Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
9	04/12/10	Open	Action	04/05/10

Subject: Retirement Incentive Program

ISSUE

Whether or not to approve a Retirement Incentive Program (Program) for District employees and delegate authority to the General Manager/CEO to execute amendments to the Retirement Plans (Plans) to effectuate the temporary incentive program.

RECOMMENDED ACTION

Adopt Resolution No. 10-04____, Approving a Retirement Incentive Program (Program) for All District Employees and, Upon Execution by Employee Representatives, Authorizing the General Manager/CEO to Execute the Agreements and Authorizing the General Manager/CEO to Execute Amendments to the RT – IBEW Local 1245, RT – ATU Local 256 and Salaried Employee Retirement Plans That are Necessary to Implement the Program.

FISCAL IMPACT

There are currently 329 employees eligible to retire from the District under RT's three retirement plans. Of those eligible to retire, 95 (9% of the total RT employee population) is considered to be a realistic projection of the total eligible population which might take advantage of the Program. Fourteen of those eligible have received a layoff notice for Phase 1, to be effective April 19, 2010. The true impact of implementing the Program will be unknown until the final election period has ended.

Savings will be experienced in two ways through implementation of the Program.

1. **Reduction in the Layoff Costs for FY10 and FY11**

    - Avoidance of Unemployment Costs - Unemployment costs are currently $450 for 26 weeks, for a total of $11,700 per employee. If 95 employees ultimately elect retirement, avoided unemployment costs would total $1,115,500 in FY 2011 ($2,223,000 if unemployment benefits are extended to 52 weeks). The precise amount of savings will depend upon the number of eligible employees taking advantage of the Program.

    - Conversion of Accumulated Sick Leave and Floating Holiday Hours to Service Credit - Employer costs for paying out accrued sick leave and floating holiday hours includes an additional 27.65% in roll-up costs for FICA, Medicare, and retirement contributions. A requirement of the Program is that retirees convert accrued sick leave and floating holiday hours to additional service credit. The hourly cost of the accruals is already accounted for in the budget, but the additional roll-up costs for FICA, Medicare and retirement contributions is an additional expense that would be

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avoided if employees are required to convert their sick leave and floating holidays into service credit. The estimated savings through avoiding the roll-up costs for 95 retirees (69 ATU/IBEW and 26 AEA/AFSCME/MCEG), is approximately $200,000. The exact amount of savings will only be determined when all retirees are known and accrual conversions are calculated.

The combined savings through the two cost avoidance estimates are $1,315,500 ($2,423,000 if unemployment benefits are extended to 52 weeks).

2. **Impact on the Retirement Plans**

The Actuarial firm (EFI) employed by the Salaried and Union (Plans), was asked to perform a study on the financial impact of the Program on the Plans. Three scenarios were presented. Scenarios 1 and 2 represented the costs associated with the least (5%) and most (30%) number of employees from the total eligible population who might retire under the Program. Scenario 3 represented what is thought to be a more realistic utilization of the Program. It assumes a 9% retirement rate of the total Plan population, or 95 employees.

EFI presented its calculations of the impact on the Plans amortized over a 5 year period. Using a 5 year amortization period represents a “best practices” approach, however implementing a 5 year period is not a regulatory accounting requirement. The District currently uses a 26 year amortization period for both the Salaried and Union Plans unfunded actuarial accrued liability. By implementing the Program, and amortizing it over a 26 year period, the District will benefit by reducing its short term cash needs (by not having to pay out sick balances) as well as deferring the additional costs into the future during a time in which the District’s cash flows and savings are at a premium.

Under a 5 year amortization period, the FY12 Annual Required Contribution to both the Salaried and Union Plans would be $600,000. Under a 26 year amortization period, the FY12 Annual Required Contribution to both the Salaried and Union Plans is $60,777. Attachment 1 shows the detail of costs to each Plan. Amortizing the cost over 26 years will result in a higher total liability to the District, however it will reduce the Annual Required Contribution by approximately $539,223 in FY12.

It is the responsibility of each of the 5 Retirement Boards to approve the Annual Required Contribution level. In FY12, when the cost of this Program is addressed by the Retirement Boards, RT will recommend and support approval of amortizing the cost of the Program over the 26 year period. Each Retirement Board acts independently and could adopt either the 5 year, the 26 year or some other period of time over which to amortize the cost. The final annualized cost of the Program will be undetermined until the Boards act.

