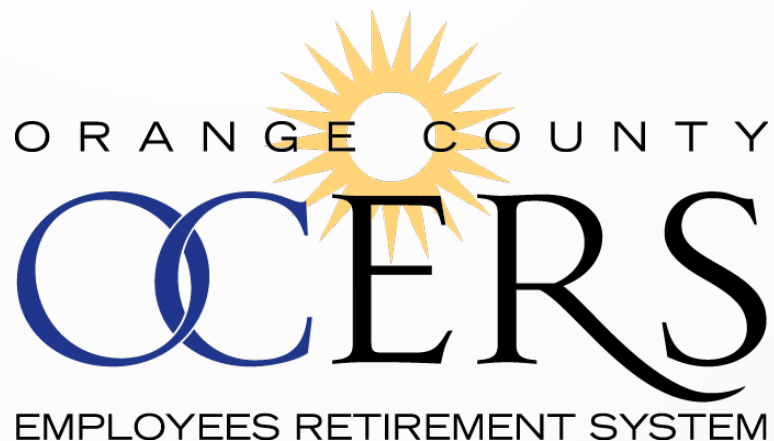


2011



OC Sanitation District

Presented on September 11, 2019 by

Steve Delaney, Chief Executive Officer

Molly Murphy, Chief Investment Officer

Brenda Shott, Assistant CEO, Finance & Internal Operations

- About OCERS
- Funding Policy
- Actuarial Assumptions
- Investments



With more than 45,600 member and nearly \$16 Billion in assets (12/31/18), OCERS is ranked 134 (P&I).

Who We Serve



- **CITY OF SAN JUAN CAPISTRANO**
- **COUNTY OF ORANGE**
- **ORANGE COUNTY CEMETERY DISTRICT**
- **ORANGE COUNTY CHILDREN & FAMILIES COMMISSION**
- **ORANGE COUNTY DEPARTMENT OF EDUCATION
(CLOSED TO NEW MEMBERS)**
- **ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**
- **ORANGE COUNTY FIRE AUTHORITY**
- **ORANGE COUNTY IN-HOME SUPPORTIVE SERVICES PUBLIC
AUTHORITY**
- **ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION**
- **ORANGE COUNTY PUBLIC LAW LIBRARY**
- **ORANGE COUNTY SANITATION DISTRICT**
- **ORANGE COUNTY TRANSPORTATION AUTHORITY**
- **SUPERIOR COURT OF CALIFORNIA, COUNTY OF ORANGE**
- **TRANSPORTATION CORRIDOR AGENCIES**
- **UCI MEDICAL CENTER AND CAMPUS
(CLOSED TO NEW MEMBERS)**

The County Employees' Retirement Law of 1937 established Defined Benefit Pension plans

- ▶ Retirement system is **a trust fund separate** from the county.
- ▶ State Constitution vests the **Retirement Board with exclusive authority** for management of the retirement system.
- ▶ **Independent and balanced position** with respect to stakeholders is critical to preserving credibility of the retirement system.
- ▶ Systems feature **local control** through nine-member Retirement Boards comprised of key stakeholders.
- ▶ Systems **administer pension benefits** that are established by the county or local governments.

Differences Between the 1937 Act Systems and the State Systems

- The 1937 Act systems operate under a **different set of rules** governing what counts as compensation for the purposes of determining retirement benefits.
- Systems generally **do not administer health care benefits** for active employees or retirees.
 - Some systems provide a subsidy toward retiree health care costs.
- **Plan members or stakeholders can express concerns** to the local retirement system (as opposed to a larger, statewide entity) and to local officials or labor organizations.
- **Administrative costs limited** to 0.21% of plan liabilities.
- **PEPRA leveled the playing field.**

OCERS Board of Retirement – 10 Trustees

4

Trustees
Appointed by
Board of
Supervisors

No more than
1 may be
sitting
Supervisor

1

Trustee
Elected by
Retirees

2

Trustees
Elected by
Safety
Members

1 full member
1 alternate
Member

Represent
different
departments

2

Trustees
elected by
General
Members

1

Ex Officio
Trustee

County
Treasurer
Or Deputy
Designated

OCERS GOVERNANCE



Chuck Packard -Chair
 1/1/2017 – 12/31/2019



Roger Hilton –Vice Chair
 7/1/2018 – 06/30/2021



Russel Baldwin
 01/01/2017 – 12/31/2019



David Ball
 01/01/2017 – 12/31/2019



Shawn Dewane
 01/01/2017 – 12/31/2019



Frank Eley
 01/01/2017 – 12/31/2019



Shari Freidenrich
 Ex-Officio



Wayne Lindholm
 01/01/2019 – 12/31/2021



Chris Prevatt
 01/01/2019 – 12/31/2021



Jeremey Vallone
 07/01/2018 – 06/30/2021

OCERS By The Numbers

Quick Facts

(For more details on retirees see pages 15–30)

