

## 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 ASSOCIATION AND LEAGUE EMPLOYEES  
**Date:** May 22, 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 Garden Grove Employees' Association ("Association") and Orange County Employees' Association Employees' League ("League") 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).

"Miscellaneous" employees (everyone except sworn Police and Fire), 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 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.

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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 has reached agreements with the Association and League to modify their contracts to achieve cost-savings. These savings include a 4.61% furlough pay reduction and deferral of the 2% COLA, 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 Association and League 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 is being implemented unit-by-unit, starting with Management employees on April 25, 2012. Following this required disclosure, staff intends to bring a resolution authorizing the Early Retirement Incentive for Association and League employees for City Council consideration on June 12, 2012, with an opening date shortly thereafter.

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.

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 Safety or Miscellaneous employees, 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 93 Association and League 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 \$3,854,705.

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 10 of the 93 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 \$414,484, to be amortized over 20 years beginning in 2014-2015.

#### FINANCIAL IMPACT

It is difficult to accurately estimate the savings of this type of program in advance. However, the average annual salary for those eligible is \$64,391. Adding 30% for benefit costs makes the total \$83,709—thus, we would hope to save about \$84,000 for each early retiree. Note that since we don't have a firm idea of who will go, we also cannot separate out the General Fund savings, which is the important number.

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 10 employees retiring early will add .00812 (8/100ths of 1%) to our Miscellaneous payroll rate, which in total equals about \$48,634 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 Association and League 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. (June 12, 2012)

3. Window period opens the first day following the resolution's effective date.
4. Window closes 90-180 days later.

RECOMMENDED ACTIONS

It is recommended that the City Council:

- Approve the "additional employee contributions" disclosure required by California Government Code § 7507 and § 20903 of \$3,854,705, 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 Association and League employees for the June 12, 2012 City Council meeting.



JOHN D.R. CLARK  
Human Resources Director/City Treasurer

**Recommended for Approval**



**Matthew Feral**  
City Manager