County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

March 23, 2010

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

APPROVAL OF CHANGES TO COUNTY CODE AND AMENDMENT TO CONTRACT WITH GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY TO FACILITATE IMPLEMENTATION OF HUMAN RESOURCES MANAGEMENT SYSTEM (ALL SUPERVISORIAL DISTRICTS) (3 VOTES)

SUBJECT

This letter and the accompanying ordinance make technical changes in County pay policy necessary to implement the payroll components of the soon to be implemented human resources system known as the "Advantage Human Resources Management System." In addition, these recommendations provide for an amendment to an existing contract with Great-West Life & Annuity Insurance Company necessary to implement changes relating to the new system affecting the County's defined contribution retirement plans.

JOINT RECOMMENDATION WITH THE AUDITOR-CONTROLLER AND ACTING DIRECTOR OF PERSONNEL THAT YOUR BOARD:

1. Approve changes to County policy necessary to support payroll components of the new Advantage Human Resources Management System and adopt the accompanying ordinance amending Title 5 – Personnel, and Title 6 – Salaries of the Los Angeles County Code codifying such changes.

2. Instruct County Counsel to review and approve as to form and instruct the Chair to sign an amendment to the contract with Great-West Life & Annuity Insurance Company, contract No. 76808, substantially equivalent to the amendment shown

as Attachment A, and to increase the Contract Sum on a one-time-only basis by an amount not to exceed $300,000.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On May 1, 2007, the Board of Supervisors (Board) approved funding and a contract amendment with CGI-AMS, Inc. (CGI) to implement the Advantage Human Resources Management System (eHR). The new eHR system will be replacing the legacy software systems commonly known as "Countywide Payroll (CWPAY)" and "Countywide Timekeeping, Payroll, and Personnel System (CWTAPPS)." The purpose of these recommendations is to make technical changes to existing pay policy that will better conform the policy to the baseline capabilities of the eHR system.

The recommended policy changes are designed to do three things:

- Reduce the costs of eHR by avoiding unnecessary systems modifications to accommodate County pay practices that can and should be changed.
- Simplify certain pay policies to improve consistency in administration and/or reduce the potential for payroll processing error.
- Delete provisions that will be obsolete under the new system.

These recommendations are the result of collaborative efforts during the course of the eHR project to identify alternatives to existing salary and personnel policy and practices that could not be automated in the baseline version of the new system. The policy recommendations contained herein address only those situations where some degree of change in existing pay policy is both appropriate and feasible. Alternatively, those situations where the new system's baseline capabilities were not adequate and where a change in existing pay policy was not feasible, necessary systems modifications were developed under the Board approved 2007 amendment to the contract with CGI.

Attachment B provides detail on 18 proposed changes in County pay policy that are recommended at this time. The recommendations are generally technical and relatively minor in terms of the impact on the County and the affected employees. In most instances, these recommendations also require changes in the County Code, and those changes are incorporated into the accompanying ordinance.

Outreach to Unions and Employees

Throughout 2009, meetings with employee representatives from the Coalition of County Unions (Coalition) and SEIU Local 721 (SEIU) were regularly held to provide project status updates and detailed explanations of the recommended policy changes. Two training sessions were also provided for the SEIU Member Call Center staff and shop stewards. Additionally, a provision establishing a communications sub-committee is included in the current SEIU Fringe Benefit Agreement. Meetings were held with both the SEIU and the Coalition to review employee communication brochures and to develop responses to employee questions regarding the brochures.

Employee communication materials were distributed by hardcopy and/or email to all County employees on December 15, 2009 and January 15, 2010. The employee communications material and more detailed responses in the format of frequently asked questions (FAQs) were established on the County website.

Additional meetings with SEIU and the Coalition will be held to discuss any concerns as necessary.

More Changes To Be Recommended for 2012

The new eHR system is being implemented in two phases with the first phase occurring in 2010 and the second phase in 2012. The initial 2010 phase will eliminate the need for the CWPAY system, and the 2012 phase will eliminate the need for the CWTAPPS system. This phased-in approach adds a degree of safety to the project by not bringing down both legacy systems at the same time.

At least one more set of pay policy recommendations will be submitted to your Board at a future date in preparation for the 2012 changes. The future recommendations will address the changes necessary for the 2012 phase, and any other technical corrections/adjustments in policy that may be identified as this project progresses.

Amendment to Great-West Contract

Employees who participate in the County's 457 Deferred Compensation & Thrift Plan (Horizons Plan) or the 401(k) Savings Plan may take out loans against their individual account balances in these plans. This is a feature permitted by federal tax law and the Horizons Plan and Savings Plan authorizing County Code provisions approved by your Board. These loans require the signing of a promissory note requiring repayment on a monthly basis through payroll deductions. Approximately 20,000 County employees have outstanding loans at the present time.

Currently, the monthly loan payment appears to be evenly spread between the monthly pay received on the 15th of each month and the portion of monthly pay that is advanced on the preceding 30th of each month. This is because the salary advance is netted-down by half of most monthly payroll deductions of the 15th including the monthly loan payment. The pay statement on the 15th details all payroll deductions for the month and shows the payment of the preceding 30th as the advance.

Conversion to the new system represents true semi-monthly pay where each pay period will be accounted for separately. This will require the employees with existing loans to sign new promissory notes providing for semi-monthly loan payments rather than monthly payments. It will also require the re-amortization of existing loans to reflect the semi-monthly payment schedules (which will slightly lower employee costs in most instances). Currently, the loan payments under the Horizons and Savings Plans are calculated and amortized on the assumption of only one payment per month.

Counsel advises that the loans cannot be re-amortized without employee consent in the form of a new signed promissory note. To do otherwise could invite potential liability and penalties from violation of applicable laws. If each affected employee does not affirmatively elect to change to a semi-monthly pay schedule, we must take the payroll deductions on a monthly basis. Under the new system, that will mean an entire month's loan payment will come out of a single semi-monthly pay warrant issued on or about the 15th of the month. This could create a dramatic impact on employee take-home pay on the 15th and 30th pay days.

To ensure that the aforementioned 20,000 employees are not negatively affected by the new system, Great-West has agreed to conduct an outreach program to obtain the necessary employee consent and re-amortize the existing loans in time for the April 30, 2010 pay day — the first pay day under the eHR system. Employees received notices with their February 15th and March 15th paychecks of the requirement to make a new election. Additionally, Great-West will send employees detailed letters including an estimate of the new loan payments for semi-monthly deductions, along with a Loan Payment Election form. All future loans under these plans will be processed on a semi-monthly basis, thus making this a one-time-only transition.

For Great-West, the conversion of the existing loans to a semi-monthly payment arrangement will involve, among other things, special systems changes, special employee communications and additional staffing in the customer service area for an anticipated increase in employee questions that is not provided for under Great-West's current contract. These additional expenses will be incurred on an as needed basis not to exceed a one-time-only cost of $300,000.

It is recommended that the Great-West contract be amended to provide for these services and the additional County expense. This is an expense that must be borne by the County, not the affected employees, because the systems changes in question are being initiated by the County.

Implementation of Strategic Plan Goals

The recommended changes are consistent with the Countywide Strategic Plan Goal, Organizational Effectiveness by providing fiscal integrity and financial responsibility by simplifying salary and personnel policy and practices for a more cost-effective implementation of the eHR system. These changes avoid costly systems modifications now and provide a more standard platform for cost savings during future system upgrades. They will also increase productivity by reducing staff time and errors associated with manual maintenance of current policy.

FISCAL IMPACT/FINANCING

The technical changes in pay policy set out in Attachment B may, in some instances, generate additional costs and, in other instances, generate offsetting savings. For example, changes described in Attachment B relating to the part-pay sick leave program may produce certain additional costs for the employees who use this benefit, while changes related to the calculated value of a "work day" may produce offsetting savings from employees who are absent without pay or who are otherwise in a less than full-pay status. On balance, we are projecting no additional costs from the changes outlined in Attachment B.

