



Santa Barbara County Employees' Retirement System

2015 Annual Plan Sponsor Report
March 1, 2016

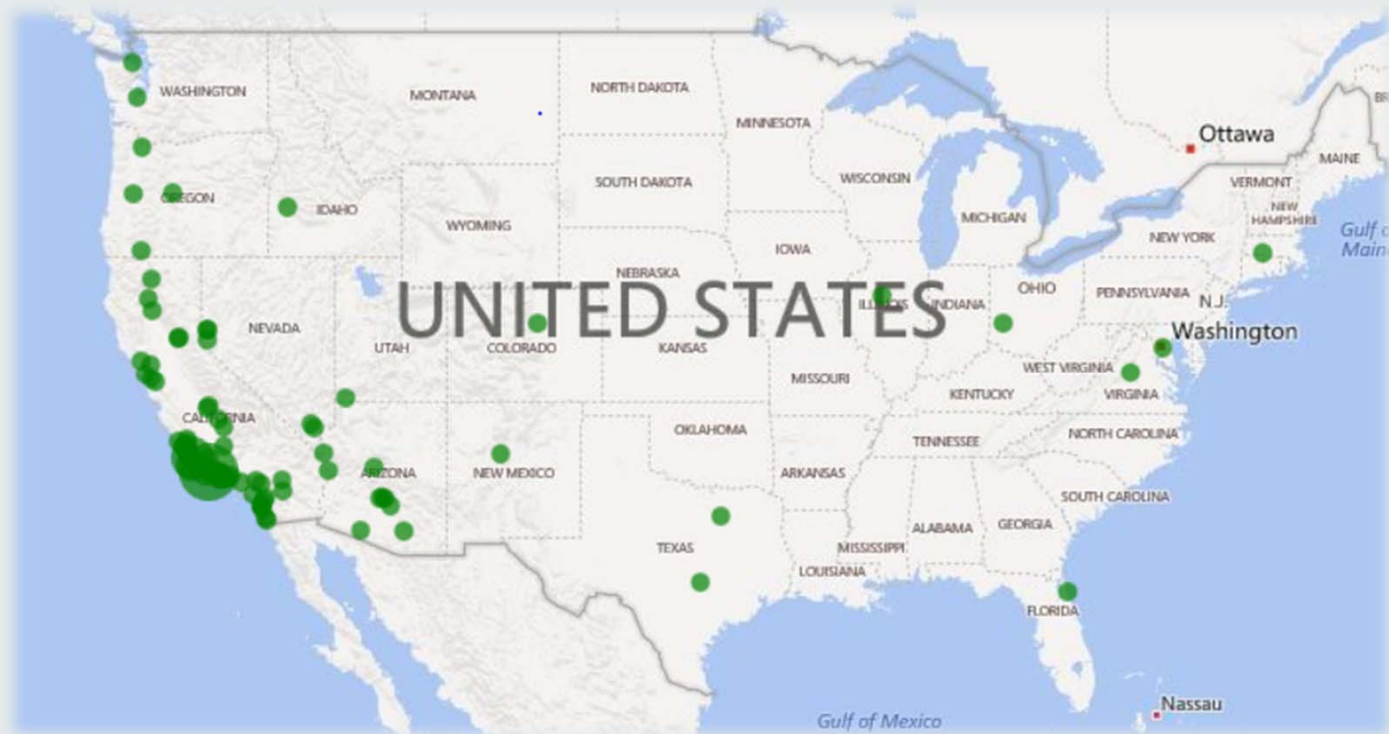
Introduction

- 1937 Act System
 - County Employees Retirement Law of 1937
 - (CA Gov. Code Section 31450 – 31898)
 - Twenty 1937 Act systems (Santa Barbara is the 5th system created)
- Established January 1, 1944
- 11 Plan Sponsors (participating employers)

Participating Employers	
• County of Santa Barbara	• Santa Barbara County Superior Court (excluding Judges / Bailiffs)
• Carpinteria Cemetery District	• Carpinteria – Summerland Fire Protection District
• Goleta Cemetery District	• Mosquito & Vector Management District of Santa Barbara County
• Oak Hill Cemetery District	• Santa Barbara County Air Pollution Control District
• Santa Barbara County Association of Governments	• Santa Maria Cemetery District
• Summerland Sanitary District	

