PENSION BENEFITS

The Basics:

• A traditional pension plan is a group retirement plan that offers a predictable monthly defined benefit in retirement

• It provides workers with a steady, predictable income stream in retirement that cannot be outlived.

• The average OCERS pension benefit paid to a safety retiree in 2017 was $72,204 per year or $6,017 per month.
ABOUT OCERS FUND

With more than 43,000 member and nearly $15 Billion in assets (12/31/16), OCERS is ranked 135.
WHO WE SERVE

- City Of San Juan Capistrano
- County Of Orange
- Orange County Cemetery District
- Orange County Children & Families Commission
- Orange County Department Of Education (Closed To New Members)
- Orange County Employees Retirement System
- Orange County Fire Authority
- Orange County In-home Supportive Services Public Authority
- Orange County Local Agency Formation Commission
- Orange County Public Law Library
- Orange County Sanitation District
- Orange County Transportation Authority
- Superior Court Of California, County Of Orange
- Transportation Corridor Agencies
- UCI Medical Center And Campus (Closed To New Members)
THE COUNTY EMPLOYEES’ RETIREMENT LAW OF 1937 ESTABLISHED THESE DEFINED BENEFIT PENSION PLANS

- Retirement system is a trust fund separate from the county.

- State Constitution vests the Retirement Board with exclusive authority for management of the retirement system.

- Independent and balanced position with respect to stakeholders is critical to preserving credibility of the retirement system.

- Systems feature local control through nine-member Retirement Boards comprised of key stakeholders.

- Systems administer pension benefits that are established by the county or local governments.
DIFFERENCES BETWEEN THE 1937 ACT SYSTEMS AND THE STATE SYSTEMS?

• The 1937 Act systems operate under a **different set of rules** governing what counts as compensation for the purposes of determining retirement benefits.

• Systems generally **do not administer health care benefits** for active employees or retirees.
  • Some systems provide a subsidy toward retiree health care costs.

• **Plan members or stakeholders can express concerns** to the local retirement system (as opposed to a larger, statewide entity) and to local officials or labor organizations.

• **Administrative costs limited** to 0.21% of plan liabilities.

• PEPRA leveled the playing field.
OCERS GOVERNANCE

OCERS Board of Retirement – 10 Trustees

4
Trustees Appointed by Board of Supervisors
No more than 1 may be sitting Supervisor

1
Trustee Elected by Retirees

2
Trustees Elected by Safety Members
1 full member
1 alternate Member
Represent different departments

2
Trustees elected by General Members

1
Ex Officio Trustee
County Treasurer Or Deputy Designated

Contract Cities Presentation 2018
OCERS GOVERNANCE

Chris Prevatt - Chair  
01/01/2016 - 12/31/2018

Charles Packard - Vice Chair  
1/01/2017 - 12/31/2019

Russell Baldwin  
01/01/2017 - 12/31/2019

Frank Eley  
01/01/2017 - 12/31/2019

Shawn Dewane  
1/1/2017 - 12/31/19

Shari Freidenrich  
Ex-Officio Member

Jeremy Vallone  
07/1/2018 - 06/30/2021

Wayne Lindholm  
01/01/2016 - 12/31/2018

David Ball  
01/01/2017 - 12/31/2019

Roger Hilton  
07/01/2015 - 06/30/2018
BENEFITS
WE ARE HERE TODAY BECAUSE THEY ARE HERE TO SERVE

Deputy Sheriff

Firefighter
COMPENSATING FOR THAT SERVICE CAN BE THE CHALLENGE

Salary Today + A Promise for Tomorrow = Pension
OCERS BENEFIT SAFETY FORMULA

- Defined benefit program for retirees.
- Benefit based on formula:
  - “Multiplier” (3.0% @ 50 for most “Legacy” safety members, 2.7% @ 57 PEPRA)
  - Years of Service Credit
  - Final Average Salary (highest consecutive 36 months)

