

**Agenda Item No. 2
December 4, 2013 Meeting**

DATE: November 19, 2013
TO: Children and Families Commission of Orange County
FROM: Christina Altmayer, Executive Director 
SUBJECT: Adoption of Employer and Employee Retirement Contribution Rates for FY 2014/15 and Early Payment of Employer Contribution

SUMMARY:

The Children and Families Commission of Orange County annually adopts employer and employee retirement contribution rates as required by AB 538 (effective January 1, 2006). Assembly Bill 538 requires special districts, boards, and commissions that participate in the Orange County Employees Retirement System (OCERS), but are not governed by the Board of Supervisors, to adopt the same adjustments to employer and employee contribution rates as recommended and adopted by OCERS for the County and other participating plan sponsors.

DISCUSSION:**FY 2014-15 Retirement Rates**

On July 15, 2013, the OCERS Board of Trustees adopted new employer and employee retirement contribution rates for FY 2014/15. These rates are based on a comprehensive actuarial study of the Retirement System performed by The Segal Company. The "Actuarial Valuation and Review as of December 31, 2012" summarizes the actuarial data used in the valuation, and establishes the OCERS funding requirements for FY 2014/15.

Attachment 1 presents the employer and employee contribution rates for the Commission that was recommended and adopted by the OCERS Board for FY 2014/15. The rates consist of two components, the Normal Retirement Rate (which covers retirement costs going forward), and the Unfunded Accrued Actuarial Liability (UAAL) rate (which covers retroactive retirement costs). The FY 2014/15 employer combined rate of 35.41% represents an increase of 13.75% above the FY 2013/14 of 31.13%.

The employee Normal Rate (determined by employee age at entry to OCERS) experienced a similar increase for FY 2013/14. Also, the employee additional contribution (Pick-Up Rate for Future Service Only) was increased by 17.6% from 2.96% to 3.48% for FY 2013/14. Commission approval is recommended to adopt the employer and employee retirement contribution rates as recommended and adopted by OCERS for FY 2014/15, as shown in Attachment 1.

OCERS Board Update

On November 18, 2013, the OCERS Board of Trustees reconsidered both the assumed earnings rate and the actuarial funding policy, specifically amortization periods. The OCERS Board made no changes to the December 5, 2012 adopted investment return assumption of 7.25%. The actuarial funding alternatives considered by the Board were designed to ensure that future contributions plus current assets are sufficient to fund all benefits for members and to enhance the accuracy and credibility of the actuarial calculations. The new adopted policy will amortize future actuarial gains and losses as well as any future assumption or method changes to the system over 20 years. The OCERS Board also approved a new amortization policy for all current layers of the Unfunded Actuarial Accrued Liability (UAAL) of 20 years.

The change in investment return assumption from 7.75% to 7.25% increased the contribution rates for FY 2014/15 and will be completely phased in by FY 2015/16. Changes in the actuarial funding policy for future gains, losses and assumption changes have no current cost and apply to future periods only. The

recently adopted actuarial policy related to all current layers of the UAAL will slightly reduce contribution rates as a percentage of payroll beginning in FY 2015/16.

Early Payment of Employer Contributions

On July 15, 2013, the Board of Retirement approved an early payment discount on employer contributions paid by the employer for contribution year July 1, 2014 through June 30, 2015. Payment must be made to OCERS by January 15, 2014 to receive a discount rate of 7.25% used in calculating the present value of discounted cash flows. The Commission has taken advantage of the early payment provision for the past three years.

The necessary steps for the Commission to participate in the early payment discount for FY 2014/15 are being implemented. The forecasted gross yield through the Orange County Investment Pool (OCIP) is 0.37% for FY 2013/14. Since fixed income returns are not expected to be significantly higher for FY 2014/15, securing a 7.25% discount by early payment is a prudent budgeting decision that will not impact required cash flow nor interest earnings.

The estimated Commission employer contribution for FY 2013/14 is \$391,573. The adjusted employer contributions including the early payment discount of 7.25% will be approximately \$363,194 resulting in retirement contribution savings of \$28,389. Initial deposit of early payment funds with OCERS will be recorded as a prepayment for accounting treatment, and no retirement expenses will be recognized until each Commission employee earns the retirement benefit as calculated by service hours provided in FY 2014/15. A year-end estimate to actual reconciliation will be performed by OCERS, and credits against future employer contributions will be provided in the event of over-payment.

STRATEGIC PLAN & FISCAL SUMMARY:

The FY 2014/15 retirement contribution rates recommended and adopted by OCERS, has been reviewed in relation to the Commission's Strategic Plan, and is consistent with prior Commission practice and support all goal areas and outcome goals of the Strategic Plan. Commission staff will incorporate the FY 2014/15 retirement contribution rates into the FY 2014/15 Commission budget.

PRIOR COMMISSION ACTION:

November 7, 2012 - Adopted implementation of employer and employee retirement contribution rates as recommended and adopted by OCERS for FY 2013/14.

RECOMMENDED ACTION:

Adopt implementation of FY 2014/15 employer and employee retirement contribution rates as established and adopted by the Orange County Employees Retirement System on July 15, 2013.

