

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** July 17, 2008

**IBA Report Number:** 08-81

**City Council Meeting Date:** July 22, 2008

**Item Number:** S501

---

# Ballot Measure: Retirement Benefits Reform

## OVERVIEW

Since early March, discussions have been taking place over reforming the City of San Diego's retirement benefits for non-safety employees. Initially, this was bargained during negotiations with the labor unions on their successor MOUs. The IBA published Report 08-32 *Retirement Package Design and Options for Consideration* and a workshop was held on May 9, 2008 with the City Council. The new package of benefits that was proposed later in May was not accepted by the unions nor approved by the City Council.

At that time, the discussions turned to implementing a new package of benefits through a ballot measure that would amend the City Charter by a vote of the people. The Mayor proposed a revised package, as did the Council President, for consideration by the Rules Committee, pursuant to Council Policy 000-21 which governs the process by which ballot measures are considered by the Council. At the Rules Committee meeting of June 25, 2008, a new proposal (the "Compromise Proposal") was introduced jointly by the Mayor and Council President and forwarded by the Rules Committee to the full Council.

On July 15, 2008 the measure was scheduled to be initially considered. Local 127 introduced an alternative proposal and the item was continued for one week. This report compares the financial impacts of the Compromise Proposal to the City's current plan, as well as Local 127's proposal. In addition, it compares these plans to the ones initially proposed to the Rules Committee by the Mayor and the Council President.

## FISCAL/POLICY DISCUSSION

The IBA has asked the City's contracted actuary, Joe Esuchanko of Actuarial Service Company, P.C., to produce an actuarial analysis and comparison of the four plan proposals as described above, along with the current system. This comparison can be

found attached. Although each design differs in its details, it is important to note that the four proposals are very similar in cost and savings, and their most salient feature is the significant difference from the current plan. Each of the new proposals would make significant steps in reducing costs to the City, also increasing take home pay for the employee over the current design. They achieve similar income replacement ratios for the employees and consider the recruitment & retention of employees in their design.

Some differences in the proposals do exist that merit note. The Compromise Proposal does more to disincentivize early retirement than Local 127's proposal. However, inasmuch as the benefits are reduced from the current plan in Local 127's proposal, there may be some move toward later retirements as compared to the current behavior. The proposals also differ in the emphasis of defined benefit vs. defined contribution. The Compromise Proposal still relies more on a defined benefit plan than defined contribution for the majority of employee benefits, as is the case now. However, compared to Local 127's proposal, it includes more benefits sourced from a defined contribution plan. Local 127's proposal comprises only a defined benefit component, with no defined contribution component. Yet, we would note that City employees are still allowed to make voluntary, unmatched contributions to the 401(k) or 457 plans up to the legal allowed limit.

Questions have arisen as to ancillary costs the City may experience through implementation of a retirement package that will incentivize later retirement. For instance, will the City experience higher Workers Compensation or disability costs due to an older workforce in physically demanding classifications? The IBA has discussed this with the actuary and we are working to provide any research that may be available on this topic. We will provide any information on this topic at the earliest opportunity.

## CONCLUSION

The IBA notes that the Compromise Proposal and the Local 127 Proposal (as well as previous designs included for illustration in the attachment) all significantly reduce benefits to employees and costs to the employer, resulting in similar levels of overall reform. Small differences exist in the type of plan proposed (defined benefit vs. defined contribution emphasis) and Local 127s Proposal may do less to disincentivize early retirement.

**[SIGNED]**

---

Penni Takade  
Deputy Director

**[SIGNED]**

---

Approved: Andrea Tevlin  
Independent Budget Analyst

Attachment