



Recent CalPERS Discount Rate Change: *Brief CalPERS Overview and Future Cost Impacts*

Finance Department

*Finance Committee
April 12, 2017*

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CALPERS 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



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RECENT PENSION 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)	N/A	3%@55 - Est. of Tier 2
FY 2012/13	Misc (All Non-Sworn)	N/A	2%@62 - PEPR - Est. of Tier 3
FY 2012/13	Safety (Police and Fire)	N/A	2.7%@57 - PEPR - Est. of Tier 3

* Additional CalPERS cost savings were achieved without a formula change in FY 2011/12 (Safety-Police) and (Misc. - All Non-Sworn) by requiring new employees to pay the Employee Portion of CalPERS Costs.

** Future CalPERS savings will be achieved through newly negotiated union agreements, which require the pickup of CalPERS costs through the Partnership Compensation Model.



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RECENT PENSION CHANGES

CalPERS Discount Rate (Interest Rate) Changes			
Fiscal Year	CalPERS Group	From	To
FY 2003/04	All	8.25%	7.75%
FY 2011/12	All	7.75%	7.50%
FY 2016/17	All	7.50%	7.00%

Pension Obligation Bonds			
Fiscal Year	CalPERS Group	Amount Issued	Notes
FY 2003/04	Safety (Police and Fire)	\$89.5 M	
FY 2004/05	Misc. (All Non-Sworn)	\$60 M	\$30 M Series A (fixed rate) and \$30 M Series B (Interest only)
FY 2007/08	Misc. (All Non-Sworn)	\$30 M	Refinanced Series B to Interest only Bond Anticipation Note
FY 2017/18	Misc. (All Non-Sworn)	\$30 M	Anticipated BAN Refinancing



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DISCOUNT RATE

- Discount Rate:
 - Estimated long-term rate of return on investments
- December 2016
 - CalPERS Board of Administration approved lowering the CalPERS discount rate assumption from 7.50% percent to 7.00% over the course of three years
 - Employer contribution costs will increase, beginning in FY 2018-19



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Why is the Discount Rate so 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

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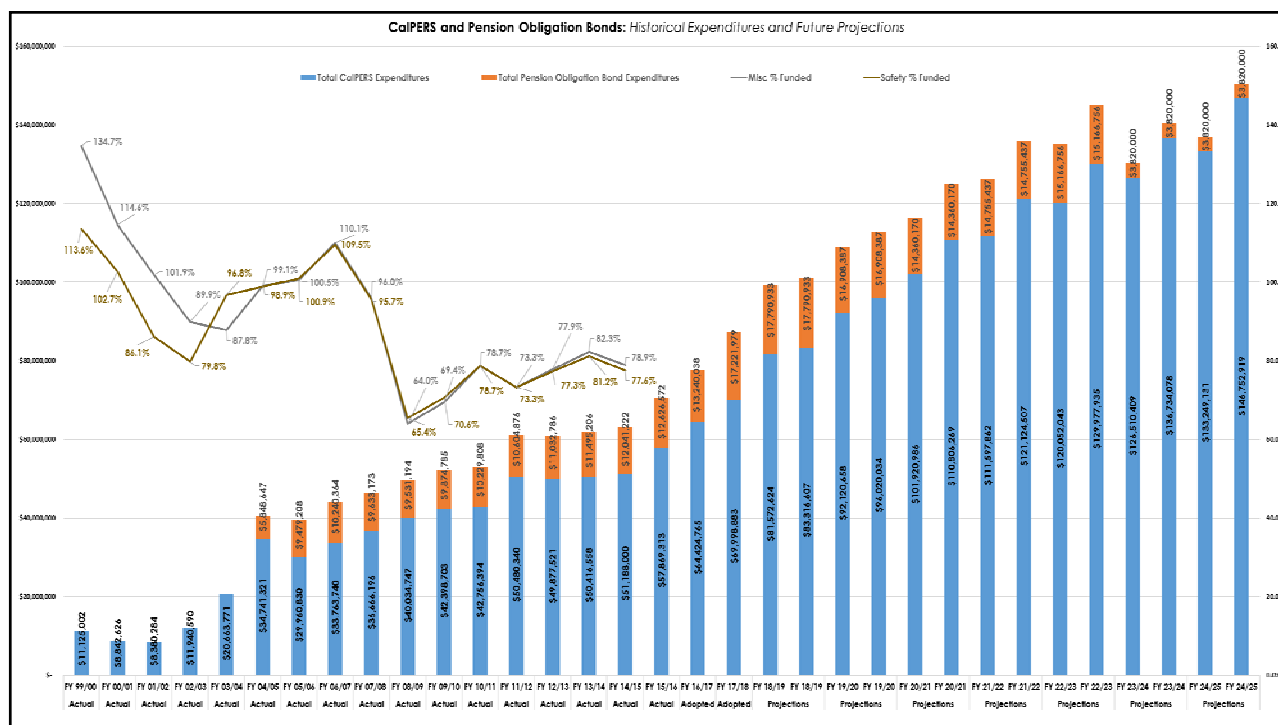
POTENTIAL DISCOUNT RATE IMPACTS: CITYWIDE COST TOTALS

