MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors
FROM: Thomas M. Miller, County Executive Officer
Nancy Nittler, Personnel Director
DATE: January 10, 2012
SUBJECT: **Pension and Other Post Employment Benefits Presentation**

ACTION REQUESTED

It is recommended that your Board receive a presentation on the County's CalPERS Pension and Other Post Employment Benefit Plans from the County Executive Office.

BACKGROUND

Recent news articles site rising public concern regarding government pension and retiree health benefits due to the rising costs to fund them and the current level of unfunded liabilities in the plans. In response to these and other concerns, last October Jerry Brown, Governor of California released a 12-Point Plan that would alter future pension and retiree health benefits for public sector employees that includes a hybrid benefit and age 67 retirement proposals. Since governments have little flexibility to alter these benefits for current employees or retirees under the law, the Plan make substantial changes to future public workers retirement benefits and shifts some of the investment financial risk to employees and retirees. In addition, the proposal more closely aligns public benefit packages with those of private-sector workers which typically included a defined contribution element.

Ideally retirement benefits are paid for during an employees' career as is the case with *Defined Contribution Plans*, where a set percent of the employee's salary is contributed to an employee's retirement account by the employer. The employee (or retiree) makes all investment decisions for their individual account and assumes the 100% of the financial risk for gains and losses realized in their portfolio.

With a *Defined Benefit Pension Plan*, or a CalPERS Safety or Miscellaneous Pension Plan, the employer assumes 100% of the portfolio's financial risk for gains and losses. In addition, while a portion of the employer contribution to the Plan does pay for benefits earned by existing employees (Normal Cost), a significant portion of the employer contribution is collected to fund the Plans "unfunded liability" or deferred cost (Amortization Bases). These deferred costs (unfunded liabilities) are amortized over a rolling 30 year period using an annual investment return of 7.75%. The agencies employer contribution amount is set by the CalPERS pension actuarial report that agencies receive annually.

In a CalPERS memorandum published December 13, 2011 the average funded ratio, on a market value basis (MVA), of all CalPERS agency pension plans was as follows:

Report Period	Miscellaneous Plans	Safety Plans	All Plans
As of June 30, 2008	90.7%	88.0%	89.6%
As of June 30, 2009	61.5%	60.3%	61.0%
As of June 30, 2010	66.3%	64.9%	65.8%

The sharp drop between 2008 and 2009 reflects the economic downturn which had a significant impact on the CalPERS investment portfolio. Due to a 13% investment return in 2009-10, the funded status improved slightly at June 30, 2010.

The Board should be advised that Plan funding levels could be further impacted by the large number of "baby boomer" retirements expected to occur over the next few years, the continuing decline of active public employee numbers (less employees to spread the amortized unfunded liability cost to), and / or the results of ballot initiatives currently proposed for public vote in November 2012. Unless Plan investment returns significantly exceed 7.75% over the next decade, <u>and</u> employer contributions to the Plans increase, employers will continue to pay large unfunded liability payments in the future. In addition, the CalPERS Actuarial Office plans to return to the CalPERS Board in March 2012 with a recommendation for the discount rate assumption that would be used in future actuarial valuations. If the Board lowers the rate below the current 7.75% assumption, the action would result in an increase in plan liabilities and further decline in the plans funded status.

Placer County CalPERS Pension Plans

Placer County pension and retiree health benefits are part of an employee's total compensation package and were often agreed to in lieu of salary increases or other benefit enhancements through negotiated agreements.[1] Placer County contracts with CalPERS for two defined benefit pension plans for its employees: Safety and Miscellaneous. The majority of employees are covered by the Miscellaneous Plan and receive a benefit of 2.5% at age 55 with the balance of employees covered by the Safety Plan for a benefit of 3% at age 50. On January 11, 2001 the Board approved a substantial modification to the retirement benefits for <u>new employees hired on or after March 12, 2011 (Tier 2)</u>: Safety to 3% at age 55 and Miscellaneous 2.0% at age 55. In addition, these employees future retirement allowances are based upon a three year average of pay, and management employees (classified, unclassified and safety), confidential employees and elected officials, hired after the effective date of the CalPERS contract change, pay the full cost of their employee retirement contribution at 7% or 9% as dictated by the new formula(s).

[1] The majority of Placer County's employees are represented by two labor organizations: The Placer Public Employee Organization (PPEO) and the Placer County Deputy Sheriff's Association (PCDSA).

