

Attachment 2**REGULAR AGENDA**

5. Elect Chair and Vice-Chair

Nominated by Commissioner Pirie and seconded by Commission Alternate Gonzalez, the Committee voted unanimously to elect Commission Alternate Andy Schiffrin to serve as Chair of the Budget and Administration/Personnel Committee for the upcoming year.

Nominated by Commissioner Pirie and seconded by Commission Alternate Gonzalez, the Committee voted unanimously to elect Commissioner Jan Beautz to serve as Vice-Chair of the Budget and Administration/Personnel Committee for the upcoming year.

6. Approve Staff Recommendations on Establishing the RTC as an Autonomous Governmental Entity

CalPERS Actuarial Valuation Study Results – Oral Report by CalPERS Associate Pension Actuary David Clement

Out of respect for the guest presenter, the Chair proposed taking the CalPERS Study as the first order of business under this item.

Ms. Speiser provided some background on RTC's request for an actuarial valuation study. The valuation is required for new member agencies that wish to join the CalPERS retirement system and provides the basis for setting an initial employer contribution rate. As directed by the Budget and Administration/Personnel Committee, CalPERS treated the RTC as the "merger of a function" meaning that the RTC is assuming the transportation planning function from the County. This means that assets, liabilities and service history of RTC employees will be transferred from the County to the RTC's membership rather than the RTC starting out as a brand new agency with no service history.

CalPERS Associate Pension Actuary David Clement presented the following information about the results of the actuarial valuation study performed by CalPERS for the RTC.

- ▶ The valuation, valid through October 2006, calculated both the RTC's employer contribution rate to participate as a new member agency in the CalPERS retirement system and the impact of removing the RTC from the County's CalPERS membership.
- ▶ June 30, 2004 was the date used for the valuation since it was the most recent date for which complete data was available for both agencies.
- ▶ Assuming the RTC becomes autonomous as anticipated on October 1, 2006, the employer contribution rates for the RTC and the County will be 11.403% and 11.931% respectively for the period October 1, 2006 through June 30, 2007. The RTC's rate is .523% less than if the Commission remained with the County. The County's rate is .006% more than if the RTC did not separate.
- ▶ The difference in rates has to do with the fact that demographics of RTC participants are different from County employees. RTC participants have younger entry ages, different service, and a different weighted cost. Also, after autonomy, the RTC will participate in a risk pool of other small employers which are required to offer a

slightly different set of benefits to participants than those currently offered by the County.

- ▶ Under the "merger of a function" method, CalPERS service for RTC employees will be transferred out of the County's liabilities and into the RTC's liabilities. Assets will also be removed from the County's plan in order to fund part of RTC benefits. The funded ratio of the County (currently 85.5%) was used to determine the level of RTC assets to be removed. This County's funded ratio remains the same both before and after the RTC is removed.
- ▶ Because it has fewer than 100 employees, the RTC will be required to participate in a CalPERS risk pool of other small public employers in the state who offer their employees the 2% at 55 retirement benefit. Risk pool #2 which the RTC will join is 99.43% funded.
- ▶ All plans have two costs, the service accrual (normal cost) and the unfunded piece (the difference between the assets and liabilities which is amortized over several years.) Ideally, every plan would be funded at 100% although the County's current funding level of 85.5% is about normal. The 15% that the County is currently underfunded is due to the market crash 3-4 years ago and to the period when contributions to the retirement system were waived.
- ▶ An Employer Side Fund will be created for the RTC to account for the fact that the assets that the RTC will bring into the risk pool are less than what is required to maintain the funded ratio of the pool. If current CalPERS assumptions are met, the RTC will pay off this current unfunded liability over 25 years, the same amortization period currently used for the County.
- ▶ Two recent retirements that have occurred since the valuation will not have an impact on the RTC's rate since it will be joining a large risk pool (35,000+ participants) and contributions have been made all along for the individuals who have now retired. Any impact will be on the whole pool and should be minimal.
- ▶ Regarding volatility, the law of large numbers means that there is generally less risk in a large pool where assumptions are often closer to reality than in a smaller group. Due to its size, the RTC is mandated to join a risk pool in order to participate in CalPERS whereas affiliating with a risk pool is optional for the County.
- ▶ Fluctuations in rates are due to gains and losses in assets or liabilities. These fluctuations have led to CalPERS' recent rate stabilization policies. CalPERS uses the actuarial value of assets (rather than market value) to help smooth out contribution rates. Risk pools are another aspect of this. As long as current CalPERS policies don't change, rates should stay stable. CalPERS completes new valuations for each member agency annually in October.
- ▶ This study examined only the transfer of assets and liabilities from the retirement program and did not address the disposition of contributions made by the RTC to the County over the years to fund retiree health benefits.