

## California Public Employee's Retirement System (CalPERS) Pension Cost Update

Finance Department

*Budget Engagement Commission*

*August 31, 2017*

RiversideCA.gov

### **CaIPERS HISTORY: *CITY OF RIVERSIDE***

- Participation in CalPERS
  - Approved by employee groups on April 10, 1945
  - Approved by the voters of Riverside by Special Election on June 5, 1945
  - Final Ordinance and election results adopted by City Council on June 12, 1945



## PENSION FORMULA CHANGES

Pension Formula Changes			
Fiscal Year	CalPERS Group	Formula From	Formula To
<i>Pension Enhancement (CalPERS cost increases)</i>			
FY 2001/02	Safety (Police and Fire)	2%@50	3%@55
FY 2002/03	Misc. (All Non-Sworn)	2%@55	2.7%@55
FY 2004/05	Safety (Police)	3%@55	3%@50
FY 2005/06	Safety (Fire)	3%@55	3%@50
<i>Pension Reform (CalPERS cost savings)</i>			
FY 2010/11	Safety (Fire)	<u>N/A</u>	3%@55 - Est. of Tier 2
FY 2012/13	Misc (All Non-Sworn)	<u>N/A</u>	2%@62 - PEPR - Est. of Tier 3
FY 2012/13	Safety (Police and Fire)	<u>N/A</u>	2.7%@57 - PEPR - Est. of Tier 3

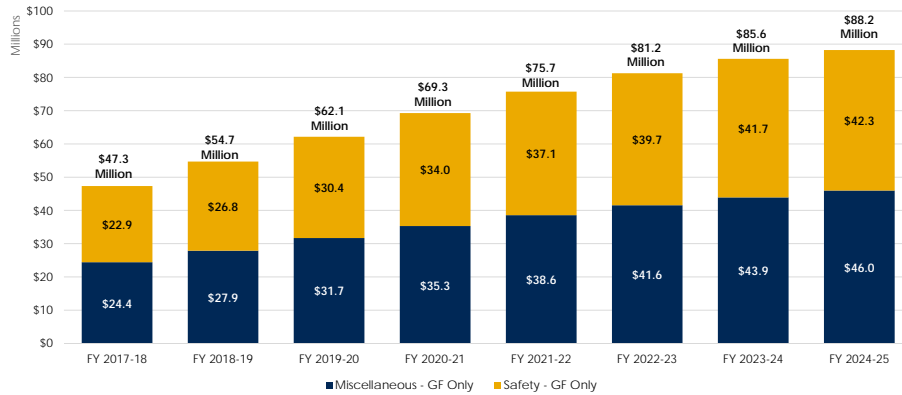


## Updated Citywide CalPERS Cost Projections

Fiscal Year	Updated Projected Pension Costs	Change from Previous Year	
FY 2017-18	\$69,725,489	-	-
FY 2018-19	\$80,614,010	\$10,888,521	15.6%
FY 2019-20	\$91,591,262	\$10,977,252	13.6%
FY 2020-21	\$102,113,969	\$10,522,707	11.5%
FY 2021-22	\$111,586,360	\$9,472,391	9.3%
FY 2022-23	\$119,737,170	\$8,150,810	7.3%
FY 2023-24	\$126,119,895	\$6,382,725	5.3%
FY 2024-25	\$130,026,232	\$3,906,337	3.1%
<b>Cumulative Total (FY 2016-18 vs FY 2024-25)</b>		<b>\$60,300,743</b>	<b>86.5%</b>



## Updated General Fund CalPERS Cost Projections



## City Action to Address Pension Cost Increases

- **Every Year** – Implement operational efficiencies to allow a smaller workforce with minimal impact to service levels provided to the community.
- **2004 & 2005** – Issued Pension Obligation Bonds (POBs) for Unfunded Actuarial Liability (UAL) totaling \$149.5 million. \$30 million was issued as a Series B Interest Only bond.
- **2007** – Refinanced \$30 million interest-only POB with an interest-only Bond Anticipation Note (BAN).
- **2015** – Required all new employees to pay the employee portion of the CalPERS pension costs.
- **2013** – Complied with the Public Employee Reform Pension Act and established separate employee benefit tiers for new employees subject to the legislation. The new tiers utilized new formulas that resulted in lower pension costs.
- **2017** – Refinanced \$30 million BAN using Measure Z Funds. Allowed a fixed interest rate for the pension related debt and an accelerated payoff of the principal balance.



