

**COUNTY OF RIVERSIDE  
PENSION REFORM**

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March 21, 2011



4/4/2011

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**COUNTY OF RIVERSIDE  
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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 groups<sup>1</sup>. 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).

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<sup>1</sup> 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 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%@50<sup>2</sup>) 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

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<sup>2</sup> 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 contribution<sup>3</sup>,
  - ii. Have current employees pay for a portion of the County's pension costs<sup>4</sup>,
  - iii. Allow current employees a choice of paying more for current benefit levels or paying less and have lower future benefit accruals<sup>5</sup>, or
  - iv. Reducing future accruals for current employees<sup>6</sup>.

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<sup>3</sup> 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.

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

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



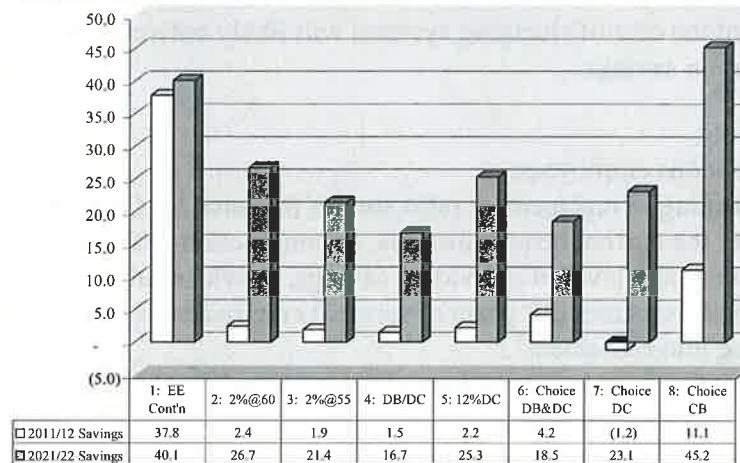


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The table below shows the savings for the eight Miscellaneous alternative formulas. The savings in white are recognized in 2011/12 while the savings in dark grey are a 10 year projection.

**Miscellaneous Plan**

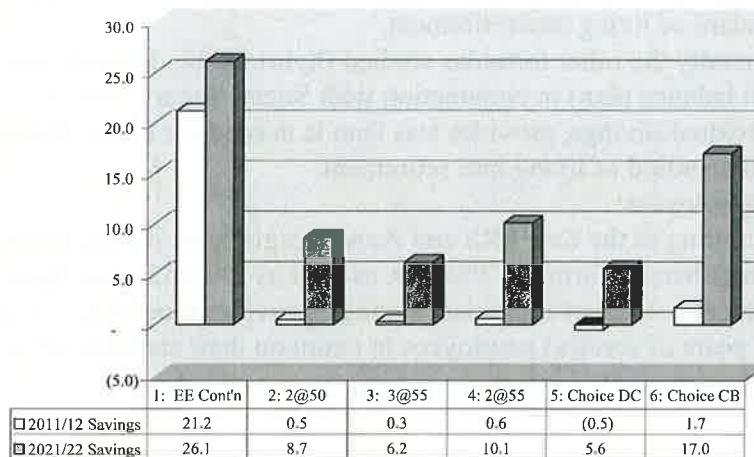
Savings in millions



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



<sup>6</sup> 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 State<sup>7</sup> 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 retirement<sup>8</sup>.
  - 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.

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

<sup>8</sup> 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 practical<sup>9</sup>. 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.

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<sup>9</sup> The Hanson Bridgett analysis discusses these challenges in more depth.



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**RETIREMENT PLAN SYSTEM AND ADMINISTRATION ALTERNATIVES**

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### **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 participate<sup>10</sup>.
  - 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.

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<sup>10</sup> 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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The following table summarizes the basic differences between defined benefit and defined contribution plans:

<b>Defined Contribution Pension Plan</b>		<b>CalPERS Defined Benefit Plan</b>
Contribution made each year into employee's account.	<b>Nature of Promise</b>	Benefit, based on formula, beginning at retirement, payable for as long as employee lives.
	<b>Contribution Level</b>	
Typically a fixed percentage (e.g. 5%) of pay each year	<b>Employee</b>	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	<b>Employer</b>	
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.	<b>Portability</b>	Generally, for employees that work for California sector entities, very portable <sup>11</sup> .  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%
	<b>Retirement</b>	

<sup>11</sup> 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.





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<b>Defined Contribution Pension Plan</b>		<b>CalPERS Defined Benefit Plan</b>
Same as retirement, except employer contributions become 100% vested at disability	<b>Other Benefits</b>	Pension benefit provided with higher benefits for in-service disability than for non-service disability
	<b>Disability</b>	
Same as retirement, except employer contributions become 100% vested at death	<b>Death</b>	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.
	<b>Who Accepts Risk &amp; Reward</b>	
Employee	<b>Inflation</b>	Employer
Employee	<b>Mortality</b>	Employer
Employee	<b>Investment Return</b>	Employer
Employee	<b>Retirement</b>	Employer
Employee	<b>Disability</b>	Employer

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

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

<sup>12</sup> 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.

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



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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 value<sup>13</sup>. 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.

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<sup>13</sup> 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.



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**REPLACEMENT RATIOS & CURRENT COUNTY FORMULAS**

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**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 =  
$$\frac{\text{Target Replacement Benefit}}{\text{Gross Income Before Retirement}}$$

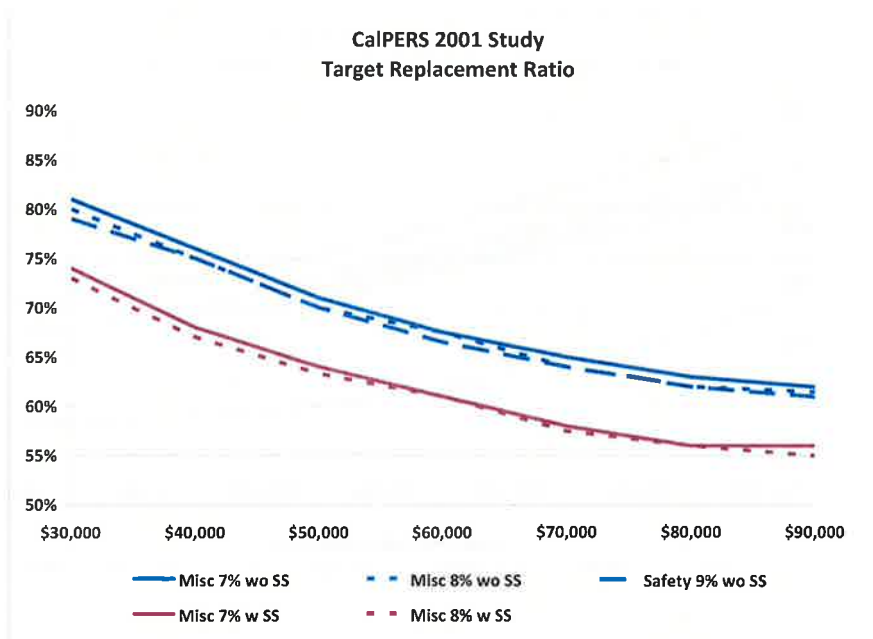
The CalPERS analysis was presented to the CalPERS Board at a January 2001 Offsite Board meeting. The only available documentation for this meeting is a copy of the PowerPoint slides presented to the CalPERS Board at that meeting. The graphs shown are from that presentation and were not calculated by 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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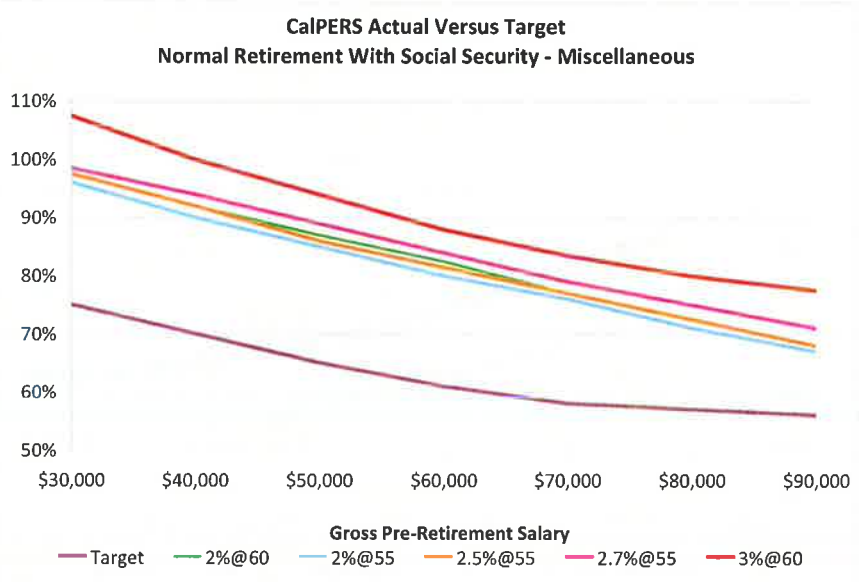


For example the above indicates a Miscellaneous employee paying the 8% member contribution, not eligible for Social Security and making \$50,000 at retirement, needs approximately 71% of their pre-retirement income at retirement to maintain their (pre-retirement) standard of living. In contrast, the 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.

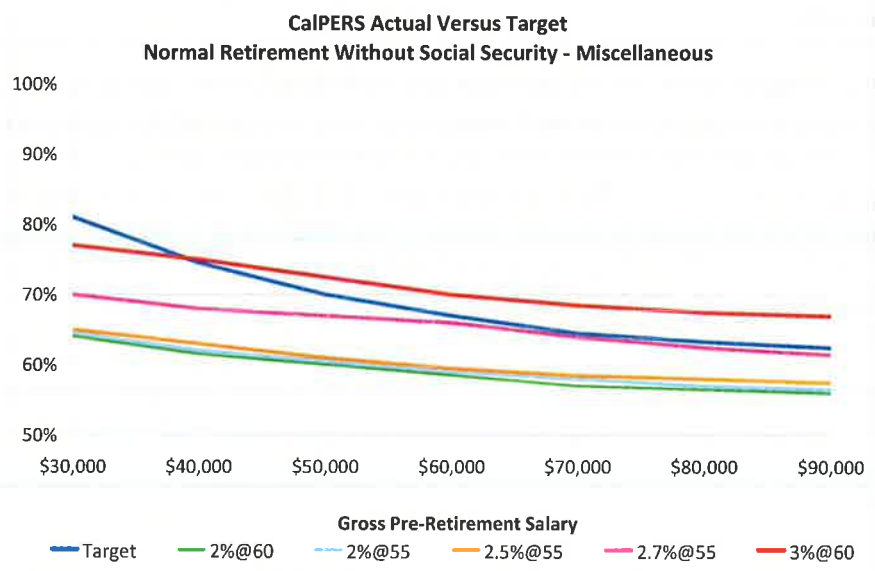
The following three graphs show the level of benefit replaced by the various CalPERS formulas for Miscellaneous with and without Social Security and for Safety without Social Security. The graphs show results for a career public sector employee, retiring with 30 years of service at age 63 for Miscellaneous employees and age 55 for Safety employees<sup>14</sup>. 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.

<sup>14</sup> 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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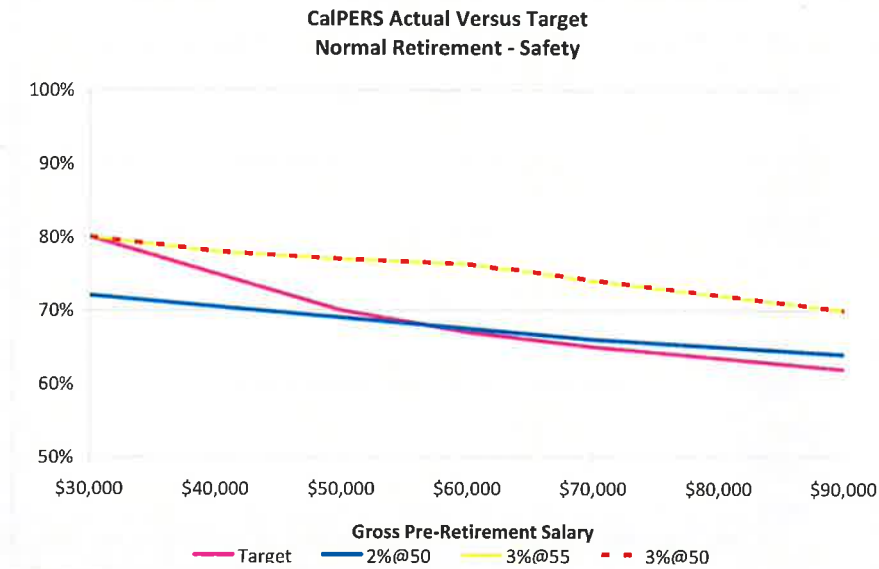
The above graph shows that, for agencies participating in Social Security, all CalPERS formulas provide substantially more retirement income than is needed to maintain an individual's standard of living into retirement. The above assumes no other retirement income. Any individual savings would increase 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

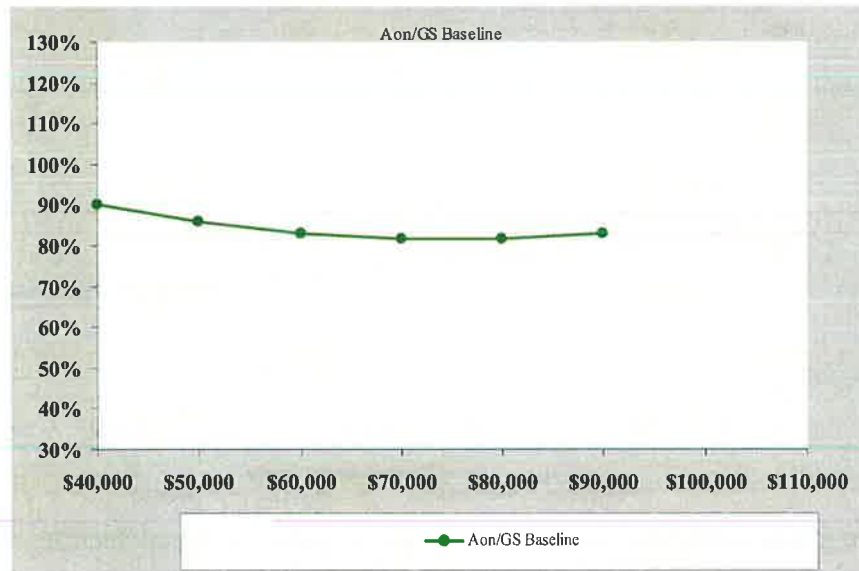


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earner who retires at age 65 with a spouse age 62. The family is eligible for family Social Security benefits, which are 1.375 times the wage earner's benefit. The baseline case also takes into account age- and work-related expenditure changes after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



