



**R-18**

**Date:** March 3, 2009  
**To:** Honorable Mayor and City Council  
**From:** Councilwoman Gerrie Schipske, Chair Personnel and Civil Service Committee  
**Subject:** **CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)  
FINANCIAL STATUS AND ITS IMPACT ON THE CITY OF LONG BEACH**

The Personnel and Civil Service Committee, at its meeting held February 2, 2009, considered communication relative to the above subject.

It is the recommendation of the Personnel and Civil Service Committee to the City Council that the communication regarding California Public Employees' Retirement System (CalPERS) financial status and its impact on the City of Long Beach be received and reviewed.

Respectfully submitted,

PERSONNEL AND CIVIL SERVICE COMMITTEE

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Councilwoman Gerrie Schipske, Chair

Prepared by:  
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# Financial Status of CalPERS

*Personnel and Civil Service Committee*

February 2, 2009





## CalPERS Overview

- The largest public pension fund in the nation with assets of \$174.2 billion as of January 2009.
- 2,500 public agency employers participate.
- The City of Long Beach is the 3<sup>rd</sup> largest contracting agency.
- The City of Long Beach is the largest City participating in CalPERS, in terms of both assets and member counts.
- The City of Long Beach's total assets as of June 30, 2007 in the plan total approximately \$3.5 billion.
- Number of employees in the plan as of June 30, 2007: 5,070.
- Number of retirees in the plan as of June 30, 2007: 4,980.



## CalPERS Plans

- CLB has two separate plans under CalPERS
  - ✓ Miscellaneous Plan that includes all non-sworn positions.
  - ✓ Safety Plan that includes both police and fire department sworn personnel.
- CalPERS plan payments have two components:
  - ✓ Employer rate
  - ✓ Employee rate



# Annual Rate Setting Process

- Factors Considered
  - ✓ Demographic Assumptions
    - Mortality, retirement, disability, withdrawal, etc.
  - ✓ Economic Assumptions
    - Investment Return – 7.75%, net of expenses
    - Salary Growth - Varies by entry age and duration of service
    - Payroll Growth – 3.25% compounded annually
    - Inflation – 3.00% compounded annually
  - ✓ Market Gains and Losses
  - ✓ Gains and losses will be spread over 15 years
  - ✓ Purpose –Smoothing technique to keep costs more consistent and predictable
  - ✓ Permitted range of AVA:  $AVA \geq 80\%$  of MVA and  $AVA \leq 120\%$  of MVA
- Two year lag in reporting of actual performance of the plans
- Three year lag in impact to rates and annual market performance



# Employer & Employee Rates

	FY 09 Actual		
	Employer	Employee	Total
Miscellaneous	12.2%	7.8%	20.0%
Safety	15.9%	9.0%	24.9%
	FY 10 Actual		
	Employer	Employee	Total
Miscellaneous	11.8%	7.8%	19.6%
Safety	16.1%	9.0%	25.1%
	FY 11 (ESTIMATED)		
	Employer	Employee	Total
Miscellaneous	11.6%	7.8%	19.4%
Safety	15.7%	9.0%	24.7%

Note: FY 11 rates will change based on actual FY 2008 performance.

