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# SDCERS BULLETIN



May 19, 2000

BOARD OF ADMINISTRATION  
San Diego City Employees'  
Retirement System

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## **BENEFITS ELECTION REPORT: ELECTION # 39**

The Board of Administration ("Retirement Board") for the San Diego City Employees' Retirement System ("SDCERS"), the Council for the City of San Diego ("City Council"), the City's four labor unions and the Superior Court have approved the settlement of a class action suit brought by William J. Corbett, Donald B. Allen, Leonard B. Morehead and Gordon L. Wilson regarding the calculation of retirement benefits. A vote of the City's active membership and retirees of SDCERS to approve the settlement is now required by the City Charter. The election will take place from May 26 to June 9, 2000.

This report has been prepared at the direction of the Retirement Board to assist you when you vote. It is a fair, impartial and concise summary of the proposed terms of the settlement and the revisions to the San Diego Municipal Code ("SDMC") needed to implement the settlement. If the settlement is approved, further action will be required by the City Council to amend the SDMC.

IF YOU WOULD LIKE A COPY OF THE ORDINANCE AMENDING THE SDMC TO IMPLEMENT THE TERMS OF THE PROPOSED SETTLEMENT PLEASE CONTACT YOUR DEPARTMENT PAYROLL CLERK, UNION OFFICE, OR SDCERS STAFF AT 533-4656. A COPY OF THE ORDINANCE WILL BE PROVIDED UPON REQUEST. A COPY IS ALSO POSTED ON THE CITY'S WEB SITE: [www.ci.san-diego.ca.us](http://www.ci.san-diego.ca.us). GO TO CITY HALL AND THEN TO CITY ATTORNEY.

**PLEASE VOTE. THE PROPOSED SETTLEMENT INVOLVES CHANGES TO YOUR SDCERS VESTED DEFINED RETIREMENT BENEFITS.**

### **DESCRIPTION OF THE PROPOSED SETTLEMENT:**

#### **Retired Members:**

- Retired Members who are covered by the Settlement Agreement receive a one time lump sum payment in November, 2000, which represents a seven percent (7%) retroactive increase to their Base Retirement Benefit for the period covering July 1, 1995 (or the effective date of retirement after July 1, 1995) through June 30, 2000. The Base Retirement Benefit includes the annual two percent (2%)

COLA. It does not include the 13th check or the Supplemental COLA adjustment.

- Effective July 1, 2000, and each year thereafter, Retired Members receive a seven percent (7%) increase to their Base Retirement Benefit. The right to receive this increase each year accrues monthly. Payment will be made annually in November. The payment is contingent upon the availability of Surplus Undistributed Earnings as described in SDMC Section 24.1502.
- To the extent this increase is not paid in any year because there are insufficient Surplus Undistributed Earnings, the liability for this increase shall be carried forward as a contingent liability which will be paid in future years in which there are sufficient Surplus Undistributed Earnings to pay for the increase. Liabilities carried forward shall be paid in the order in which they accrued.

**Active General and Safety Members:**

- Effective July 1, 2000, active General and Safety Members have the opportunity to CHOOSE at the time of retirement EITHER an increase to the Retirement Calculation Factor OR an increase to their Final Compensation as follows:

For Safety Members: An increase in the Retirement Calculation Factor from 2.2% (Lifeguard) or 2.5% (Police & Fire) to 3% @ age 50 and all ages after age 50 with no change in Final Compensation.

- For General Members: An increase in the Retirement Calculation Factor from 2.0% to 2.25% at ages 55 through 59, increasing by .05% for each year of age after age 59, to a maximum of 2.55% at age 65 with no change in Final Compensation.

**OR**

A ten percent (10%) increase in Final Compensation, with the Base Retirement Benefit calculated by using the Retirement Calculation Factors in effect on June 30, 2000.

