



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 5

MEETING DATE: July 19, 2017

SUBJECT: Sacramento County's Request for Employer Contribution Prepayment for FY 2017-2018 and Final Reconciliation for FY 2016-2017

SUBMITTED FOR: ___ Consent X Deliberation and Action ___ Receive and File

RECOMMENDATION

Staff recommends that the Board accept the payment of \$176,580,794 representing prepayment of the annual employer contributions for the County of Sacramento (County) for the 2017-2018 fiscal year, which is net of the final amount overpaid for employer contributions in the 2016-2017 fiscal year and net of the amount of replacement benefit plan payments for calendar year 2016. Staff recommends that the Board approve the net prepayment amount of \$176,580,794 to be made on Friday, July 28, 2017, which coincides with the first pay day following the first full pay period that commences in July 2017.

PURPOSE

In the attached letter dated July 14, 2017, Ben Lamera, County Director of Finance, informed the Retirement Board that the County has elected to prepay employer contributions for the 2017-2018 fiscal year in the amount of \$179,652,905. 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 2017-2018 fiscal year based on estimated payroll provided by the County. In the attached letter dated July 7, 2017 from Segal, Andy Yeung has determined the employer contribution prepayment amount to be \$179,652,905.

As noted above, the County intends to offset \$437,040 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 2016, and the County

has provided a schedule which lists the detailed payments supporting this amount. The County also intends to offset the overpaid contributions of \$2,635,071 from FY 2016-2017 based on the final reconciliation.

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

Prepayment of Employer Contributions for FY 2017-2018	\$179,652,905
Less: Replacement Benefit Plan Payments for Calendar Year 2016	- 437,040
Less: Final Overpayment of Employer Contributions for FY 2016-2017	-2,635,071
Final Net payment to be made from the County to SCERS on July 28, 2017	\$176,580,794

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 2016-2017 fiscal year was too high, which resulted in a final employer contribution overpayment to SCERS in the amount of \$2,635,071 for FY 2016-2017. Due to federal tax law considerations, SCERS cannot refund the final reconciliation amounts overpaid by the County, and instead, this overpayment must be offset against the prepayment that the County plans to make for the 2017-2018 fiscal year.

In addition, the County intends to offset \$437,040 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, County Director of Finance dated July 14, 2017

Prepared by:

Reviewed by:

Kathryn T. Regalia
Chief Operations Officer

Annette St. Urbain
Interim Chief Executive Officer



Department of Finance

Ben Lamera
Director

Divisions

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

County of Sacramento

July 14, 2017

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 (Retirement System) for Fiscal Year 2016-17. 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 2016-17 payroll base to be approximately \$877,994,000. The County then determined and applied an average Normal retirement contribution rate of 12.47 percent and an average UAAL retirement contribution rate of 9.52 percent to the payroll base in arriving at a total prepayment amount of \$186,513,835 for Fiscal Year 2016-17. This amount was paid to the Retirement System on July 31, 2016.

During the course of Fiscal Year 2016-17, 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 \$183,670,694.

Based on the enclosed schedule (Attachment 1), the \$183,670,694 was used in "truing up" the required year-end prepaid contribution which resulted in an over-contribution of \$2,843,141. In addition, an employee recognition contribution overpayment relating to Fiscal Year 2015-16 REO 008 employees, totaling \$208,070, was also used in "truing up" the required year-end prepaid contribution. These over-contributions and adjustments totaling \$2,635,071, will be off-set against the Fiscal Year 2017-18 prepayment to the Retirement System on July 28, 2017.

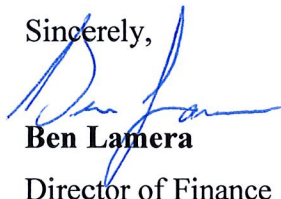
Finally, the County will reduce the Fiscal Year 2017-18 prepayment in the amount of \$437,040 (Attachment 2) for the payments made by the County for the Sacramento County Replacement Benefits Plan pursuant to the Memorandum of Understanding approved by your Board with Resolution No. 2006-13.