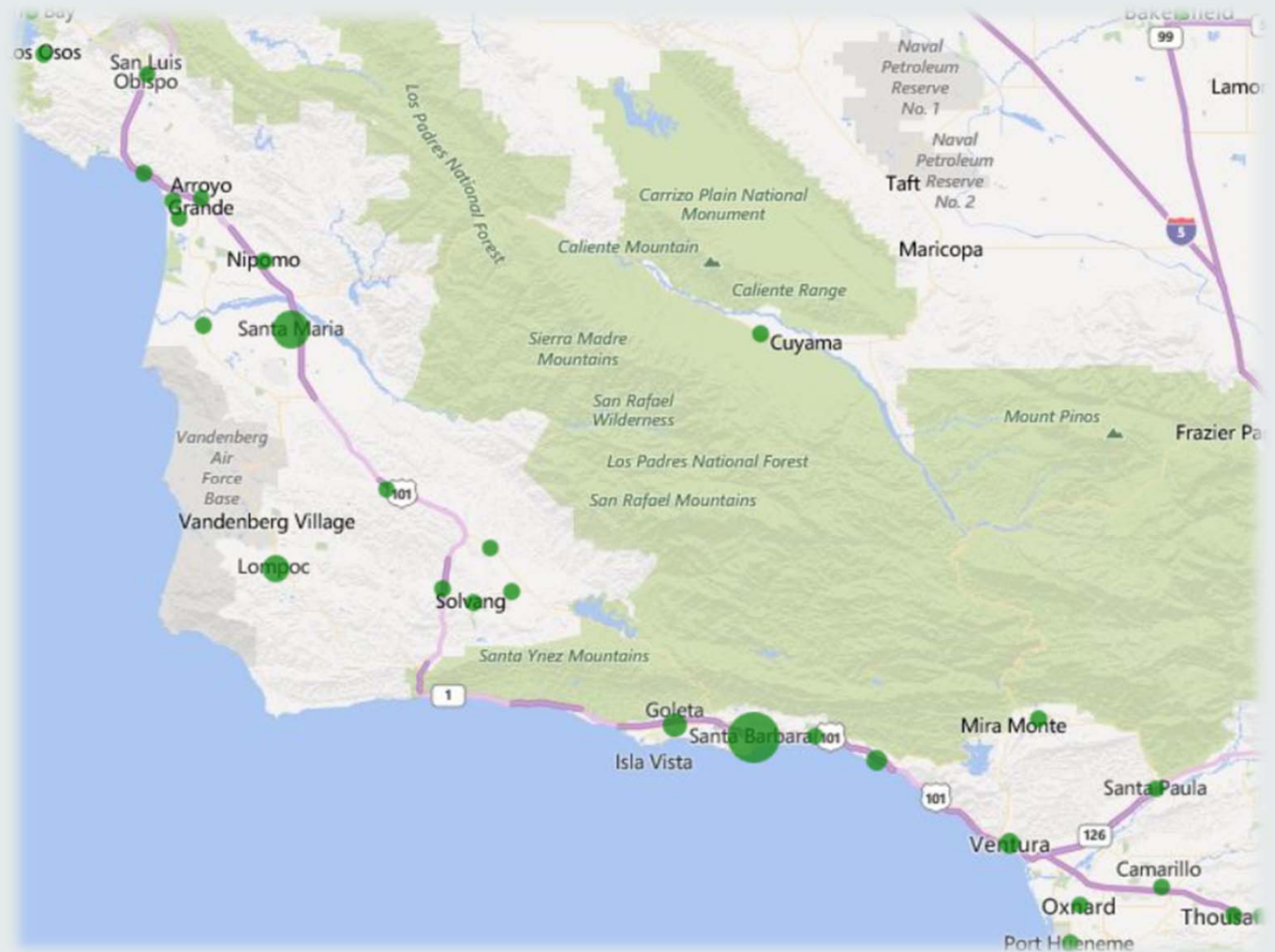
Geographical Dispersion

- Members in 42 different U.S. States.
- Majority live in the Tri-County Area

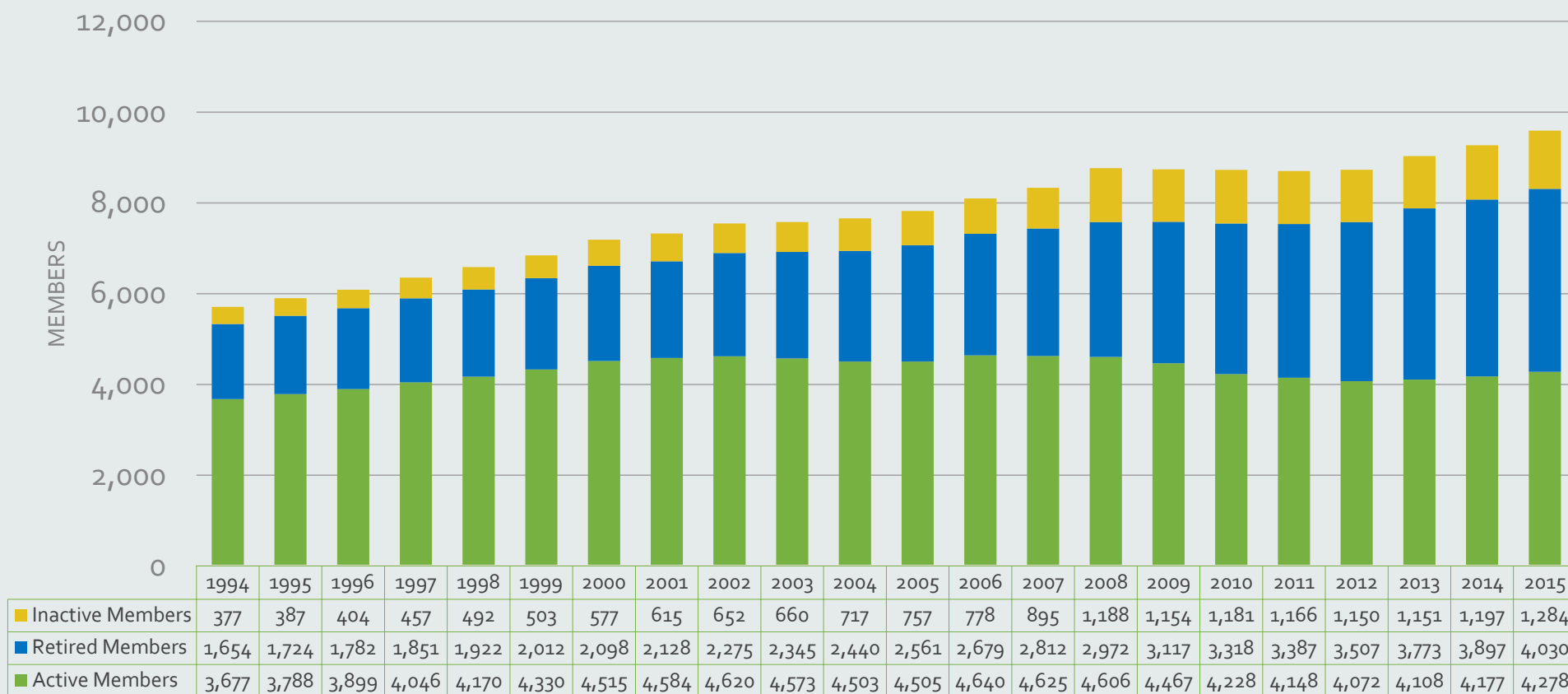


Local Impacts

- 2,747 people on payroll in the Tri-County area.
- Annualized payroll of \$111 million in the Tri-County area.



Member Composition

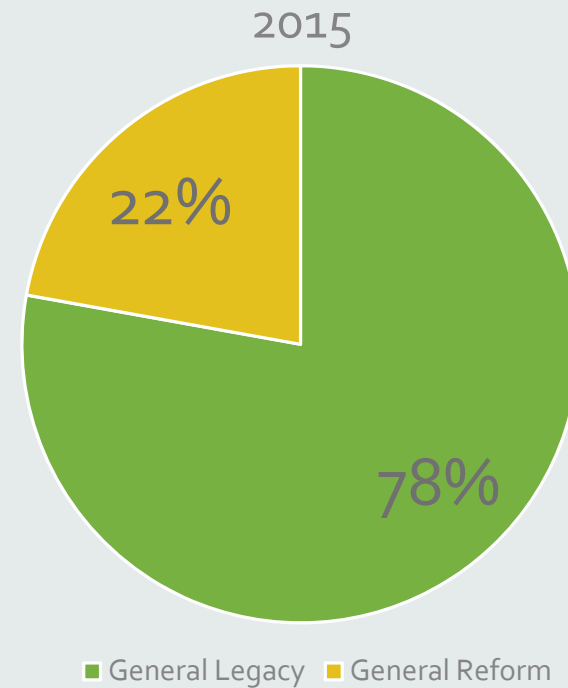
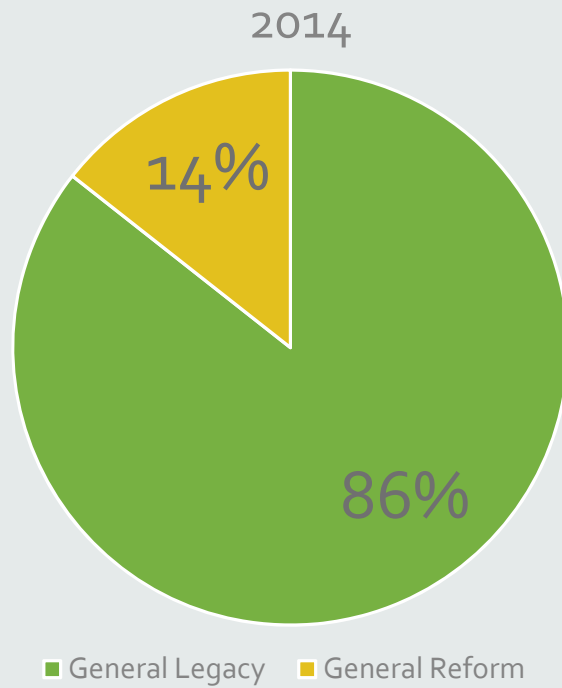


Demographic Trends

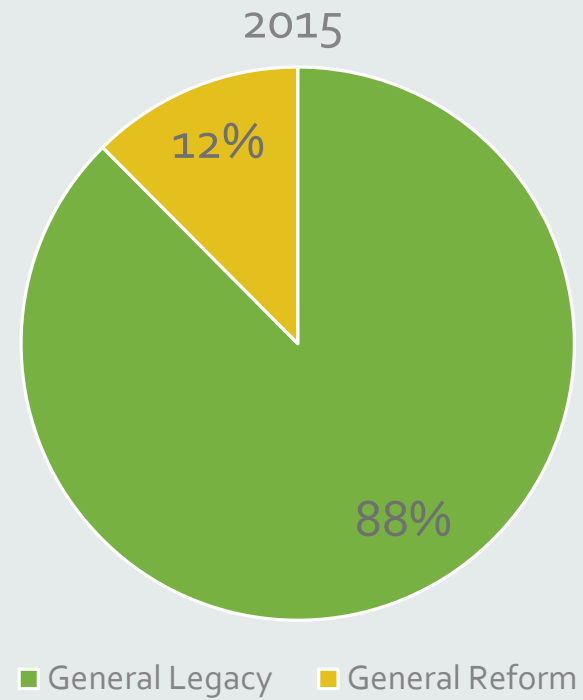
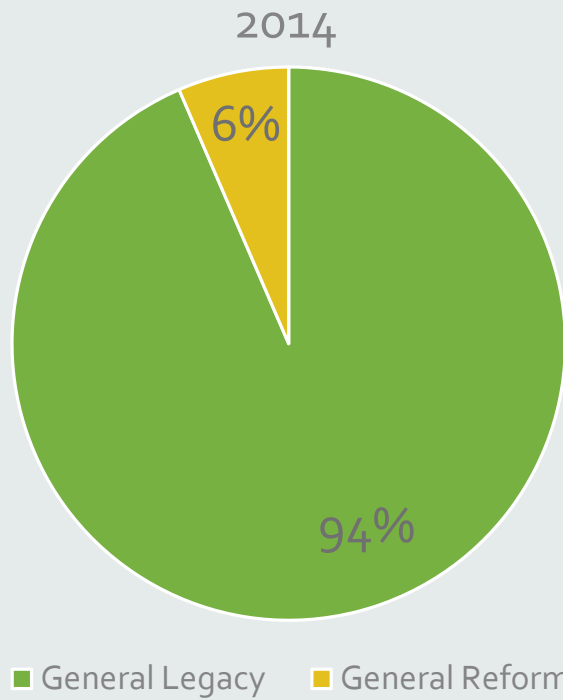
- Increase in Active Members highest point since 2006.
- Increase in Inactive Members is double the 20 year average.
- Retirements in line with 20 year average.

