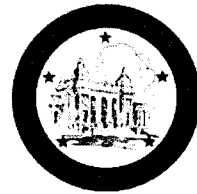


**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**ITEM: 3.15
(ID # 11883)**

MEETING DATE:

Tuesday, February 4, 2020

FROM : SUPERVISOR KEVIN JEFFRIES AND SUPERVISOR CHUCK WASHINGTON :

SUBJECT: SUPERVISORS KEVIN JEFFRIES and CHUCK WASHINGTON Pension Debt
Reduction Strategies

RECOMMENDED MOTION: That the Executive Office be directed to return to the Board of Supervisors with specific pension debt reduction strategies or options to consider as part of the forthcoming budget recommendations.

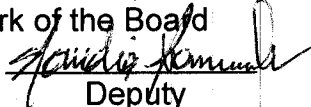
ACTION:Policy


Supervisor Kevin Jeffries, Supervisor 1st. District 1/29/2020

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Perez, seconded by Supervisor Jeffries and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Hewitt
Nays: None
Absent: None
Date: February 4, 2020
xc: Supvr. Jeffries, Supvr. Washington, EO

Kecia R. Harper
Clerk of the Board
By: 
Deputy

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

BACKGROUND:

At the January 14, 2020 Board of Supervisors meeting, there was a lengthy discussion of the Pension Advisory Review Committee's Annual Report under item 3.4 (attached), and concern about how the County can control pension costs moving forward. While there is an ongoing need to work on long-term pension reforms, improved investment strategies by the PERS Board, and potential state legislative changes that need to be considered, there may be short-term solutions to reduce direct costs to the county as well.

Among other items, Board Policy B-25 (attached) provides that "the County seeks to maintain a minimum funding level of 80%" in the CalPERS defined benefit pension plan, the OPEB, and the TAP Pension Plan. Furthermore, it says "to the extent the funding level falls below that, the County will prepare a plan to address the issue." By this measure, only the OPEB and 2 of the 3 Riverside County Regional Park and Open-Space District rate plans meet that goal, with the county and other special district plans falling between 63.9% and 76.6%, with most hovering in the 70% range.

Per Board Policy B-25, it is the obligation of the Executive Office to bring forward strategies to reduce that outstanding debt to 80% or better. This Form 11 asks that a range of strategies be brought before the Board as part of this year's budget discussions.

Furthermore, there are several semi-independent, non-county commissions and JPAs (Riverside Conservation Agency, Local Agency Formation Commission, and Riverside County Children and Families Commission, among others) whose employees are considered Riverside County employees, presumably including their long term pension obligations. This Form 11 also asks for a report detailing any burden that might exist of these outside agencies' employees on the County of Riverside, and any strategies that might be employed to transfer their obligations elsewhere.

Impact on Citizens and Businesses:

Reducing pension debt and ongoing obligations to employees who don't work directly for the County will save county taxpayer's dollars and improve the stability of the pension program for Riverside County retirees.

2020

Pension Advisory Review Committee



Annual Report

January 14, 2020

FEB 04 2020

3-15.

Executive Summary

The County's Pension Advisory Review Committee (PARC) was established in 2003 to guide policy decisions about retirement benefits. The PARC presently consists of members appointed by the Board of Supervisors, including the Treasurer-Tax Collector, County Finance Officer, Human Resources Director, Auditor-Controller, and, a local public safety member department representative (Board Policy B-25).

Per the Board's policy, the key responsibilities of the PARC are:

- Report to the Board and the public on important developments affecting County retirement benefit plans
- Analyze any proposed changes to the benefit system, and
- Provide information about projected costs and funding status

This annual report includes detailed information about the County's two primary defined benefit pension plans, CalPERS Miscellaneous and Safety, from the most recent report prepared by its outside actuarial consultant, John Bartel of Bartel Associates, LLC, dated September 24, 2019, that provides a future outlook regarding the plans' funded status (Attachment 1). Funding status including the deposit of the Pension Obligation Bond (POB) proceeds, and amounts owed on the POB for FY 19/20, are expected to be 70.2% for the Miscellaneous Plan and 70.7% for the Safety Plan (these funding ratios do not include funds held in the Section 115 Trust Pension Trust). The report also includes the most recent CalPERS Valuation Reports for the Miscellaneous and Safety plans (Attachments 2 and 3).

As discussed below, the County (and most other CalPERS agencies) are on the front end of a period of rate increases that are not projected to peak until the early 2030's and then start to decline. Table 1 on page 6 shows both the increases and decreases from last years' projections. The key to realizing that decline and no further increases will be CalPERS' ability to perform close to its target rate. Poor investment performance following the financial crisis significantly increased the County's unfunded liability, driving up the required payments.

The report also addresses other retirement components outside of the County's core pension plans including: a status report on the County's 2005 Pension Obligation Bonds (POB's) issued to reduce its unfunded pension liability with CalPERS, the Liability Management Fund (LMF), the annual prepayment program, the Section 115 Pension Trust, Section 115 Other Post-Employment Benefits (OPEB) Trust, and the Part-Time and Temporary Employees' Retirement Plan.

The County has taken a number of steps over the past decade to improve control over its retirement liabilities. Those include the negotiation of lower rate tiers, asking employees to pay their own member contributions, the creation of the LMF, and, the formation and funding of the Section 115 Pension Trust. In the previous decade the County increased its funding ratio and cut interest cost by issuing POB's. These efforts to identify opportunities to stabilize the pension plans should continue. The prospects for additional pension reform are unclear at this time, but the County should be kept apprised of legislative changes, should there be further action at the state level (e.g. the establishment of other tiers or the incorporation of defined contribution options, etc.).

This pension report is being provided with the intent of addressing as many of the concerns raised by the Board and other stakeholders, as the impact of increasing rates with CalPERS have gone from a future forecast to an impending budgetary reality. It is anticipated that the submission of this report to the Board will be accompanied by a formal verbal presentation and discussion.

In addition, this report provides some background information and funded status (page 14) of the special district plans of the Riverside County Flood Control and Water Conservation District, Riverside County Regional Park and Open-Space District, and the Riverside County Waste Resources Management District.

