LANCASTER COUNTY RETIREMENT PROGRAM
FREQUENTLY ASKED QUESTIONS
May 3, 2018

INTRODUCTION

The Lancaster County Board of Commissioners has received a recommendation from the Pension Review Committee (PRC) to increase the combined employer-employee contribution to the Lancaster County Employees Retirement Plan from 13% to 16%. As the County Board considers this request, questions have been raised by County Board members about the structure of the County's retirement program, whether County employees are adequately prepared for retirement, the cost to the County of the increase to 16%, and how the increase will be implemented with the various classifications of County employees. The purpose of this document is to assist the Board with its decision on the PRC's recommendation by providing answers to these questions.

Overview of Lancaster County Employees Retirement Program

I. Lancaster County Employees 401(a) Retirement Plan

The Lancaster County Employees Retirement Plan (Retirement Plan) is a defined contribution pension plan authorized and established under Neb. Rev. Stat. §23-1118, and qualified as a 401(a) plan under the IRS Code.

A. Eligibility to Participate

Participation is governed by Neb. Rev. Stat. §23-1118(3), and includes "...all persons or officers devoting more than twenty hours per week to employment by the county or municipal county, all elected officers of the county or municipal county, and such other persons or officers as are classified from time to time as permanent employees by the county board or council."

1. **Voluntary Participation** – 21 years of age and 6 months of employment.

2. **Mandatory Participation** – 25 years of age and one year of employment.

B. Contribution Rates

1. State Law

Contribution rates are governed by Neb. Rev. Stat. §23-1118(1)(c). For employees hired prior to July 1, 2012 Lancaster County is required to contribute 150% of each participant's mandatory contribution, not to exceed a combined contribution of 13% (employee contributes 5.2% and the County contributes 7.8%). See 1992 Neb. Laws, LB 672.

For employees hired on or after July 1, 2012, Lancaster County is required to contribute at least 100% of each participant's mandatory contribution, not to exceed a combined contribution of 13%. 2012 Neb. Laws, LB 867.

In 2015 Neb. Rev. Stat. §23-1118(1)(c) was amended again to increase the maximum combined contribution from 13% to 16%. The amendment also provides that an employee receiving a 150% employer contribution may irrevocably elect to switch to a 100% employer contribution. 2015 Neb. Laws, LB 126.

2. Existing contribution rates

Following the passage of LB 867, the County Board began negotiations with AFSCME, FOP 29 (sheriff deputies), FOP 32 (corrections officers), and FOP 77 (juvenile detention officers). FOP 32 agreed to the 100% match, effective August 23, 2012; AFSCME agreed to the 100% match, effective August 22, 2013; and FOP 77 agreed to the 100% match, effective August 31, 2014. FOP 29 refused to agree to the 100% match and remains at the 150% match, regardless of the date of hire. Following completion of negotiations with all the unions, the County Board implemented the 100% match for unrepresented employees hired on or after December 25, 2014.

Summary of Existing Contribution Rates:

Unrepresented employees hired BEFORE December 25, 2014 who participate in the 401(a) plan contribute 5.2% of their wages on a pre-tax basis and the County matches 1.5 times or one hundred fifty percent of those contributions to the plan.

Unrepresented employees hired ON OR AFTER December 25, 2014 who participate in the 401(a) plan contribute 6.5% of their wages on a pre-tax basis and the County matches 1.0 times or one hundred percent of those contributions to the plan.

Employees covered under the collective bargaining agreement with FOP, Lodge 29 who participate in the 401(a) plan contribute 5.2% of their wages on a pre-tax basis and the County matches 1.5 times or one hundred fifty percent of those contributions to the plan.

Employees covered under the collective bargaining agreement with FOP, Lodge 32 hired BEFORE August 23, 2012 who participate in the 401(a) plan contribute 5.2% of their wages on a pre-tax basis and the County matches 1.5 times or one hundred fifty percent of those contributions to the plan.

Employees covered under the collective bargaining agreement with FOP, Lodge 32 hired ON OR AFTER August 23, 2012 who participate in the 401(a) plan contribute 6.5% of their wages on a pre-tax basis and the County matches 1.0 times or one hundred percent of those contributions to the plan.

Employees covered under the collective bargaining agreement with FOP, Lodge 77 hired BEFORE August 31, 2014 who participate in the 401(a) plan contribute 5.2% of their wages on a pre-tax basis and the County matches 1.5 times or one hundred fifty percent of those contributions to the plan.

