



SENT TO COUNCIL:

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 City Manager's Office

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Alex Gurza

SUBJECT: Analysis of Pension Payments

DATE: January 12, 2011

Approved

Date

1/12/11

INFORMATION

On October 26, 2010, the City Council temporarily suspended the Supplemental Retiree Benefit Reserve (SRBR) or "13th check" until June 30, 2011, for the Police and Fire Department Retirement Plan and Federated City Employees' Retirement System. In addition, the City Council directed staff to analyze other options for the SRBR, and include an analysis on hardship provisions, the current distribution formula, and any potential IRS implications. During the council meeting and in subsequent retirement board meetings, concerns were raised that there are many retirees whose pension payments fall below the federal poverty level. The purpose of this memorandum is to provide the City Council information on the retirement pension payments received by retirees in each retirement plan.

ANALYSIS

Staff conducted an analysis of the current pension payments for both the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System retirees. Retirees' pensions were segmented based upon the annual pension payments received. As illustrated in the two charts below, retirees receiving annual pensions of \$25,000 or less had on average the least years of service in comparison to those that received larger annual pensions.

Police and Fire Department Retirement Plan

Annual Pension	Number of Retirees		Average Annual Pension ¹	Average Years of Service
	Total	% of All Retirees		
\$125,001 and above	105	6.7%	\$144,738	29.88
\$100,001 to \$125,000	282	18.1%	\$110,088	29.06
\$75,001 to \$100,000	455	29.2%	\$86,980	28.16
\$50,001 to \$75,000	448	28.8%	\$63,572	25.52
\$25,001 to \$50,000	230	14.7%	\$38,967	18.11
Up to \$25,000	37	2.4%	\$18,975	11.61

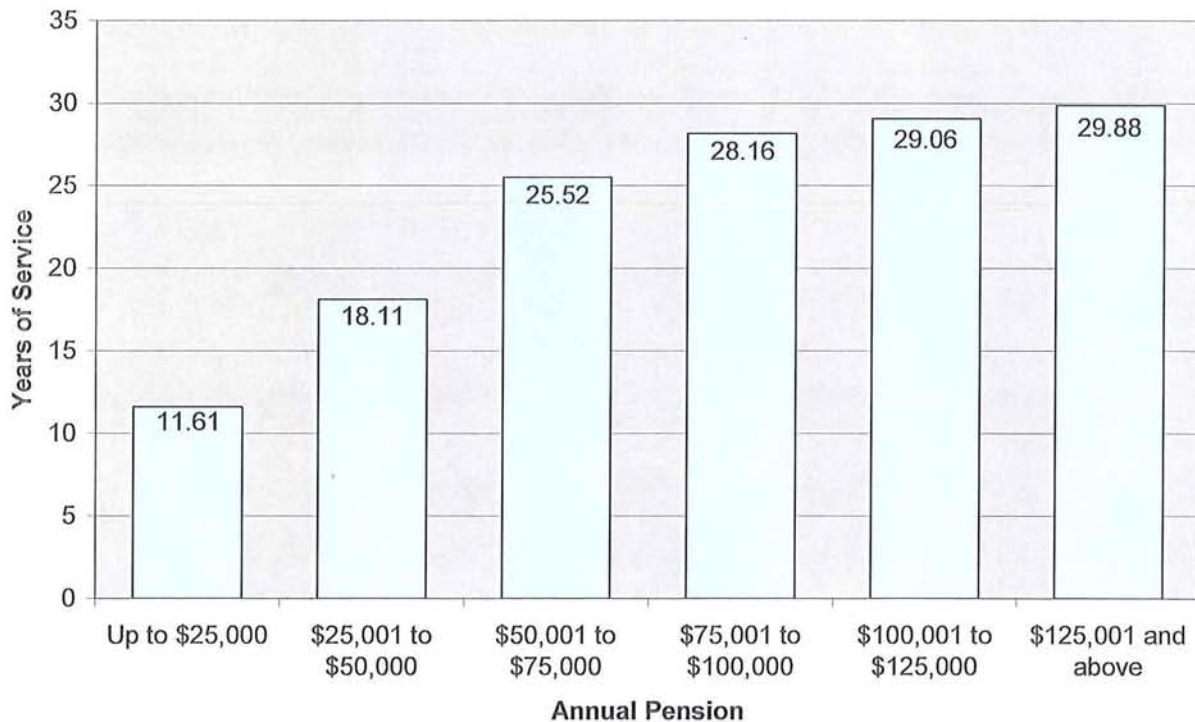
¹ Does not include the value of Retiree Healthcare Benefits

