COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL

(1) DEPARTMENT Human Resources	(2) MEETING DATE 12/18/2012	(3) CONTACT/PHONE Tami Douglas-Schatz 781-5959	
(4) SUBJECT Submittal of a Resolution approving amendments, in compliance with the legally mandated California Public Employees' Pension Reform Act of 2013 (PEPRA), to the San Luis Obispo County Employees' Retirement Plan to implement revisions to the County's pension plan which includes establishing a third Tier pension plan for County employees hired on or after January 1, 2013.			
(5) RECOMMENDED ACTION It is recommended that the Board adopt amendments, in compliance with the legally mandated California Public Employees' Pension Reform Act of 2013 (PEPRA), to the San Luis Obispo County Employees' Retirement Plan to implement revisions to the County's pension plan, which includes implementation of a third Tier pension plan for County employees hired on or after January 1, 2013 by modifying Articles 12 and 15 and by adding Articles 29, 30, and 31.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT $0.00	(8) ANNUAL FINANCIAL IMPACT $0.00	(9) BUDGETED? N/A
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. _______) { x } Board Business (Time Est. 30 min)			
(11) EXECUTED DOCUMENTS { x } Resolutions { } Contracts { } Ordinances { } N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A { } 4/5th's Vote Required {x } N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { } N/A Date ______________________	
(17) ADMINISTRATIVE OFFICE REVIEW Emily Jackson			
(18) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo

TO: Board of Supervisors

FROM: Human Resources / Tami Douglas-Schatz, 781-5959

DATE: 12/18/2012

SUBJECT: Submittal of a Resolution approving amendments, in compliance with the legally mandated California Public Employees' Pension Reform Act of 2013 (PEPRA), to the San Luis Obispo County Employees' Retirement Plan to implement revisions to the County's pension plan which includes establishing a third Tier pension plan for County employees hired on or after January 1, 2013.

RECOMMENDATION

It is recommended that the Board adopt amendments, in compliance with the legally mandated California Public Employees' Pension Reform Act of 2013 (PEPRA), to the San Luis Obispo County Employees' Retirement Plan to implement revisions to the County's pension plan, which includes implementation of a third Tier pension plan for County employees hired on or after January 1, 2013 by modifying Articles 12 and 15 and by adding Articles 29, 30, and 31.

DISCUSSION

On September 12, 2012, the California Public Employees' Pension Reform Act of 2013 (PEPRA) was signed into law by California Governor Jerry Brown through Assembly Bill 340. San Luis Obispo County is required to implement the provisions of PEPRA which become effective on January 1, 2013 and primarily impact County employees hired on or after January 1, 2013. The Pension Trust is an independent trust established for the employees of San Luis Obispo County and is set forth in the San Luis Obispo County Employees Retirement Plan (hereinafter referred to as "Plan"). The provisions of PEPRA requiring Plan amendments are incorporated herein as revisions to the Plan document and identified as Exhibits A, B, C, D, E and Appendices A, B, and C.

The County currently has two tiers of pension benefits: Tier 1 and a lower Tier 2 benefit plan. All current employees hired on or before December 31, 2012 will remain in one of these two tiers of benefits, depending upon their hire date. See Exhibit F for effective dates of Tier 2 pension benefits by bargaining unit. With the passage of PEPRA, another Tier of benefits will be established on January 1, 2013, referred to as "Tier 3 (AB 340)", hereinafter referred to as "Tier 3" for all bargaining units. Note: All bargaining units have a Tier 2 pension plan in place with the exception of the Probation bargaining units (including Probation management classifications of Chief Probation Officer and Chief Deputy Probation Officer). Although these units do not have a Tier 2, the new Tier will be referred to as "Tier 3" with the implementation of PEPRA.

While some PEPRA provisions affect current Tier 1 and Tier 2 employees, the majority of provisions apply to employees hired on or after January 1, 2013. Regardless of an employee's transfer, promotion, or demotion, current employees who were hired into Tier 1 will remain in Tier 1 and current employees who were hired into Tier 2 will remain in Tier 2. The implementation of Tier 3 will not change the key elements for Tier 1 and Tier 2, including: 1) pension benefit formulas, 2) final compensation calculations, 3) the cap on pensionable income, and 4) the County's "pick-up" of a portion of the employee's share of pension.

