

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS) PENSION COSTS UPDATE

Finance Department

Board of Public Utilities
February 26, 2018

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CALPERS OVERVIEW

- Defined Benefit Plans are pension plans in which an employee receives fixed benefits that are based on length of service and salary earned at the time of retirement.
- The City's relationship with CalPERS to dates back to 1945 - Approved by Riverside voters by Special Election on June 5, 1945.
- City's Charter (Article X – Retirement), requires a CalPERS retirement for City employees.



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CITY'S DEFINED BENEFIT PLAN PENSION FORMULAS

The City has five CalPERS DBP formulas depending on hire date and employee group. How costs are shared between the City and employees is explained in the next section of this handout.

BEFORE JANUARY 2013

3% @ 50	2.7% @ 55	3% @ 55
Safety (Fire Tier 1, Police Tier 1, 2)	Miscellaneous (All Non-Sworn Tier 1 & 2)	Safety (Fire Tier 2)

AFTER JANUARY 2013 (PEPRA)

2% @ 62	2.7% @ 57
Miscellaneous (All Non-Sworn Tier 3)	Safety (Fire & Police Tier 3)



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HOW ARE CalPERS BENEFITS FUNDED?

TWO-THIRDS OF FUNDS COME FROM INVESTMENTS

Historically, more than 60% of all funds paid to CalPERS retirees comes from investment earnings. When CalPERS does not meet its investment return goals, the City will pay more.


Every dollar paid to CalPERS retirees comes from three sources:




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Miscellaneous	Tier 1 Classic Members - Hired into CalPERS system prior to January 1, 2013 <i>SEIU / SEIU Refuse</i>	Tier 1 <i>IBEW/IBEW Supervisors / Unrepresented</i>	Tier 2 <i>SEIU / SEIU Refuse</i>	Tier 2 <i>IBEW/IBEW Supervisors / Unrepresented</i>	Tier 3 Public Employee Pension Reform Act (PEPRA) - All Misc. Employees
Hire Date	Prior to 6/7/2011	Prior to 10/19/2011	On or after 6/7/2011	On or after 10/19/2011	On or after 1/1/2013
DBP Formula	2.7%@55	2.7%@55	2.7%@55	2.7%@55	2.0%@62
Required Employee Contribution Rates	8.00%	8.00%	8.00%	8.00%	7.00%
Employee Contribution Paid By City	2.00%	6.00%	0.00%	0.00%	0.00%
Required Employer Contribution	12.14%	12.14%	12.14%	12.14%	12.14%
Employer Paid UAL Lump Sum Payment	\$15,683,043				


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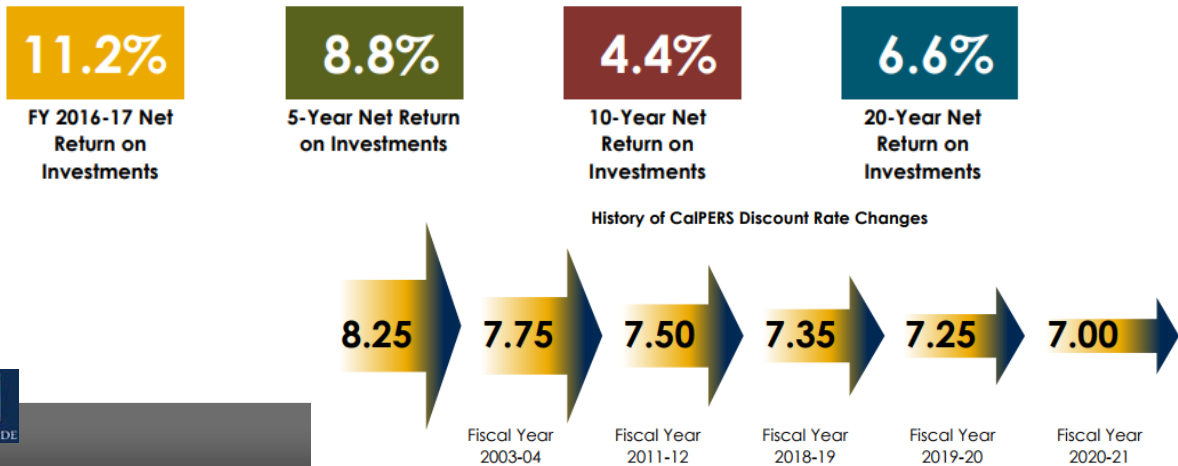
Safety	Tier 1 Classic Members - Hired into CalPERS system prior to January 1, 2013 <i>Police (3 groups)</i>	Tier 1 <i>Fire (2 groups)</i>	Tier 2 <i>Police (3 groups)</i>	Tier 2 <i>Fire (2 groups)</i>	Tier 3 Public Employee Pension Reform Act (PEPRA) - All Safety Employees
Hire Date	Prior to 2/17/2012	Prior to 6/10/2011	On or after 2/17/2012	On or after 6/10/2011	On or after 1/1/2013
DBP Formula	3.0%@50	3.0%@50	3.0%@50	3.0%@55	2.7%@55
Required Employee Contribution Rates	9.00%	9.00%	9.00%	9.00%	11.50%
Employee Contribution Paid By City	7.50%	8.00%	0.00%	0.00%	0.00%
Required Employer Contribution	19.87%	19.87%	19.87%	19.87%	19.87%
Employer Paid UAL Lump Sum Payment	\$12,351,650				


