PRIVLEGED CONFIDENTIAL ATTORNEY-CLIENT CLOSED SESSION MEMORANDUM

COUNTY OF SAN MATEO
HUMAN RESOURCES DEPARTMENT

Inter-Departmental Correspondence

Information Only

DATE: April 28, 2016

TO: Peninsula Clean Energy Authority

FROM: Jay Castellano, Interim Benefits Manager

SUBJECT: PCEA Executive Director/Staff—Retirement Plan Options

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INFORMATION ITEM

Purpose

To provide information to the Peninsula Clean Energy Authority (PCEA) regarding retirement benefit options for PCEA's discussion.

Background

Retirement plans offered by employers represent a significant benefit that can enhance both recruitment and retention efforts. Generally, retirement plans are categorized as defined benefit (DB), defined contribution (DC) or hybrid (combination of DB and DC).

With a DB plan, employers provide employees a specific retirement benefit based on salary and years of service. The contributions needed to fund the benefit are actuarially determined and can vary from year to year. DB plans are typically characterized as follows:

- Statutorily defined benefits.
- Statute sets forth eligibility and amount of lifetime benefits to employee and beneficiary and creates constitutional vested rights.
- Both the employer and employee must contribute to the system, no employer pick-ups on employee contributions.
- Retirement system invests the funds to pay for the benefits. The employee receives the benefit regardless of fund performance. The employer is responsible for any unfunded liability that accrues.
- Statute contains disability benefits to member and beneficiary.

DC plans provide a means for both employees and employers to contribute a steady stream of revenue into the participant's retirement account. The resulting retirement benefit is determined by how the contributions are invested. DC plans are typically characterized as follows:

- DC plans generally allow participant-directed investments and vest (or allow employees to receive benefits) sooner than DB plans.
- DC benefits are portable, which is becoming more important for workers in today's evolving marketplace where the average worker may switch jobs and even careers multiple times over the course of a lifetime.
- In DC plans, the rate of employer and/or employee contributions are usually defined as a percentage of salary. How much income a participant receives in retirement will depend on several factors, including salary level, duration of contributions, investment earnings and age at retirement.
- Typically, contributions are made on a tax-deferred basis, which means you don't pay taxes until you take the money out. Post-tax contributions are also possible, in which case distributions are not taxed.

Discussion

- Defined Benefit Plan

  Future employees of the PCEA are eligible to participate in the defined benefit plans administered by SamCERA (County of San Mateo) or CalPERS if approved by the retirement system. The CalPERS application process typically takes 12 months and requires a $900 valuation fee and $2,100 processing fee (Exhibit B). The SamCERA process may be shorter.

  An actuarial evaluation will be performed to determine the employer contribution which consists of the normal cost and unfunded liability. Sample employer and member contribution rates for SamCERA are included in Exhibit A.

  Employees would participate in Plan 7 which provides a benefit of 2% @ 62; e.g. an employee retiring at age 62 would receive 2% of their average highest 36 consecutive months of pensionable compensation times their years of service. The pensionable compensation is capped at $117,020 in 2016. Contributions will only be taken to the cap limit. Employees would need to work for 5 years before they are vested in the plan, unless they have reciprocal service.

- Defined Contribution Plan

  Alternatively, PCEA could establish a defined contribution plan where the Authority would establish a percentage of salary to be directed to a 401(a) account. There is flexibility in the amount of contribution, whether or not matching contributions are required; vesting requirements and establishing a separate program for employee contributions such as a 457(b). A DC plan would require a provider (similar to SamCERA or CalPERS) to serve as custodian for the tax-deferred assets, provide investment options, maintain recordkeeping and administer participant-level transactions.

Considerations

There are many considerations in establishing the retirement benefit plan, including the attractiveness and competitiveness of the benefit to potential candidates during recruitment, the short- and long-term funding demands of the different plan options and prevailing practice in San Mateo County.

- Competitiveness—One approach to ensuring competitiveness would be to compare similar agencies such as Marin Energy Authority (MEA) and Sonoma Clean Power Authority (SCPA) (Exhibit C). In the 2010-11 Marin County Civil Grand Jury Report "Public Sector Pensions: A Perspective", it is stated that "MEA designed its retirement program to provide a "three-legged-stool" assurance for retirement income. That metaphor is intended to convey the idea that private pensions, individual savings and investments, and Social Security are needed to provide stable income security in retirement. MEA will contribute 10% of salary to their employees' pension plan and will pay the employers share into Social Security." SCPA also provides a defined contribution plan (6% match 457(b) plan) to their employees.

