



DATE: January 31, 2011
TO: STA Board
FROM: Joy Apilado, Human Resource Consultant
RE: Proposed Modifications to the STA Retirement Benefits Plan

Background:

The Solano Transportation Authority (STA) is a member of the retirement system with the California Public Employees Retirement System (CalPERS) under the Miscellaneous Plan Service Retirement Benefit of 2% @ 55 full formula with final compensation based on the highest 36 months (3 years) of employment. This retirement benefit was in place at the county in 1996 when STA became an independent agency, and has not been adjusted. In 1997, STA opted out of Social Security and instead established the 401(a) Defined Contribution Plan through Nationwide Retirement Systems as an alternative with a required employee contribution of 3.8% and an employer contribution of 6.2% for a total of 10%.

In January 2011, the STA Board was presented the Proposed Modification to the STA Retirement Benefits Plan. This proposed modification to the retirement benefits plan is based on direction given by the STA Board in July 2009 to explore the retirement options available to all STA employees as a part of the Executive Director's annual employment contract review with the STA Board direction that any retirement option changes is cost neutral to the agency. STA staff and the STA's Personnel Consultant, Joy Apilado, have explored options for modifications to the existing retirement benefits.

Discussion:

The STA Board's goals for evaluating STA's retirement benefit are: (1) consideration of investment strategies; (2) the retention of quality employees; (3) strive to maintain staff continuity; and (4) control financial costs. In considering the STA's retirement investment strategy, staff reviewed options between the current 401(a) Defined Contribution Plan and a Defined Benefit Plan. The Defined Contribution Plan that the STA provides through Nationwide Retirement Systems 401(a) provides STA staff at the time of retirement with a benefit based on what has been contributed to the plan. With a Defined Benefit Plan, such as provided by Public Agency Retirement Services (PARS), STA staff would receive the benefit as an enhancement to their CalPERS Plan benefit.

As part of the Retirement Plan evaluation, the staff reviewed three options. First, maintain the current retirement plan and not make any changes. Second, explore options for providing an adjustment of 0.7% to the current 2% @ 55. An actuarial has been completed through CalPERS to determine the amount needed for modifying the current retirement plan. For an additional 0.7%, there would be a contribution rate increase of 3.923% for STA and 1.0% employee starting in Fiscal Year 2010-11. This benefit would apply to all current and future employees of STA, and future increases would be determined by the annual actuarial rates through CalPERS based on the organization changes. The third option considered is to replace the current STA's 401 (a) contribution of 6.2% with the Public Agency Retirement System (PARS).

The PARS plan is a Defined Benefit Plans under the Internal Revenue Code (IRC) 401(a). PARS currently has over 500 member agencies with over 900 different retirement plans under their administration. The County of Solano, City of Vacaville, and the City of Fairfield are among the local agency members of PARS. Under PARS, STA has the ability to design a more flexible plan, offer in the attraction and retention of its valuable employees, and there are less fiscal constraints otherwise mandated under the CalPERS plan. In addition, this option would give the STA's staff the added diversity of retirement funds, rather than a single retirement plan option.

An Actuarial Valuation was done by Mr. Robert Dezube of Milliman, Inc. of Vienna, Virginia. The actuarial consulting firm of Milliman, Inc. is among the world's largest independent actuarial and consulting firms.

In May 2010, the actuarial valuation for the PARS Plan was completed. The recommended plan provisions are as follows:

- a. All STA employees are included in the plan;
- b. Benefit service includes STA credited CalPERS service; purchases of additional service credit are not included;
- c. Vesting service is lapsed time of continuous service with STA;
- d. Employee contribution is required equal to 2% of compensation;
- e. Final average compensation is the average of the highest thirty-six (36) months of compensation, excluding the employee contributions to CalPERS paid by the STA;
- f. Employee is eligible for the supplemental benefit upon meeting the minimum age of 55, completing 5 years continuous service with STA, and concurrently retiring under the CalPERS and the PARS plan;
- g. No disability benefit under this plan, other than the return of the employee contribution with 3% interest per annum;
- h. The plan provides a pre-retirement death benefit to spouses or registered domestic partners of the employees who met the age and service condition for retirement;
- i. Employees who terminate employment with STA will receive a refund of their contributions with 3% interest per annum;
- j. The Plan is a life-only annuity;
- k. The Plan payment will increase by 2% annually for cost of living.