Members & Employers

27,955
 active & inactive
 members

17,674
 retirees, beneficiaries
 & survivors

20
 Participating
 Employers

45,629
 total membership

Pension Averages

\$3,372
 monthly
 allowance for
 all General
 members and
 payees

\$6,245
 monthly
 allowance for
 all Safety
 members and
 payees

22
 average years
 of service for
 General
 members who
 retired in 2018

25
 average years
 of service for
 Safety members
 who retired in
 2018

61 years old
 average age at
 retirement for
 General members
 who retired in
 2018

55 years old
 average age at
 retirement for
 Safety members
 who retired in
 2018



Pension Contributions

Pension Contributions

- **Sum of contributions & interest pay for pension benefits.**

Funding Sources for Benefits (OCERS' net additions for the period 1998 – 2018)

50¢

34¢

16¢



Net Investment Income

This includes earnings from stocks, bonds, alternatives, real estate and other investments, minus fees.

Employer Contributions

This is the money paid to OCERS from employers for pension benefits.

Employee Contributions

This is the money active employees pay into the fund for future benefits

Pension Contributions

- **Three key processes in determining Pension Contributions:**
 - **Adopting a Funding Policy**
 - **Adopting Actuarial Assumptions**
 - **Developing an Investment Portfolio**

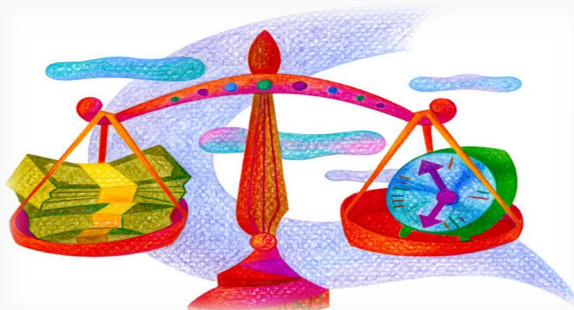


OCERS AND CALPERS – Funding Policy

Policy Provision	OCERS	CalPERS OLD	CalPERS New
Cost Method	Entry Age	Entry Age	Entry Age
Asset Smoothing	5 years	17 years	5 years
Amortization	20 years closed	30 year rolling	20 year closed
Contributions	Level % of Payroll	Level % of Payroll	Level Dollar

Actuarial Assumptions

- **Economic Assumptions**
 - how will market forces affect the cost of the plan?
- **Demographic Assumptions**
 - How will participant behavior affect the cost of the plan?



Actuarial Economic Assumptions

Assumption	OCERS	CalPERS
Rate of Return	7.0%	7.0% (phased in over 3 years for valuations as of June 30, 2016- June 30, 2019)
Inflation	2.75%	2.5%
Salary Increases	3.25%	2.75%

Actuarial Demographic Assumptions

- **When will an individual retire?**
- **How many will retire in a given year?**
- **How many will be disabled?**
- **Termination of Employment**
 - Refund of contributions?
- **Mortality**
 - Active/Retired

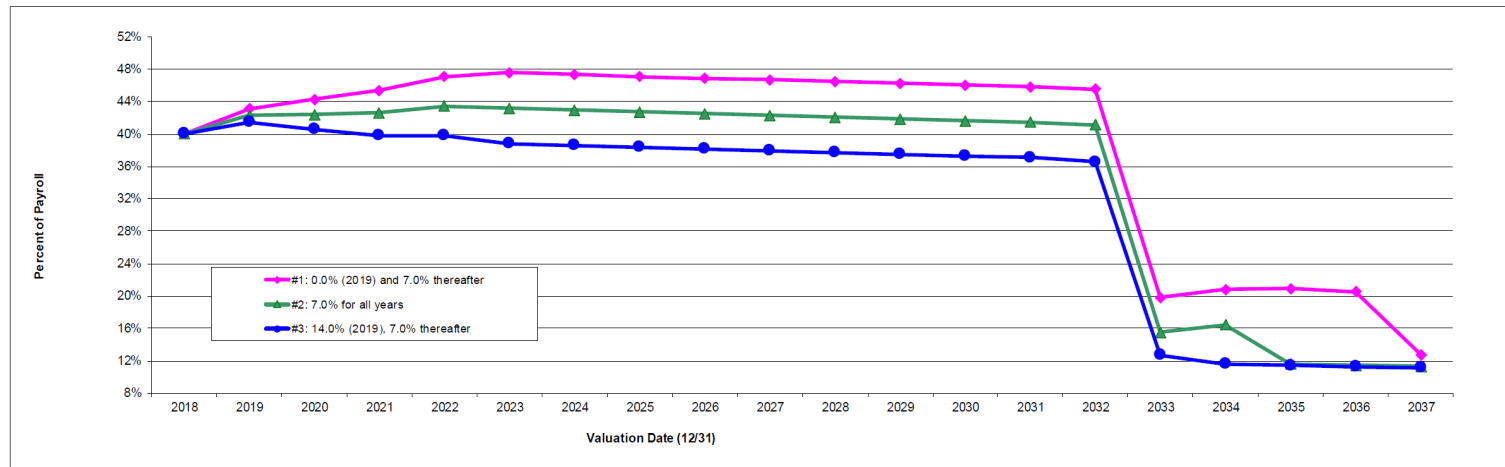
Actual experience which is less favorable than assumed. Such as:

- Higher salary increases
- Earlier retirement date(s)
- Lower death rates
- Lower rates of investment earnings
- Lower rates of non-death terminations
- Change in actuarial assumptions

**Experience is measured annually
Assumptions are updated triennially**

December 31, 2018 Valuation Where Are Rates Going?

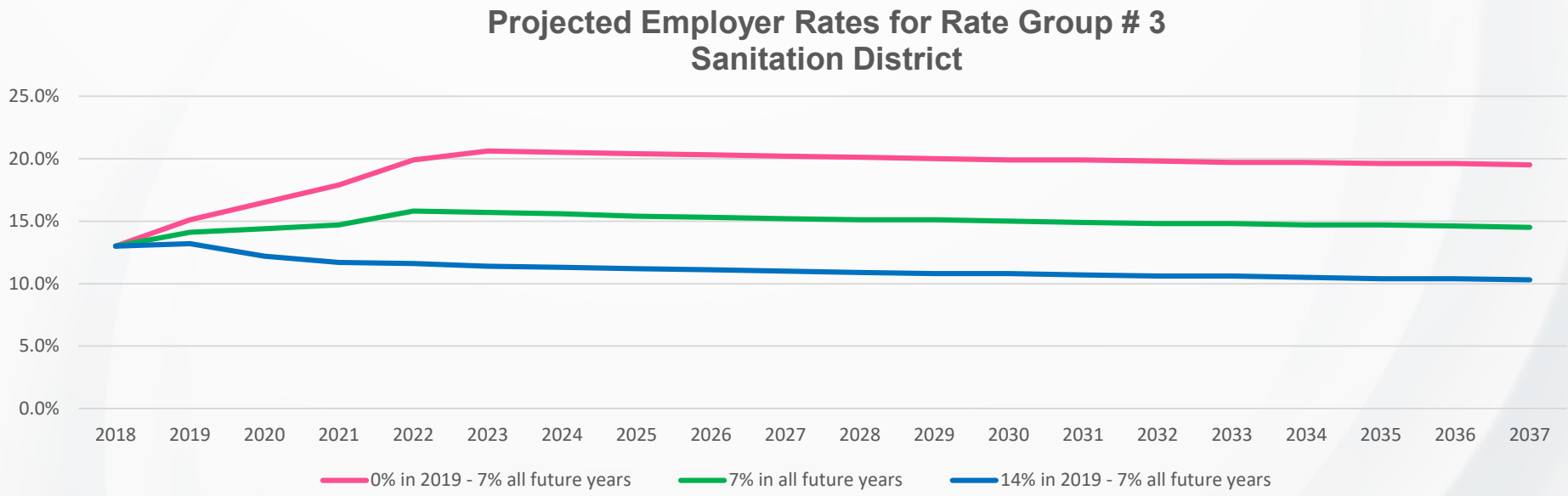
🖱️ Projected Employer Rates
 Aggregate Plan



Valuation Date (12/31)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
#1: 0.0% (2019) and 7.0% thereafter	40.0%	43.1%	44.3%	45.4%	47.1%	47.6%	47.3%	47.1%	46.9%	46.7%	46.5%	46.2%	46.0%	45.8%	45.5%	19.8%	20.8%	20.9%	20.5%	12.7%
#2: 7.0% for all years	40.0%	42.3%	42.4%	42.6%	43.5%	43.2%	43.0%	42.7%	42.5%	42.3%	42.1%	41.9%	41.7%	41.5%	41.1%	15.5%	16.5%	11.6%	11.4%	11.3%
#3: 14.0% (2019), 7.0% thereafter	40.0%	41.5%	40.6%	39.8%	39.8%	38.8%	38.6%	38.4%	38.1%	37.9%	37.7%	37.5%	37.3%	37.1%	36.6%	12.7%	11.6%	11.4%	11.3%	11.1%

A 20 Year Amortization Payment Plan

Where Are OC Sanitation Rates Going?



