



# Sonoma County Board of Supervisors

## State of the Retirement System Annual Report (April 2022)

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



# Report Sections

## Executive Summary

- I. Pension System Overview, Cost Sharing, and Legal Update
- II. Pension Obligation Bonds
- III. Annual Pension Costs & Forecast
- IV. County's Unfunded Pension Liabilities
- V. Sonoma County Employees' Retirement Association (SCERA) - Administrator Update
- VI. SCERA 2020 Actuarial Valuation & Risk Report



# Executive Summary

- County's FY 20-21 pension costs were \$126 million; equivalent to 18.2% of Total Salaries & Benefits, 34.9% of pensionable payroll, and 7.8% of operating revenue.
  - Excluding unfunded liability prepayments, FY 20-21 pension costs increased \$8.3 million year-over-year, due to pensionable payroll growth, and lagging impact of SCERA's 2018 valuation results, which increased contribution rates as a result of lowering the discount rate to 7.00%, lower investment returns, and mortality assumption changes.
  - FY 20-21 pension costs~ include a recurring \$1.8 million unfunded liability prepayment.
- Unfunded Liabilities decreased by \$81 million to \$543 million (including POB debt).
- SCERA's 2020 Actuarial Valuation reflects higher than expected investment returns
  - County's average contribution rate for FY 22-23 will decrease by ~0.90% of payroll.
  - SCERA Pension is 91.3% funded as of Dec. 31, 2020, compared to 80% for CalPERS.
- Recent California Supreme Court cases related to pensions did not fundamentally alter the California Rule.



# Section I: Pension System Overview, Cost Sharing, and Legal Update



# 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>
- This fourth annual report presents County financial data through 06/30/21, and information from the Sonoma County Employees' Retirement Association's (SCERA) 12/31/2020 actuarial 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 were 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 active members are in Plan A or Plan B. Retirees also include pre-2003 members with different benefit formulas: General – 2.6% @ Age 62; and Safety – 2.0% @ Age 50.



# 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 pension unfunded liability (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 starting 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 Plan B PEPRA members will replace Plan A Legacy members over time due to attrition.



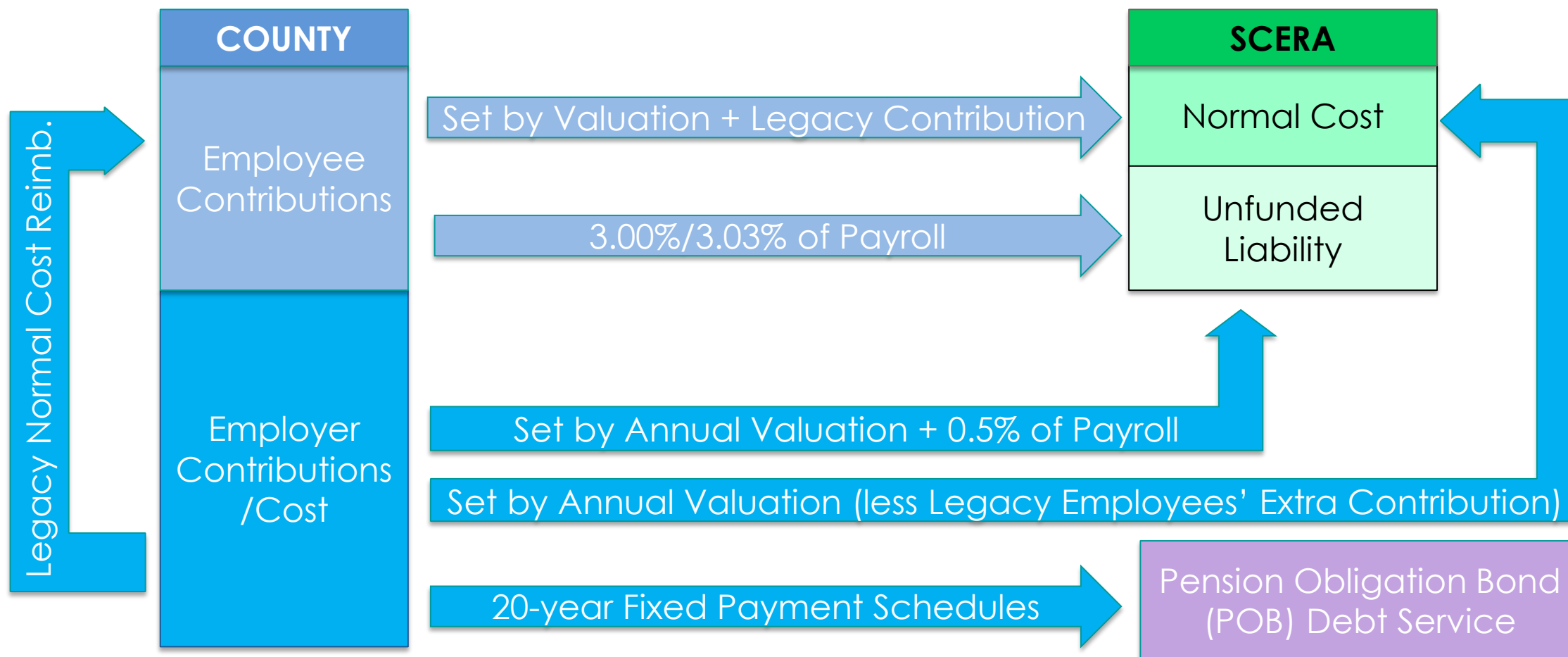


# Unfunded Liability Prepayments

- 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, and excludes overtime.
- Recurring annual UAAL Prepayments estimated to avoid ~**\$10.7 million** of interest costs over 15 years, and more over time.
- One-time prepayment of \$3.5M authorized for FY 15-16 estimated to avoid ~**\$2.8 million** of interest costs over 15 years.
- One-time prepayment of \$5.0M authorized for FY 19-20 estimated to avoid ~**\$4.0 million** of interest costs over 15 years.
- One-time prepayment of \$3.75M authorized for FY 21-22 estimated to avoid ~**\$3.0 million** of interest costs over 15 years.



# County's Pension Contribution/Debt Payment 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.
- The Committee will provide 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.
  - The original expected date for the report was March 2022; however, Committee members may consider proposing an extension.



# Legal Update

- **Cal Fire Local 2881 v. CalPERS**

- Challenge to PEPPRA'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 not 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 – Continued

- ***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.