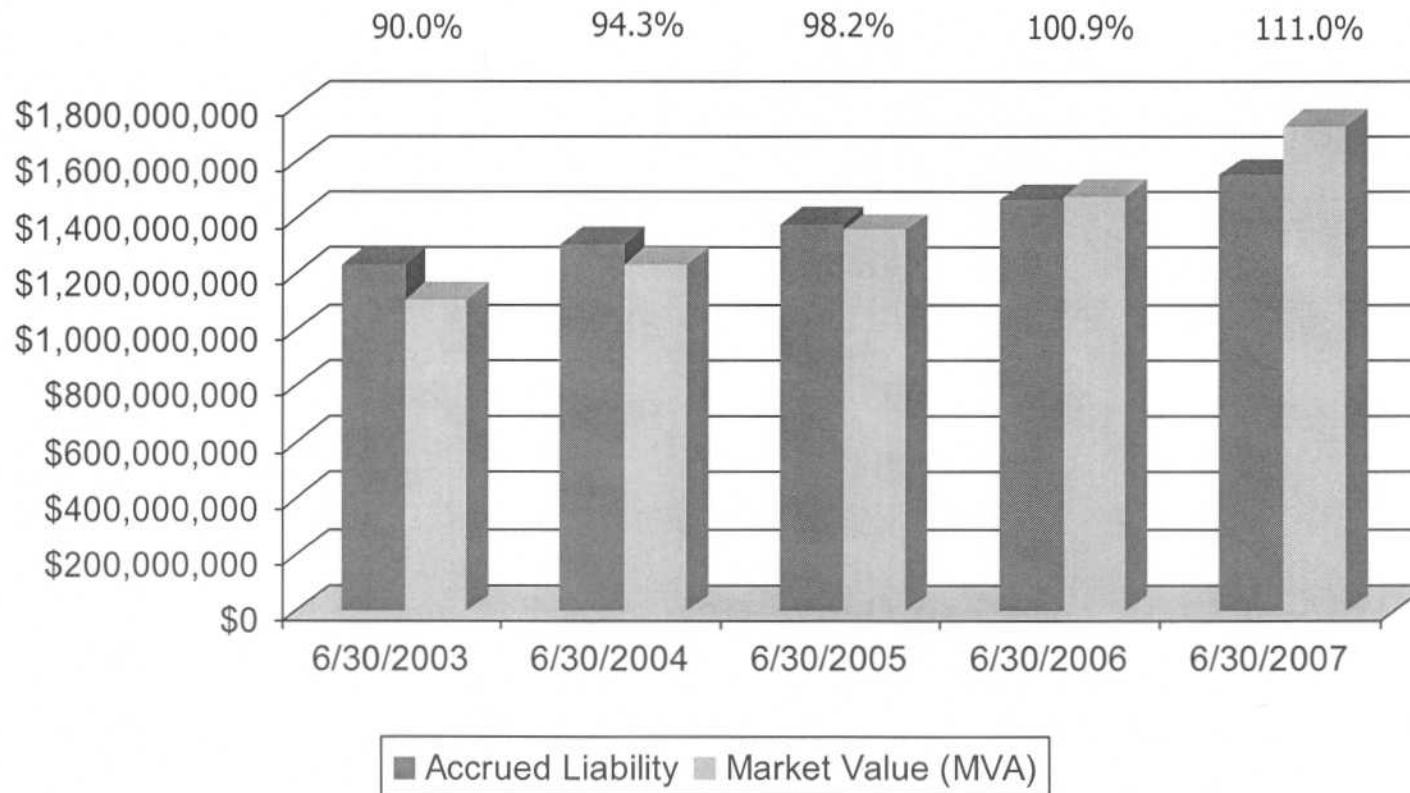


## Employee Contributions

- Under Financial Strategic Plan, employees started contributing towards retirement pensions to mitigate city costs.
- Employee contributions are:
  - ✓ 2% of 7.8% for Miscellaneous
  - ✓ 2% of 9.0% for Safety
- In the Miscellaneous Plan, employees pick up 10% of total combined rate. (i.e.  $2\% \div \text{Total Rate of } 20\%$ )
- In the Safety Plan, employees pick up 8% of the total combined rate. (i.e.  $2\% \div \text{Total Rate of } 24.9\%$ )



