CALPERS

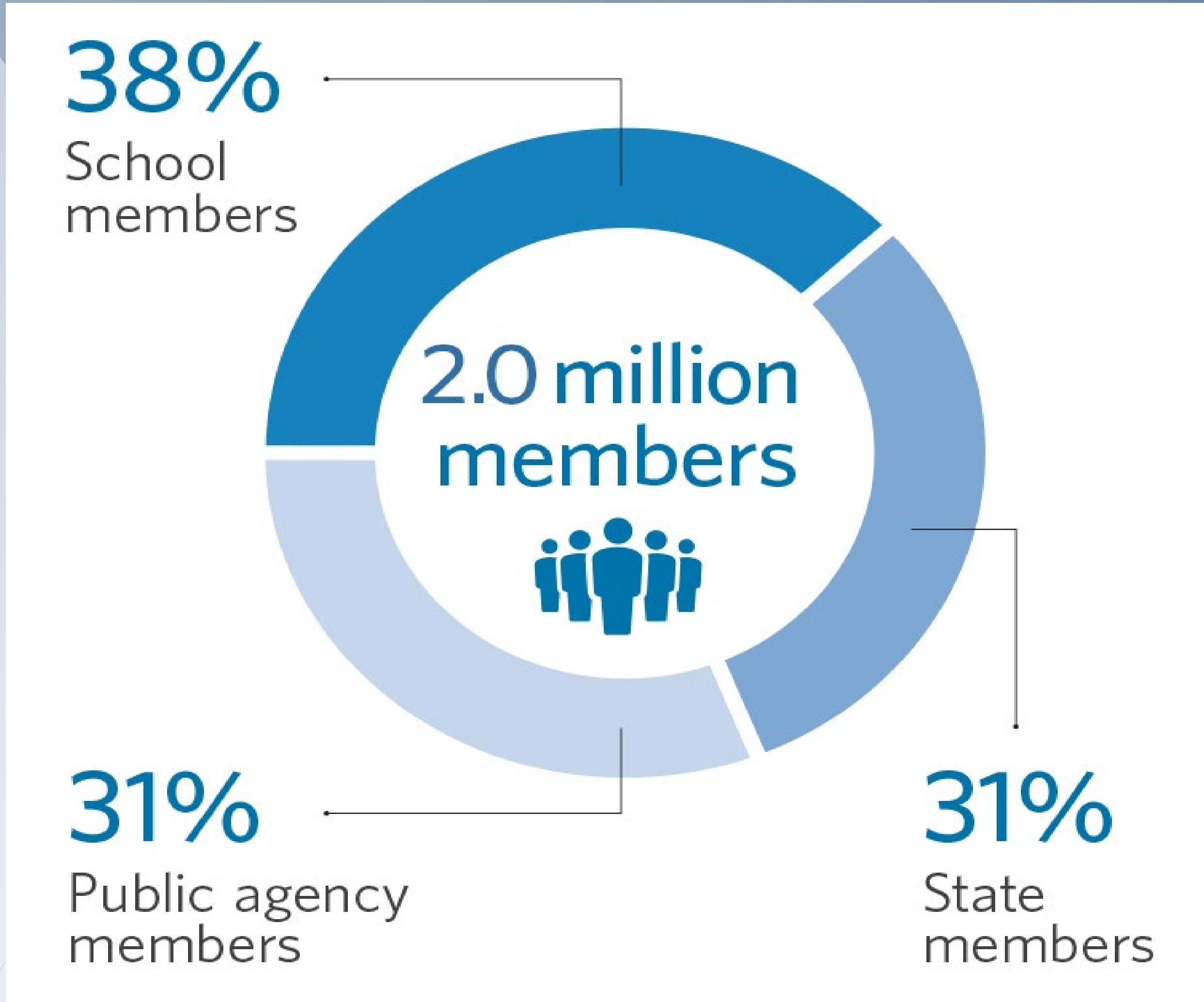
Unfunded Accrued Liability

City Council Presentation
May 18, 2022

CITY of CALABASAS

California Public Employee Retirement System (CalPERS) Basics

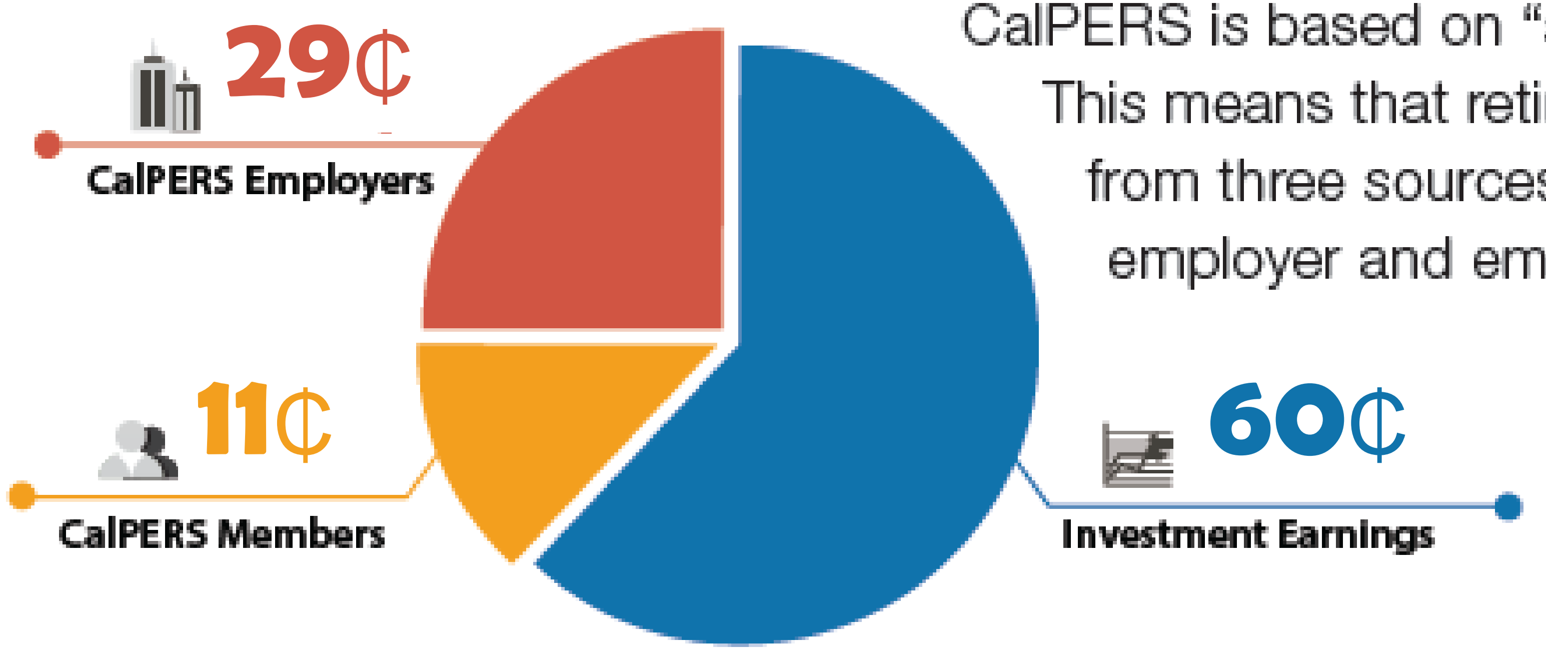
Members by Employer Type



CalPERS Basics

How is CalPERS funded?

CalPERS is based on "shared responsibility." This means that retiree payments come from three sources: investment earnings, employer and employee contributions.



