



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Edward F. Overton

SUBJECT: Approval of an Ordinance Amending
Municipal Code Allowing Police
Members to Make Contributions for
UAAL

DATE: 28 February 2007

RECOMMENDATION

Approval of an ordinance amending Section 3.36.1555 of the San Jose Municipal Code to require Police members of the Police & Fire Department Retirement Plan to make contributions for a portion of the Unfunded Actuarially Accrued Liability (UAAL) resulting from the delay in the implementation of the Police members' contribution rates.

OUTCOME

This ordinance, if approved, will permit Police members of the Police & Fire Department Retirement Plan to pay that portion of the UAAL contributions which would have been paid by members had the contribution rates been implemented in July 2006.

BACKGROUND

The Police & Fire Department Retirement Plan benefit formula was enhanced for Police members effective July 1, 2006. The P&F retirement benefit formula prior to that date reached the maximum level at 85% of final average salary (FAS). The new formula changed the maximum to 90% of FAS. This benefit increase was effective July 1, 2006 for all Police members retiring on or after that date. However, the increased contribution rates were not implemented until December 17, 2006.

ANALYSIS

Increased retirement benefits are normally studied by the Plan's actuary resulting in new contribution rates for Plan members as well as the City. The actuarial work on the new Police member benefits was not completed in a time period which would permit implementation of the

new rates before July 1, 2006. Unfortunately, the Police & Fire Retirement Board terminated its agreement with the actuary, William M. Mercer Human Resources Consulting, who had begun the analysis. A new actuary was hired and began work for the Police & Fire Department Retirement Plan effective August 14, 2006. The new actuary concluded work on the new contribution rates and provided information to the Board in October 2006. The Board approved the implementation of the new rates effective December 17, 2006.

Because the increased contribution rates were not paid from July 2006 to December 2006, the portion of the increased rates attributable to active employees were not made resulting in an actuarial liability for the unpaid contributions. Under normal circumstances, all UAAL costs are paid by the City; however, City Administration negotiated a different treatment of UAAL costs with the Police Officers' Association; whereby the members will pay that portion of the accrued liability resulting from the delay in the implementation of employees' contribution rates.

PUBLIC OUTREACH

Not applicable.

COORDINATION

This action was approved by the Police & Fire Department Retirement Board at its January 4, 2007 meeting and coordinated with the City Attorney's Office and the Office of Employee Relations.

COST IMPLICATIONS

There are no further cost implications.

CEQA

Not a project.



Edward F. OVERTON
Secretary – Board of Administration
Police & Fire Retirement Plan

