Sonoma County Board of Supervisors

State of the Retirement System Annual Report (May 2021)

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

Report Contents

I. Background Information and Recent Initiatives

Background

- One of the County's primary pension reform goals is to improve accountability and transparency, including reports to the Board of Supervisors ("BOS") and public.
- Both the 2016 Citizens' Pension Advisory Committee and 2015 Grand Jury reports recommended that the County present annual pension reports.
  - Committee Report: https://sonomacounty.ca.gov/CAO/Pension-Reform/Reports/
  - Grand Jury Report: http://sonoma.courts.ca.gov/info/administration/grand-jury
- The first pension report in December 2018 included County financial data through 6/30/18 and information from Sonoma County Employees' Retirement Association's ("SCERA") Dec 2017 actuarial valuation. The second annual report in March 2020 included financials through 6/30/19 and information from the 2018 valuation.
- This third annual report includes County financials through 6/30/20 and information from the 2019 valuation.

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.
  - Refer to SCERA's website for more information: http://scretire.org/
- 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.
  - Reciprocity is a feature that recognizes the mobility of the work force. Establishing reciprocity allows employees to move from one California public service agency to another, under certain conditions, and links their public service.
  - 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.

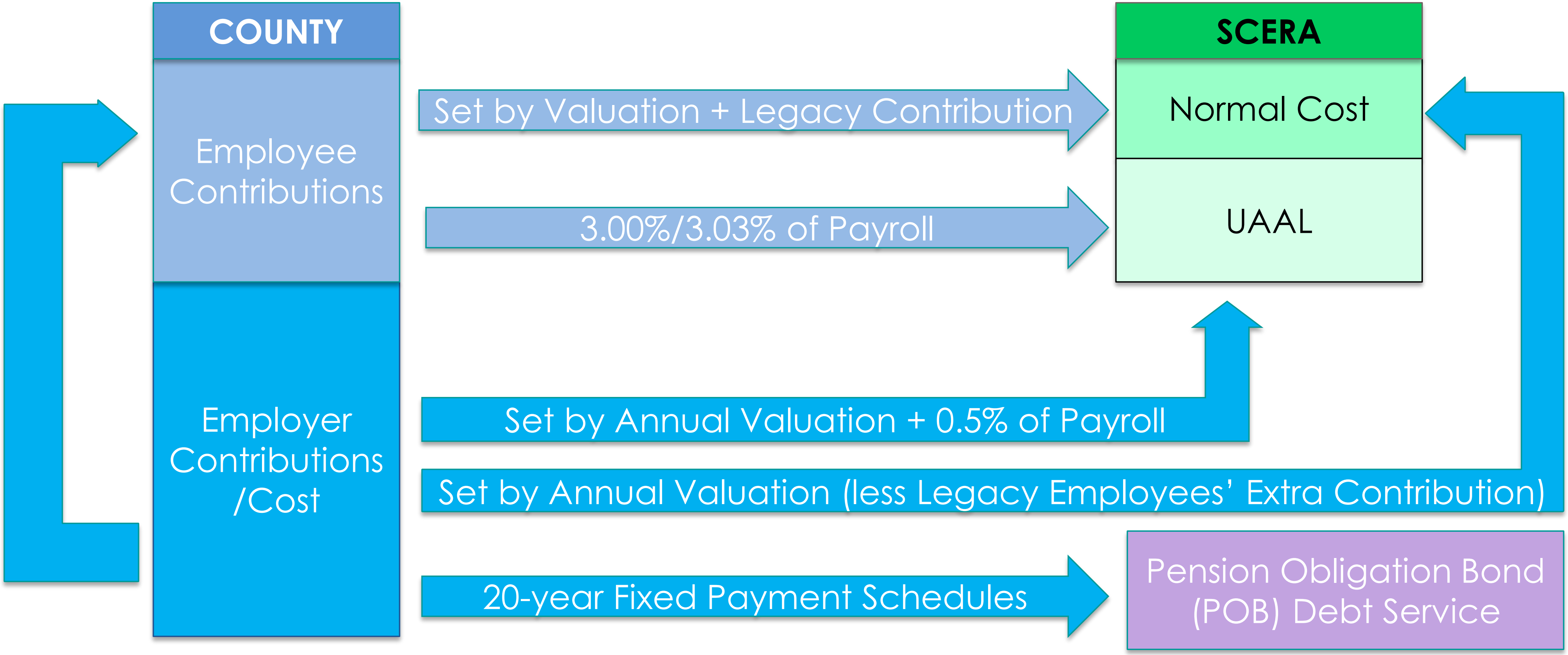
Cost Sharing with Employees

- County and labor groups agreed to have Legacy employees pay an additional normal cost contribution 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 also pay supplemental contributions towards the County’s share of UAAL (3.03% for General members; 3.00% for Safety members).
  - Supplemental contributions set to expire June 2023 for Safety members and June 2024 for General members in the PEPRA Plan B tier, and for certain Legacy Plan A members, except as described below.
- Last round of labor negotiations resulted in extending supplemental contributions for ~1,100 Legacy employees, which avoids future pension costs that would have otherwise shifted back to the County in 2023-24.
  - Results in estimated annual County cost avoidance of **$2.6M** in FY 24-25 (partial savings in FY 23-24), declining gradually each year thereafter, because PEPRA members with replace Legacy members over time due to attrition.

Unfundded Liability Prepayments

- 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.
  - "Pensionable/Covered Payroll" only includes elements of employee compensation that factor into employees' final salary calculations for the purpose of determining retirement benefits.
  - Recurring annual UAAL Prepayments estimated to avoid ~**$10.7M** of interest costs over 15 years, and more over time.
  - One-time prepayment of $5.0M authorized in FY 19-20 estimated to avoid ~**$4.0M** of interest costs over 15 years.

County's Pension Contribution Structure



Retirement Committee with Employee Groups

- In March 2021, the County and all employee group representatives started a 13-month Retirement Committee to gather and analyze information on County employee retirement benefits.
- Retirement benefit topics to be discussed include: unfunded liability cost sharing; pension cost sharing; pension obligation bonds; retiree medical benefits; longevity; and retiree cost of living adjustment.
- By March 2022, the Committee will develop recommendations to the County Administrator's Office ("CAO") for optimal long-term solutions that meet the interests and needs of all impacted parties and still position the County to have total compensation market competitiveness and workforce stability.

II. Pension Cost Reporting

Data Assumptions & Sources

- The County's pension contribution, pensionable/covered payroll, operating revenue, and net pension liability amounts presented in this report include:
  - All Governmental and Business-Type activities reported in the County's Annual Financial Reports: County departments, Open Space District; and affiliated agencies such as SCERA, Sonoma County Fair, First 5 Sonoma County, Law Library, Local Agency Formation Commission, Waste Management, and Northern Air Pollution Control District.
  - Water Agency as reported in its annual financial reports.
  - Community Development Commission as reported in its annual financial reports.
- The County's reported costs <u>exclude</u> other non-County entities participating in SCERA's pension plan: Superior Court of Sonoma County, Sonoma Valley Fire Protection District, and Sonoma County Transportation Authority.
- Annual expenses and principal balances for Pension Obligation Bonds are based on the County's Annual Financial Report and the bonds' respective 20-year fixed payment schedules.

