

# OCERS INFORMATIONAL MEETING FOR THE CONTRACT CITIES

OCTOBER 25, 2018

1



# A PUBLIC PENSION PLAN PRIMER

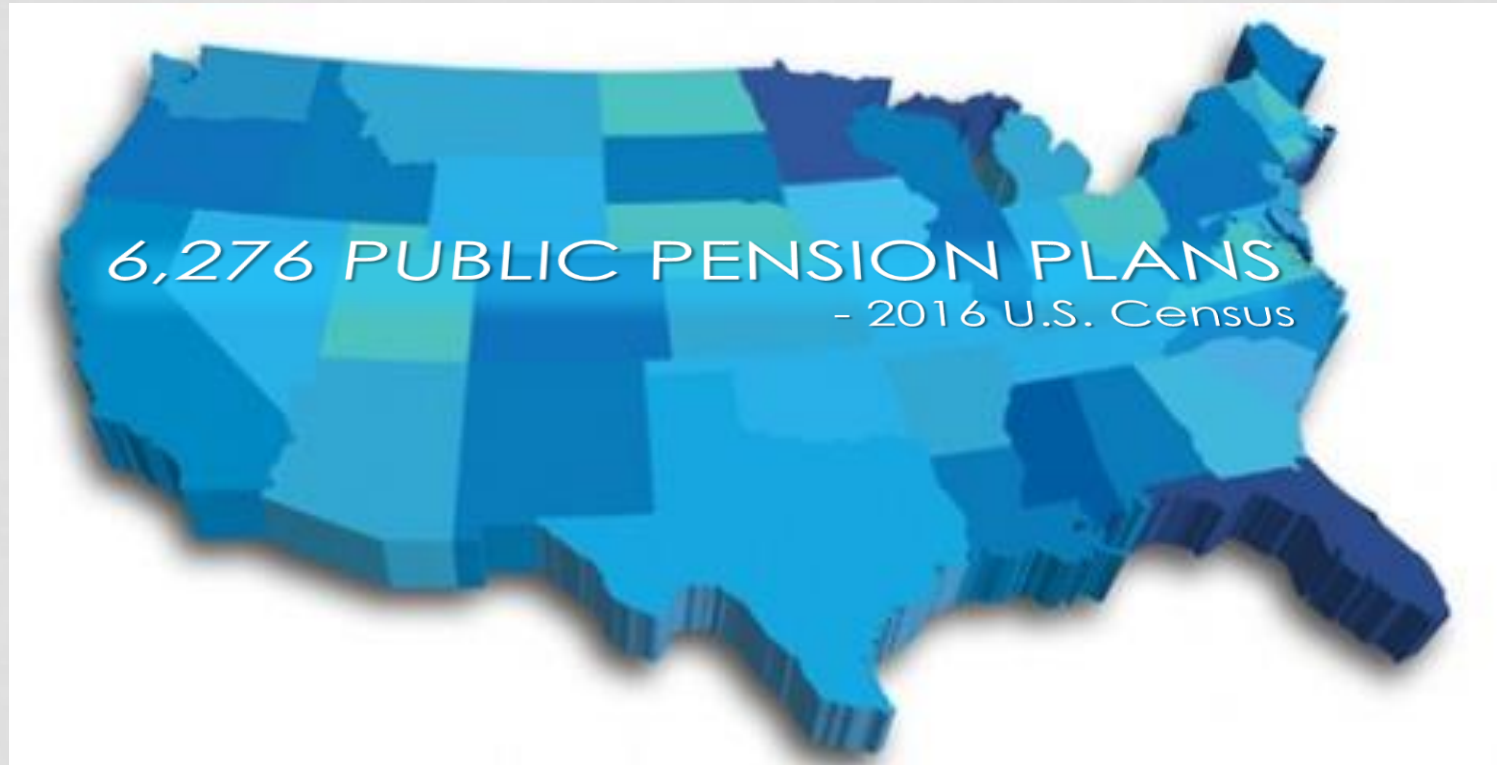


# PENSION BENEFITS

## The Basics:

- **A traditional pension plan is a group retirement plan that offers a predictable monthly defined benefit in retirement**
- **It provides workers with a steady, predictable income stream in retirement that cannot be outlived.**
- **The average OCERS pension benefit paid to a safety retiree in 2017 was \$72,204 per year or \$6,017 per month.**

# ABOUT OCERS FUND



**With more than 43,000 member and nearly \$15 Billion in assets (12/31/16), OCERS is ranked 135.**



contra costa county  
 Employees' Retirement Association  
 1355 willow way suite 221 concord ca 94520  
 925.521.3960 fax: 925.646.5747



Imperial County  
 Employees' Retirement System  
 ICERS

KCERA prudent investment  
 quality service

LA CERA Los Angeles County Employees Retirement Association



SACRS  
 State Association of County Retirement Systems  
 Staff ★ Trustees ★ Affiliates ★ Success  
 A California Non Profit Corporation



MERCED COUNTY  
 2222 M STREET  
 MERCED, CA 95340  
 PH. (209) 385-7434  
 TOLL FREE (800) 226-6452



SB cera  
 San Bernardino  
 County Employees' Retirement Association



Sacramento County  
 Employees' Retirement System (SCERS)

VCERA  
 Ventura County Employees' Retirement Association

# WHO WE SERVE

- CITY OF SAN JUAN CAPISTRANO
- COUNTY OF ORANGE
- ORANGE COUNTY CEMETERY DISTRICT
- ORANGE COUNTY CHILDREN & FAMILIES COMMISSION
- ORANGE COUNTY DEPARTMENT OF EDUCATION  
(CLOSED TO NEW MEMBERS)
- ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
- ORANGE COUNTY FIRE AUTHORITY
- ORANGE COUNTY IN-HOME SUPPORTIVE SERVICES PUBLIC AUTHORITY
- ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
- ORANGE COUNTY PUBLIC LAW LIBRARY
- ORANGE COUNTY SANITATION DISTRICT
- ORANGE COUNTY TRANSPORTATION AUTHORITY
- SUPERIOR COURT OF CALIFORNIA, COUNTY OF ORANGE
- TRANSPORTATION CORRIDOR AGENCIES
- UCI MEDICAL CENTER AND CAMPUS  
(CLOSED TO NEW MEMBERS)



# THE COUNTY EMPLOYEES' RETIREMENT LAW OF 1937 ESTABLISHED THESE DEFINED BENEFIT PENSION PLANS

- ▶ Retirement system is **a trust fund separate** from the county.
- ▶ State Constitution vests the **Retirement Board with exclusive authority** for management of the retirement system.
- ▶ **Independent and balanced position** with respect to stakeholders is critical to preserving credibility of the retirement system.
- ▶ Systems feature **local control** through nine-member Retirement Boards comprised of key stakeholders.
- ▶ Systems **administer pension benefits** that are established by the county or local governments.

