

**CITY OF RIVERSIDE
MISCELLANEOUS & SAFETY PLANS**



CalPERS Actuarial Analysis – 6/30/17 Valuation

**Doug Pryor, Actuary & Vice President
Bartel Associates, LLC**

December 17, 2019

BACKGROUND

Bartel Associates Analysis

- Based on our independent review of CalPERS June 30, 2017 actuarial reports
- Where appropriate, different projection assumptions applied
- Investment volatility impact quantified
- June 30, 2018 CalPERS actuarial valuation reports currently available
- New reports are consistent with our projections



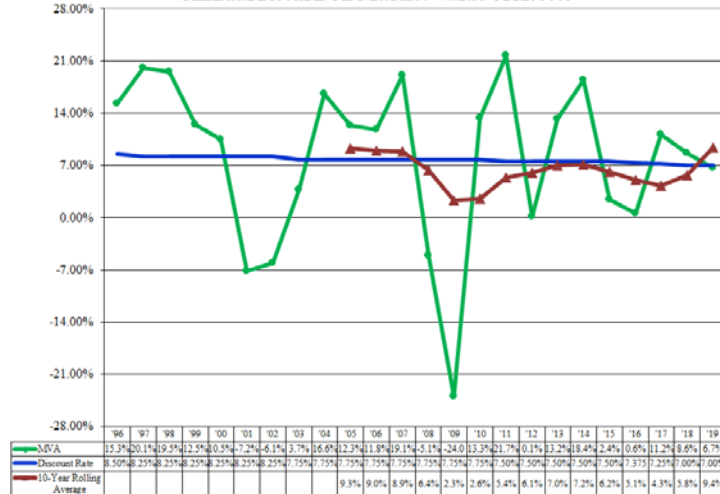
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HOW WE GOT HERE

Investment Returns

Annual Return on Market Value of Assets



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HOW WE GOT HERE

Contribution Methodology

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses
 - First smooth rates and second pay off UAL
- 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)
- Discount rate changes:

	Rate	Initial Impact	Full Impact
● 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



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HOW WE GOT HERE

Enhanced Benefits

- CalPERS Enhanced Benefits implemented using all (future & prior) service
- City of Riverside