CalPERS provide annual actuarial reports that measure the performance of each plan's portfolio. The Placer County Miscellaneous and Safety Plans funded ratios (MVA) and the employer rates for each of the last three years were as follows:

Report Period	Miscellaneous Plan	Normal Cost + Amortization Cost	Safety Plan	Normal Cost + Amortization Cost
As of June 30, 2008	82.2%	9.407 + 5.750%	76.3%	14.925 + 10.064%
As of June 30, 2009	54.9%	9.291 + 8.681%	52.6%	15.902 + 12.237%
As of June 30, 2010	59.0%	9.399 + 9.626%	57.0%	15.480 + 12.600%

In addition to the employer contribution rate (equal to the normal cost plus amortization bases), employee contribution rates are 8% for the Miscellaneous Plan[2] and 9% for the Safety Plan. As of June 30, 2010 the Safety Plan had 841 participants and an unfunded liability of $110.7 million; the Miscellaneous Plan had 5,239 participants and an unfunded liability of $334.3 million[3]. **<u>Placer County's total MVA unfunded liability for both pension plans is $445 million dollars.</u>**

Employer contribution rates for FY 2012-13 are 28.08% for Safety (plus the negotiated portion of the employee share of 9%) and 19.0257% for Miscellaneous (plus the negotiated portion of the employee share of 7 or 8%). Future PERS rates are set using historical investment data, for example, CalPERS provided an estimate for FY 2013-14 <u>employer rates</u> at 28.2% and 19.2% respectively, however these estimates are based on a projection of the investment return for FY 2010-11 of 20%.

Financial and statistical information contained within the CalPERS actuarial reports through June 30, 2010 will be presented to the Board during this department presentation.

Other Post Employment Benefits (OPEB)

Postemployment healthcare benefits are the most common form of OPEB and are a significant financial commitment for many governments. Government Accounting Standards Board (GASB) Statement 45 was issued to provide more *complete* information regarding the costs and financial obligations governments assume when they provide postemployment benefits as part of an employee's compensation package. Governing Boards are provided a foundation from which to make informed policy decisions as obligations previously incurred are reported; the agency has promised future benefit payments in exchange for each year an employee works.

Unlike pension costs, prior to implementation of Statement 45, governments followed a "pay-as-you-go" accounting approach in which the costs of postemployment benefits were not reported until after the employee retired. Statement 45 requires the County's to annually report the amount that the County has contributed toward its OPEB obligation. In general, the more of its

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[2] The employee contribution rate for the Tier 2 Miscellaneous Plan is 7%.

[3] The Actuarial Value of Assets (AVA) Pension Unfunded Liability at 6/30/10 was $71.5 million (Safety Plan) and $202.5 million (Miscellaneous Plan). The AVA uses an asset smoothing technique where investment gains and losses are partially recognized in the year incurred and the remainder recognized in subsequent years. Government accounting practices require these figures to be reported in the Consolidate Annual Financial Report (CAFR).

OPEB obligation that a government ***defers***, the higher will be its unfunded liability and the greater the future cash flow demands on the government and its tax payers. Agency governing boards provide the policy direction on how their agency funds these obligations and the CAFR provides disclosure notes that identify the Plan's *funded status*. CAFR reported costs and obligations incurred relate entirely to transactions (exchanges of employee services for the promised future benefits) that *have already occurred*. The *normal cost* component of annual expense is the portion of the present value of estimated total benefits that is attributed to services received by employees in the current year. The annual expense also includes an amortization component, which relates to past service costs. *Estimated benefit costs associated with projected future years of service are not reported.*

In 2007, Placer County joined the California Employer's Retiree Benefit Trust Fund (CERBT) to manage its OPEB obligations and the advantages to participation include:

1. Enables the employer to make actuarially determined payments to partially or completely fund its future obligations.
    a. Building an asset base helps to offset the OPEB liability.
    b. Contributions over time are more stable than the pay-as-you-go method.
2. As the asset base builds a larger share of the revenues into the plan would come from investment income which would reduce future employer contributions.
3. Higher investments return assumptions reduce annual expenses and unfunded liability.
4. Prevents the net obligation from becoming a significant liability on the balance sheet.
5. Can contribute to a more favorable credit rating.
6. Growth in real assets provides greater benefit security for retirees since funding progress can be measured and monitored over time.

Long term, the goal is to one-day finance OPEB costs from the County Trust's future investment earnings; a goal that may take decades to achieve. OPEB funding policies are determined locally and a sample of some local and most CERBT participating agencies obligation as of June 30, 2010[4] can be seen in Attachment #1. OPEB liabilities vary among agencies primarily because of the benefits retirees receive are diverse and the assets available to fund these obligations differ.

As of June 30, 2011 actuarial report placed Placer County's unfunded OPEB liability at $195.8 million dollars[5]. The unfunded liability was "point-in-time", meaning that it was based upon a number of assumptions regarding the County's workforce as of a specific date (June 30, 2011).