# DIFFERENCES BETWEEN THE 1937 ACT SYSTEMS AND THE STATE SYSTEMS?

- The 1937 Act systems operate under a **different set of rules** governing what counts as compensation for the purposes of determining retirement benefits.
- Systems generally **do not administer health care benefits** for active employees or retirees.
  - Some systems provide a subsidy toward retiree health care costs.
- **Plan members or stakeholders can express concerns** to the local retirement system (as opposed to a larger, statewide entity) and to local officials or labor organizations.
- **Administrative costs limited** to 0.21% of plan liabilities.
- **PEPRA leveled the playing field.**



# OCERS GOVERNANCE

## OCERS Board of Retirement – 10 Trustees

**4**

Trustees  
Appointed  
by Board of  
Supervisors

No more  
than 1 may  
be sitting  
Supervisor

**1**

Trustee  
Elected by  
Retirees

**2**

Trustees  
Elected by  
Safety  
Members

1 full  
member  
1 alternate  
Member

Represent  
different  
departments

**2**

Trustees  
elected by  
General  
Members

**1**

Ex Officio  
Trustee

County  
Treasurer  
Or Deputy  
Designated

# OCERS GOVERNANCE



Chris Prevatt - Chair  
01/01/2016 - 12/31/2018



Charles Packard - Vice Chair  
1/01/2017 - 12/31/2019



Russell Baldwin  
01/01/2017 - 12/31/2019



Frank Eley  
01/01/2017 - 12/31/2019



Shawn Dewane  
1/1/2017 - 12/31/19



Shari Freidenrich  
Ex-Officio Member



Jeremy Vallone  
07/1/2018 - 06/30/2021



Wayne Lindholm  
01/1/2016 - 12/31/2018



David Ball  
01/01/2017 - 12/31/2019



Roger Hilton  
07/01/2015 - 06/30/2018

# BENEFITS

# WE ARE HERE TODAY BECAUSE THEY ARE HERE TO SERVE



Deputy Sheriff



Firefighter

# COMPENSATING FOR THAT SERVICE CAN BE THE CHALLENGE



Salary Today

+

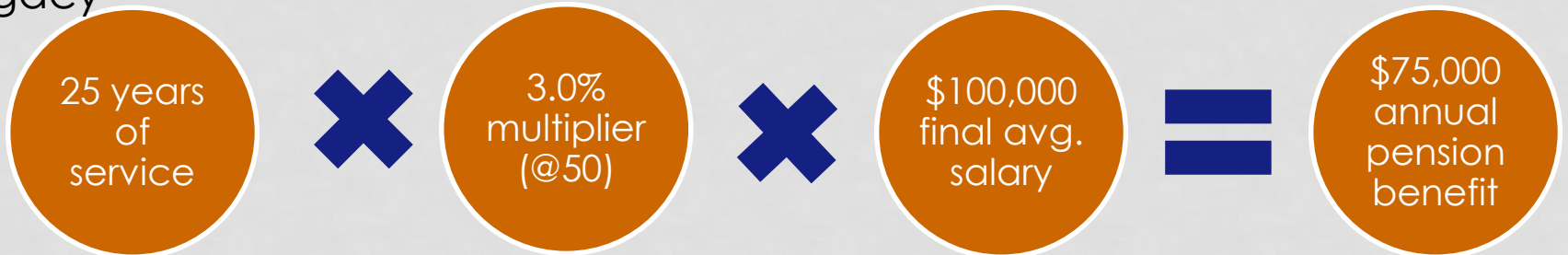


A Promise for Tomorrow = Pension

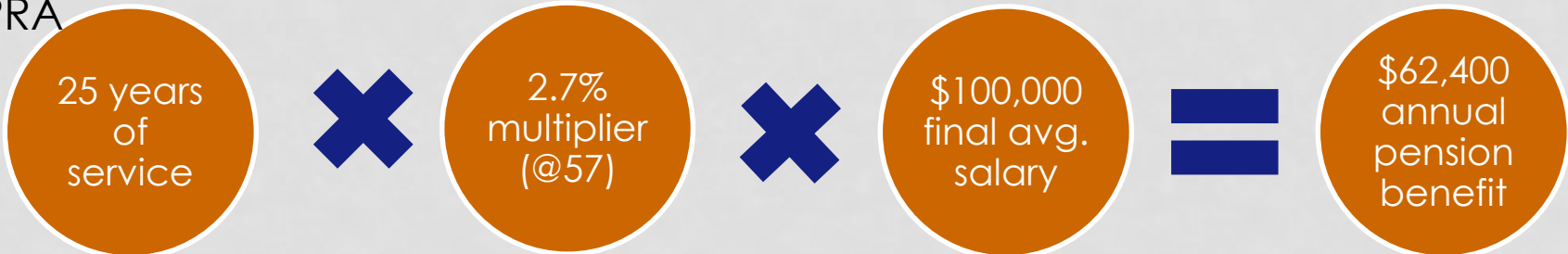
# OCERS BENEFIT SAFETY FORMULA

- Defined benefit program for retirees.
- Benefit based on formula:
  - “Multiplier” (3.0% @ 50 for most “Legacy” safety members, 2.7% @ 57 PEPRA)
  - Years of Service Credit
  - Final Average Salary (highest consecutive 36 months)

Legacy



PEPRA



# QUICK FACTS

## Quick Facts

<b>Members &amp; Employers</b>	<p><b>27,524</b> active &amp; inactive members</p>		<p><b>16,947</b> retirees, beneficiaries &amp; survivors</p>		<p><b>20</b> plan sponsors</p>	<p><b>44,471</b> total membership</p>
<b>Pension Averages</b>	<p><b>\$3,244</b> monthly allowance for all General members and payees</p>	<p><b>\$6,017</b> monthly allowance for all Safety members and payees</p>	<p><b>21</b> average years of service for General members who retired in 2017</p>	<p><b>24</b> average years of service for Safety members who retired in 2017</p>	<p><b>61 years old</b> average age at retirement for General members who retired in 2017</p>	<p><b>55 years old</b> average age at retirement for Safety members who retired in 2017</p>

# PENSION CONTRIBUTIONS



# PAYING PENSION BENEFITS

- Contributions made during an employee's career are invested.
- Sum of contributions & interest pay for pension benefits.



