



Agenda Item

14

DATE: February 24, 2015

TO: Board of Supervisors

FROM: Donald C. Kendig, CPA 
Retirement Administrator

SUBJECT: June 30, 2014 Actuarial Valuation and FY 2015-16 Retirement Contribution Rates

RECOMMENDED ACTION:

1. Receive and file the Fresno County Employees' Retirement Association Actuarial Valuation and Review report as of June 30, 2014 by The Segal Group.
2. Accept the Board of Retirement's recommended employer and employee contribution rates for FY 2015-16 as provided for in the Actuarial Valuation and Review report as of June 30, 2014, and in accordance with Government Code Sections 31453 and 31454.

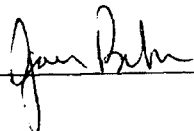
In accordance with the provisions of the County Employees Retirement Law of 1937 and Board of Retirement policy, the annual actuarial valuation study of the Fresno County Employees' Retirement Association (FCERA) was performed for Retirement Tiers I through V by The Segal Company, for the one year period ended June 30, 2014.

Pursuant to the foregoing actuarial valuation, the Board of Retirement adopted the employer and employee contribution rates for all tiers as presented by The Segal Company, the actuary, at the Board of Retirement's regular meeting held on January 21, 2015.

ALTERNATIVE ACTION(s):

Government Code Section 31454 requires your Board to adjust employer and employee contribution rates not later than 90 days following the commencement of a fiscal year. You may defer implementation of the rates; however, that would delay the timing of the assumed funding and result in an adjustment to the subsequent Actuarial Valuation and Review report slightly increasing future rates on a relative basis.

ADMINISTRATIVE OFFICE REVIEW



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Official Action of
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Deputy

APPROVED AS RECOMMENDED

UNANIMOUS ☒ BORGEAS _____ MENDES _____ PACHECO _____ PEREA _____ POOCHIGIAN _____

FISCAL IMPACT:

The overall employer composite rate will decrease 0.20% from 52.76% to 52.56% of compensable payroll for FY 2015-16. The estimated employer cost decrease in FY 2015-16 is approximately \$735 thousand, from \$197.2 million to \$196.5 million, assuming no change in the County of Fresno's projected compensable payroll of \$373.8 million

FCERA's investment portfolio gained 16.63% in value during FY 2013-14, 9.38% above the assumed rate of return of 7.25% for the period resulting in an actual gain and will result in potential decreased employer contribution rates over the next five years, if there are no substantial market losses, to offset. This is due to the effects of asset smoothing and not realizing the entire gain all at once. Investment gains and losses are spread over a rolling five year period.

The Segal Group (Segal) Actuarial Valuation and Review report sets forth the rates recommended for FY 2015-16, by member type (General or Safety) and Tier as illustrated in Exhibit A. The required employer retirement contribution rates will decrease for all tiers, except General Tier III and Safety Tiers IV and V, for the upcoming fiscal year.

DISCUSSION:

In accordance with the provisions of Government Code Sections 31453 and 31454, the Retirement Board for the Fresno County Employees' Retirement Association (FCERA) approves and adopts retirement contribution rates as set forth in the Actuarial Valuation and Review report (Actuarial Valuation), and then recommends those rates to the Fresno County Board of Supervisors for adoption and implementation at least 45 days prior to the beginning of the succeeding fiscal year. The Board of Supervisors then implements those rates no later than 90 days, after the beginning of the immediately succeeding fiscal year.

Pursuant to the Actuarial Valuation, the Board of Retirement adopted the employer and employee contribution rates for all tiers as presented by The Segal Company, the actuary, at the Board of Retirement's regular meeting held on January 21, 2015.

The key findings of the Actuarial Valuation are as follows:

Funding

The Unfunded Actuarial Accrued Liability (UAAL) has decreased \$123.3 million, from \$1,175.8 million to \$1,052.5 million when determined on a valuation (smoothed) value of assets basis. On a market value basis, the UAAL decreased \$384.4 million, from \$1,215.7 million to \$831.3 million. The funded ratio on a valuation value of assets basis has increased 3.4%, from 75.0% to 78.4%, while on a market value basis, the funded ratio has increased 8.9%, from 74.1% to 83.0%. The net total unrecognized investment gains as of June 30, 2014 are \$221.3 million compared to the net total unrecognized investment losses of \$39.9 million as of June 30, 2013. These investment gains will be recognized in the determination of the actuarial value of assets for funding purposes in the next five years, and will offset any investment losses that may occur after June 30, 2014.

Rates

The aggregate employer rate calculated in this valuation has decreased 0.20%, from 52.76% of compensable payroll to 52.56% of compensable payroll, or (\$735 thousand decrease). The aggregate member rate calculated in this valuation has increased from 9.44% of compensable payroll to 9.58%, or 0.14% of compensable payroll. The change in the aggregate member rate is due to a change to include an explicit load for administrative expenses to the contribution rates, offset to some degree by changes in membership demographics for the June 30, 2014 valuation.

Demographics

There are 6,570 retired members and beneficiaries receiving benefits, 1,380 terminated members entitled to, but not yet receiving benefits, and 6,968 active members, for a total of 14,918. The Association has reclassified the status of 130 members, as 58 retirees and 72 vested terminated members, previously reported in the June 30, 2013 valuation as terminated, due to limitations of the old pension administration system. The new pension administration system will prevent the need for such restatements in the future.

