

Board of Supervisors
COUNTY OF SANTA BARBARA

September 2, 2003

Comparison Of Defined Benefit And Defined Contribution Retirement Plans

Why Offer County Sponsored Retirement Plan

- Removal of less productive workers

- Recruitment and Retention

- Contractual Commitment

- Social Responsibility- behavioral changes

Historical Perspective

- whereby such employees who shall have reached the age of sixty (60) years or over, or who shall have become incapacitated as the result of any disability, may, without hardship or prejudice, be replaced by more capable employees, and whereby the widows or minor children or dependent parents of such employees may be temporarily provided for upon the death of such employees

Historical Perspective

§31451. Purpose

The purpose of this chapter is to recognize a public obligation to county and district employees who become incapacitated by age or long service in public employment and its accompanying physical disabilities by making provision for retirement compensation and death benefit as additional elements of compensation for future services and to provide a means by which public employees who become incapacitated may be replaced by more capable employees to the betterment of the public service without prejudice and without inflicting a hardship upon the employees removed.

Behavioral Changes

- Emirate of Abu Dhabi
- American savings rate

DEFINED BENEFIT PLAN

- **LIFE TIME COMPENSATION**

- **HIGHEST VALUE TO LONG SERVICE MEMBERS**

- **SERVICE BASED THRESHOLDS FOR VESTING AND ELIGIBILITY**

- **AGE BASED THRESHOLDS FOR WHEN THE BENEFIT IS PAYABLE**

Retirement Plan Options

- Defined Benefit- current county plan under CERL
- Defined contribution- not currently established
- Hybrid- combination of the two

- Defined Benefit – Variable Contributions to Provide a Target Benefit Normally Expressed a Percent of Pay

- Defined Contribution – Fixed Contribution to Provide an Unspecified Benefit.

CERL

Defined Benefit Design

- Originally structured as a money purchase annuity. Member contributions and interest paying for half the benefit; County contributions and interest paying for the remainder.
- County assumed the investment risk getting the benefit of excess earnings and paying for unfunded liabilities. Members guaranteed no benefit from excess earnings.

Benefit Enhancements

- Retired health insurance subsidies
- Cost of living adjustments

Current Benefit

- General Members
- 2% of at age 57
- Normal Cost: 9.75%
- Plus Social Security
- Safety Members
- 3% at age 55
- Normal Cost: 17.25%
- No Social Security

Defined Contribution Options

- 457 b : Already established.
- Limited liability.
- Limited value.
 - No lifetime guarantee.
 - No health insurance.
 - No disability retirement.

Benefit Options

- Retirement Benefits are deferred salary. Therefore subject to meet and confer with employee bargaining units.
- The California Employee Retirement Law adds another level of constraints as it specifies formulas for defined benefit plans.

comparison

- Defined Contribution

- Fully portable
- Limited liability/lower cost

Attractive to younger workers who do not intend to make the County a career

- Defined Benefit

- Attractive to workers moving within California government employment
- Provides highly valued benefits- lifetime guarantee; disability retirement; retired group health coverage
- Attractive to experienced government employees