



**B**ARTEL  
ASSOCIATES, LLC

**CITY OF RIVERSIDE  
MISCELLANEOUS & SAFETY PLANS**

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**CalPERS Actuarial Issues – 6/30/17 Valuation  
Preliminary Results**

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**Bartel Associates, LLC**

January 28, 2019

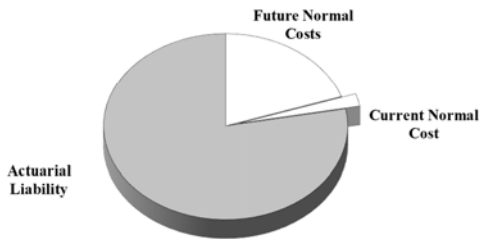
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## DEFINITIONS

Present Value of Benefits  
June 30, 2017



■ **PVB - Present Value of all Projected Benefits:**

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/17), of all future expected benefit payments based on various (actuarial) assumptions

■ **Current Normal Cost:**

- Portion of PVB allocated to (or “earned” during) current year
- Value of employee and employer current service benefit

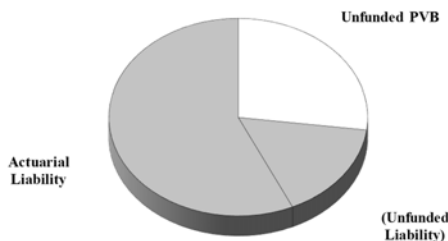
■ **Actuarial Liability:**

- Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
- Portion of PVB “earned” at measurement

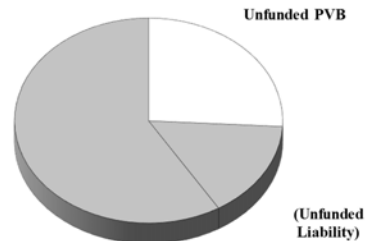


## DEFINITIONS

Present Value of Benefits  
June 30, 2016



Present Value of Benefits  
June 30, 2017



■ **Target-** Have money in the bank to cover Actuarial Liability (past service)

■ **Unfunded Liability -** Money short of target at valuation date

- If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
- Any difference is the unfunded (or overfunded) AAL
- Every year, the actuary calculates the difference between the expected UAAL and Actual UAAL. This is a new layer or amortization base
- Each new layer gets amortized (paid off) over a period of time as part of the contribution [rate].



## HOW WE GOT HERE

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



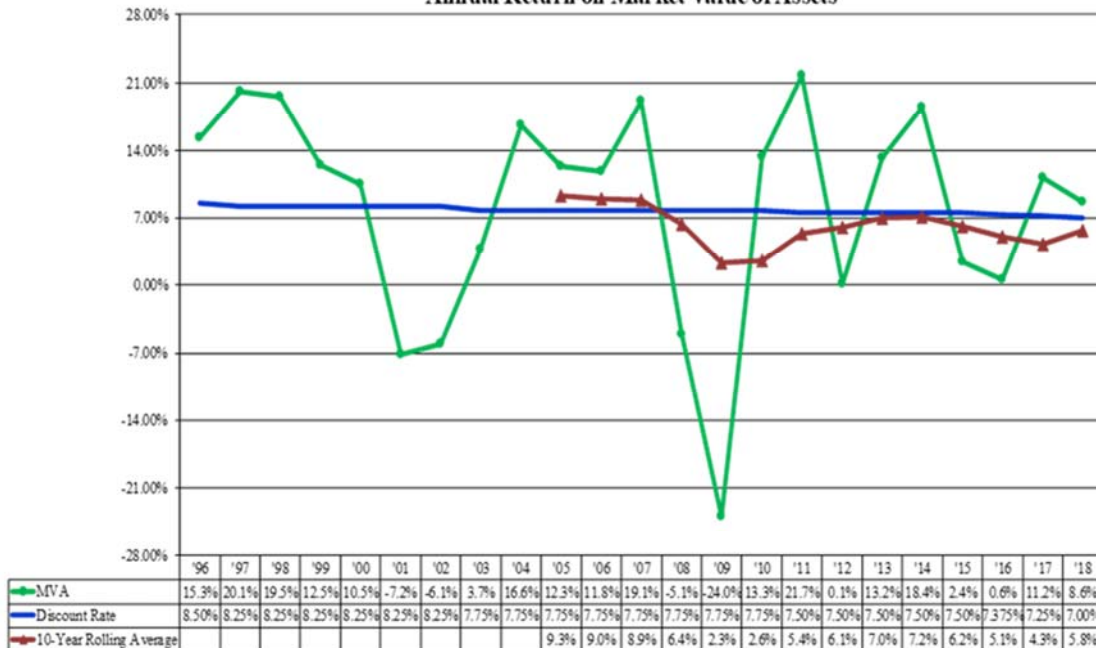
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## HOW WE GOT HERE – INVESTMENT RETURN

**Annual Return on Market Value of Assets**



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



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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 – ENHANCED BENEFITS

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

	<b>Tier 1</b>	<b>Tier 2</b>	<b>PEPRA</b>
● Miscellaneous	2.7%@55 FAE1	2.7%@55 FAE3	2%@62 FAE3
● Police Safety	3%@50 FAE1	3%@50 FAE3	2.7%@57 FAE3
● Fire Safety	3%@50 FAE1	3%@55 FAE3	2.7%@57 FAE3

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

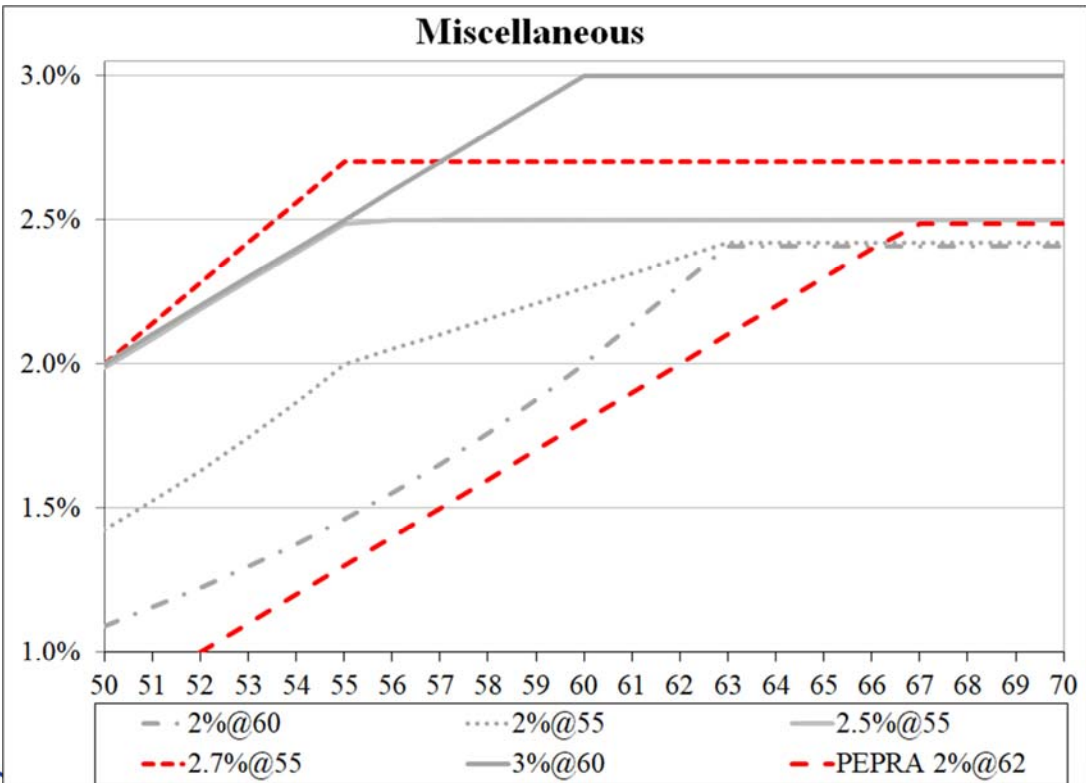


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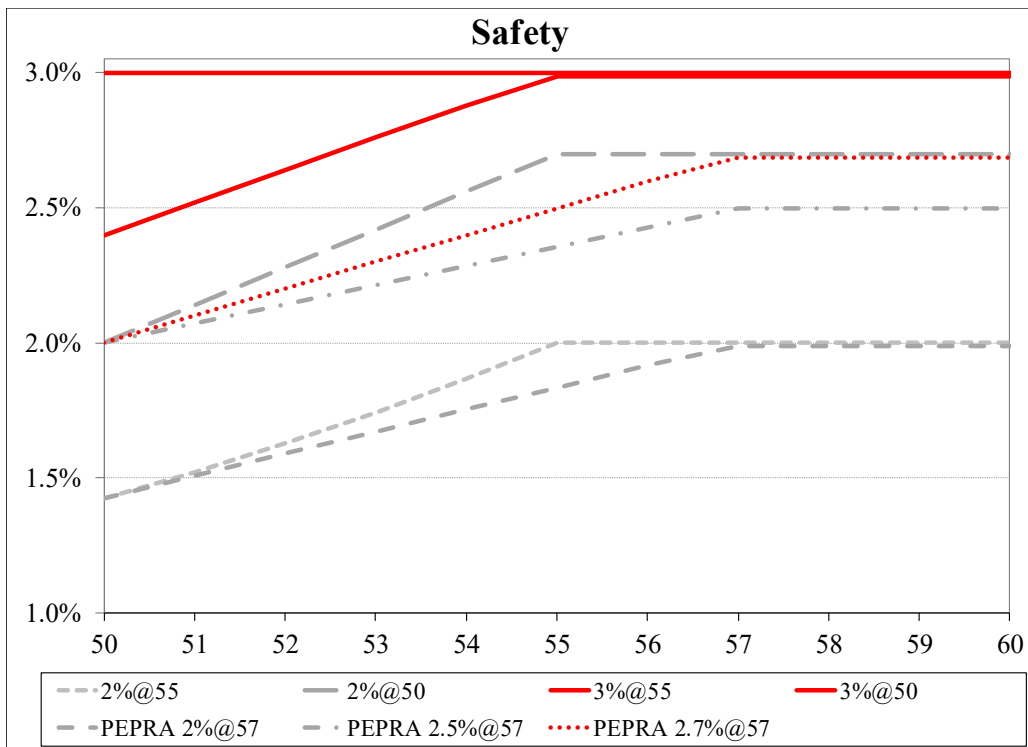
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## HOW WE GOT HERE – ENHANCED BENEFITS



## HOW WE GOT HERE – ENHANCED BENEFITS



## HOW WE GOT HERE – DEMOGRAPHIC

- Around the State
  - Large retiree liability compared to actives
    - State average: 55% for Miscellaneous, 65% for Safety
  - Declining active population and increasing number of retirees
  - Higher percentage of retiree liability increases contribution volatility
  
- City of Riverside percentage of liability belonging to retirees:
  - Miscellaneous                    61%
  - Safety                                78%



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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 changed their discount rate:

	<u>Rate</u>	<u>Initial Impact</u>	<u>Full Impact</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
- December 2017: CalPERS Board selected asset allocation similar to current portfolio. No change to the discount rate



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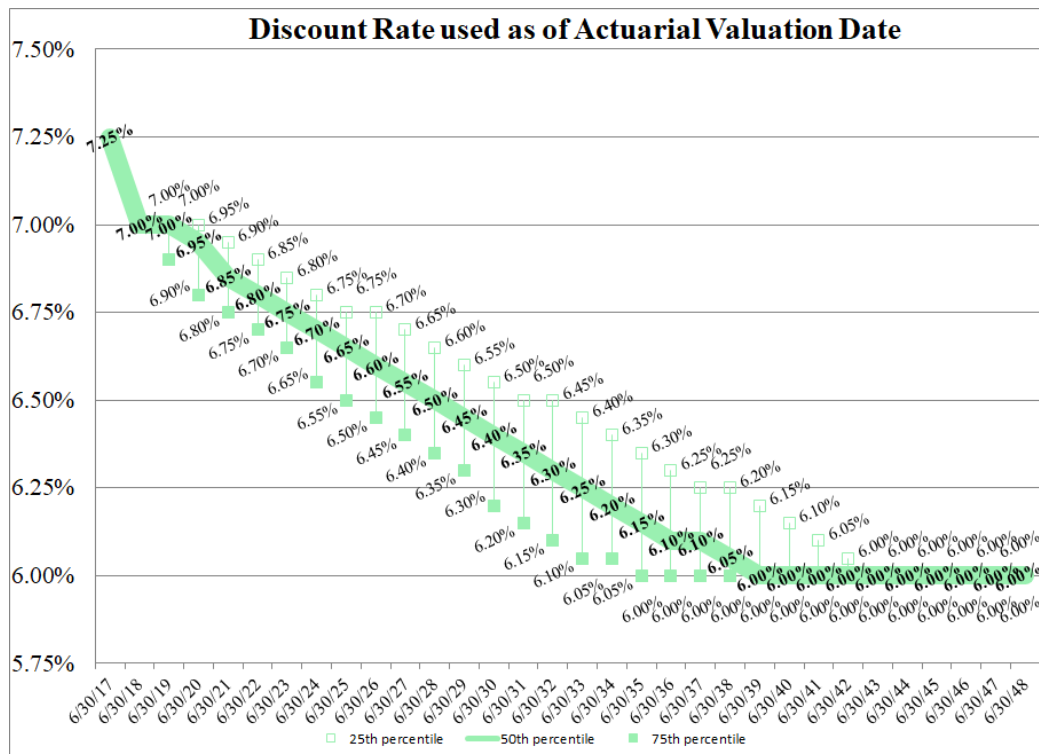


## CALPERS CHANGES

- Risk Mitigation Strategy
  - Move to more conservative investments over time to reduce volatility
  - 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
  - Risk mitigation suspended until 6/30/18 valuation
- February 2018 CalPERS adopted new amortization policy
  - Applies only to newly established amortization bases
    - Fixed dollar amortization rather than % pay
    - Amortize gains/losses over 20 rather than 30 years
    - 5-year ramp up (not down) for investment gains and losses
    - No ramp up/down for other amortization bases
  - Minimizes total interest paid over time and pays off UAL faster
  - Effective June 30, 2019 valuation for 2021/22 contributions
  - Included in this study



## CALPERS CHANGES



## SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

	1997	2007	2016	2017
<b>Actives</b>				
■ Counts	1,375	1,636	1,536	1,599
■ Average				
• Age	45	43	45	45
• City Service	12	10	11	11
• PERSable Wages	\$ 44,800	\$ 62,600	\$ 73,600	\$ 74,200
■ Total PERSable Wages	61,600,000	102,400,000	113,100,000	118,600,000
<b>Inactive Members</b>				
■ Counts				
• Transferred	1,000	866	693	668
• Separated	372	527	624	657
• Retired				
□ Service		1,590	1,608	1,673
□ Disability		208	159	161
□ Beneficiaries		327	273	280
□ Total	1,294	2,125	2,040	2,114
■ Average Annual City Provided Benefit for Service Retirees <sup>1</sup>	N/A	\$ 16,700	\$ 31,600	\$ 32,000

<sup>1</sup> Average City-provided pensions are based on City service & City benefit formula, and are not representative of benefits for long-service employees.

