



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 7

MEETING DATE: July 19, 2018

SUBJECT: Sacramento County's Request for Employer Contribution Prepayment for FY 2018-2019 and Final Reconciliation for FY 2017-2018

SUBMITTED FOR: Consent Deliberation and Action Receive and File

RECOMMENDATION

Staff recommends that the Board accept the payment of \$218,669,819 representing prepayment of the annual employer contributions for the County of Sacramento (County) for the 2018-2019 fiscal year, which includes the final amount underpaid for employer contributions in the 2017-2018 fiscal year including interest and is net of the amount of replacement benefit plan payments for calendar year 2017. Staff recommends that the Board approve the net prepayment amount of \$218,669,819 to be made on Friday, July 27, 2018, which coincides with the first pay day following the first full pay period that commences in July 2018.

PURPOSE

In the attached letter dated July 17, 2018, Ben Lamera, County Director of Finance, informed the Retirement Board that the County has elected to prepay employer contributions for the 2018-2019 fiscal year in the amount of \$217,633,510. Government Code Section 31582 permits the County to prepay its contributions to SCERS. The County has elected to prepay its employer contributions, and the Retirement Board has approved of this election for several years.

DISCUSSION

SCERS' retained actuary Segal Consulting (Segal) opined on the appropriate amount of the annual employer contribution prepayment for the 2018-2019 fiscal year based on estimated payroll provided by the County. In the attached letter dated June 19, 2018 from Segal, Andy Yeung has determined the employer contribution prepayment amount to be \$217,633,510.

As noted above, the County intends to offset \$483,454 for replacement benefit plan payments from its annual employer contribution prepayment, which is consistent with the treatment in

prior years. These payments were made by the County in calendar year 2017, and the County has provided a schedule which lists the detailed payments supporting this amount. The County also intends to add the underpaid contributions of \$1,413,606 from FY 2017-2018 based on the final reconciliation, including interest of \$106,157.

The net cash settlement amount to be paid to SCERS is summarized as follows:

Prepayment of Employer Contributions for FY 2018-2019	\$217,633,510
Less: Replacement Benefit Plan Payments for Calendar Year 2017	- 483,454
Plus: Final Underpayment of Employer Contributions for FY 2017-2018	+1,413,606
Plus: Interest on Final Underpayment of Employer Contributions for FY 2017-2018	+106,157
Final Net Payment to be made from the County to SCERS on July 27, 2018	\$218,669,819

BACKGROUND

In order to prepay employer contributions, the employer must provide an estimate of its annual payroll to Segal. An overstated payroll estimate will lead to an overstated employer contribution prepayment amount and vice versa. Based on a final reconciliation, the payroll estimate that the County provided to Segal for the 2017-2018 fiscal year was too low, which resulted in a final employer contribution underpayment to SCERS in the amount of \$1,413,606 for FY 2017-2018. Interest on the underpayment was calculated to be \$106,157.

In addition, the County intends to offset \$483,454 in replacement benefit plan payments from its annual employer contribution prepayment. As a reminder, the replacement benefit plan was established by the County to pay earned benefits above the annual benefit payment limit imposed upon SCERS by federal tax law. The County is entitled to offset these payments against future employer contributions to SCERS, because the County had already contributed to SCERS for the benefits that it was required to pay under the replacement benefit plan.

ATTACHMENTS

- Letter from Ben Lamera dated July 17, 2018

Prepared by:

Reviewed by:

/S/

/S/

Kathryn T. Regalia
Chief Operations Officer

Eric Stern
Chief Executive Officer

Department of Finance

Ben Lamera
Director



County of Sacramento

Divisions

Administration
Auditor-Controller
Consolidated Utilities Billing & Service
Investments
Tax Collection & Business Licensing
Treasury

July 17, 2018

Board of Retirement
Sacramento County Employees'
Retirement System
980 Ninth Street, 19th Floor
Sacramento, CA 95812

Dear Board Members:

The County of Sacramento (the County) elected to prepay its Normal and Unfunded Actuarial Accrued Liability (UAAL) retirement contributions to the Sacramento County Employees' Retirement System (SCERS) for Fiscal Year 2017-18. The prepayment was made in accordance with the methodology provided by your consulting actuary and approved by your Board on March 10, 1994.

In accordance with the prepayment methodology, the County estimated its Fiscal Year 2017-18 payroll base to be approximately \$905,839,000. The County then determined and applied an average Normal retirement contribution rate of 11 percent and an average UAAL retirement contribution rate of 9.53 percent to the payroll base in arriving at a total prepayment amount of \$179,652,905 for Fiscal Year 2017-18. This amount was paid to SCERS on July 28, 2017.

