



For Agenda Of:

June 7, 2006

ITEM # 5

To: Sacramento Transportation Authority

Subj: Adjustment to CalPERS Retirement Formula in Lieu of a Retiree Health Benefit for Authority Staff

RECOMMENDATION

1. Adopt your Board's personnel committee recommendation that the Executive Director amend the Authority's contract with CalPERS to provide a 2.5% *at 55* retirement formula for agency staff.
2. Declare that the Authority does not provide a separate retiree health benefit.

BACKGROUND

In 2005, staff began discussions with your Board's personnel committee¹ regarding the provision of a post-retirement health care benefit to employees who retire under CalPERS while working for the STA. At present, an employee who has vested with CalPERS is eligible to continue his/her enrollment in a CalPERS' sponsored health insurance plan (HMO or PPO) after retirement. As required by the Public Employees Medical and Hospital Care Act (PEMHCA), the STA must contribute a minimum of \$48.⁴⁰ each month toward the premium. All "unfunded costs" are borne by the participating retiree.

Committee members requested a comparison of retirement pension and health benefit practices among public agencies in Sacramento County. STA contracted with CPS Human Resource Services to survey the retirement benefit practices of public entities in Sacramento County. The CPS report (enclosed) compares pension, deferred compensation, retiree medical, retiree dental, and the corresponding vesting practices among 15 entities. A comparative overview of their findings can best be seen by reviewing the tables at the end of the report. Of the entities with a "2% at 55" CalPERS formula, STA and the Cities of Galt and Rancho Cordova effectively have no retiree health care benefit. The Cities of Citrus Heights and Elk Grove also do not provide retiree healthcare, but they offer a heightened "2.7% at 55" CalPERS formula.

¹ Personnel Committee members: Peters, Cooley, Briggs, Morin, Nottoli, Slowey.

DISCUSSION

For discussion purposes, staff evaluated two potential retiree healthcare scenarios for possible application to STA. First, we reviewed the retiree healthcare programs offered by the County of Sacramento and the City of Sacramento. They both offer a tiered benefit based on years of service:

	<u>County</u>	<u>Sacramento</u>
25 + years of service	\$244 per month	\$225 per month
20 – 24 years of service	\$212 per month	\$225 per month
15 – 19 years of service	\$182 per month	\$168.75 per month
10 – 15 years of service	\$152 per month	\$112.50 per month
5 - 10 years of service	\$122 per month	- - - -

The STA currently has 4 employees. If all 4 were to retire, the cost of retiree healthcare, using the County’s or City’s tiered method, would be as follows:

	<u>County</u>	<u>Sacramento</u>
4 retirees w/ 25+ years of service	\$976 per month	\$900 per month
4 retirees w/ 20+ years of service	\$848 per month	\$900 per month
4 retirees w/ 15+ years of service	\$728 per month	\$675 per month
4 retirees w/ 10+ years of service	\$608 per month	\$450 per month

Assuming a 55-60 year old retirement age, the current staff would average about 20 years of service at retirement.

Second, we evaluated the cost of providing an enhanced CalPERS formula in lieu of a retiree healthcare program. STA currently offers a 2%@55 CalPERS pension benefit. Staff requested an actuarial cost analysis from CalPERS for a 2.5%@55 benefit and a 2.7%@55 benefit. Staff selected the 2.5%@55 program for analysis.

Providing a 2.5%@55 retirement benefit formula would have a marginal payroll cost of 2.4%. At proposed FY 2006-07 pay rates, the additional monthly cost to the STA would be about **\$666**. When compared to the cost of offering a tiered retiree healthcare benefit based on the County and Sacramento models, the marginal cost for an enhanced 2.5%@55 CalPERS retirement benefit program is less:

	<u>County</u>	<u>Sacramento</u>
4 retirees with 25 years of service	\$976 per month	\$900 per month
change in CalPERS formula	\$666 per month	\$666 per month
savings	\$310 per month	\$234 per month

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4 retirees with 20 years of service	\$848 per month	\$900 per month
change in CalPERS formula	\$666 per month	\$666 per month
savings	\$182 per month	\$234 per month
4 retirees with 15 years of service	\$728 per month	\$675 per month
change in CalPERS formula	\$666 per month	\$666 per month
savings	\$ 62 per month	\$ 9 per month
4 retirees with 10 years of service	\$608 per month	\$450 per month
change in CalPERS formula	\$666 per month	\$666 per month
additional cost	\$ 58 per month	\$216 per month

Importantly, this analysis assumes that *the employee contribution to CalPERS would increase from 7% to 8% of gross salary under a 2.5%@55 formula*. We further assume, however, that the “employee pick-up” remains unchanged. In other words, *the 1% increment would be borne solely by the employee via a deduction from gross salary.*²

Both a tiered retiree healthcare program and an enhanced CalPERS formula meet the objective of providing staff with a retiree medical benefit. For the following reasons, the personnel committee recommends that the Board adopt the 2.5% @55 approach:

- The enhanced CalPERS retirement formula is less expensive on a monthly basis than the tiered retiree healthcare benefit option.
- The cost of the enhanced CalPERS retirement formula is dependent upon the number of working employees, not retirees. For this analysis, we anticipate that there will be an average of 4 active employees at the STA. Over the next 33 years (to 2039) , there could (and probably will) be more than 4 retirees. The cost to provide a tiered retiree health care benefit based on the County and City models would increase at a rate roughly proportional to the number of retirees. The costs will double, for example, if 4 more people retire over the next 33 years. With an enhanced 2.5% @55 CalPERS retiree benefit formula, cost adjustments will only occur with periodic changes to salary compensation for the 4 active employees. Recent CalPERS moves toward agency rate pooling and actuarial “smoothing,” however, will reduce the risk of significant cost adjustments over time.
- The employees would have a financial stake in the enhanced CalPERS benefit formula, because they will be required to contribute 1% of gross salary.
- There will be no balance sheet impact with an enhanced CalPERS retirement formula. If a tiered retiree healthcare benefit program were adopted, any unfunded liability for future costs would have to be recorded on the agency’s balance sheet. An enhanced CalPERS retirement

² SACOG recently adopted a 2.5% @55 benefit formula in lieu of a retiree healthcare program. Its employees will also pay the 1% marginal cost increment to the CalPERS employee contribution.

formula, on the other hand, is “pre-funded.” The benefit would be factored into the monthly retirement plan expense, and there is no unfunded liability to record. In a February 2006 report, the California Legislative Analyst’s Office recommends such a pre-funding approach for retiree healthcare.

Respectfully Submitted,

Brian A. Williams
Executive Director

Enclosure