## Section II: Pension Obligation Bonds



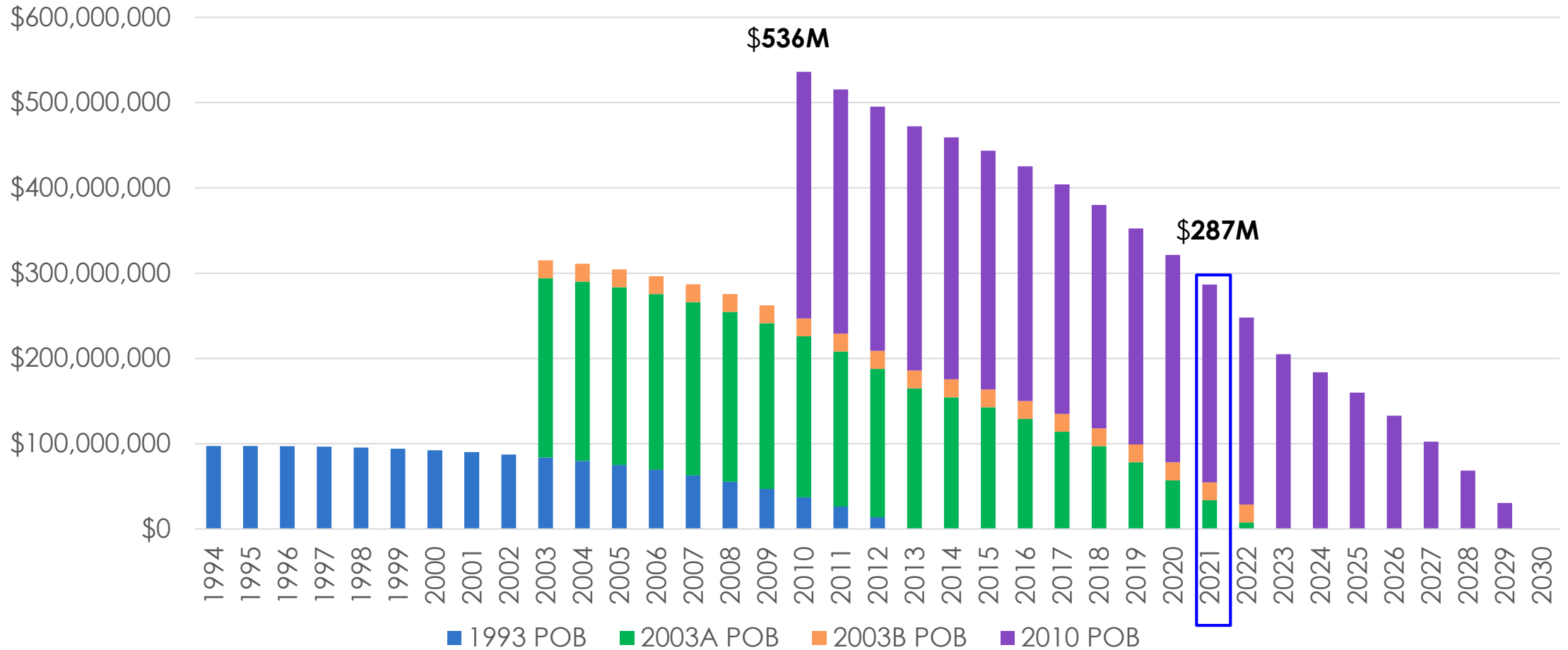
# Pension Obligation Bonds

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

Summary of Pension Obligation Bonds (\$ in Millions)										
Description	Bond Information			Total Debt Issuance			Balance as of 6/30/21			% Remaining ( P+ I)
	Interest Rate	Term (Years)	Final Maturity (FY)	Principal	Interest	Total	Principal	Interest	Total	
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	\$33.7	\$1.2	\$34.9	10.1%
Series 2003B	5.18%	20	2023	\$21.0	\$20.9	\$41.9	\$21.0	\$1.6	\$22.6	54.0%
Series 2010A	5.90%	20	2030	\$289.3	\$242.9	\$532.2	\$232.0	\$73.1	\$305.1	57.3%
<b>Grand Total</b>				<b>\$617.9</b>	<b>\$495.8</b>	<b>\$1,113.7</b>	<b>\$286.7</b>	<b>\$75.9</b>	<b>\$362.6</b>	<b>32.6%</b>



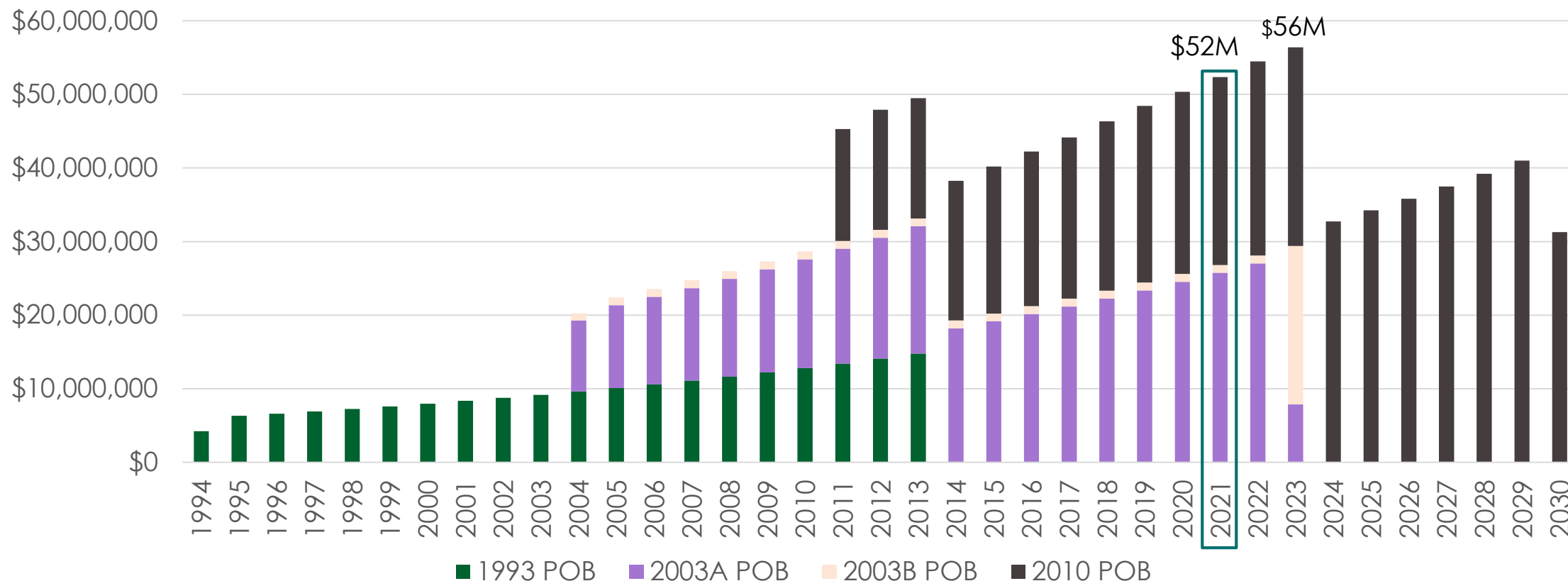
# Pension Obligation Bonds - Principal Balance by Fiscal Year





# POB Expenses Based on Fixed Payment Schedules

Annual Pension Obligation Bond Principal + Interest Expenses by Fiscal Year



# Sonoma County's Return on Pension Obligation Bonds

- To date, the County has experienced a positive return on its investment in Pension Obligation Bonds deposited in SCERA's pension fund, in comparison to the bonds' interest rates.

