

# Retirement Program Alternatives Advisory Commission Report

County of Santa Barbara  
Board of Supervisors

Bill Hallmark, ASA, FCA, EA, MAAA

February 15, 2011





# Agenda

- Background
- Overview of Recommendations
- Current Retirement Program
- Alternative Retirement Programs
- Estimated Cost Savings
- Questions



# Background

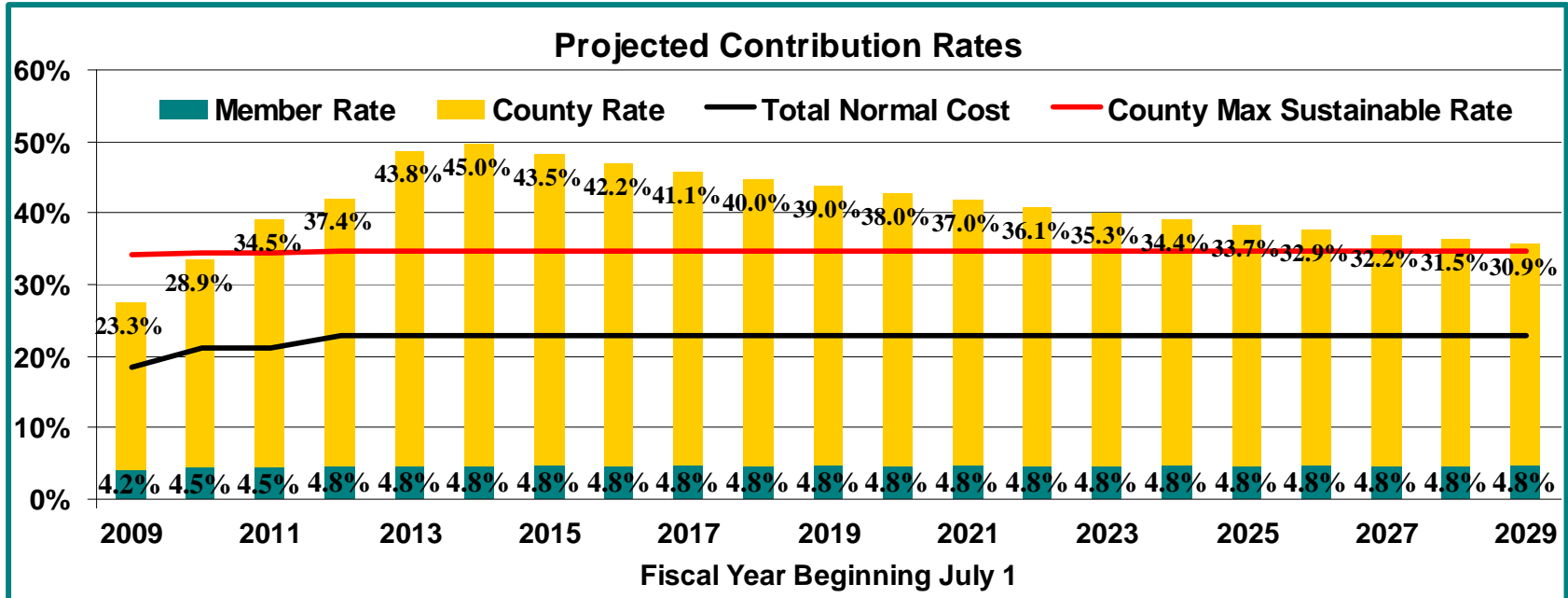
- Advisory Commission created to assist with the development of retirement program alternatives designed to mitigate pension costs
- Cheiron provided technical actuarial support to the Advisory Commission
- Presented today are the findings and recommendations of the commission



# Background

## Current Financial Situation

## #2 Late Dist.



- Increase in contribution rate to 34.5% of payroll is estimated to cost the County as much as an additional \$21 million for FY 2011-12
- Rates are projected to increase to as high as 45%
- The County has indicated that its maximum sustainable contribution rate is about 30% of payroll



# Overview of Recommendations

- **Recommendation #1:** Negotiate and adopt one of the following retirement benefit formulas for **future** General employees
  - General Alternative 1: 1.62% @ 65
  - General Alternative 2: 2% @ 61-1/4
  - Both alternatives include:
    - Defined contribution component
    - Existing Social Security benefit
- Alternative 1 provides the greatest savings for the County



# Overview of Recommendations

- **Recommendation #2:** Negotiate and adopt one of the following retirement benefit formulas for **future** Safety employees
  - Safety Alternative 1: 2% @ 50
  - Safety Alternative 2: 2% @ 50 for Probation and 3% @ 55 for Fire and Sheriff
  - Both alternatives include a defined contribution component
- Alternative 1 provides the greatest savings for the County



# Overview of Recommendations

- **Recommendation #3:** Negotiate the following changes for all **future** employees:
  - Pension benefit based on highest final three years of salary instead of highest year
  - Eliminate half-rate contributions
  - Eliminate employer offsets
  - Reduce post-retirement COLA from 3% to 2%
  - Eliminate ability to convert vacation hours into pay
  - Eliminate lump sum performance-based payments
- **Recommendation #4:** Negotiate the same changes listed above for all **current** employees



# Overview of Recommendations

- **Recommendation #5:** Request Air Pollution Control District (APCD) Board to consider recommendations 1, 3 and 4, given that APCD employees do not participate in Social Security
- **Recommendation #6:** Suggest funding policy options for the Board of Retirement to consider when it appears warranted
  - Analyze the pros and cons of such a change in funding policy in terms of accountability and sustainability

