COUNTY OF SAN DIEGO

AGENDA ITEM

DATE: **January 13, 2026 and January 28, 2026**

11

TO: Board of Supervisors

SUBJECT

ADOPT ORDINANCE FOR A DEFERRED RETIREMENT OPTION PROGRAM (January 13, 2026– First Reading; January 28, 2026 - Second Reading unless ordinance is modified on second reading) (DISTRICTS: ALL)

OVERVIEW

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 for the employee upon retirement. Pursuant to the Government Code (GC), only safety employees can participate in a DROP.

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 the County Employees Retirement Law of 1937 (CERL). A County of San Diego (County) DROP must be developed and implemented in accordance with the Government Code, specifically 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. Specifically, 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%. The County retained the actuarial firm Foster & Foster to develop options that would be considered cost neutral and subsequently updated the Board through several memoranda.

Subsequent discussions occurred in consideration of a DROP with labor negotiators and organizations representing safety employees, including provisions for implementing a DROP, which resulted in Letters of Understanding dated May 5, 2025 and updated December 18, 2025.

On May 20, 2025 (9), the Board directed the CAO to request the San Diego County Employees Retirement Association (SDCERA) Board of Trustees (Retirement Board) cause an actuarial analysis be performed of the negotiated DROP pursuant to GC Section 31770.4 and begin preparation of a draft implementation ordinance for the Board’s consideration in the event of a cost neutrality determination by SDCERA.

SDCERA's actuarial firm, Segal, thereafter completed the required analysis and on December 18, 2025, reported to the Retirement Board that the proposed County DROP is cost neutral, as defined.

Today's recommendations request the Board consider on January 13, 2026 and if approved, adopt on January 28, 2026, an ordinance which would modify the Compensation Ordinance to implement a DROP as negotiated and reflected in updated Letters of Understanding with affected employee representatives (Attachment B) which would become operative on March 20, 2026.

Implementing DROP requires information technology enhancements to payroll modules of PeopleSoft, the County's human resources and payroll systems, that are necessary to coordinate with SDCERA for administration of DROP requirements as negotiated, ongoing enrollment and participation, and reporting. These costs are not considered in the cost neutrality analysis as defined by CERL. The funding source is based on an assignment of Unrestricted General Fund Balance that was previously identified in Fiscal Year 2024-25 for this purpose.

RECOMMENDATIONS
CHIEF ADMINISTRATIVE OFFICER

1. Approve the introduction of the Ordinance (first reading):
   AN ORDINANCE AMENDING THE COMPENSATION ORDINANCE RELATING TO THE ADOPTION OF A DEFERRED RETIREMENT OPTION PROGRAM

If, on January 13, 2026, the Board takes the actions recommended in Item 1 above then, on January 28, 2026:

1. Consider and adopt the Ordinance (second reading):
   AN ORDINANCE AMENDING THE COMPENSATION ORDINANCE RELATING TO THE ADOPTION OF A DEFERRED RETIREMENT OPTION PROGRAM

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.

FISCAL IMPACT
Funds for this request are included in the Fiscal Year 2025-26 Operational Plan in Finance Other and Auditor and Controller. If approved, this request will result in one-time costs of $150,000 in Fiscal Year 2025-26 in Finance Other for payroll system updates. The funding source for these one-time costs is prior year General Fund fund balance, which was assigned for this purpose. There

will also be ongoing costs of approximately $100,000 per year in Auditor and Controller for program administration and maintenance activities. The funding source for these ongoing costs is General Purpose Revenue based on existing staff resources. There will be no additional staff years.

