

# AC Transit District Employees' Retirement Plan

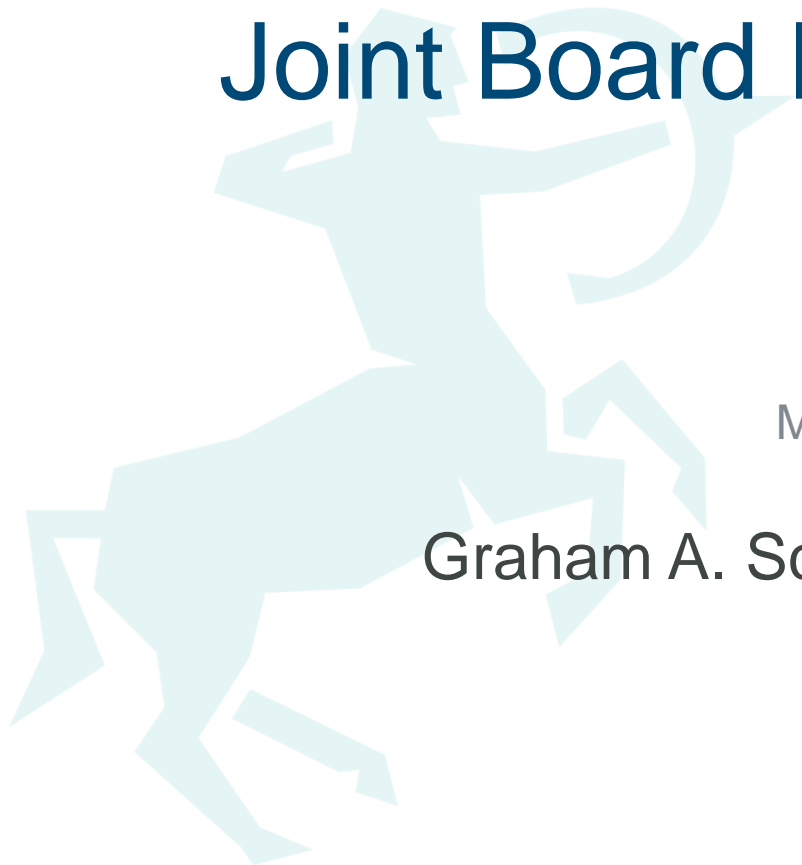
Staff Report 19-189  
Item 3.B.



## Joint Board Meeting Materials

May 15, 2019

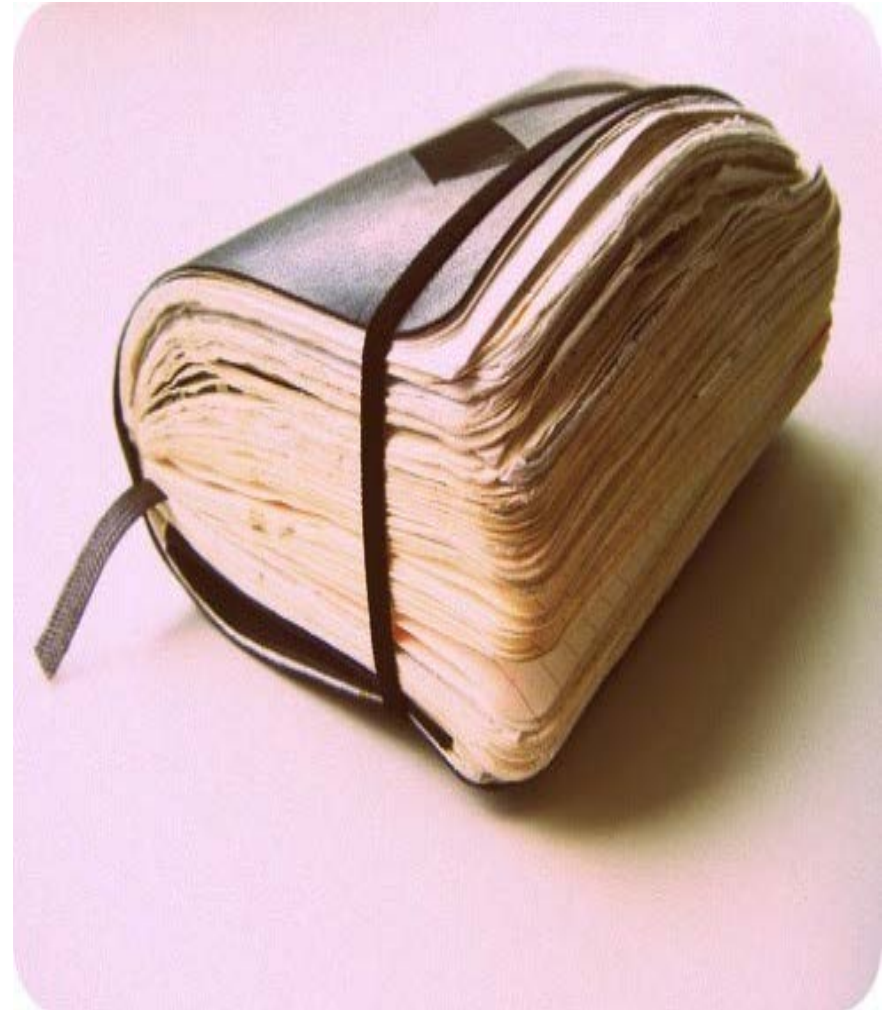
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# Agenda



