

# Options for Long-Term CalPERS Pension Liabilities

October 20, 2020 City Council Meeting



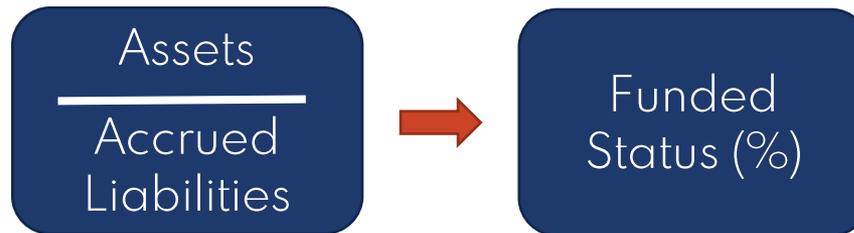
# Pension Benefits Background

- City contracts with CalPERS to offer defined benefit retirement plans
  - Benefit formulas are based on years of service, age at retirement and final compensation
  - Benefit formulas vary by
    - Classification (Miscellaneous or Public Safety)
    - Date employee entered into CalPERS membership (Classic or PEPRRA)
- Benefits are funded by City (*employer*) and Employee contributions, as well as CalPERS investment earnings



# CalPERS Funding Status

- After the Great Recession, CalPERS implemented changes to stabilize the fund
  - CalPERS Assets impacted by lower investment returns
  - Resulted in significant impacts to City Funded Status – as a consequence funded ratio declined



- If Liabilities are greater than Assets, then City has an “Unfunded Actuarial Liability” (UAL)

# CalPERS Funding Status

- If CalPERS Investment Earnings do not meet expected return “*discount rate*” of 7% the City’s UAL will continue to grow.
  - Based on 2019-2020 returns the City will see an increase in the UAL of approximately \$7.0 million
  - Any UAL payments less than minimum interest costs would result in negative amortization
- Understanding risks of rising pension costs, City Council added Work Plan item in FY 2018-2019 directing staff to provide options to address pension liabilities and impacts to the City’s financial future and structural deficit



# Addressing Pension Liabilities

- October 2017 – City initiated a PARS 115 Trust to put aside funds for future pension payments
  - Pension Rate Stabilization Policy - \$250,000 (*minimum*) annually
  - Current balance of \$1.67 million
- September 2019 – Options introduced at Finance Subcommittee (FSC) meeting
  - Reviewed funding options, including Additional Discretionary Payments (ADPs)
  - FSC asked staff to explore Pension Obligation Bonds (POBs)



# Addressing Pension Liabilities

- February 2020 - Staff hired independent actuary (*Bartel & Associates*) to assist with pre-funding pay down scenario analysis
- July 6 & July 22, 2020 - FSC reviewed options for POBs funded at 80-100% of current UAL
  - Approved Draft Pension Policy / 40%-60% of savings to offset future UAL costs / GF operational cost.
  - FSC - Directed staff to bring POB recommendation to full City Council
- October 6, 2020 Council meeting - Staff presented the Consideration to Issue POBs
  - Council requested to revisit topic at the October 20, 2020 meeting to allow additional time for questions



# CalPERS Funding Status

- Annual UAL payments to amortize an estimated \$91.5 million increasing significantly over next ten years
  - Impacted by changes in actuarial assumptions (e.g. demographics), low investment returns, earlier retirement, etc.

