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CONTRIBUTION RATE SETTING PROCESS

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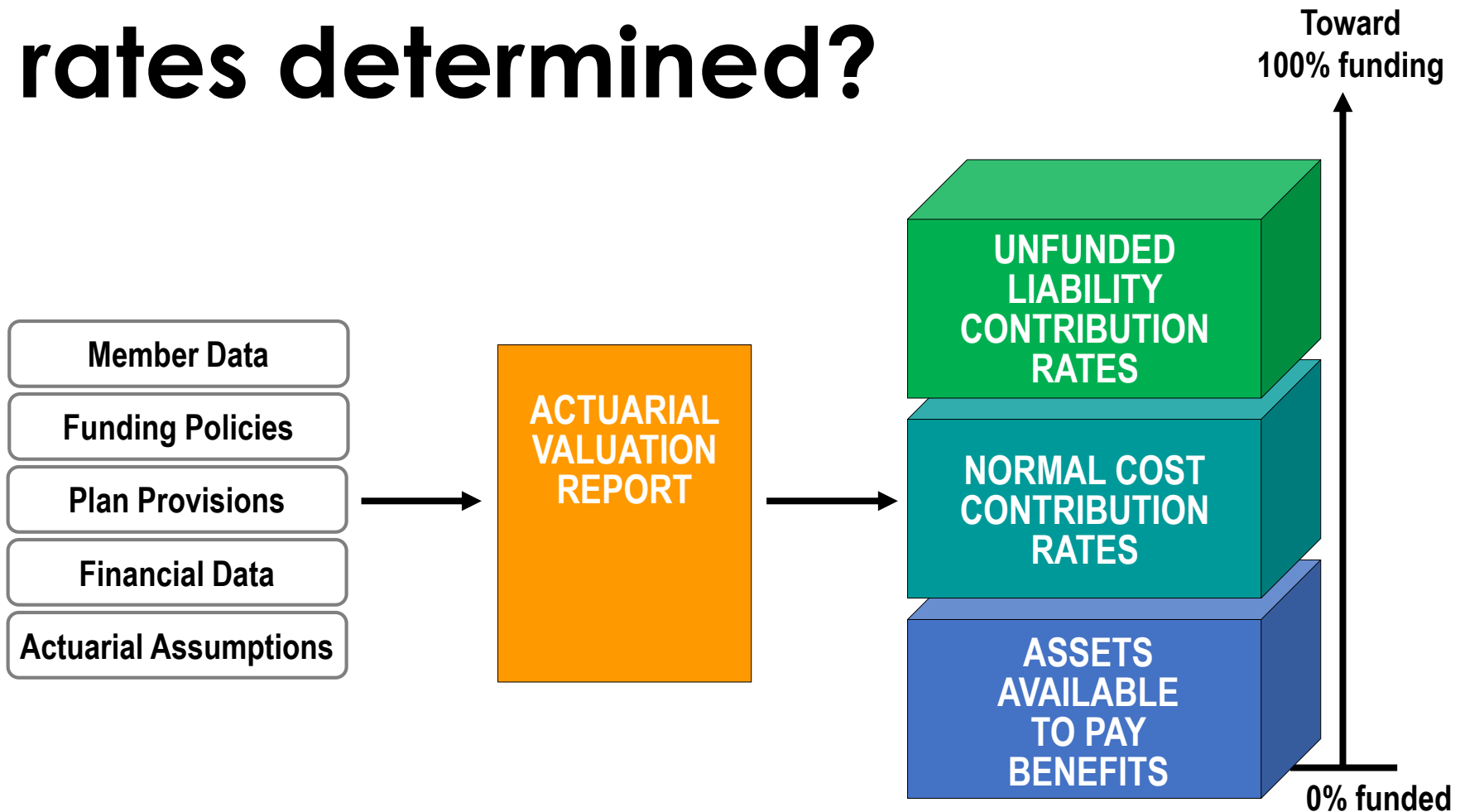