	Tier 1	Tier 2	PEPRA
● 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



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HOW WE GOT HERE

Risk Mitigation

- 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

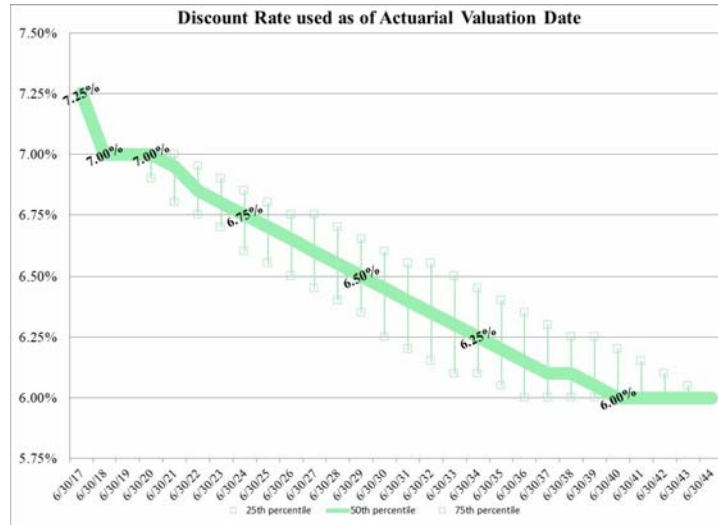


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HOW WE GOT HERE

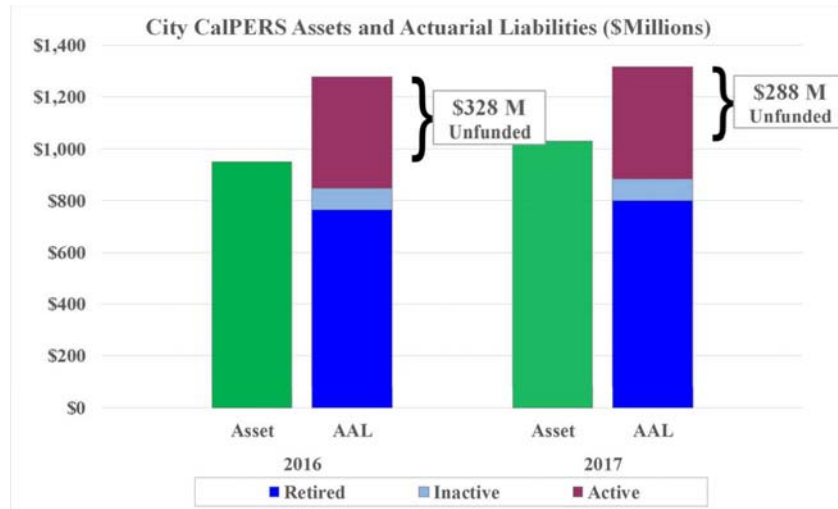
Risk Mitigation



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FUNDED STATUS (MILLIONS) - MISCELLANEOUS



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FUNDED STATUS (MILLIONS) - MISCELLANEOUS

Discount Rate Sensitivity

June 30, 2017

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



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CONTRIBUTION PROJECTIONS - MISCELLANEOUS

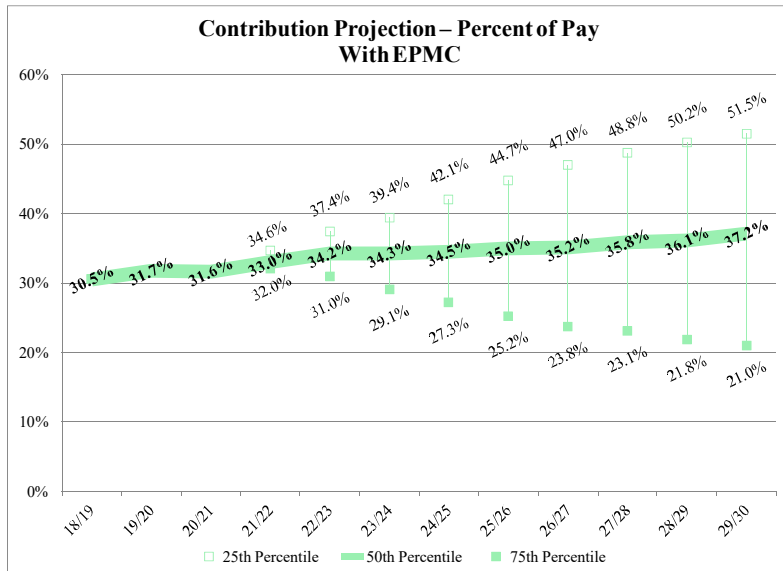
	Contribution Projection Comparison	
	CalPERS	Bartel Associates
■ Investment Returns (baseline)	7% for all years	Actual return for 6/30/2018 6.5% return over next 10 years and higher beyond
■ Investment Return Sensitivity	Deterministic based on a stochastic modeling of investment returns	Stochastic based on Bartel's proprietary model using 1,000 trials
■ Risk Mitigation	Reflected	Reflected
■ CalPERS amortization policy changes adopted February 2018	Not reflected	Reflected
■ New Hires	Does not reflect new PEPRA hires	Reflects new PEPRA hires
■ EPMC and/or EE Cost Sharing	Not reflected	Reflected



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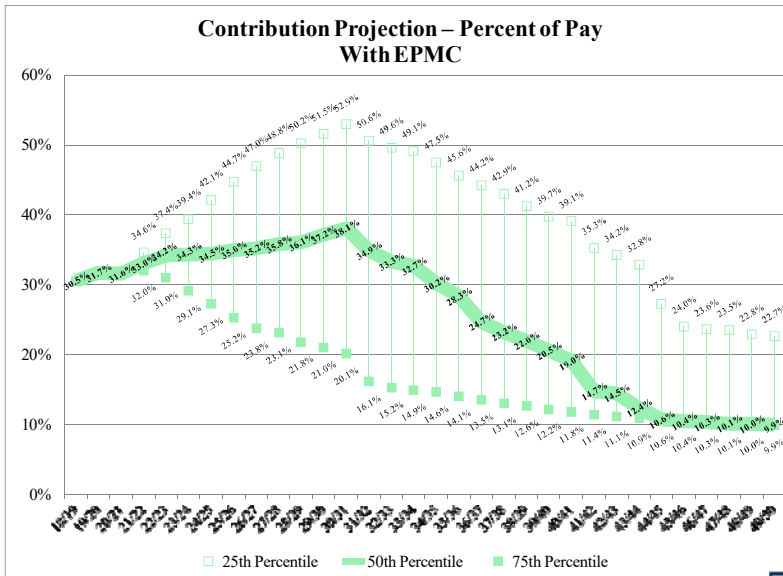
CONTRIBUTION PROJECTIONS - MISCELLANEOUS



