ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

TO: **Human Resource Committee**
Robert Morgan, Chair
Ray DuBose
Ruchir Vora
Yinka Ayankoya, Ex-Officio

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow and Stephen Winters

DATE: March 8, 2019

SUBJECT: **Human Resource (HR) Committee Meeting**
Monday, March 18, 2019, 8:00 am, OWASA Boardroom

The HR Committee will discuss information and options for OWASA's deferred compensation plan (457) benefits.

Stephanie S. Glasgow, MESH, MPM, PHR, SHRM-CP
Director of Human Resources and Safety

Stephen Winters, CPA
Director of Finance and Customer Service

Attachment

Background

In 2014, consultants analyzing OWASA's compensation and benefits programs determined that two of our benefit plans are not in sync with the employment market. In summary: our deferred compensation (457) plan benefit plan is below market, whereas our retiree health benefit plan is above market.

At its meeting on February 5, 2019, the Human Resource Committee decided that it favors replacing the current retiree health benefit plan with a new plan, likely a type of retiree health savings account. As of a to-be-determined date, new employees would be eligible for the new plan while then-existing employees would remain on the current plan.

The Committee is still considering options for the deferred compensation plan; this memo summarizes information about 457 plan options that the Committee will discuss on March 18, 2019.

Once the Committee reaches a decision, it plans to make recommendations to the Board of Directors. The Board values input from employees and before a final decision is made, staff recommends providing employees with an opportunity to review information and provide feedback.

Analysis of 457 Plan Options

One of the goals of the Committee is to improve the competitiveness of OWASA's 457 plan while ensuring that no current employees will have a reduction in their current benefit. The following analysis compares the benefit offering and cost of five optional approaches to OWASA's deferred compensation benefit. Information about the benefit offered by other local entities is presented in Appendix A.

<u>OWASA's Current Deferred Compensation (457) Plan</u>

The benefit provided by OWASA's current 457 plan is shown below. Contributions have not been adjusted in almost 20 years.

OWASA's Annual Contribution to Employees' 457 Accounts (amount)					
	Employee's Tenure				
	0 to < 4 Years	**4 to 9 Years**	**10-14 years**	**15-19 Years**	**20+ Years**
Bi-weekly	$0	$40	$60	$80	$100
Annual	$0	$1,040	$1,560	$2,080	$2,600

<u>Options</u>

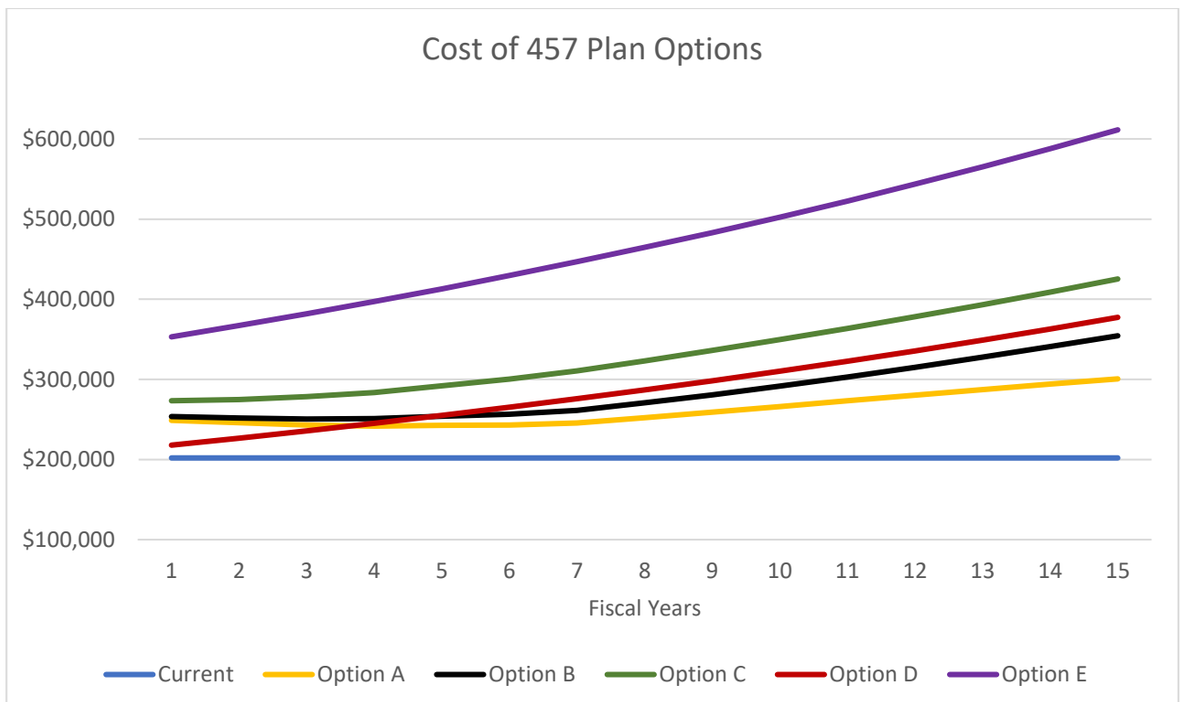
The majority of local organizations considered peers to OWASA offer deferred compensation benefit plans that provide a percentage-of-salary based employer contribution. The Committee would like to consider options that ensure the benefit provides meaningful savings for all employees' retirements needs. Features of each option are shown in Chart 1 below. Estimated costs are shown in Chart 2.