Summary of CalPERS Pension Plans

For FY 18/19, CalPERS reported a preliminary 6.55% net return, which is 0.45 percentage points below the expected return of 7.00%. The CalPERS Board has approved several assumption changes including the reduction of the discount rate, and, suspension of the Risk Mitigation Policy until the June 30, 2018 valuation. These changes will have a significant effect of increasing the County's rates over the near term. The cumulative effect of these changes pushes out the start of that projected long-term decline in rates, highlighted in last year's report, until the early 2030's.

Separately, steps taken to achieve pension reform such as establishing Tier II and employees contributing their own member contributions. Finally, the POB issued in 2005 to partially fund the County's unfunded liability is projected to have a net savings of \$138.1 million by February 15, 2020.

Actuarial Changes

Over the last few years, CalPERS' actuarial staff has implemented a number of changes, at the direction of its Board, which will have the effect of increasing rates in the near term. The changes include:

	<u>Discount Rate</u>	<u>Initial FY Impact</u>	<u>Full Impact</u>
6/30/16 Valuation	7.375%	18/19	22/23
6/30/17 Valuation	7.250%	19/20	23/24
6/30/18 Valuation	7.000%	20/21	24/25

Asset Smoothing – Asset smoothing will be eliminated over a five-year period. These changes were included in CalPERS' 6/30/13 valuation, with the first impact in the FY 15/16 rates and full impact in FY 19/20. This is the practice of spreading the investment gains and losses over a period in order to minimize year-to-year contribution rate fluctuations.

Demographic Assumptions – CalPERS also approved demographic actuarial assumption changes. The most significant change is the anticipation of future mortality improvement. This was included in the 6/30/14 valuation with the first impact in FY 16/17 and full impact in FY 20/21.

Amortization Policy – In February 2018, CalPERS adopted changes to the policy effective as of the June 30, 2019 valuation and contributions beginning FY 21/22, reducing the period over which actuarial gains and losses are amortized from 30 years to 20 years. This change applies only to new gains/losses established on or after June 30, 2019. The policy allows existing amortization bases to remain unchanged to minimize budgeting disruptions.

CalPERS rates are adjusted annually for a variety of reasons. The most impactful adjustments are due to investment performance. To the extent that performance deviates from the expected rate, a gain or loss is recognized. These gains or losses form a new "layer" that is added to the existing "bases" that are already embedded in the rate, but still separately identified over and above the normal cost. The County presently has total of 42 bases that are amortized over time (Miscellaneous 22 bases and Safety 20 bases) that range from 11 to 30 years. See attached CalPERS Annual Actuarial Valuation Reports for a complete list of the existing bases.

Risk Mitigation Policy

In November 2015, CalPERS adopted a Risk Mitigation Policy to address concerns about funding status and performance in response to the volatility and underperformance seen following the 2008 financial crisis. The purpose of the risk mitigation policy is to better align CalPERS investment policy with a more realistic and conservative investment philosophy and asset mix. Changes will be implemented over the course of time and the investment mix will be accompanied by reduction in the long term assumed rate of return, currently at 7%, and moving to below 6% over a twenty-year horizon. The movement in this direction started in 2012 with a decrease in the assumed rate of 7.75%. Components of the Risk Mitigation Policy have been suspended until the June 30, 2018 valuation as part of the discount rate reductions pursuant to a phase-in schedule through FY 19/20. See the table below for funding risk mitigation event thresholds and impacts.

Excess Investment Return	Reduction in Discount Rate	Reduction in Expected Investment Return
If the actual investment returns exceed the discount rate by:	Then the discount rate will be reduced by:	And the expected investment return will be reduced by:
2.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
13.00%	0.20%	0.20%
17.00%	0.25%	0.25%

Funding Status

The actuarial unfunded accrued liability for the period ended June 30, 2018 is \$2.416 billion (an increase of \$301 million from prior year) for the Miscellaneous Plan, and, \$1.089 billion (an increase of \$123 million from prior year) for the Safety Plan. The combined total is \$3.5 billion (an increase of \$424.5 million from prior year). The year over year increase is largely attributable to the reduction in the assumed rate of return from 7.25% to 7%.

The June 30, 2020 projected actuarial funded status based on the market valuation excluding 115 Pension Trust for:

1. The Miscellaneous Plan, including the deposit of the POB proceeds, with amounts owed on the POB, is expected to be 70.2%. By way of comparison, the last years' ratios were 68.7%, 67.8% and 68.6%.
2. The Safety Plan, including POB proceeds, with amounts owed on the POB, is expected to be 70.7%. By way of comparison, the last years' ratios were 69.4%, 68.8% and 69.4%.

Bartel Associates analysis reflects the County to be ranked close to average for its Miscellaneous and Safety plans in terms of its funded percentage compared to other CalPERS participant counties, cities and towns throughout the state. The data is compiled from CalPERS 2018 actuarial valuations across 458 Miscellaneous and 373 Safety agencies.

Employer Rate Outlook

This report provides a one, ten, and 30-year outlook. As discussed below, the County (and most other CalPERS agencies) are on the front end of a long period of rate increases. This year's actuarial report has not produced any surprises versus the last couple of years.

The employer contribution rates for the Miscellaneous Plan will increase from 21.6% of payroll in FY 19/20 to 24.5% in FY 20/21. That will be an increase in employer rate of 2.9%. The asset and assumption changes are partially offset by prior gains. The components for the rate change are as follows:

Composition of the FY 20/21 Miscellaneous Plan Employer Contribution Rates¹ (slide 22 of the Bartel Report)

• 2019/20 Employer Contribution Rate	21.6%
• Payroll < Expected	0.4%
• 6/30/14 Asset Method Change (5 th Year)	0.6%
• 6/30/16 Discount Rate Assumption Change (3 rd Year)	0.2%
• 6/30/17 Discount Rate Change and Inflation (2 nd Year)	0.2%
• 6/30/18 Discount Rate and Inflation (1 st Year)	1.2%
• <u>Other (Gains)/Losses</u>	<u>0.3%</u>
Total FY 20/21 Employer Contribution Rate	24.5%

Note: ¹Does not include POB debt service.

