LAFCO

9335 Hazard Way • Suite 200 • San Diego, CA 92123
(858) 614-7755 • FAX (858) 614-7766

San Diego Local Agency Formation Commission

www.sdlafco.org

6

AGENDA REPORT
Business | Discussion

March 5, 2018

TO: San Diego Commissioners

FROM: Keene Simonds, Executive Officer

SUBJECT: **Retirement Pension Benefits |**
Review of Available Options for New Employees

SUMMARY

The San Diego Local Agency Formation Commission (LAFCO) will receive a report summarizing existing retirement pension benefits provided to employees along with reviewing alternative options for new hires proceeding forward. The report responds to Commission direction to review options in step with approving the proposed 2018-2019 operating budget and provisions therein to fill new analyst positions. The report recommends LAFCO maintain its existing policies to align pension benefits with the County without deviation at this time while identifying three related follow up items for future review and potential action. The report is being provided for discussion and potential direction to staff.

BACKGROUND

Compensation Policies

San Diego LAFCO's policies provide employees shall generally receive the same compensation as provided for comparable positions with the County of San Diego. The policies also specify compensation shall include pay, health insurance, and retirement benefits. These policies were established in 1971 with the inaugural adoption of the Personnel Rules and corresponded with transitioning the Executive Officer position from being an employee with the County to an employee of the Commission.

Pension Benefits and Funding

Consistent with the preceding policy provisions San Diego LAFCO provides all employees defined retirement pension benefits. The benefit value to employees varies and based on the applicable funding ratio at the time of hire. The ratio explicitly ties into the benefit provided by the County to its employees and through the administration of the San Diego County Employees Retirement Association (SDCERA). Current and pending ratios follow.

- The current pension benefit for new hires is based on a maximum funding ratio of 2.50% at 67 and referred to as "Tier C." This ratio provides eligible retirees with 20 years of total service credit 50.0% of their highest three years of average salary beginning at age 67 and continuing annually thereafter.

- The pension benefit for new hires will transition to "Tier D" beginning July 1, 2018 and provide a maximum funding ratio of 1.62% at 65. This ratio will provide eligible retirees with 20 years of total service credit 32.4% of their highest three years of average salary beginning at age 65 and continuing annually thereafter.

Funding the retirement pension benefits is shared between employer (San Diego LAFCO) and employees and based on contributions calculated by SDCERA. Contributions are based on calculated percentages of employee salaries and updated annually through actuarial valuations performed by SDCERA to help ensure the pension system is self-funded. The employer generally covers two-thirds of the annual pension costs with the remaining one-third covered by the employee. Proceeding into 2018-2019 the employer's funding contribution for Tier C employees will be 33.52% of the annual salary. This percentage decreases to 31.27% for Tier D employees; a difference of approximately seven percent.[1]

DISCUSSION

This item is for San Diego LAFCO to review retirement benefit options for new hires. The report responds to Commission direction to explore options in step with approving the proposed 2018-2019 operating budget and provisions therein to fill three analyst positions. The report is being provided for discussion and potential direction for staff to further explore alternatives should it be the Commission's collective preference.

The report and its review of retirement pension options has been prepared with assistance from Commission Counsel Holly Whatley and Special County Counsel Rachel Witt. It is also organized to address two central and sequential considerations underlying the Commission's interest in exploring retirement benefit options: (a) legal and (b) policy. These considerations follow.

---

[1] At a salary of $60,000 – which serves as the approximate midpoint for the Local Governmental Analyst I position – the annual monetary savings in employer contribution amounts by transition from Tier C to Tier D is $1,350.

Legal Considerations

San Diego LAFCO is an independent governmental agency operating under the legislative authority of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 or CKH. This legislation specifies the Commission is authorized to make its own provisions – including entering into agreements or contracts with public and private parties – necessary to meet its regulatory and planning responsibilities. This includes specific allowance to contract for retirement, health, and medical benefits for all personnel (Government Code Section 56385). This legislation ensures the Commission has complete discretion – and among other items – in choosing whether to employ its own personnel as well as provide personnel with retirement benefits.

Policy Considerations

As earlier referenced San Diego LAFCO has exercised its discretion under CKH to employ its own personnel as well as provide defined retirement pension benefits. These decisions emanate from a series of policy actions starting in 1971 with the Commission decision to appoint its own Executive Officer beginning with former County Administrative Analyst Shirley "Skip" Schmidt.[2] This decision was complimented by the Commission establishing its Personnel Rules to specify all employees shall generally receive the same compensation as provided for comparable County positions. The Commission also adopted a resolution in 1971 to provide retirement benefits to the Executive Officer and future personnel through SDCERA. These policies – and specifically setting compensation to be consistent with comparable County positions and use of SDCERA for pension benefits – have remained substantively untouched since their establishment in 1971.

