



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.

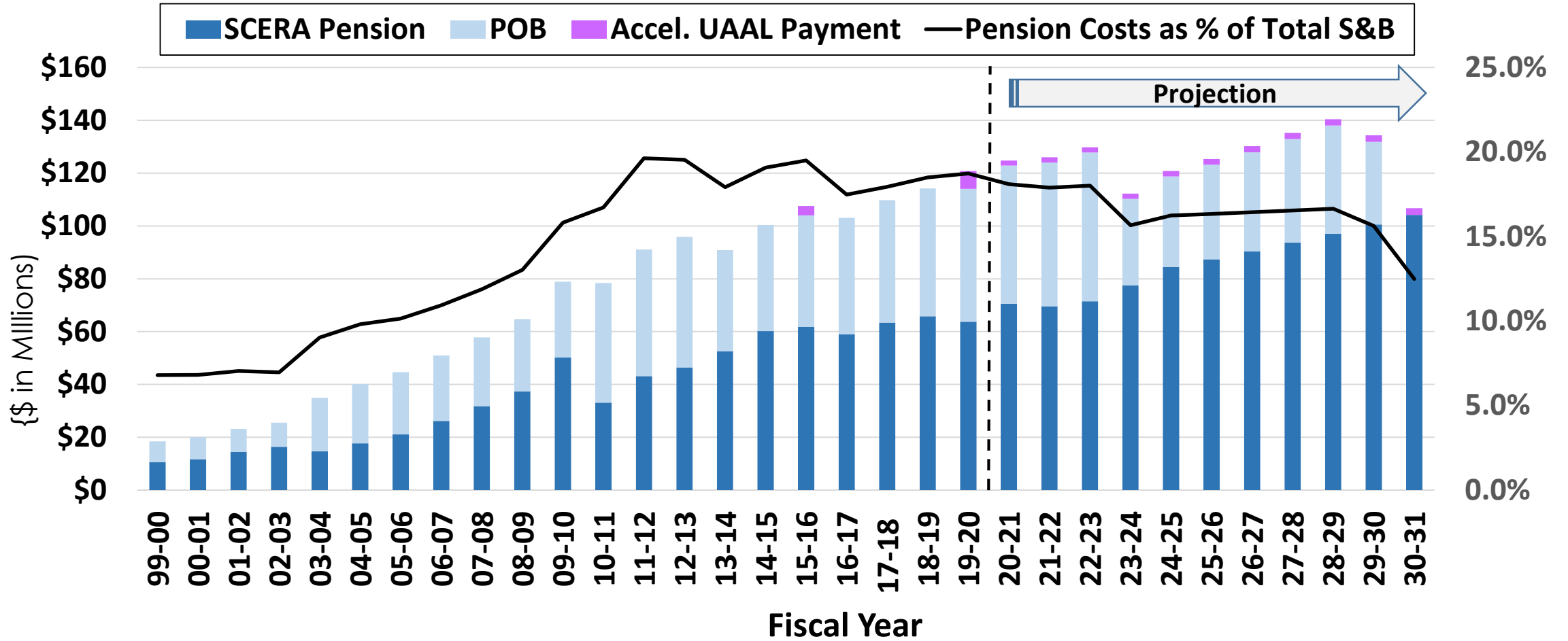
Note 2: Total Salaries & Benefits cost data from the County's Enterprise Financial System.

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.

