



## Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jennifer Schembri

**SUBJECT:** SEE BELOW

**DATE:** January 29, 2018

Approved

Date

1/30/18

**SUBJECT: APPROVAL OF THE UPDATED GUARANTEED PURCHASING POWER BENEFIT COSTING FOR THE SETTLEMENT AGREEMENT WITH THE SAN JOSE RETIRED EMPLOYEES' ASSOCIATION (SJREA)**

### **RECOMMENDATION**

Approve the updated Guaranteed Purchasing Power benefit costing for the San Jose Retired Employees' Association (SJREA) Settlement Agreement and authorize the changes to the Guaranteed Purchasing Power included in the Settlement Agreement.

### **OUTCOME**

Approval of the updated Guaranteed Purchasing Power benefit costing, and the changes included in the Agreement, will satisfy the requirements of California Government Code Section 7507 due to certain survivors who are now eligible for the benefit.

### **BACKGROUND**

The City of San José is currently in the process of working to dismiss litigation related to the June 2012 pension reform ballot measure known as "Measure B". The litigants included the San Jose Retired Employees' Association (SJREA), which is comprised of certain retirees in the Federated City Employees' Retirement System (Federated Plan).

The City and the SJREA were engaged in litigation settlement discussions beginning in March 2015. Additionally, four individuals were parties to the litigation. As a result of these discussions, the City and the SJREA reached an agreement in principle on the terms of a settlement on November 11, 2016. The SJREA membership approved the Settlement on

February 9, 2017, which was signed by the SJREA on October 26, 2017. The City Council approved the SJREA Settlement during the [November 6, 2017](#) meeting.

## **ANALYSIS**

The Litigation Settlement Agreement, or “Agreement,” between the City and the San Jose Retired Employees’ Association (SJREA) contains a provision related to the Guaranteed Purchasing Power (GPP) benefit that was also contained in the [Federated Alternative Pension Reform Settlement Framework \(Federated Framework\)](#). However, the SJREA Agreement allows for additional members to qualify for the GPP. The SJREA Agreement not only applies to Tier 1 retirees, but also applies to qualified beneficiaries of eligible Tier 1 retirees who retired or died prior to the effective date of the SJREA Settlement Agreement.

Subsequent to the approval of the Agreement between the City and the San Jose Retired Employees’ Association which included qualified beneficiaries, a question was raised about whether an actuarial analysis of the GPP benefit needed to be included in the original Council memo approving the SJREA Agreement. Government Code Section 7507 requires the City to publicly post an actuarial report of future costs generated by changes to retirement benefits. The costing needs to be posted two (2) weeks before the adoption of any changes to the retirement plan’s benefits. The previous GPP benefit was costed by the City’s actuary and the analysis was attached to the [December 4, 2015 Council memo](#) related to the terms of the Federated Framework. It should be noted that the City did obtain the requested costing from the City’s actuary before the approval of the SJREA Agreement in October 2017, which indicated that the cost was less than previously estimated, even with the additional eligible members.

The City’s actuarial costing of the revised benefit due to the addition of the eligible survivors is attached to this memo (Attachment A). In the revised costing, the actuary estimated that the actuarial liability for the group of retirees and survivors would not be more than \$160,000. This is a significantly reduced estimate from that included in the previous memo. In the previous costing, the estimated liability was \$750,000. Using the Federated Board’s amortization period of 20 years, the actuary estimated that the first year payment will not exceed \$11,600. This is a decrease from the previous costing that estimated that the first year payment would not exceed \$60,000.

It should be noted that, under [Measure F](#), the Supplemental Retiree Benefit Reserve (SRBR) was discontinued but, in the event assets are required to be retained in the SRBR, any payments of the SRBR must be approved by the voters.

