

TO: Regional Transportation Commission

FROM: Tegan Speiser, Senior Transportation Planner

REGARDING: RTC Autonomy – Participation in the California Public Employees' Retirement System (CalPERS)

RECOMMENDATIONS

Staff recommends that the Regional Transportation Commission (RTC):

1. Adopt a resolution (Attachment 1) declaring the RTC's intent to enter into a contract with the California Public Employees Retirement System (CalPERS) to provide retirement and survivor benefits to Santa Cruz County Regional Transportation Commission employees under the 2% @ 55 Formula for Local Miscellaneous Members (Attachment 2);
2. Approve disclosing the future annual costs of offering CalPERS retirement benefits to RTC employees as determined by the CalPERS System Actuary (Attachments 3 & 4);
3. Approve October 21, 2006 as the effective date for beginning RTC's new membership in the CalPERS retirement system and for transferring the accumulated contributions, assets and liability for prior and current service from the County of Santa Cruz to the RTC;
4. Approve payment of CalPERS administrative charges to establish a new contracting agency and perform employees' prior service calculations not to exceed \$1,500; and

Staff and the employee bargaining units recommend that the Regional Transportation Commission (RTC):

5. Approve offering the CalPERS 1959 Survivor Benefit - Level 4 (Attachments 5 and 6) to interested RTC employees pending the outcome of an employee election to determine participation in Social Security.

BACKGROUND

In June 2005, the Commission approved establishing the RTC as an autonomous governmental entity. Since that time, with direction and guidance from the Budget and Administration/Personnel Committee, RTC staff and consultants have been implementing a comprehensive work plan that will result in the Commission becoming autonomous by October 2006. The work plan includes the RTC establishing a new agency membership in the CalPERS retirement system. Commission employees have previously received retirement benefits through the County of Santa Cruz' membership in CalPERS.

DISCUSSION

Today's report presents a series of staff recommendations related to contracting with the California Public Employees' Retirement System (CalPERS) to offer retirement benefits to RTC employees.

Costs of Participation in CalPERS Retirement

In June of 2005, the RTC contracted with CalPERS to perform an actuarial valuation study that would serve as the basis for establishing the RTC's employer contribution rate to participate in the CalPERS retirement program. The results of the study were released to the Commission in March 2006 ([Attachment 3](#)) and were presented to the Budget and Administration/Personnel (B&A/P) Committee at its April 13th meeting by CalPERS Associate Pension Actuary David Clement ([Attachment 4](#)).

The actuarial valuation established an employer contribution rate for the RTC of 11.403% for FY06-07. Based on an estimated Commission payroll of \$1,125,000 for the current year, the cost of employer contributions to RTC employees' retirement benefits are anticipated to be \$128,285 annually. The employer rate is subject to change with future amendments and/or experience and other factors. Fixed at 7%, the employee contribution rate does not change and will result in annual contributions totaling \$78,750 over the next 12 months. While both the employee and employer contribution rates are established by CalPERS, the amounts paid by each party are determined through collective bargaining.

The RTC's post-autonomy contribution rate is slightly lower than the County's current employer rate of 11.926%. This means that the RTC will pay a little less (approximately \$5,900) than it would have paid as part of the County of Santa Cruz. The absence of the RTC will result in a slightly higher employer rate (.005% more) to the County of Santa Cruz.

The "merger of a function" method was used to establish that accumulated Commission contributions, assets and liability would be transferred from the County's CalPERS account to the RTC when a new membership is established for the Commission. Like other small agencies, the RTC will participate in a risk pool of other employers with fewer than 100 employees that offer their employees the CalPERS retirement benefit of 2% at 55. The RTC will be offering the same optional benefits as provided through the County with the addition of a few benefits that are mandatory to all agencies participating in the risk pool.

CalPERS Retirement Resolution

A Resolution of Intention ([Attachment 1](#)) declaring the RTC's intent to enter into a contract with CalPERS to provide retirement benefits to employees is required. The Exhibit attached to this resolution provides a summary of the major provisions of the proposed plan. After the Commission adopts this resolution, an employee election will be held to permit employees to express by secret ballot their approval of the retirement proposal. Unless a majority of employees reject the proposed plan, the Commission will then adopt a Final Resolution at its September meeting authorizing the organization to contract with CalPERS retirement system.

