County Of Sonoma
Agenda Item
Summary Report

<table>
<thead>
<tr>
<th>Department: County Administrator's Office</th>
<th>4/5 Vote Not Required</th>
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<tbody>
<tr>
<td>Name and Phone Number: Jim Leddy - (707) 565-2190</td>
<td>Board Date: 11/8/2011</td>
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**AGENDA SHORT TITLE:** Ad Hoc Committee on Pension Reform report out.

**REQUESTED BOARD ACTION:**

1) Receive report from the Board's Ad Hoc Committee on Pension Reform;

2) Adopt the Goals identified and direct staff to initiate the strategies contained within the report.

**CURRENT FISCAL YEAR FINANCIAL IMPACT - None.**

**Explanation (if required):** None.

**Prior Board Action:** In February 2011, the Board of Supervisors established the Ad Hoc Committee on Pension Reform; On June 21, 2011, the Ad Hoc Committee reported back with a draft outline for a report back to the Board.

**Alternatives – Results of Non-Approval:** No new policy direction would be in place to address the issue of pension costs.
Background: In February 2011, the Sonoma County Board of Supervisors adopted as one of its main goals of the 2011-2012 Board Work plan reviewing and addressing the growing impact of the cost of employee pensions. The Board recognized the long term fiscal stability of the organization required the development of policies which would prevent pension costs from diminishing the provision of critical services. The Board took action to address this rather than await state action. In concert with the Board’s efforts, the County’s Joint Labor Management Committee began meeting to discuss the long term pension costs and was tasked to bring back through the negotiation process potential consensus recommendations for containing costs while maintain a quality pension for employees.

The Board formed the Ad Hoc Committee on Pension Reform with Supervisors David Rabbitt and Shirlie Zane serving as Co-Chairs. In addition to the Board members, County Administrator Veronica A. Ferguson, Human Resources Director Wendy Macy, Asst. HR Director Julee Murphy and Community and Government Affairs Manager Jim Leddy staffed the committee. In February 2011, the Committee met and agreed the Board needed to provide clear policy direction to address long term and short term pension cost sustainability and create an ongoing framework for future decisions. Given the complexity of the topic, the Ad Hoc Committee gathered initial information from a number of sources both within and outside the organization. The Committee subsequently met nine additional times between March 2011 and November 2011.

The Committee invited several local private employers to meet and discuss the methods with which they were approaching the maintenance and sustainability of retirement programs. The Press Democrat, Sonoma State University, Agilent and Redwood Credit Union were all invited. Redwood Credit Union participated as did Sonoma State University. The Committee also met with Auditor-Controller-Treasurer-Tax Collector’s Office as well as representatives of the County’s various labor organizations to discuss the elements of proposed reforms. In addition to these informational sessions, the Committee reviewed several documents which included:

- Pension Reform Revisited, The League of California Cities, April 2010;
- State and Local Pensions Are Different from Private Plans produced by the Boston College’s School of Management, 2010;
- Defined Benefit Pension Programs, the Center for State & Local Government Excellence, 2009;
- Ideas for Reducing Pension Costs published by the Public Retirement Journal in November 2010;
- Cal Public Employees retirement System (CAL PERS) Status reports, published January 2011;
- The Financial Crisis’ Effects on the Alternatives for Public Pensions, Brookings Institute April 2010;
- The Truth about Public Employees in California: They are Neither Overpaid nor Overcompensated, The Center on Wage and Employment Dynamics, October 2010;
- Going for Broke: Reforming California’s Public Employee Pension Systems, Stanford Institute for Economic Policy Research; April 2010;
- Retirement Readiness, A survey by Aon Hewitt of private retirement systems, December 2010;
- The Survey 2009 - Employee and Executive Compensation benefits from the credit Union Movement; Executive Compensation Solutions, 2010;
- Governor Jerry Brown’s proposed 12 point plan for statewide pension reform, released April 2011 and revised October 27, 2011.

The Ad Hoc Committee concluded from its initial literature review there is not a quick, simple one size fits all solution for the County. As a values-driven, public service organization, the Committee concluded the County must have a set of policies to guide future decisions reflecting the County’s needs as a provider of critical public services, as a large employer and as an organization that values and respects its workforce.

The Committee drafted an outline for a report possessing policies with benchmarks for measuring success based on three basic principles: Fairness, Equity and Sustainability (FES). The Outline was presented to the Board on June 21st and the Board directed the Ad Hoc to proceed with developing the full report.
The Report (Attachment), which flows from the Outline, identifies Goals and Strategies. The report attempts to compile background data points to allow a broader understanding of the context of Sonoma County’s retirement system.

The recommendations for Board consideration are intended to complement the negotiation process, reflect the values of the organization, provide this and future Boards a clear understanding of the challenges faced by the County, and demonstrate how to measure success and what alternatives will require. The Goals and Strategies establish metrics to measure success in improving short and long term sustainability and fully embrace the values of the County organization.