## **EVALUATION AND FOLLOW-UP**

Approval of the revised GPP benefit costing, and any additional benefits included in the SJREA Agreement, will satisfy the requirements of Government Code section 7507. The first GPP payments under the Settlement Framework agreements will be paid to eligible retired members with their February 2018 pension check.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website in advance of the February 13, 2018, City Council Agenda.

### **COORDINATION**

This memorandum was coordinated with the City Attorney's Office.

### **COMMISSION RECOMMENDATION/INPUT**

The recommended agreement was not reviewed by a commission.

### **CEQA**

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment; and File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project with may result in a potentially significant physical impact on the environment.



Jennifer Schembri  
Director of Employee Relations

For questions please contact Jennifer Schembri, Director of Employee Relations, at (408) 535-8150.

#### **Attachments:**

- Attachment A – San Jose Federated Guaranteed Purchasing Power (GPP) Costing



January 3, 2018

Jennifer Schembri  
Director of Employee Relations  
City Manager's Office  
200 E. Santa Clara Street, 3rd Floor Wing  
San José, CA 95113-1905

**Re: San Jose Federated Guaranteed Purchasing Power (GPP)**

Dear Ms. Schembri:

This letter provides an update to our original letter dated December 3, 2015 which provided an estimated analysis of the Federated Guaranteed Purchasing Power (GPP) agreement. This revised estimate is based on updated retiree and survivor census data as of June 30, 2016 as well as a change in calculation methodology due to additional information on prior ad hoc increases and the alignment of the calculation with actual COLA timing.

We understand the agreement provides for a GPP benefit in exchange for agreement to eliminate the Supplemental Retirement Benefit Reserve (SRBR). Elimination of the SRBR has already resulted in significant savings. The GPP benefit will provide current and future Tier 1 retirees a guaranteed 75% of purchasing power benefit after retirement. This benefit will be calculated by comparing the ratio of actual pension benefits to what pension benefits would have been had retirees received 100% of Bay Area CPI increases. If that ratio is less than 75% then retirees would receive an additional check equal to the difference.

#### **Analysis**

We believe the cost of this benefit will only be significant if inflation returns to high levels. Inflation has generally been less than 3% (Tier 1 Cost of Living Adjustments) over the last 20 years so only those who retired several years ago (generally prior to 1981) would have ratios less than 75%, as long as they did not have prior ad hoc increases that will be counted against the GPP benefit. As of June 2016 we estimate that there were approximately 13 retirees and 20 survivors with an average age of 86 eligible for the GPP benefit.

We estimate the liability for this group of earlier retirees and survivors would not be more than \$160 thousand and because this is an increase for current retirees and survivors we think it is possible (if not likely) Cheiron will recommend a shorter (5 year) amortization period. If so then the first year payment will not be more than \$35.7 thousand. However, if they do not recommend a shorter amortization then using 20 years the first year payment will not be more than \$11.6 thousand. Both of these amortization payments would increase with the aggregate payroll assumption of 2.85% since they are calculated as a level percent of payroll.

Our analysis did not include a volatility assumption for inflation. While we believe Cheiron will price the GPP for other (current and future) retirees using some volatility assumptions for inflation, we also would generally expect any additional cost to be fairly modest.



**Assumptions**

Study results were estimated using the same assumptions as the Cheiron June 30, 2016 actuarial valuation. Our analysis also assumes Cheiron will price this using stochastic simulations based on a median inflation assumption of 3% or less. For survivors who were missing a "Members Retirement Date" field, we used the "Benefit Effective Date" field as the retirement date for the calculations.

\* \* \*

To the best of our knowledge, this letter is complete and accurate and has been prepared using generally accepted actuarial principles and practices. As a member of the American Academy of Actuaries meeting the Academy Qualification Standards, I certify the actuarial results and opinions herein.

Please call Cathy Wandro (650-377-1606) or me (650-377-1601) with any questions about this letter.

Sincerely,

John E. Bartel  
President

c: Cathy Wandro, Bartel Associates  
Doug Pryor, Bartel Associates

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