

A Tale of a SERP

Summary

As an incentive to retire, many school districts offer Supplemental Employee Retirement Plans (SERP) as a means to encourage highly paid staff to retire so that the district can save money by hiring a lower-paid replacement. A SERP provides eligible employees with a monthly income supplement to regular retirement benefits. Participating in a SERP is voluntary for employees who meet certain eligibility guidelines established by the district and approved by the board of education.

A financial crisis in a school district is often the primary reason for offering a SERP. School districts are required to submit reports on the financial health of the district to the county office of education during each fiscal year. The reports declare whether or not the district is able to meet its financial obligations. Districts that are unable to meet the financial goals for the year and subsequent years must prepare and implement a fiscal recovery plan showing how they plan to remedy the problem.

A SERP is typically offered to an eligible employee on a one-time basis only. Giving employees only a single opportunity tends to generate the highest rate of participation, which leads to greater fiscal savings. The district establishes the amount of the financial incentive to offer employees and the payment options. The benefit can range from a set dollar amount per eligible employee to a percentage of salary.

Since 2006, Pajaro Valley Unified School District (PVUSD) has been in financial distress. A SERP was offered in 2005-2006 and again in 2007-2008. In 2008-2009, the district was again faced with a severe budget shortfall. Cuts and adjustments had to be made for that school year and the following. Offering a SERP to three employee groups was one of the cost-saving measures implemented by the district. Although the PVUSD Board of Education followed proper procedures to award the SERP and all employees qualified for the benefit, the Grand Jury found that several procedures could be implemented to strengthen the SERP process to ensure fiscal responsibility of public funds.

Scope

The Grand Jury investigated the SERP that was authorized and executed by Pajaro Valley Unified School District in 2008 to determine whether:

- the Board of Education used the proper procedures to authorize and implement the SERP
- employees receiving the SERP qualified for the retirement incentive
- the projected cost savings of the SERP were realized in the next year's budget
- public funds were used appropriately
- the process was transparent to the public

Findings

1. On March 12, 2008, PVUSD Board Agenda item 13.4 reports that the district will not have the funding to meet the current budget. Due to the State's financial crisis,

PVUSD would be \$9,400,000 short for 2008-2009 and \$17,500,000 short for 2009-2010 if cuts and adjustments were not made.

2. PVUSD hired Keenan and Associates, a financial planner, to conduct a *Fiscal Cost Analysis* to analyze the potential savings of offering a SERP. The report was prepared and submitted to the district on June 6, 2008. It established plan assumptions, benefit options, demographic analysis, SERP cost analysis, and benefit data sheets for three employee groups in the district. PVUSD staff stated that offering a SERP to management employees could generate a cost savings of approximately \$159,000 depending upon the number of employees who took advantage of the opportunity. The proposal identified twelve managers as potential candidates for the incentive.
3. Three months before Keenan and Associates submitted the *Fiscal Cost Analysis*, PVUSD Board of Education approved Resolution 0708-22 on March 12, 2008, offering a SERP for management employees. The criteria set forth by the Board requires that the employee:
 - is a certificated or classified management employee
 - will be at least 55 years of age by June 30, 2008
 - has at least five years of continuous service with the district by date of retirement
 - submits a letter of resignation and SERP enrollment package by May 9, 2008
 - is eligible to retire from State Teacher Retirement System (STRS) or Public Employee Retirement System (PERS)
 - retires from the district as of June 30, 2008
 - will not be eligible for reemployment in the district other than as a substitute
4. The PVUSD SERP offered eligible employees 95% of current salary to be paid according to the option selected by the employee. The terms of payment varied from a monthly payment through the remainder of life or a five to ten year distribution.
5. The Associate Superintendent of Business and the Interim Superintendent prepared the SERP Resolution 0708-22 and the agenda item for the PVUSD Board. The resolution was approved in open session and the public had the opportunity to see the item on the agenda prior to the action taken by the board. Both the Interim Superintendent and the Secretary of the Board signed the resolution according to district procedures.
6. PVUSD Board Members did not have a copy of the *Fiscal Cost Analysis* prepared by Keenan and Associates and were not privy to the information in the document except what was reported to them by staff prior to approving the SERP.
7. The district SERP administrators were the Associate Superintendent of Business and Assistant Superintendent, Human Resources. Keenan Financial Services served as the contract administrator to assist in implementation of the plan.
8. Following the approval of the SERP by the PVUSD Board, an announcement flyer was prepared and distributed to all management employees in the district.
9. Twelve employees submitted the proper paperwork and met the established criteria to receive the retirement incentive.