Prepared for City of San Rafael

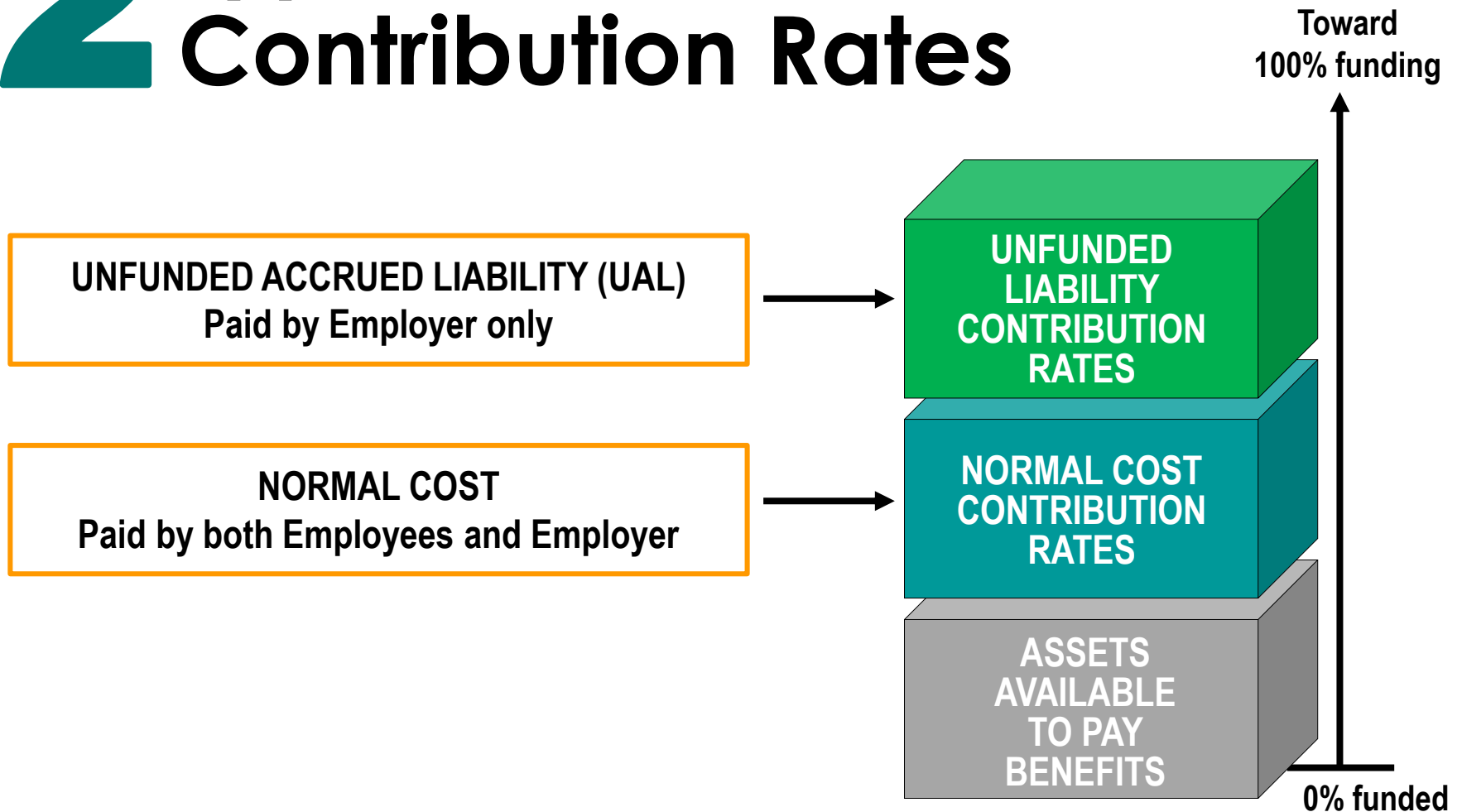
Topics

- How are contribution rates determined?
- What is included in contribution rates?
 - Normal Cost
 - Unfunded Accrued Liability
- Employee Contributions
- Employer Contributions
- Changes Over Time

How are contribution rates determined?

