

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

August 9, 2011

Pursuant to notice given to *The Register-Guard* for publication on August 5, 2011, and distributed to the 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, August 9, 2011, in the District's conference room at 3500 East 17<sup>th</sup> Avenue, Eugene.

Present: Michael Dubick, Committee Chair  
Dean Kortge  
Gary Gillespie  
  
Ron Kilcoyne, 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  
Todd Lipkin, Finance Manager  
Susan Oldland, Human Resources Administrative Secretary  
Will Clark-Shim, Milliman, via conference phone  
Everett Moreland, Hershner-Hunter

**CALL TO ORDER:** Mr. Dubick called the meeting to order at 3:50 p.m. and called the roll. Mr. Gillespie was not present, but joined the meeting at 4:29 p.m.

**CONTINUED DISCUSSION OF FUTURE DESIGN OF LTD PENSION TRUSTS:** Mr. Dubick explained that this meeting continues the Committee's discussion regarding the Milliman proposal letter for the new salaried employee's pension plan.

Ms. Adams explained that at the last meeting, the Committee discussed about half of the issues listed on the document Mr. Clark-Shim had developed. She added that the Committee needed to complete the discussion of all items in the letter prior to taking the additional steps needed to get the plan in place by the beginning of the year. She added that there is time over the next couple of months to meet should the Committee need to finalize plan-related decisions.

Mr. Clark-Shim presented an updated Milliman letter, which was an amended document from the July 26, 2011, meeting. The update is included as part of this meeting's packet, based on discussion from the July 26 meeting. He suggested an approach that he read from this letter to frame the Committee's discussion.

Mr. Clark-Shim explained that highlighted passages were re-writes of the original document that did not require further discussion. The first item addressed the employer matching contribution,

and the new passage states that the “Committee discussed possible refinement to matching formula, including a higher rate of match on lower income levels. After significant discussion, Committee decided to wait and see the actual impact of the formula shown above” (which indicated a matching contribution of 50 percent of employee deferral on the first 6 percent of compensation).

Mr. Kortge stated that the Committee had dismissed that idea after they discussed it, as opposed to “wait and see”.

Mr. Lipkin added that the Committee decided to not to make any changes at this time, but that this element can be changed later if needed. Staff and Committee members agreed that changes can be made later.

Mr. Clark-Shim continued to the next passage, which read:

- “Everett indicated he would draft the plan such that the General Manager or the Board would have the authority to amend it. The General Manager would be required to report any personally authorized amendments to the Board. However, the General Manager would not be required to obtain the Board’s advance approval of substantive amendments.”

Staff and Committee members did not make any additional comments on this revision.

Mr. Clark-Shim moved on to the topic of “New Entrant Group,” which is new information and, therefore, not discussed at the last meeting. The section states:

- “New salaried employees of the District hired after January 1, 2012, would participate in the retirement benefits.”

Mr. Dubick replied that this statement is very clear.

Mr. Clark-Shim continued with the question of whether or not current ATU members who transfer in a future year to salaried employment would be placed into the new retirement benefits, which could have significant potential consequences in attracting ATU employees to transfer. He supplied some options for this issue, which read:

- “Legal counsel’s preliminary opinion was that future transfers to salaried employment could be placed into the new retirement benefits, and that an agreement to that effect should be signed by the employee as a condition of such transfer. This opinion is based on the assumption that no ATU employee has a right to transfer to salaried employment.

- Putting current ATU members who transfer in a future year to salaried employment into the new retirement benefits may impact the ability of the District to recruit ATU members into salaried employment, especially while the current ATU retirement benefits are in place.
- Legal counsel believes that current ATU members who transfer in a future year to salaried employment could, instead, be placed into the current salaried retirement benefits.”

Mr. Kortge stated he agreed with the third option.

Mr. Dubick asked whether or not ATU members can stay on the ATU plan if they become salaried employees.

Ms. Hellekson replied that transfer employees must be on the salaried plan.

Mr. Lipkin clarified that the ATU employees' choice is not about being on the salaried plan, but taking a salaried job and the other incentives with it. He added that these employees could see a reduction in benefit if they have to enroll in the new plan, which could be a disincentive.

Ms. Adams stated that the current salaried plan is better than the ATU plan. She added that if the new plan is different enough, that could be a reason not to take a salaried position.

