

APR 12 1994



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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

EXECUTIVE SECRETARY

March 14, 1994

To: Board of Directors (Organization & Personnel Committee--Action)
From: General Manager
Subject: Early Retirement Program

Report

Several organizational objectives have been identified which would assist Metropolitan in attaining a workforce which would better meet its future needs as stated in the Strategic Plan. Some of these objectives include improving and diversifying skill and technological abilities, accelerating the movement from a hierarchical to a flat organization, and increasing the diversity of the workforce. With attrition rates at Metropolitan averaging only 2.2% over the past five years, opportunities to achieve these objectives have been limited. An early retirement incentive program could be used as a method of increasing the opportunities to attain these objectives.

In developing a program to increase the number of retirements, a number of public and private agencies were contacted and several options were considered. Coopers & Lybrand were retained to assist in the development of a package which would be appropriately sized to provide the desired result. While the Public Employees' Retirement System (PERS) offers an option for a public agency to provide two years of additional service credit, it was felt that this option, by itself, would result in very few retirements over the normal number. The 2% at 55 retirement formula under PERS results in significant ongoing costs to the employer and remains in the PERS contract on a permanent basis, thereby generating early retirements over the long term, but not necessarily resulting in the more immediate response desired at Metropolitan. Based on the current economic climate and the fact that Metropolitan is not contemplating large-scale layoffs, Coopers & Lybrand indicated that a four-year benefit would provide sufficient "benefit level that it would be attractive to your potential retirees."

In 1993, Senate Bill 501, which would have provided four years of additional service credit as a PERS option, passed both legislative houses, but was vetoed by the Governor. This bill received a great deal of support from management and labor. A program which would approximate the benefits available through Senate Bill 501 has been developed for consideration by Metropolitan.

Several methods of providing the four years of service credit were considered, such as providing a monthly equivalent, providing the present value of the increase in a lump-sum, and a combination of both methods. The recommended method is a combination of a monthly allowance equalling two years of additional service provided through PERS statutes and a lump-sum payment by Metropolitan roughly equivalent to the present value of two years of service. This method allows Metropolitan to base part of the costs on the PERS formula, which utilizes the higher rates of return the PERS fund has been attaining, and provides the employees with both a monthly increase and a cash payment. Coopers & Lybrand computed the formula for the lump-sum payment.

Exhibit A summarizes the preliminary estimated cost and savings of the proposed program over a three year period. In order for the program to provide the organizational benefits discussed above and to ensure that there is an increase in the number of retirements over the normal pattern, approximately 80 employees would need to indicate their intent to participate before the program is implemented. Also, it is recommended that participation be restricted to the first 160 applicants in order to limit the operational challenges which could result from too large a number of retirements.

Information regarding the proposed program was presented to the Organization and Personnel Committee at its March meeting, and no objections were raised. To proceed with implementation of this program, a Resolution of Intent to amend Metropolitan's contract with PERS could be adopted at the May meeting of the Board, followed by a final adoption of the contract amendment at the July Board meeting. Using this timetable, the window period for retirements to occur could be scheduled for August through October, 1994.

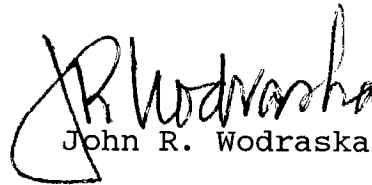
Board Committee Assignment

ORGANIZATION AND PERSONNEL COMMITTEE FOR ACTION.

This letter is referred to the Organization and Personnel Committee for action because of its authority to study, advise and make recommendations with regard to all matters affecting wages, hours, pension plans and other employee benefits, and other terms and conditions of employment pursuant to Administrative Code Section 2471(c).

Recommendation

It is recommended that in order to assist in attaining the objectives outlined in the Strategic Plan relating to the workforce, the General Manager be authorized to proceed with the development of an early retirement incentive program as outlined herein and to present a Resolution of Intent to amend Metropolitan's PERS contract to include Government Code Section 20818 (Two Years Additional Service Credit) at the May, 1994 meeting.


John R. Wodraska

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EARLY RETIREMENT INCENTIVE

ANNUAL CASH FLOW

80 RETIREES

F/Y	COST	*SAVINGS
1994-95	\$3,263,714	\$3,505,854
1995-96	\$1,041,714	\$2,982,072
1996-97	\$1,041,714	\$818,400
TOTAL	\$5,347,142	\$7,306,326

120 RETIREES

F/Y	COST	*SAVINGS
1994-95	\$4,895,571	\$5,262,659
1995-96	\$1,562,571	\$4,545,875
1996-97	\$1,562,571	\$1,364,004
TOTAL	\$8,020,712	\$11,172,538

160 RETIREES

F/Y	COST	*SAVINGS
1994-95	\$6,527,428	\$7,015,581
1995-96	\$2,083,428	\$6,043,911
1996-97	\$2,083,428	\$1,773,204
TOTAL	\$10,694,283	\$14,832,696

*Savings have been calculated based on all employees expected to retire during the window period.

