

**Final Fiscal Impact Analysis**  
**Charter Amendment Measure:**

**“Amendments to the San Diego City Charter Affecting Retirement Benefits”**

There are two major fiscal analysis components for this ballot measure: potential salary freeze savings and pension benefit changes.

Potential Salary Freeze Savings

Potential savings from freezing salaries for six years (July 1, 2012 through June 30, 2018) are projected to be **\$963 million** over 30 years, or **\$581 million** when adjusted for inflation. However, the ballot measure does allow the City to negotiate salary increases with employees, in lieu of freezing employees’ salaries, with a 2/3 vote of the City Council. If this occurs, the projected savings of \$963 million would be reduced or not achieved.

Pension Benefit Changes

Pension benefit changes are projected to cost a net **\$13 million** over 30 years (**\$56 million** when adjusted for inflation). These changes are outlined in the bullets and table below.

- \$1.324 billion in savings to Defined Benefit (DB) plan Annual Required Contribution (ARC) amounts, due to future employees not being eligible for the DB plan.
- \$1.384 billion in contribution costs to a new Defined Contribution (DC) plan, assuming the maximum employer contribution rates allowed under the ballot measure (9.2% for General employees and 11% for Safety employees) are made. This also assumes the same base compensation as the current DB plan (no overtime included). The actual DC plan structure must be negotiated with labor unions.
- \$215 million in net savings resulting from changing the DB plan’s payment schedule for the Unfunded Actuarial Liability (UAL), due to closure of the DB plan to all future employees except police officers.
- \$217 million in costs for a new death/disability program for future employees - assumes death/disability benefits for future City employees will be comparable to benefits for current employees. Program design must be negotiated with labor unions.
- \$49 million in savings from adjusting the retirement benefit cap for future police officers.

Pension Change	Projected Savings/(Costs) Over 30 Years <i>(in millions)</i>	Inflation-Adjusted Savings/(Costs) Over 30 Years <i>(in millions)</i>
DB Plan Savings	\$1,324	\$657
New DC Plan Costs	(\$1,384)	(\$688)
UAL Payment Schedule Savings	\$215	\$58
New Death/Disability Costs	(\$217)	(\$107)
Police Plan Savings	\$49	\$24
<b>Net Pension Costs</b>	<b>(\$13)</b>	<b>(\$56)</b>

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Other Issues

Future employees’ participation in a new DC plan, as opposed to the current DB plan, would transfer certain risks, most notably investment and longevity risks, from the City to future City employees. While the DB plan’s current assumed rate of return is 7.5%, its investment results for the past 20, 10 and 5 years have been 8.5%, 6.4% and 4.4%, respectively.

Additional ballot measure costs include: administrative and set-up costs for the new DC plan and new disability program and actuarial analyses, if required.

Note that the ballot measure is estimated to result in increased costs to the City of **\$54.1 million** for fiscal years 2014 through 2016, largely due to the change in the UAL payment schedule. These costs will be greater and could continue over a longer period of time if salary freezes are not implemented.