Staff Report 21-390

CHEIRON
Classic Values, Innovative Advice

Joint Board Meeting Materials

October 6, 2021

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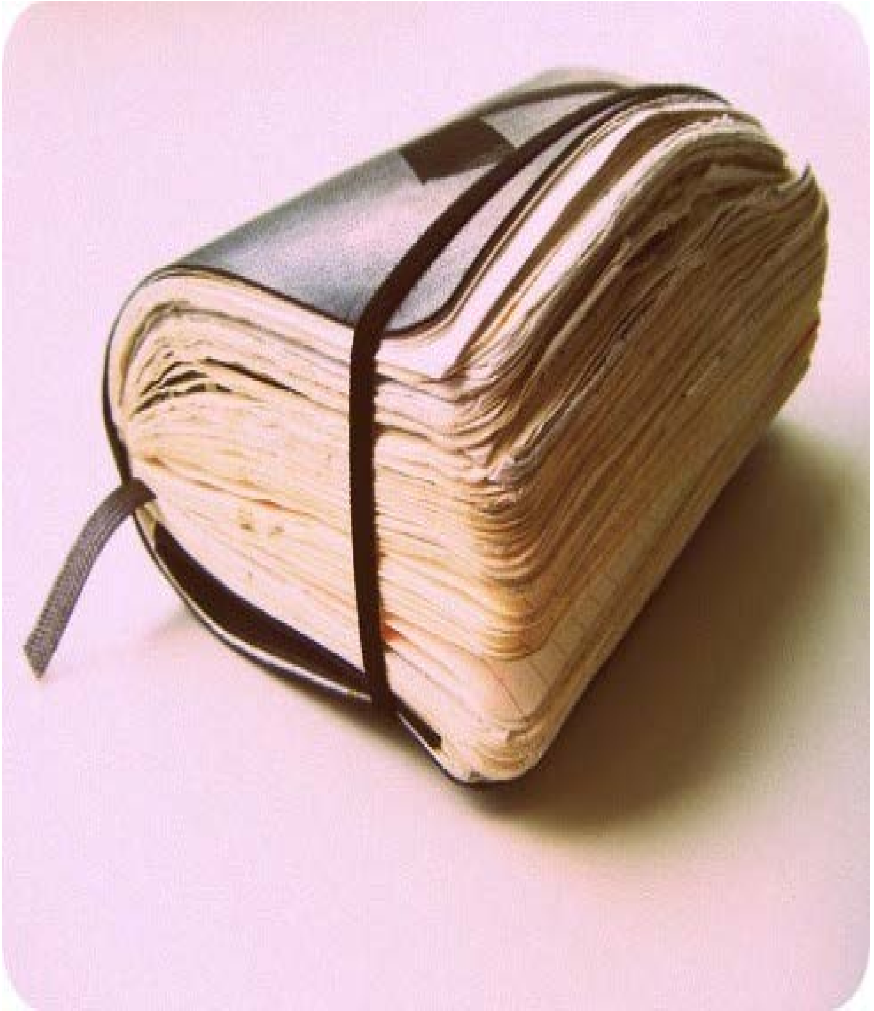
Agenda

- Actuarial Valuation as of January 1, 2021
- Plan Cost by Benefit / Source
- History of Plan Cost and Funding
- Effects of PEPRA
- Assumptions
- Projections



