

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



ITEM
3.32
(ID # 5557)

MEETING DATE:

Tuesday, October 17, 2017

FROM : EXECUTIVE OFFICE:

SUBJECT: EXECUTIVE OFFICE: Pension Advisory Review Committee (PARC) 2017 Annual
Pension Report [Districts: All] [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the attached FY 2016/17 Annual Pension Report;
2. Adopt the recommendation to transfer the excess funds in the Liability Management and Pension Obligation fund to the Section 115 Pension Trust and in future years make the transfer administratively.
3. Adopt the recommendation to transfer excess OPEB Trust funds in the amount of \$2 million to the Section 115 Pension Trust.

ACTION: Policy

Michael Stock, Assistant CEO/Director of Human Resources

10/12/2017

Jon Christensen

10/12/2017

Don R. Kent, Assistant CEO-County Finance Officer

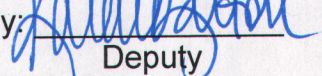
10/12/2017

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Ashley, seconded by Supervisor Jeffries and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended with direction to staff to report back on cost saving solutions.

Ayes: Jeffries, Tavaglione, Washington, Perez and Ashley
Nays: None
Absent: None
Date: October 17, 2017
xc: EO

Kecia Harper-Ihem
Clerk of the Board

By: 
Deputy

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FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$	\$	\$	\$
NET COUNTY COST	\$	\$	\$	\$
			Budget Adjustment	
			For Fiscal Year:	

C.E.O. RECOMMENDATION: [CEO use]

BACKGROUND:

Summary

Board Policy B-25 (Pension Management Policy) requires the PARC to file an annual report on the County's pension plan status. The report informs the public and allows the County to continue its long-term pension reform efforts and realize a prepayment discount.

Introduction:

PARC was established in 2003 to guide policy decisions about retirement benefits. Since its inception, PARC has recommended refinancing the CalPERS' liability using Pension Obligation Bonds thus realizing a net savings of \$72.5 million. It recommended several steps that reduced the County's OPEB liability from over \$237 million to \$47 million by the establishment and funding of an OPEB Trust to fund post-employment health benefits and the creation of a separate rate pool for early retirees that has removed the implied subsidy obligation of the County.

REPORT SUMMARY

Pension Reform:

The Board of Supervisors took the initiative on pension reform. As a result of labor negotiations, employees took on the responsibility of making the Employee Paid Member Contributions (EPMC). Based on projections made by our PARC Advisor, Bartel Associates, in FY 16/17, it is anticipated that the County will realize \$97.6 million annual savings as shown on page 6 of the attached report.

Due to the passage of Assembly Bill (AB) 340, which created the Public Employees' Pension

						Earliest Retirement Age	PEPRA Compensation Limits	Final Benefit	Effective Date
			Plan	EPMC					
County Plan Tier I									
	Misc		3% at 60	No	50	N/A	12 months	N/A	
	Safety		3% at 50	No	50	N/A	12 months	N/A	
County Plan Tier II									
	Misc		2% at 60	No	50	N/A	36 months	8/23/2012	
	Safety		2% at 50	No	50	N/A	36 months	8/23/2012	
County Plan III (PEPRA)									
	Misc		2% at 62	No	52	\$118,775*	36 months	1/1/2013	
	Safety		2.7% at 57	No	50	\$142,530*	36 months	1/1/2013	

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Reform Act (PEPRA), a third tier was added to the County's pension plan. The attached report has additional detail outlining the changes; however, listed below is a table of the changes.

Funded Status:

The June 30, 2017 projected actuarial funded status, based on the market valuation for the Miscellaneous Plan, including Pension Obligation Bonds (POBs) proceeds is expected to be 74.2%. The projected actuarial funded status based on the market valuation for the Safety Plan including POBs, is 71.9%. The overall funding ratio of both plans is 70.8%. The PARC Advisor, Bartel Associates, projects a combined Miscellaneous and Safety Accrued Value of Assets of \$7.8 billion on a Market Value Basis, and, a POB balance of \$287 million. The County has a projected Unfunded Accrued Actuarial Liability of \$2.812 billion.

