Sonoma County Board of Supervisors

State of the Retirement System Annual Report (March 2020)

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

Report Contents

I. Background & Pension System Overview

Background

- One of the County’s primary pension reform goals is to improve accountability and transparency, which includes periodic reports to the Board of Supervisors and public.
  - Both the 2015 Citizens’ Pension Advisory Committee and Grand Jury reports recommended that the County present annual pension reports.
- First annual pension system report presented in December 2018 included financials through 6/30/18.
- This second annual report includes financials through 6/30/19 and information from the 2018 actuarial valuation.

Pension System Overview

- SCERA established pursuant to the County Employees Retirement Law of 1937 and is not part of the statewide CalPERS system.
- 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, CDC, Water Agency, Superior Court, SCTA, and Valley of the Moon Fire District.
- Benefit formulas are set by each employers' respective governing body.
- 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's Pension Cost Structure

COUNTY

Employee Contributions

Employer Contributions /Cost

Normal Cost

Unfunded Liabilities

20-year Fixed Payment Schedules

1993, 2003 & 2010 Series Pension Obligation Bond (POB) Debt Service

- PEPRA employees pay 50% of normal cost.
- County pays a portion of Legacy employees' normal cost.
- Effective FY 19-20, BOS policy authorized annual accelerated UAAL contributions of 0.5% of payroll.

II. Pension Cost Reporting

Data Assumptions & Sources

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

County Pension Expenses by Fiscal Year

	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Pension Contribution Expenses [1]					
County of Sonoma	$55,980,924	$56,663,114	$52,980,683	$55,480,438	$57,797,243
Accelerated UAAL Payment [2]	$0	$3,553,000	$0	$0	$0
Community Development Commission	$499,498	$636,796	$489,353	$548,624	$531,924
Sonoma County Water Agency	$3,713,006	$4,481,365	$3,581,629	$3,946,189	$4,002,478
Normal Cost Share Reimbursement [3]	$0	$0	$1,917,134	$3,455,813	$3,427,756
Total Pension Contributions	**$ 60,193,428**	**$ 65,334,274**	**$ 58,968,799**	**$ 63,431,064**	**$ 65,759,401**
Pension Obligation Bond Debt Expenses					
2003A POB	$ 19,147,786	$ 20,136,014	$ 21,167,370	$ 22,243,337	$ 23,359,489
2003B POB	$ 1,075,200	$ 1,075,200	$ 1,075,200	$ 1,075,200	$ 1,075,200
2010 POB	$ 19,972,314	$ 21,013,543	$ 21,903,048	$ 23,034,117	$ 24,014,753
Total POB Debt Expense	**$ 40,195,300**	**$ 42,224,756**	**$ 44,145,618**	**$ 46,352,654**	**$ 48,449,442**
Total Employer Expense (Pension + POB)	**$100,388,728**	**$107,559,030**	**$103,114,417**	**$109,783,718**	**$114,208,842**

Note 1: *Source data from audited annual financial reports.*
Note 2: *In FY 15-16, the Board of Supervisors approved an advanced payment towards outstanding Unfunded Liability.*
Note 3: *Starting in 2016-17, the County agreed to reimburse legacy plan employees for a portion of their normal costs contributions.*

County Pension Expenses – Measurement Ratios

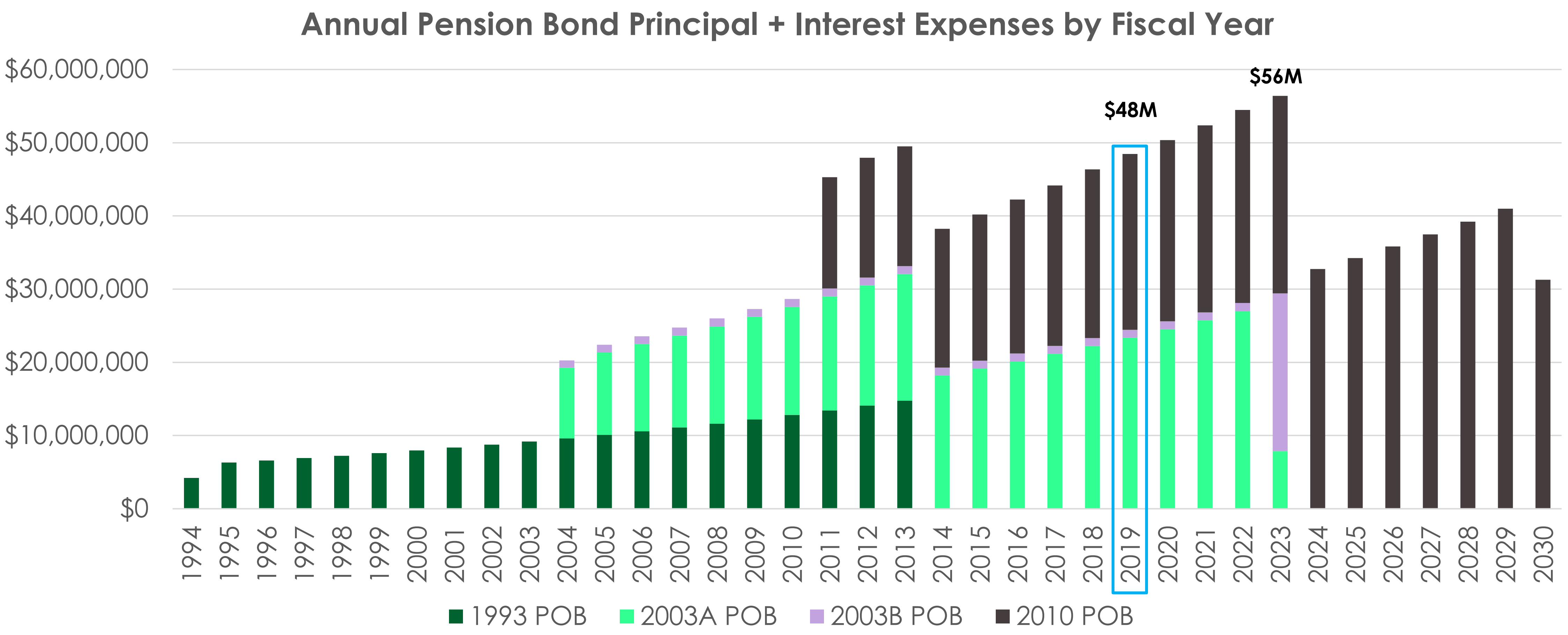
	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Total Employer Expense (Pension + POB)	**$100,388,728**	**$107,559,030**	**$103,114,417**	**$109,783,718**	**$114,208,842**
Total Covered Payroll [1]	$286,842,630	$313,526,539	$320,173,397	$328,766,520	$335,746,316
Total Salaries & Benefits [2]	$526,150,477	$551,436,816	$589,853,663	$611,820,469	$617,567,816
Total Operating Revenue [1]	$1,031,452,795	$1,067,483,017	$1,103,317,902	$1,187,913,235	$1,245,348,027
Pension Expense as % of Covered Payroll	35.0%	34.3%	32.2%	33.4%	34.0%
Pension Expense as % of Total Salaries & Benefits	19.1%	19.5%	17.5%	17.9%	18.5%
Pension Contributions as % of Operating Revenue					
Sonoma County (including Pension Bonds)	9.7%	10.1%	9.3%	9.2%	9.2%
Sonoma County (excluding Pension Bonds)	5.8%	6.1%	5.3%	5.3%	5.3%
Statewide Average [3 & 4]	7.6%	8.0%	8.4%	n/a	n/a
National Average [3 & 4]	5.8%	6.1%	6.0%	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: *Statewide and national weighted averages for local pension plans sourced from the Public Plans Database (http://publicplansdata.org/) state data for California. Data unavailable for FY 17-18 and FY 18-19.*
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 appear relatively* ***higher*** *when factoring in both pension and POB expenses.*