Data Assumptions & Sources – Continued

- The County's annual pension costs in any given fiscal year do not match the annual contributions in SCERA's actuarial valuations for the following reasons:
  - The County's fiscal year is July 1 – June 30, whereas the SCERA valuation aligns with the calendar year;
  - SCERA's valuation estimates expected future payroll costs, but the County is reporting actual costs, and SCERA adjusts contributions for the County's Replacement Benefit Plan payments per Internal Revenue Code §415; and
  - 18-month delayed contribution rate implementation; for example, the contribution rates set by SCERA's December 2019 valuation will be implemented County Fiscal Year 21-22.

Dec 2019 Valuation Date → **May 2020** Valuation Published → **October 2020** County Develops Labor Costs for FY 21-22 → **June 2021** Adoption of FY 21-22 Budget

- SCERA's annual valuations account for the difference between expected vs. actual contributions in the unfunded liability calculations, so there is a continuous "true up" mechanism to ensure the County's costs are ultimately paid.

County Pension Expenses by Fiscal Year

Pension Contribution Expenses [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**
Unfunded Liability Prepayments [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**
Pension Obligation Bond Debt Service					
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

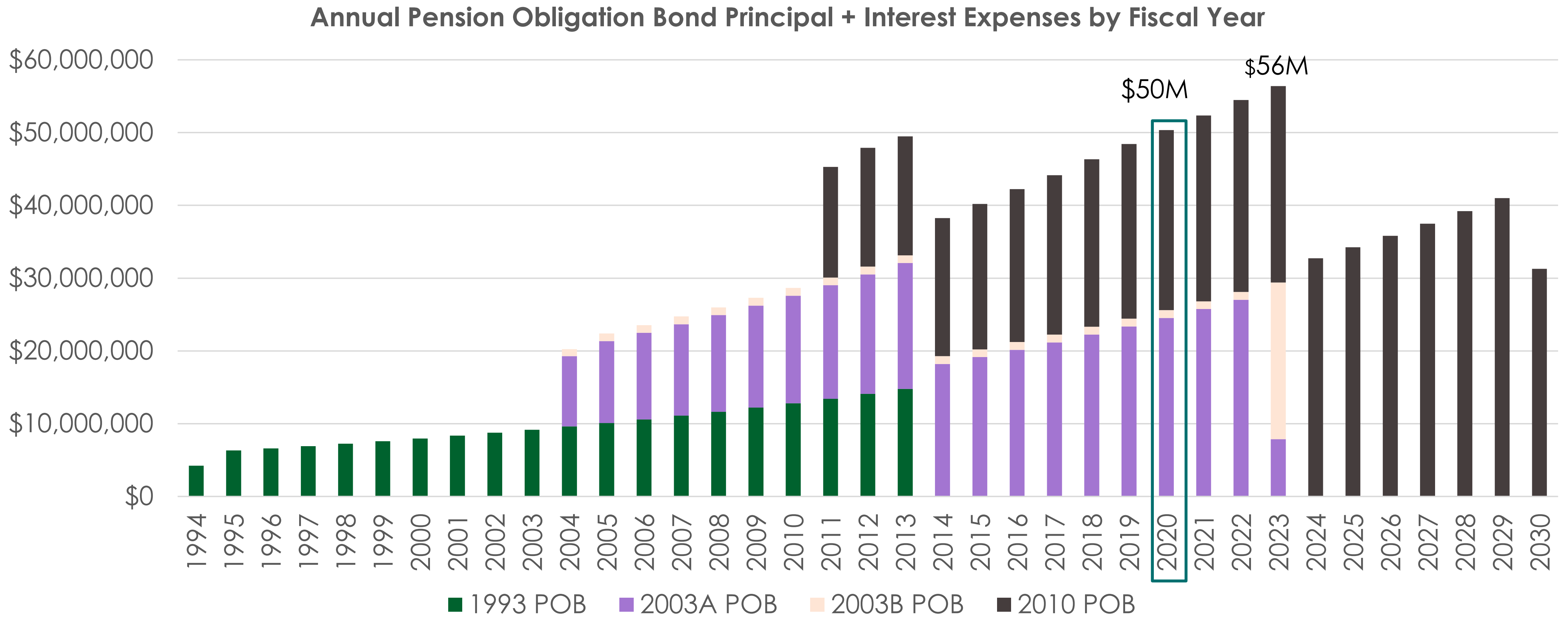
Total Employer Expense (Pension + POB)	**$107,559,030**	**$103,114,417**	**$109,783,718**	**$114,208,842**	**$120,796,879**	**$114,074,863**
Total Pensionable/Covered Payroll [1]	$313,526,539	$320,173,397	$328,766,520	$335,746,316	$342,301,437	$342,301,437
Total Salaries & Benefits [2]	$551,436,816	$589,853,663	$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.*

