Response to Questions on the FY 2016 Budget

Request By: Supervisor Cook

Question: What is the amount of extra funding (above employee matches) put into the respective pension funds each of the last seven years, separating out the regular budget and carryover, and what are the projected extra contributions over the next 3-5 years?

Response: The County's retirement systems are funded through a combination of investment earnings, employee contributions based on a fixed percentage of salary, and employer contributions based on an actuarially-determined percentage of salary. An actuarial valuation is performed each year to determine the required employer contribution rates based on updated investment earnings and liability experience. Prior to FY 2011, employer contribution rates were set using a corridor approach, in which the unfunded actuarial liability below a 90 percent funding ratio is amortized over a conservative 15-year period. Annual adjustments to retirement contributions are driven by the following factors:

- Asset and liability changes reflected in the annual actuarial valuations;
- Efforts to increase the funding status of the retirement systems by increasing the amortization level under the corridor funding policy;
- Benefit enhancements approved by the Board of Supervisors;
- Employee compensation adjustments;
- The addition of new positions; and
- Other factors such as savings generated by holding positions vacant.

Each of these factors is presented in the table below and discussed in more detail following the table.

Changes to General Fund Employer Contributions to the Retirement Systems
(in millions)

	Annual Actuarial Valuation	Changes to Corridor Funding Policy	Benefit Enhancements	Employee Compensation Adjustments	New Positions	Other	Total Change
FY 2009			$1.61	$4.55	$2.56	($2.68)	**$6.04**
FY 2010	$0.32		$0.50	$1.22		($0.84)	**$1.20**
FY 2011	$23.06	$3.46			$0.11	($5.49)	**$21.14**
FY 2012	$15.35				$0.13	$2.72	**$18.20**
FY 2013	$9.51		$0.12	$9.14	$0.21	($2.16)	**$16.82**
FY 2014	$3.60			$1.95	$0.44	($2.89)	**$3.10**
FY 2015	($2.95)	$9.24	$1.48	$5.75	$1.57	($4.54)	**$10.55**

As shown in the table above, required changes in the employer contribution rates as a result of the annual actuarial valuation represent the largest increases in General Fund contributions to the retirement systems over the past seven years. These increases were primarily the result of the investment losses that were experienced in the global financial crisis during FY 2009, but also include the impact of the most recent five-year experience study. Decreases in the required General Fund contribution as a result of the actuarial

valuation in FY 2015 are due to recent strong investment returns that outpaced the expected 7.5 percent rate of return.

In FY 2011, efforts began to increase the funding status of the retirement systems by increasing the amortization level under the corridor approach. An increase of $3.46 million in General Fund contributions in FY 2011 was the result of increasing the amortization level under the corridor approach from 90 to 91 percent. In FY 2015, an additional increase of $9.24 million was the result of increasing the amortization level further from 91 to 93 percent.

Employer contribution rates have also been increased as a result of benefit enhancements approved by the Board of Supervisors. Benefit enhancements approved during the past seven years have included retiree cost of living adjustments (COLAs), a reduction in the Social Security Offset for Service Connected Disability from 40 percent to 15 percent, and a reduction in the employee contribution rate for the Police Officers system from 11 percent to 8.65 percent.

In addition to increases in the employer contribution rates, employee compensation adjustments and the addition of new positions impact total General Fund employer contributions to the retirement systems. The final category in the table above includes all other changes that have impacted General Fund retirement contributions, such as the transfer of existing positions between the General Fund and other funds and savings generated as a result of agencies holding positions vacant.

It should be noted that all of the adjustments noted above were made as part of the annual budget process. Action taken as part of Third Quarter and Carryover reviews is typically limited to adjustments required to reflect employee compensation adjustments or new positions approved during those reviews, or to recognize anticipated budgetary savings during the fiscal year as a result of trend analysis. Adjustments are made during the annual budget process for any of these Third Quarter or Carryover actions that have a recurring impact. In addition, action has been taken twice in the past seven years to hold year-end balances in reserve for future retirement contribution requirements. As part of the *FY 2009 Carryover Review*, $20 million was identified to be held in reserve to offset the $21.14 million increase in retirement contributions in FY 2011. Similarly, $15 million was identified as part of the *FY 2010 Carryover Review* to offset the $18.20 million increase in FY 2012.

The FY 2016 Advertised Budget Plan includes a total increase of $13.13 million in General Fund contributions to the retirement systems. This amount includes an increase of $8.57 million due to changes in the employer contribution rates, including $10.17 million to bolster the funding status of the systems by increasing the amortization level from 93 to 95 percent, partially offset by a decrease of $1.60 million as a result of the annual actuarial valuation. The remaining increase includes $5.56 million due to employee compensation adjustments and $1.23 million due to the addition of new positions, partially offset by a decrease of $2.23 million due to expected savings based on trend analysis.

It is estimated that an additional increase of $8.5 million in General Fund contributions will be required by FY 2019. This amount includes further changes in the amortization schedule (from 95 to 100 percent amortization of the unfunded liability) to improve the funding status of the systems and achieve full funding of the Annual Required Contribution (ARC) for each system, partially offset by anticipated savings as a result of

actual investment returns and liability experience. Full funding of the ARC by the end of the decade is necessary to meet expectations set by the bond rating agencies as well as to address new GASB (Governmental Accounting Standards Board) regulations. Changes in contribution levels as a result of employee compensation adjustments and the addition of new positions are not included in this estimate. It should also be noted that the next actuarial experience study will take place in FY 2016, and any impact to the employer contribution rates as a result of assumption changes will be included in FY 2018.