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

Request for Reconsideration of Approved Digest, Proposition D

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

Retirement Benefits for City Employees ***(working title only, subject to change)***

THE WAY IT IS NOW:

The City provides its employees and elected officials with retirement benefits through the San Francisco Employees' Retirement System (SFERS). The Unified School District, Community College District and Superior Court also participate in SFERS, but not all of their employees receive benefits through these City systems. Some City employees receive retirement benefits through a contract between the City and the California Public Employees' Retirement System (CalPERS).

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. The City has sometimes paid the employee contribution.

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.~~ **[1]**

SFERS retirees may receive ‘basic’ and ‘supplemental’ cost-of-living adjustments totaling a maximum of ~~up to~~ 3.5% annually, depending on inflation and SFERS investment earnings. **[2]**

THE PROPOSAL:

Proposition D is a Charter amendment that would change the way the City and current and future employees share in funding SFERS [~~pension~~ retirement] **[3]** benefits. City employees who receive retirement benefits from CalPERS would not be affected by any changes in this proposal. All employees would pay a minimum contribution. The minimum contribution rate, as a percentage of compensation, would be:

- 6.0% for most future employees,
- 7.5% for most current employees,
- 8.0% for future police and firefighters, and
- 10% for current police and firefighters.

Employees making $50,000 or more would pay an additional amount when the City contribution rate is at least 10% of City payroll. The rate for the additional amount would range from 1.0-8.5% of employee compensation, depending on the City contribution rate and the employee's compensation level.

Proposition D would change SFERS service [~~pension~~ retirement] **[3]** benefits for all employees hired after December 31, 2011 by:

- For all employees, limiting covered compensation to base salary, and calculating final compensation from a five-year average.
- For safety employees, increasing the years of service requirement to 10 years at age 50. Those employees who retire at age 50 would receive 2% of compensation for each year of service, increasing to a maximum of 2.7% at age 57.
- For miscellaneous employees, increasing the minimum retirement age to 55 with 20 years of service or 65 with 10 years. Those employees who retire at age 55 would receive 1.3% of compensation for each year of service, increasing to a maximum of 2.3% at age 65.
- Limiting the maximum annual [~~pension~~ retirement benefit] **[3]** to the lesser of 75% of final compensation (currently the rule for miscellaneous employees, but not for safety employees) **[4]** or $140,000, adjusted for inflation.

Some employees in SFERS plans created in 2010 **[5]** who leave City employment before becoming eligible for service retirement can receive a modified service pension, or "vesting retirement", at a later date. Proposition D would provide that for ~~those~~ safety employees ~~in SFERS plans created in 2010 who receive a vesting retirement~~, the years of service requirement for a “vesting retirement” would be increased from five to ten years, and the percentage per year of credited service would be the same as for the new service [~~pension~~ retirement] **[3]** plan. For ~~those~~ miscellaneous employees ~~in SFERS plans created in 2010~~, the minimum age to receive a “vesting retirement” would rise to age 55 and, when applicable, the percent per year of credited service would be the same as for the new service [~~pension~~ retirement] **[3]** plan.

Proposition D would also:

- limit cost-of-living adjustments for SFERS retirees;
- prohibit the City from paying any employee's contribution;
- permit current employees to participate in the lower contribution/ lower benefit plans that apply to new employees,
- permit all employees participating in such plans to pay lower contribution rates under certain circumstances; and
- for current and future employees, permit the City and unions to negotiate a supplemental retirement plan with defined City and employee contributions.

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

- increase retirement contribution rates for most current City employees based on City Costs;
- reduce retirement contribution rates and retirement benefits for future City employees;
- limit cost-of-living adjustments to retirement benefits;
- prohibit the City from paying any employee's contribution; and
- make other changes to the Retirement System.

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

NOTES

[1] PEC recommends removing this paragraph, as Proposition D does not discuss or affect the "vesting allowance". It does affect some deferred service retirements, so-called "vesting retirements", which are different and addressed under "The Proposal". See Note **[5]**.

[2] 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".

[3] PEC recommends changing "pension" back to "retirement" everywhere the former term has been inserted. "Pension" is used inconsistently throughout the digest. More importantly, the San Francisco Charter *does not use the word "pension" at all, referring to "retirement benefits"* rather than "pension benefits", to *"service retirements"* rather than "service pensions", and to the *"Retirement System"* rather than the "Pension System". For these reasons, the Committee agreed not to use the word "pension" in the digest for Proposition B on the November 2010 ballot, and to do so now for Proposition D, the sequel to 2010 Proposition B, would be inconsistent and confusing to San Francisco voters. In the event that the Committee nevertheless decides to retain "pension" in the digest for this initiative, it must use the same term in corresponding sections of the digest for Proposition C as noted in PEC's Request for Reconsideration of that digest.

[4] This important clarification was originally in "The Way It Is Now". The PEC recommends inserting it here, as otherwise voters will be misled into thinking that the 75% limitation is a change for all employees.

[5] PEC recommends the changes reflected in this paragraph to simplify and clarify the meaning of "vesting retirement" (which is different than "vesting allowance") and the scope of this portion of Proposition D. The "vesting retirement" is a modified, deferred service benefit established as part of the 2010 plans for miscellaneous employees under Charter Section A8.600, and for safety employees under Charter Sections A8.601-602.