**Legacy**
- 25 years of service
- 3.0% multiplier (@50)
- $100,000 final avg. salary
- $75,000 annual pension benefit

**PEPRA**
- 25 years of service
- 2.7% multiplier (@57)
- $100,000 final avg. salary
- $62,400 annual pension benefit

Contract Cities Presentation 2018
## QUICK FACTS

<table>
<thead>
<tr>
<th>Members &amp; Employers</th>
<th>Pension Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>27,524</strong> active &amp; inactive members</td>
<td><strong>$3,244</strong> monthly allowance for all General members and payees</td>
</tr>
<tr>
<td><strong>16,947</strong> retirees, beneficiaries &amp; survivors</td>
<td><strong>$6,017</strong> monthly allowance for all Safety members and payees</td>
</tr>
<tr>
<td><strong>20</strong> plan sponsors</td>
<td><strong>21</strong> average years of service for General members who retired in 2017</td>
</tr>
<tr>
<td><strong>44,471</strong> total membership</td>
<td><strong>24</strong> average years of service for Safety members who retired in 2017</td>
</tr>
<tr>
<td></td>
<td><strong>61 years old</strong> average age at retirement for General members who retired in 2017</td>
</tr>
<tr>
<td></td>
<td><strong>55 years old</strong> average age at retirement for Safety members who retired in 2017</td>
</tr>
</tbody>
</table>
PENSION CONTRIBUTIONS
PAYING PENSION BENEFITS

• Contributions made during an employee’s career are invested.

• Sum of contributions & interest pay for pension benefits.
• Two key processes in determining Pension Costs:
  
  • Adopting Actuarial Assumptions
  
  • Developing an Investment Portfolio
Critical Role of Actuarial Assumptions

- Economic Assumptions: how will market forces affect the cost of the plan?

- Demographic Assumptions: How will participant behavior affect the cost of the plan?
ACTUARIAL DEMOGRAPHIC ASSUMPTIONS

• When will an individual retire?
• How many will retire in a given year?
• How many will be disabled?
• Termination of Employment
  • Refund of contributions?
• Mortality
  • Active/Retired
ACTUARIAL ASSUMPTIONS PRODUCE PENSION CONTRIBUTION RATES (EMPLOYER)

If every assumption is met in a year

Normal Cost

If an assumption isn’t met

UAAL
WHAT IS THE UAAL?

• A funding gap (unfunded liability) occurs when the benefits owed exceed the amount of money the plan has saved to meet these obligations.

• Includes current and future benefits promised to all participants—retirees and active employees.
CAUSES OF UAAL

Actual experience which is less favorable than assumed. Such as:

- Higher salary increases
- Earlier retirement date(s)
- Lower death rates
- Lower rates of investment earnings
- Lower rates of non-death terminations
- Change in actuarial assumptions

Experience is measured annually
Assumptions are updated triennially
<table>
<thead>
<tr>
<th>Rate Group</th>
<th>FY 18-19</th>
<th>FY 17-18 (1)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Plans A, B and U (non-OCTA, non-OCSD)</td>
<td>16.37%</td>
<td>18.51%</td>
<td>-2.14%</td>
</tr>
<tr>
<td>Rate Group #2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Plans I, J, O, P, S, T, U and W (County et al.)</td>
<td>33.66%</td>
<td>34.38%</td>
<td>-0.72%</td>
</tr>
<tr>
<td>Rate Group #3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Plans B, G, H and U (OCSD)</td>
<td>11.61%</td>
<td>11.65%</td>
<td>-0.04%</td>
</tr>
<tr>
<td>Rate Group #5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Plans A, B and U (OCTA)</td>
<td>25.48%</td>
<td>26.18%</td>
<td>-0.70%</td>
</tr>
<tr>
<td>Rate Group #9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Plans M, N and U (TCA)</td>
<td>23.82%</td>
<td>26.30%</td>
<td>-2.48%</td>
</tr>
<tr>
<td>Rate Group #10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Plans I, J, M, N and U (OCFA)</td>
<td>30.54%</td>
<td>32.58%</td>
<td>-2.04%</td>
</tr>
<tr>
<td>Rate Group #11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Plans M and N, future service, and U (Cemetery)</td>
<td>10.88%</td>
<td>11.45%</td>
<td>-0.57%</td>
</tr>
<tr>
<td>Rate Group #12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Plans G, H and U (Law Library)</td>
<td>22.74%</td>
<td>22.11%</td>
<td>0.63%</td>
</tr>
<tr>
<td>Rate Group #6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety Plans E, F and V (Probation)</td>
<td>47.79%</td>
<td>44.92%</td>
<td>2.87%</td>
</tr>
<tr>
<td>Rate Group #7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety Plans E, F, Q, R and V (Law Enforcement)</td>
<td>62.81%</td>
<td>61.71%</td>
<td>1.10%</td>
</tr>
<tr>
<td>Rate Group #8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety Plans E, F, Q, R and V (Fire Authority)</td>
<td>47.81%</td>
<td>48.03%</td>
<td>-0.22%</td>
</tr>
<tr>
<td>Aggregate Total</td>
<td>36.56%</td>
<td>36.97%</td>
<td>-0.41%</td>
</tr>
</tbody>
</table>

