County of Riverside
Pension Advisory Review Committee

Wednesday, January 13, 2021
3:00 p.m.

IMPORTANT NOTICE REGARDING PARC MEETING

This meeting is being conducted utilizing teleconferencing and electronic means. This is consistent with State of California Executive Order N-29-20 dated March 17, 2020, regarding the COVID-19 pandemic.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Jen Kammerer at (951) 955-1136. Notification 48 hours prior to the meeting will enable us to make reasonable arrangements to ensure accessibility to the meeting [28 CFR 35 .102.35.104 ADA Title II].

Submission of Public Comments: For those who wish to make public comments at this meeting, please submit your comments by email to Jen Kammerer at jkammerer@rivco.org prior to 9:00 a.m. on January 13. All email comments shall be subject to the same rules as would otherwise govern speaker comments at the meetings. All email comments shall not exceed three (3) minutes and will be read out loud at the meeting and become part of the record of the meeting.

A G E N D A

1. Call to Order and Self-Introductions
2. Approval of the Minutes for December 1, 2020
3. OPEB Trust Report – Strategy Review & Recommendation
4. 2021 PARC Annual Report Review
5. New Business
6. Public Comment
7. Future Meeting Date (TBD)
8. Adjourn

PENSION ADVISORY REVIEW COMMITTEE

MINUTES OF MEETING

December 1, 2020
11:00 a.m.

Members Present:

Don Kent	Chairman, County Executive Office
Matt Jennings	Treasurer-Tax Collector
Brenda Diederichs	Human Resources
Undersheriff Dennis Vrooman	Sheriff

Members Absent:

Paul Angulo	Auditor-Controller

Staff and Guests Present:

Bradley Au	Aon
Steven Kilbride	Aon
Mary Beth Redding	Bartel and Associates
Kim Byrens	BB&K
Michael Williams	Columbia Capital
Jim Prichard	Columbia Capital
Synthia Gunzel	County Counsel
Isela Licea	Treasurer-Tax Collector
Giovane Pizano	Treasurer-Tax Collector
Stephanie Persi	Executive Office
Imelda Delos Santos	Executive Office
Jen Kammerer	Executive Office
Brianna Lontajo	Executive Office
Marcus Maltese	Executive Office
Jeanine Rey	Flood Control
Darrylenn Brockington	Flood Control
Keith Stribling	HighMark Capital
Amy Onopas	Human Resources
Alisa Lynch	Human Resources
Megan Gomez	Human Resources
Stacey Beale	Human Resources
Don Stracke	Independent Financial Consultant
Michael Alferez	Parks
Mitch Barker	PARS
Paul McDonnell	Retiree
Aileen Yan	Riverside Courts
Carol Waterhouse-Tejada	Riverside Courts
Margaret Herrero	Waste Resources
Sandra Green	Waste Resources

1. Call to Order and Self-introductions:

Chairman Don Kent called the meeting to order at 10:00 a.m. Self-Introductions were given by committee members.

2. Approval of the Minutes for May 14, 2020:
MOTION: Don Kent moved to approve the Minutes.
Seconded by Brenda Diederichs Motion approved unanimously

3. Section 115 Pension Trust Report

Don Kent introduced Mitch Barker and Will Rogers, from PARS and Keith Stribling, from HighMark Capital.

Will Rogers reported that the plans effective date is October 1, 2016. Its current investment strategy is Moderate Index PLUS, which is a passive strategy individual account. The initial contribution in November 2016 was $2 million, with additional contributions of $24 million, for a total contribution of $26.4 million. As of June 30, 2020, the total investment earnings are $3.7 million bringing the account balance to $29.9 million.

Keith Stribling stated that the account balance is now at $33 million. For the 6-month period YTD through June 2020 the portfolio was down 98 basis points. The official numbers through October 2020 show that the portfolio is up 1.8% still compounding around 6.2%. Also, calculations show the portfolio is up 5.5% in November. Don commented that the equity asset allocation was at 48%, which Keith stated was now 52.7%.

Report was received and filed.

4. Bartel and Associates – CalPERS Actuarial Issues 06/30/2019 Valuation Results

Mary Beth Redding, from Bartel and Associates, reported that the 20-year and 30-year average return rates on 6/30/20 are 5.5% and 7.9%. The County of Riverside percentage of liability belonging to retirees is 49% for Miscellaneous and 56% for Safety.

For Miscellaneous, unfunded liability ending June 30, 2018, was $2.4 billion, 70.4% funded ratio and assets were $5.7 billion. Unfunded liability ending June 30, 2019 is $2.5 billion, 70.9% funding ratio and assets were $6.1 billion. Looking at change of unfunded liability, there was a small loss of about $30 million because in 2019 CalPERS underperformed the expected 7%. What is expected for June 30, 2020, the Pension Obligation Bond of $370 million is now with CalPERS, the unfunded liability is expected to go down about $2.3 billion. The FY 2021/22 Employer Contribution Rate is 22.9%.

For Safety, unfunded liability ending June 30, 2018, was $1.0 billion, 70.4% funded ratio, and assets were $2.5 billion. Unfunded liability ending June 30, 2019, is $1.1

billion, 71.1% funded ratio and assets were $2.7 billion. Looking at 2018 – 2019, saw a little improvement due to experience gains. In 2020, expect big drop in liability due to Pension Obligation Bonds of $344 million. The projected unfunded accrued liability on 6/30/20 is $853 million. The FY 2021/22 Employer Contribution Rate is 35.8%. One item you see on Safety but not on Miscellaneous is the contribution rate is going up 0.9% of payroll due to payroll being less than expected which means payroll is not growing as fast as CalPERS expects.

Looking at the 2020 Pension Obligation Bonds in May 2020, the Safety balance was $344.3 million and Miscellaneous balance was $371.6 million, totaling $715.9 million. At June 30, 2020, Safety was at $342 million and Miscellaneous was $369.1 million, totaling $711.1 million. The projected balance on February 15, 2021 after earnings and amortization payments, Safety is projected to be $337.3 million and Miscellaneous $364 million, total $701.2 million.

Report was received and filed.

5. AON – County of Riverside Actuarial Valuation Report Postretirement Benefits Plan June 30, 2020

Brad Au, from AON, reported that the County contributions are primary fixed dollar amounts that vary by bargaining unit. They are intended to be level into the future over time. This is significant because there has been migration in eligibility to CalPERS and there is a requirement to pay a minimum amount called PEMHCA amount. That amount is subject to inflation in future years. The driving factor is the PEMHCA dollar amounts the county is required to contribute goes up over time.

The second item is implicit subsidy. Under CalPERS health plans, retirees receive benefits prior to age 65 by paying premiums that are developed by blending active and retiree costs. Since retirees are older and generally cost more than actives, the premium paid by the retiree is less than the “true cost” of coverage for retirees.

The accrued liability to date is $235 million based on a 6.15% discount rate. This is a change from the prior year discount rate of 7.01%. Plan liabilities and annual costs are considerably higher than the prior valuation, primarily due to a change which allows the SEIU bargaining group access to CalPERS health plans, which have higher costs and participation rates that results in an increase in liability.

The County’s goal is to maintain an 80% funded status. The valuation shows the plan continues to be under 80% funded as of June 30, 2021. Page 5 of the report summarizes the estimated additional annual contribution projected to attain a funded status of 80% at various future dates.

Report was received and filed.

6. AON – County of Riverside Actuarial Valuation Report Part-Time and Temporary Employees’ Retirement Plan July 1, 2020

Brad Au, from AON, reported that the funding contribution for FYE 2021 is $1.3 million and for FYE 2022 it went up a little bit to $1.5 million. There was a reduction in participant count from FYE 2019 (1,503) to FYE 2020 (1,394). The unfunded liability is stable at $13 million and the funded percentage is level at 77.7%.

The County's goal is to maintain an 80% funded status for this Plan. Page 4 of the report summarizes the estimated contribution projected in order to attain 80%. The plan is not projected to be less than 80% in the future years after 2021.

Report was received and filed.

7. 2021 PARC Annual Report Draft

Don Kent stated that the report is pending. Staff is working on preparing a draft. Once the draft is ready it will be sent to committee for review. Our next PARC Meeting will be in January to review the draft and committee comments and suggestions.

