



FOR IMMEDIATE RELEASE

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## FACT SHEET

# SANDERS PROPOSES NEW CITY RETIREMENT PLAN THAT LIMITS TAXPAYER LIABILITY

**CITY WOULD HAVE SAVED \$25 MILLION PER YEAR IF PLAN HAD BEEN IN EFFECT;  
ELIMINATES BENEFIT EXCESSES UNDER CURRENT SYSTEM**

To **lower the City's financial risks, reduce pension costs and eliminate excessive perks**, Mayor Jerry Sanders is proposing a new pension plan for non-public safety employees hired after December 31, 2008. Because the new plan **significantly lowers the benefit that future employees are guaranteed**, the financial risks to the City associated with market volatility are greatly reduced. Currently, the City assumes approximately 75% of the investment risk associated with employees' retirement benefits. The proposed plan greatly reduces that to 57%.

The proposed plan will also **lower the City's annual costs**. The proposal places a greater reliance on "defined contribution" components as a way to reduce taxpayers' financial exposure. The expected long-term annual costs for General members is reduced almost in half from 16% of pay to 8.5% of pay. **If General members were covered under this plan today, taxpayers would save \$25 million per year.**

To further safeguard taxpayer funds, the **proposed plan eliminates costly perks** like basing pension benefits on the highest one year of pay, rewarding retirements prior to age 65 or having the City "pick up" a portion of the employees' pension contribution. At age 65 and after a thirty-year career with the City, employees can receive 119% of their pay in retirement. The new plan provides comparable benefits to the plans offered by CalPERS by lowering the benefit to a more conservative 80%, if employees fully participate in saving for their retirement.

### **Proposal Offers Taxpayers Many Advantages Over Existing Plan:**

- Reduced benefits guaranteed to employees in retirement thereby lowering taxpayer cost, risk
- Employees make half of their pension system contributions and City would no longer "pick up" a portion of employees' pension contribution
- City would have saved \$25 million per year if plan had been in effect
- Eliminates Excessive Perks

## THREE COMPONENTS OF PROPOSED RETIREMENT PLAN

### COMPONENT 1: PROPOSED DEFINED BENEFIT PLAN

Feature	Current Plan	Proposed Plan
<b>Benefit at age 65</b>	2.80% x Single Highest Year Pay x Years of Service	1.60% x Final Average (3) Pay x Years of Service
<b>Benefit at Age 60</b>	2.55% x Single Highest Year Pay x Years of Service	0.97% x Final Average (3) Pay x Years of Service
<b>Benefit at Age 55</b>	2.5% x Single Highest Year Pay x Years of Service	0.61% x Final Average (3) Pay x Years of Service
<b>Pay</b>	Highest 1 year pay during employment	Highest consecutive 3 year average in 5 years prior to retirement
<b>Retirement Eligibility (per Charter)</b>	Earlier of (A) age 55 with 20 years of service of (B) age 62 with 10 years of service  10 year vesting	Earlier of (A) age 55 with 20 years of service of (B) age 62 with 10 years of service  10 year vesting
<b>Estimated City Normal Cost as a % of Pay</b>	10%	50% of normal costs, estimated at 3.5%
<b>Member Contribution as a % of Pay</b>	10% (Varies by age at entry and ranges from 9.19% to 14.21%)	50% of normal costs, estimated at 3.5%

#### Advantages of Proposed Defined Benefit Plan Component:

- Changed multiplier. Because the proposed plan significantly reduces the pension benefit that future employees are guaranteed in retirement, the City's market volatility risks are lowered. The new plan proposes a more equitable allocation of risk between the City and future employees.
- Lower pension costs for taxpayers. "Normal costs" as a percentage of pay are lowered from 10% to 3.5%. If the plan had been in effect, this component alone would be responsible for approximately \$21 million per year in savings.
- In accordance with the Charter, both the City and employees' contributions to the proposed plan are "substantially equal." The proposed plan also eliminates the concept of the City "picking up" a portion of the employees' pension contribution.
- The proposed plan changes the way in which retirement pay is calculated from the current highest one year of pay to a more conservative highest consecutive 3 year average.
- Unlike the current system, the proposed plan eliminates the rewards for retirements prior to age 65. The proposed plan encourages employees to continue working to later ages by eliminating substantial early retirement subsidies.