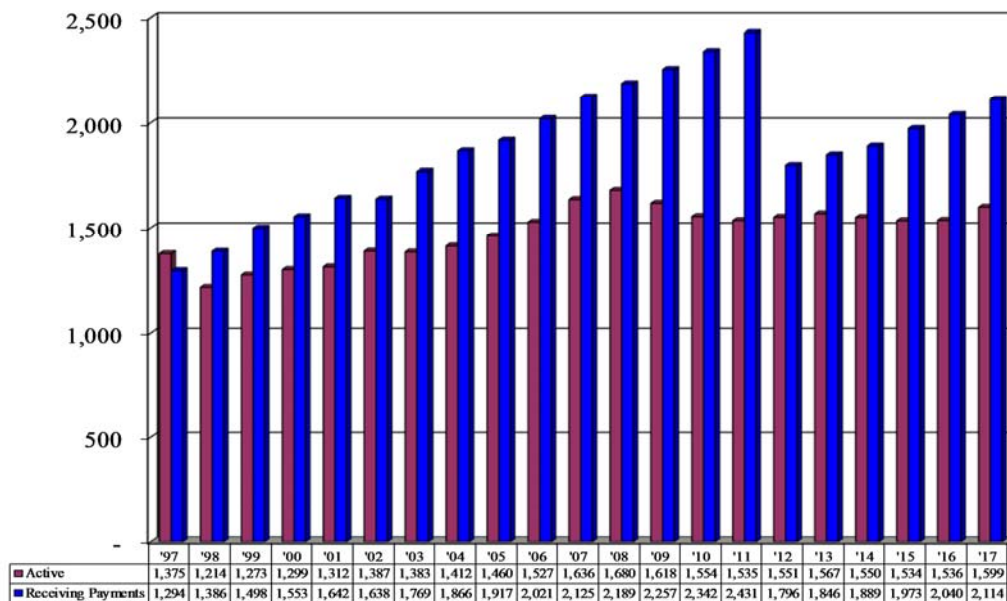


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## SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS



\*Prior to 2012, inactives were counted separately for service with or without Social Security under different coverage groups.



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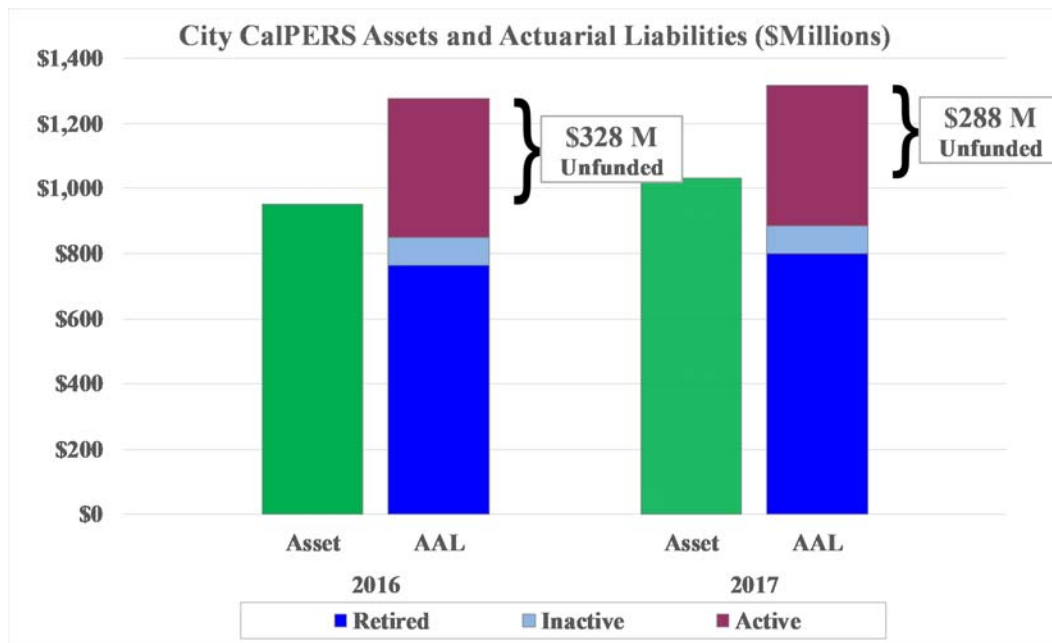


**PLAN FUNDED STATUS - MISCELLANEOUS**

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
<b>Active AAL</b>	\$430,300,000	\$432,900,000
<b>Retiree AAL</b>	766,200,000	799,800,000
<b>Inactive AAL</b>	<u>81,500,000</u>	<u>84,700,000</u>
<b>Total AAL</b>	1,278,000,000	1,317,400,000
<b>Assets</b>	<u>949,900,000</u>	<u>1,029,800,000</u>
<b>Unfunded Liability</b>	328,100,000	287,600,000
<b>Funded Ratio</b>	74.3%	78.2%



**PLAN FUNDED STATUS - MISCELLANEOUS**



**PLAN FUNDED STATUS - MISCELLANEOUS**

**Discount Rate Sensitivity**

**June 30, 2017**

	<b>Discount Rate</b>		
	<b><u>7.25%</u></b>	<b><u>7.00%</u></b>	<b><u>6.00%</u></b>
<b>AAL</b>	\$1,317,400,000	\$1,338,800,000	\$1,523,200,000
<b>Assets</b>	<u>1,029,800,000</u>	<u>1,029,800,000</u>	<u>1,029,800,000</u>
<b>Unfunded Liability</b>	287,600,000	309,000,000	493,400,000
<b>Funded Ratio</b>	78.2%	76.9%	67.6%



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**PLAN FUNDED STATUS - MISCELLANEOUS**

**Unfunded Accrued Liability Changes**

■ <b>Unfunded Accrued Liability on 6/30/16</b>	\$328,100,000
■ <b>Expected Unfunded Accrued Liability on 6/30/17</b>	339,300,000
■ <b>Other Changes</b>	
• Asset Loss (Gain) (11.2% return for FY 2017)	(34,300,000)
• Assumption Change	2,000,000
• Contribution & Experience Loss (Gain)	(19,400,000)
• Total	<u>(51,700,000)</u>
■ <b>Unfunded Accrued Liability on 6/30/17</b>	287,600,000

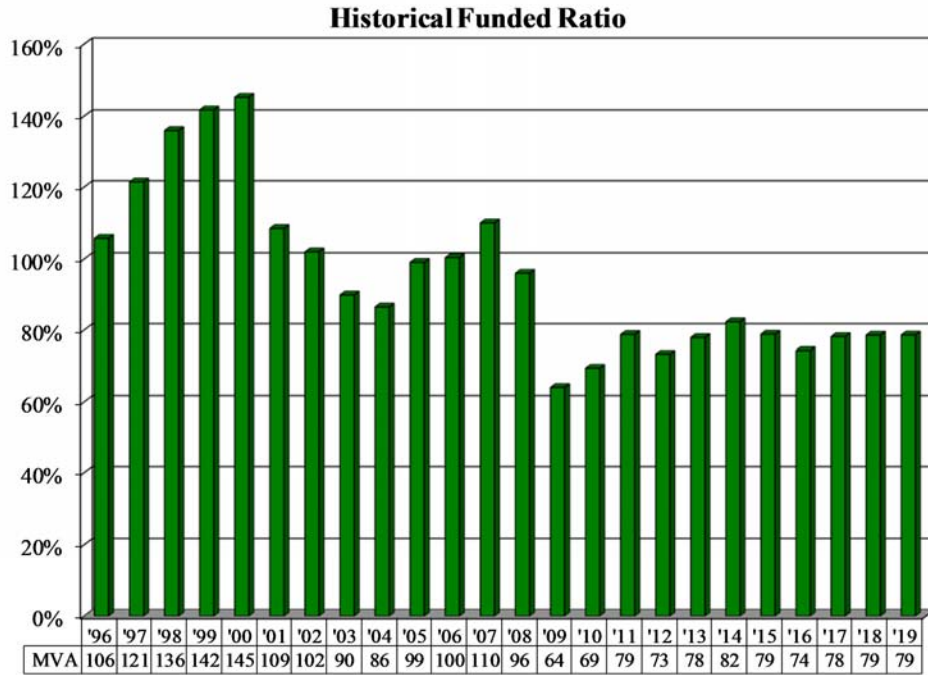


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## FUNDED RATIO - MISCELLANEOUS



6/30/18 & 6/30/19 funded status estimated

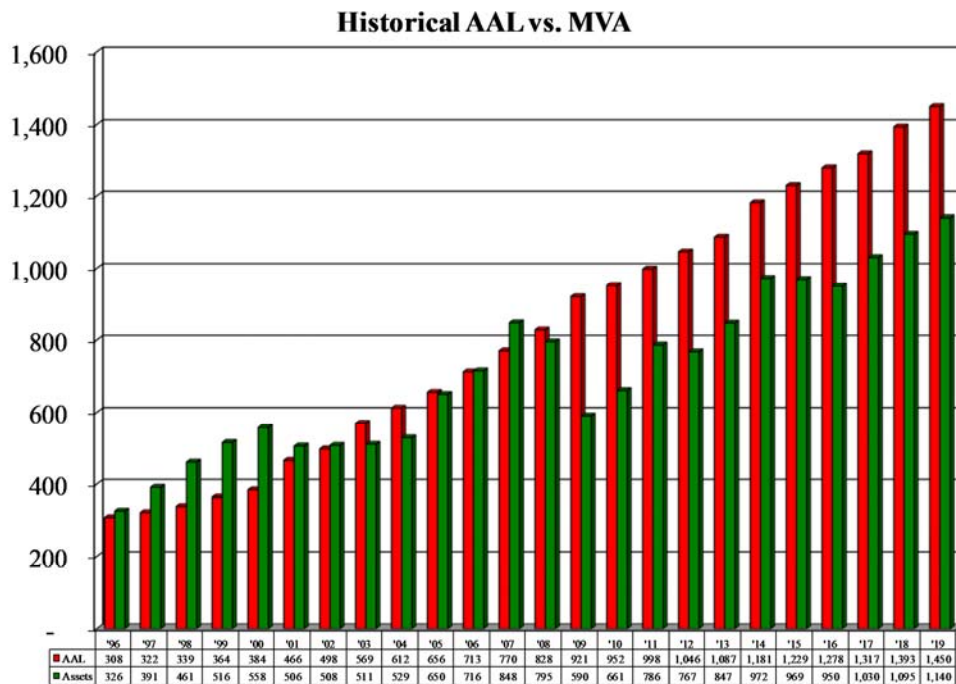


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## FUNDED STATUS (MILLIONS) - MISCELLANEOUS



6/30/18 & 6/30/19 funded status estimated



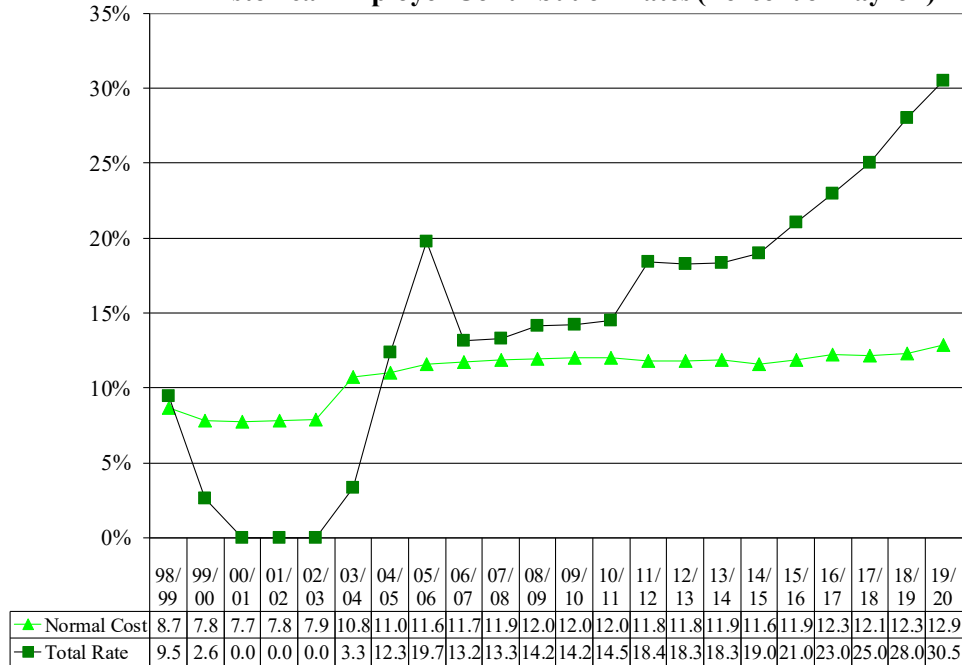
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## CONTRIBUTION RATES - MISCELLANEOUS

### Historical Employer Contribution Rates (Percent of Payroll)



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## CONTRIBUTION RATES - MISCELLANEOUS

	<b>6/30/16</b>	<b>6/30/17</b>
	<b><u>2018/2019</u></b>	<b><u>2019/2020</u></b>
■ Total Normal Cost	20.2%	20.7%
■ Employee Normal Cost	7.9%	7.8%
■ Employer Normal Cost	12.3%	12.9%
■ Amortization Payments	<u>15.7%</u>	<u>17.6%</u>
■ Total Employer Contribution Rate	28.0%	30.5%
■ 2018/19 Employer Contribution Rate		28.0%
● Payroll > Expected		(0.2%)
● Asset Method Change (5 <sup>th</sup> Year)		1.6%
● 6/30/14 Assumption Change (4 <sup>th</sup> Year)		1.2%
● 6/30/16 Discount Rate Change (2 <sup>nd</sup> Year)		0.4%
● 6/30/17 Discount Rate & Inflation (1 <sup>st</sup> Year)		1.0%
● Other (Gains)/Losses		<u>(1.5%)</u>
■ 2019/20 Employer Contribution Rate		30.5%



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## CONTRIBUTION PROJECTIONS - MISCELLANEOUS

- Market Value Investment Return:
  - June 30, 2018 8.6%<sup>2</sup>
  - Future returns based on stochastic analysis using 1,000 trials

<u>Single Year Returns at<sup>3</sup></u>	<u>25<sup>th</sup> Percentile</u>	<u>50<sup>th</sup> Percentile</u>	<u>75<sup>th</sup> Percentile</u>
Current Investment Mix	<b>0.1%</b>	<b>7.0%</b>	<b>14.8%</b>
Ultimate Investment Mix	<b>0.8%</b>	<b>6.0%</b>	<b>11.4%</b>

  - Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.
- Assumption Changes – Discount Rate
  - Decrease to 7.0% by June 30, 2018 valuation
  - Additional Discount Rate decreases due to Risk Mitigation policy.
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection

