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Ans'd. JFM

December 13, 1994

TO: Supervisor Pam Slater, Chairwoman
Supervisor Dianne Jacob, Vice Chairwoman
Supervisor Brian P. Bilbray
Supervisor Leon L. Williams
Supervisor John MacDonald

FROM: Robert Booker, Ed.D.
Chief Financial Officer/Auditor and Controller

SUBJECT: RETIREMENT BOARD - PROPOSED ONE-TIME-ONLY SUPPLEMENTAL INCREASE FOR SAN DIEGO COUNTY RETIREES AND ESTABLISHMENT OF HEALTH BENEFIT TRUST FUND RESERVES

For your information, I spoke about the above proposal during the Retirement Board's meeting December 1st. While final action on this matter was continued until an actuarial study is completed, the Retirement Board approved the concept to grant a one-time increase to retirees and set additional monies aside for the establishment of Health Benefit Trust Fund Reserves. We have requested a copy of the actuary's report so that we may determine the potential fiscal impact this action will have on the County and discuss that impact with the Retirement Board.

A draft copy of the Retirement Board's meeting (attached) describes the action and the Retirement Board's discussion on this matter.

Robert Booker

ROBERT BOOKER, Ed.D.
Chief Financial Officer/Auditor and Controller

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Attachment

c: David E. Janssen, Chief Administrative Officer
Robert Griego, Deputy Chief Administrative Officer
Lloyd Harmon, County Counsel

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SAN DIEGO COUNTY EMPLOYEES RETIREMENT BOARD
SPECIAL ADMINISTRATIVE MEETING
THURSDAY, DECEMBER 1, 1994 — 2:00 P.M., ROOM 303
BOARD OF SUPERVISORS NORTH CHAMBERS

AGENDA ITEM #7 **ADOPT METHOD OF ONE-TIME DISTRIBUTION TO THE RETIREES, THE COUNTY AND THE ACTIVE EMPLOYEES**

Mr. Liddell reported that when the ad hoc committee met, it became obvious to them that to go along with the methodology which was involved in the original request would have created some rather severe disparities in individual benefits. Mr. Boland offered a suggestion that would add parity and assist in helping the long-time retirees the most, which was the intent of the original plan. The original plan was based on the necessity or the desire to bring back, at least partially, the purchasing power of those retirees who had been retired the longest time, and whose purchasing power had decreased below 75% of the amount they had originally received. In actual fact, this is easily calculated because of the fact that the County has been recording a difference between the cost-of-living increase and the amount of the cost-of-living COLA that the retirees have been receiving since 1969. The committee had an accurate measure of just how far behind the curve of inflation an individual retiree was. The cutoff date came at about 1982, at which time it was determined that those who retired prior to 1982 would participate in the additional benefit, and those that retired after 1982 would not. The target group is composed entirely of those retirees who retired prior to March 31, 1982.

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Mr. Boland's suggestion, which was approved by the committee totally, was to base the benefit on years of service times "X", which is the number of dollars indexed by the COLA bank which means that those who retired prior to 1969 and earlier, whose COLA bank had actually gotten to the point of 94.77% (that's how far back of the inflation curve they were) would receive 100% of the years of service timex "X". It would be "X" number of dollars times the number of years of actual service, not to exceed 30 years, and then that would be indexed by the COLA bank which would be taken by the COLA bank of that particular year of retirement minus 25% divided by 94.77% minus 25%. This would give the 1969 and earlier retirees 100% and those retiring at a later date a proportionally lower percentage as you approach 1982. The dollars to be multiplied by the number of years would be based on that number of dollars which would yield, when added up totally, $5 million. As a counter part to that, since the retirees are not the only beneficiaries of the Fund, the committee voted to place another $5 million in a reserve for the active employees toward an actuarially prefunded retirement health benefit plan for currently active employees to be implemented at a future date after they retire. They voted also to place a second $5 million in a similar reserve account for the County's benefit, since any actuarially prefunded plan would require a contribution from both the active employees and the County in order to be implemented. This $10 million would be going into trust for a future date, at which time the County and the employees will hopefully be able to reach an agreement for an actuarially sound prefunded post-retirement health benefit plan.

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It is a fairly complicated formula, but it is the opinion of the committee that it is the most equitable. The Retirement staff has come up with some tentative figures and the total amount will add up to $5 million.

MOTION: A motion was made by Mr. Liddell and seconded by Mr. Andrews to adopt the committee's recommendation to grant a one-time increase to the retired employees with the added proviso that the funds that are being set aside for the active employees and the County will revert to the Fund, if a satisfactory agreement is not reached by the active employees and the County at the bargaining table by June 30, 1997.

(Motion was amended after discussion.)

DISCUSSION

Dr. Robert Booker, Chief Financial Officer for the County, addressed the Board regarding the proposed one-time ad hoc increase to the retirees. He said that although the retirees are deserving of an adjustment in their income, it was not the issue he wanted to address the Board about. The issues that he wanted to talk about were (1) the timing of this increase because of the current situation with the active employees' request for a salary adjustment which the County has not been able to provide for the last 3 1/2 years and public opinion, (2) his staff has had no opportunity to evaluate the impact of an increase to the retirees and (3) his staff has

had no opportunity to review this action with the Board of Supervisors. He asked that the Retirement Board take no action on this item until these evaluations take place and that an actuarial analysis be performed during this process. He said that he would bring this matter to the attention of the CAO and the Board of Supervisors for review.

The Board asked Mr. Hansen for a legal opinion regarding the actuarial report. He replied that the requirement for the actuarial impact report is in Section 7507 of the Government Code (last paragraph), which reads, "The future annual cost is determined by the actuary and shall be made public at a public meeting at least two weeks prior to the adoption of any increase in public retirement plan benefits. He said that the Board could adopt a plan in concept today but would need the actuarial report and an additional two weeks before final adoption of any increase could take place.

The Board then heard testimony from Mary Grillo, Field Director, Service Employees International Union (SEIU). She said that she was not at the meeting to support or oppose the action. She is asking that the Board continue their decision for one month to give SEIU an opportunity to evaluate and take a position on this proposal.

Mr. Rudy Massman and Ms. Dorothy Sloter, representing the retired employees, addressed the Board and asked that they move forward and approve this request in concept and get the necessary reports from the actuary and Auditor for final adoption.

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Mr. Boland informed the retired employees in attendance that not all retirees were in favor of this increase. He reminded them that extra benefits are not mandated but at the option of the Retirement Board. He said that this increase, if adopted, would be a one-time benefit and would not happen again for at least another five years. He also said that the active employees need to start thinking about their future health care and retirement benefits.

(MOTION AMENDED)

MOTION: The motion was amended by Mr. Liddell and seconded by Mr. Andrews to approve in concept the ad hoc committee's recommendation to grant a one-time increase to the retirees and submit committee's recommendation to the actuary for review and a report to the Retirement Board for the January 5, 1995 meeting, and that the matter be placed on the Agenda for final action at the January 19, 1995 meeting, with the proviso that, if the County and the active employees do not reach an agreement on an actuarially prefunded health benefit program by June 30, 1997, their share of the benefit will revert to the Fund.

The motion was carried unanimously.

Mr. Booker and Mr. Bareham asked for a draft of this portion of the meeting.