8. New Business

No new business to address.

9. Public Comment:

No public comment.

10. Future Meeting Date:

Don Kent stated that a future meeting date would be schedule soon to review 2021 PARC Annual Report.

11. Adjourn:

With no further business, Don Kent adjourned the Pension Advisory Review Committee Meeting at 12:15 p.m.

CERBT Account Update

County of Riverside

January 13, 2021

OPEB Valuation Report Summary

OPEB Actuarial Valuation Report by Aon Consulting		
Valuation Date	7/1/2018	7/1/2019
Total Participants (Active + Retirees w/ Benefits + Retirees w/o Benefits = Total)	18754 + 2283 + 0 = 21037	18910 + 2282 + 0 = 21192
Present Value of Benefits (PVB)	$81,250,990	$127,878,481
Total OPEB Liability (TOL) (Includes Implicit Costs of $43,763,168)	**$68,391,694**	**$103,122,741**
Valuation Assets	$40,110,224	$44,911,158
Net OPEB Liability (NOL)	$28,281,470	$58,211,583
Funded Status	59%	44%
Actuarially Determined Contribution (ADC)	**$4,254,133 (fye 2020)**	**$9,061,596 (fye 2021)**
Normal Cost	$1,522,084 (fye 2020)	$3,152,927 (fye 2021)
Amortization of Net OPEB Liability	$2,732,049 (fye 2020)	$5,908,669 (fye 2021)
Projected Retiree Premiums (Pay-Go Cost)	$2,652,881 (fye 2020)	$2,909,320 (fye 2021)
Implicit Rate Subsidy Credit	$922,022 (fye 2020)	$1,507,424 (fye 2021)
CERBT Asset Allocation Strategy	Strategy 2	Strategy 2
Discount Rate	6.73%	7.01%

CERBT Account Summary

As of June 30, 2020	Strategy 2
Initial contribution (11/30/2007)	$10,411,404
Additional contributions	$27,375,984
Disbursements	($6,140,923)
CERBT expenses	($358,691)
Investment earnings	$21,726,398
Total assets	$53,014,172
Money-weighted annualized net rate of return (11/30/2007 – 11/27/2020 = 12.59 Years)	6.31%

From S1 to S2 on 7/13/2017
CERBT agreement effective date: 11/7/2007

CERBT Account Summary

As of December 31, 2020	Strategy 2
Initial contribution (11/30/2007)	$10,411,404
Additional contributions	$29,775,984
Disbursements	($6,140,923)
CERBT expenses	($383,041)
Investment earnings	$28,640,200
Total assets	$62,303,624
Money-weighted annualized net rate of return (11/30/2007 – 12//31/2020 = 13.09 Years)	7.31%

From S1 to S2 on 7/13/2017
CERBT agreement effective date: 11/7/2007

Cash Flow Summary by Fiscal Year

Fiscal Year	Contributions	Disbursements	Cumulative Net Contributions	Cumulative Investment Gains (Losses)	Cumulative Fees	Cumulative Ending Assets	Fiscal Year Net Rate of Return	Cumulative Net Rate of Return
2007-08	$10,411,404	($0)	$10,411,404	($580,157)	($5,768)	$9,825,479	-	-
2008-09	$2,258,597	($0)	$12,670,001	($2,785,366)	($12,297)	$9,872,338	-22.44%	-17.85%
2009-10	$2,868,341	($0)	$15,538,342	($1,231,045)	($23,463)	$14,283,835	15.79%	-4.36%
2010-11	$1,608,611	($0)	$17,146,953	$2,370,654	($58,010)	$19,459,596	25.29%	5.02%
2011-12	$3,041,000	($0)	$20,187,953	$2,464,664	($80,609)	$22,572,008	0.48%	3.76%
2012-13	$1,553,285	($0)	$21,741,238	$5,139,862	($117,518)	$26,763,582	11.89%	5.63%
2013-14	$2,418,282	($0)	$24,159,520	$10,096,412	($158,153)	$34,097,778	18.54%	8.07%
2014-15	$2,533,810	($2,026,142)	$24,667,188	$10,011,411	($192,570)	$34,486,029	-0.25%	6.56%
2015-16	$1,410,000	($2,098,716)	$23,978,472	$10,364,453	($221,062)	$34,121,863	1.02%	5.69%
2016-17	$1,084,058	($2,016,065)	$23,046,465	$13,990,513	($251,324)	$36,785,654	10.69%	6.32%
2017-18	$1,000,000	($0)	$24,046,465	$16,347,830	($284,071)	$40,110,224	6.43%	6.33%
2018-19	$2,000,000	($0)	$26,046,465	$19,183,079	($318,386)	$44,911,158	7.09%	6.41%
as of 02/19/20	$2,000,000	($0)	$28,046,465	$23,133,794	($343,971)	$50,836,288	-	6.88%
as of 03/23/20	$2,400,000	($0)	$28,446,465	$13,307,718	($347,614)	$41,406,569	-	4.34%
as of 06/30/20	$5,600,000	($0)	$31,646,465	$21,726,398	($358,691)	$53,014,172	5.48%	6.31%
as of 12/31/20	$2,400,000	($0)	$34,046,465	$28,640,200	($383,041)	$62,303,624	-	7.31%

Funded Status Comparison

Measurement Date	Total OPEB Liability	CERBT Assets	Funded Status
7/1/2007	$48,582,000	$0	0%
1/1/2008	$46,681,000	$10,411,000	22%
1/1/2009	$55,288,000	$9,872,000	18%
7/1/2010	$43,158,000	$14,272,000	33%
7/1/2011	$40,166,000	$19,460,000	48%
7/1/2012	$42,850,000	$22,572,000	53%
7/1/2013	$43,829,000	$26,764,000	61%
7/1/2014	$40,121,000	$34,098,000	85%
7/1/2015	$41,249,000	$34,486,000	84%
7/1/2016	$42,057,000	$34,122,000	81%
7/1/2017	$51,927,906	$36,785,654	71%
7/1/2018	$68,391,694	$40,110,224	59%
7/1/2019	$103,122,741	$44,911,158	44%

CERBT Asset Class Target Allocations

Asset Classification	Benchmark	Strategy 1	Strategy 2	Strategy 3
Global Equity	MSCI All Country World Index	59% ±5%	40% ±5%	22% ±5%
Fixed Income	Barclays Capital Long Liability Index	25% ±5%	43% ±5%	49% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid Index	8% ±5%	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Barclays Capital Global Real: US TIPS Index	5% ±3%	5% ±3%	16% ±3%
Commodities	S&P GSCI Total Return Index	3% ±3%	4% ±3%	5% ±3%
Cash	3-Month Treasury Bill	0% +2%	0% +2%	0% +2%

CERBT Expected Rates of Return & Risk

Portfolios	Strategy 1	Strategy 2	Strategy 3
Expected Time-Weighted Net Return, Near Term	5.85%	5.22%	4.41%
Expected Time-Weighted Blended Net Return, Longer Term	7.59%	7.01%	6.22%
Standard Deviation of Expected Investment Returns	11.83%	9.24%	7.28%

Near term is 10 years. Longer term is 60 years. Expected returns are net of fees. CERBT total fees are 10 bps. CERBT data use 2018 capital market assumptions. Standard deviation is 10 years.

CERBT Investment Returns – Time Weighted

Periods Ended November 30, 2020

Fund	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	$11,117,190,468	9.33%	4.79%	13.12%	11.99%	8.00%	8.97%	8.24%	5.63%
Benchmark		9.32%	4.75%	13.04%	11.59%	7.70%	8.54%	7.94%	5.19%
CERBT Strategy 2 (Inception October 1, 2011)	$1,627,590,821	7.34%	3.63%	9.84%	11.07%	7.77%	8.16%	-	7.98%
Benchmark		7.33%	3.58%	9.77%	10.78%	7.51%	7.75%	-	7.68%
CERBT Strategy 3 (Inception January 1, 2012)	$784,317,300	5.40%	2.48%	7.01%	9.74%	7.14%	7.06%	-	6.33%
Benchmark		5.39%	2.45%	6.96%	9.49%	6.92%	6.71%	-	6.01%
CERBT Total	$13,529,098,589								

Time weighted return reports the performance of the investment vehicle, not of the employer assets. Returns are gross. Historical performance is not necessarily indicative of actual future investment performance or of future total program cost. Current and future performance may be lower or higher than the historical performance data reported here. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the original cost. The value of an employer's fund shares will go up and down based on the performance of the underlying funds in which the assets are invested. The value of the underlying funds' assets will, in turn, fluctuate based on the performance and other factors generally affecting the securities market.