- Introduction
- Actuarial Valuation as of January 1, 2018
- Plan Cost by Source / Benefit
- History of Plan cost and funding
- Looking ahead





- Generally, this presentation occurs after current year valuation has been completed, so current year valuation summarized in Joint Board presentation
- For this presentation, current year actuarial valuation (and experience study) still in process, so this presentation will:
  - Summarize results of 2018 actuarial valuation (adopted by Board in July of 2018), and
  - Include projections at the end of this presentation that include preliminary asset returns through 12/31/2018

# Actuarial Valuation: Summary



Summary of Plan Results			
	January 1, 2017	January 1, 2018	% Change
<b><u>Participant Counts</u></b>			
Active Participants	2,187	2,227	1.83%
Participants Receiving a Benefit	2,030	2,066	1.77%
Inactive Participants	206	205	-0.49%
Total	4,423	4,498	1.70%
Annual Actuarial Pay of Active Members	\$ 151,165,991	\$ 175,231,549	15.92%
Projected Fiscal Year District Payroll	\$ 170,000,000	\$ 174,000,000	2.35%
<b><u>Assets and Liabilities</u></b>			
Actuarial Liability (AL)	\$ 902,989,387	\$ 948,581,549	5.05%
Actuarial Value of Assets (AVA)	614,229,823	659,690,000	7.40%
Unfunded Actuarial Liability (UAL)	\$ 288,759,564	\$ 288,891,549	0.05%
Funded Ratio (AVA)	68.0%	69.5%	1.52%
Funded Ratio (MVA)	65.9%	71.6%	5.71%
Inactive Funded Ratio	57.7%	57.1%	-0.65%
<b><u>Employer Contributions</u></b>			
<b>Based on Projected Pensionable Payroll</b>			
Actuarially Determined Contribution	\$ 54,012,362	54,239,472	0.42%
Contribution Rate (as a Percentage of Payroll)	31.77%	31.18%	-0.59%