# CALCULATING PENSION CONTRIBUTIONS

- **Two key processes in determining Pension Costs:**
  - **Adopting Actuarial Assumptions**
  - **Developing an Investment Portfolio**



# PENSION CONTRIBUTIONS - ACTUARY

## Critical Role of Actuarial Assumptions

- **Economic Assumptions:** how will market forces affect the cost of the plan?
- **Demographic Assumptions:** How will participant behavior affect the cost of the plan?



# ACTUARIAL DEMOGRAPHIC ASSUMPTIONS

- **When will an individual retire?**
- **How many will retire in a given year?**
- **How many will be disabled?**
- **Termination of Employment**
  - **Refund of contributions?**
- **Mortality**
  - **Active/Retired**

# ACTUARIAL ASSUMPTIONS PRODUCE PENSION CONTRIBUTION RATES (EMPLOYER)

**Normal  
Cost**



**UAAL**

**If every assumption  
is met in a year**

**If an assumption  
isn't met**

# WHAT IS THE UAAL?

- A funding gap (unfunded liability) occurs when the benefits owed exceed the amount of money the plan has saved to meet these obligations.
- Includes current and future benefits promised to all participants-retirees and active employees.



# CAUSES OF UAAL

**Actual experience which is less favorable than assumed. Such as:**

- **Higher salary increases**
- **Earlier retirement date(s)**
- **Lower death rates**
- **Lower rates of investment earnings**
- **Lower rates of non-death terminations**
- **Change in actuarial assumptions**

**Experience is measured annually**

**Assumptions are updated triennially**

# Employer Contribution Rates – Fiscal Years Beginning July 1, 2017 and July 1, 2018 (% of payroll)

	FY 18-19	FY 17-18 <sup>(1)</sup>	Difference
<b>Rate Group #1</b>			
General Plans A, B and U (non-OCTA, non-OCSD)	16.37% <sup>(2)</sup>	18.51% <sup>(2)</sup>	-2.14%
<b>Rate Group #2</b>			
General Plans I, J, O, P, S, T, U and W (County et al.)	33.66%	34.38%	-0.72%
<b>Rate Group #3</b>			
General Plans B, G, H and U (OCSD)	11.61% <sup>(3)</sup>	11.65% <sup>(4)</sup>	-0.04%
<b>Rate Group #5</b>			
General Plans A, B and U (OCTA)	25.48%	26.18%	-0.70%
<b>Rate Group #9</b>			
General Plans M, N and U (TCA)	23.82%	26.30%	-2.48%
<b>Rate Group #10</b>			
General Plans I, J, M, N and U (OCFA)	30.54% <sup>(3)</sup>	32.58%	-2.04%
<b>Rate Group #11</b>			
General Plans M and N, future service, and U (Cemetery)	10.88%	11.45%	-0.57%
<b>Rate Group #12</b>			
General Plans G, H and U (Law Library)	22.74% <sup>(3)</sup>	22.11% <sup>(4)</sup>	0.63%
<b>Rate Group #6</b>			
Safety Plans E, F and V (Probation)	47.79%	44.92% <sup>(5)</sup>	2.87%
<b>Rate Group #7</b>			
Safety Plans E, F, Q, R and V (Law Enforcement)	62.81%	61.71% <sup>(5)</sup>	1.10%
<b>Rate Group #8</b>			
Safety Plans E, F, Q, R and V (Fire Authority)	<u>47.81%</u> <sup>(3)</sup>	<u>48.03%</u> <sup>(5)</sup>	<u>-0.22%</u>
<b>Aggregate Total</b>	<b>36.56%</b>	<b>36.97%</b>	<b>-0.41%</b>

<sup>(1)</sup> The FY 17-18 composite rates for some Rate Groups have changed due to payroll shifting among plans within the Rate Groups.

<sup>(2)</sup> These rates are before adjustments to reflect the UAAL rates for employers with declining payroll.

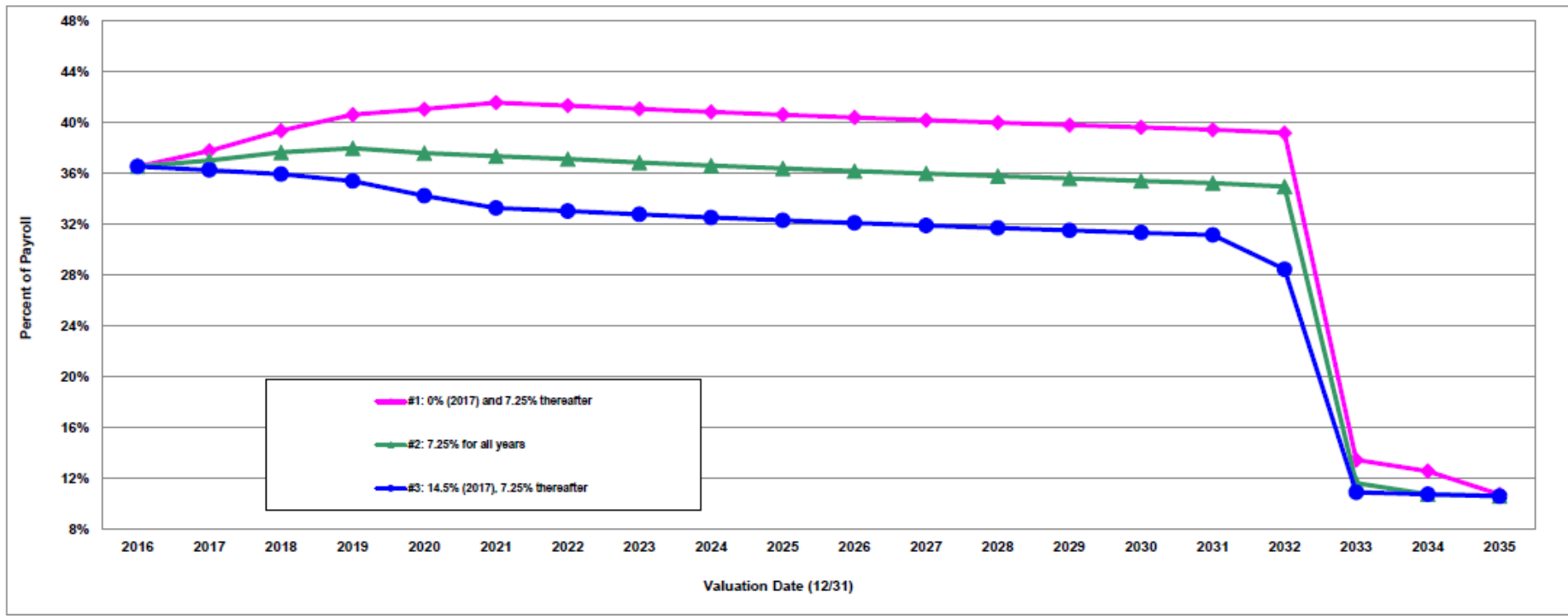
<sup>(3)</sup> These rates are after adjustment to the contribution rates for FY 18-19 for additional UAAL contributions made during calendar year 2016.