Employees covered under the collective bargaining agreement with FOP, Lodge 77 hired ON OR AFTER August 31, 2014 who participate in the 401(a) plan contribute 6.5% of their wages on a pre-tax basis and the County matches 1.0 times or one hundred percent of those contributions to the plan.

Employees covered under the collective bargaining agreement with AFSCME, Local 2468 hired BEFORE August 22, 2013 who participate in 401(a) plan contribute 5.2% of their wages on a pre-tax basis and the County matches 1.5 times or one hundred fifty percent of those contributions to the plan.

Employees covered under the collective bargaining agreement with AFSCME, Local 2468 and AFSCME, Local Engineering hired ON OR AFTER August 22, 2013 who participate in the 401(a) plan contribute 6.5% of their wages on a pre-tax basis and the County matches 1.0 times or one hundred percent of those contributions to the plan.

II. Lancaster County 457 (b) Deferred Compensation Plan

The Lancaster County Employees Retirement Plan is supplemented by the Lancaster County Deferred Compensation Plan (Deferred Compensation). Unlike the Retirement Plan, participation in the Deferred Compensation is entirely voluntary. There is no County match on any employee contributions to Deferred Compensation. Both plans are administered by Prudential Retirement, and the same investment array is utilized for both plans. A Roth component was added to the Deferred Compensation Plan in 2011, allowing participants to make both pre-tax and after-tax contributions.

Effective June 5, 2018, a voluntary contribution accelerator will be added to Deferred Compensation. For employees who choose to participate, every year their contribution to Deferred Compensation will increase by 1% of their income, up to a maximum of 15%.

As of 2018 the maximum amount an employee can contribute to Deferred Compensation is $18,500 per year. Employees age 50 or older can contribute an additional $6,000, for a total of $24,500 per year.

As of December 31, 2017, there are 517 participants in Deferred Compensation.

QUESTIONS

1. Are County employees saving enough for retirement?

Since Lancaster County does not have a defined benefit program, employees will need to rely on social security and personal savings for their retirement income. The main sources of personal savings for employees are the Retirement Plan and Deferred Compensation.

A. Average Account Balances

Average account balances for Lancaster County employees are tracked by Prudential in their annual and semi-annual investment reports. For the 2017 year-end report, average balances for the Retirement Plan can be found on p. 137, and on p. 160 for Deferred Compensation. Average account balances are tracked for all participants, as well as for specific age groups.

Retirement Plan
As of December 31, 2017, the average Retirement Plan balance for all participants was $130,178. For participants age 55-64, the average balance was $191,066. For participants 65 or older, the average balance was $200,675.

Deferred Compensation
As of December 31, 2017, the average Deferred Compensation balance for all participants was $46,757. For participants age 55-64, the average balance was $68,003. For participants 65 or older, the average balance was $90,571.

B. Median Balances

However, relying on average balances alone can give an inaccurate impression of how many County employees are saving enough for retirement. A small number of high balances can significantly raise the average balance. A more accurate way of measuring retirement readiness is the median, which is also tracked by Prudential. The median is defined as the value lying at the midpoint of a frequency distribution, so one half of the values are above the median and one half of the values are below the median.

Retirement Plan
As of December 31, 2017, the median for all Retirement Plan participants was $78,769. For participants age 55-64, the median was $139,526. For participants 65 or older, the median was $125,307.

Viewed from the perspective of the median, one half of Retirement Plan participants 65 or older have balances of less than $125,307. It is also likely a substantial number of participants 65 or older have balances which are not significantly higher than the median.

Deferred Compensation
For Deferred Compensation, $14,288 was the median for all participants, $21,487 for participants age 55-64, and $47,802 for participants 65 or older.

C. Replacement Income Needed for Retirement

A common rule of thumb is that employees should save between 10 and 12 times their annual salary to generate enough income for a comfortable retirement. Another rule of thumb is that employees need a retirement income of between 70% to 90 % of their annual salary.

Presently, the average County salary (without benefits) is $56,825. Based on the assumption that an annual retirement income should be approximately 80% of the employee's salary (half way between 70% and 90%), an average annual retirement income for a County employee should be $45,460. In 2017 the average social security payout was $16,320. Subtracting this amount from $45,460 means the average County retiree would need to generate approximately $29,140 per year to match 80% of the average County salary.