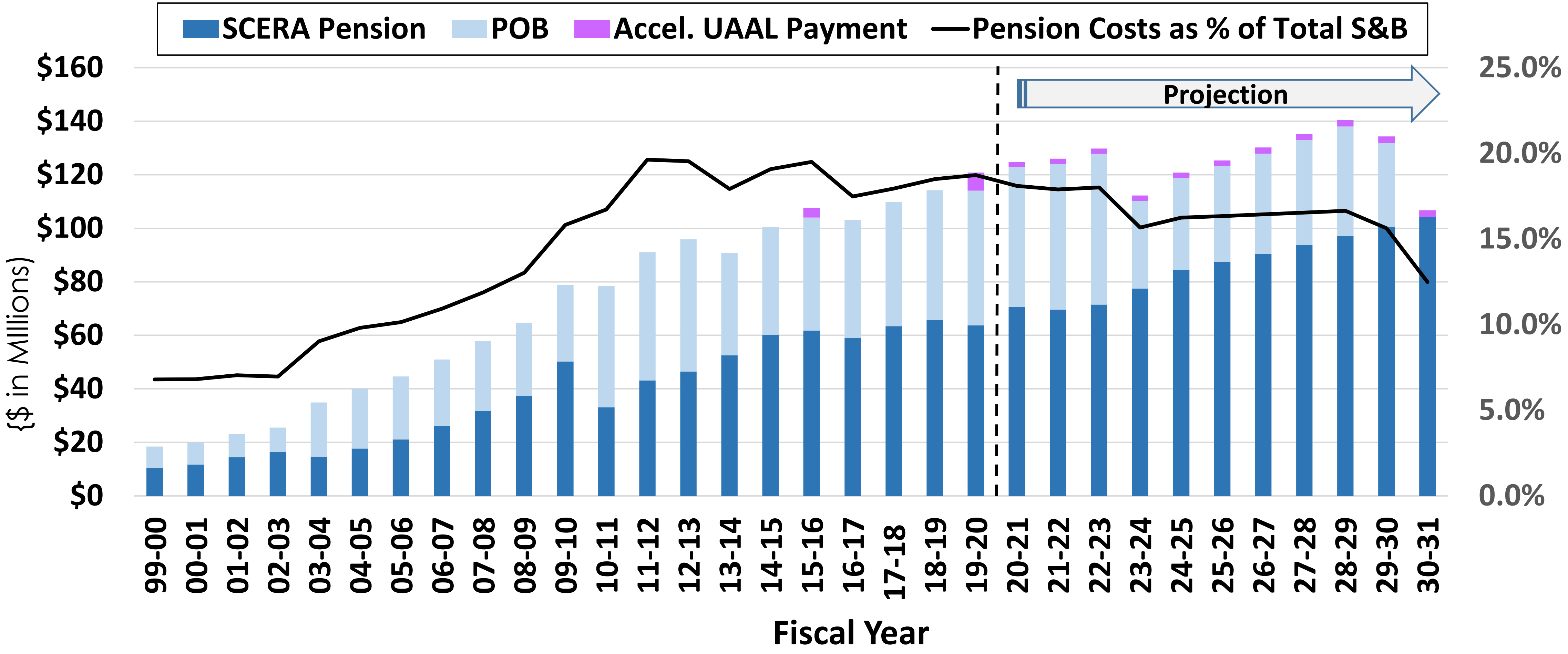
Pension Cost Forecasting Methodology

- Forecasting methodology refined to better account for future risk.
- Assumes the employer contribution rate will increase by an average of 0.21% of payroll annually in excess of assumed payroll inflation of 3.25%.
  - Based on the average yearly rate increases experienced by the County over the past 11 years.
  - Experience over the past 11 years includes major events: smoothed investment losses from the Great Recession; issuance of the 2010 POB; lowering the discount rate from 8.00% to 7.00%; membership demographic changes; and implementation of PEPRA retirement tiers in 2013.
- Projection includes annual prepayments towards UAAL equal to 0.5% of pensionable payroll, including future avoidance of UAAL interest costs.
- 2003 and 2010 POB expenses based on respective 20-year payment schedules.
- In FY 23-24, POB costs will drop when the 2003 issuance is paid off, but cost savings are assumed to be partially offset by the current expiration of PEPRA and certain Legacy employees' supplemental UAAL contributions that will shift costs back to the County.
  - The supplemental UAAL contributions assumption is accurate as of May 2021, but may be subject to change as an outcome of future labor negotiations.

POB Expenses Based on Fixed Payment Schedules



Pension Cost Forecast



III. Pension Liabilities

Net Pension Liability vs. Unfunded Actuarial Accrued Liability

	Net Pension Liability (NPL)	Unfunded Actuarial Accrued Liability (UAAL)
Definition	Difference between the pension plan's Total Pension Liability and Fiduciary Net Position, or Market Value of Assets, measured by the price that would be received if assets were sold on a given date.	Difference between the pension plan's Total Pension Liability and its Actuarial Value of Assets, which recognizes investment gains and losses on a smoothed basis over a 5-year period to help mitigate significant swings year-over-year.
Purpose	Reported in the County's Annual Financial Reports to comply with Government Accounting Standards.	Used in annual actuarial valuations to determine contribution rates needed to fund the pension plan.

Net Pension Liability and UAAL Calculations

Net Pension Liability	FY 18-19	FY 19-20
SCERA Total Pension Liability	$ 3,072.1	$ 3,143.3
SCERA Fiduciary Net Position/Market Value of Assets	$ (2,577.8)	$ (2,916.9)
Total Net Pension Liability	**$ 494.3**	**$ 226.4**
County's Proportionate Share of NPL[1]	**$ 456.6**	**$ 203.0**

Unfunded Actuarial Accrued Liability	FY 18-19	FY 19-20
SCERA Total Pension Liability	$ 3,072.1	$ 3,143.3
Actuarial Valuation of Assets	$ (2,667.3)	$ (2,811.3)
Total Net Pension Liability	**$ 404.7**	**$ 332.0**
County's Proportionate Share of UAAL[2]	**$ 371.4**	**$ 303.1**

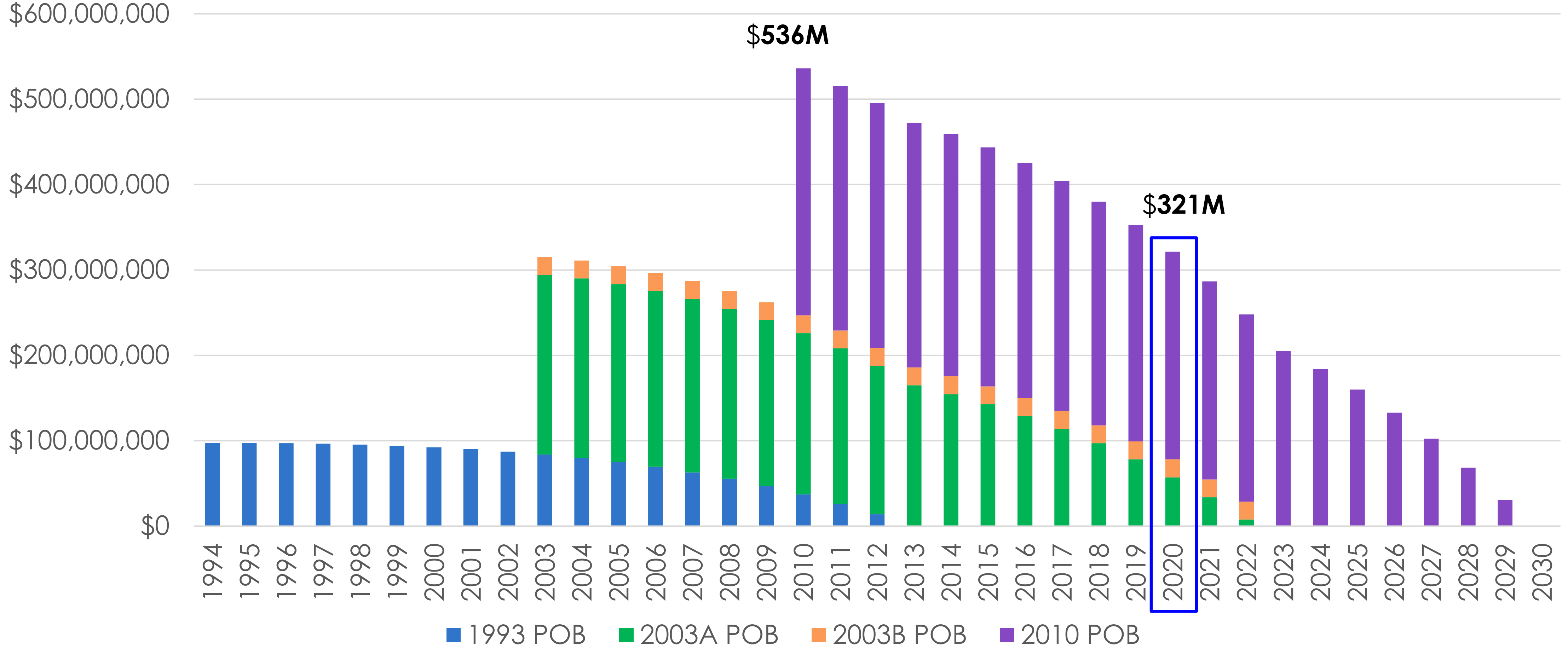
Note 1: *Source GAS 68 Report as of 6/30/20.*
Note 2: *Source SCERA's Actuarial Valuation as of 12/31/19, Section 3 - Exhibit H.*