<sup>(4)</sup> These rates are after adjustment to the contribution rates for FY 17-18 for additional UAAL contributions made during calendar year 2016.

<sup>(5)</sup> These rates reflect 2/3 phase-in of changes in actuarial assumptions starting with the December 31, 2014 valuation.



# DECEMBER 31, 2017 VALUATION WHERE ARE RATES GOING?



A 20 Year Amortization Payment Plan

# CONTRIBUTIONS

## Contribution History (amounts in thousands)

<b>YEAR END</b>	<b>ACTUARIALLY DETERMINED EMPLOYER CONTRIBUTIONS</b>	<b>ACTUAL EMPLOYER CONTRIBUTIONS</b>	<b>MEMBER CONTRIBUTIONS</b>	<b>TOTAL CONTRIBUTIONS RECEIVED</b>
<b>2012</b>	<b>406,521</b>	<b>406,521</b>	<b>191,215</b>	<b>\$ 597,736</b>
<b>2013</b>	<b>426,020</b>	<b>427,095</b>	<b>209,301</b>	<b>\$ 636,396</b>
<b>2014</b>	<b>476,320</b>	<b>325,520</b>	<b>232,656</b>	<b>\$ 858,176</b>
<b>2015</b>	<b>502,886</b>	<b>571,298</b>	<b>249,271</b>	<b>\$ 820,569</b>
<b>2016</b>	<b>520,138</b>	<b>567,196</b>	<b>258,297</b>	<b>\$ 825,493</b>
<b>2017</b>	<b>536,726</b>	<b>572,107</b>	<b>262,294</b>	<b>\$ 834,398</b>

# OCERS AND CALPERS – COST DIFFERENCES

Some of the major difference between OCERS and CalPERS plan provisions that can lead to different normal cost contribution rates between the two systems:

- 1) **Maximum Level of Benefit Expressed as a Percent of Final Average Salary:**  
OCERS: 100%  
CalPERS: 90%
- 2) **Cost of Living Adjustment:**  
OCERS: April 1 Immediately Following Date of Retirement  
CalPERS: May 1 Starting the Second Calendar Year of Retirement
- 3) **Pensionable Pay Items:**  
OCERS: Permitted Under Ventura Settlement  
CalPERS: Not Allowed
- 4) **Automatic Continuance Benefit:**  
OCERS: Unreduced Benefit to the member with a 60% Continuance  
CalPERS: Continuance Benefit is Optional and Only if Adopted by the Employer

# INVESTMENTS

# SAVING TO PAY THAT BENEFIT

**The Board of Retirement is undertaking a savings task similar to that performed by many of you in saving for your kid's college education.**



# PENSION COSTS - INVESTMENTS

## **Invest for the Very Long Term**

- **30 year horizon spanning employee careers**
- **24 years on average for Safety members who retired in 2017.**

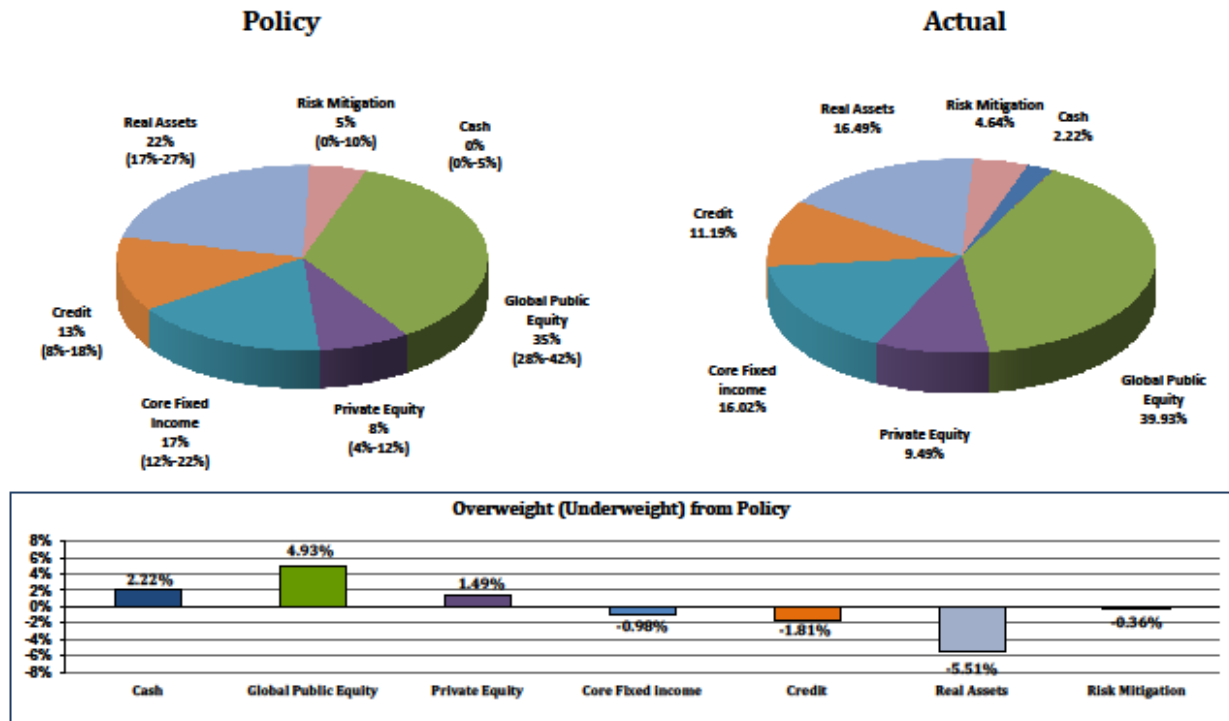
# PENSION COSTS - INVESTMENTS

## How are investment decisions made?

- **Trustees oversee pensions and have a fiduciary obligation to ensure the plan is operating in the best interest of workers and retirees.**
- **Trustees hire professional asset managers to steer investments.**
- **OCERS maintains a balanced portfolio of stocks, bonds, alternatives (such as timber, real estate, hedge funds) and cash. This is consistent with modern portfolio theory.**
- **Public pensions are prudent investors in both bear and bull markets.**