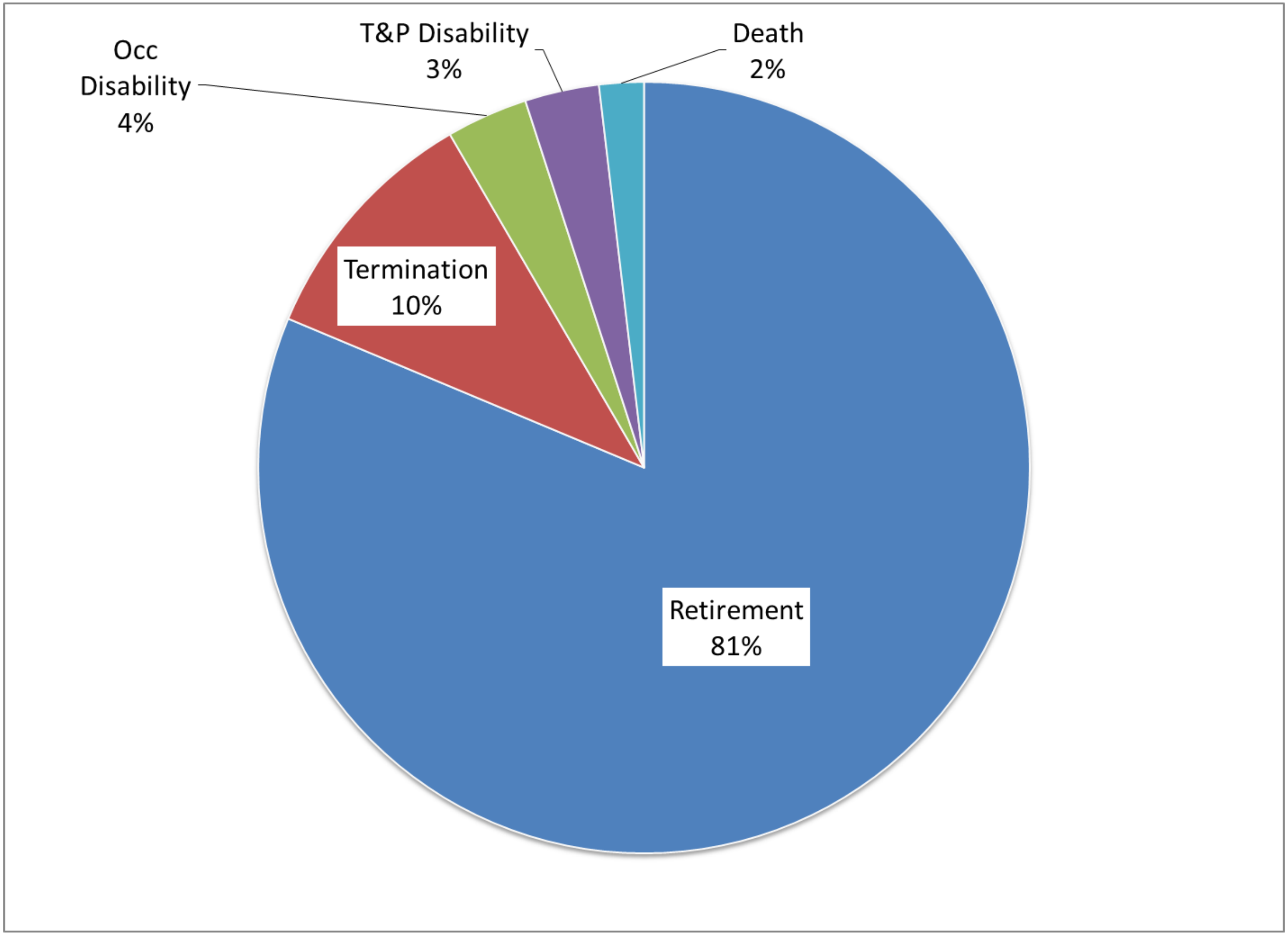
Actuarial Valuation: Summary

Summary of Plan Results					
		January 1, 2020		January 1, 2021	% Change
Participant Counts					
Active Participants		2,241		2,163	-3.48%
Participants Receiving a Benefit		2,148		2,173	1.16%
Inactive Participants		175		166	-5.14%
Total		4,564		4,502	-1.36%
Annual Actuarial Pay of Active Members	$	201,317,923	$	203,455,866	1.06%
Projected Fiscal Year District Payroll	$	185,000,000	$	190,000,000	2.70%
Assets and Liabilities					
Actuarial Liability (AL)	$	1,022,223,946	$	1,084,688,403	6.11%
Actuarial Value of Assets (AVA)		724,962,000		788,654,000	8.79%
Unfunded Actuarial Liability (UAL)	$	297,261,946	$	296,034,403	-0.41%
Funded Ratio (AVA)		70.9%		72.7%	1.79%
Funded Ratio (MVA)		73.1%		77.2%	4.18%
Inactive Funded Ratio		56.6%		56.4%	-0.20%
Employer Contributions					
Based on Projected Pensionable Payroll					
Total Contribution	$	60,950,506	$	63,501,151	4.18%
Employee Contribution		207,000		250,000	20.77%
Actuarially Determined Contribution (ADC)	$	60,743,506	$	63,251,151	4.13%
ADC Contribution Rate (as a Percentage of Payroll)		32.83%		33.29%	0.46%

Actuarial Valuation: Changes in Cost

Employer Contribution Reconciliation		
	Total Cost as % Payroll	Total Cost in Dollars
FYE 2021 Net Employer Contribution	**32.83%**	**$ 60,743,506**
Expected changes (expected payroll growth)	0.00%	1,822,065
Change due to discount rate change	1.54%	2,904,543
Change due to phase-in of discount rate change	-0.66%	(1,246,345)
Change due to investment (gains)/losses during 2020	-0.65%	(1,236,979)
Change due to PEPRA	-0.14%	(283,955)
Change due to actual payroll growth	0.05%	(77,165)
Change due to demographic (gains)/losses	0.32%	625,481
FYE 2022 Net Employer Contribution	**33.29%**	**$ 63,251,151**