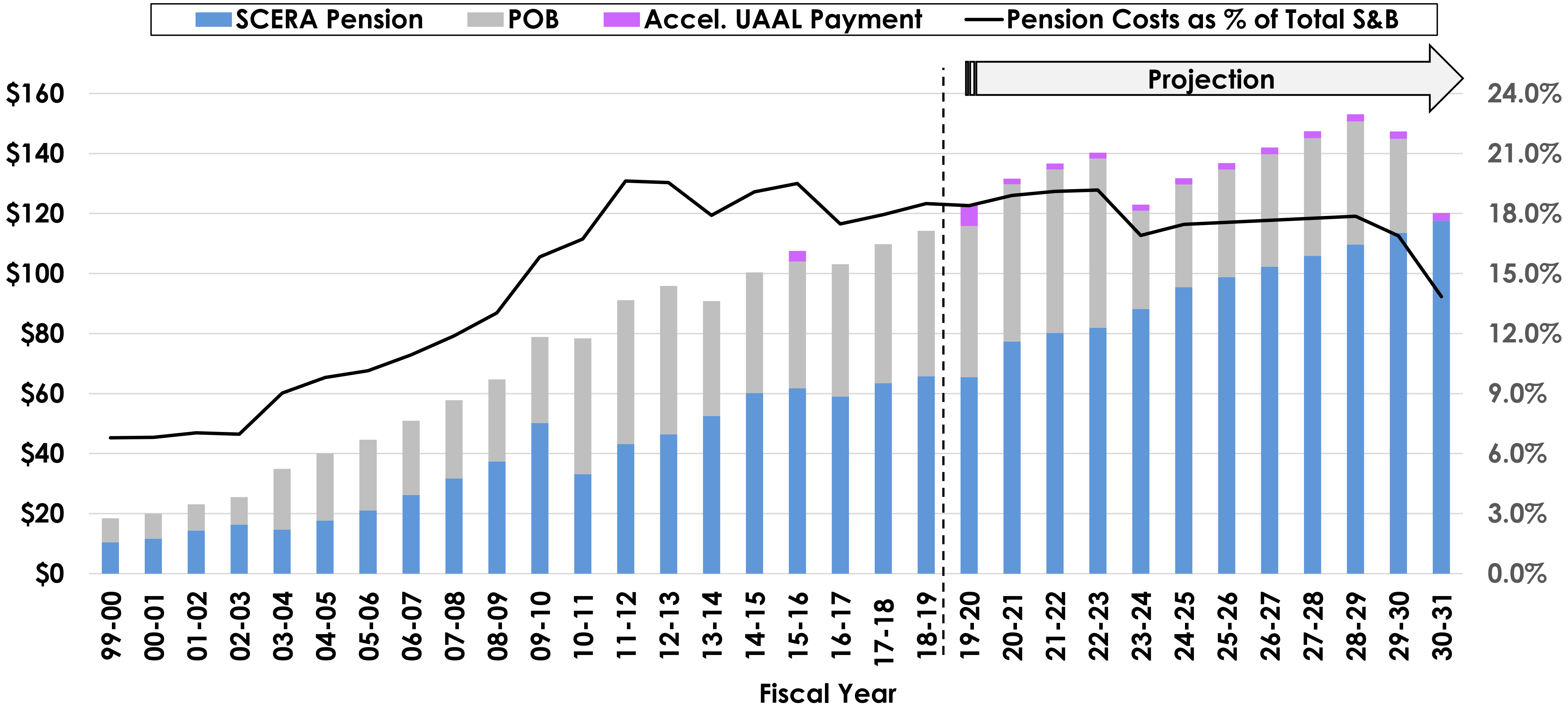
Future Year Pension Cost Projections

- County's pension forecasting methodology has been refined to better account for future risk.
- Projected pension contribution costs now assume the employer contribution rate will increase by an average of 0.33% of payroll annually in excess of assumed inflation of 3.25%.
  - The 0.33% increase was calculated based on the average yearly contribution rate increases experienced by the County over the past 10 years.
  - Experience over the past 10 years includes major events and risk factors, such as investment losses from the Great Recession, issuance of 2010 Pension Bond, lowering of the assumed discount rate, membership demographic changes, and implementation of new PEPRA retirement tiers.
- The projection now includes annual prepayments towards UAAL equal to 0.5% of pensionable payroll, including avoidance of UAAL interest costs.
- 1993, 2003, and 2010 Pension Bond expenses are based on fixed 20-year payment schedules, with no changes compared to prior forecasts.
- In FY 23-24, Pension Bond costs will drop when the 2003 issuance is paid off, but the cost savings will be partially offset by the assumed expiration of supplemental unfunded liability contributions currently for PEPRA plan members and certain legacy plan members.

