Public Employees Committee (PEC), San Francisco Labor Council
August 9, 2011

Request for Reconsideration of Approved Digest, Proposition C

(Bracketed references refer to explanations at the end of the Request)

City [~~Retirement~~ <u>Pension</u>] [1] Benefits and Health Care Benefits *(working title only, subject to change)*

THE WAY IT IS NOW:

The City provides its employees and elected officials with [~~retirement~~ <u>pension</u>] **[1]** benefits through the San Francisco Employees' Retirement System (SFERS) and health benefits through the Health Service System (HSS). The Unified School District, Community College District and Superior Court also participate in SFERS and HSS, but not all of their employees receive benefits through these City systems. Some City employees receive [~~retirement~~ <u>pension</u>] benefits **[1]** through a contract between the City and the California Public Employees' Retirement System (CalPERS).

[~~Retirement~~ <u>Pension</u>] [1] Benefits: SFERS pays defined benefits to eligible retired employees. Employee contributions, employer contributions, and investment earnings fund SFERS' payments. Most employees pay 7.5% of compensation to SFERS. Police officers and firefighters pay more. Investment earnings and City contributions fund the balance.

Employees become eligible for "service retirement" benefits based on age and years of service:

- Police officers and firefighters (safety employees) can retire at age 50 after 5 service years, with maximum benefits at age 55 with 30 years of service.
- Other employees and elected officials (miscellaneous employees) can retire at age 50 with 20 service years or at 60 with 10 years, with maximum benefits at age 62 with 32.6 years of service.

These benefits are determined by final compensation, retirement age, and service length. Final compensation is based on a one or two year average of the highest annual compensation.

~~Some employees who leave City employment before becoming eligible for service retirement can receive a "vesting allowance" when they reach age 50. The City matches employee contributions to the costs of this benefit.~~ **[2]**

SFERS retirees may receive <u>‘basic’ and ‘supplemental’</u> cost-of-living adjustments <u>totaling a maximum of</u> ~~up to~~ 3.5% annually<u>,</u> depending on inflation and SFERS investment earnings. **[3]**

Health Benefits: Retired City employees can obtain health care coverage from the Health Service System. Retirees and the City contribute to this coverage. Employees hired after January 9, 2009 contribute 2% of their compensation toward their retiree health care and the City contributes 1%.

The Health Service Board (HSB) oversees the HSS. The HSB has three appointed members and four members elected by HSS members. It approves health care plans by a two-thirds vote. The Charter requires that one plan allows members to choose any licensed medical provider.

THE PROPOSAL:

[~~Retirement~~ Pension] [1] Benefits: Proposition C is a Charter amendment that would change the way the City and current and future employees share in funding SFERS [~~retirement~~ pension] **[1]** benefits. The base employee contribution rate would remain the same – 7.5% for most employees – when the City contribution rate is between 11% and 12% of City payroll. ~~But e~~Employees making at least $50,000 would pay an additional amount up to 6% of compensation (depending on the City contribution rate and the employee's compensation level) when the City contribution rate is over 12% of City payroll. **[4]** When the City contribution rate falls below 11%, employee contributions would be decreased proportionately.

Proposition C would require elected officials to pay the same contribution rates as City employees, and would also require the City and unions representing CalPERS members to negotiate terms of employment for employees to share costs or receive benefits comparable in value to adjustments required for SFERS employee contributions.

Proposition C would also create new retirement plans for employees hired on or after January 7, 2012, that would:

- For miscellaneous employees, raise the minimum retirement age ~~for miscellaneous employees~~ to 53 and the age for maximum benefits to 65; miscellaneous employees who retire at age 53 would receive 1% of compensation for each service year, increasing to the current maximum of 2.3% of compensation for each service year for those who retire at age 65; **[5]**
- For safety employees, raise the age for maximum benefits to 58 ~~for safety employees and 65 for miscellaneous employees~~; safety employees who retire at age 50 would continue to receive 2.2% of compensation for each service year, increasing to a maximum of 3.0% of compensation for each service year for those who retire at age 58; and **[5]**
- For all employees, ~~limit covered compensation for all employees and calculate final compensation from a three-year average~~ exclude certain types of remuneration from covered compensation, cap covered compensation at a percentage of the legal limit, and calculate final compensation based on a three-year average. **[6]**
- ~~Reduce by half the City's contribution to vesting allowances.~~

Some employees who leave City employment before becoming eligible for service retirement can receive a "vesting allowance" when they reach age 50. The City matches employee contributions to the costs of this benefit. Under the new Plan, the City's contribution to "vesting allowances" would be reduced by half. **[2]**

Proposition C would limit supplemental **[3]** cost-of-living adjustments for SFERS retirees.

Health Benefits: Proposition C would require that elected officials and employees hired on or before January 9, 2009, contribute up to 1% of compensation toward their retiree health care, with a matching contribution by the City.

For employees or elected officials who left the City workforce before June 30, 2001, and retire after January 6, 2012, Proposition C requires that both retiree health benefits and contributions remain at the same levels they were when the employee left the City workforce.

Proposition C would change the Health Service System and Health Service Board, including the following:

- replace one elected member of the HSB with a member nominated by the City Controller and approved by the HSB;
- change HSB's voting requirement for approving member health plans from two thirds to a simple majority; ~~and~~
- remove the requirement for a plan permitting the member to choose any licensed medical provider; and
- change the spending authority of HSB to permit expenditures on cost containment initiatives. **[7]**

Other Measure: Both Proposition C and Proposition D would change retirement benefits for City employees. If the voters approve both, only the measure with the most votes will become law.

A "YES" VOTE MEANS: If you vote "yes," you want to:

- adjust employee contributions to SFERS **[8]** ~~rates~~ based on the City's costs;
- reduce [pension ~~retirement~~] **[1]** benefits for future City employees;
- limit supplemental **[3]** cost-of-living adjustments to retirement benefits;
- decrease City contributions to retiree health care costs for certain former employees;
- require all employees to contribute toward their retiree health care;
- change the composition and voting requirements of the Health Service Board; and
- make other changes to the Retirement System and Health Service System.

A "NO" VOTE MEANS: If you vote "no," you do not want to make these changes to the Charter.

NOTES

[1] For the reasons addressed in the PEC Request for Reconsideration of the approved digest for Proposition D, PEC recommends using the word "retirement" consistently and exclusively throughout both digests. In the event that the Committee decides to retain "pension" in the digest for Proposition D, however, the same term must be used here as well to avoid giving voters the false impression that the "pension benefits" in Proposition D are different than the "retirement benefits" in Proposition C. For this reason, PEC has annotated all occurrences of "retirement" in this digest that would have to be replaced with "pension".

[2] PEC recommends moving this paragraph and combining it with the fourth bullet describing the new plans, now separated off as a paragraph following the description of the new plans. This maintains a parallel structure with the digest for Proposition D, which does not address the "vesting allowance" but does address the "vesting retirement" as described in the notes to the PEC Request for Reconsideration of that digest.

[3] The "basic" and "supplemental" COLAs are completely distinct benefits in their structure, origin and legal foundation. They should not be confused, and for that reason PEC recommends adding this further explanation in "The Way It Is Now".

[4] PEC recommends the edited sentence in order to better parallel the digest for Proposition D.

[5] These two edited bullets parallel the corresponding bullets in the digest for Proposition D. If this additional detail is omitted, it must also be omitted from the digest for Proposition D.

[6] This sentence provides a more complete and accurate description of the new plans proposed under Proposition C.

[7] This is an important aspect of Proposition C that was omitted in the draft digest.

[8] This clarification is intended to distinguish contributions to SFERS from contributions toward retiree health care.