**COUNTY OF RIVERSIDE**  
**PENSION REFORM**  
**REPLACEMENT RATIOS & CURRENT COUNTY FORMULAS**

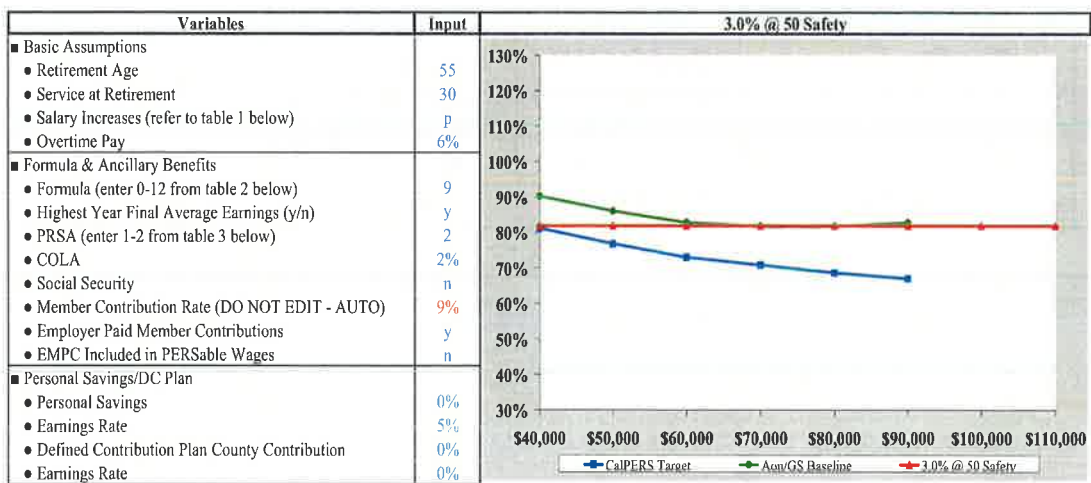
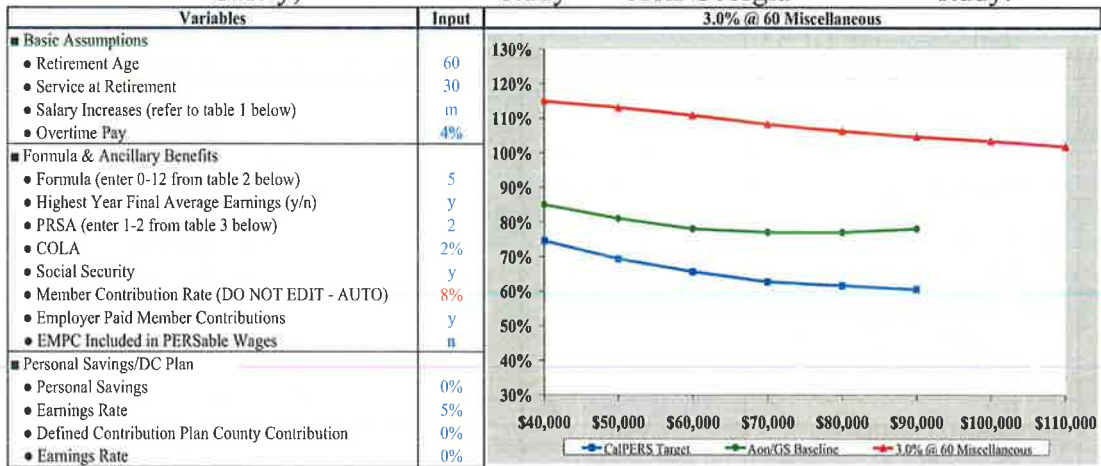
<b>Variables</b>	<b>Miscellaneous</b>	<b>Safety</b>	<b>Comments</b>
■ Salary Scale	M – CalPERS Misc.	P – CalPERS Police.	These are CalPERS salary increase assumptions and are experience based tables.
■ Overtime Pay	4% of Pay	6% of Pay	Pre-retirement income includes overtime but CalPERS benefits are not 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 <sup>15</sup>	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	

<sup>15</sup> 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.

**COUNTY OF RIVERSIDE  
PENSION REFORM  
REPLACEMENT RATIOS & CURRENT COUNTY FORMULAS**

Variables	Miscellaneous	Safety	Comments
<ul style="list-style-type: none"> <li>Other Savings</li> </ul>	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.

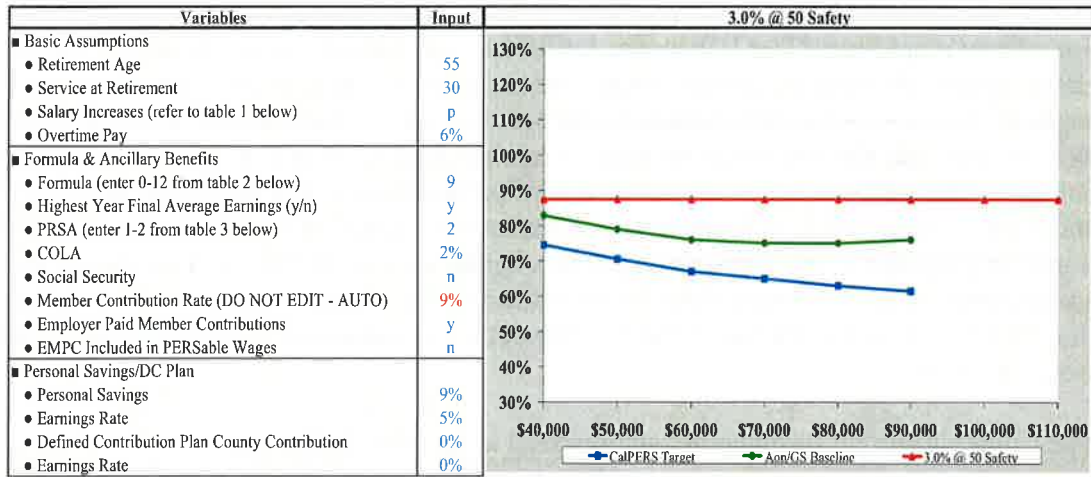
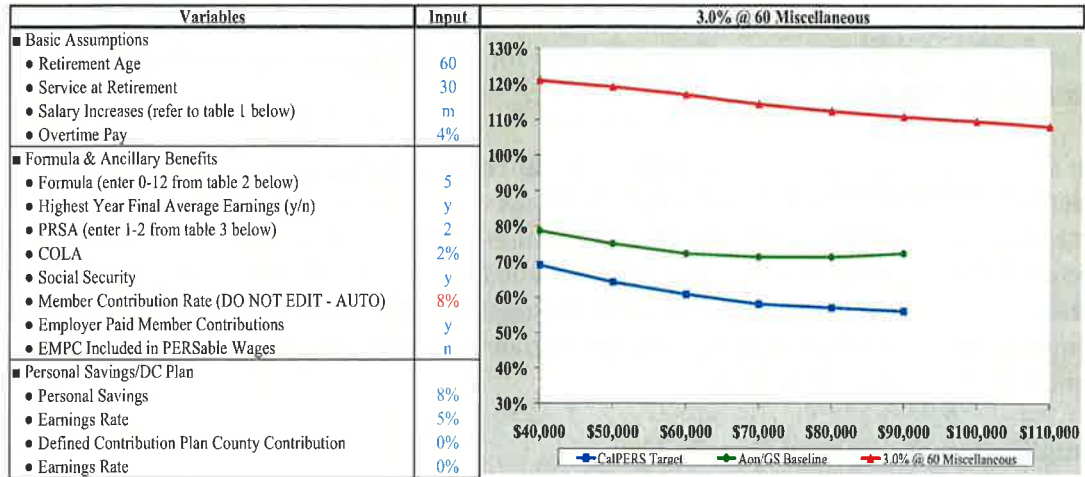


# COUNTY OF RIVERSIDE

## PENSION REFORM

### 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**

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**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:

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





**COUNTY OF RIVERSIDE  
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	<b>Miscellaneous</b>	<b>Safety</b>
■ Cost of Living Adjustment (COLA)	2%	2%
■ Employer Paid Member Contribution (EPMC) <sup>16</sup>	5.4%	7.6%

The County's 2011/12 contribution rates are:

	<b>Miscellaneous</b>	<b>Safety</b>
■ 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 <sup>17</sup>	5.4	7.6
■ PERS on PERS <sup>18</sup>		
● 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

<sup>16</sup> 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.

<sup>17</sup> 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.

<sup>18</sup> 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 Formulas<sup>19</sup>**

Eight alternative formulas are considered for Miscellaneous Pension reform. These alternatives include increasing employee contributions, 2<sup>nd</sup> 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.

	<b>Current</b>	<b>1. EE Pays Member Rate</b>
■ Total <sup>20</sup>	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:

<b>Formula</b>	<b>Miscellaneous</b>				
	<b>Current</b>	<b>2. 2%@60</b>	<b>3. 2%@55</b>	<b>4. DB/DC</b>	<b>5. 12% DC</b>
■ 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

<sup>19</sup> The Hanson Bridgett analysis discusses the legal implications of the alternative formulas.

<sup>20</sup> Includes employer contribution rates, employer paid member contribution (EPMC) and PERS on PERS.



**COUNTY OF RIVERSIDE**  
**PENSION REFORM**  
**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 <sup>21</sup>	Tier 2	Tier 1 <sup>22</sup>	Tier 2	Tier 1 <sup>23</sup>	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

<sup>21</sup> 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.

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

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



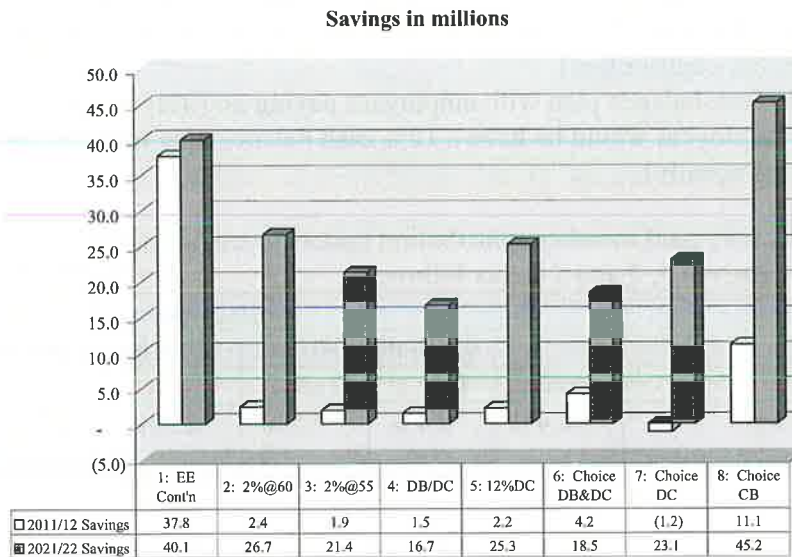
**COUNTY OF RIVERSIDE  
PENSION REFORM  
ALTERNATIVE FORMULAS - MISCELLANEOUS**

	Miscellaneous						
	Current	6. Choice DB/DC		7. Choice DC		8. Choice CB	
		Tier 1 <sup>21</sup>	Tier 2	Tier 1 <sup>22</sup>	Tier 2	Tier 1 <sup>23</sup>	Tier 2
■ Savings							
● Normal Cost	n/a	1.0%	2.9%	1.9%	4.4%	2.0%	7.0%
● 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		0.4	2.9	-0.5	4.4	1.1	7.0

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.



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**  
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- 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 issues<sup>24</sup>.
- The Choice Cash Balance Plans indicate significant short and long term savings. However the County should understand these plans impose significant tax issues.<sup>25</sup>

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:

<b>1. Current &amp; Future Employees Pay All Member Contribution</b>			
<b>Year</b>	<b>Current Employees</b>	<b>Future Employees</b>	<b>Total Savings</b>
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

<b>Year</b>	<b>2. 2%@60</b>	<b>3. 2%@55</b>	<b>4. DB/DC</b>	<b>5. 12% DC</b>
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

<sup>24</sup> The Hanson Bridgett analysis discusses the legal & tax implications of the alternative formulas.

<sup>25</sup> The Hanson Bridgett analysis discusses the legal & tax implications of the alternative formulas.





**COUNTY OF RIVERSIDE**  
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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.



