



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Human Resources Department



DATE: November 28, 2011
BOARD MEETING DATE: December 13, 2011
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: Donna Vaillancourt, Human Resources Department Director
Peter Bassett, Benefits Manager

SUBJECT: Agreement with California Public Employee's Retirement System
(CalPERS) to Pre-fund Other Post-Employment Benefits (OPEB)

RECOMMENDATION:

Adopt a Resolution authorizing the Human Resources Director to:

- 1) Continue the County's Agreement with CalPERS to pre-fund OPEB benefits;
and
- 2) Select CalPERS' moderate investment strategy with a discount rate of 7.06%,
instead of the current 7.75% rate.

BACKGROUND:

In May 2008, after a formal Request for Proposals (RFP) process, the Board of Supervisors approved an agreement with CalPERS to establish an irrevocable trust as required by the Government Accounting Standards Board (GASB). At that time, the County made a contribution in the amount of \$145.4 million to the CalPERS trust to reach a 90% funding ratio of the County's retiree health liability of \$156.8 million. Each year, the County contributes 100% of its Annual Required Contribution (ARC) to the trust. The ARC is the annual amount the County would have to pay to fund its retiree health liabilities over time. The County requests disbursements from the CalPERS trust to pay the County's monthly retiree health insurance costs.

In June 2011, with a three-year period to draw from, County staff believed it was prudent to review CalPERS services and performance as well as those of other providers. An OPEB Trust RFP Committee was formed and included: Jim Saco (Budget Director, County Manager's Office), Lilibeth Dames (Retirement Analyst, SamCERA), Jim Steele (Finance Director, South San Francisco), Peter Bassett (Benefits Manager, Human Resources), and Margaret Jadallah (Managing Director, Bivium Capital, and former SamCERA Board Member). SST Benefits Consulting, a firm that specializes in

employee benefit investment services, guided the committee through the RFP process and assisted in the analysis of proposals.

DISCUSSION:

The committee received four responses to the RFP and selected Public Agency Retirement Services (PARS) and CalPERS as finalists. After a thorough review of the finalist proposals including interviews with each company, the Committee is unanimously recommending that the County continue its existing contract with CalPERS to pre-fund retiree health benefits. Based on a comparison of two similar portfolios (one from CalPERS and one from PARS) with comparable rates of return, CalPERS fees are expected to be approximately seven basis points less than PARS, a cost difference of over \$100,000 per year.

In addition to being the lowest cost provider of OPEB Trust services, CalPERS offers minimal administrative oversight. The County has the option of choosing one of three investment strategies: moderately aggressive (7.61%), moderate (7.06%) and conservative (6.36%). The County's funds are pooled with those from other agencies, amounting to over \$1.8 billion of public employer assets. The PARS approach requires a more active strategy involving a custom Investment Policy and an advisory body to oversee fund performance. Given that the County is over 70% funded, the RFP Committee believes that the more conservative pooled approach with other employer assets continues to be the appropriate choice.

To reflect decreased long-term investment returns, County staff is recommending the selection of CalPERS' moderate investment strategy with a discount rate of 7.06%. This investment strategy includes a higher percentage of bonds and treasuries and less equities.

The RFP Committee's recommendation to continue with CalPERS was presented to the Finance and Operations Committee on October 25, 2011.

A new or amended agreement with CalPERS is not necessary as the existing contract with CalPERS continues until termination of services.

County Counsel has reviewed and approved the Resolution as to form and content.

Continuing the Agreement with CalPERS contributes to Shared Vision 2025 of a Prosperous Community by ensuring that the County continues to effectively manage its retiree health liability.

FISCAL IMPACT:

Selecting the more conservative 7.06% discount rate will result in an increase in the County's Annual Required Contribution (ARC) of approximately \$1.3 million this fiscal year. However, the more conservative investment approach should result in reduced losses during times of market instability. This impact to the ARC could be offset by favorable investment returns in future years.

RESOLUTION NO. _____

BOARD OF SUPERVISORS, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

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RESOLUTION AUTHORIZING THE HUMAN RESOURCES DIRECTOR TO 1) CONTINUE THE COUNTY'S AGREEMENT WITH CALPERS TO PRE-FUND OPEB BENEFITS; AND 2) SELECT CALPERS' MODERATE INVESTMENT STRATEGY WITH A DISCOUNT RATE OF 7.06%, INSTEAD OF THE CURRENT 7.75% RATE.

RESOLVED, by the Board of Supervisors of the County of San Mateo, State of California, that

WHEREAS, in May 2008, after a formal Request for Proposals (RFP) process, the Board of Supervisors approved an agreement with the CalPERS to establish an irrevocable trust as required by the Government Accounting Standards Board (GASB).; and;

WHEREAS, in June 2011, with a three-year period to draw from, County staff believed it was prudent to review CalPERS services and performance as well as those of other providers, and formed an RFP Committee to conduct a formal RFP for OPEB Trust services; and

WHEREAS, the RFP Committee is unanimously recommending that the County continue its existing contract with CalPERS to pre-fund retiree health benefits because CalPERS is the lowest cost provider and it offers minimal administrative oversight; and

NOW, THEREFORE, IT IS HEREBY DETERMINED AND ORDERED that the Board of Supervisors hereby authorize the Human Resources Director to continue the County's Agreement with CalPERS to pre-fund OPEB benefits; and

BE IT FURTHER RESOLVED that the Board of Supervisors hereby authorizes the Human Resources Director to select the CalPERS' moderate investment strategy with a discount rate of 7.06%, instead of the current 7.75% rate.

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