<sup>2</sup> based July 2018 CalPERS press release

<sup>3</sup> N<sup>th</sup> 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:
  - 62.5% of 2018/19 new hires are PEPRA members and 37.5% are Classic members
  - Percentage of PEPRA member future hires to increase from 62.5% to 100% over 15 years
- Tier 1 Employer Paid Member Contributions:
  - SEIU: 2% prior to January 1, 2019, 1% from January 1, 2019 through January 1, 2020, and 0% thereafter
  - Unrepresented: 6% from January 1, 2018 through January 1, 2019, 4% from January 1, 2019 through January 1, 2020, 2% from January 1, 2020 through January 1, 2021, and 0% thereafter
  - Elected Officials: 8%
  - IBEW: 6% from November 1, 2017 through November 1, 2018, 4% from November 1, 2018 through November 1, 2019, 2% from November 1, 2019 through November 1, 2020, and 0% thereafter
  - Combined: 3.3% for 2018/19, 1.8% for 2019/20, 0.5% for 2020/21 and 0% for 2020/21 and thereafter

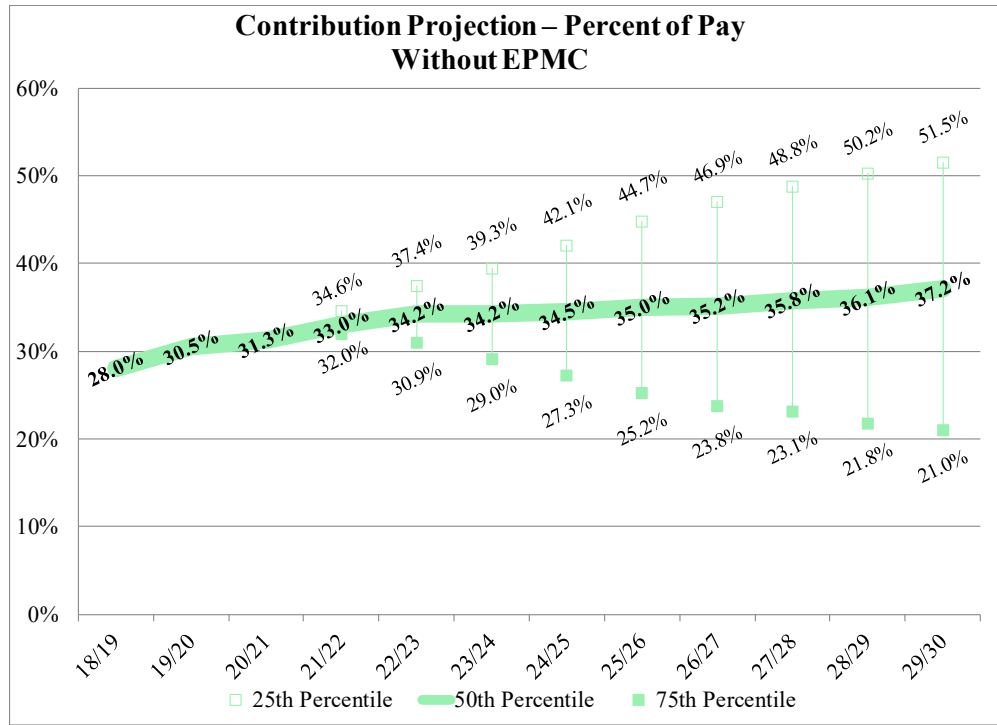


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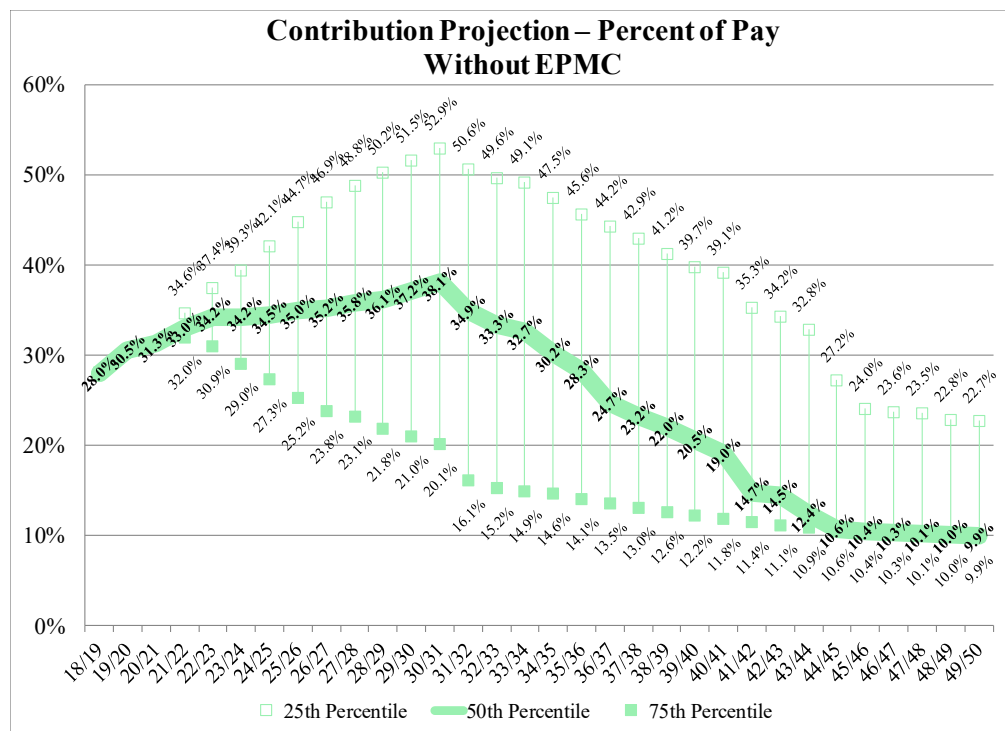
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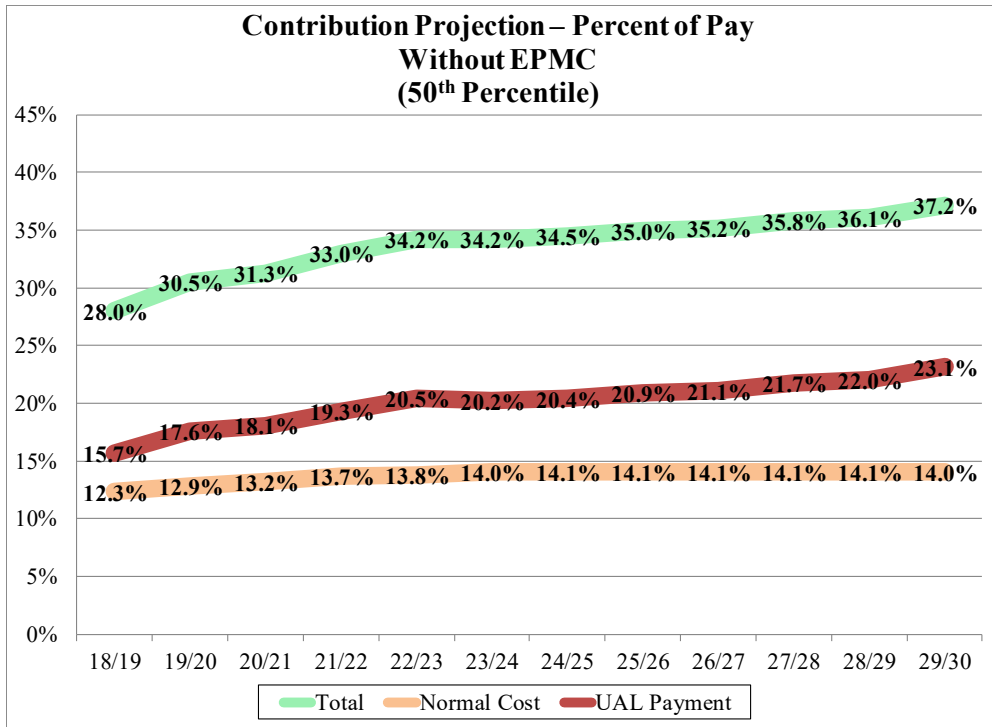
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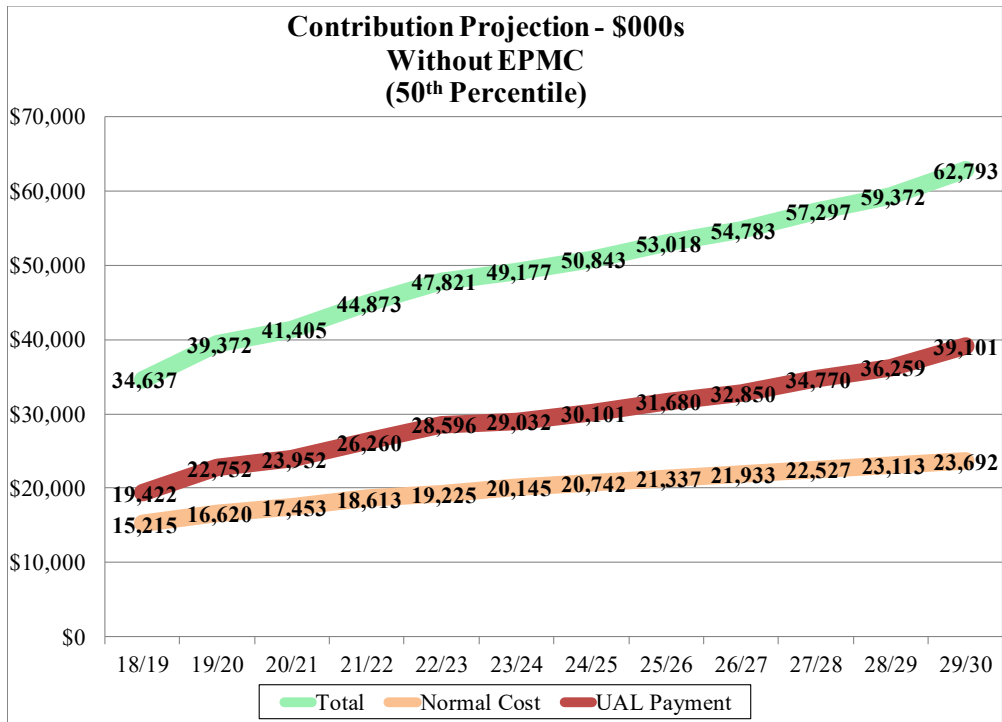
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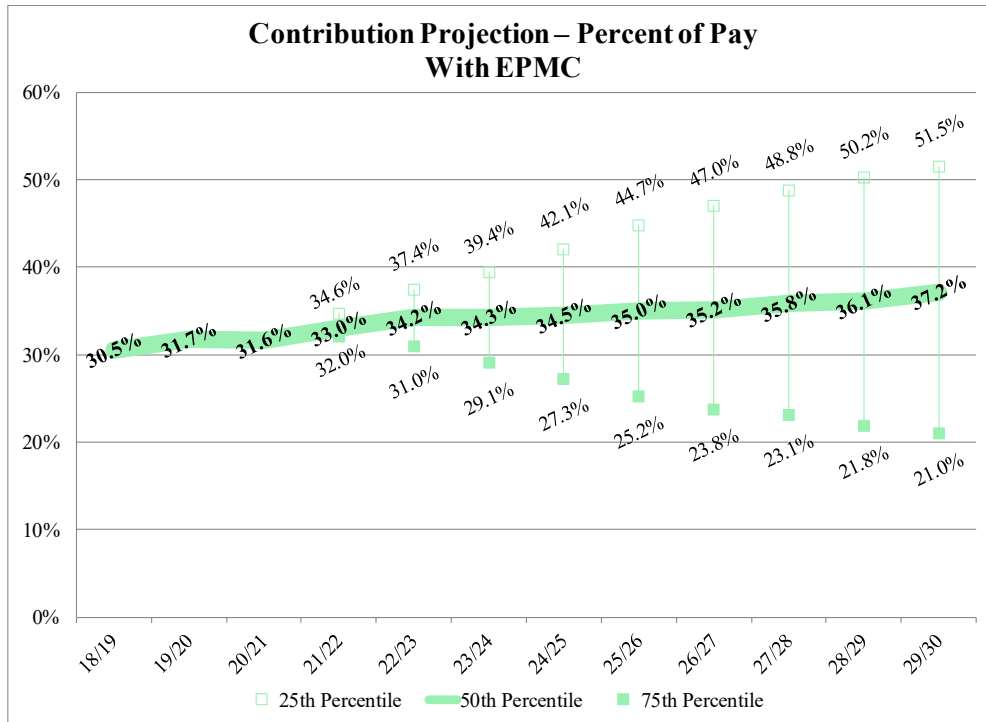
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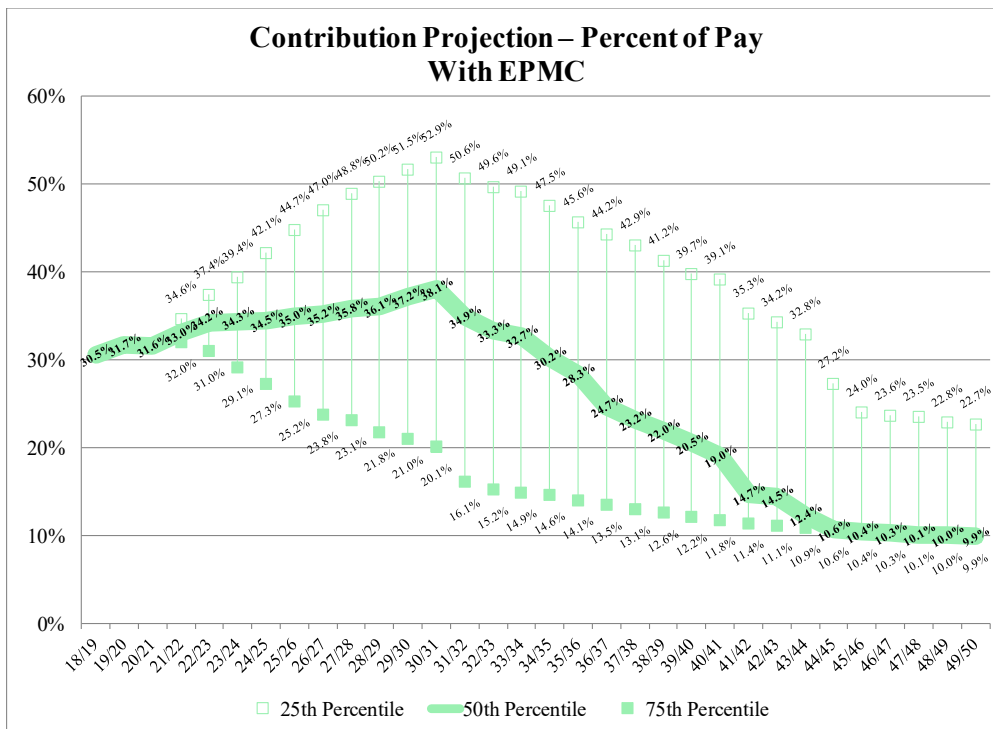
## CONTRIBUTION PROJECTIONS - MISCELLANEOUS



