Pension & OPEB Update
Today’s discussion

- Background
- OPEB update
- Pension liability
- Establish 115 Trust with Public Agency Retirement Systems (PARS)
- Moving OPEB Trust funds from California Employers’ Retiree Benefit Trust (CERBT) to PARS
- Napa County Policy for 115 Trust administration
Background

- 2004 Governmental Accounting Standards Board established uniform financial reporting for OPEB costs, including the requirement for a biennial actuarial valuation.
- Napa County was required to begin using the new standards in FY 2007-08 Comprehensive Annual Financial Report (CAFR).
- 2015, GASB standards changed the reporting requirement for unfunded liability from a note to a liability.
- 2015-16 Grand Jury recommended the County establish a 115 Trust for Pension
OPEB Update

• 115 Trust with CERBT established in 2007
  – Actuarial Accrued Liability $88.3 M
  – Funded Ratio 0%
  – UAAL as a % of covered payroll 38.7%

• 2010 changed the amortization from 14 to 20 years
OPEB Update

• June 30, 2018
  – Market Value of Assets $68 M

• June 30, 2017 Actuarial valuation
  – Actuarial Accrued Liability $93.7 M
  – Funded ratio 65.19%
  – UAAL as a % of covered payroll 26.6%
## Pension unfunded liability

<table>
<thead>
<tr>
<th>Report Date</th>
<th>UAL</th>
<th>Funding Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2014</td>
<td>$ 157,677,405</td>
<td>79.7%</td>
</tr>
<tr>
<td>6/30/2015</td>
<td>$ 188,267,017</td>
<td>76.8%</td>
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<tr>
<td>6/30/2016</td>
<td>$ 243,620,430</td>
<td>71.8%</td>
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<tr>
<td>6/30/2017</td>
<td>$ 238,389,198</td>
<td>74.1%</td>
</tr>
</tbody>
</table>
Pension unfunded liability

- Rate (% of payroll) is expected in increase through 2030/2031 (misc) and 2031/32 (safety)
  - Miscellaneous (without cost share)
    - Current 21.088%
    - 2030/31 projection 28.3%
  - Safety (without cost share)
    - Current 39.6%
    - 2031/32 55.0%
Establish 115 Trust

• Also referred to as a Pension Rate Stabilization Program.
• Allows more aggressive investment strategy than in treasury investment pool.
• Will allow the County to slow the growth rate of future pension contributions.
• As a trust fund, assets can only be used for the established purpose (pension or OPEB).
• Provides the Board maximum flexibility for future budgets, while using current resources to address long-term liabilities.
Establish a 115 Trust

• Staff is recommending establishing a combination 115 Trust with Public Agency Retirement Services
  – Based on experience and competitive fees
  – PARS will provide administration services
  – HighMark Capital as investment manager
  – U.S. Bank as trustee
  – 16 counties have a combination 115 Trust with PARS, including Solano and Lake
  • 10 additional counties have Pension 115 trusts with PARS.
Establish a 115 Trust

<table>
<thead>
<tr>
<th></th>
<th>PARS Administration Fees</th>
<th>Trustee/Investment Management Fees</th>
</tr>
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<tbody>
<tr>
<td><strong>Asset Balance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0-10 M</td>
<td>0.25%</td>
<td>0.35%</td>
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<tr>
<td>$10-15 M</td>
<td>0.20%</td>
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<tr>
<td>$15-50 M</td>
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<tr>
<td>over $50 M</td>
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<td><strong>Asset Balance</strong></td>
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Establish a 115 Trust

- Investment strategies
  - 5 actively managed by PARS
  - 4 passively managed

- Board has assigned $4.271 million for future pension costs.

- Staff recommends investing this in the “Balanced-Actively Managed” portfolio.
Moving OPEB funds from CERBT to PARS

• Allows the County to take advantage of lowest fee rates with PARS.
• Combination trust will track assets for Pension and OPEB separately.
• County can choose different investment strategies for Pension and OPEB funds.
• Staff would return with recommended investment strategy for OPEB.
115 Trust Policy

• Formalizes roles and responsibilities as it relates to the management of these trusts
• Establishes the CEO as the Plan Administrator
• Establishes an oversight committee
  – CEO and Assistant CEO
  – Auditor-Controller
  – Treasurer-Tax Collector
  – Human Resources
  – County Counsel
• Requires an annual report to the Board on 115 Trust investments
Requested Actions

1. Receive OPEB report
2. Receive update on pension unfunded liability
3. Adopt a resolution establishing a 115 trust administered by PARS, and appointing the CEO as plan administrator
4. Authorize the cancellation of the General Fund assignment-$4.271 M
5. Approve a budget transfer to appropriate assigned funds-$4.271 M
6. Direct staff to initiate process to move OPEB funds from CERBT to PARS
7. Adopt 115 Trust Administration policy
Pension & OPEB

• Questions?