Pension Obligation Bonds

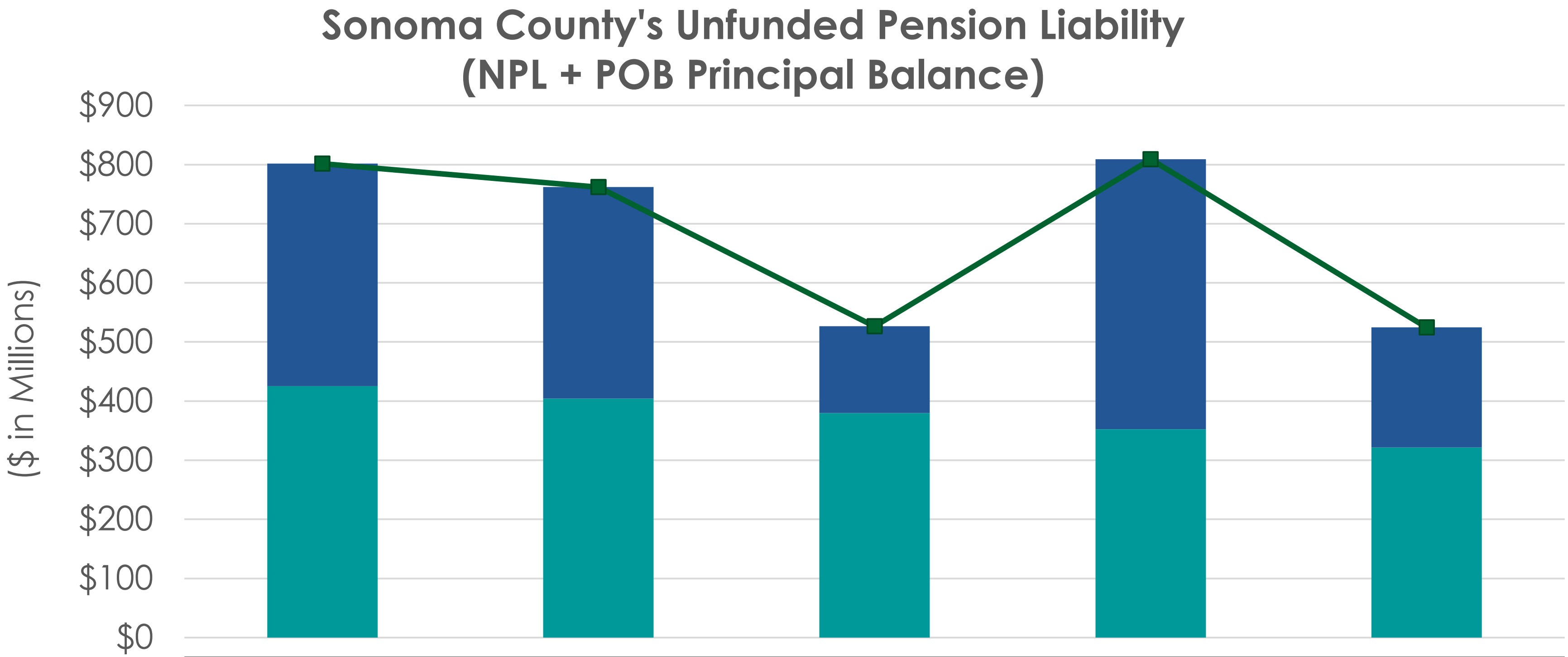
- POB Debt = County refinanced Unfunded Pension Liability to an interest rate lower than SCERA's 8% or 8.25% interest rate assumed at the time of each bond issuance.
- Bond proceeds were deposited in the SCERA pension fund upon issuance.
- County pays debt service to bond holders, not to SCERA, per fixed payment schedules.

Summary of Pension Obligation Bonds ($ in Millions)										
	Bond Information			Total Debt Issuance			Balance as of 6/30/20			
Description	Interest Rate	Term (Years)	Final Maturity (FY)	Principal	Interest	Total	Principal	Interest	Total	% Remaining (P+ I)
Series 1993	6.72%	20	2013	$97.4	$96.1	$193.5	$0.0	$0.0	$0.0	0.0%
Series 2003A	4.80%	20	2023	$210.2	$135.9	$346.1	$57.1	$3.5	$60.6	17.5%
Series 2003B	5.18%	20	2023	$21.0	$20.9	$41.9	$21.0	$2.7	$23.7	56.6%
Series 2010A	5.90%	20	2030	$289.3	$242.9	$532.2	$243.3	$87.3	$330.7	62.1%
Grand Total				**$617.9**	**$495.8**	**$1,113.7**	**$321.4**	**$93.6**	**$415.0**	**37.3%**

Pension Obligation Bonds - Principal Balance by Fiscal Year

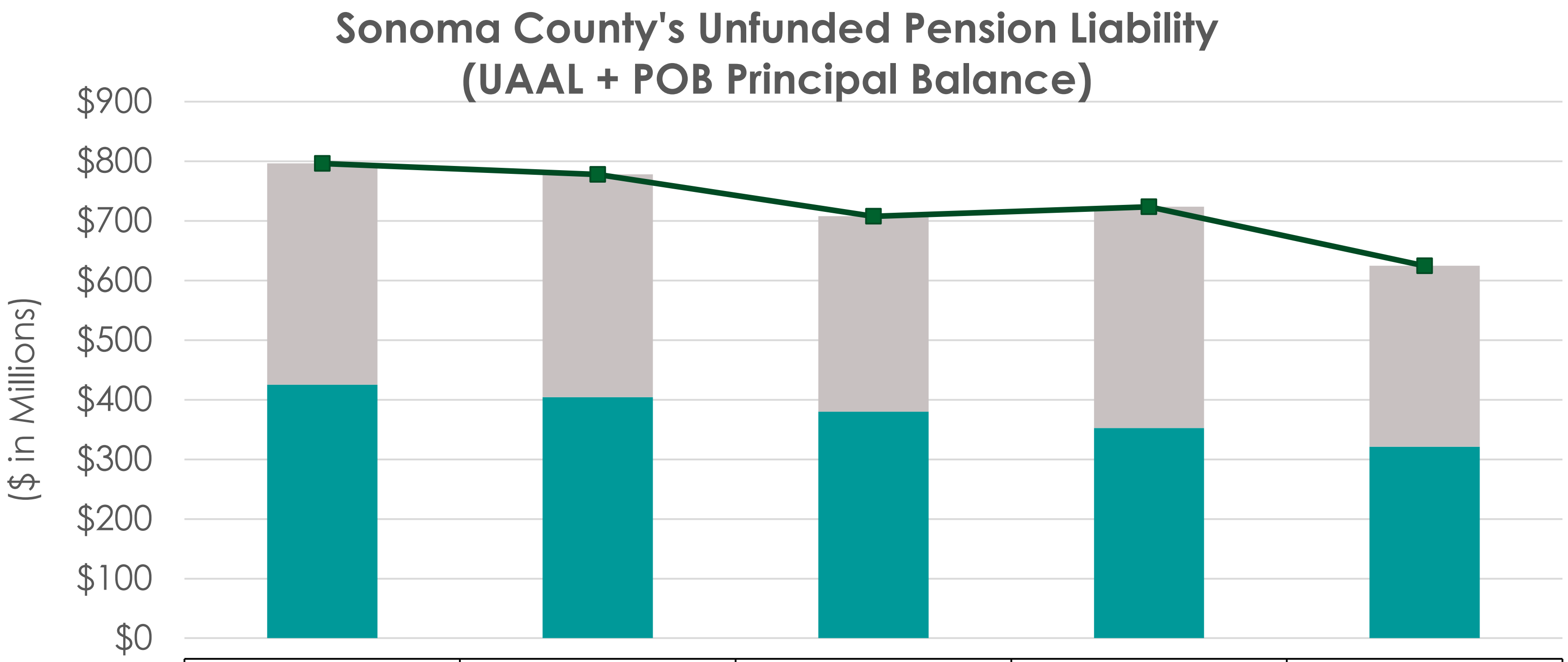


Total Unfunded Pension Liability Based on NPL



	06/30/16	06/30/17	06/30/18	06/30/19	06/30/20
County Share of NPL	$376	$358	$147	$457	$203
County POB Balance	$425	$404	$380	$352	$321
Total	$802	$762	$527	$809	$524