POB Issuance	Interest Rate	Inception-to-Date Return	Measurement Date
Series 1993	6.72%	7.42%	10/31/2013
Series 2003A/B	4.80% – 5.18%	8.02%	06/30/2021
Series 2010	5.90%	10.18%	06/30/2021



## Section III: Annual Pension Costs & Forecast



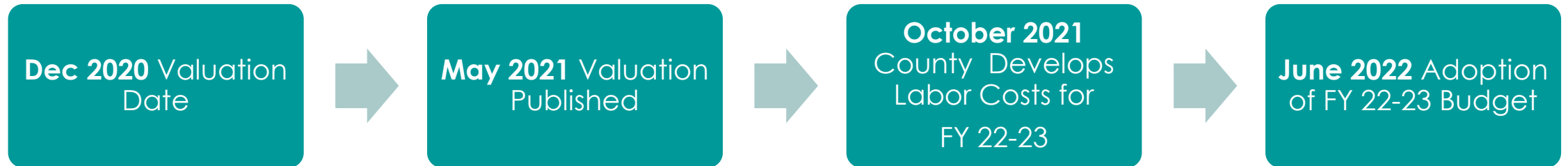
# Data Assumptions & Sources

- 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 exclude 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 2020 valuation will be implemented in County Fiscal Year 22-23.



- 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 over time.



# County Pension Expenses by Fiscal Year

	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
<b><u>Pension Contribution Expenses <sup>1</sup></u></b>					
County of Sonoma (including CDC & Sonoma Water)	\$57,051,665	\$59,975,251	\$62,331,645	\$60,372,368	\$68,680,081
Normal Cost Share Reimbursement	\$1,917,134	\$3,455,813	\$3,427,756	\$3,347,936	\$3,149,289
<b>Sub-total Pension Contribution Expenses</b>	<b>\$58,968,799</b>	<b>\$63,431,064</b>	<b>\$65,759,401</b>	<b>\$63,720,304</b>	<b>\$71,829,370</b>
<b><u>Unfunded Liability Prepayments <sup>2</sup></u></b>					
Accelerated UAAL Payment (One-time)	\$0	\$0	\$0	\$5,000,000	\$0
Accelerated UAAL Payment (Recurring)	\$0	\$0	\$0	\$1,722,016	\$1,810,962
<b>Sub-total UAAL Prepayment</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$6,722,016</b>	<b>\$1,810,962</b>
<b>Total Pension Expenses</b>	<b>\$58,968,799</b>	<b>\$63,431,064</b>	<b>\$65,759,401</b>	<b>\$70,442,320</b>	<b>\$73,640,332</b>
<b><u>Pension Obligation Bond Debt Service</u></b>					
2003A POB	\$21,167,370	\$22,243,337	\$23,359,489	\$24,530,109	\$25,750,766
2003B POB	\$1,075,200	\$1,075,200	\$1,075,200	\$1,075,200	\$1,075,200
2010 POB	\$21,903,048	\$23,034,117	\$24,014,753	\$24,749,250	\$25,535,350
<b>Total POB Debt Expense</b>	<b>\$44,145,618</b>	<b>\$46,352,654</b>	<b>\$48,449,442</b>	<b>\$50,354,559</b>	<b>\$52,361,316</b>
<b>Grand Total Employer Expense (Pension + POB)</b>	<b>\$103,114,417</b>	<b>\$109,783,718</b>	<b>\$114,208,842</b>	<b>\$120,796,879</b>	<b>\$126,001,648</b>

**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 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
<b>Total Employer Expense (Pension + POB)</b>	<b>\$103,114,417</b>	<b>\$109,783,718</b>	<b>\$114,208,842</b>	<b>\$120,796,879</b>	<b>\$126,001,648</b>
Total Covered Payroll <sup>1</sup>	\$320,173,397	\$328,766,520	\$335,746,316	\$342,301,437	\$360,713,114
Total Salaries & Benefits <sup>2</sup>	\$589,853,663	\$611,820,469	\$617,826,203	\$644,925,647	\$694,027,628
Total Operating Revenue <sup>1</sup>	\$1,103,317,902	\$1,187,913,235	\$1,245,348,027	\$1,271,321,979	\$1,607,841,159
Pension Expense as % of Covered Payroll	32.2%	33.4%	34.0%	35.3%	34.9%
Pension Expense as % of Total Salaries & Benefits	17.5%	17.9%	18.5%	18.7%	18.2%
<b>Pension Expense as % of Operating Revenue</b>					
Sonoma County (including Pension Bonds)	9.3%	9.2%	9.2%	9.5%	7.8%
Sonoma County (excluding Pension Bonds)	5.3%	5.3%	5.3%	5.5%	4.6%
Statewide Average <sup>3 &amp; 4</sup>	8.4%	10.2%	9.1%	n/a	n/a
National Average <sup>3 &amp; 4</sup>	6.0%	6.4%	6.2%	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 19-20 and FY 20-21 (as of March 2022).

