El Paso County Retirement Plan

2015 Budget Hearing
Board of County Commissioners
November 4, 2014

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Presentation Outline

- Plan History and Dynamics
- Recent History
  - Board Efforts and Impacts
- Current Status of Plan
- Future of Plan
  - Actuarial Projections
  - Proposed Plan Changes

Plan History

- Established in 1967
- Organized under a 401(a) IRS Code at the Federal Level and Under C.R.S. with the State of Colorado
- EPC Retirement Plan is a Defined Benefit Plan
- Separate Legal Entity from EPC
- 5 Member Voting Board
  - 2 Appointed from BoCC
  - 2 Employee Elected
  - 1 Statutory- County Treasurer
- 2 Associate Members (non-voting)

Plan Dynamics

- Includes 5 Employers
  - El Paso County
  - 4th Judicial District
  - Public Health
  - Pikes Peak Library District
  - El Paso County Retirement Plan
- Mandatory Participation for all Full-Time employees
- Fixed Contribution Rate of 16%
  - (8% Employer/8% Employee)

Plan Dynamics (cont'd)

- 8 Year Vesting Period
  - Effective for new hires after 1/1/2013
- Benefits Determined Using Accrual Calculation for Each Year Worked as a Percentage of Pay
- Eligibility for Retirement determined by Number of Years Worked + Age (includes Rule of 75)

Plan Dynamics (cont'd) Statistics for 2014

- Plan Participants 4,161
  - ❖Active 2,480
  - ❖Retired 1,207
  - ❖Beneficiaries 99
  - ❖Vested Termination 375
- Average Employee Entry Age 36.6
- Active Employee Average Age 44.9
- Retiree Average Age 68.4
- Retiree Average Monthly Benefit $1,390

Recent History of the Plan

Recent History - Board Efforts
Actuarial Impacts of Plan Changes Made

<u>2009:</u>

- As a result of the Great Recession, the Board identified a projected decrease in funded status dropping to 43.5% by 2023 at current contribution and benefits levels
- The Board's actions and recent investment gains have improved the projected funded status by 20 percentage points to 63.8% in 2023
- However, the funded status of the plan was still too low

<u>2010-2012:</u>

- Increased employee annual contributions from 6.0% to 7.5%

Recent History - Board Efforts
Plan Changes Made To Improve Funded Status

2014:

- Increased employee annual contributions to 8.0%
  - Employer match of 8.0% (Total 16%)
- Plan heard the call of the Board of County Commissioners, and took action to address their concerns with respect to being good stewards of Plan assets:
  - New Buck system went live on May 1, and has saved an FTE equivalent due to efficiencies gained. Staffing costs reduced by approx $45,000 annually to office budget by going from 3 staff to 2 staff office.
  - RFP’s being submitted this month for accounting services and bank trustee services. Retirement Board will issue 2 RFP’s annually for this year and the next two years to demand best value for money spent on third party services. This will guarantee we get the lowest price for the value of the services bid. We will cycle those RFP’s on ALL Plan services every 5 years to make sure we keep up to date on latest pricing and services.
  - Plan continues to weigh cost vs benefit on all its investment choices, and makes sure that if an investment costs more, the return it generates is superior to other alternatives.

PEERS	FEE in BPS	Rate of Return 2013	Rate of Return 2012
ADAMS COUNTY	55.00	13.87%	12.16%
ARAPAHOE COUNTY	61.20	13.20%	12.40%
PUEBLO COUNTY	56.70	12.75%	12.14%
EL PASO COUNTY	57.65	14.64%	12.54%

Recent History - Board Efforts
Plan Changes Made To Improve Funded Status

2013:

- Reduced yearly multiplier from 2.22% to 2.0% for all employees
- Eliminated 3-tiered multiplier for all service after 2012
- Increased vesting from 5 years to 8 years for new employees
- Maximum benefit decreased 75% to 60% for new employees

Current Status of the Plan

Current Status of Plan
Experience Analysis

- Performed an Experience Analysis using historical data
- The results allowed the Board to better align future projections with recent demographic experience
  - Updated the mortality tables
  - Updated termination and salary increase assumptions based on years of service versus age
  - Updated retirement assumption
  - Retained an 8% rate of return
  - Retained an open 30 year period for amortizing Unfunded Liability
- The projections for 2014 and beyond are now in greater alignment with our actual experience. This allows for greater accuracy in determining funding changes needed to get the Plan to our goal.