2015 Membership Summary			
	2014	2015	Inc.
Active	4,177	4,278	101
Inactive Members	1,197	1,284	87
Receiving Benefits	3,897	4,030	133
Total Participants	9,271	9,592	321

General Membership Pre vs. Post PEPRA/Plan 7 Comparison



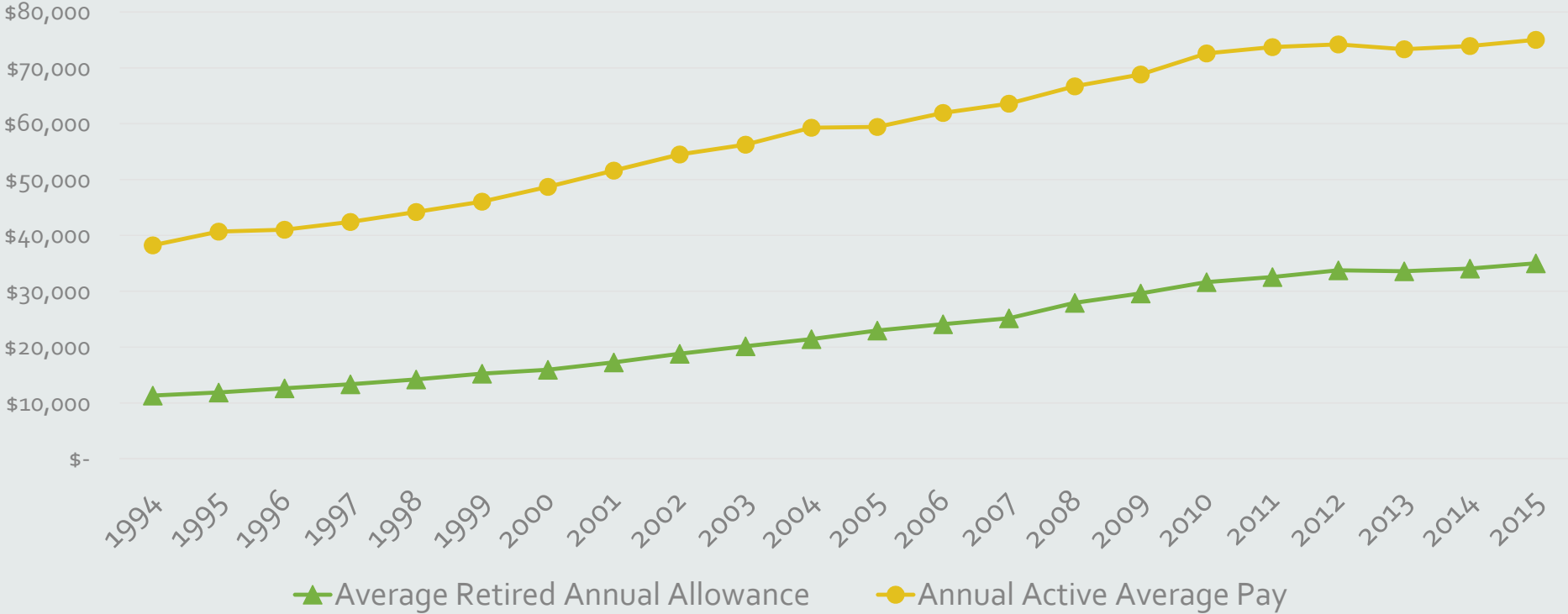
Safety Membership Pre vs. Post PEPRA Comparison



Membership Analysis

- Composition of membership is turning.
- For the most part...
 - New members are less expensive:
 - New benefit tiers feature reduced benefits.
 - Plan 7 and PEPRA.
 - PEPRA tier is full 50% Normal Cost share.

Compensation and Benefits



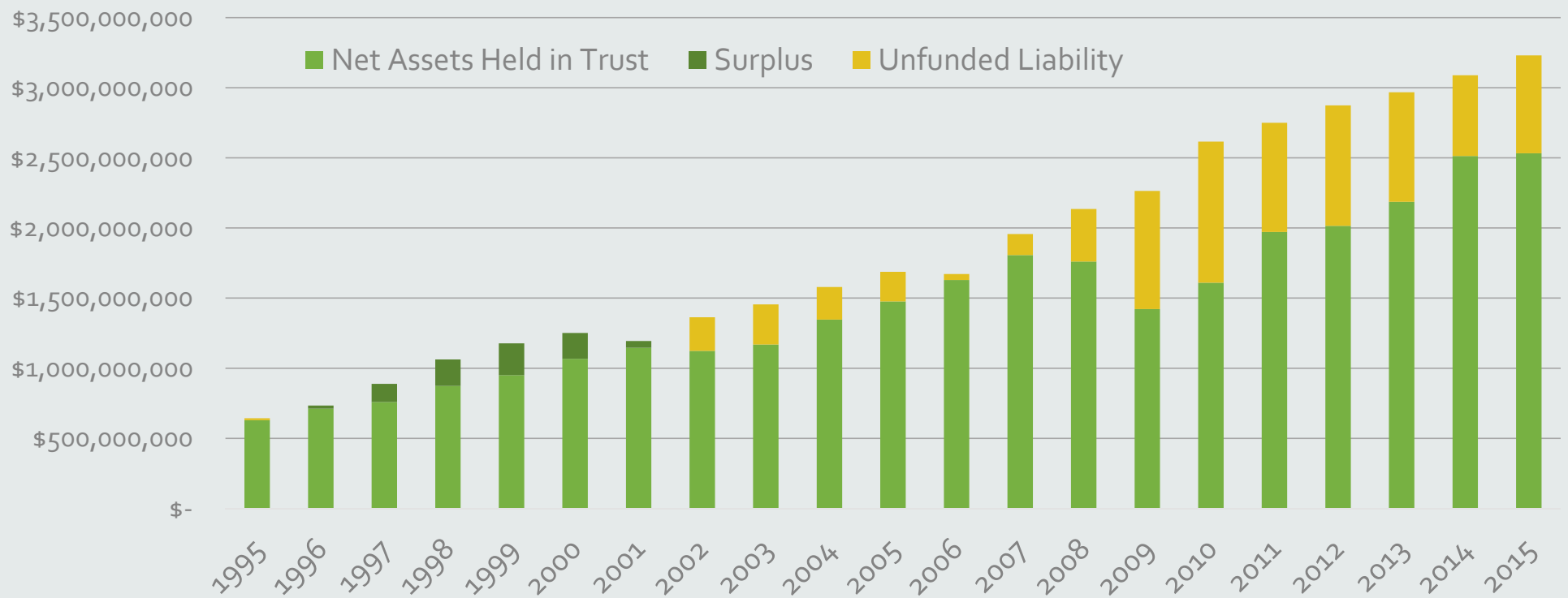
2015 Benefits

- The average annual benefit was \$35,016.
- According to the 2013-2014 American Community Survey 80% of Californians over age 65 made less than \$53,000.
- Average member contribution 5.19%.
 - PEPRAs Members contribute 7.6% general and 13.6% safety.

As of June 30, 2015	Average Monthly Benefit	Number of Retirees
General Member	\$2,341	3,027
Safety Member	\$4,763	945
APCD Member	\$3,069	58
Average/Total	\$2,918	4,030

