Butte County

Pension Strategy

PURPOSE

The following Pension Strategy (Strategy) was developed in response to steadily increasing required contributions to CalPERS for the County's Miscellaneous and Safety Pension Plans. The required contributions are expected to increase through fiscal year (FY) 2030-31. The goal of the Strategy is to reduce the peak CalPERS rates by setting aside additional funds now that can be used to offset future CalPERS payments.

BACKGROUND

The County contracts with CalPERS to provide two pension benefit plans for County employees. The first is for safety employees and includes deputy sheriffs, correctional deputies, probation officers and district attorney investigators. The second is for miscellaneous employees and includes all non-safety County employees. The retirement benefits are funded through a combination of employer contributions (26%), employee contributions (13%), and investment earnings (61%). Changes to CalPERS pension investment earnings projections, along with a number of years with poor earnings, and recent actuarial adjustments to mortality rates have resulted in increasing pension costs that are expected to continue for the next 12 years.

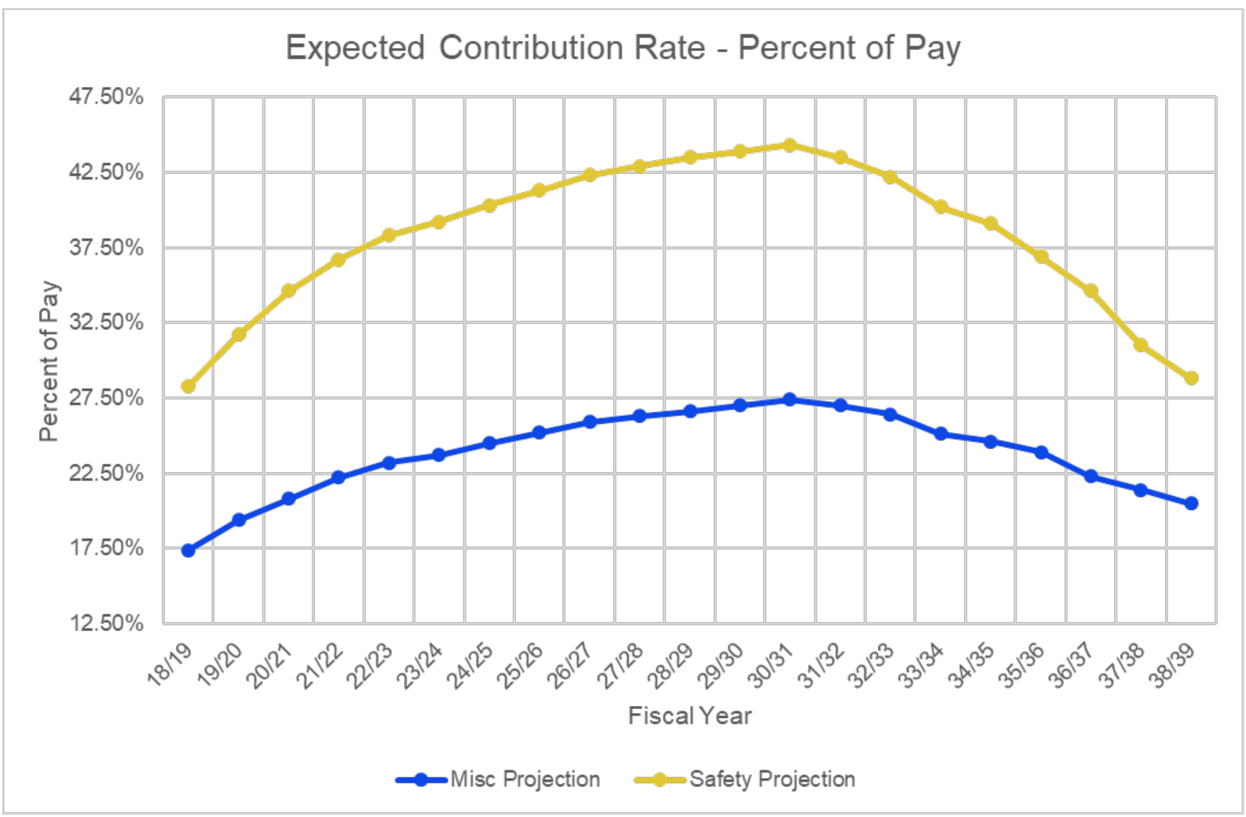

Figure 1 – Expected Contributions

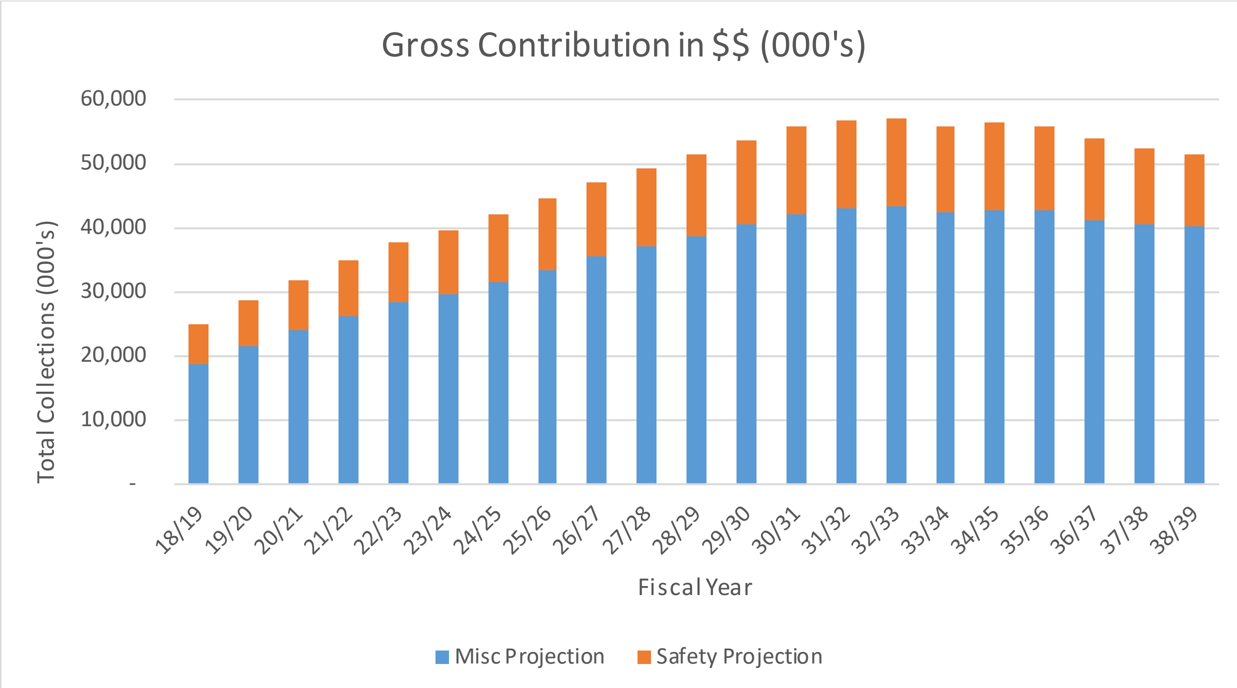

Figure 2 – Expected Contributions