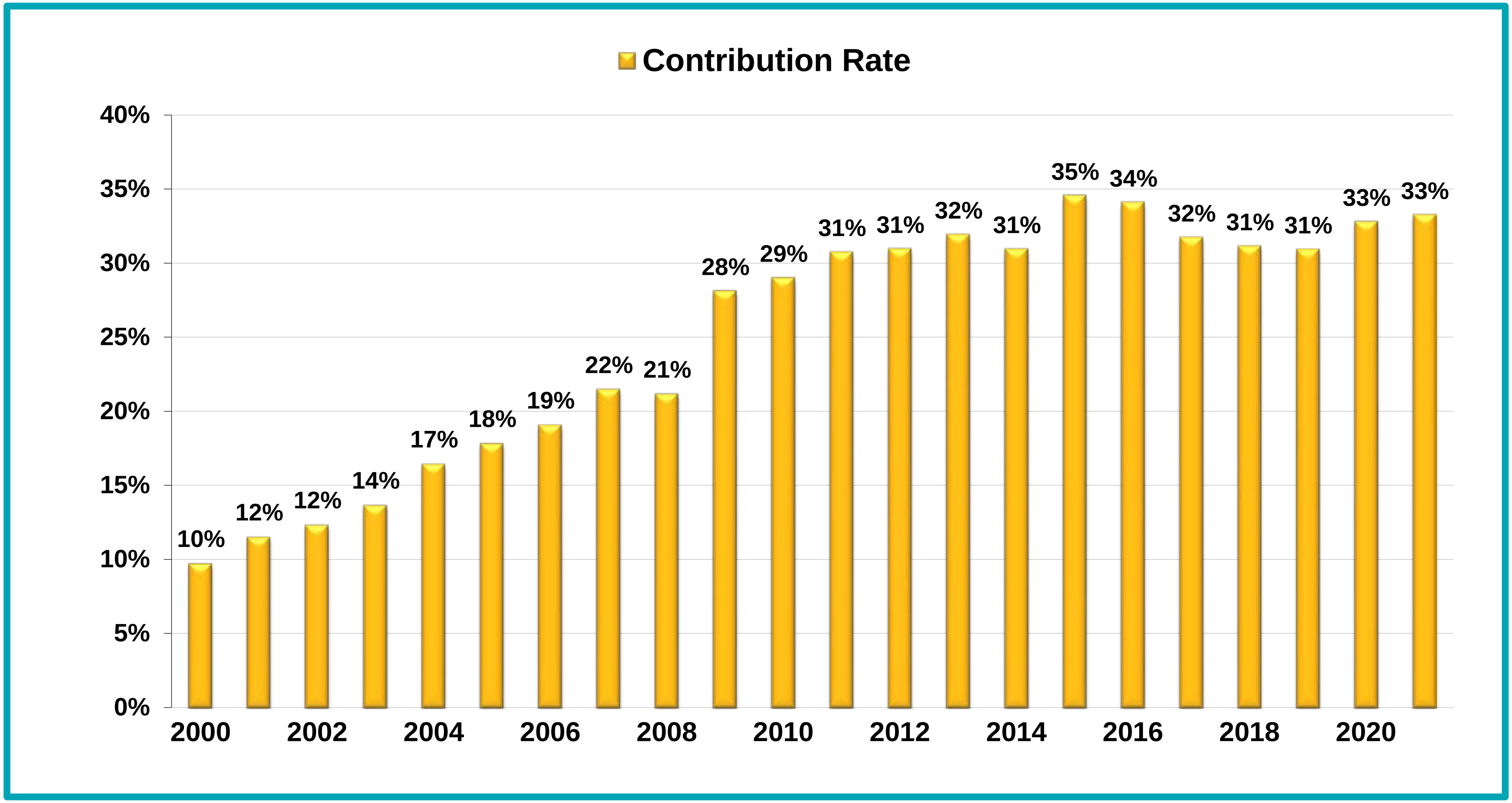
Plan Cost by Benefit



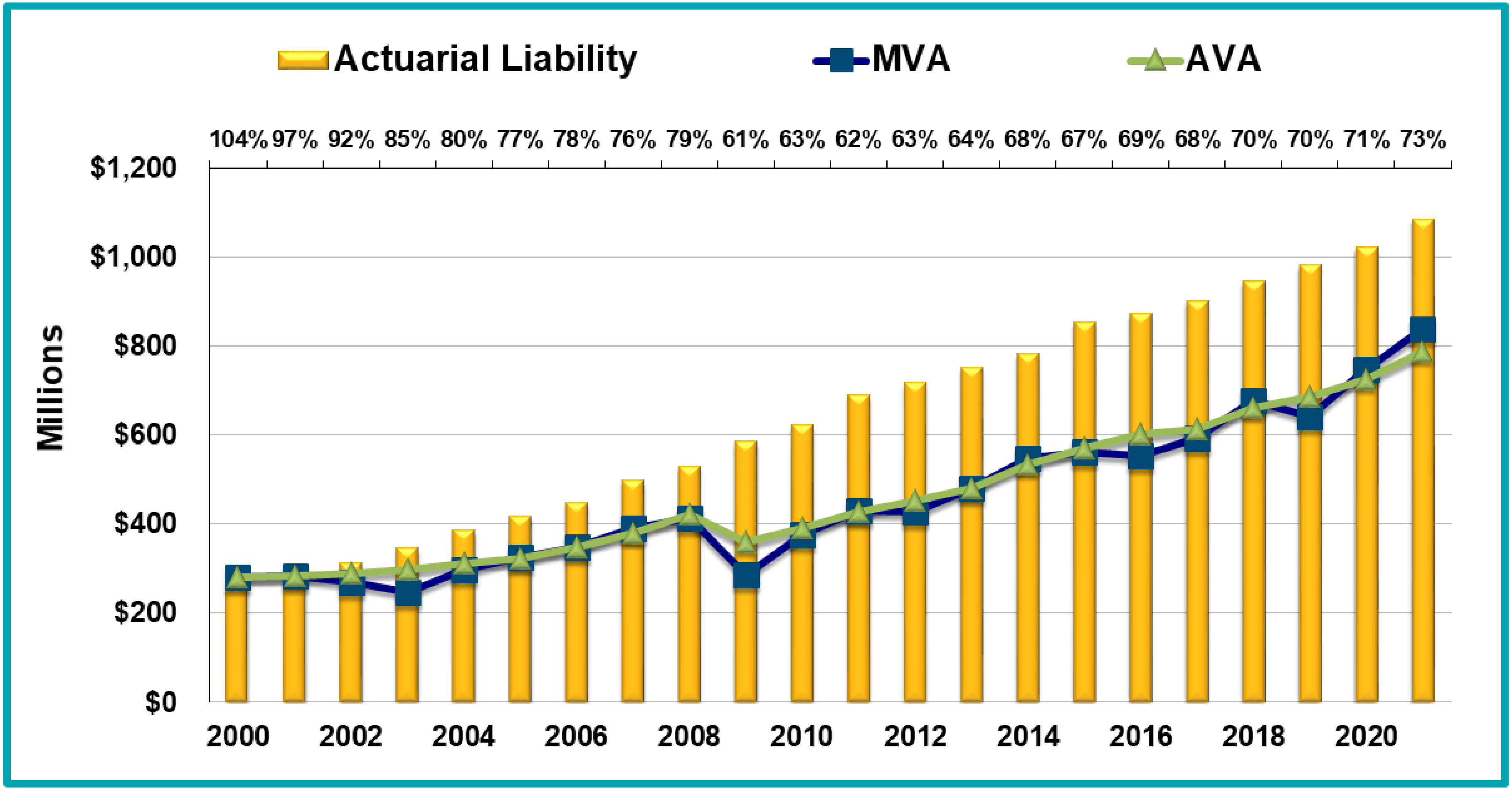
Plan Cost by Source

Summary of District Contributions for FY 2021-22				
Item		Cost as % of Fiscal Payroll		Cost in Dollars
Projected Pensionable Payroll				
Non-PEPRA			$	186,000,000
PEPRA				4,000,000
Amortization of Unfunded		18.43%	$	35,020,723
Expenses		0.83%		1,577,828
Non-PEPRA Normal Cost	14.19%			26,393,400
PEPRA Normal Cost	6.48%			259,200
Total (Estimated)		33.29%	$	63,251,151