(1) The FY 17-18 composite rates for some Rate Groups have changed due to payroll shifting among plans within the Rate Groups.
(2) These rates are before adjustments to reflect the UAAL rates for employers with declining payroll.
(3) These rates are after adjustment to the contribution rates for FY 18-19 for additional UAAL contributions made during calendar year 2016.
(4) These rates are after adjustment to the contribution rates for FY 17-18 for additional UAAL contributions made during calendar year 2016.
(5) These rates reflect 2/3 phase-in of changes in actuarial assumptions starting with the December 31, 2014 valuation.
DECEMBER 31, 2017 VALUATION
WHERE ARE RATES GOING?

A 20 Year Amortization Payment Plan

Contract Cities Presentation 2018
## CONTRIBUTIONS

**Contribution History (amounts in thousands)**

<table>
<thead>
<tr>
<th>YEAR END</th>
<th>ACTUARIALY DETERMINED EMPLOYER CONTRIBUTIONS</th>
<th>ACTUAL EMPLOYER CONTRIBUTIONS</th>
<th>MEMBER CONTRIBUTIONS</th>
<th>TOTAL CONTRIBUTIONS RECEIVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>406,521</td>
<td>406,521</td>
<td>191,215</td>
<td>$597,736</td>
</tr>
<tr>
<td>2013</td>
<td>426,020</td>
<td>427,095</td>
<td>209,301</td>
<td>$636,396</td>
</tr>
<tr>
<td>2014</td>
<td>476,320</td>
<td>325,520</td>
<td>232,656</td>
<td>$858,176</td>
</tr>
<tr>
<td>2015</td>
<td>502,886</td>
<td>571,298</td>
<td>249,271</td>
<td>$820,569</td>
</tr>
<tr>
<td>2016</td>
<td>520,138</td>
<td>567,196</td>
<td>258,297</td>
<td>$825,493</td>
</tr>
<tr>
<td>2017</td>
<td>536,726</td>
<td>572,107</td>
<td>262,294</td>
<td>$834,398</td>
</tr>
</tbody>
</table>

Contract Cities Presentation 2018
OCERS AND CALPERS –
COST DIFFERENCES

Some of the major differences between OCERS and CalPERS plan provisions that can lead to different normal cost contribution rates between the two systems:

1) Maximum Level of Benefit Expressed as a Percent of Final Average Salary:
   OCERS: 100%
   CalPERS: 90%

2) Cost of Living Adjustment:
   OCERS: April 1 Immediately Following Date of Retirement
   CalPERS: May 1 Starting the Second Calendar Year of Retirement

3) Pensionable Pay Items:
   OCERS: Permitted Under Ventura Settlement
   CalPERS: Not Allowed

4) Automatic Continuance Benefit:
   OCERS: Unreduced Benefit to the member with a 60% Continuance
   CalPERS: Continuance Benefit is Optional and Only if Adopted by the Employer
INVESTMENTS
The Board of Retirement is undertaking a savings task similar to that performed by many of you in saving for your kid’s college education.
PENSION COSTS - INVESTMENTS

Invest for the Very Long Term

• 30 year horizon spanning employee careers

• 24 years on average for Safety members who retired in 2017.
How are investment decisions made?