The discounted Normal employer contribution for Fiscal Year 2017-18 is \$96,258,255, based on a Normal cost contribution rate of 11.00%. The discounted UAAL cost for Fiscal Year 2017-18 is \$83,394,650 based on a contribution rate of 9.53%. The System's consulting actuary established a total prepayment for Fiscal Year 2017-18 (Attachment 3) of \$179,652,905. The total prepayment to be made on July 28, 2017, is therefore \$176,580,794 consisting of the prepayment for 2017-18 of \$179,652,905 less \$2,635,071 for the Fiscal Year 2016-17 settlement, less \$437,040 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, 2017.

If I can answer any questions regarding the accounting for the estimated or required normal retirement contributions, please call me at 874-7450.

Sincerely,



Ben Lamera
Director of Finance

Attachments

cc: Navdeep Gill, County Executive, County of Sacramento
Annette St. Urbain, Interim Chief Executive Officer, SCERS
David Villanueva, Deputy County Executive, County of Sacramento
Britt Ferguson, Chief Fiscal Officer, County of Sacramento

Retirement Contributions / Recoveries
Normal,UAAL (Unfunded Actuarial Accrued Liability) and
Actual Contributions/Recoveries through July 13, 2017
and Calculation of Overpayment/Under Recovery
For Fiscal Year 2016/17

		A	B	A+B
		Total	Total	Overall
		Normal	UAAL	Total
DATE	Payday	Contributions	Contributions	
07/29/16	PP 15	3,939,486.72	3,265,163.14	7,204,649.86
08/12/16	PP 16	3,984,572.71	3,306,089.72	7,290,662.43
08/26/16	PP 17	3,960,151.77	3,288,264.38	7,248,416.15
09/09/16	PP 18	3,820,274.35	3,206,892.73	7,027,167.08
09/23/16	PP 19	3,946,411.29	3,276,595.25	7,223,006.54
10/07/16	PP 20	3,938,148.07	3,271,339.45	7,209,487.52
10/21/16	PP 21	3,917,448.28	3,252,365.92	7,169,814.20
11/04/16	PP 22	3,907,489.17	3,244,365.94	7,151,855.11
11/18/16	PP 23	3,929,448.84	3,255,450.21	7,184,899.05
12/02/16	PP 24	3,986,566.69	3,313,884.51	7,300,451.20
12/16/16	PP 25	3,924,005.14	3,260,215.39	7,184,220.53
12/30/16	PP 26	3,826,414.86	3,177,811.20	7,004,226.06
01/13/17	PP 1	3,901,862.33	3,245,786.75	7,147,649.08
01/27/17	PP 2	3,863,328.65	3,207,690.05	7,071,018.70
02/10/17	PP 3	3,844,046.91	3,193,136.78	7,037,183.69
02/24/17	PP 4	3,841,308.85	3,193,426.69	7,034,735.54
03/10/17	PP 5	3,836,589.72	3,177,235.13	7,013,824.85
03/24/17	PP 6	3,810,867.92	3,174,942.93	6,985,810.85
04/07/17	PP 7	3,777,931.73	3,147,817.43	6,925,749.16
04/21/17	PP 8	3,815,738.23	3,167,475.61	6,983,213.84
05/05/17	PP 9	3,748,583.45	3,129,755.69	6,878,339.14
05/19/17	PP 10	3,757,086.88	3,138,473.21	6,895,560.09
06/02/17	PP 11	3,812,502.59	3,182,843.55	6,995,346.14
06/16/17	PP 12	3,714,102.13	3,099,700.45	6,813,802.58
06/30/17	PP 13	3,677,283.88	3,069,037.73	6,746,321.61
07/14/17	PP 14	3,778,826.59	3,164,456.00	6,943,282.59
Totals		100,260,477.75	83,410,215.84	183,670,693.59

Calculation of over payment/under recovery

	Normal	UAAL	Total SCERS
Prepayment	\$105,767,508.00	\$ 80,746,327.00	\$ 186,513,835.00
Less: FY 2015-16 contribution overpayment relating to REO 008 employees	(208,069.80)		(208,069.80)
Less: Actual Contributions	(100,260,477.75)	(83,410,215.84)	(183,670,693.59)
Calculated overpayment	\$ 5,298,960.45	\$ (2,663,888.84)	\$ 2,635,071.61

