



# Memorandum

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

**FROM: Kathryn Schaefer**

**SUBJECT: Resolution 8874 Setting COLA Rate  
for 415(b) Qualified Participants**

**DATE: January 14, 2019**

Approved

*D. Hise*

Date

*02/04/19*

## RECOMMENDATION

Approval of Resolution #8874 setting the Cost of Living Adjustment rate for 415(b) impacted beneficiaries who will have limits set by "grandfathered" rules of three point zero percent (3.0%)

## BACKGROUND

Internal Revenue Code ("IRC") Section 415(b) limit caps the retirement allowance amount the Retirement System may pay to a retiree or other beneficiary at \$225,000. However, for those that retire under age 62, the limit of \$225,000 is adjusted downward for every year under age 62. There is also a further reduction for members with less than 10 years of service in the System.

If a member joined the system prior to January 1, 1990, they would be considered a "qualified participant" under IRC 415(b) and their retirement allowance cannot be lower than what they would have received under the System rules as of October 14, 1987.

## ANALYSIS

The current 3% annual Cost of Living Adjustment ("COLA") applied in April of every year was not how COLA was applied as of October 14, 1987. For beneficiaries whose benefit would be higher under the "grandfathered" rules as of October 14, 1987, rather than their benefit calculated under the current benefit formula and subsequently reduced by IRC 415(b) limits, COLA rules as of October 14, 1987, must be applied. At that time, COLA was based on the Consumer Price Index for all Urban Consumers, San Francisco-Oakland-San Jose, December over December rate ("CPI") and formally declared by the Board. Since the 2018 December over December CPI rate was 4.5%, attached is a Resolution declaring the COLA of 3.0% as that is the maximum that the Board can approve based on municipal code section 3.44.160.

*Kathryn Schaefer*

Kathryn Schaefer  
Benefits Division Manager

# **FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

**City of San José, California**

## **RESOLUTION NO. 8874**

### **RESOLUTION OF THE BOARD OF ADMINISTRATION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM ESTABLISHING THE 2018 COST OF LIVING ADJUSTMENT PURSUANT TO CHAPTERS 3.28.995 AND 3.44 OF THE SAN JOSÉ MUNICIPAL CODE FOR BENEFICIARIES WHOSE IRC 415(b) BENEFIT LIMIT IS CALCULATED AS A QUALIFIED PARTICIPANT.**

**WHEREAS**, in 2019, Internal Revenue Code (IRC) Section 415(b) limit caps the retirement allowance amount the Retirement System may pay at \$225,000 for straight-life benefit payments that start at age 62; and

**WHEREAS**, IRC 415(b) benefit limit is adjusted downward for Retirement benefits paid to members prior to reaching age 62 and further reduced for members with less than 10 years of service in the system; and

**WHEREAS**, a member who joined the system prior to January 1, 1990, is considered a "qualified participant" under IRC 415(b); and

**WHEREAS**, the 415(b) limit for a qualified participant should not be less than the accrued allowance of the member under the applicable system, determined without regard to any amendment of the plan made after October 14, 1987; and

**WHEREAS**, on October 14, 1987, Section 3.44.030 of Chapter 3.44 provides that the annual Cost of Living Adjustment to the beneficiary's allowance shall be the percentage increase or decrease in the CPI, subject to a maximum of three percent (3%); and

**WHEREAS**, on October 14, 1987, Section 3.44.040 of Chapter 3.44 provides that if the percentage increase or decrease in the CPI is in excess of three percent (3%), such excess shall be accumulated from year to year and shall be included in the determination of future cost of living adjustments; and

**WHEREAS**, the Consumer Price Index for all Urban Consumers, San Francisco-Oakland-San Jose, increased by four point five percent (4.5%) from December 2017 to December 2018.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF ADMINISTRATION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM:**

**SECTION 1.** The Board of Administration hereby finds and determines that pursuant to Chapter 3.44 of the San Jose Municipal Code, the retirement allowances and survivorship allowances payable under the Federated City Employees' Retirement System shall be increased by three percent (3.0%) for the period from April 1, 2019 to March 31, 2020, subject to the limitations set forth in said Chapter 3.44, for beneficiaries whose IRC 415(b) benefit limit is calculated as a qualified participant.

**SECTION 2.** The cost of living excess to be accumulated pursuant to Section 3.44.040 of Chapter 3.44 is an increase of one point five percent (1.5%), for beneficiaries whose IRC 415(b) benefit limit is calculated as a qualified participant.

**Resolution No. 8411**

**ADOPTED** this 21<sup>st</sup> day of February, 2019, by the following vote:

AYES: Board Members -

NOES: Board Members -

ABSENT: Board Members -

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**MATT LOESCH, CHAIR PERSON  
BOARD OF ADMINISTRATION**

**ATTEST:**

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**ROBERTO L. PEÑA, CEO  
Office of Retirement Services**