Board Agenda Item 8

DATE: February 9, 2016

TO: Board of Supervisors

SUBMITTED BY: Donald C. Kendig, CPA, Retirement Administrator

SUBJECT: June 30, 2015 Annual Actuarial Report and 2016-17 Retirement Contribution Rates

RECOMMENDED ACTION:

1. Receive and file the Fresno County Employees' Retirement Association Actuarial Valuation and Review report as of June 30, 2015 by The Segal Group.
2. Accept the Board of Retirement's recommended employer and employee contribution rates for FY 2016-17 as provided for in the Actuarial Valuation and Review report as of June 30, 2015, 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 review and actuarial valuation of the Fresno County Employees' Retirement Association (FCERA) was performed for Retirement Tiers I through V by The Segal Group (Segal), for the one year period ended June 30, 2015.

Pursuant to the foregoing actuarial valuation, the Board of Retirement adopted the employer and employee contribution rates for all tiers as presented by Segal, the actuary, at the Board of Retirement's regular meeting held on December 16, 2015.

ALTERNATIVE ACTION(S):

Government Code Section 31454 requires your Board of Supervisors 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 up to 90 days after the end of the 2015-16 fiscal year; 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. The Board also has the option of pre-funding contributions based on the new rates, which would lower future rates on a relative basis; however, an agreement, policy, and procedures for receiving such advanced payment would need to be developed.

FISCAL IMPACT:

The overall employer composite rate will increase 0.49% from 51.53% to 52.02% of compensable payroll for FY 2015-16. The estimated employer cost decrease in FY 2015-16 is approximately $1.89 million, from $197.75 million to $199.64 million, assuming no change in the County of Fresno's projected compensable payroll of $383.78 million.

FCERA's investment portfolio lost 0.10% in value during FY 2014-15, 7.35% below the assumed rate of return of 7.25% for the period resulting in an actual loss and will result in potentially higher employer contribution rates over the next five years, if there are no substantial market gains, to offset. This is due to the effects of asset smoothing and not realizing the entire loss all at once. Investment gains and losses are spread over a rolling five year period.

Segal's Actuarial Valuation and Review report sets forth the rates recommended for FY 2015-16, by member type (General and Safety) and Tier as illustrated in Exhibit A. The required employer retirement contribution rates will increase for all tiers, except General Tiers II, III and V, for fiscal year 2016-17.

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, at least 45 days prior to the beginning of the succeeding fiscal year, recommends those rates to the Fresno County Board of Supervisors for acceptance and implementation. The Board of Supervisors then implements those rates no later than 90 days, after the beginning of the 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 Segal at the Board of Retirement's regular meeting held on December 16, 2015.

The key findings of the Actuarial Valuation are as follows:

Funding

The Unfunded Actuarial Accrued Liability (UAAL) has decreased $70.84 million, from $1,052.53 million to $981.69 million when determined on a valuation (smoothed) value of assets basis. On a market value basis, the UAAL increased $211.67 million, from $831.27 million to $1,042.94 million. The funded ratio on a valuation value of assets basis has increased 2.3%, from 78.4% to 80.7%, while on a market value basis, the funded ratio has decreased 3.6%, from 83.0% to 79.4%. The net total unrecognized investment losses as of June 30, 2015 are $61.26 million compared to the net total unrecognized investment gains of $221.30 million as of June 30, 2014. These investment losses will be recognized in the determination of the actuarial value of assets for funding purposes during the next five years, and will offset any investment gains that may occur after June 30, 2015.

Rates

The aggregate employer rate calculated in this valuation has increased 0.49%, from 51.53% to 52.02% of compensable payroll, or ($1.89 million). The aggregate member rate calculated in this valuation has increased 0.01% from 9.40% to 9.41% of compensable payroll. The change in the aggregate member rate is due to changes in membership demographics.

Demographics

There are 6,839 retired members and beneficiaries receiving benefits, 3,163 vested terminated members entitled to, but not yet receiving benefits, and 7,001 active members, totaling 17,003.

Limitations of the old (Wyatt) pension administration system, and a legislative change in 2003 giving non-vested terminated members the right to leave their contributions on deposit for later withdrawal, have increased the liability that is reported by the actuary. FCERA is in the process of upgrading to a new (ARRIVOS) pension administration system, and as part of that upgrade, FCERA has reviewed and reclassified 1,419 members who were previously reported in the Wyatt data file reserved for terminated members and understood by Segal (and the prior actuary) as not owed any liability by FCERA. These members are now reported in the ARRIVOS data file reserved for vested terminated members owed either a refund of contributions or deferred retirement benefit. Of these members, 1,346 have very small liabilities, with an average account balance of about $2,800 and average service of about one year. The rest have an average account balance of $13,000 with an average service of about four years, and about half have gone on to work for a reciprocal employer. The addition of the 1,419 members for the first time in this year's vested terminated file increased the actuarial accrued liability by about $10.3 million, and FCERA's membership to just over 17,000 members due benefits or a refund.

Other

As mentioned during the June 30, 2014 valuation, 1) administrative expenses are no longer 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, and 2) there was a correction to reallocate proceeds from the 2004 issuance of Pension Obligation Bonds among various reserves. After the correction, the balance in the Retiree Health Benefit Reserve (BOR) was -$3,418,343 as of June 30, 2015. For actuarial valuation purposes, the Actuary has again limited the balance in the Retiree Health Benefit Reserve (BOR) to be no less than $0 in determining the valuation value of assets because excluding a negative balance in that non-valuation reserve would have the unintended consequence of increasing the asset value used in the valuation until that negative balance is offset by future undistributed earnings.

The next actuarial experience study is anticipated March 16, 2016, affecting the fiscal year 2017-18 retirement rates and beyond, and will contain an examination of demographic and investment trends. The actuary has informally expressed the need to consider reducing the economic return assumption from 7.25%. The Board of Retirement will have some options, and depending on the data and the firmness of the actuary's convictions, could 1) defer any reduction until the next actuarial study, 2) implement the recommended reduction in the first year, 3) defer the implementation 1 year and implement the reduction over the two succeeding years in either 50/50 increments, or 4) some other phase in. FCERA staff will be working closely with CAO staff as the item develops.

REFERENCE MATERIAL:
15-0211 - Retirement Association Actuarial Valuation

Attachments Included and/or on file:
Exhibit A - Actuarial Valuation Summary Results for June 30, 2015
On file with the Clerk - June 30, 2015 Actuarial Valuation

CAO Analyst:
Charlotte Tilkes