**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.



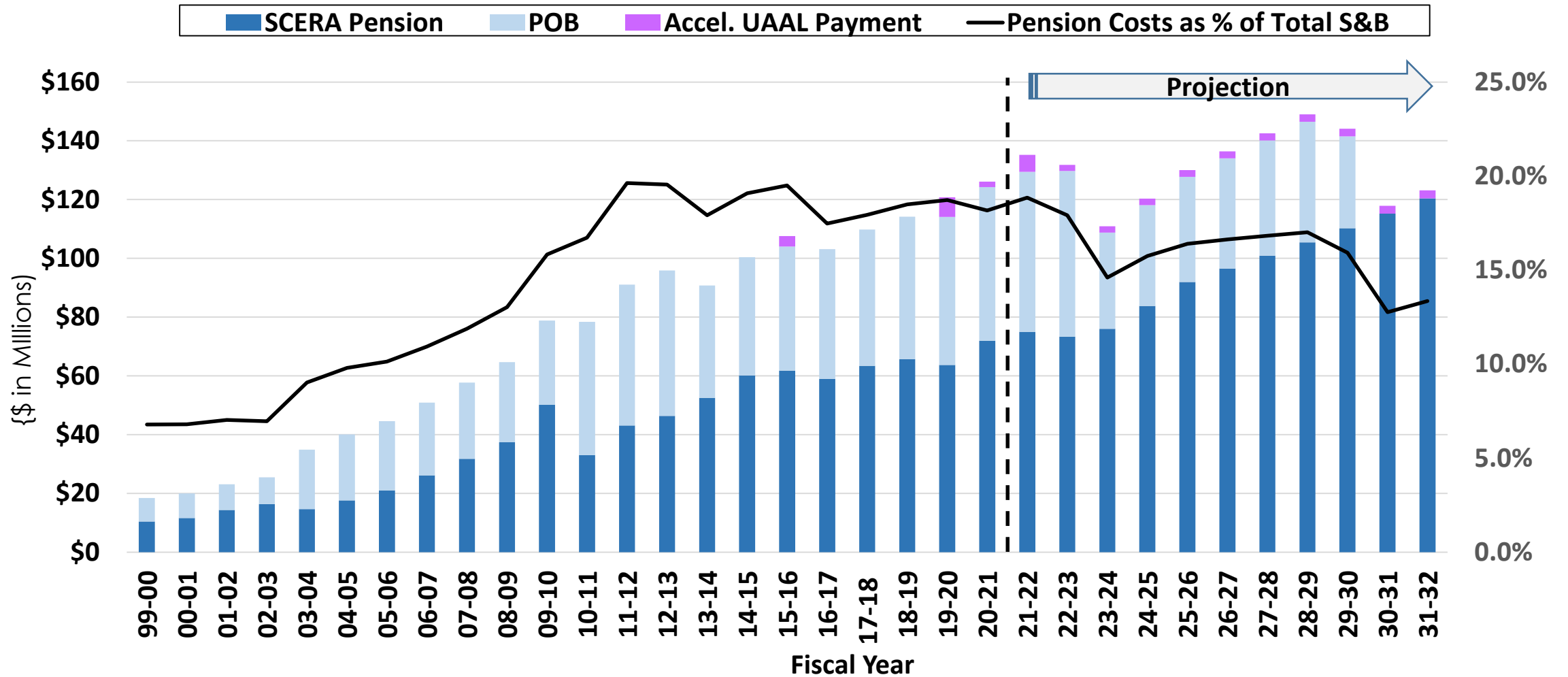
# Pension Cost Forecasting Methodology

- Forecasting methodology refined to better account for future risk.
- Assumes the employer contribution rate will increase by an average of 0.20% of payroll annually (compounding effect) in excess of assumed payroll inflation of 3.25%.
  - Based on the average yearly rate increases experienced by the County over the past 10 years.
  - Experience from 2011-2020 includes major events, including: smoothed investment losses from the Great Recession; lowering the discount rate from 8.00% to 7.00%; mortality assumption changes; and implementation of PEPPRA retirement tiers in 2013.
- Projection includes annual prepayments towards UAAL equal to 0.5% of pensionable payroll, offset by estimated future interest cost avoidance from 1x and recurring UAAL prepayments.
- 2003 and 2010 POB expenses based on respective 20-year payment schedules.
  - POB costs decrease in FY 23-24 and FY 30-31, when the 2003 and 2010 bonds are paid off.
- Pension costs will increase incrementally in FY 24-25 and FY 25-26 when PEPPRA and certain Legacy employees' supplemental UAAL contributions expire and costs revert to the County.
  - The supplemental UAAL contributions assumption is accurate as of March 2022, but may be subject to change as an outcome of future labor negotiations.





# Pension Cost Forecast



## Section IV: County's Unfunded Pension Liabilities



# Net Pension Liability vs. Unfunded Actuarial Accrued Liability

	Net Pension Liability (NPL)	Unfunded Actuarial Accrued Liability (UAAL)
<b>Definition</b>	Difference between the pension plan's Total Pension Liability and Fiduciary Net Position, or <u>Market</u> 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 <u>Actuarial</u> 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.
<b>Purpose</b>	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 (\$ in millions)

## **Net Pension Liability (NPL)**

	<b><u>FY 19-20</u></b>	<b><u>FY 20-21</u></b>
SCERA Total Pension Liability	\$ 3,143	\$ 3,264
SCERA Fiduciary Net Position/Market Value of Assets	\$ (2,917)	\$ (3,074)
<b>Total SCERA Net Pension Liability</b>	<b>\$ 226</b>	<b>\$ 191</b>
<b>County's Proportionate Share of NPL<sup>1</sup></b>	<b>\$ 203</b>	<b>\$ 170</b>

## **Unfunded Actuarial Accrued Liability (UAAL)**

	<b><u>FY 19-20</u></b>	<b><u>FY 20-21</u></b>
SCERA Total Pension Liability	\$ 3,143	\$ 3,264
Actuarial Valuation of Assets	\$ (2,811)	\$ (2,982)
<b>Total SCERA UAAL</b>	<b>\$ 332</b>	<b>\$ 283</b>
<b>County's Proportionate Share of UAAL<sup>2</sup></b>	<b>\$ 303</b>	<b>\$ 257</b>

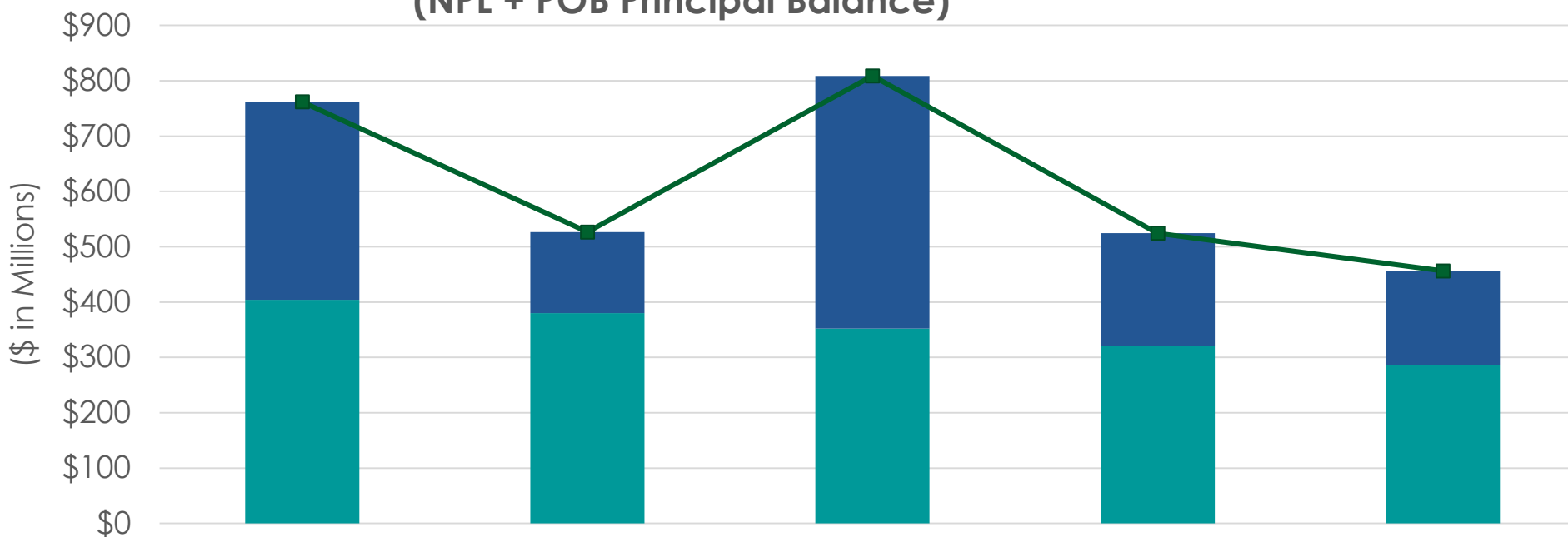
**Note 1:** Source Government Accounting Standards (GAS) 68 Report as of 6/30/21.