## CONTRIBUTION PROJECTIONS - MISCELLANEOUS

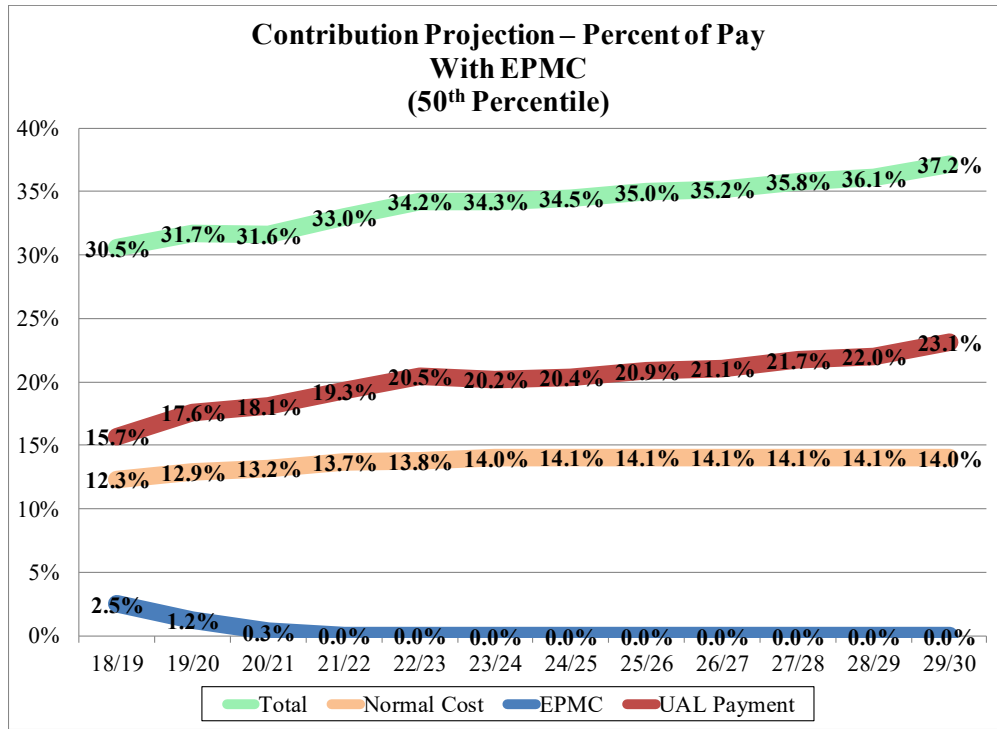


## CONTRIBUTION PROJECTIONS - MISCELLANEOUS





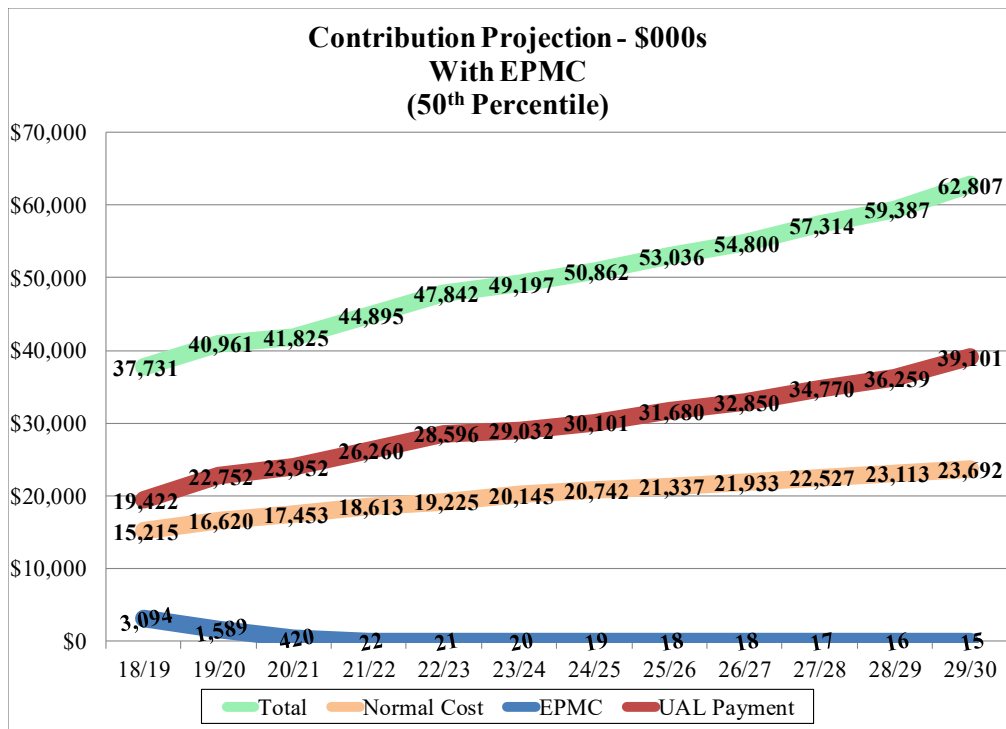
## CONTRIBUTION PROJECTIONS - MISCELLANEOUS



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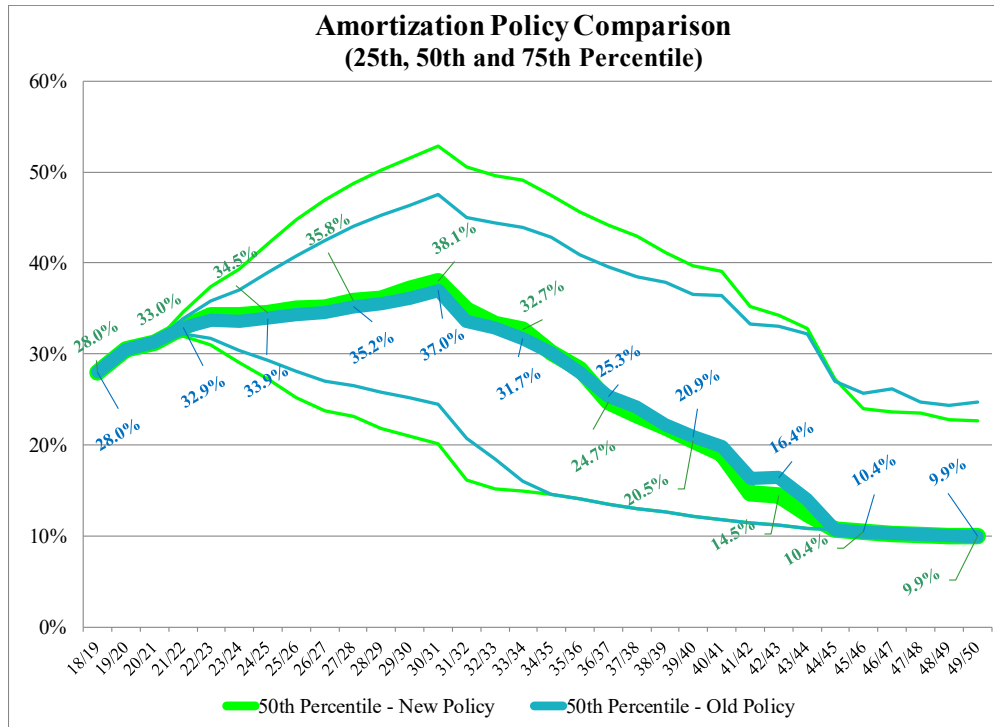
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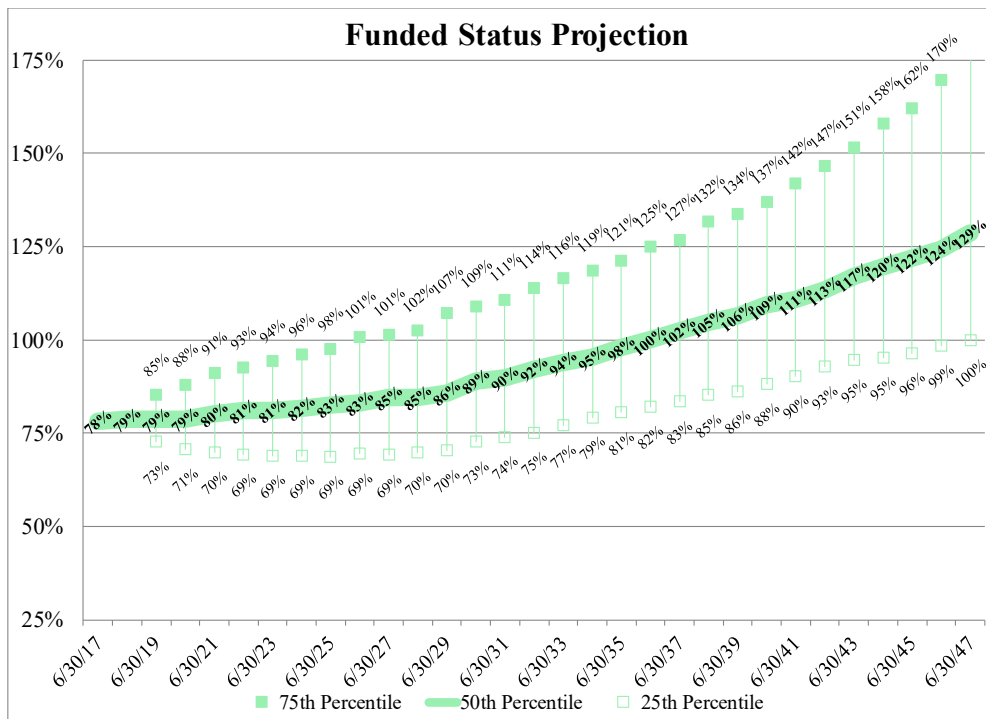
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## CONTRIBUTION PROJECTIONS - MISCELLANEOUS



## FUNDED STATUS - MISCELLANEOUS



## SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY

	1997	2007	2016	2017
<b>Actives</b>				
■ Counts	495	614	579	556
■ Average				
• Age	39	39	41	41
• City Service	13	12	13	13
• PERSable Wages	\$ 58,400	\$ 99,400	\$ 114,800	\$ 115,700
■ Total PERSable Wages	28,900,000	61,100,000	66,500,000	64,300,000
<b>Inactive Members</b>				
■ Counts				
• Transferred	52	90	91	90
• Separated	54	60	67	75
• Retired				
□ Service		218	304	325
□ Disability		268	324	330
□ Beneficiaries		74	101	111
□ Total	400	560	729	766
■ Average Annual City Provided Benefit for Service Retirees <sup>4</sup>	N/A	\$ 48,200	\$ 71,800	\$ 74,000

<sup>4</sup> Average City-provided pensions are based on City service & City benefit formula, and are not representative of benefits for long-service employees.

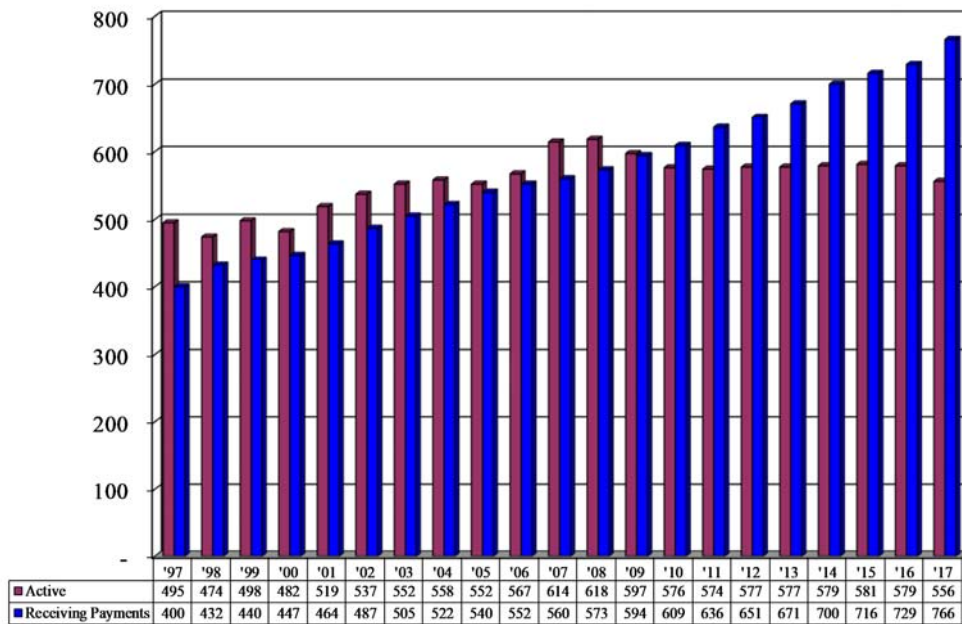


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## SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY



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## PLAN FUNDED STATUS - SAFETY

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
<b>Active AAL</b>	\$121,200,000	\$143,100,000
<b>Retiree AAL</b>	766,200,000	799,800,000
<b>Inactive AAL</b>	<u>81,500,000</u>	<u>84,700,000</u>
<b>Total AAL</b>	968,900,000	1,027,600,000
<b>Assets</b>	<u>693,800,000</u>	<u>751,700,000</u>
<b>Unfunded Liability</b>	275,100,000	275,900,000
<b>Funded Ratio</b>	71.6%	73.2%

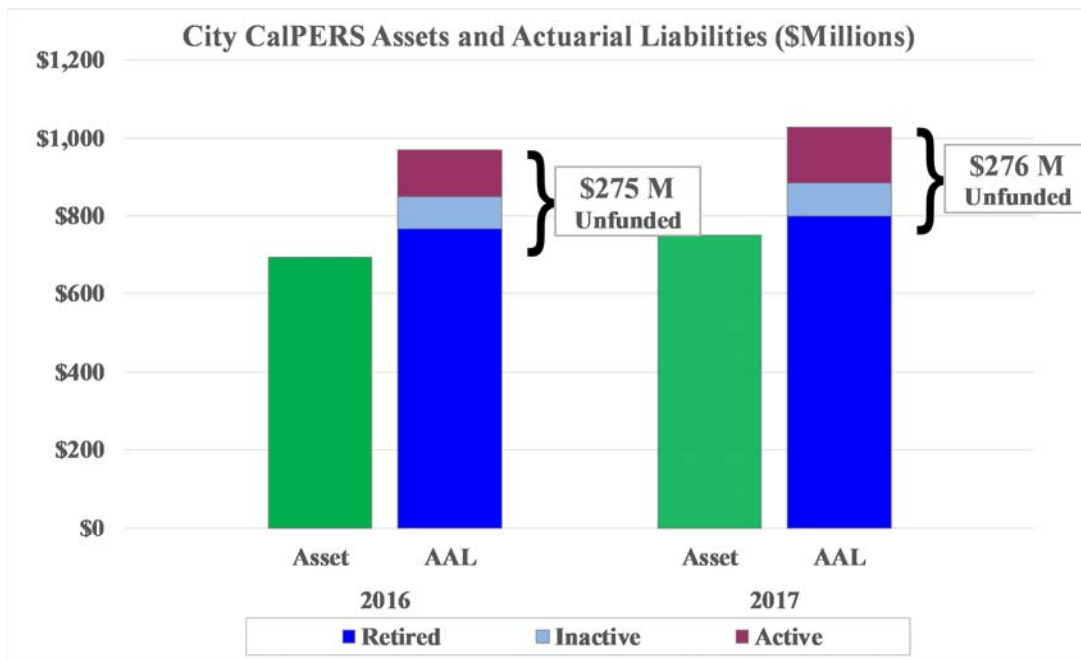


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## PLAN FUNDED STATUS - SAFETY



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**PLAN FUNDED STATUS - SAFETY**