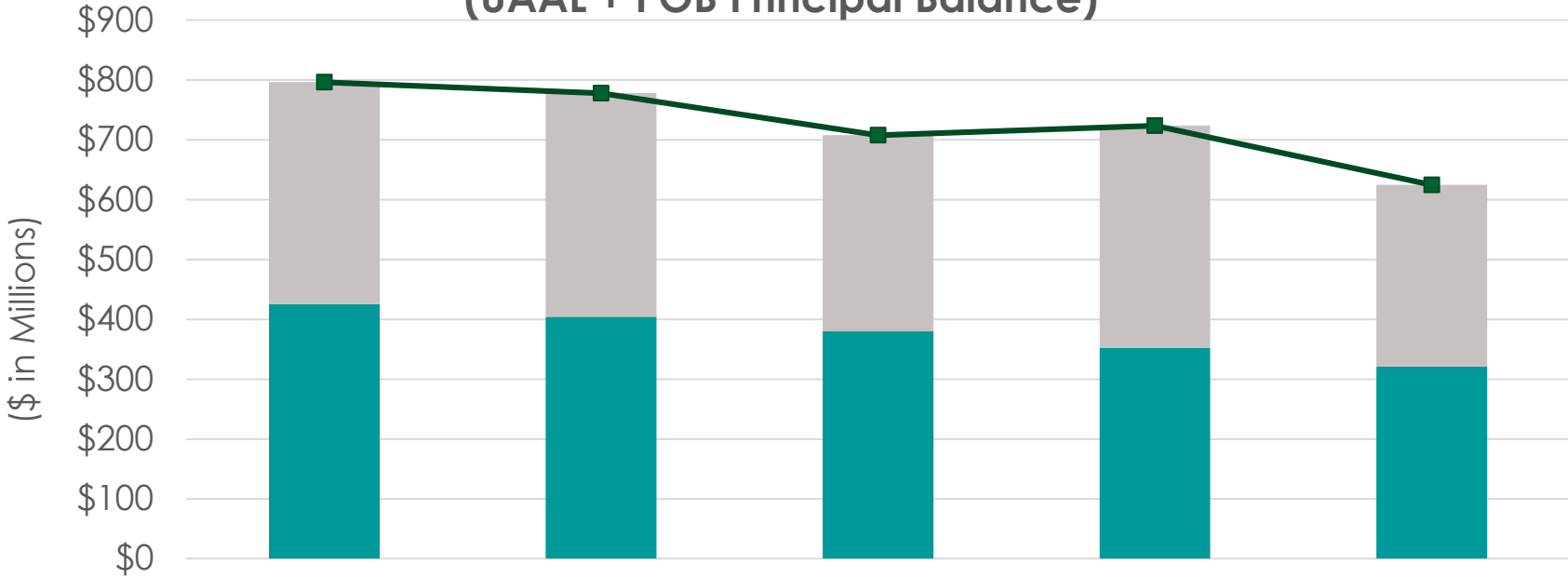


Pension Cost Forecast



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)

