

# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

411 West Ocean Boulevard 6<sup>th</sup> Floor • Long Beach, CA 90802 • (562)

~~R-21~~

**UB-19**

August 20, 2019

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive and file a report on the City's pension costs and trends impacted by changes implemented by the California Public Employees Retirement System (CalPERS) Board over the past several years. (Citywide)

## DISCUSSION

On July 23, 2019, the Financial Management Department presented to the Budget Oversight Committee (BOC) an overview of the City's pension and unfunded liabilities (Attachment A). The BOC requested the presentation be made to the full City Council. The attached presentation will be updated and will provide an overview of the City's pension costs and discuss the City's pension trends impacted by recent changes implemented by the California Public Employees Retirement System (CalPERS) Board.

This matter was reviewed by Principal Deputy City Attorney Gary J. Anderson and by Budget Management Officer Rhutu Amin Gharib on August 6, 2019.

## TIMING CONSIDERATIONS

City Council action on this item is not time critical.

## FISCAL IMPACT

There is no fiscal or local job impact associated with this recommendation.

## SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

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PATRICK H. WEST  
CITY MANAGER

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# CalPERS and Unfunded Liabilities

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Budget Oversight Committee Meeting | July 23, 2019

# CALPERS FUNDING CHANGES FROM 2013 - 2019

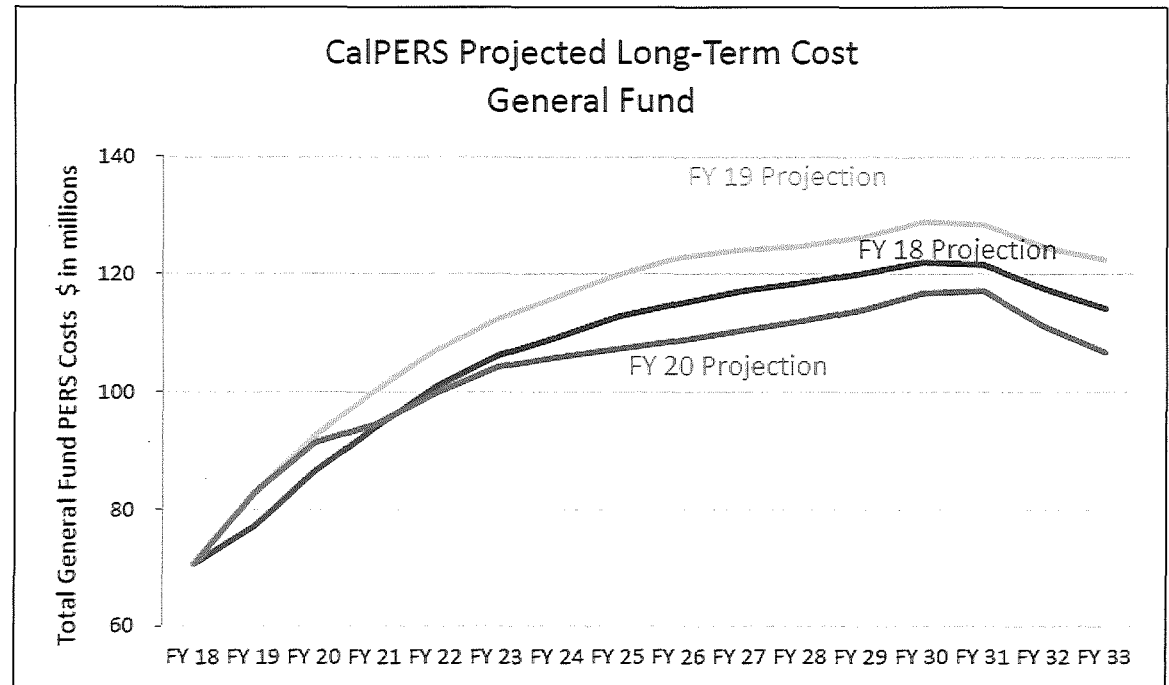
<b>Contribution Policy Change</b>	<b>Assumption Changes</b>	<b>Risk Mitigation Strategy</b>	<b>Discount Rate Changes</b>	<b>Amortization Changes</b>
No asset smoothing (Approved in 2013; impact started FY 16)	Mortality and other demographic assumption improvements (Approved in 2014; impact started in 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 20, this saves \$2.8 million in All Funds (\$1.7 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 31
- This rate of growth is **expected to slow and projected to drop** after FY 31



# CONTRIBUTION RATES ARE INCREASING TO PAY DOWN UNFUNDED LIABILITY

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

	FY 19	FY 20	FY 21	FY 25	FY 31	FY 35	FY 49
Safety	41.0%	44.2%	46.6%	53.3%	58.2%	47.0%	16.2%
Misc.	25.8%	28.1%	29.1%	32.6%	35.5%	28.5%	9.6%

# GOOD INVESTMENT RETURNS HAVE LIMITED IMPACT WITH RISK MITIGATION

- 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

# UNFUNDED LIABILITIES FOR EMPLOYEE BENEFITS

<b>Current Unfunded Liabilities \$ in Millions</b>	
Pension	\$1,056
Sick Leave	139
Retiree Health Subsidy	52
Worker's Compensation	135
<b>Total</b>	<b>\$1,382</b>



# 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 pension unfunded liabilities
- Continue early payment of pension contributions to reduce annual cost.

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# **PERS and Unfunded Liabilities**

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