For a 65 year old male the average expected retirement period is almost 19 years, and for a 65 year old female the average expected retirement period is 21 years. However, an average Retirement Plan balance of $200,675 for a 65 year or older retiree, with an annual retirement income requirement from the plan of $29,140 per year, the average account balance would be depleted in less than 8 years; and the median balance would be depleted in less than 6 years. The number of years the average balance will last may be longer or shorter, depending on investment performance.

Employees contributing to Deferred Compensation will have additional funds available for retirement, with an average balance of $90,571 for a 65 year or older retiree adding 3 more years of replacement income, and the median balance of $47,802 adding approximately 1.6 years of replacement income.

By comparison, an employee who has saved at least 10 times the average County salary of $56,825 would have a retirement savings account of $568,250, producing a potential annual income over a 20-year period of approximately $28,400.

2. If the combined contribution rate is raised to 16%, how much of an impact would it have on participant balances?

An additional 3% annual contribution can have a significant effect on participant balances, especially for younger employees. The average length of service for an employee who retires from Lancaster County is 22 years, and the average age at the time of retirement is 63. The average initial salary for a County employee is $35,000. With a total contribution rate of 13% the average County retiree described above would have saved $241,425 for retirement. If the total contribution had been 16% instead of 13%, that same employee would have saved $297,139 for retirement.

See Attachment A.

If the combined Retirement Plan contribution rate had been 16% instead of 13%, the average and median account balances as of December 31, 2017 would have been approximately 23% higher. The average account balance for an employee 65 or older would have been approximately $246,830 instead of $200,675, and the median would have been Approximately $154,127 instead of $125,307.

3. How much will it cost the County if the combined contribution is increased to 16%?

Given existing salaries and assuming 100% of Retirement Plan participants are immediately raised to the 16% combined contribution rate, the fiscal impact on the County would be $226,727 per year. However, it is a remote possibility that all participants will be increased to the 16% simultaneously. As previously stated, participants who are receiving the 150% match from the County, regardless of whether they are represented by a union, would need to elect to go to the new 16% total contribution and 100% County match. Since going to the 16% total contribution with a 100% match will only result in an additional .2% County contribution for these employees, many may choose to remain at the 150% match. These employees represent approximately $70,000 of the total possible increase of $226, 727.

Also, employees covered by collective bargaining agreements cannot be increased to 16% without first negotiating with the applicable union. It is difficult to say how long this process would take, or if the unions would agree to the increase in the first place.

See Attachment B for a breakdown of the fiscal impact of the 16% total contribution on the different employee classes.

4. Are there benefits to the County which justify the additional cost of raising the combined contribution to 16%?

Assessing all the costs and benefits of increasing the combined contribution to 16% with a 100% County match would require an actuarial study which is beyond the scope of this document. However, it is possible to identify many of the factors which would be considered in such a study.

The principle cost is the additional pension contribution from the County, as identified in Attachment B. Also, the County may have significant costs associated with the payout of vacation and sick leave balances at the time of retirement.

Benefits to the County would stem from the savings realized by the earlier retirement of long term employees. Employees near the end of their career cost more than newer, younger employees. Compensation costs for older employees are higher in salaries, healthcare premiums, disability and paid time off programs.

It should be noted an actuarial study of this nature was performed by Prudential based on data from one of their clients. The purpose of the study was to show the economic benefit of reducing the number of employees who plan on delaying retirement because they have not saved enough. Through a new program designed to increase retirement savings, the client was able to reduce the number of employees expecting to work beyond age 67 from 1,588 to 936. The resulting savings to the company, measured in terms of expected net present value, was $2 million. See Attachment C, which is reproduced in this document with the permission of Prudential Retirement & Annuity Company.

As a final point, Prudential research has shown that delayed retirement is detrimental to both workers and organizations. This research is graphically demonstrated in Attachment D, also reproduced in this document with the permission of Prudential Retirement & Annuity Company.

CONCLUSION

Retirement preparedness is a serious problem affecting not only Lancaster County but also the entire country. Hopefully the information in this document will provide some assistance to the County Board in addressing this problem.

Dated this 3rd day of May, 2018.