**COMPONENT 2: PROPOSED FIXED CONTRIBUTION PLAN**

<b>Feature</b>	<b>Current Plan</b>	<b>Proposed Plan</b>
<b>Type of Plan</b>	Defined Contribution Plan without an annuity option (SPSP, Mandatory)	Defined Contribution Plan with an annuity option
<b>Member Contribution</b>	3% of pay	1% of pay
<b>City Contribution</b>	3% of pay	3% of pay
<b>Payment</b>	Account balance at retirement	Account balance or a variable annuity benefit for life
<b>Pre or post-tax</b>	Member contributions are post-tax	Member contributions are pre-tax
<b>Vesting</b>	Immediate on own contributions  20% per year for five years	Immediate on own contributions  20% per year for five years

**COMPONENT 3: PROPOSED POINTS MATCHING PLAN**

<b>Feature</b>	<b>Current Plan</b>	<b>Proposed Plan</b>
<b>Type of Plan</b>	Voluntary defined contribution plan (SPSP, Voluntary)	Voluntary defined contribution plan
<b>Voluntary Member Contribution</b>	Up to 3.05% of pay	Up to IRS limits
<b>Matching City Contribution</b>	Not based on age or service  100% up to 3.05% of pay	Based on points (= age + service)  Points    Matching Contribution  <40    50% match on up to 2% pay 40-54    50% match on up to 3% pay 55-69    50% match on up to 4% pay 70+    50% match on up to 5% pay
<b>Pre or post-tax</b>	Members contributions are post-tax	Member contributions are pre-tax
<b>Vesting</b>	Immediate on own contributions  20% per year for five years	Immediate on own contributions  20% per year for five years

**Advantages of Proposed Components 2 & 3:**

- The City’s maximum contribution will be known and can be well planned for.
- The Points Matching Plan, Component #3, increases employees’ responsibility to plan and save for their retirement.
- Because the employees will bear the financial risks associated with these two proposed components, high investment returns can result in greater income replacement ratios.

- Unlike the existing arrangement for Component 2 in which funds are employee directed, the proposed Fixed Contribution Plan has the funds professionally managed by SDCERS.
- The Fixed Contribution Plan, Component #2, will allow employees the opportunity to convert their benefit into a lifetime annuity.
- At a significant savings to employees, contributions to both components will now be pre-tax.

#### **Other Positive Advantages of New Retirement Plan:**

- Positive impact on the City's financial health by having an affordable retirement plan with more predictable future costs. Over time, a greater portion of tax dollars can be re-directed to basic City services and infrastructure upgrades.
- The City will continue to offer other vehicles that allow employees to save for retirement. These plans include a 401(k) plan and a 457 plan.

### **SANDERS HAS LED ON EMPLOYEE PENSION AND BENEFIT ISSUES**

During his two-year administration, Mayor Sanders has made tremendous progress safeguarding taxpayers' interests on employee pension and benefits issues:

- **Proposed Elimination of DROP and Purchase of Service Credits:** As part of the current round of negotiations, the Mayor has proposed the elimination of DROP and the Purchase of Service Credits ("Airtime") for those employees hired before July 1, 2005 who have not yet enrolled in DROP or purchased credits.
- **Funding for the Pension System:** After the courts refused to roll back employee pension benefits, the Mayor established a financially sound schedule for paying off the debt. The Mayor proposed and funded an aggressive 20 year amortization schedule that includes money to pay down the principle, not just interest.
- **Limiting Pension Benefits:** The Mayor brought suit against the Retirement System to limit the applicability of costly pension benefits to employees hired after July 1, 2005. Those benefits include the DROP Program, a 13<sup>th</sup> check, the ability to purchase service credits and retiree healthcare.
- **Funding the Retiree Healthcare Liability:** Mayor Sanders established a retiree healthcare trust so this \$1 billion obligation is addressed honestly, not just passed on to future generations. In spite of the fact that the obligation has existed for decades, Sanders is the first mayor to set aside money to address the long-term obligation forthrightly.
- **Reforming Employee Healthcare:** To increase the City's purchasing power and save money, the Mayor reduced the number of insurance plans offered as well as the number of insurers. In addition, the Mayor also changed the benefits structure for employee healthcare thereby saving the City close to \$1 million this fiscal year alone. The Mayor is proposing even further reforms as part of the current round of negotiations.