

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

June 10, 1997

**To:** Board of Directors (Organization and Personnel Committee--Action)

**From:** *for* General Manager

**Submitted by:** Izetta E. Birch  
Director of Human Resources

**Subject:** Resolution of Intention to Amend Contract with Public Employees' Retirement System to Provide 2% at 55 Formula for Local Miscellaneous Members

### RECOMMENDATION(S)

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It is recommended that your Board adopt the Resolution of Intention to Approve an Amendment to Contract Between the Board of Administration of the Public Employees' Retirement System and the Board of Directors of the Metropolitan Water District of Southern California to provide the 2% at 55 formula for local miscellaneous members effective December 28, 1997, and certify compliance with Government Code Section 7507 as set forth in Exhibits A, B, and C.

### EXECUTIVE SUMMARY

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The current labor agreements with the general employees unit and the management unit provide for a contract amendment with the Public Employees' Retirement System (CalPERS) to provide the 2% at 55 benefit formula, such amendment to be effective on January 1, 1998. Because CalPERS requires contract amendments which affect the employer contribution rate to be effective on the first day of a payroll period, this amendment is scheduled to become effective on December 28, 1997. Optional benefits available through CalPERS must be provided to all local miscellaneous members and not limited to bargaining units; therefore, this amendment will apply to all Metropolitan employees who are CalPERS members.

## DETAILED REPORT

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Metropolitan currently contracts with CalPERS for the 2% at 60 retirement formula, which provides a benefit of 2% of an employee's final compensation for every year of service at age 60. Final compensation is defined as the average monthly salary for the highest twelve consecutive months of service during the employee's PERS membership. The existing formula provides a benefit factor of 1.092% per year of service for employees retiring at age 50 and reaches the maximum benefit factor, 2.418%, at age 63. Your Board has approved labor agreements with the general and management employees units to provide the 2% at 55 retirement formula effective January 1, 1998. Under the new formula, the percentage of pay at age 50 will be 1.426% and will gradually increase to 2.418% at age 63.

The actuarial valuation performed by CalPERS to determine the new employer rate which would be required by Metropolitan to fund the new benefit requires an increase of 3.983% of payroll. This increase will be effective immediately upon the effective date of the contract amendment, which will be December 28, 1997. The annual cost for providing this benefit is estimated to be \$5.1 million, based on the current level of compensation currently reportable to CalPERS. It is anticipated that the 2% at 55 formula will provide an incentive to employees to retire earlier than would be financially possible under the 2% at 60 formula. A preliminary projection of anticipated retirements over the first two years as a result of the increased retirement benefit indicates that approximately 138 employees are likely to retire. These positions, or an equivalent number of positions, will be deleted from the budget. Using the current average annual salary at Metropolitan, including benefit additives, of \$73,000, the annual savings for 138 deleted positions is estimated at \$10 million.

CalPERS estimates that the 2% at 55 contract amendment will result in an unfunded actuarial liability of \$31.3 million. A portion of the 3.983% increase in Metropolitan's employer contribution rate is projected to amortize the unfunded actuarial liability over a period of 20 years from the effective date of the amendment. Metropolitan has the option of pre-paying the unfunded liability and reducing the employer contribution rate by approximately 1.828%. Preliminary calculations indicate that pre-payment may be financially advantageous, and the pre-payment has been included in the 1997-98 annual budget. It is planned to monitor financial conditions during the remainder of calendar year 1997 and return to your Board with a recommendation in November or December.

The amendment to Metropolitan's contract with CalPERS will require two actions by your Board: first the adoption of the attached Resolution of Intention (Exhibit A), and second, the adoption of the final resolution. It is anticipated that the final resolution will be brought to your Board for consideration at the August, 1997 meeting. There are additional documents which must be executed before CalPERS can process the final documents. These documents are the Certification of Governing Body's Action (CON-12, Exhibit B) and Certification of Compliance with Government Code Section 7507 (CON-12-A, Exhibit C). The proposed amendment to the contract is included as Exhibit D.