- **FY 2017/18:** \$69.7 million
- **FY 2018/19:** \$81.6 million to \$83.3 million
- **FY 2019/20:** \$92.1 million to \$96 million
- **FY 2020/21:** \$101.9 million to \$110.8 million
- **FY 2021/22:** \$111.6 million to \$121.1 million
- **FY 2022/23:** \$120 million to \$130 million
- **FY 2023/24:** \$126.5 million to \$136.7 million
- **FY 2024/25:** \$133.2 million to \$146.8 million



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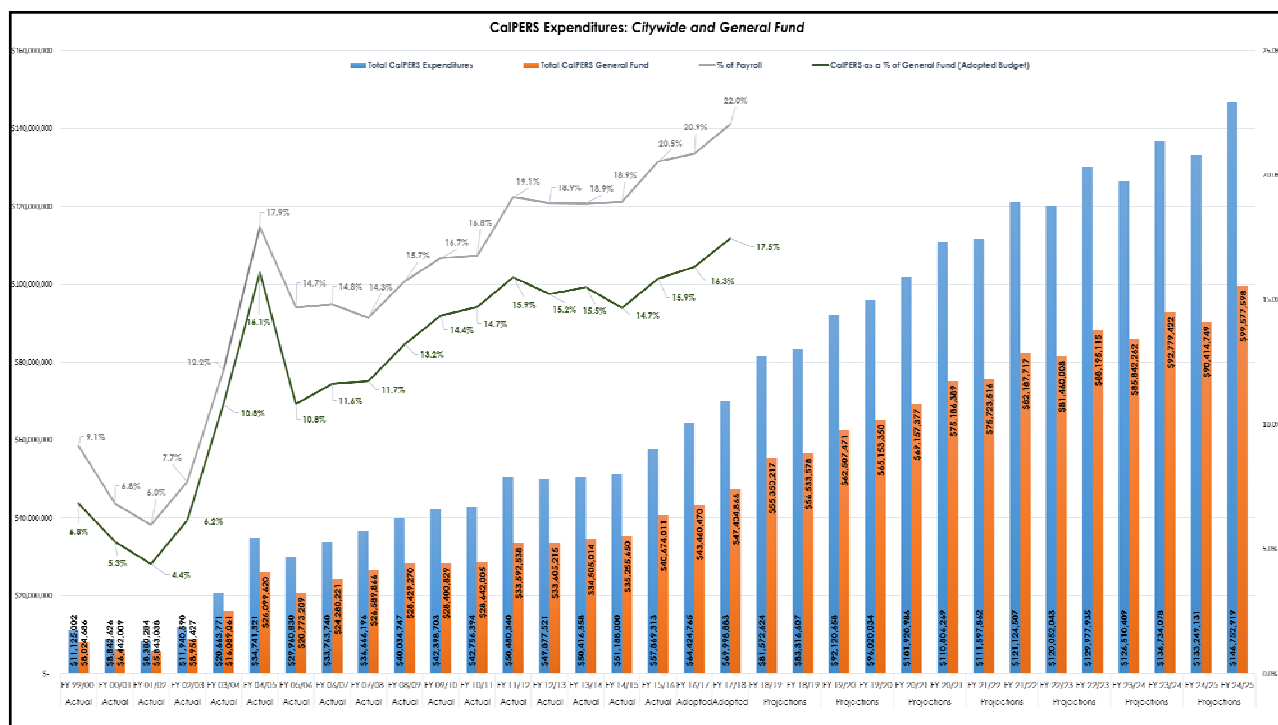
FIVE-YEAR PLAN IMPACTS: *GENERAL FUND*

