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

October 12, 2010

Pursuant to notice given to *The Register-Guard* for publication on October 7, 2010, and distributed to persons on the mailing list of the District, a meeting of the Lane Transit District Board of Directors Human Resources Committee was held on Tuesday, October 12, 2010, in the District's Board Room at 3500 E 17th Avenue, Eugene.

Present: Michael Dubick, Chair
Gary Gillespie
Dean Kortge
Mark Pangborn, General Manager
Mary Adams, Director of Human Resources and Risk Management
Diane Hellekson, Director of Finance and Information Technology
Mark Johnson, Director of Operations
David Collier, Senior Analyst, Human Resources and Risk Management
Jeanne Schapper, Clerk of the Board
Susan Oldland, Recording Secretary
Warren Wong, Guest

CALL TO ORDER: Mr. Dubick called the meeting to order at 1:37 p.m. and called the roll.

FUTURE DESIGN OF LTD PENSION TRUSTS: Ms. Adams explained that the purpose of the meeting was to begin exploration of various options for LTD's pension plans, based on several months of prior discussion with ATU leadership.

Mr. Pangborn gave some basic background to Committee members. He explained that the ATU plan is 51 percent funded and the Administrative plan is 68 percent funded. These numbers show that the plans are substantially underfunded, and that LTD needs to develop a strategy to deal with this shortfall. He clarified that the Committee and staff need to determine if the current plans are sustainable or if LTD needs to look at different alternatives.

Ms. Adams explained that staff are seeking guidance from the Committee on the different plan models that have been recently developed. Driven by the upcoming expiration of the collective bargaining agreement, a pension plan working group was developed. This group is composed of LTD management and ATU officers and has met several times to discuss some available pension plan models, particularly those considered by other public employers. The group has been working closely with the trust's actuary, Pete Sturdivan of Milliman, to develop these options. Mr. Sturdivan has worked with LTD for many years, is familiar with the changes the trusts have experienced, and recently developed some alternative plan models, which are included in the meeting packet.

Ms. Adams walked the Committee through the various alternatives. First she summarized the types of plans currently in place for LTD employees. These plans, for both ATU and Administrative employees, are known as defined benefit plans. A defined benefit plan guarantees a certain monthly benefit to the employee upon retirement. It is a common model for public employers with unions, and ATU strongly supports this type of plan. The cash balance plan is similar in terms of funding but expresses the benefit in a balance. For the employee, it resembles a 401 plan where the benefit is described as an amount as opposed to a monthly benefit. The money purchase plan is a defined contribution plan in which the employer decides how much money to put into the plan, and the employee has a variable benefit based on years of service and the investment performance. This plan resembles a private employer's 401-K model. There are different ways to use these plans that still allow management by a board of pension trustees. The person taking the benefit would still get a monthly amount from an annuity account as opposed to a lump sum amount. A money purchase plan is more flexible than a defined contribution plan.

Commented [JS1]: This sentence doesn't make sense.

Ms. Adams explained that Mr. Sturdivan summarized the various plans' pros and cons for employers and employees, and has developed proposals for the type of plan LTD may adopt in the future. Proposal One is for LTD to continue offering a defined benefit plan, which is the current plan for LTD's represented employees. The plan is guaranteed, and the employee assumes none of the risk. This type of plan has no downside for the employee, except that the plan is not transferable if the employee moves to another employer. For younger employees that do not plan to spend their careers in one place, this option is not attractive. The benefit of this type of plan is that it is completely predictable and simple to calculate: years of service at a dollar multiplier. In this case, employees can figure out their own benefits. The cash balance is a modified defined benefit plan that expresses benefits in terms of account balances and is included for consideration as Proposal Two.

The money purchase plan, Proposal Three, begins to shift some of the risk to the employee. Labor unions are less likely to support this type of plan. The employer is required to contribute a certain amount of money, and the employee assumes the risk for how the investments perform over time. This plan can be set up so that the employee is required to take a monthly benefit through an annuity Management and the ATU have been discussing this type of model.

Mr. Pangborn clarified that the defined benefit and defined contribution plans are like bookends of employer risk, with the cash balance plan in the middle as a hybrid of the two.

Ms. Hellekson explained that the cash balance plan has the advantage of allowing LTD complete control over the annual employer contribution amount. She gave the example of an easily attainable rate of return of 4 percent with a structured portfolio. The employee knows every year exactly how much is there when he or she gets to retirement, also has control over timing, and can shop for annuity. A lump sum amount can be used to purchase an annuity.

Mr. Pangborn explained that there are two pieces to a money purchase plan. First, LTD puts in a certain amount of money, for example a percentage of the salary, and guarantees an assumed return rate. The rate would be low enough to ensure the return and would be annuitized. Second, that the District contributes a certain amount and/or matches an employee contribution. The employee would be allowed to take the money in a lump sum or annuitized.

Commented [JS2]: If this means "defined benefit," then it needs to be spelled out.

Commented [JS3]: I'm not really sure what all this meant. My edits may be wrong. See the next paragraph for my suggested edits.

"Mr. Pangborn gave two examples: For the defined benefit plan, LTD would put in a certain amount of money; for example, a percentage of salary; and would guarantee an assumed rate of return. The rate would be low enough to ensure the return and would be annuitized."

Commented [so4]: This should make sense now

Mr. Gillespie asked if the annuity would be determined based on an actuarial table.

Ms. Hellekson explained that one of the advantages is that LTD would turn the accounts over to a private vendor upon retirement.

