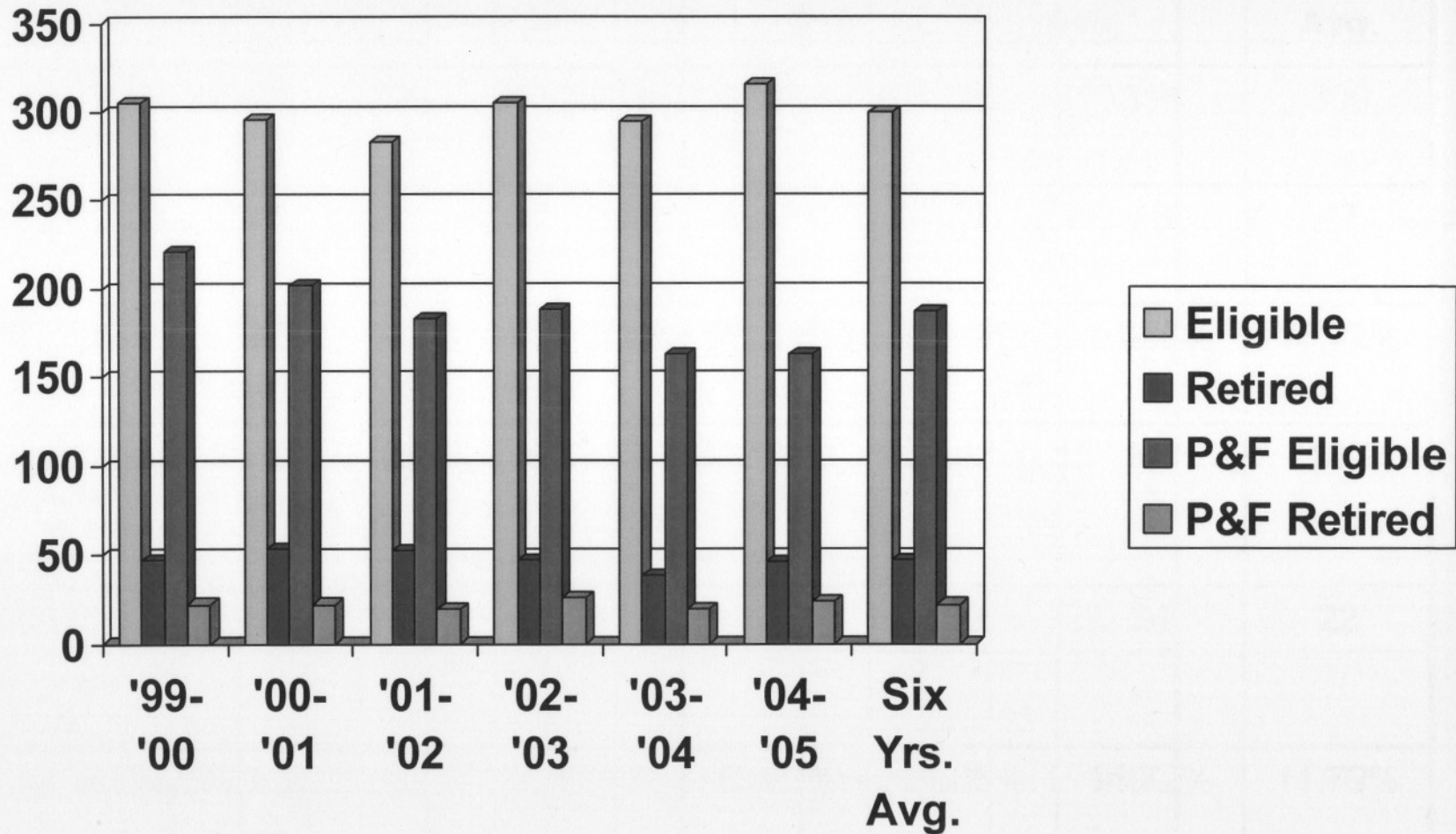
Six Year History

of Eligible Employee Able to Retire
of Employee That Actually Retired

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Six Yrs. Avg.
Total Eligible	305	296	283	305	295	316	300
Retired	47	53	52	47	38	46	47
%	15.41%	17.91%	18.37%	15.41%	12.88%	14.56%	15.72%
Police & Fire Eligible	221	202	183	188	163	163	187
Police & Fire Retired	22	22	19	26	19	24	22
%	9.95%	10.89%	10.38%	13.83%	11.66%	14.72%	11.79%