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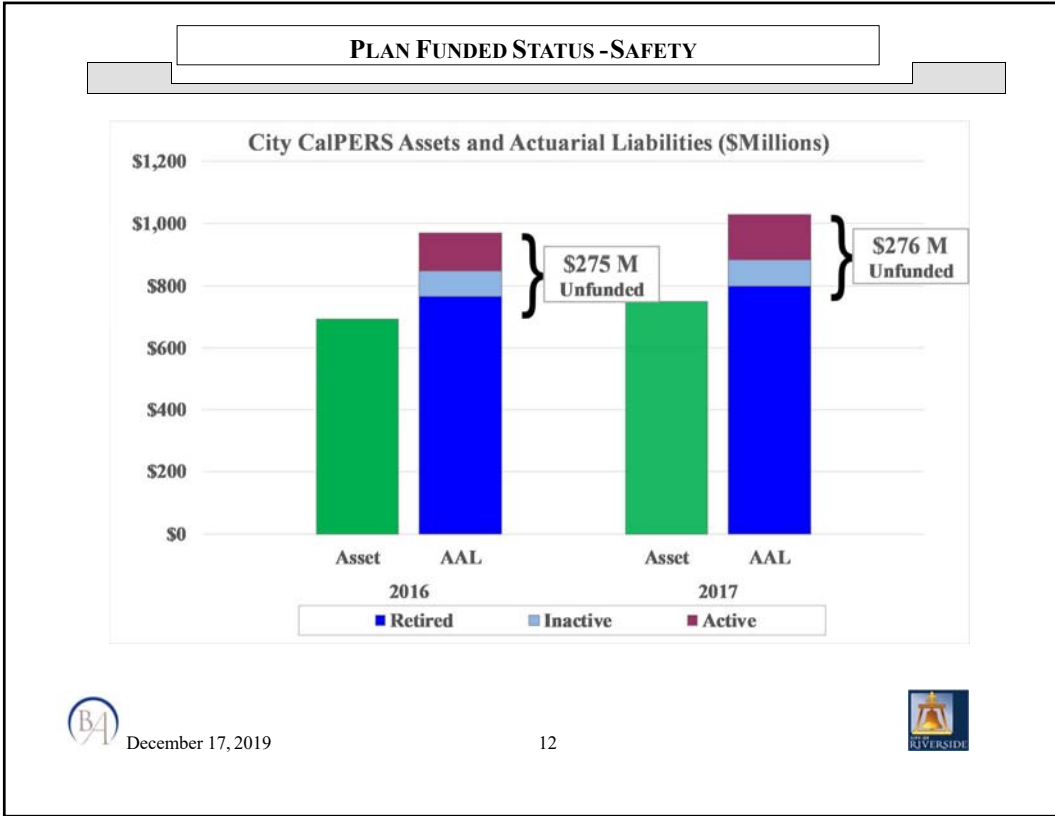


CONTRIBUTION PROJECTIONS - MISCELLANEOUS



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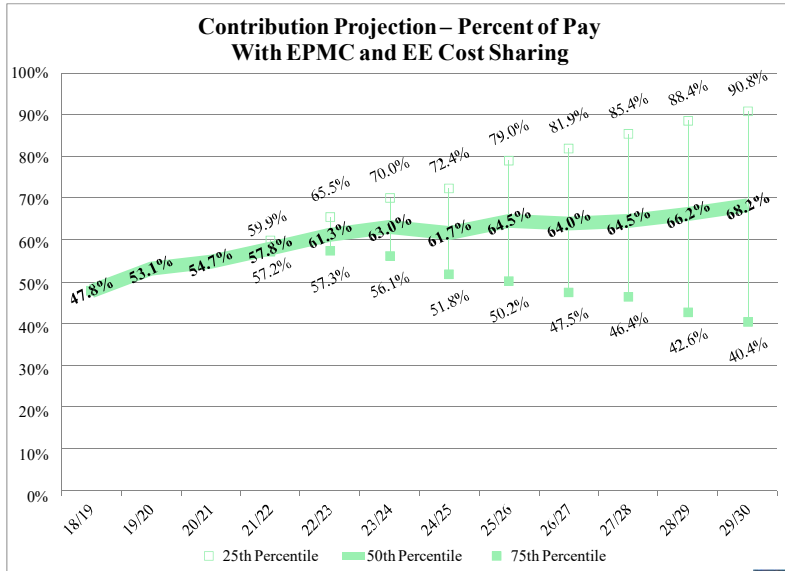
PLAN FUNDED STATUS - SAFETY

