



MEMORANDUM
COUNTY EXECUTIVE OFFICE
County of Placer

TO: Honorable Board of Supervisors **DATE:** June 28, 2022
FROM: Placer County Finance Committee
BY: Daniel Chatigny, Deputy County Executive Officer
SUBJECT: Pension and OPEB Funding Policy Update

ACTION REQUESTED

1. Adopt a resolution approving an amended Placer County Pension and Other Post-Employment Benefit (OPEB) Funding Policy.
2. Authorize the County Executive Officer to execute all documents necessary to direct Pension and OPEB funds between any authorized Section 115 trusts, and further authorize the County Auditor and County Treasurer to take the necessary actions to facilitate the accounting and transfer of funds.

BACKGROUND

On December 11, 2007 the Board of Supervisors executed an agreement with the Board of Administration of the California Public Employee's Retirement System (CalPERS) to participate in CalPERS' "California Employer's Retiree Benefit Trust Program (CERBT)." Consistent with Section 115 of Internal Revenue Code and Governmental Accounting Standards Board (GASB) Statements No. 45 and 75, Placer County established its Employer Prefunding Account. The initial deposit of funds in the CERBT, along with additional annual County contributions and related investment earnings, the County has reached a total amount of \$530,442,508 as of March 31, 2021.

DISCUSSION

Members of the County Finance Committee including the County Executive Officer, the Treasurer-Tax Collector, and the Auditor-Controller have been in discussions regarding optimizing the County's funding and investment of post-employment liabilities. During discussions staff received presentations from qualified providers of Section 115 Trusts. During the review of funding and investment plans, it was evident that the County's long-term funding plans would benefit from additional flexibility in funding of its OPEB liability and investment of its OPEB fund.

The current Pension and Other Post-Employment Benefits (OPEB) Funding Policy requires that all OPEB plan assets be transferred to "Placer County's California Employers' Retiree Benefit Trust (CERBT)..." To provide the flexibility being requested to maximize the County's investments in OPEB funding staff is requesting the Board of Supervisors adopt a revised policy that would allow staff the ability to utilize other qualified Section 115 providers. One such provider is PARS, Public Agency Retirement Services. The County currently has Pension assets on deposit with PARS and is looking to expand our portfolio to include OPEB assets. PARS offers a Section 115 qualified plan that is GASB 75 compliant for OPEB.

Attached to this memo is a final version of the proposed policy which will give county staff flexibility to move assets from the CERBT to other qualified plans.

FISCAL IMPACT

This update to the Pension and Other Post-Employment Benefits (OPEB) Funding Policy does not have a direct impact on the County's FY 2022-23 budget. However, the updated policy will implement the requested pension and OPEB funding strategy of diversifying the County's OPEB funding plans. An initial transfer of approximately \$230 million of OPEB assets from the CERBT to the PARS Section 115 Trust is authorized by this Resolution.

ATTACHMENTS

- Attachment A: Resolution to adopt an amended Placer County Pension and Other Post-Employment Benefits (OPEB) Funding Policy
- Exhibit 1: Amended Placer County Pension and Other Post-Employment Benefits (OPEB) Funding Policy

Before the Board of Supervisors County of Placer, State of California

In the matter of: A Resolution to adopt an amended
Placer County Pension and Other Post-Employment
Benefit (OPEB) Funding Policy

Resolution No.: _____

The following Resolution was duly passed by the Board of Supervisors of the County of
Placer at a regular meeting held _____, by the following
vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Chair, Board of Supervisors

Attest:

Clerk of said Board

WHEREAS, to promote fiscal responsibility and long-term planning efforts by adhering to a policy that will assist the County in addressing pension and other post-employment benefit (OPEB) funding requirements; and

WHEREAS, to allow flexibility to respond to actuarial analyses and variable returns on investments due to market volatility; and

WHEREAS, by Resolution 2019-193 the Board of Supervisors adopted a Pension and Other Post-Employment Benefit (OPEB) Funding Policy on September 24, 2019; and

WHEREAS, by Resolution 2020-243 the Board of Supervisors adopted a Pension and Other Post-Employment Benefit (OPEB) Funding Policy on December 1, 2022; and

WHEREAS, periodically it is necessary to amend this policy to reflect changes to further support the implementation of the Pension and Other Post-Employment Benefit (OPEB) Funding Policy.

NOW, THEREFORE, BE IT RESOLVED, by the Placer County Board of Supervisors that the Placer County Pension and Other Post-Employment Benefit (OPEB) Funding Policy is adopted as shown in the exhibit attached hereto.