POB Expenses Based on Fixed Payment Schedules



Pension Cost Forecast



SCERA

Segal

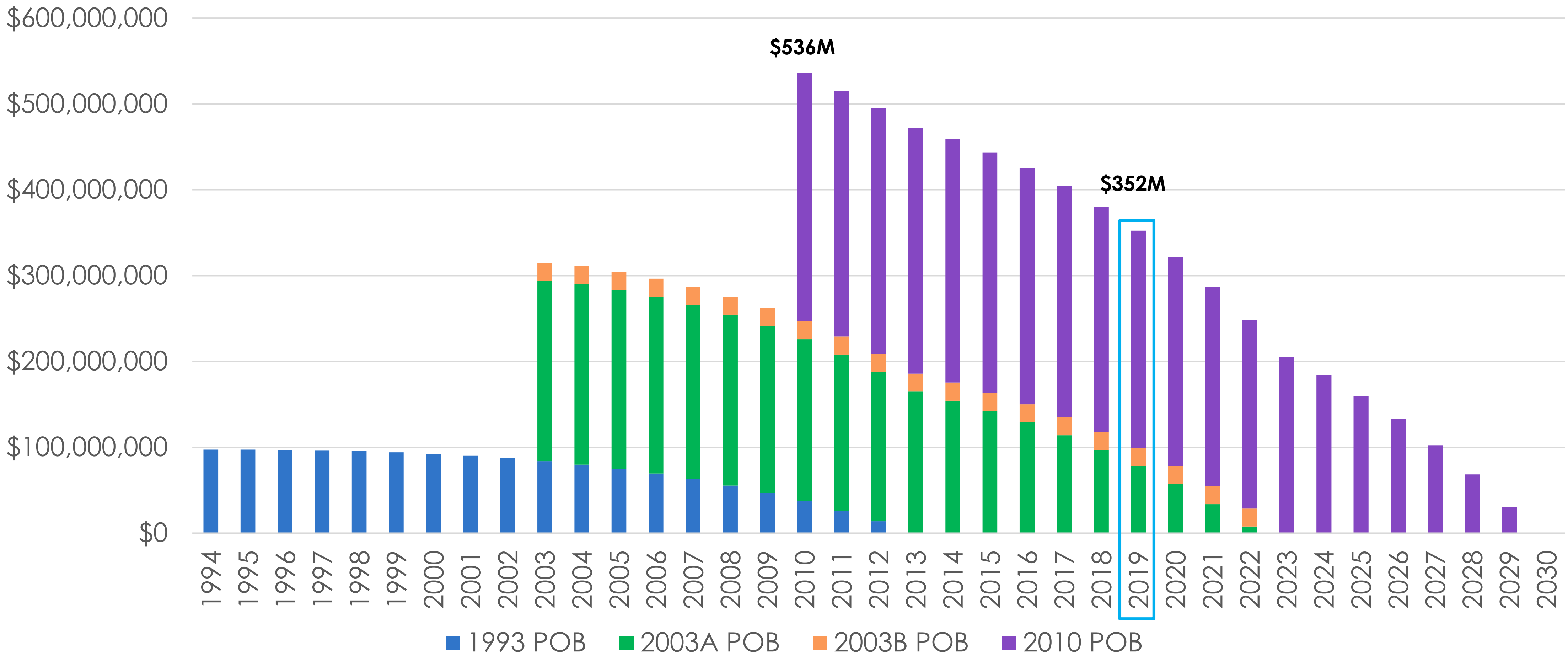
III. Pension Liabilities

Pension Obligation Bonds

- POB Debt = Refinanced the County's Unfunded 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 6/30/19			
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	$78.2	$7.0	$85.2	24.6%
Series 2003B	5.18%	20	2023	$21.0	$20.9	$41.9	$21.0	$3.8	$24.8	59.1%
Series 2010A	5.90%	20	2030	$289.3	$242.9	$532.2	$253.2	$102.2	$355.4	66.8%
Grand Total				**$617.9**	**$495.8**	**$1,113.7**	**$352.4**	**$113.0**	**$465.4**	**41.8%**

Pension Obligation Bonds - Principal Balance by Fiscal Year



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 liability and its Actuarial Value of Assets, which accounts for recognizing 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 CAFR 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

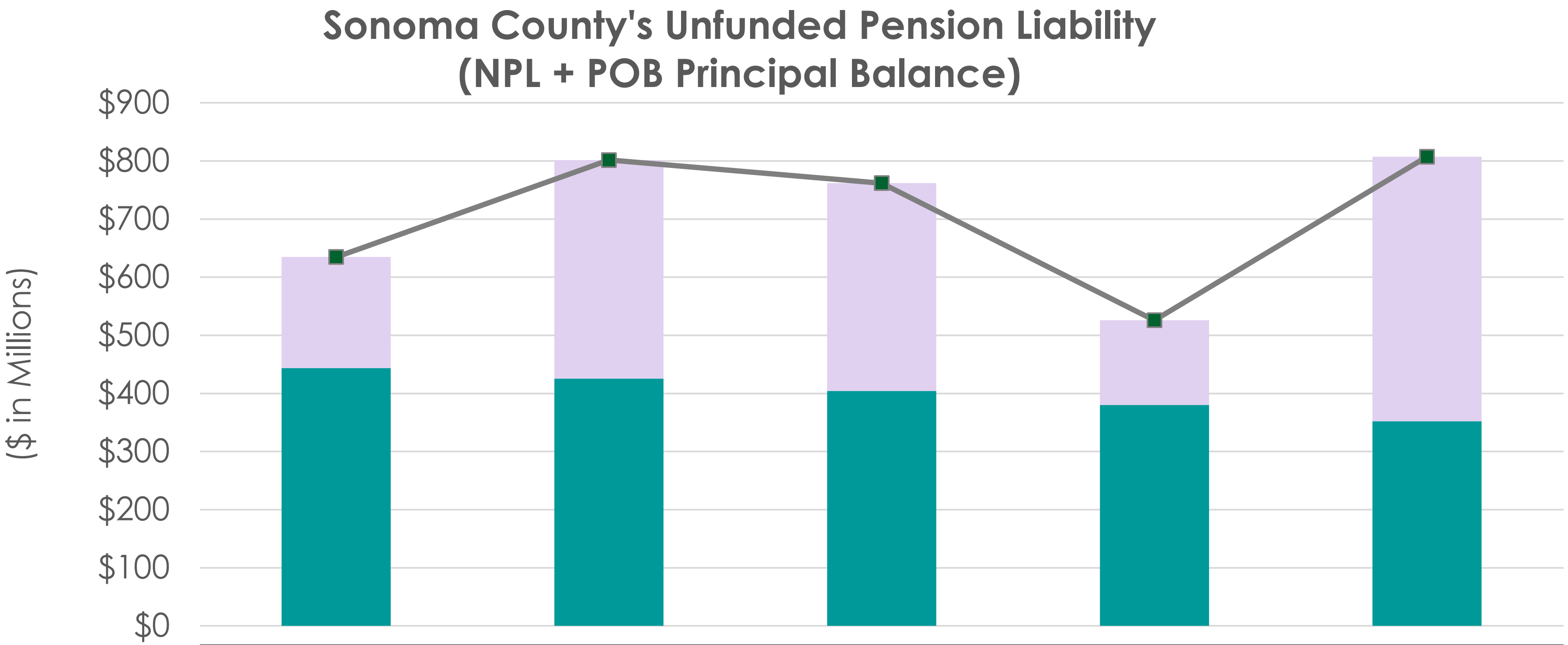
Net Pension Liability ($ in Millions)	FY 18-19	FY 17-18
SCERA Total Pension Liability	$3,072	$2,917
SCERA Fiduciary Net Position	($2,578)	($2,748)
Total Net Pension Liability	**$494**	**$169**
County's Proportionate Share of NPL[1]	**$455**	**$146**

Unfunded Actuarial Accrued Liability ($ in Millions)	FY 18-19	FY 17-18
SCERA Total Pension Liability	$3,072	$2,917
Actuarial Valuation of Assets	($2,667)	($2,557)
Total Net Pension Liability	**$404**	**$360**
County's Proportionate Share of UAAL[2]	**$371**	**$328**

Note 1: *Sourced from GAS 68 Report for 6/30/19 (excludes Court, Valley of the Moon, and SCTA).*

