

CONSENT CALENDAR – AGENDA ITEM NO. 3
BOARD OF DIRECTORS MEETING
October 23, 2014

TO: Board of Directors, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **2014 Long Term Liability Study**

Summary:

This agenda item is submitted to provide information on the Orange County Fire Authority's (OCFA) total long term liabilities and strategies for mitigating and/or funding the liabilities.

Committee Action:

At its October 8, 2014, meeting, the Budget and Finance Committee reviewed and unanimously recommended approval of this item.

Recommended Actions:

1. Receive and file the report.
2. Direct staff to continue the Expedited Pension Unfunded Actuarial Accrued Liability (UAAL) Payment Plan to achieve long-term savings in pension costs.
3. Direct staff to evaluate potential cost saving options for OCFA healthcare plans offered to retirees in an effort to lower Retiree Medical costs.
4. Direct staff to continue seeking cost saving options related to Workers' Compensation, including the recently implemented Alternative Dispute Resolution Program.

Background:

In order to determine an agency's financial stability, one must look at all of its long term obligations or liabilities, not just pensions. The attached Liability Study (Attachment) examines all of OCFA's long-term liabilities including:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Lease Purchase Agreements (helicopters)
4. Workers Compensation Claims
5. Accrued Compensated Absences (accumulated sick and vacation payouts)

The OCFA has already taken steps to reduce some of its long-term liabilities and accelerate funding of other liabilities. Staff is committed to continue seeking additional ways to mitigate liability impacts, fund the accrued liabilities, and ensure the long term viability of the organization. In pursuing these actions, staff also seeks to assist OCFA's member agencies through financial efficiencies that will positively impact our cost of service.

Impact to Cities/County:

Strategic planning to reduce liabilities where possible, and provide early funding for those liabilities which cannot be reduced, will assist OCFA in sustaining frontline emergency services for our member agencies and the citizens we serve.

Fiscal Impact:

The Expedited Pension UAAL Payment Plan is already included in the Adopted Budget for FY 2014/15 and the five-year financial forecast. Continuous pursuit of the recommended actions stated above will lower OCFA's salary and benefit costs over the long term, ultimately reducing OCFA's expenditure budget and positively impacting our annual charges to cash contract cities.

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Attachment:

2014 Long Term Liability Study

ORANGE COUNTY FIRE AUTHORITY



2014 LIABILITY STUDY

THE OCFA'S LONG TERM LIABILITES

OCTOBER 2014

THE OCFA'S LONG TERM LIABILITY STUDY

I. OBJECTIVE

One of the key components of fiscal responsibility is prudent management of long-term liabilities. The objective of this annual study is to provide an accurate assessment of the OCFA's *total* long-term obligations and continuously identify strategies to reduce and/or fund the liabilities.

II. BACKGROUND

OCFA's long term liabilities include:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Lease Purchase Agreements (helicopters)
4. Workers Compensation Claims
5. Accrued Compensated Absences (accumulated sick and vacation payouts)

OCFA's biggest long-term challenges are pensions, retiree medical for retired employees, and workers' compensation claims. These costs can increase over time due to population aging and increases in healthcare costs. Both the Defined Benefit Pension Plan and the Defined Benefit Retiree Medical Plan currently have unfunded liability balances.

DEFINED BENEFIT PENSION PLAN

In a *defined benefit plan*, employees are promised *specific benefits* upon retirement. For example, a pension plan may promise employees that they will receive an annual retirement income determined in accordance with an agreed-upon formula (e.g., predetermined percentage of annual earnings x number of years of service).

The OCFA participates in the Orange County Employees' Retirement System (OCERS), a cost sharing multiple-employer, defined benefit pension plan. All OCFA regular, full-time and part-time employees become members of OCERS upon employment, and the OCFA makes periodic contributions to OCERS as part of the funding process. The contributions submitted to OCERS are divided into employer and employee contributions. The combination of these contributions and investment income from OCERS' investments are structured to fund the employees' retirement benefits by the time the employees retire.

The OCFA contributes to two employee categories identified as Safety members and General members.

Safety Members' Retirement

In October 2002, Safety members received the enhanced benefit formula of 3% @ 50. Initially, Safety members contributed 2% in 2002 and 4% starting in 2003. After October 2004, the contribution ended. Based on 2010 negotiations, Firefighter Safety employees hired prior to January 1, 2011, started a phased-in contribution in October 2010 of 2.5%, going up to 5% in 2011, 7.0% in 2012 and 9.0% in 2013. Chief Officer Safety members have a slightly different phase-in: 2.75% in 2011, 5.5% in 2012, 8.25% in 2013 and 9.0% in 2014. Employees hired after January 1, 2011, contribute 9.0% upon commencement of

employment. Employees hired after July 1, 2012, contribute 9% upon commencement of employment and will be included in a lower tier plan with a benefit formula of 3% @ 55 if they have reciprocity. Without reciprocity, new employees hired after January 1, 2013 will be included in the new tier plan required under the Public Employee Pension Reform Act (PEPRA), with a 2.7% @ 55 benefit formula contributing 9% of compensation earnable through June 30, 2014; thereafter, new employees' contributions changed to 50% of normal costs.

