



# COUNTY OF SAN DIEGO

## AGENDA ITEM

### BOARD OF SUPERVISORS

VACANT  
First District

JOEL ANDERSON  
Second District

TERRA LAWSON-REMER  
Third District

MONICA MONTGOMERY STEPPE  
Fourth District

JIM DESMOND  
Fifth District

**DATE:** May 20, 2025

**09**

**TO:** Board of Supervisors

### **SUBJECT**

**REQUEST FOR AN ACTUARIAL ANALYSIS FROM THE SAN DIEGO COUNTY  
EMPLOYEES RETIREMENT ASSOCIATION BOARD OF TRUSTEES AND  
PREPARATION OF A DRAFT IMPLEMENTATION ORDINANCE FOR A DEFERRED  
RETIREMENT OPTION PROGRAM (DISTRICTS: ALL)**

### **OVERVIEW**

A Deferred Retirement Option Plan (DROP) is a retirement benefit that allows employees to continue employment (earn wages) while simultaneously initiating distributions of pension benefit payments which are set aside in a notional account for the employee upon retirement. Pursuant to Government Code only safety employees can participate in DROP.

Any County of San Diego (County) DROP must be developed and implemented per the Government Code (GC), specifically the County Employees Retirement Law of 1937 (CERL). Cost neutrality of a DROP is required by CERL, which provides that a cost neutral DROP will not have a significant negative financial impact on the members, employer, or the retirement system. A proposed DROP would be cost neutral if there are no anticipated increases in employer contributions to the retirement system, the actuarial accrued liability of the retirement fund, or the present value of retirement benefits, and it will not decrease the present value of benefits by more than 3%.

On December 5, 2023 (32), the Board of Supervisors (Board) directed the Chief Administrative Officer (CAO) to work with an actuarial consultant to provide cost neutral options for a DROP for County safety members, that are consistent with CERL, and report back to the Board with results of the analysis in 12 months. The County retained the actuarial firm Foster & Foster to perform the necessary analysis and subsequently updated the Board through several memoranda.

On January 25, 2025, the Board directed discussions in consideration of a DROP, with its labor negotiators and various organizations representing safety employees. These conversations, including the possibility of implementing a DROP, have successfully concluded. The negotiated DROP option for safety employees is reflected in Attachment A, the Letters of Understanding (LOUs) between the County and various safety employee representative organizations, dated May 5, 2025. While Attachment A reflects what has been negotiated, the implementation of a DROP

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requires adoption by the Board by ordinance, and this adoption may only occur upon the determination by an actuarial analysis that the program will be cost neutral.

To prepare for the Board's consideration of a DROP, and to comply with Government Code regarding the required actuarial analysis to confirm cost neutrality as required by CERL, today's action recommends that the CAO request the Board of Trustees of the San Diego County Employees Retirement Association (SDCERA) to complete this actuarial analysis of the DROP option that has been successfully negotiated and to prepare a draft implementation ordinance. The County's future implementation of any DROP depends upon successful determination by SDCERA's actuary of cost neutrality as required by CERL, prior to Board adoption of an ordinance implementing a DROP.

If approved, the CAO will contact SDCERA to request the actuarial analysis be performed pursuant to GC Section 31770.4 as well as begin preparation of a draft implementation ordinance for the Board's consideration of whether or not to implement a DROP and in the event of a cost neutrality determination by SDCERA, and report back to the Board.

**RECOMMENDATIONS**

**CHIEF ADMINISTRATIVE OFFICER**

1. Direct the Chief Administrative Officer to prepare a draft implementation ordinance of the Deferred Retirement Option Program (DROP) that has been preliminarily projected to be cost neutral and successfully negotiated as described in the Letters of Understanding between the County and various labor organizations dated May 5, 2025 (LOUs, attached as Attachment A), and to request that the Board of Trustees of the San Diego County Employees Retirement Association (SDCERA) cause the required actuarial analysis of this DROP option, pursuant to Government Code Section 31770.4.
2. Direct the Chief Administrative Officer to report back to the Board within 150 days with the status of SDCERA's actuarial analysis and, if the result of the actuarial analysis is that the DROP reflected in LOUs is cost neutral, provide a draft implementation ordinance for the Board's consideration.