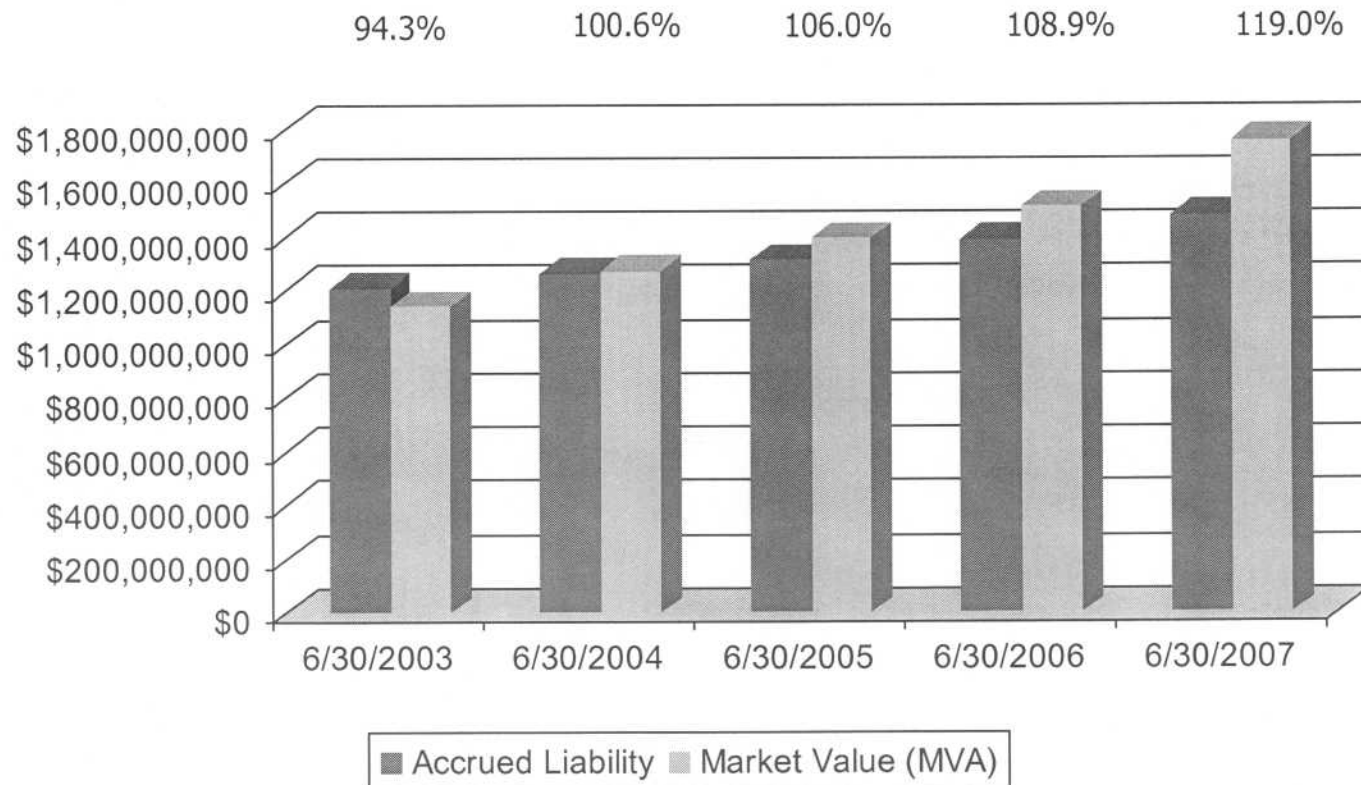
## City of Long Beach Funded Status - Miscellaneous