FISCAL IMPACT

There is no fiscal impact as this is simply a report out to the Board regarding the June 30th actuarial reports for the County's CalPERS Miscellaneous and Safety Pension Plans (year 2010) and CERBT OPEB Plan (year 2011).

Attachments:
Attachment #1: OPEB financial disclosures at 6/30/10 for various city and county agencies.
Attachment #2 Placer County Other Post Employment Benefit Policy

[4] June 30, 2011 financial reports are not yet available for all agencies.
[5] Assumes a 30 year amortization period and 7.61% rate of return.

Attachment #1

Local Agencies

Notes to Financial Statements for the Year Ended June 30, 2010

Agency	OPEB Liability	Actuarial Value of Assets	Unfunded Liability	AVA Funded Ratio	Annual Payroll	Unfunded Liability % of Payroll	*Valuation Date*
City of Roseville	180,097,000	-	180,097,000	0.00%	82,912,000	217.21%	*6/30/2009*
City of Rocklin	31,940,000	10,000,000	21,940,000	31.31%	-	0.00%	*6/30/2008*
El Dorado County	22,401,000	-	22,401,000	0.00%	18,596,291	120.46%	*1/26/2011*
Sacramento County	144,804,000	-	144,804,000	0.00%	827,551,000	17.50%	*6/30/2009*
Nevada County (see CalPERS CERBT -- Participating Agencies)							

Note: As of 6/30/10 The City of Rocklin set aside $10 million to a City Retirees Health Fund; not an irrevocable trust.

CalPERS CERBT -- Participating Agencies

Notes to Financial Statements for the Year Ended June 30, 2010

Agency	**OPEB Liability**	**Actuarial Value of Assets**	**Unfunded Liability**	**AVA Funded Ratio**	**Annual Payroll**	**Unfunded Liability % of Payroll**	***Valuation Date***
Monterey County	23,292,000	150,000	23,142,000	0.64%	293,876,000	7.87%	*6/30/2009*
Nevada County	29,391,000	2,030,000	27,361,000	6.91%	43,877,000	62.36%	*6/30/2008*
Riverside County	55,288,000	9,872,000	45,416,000	17.86%	1,011,963,000	4.49%	*1/1/2009*
San Luis Obispo County	19,718,000	6,324,000	13,394,000	32.07%	154,282,000	8.68%	*2009*
Santa Clara County	1,399,865,000	141,418,000	1,258,447,000	10.10%	1,267,398,000	99.29%	*6/30/2009*
Napa County	36,040,000	4,363,000	31,611,000	12.11%	86,030,000	36.74%	*6/30/2008*
Placer County	248,439,000	36,383,000	212,056,000	14.64%	159,786,000	132.71%	*6/30/2009*
Del Norte County	22,073,162	-	22,073,162	0.00%	15,573,548	141.73%	*7/1/2008*
San Mateo County	207,742,000	101,362,000	106,380,000	48.79%	479,481,000	22.19%	*6/17/2010*
Shasta County	154,279,000	13,344,000	140,935,000	8.65%	79,213,000	177.92%	*6/30/xx*
City of American Canyon	5,429,600	1,323,200	4,106,400	24.37%	5,592,900	73.42%	*6/30/2007*
City of Antioch	25,836,000	6,520,000	19,316,000	25.24%	24,120,000	80.08%	*1/1/2009*
City of Buena Park	8,255,000	-	8,255,000	0.00%	20,410,000	40.45%	
City of Carlsbad	5,427,245	5,317,868	109,377	97.98%	-	-	*6/30/2008*
City of Corona	101,811,000	6,796,000	95,015,000	6.68%	49,298,000	192.74%	*7/1/2009*
City of Dublin	6,990,000	5,326,000	1,664,000	76.19%	7,618,000	21.84%	
City of Huntington Beach	20,600,000	9,200,000	11,400,000	44.66%	90,400,000	12.61%	*9/30/2010*
City of Los Banos	16,048,605	1,211,425	14,837,180	7.55%	-	-	
City of Napa	10,922,000	-	10,922,000	0.00%	25,259,000	43.24%	*12/31/2010*

