



# Memorandum

**TO:** Federated City Employees'  
Retirement System Board

**FROM:** Jennifer Schembri

**SUBJECT:** Ordinance Amending the Municipal  
Code to Stop Pension Contributions  
For Employees with Over 30 years of  
City Service

**DATE:** June 10, 2021

The City is moving forward with an ordinance to stop pension contributions at 30 years of service for all active Tier 1 employees. The reason for this suggestion is that once an employee reaches 30 years of service, they have reached the maximum years of service in the pension accrual formula. As a reminder, the Tier 1 accrual formula is  $2.5\% \times \text{Years of Service} \times \text{Highest 12 consecutive months salary}$ . Tier 1 employees are capped in this formula at 30 years of service. Additionally, other independent retirement systems under the 1937 Act legislation also stop pension contributions for employees who reach 30 years of service, so this is a common practice in other systems.

The current biweekly pension contribution for Tier 1 employees is 7.22% of pensionable salary. This change would cease that contribution and allow employees with over 30 years of service to take home a greater portion of their salary. The City is hopeful that by ceasing these pension contributions that these more experienced employees will be incentivized to continue working for the City as they will be taking home more income.

This ordinance will be effective upon adoption by the City Council for unrepresented employees in Unit 99. The City has also received verbal agreement from the Association of Building, Mechanical, and Electrical Inspectors (ABMEI) and the Association of Legal Professionals regarding this change. The ordinance language provides flexibility for any future agreements with the other bargaining units to stop pension contributions at 30 years of service. Any implementation documentation will clarify the members will be impacted by the change.

In Cheiron's June 30, 2020 actuarial valuation, they determined that there were 28 Federated employees with 30 or more years of service. This change would immediately impact a small number of employees; however, there were also 110 employees with 25-29 years of service who may be influenced to continue serving the City if their contributions stopped at 30 years of service.

This change requires a Municipal Code amendment in order to stop pension contributions for Tier 1 employees at 30 years of service. The City's proposed changes are attached to this memo. The City will be taking this amendment for the first reading during the June 29, 2021 City Council meeting. A second reading will take place in August. Due to the constrained timeline and brevity of the change, we are requesting to work with the Board's counsel on any comments that they may have to help administer this change. Although the first reading is on the 29<sup>th</sup>, we can work together in between the first and second reading on any changes that may be necessary.

Pursuant to San Jose City Charter Section 1503-A, "there shall be no enhancements to defined retirement benefits in effect as of January 1, 2017, without voter approval... An enhancement is any change to defined retirement benefits, including any change to pension or retiree healthcare benefits or retirement formula that increases the total aggregate cost of the benefit in terms of

normal cost and unfunded liability as determined by the Retirement Board's actuary." The City has been informed by the Board's actuary, Cheiron, that this change will not increase the total aggregate cost of the pension benefit in terms of the normal cost and unfunded liability of the Plan.

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

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

c: Roberto Peña, Director of Retirement Services

Attachment