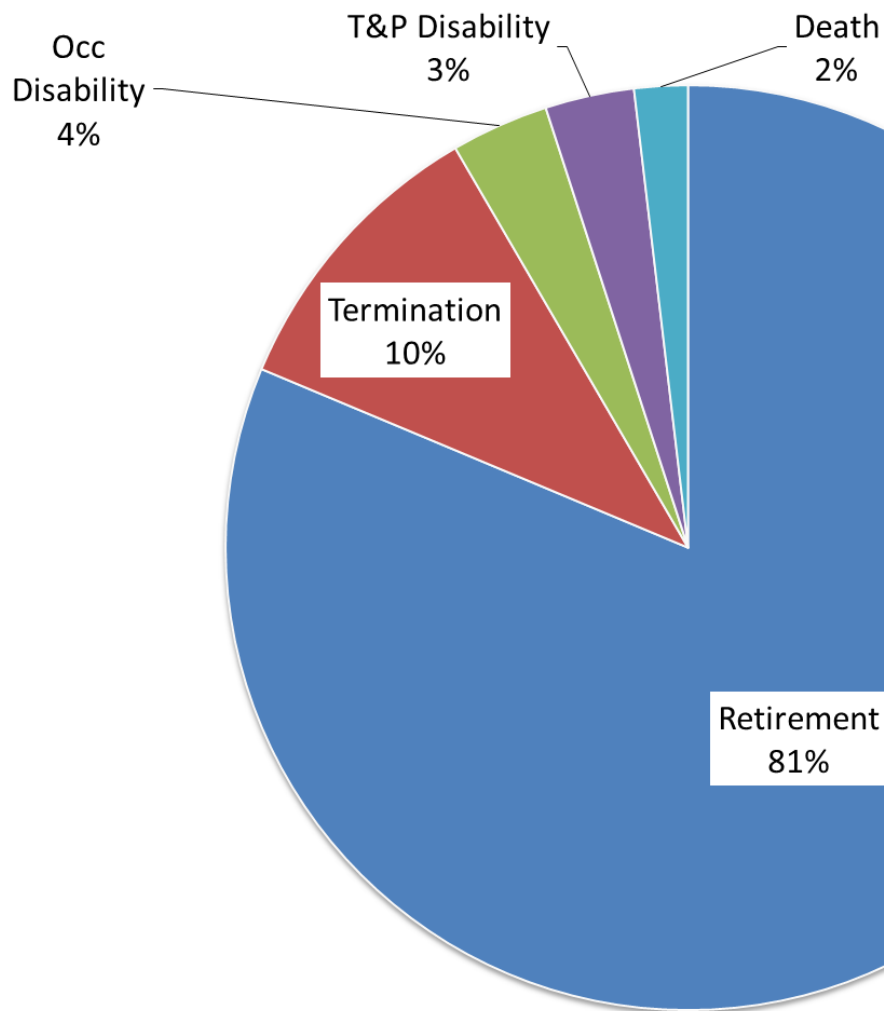
# Actuarial Valuation: Changes in Cost



## Employer Contribution Reconciliation

	Total Cost as % Payroll	Total Cost in Dollars
<b>FYE 2018 Net Employer Contribution</b>	<b>31.77%</b>	<b>\$ 54,012,362</b>
Expected changes (payroll growth)	0.00%	1,620,270
Change due to revised pay method	-1.28%	(2,219,775)
Change due to discount rate change	0.73%	1,259,260