Effective January 1, 2018, employees hired prior to implementation of PEPRA will be required to begin contributing increased amounts for their employee share, until they reach the 50% of normal cost threshold. Under PEPRA, the annual increases for current Safety members cannot exceed 33% of their prior contribution rate (i.e., a firefighter contributing 9% prior to 2018 could not be required to contribute more than 11.97% in 2018 $[9\% * 1.33\% = 11.97\%]$).

General Members' Retirement

In July 2004, an enhanced retirement benefit of 2.7% @ 55 went into effect for General members, with employees contributing 6.0% since inception. Effective January 2011, members of the Orange County Employees' Association (OCEA) agreed to phased-in increases to their contribution rate to 7.25% in January 2011, 8.50% in July 2011 and 9.0% in February 2012. Employees hired after July 1, 2011, contribute 9.0% upon commencement of employment, and will be included in a lower tier plan with a benefit formula of 2% @ 55 if they have reciprocity. Without reciprocity, new employees hired after January 1, 2013 will be included in the new tier plan required under PEPRA, with a 2.5% @ 67 benefit formula contributing 9% of compensation earnable through December 18, 2014; thereafter, new employees' contributions will change to 50% of normal costs.

Effective January 1, 2018, employees hired prior to implementation of PEPRA will be required to begin contributing increased amounts for their employee share, until they reach the 50% of normal cost threshold. Under PEPRA, the annual increases for current General members cannot exceed 14% of their prior contribution rate (i.e., an employee contributing 9% prior to 2018 could not be required to contribute more than 10.26% in 2018 $[9\% * 1.14\% = 10.26\%]$).

OCFA Retirement Costs, Liabilities and Funding

OCFA's retirement costs represent approximately \$69.5 million or 21% of the Authority's FY 2014/15 General Fund budget. Each year, the Authority receives its retirement rates from OCERS. The total retirement rate has two components: the Normal Cost Component plus the current year's cost for the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost Component is the cost to pay for the current year's value of retirement benefits as earned. The UAAL Component is the accrued liability for past services which were not funded by prior contributions and investments.

The UAAL is determined by the actuary and is the difference between the present value of accrued liabilities and the value of assets as of a specific date. This amount changes over time as a result of changes in accrued benefits, pay levels, rates of return on investments, changes in actuarial assumptions, and changes in the demographics of the employee base. As of December 31, 2013, OCERS is 65.99% funded with a UAAL of \$5.4 billion. OCFA's portion of the UAAL is approximately 8.0%. In 2013, the OCERS' Board approved combining all previous UAAL layers into a single layer and a new layer for 2013 was formed. Both layers and the current equivalent single amortization period for OCFA's UAAL as calculated in the December 31, 2013 valuation are 20 years for both General and Safety.

Based on the December 31, 2013 valuation by OCERS, the Authority's total UAAL was \$449.8 million with \$379.7 million or 84.4% attributed to Safety members and \$70.1 million or 15.6% attributed to General members. The Safety member plans are currently 69.95% funded, and the General member plans

are 59.89% funded. The OCFA reduces its UAAL over time as part of the annual required pension contribution to OCERS as shown below:

General (2.7% @ 55, 2.0% @ 55, and 2.5% @ 67 CalPEPRA combined)

<u>Employer Rate</u>	<u>2013 Valuation</u>	<u>2012 Valuation</u>
Normal Cost	13.73%	13.51%
<u>UAAL</u>	<u>23.34%</u>	<u>24.76%</u>
Total	37.07%*	38.27%
Rate after 2-year phase-in		36.35%

Safety (3.0% at 50, 3% @ 55 combined and 2.7% @ 57 CalPEPRA combined)

<u>Employer Rate</u>	<u>2013 Valuation</u>	<u>2012 Valuation</u>
Normal Cost	25.70%	25.98%
<u>UAAL</u>	<u>24.14%</u>	<u>26.84%</u>
Total	49.84%*	52.82%
Rate after 2-year phase-in		49.66%