During the course of Fiscal Year 2017-18, the County applied the Normal and UAAL employer retirement contribution rates to each biweekly pay period to derive the contribution payment which would have been made had the County not prepaid the contribution. This amount was then discounted by the factors provided to the County by your Board's consulting actuary to determine the actual prepayment amount. The total actual discounted payments through pay period 14 were \$181,066,511.

Based on the enclosed schedule (Attachment 1), the \$181,066,511 was used in "truing up" the required year-end prepaid contribution which resulted in an under-contribution of \$1,413,606. This under-contribution plus additional interest of \$106,157 is a total of \$1,519,763, which will be applied to the Fiscal Year 2018-19 prepayment to SCERS on July 27, 2018.

Finally, the County will reduce the Fiscal Year 2018-19 prepayment in the amount of \$483,454 (Attachment 2) for the payments made by the County for the Sacramento County Replacement Benefits Plan pursuant to the Memorandum of Understanding approved by your Board with Resolution No. 2006-13.

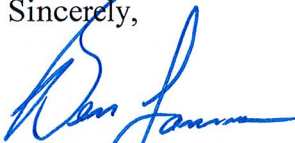
The discounted Normal employer contribution for Fiscal Year 2018-19 is \$113,968,378, based on a Normal cost contribution rate of 12.61%. The discounted UAAL cost for Fiscal Year 2018-19 is \$103,665,132 based on a contribution rate of 11.47%. Your consulting actuary established a total prepayment for Fiscal Year 2018-19 (Attachment 3) of \$217,633,510. The total prepayment to be made on July 27, 2018, is

therefore \$218,669,819 consisting of the prepayment for 2018-19 of \$217,633,510 plus \$1,519,763 for the Fiscal Year 2017-18 settlement and interest less \$483,454 for the Replacement Benefits Plan payments.

I understand that discussion of this prepayment of the Normal and UAAL retirement contributions will be held during your Board of Retirement meeting on July 19, 2018.

If you have any further questions regarding the accounting for the estimated or required normal retirement contributions, please contact Poonam Aujla at (916) 874-4997.

Sincerely,



Ben Lamera
Director of Finance

Attachments

cc: Nancy Newton, Assistant County Executive, County of Sacramento
Eric Stern, Chief Executive Officer, SCERS
David Villanueva, Deputy County Executive, County of Sacramento
Britt Ferguson, Chief Fiscal Officer, County of Sacramento

Attachment 1

Retirement Contributions / Recoveries
Normal, UAAL (Unfunded Actuarial Accrued Liability) and
Actual Contributions/Recoveries through July 13, 2018
and Calculation of Overpayment/Under Recovery
For Fiscal Year 2017-18

		A	B	A+B
		Total	Total	Overall
		Normal	UAAL	Total
DATE	Payday	Contributions	Contributions	
07/28/17	PP 15	3,813,303.77	3,392,740.87	7,206,044.64
08/11/17	PP 16	3,795,947.13	3,382,398.50	7,178,345.63
08/25/17	PP 17	3,786,108.42	3,376,402.05	7,162,510.47
09/08/17	PP 18	3,776,514.55	3,368,175.39	7,144,689.94
09/22/17	PP 19	3,767,378.53	3,355,246.44	7,122,624.97
10/06/17	PP 20	3,756,588.87	3,347,411.59	7,104,000.46
10/20/17	PP 21	3,750,541.31	3,352,475.05	7,103,016.36
11/03/17	PP 22	3,738,835.08	3,341,671.85	7,080,506.93
11/17/17	PP 23	3,728,315.45	3,331,361.45	7,059,676.90
12/01/17	PP 24	3,805,690.59	3,407,737.98	7,213,428.57
12/15/17	PP 25	3,712,853.64	3,327,347.82	7,040,201.46
12/29/17	PP 26	3,659,901.26	3,278,900.23	6,938,801.49
01/12/18	PP 1	3,714,324.58	3,329,333.59	7,043,658.17
01/26/18	PP 2	3,666,195.76	3,304,691.71	6,970,887.47
02/09/18	PP 3	3,636,148.12	3,283,087.21	6,919,235.33
02/23/18	PP 4	3,608,806.79	3,257,944.53	6,866,751.32
03/09/18	PP 5	3,631,596.71	3,277,558.67	6,909,155.38
03/23/18	PP 6	3,618,419.48	3,277,116.92	6,895,536.40
04/06/18	PP 7	3,561,336.68	3,222,142.77	6,783,479.45
04/20/18	PP 8	3,562,552.10	3,224,932.82	6,787,484.92
05/04/18	PP 9	3,543,428.66	3,212,226.72	6,755,655.38
05/18/18	PP 10	3,534,745.65	3,201,403.31	6,736,148.96
06/01/18	PP 11	3,601,512.27	3,265,821.40	6,867,333.67
06/15/18	PP 12	3,519,507.39	3,192,170.70	6,711,678.09
06/29/18	PP 13	3,485,006.05	3,164,526.50	6,649,532.55
07/13/18	PP 14	3,564,952.88	3,251,173.19	6,816,126.07
Totals		95,340,511.72	85,725,999.26	181,066,510.98