Survivor Benefits

When the RTC first establishes its membership in the CalPERS retirement program, the agency will not participate in Social Security until an employee election is conducted and the results certified. This election, which CalPERS indicates can take between 12-18 months to complete, cannot be held until after the RTC's CalPERS retirement membership is active. CalPERS employers who are not covered by Social Security (such as will be the case for the RTC initially) are required to offer their employees one of two mandatory 1959 Survivor Benefits with a monthly contribution required by both the employee and employer. Employees can individually opt to accept or decline the benefit.

This survivor benefit was discussed with employee bargaining units in a July 6th informational meeting held to prepare for the upcoming meet and confer process. Of the two survivor benefits offered by CalPERS, bargaining unit representatives recommended that the Commission offer its employees the 1959 Survivor Benefit – Fourth Level (Attachment 5). If all employees opt to accept the benefit, the annual cost of the recommended survivor benefit to the agency will be \$1,040 to cover all employees. The annual cost of the survivor benefit (Attachment 6) that is not being recommended is \$900. Whichever benefit is offered, employees who opt in will each be required to contribute \$24 annually towards the survivor benefit. The recommendation is based on the fact that in the unfortunate event this benefit is needed, the survivor benefit that would be paid is significantly better through the recommended plan.

If employees elect to participate in Social Security, the CalPERS 1959 Survivor Benefit will no longer be required. However, if the RTC does not elect to participate in Social Security, the Commission must make contributions into the Survivor Benefit pool for a period of 5 years. Following that period, the RTC's employer contribution may be reduced or waived depending on how well the pool is funded at the time.

Staff and the employee bargaining units recommend that the Commission approve offering the 1959 Survivor Benefit – Fourth Level to all RTC employees who are interested until such time as an election is completed regarding participation in Social Security.

CalPERS Membership Effective Date

Staff met recently with County Personnel and Payroll staff to discuss timing considerations for the transition to autonomy in terms of coordinating employee benefits including health care and retirement. Payroll schedules, tax filings and other related issues were also addressed. While October 1st has been established as a target date for autonomy and many items will switch over on that date, some aspects of the transition must be synchronized with the start dates of pay periods. In light of the fact that CalPERS requires a new membership to begin at the beginning of a pay period and health insurance premiums for the upcoming month are pre-paid in installments over two pay periods, October 21st is recommended as the effective date for transitioning employees from County to RTC employment, payroll reporting under the RTC's new tax ID numbers and establishing the start date for the RTC's CalPERS retirement plan. Many other aspects of RTC autonomy, such as implementing the RTC's own insurance policies are still scheduled to begin on October 1st.

New membership Expense

CalPERS charges a one time initial administrative fee for new agencies of \$200 and \$25 per employee (including former and retired employees) to perform prior service calculations. Staff estimates this expense at \$1,500 or less.

SUMMARY

Staff provided several recommendations regarding CalPERS retirement benefits including: adopting a resolution of intent to enter into a contract with CalPERS to provide retirement and survivor benefits to RTC employees; disclosing the future annual costs of offering CalPERS retirement benefits to RTC employees; approving October 21, 2006 as the effective date for beginning RTC's new membership in the CalPERS retirement system and for transferring the RTC's accumulated contributions, assets and liability from the County of Santa Cruz to the RTC; approving payment of CalPERS administrative charges to establish a new contracting agency and perform employees' prior service calculations; and approving the staff and the employee bargaining units recommendation to offer the CalPERS 1959 Survivor Benefit - Level 4 to interested RTC employees pending the outcome of an employee election to determine participation in Social Security.

Attachments

1. Resolution - Intent to Contract with CalPERS Retirement System
2. Summary of Major Provisions – 2% @55 Formula Local Miscellaneous Members
3. Summary of CalPERS Retirement Program Actuarial Valuation for the RTC
4. Oral Report by CalPERS on the RTC's Actuarial Valuation Study Results (Excerpt from April 2006 Budget Committee Minutes)
5. 1959 Survivor Benefit – Fourth Level
6. 1959 Survivor Benefit – Indexed