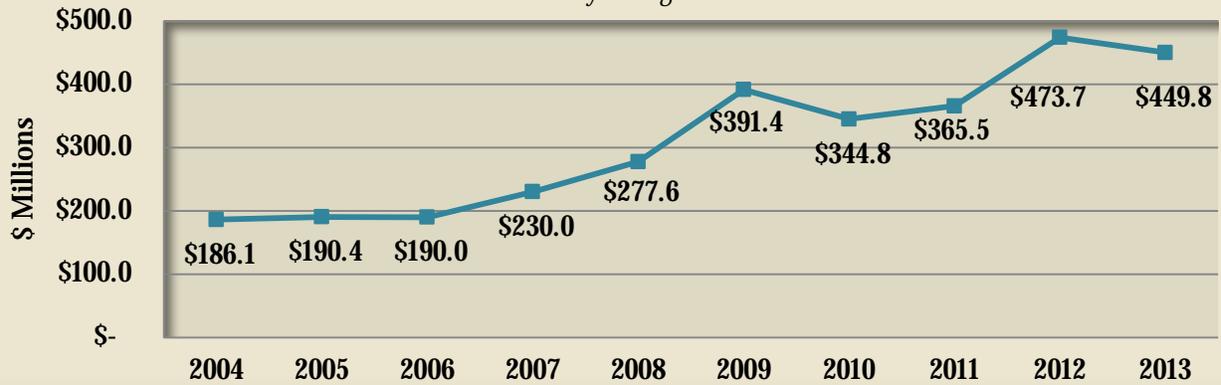
*Note: Totals do not include the *Employee Rates*, which vary from employee to employee based on age of entry. *Employee Rates* range from 7.59% - 16.32% for General members and 9.70% - 21.71% for Safety members.

For fiscal perspective, each 1% increment in retirement contributions for General members equates to an annual budgetary cost of \$214,903. Each 1% increment for Safety members equates to an annual cost of \$1,109,543.

OCFA'S PENSION UAAL

UAAL - UNFUNDED ACTUARIAL ACCRUED LIABILITY

The Pension Liability decreased as a result of OCERS exceeding the assumed rate of return and salary savings.



Two events have the greatest impact on plan funding: (1) plan changes, namely benefit formula changes and (2) differing actual experience requiring a modification in assumptions to reflect reality such as life expectancy. Other assumptions that impact the funding and UAAL include:

1. The assumed rate of return
2. The rate of increase in salaries
3. Member mortality
4. The age at which members choose to retire
5. How many members become disabled
6. How many members terminate their service earlier than anticipated

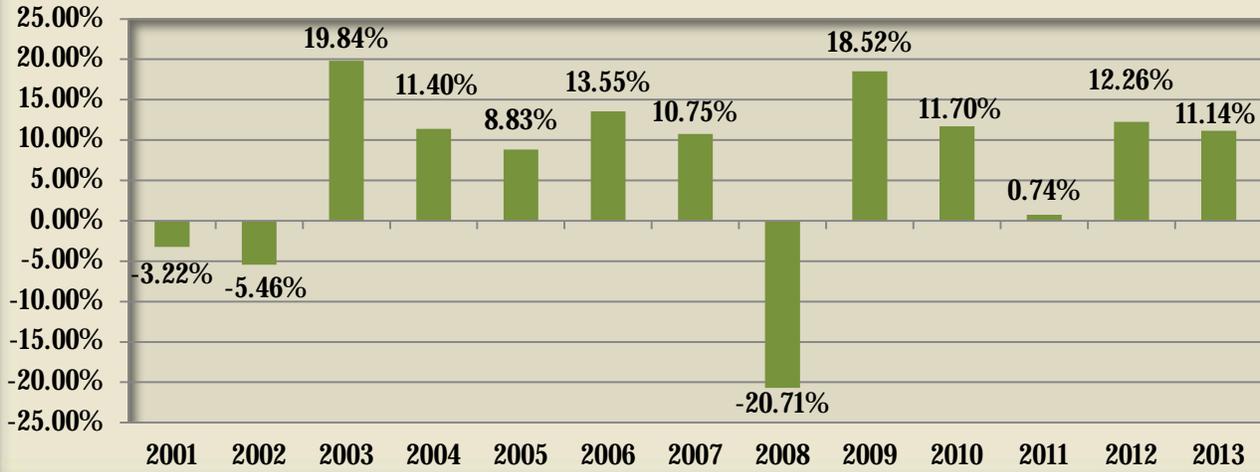
The assumed rate of return, also known as the discount rate, is a critical issue impacting OCFA's UAAL. The higher the discount rate, the lower the present value of pension assets needed to meet future pension obligations. A lower discount rate increases the current unfunded pension liabilities. In 2013, the OCERS Board voted to lower the interest rate assumption from 7.75% to 7.25% which increased OCFA's annual retirement costs by \$7.5 million. This increase was phased in over a two-year period starting in FY 2014/15.