**EQUITY IMPACT STATEMENT**

The County provides retirement benefits to attract and retain employees, including safety. Retirement benefits support a broad community of diverse employees and retirees, providing long-term financial support well after active employment with the County concludes.

**SUSTAINABILITY IMPACT STATEMENT**

Retirement benefits help ensure the County can compete to attract and retain an appropriately sized, skilled and diverse workforce to design and implement policies, programs and services that ensure equitable and sustainable opportunities.

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**FISCAL IMPACT**

There is no fiscal impact associated with requesting SDCERA to complete an actuarial analysis. There will be no change in net General Fund cost and no additional staff years. There may be fiscal impacts associated with future related recommendations for a DROP which staff would return to the Board for consideration and approval.

While implementing a DROP must be determined cost neutral to the retirement fund by SDCERA, if implemented there would be other costs related to administration of the program, growth in payroll and future impacts on the County's retirement contributions that are not included in this determination of cost neutrality. A funding source for these additional costs would have to be identified if a DROP is implemented, which staff would return to the Board for consideration and approval. A funding source for these additional costs would have to be identified if a DROP is implemented, would require reallocation of existing funding, and for which staff would return to the Board for consideration and approval.

**BUSINESS IMPACT STATEMENT**

N/A

**ADVISORY BOARD STATEMENT**

N/A

**BACKGROUND**

A Deferred Retirement Option Program (DROP) is a retirement benefit that generally allows employees to continue employment (earn wages) while simultaneously initiating distributions of pension benefit payments which are set aside in a notional account for the employee upon retirement. Pursuant to the Government Code (GC), only safety employees can participate in DROP.

DROP has been implemented in public retirement systems across the country, typically to meet human resource management and financial objectives of the organization, although to date, no California county governed by CERL has adopted a DROP. DROP can be viewed as an incentive to support employee retention. Providing the financial benefit of DROP could incentivize eligible safety employees to extend their anticipated retirement age while minimizing costs associated with recruiting and training new employees.

A County of San Diego (County) DROP must be developed and implemented in accordance with the GC, specifically the County Employees Retirement Law of 1937 (CERL). Cost neutrality of a DROP is required by CERL, which provides that a cost neutral DROP will not have a significant negative financial impact on the members, employer, or the retirement system. A proposed DROP would be cost neutral if there are no anticipated increases in employer contributions to the retirement system, the actuarial accrued liability of the retirement fund, or the present value of retirement benefits, and it would not decrease the present value of benefits by more than 3%.

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On December 5, 2023 (32), the Board of Supervisors (Board) directed the Chief Administrative Officer (CAO) to work with an actuarial consultant to provide cost neutral options for a DROP for the County safety members, that are consistent with CERL, and report back to the Board with results of the analysis in 12 months. The County retained the actuarial firm Foster & Foster to perform the necessary analysis. A first phase report back providing an initial overview of the DROP was provided to the Board on August 29, 2024, subsequent to a progress memo that was provided May 10, 2024.

A final report was provided to the Board on December 10, 2024, with additional information provided in a memo dated January 22, 2025. Collectively, these reports included four options of DROP parameter designs that Foster & Foster determined to be cost neutral as required by CERL. The DROP parameters include:

- DROP Eligibility Date – *When an employee is eligible to participate in DROP*
- Maximum Participation Period – *How long employees can participate in DROP*
- Interest Credits – *Whether an employee earns interest on their DROP balance*
- DROP Distribution Method – *How an employee receives their accumulated DROP balance after participation in DROP concludes*
- Employee Contributions during DROP – *Employee contributions to the retirement system*
- Employer Contributions during DROP – *County contributions to the retirement system*
- Cost-of Living Adjustments (COLA) – *Application of any COLAs on benefits credited to employee's DROP account.*