Below is a table of the key PEPRA provisions and the Tiers impacted by each:

PEPRA PROVISION	AFFECTS TIER 1 AND TIER 2	AFFECTS TIER 3	REQUIRES PENSION TRUST PLAN AMENDMENT
NEW DEFINED BENEFIT FORMULAS		X	X
FINAL COMPENSATION CALCULATION		X	X
CAP ON PENSIONABLE INCOME		X	X
SHARING OF PENSION COSTS, NO PICK-UP		X	
RECIPROCITY	X	X	
LIMITS ON POST-RETIREMENT EMPLOYMENT	X	X	X
FELONS TO FORFEIT PENSION BENEFITS	X	X	X
FINAL COMPENSATION FOR CITY COUNCIL OR BOARD OF SUPERVISORS		X	

Key Elements of PEPRA impacting San Luis Obispo County:

New Defined Benefit Formulas:
One of the most significant elements of PEPRA is the implementation of lower pension benefit formulas. The County's pension plan is comprised of three pension groups: Miscellaneous[1], Safety, and Probation. For the Miscellaneous group, the new formula required by PEPRA is 2% at age 62 with a maximum retirement factor of 2.5% at age 67. For the Safety groups, including Probation, PEPRA provided three formula options:

- Basic Safety Plan: 2% at age 57
- Safety Option Plan One: 2.5% at age 57
- Safety Option Plan Two: 2.7% at age 57

PEPRA requires the employer to select the safety retirement formula option that is lower than and closest to the formula for employees in the safety retirement groups on 12/31/12. For the County of San Luis Obispo, the Safety formulas in place on 12/31/12 are 3% at age 55 (probation and safety sworn) and 2.7% at age 55 (safety non-sworn). Therefore, in compliance with PEPRA, the option of 2.7% at age 57 is the formula required (Safety Option Plan Two).

While the minimum retirement age for Safety and Probation groups will remain at 50 for all three tiers, the age of retirement for the Tier 3 Miscellaneous group will increase to age 52. Below is a comparison of the benefit formulas for all 3 tiers:

Pension Group	Tier 3 New hires effective 1/1/13	Tier 2	Tier 1
MISC	**2% at 62**	2% at 60	2% at 55
SAFETY SWORN	**2.7% at 57**	3% at 55	3% at 50 3% at 55*
SAFETY NON-SWORN	**2.7% at 57**	2.7% at 55	3% at 55
PROBATION	**2.7% at 57**	N/A	3% at 55

*District Attorney Investigators Assoc & Chief District Attorney Investigator

Final Compensation Calculation:
Beginning January 1, 2013, PEPRA requires that final compensation for Tier 3 employees be calculated on the highest average annual pensionable compensation earned during a period of at least 36-consecutive months. This is the same calculation included in the current Tier 2 pension plan. For Tier 1 employees, the calculation of final compensation is

[1] Miscellaneous: Management, Confidential, San Luis Obispo County Employees' Assn (SLOCEA), Deputy County Counsel's Assn (DCCA), San Luis Obispo Government Attorney's Union (SLOGAU), Deputy Sheriff's Assn (DSA) non-safety

based on the employee's single highest year.

Tier 3 New hires effective 1/1/13	Tier 2	Tier 1
3-yr average	3-yr average	Single highest year

<u>Cap on Pensionable Income:</u>
For new Tier 3 employees hired on or after January 1, 2013, PEPRA establishes a cap on the amount of compensation for calculating the employee's retirement benefit. This cap is determined by the Social Security base index limit[2] and is adjusted annually based on the Consumer Price Index (CPI). For 2013, the cap amount is $113,700. Regardless of whether an employee's final compensation is over that year's cap amount, PEPRA prohibits a contribution above that year's capped amount. For example, assuming the Social Security cap is $125,000 twenty-five years from today: If a Tier 3 employee retires in 25 years with $150,000 as the three-year highest average, that employee will receive a retirement benefit based on $125,000 and not at $150,000 (83% of final compensation in this example).

For Tier 1 and Tier 2 employees, a percentage amount is placed on maximum final compensation for calculating retirement benefits. For Tier 1, that percentage is 80%, 90%, or 100% of final compensation and is dependent upon bargaining unit. For Tier 2, that percentage is 90% of final compensation for all bargaining units. See below for the cap comparisons of all three tiers:

Tier 3 (new Tier effective January 1, 2013)	Tier 2	Tier 1
$113,700 maximum cap (adjusted each year based on CPI)	90% of final comp (all bargaining units)	• 80% cap: SLOCEA, DSA Non-safety members • 90% cap: Safety and Safety non-sworn members (includes probation) • 100% cap: SLOGAU, DCCA, Ops & Staff, General Mgmt, Appointed Dept Heads, Elected, Confidential, Bd of Supv

<u>Pension Costs:</u>

1. Sharing of Pension Costs
   With the passage of PEPRA, sharing of pension costs between the employer and the employee will be mandatory. All new hires on or after January 1, 2013 are required to pay at least 50% of the normal costs of the retirement plan. For example, if a new hire who is 30 years old enters into the Miscellaneous Tier 3 pension plan and the overall normal cost is 5.50%, the employee's share will be 2.75% and the County will pay the other 2.75%. Additionally, any future increases[3] in employee contribution rates will be increased by 50% only when normal costs increase by 1% or more. If the normal cost increase is less than 1%, the sharing of that increase will be in compliance with the bargaining unit's MOU cost sharing provisions.