Change due to investment (gains)/losses during 2017	-0.19%	(332,842)
Change due to PEPPRA	-0.05%	(93,199)
Change due to demographic (gains)/losses	<u>0.20%</u>	<u>(6,603)</u>
<b>FYE 2019 Net Employer Contribution</b>	<b>31.18%</b>	<b>\$ 54,239,473</b>

# Plan Cost by Benefit



# Plan Cost by Source



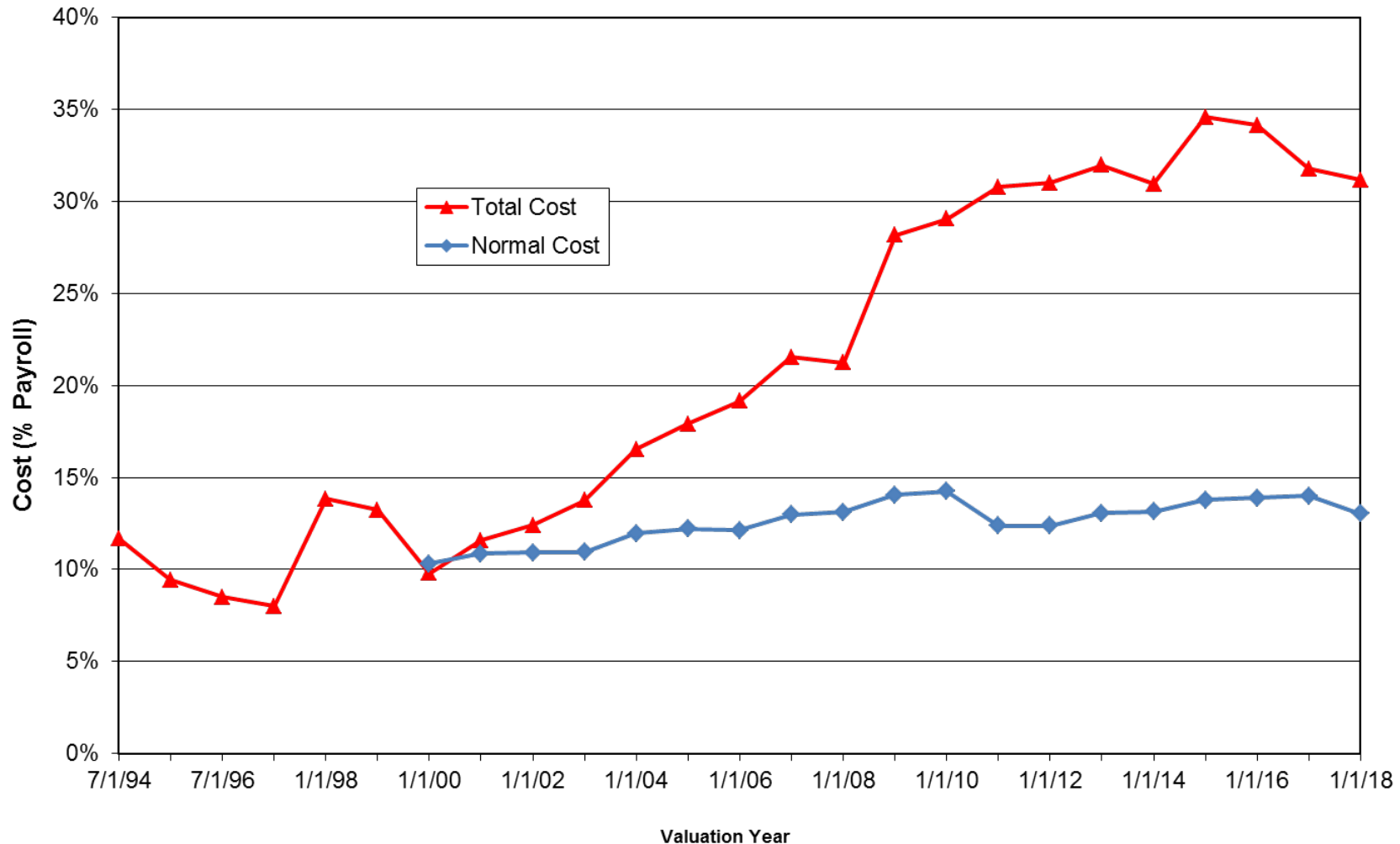
## Summary of District Contributions for FY 2018-19