- Cost—Predictability of funding is another major consideration. A DC plan provides flexibility and stability in the amount the employer contributes. A DB plan does not provide funding certainty as future earnings could increase or decrease, and employer contributions must compensate when revenues are projected to fall short of the promised benefits.

  Similarly, if an employer chooses to terminate a DB plan, the long-term liability will still require continued annual funding. Those DB contributions will not end when the plan is terminated, and terminating a DB plan is complicated.

- Practice in San Mateo County—Public agencies in San Mateo County are typically provided defined benefit retirement plans.

Next Steps

If a DC plan is selected, decisions must still be made on numerous specifications (e.g., eligibility/vesting requirements, employer/employee funding formula, distribution options, etc.). Staff can develop competitive design options for the PCEA's consideration, identify provider partners, and secure legally-required contracts and plan documents.

If a DB plan is selected, the appropriate applications can be submitted so that the actuarial evaluation process can begin.

Complete implementation timelines can be developed depending on the PCEA's DC-DB decisions.

If you have any questions or would like additional information, please contact me at 650-363-4676 or jcastellano@smcgov.org.

cc: Donna Vaillancourt, Director of Human Resources

http://www.calpers.ca.gov

Requirements for Contracting

Contract with CalPERS so your employees become CalPERS members. You must meet specific eligibility requirements to contract with CalPERS.

Your agency must be a public agency as defined by the California Public Employees' Retirement Law (PERL). Defined public agencies include:

- **City**
- **County**
- **Town**
- **Special District**

Refer to PERL Code Sections 20056 and 20057 for a complete description

Public Agency"—General

"Public agency" means any city, county, district, other local authority or public body of or within this state.

We want to establish a contract with CalPERS for retirement benefits. How do we proceed?

Your agency must meet the definition of a "public agency" as defined in the Retirement Law (Sections 20056 - 20057). To receive information and a questionnaire, please call the CalPERS Customer Contact Center at **888 CalPERS** (or **888**-225-7377) or write:

CalPERS
Customer Account Services Division (CASD)
P.O. Box 942709
Sacramento, CA 94229-2709

What information will I receive?

CalPERS will mail an initial package to your agency that includes an Agency Questionnaire, Optional Benefits Listing, Summary of Major Provisions, and copies of applicable benefit booklets and publications.

How much will it cost us to contract with CalPERS to provide retirement benefits for our employees?

Your agency will be required to contribute a percentage of the total member payroll (as determined by an actuarial valuation).

What is the cost for an actuarial valuation?

The fee is $900 for each actuarial valuation.

How long does the new agency contract process take?

The contract process takes a minimum of nine to 12 months to complete.

Who can be covered by the contract?

Retirement coverage is based on member groups: miscellaneous, firefighters, peace officers, county peace officers, and other local safety (i.e. lifeguards). Retirement coverage applies to all employees except those excluded by law or specific contract provision.

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How to Begin the Process

To initiate the contract process, you should call our Customer Contact Center **888 CalPERS** (or 888-225-7377) and request a new agency contact package. The package includes an Agency Questionnaire, Optional Benefits Listing, Summary of Major Provisions, and copies of applicable benefit publications. If, after reviewing the information, you want to continue the contract process, then call our Customer Contact Center to request access to my|CalPERS.

Depending upon the complexity of your contract, the process takes a minimum of nine to 12 months to complete.

Fees

If you choose to contract for CalPERS retirement coverage, you must submit a request for an actuarial valuation via the my|CalPERS online system.

The fees for a valuation is as follows:

- $900 per valuation
- $2,100 one-time administrative fee for new contracts involving a local system transfer
- Public agency contracts can be amended to enhance benefit packages for employees. There is a $300 fee for each amendment valuation.

Sample Employer and Member Contribution Rates

Peninsula Clean Energy Authority

Employer Rate NOTES:

