



**COUNTY OF SAN MATEO**  
Inter-Departmental Correspondence  
County Manager



**Date:** July 25, 2012  
**Board Meeting Date:** October 2, 2012  
**Special Notice / Hearing:** None  
**Vote Required:** Majority

**To:** Honorable Board of Supervisors

**From:** John L. Maltbie, County Manager

**Subject:** 2011-12 Grand Jury Response- Controlling the County's Escalating Retirement Costs

**RECOMMENDATION:**

Approve the Board of Supervisor's response to the 2011-12 Grand Jury report titled: Controlling the County's Escalating Retirement Costs.

**BACKGROUND:**

On July 23, 2012, the Grand Jury filed a report titled: Controlling the County's Escalating Retirement Costs. The Board of Supervisors is required to submit comments on the findings and recommendations pertaining to the matters under control of the County of San Mateo within ninety days. The County's response to the report is due to the Hon. Gerald J. Buchwald no later than October 22, 2012.

Acceptance of this report contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring that all Grand Jury findings and recommendations are thoroughly reviewed by the appropriate County departments and that, when appropriate, process improvements are made to improve the quality and efficiency of services provided to the public and other agencies.

**DISCUSSION:**

**Controlling the County's Escalating Retirement Costs**

**Findings:**

**Grand Jury Finding Number 1.** All permanent San Mateo County employees are members of the San Mateo County Employees' Retirement Association (SamCERA).

**Response:** Agree.

**Grand Jury Finding Number 2.** SamCERA was created in 1944 and is governed by the provisions of the County Employees' Retirement Law of 1937 as amended over the years.

**Response:** Agree.

**Grand Jury Finding Number 3.** SamCERA operates 10 different retirement plans. Within each plan there are multiple tiers based on a member's bargaining unit and date of hire. Each tier has different employee contribution and cost sharing requirements. These have been negotiated with the County's nine employee unions.

**Response:** Agree.

**Grand Jury Finding Number 4.** As of June 30, 2011, SamCERA had an unfunded liability of approximately \$842 million. As of that same date, SamCERA was estimated to be 74.1% funded.

**Response:** Agree.

**Grand Jury Finding Number 5.** On May 22, 2012, SamCERA lowered the assumed annual rate of return for its invested assets from 7.75% to 7.5%, effective July 1, 2013.

**Response:** Agree.

**Grand Jury Finding Number 6.** County contributions to SamCERA have been increasing per Table 2. In fiscal year 2005-06, the County contributed a total of \$78 million to SamCERA. In fiscal year 2006-07 there was a \$22 million increase in the County contributions. In fiscal year 2010-11, County employer contributions jumped by \$45 million to \$150 million.

**Response:** Agree. Note that these figures include pick-ups.

**Grand Jury Finding Number 7.** For fiscal year 2013-14, the Grand Jury estimates that the required County contribution will increase again by approximately \$13 million (assuming \$435 million in salaries) unless salaries and/or number of employees are reduced, or other solutions are found.

**Response:** Agree.

**Grand Jury Finding Number 8.** Factors determining County contribution levels include past and future investment returns and losses on SamCERA's investment assets, salary levels, employer pickups, the total number of County employees, union agreements, and limits imposed by State statutes.

**Response:** Agree.

**Grand Jury Finding Number 9.** For 2010, per Table 3, the County paid 78% of the combined employer-employee share of contributions to SamCERA.

**Response:** Agree. Note that in subsequent years there will be a decrease in the percent share of contributions paid by the County as a result of negotiated increases in the share paid by employees.

**Grand Jury Finding Number 10.** Pensions are partly based on salaries. However, salary increases do not account for the near doubling in pension costs since 2006. In fiscal year 2010-11, the average annual salary for non-safety employees in San Mateo County was \$79,189 (not including public safety or probation officers salaries). If public safety and probation officers are included, the average annual salary was \$82,464.

**Response:** Agree. Recent increases in pension costs are attributable to a number of factors including investment performance, changes to the assumed rate of return, increased number of employees, and changes to actuarial methodology, to name a few.

**Grand Jury Finding Number 11.** In addition to pension benefits, all pensioners except retired safety members receive Social Security. The County pays the employer portion of Social Security, which adds 6% of payroll expense to the budget.

**Response:** Agree. Social Security is paid by both employer and employee. FICA rate is 6.2% for the employer and 4.2% for employees.

**Grand Jury Finding Number 12.** The County currently pays 61 cents on every dollar of salary (or 61% of salary) earned by current employees for fringe benefits including retirement benefits, per Table 5. These benefits are projected to gradually increase starting in July 2013, and for nine years thereafter, to 68 cents per dollar of payroll for County employees.