Employer Controls the Funding Policy

- Chooses appropriate investment strategy
  - Based on investment time horizon and risk tolerance
- Decides if, when, and how much to contribute
  - Voluntary and never required
- Decides if and when to seek reimbursement
  - Expenses incurred in current fiscal year
    - CERBT: OPEB Pay-Go costs; implicit rate subsidies
- Chooses outside consulting OPEB actuary

Total Participation Cost Fee Rates

- Total <u>all-inclusive</u> cost of participation
  – Combines administrative, custodial, and investment fees
  – Separate trust funds
  – Self-funded, fee rate may change in the future
  – Fee is applied daily to assets under management
    - 10 basis points - CERBT

CERBT Fee Rate History

Fiscal Year	CERBT
2007-2008	2.00 basis points
2008-2009	6.00 basis points
2009-2010	9.00 basis points
2010-2011	12.00 basis points
2011-2012	12.00 basis points
2012-2013	15.00 basis points
2013-2014	14.00 basis points
2014-2015	10.00 basis points
2015-2016	10.00 basis points
2016-2017	10.00 basis points
2017-2018	10.00 basis points
2018-2019	10.00 basis points
2019-2020	10.00 basis points
2020-2021	10.00 basis points

Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
Matt Goss	Outreach & Support Program Manager	Matthew.Goss@calpers.ca.gov	(916) 795-9071	(916) 382-6487
Karen Lookingbill	Outreach & Support Manager	Karen.Lookingbill@calpers.ca.gov	(916) 795-1387	(916) 501-2219
Bob Honer	Outreach & Support Manager	Robert.Honer@calpers.ca.gov	(916) 795-0531	(279) 203-5563
Jasper Jacobs	Outreach & Support Analyst	Jasper.Jacobs@calpers.ca.gov	(916) 795-0432	(916) 717-3886
Jean MacDonald	Outreach & Support Analyst	Jean.MacDonald@calpers.ca.gov	(916) 795-0675	(916) 291-1325
Colleen Cain-Herrback	Administration & Reporting Program Manager	Colleen.Cain-Herrback@calpers.ca.gov	(916) 795-2474	(916) 505-2506
Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CERBT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CERBT
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CEPPT
CERBTACCOUNT@calpers.ca.gov – Online Record Keeping System	

2021

Pension Advisory Review Committee

Annual Report

February 9, 2021

Table of Contents

Executive Summary

In accordance with Board Policy B-25, this annual report contains detailed information about the County's Miscellaneous and Safety defined benefit pension plans administered by CalPERS, with analysis prepared by its actuarial consultant, Bartel Associates, LLC (Attachment 1). It provides the funded status and projects increasing employer contribution rates that will continue to have an impact on the County's budget for the foreseeable future. Included are the most recent CalPERS Annual Valuation Reports as of June 30, 2019 (Attachments 2 & 3).

It also addresses other components including: a status on the Series 2005 A and Series 2020 Pension Obligation Bonds (POBs), the Section 115 Pension Trust, the annual pre-payment program, Other Post-Employment Benefits (OPEB) (Attachment 4), and, the Part-Time and Temporary Employees' Retirement Plan (Attachment 5).

In addition, this report provides some background information and funded status (see page 15) of the special district plans of the Riverside County Flood Control and Water Conservation District, Riverside County Regional Park and Open-Space District, and the Riverside County Waste Resources Management District.

The County has taken several steps to address the management of its pension liabilities over the last two decades. In 2003 PARC was formed to guide policy decisions about retirement benefits. In 2004, PARC first recommended taking advantage of CalPERS' early payment discount in lieu of periodic payments. In 2005, the County issued POBs reducing interest costs, increased its funding ratio and created the Liability Management Fund (LMF). During the last decade, a new, lower rate tier of pension benefits was negotiated (Tier II as shown in Table 4), employees began to pay their own member contributions, and, the first Section 115 Pension Trust account was established.

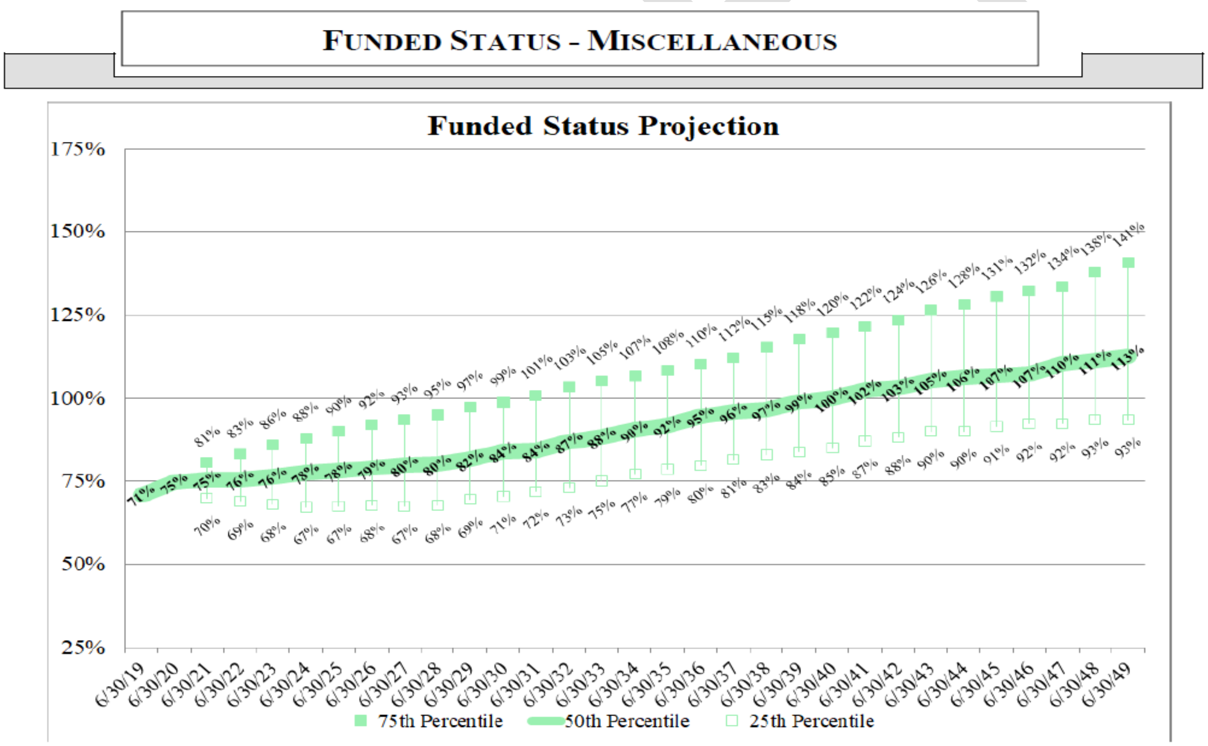
In March 2020, the efforts continued with the Board of Supervisors authorizing a second POB issuance of $720 million, reducing the all-in true interest cost to 3.53% (vs. the 7% on the unfunded liability portion that would have been paid to CalPERS) resulting in payment reductions (savings) of approximately $230 million through 2038. A second Section 115 Pension Trust account was opened to specifically capture the savings through the eighteen-year life of the POBs.

Funded Status of Miscellaneous and Safety Plans

The unfunded actuarial accrued liability for the valuation period ended June 30, 2019 is $2.5 billion (increase of $83 million from prior year) for the Miscellaneous Plan, and, $1.115 billion (increase of $25 million from prior year) for the Safety Plan. **The combined total is $3.615 billion (increase of $108 million from prior year).** The increase was anticipated and largely attributable to the planned reduction by CalPERS in the assumed rate of return from 7.25% to 7%. The initial impact began in FY 19/20 (as reported in the June 30, 2017 CalPERS valuation reports) and will continue until with full impact in FY 23/24.