This year, the UAAL decreased as a result of OCERS exceeding its assumed rate of return and salary savings. The actual return for 2014 was 11.14% versus the assumed rate of 7.25%. This in turn lowered OCFA's UAAL by \$23.9 million from \$473.7 million in 2012 to \$449.8 million in 2013. Of the \$23.9 million decline in the UAAL, Safety's UAAL declined by \$20 million and General's UAAL declined by \$3.9M.

The following chart shows a history of OCERS' investment performance. The timeframe selected is slightly longer than the 10-year timeframe used in OCERS' Annual Report in order to capture a full range of various returns and also to capture the most current year available. Although there have been years in which OCERS exceeded its assumed rate of return, the years in which OCERS incurred significant losses, such as the 21% loss in 2008, have a dramatic negative impact. OCERS' average return for the 13 years reflected below is 6.87%, which is below OCERS' assumed rate of return of 7.25%. When OCERS' actual return falls below its assumed rate of return, OCFA incurs higher retirement rates/costs.

OCERS' History of Performance (Based on Fair Value)

The average rate of return over the last 13 years is 6.87%



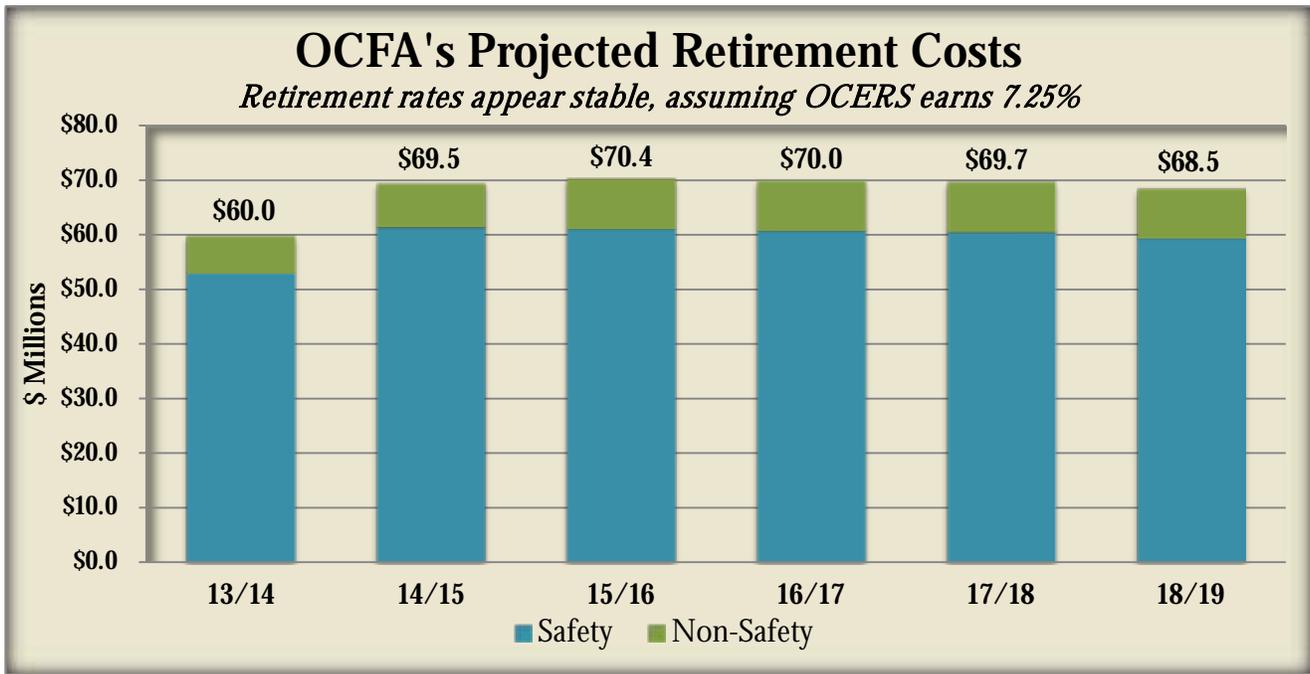
OCERS' investment return also impacts the funding level of the entire system, as demonstrated in the following chart. After the 21% loss in 2008, OCERS UAAL increased and its funding level began to drop. With positive returns exceeding the assumed rate of return in the past year, OCERS funding level has started to improve.

OCERS' Schedule of Funding Progress (Dollars in Thousands)

OCERS' funding level has declined recently

Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Accrued Liability (UAAL) (b-a=c)	Funded Ratio (a/b)
2004	\$5,245,821	\$7,403,972	\$2,158,151	70.85%
2005	5,786,617	8,089,627	2,303,010	71.53%
2006	6,466,085	8,765,045	2,298,960	73.77%
2007	7,288,900	9,838,686	2,549,786	74.08%
2008	7,748,380	10,860,715	3,112,335	71.34%
2009	8,154,687	11,858,578	3,703,891	68.77%
2010	8,672,592	12,425,873	3,753,281	69.79%
2011	9,064,355	13,522,978	4,458,623	67.03%
2012	9,469,208	15,144,888	5,675,680	62.52%
2013	10,417,125	15,785,042	5,367,917	65.99%

The chart below assumes OCERS will earn its assumed rate of return of 7.25% in future years



Note: Retirement costs are net of employee contributions, recently implemented new tiers, and include savings from OCERS prepayment of 50% each year. In FY 2014/15, OCERS gave a 7.25% discount on prepayments. Going forward, the OCERS Board voted to lower the discount only on prepayments to 5.8%. The assumed rate of return still stands at 7.25%.