   For current Tier 1 and Tier 2 employees, each bargaining unit's contract identifies specific cost sharing language for pension rate increases. Therefore, the PEPRA cost sharing provisions will not impact current Tier 1 and Tier 2 employees and will continue per the terms of the MOU.

2. "Pick-Up" (Employer Paid Member Contributions)
   Another significant change is a provision in PEPRA which prohibits the employer from paying any of the employee's share of normal costs (described in the legislation as employer paid member contribution - EPMC, also referred to as "pick-up") for Tier 3 employees. However, for those bargaining units who have a current contract (MOU) which has a provision in the existing contract to receive an employer-paid pick-up, all Tier 3 new hires will continue to receive the pick-up **<u>only</u>** through the expiration of the contract. After the expiration of that contract and thereafter, no pick-up will be provided for new employees who were hired into Tier 3. For those bargaining units that are unrepresented (no contract) or for represented bargaining units with a contract that

[2] The County of San Luis Obispo participates in Social Security and therefore pays at 100% of the Social Security wage index limit. For those employers who do not participate in Social Security, the limit is 120% of that year's wage index/limit.
[3] The reference to "increases" in pension cost sharing also applies to any decreases.

expires before January 1, 2013, new hires on or after January 1, 2013 will not receive the pick-up upon hire and thereafter. Those employees will also be required to pay 50% of the full normal costs of the plan as described in #1, above. Extension of a contract for extending the pick-up provision is also prohibited under PEPRA.

Note: There is no impact on the employer-paid "pick-up" for current Tier 1 and Tier 2. For future contracts, pick-up continues to remain a subject of bargaining for Tier 1 and Tier 2.

Reciprocity:

Reciprocity[4] is an agreement between the San Luis Obispo County Pension Trust and another public pension plan system such as Cal PERS and 37 Act Counties whereby an employee may leave one pension system and enter into a pension system with reciprocity with the County. The break in service between systems cannot be greater than six months. (Note: A break in service is when an employee who is a member of the pension plan ceases to be an employee and therefore ceases to be a member in that plan. A break in service is not catastrophic leave, sick leave, or any other approved leave of absence.)

Under PEPRA, and applicable for all three tiers, if there is a break in service of less than six months and the employee moves to a reciprocal pension system within six months, the individual enters into the pension plan that existed for that Agency's bargaining unit on 12/31/12. If the break in service is more than six months, the individual enters into the Agency's pension plan for new hires in effect after January 1, 2013 for that bargaining unit.

Limits on Post Retirement Employment:

1. 180-Day Waiting Period
   For all tiers, employees who retire are prohibited from working within the same Agency for a period of 180 days from the date of retirement, regardless of retirement age. This is a change from the current plan which requires a waiting period of 60 days for a retiree who is under the normal retirement age and returns to employment with the County of San Luis Obispo. (Note: Safety and probation officer members are excluded from this provision of PEPRA.)

2. Collection of Pension Benefits
   For all tiers, PEPRA prohibits a retiree from collecting a pension benefit and being employed in the same public retirement system without reinstatement to the pension plan.

3. Unemployment Benefits
   For all tiers, PEPRA prohibits a retiree from working for a public employer for 12 months from the last date of receiving unemployment benefits.

4. Working Hours
   For all tiers, PEPRA prohibits post-retirement employment from exceeding 960 hours in a consecutive year period. This provision currently exists in the County's pension plan and is not a change.

Felons to Forfeit Pension Benefits:

For all tiers, PEPRA mandates that felons forfeit some or all pension benefits. For all public officials and employees, if convicted of a felony arising out of performance of official duties, employees will forfeit pension and related benefits from the date of the *commission* of the felony.

Final Compensation for City Council or Board of Supervisors:

Limits final compensation for each office held to the Agency where it was earned. No change is required to the Pension Plan.

