

Pension 101

Contra Costa County

May 18, 2010



Topics

- ❑ **Pension Benefits**
- ❑ **Contra Costa County Plans**
- ❑ **CalPERS and '37 Act Plans**
- ❑ **Defined Benefit and Defined Contribution Plans**
- ❑ **Pension Issues in Contra Costa County**
- ❑ **Public Managers' Association Proposal**
- ❑ **Pending Legislation**
- ❑ **Questions and Answers**

Pension Benefits



Contra Costa County

- County of Contra Costa employees are members of the Contra Costa County Employees' Retirement Association (CCCERA)
- CCCERA operates under the County Employees Retirement Law of 1937 (Government Code, Title 3, Division 4, Part 3, Charter 3 – as amended) – commonly referred to as the '37 Act



What Are The Elements Of The Pension Benefit?

- A pension amount is based on a statutory formula
 - The employee's Final Average Salary multiplied by the employee's years of service multiplied by the statutory percentage factor (e.g., 2% at 55 (general members) or 3% at 50 (safety))
- The pension benefit also includes possible annual cost of living adjustments (COLA) to the pension
 - Generally, Retirees may receive up to a 3 % COLA

How Can Changes Be Made To The Pension Benefit?

- Employees have rights to their pension formula and pension COLA
- The pension benefit can be modified for current employees if:
 - The modification bears a material relation to the theory of the pension system and its successful operation; *and*
 - Changes in the pension plan that result in disadvantage to employees are accompanied by a comparable new advantage for the employee



What about new hires?

- The pension benefit can be changed for new employees, for example:
 - The COLA could be reduced from a maximum 3% COLA to a maximum 2% COLA; and/or
 - Final Average Salary could be calculated over a 36 month period instead of a 12 month period; and/or
 - A different statutory percentage factor could be used, e.g. from 3% at 50 to 3% at 55 (safety members) or from 2% at 55 to 2% at 60 (general members)
 - The conversion of sick leave to service credit can be eliminated
 - Some changes may require legislation to modify or add tiers to the '37 Act

What is included in Final Average Salary?

- With the exception of Deputy Sheriffs' Safety Tier C, a 12 consecutive month period is used to calculate Final Average Salary
 - Employee selects the 12 consecutive month period-- usually the last 12 months of employment
 - Tier II and disability for Tier III use 36 months
- Under CCCERA's policy "Determining Which Pay Items Are Compensation For Retirement Purposes," Final Average Salary includes:

What is included in Final Average Salary? (continued)

- For County Employees who become members of CCCERA **prior** to January 1, 2011:
 - Salary
 - Cash payments for services performed
 - i.e., longevity pay, bilingual pay, standby pay, holiday pay, and the like.
 - Cash payments for sale of vacation accruals during final compensation period (up to 2/3 of the annual accrual)
 - Cash payment for cash-out of no more than one-year's vacation and personal holiday accruals upon separation from service
 - Generally, overtime is not includable in the Final Average Salary calculation

What is included in Final Average Salary? (continued)

- For County Employees who become members of CCCERA **after** January 1, 2011:
 - Same as other employees, except cash payments for cash-out of vacation and personal holiday accruals at separation from service will no longer be includable in final average salary

Final Compensation Example of Vacation Sale using 30 Year Employee*

- | | |
|--|--|
| <ul style="list-style-type: none">□ <u>Member Prior to 1/2011</u>□ May sell:<ul style="list-style-type: none">■ 93 hours during final 12 months■ Another 93 hours during final 12 months■ 280 hours at termination□ Total of 466 hours | <ul style="list-style-type: none">□ <u>Member After 1/2011</u>□ May sell:<ul style="list-style-type: none">■ 93 hours during final 12 months■ Another 93 hours during final 12 months■ 0 hours at termination□ <u>Total of 186 hours</u> |
|--|--|

* Eligible to sell vacation during employment



Final Compensation Example of Vacation Sale using 30 Year Employee*

- | | |
|---|---|
| <input type="checkbox"/> <u>Member Prior to 1/2011</u> | <input type="checkbox"/> <u>Member after 1/2011</u> |
| <input type="checkbox"/> May sell: <ul style="list-style-type: none">■ 280 hours at termination | <input type="checkbox"/> May sell: <ul style="list-style-type: none">■ 0 hours at termination |
| <input type="checkbox"/> Total of 280 hours | <input type="checkbox"/> Total of 0 hours |

* Not eligible to sell vacation during employment



Who Determines What Is Included In Final Average Salary?