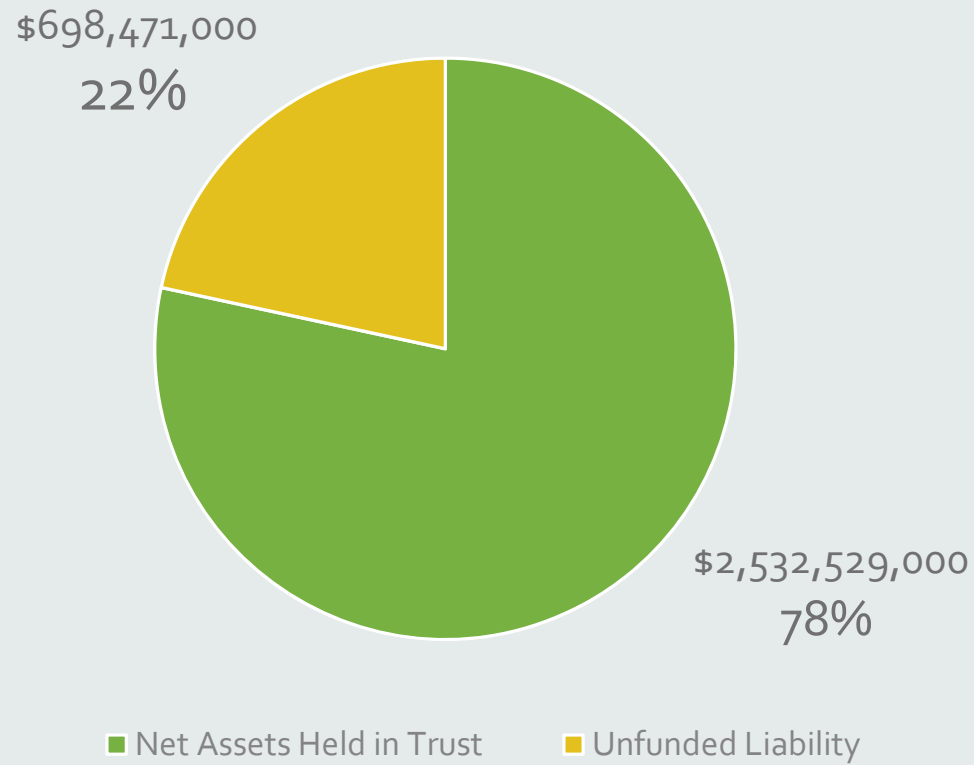
Actuarial and Finance

20-Year Time Series Funded Position

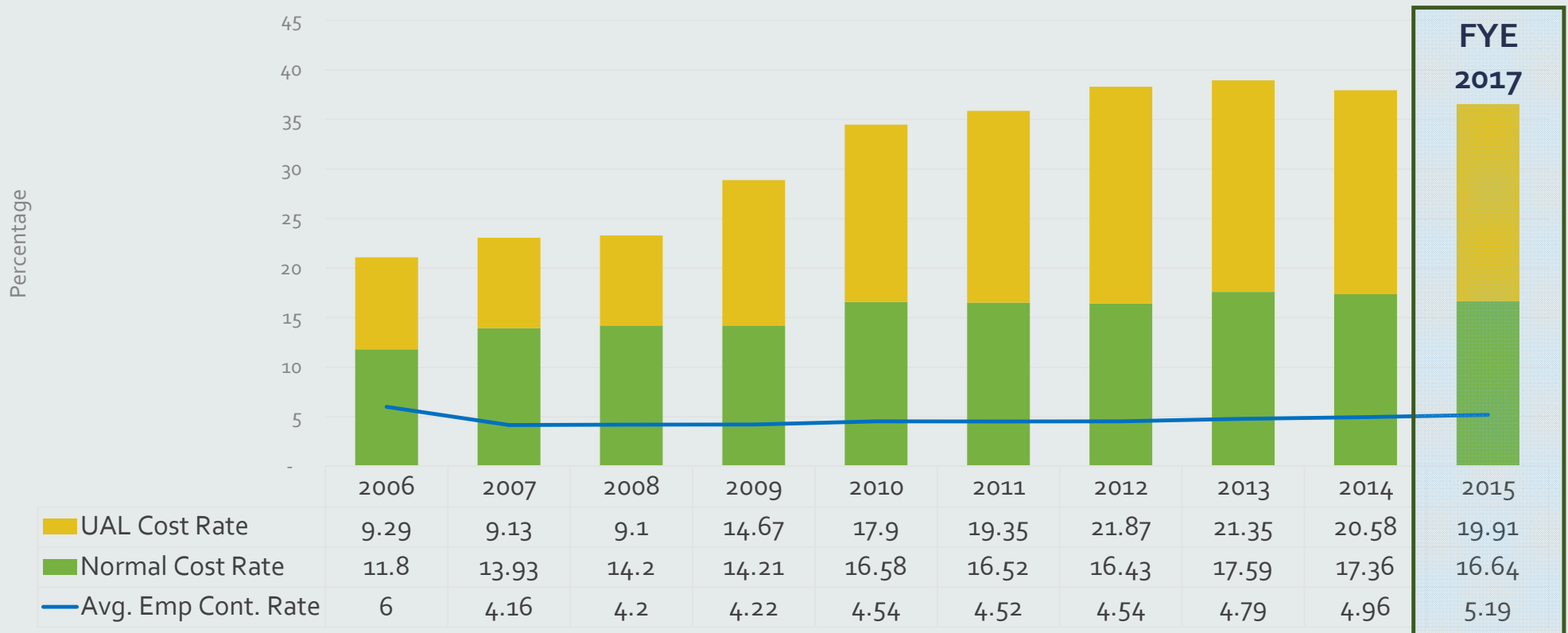


*Based on Net Assets Held in Trust compared to Actuarial Liability (e.g. does not use actuarial value of assets)

2015 Funded Position



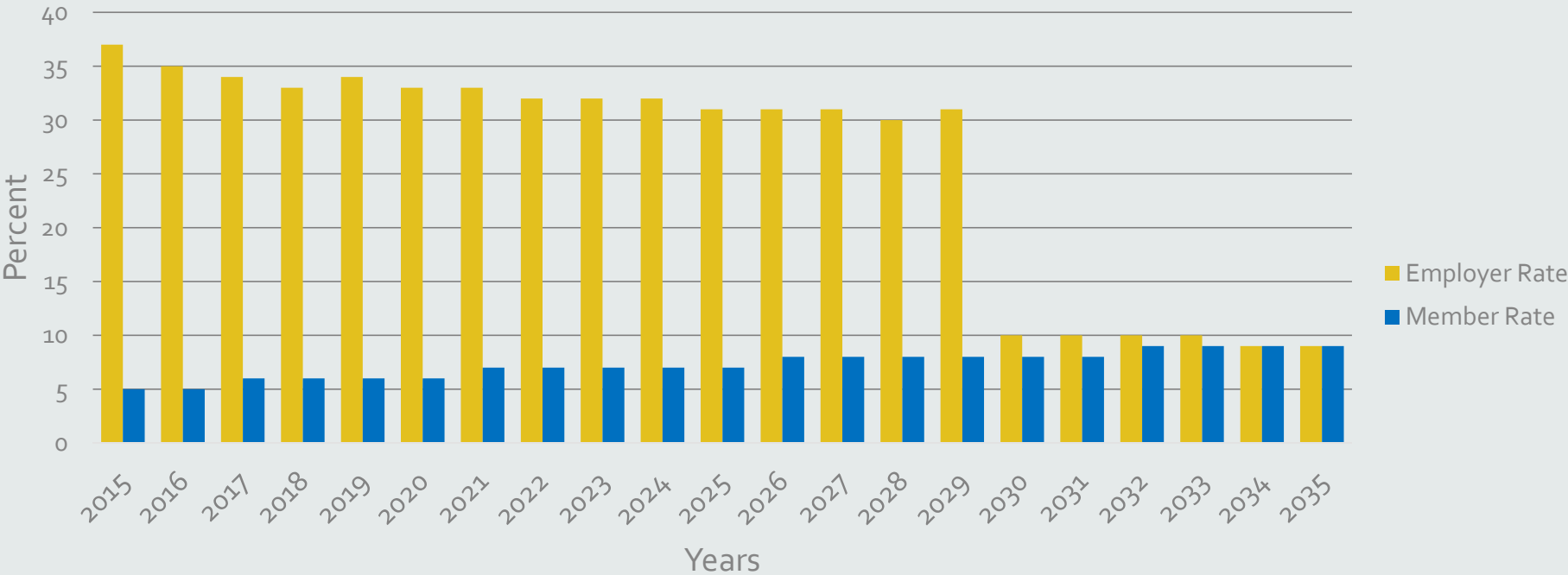
10 Year Contributions



2015 Contributions by Plan Tier



20 -Year Contribution Projection



*Model assumes 7.5% return and no investment losses.

** From 2015 Valuation performed by Cheiron Inc.

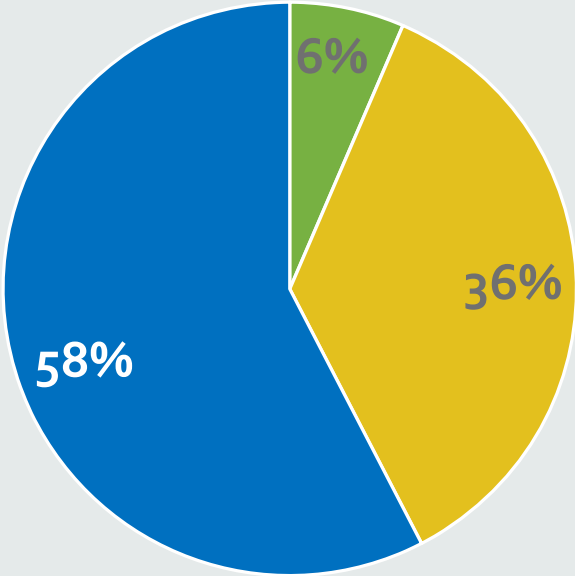
Pension reform has near-term impacts

	Legacy	PEPRA/Plan 7	Variance
General PEPRA Payroll	\$ 35,691,000	\$ 35,691,000	
Normal cost rate (legacy 5c)	15.47%	7.62%	
Employer Normal Cost	\$ 5,521,398	\$ 2,719,654	\$ 2,801,744
Safety PEPRA Payroll	\$ 8,143,000	\$ 8,143,000	
Normal Cost Rate (legacy 4c)	24.15%	13.6%	
Employer Normal Cost	\$ 1,966,535	\$ 1,107,448	\$ 859,087
General Plan 7 Payroll	\$ 6,674,000	\$ 6,674,000	
Normal cost rate (legacy 5c)	15.47%	13.39%	
Employer Normal Cost	\$ 1,032,468	\$ 893,649	\$ 138,819