Under the County Employees Retirement Law of 1937 (CERL), Deferred Retirement Option Program (DROP) is considered cost neutral if there is no increase in employer contributions, actuarial accrued liability, or present value of benefits, and there is no decrease in the present value of benefits of more than 3%. However, there are other potential costs to the County that fall outside of the legal definition of cost neutrality. In addition to the program administration and system update costs mentioned above, the most significant potential outside cost is an increase in payroll costs due to the increased retention of higher paid employees and deferral of the need for new employees earning a lower salary. The County's total payroll is estimated to be $0.7 million (0.2%) higher in the first year of DROP implementation and $15.5 million (4.3%) higher at five years, compared to estimates of where payroll would be without DROP implementation. Actual impacts to total payroll will depend upon the number of DROP participants. Funding for the County's ongoing costs will be identified as part of the development of the Fiscal Year 2026-27 CAO Recommended Operational Plan and in future years.

There are also potential cost savings to the County. These include reduced pension benefit costs for new hires, lower overtime costs due to the reduction of vacant positions, and savings in recruitment and training costs.

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 a 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 the County Employees Retirement Law of 1937 (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 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%.

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 and subsequently updated the Board through several memoranda, including options of DROP parameter designs and options that were determined to be cost neutral as required by CERL.

Subsequent discussions occurred in consideration of a DROP with labor negotiators and various organizations representing safety employees, which resulted in Letters of Understanding dated May 5, 2025.

Prior to the Board's adoption of an ordinance implementing a DROP, GC Section 31770.4 requires the Board to request the San Diego County Employees Retirement Association (SDCERA) Board of Trustees (Retirement Board) to complete an actuarial analysis to determine whether the proposed DROP as negotiated 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.

On May 20, 2025 (9), the Board directed the CAO to request the Retirement Board cause an actuarial analysis be performed of the negotiated DROP pursuant to GC Section 31770.4 and begin preparation of a draft implementation ordinance for the Board's consideration in the event of a cost neutrality determination by SDCERA. The request to SDCERA was submitted on June 10, 2025.

SDCERA's actuarial firm, Segal, completed the required analysis and confirmed cost neutrality of the County's negotiated DROP design, which was reported to the Retirement Board on December 18, 2025.

Following this determination, additional conversations with employee representatives concluded which resulted in minor revisions to the associated Letters of Understanding, now dated as of December 18, 2025 and included as Attachment B.

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Today's recommendations request the Board consider on January 13, 2026, and if approved, adopt on January 28, 2026, an ordinance which would modify the Compensation Ordinance to implement a DROP as negotiated and reflected in the updated Letters of Understanding.

Implementing DROP requires information technology enhancements to payroll modules of PeopleSoft, the County's human resources and payroll systems, that are necessary to coordinate with SDCERA for administration of DROP requirements as negotiated, ongoing enrollment and participation, and reporting. These costs are not considered in the cost neutrality analysis as defined by CERL. The funding source is based on an assignment of Unrestricted General Fund Balance that was previously identified for this purpose.

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.

Additionally, implementation of a DROP is estimated to incur various ongoing 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. The preliminary estimates for ongoing administration and maintenance costs are about $410,000 annually to SDCERA and the County combined. Funding for SDCERA's costs would be reflected in administrative fees that could increase County retirement costs, which is not included in current projections. Further, implementing DROP could result in increases to the County's total payroll, primarily due to the retention of highest paid safety employees who would potentially remain with the County for a longer period and would not be replaced with new safety employees earning lower salaries. The County's total payroll is estimated to be $0.7 million (0.2%) higher in the first year of DROP implementation and $15.5 million (4.3%) higher at five years, compared to estimates of where payroll would be without DROP implementation. Actual impacts to total payroll will depend upon the number of DROP participants. Funding for the County's ongoing costs will be identified as part of development of the Fiscal Year 2026-27 CAO Recommended Operational Plan and in future years.

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 2026–31 Strategic Plan by seeking new ideas and opportunities to invest in the County workforce.

Respectfully submitted,

EBONY N. SHELTON
Chief Administrative Officer

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ATTACHMENT(S)

Attachment A: AN ORDINANCE AMENDING THE COMPENSATION ORDINANCE RELATING TO THE ADOPTION OF A DEFERRED RETIREMENT OPTION PROGRAM

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