- The Board of Supervisors and the Represented Employee Organizations bargain about the establishment and scope of various discretionary items of compensation, such as bilingual pay
- By State law, when an item of compensation is established, the CCCERA Retirement Board has the sole discretion to determine whether that item is includable in the calculation of Final Average Salary



How Does The COLA Work?

- Most Retirees are eligible for annual Cost of Living Adjustments to their pension benefits not to exceed 3% per year
 - Tier 2 Retirees and disability Retirees in Tier III are eligible for COLAs not to exceed 4% per year
 - Deputy Sheriff Safety Tier C Retirees are eligible for COLAs not to exceed 2% per year
- Purpose of the COLA is to preserve the economic purchasing power of a retiree's pension in light of changing market conditions



How Does The COLA Work?

(continued)

- Subject to the applicable maximum cap, the CCCERA Retirement Board determines what percentage COLA to award each year, if any
- By State law, the COLA is tied to changes in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose Area

How Does The COLA Work?

(continued)

- The COLA can be positive or negative – if negative, the decreased benefit payment can never drop below the original amount calculated at retirement
- CCCERA's actuaries compare the December CPI for the past two years, compute the resulting percentage change in CPI, and recommend a COLA adjustment amount. Depending on the change in CPI, this amount could be the maximum possible COLA, or some lesser amount. COLAs may also be banked and used in future years when the change in CPI is lower than the maximum cap
- Once awarded, the amount of the COLA remains part of the retiree's ongoing pension benefit



How Does Reciprocity Work?

- ❑ CCCERA reciprocity is only for other California systems.
- ❑ CCCERA determines whether the employee is eligible for reciprocity
- ❑ Overlapping service is not allowed, an employee must terminate in one system before starting employment with another
- ❑ Reciprocity encourages career public service by allowing an employee to link together retirement benefit credits from one public employer to another public employer
- ❑ Employee's contribution rate is based on age of entry into the first reciprocal retirement system. This results in reduced contribution rates for the employee and the County

How Does Reciprocity Work?

(continued)

- Service credits earned in the prior employer's reciprocal retirement system count toward vesting and retirement eligibility in CCCERA
- Employee receives separate pension payments from CCCERA and from the former employer's retirement system
- When an employee retires, the highest Final Average Salary from *either* employer is used by both CCCERA and the former employer's retirement system to calculate the pension benefit
 - CCCERA may have to pay benefits based on a Final Average Salary that is greater than the employee would have had if they remained a County employee



Contra Costa County Plans

Summary of Major Pension Plan Provisions

General Membership Plans



What Plans are General Members in?

- Tier 1
 - Members hired before August 1, 1980
 - Retirement Benefit - 2% at age 55
 - Final Average Salary – 12 consecutive months
 - Cost of Living Adjustment Maximum Benefit – 3%
- Tier 2
 - Members hired after August 1, 1980 and eliminated for active members' future service in October 2002 (CNA members – after January, 2005)
 - Retirement Benefit – 1.13% at age 55
 - Final Average Salary – 36 consecutive months
 - Cost of Living Adjustment Maximum Benefit – 4%
- Tier 3
 - Members hired after September 30, 2002
 - Retirement Benefit – 2% at age 55
 - Final Average Salary – 12 consecutive months
 - Cost of Living Adjustment Maximum Benefit – 3%



What are the Major General Tier Pension Plan Provisions?