Comparison of Benefit Options						
	Current	**Option A**	**Option B**	**Option C**	**Option D**	**Option E**
Plan for existing employees	Current plan	May choose current or new plan	May choose current or new plan	May choose current or new plan	New plan	New plan
Plan for new employees	Current plan	New plan	New plan	New plan	New plan	New plan
Eligibility	Employees are eligible for an employer contribution after four years of service	Recommend employees eligible after 6 months of service				
Contribution percentage	N/A	2.5%	2.5%	3.0%	2.5%	2.5%
Annual contribution min/max amount	$0 – $2,600	$1,300 / $2,600	$1,300 / none	$1,300 / none	$1,300 / none	$2,600 / none
Benefit as percent of salary (year 1 of new approach)	0% - 6.5%	1.7% – 6.5%	2.5% - 6.5%	3.0% - 6.5%	2.5% - 3.7%	2.5% - 7.4%
Market competitive	Below market for many	Below market for some employees	Competitive at lower end of market (2% to 5%) benefit range	Competitive at lower end of market (2% to 5%) benefit range	Competitive at lower end of market (2% to 5%) benefit range	Competitive at lower end of market (2% to 5%) benefit range
Required employee contribution	None. Employees may make voluntary contributions.					
Number of **current** employees whose benefit will **decrease** in year one	N/A	None. Employees may choose the plan that benefits them most.	None. Employees may choose the plan that benefits them most.	None. Employees may choose the plan that benefits them most.	51	None. Minimum contribution ensures no loss of benefit.
Number of **current** employees whose benefit will **increase** in year one	N/A	79	83	92	83	110
Number of employees whose benefit will be less than 2.5% in year one	80	11	None	None	None	None

Chart 1

Estimated Cost of 457 Plan Options															
Year >>	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
Current	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000	202,000
Option A	249,000	246,000	243,000	242,000	243,000	243,000	245,000	252,000	259,000	266,000	273,000	280,000	287,000	294,000	301,000
Option B	254,000	252,000	250,000	251,000	254,000	256,000	261,000	271,000	281,000	292,000	303,000	315,000	328,000	341,000	354,000
Option C	273,000	275,000	278,000	283,000	292,000	300,000	311,000	323,000	336,000	350,000	364,000	378,000	393,000	409,000	425,000
Option D	218,000	227,000	236,000	245,000	255,000	265,000	276,000	287,000	298,000	310,000	323,000	335,000	349,000	363,000	377,000
Option E	353,000	367,000	382,000	397,000	413,000	430,000	447,000	465,000	483,000	502,000	523,000	543,000	565,000	588,000	611,000

