



November 15, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Employees Retirement System Early Payment for Fiscal Year 2024-25

Overview

The Orange County Employees Retirement System has offered an early payment discount to member agencies of seven percent if they elect to prepay their contributions for fiscal year 2024-25. Advance payments must be received by January 11, 2024. The estimated savings for the Orange County Transportation Authority over the next year and a half under this payment option will total approximately \$345,000. Board of Directors' authorization is requested for the early payment option.

Recommendation

Authorize the early payment of approximately \$34.8 million by January 11, 2024, to the Orange County Employees Retirement System, for employer contributions for fiscal year 2024-25.

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, 2023, the plan had approximately \$21.4 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) 2024-25, based on preliminary estimates, OCTA will contribute approximately \$37.2 million to OCERS, based upon wages of approximately \$123 million. OCTA's employer rate is 30.43 percent, and the Public Employees' Pension Reform Act (PEPRA) contribution rate is 30 percent during this time period.

Discussion

On July 17, 2023, the OCERS Board of Retirement voted to offer an early payment discount on employer contribution payments made by January 11, 2024, for the succeeding FY. OCERS is offering to discount the contributions for FY 2024-25 by seven 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 2024-25, OCERS increased OCTA's employer rates to 30.43 percent from the FY 2023-24 rate of 28.91 percent. The PEPRA contribution rate increased to 30 percent for FY 2024-25 from the 28.36 percent rate in FY 2023-24. OCTA's estimated wages for FY 2024-25 are \$123 million. Applying the FY 2024-25 rates to the estimated wages for the year translates into an approximate contribution value of \$37.2 million for FY 2024-25.

Under the early payment option, OCTA has the choice of paying OCERS \$34.8 million (\$37.2 million discounted by seven percent) by January 11, 2024, or OCTA would make the regular biweekly payments of approximately \$1,430,955 for the employer contribution, (for a total of \$37.2 million) during FY 2024-25. Given these assumptions, OCTA has calculated the savings to equal approximately \$345,000 (which is the net between the \$2.4 million in guaranteed savings from the OCERS prepayment and \$2.1 million estimated interest earnings by OCTA).

Given the unprecedented rise in yields (United States Treasury yields have risen substantially in less than two years), and therefore higher estimated interest earnings for OCTA, the estimated savings of approximately \$345,000 is relatively low compared to the historical average; however, the estimated interest earnings by OCTA are speculative while the discount rate of seven 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 (37 percent), and the Orange County Transit District Fund (63 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 seven percent will be applied to the amounts due for employer contributions. Orange County Transportation Authority has calculated the savings to equal approximately \$345,000. Staff recommends exercising this early payment option.

Attachment

None.

Prepared by:



Robert Davis
Department Manager
Treasury/Public Finance
714-560-5675

Approved by:



Andrew Oftelie
Chief Financial Officer
Finance and Administration
714-560-5649