Federated City Employees' Retirement System

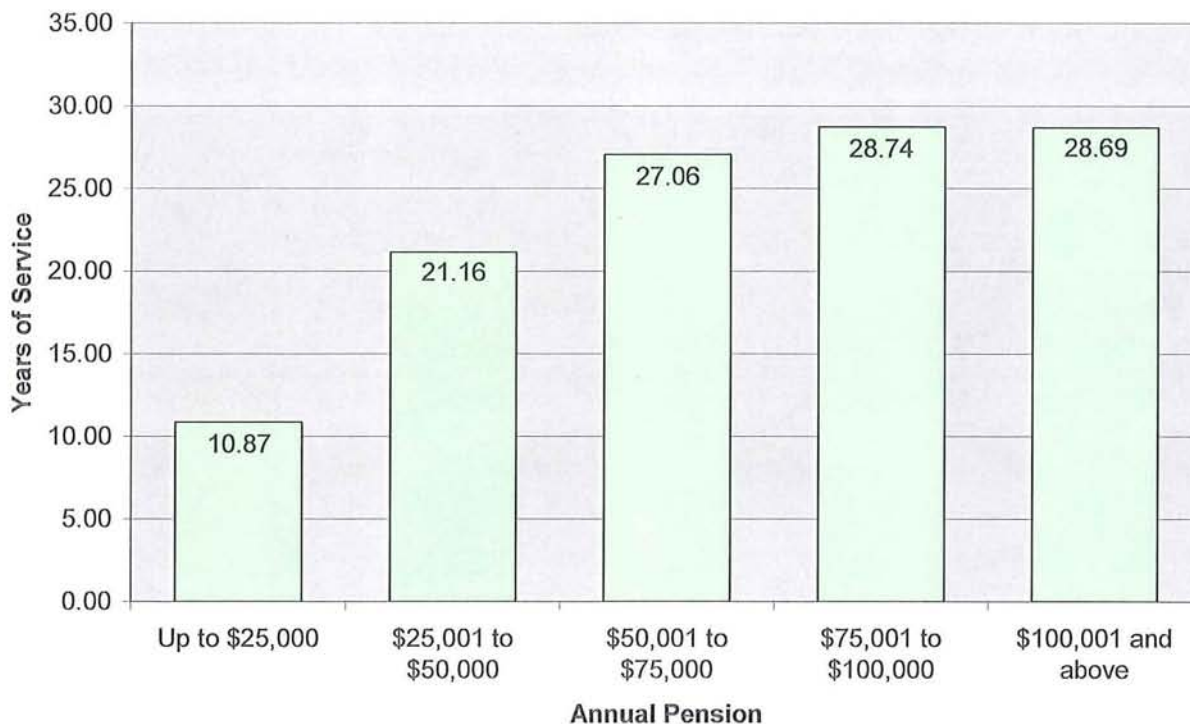
Annual Pension	Number of Retirees		Average Annual Pension ¹	Average Years of Service
	Total	% of All Retirees		
\$100,001 and above	45	1.6%	\$115,357	28.69
\$75,001 to \$100,000	144	5.2%	\$84,936	28.74
\$50,001 to \$75,000	587	21.4%	\$61,241	27.06
\$25,001 to \$50,000	1102	40.2%	\$36,950	21.16
Up to \$25,000	866	31.6%	\$15,133	10.87

Retirees in the Police and Fire Department Retirement Plan receiving annual pensions of \$25,000 or less had approximately seven (7) years of service less than those earning between \$25,000 and \$50,000. Retirees in the Federated City Employees' Retirement System receiving pensions of \$25,000 or less had approximately ten (10) years of service less than those earning between \$25,000 and \$50,000. This is expected as the City's two retirement systems provide defined retirement benefits, which provide eligible retirees with pensions based on years of service and the highest average annual salary. Based on the analysis, the average years of service has a positive correlation to the average annual pension amounts. Therefore, retirees with higher years of service on average receive higher annual pensions, as detailed in the charts below.

