



Memorandum

TO: Police and Fire Department Retirement Plan Board of Administration **FROM:** Jennifer Schembri

Federated City Employees' Retirement System Board of Administration

SUBJECT: Tier 1 Rehire Amortization Costs Implementation and Member Statements **DATE:** August 25, 2020

Background

After the passage of Measure B in 2012, any Tier 1 employee who left the City was required to enter Tier 2 if they returned to City employment. In 2015, the City and the eleven bargaining units agreed in the Alternative Pension Reform Framework Agreements (Framework Agreements) that any employee who came back to the City as Tier 2 would be able to return retroactively to Tier 1. The Framework Agreements also provided that employees would split the amortization costs associated with retroactively changing their retirement tier on a 50/50 basis with the City. This included interest associated with the amortization costs, which was the Board determined rate at the time of 6.75%. The 2019 Annual Reports showed several members were accruing more interest than they were paying down in balance principal. As it was never the City's intention for these amortization costs to increase, the City and bargaining units agreed that the City would take on any future interest costs after a Municipal Code change.

Tier 1 Rehire Ordinance

On August 4, 2020, the City Council passed the second reading of an ordinance amending the Municipal Code to stop the future interest accrual on the rehired Tier 1 employees' amortization costs. The interest accruals will cease on September 3, 2020. The ordinance also stated that the City would pay a one-time payment based on the estimated present value of the future interest costs.

In both cases, Cheiron, the Boards' actuary, is needed to perform actuarial calculations to determine the impacted employees' outstanding balances and the estimated present value of the future interest costs so that the City may proceed with providing the future interest costs to the Plans. It is our understanding that Cheiron is in the process of completing those calculations in compliance with the Municipal Code changes, and no further action is required of the Boards for these actions to be finalized.

MemberDirect Portal

In conjunction with Cheiron performing these calculations, the City has been in contact with Cheiron and the Office of Retirement Services about the possibility of eliminating the Tier 1 Rehires annual statement, and instead, directing the impacted employees to the MemberDirect portal on the Office of Retirement Services. The MemberDirect portal will provide a more up-to-date outstanding balance for impacted employees as this number is updated with each pay period. As it is now, the employee only sees an annual statement and would need to keep their own calculations during the year.

The City recommends that the MemberDirect portal outstanding balance be separated into the principal portion of the employee's cost and the interest portion of the employee's cost. This way the member will be able to confirm that their interest payments stopped on September 3, 2020. The Office of Employee Relations has committed to helping the Office of Retirement Services communicate this change to impacted employees so they are aware of how to sign up for the MemberDirect portal and how to access their outstanding balance should the Boards approve this change.

As such, the City requests that the Boards replace the annual Tier 1 Rehire statement with the MemberDirect portal to provide employees with the most updated information whenever the employee would like to view their balance.

We will be prepared to answer questions at the next Board meeting for each plan.



Jennifer Schembri
Director of the City Manager's Office of
Employee Relations/Director of Human
Resources

c: Roberto Peña, Director of Retirement Services