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OLA # 054-99

CHARTER AMENDMENT

LEGISLATIVE ANALYST SUMMARY

TO: HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS and RULES COMMITTEE

FROM: JOHN D.R. CLARK, Legislative Analyst

HEARING DATE: JUNE 24, 1999

SUBJECT: FIREFIGHTERS AND POLICE EQUITY INITIATIVE (File 99-0987) SUMMARY OF PROPOSED AMENDMENT

The retirement system has two levels of benefits -- Tier 1 and Tier 2. Employees hired before November 2, 1976 are in Tier 1, which in the past has had better benefits such as an earlier retirement age, more generous pension formula and a better COLA. Note, though, that the gap between Tiers 1 and 2 has narrowed considerably over the past 18 years, with "2% at 50," COLA adjustments, and domestic partner benefits added, among others. In 1981, Rudy Nothenberg, then of Mayor Feinstein's staff, developed a buyout incentive program designed to induce safety employees (police and fire) to move from Tier 1 to Tier 2. The motivation was to save money -- even with a cash payment taken into account, the transfer still was a net gain for the City.

254 employees of several thousand eligible availed themselves of this opportunity, receiving $2,500 for each year of service up to ten years, and $1,000 for additional years to a maximum of $40,000. The buyout was accomplished through a Charter Amendment which forbade the transferees any subsequent benefits added to Tier 2, unless approved by the voters in a separate Charter Amendment specifically for the transferees. The increasing gap between the transferees and other Tier 2 members led to an attempt to amend the charter in 1997, which narrowly lost.

The Charter Amendment before you will allow transferees still with the City and those who retired from the City to receive all Tier 2 benefits subsequent to 1981, but on a prospective basis only. Of the 254 transferees, approximately 120 are still active, that is, either still employed by the City or retired from the City. The remainder have resigned or expired. Thus, approximately 120 individuals would be eligible for the benefits under this proposed amendment.

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This amendment does not change the status for transferees who resigned or survivors or dependents of transferees. In order to avail themselves of this opportunity, a transferee would have to pay back
to the City the lump sum received in 1981, less their own contribution balance up to that time, plus 6% annual interest. This interest amount in consistent with Retirement System practice. Because the amount received by each employee was different, the buyback amount has to be calculated for each individual.

CURRENT CHARTER PROVISIONS

Presently, the Charter specifically excludes the transferees from receiving Tier 2 benefits added after the 1981 buyout absent separate voter approval. This is enumerated in Sections A8.500-1, A8.559-14 and A8.585-14.

POLICY ANALYSIS

Scope

After introduction of the proposed amendment at the Board of Supervisors on May 17, 1999, revisions were made to tighten up the language at the request of the Retirement System and the Sponsor, Supervisor Katz. The revised language clarified that only current City employees and those retired from the City would benefit -- not those who voluntarily left City service. The revised draft reflecting these changes was introduced as substitute legislation at the Board of Supervisor's meeting on June 14, 1999. Note that eligible retired transferees would only receive the new Tier 2 benefits that came into effect before their retirement date -- this preserves equity with other Tier 2 retirees. Similarly, transferees retired for incapacity would be treated identically to all other disabled Tier 2 retirees and receive all post-1981 benefit improvements upon reaching their qualified service retirement date.

Administration

The Retirement System believes a relatively small number of eligible transferees will ultimately buy back into the system -- given that only approximately 120 of the original transferees are still eligible (i.e., still a City employee or City retiree), this seems like a logical assumption. Ms. Murphy, Director of the Retirement System, indicates that administration should not be a significant issue as the eligibles are already in the City's computer systems. Implementing the buyback thus only requires fairly straightforward changes to each person's record. The Retirement System will notify each eligible person by certified mail if the ballot measure passes. Given the limited impact, Ms. Murphy anticipates that current staff and budget can implement the benefit adjustments.

Financial Issues

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The main policy reason for the 1981 buyout was the large gap between Tier 1 and Tier 2 benefits that existed at that time, giving considerable relief to the then-underfunded Retirement System. The City's Plan Actuary estimates that the buyout saved the City over $200 million in retirement contributions. Since the buyout the gap between Tier 1 and Tier 2 has closed considerably, but transferees have been prohibited by the Charter from enjoying the subsequent Tier 2 enefits absent separate voter approval. In addition to the desire to address this inequity, the Retirement System is currently overfunded, thus lessening concerns about negative fiscal impacts.

Transferees who wish to buy back may do so by paying the Retirement System the calculated lump sum, initiating a payroll deduction (for current employees), or using an actuarial offset, which takes into account the value of the additional benefits offset by the required buyback amount.

As this measure is tailored to only those who are still with the City or retired from the City and requires a return with interest of the lump sum payment, this Charter Amendment is expected to have a modest financial impact. The Budget Analyst and Retirement System are preparing fiscal estimates for the June 24, 1999 Rules Committee meeting.

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