



# COUNTY OF HUMBOLDT

## Legislation Details (With Text)

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**Title:** 11:00 a.m. - Adoption of Pension Funding Policy  
**Sponsors:** Amy Nilsen  
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Date	Ver.	Action By	Action	Result
4/20/2021	1	Board of Supervisors	approved as amended	Pass

**To:** Board of Supervisors  
**From:** County Administrative Office  
**Agenda Section:** Time Certain Matter

**SUBJECT:**  
11:00 a.m. - Adoption of Pension Funding Policy

**RECOMMENDATION(S):**

That the Board of Supervisors:

1. Receive the presentation on the Pension Funding Policy;
2. Discuss and propose desired changes to policy;
3. Approve the Pension Funding Policy to allow an established salary percentage deduction to be placed in the Internal Pension Management Account, (Fund 3249 - Employer PARS Contributions), and to make payments from said trust to the Public Agency Retirement Services (PARS) Section 115 Pension Trust; and
4. Determine whether your Board wishes to pursue a short- or long-term funding strategy related to the Section 115 Pension Trust, and direct the County Administrative Officer (CAO) to return to the Board with Target Contribution Rates and appropriate Supplemental Pension Charges.

**SOURCE OF FUNDING:**

All county funds, Pension Management Trust Fund (3249)

**DISCUSSION:**

Over the last 20 years, the county's annual contributions towards pension costs have grown

exponentially, and without a strategy going forward these costs will threaten the county's ability to provide many vital local services. The Pension Funding Policy before your Board today aims to allow the county to use sustainable methods to fully fund the county's more than \$331 million unfunded liability, while maximizing state and federal contributions in order to preserve and protect local programs.

Since fiscal year (FY) 2010-11, the county's annual required pension contribution has grown from 18% of total payroll costs for miscellaneous employees (non-law enforcement) to more than 32%, or more than \$34 million for FY 2021-22 alone. For safety employees (law enforcement) the county has seen even sharper increases. The county's required contribution a decade ago for safety employees was equivalent to 21% of payroll, and for FY 2021-22 it will amount to 47%, or \$9 million. The required contributions are projected to grow by roughly \$17 million per year in another decade if no action is taken to deliberately alter annual contributions.

The Board has taken steps over the last 10 years to curb the growth of pension contributions, including changing the benefit packages offered to new employees, and in 2015 establishing a federally authorized irrevocable post-employment trust (PARS Section 115 Pension Trust) that allows the county to utilize state and federal dollars as contributions for both pension liability and other post-employment benefits. The Board in 2017 adopted the current version of the Pension Funding Policy, which called for the CAO to review and forecast future costs based on the annual California Public Employees' Retirement System (CalPERS) valuation and projected revenue availability to determine the annual contribution rates to PARS Section 115 Pension Trust. While the county will experience financial relief as a result of the new benefit packages, the majority of those positive effects will not be felt for many years when newer employees reach retirement age. In addition, contributions to the trust, funded through a contribution equal to 0.25% to 2% of total salaries across all departments, ceased in FY 2019-20 due to a need for an updated actuarial valuation that included the Section 115 Pension Trust.

The Pension Funding Policy before your Board today, along with the actuarial valuation done by Bartel Associates, will allow your Board to resume those charges and give clear direction and authorization so the county may smooth the cost of pension contribution increases and fund its pension obligations in the timelines required by California Public Employees Retirement System (CalPERS).

### **Recommendation #3 - Adopt the Pension Funding Policy.**

Following are key features of the Pension Funding Policy:

#### **Guiding Principles:** *Intergenerational Equity and Financial Sustainability*

The county's objective is to ensure that adequate employee and employer contributions are made to the pension system during the service life of employees to avoid shifting the cost or burden to future generations of employees and taxpayers. Within the context of pension funding, the financial sustainability principle expresses that the county provides and fund benefits to its employees within available means while proactively taking measures to build and preserve its ability to continue providing these benefits in the long run.

#### **Funding:** *Prepayment of Minimum Required Contribution*

CalPERS at times may provide an incentive (or discount) to pay all or a portion of the employer's share of the minimum required contribution at the beginning of the fiscal year, rather than remitting the contribution with each monthly period during the fiscal year. The county took advantage of these discounts each of the two prior fiscal years, and this policy requires the County Administrative Officer to analyze these benefits versus its impact on cash flow, and opportunities to invest any potential savings, each year.

**Additional Discretionary Payments:** *Target Contribution*

The CAO shall set Target Contribution Rates for miscellaneous and safety plans at a percentage of pay that is projected to fund the county's unfunded accrued liability over a period of no more than 20 years, unless otherwise allowed by CalPERS. The Target Contribution Rates allow the county to determine its annual payments using a variety of funding sources, as long as the minimum required payment is met. For example, the Target Contribution Rate set by the CAO may be higher one year than the required minimum payment, but by making targeted excess payments it could reduce the amount of future obligations or your Board could allocate additional funding to the Section 115 Pension Trust.

