Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
11	03/22/10	Open	Action	03/17/10

Subject: Retirement Incentive Program

ISSUE

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

RECOMMENDED ACTION

Approve Resolution No. 10-03____, 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

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

1. Unemployment costs will be avoided based on the expectation that from 5% – 30% of eligible employees would elect to retire. Unemployment costs are currently $450 for 26 weeks, for a total of $11,700 per employee. If the duration of unemployment is extended to 52 weeks, the annual employee cost will be $23,400. The level of savings will depend upon the number of retirees under the Program who would have been laid off. If 100 employees elect retirement rather than be laid off, avoided unemployment costs would be $1,170,000 - $2,340,000 (if unemployment is extended.)

2. Employer costs of paying out accrued sick leave and holiday hours includes an additional 27.65% for FICA, Medicare, and retirement contribution, which would also be avoided. A requirement of the Program is the conversion of accrued sick leave and holiday hours to additional service credit. While the cost of the accruals is already in the budget, the additional employer costs (FICA, Medicare and retirement) represents an added expense. Estimated savings through cost avoidance based on 30% of the accrual balances of eligible retirees is approximately $553,000. The exact amount of savings will only be determined when all retirees under the Program are known and accrual conversions are calculated.

Initial evaluation estimates savings through cost avoidance of $1,723,000 - $$2,893,000, depending upon the duration of unemployment benefits under the current administration.

Approved: Presented:

FINAL 3/18/10

General Manager/CEO

Chief Administrative Officer/EEO

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11	03/22/10	Open	Action	03/17/10

Subject: Retirement Incentive Program

Impact on the Retirement Plans

EFI Actuaries, the Actuary to the Salaried and Union employee retirement plans (Plans) was asked to perform a study on the financial impact of the incentive program on the Plans. Two scenarios were presented. The increased funding requirement for both scenarios in the Annual Required Contribution (ARC) was calculated using a five year amortization of the cost. The annual impact would be lower with a longer amortization period.

Scenario 1, Assumes a retirement rate of 5% of all eligible employees. This increased the liability by $1 million which, when combined with an estimated $5 million in reduced liability due to layoffs, resulted in a $4 million reduction in the total liability. The result was an estimated combined decrease in the ARC of $1.9 million.

Scenario 2, Assumes a 30% retirement rate of the total Plan population which would include nearly all eligible members. No liability reduction from layoffs is assumed in this scenario. The combined increase in the ARC using a five year amortization of the added cost is $1 Million per year. Using RT's 26 year amortization period, the combined added annual increase in the ARC would be $192,308.

	7/1/09 Valuation	**Scenario 1**	**Scenerio2**
Salaried Plan:			
Total ARC1 (with interest)	$4.6M	$4.1M	$5.4M
ARC (% of Payroll)	20.3%	22.5%	33.0%
Union Plan:			
Total ARC (with interest)	$8.5M	$7.1M	$8.7M
ARC (% of Payroll)	19.4%	20.7%	27.3%

A copy of the Actuarial Report is included as Attachment 1.

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 close the current and expected budget deficit. At that time, 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, achieve a measure of savings by minimizing layoff costs associated with increased unemployment insurance payments, avoided employer costs of cash payouts and

1. Annual Required Contribution – The amount an employer would contribute to a defined benefit retirement plan for a given year comprised of the sum of the normal cost and some amortization of the unfunded actuarial accrued liability.

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ease 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.

In order to be eligible for the Program, one must 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.

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.

The Program was reduced to writing and presented to all the employee representatives for consideration. At this time, IBEW 1245, AEA and AFSCME 146, have indicated a willingness to accept the offer on behalf of their members. The General Manager/CEO will recommend and implement the Program on behalf of the non-represented management and confidential employees. Attached hereto as Exhibit 1 to the Resolution is a copy of the Program presented to all Parties. Staff recommends that, upon execution by the employee representatives, the General Manager/CEO be given authority to execute on behalf of the District.

The ATU, Local 256 has not received approval of the Program from their membership at the time of this writing. Approval is expected in the near future.

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Subject:	Retirement Incentive Program

Staff recommends 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.

EFI Actuaries 20 Anniversary Year
addressing public pension issues of today ...AND TOMORROW

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March 16, 2010

Ms. Donna Bonnel
Director, Human Resources
Sacramento Regional Transit District
2830 G Street
Sacramento, CA 95816

Re: Study of Retirement Incentive Program

Dear Ms. Bonnel:

As requested, we have conducted an actuarial study of the impact of offering a temporary early retirement incentive (Window) for the pension plans (the Plans) of the Sacramento Regional Transit District (the District).

The provisions of the Window for members who retire during the 2010 Election Period are:

1. Two years of additional service credit, to be counted towards retirement eligibility and benefit amount.
2. Conversion of accrued sick leave and floating vacation hours to pension service at a rate of one year of service per thousand hours, to be counted towards retirement eligibility and benefit amount (including partial years of service).