CalPERS – Unfunded Accrued Liability

Contributing Factors

Great Recession

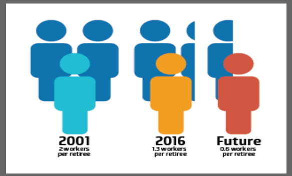
- 2007-2009 recession

8.25%

6.8%

Discount Rate

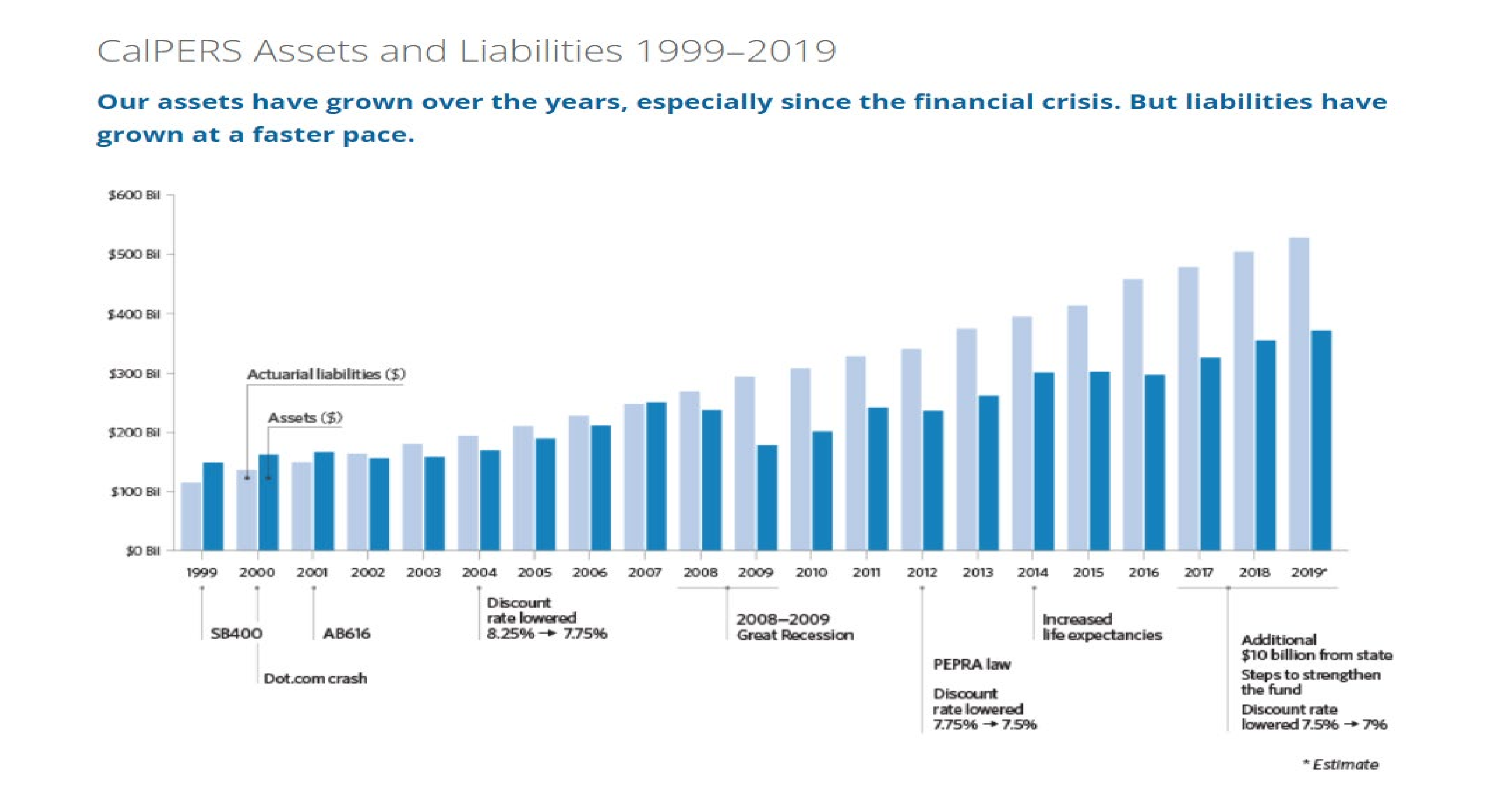
- Decision by CalPERS in 2016 to lower discount rate