- Effective July 1, 2001, the employee contribution to the Retirement System will increase as follows:

General Members	+ 0.49%
Safety Members	+ 0.53%
Lifeguards	+ 1.23%

- Effective July 1, 2000, the Employee Contribution to SDCERS will increase by an additional 0.16% to pay for the cost of providing active General and Safety Members the choice of the Retirement Calculation Factors in effect July 1, 2000,

with no change in Final Compensation or the Retirement Calculation Factors in effect on June 30, 2000, with a ten percent (10%) increase to Final Compensation.

- The additional 0.16% increase will be paid from the Employee Benefit Reserve described in SDMC Section 24.1507 until the Reserve is exhausted.

**Active Legislative Members:**

- Effective July 1, 2000, active Legislative Members shall receive a ten percent (10%) increase to their Final Compensation with their Base Retirement Benefit calculated using the Retirement Calculation Factors in effect on June 30, 2000.
- Effective July 1, 2001, the Legislative Member's employee contribution to the Retirement System will increase by +0.49%.
- Effective July 1, 2000, 0.16% of the employee contribution will be paid from the Employee Benefit Reserve described in SDMC Section 24.1507.

**Current DROP Participants:**

- Current DROP Participants will receive a one time lump sum payment in November, 2000, to their DROP account. This payment represents a seven percent (7%) increase to their Base Retirement Benefit for the period covering their date of DROP enrollment through June 30, 2000. The Base Retirement
  - Benefit includes the annual 2% COLA. It does not include the 13th check.
- Effective July 1, 2000, a current DROP Participant's Base Retirement Benefit shall be increased by ten percent (10%).

**Future DROP Participants:**

- Members who elect to participate in DROP on or after July 1, 2000, shall have the opportunity to irrevocably CHOOSE at the time of DROP participation EITHER an increase to the Retirement Calculation Factor OR an increase to their Final Compensation as follows:

For Safety Members: An increase in the Retirement Calculation Factor from 2.2% (Lifeguard) or 2.5% (Police & Fire) to 3% @ age 50 and all ages after age 50 with no change in Final Compensation.

For General Members: An increase in the Retirement Calculation Factor from 2.0% to 2.25% at ages 55 through 59, increasing by .05% for each year of age after age 59, to a maximum of 2.55% at age 65 with no change in Final Compensation.

OR

A ten percent (10%) increase in Final Compensation, with their Base Retirement Benefit calculated using the Retirement Calculation Factors in effect on June 30, 2000.

**Currently Vested Deferred Members:**

- Members who left City employment prior to July 1, 2000, who were vested when they left City employment, who left their contributions on deposit, and who deferred their retirement until a date on or after July 1, 2000, receive a seven percent (7%) increase to their Final Compensation.
- After retirement, currently vested deferred Members' right to receive this increase accrues monthly. Payment will be made annually in November. The payment is contingent upon the availability of Surplus Undistributed Earnings as described in SDMC 24.1502.
- To the extent this increase is not paid in any year because there are insufficient Surplus Undistributed Earnings, the liability for this increase shall be carried forward as a contingent liability which will be paid in future years in which there are sufficient surplus Undistributed Earnings to pay for the increase. Liabilities carried forward shall be paid in the order in which they accrued.

**Future Vested Deferred Members:**

- Members who leave City employment on or after July 1, 2000, who are vested at the time they leave City employment, who leave their contributions on deposit, and who defer their retirement until a future date have the opportunity to CHOOSE at the time of retirement EITHER an increase to the Retirement Calculation Factor OR an increase to Final Compensation as follows:

For Safety Members: An increase in the Retirement Calculation Factor from 2.2% (Lifeguard) or 2.5% (Police & Fire) to 3% @ age 50 and all ages after age 50 with no change in Final Compensation.

For General Members: An increase in the Retirement Calculation Factor from 2.0% to 2.25% at ages 55 through 59, increasing by .05% for each year of age after age 59, to a maximum of 2.55% at age 65 with no change in Final Compensation.

