CITY OF LONG BEACH

CalPERS and Unfunded Liabilities

City Council Meeting |September 3, 2019

CALPERS FUNDING CHANGES FROM 2013 - 2019

Contribution Policy Change

No asset smoothing (Approved in 2013; impact started FY 16)

Assumption Changes

Mortality and other demographic assumption improvements (Approved in 2014; impact started in FY 17)

Risk Mitigation Strategy

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)

Discount Rate Changes

Lower discount rate from 7.5% to 7.0%; suspend risk mitigation strategy until FY 21 (Approved in 2016; impact starts in FY 19)

Amortization Changes

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)

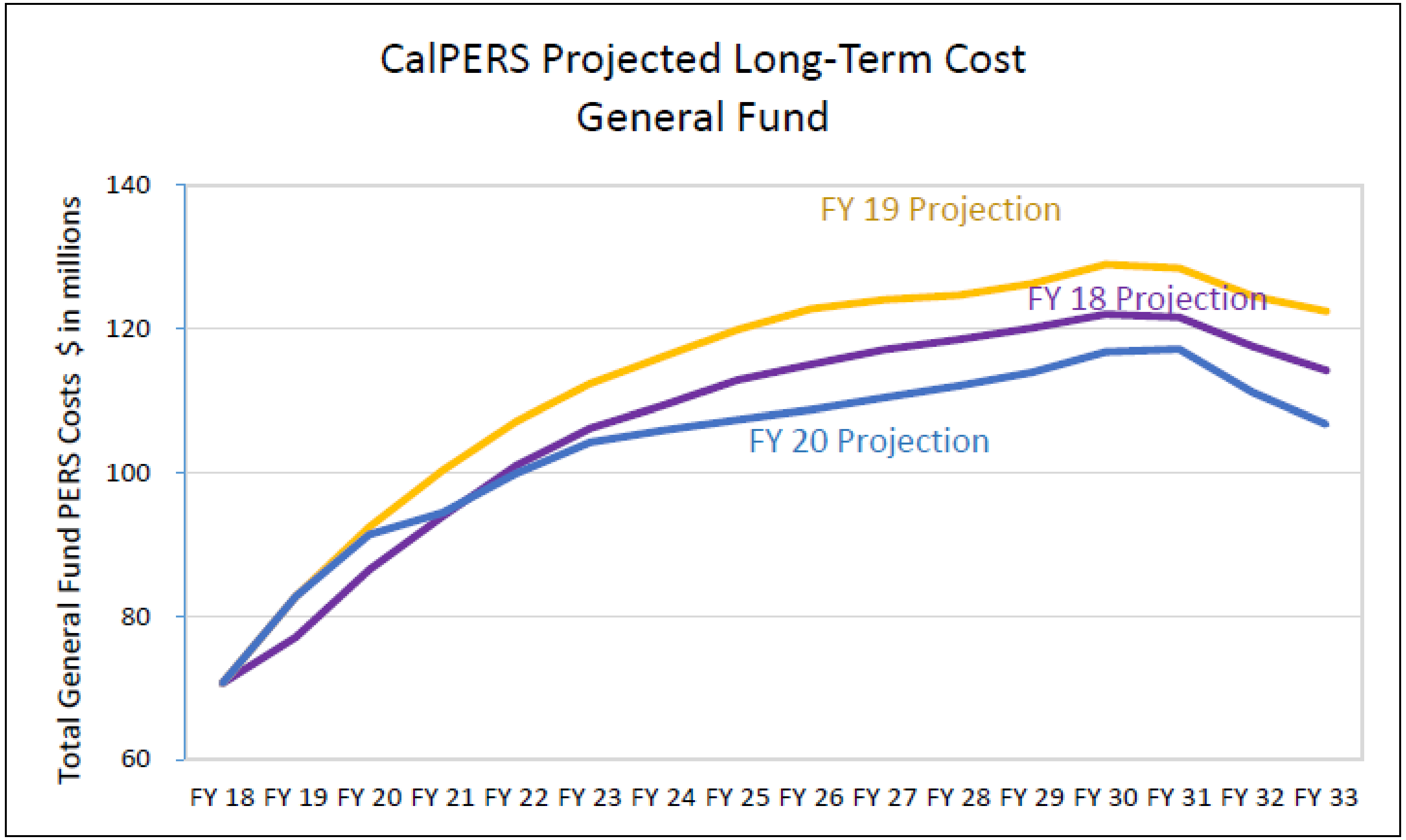
- **Public Employees' Pension Reform Act (PEPRA)** – 2% @ 62 for Misc / 2.7% @ 57 for Safety
  - Previously, new employees received 2.5% @ 55 for Misc and 3% @ 50 for Safety

- **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

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

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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