**Section 115 Pension Trust (External Pension Trust):** *Minimum Balance Target (MBT), Funding, Investments and Withdrawing Assets*

The Section 115 Pension Trust is a trust fund held outside the county treasury and managed by the PARS. Per IRS regulations, this funding can be invested more aggressively, and ideally reap greater returns, than money that is in the county's pooled investments. To date, the county has contributed roughly \$5.4 million to the trust, and investment earnings on that funding is in excess \$1.2 million. Despite the relatively strong investment performance of this fund, it is sound financial practice to keep a minimum amount in the trust for future use. As such, this policy recommends maintaining a Minimum Balance Target (MBT) in an amount that is equivalent to 1/6th of the county's annual minimum required payment. For FY 2020-21 this target would be approximately \$1,465,000 for the safety plan and \$5,185,000 for the miscellaneous plan, for an aggregate MBT of \$6,650,000. As of Feb. 28, 2021, the Section 115 Pension Trust balance is \$6,730,083.

This policy calls for a Supplemental Pension Charge to be applied to all departments as a percentage of total salary, with the funding to go to the Section 115 Pension Trust. Typically, this has been set between 0.25% and 2% of salary costs. The Board may choose to allocate additional funding to the Section 115 Pension Trust at any point. As detailed above, this adoption of this policy will allow the county to resume charging federal and state funding sources for the Section 115 Pension Trust, and will be able to do so without a capped dollar amount as it was before, as long as the charge is supported by an actuarial valuation.

The county's current investment strategy, as defined by PARS, is moderately conservative (currently set at 30% equity and 70% fixed income or cash) which has dual goals of current income and moderate capital appreciation. The major portion of the assets is committed to income-producing securities, and market fluctuations should be expected. PARS manages the assets in the trust. This policy recommends making the Treasurer-Tax Collector and CAO the Section 115 Pension Trust Plan Administrator with authority to change the plan's investment strategy. If such a change is made, this policy requires that the change be reported to the Board.

Withdrawing assets from the Section 115 Pension Trust requires Board approval, and can only be done to pay pension costs, or other post-employment benefits (OPEB) costs for the corresponding Section 115 OPEB Trust, once created. If the trust balance falls below the MBT, this policy calls for the MBT to be met within 5 fiscal years.

### **Review of Funding Policy**

This policy will be reviewed at least every 5 years to determine if changes are needed to ensure adequate resources are being accumulated.

### **Recommendation #4 - Determine whether to adopt a short- or long-term funding strategy related to the Section 115 Pension Trust**

The attached valuation from Bartel Associates shows two scenarios where a contribution from the trust, combined with target contribution rates that are temporarily higher than CalPERS minimum requirements, amount to future savings in pension contributions.

#### **Scenario 1: *Short-Term Funding Strategy***

This scenario calls for a Target Contribution Rate that is higher than the CalPERS minimum through FY 2024-25, up to 34.8% for the miscellaneous plan, funded through county contributions and proceeds from the Section 115 Pension Trust. If realized, these projections show the county's Target Contribution Rate remaining flat at 29.6% of payroll costs (compared to CalPERS projections which fluctuate from 33.4% to 31%) for the next 7 years through FY 2032-33, then steadily dropping after that.

On the safety side, the valuation shows Target Contribution Rates growing to 54.7% (slightly above CalPERS requirements) by FY 2024-25, but remaining at that flat rate through FY 2032-33, then dropping after that point. Without action, the safety contributions are projected to rise each year to at least 59%.

In total, this scenario projects a total savings in pension funding contributions of \$6.6 million by FY 2032-33.

#### **Scenario 2: *Long-Term Funding Strategy***

This scenario calls for Target Contribution Rates that are consistently 1%-2% higher than CalPERS minimum contributions for the next 13 years for the miscellaneous plan. However, in FY 2034-35 the Target Contribution Rate drops substantially from 30.3% to 15% and lower for the next several years. Safety, under this scenario would also be funded annually at a rate 1%-2% higher than CalPERS requires, with the rate dropping from 56.4% of total payroll to 37% in FY 2034-35.

In total, this scenario projects a total savings in pension funding contributions of \$24 million by FY 2038-39.

### **FINANCIAL IMPACT:**

Adoption of the revised Pension Funding Policy will allow the county to more strategically address its long-term CalPERS unfunded pension of over \$331 million through resuming annual deduction rates

based upon funding availability and the salary expense of allocated positions. The departmental contribution rate typically ranges from 0.25% to 2% for all county funds. For example, by using an estimated salary costs for FY 2020-21 of \$153.9 million, a contribution to PARS of 2% of payroll would be \$1.947 million. Of that, \$443,776 would come from the General Fund, with a \$1.5 million contribution from other county funds.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services , investing in county employees and providing for and maintaining infrastructure.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion

ATTACHMENTS:

1. Pension Funding Policy
2. Bartel Associates Valuation
3. CalPERS Miscellaneous Annual Valuation Report - July 2020
4. CalPERS Safety Annual Valuation Report - July 2020

PREVIOUS ACTION/REFERRAL:

Board Order No.: C-8

Meeting of: March 14, 2017

File No.: 17-1598