Police and Fire Department Retirement Plan



Federated City Employees' Retirement System



3% Guaranteed Cost of Living Adjustment (COLA)

In addition to the monthly pension that retirees receive, retirees also receive an automatic 3% annual cost of living increase, compounded annually. Therefore, a retiree's total pension payment is comprised of their base pension and their COLA. The 3% COLA is guaranteed to all retirees in the plans every year, regardless of the actual change in the consumer price index (CPI). Therefore, when inflation is less than 3%, the retirees will continue to receive the annual 3% increase in their pension. It should be noted that between June 2000 and June 2010, CPI rose on average 2.47% per year.²

Since the 3% COLA is guaranteed and compounded annually, the COLA component of a retiree's pension becomes a larger percentage each year. As demonstrated in the charts below, those that retired before 1991 have COLAs that comprise more than 50% of their total pension payment. This means that the City's pension obligation for those retirees has more than doubled since the first year they retired as a result of the guaranteed 3% COLA.

² Source: Bureau of Labor Statistics; San Francisco-Oakland-San Jose CPI Index

Police and Fire Department Retirement Plan

Year of Retirement	Average Annual Pension ¹				Total Pension
	Base Pension		COLA		
	Amount	% of Total	Amount	% of Total	
2006-2010 ³	\$94,822	95%	\$5,379	5%	\$100,202
2001-2005	\$76,113	81%	\$17,827	19%	\$93,940
1996-2000	\$52,780	71%	\$21,121	29%	\$73,901
1991-1995	\$42,156	64%	\$24,087	36%	\$66,243
Through 1990	\$21,430	47%	\$23,745	53%	\$45,176

Federated City Employees' Retirement System

Year of Retirement	Average Annual Pension ¹				Total Pension
	Base Pension		COLA		
	Amount	% of Total	Amount	% of Total	
2006-2010 ³	\$40,909	94%	\$2,820	6%	\$43,729
2001-2005	\$36,679	84%	\$6,929	16%	\$43,608
1996-2000	\$25,031	73%	\$9,426	27%	\$34,457
1991-1995	\$22,926	63%	\$13,675	37%	\$36,602
Through 1990	\$14,055	48%	\$15,263	52%	\$29,319

Total Household Income

Concerns have been raised that retirees with smaller annual pensions are unable to financially support themselves and that their pension may be below the federal poverty line.

There are many different factors that determine the poverty line, such as the size of a family unit and the age of the family members. For 2009, the US Census indicated that the poverty threshold for a household of two people under the age of 65 years old is \$14,366. For instance, the Police and Fire Department Retirement Plan has a total of five (5) retirees whose annual pensions are below \$14,366. However, these retirees also have on average the lowest years of service, thus they have lower annual pensions than those with higher years of service.

In addition, the total household income for a retiree of the City may include other sources of income. It cannot be concluded that a retiree's City pension payments are the sole income received by the retiree. In instances where a retiree has few years of service, it is possible that the retiree may be receiving other sources of income, such as social security, or pensions from other entities. Further, retirees might have assets such as stocks, mutual funds, personal

³ Includes approved retirements through October 31, 2010

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savings, and home equity. These assets would not be captured by simply looking at the annual pension payment received from the City of San Jose's retirement plan.

Next Steps

The City Administration will continue working with various stakeholders on retirement reform including the SRBR program. We will also be providing the City Council with information about prior SRBR payments.



Alex Gurza
Director of Employee Relations

For questions, please contact Alex Gurza, Director of Employee Relations, at 535-8155.