**Note 2:** Source SCERA's Actuarial Valuation as of 12/31/20, Section 3 - Exhibit H.



# Total Unfunded Pension Liability Based on NPL

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

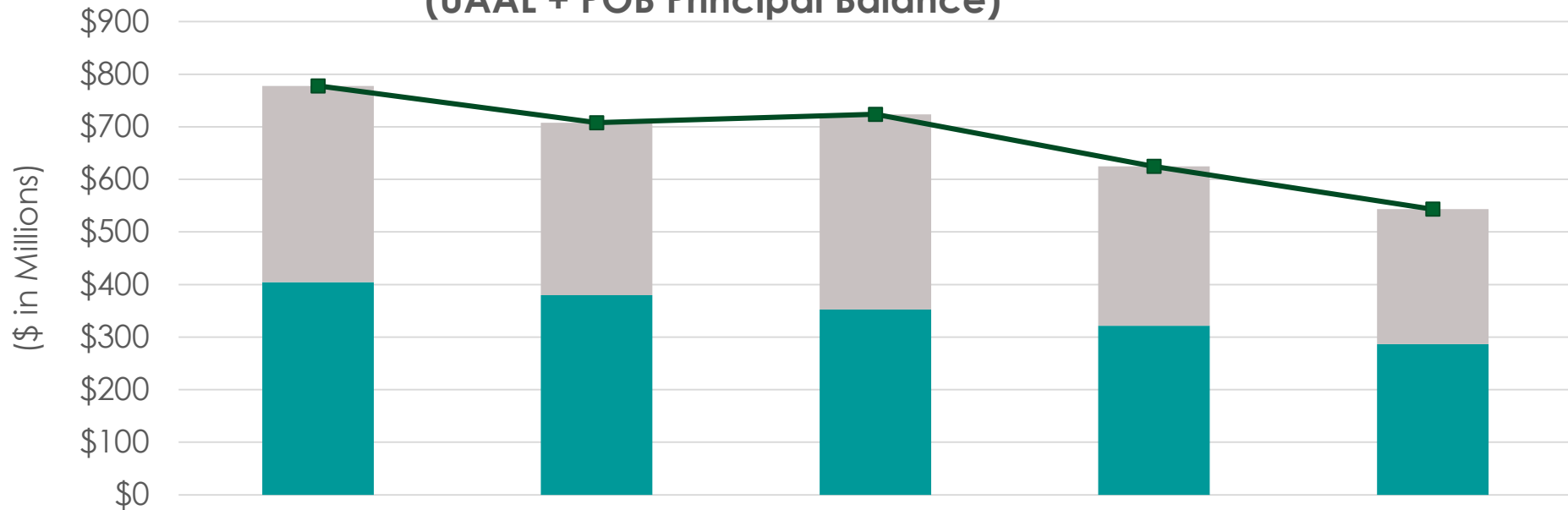


	06/30/17	06/30/18	06/30/19	06/30/20	06/30/21
County Share of NPL	\$358	\$147	\$457	\$203	\$170
County POB Balance	\$404	\$380	\$352	\$321	\$287
Total	\$762	\$527	\$809	\$524	\$456



# Total Unfunded Pension Liability Based on UAAL

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



	06/30/17	06/30/18	06/30/19	06/30/20	06/30/21
County Share of UAAL	\$374	\$328	\$371	\$303	\$257
County POB Balance	\$404	\$380	\$352	\$321	\$287
Total	\$778	\$708	\$724	\$625	\$543



# Section V: SCERA Administrator Update



# SCERA Actuarial Analysis of Plan Experience (as of Dec. 2020)

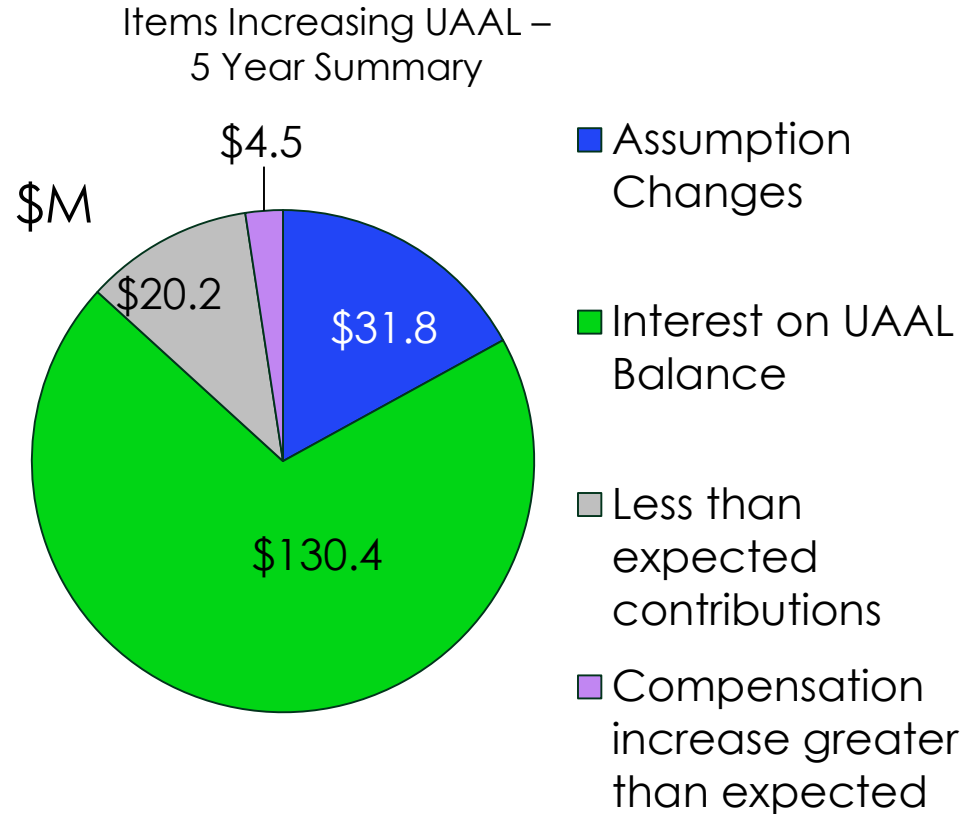
SCERA Actuarial Analysis of Financial Experience						
(K\$)	2020	2019	2018	2017	2016	5 Year Total
Beginning of the Year UAAL Liability (Surplus)	\$332,031	\$404,732	\$359,557	\$408,227	\$405,922	
Source of Actuarial (Gain) Loss:						
Compensation Increase Greater/(Less) than Expected	17,286	(34,651)	11,293	4,586	5,983	4,497
Investment Experience recognized	(41,110)	(32,718)	13,629	(44,256)	891	(103,564)
Other Experience	(983)	(2,786)	661	(3,890)	(859)	(7,857)
(Greater)/Less than Expected Contributions	(255)	12,332	(493)	4,568	4,094	20,246
Composite (Gain) Loss for the Year - Total	(25,062)	(57,823)	25,090	(38,992)	10,109	(86,678)
Other Items Impacting UAAL:						
Assumption Change (Economic and Demographic)			31,798			31,798
Interest Accrual on UAAL Balance	22,003	27,009	24,876	28,358	28,249	130,495
County's Additional UAAL Payment	(7,128)					(7,128)
Expected employer/member contributions less Normal Cost	(39,129)	(41,887)	(36,589)	(38,036)	(36,053)	(19,1694)
Other Items Impacting UAAL - Total	(24,254)	(14,878)	20,085	(9,678)	(7,804)	(36,529)
End of the Year UAAL Liability (Surplus)	\$282,715	\$332,031	\$404,732	\$359,557	\$408,227	



