Humboldt County Pension Analysis

Run by GovInvest Pension Module Software

September 18, 2019

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Executive Summary

Humboldt County Funding Policy

CalPERS, through their annual valuation report, determines the minimum required employer contribution for past, current and future fiscal years. CalPERS experienced significant losses in years 2008 and 2009. In addition, CalPERS has reduced its discount rate to 7.00%. Any variation in assumptions made by the CalPERS actuaries may impact an agency's unfunded accrued liability (UAL), or the shortfall between plan assets and accrued liabilities/retiree benefits. The UAL is the present value of future employer contributions for service that has already been earned.

CalPERS, in its Amortization Schedule and Alternatives, understands that there is considerable interest from agencies in paying off the UAL sooner and the possible savings in doing so. This analysis illustrates the advantages of accelerating unfunded liability payments.

One such method that many agencies are utilizing to address their UAL is through an investment in a Section 115 Irrevocable Trust, approved by Internal Revenue Code, to provide a tax-exempt funding mechanism to prefund pension costs and offset pension liabilities.

Humboldt County would like to pay off its UAL sooner under a 115 Trust arrangement. To accelerate paying off the unfunded accrued liability in a reasonable time without hardship to its departments or taxpayers, Humboldt County will contribute up to an additional 2% employer contribution for all members of the Miscellaneous Plan of the County of Humboldt and Safety Plan of the County of Humboldt. The additional contributions will be placed in a 115 Trust.

Contributions to the 115 Trust would be employer contributions equal to a maximum of 2% of payroll. Assuming payroll increases 2% per year until 2022-2023 then 1.5% thereafter the actuarial software shows the additional 2% contribution will reduce the time for the Plans to become fully funded by 5 years. Currently, if all actuarial assumptions are realized, the software shows full funding in the year 2041. The software shows the additional contributions held in a 115 Trust, assuming 5% rate of return, will reduce the full funding date to early 2036. Without the 115 trust, the UAL is projected to be $85.5 million as of 2036. Upon full funding (with the 115 Trust) no further payments to the UAL will be required for bases prior to 2036. There will be a net savings of $32.5 million to the county, state and federal governments. The savings is the difference between the UAL at 2036 ($85.5 million) and the total contributions to the 115 Trust made up to 2036 ($53 million).

GovInvest used Humboldt County's latest CalPERS actuarial report and member census to customize the software. GovInvest tested and calibrated the results and compared them to the CalPERS actuarial report to confirm the results and projections are consistent. The GovInvest modeler may produce slightly different results then CalPERS. The above results have been reviewed by a credential actuary.