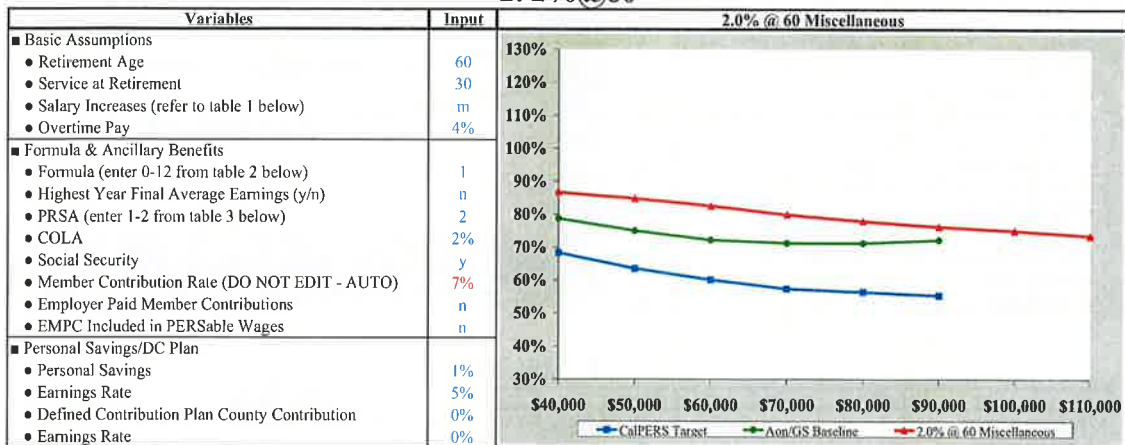


**COUNTY OF RIVERSIDE**  
**PENSION REFORM**  
**ALTERNATIVE FORMULAS - MISCELLANEOUS**

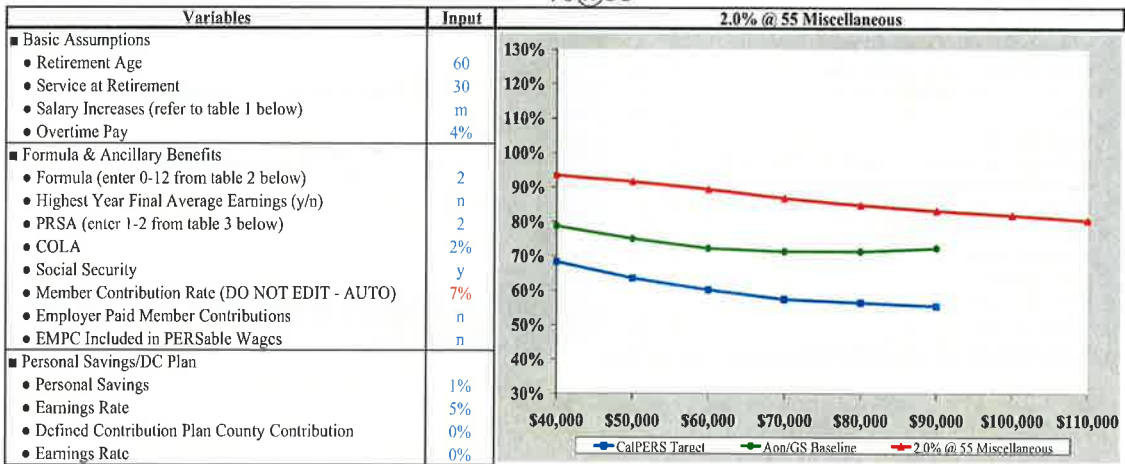
**Replacement Ratio for Miscellaneous Alternative Formulas**

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**

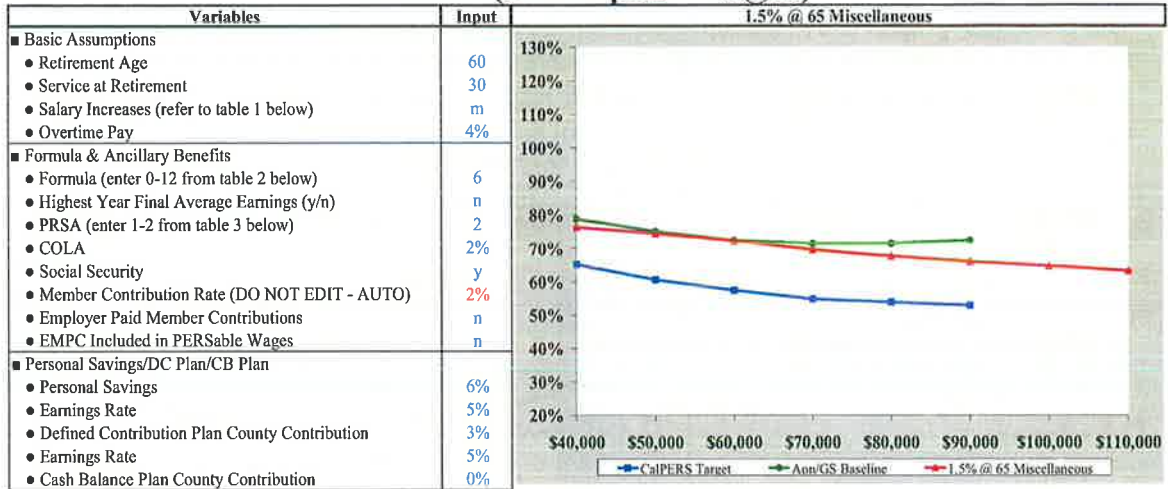


**3. 2% @ 55**

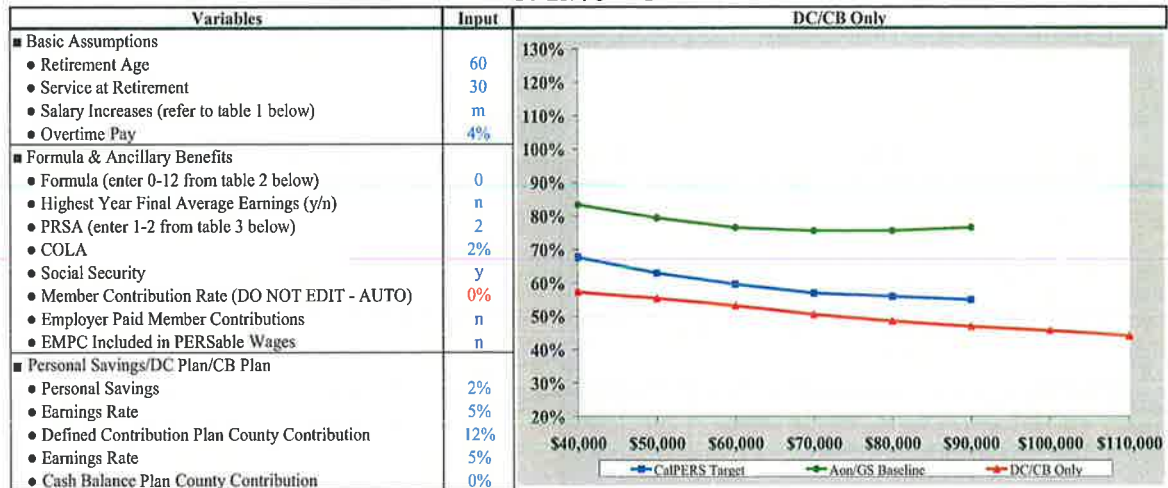


**COUNTY OF RIVERSIDE  
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ALTERNATIVE FORMULAS - MISCELLANEOUS**

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

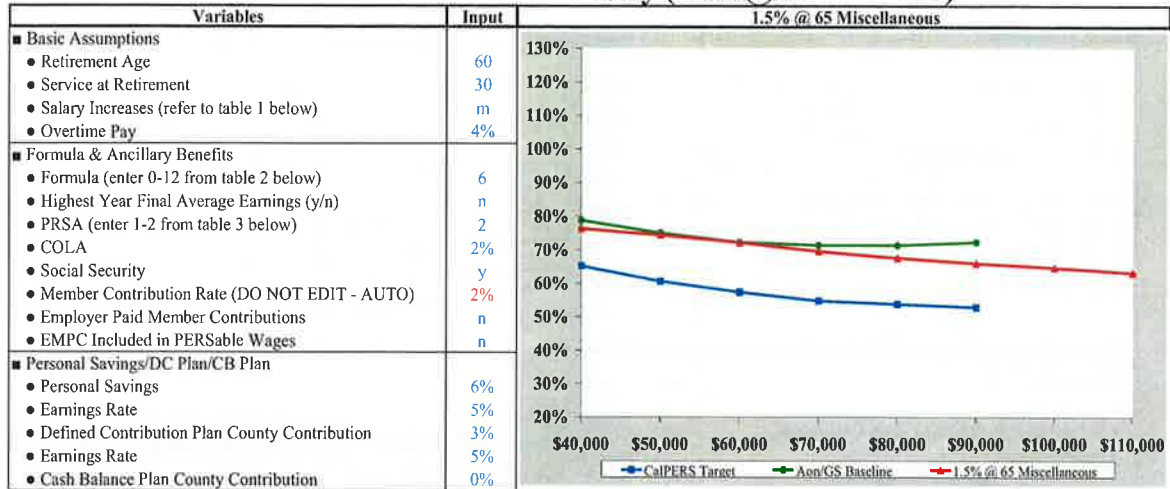


**5. 12% DC**

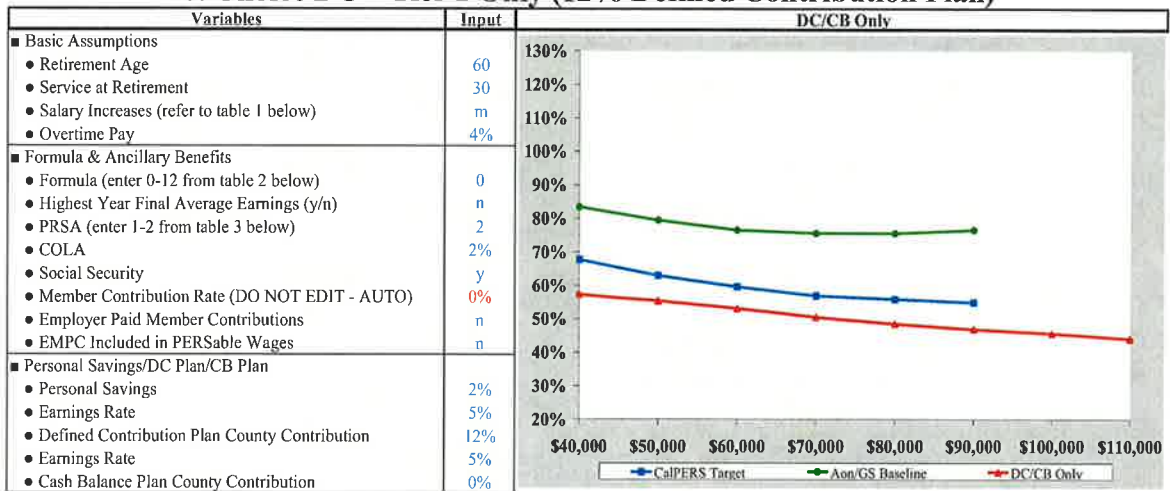


**COUNTY OF RIVERSIDE  
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ALTERNATIVE FORMULAS - MISCELLANEOUS**

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

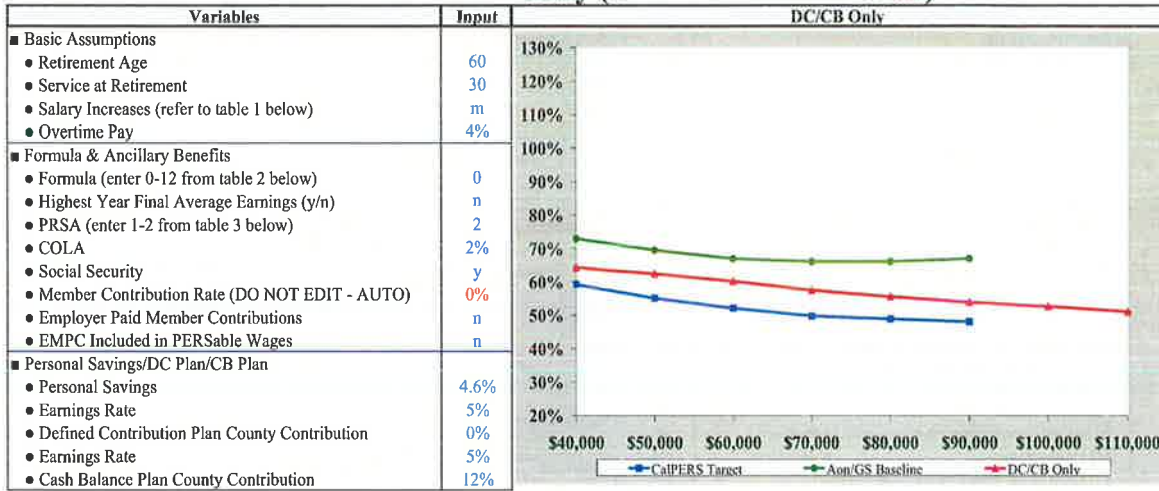


**7. Choice DC – Tier 2 Only (12% Defined Contribution Plan)**



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



**COUNTY OF RIVERSIDE  
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ALTERNATIVE FORMULAS - SAFETY**

**Safety Alternative Formulas<sup>26</sup>**

Six alternative formulas are considered for Safety Pension reform. These alternatives include increasing employee contributions, 2<sup>nd</sup> 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.

	<b>Current</b>	<b>1. EE Pays EPMC</b>
■ Total <sup>27</sup>	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<sup>28</sup> (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:

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

<sup>26</sup> The Hanson Bridgett analysis discusses the legal implications of the alternative formulas.

<sup>27</sup> Includes employer contribution rates, employer paid member contribution (EPMC) and PERS on PERS.

<sup>28</sup> 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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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 1 <sup>29</sup>	Tier 2	Tier 1 <sup>30</sup>	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	n/a				
● Normal Cost		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		-0.3	3.9	0.3	10.1

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

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





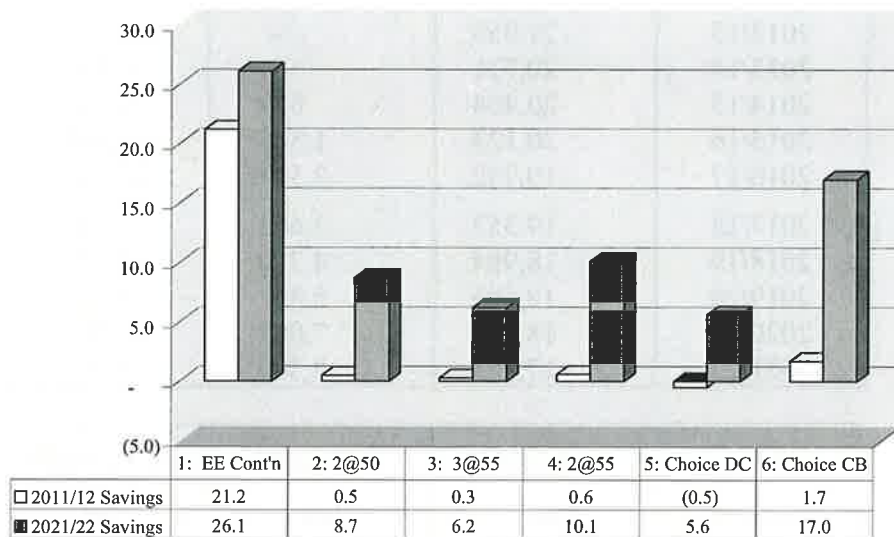
**COUNTY OF RIVERSIDE  
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Please note the Choice plan cost savings are heavily dependent on what choice current employees would make. Generally if fewer younger employees choose the alternative plans than we have assumed, savings would likely be lower 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 issues<sup>31</sup>.

