



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Alex Gurza

SUBJECT: See Below

DATE: January 12, 2006

Approved

Ray Winer

Date

1/13/06

SUBJECT: PROPOSED ORDINANCE TO IMPLEMENT A FLAT 3% COST-OF-LIVING ADJUSTMENT (COLA) FOR MEMBERS OF THE FEDERATED RETIREMENT SYSTEM

RECOMMENDATION

Approval of an ordinance amending Chapter 3.44 of Title 3 of the San Jose Municipal Code by adding Section 3.44.160 to provide a flat 3% Cost-of-Living Adjustment effective April 1, 2006, for persons retired from the Federated City Employees Retirement System and for survivors of members or retirees.

BACKGROUND

Currently, the Federated Retirement System provides an annual adjustment in retirement benefits equal to the increase in the Consumer Price Index (CPI), up to 3%. If the CPI grows by more than 3%, the portion in excess of 3% is "banked" and is applied in years when the CPI grows by less than 3%. For example, if the CPI increases by 5%, retirees receive a 3% COLA and 2% is "banked" to be used in years when the CPI is less than 3%.

Prior to February 1, 2002, the Police and Fire Department Retirement Plan had the same COLA benefits as the Federated Retirement System. Effective February 1, 2002, the COLA benefits in the Police and Fire Department Retirement Plan were changed to a flat 3% COLA. The change resulted in a 3% COLA every year, regardless of the actual change in the CPI and the "banking" feature was eliminated.

Bargaining units representing employees receiving benefits from the Federated Retirement System initiated discussions regarding the implementation of a flat 3% Cost-of-Living Adjustment (COLA) for employees who were to retire from the Federated City Employees Retirement System and for survivors of members or retirees.

ANALYSIS

In October 2004, the City Administration and the bargaining unit representatives requested that the Federated Retirement Board's actuary study the cost impact of implementing a flat 3% Cost-of-Living Adjustment, including any impact to the City's contribution rate to the retirement system, any impact to the employee contribution rate to the retirement system, and any impact to the unfunded accrued liability.

In December 2004, the Board's actuary, Mr. Norman S. Losk from Gabriel, Roeder, Smith & Company, issued a response indicating that a benefit enhancement of a flat 3% Cost-of-Living increase would have no impact on the contribution requirement developed in the actuarial valuation as of June 30, 2003. Because Mr. Losk did not comment on any potential impact to the unfunded accrued liability (positively or negatively) by changing the benefit from a COLA adjustment that is based upon the CPI (with the banking feature) to a fixed 3% COLA regardless of the actual CPI, in March 2005, the City Administration requested further clarification from Mr. Losk. In April 2005, Mr. Losk issued a letter confirming his opinion that this change will have minimal impact on the actuarial accrued liabilities of the system and the actuarially calculated contribution rates for the system.

However, in the event the Board's actuary determines that there is an increased cost resulting from the implementation of the change to a flat 3% Cost-of-Living adjustment, the bargaining units have agreed that such increased cost shall be paid by employees through the employees' contribution rate. Although bargaining units negotiate benefits only for current employees, the recommendation includes changing the COLA for current retirees with the agreement from the bargaining units that the members will pay for the entire cost of this change, if there is determined to be any.

On December 8, 2005, the Federated Retirement Board reviewed and approved the draft ordinance that would implement a flat 3% Cost-of-Living Adjustment effective April 1, 2006.

OUTCOMES

Not applicable.

PUBLIC OUTREACH

Not applicable.

COORDINATION

This memorandum was coordinated with the Department of Retirement Services and the City Attorney's Office. The recommendation is a result of discussions with the bargaining units representing employees in the Federated Retirement System. The draft ordinance was reviewed by the Federated Retirement Board at its meeting on December 8, 2005.

COST IMPLICATIONS

There is no increased direct cost to the City for this benefit enhancement. In the event the Board's actuary determines that there is an increased cost to implement the change to a flat 3% Cost-of-Living adjustment, such increased cost will be paid for by the members of the Federated Retirement System as part of the employees' contribution rate.



Alex Gurza
Director of Employee Relations

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