- Generally, members are eligible to receive a benefit after ten or more years of eligible service
- The “2% at 55” retirement age factor is used to calculate the benefit between the ages of 55 and 62.25
- For Tier I, the factor reverts to the original Tier 1, non-enhanced maximum factor of 2.61% at age 65
- For Tier III, the maximum factor of 2.42% is reached at age 65



Who Participates in General Tier I?

- ❑ International Association of Firefighters Local 1230 (16)
- ❑ Service Employees International Union Local 1021 (57)
- ❑ Unrepresented Management (49)
- ❑ American Federation of State, County & Municipal Employees Local 512 (29)
- ❑ Public Employees Union Local 1 (77)
- ❑ American Federation of Labor and Congress of Industrial Organization Local 21 (86)
- ❑ Crockett/Carquinez FPD (1)
- ❑ Unrepresented Non-Management (2)
- ❑ American Federation of State, County and Municipal Employees Local 2700 (84)
- ❑ Physicians and Dentists of Contra Costa Association (4)
- ❑ Public Defenders Association (3)
- ❑ California Nurses Association (8)
- ❑ Deputy District Attorney's Association (1)
- ❑ Deputy Sheriff's Association Non-Sworn Rank & File (7)
- ❑ Elected Officials (2)



Who Participates in General Tier III?

- ❑ Service Employees International Union Local 1021 (676)
- ❑ Unrepresented Management (229)
- ❑ American Federation of State, County & Municipal Employees Local 512 (210)
- ❑ Public Employees Union Local 1 (1,944)
- ❑ American Federation of Labor and Congress of Industrial Organization Local 21 (693)
- ❑ Crockett/Carquinez FPD (1)
- ❑ Unrepresented Non-Management (34)
- ❑ American Federation of State, County and Municipal Employees Local 2700 (1,369)
- ❑ Physicians and Dentists of Contra Costa Association (215)
- ❑ Elected Officials (7)
- ❑ Public Defenders Association (56)
- ❑ California Nurses Association (477)
- ❑ Deputy District Attorney's Association (79)
- ❑ Deputy Sheriff's Association Non-Sworn Rank & File (133)
- ❑ Western Council of Engineers (21)

Safety Membership Plans



What Plans are Safety Members in?

- Tier A (most safety employees)
 - Retirement Benefit – 3% at age 50
 - Final Average Salary – 12 consecutive months
 - Cost of Living Adjustment Maximum – 3%

- Tier C (deputy sheriffs hired after December 31, 2006)
 - Retirement Benefit – 3% at age 50
 - Final Average Salary – 36 consecutive months
 - Cost of Living Adjustment Maximum – 2%

Summary of Major Safety Pension Plan Provisions

- Tier A – members with 10 or more years of continuing service who retire on or after age 50 or members with 20 years of service regardless of age will receive pensions calculated with the enhanced benefit factor (3% at 50)
- Tier C – Deputy Sheriffs members hired on or after January 1, 2007. This tier is scheduled to “sunset” for new hires in 2012



Who Participates in Safety Tier A?

- ❑ American Fed of Labor and Congress of Industrial Organization Local 21 (7)
- ❑ American Fed of State, County & Municipal Employees Local 512 (22)
- ❑ Crockett/Carquinez FPD (19)
- ❑ East Contra Costa County FPD Management (4)
- ❑ International Association of Firefighters Local 1230 (302)
- ❑ Probation Peace Officers Association (219)
- ❑ Public Employees Union Local 1 (35)
- ❑ Service Employees International Union Local 1021 (50)
- ❑ United Chief Officers Association (11)
- ❑ Unrepresented Management (8)
- ❑ Unrepresented Non-Management (4)
- ❑ Unrepresented Uniformed Fire Safety Management (4)

Who Participates in Safety Tier A (continued)?

