



City of San Diego

# Retiree Health Negotiations

May 13, 2011



# OVERVIEW

- Background On Retiree Medical Benefit
- Retiree Health Benefit Negotiations in FY12 and Tentative Agreement
- Mayor's Recommendation on Tentative Agreement

# BACKGROUND

- **FY06 Contract Negotiations**

- City eliminates retiree health benefit for employees hired after 7/1/05

- **FY08:** Mayor Sanders establishes prefunding of liability to CALPERS Health Trust (CERBT) to address City's Retiree Health Unfunded Actuarial Accrued Liability (UAAL).



# BACKGROUND

- **Midyear Negotiations FY09**
  - City and non-safety labor organizations reach agreement on pension reform which established retiree health trust for employees hired after July 1, 2009
    - .25% employee contribution with .25% City match into Retiree Health Trust



# BACKGROUND

- **FY10 Contract Negotiations**
  - City and four labor organizations agreed to “suspend” retiree health escalator for two years to study benefit and negotiate reform.
  - City imposed elimination of escalator for the other two labor organizations after parties failed to reach agreement.
  - Retiree Health Benefit maintained at FY09 level of \$8,880 for two years for those yet to retire.



# BACKGROUND

- **FY10 Negotiations (continued)**

- “Suspension” and “Elimination” of escalator for two years resulted in reduction of UAAL by \$189 million.

- City and Participating Labor Organizations form Joint Committee to Study Retiree Health Benefit during FY10.

- **September 7, 2010**

- Joint Study on Retiree Health presented to City Council



# RETIREE HEALTH JOINT STUDY

- Comprehensive Joint Study prepared by City and Participating Labor Organizations
- All options were considered
- 18 alternative options studied in addition to status quo
- Options ranged from eliminating the benefit to leaving it unchanged



Option	Brief Description	\$ in thousands			City Contribution		
		AAL	UAAL	ARC	PAYGO	Trust	Total
1	Current	\$1,501,965	\$1,399,857	\$123,276	\$50,534	\$25,000	\$75,534
12	No Benefit	\$544,485	\$442,377	\$32,380	\$37,645	(\$5,265)	\$32,380
11	Freeze at \$1 K	\$710,408	\$608,300	\$48,029	\$39,305	\$8,724	\$48,029
10	Freeze at \$2K	\$758,145	\$656,037	\$52,415	\$40,653	\$11,762	\$52,415
9	Freeze at \$3K	\$805,876	\$703,768	\$56,799	\$42,001	\$14,798	\$56,799
8	Freeze at \$ 4K	\$853,608	\$751,500	\$61,183	\$43,350	\$17,833	\$61,183
7	Freeze at \$5K	\$901,345	\$799,237	\$65,567	\$44,698	\$20,869	\$65,567
19	Stop at Age 65	\$927,873	\$825,765	\$68,557	\$49,023	\$19,534	\$68,557
13*	Frozen, 5 Yrs Only	\$932,989	\$830,881	\$65,950	\$49,365	\$0	\$49,365
6	Freeze at \$6K	\$948,975	\$846,867	\$69, 939	\$45,966	\$23,973	\$69, 939
14*	Frozen, 7 Yrs Only	\$972,305	\$870,197	\$69, 816	\$49,365	\$0	\$49,365
5	Freeze at \$7K	\$996,219	\$894,111	\$74,278	\$47,159	\$25,000	\$72,159
4	Freeze at \$8K	\$1,042,888	\$940,780	\$78,565	\$48,340	\$25,000	\$73,340
2	Frozen \$8,880	\$1,071,268	\$969,160	\$81,154	\$49,365	\$25,000	\$74,365
16	Part B and Part D	\$1,085,225	\$983,117	\$83,555	\$49,437	\$25,000	\$74,437
18	Defer 8 years	\$1,117,577	\$1,015,469	\$86,460	\$37,645	\$25,000	\$62,645
17	Defer to Age 65	\$1,118,577	\$1,016,469	\$87,099	\$39,156	\$25,000	\$64,156
3	CPI Increase	\$1,320,657	\$1,218,549	\$105,200	\$49,998	\$25,000	\$74,998
15	Low Cost Med. Sup.	\$1,378,300	\$1,276,192	\$111,391	\$50,144	\$25,000	\$75,144



# Retiree Health Negotiations FY12

- **Parties identified four key objectives:**
  - Reduce cash flow pressure on General Fund due to City's PAYGO expense for employees hired before 7/1/05
  - Reduce UAAL
  - Reduce Annual Required Contribution (ARC)
  - Provide sustainable framework for a revised and secure retiree health benefit.