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3. **Net District Impact for FY10 and FY11**

   Since the costs associated with the Plans are not payable until FY12, the full amount of the estimated savings generated by avoided unemployment costs and the conversion of accumulated sick leave hours and floating holiday hours will be realized during the remainder of FY10 and in FY11. That amount is estimated to be $1,315,500. As mentioned above, that amount will increase to $2,423,000 should unemployment benefits be extended to 52 weeks.

DISCUSSION

In late January 2010, the District received budget information for FY 2010 and FY 2011 which required consideration of severe cuts in service and the layoff of staff in order to help close the current and expected budget deficit. The District began contemplating the possibility of promulgating a retirement incentive program which would support efforts to save money in the two budget years. The goal was to develop a program that was affordable to the District and the respective Retirement Plans, achieved a measure of savings by minimizing layoff costs associated with increased unemployment insurance payments and eased the burden on our cash flow by converting sick leave and floating holiday hours to service credit rather than cashing out employees for accrued time based on the terms of applicable agreements. Special concern was paid to minimizing the number of employees impacted by a forced layoff by encouraging voluntary retirements from those employees so inclined. Retirements tend to remove higher paid employees from the recall list, thereby reducing future labor costs. Fewer layoffs (by way of retirement) will reduce total recruitment and training costs.

Management sought ideas from employees and employee representatives for consideration in developing a program of incentives to encourage retirement. After deliberation, a Program was finalized that consisted of incentives by way of providing additional service credit.

The District consulted with legal counsel on the issue of excluding certain individuals, classifications or groups of classifications from taking advantage of the Program. Staff was advised that while RT could exclude some employees from the Program, it should not be on an individual or position basis. Rather, if the District could identify groups of employee classifications in which it would be in the business interests of the District to exclude from the Program, RT could proceed. After considering the advice, staff has concluded that those employee members of the executive management team (EMT) that report directly to the General Manager/CEO should be excluded from eligibility for the Program. These classifications are in key decision making positions that are directing the activities of functional divisions within the District.

In order to be eligible for the Program, an employee must not be employed in an executive management level classification directly reporting of the General Manager, be at least age 55, or have 25 years of service credit. An employee who is not age-eligible and has fewer than 25 years of service credit may apply the added service credit under the Program to attain the needed 25 years of service credit.

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A summary of the Program is as follows:

1. Two years of additional service credit will be provided to eligible employees electing to accept the limited term offer within the established time frame.

2. Sick Leave Hours – As a condition of the offer, 100% of the accrued sick leave hours that an employee has accrued at the time of retirement must be converted to additional service credit on a 2 for 1 basis (1 hour of converted sick leave equals 2 service credit hours).

3. Floating Holiday Hours – As a condition of the offer, floating holiday hours remaining on the books for a retiring employee must be converted to service credit hours. Such hours will be converted on a 2 for 1 basis the same as sick leave hours.

Any eligible employee desiring to take advantage of the incentive offer may do so by submitting a retirement application by close of business, June 17, 2010. An employee that receives notice on or after June 21, 2010 that he or she may be affected by a layoff may submit a retirement application by September 2, 2010. Upon the expiration of the two submittal periods, the opportunity to apply for the Retirement Incentive Program terminates.

If approved by the Board, pursuant to California Government Code, there is a 10 calendar day waiting period before the Program can be made available to employees. Because the Program will not be legally available until April 23, 2010, RT will not be able to accept retirement applications until that date. In order to avail themselves of the full benefit of the Program, employees must still be in RT's employ on the first day that RT can accept applications under the Program. However, the effective date of the Phase 1 layoffs is April 19th. As such, in order to preserve the benefits of the Program for RT and the eligible employees, those individuals that have received a layoff notice who are eligible and interested in applying for the Program will be permitted to work through Friday, April 23rd so that their applications may be timely taken and processed. All other individuals notified of being laid off will be separated from employment on Monday, April 19, 2010.

As is RT's practice in bargaining, staff has presented the Program to all the employee representatives for consideration. All the representatives have indicated an interest in the Program on behalf of their members. The General Manager/CEO recommends the Program on behalf of the non-represented management and confidential employees (MCEG). Attached as Exhibit 1, to the Resolution, is a copy of the Program to be presented to all Parties.

Staff recommends that the Board approve the Program and that the General Manager/CEO be given authority to execute the Program Agreements with employee representatives and execute retirement plan amendments necessary to effectuate the terms of the Program.