The analysis of long-term obligations, including pensions, is an important part of credit rating agencies' review of local governments. A number of these agencies have been downgraded due in part to pension funding issues.

OCFA has taken steps to increase employee contributions, reduce benefits by establishing new tiers, and accelerate the paydown of the UAAL with the long-term goal to ensure adequate pension funding. However, other factors (such as OCERS' investment performance) are beyond the OCFA's control, yet these factors have a significant impact on determining retirement rates, and ensuring adequate funding.

Expedited Pension UAAL Payment Plan

In September 2013, the OCFA Board of Directors approved an Expedited Pension UAAL Payment Plan. The expedited plan will have the following benefits:

- Results in OCFA's pension liability being paid off sooner
- Earlier and larger contributions into the pension system result in greater investment income earned
- Greater investment income earned results in less money paid by the employer over the long term

OCFA's expedited payment plan involved three components including (1) use of year-end fund balance available, (2) contributing additional funds each year using savings achieved under PEPPRA or other annual actuarial gains, and (3) contributing an additional \$1 million per year in budgeted funds, with the annual budget allocation building to \$5 million per year by year 5.

The initial outcomes from the expedited payment plan implementation in FY 2013/14 and 2014/15 (detailed below), along with OCFA's anticipated future year expedited payments were submitted to OCERS' actuary for determination of how long it would take OCFA to achieve full payment of the

UAAL. *The actuary reported back that the expedited payment plan would achieve full payment of OCFA's UAAL in 13 years, assuming all other actuarial inputs are held constant.*

FY 2013/14 Additional Payments to Lower UAAL

In FY 2013/14, OCFA used the same Safety rate as FY 2012/13 which was higher. The additional contribution of \$2.5 million was used to pay down the UAAL for Safety members. In addition, as part of the approval of the Mid-Year Financial Report on January 8, 2014, the Board allocated \$3 million of available unencumbered funds identified in the FY 2012/13 annual financial audit to OCFA's UAAL. The payment was allocated to Safety and General based on their portion of the UAAL.

During FY 2013/14, OCFA made a total of \$5.5 million in additional payments to OCERS to pay down the UAAL.

FY 2014/15 Additional Payments to Lower UAAL

On July 1, 2014, OCFA made an additional \$18.3 million payment to OCERS to pay down the UAAL. This payment was required under the OCPFA and OCEA Memorandum of Understandings. The MOU side letters stated: "as of June 30, 2014, any remaining funds in the General Fund Cash Flow Reserve shall be used to pay down OCFA's unfunded retirement liability with the Orange County Employees Retirement System". The payment was allocated to Safety and General based on their portion of the UAAL.

NEW ACCOUNTING RULES

Currently, many governments disclose pension information in the footnotes of their financial statements and generally only report the contributions they are required to make in a given year, as well as what they actually paid. On June 25, 2012 the Government Accounting Standards Board (GASB) approved new standards that will affect how local governments report their obligation for pension benefits. Previously, no liability was recognized for a local government's obligation for pensions earned by employees as long as the local government paid the actuarially determined annual required contribution (ARC) for funding. Under GASB Statement 68, *Accounting and Financial Reporting for Pensions*, beginning with fiscal years ending June 30, 2014, most governments will begin reporting a liability in their financial statements for the unfunded portion of their retirement plans. Recognition in the financial statements alongside other liabilities such as outstanding bonds, claims and judgments, and long-term leases, will put the pension liability on an equal footing with other long-term obligations. OCFA is required to start reporting its pension liability in its financial statements as of June 30, 2015.