Six Year History

of Eligible Employee Able to Retire
of Employees That Actually Retired



SIX YEARS RETIREMENT HISTORY SUMMARY

EMPLOYEE HISTORY	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	SIX YEARS AVERAGE
TOTAL # OF EMPLOYEES ELIGIBLE TO RETIRE	305	296	283	305	295	316	300
TOTAL # OF ACTUAL RETIREMENTS	47	53	52	47	38	46	47
% OF RETIREE TO ELIGIBLE	15.41%	17.91%	18.37%	15.41%	12.88%	14.56%	15.72%
TOTAL RETIREMENT COSTS	\$ 1,530,709	\$ 1,405,205	\$ 1,530,391	\$ 1,018,760	\$ 1,194,280	\$ 1,076,499	\$ 1,292,641
TOTAL GENERAL FUND RETIREMENT COSTS	\$ 1,220,700	\$ 775,365	\$ 947,411	\$ 794,518	\$ 1,038,263	\$ 814,617	\$ 931,812
TOTAL GEN. FD. OTHER THAN POLICE & FIRE	\$ 472,364	\$ 248,881	\$ 438,757	\$ 159,941	\$ 333,012	\$ 119,086	\$ 295,340
TOTAL OTHER FUNDS	\$ 310,009	\$ 629,840	\$ 582,980	\$ 224,242	\$ 156,017	\$ 261,882	\$ 360,829
% OF GENERAL FUNDS RETIREMENT COSTS	79.75%	55.18%	61.91%	77.99%	86.94%	75.67%	72.09%
AVERAGE COST	\$ 32,568	\$ 26,513	\$ 29,431	\$ 21,676	\$ 31,428	\$ 23,402	\$ 27,503
POLICE AND FIRE ONLY							
TOTAL # OF EMPLOYEES ELIGIBLE TO RETIRE	221	202	183	188	163	163	187
TOTAL # OF ACTUAL RETIREMENTS	22	22	19	26	19	24	22
% OF RETIREE TO ELIGIBLE	9.95%	10.89%	10.38%	13.83%	11.66%	14.72%	11.79%
TOTAL RETIREMENT COSTS	\$ 748,336	\$ 526,484	\$ 508,654	\$ 634,577	\$ 705,251	\$ 695,531	\$ 636,472
TOTAL GENERAL FUND RETIREMENT COSTS	\$ 1,220,700	\$ 775,365	\$ 947,411	\$ 794,518	\$ 1,038,263	\$ 814,617	\$ 931,812
% OF GENERAL FUNDS RETIREMENT COSTS	61.30%	67.90%	53.69%	79.87%	67.93%	85.38%	68.30%
AVERAGE COST FOR POLICE AND FIRE	\$ 34,015	\$ 23,931	\$ 26,771	\$ 24,407	\$ 37,118	\$ 28,980	\$ 28,931
RETIREEES							
POLICE	10	11	13	14	10	15	12
FIRE	12	11	6	12	9	9	10
OTHER GENERAL FUND	14	12	14	7	11	8	11
OTHER FUNDS		4	2			2	1
AIRPORT	4	6	7	8	1	9	6
PUBLIC UTILITIES	7	9	10	6	7	3	7
TOTAL	47	53	52	47	38	46	47

Current Practice

- 1. Police and Fire Department Reserve in Non-Departmental \$650,000 per fiscal year
- 2. Other General Fund Departments forced to cover costs from surplus or cost savings
- 3. Enterprise and Internal Service Funds forced to cover costs from surplus or cost savings