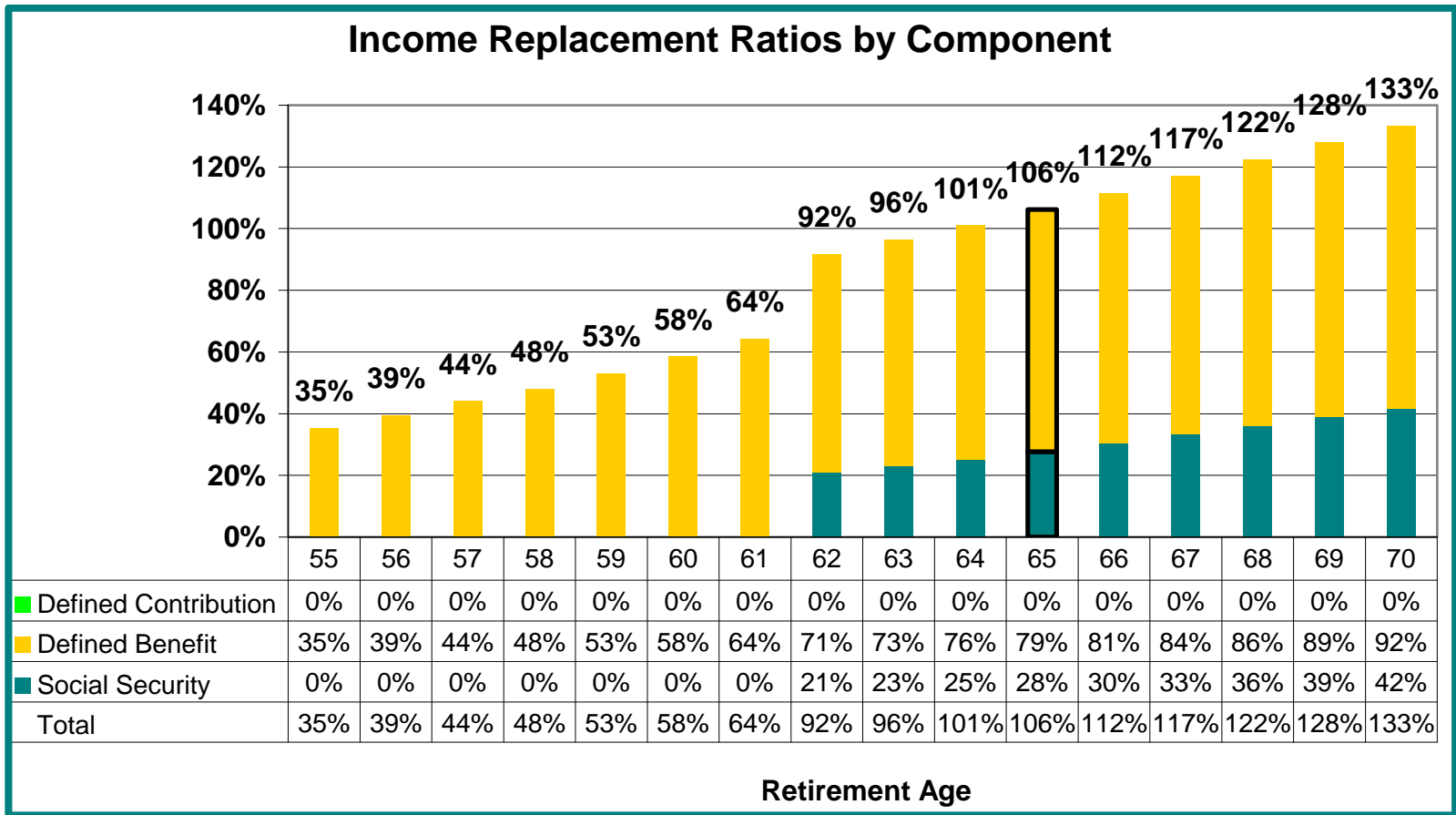




# General Member Program **#2** Late Dist.

## Current: 2% @ 57

**Income Replacement Ratios by Component**



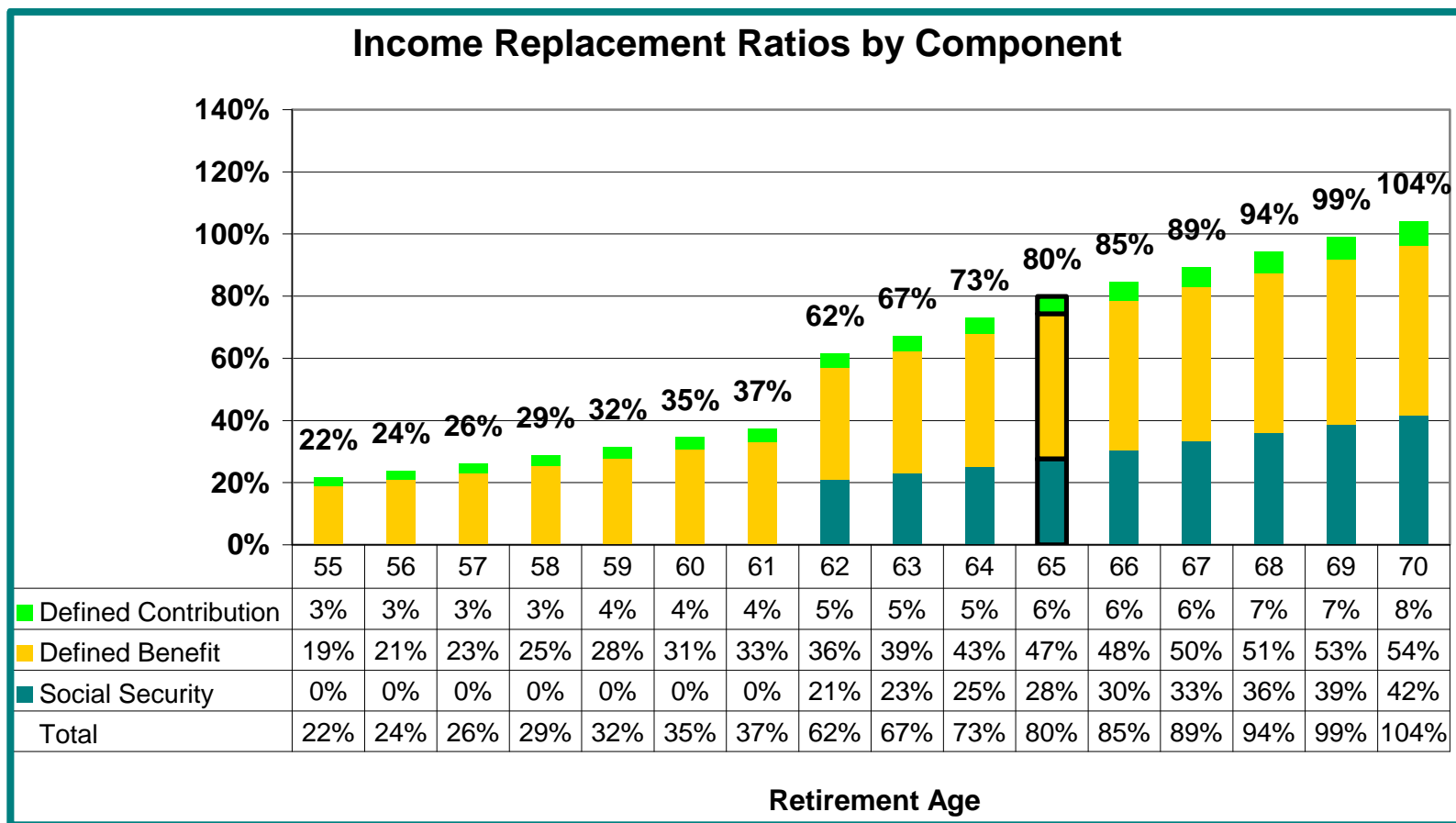
Note: Data is shown for a General Member hired at age 35 at a salary of \$50,000 with increases following the actuarial assumptions from the June 30, 2009 actuarial valuation. Members retiring before age 62 would be entitled to Social Security benefits upon attaining age 62.



