CITY of SAN DIEGO

MEMORANDUM

FILE NO.:

DATE : November 20, 1981

TO : All City Employees Paying Social Security

FROM : City Manager

SUBJECT: Withdrawal from Social Security

For several years the City has been studying the possibility of withdrawing from the Social Security system and in its place starting another pension plan to supplement your regular City retirement program.

On November 4, 1981, the City Council authorized an election so that you could vote on this matter. Because of legal constraints, the City must notify the Social Security Administration of our intentions by December 31, 1981. Therefore, time is very short in which to tell you about the new plan and hold the election.

This memo and attached material is intended to let you know something about the new Supplemental Pension Plan and anticipate some of the questions you may have. Hopefully, you have already received a schedule for meetings to be held on this subject. Withdrawal from Social Security and features of the new Supplemental Pension Plan will be discussed at these meetings and you will be given the opportunity to ask any further questions you may have.

Attached to this memo is an outline of the essential provisions of the Supplemental Pension Plan. Also attached is a series of questions and answers most likely to arise concerning the plan and proposed withdrawal from Social Security. I realize the material is quite lengthy; however, it is important and to your advantage to review it carefully.

Ray T. Blair, Jr.

Attachments

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CITY OF SAN DIEGO

Outline of Essential Provisions of Supplemental Pension Plan

1. EFFECTIVE DATE

The effective date of the Plan will be January 8, 1982.

2. PARTICIPATING EMPLOYEES

All employees currently paying Social Security taxes are eligible and will be required to participate in the Plan.

3. ENTRY DATE

All current eligible employees will be enrolled in the Plan as of January 8, 1982. All future eligible employees will join the Plan immediately on their date of employment.

4. EMPLOYEE CONTRIBUTIONS

Employee contributions consists of two parts:

° Mandatory Contribution

Each participant is required to make a contribution of 3% of gross pay.*

° Voluntary Contribution

Each participant has the option to make an additional contribution of up to 3.65% of his/her gross pay. This choice is made on the date of hire with the employee having an opportunity to modify his/her choice in January and July of each year.

The total Employee Contribution made under this Plan may not exceed 6.65% of the participant's gross pay.

*Gross pay includes regular bi-weekly salary, shift differential and other special assignment pay, paid sick leave, paid annual leave, pay-in-lieu of annual leave, payments into deferred compensation, and payments for overtime. For this purpose, gross pay does not include industrial leave, injury leave, workers' compensation, long-term disability pay, bonus awards, suggestion awards, termination payoffs, retirement and deferred compensation benefit payments, and any death benefits.

5. EMPLOYER MATCHING CONTRIBUTIONS

The City of San Diego will contribute an amount equal to the Mandatory and Voluntary Contributions made by the participant.

6. INVESTMENT OF CONTRIBUTIONS

All contributions made by participants and the City will be deposited in the City of San Diego Supplemental Pension Plan Trust Fund.

7. ALLOCATION OF INVESTMENT EARNINGS

Investment earnings will be credited to each participant's account balance at the end of each calendar quarter.

8. PARTICIPANT ACCOUNT BALANCE

Each Participant Account Balance consists of the following:

- Mandatory Contribution Account
- Voluntary Contribution Account
- Employer Matching Contribution Account
- Investment Earnings

At the end of each calendar quarter, the Plan Administrator will furnish each participant a statement which will give the following information for each of the above accounts:

- Account balance as of the beginning of the quarter
- Current contributions made for the quarter
- Investment earnings for the quarter
- Amount of withdrawal for the quarter, if any

9. VESTING*

The Employee Required Mandatory and Voluntary Contributions are always 100% vested.

The Employer Matching Contributions are 100% vested for all participants who are on the City's payroll as of January 7, 1982, including those who are on leave with pay.

* Vesting means that you have a right to this money. In other words, it's yours as soon as it's credited to your account subject to withdrawal procedures.