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SHORT AND LONG-TERM VIEW OF RETURN ON INVESTMENTS

In FY 2016-17, CalPERS had its best investment return at 11.2% when compared to the previous two years (FY 2014-15 was 2.4% and FY 2015-16 was 0.61%). Although this is movement in the right direction, the investment return did not eliminate unfunded pension liabilities (32% of total liability – CalPERS pension plans are funded at 71-74%). CalPERS' investment strategy focuses on long-term performance instead of the more volatile short-term performance. Therefore, the current strategy to increase the employer contribution to the plan remains unchanged.



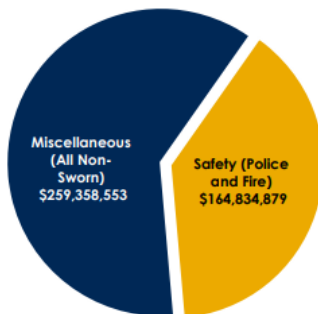
ARE THE CITY'S PENSIONS SUFFICIENTLY FUNDED?

CITYWIDE UNFUNDED PENSION LIABILITY

The difference between the City's retirement plan assets and the amount that will be needed to be paid as a pension to employees in the future is known as the unfunded accrued liability (UAL). It is based on calculations provided by the CalPERS Actuarial Office that take into consideration various factors including expected long-term returns on investments and the life expectancy of retirees. UAL is not paid in one year, it is amortized over a period of 20-30 years.

August 2016 for FY 2017-18

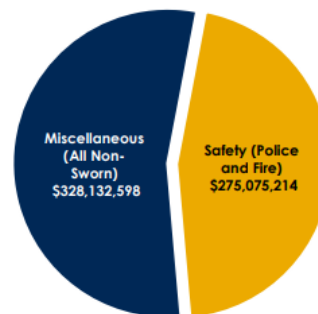
Based on Actuarial Report as of June 30, 2015



Total UAL
\$424.2 Million

July 2017 for FY 2018-19

Based on Actuarial Report as of June 30, 2016



Total UAL
\$603.2 Million

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

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Citywide Estimated CalPERS Costs



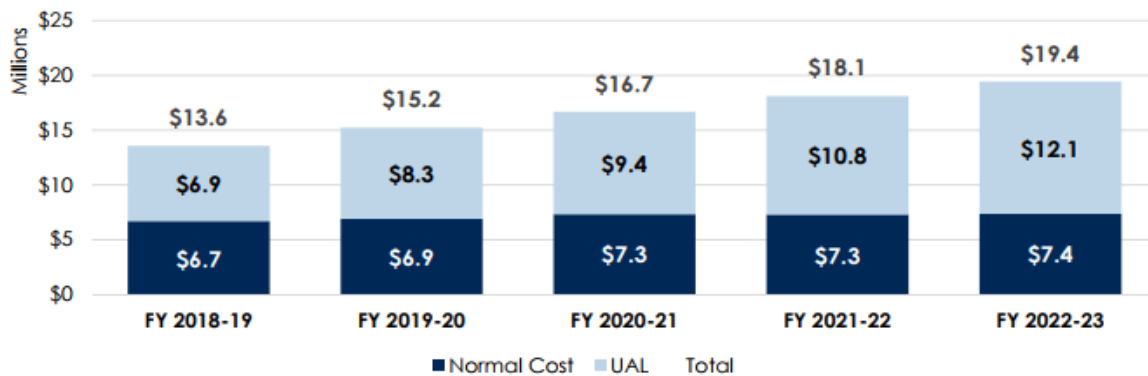
- Over the next five years (FY2018-19-FY2022-23) annual retirement expenditures to increase by 45.5%



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Electric Fund Estimated CalPERS Costs