Current Status of Plan

- Board recognizes additional action has to occur to address the unfunded deficit
- Review All Components of the Plan:
  - ✓ Contribution Rate / Cash Flow
  - ✓ Investment Returns/Appropriateness
  - ✓ Plan Benefits
  - ✓ Plan Expenses
  - ✓ Plan Design

Current Status of Plan
Annual Cash Flow Equation

2014 Calculation:

Contributions (16%)	$19,710,000
Less: Benefits	($ 23,025,000)
Less: Expenses	($ 531,000)
Annual Cash Flow	**($ 3,846,000)**

**Current contribution rate does not cover annual plan expenses*

Future of the Plan

Future of Plan
Step 1 – Determine Funding Goal

- Funded Percentage Goal?
  - In 2007, our Funded Percentage was 90%
  - Current Funded Percentage is approximately 70%
    - prior to the impact of adopted assumption changes
  - Funded Percentage expected to increase to 74% by 2018
    - prior to the impact of adopted assumption changes
  - Benchmarks:
    - ERISA Minimum is 80% to avoid benefit restrictions
    - Other Colorado Public Plans-
      - Pueblo County - 61.5%
      - Adams County - 51.5%
      - Arapahoe County - 64.7%
      - Weld County - 65.7%
- Timeframe to accomplish?

Future of Plan
Step 1 – Determine Funding Goal

- Discussion includes setting both a long term and short term goal
- If we set the short term goal at 10 years, and we set the percentage goal for that time at a 75% minimum, the current differential is 7% from our funded status of 68%
- Table below shows how various time periods are impacted for various goals
- Since studies in this presentation all have 30 year impacts, you would have to refer to the 30 year column for each 10 year difference you wanted to reach as your goal

Funded Percentage Goal in 10 years	Current Funded Percentage	Differential over 10 Years	20 Year Impacts Needed to fund 10 year goal	30 Year Impacts needed to fund 10 year goal
75%	68%	7%	14%	28%
80%	68%	12%	24%	48%
90%	68%	22%	44%	88%
100%	68%	32%	64%	128%

Future of Plan
Step 2 – Potential Plan Changes*

1. Known Future Impacts
   - Sheriff’s Dedicated Funding
   - Potential to Hire 132 FTEs
     - Actuarial information is looking at 2013 data ONLY, which doesn’t represent the full impact
     - Based on 2013 data, we estimate additional favorable impacts of :
       - $500,000 additional contributions annually to the Plan
       - This reduces the Unfunded Liability by 6.6%*

**All impacts depicted are using 30 year impact on open, level percent of pay assumptions. Further, effective date of changes are assumed to be January 1, 2015 or later for all plan changes discussed*

Future of Plan
Step 2 – Potential Plan Changes

2. Impact on Funded Percentage in 30 years due to an Increase in Contributions
   a) From 8.0% to 8.5% = 15.6%^
   b) From 8.0% to 9.0% = 31.2%^
   c) From 8.0% to 9.5% = 46.8%^

- Annual Dollar Impact (EE & ER at 0.5%) = $ 1,280,000
- Annual El Paso County Budget Impact (ER only at 0.5%) = $ 602,000
- Annual Pikes Peak Library Budget Impact (ER only at 0.5%) = $ 38,000