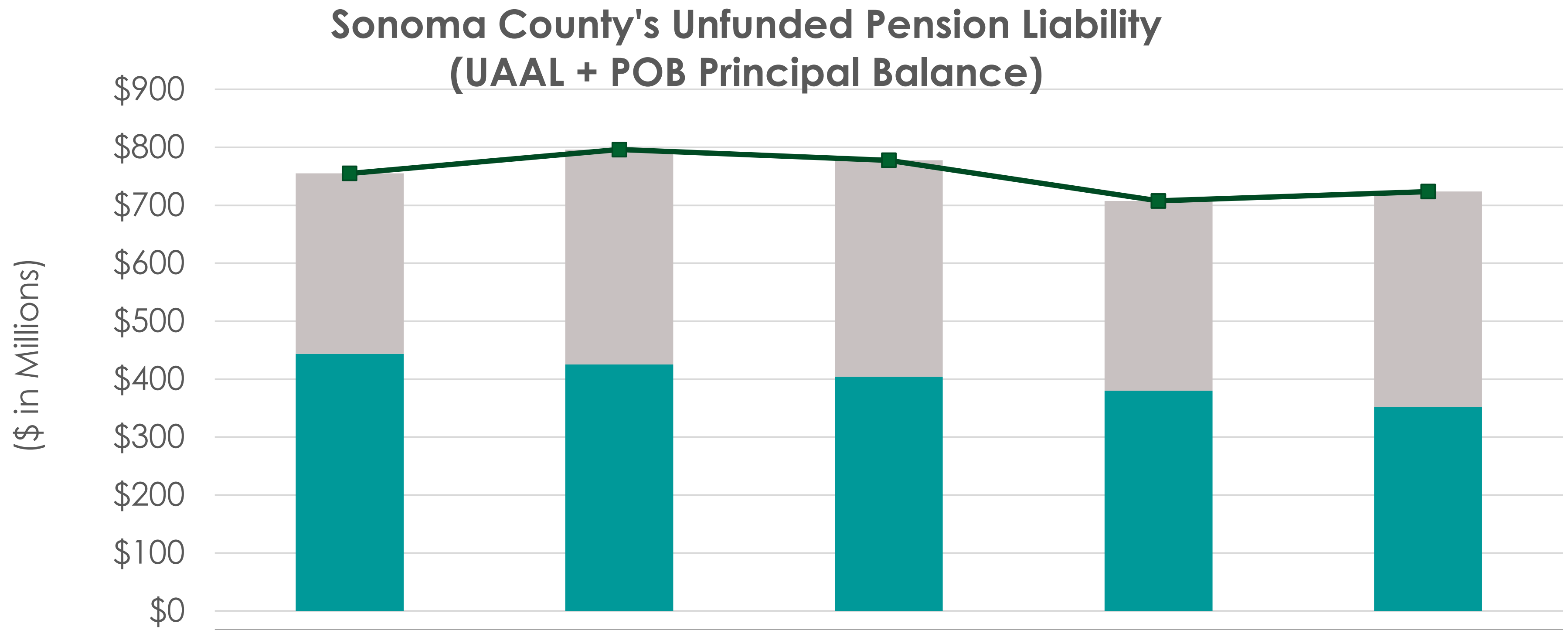
Note 2: *Sourced from SCERA's Actuarial Valuation as of 12/31/18, Exhibit H.*

Total Unfunded Pension Liability Based on NPL



	06/30/15	06/30/16	06/30/17	06/30/18	06/30/19
County Share of NPL	$191	$376	$358	$146	$455
County POB Balance	$444	$425	$404	$380	$352
Total	$635	$802	$762	$526	$807

Total Unfunded Pension Liability Based on UAAL



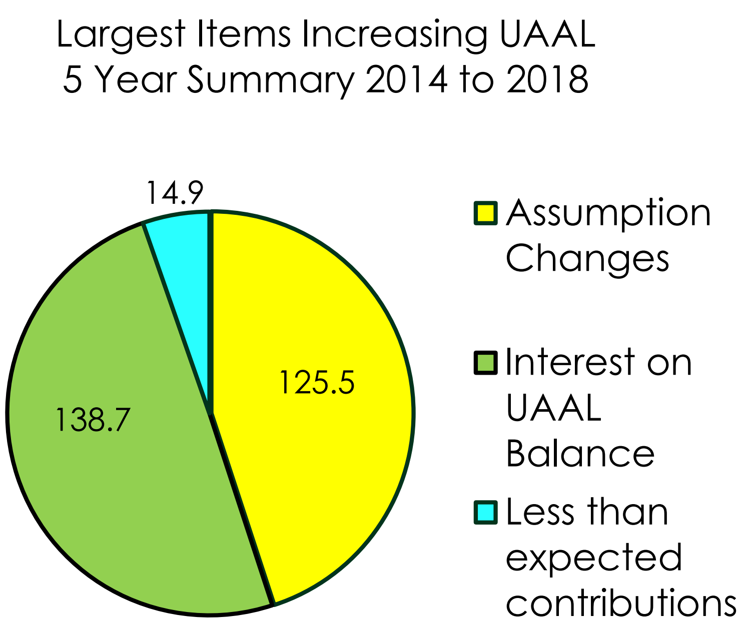
	06/30/15	06/30/16	06/30/17	06/30/18	06/30/19
County Share of UAAL	$312	$371	$374	$328	$371
County POB Balance	$444	$425	$404	$380	$352
Total	$755	$796	$778	$708	$724

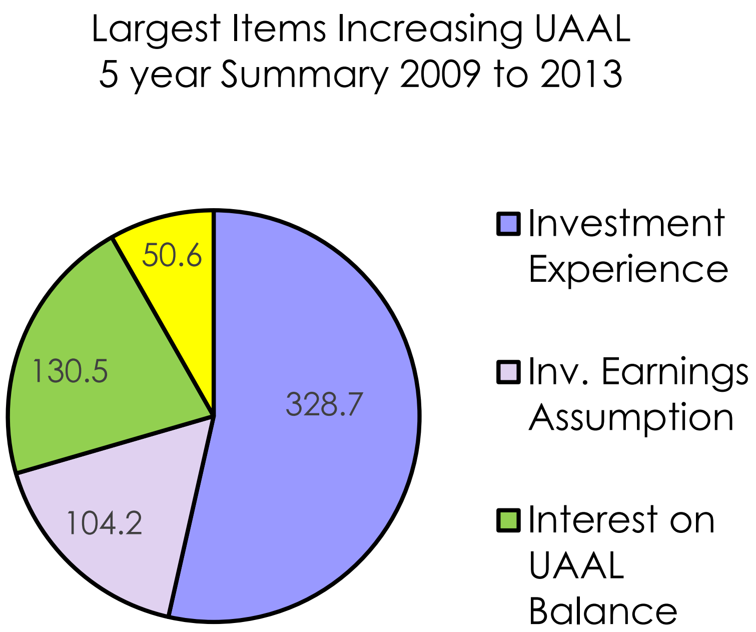
IV. SCERA Administrator Update

SCERA Actuarial Analysis of Plan Experience (as of Dec. 2018)

SCERA Actuarial Analysis of Financial Experience						
(K$)	2018	2017	2016	2015	2014	5-Yr. Total
Beginning of the Year UAAL Liability (Surplus)	359,557	408,227	405,922	343,043	449,443	
Source of Actuarial (Gain) Loss:						
Compensation Increase Greater/(Less) than Expected	11,293	4,586	5,983	(12,829)	(64,347)	(55,314)
Investment Experience recognized	13,629	(44,256)	891	(3,307)	(44,167)	(77,210)
Other Experience	661	(3,890)	(859)	(2,546)	(5,254)	(11,888)
(Greater)/Less than Expected Contributions	(493)	4,568	4,094	(3,519)	10,343	14,993
Composite (Gain) Loss for the Year - Total	25,090	(38,992)	10,109	(22,201)	(103,425)	(129,419)
Other Items Impacting UAAL:						
Assumption Change (Economic and Demographic)	31,798			93,686		125,484
Interest Accrual on UAAL Balance	24,876	28,358	28,249	24,727	32,514	138,724
County's Additional UAAL Payment				(3,661)		(3,661)
Expected employer/member contributions less Normal Cost	(36,589)	(38,036)	(36,053)	(29,672)	(35,489)	(175,839)
Other Items Impacting UAAL - Total	20,085	(9,678)	(7,804)	85,080	(2,975)	84,708
End of the Year UAAL Liability (Surplus)	404,732	359,557	408,227	405,922	343,043	

