

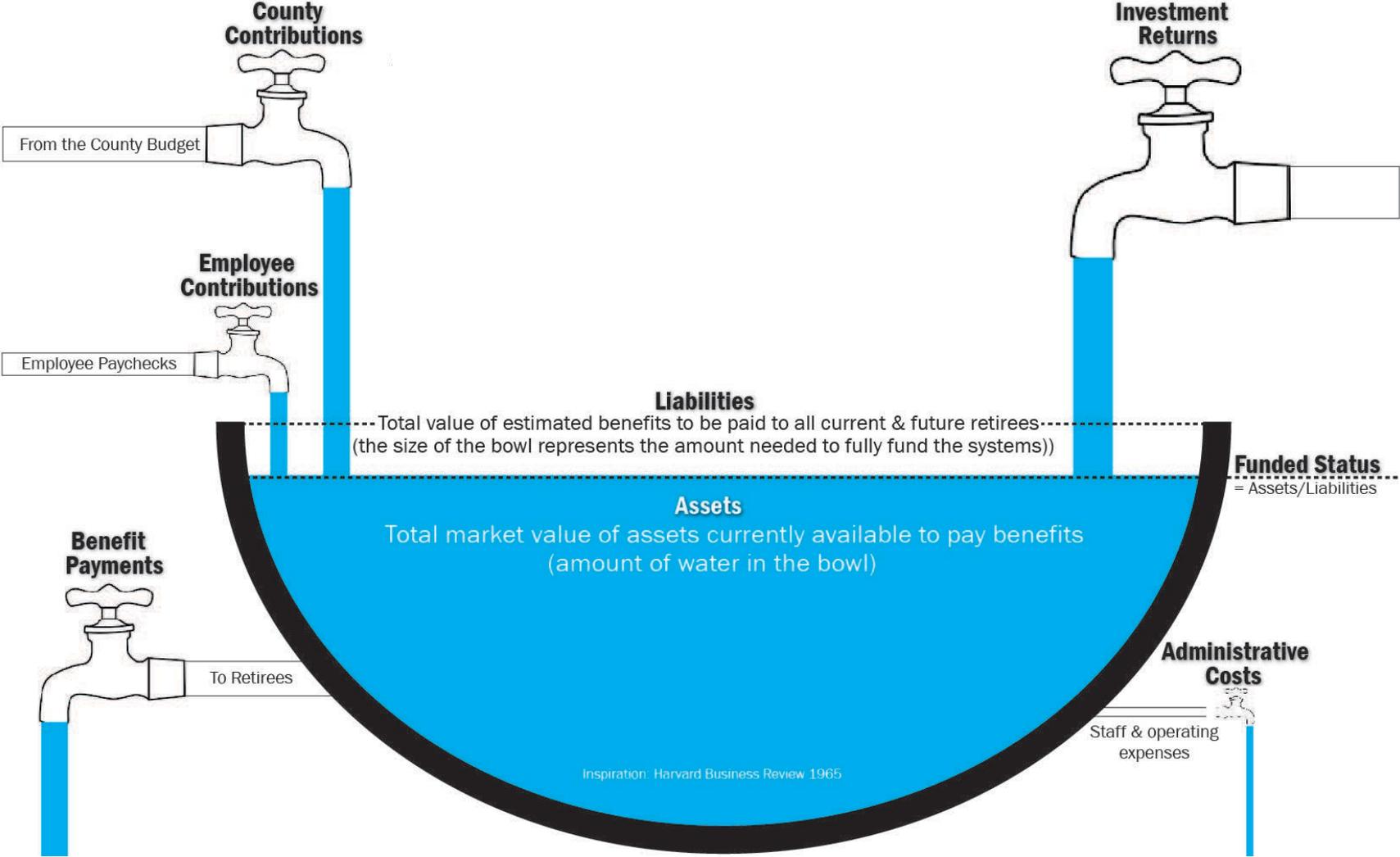


# Actuarial Experience Study

Investment Return and Other Assumption Changes

July 19, 2023

# Pension Funding Model



# Funding Target

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- ❖ Amount of assets you need to have on hand to pay for promised benefits
- ❖ Assets = Liabilities
  - ❖ Water needs to fill the bowl
- ❖ 100% funded