The proposed amendments to the Great-West contract will generate a one-time-only cost of not more than $300,000 (all funds). Funding for these services will come from the Non-departmental Special Accounts Budget Unit. We believe that this cost as well will be more than offset by the efficiencies of the new eHR system.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The transition from a monthly to a semi-monthly pay system in 2010 will result in an extra pay period reported to the Internal Revenue Service and the State Franchise Tax Board for the 2010 tax year. Most employees will see 12½ months of taxable earnings on their W-2 Forms for the 2010 tax year. The 2010 W-2 Form will be distributed in 2011. This is a one-time-only event. It will have no effect on the calculation of pension benefits. Further detail on this point is provided in Attachment B.

County Counsel and Counsel for Jones Day have reviewed and approved the accompanying ordinance as to form.

CONTRACTING PROCESS

Attachment A amends Contract #76808 with Great-West. Your Board approved this contract with Great-West on November 20, 2008. The proposed Amendment adds required terms and conditions to conform with standard County terms and conditions as applied to the Contract. Contractual performance standards relating to customer service responsiveness are waived in the Amendment until September 30, 2010 to accommodate the Contractor's provision of additional services and anticipated increase in call volume for the duration of the one-time loan re-amortization project.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

None.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

WENDY WATANABE
Auditor-Controller

LISA M. GARRETT
Acting Director of Personnel

WTF:EFS
WGL:KAB:df

Attachments (2)

c: All Department Heads
SEIU Local 721
Coalition of County Unions
Horizons Plan Administrative Committee
Savings Plan Administrative Committee
Pension Savings Plan Administrative Committee

ATTACHMENT A

CONTRACT BETWEEN
COUNTY OF LOS ANGELES
AND
GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
FOR
THIRD PARTY ADMINISTRATIVE SERVICES
(Contract No. 76808)

AMENDMENT NO. 1

WHEREAS, on November 20, 2008, the County of Los Angeles, hereinafter referred to as the "COUNTY," entered into a contract with Great-West Life & Annuity Insurance Company, hereinafter referred to as the "CONTRACTOR," for defined contribution plan services; and

WHEREAS, on March 23, 2010, the COUNTY Board of Supervisors adopted Ordinance No. 2010-XXXX, amending County Code, Title 5 - Personnel and Title 6 – Salaries, to change the monthly payroll cycle to a semi-monthly payroll cycle, requiring unanticipated defined contribution plan loan conversions and associated services from CONTRACTOR; and

WHEREAS, Section 8.4.2, "Amendments" of the aforementioned contract requires that revisions, which affect the Statement of Work and Contract Sum, be prepared and executed by the CONTRACTOR and by the COUNTY Board of Supervisors; and

WHEREAS, the parties agree to add new County mandated provisions regarding the County's Defaulted Property Tax Reduction Program; and

NOW, THEREFORE, it is agreed between the parties that the contract shall be amended as follows:

1. **This Amendment No. 1 shall commence and be effective on March 23, 2010.**

2. **Section 7.7, BACKGROUND SECURITY INVESTIGATIONS, subsections 7.7.1, 7.7.2, 7.7.3 and 7.7.4 shall be deleted in their entirety and replaced with the following:**

7.7.1 Each of Contractor's staff performing services under this Contract who is in a designated sensitive position, as determined by County in County's sole discretion, shall undergo and pass a background investigation to the satisfaction of County as a condition of beginning and continuing to perform services under this Contract. Such background investigation may include, but shall not be limited to, criminal conviction information obtained through fingerprints submitted to the California Department of Justice. The fees associated with the background investigation shall be at the expense of the Contractor, regardless if the member of Contractor's staff passes or fails the background investigation.

7.7.2 If a member of Contractor's staff does not pass the background investigation, County may request that the member of Contractor's staff be immediately removed from performing services under the Contract at any time during the term of the Contract. County will not provide to Contractor or to Contractor's staff any information obtained through the County's background investigation.

7.7.3 County, in its sole discretion, may immediately deny or terminate facility access to any member of Contractor's staff that does not pass such investigation to the satisfaction of the County or whose background or conduct is incompatible with County facility access.

7.7.4 Disqualification of any member of Contractor's staff pursuant to this Section 7.7 shall not relieve Contractor of its obligation to complete all work in accordance with the terms and conditions of this Contract.

3. **Section 8.6, ASSIGNMENT AND DELEGATION, subsections 8.6.2 and 8.6.3 shall be deleted in their entirety and replaced with the following:**

8.6.2 Shareholders, partners, members, or other equity holders of Contractor may transfer, sell, exchange, assign, or divest themselves of any interest they may have therein. In the event any such sale, transfer, exchange, assignment, or divestment is effected in such a way as to give majority control of Contractor to any person(s), corporation, partnership, or legal entity other than the majority controlling interest therein at the time of execution of the Contract, such disposition shall be considered an assignment. Contractor shall provide notice to the County within five (5) business days of the date such assignment is made public.

8.6.3 Any assumption, assignment, delegation, or takeover of any of the Contractor's duties, responsibilities, obligations, or performance of same by any entity other than the Contractor, whether through assignment, subcontract, delegation, merger, buyout, or any other mechanism, with or without consideration for any reason whatsoever without County's express prior written approval, shall be a material breach of the Contract which may result in the termination of this Contract. In the event of such termination, County shall be entitled to pursue the same remedies against Contractor as it could pursue in the event of default by Contractor.

4. **Section 8.23, GENERAL INSURANCE REQUIREMENTS, shall be deleted in its entirety and replaced with the following:**

8.23 GENERAL PROVISIONS FOR ALL INSURANCE COVERAGE

Without limiting Contractor's indemnification of County, and in the performance of this Contract and until all of its obligations pursuant to this Contract have been met, Contractor shall provide and maintain at its own expense insurance coverage satisfying the requirements specified in Sections 8.23 and 8.24 of this Contract. These minimum insurance coverage terms, types and limits (the

"Required Insurance") also are in addition to and separate from any other contractual obligation imposed upon Contractor pursuant to this Contract. The County in no way warrants that the Required Insurance is sufficient to protect the Contractor for liabilities which may arise from or relate to this Contract.

8.23.1 **Evidence of Coverage and Notice to County**

- Certificate(s) of insurance coverage (Certificate) satisfactory to County, and a copy of an Additional Insured endorsement confirming County and its Agents (defined below) has been given Insured status under the Contractor's General Liability policy, shall be delivered to County at the address shown below and provided prior to commencing services under this Contract.

- Renewal Certificates shall be provided to County not less than 10 days prior to Contractor's policy expiration dates. The County reserves the right to obtain complete, certified copies of any required Contractor and/or Sub-Contractor insurance policies at any time.

- Certificates shall identify all Required Insurance coverage types and limits specified herein, reference this Contract by name or number, and be signed by an authorized representative of the insurer(s). The Insured party named on the Certificate shall match the name of the Contractor identified as the contracting party in this Contract. Certificates shall provide the full name of each insurer providing coverage, its NAIC (National Association of Insurance Commissioners) identification number, its financial rating, the amounts of any policy deductibles or self-insured retentions exceeding fifty thousand ($50,000.00) dollars, and list any County required endorsement forms.

- Neither the County's failure to obtain, nor the County's receipt of, or failure to object to a non-complying insurance certificate or endorsement, or any other insurance documentation or information provided by the Contractor, its insurance broker(s) and/or insurer(s), shall be construed as a waiver of any of the Required Insurance provisions.

Certificates and copies of any required endorsements shall be sent to:

County of Los Angeles
Chief Executive Office, Compensation Policy Division
500 West Temple Street, Room 526
Los Angeles, California 90012
Attention: David Turla, Principal Analyst

Contractor also shall promptly report to County any injury or property damage accident or incident, including any injury to a Contractor employee occurring on County property, and any loss, disappearance, destruction, misuse, or theft of County property, monies or securities entrusted to Contractor. Contractor also shall promptly notify County of any third party claim or suit filed against Contractor or any of its Sub-Contractors which arises from or relates to this Contract, and could result in the filing of a claim or lawsuit against Contractor and/or County.