# General Member Program

## #2 Late Dist.

### Alternative 1: 1.62% @ 65, 2.5% DC

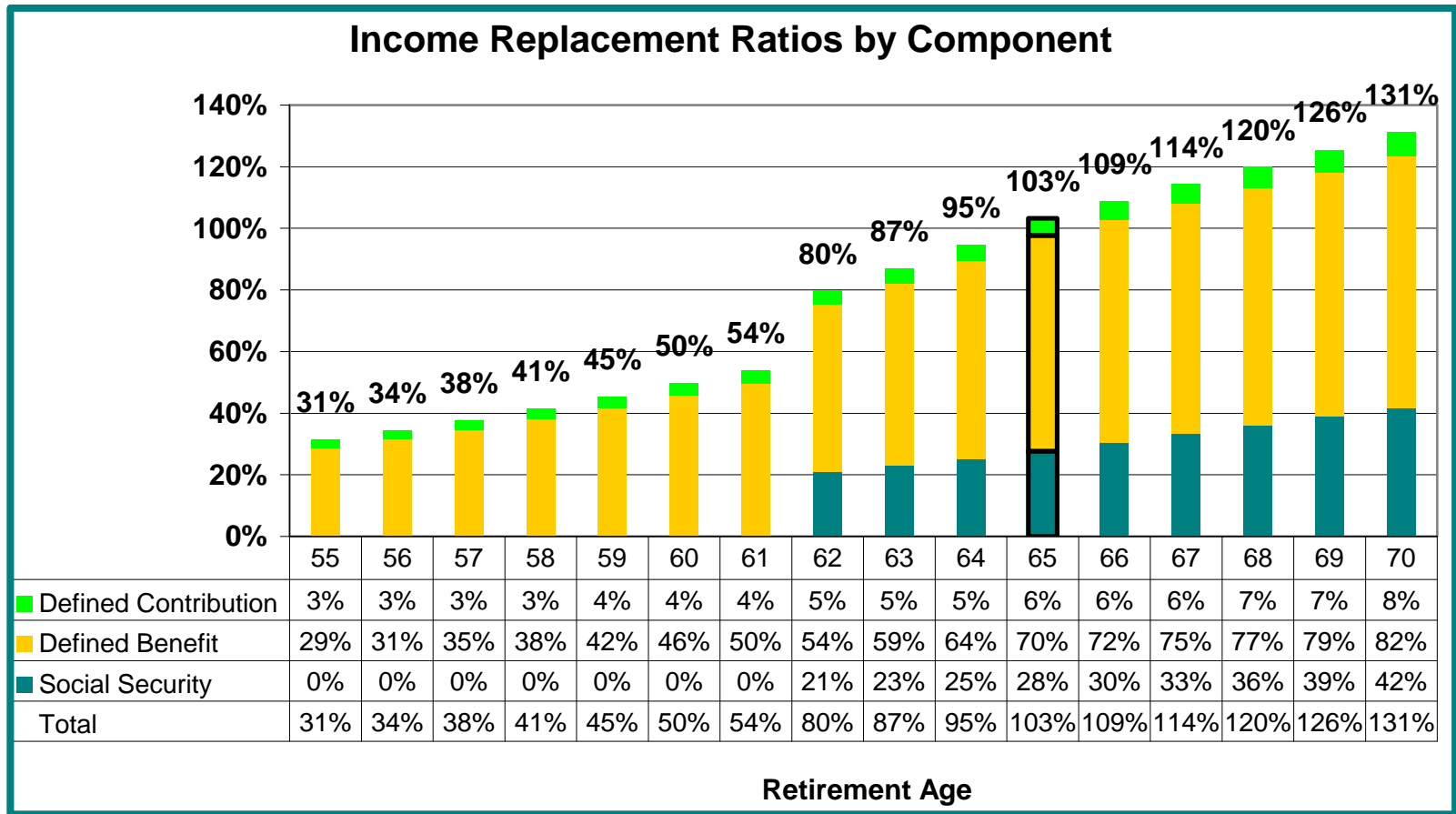


*Note: Data is shown for a General Member hired at age 35 at a salary of \$50,000 with increases following the actuarial assumptions from the June 30, 2009 actuarial valuation. Members retiring before age 62 would be entitled to Social Security benefits upon attaining age 62.*



# General Member Program **#2** Late Dist.

## Alternative 2: 2% @ 61-1/4, 2.5% DC

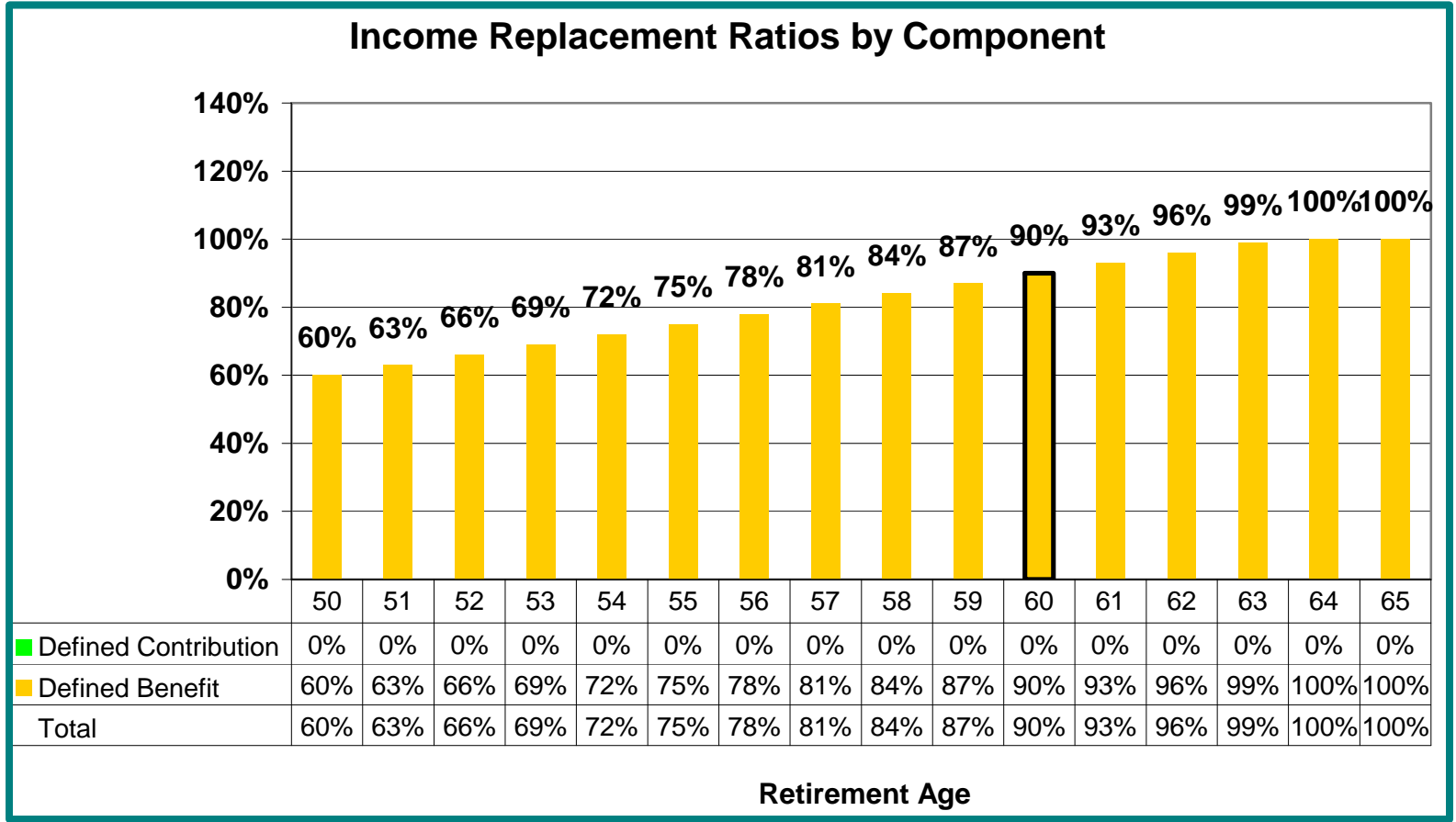


*Note: Data is shown for a General Member hired at age 35 at a salary of \$50,000 with increases following the actuarial assumptions from the June 30, 2009 actuarial valuation. Members retiring before age 62 would be entitled to Social Security benefits upon attaining age 62.*



