

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM ("SCERS")

Understanding Benefits & Planning for Retirement



Presenter: John W. Gobel, Sr. – Chief Benefits Officer
Session: May 18, 2009

BEGINNING



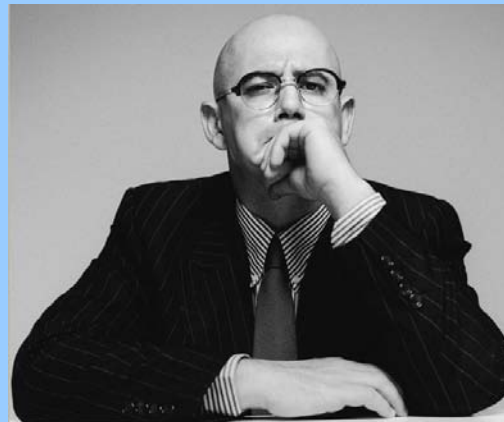
SEMINAR

OBJECTIVES

1. Understand Plan Essentials



2. Consider Your Needs



OBJECTIVES

3. Make Informed Decisions



PLAN ESSENTIALS – Participation & Enrollment

Covers regular employees of Sacramento County and 12 other participating employers.

Enrollment is automatic, but persons hired on or after 60 may opt out.

Member's Affidavit forms are distributed to County hires during New Employee Orientation and available at www.scers.org.

- Form allows members to designate who receives benefits upon death, as opposed to default beneficiaries set by plan.

PLAN ESSENTIALS – Membership Categories

SCERS provides benefits for 2 different memberships:

- Safety – Applies to job classifications and bargaining agreements for employees whose principal duties involve active law enforcement or fire suppression.
- Miscellaneous – Applies to other job classifications and bargaining agreements that do not confer Safety retirement.

Membership categories determine benefits at retirement:

- Safety – Set by Government Code § 31664.1; described as “3% at 50.”
- Miscellaneous – Set by Government Code § 31676.14; described as “2% at 55 ½.”

PLAN ESSENTIALS – Contributions

Contributions are required for all periods of employment.

- Unlike employee contributions to a deferred compensation plan, employee contributions to SCERS cannot be cancelled.

Employee and employer-paid rates reflect individual membership categories and are reviewed annually.

- Current Rates for New County Employees

Contribution Type	Misc. Tier 3	Safety Tier 2
Member (full rate)	4.81%	10.82%
Employer	15.32%	25.43%

PLAN ESSENTIALS – Contributions

Member and Employer contribution rates apply to income characterized as “Compensation Earnable.”

Compensation Earnable is generally limited to 40 hours per week and does not consider overtime.

For persons who pay Social Security taxes, member contributions are calculated using high and low rates.

- **EXAMPLE – Miscellaneous Tier 3 member earns wage of \$1,260 every 2 weeks and receives no differentials or other incentives.**

Member Contrib. - Low Rate, $3.20\% \times \$161 = \$ 5.15$

Member Contrib. - High Rate, $4.81\% \times \$1,099 = \$ 52.86$

Member Contrib. - Total \$ 58.01

PLAN ESSENTIALS – Covered Compensation

Final Compensation is the total Compensation Earnable accumulated over a 12 or 36 month look-back period.

Final Compensation establishes a ceiling for member benefits.

- County Employees Retirement Law of 1937 limits retiring member's base allowance to 100% of Final Compensation.

Final Compensation considers many (but not all) pay items offered by Sacramento County and participating employers.

PLAN ESSENTIALS – Covered Compensation

Common “Final Compensation” Components for County Employees

- ✓ Regular Earnings
- ✓ Management Differential
- ✓ Shift Differential
- ✓ 7/12 Work Shift Premium
- ✓ Standby Pay
- ✓ One-Time Bonus
- ✓ Mental Health Retention Bonus
- ✓ 4850 Payments
- ✓ Disability Pay
- ✓ Insurance Subsidy & Offset
- ✓ Vacation Cash-In & Payoff Beyond Maximum Accrual
- ✓ Animal Allowance
- ✓ Auto Allowance
- ✓ Clothing Allowance
- ✓ Equipment Allowance
- ✓ Food Allowance
- ✓ Incentive Pay Allowance
- ✓ Miscellaneous Allowance
- ✓ Special Pay Allowance

PLAN ESSENTIALS – Service Credit

Members earn service credit for all periods in which they contribute.

