

**Solano County**  
**Retirement Enhancement Plan**  
**2007-2008 Solano County Grand Jury**

**Reason for Investigation**

Under the authority of California Penal Code section 925, the Grand Jury elected to investigate the Solano County Retirement Enhancement Plan.

**Grand Jury Action**

- Interviewed the Solano County Human Resources Director
- Interviewed the Solano County Auditor-Controller
- Interviewed Public Agency Retirement Services Executive Vice-President
- Interviewed a former Solano County Supervisor
- Reviewed Public Employees Retirement System and related documents
- Reviewed the Solano County Board of Supervisors agenda items
- Reviewed Retirement Enhancement Plan documents
- Reviewed Retirement Enhancement Plan summary
- Reviewed Actuarial Report for Retirement Enhancement Plan
- Reviewed retiree information packet
- Reviewed Solano County Line Item Budget regarding the Retirement Enhancement Plan

**Background Summary**

On October 1, 2002, the Solano County Board of Supervisors adopted Resolution #2002-187, authorizing the establishment of a Retirement Enhancement Plan (Enhancement Plan) for non-safety employees. Enhancement Plan participants are non-safety employees at legislative, executive and senior management levels, including certain elected officials.

To understand the impact of the Enhancement Plan, a brief description of retirement benefits received by other public employees within Solano County is necessary. The focus of this Grand Jury Report is the category of retirement plans known as a “service or normal retirement” plan. Solano County’s service retirement plan is a defined benefit plan administered by the California Public Employees Retirement System (CalPERS), the largest public employee pension system in the United States. In Solano County, the CalPERS plan is funded by three sources: (1) employee contributions into the system; (2) earnings from a variety of investments by CalPERS; and (3) employer contributions provided from County funds.

The retirement benefits eventually paid out to a retired employee are based on a formula including three factors:

- Service credits, based on years of service with the County
- A “benefit factor” based on a percentage of pay to which an employee is entitled for each year of service

- Final compensation based on the average full time pay rate and special compensation during a prescribed number of months

In Solano County, all typical public employee working in a non-safety related position receives a “benefit factor” of 2.7 percent at age 55. This factor is used in a formula along with years of service and final compensation to determine an annual benefit. (Example: 20 years x 2.7% x \$75,000 = \$40,500 annually)

A public employee working outside Solano County may not be eligible for a similar benefit in his or her current work place. The primary purpose of the Enhancement Plan is to attract and retain those public employees to Solano County with a promise that after a minimum of eight years employment with the County, that individual would receive the same retirement package as one who has spent his entire public service career with the County.

Representatives from the County consulted with a private company, Public Agency Retirement Services (PARS), which specializes in developing and administering IRS tax-qualified retirement plans for public agencies. The Director of Human Resources and the County Administrator recommended that the Board of Supervisors adopt the Retirement Enhancement Plan. It was tailored to meet the specific needs of Solano County. The administrative fee charged by PARS is \$750 monthly plus an asset-based fee based on a diminishing sliding scale.

Enhancement Plan contributions can be split in any fashion between the employer and the employee. Defined benefit plans require some employer contributions. The County, however, has elected to fully fund the Enhancement Plan. Currently, the County is contributing 0.087 percent of each participant’s payroll.

PARS provides Solano County with a monthly financial activity report.

Although the Director of Human Resources is named the Administrator of the Plan for legal purposes, the PARS Company performs the role of Administrator and is responsible for taking the actions necessary to implement and administer the Enhancement Plan. The County established an internal Pension Plan Advisory Committee to oversee the Enhancement Plan. This Committee consists of an Assistant County Administrator, County Treasurer, and County Auditor-Controller. This Committee pro-actively manages the financial planning.

The Union Bank of California acts as Trustee for the Enhancement Plan. The Bank invests plan assets in accordance with the investment strategy selected by the Pension Plan Advisory Committee. Union Bank also issues benefit payment checks to the participants. The Bank’s fee for services is currently at 12 basis points (0.012 percent) of funds invested.

The Enhancement Plan actuary is the firm of Milliman Consultants and Actuaries. The Actuary sets the rate of contributions necessary to fund the Plan. The Actuary prepares assumptions based upon information supplied by PARS. Currently, reports are prepared every two years in accordance with generally recognized and accepted actuarial principles and practices. In 2005, based on participant data dated July 1, 2004, the Actuary determined an unfunded liability of \$1,342,589. On February 7, 2006, the Board of Supervisors, agenda item #2006-28 authorized the Auditor-Controller to pay this amount to the Enhancement Plan for the unfunded liability. The funds paid to the Enhancement Plan are being paid back over a three-year period by individual departments within the County.

During the establishment of the Enhancement Plan, it became apparent that there were certain individuals who, for various reasons, did not fit the general provisions of the Enhancement Plan. At the suggestion of PARS, tiers of participants were developed to accommodate certain individual situations. At the time of our investigation, the Enhancement Plan had three tiers: Tier I had 140 participants, Tier II was established for the present County Administrator and Tier III was established for one member of the Board of Supervisors. During our investigation, the Grand Jury could not determine a definitive reason for including elected officials in this Plan.

