



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 16

MEETING DATE: April 15, 2020

SUBJECT: Service Credit Policy

SUBMITTED FOR: ___ Consent X **Deliberation and Action** ___ **Receive and File**

RECOMMENDATION

Staff recommends the Board adopt the proposed amendment to the policy to reflect the changes resulting from the implementation of the Pension Administration System (Ariel) Phase 2 currently planned for November 2020.

PURPOSE

This item supports the 2019-20 Strategic Management Plan to promote understanding of roles and responsibilities by updating Board policies by which SCERS administers the retirement plan.

DISCUSSION

The implementation of the Pension Administration System (Ariel) Phase 2 will replace the current MBase membership recordkeeping system. A significant feature of the new system is that it will keep records of service credit in units of years instead for hours. This will necessitate a number of changes to service collection, calculation, and reporting.

SCERS currently uses hours worked as reported by employers to credit employees in SCERS' current active member database. Historically, hours worked was the most convenient data for the county to report from its legacy payroll system (prior to COMPASS). It is not, however, the simplest method for the SCERS benefit staff because it requires SCERS to understand the large variety of complex, often-changing work schedules of employees and employers. SCERS' MBase system and related benefit calculation procedures have been custom designed to accommodate this complexity.

The new Ariel membership system is designed to manage service credit in units of years which is the most direct means of application in computing retirement benefits. During systems analysis and design for Ariel, it was determined that employer HR systems are now capable of reporting service each pay period as a percentage (or fraction) of full time. As a result, benefits staff will no longer need to understand the work schedule of each member.

For example, in the current hours-based method a full time employee working a standard schedule for a two week pay period would be reported as 80 hours worked each period, but an employee working a 7/12 or 24-hour schedule would have a variable number of hours reported each two weeks even though they are also full time. For this reason, SCERS developed a process for accumulating the hours worked throughout the year and dividing the total by 2088 to smooth across pay periods. Under the new system, all full time employees will be reported as 100% of full time each pay period independent of their work schedule. SCERS will then give them two weeks of a year service credit (or 1/26th of a year service credit) each pay period resulting in a year of credit each 52 weeks. Correspondingly, a half-time employee would be reported as 50% full time for a two week pay period resulting in only one week of service credit.

The new methodology also reflects a better, more efficient practice for reconciling service credit each pay period, instead of tracking individual service credit hours over a member's career.

At the point SCERS cuts over from MBase to Ariel, the cumulative service hours for each member will be divided by 2088 to transfer it into the new system in units of service credit years.

FISCAL AND ADMINISTRATIVE IMPACT

Based on an analysis conducted by Segal comparing the old and new service calculations, Staff anticipates no meaningful fiscal impact (see attached letter from Segal). Staff does anticipate an administrative savings as a result of procedural streamlining for calculating estimated benefits and service retirement benefits. Members will benefit by having their service credit balance always presented as years of credit rather than total career hours.

ATTACHMENTS

- Service Credit Policy – Track Changes with Amendments
- Service Credit Policy – Clean Version
- Segal analysis

Prepared by:

/S/

Steve Hawley
Chief Strategy Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer



SERVICE CREDIT POLICY

PURPOSE

The purpose of this policy is to establish that service credit cannot exceed one (1) year in a 12-month period.

POLICY

The number of hours worked by SCERS members during a normal/scheduled workweek varies by different job classification, bargaining unit, and/or worksite. Regardless, the service credit accrued or available for a normal, scheduled workweek is referred to as "regular service" and excludes overtime. One (1) year of service credit shall reflect the regular, full-time hours worked under a particular work schedule for that year. Service credit cannot exceed one (1) year in a single calendar year or other 12-month period.

EFFECTIVE DATE

Beginning with the pay period commencing on or after April 28, 2019, SCERS will limit service credit to one (1) year in a 12-month period.

APPLICATION

Regular service at SCERS is benchmarked to a standard schedule of 40 hours per week, or 80 hours per biweekly pay period. Accordingly, those members who work a standard schedule can expect to accrue one year of service credit by working 40 hours per week for 52 weeks (and making all the contributions required of full-time employees).

Members who work any full-time, alternate schedule that is more or less than 40 hours per week can also expect to accrue one year of service credit by working that alternate schedule for 52 weeks (and making all the contributions required of full-time employees).

For example, members who work a 7/12 schedule (the equivalent of 84 hours per biweekly pay period) can accrue one year of service credit by working that schedule for 52 weeks. Service credit under the 7/12 schedule cannot exceed one (1) year.

If a member works a full-time, standard schedule for part of a year and also works a full-time, alternate schedule for the other part of year, the member will receive one (1) year of service credit.

After this policy is adopted by the Board of Retirement and goes into effect, SCERS will not allow or recognize service accruals in excess of one (1) year for any calendar year or other 12-month period.