# CHANGE IN BILLING METHODOLOGY

To ensure solvency, CalPERS has changed the way it bills City's for annual obligations

- o Requires agencies to pay the unfunded liability over minimum of 30 years
- o Limits City's ability to reduce annual CalPERS costs

## PREVIOUS METHODOLOGY

$$\text{Normal Costs as \% of Payroll} + \text{UAL Costs as \% of Payroll} = \text{Blended Contribution \%} \times \text{Payroll} = \text{Contribution due to CalPERS}$$

$$15\% + 10\% = 25\% \times \$1 \text{ million} = \$250,000$$

## NEW METHODOLOGY

$$\text{Normal Costs as \% of Payroll} \times \text{Payroll} = \text{Normal Cost Contribution Total} + \text{UAL Contribution Total} = \text{Contribution due to CalPERS}$$



7

# CalPERS REPORTS POSITIVE FY 2016-17 INVESTMENT RETURNS

## Short and Long Term View of Return on Investments

**11.2%**

FY 2016-17 Net  
Return on  
Investments

**8.8%**

5-Year Net Return  
on Investments

**4.4%**

10-Year Net  
Return on  
Investments

**6.6%**

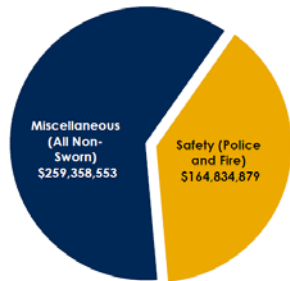
20-Year Net  
Return on  
Investments



8

# CITYWIDE UNFUNDED PENSION LIABILITY

**August 2016 for FY 2017-18**  
Based on Actuarial Report as of June 30, 2015

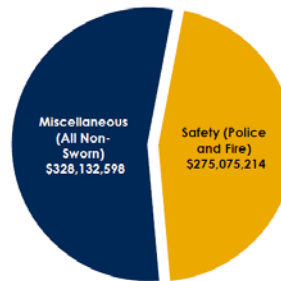


**Total UAL**  
**\$424.2 Million**



**Increased**  
**\$179.0 Million (42%)**  
Primarily due to change  
in discount rate

**July 2017 for FY 2018-19**  
Based on Actuarial Report as of June 30, 2016



**Total UAL**  
**\$603.2 Million**



# CaPERS DISCOUNT RATE: WHY IS IT IMPORTANT?

Every dollar paid to CalPERS retirees comes from three sources:

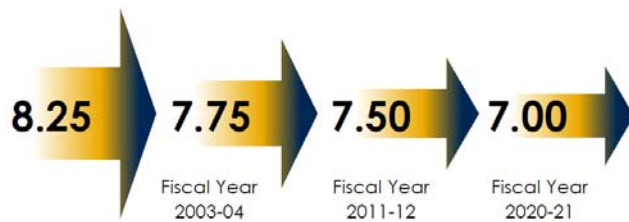
**62¢**  
Investment Earnings

**25¢**  
CalPERS Employers

**13¢**  
CalPERS Members



Source: CalPERS Income over the last 20 years as of June 2016



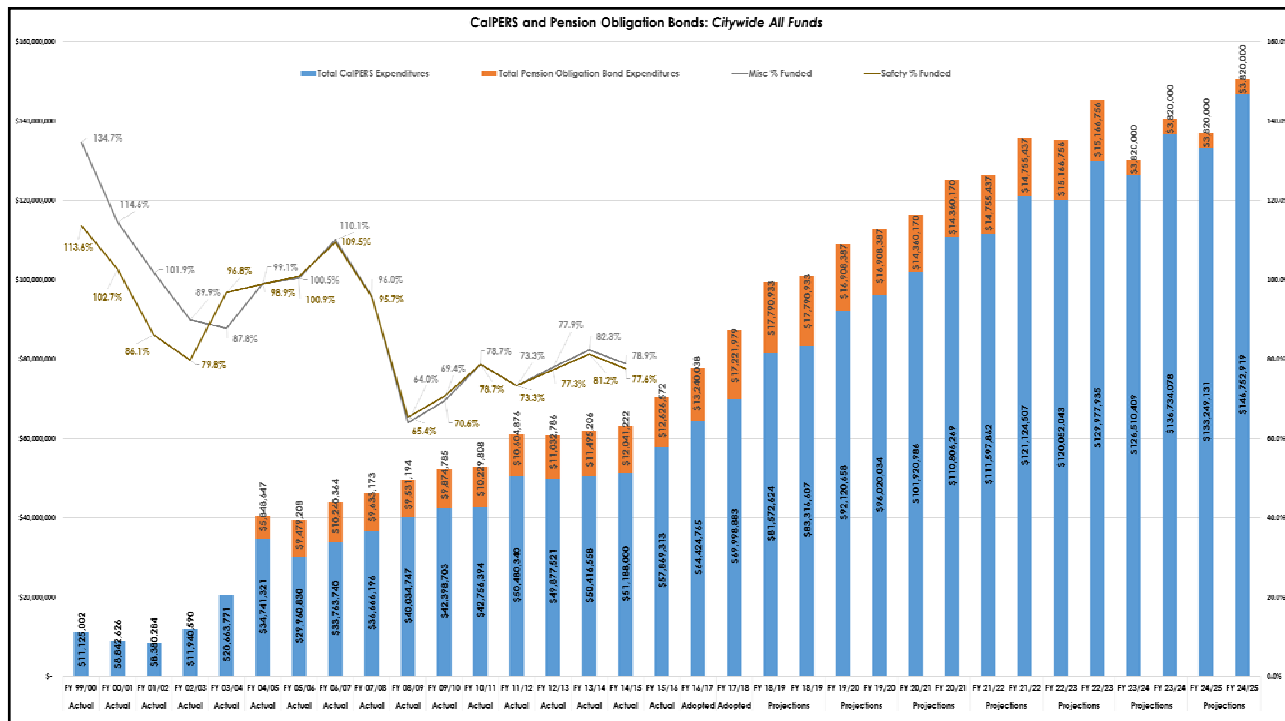
**History of CalPERS Discount Rate Changes**  
Additional Discount Rate Changes in FY 2018-19 (7.35%) and FY 2019-20 (7.25%)

Completion of Asset Liability Management (February 2018) and Actuarial Assumption (2020) Reviews may result in additional Discount Rate Reductions



# OUTSTANDING PENSION OBLIGATION BONDS (POBS)

Fiscal Year	CalPERS Group	Amount Issued	Notes	Expiration Date
FY 2003/04	Safety (Police and Fire)	\$89.5 M		FY 2022-23
FY 2004/05	Misc. (All Non-Sworn)	\$60 M	\$30 M Series A (fixed rate) and \$30 M Series B (Interest only)	FY 2019-20
FY 2007/08	Misc. (All Non-Sworn)	\$30 M	Refinanced Series B to <b>interest-only</b> Bond Anticipation Note (BAN)	Refunded
FY 2017/18	Misc. (All Non-Sworn)	\$32 M	Refinanced BAN to Series A POB	FY 2026-27



## Recommendations

That the Budget Engagement Commission (BEC) receive the update on the impact of CalPERS pension rate increases on current and future City budgets.