Bartel and Associates (Bartel), an actuarial firm, performed an analysis of the County's pension plans and prepared projections for FY 2019-20 through FY 2038-39. The analysis indicates steady increases in the expected contribution rate, as a percent of pay, through FY 2030-31 for both the Miscellaneous and the Safety Plans. Figure 1 above shows the results of the Bartel analysis expressed as a percent of pay peaking in FY 2030-31 at 27.4% for the Miscellaneous Plan and 44.3% for the Safety Plan, a 57% increase. Figure 2 above shows the results expressed in gross dollars. In gross dollars, the contribution would more than double, from $24.9 million in FY 2018-19 to $57 million in FY 2030-31 due to compounding of the assumed payroll growth over that period.

Bartel presented two options to reduce total costs by dedicating additional resources to pension costs for the next few years. Ultimately, the Finance Work Team recommended committing those additional resources to a Section 115 Trust as part of the overall Strategy to reduce pension costs. The Bartel analysis provides for gross savings of more than $3.8 million through FY 2032-33 (*Table 1 – Gross Savings*).

SAVINGS (in 000's)	Misc Projection	Safety Projection
TRUST		
Gross $ Savings	$ 3,363	$ 533
Present Value Savings @ 3%	$ 1,031	$ 160

Table 1 – Gross Savings

Pension Strategy

Part I – Establish the Pension Trust

The County will establish two (2) Section 115 Trust Funds (Trusts) to accumulate funds with the goal of stabilizing future rates; one for the Miscellaneous Plan and one for the Safety Plan.