# DIVERSIFICATION IS A PROTECTION

Asset Allocation as of September 30, 2018

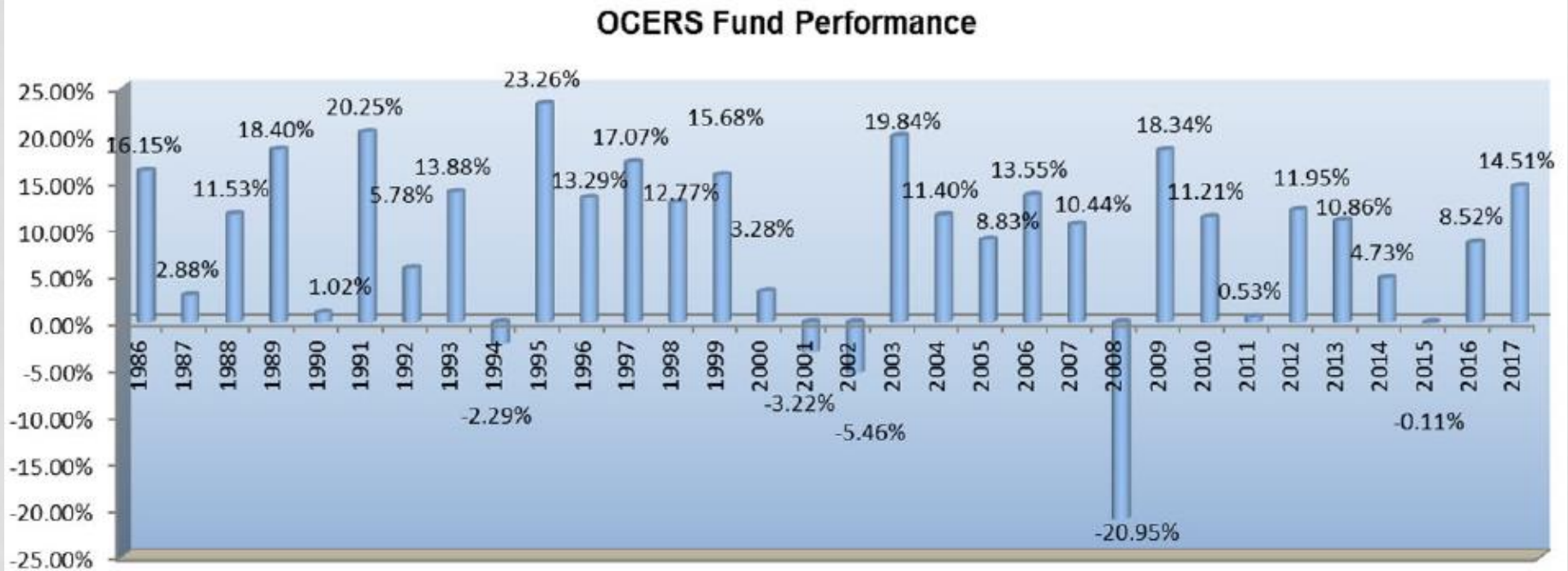


Capital Group holds 13.90% of the EAFE portfolio in emerging equity, bringing the total emerging markets equity exposure to 7.30%. Loomis Sayles holds 6.25% of the High Yield. A new asset allocation was adopted on January 25, 2017 with target ranges approved on March 28, 2017. Real Assets is temporarily under the minimum range since the new asset allocation increased the target to Real Assets from 18% to 22%.

Exhibit 3



# OCERS FUND EARNINGS – HOW DID WE DO?



# RV KUHN'S REPORT: HOW DO WE COMPARE?

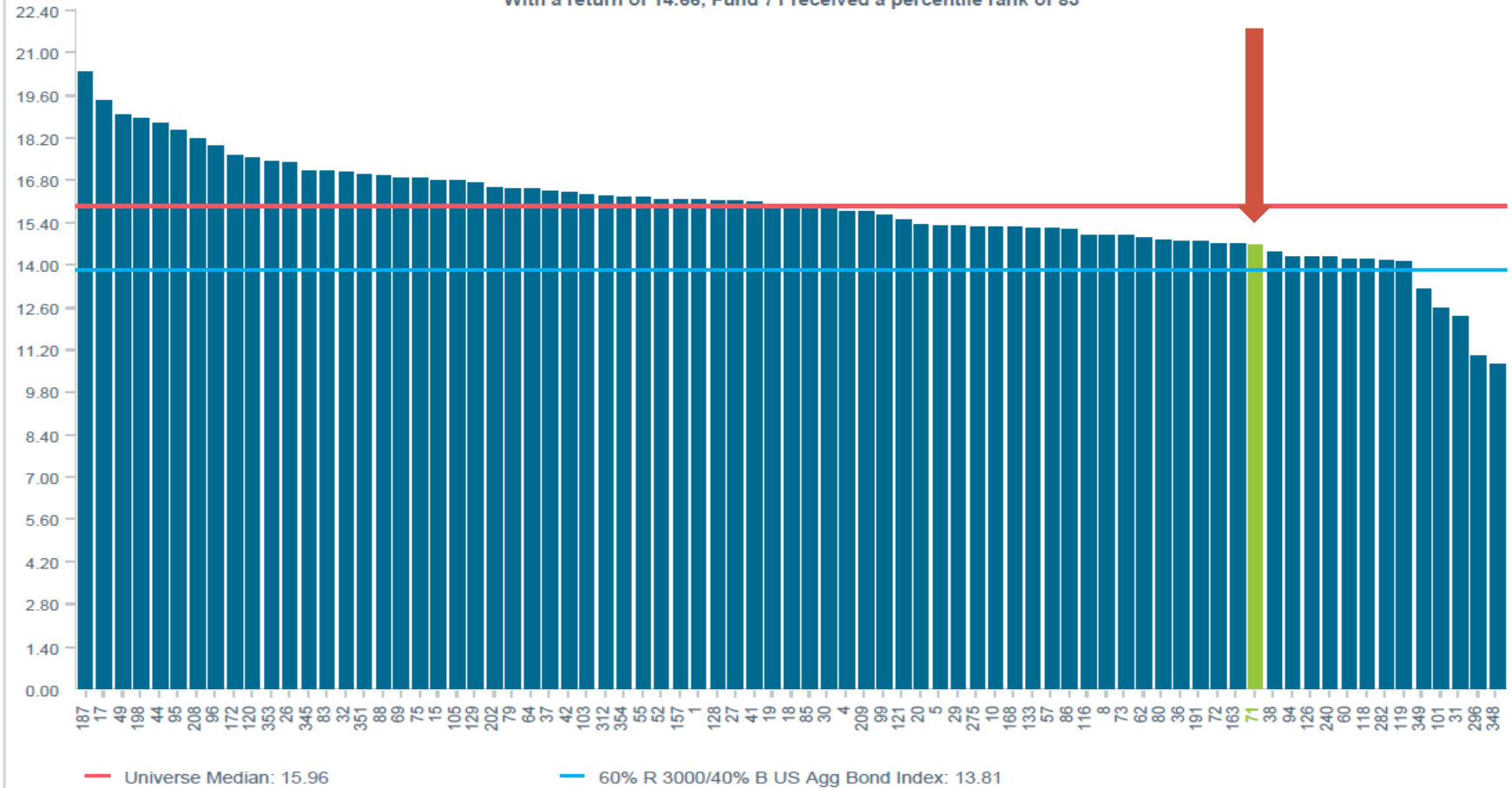
Fund Number: 71

As of December 31, 2017

1 Year Annualized Total Fund Returns

77 of 77 funds provided Total Fund returns for this time period (%)