**Response:** Agree. A large portion of the increases are due to health insurance costs. As a result of recent negotiated changes, County employees are now paying a higher percentage of health insurance benefits which will significantly reduce the County's current and future benefit costs.

**Grand Jury Finding Number 13.** The number of active members of SamCERA (i.e., active County employees) has been decreasing since 2009, per Table 6. In 2011, the County Manager told the Board of Supervisors that a \$5.3 million reduction in retirement contributions could be achieved if 208 positions were eliminated. (The full reduction was not realized because some jobs were restored.)

**Response:** Agree.

**Grand Jury Finding Number 14.** A reduction in pension costs to the County has been achieved by obtaining union concessions, by reducing the employer pickup for management and other unrepresented groups, by continuing to introduce new less-costly plans for new employees (which will be realized in future years), and most significantly by reducing the number of County employees.

**Response:** Agree.

**Grand Jury Finding Number 15.** Many counties that have pension systems governed by the 1937 Act do not participate in Social Security.

**Response:** Partially Agree. Based on initial survey results of the 20 '37 Act Counties, at least half do participate in Social Security including Alameda County, Contra Costa County, Stanislaus County, Tulare County, Ventura County, Santa Barbara County, Sacramento County, Mendocino County, and San Diego County.

**Grand Jury Finding Number 16.** Information on Social Security payments and employer pickups is not readily available from the County or on the County website, nor are recent meeting minutes available on the SamCERA website.

**Response:** Partially agree. Social security expenses are included in the County's Comprehensive Annual Financial Audit (CAFR), but rolled up with other government expenses. Employer pick-up formulas are included in the County's Memorandum of Understanding (MOU) with each bargaining unit and posted on the County's website (under Departments / Human Resources / Employee and Labor Relations). The specific amount of social security payments and retirement pick-ups are readily available upon request.

Disagree as to the Board of Retirement meeting minutes not being available on the SamCERA website. As part of the Board of Retirement agenda packet posted on its website for each monthly Board meeting, the draft minutes for the previous meeting are contained in the packet for the Board's approval.

([www.samcera.org/boardpackets.html](http://www.samcera.org/boardpackets.html)). In addition, the approved Board of Retirement minutes are promptly placed on the website after approval. These minutes are available for meetings going back to 1999. (See [www.samcera.org/minutes.html](http://www.samcera.org/minutes.html)).

**Grand Jury Finding Number 17.** The State Legislature would likely have to amend state statutes in order to allow the County to make changes to current employee pension contracts going forward (without affecting pensions already earned).

**Response:** Agree. Note that such statutes affecting current employees may be subject to a constitutional challenge due to vested rights of current employees.

**Recommendations:**

The San Mateo Civil Grand Jury recommends to the Board of Supervisors that it:

1. **Develop and adhere to a specific budget strategy to lower County retirement contributions to SamCERA and restructure benefits by:**
  - a. **significantly decreasing the number of County employees through outsourcing and/or reducing services, and by attrition;**
  - b. **negotiating the elimination of the employer pickup and “right-sizing” future benefits with the unions without increasing salaries; and**
  - c. **studying the possibility of withdrawing from Social Security.**

**Response:** The County has already gone a long way in reducing retirement costs and it continues to explore further cost reductions in this area within legal limitations. Recent changes to retirement benefits which resulted in significant cost savings include: 1) Reduced benefit formulas for new hires; higher age to receive maximum pension; 2) Reduced County pickup of employee share of retirement costs; and 3) Reduced County pickup of pension COLA cost. The County recently studied the possibility of opting out of the social security program. It was confirmed that the County cannot terminate its participation in social security.

2. **Actively support State pension reform that would allow for changes to future retirement benefits for current employees (without effecting pensions already earned).**

**Response:** Pension reform has already been approved by the state legislature. The main pension bill, AB340, awaits the Governor's signature which he is expected to approve. The County and SamCERA are currently analyzing this complex legislation and will provide more information as it becomes available and after the Governor has signed the bill.

3. **Make County and SamCERA information more easily accessible to the public, including the amount of employer pickups, the payments to Social Security, and the past and projected County (employer) and employee annual contributions to SamCERA.**

**Response:** SamCERA currently has information and reports reflecting the past and projected employer and employee annual contributions to SamCERA available on its website.

Social security expenses are included in the County's Comprehensive Annual Financial Audit (CAFR), but rolled up with other government expenses. Employer pick-up formulas are included in the County's Memorandum of Understanding (MOU) with each bargaining unit and posted on the County's website (under Departments / Human Resources / Employee and Labor Relations). The specific amount of social security payments and retirement pick-ups are readily available upon request.

**FISCAL IMPACT:**

There is no Net County Cost associated with accepting this report.