



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: DECEMBER 17, 2019

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: WORKSHOP - ACTUARIAL ANALYSIS PERFORMED BY BARTEL AND ASSOCIATES, LLC. REGARDING FUTURE RETIREMENT FUNDING PROJECTIONS

ISSUE:

Conduct a workshop to receive information and provide input on the June 30, 2017, actuarial analysis performed by Bartel & Associates, LLC. regarding future retirement funding projections for the City of Riverside's retirement plans.

RECOMMENDATION:

That the City Council conduct a workshop to receive and provide input on the June 30, 2017, actuarial analysis performed by Bartel & Associates, LLC., regarding future retirement funding projections for the City of Riverside's retirement plans.

BACKGROUND:

Rising pension costs are the most pressing financial issue facing California public agencies. **The City's annual pension costs have risen from \$51 million (27% of payroll) to an estimated \$82 million (41% of payroll) over the last six (6) years (FYE 2015 to FYE 2020).** Increasing pension costs reduce the ability for the City to fund other operations, capital projects and grow reserves.

The City of Riverside has been a member of the California Public Employees Retirement System (CalPERS) since 1945. Both the City and current employees contribute to the CalPERS plan. The gap between what the City has already contributed and the benefits owed to retirees continues to grow due to market changes, an increased number of retirees, and longer life expectancies of retirees. This gap is known as the CalPERS unfunded pension liability.

The City of Riverside has two (2) pension trusts with the CalPERS: one (1) to fund public safety employees and one (1) for miscellaneous employees. The trusts are funded by employer and employee contributions and by investment earnings on those contributions. In order to reach necessary funding levels to pay employee pensions, CalPERS establishes a set of actuarial assumptions to achieve those levels. One of the most critical assumptions in attaining full funding goals is the rate of return on investments in the trusts.

DISCUSSION:

The City provides regular and limited-term employees retirement benefits offered through CalPERS. Retirement benefits are based on the retirement formula factor, employee's earnings, age at time of retirement, and the number of service years the employee worked. Each year, the City pays the Annual Required Contribution (ARC), as set by CalPERS. The ARC includes the cost of benefits each employee accrues each year, and an amount to pay for the unfunded liabilities of the plans. According to our most recent CalPERS actuarial valuation as of June 30, 2018, the City's total unfunded actuarial liability is \$627 million.

In addition, the City has pension obligation bonds outstanding totaling approximately \$93 million with annual debt service payments averaging approximately \$16.7 million. The City's 2005A POBs mature in FY2019/2020 with annual debt service payments of \$2.9 million, the 2004A POBs mature in FY2022/23 with annual debt service payments of \$10.1 million, and the 2107A POB matures in FY2026/27 with annual debt services payments of \$3.7 million.

One of the biggest challenges to the City's long-term financial sustainability is the long-term unfunded pension obligations for City employees under CalPERS. Pension costs make up approximately 8% of the City's total budget and 16% of the operating budget, and to a large extent are outside staff's direct control. Recent projections indicate that pension costs are expected to rise by as much as 73% by FY 2029/30. The City has consistently taken steps to mitigate the impacts of increases in pension costs including adopting a two-tier retirement system, pre-paying the annual unfunded accrued liability payment, and increasing employee contributions towards their pensions.

Doug Pryor, Vice President of Bartel Associates, will present the attached actuarial analysis (Attachment 2). Mr. Pryor and his firm have worked with over 300 California public agencies and are highly respected leaders in the field of public pension actuarial consulting in the State. Bartel Associates has analyzed the City's retirement plans and will be discussing the projected impacts of recent policy changes at CalPERS and trends in data specific to the City, which are anticipated to affect employer contribution rates over the next several years.

FISCAL IMPACT:

There is no direct fiscal impact associated with presentation of this report.

Prepared by: Edward Enriquez, Chief Financial Officer / City Treasurer
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availability of funds: Marie Ricci, Assistant Chief Financial Officer
Approved by: Carlie Myers, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Bartel Associates Actuarial Analysis
2. Presentation