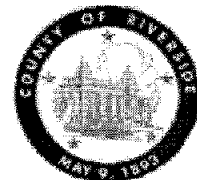


**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

857



**FROM:** Human Resources Department

**SUBMITTAL DATE:**  
November 9, 2007

**SUBJECT** Supplemental retirement contributions and/or Cash Compensation for designated employees whose CalPERS retirement benefits are reduced by federal law.

**RECOMMENDED MOTION:** 1) Authorize the Assistant CEO/Human Resources Director to annually determine supplemental retirement contributions and additional cash compensation for employees whose CalPERS retirement benefits are reduced by federal law, as calculated by the methodology set forth in Attachment A; 2) approve the implementation of an Internal Revenue Code (IRC) Section 401(a) Plan (Attachment B) for the deposit of County supplemental retirement contributions, and execute agreements with Nationwide Retirement Solutions (Attachment C), renewable annually, and AIG VALIC (Attachment D), effective for the period of November 26, 2007 through June 30, 2009 and then annually to provide Passive Trustee, Investment Management and Recordkeeping services in support of the Plan; 3) adopt Resolution No. 2007-513 authorizing Individuals to act on behalf of the Plan (Attachment F); and 4) authorize the Chairperson to sign four (4) copies of the attached plan documents and return to Human Resources for final distribution.

\_\_\_\_\_  
Ronald W. Komers  
Asst. County Executive Officer/Human Resources Dir

<b>FINANCIAL DATA</b>	Current F.Y. Total Cost:	\$231,000	In Current Year Budget:	YES
	Current F.Y. Net County Cost:	\$231,000	Budget Adjustment:	NO
	Annual Net County Cost:	TBD	For Fiscal Year:	07/08

<b>SOURCE OF FUNDS:</b> Department Funds	<b>Positions To Be Deleted Per A-30</b>	<input type="checkbox"/>
	<b>Requires 4/5 Vote</b>	<input type="checkbox"/>

**C.E.O. RECOMMENDATION:** APPROVE

BY:   
Elizabeth Johnson

**County Executive Office Signature**

FORM APPROVED COUNTY COUNSEL  
BY: DOROTHY L. HONN  
DATE: 11-9-07  
Departmental Concurrence

- Policy
- Policy
- Consent
- Consent

Dep't Recomm.:  
Per Exec. Ofc.:

Prev. Agn. Ref.: 1/28/2003 3.22 | District: | Agenda Number:

**ATTACHMENTS FILED  
WITH THE CLERK OF THE BOARD**

3.32

**BACKGROUND:**

Current federal law, Internal Revenue Code (IRC) section 401(a)(17), limits the amount of compensation that can be utilized for purposes of calculating pension benefits under CalPERS for employees entering the system after July 1, 1996. There is no such limit imposed on employees who entered the system prior to July 1, 1996. The compensation limit is \$225,000 for the 2007 year and is indexed by the IRS annually. As a result of the IRC compensation limit, some employees that earn in excess of the compensation limit receive a lower level of retirement benefit than they otherwise would under the CalPERS local Miscellaneous (3% @ 60) or Safety (3% @ 50) benefit formulas. Human Resources has identified Seventeen (17) employees currently affected by the law (Attachment E), including one (1) employee who retired in 2007.

In order to enhance the recruitment and retention of quality executive talent at the County, Human Resources recommends that the County adopt an IRC 401(a) Defined Contribution plan (the "Plan") and make supplemental retirement contributions to the Plan on behalf of the employees affected by the law in an amount sufficient to purchase additional CalPERS retirement service credit (Air Time), raising their benefit to the level promised by the Miscellaneous or Safety benefit formulas, as applicable. To date, such employees have not been informed by CalPERS of the loss in benefits attributable to the compensation limit until after their retirement date. These employees have not had the opportunity to accurately plan for their retirement since CalPERS benefit estimates are provided without regard to such limits. Since July 1, 2007 Human Resources has made a concerted effort to inform all applicants and newly hired individuals of the potential impact of this law on their CalPERS pension benefits.