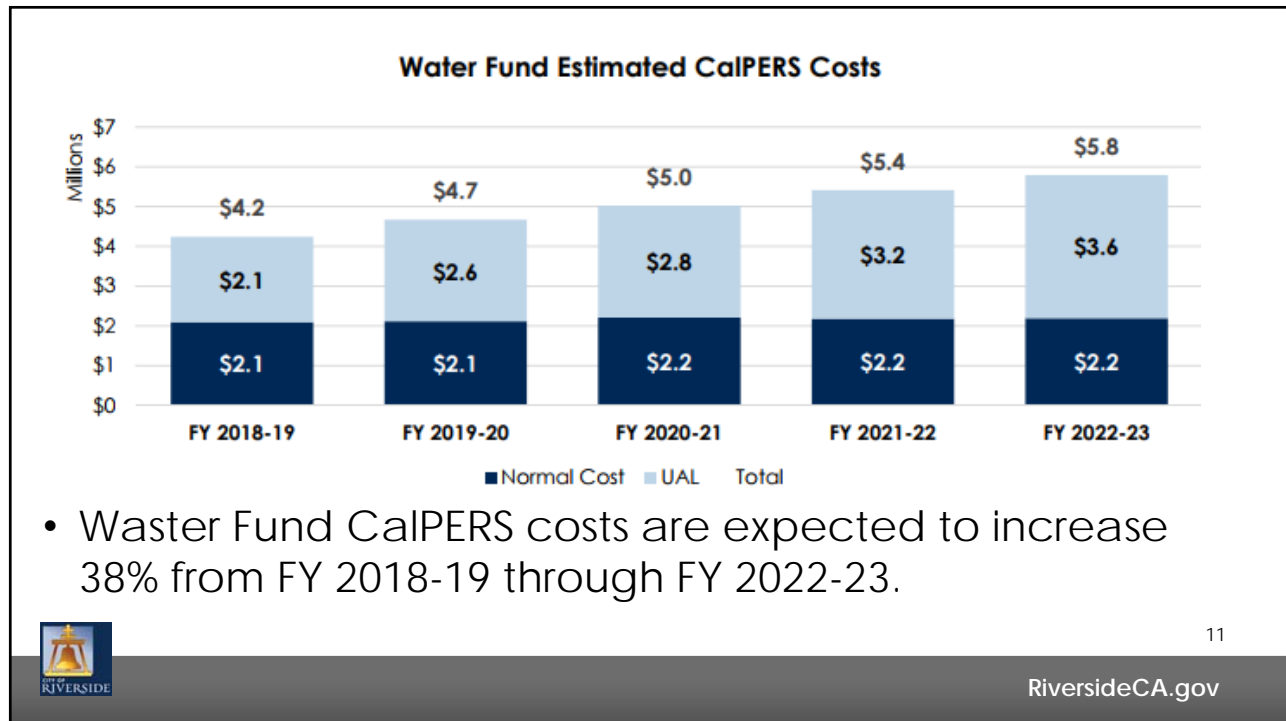


- Electric Fund CalPERS costs are expected to increase 43% from FY 2018-19 through FY 2022-23.



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WHY ARE CALPERS COSTS INCREASING?

The City's retirement plans went from having an excess of cash (i.e. super-funded, or funded above 100%) to being under-funded. Currently, the City's CalPERS plans are funded at 74% (non-sworn) and 72% (sworn). This is mainly due to investment losses by CalPERS during the Great Recession, which impacted all of the California agencies' retirement plans managed by CalPERS. Additional factors have also contributed to increasing costs:

- Retroactive retirement benefit enhancements for City employees between 2001 and 2006;
- Long-term investment returns not meeting expectations (e.g. 8.8% over last five years, 4.4% over last 10 years, and 6.6% over last 20 years);
- The resulting changes in the CalPERS anticipated return-on-investment rate over the past 15 years, from 8.25% to 7%; and
- CalPERS retirees living longer.

As a result of the above factors, which contributed to the decline in overall retirement plan funding levels, California public entities such as the City of Riverside must increase their payments into the CalPERS system in future years. The payment levels are determined by CalPERS, and they are increasing exponentially.

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WHAT HAS THE CITY DONE TO ADDRESS PENSION COST INCREASES?

THE CITY HAS TAKEN SEVERAL STEPS OVER THE YEARS TO REDUCE PENSION COSTS

- **2011-2012** – Required all new employees to pay the employee portion of the CalPERS pension costs.
- **2013** – Established lower pension benefits for new employees, resulting in lower pension costs.
- **2016** – Existing employees not currently paying the employee share of CalPERS retirement costs began doing so.
- **2017** – Refinanced \$30 million Bond Anticipation Note using Measure Z Funds. Allowed a fixed interest rate for the pension related debt and an accelerated payoff of the principal balance.
- **Every Year** – Implement operational efficiencies, where possible, to minimize costs and impact to service levels as CalPERS costs increase.