# Safety Member Program <sup>#2</sup> Late Dist.

Current: 3% @ 50 (FAS 1)



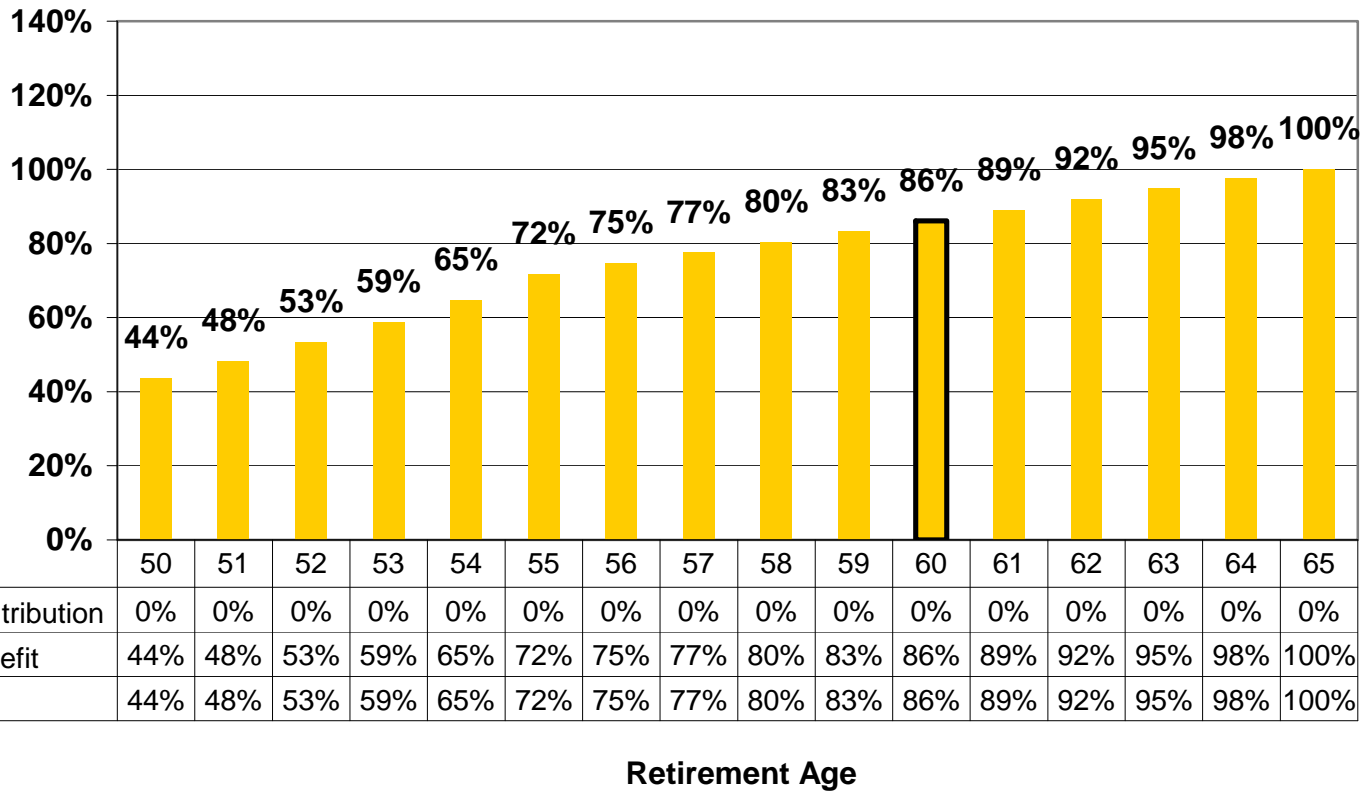
Note: Data is shown for a Safety Member hired at age 30. Safety members are not covered by Social Security.



# Safety Member Program **#2** Late Dist.

Current: 3% @ 55 (FAS 3)