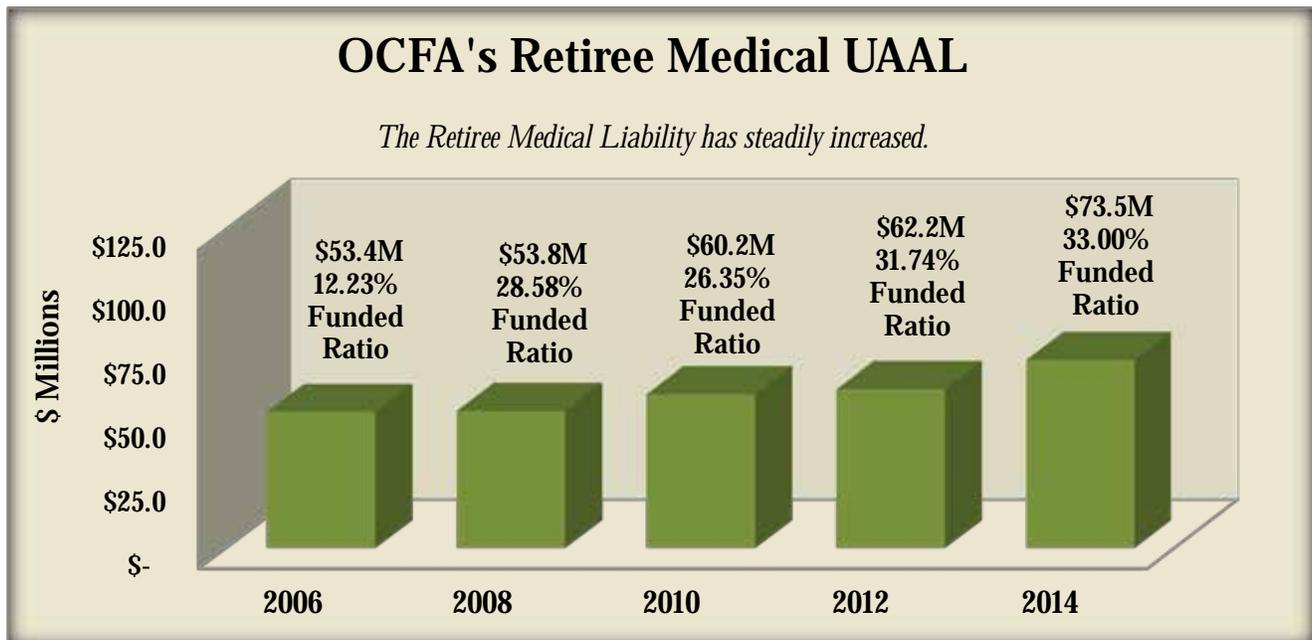
GASB also changed the formula states and local governments use to convert projected pension benefit payments into present value, based on an assumed "discount rate". The rate used will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments, as long as the plan's net position is projected to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve the return; or (b) a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long term expected rate of return are not met. If the projected benefit payments are discounted using the lower rate, then the present value will be higher and the liability will be larger.

DEFINED *BENEFIT* RETIREE MEDICAL PLAN

In addition to the OCFA's retirement plan administered by OCERS, the OCFA provides a post-employment medical retirement plan (Retiree Medical Plan) for certain employees. Employees hired prior to January 1, 2007 are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees' health insurance coverage based on years of service. The Plan's assets are held in an irrevocable trust for the exclusive benefit of Plan participants and are invested by OCERS. As such, if OCERS does not earn its assumed rate of return of 7.25%, the UAAL increases. Current active employees hired prior to January 1, 2007, are required to contribute 4% of their gross pay toward the Retiree Medical Plan.

Based on an actuarial study prepared by Nyhart Epler as of July 1, 2014, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is \$73.5 million. The UAAL is impacted by future retirees, spouses of retirees, a maximum 5% annual increase in the medical grant, and the investment return of the trust.

Under the Government Accounting Standards Board (GASB) Statement No. 45, OCFA is required to have an actuarial valuation performed on its Retiree Medical Plan every two years.



Note: Does not include implicit subsidy and uses OCERS assumed rate of return of 7.75% up to 2012 and 7.25% thereafter.

The benefit provided under the OCFA's Retiree Medical Plan is a negotiated benefit included in the various Memorandums of Understanding and the Personnel & Salary Resolution for employees hired prior to January 1, 2007.

The OCFA has previously approached funding issues and plan sustainability issues relating to this Plan collaboratively with its labor groups in order to identify options for improving the funding status. Similar to previous approaches, following receipt of the 2012 Actuarial Study for this Plan, management met with representatives of all three labor groups to review the findings. In 2013, we gathered ideas from labor for options that may be considered in the future to improve the funding status of the Plan and had the actuary

perform a special actuarial study to evaluate the various options and associated impacts on plan funding. The results of the special study were shared with each of the labor groups.

DEFINED *CONTRIBUTION* RETIREE MEDICAL PLAN

For employees hired on or after January 1, 2007, the OCFA created a *defined contribution plan* that is administered by the International City Management Association Retirement Corporation (ICMA-RC). The Plan provides for the reimbursement of medical, dental and other healthcare expenses of retirees. Employees are required to contribute 4% of their gross pay. Account assets are invested as directed by the participant and all contributions, investment income, realized gains and losses are credited to the individual's account. Under this plan structure, there is no UAAL.

