

## Response to Questions on the FY 2014 Budget

**Request By:** Supervisor McKay

**Question:** What is the history of the difference in retirement contributions between the police and the other public safety agencies and what are the reasons for the different rates that the County's public safety agencies pay into their retirement systems?

**Response:** The history of the employee contribution rates for the Police Retirement System and the Uniformed Retirement System since 1974, the year that the Uniformed Retirement System was established, are described below.

### Police Retirement System

Employee contribution rates in the Police Retirement System were 12.00% in 1974. In an effort to make the benefit more comparable between the Police and Uniformed Retirement systems, the Police employee contribution rate was reduced to 11.00% as of July 2007 and was further reduced to 10.00% as of July 2008. The current rate of 10.00% applies to all active employees and new hires in the Police Retirement System. Based on a review of the employee contribution rates and benefits of the Police and Uniformed systems by the County's Retirement Administration Agency and actuary, 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.

### Uniformed Retirement System

When the Uniformed Retirement System was established in 1974, employee contributions for what is now called Plan A were 4.00% of creditable compensation up to the Social Security taxable wage base, and 5.75% above the Social Security wage base. In 1981, Plan B was established with contributions of 7.08% below the Social Security wage base and 8.83% above the Social Security wage base. Members of Plan A were given the option to move to Plan B, and all new hires on or after July 1, 1981 were automatically enrolled in Plan B.

In 1997, members of Plan A were given the option to move to Plan C, with an employee contribution rate of 4.00%. Members of Plan B were given the option to move to Plan D, with an employee contribution rate of 7.08%. All new hires after April 1, 1997 were automatically enrolled in Plan D.

All new hires after January 1, 2013 are automatically enrolled in Plan E, with an employee contribution rate of 7.08%. Plan E incorporates changes that were approved by the Board of Supervisors as a result of a comprehensive study of the retirement systems.

### Difference in Employee Contribution Rates

The Police Retirement System and Uniformed Retirement System have historically maintained different employee contribution rates due to differences in the retirement benefits that are received by the members of each system. One of the key differences

between the systems is the multiplier used to calculate the base retirement benefit. For members of the Police Retirement System, the multiplier is 2.8 percent. For members of the Uniformed Retirement System in Plans A or B, the multiplier is 2.0 percent. For members of the Uniformed Retirement System in Plans C, D or E, the multiplier is 2.5 percent.

A second key difference is that members of the Police Retirement System do not participate in Social Security, while members of the Uniformed Retirement System do. As a result, police do not pay the 6.2 percent Social Security payroll tax (and the County does not pay the employer share of the payroll tax), and also do not receive Social Security benefits from their employment as police officers with the County (though they may be eligible for Social Security benefits from other employment for which they pay Social Security taxes). Members of the Uniformed Retirement System (as well as the County) pay the 6.2 percent Social Security tax in addition to their contributions to the retirement system, and they receive Social Security benefits. In addition, the Uniformed Retirement System includes a Pre-Social Security Benefit, which is payable from the time that a member retires until the member becomes eligible for unreduced Social Security benefits. The Pre-Social Security Benefit is calculated based on a multiplier of 0.2 percent for members of Plans A or B, and 0.3 percent for members of Plans C, D or E. In addition, members of Plans A or B receive the Pre-62 Supplemental Benefit, which is calculated as a percentage of the member's primary Social Security benefit that would be received at age 65 based on the employee's date of hire and years of creditable service.

A third key difference is that the Police Retirement System includes an automatic death benefit for surviving spouses and children in the event of the death of a member after a service retirement or after a retirement for a service-connected disability. This benefit is in addition to any benefit that the surviving spouse would receive as a result of electing a joint and last survivor option at retirement.