- Unrepresented District Attorney Investigators Management (3)
- District Attorney Investigators Association (12)
- Unrepresented Sheriff's Sworn Executive Management (4)
- Sheriff (1)
- Deputy Sheriff's Association Sworn Management (40)
- Deputy Sheriff's Association Sworn Rank & File (495)
 - Additionally – 80 in Tier C

- Total in Tier A – 1,195
- Total in Tier C – 80

CalPERS and '37 Act Plans



What are the Similarities and Differences?

- ❑ Most differences are actually more a result of bargaining than differences in plan design allowances and/or restrictions in PERS or '37 Act Plans
- ❑ PERS COLAs do not begin until the 2nd year of Retirement
- ❑ In PERS Retiree Health Benefits are provided
- ❑ PERS limits the retirement benefit to 90% of final average salary

Defined Benefit & Defined Contribution Plans



What is a Defined Benefit Plan?

- ❑ An employer sponsored retirement plan
- ❑ Retiree receives a set amount in benefits each month, once receipt of benefits is begun
- ❑ Benefits are determined on the basis of a formula using factors such as salary history, duration of employment and age
- ❑ Benefits are not dependent on the performance of the investment portfolio in which contributions are invested
- ❑ Investment risk and portfolio management are controlled by either the employer or the company that manages the plan
- ❑ There are restrictions on when or how employees can withdraw funds without incurring penalties



What is a Defined Contribution Plan?

- ❑ Employee and/or employer make a set dollar amount contribution each month
- ❑ Benefits are not pre-determined
- ❑ Benefit amount is dependent upon how well the contributions are invested before retiree starts to make withdrawals
- ❑ Investment decisions may be directed by the individual employee in addition to the employer from the offerings available to them
- ❑ There are restrictions on when and how the employee can withdraw the funds without penalties



What are the Advantages of Defined Benefit Retirement Plans?

- ❑ Funding structure allows for long-term financing
- ❑ Guarantees to provide some income replacement in retirement for any vested retiree, regardless of age at the time of entering employment
- ❑ Benefit levels are guaranteed by the Plan
- ❑ Because benefits are guaranteed, they become an effective tool to recruit and retain qualified employees and they are designed to ensure that retirees don't outlive retirement assets



What are the Advantages of Defined Benefit Retirement Plans? (continued)

- ❑ Defined Benefit plans are proven to add more to the retirement savings of especially lower and middle income earners than Defined Contribution plans
- ❑ Because the funds are managed in common by the employer or a management firm, research shows that, they outperform what most individual investors earn. (In general, individual investors underperform the market by 3.4% each year)



What are the Advantages of Defined Benefit Retirement Plans? (continued)

- Contributions can be protected from the full impact of negative market fluctuations by using smoothing techniques which also allow for investment gain offsets and the use of funding horizons that correlate with the length of employee careers
- Retirees are able to count on a continual/normal flow of income, even in the most challenging of financial times
- Maintenance of income means that retirees can continue to invest in the local economy, even in difficult financial times

Pension Issues in Contra Costa

What is the Condition of the County's Pension System?

