



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Alex Gurza

SUBJECT: SEE BELOW

DATE: May 3, 2006

Approved

Date 5/3/06

SUBJECT: ORDINANCE TO IMPLEMENT A BENEFIT ENHANCEMENT FOR POLICE DEPARTMENT MEMBERS OF THE POLICE & FIRE DEPARTMENT RETIREMENT PLAN

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Approval of an ordinance amending Chapter 3.36 of Title 3 of the San Jose Municipal Code to provide increased retirement benefits for members of the Police and Fire Department Retirement Plan who are employed in the Police Department and retire on or after July 1, 2006.

OUTCOME

Adoption of the ordinance amending the Police and Fire Retirement Plan would implement the enhanced retirement benefit negotiated between the City and the San Jose Police Officers' Association. This change would apply to current police department members of the Plan who retire on or after July 1, 2006.

BACKGROUND

The City of San Jose and the San Jose Police Officers' Association (SJPOA) entered into a new Memorandum of Agreement (MOA) for the period from March 1, 2004 to June 30, 2008. The MOA includes changes to retirement benefits, including a change to the benefit formula. The agreement provides for the change to the benefit formula to be effective for employees who retire on or after July 1, 2006.

ANALYSIS

The current formula for calculating retirement benefits for Police and Fire Retirement plan members in the San Jose Police Department is two and one half (2 ½%) percent of final compensation for each year of service with the City up to twenty (20) years, plus three (3%) percent of final compensation for each year of service with the City between 21 and 25 years, and four (4%) from 26 – 30 years subject to a maximum of 85% of final compensation at 30 years of service.

For Police and Fire Retirement plan members in the San Jose Police Department, the City and the SJPOA have negotiated a change in the benefit formula. The enhanced benefit formula is as follows: two and one half (2 ½%) percent of final compensation for each year of service with the City up to twenty (20) years, plus four (4%) percent of final compensation for each year of service with the City between 21 – 30 years subject to a maximum of ninety (90%) percent of final compensation at 30 years of service. The MOA provides that this enhanced benefit formula will be effective for Police and Fire Retirement plan members in the San Jose Police Department and who retire on or after July 1, 2006. In order to implement the negotiated benefit, the Municipal Code must be modified to change the plan provisions.

In December 2005, the City requested that the Board of Administration for the Police and Fire Department Retirement Plan have an actuarial study conducted by its actuary to cost the negotiated retirement benefit enhancement for Police and Fire Department plan members in the San Jose Police Department. The study is currently pending. The City retained an actuary to determine an estimated cost of the benefit enhancement, and a copy of that actuarial report is attached.

PUBLIC OUTREACH

Not applicable.

COORDINATION

This memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office. A copy of the draft of the amended ordinance was forwarded to the SJPOA, and they confirmed it reflects the negotiated benefit enhancement.

Pursuant to San Jose Municipal Code Section 3.36.485, on March 3, 2006 a copy of the draft ordinance for this enhanced retirement benefit was provided to the Secretary of the Police and Fire Department Retirement Board for the Board's review and recommendation. Within sixty (60) days after receipt of the proposed ordinance by the Secretary to the Board, the Board may, but is not required to, submit a report or recommendation on the proposed amendment to the City Council. The sixty-day period expired on May 2, 2006.

May 3, 2006

Subject: Retirement Benefit Enhancement for Police Department Members of the Police & Fire Department Retirement Plan

Page 3 of 3

COST IMPLICATIONS

The City's Actuary estimated that providing the enhanced retirement benefit for Police and Fire Retirement plan members in the San Jose Police Department and who retire on or after July 1, 2006 would increase the City's contribution rate to the Police and Fire System by approximately 3.65% of covered payroll annually (\$5.07 million). The Police and Fire Department Retirement Board is scheduled to meet on June 8, 2006, to discuss the report from the Board's actuary. It is anticipated that at that meeting the Board will establish the contribution rates for the enhanced benefit for Police and Fire Retirement plan members in the San Jose Police Department.



Alex Gurza
Director of Employee Relations

For questions please contact Alex Gurza, Director of Employee Relations, at (408) 535-8150.

Attachment



May 2, 2006

Mr. Alex Gurza
Director of Employee Relations
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: City of San Jose Police and Fire Department Retirement Plan – POA Benefit Enhancement

Dear Mr. Gurza:

This letter provides the estimated cost impact of POA benefit enhancement for City of San Jose Police and Fire Department Retirement Plan.

Background

The City of San Jose and the San Jose Police Officers' Association (POA) have entered into a new Memorandum of Agreement. The Agreement includes changes to the retirement benefit formula. The change is effective for POA employees who retire on after July 1, 2006.