Kerry P. Eagan
Chief Administrative Officer

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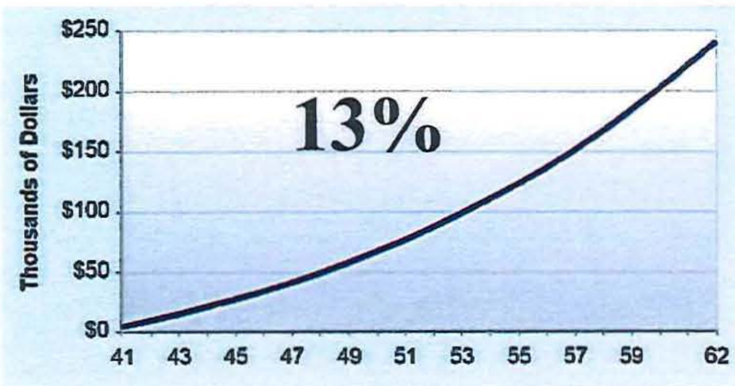
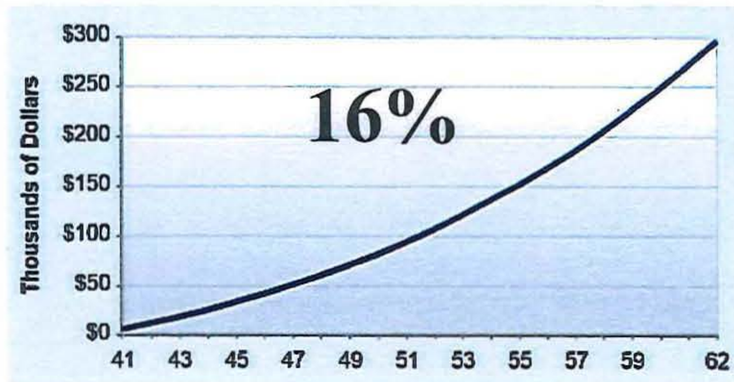
ATTACHMENT A

Contribution Comparison

Potential Difference of $55,714



$ 241,425



$ 297,139

Data Assumptions

Salary $35,000 | Salary Increase 2.5% | Retirement Age 63 | Length of Career 22 years

For illustrative purposes only. This projection is based on results from using the Contribution Accelerator Calculator found on http://preparewithpru.com/. Results are based on an assumed 6% compound rate of interest compounded annually and does not account for the effects of investments results, loans, withdrawals, fees, expenses and the impact of taxes on withdrawals. This does not reflect the performance of any specific 401(K) plan and actual results may vary.