**Discount Rate Sensitivity**

**June 30, 2017**

	<b>Discount Rate</b>		
	<b><u>7.25%</u></b>	<b><u>7.00%</u></b>	<b><u>6.00%</u></b>
<b>AAL</b>	\$1,027,600,000	\$1,057,100,000	\$1,204,000,000
<b>Assets</b>	751,700,000	751,700,000	751,700,000
<b>Unfunded Liability</b>	275,900,000	305,400,000	452,300,000
<b>Funded Ratio</b>	73.2%	71.1%	62.4%



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**PLAN FUNDED STATUS - SAFETY**

**Unfunded Accrued Liability Changes**

<b>■ Unfunded Accrued Liability on 6/30/16</b>	\$275,100,000
<b>■ Expected Unfunded Accrued Liability on 6/30/17</b>	285,200,000
<b>■ Other Changes</b>	
• Asset Loss (Gain) (11.2% return for FY 2017)	(25,300,000)
• Assumption Change	16,800,000
• Contribution & Experience Loss (Gain)	(800,000)
• Total	<u>(9,300,000)</u>
<b>■ Unfunded Accrued Liability on 6/30/17</b>	275,900,000



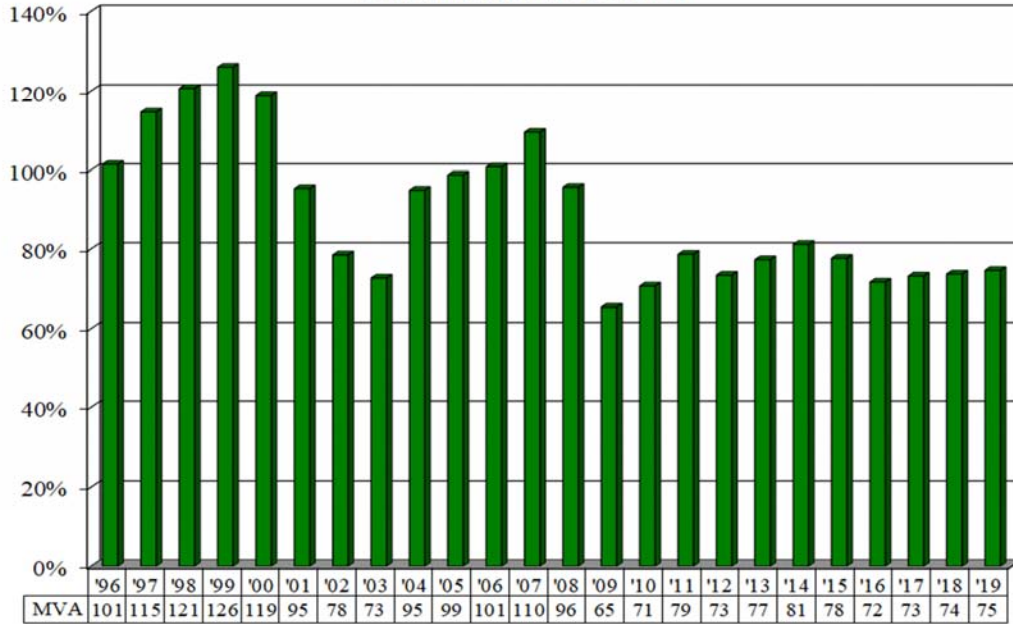
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## FUNDED RATIO - SAFETY

### Historical Funded Ratio



6/30/18 & 6/30/19 funded status estimated

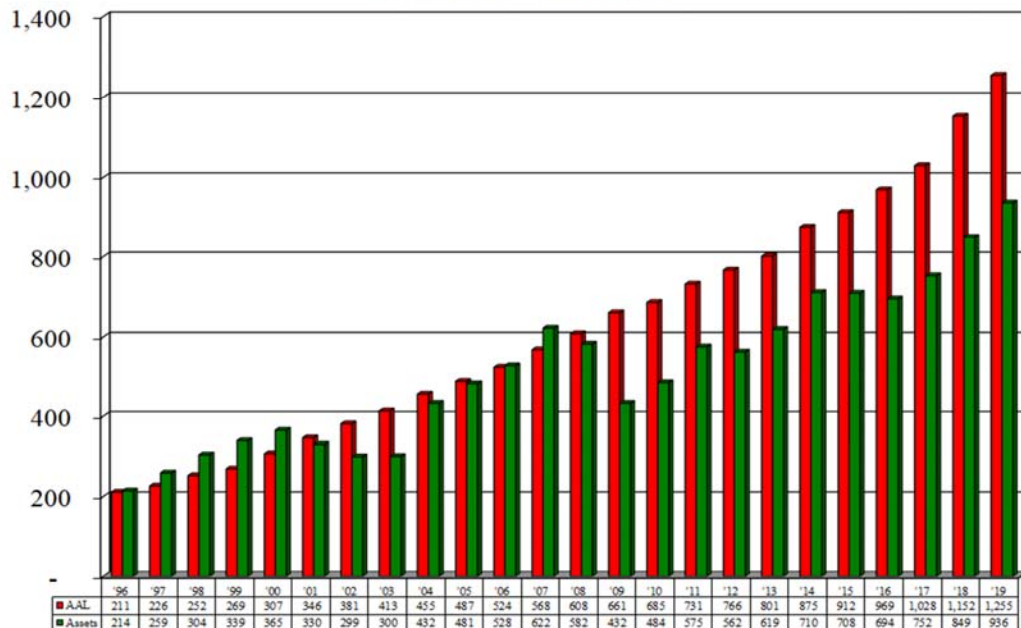


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## FUNDED STATUS (MILLIONS) - SAFETY

### Historical AAL vs. MVA



6/30/18 & 6/30/19 funded status estimated

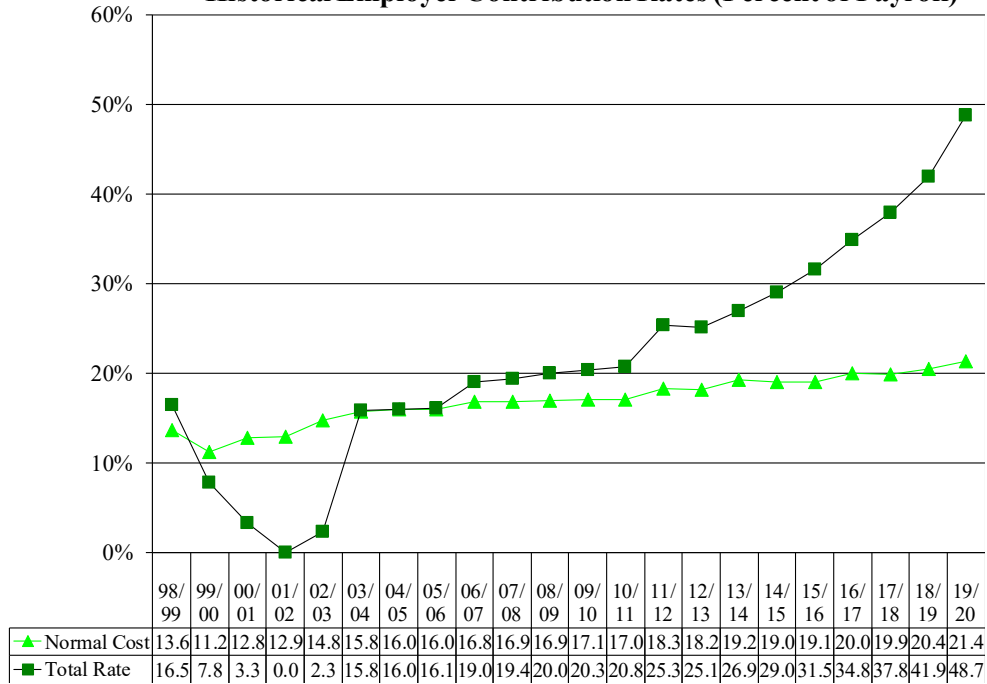


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## CONTRIBUTION RATES - SAFETY

### Historical Employer Contribution Rates (Percent of Payroll)



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## CONTRIBUTION RATES - SAFETY

	<b>6/30/16</b>	<b>6/30/17</b>
	<b><u>2018/2019</u></b>	<b><u>2019/2020</u></b>
■ Total Normal Cost	29.6%	30.6%
■ Employee Normal Cost	9.2%	9.2%
■ Employer Normal Cost	20.4%	21.4%
■ Amortization Payments	<u>21.5%</u>	<u>27.3%</u>
■ Total Employer Contribution Rate	41.9%	48.7%
■ 2018/19 Employer Contribution Rate		41.9%
● Payroll < Expected		1.4%
● Asset Method Change (5 <sup>th</sup> Year)		2.1%
● 6/30/14 Assumption Change (4 <sup>th</sup> Year)		1.3%
● 6/30/16 Discount Rate Change (2 <sup>nd</sup> Year)		0.5%
● 6/30/17 Discount Rate & Inflation (1 <sup>st</sup> Year)		1.7%
● Other (Gains)/Losses		<u>(0.2%)</u>
■ 2019/20 Employer Contribution Rate		48.7%



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## CONTRIBUTION PROJECTIONS - SAFETY

- Market Value Investment Return:
    - June 30, 2018 8.6%<sup>5</sup>
    - Future returns based on stochastic analysis using 1,000 trials
- | <u>Single Year Returns at<sup>6</sup></u> | <u>25<sup>th</sup> Percentile</u> | <u>50<sup>th</sup> Percentile</u> | <u>75<sup>th</sup> Percentile</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Current Investment Mix                    | <b>0.1%</b>                       | <b>7.0%</b>                       | <b>14.8%</b>                      |
| Ultimate Investment Mix                   | <b>0.8%</b>                       | <b>6.0%</b>                       | <b>11.4%</b>                      |
- Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.
- Assumption Changes – Discount Rate
    - Decrease to 7.0% by June 30, 2018 valuation
    - Additional Discount Rate decreases due to Risk Mitigation policy.
  - No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
  - Different from CalPERS projection

<sup>5</sup> based July 2018 CalPERS press release

<sup>6</sup> N<sup>th</sup> 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:
  - 75.0% of 2018/19 new hires are PEPRAs members and 25.0% are Classic members
  - Percentage of PEPRAs member future hires to increase from 75.0% to 100% over 5 years
- Tier 1 Employer Paid Member Contributions:
  - 9% for all years
- Tier 1 Employee Cost Sharing:
  - RPOA, RPOA Supervisory, and RPAA: 1.5% from January 1, 2018 through January 1, 2019, 3% from January 1, 2019 through January 1, 2020, 4.5% from January 1, 2020 through January 1, 2021, 6% thereafter
  - RCFA: 2.5% from January 1, 2019 through January 1, 2020, 5% from January 1, 2020 through January 1, 2021, 7% from January 1, 2021 through December 30, 2021, and 8% thereafter
  - Combined: 1.9% for 2018/19, 3.8% for 2019/20, 5.5% for 2020/21, 6.6% for 2021/22, 6.8% for 2022/23 and thereafter



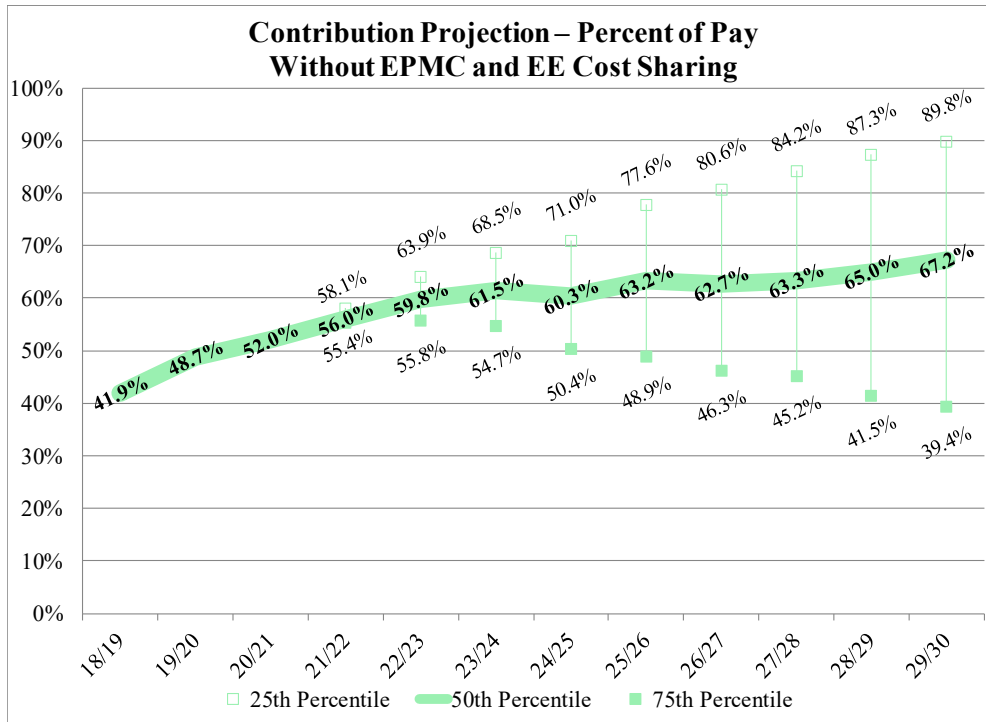
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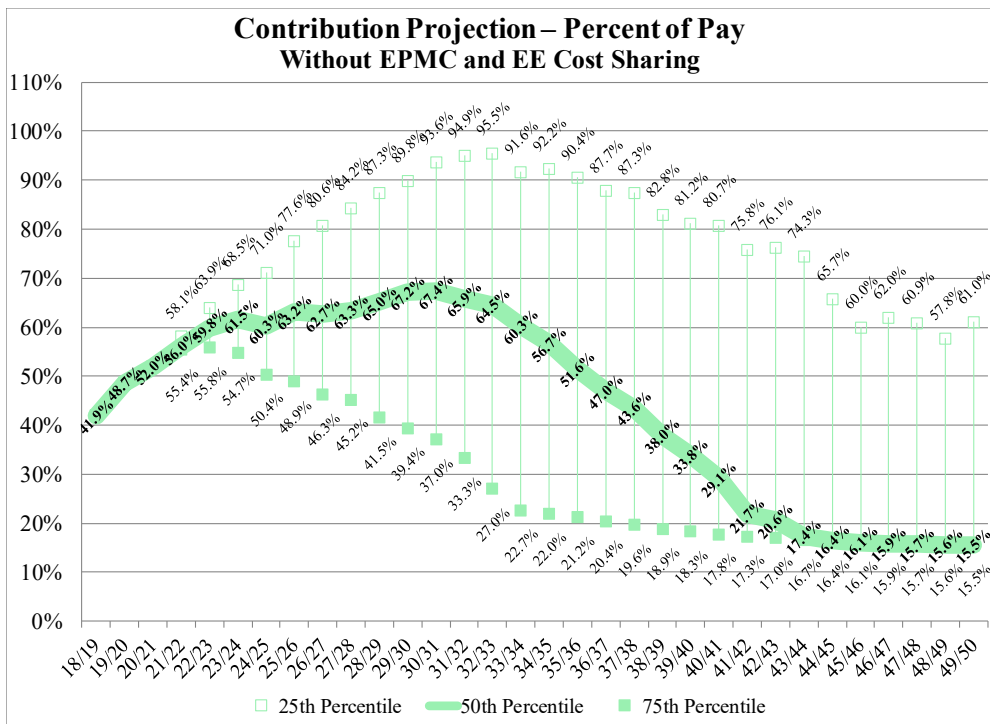
## CONTRIBUTION PROJECTIONS - SAFETY



