



CITY OF LEMON GROVE

DATE: November 14, 2017

TO: Mayor and City Council Members

FROM: Lydia Romero, City Manager

SUBJECT: CalPERS Pension Funding Workshop Information and Options

Introduction

It has been several years since the Lemon Grove City Council held a CalPERS Pension workshop. In that time the California Public Employees Retirement System (CalPERS) changed their discount rate (investment rate) assumptions from 7.5% to 7.0%. In recognition maintaining fiscal stability without the use of general fund reserves, various options will be discussed to address this long-term funding need.

Background

Full time and permanent part time city employees, working over 30 hours, are members of the CalPERS system and its defined benefit pension plan. The fiscal stress that CalPERS has experienced these over the past decade is well documented in the media. The main causes of this funding shortfalls is less than expected investment returns and plan design changes. To address some of these issues the state enacted pension reforms which reduced the benefits to newly hired employees, lowering pension formulas new employees, eliminated Employer Paid Member Contributions (EMPC) and increased employee paid contributions. Unfortunately, the savings from these cost reduction strategies are long term in nature and will take many years to be achieved.

Lemon Grove Pension Tiers:
Miscellaneous Employees

Tier 1

2.5%@55 with single highest year of earnings

Tier2

2%@60 average of the three highest years earnings

PEPRA

2 %@62 average of the three highest years earnings

Safety Employees

Tier 1

3%@55 with single highest year of earnings

Tier2

None

PEPRA

2.7%@57 average of the three highest years earnings

City's Unfunded Liabilities

The CalPERS Board tries to continually look at pension sustainability. The Board reviews specific factors to determine if adjustments need to be made which can impact the long-term funding of the system. Over the past few years, adjustments have been made to demographic assumptions such as higher salaries and retirement rates as well as the expectation of the retirees living longer. Since these assumptions ultimately impact employer pension costs, the Board developed a strategic plan to spread out costs to local public agencies over 20 years, with increases phased in over five years beginning Fiscal year 2016-17.

The CalPERS Board has also made adjustments to the discount rate (assumed rate of return on investments) which will impact local agencies. The discount rate will be incrementally lowered from 7.5% to 7.0% within the next three years, beginning in Fiscal year 2018-19. Investment earnings affect how much future benefit payments can be funded by investment income. The volatility of the investment earnings in recent years have been a significant contributor to the required employer contribution. CalPERS investment returns in the last six fiscal years have been:

2012 - 0.1%

2013 - 13.2%

2014 - 18.4%

2015 - 2.4%

2016 - 0.6%

2017 - 11.2%

The volatility of the investment earnings in recent years have been a significant contributor to the increasing amount of the employer's contribution. CalPERS average annual investment returns in the last the past 10 years, have been closer to 5.0%.

Lowering the discount rate increases the City's unfunded liabilities. CalPERS has implemented a 30- year amortization payment schedule for agencies to pay off their unfunded liabilities in 30 years.

CalPERS has also changed the methodology in the way agencies are now billed. In the past, CalPERS billed agencies on a percentage of payroll for both the normal cost and unfunded liability portion. Beginning in Fiscal Year 2017-18, CalPERS now bills agencies the normal cost on a percentage of payroll; however, the unfunded liability portion is factored as a flat-dollar amount and billed monthly. The purpose in the change is to ensure that CalPERS is properly

and timely funded. For example, if an agency were to reduce staffing, the normal cost would be reduced but there would be no change to the unfunded liability obligation.

Pension funding will be the biggest financial challenge the City and its employees will face over the next decade. Key steps that will need to be taken are outlined below.

Establish the City's Priorities

Staff has identified two priorities facing the City as a result of the growing unfunded pension liability. The first priority is obviously to address the necessary pension contributions, toward both the normal and the unfunded portion, and to do so promptly and prevent severe cuts to City services. A second objective is to address the unfunded liability portion of the required payments earlier than the 30-year amortization period required by CalPERS. Addressing the unfunded liability portion will result in significant cost savings to the City in the long term, and again, avoid severe cuts to City services or other more dire consequences. California cities will see their required pension double in the next 10 years. General fund revenue growth will not keep up these increases.

Identify Funding Sources

To meet the City's above priorities, additional funding sources or costing saving measures must be identified that can be used to stabilize or reduce the employer required contribution in the short term and provide interest cost savings in the long run. Various options the City may consider are listed below:

1. Payments from sources of one-time money
2. Borrow from reserves of the General Fund or other City funds
3. Savings realized from reductions in city services
4. Ongoing budgetary changes that result in savings (changes in the workforce, outsourcing, etc.)
5. Employees paying a higher share of the pension cost
6. Sales tax increase or other ongoing revenue increases

However, each of these alternatives has pros and cons, and some alternatives are also insufficient, by themselves, to adequately address the problem.

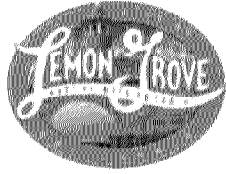
Section 115 Trust Option

Historically, Internal Revenue Code (IRC) Section 115 Irrevocable trusts have been used to pre-fund Other Post-Employment Benefits (OPEB). In 2015, Public Agency Retirement Services (PARS) received a favorable private letter ruling from the Internal Revenue Service that allows public agencies to pre-fund pension obligations in a Section 115 Irrevocable Trust. This ruling allows the City to safely and securely set aside funds, separate and apart from the state retirement system, in a tax-exempt irrevocable trust to reduce pension liabilities and stabilize pension costs. Establishing a Trust for both rate stabilization and pre-funding will provide the City with an alternative to sending funds directly to CalPERS.

Recommendation and Next Steps

Staff recommends that the City Council ask any questions they may have and assist in making sure that the Council, the employees, and the public have a thorough understanding of the difficult problem we face. Staff is requesting that Council provide policy direction on the various funding sources identified above. Staff is also requesting policy direction on whether or not to pursue a Section 115 Pension Trust as a mechanism for addressing this issue.

Many cities believe that any meaningful action must come from the State. However, cities that do not take meaningful actions themselves risk deficits and bankruptcy for their city. The City of Lemon Grove must not be one of these cities.



CITY OF LEMON GROVE
MISCELLANEOUS AND SAFETY PLANS

CalPERS Actuarial Issues – 6/30/16 Valuation
Preliminary Results

Presented by **Mary Beth Redding, Partner**
Prepared by **Bianca Lin, Assistant Vice President**
Wai Man Yam, Actuarial Analyst
Bartel Associates, LLC
November 14, 2017

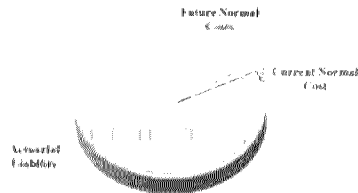
Agenda

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DEFINITIONS

Present Value of Benefits
June 30, 2016



- **PVB - Present Value of all Projected Benefits:**
 - Discounted value (at valuation date - 6/30/16), of all future expected benefit payments based on various (actuarial) assumptions
- **Actuarial Liability:**
 - Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
 - Portion of PVB “earned” at measurement
- **Current Normal Cost:**
 - Portion of PVB allocated to (or “earned” during) current year
 - Value of employee and employer current service benefit