<sup>31</sup> The Hanson Bridgett analysis discusses the legal & tax implications of the alternative formulas.

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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:

<b>1. Current &amp; Future Employees Pay All Member Contribution</b>			
<b>Year</b>	<b>Current Employees</b>	<b>Future Employees</b>	<b>Total Savings</b>
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

<b>Year</b>	<b>2. 2%@50</b>	<b>3. 3%@55</b>	<b>4. 2%@55</b>
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

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<b>Year</b>	<b>5. Choice DC</b>	<b>6. Choice CB</b>
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):

<b>Year</b>	<b>Tier I</b>	<b>Tier II</b>	<b>Total</b>
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.

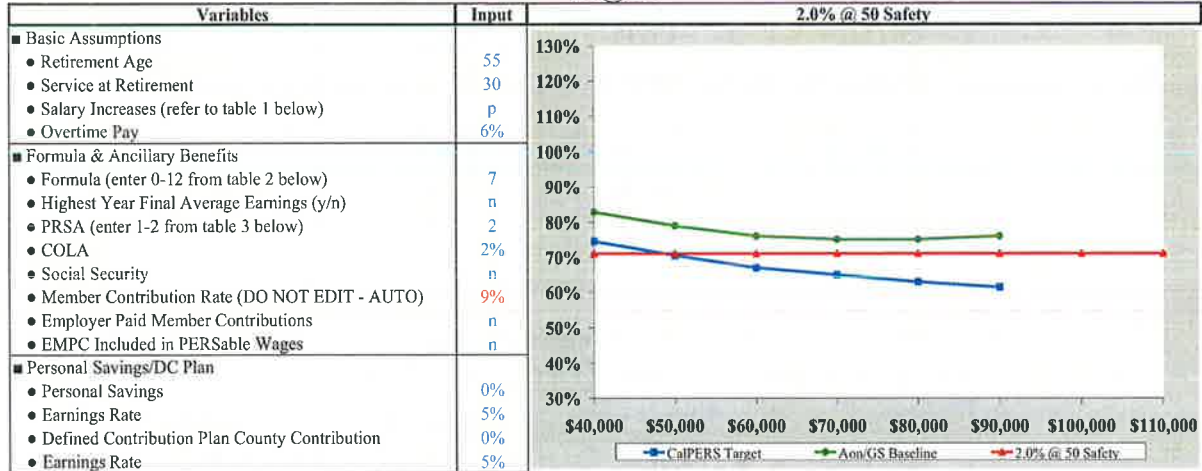


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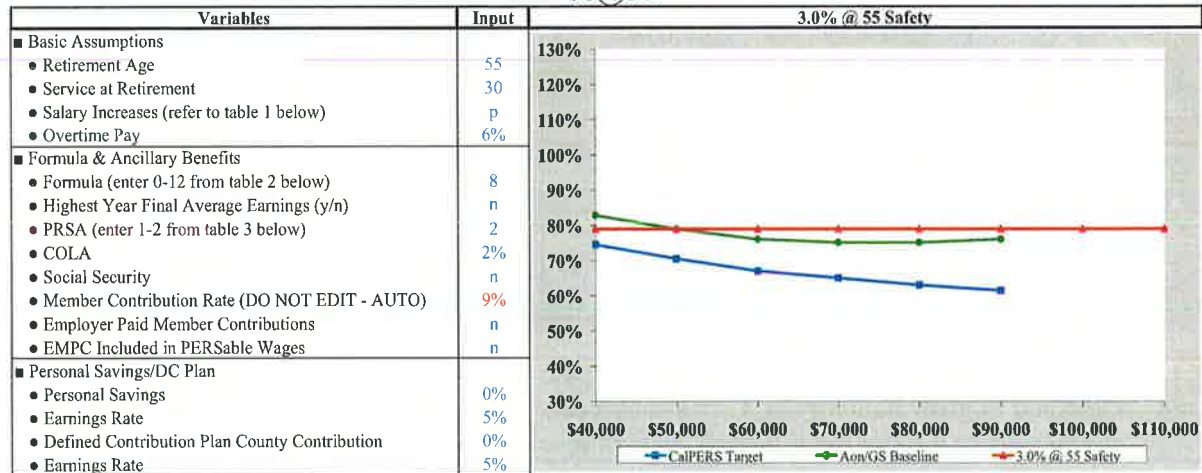
**Replacement Ratio for Safety Alternative Formulas**

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**

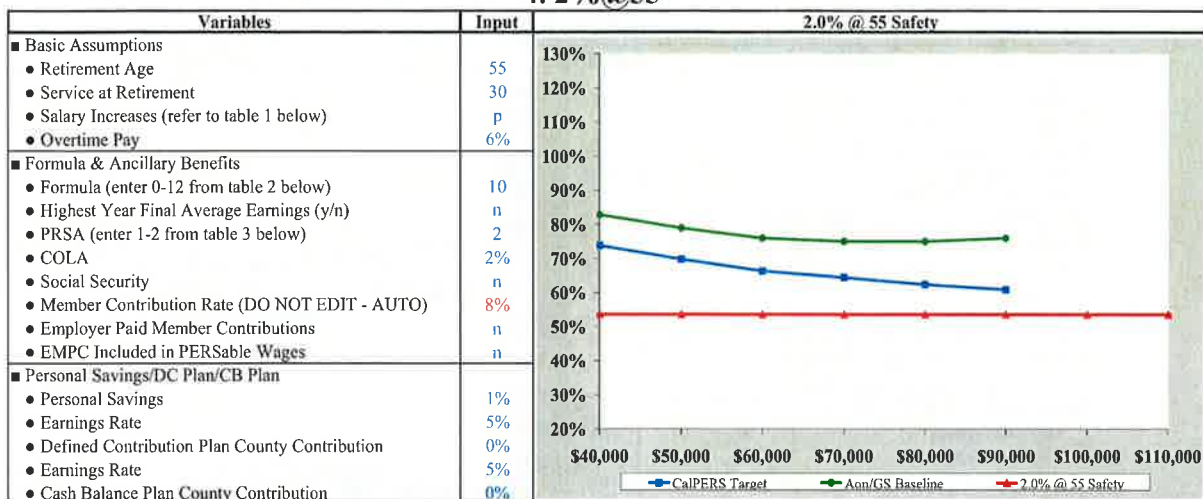


**3. 3% @ 55**



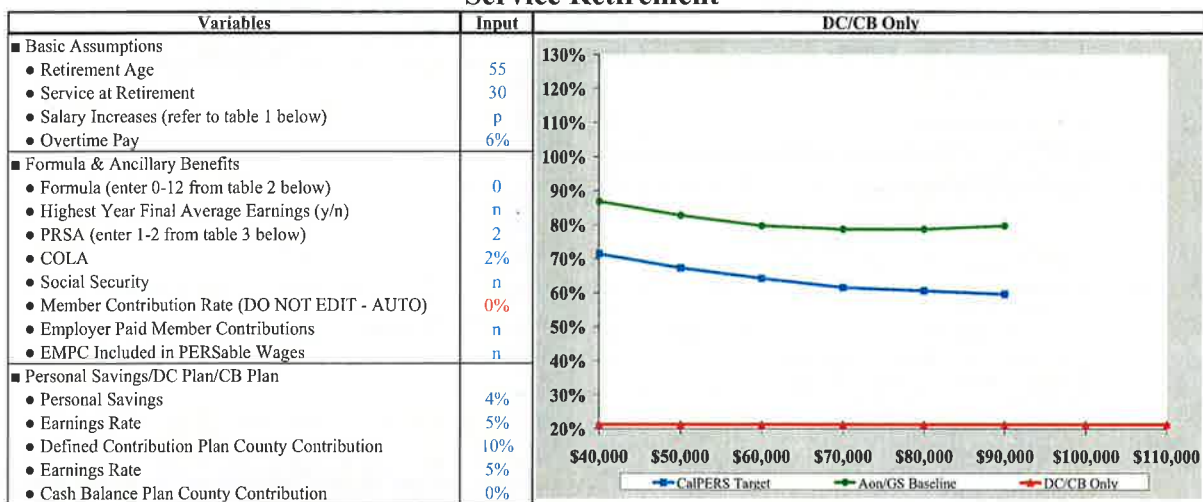
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**4. 2% @ 55**



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

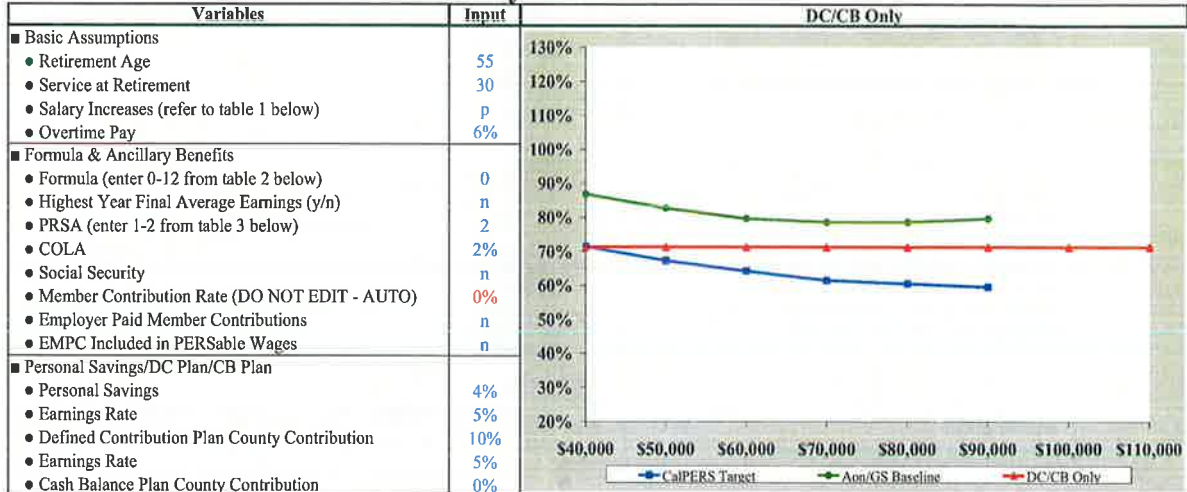
**Service Retirement**



**COUNTY OF RIVERSIDE  
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ALTERNATIVE FORMULAS - SAFETY**

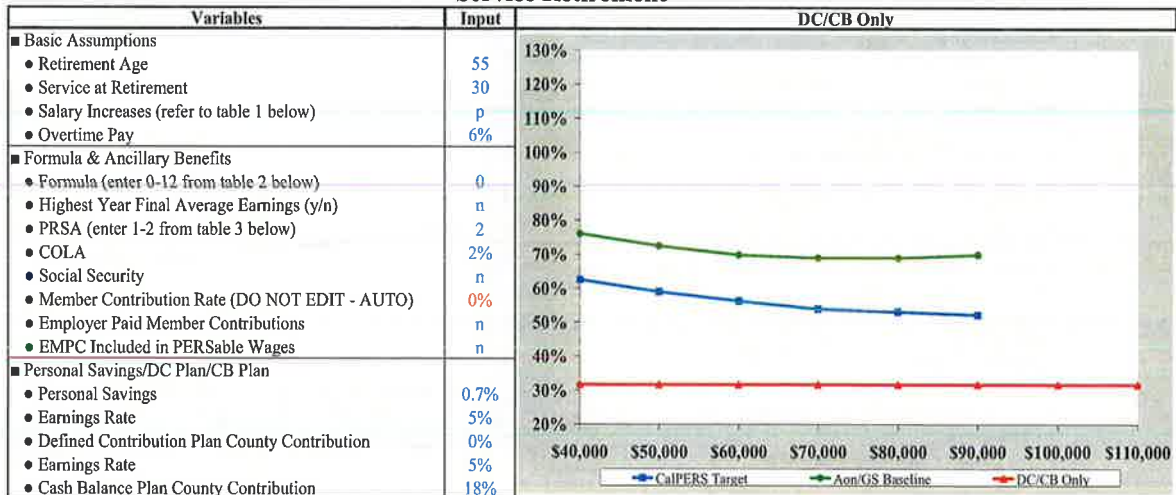
**5. Choice DC – Tier 2 Only (10% Defined Contribution & 50% IDR)**

**Disability Retirement**



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

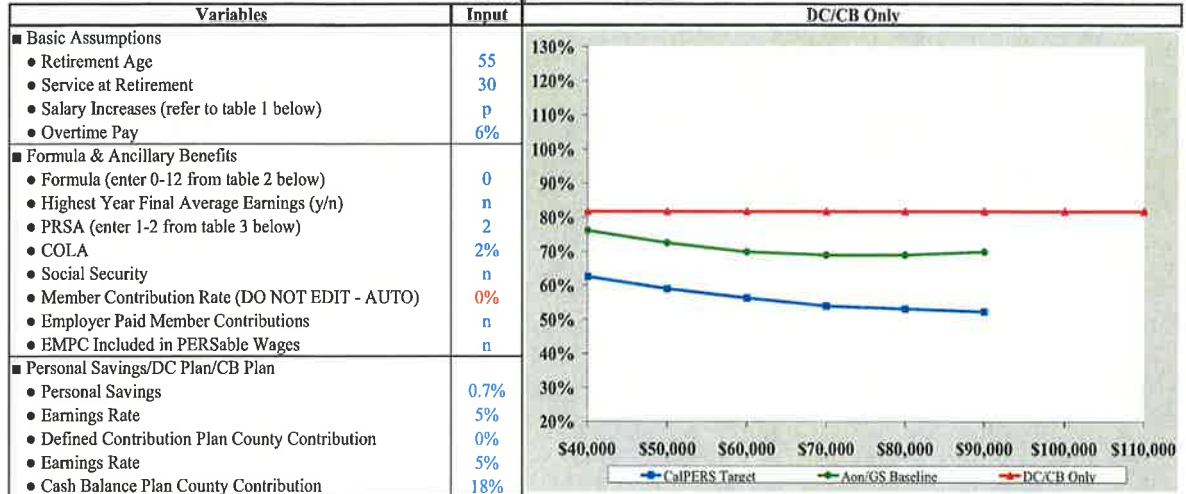
**Service Retirement**





**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
<b>Total</b>	<b>188</b>	<b>11,087</b>

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

\*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%			
<b>Total</b>	<b>11</b>	<b>100%</b>	<b>Total</b>	<b>11</b>	<b>100%</b>	<b>Total</b>	<b>159</b>	<b>100.0%</b>

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%
<b>Total</b>	<b>45</b>	<b>10</b>	<b>21</b>	<b>3</b>	<b>13</b>	<b>17</b>	<b>22</b>	<b>28</b>	<b>159</b>	<b>100.0%</b>

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:



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

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

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

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			\$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 Ricverside 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	<b>Current 3% at Age 60</b> Employee contributes 8% to the plan	All Employees	10.40%	0.00%	8.00%
2	<b>2% at Age 60</b> Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	5.70%	0.00%	7.00%
3	<b>2% at Age 55</b> Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	6.70%	0.00%	7.00%
4	<b>Hybrid Defined Benefit/Defined Contribution Plan</b> 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	<b>12 % Defined Contribution</b>	New Hires Only	6.00%	0.00%	6.00%
6	<b>Choice Defined Benefit Plan</b>				
Tier 1	a) 3% at Age 60 -Final Average Earnings - 1 yr -2% COLA -With Post Retirement Survivors Allowance OR	Current Employees	10.40%	0.00%	8.00%
	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	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.