A 20 Year Amortization Payment Plan

INVESTMENTS

Saving To Pay That Benefit

The Board of Retirement is undertaking a savings task similar to that performed by many of you in saving for your kid's college education.



Invest for the Very Long Term

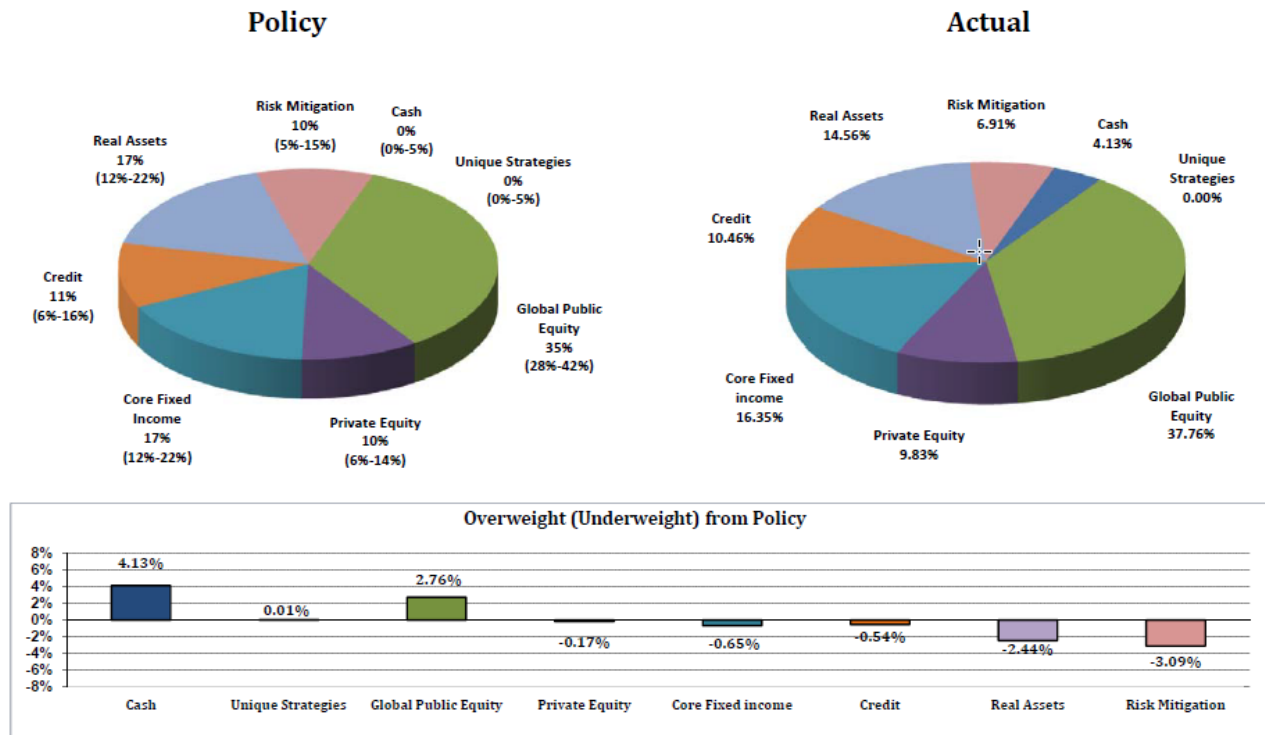
- **30 year horizon spanning employee careers**
- **22 years on average for General members who retired in 2018.**

How are investment decisions made?

- **Trustees oversee pensions and have a fiduciary obligation to ensure the plan is operating in the best interest of workers and retirees.**
- **OCERS hire professional asset managers to steer investments.**
- **OCERS maintains a balanced portfolio of stocks, bonds, alternatives (such as private equity, real estate, hedge funds) and cash. This is consistent with modern portfolio theory.**
- **Public pensions are prudent investors in both bear and bull markets.**

