

VENTURA COUNTY
SUPPLEMENTAL RETIREMENT PLAN COMMITTEE
Channel Islands Conference Room
September 23, 2020
11:30 a.m.

Members Present

Kaye Mand
John Polich
Shawn Atin
Jeff Burgh

Members Absent

Steven Hintz

Also Present

Patti Dowdy
Wanda Crane
Amanda Diaz
Tracy Sewell
Brad Wild
John Garrett
Ryan Gunderson
Jill Ward
Joanne McDonald

Ms. Mand called the meeting to order at 11:32 a.m.

1. Public Comments: None.

2. Committee Member Comments. None.

3. Minutes of July 8, 2020. Revise page 2, item 6 \$1.4bil to \$1.4mil. Mr. Burgh moved, and Mr. Atin seconded, to approve the minutes with the revision.

4. Review of the June 30, 2020 Actuarial Valuation. Mr. John Garrett, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting, LLC. reviewed the 6/30/2020 actuarial valuation of the Supplemental Retirement Plan (SRP) which includes parts B, C, and D. He stated that it is a challenging time for assets, with market returns yielding less than 4%; there have been headwinds due to investment returns. He then proceeded to discuss Part B, this has been the first year in a while that there has been an increase in active participants in the plan, an increase in compensation and EE/ER contributions, which means more amortization in the future. Mr. Garrett added that the payroll cost went down, and the Actuarially Determined Contributions (ADC) went from \$ 1,299,336 in 2019 to \$ 1,470,411 in 2020. With more funds coming into the plan, it will allow the plan to catch back up. He noted that Part B experienced an asset loss of \$ 318,613, as well as a liability loss of \$ 270,345; the liability loss was due to pay increases, changes in population (for example: older population than expected). He said the Part B unfunded liability went from \$ 3,465,642 to \$ 3,495,909 in 2020. Next, Mr. Garrett reviewed the Part C, which he noted there was no change. There are 27 retired participants in the plan, and the accrued liability goes down as the benefits are being paid out. The accrued liability went from \$ 442,128 in 2019 to \$ 428,002 in 2020; it is expected that the liability will go to zero next year. The goal is to be fully funded in the next valuation, and that there will be enough assets on hand to pay promised future benefits. Mr. Garrett then moved on to Part D, in which there are two active members. The plan gets cheaper, and one of the actives has reached their cap. The plan is trying to get caught up to fully funded, and this is a closed plan. He noted that last year, there was \$ 2,336,193 in assets, with the value of assets at just under \$1.9mil, the unfunded liability went down a bit and is on the path we want. The asset loss hurt a little, but it has not caused the contributions to increase. Mr. Garrett then discussed the Market Value of Assets. The assumption rate of return is 7.25%, and the actuarial value rate

of return this year was 5.97%. Over the past five years, there has been a more stable rate of return; reducing the impact of the volatile market with contribution rates. Mr. Garrett stated that parts C and D are moving along as expected, Part B is still open with a significant number of nonactive participants, the assets are more impactful, and there has been growth in the number of members which is a positive thing for payroll and means less in employer contributions for the County. Mr. Atin asked what the scenario would be if the discount rate were to go down, to which Mr. Garrett that 7.25% is the median rate of returns for large plans, the trend nationally is a little under that. If you lower the rate, it opens a larger unfunded liability and would require more funding. The standard of practice with valuations is to also present a risk assessment, which provides statistics on how volatile the plan funding will be based on volatility of capital markets. Mr. Garrett provided an overview of the risk assessment. The primary risk is asset volatility, the size of the plan assets relative to covered payroll is an important indication of the contribution risk for the plan. With any loss, we look at what it would take to make it up over the funding period. Right now, the contribution rate increase with a return of 10% lower than assumed is 2.46% for 2020 and is more volatile than 2018; 2019 was driven by a decrease in active population but has since been restored. Mr. Garrett added that there are other potential liabilities such as people living longer. He finished stating there is no risk greater than investments. Ms. Dowdy advised the Committee that the Plans' funding policy had been revised to change to the amortization method to what was approved by the Committee during their last valuation review in 2019. Mr. Garrett added that a new base is implemented every year, and language had also been included to allow them to make the necessary changes annually. Mr. Atin motioned to approve the 6/30/20 Actuarial Valuation and Risk Assessment Addendum and Mr. Burgh seconded the motion. The motion was carried. Mr. Burgh motioned to approve the revised funding Policy to include the change from 15-year closed to a level-dollar amortization method and Mr. Atin seconded the motion. The motion carried.

