



November 12, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Employees Retirement System Early Payment for Fiscal Year 2026-27

Overview

The Orange County Employees Retirement System has offered an early payment discount of seven percent to member agencies if they elect to prepay their contributions for fiscal year 2026-27. Advance payments must be received by January 15, 2026. The estimated savings for the Orange County Transportation Authority over the next year and a half under this payment option will total approximately \$1,141,000. Board of Directors' authorization is requested for the early payment option.

Recommendation

Authorize the early payment of approximately \$38.1 million by January 15, 2026, to the Orange County Employees Retirement System, for employer contributions for fiscal year 2026-27.

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, 2025, the plan had approximately \$25.8 billion in net 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) 2026-27, based on preliminary estimates, OCTA will contribute approximately \$41 million to OCERS, based upon wages of approximately \$141.3 million. OCTA's employer rate is 29.24 percent, and the Public Employees' Pension Reform Act (PEPRA) contribution rate is 28.77 percent during this period.

Discussion

On July 21, 2025, the OCERS Board of Retirement voted to offer an early payment discount on employer contribution payments made by January 15, 2026, for the succeeding FY. OCERS is offering to discount the contributions for FY 2026-27 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 2026-27.

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

For FY 2026-27, OCERS decreased OCTA's employer rates to 29.24 percent from the FY 2025-26 rate of 30.91 percent. The PEPRA contribution rate decreased to 28.77 percent for FY 2026-27 from the 30.26 percent rate in FY 2025-26. OCTA's estimated wages for FY 2026-27 are \$141.3 million. Applying the FY 2026-27 rates to the estimated wages for the year translates into an approximate contribution value of \$41 million for FY 2026-27.

Under the early payment option, OCTA may either:

- Pay OCERS \$38.1 million (representing a seven percent discount on \$41 million, totaling \$38.3 million, less a \$195,509 credit from a prior year overpayment) by January 15, 2026, or
- Continue making regular biweekly payments of approximately \$1,568,177 (for a total of \$40.8 million) during FY 2026-27.

Given these assumptions, OCTA estimates total savings of approximately \$1,141,000, representing the net of \$2.6 million in guaranteed savings from the OCERS prepayment and \$1.5 million in estimated interest earnings that OCTA would otherwise retain.

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 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 seven percent discount will be applied to the amounts due for employer contributions. The Orange County Transportation Authority has calculated the potential savings of approximately \$1,141,000. Staff recommends exercising this early payment option.

Attachment

None.

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