

DELAY OR PHASE-IN PENSION ASSUMPTION CHANGES

OCTOBER 18, 2016

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RECOMMENDED ACTIONS:

- a) Authorize the County Executive Officer (CEO) to sign and submit a letter (Attachment A) to the Board of Retirement of the Santa Barbara County Employees' Retirement System (SBCERS), before it adopts the pension contribution rates for next fiscal year, requesting that it consider the following changes to allow a gradual increase in anticipated pension costs:
 - i. A reduction to the assumed investment rate of return (ROR) on plan assets in FY 2017-18 be no more than a 25 basis point reduction (from the current 7.5% to 7.25%); and
 - ii. Any additional reductions also be limited to 25 basis points (i.e., from 7.25% to 7.0%) per year and be implemented in FY 2020-21 after the next experience study is performed; this would bring the ROR from 7.5% to 7.0% in 4 years;

RECOMMENDED ACTIONS: (CONT.)

- b) Request that the Board of Retirement delay any decision on assumption changes until County staff has adequate time (approximately one month) to review the actuarial assumptions and impacts of such changes; or
- c) Direct other action as appropriate; and
- d) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15378(b)(4), as government funding mechanisms which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

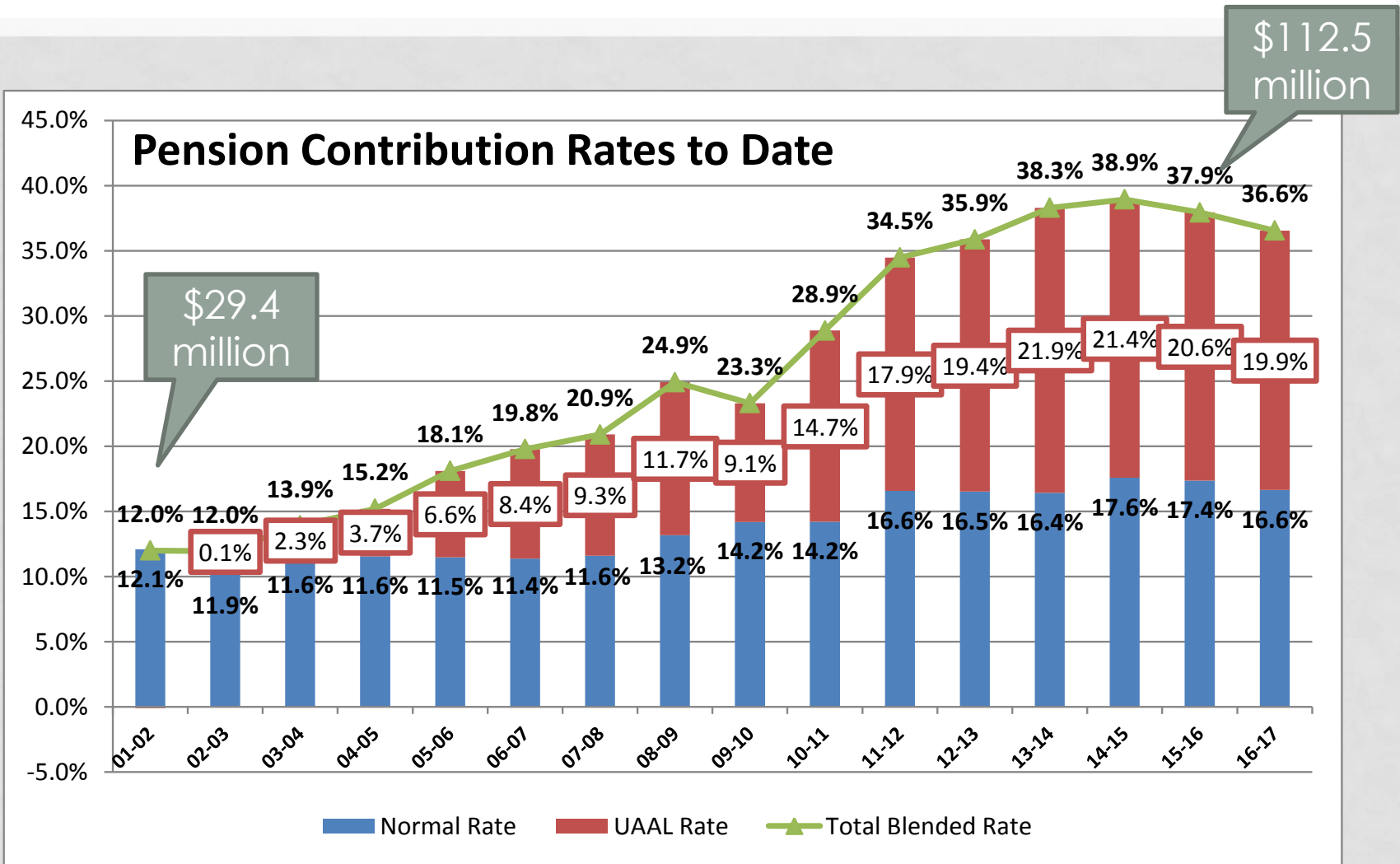
POTENTIAL CHANGES TO PENSION CONTRIBUTION RATE ASSUMPTIONS

- ❑ October 26th, 2016 meeting of SBCERS Retirement Board:
 - ❑ Receive actuarial three-year experience study
 - ❑ Consider changes to assumptions & investment rate of return (ROR)
- ❑ SBCERS has exclusive control of the investment of pension assets & funding assumptions
- ❑ County of Santa Barbara is a plan sponsor
- ❑ SBCERS can consider impacts on the plan sponsor

POTENTIAL CHANGES TO PENSION CONTRIBUTION RATE ASSUMPTIONS

- ❑ County seeking adequate time to review Experience Study (not yet available) and impacts of assumption changes
- ❑ Staff utilized prior actuarial assumptions to assess impact on County
- ❑ Rate of Return (ROR) decision may have biggest impact; currently at 7.5%, (includes 3% inflation assumption)
- ❑ If changes are necessary, request they be gradually adjusted

ANNUAL REQUIRED CONTRIBUTION RATES



POTENTIAL CHANGES TO PENSION RATE OF RETURN

- ❑ Actual return on invested assets in the past two years 0.8% and 1.4% vs. target of 7.5%
- ❑ Impacts Unfunded Liability and contribution rate
- ❑ Should the SBCERS Board reduce the assumed ROR, it would increase the County pension contribution
- ❑ Potential impact of 25 – 50 basis point reduction in the ROR; \$30 million to \$43.1 million over 5 years