With a return of 14.66, Fund 71 received a percentile rank of 83



Funds with less history than the specified time period will not appear in the chart.

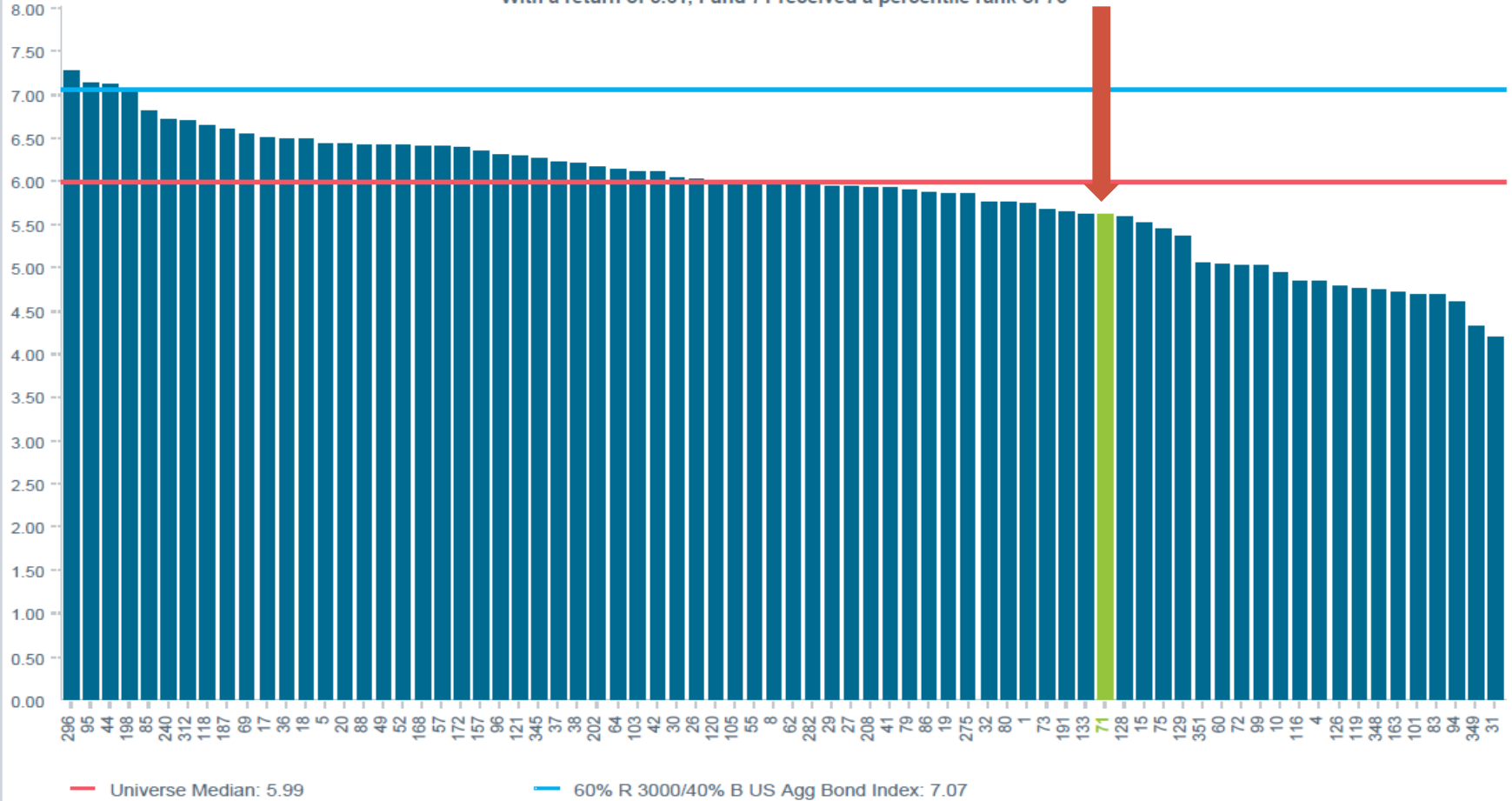
# RV KUHN'S REPORT: HOW DO WE COMPARE?

Fund Number: 71  
10 Year Annualized Total Fund Returns

As of December 31, 2017

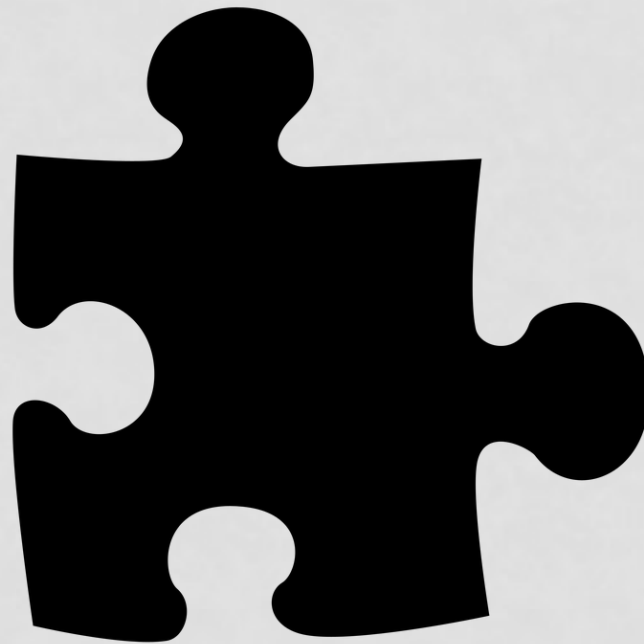
74 of 77 funds provided Total Fund returns for this time period (%)

With a return of 5.61, Fund 71 received a percentile rank of 73



Funds with less history than the specified time period will not appear in the chart.