Employer Rate Outlook:

Over the last few years, CalPERS made several changes that increased contribution rates beginning July 1, 2015. Some of the primary changes in rates are change in discount rate, mortality improvement, risk mitigation, fixed amortization periods, elimination of caps on rate increases and no asset smoothing. The increases became effective with the FY 15/16 rate and the rates are projected to increase through FY 30/31 and then plateau for 7-10 years. The full impact is expected to take effect in FY 23/24 and rates will remain at that peak through FY 30/31. Bartel and Associates have prepared charts on Pages 8 and 9 of the attached report that show the expected impact.

Due to the change in assumptions listed above, the County's rates will be higher for FY 17/18 and continue to be higher for the next 10-15 years. In FY 17/18, the County rate is expected to increase by 0.4% for Miscellaneous and 1.6% for Safety.

Liability Management Fund:

The purpose of the fund is to reduce pension costs and accelerate the repayment of pension liabilities. By Board policy, each year PARC recommends whether the funds should be used to pay down the CalPERS' unfunded liability or the buy down of the POB. In September 2016, PARC established the Section 115 Pension Trust. Unlike assets in CalPERS, the County can directly control the investments in the Trust. Assets in the trust can be used to reimburse the County for CalPERS' contributions and for making direct payments to CalPERS. In lieu of remitting liability management funds to CalPERS, PARC recommended using the funds to start the Trust.

Section 115 Pension Trust:

A Section 115 Pension Trust was established to assist the County to mitigate the CalPERS' contribution rate volatility. Assets from the Trust can only be used for pension obligations. In the past, the County has forwarded the funds from the Liability Management fund to either CalPERS to cover our unfunded liability or forwarded them to the bondholders to reduce our Pension Obligation Bonds. By placing funds from the Liability Management fund into the Section 115 Pension Trust, the County can use the Trust to reduce the volatility of CalPERS.

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The Trust will be an asset on the balance sheet, and the Trust can be designed for long-term earnings with higher expected rates of return than the County Investment Fund.

Annual Prepayment:

CalPERS offers early payment discounts of 3.75% in lieu of periodic payments that coincide with payroll disbursements. PARC first recommended seizing this opportunity in 2004 and expects to continue to do so if market conditions for our annual cash flow borrowing prove to be favorable in funding the pre-payment. The amount to be prepaid is a portion of up to two-thirds of the County's annual liability. During FY 14/15, the County prepaid \$86.6 million of its PERS' liability. In FY 16/17, the County prepaid CalPERS \$164.8 million (Safety \$57.1 + Miscellaneous \$107.7 = \$164.8 million). CalPERS changed the pre-payment policy for FY 17/18 and allows only the unfunded liability payment portion to be prepaid. The County prepaid \$109.4 million in FY 17/18, earning a discount of \$4 million.

Other Post-Employment Benefits (OPEB):

The County invests its OPEB assets with the California Public Employers' Retirement Benefit Trust program (CERBT). Effective January 1, 2011, CalPERS introduced three new investment allocation strategies for CERBT. PARC reviewed the details of the strategies and adopted Strategy 1, an asset allocation strategy most similar to the investment allocation strategy followed by CERBT prior to January 1, 2011, with an expected rate of return of 7.61%. CERBT recently lowered its investment strategy to 7.28%, and is 83.6% funded. Effective July 1, 2017, PARC adopted Strategy 2, with expected rate of return 6.73%.

Impact on Citizens and Businesses:

An increase in pension costs, in turn increases the costs of services that are provided to the citizens of the County. PARC recommendations have driven down the cost of pensions while maximizing the resources. Departments continue to look for efficiencies to minimize the effect on the citizens.