ASSUMPTIONS

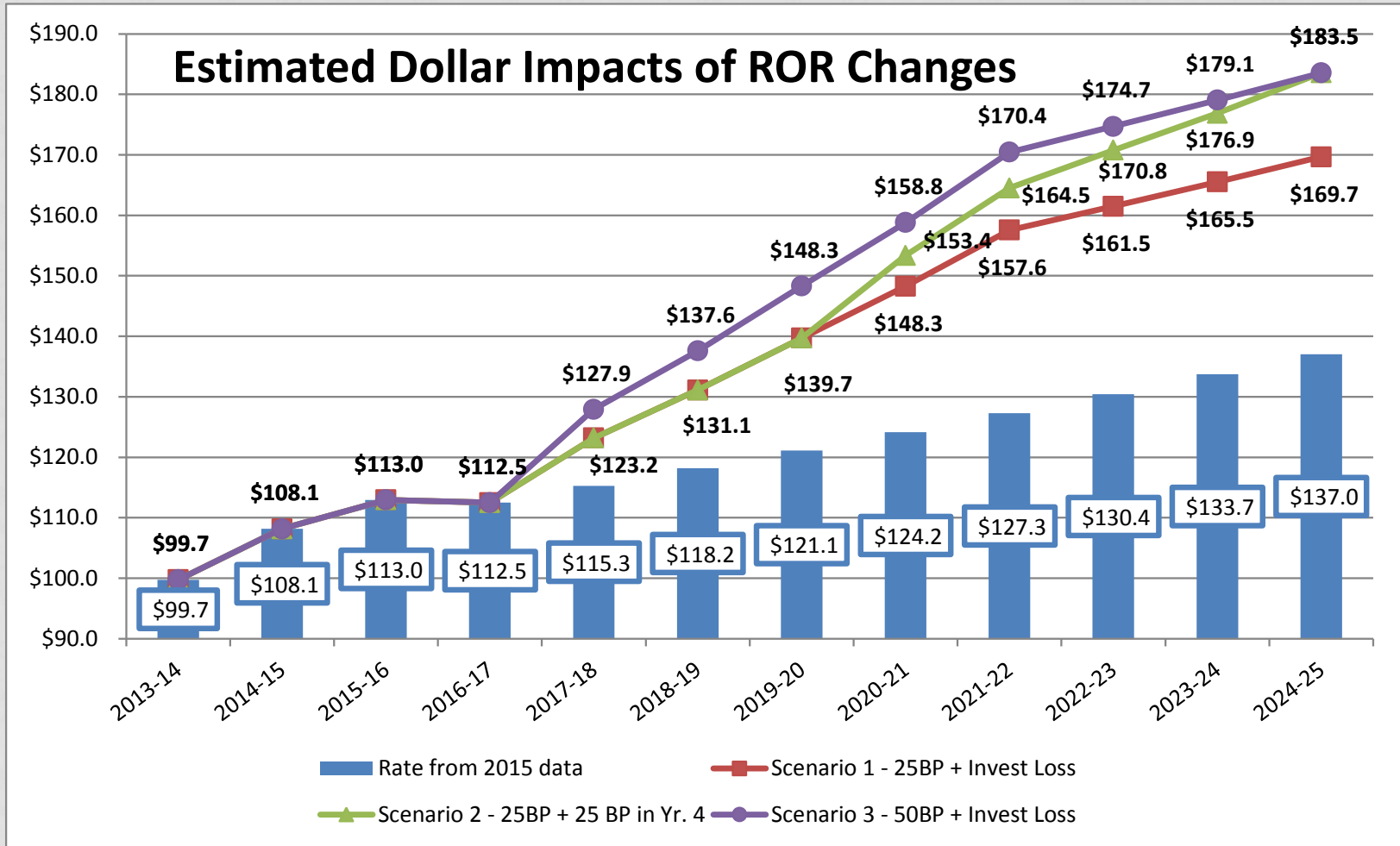
- ❑ 2016 investment performance estimated to increase contributions 5% of pensionable payroll (over 5 years)
- ❑ A 25 basis point reduction in the assumed ROR = 4% increase in the County's contribution rate (5 years)
- ❑ Elements such as mortality, employee mix (PEPRA vs. legacy) and inflation are factors that impact the pension rates are not available until October 26, 2016; therefore estimates presented do not consider these impacts

POSSIBLE SCENARIOS AND ESTIMATED FISCAL IMPACTS

- ❑ **Scenario #1:** A 25 basis point (BP) reduction in ROR (7.5% to 7.25%) in FY 2017-18
 - ❑ \$30 million* over 5 years
- ❑ **Scenario #2:** A 25 BP reduction in ROR (7.5% to 7.25%) FY 2017-18, + 25 BP reduction in FY 2020-21 (7.25% to 7.0%)
 - ❑ \$37.2 million* over 5 years
- ❑ **Scenario #3:** A 50 BP reduction in the ROR (from 7.5% to 7.0%) in FY 2017-18
 - ❑ \$43.1 million* over 5 years

** All scenarios include \$17M from 2016 investment performance*

SCENARIOS #1, #2 AND #3



QUESTIONS

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ACTUAL INVESTMENT PERFORMANCE

20 Year Performance Against the Hurdle Rate



SCENARIOS #1, #2 AND #3 (%)

Estimated % Impacts of ROR Changes