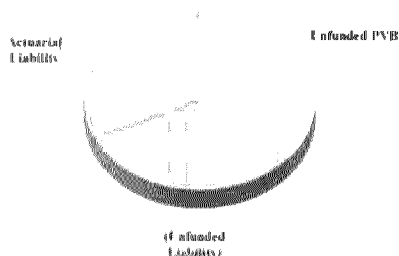
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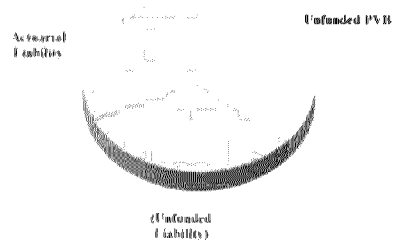


DEFINITIONS

Present Value of Benefits
June 30, 2015



Present Value of Benefits
June 30, 2016



- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability** - Money short of target at valuation date
- **Excess Assets / Surplus:**
 - Money over and above target at that point in time
 - Doesn't mean you're done contributing
- **Super Funded:**
 - Assets cover whole pie (PVB)
 - If everything goes exactly like PERS calculated, you'll never have to put another (employer or employee) dime in



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HOW WE GOT HERE

- Investment Losses
- Enhanced Benefits
- CalPERS Contribution Policy
- Demographics

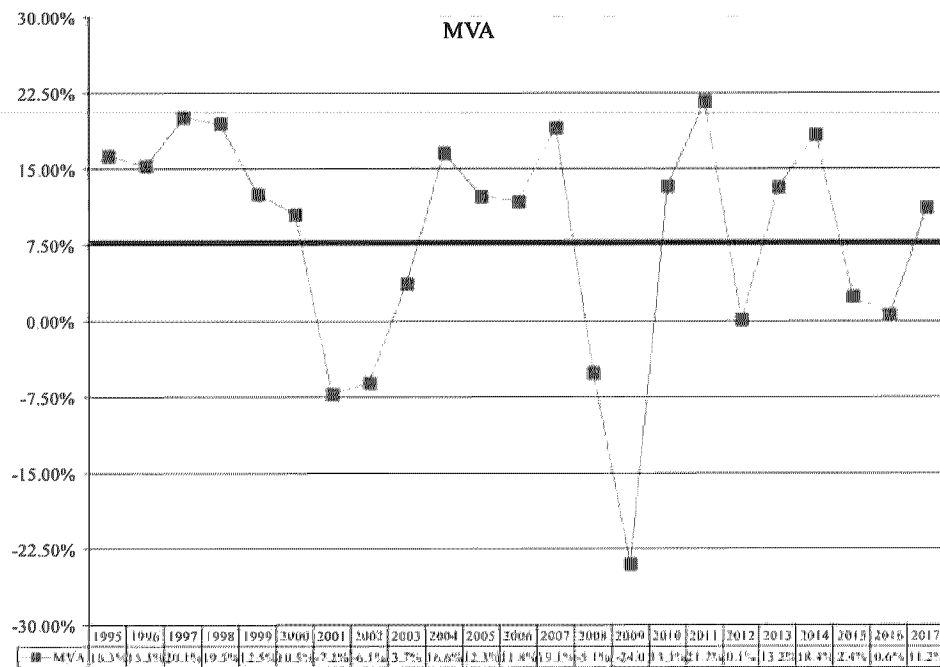


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HOW WE GOT HERE – INVESTMENT RETURN



Above assumes contributions, payments, etc. received evenly throughout year.



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HOW WE GOT HERE – ENHANCED BENEFITS

- At CalPERS, Enhanced Benefits implemented using all (future & prior) service
- Typically not negotiated with cost sharing

City	Tier 1	Tier 2	PEPRA
● Miscellaneous	2.5%@55 FAE1	2%@60 FAE3	2%@62 FAE3
● Safety	3%@55 FAE1	n/a	2.7%@57 FAE3

● Note:

- FAE1 is highest one year (typically final) average earnings
- FAE3 is highest three years (typically final three) average earnings



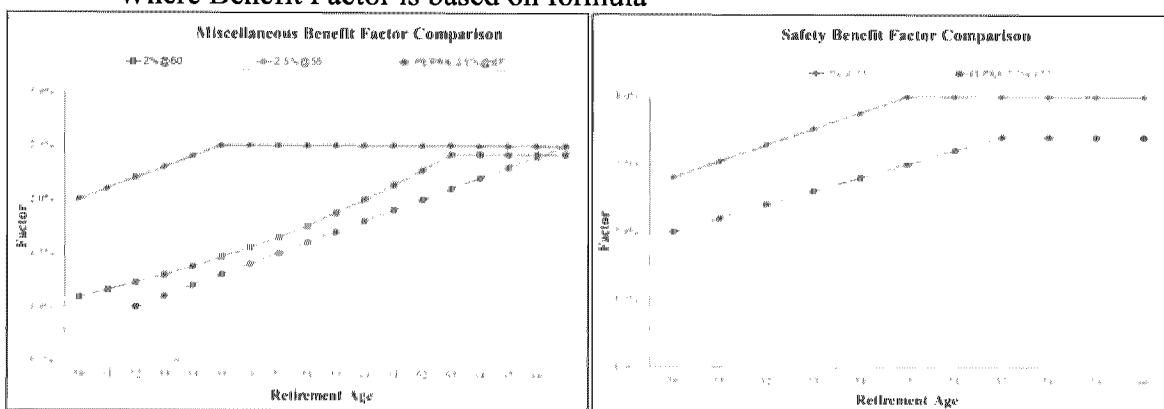
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CALPERS BENEFITS

Benefit = (City Service) x (Benefit Factor) x (Final Average Earnings – FAE)
Where Benefit Factor is based on formula



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HOW WE GOT HERE – OLD CONTRIBUTION POLICY

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses
- Designed to:
 - First smooth rates and
 - Second pay off UAL
- Mitigated contribution volatility



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HOW WE GOT HERE – DEMOGRAPHICS

- Around the State
 - Large retiree liability compared to actives
 - Declining active population
- City percentage of liability belonging to retirees:

● Miscellaneous	52%
● Safety	47%



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CALPERS CHANGES

- Contribution policy changes:
 - No asset smoothing
 - No rolling amortization
 - 5-year ramp up
 - Included in 6/30/13 valuation (first impact 15/16 rates; full impact 19/20)
- Assumption changes:
 - Anticipate future mortality improvement
 - Other, less significant, changes
 - Included in 6/30/14 valuation (first impact 16/17 rates; full impact 20/21)
- CalPERS Board will change their discount rate:

	<u>Rate</u>	<u>Initial</u>	<u>Full</u>
● 6/30/16 valuation	7.375%	18/19	22/23
● 6/30/17 valuation	7.25%	19/20	23/24
● 6/30/18 valuation	7.00%	20/21	24/25
● Risk mitigation suspended until 6/30/18 valuation			
- CalPERS Board reviewing their Capital Market Assumptions, Likely no further changes to discount rate