Discount Rate Sensitivity
June 30, 2017

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

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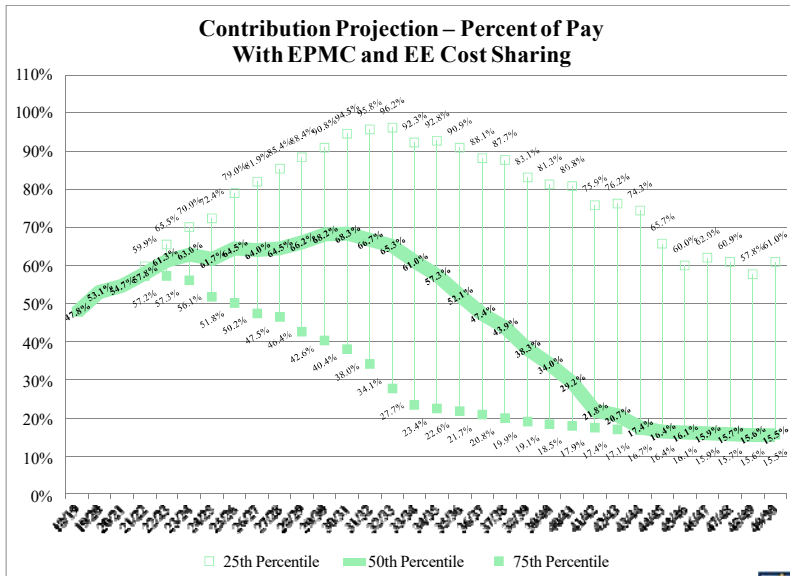
CONTRIBUTION PROJECTIONS - SAFETY



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CONTRIBUTION PROJECTIONS - SAFETY



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COMBINED MISCELLANEOUS AND SAFETY

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

	7% Discount Rate		
	Miscellaneous	Safety	Total
■ AAL	\$1,339	\$1,057	2,396
■ Assets	<u>1,030</u>	<u>752</u>	<u>1,782</u>
■ Unfunded AAL	309	305	614

	6% Discount Rate		
	Miscellaneous	Safety	Total
■ AAL	\$1,523	\$1,204	\$2,727
■ Assets	<u>1,030</u>	<u>752</u>	<u>1,782</u>
■ Unfunded AAL	493	452	945



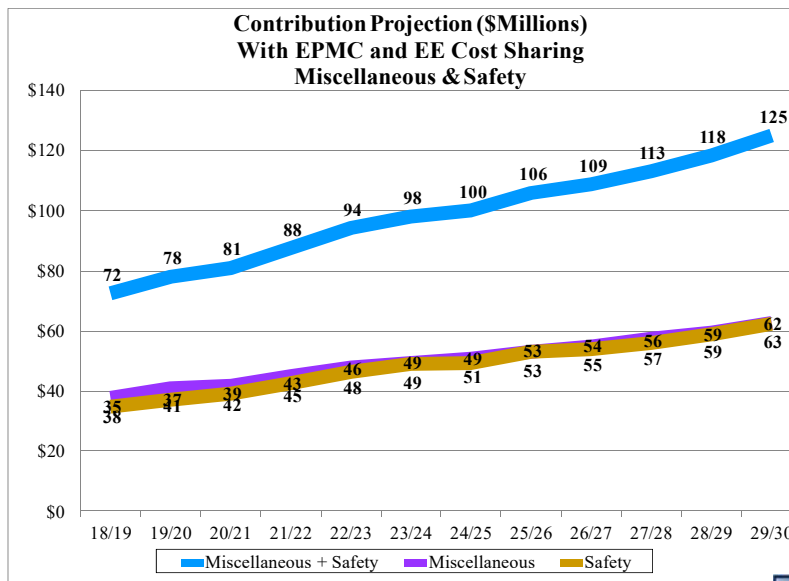
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COMBINED MISCELLANEOUS AND SAFETY

