FILE NO.

LEGISLATIVE DIGEST

[Reducing employer retirement benefit costs]

A proposal to amend the Charter of the City and County of San Francisco on June 8, 2010 by amending Sections A8.409-5, A8.506, A8.506-2, A8.506-3, A8.510, A8.590-4 and A8.590-5, and by adding Sections A8.432-1, A8.600 to A8.600-14, A8.601 to A8.601-16 and A8.602 to A8.602-16 to: prohibit the City and County from paying any required employee contributions to the San Francisco Employees' Retirement System or the California Public Employees' Retirement System; deposit the difference between the City and County's contribution to SFERS set by the Retirement Board each year and the employer normal cost rate into either the Retirement System Trust Fund, the Retiree Health Care Trust Fund, or both, the allocation to be determined jointly by the Controller, Treasurer and SFERS Executive Director; establish an employee contribution rate of nine percent for all employees hired after June 8, 2010 who become members of CalPERS; require all contracts with CalPERS for persons hired after June 8, 2010 to include a three-year formula for the calculation of final compensation to the fullest extent possible; create a new SFERS plan for miscellaneous officers and employees hired after June 8, 2010 that modifies the average final compensation calculation from a one-year formula to a three-year formula; and create new SFERS plans for safety members hired after June 8, 2010 that increase required employee retirement contributions to nine percent and modify the average final compensation calculation from a one-year formula to a three-year formula.

Existing Law

The Charter requires employees to pay a percentage of compensation to the Retirement System or to the California Public Employees' Retirement System to contribute to the cost of benefits provided to them under those retirement systems. In the past, the City and County has agreed to "pick up" employees' contributions.

Employees of the fire and police departments who are members of San Francisco Employees' Retirement System safety plans pay seven and one-half percent (7.5%) of compensation to the Retirement System, the same percentage of compensation required to be paid by employees who are members of the current SFERS miscellaneous plan. However, the cost of the benefits provided to the safety members exceeds the cost of the benefits afforded to the miscellaneous members.

Employees who are members of CalPERS pay seven and one-half percent (7.5%) of compensation to contribute to the cost of the benefits provided to them. CalPERS raised the employee cost to nine percent (9%) and the City and County has been paying the difference.

When an employee becomes eligible to receive benefits under either SFERS or CalPERS, his or her monthly allowance is calculated under a formula that includes the employee's highest compensation for any one year of earnings; in most cases, the earnings in his or her final year of employment.

Each year, the Retirement Board is required to set the employer contribution to SFERS using a formula prescribed by the Charter. To arrive at the annual employer contribution amount, SFERS actuaries first calculate the cost of the future projected benefits for each SFERS member. That amount is reduced by employee contributions, to arrive at the "employer normal cost" for the projected benefits. The “employer normal cost” is adjusted to account for unfunded actuarial liabilities, plan expenses, and investment earnings. The adjusted amount, determined as a percentage of covered payroll, is the annual employer contribution rate to SFERS. In some years, the annual employer contribution rate to SFERS is less than the “employer normal cost” of the benefits provided.

Amendments to Current Law

Under the proposal, the City and County will be prohibited from paying any employee’s contributions to either SFERS or CalPERS.

New SFERS plans will be created for all employees hired after June 8, 2010 that will calculate average “final compensation” using a three-year formula.

Employees of the fire and police departments hired after June 8, 2010, who are members of SFERS, will be required to pay nine percent (9%) of compensation to contribute to the cost of benefits provided to them.

Employees hired after June 8, 2010, who are members of CalPERS, will be required to pay nine percent (9%) of compensation to contribute to the cost of benefits provided to them under the CalPERS plans. Contracts with CalPERS for employees hired after that date must contain a provision that calculates “final compensation” using a three-year formula to the fullest extent possible.

In years when the City and County’s annual contributions to SFERS, as set by the Retirement Board, are less than the “employer normal cost” for the benefits provided to the members, the City and County will be required to deposit the difference into the Retirement Trust Fund, Retiree Health Care Trust Fund, or both, to defray future employer retirement benefit costs. The allocation will be decided jointly, by the Controller, Treasurer and SFERS Executive Director.