

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

131



FROM: Human Resources Department


SUBMITTAL DATE:
March 21, 2011

SUBJECT: Pension Reform Analysis

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the report from the Law Office of Hanson Bridgett, LLP (Attachment A);
2. Receive and file the report from Bartel Associates, LLC (Attachment B); and
3. Receive and file the report from Buck Consultants, LLC (Attachment C)

BACKGROUND: On September 14, 2010, the Board of Supervisors received pension reform reports from the Executive Office and the Pension Reform Advisory Committee (PRAC). The Board also approved the release of a Request for Proposal (RFP) to engage benefit consultants for advice on several issues related to pension reform: cost savings, benefit adequacy, legal issues and impact on recruitment and retention. The Board instructed the Executive Office to return with a specific action plan for pension reform.



 Barbara A. Olivier
 Asst. County Executive Officer/Human Resources Dir.

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	Yes
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	No
	Annual Net County Cost:	\$ 0	For Fiscal Year:	2010/11

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

C.E.O. RECOMMENDATION:

APPROVE

BY: 
Bill Luna

County Executive Office Signature

- Consent
- Policy
- Consent
- Policy

Dept. Recomm.:
Per Exec. Ofc.:

Prev. Agn. Ref.: 02/15/11 - #3.39 | **District:** ALL | **Agenda Number:**

BACKGROUND continued

On January 11, 2011, after the completion of the RFP process, the Board approved the retention of:

- Hanson Bridgett, LLP to provide expert legal advice on issues effecting implementation of pension reform.
- Bartel Associates, LLC to provide actuarial analysis of cost savings and benefit adequacy for pension design options.
- Buck Consultants, LLC to provide analysis on total compensation and the impact of pension reform on recruitment and retention.

A preliminary analysis was conducted with the three consultants, where all pension formulas currently available under CalPERS were considered, as well as modifications of the CalPERS formulas, defined contribution plans, cash balance plans, and several hybrid (combinations of defined benefit and defined contribution) plans. As a result, eight pension formulas for Miscellaneous employees and six formulas for Safety employees were identified as representative of a broad range of possible options.

The consultants have now completed their analysis and we have summarized key findings below.

A. Legal Analysis (Attachment A):

The legal analysis focuses on the County's ability and limitations in changing the benefit formulas and structure of the pension plan, including vested rights of employees, changes or employee choices in CalPERS benefit formulas, possible amendments to the CalPERS law, withdrawal from CalPERS, and non-PERS options.

1. **Vested Rights:** The County can provide any reduced pension benefit (Tier II) to new employees that it negotiates or otherwise establishes, subject to CalPERS regulations. Vested rights for current employees become active upon acceptance of employment, and limit changes to benefit formulas for them unless a "comparable new advantage" is provided.
2. **PERS vs. Non-PERS benefits:** The Board of Supervisors may elect to amend the state law to provide a benefit formula not currently permitted by CalPERS, or the Board may elect to leave PERS. There are several amendments that we may wish to introduce to the legislature, but such changes would not be short-term solutions. It does not appear that vested rights limit the County's ability to withdraw from PERS. While there are several methods to withdraw, it requires cooperation from PERS, is likely to be expensive and time consuming, and may be legally challenged. Given the facts of this option, we do not recommend leaving CalPERS at this time. Note that this would result in eliminating the cash balance and hybrid options from current consideration.
3. **Cost sharing for optional benefits:** The possibility of shifting some of the cost of employer contributions to employees was also reviewed. Member (employee) contributions can be increased for part or all of the cost of optional benefits for future years. Optional benefits include formulas higher than 2% @ 60 for Miscellaneous and 2% @ 55 for Safety; and also include one-year final compensation instead of three-year final compensation. However, this type of cost sharing must be negotiated in a collective bargaining agreement. Also, for optional benefits already in place, member sharing of employer costs for optional benefits may not be tracked by CalPERS as employee contributions.

The legal analysis also includes a review of various court decisions and provisions of current PERS law, pointing out where flexibilities and challenges lie in regard to changing current pension options for County employees.

B. Actuarial Analysis (Attachment B):

Bartel Associates, LLC (Bartel) worked in collaboration with the Human Resources (HR) Department to identify a comprehensive range of CalPERS and non-CalPERS benefit plan options for analysis. Each option was actuarially analyzed by Bartel for estimated cost savings in the near and long term. Bartel evaluated each option against established benchmarks for retirement income adequacy given all sources of income. The effect of eliminating employer payment of employee contributions (referred to as "EPMC") was also analyzed by Bartel as a viable option with immediate budget impact. Below, we summarize Bartel's cost savings and retirement income adequacy analysis. We can draw the following conclusions from Bartel's analysis:

1) Plan Formulas:

- a) A number of alternate formulas are available through CalPERS and can be offered as a second tier to new employees. The available CalPERS options produce more pension cost savings than the non-CalPERS formulas studied, while providing more adequate post-retirement income.
- b) Defined Contribution plans can produce significant savings, but savings and retirement income adequacy depend on the level of employer and employee contributions as well as actual investment returns. The Defined Contribution formulas studied by Bartel were designed to provide a balance between County pension cost savings and retirement income adequacy, but did not produce as great a savings as alternate CalPERS defined benefit formulas nor sufficient retirement income to meet benchmark levels. Offering these plans would also require cooperation and agreement with CalPERS, and an amendment to the state law.
- c) A Hybrid 1.5% @ 65 defined benefit plan with a 3% supplemental defined contribution plan is permissible under CalPERS for Miscellaneous employees, but it produced lower cost savings than alternate CalPERS formulas and post-retirement income below generally accepted benchmarks. The low savings result is in part attributable to the formula's 2% required employee contribution set by State law, compared to the 8% employee contribution for the current plan.
- d) Individual election (Choice): Providing a choice between benefit plans for current employees has the potential to produce greater pension cost savings than a Tier II Plan for new employees only. However, CalPERS provides choice only to current Miscellaneous employees and only if the 1.5% @ 65 plan is offered. No choice option is permitted by CalPERS for Safety employees. Bartel found that while the potential exists for greater pension cost savings, post-retirement income will fall below generally accepted benchmarks unless voluntary employee contributions are boosted.

2. **Cost Savings:**

a. **Employer Paid Member Contributions (EPMC):** Currently, the County pays the employee contribution of 8% for Miscellaneous Members either immediately or after five (5) years of service, depending on collective bargaining agreements; for Safety Members, the County pays the 9% employee contribution generally after three (3) years of service. Elimination of the EPMC for all current employees would produce the greatest savings to the County, and has no impact on retirement income for most employees. Bartel estimates that the elimination of EPMC will result in \$59 million annual savings for Miscellaneous and Safety employees in the first year, and accumulate to \$344 million after ten years. If the County introduces this change gradually over two or three years, the savings would be \$19.7 million to \$29.5 million in the first year.

b. **Tier II for New Employees:**

i.) Introduction of a Tier II (lower benefit formula) for new employees yields relatively low savings in the first years of implementation but savings accumulate over time, and in the long term annual savings are significant.

- The 2% @ 60 plan yields the greatest savings for the Miscellaneous plan, with a \$2.4 million reduction in costs in year one, \$26.7 million in year ten, and a cumulative savings after ten years of \$153.6 million.

- The 2% @ 55 plan yields the greatest savings for the Safety plan, with \$0.56 million in year one, \$10.1 million in year ten, and a cumulative savings after ten years of \$55.2 million.

ii.) The range of savings as a percentage of compensation (of Tier II new employees) among the plan options that were reviewed is fairly narrow. For Miscellaneous Plan options, savings range from 2.9% for the Hybrid Plan to 4.7% for the 2% @ 60 Plan. For Safety, the range was from 3.9% for the 3% @ 55 Plan to 6.3% for the 2% @ 55 Plan.

c. **Individual Election (Choice):** Providing a choice for current employees between two plans has the potential to produce greater savings than a Tier II Plan for new employees only. However, PERS does not permit such a choice other than with the 1.5% @ 65 for Miscellaneous. Estimated cost savings to the County are contingent on assumptions regarding the number of current employees who would elect a Tier II benefit in return for lower required employee contributions. The Cash Balance Choice plan (Option #8 for Miscellaneous, page 26; Option #6 for Safety, Page 34) produces the highest savings overall for the long term, but would require legislative amendments and cooperation from CalPERS to implement. The County may want to consider this for future action, but it cannot be implemented in the near term.

3. **Retirement Income Adequacy:**

Bartel has used two benchmarks to evaluate the adequacy of pension benefits. The ratio of post-retirement income, when taking into account all sources of retirement income to pre-retirement income, is a generally accepted measure of pension benefit adequacy and is referred to as the Replacement Ratio. Bartel used a CalPERS study undertaken in 2001 (page 13) and an Aon Consultants/Georgia State study (page 16) undertaken in 2008 to measure pension income adequacy.

The Replacement Ratio for Safety Members is generally lower than Miscellaneous because employees in the Miscellaneous Plan participate in Social Security while Safety employees do not.

Personal saving rates, investment return, and overtime pay assumptions have also been used to calculate Replacement Ratios.

Miscellaneous:

- a. The 3% @ 60 benefit is the most valuable CalPERS formula. The 3% @ 60, 2% @ 60 and 2% @ 55 formulas all provide more post-retirement income than is needed according to the CalPERS and Aon/Georgia State Replacement Ratio benchmarks.
- b. The Hybrid benefit (option #4), the Choice benefit of 1.5% @ 65 with a 3% supplemental Defined Contribution plan (option #6), and the 12% Cash Balance Choice plan (option #8) provide less post-retirement income than required according to Aon/Georgia State but more than the CalPERS benchmark. Note that option #4 and option #6 are permitted by CalPERS, while option #8 is not. Retirement income can be boosted for these options with increased County contributions. However, the County would not realize any cost savings from this arrangement.
- c. The 12% Defined Contribution (DC) plan (option #5), and the Choice 12% DC plan (option #7), produce less post-retirement income than required according to both Aon/Georgia State and CalPERS. Note that these options are not permitted by CalPERS.

Safety:

- a. The 3% @ 50 benefit is the most valuable CalPERS Safety formula. Both the 3% @ 50 and the 3% @ 55 (Option #3) provide more post-retirement income than is needed according to CalPERS and Aon/Georgia State (Page 19 & 37).
- b. The 2% @ 50 (Option #2) provides less post-retirement income than is needed according to the Aon/Georgia State benchmark but more than the CalPERS benchmark.
- c. The 2% @ 55 (Option #4), Choice of 10% DC plan (option #5), and the 18% Cash Balance Choice plan (option #6) produce less post-retirement income than is needed according to both Aon/Georgia State and CalPERS.

Note that Safety formulas produce lower post-retirement income than Miscellaneous formulas, primarily due to the addition of Social Security Retirement Income for Miscellaneous employees. The income replacement analysis also takes into account assumed pre-retirement overtime pay of 4% for Miscellaneous and 6% for Safety (Overtime pay is not included for benefit calculation by CalPERS). To the extent the assumptions of pre-retirement overtime pay is reduced or eliminated, post-retirement income will reflect a higher replacement ratio. Also, note that personal savings have been factored into post-retirement income. To the extent employees increase participation in the Deferred Compensation program and save for retirement, their post-retirement income replacement ratio will improve.

C. Recruitment and Retention Analysis (Attachment C):

In order to determine the impact of alternate pension formulas on recruitment and retention Buck Consultants, LLC (Buck) conducted a Total Compensation analysis for a representative sample of job classifications. One hundred and eighty eight County classifications were identified covering approximately 11,063 employees or 62% of the employee population. For the purpose of the analysis job classifications were categorized into occupational groups based on the standards established by the Equal Employment Opportunity (EEO-1) Report Format plus three additional categories: Para-professional, Safety, and Medical employees and professionals.

Total cash Compensation was defined as: Base pay, employer paid health insurance, employer paid social security taxes, employer normal cost pension contributions and employer-paid employee contributions, paid time off, and employer contributions towards Other Post Employment Benefits (OPEB).

To reflect the regional job market, Buck used public sector data from the five contiguous counties for Total Compensation comparisons: Los Angeles, Ventura, San Diego, Orange, and San Bernardino. For executives, Buck used four additional counties which are closest to Riverside County in size: Alameda, Contra Costa, Sacramento, and Santa Clara. Private sector Bureau of Labor Statistics (BLS) data was also utilized for comparison. To reflect a more local job market, City of Riverside and City of Corona data were utilized specifically for clerical and Safety classification comparisons.

Buck's analysis shows that County employees are paid competitively compared to both private and public sectors. The table below shows rankings (Page 7):

Occupational Group	Total Comp Ranking
Executives	5 of 10
First/mid-Level Managers	8 of 11
Professionals	3 of 8
Paraprofessionals	4 of 7
Technicians	1 of 8
Skilled Craft Workers	5 of 8
Service/Maintenance	4 of 8
Safety Professionals	4 of 8
Administrative Support Workers	5 of 8
Medical Professionals	1 of 6

Buck results also show that approximately 54% of executives/senior management, 80% of first/mid level management and 78 % non-management job classifications rank in the top three of their benchmark group (summarized from Page 8).

Next, Buck assessed the impact on Total Compensation for six (6) Miscellaneous and four (4) Safety alternate pension options (page 12 and 13). The options were studied by Bartel for cost savings and benefit adequacy. Two Miscellaneous and two (2) Safety Choice options were eliminated from the Buck analysis because they were non-CalPERS options and appeared not to produce adequate post-retirement income compared to benchmarks.. Alternate pension options impact employee Total Compensation to the extent employer contributions and EPMC are reduced. Buck shows how the County's average Total Compensation ranking by employee category changes for each alternate pension option (page 14).

Average Total Compensation ranking drops by a relatively modest range of 0.7 to 1.6 when alternate pension options are assessed, as demonstrated in the chart below. Note that Executives and Senior Managers and First/Mid Level Officials and Managers are measured against nine (9) counties, other groups are compared to five counties. The table below shows current average rankings compared to alternate pension option #2 for Miscellaneous of the 2% @ 60 (no EPMC) formula and the Option #2 Safety of the 2% @ 50 (no EPMC) formula. Lower employer contribution rates are the primary factor in the drop in ranking of Total Compensation.

Occupational Group	Current Ranking (Public Sector)	Alternate Option #2	Drop in Rank
Executives	3.8	4.7	0.9
First/mid-Level Managers	2.9	3.8	0.9
Professionals	2.7	4.3	1.6
Paraprofessionals	2.7	4.1	1.4
Technicians	1.8	2.6	0.8
Skilled Craft Workers	3.0	4.0	1.0
Service/Maintenance	2.4	3.8	1.4
Safety Professionals	3.4	4.1	0.7
Administrative Support Workers	2.7	4.3	1.6
Medical Professionals	1.9	2.6	0.7

The drop in average Total Compensation rankings when alternate pension options are analyzed reflect a reduction in employee Total Compensation ranging from 5% to 9% for Miscellaneous employees and 6% to 10% for Safety employees (page 14 & 15). Note that in the event an alternate pension option Tier II for new employees is adopted the reduction in Total Compensation will only be for new employees.

Buck notes (page 59) that the private sector over the past 35 years has moved away from Defined Benefit to Defined Contribution plans and (page 16) that, "it is fair to say that any changes in pension formula considered by Riverside County, although not as rich as previous pension formulas, will be perceived as positive by applicants. The trend away from defined benefit programs in the private sector will assist in ensuring that a defined benefit program - even with a reduced formula - is a significant positive factor in recruiting." And on page 17, "Changing pension formulas is not likely to have a significant impact on Riverside County's ability to attract applicants and retain current employees."

Finally, the Buck report analyzes the current economic environment and compares Riverside County's tax base and average tax bill with the surrounding counties (Page 31). The report notes, "Riverside County has the dubious distinction of having the worst affected tax roll among the largest 12 counties in California, dropping 10.9% in 2009 and 4.58% in 2010."

D. Conclusions:

Based on the totality of these expert analyses, eliminating part or all of the Employer-Paid Member Contributions (EPMC) would result in the largest immediate reduction of County costs. Because the various EPMC conditions were negotiated as part of each collective bargaining unit's Memorandum of Understanding (MOU), this change can be implemented through the bargaining process, including possible "reopeners" for those unions that are not currently active in the bargaining process.

Implementation of a second tier of pension benefits within CalPERS for new employees would address long-term savings. This would require an amendment to our agreement with CalPERS, and would be subject to their requirements for implementation. Please note that a second tier must also be applicable to all Members within a plan (Miscellaneous Plan or Safety Plan), and cannot vary by bargaining unit.



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March 25, 2011

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Assistant County Executive Officer
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County Administrative Center
4080 Lemon Street
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Riverside, CA 92502-1569

Re: Pension Reform

Dear Ms. Olivier and Mr. Atin:

This letter discusses options for changing the retirement benefits that currently are provided to County employees through CalPERS ("PERS").

The letter is organized as follows: short summary of conclusions, facts, issues, discussion of governing rules, and the application of governing rules to options that are being considered by the County. A number of options are discussed together because the legal principles apply equally to all of them.

A. SUMMARY OF CONCLUSIONS RE OPTIONS AVAILABLE TO THE COUNTY

1. New Employees - Benefit Formulas and Structure

No Vested Rights -- The County can provide any benefits to new employees that it negotiates or otherwise establishes, subject to PERS rules. There are no "vested rights" restrictions on benefits provided to new employees.

Lower Tier and Lower Optional Benefits -- Usually, changes in benefits for a PERS agency take the form of a lower tier formula and few if any optional benefit enhancements such as one year final compensation instead of average three years final compensation. John Bartel, the actuary engaged by the County, has evaluated several alternative formulas.

PERS and Non-PERS Benefits -- PERS benefits are structured as standard defined benefits, with the retirement allowance based on a formula of [final average compensation] times [years of service counted for PERS benefits] times [a pension formula]. The County is interested in

other structures, such as a cash balance plan, a combination of defined contribution and defined benefit plan, and also defined benefit formulas that are not now available under PERS. For some of these benefits, the County either would have to obtain an amendment of PERS law or would have to withdraw from PERS. Options are discussed below.

Choice of Benefit Formulas -- The County may wish to give employees the choice between benefit formulas, so some could elect higher benefits with higher employee contributions and some could elect lower benefits with lower employee contributions. The IRS has interpreted federal income tax rules to restrict choice when employee contributions are made on a pre-tax basis; however the IRS is re-examining this restriction and may issue a modified rule later this year. Separately, as discussed below under current tax law there is more opportunity for individual choice involving pre-tax employee contributions for new employees than for current employees. Additionally, as discussed below, if contributions to PERS are made on an after-tax basis by all employees who are given individual choice of benefit formulas and contribution levels, this should avoid the income tax restriction.

One provision of PERS law seems to allow the County to contract with PERS to give new employees the choice between a low and high benefit formulas and corresponding low and higher employee contributions. As discussed below, there is a reasonable argument that this provision is still available, but this should be confirmed with PERS. Otherwise, PERS law does not seem to allow choice, which might lead the County to consider requesting a change in PERS law or withdrawing from PERS.

2. Current Employees -- Benefit Formulas and Structure

Vested Rights Limit Ability To Change -- Under generally accepted vested rights rules, it is very difficult to change the benefit formulas that apply to current employees. The courts have set out the rules for change, and one guiding principle generally is that reductions in benefits must be accompanied by "comparable new advantages".

Lower Tier and Lower Optional Benefits -- New theories of vested rights have been developed which would allow reductions in benefit formulas to a lower tier for current employees for future service. If the County wanted to act on these theories, most likely it would soon become involved in substantial, time-consuming, and expensive litigation with uncertain prospects for success.

Even under current views of vested rights, however, it should be possible to increase member contributions for "optional benefits" for future years, if bargained. An example is for members to pay the additional cost of one year final compensation compared to the cost of 3 years' average compensation. Another example is the additional cost of a benefit formula that is higher than the cost of 2% at 60 for miscellaneous members or 2% at 55 for safety members. PERS appears to take the position that the cost charged to members may increase but the benefit level cannot be reduced to the lower level. (However, see the discussion below regarding individual choice.) This type of change is not risk-free, as discussed below.

PERS and Non-PERS Benefits -- Current PERS law does not allow new benefit structures such as some of the benefit formulas that the County is evaluating or a cash balance plan. To

provide these benefits the County either would have to obtain an amendment of PERS law or would have to withdraw from PERS. Options are discussed below. With any withdrawal, however, current employees would have to be provided at least their existing benefits, or changes would have to fit within the limits established under vested rights. It does not appear that employees have a vested right to be in PERS, but only a vested right to receive benefits promised. Therefore it does not appear that withdrawal from PERS is limited by vested rights though it also does not appear that this issue has been decided by the courts.

Choice of Benefit Formulas -- It should be possible to avoid vested rights issues for current employees if they are individually given the choice between benefit formulas so, e.g., some could elect higher benefits with higher employee contributions and some could elect lower benefits with lower employee contributions. The IRS has interpreted federal income tax rules to restrict choice when employee contributions are made on a pre-tax basis; however the IRS is re-examining this restriction and may issue a modified rule later this year. Separately, as discussed below, if contributions to PERS are made on an after-tax basis by all employees who are given individual choice of benefit formulas and contribution levels, this should avoid the income tax restriction.

One provision of PERS law seems to allow the County to contract with PERS to give current employees the choice between a low and high benefit formulas and corresponding low and higher employee contributions. As discussed below, there is a reasonable argument that this provision is still available, but this should be confirmed with PERS. Otherwise, PERS law does not seem to allow choice, which might lead the County to consider requesting a change in PERS law or withdrawing from PERS. We have found no other provision in PERS law that allows individual choice by current employees between benefit formulas.

B. BACKGROUND FACTS

1. Current PERS Retirement Benefits

Currently County employees have the following PERS benefits

- Miscellaneous employees (generally): 3% at 60 if employed on or after 7/11/2002 [PERL 21354.3], each formula based on highest 12 months of compensation [PERL 20042].¹
- Safety employees (generally): 3% at 50; based on highest 12 months of compensation [PERL 21362.2].
- Relevant optional provisions: various PERL sections defining county peace officer; PERL 21624 and 21626 [post-retirement survivor allowance]; pre-retirement "option 2" death benefit for safety members [PERL 21548]; military service credit as public service [PERL 21024]; 2 years additional service credit [PERL 20903]; public service credit for Peace Corps, AmeriCorps [21023.5]; indexed level of 1959 survivor benefits [PERL 21574.5].

¹ The PERL is the California Public Employees' Retirement Law, embodied in the Government Code.

2. Options Being Considered

The County is considering a number of different benefit options including some that are available under PERS currently, some that are similar to but not the same as the ones currently available under PERS, and some that are not similar to PERS' benefits such as a "cash balance" plan. The report of the County's actuary, John Bartel, describes these options in detail.

C. ISSUES

1. What are the governing rules that facilitate or create hurdles for change under the California Constitution, PERS Law (the "PERL"), and federal and California income tax law?
2. Considering options for change that County staff have identified as potentially of interest:

What are the legal risks involved in each option?

What actions can be taken to mitigate or avoid these risks, including possible changes in the PERL and federal tax law?

D. DISCUSSION - GOVERNING RULES

1. Summary

- "Vested rights" rules substantially limit changes that the County can make in pensions for current employees. They do not limit the pension benefits for new employees. However, there are opportunities under the vested rights rules for changes in pensions for current employees.
- PERS law includes a special provision for Riverside County to offer choice of high/low benefit formulas to all employees with corresponding high/low employee contributions. It is not clear how this provision currently applies, as discussed below. There are opportunities for changes in current employees' pensions and moving out of PERS if the PERL cannot be changed to meet the needs of the County.
- Federal and California income tax law currently restrict the ability for the County to offer individual choice of benefit options when employee contributions are made on a pre tax basis. That restriction is currently under review by the IRS. Also, there are opportunities to provide individual choice of benefit and employee contribution levels within existing law.

2. Vested Rights

a. Vested Rights, in General

Generally, California public sector employees have a right to the retirement benefit (including the formula and other methods of calculation) promised to them during their employment with a

public agency.² This rule is known as employees having "vested rights" in their pensions. The right accrues on an employee's acceptance of employment, although the particular amount of benefit may not be earned or become nonforfeitable until a later date.³

"Vested rights" is a constitutional rule and is based on the contract clause of the Constitution which forbids the State or any local public agency from interfering with the terms of a contract.⁴ Therefore the terms of the contract determine what rights are vested and what are not and the terms of the contract must be carefully reviewed to determine what vested rights exist.

Generally, the California courts have held that protected pension benefits which are "vested" can be changed before an employee retires if all of these criteria are met: (i) The change is made for the purpose of keeping a pension system flexible to permit adjustments in accord with changing conditions and to maintain the integrity of the system. (ii) The change "must" be reasonable. (iii) The change "must" bear a material relation to the theory of a pension system and its successful operation. (iv) Changes which result in disadvantage to employees "should" be accompanied by comparable new advantages.⁵ The courts decide whether these conditions are met.⁶

b. Rights Are Only "Vested" as Provided by the Contract

If the terms of the contract, which include the governing rules of the retirement system, state that the benefit level can be changed, then any rights affected by those terms are subject to change. For example, this is the case for employee contributions.

In the San Diego firefighters case,⁷ the pension system increased the employees' contributions pursuant to recommendations by its actuary. The employees sued and claimed they had vested rights to the lower contributions. The California Supreme Court held that in this situation there were no vested rights in the lower employee contributions because the terms of the pension system itself -- the contract -- provided that employee contributions could be increased based on the actuary's recommendation.⁸

² See, e.g., *Allen v. City of Long Beach*, 45 Cal. 2d 128 (1955).

³ *Kern v. City of Long Beach*, 29 Cal. 2d 848, 853, 855 (1947).

⁴ Most California cases are decided under the California constitution but some have also been decided under the Federal constitution. California Constitution Article I, section 9; Federal Constitution Article I, section 10, clause 1.

⁵ *Allen*, 45 Cal. 2d at 131. Please note the difference between the "must" conditions and the "should" condition. To our knowledge, the courts have not explored this difference. There are not many court decisions on changes that are accompanied by comparable new advantages. One of the more interesting cases is *Claypool* where unfunded benefits were eliminated and funded benefits were substituted. See *Claypool v. Wilson*, 4 Cal. App. 4th 646 (1992).

⁶ *Allen*, 45 Cal. 2d at 131.

⁷ *Int'l Ass'n of Firefighters, Local 145 v. City of San Diego*, 34 Cal. 3d 292 (1983).

⁸ Other court decisions have followed *Int'l Ass'n of Firefighters, Local 145* and made clear that if the contract that establishes a pension benefit allows a change in that benefit, then rights that otherwise might be vested and unchangeable can be changed to the extent provided in the contract. See, e.g.,

Therefore, to determine if any rights are vested, the term so the contract that provide County employees with PERS benefits must be analyzed.

c. New Theories Are Challenging Existing Interpretations of Vested Rights

New theories recently have been discussed that challenge existing interpretations of vested rights. One theory is that the courts have not, in fact, held that an employee is vested for the length of his/her working career with an agency in a pension formula.⁹ Instead, what the courts have held is that an employee is vested in the benefits earned to any date of change, and no more. For example, if to the date of change the employee had accrued a pension of \$1,000/month beginning at age 55 under a 2% at 55 formula, nevertheless the formula could be changed to, e.g., 2% at 60 for his/her pension accruals all future service. This is the ERISA rule for private sector retirement plans.¹⁰

A second theory is that vested rights are established by contract and for the most part contracts between agencies and their employees are established by collective bargaining and set down in MOUs. To the extent that benefits are established by MOUs, the theory is that benefits can be changed for future service by bargaining under new MOUs. Using the same example, an agency could bargain for employees to accrue pension benefits under a 2% at 60 (instead of the prior 2% at 55) formula for future service if this is agreed upon in collective bargaining.

We have these comments. It appears that a pure application of the ERISA rule is a stretch of existing case law.¹¹ It is possible that the courts could reach this conclusion, but most likely it would require the California Supreme Court to reverse or substantially distinguish prior decisions.¹² The collective bargaining theory fits somewhat better with existing case law that vested rights are established by contract. However, the California Supreme Court has said that a vested pension right is an individual right¹³ and this decision would have to be reconciled with a conclusion that collective bargaining can reduce pension benefit accruals for future service for all members of the bargaining unit. Moreover, it is highly likely that if either or both of these theories were used in developing new retirement benefits they would be challenged in litigation, the litigation could draw "amici" perhaps on both sides of the vested rights argument, and the litigation could be costly and take a long time to resolve, with uncertain prospects for success.

d. Vested Rights Are Contractual and Contracts Can Be Modified by Mutual Consent

A right is "vested" because if the public agency were to change it, unilaterally, this change would be an impairment of contract, forbidden by the Constitution. There is no "impairment" of contract if the parties both agree to a change. We are not aware of any court decision or other

Walsh v. Bd. of Admin., 4 Cal. App. 4th 682 (1992). See also 70 Op. Cal. Att'y Gen. 214 (1987) (state legislator's pension).

⁹ More specifically, in the highest and most favorable formula for the employee.

¹⁰ I.R.C. § 411(d)(6).

¹¹ See, e.g., Pasadena Police Officers Ass'n v. City of Pasadena, 147 Cal. App. 3d 695 (1983).

¹² See, e.g., Allen v. City of Long Beach, 45 Cal. 2d 128 (1955).

¹³ See, e.g., Abbott v. City of Los Angeles, 50 Cal. 2d 438 (1958).

formal guidance on this principle, most likely because it is a fundamental principle of contract law.

Under this principle, individual employees can choose their existing benefits or can choose another benefit that is offered. It appears that this choice can be extended to existing employees without adversely affecting any vested rights as long as the choice is real and not coerced in any manner.

Existing PERS law provides that current employees of the County may choose between high and low benefits (and corresponding high and low employee contributions)¹⁴. It is not clear how this provision currently applies, as described below. We have not been able to find any other provision in the PERL that allows current employees to choose between high/low benefit formulas with corresponding high/low employee contributions.

e. There Does Not Appear to Be a Vested Right in Any Particular Retirement Plan

We have found no law on this particular point but it appears that a vested right exists for benefits, not to a particular source of benefits. Therefore, for example, if the County were to establish its own retirement system and there was a transfer of all assets and liabilities for benefits currently held by PERS to that system,¹⁵ it does not appear that this should violate any vested rights as long as there are no other fundamental changes in the benefits. The PERL includes provisions that allow such a change and it appears that at least some were enacted after current employees earned benefits under PERS.¹⁶

There may be limits to this type of change, however. For example, if there were a material change in the funding status of the benefits on such a change, the courts might rule that this violated vested rights to a funded pension.¹⁷ As far as we can determine the courts have not ruled on this issue so we cannot predict the outcome of litigation.¹⁸

3. PERS LAW -- The PERL

The PERL sets out the terms of the contract that establish retirement benefits for County employees and therefore establish vested rights. The County's contract with PERS incorporates by reference all provisions of the PERL. Key provisions for this analysis are summarized below.

¹⁴ PERL 20550 et. seq.

¹⁵ See below for a discussion of this type of change.

¹⁶ E.g., PERL §§ 20586 - 20591.

¹⁷ See Valdez v. Cory, 139 Cal. App. 773 (1983) (vested right in no "severe impairment" of funding of pension plan).

¹⁸ Under the rule that following the terms of the contract is not a cutback of vested rights, if the County were to take advantage of long-existing provisions in the PERL - discussed below - any vested rights issue on a change of retirement plan should be much smaller.

PERL 20550 et Seq. -- Special Riverside County elective provisions --

A special election is available to current miscellaneous members who are employees of Riverside County "on the day immediately preceding the effective date of a contract amendment entered into pursuant to [Article 4 of the PERL]".¹⁹ There does not seem to be a time limit on the County entering into such a contract with PERS. Also, the ability of the County to enter into such a contract does not appear to be a one-time only option. Instead, it appears from the words of the PERL that the County could enter into this type of contract with PERS at any time and time after time. Therefore, the County may have contracted with PERS for these provisions at an earlier time and amended the contract later to eliminate the provision and still be able to contract again for it. Additionally, this provision can only become effective after agreement under an MOU²⁰. If the County is interested in this option it should obtain PERS' position with respect to the ability of the County to use this provision now.

Under Section 20550 et seq the following happens:

- Current employees covered by Social Security may choose between formulas providing 2% at 60 and 1.5% at 65 and 2.418% at 60. If 1.5% at 65 is chosen, then the employee contribution is 2% of compensation.
- Current employees may make an irrevocable election to "be subject to the benefits provided for in this article" during an annual 120 day open enrollment period determined by the County.
- New employees are automatically covered by 2% at 60 but may elect 1.5% at 65 or 2.418% 60 during an annual 120 day open enrollment period for all future service.
- Anyone who elects 1.5% at 65 may elect 2% at 60 or 2.418% at 60 on attaining 10 year of credited service with the County. This election is irrevocable.

PERL 20475 -- Reduction of Benefits for New Hires --

Benefits can be reduced for future service if (i) the benefits are the same for all members in a classification and (ii) the reduction applies only to new members. A contract with PERS can make this amendment only once in any three-year period for each classification.

PERL 20479 -- Same Benefits for All Members in a Classification --

No contract or contract amendment with PERS shall provide retirement benefits for some but not all members in stated classifications, which are essentially local

¹⁹ These provisions were added to the PERL in 1986 and amended in 1995.

²⁰ It is not clear if an agreement with one union under one MOU is sufficient to allow the provision to apply to all miscellaneous members or only members of that union.

miscellaneous members and also specified categories of safety members. No contract or contract amendments shall provide different retirement benefits for a subgroup including but not limited to bargaining units or unrepresented within those classifications. "Benefit" is broadly defined.

PERL 20516 -- Cost Sharing - Optional Benefits --

An agency and its employees may agree to share the costs of any optional benefit that is inapplicable to the agency until the agency elects to be subject to the benefit. The agreement shall specify the exact percentage of member compensation paid toward current service cost of the benefits. The member contributions are treated as normal contributions and added to their member accounts in PERS. Contributions shall be uniform for all members within stated classifications (essentially the same as in 20479). This section does not apply to an optional benefit elected before January 1, 1979. Subsection (f) of 20516 states that "nothing in this section shall preclude" an agency and its employees from "independently agreeing" in an MOU to share the costs of "any" optional benefit, or when first contracting with PERS "any benefit" in a manner "inconsistent with this section". However an agreement under Section 20516(f) is not part of the agency's PERS contract.²¹

PERL 20532 -- Employer Contributions --

"The contracting agency shall make the contribution for its employees" as determined by PERS.

PERL 20502 -- Mandatory Inclusion of Employees in a PERS Classification --

A contract with PERS "shall include in this system" all firefighters, police officers, county peace officers, local sheriffs and other employees of the contracting agency except as agreed to by the agency and PERS. Non-safety employees may be excluded based on "groups of employees such as departments or duties and not on individual employees". Groups may be excluded for newly hired employees. PERS may disapprove of a group exclusion if it decides this could adversely affect the system. This section "shall not be construed to supersede Sections 20303 and 20305."