**Contribution Projection (\$Millions)
With EPMC and EE Cost Sharing
Miscellaneous & Safety**



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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
- Assets don't count for GASB accounting
- Over 180 trusts established, mostly since 2015
 - City has selected PARS
- More flexibility than paying CalPERS directly

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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Sample illustration additional contributions to CalPERS vs. 115 trust June 30, 2019:
 - \$40 million Miscellaneous
 - \$30 million Safety

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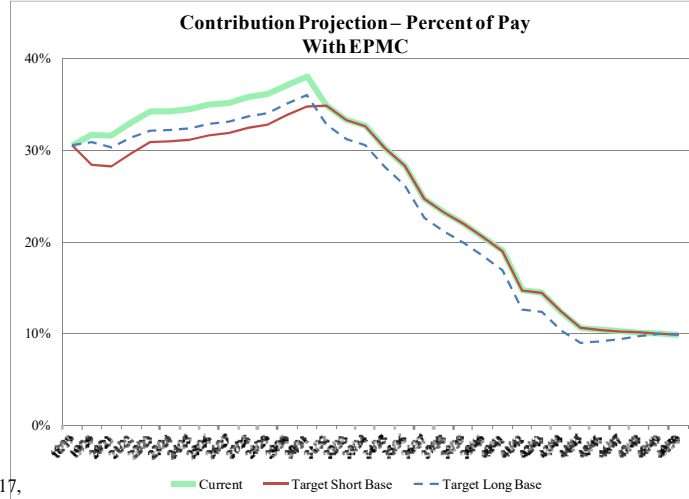


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Direct Payment to CalPERS
Miscellaneous**

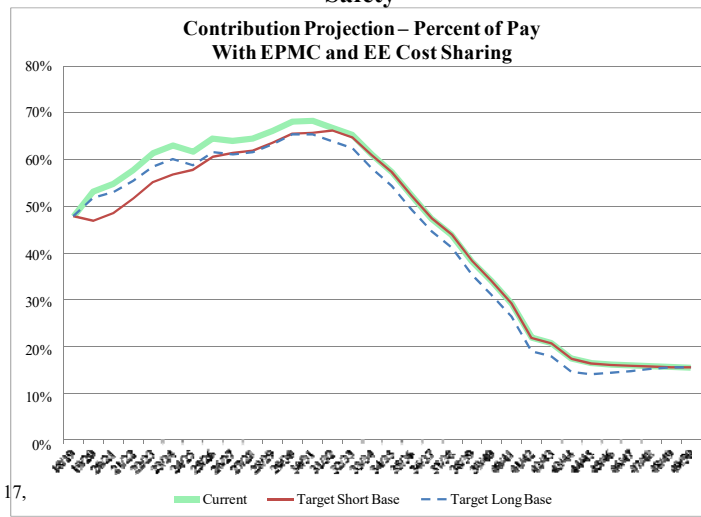


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Direct Payment to CalPERS
Safety**

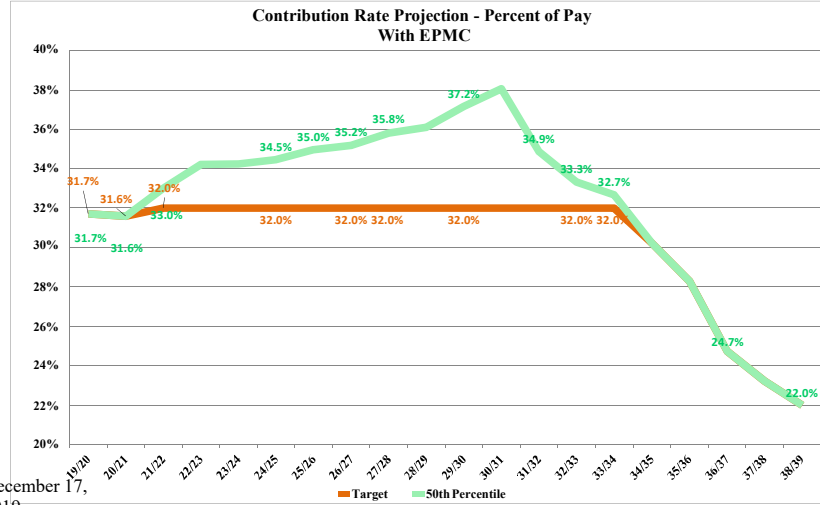


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Payment to 115 Trust
Miscellaneous**