Pension Administration System Implementation

When the new, modernized Pension Administration System (Ariel) replaces the legacy MBase system (planned for November 2020), SCERS will record service credit in service years rather than the historical method of hours worked.

At the point SCERS cuts over from MBase to Ariel, the cumulative service credit hours for each member will be divided by 2088 (the annual hour base historically used by SCERS) to transfer service credit into the new system in units of service credit years. Employers will then report future service for each pay period as a fraction of full-time service (a number less than or equal to one (1)), independent of any employer defined work schedule (i.e., independent of whether the member is working a standard 40 hour schedule, a 7/12 schedule, or any other non-standard full-time schedule).

BACKGROUND

In accordance with Board policy adopted in August 1999, SCERS has been crediting additional service to members who work under a 7/12 schedule. Under the policy, these members have been able to earn more than one year of service credit for each year of service. The SCERS Board has concluded that this administrative practice should be discontinued prospectively. This policy supersedes the Board action on August 19, 1999, that authorized additional service credit for 7/12 schedules, and applies to any alternate schedule, for service accrued on or after April 28, 2019.

RESPONSIBILITIES

Executive Owner: Chief Benefits Officer

POLICY HISTORY

Date	Description
04/15/2020	Staff recommended Board approve amendment to policy.
05/14/2019	Typo corrected in Background section regarding effective date.
04/17/2019	Board approved final policy.
11/05/2018	Board approved Discussion Draft for comment.
08/19/1999	Board approved Agenda Item 8.



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April 7, 2020

Mr. Eric Stern
Chief Executive Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814-2738

Re: Sacramento County Employees' Retirement System – Impact of New Methodology to Compute Future Service Credit for Pension Benefit Purposes

Dear Eric:

As requested by the System, we have estimated the impact of computing future service credit for active members using a new methodology, effective on or about November 1, 2020 as part of the System's migration to a new pension administration system, as compared with that calculated using the current methodology.

Based on our comparison, we anticipate that the financial impact on the System to be relatively small.

Background

Historically, the System has maintained service credits for active (and deferred vested) members by accumulating the total number of credited hours earned during the members' career and converting those hours to years of service at retirement.¹ We understand that as part of the implementation of a new pension administration system, the System is considering a new methodology that credits full-time employees with service proportional to the number of pay periods in one (1) year.²

The System intends to apply the new methodology prospectively to compute future service credits for active members effective on or about November 1, 2020. Depending on the actual pattern of hours earned during the members' career, the new methodology could produce slightly higher years of service for some members and lower years of service for other members.

We have been asked by your office to estimate the impact of applying the new methodology to calculate future service credits for the System as a whole.

¹ One year of service credit is awarded for every 2,088 hours worked over the member's career.

² For example, one twenty-sixth year of service is awarded for an 80-hour full-time schedule worked during a biweekly pay cycle.

Results and Analysis

The System has provided us with the service credits computed under the current methodology and the new methodology assuming hypothetically that the new methodology would have been applied in calculating the service credits accrued prior to on or about November 1, 2020.

The pertinent information that we have used in estimating the impact (by using membership data provided in June 2019) is summarized in the table below:

1. Member Status	Deferred Vested	Active
2. Number of Members Included in the Data Provided in June 2019	3,622	12,680
3. Total Years of Service Credit Calculated Using Current Methodology	19,216	150,631
4. Increase/(Decrease) in Years of Service Credit Calculated Using New Methodology	8	39
5. Percentage Increase/(Decrease) in Years of Service Credit (4. / 3.)	0.04%	0.03%

While we have not used the change in the service for each individual member reported by the System to calculate the exact financial impact of including the increase in years of service in item 4, we believe it is reasonable to estimate such impact by applying the relatively small 0.03% increase in years of service in item 5³ to the total (employer and employee) annual normal costs determined in the valuation as of June 30, 2018⁴ for the active members.

Our calculations, which assume the impact of applying the new methodology is proportional among all Miscellaneous and Safety membership and service categories, are as follows:

6. Member Status	Active
7. Total Annual Normal Costs as of June 30, 2018	\$246,898,000
8. Estimated Increase in Annual Normal Costs as of June 30, 2018 (5. x 7.)	\$74,000

The total increase in annual normal costs is estimated at \$74,000, which is an increase of about 0.007% of payroll per year (based on a projected payroll of about \$1,007.8 million as of June 30, 2018).

We are members of the American Academy of Actuaries and we meet the qualification requirements to render the actuarial opinion contained herein.

³ Note that for comparison purposes, the increase in years of service is slightly higher (at 0.04%) for Deferred Vested members.

⁴ We have continued to use the results from the June 30, 2018 valuation as our preliminary analysis was prepared using the results from that valuation.


Mr. Eric Stern
April 7, 2020
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Please let us know if you have any questions.

Sincerely,



Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President & Actuary



Andy Yeung, ASA, EA, MAAA, FCA
Vice President & Actuary

MAM/hy

cc: Debbie Chan, CPA, CGMA