



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 12

**MEETING DATE:** March 18, 2020

**SUBJECT:** UC-Davis Medical Center Pension Liabilities

**SUBMITTED FOR:** \_\_\_ Consent        X   Deliberation and Action      \_\_\_ Receive and File

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#### **RECOMMENDATION**

Staff recommends the Board authorize the Chief Executive Officer to execute a funding agreement with the University of California-Davis Medical Center (UCD) to settle outstanding pension liabilities owed to SCERS.

#### **PURPOSE**

This item supports the 2019-20 Strategic Management Plan to ensure funding integrity and sustainability of the plan by maintaining effective funding policies.

#### **DISCUSSION**

At the January 2020 Board Meeting, the Board reviewed a Segal actuarial analysis of UCD pension liabilities and declared a “triggering event” occurred under the Board’s Declining Employer Payroll Policy.

The policy sets out a methodology for determining liabilities when an employer ceases adding new members in SCERS while benefits continue to be paid to retirees and beneficiaries.

Segal determined that the actuarial accrued liability was approximately \$1.6 million for the seven remaining UCD retirees and beneficiaries receiving benefits as of June 30, 2019, leaving a \$264,000 unfunded liability that is owed to SCERS, based on the policy methodology.

After the Board meeting, Staff began discussions with UCD and drafted a funding agreement. UCD has agreed to settle the \$264,000 in a one-time payment to fully satisfy their past, present, and future liabilities, and SCERS will release UCD of any additional claims or liabilities.

#### **BACKGROUND**

In 1973, UC Davis took over the County’s hospital system, transferring hundreds of County employees to the university. As part of the transition, County hospital employees were given the option of (1) remaining at SCERS as an active member to continue earning future service credit in SCERS while working for UCD, or (2) establishing reciprocity with SCERS and earning future service credit through the university’s retirement system.

Approximately 60 hospital employees chose to remain as active SCERS members, and UCD and the employees continued to make payroll-based pension contributions to SCERS until the last active SCERS member retired in 2013. However, there were a total of seven (7) retired UCD members and beneficiaries receiving pension payments from SCERS, as of June 30, 2019.

Because unfunded liabilities are traditionally built into payroll contribution rates, it becomes necessary to establish a separate payment schedule for an employer that has a declining or no payroll. Even if there are no longer active employees making payroll contributions, the employer's obligation remains ongoing until the last beneficiary dies.

The County Employees' Retirement Law of 1937 (CERL) provides the statutory authority for district employers to both enter and exit a retirement system, while the Retirement Board retains the constitutional authority to maintain an actuarially sound system.

A 2019 appellate court ruling found that retirement boards retain significant authority to enforce payment of contributions from employers that have deferred or retired employees currently receiving benefits from the County retirement system, even if the employer no longer has active employees in the retirement system (*Mijares v. Orange County Employees Retirement System*, 32 Cal.App. 5<sup>th</sup> 316).

The *Mijares* court also found that the unfunded liability payment is not required to be deducted from active employee payroll and recognized the system's right to recommend changes in county and district contributions as necessary.

Prepared by:

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Eric Stern  
Chief Executive Officer