

South Bay Cities Council of Governments

January 14, 2014

TO: SBCCOG Board of Directors

FROM: Steering Committee

SUBJECT: Modification of Employee Benefit Programs

BACKGROUND

The SBCCOG provides its employees with a benefits package in addition to salary. At this time, the benefits package consists of paid vacation, sick leave, life insurance, and an employer contribution to health, dental and vision insurance. The insurance benefit provided is that the employer pays 50% of the employee only cost of the plan selected by the employee. The SBCCOG offers no retirement program currently other than participation in Social Security.

As part of an on-going organizational assessment, which included individual employee interviews, it was identified that employees felt the existing benefits package was not competitive with other employers. A key concern was the lack of any form of retirement savings vehicle for employees. In addition, the SBCCOG has recently lost valued employees to other employers with the benefits package being a main factor in their decision to leave.

The organizational assessment underway also incorporated a review of the SBCCOG's benefit offerings. This included surveying the SBCCOG member agencies except for the City of Los Angeles. While only eight cities responded, the information was useful in identifying that the SBCCOG has the lowest benefit package as it relates to health, dental and vision. A summary of the survey results is attached as Exhibit 1.

Health, Vision & Dental

The employer contributions for these cities, with non-cafeteria plans, range for employee only from a low of \$434.13 to \$1,037.53 per month; two party from \$865.03 to \$1,538.88; and family from \$1080.36 to \$1,873.86. For the two true cafeteria plans the caps range from \$1,080.36 to \$1,472.00 per employee. A cafeteria plan is one in which the monthly allowance provided to the employee for a range of benefits is set and if not used completely applied to benefits, becomes compensation or is applied towards deferred compensation or another retirement savings program.

In comparison, the SBCCOG contributions per employee range from a low of \$156.99 per month to a high of \$466.76, though the vast majority of employees are towards the lower end of the range. It is important to note that the SBCCOG's exposure is towards the upper end of the range as the employee plan selection is completely at the discretion of the employee and that while most employees are choosing the less expensive HMO options, they could be selecting the more costly PPO options.

It is recommended that the SBCCOG transition to a cafeteria style benefits program for health, dental and vision and that a monthly cap of \$500.00 per employee be implemented with any

amount within the cap not used to purchase insurance be a required contribution to an IRS Section 457 Deferred Compensation program (discussed below). This approach would fix the SBCCOG's exposure, allow for more certainty in budgeting and would improve our competitive position as an employer.

Retirement

In regard to retirement, all SBCCOG member agencies are covered by a defined benefit program such as CalPERS. Clearly, the SBCCOG does not have the resources to offer a CalPERS type retirement program. However, it would be beneficial to employees if the SBCCOG, as a public agency, were to offer an IRS Section 457 deferred compensation plan. This can be done by contracting with a deferred compensation provider such as the International City/County management Association Retirement Corporation (ICMA-RC). While some employers offer a contribution or match for a section 457 deferred compensation program, this is not required. By offering this vehicle, it would allow employees to save for retirement of a pre-tax basis, in addition to any contributions made through the cafeteria plan proposed for insurance.

Compensatory Time Off

In addition to the vacation and sick leave, most SBCCOG employees also accrue some level of compensatory time off (comp time) for extra hours worked. It is recommended that the current comp time system be replaced with a fixed bank of Administrative Leave for exempt employees. Exempt employees are employees who have been designated exempt from the Fair Labor Standards Act. An annual Administrative Leave Bank of 40 hours for each employee, together with flex scheduling as appropriate and approved on a case-by-case basis, would replace the existing hour-for-hour comp time system.

Summary

The fiscal impact from each component of the recommended revisions is set forth below and is affordable under our grant and partner funded programs:

- As noted above, the SBCCOG is already exposed to possible benefit costs in-line with the \$500 cafeteria cap proposed. This maximum exposure is built into the hourly loaded billing rates for the grant and partner funded programs operated by the SBCCOG. Based on all positions being filled, and employee historical health plan elections, the full cost of transitioning the cafeteria benefits plan proposed is approximately \$48,000 per year. The capacity to absorb these costs exists within the grant and partner funded programs. Approximately 10% of the overall cost would be applied of the non-grant and partner funded programs and can be accommodated with minor revisions to the existing SBCCOG operating budget.
- There would be no-direct cost to implement the IRS Section 457 Deferred Compensation offerings through ICMA-RC. There would be additional administrative time associated with the initial establishment of the program and in the processing of annual enrollments.
- The transition to an Administrative Leave program has the same or less possible fiscal impact since Admin Leave has the same requirements for being paid out upon separation as comp time and there is a fixed annual cap on Admin Leave which is not the case with comp time.

RECOMMENDATION

The Steering Committee recommends approving the following modifications to the SBCCOG employee benefits program:

1. Establish a cafeteria benefits plan with a monthly amount of \$500 per employee to be applied towards health, dental and vision insurance and any unused amounts being applied to deferred compensation effective March 1, 2013, with open enrollment;
2. Adopt a Resolution Relating to a 457 Deferred Compensation Plan and authorize the Chairperson to execute an Administrative Services Agreement with ICMA Retirement Corporation;
3. Approve the implementation of a 40 hour per year Administrative Leave program for exempt employees, effective February 1, 2013.

Prepared by David Biggs with input from Suzanne Charles

Exhibits:

- 1) Summary of Benefits Survey
- 2) Resolution
- 3) Administrative Services Agreement