



Board Agenda Item 29

DATE: February 4, 2020

TO: Board of Supervisors

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

SUBJECT: June 30, 2019 Annual Actuarial Report and 2020-2021 Retirement Contribution Rates

RECOMMENDED ACTION(S):

1. **Receive and file the Fresno County Employees' Retirement Association Actuarial Valuation and Review report as of June 30, 2019 by The Segal Group, and;**
2. **Approve and adopt the Board of Retirement's recommended employer and employee contribution rates for FY 2020-21 as provided in the member contribution rates in Section 4, Exhibit III, the employer contributions rates in Section 2, Subsection F (pages 31-32), and the Administrative Expense Load Percentage of Payroll rates in Section 4, Exhibit I of the Actuarial Valuation and Review Report as of June 30, 2019, in accordance with Government Code sections 31453 and 31454.**

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. Your Board may defer implementation of the rates up to 90 days after the end of FY 2019-20; however, that would delay the timing of the assumed funding of FCERA 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. 30 - The average member contribution rate will decrease 0.03%, from 9.21% to 9.18% of payroll, primarily attributed to demographic changes of active membership.

Pgs. 31-32 - The average employer contribution rate increased across all tiers. The overage composite employer rate will increase 5.76%, from 55.08% to 60.84% of payroll.

Pg. 32 - The increase in the employer cost in FY 2020-21 is estimated at \$26.375 million, from \$252.1 million to \$278.5 million assuming no change in the plan sponsor's projected payroll.

Pg. 80 - The administrative expense load increased 0.10%, from 1.10% to 1.20% of payroll.

FCERA's investment portfolio gained 5.43% in market value during the fiscal year. The return was 1.57% lower than the assumed rate of return of 7% on the market value of assets. Investment gains and losses are smoothed over a rolling five-year period.

Segal's Actuarial Valuation and Review report sets for the rates recommended for FY 2020-21, by member types (general and safety) and tier as provided in the member contribution rates in Section 4, Exhibit III, the employer rates in Section 2, Subsection F, and the Administrative Expense load as a percentage of payroll in Section 4, Exhibit I.

DISCUSSION:

In accordance with Government Code Section 31453 and 31454, the Retirement Board for the Fresno County Employees' Retirement Association ("FCERA") reviews and approves the 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 its adoption and implementation. The Board of Supervisors then implements those adopted 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 18, 2019.

In addition to the fiscal impact information, key findings of the Actuarial Valuation are as follows:

Pg. 10 - FCERA's membership totals 19,200, illustrated on page 10, is comprised of: 7,651 retired members and beneficiaries receiving benefits, 3,873 terminated members entitled to, but not yet receiving benefits, and 7,676 active members.

Pg. 14 - For each active member, there are 1.50 non-active members.

Pg. 5 - The Contra Tracking Account increased \$231.6 million, from \$1,012.4 million at June 30, 2018, to \$1,244.0 million at June 30, 2019.

Pg. 10 - On a Valuation Value of Assets (smoothed), the Unfunded Actuarial Accrued Liability (UAAL) increased \$24.48 million, from \$1,090.9 million to \$1,115.4 million. On a market value basis, the UAAL decreased \$41.9 million from \$1,194.0 million to \$1,152.1 million.

Pg. 10 - The funded ratio, on a valuation value of asset basis, had a minor increase from 81.5% to 81.7%, while on a market value of asset basis, the fund ratio increased from 79.7% to 81.1%.

Pg. 80 - The Administrative Expense load increased 0.10%, from 1.10% to 1.20%. The allocation of the expense between Employer Basic Normal Cost, Employer Basic UAAL, and the Member Basic rates are adjusted annually, and shown below with historical rates.

Expense Load Category	<u>6/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/16</u>
Employer Basic Normal Cost Rate	0.16%	0.16%	0.16%	0.16%
Employer UAAL Rate	0.88%	0.78%	0.78%	0.78%
Member Basic Rate	<u>0.16%</u>	<u>0.16%</u>	<u>0.16%</u>	<u>0.16%</u>
Total	<u>1.20%</u>	<u>1.10%</u>	<u>1.10%</u>	<u>1.10%</u>

The increase in employer contributions for FY 2020-21 is primarily attributable to the last credit from the POB payment rolling off the amortization schedule for the unfunded liability. The chart on page 75 illustrates expected decreases in the payment on the unfunded liability and, correspondingly decreases in the

employer contribution rates in future years, if assumptions are met.

New in this year's Actuarial Valuation is Risk Assessment in Section 2, Subsection J, required by Actuarial Standards of Practice No. 51 ("ASOP 51"). The Risk Assessment is a concise discussion of some of the primary risks that may affect the plan's future financial condition. As a mature pension plan, determined by the ratio of members in pay status to active participants, the cash needed to fulfill benefit obligations will increase over time. Therefore, the plan's asset allocation needs to evolve to meet emerging pension liabilities.

A further discussion of plan maturity measures and how they relate to changes in assets and liabilities is included in Section 2, Subsection I, Volatility Ratios starting on page 39. The Asset Volatility Ratio (AVR) equals the Market Value of Assets Divided by total payroll and is currently about 10.8, which means that a 1% asset gain or loss (relative to the assumed investment return of 7%) translates to about 10.8% of one year's payroll. Since these gains and losses are amortized over 15 years, there would be an approximate 0.9% change in the required contribution for each 1%.

REFERENCE MATERIAL:

BAI #6 on February 26, 2019 - Retirement Association Actuarial Valuation

BAI #33 on April 17, 2018 - Retirement Association Actuarial Valuation

ATTACHMENTS INCLUDED AND/OR ON FILE:

Actuarial Valuation Summary Results for June 30, 2019 and June 30, 2018

Section 4, Exhibit III - Member Contribution Rates

Section 2, Subsection F - Employer Contribution Rates

Section 3, Exhibit I - UAAL Balance and Payment Forecast

On File with the Clerk - June 30, 2019 Actuarial Valuation

CAO ANALYST:

Debbie Paolinelli