Comparison of Current Average Total Cash Ranking By Employee Category Against Alternative Pension Formulas (The lower the ranking, the more favorable to employees)									
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%
<b>Safety Professionals</b>	<b>100%</b>	<b>94%</b>	<b>90%</b>	<b>92%</b>	<b>90%</b>				

\*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 50<sup>th</sup> 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	<b>Current 3% at Age 60</b> Employee contributes 8% to the plan	All Employees	10.40%	0.00%	8.00%
2	<b>2% at Age 60</b> Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	5.70%	0.00%	7.00%
3	<b>2% at Age 55</b> Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	6.70%	0.00%	7.00%
4	<b>Hybrid Defined Benefit/Defined Contribution Plan</b> 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	<b>12% Defined Contribution</b>	New Hires Only	6.00%	0.00%	6.00%
6	<b>Choice Defined Benefit Plan</b>				
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	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%

## 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, dieticians, 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
<b>Total</b>	<b>188</b>	<b>11,087</b>

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	<b>Current 3% at Age 60</b> Employee contributes 8% to the plan	All Employees	10.40%	0.00%	8.00%
2	<b>2% at Age 60</b> Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	5.70%	0.00%	7.00%
3	<b>2% at Age 55</b> Final Average Earnings - 3 yrs 2% COLA No Post Retirement Survivor's Allowance	New Hires Only	6.70%	0.00%	7.00%
4	<b>Hybrid Defined Benefit/Defined Contribution Plan</b> 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	<b>12% Defined Contribution</b>	New Hires Only	6.00%	0.00%	6.00%
6	<b>Choice Defined Benefit Plan</b>				
Tier 1	a) <b>3% at Age 60</b> -Final Average Earnings - 1 yr -2% COLA -With Post Retirement Survivors Allowance OR b) <b>1.5% Defined Benefit Plan at Age 65 plus</b> -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	<b>1.5% Defined Benefit Plan at Age 65</b> -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	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%

### 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 Bernadino
Population, 2009 Estimate	803,983	3,026,786	3,053,793	<b>2,125,440</b>	9,848,011	2,017,673
Households	243,234	935,287	994,677	<b>506,218</b>	3,133,774	598,594
Median household income, 2008	\$76,190	\$74,862	\$62,820	<b>\$57,590</b>	\$55,452	\$54,768
Persons below poverty level, 2008	8.70%	9.90%	12.60%	<b>12.60%</b>	15.30%	14.70%
Land Area in square miles	1,845.30	789.40	4,199.89	<b>7,207.37</b>	4,060.87	20,052.50
Sales Tax Rate	8.25%	8.75%	8.75%	<b>8.75%</b>	9.75%	8.75%
Population, 2009 Estimate	38%	142%	144%	<b>100%</b>	463%	95%
Households	48%	185%	196%	<b>100%</b>	619%	118%
Median household income, 2008	132%	130%	109%	<b>100%</b>	96%	95%
Persons below poverty level, 2008	69%	79%	100%	<b>100%</b>	121%	117%
Land Area in square miles	26%	11%	58%	<b>100%</b>	56%	278%
Sales Tax	94%	100%	100%	<b>100%</b>	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	Tax Bills Issued	2009-2010	Average Tax Bill
	Valuation Billions		Property Tax Collections	
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%			
<b>Total</b>	<b>11</b>	<b>100%</b>	<b>Total</b>	<b>11</b>	<b>100%</b>	<b>Total</b>	<b>159</b>	<b>100.0%</b>

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%
<b>Total</b>	<b>45</b>	<b>10</b>	<b>21</b>	<b>3</b>	<b>13</b>	<b>17</b>	<b>22</b>	<b>28</b>	<b>159</b>	<b>100.0%</b>

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:



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

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

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

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 50<sup>th</sup> percentile was used as the median.
- For BLS data, of the jobs matched, the job that fell at the 50<sup>th</sup> 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		LA, LB, Glendale BLS Metro		Riverside, SB, and Ontario BLS Metro		City of Riverside		City of Corona		HASC	
		Data	% Diff	BLS Metro	% Diff	BLS Metro	% Diff	Riverside	% Diff	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%

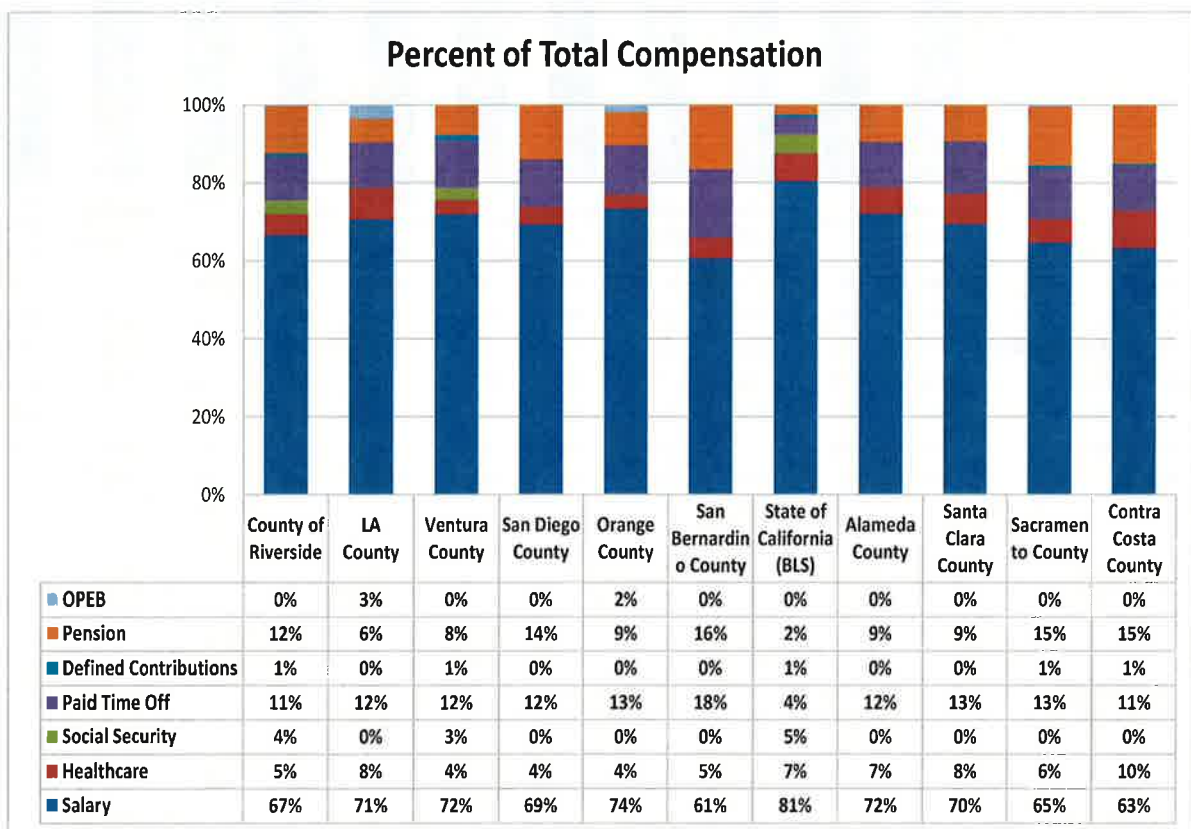
Following is a detailed discussion of each job category, with charts and graphs representing the total compensation analysis. The graphs also provide insight into the breakdown of the various total compensation components by county and other external sources.

## 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.

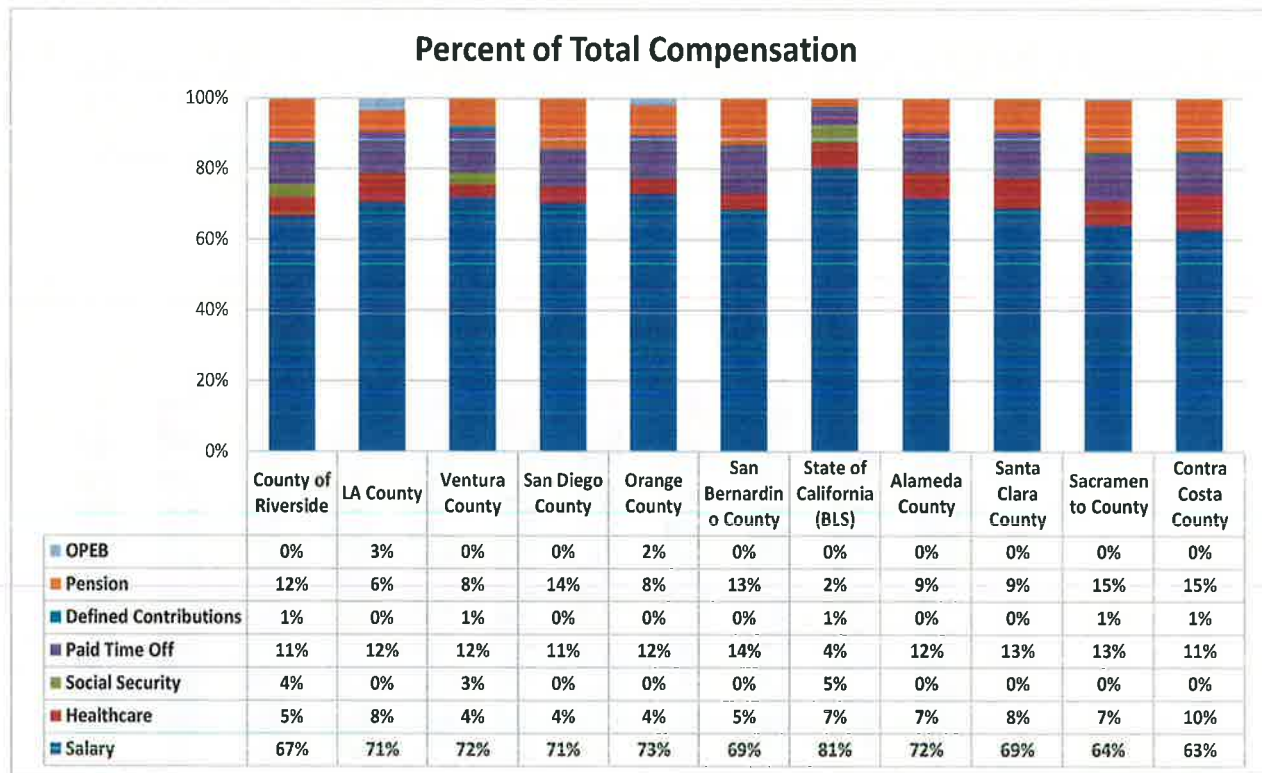
## First and Mid-Level Officials and Managers—Average Total Compensation Comparison with County and Private Sector Data

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.



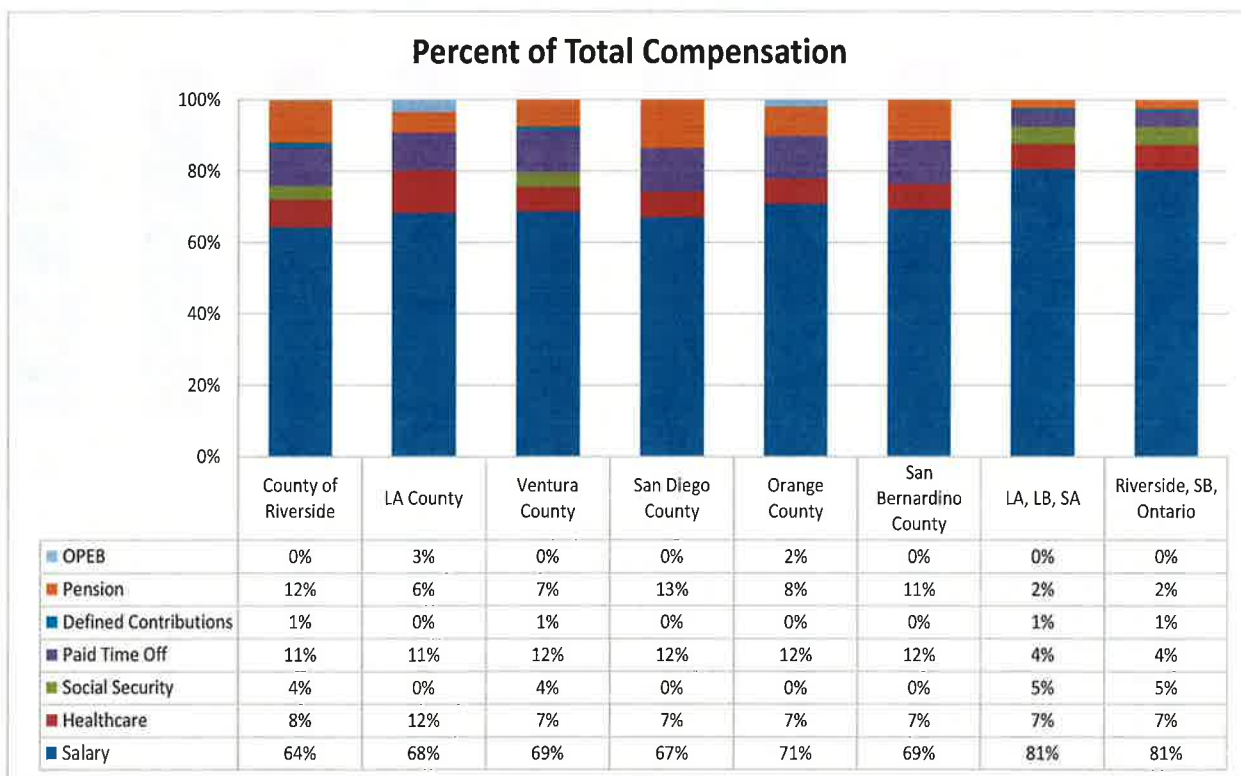
## First and Mid-Level Officials and Managers—Median Total Compensation Comparison with County and Private Sector Data