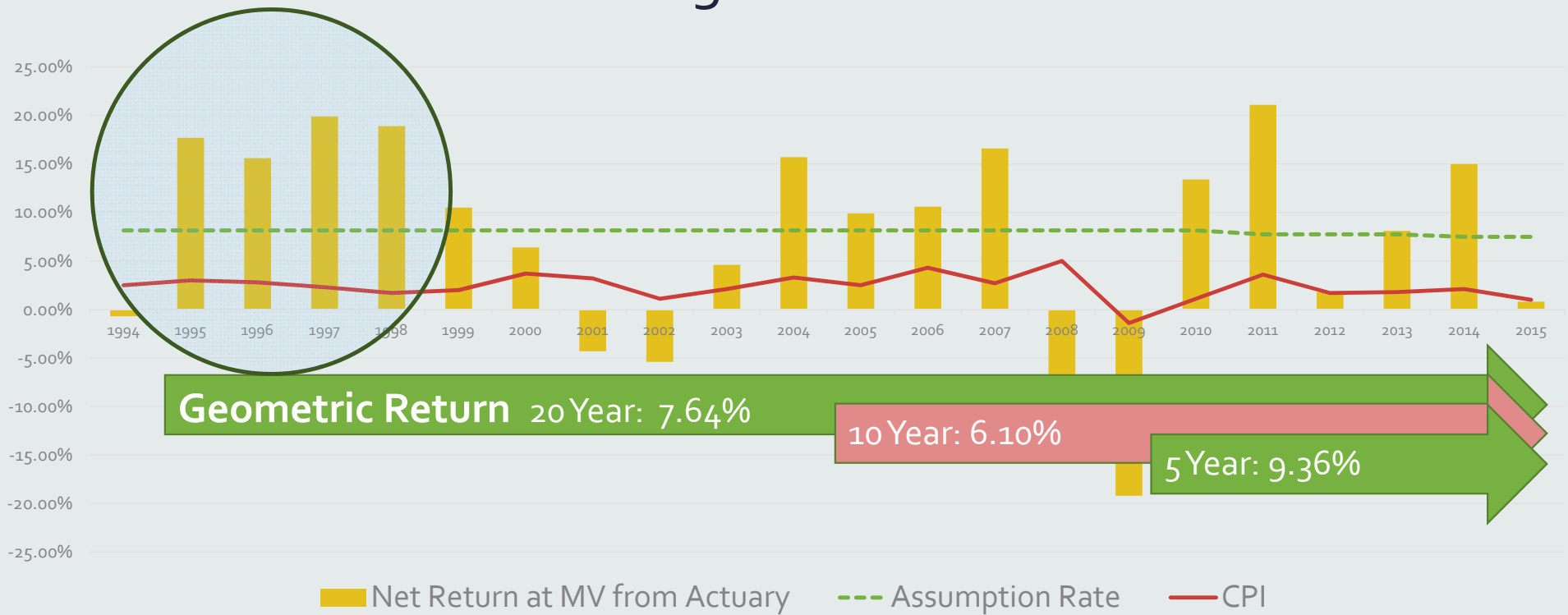
Total 2017 Savings: \$3,799,649

20 Year Revenue Sources

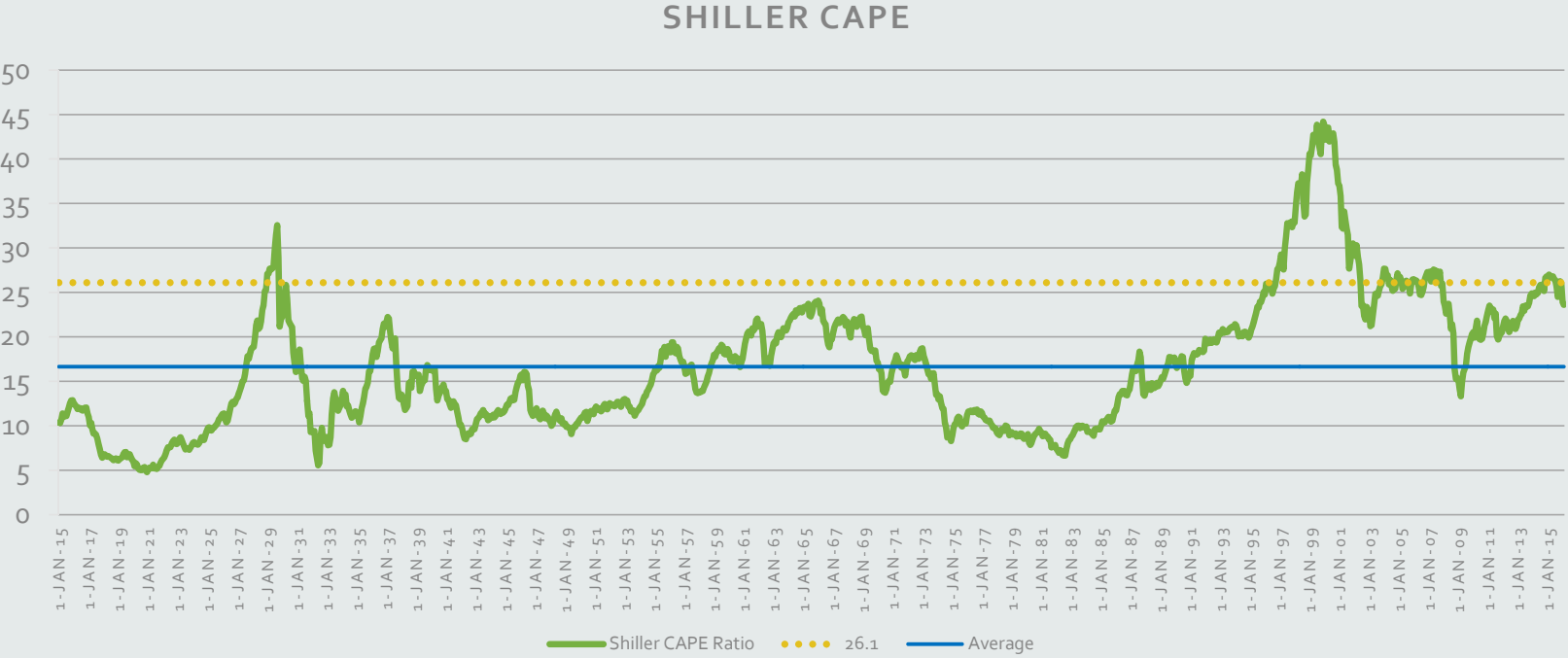
■ Total Member ■ Total Employer ■ Net Investment Income



20 Year Performance Against the Hurdle Rate



US Equity Valuations still high on a relative basis



SBCERS Portfolio as of January 31, 2016

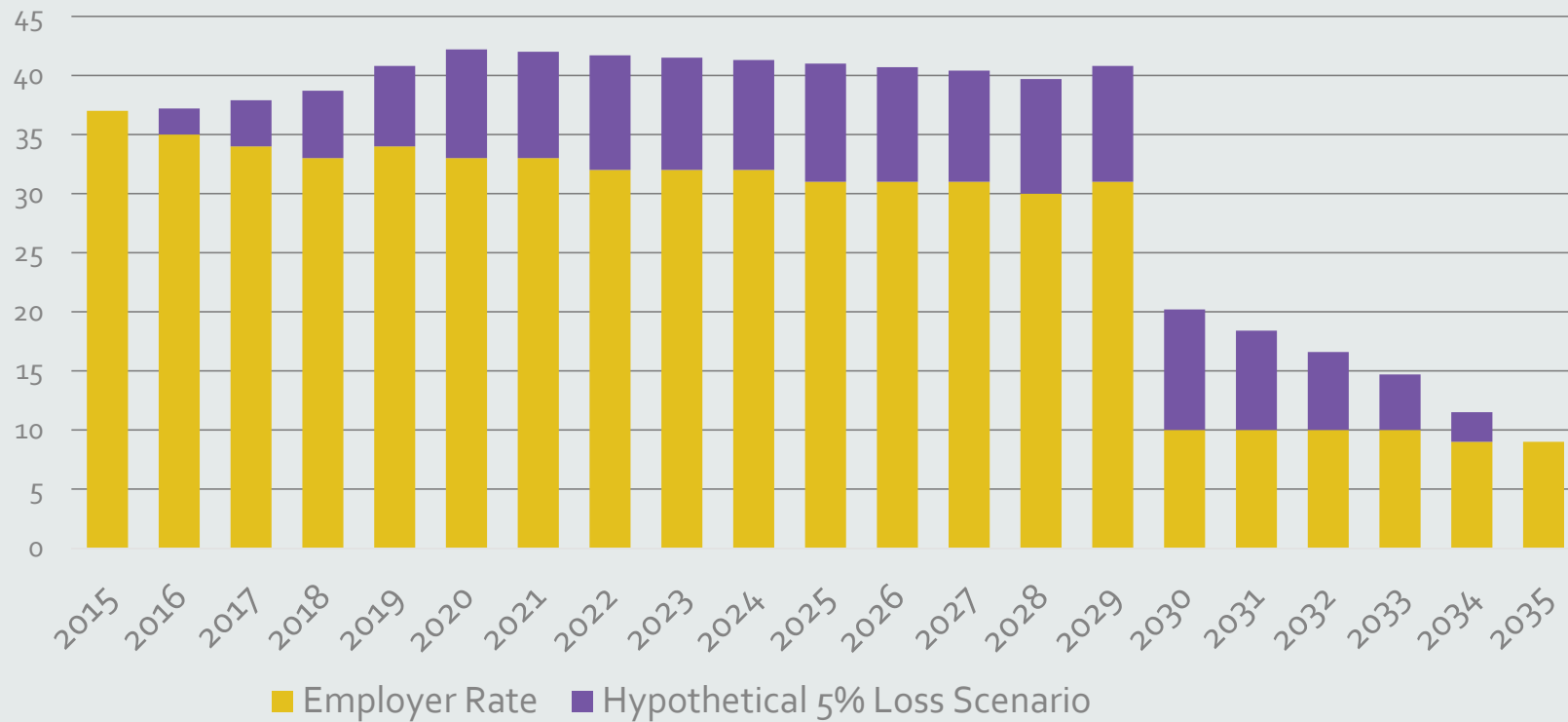
	January	3 Month	FYTD	1 Year	2 Year	ITD
Total Portfolio	-2.03	-3.80	-5.39	-3.95	1.45	8.07

- Since July...
 - General Investment Consultant has maintained defensive tactical position.
 - Maximum Weight Cash in August (~2% Holding)
 - Underweight emerging markets (~8% Holding)
 - Instituted low volatility equity strategies which have outperformed the passive index during this period.