# How Big is the Bowl?

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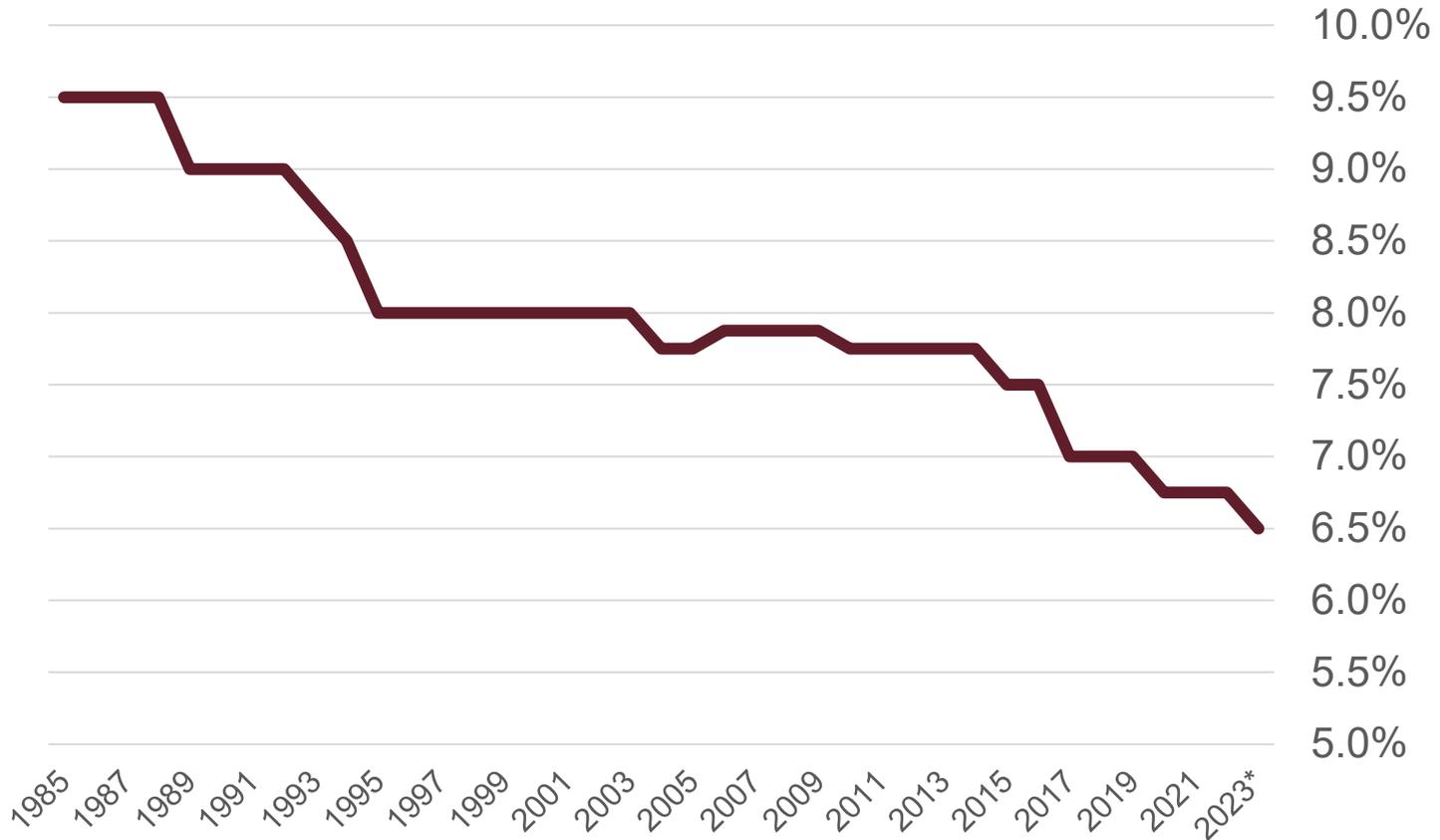
- ❖ Demographic information on plan participants
- ❖ Details on plan benefits/provisions
- ❖ Long-term assumptions
  - ❖ Reviewed every three years
- ❖ Economic assumptions
  - ❖ Expected return on assets, payroll or wage growth, and inflation
- ❖ Demographic assumptions
  - ❖ Retirement, mortality, termination, disability

