

Cobb County Employee Retirement Plan Board of Trustees Report

***Cobb County Board of Commissioners
February 26, 2018
Marietta, GA***



Composition of Board and Professional Advisers for 2017

Pension Board of Trustees, 2017

- **Tony Hagler, Human Resources Director**
- **Virgil Moon, Cobb-Douglas Health Department**
- **Roger Tutterow, Kennesaw State University (Chair, 2017)**
- **Bill Volckmann, Finance Director**
- **Neil Warren, Cobb County Sheriff (Vice-Chair, 2017)**

Investment Advisor

- **UBS Financial Services, Inc.**

Master Trustee

- **SunTrust Bank**

Actuary

- **Cavanaugh Macdonald Consulting, LLC**

Legal Advisor

- **Troutman Sanders LLP**



Charge to the Board

“The Board of Trustees is charged with responsibility for the selection and retention of investment managers and as custodian for the assets of the Pension Plan and Retiree Health Care (OPEB Plan).”

“Their purpose is to invest the assets of the Plan in a prudent manner such that the safety of the principal is preserved while providing reasonable returns, and in general avoiding speculative investments.”



Retirement Plans

Traditional Defined Benefit Plan

- **2,459 active participants and 2,295 retiree participants.**
- **Service factor of 2.5% per year of service.**
- **Employee must make an annual required contribution. The contribution rate in 2017 was 7.25% of an employee's salary and is scheduled to increase by 0.25% per year, until it reaches 8.75% in 2023.**



Retirement Plans

Hybrid Plan

- The Hybrid Plan began January 1, 2010 and applies to new employees hired thereafter.
- There are 1,660 active participants and no retiree participants.
- Define benefit component: Hybrid Plan has a reduced service factor of 1.0% per year of service. Required employee annual contribution is 3.0% of an employee's salary.
- Defined contribution component: Hybrid Plan allows eligible employees to make a voluntary contribution to a 457 plan. The County will match 50% of the employee's contributions, up to 2% of salary.



Plan Assets and Performance

- The Traditional and Hybrid Plan assets are combined for the purposes of this report. Plan assets may be separated as needed.
- As of December 31, 2017 the plan's assets had a market value of \$647,395,635 – reflecting an increase of \$224,304,922 since December 31, 2012
- The plan's annual return on invest for 2017 was 16.41%, compared to the actuarial target investment rate of return of 7.50%.
- Actuarial target return reflects 0.5% reduction initiated in 2013 (i.e., 8.0% to 7.5%).



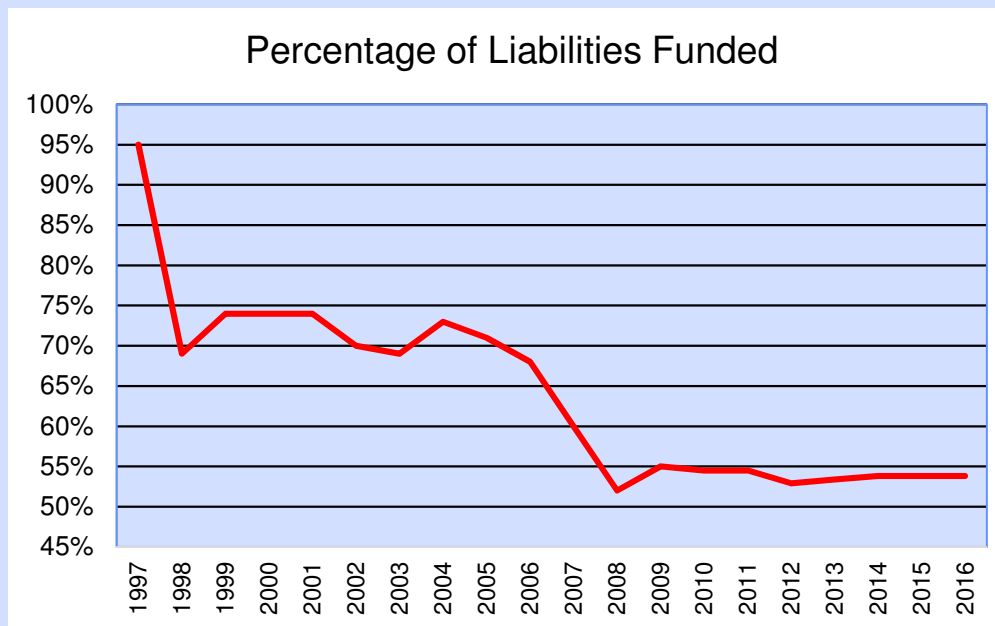
Plan Liabilities

- **The Plan's actuarial accrued liability as of 12/31/2016 was \$1,078,943,894**
- **\$640,891,705 was for retirees and \$438,052,189 was for active employees.**
- **For active employees, traditional plan liabilities are \$430,308,977 while hybrid plan liabilities are \$7,743,212.**
- **The total actuarial accrued liability has increased by \$296,823,535 since 12/31/2012**
- **Liability growth due to employees (i) retiring earlier (ii) living longer than the actuarial assumption and (iii) revision in these assumptions.**



Assumption Changes and Funding Ratio

- Funding ratio has remained relatively stable for the past three years at 53.80%.
- The plan was funded at 95% in 1997. The decrease in the funding status between 1997 and 2008 is documented in previous trustee reports and reflected below.



