AGENDA ITEM NO. 7.C.

City of Garden Grove

INTERDEPARTMENTAL MEMORANDUM

To:	Matthew J. Fertal	**From:**	John D.R. Clark
Dept:	City Manger's Office	**Dept:**	Human Resources
Subject:	REQUIRED FINANCIAL DISCLOSURE NEEDED TO IMPLEMENT PERS 2-YEAR EARLY RETIREMENT OPTION FOR MANAGEMENT EMPLOYEES	**Date:**	March 27, 2012

OBJECTIVE

Present required financial disclosure information regarding the implementation of the California Public Employee's Retirement System (PERS) 2-Year Early Retirement incentive for all Central Management (CM) and Middle Management (MM) 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 55th 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 ever 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 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

As indicated in prior communication with the City Council, management is engaging all employee unions in discussions about cost-saving options. To lead the way, the City Council on March 13, 2012, approved a furlough and deferral of the 2% for COLA for CM and MM employees, balanced with a buyout offer of $35,000 or 35% of base pay (whichever is greater) in exchange for voluntary resignation. Adoption of an Early Retirement Incentive for CM and MM employees will provide further savings as positions held by those retiring early will most likely be held vacant for the next several years.

Unlike 2010's Early Retirement Incentive Program, the 2012 program will be implemented unit-by-unit, starting with CM and MM employees. Similar benefits are anticipated for the employee unions provided they agree to cost concessions, and will be brought to City Council when (and if) agreements are struck.

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 window of a little over 90 days (April 25, 2012 through July 27, 2012).

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 12-13, and thus the increase to payroll costs will be a factor in the City's fiscal year 14-15 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 therefore, and members of the public be given the opportunity to be heard." (Government Code § 20903 (i))

Garden Grove has 43 CM and MM 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 $3,427,100.

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, expressions of interest, and guesswork indicate perhaps 15 of the 43 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 $980,608, to be amortized over 20 years beginning in 2014-2015.

FINANCIAL IMPACT

Staff estimates implementation of this program will save the City $1,500,000 in fiscal year 12-13 and similar amounts thereafter. These savings figures assume at least one-third of the vacated positions will have to be refilled (e.g., critical positions and/or funding independent of the General Fund) 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 figure.

The estimate of actual impact on the City's PERS rate in fiscal year 14-15 is also difficult to accurately estimate in advance of knowing which employees will elect to leave, however, a rough approximation based on 15 employees retiring early will add .0146% (15/100ths of 1%) to our Miscellaneous payroll rate, which in total equals about $74,064 annually beginning July 1, 2014.

PERS PROCESS

The following are the steps and estimated time frame to implement the 2-Year Early Retirement option for CM and MM employees:

1. City Council approves the mandated financial disclosure. (i.e., this item)
2. City Council adopts resolution providing for 2-Year Early Retirement option, no earlier than 2 weeks after financial disclosure. (April 24, 2012)

3. Window period opens the first day following the resolution's effective date. (April 25, 2012)
4. Window closes 94 days later. (July 27, 2012)

RECOMMENDED ACTIONS

It is recommended that the City Council:

- Approve the "additional employer contributions" disclosure required by California Government Code § 7507 and § 20903 of $3,427,100, pursuant to the method of calculation set forth by CalPERS.

- Direct staff to bring a resolution to effectuate the 2-Year Early Retirement option for all eligible Middle Management and Central Management employees for the April 24, 2012 City Council meeting.

Laura Stover for:
JOHN D.R. CLARK
Human Resources Director/City Treasurer

Recommended for Approval

Matthew Fertal
Matthew Fertal
City Manager