Impact to district:

For scenario #3 (assuming July 1, 2009 is a baseline)

Attachment 1

Union Plan

	FY11	FY12	FY13	FY14	FY15	FY16	Total
Decrease in the change in Normal Cost	$ -	$ (200,000.00)	$ (200,000.00)	$ (200,000.00)	$ (200,000.00)	$ (200,000.00)	$ (1,000,000.00)
Increase in the change in Unfunded AAL Amortization		$ 500,000.00	$ 500,000.00	$ 500,000.00	$ 500,000.00	$ 500,000.00	$ 2,500,000.00
Net Increase in Annual Required Costs (ARC) Union		$ 300,000.00	$ 300,000.00	$ 300,000.00	$ 300,000.00	$ 300,000.00	$ 1,500,000.00

Salaried Plan

	FY11	FY12	FY13	FY14	FY15	FY16	Total
Decrease in the change in Normal Cost	$ -	$ (100,000.00)	$ (100,000.00)	$ (100,000.00)	$ (100,000.00)	$ (100,000.00)	$ (500,000.00)
Increase in the change in Unfunded AAL Amortization		$ 400,000.00	$ 400,000.00	$ 400,000.00	$ 400,000.00	$ 400,000.00	$ 2,000,000.00
Net Increase in Annual Required Costs (ARC) Salaried		$ 300,000.00	$ 300,000.00	$ 300,000.00	$ 300,000.00	$ 300,000.00	$ 1,500,000.00
Total Increaes in Annual Pension Costs both plans		$ 600,000.00	$ 600,000.00	$ 600,000.00	$ 600,000.00	$ 600,000.00	$ 3,000,000.00

RESOLUTION NO. 10-04-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

April 12, 2010

APPROVING A RETIREMENT INCENTIVE PROGRAM (PROGRAM) FOR ALL DISTRICT EMPLOYEES AND, UPON EXECUTION BY EMPLOYEE REPRESENTATIVES, AUTHORIZING THE GENERAL MANAGER/CEO TO EXECUTE THE AGREEMENTS AND AUTHORIZING THE GENERAL MANAGER/CEO TO EXECUTE AMENDMENTS TO THE RT – IBEW LOCAL 1245, RT – ATU LOCAL 256 AND SALARIED EMPLOYEE RETIREMENT PLANS THAT ARE NECESSARY TO IMPLEMENT THE PROGRAM

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Retirement Incentive Program for all District employees as set forth in Exhibit 1, is hereby approved and the General Manager/CEO is hereby authorized to execute the Program agreements with the employee representatives.

THAT, the General Manager/CEO is, on behalf of the Board, authorized to execute amendments to the Salaried and Union Retirement Plans necessary to effectuate implementation of the temporary incentive Program.

____
STEVE MILLER, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: ________________________________
Cindy Brooks, Assistant Secretary

Exhibit 1

Sacramento Regional Transit District
Retirement Incentive Program

This offer is not intended to replace the existing Regional Transit (RT) retirement programs, which will remain available during the Election Period for employees who choose to retire without accepting this offer and its requirements.

Retirement Incentive Program (Program) Summary:

Subject to the following terms and conditions, the District will provide to eligible employees a retirement incentive as follows:

1. Two years of additional service credit is provided under a limited term offer to employees who elect to accept the offer and retire within the time frame established, called the Election Period.

2. Sick Leave – As a condition of the offer, 100% of the accrued sick leave hours that an employee has accrued at the time of retirement must be converted to additional service credit. RT will convert the accrued sick leave on a 2 for 1 basis.

3. Floating Holiday – As a condition of the offer, floating holiday hours remaining on the books for retiring employees must be converted to service credit hours. RT will convert the unused floaters on a 2 for 1 basis.

4. Service will be counted up to the last day of work and the employee's effective retirement date will be the first day following their last day of work. Sick leave hours and floating holiday hours will be converted to service credit to the actual date of retirement rather than to the most recent completed month or quarter year of service, if different under the existing retirement plan provisions.

   Example: 1000 hours of combined sick leave hours and floating holiday hours will convert to 2000 hours (or one year) of additional service credit. Including the 2 years of additional service credit, this would result in a total of 3 years of additional service credit under the offer.