PERL 20303 and 20894 - Mandatory Exclusion from PERS --

Employees who "are members of any other [public] retirement or pension system" who are "receiving credit" under that system "for service" are, "as to that service, excluded

²¹ PERL 20516(a) can be read to state that cost sharing of these benefits is limited to newly elected optional benefits. PERS representatives have not been consistent in interpreting this part of the PERL. Some PERS representatives have publicly stated that PERS allows cost sharing for pre-existing optional benefits under 20516(a) and not just under 20516(f) but other PERS representatives have said that cost sharing for pre-existing optional benefits can only occur under 20516(f). PERS requires a vote of a majority of the membership classification for a 20516(a) cost sharing. What is an optional benefit is established by contract with PERS; PERS also publishes a list of optional benefits.

from this system.” Exceptions are made for (i) deferred compensation plan participation, (ii) money purchase plan participation if the plan has an IRS ruling that it is tax qualified, and (iii) another defined benefit plan but only if the plan has an IRS ruling that it is tax qualified, PERS is designated as the agency’s “primary plan for the person”, and participation in the other plan does not “interfere with” the person’s rights to a PERS benefit. As noted above, Section 20502 requiring mandatory inclusion states that it does not supersede section 20303.

PERL 20570 et Seq. -- Termination from PERS --

20570, 20571 -- Termination -- If the contract with PERS was by ordinance or resolution, a two-thirds vote of the Board of Supervisors is required for termination. If the contract was by vote of the electorate, a majority vote of the electorate is required for termination.

20573, 20574, 20575 -- Terms and conditions -- PERS may negotiate the terms and conditions of termination and the payment of unfunded liabilities. The agency is liable for “any deficit in funding for earned benefits, interest, and collection costs; PERS has a lien on agency assets for these amounts. PERS may negotiate with the agency for funding the cost of final compensation.

20576 -- Single pooled account -- All assets and liabilities of terminated agencies are held in a single pooled account.

20580 -- Continuation of membership -- On termination, all memberships in PERS continue to the extent there are accumulated contributions to the credit of the member. The member’s status continues as if the agency had not withdrawn.

PERL 20585 -- Spin off from PERS to other retirement system --

PERS can agree with an agency and the board of supervisors of a county “for termination” from PERS and “inclusion” of the agency’s employees in the county system. The agreement “shall” provide for transfer of assets to the county system. Also “all liability” of PERS with respect to members and retirees under the contract “shall cease and become a liability of the county system “. Members generally are treated as members of the county system *ab initio*.²²

PERL 20281.5 -- Defined contribution plan for first two years for State employees --

New State miscellaneous or industrial employees do not accrue PERS service credit for the first 24 months but instead contribute 5% of their compensation to a defined contribution (DC) plan. After two years they start accruing benefits under PERS. After four years they may transfer the funds in the DC plan to PERS to “buy back” the first two

²² PERL 20586, 20587 and 20588 set out special provisions for particular spinoffs to county systems. PERL 20589 sets out rules for spinoff to the San Francisco City and County Retirement System. PERL 20590 and 20591 set out rules for other spin-offs to city systems.

years of service credit, or the funds will be transferred to a 401(k) plan maintained by the State.

PERL 20461 -- Benefits not specifically authorized by the PERL --

PERS may "refuse to contract with, or to agree to an amendment proposed by" an agency for any "benefit provisions" that are "not specifically authorized by" the PERL and that PERS determines would "adversely affect" the system.²³

4. Income Tax Laws and Individual Choice Between Benefit Formulas

a. Individual Choice, Vested Rights and Current Employees

If the County is interested in changing the benefit structure or level of benefits for current employees, vested rights present a hurdle. The County's options are then to (i) provide "comparable new advantages" for current employees, which could be costly and will be subject to review by the courts, with potentially an uncertain outcome, (ii) follow one or both of the new theories that challenge existing concepts of vested rights and be prepared to litigate, or (iii) give current employees an individual choice between the current and new programs.

Individual choice is the easiest path to avoid vested rights issues. For example, if choice were available under PERS²⁴ or another retirement structure, current employees could choose lower member contributions and lower benefits or higher contributions and higher benefits. Other, possibly more interesting, choices could be made available to employees as discussed below. However, individual choice has potential federal and California income tax issues.²⁵ These issues exist because currently employee contributions to PERS are made on a pre-tax (also called tax-deferred) basis.

b. The IRS Position On Taxation of Employee Contributions With Choice

Generally, the IRS takes the position that if an individual has the choice between (i) higher current cash compensation (lower member contributions) and lower retirement benefits, or (ii) lower current cash compensation (higher member contributions) and higher retirement benefits, each person who has this choice will be taxed as if he/she chose cash.²⁶ Generally, this is a rule of "constructive receipt". There are a number of exceptions to constructive receipt. With respect to retirement benefits, the IRS position is that a choice between low cash in pocket/high benefits and high cash in pocket/low benefits can only retain tax deferral for employee contributions if there is a statutory basis for the tax deferral. The statutory basis can only be, says the IRS, under Internal Revenue Code ("I.R.C.") Sections 401(k), 403(b), or 457.²⁷ None

²³ This is peculiar. By implication it appears to allow PERS to agree to provisions outside the PERL.

²⁴ Except for the limited provision for Riverside County in Sections 20550 et seq, it does not appear that PERS law allows individual choice between benefit formulas for current employees.

²⁵ California follows federal tax law in these matters.

²⁶ See, e.g., Rev. Rul. 75-539.

²⁷ That is - it can only work under a 401(k) plan, a tax sheltered annuity under 403(b) or a deferred comp plan under 457. PERS is not any of these. There also can be a choice between retirement benefits and

of these exceptions apply here for current employees because PERS is not covered by any of these I.R.C code sections.²⁸

c. The IRS Position On Taxation May Change

Employee contributions to PERS currently are tax deferred under I.R.C. Section 414(h)(2) as tax "pickups". There is substantial controversy about whether there can be tax-deferred member contributions under section 414(h)(2) if the member has individual choice about the amount of the contributions. The IRS has ruled that these contributions are not tax-deferred.²⁹ That ruling is currently being questioned in administrative proceedings by several organizations.

We have recently talked with both IRS and Treasury staff about the status of these proceedings. It is clear that IRS and Treasury understand the economic and legal difficulties of state and local agencies with respect to pension costs and that they understand that allowing individual choice between high benefits/high contributions and lower benefits/lower contributions may help resolve these difficulties. However they also must work within the limits of proper tax policy. We also have recently talked with individuals who are directly involved in discussions with IRS and Treasury on the issue of individual choice. They are moderately optimistic that there will be a change in policy.

Our assessment is that there is, in fact, a moderate chance that IRS and Treasury will ease the rules in some manner to allow current employees to choose between high benefits/high contributions and lower benefits/lower contributions. A change may come sometime later this year. It also may be limited in scope.

d. Until IRS Changes Its Position The County Would Be At Risk For Taxation

Unless there is a change in the current tax rules, there is a material tax risk for the County if it allows current employees to choose between high benefits/high contributions and lower benefits/lower contributions and make the contributions on a tax-deferred basis. The IRS would likely take the position that employees are taxable on the value of their contributions. Also, the IRS would likely focus on the County for failing to properly withhold and pay income and other payroll taxes and seek to collect these amounts from the County. Therefore, unless the IRS changes its position the County is at risk if it allows choice of benefit and contribution level on a pre-tax basis.

Note that there would not be such a risk if the choice is only given to new employees and they make a one time irrevocable election between high benefits/high contributions and lower benefits/lower contributions at the time of hire and in strict accordance with the IRS regulations.³⁰

a "nonqualified" retirement plan but that is governed by I.R.C. § 457(f) which requires immediate taxation of non-forfeitable benefits, and is not relevant for PERS.

²⁸ There is an exception for *new* employees that allows a one time irrevocable choice between high benefits/ high contributions and low benefits/low contributions under stated circumstances.

²⁹ Rev. Rul. 2006-43.

³⁰ Treas. Reg. 1.401(k)-1(a)(3)(v).

e. Individual Choice With After Tax Contributions

The tax issue exists because employee contributions are pre-tax. However, employee contributions could be after tax. There do not appear to be any tax issues of the type described above with choice between higher contributions/ higher benefits and lower contributions/lower benefits when the contributions are after tax.

This choice has not been in favor for quite a while but earlier IRS rulings clearly allowed it.³¹ It may not be as attractive to employees as pre-tax choices, but employees do not lose the tax value of after tax contributions because when they are paid benefits, the after tax portion is tax free. Furthermore, the net after tax cash in pocket received by employees who opt for lower contributions may offset the somewhat higher taxes owed currently. Additionally, if there is no prearrangement, it might be possible to make contributions after-tax for a limited number of years and then, after bargaining, reinstate pre-tax contributions; this has not been explored with the IRS to our knowledge.

f. Choice Of Different Benefit Structures

Another type of choice is that employees could choose between benefit structures instead of between high/low benefits and corresponding cash in pocket differences, without changing the amount of member contributions. For example, employees could choose between a combination defined contribution/defined benefit package and the current benefit package.³² It is not likely that the County would save as much money with this type of choice but it could provide more annual contribution cost stability for the County.

E. DISCUSSION - OPTIONS FOR CHANGE CURRENTLY AVAILABLE UNDER THE PERL³³

1. Summary

- The vested rights rules set no limits on the County's ability to provide newly hired employees with any options that are currently available under PERS.
- In accordance with the PERL, it should be possible to negotiate increased employee contributions from current employees to pay in whole or in part for "optional" benefits. One important optional benefit for this payment is one year final compensation instead of three year average compensation. Another optional benefit is the current PERS formula for miscellaneous employees that provides benefits greater than 2% at 60 and for safety greater than 2% at 55. John Bartel, the County's actuary, can provide the County with the value of cost shifting of all of its current optional PERS benefits.

³¹ Rev. Rul. 74-385.

³² Of course, this assumes that a structure is in place that allows such a choice.

³³ All benefit changes are subject to general labor laws so to the extent that the County must otherwise meet and confer on compensation, those same rules apply to changes in retirement benefits.

- It may be possible to implement Article 4 of the PERL which allows individual choice for Riverside County employees between benefit provisions for both current and new employees. John Bartel can provide the County with the amount of cost savings. Also, as discussed above, there are income tax issues with individual choice.

2. Reduction of Benefits for All New Hires in a Membership Classification

Benefits for new hires can be reduced for employees hired after the effective date of the contract amendment with PERS. The new benefit levels must be the same for all employees in a PERS membership classification (e.g., miscellaneous members).³⁴

3. Shifting the Cost of Optional Benefits to Employees Including Current Employees

a. Shifting Costs of Optional Benefits To Employees

The cost of optional benefits can be shifted from the County to employees in accordance with an MOU.³⁵

Under PERL 20516(a) it appears that the agreement for employees to pay these costs must be made before the optional benefit is elected by the County if the member contributions are to be made under a PERS contract and added to their accounts as "normal contributions". Under PERL 20516(f) the agreement may be made *after* the optional benefit is elected by the County, however it appears that the agreement will not become part of the PERS contract and therefore the member payments will not be accounted for by PERS as member contributions.

There is inconsistency in PERS statements on this issue. Some PERS representatives have publicly stated that this distinction does not exist while others have stated that it does. We suggest that if this cost shifting is of interest to the County that it obtain a written statement from PERS on its position on this issue.

b. Examples of Optional Benefits

One important optional benefit, from a cost perspective, is the definition of final compensation. One year final compensation is stated as an optional benefit both in the County's PERS contract and in the PERS list of optional benefit provisions. The most recent PERS Optional Benefits Listing gives a rough estimate that the reduction in the total employer contribution rate of moving from one year final compensation to three year average compensation could be 0.9% to 1.8% of payroll for miscellaneous groups and 1.8% to 2.9% of payroll for safety groups.

³⁴ PERL 20475.

³⁵ PERL 20516. Note that it appears that PERS takes the position that employees can agree in an MOU that all bargaining unit members must pay higher contributions and also takes the position that employees cannot agree in an MOU that all bargaining unit members will accrue lower benefits for future service. This difference does not make much sense, practically, and therefore gives some credence to an argument that employees should be able to agree in an MOU for lower future accruals of benefits.

Another important optional benefit are retirement formulas in excess of 2% at 60 for miscellaneous employees and 2% at 55 for safety employees³⁶.

c. Vested Rights And Cost Shifting

We would not be surprised if a shift of the cost to current employees of one or more optional benefits were challenged under a vested rights theory. However, under the San Diego firefighters case³⁷ discussed above, it appears that there is a substantial defense to any such claim. The contract -- the PERL, the actual contract between the County and PERS, and PERS's listing of optional benefits -- all support a conclusion that this cost shifting can occur at any time for this benefit. The PERL specifically states that the costs of any optional benefit may be shared by agreement in an MOU. These words are quite similar to the words in the PERL that seem to be the basis for the State increasing member contributions in 2010.³⁸

d. Technical Issues For Cost Shifting

There are some technical issues for cost sharing.

First, the PERL is not wholly clear with respect to the unrepresented. Section 20516(a) says that "employees may agree" to pay the cost of optional benefits. Section 20516(f) speaks of an agreement in an MOU. That generally does not exist for the unrepresented. However, a reasonable argument can be made that if any MOU provides for this payment of costs, it should apply to the unrepresented as well.³⁹

Second, it is not wholly clear that these contributions are eligible for income tax deferral as tax pickups under the federal tax laws⁴⁰. This is more of an issue if the contributions are made under PERL 20516(f) and they are not part of the PERS contract. We think that if they are made under the PERS contract there is a reasonable argument that they can be made pre-tax and even if not under the contract the better argument is that they are eligible for deferral. However, we have found no IRS guidance on this issue. If the County wants certainty, it can be obtained with an IRS private letter ruling.

Third, if cost shifting occurs under 20516(f) so it is not part of the contract with PERS and if member contributions are after tax, it is not clear how the member would recoup the associated tax basis on receiving benefits from PERS. The reason is that PERS would not have a record of what contributions were after tax so it could not properly report these amounts to the IRS. However, this may not be a practical problem because if there is an agreement for employees to

³⁶ CalPERS "Optional Benefits Listing", p. 5.

³⁷ Int'l Ass'n of Firefighters, Local 145 v. City of San Diego, 34 Cal. 3d 292 (1983).

³⁸ PERL 20677.4 and current 20677.71.

³⁹ Most uses of "memorandum of understanding" in the PERL are qualified by reference to the Meyers-Miliias-Brown Act or to the "exclusive bargaining agent" or to the "recognized employee organization." Those limits do not appear in PERL 20516. That also suggests that the agreement can be between individual unrepresented employees as a condition of employment.

⁴⁰ However the IRS will likely take the position that these contributions are subject to Social Security and Medicare tax. See CCA 200714018 (4/6/07).

pay for some or all of the cost of optional benefits it is most likely that this would not be on an optional basis but would apply to the entire group affected such as a collective bargaining unit.

e. An Agreement Is Required for Cost Shifting

Both section 20516(a) and 20516(f) require an "agreement" or "agreeing in a memorandum of understanding" to implement cost shifting. Therefore it does not appear that the County could impose cost shifting in the absence of an agreement.

f. Can Employees Pay Part of The County's Contributions For More Than Optional Benefits?

Some agencies have explored whether they can enter into MOUs under which employees pay part of the agency's retirement contributions in addition to the cost sharing allowed for optional benefits.

Generally, the PERL requires that the agency "shall make the contribution for its employees" as determined by PERS.⁴¹ This suggests that it may be difficult for employees to pay part of the employer's contributions. However, section 20516(f) states that the agency and employees may agree in an MOU to share the cost of "any benefit" "when initially entering into a contract." (In context, "contract" seems to mean a contract with PERS but might mean an MOU.) This section clearly says that employees can agree to share all or part of the cost of any benefit, which includes all or part of the employer's cost of any benefit formula. The question then is how the phrase "initially entering into a contract" is to be read. As discussed above, PERS seems to have provided inconsistent answers on a similar issue under 20516(a) and this uncertainty may also carry over to 20516(f). We suggest that if this cost shifting is of interest to the County that it obtain a written statement from PERS on its position on this issue⁴².

4. Individual Choice Between Benefit Formulas

As discussed above, it appears that, though an MOU, the County could offer individual choice between benefit formulas in PERL Sections 20550 et seq. However these issues must be resolved first:

- Will this particular choice yield cost savings?
- Will PERS contract with the County under these sections or will PERS take the position that they are "old and cold" and can no longer be used.

⁴¹ PERL 20532. Additionally, PERL 20516(f) allows agreement by MOU for employee payment of "any benefit" "when initially entering into a contract". This section suggests that employees can agree to pay part or all of the employer's contributions but only on "initially" entering into a contract with PERS. Perhaps PERS might read "initially" as applying to the initial inclusion of, e.g., a retirement formula in a PERS contract, but that is not clear.

⁴² Of course by MOU compensation can be adjusted by reduction or lack of increase so in economic effect employees are paying part of the County's contribution; however the reduction or lack of increase would not be compensation for PERS benefits.

- How will the County deal with the income tax issues described above?⁴³

F. DISCUSSION -- OPTIONS FOR WITHDRAWAL FROM PERS

The reason for withdrawal from PERS would be because the County would like to provide a retirement program that is not available under PERS now or through new legislation. The County is considering some options that are not available under PERS currently.

1. Summary

- The County can withdraw from PERS by following the PERL's termination and withdrawal procedure. The procedure has required formalities and we suspect that PERS would be very conservative in setting the cost of withdrawal. That can only be determined by talking with PERS.
- The PERL includes a procedure for a spin-off of all County-related benefits and liabilities to a county retirement system. Therefore, the County could establish its own system under the 37 Act or perhaps under other enabling sections of the Government Code. The County may be able to minimize the resulting work by outsourcing administration and investment functions as often is done in the private sector.
- The PERL includes targeted provisions for particular agencies for the spin off to other retirement programs of PERS benefits and liabilities. The County may be able to leverage such provisions into its own legislation if existing spin-off rules are not acceptable.
- There are two potential options for excluding new employees only from PERS. One option requires PERS approval and it is not likely that PERS would approve. A second option does not require PERS approval. Under that section, new employees could be excluded and also current employees could be excluded based on individual elections. It is likely that PERS would challenge this action. A spin-off should be easier.

2. Termination and Withdrawal from PERS

If the County's contract with PERS was established by resolution or ordinance, the County may withdraw from PERS by a two-thirds vote of the members of the Board of Supervisors (a vote of

⁴³ Note that if employee contributions become after tax in order to resolve the income tax issues, PERS should not have any problem recording contributions as after tax and reporting them properly when benefits are paid. PERS recorded and reported employee contributions in this way for decades and might still receive after tax contributions from some local agencies.

4 of the 5 supervisors). If the contract with PERS was established by the voters then withdrawal requires a majority vote of the electorate.⁴⁴

With a vote to withdraw, the County will have to negotiate with PERS for the terms and conditions of payment of its remaining unfunded liability including the possible later increase in liability because of reciprocity affecting final average compensation of future retirees.⁴⁵ We understand that previously PERS has taken a very conservative position with respect to determining such liability. We have no current experience with PERS's current position. If the County is interested in withdrawal we recommend that it obtain from PERS its preliminary calculations for liability. We also recommend that the County's actuary scrutinize both the data and the assumptions that PERS uses for these calculations, that any data and assumptions be fully consistent with the same that PERS uses for regular contribution requirements for a closed group, and that the earnings rate used for the calculation be the same long-term rate that PERS uses for its funding. Even in these circumstances, though, the County's contributions to PERS may increase on withdrawal because no new County employees would be added to PERS.

3. Spin-off to a County Retirement System

The County can be completely free of obligations to PERS, and PERS can be completely free of obligations to County employees, under the spin-off provisions of the PERL.⁴⁶ These are not mandatory provisions, for the PERL says that PERS "may enter into an agreement" with the agency and the board of supervisors of a county maintaining a county retirement system.⁴⁷ With such an agreement, all assets "representing the value" of the interests of the agency and its employees are transferred to the county system and "all liability of [PERS] with respect to members and retired persons under the contract shall cease and shall become the liability of the county retirement system."⁴⁸

We are not aware that PERS has engaged in such a spin-off in recent memory. Therefore, if the County is interested in this action we suggest that it meet with PERS to determine the terms and conditions that PERS may request in any agreement. (The agreement must contain provisions that PERS "finds necessary to protect the interests" of PERS.)⁴⁹ Because PERS will no longer be responsible for the benefits spun off to another system, the cost to the County of this alternative should be lower than a straight termination. We suspect, however, that there will be substantial discussion with PERS on the terms of a spin-off.⁵⁰

There is a practical matter of what county retirement system the County might wish to consider and whether such a system might be more attractive than PERS. There are a number of possibilities. (i) Riverside County may establish its own county retirement system under the

⁴⁴ PERL 20570, 20571.

⁴⁵ PERL 20573 - 20575.

⁴⁶ PERL 20585.

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ For example, the valuation of assets allocated to the County may be up for discussion, and PERS may also want to be sure that any vested rights of members are preserved.

County Employees Retirement Law ("CERL" or "37 Act").⁵¹ (ii) Creating its own system may involve more work than the County wants. Therefore, it may wish instead to consider joining an existing county retirement system that would like to add the County as a contributing employer. This probably would require a change to the CERL.) The reason for doing this would be to obtain economies of scale for the existing system and for Riverside County. (iii) It may be possible for Riverside County to establish its own system under the CERL and then, for economies of scale, outsource to another CERL system or to a private sector vendor both recordkeeping and/or investment.⁵² (iv) At least one county -- San Luis Obispo -- has established its retirement system under other sections of the Government Code.⁵³ This allows a more focused type of retirement system and Riverside County may find that it allows for more flexibility. (The PERL suggests that a system under the CERL is contemplated in a spin-off but this is not a clear mandate.)⁵⁴

It is possible that a claim could be made that there are vested rights to stay in PERS. However, building on the San Diego firefighters case, it appears that the contract -- the PERL -- has included a provision for spin-off to a county retirement system since 1970. As discussed above, the fact that the PERL allows spin-offs, and that these appear to have been enacted after benefits were earned under PERS, is strong evidence that vested rights should not be an issue. Nevertheless, as noted, this issue has not been decided by the courts as far as we can determine.

5. Excluding Employees from PERS

There are two provisions in the PERL that could allow exclusion of some County employees from PERS and leave others with PERS retirement benefits. We suspect that PERS would challenge exclusion of County employees under both of these provisions. Therefore, other options might be more productive.

First Exclusion -- New Hires Only -- Newly hired non-safety employees may be excluded from PERS membership based on "groups of employees such as departments or duties and not on individual employees".⁵⁵ A literal reading of this section would allow all new employees in all departments and duties to be excluded from PERS. We suspect that PERS would not approve that exclusion, and the PERL gives authority to PERS to disapprove of exclusions if in PERS judgment exclusion would adversely affect the system.⁵⁶ PERS could be concerned that exclusion of all new employees would start a run for the door away from PERS.⁵⁷

⁵¹ CAL GOV'T CODE § 31450, *et seq.*

⁵² A number of preliminary issues would, of course, have to be worked out including cost sharing, governance, the ability to withdraw, etc.

⁵³ CAL GOV'T CODE § 53215, *et seq.*

⁵⁴ Please note that the PERL includes a number of sections that provide for specific spin-offs from PERS. If there are particular issues for Riverside County and a spin-off, there is precedent in the PERL for special legislation to accommodate its needs. PERL 20586 - 20590.

⁵⁵ PERL 20502.

⁵⁶ *Id.*

⁵⁷ The way for PERS to avoid a run would be to make its system more competitive and attractive to both employers and employees.

We are not aware of prior PERS actions concerning such exclusions. Therefore, if the County is interested in taking this action, it should obtain from PERS any prior history and, most importantly, any criteria that PERS has used to evaluate whether the exclusion of groups will be disapproved. Of course, if there is such exclusion the County will want to consider other retirement benefits and another retirement system for the excluded.

Second Exclusion - New Hires and Current Employees -- The PERL *requires* exclusion from PERS of any individual who is covered for current service by another public sector retirement system.⁵⁸ For this purpose, retirement system is defined broadly because the exclusions specifically allow concurrent coverage under retirement plans that some might not think of as retirement "systems", including deferred compensation and money purchase pension plans. There is no exception to this mandated exclusion. In fact, the PERL makes clear that there is no exception when it states that the mandatory *inclusion* of all employees in a membership classification "*shall not be construed to supersede*" the mandatory exclusion of section 20303.⁵⁹ Therefore, it appears that the mandatory exclusion is without limit if it applies.

For new employees, it appears that exclusion from PERS must occur if they are automatically covered by another County-provided retirement system that is not an exception to the mandatory exclusion rules. (See below for what would qualify.)

For current employees, because of vested rights rules, it appears that this path to exclusion from PERS is best done on a voluntary, individual elective basis. (See above for tax issues with elections.) Current employees could be given the choice between the existing PERS benefit and a lower benefit/lower employee contribution defined benefit plan. The choice even could be broader, as discussed below, such as between the current PERS benefit and a cash balance plan. If the non-PERS plans come within the mandatory you-must-be-excluded-from-PERS rules, this would seem to automatically take these individuals out of PERS.

Participants in plans who must be excluded from PERS include participants in certain defined contribution plans⁶⁰ and certain defined benefit plans.⁶¹ While this path might seem straightforward based on the words of the PERL, we caution that it could be challenged by PERS, perhaps both in the courts and the Legislature. A different course may be to try to obtain changes to the PERL that modernize benefits for County employees.

⁵⁸ PERL 20303, 20894.

⁵⁹ PERL 20502.

⁶⁰ Specifically excluded are money purchase pension plans that do not have an IRS ruling on tax qualification. PERL 20303(b)(3).

⁶¹ Specifically excluded are defined benefit plans providing current service coverage if PERS is not designated as the County's "primary plan" for the individual, or if the individual's participation in the plan "interferes with his/her rights under PERS, or if the plan does not have an IRS ruling on tax qualification. Any one of these conditions creates the required exclusion from PERS. PERL 20303(b)(4).

G. DISCUSSION -- OPTIONS NOT CURRENTLY WITHIN PERS

The prime reason to withdraw from PERS is that there are opportunities for new types of benefit structures outside of PERS.⁶²

Below are comments on options that the County is considering. Each of these might be achieved by amendments to the PERL that are specific to Riverside County.

1. Summary

- As noted, there is no legal limit on the retirement benefits provided to new employees other than what may be required under *collective bargaining*.
- The options being considered by the County for benefits not in PERS include: cash balance plans, defined contribution plans, a combination of defined benefit and defined contribution plans, and defined benefit plans with no COLA or post-retirement survivor benefits. For current employees, unless the County wishes to engage in substantial litigation with an uncertain outcome, the only way to implement these options is to give each employee individual choice of benefits. As noted, the tax rules currently present a hurdle for this choice though there are ways to deal with this issue. As a practical matter, the issue is why any employee would choose a new option; the answer is always a personal one, and the County can help influence this answer with incentives.

2. Two-Year Holdout - New Employees

New State employees do not earn PERS service credit for two years; instead they contribute 5% of their salary to the State's defined contribution plans. Thereafter they earn PERS credit and after four years may use their defined contribution account balance to purchase service credit for the first two years. It seems reasonable that this same rule apply to local agencies. The County may also prefer that after two years employees must opt into PERS benefits or automatically stay with the defined contribution plan. Amendments to the PERL are required.

3. Safety Members

The options being considered by the County are variations on current safety member formulas, some with substantial reductions or a cash balance plan. If the County is able to obtain changes to the PERL focused on Riverside County, as in 1986, then it may be easier to stay in PERS. However, if PERS does not want to administer such formulas, or if it is not possible to get changes in the PERL, then a spin-off to a Riverside County plan may be best as discussed above.

⁶² Please note that if the County moves to a CERL system currently there may not be more flexibility of benefit structures than are available under PERS. Instead, to obtain flexibility the County would want either to obtain amendments to the CERL that are focused on Riverside County or it would want to follow the lead of San Luis Obispo and establish its own stand-alone system.

As noted above, if the County's goal is to encourage current employees to move to a new formula, then individual choice between the old and new formula is an important way to avoid vested rights issues. An incentive to opt for the new formula would be lower employee contributions.

4. Miscellaneous Members

The options of interest to the County for miscellaneous members include possible structural changes: no COLA for a defined benefit plan; a cash balance plan for new employees with an incentive for current employees to opt in; a defined contribution plan only for new employees; a combination defined benefit and defined contribution program.

PERS's Role -- Technically, the PERL could be amended to provide for any of these options. PERS should be able to administer a cash balance plan because it currently keeps records for member contribution accounts that are very similar to records needed for cash balance plans.⁶³ PERS also should be able to maintain defined contribution accounts or outsource recordkeeping to qualified vendors. PERS currently is a 457 plan provider so it can clearly manage a defined contribution plan. PERS should be able to administer benefits with no COLA because eliminating the COLA is a matter of changing calculation and actuarial software.

Even though PERS technically should be able to administer these plans, nevertheless they may not fit within PERS culture so PERS may be reluctant to be the administrator. In that case, though, it would be inappropriate for PERS to be an obstacle to the County's goals.

New Employees -- For the County to provide such new structures to new employees, the County needs to find out PERS's position with respect to new legislation. Will PERS support such structures within PERS by supporting legislation for Riverside County? What are PERS's concerns and what is needed for PERS to support and implement the County's goals for new retirement structures? Will PERS facilitate the County's goals or will PERS be an obstacle? These and other questions must be answered *before* the County decides what path to take, if it wishes to implement benefits that are not currently provided by PERS.

Current Employees -- As discussed, the path of least legal problems regarding vested rights rules for current employees is to give them individual choice of benefit structures. Assuming that the tax issues are resolved (see the discussion above), then the County needs to find out

⁶³ A cash balance plan provides an account for each member to which hypothetical contributions are allocated and on which a stated level of earnings is also credited. The difference between this and a defined contribution plan is that under a cash balance plan at least some investment risk, and all mortality risk, is undertaken by the employer. However, recent proposed IRS regulations allow the earnings credit to a cash balance account to be based on the actual rate of return of the plan, subject to some restrictions such as requiring diversification in investments. Therefore, the employer's risk of earnings credits can be substantially reduced under these regulations. With a cash balance plan there can be more of a balance of risks, with the employer having less risk of volatility in contributions and less risk in earnings rates, and the employee having less risk of mortality. In this respect, a cash balance plan can provide more balanced risk than a defined contribution plan. Different designs have different risk characteristics.

PERS's position with respect to new legislation. The same questions set out above must be asked, ultimately to determine if PERS will assist the County or be an obstacle..

The practical question is why would current employees choose a cash balance plan, a defined contribution plan, or a combination of defined benefit/defined contribution plan instead of what they now have. Each choice will be personal. Some generalizations can be offered, however.

- Over the long run, sometimes a defined contribution (or cash balance) plan provides more retirement income to employees than does a defined benefit plan. This is particularly the case for younger employees. Depending on the assumptions made, the "break even" point is often between ages 35 and 40⁶⁴. So younger employees may be more inclined to choose defined contribution or cash balance plans.
- Defined contribution (and cash balance) plans provide more "portability" than the existing defined benefit plans for employees who do not envision a long-term career in the public sector. This type of employee may, or may not, fit the County's needs. More mobile employees may be more inclined to choose defined contribution or cash balance plans.
- If employees are given the choice between a defined benefit (or other) plan that requires a high cash employee contribution and provides a high benefit or a plan that requires a lower cash contribution and provides a lower benefit, some employees will opt for the lower contribution plan. This can occur for many reasons, but current cash needs of course is a main factor.
- The County can offer an incentive to choose a cash balance plan by providing a large initial account balance paid on an amortized based over a number of future years, especially to older employees who may otherwise find that a cash balance plan does not provide enough value.⁶⁵ Also, the County can design the plan so employees become "vested" in that balance as they stay longer with the County. An alternative design would be to provide higher account credits to older/longer service employees under a cash balance plan.⁶⁶ The goal of this type of design would be to eliminate the potential downsides of a cash balance plan for current employees. Of course, the cost of incentives must be balanced against the County's goals. Cost savings may be one goal; achieving stability in contributions and establishing a retirement program that best fits the County's workforce may be another.

H. CONCLUSION

There are clear opportunities for the County to be a leader in pension reform and clear opportunities for PERS and for County employees to join with the County in leadership. In some cases there are legal hurdles for change in the County's pension program, some established by California law and some established by federal tax law. There are ways to work

⁶⁴ We always advise clients not to rely on your lawyers for numbers; instead please rely on your actuary.

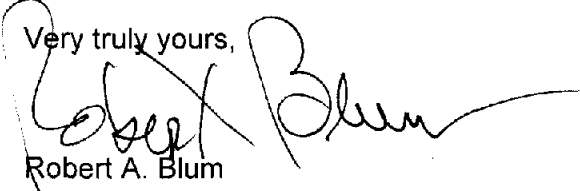
⁶⁵ Because of the tax laws, providing a large initial balance is more difficult under defined contribution plans.

⁶⁶ The initial balance and/or the additional credits could be different based on age and service.

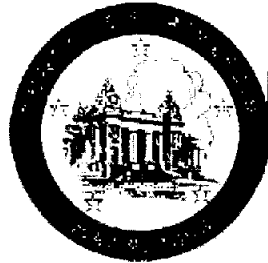
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with these hurdles, however, so they should not be "deal breakers". The County should determine its goals for pension reform, determine the practical options, and then move forward to implement its goals.

Very truly yours,


Robert A. Blum

RAB/sf



County of Riverside

BJRTEL
ASSOCIATES, LLC

Pension Reform

**COUNTY OF RIVERSIDE
PENSION REFORM**

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**COUNTY OF RIVERSIDE
PENSION REFORM
EXECUTIVE SUMMARY**

This Pension Reform report provides the County analysis of the impact alternative pension plans will have on the County's future contribution rates. The analysis is designed to assist the County understand the savings under various pension alternatives. Bartel Associates is not a law firm and, as such, we make no assertion that the options we discuss in this report are either legal or could be negotiated with employee groups¹. This report attempts to answer the following questions:

- What types of benefits are available?
- How effective are each of the available types of benefits at allowing employees to maintain their standard of living into retirement?
- What systems provide the various benefit types?
- What is the cost (both member and County) of the County's current system?
- How would the County's cost change if the County:
 - Implemented lower benefit levels for new hires?
 - Lowered future benefit accruals for current employees?
 - Allowed current employees a choice of paying more for current benefit levels to continue or paying less and have lower future benefit accruals?

Our report review both Miscellaneous and Safety formulas. We studied the following formulas:

Miscellaneous:

- Current formula with no changes
- Alternative formulas:
 1. Current formula with members paying all member contributions. Please note all subsequent alternatives, to show the cost of that particular alternative, assume all members pay the full member contribution.
The following four alternatives are for new hires only. There would be no change to current employees other than noted above for member contributions.
 2. 2%@60 with 3 years final average earnings (FAE3), 2% cost of living adjustment (COLA) and no post retirement survivor allowance (PRSA).
 3. County's old formula: 2%@55 with FAE3, 2% COLA, and no PRSA.
 4. Hybrid Plan: Defined benefit (DB) and defined contribution (DC) combination: 1.5%@65 (FAE3, 2% COLA, and no PRSA, employee pays 2% member contribution) plus 3% defined contribution plan.
 5. Defined Contribution only Plan: 12% defined contribution (County pays 6% and employee pays 6%)

The following three alternatives are choice option plans. Current employees would choose between their current benefits (paying the full member contribution) and the new formula (with the county paying member contributions). New employees would be at the new formula (paying full member contributions).