Demographics

- Increased lifespans
- Fewer active workers

Unfunded Liability – Great Recession



Unfunded Liability – Discount Rate

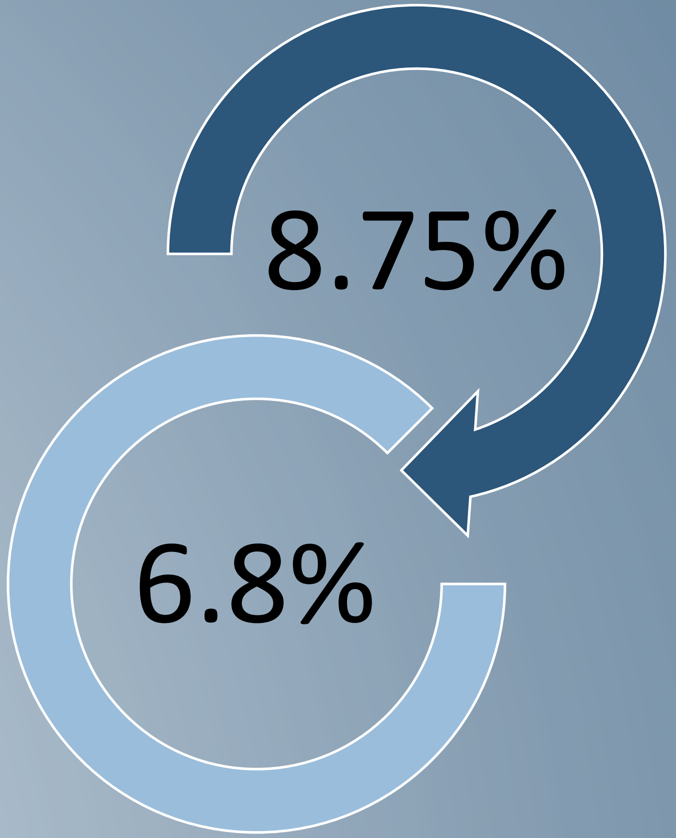
The "discount rate" is the estimated long-term average return expected on earned investments. It is also known as:

- Expected rate of return
- Assumed rate of return
- Investment return target

When CalPERS lowers its "discount rate", member agencies must increase contributions to make up the difference.

CalPERS has lowered the discount rate as outlined below:

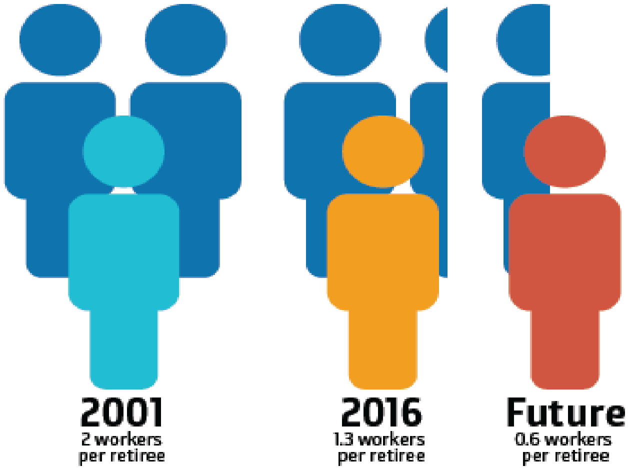
- 8.75% to 8.50% in 1997
- 8.50% to 8.25% in 2000
- 8.25% to 7.75% in 2006
- 7.75% to 7.50% in 2012
- 7.50% to 7.00% in 2019 {gradual reduction over 3 years}
- 7.00% to 6.80% in 2022



Unfunded Liability – Demographics

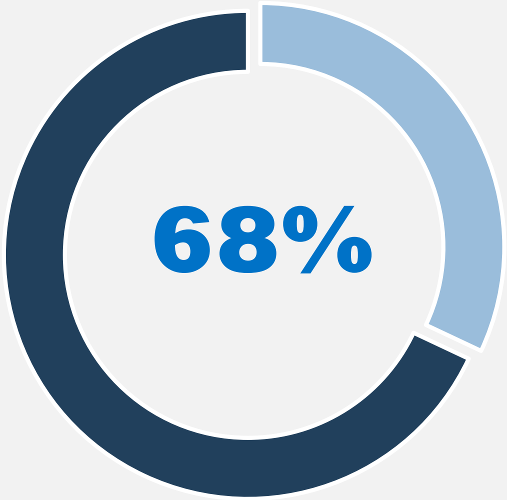
» **People are living and drawing pensions longer**. CalPERS has increased rates for member agencies to adjust for longer lifespans.

» **There are fewer active employees for each retiree.** In 2001, there were two active workers for each retiree. By 2016, that dropped to 1.3 and CalPERS projects that in 10–20 years there will be just 0.6 active workers per retiree. Fewer people paying into the system means higher contribution rates from local agencies and their employees.