SCERA Actuarial Experience (as of Dec. 2018)





SCERA Unfunded Actuarial Accrued Liability

Major Events in Past 15 Years

- Safety members: 3% at 55 (2003)
- General Members: 3% at 60 (2004)
- Safety Members: 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 Final Average Salary Calculations (2013, impacted 2012 valuation)

SCERA Current Active and Deferred Membership (as of Dec. 2018)

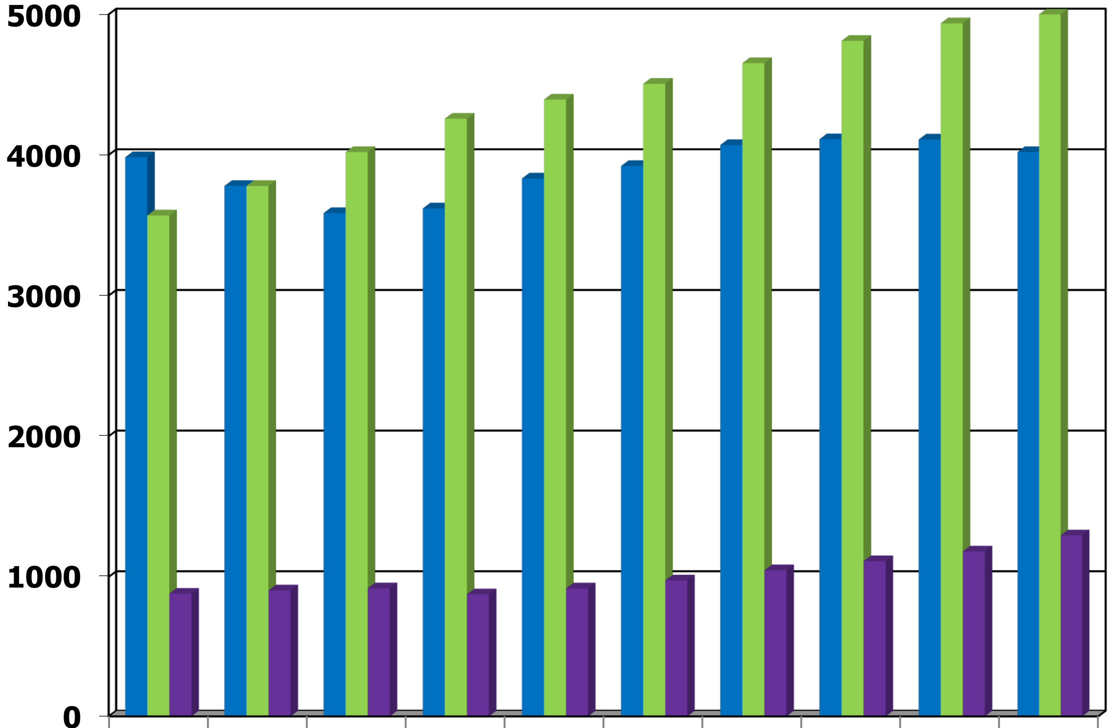
Active General			
Plan	**Number**	**Avg. Age**	**Avg. Service**
Plan A Legacy	1,937	50	14.0
Plan B PEPRA	1,372	41.2	3.0
Total	**3,309**		

Active Safety			
Plan	**Number**	**Avg. Age**	**Avg. Service**
Plan A Legacy	500	44.9	14.5
Plan B PEPRA	212	33.8	2.5
Total	**712**		

Total Active Plan A 2,437 (61%)	**Total Active Plan B** 1,584 (39%)

Deferred General			Deferred Safety		
Plan	**Number**	**Avg. Age**	**Plan**	**Number**	**Avg. Age**
Plan A Legacy	729	48.6	Plan A Legacy	175	44.2
Plan B PEPRA	350	39.9	Plan B PEPRA	41	31.9
Total	**1,079**			**216**	
Grand Total 1,295					

SCERA Membership (as of Dec. 2018)

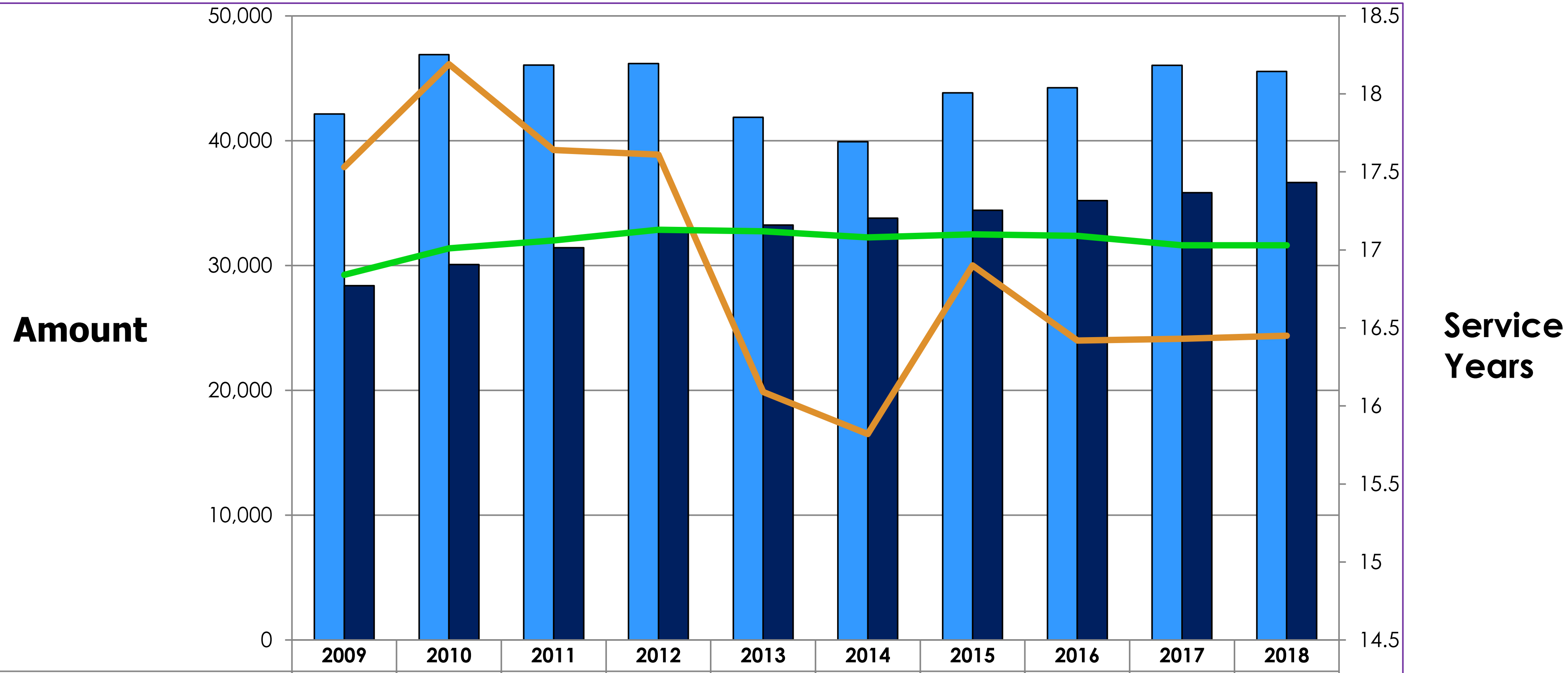


	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Active	3984	3780	3587	3620	3833	3922	4071	4112	4110	4021
Retiree/Beneficiary	3570	3780	4021	4258	4394	4506	4653	4812	4936	5096
Deferred	881	904	919	876	918	975	1047	1112	1181	1295