LEASE PURCHASE AGREEMENTS

A Lease Purchase Agreement is a form of long-term debt used by government agencies to acquire buildings, vehicles, equipment and other capital assets. Within this type of lease, a lessee can apply lease payments annually toward the purchase of the property. In December 2008, the OCFA entered into a ten-year Lease Purchase Agreement to purchase two helicopters and related equipment for a purchase price of \$21.5 million. In 2011, OCFA refinanced the helicopters and lowered its interest rate from 3.76% to 2.58% saving \$444,000 over the remaining six years of the lease. As of June 30, 2014, \$10.7 million remains due, including interest and principal. The final maturity is in 2018.

During the FY 2014/15 budget development process, staff analyzed the feasibility of paying off the outstanding helicopter lease. Staff concluded that the early payoff of the obligation would have detrimental impacts on Fund 133: Vehicle Replacement Fund. The Fund would go negative within two years of paying off the lease which means there would be no funding available to purchase needed fire apparatus; therefore, staff is no longer pursuing early payoff of the lease agreement.

WORKERS' COMPENSATION CLAIMS

In March 2002, OCFA implemented a workers' compensation self-insurance program. A separate fund called Fund 190: Self Insurance was established in May 2003 to track funding and expenditures for workers' compensation claims liability. The funding sources include revenue from the General Fund and interest earnings. The required funding levels are determined by an independent actuarial study. As of June 30, 2014, OCFA's total workers' compensation liability is \$56.7 million. Although the workers' compensation program represents a large liability for OCFA, it is important to note that it is a **fully-funded** liability. OCFA has \$56.7 million set-aside in reserves to pay this liability as the various medical claims and bills become due.

This liability reflects the present value of estimated outstanding losses at the 50% confidence level. A confidence level is the statistical certainty that an actuary believes funding will be sufficient. For example, a 50% confidence level means that the actuary believes funding will be sufficient in five out of ten years. The Workers' Compensation Funding Policy that was adopted by the Board on May 27, 2010, sets the funding level at 50% for outstanding losses and 60% for projected losses.

OCFA's Workers' Compensation Claims

The WC liability is growing and OCFA has fully funded this liability with additional reserves



There are several contributing factors to the liability increase including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent disability benefits; increased medical costs; and an increase to the workforce in 2012 with the addition of the City of Santa Ana. The City of Santa Ana reimburses the OCFA for injuries that initially occurred on or before April 20, 2012.

In addition, the outstanding and growing liability reflected in the above chart reflects the fact that although the entire future cost of claims are recorded in the year of injury, the actual payment of that claim does not occur immediately. The cash flow payments for many workers' compensation cases occur slowly over time, with an average of up to 7-10 years. Therefore, it is a natural occurrence that the unpaid liability for a new self-insured system will grow for about 5-7 years as the unpaid liabilities stack on top of each other for those initial years. Upon maturity, the amount of unpaid liability should level out, and continued increases at that point in time are more likely purely driven by other forces, such as increased medical costs, increased claim activity, legislative changes and case law.

ACCRUED COMPENSATED ABSENCES

Compensated absences are commonly described as paid time off made available to employees in connection with sick and vacation time. If employees do not use all of such compensated absences, a liability is accrued for the unused portion. The OCFA's policy allows employees to accumulate earned but unused sick and vacation pay benefits.

The majority of sick and vacation payouts occur at the time an employee retires. The OCFA has budgeted \$3.5 million for sick and vacation payouts in FY 2014/15 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2014 is \$16.2 million.

OCFA's Compensated Absences

The Sick/Vacation Payout Liability remained relatively flat from last year



**FY 11/12 corrected to include Santa Ana General Leave Balances. The City of Santa Ana reimburses the OCFA for uses of transferred Leave Balances.*