**RESOLUTION OF INTENTION  
TO APPROVE AN AMENDMENT TO CONTRACT  
BETWEEN THE  
BOARD OF ADMINISTRATION  
OF THE  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
AND THE  
BOARD OF DIRECTORS  
OF THE  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

WHEREAS, the Public Employees' Retirement Law permits the participation of public agencies and their employees in the Public Employees' Retirement System by the execution of a contract, and sets forth the procedure by which said public agencies may elect to subject themselves and their employees to amendments to said Law; and

WHEREAS, one of the steps in the procedures to amend this contract is the adoption by the governing body of the public agency of a resolution giving notice of its intention to approve an amendment to said contract, which resolution shall contain a summary of the change proposed in said contract; and

WHEREAS, the following is a statement of the proposed change:

To provide 2% @ 55 Full formula for local miscellaneous members.

NOW, THEREFORE, BE IT RESOLVED that the governing body of the above agency does hereby give notice of intention to approve an amendment to the contract between said public agency and the Board of Administration of the Public Employees' Retirement System, a copy of said amendment being attached hereto, as an "Exhibit" and by this reference made a part hereof.

By \_\_\_\_\_  
Presiding Officer

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date adopted and approved

# EXHIBIT

**AMENDMENT TO CONTRACT  
BETWEEN THE  
BOARD OF ADMINISTRATION  
OF THE  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
AND THE  
BOARD OF DIRECTORS  
OF THE  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

The Board of Administration, Public Employees' Retirement System, hereinafter referred to as Board, and the governing body of above public agency, hereinafter referred to as Public Agency, having entered into a contract effective January 1, 1945, and witnessed December 18, 1944, and as amended effective February 1, 1948, July 1, 1950, September 1, 1951, September 1, 1953, February 1, 1956, February 1, 1960, October 1, 1964, June 1, 1966, February 1, 1969, October 1, 1973, June 1, 1974, October 1, 1975, February 1, 1976, March 1, 1976, December 16, 1977, December 16, 1978, January 1, 1980, September 1, 1980, January 1, 1981, September 1, 1982, September 1, 1987, September 1, 1988, June 25, 1989, December 1, 1990, July 13, 1994 and June 11, 1997 which provides for participation of Public Agency in said System, Board and Public Agency hereby agree as follows:

- A. Paragraphs 1 through 11 are hereby stricken from said contract as executed effective June 11, 1997, and hereby replaced by the following paragraphs numbered 1 through 11 inclusive:
1. All words and terms used herein which are defined in the Public Employees' Retirement Law shall have the meaning as defined therein unless otherwise specifically provided. "Normal retirement age" shall mean age 55 for local miscellaneous members.
  2. Public Agency shall participate in the Public Employees' Retirement System from and after January 1, 1945 making its employees as hereinafter provided, members of said System subject to all provisions of the Public Employees' Retirement Law except such as apply only on election of a contracting agency and are not provided for herein and to all amendments to said Law hereafter enacted except those, which by express provisions thereof, apply only on the election of a contracting agency.
  3. Employees of Public Agency in the following classes shall become members of said Retirement System except such in each such class as are excluded by law or this agreement:
    - a. Employees other than local safety members (herein referred to as local miscellaneous members).

4. In addition to the classes of employees excluded from membership by said Retirement Law, the following classes of employees shall not become members of said Retirement System:
  - a. **SAFETY EMPLOYEES.**
5. The percentage of final compensation to be provided for each year of credited prior and current service as a local miscellaneous member shall be determined in accordance with Section 21354 of said Retirement Law (2% at age 55 Full).
6. Public Agency elected and elects to be subject to the following optional provisions:
  - a. Section 21222.1 (Special 5% Increase-1970). Legislation repealed said Section effective January 1, 1980.
  - b. Section 21573 (Third Level of 1959 Survivor Benefits).
  - c. Section 21222.2 (Special 5% Increase-1971). Legislation repealed said Section effective January 1, 1980.
  - d. Section 20042 (One-Year Final Compensation).
  - e. Sections 21624 and 21626 (Post-Retirement Survivor Allowance).
  - f. Section 21319 (Special 15% Increase for Local Miscellaneous Members).
  - g. Section 21583 (Second Opportunity to Elect 1959 Survivor Benefits). Legislation repealed said Section effective September 27, 1979.
  - h. Section 20903 (Two-Years Additional Service Credit), Statutes of 1976. Legislation repealed said Section effective January 1, 1979.
  - i. Section 21427 (Improved Non-Industrial Disability Allowance).
  - j. Section 21325 (Special 3% - 15% Increase) for or on behalf of those local miscellaneous members who retired or died prior to January 1, 1974.
  - k. Section 21548 (Pre-Retirement Optional Settlement 2 Death Benefit).
  - l. Section 20965 (Credit for Unused Sick Leave).

