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MIAMI BEACH

OFFICE OF THE CITY MANAGER

NO. LTC # 249-2009

LETTER TO COMMISSION

TO: Mayor Matti Herrera Bower and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager

DATE: September 23, 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 pension cost 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, not to state and municipal governments.

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. However, since the PPA does not apply to the City of Miami Beach, any pension impact calculation will only be an estimate.

According to the City's actuary for pension matters, if the interest discount rates and funding rules of the provisions of the PPA applicable to corporate plans were applicable to the City of Miami Beach Fire and Police pension plan, it is estimated that the annual contribution requirement would be approximately \$51 million, compared to the current requirement of \$23 million. If the interest discount rates and funding rules of the provisions of the PPA applicable to corporate plans were applicable to the City of Miami Beach Employee Retirement Plan (MBERP), it is estimated that the annual contribution requirement would be approximately \$37.5 million, compared to the current requirement of \$17 million.

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

JMG/RI/kt

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