Diversification is a protection

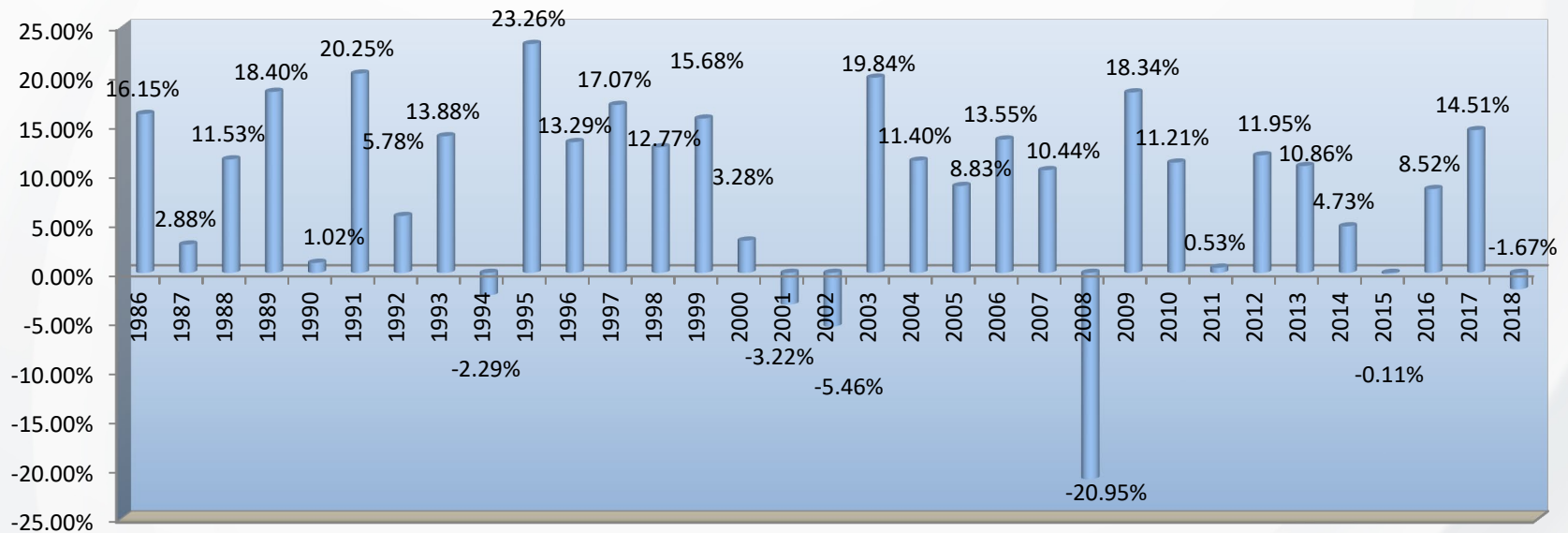
Asset Allocation as of June 30, 2019



Capital Group holds 14.00% of the EAFE portfolio in emerging equity, bringing the total emerging markets equity exposure to 7.11%. Loomis Sayles holds 6.01% of the High Yield portfolio in International Fixed Income, PIMCO holds 13.15% in the Total Return portfolio and 32.54% in the Unconstrained Bond portfolio, and Dodge & Cox, Longfellow and Schroders hold 0.00% bringing the total international fixed income exposure to 0.68%. Loomis Sayles holds 1.98% of the High Yield portfolio in Emerging Market Debt, PIMCO holds 1.70% in the Total Return portfolio and 9.67% in the Unconstrained Bond portfolio, Dodge & Cox holds 6.52%, and Longfellow and Schroders hold 0.00% bringing the total emerging market debt exposure to 2.73%.

OCERS Fund Earnings – How Did We Do?