Part II – Funding the Trust

A. Payroll Collections

The County will accumulate funds by collecting additional amounts from Departmental budgets through the payroll process. The additional funds will be dedicated to the Strategy and will be collected as a percentage of pay in the same manner as regular CalPERS contributions. The additional contributions will be 0.5% percent of pay beginning in fiscal year 2019-20 and increase to 1.0% in fiscal years 2020-21 through 2025-26. The Strategy calls for the accumulated funds to be used in future years to offset the CalPERS increases and "flatten" the peak years (*see figures 3 and 4 – Payroll Collection Rates*).

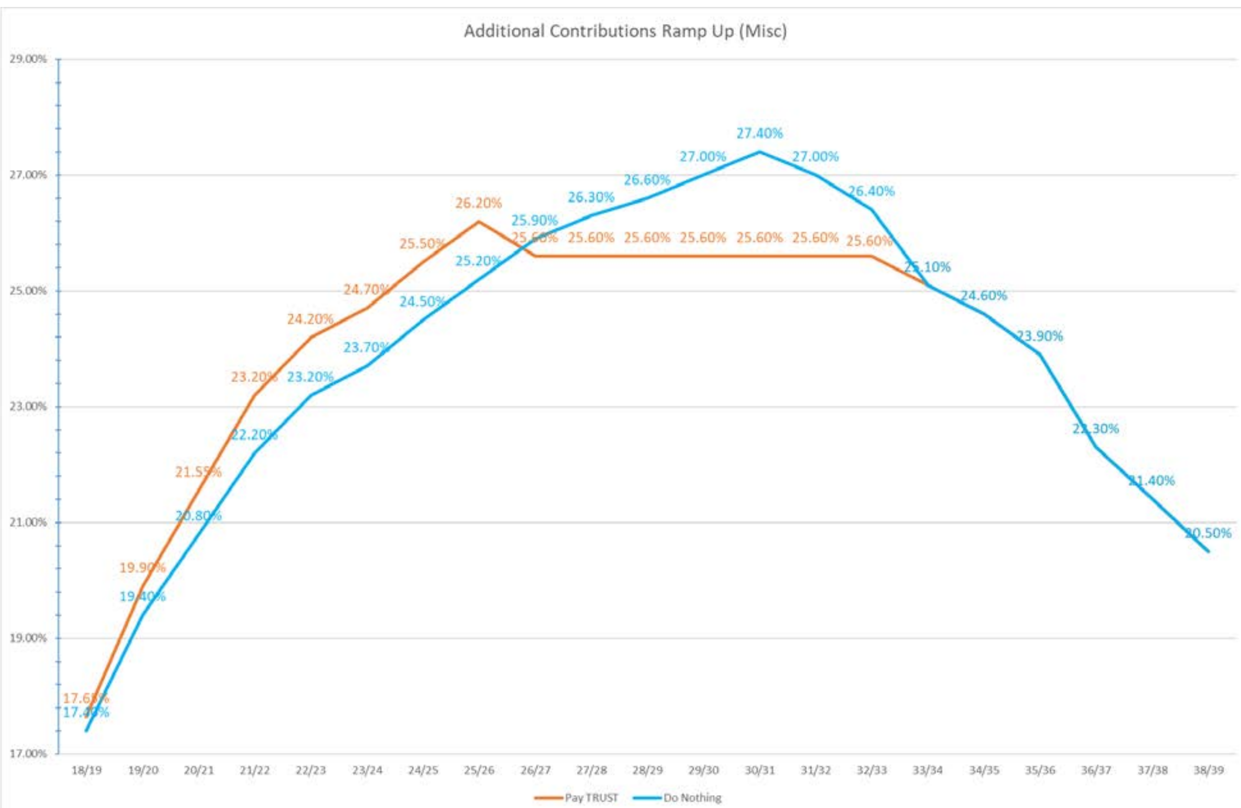

Figure 3 – Payroll Collection Rates (Misc)