2018 Retiree/Beneficiary		
General	Safety	Total
4,166	930	5,096

Average age at Retirement	
All Retirees as of 2018	56.6
New Retirees in 2018 (227)	58.7

SCERA Average Annual Retirement Benefit (as of Dec. 2018)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Avg. Annual $ - New Retirees	42133	46893	46051	46180	41865	39920	43836	44239	46025	45551
Avg. Annual $ - All Retirees	28388	30081	31423	32715	33249	33793	34424	35201	35826	36648
Avg. Years of Service - New	17.53	18.19	17.64	17.61	16.09	15.82	16.9	16.42	16.43	16.45
Avg. Years of Service - All	16.84	17.01	17.06	17.13	17.12	17.08	17.1	17.09	17.03	17.03

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SCERA Investment Returns

Investment Returns (Net of Fees)

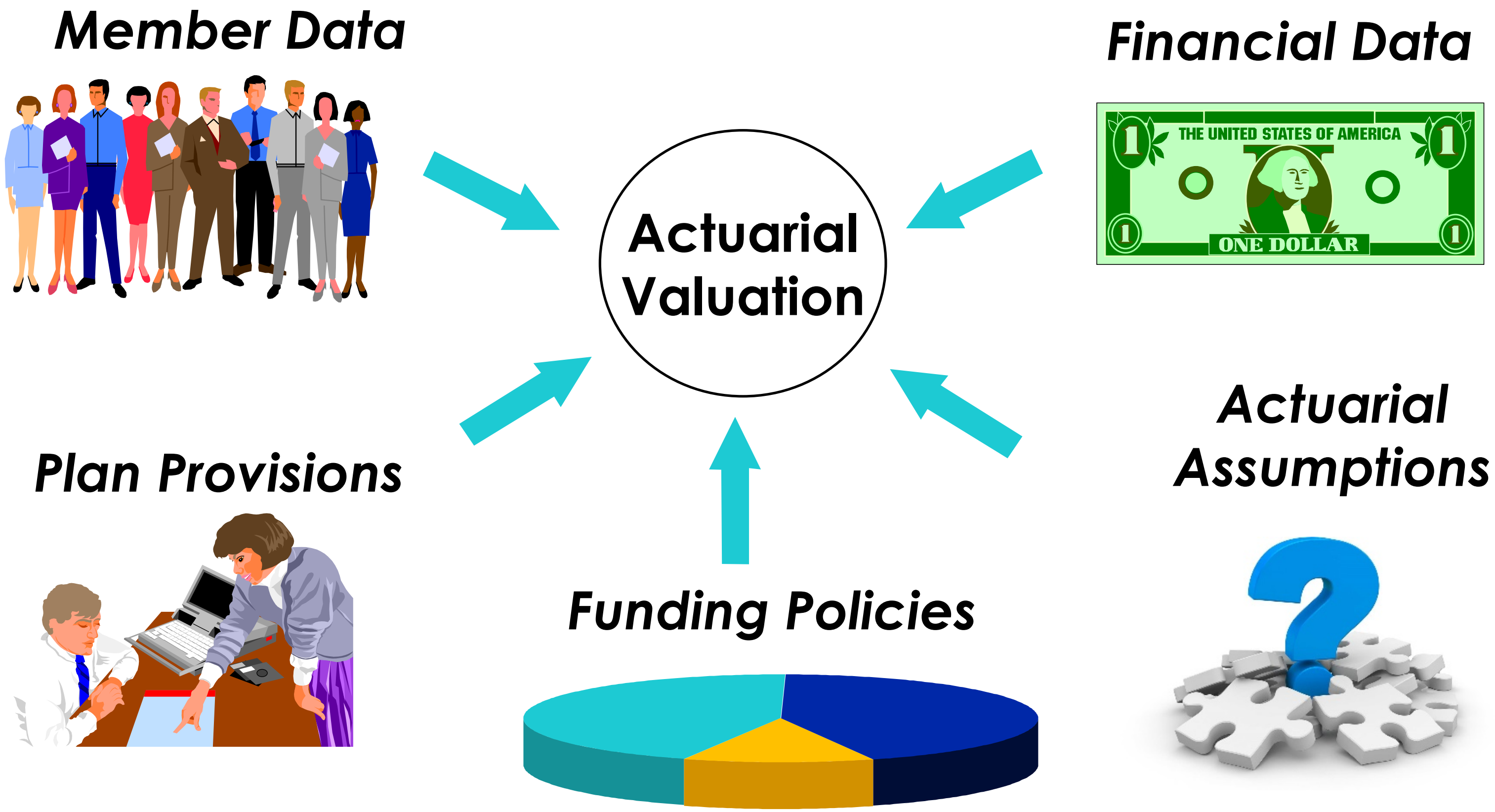
Calendar year-end information

	Annualized Return 12/31/18	Annualized Return 12/31/17	Annualized Return 12/31/16	Annualized Return 12/31/15	Annualized Return 12/31/14
1 Year	-3.3%	16.4%	8.8%	1.7%	5.6%
3 Year	7.0%	8.8%	5.3%	8.7%	13.0%
5 Year	5.6%	10.2%	9.7%	8.1%	10.3%
10 Year	9.1%	5.7%	4.9%	5.5%	6.2%
15 Year	6.3%	8.1%	6.1%	5.0%	4.8%
20 Year	5.5%	6.4%	6.6%	6.9%	8.1%
30 Year	8.1%	8.7%	8.2%	8.5%	9.2%