Plan	Number	Avg. Age	Avg. Service
Plan B PEPRA	1539	41.4	3.3

Plan	Number	Avg. Age	Avg. Service
Plan B PEPRA	249	33.6	2.9

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 Retirees

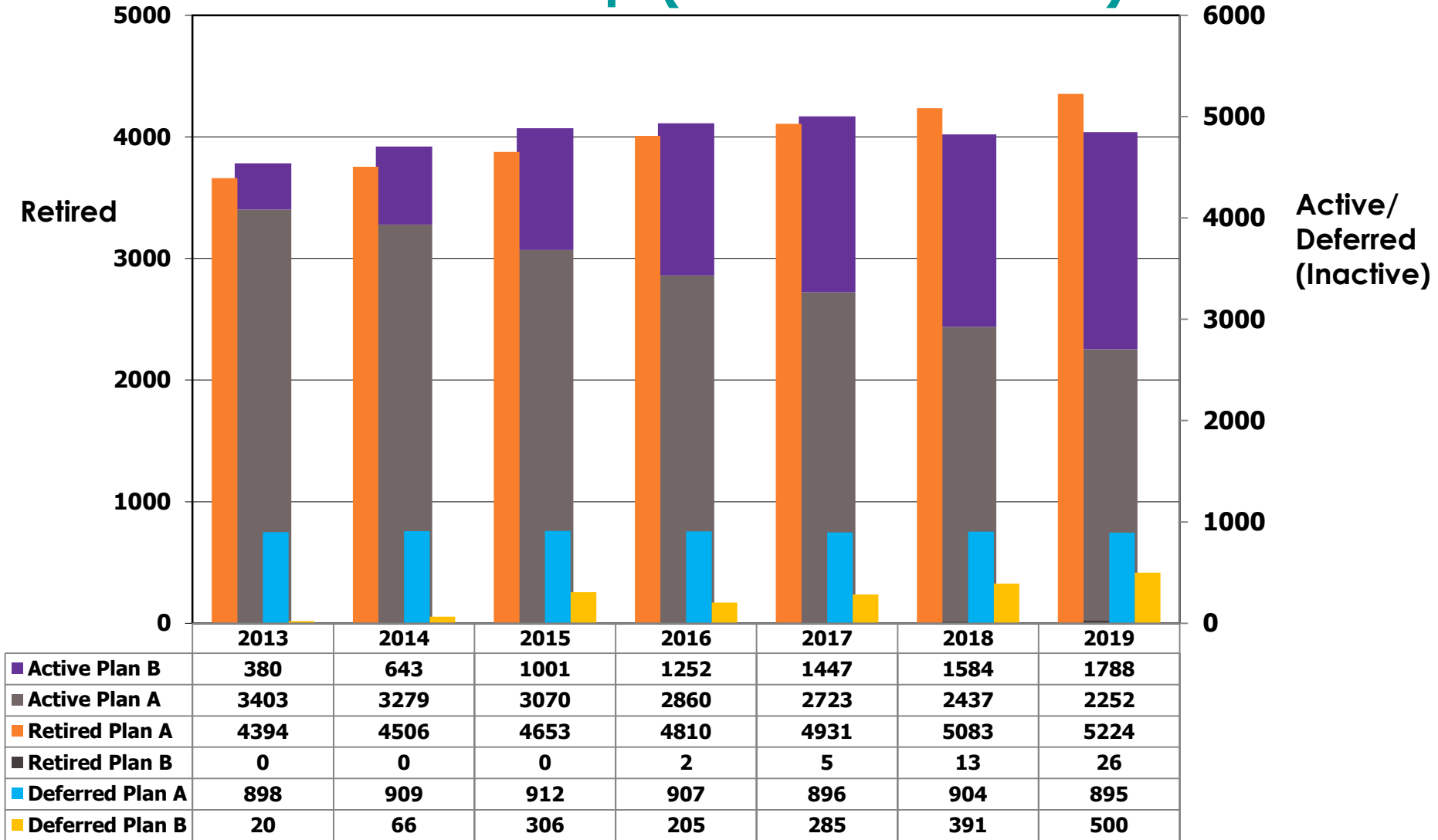