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CALPERS CHANGES

- Risk Pool changes
 - All Risk Pools combined into one Miscellaneous & one Safety
 - Collect payment on UAL as dollar amount, not as % of pay
 - Payments allocated to agencies based on liability & assets rather than payroll
 - Included in 6/30/13 valuation (impacts 15/16 rates)
- Risk Mitigation Strategy
 - Move to more conservative investments over time
 - Only when investment return is better than expected
 - Lower discount rate in concert
 - Essentially use ≈50% of investment gains to pay for cost increases
 - Likely get to 6.0% over 20+ years



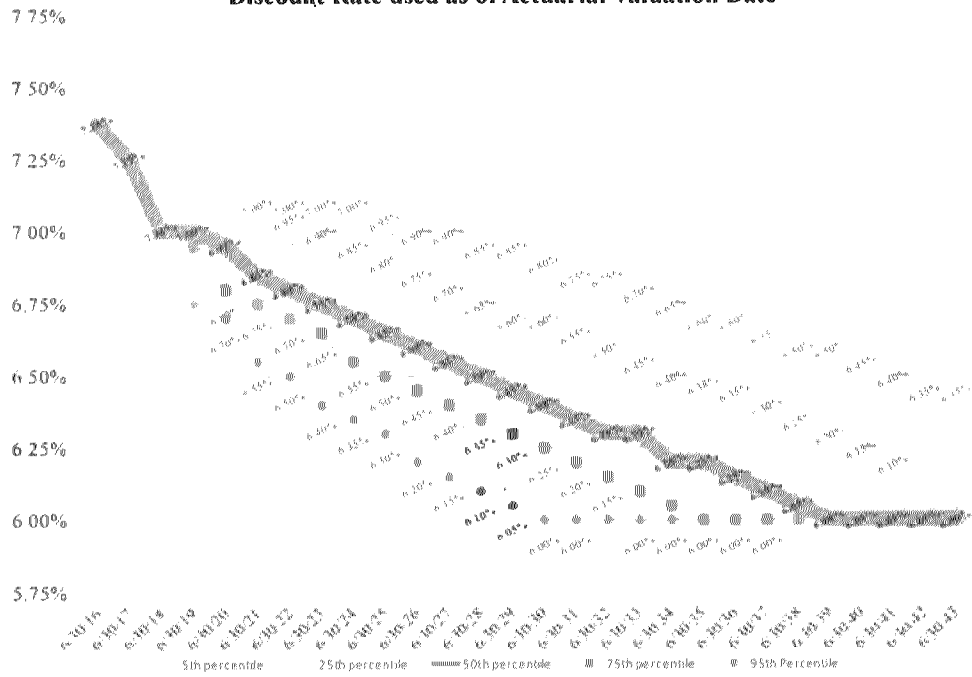
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CALPERS CHANGES

Discount Rate used as of Actuarial Valuation Date



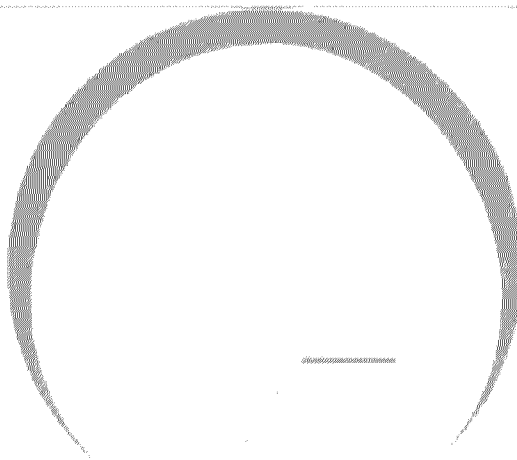
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CALPERS CHANGES

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SUMMARY OF DEMOGRAPHIC INFORMATION – MISCELLANEOUS

	1995	2005	2015	2016
Actives				
■ Counts	40	46	41	43
■ Average PERSable Wages	\$32,253	\$44,076	\$55,297	\$56,625
■ Total PERSable Wages (millions)	1.4	2.0	2.3	2.4
Inactive Counts				
■ Transferred	14	26	31	30
■ Separated	3	25	30	29
■ Retired	6	28	54	58



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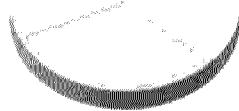


FUNDED STATUS – MISCELLANEOUS

Present Value of Benefits
June 30, 2015

Actuarial
Liability

Unfunded PVR

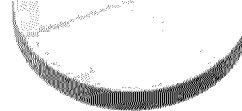


(Unfunded
Liability)

Present Value of Benefits
June 30, 2016

Actuarial
Liability

Unfunded PVR



(Unfunded
Liability)

June 30, 2015

\$	6,100,000
	10,300,000
	3,800,000
	20,100,000
	14,000,000
	(6,100,000)

Active AAL

Retiree AAL

Inactive AAL

Total AAL

Market Asset Value

(Unfunded Liability)

June 30, 2016

\$	6,100,000
	11,000,000
	4,100,000
	21,200,000
	15,800,000
	(5,400,000)



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CONTRIBUTION RATES – MISCELLANEOUS

6/30/15 Valuation				
2017/2018 Contribution Rates				
	<u>Total¹</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
		2.5% <u>@55</u>	2% <u>@60</u>	2% <u>@62</u>
■ Required Employer Contribution				
● Risk Pool's Base ER Normal Cost	9.1%	9.5%	7.2%	6.5%
● Class 1 Benefits				
□ FAC1	0.5%	0.6%	0.0%	0.0%
● Pool's Expected Employee Contribution for Formula	7.7%	7.9%	6.9%	6.3%
● Plan's Employee Contribution Rate	(7.7%)	(7.9%)	(6.9%)	(6.3%)
● Risk Pool's Payment on Amortization Bases	10.2%	12.5%	0.1%	0.0%
● Amortization of Side Fund	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
● Total ER Contribution	19.8%	22.6%	7.3%	6.6%
● Total ER Contribution \$ (in 000's)	\$ 448			

¹ Weighting of total contribution projection based on projected classic and PEPRA payrolls



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CONTRIBUTION RATES – MISCELLANEOUS

6/30/16 Valuation				
2018/2019 Contribution Rates				
	<u>Total²</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
		2.5% <u>@55</u>	2% <u>@60</u>	2% <u>@62</u>
■ Required Employer Contribution				
● Risk Pool's Base ER Normal Cost	9.0%	10.0%	7.6%	6.8%
● Class 1 Benefits				
□ FAC1	0.4%	0.6%	0.0%	0.0%
● Pool's Expected Employee Contribution for Formula	7.4%	7.9%	6.9%	6.3%
● Plan's Employee Contribution Rate	(7.4%)	(7.9%)	(6.9%)	(6.3%)
● Risk Pool's Payment on Amortization Bases	12.3%	20.0%	0.1%	0.2%
● Amortization of Side Fund	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
● Total ER Contribution	21.6%	30.6%	7.7%	7.0%
● Total ER Contribution \$ (in 000's)	\$ 525			
● Employees	43	25	8	10
● Pensionable Wages (in 000's)	\$ 2,228	\$ 1,364	\$ 460	\$ 404

² Weighting of total contribution projection based on projected classic and PEPRA payrolls



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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