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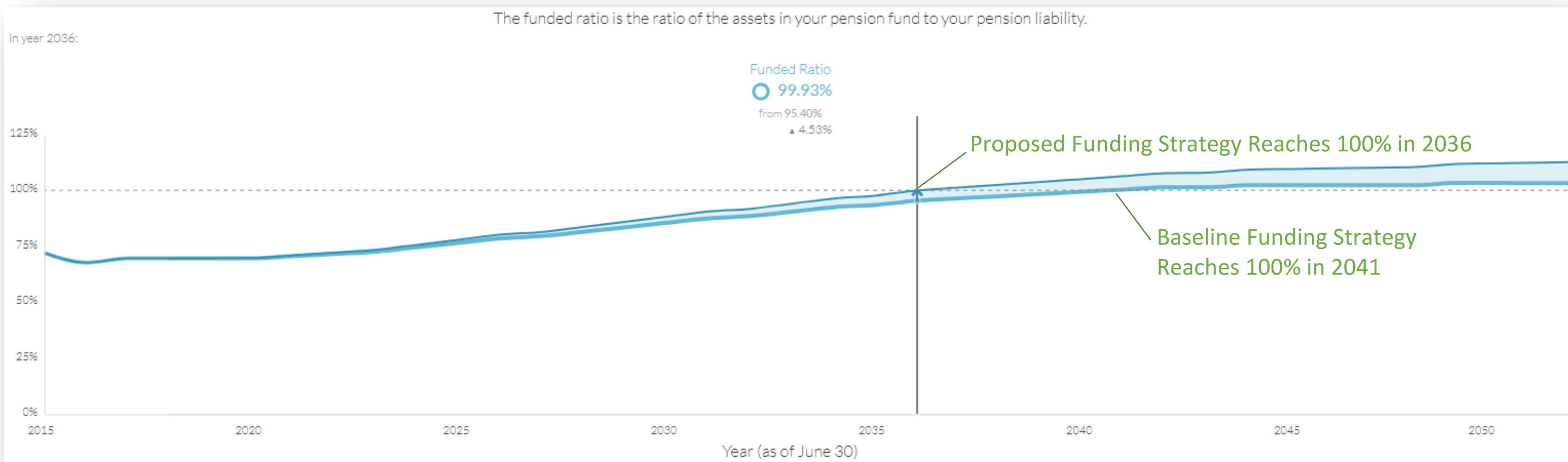
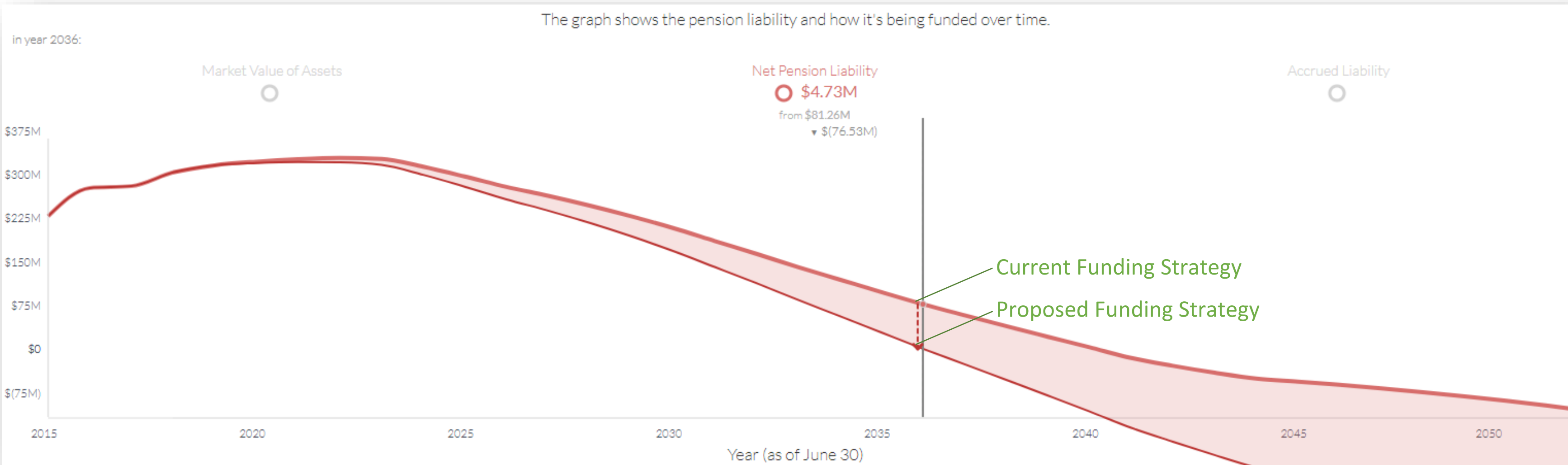


The Funded Ratio Chart shows the County's progress towards 100% funded in 2036, or no UAL. By contributing an additional amount equivalent to 2% of payroll, the County will reach 100% funded 5 years earlier than otherwise, saving departments, programs and taxpayers $32.5 million.



The net pension liabilities chart shows the County's outstanding pension liability year by year. The chart compares scenarios and shows the county reaching 0 UAL in 2036 vs. 2041 with the current funding strategy, and the net savings is $32.5 million.