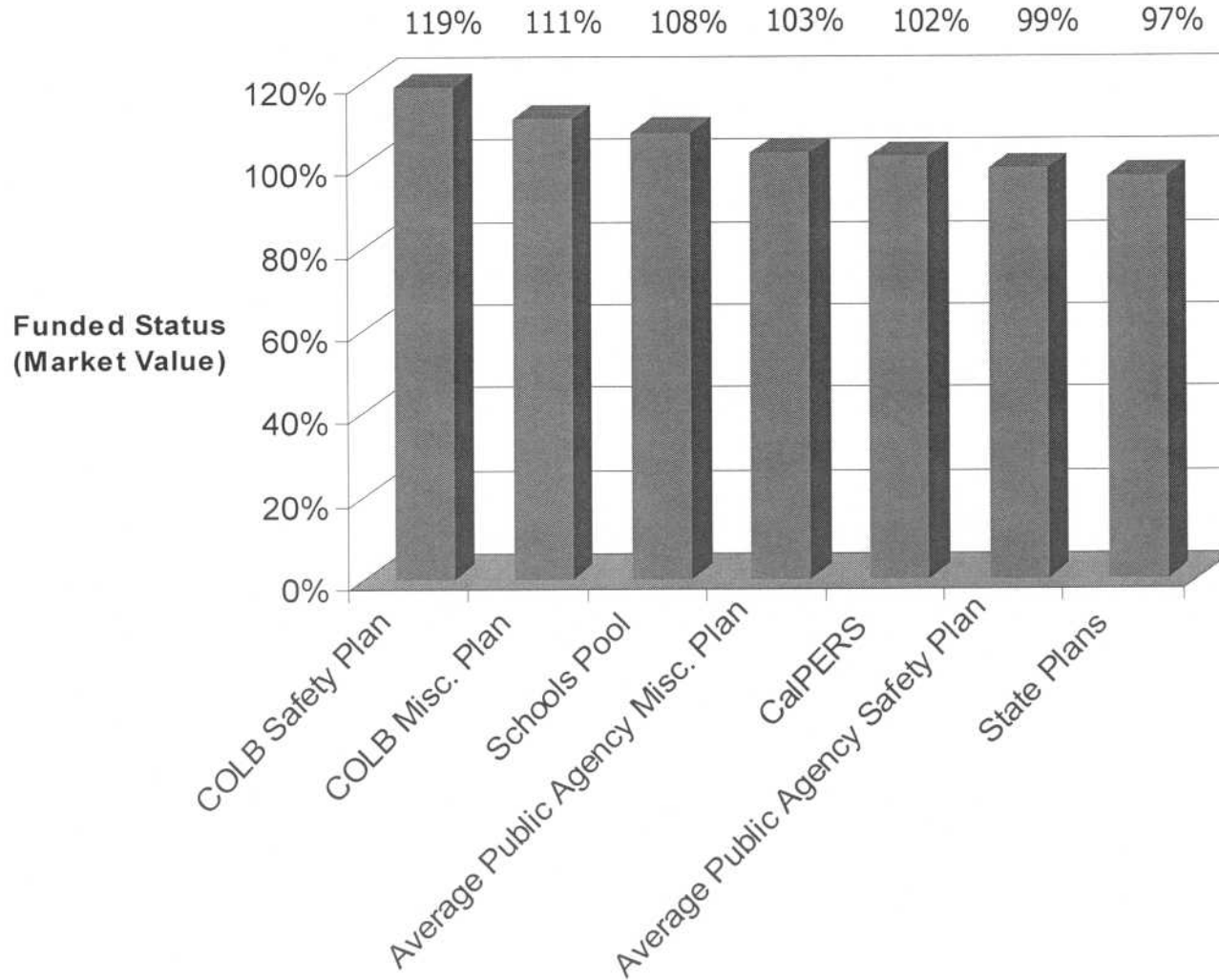


## City of Long Beach Funded Status - Safety





## CalPERS - Comparison of Funded Status (6/07)





## CalPERS Performance Historically

- CalPERS assumed rate of return on all investments is 7.75% per Year.
- CalPERS actual annual return has varied for the last 15 years from -7.2% to 20.1%.
- The compounded return for this period has been approximately 9.0%.
- For the period ending June 30, 2008, CalPERS' actual rate of return was -5%.
- The FY 09 rate of return will not be known until June 30, 2009.
- It is important to note that past performance does not indicate future performance.