	Calculation of over payment/under recovery		
	Normal	UAAL	Total SCERS
Prepayment	\$ 96,258,255.00	\$ 83,394,650.00	\$ 179,652,905.00
Less: Actual Contributions	(95,340,511.72)	(85,725,999.26)	(181,066,510.98)
Calculated overpayment (underpayment)	\$ 917,743.28	\$ (2,331,349.26)	\$ (1,413,605.98)
Interest on underpayment			\$ (106,157.00)
Total overpayment/(underpayment)			\$ (1,519,762.98)

Replacement Benefits Plan payments - 2017
Recorded as gross pay to retiree

Attachment 2

		August	September	October	November	December	2017 Totals
	Plan/Tier						
Retiree 1	Safety 2	1,021.92	12,016.96	12,016.96	12,016.96	12,016.96	49,089.76
Retiree 2	Safety 2	3,563.64	13,055.99	13,055.99	13,055.99	13,055.99	55,787.60
Retiree 3	Safety 1		2,284.47	13,652.52	13,652.52	13,652.52	43,242.03
Retiree 4				7,183.13	12,222.43	12,222.43	31,627.99
Retiree 5				11,934.45	16,187.15	16,187.15	44,308.75
Retiree 6				900.33	11,841.17	11,841.17	24,582.67
Retiree 7				5,379.13	18,115.71	18,115.71	41,610.55
Retiree 8				382.87	8,412.29	8,412.29	17,207.45
Retiree 9				8,876.81	9,861.46	9,861.46	28,599.73
Retiree 10					6,925.89	9,935.24	16,861.13
Retiree 11					8,414.94	10,054.40	18,469.34
Retiree 12					2,118.47	9,058.57	11,177.04
Retiree 13						2,633.81	2,633.81
Retiree 14						2,540.91	2,540.91
Retiree 15						4,410.93	4,410.93
Retiree 16						9,013.23	9,013.23
Retiree 17						5,838.09	5,838.09
Retiree 18						8,247.23	8,247.23
Retiree 19						5,413.13	5,413.13
Retiree 20						2,421.36	2,421.36
Retiree 21						3,506.09	3,506.09
Retiree 22						3,098.38	3,098.38
Retiree 23						4,548.06	4,548.06
Retiree 24						2,460.93	2,460.93
Retiree 25						8,129.26	8,129.26
Retiree 26						7,847.05	7,847.05
Retiree 27						6,711.54	6,711.54
Retiree 28						13,654.69	13,654.69
Retiree 29						3,961.08	3,961.08
Retiree 30						4,262.07	4,262.07
Retiree 31						523.91	523.91
Retiree 32						1,668.13	1,668.13

Monthly Totals 4,585.56 27,357.42 73,382.19 132,824.98 245,303.77

RBP Gross Payments Total for 2017 483,453.92



100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8283 www.segalco.com

Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary
ayeung@segalco.com

June 19, 2018

Mr. Eric Stern
Chief Executive Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814-2738

Re: Prepayment of Employer Contributions by Sacramento County for Fiscal Year 2018-2019

Dear Eric:

As requested by the System, we have calculated the discounted contribution amount for Sacramento County for fiscal year 2018-2019.

We understand that the County wants to prepay their fiscal year 2018-2019 employer contributions in a lump sum on July 27, 2018. In an e-mail dated November 9, 2017 sent by the County to your office, the County provided projected payrolls of \$721,594,000 and \$211,904,000 for Miscellaneous and Safety, respectively, for 26 pay periods in fiscal year 2018-2019. We then took the total payroll of \$933,498,000 and calculated a biweekly payroll of \$35,903,769. Using the \$35,903,769 of biweekly payroll together with the tier-by-tier employer rates calculated using the proportion of payroll for members in each category as reported in the data for the June 30, 2017 valuation, we determined the prepayment required to be \$217,633,510. Our calculations are provided in the enclosed table. The effective discount factor, which is calculated by taking the discounted contribution amount and dividing by the undiscounted contribution amount, is about 96.82%.

Any differences between the biweekly projected and actual payroll should be tracked by the System. Those differences should be used by the System to "true-up" the contributions at the end of the fiscal year.

I am a member of the American Academy of Actuaries and I meet the qualification requirements to render the actuarial opinion contained herein.

