CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Chuck Reed
MAYOR

June 22, 2012

Hand Delivered

Deputy Secretary Neal Wolin
U.S. Deputy Secretary of the Treasury
Treasury Department
2500 Pennsylvania Avenue, NW
Washington DC

Deputy Secretary Wolin,

Thank you for taking the time to discuss fiscal problems caused by skyrocketing retirement costs. I am asking for your assistance to allow local governments to give employees an alternative to paying more for their retirement benefits. To do so, we need a ruling from the IRS on the San Jose Voluntary Election Program.

Although San Jose is in some ways leading on this issue, this is a national problem. Mayors across the country are searching for alternatives to bankruptcy to bring down the costs of retirement benefits.

San Jose's cost for retirement benefits has gone from $73 million ten years ago to $245 million this year. To cope with this increase, we have reduced our work force from 7400 to 5400 employees. We also made many organizational changes to be more efficient, and every employee in the city took a 10% cut in pay. Yet, our unfunded liabilities for retirement benefits continue to grow, and we are facing rising costs for at least another decade.

Short of bankruptcy, we have a very limited range of steps we can take to control retirement costs. In addition to layoffs and paycuts, we can require our employees to pay more for the cost of their benefits. Hundreds of cities in California and in other states have already done so.

Starting in June 2013 our employees will have to pay an additional 4% of their pay towards unfunded pension liabilities. That amount will increase annually until it reaches 16% of pay or 50% of the cost of unfunded liabilities.

Because that additional cost could be a difficult burden for many employees, we want to give them a one-time option to choose a lower-cost set of benefits and avoid having to help pay for unfunded liabilities.

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Implementation of our employee choice option is contingent upon gaining a favorable ruling from the IRS. We understand there is a substantial backlog of requests for rulings on choice provisions from other jurisdictions dating back to 2006. Our approach is substantially different from other requests for the reasons covered in detail in our Ruling Request Submission.

Our approach could be a model for other cities. We hope that our request can be promptly reviewed on its merits.

Sincerely,

Chuck Reed

Chuck Reed
Mayor

Attachments:
Pension Reform Ballot Measure Fact Sheet
Skyrocketing Retirement Costs
Growing Unfunded Liabilities
Shrinking Number of Employees
Police Department Budget and Staffing
U.S. Conference of Mayors Resolution 90 on pension benefit alternatives
Sample of National print media stories