Total Unfunded Pension Liability Based on UAAL



	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

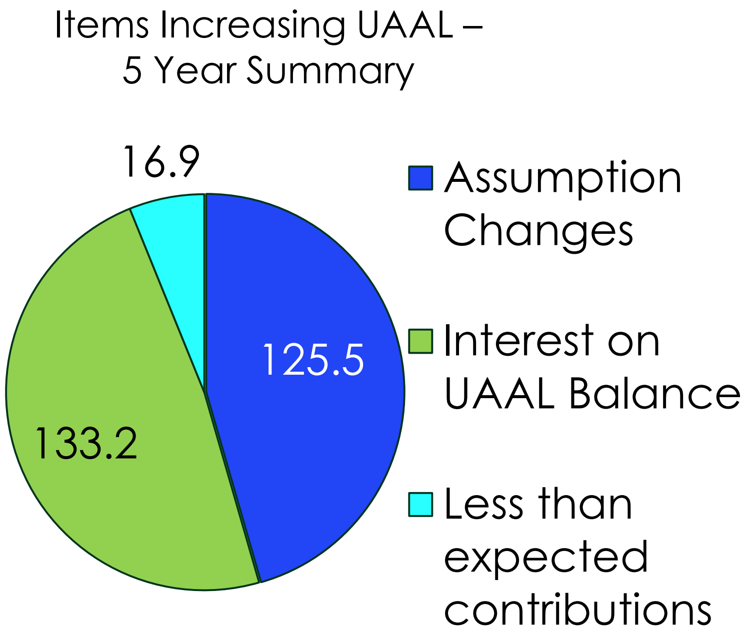
IV. SCERA Administrator Update

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

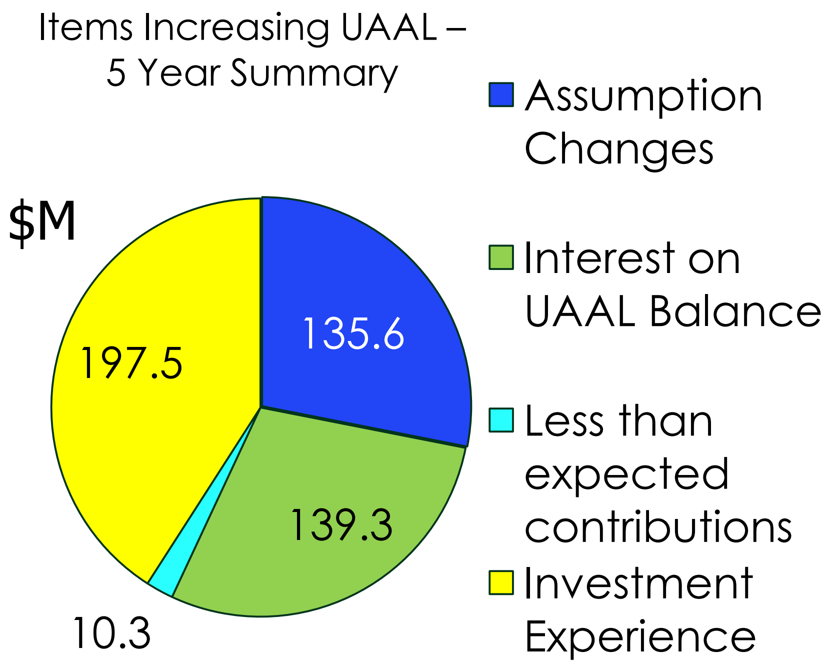
SCERA Actuarial Analysis of Financial Experience						
(K$)	2019	2018	2017	2016	2015	5 Year Total
Beginning of the Year UAAL Liability (Surplus)	404,732	359,557	408,227	405,922	343,043	
Source of Actuarial (Gain) Loss:						
Compensation Increase Greater/(Less) than Expected	(34,651)	11,293	4,586	5,983	(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 Actuarial Experience (as of Dec. 2019)

2015 to 2019



2010 to 2014



SCERA Unfunded Actuarial Accrued Liability
Major Events in Past 15+ Years

- Benefit Formula Changes: 3% at 55 (2003); 3% at 60 (2004); 3% at 50 (2006)
- Financial Market Downturn/"Great Recession" (2008)
- Cash Allowance Benefit (2009)
- Actuarial Assumption Changes (economic, demographic in 2005, 2008, 2009, 2010, 2011, 2014, 2017)
- Pension Obligation Bonds
  - May 2003 $210M
  - September 2010 $289M
- Public Employees Pension Reform Act – PEPRA (2013)
- County Elimination of Cash Outs in Benefit Calculations (2013, impacted 2012 valuation)
- Additional Unfunded Actuarial Accrued Liability payments (2015) (2020 and ongoing)

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**		

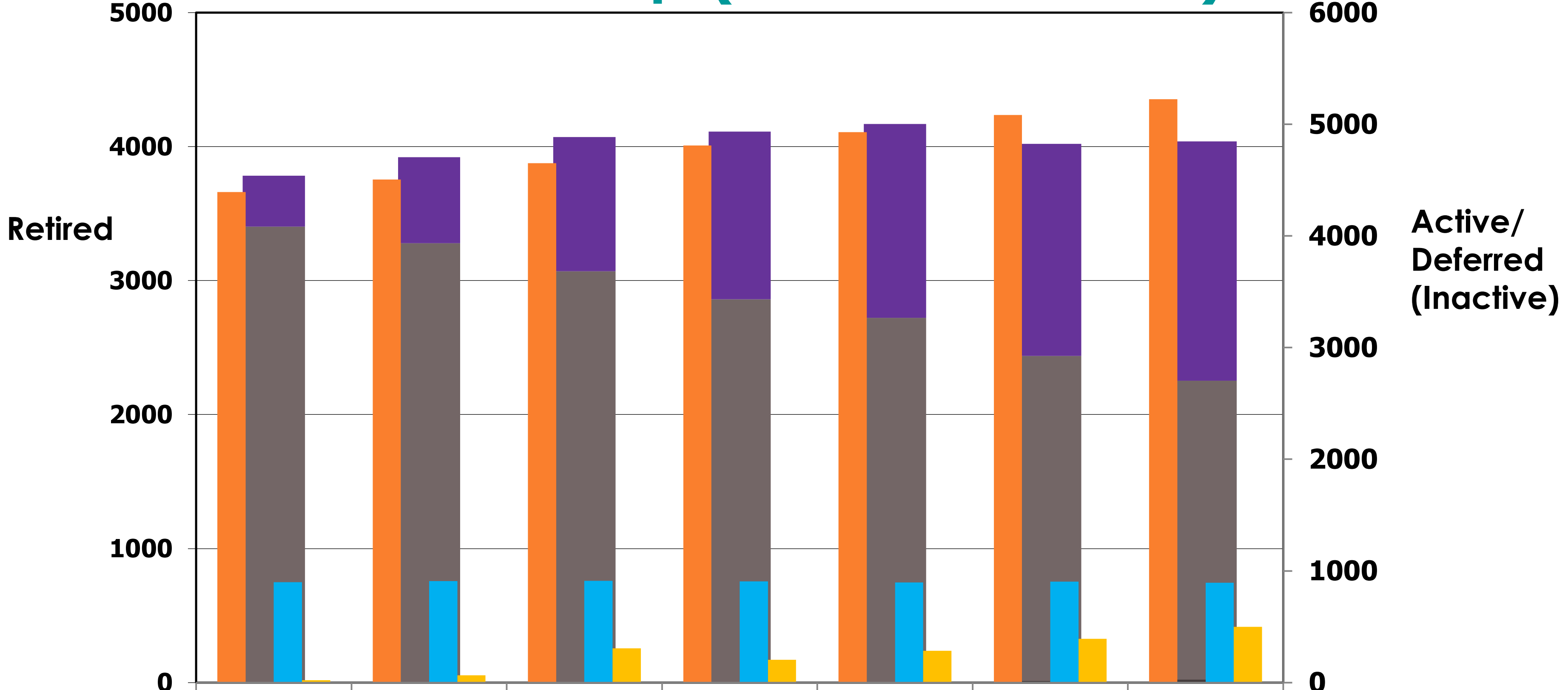
2019 Retirees	
Gen Plan A	3744
Gen Plan B	21
Safety Plan A	858
Safety Plan B	4
Total	**4627**

