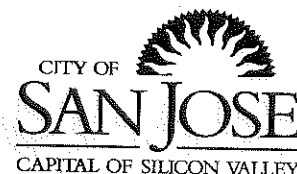


Memorandum



**TO: Board of Administration, Federated City
Employees' Retirement System**

FROM: Elsa Jacobo

**SUBJECT: Pensionable Pay Correction Update
for Overpaid Group**

DATE: August 7, 2018

APPROVED:

[Signature]

DATE:

8/7/18

RECOMMENDATION

Discussion and action regarding Pensionable Pay Correction for the overpaid group.

BACKGROUND

In December 2009, the Office of the City Auditor issued Report 09-10 "*Audit of Pensionable Earnings and Time Reporting*". The report noted there were errors impacting the City's payroll and retirement systems resulting in higher pensions to some retirees.

The Office of Retirement Services ("ORS") has been working on a pensionable pay correction project for several years. The purpose is to correct retirement benefits paid to some retirees, due to errors in the City's reporting to ORS of pensionable pay information that was then used in the members' benefit calculation. The correction project impacting the Federated City Employees' Retirement System includes adjustments in non-pensionable higher class pay and lump-sum PeopleSoft retroactive payments needing to be spread to appropriate pay periods.

ORS staff completed the review of approximately 1,060 impacted members and beneficiaries on April 30, 2018. The Board held the first open session, time-certain discussion related to this topic at its May 17, 2018 meeting. Many retirees and other beneficiaries expressed their concerns, questions, and shared their experiences while still employed by the City of San Jose for the Board's considerations on this matter. In June 2018, staff discovered a group of members were erroneously excluded from the initial review and that additional members would be added to the list of impacted beneficiaries. The Board heard public comments regarding this item again at its June 2018 meeting, but did not make any decision at that time. Instead, ORS staff was directed to complete the review of the newly identified members and to come back to the Board in August with updated statistics.

ANALYSIS

Staff reviewed an approximate 400 additional revised benefit estimates from the group that was inadvertently excluded from the initial review. Staff also re-reviewed approximately 340 original benefit estimates as part of the overall methodology review. As a result of the additional procedures, 37 new beneficiaries were identified as being overpaid bringing the grand total of overpaid beneficiaries to 351. Notification letters were mailed to this new group in July 2018.

Similarly to the first group, staff made calls to beneficiaries who will see a reduction in their monthly benefit of \$100 or more, or 10% or more, prior to mailing the letters. Calls were also made to beneficiaries who were overpaid a cumulative amount of \$5,000 or more from their retirement date through March 31, 2018, without interest. Three informational sessions were held at the ORS offices on July 24th, July 31st, and August 7th. Approximately 10 people attended these info sessions.

Below is an updated statistics table for the overpaid group:

| Reason for overpayment | Beneficiary count |
|--------------------------------|--------------------------|
| Higher class adjustments (HCL) | 297 |
| Lump sum retro spreads (RTR) | 31 |
| Both HCL & RTR | 2 |
| Other | 21 |
| Total | 351 |

Overpaid amounts by beneficiary type:


| Benefit Type | Number of people | % | Cumulative Overpayment, thru March 31, 2018 |
|-----------------------|-------------------------|---------------|--|
| Members | 264 | 75.2% | \$1,447,604.06 |
| Survivors/Continuance | 31 | 8.8% | 89,980.75 |
| Ex-spouses | 14 | 4.0% | 14,868.87 |
| Deceased/Terminated | 42 | 12.0% | 153,448.62 |
| Total | 351 | 100.0% | \$1,705,902.30 |

Please note that the totals above are as of March 31, 2018. The monthly overpayment amount is approximately \$15,350 increasing the cumulative overpayment to approximately \$1,783,000 as of August 31, 2018.

Staff is now ready to correct the on-going benefit amounts. If the Board approves the on-going benefit change in August, staff can send notification letters by the end of the month, and make the needed changes in the pension administration system in September for an effective date of October 2018.

In addition to the timing of the on-going benefit correction, the Board also needs to make a decision on the following items as it relates to repayment of the past overpayment amounts:

- Who
- How far back
- Interest
- Timing



Elsa Jacobo,
Senior Internal Auditor