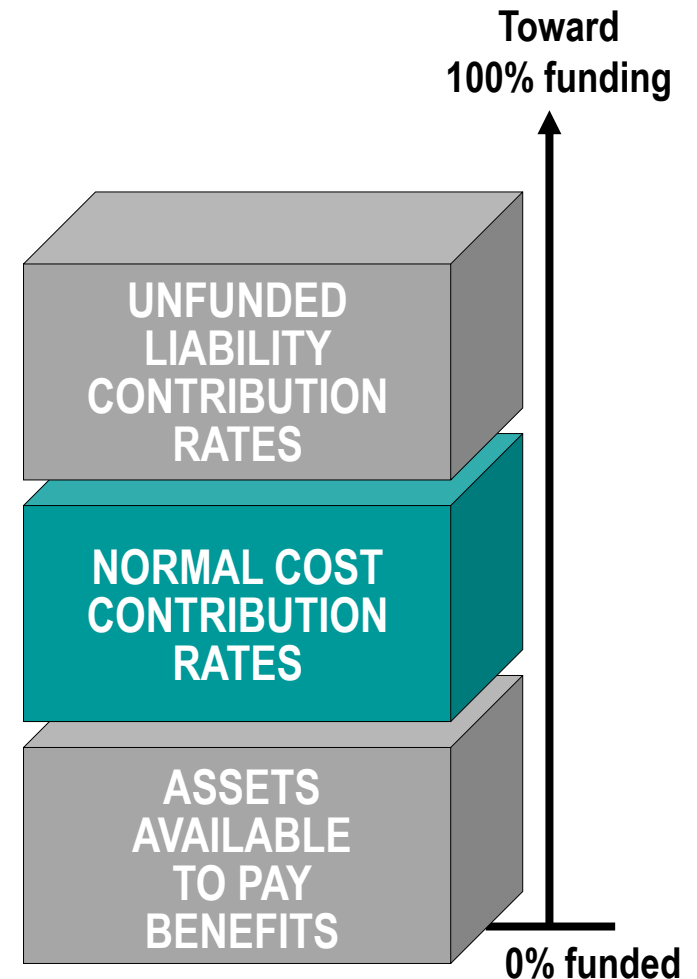


2 Types of Contribution Rates



Normal Cost Overview

- The cost of one year's accumulated service (including the cost of future post-retirement COLAs)
- Normal Cost is shared between Employees and Employer



Normal Cost

Differences by Tier

Classic Tiers

- Employee rate based on age at entry.
- Cost split approximately equally between Employees and Employer.

PEPRA Tiers

- All Employees in a single pool with one rate.
- Cost is split 50/50 between Employees and Employer. *

All San Rafael Tiers

- Employees pay cost sharing of additional 1% above actuarially required Normal Cost contributions (except SEIU Supervisory and SEIU Miscellaneous bargaining units).

* | *Actuarial Valuation Report reflects this split for all PEPRA members in the plan as a pooled group, not for individual employers.*

Normal Cost

What changes Employee contribution rates?

Changes to Actuarial Assumptions

- Economic: Investment return, inflation, wage growth, COLAs
- Demographic: Retirement rates, disability rates, termination rates, mortality rates, salary increases

Demographic Experience (Classic vs. PEPRA)

- Classic tiers use age-based contribution rates but PEPRA rates are pooled. Because of this, demographic experience (like changes in average entry age) can impact PEPRA rates where Classic tiers will see no change.

What *doesn't* change Employee rates?

- Market fluctuation/actual investment earnings

Normal Cost for Employees

Will my contribution rate change on July 1, 2019?

Classic Tiers

- No change in rates.
- *Why not?* No actuarial assumption changes.