# Retiree Health Negotiations FY12

- Negotiations commenced in February 2011
- Tentative Agreements reached with five of six labor organizations



# TENTATIVE AGREEMENT HIGHLIGHTS

- Meets or exceeds the parties four key objectives
- Immediately reduces Retiree Health UAAL by \$330 million and the ARC by \$33 million
- 25 year cash flow savings to taxpayers of \$714 million

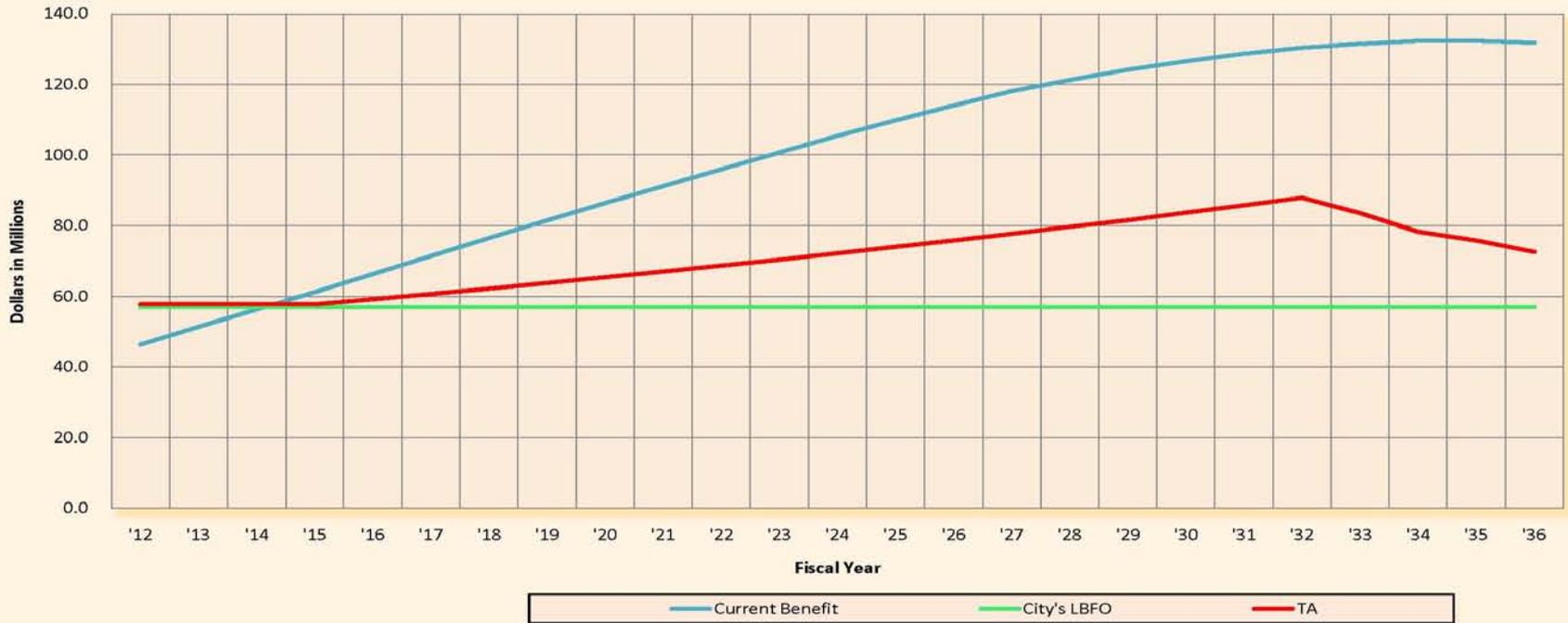


# 25 YEAR CASH FLOW SAVINGS

Fiscal Year	Current Benefit	TA	LBFO
2012	46,343,611	57,782,000	57,000,000
2013	51,428,192	57,782,000	57,000,000
2014	56,250,194	57,782,000	57,000,000
2015	61,236,130	57,782,000	57,000,000
2016	66,275,810	59,227,000	57,000,000
2017	71,374,535	60,708,000	57,000,000
2018	76,524,806	62,225,000	57,000,000
2019	81,529,204	63,781,000	57,000,000
2020	86,411,639	65,376,000	57,000,000
2021	91,187,930	67,010,000	57,000,000
2022	95,973,262	68,685,000	57,000,000
2023	100,650,866	70,402,000	57,000,000
2024	105,403,655	72,162,000	57,000,000
2025	109,785,035	73,966,000	57,000,000
2026	113,996,330	75,816,000	57,000,000
2027	118,103,511	77,711,000	57,000,000
2028	121,318,100	79,654,000	57,000,000
2029	124,192,590	81,645,000	57,000,000
2030	126,592,618	83,686,000	57,000,000
2031	128,731,665	85,778,000	57,000,000
2032	130,412,336	87,923,000	57,000,000
2033	131,451,541	83,624,000	57,000,000
2034	132,304,885	78,283,000	57,000,000
2035	132,323,658	75,808,000	57,000,000
2036	131,826,806	72,634,000	57,000,000
	2,491,628,909	1,777,232,000	1,425,000,000



## ANNUAL CITY PAYMENT FOR RETIREE HEALTHCARE



- >Current Benefit: As of 7-1-11; PAYGO only
- >City's LBFO: includes PAYGO and pre-funding
- >TA: Proposed negotiated settlement; includes PAYGO and pre-funding



# TENTATIVE AGREEMENT TERMS

- 15-year Single Subject MOU
- In addition to current year, Caps City's expense at \$57,782,000 for FY12, FY13, FY14, and FY15