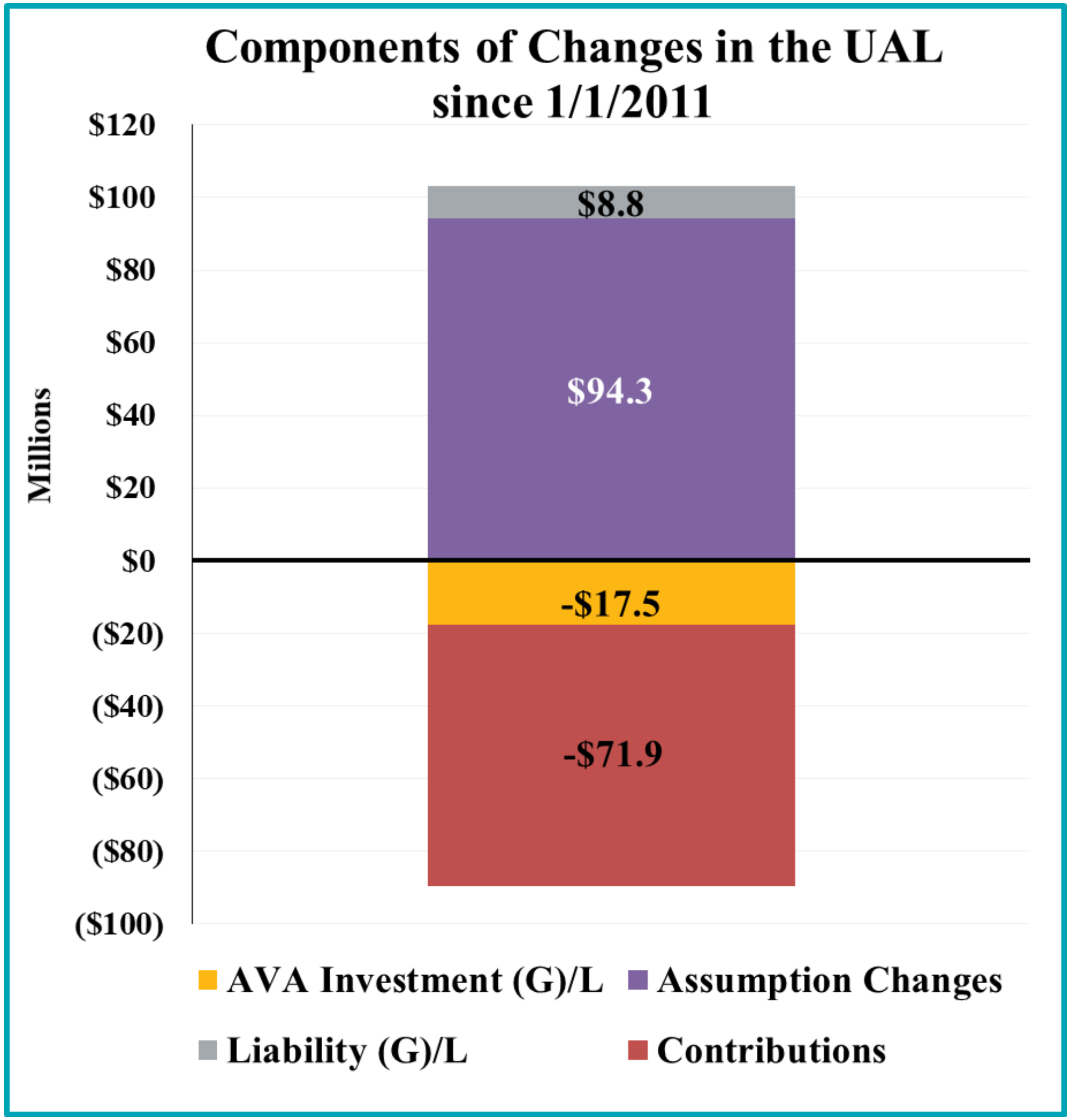
Plan Cost History



Plan Funding History



Changes in the UAL since 2011

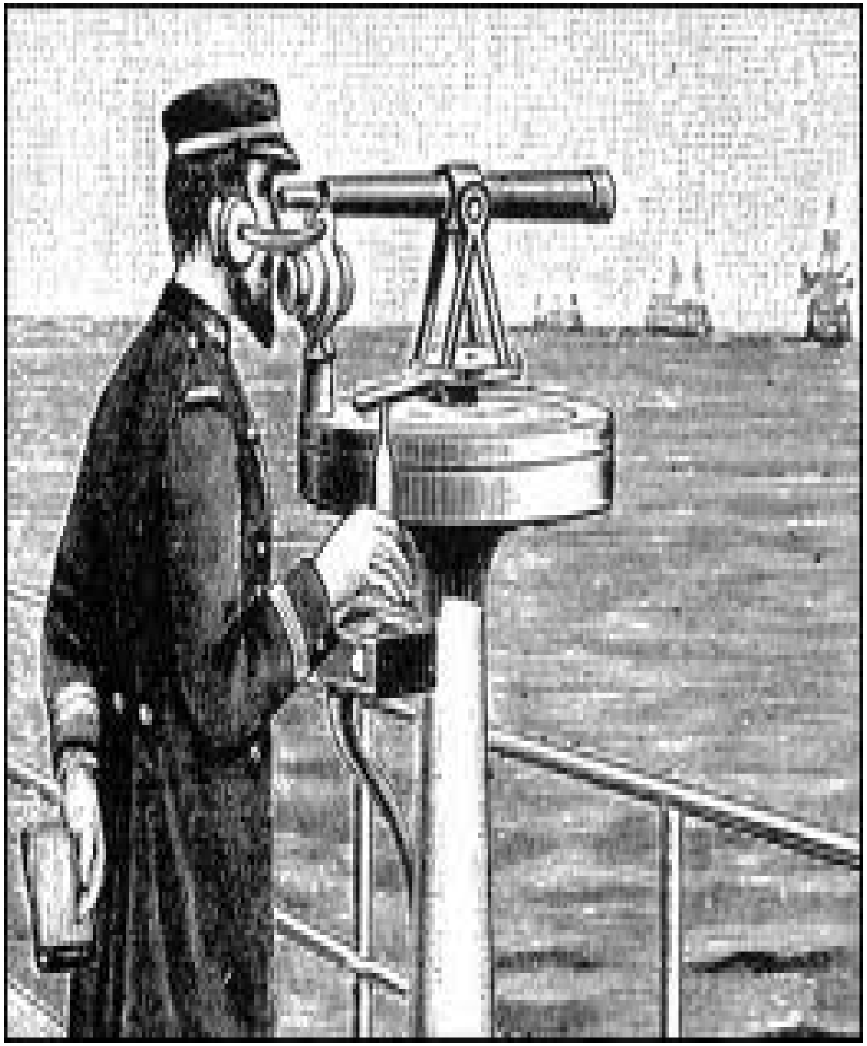


Amortization Schedule

Development of Amortization Payment for Fiscal Year 2022						
Type of Base	**Date Established**	**Initial Amount**	**Initial Amortization Years**	**1/1/2021 Outstanding Balance**	**Remaining Amortization Years**	**Amortization Amount**
2008 Extraordinary Actuarial Loss	1/1/2009	$ 78,762,712	30	$ 83,036,019	18	$ 6,145,479
Remaining UAL as of 2016	1/1/2016	212,567,221	12	157,603,951	7	25,000,624
2016 Experience Loss	1/1/2017	29,089	20	28,060	16	2,262
2017 Experience Gain	1/1/2018	(558,939)	20	(546,279)	17	(42,128)
Assumption changes	1/1/2018	10,040,964	20	9,813,527	17	756,793
2018 Experience Loss	1/1/2019	24,473,917	20	24,165,063	18	1,788,451
Assumption changes	1/1/2019	(5,244,129)	20	(5,177,950)	18	(383,219)
2019 Experience Loss	1/1/2020	13,329,161	20	13,262,390	19	944,812
2020 Experience Gain	1/1/2021	(12,584,911)	20	(12,584,911)	20	(865,301)
Assumption changes	1/1/2021	26,434,532	20	26,434,532	20	650,024
Total Unfunded Actuarial Liability (UAL)				**$ 296,034,402**		**$ 33,997,797**
Offset to UAL for 1/1-6/30 Contribution Receivable				(17,329,126)	20	(1,191,499)
Net UAL Payment						**$ 32,806,298**
With Interest to Fiscal Year						35,020,723

Looking Ahead

- Impact of PEPRA
- Assumptions
  - Investment Return
  - Other Assumptions
- Projections
  - Future contributions
  - Future funded ratios



