



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

SUBJECT: SEE BELOW

DATE: June 16, 2021

Approved

D. OSYL

Date

06/18/21

SUBJECT: ORDINANCE AMENDING THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM TO CEASE NORMAL CONTRIBUTIONS FOR TIER 1 MEMBERS AT THIRTY (30) YEARS OF SERVICE CREDIT

RECOMMENDATION

Approve an ordinance amending Title 3 of the San Jose Municipal Code to add Section 3.28.725 related to ceasing the normal contributions for Tier 1 members at 30 years of service credit in the Federated City Employees' Retirement System.

OUTCOME

City Council approval of this item will cease future normal contributions for Federated Tier 1 members who attain 30 years of service credit in the Federated City Employees' Retirement System (Federated) following the effective date of the ordinance.

BACKGROUND

The attached ordinance amends the City's Municipal Code to cease the normal contributions at 30 years of service for active Federated Tier 1 members. The reason for this recommendation is that once an employee reaches 30 years of service, they have reached the maximum years of service in the pension accrual formula. As a reminder, the Federated Tier 1 accrual formula is 2.5% x Years of Service x Highest 12 consecutive months' salary. Tier 1 members are capped in this formula at 30 years of service.

Additionally, the Administration has found that other independent retirement systems under the 1937 Act legislation also stop pension normal contributions for employees who reach 30 years of service, so this is a common practice in other systems.

In the Federated June 30, 2020 pension actuarial valuation, the Board's actuary determined that there were 28 Federated employees with 30 or more years of service credit. This change would immediately impact a small number of employees; however, there were also 110 employees with 25-29 years of service credit who may be influenced to continue serving the City if their contributions stopped at 30 years of service credit.

ANALYSIS

The current biweekly normal contribution for Tier 1 employees is 7.22% of pensionable salary, and this contribution will increase to 7.39% on June 27, 2021. The retirement cost sharing for contributions for Tier 1 employees is split in the following way for employees and the City:

City (Employer): 100% of the unfunded actuarial liability and 8/11ths of the normal contribution¹

Employee: 3/11ths of the normal contribution

Upon the effective date of the ordinance, this change would cease that normal contribution and allow Tier 1 employees with 30 or more years of service credit to take home a greater portion of their salary. It is important to note that any Tier 1 employee with more than 30 years of service credit as of the effective date of the ordinance would not be eligible for any return of the amount of normal contributions made between obtaining 30 years of service credit and the effective date of the ordinance. The City is hopeful that by ceasing the normal contributions that these more experienced employees will be incentivized to continue working for the City as they will be taking home more income.

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

It is important to note that there are some Federated Tier 1 employees who pay special portions of the unfunded liability based on their rehire situation or status as a Classic CalPERS member with reciprocity. This change would not impact their individual Tier 1 rehire amortization payback amounts or the Tier 1 Classic unfunded liability contribution. If an employee who has been assessed those contributions reaches 30 years of City service, their normal contributions would cease, but their special unfunded liability assessments would continue.

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

HONORABLE MAYOR AND CITY COUNCIL

June 16, 2021

Subject: Ordinance Amending the Federated City Employees' Retirement System to Cease Normal Contributions for Tier 1 Members at Thirty (30) Years of Service Credit

Page 3

At the time of the posting for this memo, this ordinance will be effective upon adoption by the City Council for unrepresented employees in Unit 99. The City has also received verbal agreement from the Association of Building, Mechanical, and Electrical Inspectors (ABMEI) and the Association of Legal Professionals regarding this change. The ordinance language provides flexibility for any future agreements with the other bargaining units to stop the normal contributions for Tier 1 employees at 30 years of service credit. Any implementation documentation will clarify the members will be impacted by the change.

CONCLUSION

The approval of this ordinance will cease normal contributions for Tier 1 employees in the Federated system who reach 30 years of service credit, which creates the opportunity to incentivize longer service with the City based on the increased amount of take-home pay.

EVALUATION AND FOLLOW-UP

If the Council approves the proposed ordinance for publication, the ordinance will be placed on the Council agenda for final approval on August 3, 2021 and become effective 30 days later on September 2, 2021.

CLIMATE SMART SAN JOSE

The recommendation in this memo 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 29, 2021 Council Meeting.

COORDINATION

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

HONORABLE MAYOR AND CITY COUNCIL

June 16, 2021

Subject: Ordinance Amending the Federated City Employees' Retirement System to Cease Normal Contributions for Tier 1 Members at Thirty (30) Years of Service Credit

Page 4

COMMISSION RECOMMENDATION/INPUT

This ordinance was brought forward to the Federated City Employees' Retirement Systems Board of Administration for comment at its June 17, 2021 meeting. The Board's counsel will be providing any additional comments upon review of the language changes. Should any changes be made between the first and second reading of the ordinance by Council, Council will be made aware by supplemental memo.

COST SUMMARY/IMPLICATIONS

There are no anticipated costs associated with the adoption of this Ordinance.

CEQA

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



JENNIFER SCHEMBRI

Director of the City Manager's Office of
Employee Relations

Director of Human Resources

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