SIGN ON SAN DIEGO

City saves $323 million on retiree health care

The agreement would still leave an $800 million shortfall in promised benefits

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The city of San Diego's leaders signed off on a tentative agreement Friday with labor unions that they say would shave $323 million off a $1.1 billion shortfall in money needed longterm to pay lifetime health care for retired city workers.

The City Council voted 6-2 in closed session to authorize Mayor Jerry Sanders to move forward with the proposed deal he has spent months negotiating with labor. Council members Carl DeMaio and Lorie Zapf opposed the plan as being too generous to employees.

The agreement would lower the city's retiree health care liability and forestall what could be a protracted legal battle with unions while ensuring that city workers aren't left without health care promised by the city when they retire.

Under the proposal, San Diego workers would be required for the first time to contribute part of their paychecks toward the benefit beginning in April 2012, when the deal kicks in.

Older workers would still be eligible for a benefit of $8,880 a year when they retire, but would have to pay $1,200 annually while employed to keep it. Other employees would have the option of a guaranteed $5,500 annual benefit at a cost while employed of $600 annually or a lump sum of roughly $100,000 for health expenses when they retire.

The deal also gives the city an out clause by allowing the City Council to modify retiree health care or eliminate it altogether after the first two years.

Sanders called the agreeement the "largest cost-saving measure ever implemented by the city" for taxpayers.

"This plan provides that for the first time our employees will contribute to the retiree health care costs and the financial risk of this benefit will be lifted from taxpayers," Sanders said. "This settlement isn't just a big step, it's a quantum leap."

The deal affects current city employees hired before July 1, 2005, except police officers, whose representatives have yet to agree to a deal. Employees hired after that date aren't eligible for the benefit and current retirees will see no change to their benefit.

City Councilman Carl DeMaio said recent court rulings that retiree health care is not a guaranteed benefit for city workers means that the city is only saving about half of what it could through the proposed deal. He also noted that most employees would receive city-paid health care on top of Medicare.

"I am not proposing that we take away health care from retirees, or leave any city employee without reasonable health coverage in line with private-sector benchmarks," DeMaio said. "Unfortunately, under this excessive deal, taxpayers will be paying for a generous health benefit package that they themselves do not receive."

The deal was reached with the city's white-collar and firefighters union although three other unions — blue-collar, lifeguards and deputy city attorneys — are expected to agree to the same terms. Each union will have its members vote on the change next week and then the City Council is expected to hold a public hearing Friday to formally approve the deals.

Then a provision in the city charter requires a vote of all city workers to ratify the benefit change.

A hiccup in any of those steps could derail the whole process.

Frank De Clercq, head of the firefighters union, said the proposal is a "happy medium" for city workers who were promised health care upon retirement.

"We've diligently continued to meet and try to reduce some of that unfunded liability but then again not totally ... gut what the employees were promised," he said. "I think it's a fair plan, a tentative agreement, and I'm optimistic that the entire council will be supportive and we'll finally be able to move on with this."

The debt for retiree health care has been a financial albatross for the city for years that has received less attention than its $2.1 billion pension deficit.

Former Mayor Pete Wilson promised lifetime health benefits to all city workers in 1982 in exchange for employees allowing the city to opt out of Social Security. But the city never put aside money for the long-term costs and a deficit slowly grew over the next three decades.

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