A hypothetical scenario... Using rough math.

- A \$2.5 billion investment portfolio has a 5% loss as compared to June 30, 2015 valuation.
 - Actual Loss: (\$ 125,000,000)
 - "Actuarial" Loss: (\$ 187,000,000)
 - Total 2016 Layer: (\$ 312,500,000)
- Funding policy smooths effect of rate changes over five years.
 - Four year ramp up, ramp down

A hypothetical scenario projected...

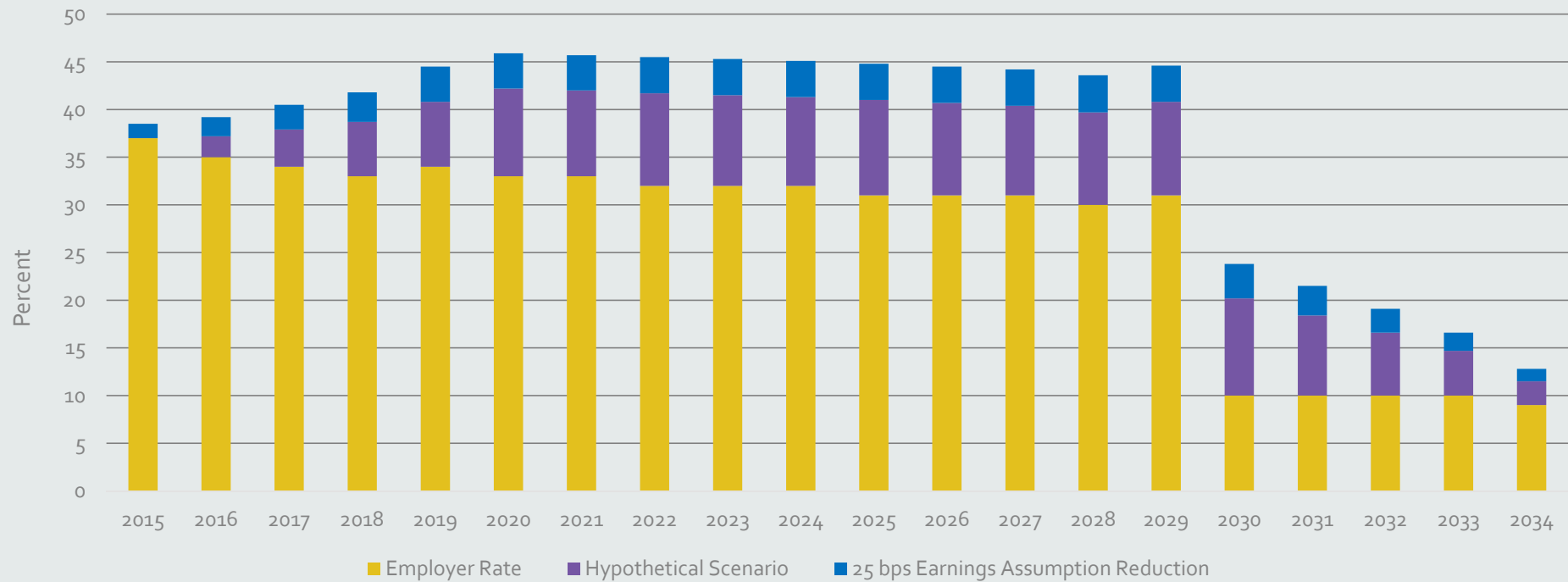


Discount Rate Sensitivity Discussion

Discount Rate	6.5%	7.5%	8.5%
Total Liability	\$3,716,541,473	\$3,260,156,781	\$2,886,390,280
Net Position	\$2,532,528,974	\$2,532,528,974	\$2,532,528,974
Net Pension Liability	\$1,184,012,499	\$727,627,807	\$353,861,306

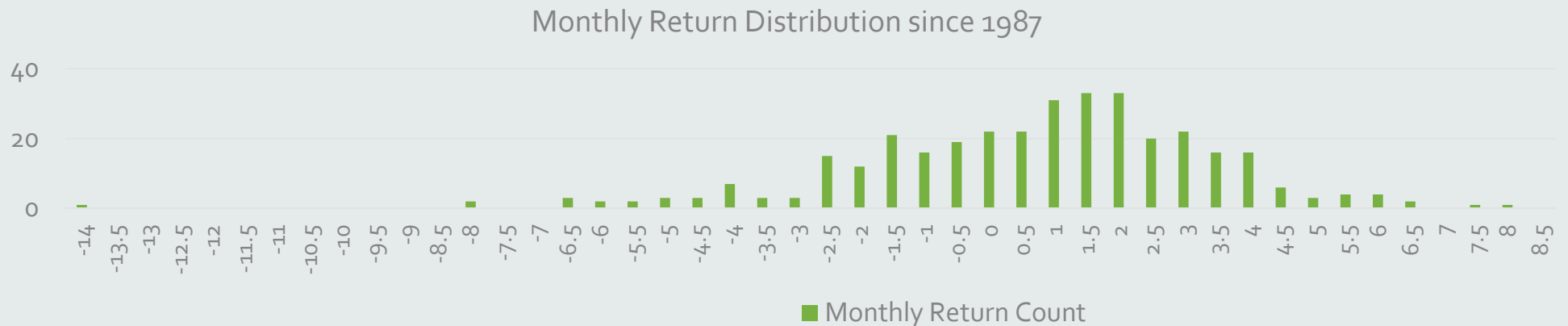
- Change from 7.5% to 6.5% (100bps) increases liability by \$456,384,692
- 25 basis point reduction results in approximate (\$114,000,000) loss layer.
- Would result in 7.25% discount rate.

A hypothetical scenario revisited...



*Purple bars reflect the impact of a 25 bps discount rate reduction if it were made during this years valuation.

Important to know...



- Financial Markets Move Fast:

- Portfolio positive 248 out of 348 Months
- Monthly portfolio return $\geq 4\%$ 37 times in last 348 months.

- Experience Study creates process for discount rate changes...

- 7.5% still median assumption for SACRS return.
- Board of Retirement retains tools to flexibly implement changes.
- Mortality and other assumptions may also change.

**returns rounded to nearest half percent to create distribution*

Looking forward: 2016 goals

- Completing General Investment Consultant RFP
 - Asset Allocation Review
 - Portfolio Risk Review
- Consultant Oversight Reviews
- Completing Triennial Actuarial Experience Study
- Actuarial Audit



OPEB Plan Administrator's Report

401(h) background

What is a 401(h) Plan?

- 401(h) is an IRS code section:
 - It permits a pension or annuity plan to provide for payment of benefits for sickness, accident, hospitalization and medical expenses for retired employees, their spouses and dependents.
 - In order for the pension or annuity plan to meet the provisions of section 401(h), such medical benefits **must be subordinate** to pension benefits and **must be established and maintained in a separate account**.

401(h) Attributes

- The only method that permits a qualified pension plan to provide tax-free medical benefits. In this regard, 401(h) is a qualification provision.
- Can be pre-funded.
- Payments to and distributions from are **not** taxable to the member.
- There are limits on funding.
- There are limitations on asset transfers.

Abridged History of the Santa Barbara County 401(h) Plan

- 2008 Legal process led to an agreement to create the 401(h) plan
 - New 401(h) plan funded entirely by employers, but with initial zero balance
- Created the tax compliant health plan that exists today
 - Provided mechanism for participation of special districts
 - IRS approved determination letter for plan received in 2013
- CERL authority for plan in Sections 31694 et seq.

Abridged History of the Santa Barbara County 401(h) Plan

- County has funded “pay go – plus” since 2008.
- Plan closed to **new County general** members on June 25, 2012.