Other

Administrative expenses will no longer be netted in the investment return assumption of 7.25%, and instead will be included as a separate expense as a percentage of compensable payroll allocated to the employer and the member rates, respectively. The Association had to restate the balances as of June 30, 2014 in the Retiree Health Benefit Reserve (BOR) (non-valuation reserve), the Retiree Health Benefit Reserve (Section 9) (valuation reserve) and Contra Tracking Account to correct for \$8.7 million that was deposited in the Retiree Health Benefit Reserve (BOR) instead of the Retiree Health Benefit Reserve (Section 9) in 2004. In late 2014, FCERA staff discovered that through an accounting error occurring in 2004, non-vested benefits were paid out of a reserve for a period of approximately six months, without appropriate funding being available. The details of the error and its discovery, and consequences, appear in an October 23, 2014 Board of Supervisors Briefing Report. At the Board of Retirement's November 5, 2014 regular meeting, the Board adopted: to suspend payment of any further benefits out of the "Health Benefit 2" reserve, as of November 1, 2014, to suspend the non-vested benefit as to any members going into payroll after October 31, 2014, to not seek recovery of erroneous payments of benefits from the Health Benefits 2 reserve, in accordance with FCERA's Overpayment of Benefits Policy, to correct the accounting of the Health Benefits 2 reserve account and continue to carry the deficit in in that account on the books of the retirement fund, to satisfy the deficit from available future "excess earnings," as identified in FCERA's Interest Crediting and Undistributed Earnings Policy, and to report the error and its correction in FY 2013-14 for accounting and actuarial purposes.

After crediting interest to the various reserve accounts at the assumed earnings rate and restating the balances in the Retiree Health Benefit Reserve (BOR) and Retiree Health Benefit Reserve (Section 9), the balance of the Contra Tracking Account increased \$15.7 million, from \$588.3 million as of June 30, 2013 to \$604.0 million as of June 30, 2014. A "Contra Tracking Account" tracks any shortfalls of Available Earnings relative to earnings required to credit full interest to valuation reserves (the reserves required to fund the liabilities), and in subsequent years, the Available Earnings remaining after crediting such reserve interest will restore any prior shortfalls as tracked in the Contra Tracking Account. "Available Earnings" are based on actual current period earnings of the retirement fund calculated on the Actuarial Value of Assets as determined under the Board of Retirement's funding policy, plus the balance in the Undistributed Earnings and Contingency Reserves. "Undistributed Earnings" represent earnings in excess of the total interest credited to all

other reserves that has not been allocated by the Board to other reserves or the Contra Tracking Account. Before there would be any Undistributed "Excess" Earnings, the Contra Tracking Account must be reduced to \$0. The increase reflects that there were insufficient Available Earnings during the year to credit the valuation reserves at 7.25%.

REFERENCE MATERIAL:

BBR – October 23, 2014 – "Non-Vested Health Benefit Reserve"

SECTION 1: Valuation Summary for the Fresno County Employees' Retirement Association

Summary of Key Valuation Results

June 30, 2014

June 30, 2013

Employer Contribution Rates:

	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate	Estimated Annual Amount ⁽¹⁾
General Tier 1	50.80%	\$114,752,000	51.07%	\$115,362,000
General Tier 2	48.09%	\$5,467,000	48.27%	\$5,488,000
General Tier 3	47.38%	\$17,262,000	47.33%	\$17,245,000
General Tier 4	38.15%	\$4,051,000	38.17%	\$4,053,000
General Tier 5	37.36%	\$10,591,000	37.48%	\$10,625,000
Safety Tier 1	74.56%	\$36,795,000	74.79%	\$36,909,000
Safety Tier 2	74.20%	\$3,100,000	74.26%	\$3,103,000
Safety Tier 4	59.37%	\$1,924,000	59.02%	\$1,913,000
Safety Tier 5	57.87%	\$2,513,000	57.41%	\$2,492,000
All categories combined	52.56%	\$196,455,000	52.76%	\$197,190,000

Average Member Contribution Rates:

	Total Rate	Estimated Annual Amount ⁽¹⁾	Total Rate	Estimated Annual Amount ⁽¹⁾
General Tier 1	9.73%	\$21,979,000	9.61%	\$21,708,000
General Tier 2	6.98%	\$794,000	6.87%	\$781,000
General Tier 3	7.74%	\$2,820,000	7.56%	\$2,754,000
General Tier 4	6.68%	\$709,000	6.51%	\$691,000
General Tier 5	7.02%	\$1,990,000	6.96%	\$1,973,000
Safety Tier 1	12.52%	\$6,179,000	12.36%	\$6,100,000
Safety Tier 2	11.06%	\$462,000	10.93%	\$457,000
Safety Tier 4	9.83%	\$319,000	9.60%	\$311,000
Safety Tier 5	12.51%	\$543,000	11.96%	\$519,000
All categories combined	9.58%	\$35,795,000	9.44%	\$35,294,000

Funded Status:

Actuarial accrued liability ⁽²⁾	\$4,876,754,000	\$4,694,780,000
Valuation value of assets (VVA) ⁽³⁾	\$3,824,221,000	\$3,518,982,000
Market value of assets (MVA) ⁽³⁾	\$4,045,489,000	\$3,479,066,000
Funded percentage on a VVA basis	78.4%	75.0%
Funded percentage on a MVA basis	83.0%	74.1%
Unfunded actuarial accrued liability on a VVA basis	\$1,052,533,000	\$1,175,798,000
Unfunded actuarial accrued liability on a MVA basis	\$831,265,000	\$1,215,714,000

Key Economic Assumptions:

Interest rate	7.25%	7.25%
Inflation rate	3.25%	3.25%
Across-the-board salary increase	0.50%	0.50%

⁽¹⁾ Based on June 30, 2014 projected annual compensation.⁽²⁾ Excludes liabilities for non-vested supplemental benefits.⁽³⁾ Excludes non-valuation reserves: contingency reserve, supplemental COLA and retiree health benefit reserve (BOR).