- FY 2016/17: \$0
- FY 2017/18: \$0
- FY 2018/19: \$2.2 million to \$3.4 million
- FY 2019/20: \$4.3 million to \$7 million
- FY 2020/21: \$9.6 million to \$15.6 million



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NORMAL COST / UNFUNDED ACTUARIAL LIABILITY

- Normal Cost:
 - Long-term contribution rate to ensure fund can pay existing and future obligations.
- Unfunded Actuarial Liability:
 - When a plans value of assets is less than its accrued liability.
 - City's must pay over 30-years, can pay over 20 or 15 years to reduce interest payments (e.g. mortgage payoff)
 - As of 6/30/15: \$259.4 million (Misc.) and \$204.8 million (Safety)
 - These amounts will go up with next actuarial reports



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CHANGE IN BILLING METHODOLOGY

- To ensure solvency, CalPERS has changed the way it bills City's for annual obligations
 - Requires agencies to pay the unfunded liability over minimum of 30 years
 - Limits City's ability to reduce annual CalPERS costs

Employee Group	Fiscal Year	Normal and UAL % of Payroll (Combined)	Employer Normal Cost Rate	Employer Payment of UAL
Misc.	FY 2016-17	22.98%	N/A	N/A
Misc.	FY 2017-18	N/A	12.14%	\$15,683,043
Safety	FY 2016-17	34.84%	N/A	N/A
Safety	FY 2017-18	N/A	19.87%	\$12,351,650



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OPTIONS TO REDUCE CALPERS COSTS

- Outside of changes to State law that would drastically alter CalPERS, the City's ability to reduce CalPERS costs are generally slated into long-term and short-term options.
 - Most of the options would require staff to re-negotiate existing contracts with the City's bargaining groups.



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OPTIONS TO REDUCE CALPERS COSTS

- Immediate Savings
 - Employee pays a larger portion of the City's CalPERS by:
 - Pick up the employee portion paid by the City at a faster rate than provided under the recently negotiated Partnership Compensation Model (Tier 1 employees)
 - Pick up a portion of the City's employer portion
 - Based on FY 2017/18 Adopted Budget figure, for each 1% of addition contribution by the employee, total savings would be approximately \$2.1 million (\$1.4 million for the General Fund)
 - Non-PEPRA employees retiring/leaving the City and being replaced by PEPRA employees.
 - A reduction in the City's workforce.



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OPTIONS TO REDUCE CALPERS COSTS

- Long-term Savings
 - Reduce retirement benefit for employees coming to the City from other CalPERS or agencies with reciprocal plan (e.g. CalSTRS)
 - Example: Establishing a 2%@60 benefit for new, non-PEPRA miscellaneous (non-safety) employees to lower the normal cost charged to the City over time
 - Utilize pension obligation bond funding, upon payoff of debt, to pay down City's UAL
 - Example: Utilize 2004 POB funding to pay down UAL, beginning in FY 2024/25 (\$11.3 million)



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FISCAL IMPACTS: FY 2018/19

- FY 2018-2020 TWO YEAR BUDGET PROCESS: **GENERAL FUND**
 - \$6.5 million to \$10.5 million in impacts
 - Review non-essentials
 - Avoid service reduction, where possible



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RECOMMENDATION

That the Finance Committee receive, provide input on and recommend the impact of the CalPERS discount rate (interest rate) change be presented to the City Council for additional discussion.



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