For all other participants, vesting percentage for the Employer Matching Contribution Account will be determined according to the following schedule:

Completed Years of Service	Vesting Percent
1	20%
2	40%
3	60%
4	80%
5	100%

At the time of Normal Retirement, Early Retirement, Death, or Disability, the Employer Matching Contributions plus investment earnings will become 100% vested.

10. TYPE OF BENEFITS

(a) Normal Retirement Benefit

If not already 100% vested, upon attainment of age 65, the participant will become 100% vested.

(b) Early Retirement Benefit

Upon becoming eligible for Early Retirement under the City Employees' Retirement System (CERS), the participant will become 100% vested.

(c) Death or Disability Benefit

Upon death or total and permanent disability,* the participant and/or his/her heirs will receive 100% of his/her Participant Account Balance.

* Total and permanent disability means complete inability to engage in any gainful occupation or employment for which you are qualified or become reasonably fitted by reason of education, training, experience or rehabilitation as certified by a registered physician.

11. NORMAL FORM OF BENEFIT PAYMENTS

Lump sum payment within 30 days of separation.

12. WITHDRAWALS OF CONTRIBUTIONS WHILE IN ACTIVE EMPLOYMENT

A participant may request a withdrawal from his/her Account Balance once every calendar year subject to the following conditions:

(a) No withdrawal within first two years participation.

(b) If the withdrawal is made after two years but prior to completion of five years of Plan participation, he/she may only withdraw his/her own voluntary contributions and investment earnings attributable to the amount withdrawn.

- If he/she is less than 50% vested, he/she will forfeit all Employer Matching Contributions plus investment earnings attributable to the amount withdrawn.
- If he/she is 50% vested, he/she will forfeit the non-vested Employer Contributions plus investment earnings attributable to the amount withdrawn.
- Participants who are 50% or more vested will have the option of paying back the withdrawn amount within one year in order to recover the forfeited amount.

(c) If the withdrawal is made after completion of five years of participation in the Plan, the participant may withdraw all or part of his/her Voluntary Account Balance (with interest) and the Employer Matching Contributions plus investment earnings attributable to the amount withdrawn without any forfeitures or penalties.

13. LOANS TO PARTICIPANT

The participants are not allowed to borrow from the trust fund of this Plan. Employees may not pledge any part of the Participant Account Balance for purposes of obtaining a loan.

14. PLAN AMENDMENT

After the effective date of the Plan, amendments will be adopted only by a vote of the active Plan participants. A simple majority vote is required to effect an amendment.

15. PLAN ADMINISTRATION

The Plan will be administered by the City of San Diego. Plan administration costs will be paid by the City.

WHAT HAPPENS IF WE PULL OUT OF SOCIAL SECURITY?

Following are the most common questions asked concerning how withdrawal from Social Security will affect City employees. The questions and answers are divided into five categories: 1) Retirement Benefits; 2) Survivor Benefits; 3) Disability Benefits; 4) Medicare Hospital Insurance; 5) Medicare Medical Insurance.

RETIREMENT BENEFITS

QUESTION	ANSWER
1. Will I lose my Social Security eligibility if the City withdraws?	a. If an employee has the necessary quarters of coverage (30 in 1981 increasing one quarter per year to a maximum of 40 in 1991) there would be a vested right to Social Security retirement benefits. b. If an employee did not have the necessary quarters of coverage, the number of quarters would not be lost but would remain to the employee's credit. The deficient quarters could be made up prior to or subsequent to leaving the City by earning wages subject to Social Security taxation of at least $340 per quarter or by self-employment earnings of at least $400 per year.
2. Will this Supplemental Pension Plan take away or reduce any of my current City Retirement System Benefits?	No. The proposed Plan would slightly improve the current method of computing your retirement benefit.
3. Will the City Council guarantee this Supplemental Pension Plan?	This Plan will have the same guarantees as the current retirement system. Changes will have to be voted on by the members.
4. Will the employees have to negotiate for this Plan every year?	No.
5. How will the funds contributed be invested and can they be used for general City purposes?	a. Funds will be placed in a Trust Fund and will be invested to get the highest return as with other City funds. b. The funds will not be available for general City use.