The Safety Plan employer contribution rates will increase from 37.4% in FY 19/20 to 43.0% in FY 20/21. That will be an increase in the employer rate of 5.6%. The components of the rate changes are as follows:

Composition of the FY 20/21 Safety Plan Employer Contribution Rates¹ (slide 44 of the Bartel Report)

• 2019/20 Employer Contribution Rate	37.4%
• Payroll < Expected	1.5%
• Asset Method Change (5 th Year)	1.1%
• 6/30/14 Assumption Change (3 rd Year)	0.4%
• 6/30/16 Discount Rate Change (2 nd Year)	0.4%
• 6/30/17 Discount Rate and Inflation (1 st Year)	2.1%
• <u>Other (Gains)/Losses</u>	<u>0.1%</u>
Total FY 20/21 Employer Contribution Rate	43.0%

Note: ¹Does not include POB debt service.

The following table compares projected employer contribution rates. As described earlier, CalPERS has made several changes that increased contribution rates. These projections are based on 50th Percentile data from the Bartel Report and the rates include POB debt service.

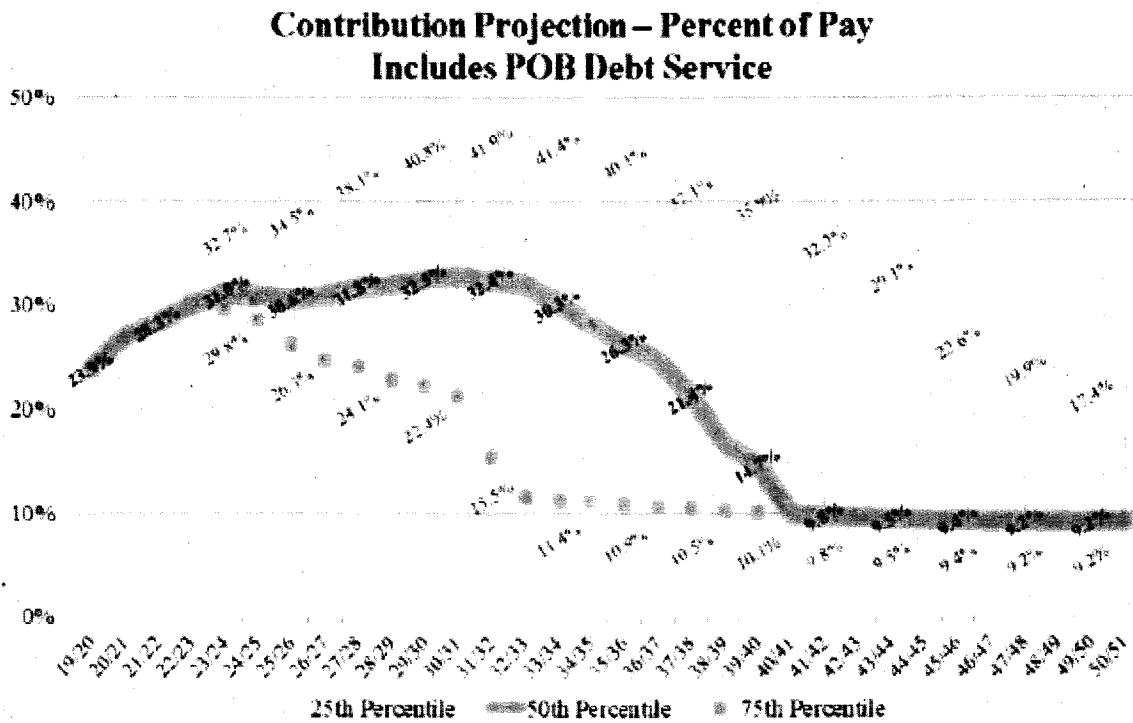
FY	Miscellaneous Plan		Safety Plan	
	Rate ¹	Change from prior FY (+/-)	Rate ²	Change from prior FY (+/-)
17/18	19.4% ³	0.3%	30.3% ³	1.5%
18/19	21.2% ³	1.8%	33.7% ³	3.4%
19/20	23.9% ³	2.7%	39.7% ³	6.0%
20/21	26.9%	3.0%	45.5%	5.8%
21/22	28.3%	1.4%	47.8%	2.3%
22/23	30.0%	1.7%	50.3%	2.5%
23/24	31.0%	1.0%	51.8%	1.5%
24/25	31.1%	0.1%	52.5%	0.7%
25/26	30.6%	-0.5%	52.5%	0.0%
26/27	31.0%	0.4%	53.3%	0.8%
27/28	31.8%	0.8%	54.6%	1.3%
28/29	32.0%	0.2%	54.9%	0.3%
29/30	32.5%	0.5%	56.1%	1.2%
30/31	32.8%	0.3%	56.4%	0.3%

1. Includes POB debt service, which is about 2.5% through 2023/24; 1.6% in 2024/25; and 0.4% thereafter. Miscellaneous POB debt service ends in 2035.
2. Includes POB debt service which is about 2.5% through 2023/24; 1.6% in 2024/25; and 0.4% thereafter. Safety POB debt service ends in 2035.
3. Rates for FY 17/18 through FY 20/21 are actual rates.

