



November 8, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Orange County Employees Retirement System Early Payment for Fiscal Year 2018-19

Overview

The Orange County Employees Retirement System has offered an early payment discount to member agencies of 4.5 percent if they elect to prepay their contributions for fiscal year 2019. Advance payments must be received before January 16, 2018. The Orange County Transportation Authority has estimated the savings over the next year and a half under this payment option will total approximately \$885,000.

Recommendation

Authorize the early payment of approximately \$23.3 million by January 16, 2018, to the Orange County Employees Retirement System, for member contributions for fiscal year 2018-19.

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. OCERS is administered by a ten-member retirement board. The OCERS Board of Retirement serves as fiduciary and administrative authority over investments and benefits. The plan has over \$14.7 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) 2017-18, based on data from the working budget, OCTA will contribute approximately \$26.9 million

to OCERS, based upon wages of approximately \$96.2 million. OCTA's employer rate during this time period is 26.18 percent.

Discussion

On August 21, 2017, the OCERS Retirement Board voted to offer an early payment discount on employer contribution payments made before January 16, 2018, for the succeeding FY. OCERS is offering to discount the contributions for FY 2018-19 by 4.5 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 the next pre-payment from OCTA for FY 2020.

The discount rate was reduced from 5.8 to 4.5 percent. The lowering of the rate is viewed as a risk mitigation strategy for the OCERS Fund. OCERS's view is that a lower discount rate is advisable when the economy has begun a mature business cycle.

The OCTA's 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 2018-19, OCERS decreased the OCTA's employer rates to 25.52 percent from the FY 2017-18 rate of 26.18 percent. The Public Employees' Pension Reform Act (PEPRA) contribution rate is 25.01 percent for FY 2018-19. The OCTA's estimated wages for FY 2018-19 are \$102.8 million. Applying the 25.52 percent and 25.01 percent PEPRA employer's rates to the estimated wages for the year translates into an approximate contribution value of \$26.2 million for FY 2018-19. Further, there is a balance from the prepayment contribution for FY 2017-18 of \$1.7 million, 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 \$23.3 million (\$26.2 million discounted by 4.5 percent less the credit) by January 16, 2018, or OCTA would make the regular bi-weekly payments of approximately \$1,006,501 for the employer contribution, (for a total of \$26.2 million) during FY 2018-19. Fixed-income yields remain at historic lows, with current securities yielding 1.25 percent to 1.4 percent. Given these assumptions, OCTA has calculated the savings to equal approximately \$885,000 under this early payment option.

Based upon this analysis, it is financially 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 the OCTA and be credited to OCTA's account. The funds will be paid from the General Fund (34.9 percent), Orange County Transit District Fund (64.8 percent), and the Orange County Taxi Administration Program (0.3 percent). The funding sources represent the current payroll allocation.

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 4.5 percent will be applied to the amounts due for employer contributions. The Orange County Transportation Authority has calculated the savings to equal approximately \$885,000. Staff recommends exercising this early payment option.

Attachment

None.

Prepared by:



Rodney Johnson
Deputy Treasurer
Treasury/Toll Roads
(714) 560-5675

Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649