Legislation Text

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DATE: February 26, 2019

TO: Board of Supervisors

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

SUBJECT: June 30, 2018 Annual Actuarial Report and 2019-20 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, 2018 by The Segal Group.**

2. **Approve and adopt the Board of Retirement's recommended employer and employee contribution rates for FY 2019-20 as provided for in the member contribution rates in Appendix A, the employer contribution rates in Appendix E, and the Administrative Expense Load percentage of Payroll rates in Section 2 of the Actuarial Valuation and Review report as of June 30, 2018, 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, 2018.

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 19, 2018.

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 2018-19; 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. 20) The aggregate member contribution rate will decrease 0.03%, from 9.34%. to 9.31% attributed to changes in demographics of the active membership.

(pg. 97-98) All tiers experienced an increase in the required employer contribution rate for the upcoming fiscal year.

(pg. 98) The overall *composite* employer rate will increase 2.54%, from 53.27% to 55.81% of covered payroll, effective July 1, 2019.

(pg. 98) The estimated employer cost increase in fiscal year 2019-2020 is approximately $10.998 million, from $229.924 million to $240.922 million assuming no change in the plan sponsors' projected payroll.

(pg. 14) The administrative expense load assumption of 1.10% of payroll remains unchanged.

FCERA's investment portfolio gained 7.11% in market value during fiscal year 2017-2018, or 0.11% over the assumed rate of return hurdle of 7.00% on the market value of assets. Investment gains and losses are smoothed oved a rolling five-year period.

Segal's Actuarial Valuation and Review report sets forth the rates recommended for FY2019-20, by the member type (General and Safety) and tier as provided for in the member contribution rates in Appendix A, the employer 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 Government Code Section 31453 and 31454, the Retirement Board for the Fresno County Employees' Retirement Association (FCERA) approves and adopts 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 requested approval and adoption. 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 19, 2018.

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

(pg. 1 or 42) There are 7,445 retired members and beneficiaries receiving benefits, 3,627 terminated members entitle to, but not yet receiving benefits, and 7,458 active members, for a total of 18,530. The ratio of non-actives (terminated, retired and beneficiaries) to actives is 1.48.

(pg. 46) After crediting interest to the various reserve accounts at the assumed earnings rate, the balance of the Contra Tracking Account increased $99.8 million, from $912.6 million as of June 30, 2017 to $1,012.4 million as of June 30, 2018.

(pg. vi or 47) The UAAL has **decreased $23.0 million** from $1,113.9 million to $1,090.9 million when determined on a valuation (smoothed) value of asset basis. On a *market value basis*, the UAAL had decreased $42.2 million from $1,236.2 million to $1,194.0 million. The funded ratio on a valuation value of assets basis has increased 1.2% from 80.3% to 81.5%, while on a market value of assets basis, the funded ration has increased 1.6% from 78.1% to 79.7%.

Referenced on page 14 of the Actuarial Valuation, the Board of Retirement adopted an explicit administrative expense load assumption effective starting 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	6-30-2018	6-30-17	6-30-2016
Employer Regular Normal Cost Rate	0.16%	0.16%	0.16%
Employer UAAL Rate	0.78%	0.78%	0.78%
Member Regular Basic Rate	0.16%	0.16%	0.16%

New, for this year's Board Agenda Item that requests your Board to approve and adopt the recommended retirement contribution rates, is a forecast of the annual employer payments needed to amortize the UAAL as of June 30, 2018 of $1,091 million in future years.

First, to understand the table and chart in Appendix C, it is important to understand how FCERA amortizes actuarial gains and losses. For the 6/30/2003 UAAL that existed during the annual evaluation, the Board of Retirement decided to re-amortize all balances that existed for a 30-year period (an actuarial reset in other words). At that time, the Board of Retirement adopted a 15-year closed amortization period for typical actuarial gains and losses and a 30-year closed amortization period for plan provision changes ("closed amortization period" means the relevant period does not include UAAL from any other period). The amortization periods were chosen to align with the average employment duration of a career and to minimize inter-generational cost shifts. It is intended that plan provisions remain the same for a longer time (i.e., 30 years) than for typical actuarial gains and losses (i.e., 15 years) and therefore, a longer amortization period is used for those changes in plan provision.

Second, to elaborate, actuarial gains/losses associated with a specific year are amortized over a 15-year closed period. 1/15th of the cost is paid (or 1/15th of the gain is credited) each year for 15 years. The Amortization Schedule table (the 2nd page of Appendix C or page 93 of the full valuation report), shows the outstanding balance for each year's gain/loss, the annual payment (credit) associated with the gain/loss, and the number of years/payments remaining. The number of remaining years is reduced by 1 each year. Eventually, the gain or loss has been fully amortized and is no longer included in the calculation of the employer contribution. The entry in the table dated June 30, 2004 and titled Actuarial Loss/POB Proceeds is an actuarial gain (providing a credit to contributions) and shows 1 year remaining for the FY 2019-20 (the POB Proceeds were allocated to multiple years of related UAAL, and this is the last year of that allocation). That means the credit included in the computation of the employer UAAL payment will drop off the table at the end of the FY 2019-20. Recognizing the last of the credit from that year's amortized gain, results in a projected increase of employer contributions for FY 2020-21 of approximately $18 million (all else being equal). The chart in Appendix C graphically illustrates the forecasted employer contribution, assuming no additional unfunded liabilities (all else being equal).

Thirdly, carrying out the forecast further, the chart illustrates substantial decreases in the projected employer contribution payment to the UAAL, starting in FY 2021-22 and beyond, because of the final payments of the amortized losses (all else being equal).

Finally, all "else being equal" is important to grasp; it is a present theoretical actuarial assumption that there is, among other actuarial assumptions, no present expected increase or decrease in UAAL in future fiscal years. The reason is that actual total employer payment toward the UAAL is presently unknown and unpredictable due to the effect of possible future gains and losses in the UAAL. In reality, however, for each fiscal year in which there is a new actuarial gain or loss, that will increase or decrease the rate in the employer contribution rates. The attached Appendix C is a good forecast to start with.

REFERENCE MATERIAL:

BAI #33 on April 17, 2018 - Retirement Association Actuarial Valuation
BAI #30 on March 28, 2017 - Retirement Association Actuarial Valuation

ATTACHMENTS INCLUDED AND/OR ON FILE:

Actuarial Valuation Summary Results for June 30, 2018 and June 30, 2017
Exhibit A - Recommended Employee Contribution Rates
Appendix E - Recommended Employer Contributions Rates

Appendix C - Annual Payments Forecast (excerpts and annotations)
On File with the Clerk - June 30, 2018 Actuarial Valuation

CAO ANALYST:

Debbie Paolinelli