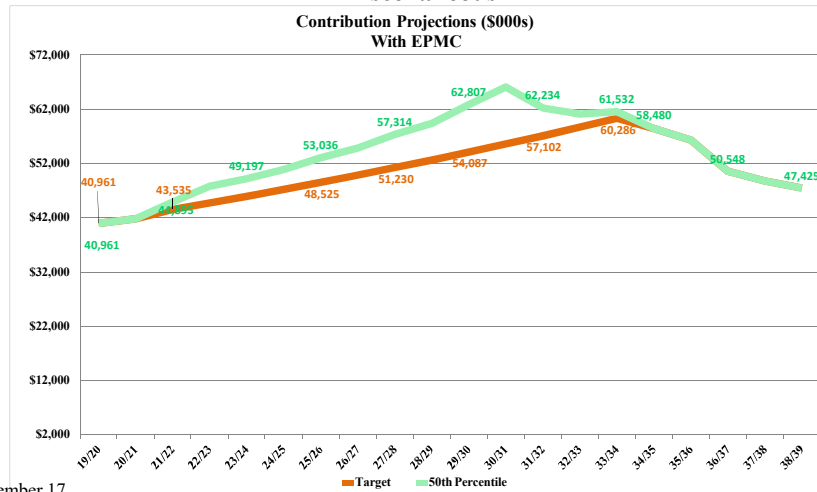


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Payment to 115 Trust
Miscellaneous**

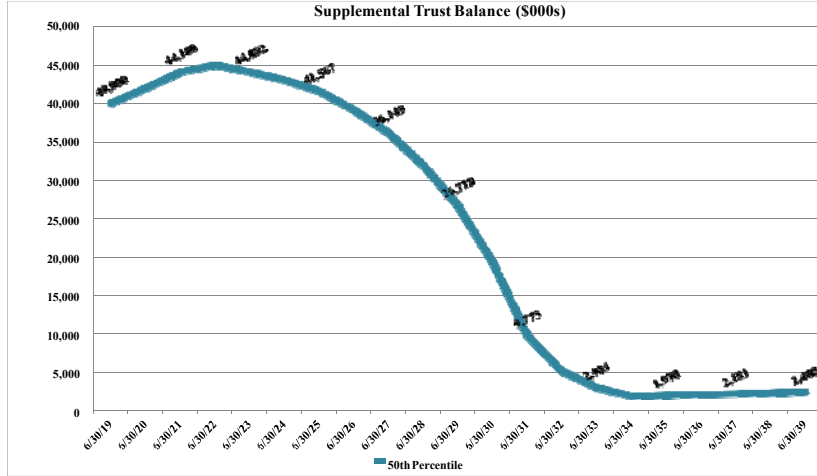


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Payment to 115 Trust
Miscellaneous**

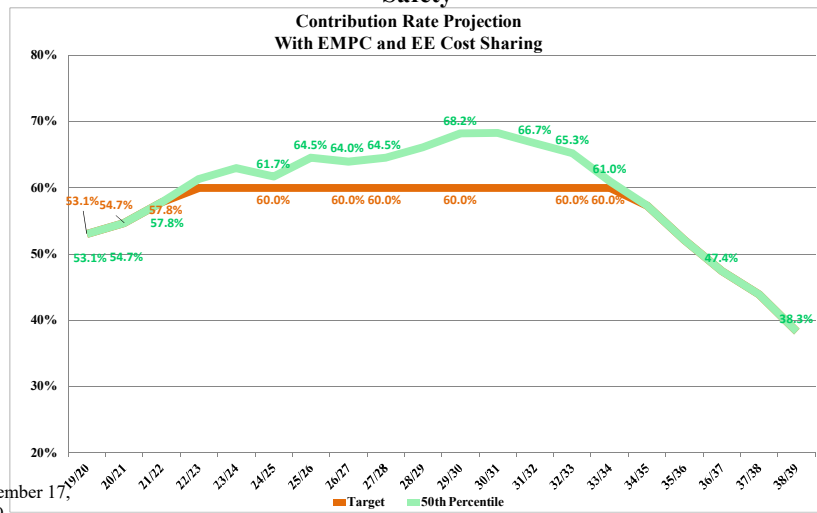


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Payment to 115 Trust
Safety**

