



# RESOLUTION No. 19-264

## OF THE BOARD OF SUPERVISORS OF THE COUNTY OF NEVADA

### RESOLUTION ADOPTING A PENSION MANAGEMENT POLICY

WHEREAS, the Board of Supervisors desires to ensure prudent County fiscal management, including the adoption of policies such as the Pension Management Policy; and

WHEREAS, the pension management policy objectives are to recognize the fiscal challenge of pension funding, institute strong financial management practices and support fiscal prudence; and

WHEREAS, the policy includes practices to meet those objectives including among others: prepaying annual required contributions where funds are allowed, evaluating feasibility of alternative amortization schedules and implementing a pension funding stabilization program.

NOW, THEREFORE, BE IT RESOLVED, that the Nevada County Board of Supervisors hereby adopts the Pension Management Policy, attached hereto as Exhibit A.

PASSED AND ADOPTED by the Board of Supervisors of the County of Nevada at a special meeting of said Board, held on the 18th day of June, 2019, by the following vote of said Board:

Ayes: Supervisors Heidi Hall, Edward Scofield, Dan Miller, Susan K. Hoek and Richard Anderson.

Noes: None.

Absent: None.

Abstain: None.

ATTEST:

JULIE PATTERSON HUNTER  
Clerk of the Board of Supervisors

By: 



Richard Anderson, Chair

6/18/2019 cc:

CEO\*  
AC\*  
Dept. Heads\*

## Nevada County

### PENSION MANAGEMENT POLICY

#### Purpose

This Pension Management Policy is being implemented per direction from the County of Nevada Board of Supervisors to continue proactive measures in managing the County's pension plans. The Pension Management Policy recognizes the ongoing fiscal challenge of pension management. The Pension Management Policy recognizes the ongoing fiscal challenge of pension management. This policy's primary objective is to institute strong financial management practices and support fiscal prudence by: targeting the long-term health of the County's pension plan; encouraging stabilization of pension costs to avoid disruptions of services; smoothing the impact of pension costs to avoid extreme costs in any given budget year; maintaining budgetary flexibility to meet fiscal requirements in times of stress. Definitions of key pension terms are provided at the end of this policy.

#### Scope

This policy together with the County *Debt Management Policy*, the County *Fund Balance Reserve Policy*, and other county fiscal policies are consistent with those recommended by the Government Finance Officers Association (GFOA) and debt rating agencies, and reflect the best practices of county financial management.

In recent years, California Public Employees' Retirement System (CalPERS) has implemented policies that have resulted in recognition of increased unfunded liabilities and associated large increases in annual required pension contributions, with the goal of ensuring that pension plans are financially sound and ultimately fully funded.

The Nevada County Board of Supervisors has been proactive in using tools at its discretion to manage the County's pension liability and this policy continues those efforts. A second tier of benefits with reduced pension formulas was added to all pension plans prior to the January 1, 2013 at which time a third tier was added in accordance with Public Employees' Pension Reform Act legislation. This among other requirements, established new retirement formulas for employees hired after January 1, 2013, while redefining "pensionable compensation" to prohibit pension spiking, increased the pension retirement age, limited annual pension benefits payouts, and mandated employee cost sharing. In Fiscal Year 2016-17, the Board of Supervisors added significant dollars to the pension liability assignment of the General Fund, while in the same year an IRS 115 Irrevocable Pension Trust Fund was established to assist managing pension costs. The County has ongoing review of further actions to manage pension costs and liabilities.

This policy is applicable to the County's two defined benefit plans which are administered by CalPERS:

- Miscellaneous Plan of the County of Nevada hereafter referred to as the "Miscellaneous Plan." Includes all employees outside of those in the "Safety Plan."

- Safety Plan of the County of Nevada hereafter referred to as the “Safety Plan.” Includes certain employees in the offices of the Sheriff and District Attorney; approximately 9% of all county employees.

The County receives actuarial valuations prepared by CalPERS on an annual basis to identify the County’s annual required contributions, unamortized liability, and provide other details of the health and status of the pension plan. In 2012, the Governmental Accounting Standards Board (GASB) approved a new standard for pension reporting, GASB statement 68. The new standard includes reporting unfunded liabilities on the County’s balance sheet. The standard took effect with the 2014/15 Comprehensive Annual Financial Report of the County which improves transparency in reporting the County’s pension liability but do not directly impact the funding policies of pension plans.