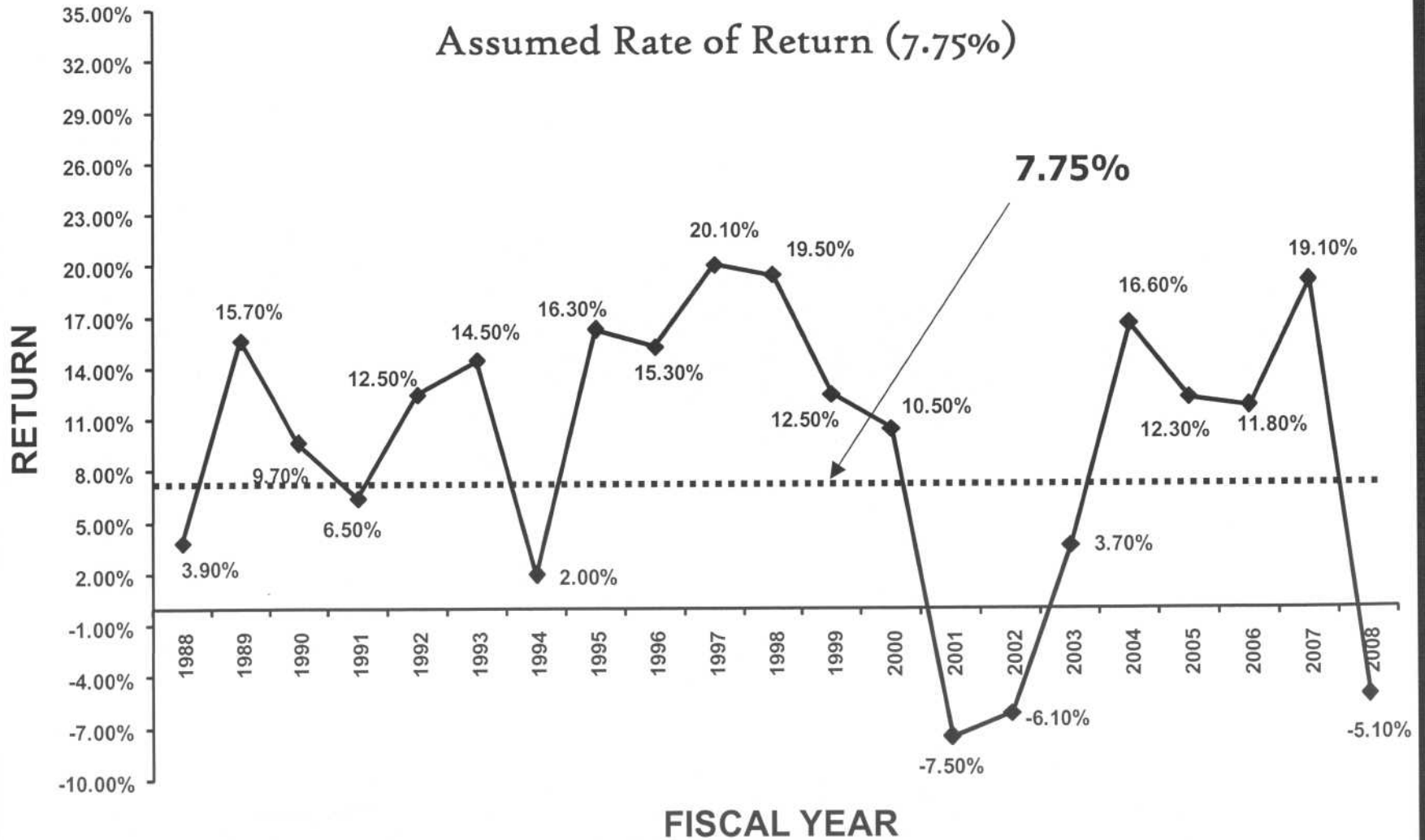
# CalPERS Investment Portfolio

<b>Market Segment</b>	<b>Percent</b>	<b>Market Value (in billions)</b>
<b>Global Equities</b>	<b>39.7%</b>	<b>\$69.1</b>
<b>Private Equity</b>	<b>13.8%</b>	<b>\$24.0</b>
<b>Fixed Income</b>	<b>32.6%</b>	<b>\$56.8</b>
<b>Real Estate</b>	<b>11.9%</b>	<b>\$20.7</b>
<b>Inflation Linked Assets</b>	<b>2.1%</b>	<b>\$3.60</b>
<b>Total as of 1/30/2009</b>	<b>100.0%</b>	<b>\$174.2</b>

# CalPERS Historical Rates of Return

vs.

## Assumed Rate of Return (7.75%)





## CalPERS Impact on Long Beach

- There will be:
  - ✓ No change in FY 2009 rates (i.e. no current year impact)
  - ✓ No change in FY 2010 rates
- In October 2009, we will receive actual FY 2011 rates based on actual market performance through June 30, 2008.
- FY 2012 rates will be based on FY 2009 market performance.



## FY 09 Investment Return Impacts Employer Rates in FY 12

### CalPERS\*

#### Hypothetical Investment Return for 2008-2009

Return	-20%	-15%	-10%	0%	7.75%	10%	20%
Range of Estimated Changes in Rates	2%-4%	0.3%-0.6%	0.2%-0.5%	0.1%	0.1%-0.2%	0.1%-0.3%	0.3% - 0.6%
	Increase				Decrease		

### City of Long Beach

- For COLB, draft preliminary figures provided by CalPERS indicate a range of 0.5% to 4.3% for the Miscellaneous Plan based on Actual Performance as of June 30, 2009.
- For COLB, draft preliminary figures provided by CalPERS indicate a range of 0.8% to 7.5% for the Safety Plan based on Actual Performance as of June 30, 2009.

\*Source: CalPERS October 2008



## Next Steps

- Monitor rate changes based on Actual FY 08 and FY 09 CalPERS market performance.
- Continuously monitor FY 2009 portfolio performance through June 30, 2009.
- Work with CalPERS to finalize impacts on FY 12 rates.
- Work with State lobbyists to potentially revise "smoothing methodology" to reduce impact on cities and counties.



# Financial Status of CalPERS

*Personnel and Civil Service Committee*

February 2, 2009

