Response to Questions on the FY 2014 Budget

Request By: Supervisor McKay

Question: What would the cost be of decreasing the police retirement contribution by 1 percent over the next three fiscal years and what would be the cost of increasing the multiplier?

Response: Based on prior actuarial calculations, it is estimated that each 1 percent reduction in the employee contribution rate for members of the Police Retirement System would cost the County approximately $1.0 million annually. An updated actuarial analysis will be required to determine the exact cost if the Police employee contribution rate is reduced. It should be noted that the multi-year budget included in the FY 2014 Advertised Budget Plan anticipates reducing the Police employee contribution rate by 0.675 percent in FY 2015. Over a period of several years the County has been reducing the employee contribution rate and, at this point, the rate has been decreased from 12 percent to 10 percent with a goal of making the benefit more comparable between the Police and Uniformed Retirement systems, recognizing that Police do not participate in Social Security and that the benefit structure and contribution rates are different between the two systems. As part of the multi-year review for the FY 2015 budget, the staff of the Retirement Administration Agency and the County's actuary have reviewed the contribution rates to attempt to provide a comparison. As a result it is recommended that the Police employee contribution rate be reduced to 8.65 percent from the current level of 10 percent. It is anticipated that this reduction will be phased over two years with the first reduction taking place in FY 2015 resulting in a reduction from 10 percent to 9.325 percent. Funding of $0.65 million is included in the FY 2015 budget to account for this reduction to 9.325 percent.

An estimate of the cost of increasing the benefit multiplier for members of the Police Retirement System would require an actuarial analysis based on the details of the proposed change. The cost would vary greatly depending on the amount of the increase in the multiplier as well as the population that would be impacted by the change. For example, if the change in the multiplier is applied to new hires only, the cost to the system would be minimal in the short-term but would grow over time as employees hired under the increased multiplier approach retirement. However, if the change in the multiplier is applied to all active employees or to both active employees and retirees, the change can be expected to have a much more significant impact on current contribution rates. At the direction of the Board of Supervisors and with additional guidance regarding the details of any proposed changes in the multiplier, the Retirement Administration Agency can engage the County's outside actuary for a calculation of the cost to the system.