



Sonoma County Board of Supervisors

State of the Retirement System Annual Report (May 2021)

Presented by: County of Sonoma, Sonoma County
Employees' Retirement Association & Segal



Pension System Overview

- SCERA established pursuant to the County Employees Retirement Law of 1937 and is not part of the statewide California Public Employees' Retirement System ("CalPERS").
 - SCERA operates independently of the County and is governed by a 9-member Board of Retirement responsible for establishing policies to administer the Plan, making benefit determinations, and managing the investment of assets.
 - SCERA administers defined benefit pension plans for multiple employers: County of Sonoma, Community Development Commission, Water Agency, Superior Court, Sonoma County Transportation Authority, and Sonoma Valley Fire District.
- Benefit formulas are set by each employer's respective governing body through collective bargaining.
- Pension benefits are funded by contributions from participating employers, employees (members), and investment earnings. SCERA's annual actuarial valuations determine employer and employee contribution rates.



County Employee Retirement Plans

- “Legacy” Plan A General and Safety employees were hired prior to implementation of the Public Employees’ Pension Reform Act (“PEPRA”) on January 1, 2013.
 - Also Includes employees hired before 2013 from other jurisdictions that qualify for reciprocity.
 - Members pay a normal cost contribution rate based on age of entry into the system.
 - Benefit formulas: General Members – 3.0% @ Age 60; and Safety Members: 3.0% @ Age 50.
- “PEPRA” Plan B General and Safety employees hired on or after January 1, 2013, without reciprocity.
 - Members pay 50% share of the plan’s normal cost.
 - Benefit formulas: General Members - 2.5% @ Age 67; and Safety Members - 2.7% @ Age 57.
- All members pay supplemental contributions towards Unfunded Actuarial Accrued Liability (“UAAL”), and Legacy employees pay additional normal cost contributions.



Cost Sharing, UAAL Prepayments, and Committees

- Legacy employees pay additional normal cost contributions equivalent to “2/3” of the actuarially determined difference between their standard contribution rate and a full 50% cost share with the County.
 - The County in turn reimburses employees directly for this additional contribution.
- All employees pay supplemental contributions towards the County’s share of UAAL (3.03% for General members; 3.00% for Safety members).
- Last round of labor negotiations resulted in extending UAAL contributions for ~1,100 Legacy employees, which avoids future pension costs that would have otherwise shifted back to the County in 2023-24.
- Board of Supervisors financial policy adopted June 2019 authorizes annual prepayments towards UAAL, equal to 0.5% of Pensionable/Covered Payroll, plus the option for additional one-time payments if funding is available.
- Independent Citizens Pension Committee
- Retirement Committee with Employee Groups



County Pension Expenses by Fiscal Year

| | FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| <u>Pension Contribution Expenses</u>¹ | | | | | |
| County of Sonoma | \$56,663,114 | \$52,980,683 | \$55,480,438 | \$57,797,243 | \$55,828,844 |
| Community Development Commission | \$636,796 | \$489,353 | \$548,624 | \$531,924 | \$612,944 |
| Sonoma County Water Agency | \$4,481,365 | \$3,581,629 | \$3,946,189 | \$4,002,478 | \$3,930,580 |
| Normal Cost Reimbursement to Employees | \$0 | \$1,917,134 | \$3,455,813 | \$3,427,756 | \$3,347,936 |
| Sub-total Pension Contributions | \$61,781,274 | \$58,968,799 | \$63,431,064 | \$65,759,401 | \$63,720,304 |
| <u>Unfunded Liability Prepayments</u>² | | | | | |
| Accelerated UAAL Payment (One-time) | \$3,553,000 | \$0 | \$0 | \$0 | \$5,000,000 |
| Accelerated UAAL Payment (Recurring) | \$0 | \$0 | \$0 | \$0 | \$1,722,016 |
| Sub-total UAAL Prepayment | \$3,553,000 | \$0 | \$0 | \$0 | \$6,722,016 |
| Total Pension Expenses | \$65,334,274 | \$58,968,799 | \$63,431,064 | \$65,759,401 | \$70,442,320 |
| <u>Pension Obligation Bond Debt Service</u> | | | | | |
| 2003A POB | \$20,136,014 | \$21,167,370 | \$22,243,337 | \$23,359,489 | \$24,530,109 |
| 2003B POB | \$1,075,200 | \$1,075,200 | \$1,075,200 | \$1,075,200 | \$1,075,200 |
| 2010 POB | \$21,013,543 | \$21,903,048 | \$23,034,117 | \$24,014,753 | \$24,749,250 |
| Total POB Debt Expense | \$42,224,756 | \$44,145,618 | \$46,352,654 | \$48,449,442 | \$50,354,559 |
| Grand Total Employer Expense (Pension + POB) | \$107,559,030 | \$103,114,417 | \$109,783,718 | \$114,208,842 | \$120,796,879 |

Note 1: Source data from audited annual financial reports.

Note 2: One-time prepayments authorized by the Board of Supervisors; recurring prepayments equal to 0.5% of payroll per County policy.