**Income Replacement Ratios by Component**

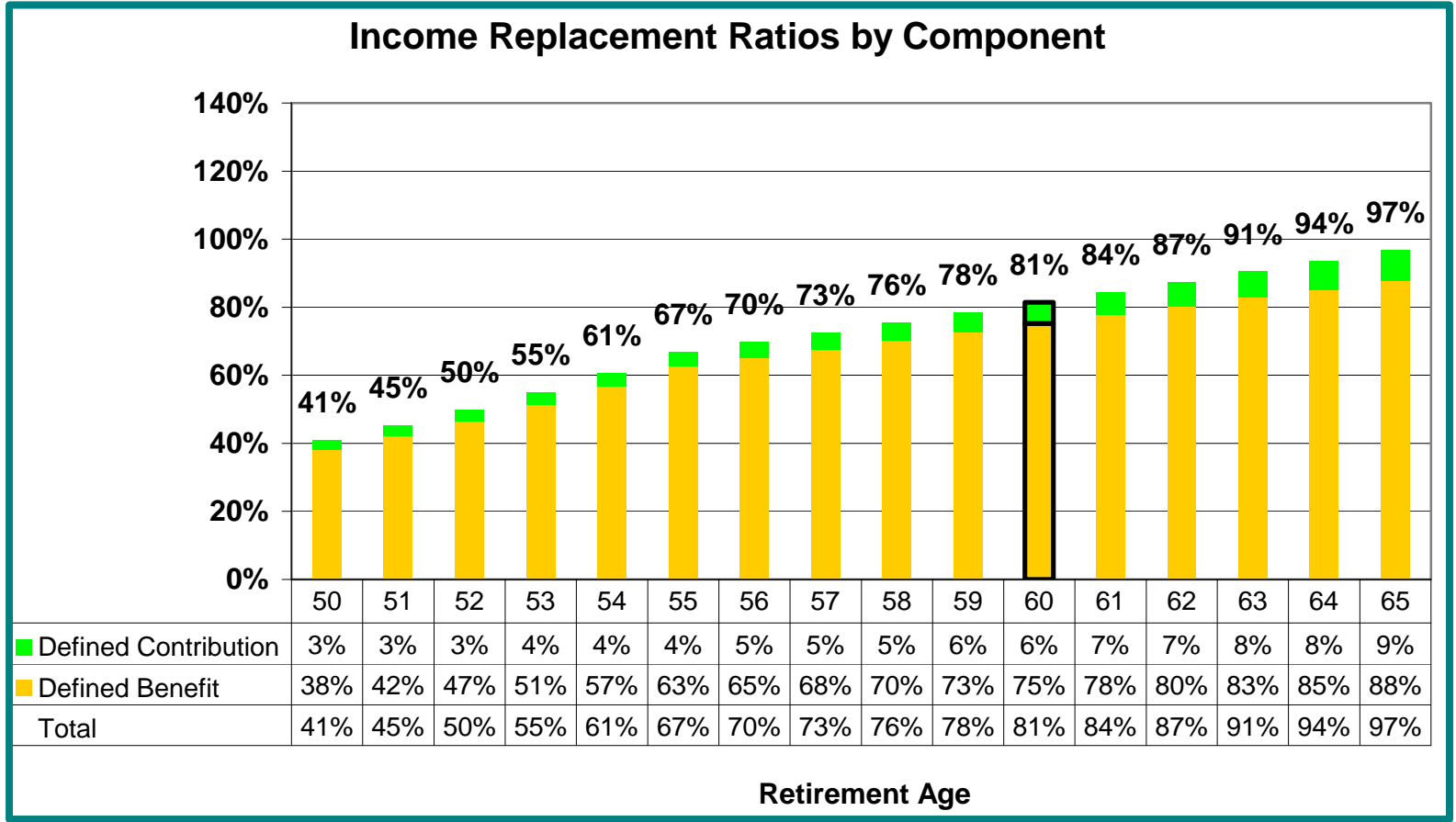


Note: Data is shown for a Safety Member hired at age 30. Safety members are not covered by Social Security.