8.23.2 **Additional Insured Status and Scope of Coverage**

The County of Los Angeles, its Special Districts, Elected Officials, Officers, Agents, Employees and Volunteers (collectively County and its Agents) shall be provided additional insured status under Contractor's General Liability policy with respect to liability arising out of Contractor's ongoing and completed operations performed on behalf of the County. County and its Agents additional insured status shall apply with respect to liability and defense of suits arising out of the Contractor's acts or omissions, whether such liability is attributable to the Contractor or to the County. The full policy limits and scope of protection also shall apply to the County and its Agents as an additional insured, even if they exceed the County's minimum Required Insurance specifications herein. Use of an automatic additional insured endorsement form is acceptable providing it satisfies the Required Insurance provisions herein.

8.23.3 **Cancellation of Insurance**

Except in the case of cancellation for non-payment of premium, Contractor's insurance policies shall provide, and Certificates shall specify, that County shall receive not less than thirty (30) days advance written notice by mail of any cancellation of the Required Insurance. Ten (10) days prior notice may be given to County in event of cancellation for non-payment of premium.

8.23.4 **Failure to Maintain Insurance**

Contractor's failure to maintain or to provide acceptable evidence that it maintains the Required Insurance shall constitute a material breach of the Contract, upon which County immediately may withhold payments due to Contractor, and/or suspend or terminate this Contract. County, at its sole discretion, may obtain damages from Contractor resulting from said breach.

8.23.5 **Insurer Financial Ratings**

Coverage shall be placed with insurers acceptable to the County with A.M. Best ratings of not less than A:VII unless otherwise approved by County.

8.23.6 **Contractor's Insurance Shall Be Primary**

Contractor's insurance policies, with respect to any claims related to this Contract, shall be primary with respect to all other sources of coverage available to Contractor. Any County maintained insurance or self-insurance coverage shall be in excess of and not contribute to any Contractor coverage.

8.23.7 **Waivers of Subrogation**

To the fullest extent permitted by law, the Contractor hereby waives its rights and its insurer(s)' rights of recovery against County under all the Required Insurance for any loss arising from or relating to this Contract. The Contractor shall require its insurers to execute any waiver of subrogation endorsements which may be necessary to effect such waiver.

8.23.8 **Sub-Contractor Insurance Coverage Requirements**

Contractor shall include all Sub-Contractors as insureds under Contractor's own policies, or shall provide County with each Sub-Contractor's separate evidence of insurance coverage. Contractor shall be responsible for verifying each Sub-Contractor complies with the Required Insurance provisions herein, and shall require that each Sub-Contractor name the County and Contractor as additional insureds on the Sub-Contractor's General Liability policy. Contractor shall obtain County's prior review and approval of any Sub-Contractor request for modification of the Required Insurance.

8.23.9 **Deductibles and Self-Insured Retentions (SIRs)**

Contractor's policies shall not obligate the County to pay any portion of any Contractor deductible or SIR. The County retains the right to require Contractor to reduce or eliminate policy deductibles and SIRs as respects the County, or to provide a bond guaranteeing Contractor's payment of all deductibles and SIRs, including all related claims investigation, administration and defense expenses. Such bond shall be executed by a corporate surety licensed to transact business in the State of California.

8.23.10 **Claims Made Coverage**

If any part of the Required Insurance is written on a claims made basis, any policy retroactive date shall precede the effective date of this Contract. Contractor understands and agrees it shall maintain such coverage for a period of not less than three (3) years following Contract expiration, termination or cancellation.

8.23.11 **Application of Excess Liability Coverage**

Contractors may use a combination of primary, and excess insurance policies which provide coverage as broad as ("follow form" over) the underlying primary policies, to satisfy the Required Insurance provisions.

8.23.12 **Separation of Insureds**

All liability policies shall provide cross-liability coverage as would be afforded by the standard ISO (Insurance Services Office, Inc.) separation of insureds provision with no insured versus insured exclusions or limitations.

8.23.13 **Alternative Risk Financing Programs**

The County reserves the right to review, and then approve, Contractor use of self-insurance, risk retention groups, risk purchasing groups, pooling arrangements and captive insurance to satisfy the Required Insurance provisions. The County and its Agents shall be designated as an Additional Covered Party under any approved program.

8.23.14 **County Review and Approval of Insurance Requirements**

The County reserves the right to review and adjust the Required Insurance provisions, conditioned upon County's determination of changes in risk exposures.

5. **Section 8.24, INSURANCE COVERAGE REQUIREMENTS shall be deleted in its entirety and replaced with the following:**

8.24 INSURANCE COVERAGE

8.24.1 **Commercial General Liability** insurance (providing scope of coverage equivalent to ISO policy form CG 00 01), naming County and its Agents as an additional insured, with limits of not less than:

General Aggregate:	$2 million
Products/Completed Operations Aggregate:	$1 million
Personal and Advertising Injury:	$1 million
Each Occurrence:	$1 million

8.24.2 **Automobile Liability** insurance (providing scope of coverage equivalent to ISO policy form CA 00 01) with limits of not less than $1 million for bodily injury and property damage, in combined or equivalent split limits, for each single accident. Insurance shall cover liability arising out of Contractor's use of autos pursuant to this Contract, including owned, leased, hired, and/or non-owned autos, as each may be applicable.

8.24.3 **Workers' Compensation and Employers' Liability** insurance or qualified self-insurance satisfying statutory requirements, which includes Employers' Liability coverage with limits of not less than $1 million per accident. If Contractor will provide leased employees, or, is an employee leasing or temporary staffing firm or a professional employer organization (PEO), coverage also shall include an Alternate Employer Endorsement (providing scope of coverage equivalent to ISO policy form WC 00 03 01 A) naming the County as the Alternate Employer, and the endorsement form shall be modified to provide that County will receive not less than thirty (30) days advance written notice of cancellation of this coverage provision. If applicable to Contractor's operations, coverage also shall be arranged to satisfy the requirements of any federal workers or workmen's compensation law or any federal occupational disease law.

8.24.4 **Professional Liability/Errors and Omissions**

Insurance covering liability arising from any error, omission, negligent or wrongful act of the Contractor, its officers or employees with limits of not less than $15,000,000 per claim and aggregate for scope of all services provided under this agreement. This insurance and coverage limit shall be dedicated solely to services provided by Contractor to County and the Los Angeles County Defined Contribution Plans and will not cover Contractor's services to its other clients. The coverage also shall provide an extended two year reporting period commencing upon termination or cancellation of this Contract.

8.24.5 **Crime Coverage**

Insurance in an amount not less than $30,000,000 covering against loss of money, securities, or other property referred to in this Agreement which may result from employee dishonesty, forgery or alteration, theft, disappearance and destruction, computer fraud, burglary and robbery. Such insurance shall name the County as loss payee.

6. The following provisions shall be added to the Contract:

8.51 CONTRACTOR'S WARRANTY OF COMPLIANCE WITH COUNTY'S DEFAULTED PROPERTY TAX REDUCTION PROGRAM.

Contractor acknowledges that County has established a goal of ensuring that all individuals and businesses that benefit financially from County through contract are current in paying their property tax obligations (secured and unsecured roll) in order to mitigate the economic burden otherwise imposed upon County and its taxpayers.

Unless CONTRACTOR qualified for an exemption or exclusion, CONTRACTOR warrants and certifies that to the best of its knowledge it is now in compliance, and during the term of this Contract will maintain compliance, with Los Angeles County Code Chapter 2.206.

8.52 TERMINATION FOR BREACH OF WARRANTY TO MAINTAIN COMPLIANCE WITH COUNTY'S DEFAULTED PROPERTY TAX REDUCTION PROGRAM

Failure of Contractor to maintain compliance with the requirements set forth in Paragraph 8.51 "CONTRACTOR'S WARRANTY OF COMPLIANCE WITH COUNTY'S DEFAULTED PROPERTY TAX REDUCTION PROGRAM" shall constitute default under this Contract. Without limiting the rights and remedies available to County under any other provision of this Contract, failure of Contractor to cure such default within 10 days of notice shall be grounds upon which County may terminate this Contract and/or pursue debarment of Contractor, pursuant to County Code Chapter 2.206.