10. Eleven of those employees, the Associate Superintendent of Business and the Assistant Superintendent of Human Resources were subordinate to the superintendent and they reported directly to the superintendent.
11. One of the employees was directly evaluated by the PVUSD Board and had a specific written contract that stipulated all terms and conditions of employment including compensation and benefits. The contract did not provide authorization for a SERP. In addition, this employee had previously retired from the district and was serving in an interim capacity.
12. Keenan Financial Services estimated cost savings of \$159,000 if all eligible management employees took advantage of the SERP. Interviews with the PVUSD officials revealed that the SERP savings was approximately \$46,000, \$113,000 less than projected.
13. A financial analysis of the projected savings compared to the actual savings was not shared with the Board of Education.
14. PVUSD stated that the County Office of Education was informed about the SERP. However officials at the county office stated they were not involved in the SERP offered by PVUSD and would only be involved if the SERP was part of a fiscal recovery plan or a payment agreement with employee bargaining units.
15. County Office of Education officials weren't aware of a SERP being awarded to a retired employee serving as interim administrator for a district. County officials stated the practice of awarding a SERP in that situation was unusual and they had never heard of it happening before in the county.

Conclusions

1. The procedure used to authorize offering the SERP to PVUSD management employees followed district board policy and procedures.
2. The *Fiscal Cost Analysis* document was prepared after the PVUSD Board approved offering the SERP, so the analysis was not used by the Board to make an informed decision.
3. The true fiscal impact of the SERP is difficult to determine and the numbers given by the district appear to be guesses rather than statistically based. No one could confidently determine the actual savings to the district.
4. Each employee that received a SERP got 95% of their salary over a set amount of time. An offer of less than 95% could have been just as successful and it would have had a positive impact on future savings.
5. All PVUSD employees offered the SERP met the district's qualifying criteria and were treated equally even though their job status in the district was not equal.
6. No employee should be authorized to approve benefits for a person who supervises them. It is unwise and subjects the district to criticism from the public. The one contracted employee who reported directly to the PVUSD Board met the criteria for the SERP but did not receive Board approval for the benefit and an amendment to the contract.
7. Offering a retirement incentive to an administrator who is already retired and is serving in an interim capacity is not a common practice and verges on misuse

represents a questionable allocation of public funds by the PVUSD Board of public funds.

8. Both the PVUSD Board and district administrators were unable to provide an accounting for the actual savings generated by the SERP.
9. The oversight authority of the Santa Cruz County Office of Education regarding offering a SERP was not clear to district administration.

Recommendations

1. PVUSD administrators should provide the PVUSD Board with all documents related to projected cost savings prior to approving a SERP.
2. PVUSD administrators and the PVUSD Board should analyze the potential savings from a SERP and develop a calculation to verify the actual savings versus the projected savings.
3. PVUSD administrators and the PVUSD Board should thoroughly analyze the benefit options of a SERP such as dollar amount given and years of service to ensure the district is getting the most savings possible from the plan.
4. PVUSD Board should analyze the practice of awarding a SERP to a retired interim employee to determine if this practice is the best use of public funds.
5. PVUSD Board should develop a board policy regarding any future practices of awarding a SERP to a retired, interim employee.
6. PVUSD Board should include all benefits and compensation, including a SERP, as part of a contracted employee’s employment agreement.
7. PVUSD Board should eliminate the procedure that allows a subordinate employee to authorize a benefit for a supervisor.
8. PVUSD and the Santa Cruz County Office of Education should discuss the SERP process and clarify the roles of each agency prior to, during, and after implementation.

Responses Required

Respondent	Findings	Recommendations	Respond Within / Respond By
PVUSD Board of Education	3, 6, 11 - 13	1 – 7	90 Days October 1, 2009
PVUSD Administration	3, 6, 11 - 14	1 – 8	90 Days October 1, 2009
Santa Cruz County Office of Education	14, 15	8	90 Days October 1, 2009

Sources

Web Sites

<http://www.cde.ca.gov/fg/fi/ss/csoverview.asp>

<http://www.cde.ca.gov/fg/fi/ir/budgetstatus.asp>

http://www.keenanassoc.com/fs/serp_overview.asp

http://www.keenanassoc.com/fs/serp_how-it-works.asp

Interviews

Pajaro Valley Unified School District

District Administration

Retired Administrator

Board Member

Santa Cruz County Office of Education Administrators

Santa Cruz County Legal Counsel

Publications / Documents

Keenan and Associates, *Supplemental Employee Retirement Plan for California School, Pajaro Valley Unified School District Final Cost Analysis*, June 6, 2008.

Keenan and Associates, *Supplemental Employee Retirement Plan* for other districts

Pajaro Valley Unified School District, Board agendas and minutes

Correspondence with Pajaro Valley Unified School District's legal counsel

