



Memorandum

TO: Police and Fire Department Retirement
Plan Board

FROM: Jennifer Schembri

Federated Retirement Board

SUBJECT: Rehired Tier 1 Member
Amortization Interest Costs

DATE: May 27, 2020

BACKGROUND

As part of the Alternative Pension Framework Agreement, members who left the City as Tier 1, but returned as Tier 2 members, would be reclassified retroactively to Tier 1. Under the terms of the agreement, the member would share 50% of the costs associated with the reclassification to Tier 1. Based on the initial terms of the agreement, the members were also responsible for 50% of the interest costs associated with the reclassification. The Retirement Boards were responsible for determining the interest rate and decided that the interest cost would be based on each plan's current discount rate.

Because of this, there are members who owe significant balances based on their reclassification, which they are paying through bi-weekly payroll deductions: 3.00% for Federated Tier 1 Rehires and 1.96% for Police and Fire Tier 1 Rehires. There are several instances where the members are either not making any progress in paying down the member's balance or where the member's balance has actually increased due to the interest being owed. The City and bargaining unit's original intent of this provision was to share the costs 50% without the member incurring more debt to return to Tier 1.

As such, the City and the eleven (11) bargaining units have clarified the terms of the Alternative Pension Reform Framework regarding Rehired Tier 1 Members, including the payment of the interest on the increase in the unfunded actuarial accrued liability of the benefits ("Total UAL Increase"). In the two attached side letters, the City and the bargaining units have agreed to the amended terms regarding the Rehired Tier 1 Member amortization costs so that the City will pay any future interest

ANALYSIS

The parties agreed previously that the total UAL increase will be shared in a ratio of 1:1 with the City and the Rehired Tier 1 Member. The attached side letters amend the original side letters to state that the interest on the total UAL increase will be paid for by the City, on behalf of the Rehired Tier 1 Member, beginning with the first pay period after the adoption of the attached Ordinance.

Previously, Rehired Tier 1 members were liable to pay for any costs, including interest, associated with obtaining Tier 1 service for Tier 2 service on a 1:1 ratio with the City. Following the adoption of the attached Ordinance, the City will pay, on behalf of the Rehired Tier 1 Member, the interest of the total UAL increase. Rehired Tier 1 Members are still required to pay his or her total UAL increase plus accrued interest at the Plan's assumed rate of return from the date of the total UAL increase is calculated until fully repaid ("Rehired Tier 1 Member Obligation"). The Rehired Tier 1 Member

Obligation contribution rate is in addition to the Tier 1 contributions these Rehired Tier 1 Members are required to make for service performed as a reinstated Tier 1 employee.

As was previously agreed upon, if a Rehired Tier 1 Member leaves City service prior to paying the full cost attributable to such member's transition to Tier 1, including any unfunded liability, the member is required to pay any remaining balance within 60 days of leaving City service. The remaining balance may be paid through an asset transfer from the member's 457 deferred compensation plan account or through a lump-sum after-tax payment.

Pursuant to these side letter agreements, the City is bringing forward an amendment to the San Jose Municipal Code. The City drafted an ordinance that, if adopted by Council, would amend the Municipal Code to provide for the repayment of these amortization costs as outlined in the attached side letters. The proposed draft ordinance and Council memo will tentatively be discussed at the June 23, 2020 City Council meeting. If the Council approves the proposed draft ordinance for publication on June 23, 2020, a second reading of the proposed draft ordinance will occur on June 30, 2020. Please note that the ordinance becomes effective thirty (30) days after the second reading.

Pursuant to San Jose Municipal Code Sections 3.28.275 and 3.36.485, the City is requesting the Boards review of the draft ordinances during the June 4, 2020 Police and Fire Board meeting and the June 18, 2020 Federated Board meeting. The Boards can provide any comments regarding the proposed ordinances to the City and they can be considered by the Council on June 23, 2020.

Please let us know if you have any questions related to the ordinance.



Jennifer Schembri

Director of City Manager's Office of Employee Relations
Director of Human Resources

C: Roberto Peña, Director of Retirement Services
Rick Doyle, City Attorney

Attachments