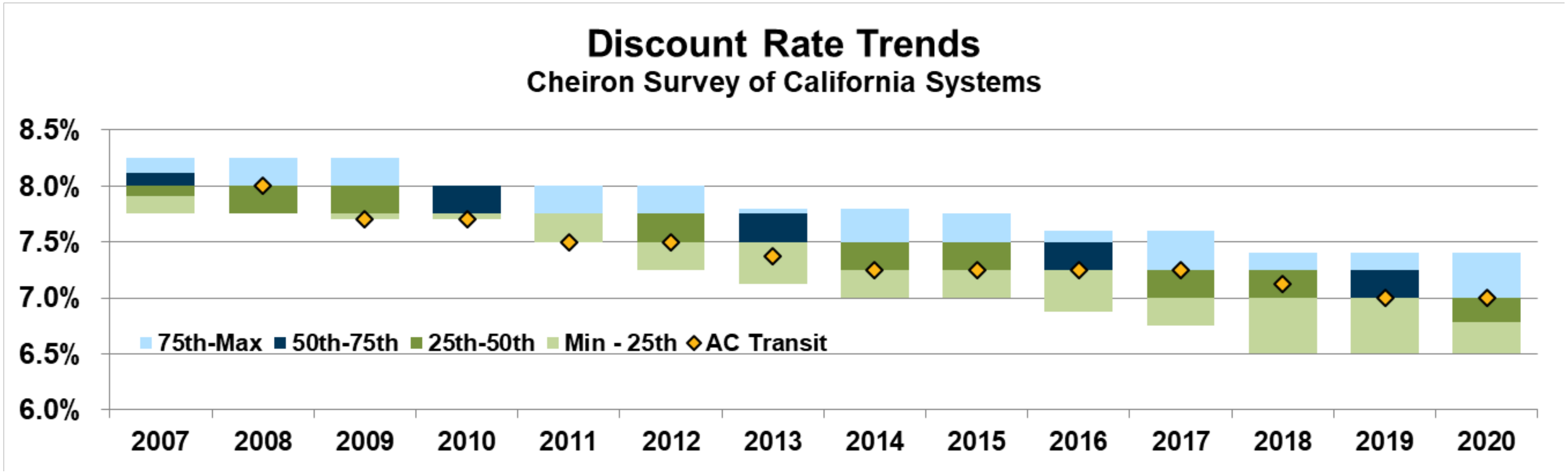
Impact of PEPRA

- 2018 valuation was the first to include impact of PEPRA for non-rep members; current valuation (2021) for represented
  - Non-rep members hired on or after 1/1/2016
  - Represented members hired after 1/1/2020
  - PEPRA provides for 50/50 sharing of the Normal Cost between members and employers
    - Member portion based on 50% of the Normal Cost, rounded to the nearest ¼% of pay
    - Member rate only changes if the Normal Cost rate changes by more than 1% of pay
    - This year Normal Cost increased by more than 1% from when it was last set (2018), so member rate increased from 5.75% to 6.25%

Assumptions

- Retirement Board has made recent changes to the investment return assumption
  - Continuing to receive information from investment consultant and actuary on expected returns, and input from District
  - In 2017, Board voted to use 7.25% for 2017
  - Reduced rate to 7.125% for the 2018 valuation
  - Reduced rate to 7.00% for the 2019 valuation
  - Reduced rate again 6.75% for the 2021 valuation
    - Expectations for asset returns have fallen sharply, because of strong market performance and continued low interest rates
    - Impact of rate reduction phased-into contribution calculation over three years
  - Board reviews assumption every year

