CalPERS and Unfunded Liabilities

Budget Oversight Committee Meeting | August 21, 2018

CALPERS FUNDING CHANGES FROM 2013 - 2018

Contribution Policy Change	Assumption Changes	Risk Mitigation Strategy	Discount Rate Changes	Amortization Changes
No asset smoothing (Approved in 2013; impact started FY 16)	Mortality and other demographic assumption improvements (Approved in 2014; impact started in FY 17)	Move to more conservative investments over time – likely to get to 6% over 20 years (Approved in 2015; impact was slated to start in FY 18)	Lower discount rate from 7.5% to 7.0%; suspend risk mitigation strategy until FY 21 (Approved in 2016; impact starts in FY 19)	Amortizes gains/losses over 20 years instead of 30 years, which reduces total interest paid over time (Approved in 2018; impact starts FY 22)

PENSION REFORM IMPLEMENTED

- **Benefit Formula Reduction** –In 2006, changed from 2.7% @ 55 to 2.5% @ 55 for Misc

- **Employee Contribution Rate** (PERS pick up) – Employees paying full rate of 8% for Misc and 9% for Safety
  - Previously City paid 6% for Misc and 7% for Safety
  - Savings of $13.8 million per year in the General Fund ($24.7 million in All Funds)

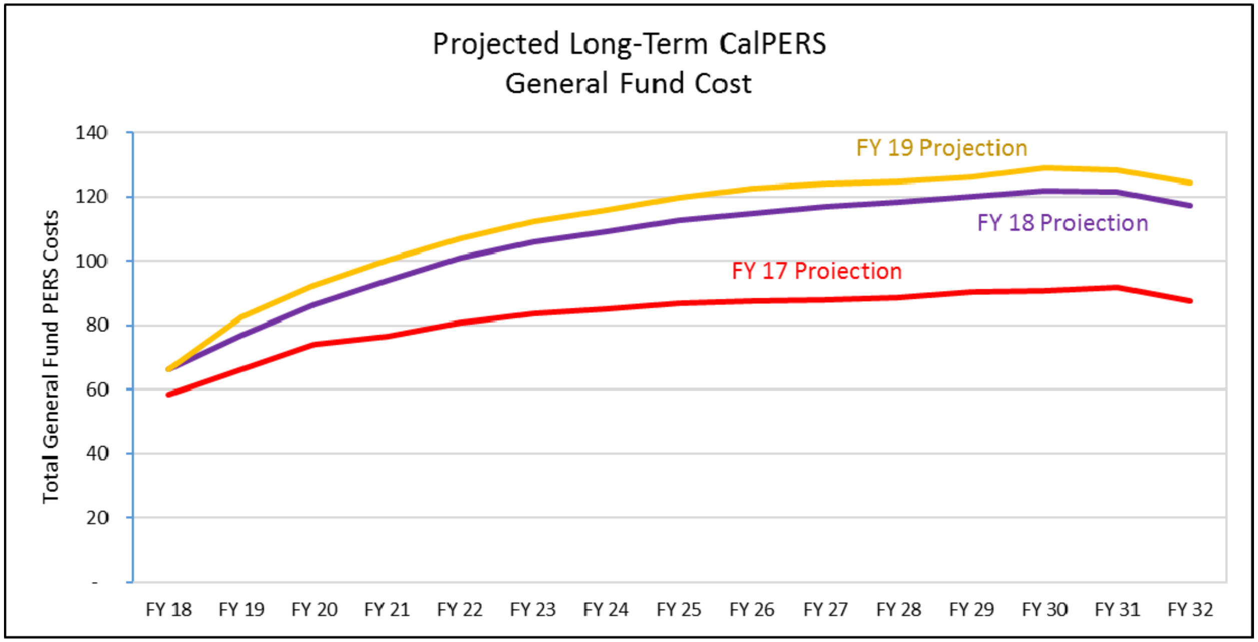
- **Public Employees' Pension Reform Act (PEPRA)** – 2% @ 62 for Misc / 2.7% @ 57 for Safety
  - Previously, new employees received 2.5% @ 55 for Misc and 3% @ 50 for Safety

- **City's Stabilization Fund –** Established in 2014, helped to smooth short-term impact of rate volatility. Discontinued the use of fund due to CalPERS risk mitigation changes that make it unlikely fund can be funded in the future.

- **Early Unfunded Liability Payment–** Beginning in FY 18, made early payment of unfunded liability costs. In FY 19, this saves $2.35 million in All Funds ($1.4 million in General Fund)

PAYING DOWN OUR UNFUNDED LIABILITY

- Increased annual pension payments will pay down the unfunded pension liability
- Pension rates and costs **are increasing** each year and will peak in FY 30
- This rate of growth is **expected to slow and projected to drop** starting in FY 31



GOOD INVESTMENT RETURNS HAVE LIMITED IMPACT ON COSTS

- Good returns in a single year does not have much impact unless it is extraordinary
- From FY 19 to FY 21, CalPERS will be lowering the discount rate from 7.5 percent to 7.0 percent, resulting in higher costs even with good returns.
- Beyond FY 21, CalPERS expected to implement risk mitigation approach that uses years of good investment returns to change the investment mix to lower risk.
- Once risk mitigation strategy is implemented, there will be more impact from losses than gains

CONTRIBUTION RATES ARE INCREASING SIGNIFICANTLY

- City's CalPERS Contribution Rate (as a Percentage of Payroll)

	FY 18	FY 19	FY 20	FY 25	FY 30	FY 35	FY 48
Safety	35.8%	41.0%	45.9%	59.9%	64.5%	57.8%	23.3%
Misc.	23.4%	25.8%	28.5%	36.3%	39.1%	34.0%	14.0%

UNFUNDED LIABILITIES FOR EMPLOYEE BENEFITS

Current Unfunded Liabilities $ in Millions	
Pension	$1,186
Sick Leave	135
Retiree Health Subsidy	50
Worker's Compensation	130
Total	**$1,501**

MOVING FORWARD

- Continue city-wide cost control strategies to reduce or minimize growth of other costs
- Continue to explore ways to increase pension funding further (reduces future costs)
- Stay on track to continue plan to eliminate unfunded liabilities and eliminate the costs for unfunded liabilities in the future.
- Continue early payment of pension contributions to reduce annual cost.

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