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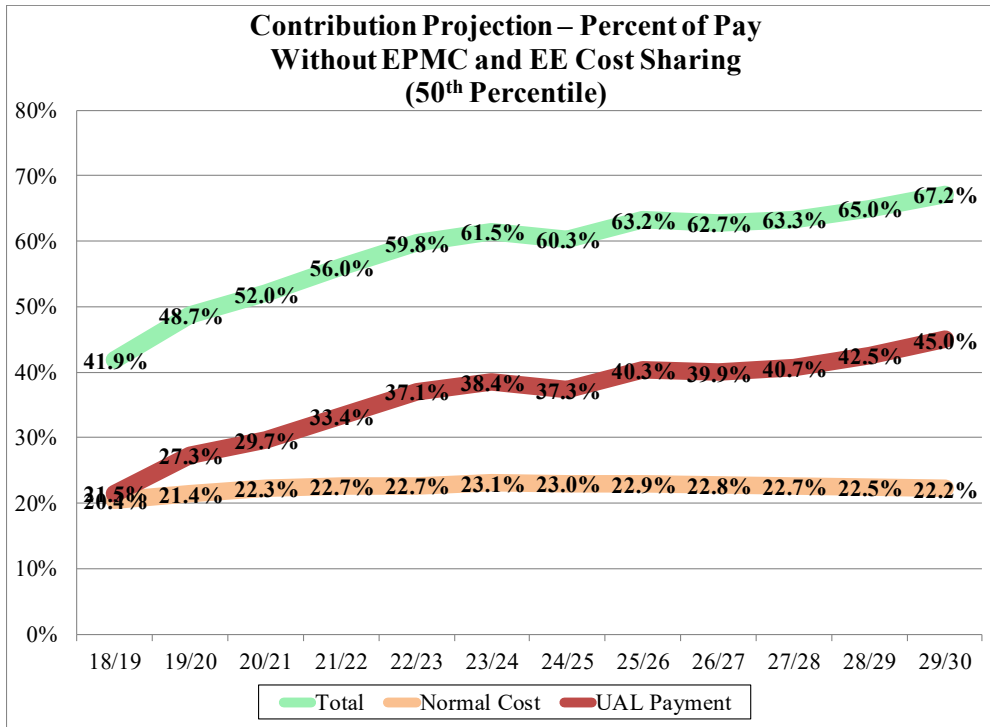
## CONTRIBUTION PROJECTIONS - SAFETY



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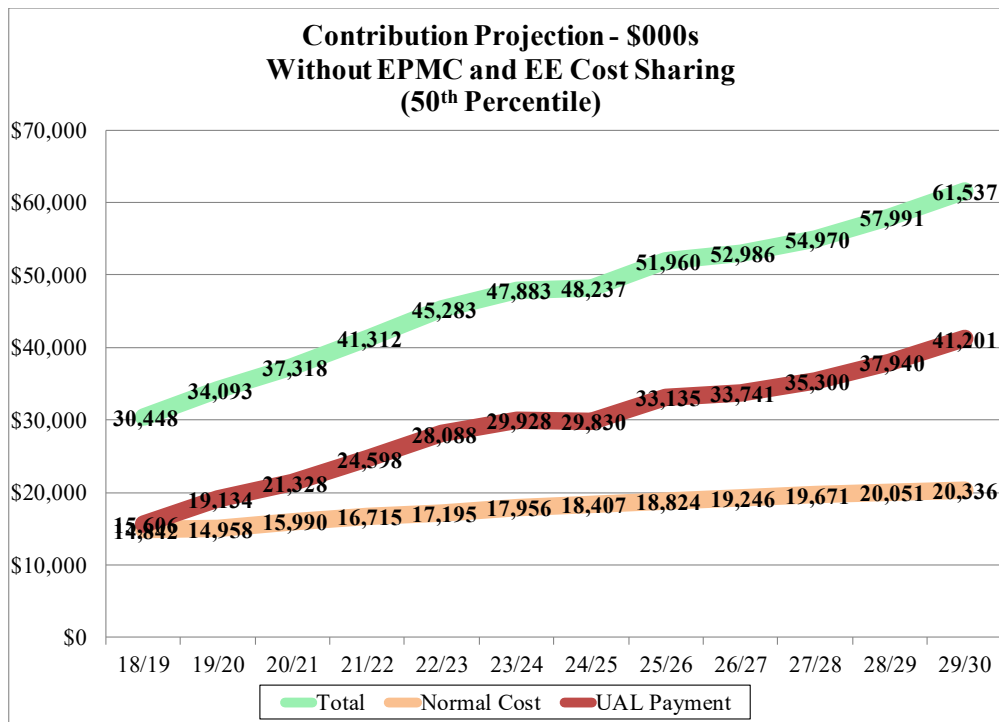
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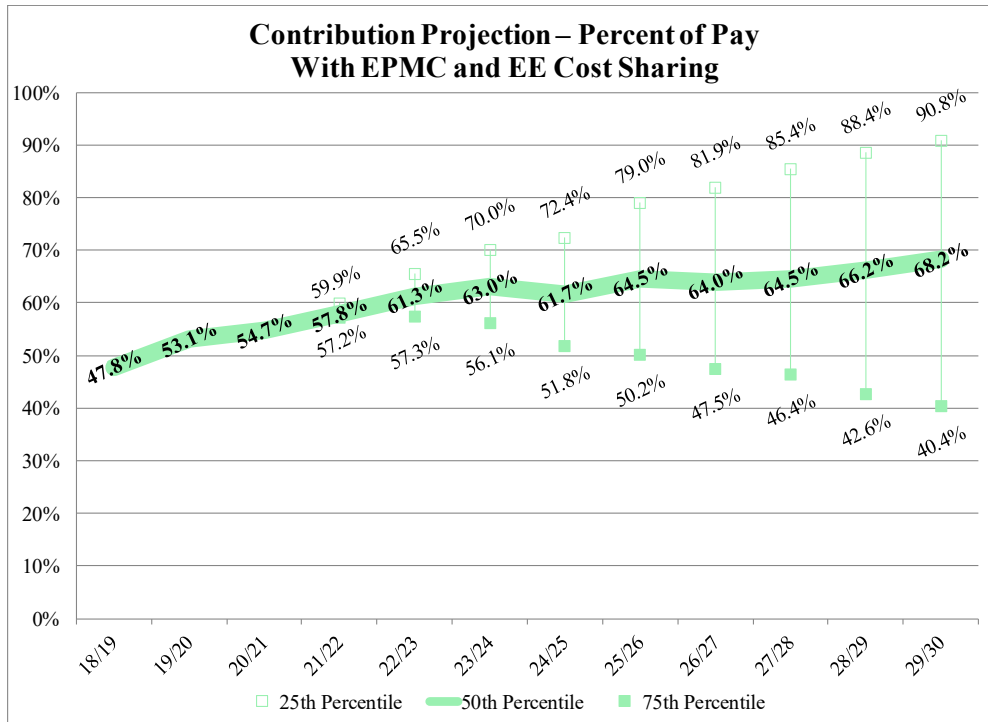
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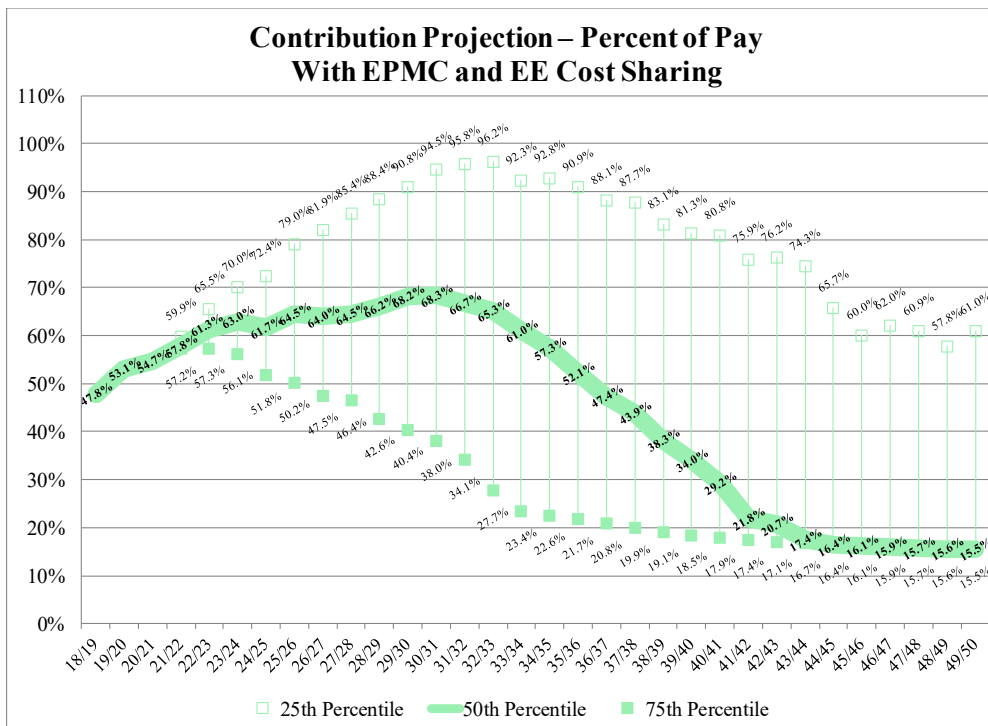
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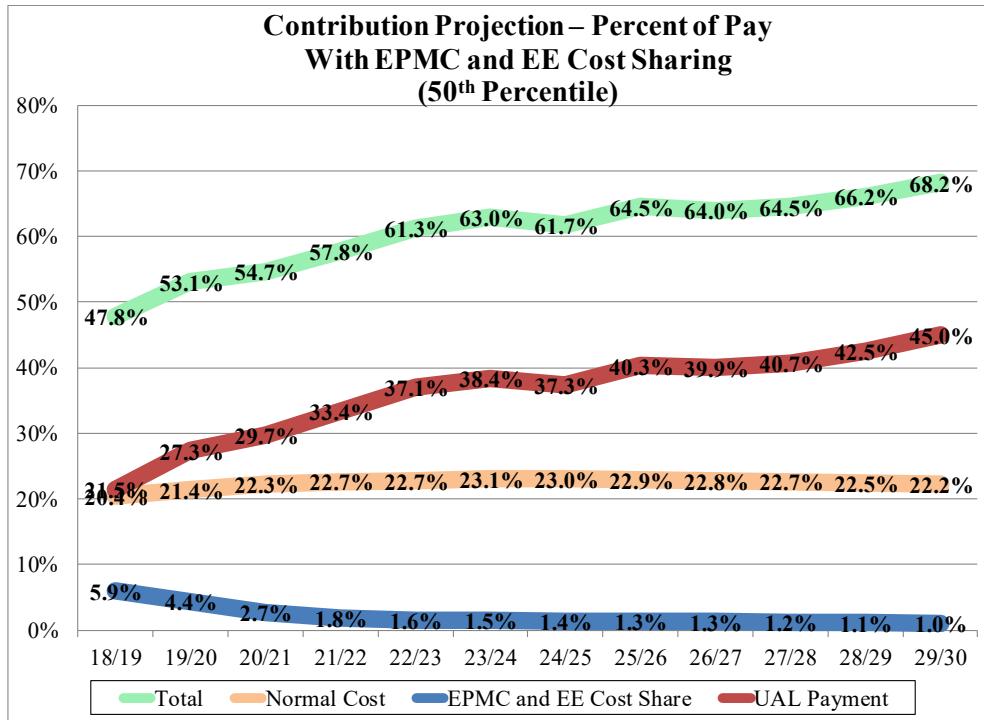
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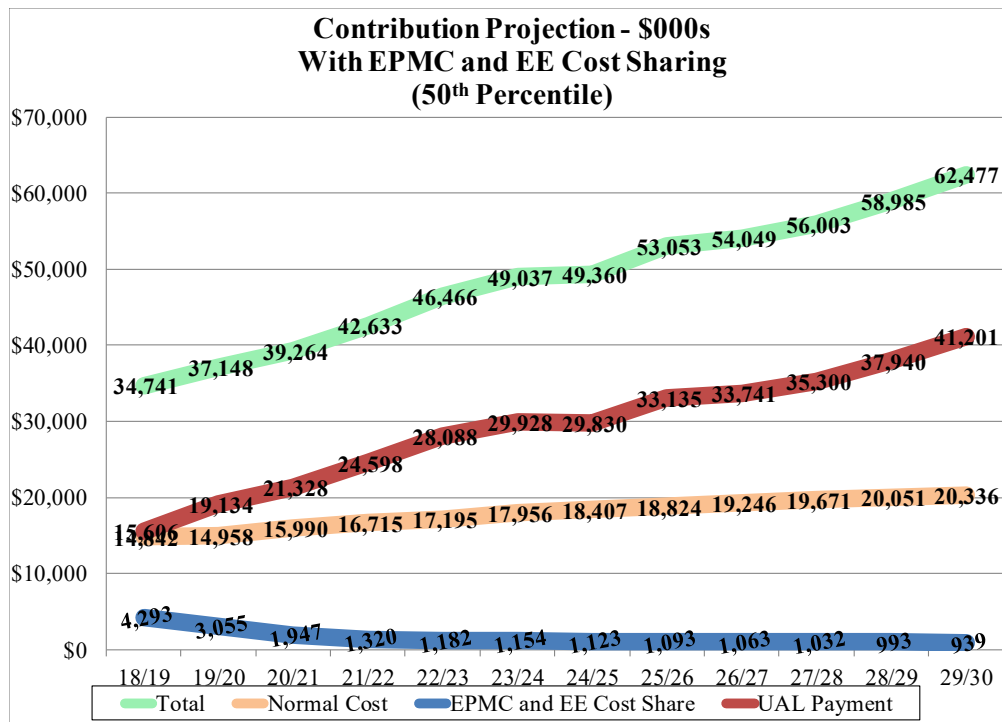
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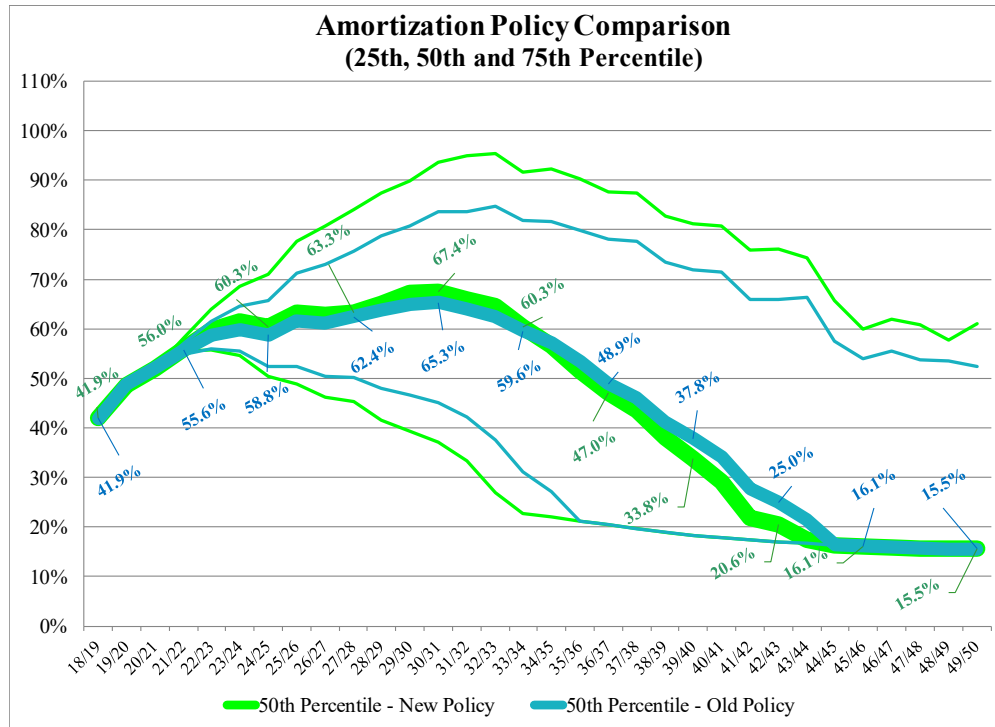
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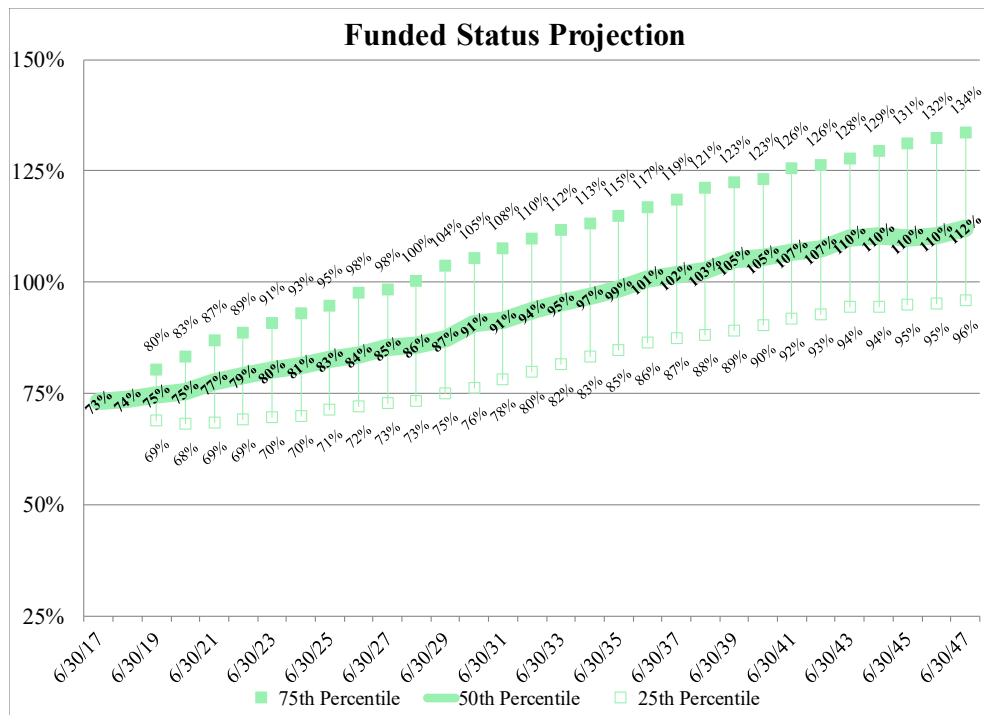
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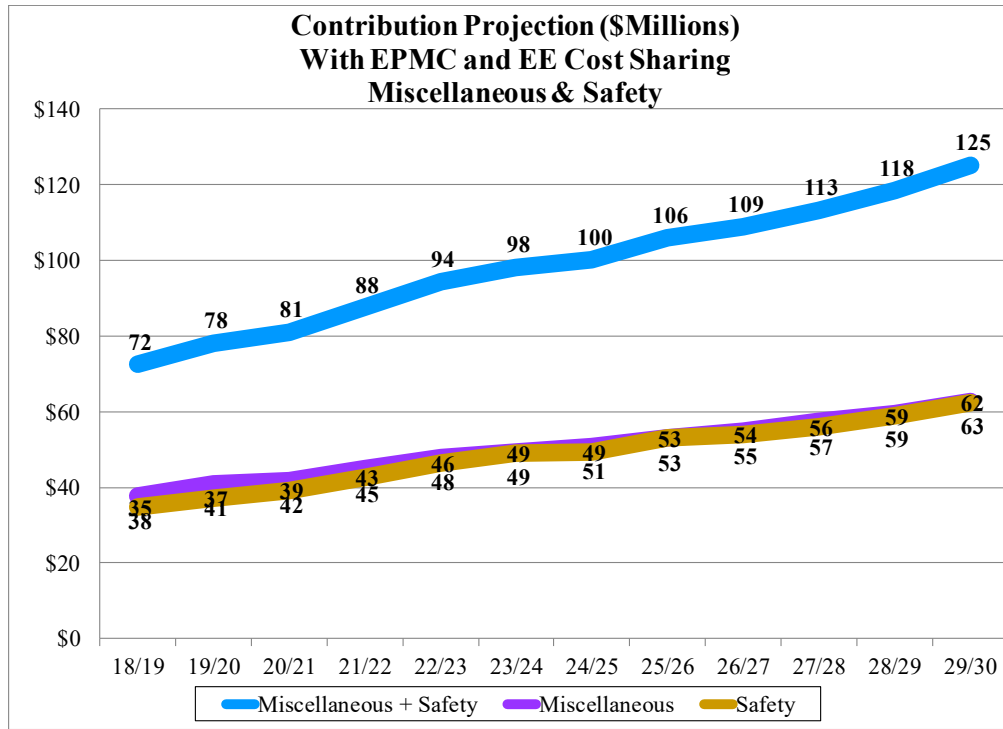
## CONTRIBUTION PROJECTIONS - SAFETY