Eligibility Requirements:

To be eligible, an employee must not be employed in an executive management level classification reporting directly to the General Manager, be at least age 55, or have earned 25 years of service credits. An employee who is not age-eligible and has fewer than 25 years of service credit may apply the added service credit he or she may receive under the incentive program to attain the needed 25 years of service credit.

> Example: An employee with 22 years of service who is not age-eligible but for whom conversion of sick leave hours and floating holiday hours combined with the offer will provide a total of 3 additional years of service credit and would be eligible to retire because the additional 3 service credits helps him attain the 25 years necessary to retire at RT for employees who are not age-eligible.

In addition, an age-eligible employee who has not yet vested in the retirement plan in which the employee is a member may apply the additional service credit to vest in the plan if the total service credit the employee has earned plus the additional service credit being offered under the Program are equal to or greater than the total amount of service credits required to vest in the applicable retirement plan.

> Example: An AEA employee with 3 years of service credit who is at least 55-years of age will become fully vested in the AEA plan upon application of the 2 extra service credits plus any additional credits the employee obtains from converting any sick leave and floaters the employee would otherwise be eligible to cash out upon termination, since she will have at least 5 service credits which is the minimum required to vest in the Salaried Retirement Plan.

<u>Retirement Incentive Election Periods:</u>

1. Pursuant to California Government Code, there is a 10 calendar day waiting period before the Program can be made available to employees. Retirement applications can be taken beginning April 23, 2010. The effective date of the Phase 1 layoffs is April 19th. Those individuals notified that have received a layoff notice who are eligible and interested in applying for the Program will be permitted to work through Friday, April 23rd so that their applications may be timely taken and processed. All other individuals notified of being laid off will be separated from employment on Monday, April 19, 2010.

2. An eligible employee, as defined above, may apply for retirement under the Program commencing April 23, 2010. Employees have until 5 PM, Thursday, June 17, 2010, to file their application for retirement at the Human Resources Department. The effective retirement date of any application must be before June 19, 2010.

An employee eligible to retire during this Election Period that has been notified and goes on layoff, may reconsider the decision and elect to retire under this Program provided the application for retirement is filed with the Human Resources Department by 5 PM, June 17, 2010. In such cases, since the employee has received a cash-out for sick leave and floating holidays pursuant to the terms of their layoff, the employee will only be eligible to receive the additional 2 years of service credit offered under the terms of the Program.

3. An eligible employee who receives notice on or after June 21, 2010 that they may be affected by a layoff may apply for retirement under these provisions. Such employees have until 5 PM, Thursday, September 2, 2010, to file their application for retirement at the Human Resources Department. The effective retirement date in any such application must be before September 4, 2010. If an eligible employee leaves employment for reasons unrelated to this limited offer, the employee may not later seek retirement under the terms of this program.

<u>Retiree Medical Insurance Coverage</u>:

An eligible employee of the MCEG, AEA or AFSCME group or bargaining unit that separates from employment due to layoff, who later decides to retire under the portion of this program applicable to him or her, will be considered eligible for District paid post-employment insurance coverage(s) as though leaving employment and going straight into retirement provided the employee has continued their medical benefit under COBRA until the District paid benefit takes affect. In such cases, the cost paid to continue the benefit under COBRA, including the administrative fee, will be reimbursed. An employee accepting layoff and later deciding to retire under this program, who allows his or her medical coverage to lapse, will be unable to re-enroll in medical insurance for coverage during retirement.

Older Worker Benefit Protection (OWBP) Act Waiver:

As a condition of accepting this retirement incentive offer, including the additional service credits, an employee will be required to sign a waiver of his/her 45-day right of rescission under the OWBP Act.

Waiver of Recall Rights to Employment:

An eligible employee electing to retire under the terms of this Program in lieu of separation from employment due to layoff shall forfeit any rights to recall to employment pursuant to the applicable terms and conditions of a Collective Bargaining Agreement or the Personnel Rules and Procedures, at the date of separation.

Agreement

The foregoing terms and conditions of the Retirement Incentive Program have been reviewed and agreed upon this __________ day of______________, 2010.

For ATU Local 256	For Regional Transit:
____________________________	____________________________
____________________________	____________________________
For IBEW Local 1245	**For Regional Transit**
____________________________	____________________________
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For AFSCME Local 146	**For Regional Transit**
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____________________________	____________________________
For AEA	**For Regional Transit**
____________________________	____________________________
____________________________	____________________________