



Memorandum

TO: RULES AND OPEN GOVERNMENT COMMITTEE **FROM:** Debra Figone

SUBJECT: RETIREMENT REFORM WORK PLAN

DATE: August 27, 2010

RECOMMENDATION

It is recommended that the Rules and Open Government Committee review and approve the Retirement Reform Work Plan as described below.

OUTCOME

Input to the City Council regarding major considerations and concerns with the existing retirement systems and priority elements for retirement reform, to be used by the Council in developing principles to guide achievement of a revised retirement system, inclusive of pensions and retiree healthcare benefits.

BACKGROUND

Retirement benefits are the most expensive benefits provided to employees. The City has two retirement plans: the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System. The City recognizes the importance of pension and retiree healthcare benefits and the significant cost implications now, as well as to future generations. Retirement reform is essential to the long-term sustainability and availability of retirement benefits for City employees.

On August 3, 2010, the City Council's decision to proceed with a ballot measure on Pension Reform included direction to reconstitute the General Fund Structural Budget Deficit Elimination Task Force as a component of the reform process. This direction mirrors the recommendations of the General Fund Structural Deficit Elimination Plan (November 2008), as indicated on page 47, section (c):

Implement a Two-Tier Retirement Benefit: In 2008-2009, employee retirement contributions are projected to cost the City over \$135M. The cost has increased 2 1/2

*times from the \$54 million annual cost in 1996. Given this rate of increase, and forecasts that costs will continue to escalate rapidly, the City should examine an alternate retirement system for new employees while maintaining the current system for current employees. A two-tier retirement system is a cost savings strategy that may require meet and confer and would have a beneficial impact on the City in the future. Specifically, new employees would be offered a different type or level of retirement than that of current employees. Several private and public organizations have implemented two-tier systems with success. **The City should continue its analysis of the strategy and examine possible models for implementation of revised retirement structures for new employees in the future.***

The City will begin negotiations with virtually all of the City's bargaining units early in 2011. The negotiation process is the appropriate forum to work collaboratively to develop specific revisions to the retirement systems for future hires. It is staff's understanding that the Task Force is being convened to provide high-level input to the City Council as they prepare to guide upcoming negotiations.

ANALYSIS

Based on the totality of the work and time needed to achieve retirement reform (policy, technical, meet and confer, actuarial, implementation, etc.), staff proposes that the Task Force be focused on the following scope of work:

- A general understanding of the City's pension systems and retiree healthcare benefits including major cost drivers;
- A general understanding of national and regional trends in retirement reform;
- Identification of the major considerations and concerns with the City's existing retirement systems;
- Identification of the priority elements for reform.

Staff proposes that the above be accomplished through a series of four structured meetings over a period of five weeks.

Meeting One: September 29th, 6:00 – 8:30 p.m.

Provide education specific to the City's retirement benefits and costs, including pension and retiree healthcare benefits from a historical perspective as well as the sustainability of the City's costs for the current plans in the future.

Meeting Two: Oct. 6th 6:00 – 8:30 p.m.

Review national and regional context for retirement plan design and public plan reform. Review revised retirement plans in other public agencies that are either being considered or have been implemented.

Meeting Three: Oct. 12th 6:00 – 8:30 p.m.

Complete exploration of current retirement system and context. Identify the major areas of consideration and concern with the City's existing retirement systems.

Meeting Four: Nov. 3rd 6:00 – 8:30 p.m.

Identify the priority elements of retirement reform, including any areas of disagreement.

It is staff's strong recommendation that the Task Force refrains from developing any recommendations on specific benefits to be included or excluded in a revised retirement system for future hires, since this is subject to the meet and confer process.

Next Steps

In order to move in a timely manner through all stages required to develop and implement retirement reforms, the Task Force work will need to be clearly focused. The work completed by the Task Force will be reported to Council at the Council's Budget Study Session, planned for November 18, 2010. At a subsequent Council meeting, the City Manager will present the Annual Summary of Labor Negotiations to Council, after which the Council will develop guiding principles for retirement reform. Negotiations will begin in January 2011.

Staff Resources

Staff resources available for this effort are limited and thus must be managed wisely. The proposed work plan contemplates drawing upon staff in the City Manager's Office, Department of Retirement Services, Office of the City Auditor, and Office of the City Attorney. Given that the proposed scope is focused at the policy guidance level, staff envisions drawing upon existing work underway in the different departments referenced.

Task Force Composition

Councilmember Pete Constant is the Task Force Chair. The Task Force is composed of 23 members representing labor, business, employees, nonprofits, taxpayers and neighborhood associations. Outreach has begun to existing members to determine their availability and

willingness to participate in the additional four meetings. In the event that a member is not available to participate, staff recommends that an appropriate substitute be identified.

CONCLUSION

Council direction on the goals for retirement reform is an important starting point for the labor negotiations process that will begin in January. Staff supports the recommendation to reconvene the Task Force to provide focused, high-level input on retirement reform to aid Council in determining their goals.

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

DEBRA FIGONE
City Manager