Chart 2



The following are some of the assumptions used in estimating costs:

1	Total number of employees	134
2	Annual salary increase	4%
3	Annual average number of new hires (based on experience of last five years)	14
4	Annual number of employees dropping off of current 457 plan due to turnover (Options A, B and C). Assume longest tenured employees will be first to turnover.	8
5	Annual cost increase for current 457 plan (projected annual costs are based on last five years' average annual cost)	0%

Observations

Option A

1. At the Committee's meeting on February 5, 2019, staff presented benefit and cost information for an option very similar to Option A; the only difference is that the option discussed on February 5 assumed that existing employees would not have a choice to stay on the current plan which meant that 51 existing employees would realize a reduction in their 457 plan benefit.
2. To prohibit the loss of benefit by an existing employee, Option A would allow employees to choose the plan that provides the greater benefit. Existing employees would have a window of time (e.g. 30/60 days) to make this one-time decision.
3. While Option A results in no one realizing a benefit reduction, the benefit for 11 employees would be less than 2.5%. The average tenure of these 11 employees is 17 years; annual salaries are each over $100,000.

Options A, B and C

1. These options allow employees to choose the plan that makes the most sense for them. This results in no employees realizing a reduction in their 457 plan benefit.

Options D and E

1. These options eliminate the current 457 benefit. All employees would be covered under the new plans.

Option D

1. This is the only option that would result in a reduction of benefits for existing employees. Fifty-one employees would see a benefit reduction. The average tenure of these 51 employees is 21.2 years. Annual salaries range from $39,000 to $94,000; all but eight of the 51 have annual salaries of less than $70,000.

Option E

1. This option is the same as Option D but has a minimum annual employer contribution that would be sufficient to ensure no loss of benefit to existing employees. Currently, 28 employees receive the current 457 plan's maximum annual contribution of $2,600; therefore, the minimum contribution for this option is $2,600.

Staff Recommendation

Staff recommends Option B or C for the following reasons.

- Offering a 457 plan that includes employer contributions that are based on a percentage of an employee's salary in the 2% to 5% range without requiring an employee matching contribution brings our 457 benefit in-line with peer organizations and provides a more valuable benefit to employees.
- Including a minimum 457 employer contribution amount ensures a meaningful benefit for employees.
- No employees would realize a reduction in the amount of their 457 benefit.
- A significant number of employees would realize an increase in the amount of their benefit. This assumes employees would be eligible for the benefit after six months.

Action Requested

Review information and provide guidance to staff.

Attachment: Appendix A – Deferred Compensation (457) Plan Comparative Information

Appendix A
Deferred Compensation (457) Plan Comparative Information

Organization	Deferred Compensation	Effective	Employee Contribution	Last Update
Town of Chapel Hill	401K - employer 5% contribution	At hire	Not Required	Not sure of exact date but 18+ years ago
Town of Hillsborough	401K - employer 5% contribution	At hire	Not Required	Employer reported "Unknown"
Town of Carrboro	401K - employer 3% contribution	At hire	Not Required	July 1, 2013
Greenville Utilities Commission	401K - employer contributes flat amount $40 per pay period ($1,040 annually)	At hire	Not Required	Employer reported "Unknown"
Cape Fear Public Utility Authority	401K and 457 offered; employer 2% contribution, plus another 2% match if the employee contributes 2% or greater	First of the month following employment	Not Required to receive employer contribution; matching option available	January 1, 2018
Town of Cary	401K and 457/401a plan offered; employer will contribute 5% to employee's choice of 401K or 401a	At hire	Not Required	Not sure of exact date 17+ years ago
City of Durham	401K and 457 offered; employer contributes 5% to 401K	At hire	Not Required	Unknown

Organization	Deferred Compensation	Effective	Employee Contribution	Last Update
Orange County	401K and 457 offered; employer contributes $715 per year; if an employee contributes employer will matches up to $63 each pay period for a matching total of $1,512 per year; employee can choice either 401K or 457 for the employer contribution/matching option	At Hire	Not Required to receive employer contribution; matching option available	July 1, 2014