¹ The Hanson Bridgett analysis discusses the legal implications of the alternative formulas.



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6. Defined Benefit/Defined Contribution choice option:
 - a. Current employees would choose between (i) and (ii) for future service:
 - i. Current benefit 3%@60 (FAE1, 2% COLA, with PRSA and employee paying 8% member contribution).
 - ii. 1.5%@65 (FAE3, 2% COLA, no PRSA, and employee paying 0% member contribution) and 3% DC
 - b. Future employees will be at 1.5%@65 (FAE3, 2% COLA, no PRSA, employee pays 2% member contribution) and 3% DC
7. Defined Contribution only choice option.
 - a. Current employees would choose between (i) and (ii) for future service:
 - i. Current benefit 3%@60 (FAE1, 2% COLA, with PRSA and employee paying 8% member contribution).
 - ii. 12% defined contribution plan (County pays full 12%)
 - b. Future employees would be at 12% defined contribution plan (County paying 6% and employee paying 6%)
8. Cash Balance Plan choice option:
 - a. Current employees choose between (i) and (ii) for future service:
 - i. Current benefit 3%@60 (FAE1, 2% COLA, with PRSA, and employee paying 8% member contribution).
 - ii. 12% cash balance plan with employee paying 0% member contribution
 - b. Future employees would be have a 12% cash balance plan (County and employee share the cost equally)

Safety:

- Current formula with no changes
- Alternative formulas:
 1. Current formula with members paying all member contributions. Please note all subsequent alternatives, to show the cost of that particular alternative, assume all members pay their full contribution.

The following three alternatives are for new hires only. There would be no change to current employees other than noted above for member contributions.

2. County's old formula (2%@50²) with 3 years final average earnings (FAE3), 2% cost of living adjustment (COLA) and no post retirement survivor allowance (PRSA).
3. 3%@55 with FAE3, 2% COLA and no PRSA.
4. 2%@55 with FAE3, 2% COLA and no PRSA.

The following two alternatives are choice option plans. Current employees would choose between their current benefits (paying full member contribution) and the new formula

² Throughout this report we refer to the County's Safety benefit formula prior to implementation of 3%@50 as 2%@50. It is worth noting this formula is identical to the Miscellaneous 2.7%@55 formula. This means the 2%@50 benefit formula results in approximately 10-15% lower benefits at ages that safety members typically retire.



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(with County paying member contributions). New employees would be at the new formula (with employee paying member contributions).

5. Defined Contribution choice option:
 - a. Current employees would choose between (i) and (ii) for future service:
 - i. Current benefit 3%@50 (FAE1, 2% COLA, with PRSA) with employee paying 9% member contribution
 - ii. 10% Defined Contribution plan (County pays all 10%) with 50% industrial disability and survivor benefits provided in a separate plan (included in cost).
 - b. 10% Defined Contribution plan (County pays 5% and employee pays 5%) with 50% industrial disability and survivor benefits provided in a separate plan (included in cost).
6. Cash Balance Plan choice option:
 - a. Current employees choose between (i) and (ii) for future service:
 - i. Current benefit 3%@50 (FAE1, 2% COLA, with PRSA) with employee paying 8% member contribution
 - ii. 18% cash balance plan with 50% industrial disability and survivor benefits provided in a separate plan (included in cost) with employee paying 0% member contribution.
 - b. Future employees would have 18% cash balance plan with 50% industrial disability and survivor benefits provided in a separate plan (included in cost) with County and employee share the cost equally.

In short our analysis has conclusions in three areas:

1. Budget Issues:
 - a. Contribution rates for current (Safety and Miscellaneous) benefit plans, absent significant continued investment gains, will continue to increase and remain high for a substantial period of time. This likely results in pension costs becoming an increasing portion of the County's budget.
 - b. Providing lower benefit levels for future hires will have very little impact on short term budgets.
 - c. The only ways short term budget relief can be achieved are:
 - i. Have current employees pay a larger portion of their member contribution³,
 - ii. Have current employees pay for a portion of the County's pension costs⁴,
 - iii. Allow current employees a choice of paying more for current benefit levels or paying less and have lower future benefit accruals⁵, or
 - iv. Reducing future accruals for current employees⁶.

³ Currently the County pays the full member contribution for non exempt management for all years. For other employees, the County pays full member contributions after 5 years of service for Miscellaneous and 3 years of service for Safety employees. The Hanson Bridgett analysis discusses the legal implications of requiring employees to pay more of the member contribution rate.

⁴ There are alternative ways employees can pay a portion of the County's contributions. The Hanson Bridgett analysis discusses these alternatives.

⁵ The Hanson Bridgett analysis discusses this alternative and the legal implications of allowing choice.

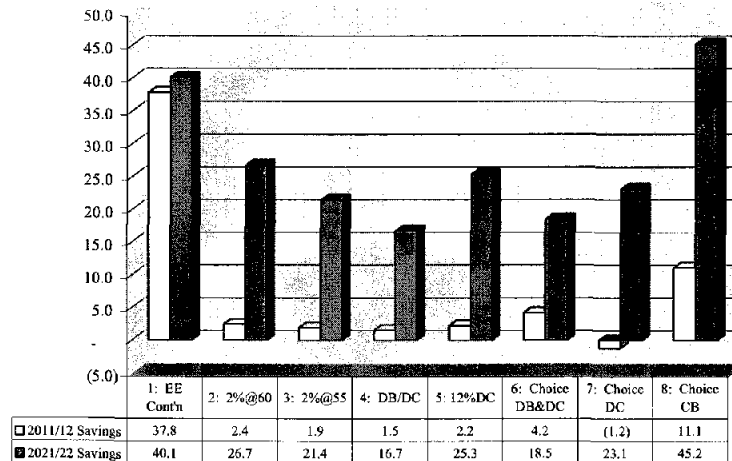


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The table below shows the savings for the eight Miscellaneous alternative formulas. The savings in white are recognized in 2011/12 while the savings in dark grey are a 10 year projection.

Miscellaneous Plan

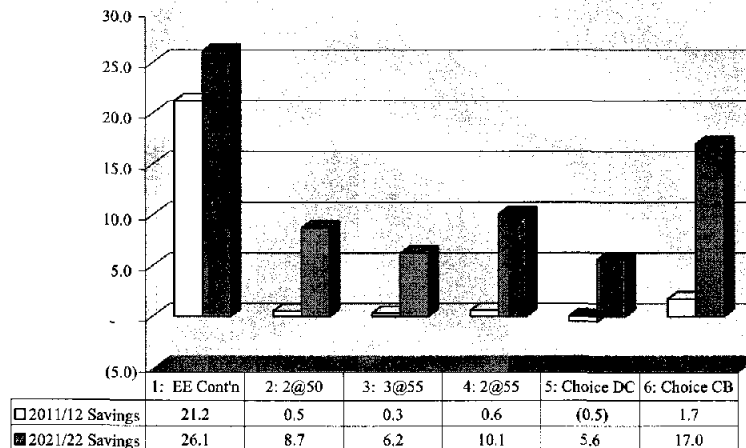
Savings in millions



The table below shows the savings for the six Safety alternative formulas. The savings in white are recognized in 2011/12 while the savings in dark grey are a 10 year projection.

Safety Plan

Savings in millions



⁶ The Hanson Bridgett analysis discusses this alternative and the legal implications of reducing future accruals for current employees.



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2. Retirement systems:
 - a. Most California public agencies either participate in CalPERS or in a 1937 Act System, with a few having their own stand-alone plan.
 - b. When it comes to retirement systems, momentum can be very important. Specifically it can be expensive to move from one system to another or to establish a stand-alone system. Furthermore moving from one system to another would likely not result in significantly lower contributions. At a time when short term costs are particularly important the cost of changing systems will likely outweigh any modest (if any at all) contribution savings.

3. Benefit Levels:
 - a. Miscellaneous employees:
 - i. According to replacement ratio studies prepared by CalPERS and Aon/Georgia State⁷ the current benefit formula, in conjunction with Social Security and virtually any level of individual savings, provides substantially more than is needed for career (30 years of service) employees to maintain their standard of living into retirement⁸.
 - ii. Using the same benchmarks, the 2%@55 and 2%@60 benefit formulas, in conjunction with Social Security and a modest level of individual savings, provide enough retirement income to allow career employees to maintain their standard of living into retirement. The 2%@60 formula more closely replicates target replacement ratios than the 2%@55 formula does. The 2%@55 formula resulted in slightly higher replacement ratios.
 - iii. Generally the enhanced pension formulas (3%@60, 2.7%@55 and 2.5%@55, in conjunction with Social Security and virtually any level of individual savings, provides substantially more than is needed for career employees to maintain their standard of living into retirement.
 - iv. Generally the other formulas studied (hybrid plan, defined contribution plan and cash balance plan) in conjunction with Social Security and a reasonable level of individual savings, provides less than is needed for career employees to maintain their standard of living into retirement.
 - b. Safety employees:
 - i. According to the CalPERS and Aon/Georgia State replacement ratio studies, the current benefit formula, 3%@50, as well as 3%@55, in conjunction with a reasonable level of individual savings, provides more than is needed for career (30 years of service) employees to maintain their standard of living into retirement.

⁷ CalPERS 2001 replacement ratio analysis and Aon Consulting/Georgia State University 2008 study.

⁸ This analysis was done using replacement ratios (post retirement income divided by pre-retirement income) and comparing the resulting ratios to the mentioned benchmarks indicating how much retirees need to maintain their standard of living into retirement.



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- ii. The 2%@50 benefit formula, in conjunction with a reasonable level of individual savings, provides what is needed for career (30 years of service) employees to maintain their standard of living into retirement.
- iii. Generally the other formulas studied (2%@55, hybrid plan, defined contribution plan and cash balance plan) in conjunction with a reasonable level of individual savings, provides less than is needed for career employees to maintain their standard of living into retirement.
- c. Hybrid plans (for example Cash Balance or a combination of lower defined benefit plan and a defined contribution plan) could achieve that same benefit level result as the above mentioned formulas. However, they bring substantial other challenges with them. Some of these challenges are legal, some are legislative and some are practical⁹. For example any plan for Safety would certainly require some level of industrial disability, and providing industrial disability benefits in conjunction with a defined contribution plan would significantly increase costs.

⁹ The Hanson Bridgett analysis discusses these challenges in more depth.



COUNTY OF RIVERSIDE
PENSION REFORM
RETIREMENT PLAN SYSTEM AND ADMINISTRATION ALTERNATIVES

Retirement Plan and System Alternatives

When reviewing retirement plans, California public agencies have several options: Defined Benefit, Defined Contribution or a Hybrid plan.

Defined Benefit:

There are three defined benefit plan administration alternatives to California public sector entities: CalPERS, 1937 Act System or a local system plan.

CalPERS:

- Benefit formulas are limited to those formulas and ancillary benefits established under the California Public Employees Retirement Law (PERL).
- Proposition 162, passed by the voters in 1992 provides the CalPERS Board plenary authority to invest plan assets and select actuarial methods & assumptions.
- CalPERS handles most administrative functions.
- CalPERS rules require that:
 - All new employees participate in CalPERS. In other words, according to CalPERS, it's not possible to have current employees participate in CalPERS and new employees not participate¹⁰.
 - Benefit improvements include both past and future service.

The above generally means agencies participating in CalPERS give up the ability to customize benefits in exchange for the efficiency of participating in a very large system with substantially more than \$200 billion in total system assets.

1937 Act System

- Must select one of several formulas and ancillary benefits established under the 1937 Act (formulas and other elements are modestly different from CalPERS).
- Proposition 162 provides the retirement system's Board plenary authority to invest plan assets and select actuarial methods & assumptions.
- The retirement system Board handles most administrative functions.
- 1937 Act rules are much more flexible than CalPERS rules.

The above generally means agencies participating in a 1937 Act System have more flexibility to benefits. However 1937 Act Systems have somewhat less investment and administration efficiency.

Local System Plan

- Plan design is typically determined by negotiation with benefits ratified by plan changes.
- Proposition 162 provides the retirement system's Board plenary authority to invest plan assets and select actuarial methods & assumptions.
- The retirement system Board handles most administrative functions.
- Local system plan rules are more flexible than either CalPERS and 1937 Act rules.

¹⁰ The Hanson Bridgett analysis discusses this issue in more depth.



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The above generally means agencies have more benefit design flexibility with a stand alone plan than they would in CalPERS or a 1937 Act System, but have more local governance issues. For example is it a conflict of interest for members of the Board of Supervisors to also sit on the retirement system board? In addition a stand alone plan would likely be somewhat less efficient (in administration and investments) than under CalPERS or a 1937 Act System.

Defined Contribution:

Defined contribution plans are usually established by agreement with bargaining groups with administration, investment and legal work handled by a third party administrator (TPA). They can vary significantly from member contributions only to plans that match member contributions to those that have an employer contribution without any member contribution requirement. Defined Contribution plans provide the ultimate in plan sponsor contribution predictability, shifting risk to employees. Particularly for Safety, these plans must be supplemented with a separate plan providing some form of industrial disability benefits.

Hybrid:

Hybrid plans fall under one of three types:

- Defined contribution plans that look like defined benefit plans,
- Defined benefit plans that look like defined contribution plans and
- Combination Defined Benefit/Defined Contribution Plans.

The later is usually what is thought of in the public sector as a Hybrid plan. For example a modest defined benefit level in combination with an employer contribution to a defined contribution plan.

Defined Benefit, Defined Contribution and Other (Hybrid) Options

Defined benefit plans (like CalPERS) generally provide the most efficient allocation of employer dollars towards providing employee's secure retirement income and provide higher relative benefit accruals at older ages. However, one major drawback is that, employer contributions can be volatile. CalPERS smoothing methods mitigate this significantly but can not totally eliminate volatility. Defined contribution plans, on the other hand, generally provide higher benefit accruals in the early years of service and consequently are potentially appealing to short-term, younger employees. In addition, they also appeal to employees who wish more direct control over their retirement savings. Furthermore, employer contributions are very predictable. However, allowing employees the choice between defined benefit and defined contribution plans may increase employer contributions in the aggregate if employees elect the choice most beneficial to them.

Defined benefit plans typically also provide an efficient method of providing ancillary benefits (for example industrial (in service) disability and pre-retirement death benefits). This is important for all members, but it's particularly important for safety members.



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RETIREMENT PLAN SYSTEM AND ADMINISTRATION ALTERNATIVES**

The following table summarizes the basic differences between defined benefit and defined contribution plans:

Defined Contribution Pension Plan		CalPERS Defined Benefit Plan
Contribution made each year into employee's account.	Nature of Promise	Benefit, based on formula, beginning at retirement, payable for as long as employee lives.
	Contribution Level	
Typically a fixed percentage (e.g. 5%) of pay each year	Employee	Based on benefit formula (7% - 9%) County currently pays employee contribution Varies from one year to the next – "Whatever is Necessary"
Typically a fixed percentage (e.g. 10%) of pay each year	Employer	
Very Portable Employee takes vested account balance with them when leaving the Employer. Significant tax disadvantage for amounts distributed and not "rolled over" < age 59-1/2.	Portability	Generally, for employees that work for California sector entities, very portable ¹¹ . Employee chooses between 1. deferred retirement benefit (benefit earned while at Employer, protected by "salary" inflation if working for most CA public agencies) or 2. accumulated employee contributions with interest @ 6%
	Retirement	

¹¹ This is because virtually all California public sector defined benefit plans are reciprocal with each other. This means they, generally, use an individual's highest compensation to determine pension benefits.



**COUNTY OF RIVERSIDE
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RETIREMENT PLAN SYSTEM AND ADMINISTRATION ALTERNATIVES**

Defined Contribution Pension Plan		CalPERS Defined Benefit Plan
Same as retirement, except employer contributions become 100% vested at disability	Other Benefits	Pension benefit provided with higher benefits for in-service disability than for non-service disability
	Disability	
Same as retirement, except employer contributions become 100% vested at death	Death	Pre-retirement – Employee contribution with interest at 7.75% Post-retirement – Either: Survivor benefits are provided automatically or Employee can elect lower benefit to provide a survivor continuance.
	Who Accepts Risk & Reward	
Employee	Inflation	Employer
Employee	Mortality	Employer
Employee	Investment Return	Employer
Employee	Retirement	Employer
Employee	Disability	Employer

The following table summarizes which members, in general, benefit from a defined benefit as compared to a defined contribution plan:

Defined Contribution Pension Plan	Which Members Benefit the Most?¹²	CalPERS Defined Benefit Plan
Younger (< 40)	Age	Older (> 45)
Short term(< 10 years) (low service)	County Service	Long term (>15 years) (high service)
Non-career public sector employees	Public Agency Service	Career public sector employees

¹² This comparison of who benefits most is generic in nature and could change based on specific plan design. It relies on general defined contribution and defined benefit plan designs.



**COUNTY OF RIVERSIDE
PENSION REFORM
RETIREMENT PLAN SYSTEM AND ADMINISTRATION ALTERNATIVES**

Defined Contribution Pension Plan	Which Members Benefit the Most? ¹²	CalPERS Defined Benefit Plan
Very risk tolerant	Risk Tolerance	Very risk adverse
Members who are very savvy	Investment Knowledge	Members who are very "challenged"
Higher Returns (> 9%)	Investment History	Lower Returns (< 7%)
Later (>62)	Retirement Age	Younger (≤ 60)
Relatives don't live to older ages (< 80)	Family History	Relatives live to older ages (> 80)

There are several variations of traditional defined benefit and defined contribution plans, referred to as "hybrid" plans. Examples are:

Cash Balance Plans: Plans that meet the criteria of a defined benefit plan but, to plan participants, they look like defined contribution plans.

In a typical cash balance plan, a participant's account is credited each year with a pay credit and an interest credit. Increases and decreases in the value of the plan's investments do not directly affect the benefit amounts promised to participants. Thus, the investment risks and rewards on plan assets are borne solely by the employer. When a participant becomes entitled to receive benefits under a cash balance plan, the benefits that are received are defined in terms of an account balance. If the participant decides to retire at that time, he or she would have the right to an annuity. In many cash balance plans, however, the participant could instead choose to take a lump sum benefit equal to the account balance. In addition to generally permitting participants to take their benefits as lump sum benefits at retirement, cash balance plans often permit vested participants to choose to receive their accrued benefits in lump sums if they terminate employment prior to retirement age. Traditional defined benefit pension plans do not offer this feature as frequently.

Target Benefit Plans: Plans that meet the criteria of a defined contribution plan but have contributions that are designed so that, if all assumptions are met, the initial contribution gets to a target benefit at retirement. However, contributions are rarely changed when initial assumptions are not met.

California Vested Rights

Please note this summary is meant to be a general understanding of California Vested Rights. It is not meant to replace or supplant the analysis prepared by Hanson Bridgett.



COUNTY OF RIVERSIDE
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California is referred to as a “Vested Rights” state. This means the California Supreme Court has indicated that, unlike the private sector, the benefit level offered to employees at hire can not be reduced to a lower level, unless employees are compensated with something of equal or greater value¹³. Furthermore, this right is generally viewed as applying to each individual and can not be bargained away. Consequently the County has two options for addressing the expected budget impact of CalPERS investment losses, negotiate that employees pay a higher percentage of employee contributions and establish a new benefit tier for employees hired after a certain date.

¹³ The County should consult with County Counsel and Hanson Bridgett (outside legal counsel) to determine the extent of vested rights. This statement is not meant to construe legal advice.



COUNTY OF RIVERSIDE
PENSION REFORM
REPLACEMENT RATIOS & CURRENT COUNTY FORMULAS

Replacement Ratios

Retirement plans are normally designed so that a retiree is, when considering all sources of retirement income, able to maintain their pre-retirement standard of living into retirement. Replacement ratios measure the portion of pre-retirement income that post retirement benefits replace. They are usually calculated by dividing gross income after retirement by gross income before retirement. Income after retirement can come from Social Security, individual savings and/or any agency provided benefit.

CalPERS 2001 Study

To measure how much of pre-retirement income the CalPERS formulas replace, CalPERS prepared a January 2001 study. This study looked at service retirement only and included the following criteria/assumption:

- 30 years service at retirement
- Normal Retirement Age:
 - Miscellaneous: 63
 - Safety: 55
- Target Replacement Benefit defined as:
 - Gross Pre-retirement Salary
 - *Less* Social Security Payroll Tax if applicable
 - *Less* Income Tax
 - *Less* EE Retirement Contribution
 - *Less* Personal Savings
 - *Less* Age/Work Related Adjustments
- Target Replacement Ratio =
Target Replacement Benefit ÷ Gross Income Before Retirement

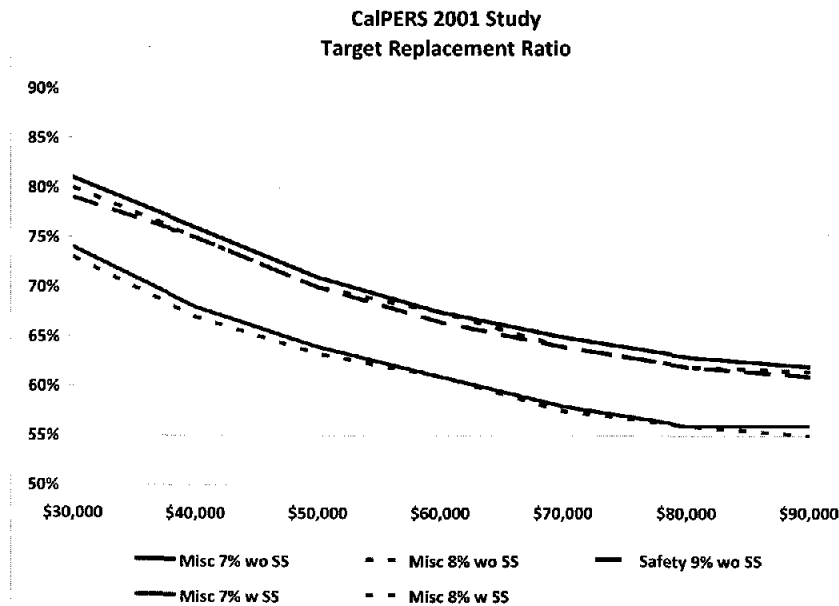
The CalPERS analysis was presented to the CalPERS Board at a January 2001 Offsite Board meeting. The only available documentation for this meeting is a copy of the PowerPoint slides presented to the CalPERS Board at that meeting. The graphs shown are from that presentation and were not calculated by Bartel Associates. Furthermore there are some modest differences between what the CalPERS graphs show and calculations prepared by Bartel Associates. Because all assumptions CalPERS used are not available these modest differences are unavoidable.

The following graph illustrates target replacement ratios from the CalPERS study under five scenarios:

- Miscellaneous 7% employee contribution without Social Security (—)
- Miscellaneous 8% employee contribution without Social Security (.....)
- Safety 9% employee contribution without Social Security (— —)
- Miscellaneous 7% employee contribution with Social Security (—)
- Miscellaneous 8% employee contribution with Social Security (.....)



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REPLACEMENT RATIOS & CURRENT COUNTY FORMULAS**



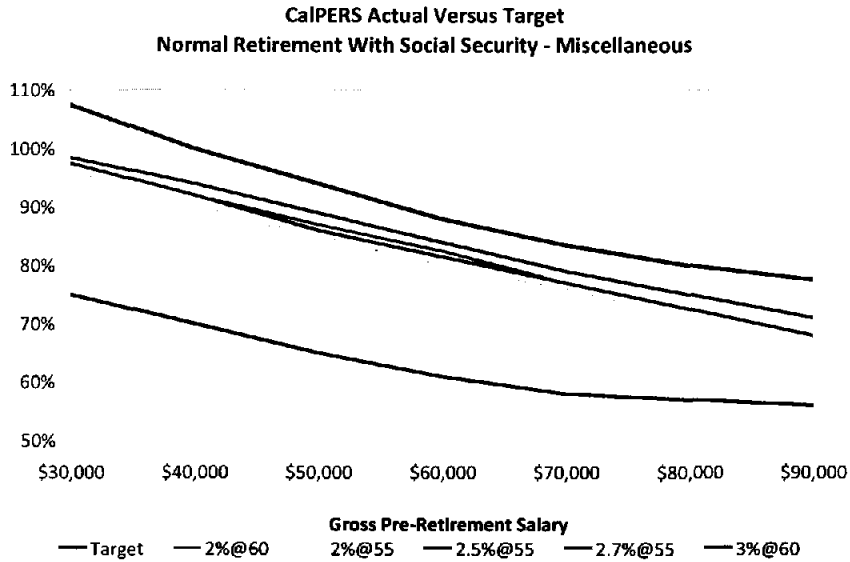
For example the above indicates a Miscellaneous employee paying the 8% member contribution, not eligible for Social Security and making \$50,000 at retirement, needs approximately 71% of their pre-retirement income at retirement to maintain their (pre-retirement) standard of living. In contrast, the same employee, participating in Social Security, needs approximately 63% of their pre-retirement income at retirement. The primary difference, of course, is that retirees who are participating in Social Security, do not pay the Social Security tax.

The following three graphs show the level of benefit replaced by the various CalPERS formulas for Miscellaneous with and without Social Security and for Safety without Social Security. The graphs show results for a career public sector employee, retiring with 30 years of service at age 63 for Miscellaneous employees and age 55 for Safety employees¹⁴. Each graph also shows the target replacement ratio. It is interesting to note the Miscellaneous (with Social Security eligibility) graph does not show the 1.5%@65 formula and the Safety graph does not show the 2%@55 formula.

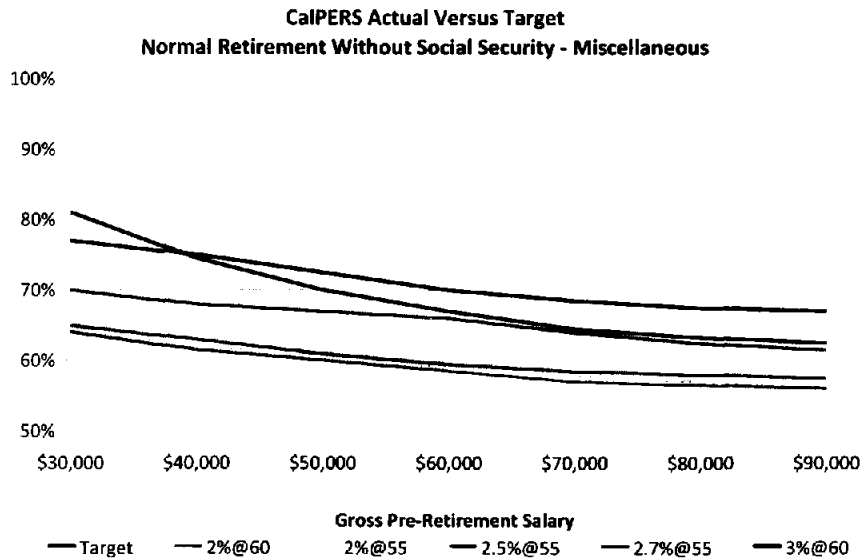
¹⁴ The specific age 63 and 55 retirement ages are the ages used by CalPERS in their study and were not selected by Bartel Associates.



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REPLACEMENT RATIOS & CURRENT COUNTY FORMULAS**

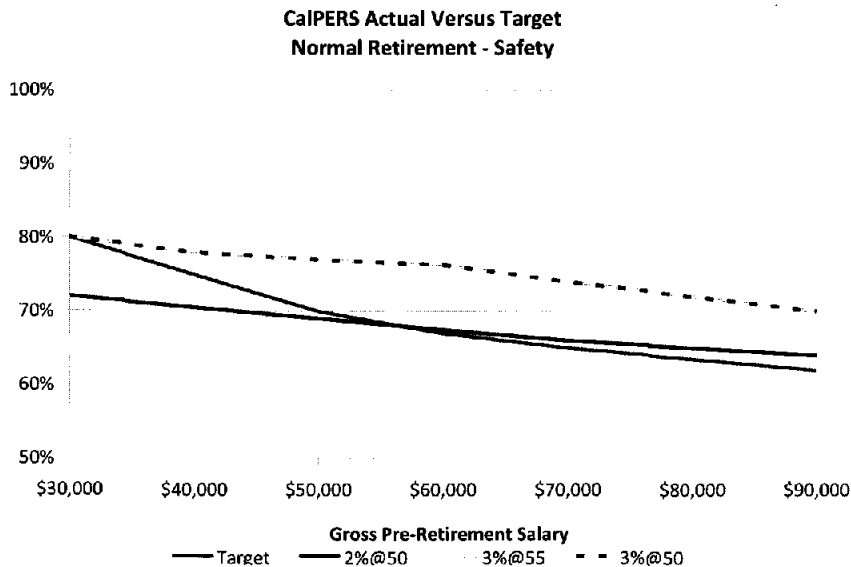


The above graph shows that, for agencies participating in Social Security, all CalPERS formulas provide substantially more retirement income than is needed to maintain an individual's standard of living into retirement. The above assumes no other retirement income. Any individual savings would increase the distance from the target to the CalPERS formula replacement ratios.



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The above graph shows that, for agencies not participating in Social Security, only the 3%@60 and 2.7%@55 formulas provide sufficient retirement income on a stand alone basis for retirees to maintain their standard of living into retirement. However, if other retirement income sources were available at a reasonable level (for example 457 Plan, Deferred Compensation Plan or other savings), then all CalPERS formulas shown would provide sufficient retirement income to maintain an individual's standard of living into retirement.



The above graph shows that for agencies not participating in Social Security, the Safety formulas shown (except at lower incomes) provide sufficient retirement income on a stand alone basis for retirees to maintain their standard of living into retirement. However, if other retirement income sources were available at a reasonable level (for example 457 Plan, Deferred Compensation Plan or other savings), then all CalPERS formulas shown would provide sufficient retirement income needed to maintain an individual's standard of living into retirement.

As mentioned above, it is important to note the CalPERS study does not include personal savings. Including personal savings would increase the actual replacement ratios under all scenarios.

Aon/Georgia State 2008 Replacement Ratio Study

The 2008 Aon/Georgia State Replacement Ratio Study is the seventh update of the report completed by Aon Consulting and Georgia State University. It builds on a 1980 edition issued by the President's Commission on Pension Policy.

The Study analyzes replacement ratios needed to maintain pre-retirement standard of living after retirement. The baseline case assumes a family situation in which there is one wage

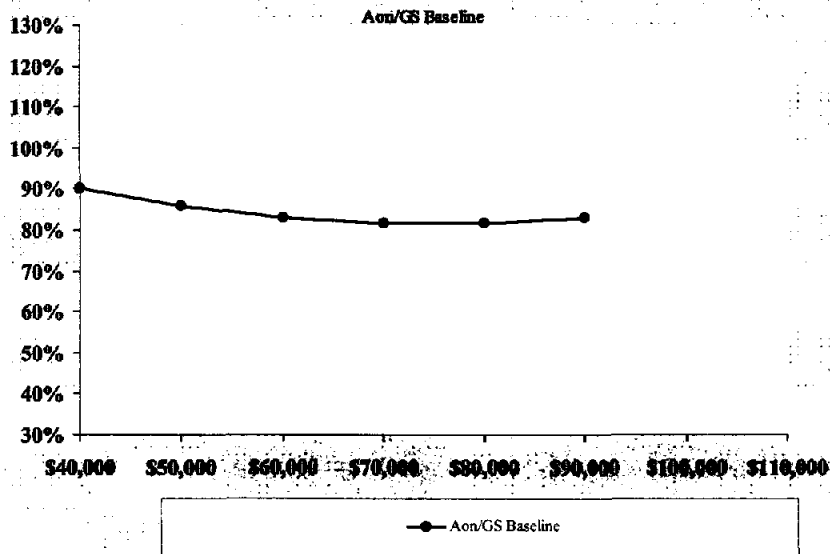


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earner who retires at age 65 with a spouse age 62. The family is eligible for family Social Security benefits, which are 1.375 times the wage earner's benefit. The baseline case also takes into account age- and work-related expenditure changes after retirement, in addition to pre-retirement savings patterns and changes in taxes after retirement.

The data sources are Consumer Expenditure Survey (US Department of Labor) and Flow of Funds Accounts of the United States (Federal Reserve).

The following graph illustrates replacement ratios for the baseline case.



Replacement Ratio for Current County Benefits

The following table lists the variables for calculating the replacement ratios under current County benefit formulas: Miscellaneous 3%@60 and Safety 3@50.

Variables	Miscellaneous	Safety	Comments
■ Retirement Service	30 years	30 years	Generally 30 years is believed to be a full career employee.
■ Retirement Age	60	55	Target retirement ages are somewhat subjective. An earlier retirement age results in lower replacement ratios while a later retirement age results in higher replacement ratios

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Variables	Miscellaneous	Safety	Comments
■ Salary Scale	M – CalPERS Misc.	P – CalPERS Police.	These are CalPERS salary increase assumptions and are experience based tables.
■ Overtime Pay	4% of Pay	6% of Pay	Pre-retirement income includes overtime but CalPERS benefits are not based on overtime. Consequently the higher overtime is the lower replacement ratios become under all CalPERS formulas.
■ Cost of Living Adjustment (COLA)	2%	2%	This is the basic (minimum) COLA available under CalPERS
■ Employer Paid Member Contribution	Yes	Yes	Available pre-retirement income is lower if employees pay the member contribution
■ Employer Paid Member Contributions (EPMC) Included in PERSable Wages	No	No	For most bargaining groups EPMC is not included in PERSable wages
■ Social Security	Yes	No	
■ CalPERS formula	3%@60 ¹⁵	3%@50	
■ 100% Survivor Benefit	Converts Benefit (25% Survivor w SS) to 100% Survivor	Converts Benefit (50% Survivor w/o SS) to 100% Survivor	
■ Highest Year	Yes	Yes	

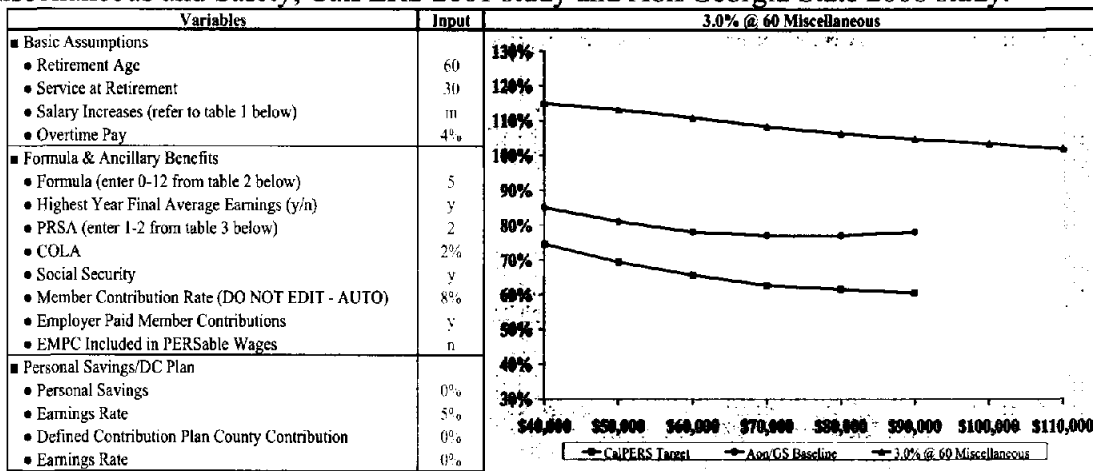
¹⁵ CalPERS formulas include a very modest offset for Social Security. However, this offset makes virtually no difference in the level of benefits provided whether the Social Security offset is included or not.