Mr. Moreland confirmed that the way the ATU plan is drafted, if an ATU employee transfers to salaried and the ATU benefit increases, that employee will get the increased benefit as well as whatever they earn under the salaried plan.

Mr. Collier pointed out that, at a lower wage and salary, the benefits from both plans are comparable. However, those salaried employees making a higher wage also gain a higher retirement benefit under the current plan.

Ms. Adams added that the dilemma for an employee moving from hourly to salaried, is that the hourly positions can earn overtime, resulting in higher wages and less incentive to transfer. She asked whether it was possible for a current ATU employee to enter a closed plan.

Mr. Moreland replied that it is possible for current ATU employees (those who were hired before January 1, 2012) to enter the salaried plan once it is closed.

Mr. Lipkin advised that the District could run the risk of favoring external to internal candidates should transfer employees still be eligible for the closed salaried plan.

Ms. Adams replied that allowing a transfer employee to enroll in the closed plan would be offset by the cost of training an external applicant for the job.

Mr. Dubick stated that any new salaried employee, regardless of their prior ATU status, should be allowed to enroll in the new salaried plan only.

Mr. Kortge replied that his preference would be to allow any District employee, including ATU members hired before January 1, 2012, to be allowed to on the salaried plan. He added that their union status should not matter.

Mr. Kilcoyne agreed that not allowing current ATU employees to enter the salaried plan would be a disincentive for them to take a salaried position. He also asked how many salaried employees hired over time were internal from the ATU.

Mr. Clark-Shim responded that about one-third of all salaried employees have been hired from the ATU during the history of the District.

Mr. Kilcoyne stated that if a smaller fraction of employees came from the ATU, the cost would likely be negligible, but that the one-third number could be high enough to negate any financial benefit.

Ms. Adams said that overtime-eligible ATU members will retire or terminate and be replaced with those hired after January 1, 2012. As a result, fewer of those employees would be eligible to transfer under the closed plan. She noted that any Committee decisions will need to go before the full Board, and that two versions of the plan can be drafted that include both plan enrollment options.

Mr. Lipkin reminded the Committee that the plan can be changed by the general manager and Board at any time. Consequently, if it becomes difficult to recruit internal candidates because of the retirement plan, it may be amended.

Mr. Dubick stated that, based on the arguments presented by the Committee and staff, the Committee's recommendation is to move both options forward to the full Board.

Mr. Clark-Shim next addressed the definition of "compensation." The current District definition of compensation includes salary, overtime, bonus, Extended Illness Bank (EIB) used in the course of employment, and Consolidated Annual Leave (CAL). Per the Milliman letter, he explained that there are two possible streamlined approaches to a new definition of compensation:

- "Base salary approach: Base salary or wages, including any employee-funded contributions to LTD's Section 125 and 457(b) plans, and CAL used in the course of

employment. Overtime, bonus, cash-outs of unused CAL or any other remuneration would not be included;

- OPSRP [Oregon Public Service Retirement Plan]-style definition: Same as base salary approach above, but also including overtime and bonus;
- Legal counsel believes that the Plan document itself may not need to define compensation. Nonetheless, the Compensation definition is an important policy decision.”

Mr. Kortge asked how the definition gets administered if it is not in the document.

Mr. Moreland replied that the IRS requires that the plan be administered according to its terms, or it can be costly to correct. However, he said that he was aware of no plan that was administered according to its terms. Language could be included in the plan that would cover any inevitable administrative errors.

Ms. Adams explained that many employees save CAL to increase their retirement, which is costly.

Mr. Dubick asked about the advantage of not including 125 and 457(b) in the definition.

Mr. Lipkin said that 125 should be included due to the administrative burden of not including it. He explained that the easiest way to administer the contribution is to multiply the percentage by what the employee is paid, and not subtract other types of compensation. He asked if EIB could be included in the definition. He explained how EIB is accrued and administered.

Mr. Kortge expressed understanding about the complexities of administering the plan and that it should be made as easy as possible.

Mr. Dubick stated that he feels the definition of compensation should be written somewhere in the new plan.

Mr. Clark-Shim asked for a clear summary of what the Committee had decided so far. He suggested that either the base salary definition, with open questions about overtime, bonuses, and EIB, be taken to the full Board or that the Committee develop a definition at this meeting.

Mr. Moreland voiced his understanding that the Committee and staff agree that the definition should be base salary plus EIB and CAL (both used during the course of employment) and does not include overtime and bonuses. All Committee members agreed with this statement.