Longer-Term Projections

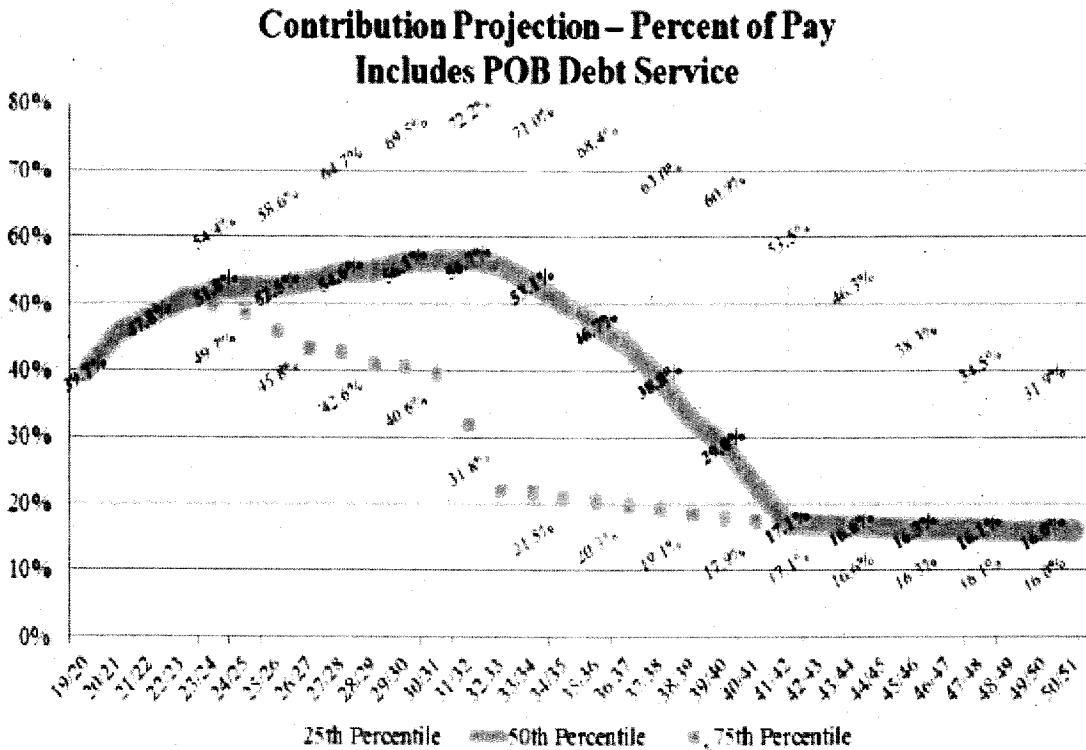
Listed below are two charts that show the projected employer contribution rates over the next thirty years for the County’s Miscellaneous and Safety Plans (Table 2A and 2B). Over the next decade, contributions are expected to increase as CalPERS’ assumption changes are absorbed and the impact on the discount rate being phased in (as seen in Table 3A and 3B). Once the smoothing is complete and assuming no other changes, the rates should decline over a sustained period. **Note, that even with very poor investment returns, the contribution rates exhibit a long-term decline after a higher peak is reached.** The fact that all scenarios show a decline is due to CalPERS’ amortization policy to pay off the unfunded liability over a fixed period. The decline reflects the increasing impact of the changes to the benefit formulas, as more and more of the employee population become subject to the new lower tiers. See table below.

Table 2A - Employer Contribution Rate Projections – Miscellaneous (slide 30)



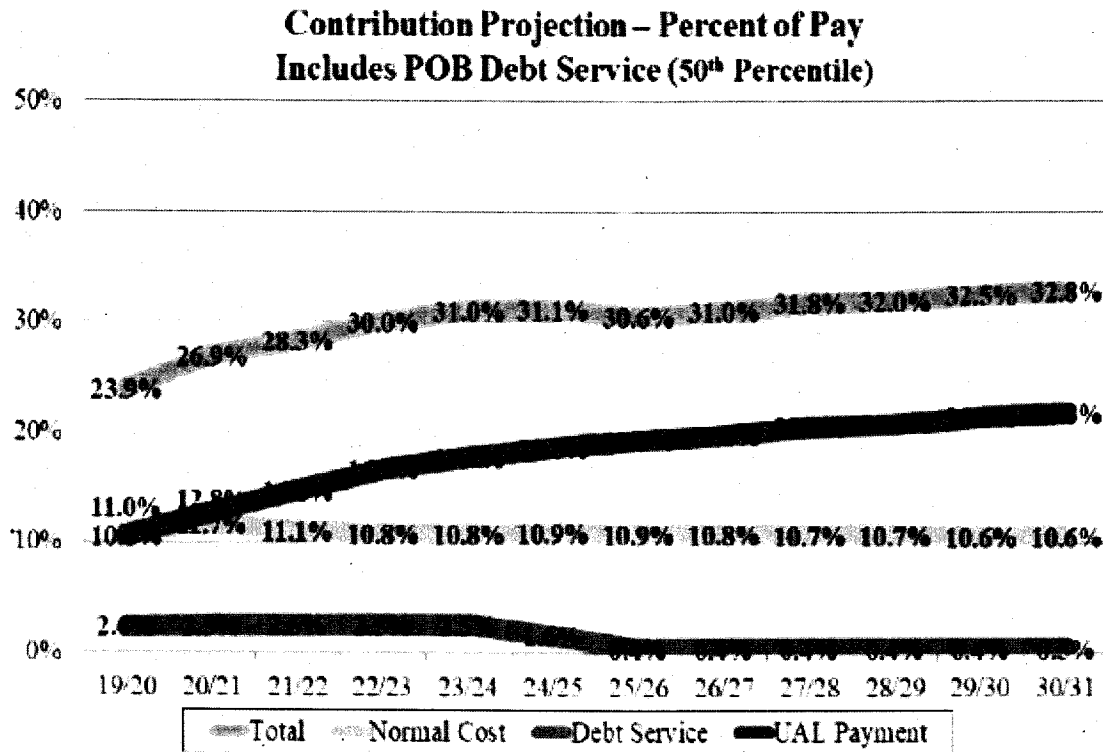
Source: Bartel Associates Report dated September 24, 2019.

Table 2B - Employer Contribution Rate Projections – Safety (slide 52)



Source: Bartel Associates Report dated September 24, 2019.

