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Legislation Details (With Text)

File #:	17-0022	**Name:**	June 30, 2016 Annual Actuarial Report and 2017-18 Contribution Rates
		In control:	Fresno County Employees Retirement Association
On agenda:	3/28/2017	**Final action:**	3/28/2017
Enactment date:		**Enactment #:**	

Title: Receive and file the Fresno County Employees' Retirement Association Actuarial Valuation and Review report as of June 30, 2016 by The Segal Group and accept the Board of Retirement's recommended employer and employee contribution rates for FY 2017-18 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, 2016, in accordance with Government Code Sections 31453 and 31454

Sponsors:

Indexes:

Code sections:

Attachments: 1. Agenda Item, 2. Exhibit A - Actuarial Valuation Summary Results for June 30, 2016, 3. Appendix E - Recommended Employer Contribution Rates 3yr Phase-In, 4. June 30, 2016 Actuarial Valuation

Date	Ver.	Action By	Action	Result
3/28/2017	1	Board of Supervisors	Conducted Hearings	Pass

DATE: March 28, 2017

TO: Board of Supervisors

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

SUBJECT: June 30, 2016 Annual Actuarial Report and 2017-18 Retirement Contribution Rates

RECOMMENDED ACTION:

1. **Receive and file the Fresno County Employees' Retirement Association Actuarial Valuation and Review report as of June 30, 2016 by The Segal Group.**

2. **Accept the Board of Retirement's recommended employer and employee contribution rates for FY 2017-18 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, 2016, 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, 2016.

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 21, 2016.

ALTERNATIVE ACTION(S):

Government Code Section 31454 requires your Board of Supervisors 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 2016-17; 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; however, a memorandum of understanding, policy, and procedures for receiving such advanced payment would need to be developed.

FISCAL IMPACT:

From a review of the actuarial valuation report:

(pg. 20) The aggregate member contribution rate will increase 0.29%, from 9.33% to 9.62% primarily attributed to longevity and return assumptions.
(pg. 109-110) The required employer retirement contribution rates will increase for all tiers for the upcoming fiscal year.
(pg. 110) The overall composite employer rate will increase 1.69% from 51.36% to 53.05% of payroll.
(pg. 110) The estimated cost increase in FY 2016-17 is approximately $6.79M, from $206,740,000 to $213,530,000, assuming no change in the plan sponsors' projected payroll of $402,535,000.

FCERA's investment portfolio lost 0.11% in value during FY 2015-16, 7.36% 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. 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 2017-18, 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 21, 2016.

The key findings of the Actuarial Valuation are as follows:

(pg. 1 or 51) There are 7,032 retired members and beneficiaries receiving benefits, 3,289 terminated members entitled to, but not yet receiving benefits, and 7,297 active members, for a total of 17,618. The ratio of non-actives to actives is 1.41 (potential). The current ratio of retired members and beneficiaries to active members is 0.96.

(pg. 46) After crediting interest to the various reserve accounts at the assumed earnings rate, the balance of the Contra Tracking Account increased from $649.0 million as of June 30, 2015 to $800.8 million as of June 30, 2016.

(pg. 47 VVA) and (pg. vi.) The UAAL has increased from $981.7 million to $1,194.1 million when determined on a valuation (smoothed) value of assets basis. On a market value basis, the UAAL increased from $1,042.9 million to $1,462.8 million. The funded ratio on a valuation value of assets basis has decreased from 80.7% to 78.2%, while on a market value basis; the funded ratio has decreased from 79.4% to 73.3%.

(pg. 110) The aggregate employer rate calculated in this valuation has increased from 51.36% of payroll to 53.05% of payroll, or 1.69%. This is the three-year phase-in of the cost of changes in actuarial assumptions. (Full cost of the changes would be an increase from 51.36% of payroll to 56.74%, or 5.38% found on page 16, and reconciled on page 19 of the Actuarial Valuation).

(pg. 20) The aggregate member rate calculated in this valuation has increased from 9.33% of payroll to 9.62%, or 0.29% of payroll. The change in the aggregate member rate is due to changes in actuarial assumptions (longevity and return) and offset by changes in membership demographics.

(pg. 5) The net total unrecognized investment losses as of June 30, 2016 are $268.7 million compared to the net total unrecognized investment losses of $61.3 million as of June 30, 2015. These investment losses will be recognized in the determination of the valuation value of assets for funding purposes in the next few years, and will offset any investment gains that may occur after June 30, 2016.

The 5.38% (or $21.645M) increase in employer contributions, which is being phased in over three years with a 1.69% increase this fiscal year (or $6.790M), is attributable to the following factors (detailed on page 19):

1. Effect of investment gain on valuation value of assets: -2.00% or - $8.015m
2. Effect of difference between actual and expected contributions: 0.20% or $805k
3. Effect of salary increases less than expected during 2015/2016: -0.17% or -$684k
4. Effect of increase in UAAL rate as a result of less than expected increase in total payroll: -0.38% or - $1.530m
5. Effect of COLA increases less than expected: -1.55% or -$6.239m
6. Effect of change in explicit administrative expense load: 0.01% or $40k
7. Effect of changes in actuarial assumptions: 5.52% or $22.220m
8. Effect of other experience gains: -0.25% or -$1.018m

On page 8 you will find that FCERA's investment portfolio lost 0.11% in value during fiscal year 2015-16, or 7.36% below the assumed rate of return hurdle of 7.25% for the period resulting in an actual loss and will result in increased employer contribution rates over the next five years, if there are no substantial market gains, to offset. On page 5, you can see that there are previous year unrecognized investment losses that have yet to be recognized, providing for a forecast of negative returns even if we achieve our future return assumption of 7.00%. This is due to the effects of asset smoothing and not realizing the entire losses and gains from previous years all at once. Investment gains and losses are spread over a rolling five-year period.

The Board of Retirement established a Supplemental COLA Reserve to pay non-vested discretionary purchasing power benefits. Segal Consulting has provided a table, on page 102, of the anticipated cash payments and determined the sufficiency of current reserves to make those payments, noting that in determining the sufficiency of the reserves, no new excess earnings transfers will be made by the Board of

Retirement. On August 19, 2015 the Board of Retirement reviewed this benefit and determined that it would be prudent to terminate the benefit at a time that there was a sufficient reserve to cover a whole monthly benefit, preventing the administrative expense of calculating a partial payment and earmarking and remainder for a reduction in the negative Retiree Health Benefit Reserve. The last payment made was during the month of July 2016 and next year's actuarial valuation will show the adjustment to the Retiree Health Benefit Reserve.

Regarding the Retiree Health Benefit Reserve, as of June 30, 2016, the reserve remained negative after a prior year restatement of the reserve balance. The balance is reported at -$3,416,589 on page 102. As long as this reserve is zero (or negative), no benefit can be paid out of this reserve.

Lastly, referenced on page 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	6-30-2016	6-30-2015	6-30-2014
Employer Regular Normal Cost Rate	0.16%	0.17%	0.17%
Employer UAAL Rate	0.78%	0.76%	0.76%
Member Regular Basic Rate	0.16%	0.17%	0.17%
Total	1.10%	1.10%	1.10%

REFERENCE MATERIAL:

BAI # 8 on March 1, 2016 - Retirement Association Actuarial Valuation
BAI # 14 on February 24, 2015 - 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, 2016 Actuarial Valuation

CAO Analyst:

Debbie Paolinelli

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