Item	Cost as % of Fiscal Payroll	Cost in Dollars
Projected Pensionable Payroll		\$ 174,000,000
Amortization of Unfunded	17.58%	\$ 30,584,140
Expenses	0.56%	965,732
Normal Cost (Estimated)	<u>13.04%</u>	<u>22,689,600</u>
Total (Estimated)	31.18%	\$ 54,239,472

# Plan Cost History



## AC Transit Employees' Retirement Plan History of Plan Cost

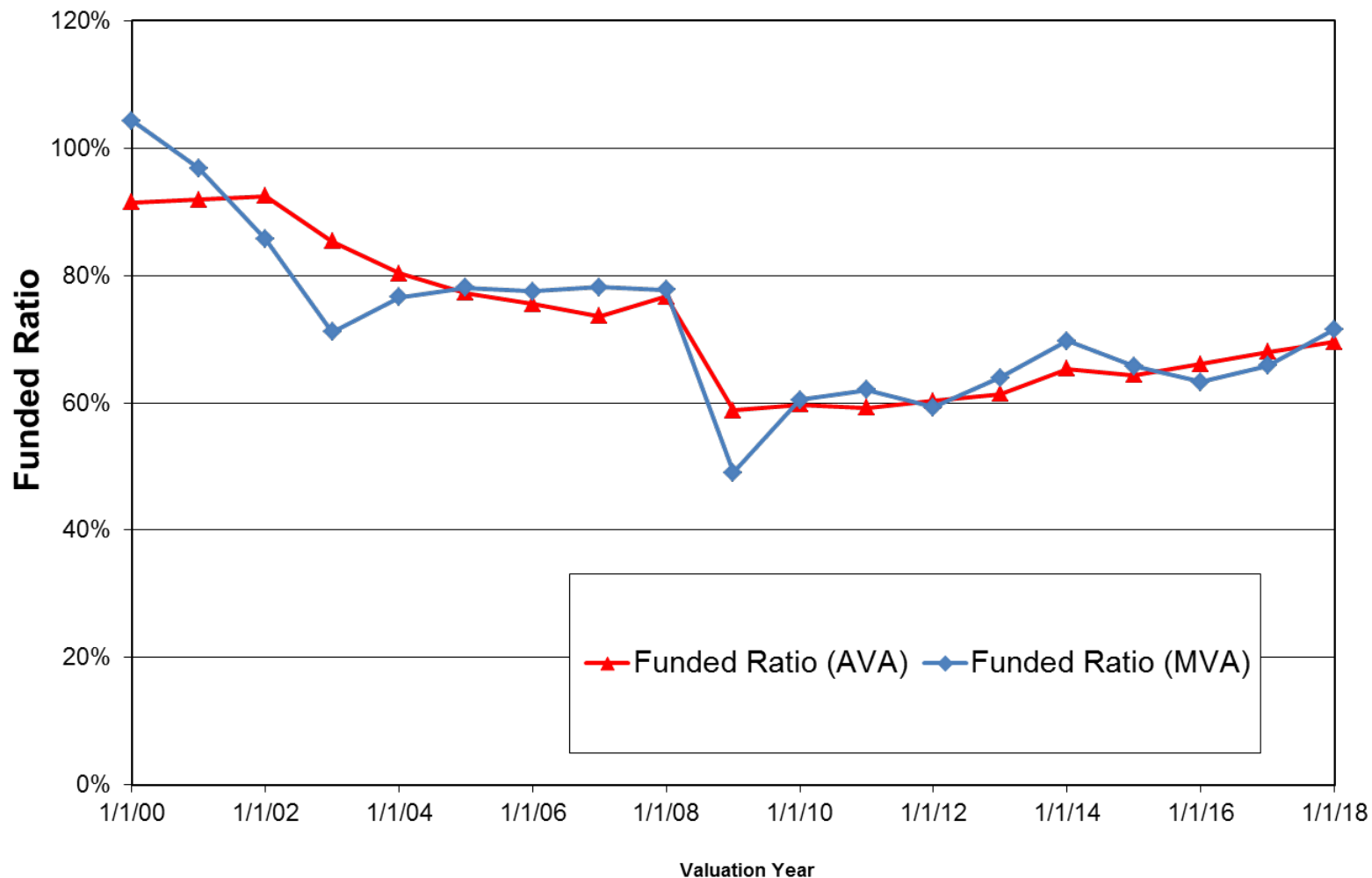




# Plan Funding History



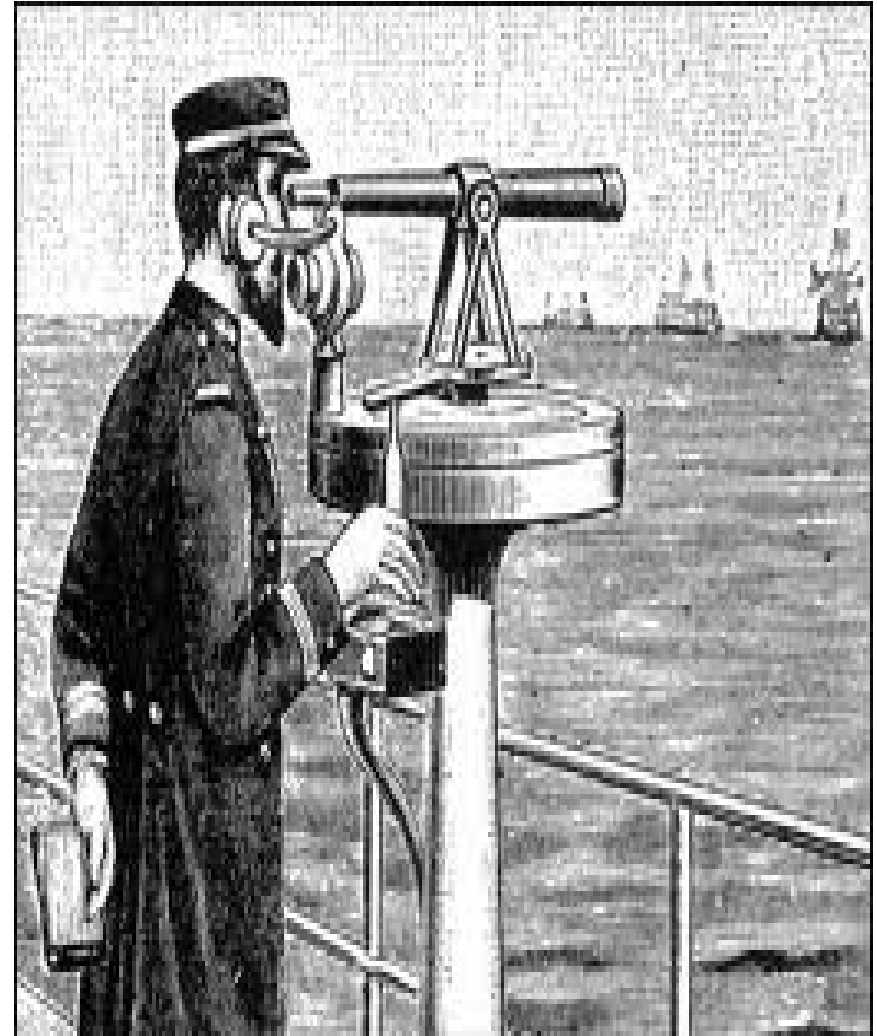
## AC Transit Employees' Retirement Plan History of Plan Funded Status