Sourced from Aon Hewitt Investment Consulting

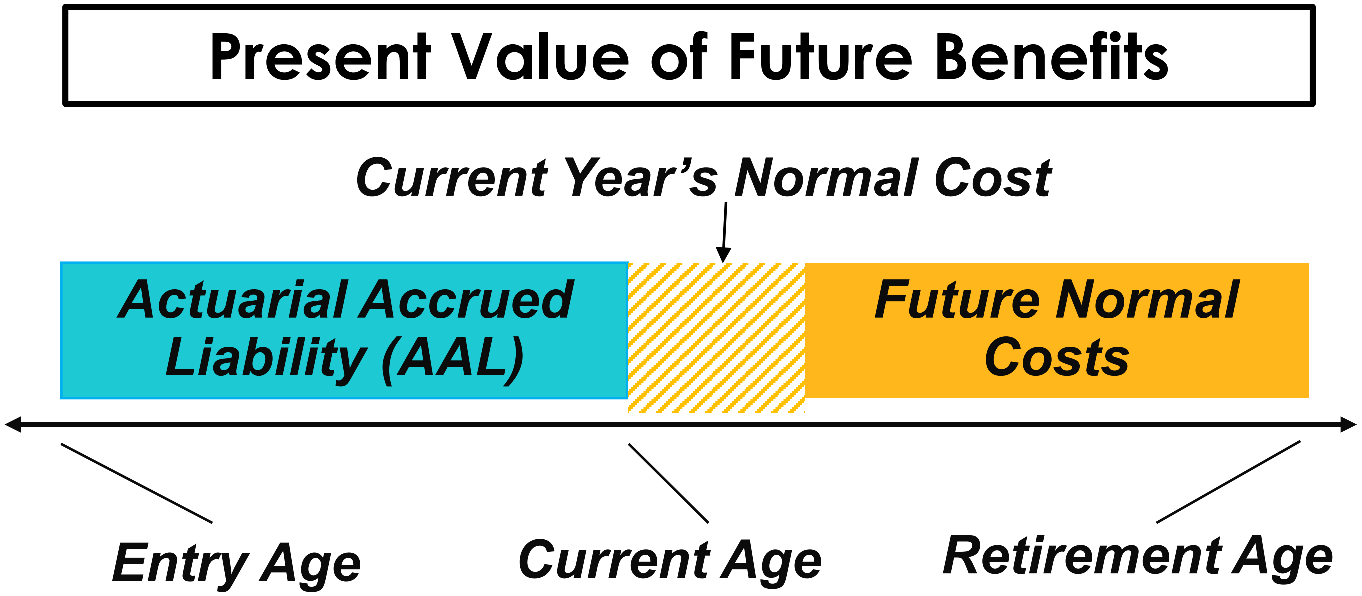
V. 2018 Actuarial Valuation (Prepared by Segal)

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 – 2018 Experience Study

Actuarial assumptions reviewed in triennial experience study before December 31, 2018 valuation — two kinds:

- Demographic
  - When benefits will be payable
  - Amount of benefits
  - Developed using experience from January 1, 2015 to December 31, 2017
- Economic
  - How assets grow
  - How salaries and benefits increase

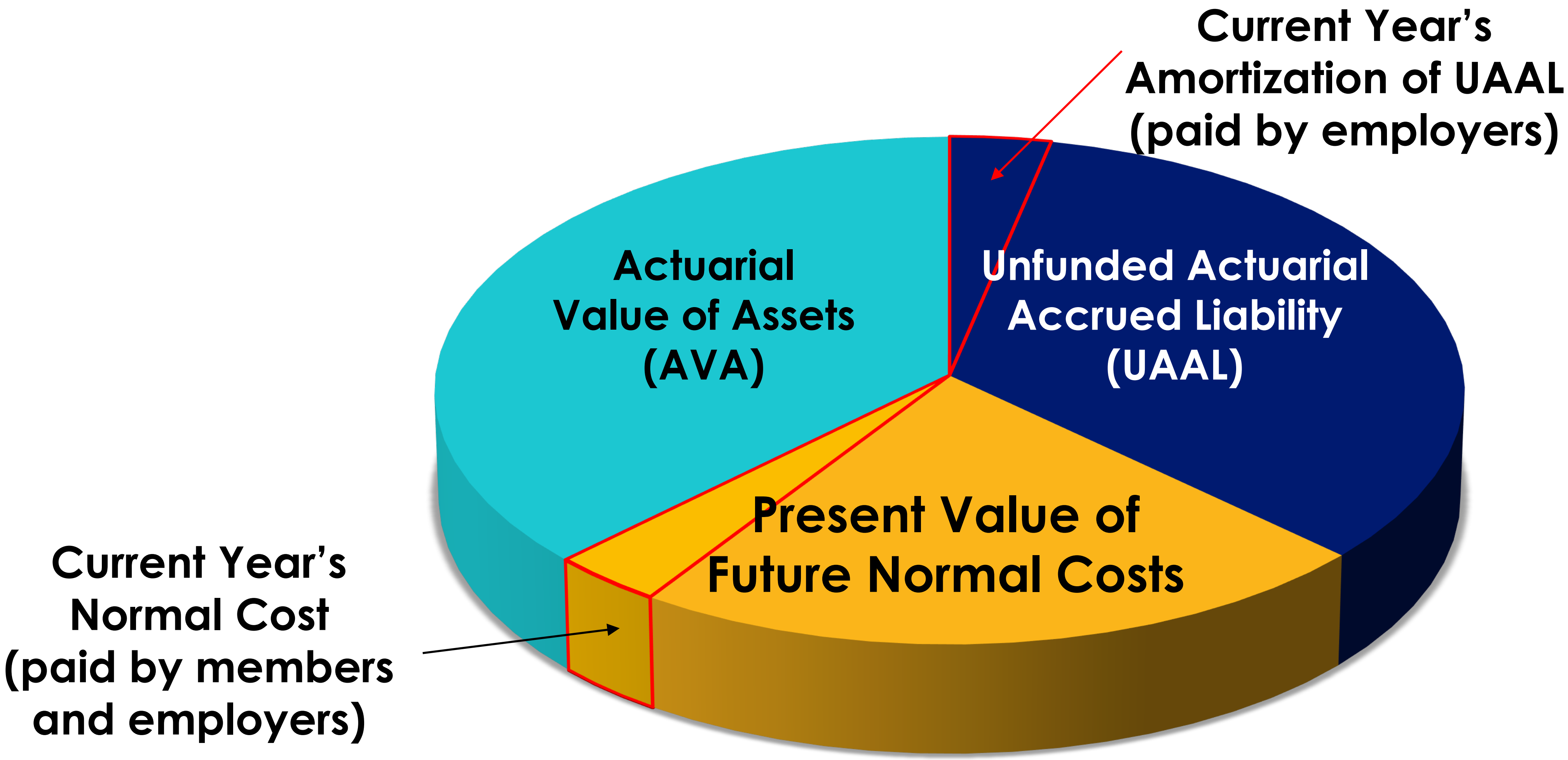
Actuarial Assumptions – 2018 Experience Study

- Demographic assumptions
  - Changes in mortality, retirement, termination and disability rates
- Economic assumptions
  - Reduction in inflation rate from 3.00% to 2.75% and interest rate from 7.25% to 7.00%
  - Other changes in salary increase rates
- Financial impact of all assumption changes
  - Increase in Unfunded Actuarial Accrued Liability (UAAL) by $31.8 million
  - Increase in contribution rate: 1.3% of payroll for employer and 0.5% for employee
  - Of all the changes, reduction in interest rate to 7.00% has the most significant financial impact, which is borne by the County as employer.

Experience During the Year

- UAAL increased from $359.6 million to $404.7 million
  - Primarily as a result of assumption changes ($31.8 million)
  - Rest from investment ($13.6 million), salary changes ($11.3 million) and other experience
- Average employer contribution rate increased from 18.8% to 20.6% of payroll
  - Primarily as a result of assumption changes (1.3% of payroll)
  - Rest from investment (0.3% of payroll), salary changes (0.3% of payroll) and other experience
  - Results in estimated cost increase for the County in FY 2020-21 of approximately $6.5 million.