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

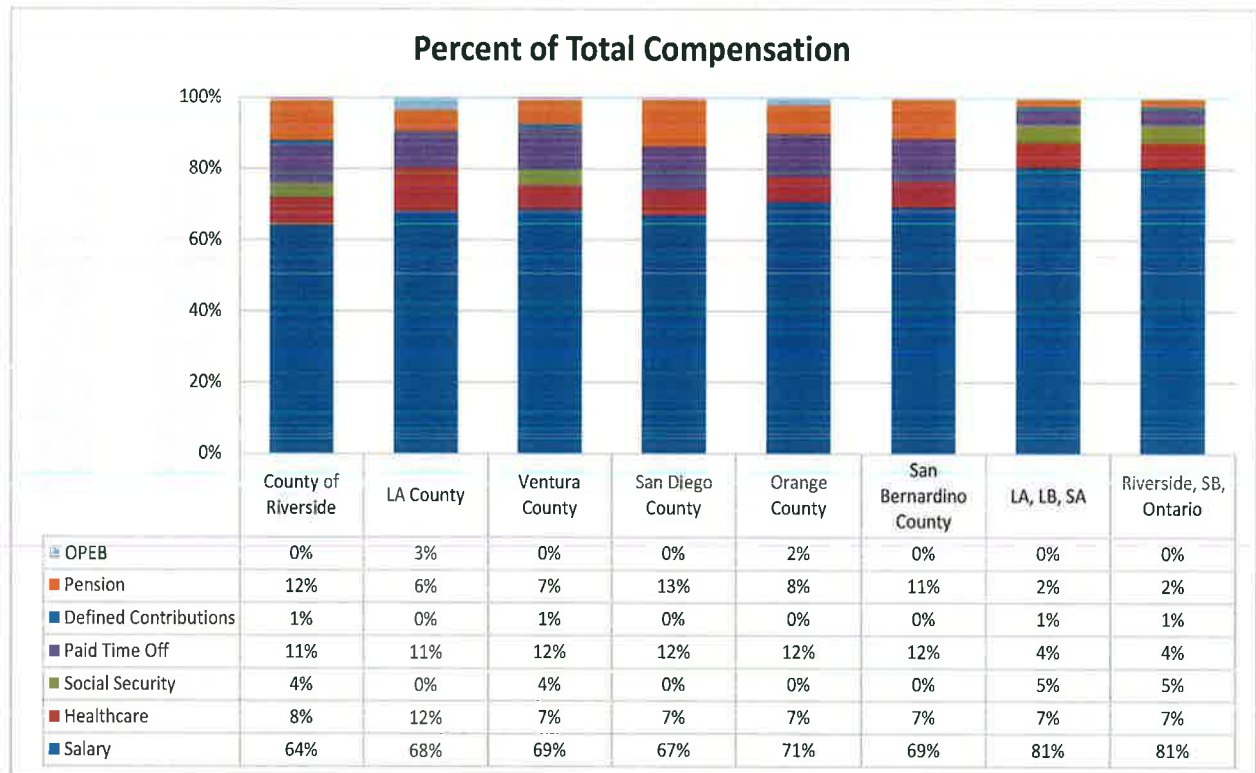
Of the 47 Professional positions, Buck was able to match 22 to the BLS data for both standard metropolitan areas. The average total compensation in Riverside County is \$125,065 vs. \$148,943 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$131,733 for the Riverside, San Bernardino, 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.



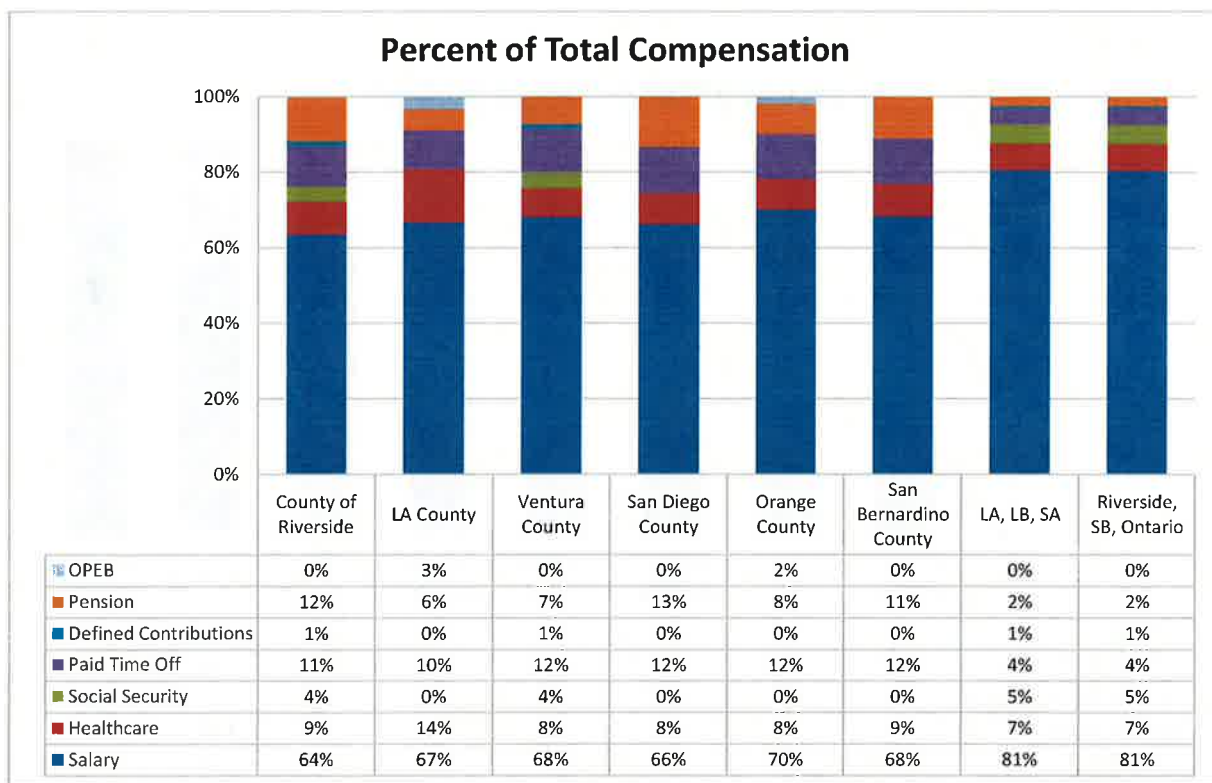
## Para-Professional Positions—Total Compensation Comparison with County and Private Sector Data

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.



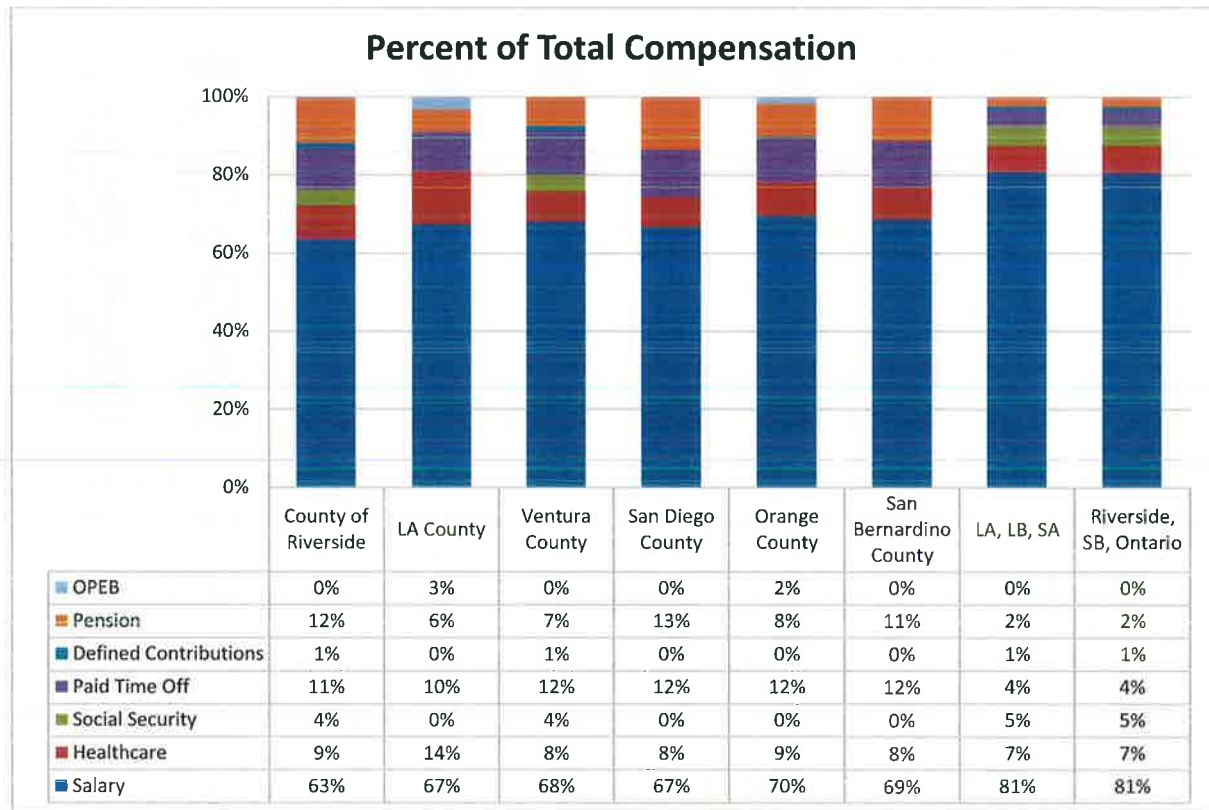
## Technicians—Average Total Compensation Comparison with County and Private Sector Data

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.



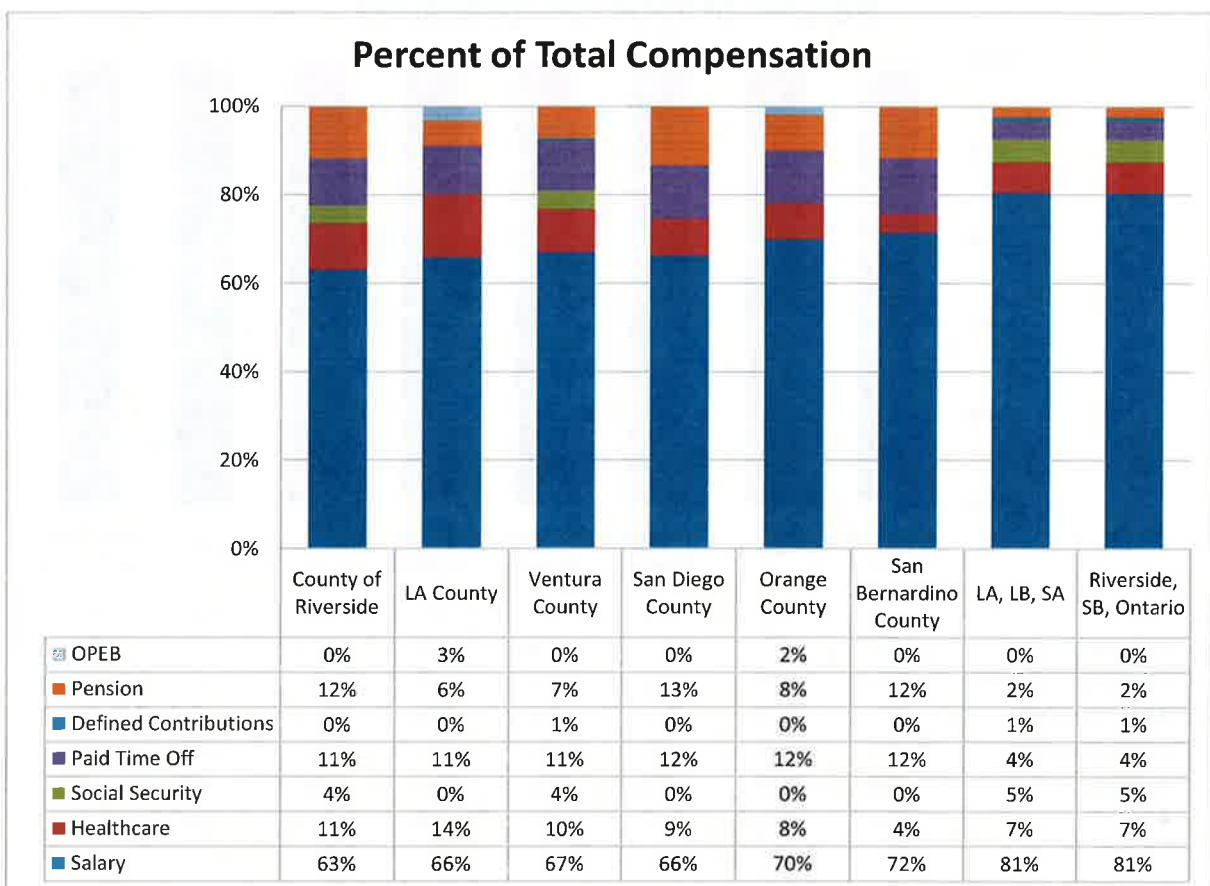
## Technicians—Median Total Compensation Comparison with County and Private Sector Data

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.