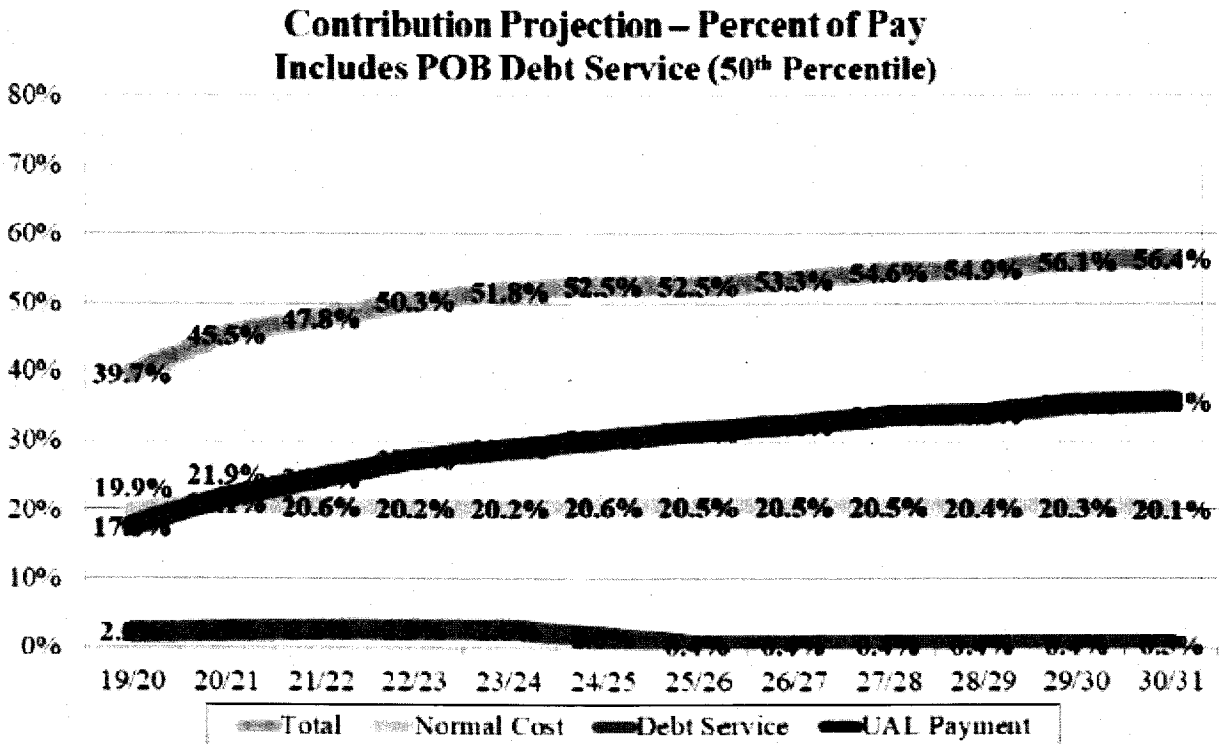
Table 3A -Employer Contribution Projection Percent of Pay– Miscellaneous (slide 31)



Source: Bartel Associates Report dated September 24, 2019.

Note: Normal cost remains relatively flat and the UAL payment continues to move higher.

Table 3B - Employer Contribution Projection Percent of Pay– Safety (slide 53)



Source: Bartel Associates Report dated September 24, 2019.

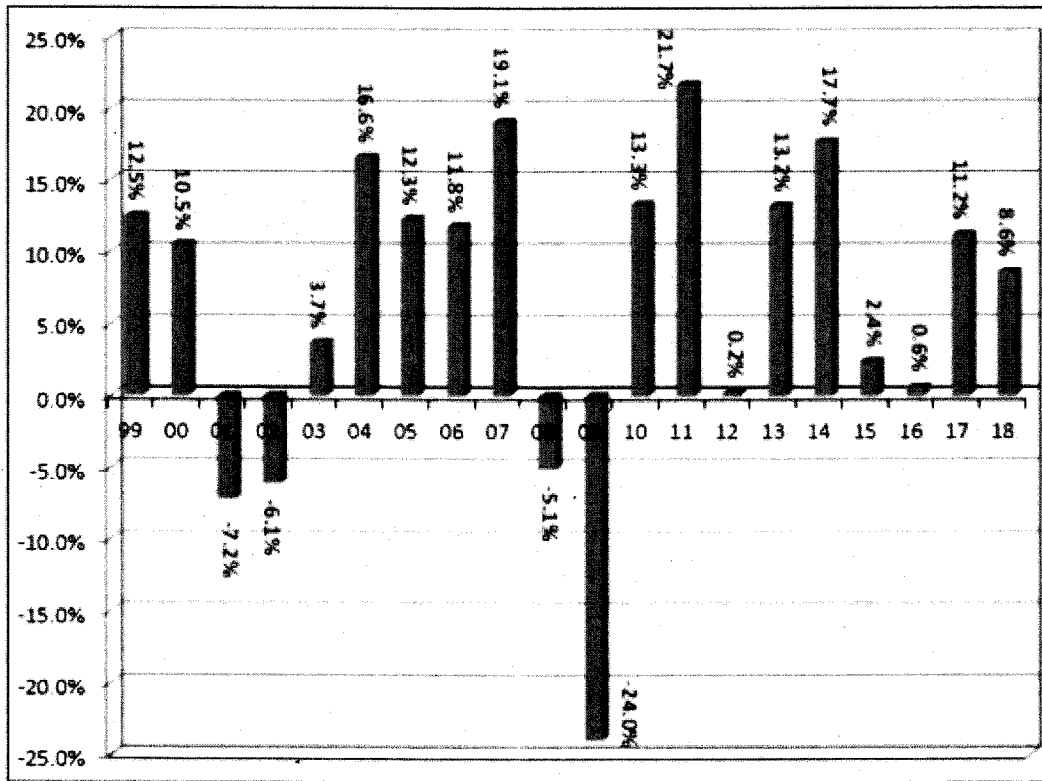
Note: Normal cost remains relatively flat and the UAL payment continues to move higher.

Investment Returns

The primary driver of the rate formula is CalPERS' investment performance. Actuarial and demographic assumptions impact the rate but far less than performance. Poor investment performance following the financial crisis significantly increased the County's unfunded liability, driving up the required payments.