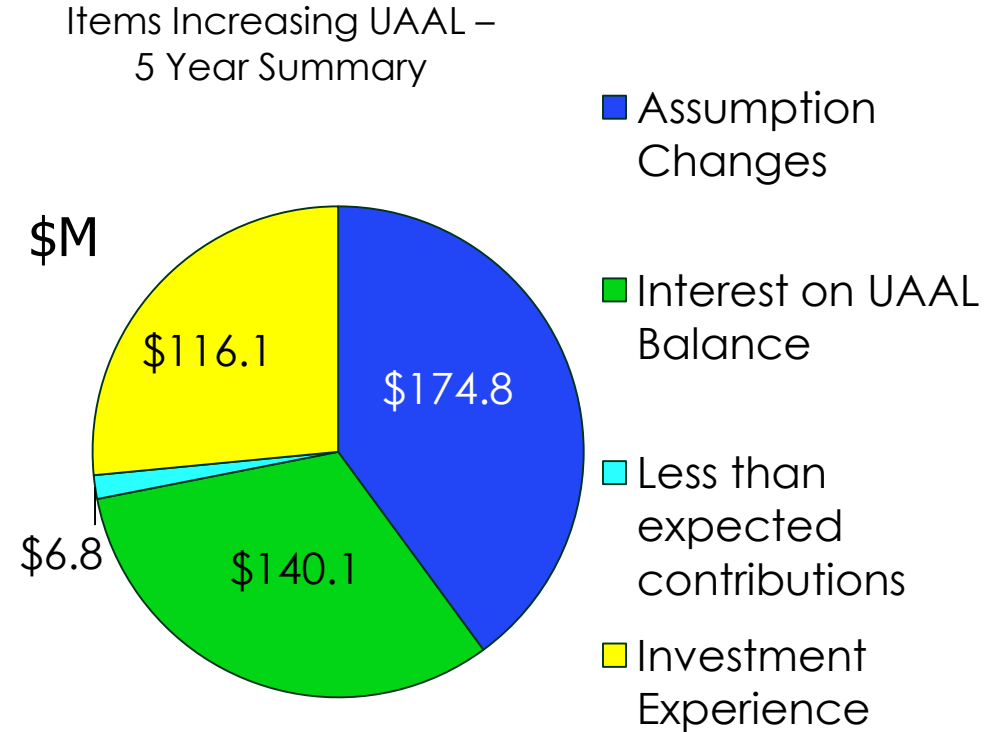


# SCERA Actuarial Experience (as of Dec. 2020)

## 2016 to 2020



## 2011 to 2015



# 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, 2020)
- Pension Obligation Bonds
  - May 2003 \$210M
  - September 2010 \$289M
- Public Employees Pension Reform Act – PEPRA  
2.7% at 57 (2013 Safety); 2.5% at 67 (2013 General)
- 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. 2020)

Active General			
Plan	Number	Avg. Age	Avg. Service
Plan A Legacy	1663	50.8	15.3
Plan B PEPRA	1705	41.6	3.7
Total	3368		

Active Safety			
Plan	Number	Avg. Age	Avg. Service
Plan A Legacy	440	45.7	15.3
Plan B PEPRA	282	34.1	3.5
Total	722		

**Total Active Plan A** 2103 (51.4%)

**Total Active Plan B** 1987 (48.6%)

Deferred (Inactive)					
Plan - General	Number	Avg. Age	Plan - Safety	Number	Avg. Age
Plan A Legacy	712	49.4	Plan A Legacy	165	45.2
Plan B PEPRA	505	41.3	Plan B PEPRA	63	32.4
Total	1217			228	

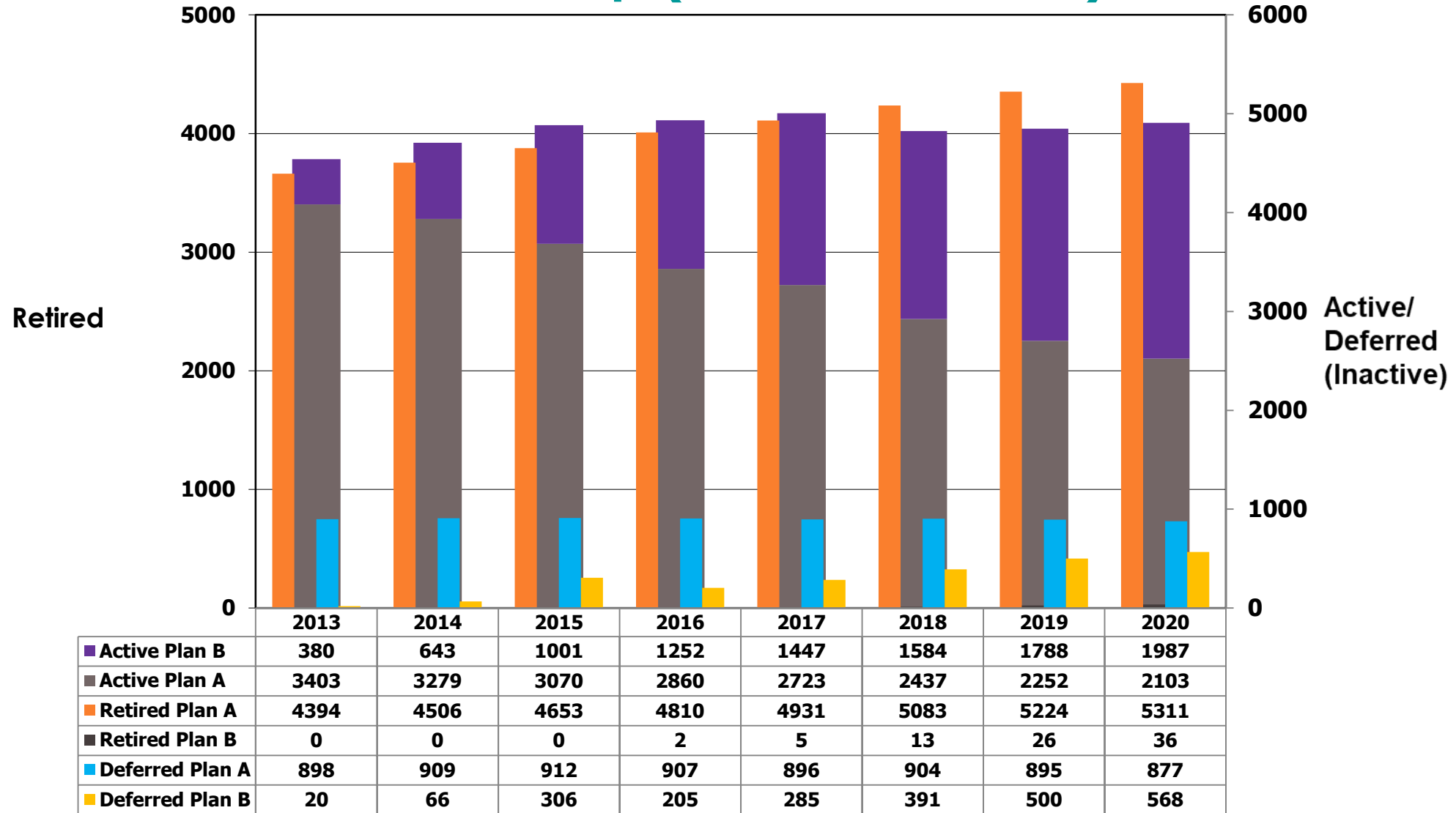
2020 Retirees	
Gen Plan A	3793
Gen Plan B	30
Safety Plan A	871
Safety Plan B	5
Total	4699