Members who meet age and/or service requirements are eligible for lifetime allowance at retirement.

- 10 years of service and age 50 or older. [All members.]
- 20 years of service, regardless of age. [Safety members.]
- 30 years of service, regardless of age. [Misc. members.]
- Age 70, any years of service credit. [All members]

For vested members, “10 years of service” can mean (a) 10 total years of service credit or (b) 10 combined years of service credit and service separation.

PLAN ESSENTIALS – Service Credit

Members can increase benefits through different permissive service purchases, including items listed below.

- Additional Retirement Credit (“ARC”) – Requires 5 years of service credit in SCERS and payment of full actuarial cost.
- Medical Leave-of-Absence – Applies to periods of State Disability and Workers’ Compensation integration.
- Pre-Membership – Limited to temporary employment that precedes SCERS entry date.
- Public Service – Limited to prior employment with public agencies in Sacramento County.
- Redeposit – Reserved for prior refunds from SCERS.

RETIREMENT NEEDS – Estimate Benefits

SCERS offers three ways to estimate current and future benefits.

1. **Worksheet** – Manually calculate benefits using worksheet. Enter three standard variables: age, service and Final Compensation.
2. **Web-Based Calculation without Password** – Automatically calculate benefits at www.scers.org. Enter three standard variables.
3. **Web-Based Calculation with Password** - Automatically calculate benefits at www.scers.org. Extract three standard variables from personal records.

Beginning Seminar focuses on 3rd option, which requires Password from Annual Statement.



RETIREMENT NEEDS – Estimate Benefits

NOTE: *Instructions for Retirement Planning Calculator are available at www.scers.org*

HIGHLIGHTS

1. Members can override default Retirement Date & Final Comp.
2. Members can change service projection from Fulltime to other schedules.

Member Information

Current Information as of Saturday, June 23, 2007

Reminder: You have requested access to confidential information and have accepted responsibility for the control and security of the information received while viewing, downloading or printing this data.

Logon Id: 010 [REDACTED]

<p>Planned Retirement Date: 7/7/2030</p> <p>SCERS Entry Date: Monday, May 17, 2004</p> <p>Hire Date: Monday, May 17, 2004</p>	<p>Your future work schedule: Fulltime</p> <p>Total Years of Credited Service: 3.10</p> <p>Accounts Receivable Balance: \$0.00</p>
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Plan / Tier:	Miscellaneous Tier 3 Enhanced Formula	Years of Service Credit:	3.10
Employee Contributions:	\$14,316.30	Employee Interest:	\$677.93
Estimated Final Monthly Compensation:		\$5,000.00	
Calculate Benefit for Miscellaneous Tier 3 Enhanced Formula			

[Log Off](#)

RETIREMENT NEEDS – Estimate Benefits

HIGHLIGHTS (cont.)

3. Members can obtain optional estimates by entering Birth Date of beneficiary.
4. Members can include Additional Purchases for cost-benefit analysis.
5. Members can also enter Social Security Estimate for Social Security Modification.

