

8a | Commission
Discussion

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MEETING DATE: November 13, 2024

TO: Local Agency Formation Commission
of Orange County

FROM: Executive Officer
Assistant Executive Officer

SUBJECT: OCERS FY 2025-26 Contribution Rates and Annual
Audit

BACKGROUND

The Local Agency Formation Commission of Orange County (OC LAFCO) has been an independent member of the Orange County Employees Retirement System (OCERS) since July 1, 2001. As an independent member, the Commission is required to annually adopt employer and employee contribution rates established by the OCERS Board of Retirement for retirement plans available to OC LAFCO employees. The OCERS Board also annually reviews and approves a discount rate for the system's early payment program which allows OCERS members to experience cost-savings in employer contributions.

Additionally, earlier this year, OCERS informed OC LAFCO staff that an audit would be conducted by their team to review the Commission's compliance with established standards and regulations of the retirement benefit plans offered to OC LAFCO employees through OCERS. In part to its review, OCERS noted observations involving the formula structure of the Employer Pick Up for 2.7% @ 55 Plan ("Plan J") available to legacy members that was implemented in 2005.

This staff report provides an overview of the OCERS audit and observations, contribution rates for fiscal year 2025-26 and staff recommendations for Commission consideration. A brief discussion of the OCERS early payment program is also included in this report.

DISCUSSION

Retirement Audit

In February 2005, OC LAFCO approved an upgrade of the agency's 1.62% @ 65 Plan to the 2.7% @ 55 Plan. The upgrade also included funding of a portion of employees' contributions by the Commission but at the 1.62% @ 65 rates. Established as the "Employer Pick Up" and functionally developed by the County of Orange for OC LAFCO and special districts, the

Employer Pick Up allows OC LAFCO to provide funding of employee contributions in accordance with the California Labor Code 31581.1 and 31581.2. However, during the audit, OCERS noted discrepancies involving contributions generated by the Employer Pick Up that resulted in both an overpayment and underpayment of employee contributions for the fiscal year audited. OCERS staff attributes this issue to a function of the Employer Pick Up formula established by the County that currently uses the average age of entry for employees enrolled in the 2.7% @ 55 Plan.

Following multiple discussions with OCERS and a review with the Commission's general counsel and accounting team, staff is recommending the Commission adjust the function of the formula established for the Employer Pick Up to resolve the underpayment and overpayment of the portion of employee contributions funded by OC LAFCO. Adjustment to the formula maintains the portion of employees' contributions funded by OC LAFCO at the 1.62% @ 65 Plan rates and facilitates any remaining contributions are paid by employees. As a note, OC LAFCO currently has two employees enrolled in the 2.7% @55 Plan. For your reference is a sample of the Employer Pick Up function for the fiscal year audited prepared by OCERS and Commission staff. If approved by the Commission, the adjustment to the Employer Pick Up would be made in line with the fiscal year 2025-26 contribution rates discussed in the next section of this report.

Fiscal Year 2025-26 Contribution Rates

On June 17, 2024, the OCERS Board of Retirement adopted new employer and employee contribution rates for Fiscal Year 2025-26. The adopted rates are for three retirement plans that are available to current and future OC LAFCO employees. The Commission's current employees participate in two of the retirement plans available, the 2.7% @ 55 plan and the 1.62% @ 65 "PEPRA" plan. There are currently no Commission employees enrolled in the third plan, which is the 1.62% @ 65 "non-PEPRA" plan. The PEPRA and non-PEPRA retirement plans are a result of the enactment of the Public Employees' Pension Reform Act ("PEPRA") in 2013. Depending on certain qualifications, employees hired after the PEPRA Act may enroll in one of the two 1.62% @ 65 retirement plans.

The Fiscal Year 2025-26 employer contribution rate for the 1.62% @ 65 non-PEPRA plan, which is available to OC LAFCO employees who are not new members to OCERS, is 33.32%. The Fiscal Year 2025-26 employer contribution rate for the 1.62% @ 65 PEPRA plan, which is available to OC LAFCO employees who are new members to OCERS, is 34.12%. The Fiscal Year 2025-26 employer contribution rate for the 2.7% @ 55 plan is 42.07%. The employer contribution rates for the three plans, as well as the employee contribution rates, are referenced in **Attachment 2**, and the form of resolution approving the contribution rates and adjustment to the Employer Pick Up discussed in the previous section of this report is referenced in **Attachment 3**.