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Variables	Miscellaneous	Safety	Comments
<ul style="list-style-type: none"> ■ Other Savings 	0% & 8%	0% & 9%	Initial replacement ratios were calculated assuming no individual savings. However, since the County is paying member contributions we also show the impact of an individual setting aside equivalent amounts into personal savings.

The following graphs compare the replacement ratios for current County benefits for Miscellaneous and Safety, CalPERS 2001 study and Aon/Georgia State 2008 study.

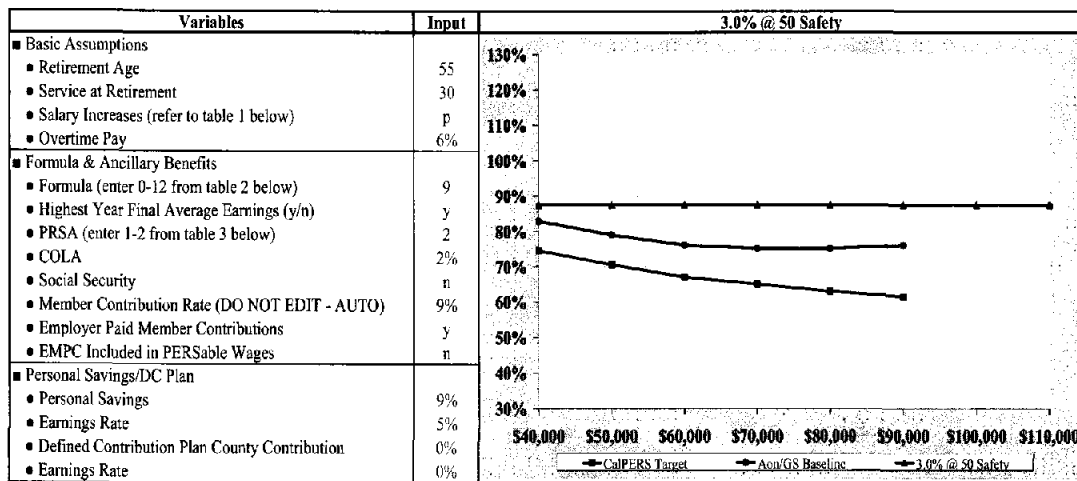
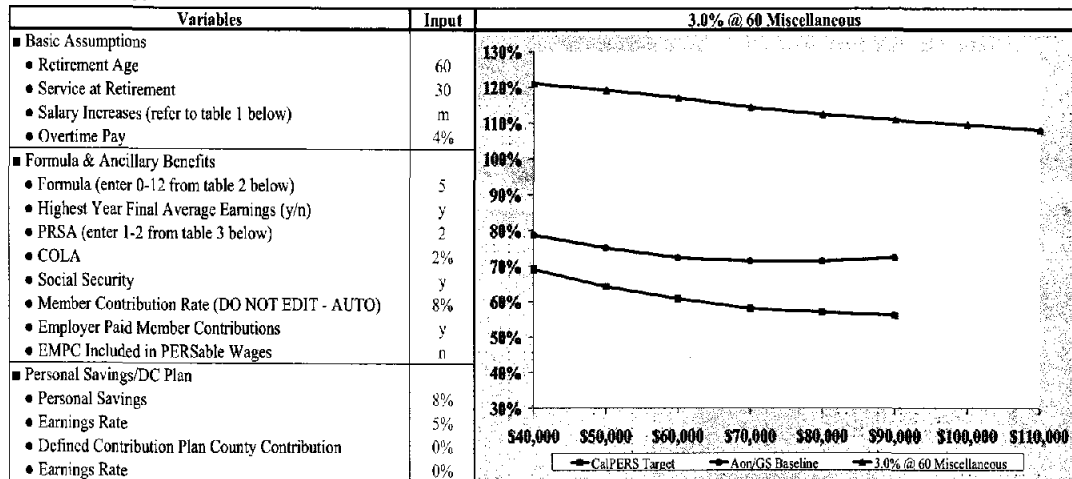


COUNTY OF RIVERSIDE

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REPLACEMENT RATIOS & CURRENT COUNTY FORMULAS

The following graphs provide the same comparison as above except that since the County is paying the member contribution rates we've assumed employees save the same amount (8% for Miscellaneous and 9% for Safety), placing the savings into an account that earns 5% annual returns.



**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS**

Alternative Formulas

We considered several alternative formulas in our preliminary analysis. These included all formulas currently available under CalPERS, modified CalPERS formulas without cost of living adjustments, several defined contribution plans, cash balance plans and several combinations of defined contribution and defined benefit plans. After discussion with the County, this report focuses on eight formulas for Miscellaneous and six formulas for Safety listed in the following pages.

In this analysis, we compare the current and alternative formulas using the Normal Cost method. It does not include unfunded liabilities or pension obligation bonds in the calculations. Normal Cost represents the portion of the present value of benefits expected to be earned in the coming year. Because unfunded liabilities and pension obligation bonds are driven mostly by investment returns and management decisions, over which employees have limited control, we believe it is more appropriate to use normal cost in the comparison and to calculate the estimated savings.

Implication of a Second Benefit Tier

For purposes of this report we assumed employees hired on and after July 1, 2011 would be placed into a second tier (Tier II) providing pension benefits under the alternative formulas. For current employees (Tier I), benefits for past service would remain the same. Under the choice option alternatives, current employees are given options for their future service accruals. Current employees would choose between current formula and alternative formulas. Contribution calculations would be then calculated on benefits depending on which tier they belong for the future service. However, it is important to note that moving new employees and future service into a different benefit level has no impact on existing unfunded liabilities; it only impacts the level of benefit employees would earn in the future. This means the amortization of any unfunded liability component of the contribution rate would remain the same for Tier II as it is for Tier I, but the Normal Cost component of the contribution rate would be different.

The County's current formulas are summarized in the table below:

	Miscellaneous	Safety
■ Benefit Formula	3.0% @ 60	3% @ 50
■ Final Average Earnings (FAE)	Highest Year (FAE1)	Highest Year (FAE1)
■ Post Retirement Survivor Allowance (PRSA)	Yes	Yes

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	Miscellaneous	Safety
■ Cost of Living Adjustment (COLA)	2%	2%
■ Employer Paid Member Contribution (EPMC) ¹⁶	5.4%	7.6%

The County's 2011/12 contribution rates are:

	Miscellaneous	Safety
■ 11/12 ER Contr.		
● Normal Cost	10.4%	18.4%
● Amortizations	<u>2.7</u>	<u>2.9</u>
● Subtotal	13.1	21.3
■ EPMC ¹⁷	5.4	7.6
■ PERS on PERS ¹⁸		
● Normal Cost	0.2	0.3
● Amortizations	0.0	0.1
● Subtotal	<u>0.0</u>	<u>0.0</u>
■ Subtotal	<u>0.2</u>	<u>0.4</u>
■ Total	18.7	29.3

¹⁶ County pays full member contribution for non exempt management for all years (8% for Miscellaneous and 9% for Safety). For the rest of employees, County pays full member contributions after 5 years of service for Miscellaneous and 3 years of service for Safety. The combination of this results in the County paying approximately 5.4% of Miscellaneous and 7.6% of Safety PERSable wages.

¹⁷ County pays full member contribution for non exempt management for all years. For the rest of employees, County pays full member contributions after 5 years of service for Miscellaneous and 3 years of service for Safety.

¹⁸ EPMC is included in PERSable wages for unrepresented, non exempt and DDAA for Miscellaneous and for Law Enforcement Management for Safety. Average PERSable EPMC is 1.6% for Miscellaneous and 1.6% for Safety. This results in an aggregate cost of EPMC of 5.6% for Miscellaneous and 8.0% for Safety.



**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - MISCELLANEOUS**

Miscellaneous Alternative Formulas¹⁹

Eight alternative formulas are considered for Miscellaneous Pension reform. These alternatives include increasing employee contributions, 2nd tier for future employees, choice options for current employees and combinations of the above.

1. Maintain current (3%@60) benefit formula but require current and future employees pay member contribution: County will be paying 18.7% of PERSable wages during the 2011/12 fiscal year under the current formula, including employer contributions, employer paid member contributions (EPMC) and PERS on PERS (the compounding impact of including EPMC in PERSable wages). If all current and future employees were paying all member contributions, the estimated savings is 5.6% of payroll.

	Current	1. EE Pays Member Rate
■ Total ²⁰	18.7%	13.1%
■ Savings	n/a	5.6%

The following four alternatives are for new hires only. There would be no change to current employees other than noted above for member contributions. Alternatives 2, 3 and 4 are currently available under CalPERS administrative procedures while alternative 5 is not.

2. 2%@60 with 3 years final average earnings (FAE3), 2% cost of living adjustment (COLA) and no post retirement survivor allowance (PRSA).
3. County's old formula: 2%@55 with FAE3 and 2% COLA, but no PRSA.
4. Hybrid Plan: Defined benefit (DB) and defined contribution (DC) combination: 3% defined contribution plus 1.5%@65 (FAE3, 2% COLA, no PRSA and employees paying the 2% member contribution).
5. Defined contribution only Plan: 12% defined contribution (County paying 6% and employees paying 6%)

Assuming no County paid member contribution for current and future employees, the estimated savings for alternatives 2 through 5 are:

Formula	Miscellaneous				
	Current	2. 2%@60	3. 2%@55	4. DB/DC	5. 12% DC
■ Normal Cost	10.4%	5.7%	6.7%	7.5%	6%
■ Savings	n/a	4.7%	3.7%	2.9%	4.4%

The following three alternatives are choice option plans. Current employees would choose between their current benefits (paying the full member contribution) and the new formula (with the County paying member contributions). New employees would be at the new

¹⁹ The Hanson Bridgett analysis discusses the legal implications of the alternative formulas.

²⁰ Includes employer contribution rates, employer paid member contribution (EPMC) and PERS on PERS.



COUNTY OF RIVERSIDE
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ALTERNATIVE FORMULAS - MISCELLANEOUS

formula. Alternative 6 is currently available under CalPERS statutes while alternatives 7 and 8 are not.

6. Defined Benefit/Defined Contribution choice option:
 - a. Current employees would choose between (i) and (ii) for future service:
 - i. Current benefit 3%@60 (FAE1, 2% COLA, with PRSA and employee paying 8% member contribution).
 - ii. 1.5%@65 (FAE3, 2% COLA, no PRSA and employees paying no (0%) member contribution) and 3% DC (paid by County).
 - b. Future employees will be at 1.5%@65 (FAE3, 2% COLA, no PRSA, employee pays 2% member contribution) and 3 % DC (paid by County).
7. Defined Contribution only choice option.
 - a. Current employees would choose between (i) and (ii) for future service:
 - i. Current benefit 3%@60 (FAE1, 2% COLA, with PRSA and with employee paying 8% member contribution).
 - ii. 12% Defined Contribution Plan (County paying full 12%).
 - b. 12% Defined Contribution Plan (County paying 6% and employee paying 6%).
8. Cash Balance Plan choice option:
 - a. Current employees choose between (i) and (ii) for future service:
 - i. Current benefit 3%@60 (FAE1, 2% COLA, with PRSA and employees paying 8% member contribution).
 - ii. 12% cash balance plan with employees paying no (0%) member contribution
 - b. Future employees would be have a 12% cash balance plan (County and employees share cost equally).

Assuming no County paid member contribution under current arrangement, the estimated savings for alternatives 6, 7 and 8 are as follows:

	Miscellaneous						
	Current	6. Choice DB/DC		7. Choice DC		8. Choice CB	
		Tier 1 ²¹	Tier 2	Tier 1 ²²	Tier 2	Tier 1 ²³	Tier 2
■ Normal Cost	10.4%	9.4%	7.5%	8.5%	6.0%	8.4%	3.4%
■ County Paid Member Contribution	<u>0.0</u>	<u>0.6</u>	<u>0.0</u>	<u>2.4</u>	<u>0.0</u>	<u>0.9</u>	<u>0.0</u>
■ Total	10.4	10.0	7.5	10.9	6.0	9.3	3.4

²¹ Assumes the following % will choose 1.5%@65: 60% of actives under age 35, 40% from age 35 to 45, and 5% above age 45.

²² Assumes the following % will choose 12% DC: 80% of actives under age 35, 50% from age 35 to 45, and 10% above age 45.

²³ Assumes the following % will choose 12% CB: 60% of actives under age 35, 30% from age 35 to 45, and 5% above age 45.



**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - MISCELLANEOUS**

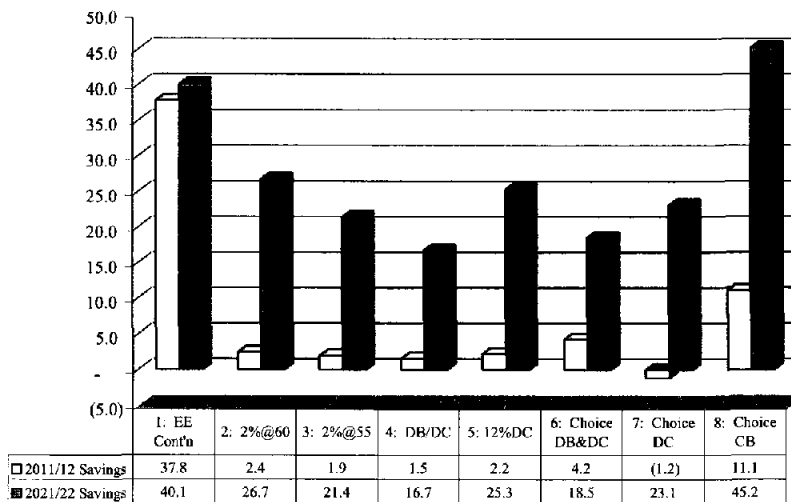
	Miscellaneous						
	Current	6. Choice DB/DC		7. Choice DC		8. Choice CB	
		Tier 1 ²¹	Tier 2	Tier 1 ²²	Tier 2	Tier 1 ²³	Tier 2
■ Savings	n/a	1.0%	2.9%	1.9%	4.4%	2.0%	7.0%
● Normal Cost							
● County Paid Member Contribution		<u>-0.6</u>	<u>0.0</u>	<u>-2.4</u>	<u>0.0</u>	<u>-0.9</u>	<u>0.0</u>
● Total		<u>0.4</u>	<u>2.9</u>	<u>-0.5</u>	<u>4.4</u>	<u>1.1</u>	<u>7.0</u>

Please note the Choice plan cost savings are heavily dependent on what choice current employees would make. Generally if fewer younger employees choose the alternative plans than we have assumed, savings would likely be lower and if more older employees choose the alternative plans savings would likely be higher.

Estimated Savings Projections

The table below shows the savings for the eight alternative formulas. The savings in white are immediately recognized in 2011/12 while the savings in dark grey are a 10 year projection.

Savings in millions



As the above table indicates:

- The most immediate savings are from employees paying their own member contributions;
- For the formulas currently available under CalPERS (alternatives 2, 3, 4 and 6) 2%@60 results in the most long term savings, with the County's prior plan 2%@55 (alternative 3) results in the second most long term savings.
- The Hybrid Plan without choice (alternative 4) results in long term savings, however, it is important to note that, to the best of our knowledge (as of March 2011) no California public agency has contracted for this formula (1.5%@65).



COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - MISCELLANEOUS

- The Defined Contribution choice option results in sufficient anti-selection that we anticipate there would be a short term cost to the County.
- The Choice Hybrid (DB & DC) and the Choice Cash Balance Plans indicate significant short and long term savings. However the County should understand these plans impose significant tax issues²⁴.
- The Choice Cash Balance Plans indicate significant short and long term savings. However the County should understand these plans impose significant tax issues.²⁵

The tables below show estimated cost savings (000s omitted) for the Miscellaneous Plan in dollar amounts. The projections are based on CalPERS new 1997-2007 experience study demographic (termination, mortality, disability and mortality) assumptions. They further assume the number of County employees will remain constant. It is split between the various alternative formulas:

Year	1. Current & Future Employees Pay All Member Contribution		
	Current Employees	Future Employees	Total Savings
2011/12	\$ 37,811	\$ -	\$ 37,811
2012/13	36,612	-	36,612
2013/14	35,488	-	35,488
2014/15	34,288	-	34,288
2015/16	32,952	-	32,952
2016/17	31,569	2,750	34,319
2017/18	30,103	5,229	35,332
2018/19	28,745	7,676	36,422
2019/20	27,193	10,242	37,435
2020/21	25,778	12,986	38,764
2021/22	24,309	15,824	40,132

Year	2. 2%@60	3. 2%@55	4. DB/DC	5. 12% DC
2011/12	\$ 2,358	\$ 1,889	\$ 1,477	\$ 2,241
2012/13	4,484	3,592	2,808	4,261
2013/14	6,582	5,274	4,123	6,255
2014/15	8,782	7,036	5,500	8,345
2015/16	11,135	8,922	6,974	10,581
2016/17	13,568	10,871	8,498	12,893
2017/18	16,112	12,909	10,091	15,311

²⁴ The Hanson Bridgett analysis discusses the legal & tax implications of the alternative formulas.

²⁵ The Hanson Bridgett analysis discusses the legal & tax implications of the alternative formulas.



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ALTERNATIVE FORMULAS - MISCELLANEOUS**

Year	2. 2%@60	3. 2%@55	4. DB/DC	5. 12% DC
2018/19	18,608	14,908	11,654	17,682
2019/20	21,311	17,074	13,347	20,251
2020/21	23,943	19,183	14,996	22,753
2021/22	26,669	21,367	16,703	25,343

Year	6. Choice DB/DC	7. Choice DC	8. Choice CB
2011/12	\$ 4,233	\$ (1,205)	\$ 11,145
2012/13	5,478	924	14,119
2013/14	6,710	3,021	17,066
2014/15	8,000	5,221	20,151
2015/16	9,377	7,578	23,441
2016/17	10,799	10,016	26,842
2017/18	12,286	12,568	30,394
2018/19	13,750	15,063	33,894
2019/20	15,330	17,773	37,670
2020/21	16,876	20,403	41,366
2021/22	18,475	23,127	45,191

The above savings are based on the following Miscellaneous payroll projections shown separately for current (Tier I) participants and future (Tier II) participants (000s omitted):

Year	Tier I	Tier II	Total
2011/12	\$ 689,177	\$ 50,922	\$ 740,099
2012/13	667,316	96,836	764,152
2013/14	646,830	142,157	788,987
2014/15	624,959	189,670	814,629
2015/16	600,616	240,488	841,104
2016/17	575,412	293,029	868,440
2017/18	548,685	347,979	896,664
2018/19	523,936	401,870	925,806
2019/20	495,645	460,250	955,895
2020/21	469,854	517,107	986,961
2021/22	443,070	575,967	1,019,037

Projected payroll does not include County paid member contributions. Total payroll is expected to grow annually at 3.25% each year. A slower payroll growth results in lower cost savings while a more rapid payroll growth results in greater cost savings.

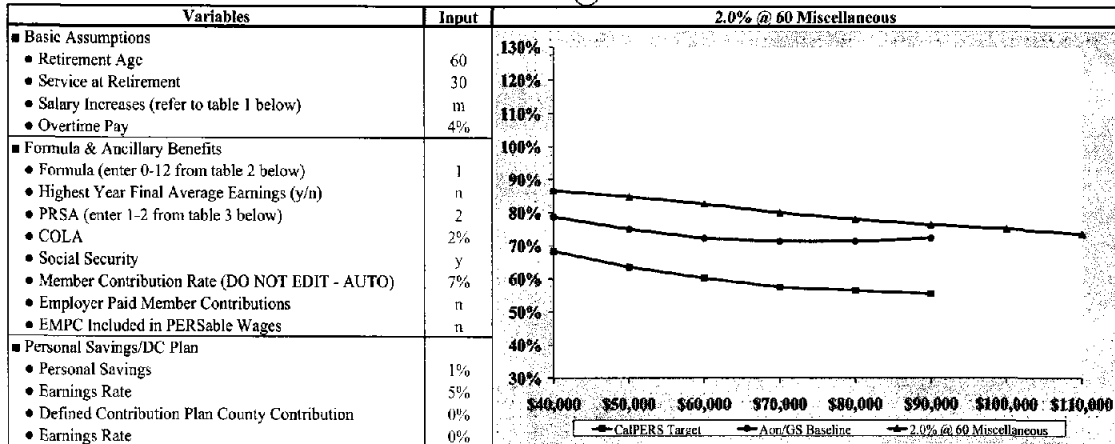


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ALTERNATIVE FORMULAS - MISCELLANEOUS

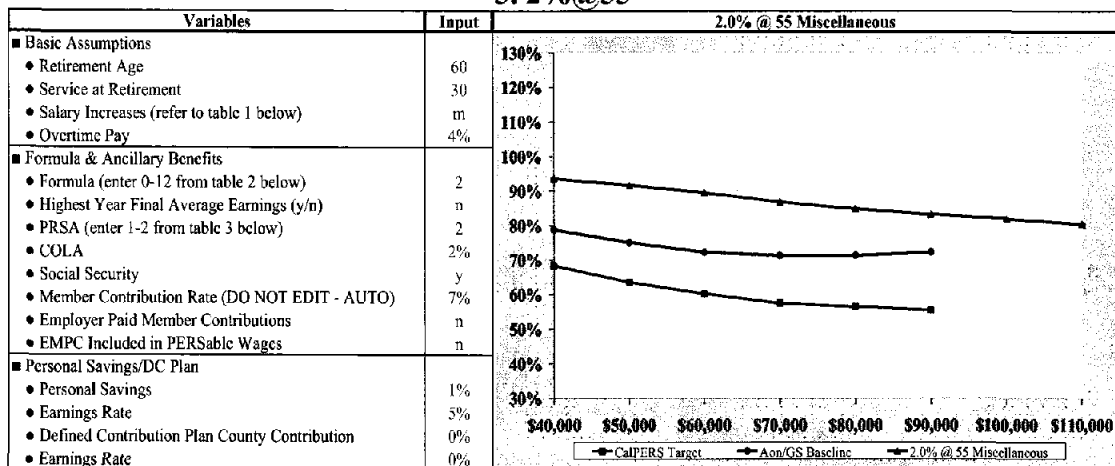
Replacement Ratio for Miscellaneous Alternative Formulas

The following graphs show the replacement ratios for Miscellaneous alternative formulas 2 to 8. For all graphs, we assumed employees save the difference between the 8% member contribution under the current formula and the required member contribution under the alternative formula, placing the savings into an account that earns 5% annual.

2. 2% @ 60

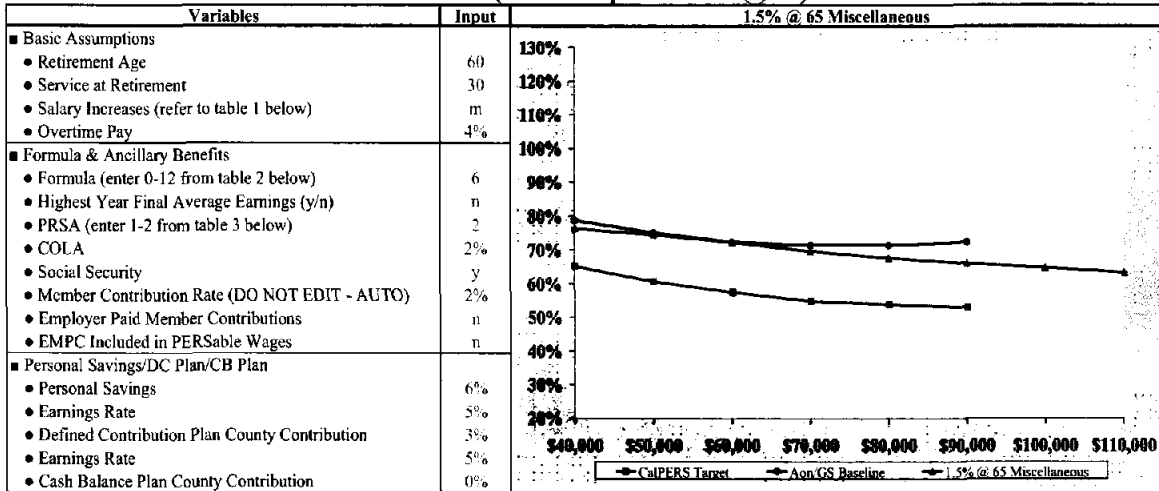


3. 2% @ 55

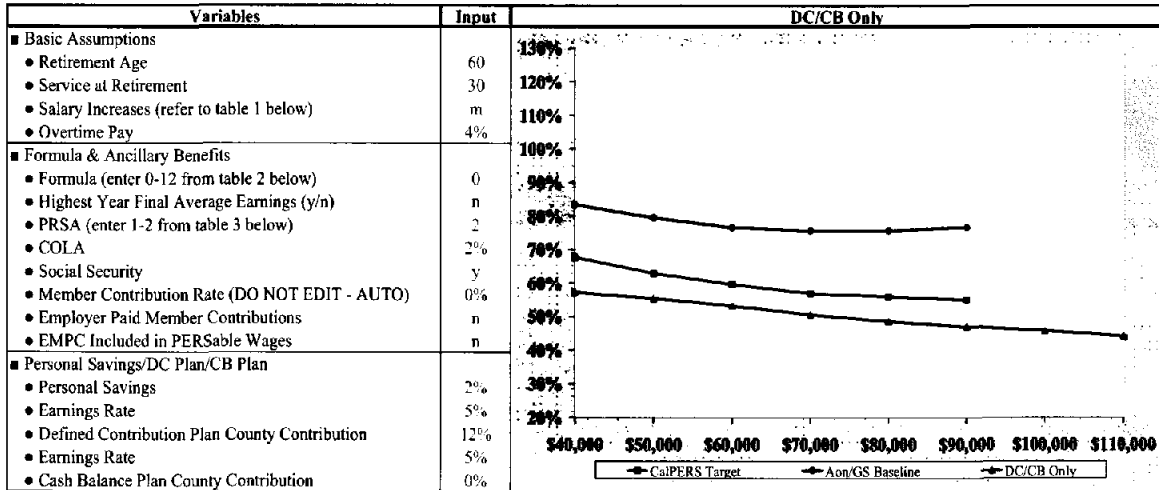


**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - MISCELLANEOUS**

4. DB/DC (3% DC plus 1.5% @ 65)

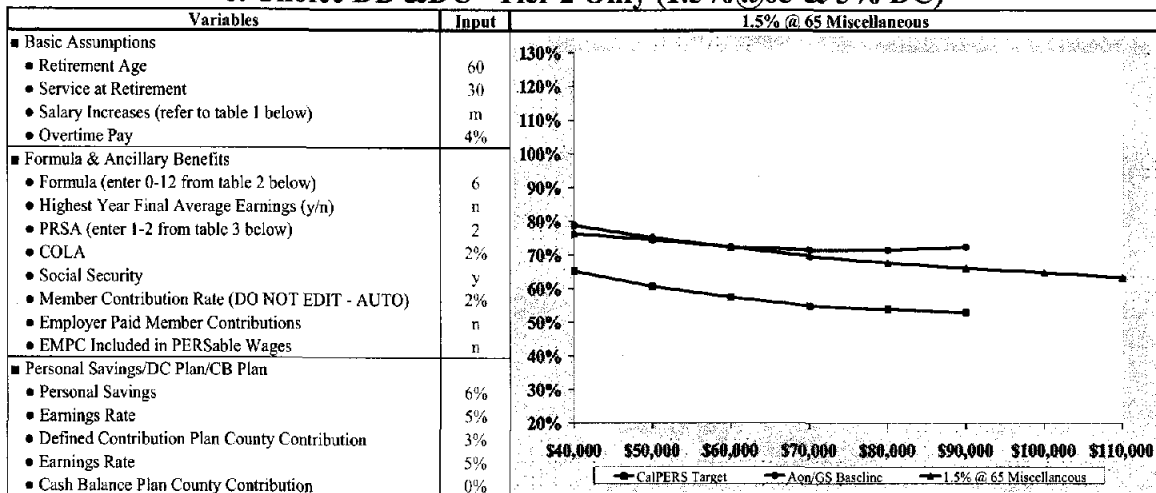


5. 12% DC

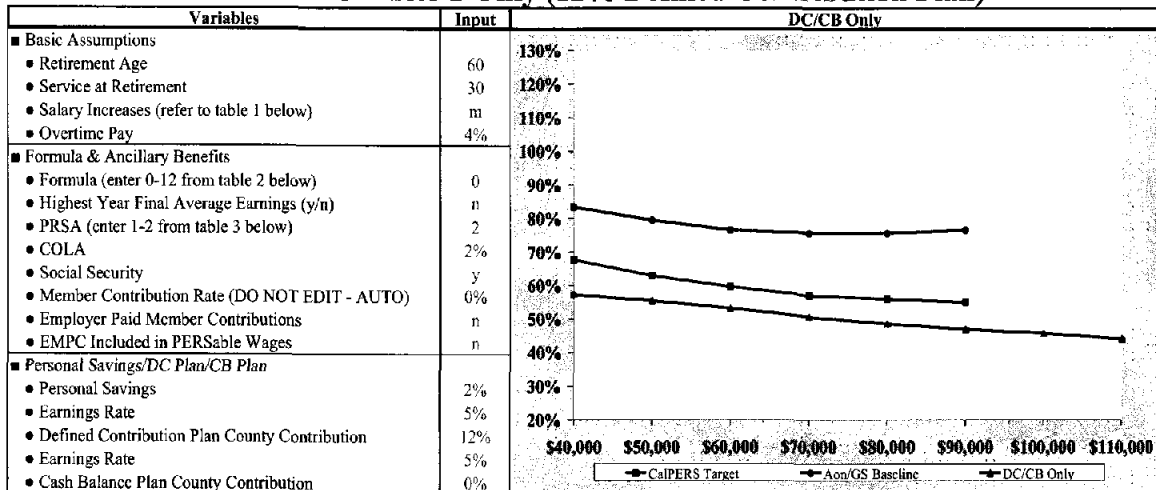


**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - MISCELLANEOUS**

6. Choice DB & DC – Tier 2 Only (1.5% @ 65 & 3% DC)

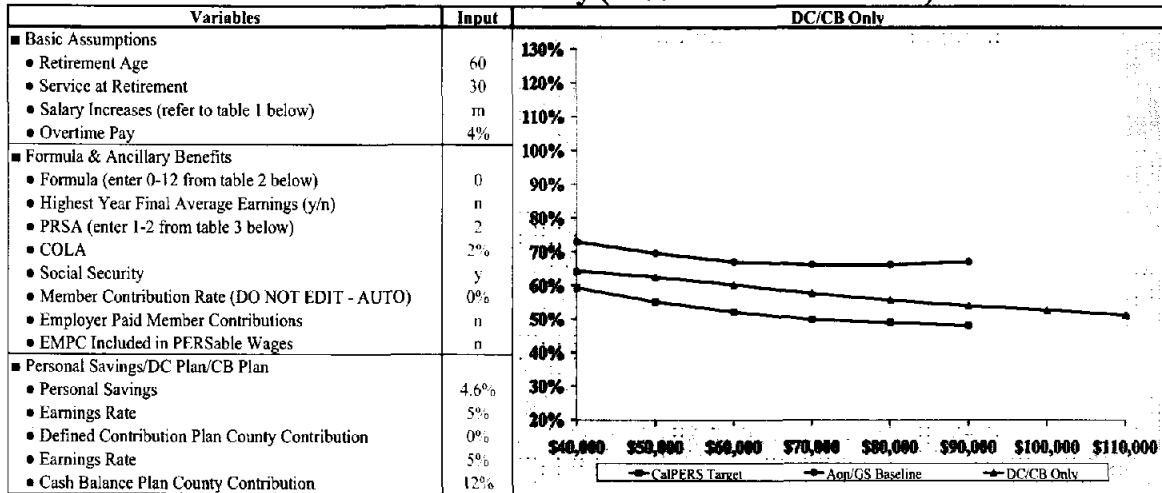


7. Choice DC – Tier 2 Only (12% Defined Contribution Plan)



**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - MISCELLANEOUS**

8. Choice CB – Tier 2 Only (12% Cash Balance Plan)



**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY**

Safety Alternative Formulas²⁶

Six alternative formulas are considered for Safety Pension reform. These alternatives include increasing employee contributions, 2nd tier for future employees, choice options for current employees and combinations of the above. Please note that the benefit cap is 90% of pay for all Safety alternative formulas.

1. Maintain current formula (3%^{@50}) but require current and future employees pay member contribution. County will be paying 29.3% of PERSable wages during the 2011/12 fiscal year under the current formula, including employer contributions, employer paid member contributions (EPMC) and PERS on PERS (the compounding impact of including EPMC in PERSable wages). If all current and future employees were paying all member contributions, the estimated savings is 8.0% of payroll.

	Current	1. EE Pays EPMC
■ Total ²⁷	29.3%	21.3%
■ Savings	n/a	8.0%

The following three alternatives are for new hires only. There would be no change to current employees other than noted above for member contributions. Alternatives 2, 3 and 4 are currently available under CalPERS.

2. 2%^{@50}²⁸ (County's old formula) with 3 years final average earnings (FAE3), 2% cost of living adjustment (COLA) and no post retirement survivor allowance (PRSA).
3. 3%^{@55} with FAE3 and 2% COLA and no PRSA.
4. 2%^{@55} with FAE3 and 2% COLA and no PRSA.

Assuming no County paid member contribution for current and future employees, the estimated savings for alternatives 2 through 4 are:

Formula	Safety			
	Current	2. 2%^{@50}	3. 3%^{@55}	4. 2%^{@55}
■ Normal Cost	18.4%	12.9%	14.5%	12.1%
■ Savings	n/a	5.5%	3.9%	6.3%

²⁶ The Hanson Bridgett analysis discusses the legal implications of the alternative formulas.

²⁷ Includes employer contribution rates, employer paid member contribution (EPMC) and PERS on PERS.

²⁸ Throughout this report we refer to the County's Safety benefit formula prior to implementation of 3%^{@50} as 2%^{@50}. It is worth noting this formula is identical to the Miscellaneous 2.7%^{@55} formula. This means the 2%^{@50} benefit formula results in approximately 10-15% lower benefits at ages that safety members typically retire.

**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY**

The following two alternatives are choice option plans. Current employees have the choice to choose between their current benefits (paying the full member contribution) and the new formula (with the County paying member contributions). New employees would be at the new formula. None of these formulas are available under current CalPERS statutes.

