

Date: October 17, 2018  
To: Board of Retirement  
From: James Wilbanks, Ph.D., Executive Director  
Subject: Agenda Item 4) Public Safety Contributions Correction

During the 2017 Financial Audit, the auditors tested both employer and employee contributions for several active members. The auditors were unable to verify the contributions for a legacy public safety member based on their calculations. MCERA staff reviewed the calculations with the auditor and uncovered an issue with the calculations.

The issue is the result of the method used to calculate the employee contributions. MCERA contributions for legacy members are calculated using two different rates due to Social Security integration. The legacy member employee contributions are lower on the first \$161.54 of pay each period. The legacy safety member contributions rates are shown on pages 81-82 of the June 30, 2017 Actuarial Valuation report for reference.

The Mendocino County Auditor issues bi-weekly payroll to County employees and withholds and remits retirement contributions to MCERA. The calculation of the employee contributions is simplified to use a single contribution rate for each employee group, tier and age rate. The simplification allows the employer to reduce the number of contribution rates from nearly 600 to less than 300 different rates.

The simplified calculation relies on the fact that the employee contribution rate on the first \$161.54 of pay each pay period is two-thirds (2/3) of the contribution rate on pay above \$161.54. The calculation of employee contributions using the two rates is based on the formula:

$$\text{Employee Contribution} = \$161.54 * \text{Rate}_1 + (\text{Salary} - \$161.54) * \text{Rate}_2$$

Substituting for Rate  $_1 = (2/3) * \text{Rate}_2$  and expanding shows:

$$\text{Employee Contribution} = \$161.54 * (2/3) * \text{Rate}_2 + \text{Salary} * \text{Rate}_2 - \$161.54 * \text{Rate}_2$$

Multiplying terms then shows:

$$\text{Employee Contribution} = \$107.70 * \text{Rate}_2 + \text{Salary} * \text{Rate}_2 - \$161.54 * \text{Rate}_2$$

Adding like terms and simplifying reveals:

$$\text{Employee Contribution} = \text{Salary} * \text{Rate}_2 - \$53.84 * \text{Rate}_2$$

$$\text{Employee Contribution} = (\text{Salary} - \$53.84) * \text{Rate}_2$$

This simplified calculation relies on only a single rate and produces the correct employee contribution amount unless there is a complication with the employee contributions. For Mendocino County Public Safety members there is a complication.

As the footnote on page 82 of the June 30, 2017 Actuarial Valuation Report indicates, the COLA contributions paid by legacy Safety members is subsidized 1.63% by the employer in accordance with the Memoranda of Understanding for employees in this group. This simplified calculation leads to an incorrect employee contribution amount because of the employer provided subsidy.

As a result of this miscalculation, legacy safety employees paid \$0.87 too much in COLA contributions each pay period since 2003. This miscalculation of contributions is the result of the interaction between the Social Security integration and the employer provided COLA subsidy of 1.63%.

General and Safety Probation members have never received an employer subsidy of employee contributions in MCERA and thus, are not impacted by this issue. While researching the impact of this issue, MCERA staff identified earlier employer subsidies provided to legacy Safety members that also resulted in incorrect member contributions.

From 1994 to 2015, there were employer subsidies of Basic retirement contributions for Safety members of either 3%, 6% or 9% depending on bargaining unit. The amounts of contribution overpayment by Safety members each pay period was \$1.62, \$3.23 and \$4.85 respectively.

MCERA staff has completed a comprehensive review of employee contributions for all Safety members and has determined the amount owed to each affected member. The County is going to refund the amounts to active employees via payroll on October 26, 2018. MCERA plans to pay the amounts owed to retired and deferred members as part of the retirement benefit payments scheduled for October 31, 2018.

MCERA will pay approximately \$100,000 to around 160 retired and deferred members while the County will pay \$100,000 to around 80 active members. Additionally, MCERA will be sending letters to every affected member explaining the issue and advising them of the amount to be refunded to them. Attached is a draft of the template letter for retired members. We also have similar letters, albeit modified slightly, for active and deferred members as well.

I am happy to answer any questions you may have.

October 11, 2018

Name

Address

City, State, Zip Code

Dear ,

This letter is to advise you of an issue regarding an error in the calculations of your contributions to MCERA while in active employment status. There was an error in the calculation of contributions paid by the member resulting in you paying more in contributions than was required. The calculation error was uncovered during a financial audit of MCERA and is the result of an interaction between the method used to calculate employee contributions and the employer provided contribution subsidy for Public Safety members in certain bargaining units.

As you may know, there have been two different employer provided subsidies for Public Safety employee retirement contributions: either a 3%, 6% or 9% subsidy on regular contributions, depending on bargaining unit, in effect from 1994 to 2015; and a 1.63% subsidy on the COLA contribution that began in July, 2003 and still remains in effect today. The impact of the calculation error was that members paid either \$1.62, \$3.23 or \$4.85 too much in contributions each pay period for the regular subsidy, depending on bargaining unit and subsidy percentage, and \$0.87 too much in contributions each pay period for the COLA subsidy.

After discovery of the calculation error MCERA launched an effort to identify and correct the error for all our members. MCERA staff has exhaustively researched your contribution history and determined that your overpaid contributions total \$XXX.XX. This amount will be (included with your next monthly retirement benefit payment/sent to you in a separate payment) on October 31, 2018.

This issue will in no way impact your retirement benefits, now or in the future. MCERA continues to work with the County to ensure employees remit the appropriate contributions and that our members accrue all of the retirement service credit earned.

If you have questions, please email us at [retirementassociation@mendocinocounty.org](mailto:retirementassociation@mendocinocounty.org) or feel free to contact us by phone.

Thank you for your service to Mendocino County.

Respectfully,

James Wilbanks, Ph.D.  
Executive Director