# Expected Return on Assets

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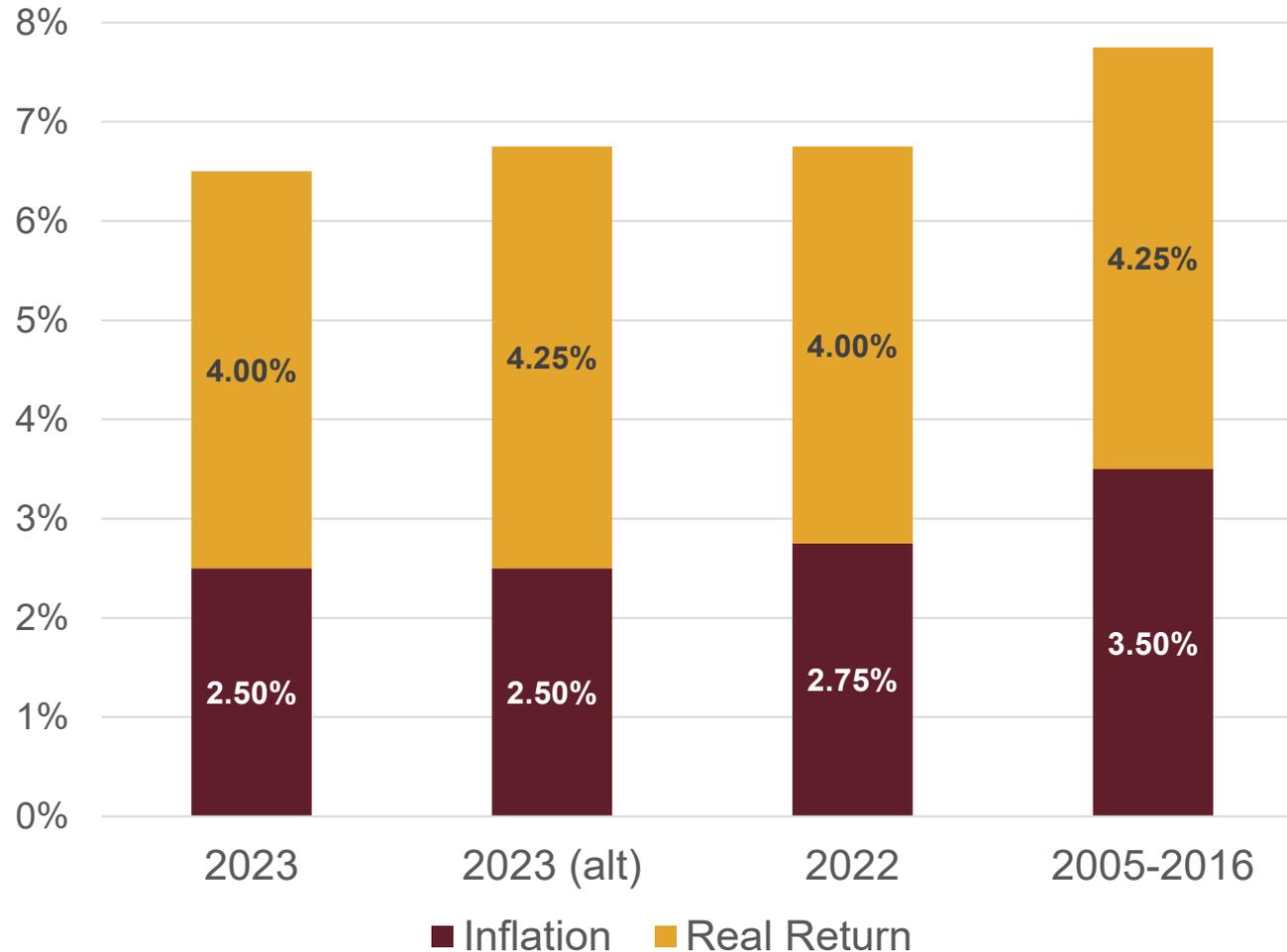
- ❖ Most powerful single assumption
  - ❖ Higher expected return → lower expected contributions
  - ❖ Overtime, actual contributions will depend on actual investment returns
- ❖ Current: 6.75%
- ❖ Recommendation: 6.50%
- ❖ Alternative Rec: 6.75%

# Investment Assumption Dropped as Inflation Dropped



**\*2023 Recommendation: 6.50%**  
**Alternative Recommendation: 6.75%**

# Investment Assumption: Building Blocks



# Risk Tolerance Factor

| <b>Years Ending<br/>June 30</b> | <b>Investment<br/>Return</b> | <b>Confidence<br/>Level</b> |
|---------------------------------|------------------------------|-----------------------------|
| <b>2012 - 2013</b>              | 7.50%                        | 64%                         |
| <b>2014 - 2016</b>              | 7.50%                        | 60%                         |
| <b>2017 - 2019</b>              | 7.00%                        | 57%                         |
| <b>2020 - 2022</b>              | 6.75%                        | 54%                         |
| <b>2023<br/>(Recommended)</b>   | 6.50%                        | 65%                         |
| <b>2023<br/>(Alternative)</b>   | 6.75%                        | 62%                         |