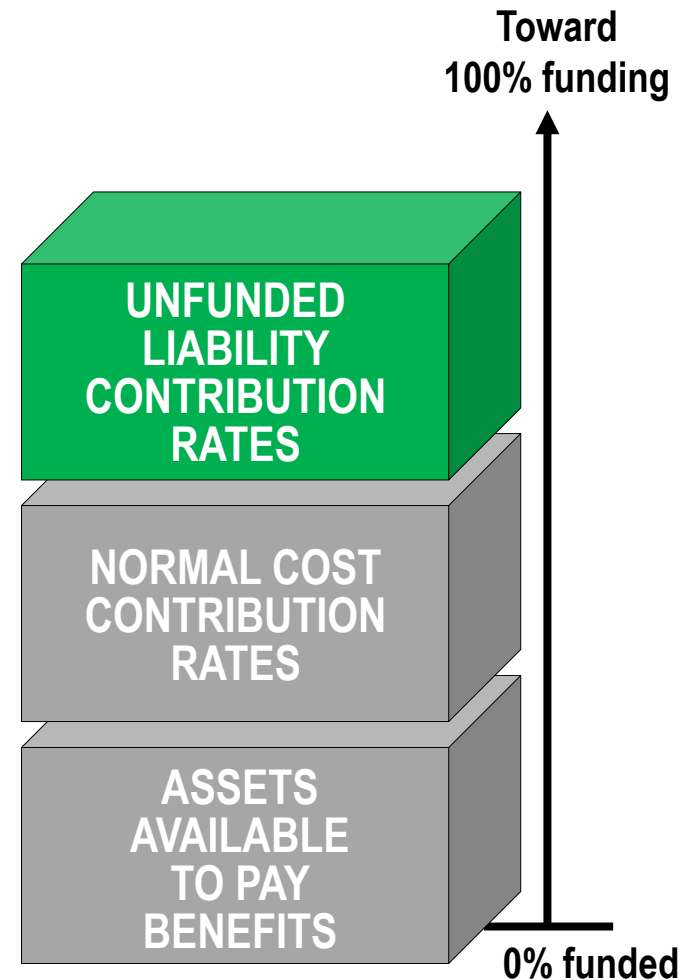
PEPRA Tiers*

- General Tier 3 decreasing 0.08% (9.30% to 9.22%)
Safety Tier 3 increasing 0.45% (13.98% to 14.43%)
- *Why?* Plan demographics changed. New hires were older than projected, and the ratio of male to female workers was different than projected.

* | *The first year of PEPRA (2013), rates were set without a real population to assess. Demographic data will change as PEPRA membership increases and the rates will be revised accordingly. The impact of PEPRA rate changes is greater now because the population is smaller. Rates will fluctuate less as membership grows.*

Unfunded Accrued Liability (UAL) Overview

- The UAL is the difference between the assets available to pay benefits and the total cost of the benefits. This is the shortfall in funding.
- Only the Employer pays the UAL cost.



Unfunded Accrued Liability

What changes UAL contribution rates?

Actuarial Assumption Changes (same as normal cost)

- Economic: Investment return, inflation, wage growth, COLAs
- Demographic: Retirement rates, disability rates, mortality rates, salary increases

Annual Return on Investments

- The annual performance of the investment portfolio can impact the UAL contribution rates. If all other assumptions are met exactly and the portfolio exceeded its return target (7%) then the UAL rate would decrease. If the fund underperformed the target then the UAL rate would increase.
- The Normal Cost of the plan is not impacted by investment returns.

Unfunded Accrued Liability

Did the UAL change as of the last measurement (valuation)?

Yes.

City of San Rafael

- UAL decreased from \$141.8 million on June 30, 2017 to \$134.1 million on June 30, 2018.

Why?

- The UAL decreased largely because the fund's investment return exceeded the target.

Employer Contributions

Will Employer contribution rates change on July 1, 2019?

Yes.

City of San Rafael

- Total Employer contribution rate (Normal Cost plus UAL) decreasing from 61.76% to 57.67% of payroll.

Why?

- The employer contribution decreased largely due to investment returns exceeding the target, payroll growth higher than expected, and the impact of hiring lower cost PEPRA members.

Employer Contributions

Contribution Rate Components All San Rafael Tiers

	Eff. 7/1/2019	Eff. 7/1/2018
Total Normal Cost	29.12%	29.88%
Employee Normal Cost	-12.19%	-12.48%
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Employer Normal Cost	16.93%	17.40%
Unfunded Liability	37.99%	41.50%
Administrative Expense	2.75%	2.86%
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Total Employer Rate	57.67%	61.76%

Changes Over Time

2009 – UAL & Liability up → asset losses, assumed rate of return decrease to 7.75%

2010 – UAL up → smoothed value of investment returns

2011 – UAL & Liability up → assumed rate of return decrease to 7.5%, shorter amortization

2012 – UAL up → low investment return, demographic losses

2013 – UAL down → high investment return

2014 – UAL down → high investment return but offset by assumed rate of return decrease to 7.25%