Date	Jul-20		Jul-20		Jul-20			
Valuation as of	6/30/2019		6/30/2019		6/30/2019			
Plan	TOTAL FIRE		TOTAL Police		Miscellaneous Plan		TOTAL UAL	
Required Contribution In	Balance	Payment	Balance	Payment	Balance	Payment	Balance	Payment
<u>6/30/2022</u>	19,942,282	1,455,513	42,841,197	3,146,788	28,807,225	2,152,306	91,590,704	<u>6,754,607</u>
6/30/2023	19,832,648	1,623,787	42,585,018	3,488,182	28,597,370	2,401,557	91,015,036	7,513,526
6/30/2024	19,541,273	1,728,325	41,957,766	3,707,817	28,114,995	2,569,628	89,614,034	8,005,770
6/30/2025	19,121,369	1,833,254	41,059,413	3,927,876	27,425,002	2,746,690	87,605,784	8,507,820
6/30/2026	18,563,532	1,888,281	39,870,544	4,045,461	26,503,553	2,831,629	84,937,629	8,765,371
6/30/2027	17,909,727	1,936,747	38,476,824	4,153,200	25,429,741	2,907,340	81,816,292	8,997,287
6/30/2028	17,160,021	1,988,314	36,874,093	4,263,904	24,202,448	2,985,128	78,236,562	9,237,346
6/30/2029	16,304,495	2,041,300	35,044,663	4,377,647	22,808,779	3,065,060	74,157,937	9,484,007
6/30/2030	15,334,275	2,095,740	32,969,516	4,494,520	21,234,871	3,147,186	69,538,662	9,737,446
6/30/2031	14,239,826	2,151,679	30,628,215	4,614,615	19,465,835	3,231,573	64,333,876	9,997,867
6/30/2032	13,010,899	2,209,155	27,998,795	4,738,006	17,485,678	3,099,143	58,495,372	<u>10,046,304</u>



# CalPERS Interest Rate Calculation

- City is charged 7% interest rate by CalPERS on the UAL
- On \$91.5 million UAL, total Interest paid will be \$73.3 million over amortization period

CalPERS Actuarial Valuation - June 30, 2019  
 Miscellaneous Plan of the City of Manhattan Beach  
 CalPERS ID: 3161990216

## (Gain)/Loss Analysis 6/30/18 – 6/30/19

To calculate the cost requirements of the plan, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year, actual experience is compared to the expected experience based on the actuarial assumptions. This results in actuarial gains or losses, as shown below.

### 1. Total (Gain)/Loss for the Year

a) Unfunded Accrued Liability (UAL) as of 6/30/18	\$26,808,864
b) Expected Payment on the UAL during 2018-19	1,056,304
c) Interest through 6/30/19 $[\cdot 07 \times (1a) - ((1.07)^{\frac{1}{2}} - 1) \times (1b)]$	1,840,276
d) Expected UAL before all other changes $[(1a) - (1b) + (1c)]$	27,592,836
e) Change due to plan changes	0
f) Change due to assumption change	0
g) Change due to method change	0
h) Expected UAL after all other changes $[(1d) + (1e) + (1f) + (1g)]$	27,592,836
i) Actual UAL as of 6/30/19	28,256,013
j) Total (Gain)/Loss for 2018-19 $[(1i) - (1h)]$	\$663,177