- City's payment is projected to increase no more than 2.5% thereafter
- Although not required, 143.1 vote to remove benefit from retirement system
- Security or "safety valve" clause



# TENTATIVE AGREEMENT TERMS

- **Security or “safety valve” clause**
  - Beginning July 1, 2014, City has ability to modify or eliminate benefit.
    - Requires six votes of City Council to re-open MOU and Meet and Confer over proposed changes
    - Requires six votes of City Council to impose proposed changes in event parties fail to agree to modification
    - Requires public meeting on City’s retiree medical liability two years after implementation



# TENTATIVE AGREEMENT TERMS

## THREE OPTIONS

(FOR EMPLOYEES HIRED BEFORE 7/1/05)

### OPTION A

(applies only to employees with 25 years of service or age and service eligible to retire by 4/1/12)

- Defined Benefit of \$8,880 per year with 2% escalator
  - Safety Member employees required to pay \$103 per month
  - General Member employees required to pay \$98 per month



City of San Diego



# TENTATIVE AGREEMENT TERMS

## OPTION B

- Defined Benefit of \$5,500 per year
  - No escalator
  - Safety Member employees required to pay \$52 per month
  - General Member employees required to pay \$49 per month



# TENTATIVE AGREEMENT TERMS

## OPTION C

- Defined Contribution plan projected to yield annual benefit of \$8,500 based on employee's life expectancy
  - No employee contribution
  - This option Cap's City funding obligation after money deposited into employee's account
  - Once funded, employee assumes risk/reward for investment



# MAYOR'S RECOMMENDATION

Approve Tentative Agreement due to:

- Reduction of cash flow from General Fund based on a lower PAYGO over 25 years
- Reduced UAAL
- Reduced Annual Required Contribution
- Reformed and Sustainable framework for a revised and secure Retiree Health Benefit.