5. Choice option DC:
 - a. Current employees choose between (i) and (ii) for future service
 - i. Current benefit 3% @ 50 (FAE1, 2% COLA, with PRSA and employees paying 9% member contributions).
 - ii. 10% defined contribution plan (County paying all 10%) with 50% industrial disability and survivor benefits provided separately (cost included in projections).
 - b. Future employees will be at 10% defined contribution plan (County paying 5% and employees paying 5%) with 50% industrial disability and survivor benefits provided separately (cost included in projections).
6. Choice option CB:
 - a. Current employees choose between (i) and (ii) for future service
 - i. Current benefit 3% @ 50 (FAE1, 2% COLA, with PRSA and employees paying 9% member contributions).
 - ii. 18% cash balance with 50% industrial disability and survivor benefits, employee pays no (0%) member contribution.
 - b. Future employees will be at 18% cash balance plan with 50% industrial disability and survivor benefits (County and employee share cost equally).

Assuming no County paid member contribution under current arrangement, the estimated savings for alternatives 5 and 6 are as follows:

	Safety				
	Current	5. Choice DC		6. Choice CB	
		Tier 1²⁹	Tier 2	Tier 1³⁰	Tier 2
■ Normal Cost	18.4%	17.2%	14.5%	16.4%	8.3%
■ County Paid Member Contribution	<u>0.0</u>	<u>1.5</u>	<u>0.0</u>	<u>1.7</u>	<u>0.0</u>
■ Total	18.4	18.7	14.5	18.1	8.3
■ Savings					
● Normal Cost	n/a	1.2%	3.9%	2.0%	10.1%
● County Paid Member Contribution		<u>-1.5</u>	<u>0.0</u>	<u>-1.7</u>	<u>0.0</u>
● Total		<u>-0.3</u>	<u>3.9</u>	<u>0.3</u>	<u>10.1</u>

²⁹ Assumes the following % will choose 10% DC: 50% of actives under age 35, 25% from age 35 to 45, and 5% above age 45.

³⁰ Assumes the following % will choose 18% CB: 35% of actives under age 35, 15% from age 35 to 45, and 0% above age 45.



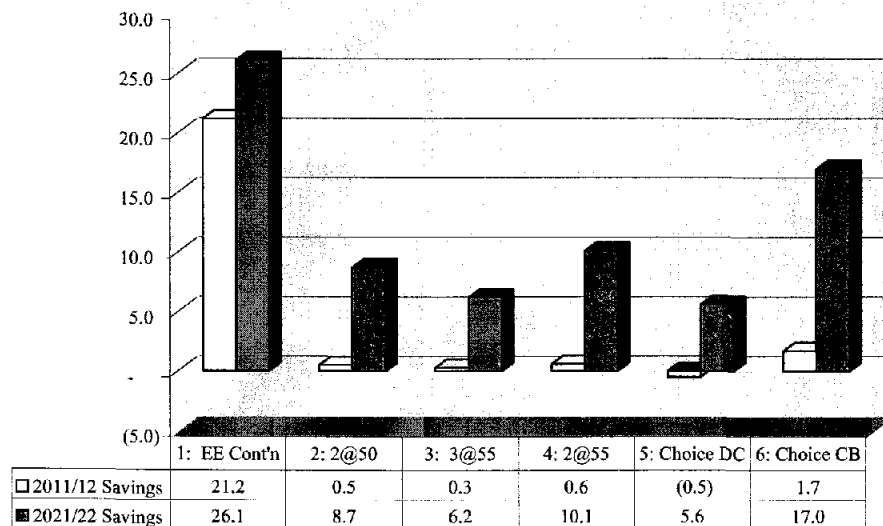
**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY**

Please note the Choice plan cost savings are heavily dependent on what choice current employees would make. Generally if fewer younger employees choose the alternative plans than we have assumed, savings would likely be lower and if more older employees choose the alternative plans savings would likely be higher.

Estimated Savings Projections

The table above shows the savings for the six alternative formulas. The savings in white are immediately recognized in 2011/12 while the savings in dark grey are a 10 year projection.

Savings in millions



As the above table indicates:

- The most immediate savings are from employees paying their own member contributions;
- For the formulas currently available under CalPERS (alternatives 2, 3 and 4) 2%@55 results in the most long term savings, with the County's prior plan (alternative 2) resulting in the second most long term savings.
- The 2%@55 formula (alternative 4) results in significant long term savings, however, it is important to note that, to the best of our knowledge (as of March 2011) no California public agency of any significant size (more than \$50 million in annual revenue) has contracted for this formula.
- The Defined Contribution choice option results in sufficient anti-selection that we anticipate there would be a short term cost to the County.
- The Choice Cash Balance Plans indicate significant short and long term savings. However the County should understand these plans impose significant tax issues³¹.

³¹ The Hanson Bridgett analysis discusses the legal & tax implications of the alternative formulas.



COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY

The tables below show estimated cost savings (000s omitted) for the Safety Plan in dollar amounts. The projections are based on CalPERS new 1997-2007 experience study demographic (termination, mortality, disability and mortality) assumptions. They further assume the number of County employees will remain constant. It is split between the various alternative formulas:

1. Current & Future Employees Pay All Member Contribution			
Year	Current Employees	Future Employees	Total Savings
2011/12	\$ 21,227	\$ -	\$ 21,227
2012/13	21,059	-	21,059
2013/14	20,731	-	20,731
2014/15	20,464	679	21,143
2015/16	20,123	1,546	21,669
2016/17	19,752	2,593	22,345
2017/18	19,357	3,603	22,960
2018/19	18,984	4,710	23,694
2019/20	18,583	5,872	24,455
2020/21	18,224	7,083	25,307
2021/22	17,753	8,300	26,052

Year	2. 2%@50	3. 3%@55	4. 2%@55
2011/12	\$ 486	\$ 344	\$ 559
2012/13	1,106	784	1,272
2013/14	1,855	1,315	2,134
2014/15	2,577	1,827	2,965
2015/16	3,369	2,389	3,876
2016/17	4,201	2,978	4,832
2017/18	5,067	3,593	5,829
2018/19	5,937	4,210	6,830
2019/20	6,847	4,855	7,877
2020/21	7,748	5,494	8,913
2021/22	8,749	6,203	10,064



**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY**

Year	5. Choice DC	6. Choice CB
2011/12	\$ (476)	\$ 1,730
2012/13	(25)	2,879
2013/14	525	4,263
2014/15	1,054	5,599
2015/16	1,635	7,062
2016/17	2,246	8,597
2017/18	2,883	10,196
2018/19	3,521	11,804
2019/20	4,190	13,484
2020/21	4,850	15,149
2021/22	5,586	16,995

The above savings are based on the following Safety payroll projections shown separately for current (Tier I) participants and future (Tier II) participants (000s omitted):

Year	Tier I	Tier II	Total
2011/12	\$ 274,907	\$ 8,934	\$ 283,841
2012/13	272,730	20,337	293,066
2013/14	268,475	34,116	302,591
2014/15	265,019	47,406	312,425
2015/16	260,606	61,973	322,579
2016/17	255,802	77,261	333,063
2017/18	250,690	93,198	343,887
2018/19	245,859	109,204	355,064
2019/20	240,661	125,942	366,603
2020/21	236,008	142,510	378,518
2021/22	229,909	160,910	390,820

Projected payroll does not include County paid member contributions. Total payroll is expected to grow annually at 3.25% each year. A slower payroll growth results in lower cost savings while a more rapid payroll growth results in greater cost savings.

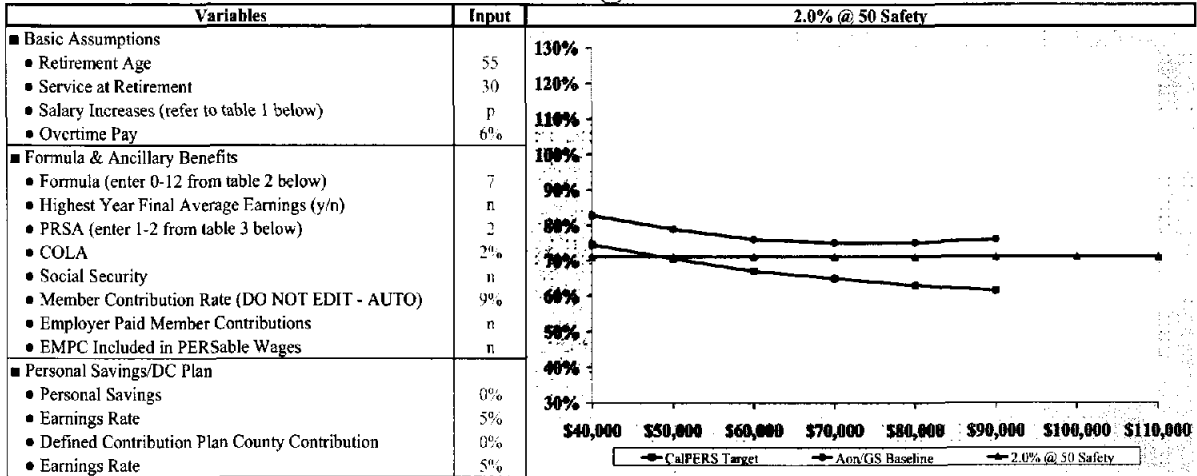


**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY**

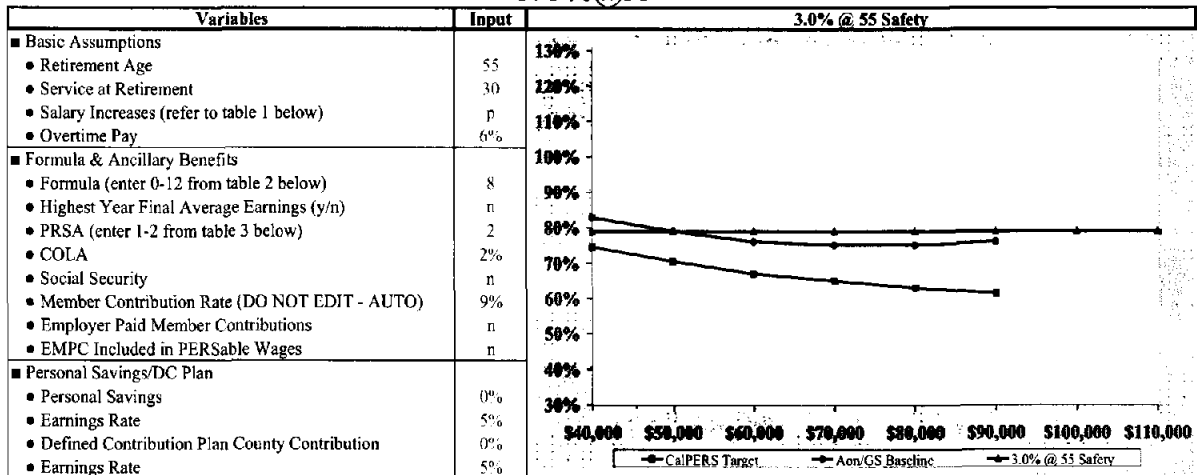
Replacement Ratio for Safety Alternative Formulas

The following graphs show the replacement ratios for Safety alternative formulas 2 to 6. For all the graphs, we assumed employees save the difference between the 9% member contribution under the current formula and the required member contribution under the alternative formula, placing the savings into an account that earns 5% annual return.

2. 2% @ 50

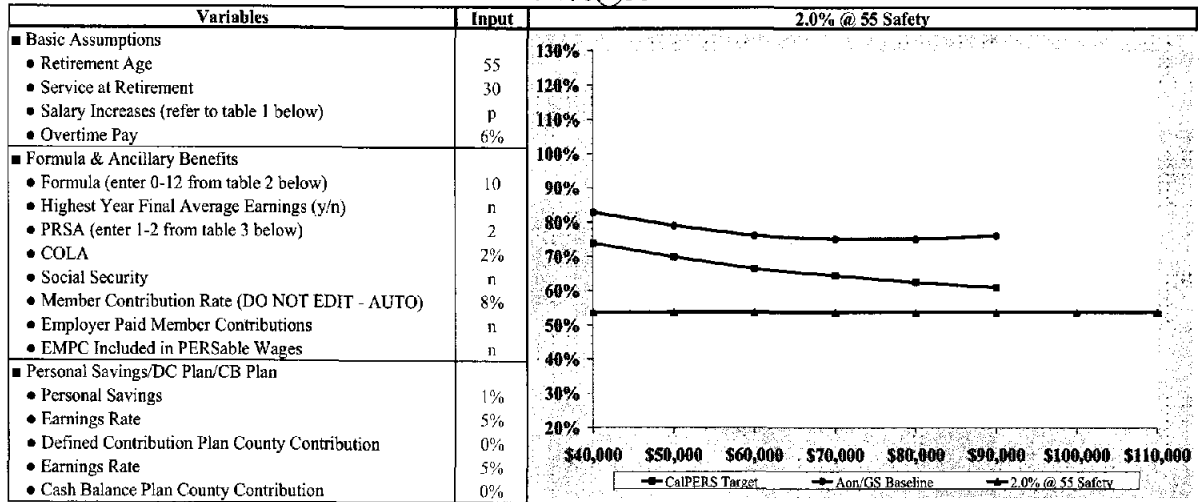


3. 3% @ 55

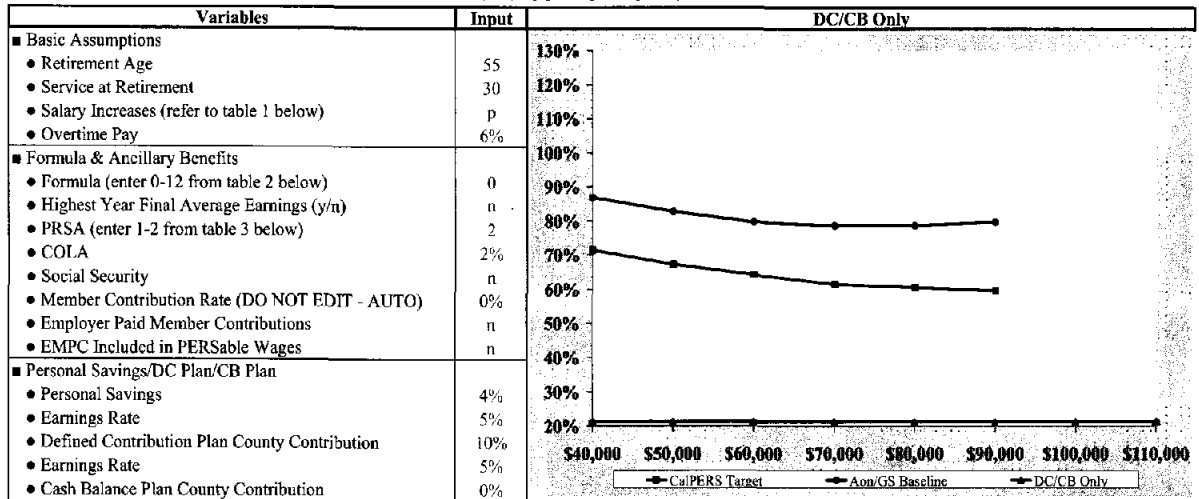


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4. 2% @ 55

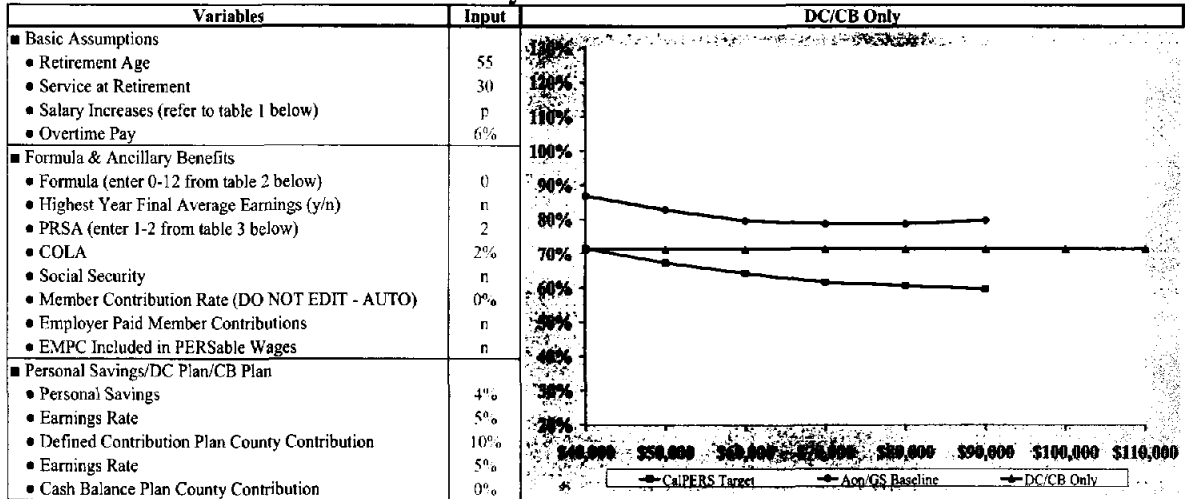


**5. Choice DC – Tier 2 Only (10% Defined Contribution & 50% IDR)
Service Retirement**

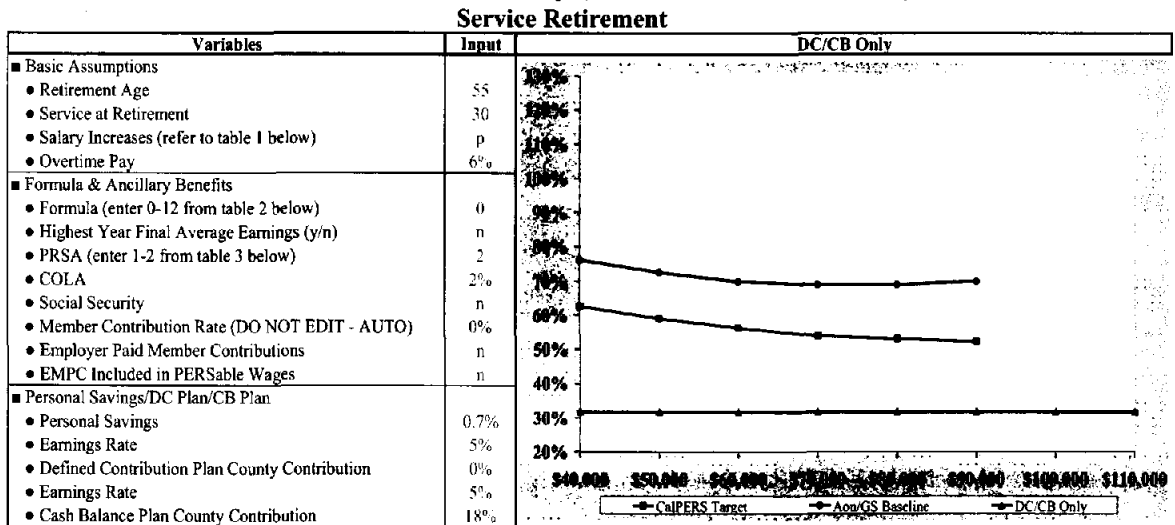


**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY**

**5. Choice DC – Tier 2 Only (10% Defined Contribution & 50% IDR)
Disability Retirement**

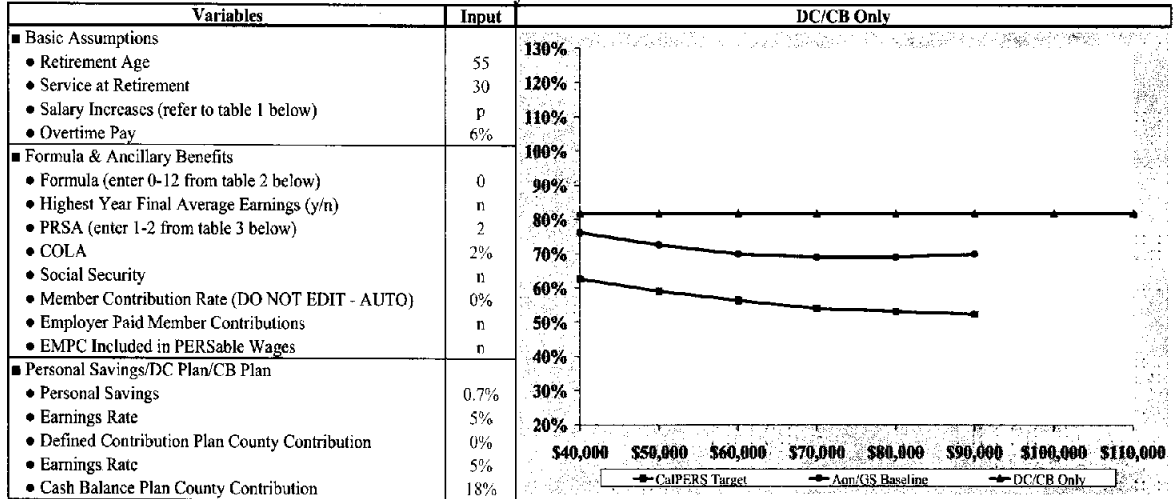


6. Choice CB – Tier 2 Only (18% Cash Balance Plan)



**COUNTY OF RIVERSIDE
PENSION REFORM
ALTERNATIVE FORMULAS - SAFETY**

**6. Choice CB – Tier 2 Only (18% Cash Balance Plan)
Disability Retirement**





buck

**Total Compensation and
Retirement Alternatives Review
for Riverside County**

Prepared by Buck Consultants

March 23, 2011

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Section I: Executive Summary

Buck was engaged by Riverside County to conduct a study of the impact of alternative pension formulas being considered by the County particularly as this might affect the ability of the County to attract and retain employees. Buck conducted a total compensation analysis of 188 job classifications representing 11,063 employees, or 62% of the overall Riverside population.

Study Objectives

The study objectives were:

- Conduct a total compensation analysis for a representative benchmark sample of positions, including:
 - Base total compensation
 - Health insurance
 - Social Security
 - Pension, including employer pick up and post-retirement medical
 - Paid time off (holidays, vacation and sick time)
- Analyze the impact of alternative pension options for new employees
- Analyze the impact of alternative pension options for current employees to the extent that such options are not in violation of California Vested Rights provisions
- Analyze the impact on recruitment and retention of any changes in pension formulas.

Assumptions and Methodology

A variety of sources were used to assess competitiveness based on a number of counties and cities, and limited private sector data. The consultants assessed employee categories primarily based on the standards established by the Equal Employment Opportunity (EEO-1) Report Format. In addition, the consultants identified three additional groups for analysis. The groupings were provided to the consultants by the County. The following are the employee categories that were analyzed:

EEO-1 Categories

- Executives/Senior Level Officials and Managers
- First/Mid-Level Officials and Managers
- Professionals
- Technicians
- Craft Workers
- Service Workers
- Administrative Support Workers

Additional Categories Identified

- Para-Professionals
- Safety Professionals
- Medical Employees and Professionals

The following chart provides a summary of the number of classifications and employees by category:

Buck Study Classification Representation		
Job Category	# of Classes	# of Employees
Executives/Senior Level Officials and Managers	11	23
First/Mid Level Officials and Managers	11	125
Professionals	47	2,004
Para-Professionals	11	762
Technicians	21	1,250
Craft Workers	3	121
Service Workers	15	520
Safety Professionals	17	2,538
Administrative Support Workers	25	2,461
Medical Positions	27	1,283
Total	188	11,087

Because of some discrepancies in the data, ultimately 180 classifications were used for comparative purposes.

The following data sources were used for various employee groups:

Job Category	Data Sources
<ul style="list-style-type: none"> ▪ Executives/Senior Level Officials and Managers ▪ First/Mid-Level Officials and Managers 	<ul style="list-style-type: none"> ▪ 9 Counties * ▪ Statewide BLS Data
<ul style="list-style-type: none"> ▪ Professionals ▪ Para-Professionals ▪ Technicians ▪ Craft Workers ▪ Service Workers 	<ul style="list-style-type: none"> ▪ 5 Contiguous Counties** ▪ Los Angeles, Long Beach, Glendale BLS Metropolitan Area ▪ Riverside, San Bernardino, Ontario BLS Metropolitan Area
<ul style="list-style-type: none"> ▪ Safety Professionals 	<ul style="list-style-type: none"> ▪ 5 Contiguous Counties ▪ City of Riverside ▪ City of Corona
<ul style="list-style-type: none"> ▪ Administrative Support Workers 	<ul style="list-style-type: none"> ▪ 5 Contiguous Counties ▪ Los Angeles, Long Beach, Glendale BLS Metropolitan Area ▪ Riverside, San Bernardino, Ontario BLS Metropolitan Area ▪ City of Riverside ▪ City of Corona
<ul style="list-style-type: none"> ▪ Medical Positions 	<ul style="list-style-type: none"> ▪ 5 Contiguous Counties ▪ Hospital Association of Southern California Survey

*The nine counties used for executive and management positions were Los Angeles, Ventura, San Diego, Orange, San Bernardino, Alameda, Santa Clara, Sacramento and Contra Costa.

**The five counties used for all other comparisons were Los Angeles, Ventura, San Diego, Orange and San Bernardino.

Total Cash Compensation Assumptions and Methodology

Total cash compensation is defined as the cost to Riverside County and benchmark samples of:

- Base compensation
- Health care benefits (including dental and vision where applicable) – the portion paid by the employer only
- Paid time off (including vacation, holidays and sick time or the total PTO provided to the employee)
- Social Security (where applicable) – employer portion only
- Pension (including the employer normal cost and the employer “pick-up” of employee contributions)
- Other Post Employment Benefits (OPEBs).

When considering pension formulas across counties, determination of the appropriate pension formulas was based on the following:

- The plan must be open to new employees.
- If there is more than one option open to new employees, the most generous option was used.
- The normal cost for pension purposes was used based on the most recent actuarial reports.
- The employer “pick-up” of employee contributions was supplied to Buck by Riverside County.
- The most recent pension formula was verified by Bartel Associates.

For purposes of this study, the following methodology was used:

- The maximum total compensation rate for each classification was used.
- The maximum vacation was used.
- Benefits information was culled from various county websites

Quality Review

Buck uses a comprehensive quality review process to ensure the accuracy of the benchmark analysis:

- Buck reviews summary descriptions, not just job titles.
- Buck identifies large discrepancies in wages and benefits to identify outliers.
- Benchmark positions were reviewed with Riverside County Compensation Classification specialists to ensure high-quality matches.
- Buck reviewed questionable matches or data and made occasional decisions to eliminate data to avoid distortion.

Economic Conditions in Riverside County

Riverside County has been hard hit by the recent recession. Declining property values and a structural budget deficit during the current fiscal year have created significant pressure to find ways to reduce expenditures.

Analysis

All executive positions were ranked using base salary since Riverside Human Resources assured Buck that the Executive Performance Recognition Program is not a continuing benefit and is adjusted annually, with some individuals losing their previously granted salary increases.

Of the 11 executive positions reviewed, 2 positions (or 18%) were ranked number 1. Of the 10 First/Mid-Level Officials and Managers, 3 positions were ranked number 1 compared to 43 positions (or 27%) of the non-executives.

In total, 5 of the executive positions (or 54%) ranked in the top three in total compensation, 7 of the First Level/Mid-Level Officials and Managers were ranked in the top three in total compensation, vs. 124 positions or 78.9% of the non-executive group.

As reflected in the Riverside Executive Management Ranking chart, 7 (or 63%) of the executive positions are ranked in the top four (out of 10 counties). For First and Mid-Level Officials and Managers, 8 positions (or 80% of the sample) are ranked in the top four (out of 10 counties). Of the non-management group, 148 positions (or 92.1% of the sample) are ranked in the top four (out of five counties).

The following chart reflects the current ranking of the study sample in pay for the county entities.

Executives/ Sr Level Officials and Managers			First/Mid Level Officials and Managers			Overall Non-Management Ranking		
Ranking	#	Percent	Ranking	#	Percent	Ranking	Total	Percent
1	2	18%	1	3	27%	1	43	27%
2	1	9%	2	2	18%	2	46	29%
3	3	27%	3	2	18%	3	35	22%
4	1	9%	4	1	9%	4	24	15%
5	2	18%	5	1	9%	5	5	3%
6	1	9%	6	0	0%	6	6	4%
7	0	0%	7	2	18%			
9	1	9%	9	0	0%			
10	0	0%	10	0	0%			
Total	11	100%	Total	11	100%	Total	159	100.0%

The following chart reflects the distribution of rankings by non-management employee job category:

Non-Management Ranking by Employee Category										
Ranking	Professionals	Para Professional	Technician	Craft	Service	Safety	Administrative Support Workers	Medical	Total	Percent
1	10	2	11	1	3	0	3	13	43	27%
2	9	1	6	0	5	6	8	11	46	29%
3	14	5	2	0	2	5	6	1	35	22%
4	8	2	2	2	3	3	3	1	24	15%
5	3	0	0	0	0	0	1	1	5	3%
6	1	0	0	0	0	3	1	1	6	4%
Total	45	10	21	3	13	17	22	28	159	100.0%

As reflected in the previous chart, despite Riverside County's precarious financial position, most jobs (124 of 159) are ranked in the top three positions among county comparisons. An additional 24 jobs are ranked fourth across the six-county comparator group, with only 11 positions (or 6.7% of jobs) ranked lower than fourth.

Overall Ranking

The following chart reflects the ranking of Riverside against the combined sample of all entities:

Overall Ranking Against Public and Private Sector Entities		
Job Category	Riverside Position	# of Comparisons
Executives	5	10
First/Mid-Level Officials and Managers	8	11
Professionals	3	8
Para Professionals	4	7
Technicians	1	8
Craft Workers	5	8
Service Workers	4	8
Safety Professionals	4	8
Administrative Support Workers	5	8
Medical Professionals	1	6

The next chart reflects the overall ranking of Riverside County against private sector data only:

Overall Ranking Against Private Sector Entities Only		
Job Category	Riverside Position	# of Comparisons
Executives (1)	N/A	N/A
First/Mid-Level Officials and Managers	2	2
Professionals	3	3
Para Professionals	N/A	N/A
Technicians	1	3
Craft Workers	3	3
Service Workers	1	3
Safety Professionals (2)	N/A	N/A
Administrative Support Workers	1	3
Medical Professionals	1	2
1. Not enough private sector data to warrant comparisons 2. No private sector comparisons were made		

Comparison of Riverside County Average and Median Compensation to Other Data Sources

The following chart reflects an overall view of the Average Total Compensation of Riverside County Compared to Other Data Sources. Riverside County's average total cash compensation leads in many job categories.

In the Craft category, Riverside County lags the Los Angeles, Long Beach and Glendale BLS Metropolitan Area and the Riverside, San Bernardino, Ontario BLS Metropolitan Area. However, the job matches in the craft category were for "operating engineers and other construction equipment operators" and the data may be suspect. The Sr. Heavy Equipment Mechanic was matched to Bus and Truck Mechanics and Diesel Engine Specialists. These are both the best matches from the BLS data source but may not adequately reflect the nature of these positions.

In the Administrative jobs category, Riverside County lags the City of Riverside by 8.6% but leads the City of Corona by almost 12%.

Comparison of Riverside County Average Total Compensation to Other Data Sources													
Job Category	Riverside County Average	California BLS Data	% Diff	LA, LB, Glendale BLS Metro	% Diff	Riverside, SB, and Ontario BLS Metro	% Diff	City of Riverside	% Diff	City of Corona	% Diff	HASC	% Diff
Executive Positions	N/A	N/A	N/A										
First/Mid-Level Officials and Managers	\$182,510	\$177,297	2.9%										
Professional Positions	\$125,065			\$148,943	19.1%	\$131,733	-5.1%						
Para-Professional Positions	N/A			N/A	N/A	N/A	N/A						
Technicians	\$102,010			\$97,573	4.5%	\$93,978	8.5%						
Craft	\$86,515			\$103,875	20.1%	\$100,695	16.4%						
Service Workers	\$70,852			\$67,934	4.3%	\$68,675	3.2%						
Safety Professionals	\$149,527							\$167,930	12.3%	\$150,251	0.5%		
Administrative Support Workers	\$84,433			\$78,474	7.6%	\$69,139	22.1%	\$91,724	8.6%	\$75,526	11.8%		
Medical Professionals	\$154,138											\$135,837	13.5%

The next chart reflects an overall view of the Median Total Compensation of Riverside County Compared to Other Data Sources. Riverside County's median compensation also leads in a number of job categories, although not in as many as the Average Total Compensation.

The same issues exist in the Craft category. Buck discussed those in the previous section.

In the Professional category, Riverside County lags the Los Angeles, Long Beach and Glendale BLS Metropolitan Area and the Riverside, San Bernardino, Ontario BLS Metropolitan Area; however, the data is within 5% of the Riverside, San Bernardino, Ontario BLS numbers.

The disparity in technician pay is not that great for either set of BLS data. In the Administrative jobs category, Riverside County lags the City of Riverside but is competitive with the City of Corona.

Job Category	Riverside County Median	California BLS Data	% Diff	LA, LB, Glendale BLS Metro	% Diff	Riverside, SB, and Ontario BLS Metro	% Diff	City of Riverside	% Diff	City of Corona	% Diff	HASC	% Diff
Executive Positions	N/A	N/A	N/A										
First/Mid-Level Officials and Managers	\$183,775	\$185,867	1.1%										
Professional Positions	\$111,186			\$139,642	25.6%	\$116,572	5.0%						
Para-Professional Positions	N/A			N/A	N/A	N/A	N/A						
Technicians	\$101,460			\$107,746	4.5%	\$95,742	6.0%						
Craft	\$84,072			\$115,163	37.0%	\$112,001	33.2%						
Service Workers	\$68,795			\$72,534	5.4%	\$71,905	4.5%						
Safety Workers	\$137,757							\$101,395	35.9%	\$134,151	2.7%		
Administrative Support Workers	\$78,418			\$68,275	14.9%	\$65,354	20.0%	\$88,006	12.2%	\$75,973	3.2%		
Medical Professionals	\$125,403											\$132,643	5.8%

Impact of Alternative Pension Formulas

Buck was asked to review the impact of alternative pension formulas on Riverside County's ability to attract and retain employees. For purposes of this analysis, the following pension plans were reviewed as presented by Bartell Associates. For purposes of this discussion, all employer contributions are normal cost only. The following options were considered for miscellaneous employees:

The first alternative reflects the current formula with members paying all member contributions and no employer pick-up.

The next four alternatives are for new hires only.

Alternative two provides the following benefits:

2% at Age 60

Final Average Earnings - 3 yrs

2% COLA

No Post Retirement Survivor's Allowance

This formula reflects a 5.7% contribution on the part of Riverside County and a 7% contribution from the employee.

Alternative three provides the following benefits:

2% at Age 55

Final Average Earnings - 3 yrs

2% COLA

No Post Retirement Survivor's Allowance

This alternative reflects the County's old formula. The employer contribution would be 6.7% with the employee picking up a 7% contribution.

Alternative four is a hybrid plan combining a defined benefit and defined contribution plan.

Hybrid Defined Benefit/Defined Contribution Plan

3% Defined Contribution paid by the employer

1.50% pension at Age 65

Final Average Earnings - 3 yrs

2% COLA

No Post Retirement Survivor's Allowance

In this formula, Riverside County pays 7.5% and the employee contributes 2%.

Alternative five is a 12 % defined contribution plan with the County paying 6% and the employee paying 6%.