^*30 year impacts estimated from 2013 Buck valuation projections*

Future of Plan
Step 2 – Potential Plan Changes

3. Reduce Multiplier**
   a) From 2.0% to 1.9% = 4.2%
   b) From 2.0% to 1.8% = 8.4%
   c) From 2.0% to 1.7% = 12.6%

***Impacts over 30 years based on September 26, 2011 study from Buck*

Sample Employee - $50,000 salary avg
Hired in 2005
Total Impact on Retirement Benefit Monthly & Annually

Total Years Worked	2.00%	1.90%	1.80%	1.70%
10 Years	N/A	N/A	N/A	N/A
Monthly Impact	N/A	N/A	N/A	N/A
20 Years - Annual Impact	N/A	($500)	($1,000)	($1,500)
Monthly Impact	N/A	($42)	($84)	($125)
30 Years - Annual Impact	N/A	($1,000)	($2,000)	($3,000)
Monthly Impact	N/A	($84)	($167)	($250)

Future of Plan
Step 2 – Potential Plan Changes

4. Plan Sponsor reimburses Plan Admin Budget
   a) $527,000 = 6.9%^^
5. Plan Sponsor Pays Investment Management Costs
   a) $500,000 = 6.6%^^
   b) $1,000,000 = 13.2%^^
   c) $1,500,000 = 19.7%^^

^^Above 30 year estimated from Buck 2013 valuation projections

Future of Plan
Step 2 – Potential Plan Changes

6. Rule of 75 – Three Options***
   1. Move New Employees^ ONLY to a New Rule:
      a) From Rule of 75 to Rule of 78 = 1.5%
      b) From Rule of 75 to Rule of 80 = 2.6%
      c) From Rule of 75 to Rule of 85 = 5.0%

****All are 30 year impacts estimated from September 26, 2011 Buck study*

^Employees hired after 2014

Future of Plan
Step 2 – Potential Plan Changes

7. Minimum Age Options for Rule of 75^^^
   - Normal Retirement Age is 62
   - Currently no minimum age for Rule of 75, but for New Employees* ONLY, if we:
     a) Establish Minimum Age of 50 = 0.8%
     b) Establish Minimum Age of 53 = 1.6%
     c) Establish Minimum Age of 55 = 2.1%
     d) Establish Minimum Age of 57 = 2.6%

^^30 year impacts are estimated from September 26, 2011 Buck study

**Employees hired after 2014*

Future of Plan
Relevant County Comparisons

Comparison of New Hire Treatment under other County Plans in Colorado

County	Funded % (2013)	Unfunded Liability ($ millions)	Contribution Rate (EE)	Benefit Multiplier	Avg Salary Figure	Vesting	Special Early Rule	Assets ($ millions)	Active Employees
Adams	51.5%	$187.7	8.5% (9% in 2015)	1.75%	Career Avg	10 years	Rule of 80, min 55	$199.0	1,753
Arapahoe	64.7%	$131.6	7.50%	1.85%	High 5	8 years	Rule of 85, min 60	$241.0	1,834
El Paso	67.2%	$135.9	8.00%	2.00%	High 3	8 years	Rule of 75, no min	$278.6	2,354
Pueblo	61.5%	$68.6	8.25%	1.85%	High 5	10 years	Rule of 80, min 55	$109.8	1,047
Weld	65.7%	$72.4	9.00%	Variable Annuity	High 3	5 years	Not available	$136.9	1,069

Future of Plan
Other Options Researched

Moving the Defined Benefit Plan to a Defined Contribution Plan

- **Advantages**
- ✓ Decreases liability to County for employee pensions for future service
- ✓ More predictable employer costs to the County over time
- ✓ Shift of risks from County to employee
- **Disadvantages**
- ✓ Cannot just liquidate or stop a DB plan. There would need to be a “soft freeze”, where no new employees could gain access to the DB Plan
- ✓ Having two plans (frozen DB and new DC) at the same time would increase cost and complexity of administration
- ✓ Employer Contributions for newly hired employees are helping fund the existing Unfunded Liability; this is more difficult if new employees enter a DC plan
- ✓ Liquidity needs get exponentially higher as more retirees start their pensions, and fewer employees are left to pay into the DB Plan for those pensions. Similar liquidity crunch as to what Social Security system is facing in the coming decade.