### **Policy Objectives**

1. *Financial and Budget Stability*  
Having consistent financial resources to ensure stable core services to County Residents and smooth volatile costs over multiple fiscal years to avoid extreme costs in any given year. Every effort will be made to provide the same levels of service as previous fiscal years.
2. *Financial Sustainability*  
Promote county fiscal health by funding benefits to employees within available means while recognizing long-term obligations and proactively taking measures to build and preserve the ability to continue providing these benefits in the long run.
4. *Fully Funded Status*  
The Target Funded Status is 100% (full funding), including fully paying off the Unfunded Accrued Liability (see definition at end of this policy—also referred to herein as “unfunded liability”) related the County’s pension plans. The County’s goal is to accumulate sufficient assets to fund all projected benefit payments.

### **Policy**

1. *Actuarial Valuation*  
In accordance with best practices and generally accepted accounting principles, the County will receive an Actuarial Valuation for both (1) funding and (2) accounting for pension benefits annually from CalPERS. CalPERS, as the pension plan administrator, establishes actuarial assumptions for all pension plans under their administration. The CalPERS actuarial report provides updated analysis and information on: Funded Status, minimum Employer and Employee Contributions, Unfunded Liability Prepayment Options, and other key statistics.

The County Chief Executive Officer and Chief Fiscal Officer annually shall review the actuarial report including actuarial assumptions applied by the pension plan administrator to determine the impact on financial stability and sustainability.

The County Chief Executive Officer and Chief Fiscal Officer shall transmit a report and recommendations to the Board of Supervisors regarding the funded status and required contributions of the pension plans, along with recommendations to meet the Pension Policy Objectives.

The Auditor Controller shall use the available CalPERS reports as the basis for financial reporting in accordance with GASB 68 and the generally accepted accounting principles.

2. *Actuarially Determined Contribution (ADC)*

The ADC is the minimum required contribution to the pension plan, and is calculated annually and presented to the county in the annual CalPERS Actuarial Report. Pension costs including the normal cost and the monthly (or annual if prepaid) unfunded liability contribution to CalPERS will be translated to a percentage of payroll. The employer contribution of pension cost will be charged to departments as a percentage of payroll, in accordance with the department employees respective benefit plans.

The Chief Fiscal Officer shall each year budget the ADC and establish and maintain the necessary resources and reserves to ensure that this obligation is met annually. The County will prioritize the funding of the ADC above the funding of any supplemental contributions.

3. *Additional Pension Contributions*

One-time revenues and/or end of year budget surpluses will be identified and reviewed for potential contributions to the Pension Trust in addition to the ADC, to be used to meet pension objectives listed above, and accomplish pension management strategies below.

**Pension Management Strategies**

1. *Prepayment of Annual Required Contribution*

The pension plan administrator (CalPERS) at times may provide an incentive (or discount) for the County to pay a full year of unamortized liability contribution in advance at the beginning of the fiscal year, rather than remitting the contribution at each pay period during the fiscal year.

The Chief Fiscal Officer shall prepare a financial analysis on an annual basis when a financial incentive is offered to make a prepayment of the UAL contribution to determine whether this is in the best interest of the County. The analysis will take into account the savings and cash flow impact from remitting the pension contribution in advance compared to any costs of borrowing or financing. A recommendation shall be submitted to the Board of Supervisors through the county budget process.

## 2. *Alternate Amortization Schedules*

CalPERS applies an amortization period of up to 20 years for the amortization of the unfunded liability arising from each event (change in Actuarial assumptions; investment gain/loss; change in benefit, etc.). Without any additional action provided that the actuarial assumptions are accurate, the plan would move to a fully funded status within 20 years of the last event that created the liability.

County Staff will periodically evaluate the feasibility and cost-benefit of adopting alternative amortization schedules and make appropriate recommendations to the Board of Supervisors through the county budget process.

## 3. *Pension Funding Stabilization Program*

### a) Pension Trust

The Board of Supervisors has established an IRS Section 115 Trust (Pension Trust), exempt from federal taxes, to provide a mechanism to support the Pension Policy Objectives and Pension Management Strategies herein.

With incremental contributions and accumulation of assets, the Pension Trust provides long-term support to the health of the county pension plan. For example, accumulated Pension Trust dollars will allow for supplemental contributions to CalPERS during times where contribution rates are volatile or increasing, to smooth out the amount of county contributions required in a given budget year. The funds will also supplement other ongoing county funds to expand the options for savings, such as allowing for prepayment or alternate amortizations of the unfunded liability.

### b) Funding Trust

#### I. One Time Revenue

One time revenue or a portion of positive year end results causing a surplus will be considered for funding of Pensions Trusts.

#### II. Prepayment Savings

Contribute savings generated by the prepayment of annual contributions to the Pension Trust.

Contributions of one-time revenue and prepayment savings will be evaluated each year by the Chief Fiscal Officer and a recommendation will be made through the budget process.

#### III. The County will review and as allowable by law initiate measures to equitably use both General Fund and Non-General Fund dollars to fund the Pension Trust.

c) Target Balance

The target balance for minimum level of the pension funding stabilization program will be the level that results in stability to salary contribution rates. The minimum balance will be calculated annually by the Chief Fiscal Officer.