The June 30, 2021 projected **net funded ratio including the deposit of the POB proceeds with CalPERS, and outstanding amounts owed on the POBs**, is 70.7% for Miscellaneous (a 0.5% increase from prior year) and 71.8% for Safety (a 1.1% increase from prior year) for a **combined total of 71% for both plans (an increase of 0.7% from prior year).** See slides 69-71 of the Bartel report regarding the unfunded liability and net funded ratios.

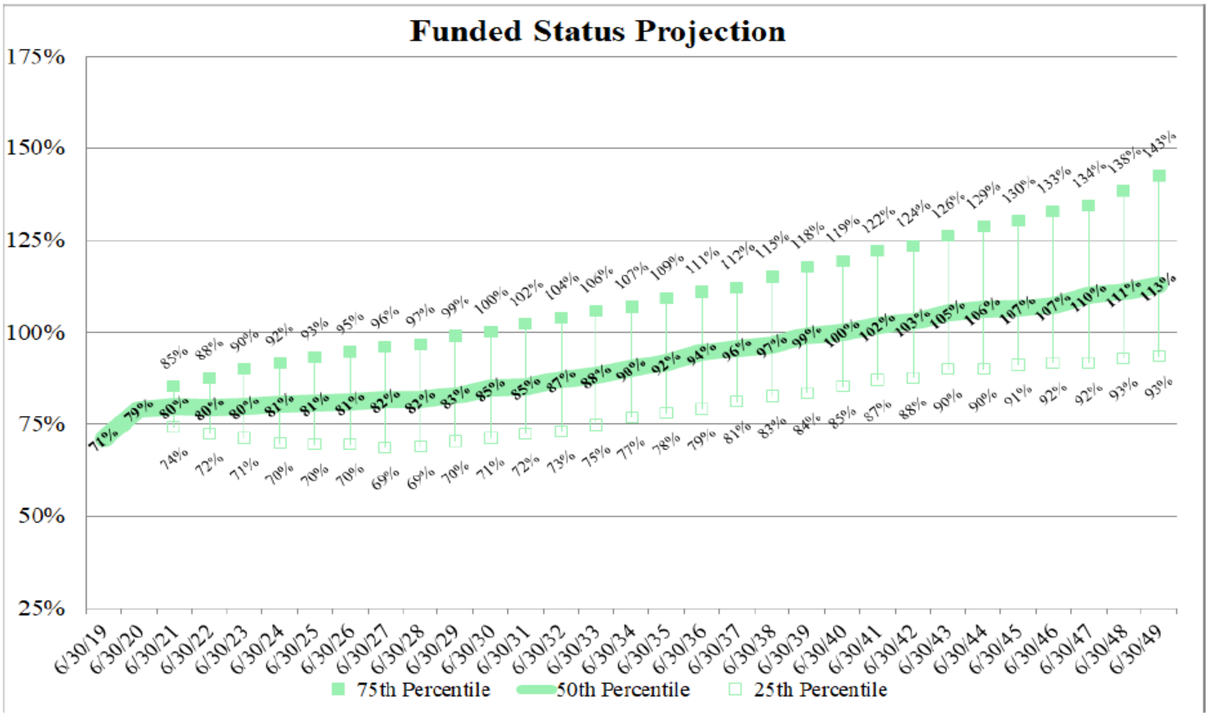
To analyze the direct impact of the Series 2020 POB proceeds invested with CalPERS (not including debt service), see slides 33 & 55 of the Bartel report below. For the period 6/30/19 - 6/30/20, the Miscellaneous Plan increased from 71% to 75%, while the Safety Plan increased from 71% to 79%. The 50th percentile assumes a 7% return.



Note: POB debt service not included. The 50th percentile assumes a 7% return.

Source: Slide 33 - Bartel Associates, LLC - CalPERS Actuarial Issues - 6/30/19 Report, December 23, 2020.

Funded Status - Safety



Note: POB debt service not included. The 50th percentile assumes a 7% return.

Source: Slide 55 - Bartel Associates, LLC - CalPERS Actuarial Issues - 6/30/19 Report, December 23, 2020.

Employer Contribution Rate Outlook

The FY 21/22 employer contribution rate **as a percent of pay** for the **Miscellaneous Plan** is 27.6% **(increase of 1.3%** from prior year), while **Safety** is 46.2% **(increase of 2.8% from prior year)**. **The year over year increases have a direct impact as an additional payroll expense to the budgets of County departments.** See Table 1 below and the charts that follow on the next two pages.

Table 1 Projected Employer Contribution Rates (From Slides 29 and 51 of the Bartel Report)						
	Miscellaneous Plan			Safety Plan		
FY	Rate[1]	Change from prior FY (+/-)	Difference from 2020 PARC Report	Rate[2]	Change from prior FY (+/-)	Difference from 2020 PARC Report
17/18	19.4%[3]	0.30%	N/A	30.3%[3]	1.50%	N/A
18/19	21.2%[3]	1.80%	N/A	33.7%[3]	3.40%	N/A
19/20	23.9%[3]	2.70%	N/A	39.7%[3]	6.00%	0.00%
20/21	26.3%[3]	2.40%	-0.64%	43.4%[3]	3.70%	-2.10%
21/22	27.6%[3]	1.30%	-0.73%	46.2%[3]	2.80%	-1.60%
22/23	29.00%	1.40%	-1.03%	48.50%	2.80%	-1.80%
23/24	30.10%	1.10%	-0.95%	50.20%	1.70%	-1.56%
24/25	30.30%	0.20%	-0.83%	51.30%	1.10%	-1.24%
25/26	30.10%	-0.20%	-0.50%	51.90%	0.60%	-0.57%
26/27	30.90%	0.80%	-0.11%	53.50%	1.60%	0.18%
27/28	31.40%	0.50%	-0.36%	54.40%	0.90%	-0.23%
28/29	31.80%	0.40%	-0.16%	54.90%	0.50%	0.02%
29/30	32.50%	0.70%	-0.02%	56.30%	1.40%	0.17%
30/31	33.20%	0.70%	0.37%	57.50%	1.20%	1.06%
31/32	32.80%	-0.40%	N/A	57.40%	-0.10%	N/A

1. Includes Miscellaneous Plan POB debt service, which is about 4.5% to 5.1% of the total rate through FY 2023/24; 4.1% in FY 2024/25; 3.0% from FY 2025/26 through FY 2030/31 and gradually decreases to 0% in FY 2038/39.
2. Includes Safety Plan POB debt service which is about 9.5% to 11.0% of the total rate through FY 2023/24; 10.1% in FY 2024/25; 9.0% from FY 2025/26 through FY 2030/31 and gradually decreases to 0% in FY 2038/39.
3. Actual rates shown for FY 17/18 through FY 21/22.

The Table 2A and 2B charts below show the projected employer contribution rates with the three components that comprise the total amount, over the next decade. Table 3A and 3B that follow on page 7 illustrate the total rate over the next thirty years.