- 5. Plan Design Change and Draft SRP 457 Plan Document.** Ms. Dowdy discussed the pending plan design change from the current defined benefit to the 457 deferred compensation plan. She advised that during the July Committee meeting, the Committee had determined that the employee contribution rate for active and future employees would be 4.5%, and the employer contribution rate would be 3%, for the required 7.5% contribution to the SRP 457 Plan. In working with outside counsel, Ice Miller, on the development of the 457 Plan document a concern was raised about an IRS rule that prohibits offering employees an election to join a new plan with a higher employee contribution rate. The current contribution rate for active SRP employees is 3%. Ms. Dowdy also reminded the Committee that due to vesting protections active employee at the time of conversion must be given the option to opt-in to the 457 plan. The County cannot force them into the new plan. In order to adhere to thus IRS regulation, the employee contribution rate for current participants who opt-in to the 457 would need to remain at the current level of 3%. The employer contribution would then be 4.5% to reach the required 7.5% amount. By retaining the current contribution and providing the choice to opt-in we will then be meeting both the state vesting and IRS tax law requirements. She advised the Committee that a cost analysis was included illustrating maintaining a 3.0% contribution for current employees, and 4.5% contribution rate for future new employees. Mr. Garrett noted that there would be an approximate \$1.1mil increase in cost for the plan over the next 20 years but he added that the conversion created a substantial risk reduction to the County; therefore, CMC still recommends the change. Mr. Atin asked Mr. Garrett if he could explain in lay person why CMC still recommends the change. Mr. Garrett stated that it was very likely that the cost for the County to provide benefits in the future would increase, and the growing inactive population creates a growing future liability. With a larger

liability there is more risk in dollars. Since most participants are inactive, the future accruals are limited, and it doesn't make sense to carry on and maintain the growth; the benefit for most employees is often very small when they leave the plan and there are very little assets behind their benefit. Once the employee leaves, there are no longer any contributions and the County is on the hook for the growth of assets once the benefits begin being paid and thereafter. He said there is a lot of risk for the County to maintain and stay on top of future benefits. Mr. Garrett then gave an example with the 2020 Part B valuation, the ADC is \$1.47mil, less than 2/3 (\$1mil) cost of benefits earned, of which \$500,000 is funded for unfunded liabilities; this 1/2 the cost of the plan, 12.77% the County is on the hook for; with the largest portion is from the 2008-2009 asset losses. The county is funding over 15 years with interest accruals for approximately 10,500 inactive employees; most of the cost is benefits. He added that since this is a closed plan, it will carry a risk for all future years, and the County can provide a better benefit to its employees without asset risk. Mr. Atin then asked about if the County doesn't receive its investment return (for example, 6%), and it's lower than the assumed rate of 7.25% for an extended period, is it more expensive for the DB plan than a DC plan? Mr. Garrett said the worst thing is to maintain the same assumption, and that a reduction in percentage would increase the employer cost; if we look at the lower discount rate, it would cost 2-3% more for the plan. The market value of assets is not funding enough growth and it is a liability to fund inactive members. Ms. Dowdy noted that there are currently 10,439 inactive members in the plan. Mr. Atin asked Mr. Garrett what investment return would break even to keep to DB plan vs. changing to a DC plan (a guesstimate). Mr. Garrett stated that actuarially, it is far behind, there has been significant gain years but we're already behind. Most of the unfunded liability is the asset loss from 2008-2009, and it is still being funded. The markets didn't fully recover where we should be today, there are lower rates of return and therefore the DB plan is more expensive. Mr. Garrett noted that the DC plan can provide the same level of benefit and less liability; because most of the population in the plan is separated, the County is still on the hook for the liability at the market rate of return. This will grow 7.25% each year until the employees are no longer with us. Once we get caught up, it will cause more contributions, when we decline in returns, the dollar amount must be made up by contributions as the plan still has to pay benefits in future years. The Committee then discussed the draft plan documents. Ms. Dowdy noted that Fidelity will need the finalized document to set up the new 457 plan. Ms. Dowdy advised she had been working with outside counsel, Ice Miller, and our County Counsel, Mr. John Polich on drafting the document. She added that a draft document had been provided for their review. She noted that additional edits had been provided by Mr. Polich since this draft was prepared for distribution. Mr. Polich, then directed the discussion to the investment option language currently in the document and what option(s) the plan was required to provide participants. He noted that currently it is only a single investment option unlike our other current DC plans. He noted that if plans were self-directed then there wouldn't be a fiduciary responsibility; if participants are forced to contribute to one fund the County would be responsible for its performance. Mr. Atin stated that the Committee should look at plan documents and investment choices separately and suggest a range of options, if possible. Ms. Dowdy added that because this is not a normal DC plan, it's a Social Security replacement plan, there must be preservation of principal. The investment option offered needs to be conservative and the most appropriate was a stable value fund. be conservative, stable funds, will receive direction from Fidelity. Mr. Polich said that if we can find authorization in Safe Harbor that supports this and the trustee/fiduciary responsibility. Ms. Mand suggested to see if there is an IRS rule that covers this. Mr. Atin also noted that if this is a requirement, let's do it and we can revise the plan document and come back later; before we go to the Board. Mr. Atin motioned to set Employee contributions for SRP for future employees to 4.5% and keep current Employee

contributions at 3%; and Mr. Burgh seconded the motion. The motion was carried. Mr. Atin motioned to accept the new 457 Plan Document Draft (replacement SRP/replacement Social Security), delegating authority to Patti Dowdy and County Counsel to make any necessary revisions for submittal to the Board of Supervisors for approval. If additional discussion is needed regarding the investment options included in this plan, staff will return to Committee for direction and Mr. Burgh seconded the motion. The motion was carried.

Ms. Mand adjourned the meeting at 12:22 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Amanda Diaz". The signature is written in black ink and is positioned above the typed name and title.

Amanda Diaz
Safe Harbor Plan Coordinator