Alternative six is a choice defined benefit plan with an option of a defined benefit and defined contribution plan. Current employees would choose between their current benefits (and paying the full member contribution) or a new plan. The current plan in this choice is Alternative 6 – Tier 1(a). The new plan (Alternative 6 – Tier 1 (b)) would provide the following benefits:

1.5% Defined Benefit Plan at Age 65 plus

3% Defined Contribution

Final Average Earnings - 3 yrs

2% COLA

No Post Retiree Survivors Allowance

In this case, the employer contributes 7.5% and picks up a 2% employee contribution. This is the only plan that provides an employer pick-up of the employee contribution.

Alternative six – Tier 2 provides the same benefit as Alternative 6 – Tier 1 (b) but is for new employees only. In this case, the employer contributes 7.5% to the pension plan but the employee contribution is 2%.

A summary of all of the plans for miscellaneous employees is provided in the following chart:

#	Alternative Pension Formulas Miscellaneous/General	Affected Employees	Employer Contribution (Normal Cost Only)	Employer Pick Up	Member Contribution (Paid by Employee)
1	Current 3% at Age 60 Employee contributes 8% to the plan	All Employees	10.40%	0.00%	8.00%
2	2% at Age 60 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	5.70%	0.00%	7.00%
3	2% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	6.70%	0.00%	7.00%
4	Hybrid Defined Benefit/Defined Contribution Plan 3% Defined Contribution paid by the employer 1.50% pension at Age 65 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	7.50%	0.00%	2.00%
5	12 % Defined Contribution	New Hires Only	6.00%	0.00%	6.00%
6	Choice Defined Benefit Plan				
Tier 1	a) 3% at Age 60 -Final Average Earnings - 1 yr -2% COLA -With Post Retirement Survivors Allowance OR b) 1.5% Defined Benefit Plan at Age 65 plus -3% Defined Contribution -Final Average Earnings - 3 yrs - 2% COLA - No Post Retiree Survivors Allowance	Current Employees	10.40%	0.00%	8.00%
		Current Employees	7.50%	2.00%	0.00%
Tier 2	6 1.5% Defined Benefit Plan at Age 65 -3% Defined Contribution -Final Average Earnings - 3 yrs -2% COLA -No Post Retiree Survivors Allowance	New Hires Only	7.50%	0.00%	2.00%

For Safety employees, the first alternative pension scenario provides that the employer contributes 18.4% toward the pension and the employee contributes 9% at the same benefit level, currently 3% pension at age 50.

The next three alternatives are for new hires only.

Alternative two provides the following benefits:

2% pension at Age 50
Final Average Earnings - 3 yrs
2% COLA
No Post Retirement Survivor's Allowance

Under this scenario the employer contributes 12.9% and the member contributes 9%.

Alternative three provides the following benefits:

3% pension at Age 55
 Final Average Earnings - 3 yrs
 2% COLA
 No Post Retirement Survivor's Allowance

In this case, the employer contributes 14.5% and the member contributes 9%.

Alternative four provides the following benefits:

2% pension at Age 55
 Final Average Earnings - 3 yrs
 2% COLA
 No Post Retirement Survivor's Allowance

In this case, the employer contributes 12.1% and the member contribution is 8%.

The following chart summarizes the various formulas for safety:

#	Alternative Pension Formulas Safety	Affected Employees	Employer Contribution (Normal Cost Only)	Employer Pick Up	Member Contribution (Paid by Employee)
1	Current 3% at Age 50 Employee picks up 9% contribution	All Employees	18.40%	0.00%	9.00%
2	2% at Age 50 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	12.90%	0.00%	9.00%
3	3% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	14.50%	0.00%	9.00%
4	2% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	12.10%	0.00%	8.00%

Additional Analysis on Alternative Pension Plans

The following charts reflect the average relative ranking of current total compensation for Riverside County by employee category and the impact of the various alternative pension options on that ranking. For purposes of this analysis, lower numbers are more favorable to the employee.

It is also important to note that Executives and Senior Level Managers and First/Mid-Level Officials and Managers are being compared to a set of 10 counties. Other groups are being compared to only six counties, including Riverside.

Category	Riverside						Alt 6 - Tier 1 (A)	Alt 6 - Tier 1 (B)	Alt 6 - Tier 2
	Current	Alt 1	Alt 2	Alt 3	Alt 4	Alt 5			
Executives Sr Level Officials and Managers	3.8	4.4	4.7	4.6	4.6	4.7	4.4	4.5	4.6
First/Mid-Level Officials and Managers	2.9	3.6	3.8	3.8	3.7	3.8	3.6	3.6	3.7
Professionals	2.7	3.7	4.3	4.2	4.1	4.3	3.7	3.8	4.1
Para-Professionals	2.7	3.4	4.1	4.0	4.0	4.0	3.4	3.4	4.0
Technicians	1.8	2.3	2.6	2.5	2.5	2.5	2.3	2.3	2.5
Craft Workers	3.0	3.7	4.0	4.0	4.0	4.0	3.7	3.7	4.0
Service Workers	2.4	3.5	3.8	3.7	3.7	3.8	3.5	3.5	3.7
Administrative Support Workers	2.7	3.8	4.3	4.2	4.1	4.2	3.8	4.0	4.1
Medical Positions	1.9	2.3	2.6	2.5	2.5	2.6	2.3	2.4	2.5

Category	Riverside				
	Current	Alt 1	Alt 2	Alt 3	Alt 4
Safety Professionals	3.4	4.0	4.1	4.1	4.2

Buck also assessed the impact on total compensation from another perspective. In this case, we reviewed the impact on existing total compensation for each alternative, based on the formulas provided by Bartel Associates.

Alternative 1 and Alternative 6 – Tier 1(A) will reduce current total compensation by approximately 5% to 6% for most employees. All of the other formulas have a more dramatic impact on total compensation and provide less benefit.

The chart below indicates the impact on total compensation of each of the alternatives. Some alternatives apply only to new hires, so the impact reflects the change from the current benefit levels at the point when the new hire would reach the top step of the salary range. In addition, these scenarios assume no other changes to total compensation.

Impact of Alternative Pension Formulas on Total Compensation

Employee Category	Current	Alt 1	Alt 2	Alt 3	Alt 4	Alt 5	Alt 6 - Tier 1 (A)	Alt 6 - Tier 1 (B)	Alt 6 - Tier 2
Management	100%	95%	91%	92%	93%	91%	95%	94%	93%
Professionals	100%	95%	92%	92%	93%	92%	95%	94%	93%
Clerical	100%	95%	92%	93%	93%	92%	95%	95%	93%
Craft	100%	95%	92%	93%	93%	92%	95%	94%	93%
Para-Professionals	100%	95%	92%	93%	93%	92%	95%	95%	93%
Service Workers	100%	95%	93%	93%	94%	93%	95%	95%	94%
Technicians	100%	95%	92%	93%	93%	92%	95%	95%	93%
Medical	100%	95%	92%	92%	93%	92%	95%	94%	93%
Safety Professionals	100%	94%	90%	92%	90%				

*With the exception of Safety Professionals, differences in % can be attributed to rounding.

For Miscellaneous employees, Alternative 1 will be considered for all employees and Alternative 6 - Tier 1 (A) and (B) will be considered for current employees. Alternative 6 – Tier 1(A) is essentially the same as Alternative 1. Alternative 6 – Tier 1 (B) provides an option for current employees to avoid contribution toward pension benefits. This option, however, produces a 1.5% pension formula for future service plus a defined contribution component. The other options for Miscellaneous employees are all for new hires.

For Safety professionals, the only option for current employees is Alternative 1, requiring employees to assume the current employer pick-up. All other alternatives are only for new hires.

On an overall basis, the smallest long-term impact is reflected by Alternative 1 and Alternative 6 – Tier 1(A). They provide the smallest impact on overall ranking and still maintain the current pension formula. Should the County adopt either of these alternatives, it will need to consider an implementation plan that will provide employees a reasonable period of time to adjust to the change in net income.

Impact on Recruitment and Retention of Alternative Pension Formulas in Riverside County

It is fair to say that any changes in pension formula considered by Riverside County, although not as rich as previous pension formulas, will be perceived as positive by applicants. The trend away from defined benefit programs in the private sector will assist in ensuring that a defined benefit program—even with a reduced formula—is a significant positive factor in recruiting.

In addition, for those current employees, the availability of the current formulas, albeit with contributions from participants, will still provide a significant advantage. Other counties continue to modify their pension formulas and concern that existing employees will leave due to changes in pension formulas is not warranted. A move to another county would ensure that current incumbents participate in the pension formula for new hires, thus minimizing the benefit at retirement. Riverside County is also considering offering choices to current employees that will allow them to make individual choice based on their own needs.

Finally, Riverside County is not suffering from a dearth of applicants. The following chart shows the number of applicants and the number of positions filled for the past three years.

Non Safety Applicants		
Year	Applications	Jobs Filled
2008	85,335	3,190
2009	63,415	1,092
2010	102,283	1889
2011*	19,033	372
* Jan/Feb Only		

Safety		
Year	Applications	Jobs Filled
2008	10,643	441
2009	8,401	53
2010	24,751	98
2011*	4,313	0
* Jan/Feb Only		

Applications includes all resume submissions.
The data does not differentiate between "outside" new hires and promotions/transfers of existing employees.

Should the number of applicants continue at current levels throughout 2011, the County will equal or surpass last year's applicant pool in both areas.

Finally, the County cannot be 'held hostage' based on a perception that recruiting and retention might be affected. The County has obligations to both employees and taxpayers. The current economic environment requires the County to take action to bring costs down based on its "ability to pay" and to ensure future affordability. Although there are multiple methods of achieving this objective, the County has to balance the interests of the taxpayer with the interests of the employees.

Conclusions

Changing pension formulas will not negatively impact Riverside County's ability to attract and retain talent.

As discussed in the section above, changing pension formulas is not likely to have a significant impact on Riverside County's ability to attract applicants and retain current employees. Although the County may give consideration to a "phased in" approach to minimize the impact on the net income of current employees, modification of the existing formulas will still result in a benefit that is perceived as a strong benefit, especially by any applicants coming from the private sector.

Riverside County should consider the appropriate balance between the interests of the taxpayers and the interests of employees.

Determining the "ability to pay" is a fundamental responsibility of any governing body. As has been discussed at length in this report, the County has encountered significant economic challenges over the past few years and, combined with the structural deficit, these challenges inhibit its ability to maintain total compensation at current levels. Although we all hope for a quick economic recovery, the CSUP Riverside County Quarterly Update indicates that "...the sluggish rebound in the County will continue to lag the recovery in Southern California and the national economy with these lags becoming more pronounced over 2011." Unemployment also remains high, with the rate for the Riverside-San Bernardino MSA standing at 14.3% in November 2010.

Given Riverside County's declining tax base and other economic indicators, some may question the current positioning of total compensation for most positions.

From a total compensation perspective, Riverside County is positioned very well compared to other counties, many of which are better positioned from an assessment and tax revenue perspective. In total, 65% of the executive and other management positions, excluding bonus, were ranked in the top three in total compensation of the comparator group and 78.9% of the non-executive group were similarly situated.

Riverside County might consider establishing a total compensation strategy and total compensation philosophy consistent with its economic environment.

A common practice in the private sector is establishing a total compensation strategy and total compensation philosophy consistent with the organization's business strategy and objectives. Companies determine the appropriate positioning of total compensation on the basis of profitability, growth objectives, and competitive pressures. A typical strategy might include total compensation for performance, a methodology for rewarding strong performers, and elimination of "automatic" bonuses. Companies frequently establish base compensation at the 50th percentile of their competitive market, with significant upside potential for outstanding performance, especially as it relates to executives. A critical element of this type of strategy is monitoring the market and ensuring that total compensation remains competitive so that the organization remains able to attract and retain talent.

Alternative Pension Formulas

For purposes of assessing the impact on alternative pension recommendations, the formulas provided by Bartel Associates were used as reflected below for Miscellaneous and General:

#	Alternative Pension Formulas Miscellaneous/General	Affected Employees	Employer Contribution (Normal Cost Only)	Employer Pick Up	Member Contribution (Paid by Employee)
1	Current 3% at Age 60 Employee contributes 6% to the plan	All Employees	10.40%	0.00%	8.00%
2	2% at Age 60 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	5.70%	0.00%	7.00%
3	2% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	6.70%	0.00%	7.00%
4	Hybrid Defined Benefit/Defined Contribution Plan 3% Defined Contribution paid by the employer 1.50% pension at Age 65 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	7.50%	0.00%	2.00%
5	12% Defined Contribution	New Hires Only	6.00%	0.00%	6.00%
6	Choice Defined Benefit Plan				
Tier 1	a) 3% at Age 60 -Final Average Earnings - 1 yr -2% COLA -With Post Retirement Survivors Allowance OR b) 1.5% Defined Benefit Plan at Age 65 plus -3% Defined Contribution -Final Average Earnings - 3 yrs -2% COLA - No Post Retiree Survivors Allowance	Current Employees	10.40%	0.00%	8.00%
Tier 2	1.5% Defined Benefit Plan at Age 65 -3% Defined Contribution -Final Average Earnings - 3 yrs -2% COLA -No Post Retiree Survivors Allowance	New Hires Only	7.50%	0.00%	2.00%

The following alternative pension formulas were proposed by Bartel Associates for Safety:

#	Alternative Pension Formulas Safety	Affected Employees	Employer Contribution (Normal Cost Only)	Employer Pick Up	Member Contribution (Paid by Employee)
1	Current 3% at Age 50 Employee picks up 9% contribution	All Employees	15.40%	0.00%	9.00%
2	2% at Age 50 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	12.90%	0.00%	9.00%
3	3% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	14.50%	0.00%	9.00%
4	2% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	12.10%	0.00%	9.00%

Background, Study Objectives, and Methodology

Riverside County engaged Buck Consultants to complete a study of the impact on total compensation of alternative pension formulas that the County is considering. To accomplish this, Buck conducted a total compensation analysis of selected job classifications and determined the effect of alternative pension formulas on the County's ability to attract and retain employees.

Study Objectives

The study objectives were:

- Conduct a total compensation analysis for a representative benchmark sample of positions, including:
 - Base total compensation
 - Health insurance
 - Social Security
 - Pension, including employer pick up and post-retirement medical
 - Paid time off (holidays, vacation and sick time)
- Analyze the impact of alternative pension options for new employees
- Analyze the impact of alternative pension options for current employees to the extent that such options are not in violation of California Vested Rights provisions
- Analyze the impact on recruitment and retention of any changes in pension formulas.

Methodology

For purposes of our market analysis, we adopted the following market study approach:

- Identify the Riverside County's compensation and benefits philosophy, if any
- Ensure a broad sample of benchmark jobs for purposes of analysis
 - 188 classifications were identified for analysis (Because of some discrepancies in the data, ultimately 180 were used for comparative purposes.)
 - 11,063 employees (62%) were covered (out of approximately 17,000). A complete list of classifications by job category is included in Appendix 1.
- Identify appropriate job matches and review with Riverside County
- Adjust compensation data based on the credibility of the match
 - Where matches were questionable, they were eliminated from the sample
- Utilize Bureau of Labor Statistics (BLS) data to provide private sector comparisons
 - The service industry was identified as the most appropriate
 - Service industry benefit rates were applied to the BLS data
- Perform a variety of comparative analyses.

Benchmarking Process

For purposes of benchmarking, a variety of sources were used to ensure that Buck had representative data for various markets. For most occupational groups, Buck used public sector data from the five contiguous counties:

- Los Angeles
- Orange
- San Diego
- San Bernardino
- Ventura.

For Executives, Buck used public sector data from nine counties:

- Los Angeles
- Orange
- San Diego
- San Bernardino
- Ventura
- Alameda
- Contra Costa
- Sacramento
- Santa Clara.

For each group, both public sector and Bureau of Labor Statistics (BLS) data was used to reflect appropriate private sector jobs. In addition, for Clerical and Safety jobs, the City of Riverside and the City of Corona were used to reflect other jurisdictions that potentially could compete with the Riverside County for talent.

Buck used capsule descriptions from various counties and the BLS data to identify Riverside County matches, not just job titles.

Buck used selected EEO-1 categories for purposes of analysis. These categories reflect standard occupational groupings established by the federal government. Three categories in addition to the EEO-1 categories were identified for analysis: Safety Professionals, Para-Professionals, and Medical Professionals. Buck used a separate grouping for these categories to provide comparisons with the additional information sources such as the Cities of Riverside and Corona and the Southern California Hospital Association Survey.

The category definitions and specific data used for each employee group are as follows:

- **Executives/Senior Level Officials and Managers**

This category includes individuals who plan, direct and formulate policies, set strategy and provide the overall direction of the organization for the development and delivery of services within the parameters established by the governing body. They include positions such as Chief Executive Officer, Chief Financial Officer, and presidents or executives of functional areas or lines of business such as Chief Hospital Administrator, Chief Information Officer, Chief Human Resource Officer, Chief Legal Officer, and management directors.

The data sources for this group included:

- The nine counties listed above
- California Statewide BLS data.

- **First/Mid-Level Officials and Managers**

This category includes individuals who serve as managers, other than those who serve as Executives/Senior Level Officials and Managers, including those who oversee and direct the delivery of services or those who function at a regional or divisional level. These managers receive direction from the Executive/Senior Management Levels and typically lead major business units or equivalents. This group typically includes vice presidents, directors, treasurers, and functional/operations managers in areas such as human resources, information systems, and operations. This category also includes some first-line managers (but not supervisors), unit managers, administrative services managers, technical support managers, purchasing and transportation managers, call center managers, etc.

The data sources for this group included:

- Nine contiguous counties
- California Statewide BLS data.

▪ **Professionals**

Most jobs in this category require bachelor and graduate degrees and/or professional certification. In some instances, comparable experience may establish a person's qualifications. Examples of these types of positions are accountants and auditors, architects, chemists, computer programmers, dietitians, engineers, lawyers, librarians, physicians and surgeons, registered nurses, teachers, and surveyors. As already indicated, for purposes of this study, all medical personnel were placed in a separate category.

The data sources for this group included:

- Five contiguous counties
- BLS data for the Los Angeles, Long Beach and Glendale Metro Area
- BLS data for the Riverside, Long Beach and Santa Ana Metro Area.

▪ **Para-Professionals**

These jobs typically require certification usually obtained through an 18- to 24-month specialized program. Para-professional is a job title given to persons in various occupational fields, such as education, health care, engineering and law, who are trained to assist professionals but are not themselves licensed at a professional level. A para-professional is able to perform tasks requiring significant knowledge in the field, and may even function independently of direct professional supervision, but lacks the official authority of the professional. For example, a person who hires a paralegal in lieu of a lawyer to complete bankruptcy forms is still considered to be legally filing.

Some para-professional occupations require special testing or certification in the field, while others require only a certain level of education. In some occupations, such as that of teaching assistant, requirements differ geographically although duties are essentially the same.

The data sources for this group included:

- Five contiguous counties
- BLS data for the Los Angeles, Long Beach and Glendale Metro Area
- BLS data for the Riverside, San Bernardino and Ontario Metro Area.

- **Technicians**

Jobs in this category include activities that require applied scientific skills, usually obtained by post-secondary education of varying length, depending on the particular occupation. Examples of these types of positions are drafters, emergency medical technicians, chemical technicians, and broadcast and sound technicians.

The data sources for this group included:

- Five contiguous counties
- BLS data for the Los Angeles, Long Beach and Santa Ana Metro Area
- BLS data for the Riverside, San Bernardino and Ontario Metro Area.

- **Craft Workers**

Most jobs in this category include higher-skilled occupations in construction (building trades craft workers) and natural resource extraction workers. Examples are electricians, painters, carpenters, plumbers, plasterers, and roofers. This category also includes installation and maintenance workers such as automotive mechanics and electronic repairers. Other jobs include tool and die makers, millwrights and pattern makers. First-line supervisors of craft workers are also in this category.

The data sources for this group included:

- Five contiguous counties
- BLS data for the Los Angeles, Long Beach and Santa Ana Metro Area
- BLS data for the Riverside, San Bernardino and Ontario Metro Area.

- **Service Workers**

Jobs in this category include food service, cleaning service, and personal service. Examples are food service workers, cooks, hairdressers, transportation attendants, cleaners, janitors, and transportation attendants. First-line supervisors of service workers are also in this category.

The data sources for this group included:

- Five contiguous counties
- BLS data for the Los Angeles, Long Beach and Santa Ana Metro Area
- BLS data for the Riverside, San Bernardino and Ontario Metro Area.

▪ **Safety Professionals**

This category includes sheriffs, sheriff's deputies, lieutenants and captains, and corrections officers. In addition, it includes probation officers, coroners, sheriff's investigators, district attorney's investigators, and the supervisor of welfare fraud. First-line supervisors and other safety managers are also in this category.

The data sources for this group included:

- Five contiguous counties
- City of Riverside
- City of Corona.

▪ **Administrative Support Workers (Office/Clerical)**

These jobs involve non-managerial tasks providing administrative support and assistance, primarily in office settings. Examples are office and administrative support workers, bookkeeping, accounting and auditing clerks, dispatchers, couriers, data entry operators, word processors, and general office clerks. First-line supervisors of administrative support workers are also in this category.

The data sources for this group included:

- Five contiguous counties
- City of Riverside
- City of Corona
- BLS data for the Los Angeles, Long Beach and Santa Ana Metro Area
- BLS data for the Riverside, San Bernardino and Ontario Metro Area.

▪ **Medical Positions**

These jobs include management, professional, technical and administrative positions associated with the County Hospital or other medical occupations. The types of positions in this category include physicians, nurses, medical specialty chiefs, nurse managers, psychiatrists, radiologic technicians, nursing assistants, unit clerks, electrocardiograph technicians, etc. First-line supervisors and other non-executive managers are also in this category.

The data sources for this group included:

- Five contiguous counties
- Southern California Hospital Association Survey of Compensation
- Southern California Hospital Association Survey of Benefits.

The following table shows the number of jobs and the number of employees associated with each job category:

Buck Study Classification Representation		
Job Category	# of Classes	# of Employees
Executives/Senior Level Officials and Managers	11	23
First/Mid Level Officials and Managers	11	125
Professionals	47	2,004
Para-Professionals	11	762
Technicians	21	1,250
Craft Workers	3	121
Service Workers	15	520
Safety Professionals	17	2,538
Administrative Support Workers	25	2,461
Medical Positions	27	1,283
Total	188	11,087

Because of discrepancies in some of the data, ultimately 180 classifications were benchmarked.

Total Cash Compensation Assumptions

Total cash compensation is defined as the cost to Riverside County and benchmark samples of:

- Base compensation
- Health care benefits (including dental and vision where applicable) – the portion paid by the employer only
- Paid time off (including vacation, holidays and sick time or the total PTO provided to the employee)
- Social Security (where applicable) – employer portion only
- Pension (including the employer normal cost and the employer “pick-up” of employee contributions)
- Other post employment benefits (OPEBs).

When considering pension formulas across counties, determination of the appropriate pension formulas was based on the following:

- The plan must be open to new employees.
- If there is more than one option open to new employees, the most generous option was used.
- The normal cost for pension purposes was used based on the most recent actuarial reports.
- The employer “pick-up” of employee contributions was supplied to Buck by Riverside County and later verified independently by Bartel Associates.
- The most recent pension formula was verified by Bartel Associates.

For purposes of this study, the following methodology was used:

- The maximum total compensation rate for each classification was used.
- The maximum vacation was used.
- Benefits information was culled from various county websites (see Appendix 2 for the list of websites used).

Alternative Pension Formulas

For purposes of assessing the impact on alternative pension recommendations, the formulas provided by Bartel Associates were used as reflected below for Miscellaneous and General:

#	Alternative Pension Formulas Miscellaneous/General	Affected Employees	Employer Contribution (Normal Cost Only)	Employer Pick Up	Member Contribution (Paid by Employee)
1	Current 3% at Age 60 Employee contributes 8% to the plan	All Employees	10.40%	0.00%	8.00%
2	2% at Age 60 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	5.70%	0.00%	7.00%
3	2% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	6.70%	0.00%	7.00%
4	Hybrid Defined Benefit/Defined Contribution Plan 3% Defined Contribution paid by the employer 1.50% pension at Age 65 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	7.50%	0.00%	2.00%
5	12% Defined Contribution	New Hires Only	6.00%	0.00%	6.00%
6	Choice Defined Benefit Plan				
Tier 1	a) 3% at Age 60 -Final Average Earnings - 1 yr -2% COLA -With Post Retirement Survivors Allowance OR b) 1.5% Defined Benefit Plan at Age 65 plus -3% Defined Contribution -Final Average Earnings - 3 yrs - 2% COLA - No Post Retiree Survivors Allowance	Current Employees	10.40%	0.00%	8.00%
		Current Employees	7.50%	2.00%	0.00%
Tier 2	1.5% Defined Benefit Plan at Age 65 -3% Defined Contribution -Final Average Earnings - 3 yrs -2% COLA -No Post Retiree Survivors Allowance	New Hires Only	7.50%	0.00%	2.00%

The following alternative pension formulas were proposed by Bartel Associates for Safety:

#	Alternative Pension Formulas Safety	Affected Employees	Employer Contribution (Normal Cost Only)	Employer Pick Up	Member Contribution (Paid by Employee)
1	Current 3% at Age 50 Employee picks up 9% contribution	All Employees	15.40%	0.00%	9.00%
2	2% at Age 50 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	12.90%	0.00%	9.00%
3	3% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	14.50%	0.00%	9.00%
4	2% at Age 55 Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	12.10%	0.00%	8.00%

Quality Review

Buck uses a comprehensive quality review process to ensure the accuracy of the benchmark analysis:

- Buck reviews summary descriptions, not just job titles.
- Buck identifies large discrepancies in wages and benefits to identify outliers.
- Benchmark positions were reviewed with Riverside County Compensation Classification specialists to ensure high-quality matches.
- Buck reviewed questionable matches or data and made occasional decisions to eliminate data to avoid distortion.

Section II: Current Economic Environment

Riverside County has experienced significant economic issues over the past three to four years as a result of the downturn in the U.S. economy and the sluggish recovery.

A number of issues are affecting the County. In general, Riverside County does not stack up well against the five contiguous counties. It has the second largest land area (only San Bernardino County is larger), requiring additional resources to provide services across such a broad area. In addition, the County's population is the third smallest, which has a negative effect on sales tax revenue. Finally, the median family income is among the lowest (at \$57,590 in 2008) and is only 5% above the lowest median income in the five-county area. Other statistics that affect Riverside County are reflected in the table below:

Category	Ventura	Orange	San Diego	Riverside	Los Angeles	San Bernardino
Population, 2009 Estimate	803,983	3,026,786	3,053,793	2,125,440	9,848,011	2,017,673
Households	243,234	935,287	994,677	506,218	3,133,774	598,594
Median household income, 2008	\$76,190	\$74,862	\$62,820	\$57,590	\$55,452	\$54,768
Persons below poverty level, 2008	8.70%	9.90%	12.60%	12.60%	15.30%	14.70%
Land Area in square miles	1,845.30	789.40	4,199.89	7,207.37	4,060.87	20,052.50
Sales Tax Rate	8.25%	8.75%	8.75%	8.75%	9.75%	8.75%
Population, 2009 Estimate	38%	142%	144%	100%	463%	95%
Households	48%	185%	196%	100%	619%	118%
Median household income, 2008	132%	130%	109%	100%	96%	95%
Persons below poverty level, 2008	69%	79%	100%	100%	121%	117%
Land Area in square miles	26%	11%	58%	100%	56%	278%
Sales Tax	94%	100%	100%	100%	111%	100%

Riverside County has been hit hard by falling property values.

Falling property values and the resultant tax impact are adversely affecting Riverside County's budget. The structural deficit is projected to top \$130 million in FY 10/11. This gap is likely to wipe out all of the County's reserves in less than two years. This year, the California Board of Equalization set a negative inflation factor of **(0.237%)** for the first time since Proposition 13 was passed in 1978. In addition, Riverside County has the dubious distinction of having the hardest-hit tax roll of the largest 12 counties in California, dropping 10.9% in 2009 and 4.58% in 2010.

Riverside County has the second lowest ability to pay of any of the five contiguous counties. The average tax bill in Riverside is \$3,148, the second lowest of all of these counties. Although Ventura County has a lower assessed valuation, Ventura has the highest median income of all of the counties and the lowest percentage of individuals below the poverty level. In addition, the sales tax in Ventura County is the lowest of the five contiguous counties, indicating that Ventura County does not have the same issues as some of the other counties. Finally, Ventura County's average tax bill is 152.5% of Riverside County's.

2009-2010 Property Tax Collections Statistical Report				
County	Assessed Valuation Billions	Tax Bills Issued	2009-2010 Property Tax Collections	Average Tax Bill
Riverside	\$215.292	901,008	\$2,836,504,294	\$3,148
Los Angeles	\$1,075.011	2,367,863	\$13,317,324,715	\$5,624
Orange	\$420.208	834,905	\$4,741,164,566	\$5,679
San Bernadino	\$174.112	766,317	\$2,057,811,816	\$2,685
San Diego	\$394.381	983,676	\$4,485,851,046	\$4,560
Ventura	\$104.656	244,552	\$1,174,014,254	\$4,801
Riverside				
Los Angeles	499.3%	262.8%	469.5%	178.7%
Orange	195.2%	92.7%	167.1%	180.4%
San Bernadino	80.9%	85.1%	72.5%	85.3%
San Diego	183.2%	109.2%	158.1%	144.9%
Ventura	48.6%	27.1%	41.4%	152.5%

Section III: Analysis

Comparison of Riverside County to Other County Entities

All executive positions were ranked using base salary because Riverside Human Resources assured Buck that the Executive Performance Recognition Program is not a continuing benefit and is adjusted annually, with some individuals losing their previously granted salary increases. Under this program, Group 1 employees who serve "At-Will" are entitled to salary increases to a maximum of 14 steps beyond the regularly assigned top step of the salary range. Other Group 1 or Group 3 employees who serve "At-Will" are eligible for salary increases up to a maximum of five steps beyond the regularly assigned top step of the salary range. Because County Human Resources assured Buck that these increases are not permanent and fluctuate from year to year, they were excluded from the analysis. Usually Buck considers all compensation, including bonuses, in the total compensation analysis.

Of the 11 executive positions reviewed, 2 positions (or 18%) were ranked number 1. Of the 10 First/Mid-Level Officials and Managers, 3 positions were ranked number 1 compared to 43 (or 27%) of the non-executives.

In total, 5 of the executive positions (or 54%) ranked in the top three in total compensation, 7 of the First Level/Mid-Level Officials and Managers were ranked in the top three in total compensation, vs. 124 positions or 78.9% of the non-executive group.

As reflected in the Riverside Executive Management Ranking chart, 7 (or 63%) of the executive positions are ranked in the top four (out of 10 counties). For First and Mid-Level Officials and Managers, 8 positions (or 80% of the sample) are ranked in the top four (out of 10 counties). Of the non-management group, 148 positions (or 92.1% of the sample) are ranked in the top four (out of five counties).

Executives/ Sr Level Officials and Managers			First/Mid Level Officials and Managers			Overall Non-Management Ranking		
Ranking	#	Percent	Ranking	#	Percent	Ranking	Total	Percent
1	2	18%	1	3	27%	1	43	27%
2	1	9%	2	2	18%	2	46	29%
3	3	27%	3	2	18%	3	35	22%
4	1	9%	4	1	9%	4	24	15%
5	2	18%	5	1	9%	5	5	3%
6	1	9%	6	0	0%	6	6	4%
7	0	0%	7	2	18%			
9	1	9%	9	0	0%			
10	0	0%	10	0	0%			
Total	11	100%	Total	11	100%	Total	159	100.0%

The following chart reflects the distribution of rankings by non-management employee job category:

Non-Management Ranking by Employee Category										
Ranking	Professionals	Para Professional	Technician	Craft	Service	Safety	Administrative Support Workers	Medical	Total	Percent
1	10	2	11	1	3	0	3	13	43	27%
2	9	1	6	0	5	6	8	11	46	29%
3	14	5	2	0	2	5	6	1	35	22%
4	8	2	2	2	3	3	3	1	24	15%
5	3	0	0	0	0	0	1	1	5	3%
6	1	0	0	0	0	3	1	1	6	4%
Total	45	10	21	3	13	17	22	28	159	100.0%

As shown in this chart, despite Riverside County's precarious financial position, most jobs (124 of 159) are ranked in the top three positions county comparisons. An additional 24 jobs are ranked fourth across the six-county comparator group, with only 11 positions (or 6.7% of jobs) ranked lower than fourth.

Overall Ranking

The following chart reflects the ranking of Riverside County against the combined sample of all entities:

Overall Ranking Against Public and Private Sector Entities		
Job Category	Riverside Position	# of Comparisons
Executives	5	10
First/Mid-Level Officials and Managers	8	11
Professionals	3	8
Para Professionals	4	7
Technicians	1	8
Craft Workers	5	8
Service Workers	4	8
Safety Professionals	4	8
Administrative Support Workers	5	8
Medical Professionals	1	6

The next chart reflects the overall ranking of Riverside County against private sector data only:

Overall Ranking Against Private Sector Entities Only		
Job Category	Riverside Position	# of Comparisons
Executives (1)	N/A	N/A
First/Mid-Level Officials and Managers	2	2
Professionals	3	3
Para Professionals	N/A	N/A
Technicians	1	3
Craft Workers	3	3
Service Workers	1	3
Safety Professionals (2)	N/A	N/A
Administrative Support Workers	1	3
Medical Professionals	1	2

1. Not enough private sector data to warrant comparisons
2. No private sector comparisons were made

Detailed individual charts and graphs reflecting county comparisons for each component of total compensation for each position are contained in Appendix 3. For Executives and First/Mid-Level Officials and Managers, these charts also reflect the statewide BLS data where applicable.

Private Sector Comparisons Were Generated from Various Data Sources

Bureau of Labor Statistics (BLS) data were used to assess private sector comparisons for job classifications where sufficient data was available. BLS data are available for a number of industries, including Manufacturing, Financial and Insurance Services, and the Services Industry. For purposes of this analysis, Buck used all statewide data and data from the composite of the two selected BLS metropolitan areas: the Los Angeles, Long Beach and Glendale BLS metropolitan area and the Riverside, San Bernardino and Ontario BLS metropolitan area. Buck also utilized the hourly benefit information provided by BLS to calculate benefits. Both total compensation data and benefits industry data were obtained from the respective statewide benefits data and metropolitan areas.

It is also important to note that BLS data is aggregated by general occupational categories. As a result, it is not possible to differentiate among various levels within the same category of employees. Examples of the categories used by BLS are:

- Accountants and auditors
- Audio and video equipment technicians
- Automotive service technicians and mechanics
- Bookkeeping, accounting and auditing clerks
- Budget analysts
- Civil engineers
- Computer operators
- Computer systems analysts
- Construction and building inspectors
- Financial managers
- First-line supervisors of office and administrative support
- Police and sheriff's patrol officers.