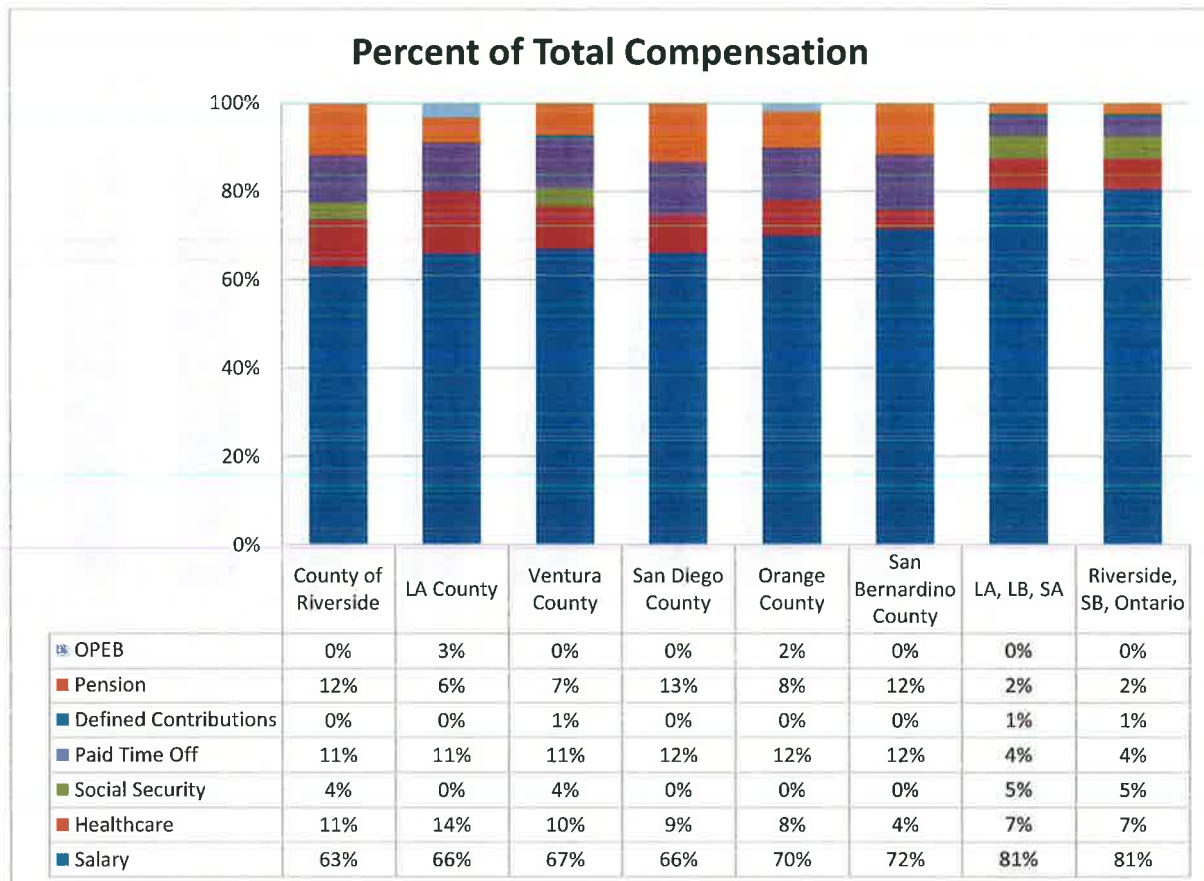
## Craft Positions—Average Total Compensation Comparison with County and Private Sector Data

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.

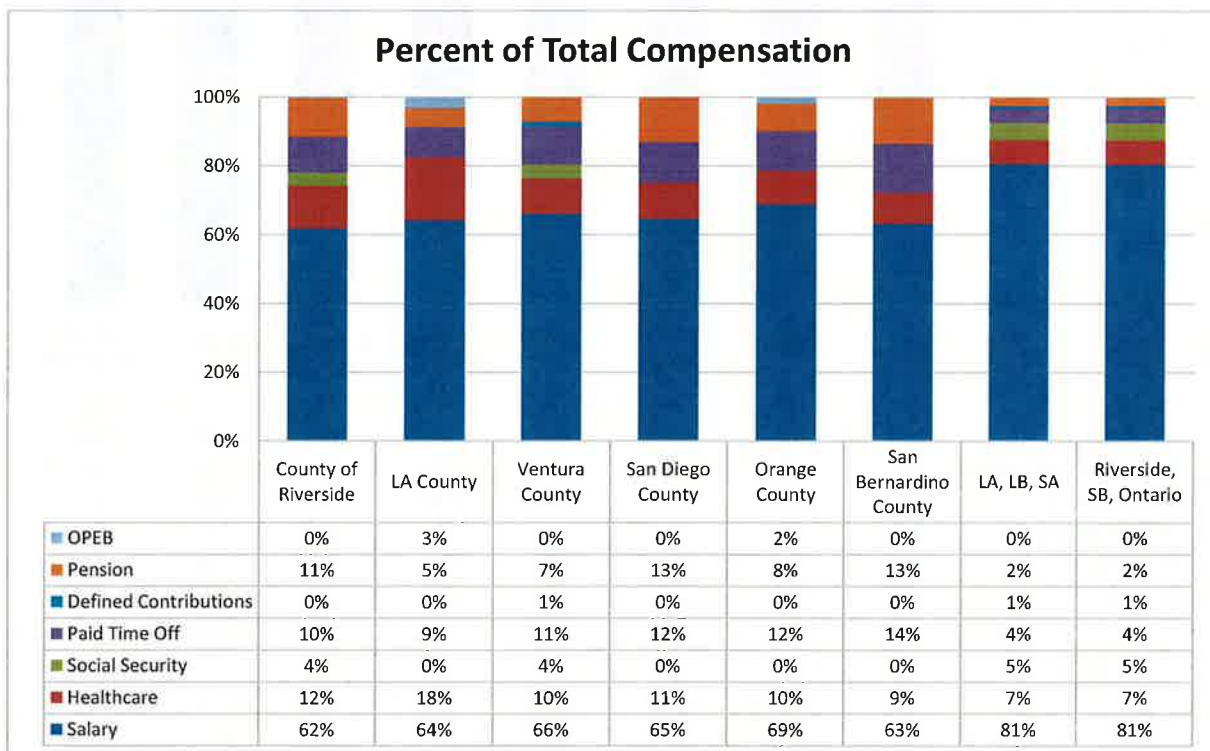




## Service Workers—Average Total Compensation Comparison with County and Private Sector Data

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.

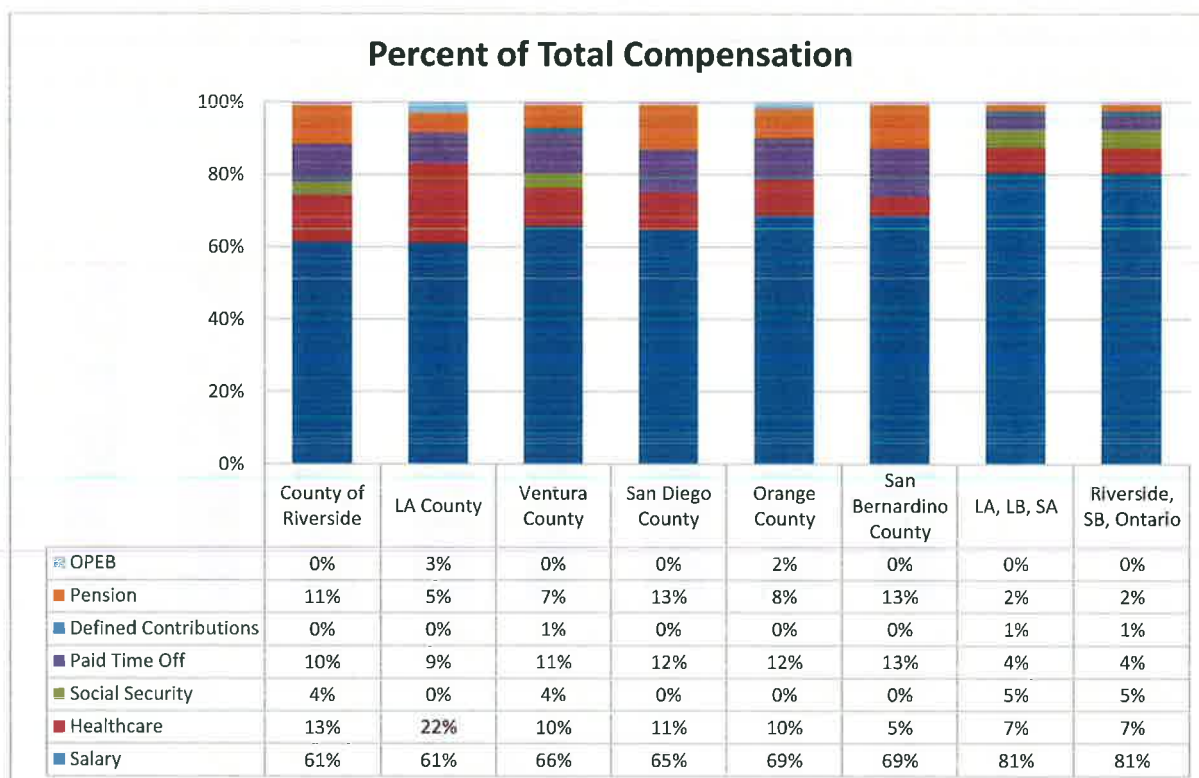
The average total compensation in Riverside County is \$70,852 vs. \$66,762 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$66,175 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, with Riverside County having an advantage of 6.1% and 7.1%, respectively. The distribution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





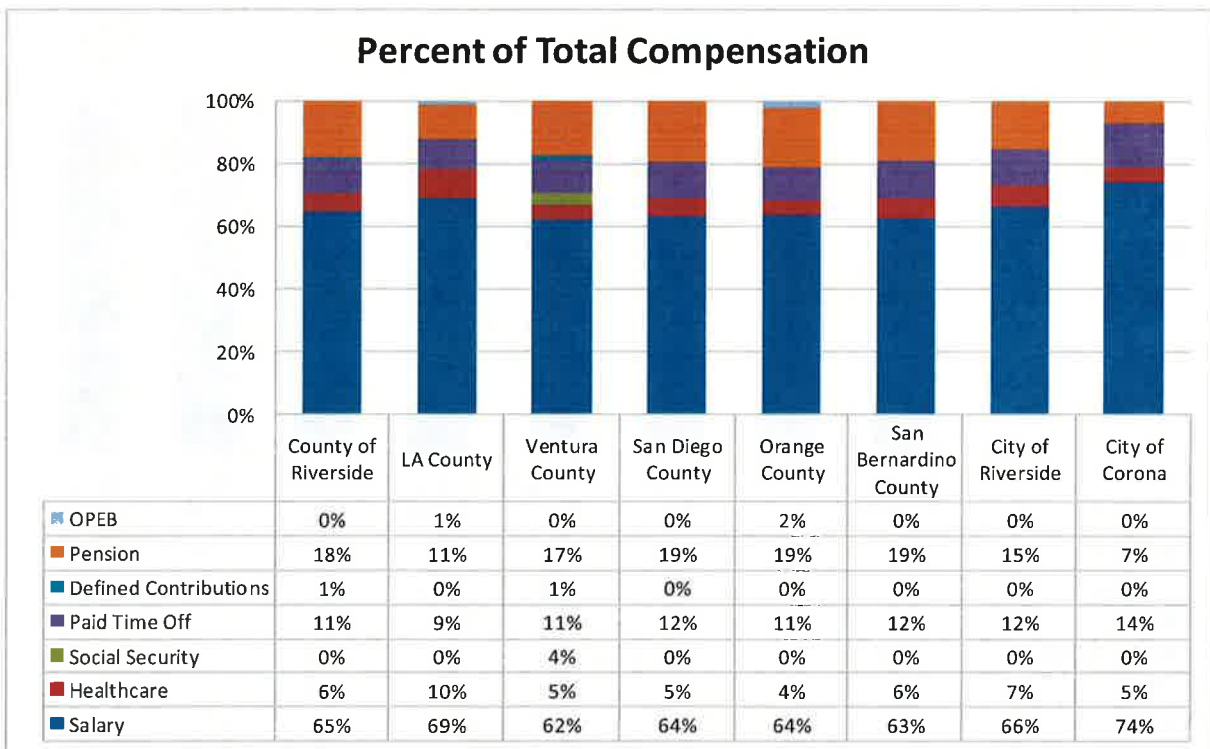
## Service Workers—Median Total Compensation Comparison with County and Private Sector Data

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.



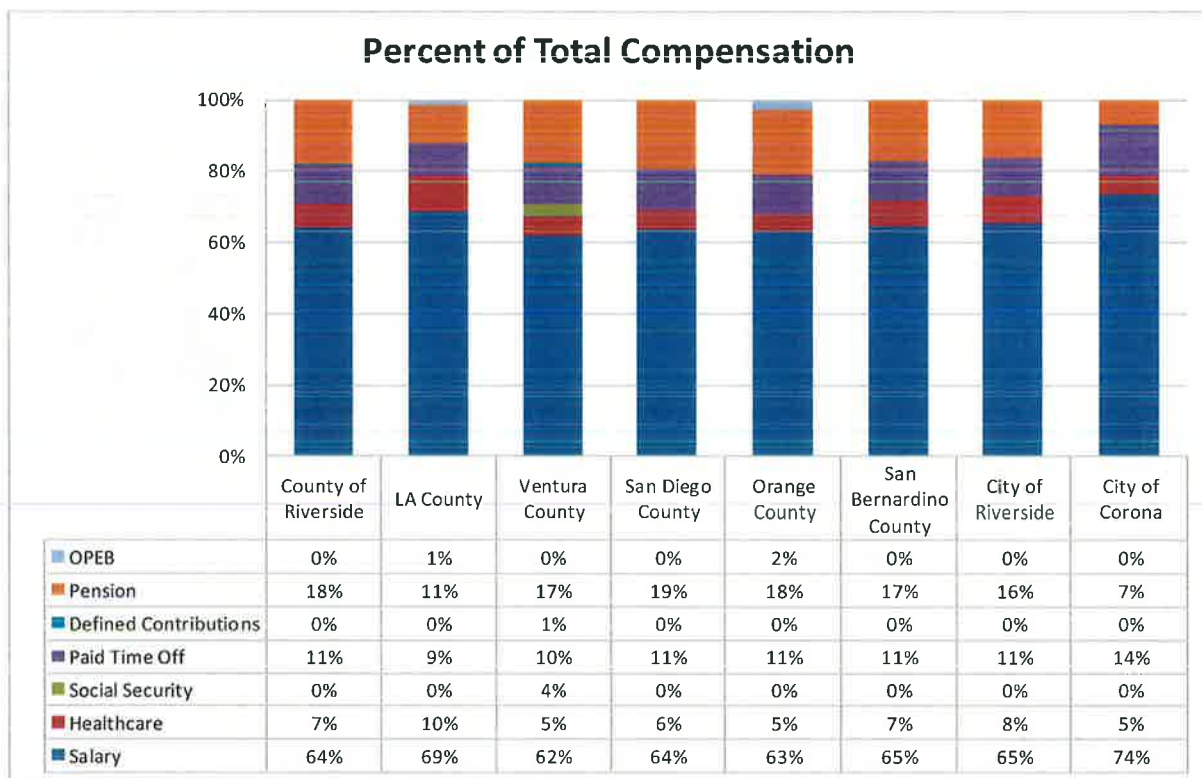
## Safety Professionals—Average Total Compensation Comparison with County and City Data

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.



