

Response to Questions on the FY 2008 Advertised Budget Plan

Request By: Supervisor DuBois

Question: What would be the total cost to the County of making a one time adjustment to the 64 percent social security disability benefit for Uniformed retirees who retired prior to 1996?

Response:

Background

Firefighters and other uniformed employees of the Fire and Rescue Department, as well as uniformed Office of the Sheriff employees, Animal Control Officers, helicopter pilots, and non-administrative staff in the Department of Public Safety Communications participate in the Uniformed Retirement System. For those members of the Uniformed system who submitted applications for a service-connected disability retirement prior to December 9, 1996, their benefit is 66-2/3 percent of salary at retirement. If retired on or after December 9, 1996, there are two possible levels of benefit. The standard benefit is 40 percent of salary and a severe service-connected disability benefit is 90 percent of salary. The 1996 changes in the disability benefits were put into effect because the system was experiencing a high number of service-connected disability retirements. Furthermore, the tax-free benefit of 66-2/3 percent of salary was often better than the benefit for a normal service retirement. This "moral hazard" in the plan design was corrected by reducing the salary replacement percentage and implementing a severe disability benefit. All three levels are offset by social security benefits. There is a 64 percent offset of disability benefits provided by social security. This offset occurs regardless of age unless the social security benefit is based on a disability other than that for which the employee was retired. If the retiree is not eligible for social security disability benefits and is eligible to receive a social security benefit based on age, for those with a 66-2/3 or a 90 percent benefit, there is a 64 percent offset of the age-based social security benefit that occurs at age 62, their first date of eligibility for social security benefits.

The Employees' Retirement System also has a service-connected disability benefit of 66-2/3 percent of salary. This benefit is reduced by 64 percent of social security disability benefits received at any age or, at age 62, by 64 percent of the age-based social security benefit. Since Police Officers do not earn eligibility for social security during their employment, there is no social security offset in the Police Officers Retirement System.

The social security offset provisions were established in the early years of the retirement systems when County retirement benefits were considered supplemental to social security. The Uniformed and Employees' systems have provisions that decrease benefits at social security age not only for service-connected disability retirees, but also for those who retire based on years of service. The various tiers of benefits for service retirements reflect the plan design element aimed at providing a more level income over a lifetime for those retiring before social security eligibility.

Cost

In January 2007, an actuarial analysis was performed to determine the impact on the employer contribution rate of the elimination of the social security benefit offsets. These rate impacts were based on the July 1, 2006 actuarial valuation. Eliminating the social security benefit offsets in the Uniformed Retirement System would require a 0.85 percentage point increase in the employer contribution rate at an estimated annual cost of \$1,181,452.

It should be noted that in the Employees' Retirement System, the elimination of the offsets would require an increase in the employer contribution rate of 0.14 percentage points at an estimated annual cost of \$424,508. No change would be required to the Police system since Police Officers do not participate in social security.

It should also be noted that on February 12, 2007, the Board of Supervisors put forward a Consideration Item to reduce the current social security offset multiplier from 64 percent to 50 percent for both disability and age-based social security benefits in the Uniformed and Employees' retirement systems. The FY 2008 cost is an estimated \$400,000.