Response to Questions on the FY 2016 Budget

Request By: Supervisor Cook

Question: What other options exist for bringing the respective pension funds up to the level of funding required by the bonding agencies, other than direct County contributions that exceed employee matches?

Response: While increases in the employer contribution rates are the primary means by which the County can influence the funded ratios on an annual basis, additional options are available. The options listed below would increase the funded ratios of the retirement systems either by increasing assets or decreasing liabilities.

Investment Returns – Investment returns have accounted for 65 percent of the growth in retirement system assets since FY 1981. Investment returns were strong in FY 2014, with returns of 14.9 percent in the Employees' system, 16.1 percent in the Uniformed system, and 16.2 percent in the Police Officers system. The Retirement Administration Agency will continue to pursue strong investment returns, which offset the need for funding from other sources. It should be noted that the actuarial valuations of the retirement systems assume investment returns of 7.5 percent, and therefore returns greater than 7.5 percent are required in order to increase the funded ratios of the systems.

Employee Contribution Rate – Employee contributions have accounted for 11 percent of the growth in retirement system assets since FY 1981, compared to 24 percent of the growth in assets that is attributable to employer contributions. The employee contribution rates could be increased to provide additional funding to the systems. While the employee contribution rates in the Employees' and Uniformed systems have not been changed in recent years, the employee contribution rate in the Police Officers system has been gradually reduced over the past several years from 12 percent in FY 2007 to 8.65 percent in FY 2015.

One-Time Funds – While employer contributions to the retirement systems have typically been funded through changes to the employer contribution rates, additional funding could be provided to increase funded ratios by transferring one-time funds, such as year-end balances, to the retirement systems.

Plan Design Changes – Reductions in the level of benefits provided by the pension systems will reduce the County's total pension liability and increase the funded ratios of the systems. It should be noted that changes that apply only to new hires will have a minimal effect on current funded ratios, though the impact of such changes will grow over time as more employees are hired under the revised pension structure. In order to have a large impact on current funded ratios, any changes must reduce benefits for current employees and retirees.