Response to Questions on the 2016 LOBs

Request By: Supervisor Herrity **Relevant LOB(s):** LOBs #309-311

Question: At what point will the County have more people in the retired category versus the active employee category and what is the impact?

Response:

The actuary for the retirement systems has projected that the number of retirees will exceed the number of active employees in 2025 for the Employees' Retirement System, in 2030 for the Uniformed Retirement System, and in 2022 for the Police Officers Retirement System. This projection assumes that the number of active employees remains steady, and that the rate at which employees will retire or terminate employment with the County will be consistent with the actuary's current assumptions.

While the ratio of active employees to retirees, or support ratio, would be very important in a retirement system operated on a pay-as-you-go basis, like Social Security, it is less important in the case of the County's retirement systems because the County has been prefunding its plans. Contributions to the systems are based on actuarial calculations that take into account the liability associated with future retirement payments, and assets have been building up to make those payments when they come due.

It is important to continue to monitor the support ratio, however, as the ratio can play a role in the ability of the retirement systems to recover after economic downturns. During periods of market decline, investment losses impact assets set aside for both retirees and active employees. However, the contributions needed to address losses are only generated from County and active employee contribution rates, which are based on the active covered payroll. Therefore, it can be more difficult for a plan with a low support ratio to recover from market downturns, and investment policies may be adjusted to take less risk in recognition of the declining support ratio. In addition, if the support ratio were to decline to the point where retiree benefit payments exceed contributions to the system, it would be necessary to maintain greater liquidity of plan assets in order to accommodate benefit payments, which in turn could result in lower investment returns.