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FINANCE & BUDGET COMMITTEE
January 22, 1998

METRO

Metropolitan
Transportation
Authority

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SUBJECT: "BRIDGING" SEPARATE PERIODS OF SERVICE FOR NON-CONTRACT EMPLOYEES

ACTION: APPROVE AMENDMENT TO NON-CONTRACT PENSION PLAN

RECOMMENDATION

Approve an amendment to the Los Angeles County Metropolitan Transportation Authority (MTA) Non-Contract Employees Retirement Income Plan (Plan) to provide for "bridging" of separate periods of service when the first period is vested.

ORGANIZATIONAL IMPACT

The amendment to the Plan will modify the existing rules to more closely match those provisions in the CalPERS Plan and other public retirement systems. At this time, it appears that only four employees will benefit by this change, however future employees, as well as current employees who separate and later return to the MTA, could also benefit.

BUDGET IMPACT

This amendment will have no impact on the current budget; also the Plan's actuary has opined that the future cost of "bridging" separate periods of service, in these limited circumstances, will be insignificant.

ALTERNATIVES CONSIDERED

The alternative is not to amend the MTA's Plan to provide bridging. This alternative is not recommended because of the inequity that could result for a few employees.

BACKGROUND

The term "vesting" means "ownership"—specifically when used in the context of pension plans, it means that a current or former employee "owns" the right to receive a pension benefit at some future date. The issue that the proposed amendment will address is the calculation of that pension benefit.

In the MTA's Pension Plan, the calculation of the pension benefit for a retiring employee is based upon three components: age of the retiree, years of service of the retiree, and the highest 36-month average earnings (Average Earnings) of the retiree. When a vested employee leaves employment, the amount of the future pension payment is determined based on the Average Earnings as of that last day worked.

If a vested, former employee is rehired by the MTA, he/she returns as a new employee for pension purposes. When this rehired employee later retires from the MTA, his/her prior, vested benefit is treated as a separate pension using Average Earnings <u>from the prior service only</u>. For a young employee many years will pass before payment can be made at the minimum retirement age of 55 years and inflation could severely diminish much of the value of this prior, vested benefit.

The proposed amendment will "bridge" these two periods of service. That is, the prior service is added to the more recent service and the highest Average Earnings from ***ALL*** MTA employment will be used to calculate a single pension benefit for the combined periods of service.

Bridging is currently provided under the MTA's collective bargaining agreement with the Amalgamated Transit Union. Bridging is also provided by CalPERS, virtually all other county plans in California, and by the City of Los Angeles civilian plan. This proposed change eliminates a significant difference between the MTA Plan and CalPERS.

The Pension Plan Administrative Committee adopted this change effective November 17, 1997, subject to approval by the MTA Board of Directors.

<u>ATTACHMENTS</u>

None

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