ATTACHMENT B

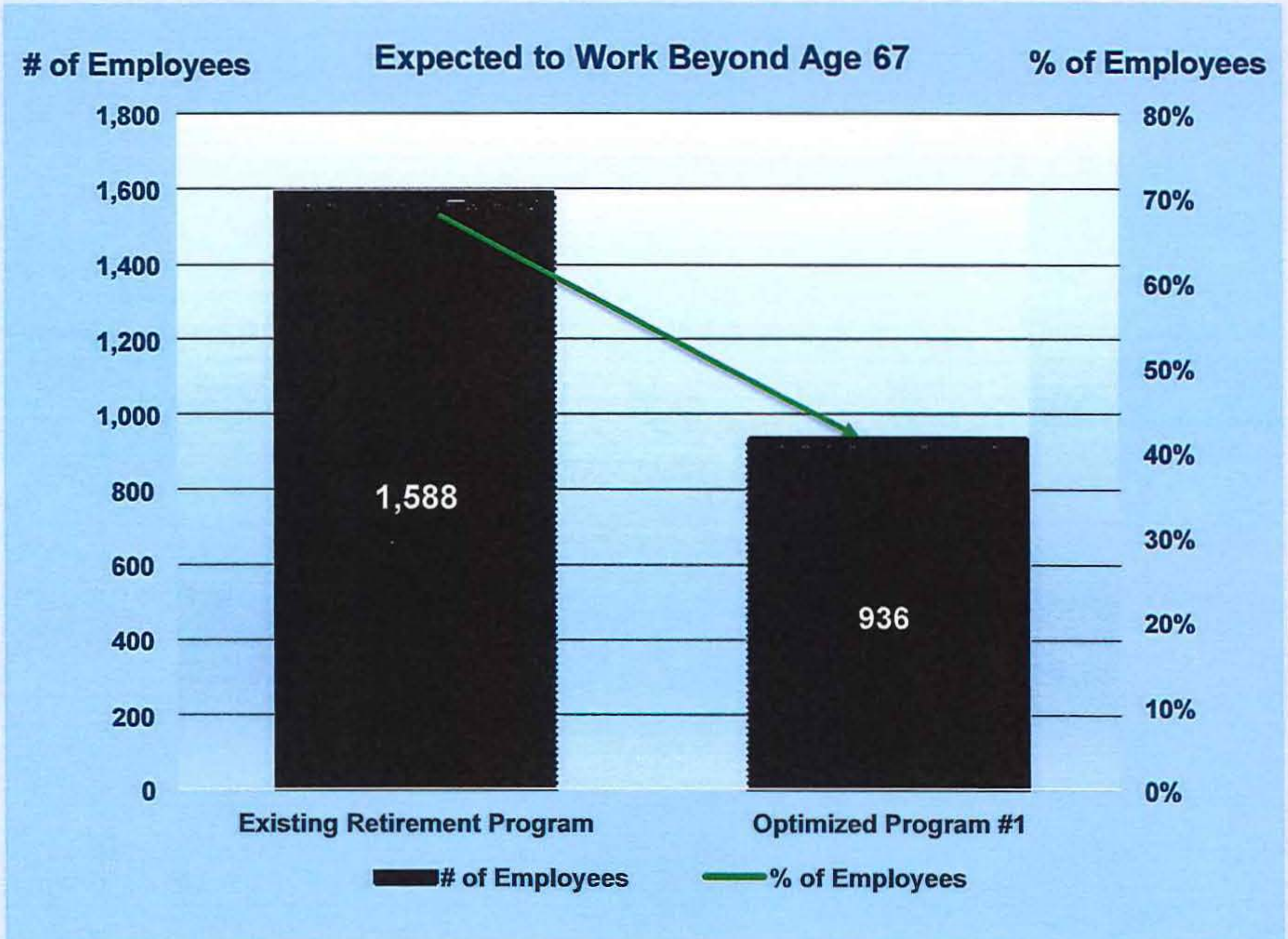
		Existing County Match *	Covered Wages Per Pay Period	Current County Cost Per Pay Period	Proposed 8% County Match ** Cost Per Pay Period	Cost Increase Per Pay Period	**Annual Cost Increase**
Unrepresented C, E, M	before 12/25/2014	7.80%	801,416.21	62,510.64	64,113.30	1,602.66	**41,669.08**
	on or after 12/25/2014	6.50%	162,160.08	10,540.40	12,972.81	2,432.41	**63,242.57**
FOP 29 Deputies		7.80%	185,901.82	14,500.37	14,872.15	371.78	**9,666.17**
FOP 32 Corrections	before 08/23/2012	7.80%	92,791.19	7,237.71	7,423.30	185.59	**4,825.22**
	on or after 08/23/2012	6.50%	129,767.70	8,434.88	10,381.42	1,946.54	**50,609.94**
FOP 77 YSC Officers	before 08/31/2014	7.80%	51,069.09	3,983.45	4,085.53	102.08	**2,654.01**
	on or after 08/31/2014	6.50%	5,302.40	344.65	424.19	79.54	**2,068.09**
AFSCME A and G	Before 8/22/2013	7.80%	292,356.51	22,803.90	23,388.52	584.62	**15,200.14**
	on or after 8/22/2013	6.50%	94,335.74	6,131.79	7,546.86	1,415.07	**36,791.80**
Total			1,815,100.74	136,487.79	145,208.06	8,720.27	**226,727.00**

* Combined employer-employee contibution equals 13% of employee's annual income

** Combined employer-employee contibution equals 16% of employee's annual income

ATTACHMENT C, page 1

EMPLOYER'S TARGET RETIREMENT AGE: 67

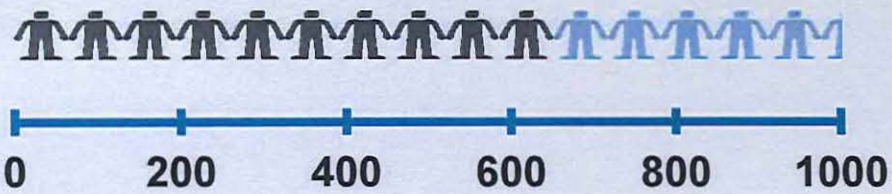


Source: Prudential actuarial calculations based on client data from 2017.

For institutional plan sponsor use only. Not to be distributed to plan participants or the general public.