County Pension Expenses – Measurement Ratios

| | FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 19-20 (Excl. UAAL Prepay) |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|------------------------------------|
| Total Employer Expense (Pension + POB) | \$107,559,030 | \$103,114,417 | \$109,783,718 | \$114,208,842 | \$120,796,879 | \$114,074,863 |
| Total Pensionable/Covered Payroll ¹ | \$313,526,539 | \$320,173,397 | \$328,766,520 | \$335,746,316 | \$342,301,437 | \$342,301,437 |
| Total Salaries & Benefits ² | \$551,436,816 | \$589,853,663 | \$611,820,469 | \$617,826,203 | \$644,925,647 | \$644,925,647 |
| Total Operating Revenue ¹ | \$1,067,483,017 | \$1,103,317,902 | \$1,187,913,235 | \$1,245,348,027 | \$1,271,321,979 | \$1,271,321,979 |
| Pension Expense as % of Covered Payroll | 34.3% | 32.2% | 33.4% | 34.0% | 35.3% | 33.3% |
| Pension Expense as % of Total Salaries & Benefits | 19.5% | 17.5% | 17.9% | 18.5% | 18.7% | 17.7% |
| Pension Expense as % of Operating Revenue | | | | | | |
| Sonoma County (including POB) | 10.1% | 9.3% | 9.2% | 9.2% | 9.5% | 9.0% |
| Sonoma County (excluding POB) | 6.1% | 5.3% | 5.3% | 5.3% | 5.5% | 5.0% |
| Statewide Average ^{3 & 4} | 8.0% | 8.4% | 10.2% | n/a | n/a | n/a |
| National Average ^{3 & 4} | 6.1% | 6.0% | 6.4% | n/a | n/a | n/a |

Note 1: Source data from audited annual financial reports.

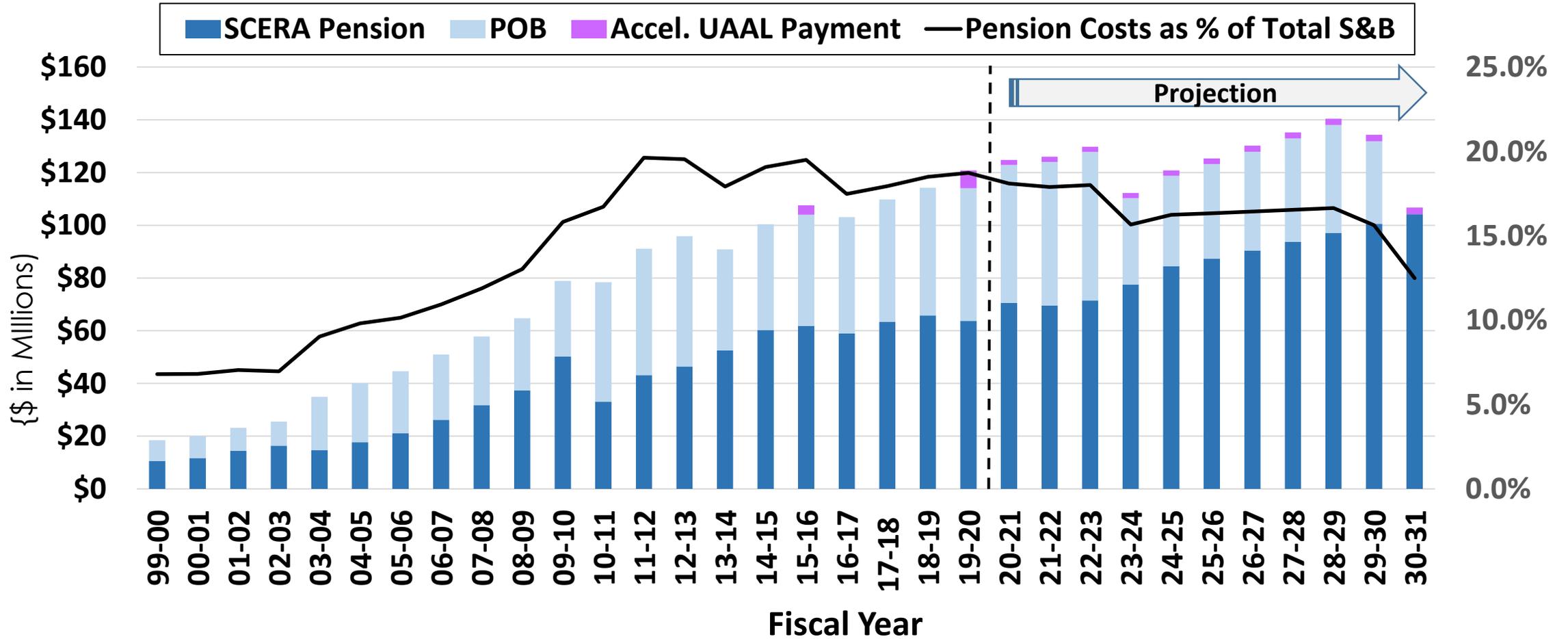
Note 2: Total Salaries & Benefits cost data from the County's Enterprise Financial System.

Note 3: Sourced from the Public Plans Database state data for California (<https://publicplansdata.org/quick-facts/by-state/state/?state=CA>). Data unavailable for FY 18-19 and FY 19-20 (as of April 2021).

