

June 5, 2007

Honorable Mayor and Members of
The Hermosa Beach City Council

Regular Meeting of
June 12, 2007

Adoption of a Resolution Implementing an Alternate Retirement System for Part-Time Temporary Employees with Public Agency Retirement Services (PARS)

Recommendation:

It is recommended that the City Council adopt the attached resolution implementing an Alternative Retirement System (ARS) for part-time temporary employees.

Background:

The United States Congress adopted the Omnibus Budget Reconciliation Act (OBRA) in 1990. OBRA mandated that employees not covered by Social Security at the time be enrolled in Social Security or an alternate retirement system effective January 1, 1992. Congress specifically provided alternatives with statutory language spelling out the minimum requirements for alternate systems. Public Agency Retirement Services (PARS) offers an alternate retirement system (ARS) that meets the statutory requirements as specified by Congress.

The City of Hermosa Beach has been enrolling its part-time temporary employees in Social Security since the passage of the Act. Participation in Social Security requires a 6.2% contribution to be paid by the employee and a 6.2% contribution paid by the employer.

Analysis:

Under the proposed Alternate Retirement System part-time employees who work less than 1000 hours in a fiscal year will be enrolled in PARS ARS. If an employee works over 1000 hours in a fiscal year they must be enrolled in the California Public Employees Retirement System (CalPERS). The employee contribution under the new system will be 7.5% and would be paid solely by the employee. There would be no additional contribution required by the City. While the contribution rate for the employee increases 1.3%, the employees will realize a benefit with PARS ARS because the deduction will be taken from "pre-tax" dollars. The result is an increase in the employees' take home pay. The City will realize a savings as it will no longer be required to make the 6.2% Social Security contribution. The exact amount of savings realized will vary from year to year based on the number of part-time employees; however, there is no question that the implementation of PARS ARS will consistently provide savings to the City.

The benefits to employees are:

1. PARS plan participants are fully vested in their individual accounts.
2. In the event that an employee terminates employment with the City, assets in his/her account may be (1) distributed as a lump sum to the participant, (2) rolled over to an IRA or other qualified retirement plan that accepts rollovers or (3) used to purchase PERS service credits (if the employee is eligible.)
3. PARS contributions are pre-tax. Social Security contributions are deducted after taxes are paid. The result is additional take home pay for the employee.

Fees charged by PARS to administer the program are contained in the Administrative Services Agreement that is available for review with the other contracts to be approved with the 07/08 budget. Based on the estimated plan assets, the fees would be \$3,600 per year. These fees would be paid from the plan assets. There is also a \$12 per employee fee at the time of termination in the plan paid by the employee. Fees are also charged by the financial institution, Union Bank, who serves as trustee. Trustee fees are estimated to be approximately \$105 to \$126 per year and are deducted from the investment earnings of the plan.

Fiscal Impact:

It is estimated that the savings from implementing the ARS with PARS will be approximately \$10,000 in the first year.

Respectfully Submitted,



Michael A. Earl
Personnel & Risk Management Director

Concur:



Stephen Burrell
City Manager



Viki Copeland
Finance Director

Resolution No. _____

**CITY OF HERMOSA BEACH
LOS ANGELES COUNTY, CALIFORNIA**

WHEREAS it is determined to be in the City's best interest and its employees to provide a Qualifying Retirement System for its employees not currently eligible for such a Qualifying Retirement System, thereby meeting the requirements of Section 11332 of the Omnibus Budget Reconciliation Act (OBRA 90) and Section 3121(b)(7)(F) of the Internal Revenue Code (IRC),

WHEREAS Public Agency Retirement Services (PARS) has made such a system available to the City and its eligible employees and qualifies under OBRA 90 Section 11332, IRC Sections 3121(b)(7)(F) and 457(b), and meets the meaning of the term "retirement system" as given by Section 218(b)(4) of the Federal Social Security Act.

NOW THEREFORE, BE IT RESOLVED THAT:

1. The City Council hereby adopts the PARS 457 Trust, including the PARS Section 457 FICA Alternative Retirement Plan, effective July 1, 2007, the Effective Date for the benefit of employees on that date and hired thereafter; and
2. The City Council hereby appoints the Finance Director, or his/her successor or his/her designee as the City's Plan Administrator for the Public Agency Retirement Services Alternate Retirement Plan; and
3. The City's Plan Administrator is hereby authorized to implement the plan(s), execute the PARS legal documents on behalf of the City and to take whatever additional actions are necessary to maintain the City's participation in PARS and to maintain PARS compliance of any relevant regulation issued or as may be issued; therefore, authorizing him/her to take whatever additional actions are required to administer the City's PARS plan(s).

AYES:

NOES:

ABSENT:

ABSTAIN:

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

_____, the City Clerk of the City Council of the City of Hermosa Beach of Los Angeles County, California, hereby certifies that the above foregoing resolution was duly and regularly adopted by said City at a regular meeting thereof held on the _____, and passed by a _____ vote of said Council.

IN WITNESS WHEREOF I have hereunto set my hand and seal this _____.

City Clerk