FIVE YEARS RETIREMENT FORECAST SUMMARY

NUMBER OF ELIGIBLE EMPLOYEES	SIX PRIOR YEARS AVG.	2005-06	2006-07	2007-08	2008-09	2009-10
		GENERAL FUND	266	289	318	390
AIRPORT	39	48	64	82	108	
PUBLIC UTILITIES	44	56	67	84	105	
OTHER	7	9	11	12	15	
LESS PRIOR YR RETIREES			-56	-110	-165	-228
TOTAL # OF EMPLOYEES ELIGIBLE TO RETIRE	300	356	346	350	403	462
TOTAL # OF ESTIMATED RETIREMENTS	47	56	54	55	63	73
% OF RETIREE TO ELIGIBLE	15.72%	15.72%	15.72%	15.72%	15.72%	15.72%
TOTAL RETIREMENT COSTS	\$ 1,292,641	\$ 1,569,939	\$ 1,556,356	\$ 1,605,836	\$ 1,885,985	\$ 2,205,339
TOTAL GENERAL FUND RETIREMENT COSTS	\$ 931,812	\$ 1,131,705	\$ 1,121,914	\$ 1,157,581	\$ 1,359,530	\$ 1,589,739
TOTAL GEN. FD. OTHER THAN POLICE & FIRE	\$ 295,340	\$ 536,774	\$ 529,279	\$ 600,149	\$ 750,337	\$ 870,448
TOTAL OTHER FUNDS	\$ 360,829	\$ 438,234	\$ 434,442	\$ 448,255	\$ 526,455	\$ 615,600
% OF GENERAL FUNDS RETIREMENT COSTS	72.09%	72.09%	72.09%	72.09%	72.09%	72.09%
AVERAGE COSTS PER RETIREE + 2% INFLATION PER YR	\$ 27,503	\$ 28,053	\$ 28,614	\$ 29,186	\$ 29,770	\$ 30,366
POLICE AND FIRE ONLY						
TOTAL # OF ELIGIBLE EMPLOYEES ON REPORTS	187	171	187	194	223	268
LESS # OF RETIREES IN PRIOR YEARS			-20	-40	-58	-77
TOTAL # OF EMPLOYEES ELIGIBLE TO RETIRE	187	171	167	154	165	191
TOTAL # OF ESTIMATED RETIREMENTS	22	20	20	18	19	23
% OF RETIREE TO ELIGIBLE	11.79%	11.79%	11.79%	11.79%	11.79%	11.79%
AVERAGE COSTS PER RETIREE + 2% INFLATION PER YR	\$ 28,931	\$ 29,509	\$ 30,099	\$ 30,701	\$ 31,315	\$ 31,942
TOTAL RETIREMENT COSTS	\$ 636,472	\$ 594,931	\$ 592,635	\$ 557,432	\$ 609,193	\$ 719,291
TOTAL GENERAL FUND RETIREMENT COSTS	\$ 931,812					
% OF GENERAL FUNDS RETIREMENT COSTS	68.30%					

Five Year Projection Total City # of Retirements

	Six Prior Yrs. Avg.	2005-06	2006-07	2007-08	2008-09	2009-10
General Fund		266	289	318	390	462
Airport		39	48	64	82	108
Pub. Util.		44	56	67	84	105
Other Funds		7	9	11	12	15
Prior Yrs. Retirees			-56	-110	-165	-228
Total Eligible	300	356	346	350	403	462
Estimated Retirees	47	56	54	55	63	73