The Report is driven by a set of values aligned with the County’s Strategic Plan values. They are:

Fair- It is fair to the employee, the County as employer and the taxpayer;

Fairness involves the basic tenet that the pension decisions will do no harm to others or have a do good imperative.

Equitable – Reforms ensure all employees under a benefit formula are treated equally;

Equitable implies that the benefit and the pain should be equitably distributed; that the pension decisions do not discriminate.

Sustainable – Pension obligations are met without degrading services to the community;

Sustainability builds on the concept of assessing and managing County resources in such way as to not put pensions above delivering services to the community.

From these values the following Goals and Policy Recommendations were developed:

GOALS & POLICY RECOMMENDATIONS

1. Contain Costs

Outcome: Reduce the County’s pension costs down to 10% of Total Compensation in 10 years;

Strategies recommended:

A. Establish a new retirement formula(s) (Tiers) for new employees
B. Eliminate compensation practices which can lead to spiking for all employees including establishing maximum pension cap, and later target retirement age;
C. Share equal risk between the County and with all employees for market investment losses and increased costs due to changes in actuarial assumptions on the retirement system;
D. Strengthen fiscal management actions including establishment and adherence to a County Debt Policy and supporting a lower Discount Rate.
2. **Maintain Market Competitiveness and Workforce Stability**

**Outcome:** Sonoma County attracts and retains the highest quality employees.

**Strategies recommended:**

A. Benchmark the County’s total salary and benefit packages to 95% of average of comparable market or better;

B. Provide guidance to employees that encourage retirement planning and embraces three elements: County Pension, Social Security and individual savings; and

C. Establish a compensation philosophy that supports the County’s Strategic Goals and Objectives on workforce development.

3. **Increase Accountability and Transparency**

**Outcome:** Increased public engagement, understanding and participation in decision making process with policy makers.

**Strategies recommended:**

A. Seek legislative changes to give the Board of Supervisors authority to add four (4) new public members to the Sonoma County Employee Retirement Association Board who would not be former, current, or contract County employees;

B. Explore establishment of an Independent Citizens Committee to monitor, guide and drive ongoing reform efforts.

**Cost Savings Estimates**

An effort was made by the Ad Hoc to estimate the potential savings that could accrue based on the proposed Goals and recommendations. In reviewing the expected trends, the County pension costs are on a path that will take them from currently 19% of every dollar spent on Total Compensation (Salary plus benefits) to approximately 29% with ten years. In 2010-2011, this cost equaled approximately $97 million. By 2014, that cost is expected to grow to 21% or approximately $115 million annually.

The largest expected savings would be in the establishment of a new employee retirement formula tier ($8-12 million). Sharing costs equally would yield the next highest level of annual savings ($6 million).

Estimating savings in pension costs is a difficult given the number of individual variables that impact costs. However, using conservative estimates of employee attrition rates, low estimates on annual savings per a new tier, the successful effort to fully share costs and reduce the ability to expand the pensionable income by limiting spiking, it is estimated the **10 year cumulative savings would be between $115 and $150 million.**

The annual rates of savings in the first year after full implementation would be approximately $8.65 annually and by year ten this would grow to between $16 and $20 million. This change in costs trends would bring the annual pension cost as a percentage of Total Compensation from its current 19% to 10% (a rate last seen in 2002).

The following table is an estimate of costs savings. The savings are reflected in the first year of savings to the 10th year of savings assuming all changes were fully implemented.
### Request Board Action

The Board is requested to review the Ad Hoc Committee’s report and endorse the Goals, policy recommendations and strategies to direct staff to begin to implement the work efforts that will be required to achieve the Goals.

<table>
<thead>
<tr>
<th>New Tier for Defined benefit</th>
<th>Annual County Avoided Costs, Year 1</th>
<th>Annual County Avoided Costs, Year 10</th>
<th>Notes</th>
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<tbody>
<tr>
<td></td>
<td>$650,000</td>
<td>$8-12 Million</td>
<td>Assumes within ten years: -60% to 100% of all employees in new tier; -Very limited or virtually no growth in current employee total; -Adoption of lowest county cost formula.</td>
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<td>Eliminate Spiking</td>
<td>$2 million</td>
<td>$2 Million</td>
<td>Assumes Pensionable earnings only based on Base Salary.</td>
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<td>Shared Risks - Market Loss Costs</td>
<td>$6 million</td>
<td>$6 million</td>
<td>Savings based on most recent highest losses due to market downturn and County’s payment to cover loss.</td>
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<tr>
<td>Total Annual Avoided Costs</td>
<td>$8.65 million</td>
<td>$16 to $20 Million</td>
<td>Ten Year Cumulative savings range: $115 to $150 million</td>
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**Attachments:** The Sonoma County Board of Supervisors Ad Hoc Committee on Pension Reform Report.