Table 2A – Miscellaneous Plan

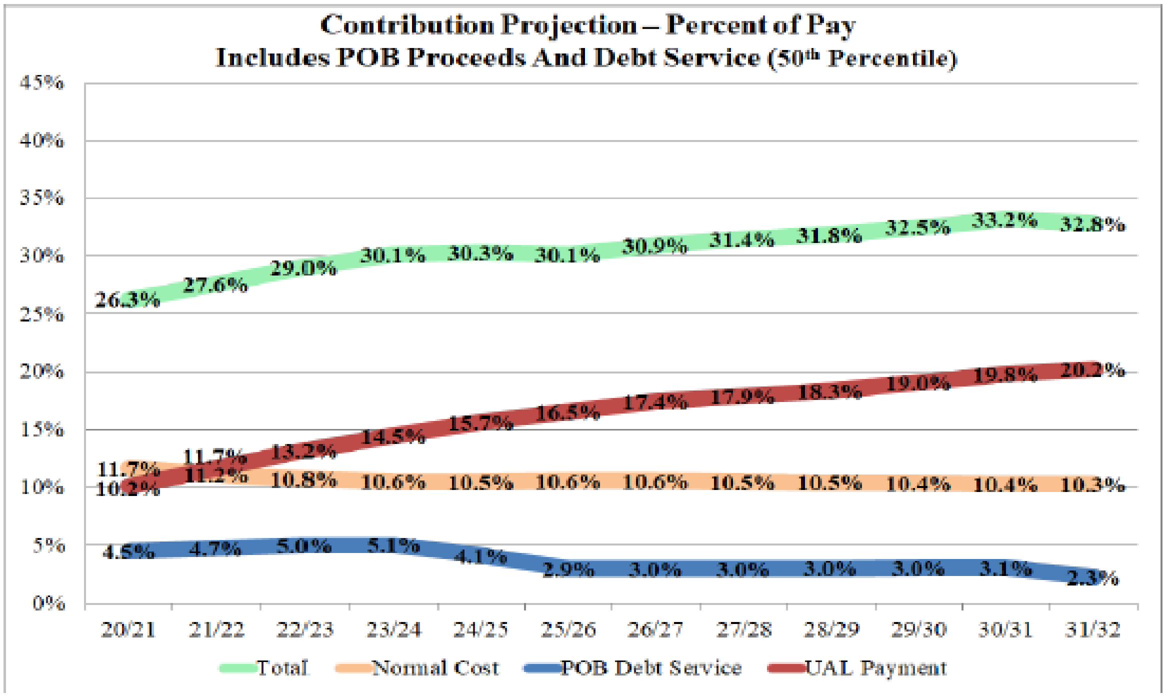
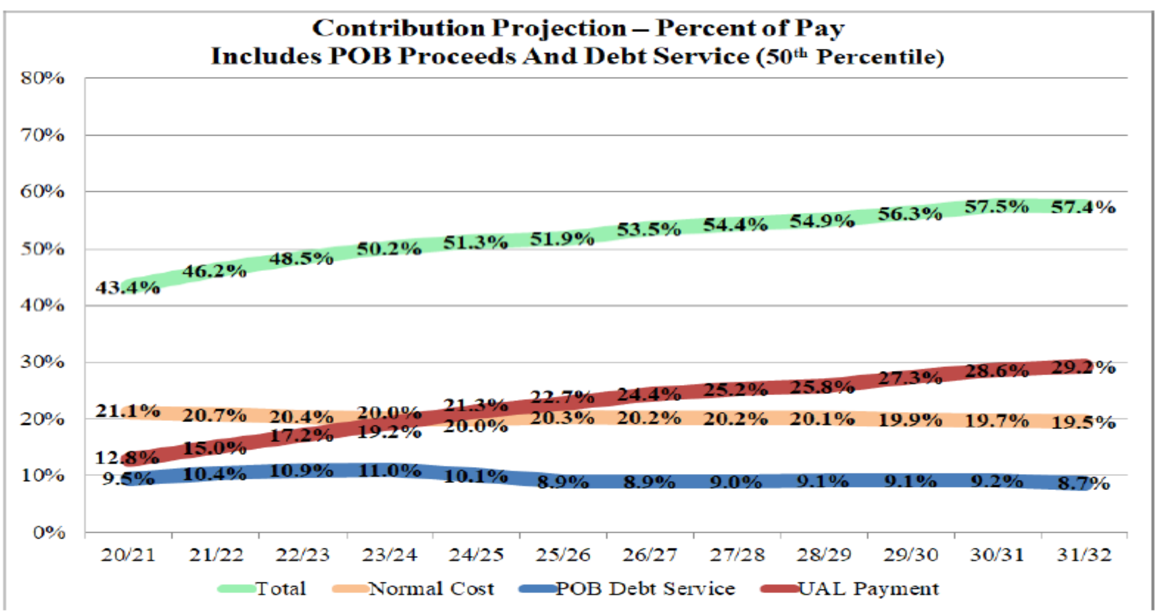


Table 2B – Safety Plan



Note: Normal cost and POB debt service remains relatively flat and the UAL payment continues to move higher.
Source: Slide 31 & 53 - Bartel Associates, LLC - CalPERS Actuarial Issues - 6/30/19 Report, December 23, 2020.

Table 3A - Miscellaneous Plan

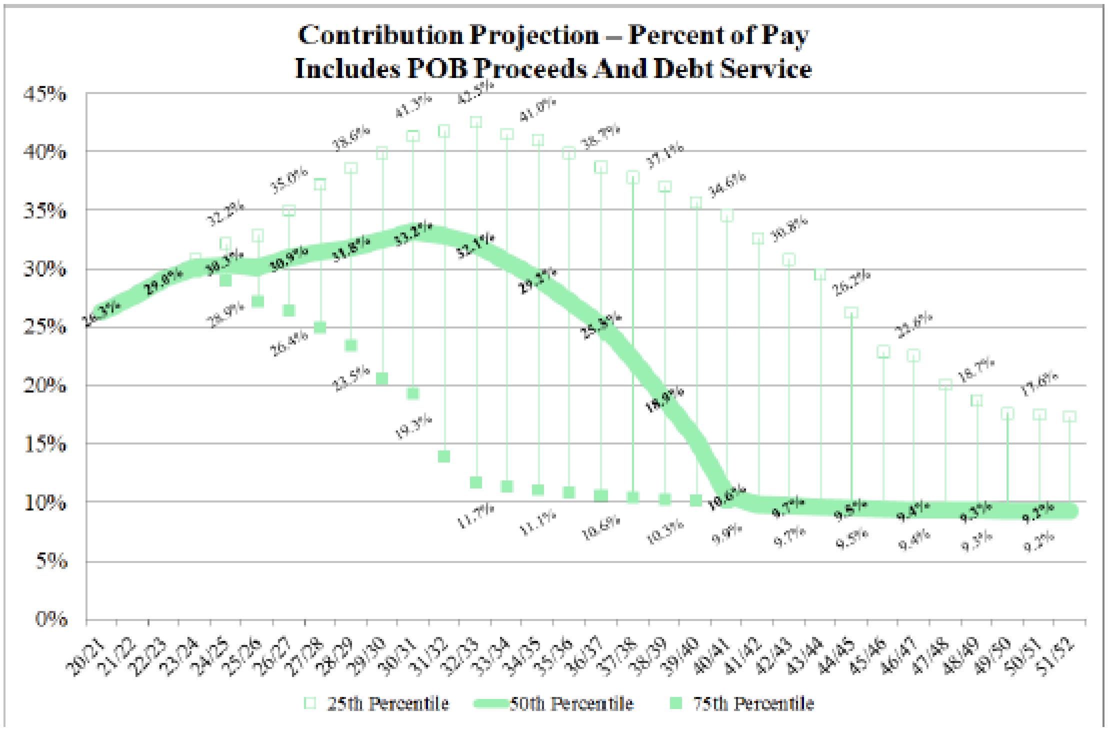
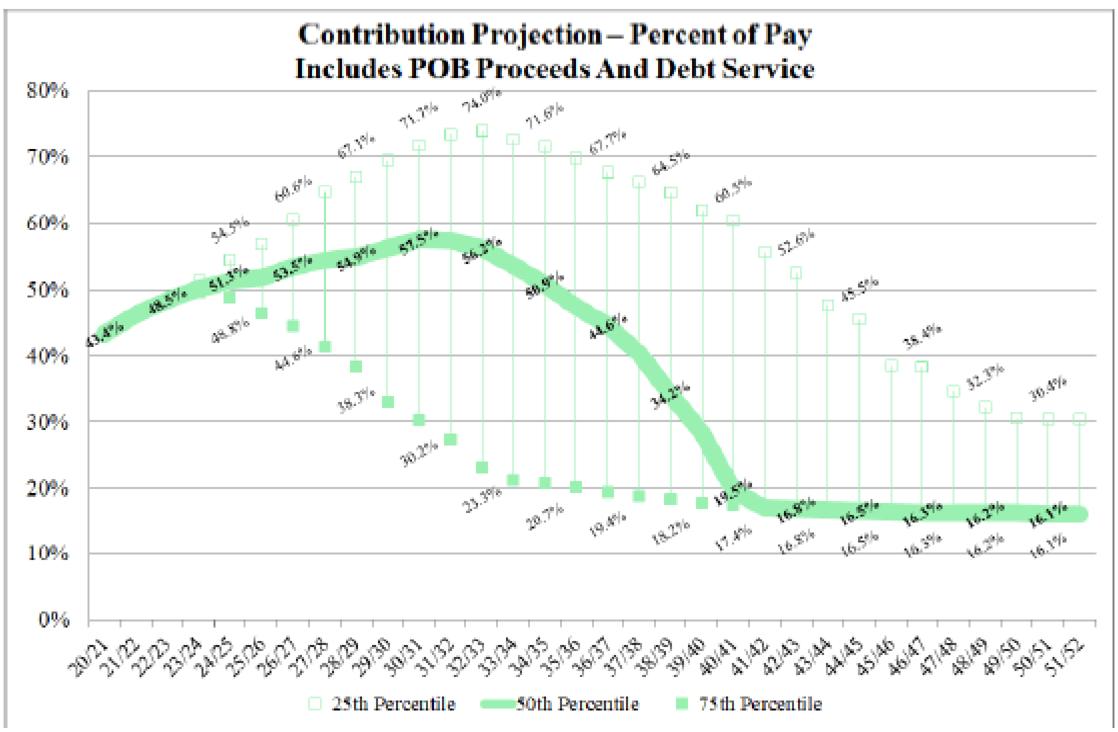


