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**DATE: OCTOBER 5, 2006**

**TO: BOARD OF DIRECTORS**

**FROM: RICHARD D. THORPE**   
**CHIEF EXECUTIVE OFFICER**

**ACTION: RECEIVE AND FILE UPDATE ON PARS RETIREMENT PLANS**

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### **RECOMMENDATION**

Receive and File update on the PARS Retirement Plans for Authority employees. A resolution approving both plans will be presented for adoption at the November Board meeting.

### **SUMMARY**

In October, 2005 and in January, 2006, the Board approved the establishment of a Benefit and Pension Plan for Authority employees. At the January meeting, the Board approved an Employee Pension Plan that includes a Public Agency Retirement System (PARS) option and a California Public Employees Retirement System (CalPERS) option. It was determined that providing a choice of pension plans would allow the Authority to recruit staff that may have certain preferences in their pension program. It was also anticipated that the benefit level and cost for each of these plans would be similar and within the costs that are paid by other similar agencies.

In order to establish the PARS defined benefit pension plan, a two-part action is required. This report is required by the State Government Code which puts the public on notice of the Board's intention to adopt the defined benefit pension plan. The plan and trust agreements for the defined benefit pension plan and defined contribution plan will be brought to the Board in November for adoption.

## **DISCUSSION**

When the Employee Pension Plan was brought before the Board in January, it was determined that both PARS and PERS offered different benefits to Authority employees and provided the Authority with the maximum amount of flexibility. The Authority as a new agency has employees that have prior CalPERS service, has employees already retired under CalPERS and those that have years of service in other retirement systems. As a result, it was determined that offering both plans best served the Authority's needs. The PARS pension plan is coming to the Board before the CalPERS plan because when the CalPERS program goes into effect, all new employees hired after that effective date will be required to participate in the CalPERS program only.

PARS is a private firm that administers public pension plans for public agencies. Currently serving over 400 public entities, including over 350 in California, PARS has created a Master Trust called the Public Agency Retirement System Trust, under which public agencies may sponsor 401(a) defined benefits and 401(a) defined contribution plans, each of which may be customized by a public agency to meet specific needs. The Trustee that receives these contributions and safeguards assets is Union Bank of California. PARS serves as the Trust Administrator and establishes the plans, coordinates the contributions and distributions as well as other ongoing administrative aspects of the plan.

The Authority is sponsoring a 401(a) defined benefit plan through PARS that mimics the formula offered by CalPERS, called the 2.5% at 55 plan. This was the formula approved by the Board in January, 2006 for future Authority CalPERS participants. The benefits received by an employee is determined by a formula and to retire under the PARS plan, an employee must meet minimum eligibility requirements of at least 3 years of service with the Authority, be at least age 50, terminate their service and retire. There are no provisions for either death, disability, or any deferred type benefits for employees meeting the years of service but leaving prior to age 50. It is strictly a retirement plan for those meeting the eligibility criteria.

An actuarial valuation by a licensed and certified actuary is required under State law to determine the projected cost of the defined benefit plan and the initial contribution rate required to amortize the cost of the program. This valuation was prepared by Milliman, Inc., a national employee benefits consulting firm. The results of the valuation determined that the Authority's contribution rate should be 18.52%. Under the proposed plan, there are only employer contributions. This is within the rate range previously approved by the Board.

At the January Board meeting, the Board also approved establishing a 401(a) defined contribution plan for all Authority employees. Since CalPERS does not offer this plan, it was determined that PARS would be able to offer this plan to all Authority employees regardless of which pension plan they select (PARS or

CalPERS). This plan will permit employees to make contributions each payroll period into the PARS Master Trust to increase their retirement savings. There will be no employer contributions into the plan. Employees will be able to elect contributions ranging from 0% to 20% of pay each payroll period. Employees will be able to self-direct their investments, using a range of 20 mutual funds offered by Union Bank of California's wholly owned subsidiary, SelectBenefit.

### **FINANCIAL IMPACT**

PARS charges an initial fee to establish their plans and then ongoing monthly fees to administer both plans. The initial set up fee is \$3500 and the combined ongoing fees are \$650/month with a 3% annual cost of living adjustment. These costs are included in the Authority's FY07 budget.

The cost of the employer contribution of the defined benefit plan of 18.52% is also included in the Authority budget under Authority staff costs.

State legislation that formed the Authority also requires its dissolution upon completion of the project to Santa Monica. Depending on the duration of Authority operations, there may be a termination cost liability that applies to both PARS and CalPERS. There is no way to know this amount now but a reserve within the Authority project budget will be established to cover any anticipated future financial liabilities beyond the dissolution of the Authority.

### **NEXT STEPS**

The resolution to approve the PARS Trust Plan will be presented to the Board at the November Board meeting.

Because of certain rules that pertain to enrollment in CalPERS, only after the PARS plan is approved by the Board, will the Authority be able to apply for enrollment in CalPERS. It is expected that the contribution rate and cost to the Authority will mirror the costs of the PARS plan.

### **ATTACHMENT(S)**

None