OCERS Early Payment Program

Since 2005, the Commission has participated in the OCERS Early Payment of Employer Contributions Program to realize savings in the agency's retirement costs. The program allows members to prepay all or a portion of their retirement contribution at a discounted rate. The discount rate has historically been tied to the approved long-term rate of return on the retirement system's investments. On July 15, 2024, the OCERS Board approved a discount rate

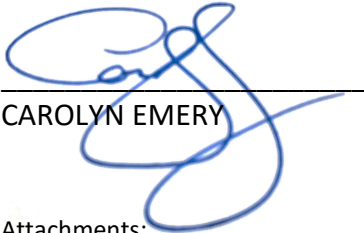
of seven percent for early payment of employer contributions received by January 15, 2025. To realize some savings in retirement costs, staff will submit prepayment of the employer retirement contributions subsequent to the Commission's adoption of the OCERS contribution rates and prior to the OCERS deadline.

RECOMMENDED ACTIONS

Staff Recommends the Commission:

1. Adopt Resolution No. CP 24-07 approving the contribution rates adopted by OCERS for Fiscal Year 2025-26 and establishing the Employer Pick Up for the 2.7% @ 55 Plan.

Respectfully Submitted,



CAROLYN EMERY



LUIS TAPIA

Attachments:

1. OCERS Calculation for FY 2023-24
2. OCERS FY 25-26 Contribution Rates
3. OC LAFCO Form of Resolution Adopting FY 25-26 Retirement Rates

OCERS Calculation

Member #1: Legacy employee at Entry age of 26

Pensionable salary	\$8,848.00	
Using AVERAGE entry age for the \$31581.1 pickup		
Board approved employee rate for Plan J for FY 2023/2024	11.88%	\$ 1,051.14 A
LAFCO's employee contribution rate paid per transmittal data		
* Employee paid portion	3.52%	\$ 311.45
** Employer pickup of employee's contribution (\$31581.2)	4.18%	\$ 369.85
*** Employer pickup of employee's contribution (\$31581.1)	5.11%	\$ 452.47
	12.81%	\$ 1,133.77 B
Difference in employee contribution rates/dollar amount	0.93%	\$ 82.63 B-A (overpaid per pay period)

Member #2: Legacy employee at Entry age of 50

Pensionable salary	\$ 2,898.40	
Using AVERAGE entry age for the \$31581.1 pickup		
Board approved employee rate for Plan J for FY 2023/2024	16.80%	\$ 486.93 A
LAFCO's employee contribution rate paid per transmittal data		
* Employee paid portion	4.16%	\$ 120.57
** Employer pickup of employee's contribution (\$31581.2)	6.32%	\$ 183.18
*** Employer pickup of employee's contribution (\$31581.1)	5.11%	\$ 148.22
	15.59%	\$ 451.97 B
Difference in employee contribution rates/dollar amount	-1.21%	\$ (34.96) B-A (underpaid per pay period)



**Orange County Local Agency Formation Commission
Employer Contribution Rates
Effective Pay Period 15, June 27, 2025**

Rate Group	Plan	Rate	
#2	I & J **	Normal	15.29%
		UAAL	<u>26.78%</u>
		Total	42.07%
#2	P	Normal	6.54%
		UAAL	<u>26.78%</u>
		Total	33.32%
#2	T - PEPRA	Normal	7.34%
		UAAL	<u>26.78%</u>
		Total	34.12%

**** Reverse Pickups:**

Orange County LAFCO bargaining units under the 2.7% at 55 plans are subject to an employee-paid reverse pickup which has not been accounted for in the employer rate above. Any reverse pickup arrangements are between the employer and employee bargaining units. The reverse pickup rate schedule is available online at:

<https://www.ocers.org/sites/main/files/file-attachments/reversepickups.pdf>



**Orange County Local Agency Formation Commission
Employee Contribution Rates
Effective Pay Period 15, June 27, 2025**

Entry Age	PEPRA			
	Plan I (2.7% @ 55)	Plan J (2.7% @ 55)	Plan P (1.62% @ 65)	Plan T (1.62% @ 65)
16	10.24%	9.87%	6.37%	5.13%
17	10.43%	10.05%	6.48%	5.23%
18	10.62%	10.23%	6.60%	5.33%
19	10.81%	10.42%	6.73%	5.42%
20	11.01%	10.61%	6.85%	5.52%
21	11.22%	10.81%	6.98%	5.63%
22	11.42%	11.01%	7.11%	5.73%
23	11.63%	11.21%	7.24%	5.84%
24	11.85%	11.42%	7.37%	5.94%
25	12.07%	11.63%	7.51%	6.05%
26	12.29%	11.84%	7.64%	6.17%
27	12.52%	12.06%	7.78%	6.28%
28	12.76%	12.29%	7.93%	6.40%
29	13.00%	12.52%	8.07%	6.52%
30	13.24%	12.75%	8.22%	6.64%
31	13.49%	12.99%	8.37%	6.76%
32	13.75%	13.24%	8.53%	6.89%
33	14.02%	13.49%	8.69%	7.02%
34	14.29%	13.75%	8.85%	7.15%
35	14.58%	14.00%	9.02%	7.28%
36	14.85%	14.25%	9.19%	7.42%
37	15.12%	14.50%	9.36%	7.56%
38	15.40%	14.76%	9.54%	7.71%
39	15.68%	15.02%	9.72%	7.86%
40	15.96%	15.28%	9.90%	8.01%
41	16.26%	15.54%	10.08%	8.15%
42	16.56%	15.80%	10.26%	8.30%
43	16.86%	16.06%	10.44%	8.45%
44	17.17%	16.32%	10.62%	8.60%
45	17.47%	16.53%	10.80%	8.75%
46	17.77%	16.71%	10.99%	8.91%
47	17.98%	16.83%	11.18%	9.06%
48	18.18%	16.89%	11.36%	9.22%
49	18.30%	16.85%	11.54%	9.37%
50	18.33%	16.69%	11.69%	9.51%
51	18.23%	16.42%	11.82%	9.62%
52	17.98%	16.14%	11.91%	9.70%
53	17.57%	16.67%	11.94%	9.75%



Orange County Local Agency Formation Commission
Employee Contribution Rates
Effective Pay Period 15, June 27, 2025
 (continued)

Entry Age	Plan I	Plan J	Plan P	PEPRA
	(2.7% @ 55)	(2.7% @ 55)	(1.62% @ 65)	Plan T (1.62% @ 65)
54	17.23%	17.23%	11.91%	9.75%
55	17.23%	17.23%	11.81%	9.69%
56	17.23%	17.23%	11.61%	9.58%
57	17.23%	17.23%	11.42%	9.49%
58	17.23%	17.23%	11.79%	9.80%
59	17.23%	17.23%	12.19%	10.13%
60	17.23%	17.23%	12.19%	10.13%
61	17.23%	17.23%	12.19%	10.13%
62	17.23%	17.23%	12.19%	10.13%
63	17.23%	17.23%	12.19%	10.13%
64	17.23%	17.23%	12.19%	10.13%
65	17.23%	17.23%	12.19%	10.13%
66 and thereafter	17.23%	17.23%	12.19%	10.13%

Average entry age and discounted percentages applicable to employee contributions paid under Section 31581.1 are:

Rate Group	Plan	Discounted Percentage	Average Entry Age
#2	Plan I (General)	100.00%	38
#2	Plan J (General)	99.46%	38
#2	Plan P (General)	99.09%	38

CP 24-07

**RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF
ORANGE COUNTY, CALIFORNIA
ADOPTING RETIREMENT RATES FOR FY 2025-26**

November 13, 2024

On motion of Commissioner _____, duly seconded by and carried, the following resolution was adopted:

WHEREAS, the California State Legislature adopted AB 2838 in its 1999-2000 legislative session, which, in part, required that Local Agency Formation Commissions throughout the State of California become independent public agencies effective January 1, 2001; and

WHEREAS, the Local Agency Formation Commission of Orange County (“OC LAFCO”) applied and was accepted as an independent member agency under the Orange County Employees Retirement System (“OCERS”) on or about July 1, 2001; and