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**	

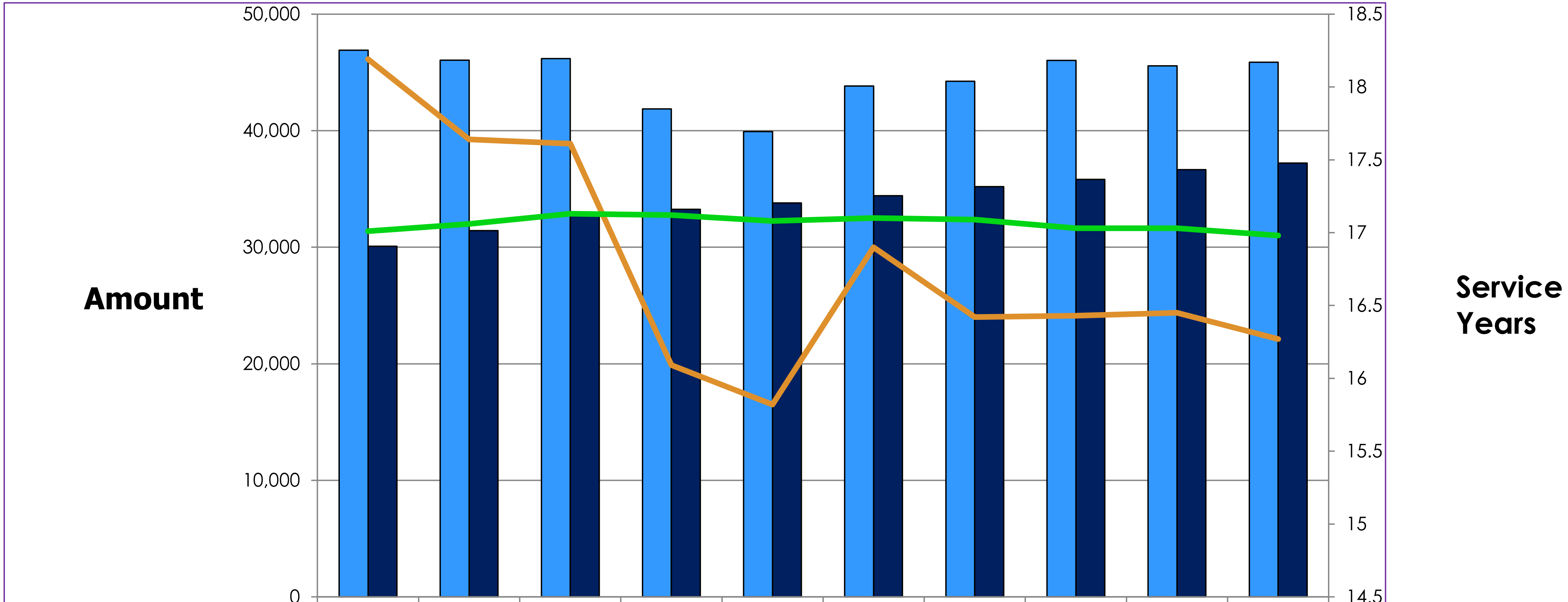
2019 Beneficiaries	
Gen Plan A	497
Gen Plan B	1
Safety Plan A	125
Safety Plan B	0
Total	**623**

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)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Avg. Benefit - New	46893	46051	46180	41865	39920	43836	44239	46025	45551	45871
All Retirees	30081	31423	32715	33249	33793	34424	35201	35826	36648	37209
Avg. Years of Service - New	18.19	17.64	17.61	16.09	15.82	16.9	16.42	16.43	16.45	16.27
Avg. Years of Service - All	17.01	17.06	17.13	17.12	17.08	17.1	17.09	17.03	17.03	16.98