Note 4: It is not clear if Statewide/National data includes local jurisdictions' respective Pension Obligation Bond costs. As a result, the County's pension costs and ratio measures reported here would be comparatively **higher** when factoring in both pension and POB expenses.

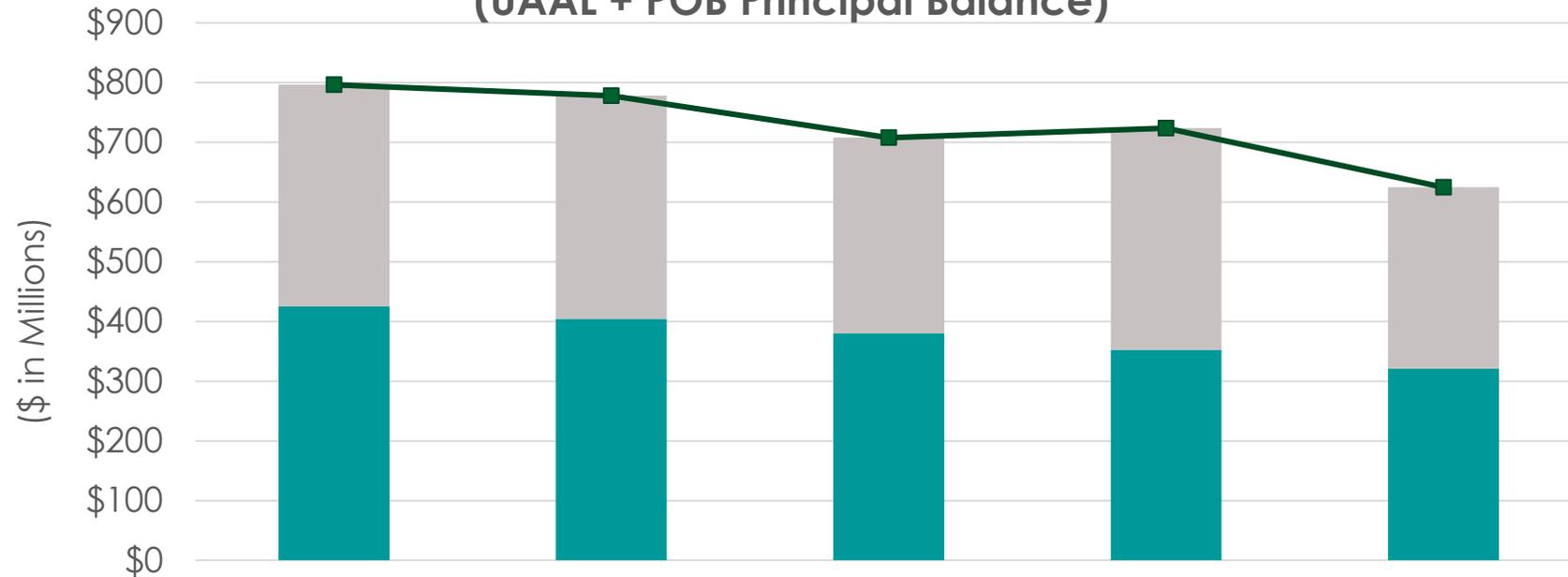


Pension Cost Forecast



Total Unfunded Pension Liability Based on UAAL

Sonoma County's Unfunded Pension Liability
(UAAL + POB Principal Balance)



| | 06/30/16 | 06/30/17 | 06/30/18 | 06/30/19 | 06/30/20 |
|----------------------|----------|----------|----------|----------|----------|
| County Share of UAAL | \$371 | \$374 | \$328 | \$371 | \$303 |
| County POB Balance | \$425 | \$404 | \$380 | \$352 | \$321 |
| Total | \$796 | \$778 | \$708 | \$724 | \$625 |



SCERA Actuarial Analysis of Plan Experience (as of Dec. 2019)

| SCERA Actuarial Analysis of Financial Experience | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| (K\$) | 2019 | 2018 | 2017 | 2016 | 2015 | 5 Year Total |
| Beginning of the Year UAAL Liability (Surplus) | 404,732 | 359,557 | 408,227 | 405,922 | 343,043 | |
| Source of Actuarial (Gain) Loss: | | | | | | |
| Compensation Increase Greater/(Less) than Expected | (34,651) | 11,293 | 4,586 | 5,983 | (12,829) | (25,618) |
| Investment Experience recognized | (32,718) | 13,629 | (44,256) | 891 | (3,307) | (65,761) |
| Other Experience | (2,786) | 661 | (3,890) | (859) | (2,546) | (9,420) |
| (Greater)/Less than Expected Contributions | 12,332 | (493) | 4,568 | 4,094 | (3,519) | 16,982 |
| | | | | | | |
| Composite (Gain) Loss for the Year - Total | (57,823) | 25,090 | (38,992) | 10,109 | (22,201) | (83,817) |
| Other Items Impacting UAAL: | | | | | | |
| Assumption Change (Economic and Demographic) | | 31,798 | | | 93,686 | 125,484 |
| Interest Accrual on UAAL Balance | 27,009 | 24,876 | 28,358 | 28,249 | 24,727 | 133,219 |
| County's Additional UAAL Payment | | | | | (3,661) | (3,661) |
| Expected employer/member contributions less Normal Cost | (41,887) | (36,589) | (38,036) | (36,053) | (29,672) | (182,237) |
| | | | | | | |
| Other Items Impacting UAAL - Total | (14,878) | 20,085 | (9,678) | (7,804) | 85,080 | 72,805 |
| | | | | | | |
| End of the Year UAAL Liability (Surplus) | 332,031 | 404,732 | 359,557 | 408,227 | 405,922 | |