OR

A ten percent (10%) increase in their Final Compensation, with their Base Retirement Benefit calculated using the Retirement Calculation Factors in effect on June 30, 2000.

### **Surplus Undistributed Earnings (SDMC Section 24.1502):**

- Effective July 1, 2000, the right to receive the seven percent (7%) increase to the Base Retirement Benefit for Retired Members accrues monthly and is paid annually in November after the Retirement Board determines there are sufficient Surplus Undistributed Earnings to pay for the increase in accordance with SDMC Section 24.1502.
- SDMC Section 24.1502 sets forth the order of payments which must be made to determine the existence as well as the amount of Surplus Undistributed Earnings for the Retirement System for any given year. The funds remaining after the payments have been made is the surplus undistributed earnings for a fiscal year. The order of payments currently is as follows:
  1. An interest credit determined by the Retirement Board (currently 8%) to the contribution accounts of Retirement System Members, the City and the Unified Port District.
  2. Budgeted expenses and costs of operating the Retirement System.
  3. Reserves recommended by the Board's Actuary.
  4. Unified Port District's share of Retirement System earnings.
  5. Health Insurance premiums for Post Retirement Health Benefits.
  6. The Annual Supplemental Benefit (13th check).
  7. The Reserves for the Supplemental COLA and Employee Contributions.
- The proposed settlement would insert the payment of the seven percent (7%) increase to the Base Retirement Benefit for Retired Members after the 13th Check and before the Reserves for the Supplemental COLA and Employee Contributions.
- To the extent this increase is not paid in any year because there are insufficient Surplus Undistributed Earnings, the liability for this increase shall be carried forward as a contingent liability which will be paid in future years in which there are sufficient Surplus Undistributed Earnings to pay for the increase. Liabilities carried forward shall be paid in the order in which they accrued.

### **DESCRIPTION OF THE REVISIONS TO THE SDMC NEEDED TO IMPLEMENT THE SETTLEMENT:**

1. Amend SDMC Section 24.0103 setting forth definitions for the Retirement System to:
  - A. **Repeal** the definitions for "Compensation" and "Compensation Earnable."
  - B. **Amend** the definition of "Final Compensation" for General Members,

Legislative Members and Safety Members to substitute "Base Compensation" for "Compensation Earnable," and substitute "the highest 26 consecutive pay periods during membership in the Retirement System" for the "highest one-year."

- C. Amend the definition of "Cost of Living Annuity" to incorporate the term "Base Retirement Benefit."
- D. **Add** new definitions for "Base Compensation," "Base Retirement Benefit," "Creditable Service Pension," "Service Retirement Annuity," "Surviving Spouse Annuity," and "Unmodified Service Retirement allowance" to read as follows:

**"Base Compensation"** means and includes only the base salary or wages paid to an employee in any given fiscal year, plus such other elements of compensation or remuneration which are expressly identified in the City of San Diego's annual Salary Ordinance for inclusion in the calculation of Final Compensation.

**"Base Retirement Benefit"** means the monthly retirement allowance for service or disability (whether or not modified in the event the Member selects an optional retirement as provided in Division 6) paid to a Retired Member of the Retirement System or a like amount deposited monthly in the Account of a DROP Participant. The Base Retirement Benefit includes the annual Cost of Living Adjustment (COLA) described in Section 24.1505. It does not include the Annual Supplemental Benefit (13th check) described in Section 24.1503 or the Supplemental COLA adjustment described in Section 24.1504.

**"Creditable Service Pension"** means the pension derived from the contributions of the City, that when added to the Member's Service Retirement Annuity, is sufficient to equal the Unmodified Service Retirement Allowance.

**"Service Retirement Annuity"** means the Annuity which is the Actuarial Equivalent of the Member's Accumulated Normal Contributions at the time of the Member's retirement.

