

The Pension Trust

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How Well-Funded is Your Pension?

Try and contain your excitement – the [2023 Annual Actuarial Valuation](#) for the Pension Trust is complete. Who doesn't love to read actuary writing! The soaring prose, the sharp humor, the drama of mortality assumptions!

In all seriousness, The SLO County Retirement Plan is your Defined Benefit pension plan (the Plan) that is administered by the Pension Trust. Naturally, you are concerned that there will be enough funds to pay your pension over many years.

How do we measure what the Pension Trust owes to current and future Retirees?

The Pension Trust uses an **Actuary** to estimate what the average pension benefits will be and how long we will be paying them – in other words, what are the liabilities of the Plan. This covers how many Members we have, their pay, estimated pay increases, estimates of when they will retire, and estimates of how long they will live.

The Actuarial Valuation estimates the total liabilities of the Retirement Plan for the existing group of retirees and active members (not including future new entrants to the pension). It measures benefits that have been earned and accrued up to that date.

What are the Assets and Liabilities of the Retirement Plan for 2023?

The total **Actuarial Accrued Liability** (AAL) is compared to the **Actuarial Value of Assets** (AVA) which is smoothed over 5 years.

For 2023 –

Liabilities (AAL) = \$ 2.6 billion

Assets (AVA) = \$ 1.7 billion

Unfunded Actuarial

Liability (UAL) = \$943 million

Funded Ratio = 64.1%

Pension Contribution Rates combine these measures of Assets and Liabilities with the actuarial funding policy to calculate the necessary pension contributions as a percentage of pay to fund the pensions. The total level of pension contributions from the 2023 Actuarial Valuation is **52.81%**

of pay. It is divided between employees and employers pursuant to various collective bargaining agreements.

There are two components to pension contribution rates –

Normal Cost = the pension cost including administrative expenses allocated to each year. It can be viewed as the cost of accruing another year of service. **For 2023 the total average Normal Cost is 22.25%** of pay. California laws require that Employees pay at least 50% of Normal Cost. Different Bargaining Units and different pension formulas have different Normal Cost Rates that reflect the actual pension benefit formulas.

Unfunded Actuarial Liability Amortization = the amount to pay-down the UAL over 20 years. Much like a mortgage payment it includes paying principal and interest. **For 2023 the total UAL Amortization is 30.56%** of pay.

Total Annually Determined Contribution (ADC) cost = 52.81% of pay.

Increases in Pension Contributions for 2023 (implemented in 2024) -

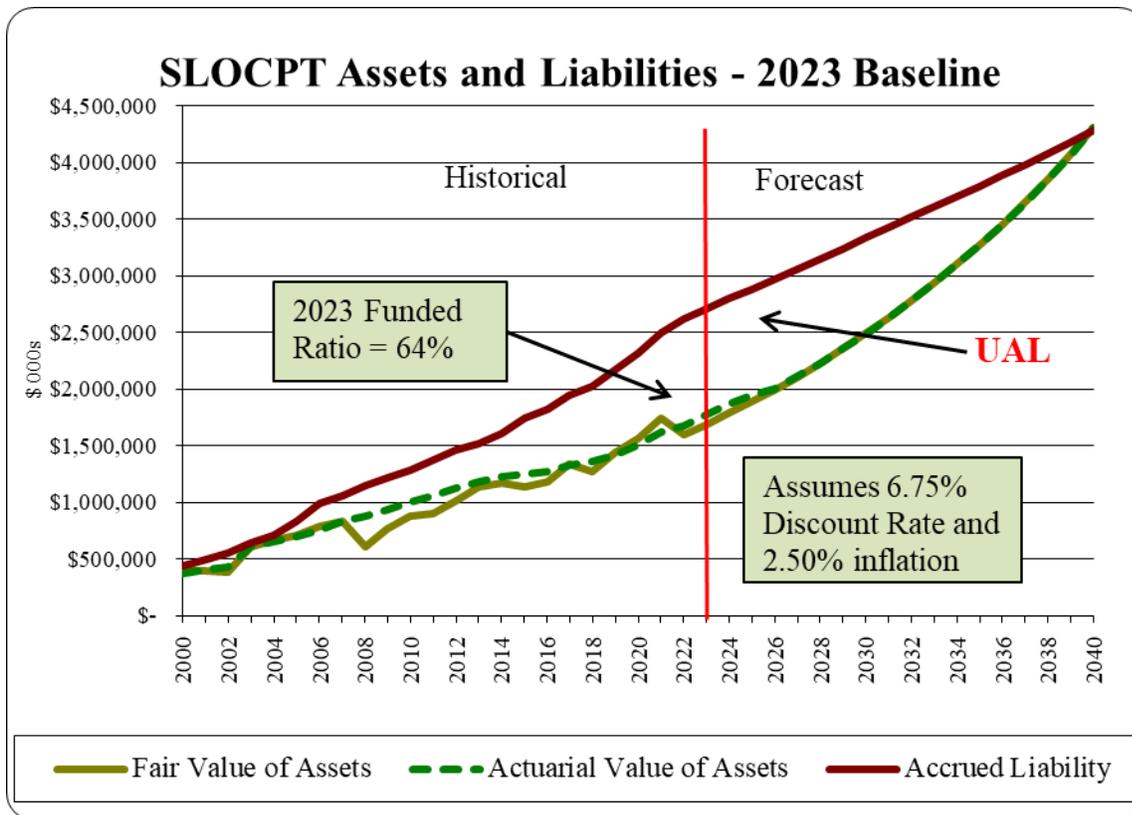
The increase in the total Annually Determined Contribution (ADC) = +0.48% of pay as of Jan. 1, 2023. Typical practice by SLO County would be to implement this increase July 1, 2024, in which case the actuarially adjusted increase would be +0.73% of pay overall. Different increases apply to Miscellaneous, Probation and Safety classes of members.

What will the increase be for Employees?

The allocation of pension contribution rate increases is a collectively bargained matter between SLO County and various unions. Typically, pension contribution rate increases have been split 50/50 between Employees and Employer. Different bargaining units have negotiated different pension cost allocation amounts and many MOUs include multi-year caps on how much employee increases can be. For many Bargaining Units the 2023 implemented pension cost increases were wholly allocated to the Employer. Consult your unit's MOU for details about any limits or caps on pension cost increases to be implemented in 2024 and beyond.

How well-funded is the Pension?

The accompanying graph shows how assets and liabilities have progressed in the past and how they are expected to be funded in the future.



Should I worry about the Unfunded Liability for the Pension?

Some key considerations regarding your pension security:

- The California Constitution has strong protections for public sector workers' pensions to continue as promised and with a right to reasonable funding.
- The actuarial funding policy applied by the Pension Trust and its Board of Trustees is systematically targeted at paying off the UAL over 20 years.
- The UAL is a "debt" of the Plan Sponsor to the Retirement Plan – in fact it shows up on their balance sheet as a debt. SLO County has an AAA bond rating – the highest credit rating there is short of owning the US Mint.