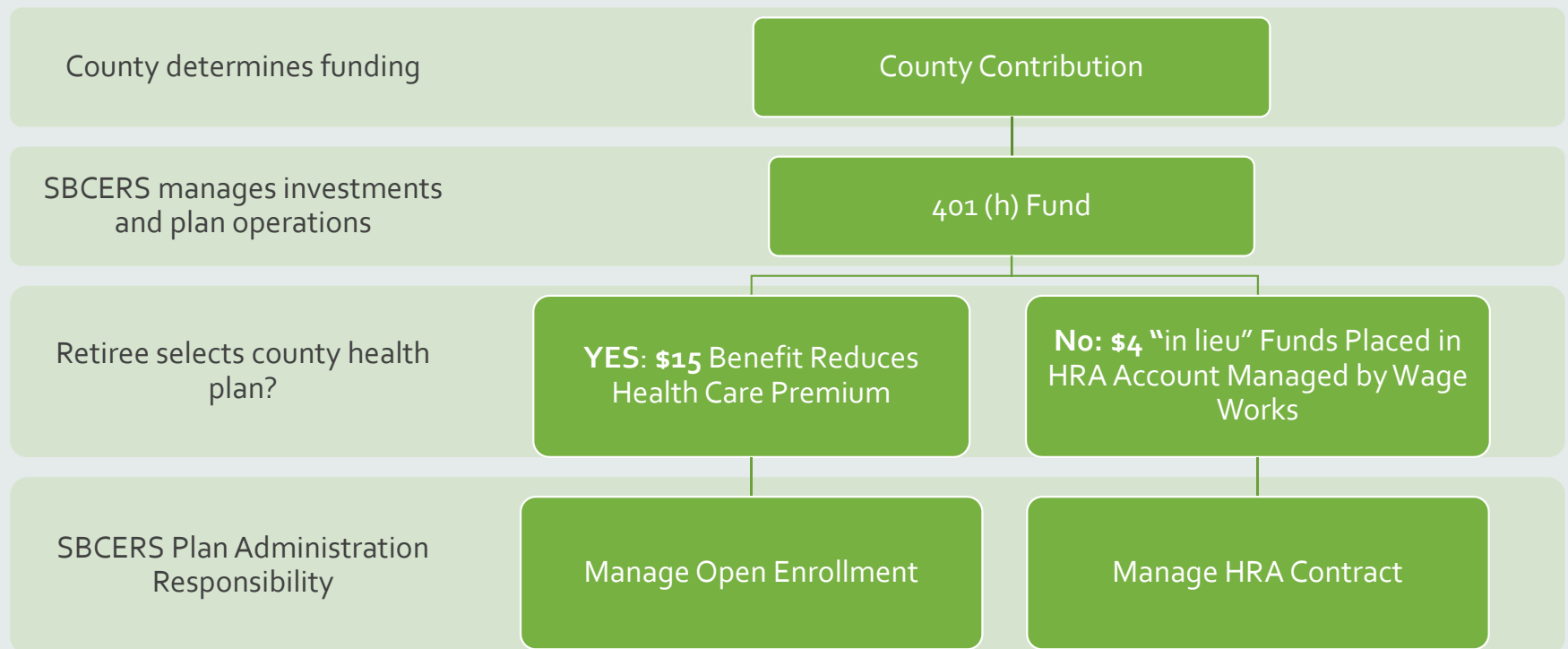
Santa Barbara 401(h) plan benefit provisions

- Monthly stipend based on years of service and whether or not member participates in County Health Insurance Plan.
 - Core benefit is Monthly Premium Subsidy: \$15.00/month per year of service.
 - “In lieu” benefit for not participating in County Insurance: \$4/month per year of service.
- Benefits are not “Vested”

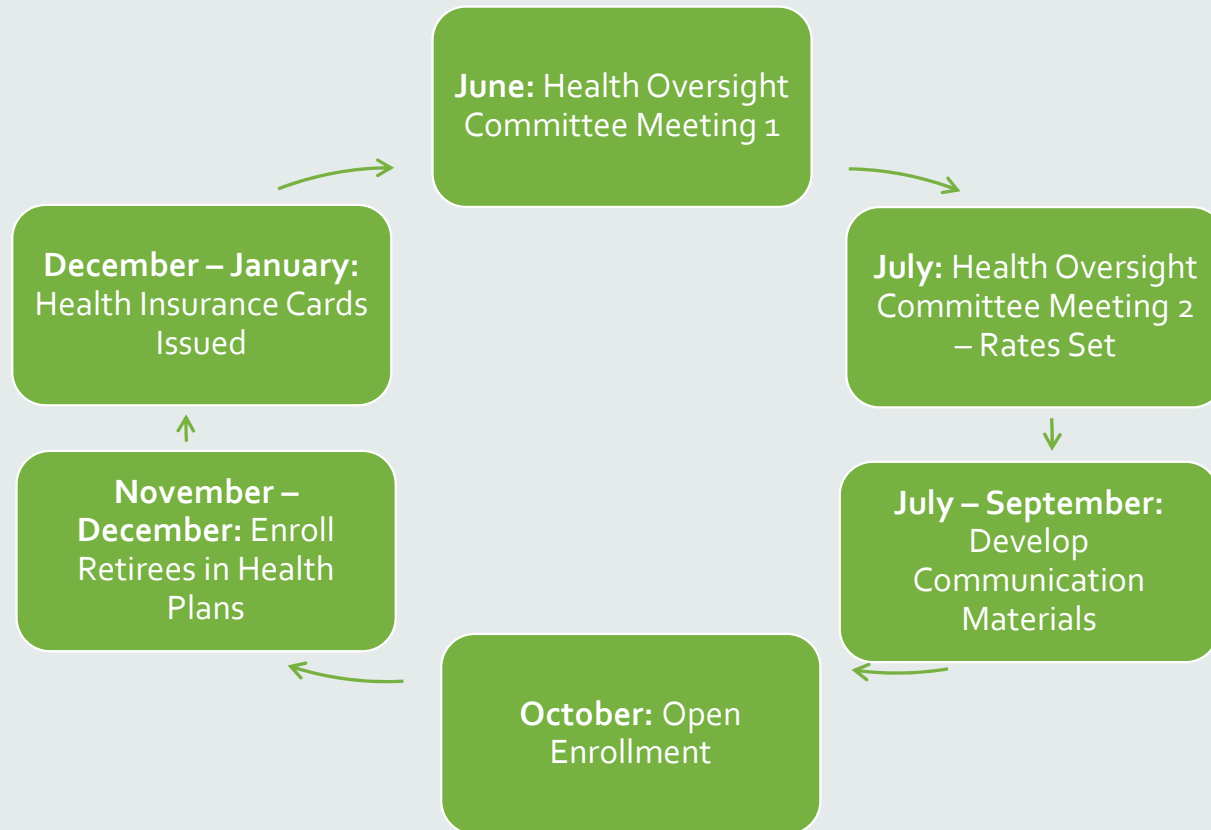
History of Santa Barbara County 401(h) Benefit Provisions

Date of Revision	Monthly Premium Subsidy (Per Year of Service)	In Lieu Benefit (Per Year of Service)
1988 Bobolia Settlement	\$8.00	\$1.47
July 17, 1996	\$12.00	
April 22, 1998		\$3.00
October 12, 2000	\$14.00	
May 22, 2002	\$15.00	\$4.00

401(h) Fund Flows



401(h) Plan Administration Cycle



Retiree Medical Plans

- Plan Options Dependent on Medicare Eligibility / Retiree Location
- Early Retirees (non-Medicare) have option to choose from six different plans
 - Kaiser and Blue Cross
 - High/Low HMO, PPO and HDHP
- Medicare Retirees have option to choose from 11 different plans
 - Kaiser, Blue Cross and United Health Care
 - High / Low HMO and PPO

Retiree Medical Plan Monthly Costs

2016 Plan	2016 Cost	Variance	2002 Cost	2002 Plan
Blue Shield Medicare Low EPO - Individual	\$1,319	598%	\$189	Blue Cross Senior Secure HMO - Individual
Medicare Low EPO - Family	\$3,833	579%	\$565	Blue Cross Senior Secure HMO - Family
Non-Medicare High EPO - Individual	\$1,529	265%	\$419	Health Net HMO - Individual
Non-Medicare High EPO - Family	\$4,443	353%	\$982	Health Net HMO - Family
Kaiser Senior Advantage Low Option - Individual	\$158	-16%	\$189	Blue Cross Senior Secure HMO - Individual
Kaiser Senior Advantage Low Option - Family	\$475	-16%	\$565	Blue Cross Senior Secure HMO - Family
United Health Care Medicare Advantage - Individual	\$315	36%	\$231	Pacificare Secure Horizons - Individual
United Health Care Medicare Advantage - Family	\$946	104%	\$463	Pacificare Secure Horizons - Family

- 1071 Retirees retired prior to 2000.
 - Average General benefit before subsidy: \$1,810
 - Average Safety benefit before subsidy: \$3,461
- Healthcare costs encompass greater percentage of income:
 - Cheapest United Healthcare Tier 17% of General Benefit
 - Cheapest Blue Shield EPO Tier 38% of Safety Benefit

In Lieu Benefit

- In lieu benefit is deposited to Health Reimbursement Account (HRS) account for member's benefit.
- Accounts are managed by outside firm, Wage Works.
- Members can now use debit cards to access funds.

Respective Roles and Responsibilities

Area	SBCERS	Plan Sponsor
Accounting	👍	
Communications	👍	
Investments (Fiduciary)	👍	
Plan Design (benefit level, eligibility)		👍
Funding Level		👍
Liability		👍

SBCERS Fiduciary Responsibility to 401(h)

- Manage the investments and ensure prudent administration of plan.
- Fiduciary responsibility does not extend to setting contribution levels, but does provide for setting valuation assumptions (e.g. investment return and discount assumptions)
- The Plan Sponsor determines what they will pay.