■ Valuation	6/30/15	6/30/16
■ Contribution Year	<u>2017/2018</u>	<u>2018/2019</u>
■ Required Employer Contribution		
● Risk Pool's Net Employer Normal Cost	9.1%	9.0%
● Final Average Compensation (1-Year)	<u>0.5%</u>	<u>0.4%</u>
● Total Normal Cost	9.6%	9.4%
● Risk Pool's Payment on Amortization Bases	10.2%	12.3%
● Total Employer Contribution	19.8%	21.6%
● Total Employer Contribution \$	\$ 448	\$ 525
■ What Happened from 6/30/15 to 6/30/16:		
● 2017/18 Rate		19.8%
● Payroll > Expected		(0.5%)
● Asset Method Change (4 th Year)		1.2%
● 6/30/14 Assumption Change (3 rd Year)		0.9%
● 6/30/14 (Gains)/Losses (3 rd Year)		(0.9%)
● 6/30/15 (Gains)/Losses (2 nd Year)		0.5%
● 6/30/16 Discount Rate change (1 st Year)		0.7%
● 6/30/16 (Gains)/Losses (1 st Year)		<u>(0.1%)</u>
● 2018/19 Rate		21.6%



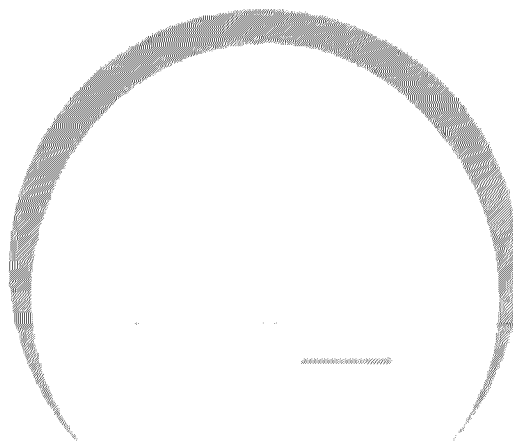
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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

- **Market Value Investment Return:**
 - June 30, 2016 0.6%³
 - June 30, 2017 11.2%⁴
 - Future returns based on stochastic analysis using 1,000 trials

<u>Single Year Returns at⁵</u>	<u>25th Percentile</u>	<u>50th Percentile</u>	<u>75th Percentile</u>
● 7.0% Investment Mix	0.1%	7.0%	14.8%
● 6.0% Investment Mix	0.8%	6.0%	11.4%

 - Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- Includes Classic Tier 2 Members

³ Based on CalPERS 6/30/16 CAFR.

⁴ Based on CalPERS press release on 7/14/17, preliminary investment return of 11.2%.

⁵ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

- **New hire assumptions:**
 - Assumes 50% of 2013 new hires will be Classic Tier 2 Members (2% @ 60) and 50% will be New Members with PEPRAs benefits
 - Assumes Classic Members will decrease from 50% to 0% of new hires over 20 years



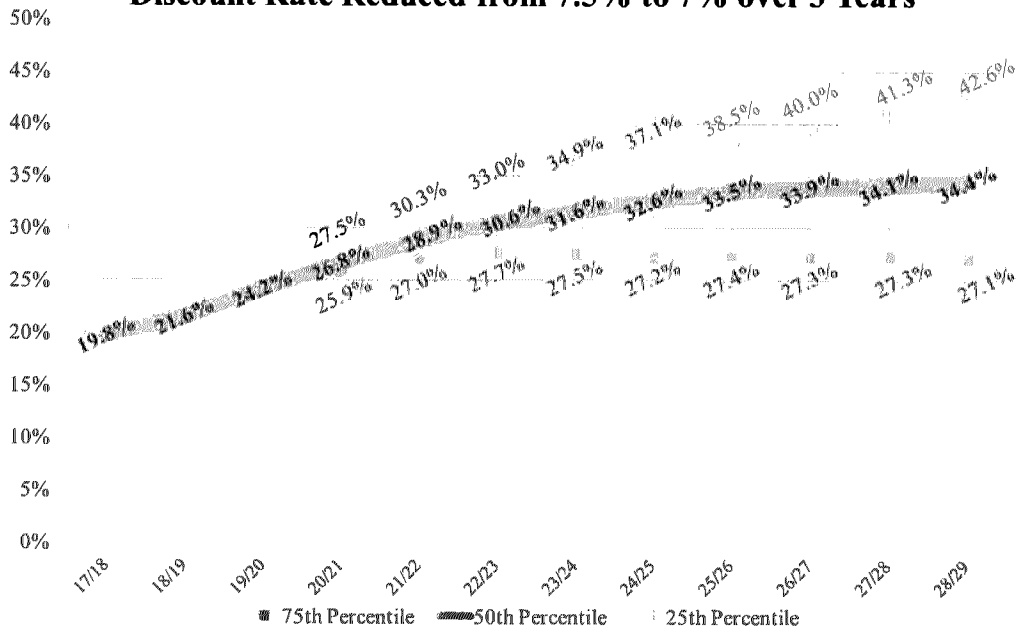
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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

Discount Rate Reduced from 7.5% to 7% over 3 Years



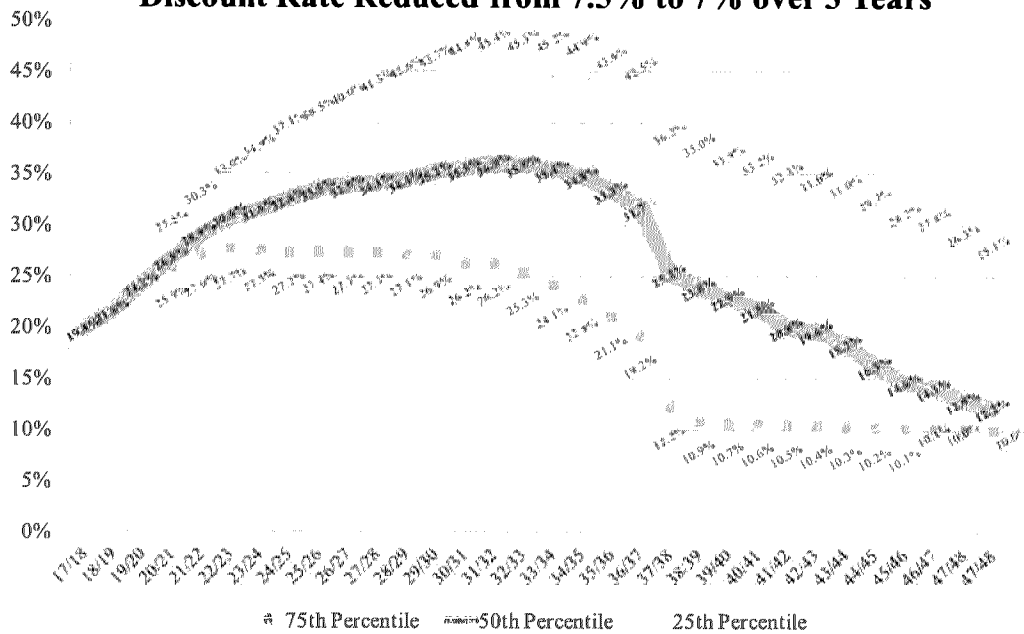
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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