Exhibit 1: Placer County Pension and Other Post-Employment Benefit (OPEB) Funding Policy

PENSION AND OTHER POST EMPLOYMENT BENEFITS (OPEB) FUNDING POLICY

1.0 . PURPOSE

To promote fiscal responsibility and long-term planning efforts by adhering to a policy that will assist the County in addressing pension and other post-employment benefit (OPEB) funding requirements while allowing flexibility to respond to actuarial analyses and variable returns on investments due to market volatility.

2.0 PENSION POLICY

2.1 County Budget

- 2.1.1 With each budget cycle, at a minimum, fully fund the Actuarially Determined Contributions (ADC) from the California Public Employees Retirement System (CalPERS) for both the Miscellaneous and Safety Pension Plans which serve as the basis for the employee¹, employer normal cost, and unfunded liability contributions.

As part of the actuarial Analysis, CalPERS will be using acceptable actuarial cost methods, asset smoothing methods and amortization periods consistent with provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions*.

- A. All components of the ADC will be collected through Payroll on a bi-weekly basis.
- B. Pension funding in excess of the ADC may or may not be collected through Payroll based on financial considerations and contingent on the funding source identified by the County Executive Office (CEO).
- C. There are two options to pay CalPERS:
 - 2.1.1.C.1 Collect the employee and employer contributions towards the ADC through the payroll process and remit to CalPERS on a bi-weekly basis.
 - 2.1.1.C.2 Pay the annual contribution for the Unfunded Liability as a lump sum. Should the county choose to pursue this option, the General Fund will pay the lump sum, and payroll will continue to collect the employee and employer contributions toward the unfunded liability through the payroll process to reimburse the County on a bi-weekly basis.
- D. At mid-year, CEO will reconcile the amounts sent to CalPERS with the minimum ADC amount required and, if necessary, adjust the amount collected through Payroll for the remainder of the year.
- E. The County Executive Office will report back annually to the Board of Supervisors (BOS) on the progress the County is making toward funding promised benefits.

2.2 Internal Revenue Code Section 115 Irrevocable Pension Trust

- 2.2.1 In an effort to offset underperformance by the County's CalPERS Pension Trust Funds and/or future discount rate assumption adjustments, the County will set up and maintain an Internal Revenue Code (IRC) Section 115 Irrevocable Pension Trust.
- A. Any funding above and beyond the ADC (i.e. additional one-time lump-sum payments) that is approved by the BOS should be held in the Pension Trust if not designated for immediate payment to CalPERS.
 - B. Any savings obtained by pre-paying the annual required contribution towards CalPERS pension obligations will be transferred to the Trust.

- C. All transactions in and out of the Trust will be administered by the Finance Committee with approval from the BOS.
- D. The Finance Committee will determine the investment objective and risk tolerance.
- E. On an ongoing basis, the Finance Committee will evaluate the investment performance, fees, service levels, and alternative options. In the event that the Finance Committee determines it is advantageous to make a change in the investment strategy or move funds to another qualified IRC Section 115 Irrevocable Trust, the Committee will make a recommendation to the BOS for approval.
- F. Periodic pension fund reviews or updates that come before the BOS should include the funds held by the Trust.
- G. Although the cash held in trust cannot be counted against the Net Pension Liability (NPL), the year-end balance should be reflected as a restricted asset and properly disclosed in the Annual Comprehensive Financial Report (ACFR).

3.0 OTHER POST-EMPLOYMENT BENEFITS POLICY

3.1 IRREVOCABLE TRUST FUND

Transfer all OPEB plan assets to any legal and compliant OPEB trust for the purpose of funding Other Post-Employment Benefits Trust in order to maximize the investment's long-term rate of return.

3.2 COUNTY BUDGET

- 3.2.1 Annually or bi-annually, conduct an actuarial valuation for the retiree healthcare plan.
- 3.2.2 With each budget cycle, at a minimum, fully fund the net actuarially determined contribution (ADC) for that year.
 - a. OPEB funding will be collected through payroll and remitted to the OPEB Trust.
 - b. Retiree health and dental premiums will be paid by the County and reimbursed by the OPEB Trust or will be paid directly by the OPEB Trust.
 - c. 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 OPEB Trust at least monthly.
 - d. In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, prepare the County's OPEB Actuarial Report using a planned funding period of 15 years beginning in FY 2015-16 as a means to update the ADC and unfunded liability amounts.
 - e. Reconcile the payroll amount collected at mid-year with the minimum ADC amount required and, if necessary, adjust the amount being collected through payroll.

4.0 ADVANCE FUND POST-EMPLOYMENT LIABILITIES

Direct additional funding to the IRC Section 115 Irrevocable Pension Trust or OPEB Trust 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.

5.0 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.

Note(s):

¹ The county pays the employee contribution for those employees eligible for the Employer Paid Member Contribution (EPMC) benefit. Payroll will deduct the employee contributions based on the rates set forth in the actuarial on a bi-weekly basis for employees who are not eligible for EPMC.