ATTACHMENT:

1. OCERS Employer and Employee Retirement Contribution Rates for FY 2014/15

Contact: Michael Garcell



**Orange County Children and Families Commission
Employer / Employee Contribution Rates
Effective July 1, 2014**

Employer Contribution Rates

| Rate Group | Plan | Rate | |
|-------------------|---|---------------|-------------------|
| #2 | I & J (Future Service) ** | Normal | 13.69% |
| | | UAAL * | <u>23.81%</u> |
| | Total Contribution | | 37.50% |
| | Total Contribution After 2-Year Phase-In | | 35.41% *** |
| #2 | U - PEPR A | Normal | 7.44% |
| | | UAAL | <u>25.85%</u> |
| | Total Contribution | | 33.29% |
| | Total Contribution After 2-Year Phase-In | | 32.05% *** |

***UAAL Rate Adjustment for Future Service Only:**

General employers with the 2.7% at 55, Rate Group #2 future service only benefit improvement, are subject to the UAAL rate adjustment of 2.04% for future service only. The UAAL rate is calculated as follows: 25.85% (original rate) – 2.04% (future service adjustment) = 23.81%.

****Reverse Pickups:**

OCCFC Bargaining Units under the 2.7% at 55 plan are subject to an Employee-paid Reverse Pickup, which has not been accounted for in the Employer rate above. Any Reverse Pickup arrangements are between the plan sponsors and Employee Bargaining Units.

***** Two-Year Phase-In**

The Board of Retirement adopted a two-year phase-in of the impact of the change in economic assumptions on the employer contribution rates.

Employee Contribution Rates

| Entry Age | PLAN I (2.7% @ 55) | PLAN J (2.7% @ 55) | PLAN U (2.5% @ 67) PEPRA |
|------------------|---------------------------|---------------------------|-------------------------------------|
| 15 | 10.42% | 9.96% | 6.00% |
| 16 | 10.42% | 9.96% | 6.00% |
| 17 | 10.57% | 10.10% | 5.75% |
| 18 | 10.72% | 10.24% | 5.50% |
| 19 | 10.88% | 10.39% | 5.50% |
| 20 | 11.03% | 10.54% | 5.75% |
| 21 | 11.19% | 10.69% | 5.75% |
| 22 | 11.35% | 10.84% | 5.75% |
| 23 | 11.51% | 11.00% | 6.00% |
| 24 | 11.68% | 11.15% | 6.00% |
| 25 | 11.84% | 11.31% | 6.25% |
| 26 | 12.01% | 11.48% | 6.25% |
| 27 | 12.19% | 11.64% | 6.50% |
| 28 | 12.36% | 11.81% | 6.50% |
| 29 | 12.54% | 11.98% | 6.75% |
| 30 | 12.72% | 12.16% | 6.75% |
| 31 | 12.91% | 12.33% | 7.00% |
| 32 | 13.10% | 12.52% | 7.00% |
| 33 | 13.30% | 12.70% | 7.25% |
| 34 | 13.50% | 12.89% | 7.25% |
| 35 | 13.70% | 13.09% | 7.50% |
| 36 | 13.91% | 13.29% | 7.75% |
| 37 | 14.13% | 13.49% | 7.75% |
| 38 | 14.36% | 13.69% | 8.00% |
| 39 | 14.56% | 13.88% | 8.00% |
| 40 | 14.77% | 14.08% | 8.25% |
| 41 | 14.99% | 14.28% | 8.25% |
| 42 | 15.22% | 14.50% | 8.50% |
| 43 | 15.46% | 14.73% | 8.75% |
| 44 | 15.72% | 14.97% | 8.75% |
| 45 | 16.00% | 15.20% | 9.00% |
| 46 | 16.28% | 15.43% | 9.25% |
| 47 | 16.55% | 15.62% | 9.50% |
| 48 | 16.82% | 15.74% | 9.50% |
| 49 | 17.00% | 15.76% | 9.75% |
| 50 | 17.07% | 15.69% | 10.00% |

| <u>Entry Age</u> | <u>PLAN I (2.7% @ 55)</u> | <u>PLAN J (2.7% @ 55)</u> | <u>PLAN U (2.5% @ 67)</u> <u>PEPRA</u> |
|-------------------|---------------------------|---------------------------|---|
| 51 | 17.05% | 15.54% | 10.00% |
| 52 | 16.93% | 15.22% | 10.25% |
| 53 | 16.74% | 15.73% | 10.50% |
| 54 | 16.27% | 16.27% | 10.75% |
| 55 | 16.27% | 16.27% | 11.00% |
| 56 | 16.27% | 16.27% | 11.00% |
| 57 | 16.27% | 16.27% | 11.25% |
| 58 | 16.27% | 16.27% | 11.50% |
| 59 | 16.27% | 16.27% | 11.75% |
| 60 | 16.27% | 16.27% | 11.75% |
| 61 | 16.27% | 16.27% | 12.00% |
| 62 | 16.27% | 16.27% | 11.75% |
| 63 | 16.27% | 16.27% | 11.75% |
| 64 | 16.27% | 16.27% | 11.50% |
| 65 | 16.27% | 16.27% | 12.00% |
| 66 and thereafter | 16.27% | 16.27% | 12.50% |

Average entry age and discount percentages applicable to employee contributions paid under Section 31581.1 are:

| <u>Rate Group</u> | <u>Plan</u> | <u>Discount %</u> | <u>Average Entry Age</u> |
|-------------------|--------------------------|-------------------|--------------------------|
| #2 | Plan I (General) | 97.36% | 32 |
| #2 | Plan J (General) | 94.29% | 32 |
| #2 | Plan U (General) - PEPRA | 91.01% | 32 |