



Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Debra Figone

SUBJECT: POLICE & FIRE RETIREES
REQUEST FOR ENHANCED BENEFIT

DATE: 12-04-08

RECOMMENDATION

Refer the enhanced retiree benefit request made by the Association of Retired San Jose Police Officers and Firefighters to the Police & Fire Department Retirement Board for further actuarial study.

OUTCOME

If the Rules and Open Government Committee accepts the recommendation, further actuarial analysis will be completed by the Police & Fire Department Retirement Board's actuary to determine the cost of providing medical and dental benefits to the surviving spouse of a retiree, regardless of whether the retiree was married to that spouse at the time retirement. Upon the completion of such review, the City Administration will bring this item forward to the City Council.

BACKGROUND

The City provides two defined benefit plans, one covering police officers and firefighters and the other covering all other full-time employees. Both Plans provide retirement, disability, survivorship and health benefits.

Generally, retirees receive those benefits that are in effect at the time of retirement unless the City Council decides to enhance benefits for persons who have already retired. Although the City is not obligated to make changes to retirement benefits for existing retirees, the City Council can approve changes that apply only to current retirees. In 1998, the City Council established an administrative process for representatives from the Retiree Associations to meet with the City Manager and communicate issues and concerns. If issues are raised that is within the scope of the meet and confer process, these issues could be addressed with the bargaining groups and costs could be obtained from the actuaries. By utilizing the established process, the City has a better understanding of the total costs to the Retirement System and the resulting impacts on the General Fund.

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The Association of Retired San Jose Police Officers & Firefighters originally made requests for several benefit enhancements in March 2007. The item was originally scheduled to be brought forward before the City Council on May 22, 2007, however the Association requested a deferral until June 19, 2008. The City Administration prepared a Council Memo and Supplemental Memo recommending that the benefit enhancements requested by the Association of the Retired San Jose Police Officers and Firefighters not be approved. On June 18, 2008, the Association requested withdrawal of this item on the June 19, 2008 Council Agenda.

The Association of the Retired San Jose Police Officers and Firefighters has since modified their original requests for enhanced retiree benefits and is now requesting that medical and dental insurance be provided to surviving spouses of retirees in circumstances in which the marriage occurs after retirement.

Currently, a surviving spouse married to the retiree at the time of retirement is entitled to a pension benefit upon the death of the member. The surviving spouse is also eligible for medical and dental benefits if either (1) the member has 15 years of service credit at the time of retirement or (2) the surviving spouse benefit is at least 37.5% of the member's final average compensation. The Police & Fire Retirees request would result in the City providing medical and dental benefits for surviving spouses of retirees in circumstances in which the marriage occurs after retirement.

In a meeting with representatives from the Association of Retired San Jose Police Officers & Firefighters, the representatives were advised that given the City's fiscal situation I would not be recommending the enhanced retiree benefit to the City Council. The Association of Retired San Jose Police Officers & Firefighters requested that this item be brought forward to the City Council. However, prior to Council consideration of this item, further actuarial study is required as discussed below.

ANALYSIS

The Police and Fire Department Retirement Plan currently does not extend medical and dental benefits to a surviving spouse in which the marriage occurs after retirement. The request to change the definition of surviving spouse for purposes of providing medical and dental benefits would only apply to existing retirees and would not apply to future retirees because changes for future retirees are subject to negotiations with the San Jose Police Officers' Association (POA) and/or the International Association of Fire Fighters (IAFF, Local 230). Providing this benefit enhancement only to current retirees would result in these retirees receiving a benefit that future retirees will not receive. Employees who retire on or before the effective date would receive this benefit enhancement, but anyone who retires the very next day or thereafter would not.

In December 2006, the Board's actuary, the Segal Company, completed an actuarial analysis of providing pension, medical and dental benefits to a surviving spouse of a retiree, regardless of whether the retiree was married to that spouse at the time of retirement. In conducting this analysis, the Board's actuary only considered the number of beneficiaries that the Plan knew at the time would be eligible for the benefit if provided and did not factor or consider other surviving spouses that may become eligible in the future.

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The modified request made by the Association of Retired San Jose Police Officers and Firefighters would only provide medical and dental benefits and not pension benefits. The proposed benefit would be extended to spouses of retired members who have married after the member's date of retirement, including future spouses of current unmarried retired members who would be covered by virtue of having married a retired member before the member's date of death. In order to determine the cost of this modified request, the Board's actuary would need to complete an actuarial analysis that estimates the cost of any retiree who may become eligible for lifetime medical and dental benefits.

Further, since the request does not extend the proposed benefit to future retirees, the costing to extend the proposed benefit to spouses of current employees who have not yet retired from the System would also be requested by the actuary. This would allow the City Council to have the full estimated cost associated with this benefit before determining next steps, if any.

A handwritten signature in black ink, appearing to read 'Debra Figone', with a long horizontal flourish extending to the right.

Debra Figone
City Manager

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