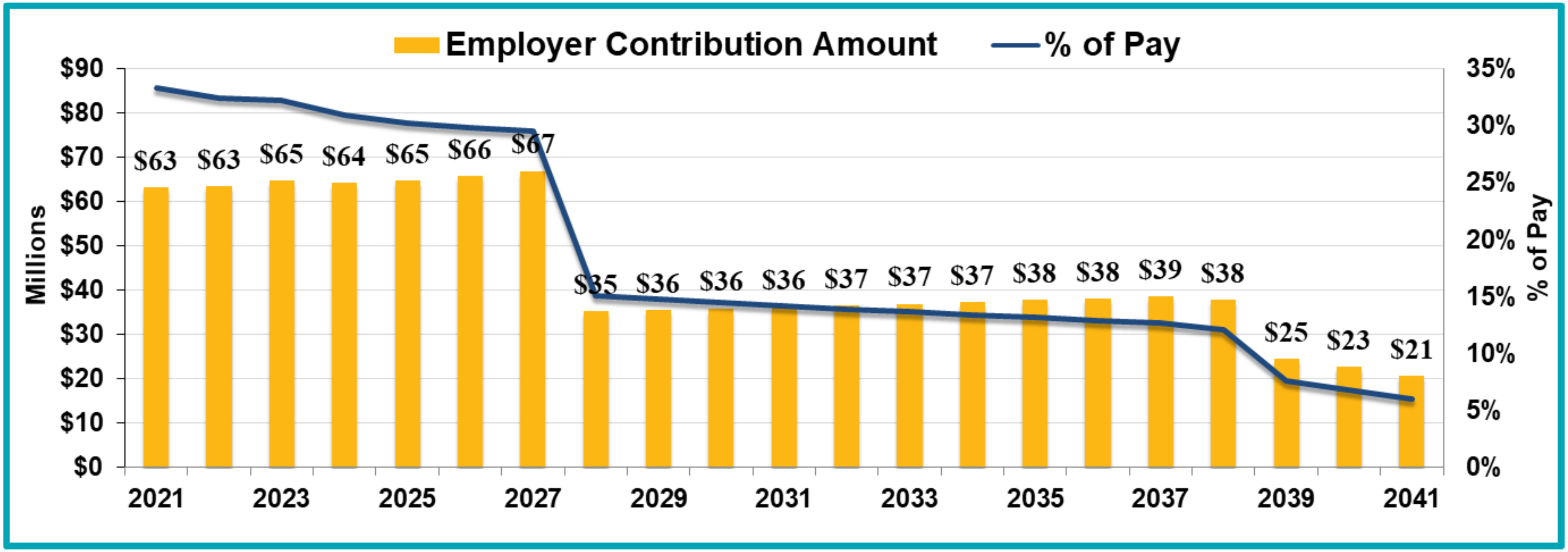
Assumptions



Projections

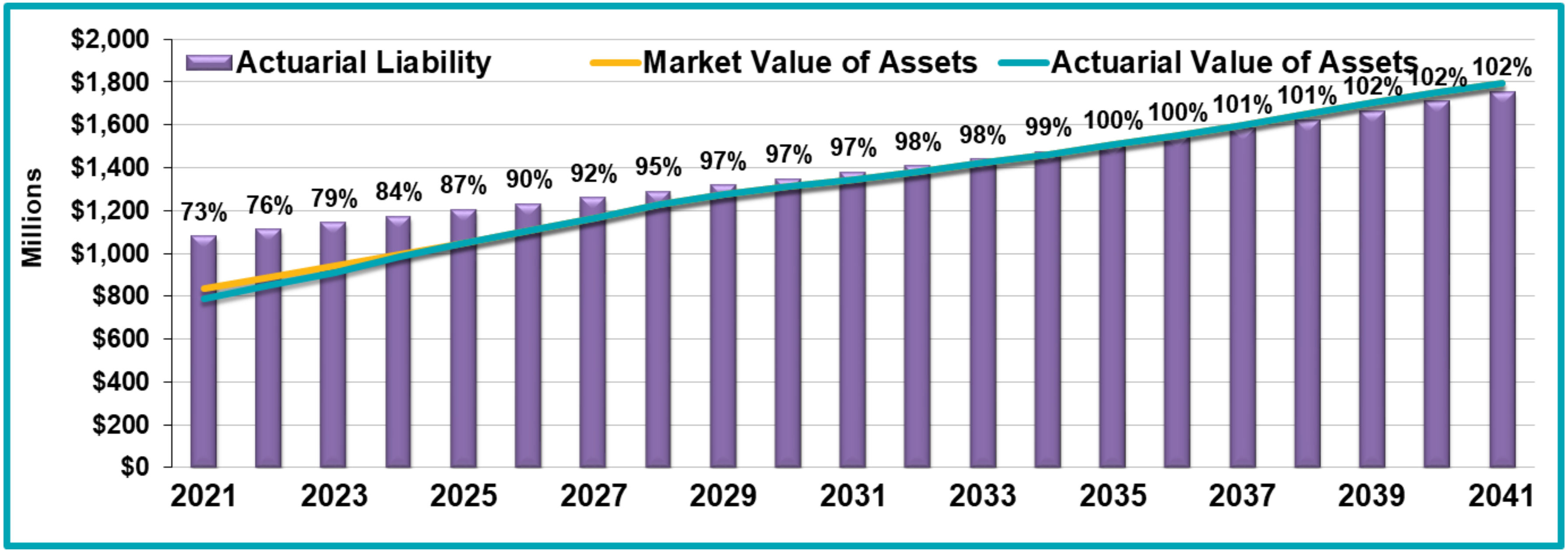
- Projections don’t reflect any changes to demographic information or assumptions
  – Projections assume level active workforce (including 3% annual payroll growth) with members retiring after 1/1/2021 assumed to be replaced by PEPRA members
  – Projections include 6.75% investment return assumption for 2021+

Baseline Projection – Contributions



- Projections based on 6.75% return each year
- Employer rate expected to decline for next few years due to deferred investment gains
- Employer rate also expected to decline as a result of PEPRA members replacing Tier 1
- Large expected reduction in 2028 as a result of largest (2016) UAL layer being paid off

Baseline Projection – Funded Ratio



- Projections based on 6.75% return each year
- Funded ratio based on Market Value of assets currently ~ 4.5% higher than Actuarial (smoothed) Value; expected to converge over time

Required Disclosures

The purpose of this presentation is to discuss the current status and outlook for the Alameda - Contra Costa Transit District (AC Transit) Retirement Plan. This presentation is for the use of the Retirement Board in its education and outreach efforts.

In preparing this presentation, we relied on information (some oral and some written) supplied by Staff at AC Transit. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

The results of the 1/1/2021 valuation report rely on plan experience conforming to the underlying assumptions and methods outlined in the report. To the extent that the actual plan experience deviates from the underlying assumptions and methods, or there are any changes in plan provisions or applicable laws, the results would vary accordingly. The report does not contain any adjustment for the potential impact of COVID-19. We anticipate the pandemic may affect both demographic and economic experience.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

Deterministic and stochastic projections in the valuation report were developed using R-scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the Plan. R-scan uses standard roll-forward techniques that implicitly assume a stable active population. Because R-scan does not automatically capture how changes in one variable affect all other variables, some scenarios may not be consistent.

This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

This presentation was prepared solely for the Retirement Board of AC Transit for the purposes described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

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