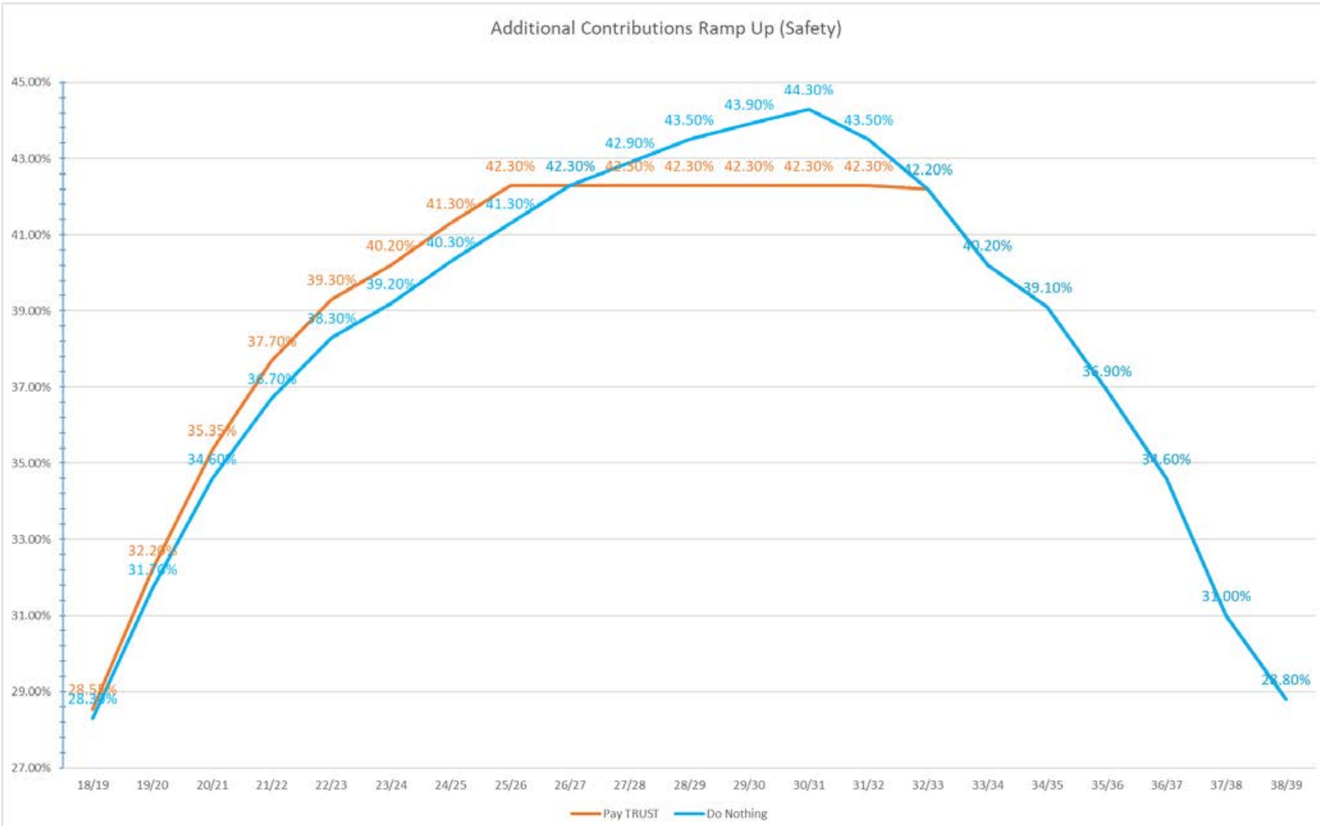

Figure 4 – Payroll Collection Rates (Safety)

B. Prepayment Savings

The County prepaid its required Unfunded Actuarial Liability (UAL) payment in fiscal years 2017-18 and 2018-19 due to the discount offered by CalPERS. Prepaying each year resulted in net savings of approximately $350,000 per year. The required UAL payment was converted into an estimated percentage of pay and collected from departments throughout the year through the payroll process. The estimated percentage resulted in slightly higher collections than required to make the full payment. The savings and excess collections will be dedicated to the Trusts.

Future savings related to the prepayment of the UAL and/or excess collections shall also be directed to the Trusts.

C. Consider Dedication of Available Funds to Safety Trust

The overall Pension Strategy focuses on collections from the payroll process to accumulate funds. Consideration shall be given to the application of any available and appropriate funds to the Safety Plan segment of the Strategy. Any additional funds applied to the Safety Plan measurably reduce the peak rates paid by the County in the future.

D. *Charges to Other Agencies, State and federal programs, and User Fees*

The Strategy is designed to achieve approval of the State Controller's Office so that State and federal programs pay their fair share of these costs. Additionally, County Departments contracting to provide services to other entities or the public shall include these charges in the fees for services provided.

E. *Reevaluation during Budget*

The Strategy will be reevaluated annually as part of the annual budget process, including review of CalPERS and Trust results based on actual rates and updated projections, and identifying additional funds that may be dedicated to the Safety Plan within the Strategy.

Part III – Use of Trust Funds

A. Assets contributed to the Trusts may only be withdrawn
   i. To pay pension costs; and
   ii. Upon approval by the Board of Supervisors.
B. Based upon the 2018 analysis by Bartel, the County expects to begin using funds accumulated in the Trusts to offset CalPERS costs starting in FY 2025-26 and end in FY 2032-33.