

To: A&F Committee

Date: January 24, 2012

From: Kathy Casenave, Director of Finance

Reviewed by:

SUBJECT: CalPERS Retirement plan

Summary of Issues:

Because there has been so much attention being focused on public pension plans in the last several years, staff prepared a memo in May 2010 for Board members giving some background information on CCCTA's plan. Since then we have had two new Board members, so I thought it might be helpful to update that memo.

The Authority's plan is 2% at 60- the *least* expensive of the PERS plans, and it has been less expensive than social security. Many public agencies contracted for more enhanced benefits in the last 15 years or so- the most common being 2% at 55. Other plans are 2.5% at 55, 2.7% at 55, and 3% at 60 for miscellaneous employees. These other plans usually experience a higher contribution rate.

Some public agencies are establishing a second tier retirement plan for new employees. For example, the City of Clayton established a second tier for FY 2012. The rates are significantly lower- 7.773% for miscellaneous Tier 2 vs 14.883% for Tier 1; for safety employees, 19.169% for Tier 2 vs 35.858% for Tier 1.

CCCTA does not participate in the social security system, but a comparison to the social security rate shows that our PERS plan has been less expensive. These are the rates since 1997:

	PERS rate	FICA rate
1997	6.685%	6.2%
1998	7.289%	6.2%
1999	0%	6.2%
2000	0%	6.2%
2001	0%	6.2%
2002	0%	6.2%
2003	0%	6.2%
2004	0%	6.2%
2005	4.036%	6.2%
2006	5.775%	6.2%
2007	5.869%	6.2%
2008	5.168%	6.2%
2009	5.319%	6.2%
2010	4.777%	6.2%
2011	4.874%	6.2%
2012	5.218%	6.2%
2013	5.219%	6.2%
	60.23%	105.4%

The cumulative CCCTA employer rate since 1997 is 43% less than the employer rate for social security. Another advantage of the PERS plan is that it covers only base pay for the normal work week (40 hours). So overtime wages are not included as PERS compensation, but are included in the social security system.

Pension Benefits

Public pension benefits have been criticized for being too generous and allowing workers to retire too early. It is true that the lowest retirement age is 50 with 5 years of service, but the vesting percentage is very small- 5.46% of final compensation for 2% at 60 plans. The vesting gradually increases based on age and years of service.

Our employees tend to come to CCCTA at a later age- the average entry age is 37.16. If a 37 year old worked until age 60 (23 years) the vesting would be 46% of final compensation. The average annual covered compensation, per our last actuarial report, was \$51,960. So, an employee who has worked here 23 years, making \$51,960 and retiring at 60 would receive about \$24,000 annually in retirement benefits- better than social security, but not the exorbitant amounts that have attracted the attention of the newspapers.

Even though 60 is considered the “normal” retirement age in this plan, many of our employees stay beyond that age. We currently have 57 employees who are 60 years or older.

Pension Spiking

Pension spiking is illegal in the PERS system and the final compensation is monitored by CalPERS for an excessive increase in wages. The CCCTA plan calculates the pension benefit on the highest average pay for **three** consecutive years which makes it more difficult to spike.

Overtime wages, vacation time paid out and severance pay are excluded from PERS; only base wages (40 hrs per week) are reported to PERS.

Unused sick leave is not paid out but is converted to service credit when retiring. The conversion rate is about 1 day of sick equaling 1 day of service credit. It takes 250 days, or 2,000 hours of unused sick leave to equal one year of service credit. In the example above, an increase of 1 year of service credit for unused sick leave would increase the retirement benefits by \$1,040 annually.

Most of the instances of spiking that have come to light have occurred in county pension plans.

FY 2011 PERS expense as a Percentage of Payroll

The Authority also pays ½ of the employee contribution (3.5%) for nonmanagement employees and 7% for management employees. The overall rate (ER rate + EE pickup) in FY 2011 was 8.5% of *PERS covered payroll (base wage rate for 40 hours a week)*. The rate, when compared to total payroll, was 8.2%.

The Authority does not make any contributions to a 401k or 457 plan for employees.

Recommendation:

None. Information only.