WHEREAS, as a result of OC LAFCO being an independent member agency under OCERS since 2001, OC LAFCO must annually adopt both the employee and employer rates as approved by OCERS; and

WHEREAS, in August 2004, the County of Orange reached agreement with a number of General Member bargaining units and certain unrepresented employees to implement a 2.7% at 55 retirement formula for both past and future service; and

WHEREAS, on February 9, 2005, OC LAFCO approved implementation of a 2.7% at 55 retirement formula, for future service only, beginning July 1, 2005; and

WHEREAS, the cost to migrate to the 2.7% at 55 retirement formula was paid for by OC LAFCO employees and did not result in additional cost to OC LAFCO except for an annual employer contribution of 0.51 percent and annual modifications made in the retirement rates as determined by OCERS; and

WHEREAS, on December 12, 2012, OC LAFCO rescinded the 2.7% at 55 retirement formula for employees hired by OC LAFCO on or after December 12, 2012; and

WHEREAS, the new 2.7% at 55 retirement formula only applies to active employees

and new employees hired between July 1, 2005 and December 11, 2012; and

WHEREAS, on April 20, 2010, the County of Orange approved implementation of a 1.62% at 65 retirement formula for new County employees hires only effective on or after July 1, 2010; and

WHEREAS, on June 9, 2010, OC LAFCO approved implementation of a 1.62% at 65 retirement formula, for new OC LAFCO employees hires only, beginning July 1, 2010; and

WHEREAS, on February 9, 2011, OC LAFCO adopted a temporary resolution establishing that new employees enrolled in the 1.62% at 65 retirement formula are subject to pay the reverse pickup cost; and

WHEREAS, on June 8, 2011, OC LAFCO adopted a revised resolution replacing the February 9, 2011 resolution, establishing OC LAFCO as responsible for the employee reverse pickup, the annual employer contribution of 0.51 percent and annual modifications made in the retirement rates for the 1.62% at 65 as determined by OCERS; and

WHEREAS, on September 12, 2012, the California Public Employees' Pension Reform Act (AB 340) was chaptered into law and became effective January 1, 2013; and

WHEREAS, the California Public Employees' Pension Reform Act (AB 340) imposed certain limitations on public employee pension formulas for public employees considered new members, as that term is defined by Government Code Section 7522.04(f) ("New Members"); and

WHEREAS, the enactment of the California Public Employees' Pension Reform Act (AB 340) required OCERS to establish two versions of the 1.62% at 65 retirement plan, one for new OC LAFCO employees that are not New Members ("non-PEPRA 1.62 Plan") and one for new OC LAFCO employees that are New Members ("PEPRA 1.62 Plan"); and

WHEREAS, the employer retirement rate for the 1.62% at 65 retirement plan, as established by OCERS, for 2025-26 is 33.32 percent for new OC LAFCO employees that are not New Members ("non-PEPRA" 1.62 Plan); and

WHEREAS, the employer retirement rate for the "PEPRA 1.62 Plan," as established by OCERS, for 2025-26 is 34.12 percent; and

WHEREAS, the employer retirement rate for the 2.7% at 55 retirement plan, as established by OCERS, for 2025-26 is 42.07 percent.

NOW, THEREFORE, the Local Agency Formation Commission of Orange County DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

1. LAFCO employer pick up of the employee’s contribution toward the 2.7% @ 55 Plan retirement formula is hereafter limited of .51 percent, and LAFCO employees shall be obligated to pay any remainder effective July 1, 2025; and

2. OC LAFCO adopts and approves implementation of 2025-26 retirement rates as established by OCERS, effective July 1, 2025.

AYES:

NOES:

STATE OF CALIFORNIA)
)SS.
COUNTY OF ORANGE)

I, Donald P. Wagner, Chair of the Local Agency Formation Commission of Orange County, hereby certify that the above and foregoing resolution was duly and regularly adopted by said Commission at a regular meeting thereof, held on the 13th day of November 2024.

IN WITNESS WHEREOF, I have hereunto set my hand this 13th day of November 2024.

Donald P. Wagner
Chairman of the Local Agency Formation
Commission of Orange County

By: _____
Donald P. Wagner