1. All rates are shown as a percentage of payroll.
2. The rates shown here are sample rates. They have been actuarially determined and are being paid or are scheduled to be paid by other SamCERA employers. They are only to show reasonable estimates of what actual rates would be. **Actual rates to be charged PCEA would be calculated by the SamCERA actuary specifically for PCEA.**
3. These rates are based on the results of the June 30, 2014, Actuarial Valuation of the system.
4. Employer rates are adjusted each year based on the results of the actuarial valuation as of June 30, of the prior year.
5. Employer rates have two main components: The Normal Cost and the Unfunded Actuarial Accrued Liability cost (UAAL).
6. The Normal Cost is the actuarially calculated contribution amount required to fund benefits as they are earned. The Employer Normal Cost contributions plus Member Contributions plus Investment Earnings will pay the full cost of benefits if all actuarial assumptions about the future growth of benefits and future performance of the investment fund are correct.
7. We know that all actuarial assumptions will not be precisely correct. All changes to the contribution rates needed to adjust for differences between assumptions and actual results are included in the UAAL contribution rate. This rate can be either an addition to or a subtraction from the Normal Cost rate, because actuarial assumptions can over- or under-estimate the future experience of the fund and the membership.
8. If PCEA joins SamCERA, it would be joining only for the future service of its members. No past service would be credited and, thus, there would be no charge to PCEA for the cost of granting members credit for past service.
9. Initially, PCEA would not pay a contribution rate for any UAAL. This is because PCEA is joining only for the future service of its members (on and after a date to be agreed to by both PCEA and SamCERA.)
10. After the date PCEA joins, UAALs will accrue and will increase or decrease the HRD employer contribution rate depending on whether they result from actuarial losses or gains. For example, if SamCERA outperforms its assumed earnings rate in a given year, that results in an actuarial gain. If it underperforms, that is an actuarial loss.
11. PCEA and SamCERA would need to agree to the method of calculating the UAAL rate charge.

Sample Employer Rate

Plan	Retirement Formula Name	Normal Cost Rate	UAAL Rate
7	2% @ 62	11.62 % of pay	00%

Member Rate NOTES:

1. Employee members contribute a percentage of their pay to the retirement system as a requirement of membership.
2. These payments are typically deducted from each employee's pay on a pre-tax basis.
3. Member payments to SamCERA are made with each employer payroll.
4. Each PCEA employee member of SamCERA will pay the same contribution rate.
5. Member contribution rates cover a part of the Normal Cost. Members do not contribute to cover any portion of any UAAL, unless the employer determines that members should pay a portion of this cost. PEPRA members pay approximately 50% of the Normal Cost at a minimum.
6. Member rates are normally adjusted each third year based on the results of an Actuarial Experience Study. The experience study looks at the demographic experience of the membership in areas such as mortality, age at retirement, salary growth, etc.

Sample Member Contribution Rate

Plan	Retirement Formula Name	Normal Cost Rate
7	2% @ 62	7.91 % of pay

Benefits

- Retirement payments for all SamCERA plans are based on the following calculation:

SERVICE CREDIT *Times* **FINAL AVERAGE COMPENSATION** *Times* **AGE FACTOR.**

Service credit is the member's length of service with all SamCERA employers. For all plans, each 2080 hours of service equals a full year of service. Partial years are also counted.

For the PEPRA plan (SamCERA Plan 7), **Final Average Compensation** is the average of the eligible compensation paid to the employee during the 36 consecutive months during which they earned the highest compensation. Normally, this is the last 36 months of employment.

The **age factors** depend on the member's age at the time of retirement.

PEPRA (Plan 7)
Retirement Age Factors

Age	Factor (%)
52	1.00
52 ¼	1.025
52 ½	1.050
52 ¾	1.075
5 3	1.100
53 ¼	1.125
53 ½	1.150
53 ¾	1.175
54	1.200
54 ¼	1.225
54 ½	1.250
54 ¾	1.275
55	1.300
55 ¼	1.325
55 ½	1.350
55 ¾	1.375
56	1.400
56 ¼	1.425
56 ½	1.450
56 ¾	1.475
57	1.500
57 ¼	1.525
57 ½	1.550
57 ¾	1.575
58	1.600
58 ¼	1.625
58 ½	1.650
58 ¾	1.675
59	1.700
59 ¼	1.725
59 ½	1.750
59 ¾	1.775
60	1.800
60 ¼	1.825
60 ½	1.850
60 ¾	1.875
61	1.900
61 ¼	1.925
61 ½	1.950
61 ¾	1.975
62	2.000
62 ¼	2.025
62 ½	2.050
62 ¾	2.075
63	2.100
63 ¼	2.125
63 ½	2.150
63 ¾	2.175
64	2.200
64 ¼	2.225
64 ½	2.250
64 ¾	2.275
65	2.300
65 ¼	2.325
65 ½	2.350
65 ¾	2.375
66	2.400
66 ¼	2.425
66 ½	2.450
66 ¾	2.475
67	2.500

Example: Under PEPRA (Plan 7) a member with 20 years of service, retiring at age 62, with a Final Average Compensation of $4,000 per month, would receive a monthly benefit of $1600 per month.

- Retirement benefits are paid for the life of the retired member.
- Retirees can name a beneficiary(s) to receive a portion of their benefit amount after their death.
- Retirement benefits are eligible for up to a 2% cost of living increase per year, depending on the annual change in the Consumer Price Index for the Bay Area.
- SamCERA members are also eligible for disabilty benefits if they meet certain criteria.