The actuarial valuation and assumption result was below the original anticipated cost. The following are the results of the actuarial assumptions based on the STA's eighteen (18) employees' demographic information and using the FY 2010-11 annual salary budgets:

A. Present Value of Future Benefits	\$839,361
B. Present Value of Normal Costs	<u>\$520,247</u>
C. Actuarial Liability (A - B)	\$319,114
• Total FY 2010-11 STA Budget Cost (2.93%)	\$45,317
• Total FY 2010-11 Employee Cost (2%)	<u>\$30,933</u>
Total PARS Contribution FY 2010-11	\$76,250

In comparison, the STA's current FY 2010-11 retirement budget:

Current 401(a) Nationwide Retirement System @6.2%	\$95,646
Proposed PARS Retirement Plan @2.93%	<u>\$45,317</u>
Cost Reduction	\$50,329

Although the total annual retirement budget cost to the STA is reduced under the PARS Plan, the administration of the plan and the required actuarial valuation every two years is an additional cost to the plan. PARS administrative cost annually is \$9,000 and the actuarial cost every two years is approximately \$7,000. Consequently, the initial start of the plan has no assets, wherein the actuarial liability is in the amount of \$319,114. STA can make additional payments towards the reduction of the actuarial liability. The staff recommends an additional contribution beginning FY 2010-11 in the amounts of \$25,000, utilizing the annual savings to reduce the actuarial liability for this plan.

The tables below show STA's salaries and retirement contributions for the last five (5) fiscal years and the next ten (10) years projections. Table A below, shows the previous five (5) fiscal years of actual salaries and Defined contributions through the Nationwide Retirement Systems 401(a).

Table A

FY	# of Employees (EE)	Salaries Actual	401(a) Contributions Actual
2005-06	17	\$1,024,392	\$63,512
2006-07	17	\$1,120,955	\$69,499
2007-08	18	\$1,332,887	\$82,639
2008-09	18	\$1,481,522	\$91,854
2009-10	18	\$1,534,068	\$95,112

Table B below, shows the comparison between the current Defined Contribution Plan and the proposed Defined Benefit Plan with the proposed additional contribution to reduce the actuarial liability.

Table B

FY	# of EE	Salaries Projections ¹	401(a) @6.2% Current	PARS @ 2.93% Proposed	PARS Additional Contribution Proposed	PARS Total Annual Cost Proposed
2010-11	18	\$1,546,672	\$95,646	\$45,317	\$25,000	\$70,317
2011-12	18	\$1,577,605	\$97,812	\$46,224	\$25,000	\$71,224
2012-13	18	\$1,609,158	\$99,768	\$47,148	\$25,000	\$72,148
2013-14	18	\$1,641,341	\$101,763	\$48,091	\$25,000	\$73,091
2014-15	19	\$1,674,168	\$103,798	\$49,053	\$25,000	\$74,053
2015-16	19	\$1,707,651	\$105,874	\$50,034	\$25,000	\$75,034
2016-17	19	\$1,741,804	\$107,992	\$51,035	\$25,000	\$76,035
2017-18	19	\$1,776,640	\$110,152	\$52,056	\$25,000	\$77,056
2018-19	19	\$1,812,173	\$112,355	\$53,097	\$25,000	\$78,097
2019-20	19	\$1,848,416	\$114,602	\$54,159	\$0	\$54,159

¹Salary projection is estimated with 2% annual increase.

By utilizing the current 401 (a) contributions paid by STA for this proposed retirement modification and enhancement, the STA Board's goals and directives of a retirement option changes for a cost neutral is not only attained, but will also give future cost savings to the agency.

