



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 20

MEETING DATE: April 21, 2021

SUBJECT: Alameda Project Support

SUBMITTED FOR: Consent **Deliberation and Action** **Receive and File**

RECOMMENDATION

Staff to recommend Board authorize the CEO to execute a service agreement with Morneau Shepell LLC, in an amount not to exceed \$500,000, to assist SCERS with implementing contribution and pension corrections related to the California Supreme Court decision in *Alameda County Deputy Sheriff's Assoc. et al., v. Alameda County Employees' Retirement Assn (Alameda)*.

PURPOSE

This item complies with the Strategic Management Plan objectives to ensure the accuracy of pension plan benefits and leverage creative solutions to enhance enterprise performance.

DISCUSSION

In September 2020, the Board directed Staff to initiate a correction process to comply with the July 30, 2020, *Alameda* decision, which affects pension calculations for members who retired on or after January 1, 2013. Because several pay items can no longer be included in a member's Final Compensation used to determine benefits, corrections are needed to adjust benefit payments, refund contributions, and recover overpayments.

As part of that process, SCERS has manually reviewed and excluded pay items from pension calculations as members submitted retirement applications since July 30, 2020. Through March 2021, approximately 170 new retirees received an *Alameda*-adjusted pension.

Additionally, Sacramento County has now updated its COMPASS payroll system to stop deducting retirement contributions on the newly excluded pay items, retroactive to August 30, 2020, the date the Court ruling became final. Specifically, the County reversed those deductions and effectively refunded retirement contributions back to August 30, 2020 for 490 Sacramento County employees. The additional pay of approximately \$172,000 was reflected in the April 2, 2021 pay advices, averaging \$356 per employee, with a range between \$5.30 to \$4,602.45.

The extent of the remaining corrections that SCERS needs to complete is much larger and more complicated than initially anticipated, will take several more months to complete, and will require additional external resources. SCERS refers to this effort as the “Alameda Project.”

While the County reversed retirement contributions back to August 30, 2020, SCERS is continuing to review retirement data since January 1, 2013—a timespan that affects a much larger population. Initial estimates suggest 1,275 active members, 67 deferred members, and 800 retired members have overpaid retirement contributions on now-excluded pay items and/or are receiving pensions based on those amounts now determined to be calculated in error.

Furthermore, there is still additional manual staff research needed to review vacation cash-in data affecting hundreds of employees within the County, Superior Court, and Sacramento Employment Training Agency (SETA) related to selling back vacation time that “straddles” fiscal or calendar years.

Because of the scope of the Alameda Project, Staff does not have the capacity to conduct this effort in a timely manner. It is critical that this work be completed accurately and consistently, and be reflected in SCERS’ underlying data files. To assist in the effort, SCERS had engaged its Pension Administration System (PAS) software developer, Morneau Shepell LLC (MSL), in the planning to help SCERS ultimately calculate and process refunds, and calculate and process the pension adjustments. This activity is separate and apart from the PAS project contract with MSL.

MSL developed a rough estimate of \$350,000 to \$580,000 to complete the Alameda Project, split into two phases. Last month, the SCERS’ CEO signed an agreement with MSL under his delegated authority (not to exceed \$50,000) for the firm to continue the Phase 1 data review, planning, and design of the correction process.

The recommendation in this agenda item reflects the larger Phase 2 implementation costs, in which MSL will upload large data files to make corrections to the impacted population. SCERS aims to complete most of the pension adjustments and contribution refunds by June 30, 2021. Given anticipated budget savings in other operational areas this year, the cost associated with the Alameda Project are expected to be absorbed within the existing 2020-21 budget.

One of the key factors that makes up the cost range is the data clean-up effort that may be required for 800 retirees and beneficiaries. As part of the conversion of SCERS’ historic data into the new pension system, MSL and SCERS have needed to expend significant effort on cleaning up data inconsistencies for active members between the old and the new system. At cut-over, the retiree payment information was accepted “as is”; however, recalculating pension calculations for this group may uncover new data anomalies in service, contribution, or earnings history. Though the data variances will likely be minor, it will be necessary to review each one for materiality.

For some context, the last time SCERS needed to make pension adjustments for hundreds of members following a state Supreme Court decision—the *Ventura* case in the early 2000s—SCERS hired seven full-time staff. Staff believes that the Alameda Project is a short-duration

effort that is better handled with temporary resources and leveraging the technical sophistication and resources of MSL.

Prepared by:

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