# Assumption Changes Impact Contribution Rates

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- Normal Costs
  - ❖ Annual service cost, based on assumptions
  - ❖ Shared between Employee and Employer
- Unfunded Liability Payment
  - ❖ Differences between expected and actual experience
  - ❖ Recalculated under new assumptions
  - ❖ Paid only by Employer

# Funding Impact for 2024-25

| <b>COMPARISON OF COST IMPACTS</b>                               | <b>6.50%<br/>Investment<br/>Return<br/>Assumption</b> | <b>6.75%<br/>Investment<br/>Return<br/>Assumption</b> |
|---|---|---|
| <b>Impact on Unfunded Actuarial Accrued Liability (\$000s)</b>  |   |   |
| <b>Increase due to changes in economic assumptions</b>          | \$427,067   | \$2,497   |
| <b>Decrease due to changes in demographic assumptions</b>       | (14,950)  | (14,950)  |
| <b>Total increase/(decrease) in Unfunded Liability (\$000s)</b> | \$412,117   | \$(12,453)  |
| <b>Change in Funded Percentage</b>                              | 83.1% to 80.6%  | 83.1% to 83.1%  |

# Rate Impacts for 2024-25

| COMPARISON OF COST IMPACTS   | 6.50%<br>Investment<br>Return<br>Assumption | 6.75%<br>Investment<br>Return<br>Assumption |
|--|---|---|
| <b>Average Employer Contribution Rates</b>                           |   |   |
| Increase due to changes in economic assumptions                      | 3.31%                                       | 0.11%                                       |
| Decrease due to changes in demographic assumptions                   | (0.16%)                                     | (0.16%)                                     |
| Total increase/(decrease) in average employer rate                   | 3.15%                                       | (0.05%)                                     |
| Total estimated increase/(decrease) in annual dollar amount (\$000s) | \$35,108                                    | \$(1,008)                                   |
| <b>Average Member Contribution Rates</b>                             |   |   |
| Increase/(decrease) due to changes in economic assumptions           | 0.59%                                       | (0.18%)                                     |
| Decrease due to changes in demographic assumptions                   | (0.06%)                                     | (0.06%)                                     |
| Total increase/(decrease) in average member rate                     | 0.53%                                       | (0.24%)                                     |
| Total estimated increase/(decrease) in annual dollar amount (\$000s) | \$5,850                                     | \$(2,854)                                   |

# County Member Rate Impact by Tier

| COMPARISON OF COST IMPACTS |        | 2023-24 Rates | 6.50% Investment Return | 6.75% Investment Return |
|----------------------------|--------|---------------|-------------------------|-------------------------|
| Misc                       | Tier 1 | 10.54%        | 1.47%                   | 0.69%                   |
|                            | Tier 2 | 7.87%         | 0.66%                   | 0.08%                   |
|                            | Tier 3 | 11.23%        | 0.55%                   | (0.22%)                 |
|                            | Tier 4 | 10.83%        | 0.20%                   | (0.44%)                 |
|                            | Tier 5 | 9.90%         | 0.26%                   | (0.32%)                 |
| Safety                     | Tier 1 | 21.70%        | 1.40%                   | (0.30%)                 |
|                            | Tier 2 | 21.12%        | 1.41%                   | 0.01%                   |
|                            | Tier 3 | 20.92%        | 0.89%                   | (0.33%)                 |
|                            | Tier 4 | 15.07%        | 0.48%                   | (0.43%)                 |

# MOU Changes

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- All County MOUs call for employees to pay 50% of normal costs
  - ❖ Recent labor agreements capped employee contribution rates for some legacy (non-PEPRA) members
  - ❖ Law Enforcement (003), Probation (019) cap rates at 2023-24 levels for fiscal years 2024-25, 2025-26, and 2026-27.
- PEPRA members are required to pay 50:50 normal costs (Misc 5, Safety 4) under state law

# Next Steps

## Actuary's Recommendation:

- Adopt 6.50%
- Alternative: Adopt 6.75% BUT revisit issue next year
  - Risk of eroding savings AND adding new costs on top

## SCERS Board Meeting:

- Wed., August 16
- 10 a.m.
- 980 9<sup>th</sup> Street, 19<sup>th</sup> Floor

Can watch online [scers.org](http://scers.org)

- Public comment in person

Submit comments to: [communications-retirement@saccounty.gov](mailto:communications-retirement@saccounty.gov)