SCERS Retirement Planning Benefit Calculator
[Help on the Calculator](#) * Required Fields [Log Off](#)

Name: (Optional) Spouse / Domestic Partner Name: (Optional)

Member Birth Date(*): (MM/DD/YYYY) Spouse / DP Birth Date: (MM/DD/YYYY)

Date of Calculation: Sunday, August 05, 2007 9:18 PM Planned Retirement Date(*): (MM/DD/YYYY)

Projected Age: 62 Future Work Schedule: Fulltime Eligibility Override

At Planned Retirement Date				
Plan & Tier of Membership (@):	Miscellaneous Tier 3 Enhanced Formu		Estimated Final Monthly Compensation(*):	5000
Current Years of full-time Credited Service in this plan / tier:	3.10	Current Years of part-time Credited Service in this plan / tier:	0.00	Anticipated purchases or other service credits in years: <input type="text" value="0"/>
Projected years of Credited Service in the current plan / tier:	23.03	Sick Leave in Hours:	<input type="text" value="0.0"/>	Social Security Estimate <input type="text" value="\$0.00"/> Age 62:

Estimated Retirement Allowance **Continuance to**

<input type="button" value="Back to Member Info."/> Unmodified:	\$3,332.10
Option 1:	\$3,328.53
Option 2:	\$2,963.19
Option 3:	\$3,136.84

RETIREMENT NEEDS – Distinguish Wages from Benefits

Persons planning for retirement usually target a percentage of income, which is often 70%.

In setting these goals, members may also want to compare the net wages they receive now to the net income they expect in retirement.

Assumptions for Net-to-Net Comparison

County Employee – Age 55 ½

Miscellaneous Tier 3 Member

\$50,000 in Annual Wages & Final Compensation

25 Years of Service in SCERS

15% Contribution to Deferred Compensation

RETIREMENT NEEDS – Distinguish Wages from Benefits

For simplicity, these illustrations do not consider (a) income tax withholding or (b) out-of-pocket healthcare premiums.

1st Illustration: Net Wage without Income Tax or Healthcare

Annual Wage from County	\$50,000
Less FICA	(\$ 3,825)
Less SDI	(\$ 300)
Less SCERS Contribution (mandatory)	(\$ 2,290)
Less Deferred Compensation (elective)	(\$ 7,500)
Net Amount	\$36,085
1st Ratio: Net Wage to Gross Wage	72%

RETIREMENT NEEDS – Distinguish Wages from Benefits

2nd Illustration: Net Benefit without Income Tax or Healthcare

Annual Benefit from SCERS	\$24,350
Less FICA	(\$ 0)
Less SDI	(\$ 0)
Less SCERS Contribution	(\$ 0)
Less Deferred Compensation	(\$ 0)
Net Amount	\$24,350
2nd Ratio: Net Benefit to Gross Wage	49%

What does all this mean?

- Sample member has not reached 70% target, but is closer than expected to replacing the full Net Wage.

RETIREMENT NEEDS – Develop a Plan

What are ways to close the gap between Net Wage and Net Benefit?

- **Increase Other Retirement Savings –**
Balances in deferred compensation, personal savings and other plans can complement benefits guaranteed by SCERS.
- **Work for SCERS Employer Longer –**
Value of SCERS benefits increases with service credits, subject to plan document and Internal Revenue Code limits.
- **Draw SCERS Benefits Later –**
Value of SCERS benefits increases with every $\frac{1}{4}$ year of age, up to 62 for Miscellaneous members and 50 for Safety.

RETIREMENT NEEDS – Develop a Plan

What factors might increase member's target for replacement income to more than 70%?

- Increasing out-of-pocket costs for retiree healthcare.
- No pension income from working spouse.
- Minor dependents.

What factors might decrease member's target for replacement income to less than 70%?

- Extensive savings.
- Other employment.
- Inheritance.

RETIREMENT NEEDS – Develop a Plan

What can early or mid-career members do to prepare for retirement?

- Follow your SCERS benefits and understand that payroll taxes and many other reductions do not apply to retirement income.
- Set a target that considers personal variables such as healthcare needs, minor dependents, other employment, etc.
- Develop a plan to reach your target.

FUTURE DECISIONS – Distributable Events

Decisions regarding benefit payments are limited to a few “distributable events.”

- Member’s Separation from Service
- Member’s Death
- Member’s Attainment of 70-½ after Separation from Service

Absent these events, members cannot draw payments from SCERS.

