

(O-97-86)

ORDINANCE NUMBER O- **18385** (NEW SERIES)

ADOPTED ON **MAR 04 1997**

AN ORDINANCE AMENDING CHAPTER II, ARTICLE 4, OF THE SAN DIEGO MUNICIPAL CODE BY ADDING DIVISION 14, ENTITLED "DEFERRED RETIREMENT OPTION PLAN," AND BY ADDING SECTIONS 24.1401, 24.1402, 24.1403, 24.1404, 24.1405, 24.1406, 24.1407, 24.1408, AND 24.1409, ALL RELATING TO THE RETIREMENT SYSTEM.

BE IT ORDAINED, by the Council of The City of San Diego, as follows:

Section 1. That Chapter II, Article 4, of the San Diego Municipal Code be and the same is hereby amended by adding a new division, Division 14, entitled "Deferred Retirement Option Plan," and by adding Sections 24.1401, 24.1402, 24.1403, 24.1404, 24.1405, 24.1406, 24.1407, 24.1408, and 24.1409, retroactively applicable to April 1, 1997, to read as follows:

DIVISION 14

DEFERRED RETIREMENT OPTION PLAN

SEC. 24.1401 Purpose and Intent

a. A deferred retirement option plan (DROP) is hereby established effective April 1, 1997. The DROP plan is intended to allow Members who are eligible for service retirement to voluntarily elect an option to: (1) irrevocably waive their right to continue as a Member, (2) defer termination of City service for the duration of participation in DROP, and (3) defer receipt of their retirement

allowance (calculated as of the date Membership status is waived) for the duration of participation in DROP.

b. It is also intended that the provision of this Division shall not in any way jeopardize the qualified status of the Retirement System under the rules and regulations of the Internal Revenue Service.

c. It is further intended that the Members of the Retirement System shall vote upon the establishment and implementation of this DROP benefit as a conditional benefit for a three (3) year trial basis. Election materials to the Members shall reflect the conditional nature of this benefit by clearly explaining that after three (3) years of implementation the cost of implementing this benefit shall be evaluated by the actuary for the Retirement System. If it is determined that implementation of DROP has the net effect of increasing the City's contributions to the Retirement System to a level greater than the savings realized by the elimination of employer contributions and the City's offset of employee contributions, then the City Council shall consider amendments to this Division to eliminate the availability of DROP for new participants. Council's action to prospectively eliminate the benefit, should that occur, shall not be subject to a vote of the Membership. If the determination of the Actuary is that DROP does not have the net effect of increasing the City's contributions to the Retirement System to a level greater than the savings realized by the elimination of employer contributions and the City's offset of employee contributions, the DROP benefit shall no longer be considered conditional and shall be treated the same as any other defined benefit of the Retirement System.

SEC. 24.1402 Eligibility

a. A Member shall not be eligible to elect participation in DROP until that Member attains eligibility for a service retirement under this Article.

b. Once a Member elects to participate in DROP, that DROP participant is no longer eligible for any rights, privileges, or benefits which require Membership in the System as a prerequisite to eligibility, except as specifically provided for in Sections 24.1402(c) and 24.1402(d).

c. DROP participants shall be eligible for the Special Death Benefit pursuant to Sections 24.0706, 24.0709, and 24.0710.2.

d. DROP participants shall be eligible to apply for conversion of their deferred service retirement allowance to a disability allowance in accordance with this Article calculated at the date of entry into the DROP.

SEC. 24.1403 Designation of the DROP Period

A Member who elects to participate in DROP shall irrevocably designate a specific consecutive period of months for participation in DROP not to exceed sixty (60) months. Any member who elects to participate in DROP shall be required to execute a legally binding waiver of Membership status, and further agree to terminate City service upon completion of the DROP period.

SEC. 24.1404 Duration of DROP Participation

Duration of the DROP period shall be determined by the first occurrence of any one of the following events.