□ *PENSION CRISIS*

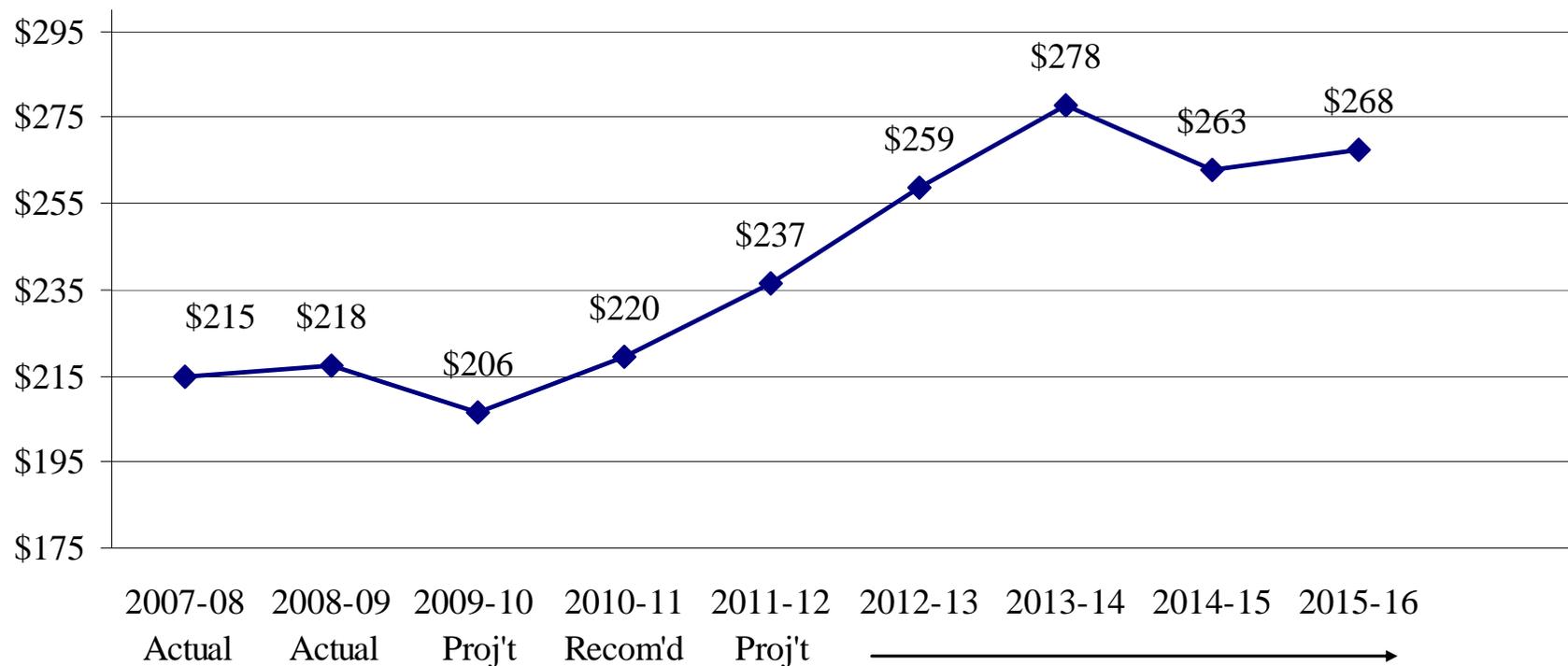
- Due to Stock Market losses, County's Pension Obligation will increase dramatically in next five - seven years
- Will require an additional \$59 Million contribution *each year* after 2015.

What are the Annual Impacts?

	<u>Annual Increase¹</u>	<u>POB Increase</u>	<u>Annual Accumulated</u>
■ 7/1/2010	\$ 7,536,047	\$ 3,414,767	\$ 10,950,814
■ 7/1/2011	\$13,333,007	\$ 3,712,475	\$ 27,996,296
■ 7/1/2012	\$17,390,878	\$ 4,677,251	\$ 50,064,425
■ 7/1/2013	\$18,550,270	\$ 462,032	\$ 69,076,727
■ 7/1/2014 ²	\$17,970,574	(\$32,991,674)	\$ 54,055,627
■ 7/1/2015	\$ 3,478,176	\$ 1,504,633	\$ 59,038,436

- 1 Figures represent projections based upon annually earning at least the Assumed Investment Rate of 7.75%
- 2 Due to one Pension Obligation Bond pay off that will occur in July, 2014 this will reduce the total annual accumulated to \$59,038,436.

Retirement Expense History & 5 Year Projection



*Projection anticipates achieving the CCCERA Assumed Investment Rate each year.

In Contra Costa, for every dollar being spent on salary...



... we spend 40 cents on pension



... and ANOTHER 41 cents on other benefits



How are costs shared between the County and the employee?

