

## Frequently Asked Questions Regarding Tier 1 “Classic”, Tier 2B and Tier 3 Retirement

### **1. What are my options for retirement benefits at the City of San Jose?**

If you are a new employee hired directly into the Executive Management and Professional Employees unit (Unit 99) and you have never worked for the City before, you have the option of choosing among a defined benefit Tier 1 Classic, a defined benefit (Tier 2B) and a defined contribution (Tier 3) retirement plan.

### **2. What is a defined benefit plan Tier 2B?**

A defined benefit plan provides a set level of benefit to a retired employee, generally over the life of that employee’s retirement. Under Tier 2, you would receive a benefit accrual rate of 2.0% for every year of service spent with the City (2080 hours). The benefit will be calculated by using a set formula that includes the final average salary (70% maximum of the average of the highest 3 consecutive years of service), number of years of service, and the accrual rate, i.e. 30 years x \$50,000 x 2.0%. You must reach the age of 62 in order to receive the maximum benefit or take reduction factor of 5% if you retire after 55 and before 62. The annual Cost-of-Living Adjustment (COLA) will either be the CPI or a back-loaded 2.0% COLA.

### **3. What is a defined benefit Tier 1 “Classic”?**

If an employee was a member of a CalPERS or reciprocal agency’s defined benefit retirement plan before January 1, 2013, did not have a break in service of more than six (6) months, and did not have concurrent (overlapping service), they may be eligible to participate in the Tier 1 “Classic” benefit if it has been verified that they were “Classic” members.. In the Tier 1 “Classic” benefit, you would receive a benefit accrual rate of 2.5% for every year of service spend with the City (1739 hours). The benefit would be calculated by using a set formula that includes your final compensation (75% maximum of your highest 12 consecutive months of service). You must reach the age of 55 to receive the maximum benefit. If an employee is found to not be eligible for membership in the Tier 1 “Classic” benefit, the employee will be placed into Tier 2b and will be responsible for any differences in the employee contribution rate that result from that move from one category to the other.

### **4. What is a defined contribution plan Tier 3?**

A defined contribution plans sets the level of contribution from the employee and the employer over the working life of the employee, currently 3.75%. At the end of the employee’s service, the accumulated funds in the employees defined

contribution account will be available for payout. The account is exhausted after the employee has used all of the funds.

Tier 3 is a defined contribution retirement benefit. You would contribute into a 401(a) account 3.75% of your salary and the City would also contribute 3.75% of your salary. These amounts are subject to change. This benefit is in-lieu of Social Security (contributions are made for Medicare by the City and the employee). If you choose Tier 3, you would not participate in the defined benefit pension and retiree healthcare programs and would not be required to make the contributions associated with those benefit programs.

**5. What are the differences between Tier 1 “Classic”, Tier 2B and Tier 3?**

Enclosed are fact sheets on Tier 1 “Classic” and Tier 2B, which are defined benefit programs. The contribution rates are subject to change annually. The Tier 1 “Classic” and Tier 2B retirement benefit do not include retiree healthcare benefits

**6. What is a 401(a) account?**

A 401(a) account works like private sector 401(k) accounts except that the contribution amount for the employee and the employer is pre-determined by the City.

**7. When do I make the election between Tier 1 “Classic”, Tier 2B and Tier 3?**

This election must be made on the first day of employment or you will automatically be enrolled into Tier 2B.

**8. Can I change my election after any period of time?**

The election you make on your first day will be permanent for the duration of your employment with the City.

**9. If I leave City service and then come back, will I be able to make a different choice?**

The election is considered to be permanent despite any break in City service.

**10. What is the difference in retiree healthcare benefits?**

As mentioned above, employees in Tier 1 “Classic”, Tier 2B and Tier 3 are not eligible for retiree healthcare benefits.

**11. Where can I receive more information about choosing between a defined benefit and defined contribution plan?**

Please contact the City Manager’s Office of Employee Relations at (408) 535-8150 or at [employee.relations@sanjoseca.gov](mailto:employee.relations@sanjoseca.gov) for more information regarding these options.