DIGEST

Retirement Fund Benefits Untouched By Board Action

In order to maintain a fiscally sound County budget and not come up short on June 30, the Board of Supervisors this month transferred $22.5 million from surplus earnings in the Retirement Fund to the General Fund. (Most employee salaries are paid out of the General Fund.) Does this mean that the Board has dug into retiree benefits?

Not at all. But we will have to know a little bit about the retirement system in order to explain this to someone who simply assumes that what comes out of the Retirement Fund must in some way reduce benefits. First we have to understand exactly what is meant by "surplus earnings."

The Board made it clear that the surplus earnings it was transferring is what is left over after *all* expenses are taken care of, including payments to retirees, interest rates, administrative costs, a reserve fund, retiree health, dental and vision insurance benefits, and death benefits. Now that it is clear that benefits are not going to be reduced, let's look at how those surplus earnings got there in the first place.

The County's primary concern is to ensure that the retirement system is fiscally sound. For the employee and the retiree, this means that the retirement system must be able to deliver the benefits agreed upon. In addition the law requires that there be a reserve equal to 1% of the assets of the fund.

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FEBRUARY 1982

Volume 15 Number 2

TAX-SHELTERED RETIREMENT PLANNING

(Continued from January Issue)

Deciding whether to participate in the County's Deferred Compensation Plan or in an IRA is not an "either/or" situation. You may do both up to the maximum limits provided under each system if you like.

As pointed out in the January issue of the Digest, Deferred Compensation and IRA's are not exactly the same. There are some very significant differences relative to the amounts that may be invested, the circumstances under which funds may be withdrawn, state income taxation and, depending on where any given IRA is purchased, the character of the investment program. Deciding whether to set up an IRA or to use the County's Deferred Compensation Plan, or both, is entirely a matter of individual choice.

The following chart summarizes some of the key similarities and differences between the County's Deferred Compensation Plan and IRA's.

DEFERRED COMPENSATION	IRA's
Eligible Employees	
All full-time permanent County employees.	All County employees.
Minimum Contribution / Deferral Amount	
3% of gross monthly compensation.	No minimum under federal law. However, many providers of IRA's impose some type of minimum contribution/ requirement.
Maximum Contribution / Deferral Amount	
25% of gross annual compensation, or $7,500 per annum, whichever is less. Also, the amount deferred in any one month may not exceed 25% of that month's gross salary.	The lower of: 1. $2,000 per annum for a single person; $2,250 per annum for a married person with a nonworking spouse; and $2,000 per person per annum for married couples where both spouses work (i.e., total contribution may not exceed $4,000 per annum). 2. Total annual earnings.
Tax Treatment	
Deferred compensation is excluded from gross pay under both federal and state income tax laws. This means that deferred compensation payments are not included in "Wages, tips, and other compensation" figure on employee W-2 forms, and that federal and state	IRA contributions may be applied as a deduction from "Wages, tips, and other compensation" on each individual's federal tax return. During the course of the tax year, IRA contributions must be funded from gross pay on which federal and state witholding may be taken.

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Board of Supervisors Responds To Employee Suggestions

Employee suggestions are not just "received and filed" at the County. The more than 1700 responses to the employee survey distributed with the October 25th paychecks and reprinted in the November Digest were promptly turned over to Eric Johnson & Associates for analysis. The Board took action at the very next Board meeting after receiving the two volume report from the consulting firm.

On January 26th the Board ordered department heads to evaluate the report as it applies to their departments and submit an action plan for follow up to the Board of Supervisors and the Chief Administrative Office within 30 days.

"This is a step forward in involving our employees in improving County operations," Supervisor Michael Antonovich said, "and those who took the time to respond should be commended for their many creative and constructive suggestions."

In response to Antonovich's stress on providing employees with timely feedback on results, the Board ordered that the results of the survey be presented in this issue of the Digest and include a statement as to how the results are to be used and the process of evaluation.