The following Table 4A, illustrates the 20-year historical annual returns for the Public Employees Retirement Fund (PERF) for each fiscal year ending in June 30. Beginning in 2002, the figures are reported as gross of fees.

Table 4A - CalPERS Investment Returns (update with June 30, 2018 return)



Source: CalPERS Annual Valuation Report as of June 30, 2018

Pension Obligation Bonds (POB's)

The County issued \$400 million in POB's in 2005 to lock in an all-in borrowing cost of 4.91%, refinancing its prior unfunded liability, which was carrying a 7.5% rate. As discussed earlier, the rate is expected to drop from the current level of 7.00% to 6% over a twenty-year period. At the same time it cut its interest rate to 4.91%, the County converted its repayment schedule from a rolling 30-year amortization to a fixed amortization of 30 and 25 years for the Miscellaneous and Safety Plans respectively, further reducing interest cost. Upon deposit of the bond proceeds with CalPERS, the County's CalPERS rate was reduced and replaced by the lower amount of the bond's debt service.

Bartel's analysis is projecting that as of February 15, 2020, the County will realize \$138.1 million in net savings as a result of the sale of the bonds in February 2005 and will have an outstanding balance of \$218.8 million. It is worth noting that the bulk of the bonds will be repaid by 2025 as seen in Table 3A and 3B. There will be a reduction of \$16.1 million from FY 24/25 to FY 25/26 for the Miscellaneous plan, and for Safety a reduction of \$4.5 million for the same period. The POB's have a relatively low break-even rate (4.91%) versus CalPERS' expected return of 7.00%. Even if CalPERS were to earn a rate slightly below the bond rate for the remaining term of the bonds, and well below a new long-term target rate of 6.0%, the County can still expect to show savings.

Liability Management Fund (LMF)

The LMF was established under the POB documents and incorporated into the Board's Pension Management Policy B-25. A portion of the projected annual savings from the POB issuance is collected from departments for the purpose of reducing long-term pension costs and accelerating the repayment of pension liabilities. These cash flow savings occur annually and independent of the lifecycle savings mentioned above. The amount collected is set aside in the LMF, held by the County's bond trustee, and each year PARC recommends whether the funds should be used to pay down the CalPERS unfunded liability or to pay down the POB's. To date, some of the excess has been sent to CalPERS to reduce the unfunded liability. Last year the excess was recommended to be sent to the Section 115 Pension Trust (discussed below) and will likely be the preferred option going forward.

Annual Prepayment

CalPERS offered an early payment discount of 3.44% for FY 19/20 in lieu of the periodic payments that coincided with payroll disbursements. PARC first recommended utilizing this approach in 2004. The discount reduces the total required payment; in order to fund the initial payment, the County typically includes the prepayment amount as part of the annual Tax and Revenue Anticipation Note (TRAN) borrowing. An alternative would be to borrow internally by drawing down General Fund cash.

CalPERS changed its prepayment policy in FY 18/19 and now allows only the unfunded liability payment portion to be prepaid. The FY 20/21 required payment for the unfunded liability is \$229 million. A final recommendation regarding the FY 20/21 prepayment will be made in conjunction with the FY 20/21 TRAN borrowing.

Section 115 Pension Trust

The Section 115 Pension Trust was established in 2016 (Board Resolution No. 2016-214) to help the County independently mitigate CalPERS' contribution rate volatility and act as a buffer for budgeting purposes. Assets in the Trust cannot be used for any other purposes except for reimbursing the County for CalPERS contributions, or, for making payments directly to CalPERS to pay down a portion of the unfunded liability. Excess funds from the Liability Management Fund and OPEB disbursements were placed in the Trust to fund the initial deposit. Additionally, funds collected as a result of the difference between CalPERS' multi-year projected payroll, based on actuarial assumptions, and, the County's actual payroll, are restricted and invested in the County Treasurer's Pooled Investment Fund. Funds are then dollar-cost averaged into the Trust. Over time this tool will become more significant as assets accumulate in the account.

The Trust was formed with Public Agency Retirement Services (PARS) managing the assets for the County (PARS is the administrator, HighMark Capital Management is the investment manager, and, US Bank is the trustee). Unlike assets in CalPERS, the funds in the Trust are managed by an investment manager, in a manner consistent with the County's risk profile in a combination of cash, fixed income and equity investments. As of June 30, 2019, the balance in the Trust was \$28.7 million, up from last years' report of \$11.5 million. The current investment strategy is Moderate Index PLUS (Active) Strategy, with a rate of return for the 12 month period ended June 30, 2019 of 6.61%.

Pension Reform

Pension reform has become a topic of concern almost immediately following the move to higher benefit formulas across California, including Riverside County, at the beginning of the millennium. After internal discussion, the County took the lead in initiating pension reform with its bargaining units in advance of any action by the state. As a result of collective bargaining, employees of the County agreed to pay their own member contribution and eliminating the Employer Paid Member Contribution (EPMC). Additionally, a new second retirement Tier (Tier II) was implemented with a lower benefit formula, which became effective on August 24, 2012. This tier was added in both the Miscellaneous and Safety units of the County.

The passage of Assembly Bill 340 (AB 340) on September 12, 2012, created the Public Employees' Pension Reform Act (PEPRA) implementing new lower benefit formulas, longer final compensation periods, and new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of a new member under PEPRA (known as Tier III). Employee contribution rates for Tier III vary based on PEPRA rules. Listed below is Table 5 of the three tiers.