# Safety Member Program **#2** Late Dist.

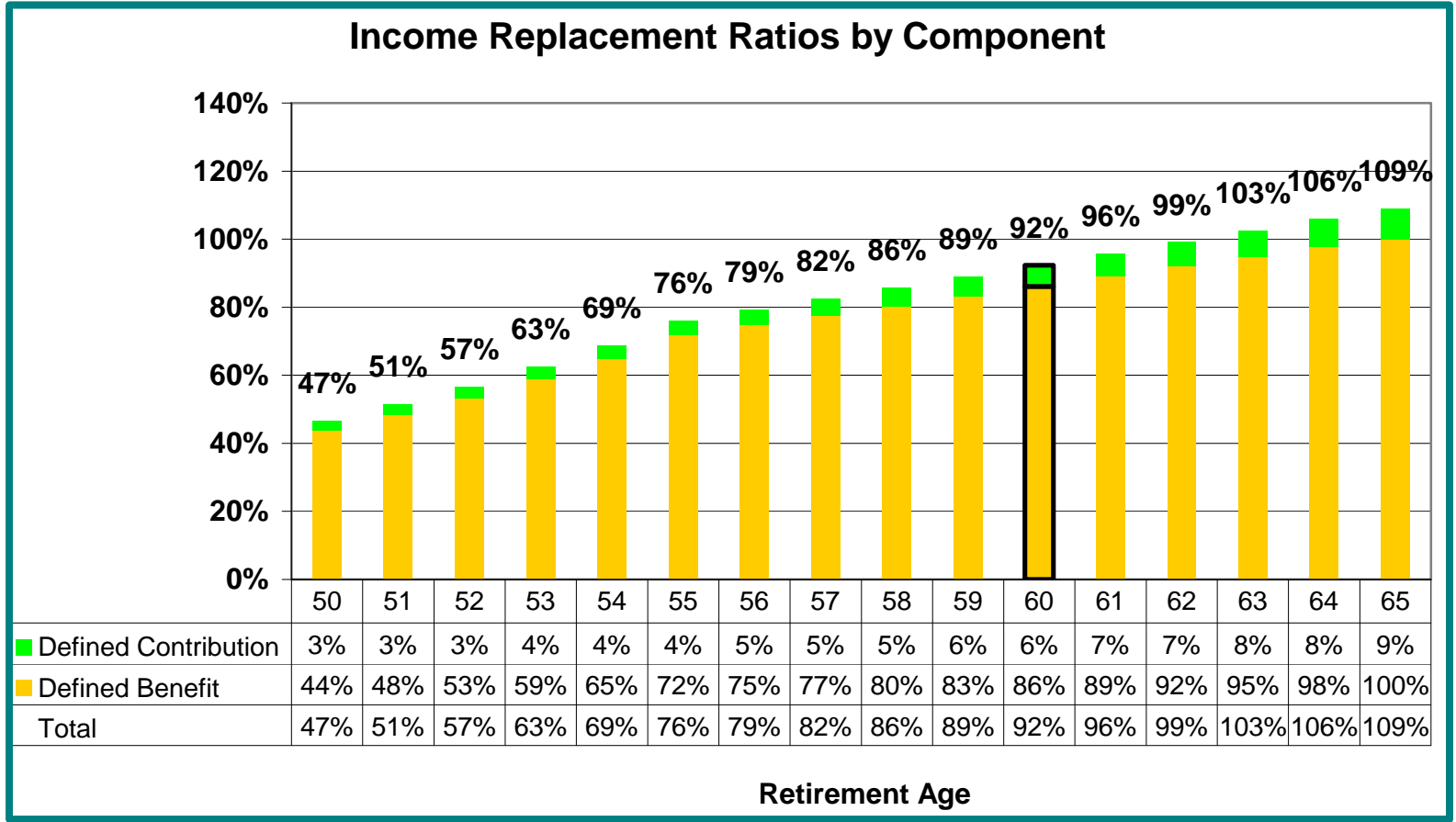
## Alternative 1: 2% @ 50, 2.5% DC



Note: Data is shown for a Safety Member hired at age 30. Safety members are not covered by Social Security.



# Safety Member Program <sup>#2</sup> Late Dist. Alternative 2: 3% @ 55, 2.5% DC



Note: Data is shown for a Safety Member hired at age 30. Safety members are not covered by Social Security.



# #2 Late Dist.

# Estimated Cost Impact

## 7/1/10 Valuation Results and Estimates for Potential Changes

General Members	Current Formula 2% @ 57 Current 3% COLA	Alternative 1 1.62% @ 65 2% COLA	Alternative 2 2% @ 61-1/4 2% COLA
Total Normal Cost	18.0%	10.2%	14.2%
Employee Contributions	4.1%	5.6%	5.6%
<b>Employer Normal Cost</b>	<b>13.9%</b>	<b>4.6%</b>	<b>8.7%</b>
Safety Members	Current Formulas 3% @ 50 / 3% @ 55 Current 3% COLA	Alternative 1 2% @ 50 2% COLA	Alternative 2 3% @ 55 2% COLA