Table 1: Summary of Actuarial Impact – Union Plan

($ millions)	7/1/2009 Valuation	Window Scenario 1	Window Scenario 2
Normal Cost	$ 5.3	$ 4.2	$ 4.0
Change in Actuarial Accrued Liability (AAL)	*N/A*	*(4.0)**	6.4
Unfunded AAL Amortization	2.8	2.6	4.3
Total ARC (with interest)	**$ 8.5**	**$ 7.1**	**$ 8.7**
Payroll	43.6	34.3	31.9
ARC (% of Payroll)	**19.4%**	**20.7%**	**27.3%**
% Reduction in Active Workforce	N/A	28%	29%

* ($4.0) million = $ 1.0 for window, and ($5.0) from layoffs

Window Scenario 1: Valuation retirement rates applied, such that 5% of total population retires under the window. All employees with less than 5 years of service are assumed to be laid off under this scenario.

Window Scenario 2: Increased retirement rates applied, such that approximately 30% of the total Plan population retires under the window (includes nearly all eligible members). No additional employees are assumed to be laid off in this scenario.

Table 2: Summary of Actuarial Impact – Salaried Plan

($ millions)	7/1/2009 Valuation	Window Scenario 1	Window Scenario 2
Normal Cost	$ 2.4	$ 1.9	$ 2.0
Change in Actuarial Accrued Liability (AAL)	*N/A*	*(1.1)**	*5.1*
Unfunded AAL Amortization	2.0	2.0	3.2
Total ARC (with interest)	**$ 4.6**	**$ 4.1**	**$ 5.4**
Payroll	22.6	18.2	16.4
ARC (% of Payroll)	**20.3%**	**22.5%**	**33.0%**
% Reduction in Active Workforce	N/A	31%	30%

* ($1.1) million = $ 0.9 for window, and ($2.0) from layoffs

Financial Impact

The impact on the District's annual pension contributions can be expressed as the amortization of any change in actuarial liability, adjusted by any change in overall Normal Cost. With a significant reduction in workforce, there is expected to be a decrease in Normal Cost amount due to lower total payroll.

A significant component of the overall actuarial impact of the Window is the increase in Actuarial Accrued Liability (AAL) associated with the additional service and increased retirements. The increased service provided under the Window will serve to permanently increase the benefits payable to participating members, and in turn increase the actuarial liabilities of the Plans. In some cases, members who are not otherwise eligible to retire will become eligible through the additional service, further increasing the actuarial liabilities of the Plans.

A five year amortization is often chosen to amortize the cost of a temporary benefit change (i.e. Window), and is used herein to demonstrate the annual impact. The rationale for this is that members benefiting from the Window have a very short expected working lifetime (less than one year), and this approach preserves intergenerational equity (current, rather than future ratepayers finance benefits of current workforce). Longer amortization periods would necessarily entail lower annual payments.

Conclusion

Our understanding is that a significant reduction in the size of the District's active employee population is expected this year, through this Window or otherwise. This will have several implications for plan funding going forward:

1. A larger percentage of the plans' actuarial liabilities will be associated with inactive members, thus increasing the risks associated with actuarial gains and losses, particularly due to investment experience.
2. A review of the asset allocation will be warranted to account for any change in the overall demographic makeup of the Plans. A more conservative asset mix may be implemented, which would in turn increase annual contribution requirements.
3. The payroll basis will decrease substantially, greatly increasing the volatility of percentage of pay contribution rates.

This study has been prepared for purposes of estimating the actuarial impact on the District's pension funds as a result of offering a temporary early retirement incentive program (Window). Determinations for other purposes may be different from those presented herein.

Other potential cost effects include changes in payroll, training costs, employee healthcare costs and potential effects on promotions. All of these factors should be considered in the evaluation of the fiscal impact of this Window and other personnel decisions.

Percentage of pay costs (ARC's) for each Plan is expected to increase as a result of the Window and workforce reductions, under either of the scenarios shown herein. The total ARC amounts may increase or decrease, depending upon how many participants actually retire under the Window. If the 30% workforce reduction is achieved solely through the Window (Scenario 2), then the ARC amounts are expected to initially increase by about $1 million in total (both plans combined), as shown in Tables 1 and 2 above. The contribution rates would be 8%-13% of pay higher.

The actual cost of a benefit or eligibility change will depend on what actually happens in the future, as opposed to our best estimate of such. Plan costs will also change due to the investment and demographic experience of the Plans during fiscal year 2010 and later. None of these changes have been considered for this study.