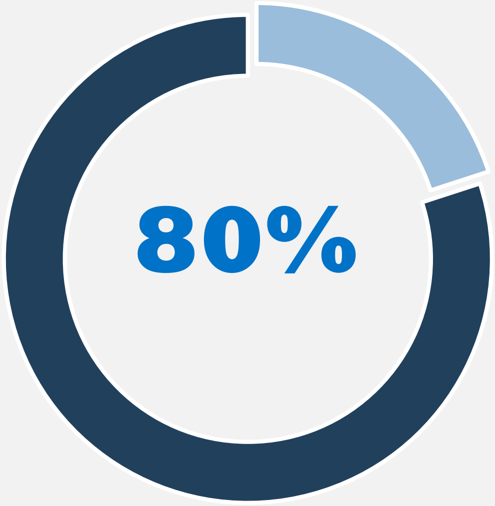


CalPERS – Funded Status

2007



2017



2021

Unfunded Liability – In the News

The findings of this study reveal the following:

1. Rising pension costs will require cities over the next seven years to nearly double the percentage of their General Fund dollars they pay to CalPERS;
2. For many cities, pension costs will dramatically increase to unsustainable levels; and
3. The impacts of increasing pension costs as a percentage of General Fund spending will affect cities even more than the state. Employee costs, including police, fire and other municipal services, are a larger proportion of spending for cities.

City of Calabasas – CalPERS Plans

- CalPERS is the retirement system for all City full-time employees
- The City began participating in CalPERS in 1991
- The City does NOT participate in Social Security
- 5 Years of service required to vest in CalPERS
- Retiree Pension check is based on

  Years of service, Age at retirement, Salary

City of Calabasas – CalPERS Plans

- The City's original contract with CalPERS covers "classic" employees.
- Classic employees are those individuals enrolled in CalPERS prior to December 31, 2012:
  - Miscellaneous Employees (Classic) – 2% @ 55 formula
- The City has a new provision in our contract with CalPERS that covers "PEPRA" employees (Public Employee's Pension Reform Act).
- PEPRA employees are those individuals enrolled in CalPERS after January 1, 2013.
  - PEPRA Miscellaneous Employees – 2% @ 62 formula

City of Calabasas – Payments to CalPERS

- Each year the City makes two payments to CalPERS:
  - Employer Normal Cost = Employer Annual cost for current employees
  - Unfunded Accrued Liability (UAL) Contribution = Annual payment to CalPERS to pay a portion of the UAL
- The City's CalPERS payments for FY 2021-2022 include:

	Normal Cost	UAL Contribution
Miscellaneous Employees (Classic)	$ 503,937	$ 581,490
Miscellaneous Employees (PEPRA)	$ 100,943	$ 4,499
	$ 604,880	$ 585,989