As required by the Government Code Section 7507 and recent changes made by Senate Bill 1123 (Stats. 2008, Ch. 371) effective January 1, 2009, an actuarial is required for any proposed change in retirement benefits or in Other Post Employment Benefits (OPEB). ***Adoption of the Resolution is presented to the STA Board for approval (Attachment A).*** A representative from PARS and Milliman, Inc. are scheduled to be in attendance at the STA Board Meeting for the plan adoption and approval.

Fiscal Impact:

The STA's proposed PARS Plan contribution at 2.93%, the administration fee of \$9,000, and an additional payment to the Actuarial Liability of \$25,000 for FY 2010-11 is a total of \$79,317 for a savings of \$16,329. This retirement benefit conversion will result in a benefit savings for the next ten (10) years of approximately \$238,500 or 23% of retirements benefit cost.

Recommendation:

Authorize the Executive Director to:

1. Replace the 401(a) Defined Contribution Plan to a Defined Benefit Plan with PARS for an annual savings of approximately \$50,000;
2. ***Approve Resolution 2011-04;***
3. Award contract to PARS for the administration and management of the PARS Plan for an annual amount of \$9,000; and
4. Increase PARS annual payment towards the payoff of the Actuarial Liability in the amount of \$25,000 for the next five to ten years.

Attachment:

- A. ***Resolution 2011-04***

RESOLUTION NO. 2011-04**A RESOLUTION OF THE SOLANO TRANSPORTATION AUTHORITY
ADOPTING A PUBLIC AGENCY RETIREMENT SYSTEM (“PARS”) SYSTEM PLAN
AND AUTHORIZING PARTICIPATION IN PARS**

WHEREAS, the STA Board of Directors has established goals for evaluating its retirement programs which are:

1. Consideration of investment strategies;
2. Retention of quality employee;
3. Maintaining staff continuity; and
4. Controlling financial costs; and

WHEREAS, it is determined to be in the best interest of the Solano Transportation Authority (“STA”) employees to transition from a 401A to a Retirement Enhancement Program; and

WHEREAS, the STA is eligible to be a member of the Public Agency Retirement System (PARS) Trust, which has made available a Retirement Enhancement Plan supplementing CalPERS and qualifying under the relevant sections of the Internal Revenue Code and the California Government Code; and

WHEREAS, the Retirement Enhancement Plan available through PARS Trust achieves the stated goals.

NOW THEREFORE, BE IT RESOLVED THAT:

1. The Board of Directors hereby adopts the PARS Trust, including the PARS Retirement Enhancement Plan, as part of the STA Retirement Program, effective July 1, 2011;
2. The Board of Directors hereby appoints Daryl K. Halls, STA Executive Director, or his/her successor or his/her designee as the STA’s Plan Administrator for the Public Agency Retirement System; and
3. The STA's Plan Administrator is hereby authorized to execute the PARS legal and administrative documents on behalf of the STA, and to take whatever additional actions are necessary to maintain the STA’s participation in PARS and to maintain PARS compliance of any relevant regulation issued or as may be issued; therefore authorizing him/her to take whatever additional actions are required to administer the STA’s PARS plan(s). In addition, if the STA's Plan Administrator finds that the PARS supplemental plan benefit must be limited under Section 415 of the Internal Revenue Code, then the Plan Administrator will implement replacement benefit programs at no additional cost to the STA.

Harry Price, Chair
Solano Transportation Authority

Passed by the Solano Transportation Authority (STA) Board on this 9th day of February 2011 by the following vote:

Ayes: _____

Nos: _____

Absent: _____

Abstain: _____

Attest: _____

Johanna Masiclat
Clerk of the Board

I, Daryl K. Halls, the Solano Transportation Authority Executive Director, do hereby certify that the above and foregoing resolution was introduced, passed and adopted by the said Authority at the regular meeting thereof held this day of February 9, 2011.

Daryl K. Halls, Executive Director
Solano Transportation Authority