- Generally, these sharing ratios are collectively bargained
- Actual amounts paid vary from employee to employee because contribution rates are based upon employee's age at initial CCCERA membership
- The following slides summarize current sharing arrangements for FY 2010/11 for an employee who joined CCCERA at age 28

General Membership

<u>Tier I</u>	Employer Rate	Employee Rate	Total Retirement Rate	Employer Share of Total Ret Rate	Employee Share of Total Ret Rate
Basic	16.910%	2.870%	19.780%	38.310%	6.502%
50% Subv of EE Cost	2.870%		2.870%	6.502%	0.000%
COLA	6.700%	3.420%	10.120%	15.179%	7.748%
POB	11.370%		11.370%	25.759%	0.000%
	37.850%	6.290%	44.140%	85.750%	14.250%

<u>Tier III</u>	Employer Rate	Employee Rate	Total Retirement Rate	Employer Share of Total Ret Rate	Employee Share of Total Ret Rate
Basic	15.320%	2.870%	18.190%	40.637%	7.613%
50% Subv of EE Cost	2.870%		2.870%	7.613%	0.000%
COLA	6.020%	2.790%	8.810%	15.968%	7.400%
POB	7.830%		7.830%	20.769%	0.000%
	32.040%	5.660%	37.700%	84.987%	15.013%

Sheriff Safety Membership

<u>Tier A</u>	Employer Rate	Employee Rate	Total Retirement Rate	Employer Share of Total Ret Rate	Employee Share of Total Ret Rate
Basic	29.860%	4.370%	34.230%	36.719%	5.374%
50% Subv of EE Cost	4.370%		4.370%	5.374%	0.000%
COLA	12.940%	6.600%	19.540%	15.912%	8.116%
EE Subv of ER Cost	-3.000%	3.000%	0.000%	-3.689%	3.689%
POB	23.180%	0.000%	23.180%	28.505%	0.000%
	67.350%	13.970%	81.320%	82.821%	17.179%

<u>Tier C</u>	Employer Rate	Employee Rate	Total Retirement Rate	Employer Share of Total Ret Rate	Employee Share of Total Ret Rate
Basic	26.820%	4.165%	30.985%	37.437%	5.814%
50% Subv of EE Cost	4.165%		4.165%	5.814%	0.000%
COLA	9.900%	3.410%	13.310%	13.819%	4.760%
EE Subv of ER Cost	-2.100%	2.100%	0.000%	-2.931%	2.931%
POB	23.180%		23.180%	32.356%	0.000%
	61.965%	9.675%	71.640%	86.495%	13.505%

Non-Sheriff Safety Membership

<u>Tier A (Other)</u>	Employer Rate	Employee Rate	Total Retirement Rate	Employer Share of Total Ret Rate	Employee Share of Total Ret Rate
Basic	29.860%	4.370%	34.230%	36.719%	5.374%
50% Subv of EE Cost	4.370%		4.370%	5.374%	0.000%
COLA	12.940%	6.600%	19.540%	15.912%	8.116%
EE Subv of ER Cost	-9.000%	9.000%	0.000%	-11.067%	11.067%
POB	23.180%	0.000%	23.180%	28.505%	0.000%
	61.350%	19.970%	81.320%	75.443%	24.557%

<u>Tier A (CCCFPD)</u>	Employer Rate	Employee Rate	Total Retirement Rate	Employer Share of Total Ret Rate	Employee Share of Total Ret Rate
Basic	19.180%	8.740%	27.920%	47.160%	21.490%
50% Subv of EE Cost	0.000%		0.000%	0.000%	0.000%
COLA	6.150%	6.600%	12.750%	15.122%	16.228%
EE Subv of ER Cost	-9.000%	9.000%	0.000%	-22.129%	22.129%
POB (note)					
	16.330%	24.340%	40.670%	40.153%	59.847%

Note: CCCFPD POB is paid from tax and not as a cost of compensation

Public Managers' Association Proposal



What does the Proposal Include?