Balances accumulated above the minimum target balance for the trust shall be utilized to explore implementation of other pension management strategies described above.

d) Investing Assets

The Board of Supervisors has delegated the plan administrator function to the Debt Advisory Committee. The purpose of investing funds is to accumulate sufficient assets to implement this pension management policy. Assets that are in the irrevocable Pension Trust are not subject to standard county investment policies and laws governing county treasury investments.

Pension trust assets should be invested to achieve an objective of capital preservation prior to the target balance being achieved. After the target balance has been achieved, the trust assets should be invested to achieve a return that matches the discount rate used by actuaries to determine the actuarial liability, and that is equivalent to the average return on the pension assets invested by CalPERS.

The Debt Advisory Committee should regularly review and monitor the investment results. Annually the Debt Advisory Committee shall assess and recommend any adjustments to the investment strategies to the Board of Supervisors.

e) Withdrawing Assets

Assets contributed to the Irrevocable Trust are restricted by IRS rules to be used to pay county pension costs. These assets will be used to accomplish the objectives of this policy including to reduce the unfunded actuarial liability, support rate stabilization and mitigate expected contribution rates to promote budget stability and flexibility. Withdrawals of assets to meet these objectives will be recommended by the Chief Fiscal Officer through the annual budget process.

**Definitions**

Key actuarial or accounting terms related to pensions are defined below:

*Accrued Liability (also called Actuarial Accrued Liability)* – The total dollars needed as of the actuarial valuation date to fund all benefits earned in the past for current and retired members and their beneficiaries.



*Actuarial Assumptions* – Assumptions made about certain events that will affect pension costs. Assumptions can generally be broken down into two categories: demographic and economic. Demographic assumptions include such things as mortality, disability and retirement rates. Economic assumptions include discount rate, salary growth, and inflation.

*Actuarial Valuation* – The determination, as of a point in time (valuation date), of the Normal Cost, Accrued Liability, Annual Unfunded Liability Payment and related Present Value of Benefits for a pension plan.

*Actuarially Determined Contribution (ADC)* – Determined annually by the pension plan administrator (CalPERS) through the CalPERS Actuarial Report. This amount is determined by the sum of two components: the Normal Cost Rate and the annual payment on the Unfunded Accrued Liability. This equates to the required minimum employer contribution to CalPERS; and if paid on an ongoing basis, would be expected to provide sufficient resources to fund both the normal cost and amortized unfunded accrued liability for each year.

*Funded Status* – A measure of how well funded a pension plan is the ratio of the dollars we have versus the dollars we owe (market value of assets divided by accrued liabilities). A ratio greater than 100 percent means the plan has more assets than liabilities and a ratio of less than 100 percent means liabilities are greater than market value of assets.

*Normal Cost* – The annual cost of service accrual for a fiscal year for current active employees. The portion that is allocated to future years of service is referred to as future normal costs.

*Prepayment Contribution* – The pension plan administrator (CalPERS) at times may provide an incentive (or discount) for the County to pay a full year of Unfunded Accrued Liability (UAL) contribution in advance at the beginning of the fiscal year, rather than remitting the contribution with each monthly period during the fiscal year.

*Pension Benefit* – Pension benefits are provided pursuant to a defined benefit formula. The formula used by the retirement system will be based on key factors such as the benefit factor, service credit and final pensionable compensation. A simplified example is below:

$$\begin{array}{|c|} \hline \text{Service Credit} \\ \hline \text{(Years)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Benefit Factor} \\ \hline \text{(\% per yr.)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Final Pensionable} \\ \hline \text{Compensation} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Annual Pension} \\ \hline \text{Benefit} \\ \hline \end{array}$$

*Pensionable Compensation* – Pensionable compensation is defined in government code and retirement law and generally refers to the normal monthly rate of pay or base pay of the member paid in cash for employment rendered during normal hours according to publically available pay schedules.

*Pension Trust (Irrevocable IRS Section 115 Trust)*—A Trust that exists outside of the county treasury, authorized by Section 115 of the Internal Revenue Service code,

funded by county monies, invested according to county direction, which once in the trust are restricted to use for pension funding, including paying for county share of ADC, supplementing additional contributions, or otherwise being used to meet pension funding objectives.

*Present Value of Benefits (PVB)* – The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for current or retired members.

*Unfunded Accrued Liability (UAL, also referred to as “unfunded liability”)* – When the market value of the plan’s assets is less than its Accrued Liability, the difference is the plan’s Unfunded Accrued Liability (or unfunded liability). If there is an unfunded liability, the plan will have to pay contributions exceeding the *Normal Cost*.