Replacement Benefits Plan payments - 2016

Recorded as gross pay to retiree

Attachment 2

		August	September	October	November	December	2016 Totals
Retiree 1	Safety 2	1,347.75	11,781.33	11,781.33	11,781.33	11,781.33	48,473.07
Retiree 2	Safety 2	3,861.88	12,799.99	12,799.99	12,799.99	12,799.99	55,061.84
Retiree 3	Misc 1			7,010.55	11,866.44	11,866.44	30,743.43
Retiree 4	Misc 1			10,887.48	15,715.68	15,715.68	42,318.84
Retiree 5	Safety 2			1,309.20	11,608.99	11,608.99	24,527.18
Retiree 6	Misc 1			4,386.07	17,588.07	17,588.07	39,562.21
Retiree 7	Safety 2			680.85	8,247.34	8,247.34	17,175.53
Retiree 8	Safety 1			8,234.20	9,574.23	9,574.23	27,382.66
Retiree 9	Safety 2				7,162.72	9,740.43	16,903.15
Retiree 10	Safety 2				8,619.68	9,857.25	18,476.93
Retiree 11	Safety 1				838.74	13,277.95	14,116.69
Retiree 12	Safety 1				1,606.03	8,794.73	10,400.76
Retiree 13	Safety 1					1,549.39	1,549.39
Retiree 14	Safety 2					2,825.33	2,825.33
Retiree 15	Safety 2					4,815.51	4,815.51
Retiree 16	Safety 1					8,245.38	8,245.38
Retiree 17	Misc 3					6,316.60	6,316.60
Retiree 18	Misc 1					7,360.50	7,360.50
Retiree 19	Safety 1					4,775.04	4,775.04
Retiree 20	Safety 2					2,604.27	2,604.27
Retiree 21	Safety 2					4,814.73	4,814.73
Retiree 22	Safety 1					7,424.97	7,424.97
Retiree 23	Safety 1					7,179.20	7,179.20
Retiree 24	Misc 1					5,692.26	5,692.26
Retiree 25	Misc 1					12,314.43	12,314.43
Retiree 26	Safety 1					3,698.67	3,698.67
Retiree 27	Misc 3					3,550.31	3,550.31
Retiree 28	Safety 1					2,268.40	2,268.40
Retiree 29	Misc 1					1,874.16	1,874.16
Retiree 30	Misc 1					1,560.36	1,560.36
Retiree 31	Misc 1					3,027.82	3,027.82

Monthly Totals	5,209.63	24,581.32	57,089.67	117,409.24	232,749.76
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RBP Gross Payments Total for 2016

437,039.62



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

July 7, 2017

Ms. Annette St. Urbain
Interim 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 2017-2018

Dear Annette:

As requested by the System, we have calculated the discounted contribution amount for Sacramento County for fiscal year 2017-2018.

We understand that the County wants to prepay their fiscal year 2017-2018 employer contributions in a lump sum on July 28, 2017. In an e-mail dated June 30, 2017 sent by the County to your office, the County provided projected payrolls of \$700,939,000 and \$204,900,000 for Miscellaneous and Safety, respectively for 26 pay periods in fiscal year 2017-2018. We then took the total payroll of \$905,839,000 and calculated a biweekly payroll of \$34,839,962. Using the \$34,839,962 of biweekly payroll together with the tier-by-tier employer rates calculated using the proportion of payroll for members in each categories as reported in the data for the June 30, 2016 valuation, we determined the prepayment required to be \$179,652,905. 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 96.60%.

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 cursive script that reads "Andy Yeung".