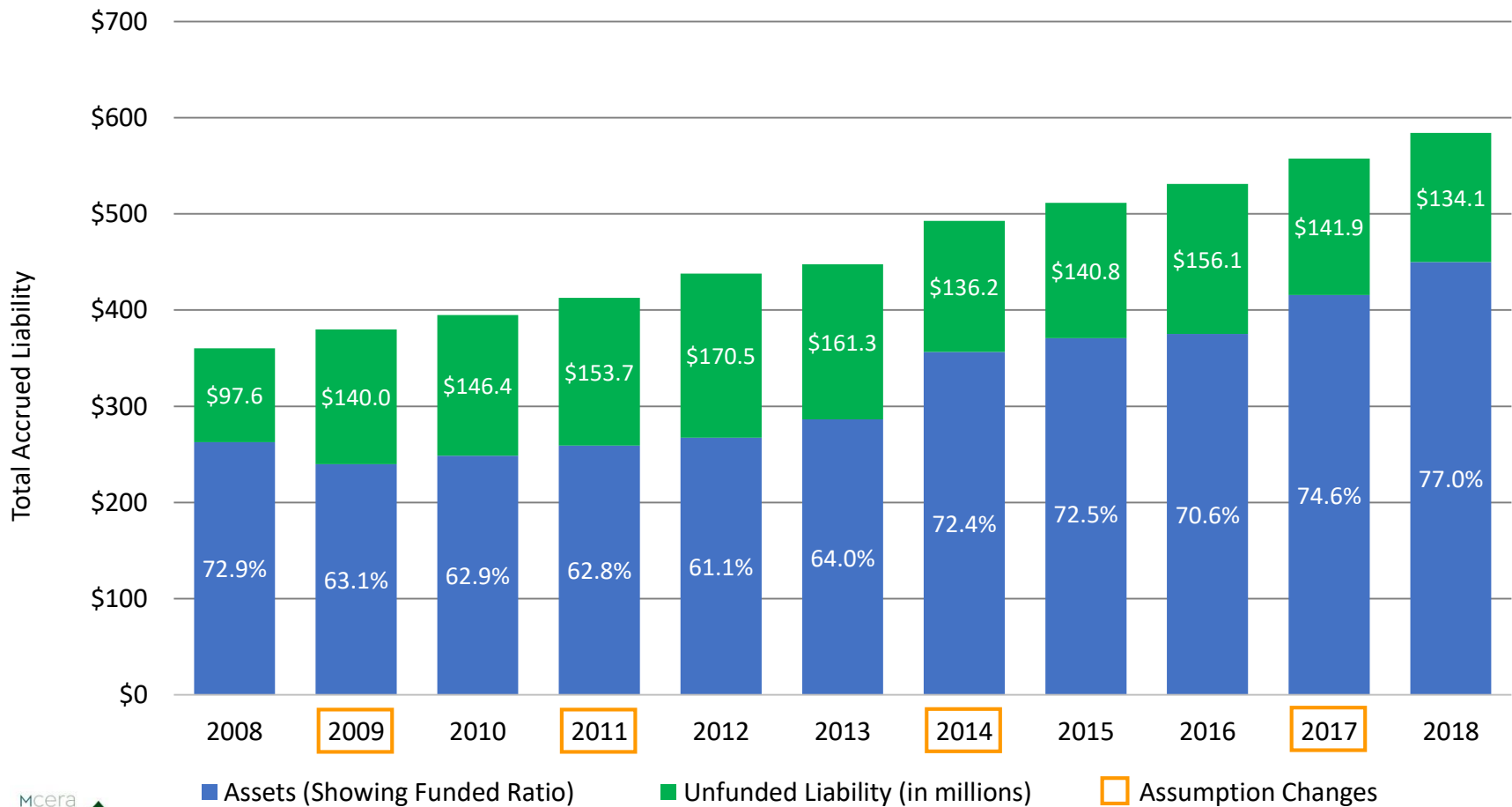
2015 – UAL up → low investment return, demographic losses

2016 – UAL up → low investment return, demographic losses

2017 – UAL down → high investment return but offset by assumed rate of return decrease to 7%, mortality improvements