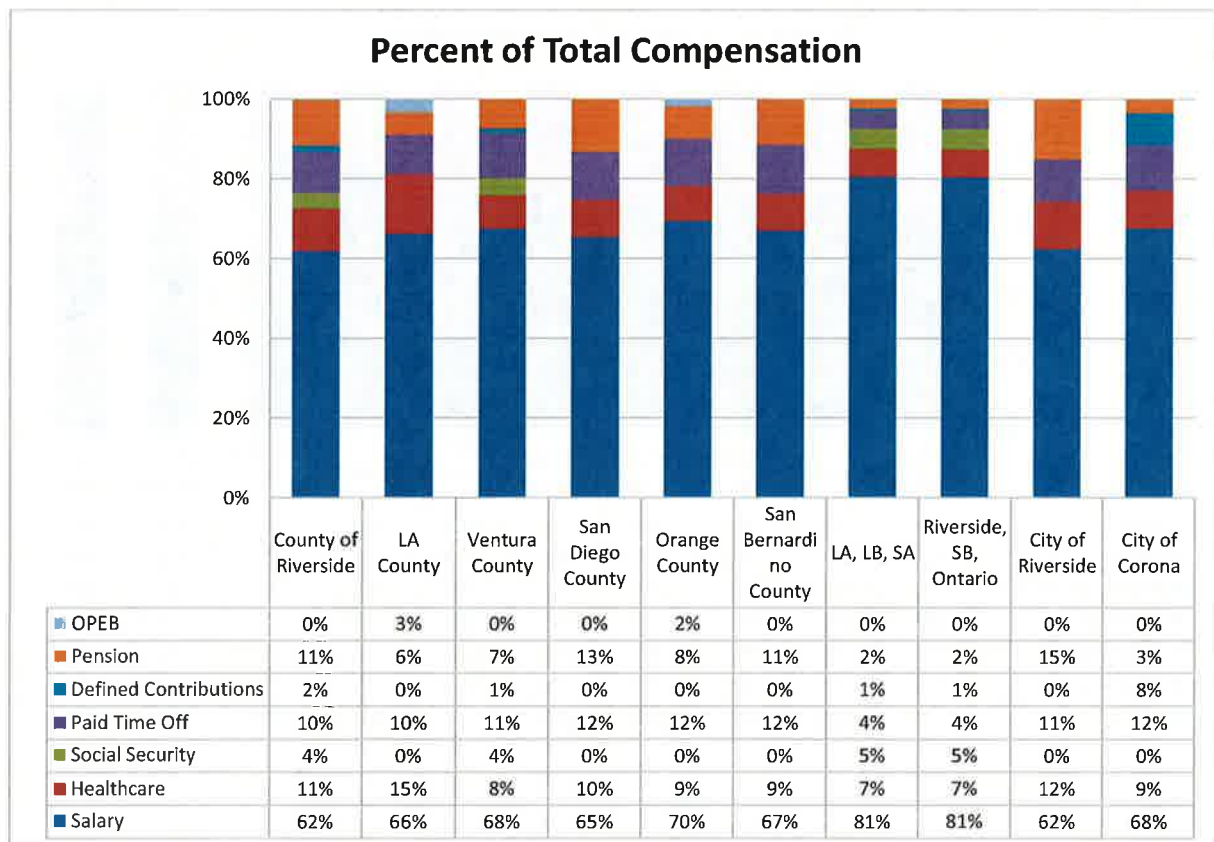
## Safety Professionals—Median Total Compensation Comparison with County and City Data

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.

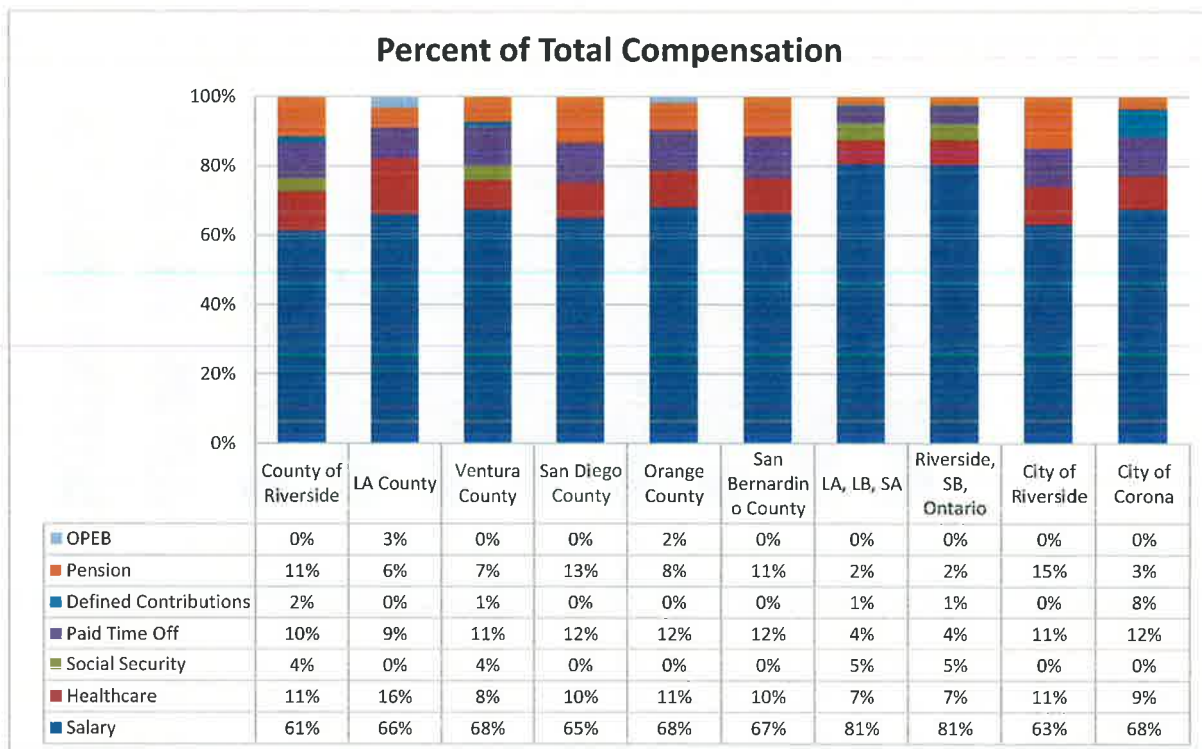




## Administrative Support Workers—Median Total Compensation Comparison with County, Private Sector and Cities of Riverside and Corona Data

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

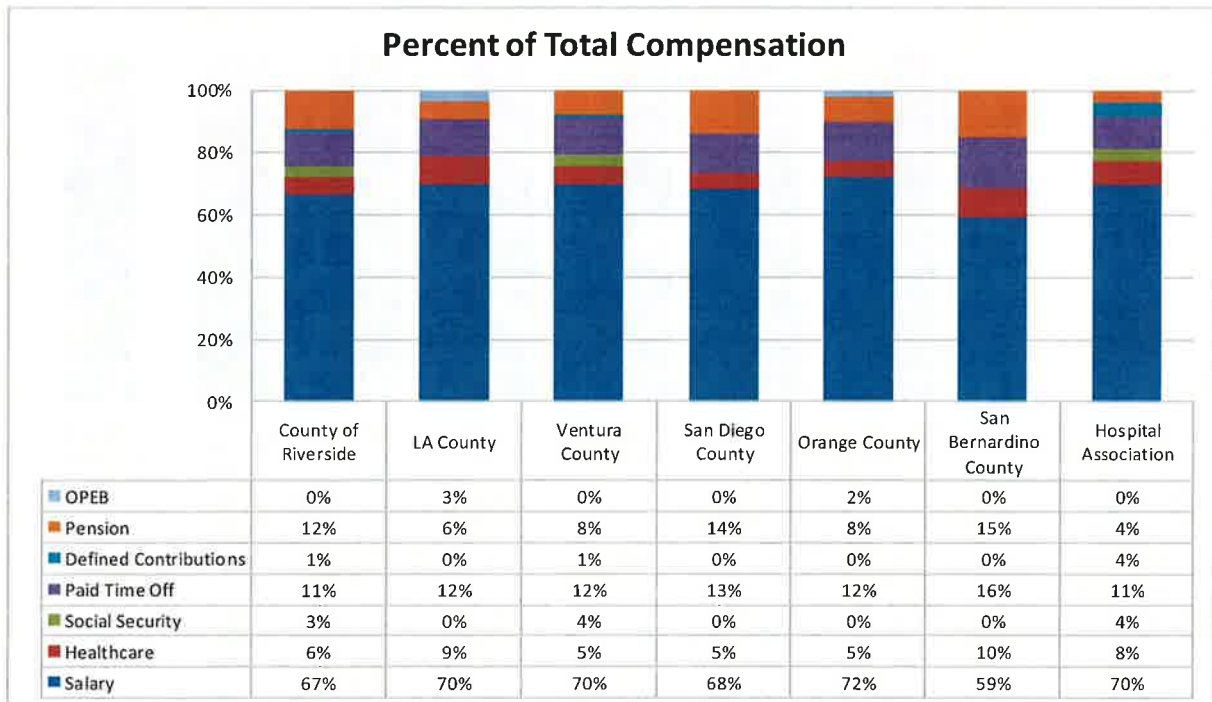
The median total compensation in Riverside County is \$78,418 vs. \$68,275 for the Los Angeles, Long Beach, Glendale BLS Metropolitan Area and \$65,354 for the Riverside, San Bernardino, Ontario BLS Metropolitan Area, with Riverside County having an advantage of 14.9% and 20%, respectively. Riverside 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.





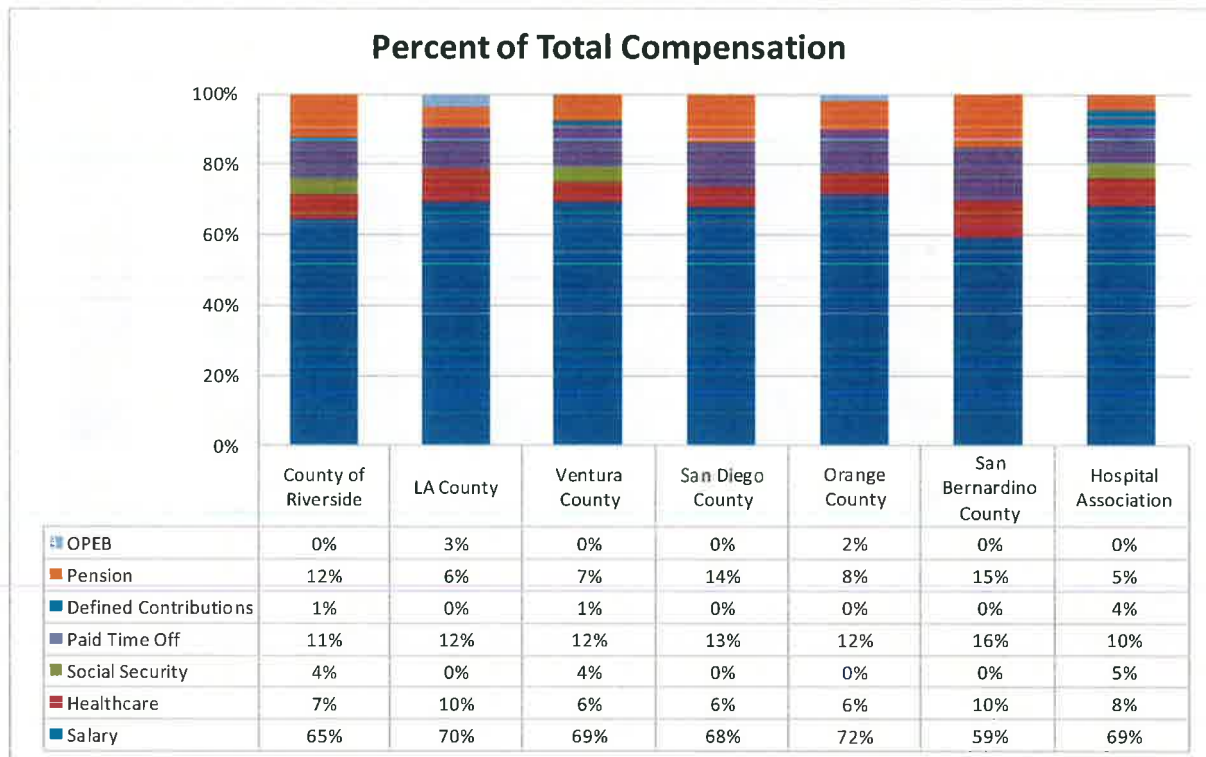
## Medical Positions—Average Total Compensation Comparison with County and Southern California Hospital Association Data

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	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	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%	91.6%	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	Alt 1	Alt 2	Alt 3	Alt 4
Safety Professionals	100.0%	94.0%	90.9%	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 50<sup>th</sup> 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**

