2019 Budget Presentation Retirement Office

Thomas Pfeifle/Executive Director

Chris Long/Chairman, Board of Retirement

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Mission Statement

- Provide secure and competitive retirement benefits through a professionally managed organization. Deliver quality service and communication to employers, members, retirees, beneficiaries, and the public.

Strategic Plan Goals, Operating Indicators, Capital Projects

- Strategic Goal – achieve funded ratio of 80% by year 2024.
- Goal is dependent on assumed rate of return utilized, performance of assets within the marketplace, inflation expectations for the foreseeable future, as well as plan demographics.

Plan Background/Statistics

- 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 Background/Statistics (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 (currently 2.0%)
- Eligibility for Retirement determined by Number of Years Worked + Age (includes Rule of 75)

Plan Background/Statistics (cont'd)

- Plan Participants 4,781
  - Active 2,693
  - Retired 1,521
  - Beneficiaries 109
  - Vested Termination 458
- Average Employee Entry Age 36.4
- Active Employee Average Age 44.2
- Retiree Average Age 69.3
- Retiree Average Benefit $1,536

CURRENT STATE OF THE PLAN

- Valuations fell sharply post 2008 downturn, but have been increasing since 2013:

Actuarial Valuation Date	Funded Ratio (Percentage)
1/1/2007	87.70%
1/1/2008	91.40%
1/1/2009	75.40%
1/1/2010	79.80%
1/1/2011	75.80%
1/1/2012	71.30%
1/1/2013	67.20%
1/1/2014	69.50%
1/1/2015	70.90%
1/1/2016	70.00%
1/1/2017	70.20%
1/1/2018	71.20%

Current State of the Plan (cont'd)

- Retirement 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
- Experience Analysis just completed for 2018 made some recommendations to close the funding gap.

Current State of the Plan (cont'd)

Annual Cash Flow Equation (Projected*)

	2016	2017	2018*
Contributions	$23,073,000	$24,468,000	$26,500,000
Add: County Plan Expense Reimbursement		$450,000	$1,050,000
Less: Benefits	($29,760,000)	($31,962,000)	($40,000,000)
Less: Expenses	($686,000)	($787,900)	($685,000)
Annual Cash Flow (before Investment Returns)	($7,373,000)	($7,831,900)	($13,135,000)
Add: Investment Returns	$28,054,000	$45,685,000	$8,900,000
Annual Cash Flow (including Investment Returns)	$20,681,000	$37,853,100	($4,235,000)

Current State of the Plan (cont'd)

- As you can see from the previous slide, the cash flow situation for the Plan is negative without investment returns, but as a mature plan in existence for over 50 years, not unexpected or alarming
- Benefits will continue to increase as more members vest and meet their retirement "target" and finally retire
- The maximum number of retirees receiving a monthly payment is projected to plateau in the year 2034. This means annual increases to benefit levels between now and then
- The expense reimbursements in the previous slide provided by the BoCC are essential to keep improving the funded status of the Plan. These reimbursements make a difference and are much appreciated!

FUTURE OF THE PLAN

Future of the Plan

Where do we go from here?

- Plan funding is stable, but is still short of 80% target for 2024.
- Plan is becoming more mature, and will hit the maximum number of retirees and payments in 2034.
- Retirement Board is reviewing a number of assumption and design changes for 2018 & beyond:
  - Lower assumed rate from 8.0% to 7.5% (drops funded ratio from 71.2% to 67.5%)
  - Lower inflation rate from 3.5% to 2.5% (raises funded ratio to 67.8%)
  - Changes in investment strategies and asset classes

Future of the Plan (cont’d)

Experience Analysis just completed for 2018

- Actuaries recommended a number of changes that the Board adopted at their September 27 meeting:
  - Change to MP -2017 Mortality Table from RP-2000 Table to better reflect experience and increasing life expectancies (adopted)
  - Change expectation for reduced and unreduced retirements based on past experience in 2017 (adopted)
  - Change expectation as to how many vested participants will withdraw contributions versus stay in plan and obtain a monthly benefit (adopted)
  - Change expectation as to how many non-vested participants will obtain a refund based on more recent experience (adopted)
  - None of the above materially impact the funding of the Plan or its liabilities

Future of the Plan (cont'd)

Experience Analysis just completed for 2018

- Further changes to the assumed rate of return and inflation rate may need to be made to better reflect the Plan's overall financial picture more accurately:
  - Dropping the assumed rate of return on Plan assets would increase the overall liability of the Plan and lower its funded status from 71.2% to 67.5%
  - Dropping the expected inflation rate from 3.5% to 2.5% would reduce SOME of the liability increase from the assumed rate lowering, and raise the funded status of the Plan back to 67.8%
  - While the Retirement Board is the ultimate decision making body with respect to Plan assumptions and design changes, the Board recognizes its responsibilities to inform and advise the BOCC prior to taking any actions
  - The immediate impact of any decision made by the Retirement Board on the County Budget is ZERO, since Retirement Board decisions do not mandate any action be taken by the Board of County Commissioners
  - The Retirement Board has a number of tools in its toolbox with which to address the funded status and the financial health of the Plan, and would only come to the BOCC should all other options be exhausted. The Retirement Board can cut benefits structures, raise vesting requirements, lower accrual rates for each year worked, raise high 3 average salary on which to base benefit payments to high 5 average or some other number, or raise contribution rates on employees or new hires. All of these would be explored PRIOR to coming to the County for more funding

Summary

- The Plan is still funded below levels necessary for sustainability
- Consultant Annual Valuation presentation to Board confirms funding at 71.2% is a slight improvement over 70.2% last year
- Actuarial calculation indicates required funding at 16.2%. County plan is currently at 16.0% employee and employer contribution combined
- Plan performance is improving, but with equity markets cooling it will become more important to meet or exceed the 16.2% contribution required by actuarial calculations
- County expense reimbursement to the Plan out of Annual Operating Budget is CRITICAL in helping the Plan and its Board meet its obligations to Plan participants

Questions?