[4] Reciprocity is an agreement between the San Luis Obispo County Pension Trust and the California Public Employees Retirement System (Cal-PERS). Through sections of the California Government Code cited in the agreement, reciprocity also exists between the Pension Trust and those County Retirement Plans that are established pursuant to the County Employees Retirement Law of 1937 as well as certain other systems that have established reciprocity with Cal-PERS. Reciprocity DOES NOT extend to the State Teachers Retirement System (STRS) or the University of California Retirement Plan (UCRP) nor to systems maintained by or in other states or by the Federal Government. In order to establish reciprocity, an individual must terminate membership in one system (System A) and enter into membership in the second system (System B) within six months. There should be no overlap of service and the break in service between systems cannot be greater than six months.

PEPRA Provisions that have no impact on the County:
There are other provisions of PEPRA that exist through the passage of AB 340; however, the provisions listed below are either part of the County's current pension plan or they are provisions that are already excluded in the County's pension plan and have no impact:

1. Retroactive pension enhancement
   Pension enhancements apply only to service performed on or after the date of the enhancement and is part of the current Tier 2 plan. Post retirement cost of living adjustments (COLA) are not considered retroactive benefit enhancements and are unaffected by PEPRA.

2. Elimination of air time
   This provision prohibits the purchase of non-qualified service credit (i.e., purchase of pension credit prior to service in the retirement system or time not employed by the County) and is not part of the current plan.

3. Pension contribution holidays
   This provision prohibits pension contribution rate holidays[5] from the employer or the employee. DROP[6] is not considered pension holiday and remains unchanged for Tier 1 employees. DROP is not part of the Tier 2 plan and will not be part of the Tier 3 plan.

OTHER AGENCY INVOLVEMENT/IMPACT

Representatives from the Administrative Office, Auditor-Controller, County Counsel, and Pension Trust participated in the development of the Plan amendments for Tier 3 (AB 340). County Counsel has reviewed the Pension Trust plan amendments for legal form and effect.

FINANCIAL CONSIDERATIONS

There are no cost increases to the County associated with implementation of the PEPRA provisions.

With the implementation of Tier 3, an actuarial analysis shows that the County will save approximately 10% (or $15 million) of salary costs once all employees are in the Tier 3 plan. Specifically, this 10% savings will be realized through a 2% savings identified by the Pension Trust Actuary[7] and an 8% savings from the elimination of the pick-up in Tier 3[8]. Normal costs will be approximately 14% of salary costs with no unfunded liability at the outset. Employee contribution rates are also significantly lower in Tier 3. Employee contribution rates vary by the age the employee enters into the pension system. For example, a 25 year old employee in bargaining unit 01 currently contributes 13.78% in Tier 1. In Tier 2, the same 25 year old employee would contribute only 5.81%, and in Tier 3, the percentage is further reduced to 4.75%.

The Tier 3 savings are in addition to the savings the County has realized as a result of Tier 2. The County began implementing Tier 2 pension plans for all bargaining units beginning December 26, 2010. At present, all bargaining units except for Probation Peace Officers have a Tier 2 pension plan in place. To date, the County has hired 261 new employees into the Tier 2 pension plans, resulting in annual payroll savings of approximately $3.2 million. Under PEPRA, Tier 2 will remain open to employees with reciprocity. Consequently, savings in the long term could be approximately $30 million.

RESULTS

The implementation of a Tier 3 pension plan complies with the mandated provisions as set out through PEPRA, effective for new County employees hired on or after January 1, 2013.

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[5] A rate holiday is a suspension of the employer and employee contribution to the pension fund. SLO County has not had rate holidays and therefore this provision has no impact.
[6] A Deferred Retirement Option Program (DROP) is an optional, voluntary program that allows you to have your retirement benefits deposited in a special investment account and cease making contributions to the Pension Trust, all while you continue to work in your current position.
[7] For the foreseeable future, the County's contribution will be maintained for all three Tiers at the higher Tier 1 rate to reduce the likelihood of unfunded liability in all three Tiers.
[8] There are immediate savings to the County upon elimination of the pick-up.

ATTACHMENTS

1. PEPRA Resolution
2. Exhibit A - Article 12 Plan Amendment
3. Exhibit B - Article 15 Plan Amendment
4. Exhibit C - Article 29 Plan Attachment
5. Exhibit D - Article 30 Plan Attachment
6. Exhibit E - Article 31 Plan Attachment
7. Appendix A - Misc Rate Sheets
8. Appendix B - Safety Rate Sheets
9. Appendix C - Probation Rate Sheets
10. Exhibit F - Implemented Tier 2 Plans