- m. Section 20903 (Two Years Additional Service Credit).
  - n. Section 21024 (Military Service Credit as Public Service), Statutes of 1976.
7. Public Agency, in accordance with Government Code Section 20790, ceased to be an "employer" for purposes of Section 20834 effective on October 1, 1975. Accumulated contributions of Public Agency shall be fixed and determined as provided in Government Code Section 20834, and accumulated contributions thereafter shall be held by the Board as provided in Government Code Section 20834.
  8. Public Agency shall contribute to said Retirement System the contributions determined by actuarial valuations of prior and future service liability with respect to local miscellaneous members of said Retirement System.
  9. Public Agency shall also contribute to said Retirement System as follows:
    - a. Per covered member, \$1.50 per month on account of the liability for the 1959 Survivor Benefits provided under Section 21573 of said Retirement Law. (Subject to annual change.) In addition, all assets and liabilities of Public Agency and its employees shall be pooled in a single account, based on term insurance rates, for survivors of all local miscellaneous members.
    - b. A reasonable amount, as fixed by the Board, payable in one installment within 60 days of date of contract to cover the costs of administering said System as it affects the employees of Public Agency, not including the costs of special valuations or of the periodic investigation and valuations required by law.
    - c. A reasonable amount, as fixed by the Board, payable in one installment as the occasions arise, to cover the costs of special valuations on account of employees of Public Agency, and costs of the periodic investigation and valuations required by law.
  10. Contributions required of Public Agency and its employees shall be subject to adjustment by Board on account of amendments to the Public Employees' Retirement Law, and on account of the experience under the Retirement System as determined by the periodic investigation and valuation required by said Retirement Law.

11. Contributions required of Public Agency and its employees shall be paid by Public Agency to the Retirement System within fifteen days after the end of the period to which said contributions refer or as may be prescribed by Board regulation. If more or less than the correct amount of contributions is paid for any period, proper adjustment shall be made in connection with subsequent remittances. Adjustments on account of errors in contributions required of any employee may be made by direct payments between the employee and the Board.

B. This amendment shall be effective on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

BOARD OF ADMINISTRATION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF DIRECTORS  
OF THE  
METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA

BY \_\_\_\_\_  
KENNETH W. MARZION, CHIEF  
ACTUARIAL & EMPLOYER SERVICES DIVISION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BY \_\_\_\_\_  
PRESIDING OFFICER

\_\_\_\_\_  
Witness Date

Attest:

\_\_\_\_\_  
Clerk

PLEASE DO NOT SIGN "EXHIBIT ONLY"

PLEASE DO NOT SIGN "EXHIBIT ONLY"

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Actuarial and Employer Services Division

Public Agency Contract Services

P.O. Box 942709

Sacramento, CA 94229-2709

(916) 326-3420

**CERTIFICATION OF GOVERNING BODY'S ACTION**

I hereby certify that the foregoing is a true and correct copy of a Resolution adopted by the

Board of Directors

of the

(governing body)

Metropolitan Water District of Southern California

(public agency)

on July 8, 1997  
(date)

Clerk/Secretary

Title

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Actuarial and Employer Services Division

Public Agency Contract Services

P.O. Box 942709

Sacramento, CA 94229-2709

(916) 326-3420

**CERTIFICATION OF COMPLIANCE WITH  
GOVERNMENT CODE SECTION 7507**

I hereby certify that in accordance with Section 7507 of the Government Code the future annual costs as determined by the System Actuary and/or the increase in retirement benefit(s) have been made public at a public meeting of the Board of Directors (governing body) of the Metropolitan Water District of Southern California (public agency) on July 8, 1997 (date) which is at least two weeks prior to the adoption of the Resolution/Ordinance.

\_\_\_\_\_  
Clerk/Secretary

\_\_\_\_\_  
Title

Date \_\_\_\_\_