City of Pismo Beach	1,463,000	-	1,463,000	0.00%	5,975,000	24.49%	
City of Anaheim	155,728,000	63,097,000	92,631,000	40.52%	165,137,000	56.09%	*7/1/2008*
City of Barstow	7,800,000	-	7,800,000	0.00%	9,082,254	85.88%	*7/1/2008*
City of Brentwood	22,885,000	-	22,885,000	0.00%	21,546,000	106.21%	*6/30/2008*
City of Burbank	4,428,000	-	4,428,000	0.00%	15,210,000	29.11%	*6/30/2009*
City of Citrus Heights	443,000	-	443,000	0.00%	11,096,000	3.99%	*6/30/2007*
City of Davis	53,505,000	-	53,505,000	0.00%	30,222,545	177.04%	*1/1/2008*
City of Indian Wells	4,022,233	-	4,022,233	0.00%	3,333,737	120.65%	*6/30/2009*
Lompoc	9,451,000	913,000	8,538,000	9.66%	21,948,000	38.90%	*6/30/2009*
City of Merced	60,770,000	-	60,770,000	0.00%	18,248,000	333.02%	*6/30/2009*
City of Palo Alto	129,661,000	24,616,000	105,045,000	18.98%	98,940,000	106.17%	
City of Ridgecrest	661,750	129,549	532,201	19.58%	6,063,000	8.78%	*7/1/2009*
City of Rohnert Park	45,484,000	-	45,484,000	0.00%	12,466,000	364.86%	*6/30/2008*
City of Salinas	1,353,000	1,353,000	1,353,000	100.00%	46,600,000	2.90%	*6/30/2008*
City of San Carlos	5,356,000	1,629,000	3,727,000	30.41%	8,974,000	41.53%	*1/1/2009*
City of San Diego	1,200,910,000	72,720,000	1,128,190,000	6.06%	472,561,000	238.74%	
City of SLO	4,748,000	540,000	4,208,000	11.37%	30,006,000	14.02%	*6/30/2009*
City of Shasta Lake	3,270,506	2,546,485	724,022	77.86%	3,288,644	22.02%	*1/1/2010*
City of Thousand Oaks	18,833,356	6,816,919	12,016,437	36.20%	31,783,780	37.81%	
City of Vacaville	69,954,229	6,050,369	63,903,860	8.65%	46,819,164	136.49%	*7/1/2010*
City of West Sacramento	21,158,000	3,195,000	17,963,000	15.10%	27,416,000	65.52%	*6/30/2009*
Los Altos Hills	1,472,000	345,000	1,817,000	23.44%	1,554,000	116.92%	*6/30/2007*
				21.95%	**Average for Cities**		
				20.30%	**Average for Cities and Counties**		
				15.18%	**Average for Counties**		
					Note: Includes Placer County in calculation		

Attachment #2

PLACER COUNTY OTHER POST EMPLOYMENT BENEFIT POLICY

(Revised 9/7/10)

PURPOSE: To promote fiscal responsibility and long-term planning efforts by adhering to an Other Post Employment Benefit (OPEB) Policy that will assist the County in addressing, as well as providing for, post employment benefits.

POLICY

1. IRREVOCABLE TRUST FUND: Transfer all OPEB plan assets to Placer County's California Employers Retiree Benefits Trust (CERBT), an irrevocable trust, in order to maximize the investment's long-term rate of return.

2. COUNTY BUDGET:

   1. PAYROLL: With each budget cycle, at a minimum, fully fund the net actuarially determined, annual required contribution (ARC) for that year (formula = ARC less retiree health and dental payments).
      1. OPEB funding in excess of the net ARC will be collected through payroll.
      2. Using this figure, calculate the average cost per filled allocation that must be collected that fiscal year through payroll. Collect these funds every payroll cycle and transfer them to the CERBT at least monthly.
      3. In keeping with GASB 45 requirements, prepare the County's OPEB Actuarial Report in order to update the ARC and unfunded liability amounts.
      4. Reconcile the payroll amount collected at mid-year with the minimum ARC amount required and, if necessary, <u>adjust</u> the amount being collected through payroll.

   2. NEW POSITIONS: With every new employee hired from "outside" of current Placer County service, advance fund at least 50% of the current estimated liability amount. The balance needed to fully fund the obligation will be funded through payroll contributions collected over that employee's employment.
      1. This action will advance fund a portion of the "new" employee's OPEB liability.
      2. This advanced funding shall be transferred to the CERBT in the year the employee is hired.
      3. Funds collected in excess of the "new" employee's OPEB liability over the course of employment will be applied toward the County's unfunded liability.
      4. Allocation of "advance funding" will be considered with the annual budget.

3. ADVANCE FUND OPEB LIABILITY: Direct additional funding to the CERBT through official Board actions during the year-end close process, the budget process, or when additional, unexpected or one-time funding materializes during the fiscal year.

4. LEGISLATION: Continue to monitor and / or introduce legislation that would maximize the County's flexibility to manage / administer benefits and minimize the growth of future liabilities.