For Executive and Management positions, Buck used State of California BLS data. For Medical positions, Buck used the Southern California Hospital Association Survey as indicative of health care in this region. For all other positions, two metropolitan areas were chosen:

- BLS data for the Los Angeles, Long Beach and Glendale Metropolitan Area
- BLS data for Riverside, Ontario and San Bernardino Metropolitan Area.

In addition to the BLS data, Buck used City of Riverside and City of Corona data for both administrative and safety position comparisons.

Because some positions are unique to the public sector, not all positions could be matched using private sector data; therefore some of this data must be considered in light of the number of matches. In particular, the executive category yielded only two private sector job matches and the para-professional category yielded only three job matches, resulting in skewed data; therefore these matches are not reflected in the data. Although the services category yielded only four matches, most other positions were unique to the public sector so the data from that category is included.

Calculation of Average and Median Information

For each employee grouping, the following methodology was used to calculate the average total compensation and the median compensation for each category:

Calculation of the Average

- For each county, all matched jobs were averaged.
- For BLS data, only matched jobs were averaged.
- Zeroes were not considered in any of the calculations.

Determination of the Median

- For each county, the job that fell at the 50th percentile was used as the median.
- For BLS data, of the jobs matched, the job that fell at the 50th percentile was used as the median.
- Zeroes were not considered for purposes of establishing the median.

Individual graphs and charts reflecting the alternative pension options and other source data for comparing non-management positions to private sector data are contained in Appendix 4.

Comparisons to BLS Data and Other External Data Sources

It is apparent from the analysis that in most cases the public sector base salary is significantly below that of the private sector; however, the benefits provided to public sector employees drive total compensation to a much closer relationship. That being said, comparing private sector data with most public sector positions is similar to comparing apples to oranges. The dynamics of private sector employers and public sector employers are entirely different. While this information provides data of a general nature, its usefulness for informing decisions regarding total compensation and benefits in the public sector is limited. It does, however provide general private sector comparisons.

The chart below reflects an overall view of the Average Total Compensation of Riverside County Compared to Other Data Sources. Riverside County's average total cash compensation leads in many job categories.

In the Craft category, Riverside County lags the Los Angeles, Long Beach and Glendale BLS Metropolitan Area and the Riverside, San Bernardino, Ontario BLS Metropolitan Area. However, the job matches in the Craft category were for "operating engineers and other construction equipment operators" and the data may be suspect. The Sr. Heavy Equipment Mechanic was matched to Bus and Truck Mechanics and Diesel Engine Specialists. These are both the best matches from the BLS data source but may not adequately reflect the nature of these positions.

In the Administrative jobs category, Riverside County lags the City of Riverside by 8.6% but leads the City of Corona by almost 12%. Riverside County leads both BLS comparisons.

Comparison of Riverside County Average Total Compensation to Other Data Sources													
Job Category	Riverside County Average	California BLS Data	% Diff	LA, LB, Glendale BLS Metro	% Diff	Riverside, SB, and Ontario BLS Metro	% Diff	City of Riverside	% Diff	City of Corona	% Diff	HASC	% Diff
Executive Positions	N/A	N/A	N/A										
First/Mid-Level Officials and Managers	\$182,510	\$177,297	2.9%										
Professional Positions	\$125,065			\$148,943	19.1%	\$131,733	-5.1%						
Para-Professional Positions	N/A			N/A	N/A	N/A	N/A						
Technicians	\$102,010			\$97,573	4.5%	\$93,978	8.5%						
Craft	\$86,515			\$103,875	20.1%	\$100,695	16.4%						
Service Workers	\$70,852			\$67,934	4.3%	\$68,675	3.2%						
Safety Professionals	\$149,527							\$167,930	12.3%	\$150,251	0.5%		
Administrative Support Workers	\$84,433			\$78,474	7.6%	\$69,139	22.1%	\$91,724	8.6%	\$75,526	11.8%		
Medical Professionals	\$154,138											\$135,837	13.5%

The next chart reflects an overall view of the Median Total Compensation of Riverside County Compared to Other Data Sources. Riverside County's median compensation also leads in a number of job categories, although not in as many as the Average Total Compensation.

The same issues exist in the Craft category. Buck discussed those in the previous section.

In the Professional category, Riverside County lags the Los Angeles, Long Beach and Glendale BLS Metropolitan Area and the Riverside, San Bernardino, Ontario BLS Metropolitan Area; however, the data is within 5% of the Riverside, San Bernardino, Ontario BLS numbers.

The disparity in technician pay is not that great for either set of BLS data. In the Administrative jobs category, Riverside County lags the City of Riverside but is competitive with the City of Corona.

Comparison of Riverside County Median Total Compensation to Other Data Sources													
Job Category	Riverside County Median	California BLS Data	% Diff	LA, LB, Glendale BLS Metro	% Diff	Riverside, SB, and Ontario BLS Metro	% Diff	City of Riverside	% Diff	City of Corona	% Diff	HASC	% Diff
Executive Positions	N/A	N/A	N/A										
First/Mid-Level Officials and Managers	\$183,775	\$185,867	1.1%										
Professional Positions	\$111,186			\$138,642	25.6%	\$116,572	5.0%						
Para-Professional Positions	N/A			N/A	N/A	N/A	N/A						
Technicians	\$101,460			\$107,746	4.5%	\$95,742	6.0%						
Craft	\$84,072			\$115,163	37.0%	\$112,001	33.2%						
Service Workers	\$69,795			\$72,534	5.4%	\$71,905	4.5%						
Safety Workers	\$137,757							\$101,395	35.9%	\$134,151	2.7%		
Administrative Support Workers	\$78,418			\$68,275	14.9%	\$65,354	20.0%	\$88,006	12.2%	\$75,973	3.2%		
Medical Professionals	\$125,403											\$132,643	5.8%

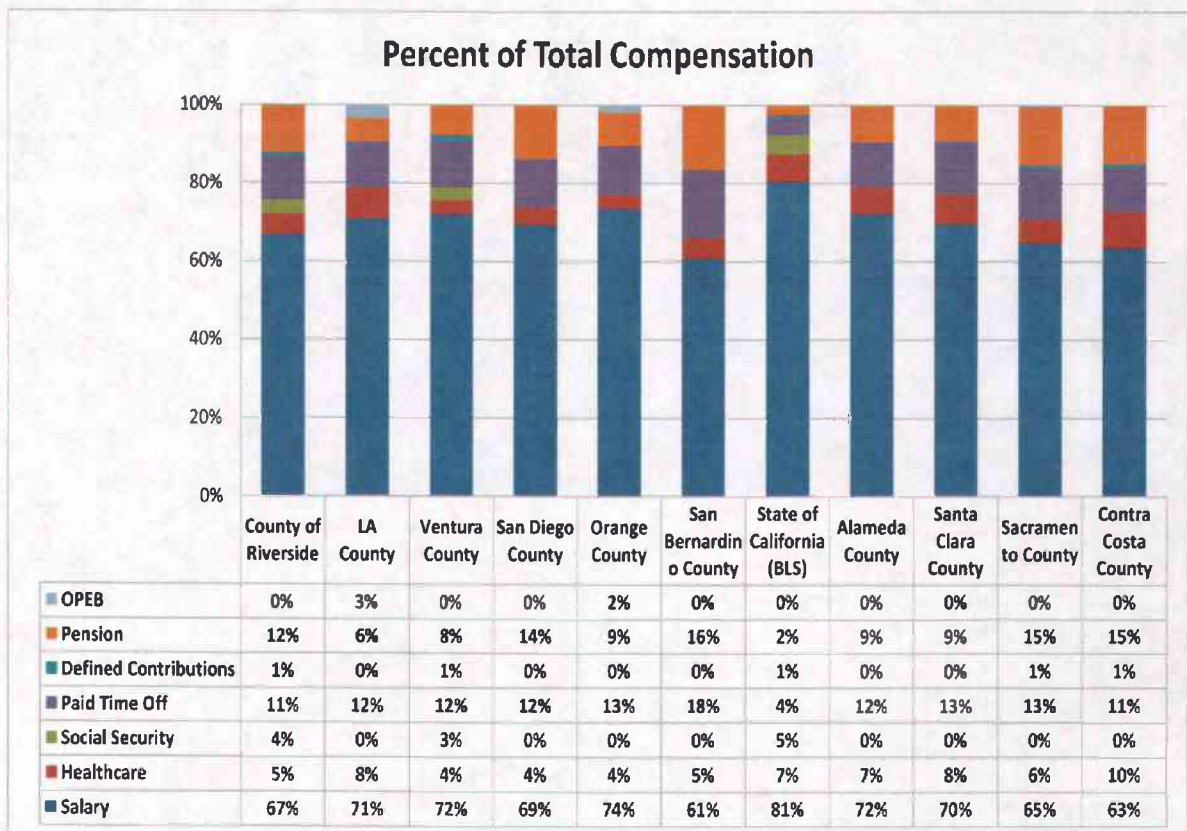
Following is a detailed discussion of each job category, with charts and graphs representing the total compensation analysis. The graphs also provide insight into the breakdown of the various total compensation components by county and other external sources.

Executive Positions

As previously indicated, only two of the Executive positions could be matched with BLS data, so it is not appropriate to draw any conclusions from the BLS data and we excluded the data from our comparisons.

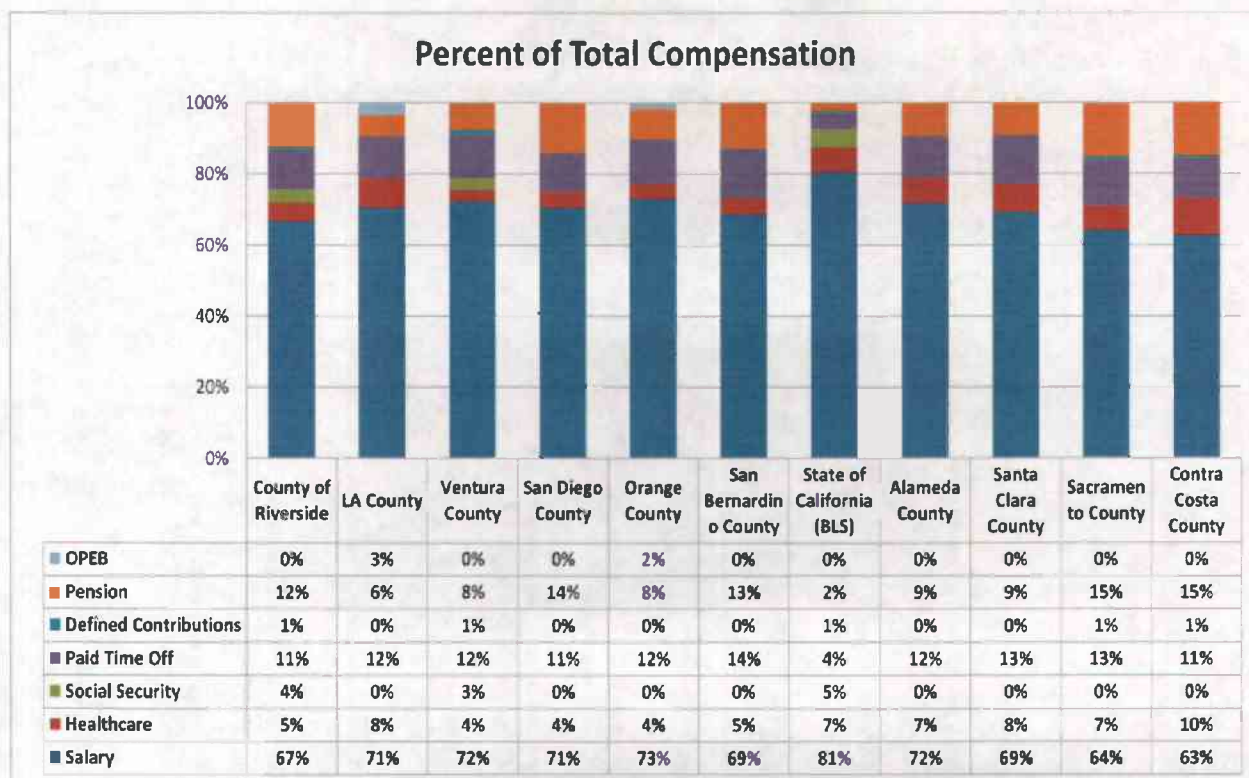
First and Mid-Level Officials and Managers—Average Total Compensation Comparison with County and Private Sector Data

In this case, Buck matched six of ten positions to BLS data, so the comparisons are included. Riverside County's average total compensation is \$182,510 vs. BLS total compensation average of \$177,297. Riverside County total compensation is approximately 3% more than comparable BLS positions. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



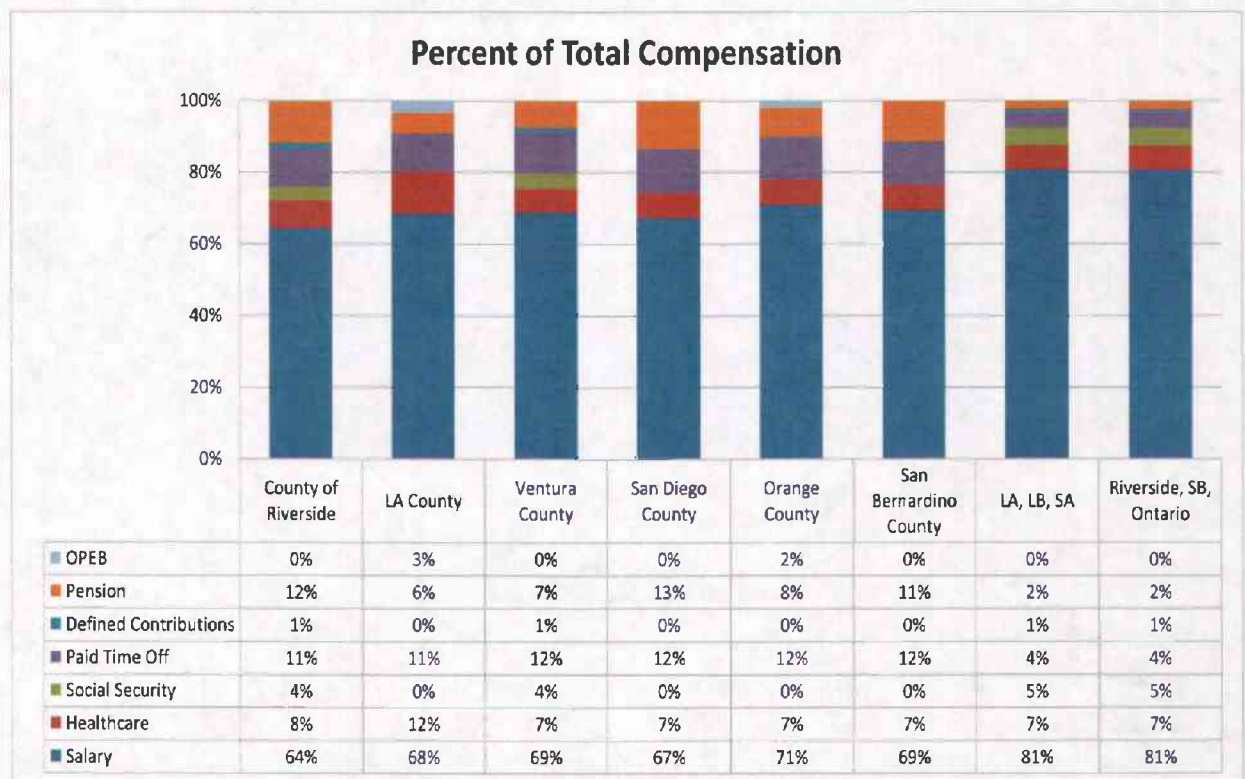
First and Mid-Level Officials and Managers—Median Total Compensation Comparison with County and Private Sector Data

The median total compensation for this category for Riverside County is \$183,775 vs. \$185,867 for the statewide BLS data. This represents a difference of 1.1%. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



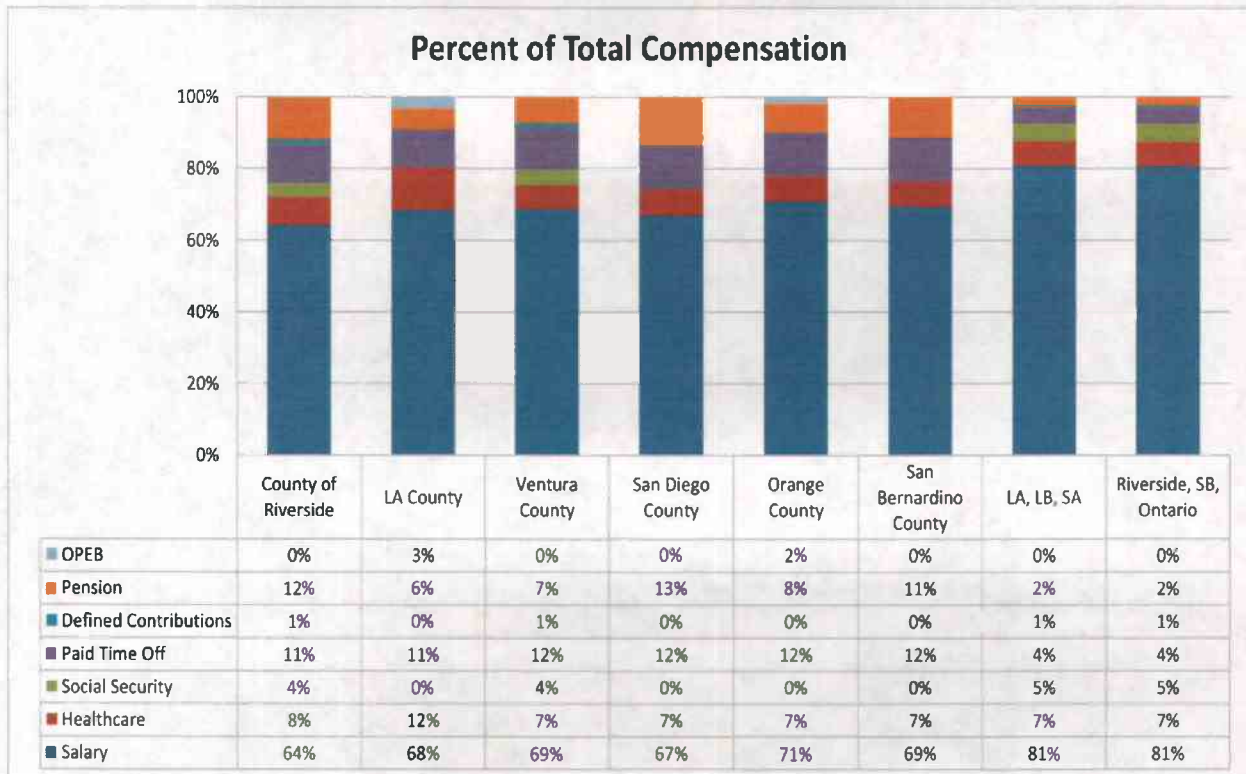
Professional Positions—Average Comparison with County and Private Sector Data

Of the 47 Professional positions, Buck was able to match 22 to the BLS data for both standard metropolitan areas. The average total compensation in Riverside County is \$125,065 vs. \$148,943 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$131,733 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, a difference of 19% and 5%, respectively. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



Professional Positions—Median Total Compensation Comparison with County and Private Sector Data

The median total compensation in Riverside County is \$111,186 vs. \$139,642 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$116,572 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, a difference of 26% and 5%, respectively. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.

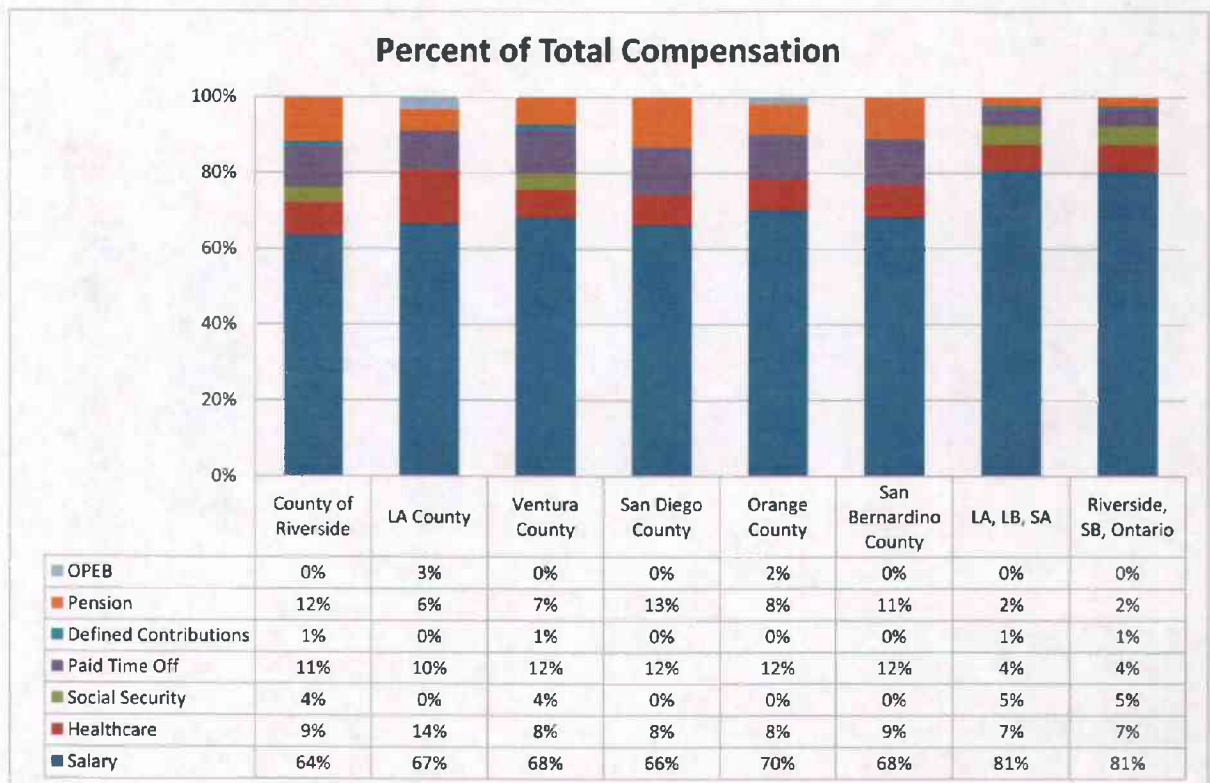


Para-Professional Positions—Total Compensation Comparison with County and Private Sector Data

As indicated earlier, because matches for only three positions were available from the BLS data, there isn't enough data in the sample to indicate any private sector comparisons for this employee category.

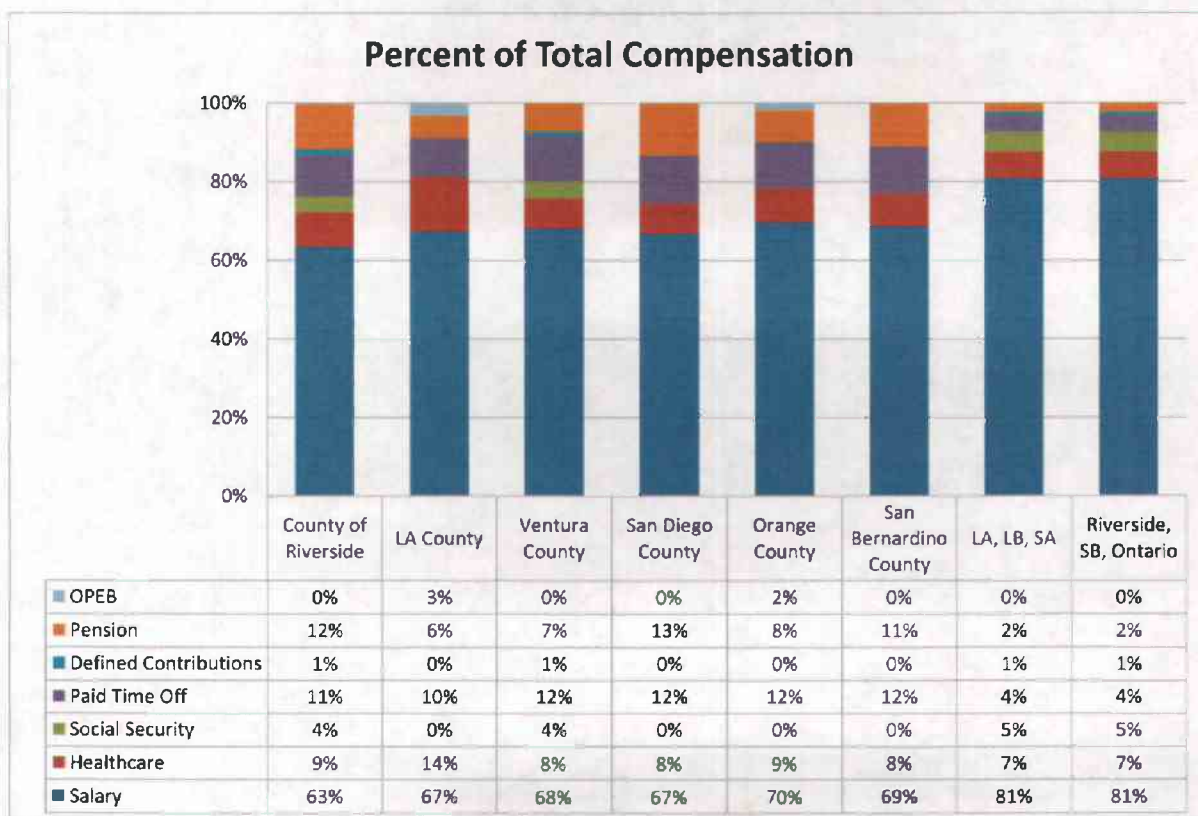
Technicians—Average Total Compensation Comparison with County and Private Sector Data

In the technician category, 13 of 21 positions were matched to private sector data. The average total compensation in Riverside County is \$102,010 vs. \$97,573 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$93,978 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, a difference of 4.5% and 8.5%, respectively. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



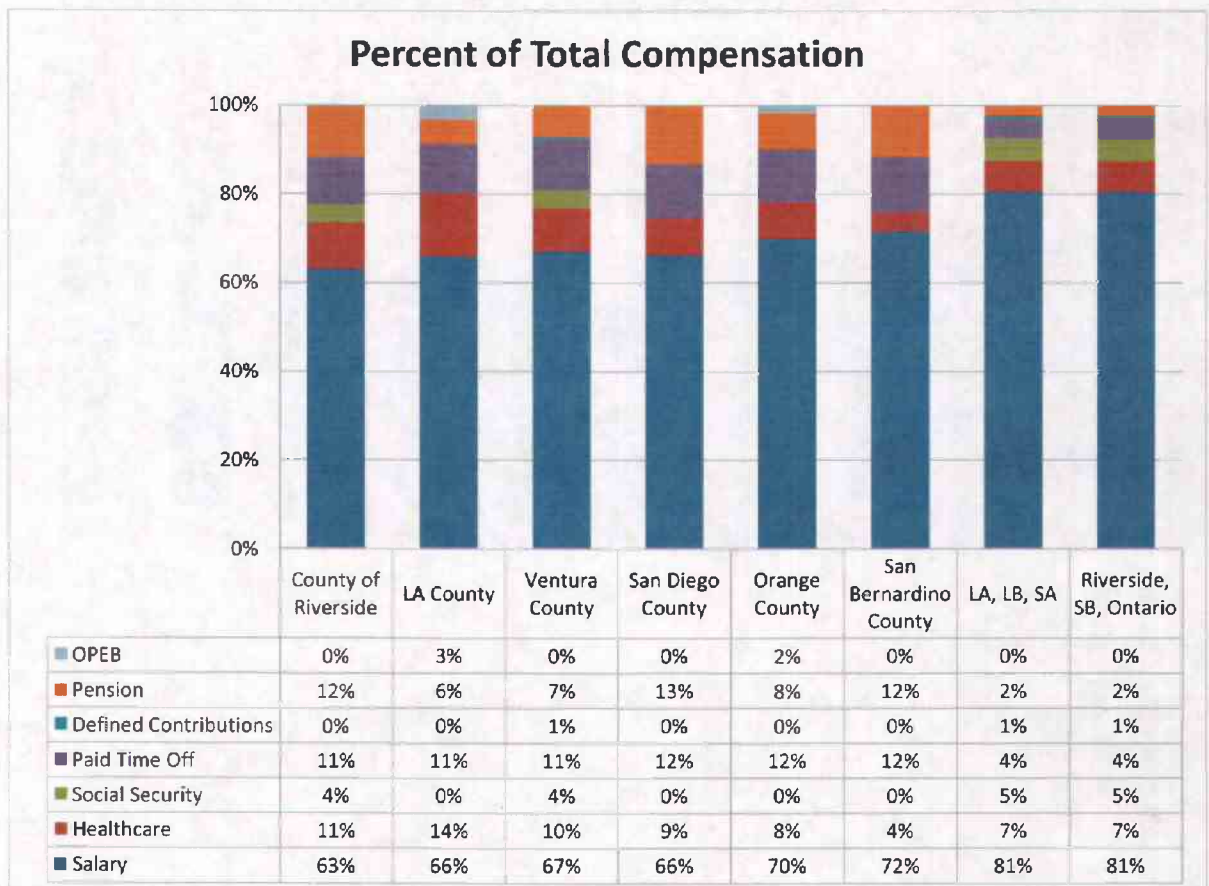
Technicians—Median Total Compensation Comparison with County and Private Sector Data

The median total compensation in Riverside County is \$101,460 vs. \$107,746 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$103,016 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area. Riverside County lags the Los Angeles, Long Beach, Glendale BLS Metropolitan Area by a 6.2%. Riverside County leads the Riverside, San Bernardino, Ontario BLS Metropolitan Area by 6.0%. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



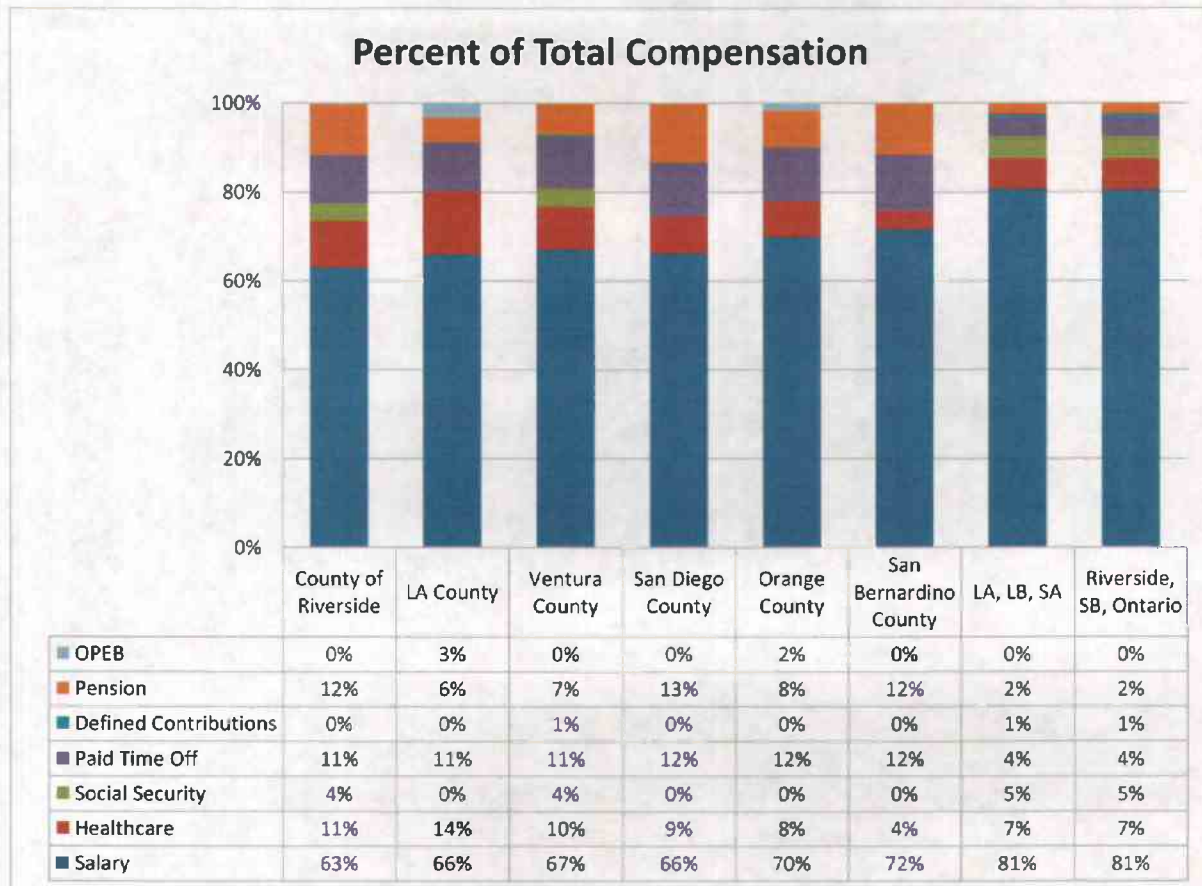
Craft Positions—Average Total Compensation Comparison with County and Private Sector Data

Only three Craft positions are part of the sample and information was obtained from the BLS categories for all three. The average total compensation in Riverside County is \$86,515 vs. \$103,875 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$100,695 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, a difference of 20% and 16.4%, respectively. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



Craft Positions—Median Total Compensation Comparison with County and Private Sector Data

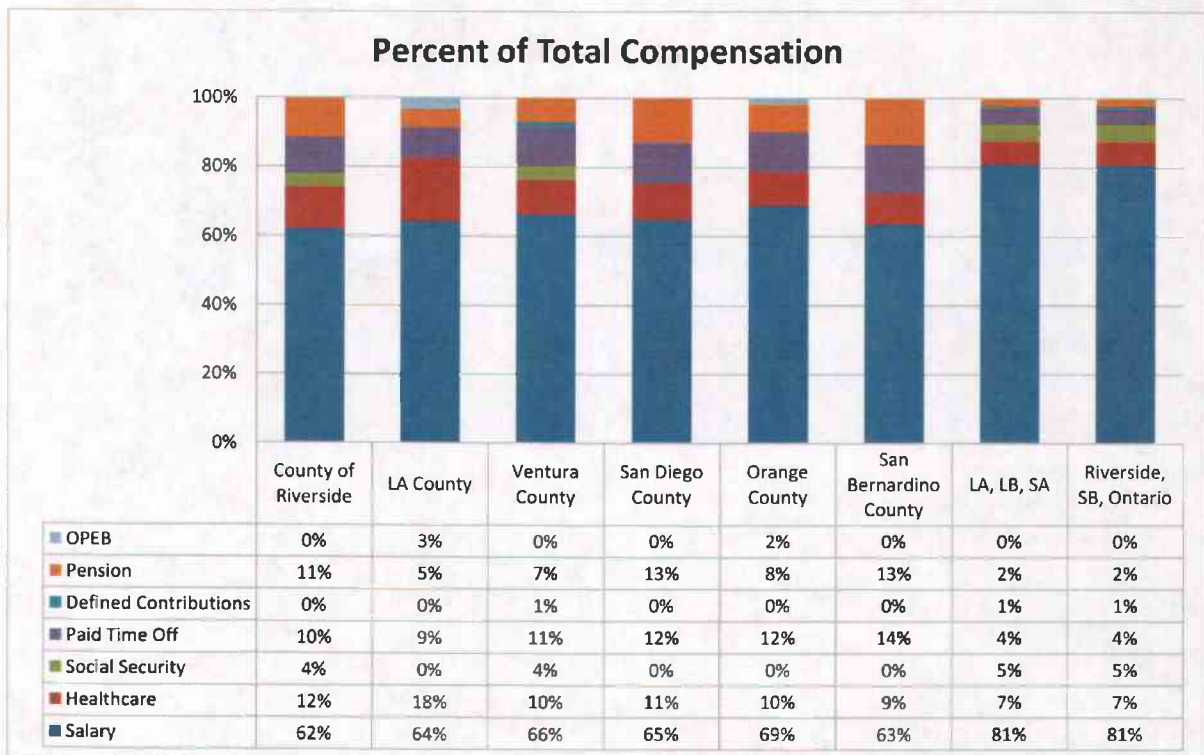
The median total compensation in Riverside County is \$84,072 vs. \$115,163 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$112,001 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, a difference of 37% and 33.2%, respectively. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



Service Workers—Average Total Compensation Comparison with County and Private Sector Data

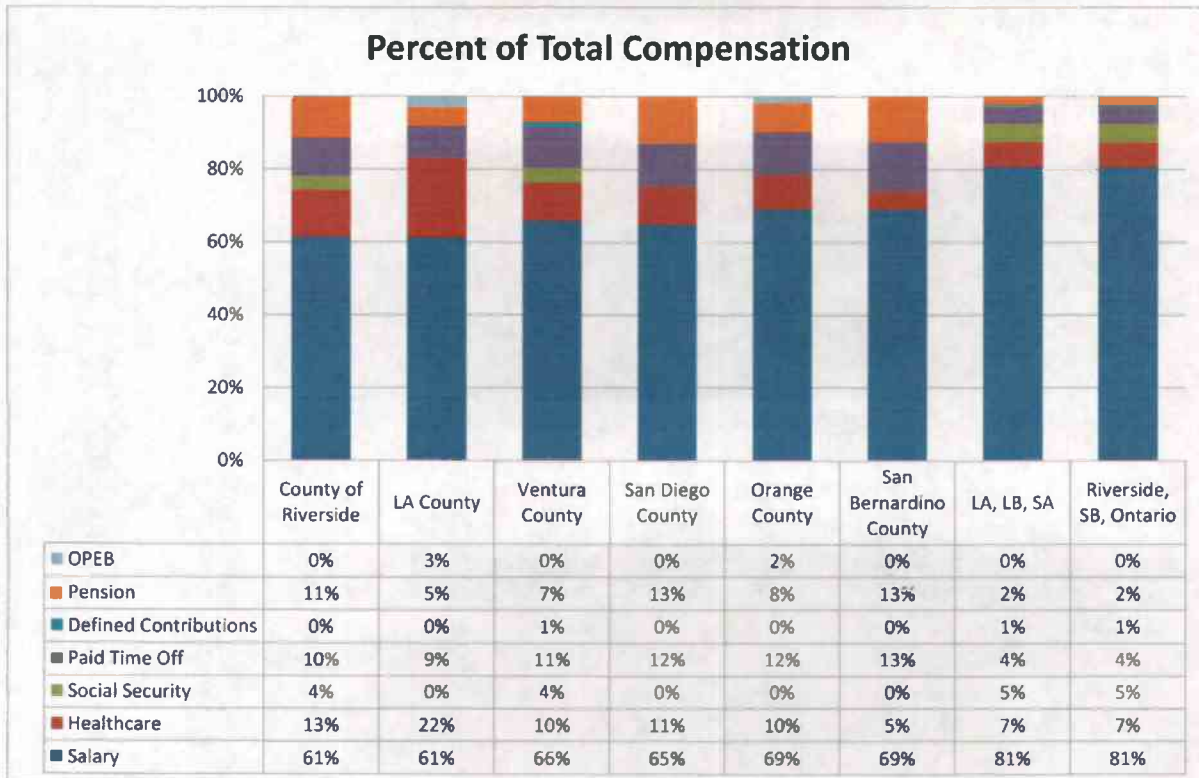
Although only four matches of 13 positions in the service category were found in BLS data, the other positions are all public sector. As a result, we are providing the data for consideration.