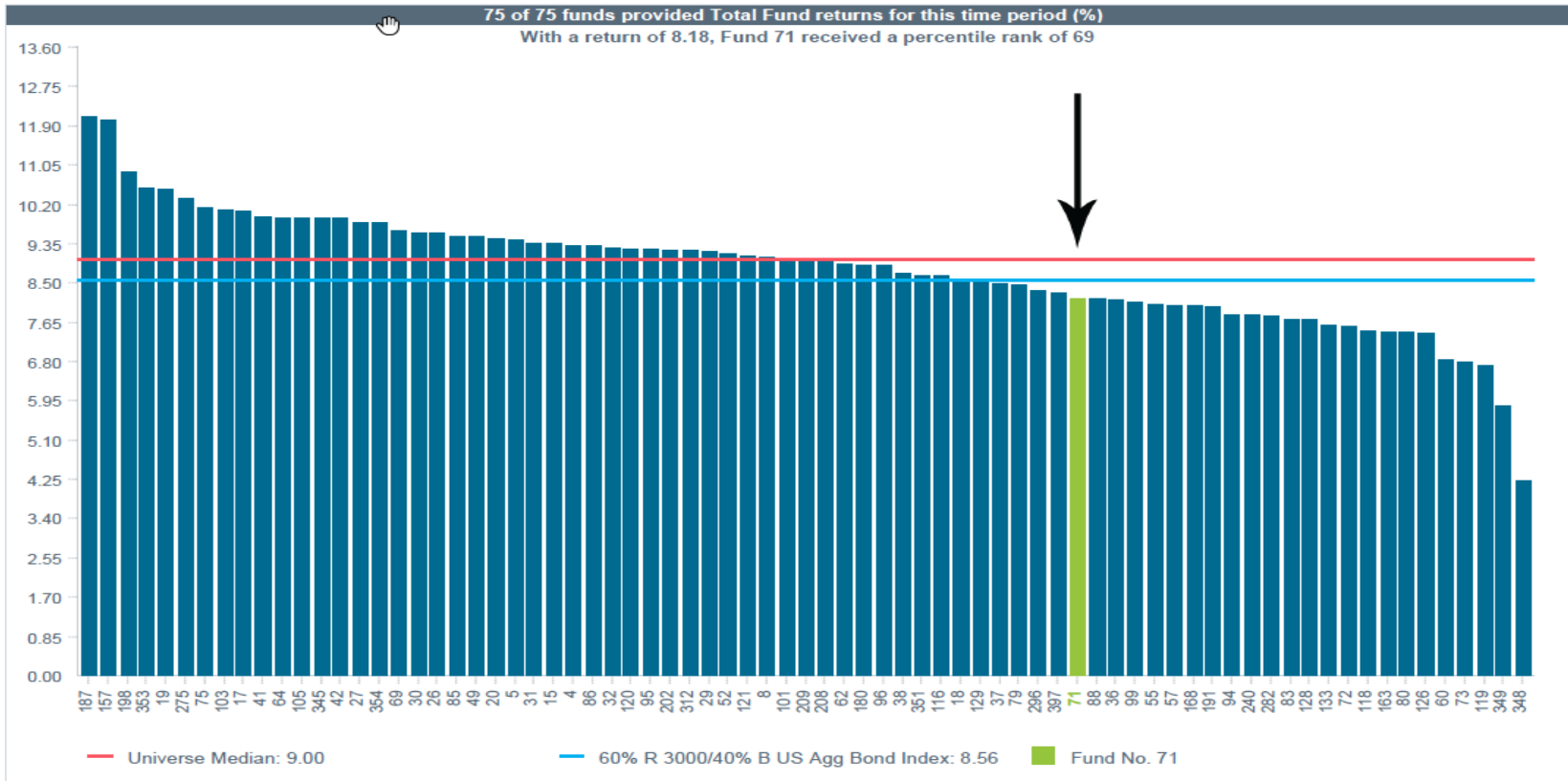
OCERS Fund Performance



RV Kuhn's Report: How Do We Compare?

1 Year Annualized Total Fund Returns

As of June 30, 2018



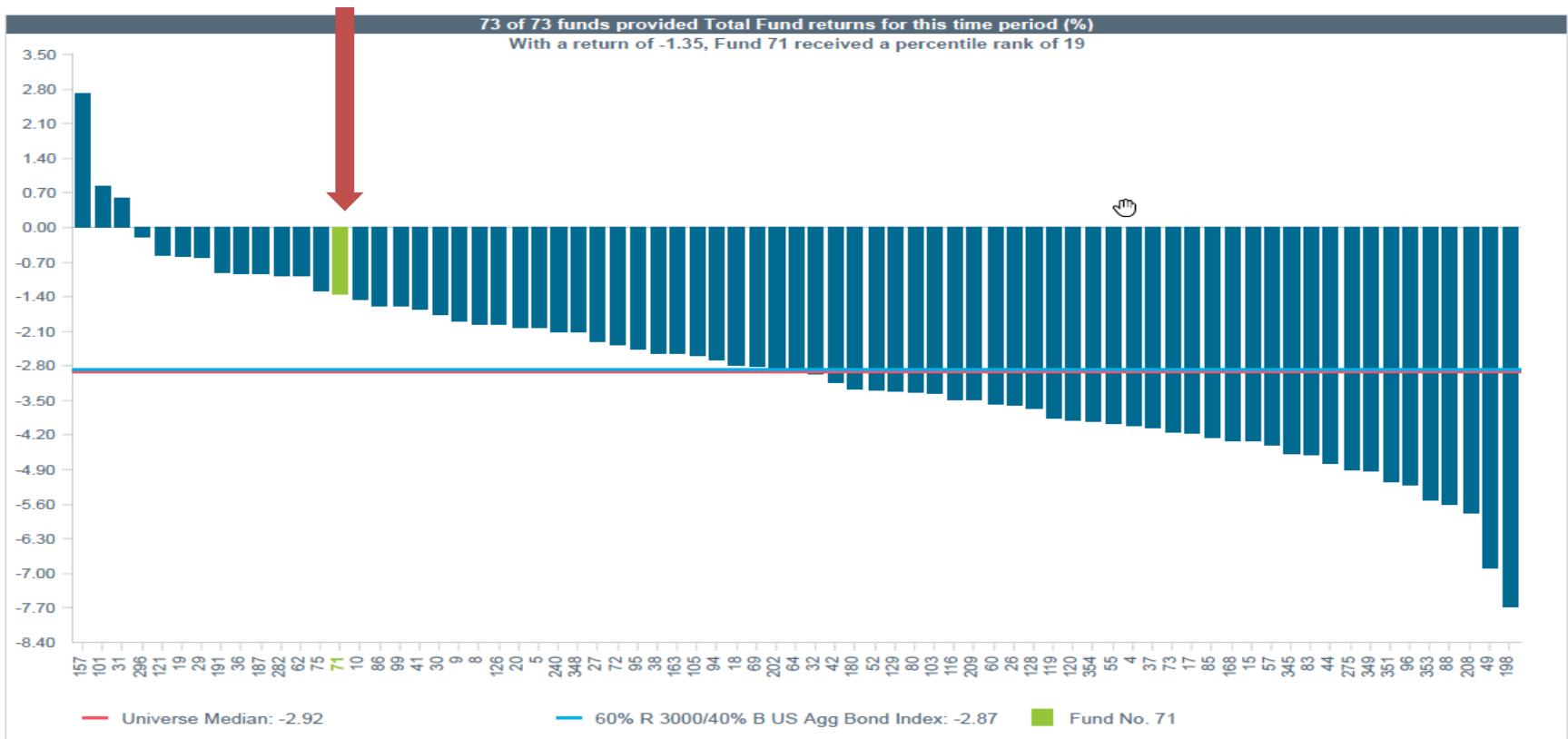
Funds with less history than the specified time period will not appear in the chart.