7. **EXHIBIT A, STATEMENT OF WORK, SECTION 4.0 RECORD KEEPING SERVICES, shall be amended to replace existing subsection 4.12 with the following:**

4.12 SPECIAL ONE-TIME LOAN RE-AMORTIZATION PROJECT. The COUNTY and CONTRACTOR shall agree to services that will facilitate the transition of defined contribution plan loan repayment schedules to the new COUNTY payroll system. These services shall be outlined in a mutually agreed timeline and shall include, but not be limited to, the following services:

a. CONTRACTOR shall ensure programming capabilities to calculate and successfully process loan payments on monthly and semi-monthly schedules depending upon the election made by participants.

b. CONTRACTOR shall develop, print and mail an announcement notifying employees with an existing loan, hereafter referred to as "Loan Owner," of how their loan payroll deductions will be affected by the new COUNTY payroll system. The announcement shall include a mandatory loan payroll deduction election form and instructions to complete and return the form to CONTRACTOR.

c. CONTRACTOR shall receive and process each Loan Owner's mandatory loan payroll deduction election. A Loan Owner may elect either a semi-monthly or monthly payroll deduction.

d. CONTRACTOR shall print and timely mail a semi-monthly re-amortized loan promissory note and truth and lending disclosure to each Loan Owner who elected a semi-monthly loan payroll deduction.

e. CONTRACTOR shall keep in full force and effect the existing promissory note for each Loan Owner who elected a monthly loan repayment schedule or did not return a completed and signed loan election form.

f. CONTRACTOR shall permit a Loan Owner a one time opportunity to change the loan payroll deduction election after the new COUNTY payroll system has been implemented.

g. CONTRACTOR shall issue promissory notes based on a semi-monthly repayment schedule for all new loans issued after the new COUNTY payroll system has been implemented.

h. CONTRACTOR shall adequately staff the call center to successfully service the expected increased call volume from participants in response to loan re-amortization project mailings.

8. EXHIBIT J, PERFORMANCE STANDARDS, shall be amended to add the following:

"Customer Service Representative (CSR) Responsiveness.

...

Call volume, hold time and abandonment rate guarantees are waived for the duration of the special loan re-amortization project and reactivated effective September 30, 2010."

9. EXHIBIT B, PRICING SCHEDULE, shall be amended to add Exhibit 1, SPECIAL SERVICES FOR ONE-TIME LOAN RE-AMORTIZATION PROJECT.

10. Except as modified by this Amendment No. 1, all terms and conditions of the contract shall remain in full force and effect.

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IN WITNESS WHEREOF the County of Los Angeles and Great-West Life & Annuity Insurance Company have each caused this Amendment No. 1 to be executed by its duly authorized officer as of the date first above written.

GREAT-WEST RETIREMENT SERVICES

By________________________________
(Name)

____
(Title)

COUNTY OF LOS ANGELES.

By________________________________
Chair, Board of Supervisors

ATTEST:

SACHI A. HAMAI
Executive Officer
Board of Supervisors

By ________________________________
Deputy

APPROVED AS TO FORM:

ANDREA SHERIDAN ORDIN
County Counsel

By________________________________
Principal Deputy County Counsel

Exhibit 1

PRICING SCHEDULE

SPECIAL SERVICES FOR ONE-TIME LOAN RE-AMORTIZATION (NOT TO EXCEED $300,000)

Loan Processing $176,000

1. Programming to approximate semi-monthly loan re-amortization amounts for the participant notification merge.
2. Provide additional system programming necessary for re-amortizing loans.
3. Develop, produce and print special loan re-amortization election form.
4. Mail 7-page black and white communications and instructions to participants, including all postage, printing and collation.
5. Mail 3-page black and white follow-up communication and instructions to participants, including provision of all postage, printing and collation.
6. Mail loan re-amortization schedules including provision of printing and postage.
7. Loan Department to manually process returned loan re-amortization requests to semi-monthly deductions.
8. Back-End Scanning of returned loan re-amortization forms, including services of one temporary employee for one month.

Client Service $124,000

1. Services of 10 full-time temporary employees for 15 weeks (2/15/10-5/30/10) at $825/week.

DESCRIPTION OF POLICY AND/OR SIGNIFICANT PROCEDURAL CHANGES

1. **Semi-Monthly Payroll and Deductions:**
(See 6.02.030 and other related sections in accompanying ordinance.)

Currently, the majority of County employees are paid twice per month on or about the 15th and 30th of each month. Although this arrangement has the feel of semi-monthly pay, it is, technically, a monthly pay arrangement. The "one" monthly pay day is the 15th of each month where the pay warrant comes with a pay stub detailing each employee's payroll deductions for that month. The payment on the preceding 30th is actually an "advance" on most (but not necessarily all) of the components of the net take-home pay calculation for the subsequent 15th pay day. There is no detailed stub on the 30th pay day.

The new system represents true semi-monthly pay. Pay warrants will still be issued on or about the 15th and 30th of each month, but each semi-monthly pay period will be accounted for separately. This will entail a separate pay stub for each pay warrant. Certain components of take-home pay that are not currently included in the 30th pay warrants will be included under the new system. This will help smooth out certain differences in take-home pay that now exist between the 15th and 30th pay warrants. Under the new system, there will be less "roller coaster" effect on employee take-home pay from one payday to the next.

The tables on the following page demonstrate the differences in this regard between the current and new systems. Further explanation regarding the earnings and deduction differences shown in the comparisons will be provided in subsequent sections of this attachment.

Semi-monthly pay is one of the e-HR related changes specifically referenced in the 2009 - 2011 Fringe Benefit MOUs with the Coalition of County Unions and SEIU Local 721. Semi-monthly pay is also referenced in the SEIU Local 721 individual bargaining unit MOUs.

Example: Monthly v Semi-monthly

Earnings

	CURRENT PAYROLL			EHR PAYROLL			
Pay Day	Jan 30	Feb 15	Total	Jan 30	Feb 15	Total	Difference
Regular Earnings		4,940.13	4,940.13	2,470.07	2,470.07	4,940.14	0.01
Cafeteria Plan Taxable Cash		124.21	124.21	62.11	62.10	124.21	0.00
ESA /ESA Recovery	1,718.00	-1,718.00	0.00				0.00
Total Earnings			**5,064.34**	2,532.18	2,532.17	**5,064.35**	0.01

Deductions

	CURRENT PAYROLL			EHR PAYROLL			
Pay Day	Jan 30	Feb 15	Total	Jan 30	Feb 15	Total	Difference
Fed Tax		602.06	602.06	301.04	301.04	602.08	0.02
State Tax		204.79	204.79	102.41	102.41	204.82	0.03
HIT Tax		73.31	73.31	36.66	36.65	73.31	0.00
Retirement		419.91	419.91	209.96	209.96	419.92	0.01
Union Deduction		71.94	71.94	35.97	35.97	71.94	0.00
Union Life 1xSal		58.58	58.58	29.29	29.29	58.58	0.00
Credit Union		100.00	100.00	50.00	50.00	100.00	0.00
United Way		12.35	12.35	6.18	6.18	12.36	0.01
Total Deductions		1,542.94	1,542.94	771.51	771.50	1,543.01	0.07
Net Pay	1,718.00	1,803.40	**3,521.40**	1,760.67	1,760.67	**3,521.34**	-0.06

2. Workday Pay Calculations for Special Leave Events:

Currently, most County employees are paid by the month. This means they are paid for every day in the month, including weekends and other regular days off. For purposes of docking an employee who is absent without pay, and for various other payroll applications, the value of a day's pay under this arrangement is determined by dividing an employee's monthly salary by the number of calendar days in the month. In a 30 day month, for example, the value of a single day is determined by multiplying the monthly rate by 1/30th. In a 31 day month, the value is determined by multiplying the monthly rate by 1/31st. This arrangement has been in place for well over 50 years and is commonly referred to as the "calendar day pay system."

The calendar day pay system arguably does a poor job of equating the value of lost productivity with the loss of pay where some reduction in pay is necessary due to an employee's absence from work. For example, there are approximately 22 average working days in a month for a 40 hour employee. That would indicate that the value of a lost day of work should be 1/22nd of a month's salary, not 1/30th or 1/31st. Moreover, an employee who is docked for being absent on a Friday and a Monday flanking a Saturday and a Sunday that are regular days off must be docked 4/30^{ths} of a month's pay, and that is more than the value of the lost productivity.

