

City of Garden Grove

INTERDEPARTMENTAL MEMORANDUM

<b>To:</b>	Matthew J. Fertal	<b>From:</b>	John D.R. Clark
<b>Dept:</b>	City Manger's Office	<b>Dept:</b>	Human Resources
<b>Subject:</b>	RESOLUTION OF INTENT TO IMPLEMENT PERS 2-YEAR EARLY RETIREMENT OPTION		<b>Date:</b> March 9, 2010

OBJECTIVE

Present information regarding the implementation process for the California Public Employee's Retirement System (PERS) 2-Year Early Retirement amendment for all employees who meet PERS eligibility requirements, and request City Council direction. The concept behind this 2-Year Early Retirement is to entice higher-paid, longer-term employees to retire earlier than they would otherwise and create cost savings (by holding positions vacant) and lessen the need for layoffs.

BACKGROUND

The PERS retirement system offers a 2-Year Early Retirement benefit for public agencies facing downsizing, layoffs, and/or reorganizations due to financial pressures or organizational changes. This benefit provides an extra two years of service to employees who retire during a fixed window period established by the city. The retirement factors for employees are based upon an increasing multiplier of both age and years of service. This benefit only adds 2 years to the years-of-service multiplier – but does not affect the age multiplier (i.e., this benefit does not “make” a 48-year-old person 50 in the eyes of PERS).

Safety employees (sworn Police and Fire) may retire at age 50 or later. “Miscellaneous” employees (everyone else), may retire at age 55 or later with full formula, or retire between 50 and 55 with a reduced formula (2% at age 50, rising to the 2.5 formula on their 55<sup>th</sup> birthday).

The benefit would add 6% for Safety employees and 5% for Miscellaneous employees. There are conditions attached to this benefit. Employees accepting this benefit are ineligible for unemployment for this two-year period and, if they even return to the PERS retirement system with any other PERS employer, **they automatically lose these two years of service credit.** The first condition prevents employees from claiming they were forced out (i.e., laid-off) and perhaps collecting unemployment insurance. The second condition prevents an employee

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from retiring from the City, then going to work for another public agency under PERS and keeping the early retirement benefit.

### Use of Early Retirement Option

This benefit option has never been used by the City of Garden Grove, but in the past year, a number of other Orange County cities facing cutbacks and layoffs have made the offer. To date, Brea, Costa Mesa, Fountain Valley, Westminster and Yorba Linda have offered this same program; Newport Beach has offered a similar program through a different retirement system.

If the option is approved, eligible employees must be provided a "window" in which to elect this benefit of no less than 90 days and no more than 180 days. Electees must actually retire during the window, not merely state their intention. To maximize savings and accelerate whatever reorganization is necessitated by this program, staff recommends a 90-day window.

### Financial Cost and Required Disclosure

The cost of providing this benefit will be rolled into the City's actuarial estimate two (2) fiscal years following its implementation, and would result in an increase to the percentage of payroll the City must pay on each active employee. If Garden Grove chooses to implement this program, it could end no earlier than during fiscal year 10-11, and thus the increase to payroll costs will be a factor in the City's fiscal year 13-14 budget.

PERS regulations require the City to use a very specific formula to calculate the maximum possible cost of the benefit. Essentially, the factors are based on the age of eligible employees and whether they are in Safety or Miscellaneous, amortized over a 20-year period. The regulations further require that the City Council:

"Shall, with timely public notice, place the consideration of this section on the agenda of the governing body, at which time disclosure shall be made of the additional employer contributions, and the funding therefor, and members of the public be given the opportunity to be heard." (Government Code § 20903 (i))

Garden Grove has 171 employees who are eligible for the program, i.e., are age 50 or greater and have five (5) or more years of credited PERS service, whether solely at Garden Grove or in combination with other agencies. ***The PERS cost calculation formula requires us to estimate the actuarial impact as if every eligible employee elects early retirement.*** This estimate, the total present value of future cost of providing this benefit, is \$10,081,047.

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However, it is important to note that only a fraction of those eligible employees will ultimately elect to retire early. Although such estimation is of necessity very approximate, surveys of employees and expressions of interest indicate perhaps 40 of the 171 eligible employees will choose to retire. Assuming this percentage is close to the final result, the City would have a present value of future cost of \$2,358,139 to be amortized over 20 years beginning in 2013.

### FINANCIAL IMPACT

Staff estimates implementation of this program will save the City \$150,000 in fiscal year 09-10, \$1,200,000 in fiscal year 10-11, and \$1,000,000 in fiscal year 11-12. These saving figures assume at least half of the vacated positions will have to be refilled (e.g., sworn Police and Fire positions) soon after the incumbent's departure. To insure this estimate is conservative, no savings from new employees coming in at lower step placement, or counting the salary savings during periods of recruitment, is included in the above figures.

The estimate of actual impact on the City's PERS rate in fiscal year 13-14 is also difficult to accurately estimate in advance of knowing which employees will elect to leave, however, a rough approximation based on 40 employees retiring early will add .22% (1/5 of 1%) to our Miscellaneous payroll rate and .15% (1/7 of 1%) to our Safety payroll rate, which in total equals about \$142,624 annually beginning July 1, 2013.

### PERS PROCESS

The following are the steps and estimated time frame to implement the contract amendment for the 2-Year Early Retirement option.

1. City Council adopts Resolution of Intention. (i.e., this agenda item)
2. City Council passes amending Ordinance on first reading. (March 23, 2010)
3. City Council adopts amending Ordinance on second reading. (April 13, 2010)
4. Thirty (30) days after adoption, the amending Ordinance becomes effective. (May 13, 2010)
5. Contract amendment becomes effective the day following the Ordinance's effective date. (May 14, 2010)
6. Window period opens the first day following the Contract amendment's effective date. (May 15, 2010)
7. Window closes 90 days later. (August 12, 2010)

RECOMMENDED ACTIONS

It is recommended that the City Council:

- Adopt the attached Resolution of Intention to approve an amendment to the City's contract with PERS providing for § 20903 (Two Years Additional Service Credit) for local miscellaneous members and local safety members.
- Direct staff to bring an Ordinance to effectuate the contract amendment for the March 23, 2010 City Council meeting.



JOHN D.R. CLARK  
Human Resources Director

**Recommended for Approval**



**Matthew Ferial**  
**City Manager**

Attachments:

1. Proposed resolution

**RESOLUTION OF INTENTION  
TO APPROVE AN AMENDMENT TO CONTRACT  
BETWEEN THE  
BOARD OF ADMINISTRATION  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
AND THE  
CITY COUNCIL  
CITY OF GARDEN GROVE**

WHEREAS, the Public Employees' Retirement Law permits the participation of public agencies and their employees in the Public Employees' Retirement System by the execution of a contract, and sets forth the procedure by which said public agencies may elect to subject themselves and their employees to amendments to said Law; and

WHEREAS, one of the steps in the procedures to amend this contract is the adoption by the governing body of the public agency of a resolution giving notice of its intention to approve an amendment to said contract, which resolution shall contain a summary of the change proposed in said contract; and

WHEREAS, the following is a statement of the proposed change:

To provide Section 20903 (Two Years Additional Service Credit) for local miscellaneous members and local police members.

NOW, THEREFORE, BE IT RESOLVED that the governing body of the above agency does hereby give notice of intention to approve an amendment to the contract between said public agency and the Board of Administration of the Public Employees' Retirement System, a copy of said amendment being attached hereto, as an "Exhibit" and by this reference made a part hereof.

By: \_\_\_\_\_  
Presiding Officer

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date adopted and approved