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QUESTION	ANSWER
6. If the City drops Social Security will we be able to rejoin?	No, unless mandated by Federal law.
7. Are Police and Fire personnel included in the Supplemental Pension Plan?	No. Included in the Plan are employees in the Social Security system; Police and Fire personnel are not in the Social Security system.
8. Will contributions to the Supplemental Pension Plan be tax deferred?	As of now, employee contributions will be made with after tax dollars as are current Social Security taxes. However, we are attempting to make the program eligible for Deferred Compensation, in which case there will be the option of making contributions with before tax dollars up to your legal limit. Employer contributions and investment earnings from both employer and employee contributions will be tax deferred.
9. Will my contributions to the Supplemental Pension Plan change?	Yes, but only as your salary changes. For instance, if you leave your contribution percentage at the maximum (6.65%) your contributions will increase as your salary increases. Unlike Social Security, the 6.65% will always remain the maximum percentage contribution.
10. The City's Plan calls for a mandatory contribution of 3%. Why?	To insure tax exempt status for employer contribution and investment earnings and to insure that employees have some future benefits.
11. What's in this Plan for the City of San Diego?	Cost avoidance. Both the City and the employees continue to pay higher and higher Social Security taxes and on a higher maximum salary. By taking both the City and the employee's taxes at today's rate and putting that money in another plan the future increases are avoided. In 1981 you pay 6.65% of your wages up to a maximum of $1,975.05. In 1982 the Social Security tax will be 6.70% on $32,400 to a maximum of $2,170.80.
12. Have other public agencies withdrawn from Social Security?	Yes. Many public agencies have withdrawn.

SDPOA 0400

QUESTION	ANSWER
13. What kind of payback can I expect from the City's Plan as compared with Social Security?	The answer to this question will be different for each individual because of salary, age at retirement, years of contribution already made to Social Security, and remaining years to contribute to Social Security or the City Plan. The comparison will also be affected by interest rates and possible increases or cutbacks to the Social Security program. The City's Economist has prepared a chart of approximate Social Security payments for employees retiring at age 65 and another chart for payments under a monthly annuity using the City's Plan. The charts use the same assumptions so that you can make a rough estimate of comparative benefits. When using the charts be sure to anticipate your present and remaining years of taxes under Social Security for a proper comparison. For example, assume you are 45 years old, earn $18,000 per year, and have already paid Social Security taxes for 20 years. If we remain under Social Security and you retire at age 65, the Social Security payment chart shows a payment of $593 per month (20 years participation at present plus 20 more years until you reach 65 - see 35 plus column on the chart). Under the City Plan you would have 20 years to contribute until 65 for an annuity of $618 per month plus $407 per month for your present 20 years of taxes to the Social Security system for a total benefit of $1,025 per month.
	SURVIVOR BENEFITS
14. How will withdrawal affect Social Security Survivor Benefits?	If an employee has the required quarters of Social Security coverage, there would be a vested right to full survivor benefits for the first five years after termination. After the first five year period, survivor benefits would be reduced partially each year until the 25th year, at which time there would be no survivor benefit entitlement. Social Security Survivor Benefits depend on age and income. They are basically intended for the surviving spouse and dependent children.
15. What survivor benefits does the Supplemental Pension Plan provide?	Employee's designated beneficiary (or beneficiaries) would receive full survivor benefits. The amount of the benefit would depend on the amount the employee has invested in the Supplemental Pension Plan. The employee's vested amount will always be paid in full.
16. What death benefit does Social Security provide?	The Social Security death benefit is $255 - payable to a surviving spouse or dependent child.

QUESTION	ANSWER
17. What death benefit does the City provide?	Current City-paid life insurance is equal to one year's annual salary payable to any designated beneficiary. Additional life insurance up to $212,500 will be offered at group rates on January 1, 1982.

