BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name:	Human Resources
Department No.:	064
For Agenda Of:	2-15-11 Time Certain–11 a.m.
Placement:	Departmental
Estimated Tme:	1 hour
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors
FROM:	Gary Feramisco, Chair, Retirement Program Alternatives Advisory Commission
STAFF CONTACT:	Jeri Muth, Interim Human Resources Director 568-2816
SUBJECT:	**Retirement Program Alternatives Advisory Commission Report to the Board of Supervisors**

County Counsel Concurrence
As to form: Select_Concurrence

Auditor-Controller Concurrence
As to form: Select_Concurrence

Other Concurrence: Select_Other
As to form: Select_Concurrence

Recommended Actions:

That the Board of Supervisors receives the report and recommendations of the Retirement Program Alternatives Advisory Commission.

Summary:

On March 23, 2010 the Board of Supervisors created a five-member Advisory Commission to assist with the development of retirement program alternatives designed to mitigate costs related to providing retirement benefits - not only in the near term but the long term as well. It was envisioned that the Advisory Commission would form a report with recommendations that would potentially be implemented through the collective bargaining process. Since that time, the Advisory Commission has met, discussed various aspects of the County's pension benefit, and prepared a report with recommendations for the Board of Supervisors.

The attached report provides the Board of Supervisors with six recommendations designed to reduce the County's costs associated with providing a pension benefit to County employees. Some recommendations are specific to a future workforce, others surround the existing workforce, and another is related to funding policy options. The recommended changes to the benefit itself include:

1. A reduction in the formulas used to calculate the pension benefit;

2. Eliminating the use of one year of final average salary (FAS1) to calculate the pension benefit;

3. Eliminating employer contributions to the employee's contribution toward the pension benefit – this includes any negotiated "Employer Offset" as well as the current "half-rate" arrangement in which the County pays for approximately one-half the employee contribution for certain employees;

4. Implementing a 2% post-retirement Cost of Living Adjustment (COLA), instead of the current 3% COLA;

5. Eliminating "vacation conversions," through which annually employees can request to convert vacation hours to cash, which increases their final average salary, on which the pension benefit is calculated; and

6. Eliminating all performance-based lump sum payments, which increases final average salary as well.

Some changes for the current workforce may not be possible as they are considered to be "vested." In addition, any changes to the benefit are subject to the collective bargaining process.

Background:

On March 23, 2010, the Board of Supervisors created a five-member Advisory Commission on Retirement Program Alternatives (Commission). Following the establishment of the Commission, the members, supported by County staff, began meeting in July 2010 to explore alternatives that would help the County better manage the rising cost of the pension benefit. The Commission met numerous times from July 2010 to January 2011, and some Commissioners also attended Board of Retirement meetings regarding changes to actuarial assumptions. While meeting, the Commission considered numerous aspects of the County's current pension configuration, as governed by the Retirement Act of 1937 ('37 Act) and discussed and considered current retirement benefits as well as funding policy options, which are the sole fiduciary responsibility of the Board of Retirement. The Commission did not consider Other Post-Employment Benefits (OPEB) such as the County's retiree medical costs. The annual cost of the retiree medical program is approximately $10 million with an unfunded liability of over $200 million. The Board may wish to consider potential reforms to the retiree medical program at a later date.

As a result of the Advisory Commission meetings and discussions, the Commissioners identified the following key recommendations for consideration by the Board of Supervisors:

Recommendation #1: That the Board of Supervisors directs staff to negotiate and subsequently adopts one of the following new tiers for ***future*** General employees. The new tier would include a defined contribution component and the existing Social Security benefit:

- **Future General Employee Alternative 1:** 1.62% @ 65; or
- **Future General Employee Alternative 2:** 2% @ 61¼.

Alternative 1 provides the greatest savings to the County.

Recommendation #2: That the Board of Supervisors directs staff to negotiate and subsequently adopts one of the following new tiers for ***future*** Safety employees. The new tier would include a defined contribution component:

- **Future Safety Alternative 1:** 2% @ 50 formula for all Safety employees; or
- **Future Safety Alternative 2:** 2% @ 50 for Probation and 3% @ 55 for Fire and Sheriff.

Alternative 1 provides the greatest savings to the County.

Recommendation #3: That the Board of Supervisors directs staff to negotiate the following changes for ***future*** General ***and*** Safety employees:

- Pension benefit to be based on the highest final three years of salary (FAS3) instead of FAS1;
- Elimination of half-rate contributions[1];
- Elimination of Employer Offset[2];
- Reduction of the post-retirement COLA[3] from 3% to 2%;
- Elimination of the ability to convert vacation hours into pay; and
- Elimination of lump sum performance-based payments.

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[1] **Half-Rate** – the employer picks up half the employee's retirement contribution.
[2] **Employer Offset** – A negotiated, bi-weekly additional employer contribution to the employee's portion of the pension contribution.
[3] **COLA** – Cost of Living Adjustment for retirees

Recommendation #4: That the Board of Supervisors directs staff to explore the feasibility of negotiating the following changes for ***current*** General and Safety employees:

- Pension benefit to be based on the highest final three years of salary (FAS3) instead of FAS1;
- Elimination of half-rate contributions[4];
- Elimination of Employer Offset[5];
- Reduction of the post-retirement COLA[6] from 3% to 2%;
- Elimination of the ability to convert vacation hours into pay; and
- Elimination of lump sum performance-based payments.

Note: Elimination of the Employer Offset, vacation conversion, and lump-sum payments, could be implemented by Management Resolution immediately for unrepresented employees.

Recommendation #5: That the Board of Supervisors request that the Air Pollution Control District (APCD) Board consider negotiating and adopting Recommendations 1, 3, and 4, as applicable, given that APCD employees do not participate in Social Security.

Recommendation #6 – Although the SBCERS Board of Retirement (BOR) has the sole fiduciary responsibility to set actuarial funding policy, the County Board of Supervisors may request the BOR to consider the actuarial funding policy changes outlined in this report. Therefore, the Commission recommends that the Board of Supervisors consider funding policy options it may wish to ask the Board of Retirement to consider, as well as the associated pros and cons and the accountability and sustainability of such a change, when it appears warranted doing so.

The attached report fully discusses each of these recommendations and, where feasible, provides data regarding the potential costs and savings to the County. The Commission recommends that the Board give due consideration to each of the recommendations and enter into negotiations with its labor organizations at the first opportunity to begin bargaining for the changes outlined in the report.

The Commission appreciates the work of Jeri Muth, Interim Human Resources Director, in facilitating this study and her assistance in the preparation of this report. The cooperation of

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[6] **COLA** – Cost of Living Adjustment for retirees

County staff from the Auditor-Controller, County Counsel, County Executive Office, Human Resources, and SBCERS, and Mr. Vince Brown, CEO of the Santa Barbara Employees Retirement System, in providing information as well as insight into a complex subject also greatly facilitated the efforts of this Commission.

The Commission would like to thank the County of Santa Barbara Board of Supervisors for assembling a resident group to explore options that will help the County potentially provide a sufficient pension benefit to its employees while controlling costs. It has been our pleasure to volunteer over the past seven months to assist the County.

Attachments:

Retirement Program Report and Recommendations

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Attachments:

Retirement Program Report and Recommendations

cc: Advisory Commission Members
Chandra L. Wallar, County Executive Officer
County Commission Support Staff
SBCERS Plan Sponsors
Department Heads