



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Human Resources



Date: December 5, 2012

Board Meeting Date: December 11, 2012

Special Notice / Hearing: None

Vote Required: Majority

To: Honorable Board of Supervisors

From: Donna Vaillancourt, Director of Human Resources

Subject: Closure of Retirement Plan 3 for employees hired on or after December 23, 2012.

RECOMMENDATION:

Adopt a Resolution:

- A) Closing retirement Plan 3 as set forth in Article 1.6. of the County Employees' Retirement Law effective on December 23, 2012, for all "new members" of the retirement system as defined by the California Public Employees' Pension Reform Act of 2013; and
- B) Closing retirement Plan 3 as set forth in Article 1.6. of the County Employees' Retirement Law effective on December 23, 2012, for all employees who are not "new members" of the retirement system as defined by the California Public Employees' Pension Reform Act of 2013, pending completion of a meet and confer process with affected labor organizations.

BACKGROUND:

On September 12, 2012, Governor Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA revises existing contribution and benefit formulas for any "new member" of a California public retirement system hired on or after January 1, 2013. With a few exceptions, most provisions for current members remain unchanged. PEPRA applies to retirement plans such as those administered by SamCERA pursuant to the County Employees Retirement Law of 1937 (CERL). As such, on and after January 1, 2013, the County is restricted to offering only PEPRA compliant defined benefit plans to all "new members" of SamCERA as defined below.

Under PEPRA, a "new member" of SamCERA means: (1) an individual who becomes a member of SamCERA for the first time on or after January 1, 2013, and who was not a member of any other public retirement system prior to that date, or (2) an individual who

becomes a member of SamCERA on or after January 1, 2013, who was a member of another public retirement system prior to that date, but who is not subject to reciprocity under SamCERA. Notwithstanding the foregoing, PEPRAs provides, among other things, that employees who first become members of SamCERA on or after January 1, 2013, but who establish reciprocity under SamCERA, are entitled to the same benefit plans that were available to employees hired by a SamCERA employer which were in effect on or before December 31, 2012.

DISCUSSION:

On March 14, 1983, the Board of Supervisors adopted a resolution implementing Article 1.6 of CERL, which provides for an optional, noncontributory retirement plan, known as "Plan 3," for general members of SamCERA. Plan 3 was designed to provide general members with a significantly reduced defined benefit plan to which they were not required to contribute. PEPRAs, however, imposes, among other requirements, a 50% normal cost sharing on all "new members" of SamCERA, including those who would participate in Plan 3. Consequently, Plan 3 will cease to serve its primary function as a non-contributory plan option when PEPRAs becomes effective on January 1, 2013, for all PEPRAs members. For the same reasons set forth above Los Angeles County, the only other CERL system that has an optional noncontributory plan, closed its noncontributory plan to all employees hired on or after November 28, 2012.

Currently, only 142 active general plan members, approximately 3% of all general members, participate in Plan 3 and only three of those members qualified for reciprocity. Closing Plan 3 for "new members" under PEPRAs, but continuing Plan 3 for newly hired employees who establish reciprocity under SamCERA, or who were prior members of SamCERA, will increase the costs of maintaining Plan 3. Due to these increased costs, coupled with the limited benefits of Plan 3, continuing to maintain Plan 3 for any newly hired employees is not in the long-term interests of the SamCERA employers or their employees.

As noted above, PEPRAs requires that "new members" only be offered one plan. The PEPRAs-conforming plan the County intends to offer "new members" will provide substantially greater benefits than Plan 3. Therefore, it is both allowable and imperative that the County close Plan 3 to "new members" prior to December 31, 2012, in order to ensure that the more robust PEPRAs-conforming plan is available to them.

As of the date of your Board's meeting, the County will have met with employee representatives to discuss the closure of Plan 3 for all "new members" of SamCERA hired on or after January 1, 2013. The County will also have offered to meet and confer with employee representatives regarding the closure of Plan 3 for all employees hired after December 23, 2012, who will not be "new members" of SamCERA as defined by PEPRAs. Plan 3 would be kept open for all retired, active and deferred members, both vested and nonvested, who are currently members of Plan 3.

County Counsel has reviewed and approved the Resolution as to form.

FISCAL IMPACT:

Currently, the County contributes annually to SamCERA for employees who are members of Plan 3. It will continue to contribute that amount, adjusted annually for employees that remain in Plan 3. New employees will enter either the PEPRA plan or Plan 5 with no option for Plan 3. However, due to the limited number of employees that elect Plan 3 each year, it will have a de minimis effect on the contributions that the County pays for employees who are in or will be in Plan 5 or PEPRA plans.