EARLY RETIREMENT INCENTIVE PROGRAM

Typical Retiree:

Age 60	Increase in PERS Allowance	\$183/month
Salary \$55,000/yr	Cash Payment	\$39,064

Cost of 2-year equivalent cash payment:

For 1 typical retiree =	\$39,064
Total payout for 80 retirees =	\$3,125,142
Total payout for 120 retirees =	\$4,687,712
Total payout for 160 retirees =	\$6,250,283

Cost of PERS 2-year service credit:

For 1 typical employee =	\$27,775
Cost for 80 retirees =	\$2,222,000
Cost for 120 retirees =	\$3,333,000
Cost for 160 retirees =	\$4,444,000

Total program cost:

Total cost for 80 retirees =	\$5,347,142
Total cost for 120 retirees =	\$8,020,712
Total cost for 160 retirees =	\$10,694,283

EARLY RETIREMENT SAVINGS

MWD TOTAL

80 RETIREES

AVERAGE MONTHLY SALARY & ADDITIVES = \$5,683

		12 NOT REPLACED	34 REPLACE SAME LEVEL	34 REPLACE LOWER LEVEL
1994	NOV	3-MONTH \$68,200	\$193,233	\$193,233
	DEC	EVALUATION 68,200	193,233	193,233
1995	JAN	PERIOD 68,200	193,233	193,233
	FEB	68,200	2-MONTH 193,233	2-MONTH 193,233
	MAR	68,200	BID 193,233	BID 193,233
	APR	68,200	2-MONTH 166,181	2-MONTH 193,233
	MAY	68,200	BID 166,181	BID 193,233
	JUN	68,200	7-MONTH 142,915	7-MONTH 166,181
	JUL	68,200	RECRUIT 142,915	RECRUIT 166,181
	AUG	68,200	142,915	166,181
	SEP	68,200	142,915	166,181
	OCT	68,200	142,915	166,181
	NOV	68,200	142,915	166,181
	DEC	68,200	142,915	166,181
1996	JAN	68,200		
	FEB	68,200		
	MAR	68,200		
	APR	68,200		
		\$1,227,600	\$2,298,936	\$2,515,898

TOTAL 18-MONTH SAVINGS = \$6,042,434

EARLY RETIREMENT SAVINGS

MWD TOTAL

120 RETIREES

AVERAGE MONTHLY SALARY & ADDITIVES = \$5,683

		20 NOT REPLACED	50 REPLACE SAME LEVEL	50 REPLACE LOWER LEVEL
1994	NOV	3-MONTH \$113,667	\$284,167	\$284,167
	DEC	EVALUATION 113,667	284,167	284,167
1995	JAN	PERIOD 113,667	284,167	284,167
	FEB	113,667	2-MONTH 284,167	2-MONTH 284,167
	MAR	113,667	BID 284,167	BID 284,167
	APR	113,667	2-MONTH 244,383	2-MONTH 284,167
	MAY	113,667	BID 244,383	BID 284,167
	JUN	113,667	7-MONTH 210,170	7-MONTH 244,383
	JUL	113,667	RECRUIT 210,170	RECRUIT 244,383
	AUG	113,667	210,170	244,383
	SEP	113,667	210,170	244,383
	OCT	113,667	210,170	244,383
	NOV	113,667	210,170	244,383
	DEC	113,667	210,170	244,383
1996	JAN	113,667		
	FEB	113,667		
	MAR	113,667		
	APR	113,667		
		\$2,046,000	\$3,380,788	\$3,699,850

TOTAL 18-MONTH SAVINGS = \$9,126,638

EARLY RETIREMENT SAVINGS

MWD TOTAL

160 RETIREES

AVERAGE MONTHLY SALARY & ADDITIVES = \$5,683

		26 NOT REPLACED	67 REPLACE SAME LEVEL	67 REPLACE LOWER LEVEL
1994	NOV	3-MONTH \$147,767	\$380,783	\$380,783
	DEC	EVALUATION 147,767	380,783	380,783
1995	JAN	PERIOD 147,767	380,783	380,783
	FEB	147,767	2-MONTH 380,783	2-MONTH 380,783
	MAR	147,767	BID 380,783	BID 380,783
	APR	147,767	2-MONTH 327,474	2-MONTH 380,783
	MAY	147,767	BID 327,474	BID 380,783
	JUN	147,767	7-MONTH 281,627	7-MONTH 327,474
	JUL	147,767	RECRUIT 281,627	RECRUIT 327,474
	AUG	147,767	281,627	327,474
	SEP	147,767	281,627	327,474
	OCT	147,767	281,627	327,474
	NOV	147,767	281,627	327,474
	DEC	147,767	281,627	327,474
1996	JAN	147,767		
	FEB	147,767		
	MAR	147,767		
	APR	147,767		
		\$2,659,800	\$4,530,255	\$4,957,799

TOTAL 18-MONTH SAVINGS = \$12,147,854

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