# Looking Ahead



- Changes in Amortization Policy
- Impact of PEPRA
- Assumptions
  - Investment Return Assumption Changes
  - Experience Study
- Projections (reflecting 2018 preliminary asset returns)
  - Future contributions
  - Future funded ratios





- At August, 2016 meeting, Retirement Board voted to adopt “closed, layered” amortization periods
  - 2008 extraordinary loss: 30-year closed period, 21 years remaining as of 2018, \$84 million outstanding balance
  - Remaining UAL as of 2016: 10 years remaining as of 2018, \$195 million outstanding balance
- Retirement Board continued deliberating amortization policies at May and June, 2017 meetings
  - Adopted 20-year amortization periods for future gains/losses and assumption changes
  - Shorter periods for any future plan changes, based on analysis by Board

# Amortization Policy



## Development of Amortization Payment for Fiscal Year 2019

<u>Type of Base</u>	<u>Date Established</u>	<u>Initial Amount</u>	<u>Initial Amortization Years</u>	<u>1/1/2018 Outstanding Balance</u>	<u>Remaining Amortization Years</u>	<u>Amortization Amount</u>
2008 Extraordinary Actuarial Loss	1/1/2009	\$ 78,762,712	30	\$ 84,282,840	21	\$ 5,778,938
Remaining UAL as of 2016	1/1/2016	212,567,221	12	195,097,715	10	23,133,146
2016 Experience Loss	1/1/2017	29,089	20	28,969	19	2,122
2017 Experience Gain	1/1/2018	(558,939)	20	(558,939)	20	(39,561)
Assumption changes	1/1/2018	10,040,964	20	<u>10,040,964</u>	20	<u>710,687</u>
<b>Total Unfunded Actuarial Liability (UAL)</b>				<b>\$ 288,891,549</b>		<b>\$ 29,585,332</b>
Offset to UAL for 1/1-6/30 Contribution Receivable				(14,628,332)	20	(1,035,375)
<b>Net UAL Payment</b>						<b>\$ 28,549,957</b>
With Interest to Fiscal Year						30,584,141

Combination of five amortization “layer” payments comparable to 12-year single equivalent layer.

# Impact of PEPRA



- 2018 valuation was the first to include impact of PEPRA
  - Non-rep members hired on or after 1/1/2016
    - 16 active members as of 1/1/2018
  - The PEPRA statute provided 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  $\frac{1}{4}\%$  of pay
    - Member rate only changes if the Normal Cost rate changes by more than 1% of pay
    - Original Normal Cost rate for PEPRA was estimated to be 11.64% of pay (50% of 11.64%, rounded to nearest 0.25% = 5.75% of pay)
  - Under an agreement, the Non-rep member rate is being phased in over three years
    - For FYE 2019, 1/3 of the PEPRA rate (1.92% of pay)
    - For FYE 2020, 2/3 of the PEPRA rate (3.83% of pay, subject to Normal Cost rate not changing by more than 1%)
    - For FYE 2021, the full PEPRA rate (5.75% of pay)



- 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, and 7.00% for the 2019 valuation
  - In 2018, Board confirmed 7.125% for the 2018 valuation, and communicated continued intent to use 7.00% for 2019
  - For 2019, current policy is to use 7.00% for the valuation in process, but Board will review the assumption to use as part of Experience Study



