

MINUTES OF THE HUMAN RESOURCES COMMITTEE MEETING
LANE TRANSIT DISTRICT BOARD OF DIRECTORS

July 26, 2011

Pursuant to notice given to *The Register Guard* for publication on July 22, 2011, and distributed to the person on the mailing list of the District, a meeting of the Lane Transit District Board of Directors Human Resources Committee was held on Tuesday, July 26, 2011, in the District's conference room at 3500 East 17th Avenue, Eugene.

Present: Michael Dubick, Committee Chair
Gary Gillespie
Dean Kortge

Ron Kilcoyne, General Manager
Mary Adams, Director of Human Resources and Risk Management
David Collier, Senior Analyst, Human Resources and Risk Management
Todd Lipkin, Finance Manager
Susan Oldland, Human Resources Administrative Secretary
Will Clark-Shim, Milliman
Everett Moreland, Hershner-Hunter

CALL TO ORDER: Mr. Dubick called the meeting to order at 4:04 p.m. and called the roll. Guests Mr. Clark-Shim and Mr. Moreland were introduced to Mr. Kilcoyne.

FUTURE DESIGN OF LTD PENSION TRUSTS: Ms. Adams provided an update of recent actions regarding discussion for possible changes to LTD's two pension trust plans:

- The Board Human Resources (HR) Committee began working on draft proposals for new salaried plan model at its February 7 Committee meeting. The HR Committee, District Board members, and Milliman have been working on new plan designs.
- At the June 13 LTD Board special meeting/work session, all members received an informational packet (duplicated in this meeting's packet) that laid out three new plan design options, including the current structure, a defined contribution model, and a hybrid cash balance model. At the June 13 meeting, the Board decided to proceed with developing the defined contribution model, and Milliman was instructed to develop proposals and provide information to guide the HR Committee's future discussions and decision-making process. The intent of today's discussion was to review this information and begin plan-level discussions that will provide enough information for Mr. Moreland to draft a plan. Additional discussion may occur at the next one or two HR Committee meetings, if required. The draft plan will come back to the Board for adoption, in time to have a plan in place by January 1, 2012 for any new employees that begin employment after that date.

Mr. Clark-Shim, Milliman actuary for the plan redesign, introduced the letter he drafted based on the discussion at the June 13 Board meeting. The letter outlined items that require decisions in order for Mr. Moreland to draft a new plan. He also explained that the letter contains specific proposals that are not definitive recommendations, but provided as direction for the HR Committee to enable discussion and preliminary decisions.

The first point of the letter describes the basic benefit structure, which includes an increasing percent of compensation contributed on a participant's behalf, based on years of service and an employer matching contribution. When an employee defers a percent of their pay in the 457(b) plan, he/she will receive a matching contribution of 50 percent of the amount deposited, up to the first 6 percent of the contribution. The expected long-term cost of this benefit structure is about 9.2 percent of compensation, which is meant to satisfy the strategic goal of the Board to contain the long term costs of the retirement benefit. Decisions made at this meeting will have relatively small impacts on the overall cost estimate, but in isolation or conjunction, may begin to have a material impact. The basic formulas can be adjusted to return to the target overall percentage of compensation desired for this retirement program. Once the new program begins, all new hires into salaried employment will start off at the lower end of the contribution schedules, so the 9.2 percent will take time for them to reach.

The first component of the defined contribution plan is referred to as the employer discretionary contribution, with the assumption that the District and Mr. Moreland will develop a legal document that allows flexibility to change the formula in future years, if needed.

Mr. Kortge asked Mr. Moreland if this component of the document would be voted on by the Trustees or the Board.

Mr. Moreland replied that ideally the plan would be amended by either the Board or the general manager, with checks and balances in place to have one entity review the other's changes.

Mr. Kortge asked if language would be included in the plan specifying what types of events would trigger a change in the plan, such as COLAs, and how often a review would occur.

Mr. Moreland stated that the plan itself would not address plan changes; but would say, in effect, that at any time, the Board or general manager may amend the plan. Then it would be a District personnel policy as to how often the contribution structure will be reviewed for salaried employees. The less the plan addresses administrative issues like that, the better.

Mr. Gillespie asked if Board approval would be required if the general manager changes or recommends changes to the plan.

Mr. Moreland responded that any amendment could be made by the general manager or the Board. He added that the general manager has a duty to report to the Board, and the Board

has authority to reverse his changes. Before any substantive changes would be made, the Board and general manager would have significant preliminary discussions. Additionally, internal District structure would limit changes by the general manager.

Mr. Kortge asked if the deferral amount could be increased selectively for a time, such as a year, based on District finances. Mr. Moreland responded that short-term District contributions would be possible.