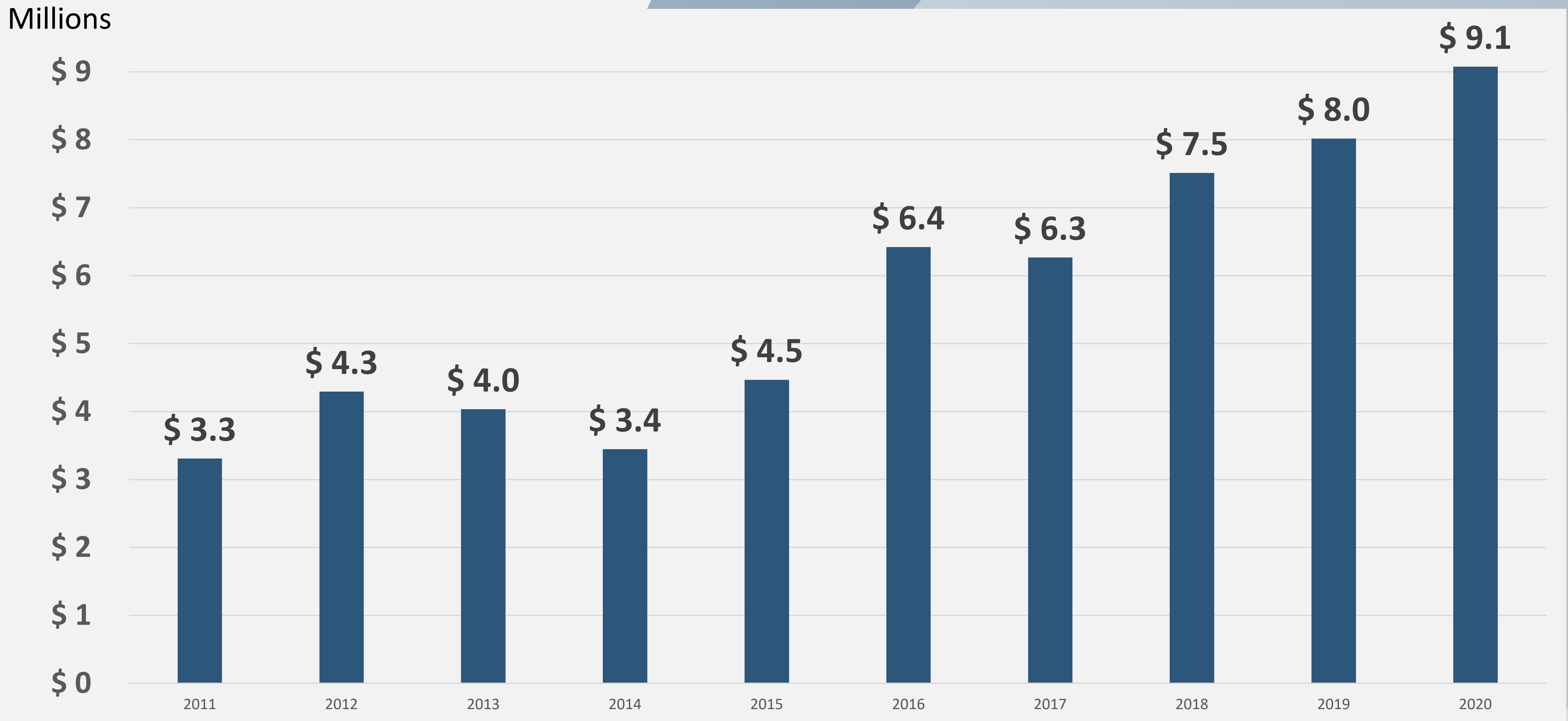
Total FY 21-22 = $ 1,190,869

City of Calabasas
Unfunded Accrued Liability (UAL)
June 30, 2020

Miscellaneous Employees ~ Classic	$ 9,006,634	
Miscellaneous Employees ~ PEPRA	$ 68,379	
TOTAL UAL BALANCE	**$ 9,075,013**	