Respectfully submitted,

Gregory M. Stump, FSA, EA

cc: Mr. Bob McCrory – EFI
Mr. Graham Schmidt - EFI

Appendix A: Plan Provisions, Assumptions, and Data

Current Retirement Benefit Provisions

	ATU	IBEW	Non Union
Eligibility	Age 55 with 10 years of service, or 25 years of service	Age 55 with 5 years of service, or 25 years of service	Age 55 with 5 years of Service
Benefit Formula	2.0% -2.5% (depending upon age and service) of Final Average Pay for each year of service		

Actuarial Assumptions and Methods

The costs associated with this study were determined by calculating actuarial liabilities and costs for affected individuals, both with and without the proposed change in eligibility provisions. Rates of retirement were assumed based on data from the most recent experience study. The table below shows the key actuarial assumptions that were used for this study.

Return on Investments	8.00%		
Mortality	1994 GAM, Male and Female Mortality Rates		
Retirement (Sample Rates)*	Age	ATU/IBEW	Non Union
	55	9.6%	20.0%
	60	9.6%	7.5%
* Rates apply only if eligible to retire	65	80.0%	50.0%
(through Window or otherwise)	70	100.0%	100.0%
	Union members with 25 or more years of service who are younger than age 55 are assumed to retire at the rate of 4.8% per year. IBEW members who are age 55 and older with five to nine years of service are assumed to retire at the rate of 1% per year. The rate of service retirement among Non Union Participants eligible to retire with 25 or more years of service is assumed to be 12.5% per year. The rate for these Participants with 35 or more years of service is assumed to be 50.0%.		

Participant Data

Individual data components for this study were based on data collected in March, 2010.

As of March, 2010	AEA	AFSCME	ATU	IBEW	MCEG	Total
Active Participants	147	54	552	226	87	1,066
Average Age	46.4	48.1	50.0	49.1	48.9	49.1
Average Service	8.6	12.4	9.4	10.7	11.2	9.9
Average Pay	$ 57,700	$ 88,600	$52,500	$ 52,700	$ 86,100	$ 57,800
Average # Accumulated Sick Leave Hours	244	375	182	257	357	231

All members were assumed to have 24 hours of accumulated floating vacation hours.

Appendix B: Actuarial Terminology

Actuarial Present Value of Benefits

The Actuarial Present Value of Benefits is the value of all future benefits expected to be paid to the Plan's current members, taking into account all actuarial assumptions regarding future experience, including future service of active employees.

Actuarial Accrued Liability (AAL)

A plan's Actuarial Accrued Liability is the level of assets estimated by the system actuary to be needed as of the valuation date to

- Finance all benefits that are deemed to be previously earned for actively employed members of the plan (and their beneficiaries, if applicable), and
- Finance all currently payable benefits of current pensioners and their beneficiaries (if applicable).

The Actuarial Accrued Liability is not a debt; instead, it is an asset target set by the actuarial cost method to facilitate orderly accumulation of assets to pay for the plan's obligations.

Actuarial Assumptions

The actuarial assumptions are the anticipated rates of future termination, death, disability and retirement for each member of the plan as well as the anticipated rates of inflation and investment return on underlying assets. Because these assumptions will not be in exact accord with actual experience, actuarial gains and losses will occur.

Actuarial Value of Assets (AVA)

The Actuarial Value of Assets, used for contribution purposes, is computed using an asset smoothing technique in which investment gains and losses are not fully recognized in the year they occur, but are spread out over a number of years. Use of a smoothed value (rather than market value) helps mitigate large fluctuations in recognized value of the underlying assets and, in turn, reduces annual fluctuations in contribution rates.

Normal Cost

The Normal Cost is the annual cost to provide benefits that are accrued each year by active plan members. Total plan cost is equal to the Normal Cost plus amortization of UAAL.

Unfunded Actuarial Accrued Liability (UAAL)

When the Actuarial Value of Assets is below the Actuarial Accrued Liability, there is an Unfunded Actuarial Accrued Liability which must be paid off or amortized on a schedule. The UAAL can be positive or negative.

RESOLUTION NO. 10-03-_____

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

March 22, 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

Sacramento Regional Transit District
Retirement Incentive Offer

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 Offer (Offer) 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.

   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 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, employees must 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 service credits may apply the added service credits he or she may receive under the incentive program to attain the needed 25 years of service credits.

> 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 credits to vest in the plan if the total service credits the employee has earned plus the additional service credits being offered under the incentive program are equal to or greater than the total number 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.

Retirement Incentive Election Periods:

1. All District employees who are eligible as defined above may apply for retirement under the incentive program commencing April 2, 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.

2. Any District 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.

Retiree Medical Insurance Coverage:

An employee of the MCEG, AEA or AFSCME group 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 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**
____________________________	____________________________
____________________________	____________________________
For AFSCME Local 146	**For Regional Transit**
____________________________	____________________________
____________________________	____________________________
For AEA	**For Regional Transit**
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