



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: RES 21-096, **Version:** 1

Adopt a Resolution to:

- a. Establish a Section 115 Pension Trust administered by Public Agency Retirement Services (PARS) and appointing the County Administrative Officer as the Plan Administrator; and
- b. Adopt the Monterey County Pension Liability Policy; and
- c. Authorize the Auditor-Controller and the County Administrative Office to post the necessary budget adjustments and accounting entries, including operating transfers to establish proper accounting and financial reporting mechanism for the Section 115 Pension Trust during FY2020-21 and FY2021-22, as appropriate; and
- d. Authorize and direct the Auditor-Controller to amend the FY 2020-21 Adopted Budget by increasing appropriations in the County Administrative Office's Other Financing Uses Budget Unit (001-1050-CAO017-8038) by \$8,038,138, financed by the release of the General Fund Compensated Absence Assignment (BSA 3115) for the operating transfer out to the Section 115 Pension Trust (4/5ths vote); and
- e. Cancel the General Fund Compensated Absence Assignment (BSA 3115) of \$8,038,138 in FY 2020-21 (4/5ths vote); and
- f. Authorize and direct the Auditor-Controller to transfer the FY 2020-21 ending reconciled balance in the UAL -PERS Unfunded Liability sub-BSA (2103), Payroll Revolving Fund (Fund 543) as an additional contribution to the newly established Section 115 Pension Trust.

RECOMMENDATION:

It is recommended that the Board of Supervisors adopt a Resolution to:

- a. Establish a Section 115 Pension Trust administered by Public Agency Retirement Services (PARS) and appointing the County Administrative Officer as the Plan Administrator; and
- b. Adopt the Monterey County Pension Liability Policy; and
- c. Authorize the Auditor-Controller and the County Administrative Office to post the necessary budget adjustments and accounting entries, including operating transfers to establish proper accounting and financial reporting mechanism for the Section 115 Pension Trust during FY2020-21 and FY2021-22, as appropriate; and
- d. Authorize and direct the Auditor-Controller to amend the FY 2020-21 Adopted Budget by increasing appropriations in the County Administrative Office's Other Financing Uses Budget Unit (001-1050-CAO017-8038) by \$8,038,138, financed by the release of the General Fund Compensated Absence Assignment (BSA 3115) for the operating transfer out to the Section 115 Pension Trust (4/5ths vote); and
- e. Cancel the General Fund Compensated Absence Assignment (BSA 3115) of \$8,038,138 in FY 2020-21 (4/5ths vote); and
- f. Authorize and direct the Auditor-Controller to transfer the FY 2020-21 ending reconciled balance in the UAL -PERS Unfunded Liability sub-BSA (2103), Payroll Revolving Fund (Fund 543) as an additional contribution to the newly established Section 115 Pension Trust.

SUMMARY:

Monterey County contracts with the California Public Employees' Retirement System (CalPERS) to provide retirement benefits for permanent County employees. Each year, the County receives actuarial valuation reports, identifying the employer contribution rates for the following year and the unfunded accrued liability (UAL). The UAL has grown significantly due to changes in wages, reduced earnings on investments, changes in demographics, and policy changes enacted by the CalPERS Board, such as reductions to the assumed discount rate and shorter amortization schedules for these liabilities.

The increase in the UAL results in the County's employer contribution rates increasing much more rapidly than the County's revenues. Based on the June 30, 2019 CalPERS valuation reports, published in July 2020, the UAL for Monterey County is \$762.5 million (\$501.2 million in the Miscellaneous plan and \$261.2 million in the Safety plan. With \$1.6 billion in assets in the Miscellaneous plan, the funded ratio is 75.7%. With \$485.3 million in assets in the Safety plan, the funded ratio is 65.0%.

Staff is requesting that the Board establish a Section 115 Pension Trust ("Pension Trust") for pension obligations with the Public Agency Retirement Services (PARS) to address the County's growing UAL. The initial investment for the Pension Trust will be \$8.0 million that currently resides in the General Fund Compensated Absence Assignment. Staff also recommends using the FY 2020-21 ending reconciled balance in the UAL-PERS Unfunded Liability sub-BSA (2103) in the Payroll Revolving Fund (Fund 543) as an additional contribution to the Pension Trust. Staff is also requesting the Board adopt a Pension Liability Policy to provide oversight and procedures for the administration of the Pension Trust.