## FUNDED STATUS - SAFETY



## COMBINED MISCELLANEOUS AND SAFETY



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## COMBINED MISCELLANEOUS AND SAFETY

### Funded Status Summary on June 30, 2017 (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ <b>AAL</b>	\$ 1,317	\$ 1,028	\$ 2,345
■ <b>Assets</b>	<u>1,030</u>	<u>752</u>	<u>1,782</u>
■ <b>Unfunded AAL</b>	287	276	563
■ <b>Funded Ratio</b>	78.2%	73.2%	76.0%



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## LEAVING CALPERS

- Participation in CalPERS is governed by State law and CalPERS rules
- The following are considered “withdrawing” from CalPERS:
  - Exclude new hires from CalPERS & giving them a different pension
  - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
  - Treated as plan termination
  - Liability increased for conservative investments
  - Liability increased for future demographic fluctuations
  - Liability must be funded immediately by withdrawing agency
  - Otherwise, retiree benefits are cut



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## LEAVING CALPERS

### CalPERS Termination Estimates on June 30, 2017 (Amounts in Millions)

Discount Rate	Ongoing Plan	Termination Basis	
	7.25%	1.75%	3.00%
<b>Miscellaneous</b>			
Actuarial Accrued Liability	\$ 1,317	\$ 2,316	\$ 2,060
Assets	<u>1,030</u>	<u>1,030</u>	<u>1,030</u>
Unfunded AAL (UAAL)	287	1,286	1,030
<b>Safety</b>			
Actuarial Accrued Liability	\$ 1,028	\$ 2,015	\$ 1,790
Assets	<u>752</u>	<u>752</u>	<u>752</u>
Unfunded AAL (UAAL)	276	1,263	1,038
<b>Total</b>			
Unfunded AAL (UAAL)	563	2,549	2,068
Funded Ratio	76.0%	41.1%	46.3%



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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 current employees pay 50% of total normal cost (limited to 8% of pay for Miscellaneous and 12% for Safety) if not agreed through collective bargaining by 1/1/18
- Miscellaneous Plan:

	<u>Classic Members</u>		<u>New Members</u>
	Tier 1	Tier 2	PEPRA
	<u>2.7%@55 FAE1</u>	<u>2.7%@55 FAE3</u>	<u>2%@62 FAE3</u>
● Employer Normal Cost	13.6%	16.7%	7.54%
● Member Normal Cost	<u>8.0%</u>	<u>8.0%</u>	<u>7.75%</u>
● Total Normal Cost	21.6%	24.7%	15.29%
● 50% Target	10.8%	12.4%	7.65%



## PEPRA COST SHARING

- Safety Plan:

	<u>Classic Members</u>		<u>New Members</u>
	Tier 1	Tier 2	PEPRA
	<u>3%@50 FAE1</u>	<u>3%@50 FAE3<sup>7</sup></u>	<u>2.7%@57 FAE3</u>
● Employer Normal Cost	21.9%	25.3%	12.23%
● Member Normal Cost	<u>9.0%</u>	<u>9.0%</u>	<u>12.25%</u>
● Total Normal Cost	30.9%	34.3%	24.48%
● 50% Target	15.5%	17.2%	12.24%

<sup>7</sup> Police 3%@50, Fire 3%@55





## 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
  - PEPRA prevents contributions from dropping below normal cost
    - Savings offset when investment return is good
  - GFOA Advisory
- Borrow from General Fund similar to State
- 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



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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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## HOW DO YOU USE THE MONEY?

- Make payments directly to CalPERS:
  - Likely best long-term investment return
  - Must be considered an irrevocable decision
    - Extra payments cannot be used as future “credit”
    - PEPRA prevents contributions from dropping below normal cost
  - Option #1: Request shorter amortization period (Fresh Start):
    - Higher short term payments
    - Less interest and lower long term payments
    - Likely cannot revert to old amortization schedule
      - Savings offset when investment return is good (PEPRA)



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## HOW DO YOU USE THE MONEY?

- Make payments directly to CalPERS (continued):
  - Option #2: Target specific amortization bases:
    - Extra contribution's impact muted by reduced future contributions
      - CalPERS can't track the "would have been" contribution
    - No guaranteed savings
      - Larger asset pool means larger loss (or gain) opportunity
    - Paying off shorter amortization bases: larger contribution savings over shorter period:
      - e.g. 10 year base reduces contribution 12.3¢ for \$1
      - Less interest savings vs paying off longer amortization bases
    - Paying off longer amortization bases: smaller contribution savings over longer period:
      - e.g. 25 year base reduces contribution 6.5¢ for \$1
      - More interest savings vs paying off shorter amortization bases



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## HOW DO YOU USE THE MONEY?

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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Can only be used to:
  - Reimburse City for CalPERS contributions
  - Make payments directly to CalPERS
- Investments significantly less restricted than City investment funds
  - Fiduciary rules govern Trust investments
  - Usually, designed for long term returns
- Assets don't count for GASB accounting
  - Are considered Employer assets
- Over 100 trusts established, mostly since 2015
  - Trust providers: PARS, PFM, Keenan
  - California Employers' Pension Prefunding Trust (CEPPT) is coming



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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- More flexibility than paying CalPERS directly
  - City decides if and when and how much money to put into Trust
  - City decides if and when and how much to withdraw to pay CalPERS or reimburse Agency
- Funding strategies typically focus on
  - Reducing the unfunded liability
    - Fund enough to make total CalPERS UAL = 0
    - Make PEPRAs required payments from Trust when overfunded
  - Stabilizing contribution rates
    - Mitigate expected contribution rates to better manage budget
  - Combination
    - Use funds for rate stabilization/budget predictability
    - Target increasing fund balance to pay off UAL sooner



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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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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

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**IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST**

**Direct Payment to CalPERS**

- Following example illustrates additional contribution of \$10 million to CalPERS on June 30, 2019:
- Miscellaneous
  - Long Base: 2016 Gain/Loss (29 years amortization)
  - Short Base: 2009 Assumption Change (12 years amortization)
- Safety
  - Long Base: 2016 Gain/Loss (29 years amortization)
  - Short Bases: 2003 Benefit Change (5 years amortization), Arnett Case (6 years amortization) and 2004 Benefit Change (7 years amortization)
- Estimated Savings

	<b>Miscellaneous</b>	<b>Safety</b>
<b>Short Base</b>	<b>\$10 million</b>	<b>\$10 million</b>
\$ Savings (000's)	\$4,957	\$2,104
PV Savings @ 3% (000's)	2,473	1,128
<b>Long Base</b>	<b>\$10 million</b>	<b>\$10 million</b>
\$ Savings (000's)	\$15,382	\$15,382
PV Savings @ 3% (000's)	6,383	6,383



**IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST**

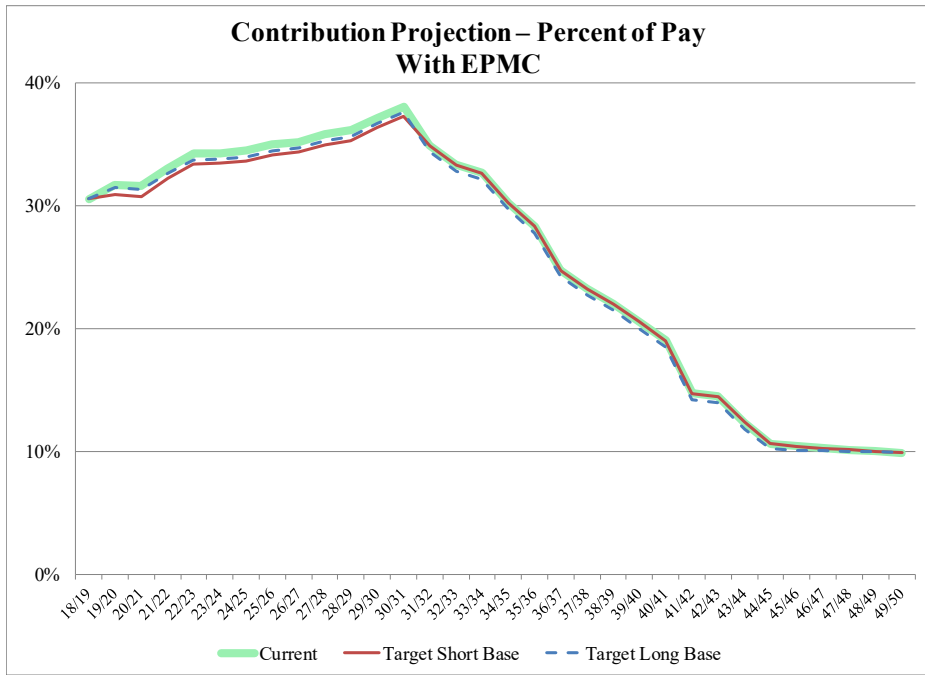
**Payment to 115 Trust**

	<b>Miscellaneous</b>	<b>Safety</b>
<b>Trust Contributions</b>	<b>\$10 million</b>	<b>\$10 million</b>
<b>Trust Earnings</b>	<b>5%</b>	<b>5%</b>
<b>Trust Target</b>		
- Target Rate	34.6%	63.7%
- 1st Year	2025/26	2025/26
- Last Year	2031/32	2032/33
\$ Savings (000's)	\$6,827	\$7,336
PV Savings @ 3% (000's)	2,481	2,700