Total Normal Cost	30.0%	22.9%	25.5%
Employee Contributions	5.7%	10.3%	10.5%
<b>Employer Normal Cost</b>	<b>24.3%</b>	<b>12.6%</b>	<b>14.9%</b>

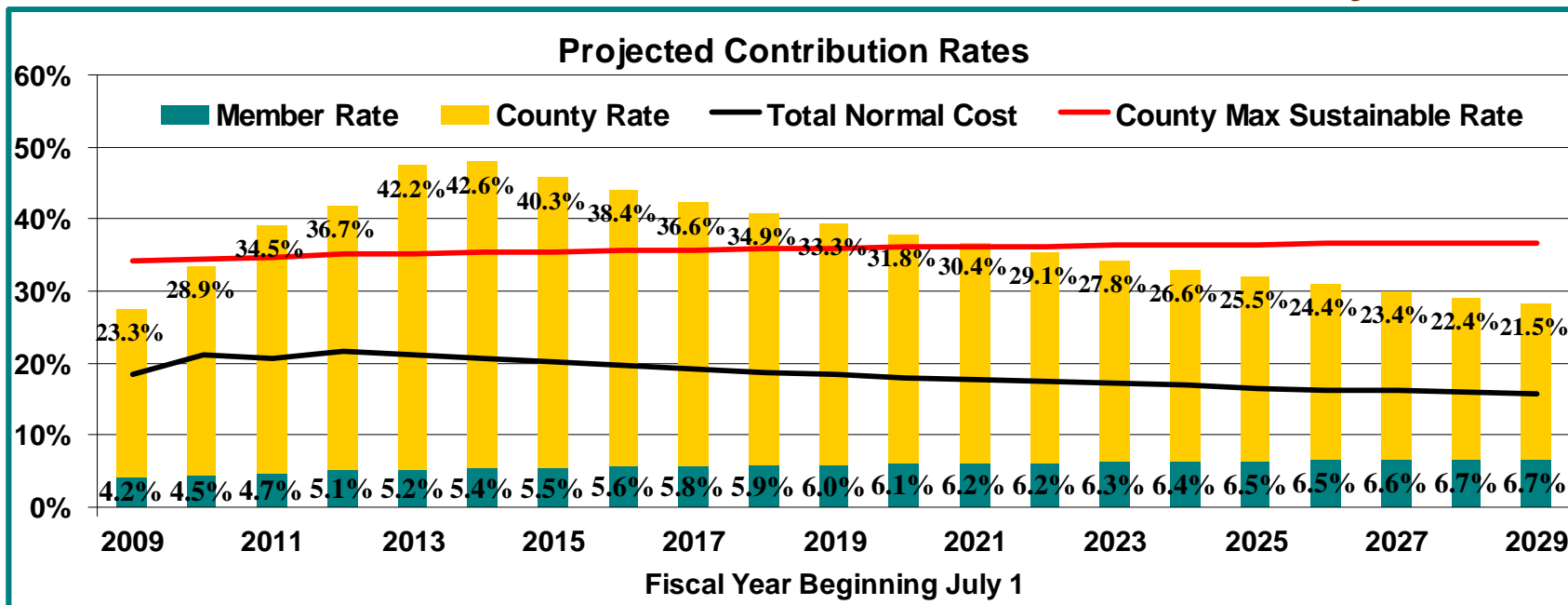
*Note: The normal cost rates for the current formulas are those reported in aggregate for general and safety members by Milliman in the June 30, 2010 actuarial valuation. The normal cost rates for the potential formulas are based on calculations of rates for the census data as of June 30, 2009, the assumptions as of June 30, 2009, and estimated adjustments to approximate the assumptions adopted for the June 30, 2010 valuation.*

In addition to the amounts shown above, the County and employees each contribute 6.2% of pay to Social Security for General members. Safety members do not participate in Social Security.