Consistent with a Beginning career seminar, this presentation highlights options at Separation from Service.

FUTURE DECISIONS – Refund of Contributions

“Refunds” are available when non-vested and vested members separate from service.

- “Vesting” is period of service required to receive employer-paid benefits upon retirement from SCERS.
- Vesting occurs when members earn 5 full-time years of service with SCERS or work to age 70.

Refunds are limited to member-paid contributions and interest.

- Refunds do not include employer contributions or consider employer-paid benefits available for service retirement.

FUTURE DECISIONS – Refund of Contributions

Refunds do not have any minimum age or service requirements and are paid as lump sum distributions.

- Direct payment of refunds requires SCERS to withhold (a) 20% for federal income taxes and (b) 2% for California income taxes, unless members waive state withholding or reside out-of-state.
- Direct rollover of refunds allows members to avoid mandatory tax withholding and defer income to future distribution date.
- SCERS typically processes refunds within 45 days of receiving completed paperwork from members.

FUTURE DECISIONS – Deferred Benefits

Vested members who separate from service before (a) meeting minimum age or service requirements for retirement or (b) attaining a preferred age can postpone or “defer” their retirement decisions.

Vested members can formally defer retirement by completing Section V of Distribution Request provided for refunds.

Vested members who defer retirement should submit Member’s Affidavit forms whenever addresses change.

FUTURE DECISIONS – Reciprocity

Vested and non-vested members who work for a SCERS employer within 180 days of coming from or going to work with another public employer can use “reciprocity” to preserve benefits across multiple public retirement systems.

Restrictions

- Reciprocal members cannot receive refunds from SCERS while working for employers with other retirement systems.
- Reciprocal members must retire from all systems for same reason, i.e. service or disability.
- Reciprocal members must retire from all systems on same date to maintain rights to benefits listed on next slide.

FUTURE DECISIONS – Reciprocity

Advantages

- Reciprocal systems consider same service history for vesting and eligibility for retirement.
- Reciprocal systems calculate Final Compensation for all plans using highest wage experience.

Example

Reciprocal member completes 4 years of service at System A and 6 years of service at System B. For purposes of vesting & retirement eligibility, both systems recognize 10 total years of service.

FUTURE DECISIONS – Lifetime Allowance

Members who intend to draw employee and employer-paid benefits at retirement must file an Application for Service Retirement.

Applications for Service Retirement specify retirement effective dates, which must be no later 60 days after date of delivery to SCERS.

- **Members cannot request service retirement benefits on a retroactive basis.**

FUTURE DECISIONS – Lifetime Allowance

SCERS staff prepares benefit calculations for all retiring members, which reflect membership categories and three key variables:

- Age at Retirement;
- Final Compensation;
- Years of Service Credit.

Depending on member's relationship with named beneficiary, Election of Retirement Allowance form will also review allowances and Continuances available for optional payments.

FUTURE DECISIONS – Lifetime Allowance

Unmodified – Provides lifetime allowance and 60% Continuance to spouse or domestic partner who is married or registered to member at least one year prior to retirement.

Option 1 – Provides lifetime allowance that is nominally less than Unmodified payment and offers no Continuance.

Option 2 – Provides lifetime allowance that is noticeably less than Unmodified payment and 100% Continuance to spouse, registered domestic partner or other eligible beneficiary.

Option 3 – Provides lifetime allowance that is noticeably less than Unmodified payment and 50% Continuance to spouse, registered domestic partner or other eligible beneficiary.

CLOSING REMARKS

A defined benefit plan like SCERS eliminates the guesswork often required for retirement projections and allows members to focus on retirement planning.

Information provided in this seminar and at www.scers.org is offered to help members understand rules and processes in place at SCERS.

Members with further questions about plan benefits or processes are encouraged to contact SCERS' Benefits staff:

Sacramento County Employees' Retirement System
980 9th Street, Suite 1800
Sacramento, CA 95814
Phone: (916) 874-9119
Fax: (916) 874-6060