SCERA Membership (as of Dec. 2019)

| Active General | | | |
|----------------|-------------|----------|--------------|
| Plan | Number | Avg. Age | Avg. Service |
| Plan A Legacy | 1795 | 50.4 | 14.6 |
| Plan B PEPRA | 1539 | 41.4 | 3.3 |
| Total | 3334 | | |

| Active Safety | | | |
|---------------|------------|----------|--------------|
| Plan | Number | Avg. Age | Avg. Service |
| Plan A Legacy | 457 | 45.2 | 14.9 |
| Plan B PEPRA | 249 | 33.6 | 2.9 |
| Total | 706 | | |

| 2019 Retirees | |
|---------------|-------------|
| Gen Plan A | 3744 |
| Gen Plan B | 21 |
| Safety Plan A | 858 |
| Safety Plan B | 4 |
| Total | 4627 |

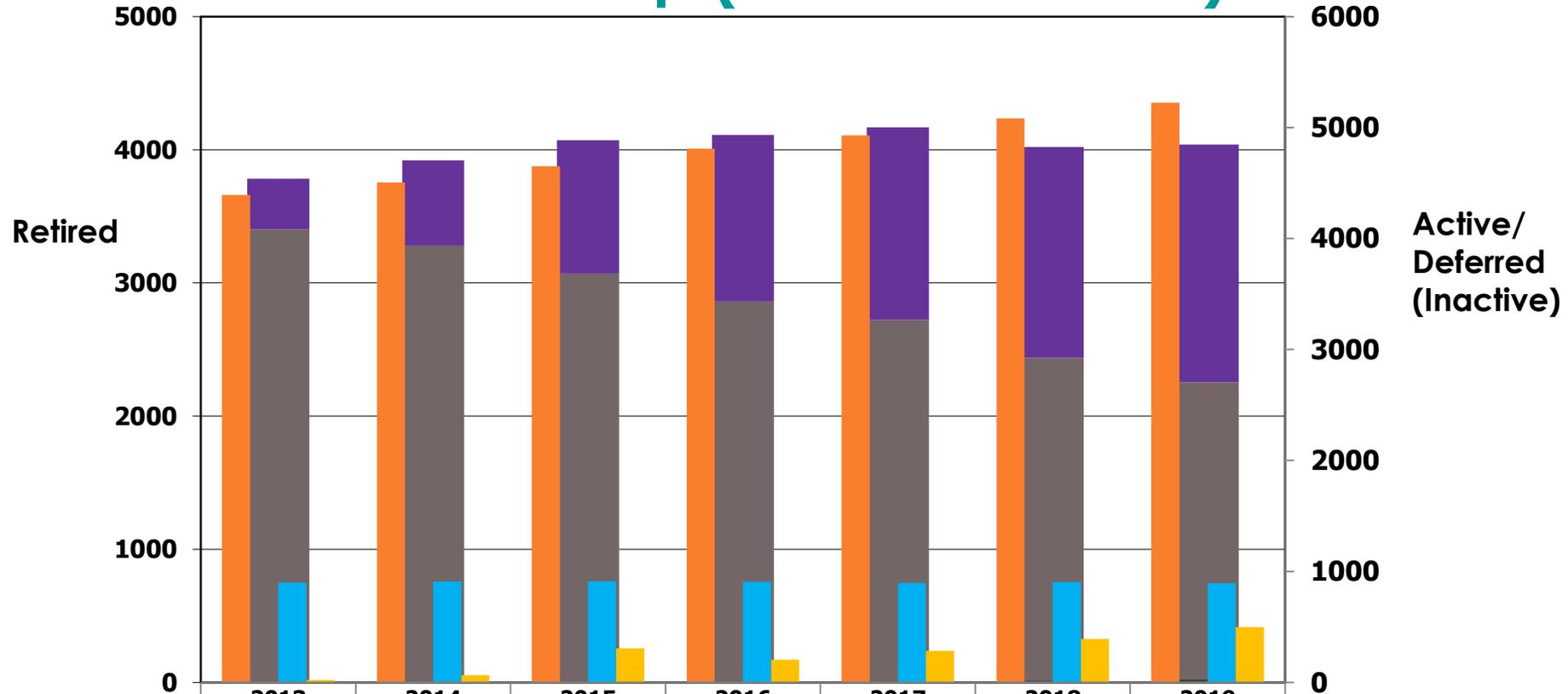
Total Active Plan A 2,252 (55.7%) Total Active Plan B 1,788 (44.3%)

| Deferred (Inactive) | | | | | |
|-----------------------|-------------|----------|----------------------|------------|----------|
| Plan | Number | Avg. Age | Plan | Number | Avg. Age |
| Plan A Legacy General | 725 | 49 | Plan A Legacy Safety | 170 | 44.4 |
| Plan B PEPRA General | 439 | 40.6 | Plan B PEPRA Safety | 61 | 32.3 |
| Total | 1164 | | | 231 | |

| 2019 Beneficiaries | |
|--------------------|------------|
| Gen Plan A | 497 |
| Gen Plan B | 1 |
| Safety Plan A | 125 |
| Safety Plan B | 0 |
| Total | 623 |