DISABILITY BENEFITS

18. What disability benefits are provided under Social Security?	There is a five month waiting period. A worker earning $15,000 per year would receive a disability payment of about 55%.
19. What happens to my Social Security disability benefits if we withdraw?	There is a vested right to such benefits for a period of five years after withdrawal.
20. What disability benefits does the City provide?	The City's long term disability plan requires a one month waiting period and pays 60% of basic monthly earnings.

MEDICARE HOSPITAL INSURANCE

21. What happens to Medicare Hospital benefits if we withdraw?	If the employee has the necessary quarters of coverage (30 in 1981 increasing one quarter per year to a maximum of 40 in 1991) there would be a vested right to hospital benefits. If the employee did not have the necessary quarters of coverage, the quarters would remain to the employee's credit and the deficient quarters could be made up before or after leaving the City by earning wages subject to Social Security taxation of at least $340 per quarter or by self-employment earnings of at least $400 per year. At age 65, an individual can obtain hospital coverage if not in Social Security by the payment of premiums.
22. What will the City provide for hospital insurance?	The retired employees will be included in the City health plans. The City will pay for the retired employee's health insurance premiums. These costs will <u>not</u> be paid out of the Supplemental Pension Plan.

QUESTION	ANSWER

MEDICARE MEDICAL INSURANCE

23. What does Social Security provide for Medicare Medical Insurance?	At age 65 anyone who desires coverage must pay a premium for Medicare Medical Insurance regardless of whether or not there is Social Security coverage.
24. What will the City provide for medical insurance?	Retired employees will be included in the City health plans. The City will pay the premiums. The cost of the premiums will <u>not</u> come from the Supplemental Pension Plan.

Financial Management Department
November 13, 1981

ONE TYPE OF MONTHLY ANNUITY POSSIBLE UNDER MONEY PURCHASE/THRIFT SAVINGS PLAN
FOR WORKERS RETIRING AT AGE 65
(Employee contribution - 6.65% of salary, matched by City contribution)

	YEARS OF CONTRIBUTION				
ANNUAL SALARY	10	20	30	35	40
$10,000	$152	$343	$586	$ 730	$ 892
14,000	212	481	820	1,022	1,248
18,000	273	618	1,054	1,313	1,605
22,000	334	755	1,288	1,605	1,962
26,000	394	893	1,522	1,897	2,319
30,000	455	1,030	1,757	2,189	2,675

NOTES AND ASSUMPTIONS

1. Figures shown are a life annuity for a male worker calculated at 8% interest. While this annuity is built upon an assumed life expectancy of 13 years beyond retirement, it will pay the amount shown for the worker's entire life, no matter how long that is. Life annuity payments for females would be somewhat less due to longer life expectancy.

2. Annuity payments are not indexed to inflation, i.e., there is no cost of living adjustment.

3. Annuity payments in excess of worker's contributions are taxable.

4. All figures are in 1981 dollars.

Financial Management Department
November 13, 1981

MONTHLY SOCIAL SECURITY PAYMENTS FOR WORKERS BORN AFTER 1929*
AND RETIRING AT AGE 65

	YEARS OF CONTRIBUTION			
ANNUAL SALARY	10	20	30	35 Plus **
$10,000	$221	$306	$390	$433
14,000	255	368	482	542
18,000	288	407	523	593
22,000	308	427	543	608
26,000	316	435	550	618
30,000	319	438	553	626

* Workers born before 1930 will get greater benefits than shown here.

** Under current laws, Social Security Benefits are calculated on highest 35 years of contributions.

NOTES AND ASSUMPTIONS

1. Figures are for individual workers without dependents.
2. Calculations are based on today's Social Security laws. It is virtually certain that the laws will change, but how and when is not known.
3. All figures are 1981 dollars.
4. Workers retiring at age 62 will receive 80% of amounts shown here.
5. Workers born after 1929 must contribute to Social Security for a minimun of 10 years to be eligible for retirement benetis.