

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

144



FROM: Paul McDonnell, County Finance Director
Chairman, Pension Advisory Review Committee (PARC)

SUBMITTAL DATE:
March 30, 2009

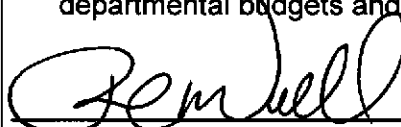
SUBJECT: FY2008/09 Annual Report of the Pension Advisory Review Committee

RECOMMENDED MOTION: That the Board of Supervisors:

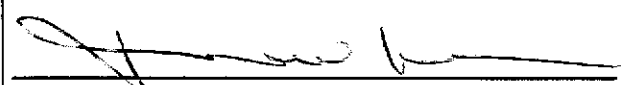
1. Receive and file the FY 2008/09 PARC Report;
2. Adopt the recommendation to use money in the Liability Management Fund to reduce the County's CalPERS liability and authorize staff to redeem pension bonds if available, and if not, to transfer funds to CalPERS.
3. Direct staff to begin planning for and incorporating the anticipated employer-rate increases into departmental budgets and collective bargaining agreements beginning in FY 2011-12

(Continued on page 2)

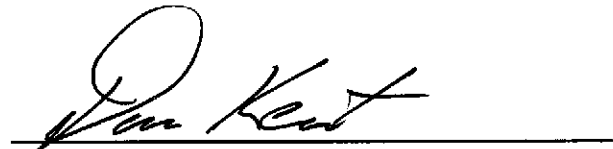
Departmental Concurrence



Paul McDonnell
County Finance Director, Chairman



Ron Komers
Asst CEO/HR Director, Member



Don Kent
Treasurer-Tax Collector, Member

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: 10000-1400100000	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:

APPROVE

BY: 

Christopher M. Hans

County Executive Office Signature

Policy
 Consent
 Dep't Recomm.:
 Policy
 Consent
 Per Exec. Ofc.:

Prev. Agn. Ref.: _____ District: _____ Agenda Number: _____

3.50

BOARD OF SUPERVISORS

Form 11: FY 2008/09 Annual Report of the Pension Advisory Review Committee

March 30, 2009

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BACKGROUND: (Continued)

In October 2003, the Pension Advisory Review Committee was established to develop a better understanding of the County's defined benefit pension plan. One of the responsibilities of PARC is to annually report to the Board on the performance of the plan, evaluate strategies to address under-funded and/or over-funded positions, and consider changes to the plan.

The Committee, with input from the County's independent actuary John Bartel, has prepared the attached report for the Board.

CalPERS investments since the middle of FY 2008-09 suffered devastatingly poor losses that as of June 30, 2009 are projected to result in a decline in the County's account in excess of an estimated \$1.5 billion. Losses could be as high as \$2 billion unless CalPERS investment returns stabilize. This loss will require a significant increase in the County's employer contributions to CalPERS. John Bartel forecasts a conservative annualized loss through January 28, 2009 of 24.6 percent. The Employer-rate will increase to 19.36 percent of payroll for Miscellaneous and 29.9 percent of payroll for Safety for FY 2011-12 if the County adopts the actuarially recommended 30 year fixed amortization method to pay off the unfunded liability resulting from the investment losses. The increased employer-rate will require the County to make available an additional \$119 million annually for pensions.

Unless there is a sudden and equally large reversal of the CalPERS investments, employer-rate increases will persist for protracted period of time. The above estimated employer-rate increase is conservative in that the forecast assumes a one year loss and a return to the assumed CalPERS 7.75 percent rate of return immediately afterwards. Actual losses therefore are likely to exceed the estimate and the County will need to budget for the additional cost.

There is a 2 year delay between investment results and the impact on contribution levels. The County's employer-rate outlook for FY 2009-10 and FY 2010-11 will remain stable because CalPERS' investment performance for FY 2008-09 was -5.1 percent and investment performance over the previous four years prior to the middle of FY 2008-09 was strong and exceeded the system's actuarial rate of return.

The projected June 30, 2009 CalPERS funding status for the Miscellaneous and Safety Plans will decline to 82.3 percent and 81 percent respectively. On a net basis, including the outstanding POB liability of \$378 million the funding levels are 74 percent for Miscellaneous and 75.9 percent for Safety Plans. Many experts consider a funded ratio based on actuarial asset values of 80 percent or better to be sound for government pensions.

In addition to the above, based upon the analysis of Bartel & Associates, the County has also lost \$72.7 million as a result of the sale of the POB. Recent historic losses in the equity and real estate markets have erased all prior year gains associated with this transaction. In context, the County's other plan assets are projected to shrink by \$1.5 billion. It is worth noting that last year's analysis showed \$130 million in savings. Given the low break-even rate of 4.91 percent, it is reasonable to expect that over the remaining 26 year life of the bonds, the transaction will produce savings. CalPERS' long term expected rate of return is still 7.75 percent despite the recent economic downturn.

The PARC report also provides information regarding prepayment financing. The County should continue to take advantage of the early payment discounts CalPERS offers. This year's prepayment is expected to generate \$3 million in cash-flow benefit, coming on the heels of prior year savings totaling \$10.5 million.

PARC recommends the County incorporate plans to address the significantly increased pension liabilities in the upcoming budgeting and collective bargaining processes.