Five Year Projection Police & Fire # of Retirements

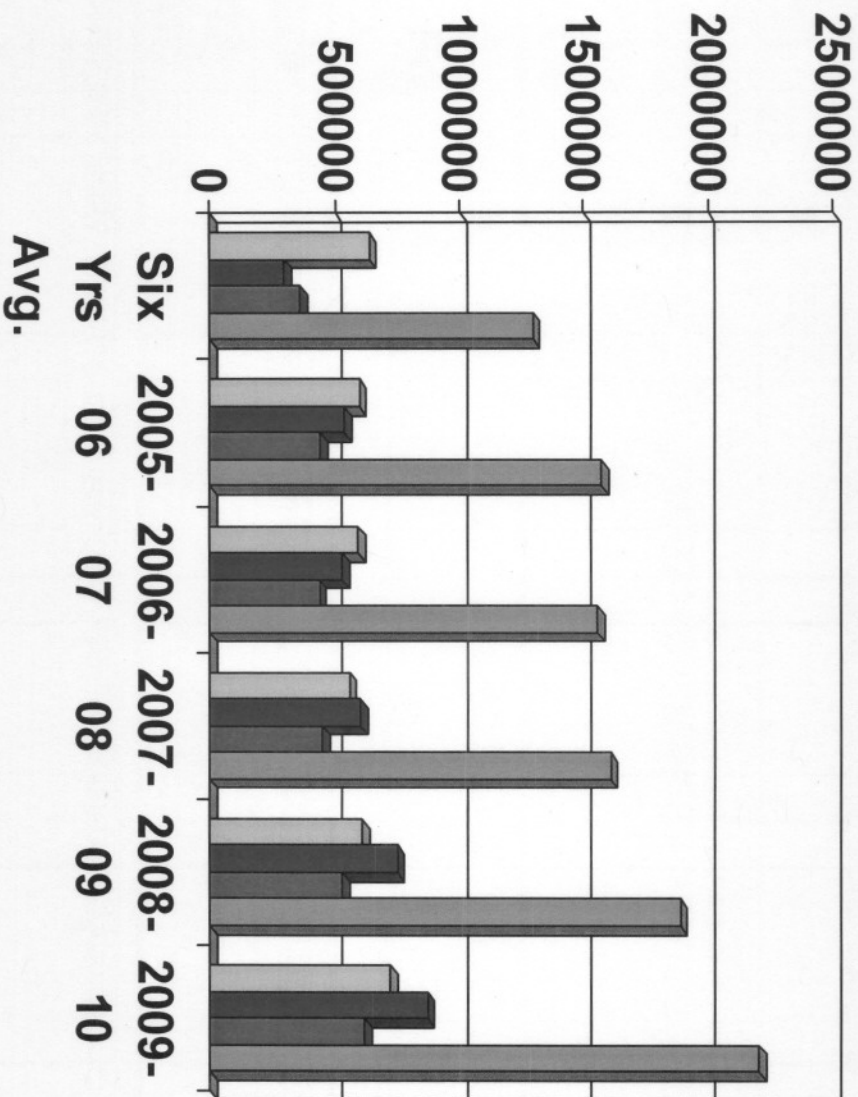
	Six Prior Yrs. Avg.	2005-06	2006-07	2007-08	2008-09	2009-10
Police & Fire Eligible	187	171	187	194	223	268
Prior Yrs. Retirees			-20	-40	-58	-77
Total Eligible	187	171	167	154	165	191
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Five Year Projection