Funding Retirement Benefits – Contribution Elements



Valuation Results ($ in thousands)

	12/31/2018	12/31/2017
Market Value of Assets (MVA)	$2,577,809	$2,748,040
Valuation Value of Assets (VVA)	$2,667,345	$2,557,299
Actuarial Accrued Liability (AAL)	$3,072,077	$2,916,856
Unfunded AAL (AAL less VVA)	$404,732	$359,557
Funded Percentage (VVA Basis)	86.8%	87.7%
Funded Percentage with recognition of deferred gains/(losses)	83.9%	94.2%

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2018	12/31/2017
General Plan A		
Employer Contribution Rate (% payroll)	19.8%	18.3%
Employer Contribution (Annual Amount)	$35,567	$32,884
Employee Contribution Rate (% payroll)	12.1%	11.8%
Employee Contribution (Annual Amount)	$21,773	$21,178

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2018	12/31/2017
General Plan B		
Employer Contribution Rate (% payroll)	14.5%	13.2%
Employer Contribution (Annual Amount)	$15,607	$14,177
Employee Contribution Rate (% payroll)	10.5%	10.4%
Employee Contribution (Annual Amount)	$11,264	$11,146

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2018	12/31/2017
Safety Plan A		
Employer Contribution Rate (% payroll)	30.9%	27.5%
Employer Contribution (Annual Amount)	$16,548	$14,681
Employee Contribution Rate (% payroll)	12.1%	11.6%
Employee Contribution (Annual Amount)	$6,445	$6,188

Valuation Results ($ in thousands)

Employer & Employee Contributions: (County Members Only)	12/31/2018	12/31/2017
Safety Plan B		
Employer Contribution Rate (% payroll)	22.4%	20.1%
Employer Contribution (Annual Amount)	$4,253	$3,806
Employee Contribution Rate (% payroll)	15.4%	14.0%
Employee Contribution (Annual Amount)	$2,919	$2,650

New for 2019 – Risk Assessment Report

- New Actuarial Standard of Practice (ASOP) No. 51 on risk assessment and disclosure
  - Effective with December 31, 2018 valuation for SCERA
  - See SCERA Risk Report dated September 30, 2019
- Why is 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.
  - Intended users of these measurements may not understand the effect of past and future experience differing from the assumptions.
  - The purpose of the ASOP No. 51 report is to assist the Board of Retirement, participating employers, members, and other stakeholders to better understand and assess the risk profile of the Retirement System.

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.

VI. Pension Reform & Legal Update

UAAL Prepayments

- New Board financial policy adopted June 2019 authorizes annual prepayments towards unfunded liability, equal to 0.5% of Pensionable Payroll, plus the option for additional one-time payments if funding is available.
- Annual UAAL Prepayments, plus the additional 1x prepayment of $5M in FY 19-20, will avoid **$14.7M** of interest costs over 15 years, and more over time.

20-Year Amortized Cost ($ in millions)*	UAAL Principal	UAAL Prepayment	Interest Cost	Total Cost	Est. Payoff Year
Total UAAL Cost Assuming No Prepayments	$371.4	$0.0	$196.0	$567.4	2034
Annual 0.5% Prepayment	$(25.9)	$25.9	$(10.7)	$(10.7)	
1x FY 19-20 Prepayment	$(5.0)	$5.0	$(4.0)	$(4.0)	
New Total w/ Prepayments	**$340.5**	**$30.9**	**$181.3**	**$552.7**	**2031**

** Estimated UAAL costs per Segal's analysis, based on 2018 SCERA Actuarial Valuation assumptions (7.00% discount rate; 3.25% annual inflation; and amortized over 20 years).*

Unfunded Liability Cost Sharing with Employees

- All employees pay supplemental contributions towards the County's Unfunded Liability (3.03% for General members; 3.00% for Safety members).
  - Paid for ~$10.7M (28%) of the County's annual $38.3M UAAL cost in 2019.
  - Supplemental contributions expire June 2023 for Safety and June 2024 for General members.
- Latest 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:
  - Salary Resolution, Deputy Sheriff's Association, Deputy Sheriff's Law Enforcement Management, Sonoma County Law Enforcement Association, Sonoma County Deputy Public Defender Attorneys' Association, and Engineers and Scientists of California.
  - Results in estimated cost avoidance of **$2.6M** in 2025, declining gradually each year thereafter due to replacement of Legacy members with PEPRA members.
- Unfunded Liabilities Working Group will convene March 2021 to study and recommend long-term cost containment solutions for pension and OPEB.

Legal Update – Decided Cases

- Various California Supreme Court Cases with pension reform implications.

- **Decided case: *Cal Fire Local 2881 v. CalPERS***
  - Challenge to PEPRA's elimination of the right to purchase "air time" as pensionable compensation.
  - 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.

Legal Update – Pending Cases

Pending California Supreme Court Cases:

1. ***Alameda County Deputy Sheriff's Assn v. Alameda County Employees' Retirement.***
   - Supreme Court to set an oral argument date in the next couple of months.
   - Question before the court: "*Did statutory amendments to the County Employees' Retirement Law (CERL) made by 2013 PEPRA reduce the scope of the pre-existing definition of pensionable compensation and thereby impair employees' vested rights protected by the contracts clauses of the state and federal Constitutions?*"

2. ***Marin Assn. of Pub. Employees v. Marin County Employees' Ret. Assn.***
   - Case accepted for review but briefing deferred pending further decision in the Alameda case.

VII. Recap, Next Steps & Policy Options

Recap Summary

- County's pension costs were $114M in FY 18-19; equal to 18.5% of Total Salaries & Benefits, 34.0% of pensionable payroll, and 9.2% of operating revenue.
- Ratio of pension costs to Total Salaries & Benefits is forecasted to remain in a range between 17-19% over the next 10 years, before decreasing to 13.8% in FY 30-31 after final Pension Bond payment.
- SCERA's 2018 Actuarial Valuation reflects assumption changes from triennial experience study and lower than expected investment returns, resulting in the County's contribution costs <u>increasing</u> in FY 20-21 by ~1.8% of payroll, or approximately $6.5 million.
  - SCERA Pension is 86.8% funded as of Dec. 31, 2018, compared to 70% for CalPERS.
  - Unfunded Liabilities increased by $16M to $724M (including POB debt).
- Board's approved UAAL prepayments and negotiated extension of certain employees' supplemental contributions will avoid an estimated $14.7M of interest costs over the next 15 years, with more costs avoided thereafter.

Looking Ahead

Today's report is informational only, and is meant to inform the Board's long term fiscal planning and provide transparent information to the public. Looking ahead:

- **May 2020:** Segal's SCERA 2019 Actuarial Valuation will be published; the rates included therein will impact the County's FY 2021-22 budget.
- **June 2020:** Budget Hearings materials will include an Unfunded Liabilities memo (Pension and Other Post-Employment Benefits).
- **March 2021:** State of the Pension System Annual Report (data thru FY 2019-20).
  - 2019 Actuarial Valuation data may be presented earlier.
- **March 2021**: Unfunded Liabilities Working Group will convene to study and recommend long-term cost containment solutions for pension and OPEB.
- Will continue monitoring status of California Supreme Court cases.

Questions/Discussion