Discount Rate Reduced from 7.5% to 7% over 3 Years



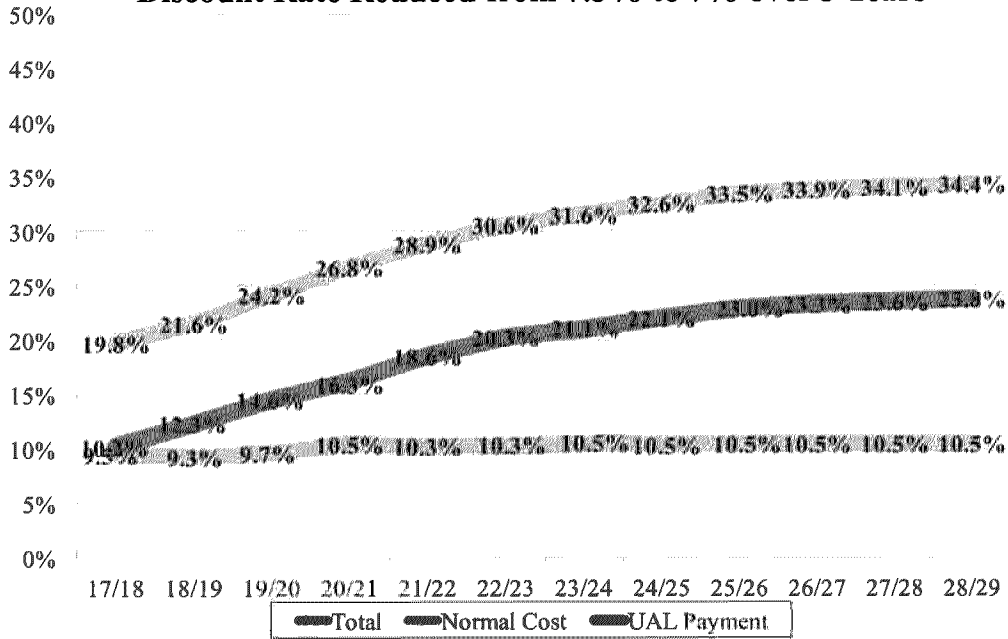
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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

Discount Rate Reduced from 7.5% to 7% over 3 Years



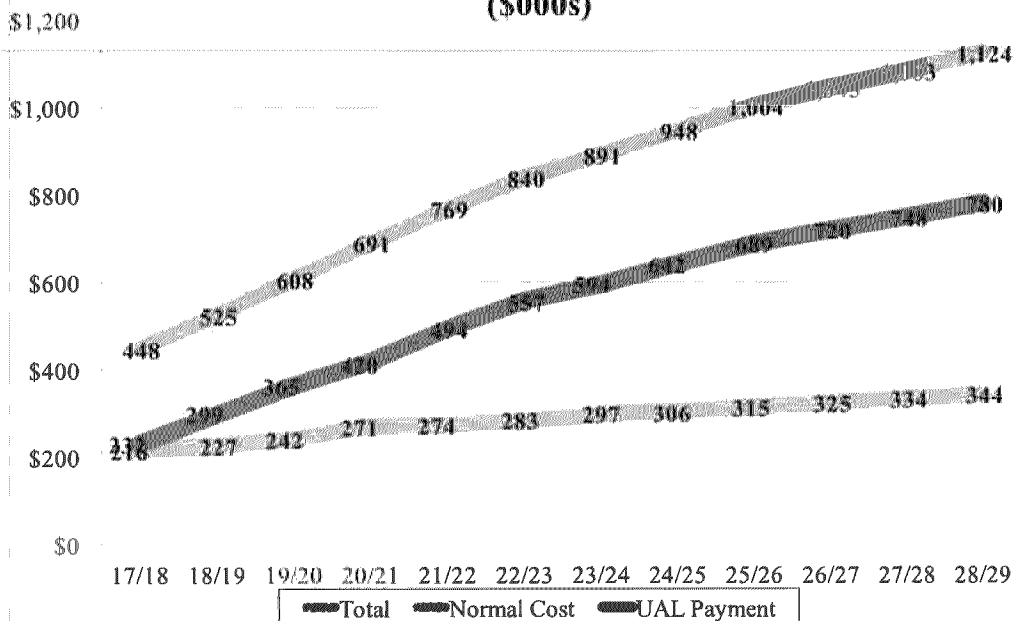
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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

**Discount Rate Reduced from 7.5% to 7% over 3 Years
(\$000s)**

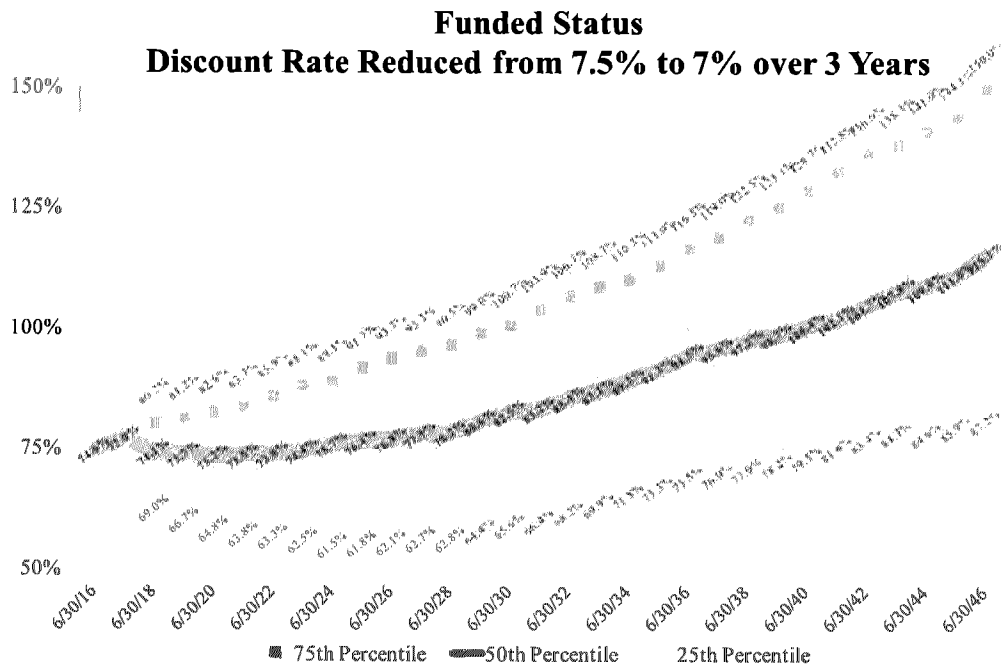


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FUNDED STATUS - MISCELLANEOUS



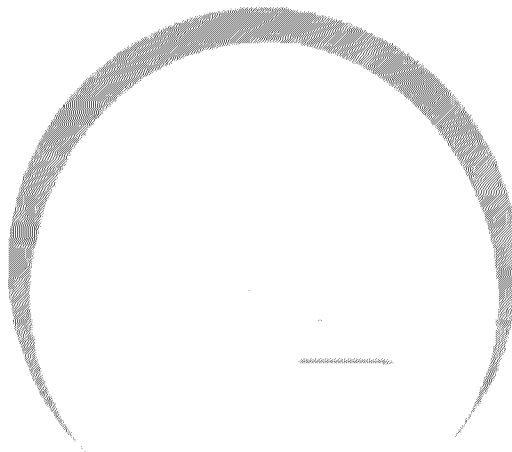
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FUNDED STATUS - MISCELLANEOUS

