Response to Questions on the FY 2019 Budget

Request By: Chairman Bulova

Question: Provide estimates on what it would cost for the County to make a deferred compensation contribution to non-merit employees. Identify one-time or recurring costs.

Response:

Prior to 2018, participation in the County's deferred compensation plan was limited to merit employees. In 2018, the plan was opened to non-merit benefits-eligible employees that are scheduled to work between 1,040 and 1,560 hours per year and are eligible to participate in other County benefit programs such as health and dental insurance. Non-merit temporary employees scheduled to work fewer than 900 hours per year continue to be ineligible to participate in the County's benefit programs.

Participation in the deferred compensation plan is voluntary and completely employee-funded. The County currently does not provide an employer contribution for merit employees or non-merit benefits-eligible employees. If an employer contribution were implemented, the cost of the program would depend on a number of factors, including:

- **Eligibility:** As of September 30, 2018, there were 1,210 non-merit benefits-eligible employees that are eligible to participate in the deferred compensation plan. Some of these non-merit benefits-eligible employees are concurrently employed in a merit position that is eligible for participation in one of the County's defined benefit retirement systems, and some of these employees have previously retired from a County merit position and are currently receiving a County retirement annuity. Additionally, the County has some non-merit benefits-eligible positions that are highly compensated, such as psychiatrists and physicians. The cost of an employer contribution would vary depending on whether eligibility is restricted based on any of these factors or if eligibility is expanded to include additional groups of employees.

- **Vesting:** Many employers that provide an employer contribution to a defined contribution retirement plan have a vesting requirement on those contributions to encourage employees to stay with the employer longer and to limit the cost of benefits for short-term employees. A vesting requirement would limit the application of an employer contribution to longer-term employees, and would therefore reduce the cost.

- **Matching:** Many employers that provide an employer contribution to a defined contribution retirement plan do so by matching employee contributions up to a defined threshold. This requires that employees commit to investing their own funds toward retirement in order to take advantage of the employer contribution. A matching requirement would reduce participation and cost, but would encourage greater savings among those employees that choose to participate. Alternatively, an employer contribution can be provided as a "seed" contribution with no requirement for employee matching requirements, which would result in greater participation but less incentive for employees to save for retirement.

Based on the September 30, 2018, count of 1,210 employees, a one-time employer contribution of $250 for current non-merit benefits-eligible employees would cost approximately $300,000. This estimate assumes that all employees in a non-merit benefits-eligible position as of a certain date receive the full $250, and would therefore be lower if any of the above factors limit eligibility or the rate of participation.

Alternatively, an employer contribution could be implemented on an ongoing basis to encourage employees to continue to save for retirement. An annual employer contribution capped at $250 per year per employee would cost approximately $425,000 per year, assuming all individuals that occupy a non-merit benefits-eligible position throughout the year receive the full $250 per year. It should be noted that this annual cost is greater than the cost stated above for a one-time contribution because multiple employees may fill a single non-merit benefits-eligible position at different times throughout the year due to recruitment and attrition. As with the estimate for a one-time contribution, this cost would be lower if any of the above factors limit eligibility or the rate of participation.