Table 3B - Safety Plan



Source: Slide 30 & 52 - Bartel Associates, LLC - CalPERS Actuarial Issues - 6/30/19 Report, December 23, 2020.

Rates are expected to increase as CalPERS' assumption changes are absorbed and the impact on the discount rate is being phased in. Note, that even with very poor investment returns (represented in the 75th percentile on Tables 3A & 3B), the projected rates exhibit a long-term decline which begins in the early 2030's.

The fact that all scenarios show a decline is due to CalPERS' amortization policy to pay off the unfunded liability over a fixed period and reflects the increasing impact of the changes to the benefit formulas, as more of the employee population become subject to Tier III – Public Employees' Pension Reform Act (PEPRA).

Pension Reform

Pension reform had become a topic of concern almost immediately following the move to higher benefit formulas across California, including the County of Riverside. After internal discussion, the County took the lead in initiating pension reform with its bargaining units in advance of any action by the state. As a result of collective bargaining, employees agreed to pay their own member contributions eliminating the Employer Paid Member Contribution (EPMC). Additionally, Tier II was implemented with a lower benefit formula, which became effective on August 24, 2012.

The passage of Assembly Bill 340 on September 12, 2012 created PEPRA implementing a new lower retirement benefit formula (Tier III). Employee contribution rates for Tier III vary based on PEPRA rules. See Table 4 below.

Table 4

County of Riverside Pension Plan Tiers

County Plan		Retirement Formula	Employee Contribution	Earliest Retirement Age	Number of Actives	Payroll as of 06/30/2018	PEPRA Compensation Limits (1)	Final Compensation Period	Effective Date
Tier I	Miscellaneous	3% at 60	8%	50	9,409	$ 728,205,960	N/A	12 months	7/11/2002
	Safety	3% at 50	9%	50	2,300	$ 240,283,963	N/A	12 months	6/28/2001
Tier II	Miscellaneous	2% at 60	7%	50	674	$ 47,567,559	N/A	36 months	8/24/2012
	Safety	2% at 50	9%	50	128	$ 10,103,057	N/A	36 months	8/24/2012
Tier III - PEPRA	Miscellaneous	2% at 62	7.25%	52	6,941	$ 369,805,575	$128,059	36 months	1/1/2013
	Safety	2.7% at 57	12.50%	50	837	$ 54,345,862	$153,671	36 months	1/1/2013

[1] 2021 Compensation Limits are indexed annually

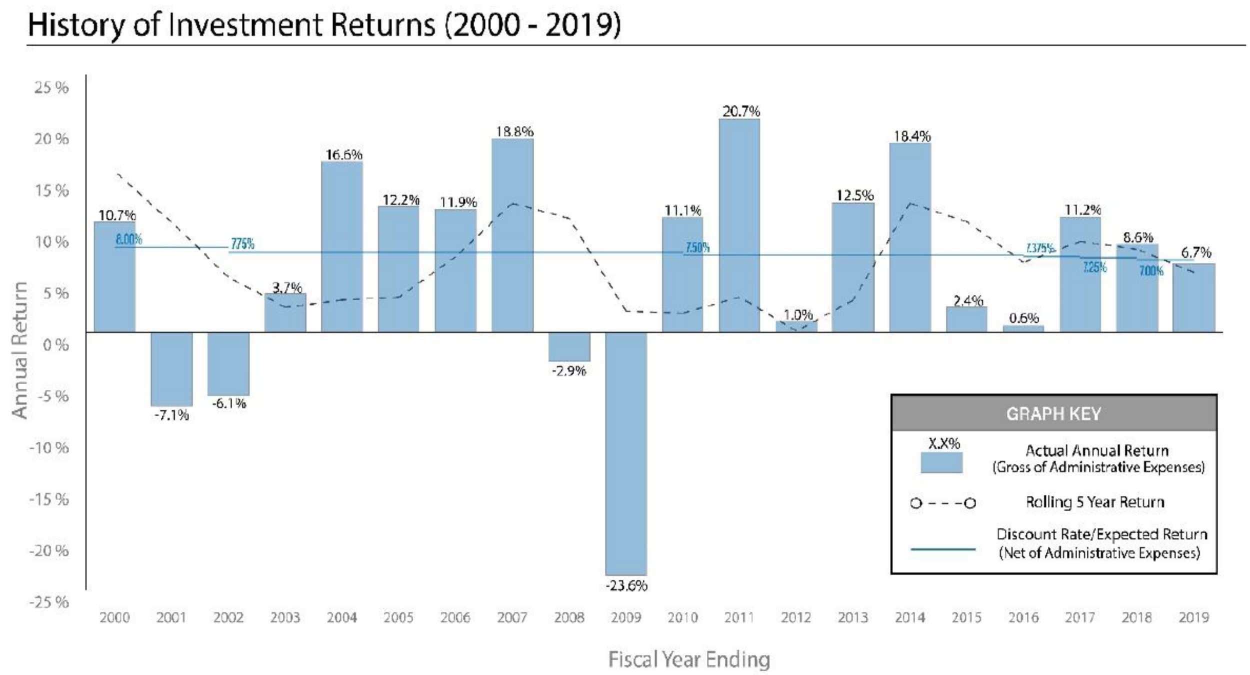
There has not been much, if any, changes on the pension reform front worthy of note at this point beyond the CalPERS changes discussed herein and in previous reports. The PARC and its outside consultants monitor development in this arena and will bring any items of significance to the Board of Supervisors attention on a timely basis.

Investment Returns

The primary driver of the rate formula is CalPERS' investment performance. Actuarial and demographic assumptions impact the rate, but far less than performance. Poor investment performance following the 2008-2009 financial crisis significantly increased the County's unfunded liability, driving up the required payments.

Table 5 below illustrates the 20-year historical annual returns each fiscal year ending June 30.

Table 5



Note: Beginning in 2000, the figures are reported as gross of fees. For the fiscal year ending 2020, CalPERS reported a 4.7% return, which is 2.3 percentage points below the expected return of 7%.
Source: CalPERS Annual Valuation Report as of June 30, 2019.

Pension Obligation Bonds (POBs)

Series 2005 A - In February 2005, the County issued its Series 2005 A POBs in the principal amount of $400 million to lock in an all-in borrowing cost of 4.91%, refinancing its prior unfunded liability, which was then carrying a 7.5% rate (a spread of 2.59%). At the same time, the County converted its repayment schedule from a rolling 30-year amortization to a fixed amortization of 30 and 25 years for the Miscellaneous and Safety Plans, respectively, further reducing interest cost. Upon deposit of the bond proceeds with CalPERS, the County's rate was reduced and replaced by the lower amount of the bond's debt service.