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NET PENSION LIABILITY

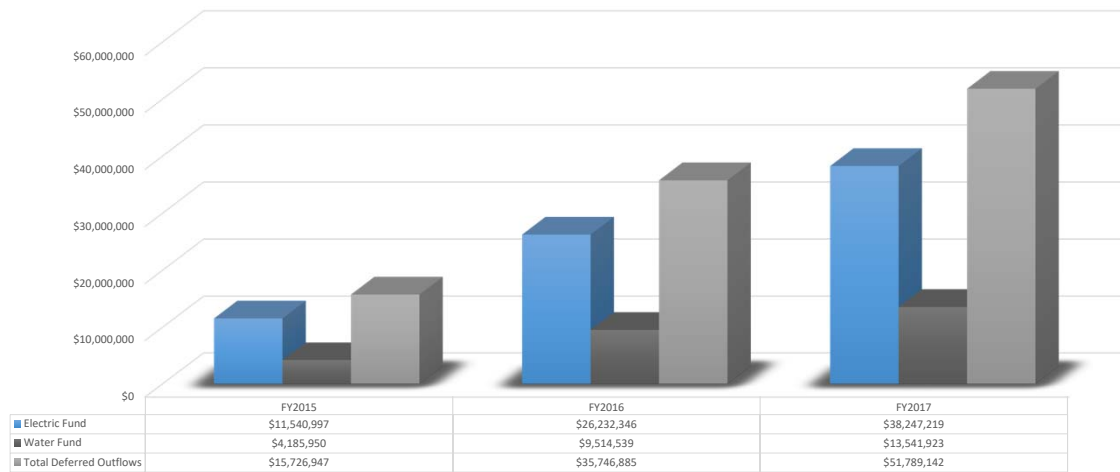
Fund	FY2015	FY2016	FY2017	Change since Inception
Government Wide	\$275,584,336	\$299,137,469	\$384,396,178	
Electric Fund	71,772,982	77,907,143	96,192,929	34.02%
Water Fund	26,032,246	28,257,122	34,465,472	32.40%
Sewer Fund	16,888,516	18,331,913	21,980,087	
Refuse Fund	5,742,020	6,232,769	7,446,059	
Special Transit Fund	2,641,449	2,867,204	3,415,740	
Parking Fund	1,578,442	1,713,346	1,985,962	
Airport Fund	720,093	781,637	970,215	
Total Net Pension Liability	\$400,960,084	\$435,228,603	\$550,852,642	37.38%



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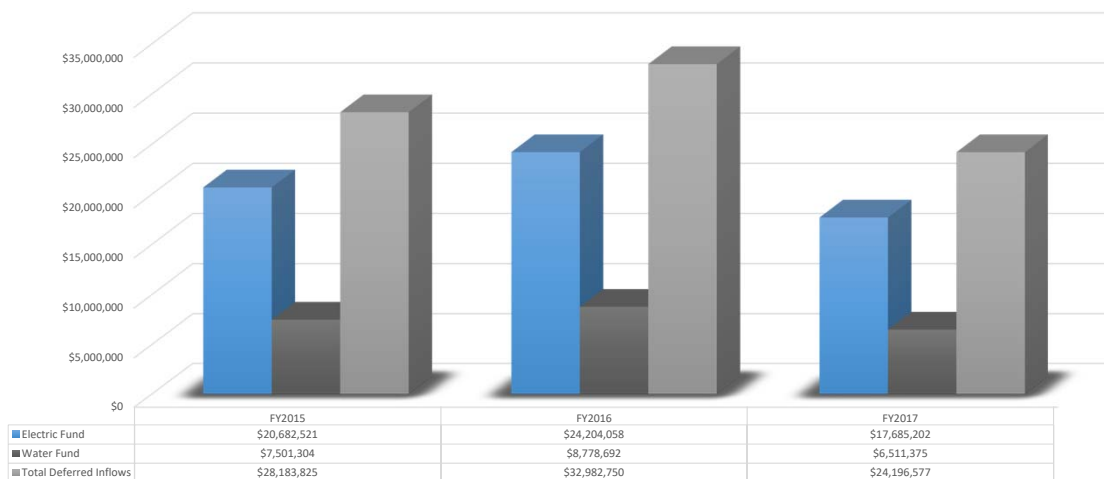
DEFERRED OUTFLOWS OF RESOURCES



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DEFERRED INFLOWS OF RESOURCES



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RECOMMENDATIONS

That the Board of Public Utilities receive and review the reports on the City's past and future CalPERS retirements costs



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