The new system is based on a "workday pay" calculation. This arrangement prorates the semi-monthly pay amount in a manner that reflects the lost work time. This is done by multiplying the employee's semi-monthly salary by the fraction obtained by dividing the number of hours of work that are to be without pay during the affected semi-monthly pay period by the total number of working hours that were scheduled during the same period. Weekends and regular days off are no longer a factor. This arrangement reflects baseline eHR capability.

Example A below demonstrates the difference between the current and new systems for a single day of absence without pay. Example B demonstrates the difference where an absence flanks a weekend (i.e., regular days off). Whether the new system will advantage or disadvantage affected employees is entirely situational. Either way, however, the new system better aligns actual pay with employee attendance and productivity.

Example A. Workday Semi-Monthly Pay Rate for AWOP Calculations
(See 6.09.070 in accompanying ordinance.)

Current Practice: Calculation of 8 hours of AWOP at the calendar-day rate in a 30-day month.

Monthly Salary	Calendar-Day Hours Per Month (8 X 30)	Calendar-Day Hourly Rate ($5000/240)	8 hours of AWOP (8 X $20.83)
$5,000.00	240	$20.83	$166.64

New Practice in eHR: Calculation of 8 hours of AWOP at the workday rate (scheduled to work 88 hours in semi-monthly pay period).

Semi-Monthly Salary ($5000/2)	Scheduled Workday Hours in Semi-Monthly Pay Period	Workday Hourly Rate ($2500/88)	8 hours of AWOP (8 X $28.41)
$2,500.00	88	$28.41	$227.28

Example B. Workday Semi-Monthly Pay Rate for AWOP Calculations When Flanking Scheduled Days-Off (Saturday/Sunday)
(See 6.09.070 in accompanying ordinance.)

Current Practice: Calculation of 32 hours of AWOP at the calendar-day rate when an employee is AWOP Friday and Monday flanking Saturday/Sunday (scheduled days-off). Calendar-day pay requires a pay-loss calculation for all calendar-days involved in the Fri/Mon AWOP causing a comparatively greater pay-loss in this situation.

Monthly Salary	Calendar-Day Hours Per Month (8 X 30)	Calendar-Day Hourly Rate ($5000/240)	32 hours of AWOP (32 X $20.83)
$5,000.00	240	$20.83	$666.56

New Practice in eHR: Calculation of 16 hours of AWOP at the scheduled workday rate when an employee is AWOP Friday and Monday because Saturday/Sunday are not scheduled workdays and are not required for inclusion in the pay-loss calculation in this situation.

Semi-Monthly Salary ($5000/2)	Scheduled Workday Hours in Semi-Monthly Pay Period	Workday Hourly Rate ($2500/88)	16 hours of AWOP (16 X $28.41)
$2,500.00	88	$28.41	$454.56

Note: We are recommending that the calendar pay system be retained to a limited degree where necessary to coordinate County provided disability benefits with State mandated workers' compensation benefits, which must be provided on a calendar day basis.

3. **Elimination of Part-Pay Sick (PPS) Five-Day Waiting Period**
(See 6.20.050.B.3. and 6.20.040 in accompanying ordinance.)

Most County employees are eligible to receive two forms of sick leave benefits commonly known as "full-pay sick leave" and "part-pay sick leave." Full-pay sick leave is earned and accrued at the rate 8 to 12 days per year depending on the eligible group,. Unused time may be banked and carried over into subsequent years, and, within certain limits, paid off at termination. There are a number of other rules and conditions relating to full-pay sick leave that are not affected by these recommendations and that will not be discussed further in this letter.

Part-pay sick leave is additional sick leave at "partial pay" rates that may be available to employees who have exhausted all of their full-pay sick leave. Part-pay sick leave is available in graduated amounts based on an employee's total length of continuous County service. The benefit ranges from a maximum of one week at 50% of pay for an employee with only six months of continuous service to a maximum of 8 weeks at 65% of pay and 36 weeks at 50% of pay for an employee with 30 or more years of continuous service. The precise amounts associated with various lengths of continuous service are set out in Section 6.20.040 of the County Code.

Part-pay sick leave is a non-accruing form of sick leave that renews every calendar year on January 1st. However, an employee who exhausts his part-pay sick leave may not receive any further benefit under this program unless and until he returns to work. In this connection, it is important to note that management has the right to determine an employee's fitness for duty before allowing a return to work that would generate entitlement to additional part-pay sick leave. Part-pay sick leave may not be used for any reason other than a disabling condition on the part of the employee, and unused part-pay sick leave may not be paid off at termination of County service.

Five Day Waiting Period

With certain exceptions, the use of part-pay sick leave is currently conditioned on the satisfaction of a five calendar day waiting period commencing with the first day an employee is absent from work due to disability. In other words, with certain exceptions noted below, part-pay sick leave may not be used until calendar day number six of any single period of disability. Other benefits may be used during this period, however. In fact, full-pay sick leave must be used if the employee has the time on the books. In addition, an employee may use vacation time, accumulated holiday time, and accumulated overtime (i.e., compensatory time off) to cover the five day waiting period. Otherwise, an employee must be absent without pay during this time.

The exceptions to the five day waiting period rule are as follows:

- The waiting period is waived if a five day waiting period for the same illness or injury has previously been served by the employee. That is, if the illness or injury is a recurring illness or injury for which the employee has already been absent for at least five consecutive calendar days, no additional waiting period is required. The waiting period need only be served once per lifetime for any particular recurring illness or injury.

- The waiting period is waived if the employee is hospitalized. "Hospitalized" for this purpose includes being treated in a hospital emergency room, regardless of whether the employee is subsequently admitted to the hospital.

We estimate that approximately 10% of the eligible workforce actually uses part-pay sick leave in any given year. The average total usage is approximately 38 days per person per year based on 2009 experience. Total Countywide expenditures are estimated at $30 million per year (all funds).

<u>Recommend Elimination of Five Day Waiting Period</u>

The administration and enforcement of the part-pay sick leave five day waiting period is currently a manual process. That would continue to be the case under the new eHR system as this provision cannot be automated. However, we are recommending that the five day waiting period be completely eliminated for the following reasons:

1. **Disparate treatment.** The five day waiting period may create certain disparate treatment now, and that situation would be worse under the new eHR workday pay system. This is demonstrated by the following example:

    Employee A works a Monday through Friday schedule. He has no full-pay or other accrued time on the books. He becomes ill for two weeks and begins the five day waiting period on a Friday. Under the new system, he is AWOP for a total of three days before his part-pay sick leave benefits begin. The three days would be Friday and the following Monday and Tuesday. Part-pay sick leave benefits would begin on the following Wednesday.

    In contrast, Employee B, who is similarly situated, is also sick for two weeks. However, he struggles to work on Friday and does not begin his two week absence until the following Monday. He will be AWOP for five working days spanning Monday through Friday of that week. Thus, Employee A gets docked for three working days and Employee B gets docked for five working days for essentially the same two week illness. Employee A benefits in this case from getting sick on a Friday.

2. **Enforcement is impractical.** The limit of one waiting period per recurring illness/injury per lifetime is very problematic. This provision, if truly enforced, requires the collection of potentially sensitive information on large numbers of employees throughout the County structure. The proper collection and protection of this information is very difficult and potentially risky.

3. **Issue is moot in many situations**. This is because, in many situations, employees cover the five day waiting period with full-pay sick leave or other accrued time. Based on 2009 experience, we estimate that almost half of all employees who use part-pay sick leave manage to "fill in" the five day waiting period with other paid leave. More than half fill in at least part of the five day waiting period. For these employees, eliminating the five day waiting period will have little to no effect on County costs. As noted above, it is currently a requirement that employee's use full-pay sick leave before using part-pay sick leave. That requirement will not change.

4. **Costs will be fully offset**. The elimination of the five day waiting period may generate additional costs in those instances where a) there is no waiver of the waiting period due to a recurring illness/injury, hospitalization, or emergency room treatment, or b) the waiting period is not covered by full-pay sick leave or other paid leave. Where none of these factors come into play, the affected employees will presumably be using part-pay sick leave where they would otherwise be forced to go AWOP under current policy. We are estimating that this will increase average part-pay sick leave usage by approximately 5%, or slightly less than two days per occurrence. However, we are projecting that any such additional costs will be fully offset by cost savings associated with conversion to a workday pay system.