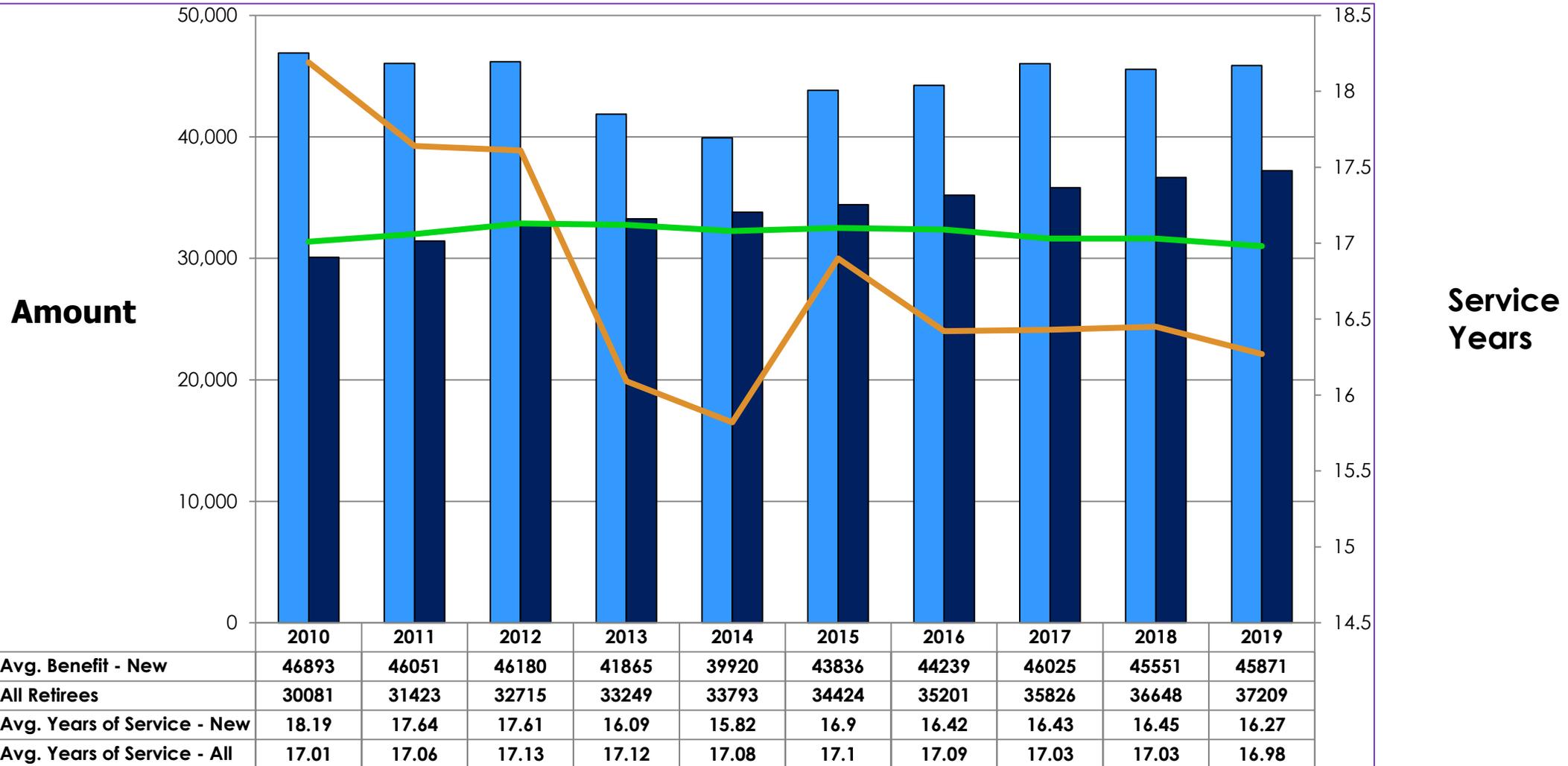
SCERA Membership (as of Dec. 2019)



| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------|------|------|------|------|------|------|------|
| Active Plan B | 380 | 643 | 1001 | 1252 | 1447 | 1584 | 1788 |
| Active Plan A | 3403 | 3279 | 3070 | 2860 | 2723 | 2437 | 2252 |
| Retired Plan A | 4394 | 4506 | 4653 | 4810 | 4931 | 5083 | 5224 |
| Retired Plan B | 0 | 0 | 0 | 2 | 5 | 13 | 26 |
| Deferred Plan A | 898 | 909 | 912 | 907 | 896 | 904 | 895 |
| Deferred Plan B | 20 | 66 | 306 | 205 | 285 | 391 | 500 |



SCERA Average Annual Retirement Benefit (as of Dec. 2019)