- a. Completion of the period irrevocably designated by the participant at entry into the DROP, not to exceed sixty (60) months; or
- b. Termination of employment, either voluntarily or for cause. In the event that a DROP participant shall be terminated for cause and that termination is reversed, the DROP participant shall be reinstated in the DROP for the remaining unexpired period of participation; provided, however, that the DROP participant has not received a distribution from the DROP account; or
- c. Death of the DROP participant; or
- d. Granting of a disability retirement under the terms of this Article.

SEC. 24.1405 DROP Benefits

- a. For Members who elect to participate in DROP, Membership status in the Retirement System shall cease; and a service retirement allowance will be calculated as if the Member were retiring from City service on the date the Member enters the DROP.
- b. Upon commencement of DROP, certain funds shall be deposited into a trust account established for the benefit of the DROP participant. Upon deposit, all funds contributed into a DROP participants trust account shall be 100 percent vested. Contributions into a DROP participant's account shall include:
 - (i) an amount contributed monthly from the City Employees' Retirement Fund which is equal to the monthly service retirement allowance calculated in accordance with Section 24.1405(a), and adjusted by any applicable COLA increases, and

(ii) periodic contributions of any Annual Supplemental Benefit payments, or any other adjustments applicable to retirement allowances being distributed on the date the Member entered the DROP, and

(iii) an amount contributed each pay period from The City of San Diego equal to 3.05% of the DROP participants salary, and

(iv) an amount contributed each pay period deducted pre-tax from the DROP participant's salary pursuant to Internal Revenue Code section 414(h)(2) which is equal to 3.05% of the DROP participant's salary, and

(v) interest credited to all sums paid into the DROP account in the same manner and at the same rate of interest as prescribed by the Board of Trustees for Member contribution accounts based on advice of the Retirement System actuary.

SEC. 24.1406 Designation of Beneficiary

a. DROP participants shall designate a beneficiary. If the DROP participant is married and the DROP participant desires to designate someone other than his or her spouse as the beneficiary, spousal consent and waiver of community property interest shall be required.

b. In the event of the death of a DROP participant during the DROP period, the total amount in the DROP participant's account shall be paid to the DROP participant's designated beneficiary, subject to any applicable community property laws.

SEC.24.1407 Distribution of Funds in DROP Account

The full amount accumulated in a DROP participant's account shall be distributed in a lump sum, or in any other form established by the Board of Administration, subject to applicable rules of the Internal Revenue Service. However, no funds shall be distributed from a DROP participant's account until the duration of the DROP period is completed pursuant to Section 24.1404 and the DROP participant has terminated City service.

SEC.24.1408 Employment Status during DROP Participation

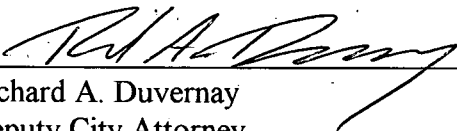
Except for Membership status in the Retirement System, DROP participants shall retain all other rights, privileges, and benefits of active duty employment, and DROP participants shall be subject to the same terms and conditions of employment applicable to the DROP participant prior to entry into the DROP.

SEC. 24.1409 Health Benefits during DROP Participation

During participation in DROP, the DROP participant shall continue to be eligible for the City's Flexible Benefits Plan, including health benefits offered through that Plan. Upon completion of the duration of the DROP period as set forth in Section 24.1404 and distribution of DROP funds as set forth in Section 24.1407, the DROP participant shall qualify as a Health Eligible Retiree and be entitled to receive Retiree Health Benefits as provided for in Chapter II, Article 4, Division 12.

Section 2. This ordinance shall take effect and be in force upon approval by the respective classes of Membership of the Retirement System as required pursuant to Charter section 143.1 and no earlier than the thirtieth day from and after its passage by the City Council.

APPROVED: CASEY GWINN, City Attorney

By 
Richard A. Duvernay
Deputy City Attorney

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