RV Kuhn's Report: How Do We Compare?

1 Year Annualized Total Fund Returns

As of December 31, 2018



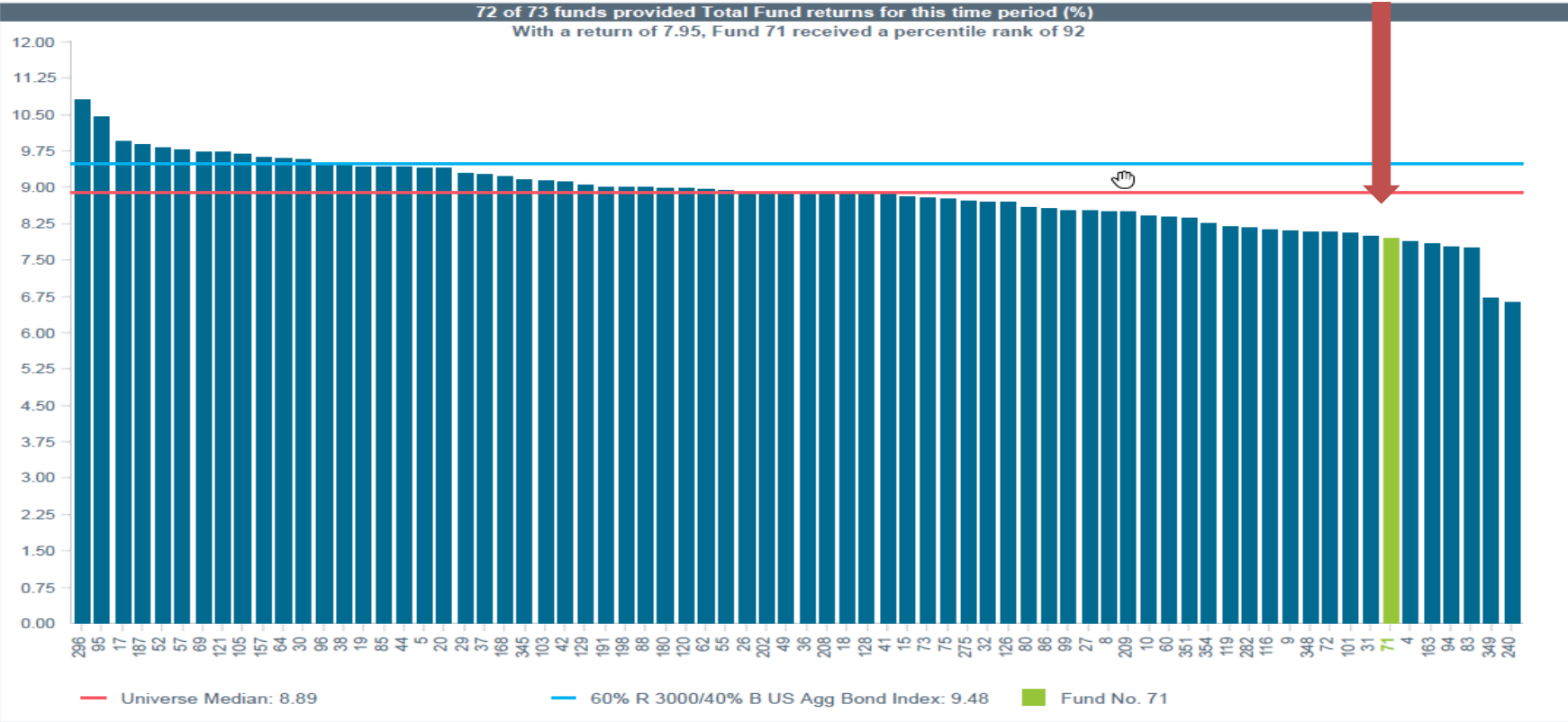
Funds with less history than the specified time period will not appear in the chart.



