

III. Retirement Reform: Options to Address Projected City Retirement Contributions Through 2015-2016

February 14, 2011

III. Outcomes

- Shared understanding of escalating City retirement contributions required over the next five years-estimated at \$256 million for all funds in 2011-2012 and \$400 million for all funds in 2015-2016.
- Reactions to solutions that could keep the 2011-2012 City retirement contribution of \$256 million level for all years through 2015-2016

Retirement Information

www.sanjoseca.gov

- Click on **City Departments** (left column)
- Click on **Employee Relations** (Under City Manager's Office)
- Click on **Retirement Benefits Information**

<http://www.sanjoseca.gov/employeeRelations/RetirementBenefits.asp>

Council Direction – November 18th

- In addition to 10% total compensation reduction, achieve additional reforms
 - Sick Leave Payout
 - Compensation Structure (eliminate automatic step increases, modify step structure, modify overtime eligibility)
 - **Retirement (pension and retiree healthcare)**
 - **2nd Tier pension and retiree healthcare benefits for new employees**
 - **Options for current employees**
 - **SRBR “13th Check”**
 - **Workers’ Compensation Offset in the Police and Fire Retirement Plan**

Two Independent City of San Jose Employee Retirement Plans

	Federated	Police and Fire	Total
Actives	3,818	2,021	5,839
Retirees and Beneficiaries	3,111	1,810	4,921
Deferred Retirements	732	79	811

Note: As of June 30, 2010

All City employees covered by one of the two pension plans except:

- Mayor and Members of the City Council
- Most part-time City employees

Projected City Retirement Contributions Exceed \$1.7 Billion Over Next Five Years

Retirement Plan	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
Federated	\$66.0M	\$112.6M	\$133.6M	\$158.6M	\$171.2M	\$176.2M
Police/Fire	\$90.0M	\$143.6M	\$176.9M	\$201.6M	\$217.7M	\$224.5M
TOTAL	\$156.0M	\$256.2M	\$310.5M	\$360.2M	\$388.9M	\$400.7M
General Fund	\$122.0M	\$197.2M	\$240.5M	\$277.4M	\$299.6M	\$308.8M

Note:

FY 10-11 includes the City's pre-payment discount and does not include a portion of the City contributions that several bargaining units have agreed to pay.

FY 11-12 to FY 15-16 does not include the City's pre-payment discount

Funding Ratios – June 30, 2010

Retirement Funding Ratios As of June 30, 2010		
Pension	Federated	Police and Fire
Market Value	60%	69%
Actuarial Value	69%	80%

Retiree Healthcare (OPEB) Plans	Federated	Police and Fire
Market Value	12%	7%
Actuarial Value	12%	6%

Note:

Police and Fire Retiree Healthcare – June 30, 2009 Valuation

Pension & Retiree Healthcare Unfunded Liability

	Federated	Police & Fire	Total
Actuarial Value: Unfunded Accrued Actuarial Liability	\$1.6B	\$1.36B	\$2.96B
Market Value: Unfunded Accrued Actuarial Liability	\$1.82B	\$1.72B	\$3.54B

Source: Valuation Date: June 30, 2010 (with exception of Police and Fire Retiree Healthcare – June 30, 2009 Valuation)

Pension Reform

“The nonpartisan Legislative Analyst's Office has provided a plain-spoken look at the issue in a 15-minute video by the agency's finance director Jason Sisney.

He minces no words: The disparities and flaws in the system can't be sustained much longer.

Promised benefits are outstripping necessary revenue.”

- San Francisco Chronicle Editorial
Sunday, February 13, 2011

Legislative Analyst's Office: State Finance Director Jason Sisney



The full video can be viewed on the Legislative Analyst's Office website below:

http://www.lao.ca.gov/webcasts/2011/pub_retirement_bens/pub_retirement_bens_021011.aspx

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Future Actuarial Issues

- Modification to Assumed Rate of Return
 - 7.00% or lower Rate of Return
- Modification to amortization schedule
- Including expenses as a projected cost
- Modification to mortality table for Police and Fire
- Modification to projected merit increases for Police and Fire
- Modification to projected retirements for Police and Fire

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Primary Retirement Reform Categories

1. Improving governance and investment oversight
2. Keeping up with funding requirements
3. Sharing the risk with employees
4. Increasing employee contributions
5. Reducing benefits or increasing the retirement age

*-The Pew Center on the States: The Trillion Dollar Gap-
Underfunded State Retirement Systems and the Road to Reform*

Changing Benefits or Increasing Retirement Age

“There is considerable discussion about how limited the City or other local governments are in changing certain benefits for active members of retirement plans.”