- General for new hires
 - 2% at 60
 - Escalating to 2.418 % at age 63 or older
 - 36 month final averaging

- Safety for new hires
 - 2% at 50
 - Escalating to 2.7% at age 55 or older
 - 36 month final averaging

- Cap retirement benefits for all groups at 65% to 75% percent of final salary for new hires

- Allow existing employees to be enrolled in negotiated new tier plans on a prospective basis

Pending Legislation

SB 919 (Hollingsworth): State Employee Benefits – Died in Committee

- **Age.** The vast majority of state workers can retire now at 62. The bill would increase that age to 65 for new hires. CHP officers, firefighters, correctional officers and occupational peace officers would have to wait until 57, up from the current retirement age of 50.
- **Percentage formulas.** Police, sheriff's officers and firefighters currently get 3 percent of their single highest year with a pension cap at 90 percent of their highest annual wage. SB 919 would cut that to 2.7 percent. So right now, a CHP officer at full retirement with 20 years of service, making \$100,000 yearly, gets a \$60,000 annual pension. For new hires under the Hollingsworth plan, it would be \$54,000.
- **Retiree health.** State workers are fully vested in their retiree health plans after 20 years. SB 919 would make it 25 years for new employees and cut the state's contribution to those benefits by 15 percent.

AB 1987 (Ma): Public retirement: final compensation: computation: retirees.

- As Amended April 29, 2010 (hearing scheduled 5/12)

- This bill places new standards and limitations on public retirement systems in California with respect to final compensation calculations, ongoing audits and penalties for non-compliance, and prohibitions against retirees from immediately returning to work on a part time or contract basis. Specifically, the bill:
 - Requires each retirement system to establish accountability provisions for participating employers that include an ongoing audit process and penalty provisions for noncompliance
 - Excludes cash conversions of accrued employee benefits from being included in retirement calculations
 - Prohibits final settlement or termination pay from being included in retirement calculations
 - Prohibits a retiree from returning to work as a retired annuitant or as a contract employee for a period of 180 days after retirement. This requirement applies to anyone retiring on and after January 1, 2011

AB 1987 (Ma): Public retirement: final compensation: computation: retirees.

- As Amended April 15, 2010 (hearing scheduled 5/12)

- Limits the increases in compensation that can be used in retirement calculations by members during their final three years preceding retirement to the average increases in compensation received by similarly situated employees in the same or closely comparable group. Promotions or routine merit increases would not be affected by this provision
- Authorizes a retirement system to not include in retirement calculations any compensation they determine was paid for the principal purpose of enhancing a member's retirement benefit
- Specifies that this bill will not become operative unless SB 1425 (Simitian) of this year is also enacted
- CSAC has recommended opposing this bill unless it is amended



SB 1425 (Simitian and Correa): Public Retirement: Final Compensation – As Amended April 5, 2010

- SB 1425 adds requirements to laws governing the Public Employees' Retirement System (CalPERS), the State Teachers' Retirement System (CalSTRS), and independent public retirement systems to:
 - clarify and define which elements may and may not be included in final compensation for the purpose of calculating retirement benefits,
 - require that increases to employee compensation during the final compensation period be consistent with increases paid to other employees in the same or similar occupational groups or classes,
 - require the boards of retirement systems to audit employer compliance with final compensation reporting requirements and allow them to levy monetary penalties or fees for non-compliance, and
 - prohibit, for 180 days after the date of retirement, any public annuitant who retires on or after January 1, 2011, from returning to work as a part-time, paid employee; contracting employee; or employee of a third party contractor



SB 1425 (Simitian and Correa): Public Retirement: Final Compensation – As Amended April 5, 2010

- The California State Association of Counties (CSAC) states that "a six-month wait for every retiree is overly broad and is an inappropriate interference on a local public employer's ability to choose the best candidate for a job and to efficiently and effectively manage resources." CSAC also believes that a better way to address pension spiking abuses would be to restrict final compensation earnable to base salary or wage compensation only
- Passed Senate Appropriations May 10, 2010
- CSAC has recommended opposing this bill unless it is amended.

Questions and Answers

Contra Costa County Employees' Retirement Association web-site can be accessed at:

www.cccera.org