Gen Plan A	3744
Gen Plan B	21
Safety Plan A	858
Safety Plan B	4
Total	4627

2019 Beneficiaries

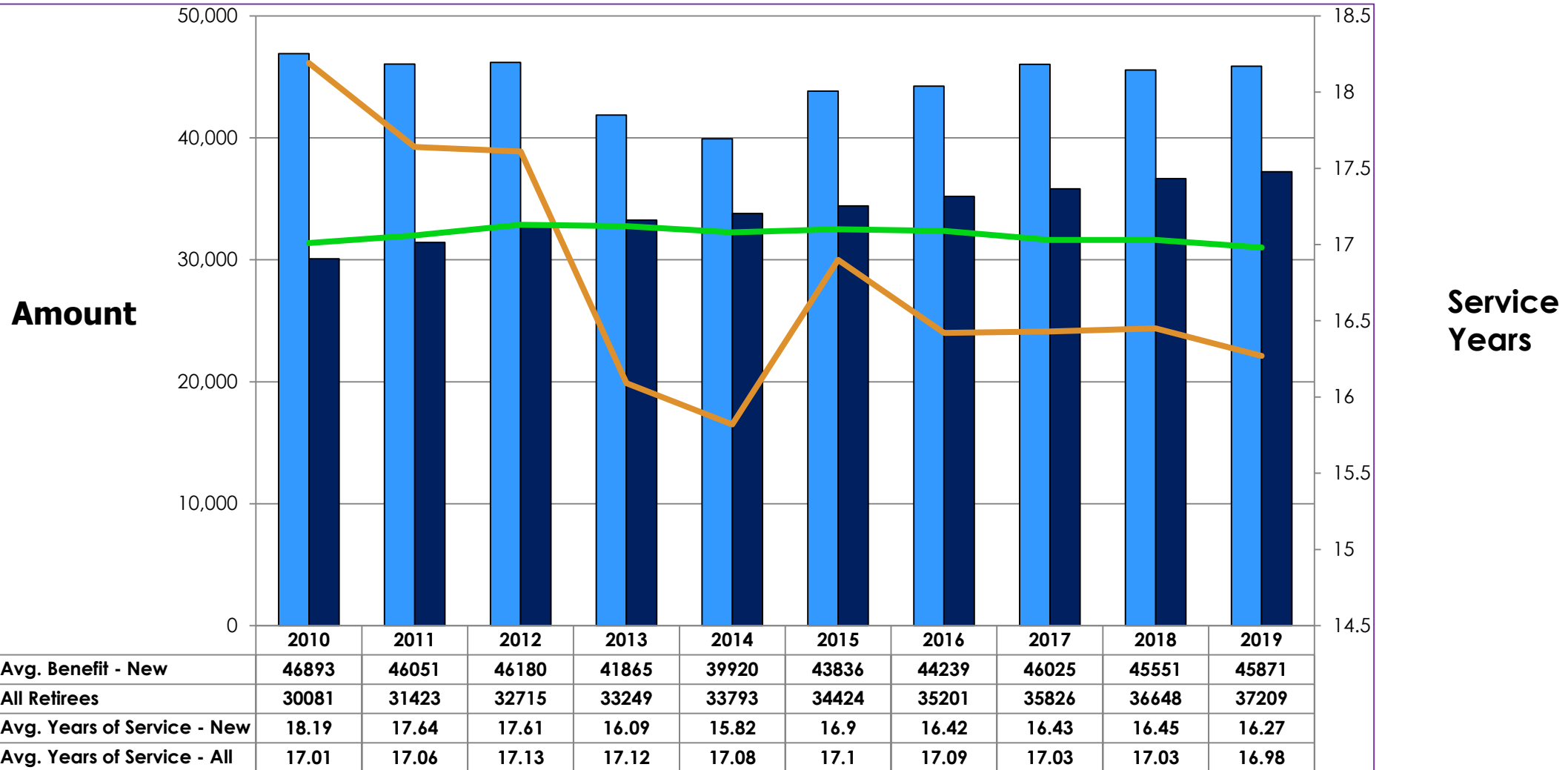
Gen Plan A	497
Gen Plan B	1
Safety Plan A	125
Safety Plan B	0
Total	623