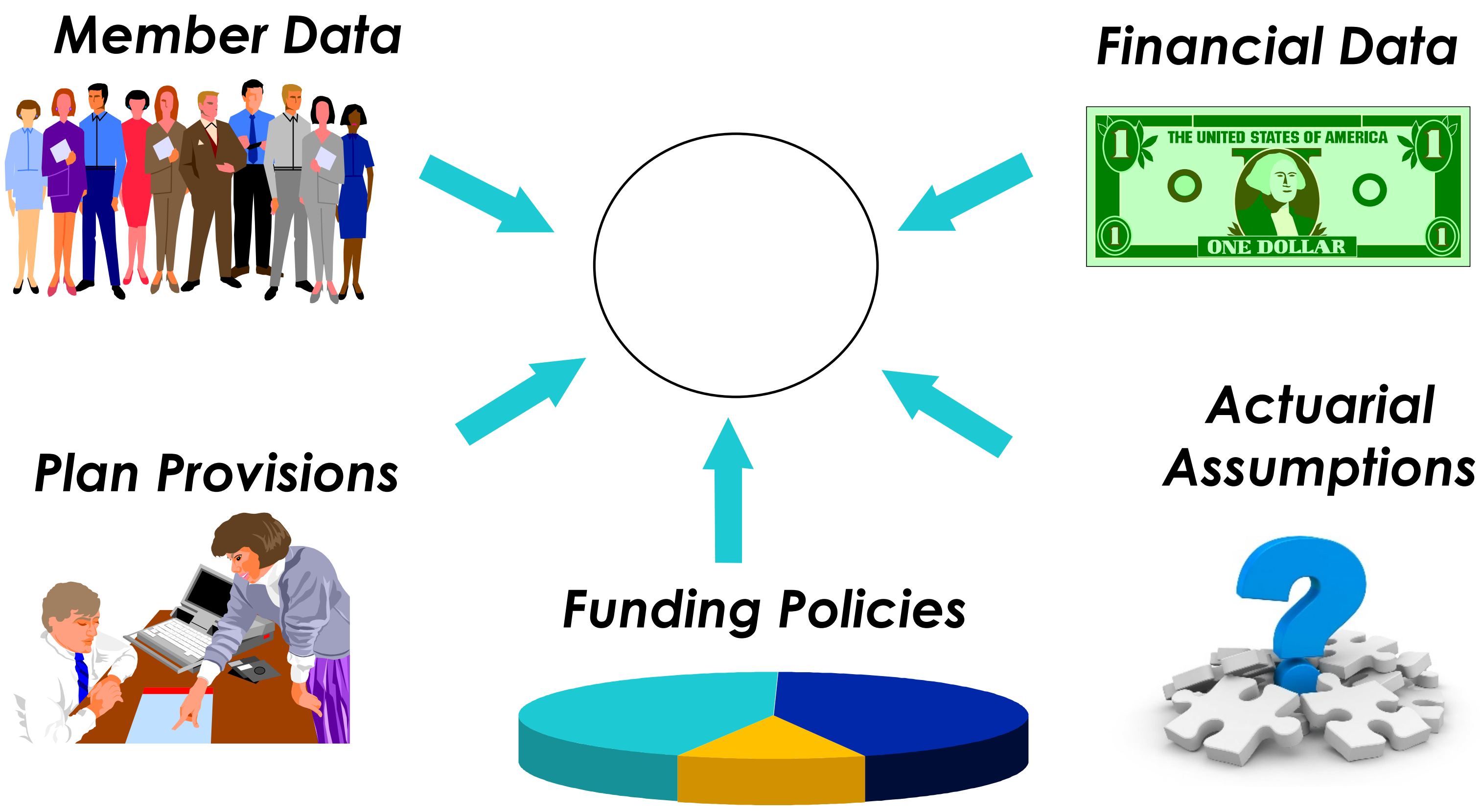
SCERA Investment Returns

	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

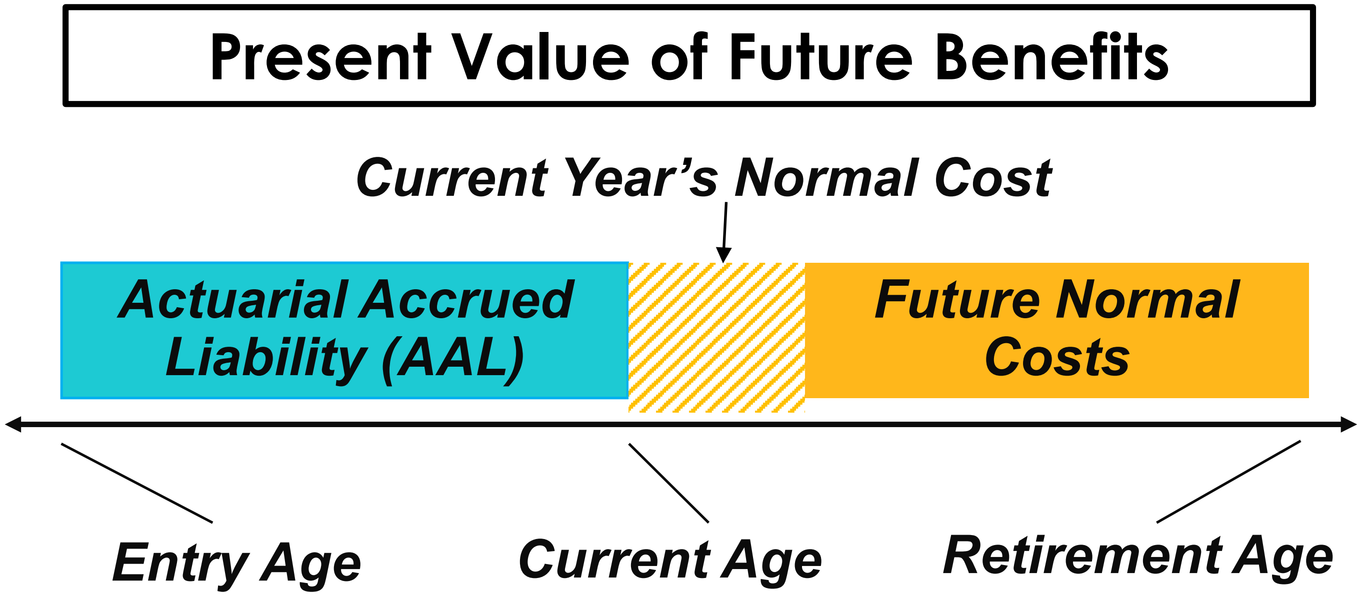
V. 2019 Actuarial Valuation (Prepared by Segal)

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

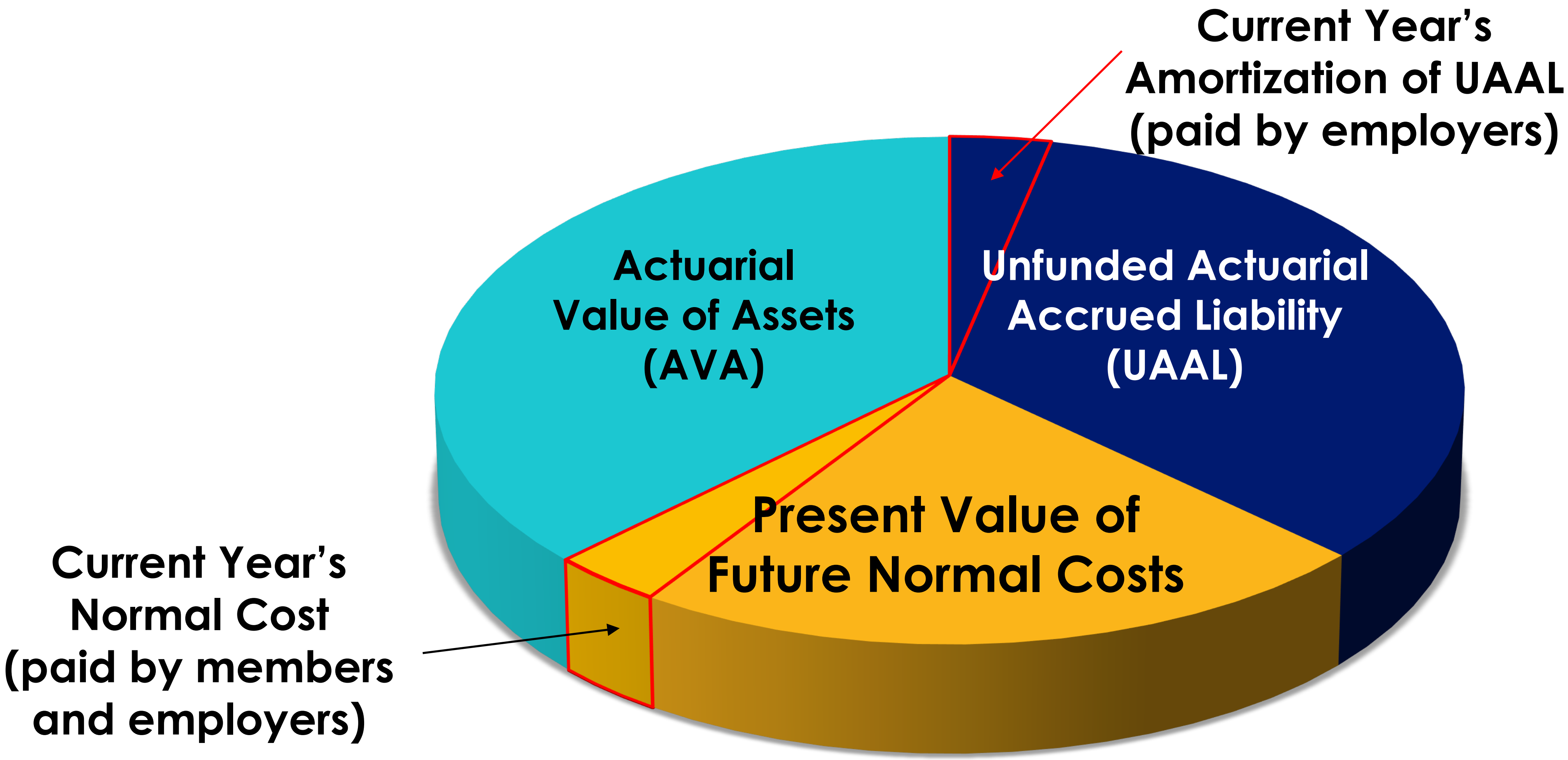
Actuarial assumptions reviewed in triennial experience study — two kinds:

- 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
  - Results in estimated cost decrease for the County in FY 2021-22 of approximately $2.8 million.

