# Response to Questions on the FY 2012 Budget

**Request By:** Supervisor Cook

**Question:** Please provide a status report on the County's retirement funds.

**Response:** While the economy has provided a difficult backdrop for the Employees', Police Officers, and Uniformed retirement systems, the systems' have seen significant improvements in the performance of their investment portfolios. Additionally, despite the challenging budget climate, the County has continued its strong record of consistently funding the actuarially-determined employer contributions for the systems.

The financial crisis during FY 2009 resulted in significant losses in the value of the invested assets of all three systems. With rates of returns ranging from (17.4%) to (23.7%), investment losses across the three systems totaled approximately $1 billion in FY 2009. These losses significantly impacted the systems' funding ratios and the unfunded actuarial accrued liabilities (UAAL).

**Funding Ratios and Unfunded Actuarial Accrued Liabilities (UAAL)**
**(UAAL in millions)**

| | July 1, 2008 Valuation | | July 1, 2009 Valuation | | July 1, 2010 Valuation | |
|---|---|---|---|---|---|---|
| **Employees'** | 82.7% | $576.0 | 73.6% | $932.6 | 69.9% | $1,135.0 |
| **Police Officers** | 88.1% | 123.3 | 81.7% | 196.5 | 79.3% | 235.5 |
| **Uniformed** | 85.4% | 187.7 | 79.5% | 277.0 | 76.7% | 332.5 |
| **Total Combined UAAL** | | **$887.0** | | **$1,406.1** | | **$1,703.0** |

As investment results are smoothed into the annual actuarial valuations over a three-year period, the FY 2009 investment results impacted the July 1, 2009 and 2010 valuation results and will continue to place negative pressure on the funding status of the systems at the next valuation. In contrast, during FY 2010, the systems' investment performance was exceptional, with the Employees' system placing first (at 25.2%) and the Police Officers system placing second (at 20.8%) in the nation based on rates of returns among *all* public, corporate and endowment plans. Investment gains for the combined systems totaled approximately $781 million in FY 2010. For FY 2011 to-date (through January 31), the systems' returns total approximately $748 million, reaching a combined total of approximately $5 billion in assets. Thus, the combined FY 2010 and FY 2011 gains exceed the losses incurred during the financial crisis in FY 2009. As with the negative returns in FY 2009, these strong investment returns will be smoothed into valuation results over three-years; therefore, the full impact of these positive results will not be fully realized for several years.

While a combined UAAL of $1.7 billion may appear disconcerting, all three systems are adequately funded. Per the Public Fund Survey for FY 2009, fewer than 9% of all public pension plans are fully funded, meaning that 91% of plans have some amount of UAAL. Certainly, assurances can be made that the three County systems are sufficiently funded to be able to meet all benefit payments into the foreseeable future.

It should be noted that while changes in the funding ratios and UAAL are attributable not only to investment returns, but also to liability adjustments (resulting from such things as retirees living longer than expected and members retiring earlier than expected), the investment gains and losses over the past two years have been the primary driver behind UAAL changes.

As the economy during FY 2009 negatively impacted funding ratios, it also impacted the actuarially-calculated employer contribution rates in both FY 2011 and FY 2012. The employer contribution rates are calculated based on the normal cost (of benefits accrued by members during the given year), plus some amortization of the UAAL. While some plans amortize over 20-30 years; the County amortizes over a very conservative 15-year period.

**Employer Contribution Rates and General Fund Impact**

| | FY 2010 | FY 2011 | | FY 2012 | |
|---|---|---|---|---|---|
| | **Rates** | **Rates** | **GF Impact** | **Rates** | **GF Impact** |
| Employees' | 9.71% | 14.70% | $15,242,861 | 17.20% | $7,797,254 |
| Police Officers | 22.84% | 28.31% | 5,607,279 | 31.30% | 3,052,554 |
| Uniformed | 26.46% | 30.56% | 5,670,046 | 33.81% | 4,501,129 |
| **Total** | | | **$26,520,186** | | **$15,350,937** |

*In addition to employer contributions, the systems are also supported by contributions from employees which range from 4.0% to 10.0% of salary, depending on plan and level of benefits chosen.*

As shown in the table above, the changes to the employer contribution rates have resulted in significant increases in the required General Fund contributions to the retirement systems. In preparation of these anticipated increases, however, savings realized at year-end FY 2009 and FY 2010 were set aside in reserve for retirement requirements. At the *FY 2009 Carryover Review*, $20 million was set aside, and this funding was utilized to help offset the $26.5 million increase in FY 2011. Similarly, at the *FY 2010 Carryover Review*, $15 million was set aside, and this funding was used to offset the $15.4 million increase for FY 2012.

It should be noted that in recognition of the need to increase employer contributions in order to improve the systems' financial position, the FY 2011 and FY 2012 rates above include small adjustments related to a change in the amortization schedule. Prior to FY 2011, if the funding ratio fell below 90%, the UAAL below 90% was amortized over 15 years in order to get back to a 90% level. For FY 2011, the employer contribution rates were increased to allow for an amortization to a 91% level. For FY 2012, this amortization schedule has been maintained, further exemplifying the County's commitment to adequately fund the systems.

While it is anticipated that the FY 2009 investment results will continue to place upward pressure on employer contribution rates for FY 2013, it is expected that the strong investment returns during the current and prior fiscal years will help to offset this impact.