   Examples A and B under Item 2 in this attachment demonstrate the difference in the hourly rates of pay under the calendar day and workday pay systems. These calculations determine how much an employee is docked for being AWOP, or how much an employee's pay is reduced for being on part-pay sick leave. Under the workday pay system, the hourly rate is approximately 36% higher than under the calendar day pay system. This reflects the fact that, under the workday pay system, employees will no longer be paid for weekends and other regular days off. However, for many absences of less than a week, and many other absences that begin or end during a work week (which is most absences), the savings attributable to AWOP time and part-pay sick leave will increase under the workday pay system. The potential impact in a part-pay sick leave scenario is demonstrated by the following example showing the value of the impact on a single day.

Example: 65% PPS

CURRENT CALENDAR-DAY CALCULATION

Monthly Salary	Calendar-Day Hours/Mo (8hr * 31 days)	Calendar-day Hourly Rate ($5000/248)	Value of Day (8*$20.16)	Value of PPS Benefit (8*$20.16)* .65	DAILY PAY LOSS (161.29-104.83)
$5000.00	248	$20.16	$161.28	$104.83	$56.46

NEW WORK DAY CALCULATION

Semi-Monthly Salary	Scheduled Workday Hours in Semi-Mo Period (8hr * 11 days)	Workday Hourly Rate ($2500/88)	Value of Day (8*$28.41)	Value of PPS Benefit (8*$28.41)* .65	DAILY PAY LOSS (227.28-147.73)
$2,500.00	88	$28.41	$227.28	$147.73	$79.55

It is also important to point out that the County expenditure for PPS is identical under either calendar or workday pay system when an employee exhausts 100% of the annual benefit allotment, regardless of the 5-day waiting period.

Transitioning PPS Balances Upon System Implementation

When the new system is implemented in 2010, the eligibility and usage requirements described on the prior page will remain intact with the exception of the five-day waiting requirement.

In keeping with the transition to workday pay calculations, PPS will be granted and recorded on scheduled workdays rather than on the current calendar-day basis. Benefit maximums will be reduced by 5/7. Employees who are using PPS at the point of transition will also see their remaining PPS balance converted by 5/7 to reflect workday rather than calendar-day usage. The total cost or value of the benefit is not affected by the 5/7 conversion because 2/7 of the time is no longer needed.

Example: Employee with 10 years of service in 2010 is entitled to 448 hours of 65% PPS and 336 hours of 50% PPS before transition to new system.

		Old Balance	New Balance
1	Uses 266-hrs 65% PPS before transition (448-266)	182 (65% hrs)	
2	Unused 336-hrs of 50% PPS before transition	336 (50% hrs)	
3	Conversion of 65% PPS at transition (182 hrs. * 5/7)		130 (65% hrs)
4	Conversion of 50% PPS at transition (336 hrs.* 5/7)		240 (50% hrs)

4. Salary and Deduction Differences

(See 6.02.030 in accompanying ordinance.)

Calculation differences between the current CWTAPPS system and the new eHR system may result in earnings, deductions and benefit differences of a few cents.

A. Transfer of Employee Salary from CWTAPPS to Advantage

The new semi-monthly salary beginning in 2010 will be achieved by splitting the monthly salary in half. When splitting a monthly salary in half results in a fraction of a cent, the faction will be rounded up.

Example:

Current Monthly Salary	$4,940.13
Semi-Monthly Salary Divided in Half ($2,470.065) and Rounded to Two Decimal Places	$2,470.07
Resultant Monthly Salary from Semi-Monthly Salary Paid Twice a Month	$4,940.14

B. Retirement Deductions

Employees in a contributory retirement plan contribute a percentage of monthly salary to LACERA. In the new payroll system, an employee's contribution will be calculated as a percentage of semi-monthly salary.

Example:

Current Practice		
Monthly Salary	Contribution Rate	Contribution Amount
4,940.13	8.50%	419.91

New Practice		
Semi-Monthly Salary	Contribution Rate	Contribution Amount
2,470.07	8.50%	209.96
2,470.07	8.50%	209.96
Total Semi Mo Contribution		419.92

5. County Contribution and Deductions

A. Cafeteria Plan Benefits

(See 5.27.040 and other related sections in accompanying ordinance.)

Currently, on the 15th payday a County Contribution is provided for insurance premiums (medical, dental, disability insurance, etc) and taxable cash. If premiums exceed the County Contribution, taxable cash is not provided and the excess premium is deducted as a pre-tax salary reduction on the 15th payday.

County health plan insurers were surveyed regarding their willingness to convert to a semi-monthly coverage cycle to align with the new semi-monthly pay cycle beginning in 2010. The consensus was that coverage on a semi-monthly basis would require modification of their existing systems and require additional staffing. Additionally, administrators for plans with provider networks argued that twice as much communication to medical and dental providers would be necessary to relay the frequent employee and dependent enrollment and coverage changes.

Accordingly, insurance premiums paid with County and employee contributions will continue to process on the 15th payday. In order to facilitate a smoothing of net pay the employee will receive an estimate of either half the taxable cash amount or half the cafeteria plan salary reduction on the 30th payday. The system will then pay the employee the balance of the taxable cash benefit or withhold the balance of the salary reduction on the following 15th payday.

Example:

Cafeteria Plan Deductions

	CURRENT PAYROLL			eHR PAYROLL			
	Jan 30	Feb 15	TOTAL	Jan 30	Feb 15	TOTAL	Difference
Contribution		968.97	968.97		968.97	968.97	
Less Benefits							
Medical Premium		761.52	761.52		761.52	761.52	0.00
Dental Premium		66.20	66.20		66.20	66.20	0.00
AD&D		10.25	10.25		10.25	10.25	0.00
LTD-Health		3.00	3.00		3.00	3.00	0.00
Admin Fee		3.79	3.79		3.79	3.79	0.00
Taxable Cash		124.21	124.21	62.11	62.10	124.21	0.00

B. Non-Cafeteria Plan Deductions

Regulations include limitations on the benefits and premium amount that can be paid through a cafeteria plan with pre-tax dollars (i.e.: CIGNA life insurance coverage over $50,000 and domestic partner medical/dental coverage). Premium outside of the cafeteria plan limits will not be split between the two semi-monthly paydays, but will be taken on the 15th payday of the month.

Upon implementation in 2010, most non-cafeteria plan deductions (credit union payments, union dues, retirement, deferred plans etc.) will be split in half and deducted each semi-monthly pay period. The goal will be to maintain employee paycheck consistency by processing equal deductions on a semi-monthly basis. In these cases, when splitting an odd numbered flat monthly deduction results in a fraction of a cent, the fraction will be rounded up according to common rounding rules.

6. **Life Insurance Subsidy Not Contingent on Cafeteria Plan Type**

Currently, the County pays 50% of a MegaFlex participant's life insurance premium and 15% of a Choices/Options participant's life insurance premium regardless of the life insurance plan.

With the implementation of eHR, the County will continue to pay a percentage of the premium, but will determine the percentage based on the insurance plan regardless of the Cafeteria Plan. In other words, the County will pay 50% of the MetLife premium and 15% of the Cigna Life Insurance Premium.

This change will enable an employee to maintain the same subsidy for their existing life insurance during the short transition period from one cafeteria plan to another upon promotion or other change of status. This does not apply to Flexible Benefit Plan participants who do not receive a County subsidy for life insurance.

7. **Garnishments Processed Twice Monthly**

State law permits the assessment of a processing fee for levies (federal taxes), garnishments (i.e.: court judgments, state taxes, student loans, etc.) and wage assignments (child support and spousal support assignments).

Currently, full-time permanent employees have garnishments processed once a month on the monthly pay cycle. In 2010, garnishments will be processed twice a month on the new semi-monthly pay cycle and the associated processing fee will be charged each pay cycle.

8. **Savings and Horizons Plan Definition of Base Compensation**
(See 5.25.020.Z. and 5.26.020.25 in accompanying ordinance.)