**"Surviving Spouse Annuity"** means an amount to be added to the Member's Base Retirement Benefit, calculated by computing the Actuarial Equivalent of the Accumulated Contributions in the Member's Surviving Spouse Annuity account at the time of the Member's retirement or

participation in DROP, if the Member is not married at the effective date of retirement and elects to annuitize.

**“Unmodified Service Retirement Allowance”** means the monthly allowance paid to a Member based on a formula using the Member’s age at retirement, the Member’s Final Compensation, and the Retirement Calculation Factor selected by the Member for the calculation of the Member’s Base Retirement Benefit, in accordance with SDMC Sections 24.0402 and 24.0403.

2. **Amend** SDMC Sections 24.0402 and 24.0403, regarding the calculation of service retirements for General Members and Safety Members, respectively, to add a chart for the new Retirement Calculation Factors which become effective July 1, 2000.

In addition, with respect to the calculation of a Member’s Base Retirement Benefit, amend these sections to include a description of the Member’s choice of the new Retirement Calculation Factors in effect on July 1, 2000, with no change in the Member’s Final Compensation OR a ten (10%) increase in the Member’s Final Compensation with the Member’s Base Retirement Benefit calculated using the Retirement Calculation Factors in effect on June 30, 2000.

The current and new Retirement Calculation Factors for General and Safety Members are listed below:

**GENERAL MEMBER  
RETIREMENT CALCULATION FACTORS**

<b>Retirement Age</b>	<b>Unmodified Factor effective 6/30/00 [Current]</b>	<b>Unmodified Factor effective 7/01/00 [New]</b>
55	2.00%	2.25%
56	2.00%	2.25%
57	2.00%	2.25%
58	2.00%	2.25%
59	2.08%	2.25%
60	2.16%	2.30%
61	2.24%	2.35%
62	2.31%	2.40%
63	2.39%	2.45%
64	2.47%	2.50%
65+	2.55%	2.55%

## SAFETY MEMBER RETIREMENT CALCULATION FACTORS

Retirement Age	Unmodified Factor effective 1/01/97-6/30/00 [Current]		Unmodified Factor effective 7/01/00 [New]
	Lifeguard	Police & Fire	All Safety
50	2.20%	2.50%	3.00%
51	2.32%	2.60%	3.00%
52	2.44%	2.70%	3.00%
53	2.57%	2.80%	3.00%
54	2.72%	2.90%	3.00%
55+	2.77%	2.99%	3.00%

3. **Amend SDMC Sections 24.1302 (Purchase of Probationary Period), 24.1404(c)(4) (Drop Benefits and Participation Accounts), and 24.1704 (Contribution Rate for Legislative Officers) to substitute the term "Base Compensation" for "Compensation" or "Compensation Earnable."**
  
4. **Amend SDMC Section 24.1502 regarding the calculation of SDCERS Surplus Undistributed Earnings to ADD the following section after the 13th Check and before the Reserves for the Supplemental COLA and Employee Contributions:**
  - (7) An amount sufficient to increase the Base Retirement Benefit by 7% for City Retired Members of the Retirement System who are covered by the Settlement Agreement.
    - (A) The right to receive this increase each year shall accrue monthly. The increase, however, shall be paid annually at the time the Annual Supplemental Benefit (13th check) is normally distributed.
    - (B) To the extent this increase is not paid in any year because there are insufficient Surplus Undistributed Earnings, the liability for this increase shall be carried forward as a contingent liability which will be paid in future years in which there are sufficient surplus Undistributed Earnings to pay for the increase.
    - (C) Liabilities carried forward shall be paid in the order in which they accrued.
  
5. **Amend SDMC Section 14.1507 (a)(5) and (b), regarding the Employee Contribution Reserve to increase the percentage from 0.49% to 0.65% of the funds to be transferred from the Employer Reserve to the Employee Reserve to pay for a portion of the increase to the SDCERS employee contribution until the Reserve is exhausted.**