2020 Beneficiaries	
Gen Plan A	515
Gen Plan B	1
Safety Plan A	132
Safety Plan B	0
<b>Total</b>	<b>648</b>

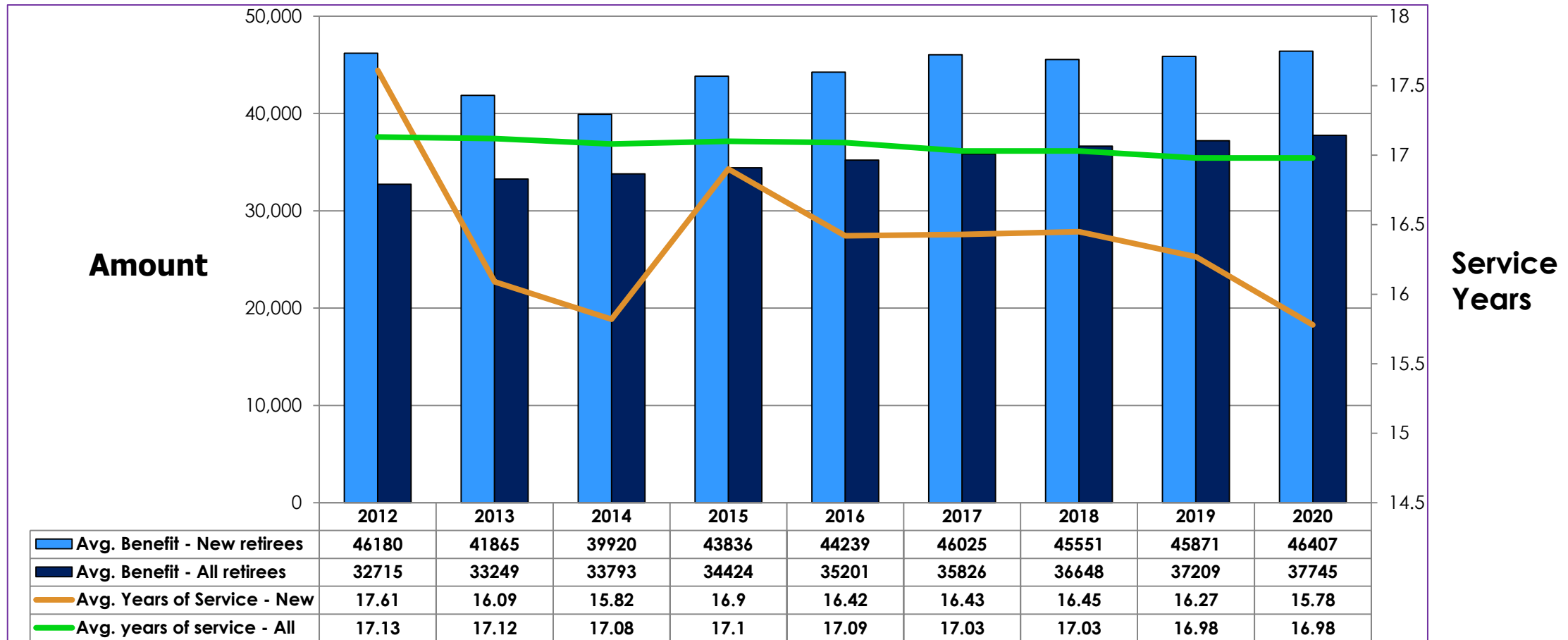
\*Starting with the Dec. 2021 valuation, pre-2003 retirees will be separated from the Plan A Legacy counts.



# SCERA Membership (as of Dec. 2020)



# SCERA Average Annual Retirement Benefit (as of Dec. 2020)



# SCERA Annualized Investment Returns

	Annualized Return 12/31/20	Annualized Return 12/31/19	Annualized Return 12/31/18	Annualized Return 12/31/17	Annualized Return 12/31/16
1 Year	8.08%	16.27%	-3.3%	16.4%	8.8%
3 Year	6.71%	9.35%	7.0%	8.8%	5.3%
5 Year 2016 - 2020	8.99%	7.66%	5.6%	10.2%	9.7%
10 Year 2011 - 2020	8.51%	8.95%	9.1%	5.7%	4.9%
15 Year 2006 - 2020	6.62%	6.65%	6.3%	8.1%	6.1%
20 Year 2001 - 2020	5.99%	5.54%	5.5%	6.4%	6.6%
30 Year 1991 - 2020	8.15%	8.05%	8.1%	8.7%	8.2%

Sourced from Aon Hewitt Investment Consulting



# Actuarial Assumptions – Recently Completed 2021 Experience Study

## Experience Study (January 1, 2018 to December 31, 2020)

- Demographic
  - When benefits will be payable
  - Amount of benefits
- Economic
  - How assets grow
  - How salaries and benefits increase

## • Results

- Changed both demographic and economic assumptions
  - Lowered actuarial assumed investment return assumption from 7% to 6.75%
  - Lowered inflation assumption from 2.75% to 2.5%
  - Lowered salary growth assumption from 3.25% to 3.00%
  - Benefit weighted mortality assumption