This is how it is working:

All department heads have received copies of Volume I of the report, which provides an overview of County-wide findings and a synopsis of responses. Names of respondents are not given to department heads. That portion of Volume II which summarizes responses for his/her individual department has been given to each department head. Again, names of individual respondents are not included in the report.

No later than February 26, 1982, each department head will forward an action plan to the Chief Administrative Officer. After reviewing the consultant's report and the department heads' responses the CAO will report back to the Board of Supervisors on a productivity improvement strategy which utilizes employee suggestions as a part of the County's overall productivity program.

For more information on Deferred Compensation, you can contact the Security First Group at 556-8066. Those outside the 213 area may call collect.

SUMMARY OF STATISTICAL RESULTS—TOTAL COUNTY

	Question 1*		Question 2*		Question 3*	
	Number of Responses	Percent of Responses	Number of Responses	Percent of Responses	Number of Responses	Percent of Responses
A. Organizational/Management						
1. Too many Senior Managers &	255	21	69	6	133	13
Administrators						
2. Reduce Excess Personnel	118	10	36	3	54	6
3. Even Out Workloads	13	1	19	2	32	3
4. Don't Have Professionals Doing	21	2	17	2	3	—
Clerical Tasks	53	5	16	2	43	4
5. Combine Functions/Departments						
6. Obtain More Competent Management/	14	1	40	4	11	1
Supervision	85	7	19	2	11	1
7. No Areas for Improvement Available	—	—	21	2	20	2
8. Enhanced Budget	559	47	237	23	307	30
B. Operational						
1. Improve Training of Employees	—	—	22	2	20	2
2. Reduce Use of County Cars for	37	3	—	—	14	1
Personal Use	22	2	22	2	62	6
3. Charge For Services Now Free						
4. Use Word Processing—Improve/Utilize	19	2	217	20	26	3
Data Processing Systems						
5. Contract Outside for Consulting Services/	18	2	10	1	47	5
Outside Contractors	25	2	36	3	49	5
6. Revise Work Schedule—e.g.,	17	1	79	7	17	2
four day week						
7. Provide Improved Equipment	217	18	71	7	82	8
8. Reduce Waste/Duplication	133	11	112	10	120	12
9. Revise/Improve Operating Procedures	488	41	569	52	436	44
C. Incentives/Motivations						
1. Discipline Poor Workers—	26	2	23	2	73	7
Fire Incompetents						
2. Provide Better Employee Incentives	19	2	161	15	64	7
3. Manage Lazy Employees Better	25	2	5	—	7	1
4. Promote on the Basis of						
Capability	—	—	16	1	6	1
	70	6	205	18	150	16
D. Miscellaneous	76	6	87	7	94	10
TOTAL	1,193	100	1,098	100	987	100

*1. Can you identify any areas in your department in which costs could be reduced through the elimination of unnecessary activities?

*2. Are there any areas in your department in which new technology, new procedures or processes, better organization, or improved motivation techniques can increase productivity?

*3. Do you have any recommendations which would help County government improve the quality of service to the taxpayer while, at the same time, maintaining or reducing current costs?

4. Are there any other suggestions you have that can help County government reduce costs, improve productivity, or increase the quality of service within existing costs?
Responses to this question did not lend themselves to classification.

Law Requires All Plan E Applications Be Filed By March 4

H. B. Alvord, the County's Treasurer-Tax Collector, announced that as of close of business February 9, 10,319 County employees have opted for Plan E. Distributions of over $40,000,000 in cash will be made to these employees during the month of May. This represents a return of all of their employee contributions to Retirement Plans A, B, C, and D, plus interest earned on these contributions.

All employees who opt for Plan E can expect to see the salary increase (represented by money they previously had to pay for their retirement plans) in their March 25 paycheck. Those employees opting for Plan E early enough may begin to feel the increased income by February 25 or March 10.