* Information taken from CalPERS Actuarial Reports June 30, 2020

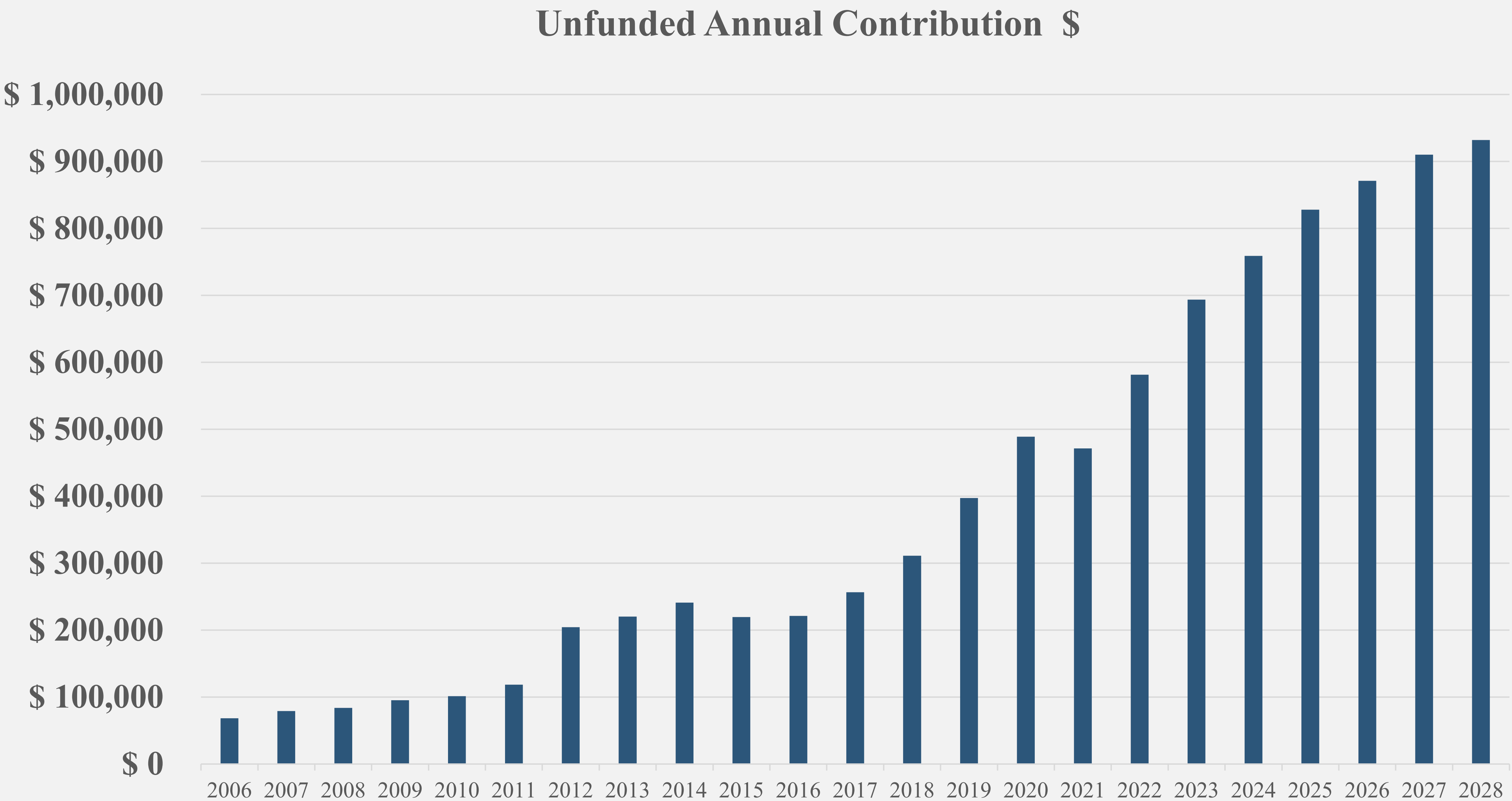
City of Calabasas – Unfunded Accrued Liability



City of Calabasas – UAL Annual Contributions

2008	$83,658		2019	$397,208
2009	$95,072		2020	$488,796
2010	$101,175		2021	$471,438
2011	$118,469		2022	$585,989
2012	$204,292		2023	$693,606
2013	$220,155		2024	$759,000
2014	$241,096		2025	$828,000
2015	$219,490		2026	$871,000
2016	$221,033		2027	$910,000
2017	$256,434		2028	$932,000

City of Calabasas – UAL Annual Contributions



City of Calabasas – UAL Recommendation

- **Budget Subcommittee Recommendation:**
  - Establish an Internal Revenue Code Section 115 Trust
  - Invest $1,500,000 into the Section 115 Trust for City Pension UAL

City of Calabasas – IRC Section 115 Trust

The advantages of using an IRC 115 Trust:

- City retains oversight and control of the assets
- City selects the investment strategy of the assets (stocks, bonds, cash)
- Assets can earn a much higher rate of return versus City's Investment Policy
- Assets can be used to offset unexpected increases in PERS contributions
- Rating agencies view these accounts favorably
- Reduces "Net Pension Liability" on the City's financial report
- City can decide to not withdraw money and let the assets grow indefinitely

City of Calabasas – IRC Section 115 Trust

The disadvantages of using an IRC 115 Trust:

- Assets invested in stocks and bonds which can fluctuate negatively in value
- Assets are in an "Irrevocable Trust"
- Assets must be used for pension costs ONLY
- Assets cannot be used for other purposes (i.e. Balance the General Fund)

City of Calabasas – UAL and IRC 115

- Questions
- Discussion

CITY of CALABASAS