- Pension Sustainability Audit Report
City Auditor's Office

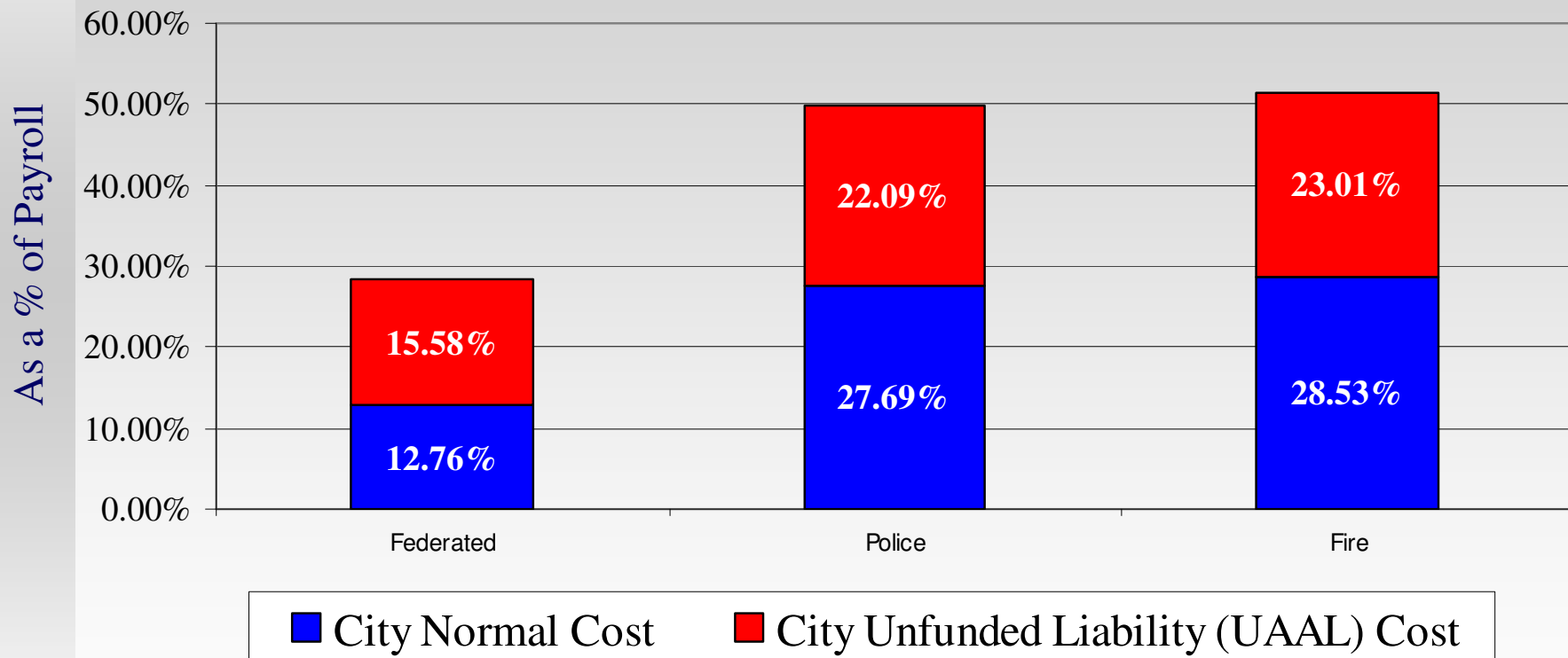
Changing Benefits or Increasing the Retirement Age

Future Employees

Current Employees

Retirees

City's FY 11-12 Pension Costs – Normal & Unfunded Liability



Retirement Benefit Scenarios to Reduce Retirement Costs

Key Areas to Reduce Costs

1. Retirement Age
2. Benefit Formula
3. Maximum Benefit
4. Final Salary Calculation
5. Cost-of-Living Adjustments
6. Survivorship Benefits
7. Retiree Healthcare Benefits

Retiree Healthcare

Retiree Healthcare Benefits

Reducing Lowest
Priced Plan by 50%

Reduces Unfunded
Liability by 50%

Scenarios to Maintain City Retirement Costs at 2011-2012 Level of \$250 Million Per Year

Pension Benefit Scenarios

Current Employees (Future Years of Service)

Current Employees (Future Years of Service)
and Retirees

Current Employees (Prior and Future Years of Service)

Current Employees (Prior and Future Years of Service)
and Retirees

Maintaining City Retirement Costs - \$250 Million

Current Employees (Future Years of Service)		
	Current Employees	Current Retirees
Federated	1.00% @ 70	No Change
Police and Fire	1.00% @ 65	No Change

Maintaining City Retirement Costs - \$250 Million

Current Employees (Future Years of Service) and Current Retirees		
	Current Employees	Current Retirees
Federated	1.25% @ 60	1.0% COLA
Police and Fire	1.75% @ 55	1.0% COLA

Maintaining City Retirement Costs - \$250 Million

Current Employees (Prior and Future Years of Service)		
	Current Employees	Current Retirees
Federated	2.00% @ 60	No Change
Police and Fire	1.75% @ 55	No Change

Maintaining City Retirement Costs - \$250 Million

Current Employees (Prior and Future Years of Service) And Current Retirees		
	Current Employees	Current Retirees
Federated	2.50% @ 60	1.0% COLA
Police and Fire	2.25% @ 55	1.0% COLA

Scenarios to Maintain City Costs at \$250M

	Federated		Police and Fire	
	Current Employees	Current Retirees	Current Employees	Current Retirees
Current Employees (Future Years of Service)	1.00% @ 70	Unchanged	1.00% @ 65	Unchanged
Current Employees (Future Years of Service) and Current Retirees	1.25% @ 60	1% COLA	1.75% @ 55	1% COLA
Current Employees (All years of service)	2.00% @ 60	Unchanged	1.75% @ 55	Unchanged
Current Employees (All years of service) and Current Retirees	2.50% @ 60	1% COLA	2.25% @ 55	1% COLA

III. Discussion Questions

1. What questions do you have about this problem?
2. What is your reaction to the various options that could keep the City's retirement contribution steady at the \$256 million level each of the next five years?

Questions and Discussion