Total Dollars

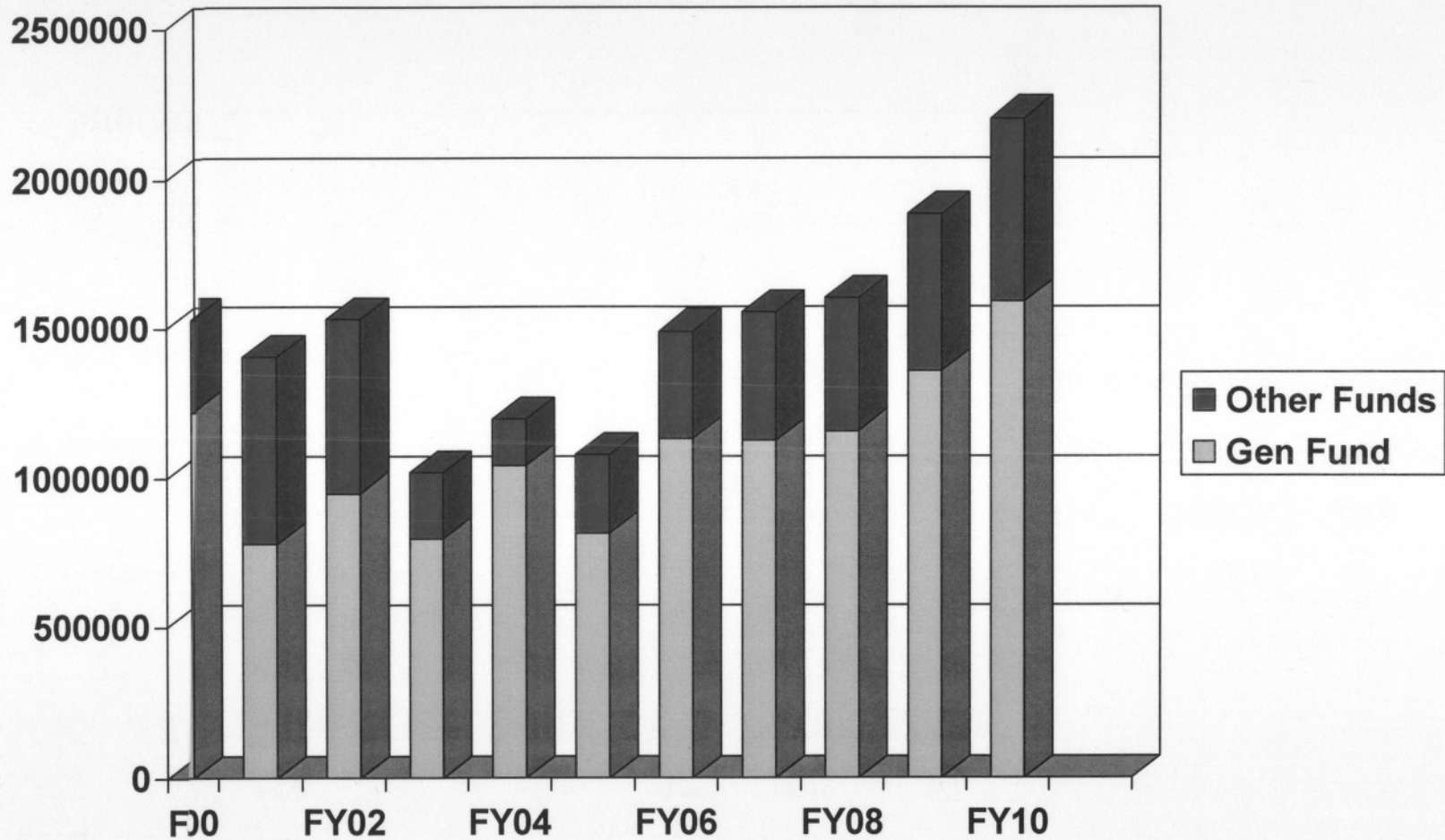
	Six Prior Yrs Avg.	2005-06	2006-07	2007-08	2008-09	2009-10
Police & Fire Costs	636,472	594,931	592,635	557,432	609,193	719,291
Other Gen. Fd. Costs	295,340	536,774	529,279	600,149	750,337	870,448
Other Funds Costs	360,829	438,234	434,442	448,255	526,455	615,600
Total	1,292,641	1,569,939	1,556,356	1,605,836	1,885,985	2,205,339