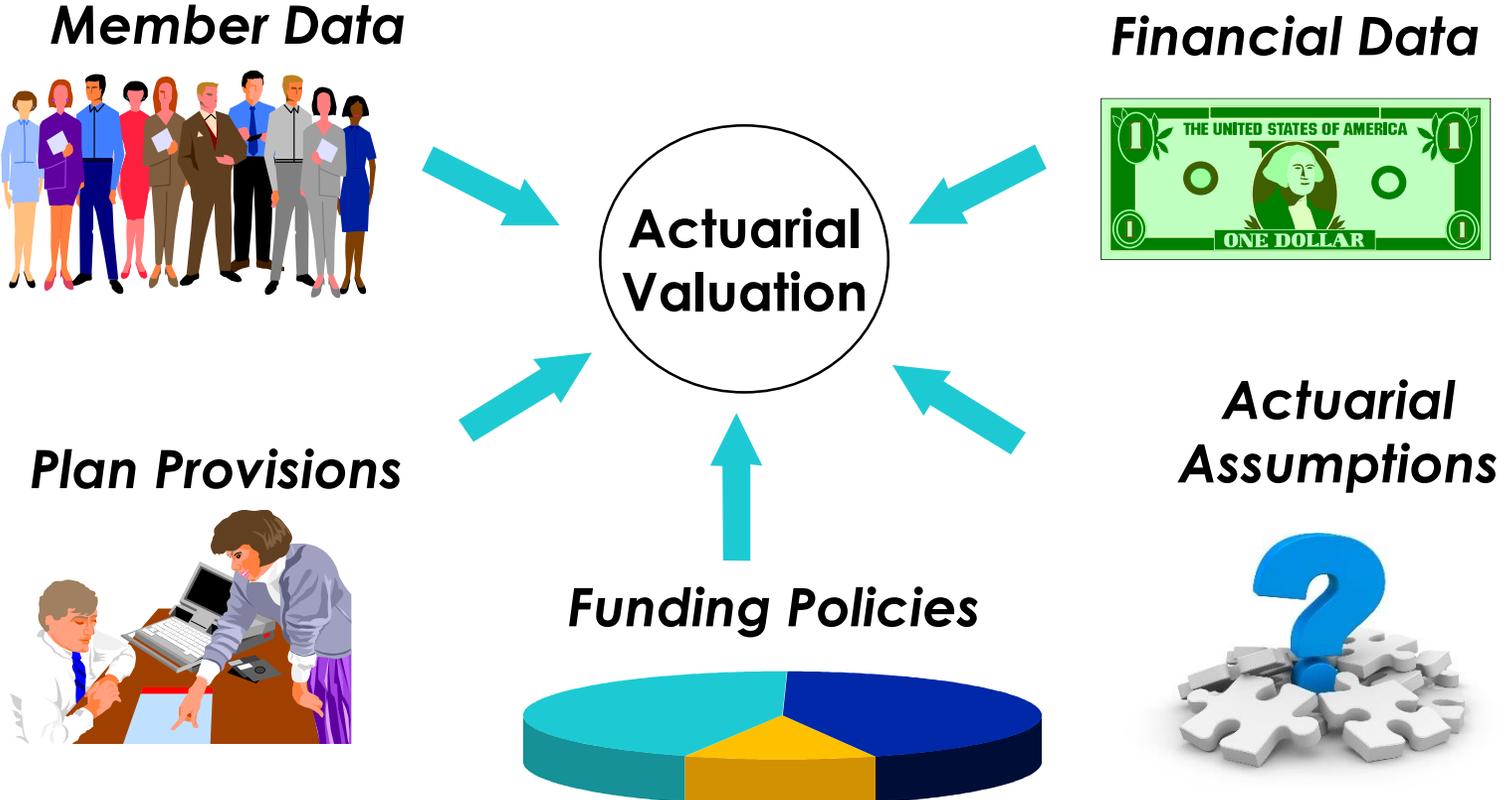
SCERA Investment Returns

| | Annualized Return 12/31/19 | Annualized Return 12/31/18 | Annualized Return 12/31/17 | Annualized Return 12/31/16 | Annualized Return 12/31/15 |
|---------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| 1 Year | 16.27% | -3.3% | 16.4% | 8.8% | 1.7% |
| 3 Year | 9.35% | 7.0% | 8.8% | 5.3% | 8.7% |
| 5 Year | 7.66% | 5.6% | 10.2% | 9.7% | 8.1% |
| 10 Year | 8.95% | 9.1% | 5.7% | 4.9% | 5.5% |
| 15 Year | 6.65% | 6.3% | 8.1% | 6.1% | 5.0% |
| 20 Year | 5.54% | 5.5% | 6.4% | 6.6% | 6.9% |
| 30 Year | 8.05% | 8.1% | 8.7% | 8.2% | 8.5% |

