



November 30, 2022

To: Finance and Administration

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Employees Retirement System Early Payment for Fiscal Year 2023-24

Overview

The Orange County Employees Retirement System has offered an early payment discount to member agencies of 5.8 percent if they elect to prepay their contributions for fiscal year 2023-24. Advance payments must be received before January 13, 2023. The estimated savings for the Orange County Transportation Authority over the next year and a half under this payment option will total approximately \$300,000. Board of Directors' authorization is requested for the early payment option.

Recommendation

Authorize the early payment of approximately \$30.6 million by January 13, 2023, to the Orange County Employees Retirement System for member contributions for fiscal year 2023-24.

Background

The Orange County Employees Retirement System (OCERS) provides retirement benefits to Orange County Transportation Authority (OCTA) employees. The majority of OCTA employees and retirees are covered by the OCERS plan. OCERS is a defined benefit plan with benefits determined by a formula based on years of service, age at retirement, and highest average salary over a consecutive three-year period. OCERS is administered by a ten-member Board of Retirement. The OCERS Board of Retirement serves as fiduciary and has administrative authority over investments and benefits. As of June 30, 2022, the plan had approximately \$20.9 billion in assets. OCERS operates under the state statutory requirements of the County Employees Retirement Act of 1937, a section of the California Government Code.

Employer contributions to OCERS are calculated each pay period by OCTA and paid electronically every two weeks. During fiscal year (FY) 2023-24, based on preliminary estimates, OCTA will contribute approximately \$33.1 million to OCERS, based upon wages of approximately \$115.3 million. OCTA's employer rate is 28.91 percent, and the Public Employees' Pension Reform Act (PEPRA) contribution rate is 28.36 percent during this time period.

Discussion

On July 18, 2022, the OCERS Board of Retirement voted to offer an early payment discount on employer contribution payments made before January 13, 2023, for the succeeding FY. OCERS is offering to discount the contributions for FY 2023-24 by 5.8 percent. If the early payment option is exercised, OCERS will reconcile the projected payroll wages for the FY and collect appropriate additions or provide credits against future payments from OCTA for FY 2023-24.

The OCTA Board of Directors approved a similar action in previous years where the early payment option was exercised. By using available cash now, OCTA will reduce the overall cost of future budgeted expenditures.

For FY 2023-24, OCERS decreased OCTA's employer rates to 28.91 percent from the FY 2022-23 rate of 31.71 percent. The PEPRA contribution rate decreased to 28.36 percent for FY 2023-24 from the 30.85 percent rate in FY 2022-23. OCTA's estimated wages for FY 2023-24 are \$115.3 million. Applying the 28.91 percent and 28.36 percent PEPRA employer's rates to the estimated wages for the year translates into an approximate contribution value of \$33.1 million for FY 2023-24. Further, there is a balance from the prepayment contribution for FY 2022-23 of \$740,063.20, which is required to be applied as a credit for this year's prepayment.

Under the early payment option, OCTA has the choice of paying OCERS \$30.6 million (\$33.1 million discounted by 5.8 percent for a total of \$31.3 million, less the \$740,063.20 credit) by January 13, 2023, or OCTA would make the regular biweekly payments of approximately \$1,245,236.63 for the employer contribution, (for a total of \$32.4 million) during FY 2023-24. Given these assumptions, OCTA has calculated the savings to equal approximately \$300,000 (which is the net between the \$1.8 million in guaranteed savings from the OCERS prepayment and \$1.5 million estimated interest earnings by OCTA).

Given the unprecedented rise in yields (United States Treasury yields have risen across the curve with rates at the front end of the curve posting sharp increases), and therefore higher estimated interest earnings by OCTA, the estimated

savings of approximately \$300,000 is lower than prior years; however, the estimated interest earnings by OCTA are speculative while the discount rate of 5.8 percent offered by OCERS is guaranteed.

Based upon this analysis, it is financially prudent and advantageous for OCTA to exercise this early payment option. If this option were to be exercised, these funds would be deposited into OCERS on behalf of OCTA and be credited to OCTA's account. The funds will be paid from the General Fund (36.5 percent), and the Orange County Transit District Fund (63.5 percent).

Summary

The Orange County Employees Retirement System has offered an early payment of contributions to member agencies for the upcoming fiscal year. Under this early payment option, a discount of 5.8 percent will be applied to the amounts due for employer contributions. Orange County Transportation Authority has calculated the savings to equal approximately \$300,000. Staff recommends exercising this early payment option.

Attachment

None.

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