Please let us know if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Andy Yeung". The signature is written in a cursive, flowing style.

Andy Yeung

MYM/bbf

cc: Kathryn T. Regalia, CPA

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SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Prepayment of County Employer Contributions

Fiscal Year 2018-2019
ASSUMES PAYMENT ON July 27, 2018

Discount Rate = 7.00%

Biweekly Pay Period	Biweekly Payroll Estimate	Normal Cost Contribution Rate	UAAL Contribution Rate	Discount Factor	Total Biweekly Normal Cost	Total Biweekly UAAL Contrib.	Total Biweekly Contribution
					Discounted	Discounted	Discounted
1	\$35,903,769	12.61%	11.47%	1.0000000	\$4,527,465	\$4,118,162	\$8,645,627
2	\$35,903,769	12.61%	11.47%	0.9974011	\$4,515,699	\$4,107,460	\$8,623,159
3	\$35,903,769	12.61%	11.47%	0.9948090	\$4,503,963	\$4,096,785	\$8,600,748
4	\$35,903,769	12.61%	11.47%	0.9922236	\$4,492,258	\$4,086,138	\$8,578,396
5	\$35,903,769	12.61%	11.47%	0.9896450	\$4,480,583	\$4,075,519	\$8,556,102
6	\$35,903,769	12.61%	11.47%	0.9870730	\$4,468,939	\$4,064,927	\$8,533,866
7	\$35,903,769	12.61%	11.47%	0.9845077	\$4,457,324	\$4,054,362	\$8,511,686
8	\$35,903,769	12.61%	11.47%	0.9819491	\$4,445,740	\$4,043,826	\$8,489,566
9	\$35,903,769	12.61%	11.47%	0.9793972	\$4,434,187	\$4,033,317	\$8,467,504
10	\$35,903,769	12.61%	11.47%	0.9768518	\$4,422,663	\$4,022,834	\$8,445,497
11	\$35,903,769	12.61%	11.47%	0.9743131	\$4,411,169	\$4,012,379	\$8,423,548
12	\$35,903,769	12.61%	11.47%	0.9717810	\$4,399,705	\$4,001,952	\$8,401,657
13	\$35,903,769	12.61%	11.47%	0.9692555	\$4,388,271	\$3,991,551	\$8,379,822
14	\$35,903,769	12.61%	11.47%	0.9667365	\$4,376,866	\$3,981,178	\$8,358,044
15	\$35,903,769	12.61%	11.47%	0.9642241	\$4,365,491	\$3,970,831	\$8,336,322
16	\$35,903,769	12.61%	11.47%	0.9617182	\$4,354,146	\$3,960,512	\$8,314,658
17	\$35,903,769	12.61%	11.47%	0.9592188	\$4,342,830	\$3,950,219	\$8,293,049
18	\$35,903,769	12.61%	11.47%	0.9567259	\$4,331,543	\$3,939,953	\$8,271,496
19	\$35,903,769	12.61%	11.47%	0.9542395	\$4,320,286	\$3,929,713	\$8,249,999
20	\$35,903,769	12.61%	11.47%	0.9517595	\$4,309,058	\$3,919,500	\$8,228,558
21	\$35,903,769	12.61%	11.47%	0.9492860	\$4,297,859	\$3,909,314	\$8,207,173
22	\$35,903,769	12.61%	11.47%	0.9468190	\$4,286,690	\$3,899,154	\$8,185,844
23	\$35,903,769	12.61%	11.47%	0.9443583	\$4,275,549	\$3,889,021	\$8,164,570
24	\$35,903,769	12.61%	11.47%	0.9419040	\$4,264,438	\$3,878,914	\$8,143,352
25	\$35,903,769	12.61%	11.47%	0.9394561	\$4,253,355	\$3,868,833	\$8,122,188
26	\$35,903,769	12.61%	11.47%	0.9370146	\$4,242,301	\$3,858,778	\$8,101,079
Annual Payroll	\$933,498,000						
Rate		12.61%	11.47%				
Contribution Amount		\$117,714,097	\$107,072,220		\$113,968,378	\$103,665,132	\$217,633,510
		(Undiscounted)	(Undiscounted)		(Discounted)	(Discounted)	(Discounted)
Discount Percentage					96.82%	96.82%	

⁽¹⁾ These rates were calculated by taking the Tier specific contribution rates adopted by the Board for the June 30, 2017 valuation, the projected payroll of \$721,594,000 for Miscellaneous members and \$211,904,000 for Safety members as provided by the County for this prepayment calculation and compositing them using the proportion of the County's payroll in those Tiers within the Miscellaneous and Safety groups as reported for the June 30, 2017 valuation.