Mr. Gillespie asked how the salaried plan process changes may affect the bargaining unit if they adopted this type of plan in the future.

Mr. Moreland replied that the process would be similar to the salaried plan changes, but Oregon collective bargaining law would limit changes.

Mr. Kortge added that numbers can be bargained for, both on the scale and/or the match portion.

Mr. Kortge asked if a higher employer contribution level for lower paid employees would be possible or desirable.

Mr. Moreland replied that this scenario or its reverse would be possible due to few restrictions on contribution level for government plans.

Mr. Clark-Shim added that any current or future break points for such scenarios could add complications.

Ms. Adams added that such complications could be avoided if the contributions were based on salary ranges, but drawing the line could cause friction between the two groups.

Mr. Moreland confirmed that changes related to salary ranges also could be amended over time.

Mr. Dubick cautioned that it is not the District's responsibility to be overly paternalistic with employees' behavior around managing their retirement plans.

Mr. Gillespie agreed, and added that a plan without an employer matching deferred compensation component would be far less likely to have employee participation, with the reverse encouraging participation and employee retention and participation.

Mr. Clark-Shim suggested that if there is a tiered structure in the matching formula, percentage levels could have a maximum at a set rate, with any contributions above that level at a lower percentage.

Ms. Adams pointed out that a tiered percentage range would need to be decided for the plan, as well as an employer maximum percentage.

Mr. Moreland added that the District could choose a maximum percentage, gauge the participation rate, and adjust the number if needed.

Mr. Clark-Shim asked whether or not employees should be enrolled automatically in the 457(b) plan, which could be an issue for employees at the bottom of the salary grade scale and who would prefer to opt out of the process.

Ms. Adams responded that it would be the District's preference to encourage plan participation by enrolling everyone, and adding an opt-out option would at least start all employees in the matching fund.

Mr. Moreland clarified the legal issues around new employee enrollment and opting out. Employees could be required as a condition of employment to sign up for the plan and choose to opt out at a later date.

Mr. Collier asked what percentage of their salaries new employees would be required to contribute.

Mr. Clark-Shim responded that in order for employees to amass sufficient retirement income under the defined contribution, they would have to defer their own salary and the District match. Also, when automatic enrollment is combined with a set deferral rate, people will tend to participate at that level. Generally, an employee contribution of 6 percent of pay with an employer match tends to provide enough retirement for employees.

Mr. Moreland added that 6 percent is usually the number seen for these types of plans. Employees could later reduce the percentage or opt out if they choose.

Mr. Kortge and Mr. Dubick agreed that as a condition of hire all employees should be enrolled at 6 percent for a given period of time, such as a year.

Mr. Moreland pointed out that the current District model allows employees to change their contribution at any time, and he would prefer to limit the number of changes employees are allowed over time.

Mr. Lipkin stated that most employees must follow a set procedure to make changes, and that this issue does not create a significant amount of time for the District's Finance Department to administer.

Mr. Collier asked how much of the employees take-home pay would be reduced at a 6 percent contribution level. Mr. Kortge responded that the amount would be equivalent to about 5 percent.

Ms. Adams said that the flexibility of emergency withdrawals, which occur six to eight times per year, should continue to be available in the new plan. As part of this process, employees' contributions may be stopped for a period of time.

Mr. Moreland commented on the issue of emergency withdrawals and suspended deferrals. He stated that that the District should include a similar provision in the new defined contribution plan. For example, employees will be counseled that if they take out money, their plan will be suspended for a pre-determined period of time.

Mr. Dubick asked for clarification on the chart provided by Milliman, which depicts a sample vesting schedule.

Mr. Clark-Shim referred meeting attendees to the entire portion of the Milliman letter related to vesting provisions. Vesting provisions determine when an employee becomes entitled to a retirement benefit. For example, the District's matching contributions go into an account for an employee. If the employee leaves after one year, he/she may not be entitled to any of the money, or may be entitled to a portion of it based on how the plan is structured. Typically, when an employee reaches eligibility for retirement, he/she is fully vested. Also, if the employee dies or becomes disabled while in service for the District, he/she is fully vested. Mr. Clark-Shim presented pre-retirement vesting provisions based on years of service. After reviewing several scenarios, he noted that Milliman proposes that the District employ graded vesting over a period of seven years, for discretionary and matching contributions, as indicated in the following table:

Years of Vesting Service	0	1	2	3	4	5	6	7
Discretionary Contributions	0%	10%	20%	30%	40%	60%	80%	100%
Matching Contributions	25%	50%	75%	100%	100%	100%	100%	100%

This structure entices employees to continue working during their first few years when turnover is typically higher. Mr. Clark-Shim also explained how the employer discretionary contribution relates with the vesting schedule and how the matching contributions would work. He clarified that all employee contributions belong to that employee by definition.