Pension Reform (continued)

**Table 5
Riverside County Pension Tiers**

County Plan		Retirement Formula	Employee Contribution	Earliest Retirement Age	Number of Actives	Payroll as of 06/30/2018	PEPRA Compensation Limits (1)	Final Compensation Period	Effective Date
Tier I	Miscellaneous	3% at 60	8%	50	9,437	\$ 765,774,786	N/A	12 months	7/11/2002
	Safety	3% at 50	9%	50	2,443	\$ 253,038,355	N/A	12 months	6/28/2001
Tier II	Miscellaneous	2% at 60	7%	50	658	\$ 44,360,201	N/A	36 months	8/24/2012
	Safety	2% at 50	9%	50	126	\$ 9,385,242	N/A	36 months	8/24/2012
Tier III - PEPRA	Miscellaneous	2% at 62	7.25%	52	6,022	\$ 323,010,341	\$126,291	36 months	1/1/2013
	Safety	2.7% at 57	12.50%	50	727	\$ 47,290,230	\$151,549	36 months	1/1/2013

¹ 2020 Compensation Limits are indexed annually

Special Districts and Waste Resources

The County's Special Districts participate in what CalPERS refers to as the Risk Pool. The Risk Pool is designed to accommodate smaller employers whose size is not sufficient to develop individual actuarial assumptions. Risk Pool participation occurs if a rate plan has less than 100 active members on any valuation date. Risk pooling is the process of combining assets and liabilities across employers to produce large, risk sharing pools that reduce or eliminate large fluctuations in an employer's retirement contribution rate caused by unexpected demographic events.

The Riverside County Regional Park and Open-Space District has three rate plans and is in the CalPERS Miscellaneous Risk Pool. As of the CalPERS annual valuation report for June 30, 2018, their funded status of Tier I was 74.0% (funded status decreased 1.9 percentage points from 75.9%, prior year); Tier II at 89.9% (funded status decreased 3.9 percentage points from 93.8%, prior year); and the PEPRA Tier III at 89.1% (funded status decreased 3.0 percentage points from 92.1%, prior year).

The Riverside County Flood Control and Water Conservation District's annual valuation report for June 30, 2018, shows a funded status of 63.9%, a decrease of 1.8 percentage points from 65.7%, prior year.

The Riverside County Waste Resources Management District annual valuation report for June 30, 2018, shows a funded status of 70.8%, a decrease of 1.6 percentage points from 72.4%, prior year.

Other Post-Employment Benefits (OPEB)

GASB 45 modified the reporting requirements for OPEB provided by state and local governments. In summary, GASB 45 dictates that the present value of these benefits should be quantified and reported in the annual valuation report. Such reporting does not trigger a funding requirement.

The County established and funded an OPEB Trust in 2007 to reduce the actual and nominal liability. The County established the trust under a master program established by CalPERS and 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 subsequently lowered its investment strategy expected return to 7.28%.

Effective July 1, 2017, PARC adopted Strategy 2, with an expected rate of return of 6.73%. As of October 2018, the expected rate of return was 7.01%. As of July 1, 2019, the CERBT was funded at 43.5% versus 58.6% from the prior year, July 1, 2018. The rate of return for the period ended June 30, 2019, was 6.86%. The current assets in the CERBT are \$45 million. The funding contribution will increase from \$4.2 million to \$9.0 million in FY 20/21 due to a change in management groups becoming eligible for the CalPERS plans and an update in the future participation assumption.

Per AON's Actuarial Valuation Report dated June 30, 2019, plan liabilities and annual costs are considerably higher than the prior valuation, due to a change to allow management groups to become eligible for CalPERS medical plans, and an update in the future plan participation assumption (i.e., retirees electing coverage), which both result in an increase in liability. More details can be found in Attachment 4, Page iv. The funded ratio without the implicit subsidy as of June 30, 2019 is 81.5%.

Implicit subsidy is defined as the difference between the true cost of coverage and the actual rate paid. Under CalPERS or any other County health plan, participating retirees may receive a benefit prior to age 65 by paying premiums that are developed by blending active and retiree cost. Generally, retirees cost more than actives. As a result, the premium paid by the retirees is less than the true cost of coverage. Staff and PARC will continue to monitor the funded status of the Section 115 OPEB Trust and adjust rates in accordance with the actuarial consultant's recommendation.

Part-Time and Temporary Employees' Retirement Plan

The County of Riverside established the Part-Time and Temporary Employees' Retirement Plan, April 1, 1999, to provide retirement benefits to eligible employees as a substitute for benefits under Social Security, as allowed under Omnibus Budget Reconciliation Act of 1990 (OBRA '90). The Plan is an IRS Section 401(a) defined benefit plan. As of September 1, 2010, the investments have been managed by a portfolio manager with US Bank in a Balanced Account strategy with an expected rate of return of 6.00%.

The Plan actuary calculates the minimum recommended employer contribution rate through preparation of an actuarial valuation report and the County determines the contribution rates. Participants in the Plan are required to contribute 3.75% of their compensation to the Plan. The Plan's current funded ratio is 76.6%. According to the July 1, 2019 valuation (Attachment 5), the County's current required contribution rate is 4.02%. The rate of return for the period ended June 30, 2019 was 4.66% and had a balance of \$43.5 million.

Overall, the plan's net pension liability increased from the prior valuation due to the net result of demographic experience was different than expected, due to fewer terminations than expected, which resulted in a liability loss; termination assumptions were updated to reflect the recent experience, resulting in an increase in liabilities; lump sum conversion rate was decreased from 5.00% to 4.00% to reflect the current bond market conditions, resulting in an increase in liability; assets were lower than expected due to unfavorable investment return on plan assets (4.66% actual compared to 6.0% assumed); and mortality assumptions were updated to reflect the recent public mortality table, resulting in an increase in liabilities.

Recommendations

1. Receive and file the 2020 PARC Annual Report.
2. Direct staff to report back with any additional recommendations or updates on the County's pension plans, and/or OPEB, including any legislative changes that could be incorporated in the County's Legislative Platform.
3. Direct the PARC to review the annual CalPERS unfunded liability pre-payment for FY 20/21 and to have such recommendations presented in conjunction with either the approval of the annual Tax and Revenue Anticipation Note (TRAN) cash flow financing, or, with the FY 20/21 budget.