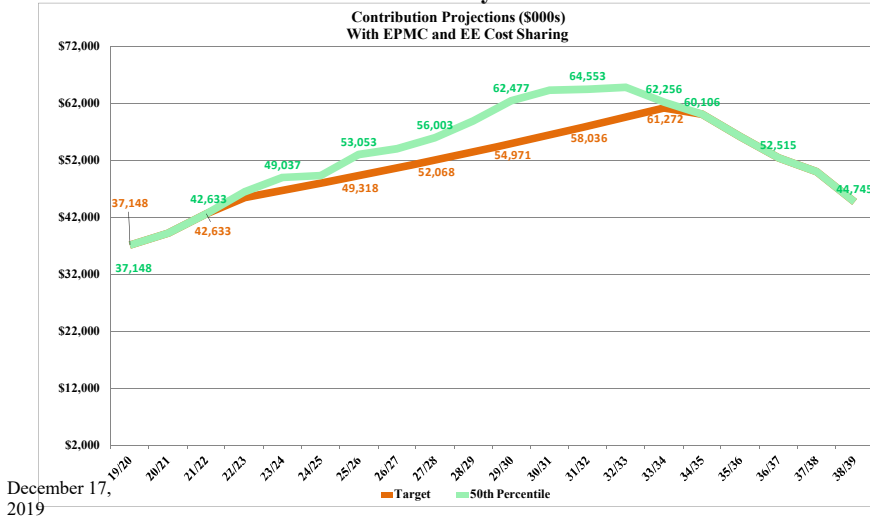


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Payment to 115 Trust
Safety**

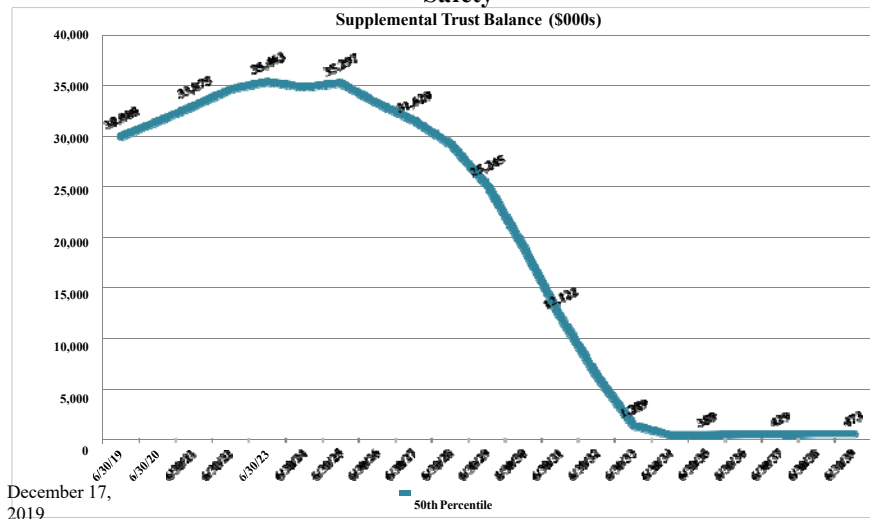


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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

**Payment to 115 Trust
Safety**



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SUMMARY

- Significant contribution increases expected in coming years
- Contributions will vary dramatically based on future investment returns
- Section 115 pension trust helps manage/budget for increases
- Long term contribution rates expected to come down

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WHAT WE HAVE DONE

1. Built & Implemented the infrastructure to address the CalPERS Challenge
 - a. Staff team
 - b. Information
 - c. Communication
 - d. Training
 - e. Financial
2. Established more conservative financial stewardship
 - a. Discontinued budget carry overs
 - b. Managed hiring
 - c. Cleaned up composition of the general fund
3. City Council approval for an external labor contract negotiator
4. Provided information to BEC/Finance Committee/City Council indications of Fiscal Health & Priority Based Budgeting



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WHAT WE WILL DO

1. Bring Council decision packages aimed to increase:
 - a. Revenue through development & sponsorship
 - b. Pay as we Go projects
 - c. Shared Governance & Partnerships
2. Bring Council decision packaged aimed to decrease:
 - a. Subsidies
 - b. General Fund debt issuances
 - c. Non-essential purchases & activities
3. Develop, review, & implement Management Team financial solvency strategies



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RECOMMENDATION

That the City Council receive information and provide input on the actuarial analysis performed by Bartel & Associates, LLC. regarding future retirement funding projections for the City of Riverside's retirement plans