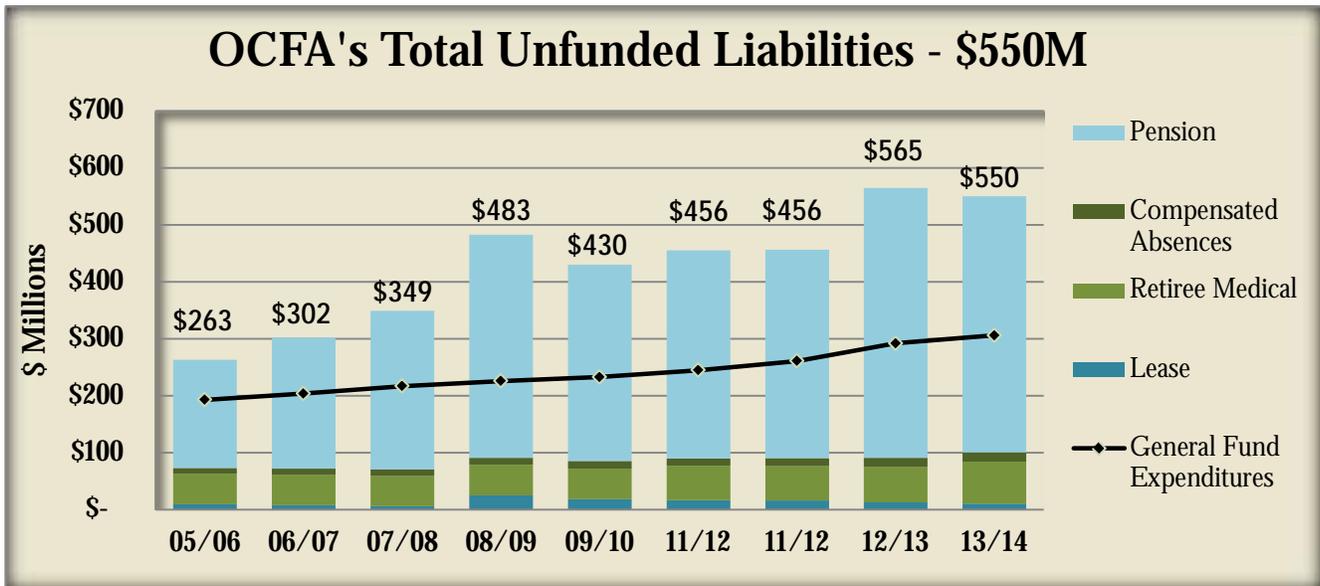
In 2013, the OCFA City Managers' Budget and Finance Committee recommended that staff evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances. Staff has been gathering information from other jurisdictions that have taken action, or are pursuing creative strategies for reducing these liabilities.

III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2014 are as follows:

	<i>\$ Amount in Millions</i>	<i>% of Total</i>
Defined Benefit Pension Plan	\$449.8	82%
Defined Benefit Retiree Medical Plan	73.5	13
Helicopter Lease Purchase Agreement	10.7	2
Accrued Compensated Absences	16.2	3
Total	\$550.2	100%

As shown in the chart below, over the last nine years, OCFA's total long term, unfunded obligations have increased by \$287 million or 109%.



Note: Workers Compensation was removed since it is fully funded by a reserve fund.

ACTIONS TAKEN

OCFA has already taken several steps to manage its long-term obligations:

1. On June 26, 2014, the Board approved an Alternative Dispute Resolution process for disputed workers' compensation cases, also known as a Carve-Out program. The State has approved the program and it was implemented on October 1, 2014.
2. On September 26, 2013, the Board approved a strategy to expedite the pay down of OCFA's pension liability. Under this Plan, the actuary, the Segal Company, estimates this liability will be paid in 13 years.
3. Completed a special actuarial study relating to the OCFA's Retiree Medical Defined Benefit Plan to evaluate options for potential plan amendments which could improve plan funding, subject to future negotiation with OCFA's labor groups. The results of the study were shared with the labor groups.
4. Evaluated the financial feasibility of paying off the outstanding lease financing obligations associated with the OCFA's helicopters, as part of the 2014/15 budget development process.
5. Directed staff to evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances, subject to future negotiation with OCFA's labor groups.
6. Implemented a trigger formula connecting future pay raises for all OCFA employees to OCFA's financial health.
7. Implemented lower retirement formulas for all labor groups.
8. Implemented increased employee retirement contributions, phasing in to 9% for all labor groups.
9. Refinanced the helicopter lease to lower the interest rate.
10. Established a cash flow reserve, enabling annual prepayment of retirement contributions to achieve a discount.
11. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
12. Provided a study to the Board of Directors regarding the feasibility of changing automatic Cost of Living Allowance (COLA) increases for pensions and transmitted a copy of the report to the

County Board of Supervisors and the OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension COLAs under the authority granted by the '37 Act.

RECOMMENDATIONS

Recommended actions pending approval of this staff report include:

1. Receive and file the report.
2. Direct staff to continue the Expedited Pension UAAL Payment Plan to achieve long-term savings in pension costs.
3. Direct staff to evaluate potential cost saving options for OCFA healthcare plans offered to retirees in an effort to lower Retiree Medical costs.
4. Direct staff to continue seeking cost saving options related to Workers' Compensation, including the recently implemented Alternative Dispute Resolution Program.

CONCLUSION

In order to strategically fund long-term liabilities, OCFA must continue to strategically balance present-day needs with future commitments. The goal is for OCFA's budget over the long-term to be able to fund all of its long-term liabilities.

Some of the components of this management include:

1. Continue to find ways to reduce long-term costs
2. Fully fund pension annual pension accruals
3. Explore ways to save money on healthcare for retirees