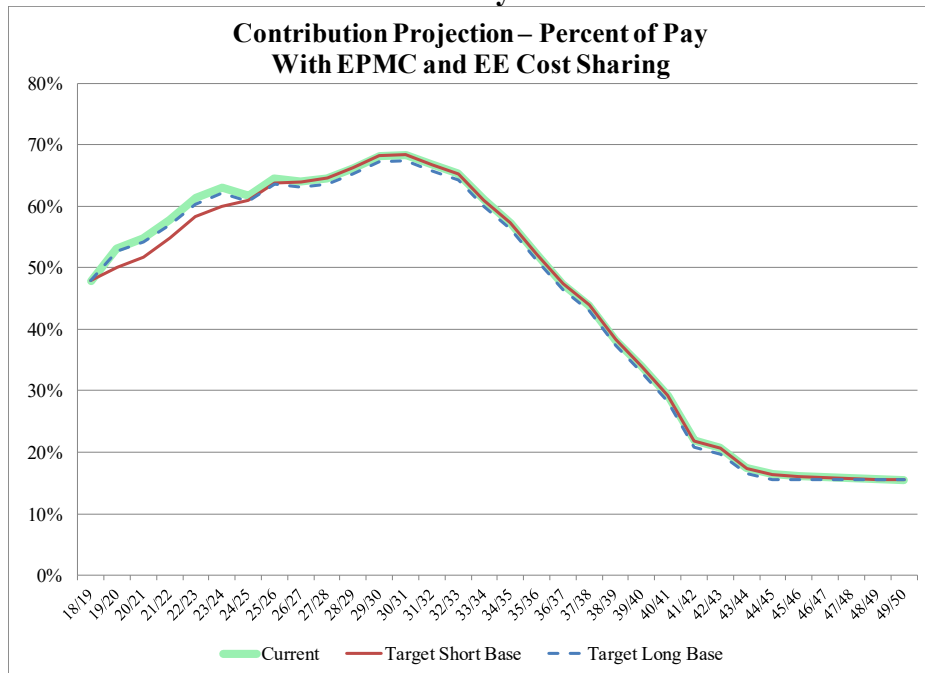
**IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST**

**Direct Payment to CalPERS  
Miscellaneous**



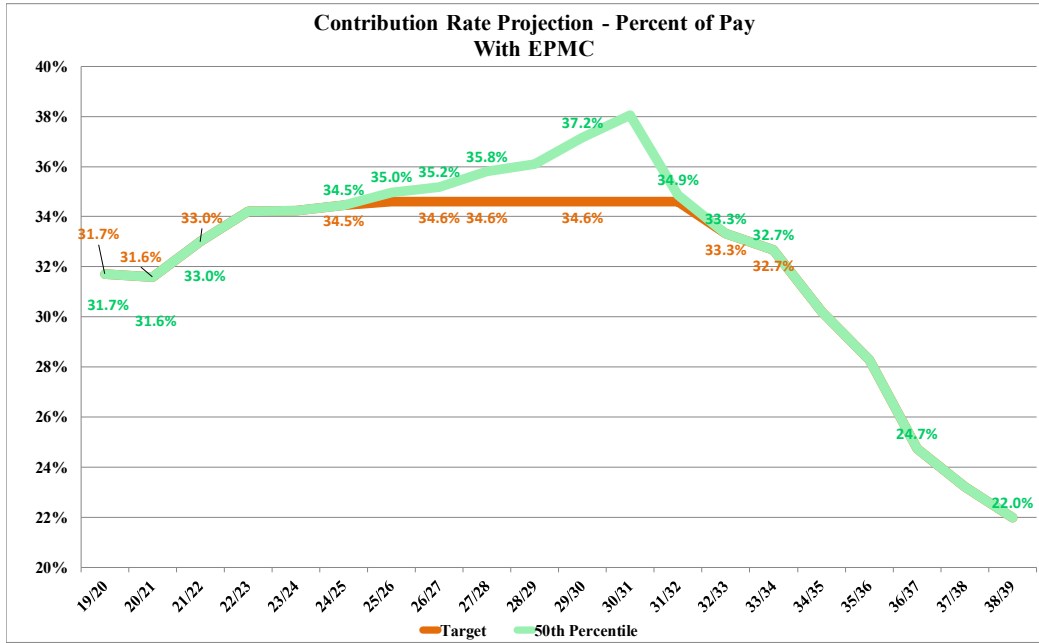
**IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST**

**Direct Payment to CalPERS  
Safety**



## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

### Payment to 115 Trust Miscellaneous

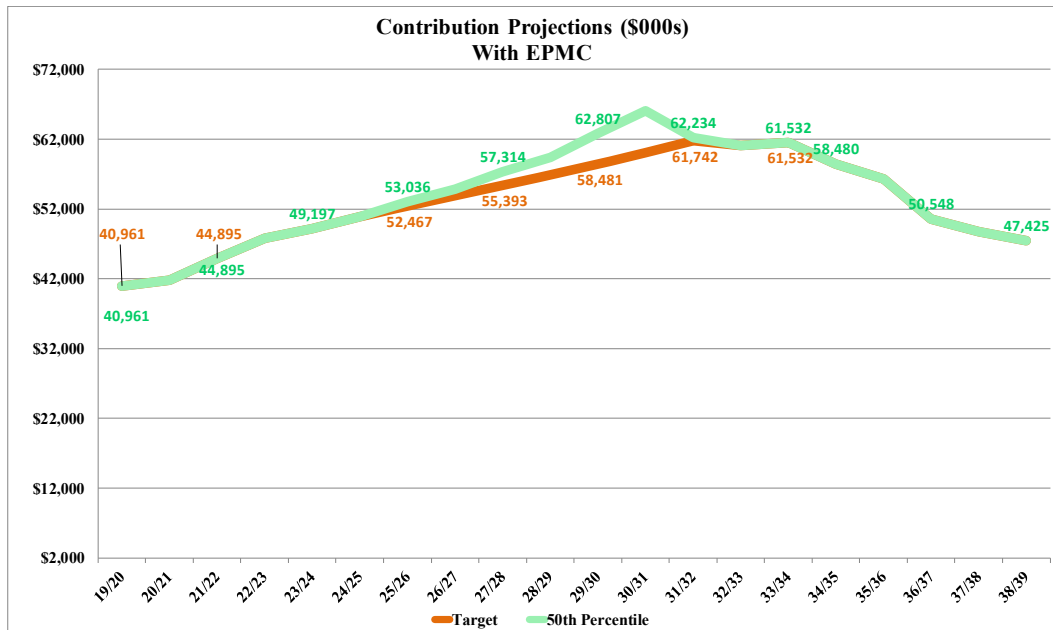


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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

### Payment to 115 Trust Miscellaneous



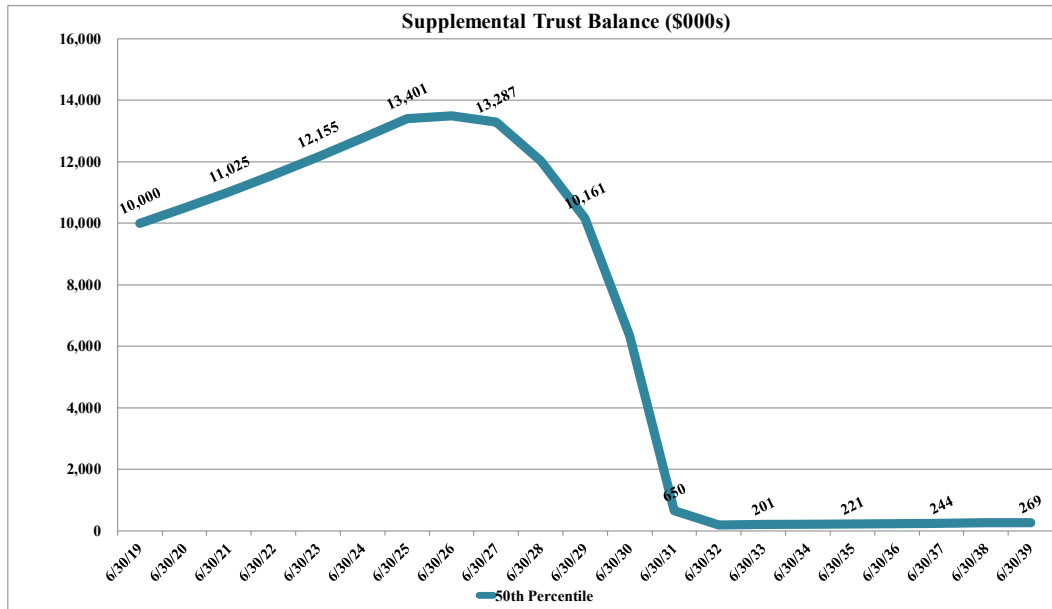
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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

### Payment to 115 Trust Miscellaneous



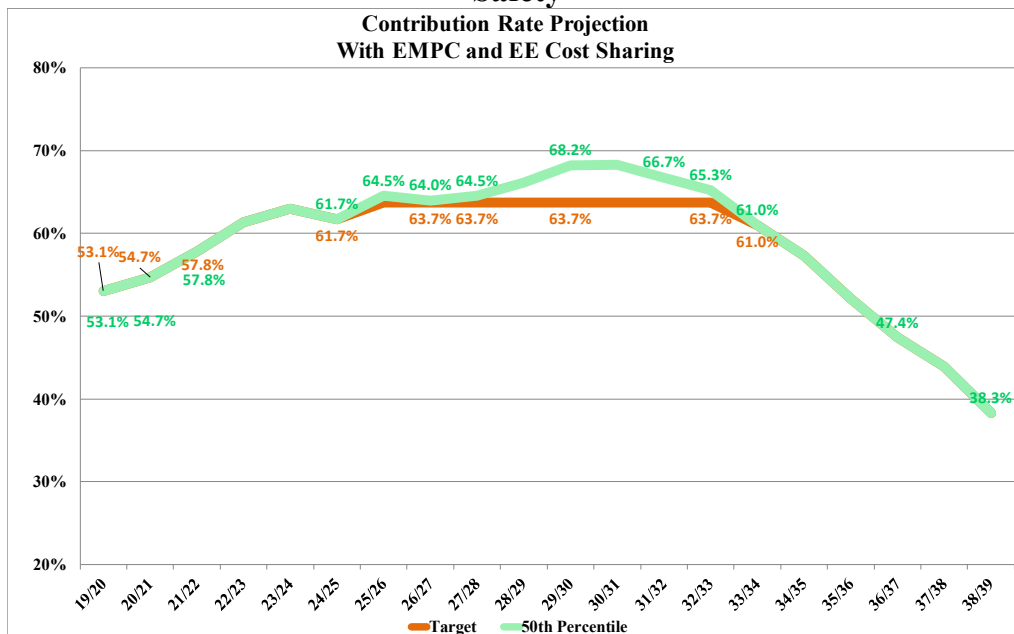
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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

### Payment to 115 Trust Safety



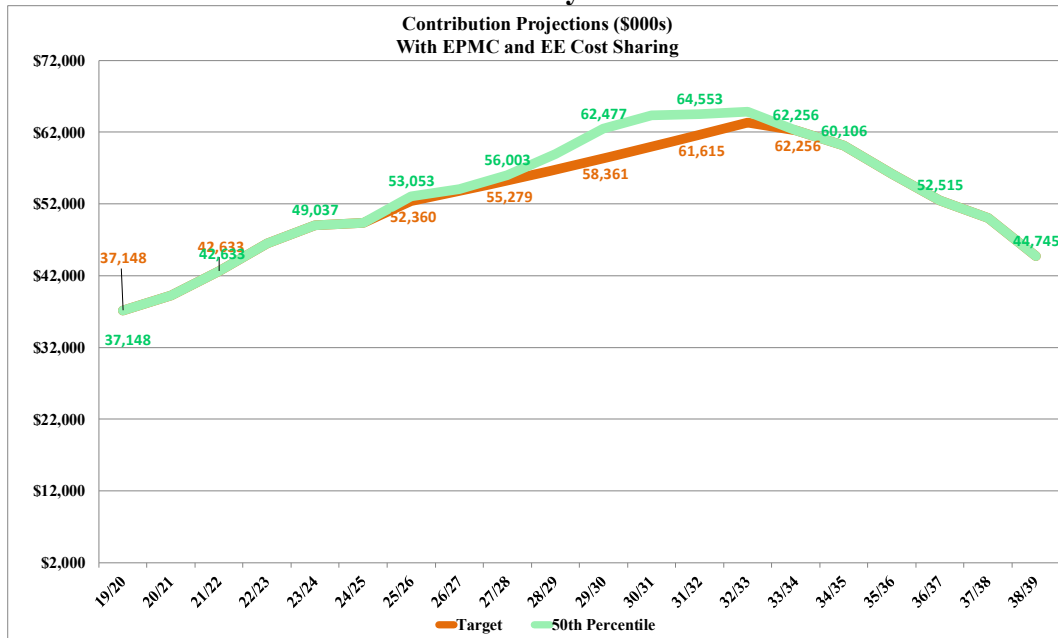
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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

### Payment to 115 Trust Safety

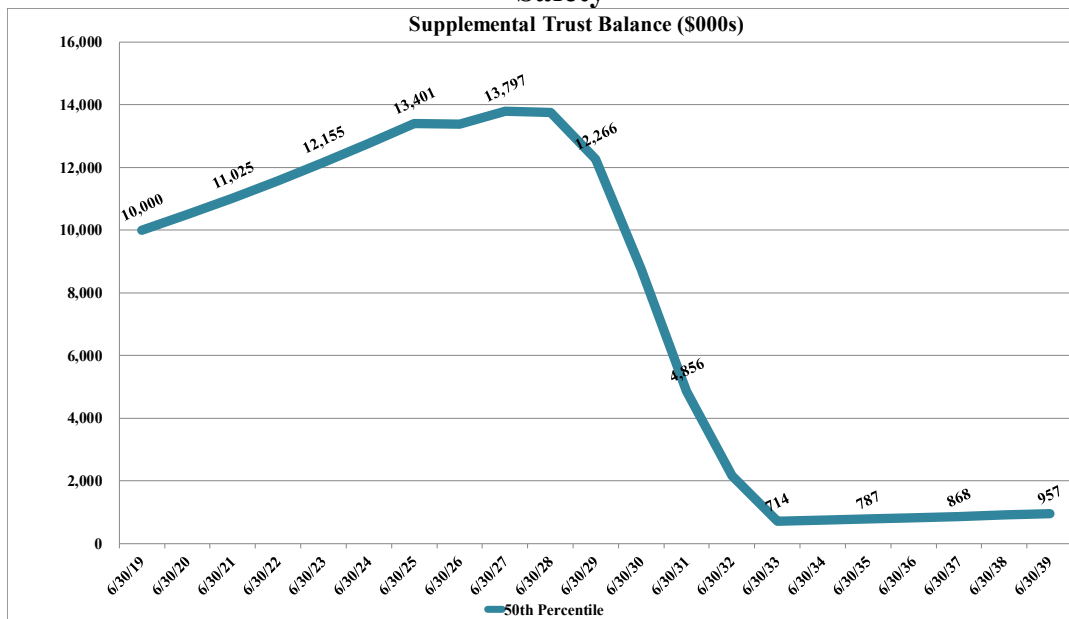


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## IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

### Payment to 115 Trust Safety



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