

December 27, 2016

PRIVATE

Mr. Mark Heine
 Fire Chief
 Novato Fire Protection District
 95 Rowland Way
 Novato, CA 94945

Re: Pension Study

Dear Mr. Heine:

The Novato Fire Protection District (the “District”) sponsors a defined benefit pension program for its retirees through the Marin County Employee’s Retirement Association (MCERA). The District requested that The Nyhart Company provide an estimate of the cost impact of a potential contract between the Novato Fire Protection District and the Novato Fire Chief Officers’ Association. In addition to providing scheduled pay increases for the two members of the represented group, the contract would provide for a 5% reduction in the District-paid member contribution (subvention) for the employee’s pension benefit. The reduction will be completed over the course of the contract from January 1, 2017 through December 31, 2019 with a 2% reduction in the year 2017; a 2% reduction in 2018; and a 1% reduction in 2019. The contract also provides for the elimination of longevity. The specific data provided by the District is provided in the table below.

Data	Menzel	Whittet
Date of Hire	2/1/1996	1/1/1998
Date of Birth	5/9/1969	8/19/1968
Base Salary - to 12/31/2016	\$ 135,978.00	\$ 142,776.96
Base Salary - 1/1/2017	\$ 145,496.40	\$ 152,771.22
Base Salary - 1/1/2018	\$ 149,861.29	\$ 157,354.35
Base Salary - 1/1/2019	\$ 154,357.13	\$ 162,074.99
Member Contribution	13.24%	14.94%
Subvention % - 11/15/2016	5.00%	8.00%
Subvention % - 1/1/2017	3.00%	6.00%
Subvention % - 1/1/2018	1.00%	4.00%
Subvention % - 1/1/2019	0.00%	3.00%

Methodology

Using the OPEB actuarial valuation platform and the retirement assumptions from the most recent MCERA actuarial valuation, The Nyhart Company set up the pension retirement benefits (3% at age 50 formula) provided to the two employees to estimate the additional pension costs due to the increase in the salary. This would be offset by the expected reduction in the District subvention. The present value of both the expected retirement benefits and the expected reduction in the District paid subvention were determined. In order to best isolate in on the impact due to the specific contract changes proposed, we assumed that the current (2016) salary and subvention would have stayed in effect during the contract period and thereafter. This was compared to the contract changes assuming that at the end of the contact period the last salary under the contract and the last subvention amount would stay in place thereafter.

Key assumptions used to determine the expected pension payments and subvention and the present value of these amounts are provided below.

Key Assumptions		
Discount Rate		7.25%
Cost-of-Living Adjustment		2.70%
Retirement Rates	From MCERA June 30, 2015 Valuation; Safety Employees	
Withdrawal		None
Disability		None
Pre-retirement Mortality		None
Post-retirement Mortality	RP-2006* Total Dataset Mortality Tables Projected Fully Generational using 2016 Social Security Administration Scale.	
Spouse %/Age Difference		80%/3 years
Credited Service	Based on Date of Hire; Excludes any Assumption for Sick Leave or Other Additional Service Credits	
Reciprocity		Excluded

* This table is the RP-2014 with the MP-2014 projection scale removed from central year of study (2006) to 2014.

The study excluded any analysis related to the elimination of the longevity pay since the District indicated that neither member will meet the requirements for longevity pay during the contract period and the provision has an offsetting member cost when provided.

Results

The table below shows the results of the study. The payments reflect the sum of the dollar amounts expected to be paid over the life of the employee or in the case of subvention and salary payments over the expected employment life of the employee. The present value reflects the value at January 1, 2017 using a discount rate of 7.25%.

	Pre-Contract Changes	Post Contract Changes	Increase/ (Decrease)
Total Pension Payments	\$10,972,216	\$12,324,505	\$1,352,289
<i>Present Value of Payments</i>	\$ 2,293,344	\$ 2,570,854	\$ 277,510
Total Subvention Payments	\$ 126,165	\$ 45,963	(\$ 80,202)
<i>Present Value of Subvention</i>	\$ 98,498	\$ 38,074	(\$ 60,424)
Total Salary Payments	\$ 1,916,591	\$ 2,148,398	\$ 231,807
<i>Present Value of Salary</i>	\$ 1,499,144	\$ 1,675,140	\$ 175,996

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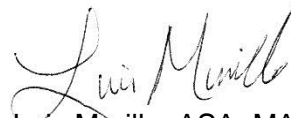
The results above are estimates and may vary significantly if assumptions are modified or actual experience is different than assumed. In general, the assumptions used were those from the most recent publicly available MCERA actuarial valuation report except as noted above.

We have enjoyed working on this assignment and are available to answer any questions.

Sincerely,
NYHART



Marilyn K Jones, ASA, MAAA, EA, FCA
Consulting Actuary



Luis Murillo, ASA, MAAA
Actuary