If approved, supplemental contributions will be made bi-weekly to the Plan as described in Attachment A. To the extent possible, the supplemental contributions are intended to be equal in cost to the amount of contributions that would otherwise have been made to the CalPERS program on their behalf for that part of the compensation exceeding the federal limits. Adjustments to these contribution amounts will then be made annually to account for salary increases, changes to the CalPERS contribution rate, and changes to the Plan's compensation limit.

For those employees within 12 months of retirement, Human Resources will perform a final calculation and determine the estimated present value of the loss in CalPERS benefit attributable to the compensation limit. The amount of loss in CalPERS benefits cannot be estimated until a projected retirement date is known. The calculation will be made according to the formula specified in Attachment A. The present value of the loss in CalPERS benefits will be offset and adjusted by the amount of the bi-weekly supplemental contributions and earnings thereon made to the Plan by the County on behalf of the employee. Human Resources recommends that in the last 12 months of an affected employee's service prior to retirement, bi-weekly Plan contributions be made, subject to IRC contribution limits in an amount sufficient to offset any remaining loss in CalPERS benefits. Human Resources recommends that additional compensation be provided in cash to employees in the event that adequate Plan contributions cannot be made to completely offset the estimated CalPERS loss in benefit.

Accumulated funds in the Plan and/or additional cash compensation will enable affected employees, at their election, to purchase additional CalPERS retirement service credit, thereby offsetting any reductions in the CalPERS benefit attributable to the compensation limit.

ATTACHMENT A

**County of Riverside 401(a) Supplemental Contribution Plan**  
Plan Implementation Document

**Objective:**

To provide supplemental retirement plan contributions and additional cash compensation, as determined necessary to offset the reduction in CalPERS benefit that certain employees encounter.

**Plan Year:** Every 12 consecutive months ending December 31

**Eligible Employees:**

County of Riverside employees with a CalPERS pension plan entry date on or after July 1, 1996 and whose annual compensation is projected to exceed the Compensation Limit. The Compensation Limit will be based on the Consumer Price Index (CPI) and indexed annually in \$5,000 increments. The Compensation Limit for the 2007 calendar year is \$225,000, the limit for the 2008 calendar year is \$230,000.

Eligible Employees must complete twelve (12) months of service with the County prior to Plan participation.

**Contribution Formula:**

***(1) 401(a) Supplemental Contribution Plan Contributions***

Contributions shall be made on behalf of each Eligible Employee to the Supplemental Contribution Plan for each pay period of the Plan Year equal to the following amount:

*Annual Compensation, the salary earned at the highest step of the Eligible Employee's classification as provided on the County Class and Salary Listing (AC) over and above the Compensation Limit (Limit) multiplied by the sum of the most recent Employer and Employee PERS contribution percentage (PERS%) divided by the number of pay periods in the Plan Year (#PayPer)*

*Formula: [(AC-Limit)\*PERS%]/#PayPer*

Contributions to the plan for each Eligible Employee will be evaluated annually and may be adjusted to account for changes in the Compensation Limit, CalPERS contribution rate, and salary increases.

Within 12 months of retirement, Eligible Employees shall notify Human Resources of their intent to retire. Upon receiving this notification, Human Resources shall perform a final calculation to determine the present value of the

## ATTACHMENT A

estimated loss in CalPERS benefit attributable to the compensation limit. The loss in the CalPERS benefit shall be offset and adjusted by the supplemental contributions and earnings thereon made to the Supplemental Contribution Plan made by the County on behalf of the Eligible Employee up to the date of notification. Any remaining amount of lost benefits shall be contributed to the Supplemental Contribution Plan, subject to contribution limitation imposed by the IRC prior to the Eligible Employee's projected retirement date.