The average total compensation in Riverside County is \$70,852 vs. \$66,762 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$66,175 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, with Riverside County having an advantage of 6.1% and 7.1%, respectively. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



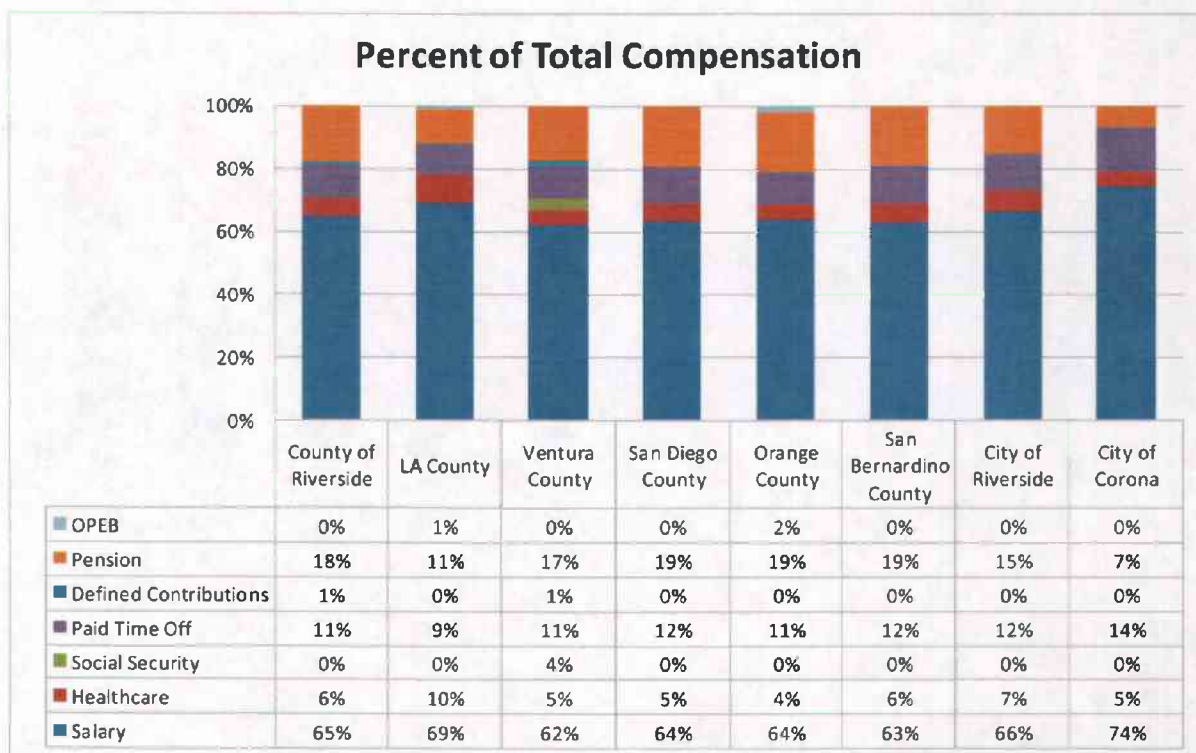
Service Workers—Median Total Compensation Comparison with County and Private Sector Data

The median total compensation in Riverside County is \$68,795 vs. \$72,534 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$72,079 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, a difference of 5.4% and 4.8%, respectively. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



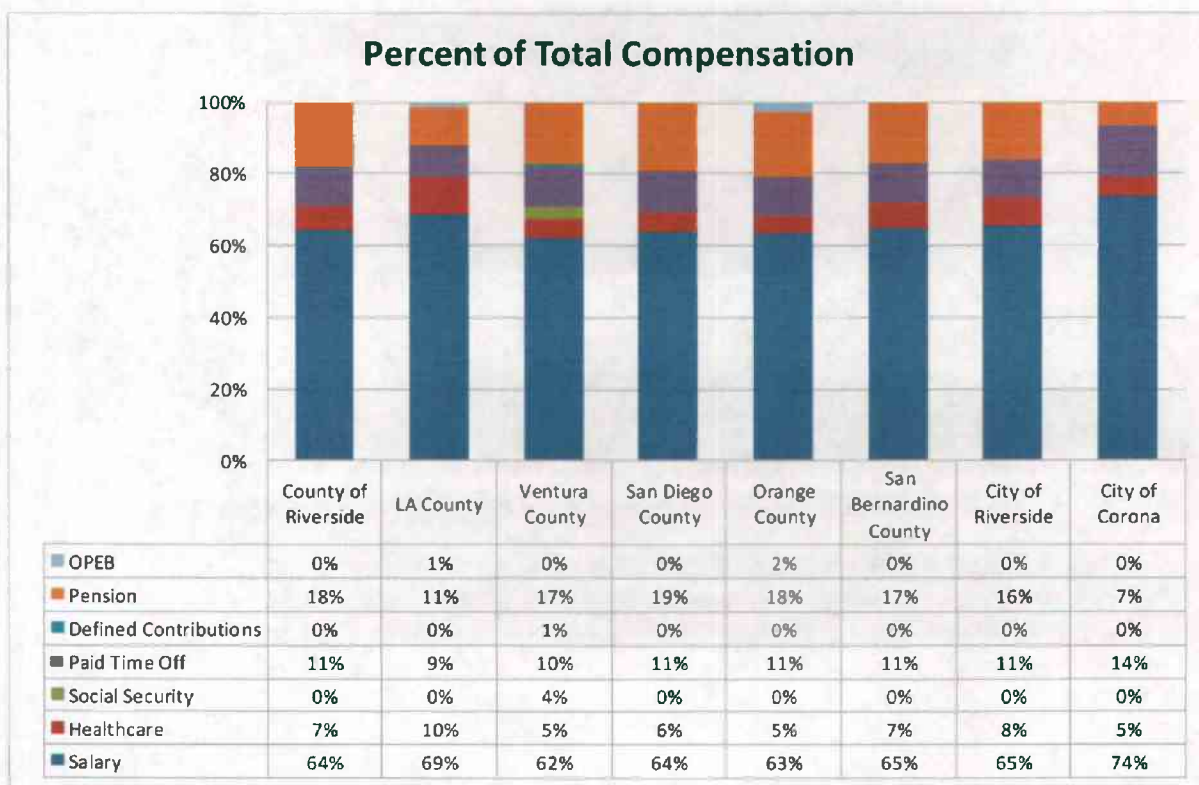
Safety Professionals—Average Total Compensation Comparison with County and City Data

Of the 17 Safety positions in Riverside County, the City of Riverside matched 11 positions and the City of Corona matched 7 positions. The average total compensation in Riverside County is \$149,527 vs. \$167,930 for the City of Riverside and \$150,251 for the City of Corona. The Riverside County lags average total compensation in the City of Riverside by 12.2% and lags the City of Corona by 0.5%. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



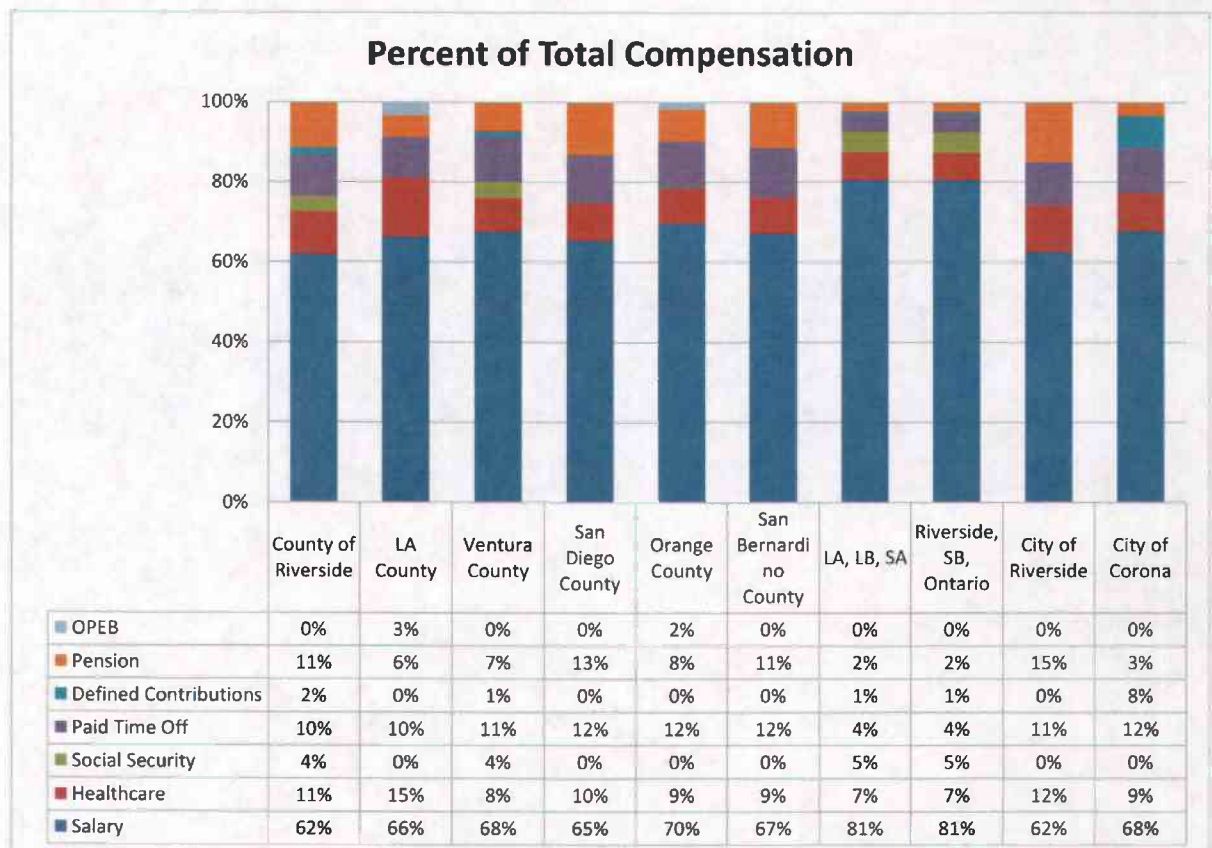
Safety Professionals—Median Total Compensation Comparison with County and City Data

The median total compensation in Riverside County is \$137,757 vs. \$144,122 for the City of Riverside and \$134,151 for the City of Corona. The Riverside County lags median total compensation in the City of Riverside by 4.6% and leads the City of Corona by 2.7%. The distribution of total compensation and benefits is indicated at the bottom of the bar chart. Neither of these differences is significant from the perspective of attracting applicants.



Administrative Support Workers—Average Total Compensation Comparison with County, Private Sector and Cities of Riverside and Corona Data

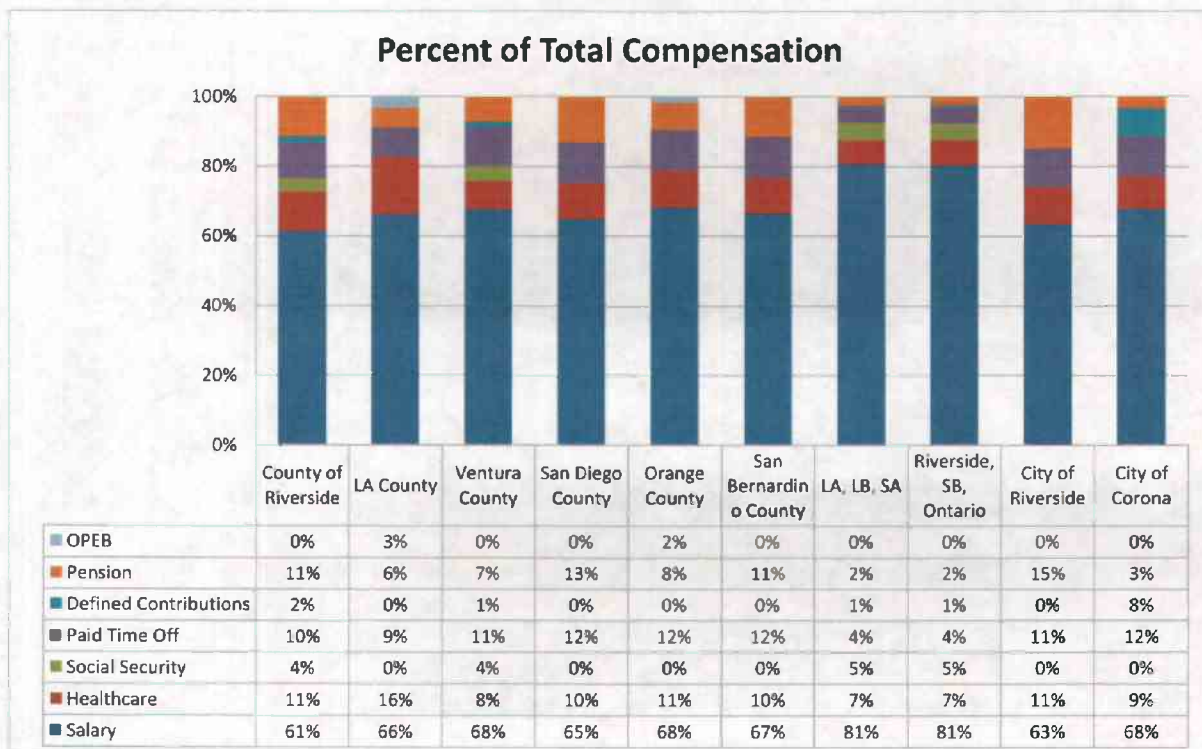
Of the total of 22 administrative positions, BLS data for both metropolitan areas matched 12 positions. The Cities of Riverside and Corona also matched 12 positions, although the positions matched were not the same. The average total compensation in Riverside County is \$84,433 vs. \$78,474 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$69,139 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, with Riverside County having an advantage of 7.6% and 22.1%, respectively. For the City of Riverside, the County lags by 8.6% with the City average total compensation at \$91,724. The County surpasses the City of Corona by 11.8% with Corona average total compensation at \$75,526. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



Administrative Support Workers—Median Total Compensation Comparison with County, Private Sector and Cities of Riverside and Corona Data

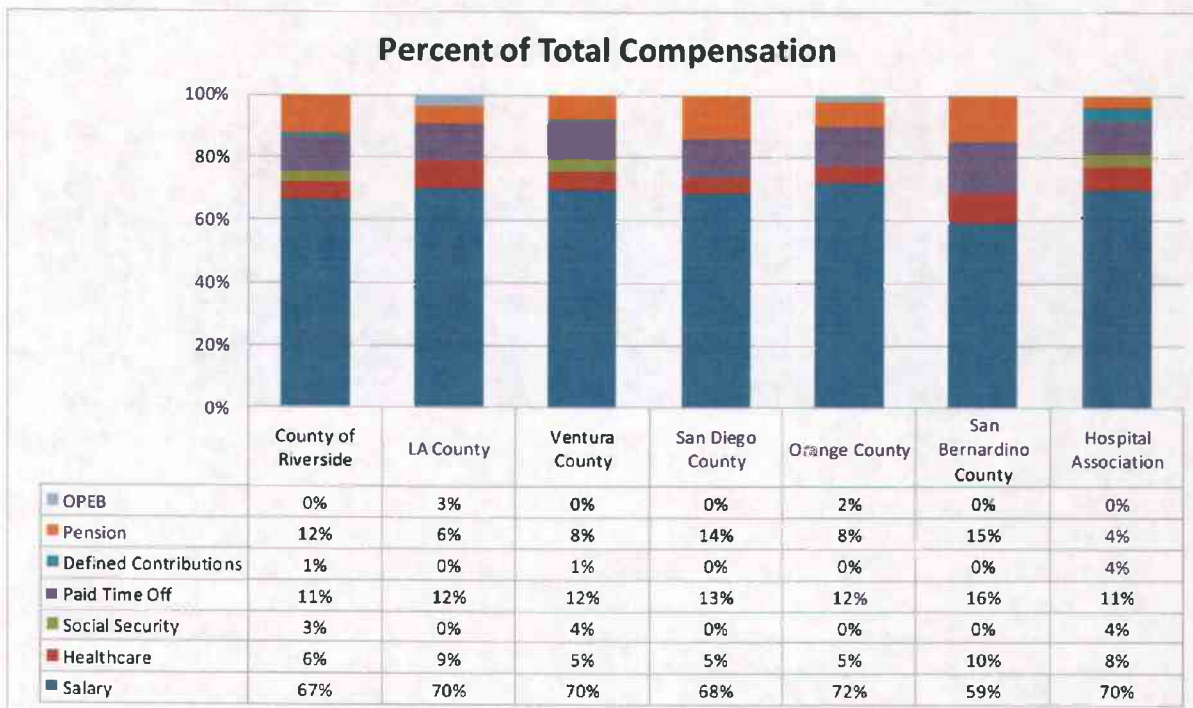
As a result, we are providing the data for consideration.

The median total compensation in Riverside County is \$78,418 vs. \$68,275 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$65,354 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, with Riverside County having an advantage of 14.9% and 20%, respectively. Riverside County lags the City of Riverside median total compensation by 12.3%, with the median at \$88,006 Riverside County exceeds the City of Corona median by 3.2% with the median total compensation at \$75,973. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



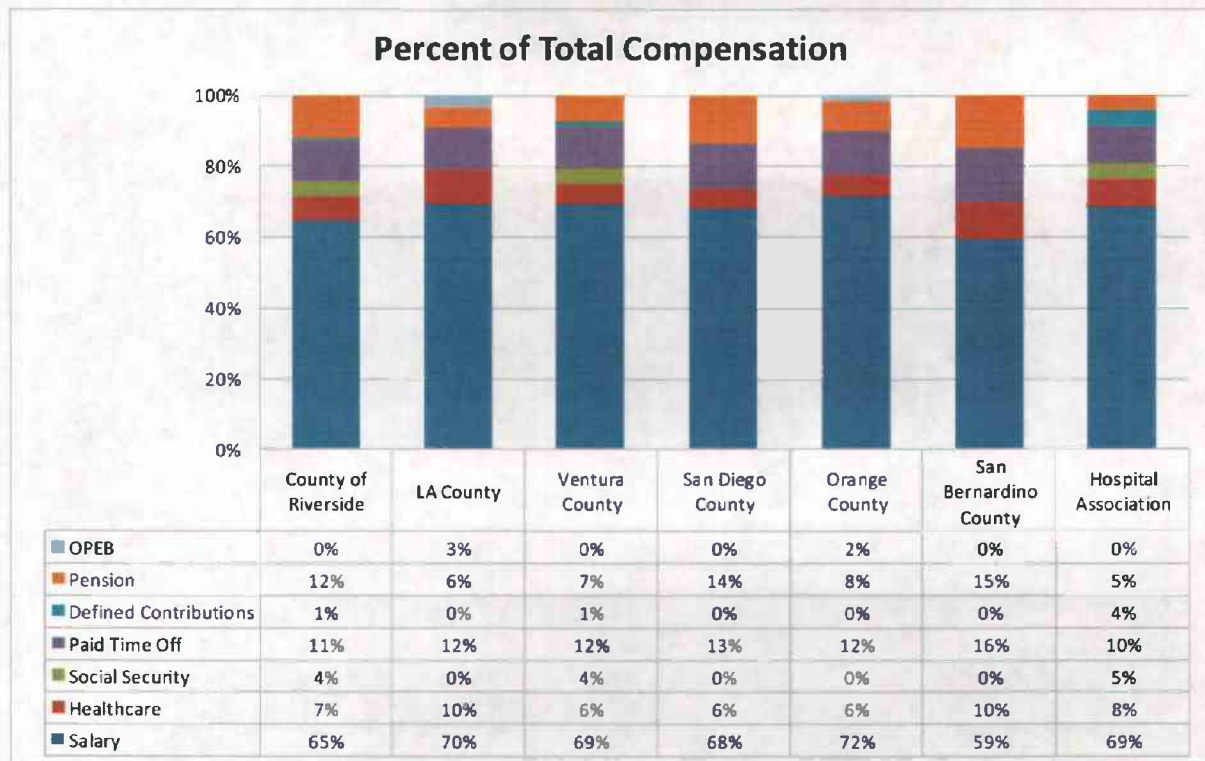
Medical Positions—Average Total Compensation Comparison with County and Southern California Hospital Association Data

The Hospital Association of Southern California matched 21 of the 28 medical positions. The average total compensation in Riverside County is \$154,138 vs. \$135,837 for the Southern California Hospital Association data. This provides an advantage to Riverside County of 14.9%. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



Medical Positions—Median Total Compensation Comparison with County and Southern California Hospital Association Data

The median total compensation in Riverside County is \$125,403 vs. \$132,643 for the Southern California Hospital Association Survey. Riverside County leads in median total compensation by 5.8%. The distribution of total compensation and benefits is indicated at the bottom of the bar chart.



Section IV: Impact of Alternative Pension Formulas

The following charts reflect the average relative ranking of today's total compensation for Riverside County by employee category and the impact of the various alternative pension options on that ranking. For purposes of this analysis, lower numbers are more favorable to the employee.

It is also important to note that Executives and Senior Level Managers and First/Mid-Level Officials and Managers are being compared to a group of 10 counties, including Riverside. Other groups are being compared to only six counties, including Riverside.

Category	Riverside Current	Alt 1	Alt 2	Alt 3	Alt 4	Alt 5	Alt 6 - Tier 1(A)	Alt 6 - Tier 1(B)	Alt 6 - Tier 2
Executives, Sr Level Officials and Managers	3.8	4.4	4.7	4.6	4.6	4.7	4.4	4.5	4.6
First/Mid-Level Officials and Managers	2.9	3.6	3.8	3.8	3.7	3.8	3.6	3.6	3.7
Professionals	2.7	3.7	4.3	4.2	4.1	4.3	3.7	3.8	4.1
Para-Professionals	2.7	3.4	4.1	4.0	4.0	4.0	3.4	3.4	4.0
Technicians	1.8	2.3	2.6	2.5	2.5	2.5	2.3	2.3	2.5
Craft Workers	3.0	3.7	4.0	4.0	4.0	4.0	3.7	3.7	4.0
Service Workers	2.4	3.5	3.8	3.7	3.7	3.8	3.5	3.5	3.7
Administrative Support Workers	2.7	3.8	4.3	4.2	4.1	4.2	3.8	4.0	4.1
Medical Positions	1.9	2.3	2.6	2.5	2.5	2.6	2.3	2.4	2.5

Category	Riverside Current	Alt 1	Alt 2	Alt 3	Alt 4
Safety Professionals	3.4	4.0	4.1	4.1	4.2

Buck has also assessed the impact on total compensation from another perspective. In this case, we reviewed the impact on existing total compensation for each alternative, based on the formulas provided by Bartel Associates. Alternative 1 and Alternative 6 – Tier 1(A) will reduce the current level of total compensation by approximately 5% to 6% for most employees. All of the other formulas have a more dramatic impact on total compensation and provide less benefit.

The chart below indicates the impact on total compensation of each of the alternatives. Some alternatives apply only to new hires, so the impact reflects the change from the current benefit levels at the point when the new hire would reach the top step of the salary range. In addition, these scenarios assume that no other changes to total compensation occur.

Impact of Alternative Pension Formulas as a Per Cent of Current Total Compensation

Category	Riverside Current	AR 1	AR 2	AR 3	AR 4	AR 5	AR 6 - Tier 1 (A)	AR 6 - Tier 1 (B)	AR 6 - Tier 2
Executives/Sr Level Officials and Managers	100.0%	94.5%	91.3%	92.0%	92.5%	91.5%	94.5%	93.9%	92.5%
First/Mid-Level Officials and Managers	100.0%	94.7%	91.5%	92.2%	92.7%	91.7%	94.7%	94.1%	92.7%
Professionals	100.0%	94.9%	91.9%	92.5%	93.1%	92.1%	94.9%	94.3%	93.1%
Para-Professionals	100.0%	95.2%	92.4%	93.0%	93.4%	92.5%	95.2%	94.7%	93.4%
Technicians	100.0%	95.0%	92.1%	92.7%	93.2%	92.2%	95.0%	94.4%	93.2%
Craft Workers	100.0%	95.0%	92.1%	92.7%	93.2%	92.3%	95.0%	94.4%	93.2%
Service Workers	100.0%	95.0%	92.1%	92.7%	93.2%	92.3%	95.0%	94.4%	93.2%
Administrative Support Workers	100.0%	95.1%	92.2%	92.8%	93.3%	92.4%	95.1%	94.6%	93.3%
Medical Positions	100.0%	94.6%	91.4%	92.1%	92.6%	91.6%	94.6%	94.0%	92.6%

Category	Riverside Current	AR 1	AR 2	AR 3	AR 4
Safety Professionals	100.0%	94.0%	90.7%	92.1%	90.2%

For Miscellaneous employees, Alternative 1 will be considered for all employees and Alternative 6 – Tier 1 (A) and (B) will be considered for current employees. Alternative 6 – Tier 1(A) is essentially the same as Alternative 1. Alternative 6 – Tier 1 (B) provides an option for current employees to avoid contribution toward pension benefits. This option, however, produces a formula with a 1.5% pension formula for future service plus a defined contribution component. The other options for Miscellaneous employees are all for new hires.

For Safety professionals, the only option for current employees is Alternative 1, requiring employees to assume the current employer pick up. All other alternatives are only for new hires.

On an overall basis, the least long term impact is reflected by Alternative 1 and Alternative 6 – Tier 1(A). They provide the least impact on overall ranking and still maintain the current pension formula. Should the County adopt either of these alternatives, it will need to consider an implementation plan that will provide employees a reasonable period of time for employees to the change in net income.

Detailed charts reflecting the change for each alternative pension formula are contained in Appendix 4.

The New World – From A Defined Benefit Perspective

According to a report by the US Government Accountability Office (GAO) released in July, 2008, from 1990 to 2006, 61,000 private employer defined benefit pension plans that were sufficiently funded have been terminated. (GAO-08-817). Usually these plans were first frozen, limiting the ability of plan participants to continue to accrue benefits, and finally terminated.

This trend in the private sector is not new. According to the Employee Benefit Research Institute, the terminations "...are part of the well documented and long-term decline of "traditional" pension plans. This report indicates that between 1975 and 2004, 3400 terminations of underfunded plans occurred while "at least 165,000 adequately funded plans." were also terminated.

According to a study conducted by Watson Wyatt in 2009, approximately 393 Fortune 1000 companies did not have Defined Benefit Plans, and of the 607 with plans, 31.3% of the plans were frozen.

Fortune 1000 DB Sponsors With Frozen Plans			
Year	# of DB Sponsors	# of Sponsors With Frozen Plans	% of DB Sponsors With Frozen Plans
2009	607	190	31.3%
2008	624	169	27.1%
2007	638	138	21.6%
2006	627	113	18.0%
2005	627	71	11.3%
2004	633	48	7.1%

In addition, The Society of Human Resource Management (SHRM) in May, 2009 indicates that most Fortune 100 companies offer only 401(k) plans to new employees.

Organizations as diverse as the Washington Redskins, Sunoco, the Goodyear Tire and Rubber Company, the Archdiocese of Chicago and the Associated Press have frozen or terminated their defined benefit plans.

Impact on Recruitment and Retention of Alternative Pension Formulas in Riverside County

It is fair to say that any changes in pension considered by Riverside County while not as rich as previous pension programs, will be perceived as positive by applicants. The trend away from defined benefit programs in the private sector will assist in ensuring that a defined benefit program even with a reduced formula, is a significant positive factor in recruiting.

In addition, for those current employees, the availability of the current formulas, albeit with contributions from participants, will still provide a significant advantage. Other counties continue to modify their pension formulas and concern that existing employees will leave due to changes in pension formulas is not warranted. A move to another county would ensure that current incumbents participate in the pension formula for new hires, thus minimizing the benefit at retirement. Riverside County is also considering offering choices to current employees which will allow them to make individual choice based on their own sets of needs.

Finally, Riverside County is not suffering from a dearth of applicants. The following chart reflects the number of applicants and the number of positions filled for the past 3 years.

Non Safety Applicants		
Year	Applications	Jobs Filled
2008	85,335	3,190
2009	63,415	1,092
2010	102,283	1889
2011*	19,033	372
* Jan/Feb Only		

Safety		
Year	Applications	Jobs Filled
2008	10,643	441
2009	8,401	53
2010	24,751	98
2011*	4,313	0
* Jan/Feb Only		

Applications includes all resume submissions.
The data does not differentiate between "outside" new hires and promotions/transfers of existing employees.

Should the current level of applicants continue throughout 2011, the County will equal or surpass last year's applicant pool in both areas.

Finally, the County cannot be held hostage based on a perception that recruiting and retention might be affected. The County has obligations to both employees and tax payers. The current economic environment requires the County to take action to bring costs down based on the County's "ability to pay" and to ensure future affordability. While there are multiple methods of achieving this objective, the County has to balance the interests of the tax payer with the interests of the employees.

Section V: Conclusions

Changing pension formulas will not negatively impact Riverside County's ability to attract and retain talent.

As discussed in the section above, changing pension formulas is not likely to have a significant impact on Riverside County's ability to attract applicants and retain current employees. Although the County may give consideration to a "phased in" approach to minimize the impact on the net income of current employees, modification of the existing formulas will still result in a benefit that is perceived as a strong benefit, especially by any applicants coming from the private sector.

Riverside County should consider the appropriate balance between the interests of the tax payers with the interests of employees.


Determining the "Ability to Pay" is a fundamental responsibility of any government body. As has been discussed at length in this report, the County has encountered significant economic challenges over the past few years and when combined with the structural deficit, these factors inhibit its ability to maintain total compensation at current levels. Although we can all hope for a quick economic recovery, the CSUP Riverside County Quarterly Update indicates that "...the sluggish rebound in the County will continue to lag the recovery in Southern California and the national economy with these lags becoming more pronounced over 2011." Unemployment also remains high with rates in the Riverside-San Bernardino MSA standing at 14.3% in November, 2010.

Given Riverside County's declining tax base and other economic indicators, some may question the current positioning of total compensation for most positions.

From a total compensation perspective, Riverside County is positioned very well compared to other counties, many of whom are better positioned from assessment and tax revenues perspectives. In total, 65% of the executive and other management positions, were ranked in the top three in total compensation (excluding bonus) and 78.9% of the non-executive group were similarly situated.

Riverside County might consider establishing a total compensation strategy and total compensation philosophy consistent with its economic environment.

A common practice in the private sector is establishing a total compensation strategy and total compensation philosophy consistent with business strategy and objectives. Depending on Company profitability, growth objectives and competitive pressures companies determine the appropriate positioning of total compensation. A typical



strategy might include total compensation for performance, a methodology for rewarding strong performers and elimination of “automatic” salary increases or bonuses. Companies frequently establish base compensation at the 50th percentile of their competitive market, with significant upside potential for outstanding performance, especially as it relates to executives. A critical element of this type of strategy is monitoring the market and ensuring that total compensation remains competitive so that the organization remains able to attract and retain talent.

Appendices: See Separate Notebook