IMPACT ON TOTAL COSTS FROM *ALTERNATIVE #1*

652 less employees delaying retirement



Retirement Costs
$0.5M
Saved

+

Other Compensation Costs*
$1.5M
Saved

=

Total Compensation Costs
$2.0M
Saved

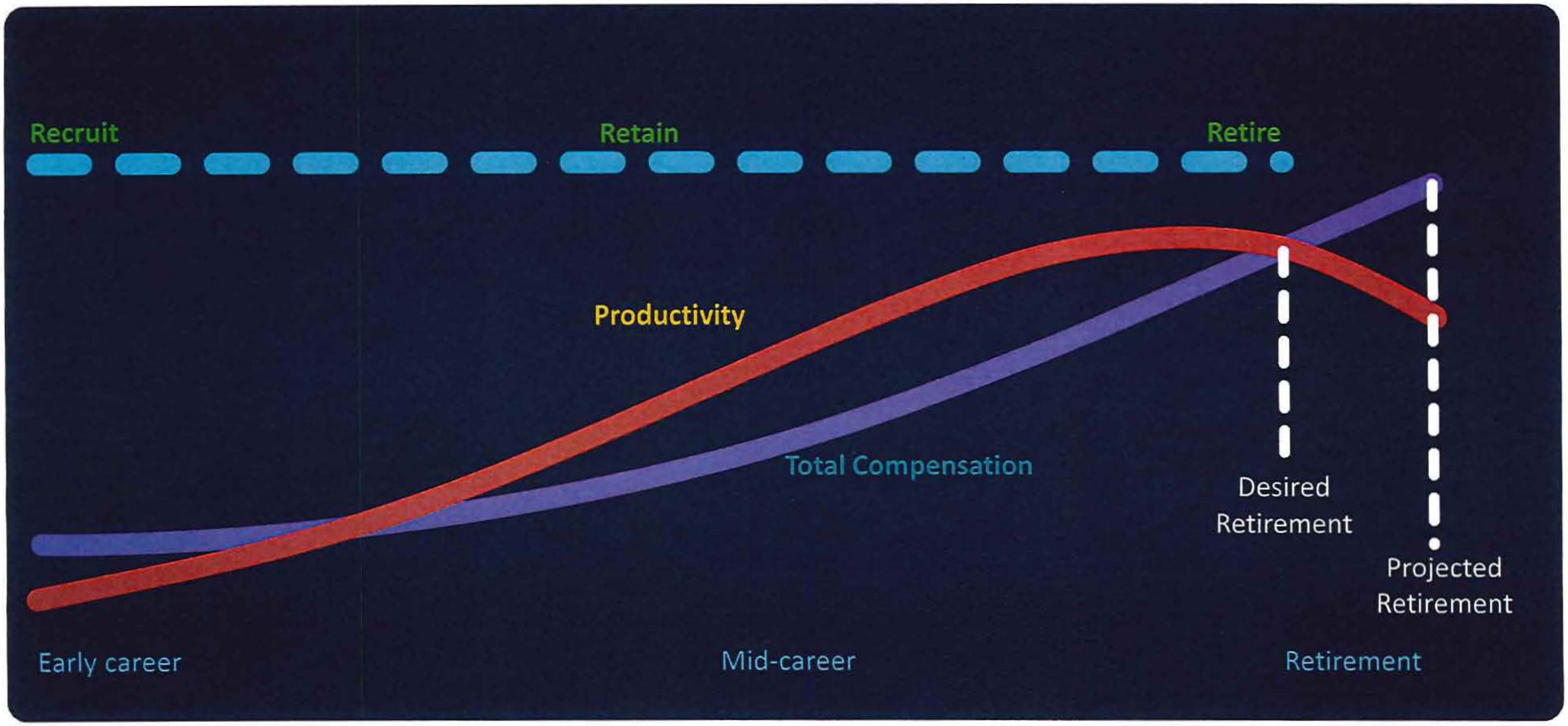
* Other compensation costs include difference in salaries paid, healthcare premiums, disability and paid time off programs.

Savings measured as change in Expected Net Present Value under new program.

Source: Prudential actuarial calculations based on client data from 2017.

ATTACHMENT D

DELAYED RETIREMENT *HURTS* WORKERS AND ORGANIZATIONS



2016. Graph is a illustrative representation of microeconomic theory.