Mr. Dubick noted that overtime and bonuses could be added back into the definition, if needed.

Mr. Gillespie mentioned that when the ATU bargains the pension plan issue in any future negotiations, the overtime could be a significant issue for any changes to their plan.

Mr. Clark-Shim continued the discussion with the next item in the letter: vesting provisions. Milliman proposed that the definition of "year of vesting service" be an elapsed-time definition because most District salaried employees work on a regular basis. Under this definition, the employee would earn a year of vesting service on each anniversary date of the date of hire. The Committee approved the elapsed-time definition of years of vesting service.

Mr. Clark-Shim moved to the subject of vesting schedules. He wanted to clarify that the Committee had agreed to the vesting schedules listed in the letter, and also that forfeitures from non-vested termination be applied to reduce future District contribution costs and not reallocated for the benefit of participants. Committee members stated that they agreed with both items.

Mr. Clark-Shim then summarized the Committee's discussion regarding hardship withdrawals, in-service contributions, and loans--topics that were not in the original Milliman letter. He requested approval from Committee members that these features would not apply to the District contribution discussed in the letter, and that they may separately revisit this provision of the 457(b) Plan to see if changes are warranted. Committee members approved of this additional provision.

Mr. Clark-Shim addressed the next item, "entry provisions," which was not discussed at the last meeting. This item addressed the point at which a new employee would begin receiving employee discretionary and matching contributions. Several options were listed, and Milliman proposed that the Committee:

- "consider immediate participation to begin receiving employer discretionary and matching contributions, coupled with automatic enrollment. Alternatively, consider an entry provision of the first day of the third month following the date of hire. A common approach with this type of delayed entry provision would be to include all compensation beginning with the first payroll on or after the entry date."

Mr. Kortge expressed that he preferred the simple option: that when an employee is hired, they receive the money. He also stated that this option would make the administrative process more streamlined. Committee members agreed with Mr. Kortge and approved the option of immediate participation.

Mr. Clark-Shim continued the discussion with the next item, "service and accrual rates," which was not addressed at the last meeting. He stated that the discretionary contributions schedule is based upon a definition of service, and offered the following proposals.

- “Link up as many definitions of service as reasonably possible to avoid complication in administering and explaining the benefits. We recommend using the elapsed-time year of vesting service definition as the basis for other measures of service.
- Assuming the District engages in payroll-period deposits for its discretionary and matching contributions...the higher accrual rate could apply beginning with the payroll next following attainment of, for example, five years of vesting service.
- ATU employees transferring to salaried employment could be credited service based upon their elapsed time employed from date of hire in an ATU position. This would mitigate the potential disincentive to transfer to salaried employment.”

Mr. Lipkin asked how the last point would be worded to ensure that the credited service is actual time served.

Mr. Moreland responded that this decision would be made at the District’s discretion. He added that what he sees typically, which is easier to administer, is that a return employee who has money in the plan had his/her old service counted, but not if the employee did not have money in the plan.

Mr. Lipkin stated that this provision is for employees who leave and return. He asked if ATU employees who leave and return would be credited on their last hire date.

Mr. Moreland stated that old service would not be credited--if that is the Committee’s decision.

Mr. Clark-Shim asked if service would be cancelled for the purposes of vesting.

Mr. Moreland responded that because it is a governmental plan, it does not need to comply with rules recognizing prior vesting service per the Employee Retirement Insurance Security Act (ERISA).

Committee members agreed to the Milliman proposals for service and accrual dates.

Mr. Clark-Shim proceeded to the next item, the definition of “retirement,” which the Committee discussed in detail at the last meeting. His conclusion from this discussion was that the Committee decided to define only “normal retirement” in the new salaried retirement benefit and defer deliberation on retiree medical benefits. In addition, Milliman recommends:

- “that former employees also be required to receive a complete distribution of funds. Such requirement could be as soon as practicable after separation from employment, and could include an additional trigger age such as 65. The distribution requirement will reduce the District’s administrative burden.”

Mr. Moreland clarified that the rule for re-hire prior service for future contributions is not counted. First, if prior vested money exists in the plan, two separate accounts for each vesting schedule are required; so it is administratively easier to force the money out. Second, even though the funds are individually directed, there is fiduciary liability held still by Trustees for money in the plan and the range of investment options.

Committee members approved the Milliman proposal for service and accrual dates without further discussion.