Five Year Projection Total Dollars

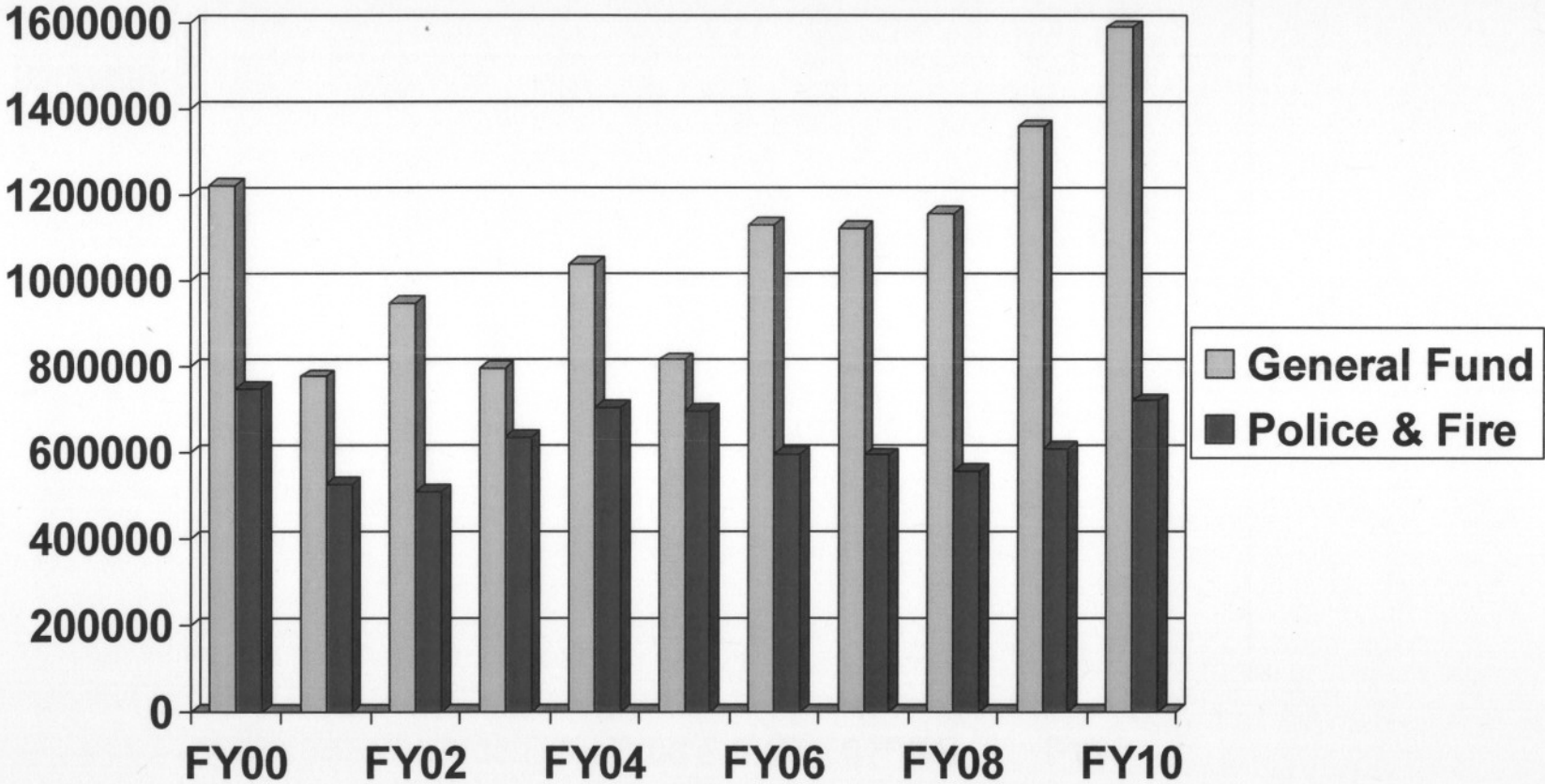


- Police & Fire
- Gen Fd Other
- Other Funds
- Total

Total City Retirement Costs ix Years History and Five Years Forecast



Total General Fund Retirement Costs Six Years History and Five Years Forecast



Five Year Projection General Fund

	2005-06	2006-07	2007-08	2008-09	2009-10
Police & Fire Costs	594,931	592,635	557,432	609,193	719,291
Reserve	650,000	650,000	650,000	650,000	650,000
Net Diff.	55,069	57,365	92,568	40,807	-69,291
General Fund Costs	1,131,705	1,121,914	1,157,581	1,359,530	1,589,739
Reserve	650,000	650,000	650,000	650,000	650,000
Net Diff.	-481,705	-471,914	-507,581	-709,530	-939,739

employees retired from other funds (airport, public utilities, fleet, golf, IMS) for a total six-year average of 47 employees retiring. The six year average payout per retired employee was \$27,503.

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7. According to the study 690 employees or 25.5% of all city employees are eligible to retire within the next five years.
8. The study projects that 301 employees will retire within the next five years which is 11.1% of the entire workforce.
9. Based on the study, the number of retirees will be increasing over time with a projection that 73 employees will retire in the year 2010, and the annual amount needed to fund the retirement costs at that time will be approximately \$2,205,000 for accumulated vacation and sick leave payouts.
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