Ms. Hellekson explained the key differences of the two plans: in a cash balance plan, the employee cannot lose money; with the money purchase plan, the employee can lose money subject to the performance of the market.

Mr. Gillespie asked if an attempt has been made to offer a "buy out".

Ms. Adams recounted that one person took a retirement incentive package last fall, while twelve more retired with an incentive package in the spring and summer as part of the service reduction and when layoffs appeared imminent. No additional discussions of buy-outs have been part of the current contract negotiations.

Commented [JS5]: Capitalized only if with year. Ex: Fall 2011.

Mr. Gillespie asked if the ATU Local 757 would be the first in the region to move to a defined contribution-style plan. He pointed out that it would be a big leap for LTD to be the first.

Ms. Adams replied that the Local does have a model for this plan; Rogue Valley has a defined contribution plan for its represented employees.

Mr. Pangborn described the Oregon landscape for the ATU Local 757 in Portland, Salem, Corvallis, LTD, Rogue Valley, and Bend, which all have different plans. TriMet's plan is big and not comparable to LTD. For example, every time a working employee gets a pay raise, a comparable increase occurs in the retirement benefit. This benefit, among other reasons, is why TriMet's benefit overhead is 152 percent of total salary. Salem's plan, a defined benefit plan, is similar to LTD's administrative retirement plan, which is a percentage of salary. LTD's ATU plan is based on years of service. Currently the benefit is $64 per year of service, paid monthly. Medford has a defined contribution plan, with a 2 percent employee contribution and a 1 percent employer match. Bend and Corvallis, while represented by the ATU, are private contractors and have defined contribution plans. Consequently, among regional and comparable districts, there is no pattern for bargaining retirement. However, if LTD were to change plan types, it would be the first agency to change to an alternate plan.

Mr. Dubick summarized for clarification that the cash balance plan is the "hybrid" defined benefit/deferred contribution plan; that LTD and the employee could make contributions; and that it would be a portable, investment-type plan.

Ms. Hellekson agreed and added that the plan would guarantee a certain rate of return every year that the employee participated and would have an end-of-year dollar amount. At retirement the employee would then take that amount and turn it into an annuity with whatever features they choose. At that point, LTD would no longer be responsible for administration of the retirement plan.

Ms. Adams explained that LTD union representatives have discussed some fundamental requirements and that a similar discussion has not occurred with administrative employees. ATU feels strongly that they want a model where the money is managed at a group or trustee level, as opposed to individuals making individual investment choices. Close to 45 percent of employees that have voluntary deferred compensation plans use a standard investment model, so the group has not demonstrated an interest in individual investment management. Union representatives also want to protect employees from getting a lump-sum payment that could be used for a purpose other than retirement, and consequently prefer a model utilizing an annuity cash-out. A straight defined contribution model would not accommodate this need since it requires a lump sum payment.

Mr. Kortge noted that it may be possible for the retiree to sell his or her annuity and that LTD should look into a way to protect against such a possibility.

Mr. Pangborn summarized the two pieces of the plan. He added that the defined contribution could require an employee match as well and would be self-managed. This plan would be a stable, conservative plan and dependent on the market. From LTD's perspective, switching to only a defined contribution plan would be a huge leap. It is likely that such a change would be difficult for the union to assimilate and absorb.

Mr. Johnson agreed, noting that few of the Union employees participate in the current defined contribution plan. LTD does not offer a matching contribution on the current plan.

Ms. Adams pointed out that Union leaders understand the need for individuals to contribute their own funds.

Mr. Wong stated that moving to a deferred contribution plan would be a big leap; but he added that he believes defined benefit plans to be a thing of the past, particularly since the employers take on the entire risk. He added that a movement toward cash balance is a good way to go and that LTD could provide a one-time incentive for Union members to make the transition. He also warned against implementing a two-tier plan and explained that having different plans could create difficulties and disquiet among employees.

Mr. Pangborn clarified that the new plan would be only for new employees, so LTD would need to have a two-tier plan.

Mr. Kortge asked if it would be possible to freeze the old plan and move employees to the new plan; and if so, what it would take to convince them to do so.

Mr. Wong stated that an incentive would be necessary, even if it were just a one-time offer to demonstrate that the employee would not lose.

Mr. Kortge agreed that new employees would be giving up a potential future benefit, and that an incentive would be needed.

Mr. Wong suggested that LTD could run some scenarios: 1) a 20-year employee working 10 to 20 more years in order to show rates of return and provide some assurance that employees would get approximately the same amount, or a guarantee; and 2) a cash pay-out incentive.

Mr. Kortge said that the first scenario, assuming a 7.5 percent to 6 percent rate of return, could equal a $500,000 per year savings to the District.

Ms. Adams explained that employees begin paying attention to their retirement at about age 40. Over 80 percent of LTD employees are over this age; so it is important to assure these employees about their retirement, with the assumption that those under 40 will be able to make up the difference over time.

EXECUTIVE SESSION PURSUANT TO ORS 192.660(2)(d) – Mr. Dubick moved that the Board meet in Executive Session pursuant to ORS 192.660(2)(d), to conduct deliberations with persons designated by the governing body to carry on labor negotiations.

VOTE The motion was approved as follows:
AYES: Dubick, Kortge, Gillespie
NAYES: None
ABSTENTIONS: None

The Board entered Executive Session at 2:17 p.m.

RETURN TO REGULAR (OPEN) SESSION – The Board returned to regular session at 2:56 p.m.

ADJOURNMENT: There was no further business, and the meeting was adjourned at 2:56 p.m.

____
Recording Secretary