Employees are reminded that March 4 is the deadline for converting to Plan E. Under the provisions of the State's enabling legislation, no applications can be accepted after that date.

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withholding is not taken on these amounts during the course of the year. Deferred compensation is considered part of an employee's regular gross salary for all other purposes (e.g., calculation of Social Security contributions, retirement and insurance benefits, overtime pay, etc.). Money withdrawn from the Deferred Compensation Plan is taxed as ordinary income.

Withdrawal / Distribution Procedure

An employee's accumulated deferred compensation, and the investment return thereon, becomes payable upon the occurrence of one of the following:

1. Retirement.
2. Termination from County service on basis other than retirement.
3. Death.
4. Disability.
5. Occurrence of unforseeable emergency (i.e., hardship) as defined under federal law.

An employee who terminates County service prior to abe 70½ may opt to leave his funds in the Plan, but he may not make further contributions. Distribution at age 70½ is mandatory.

Employee may choose from a variety of payout options ranging from withdrawal over a designated period to guaranteed lifetime income in the form of joint and survivor annuity benefits.

Character of Investment Program

Deferred Compensation participant may place his funds in one or more of the following options:

1. A guaranteed fixed rate investment, currently guaranteeing 15% through 1982 on funds deferred through the first quarter of 1982. Guarantees on funds deferred after the first quarter of 1982 will be established at a later date.
2. A money market fund.
3. A bond fund.
4. A growth stock fund.
5. An aggressive (speculative) growth stock fund.
6. A savings and loan option through Home Savings of America.

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For most County employees, IRA contributions are *not* tax deductible under California State income tax law. This is because there was no state legislation in 1981 that paralleled the Economic Recovery Act of 1981. (New state legislation may be enacted by 1983.) Like deferred compensation, IRA contributions are considered part of an employee's regular gross salary for all other purposes. Money withdrawn from an IRA is taxed as ordinary income. (See early withdraway tax penalties below.)

An IRA participant's accumulated contributions, and the investment return thereon, become payable upon the occurrence of one of the following:

1. Participant attains age 59½.
2. Disability.

Distribution at age 70½ is mandatory.

A person who is not disabled may withdraw his funds prior to age 59½, but he must pay a special 10% federal income tax penalty on the funds withdrawn. This is over and above the ordinary income tax liability on the same funds.

Payout arrangements vary with individual IRA provider.

Varies with IRA provider:

—Banks, Savings and Loans, and Credit Unions—Usually offer fixed or variable rate investments. Guaranteed rates may be comparatively high. Funds usually insured up to $100,000 by Federal Deposit Insurance Corporation. Early withdrawals may result in special penalties (in addition to the 10% tax penalty mentioned above).

—Insurance Companies — Usually offer fixed or variable rate annuities.

—Individual Retirement Bonds—May be purchased from federal government in $50, $75, $100, or $500 denominations.

—Stock Brokerage Firms—Investor is given comparatively wide latitude in choosing investment mediums which encompass most of the investment vehicles in which brokerage houses deal (e.g., mutual funds, money-market funds, individual stocks and bonds, etc.). Risks and fees may be comparatively high.

HOW DOES RETIREMENT PLAN E FIT IN?

Retirement Plan E will help solve a number of problems with the existing retirement system. Two of the major problems are as follows:

1. Retirement Plans A, B, C, and D are becoming too costly for many County employees. Under these plans, employee contributions are made with after-tax dollars. In the case of Plan D, the contribution rates range to more than 9% of gross pay.
2. There has been a growing consensus that the County should provide a basic employer-paid pension benefit that is competitive with private sector norms (which is the case with Plan E), and that employee contributions should be "freed up" so that employees can decide for themselves which additional retirement benefits, if any, they should buy and how and where their money should be invested. Under Plans A, B, C, and D, there is no way of addressing this need.