Mr. Moreland explained that the current discretionary plan can allow hardship withdrawals, loans, and benefit payments while employed; however, these three options are never recommended. The whole purpose of the plan is to have money when an employee retires. If employees are given early access to this money, many could avail themselves of this benefit and find themselves without enough money when they would like to retire. He strongly recommended that the new plan be structured so employees are not allowed early access to the money.

Ms. Adams clarified that only 2.5 percent of employees request the funds, and that many are repeats. These employees are told that if they request withdrawals more than twice in one year for the same reason, they are not allowed to continue participating in the plan until they can demonstrate they have resolved the causative issues.

Mr. Dubick agreed that taking out money seems counter-productive to the goal. He asked what percentage of the requests are salaried employees.

Ms. Adams responded that at least 75 percent of the requests are employees in the bargaining unit. She then asked the Committee if they felt that the withdrawal option should be removed from the new salaried plan.

Mr. Clark-Shim suggested that if early access to funds is a plan feature, the employer contribution should be off limits, and the Committee agreed.

Mr. Gillespie added that if the goal is to move the entire District to the new plan structure, there would be resistance from the Union to agree to a plan without the emergency withdrawal provision in place. He suggested that the option remain available to at least give the employee access to his/her portion of the contribution, and severely limit the criterion that qualifies for a hardship withdrawal.

Mr. Kortge pointed out that the plans are for retirement, not a savings account; although he explained that he does understand the hardship argument.

Mr. Moreland suggested that those employees with current deferred contribution accounts may be allowed access to emergency withdrawals. Under the new plan, salaried employees would not be allowed any withdrawals, but the Union employees would need to resolve the issue during bargaining.

Mr. Clark-Shim asked if the Committee members agreed to the vesting schedule, and all indicated that they did.

Mr. Clark-Shim then moved on to the "Definition of Retirement" portion of the Milliman letter that explained this definition under a defined contribution benefit structure. After reading the

definition, he outlined Milliman's proposal for the District, which states: "Because of the retiree medical benefits sponsored by the District, we recommend a relatively conservative definition of retirement." The letter defines normal retirement, early retirement, and retiree medical eligibility.

Milliman proposes that the District uses the following structure to define retirement:

- for normal retirement: the later of age 65 and five years of vesting service;
- for early retirement: either no early retirement, or later of age 55 and 15 years of vesting service;
- for retiree medical eligibility: lifetime District-paid medical benefits at later of age 55, and age plus years of vesting service equal or exceed 85 (e.g., age 55 and 30 years of vesting service; age 65 and 20 years of vesting service).

Mr. Clark-Shim explained that Oregon law requires that medical coverage be provided for retirees under age 65, and that the District's cost to provide partial coverage of this "bridge" coverage can be significant.

Mr. Moreland suggested that another option, in the initial stages of implementing the new plan, is to not offer early retirement. Then as time allows, the Board can decide if and how to include early retirement once they understand the cost of premiums' effect on the District.

Mr. Kortge explained that a District-paid stipend is not required because many types of plans are available that would cost less and be the retirees' responsibility. He strongly recommended that the Board discuss the medical benefits at a deeper level and as a wholly separate issue from the pension plan.

Ms. Adams explained that there are only a few retirees on the District's insurance plan that are not Medicare-eligible.

Mr. Collier added that some employees work beyond age 65 because they have a younger spouse who is not Medicare-eligible, and they would not be able to afford to pay the premium even after the District stipend.

Mr. Moreland recollected that he once inquired how much of the total employee premium is attributable to retirees under 65 on the plan, and was told by an insurance company that the amount is about 25 percent of the cost.

Mr. Clark-Shim replied that his understanding is that the number is less, but he would have to research the issue before giving a definitive number.

Mr. Kortge suggested for the purposes of the discussion, that the early retirement piece be pulled out of the new plan, and that the Committee should revisit the medical discussion at a later date.

Mr. Clark-Shim pointed out that several points of the letter, including compensation and definition entry provisions, had not been discussed and would likely require substantive comments.

NEXT MEETING

Ms. Adams suggested that the regular meeting times of August 9 and 23 could be considered to finalize the discussion, depending on Mr. Moreland's and Mr. Clark-Shim's availability.

Mr. Dubick agreed that the regularly scheduled meeting of August 9 would be best, since it is on everyone's calendars anyway.

Staff and Committee members agreed to meet again on August 9 at 3:30 p.m.

ADJOURNMENT

There was no further discussion, and the meeting was adjourned at 5:39 p.m.

Transcribed by Susan Oldland, Human Resources Administrative Secretary.

Recording Secretary