# Estimated Cost Impact **#2** Late Dist. Alternative 1 for General and Safety

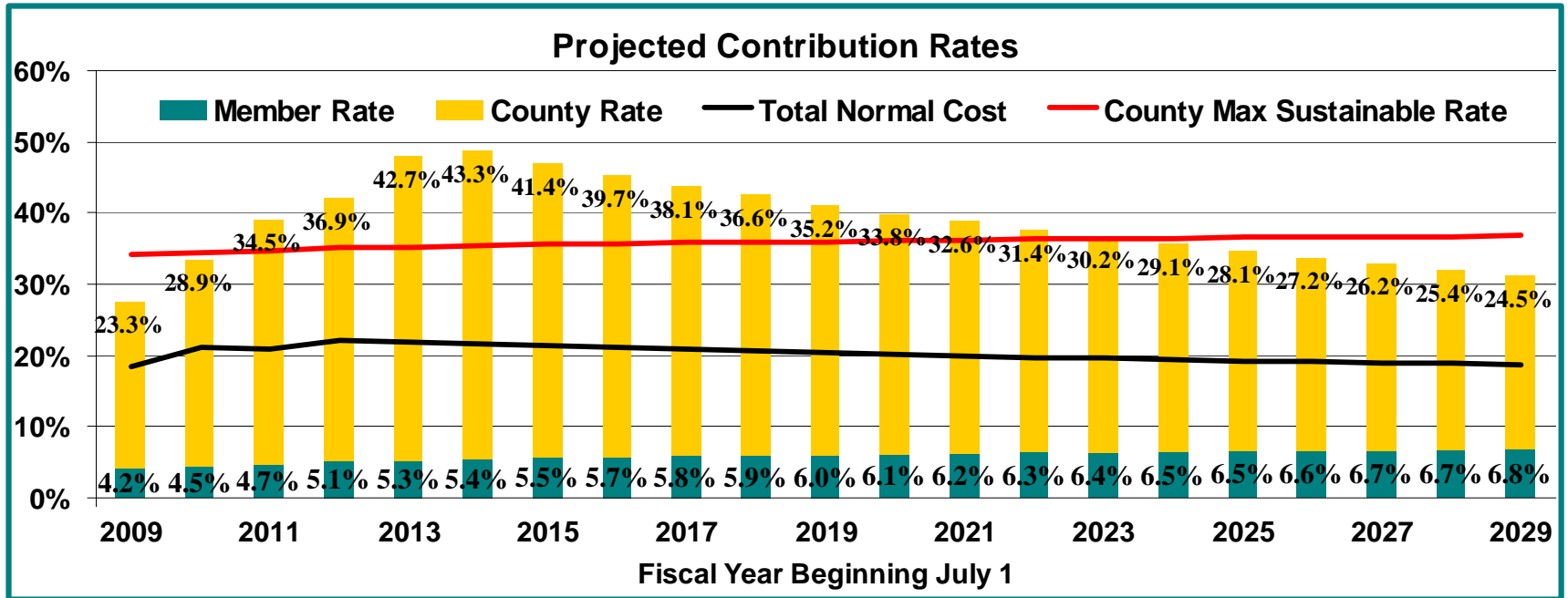


- Because the new formulas only impact new hires, the impact is gradual at first
- Reduces peak expected rate from 45% to about 43%
- Reduces rate in 20 years from 31% to about 22%



# #2 Late Dist.

## Estimated Cost Impact 2% @ 61-1/4 for General 3% @ 55 for Safety





# #2 Late Dist.

## Estimated Cost Impact

### County of Santa Barbara Estimated Annual Cost Savings

	First Year	All Ees Covered
<b>General Members (Payroll = \$220 million)</b>		
1.62% @ 65 w/ 2% COLA, FAS 3, Full Rates	\$ 1,000	\$ 20,200
2% @ 61-1/4 w/ 2% COLA, FAS 3, Full Rates	\$ 600	\$ 11,400
<b>Safety Members (Payroll = \$81 million)</b>		
2% @ 50 w/ 2% COLA, FAS 3, Full Rates	\$ 500	\$ 9,500
3% @ 55 w/ 2% COLA, FAS 3, Full Rates	\$ 400	\$ 7,600

*Amounts in thousands*

- First year column represents the estimated savings for new hires in the first year after implementation
- Last column represents savings if the new benefit formulas applied to the entire population. These figures are intended to provide an estimate of the annual savings (in today's dollars) once all employees are covered by the new formulas



# Estimated Cost Impact

- The recommended changes for current and future active employees would have a significant impact in the short-term as well as the long-term
- Estimates shown in table are based on General member payroll of \$216 million and Safety member payroll of \$85 million
- Estimate for vacation conversion is based on 2009 calendar year
- Estimate for lump sum is based on the one year lump sums were granted

Change	Estimated Annual Savings
Eliminate FAS 1	\$2.7
Eliminate half rates	\$8.9
Eliminate employer offset	\$4.2
Eliminate vacation conversion	\$0.9
Eliminate lump sum payments for managers and executives	\$0.3
Reduce post-retirement COLA to 2%	\$14.3
<b>Total</b>	<b>\$31.3</b>



# Summary

- Costs for SBCERS are increasing – expected to peak at 45% of payroll
- The Commission reviewed a wide variety of potential changes to control costs
- The Commission's recommendations would materially reduce short and long-term costs



# Questions

**#2**  
**Late Dist.**