Upon implementation of the new payroll system in 2010, the definition of employee compensation for purposes of calculating an employee's deferral amount will be simplified by using only the information on the employee's pay statement. Currently, compensation includes values such as the maximum taxable cash benefit technically available to the employee, but not easily ascertainable by the employee. This may make it difficult for an employee to determine his or her desired deferral amount.

As a consequence of this change, employees may wish to adjust their deferral percentage to maintain the dollar amount of their current deferral. If an employee makes no change, then the current percentage will be continued but the dollar amount currently contributed will be slightly less in most cases. This change has no impact on the County's contribution amount or on the dollar amount an employee may defer to the Plans.

Example: Calculating An Employee's Horizons' Deduction

Current Practice	Calculation	eHR 2010 Calculations		
Pay Day	Feb 15	Jan 30	Feb 15	Total
Earnings				
Regular Earning	4,940.13	2,470.07	2,470.07	4,940.14
Cafeteria Plan Taxable Cash		57.88	57.88	115.76
Maximum Taxable Cash –Waiver Cafeteria Plan Contribution of $228 less Admin fee of $3.78	224.22			
Life Insurance Imputed Income	0.65		0.65	0.65
Less: Retirement Deduction	(419.91)	(209.96)	(209.96)	(419.92)
Deduction Base	4,745.09	2,317.99	2,318.64	4,636.63
Employee Contribution Rate	5.0%	5.0%	5.0%	5.0%
Employee Horizons Deduction	237.25	115.90	115.93	231.83

The calculation below demonstrates that if the employee wanted to maintain at least the current monthly deduction dollar amount ($237.25), the deduction percentage would need to be increased from 5.0% to 5.2% for $241.11.

	2010 eHR Calculation with Adjusted Contribution Rate		
Deduction Base	2,317.99	2,318.64	4,636.63
Employee Contribution Rate	5.2%	5.2%	5.2%
Employee Horizons Deduction	120.54	120.57	241.11

9. Retirement Service Credit and Deductions

Retirement deductions are taken and payment is made to LACERA on a monthly basis aligned with the County's current monthly pay cycle. The Retirement Contribution Earnings Amount (RCEA) is calculated and reported to LACERA as a monthly total and service credit is granted in increments of one month.

In 2010 when the new semi-monthly payroll system and semi-monthly retirement deductions begin, RCEA will be calculated and reported as a semi-monthly amount and service credit will be granted in semi-monthly increments.

Example: (varies per individual circumstances):

	Current Monthly RCEA Calculation			Semi-Monthly RCEA Calculation		
Pay Day	Jan 30	Feb 15	Total	Jan 30	Feb 15	Total
<u>Earnings</u>						
Monthly Salary		6,447.56	6,447.56	3,223.78	3,223.78	6,447.56
Bilingual Bonus	50.00	50.00	100.00	50.00	50.00	100.00
Maximum Cafeteria Plan Taxable Cash		244.00	244.00	122.00	122.00	244.00
RCEA	50.00	6,741.56	6,791.56	3,395.78	3,395.78	6,791.56
Retirement Rate			6.37%	6.37%	6.37%	
Employee Retirement Deduction			432.62	216.31	216.31	432.62

For the majority of employees, the transition to semi-monthly service credit will be transparent. Service credit will be provided for every semi-monthly period of continuous service that has enough earnings to facilitate the retirement deduction.

An employee that is AWOP most or all of the pay period resulting in insufficient earnings to afford the retirement deduction, will receive no service credit for that pay period. This is consistent with our current practice on a monthly pay period basis but when applied to a semi-monthly scenario, the overall outcome can be different. The benefit of one pay period relative to another is situational dependant upon each employee's unique circumstances that affect the percentage or number of work days necessary to afford the retirement deduction.

Example: (varies per individual circumstances):

	If Paid 4 days (Dec 1-4), and AWOP (Dec 5-31)	**If Paid 2 days (Dec 1-2), and AWOP (Dec 3-31)**
Current Monthly Pay Period	1 Month Service Credit	No Service Credit
New Semi-Monthly Pay Period	½ Month Service Credit	½ Month Service Credit

For contributory retirement plans (A–D), current retirement law does allow an employee that returns to work following an illness/injury an opportunity to pay-back any missing contribution and recover lost service credit up to one year.

10. **Anniversary Date for Salary/Step Progression for Permanent Employees**
(See 6.08.070 in accompanying ordinance.)

In most cases, employees paid on one of the County salary schedules will advance to the next step of the schedule upon completion of one year of service measured from each employee's appointment date.

Currently, if the employee's date of appointment is between the first and 15th of any month, the yearly step-advancement anniversary date is adjusted to the first of that month and if the employee's date of appointment date is between the 16^{th} and 31^{st} of any month, the yearly step-advancement anniversary date is adjusted to the first of the subsequent month.

The new payroll system does not have the same anniversary date logic. To avoid paying for a system modification, we are changing the step progression for appointments made on or after the 2012 implementation to the actual date of appointment. Employee appointments made prior to the 2012 system implementation will retain the adjusted anniversary dates from the prior policy.

11. Additional Taxable Earnings Reported on 2010 W-2 report.

For most monthly employees employed throughout 2010, the transition from monthly to semi-monthly pay periods in 2010 will result in a one-time reflection of 12½ months of taxable earnings reported to the Internal Revenue Service and the State Franchise Tax Board on employee W-2 Forms for the 2010 tax year (distributed in 2011).

This one-time increase is created by changing to the semi-monthly pay cycle with half of the December earnings applying to the current year. Under the County's present monthly payroll cycle all of the December earnings are applied to pay in the following year. Therefore, in 2010, all pay for December 2009 will be included in 2010 earnings and as a result of the April 2010 transition to semi-monthly pay, half of pay for December 2010 will also be included in 2010 taxable earnings reported on the W-2 Form. While annual taxable earnings reported for each employee will increase for 2010, the amount of monthly earnings for these periods will not change.

The example below demonstrates an employee paid $10,000 for three full-month pay periods in 2010 through the current payroll system (CWPAY), and $5,000 for nineteen half-month pay periods (or 9 ½ months) through the new eHR payroll system totaling 12 ½ months of pay recorded for the 2010 calendar year. In 2011 the employee will have $5,000 in pay recorded for twenty-four semi-monthly pay periods (12 months).

Example:

CHANGE IN TAXABLE EARNINGS REPORTED ON 2010 W-2

2010

PAY PERIOD	PAYDAY	Tax. Wages On W-2
Dec.1-31, 2009	Jan.15, 2010	**$10,000**
Jan. 1-31, 2010	Advance Feb. 15, 2010	$10,000
Feb.1-28, 2010	Advance Mar.15, 2010	$10,000
Mar. 1-31, 2010	Advance Apr.15, 2010	$10,000
Apr. 15, 2010	Apr. 30, 2010	$5,000
Apr. 30, 2010	May 15, 2010	$5,000
May 15, 2010	May 30, 2010	$5,000
May 31, 2010	Jun.15, 2010	$5,000
Jun. 15, 2010	Jun. 30, 2010	$5,000
Jun. 30, 2010	Jul.15, 2010	$5,000
Jul. 15, 2010	Jul. 30, 2010	$5,000
Jul. 31, 2010	Aug.15, 2010	$5,000
Aug. 15, 2010	Aug. 30, 2010	$5,000
Aug. 31, 2010	Sept. 15, 2010	$5,000
Sept. 15, 2010	Sept. 30, 2010	$5,000
Sept. 30, 2010	Oct.15, 2010	$5,000
Oct. 15, 2010	Oct. 30, 2010	$5,000
Oct. 31, 2010	Nov. 15, 2010	$5,000
Nov. 15, 2010	Nov. 30, 2010	$5,000
Nov. 30, 2010	Dec. 15, 2010	$5,000
Dec. 1-15, 2010	Dec. 30, 2010	$5,000
TOTAL	**12 ½ Mos. of Taxable Earnings**	**$125,000**