Sourced from Aon Hewitt Investment Consulting

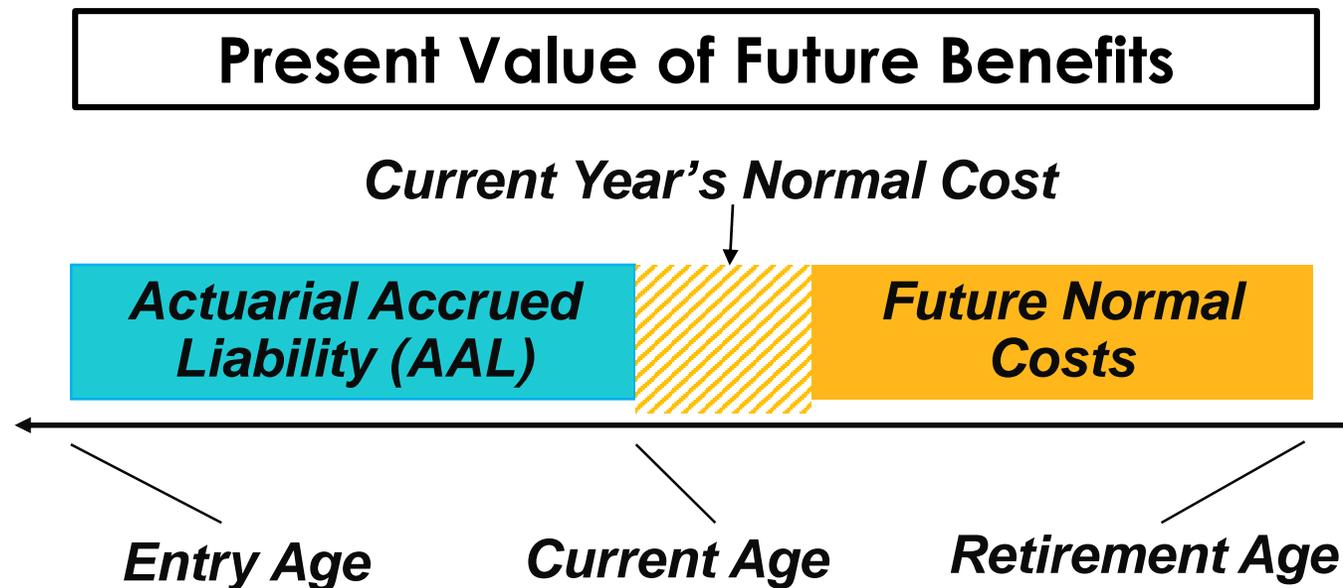


What goes into an Actuarial Valuation?



Funding Retirement Benefits – Actuarial Terminology

- **The Normal Cost** is the portion of the cost of the member's projected benefit **allocated to a year of service**—only active members have a current Normal Cost
- **The Actuarial Accrued Liability (AAL)** measures the Normal Costs from **past years**—for retired members, the AAL is the entire present value of their benefit



Actuarial Assumptions – Upcoming 2021 Experience Study

Actuarial assumptions reviewed in triennial experience study — two kinds:

- Demographic
 - When benefits will be payable
 - Amount of benefits
- Economic
 - How assets grow
 - How salaries and benefits increase
- Current assumptions based on 2018 Experience Study
- Upcoming 2021 Experience Study
 - Determine assumptions for use in the December 31, 2021 valuation
 - Based on experience from January 1, 2018 to December 31, 2020



Experience During the Calendar Year 2019

- UAAL decreased from \$404.7 million to \$332.0 million
 - Primarily as a result of salary changes (\$34.7 million) and investment (\$32.7 million)
- Average employer contribution rate decreased from 20.3% to 19.5% of payroll
 - Primarily from investment (0.6% of payroll), salary changes (0.7% of payroll) and other experience



Valuation Results (\$ in thousands)

| | 12/31/2019 | 12/31/2018 |
|---|-------------|-------------|
| Market Value of Assets (MVA) | \$2,916,890 | \$2,577,809 |
| Valuation Value of Assets (VVA) | \$2,811,292 | \$2,667,345 |
| Actuarial Accrued Liability (AAL) | \$3,143,323 | \$3,072,077 |
| Unfunded AAL (AAL less VVA) | \$332,031 | \$404,732 |
| Funded Percentage (VVA Basis) | 89.4% | 86.8% |
| Funded Percentage with recognition of deferred gains/losses | 92.8% | 83.9% |