ANALYSIS

As enumerated in the above section San Diego LAFCO has the legal authority to independently establish retirement pension benefits to personnel as the Commission collectively sees fit. However, and pertinently, the Commission is constrained under policy in readily making changes to either separate or deviate from the pension benefits provided by the County through its administrative surrogate, SDCERA. These constraints apply to the query raised at the February meeting with regard to whether the Commission could assign Tier D and its lower pension provisions to new hires before this plan goes into effect for the County on July 1, 2018. Further, and apart from the internal policy considerations, creating a different pension plan would require external cooperation from a benefits provider and presumably SDCERA; the latter of which is probable but involves a process. Specific and sequential items meriting attention underlying the Commission's options to separate or deviate (i.e., apply Tier D to hires ahead of July 1st) from the County follows.

[2] Mr. Schmidt – and as an assigned County employee – previously served as LAFCO Executive Officer before his formal appointment by the Commission. It is not clear in the records who was ultimately responsible at the County for assigning an Executive Officer at LAFCO prior to the Commission assuming this authority in 1971.

- **Item No. 1 | Adopted Policies**
  Any separation or deviation from the County involving retirement benefits provided to personnel would require amendments to LAFCO policies. Adopting amendments in-and-of-itself can be readily performed with minimal notice since LAFCO employees are unrepresented per Commission Counsel. Proceeding with actual amendments, however, would mark a substantive change and merits careful Commission review given the policy itself to explicitly match benefits provided by the County has been in continued effect for nearly 50-years.

- **Item No. 2 | Impacts on Recruitment and Retention**
  Consistent with the LAFCO staffing schedule approved for 2017-2018 the Executive Officer initiated expanded recruitments in mid-January to fill two analyst positions. Initial interviews with top candidates are scheduled for the week of February 26th and will precede a second round of interviews with finalists in early March. Should the interview process prove successful, it is expected one or both new analysts would start in April. While no explicit commitments were made in the recruitment announcements it is reasonable to assume candidates reviewed LAFCO's compensation policies online and ahead of applying, and in doing so would expect a pension benefit at Tier C. Should the Commission want to proceed with policy amendments to change the pension plan for new hires to a lower level – such as Tier D – it is realistic to assume top candidates may be dissuaded in accepting employment offers. Also looking ahead it is reasonable to assume retaining new hires placed at Tier D either before or after July 1st will be more challenging given the more competitive pension plans currently offered by most other LAFCOs.

- **Item No. 3 | SDCERA Approval**
  Should LAFCO desire to proceed with policy amendments (Item No. 1) while also navigating the recruitment/retention issues (Item No. 2) the creation of a different pension plan and/or benefit formula would require approval by SDCERA as the presumed administrator.[3] Markedly, and per Special Counsel, approval would likely require LAFCO to independently prepare its own actuarial evaluation under Public Employees' Pension Reform Act or PEPRA for certification by SDCERA. This latter requirement is not considered overtly substantive, but it would involve unbudgeted costs and resources and presumably take at least 45 days to address.

ALTERNATIVES FOR ACTION

This item is being presented for discussion and potential direction to staff with respect to returning with additional information and/or items for formal action.

[3] San Diego LAFCO could also contract with another benefit administrator, such as CalPERS.

RECOMENDATION

Drawing from the preceding analysis the Executive Officer believes the best available option to San Diego LAFCO at this time is to maintain existing policies to explicitly match pension benefits provided by the County for new hires. Maintaining the status-quo would follow nearly 50 years of continued practice – including following the lead of the County in establishing and timing changes in pension benefits – and allow the current recruitment of two new analysts to proceed without impediment. It would also help incentivize retention going forward for the new hires by providing a competitive pension plan relative to plans offered by other LAFCOs. These benefits appear to substantively outweigh the monetary savings in making an immediate change and specific to applying Tier D to new hires ahead of July 1st; the latter of which is valued in the first year at $2,700 less implementing expenses and potential opportunity costs.[4]

Proceeding forward the Executive Officer recommends three related items be further explored and returned to the Commission at future meetings for discussion and possible action. First, and in consultation with Counsels, it would be appropriate to memorialize the Commission's decision to follow the lead of the County in transitioning pension benefits for hires on or after July 1, 2018 to Tier D. Second, and also in consultation with Counsels, it would be appropriate for the Commission to review and update the Memorandum of Understanding existing between LAFCO and the County given the document is nearly 50 years old and does not readily reflect current needs. Third, it would be prudent for LAFCO to holistically review employee benefits and long-term priorities/preferences therein.

PROCEDURES

This item has been placed on the agenda for discussion as part of the business calendar. The following procedures, accordingly, are recommended in the consideration of this item:

1) Receive verbal report from staff;
2) Invite comments from interested audience members (voluntarily); and
3) Discuss item and provide feedback as requested.

Respectfully,

Keene Simonds
Executive Officer

Attachments: none

[4] The monetary savings in year one is based on the hiring of two Local Governmental Analysts at the midpoint of the salary schedule.

Page Blank for Photocopying