SCERA Membership (as of Dec. 2019)



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



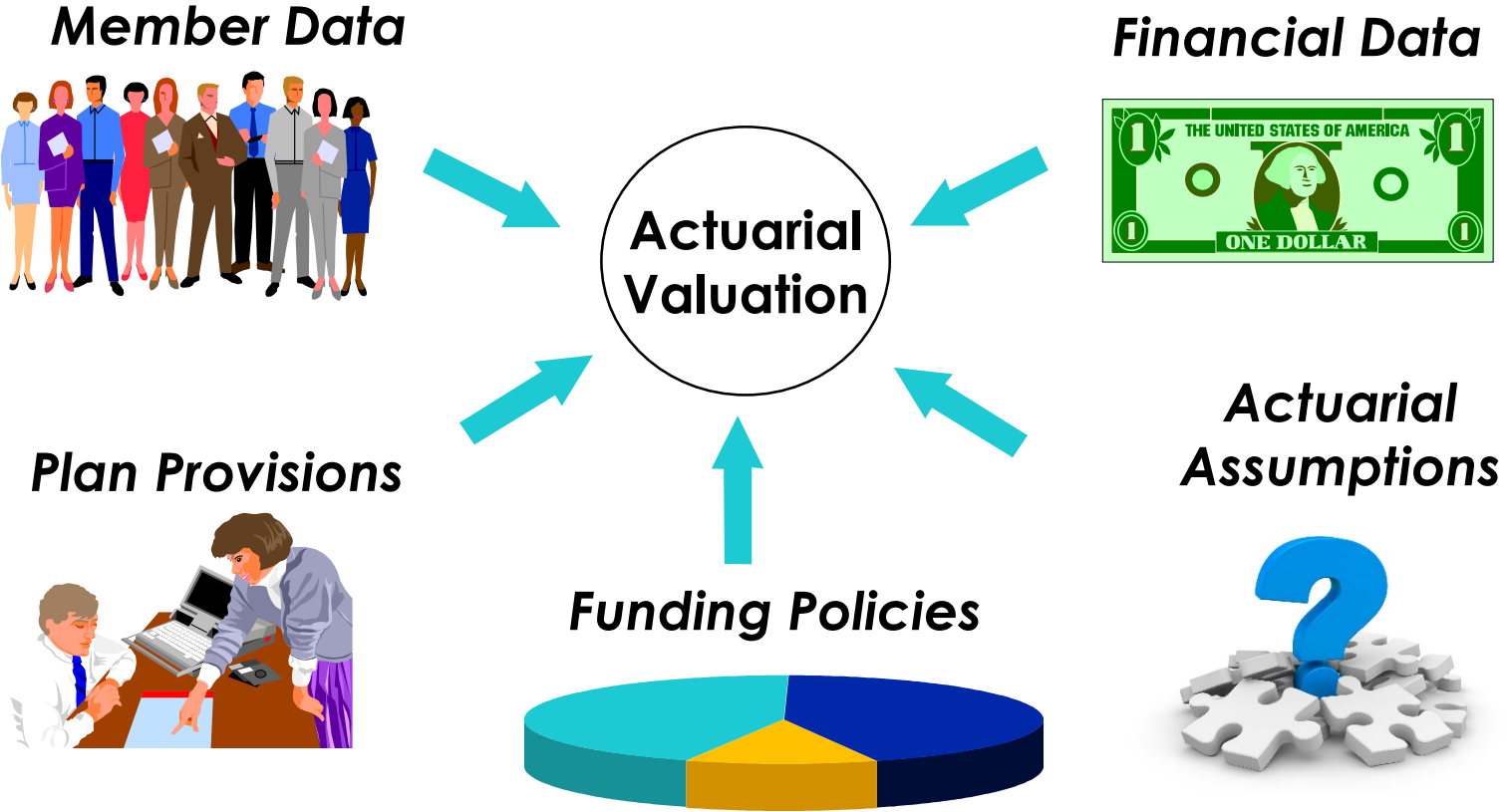
SCERA Investment Returns

	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

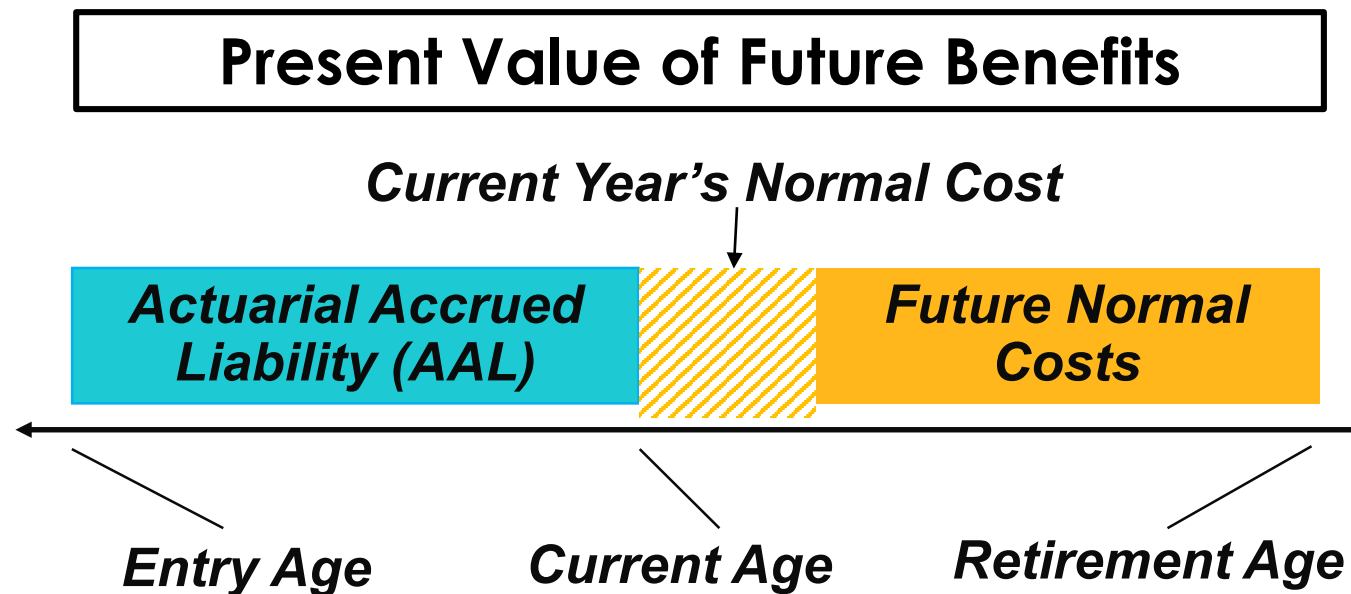


What goes into an Actuarial Valuation?