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SUMMARY OF DEMOGRAPHIC INFORMATION – SAFETY

	2005	2010	2015	2016
Actives				
■ Counts	20	20	19	20
■ Average PERSable Wages	\$80,602	\$100,233	\$102,351	\$105,706
■ Total PERSable Wages (millions)	1.6	2.0	2.3	2.4
Inactive Counts				
■ Transferred	0	3	4	4
■ Separated	0	1	0	0
■ Retired	0	5	10	11



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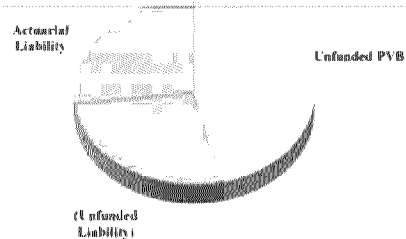
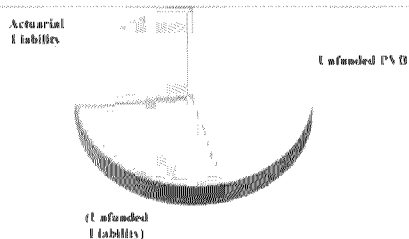
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FUNDED STATUS – SAFETY

Present Value of Benefits
June 30, 2015

Present Value of Benefits
June 30, 2016



<u>June 30, 2015</u>		<u>June 30, 2016</u>	
\$	4,100,000	Active AAL	\$ 4,600,000
	3,700,000	Retiree AAL	4,200,000
	100,000	Inactive AAL	100,000
	7,900,000	Total AAL	8,900,000
	6,400,000	Market Asset Value	6,900,000
	(1,500,000)	(Unfunded Liability)	(2,000,000)



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FUNDED STATUS – SAFETY

6/30/15 Valuation

2017/2018 Contribution Rates

	<u>Total⁶</u>	<u>Tier 1</u> 3%@55	<u>PEPRA</u> 2.7%@57
■ Required Employer Contribution			
● Risk Pool's Base ER Normal Cost	16.7%	16.8%	12.0%
● Class 1 Benefits			
☐ FAC1	1.0%	1.0%	0.0%
● Pool's Expected Employee Contribution for Formula	9.1%	9.0%	11.5%
● Plan's Employee Contribution Rate	(9.1%)	(9.0%)	(11.5%)
● Risk Pool's Payment on Amortization Bases	3.3%	3.4%	0.0%
● Amortization of Side Fund	3.4%	3.6%	0.0%
● Total ER Contribution	24.4%	24.9%	12.0%
● Total ER Contribution \$ (in 000's)	\$ 475		

⁶ Weighting of total contribution projection based on projected classic and PEPRA payrolls



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FUNDED STATUS – SAFETY

6/30/16 Valuation

2018/2019 Contribution Rates

	<u>Total⁷</u>	<u>Tier 1</u> 3%@55	<u>PEPRA</u> 2.7%@57
■ Required Employer Contribution			
● Risk Pool's Base ER Normal Cost	17.0%	17.6%	12.1%
● Class 1 Benefits			
☐ FAC1	1.0%	1.1%	0.0%
● Pool's Expected Employee Contribution for Formula	9.3%	9.0%	12.0%
● Plan's Employee Contribution Rate	(9.3%)	(9.0%)	(12.0%)
● Risk Pool's Payment on Amortization Bases	4.3%	4.8%	0.1%
● Amortization of Side Fund	3.2%	3.6%	0.0%
● Total ER Contribution	25.6%	27.1%	12.2%
● Total ER Contribution \$ (in 000's)	\$ 541		
● Employees	20	17	3
● Pensionable Wages (in 000's)	\$ 1,935	\$ 1,733	\$ 202

⁷ Weighting of total contribution projection based on projected classic and PEPRA payrolls



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CONTRIBUTION PROJECTIONS - SAFETY

	6/30/15	6/30/16
	<u>2017/2018</u>	<u>2018/2019</u>
■ Valuation		
■ Contribution Year		
■ Required Employer Contribution		
● Risk Pool's Net Employer Normal Cost	16.7%	17.0%
● Final Average Compensation (1-Year)	<u>1.0%</u>	<u>1.0%</u>
● Total Normal Cost	17.7%	18.0%
● Risk Pool's Payment on Amortization Bases	3.3%	4.3%
● Amortization of Side Fund	<u>3.4%</u>	<u>3.2%</u>
● Total Employer Contribution	24.4%	25.6%
● Total Employer Contribution \$	\$ 475	\$ 541
■ What Happened from 6/30/15 to 6/30/16:		
● 2017/18		24.4%
● Payroll > Expected		(0.4%)
● Asset Method Change (4 th Year)		0.5%
● 6/30/14 Assumption Change (3 rd Year)		0.4%
● 6/30/14 (Gains)/Losses (3 rd Year)		(0.4%)
● 6/30/15 (Gains)/Losses (2 nd Year)		0.3%
● 6/30/16 Discount Rate change (1 st Year)		1.0%
● 6/30/16 (Gains)/Losses (1 st Year)		<u>(0.2%)</u>
● 2018/19		25.6%



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CONTRIBUTION PROJECTIONS - SAFETY

- Market Value Investment Return:
 - June 30, 2016 0.6%⁸
 - June 30, 2017 11.2%⁹
 - Future returns based on stochastic analysis using 1,000 trials
- | <u>Single Year Returns at¹⁰</u> | <u>25th Percentile</u> | <u>50th Percentile</u> | <u>75th Percentile</u> |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| ● 7.0% Investment Mix | 0.1% | 7.0% | 14.8% |
| ● 6.0% Investment Mix | 0.8% | 6.0% | 11.4% |
- Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
 - Excludes Employer Paid Member Contributions (EPMC)

⁸ Based on CalPERS 6/30/16 CAFR.

⁹ Based on CalPERS press release on 7/14/17, preliminary investment return of 11.2%.

¹⁰ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS - SAFETY

- New hire assumptions:
 - Assumes 50% of 2013 new hires will be Classic Members (3%@55) and 50% will be New Members with PEPRA benefits
 - Assumes Classic Members will decrease from 50% to 0% of new hires over 20 years