Principal Contents of SCERA's Risk Report

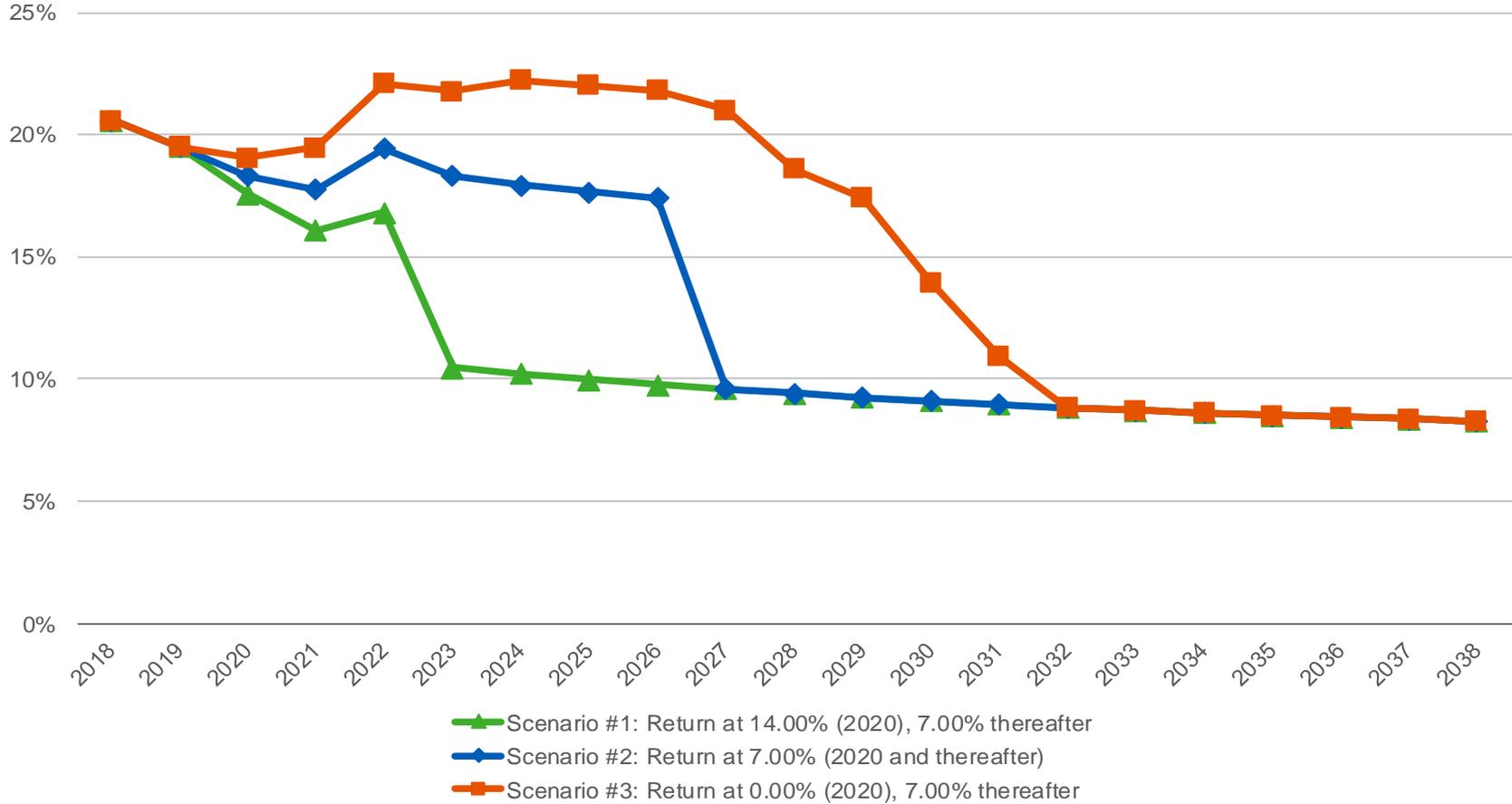
- Evaluation of Historical Trends
 - Factors that changed Funded Status, UAAL, and employer contribution rates year-over-year.
- Assessment of Primary Risk Factors Going Forward
 - Scenario Tests: Deterministic Projections and sensitivity analysis to demonstrate potential impact on contribution rates of future investment earnings either exceeding or falling below the assumed 7.00% discount rate.
- Plan Maturity Measures that Affect Primary Risks
 - SCERA Plan becoming more mature as ratio retirees/beneficiaries increasing relative to active members.
 - Trend expected to continue going forward.
 - As the plan matures, employers' contribution rates will be more sensitive to investment volatility and liability changes.



Deterministic Scenario Testing based on December 31, 2019 Valuation

- Shows impact of 2020 return more or less than assumed
- Scenario 1: 0%
- Scenario 2: 7% (baseline)
- Scenario 3: 14%

Projected Employer Contribution Rates Under Three Hypothetical Market Return Scenarios for 2020 (% of Payroll)



Recap Summary

- County's pension expenses were \$121M in FY 19-20; equivalent to 18.7% of Total Salaries & Benefits, 35.3% of pensionable payroll, and 9.0% of operating revenue.
 - FY 19-20 expenses includes \$6.7M accelerated UAAL prepayments.
- County's Unfunded Liabilities decreased by \$99M to \$625M (including POB debt).
- SCERA's 2019 Actuarial Valuation reflects higher than expected investment returns, resulting in the County's average contribution rate for FY 21-22 decreasing by ~0.75% of payroll.
 - County's FY 21-22 Recommended Budget assumes flat employer contribution rate year-over-year to mitigate annual cost fluctuations and continue addressing unfunded liabilities.
 - The valuation's pension contribution rates will still be reflected in FY 21-22 actual costs.
- SCERA Pension is 89.4% funded as of Dec. 31, 2019, compared to 70.6% for CalPERS.
- Recent California Supreme Court cases related to pensions did not fundamentally alter the California Rule.



Looking Ahead

Today's report is informational only, and is intended to help with long-term fiscal planning and provide transparent information to the public. Looking ahead:

- **May 2021:** Segal's actuarial valuation for SCERA as of Dec '20 anticipated to be released; will set contribution rates for the County's FY 2022-23 budget.
- **March 2022:** Retirement Committee with Employee Groups will provide recommendations to the CAO for optimal long-term solutions.
- **April 2022:** Next State of the Retirement System Annual Report (including financial data through FY 2020-21 and the Dec '20 SCERA valuation).
- **October 2022:** Start of Next Round of Labor Negotiations
- **Ongoing:** Counsel will continue monitoring legal developments and status of cases throughout the year.