DISCUSSION:

The County contracts with CalPERS to provide retirement benefits for permanent employees. Each year, the County receives actuarial valuation reports, identifying the employer contribution rates for the following year and the unfunded accrued liability (UAL). Currently, the County only contributes the actuarially determined required employer contribution amount that is actuarially determined in accordance with GASB Standard No. 68 and Actuarial Standards of Practice (ASOP) for its pension costs. If the ADC is paid on an ongoing basis, the County would fund both the normal cost for each year and amortize the UAL. The UAL has grown significantly due to changes in wages, reduced earnings on investments, changes in demographics, and policy changes enacted by the CalPERS Board. By establishing a Pension Trust, pursuant to IRS Code Section 115, the County will utilize an investment strategy more similar to that used by CalPERS, which is designed to provide annualized returns of 4-6%, depending on investment strategy. Funds held in the trust would only be available to fund future pension liabilities.

Staff analyzed the performance and fee structure of the top four entities that provide Section 115 trust services for pension in California and selected Public Agency Retirement Services (PARS) as the County's trust administrator. The selection was based on their experience with California public agencies and their competitive fee structure. Historically, PARS provides more investment opportunities and better overall returns. PARS will provide trust administration and consultation services, including recordkeeping, accounting, actuarial coordination, monitor contributions, process disbursements, and monitoring compliance. As partners to PARS, U.S. Bank will be the trustee, including the plan fiduciary and the custodian of the assets; HighMark Capital will be the investment manager.

The trust administration fees would be funded by the plan assets and based on the assets' value. Administrative fees paid to PARS range from twenty-five basis points for balances less than \$10.0 million to ten basis points for balances above \$50 million. Investment fees paid to U.S. Bank and HighMark Capital range from thirty-five basis points for balances less than \$5.0 million to ten basis points for balances above \$50 million.

To ensure ongoing oversight of the pension trust, staff recommends the Board adopt the attached Pension Liability Policy and appoint the County Administrative Officer as the Plan Administrator. Unlike the investment policy that governs the County Treasury, the Pension Trust is designated to address future liabilities and has unique risks and opportunities.

The County Administrative Office also recommends the release of the Compensated Absence Assignment, with a balance of \$8,038,138, to be transferred to the Pension Trust. During review of historical UAL charges to departments, the Auditor-Controller's Office notified the County Administrative Office about fund balance in the UAL-PERS Unfunded Liability account within the Payroll Revolving Fund. The Auditor-Controller's Office aims to close the account in FY 2020-21. The County Administrative Office recommends that the ending reconciled balance in the UAL-PERS Unfunded Liability account is transferred to the new Pension Trust.

OTHER AGENCY INVOLVEMENT:

The Budget Committee supported this recommendation at its May 26, 2021 meeting. The County Administrative Office prepared this report with input and review from the Auditor-Controller, Treasurer-Tax Collector, and County Counsel.

FINANCING:

The County will not pay any plan set-up fees for the creation of the pension trust with PARS. Ongoing fees after the trust is established would range from sixty basis points to twenty basis points based on the asset amount. PARS does not receive any compensation from investments or any commissions, or any other forms of compensation. Per the Pension Liability Policy, the initial contributions to the Pension Trust will be funded by the Board authorized Compensated Absence fund balance, and ongoing contributions will be funded through annual departmental charges.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The establishment of the Pension Trust adheres the Board's Administration Strategic Initiative by promoting the efficient and effective management of the County's pension liabilities.

- ☐ Economic Development
- ☒ Administration
- ☐ Health & Human Services
- ☐ Infrastructure
- ☐ Public Safety

Prepared by: Juan Pablo Lopez, Administrative Analyst, ext. 5091

Approved by: Ezequiel Vega, County Budget Director, ext. 3078

Approved by: Dewayne Woods, Assistant County Administrative Officer, ext. 5309

Attachments: Resolution with Exhibit A; PARS vs. CalPERS CERBT Net Performance Fee Analysis