



November 11, 2020

To: Finance and Administration

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Employees Retirement System Early Payment for Fiscal Year 2021-22

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 2021-22. Advance payments must be received before January 15, 2021. The estimated savings for the Orange County Transportation Authority over the next year and a half under this payment option will total approximately \$1.3 million. Board of Directors' authorization is requested for the early payment option.

Recommendation

Authorize the early payment of approximately \$30.2 million by January 15, 2021, to the Orange County Employees Retirement System, for member contributions for fiscal year 2021-22.

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, 2020, the plan had over \$17.1 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) 2021-22, based on data from the working budget, OCTA will contribute approximately \$32.7 million to OCERS, based upon wages of approximately \$104.1 million. OCTA's employer rate is 31.51 percent, and the Public Employees' Pension Reform Act (PEPRA) contribution rate is 31.13 percent during this time period.

Discussion

July 20, 2020, the OCERS Board of Retirement voted to offer an early payment discount on employer contribution payments made before January 15, 2021, for the succeeding FY. OCERS is offering to discount the contributions for FY 2021-22 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 2021-22.

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 2021-22, OCERS increased OCTA's employer rates to 31.51 percent from the FY 2020-21 rate of 30.63 percent. The PEPRA contribution rate increased to 31.13 percent for FY 2021-22 from the 29.92 percent rate in FY 2020-21. OCTA's estimated wages for FY 2021-22 are \$104.1 million. Applying the 31.51 percent and 31.13 percent PEPRA employer's rates to the estimated wages for the year translates into an approximate contribution value of \$32.7 million for FY 2021-22. Further, there is a balance from the prepayment contribution for FY 2020-21 of \$676,984.98, 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 \$30.2 million (\$32.7 million discounted by 5.8 percent less the credit) by January 15, 2021, or OCTA would make the regular biweekly payments of approximately \$1,257,794 for the employer contribution, (for a total of \$32.7 million) during FY 2021-22. Given these assumptions, OCTA has calculated the savings to equal approximately \$1.3 million (which is the net between the \$1.8 million savings from the OCERS prepayment and \$541,259 estimated interest earnings by OCTA).

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 OCTA and be credited to OCTA's account. The funds will be paid from the General Fund (36.5 percent),

Orange County Transit District Fund (63.4 percent), and the Orange County Taxi Administration Program (0.1 percent). The funding sources represent the current payroll allocation.

Summary

OCERS has offered an early payment of contributions to member agencies for the upcoming FY. Under this early payment option, a discount of 5.8 percent will be applied to the amounts due for employer contributions. OCTA has calculated the savings to equal approximately \$1.3 million. Staff recommends exercising this early payment option.

Attachment

None.

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