- Trustees oversee pensions and have a fiduciary obligation to ensure the plan is operating in the best interest of workers and retirees.

- Trustees hire professional asset managers to steer investments.

- OCERS maintains a balanced portfolio of stocks, bonds, alternatives (such as timber, real estate, hedge funds) and cash. This is consistent with modern portfolio theory.

- Public pensions are prudent investors in both bear and bull markets.
DIVERSIFICATION IS A PROTECTION

Asset Allocation as of September 30, 2018

Policy vs. Actual

Overweight (Underweight) from Policy

Capital Group holds 13.90% of the EAFE portfolio in emerging equity, bringing the total emerging markets equity exposure to 7.30%. Loomis Sayles holds 6.25% of the High Yield. A new asset allocation was adopted on January 25, 2017 with target ranges approved on March 28, 2017. Real Assets is temporarily under the minimum range since the new asset allocation increased the target to Real Assets from 18% to 22%.
OCERS FUND EARNINGS – HOW DID WE DO?

OCERS Fund Performance

[Graph showing OCERS Fund Performance with percentages from 1986 to 2017.]
77 of 77 funds provided Total Fund returns for this time period (%)
With a return of 14.66, Fund 71 received a percentile rank of 83

Universe Median: 15.96
60% R 3000/40% B US Agg Bond Index: 13.81

Funds with less history than the specified time period will not appear in the chart.
RV KUHN’S REPORT: HOW DO WE COMPARE?

Fund Number: 71
10 Year Annualized Total Fund Returns

As of December 31, 2017

Seven of 77 funds provided Total Fund returns for this time period (%)

With a return of 5.61, Fund 71 received a percentile rank of 73

Fund with less history than the specified time period will not appear in the chart.

Universe Median: 5.99
60% R 3000/40% B US Agg Bond Index: 7.07
PUTTING IT ALL TOGETHER
ALL THE PIECES TOGETHER:

• As of December 31, 2017:
  - OCERS Actuarial Accrued Liability (The Promise) $19,635,427
  - OCERS Assets (Valuation) $14,197,125
  - OCERS Assets (Market) $14,652,521
  - Unfunded Actuarial Accrued Liability (Valuation) $5,438,302
We’ve grown to full funding before, we are on track to do so again over the next 20 years, that is how Pension Systems work.
All The Pieces Together: Positive Cash Flow

As of December 31, 2017

Total Fund
$15.1 Billion

Total Annual Contributions
$896.6 Million

Total Annual Benefit Payments
$800.4 Million

Contract Cities Presentation 2018
Two Key Issues:

• How long will our members live (mortality)

• How much will the OCERS Portfolio earn over the next 30-70 years
LONG TERM PROMISES

LIFETIME GUARANTEE = CIVIL WAR VETERANS
PENSION RECIPIENT 150 YEARS LATER
LONG TERM PROMISES

2020 = 75 YEARS OF SERVICE

Our Longest Termed Member

MS. ANNA CROSSON

Employed by the County of Orange in April 1946!
THE OPPORTUNITIES AHEAD

1. OCERS is still Cash Flow positive
2. Conservative assumptions
3. 20 year Amortization plan
4. An oversight Board concerned with volatility
5. PEPRA (2013) reduced benefit costs over the long term
6. Comprehensive Final Average Salary review ensures accuracy
WHAT'S IN THE NEWS?
PUBLIC PENSION CHALLENGES
THE NATIONAL SCENE

Kentucky
31% Funded
$50 Billion UAAL

As of 2016
PUBLIC PENSION CHALLENGES
THE NATIONAL SCENE

Illinois State Retirement System 35% Funded
Illinois Municipal Retirement Fund 87% Funded

As of 2016
Background to cutting pension for Niland Sanitary District and LA Workers
The “California Rule” and the California Supreme Court
OCERS BY THE NUMBERS

Some important documents to answer your questions
THE EVOLUTION OF OCERS UAAL

Some important documents to answer your questions

The Evolution of OCERS
Unfunded Actuarial Accrued Liability
HOW CAN WE WORK BEST WITH EACH OF YOU?