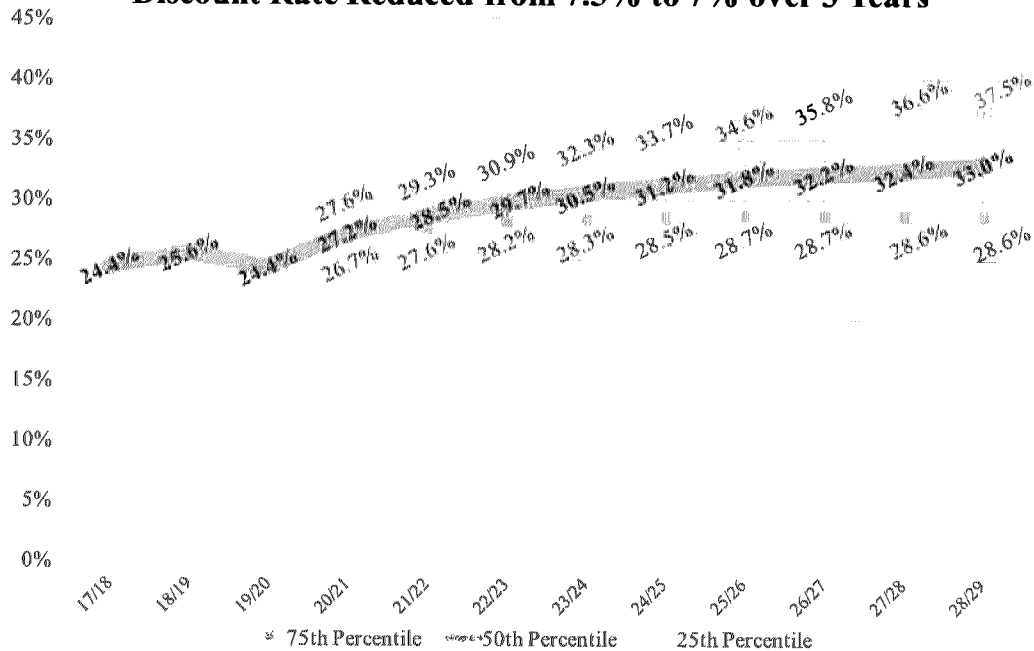
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CONTRIBUTION PROJECTIONS - SAFETY

Discount Rate Reduced from 7.5% to 7% over 3 Years



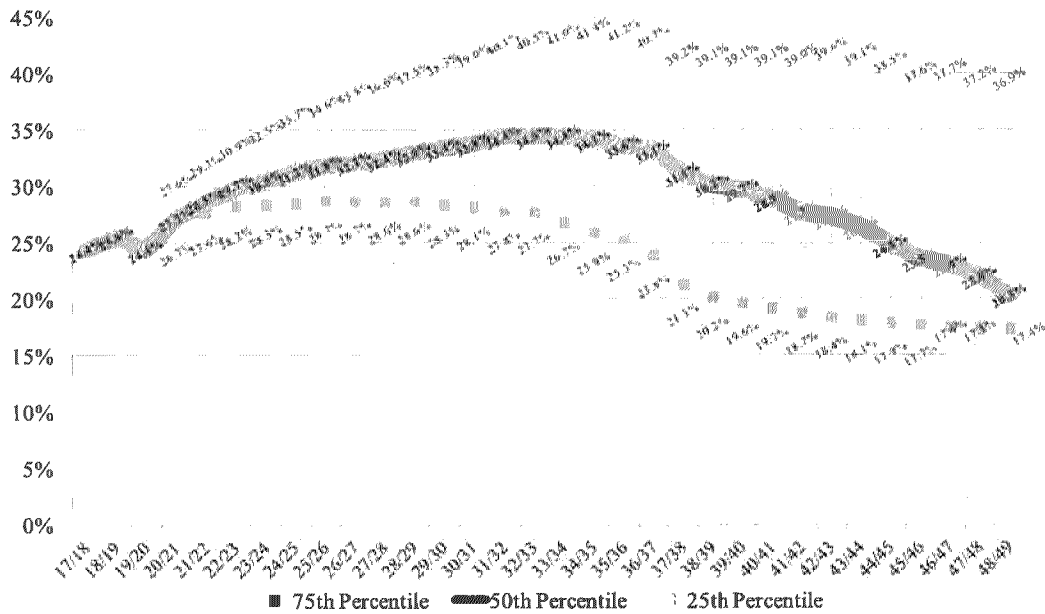
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CONTRIBUTION PROJECTIONS - SAFETY

Discount Rate Reduced from 7.5% to 7% over 3 Years



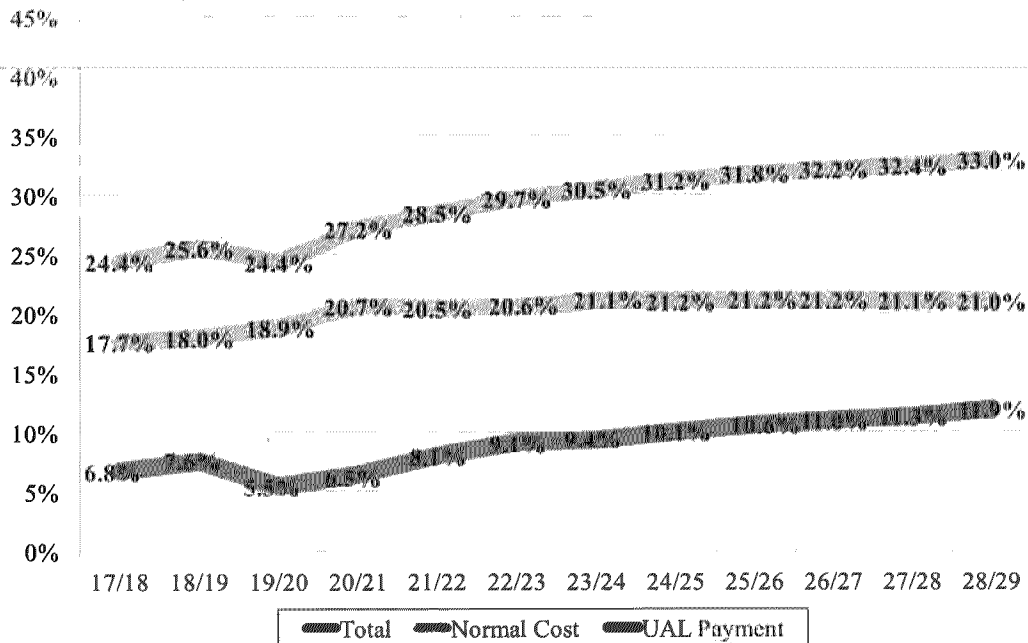
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CONTRIBUTION PROJECTIONS - SAFETY

Discount Rate Reduced from 7.5% to 7% over 3 Years



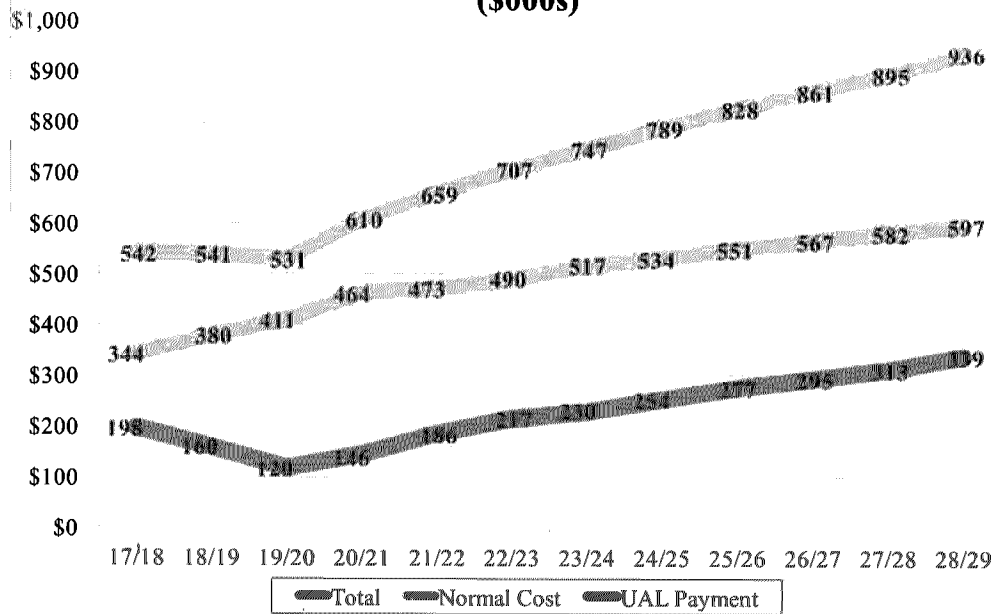
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CONTRIBUTION PROJECTIONS - SAFETY