POA Benefit Enhancement

The changes to the benefit formula for POA employees are:

- **Service Retirement Allowance:** The monthly service retirement allowance equals a percentage factor, based on service times final compensation. The following table shows the percentage factors under the old and new formulas:

Service	Old Formula	New Formula
1-20 Years	2.5%	No change
21-25 Years	3.0%	4.0%
26-30 Years	4.0%	No change
Percentage Cap	85%	90%

- **Service-Connected Disability Retirement Allowance:** The old monthly service-connected disability retirement allowance equaled 50% of final compensation for up to the first 20 years of service, plus 3% of final compensation for each of the next 5 years of service and 4% of final compensation for each of the next 5 years. The old allowance was capped at 85% of final compensation. The new formula is the same as the old formula except that all service over 20 years is credited with 4% of final compensation and the allowance is capped at 90% of final compensation.
- **Non-Service-Connected Disability Retirement Allowance:** For member with 20 or more years of service, the monthly non service-connected disability retirement allowance equaled 50% of final compensation for up to the first 20 years of service, plus 3% of final compensation for each of the next 5 years of service and 4% of final compensation for each of the next 5 years of service. The allowance was capped at 85% of the final compensation. The new formula is the same as the old formula except that all service over 20 years is credited with 4% of final compensation and the allowance is capped at 90% of the final compensation.
- **Survivorship allowance:** no change



Cost Impact

The following table summarizes the cost impact of the POA benefit enhancement. The actuarial liability increases approximately \$35 million. The City contribution rate as a percentage of total payroll increases by 2.36%, from 20.83% to 23.19%. The employee contribution rate as a percentage of Police payroll increases by 0.42%, from 8.26% to 8.68%, and the City contribution rate as a percentage of Police payroll increases by 3.65%, from 20.85% to 24.50%.

	<u>July 1, 2003 Valuation</u>		
	<u>Before</u>	<u>Change</u>	<u>After</u>
• Actuarial Liability (000s)	\$ 1,804	\$ 35	\$ 1,839
• Actuarial Value of Assets (000s)	<u>1,826</u>	<u>0</u>	<u>1,826</u>
• Unfunded Actuarial Liability (000s)	(22)	35	13
• City Contribution Rates Based on Total Safety Payroll			
▶ Normal Cost	21.86%	0.73%	22.59%
▶ UAL Amortization	<u>-1.03%</u>	<u>1.63%</u>	<u>0.60%</u>
▶ Total	20.83%	2.36%	23.19%
• City Contribution Rates Based on POA Payroll Only			
▶ Normal Cost	21.86%	1.14%	23.00%
▶ UAL Amortization	<u>-1.01%</u>	<u>2.51%</u>	<u>1.50%</u>
▶ Total	20.85%	3.65%	24.50%
• Employee Contribution Rates Based on POA Payroll Only			
▶ Normal Cost	8.20%	0.42%	8.62%
▶ UAL Amortization	<u>0.06%</u>	<u>0.00%</u>	<u>0.06%</u>
▶ Total	8.26%	0.42%	8.68%

Method and Assumptions

Our calculations are based on the following:

- Valuation Date and Data: July 1, 2003. Based on the data provided, we are able to match the July 1, 2003 valuation results produced by Mercer Human Resource Consulting. The cost impact may change modestly if a more recent valuation date and data were used.
- Assumptions: Mercer 2005 experience study. We used the same assumptions as proposed by the Plan actuary with no changes to the retirement rates.
- Asset allocation: We allocated assets for Police and Fire based on actuarial liability. This approach maintains the same funded status for each group before the enhancement, resulting in slightly different City contribution rates for each group before the benefit enhancement. Employee contribution rates remain unchanged.
- The above methods and assumptions do not allocate any of the Police enhancement cost to Firefighters.

May 2, 2006
Mr. Alex Gurza
Page 2



***** Actuarial Certification *****

As an Enrolled Actuary under ERISA, an Associate in the Society of Actuaries, a Fellow in the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these calculations are consistent with generally accepted actuarial principles and practices.

Based on the foregoing assumptions, we certify:

- The increase in the actuarial liability due to the POA benefit enhancement is \$35 million.
- The increase in the City's contribution rate due to the POA benefit enhancement is 2.36% of total payroll, or 3.65% of Police payroll.
- The increase in the employee contribution rate due to the POA benefit enhancement is 0.42% of Police payroll.

Please call Bianca Lin (650/377-1604) or me (650/377-1601) with any questions about this letter.

Sincerely,

John E. Bartel

c: Bianca Lin, Bartel Associates

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