The POBs still maintain a relatively low break-even rate of 4.91% versus CalPERS' current expected return of 7%, representing a spread of 2.09%. Even if CalPERS were to earn a rate slightly below the POBs rate for the remaining term to maturity of 2035, and, well below a projected long-term expected return of 6%, the County can still expect to show net estimated gains.

Bartel Associates analysis is projecting that **as of February 15, 2021 there will be $146.6 million in net estimated gains** as a result of the sale of the bonds, with an outstanding balance owed of $191.1 million.

It is worth noting that the bulk of the bonds will be repaid by 2025 as seen in Table 2A and 2B. There will be a reduction of $16.1 million from FY 24/25 to FY 25/26 for the Miscellaneous Plan, and for Safety, a reduction of $4.5 million for the same period.

Liability Management Fund (LMF) - The LMF was established under the Series 2005 A POB documents and incorporated into the Board's Pension Management Policy B-25. A portion of the projected annual savings from the POB issuance is collected from departments for the purpose of reducing long-term pension costs and accelerating the repayment of pension liabilities. The amount collected is set aside in the LMF, held by the County's bond trustee, and PARC had recommended whether the funds should be used to pay down the CalPERS unfunded liability or to pay down the POBs. To date, some of the excess has been sent to CalPERS to reduce the unfunded liability. The current practice has been to send any excess to the Section 115 Pension Trust (discussed below) and will continue.

Series 2020 - In May 2020, the efforts to reduce interest cost on a portion of the unfunded liability continued with the Board of Supervisors authorizing a second POB issuance in the amount of $720 million. The bond proceeds were used to refund up to approximately 20% of the total unfunded liability, split between the Miscellaneous and Safety Plans. The County prepaid $371,563,461 to CalPERS for deposit to the Miscellaneous Plan, and, $344,292,469 for the Safety Plan which reflected a discount for prepayment of the selected bases.

This series of POBs has an even lower break-even rate of 3.53% versus CalPERS' interest cost on the unfunded liability of 7%, representing a spread of 3.47%. This results in payment reductions (savings) of approximately $230 million through 2038. A second Section 115 Pension Trust account was established to specifically capture these savings over the eighteen-year life of the POBs. The balances and rate of return for this second account will be reported in the 2022 PARC Annual Report as a full fiscal year cycle will have occurred. Bartel Associates analysis is projecting that **as of February 15, 2021 there will be $13.5 million in net estimated gains** as a result of the sale of the bonds, with an outstanding balance owed of $690.5 million.

<u>Section 115 Pension Trust</u>

The Section 115 Pension Trust was established in 2016 (Board Resolution No. 2016-214) to help the County independently mitigate CalPERS' contribution rate volatility and act as a buffer in the future for budgeting purposes as funds accumulate. Excess funds from the Liability Management Fund and OPEB disbursements were placed in the Trust to fund the initial deposit. Additionally, funds collected as a result of the difference between CalPERS' multi-year projected payroll, based on actuarial assumptions, and, the County's actual payroll, are restricted and invested in the County Treasurer's Pooled Investment Fund.

Funds are then dollar-cost averaged and placed into the Trust. Over time this tool will become more significant as assets accumulate in the account and cannot be used for any other purposes except for reimbursing the County for CalPERS contributions, or, for making payments directly to CalPERS to pay down a portion of the unfunded liability.

The Trust is administered by Public Agency Retirement Services (PARS), with HighMark Capital Management serving as investment manager. Unlike assets in CalPERS, the funds in the Trust are managed in a manner consistent with the County's risk profile in a combination of cash, fixed income and equity investments. Moderate Index PLUS (Active) is the current investment strategy.

As of June 30, 2020, **the balance in the Trust was $29.9 million**, (an increase of $1.2 million from last years' report of $28.7 million) **with an annual rate of return of 4.48%.** The annualized rate of return for the three-year period is 5.61%.

Annual Pre-Payment

For FY 21/22, CalPERS will offer an **early payment discount of 3.326%** on the unfunded liability portion (required payment is $195 million) in lieu of the periodic payments that coincide with payroll disbursements, thereby **reducing the total amount by over $6.4 million.** In order to fund the initial payment, the County typically includes a substantial portion of the pre-payment amount as part of the annual Tax and Revenue Anticipation Notes (TRANs) borrowing. The other alternative would be to borrow internally by drawing down General Fund cash. A final recommendation regarding the pre-payment will be made in conjunction with the FY 21/22 TRANs.

Other Post-Employment Benefits (OPEB)

Background - OPEB are benefits other than pensions provided to retired employees, which in the County's case, is the monthly contribution to retirees for health care. The Governmental Accounting Standards Board (GASB) Statement No. 45, released in 2004, substantially modified the reporting requirements for OPEB provided by state and local governments.

In summary, GASB 45 dictated that the present value of these benefits should be quantified and reported in the Supplementary Information section of County's Comprehensive Annual Financial Report (CAFR). This reporting requirement did not trigger a funding requirement. Per GASB 45, the County's liability is comprised of two components; the present value of the amount payable to retirees, and the amount attributable to the "implicit subsidy". The implicit subsidy is defined as the difference between the true cost of coverage for the work force and the actual rate paid. Such a difference arises if retirees and active employees are in the same rate class.

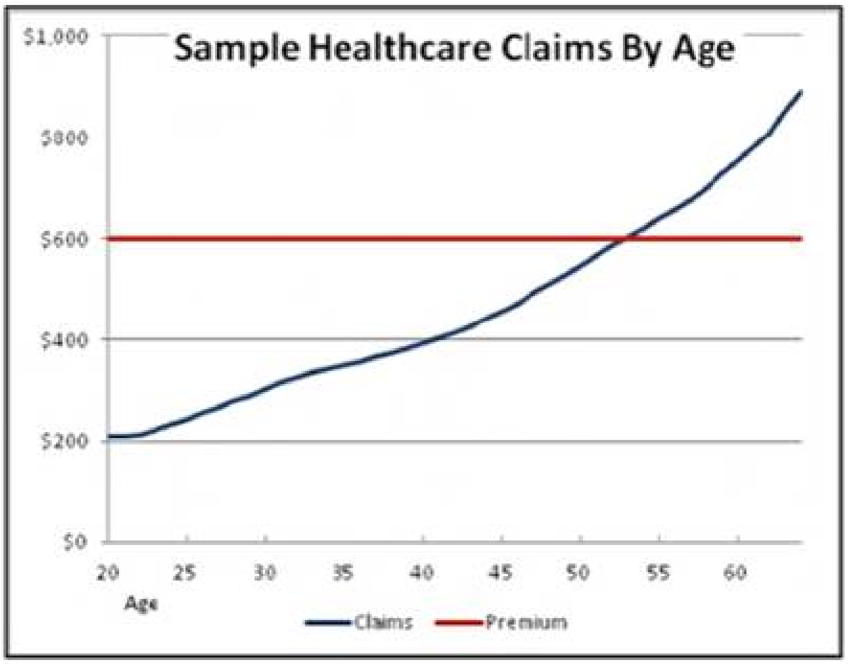
The County's Response - The initial calculation of the County's retirement health liability was $390 million as of January 1, 2005. Upon the recommendation of PARC, the County took two steps to reduce this liability over time. The first was to establish an OPEB Trust in 2007 which reduced the actual and nominal liability. The account was established with the California Public Employers' Retirement Benefit Trust program (CERBT) by CalPERS which serves as the administrator and investment manager. The second step was to virtually eliminate the implicit subsidy by revamping the County's healthcare rate structure to separate pre-Medicare retirees from active employees. The County initiated a multi-year transition period which was completed in 20XX. Upon the completion of these two steps, the County's OPEB liability was reduced to $XX million.

In June 2015, GASB released Statement No. 75, which was initially effective for the fiscal year ending June 30, 2018. GASB 75 addresses accounting and financial reporting by government employers, previously covered by GASB 45. Per GASB 75, employers are now required to disclose the total OPEB liability the balance sheet (Statement of Net Position) alongside its other long-term liabilities (i.e., bond debt, lease obligations, pension liabilities, etc.). This change now highlights the lability.