Assumption Changes and Funding Ratio

- **Changes in the valuation status of the plan followed from changes in the assumed investment rate of return, the closing of the amortization period and changes in the mortality and exit rates of retirees.**
- **Effective January 1, 2013, the investment rate of return assumption has been reduced 0.10% per year from 8.00% to 7.50%.**
- **In 2017, the Board of Trustees authorized a “experience study” to document historical mortality and retirement of plan members.**



Assumption Changes and Funding Ratio

- **Amortization period for the unfunded liability was changed from a 30-year open period to a closed 30-year period. Current amortization period has 26 years remaining.**
- **With the current amortization schedule, the plan will be fully funded in 26 years assuming (i) the County continues to meet its annual required contribution, (ii) plan meets or exceed actuarial assumption regarding investment rate of return and (iii) actuarial assumptions related to retirement behavior and mortality are realized.**



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Board of Trustees' Report For Year Ended December 31, 2017

Information as to the performance and funding status of the Cobb County Employee Plan is made publically available annually as part of the County's Consolidated Annual Financial Report (CAFR). With this report, the Board of Trustees would like to share some highlight of the plans.

I. Composition of Board and Professional Advisers for 2017

Pension Board of Trustees, 2017

Tony Hagler, Human Resources Director
Vigil Moon, Cobb-Douglas Health Department
Roger Tutterow, Kennesaw State University (Chair, 2017)
Bill Volckmann, Finance Director
Neil Warren, Cobb County Sheriff (Vice-Chair, 2017)

Investment Advisor

UBS Financial Services, Inc.

Master Trustee

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Actuary

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Troutman Sanders LLP

II. Background and Utilization of Pension Plans

Traditional Defined Benefit Plan

The Traditional Defined Benefit Pan has 2,459 active participants and 2,295 retiree participants. The traditional plan has a service factor of 2.5% per year of service. Under this plan, the employee must make an annual required contribution. The contribution rate in 2017 was 7.25% of an employee's salary and is scheduled to increase by 0.25% per year, until it reaches 8.75% in 2023.

Hybrid Plan

The Hybrid Plan began January 1, 2010 and applies to new employees hired after that date. There are 1,660 active participants and zero retiree participants. The Hybrid Plan contains elements of both a defined benefit plan and a defined contribution plan. In regards to the define benefit

component, the Hybrid Plan has a reduced service factor of 1.0% per year of service. In addition, the required employee annual contribution is 3.0% of an employee's salary.

In regards to the defined contribution component, The Hybrid Plan allows eligible employees to make a voluntary contribution to a 457 plan. The County will match 50% of the employee's contributions, up to 2% of salary.

III. Plan Performance and Status

Plan Assets and Investment Performance

The Traditional and Hybrid Plan assets are combined for the purposes of this report. As of December 31, 2017 the plan's assets had a market value of \$647,395,635. The market value of the plan's asset increased by \$224,304,922 since December 31, 2012 due to the annual required contributions and market return on investment. The plan's annual return on invest for 2017 was 16.41%, compared to the actuarial target investment rate of return of 7.50%.

Plan Liability

The Plan's actuarial accrued liability as of 12/31/2016 was \$1,078,943,894, of which \$640,891,705 was for retirees and \$438,052,189 was for active employees. The liability for the active employees was broken down between the traditional plan of \$430,308,977 and the hybrid plan of \$7,743,212. The total actuarial accrued liability has increased by \$296,823,535 since 12/31/2012 due to employees retiring earlier and retirees living longer than the actuarial assumption. Actuarial assumption changings were also a factor in the liability increase.

Assumption Changes and Funding Ratio

Despite the changes in plan assets and liabilities, the funding ratio has remained relatively stable for the past three years at 53.80% due to various actuarial assumption changes. Indeed, the funding status has been relative stable for nearly a decade varying between 50% and 55% of full funding for each year since 2008.

In 1997, the plan was funded at 95%. The decrease in the plans funding status between 1997 and 2008 is documented in previous trustee reports. In recent years, changes in the valuation status of the plan have followed from changes in the assumed investment rate of return, the closing of the amortization period and changes in the mortality and exit rates of retirees.

Effective January 1, 2013, the investment rate of return assumption has been reduced 0.10% per year from 8.00% to 7.50%. The Board of Trustees is currently conducting sensitivity analysis with regard to changes in this assumption.

In addition, the amortization method of the unfunded liability was changed from a 30-year open period to a closed 30-year period. By closing the amortization period at 30 years, it alters plan contributions so to eliminate expect plan deficiency over a 30-year period. At date, plan has 26 years remain on the closed amortization period. Both of the changes, while beneficial to the overall funding status of the plan, have a negative short term impact on the plans actuarial accrued liability. Such, these changes also impact the required contribution from the County.

In 2017, the Board of Trustees authorized a “experience study” to document historical mortality and retirement of plan members.

With the current amortization schedule, the plan will be fully funded in 26 years assuming (i) the County continues to meet its annual required contribution, (ii) plan meets or exceed actuarial assumption regarding investment rate of return and (iii) actuarial assumptions related to retirement behavior and mortality are realized.