What do the Employees Say?

- Undertook employee survey of all active employees in the month of July. Over 1,093 responses received!
- Held 15 Town Hall meetings in person between July 14 & July 21. Plan gave employees this same overview as to what was possible to keep the plan viable and solvent for the foreseeable future.
- Employees would MUCH rather see a contribution increase than a decrease in any benefit levels.
- Majority of employees would prefer that new hires meet more stringent requirements for eligibility for a County pension. This would mean working longer for the same benefit if you were a new hire.
- Majority of employees see no urgent need for action at this time.

Summary

- The Plan is underfunded, and this needs to be addressed soon to keep the Plan viable and sustainable for all County employees and retirees
- There is no simple solution; each of these proposals has merit and was carefully researched and vetted with our actuaries
- This presentation was meant to only get the ball rolling over the remainder of 2014 with the Retirement Board. There was a lot of information to think about and consider, including the Employee Survey, before a vote on any changes can happen
- Buck Consultants gave their Annual Valuation presentation on May 19th before the Board. The Plan is now funded to 69.5%, so a slight improvement over the 67.2% last year.

Summary

Therefore, to get to xx% in 10 Years:

	Options Presented	Percentage Impacts 10 Years	20 Years	30 Years
2 a)	Contributions to 8.5%	2.7%	7.4%	15.6%
2 b)	Contributions to 9.0%	5.4%	14.8%	31.2%
2 c)	Contributions to 9.5%	8.1%	22.3%	46.8%
3 a)	Reduce Multiplier to 1.9%	1.1%	2.2%	4.2%
3 b)	Reduce Multiplier to 1.8%	2.1%	4.3%	8.4%
3 c)	Reduce Multiplier to 1.7%	3.2%	6.5%	12.6%
4 a)	County reimburse Admin Exp	1.2%	3.3%	6.9%
5 a)	County reimburse $500,000 Inv Mgr Exp	1.2%	3.1%	6.6%
5 b)	County reimburse $1,000,000 Inv Mgr Exp	2.3%	6.2%	13.2%
5 c)	County reimburse $1,500,000 Inv Mgr Exp	3.4%	9.4%	19.7%
6 a)	Rule of 75 to Rule of 78, new hires only	0.4%	0.8%	1.5%
6 b)	Rule of 75 to Rule of 80, new hires only	0.7%	1.3%	2.6%
6 c)	Rule of 75 to Rule of 85, new hires only	1.3%	2.5%	5.0%
7 a)	Rule of 75, new hires ONLY, with min age 50	0.2%	0.4%	0.8%
7 b)	Rule of 75, new hires ONLY, with min age 53	0.4%	0.8%	1.6%
7 c)	Rule of 75, new hires ONLY, with min age 55	0.5%	1.1%	2.1%
7 d)	Rule of 75, new hires ONLY, with min age 57	0.7%	1.3%	2.6%

Next Steps

1. April: Presentation of Potential Plan Changes
2. May: Discuss How to Proceed with Employee Survey
3. June: Perform Employee Survey regarding potential changes
4. July: Discuss Employee Survey Results
5. August - November: Further Discussion or Possible Action regarding Potential Plan Changes

Disclaimers

1. *All presented numbers are on a 30 year impact basis. Other impacts for shorter time periods have been estimated based on past performance of the Plan*
2. *Quoted impacts are known from prior studies, but said studies are over 2.5 years old. Getting more accurate data from our actuaries would cost thousands of dollars more, depending on the studies requested*
3. *Further 30 year impact studies, if undertaken with Buck Consultants, for more current data may not give any clearer picture in a material way as to the nature and impact of possible options chosen to narrow the Plan's funding gap*
4. *The views and conclusions of this presentation are in no way representative of the views and opinions of Buck Consultants*
5. *This presentation is to merely begin discussions on possible Plan Changes, and is not meant in ANY way to be the final determination of the Plan or its Board*