2011

PAY PERIOD	PAYDAY	Tax. Wages On W-2
Dec. 16-31, 2010	Jan. 15, 2011	**$5,000**
Jan. 15, 2011	Jan. 30, 2011	$5,000
Jan.31, 2011	Feb. 15, 2011	$5,000
Feb. 15, 2011	Feb. 28, 2011	$5,000
Feb. 28, 2011	Mar. 15, 2011	$5,000
Mar. 15, 2011	Mar. 30, 2011	$5,000
Mar. 31, 2011	Apr.15, 2011	$5,000
Apr.15, 2011	Apr. 30, 2011	$5,000
Apr.30, 2011	May 15, 2011	$5,000
May 15, 2011	May 30, 2011	$5,000
May 31, 2011	Jun.15, 2011	$5,000
Jun.15, 2011	Jun. 30, 2011	$5,000
Jun. 30, 2011	Jul. 15, 2011	$5,000
Jul. 15, 2011	Jul. 30, 2011	$5,000
Jul. 31, 2011	Aug. 15, 2011	$5,000
Aug. 15, 2011	Aug. 30, 2011	$5,000
Aug. 31, 2011	Sept. 15, 2011	$5,000
Sept. 15, 2011	Sept. 30, 2011	$5,000
Sept. 30, 2011	Oct. 15, 2011	$5,000
Oct.15, 2011	Oct. 30, 2011	$5,000
Oct. 31, 2011	Nov. 15, 2011	$5,000
Nov.15, 2011	Nov. 30, 2011	$5,000
Nov. 30, 2011	Dec. 15, 2011	$5,000
Dec. 15, 2011	Dec. 30, 2011	$5,000
TOTAL	**12 Mos. of Taxable Earnings**	**$120,000**

12. Leave Accrual Rates Displayed in Hours/Minutes Per Pay Period in 2010

The County provides vacation and sick leave benefits based on an employee's years of service with the County. The accrual rate for these benefits is currently calculated against every paid scheduled hour each pay period and displayed as hours and fractions of an hour.

In 2010, a partial transition will be apparent. The current payroll system will still calculate leave benefits in hours/fractions, but the result will be converted to hours/minutes and transferred to the new payroll system for display on employee pay warrants. The display in hours and minutes on pay warrants is consistent with the entry of time on electronic employee timecards.

Example:

Current	2010
6.5 hours	6:30
(six and one-half hours)	(six hours and 30 minutes)

13. Leave Accrual Rates Calculated in Hours/Minutes Per Pay Period in 2012

(See 6.18.020, 6.20.020 and related sections in accompanying ordinance.)

As mentioned above, the current accrual rates for vacation and sick leave benefits are based on an employee's years of service with the County and are calculated against every paid scheduled hour each pay period and displayed as hours and fractions of an hour. The varying number of days and hours each pay period cause the number of benefit hours attained each pay period to fluctuate.

In 2012, leave benefits will be calculated for employees in a paid status using a constant pay period rate that will provide a consistent flow of benefit time until the pay period that the maximum benefit is reached. These leave benefits will be calculated and displayed using hours and minutes and there will be no change to the total benefit entitlement or to the amount of time it takes to achieve the benefit maximum.

Example:

Current

Days per Month	Accrual Rate as fraction of actual paid hour	Monthly Benefit as hours/fraction	Running Total in hours/fraction
January 1- 31	.041/hr	7.26	7.26
February 1- 28	.041/hr	6.56	13.82
March 1-31	.041/hr	7.26	21.08
...and so on....	.041/hr		
Dec 1 – Dec 15	.041/hr	1.56	80.00

2012

Days per Month	Accrual Rate as hours/minutes Per pay period	Monthly Benefit in hours/minutes	Running Total in hours/minutes
January 1- 31	3:35/pay period	7:10	7:10
February 1- 28	3:35/pay period	7:10	14:20
March 1-31	3:35/pay period	7:10	21:30
...and so on....	3:35/pay period		
Dec 1 – Dec 15	3:35/pay period	1:10	80:00

14. Vacation Accrual Cap

(See 6.18.080 in accompanying ordinance.)

County policy specifies the number of vacation hours that can be earned by an employee each year based on years of County service. Policy allows for accumulation of vacation hours as long as hours over 320 are used by the end of the calendar year to which they were deferred. Hours exceeding this maximum limit that are not used are paid to the employee at the workday rate in effect on December 31st and paid on January 30th. Currently, this process is fully automated.

In 2012, to avoid the cost of a system modification or complicated, time-consuming manual adjustments, County policy will be simplified to specify one maximum limit of 480 vacation leave hours, eliminating the cap on the amount of time these vacation leave hours can be deferred. Adjustment of any excess hours will continue to be performed at year-end with pay-off provided in January. This simplification does not alter the annual vacation benefit and will not result in greater pay-offs.

Example:

Current Policy: Year-end adjustment of hours over deferred vacation cap of 320 hours

	End of Year 1 (no time used)	End of Year 2 (no time used)	End of Year 3 (no time used)	End of Year 4 (no time used)	End of Year 5 (no time used)
Earned (E)	160	160	160	160	160
Deferred (Def)	0	(Yr 1) 160	(Yr 1,2) 320	(Yr 1,2,3) 480	(Yr 2,3,4) 480
Sub-Total E +Def	160	320	480	640	640
Pay Def Hours Over 320 (1st paid January/Yr 5)	0	0	0	480-320=160	480-320=160
TOTAL	160	320	480	480	480

New Policy: Year-end adjustment of hours over total vacation leave cap of 480 hours

	End of Year 1 (no time used)	End of Year 2 (no time used)	End of Year 3 (no time used)	End of Year 4 (no time used)	End of Year 5 (no time used)
Earned (E)	160	160	160	160	160
Sub-Total	160	320	480	640	640
Pay Hours Over 480 (1st paid January/Yr 5)	0	0	0	640-480=160	640-480=160
TOTAL	160	320	480	480	480

15. Elective Annual Leave Purchase Price

Currently, Megaflex participants may elect to purchase a maximum of 20 days of paid Elective Annual Leave days (EAL). EAL days are used to cover scheduled workdays and EAL cost per day is based on the 8-hour calendar day rate. This cost will not change in the new system.

However, in 2010 when the County transitions to workday pay, usage of certain leave events, including absences without pay (AWOP), will result in pay or pay-loss calculations based on a workday rate. In the new system, the cost of an AWOP day at the workday rate will be more than the cost of a day of EAL purchased at the calendar-day rate.

16. Accrual Rate for Non-Elective Leave

(See 5.27.330 and 5.28.330 in accompanying ordinance.)

Currently, non-elective leave (NL) benefit days are earned according to a scale based on the number of days in active service with a benefit maximum of ten (10) days for 343 or more calendar days in active service. The appropriate number of NL benefit days is posted to each employee's leave account in January based on the number of days in active service the prior year.

In 2012, the manner that NL time is calculated will change. Instead of using a scale of calendar days worked to determine the number of NL days earned, a constant accrual rate, expressed in hours/minutes per pay period, will be used to calculate leave benefit time. The County's other leave benefits are calculated in this manner and this change will avoid the expense associated with modifying the new payroll system to accommodate the current NL process.

The new rate does not change the current maximum benefit entitlement and accrued benefit time will continue to be held in reserve until the subsequent January.

17. Vacation Pay Advance
(See 6.24.030 in accompanying ordinance.)

Currently, a provision of County Code allows an employee to be paid a salary advance upon the certification of the employee's department head that such an employee will be on an approved leave of absence of at least 10 consecutive working days and provided he has accrued leave time to his credit to cover the period for which the advance is made. The new payroll system does not have that functionality. To avoid paying for a system modification, we are eliminating the policy allowing this advance.

This provision was implemented many years ago before salary could be made available through direct deposit regardless of an employee's location. More than 90% of County employees are on direct deposit and should be able to access their salary just as fast and easily when on vacation.

We recommend eliminating this language with the 2010 system implementation because the circumstances no longer justify this advance.

18. Emergency Pay Advance
(See 6.24.010 in accompanying ordinance.)

County Code Section 6.24.010(B) provides that employees not on Direct Deposit can request an advance of salary for a pay period once per year. Currently, employees not on Direct Deposit are limited to one paycheck each month, while those employees on Direct Deposit receive salary payments twice each month.

In 2010 when the new payroll system is implemented, all employees will be paid twice each month regardless of their Direct Deposit status. We recommend eliminating this language because circumstances no longer justify this advance.