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2009 JUL 17 PMLETFER TO COMMISSION

CITY CLERK'S OFFICE

TO:

Mayor Matti Herrera Bower and Members of the City Commission

FROM:

Jorge M. Gonzalez, City Manager

DATE:

July 17, 2009

SUBJECT: Pension Protection Act of 2006

The purpose of this Letter to Commission is to respond to a request from Vice Mayor Diaz regarding the Pension Protection Act of 2006, and what impact it would have on the City's budget if the Pension Protection act of 2006 were to apply to public employers.

The Pension Protection Act of 2006 (PPA) was signed into law on August 17, 2006. It is important to note that this federal legislation applies only to private entities.

Among other provisions, the PPA requires applicable employers with defined benefit (pension) plans to make sufficient contributions to meet a 100% funding target and erase funding shortfalls over seven (7) years, beginning in 2008. The PPA also prohibits an increase in benefits if a pension plan is less than 80% funded, unless the benefits are paid for immediately. It also amends the methods with which actuarial valuation calculations must be made.

While the PPA does not apply to the City of Miami Beach and it does not appear likely to apply in the foreseeable future, if the PPA were to be amended or similar legislation were to be passed such that similar requirements were in place for the City, it is estimated that the City's financial obligations for pension funding would be greater. The number of years to fund the unfunded liability would be shortened from 30 years to seven (7) years. The City's annual Actuarial Required City Contributions (ARC) would need to be increased in order to fully fund the unfunded liability over the shorter time period. However, the extent of that increase in funding is unknown at this time, and again, the PPA does not apply to the public sector.

Please feel free to contact me if you have any questions or need any additional information regarding this information.

JMG/RI/kt

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