

# Memorandum

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

**FROM: Elsa Jacobo**

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

**DATE: August 7, 2018**

**APPROVED:** *D. Wise*

**DATE:** *8/7/18*

## INFORMATIONAL

Update regarding Pensionable Pay Correction for the underpaid 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 ("PPC") 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.

At the March 2018 meeting, ORS staff reported to the Board that review of revised benefit estimates were underway and presented an initial communication timeline. Initial benefit recalculations were completed in April 2018. At its June 2018 meeting, the Board approved for staff to correct the on-going monthly benefit effective with the August 2018 benefit payment. The Board also approved for the August 2018 disbursement of past underpaid amounts, including interest.

## ANALYSIS

In June 2018, staff discovered a group of members who were erroneously excluded from the pensionable pay review. In June and July 2018, staff revisited the review methodology of the PPC project. A few additional members were identified as underpaid as a result of the review procedures, bringing the final count of underpaid people to 48.

Notification letters were mailed out to retirees and beneficiaries on August 1, 2018. The letters noted that the on-going benefit would be adjusted effective with the August 2018 payroll and that a one-time lump sum disbursement for past underpayments, including interest, would be included in the same payment. The actual rate of return, net of fees, as approved by the Board at the June 2018 meeting, was used to calculate the interest due.

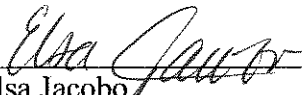
The table below summarizes the final underpaid disbursements:

<b>Beneficiary count</b>	<b>Underpaid Base</b>	<b>Underpaid COLAs</b>	<b>Underpaid Interest</b>	<b>Total Underpaid Amount</b>
48	\$188,193	\$43,449	\$144,707	\$376,349

Retro spreads were the reason for underpayment for 20 of the 48 beneficiaries while the rest were due to other reasons, such as post retirement adjustments or manual calculation errors, which were noted during the pensionable pay correction review process.

The Board's approval for disbursement of past underpayments included latitude to allow staff to split the past underpayment amount if that is what the beneficiary preferred, with the entire amount to be paid out by January 31, 2019. Upon further discussion with tax counsel it was determined that staff could not offer beneficiaries the option to defer the distribution of part of their underpayment and thus the entire underpaid amounts will be included in the August 2018 benefit payments.

This completes the correction procedures for the Federated underpaid group.

  
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Elsa Jacobo  
Senior Internal Auditor