



Board Agenda Item 33

DATE: April 17, 2018

TO: Board of Supervisors

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

SUBJECT: June 30, 2017 Annual Actuarial Report and 2018-19 Retirement Contribution Rates

RECOMMENDED ACTION:

- 1. Receive and file the Fresno County Employees' Retirement Association Actuarial Valuation and Review report as of June 30, 2017 by The Segal Group.**
- 2. Accept the Board of Retirement's recommended employer and employee contribution rates for FY 2018-19 as provided for in the member contribution rates in Appendix A, the employer contribution rates in Appendix E, and the Administrative Expense Load as a percentage of Payroll rates in Section 2 of the Actuarial Valuation and Review report as of June 30, 2017, 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, 2017.

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 13, 2017.

ALTERNATIVE ACTION(S):

Government Code Section 31454 requires your Board to adjust employer and employee contribution rates no 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 FY 2017-18; 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 of Supervisors also has the option of pre-funding contributions based on the new rates, which would lower future rates on a relative basis.

FISCAL IMPACT:

From a review of the actuarial valuation report:

- (pg. 20) The aggregate member contribution rate will decrease 0.04%, from 9.51% to 9.47% primarily attributed to longevity and return assumptions.
- (pg. 102-103) The required employer retirement contribution rates will increase for all tiers for the upcoming fiscal year.

- (pg. 103) The overall composite employer rate will increase 1.76% from 52.33% to 54.09% of payroll, effective July 1, 2018.
- (pg. 103) The estimated cost increase in FY 2017-18 is approximately \$7.268 million, from \$216.514 million to \$223.782 million, assuming no change in the plan sponsors' projected payroll.

FCERA's investment portfolio gained 10.44% in value during FY 2016-17, 3.44% over the assumed rate of return of 7.00% for the period resulting in an actual gain and will result in potentially lower employer contribution rates over the next five years, if there are no substantial market losses, to offset. 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 2018-19, by member type (General and Safety) and tier as provided for in the member contribution rates in Appendix A, the employer contribution rates in Appendix E, and the Administrative Expense Load as a percentage of Payroll rates in Section 2 of the Actuarial Valuation and Review report.

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 13, 2017.

The key findings of the Actuarial Valuation are as follows:

- (pg. 1 or 42) There are 7,200 retired members and beneficiaries receiving benefits, 3,411 terminated members entitled to, but not yet receiving benefits, and 7,353 active members, for a total of 17,964. The ratio of non-actives to actives is 1.44 (potential). The current ratio of retired members and beneficiaries to active members is 0.98.
- (pg. 46) After crediting interest to the various reserve accounts at the assumed earnings rate, the balance of the Contra Tracking Account increased from \$880.8 million as of June 30, 2016 to \$912.6 million as of June 30, 2017.
- (pg. 47 or v) The UAAL has decreased \$80.2 million from \$1,194.1 million to \$1,113.9 million when determined on a valuation (smoothed) value of assets basis. On a market value basis, the UAAL decreased \$226.6 million from \$1,462.8 million to \$1,236.2 million. The funded ratio on a valuation value of assets basis has increased from 78.2% to 80.32%, while on a market value basis; the funded ratio has increased from 73.3% to 78.1%.
- (pg. 103 & v) The aggregate employer rate calculated in this valuation has increased from 52.33% of payroll to 54.09% of payroll, or 1.76%. This rate includes the cost of the three-year phase-in of the cost of changes in actuarial assumptions. (Full cost of the changes would be a further increase in the employer contribution rate to 56.01%).
- (pg. 20) The aggregate member rate calculated in this valuation has decreased from 9.51% of payroll to 9.47%, or 0.04% of payroll. The change in the aggregate member rate is primarily attributed to longevity and return assumptions.

Lastly, referenced on page 14 of the Actuarial Valuation, the Board of Retirement adopted an explicit administrative expense assumption effective with the June 30, 2014 valuation. The assumption is currently set to 1.10% of payroll and remains unchanged. The underlying allocation between Employer Basic Normal Cost, Employer Basic UAAL, and Member Basic rates are adjusted annually and listed as follows (historical rates provided):

Expense Load Category	6-30-2017	6-30-2016	6-30-2015
Employer Regular Normal Cost			
Rate	0.16%	0.16%	0.17%
Employer UAAL Rate	0.78%	0.78%	0.76%
Member Regular Basic Rate	0.16%	0.16%	0.17%
Total	1.10%	1.10%	1.10%

REFERENCE MATERIAL:

BAI # 30 on March 28, 2017 - Retirement Association Actuarial Valuation

BAI # 8 on March 1, 2016 - Retirement Association Actuarial Valuation

Attachments Included and/or on file:

Exhibit A - Actuarial Valuation Summary Results for June 30, 2016

Appendix E - Recommended Employer Contribution Rates 3yr Phase-in

On File with the Clerk - June 30, 2017 Actuarial Valuation

CAO Analyst:

Debbie Paolinelli