The final calculation of the present value of an Eligible Employee's loss in CalPERS benefit shall be calculated in the following manner:

1. Loss in monthly CalPERS benefit (MLB) is derived by the following equation:

*The Eligible Employees' Estimated Compensation, the highest 12-month compensation based on the projected retirement date (EEC) over and above the Compensation Limit (Limit) multiplied by the CalPERS Benefit Factor (BF) at the estimated retirement age and then multiplied by the years of County of Riverside CalPERS Service Credit at estimated retirement age (YOS)*

$$\text{Formula: } MLB = [(EEC - \text{Limit}) / 12] \times BF \times YOS$$

2. The Equivalent Service Credit (ESC) Figure equals the Monthly Lost Benefit (MLB) divided by the sum of the projected Compensation Limit (CL) at projected retirement age less the annual Social Security offset amount of \$1,600 divided by twelve divided by the CalPERS Benefit Factor (BF) at the estimated retirement age

$$\text{Formula: } ESC = MLB / ([CL - 1600] / 12) / BF$$

3. The Present Value of the Lost Benefit (PVLB) equals the projected cost to purchase one year of Air Time (AT) multiplied by the Equivalent Service Credit (ESC)

$$\text{Formula: } PVLB = AT * ESC$$

The above present value of an Eligible Employee's loss in CalPERS benefit (PVLB) shall be offset in the following manner:

1. The amount of Supplemental Contributions (SC) and earnings thereon is ascertained by reference to the Eligible Employee's Supplemental Contribution Plan account balance
2. The Residual Benefit Payable (RBP) is determined by subtracting the Supplemental Contributions (SC) from the Present Value of Lost Benefit (PVLB)

## ATTACHMENT A

$$\text{Formula: } RBP = PVLB - SC$$

3. The bi-weekly Final Period Contribution (FPC) to the County of Riverside Supplemental Contribution Plan on behalf of the Eligible Employee is equal to the lesser amount of:
  - a. The Contribution Limit less calendar year contributions already made into the Money Purchase Plan prorated for the remaining period in the final 12 months of service, or
  - b. The Residual Benefit Payable prorated for the remaining periods in the final 12 months of service.

### ***(2) Cash Compensation***

Additional Cash Compensation may be provided to eligible employees within 12 months of retirement if it is determined that sufficient 401(a) Supplemental Contribution Plan contributions cannot be made to offset the loss in benefits. Participants shall not have any choice with regards to payment of 401(a) Supplemental Contribution Plan Contributions or Cash as the contribution amounts shall be determined exclusively by the County.

Additional Cash Compensation (CC) will be made to Eligible Employees prior to the date of their retirement in an amount equal to the Residual Benefit Payable (RBP) less the sum of Final Period Contribution (FPC) increased by an amount equal to the Eligible Employee's Marginal Tax Rate (MTR). For purposes of this calculation, Marginal Tax Rate for 2007 shall be equal to either 38.75% or 44.95%<sup>1</sup>.

$$\text{Formula: } CC = (RBP - \text{sum of FPC}) / (1 - MTR)$$

*Note: When known, actual rather than estimated amounts and dates will be used to calculate the Eligible Employee benefit payable from this Plan.*

### **Vesting:**

All supplemental contributions made by the County to the Supplemental Contribution Plan on behalf of an Eligible Employee are vested 100% immediately.

### **Benefit Options:**

---

<sup>1</sup> Marginal Tax rate is equal to the sum of the Federal Tax rate of 28%, State Tax rate of 9.3%, 6.2% Social Security tax of 6.2% (if applicable to this compensation), and 1.45% Medicare tax for a total of either 38.75% or 44.95% as of 2007.

## ATTACHMENT A

If participants have not previously purchased Additional Retirement Service Credit (ARSC) through CalPERS, they have the ability to transfer account balances held in the 401(a) Supplemental Contribution Plan to facilitate the purchase of additional service credit. This gives participants additional lifetime income to offset the reduction in CalPERS benefits.

If participants have already purchased ARSC or do not wish to receive additional lifetime income, they have the ability to rollover their account balance to an Individual Retirement Account (IRA) at retirement to avoid immediate taxation of their benefit.

Ultimately, the participant has the choice to determine the payout structure of the supplemental retirement contributions.

It is the County's intent to comply with all applicable laws and regulations, regardless of whether they are specifically discussed in this document.