# PUTTING IT ALL TOGETHER



# ALL THE PIECES TOGETHER:

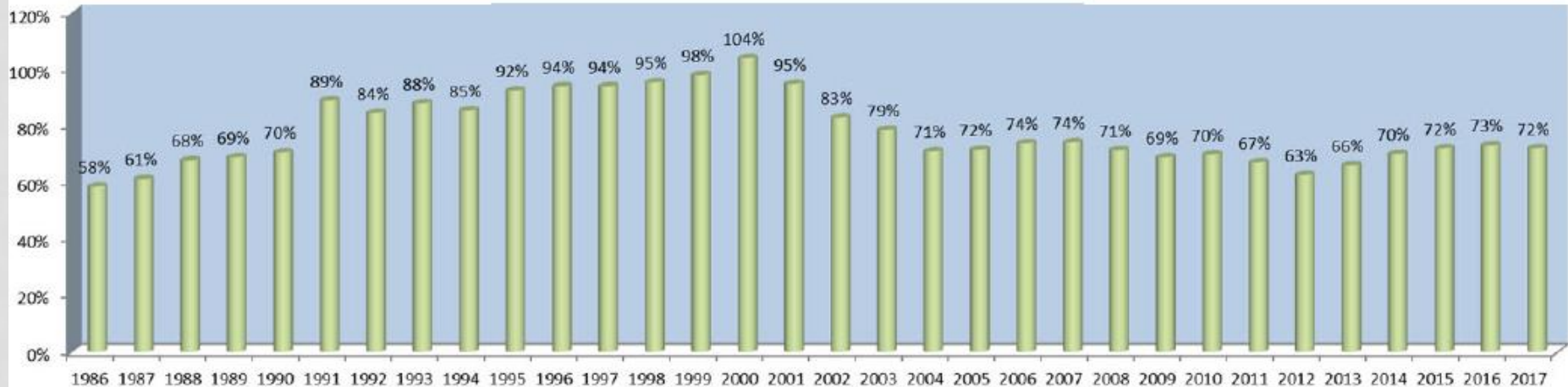
- **As of December 31, 2017:**

▪ OCERS Actuarial Accrued Liability (The Promise)	\$19,635,427
▪ OCERS Assets (Valuation)	\$14,197,125
▪ OCERS Assets (Market)	\$14,652,521
▪ Unfunded Actuarial Accrued Liability (Valuation)	\$5,438,302

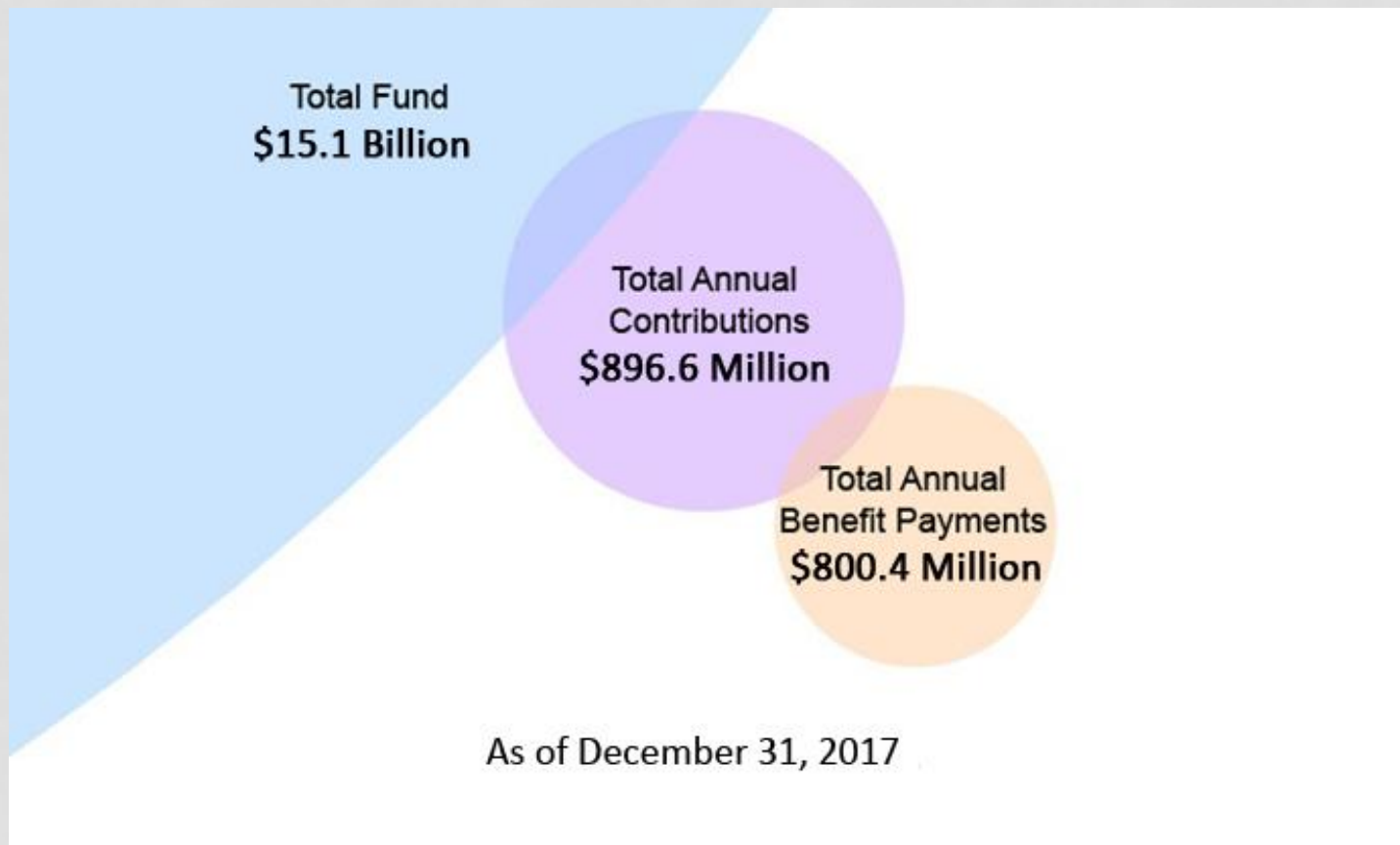
# ALL THE PIECES TOGETHER: THE LONG TERM PLAN – FUNDED RATIO

We've grown to full funding before, we are on track to do so again over the next 20 years, that is how Pension Systems work.

