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

454

FROM: Human Resources Department

SUBMITTAL DATE:
October 6, 2010

SUBJECT: 401(a) Part-Time and Temporary Employees' Retirement Plan – Analysis of the Options Available to Limit Future Pension Liability

RECOMMENDED MOTION: That the Board review and file the analysis as outlined below.

BACKGROUND: On August 10, 2010, Agenda Item 3.40, your Board directed the Human Resources Department to report back with an analysis of the options available to limit the County's future pension liability for the 401(a) Part-Time and Temporary Employees' Retirement Plan.

Plan Overview

The 401(a) Part-Time and Temporary Employees' Retirement Plan is an IRS qualified defined benefit plan designed in accordance with IRS Code Section 3121 (b)(7)(F), i.e. the Safe Harbor regulations for plans provided in lieu of social security to provide retirement benefits equivalent to social security benefits.

Barbara A. Olivier
Asst. County Executive Officer/HR Director

FINANCIAL DATA				
	Current F.Y. Total Cost:	$0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	$0	Budget Adjustment:	No
	Annual Net County Cost:	$0	For Fiscal Year:	2010/2011

SOURCE OF FUNDS: Departmental Revenue

Positions To Be Deleted Per A-30 ☐

Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION:

APPROVE

County Executive Office Signature BY: Elizabeth J. Olson

Departmental Concurrence

☒ Policy ☐ Consent

☑ Policy ☐ Consent

Dep't Recomm.:

Per Exec. Ofc.:

Prev. Agn. Ref.: 3.40 8/10/2010 | **District:** ALL | **Agenda Number:** 3.34

Plan Overview (continued)

The benefit formula for this plan is 2% of career compensation (up to the social security wage limit for each year), paid as a monthly benefit for life, beginning at the end of the plan year in which the participant reaches at least 65 years of age and has separated from County employment. The structure of a career compensation formula limits the County's future liability and prevents the escalation of costs that is experienced in "Final Compensation" models like CalPERS.

After eleven years of operation, the plan has 119 retirees receiving a monthly pension, 693 participants who have a present value of $5,000 or greater and are under the age of 65, and 71 participants over the age of 65 who will receive a monthly pension once they separate from employment. Additionally, since 2002, the County has paid out over $3.7 million in lump sum payments to over 4,662 participants. This plan is for Part-Time and Temporary Employees who are employed on a short term basis; as a result the present value upon termination is most often less than $5,000, and is paid in a lump sum.

The employer contribution is determined periodically through an actuarial valuation. Based on the most recent (draft) actuarial valuation for fiscal year ending June 30, 2010, the current required employer contribution level is 0.55%. In order to achieve a desired 90% funded ratio, the County's contribution was maintained at 2% for FY 2009-10. As a result, the plan's funded status improved from 87.3% to 90.6% and the Annual Required Contribution (ARC) decreased from .68% to .55% since the prior valuation. Participants pay 3.75% of their eligible earnings (up to the annual social security limit).

Since the plan's inception in 1999, plan participants have saved $8,528,474 and the County has saved $11,373,605 when compared to the alternative of social security contributions. Social Security taxes both the employer and the employee at the rate of 6.2 percent of pay, while this plan costs the employee only 3.75 percent of pay, a savings of 2.45 percent in every paycheck.

Design Options:

Our analysis indicates that the County has two viable options to meet the requirements of providing a pension plan for temporary employees. The County can either continue the Defined Benefit (DB) plan currently in place or move employees into a Defined Contribution (DC) plan.

Moving employees to a DC plan would require the County to manage two plans for the life of current plan members because current plan members would still be entitled to receive benefits accrued to date through the DB plan. The DC plan is actually more expensive for the County.

Following is a detailed comparison of the two options:

1. Freeze the current Defined Benefit (DB) plan and replace it with a Defined Contribution (DC) plan. Freezing the DB plan and replacing it with a DC plan would stop participants from accruing any additional benefit in the defined benefit plan. Participants would not be eligible to receive an immediate distribution from the plan. The plan would continue to operate in accordance with the terms of the plan document and distributions from the plan would only be made in the amount, and at the time specified by the current plan document.

   The plan would continue to be subject to actuarial valuations and the County would be required to continue making the Annual Required Contribution (ARC) each year as determined by the plan's actuary. The ARC as of July 1, 2009 was $143,000 which includes $981,000 in Normal Cost, an amortization payment of $158,000 and an offsetting employee contribution amount of $996,000. Freezing the plan will eliminate the Normal Cost and employee contributions resulting in an ARC

of approximately $158,000. The existing plan would be managed in this state for the lifetime of the current plan members.

Going forward, current and future temporary employees would be enrolled in a Defined Contribution plan. Defined Contribution plans provided in lieu of Social Security require total contributions of 7.5% of pay (split between employer and employee). Assuming the current employee contribution level of 3.75% is retained, this would require an employer contribution of 3.75% of pay. Based on the estimated $26.6 million payroll, this is roughly $1,000,000 in annual benefit contributions from the County. This compares to the current contribution of 0.54% of payroll, or $143,000. The total estimated annual cost to the County for maintaining the two plans is $1.2 million.

2. Leave the current Plan Design as is. The current 401(a) Part-Time and Temporary Employees' Retirement Plan is offered in lieu of Social Security. Social Security taxes both the employer and the employee at the rate of 6.2% of pay, while this plan costs the employee only 3.75% of pay, a savings of 2.45% in every paycheck. Based on the most recent actuarial valuation for fiscal year ending June 30, 2010, the current required annual employer contribution rate is 0.55% ($143,000). Because it is a career compensation plan, there is no future escalation of costs due to past service. The annual employer contribution rate may vary, but it would be based only on variations in investment results and participant ages. We would continue to monitor the plan for changes in these factors.

Recommendation

The Human Resources Department recommends leaving the plan design for the 401(a) Part-Time and Temporary Employees' Retirement Plan as a Defined Benefit plan. This is the lowest cost based on the current valuation. The Career Compensation model prevents the escalation costs experienced in "Final Compensation" models like CalPERS. This option saves money for both County and employees.

- IRS Code Section 3121 (b)(7)(F), i.e. the Safe Harbor regulations allows the County to offer this plan to participants in lieu of Social Security, currently saving the County 5.65% of pay (difference between Social Security 6.2% and the current required employer contribution 0.55%).
- Social Security taxes both the employer and the employee at the rate of 6.2% of pay, while this plan costs the employee only 3.75% of pay, a savings of 2.45% in every paycheck.
- The total estimated financial impact to the County for leaving the plan design as is will save the County approximately $1,503,128 per year compared to Social Security (6.2%), or $857,000 per year if compared to Defined Contribution Replacement Plan (3.75%), based on the estimated $26.6 million payroll.