Mr. Clark-Shim addressed the next item in the letter: "Defined Contribution Investment Options." He added that this piece will not be included as part of the plan and can be deferred to a later date. The Milliman proposal stated that "LTD will need to choose whether to allow the participants to direct their own investment, or whether it will invest money on their behalf." The proposal is to:

- "allow participants to direct their own investment similar to the safe harbor provision for participant-directed investments under ERISA law. Include in the range of available investments "target-date funds" which allocate participants' assets based upon their expected retirement date."

Milliman also recommends "bringing in a defined contribution consultant to discuss further items such as the range of potential investment, available families of funds, and recordkeeping platforms."

Mr. Gillespie relayed that the Board had a prior lengthy discussion on this topic that will continue to be addressed in the future.

Mr. Dubick concurred that this topic be deferred, but emphasized the importance of continuing this discussion.

Mr. Kortge asked if a decision on this topic is the responsibility of the Board or of the Trustees.

Mr. Moreland replied that the plan will allow the Trustees to permit employees to direct their own investments.

Ms. Adams added that she would like the staff to do preliminary work and bring it back to the Committee. She asked if the ultimate decision could then be made by the full Board. Mr. Moreland stated that he could draft the plan to have the full Board decide, with guidance from the Trustees.

Mr. Gillespie conveyed his preference of having the Trustees included in the oversight process.



Mr. Kortge stated that he would rather the decision be made by the Trustees.

Mr. Clark-Shim continued with the next item of "defined contribution deposits." Milliman's proposal states:

- "The simplest solution may be to make all employer and employee deposits on a payroll basis and integrate those contribution rates with payroll processing. Annual deposits of employer contributions may be difficult to integrate with the District's annual budgeting process, because end-of-year employment will not be known until after the budget has already been established."

Mr. Kortge responded that current plan contributions are on a payroll-by-payroll basis and that this method is easiest. Any changes to this would add an unnecessary burden. Committee members and staff agreed that contributions remain on the current payroll schedule.

Mr. Clark-Shim reviewed the next item, which was whether or not employees be enrolled automatically in the 457(b) plan. He summarized that the Committee addressed this issue at the last meeting and agreed to automatic enrollment at a 6 percent of compensation deferral rate, which takes full advantage of the current matching contribution and is a common number in the public sector.

Mr. Clark-Shim addressed the final item in the letter, the "annuitization of benefits." The letter states:

"One of the concerns surrounding defined contribution retirement systems is that retirees may face challenges to establishing and maintaining steady income throughout retirement. One solution to these challenges is the purchase of annuities. An annuity purchase takes a lump sum retirement account and uses it to purchase lifetime monthly income which is guaranteed by an insurance company."

Milliman recommends that due to administrative and cost issues, the District not require or offer annuities through its plan.

Mr. Dubick suggested that an annuity could be an option at retirement, with the employee receiving the lump sum of money and a list of options, but not at the District's expense.

Mr. Moreland offered his perspective that from a fiduciary and liability standpoint, it would be easier if only a lump sum were offered. Therefore, if the employee wanted an annuity, he/she could carry out a tax-free rollover into an individual retirement annuity. This process would eliminate complex enrollment forms and District responsibility.

Ms. Hellekson asked if a time constraint could be placed on offering the lump sum.

Mr. Moreland replied that the plan could state that the annuity be purchased as administratively practicable. He added that at age 65, the IRS requires the money to rollover to an IRA if the individual does not take action.

Mr. Kortge suggested that the District research companies that offer annuities as part of the plan and a subsequent pay-out on retirement.

Mr. Moreland proposed that for purposes of adopting the plan, he would include language allowing a lump sum as the only option. Consequently, as investment options are chosen, including annuities, the general manager can decide to amend the plan to accommodate these choices.

Committee members agreed with Mr. Moreland's suggestion.

Mr. Clark-Shim and Mr. Moreland stated that they had all the information they needed to move forward with drafting the new plan.

Ms. Adams reviewed next steps including a full Board discussion and implementation details and deadlines.

#### **NEXT MEETING**

Should the Committee need to discuss any issues in-depth after the next Board meeting, the next meeting is tentatively set for October 11, 2011.

#### **ADJOURNMENT**

There was no further discussion, and the meeting was adjourned at 5:43 p.m.

*Transcribed by Susan Oldland, Human Resources Administrative Secretary.*

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Recording Secretary