The CalPERS Move - On July 1, 2019 the health care liability was reduced stood at $127.8 million, while the current liability is $329 million as of June 30, 2020. The increase is due to several factors, all primally driven by the move to the CalPERS health plans. In 2019 the County embarked upon a multi-year process to restructure its health care offerings with an eye towards controlling costs and providing a fuller range of plan options for employees and retirees alike. The OPEB impacts of the move to CalPERS include a return of the implicit subsidy which did not exist under the County's own rate structure, an increase of the actual benefit paid to certain retirees and a greater number of retirees now purchasing their insurance through the County since the offerings are more attractive.

Under CalPERS health plans, retirees receive the benefit of the "implicit subsidy" prior to age 65 by paying premiums that are developed by blending active and retiree costs, illustrated by the red line in Table 6 below. For example, in 2021 under the Blue Shield Access Plus, the estimated true cost for an age 60 retiree is $1,227.28 per month, while the required premium is only $834.88 per month. This has had the effect of bringing the implicit subsidy back into the equation.

Table 6



Ironically, the GASB rules fail to recognize cases such as the County's in which an implicit subsidy is created at the same time that the actual cost to employees actually decreases. In aggregate those savings would largely eliminate the implicit subsidy.

Nevertheless, inclusion of implicit subsidy in the total net OPEB liability is specifically required, however, many employers have chosen not to fund this portion of their liability since it is not owed to retirees. It is theoretically owed as a credit to departments to offset any cost increases they bear as a result of any increased contribution to employees for their monthly retiree health care premiums.

Another financial implication of moving to the CalPERS health plans is the requirement under Public Employees' Medical and Hospital Care Act (PEMHCA) to provide a $143 minimum monthly contribution for retiree health premiums. That has an effect of increasing the monthly benefit and the cost to the County for those employees whose negotiated or Board approved benefit (for non-represented employees) is less than $143. This increase the monthly cost to provide the benefit currently paid by departments on a pay-as-you-go basis. It also increases the OPEB liability. In addition to the PEMHCA effect, the County is expecting higher participation rates in its plans by retirees which will increase the expected and actual payout if enrolled in a health plan. To the extent retirees have better options, such as paid spousal coverage from another employer, they receive no monthly benefit from the County.

Funding Status – In contrast to the CalPERS defined benefit pension plan liability, there is no direct connection between the implicit subsidy portion of the OPEB liability and the County's cost of providing the retiree healthcare benefit. Recognizing this, the Board adopted Policy B-25, Section III (A) Other Post-Employment Benefits (OPEB) which states, "the County seeks to maintain a minimum funding level of 80% in its OPEB plan, excluding any implicit subsidy liability." There could be some advantages to taking steps to funding a portion of the implicit subsidy in the future. PARC will monitor the issue and bring any recommendations to the Board if appropriate.

For the fiscal year ended June 30, 2020, **the CERBT plan had a balance of $53 million (an increase of $8 million over the prior year), an annual rate of return of 5.48%, and a funded ratio of 43.9%, excluding implicit subsidy.** The shortfall as of June 30, 2021 is projected to be $56 million. In keeping with Board Policy B-25, County staff requested a review from its actuarial consultant AON of a multi-year plan to achieve an 80% funded status for the retiree benefit portion of the OPEB liability.

The current actuarial schedule projects the **80% target would be reached in 2027 with $16.9 million to be charged annually beginning in FY 21/22, up from the current $9 million required in FY 20/21.** Additional details can be found in the AON - County of Riverside Actuarial Valuation Report Postretirement Benefits Plan June 30, 2020 (Attachment 4, page xx). Staff and PARC will continue to monitor the funded status of the OPEB Trust and adjust rates charged to departments in accordance with the actuarial consultant's recommendation. Separately, in consideration of the longer-term investment horizon of the OPEB Trust, and the desire to mitigate some of the pending rate increases due to more employees coming into the CalPERS health plans, PARC has reviewed and approved ??? at its January 13 meeting the recommended change from CERBT Strategy 2 (assumed return of 6.15%) to Strategy 1 (assumed return of 7.30%). The difference between the two strategies is the mix of allocations amongst the various asset classes that makeup the portfolios (global equity, fixed income, global real estate, commodities and cash).

Summary – In short, the County's actual and projected costs for retiree health benefits will be going up and the OPEB liability with reflect that actual cost. That is offset by a reduction in the actual cost of the insurance plans for most participants. A significant portion of the recorded liability overstates the budgetary impact of the County's OPEB obligations. The County has a plan to achieve its true liability funding target in a reasonable period of time. At any rate, the size of the County's unfunded liability is relatively modest compared to similar public agencies, as well as its own pension liability.

Part-Time and Temporary Employees' Retirement Plan

The County of Riverside established the Part-Time and Temporary Employees' Retirement Plan, April 1, 1999, to provide retirement benefits to eligible employees as a substitute for benefits under Social Security, as allowed under Omnibus Budget Reconciliation Act of 1990 (OBRA '90). The Plan is an IRS Section 401(a) defined benefit plan. As of September 1, 2010, the investments have been managed by US Bank serving as investment manager in a Balanced Account strategy with an expected rate of return of 6%.

Overall, the plan's net pension liability remained fairly stable from the prior valuation with the following offsetting factors, demographic experience was different than expected, due to fewer terminations than expected, which resulted in a liability loss; assets were lower than expected due to unfavorable investment return on plan assets (3.72% actual compared to 6.0% assumed); and mortality assumptions were updated to reflect the recent public mortality table, resulting in a decrease in liabilities.

The Plan actuary calculates the minimum recommended employer contribution rate through preparation of an actuarial valuation report and the County determines the contribution rates. Participants are required to contribute 3.75% of their compensation to the Plan. According to the AON - County of Riverside Actuarial Valuation Report Part-Time and Temporary Employees' Retirement Plan July 1, 2020 (Attachment 5), the County's current required contribution rate is 4.02%.

The Plan had a balance of $45.4 million (an increase of $1.9 million over the prior year), an annual rate of return of 3.72%, and, a funded ratio of 77.7%. The Plan is not projected to be less than 80% in the future years after 2021.

Special District Plans

The County's Special Districts participate in what CalPERS refers to as the Risk Pool. The Risk Pool is designed to accommodate smaller employers whose size is not enough to develop individual actuarial assumptions. Risk Pool participation occurs if a rate plan has less than 100 active members on any valuation date. Risk pooling is the process of combining assets and liabilities across employers to produce large, risk sharing pools that reduce or eliminate large fluctuations in an employer's retirement contribution rate caused by unexpected demographic events.

- The Riverside County Regional Park and Open-Space District has three rate plans. As of the annual valuation report for the June 30, 2019, **the funded status of Tier I was 73.5% (decrease of 0.50% from 74.0%, prior year); Tier II at 89.9% (no change from prior year); and PEPRA Tier III at 90.0% (increase of 0.9% from 89.1%, prior year).**
- The Riverside County Flood Control and Water Conservation District annual valuation report for June 30, 2019, shows a **funded status of 63.7% (a decrease of 0.20% from 63.9%, prior year).**
- The Riverside County Waste Resources Management District annual valuation report for June 30, 2019, shows a **funded status of 70.1% (a decrease of 0.70% from 70.8%, prior year).**

Recommendations

1. Receive and file the 2021 PARC Annual Report.
2. Direct staff to report back with any additional recommendations or updates on the County's pension plans, and/or OPEB, including any legislative changes that could be incorporated in the County's Legislative Platform.
3. Direct the PARC to review the annual CalPERS unfunded liability pre-payment for FY 21/22 and to have such recommendations presented in conjunction with either the approval of the annual Tax and Revenue Anticipation Note (TRAN) cash flow financing, or, with the FY 21/22 budget.

Attachments

1. Bartel Associates LLC - CalPERS Actuarial Issues – 6/30/19 Valuation December 23, 2020
2. CalPERS - Miscellaneous Plan - County of Riverside Annual Valuation Report as of June 30, 2019
3. CalPERS - Safety Plan - County of Riverside Annual Valuation Report as of June 30, 2019
4. AON - County of Riverside Actuarial Valuation Report Postretirement Benefits Plan June 30, 2020
5. AON - County of Riverside Actuarial Valuation Report Part-Time and Temporary Employees' Retirement Plan July 1, 2020