Discount Rate Reduced from 7.5% to 7% over 3 Years
(\$000s)



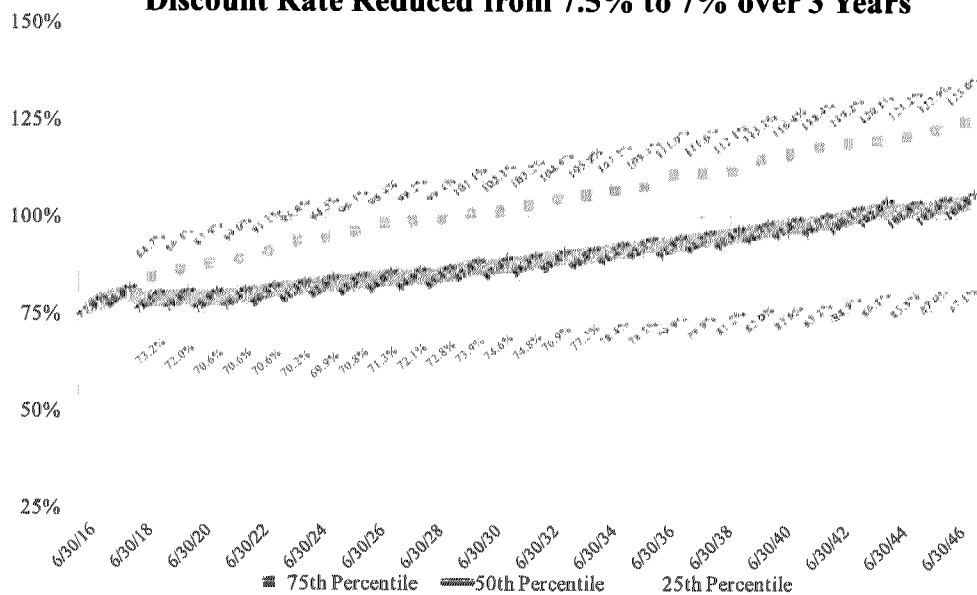
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FUNDED STATUS - SAFETY

Funded Status
Discount Rate Reduced from 7.5% to 7% over 3 Years



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PEPRA COST SHARING

- Target of 50% of total normal cost for everyone
- *New members* must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of *new member* required employee contributions
- Employer may impose Classic employees pay 50% of total normal cost (limited to 8% Miscellaneous, 12% Safety) if not agreed through collective bargaining by 1/1/18
- Miscellaneous Plan:

	<u>Classic Members</u>		<u>New Members</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
	<u>2.5% @ 55 FAE1</u>	<u>2% @ 60 FAE3</u>	<u>2% @ 62 FAE3</u>
● Er. Normal Cost	10.61%	7.63%	6.84%
● Mbr. Normal Cost	<u>8.00%</u>	<u>7.00%</u>	<u>6.25%</u>
● Total Normal Cost	18.61%	14.63%	13.09%
● 50% Target	9.31%	7.32%	6.55%



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PEPRA COST SHARING

- Safety Plan:

	<u>Classic Members</u>	<u>New Members</u>
	<u>Tier 1</u>	<u>PEPRA</u>
	<u>3% @ 55 FAE1</u>	<u>2.7% @ 57 FAE3</u>
● Er. Normal Cost	18.68%	12.14%
● Mbr. Normal Cost	<u>9.00%</u>	<u>12.00%</u>
● Total Normal Cost	27.68%	24.14%
● 50% Target	13.84%	12.07%



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PAYING DOWN THE UNFUNDED LIABILITY & RATE STABILIZATION

- Where do you get the money from?
- How do you use the money?



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WHERE DO YOU GET THE MONEY FROM?

- POB:
 - Usually thought of as interest arbitrage between expected earnings and rate paid on POB
 - No guaranteed savings
 - ☐ Including paying off CalPERS Side Fund
 - PEPRA prevents contributions from dropping below normal cost
 - ☐ Savings offset when investment return is good
 - GFOA White Paper
- Borrow from General Fund
 - Excess Reserves?
 - Pay GF back like a loan
 - Payments should come from all funds



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WHERE DO YOU GET THE MONEY FROM?

- One time payments
 - Council resolution to use a portion of one time money, e.g.
 - ☐ 1/3 to one time projects
 - ☐ 1/3 to replenish reserves and
 - ☐ 1/3 to pay down unfunded liability
- Member Contributions



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HOW DO YOU USE THE MONEY?

- Make payments directly to CalPERS:
 - Treat as contribution gain:
 - ☐ CalPERS default
 - ☐ Very modest short term contribution impact
 - Apply to all bases in proportion:
 - ☐ Lowers payment
 - ☐ Does not shorten amortization period
 - Request shorter amortization period (Fresh Start):
 - ☐ Higher short term payments
 - ☐ Less interest and lower long term payments
 - ☐ PEPPRA prevents contributions from dropping below normal cost
 - Savings offset when investment return is good



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HOW DO YOU USE THE MONEY?

- Make payments directly to CalPERS (continued):
 - Target specific amortization bases:
 - ☐ Paying off shorter amortization bases, larger contribution savings over shorter period:
 - e.g. 10 year base gets 12.5¢ for \$1
 - Less interest savings compared to paying off longer amortization bases
 - ☐ Paying off longer amortization bases, smaller contribution savings over longer period:
 - e.g. 25 year base gets 6.6¢ for \$1
 - More interest savings compared to paying off shorter amortization bases



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HOW DO YOU USE THE MONEY?

- Internal Service Fund
 - Typically used for rate stabilization
 - Restricted investments:
 - ☐ Likely low (0.5%-1.0%) investment returns
 - ☐ Short term/high quality, designed for preservation of principal
 - Assets can be used by Council for other purposes
 - Does not reduce Unfunded Liability



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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- > 100 trusts established
 - PARS, PFM & Keenan
- Investments significantly less restricted than City investment funds:
 - Likely higher (4% - 6%) but more volatile investment returns
- Trust Assets:
 - Can't be used by Council for other purposes
 - Can only be used to:
 - ☐ Reimburse City for CalPERS contributions
 - ☐ Make payments directly to CalPERS
 - Will not reduce Net Pension Liability:
 - ☐ City total net financial position will be the same



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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Consider:
 - How much can you put into Trust?
 - ☐ Initial seed money?
 - ☐ Additional amounts in future years?
 - When do you take money out?
 - ☐ Target budget rate?
 - ☐ Year target budget rate kicks in?
 - Before or after CalPERS rate exceeds budgeted rate?



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