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2021 Budget Presentation

El Paso County Retirement Plan

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**All numbers are pulled from publicly available sources, such as the most recent annual actuarial reports and plan documents, unless otherwise noted, and may not reflect the current standing or status of the respective plans*

Financial Analysis

Plan Balance Sheet

Plan Assets are all the investments held by the Plan. The valuation of Plan Assets is simply their market value.

Plan Liabilities are the present-value of all future promises made to employees. *The valuation of Plan Liabilities is complex and depends on many assumptions, none of which may turn out to be true through time.*

Unfunded Liability = Plan Liabilities – Plan Assets

Funded Ratio = Plan Assets / Plan Liabilities

Plan Assets		Plan Liabilities	
Market value of all Plan investments as of YE 2019	**$401 mil**	Actuarial present-value of all projected retirement Payments as of YE 2019	**$604 mil**
Unfunded Liability: $203 mil ***Funded Ratio: 66%***			

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Financial Analysis

Pension Liabilities Are Liabilities of County

The pension promises made to County employees are first-and-foremost liabilities of Plan. But, ultimately, they are obligations of the County. As an extreme illustration, if Plan Assets were to fall to zero, the County would still be required to make all the retirement payments promised to vested employees.

Growing unfunded pension liabilities are a concern for many state and municipal governments around the country and should be a concern for El Paso County as well. The average public pension has a Funding Ratio (Assets / Liabilities) of somewhere between 70-80%. The Funding Ratio of the El Paso County Retirement Plan, at 66%, is in the lower quartile of public plans.

Standard & Poors credit ratings for El Paso County are yet unaffected, but S&P is monitoring the growth in the unfunded liabilities of the Plan.

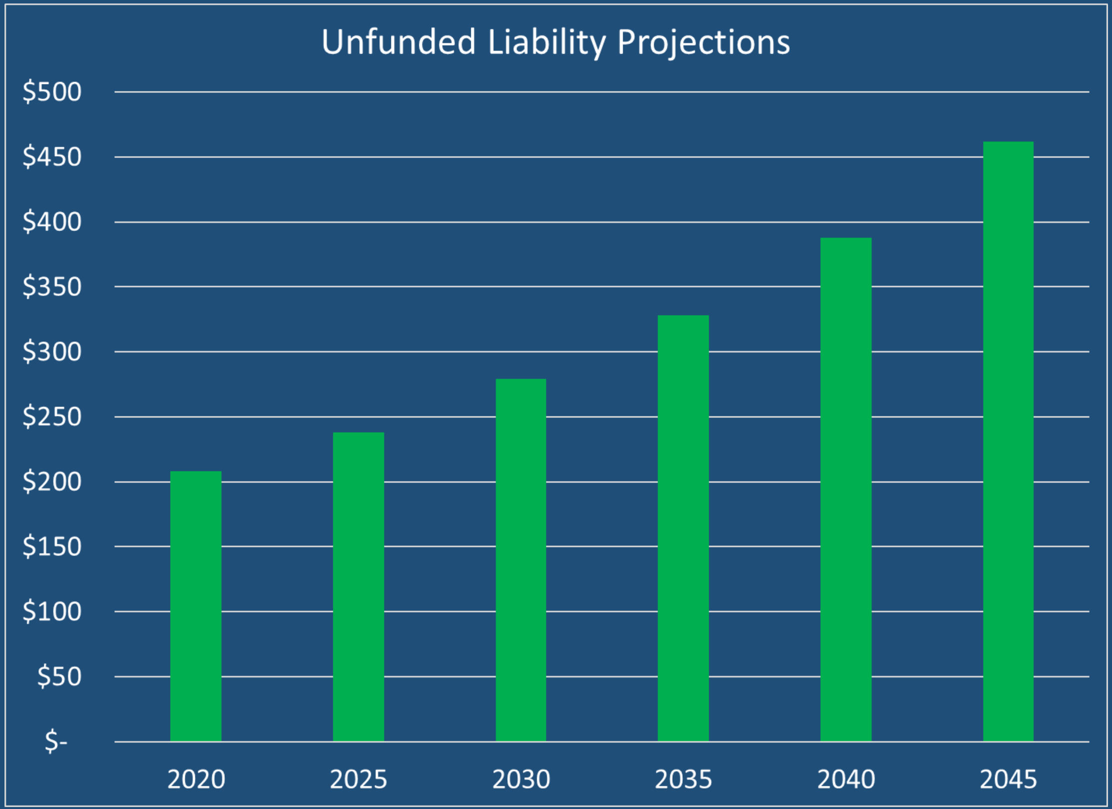
Financial Analysis

Unfunded Liability Growth

At YE 2019, Plan Unfunded Liabilities were $203 mil.

The Plan actuaries project that if we assume a long-term compounded growth rate of 7.5% on Plan Assets, the unfunded amount continues to grow significantly over time.

Under these assumptions, the unfunded liabilities are expected to grow at an ever-increasing rate: $6 mil / year between 2020-2025, but $15 mil / year between 2040-2045.



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Long-Term Sustainability

Unfunded Liability Projections

Without reducing benefits or otherwise changing the Plan, and assuming Plan assets earn 7.5% long-term returns, what would it take to bring the pension plan to a point where unfunded liabilities are zero in 25 years? It would require some combination of:

i. Increased employee/employer contribution rate of at least +2.6% and/or

ii. A cash contribution from the County of at least $6.6 mil each year for 25 years.

	2025	2030	2035	2040	2045
Total Liabilities (mil)	$717	$840	$974	$1,129	$1,306
Total Assets (mil)	$479	$561	$646	$741	$844
Unfunded Liabilities (mil)	$238	$279	$328	$388	$462
Funded Ratio	*67%*	*67%*	*66%*	*66%*	*65%*

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El Paso County Funding Plan

5-Year Strategy

The Preliminary Balanced Budget for El Paso County for 2021 includes an increase of $650,000 from unrestricted funds. This, combined with the respective restricted funding, will provide a total of $1,050,000 of funding to the Retirement Plan. For 2021, this is amount is included as a flat payment to the retirement plan (not as a percentage contribution).

Included in the 5-Year Financial Roadmap is graduated funding to get the Plan closer to meeting the actuarial-required contributions. Over the next several months, the Retirement Plan will complete a thorough analysis of options for plan funding and will provide that update to the BoCC.

	2021 (PBB)	2022 (Roadmap)	2023 (Roadmap)	2024 (Roadmap)	2025 (Roadmap)
Increase from Unrestricted Funds	$650,000	$1,300,000	$1,950,000	$2,600,000	$3,000,000
Total Increase Including Restricted Funds	$1,050,000	$2,100,000	$3,150,000	$4,200,000	$5,250,000
Approximate Increase to Contribution - %	0.67%	1.31%	1.91%	2.50%	3.02%

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Summary

Key Takeaways Regarding Plan Economics

Our Actuarial Valuation Report indicates that, under specific modeling assumptions, the Plan's Unfunded Liabilities will continue to grow at an ever-increasing rate over time.

We are quite unlikely to "grow" our way out of the problem with investment returns. Nor will minor changes to Plan benefits result in any meaningful impact on the expected trajectory of Unfunded Liabilities. In the near-term, the Plan is requesting a cash contribution from the County. However, this is only a stop-gap measure.

Regarding longer-term sustainability, The Board of Directors of the Retirement Plan is currently analyzing the Plan with the objective of making a recommendation to the County in March 2021. The Board will recommend some combination of the following that will halt the growth of unfunded liabilities and bring the Plan to long-term stability:

i) Increased employee / employer contributions

ii) Continued cash contributions from the County

iii) Changes to Plan Benefits