On January 25, 2025, the Board directed discussions in consideration of a DROP with its labor negotiators and various organizations representing safety employees. These conversations have concluded, including the possibility of implementing a DROP. The negotiated option must be considered for adoption by the Board by ordinance and will be brought back at a future date upon confirmation of cost neutrality. Provisions of the negotiated option as described in the Letters of Understanding between the County and various labor organizations dated May 5, 2025 include:

DROP Provision	
DROP Eligibility Date	Service Retirement Eligibility
Maximum Participation Period	3 years
Interest Credits	0.0%
DROP Distribution Method	Single lump-sum or qualified rollover
Employee Contributions during DROP	Continue during DROP with 75% deposited to DROP account
Employer Contributions during DROP	Continue during DROP with 100% retained by retirement system
Cost-of Living Adjustments	50% of Cost-of-Living Adjustment applicable to the employee's retirement tier

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Additionally, the negotiated option provides for the suspension of DROP in months when an employee serves less than a minimum number of hours on active duty, with an extension of DROP equal to the suspended time.

Prior to the Board's adoption of an ordinance implementing a DROP, GC Section 31770.4 requires the Board to request the SDCERA Board of Trustees (Retirement Board) to complete an actuarial analysis to determine whether the proposed DROP will be cost neutral, as required by CERL. This is required in addition to the actuarial analysis performed preliminarily for the County by Foster & Foster.

To prepare for the Board's consideration of a DROP, and to comply with State law regarding required actuarial analysis to confirm cost neutrality as required by CERL, today's action would direct the CAO to request the Retirement Board to complete an actuarial analysis of the DROP that has been successfully negotiated, which Foster & Foster preliminarily determined to be cost neutral, and to prepare a draft implementation ordinance.

If approved, the CAO would contact SDCERA to request the actuarial analysis be performed pursuant to GC Section 31770.4, begin preparation of a draft implementation ordinance for the Board's consideration of whether or not to implement a DROP, and in the event of a cost neutrality determination by SDCERA, report back to the Board within 150 days. The County's future implementation of any DROP depends upon successful determination by SDCERA's actuary of cost neutrality as required by CERL, prior to Board approval of a DROP design that has been agreed upon with representatives of safety employees.

Implementing a DROP program presents opportunities for the County to support retention of a skilled workforce. Addition of a DROP program could have positive impacts on employee retention and costs associated with recruitment and training of safety employees.

While CERL focuses on cost neutrality to the retirement system, potential future implementation of a DROP would incur various operational and administrative costs to the County and SDCERA, including an estimated increase in total payroll and future impacts on the County's retirement contributions, along with one-time and ongoing costs associated with necessary IT enhancements, among others. Preliminary estimates of initial one-time implementation costs total \$570,000 for necessary revisions to SDCERA's IT system for administration of retirement benefits and other DROP administrative activities required under CERL and for necessary revisions to payroll modules of PeopleSoft, the County's human resources and payroll systems. The preliminary estimates for ongoing administration and maintenance costs are about \$410,000 annually to SDCERA and the Auditor & Controller. Funding for the County's costs would need to be identified.

If a DROP is implemented, funding for SDCERA's costs would be reflected in administrative fees that could increase County retirement costs.. Further, estimated growth in the County's total payroll due to the implementation of DROP would begin at an estimated \$0.7 million (0.2%) in

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the first year depending upon the number of participants, and an estimated \$15.5 million (4.3%) annual increase projected at five years, which is not included in current budget projections.

Upon the statutorily required determination of cost neutrality, staff will report back to the Board for consideration of an ordinance implementing a DROP for County safety employees.

**LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN**

Today's proposed action supports the Strategic Initiative of Empower in the County of San Diego's FYs 2025–30 Strategic Plan by seeking new ideas and opportunities to invest in the County workforce.

Respectfully submitted,



EBONY N. SHELTON  
Chief Administrative Officer

**ATTACHMENT(S)**

Attachment A: Letters of Understanding Between the County of San Diego and Various Labor Organizations in the Matter of Deferred Retirement Option Program (DROP)