RV Kuhn's Report: How Do We Compare?

10 Year Annualized Total Fund Returns

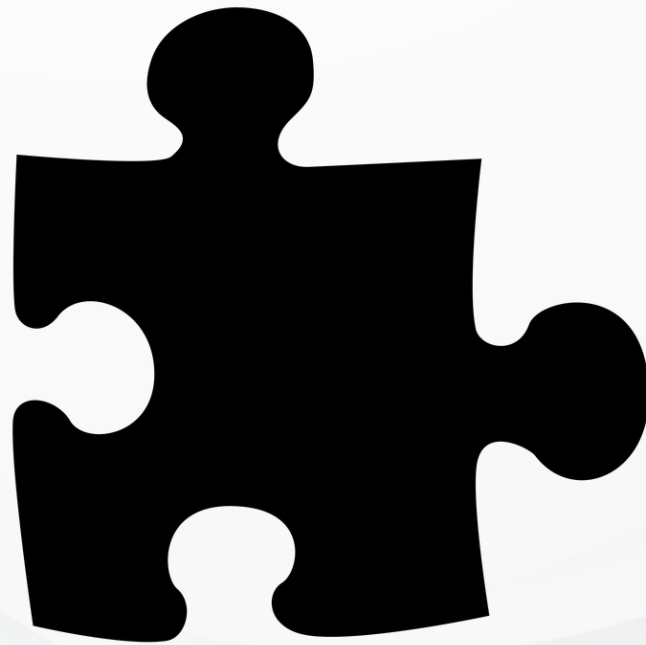
As of December 31, 2018



Funds with less history than the specified time period will not appear in the chart.



PUTTING IT ALL TOGETHER



All The Pieces Together:

As of December 31, 2018	Total OCERS	OC Sanitation District
Actuarial Accrued Liability (The Promise)	\$20,703,349,000	\$710,877,000
Assets (Valuation)	\$14,994,420,000	\$703,124,000
Assets (Market)	\$14,349,705,000	\$672,895,767
Unfunded Actuarial Accrued Liability (valuation)	\$5,708,929,000	\$7,753,000
Funded Ratio (valuation)	72.43%	98.9%
Unfunded Actuarial Accrued Liability (market)	\$6,353,644,000	\$37,981,233
Funded Ratio (market)	69.31%	94.7%

All The Pieces Together: The Long Term Plan – Funded Ratio

- We've grown to full funding before, we are on track to do so again over the next 20 years, that is how Pension Systems work.
- OC Sanitation District has continued to fund their full promise by accelerating their UAAL payment (last payment made Monday, September 9/9/19 to pay full UAAL (valuation) as of 12/31/2018.

Two Key Issues:

- **How long will our members live (mortality)**
- **How much will the OCERS Portfolio earn over the next 30-70 years**

Long term promises

LIFETIME GUARANTEE = CIVIL WAR VETERANS
PENSION RECIPIENT 150 YEARS LATER



Long term promises

2020 = 75 years of service



Our Longest Termed Member

MS. ANNA CROSSON

**Employed by the
County of Orange
in April 1946!**



The Opportunities Ahead

1. **OCERS is still cash flow positive**
2. **Conservative assumptions**
3. **20 year amortization plan**
4. **An oversight Board concerned with volatility**
5. **PEPRA (2013) reduced benefit costs over the long term**
6. **Comprehensive Final Average Salary review ensures accuracy**
7. **Employers efforts to accelerate the payment of UAAL:**
 - **OC Sanitation District**
 - **OCFA**
 - **OC Public Law Library**
 - **Cemetery District**
 - **Children and Families Commission**

Conclusion