Keeping these points in mind, the merits of electing or not electing to go into Plan E should be evaluated with the understanding that (a) Plan E is provided at no cost to covered employees, and (b) there are alternative uses for the funds that would otherwise be consumed by retirement contributions and taxes under Plans A, B, C, and D. Two of these uses are Deferred Compensation and IRA's.

The following hypothetical examples illustrate how an individual can use Plan E in conjunction with a tax-sheltered investment program. For comparison purposes, we have also shown the corresponding benefits that would be paid out under Retirement Plans A and D.

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For more information on Deferred Compensation, you can contact the Security First Group at 556-8066. Those outside the 213 area may call collect.

RETIREMENT FUND BENEFITS UNTOUCHED

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This reserve last year had a balance of over $31 million.

How do we know how much it is going to take to keep the system fiscally sound? First, the Retirement Investment Board estimates how much will be needed to meet the system's obligations (retirement benefits, administrative costs and the 1% reserve). They then estimate the income of the system. If the estimated income is less than the estimated obligations, the County agrees to make up the difference.

When the Investment Board estimates the income of the system it quite properly is very cautious. It wants to make as sure as possible that the income estimate is not too high. This year the income was $22.5 million more than was estimated. Keeping in mind that the County's obligation is to ensure that expenses are not more than income it is only fair that costs to the County be partially offset by receiving credit for the fund's surplus earnings.

In the past ten years County contributions to the retirement fund have risen from $71 million per year to over $315 million this year. Los Angeles County has responsibly met its requirements to finance the employee retirement fund.

County of Los Angeles

DIGEST

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COMPARISON OF POTENTIAL RETIREMENT INCOME
UNDER RETIREMENT PLANS A AND D, AND RETIREMENT PLAN E
PLUS TAX-SHELTERED INVESTMENT PROGRAM

—Two Hypothetical Cases—

PROJECTED ANNUAL BENEFIT
EXPRESSED AS PERCENTAGE OF ESTIMATED AVERAGE
ANNUAL SALARY IN LAST THREE YEARS OF SERVICE

Hypothetical Case	*Under Plan E & Tax-Sheltered Investment Program Yielding a Net 10% Investment Return*	
1. Female employee enters County service in 1982 and, therefore, has a choice between Plans D and E. She currently earns $1,500 per month and is age 30. She plans to retire at age 65 in the year 2017.	Plan E retirement allowance:	70%
	Straight-life annuity value of accumulated investment capital:*	140%
	Total:	210%
	Plan D retirement allowance:	81%
2. Male employee entered County service in 1972 under Plan A. He currently earns $2,500 per month and is age 40. He plans to retire at age 65 in the year 2007.	Plan E retirement allowance:	70%
	Straight-life annuity value of accumulated investment capital:*	82%
	Total:	152%
	Plan A retirement allowance:	95%

*This is the estimated income that the employee would receive if his or her accumulated investment capital were gradually depleted from age 65 to date of death (based on current life expectancy estimates.) Other types of annuity arrangements would likely be available.

ADDITIONAL ASSUMPTIONS

1. Relative to both examples:
   a. Future salary increases will be at the rate of 5%.
   b. The current levels of employee retirement contributions will remain unchanged.
2. Relative to Example 1:
   a. All the money that would have been consumed by Plan D employee contributions (and the state and federal taxes thereon) is channeled into a tax-sheltered investment program.
   b. The employee's tax bracket is that of a single person with no dependents.
3. Relative to Example 2:
   a. All of the money that would have been consumed by Plan A employee contributions after conversion to Plan E (and the state and federal taxes thereon) is channeled into a tax-sheltered investment program. Also, all of the after-tax refunded prior contributions from Plan A are channeled into an annuity type program where the investment return is tax exempt until actually withdrawn or otherwise received at time of retirement.
   b. The employee's tax bracket is that of a married person with two dependents.

NOTE: The relative advantages or disadvantages of opting for Plan E plus a tax-sheltered investment program may be significantly influenced by changes in the above assumptions.