Accounting Changes

- GASB 74/75 change accounting rules for Other Post Employment Benefits
 - Similar to GASB 67/68 for Pension Trusts.
 - Liability moves on to the balance sheet.
 - Funding methodology dictates discount rate.
 - Proportionate share allocation.
 - Enhanced disclosure.

Funding Agreements

- County has current funding policy of 3.75% of covered payroll.
 - Set to move to 4%.
- Funding policy will dictate future valuations.

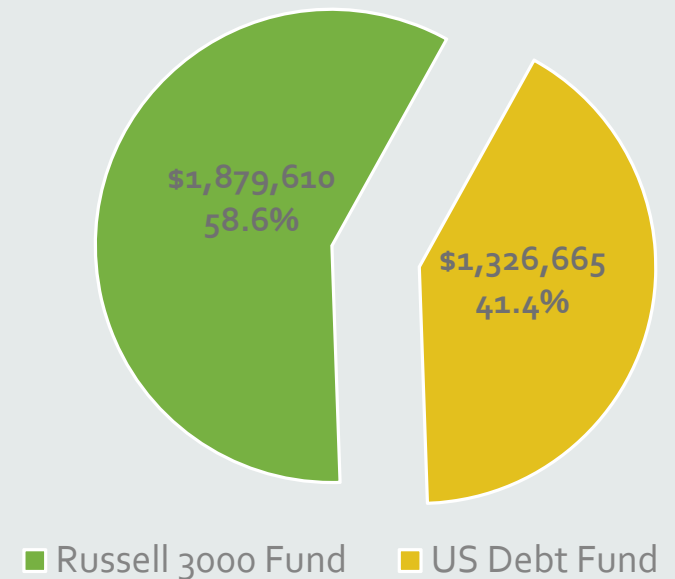
401(h) Contributions

	Santa Barbara County	Other Sponsors	Total
2014 Contribution	\$8,252,514	\$646,552	\$8,899,066
2014 Contribution Percentage	93%	7%	100%

401(h) Investments

- Invested in Passive Blackrock Index Funds
 - 60% Russell 3000 Index (non-lendable)
 - 40% US Debt Index (non-lendable)
- Total Balance as of January 31, 2016: \$3,206,275
- Reviewed for rebalancing quarterly by Staff
- Fees:
 - Russel 3000: 6 bps
 - US Debt: 6 bps

January 31, 2016 Balances



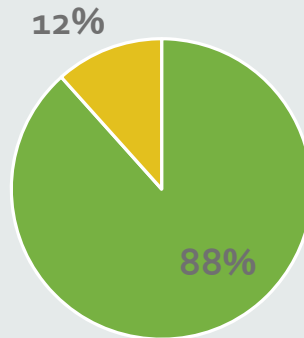
401(h) Investment Performance

	January	4th QTR	FYTD	1 Year
BlackRock 401h	-2.83	-3.94	-3.41	-0.93

401(h) Benefit Distribution

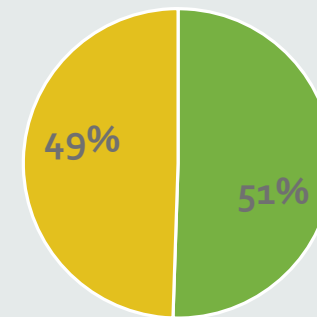
	2014 Benefit Distribution	2014 Enrollees	2013 Benefit Distribution	2013 Enrollees
Medical Premium Subsidy (\$15/month)	\$7,608,022	1,830	\$7,442,421	1,826
"In Lieu" Benefit (\$4/month)	\$1,002,025	1,792	924,333	1,690
Total	\$8,610,847	3,622	\$8,366,754	3,516

2014 Benefit Distribution



■ Medical Premium ■ "In Lieu" Benefit

2014 Enrollees



■ Medical Premium Subsidy ■ "In Lieu" Benefit

Key Assumptions

	Santa Barbara County	APCD	All Others
Actuarial Cost Method	EAN	EAN	EAN
Amortization Method	Level % of Pay	Level % of Pay	Level % of Pay
Amortization Term	15 Year Closed / 7 Remaining	30 Year Open	30 Year Open
Asset Valuation Method	Market Value	Market Value	Market Value
Payroll Growth Rate	3.5%	3.5%	3.5%
Discount Rate	4.33	7.5%	4.0%

Funded Position at June 30, 2014

	Santa Barbara County	Other Sponsors	APCD	Total
Actuarial Accrued Liability	\$178,461,554	\$13,355,010	\$1,388,852	\$193,205,416
Assets	\$ 3,155,153	\$ -	\$ 915,228	\$ 4,070,381
UAL	\$175,306,401	\$13,828,634	\$473,624	\$189,135,035
Funded Percentage	1.80%	0.00%	65.90%	2.10%

401(h) Changes in Financial Position as of June 30, 2014

	Santa Barbara County	Other Sponsors	Air Pollution Control District	Total
Market Value of Assets June 30, 2013	\$2,549,555	\$0	\$728,564	\$3,278,119
Employer Contributions	8,252,513	477,547	169,005	8,899,065
Interest and Investment Income	413,192	0	86,664	499,856
Administrative Expenses	-297,472	-17,247	-4,156	-318,875
Benefit Payments	-8,060,107	-4,81,736	-69,005	-8,610,848
Administrative Expense Reimbursement	297,472	21,436	4,156	323,064
Market Value of Assets June 30, 2014	\$3,155,153	\$0	\$915,228	\$4,070,381
Increase in Market Value	\$605,598	\$0	\$186,664	\$792,262

Looking Forward in 2016

- Beginning GASB 74/75 Implementation process.
- Working with plan sponsors to review administrative policies.
- Reviewing investment strategies and administration of the OPEB Pool.

Appendix

401(h) Plan Financial Position as of June 30, 2014

	Santa Barbara County	Carp-Summerland FPO	Santa Maria Cemetery	Goleta Cemetery	SBCAG	Summerland Sanitary	Carpinteria Cemetery	Air Pollution Control District	Courts	Total
Actuarial Accrued Liability	\$178,461,554	\$2,522,632	\$ 385,492	\$109,618	\$534,379	\$ 145,272	\$ 54,715	\$ 1,388,852	\$9,602,902	\$193,205,416
Assets	\$ 3,155,153							\$ 915,228		\$ 4,070,381
UAL	\$175,306,401	\$2,522,632	\$ 385,492	\$109,618	\$534,379	\$ 145,272	\$ 54,715	\$ 473,624	\$9,602,902	\$189,135,035
Funded Percentage	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	65.9%	0.0%	2.1%

401(h) Changes in Financial Position as of June 30, 2014

	Santa Barbara County	Carp-Summerland FPO	Santa Maria Cemetery	Goleta Cemetery	SBCAG	Summerland Sanitary	Carpinteria Cemetery	Air Pollution Control District	Courts	Total
Market Value of Assets June 30, 2013	\$2,549,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$728,564	\$ -	\$3,278,119
Employer Contributions	8,252,513	122,222	11,677	3,848	4,737	3,376	2,179	169,005	329,508	8,899,065
Interest and Investment Income	413,192	-	-	-	-	-	-	86,664	-	499,856
Administrative Expenses	-297,472	-3,897	-454	-154	-443	-178	-163	-4,156	-11,958	-318,875
Benefit Payments	-8,060,107	-122,222	-11,677	-3,848	-4,737	-3,376	-2,179	-69,005	-333,697	-8,610,848
Administrative Expense Reimbursement	297,472	3,897	454	154	443	178	163	4,156	16,147	323,064
Market Value of Assets June 30, 2014	\$3,155,153	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$915,228	\$ -	\$4,070,381
Increase in Market Value	\$605,598	\$0	\$0	\$0	\$0	\$0	\$0	\$186,664	\$0	\$792,262

401 (A) Benefit Design

NEW PEPPRA PLANS

Effective January 2013

Plan	5a	5b	5c	7	8 PEPPRA	4a	4b	4c	6a	6b	8 PEPPRA	
	General Plans						Safety Plans					
Min. Retirement Age	50	50	50	50	52	50	50	50	50	50	52	
Calculation of Final Average Salary	12	12	36	36	36	12	12	36	12	36	36	
Compensation Limit	No	No	No	No	Social Security Taxable Wage 2015 (\$117,020)	No	No	No	No	No	Social Security Taxable Wage 2015 (\$117,020)	
Basic Benefit Formula	2% at age 57	2% at age 57	2% at age 57	1.67% at age 57.5	1% at age 52	3% at age 55	3% at age 55	3% at age 55	3% at age 50	3% at age 50	2% at age 50	
Maximum Benefit Formula	2.6% at age 62	2.6% at age 62	2.6% at age 62	2.44% at age 65	2.5% at age 67	3% at age 60	3% at age 60	3% at age 60	3% at age 60	3% at age 60	2.7% at age 57	
Benefit Cap	100% FAS	100% FAS	100% FAS	100% FAS	Social Security Taxable Wage 2015 (\$117,020)	100% FAS	100% FAS	100% FAS	100% FAS	100% FAS	Social Security Taxable Wage (\$140,424)	

*FAS = Final Average Salary