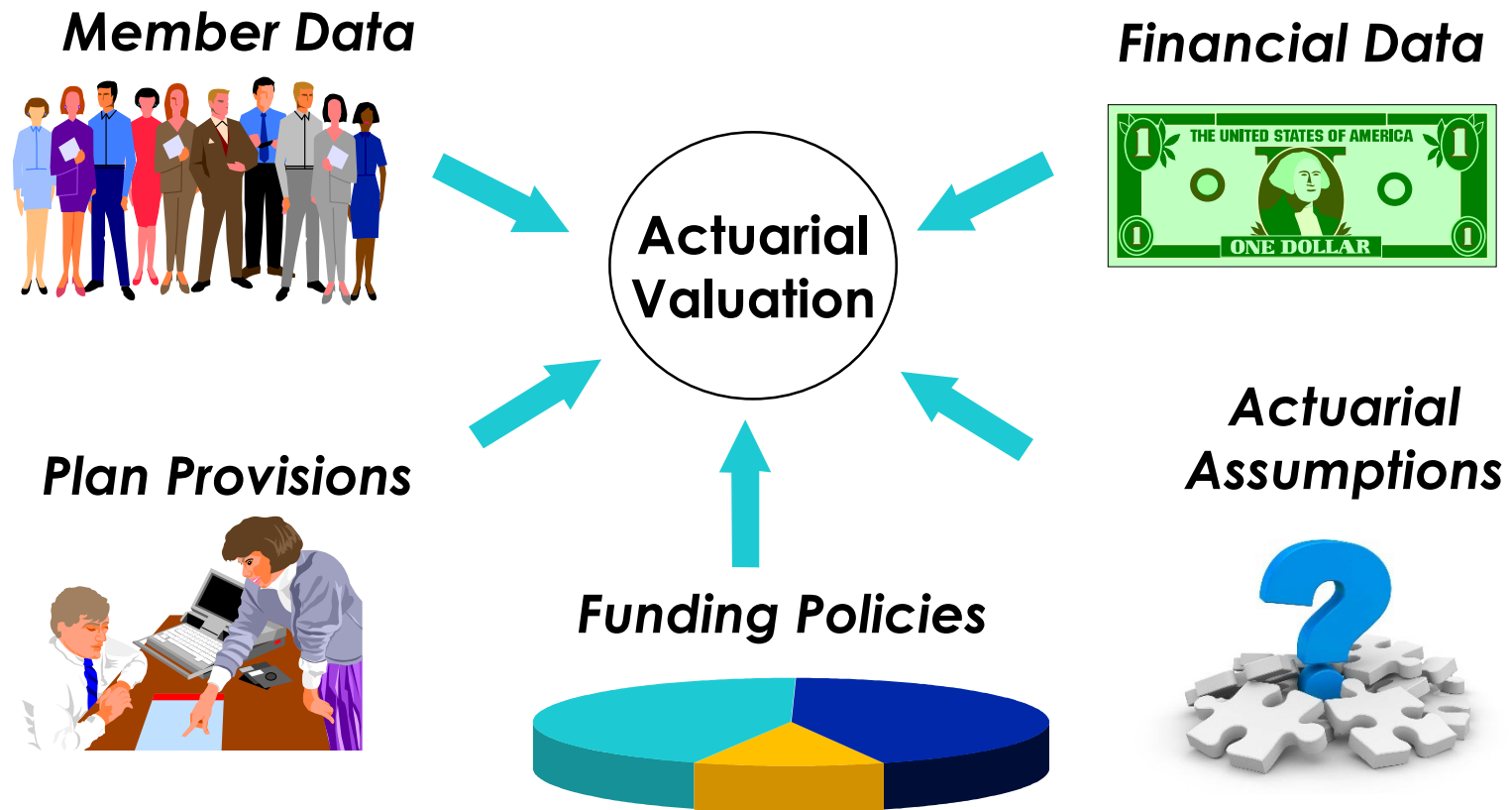


# Section VI: SCERA 2020 Actuarial Valuation & Risk Report (Prepared by Segal)

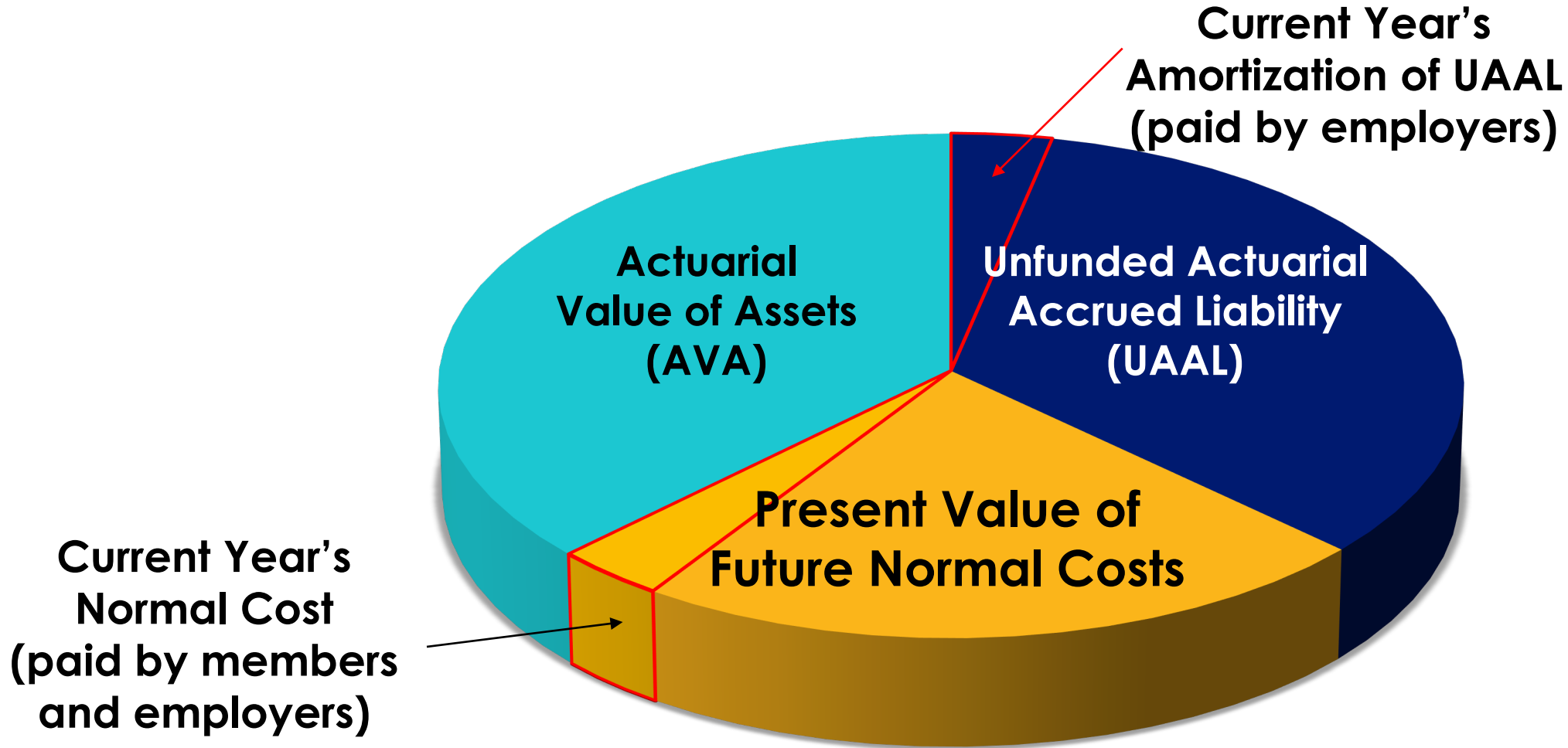




# What goes into an Actuarial Valuation?



# Funding Retirement Benefits – Contribution Elements



## Valuation Results (\$ in thousands)

	12/31/2020	12/31/2019
Market Value of Assets (MVA)	\$3,073,675	\$2,916,890
Valuation Value of Assets (VVA)	\$2,981,688	\$2,811,292
Actuarial Accrued Liability (AAL)	\$3,264,403	\$3,143,323
Unfunded AAL (AAL less VVA)	\$282,715	\$332,031
Funded Percentage (VVA Basis)	91.3%	89.4%
Funded Percentage with recognition of deferred gains/losses	94.2%	92.8%



## Experience During the Calendar Year 2020

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- UAAL decreased from \$332.0 million to \$282.7 million
  - Primarily as a result of investment return(\$41.1 million) and the County's additional UAAL payment (\$7.1 million)
- Average employer contribution rate decreased from 19.3% to 18.4% of payroll
  - Primarily from investment experience (0.7% of payroll), larger projected payroll (0.3% of payroll) and the County's additional UAAL payment (0.14%)
  - Results in estimated cost decrease for the County in FY 2022-23 of approximately \$3.4 million.



# 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, 2020 valuation (see report dated May 6, 2021)
- 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

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- 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, 2020 Valuation

- Shows impact of 2021 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 2021 (% of Payroll)

