Response to Questions on the FY 2015 Carryover Review

Request By: Supervisor Gross

Question: Please provide possible scenarios for phasing in the remaining 15 percent social security offset for service related disability over a 3, 4 or 5 year period. Identify the costs of phase in options and how a phase in could be incorporated into the annual budget process.

Response: Employees in the Uniformed and Employees' Retirement Systems who qualify for a service-connected disability retirement receive a tax-free pension benefit that is between 40 percent and 90 percent of their salary at retirement, depending on the date of their retirement and the severity of the disability. In addition, these retirees may qualify for a Social Security disability benefit, and will qualify for an age-based Social Security benefit upon reaching their first date of eligibility for Social Security benefits. The combination of these benefits can often create a higher benefit than they would receive under a normal service retirement. This is mitigated by the Social Security offset, which reduces the County benefit by an amount equal to 15 percent of Social Security disability benefits and, in most cases, age-based Social Security benefits. Approximately 207 retirees are currently impacted by the offset, of which 93 are in the Uniformed Retirement System and 114 are in the Employees' Retirement System. It should be noted that the Police Officers Retirement System is not impacted since Police Officers do not earn eligibility for Social Security during their employment.

The concept of integrating Social Security with pension benefits has been in place since the inception of the Uniformed Retirement System in 1974 and, before that, since the inception of the Employees' Retirement System in 1955, which provided benefits for the Uniformed System classes of employees prior to the inception of a separate system. Prior to FY 2008, the Social Security offset was 64 percent. Since FY 2008, the offset has been reduced to 15 percent.

Elimination of the remaining 15 percent offset would require one-time funding of $4.8 million in order to fully fund the increased actuarial accrued liability resulting from the benefit enhancement. In addition, the employer contribution rates for both the Uniformed and Employees' Retirement Systems would be increased, for a recurring General Fund impact of $86,250. These figures are based upon the July 1, 2014 valuation. It should be noted that the increased employer contribution rates would also impact other funds and Schools.

If the elimination were phased in over a number of years, the costs cited above could be prorated as shown below.

Fiscal Year	Reduction in Offset	One-Time Cost	Recurring Cost
Three-Year Strategy			
FY 2017	5%	$1,600,000	$28,750
FY 2018	5%	$1,600,000	$28,750
FY 2019	5%	$1,600,000	$28,750
	15%	**$4,800,000**	**$86,250**

Fiscal Year	Reduction in Offset	One-Time Cost	Recurring Cost
Five-Year Strategy			
FY 2017	3%	$960,000	$17,250
FY 2018	3%	$960,000	$17,250
FY 2019	3%	$960,000	$17,250
FY 2020	3%	$960,000	$17,250
FY 2021	3%	$960,000	$17,250
	15%	**$4,800,000**	**$86,250**

It is recommended that changes to the retirement system rates be made as part of the annual budget process and effective at the start of the next fiscal year. Employer contribution rates for the retirement systems cannot be changed in the middle of the fiscal year. Additionally, if changes are made as part of the annual budget process, cost estimates can be updated based on the most recent actuarial valuation (for example, the FY 2017 cost impact would use the July 1, 2015 valuation which is completed in the fall).