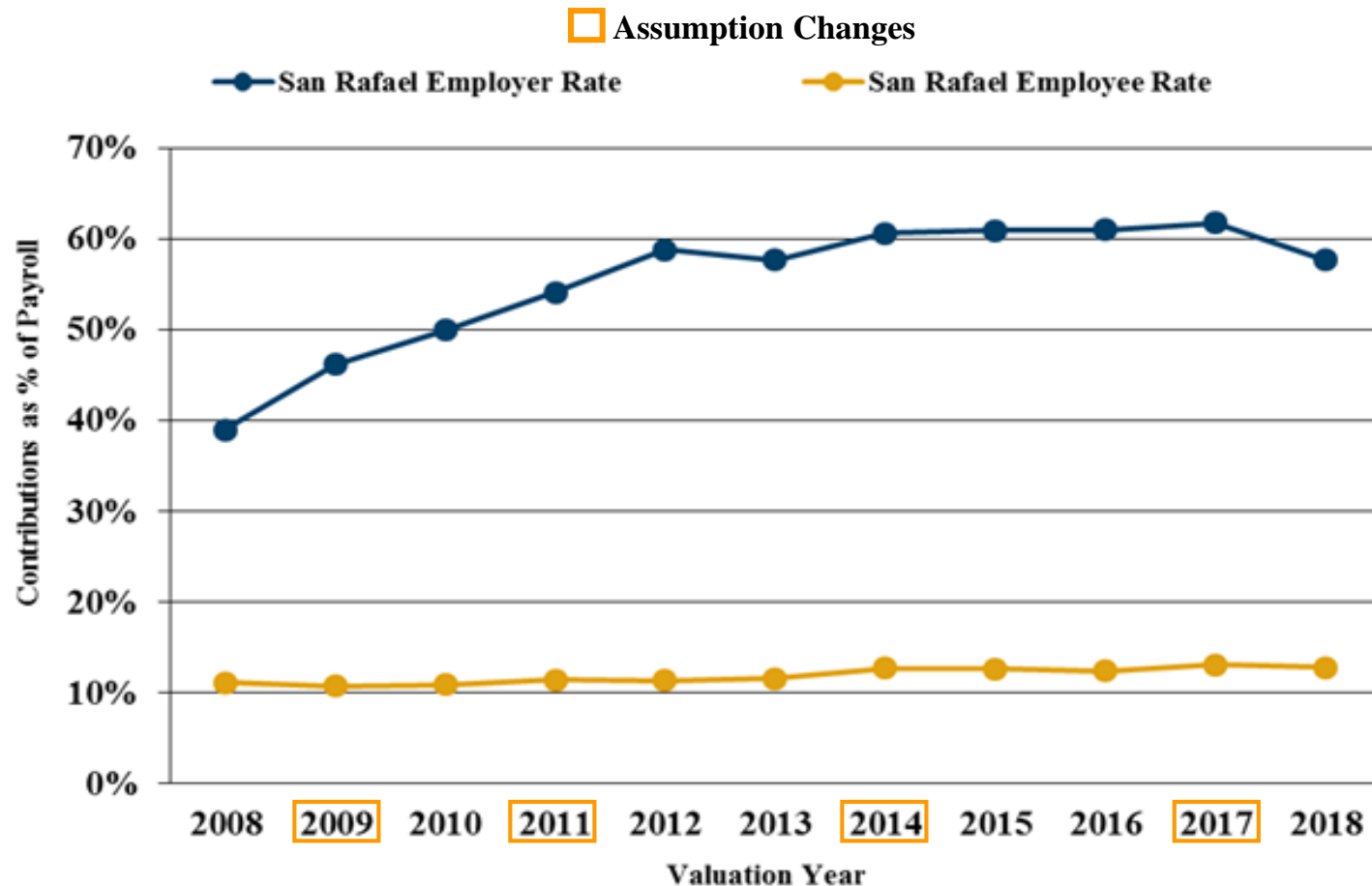
2018 – UAL down → high investment returns, offset by demographic losses

Unfunded Accrued Liability Changes Over Time



Contribution Rates

Changes Over Time



Quick Facts

All data as of June 30, 2018

	San Rafael	Total MCERA
Total Assets	\$450.0 million	\$2.48 billion
Unfunded Liability	\$134.1 million	\$366.4 million
Funded Ratio	77.0%	87.1%
All Members	1,068	6,670
Active Members Only	359	2,732
Retirement Tiers	6	45