Andy Yeung

MYM/gxk

cc: Kathryn T. Regalia, CPA

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SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Prepayment of County Employer Contributions

Fiscal Year 2017-2018
ASSUMES PAYMENT ON July 28, 2017

Discount Rate = 7.50%

Biweekly Pay Period	Biweekly Payroll Estimate	Normal Cost Contribution Rate	UAAL Contribution Rate	Discount Factor	Total Biweekly Normal Cost Discounted	Total Biweekly UAAL Contrib. Discounted	Total Biweekly Contribution Discounted
1	\$34,839,962	11.00%	9.53%	1.0000000	\$3,832,396	\$3,320,248	\$7,152,644
2	\$34,839,962	11.00%	9.53%	0.9972223	\$3,821,751	\$3,311,026	\$7,132,777
3	\$34,839,962	11.00%	9.53%	0.9944523	\$3,811,135	\$3,301,829	\$7,112,964
4	\$34,839,962	11.00%	9.53%	0.9916900	\$3,800,549	\$3,292,657	\$7,093,206
5	\$34,839,962	11.00%	9.53%	0.9889354	\$3,789,992	\$3,283,511	\$7,073,503
6	\$34,839,962	11.00%	9.53%	0.9861884	\$3,779,464	\$3,274,390	\$7,053,854
7	\$34,839,962	11.00%	9.53%	0.9834491	\$3,768,966	\$3,265,295	\$7,034,261
8	\$34,839,962	11.00%	9.53%	0.9807174	\$3,758,497	\$3,256,225	\$7,014,722
9	\$34,839,962	11.00%	9.53%	0.9779932	\$3,748,057	\$3,247,180	\$6,995,237
10	\$34,839,962	11.00%	9.53%	0.9752767	\$3,737,646	\$3,238,161	\$6,975,807
11	\$34,839,962	11.00%	9.53%	0.9725677	\$3,727,264	\$3,229,166	\$6,956,430
12	\$34,839,962	11.00%	9.53%	0.9698662	\$3,716,911	\$3,220,197	\$6,937,108
13	\$34,839,962	11.00%	9.53%	0.9671722	\$3,706,587	\$3,211,252	\$6,917,839
14	\$34,839,962	11.00%	9.53%	0.9644856	\$3,696,291	\$3,202,332	\$6,898,623
15	\$34,839,962	11.00%	9.53%	0.9618066	\$3,686,024	\$3,193,437	\$6,879,461
16	\$34,839,962	11.00%	9.53%	0.9591350	\$3,675,785	\$3,184,566	\$6,860,351
17	\$34,839,962	11.00%	9.53%	0.9564708	\$3,665,575	\$3,175,721	\$6,841,296
18	\$34,839,962	11.00%	9.53%	0.9538140	\$3,655,393	\$3,166,899	\$6,822,292
19	\$34,839,962	11.00%	9.53%	0.9511646	\$3,645,239	\$3,158,103	\$6,803,342
20	\$34,839,962	11.00%	9.53%	0.9485226	\$3,635,114	\$3,149,331	\$6,784,445
21	\$34,839,962	11.00%	9.53%	0.9458878	\$3,625,016	\$3,140,582	\$6,765,598
22	\$34,839,962	11.00%	9.53%	0.9432604	\$3,614,947	\$3,131,859	\$6,746,806
23	\$34,839,962	11.00%	9.53%	0.9406404	\$3,604,906	\$3,123,160	\$6,728,066
24	\$34,839,962	11.00%	9.53%	0.9380275	\$3,594,893	\$3,114,484	\$6,709,377
25	\$34,839,962	11.00%	9.53%	0.9354220	\$3,584,907	\$3,105,833	\$6,690,740
26	\$34,839,962	11.00%	9.53%	0.9328237	\$3,574,950	\$3,097,206	\$6,672,156
Annual Payroll	\$905,839,000						
Rate		11.00%	9.53%				
Contribution Amount		\$99,642,291	\$86,326,458		\$96,258,255	\$83,394,650	\$179,652,905
		(Undiscounted)	(Undiscounted)		(Discounted)	(Discounted)	(Discounted)
Discount Percentage					96.60%	96.60%	

⁽¹⁾ These rates were calculated by taking the Tier specific contribution rates adopted by the Board for the June 30, 2016 valuation, the projected payroll of \$700,939,000 for Miscellaneous members and \$204,900,000 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, 2016 valuation.