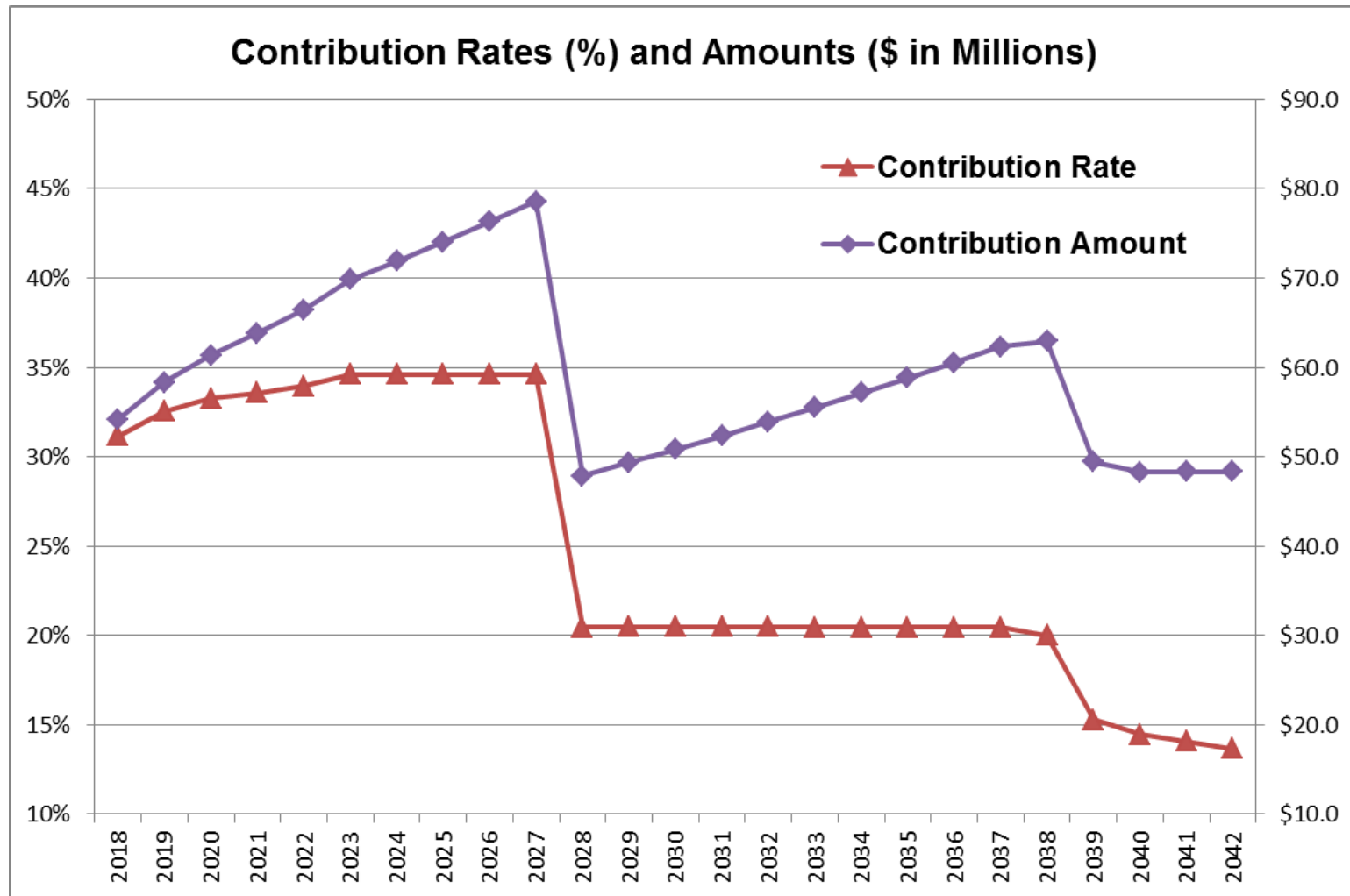
- Quadrennial experience study currently in process
  - Complete review of economic assumptions, including:
    - Rate of investment return (7.125% for 2018, 7.0% for 2019)
    - Rate of inflation (3.0%)
    - Wage growth (3.0%)
  - In addition, review all demographic assumptions, comparing current assumptions to recent experience:
    - Rates of retirement, disability, termination, mortality
    - Merit/longevity pay increases
    - Sick leave
    - Family composition
    - Plan expenses



- Actuary has been provided with preliminary estimate of investment returns for 2018
  - Have incorporated this return (a -5.2% loss on investments) in following projections
- Projections don't reflect any other changes to demographic information or assumptions
  - Projections assume level active workforce, with non-rep members retiring after 1/1/2018 assumed to be replaced by PEPRA members
  - Projections include 7.00% investment return assumption for 2019+
  - Do not reflect any other changes to assumptions, which may be recommended/adopted as part of experience study

