



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 5

MEETING DATE: June 21, 2017

SUBJECT: Interest Crediting Rate on Member Contribution Accounts for June 30, 2017

SUBMITTED FOR: X Consent **Deliberation** and Action **Receive** and File

RECOMMENDATION

Staff recommends the Board authorize staff to credit interest to member contribution (employee reserve) accounts for the six-month period ending June 30, 2017, at a rate that is equal to one-half of the 5-year Treasury Note rate in effect on June 30, 2017 or equal to one-half of the interest rate applied to the other valuation reserves, whichever is lower.

The Board's approval of this request prior to the effective interest crediting date will enable staff to more efficiently serve our members, since the interest crediting process will commence in early July. This will enable more expedient processing of retirement applications, contribution withdrawals, and public service credit purchases.

PURPOSE

To comply with the requirements of County Employees' Retirement Law of 1937, Article XVI, Section 17 of the California Constitution, and other provisions of state and federal law applicable to public retirement systems requiring SCERS to apply available earnings to the active member contribution reserves.

DISCUSSION

In accordance with the law and the Board's Interest Crediting and Unallocated Earnings Policy, interest is credited to member contribution accounts semi-annually on June 30th and December 31st. **Staff estimates that SCERS will have sufficient funds to credit the member contribution accounts at one-half of the 5-year Treasury Note rate to be published for June 30, 2017, and to credit all valuation reserves at the overall 3.69% interest crediting rate for the six-month period ending June 30, 2017 or 7.07% annually.**

Staff's interest crediting estimate is based on the estimated 2016-2017 fiscal year-end financial data, most significantly impacted by SCERS' investment performance for the fiscal year and the portion of net deferred losses to be recognized in valuation assets for this fiscal year.

Estimate of Funds Available for Interest Crediting

The following findings were applied in estimating the funds available for interest crediting:

	June 30, 2016	May 31, 2017	Increase
Market Value of Assets (in Millions)	\$7,680.9	\$8,521.3	\$840.5

SCERS' actual gain on the market value of assets as of May 2017 approximated \$973.7 million (or 12.7%). This increase in market value exceeds the expected annual increase of \$576.9 million by \$396.8 million, which will be recognized in valuation assets over the seven-year actuarial smoothing period.

	FY 2016-2017 (in Millions)
Average Market Value of Assets	\$7,692.7
Expected Return (7.5%)	\$576.9
Estimated YTD Return as of May 31, 2017	\$973.7
Return in Excess of Expected Return	\$396.8

One-seventh, or \$56.7 million, of the \$396.8 million gain will be recognized in valuation assets for fiscal year 2016-17. When combined with the \$75.7 million of net deferred losses to also be recognized this year, the net loss to be recognized in 2016-17 is \$19 million.

	<i>(Amounts stated in Millions)</i>		
	Amount	FY 2016-2017 Gains/(Losses) Recognized	Deferred Gain/(Loss)
Net Deferred Loss as of June 30, 2016	(\$555.5)	(\$75.7)	(\$479.8)
Return in Excess of Expected Return FY 2016-2017	\$396.8	\$56.7	\$340.1
Net Deferred Loss as of June 30, 2017		(\$19.0)	(\$139.7)

The estimated amount available for interest crediting during the current fiscal year is as follows:

	Amount (in Millions)
Expected Return (7.5%)	\$576.9
FY 2016-2017 Loss Recognized	(\$19.0)
Total Available for Interest Crediting FY 2016-2017	\$557.9
Interest Credited in December 2016	(\$258.1)
Available for Interest Crediting in June 2017	\$299.8

The assumed annual increase in asset market value is based on the estimated average market value of net assets. However, the actual interest crediting obligation as of June 30, 2017, will be based on (1) the actuarially smoothed value of valuation reserves, rather than the market value of net assets; and (2) the adjusted balance of the valuation reserves as of the June 30, 2017 actuarial valuation.

Estimated Interest Credits

The estimated amount required to credit all valuation reserves at the assumed earnings rate of 7.50% and the estimated amount available for interest crediting for the 2016-17 fiscal year are shown below:

	Amount Required to Credit All Valuation Reserves at the Assumed Earnings Rate (7.5% Annually)	Amount Available for Interest Crediting	Estimated Interest Crediting Rate		
			Employee Reserves	All Other Reserves	Total
December 2016 Interest Crediting	\$297.3 million	\$258.1 million	0.965%	3.490%	3.256%
June 2017 Interest Crediting	\$304.6 million	\$299.8 million	0.875%	3.973%	3.691%
FY 2016-2017	\$601.9 million	\$557.9 million	1.848%	7.602%	7.067%

Valuation reserves were estimated based on actual contribution and benefit payment experience through May 31, 2017 and a projection of consistent experience for the month of June 2017.

Variability of Estimated Interest Crediting for June 30, 2017

The 5-Year Treasury Note rate that will be used in determining the interest crediting rate for member contribution accounts as of June 30, 2017. As of June 8, 2017, the 5-Year Treasury Note rate was 1.75%. If that is the rate on June 30th, member contribution accounts for the six-month period ending June 30th would be credited with 0.875% interest.

While the rate could increase between now and June 30th, under the Interest Crediting and Unallocated Earnings Policy, the employee reserve crediting rate would be capped at one half of the amount applied to other valuation reserves (i.e. one half of 3.97% or 1.75%).

This estimate may change if investment returns in June are substantially lower, if the Treasury Note rate changes, or if the ratio of employee reserves to total valuation reserves varies from staff estimates. However, an increase in the Treasury Note rate will not affect the amount needed to credit all reserves.

BACKGROUND

The Interest Crediting and Unallocated Earnings Policy provides guidance pertaining to member contribution accounts:

Interest will be credited to the active employee contribution reserves semi-annually. The interest crediting rate will be one-half of the United States 5-Year Treasury Note Rate for the last business day of the interest crediting period in the Federal Reserve Statistical Release H.15 Selected Interest Rates, with the following provisos: (a) the active member contribution reserves interest crediting rate will be no greater than one-half of the actuarial assumed earnings rate (currently 7.50%); and (b) if the projected interest crediting rate for the other valuation reserves is less than one-half of the overall target crediting rate for the valuation reserves (i.e., 3.75% or one-half of 7.50%), the interest crediting rate for the active member contribution reserves will be one-half of the interest rate applied to the other valuation reserves or one-half of the Treasury Note Rate, whichever is lower.

ATTACHMENTS - None

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