**Funded Ratio by Calendar Years  
(Rounded)**



# All The Pieces Together: Positive Cash Flow



# CHALLENGES REMAINS

## **Two Key Issues:**

- **How long will our members live (mortality)**
- **How much will the OCERS Portfolio earn over the next 30-70 years**



# LONG TERM PROMISES

LIFETIME GUARANTEE = CIVIL WAR VETERANS  
PENSION RECIPIENT 150 YEARS LATER



# LONG TERM PROMISES

2020 = 75 YEARS OF SERVICE



**Our Longest Termed Member**

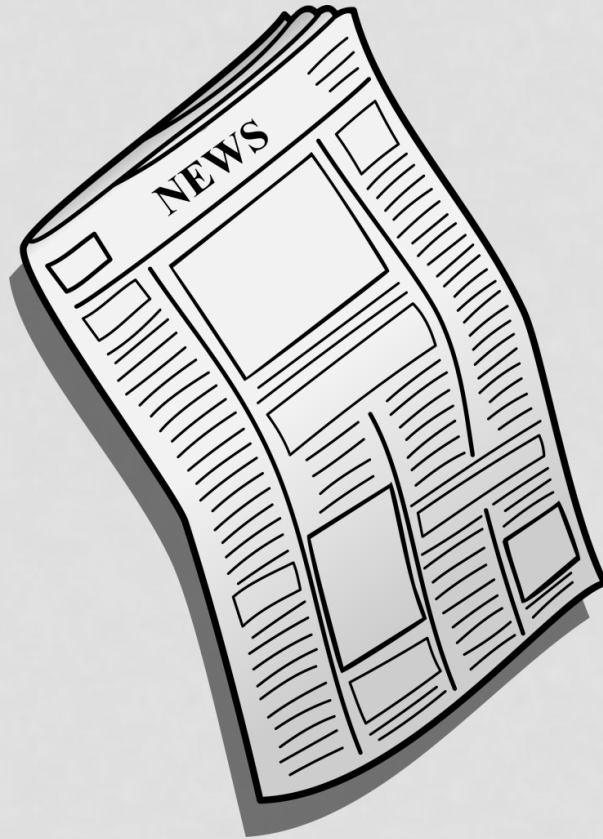
**MS. ANNA CROSSON**

**Employed by the  
County of Orange  
in April 1946!**

# THE OPPORTUNITIES AHEAD

- 1. OCERS is still Cash Flow positive**
- 2. Conservative assumptions**
- 3. 20 year Amortization plan**
- 4. An oversight Board concerned with volatility**
- 5. PEPRA (2013) reduced benefit costs over the long term**
- 6. Comprehensive Final Average Salary review ensures  
accuracy**

# WHAT'S IN THE NEWS?



# PUBLIC PENSION CHALLENGES THE NATIONAL SCENE



**Kentucky**

**31% Funded**

**\$50 Billion UAAL**

As of 2016

# PUBLIC PENSION CHALLENGES THE NATIONAL SCENE



**Illinois State  
Retirement  
System**

**35% Funded**



**Illinois Municipal  
Retirement  
Fund**

**87% Funded**

As of 2016

# PUBLIC PENSION CHALLENGES CALIFORNIA SPECIFIC



**Background to cutting pension for Niland Sanitary**

**District and LA Workers**



# PUBLIC PENSION CHALLENGES CALIFORNIA SPECIFIC

## The “California Rule” and the California Supreme Court





# OCERS BY THE NUMBERS

Some important documents to answer your questions



ORANGE COUNTY  
**OCERS**  
ORANGE COUNTY EMPLOYERS' RETIREMENT SYSTEM

## 2018

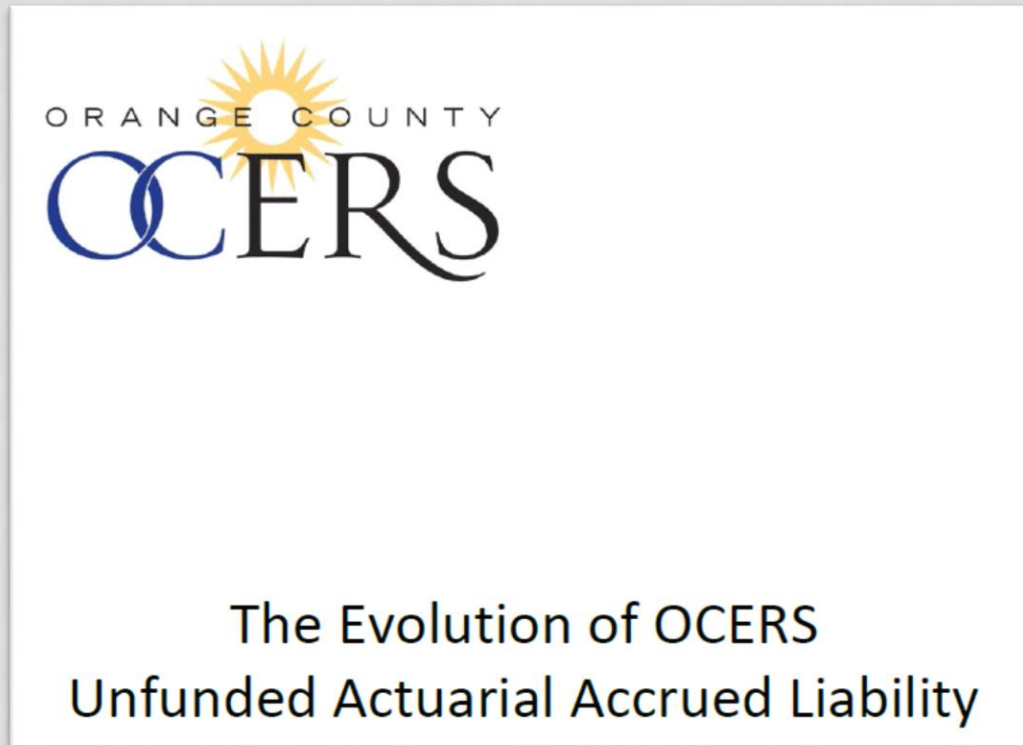
### OCERS by the Numbers

*(As of December 31, 2017 actuarial valuation)*

A collage of four images: top-left shows a person in a white lab coat and blue gloves working with a multi-well plate; top-right shows a man in a white shirt in a library; bottom-left shows a firefighter in full gear spraying water on a fire; bottom-right shows a sheriff in a dark uniform with 'SHERIFF' on the back, standing outdoors at sunset.

# THE EVOLUTION OF OCERS UAAL

**Some important documents to answer your questions**



# HOW CAN WE WORK BEST WITH EACH OF YOU?