Attachments

1. Bartel Associates CalPERS Actuarial Issues – 6/30/18 Valuation Results September 24, 2019
2. CalPERS - Miscellaneous Plan County of Riverside Annual Valuation Report as of June 30, 2018
3. CalPERS - Safety Plan County of Riverside Annual Valuation Report as of June 30, 2018
4. AON – County of Riverside Actuarial Valuation Report Postretirement Benefits Plan June 30, 2019
5. AON - County of Riverside Actuarial Valuation Report Part-Time and Temporary Employees' Retirement Plan July 1, 2019

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Policy:

The County of Riverside (the "County") has created this pension management policy (the "Policy") to ensure the financial stability of the County through proper pension plan management. The purpose of this policy is to safeguard the public trust by assuring prudent decisions regarding the County's pension plans, Other Post-Employment Benefits (OPEB), and Section Pension 115 Trusts providing proper oversight of the benefits provided and their associated cost. This Policy applies to all County Defined Benefit Pension Plans currently administered by the California Public Employees Retirement System ("CalPERS"), the County's other post-employment benefits (OPEB) administered by California Employers' Benefit Trust (CERBT), the County of Riverside Temporary and Part-Time Employees' Retirement Plan, a defined benefit program for its Temporary Assistance Program ("TAP") employees, and the County's Section Pension 115 Trust.

I. DEFINITIONS

- A. The term "Pension Plans" shall mean the Riverside County Miscellaneous, Safety, Flood Control, Park District and Waste Management Plans administered by CalPERS.
- B. The term "Funding Level" shall mean plan actuarial assets divided by plan actuarial liability.
- C. The term "Net Funding Level" shall mean plan assets divided by plan liabilities and any pension debt.
- D. The term "Committee" shall mean the Pension Advisory Review Committee.
- E. The term "Liability Management Fund" shall mean the fund created in conjunction with the County's 2005 Pension Obligation Bonds (POBs) and any Additional Bonds held in trust by designated trustee funded by pension savings and used solely for pension cost purposes.
- F. The term "OPEB" shall mean the Other Post-Employment Benefits provided by the County dedicated to prefunding retiree benefits administered by CalPERS CERBT Fund.
- G. The term "TAP Pension Plan" shall mean the County's Temporary and Part-Time Employees' Retirement Plan, a defined benefit pension plan of which the County's eligible temporary employees are participants.
- H. The term "Section 115 Pension Trust" shall mean the Pension Trust adopted by the Board of Supervisors for the purpose of pre-funding CalPERS

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pension obligations and/or OPEB obligations.

II. COUNTY PENSION POLICY

- A. The assets of County's Pension Plans constitute a trust independently administered by CalPERS which exists to satisfy the County's obligation to provide retirement benefits and to meet distribution obligations to all covered employees.
- B. Any withdrawal of a group of employees from participation in the Plans will not necessarily trigger a distribution of any assets. All contracts or grants will include the full amount of estimated pension cost in the contract or grant. Upon the termination of such contracts or grants, a termination payment may be negotiated.
- C. Additionally, if any employee group or department separates from the County, the associated actuarial liability and pension assets will be subject to an independent actuarially determined "true value".
- D. The County seeks to maintain a minimum funding level of 80% in its CalPERS defined benefit pension plan.. To the extent the funding level falls below that, the County will prepare a plan to address the issue.
- E. The County seeks to maintain a minimum funding level of 80% in its OPEB. To the extent the funding level falls below that, the County will prepare a plan to address the issue.
- F. The County seeks to maintain a minimum funding level of 80% in its TAP Pension Plan. To the extent the funding level falls below that, the County will set rates sufficient meet the minimum funding level.
- G. Any proposed changes to pension benefits, liability amortization schedules or the issuance of any Pension Obligation Bonds will be reviewed by the Committee, which shall provide the Board with an analysis of the long-term costs and benefits and related recommendations. Such evaluations are to take into account any outstanding Pension Obligation Bonds (POBs).
- H. The County will set annual CalPERS pension plan contribution rates sufficient to:
 - 1) Pay any amounts due to CalPERS,
 - 2) Capture full cost of the annual debt service on any pension obligation

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bonds that are outstanding,

- 3) Collect amounts sufficient to make required deposits to the County Liability Management Fund and Pay the cost of consultants hired to assist the Committee.

III. PENSION ADVISORY REVIEW COMMITTEE

- A. The members of the Pension Advisory Review Committee (PARC) shall be comprised of the following:
 - 1) The County Treasurer-Tax Collector,
 - 2) The County Finance Officer,
 - 3) The Human Resources Director,
 - 4) The County Auditor-Controller and
 - 5) A Local Safety Member Department Representative

Members shall designate a member to serve as Chair. The Chair shall serve in that capacity until the Committee designates a new Chair.

- B. The Chair of the Committee will be responsible for preparing and distributing the agenda for each meeting.
- C. Members of the PARC may designate staff to represent them. Members shall notify the Chair, in writing, of the name and title of staff that are authorized to represent them. Upon written notification, the designee will be authorized to represent and vote on behalf of the member. Members shall also designate staff available to assist the Committee in its analysis and the production of reports.
- D. PARC meetings shall be convened at least annually or as necessary upon the call of the Chair.
- E. The PARC may retain experts or consultants.
- F. The PARC shall prepare, at least annually, a public report of the County's CalPERS pension plan status, the County's Temporary and Part-Time Employees' Retirement Plan, the County's Other Post Retirement Benefits Plan and a report from the administrator of the County's 115 Pension Trust.

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- G. As a Board established Committee, the PARC is subject to and will comply with all provisions of the Brown Act.

IV. PENSION OBLIGATION FINANCING

- A. Any issuance of pension related debt will be reviewed first by the PARC.
- B. The County has established a Liability Management Fund in connection with its 2005 Pension Obligation Bonds and may do so for any future issuance. The Liability Management Fund shall be funded by capturing a portion of the projected savings associated with issuance and be used to retire pension bond debt, be transferred to CalPERS to reduce any unfunded liability or deposited in the County's Section 115 Trust.
- C. The Committee will make an annual recommendation relating to the prepayment of POBs or the annual CalPERS contributions and the potential savings available from CalPERS for such an early payment.

Reference:

Minute Order 16.3 of 01/25/05
Minute Order 3.41 of 09/12/06
Minute Order 3.3 of 04/10/07
Minute Order 3.4 of 05/22/18