### **Eligibility**

To be eligible for the retirement benefit the employee must meet all of the following requirements:

#### **Tier I**

- a) Is a full-time, non-safety Executive, Legislative, or Senior Management Employee of the County of Solano on or after November 24, 2002
- b) Is at least 55 years of age
- c) Has met the Plan requirements for years of service, typically eight or more years of full-time continuous employment with the County as of the last day of employment
- d) Has terminated employment with the County and concurrently retired under CalPERS
- e) Has applied for benefits under the Enhancement Plan

#### **Tier II**

In addition to meeting the requirements of provisions (b) – (e) of Tier I is employed as the County Administrator as of November 24, 2002

#### **Tier III**

- a) Has been designated by the Plan Administrator as an Eligible Employee under this plan
- b) Has terminated employment with the employer
- c) Has applied for benefits under the Enhancement Plan

### **Benefits**

Eligible employees shall receive Enhancement Benefits based upon their tier classification.

Under Tier I, the annual Enhancement Benefit will be determined by an amount equal to the difference between (1) and (2) described below:

- (1) The participant's years of service, times the participant's final pay, times 2.7 percent
- (2) The participant's years of service, times the participant's final pay, times the PERS age factor (typically 2.5 percent)

For example, (1) a participant who served 20 years with a final pay of \$75,000 per year and a benefit factor of 2.7 percent at 55 years of age would receive a total retirement benefit of \$40,500 annually. (2) a participant who has the same years of service and the same final pay but retires with a benefit factor of 2.5 percent at 55 years of age would receive a retirement benefit of \$37,500 annually. The difference between (1) and (2) of 0.2 percent would be \$3,000 annually.

The Enhancement Plan provides benefits for full time non-safety Executive, Legislative, and Senior Management employees of the County that meet the eligibility requirements of this Plan, have terminated their employment with the County, and are receiving a retirement benefit from CalPERS. In a list of eligible participants provided by the County, dated October 5, 2007, two part time employees of the County were listed as participants of Tier I. However, the Enhancement Plan makes no provisions for part-time employees.

Tier II has one participant, the County Administrator. The Enhancement Benefit must be paid in the Normal Form of Benefit and it must be an amount equal to \$7,210.59 monthly. This amount was determined to avoid conflicts with Section 401(a) (17) of the Internal Revenue Code that limits earnings used to calculate pension payments.

Tier III has one participant, a current member of the County Board of Supervisors, who was receiving a CalPERS pension benefit at the time of the adoption of this Plan. The Plan expressly provides that the monthly benefit will be one-twelfth of the participant's eight years of prior service with the City of Benicia, times the participant's final pay, times 2.7 percent.

Due to some employees possibly earning pension benefits that exceed the amounts allowed by Section 415 of the Internal Revenue Code, it became necessary to establish an Excess Benefit Plan. When a retired employee earns a pension benefit higher than the limits set by the Internal Revenue Code, the excess amount is paid from the Excess Benefit Plan fund. In order to be considered an excess benefit plan by the IRS, employer contributions to the excess benefits plan are subject to tax owed to F.I.C.A. for Social Security and Medicare.

In addition to the benefits payable to participants under the Enhancement Plan, this Plan also provides that the participant will receive an annual 2 percent cost-of-living increase.

## **Findings and Recommendations**

**Finding 1** - The Retirement Enhancement Plan provides for an automatic two percent benefit increase each year for the life of the payments to participants and their beneficiaries. This automatic two percent benefit may place an expense burden upon the County in future years.

**Recommendation 1** - The Retirement Enhancement Plan should be amended to provide for a benefit increase equal to the annual increase in the Cost of Living Allowance (COLA) but not to exceed two percent in any one year.

**Finding 2** - To be eligible for the Plan you must be a full-time employee. In a list of eligible participants provided by the County dated October 5, 2007, two part time employees of the County were listed as participants of Tier I. This is not consistent with the rules of the Plan.

**Recommendation 2** - The Department of Human Resources should correct this discrepancy and ensure that the list of eligible participants meet the standards of the Retirement Enhancement Plan.

**Finding 3** - The Retirement Enhancement Plan was established by Solano County to attract and retain qualified management level employees. The Grand Jury could not determine, during our review and investigation, a definitive reason for including elected officials in this Plan.

**Recommendation 3** - The Retirement Enhancement Plan should be revisited to determine if elected officials should continue to be participants. Elected officials are Officers and not employees of Solano County.

### **Comments**

The primary purpose of the Retirement Enhancement Plan is to attract and retain qualified public employees from outside Solano County. This is a good concept. The County should continue to diligently review and track actuarial reports and current economic conditions to ensure the Retirement Enhancement Plan and Excess Benefit Plan do not fall short of the funding source.

### **Affected Agencies**

- Solano County Board of Supervisors
- Solano County Director of Human Resources
- Solano County Pension Plan Advisory Committee

### **Courtesy Copy**

- Public Agency Retirement Service Company