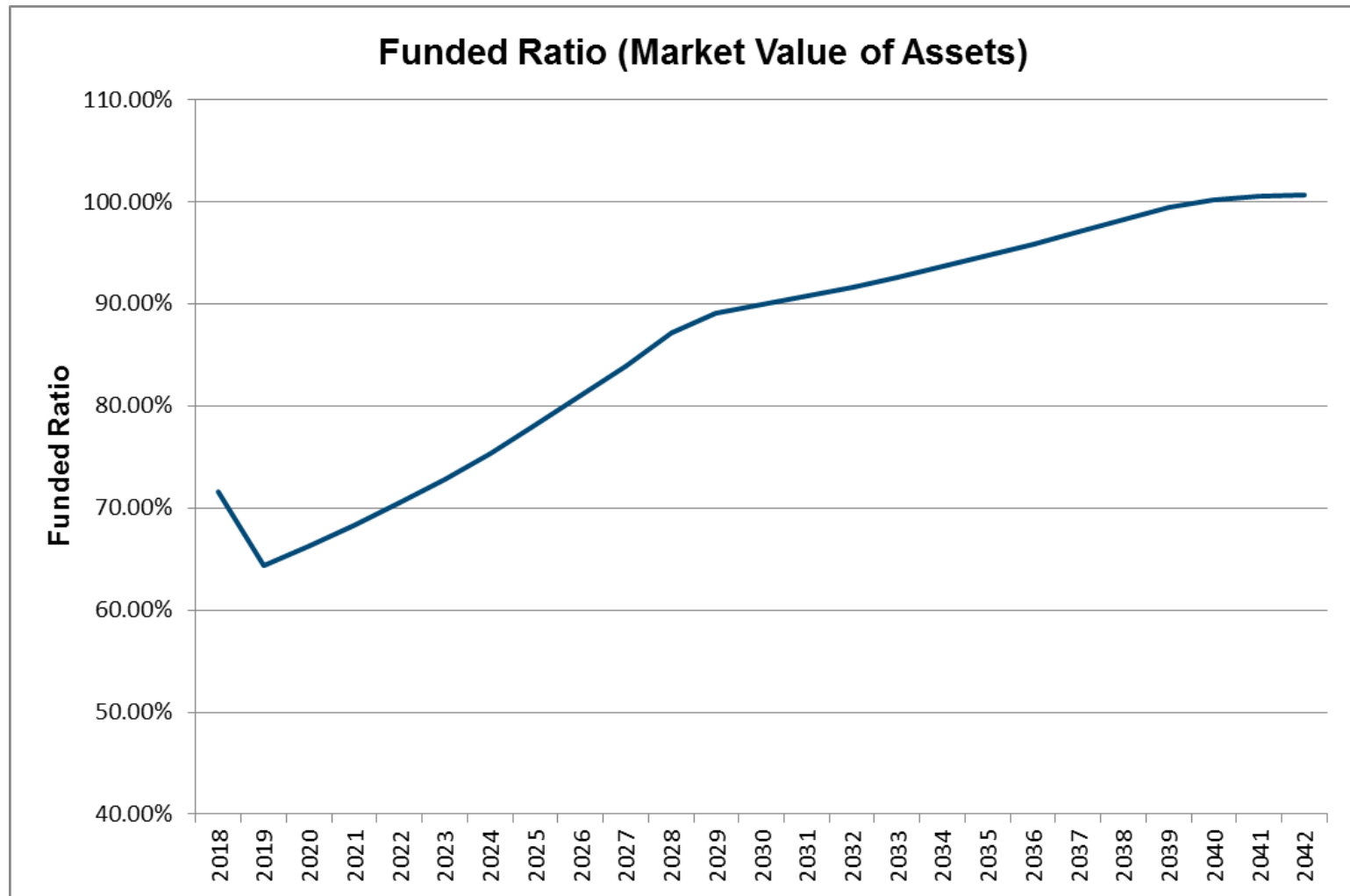


# Projections – Contributions



Projections based on -5.2% actual projected return for 2018, 7.0% per year thereafter.

# Projections – Funded Ratio



Projections based on -5.2% actual projected return for 2018, 7.0% per year thereafter.

# Projections



Year	Discount Rate	Contribution Rates <sup>1</sup>	Contribution Amounts <sup>1</sup>	Funded Ratios <sup>2</sup>
2018-19	7.125%	31.18%	\$54,239,000	71.6%
2019-20	7.00%	32.54%	\$58,313,000	64.4%
2020-21	7.00%	33.25%	\$61,384,000	66.2%
2021-22	7.00%	33.59%	\$63,859,000	68.3%
2022-23	7.00%	33.95%	\$66,480,000	70.5%
2023-24	7.00%	34.61%	\$69,813,000	72.8%
2024-25	7.00%	34.61%	\$71,903,000	75.4%
2025-26	7.00%	34.61%	\$74,059,000	78.1%
2026-27	7.00%	34.61%	\$76,286,000	80.9%
2027-28	7.00%	34.61%	\$78,581,000	83.9%

<sup>1</sup> Based on projected pensionable payroll; net of PEPRA member contributions.

<sup>2</sup> Based on market value of assets.

# 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.
- 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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