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

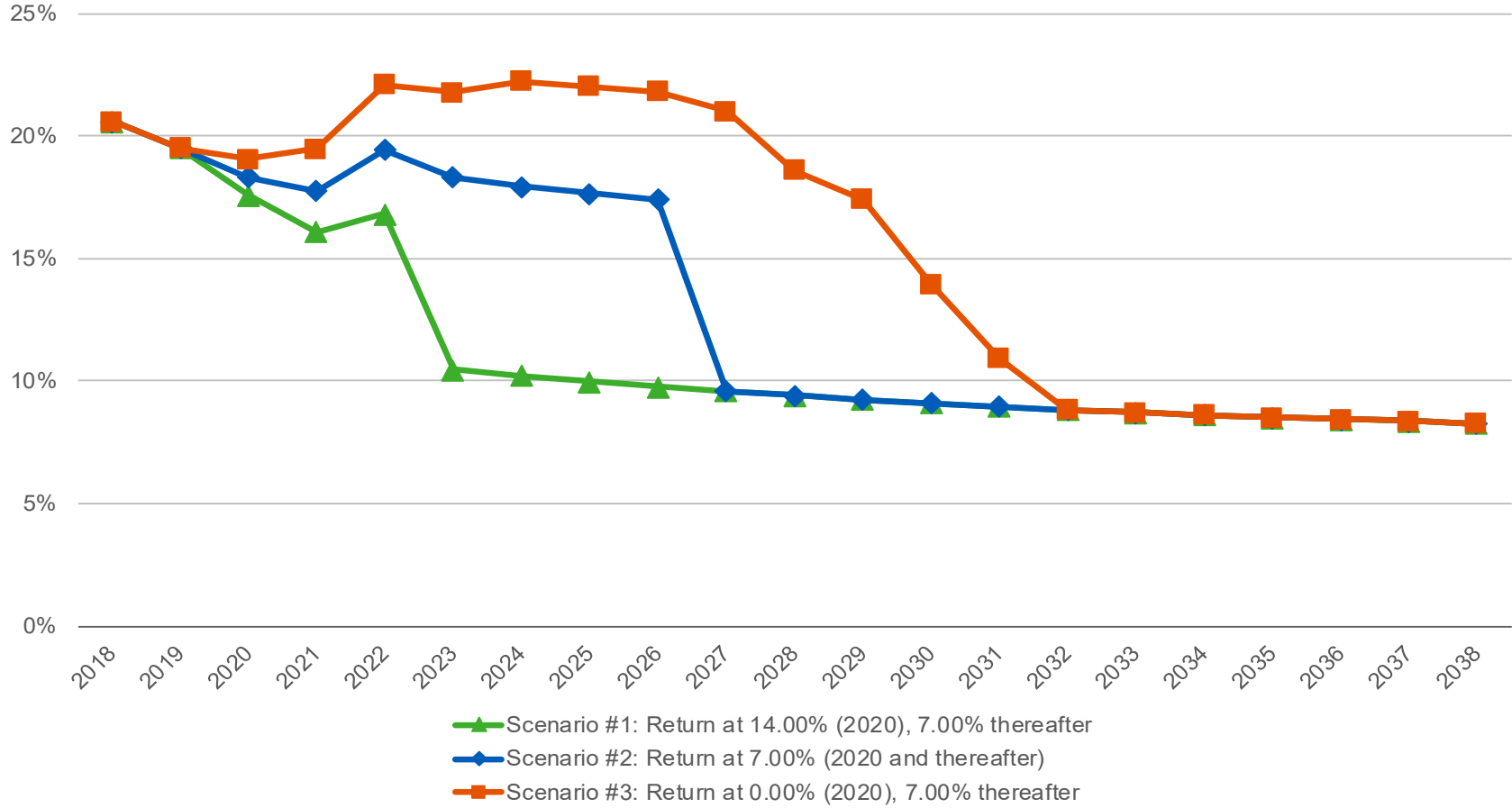
- Evaluation of Historical Trends
 - Factors that changed Funded Status, UAAL, and employer contribution rates year-over-year.
- Assessment of Primary Risk Factors Going Forward
 - Scenario Tests: Deterministic Projections and sensitivity analysis to demonstrate potential impact on contribution rates 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.