Funding Retirement Benefits – Contribution Elements



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%

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2019	12/31/2018
General Plan A		
Employer Contribution Rate (% payroll)	19.0%	19.8%
Employer Contribution (Annual Amount)	$31,687	$32,885
Employee Contribution Rate (% payroll)	12.0%	12.1%
Employee Contribution (Annual Amount)	$20,048	$20,131

Note: Rates shown are before additional Normal Cost contributions that certain County employees have agreed to pay.

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2019	12/31/2018
General Plan B		
Employer Contribution Rate (% payroll)	13.9%	14.5%
Employer Contribution (Annual Amount)	$16,901	$17,705
Employee Contribution Rate (% payroll)	10.5%	10.5%
Employee Contribution (Annual Amount)	$12,791	$12,779

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2019	12/31/2018
Safety Plan A		
Employer Contribution Rate (% payroll)	30.1%	30.9%
Employer Contribution (Annual Amount)	$14,546	$14,956
Employee Contribution Rate (% payroll)	12.2%	12.1%
Employee Contribution (Annual Amount)	$5,878	$5,825

Note: Rates shown are before additional Normal Cost contributions that certain County employees have agreed to pay.

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2019	12/31/2018
Safety Plan B		
Employer Contribution Rate (% payroll)	21.6%	22.4%
Employer Contribution (Annual Amount)	$4,791	$4,989
Employee Contribution Rate (% payroll)	15.4%	15.4%
Employee Contribution (Annual Amount)	$3,415	$3,424

New in 2019 – Risk Assessment Report

- Actuarial Standard of Practice (ASOP) No. 51 on risk assessment and disclosure
  - Effective with December 31, 2018 valuation for SCERA (see report dated September 30, 2019)
  - Updated report with December 31, 2019 valuation (see report dated May 8, 2020)
- Why was the standard needed?
  - Actuarial calculations require use of assumptions regarding future economic and demographic experience
  - There is a risk that emerging results may differ significantly as actual experience is fluid and will not completely track current assumptions.
  - The purpose of the ASOP No. 51 report is to help the Board of Retirement, participating employers, members, and other stakeholders better understand the effect of past and future experience differing from the assumptions.

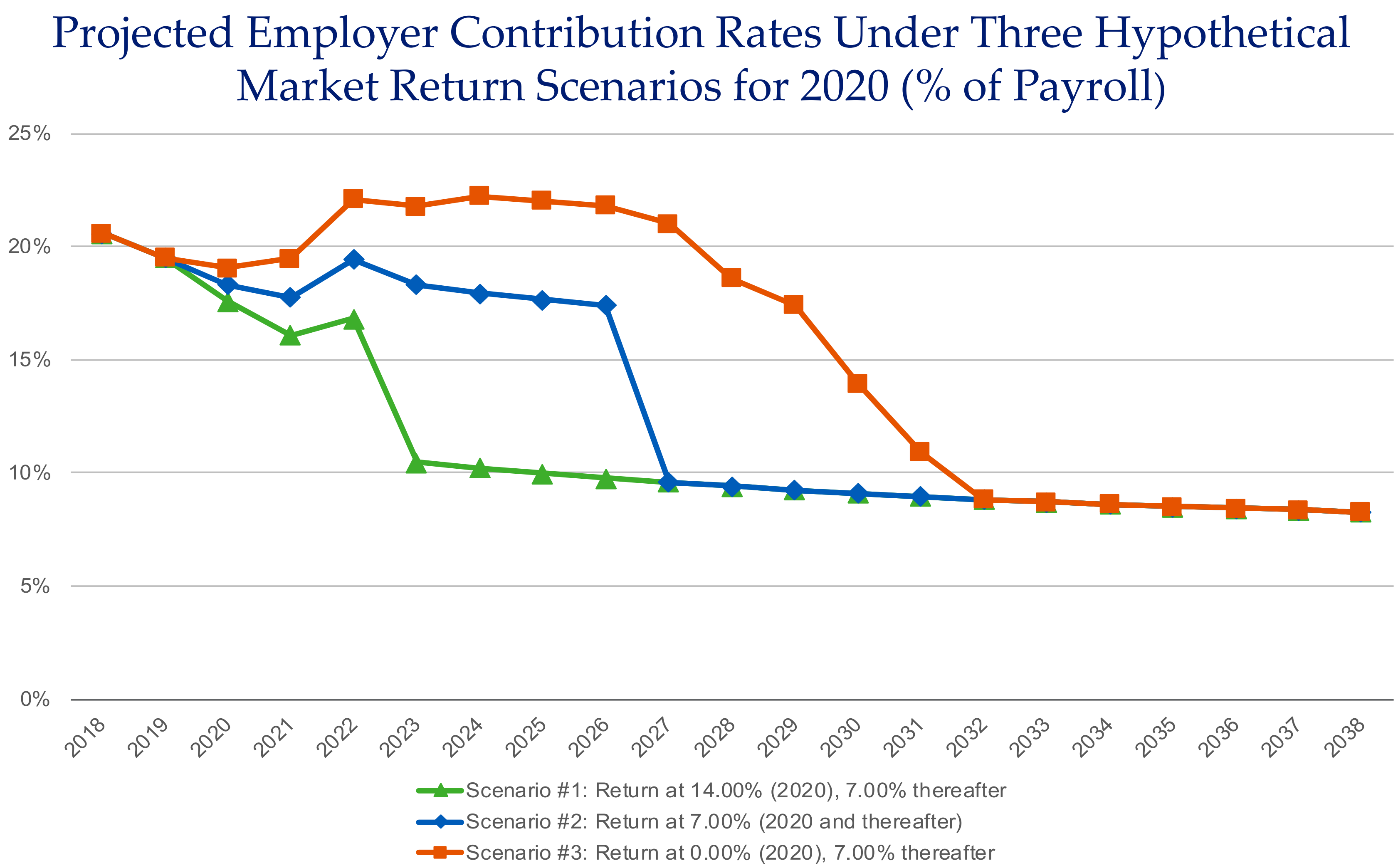
Principal Contents of SCERA's Risk Report

- 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%



VI. Legal Update

Legal Update

- ***Cal Fire Local 2881 v. CalPERS***
  - Challenge to PEPRA's elimination of the right to purchase "air time" as pensionable compensation.
    - "Airtime" is the practice whereby retiring public employees could purchase "service credits" that would artificially lengthen the number of years they worked, which would in turn increase the amount of their pensions, even though they hadn't actually worked those additional years.
  - The County joined in amicus briefing in support of modifying the California Rule.
  - In March of 2019, the Supreme Court rejected the challenge.
  - The Court did not find an impairment of contract in this case and did <u>not</u> directly address the "California Rule" in its holding.
    - The "California Rule" limits the ability of a public employer to change the terms of a pension benefit unless a benefit of equal value is given. It in essence guarantees government workers the pension that was in place on the day they were hired as a vested right; it has been a long standing precedent rooted in the Contracts Clause of the U.S. Constitution and the California Constitution.

Legal Update

- ***Alameda County Deputy Sheriff's Assn v. Alameda County Employees' Retirement* Assn.**
  - Decision - July 30, 2020
  - The California Supreme Court held PEPRA did not violate the contract clause under a proper application of the California Rule.
  - Excluding or limiting the inclusion of additional types of compensation in order to close loopholes and prevent abuse of the pension system can be allowed.
  - The court declined to undertake a fundamental re-examination of the California Rule, which remains the law.
  - Referred back to the trial court to examine the modifications to pension rights against the particular facts of this case.

VII. Recap Summary

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.