



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

SUBJECT: SEE BELOW

DATE: June 2, 2022

Approved

Date

06/02/22

SUBJECT: ORDINANCE AMENDING THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM TO CLARIFY CITY PAYMENT OF NORMAL CONTRINBUTIONS FOR EMPLOYEES WHO REACH 30 YEARS OF SERVICE

RECOMMENDATION

Approve an ordinance amending Sections 3.28.700 and 3.28.725 of Title 3 of the San José Municipal Code to clarify that the City will pay the normal contributions for Tier 1 members at 30 years of City service credit in the 1975 Federated City Employees Retirement Plan.

OUTCOME

City Council approval of this item will clarify that the normal contributions for eligible Tier 1 members who attain 30 years of service in the Federated City Employees' Retirement Plan (Federated Plan) following the effective date of the ordinance will be paid for by the City.

BACKGROUND

The attached ordinance amends the Federated Plan in the City's Municipal Code to clarify that the City will pay for the normal contributions for eligible members who reach 30 years of City service in the Federated Plan.

On August 3, 2021, the City Council approved the final reading of an ordinance that ceased the normal contributions for eligible Federated Plan members in Unit 99, the Association of Building, Mechanical, and Electrical Inspectors (ABMEI) and the Association of Legal Professionals (ALP). The ordinance provided flexibility for any future agreements with the other bargaining units to cease the normal contributions for other eligible members at 30 years of

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service, but as of the date of this memorandum, no other bargaining unit has agreed to this change.

The reason for the initial change to the Federated Plan was it would allow employees with over 30 years of service to take home a greater portion of their salary. The City was hopeful that by ceasing these pension contributions that these more experienced employees will be incentivized to continue working for the City as they will be taking home more income. As a reminder, the Federated Plan Tier 1 member accrual formula is $2.5\% \times \text{Years of Service} \times \text{Highest 12 consecutive months' salary}$. Tier 1 members are capped in this formula at 30 years of service. Additionally, the Administration found that other independent retirement systems under the 1937 Act legislation stop pension contributions for employees who reach 30 years of service.

The current biweekly normal contribution for Tier 1 employees is 7.39% of pensionable salary, and this contribution will increase to 7.41% on June 26, 2022. The retirement cost sharing for contributions for Tier 1 members in the Federated Plan is split in the following way for members and the City:

- City: 100% of the unfunded actuarial liability and 8/11ths of the normal contributions¹
- Member: 3/11ths of the normal contributions

The Federated Plan's Board had a third-party actuary, Segal, conduct an audit of the Federated Plan's pension actuarial valuation as of June 30, 2021. In Segal's audit, they assumed that any pension normal contributions that would have been made by the certain members with 30 or more years of City service credit would be paid by the City. However, the Federated Plan's Board's actuary, Cheiron, understood the initial amendment to the Federated Plan in August 2021 to provide that Tier 1 members in the aggregate would pay the reapportioned 3/11ths of normal costs that would have otherwise been paid by members of Unit 99, ABMEI, and ALP that reached 30 years of service credit in the Federated Plan. The Federated Plan's Board asked the City to clarify its intention through an amendment to Federated Plan in the Municipal Code.

ANALYSIS

The City's intention with the initial amendment to the Federated Plan in Municipal Code Section 3.28.725 was for the City to pay for the normal contributions that the eligible members with 30 years of City service credit would have otherwise contributed. The attached ordinance with changes to Section 3.28.700 and 3.28.725 clarifies that the City will be paying the normal contributions on behalf of eligible members who reach 30 years of City service credit under the terms of the Federated Plan.

¹ The normal contribution can be defined as the cost of benefits earned by employees in any given year.

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The City already pays the vast majority of the contributions for Tier 1 members, and the Board's actuary has confirmed that this change will not increase the total aggregate cost of the benefit in terms of normal cost and unfunded liability of the Federated Plan, and therefore is not an enhancement under City Charter Section 1503-A.

The Federated Plan Board's actuary has indicated that the increase in the City normal contribution will be 0.03% of Tier 1 payroll for the Fiscal Year 2022-2023 City contribution.

CONCLUSION

The approval of this ordinance will clarify that normal contributions for eligible members in the Federated Plan who reach 30 years of City service will be paid by the City.

EVALUATION AND FOLLOW-UP

If the City Council approves the proposed ordinance for publication, the ordinance will be placed on the Council agenda for final approval on June 28, 2022 and become effective 30 days later on July 28, 2022.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 14, 2022 Council meeting agenda.

COORDINATION

This memo has been coordinated with the City Attorney's Office.

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COMMISSION RECOMMENDATION/INPUT

This ordinance was brought forward to the Federated Plan's Board of Administration for comment on May 19, 2022. The Federated Plan Board's counsel did not have any comments or recommendations to the proposed amendment to the Federated Plan in the Municipal Code.

COST SUMMARY/IMPLICATIONS

As stated above, the Federated Plan Board's actuary indicated that the City's employer contribution will increase by 0.03% of the Tier 1 payroll. The Tier 1 payroll is \$123,590,048 for Fiscal Year 2022-2023. This clarification will result in an increase in the City's contribution of approximately \$39,800 in all funds and will be absorbed within the department's existing budget in 2022-2023. The ongoing increased costs will be factored into the development of the 2023-2024 base budget.

CEQA

Not a Project, File No. PP17-010, City Organizational and Administrative Activities resulting in no changes to the physical environment.



JENNIFER SCHEMBRI

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Resources

For questions, please contact Cheryl Parkman, Assistant to the City Manager, at (408) 535-8152.