PERS 7%  
Interest Charge



# Sample City Plan – Amortization Schedule

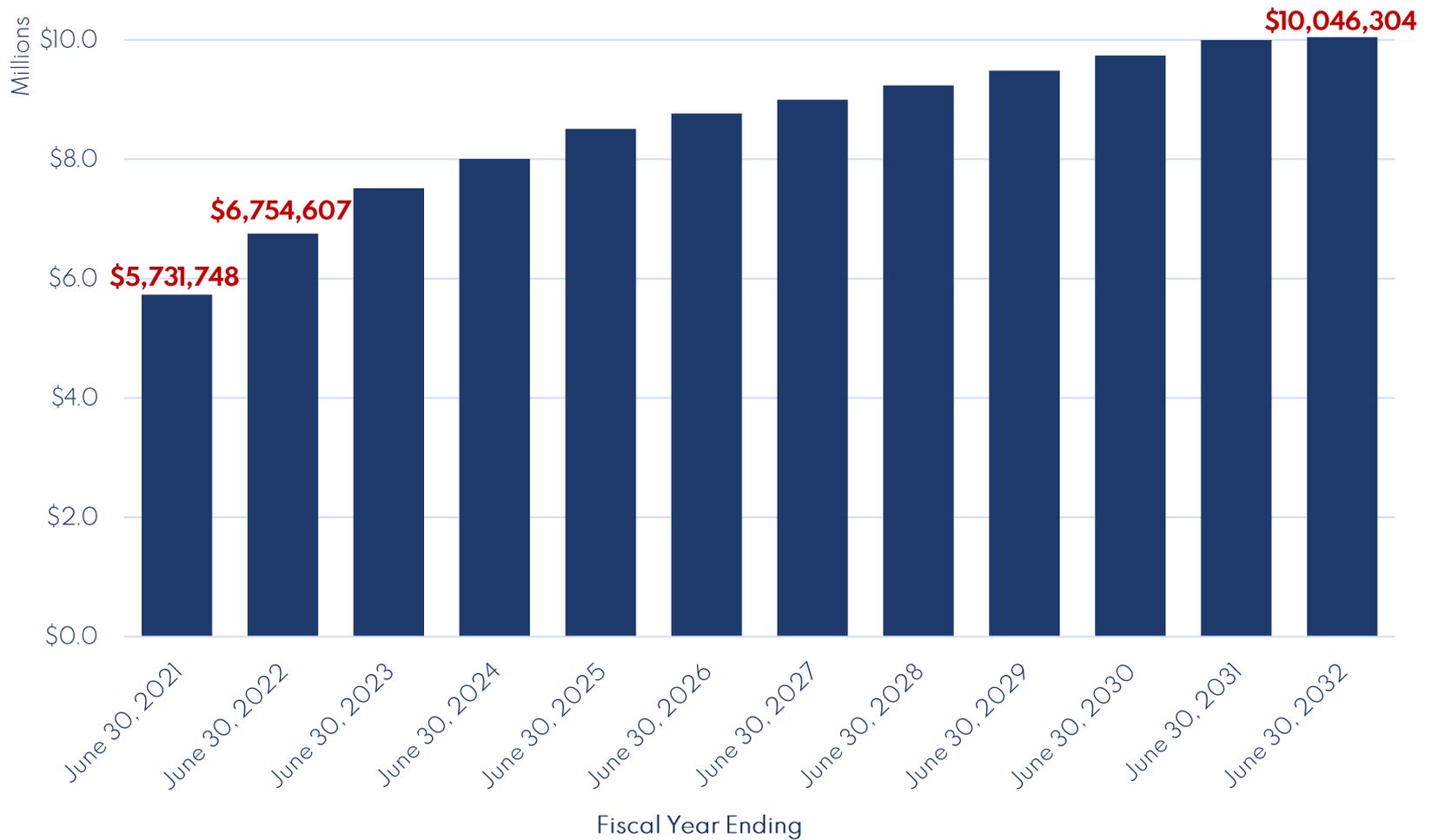
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## Amortization Schedule and Alternatives

Date	Current Amortization Schedule	
	Balance	Payment
6/30/2021	28,807,225	2,152,306
6/30/2022	28,597,370	2,401,557
6/30/2023	28,114,995	2,569,628
6/30/2024	27,425,002	2,746,690
6/30/2025	26,503,553	2,831,629
6/30/2026	25,429,741	2,907,340
6/30/2027	24,202,448	2,985,128
6/30/2028	22,808,779	3,065,060
6/30/2029	21,234,871	3,147,186
6/30/2030	19,465,835	3,231,573
6/30/2031	17,485,678	3,099,143
6/30/2032	15,503,897	3,056,143
6/30/2033	13,427,870	2,796,720
6/30/2034	11,474,871	2,685,440
6/30/2035	9,500,271	2,494,058
6/30/2036	7,585,417	2,161,929
6/30/2037	5,880,078	1,954,090
6/30/2038	4,270,356	1,733,242
6/30/2039	2,776,403	1,200,615
6/30/2040	1,728,825	1,088,522
6/30/2041	723,867	537,816
6/30/2042	218,217	225,725
<b>Total</b>		<b>51,071,540</b>
<b>Interest Paid</b>		<b>22,264,315</b>



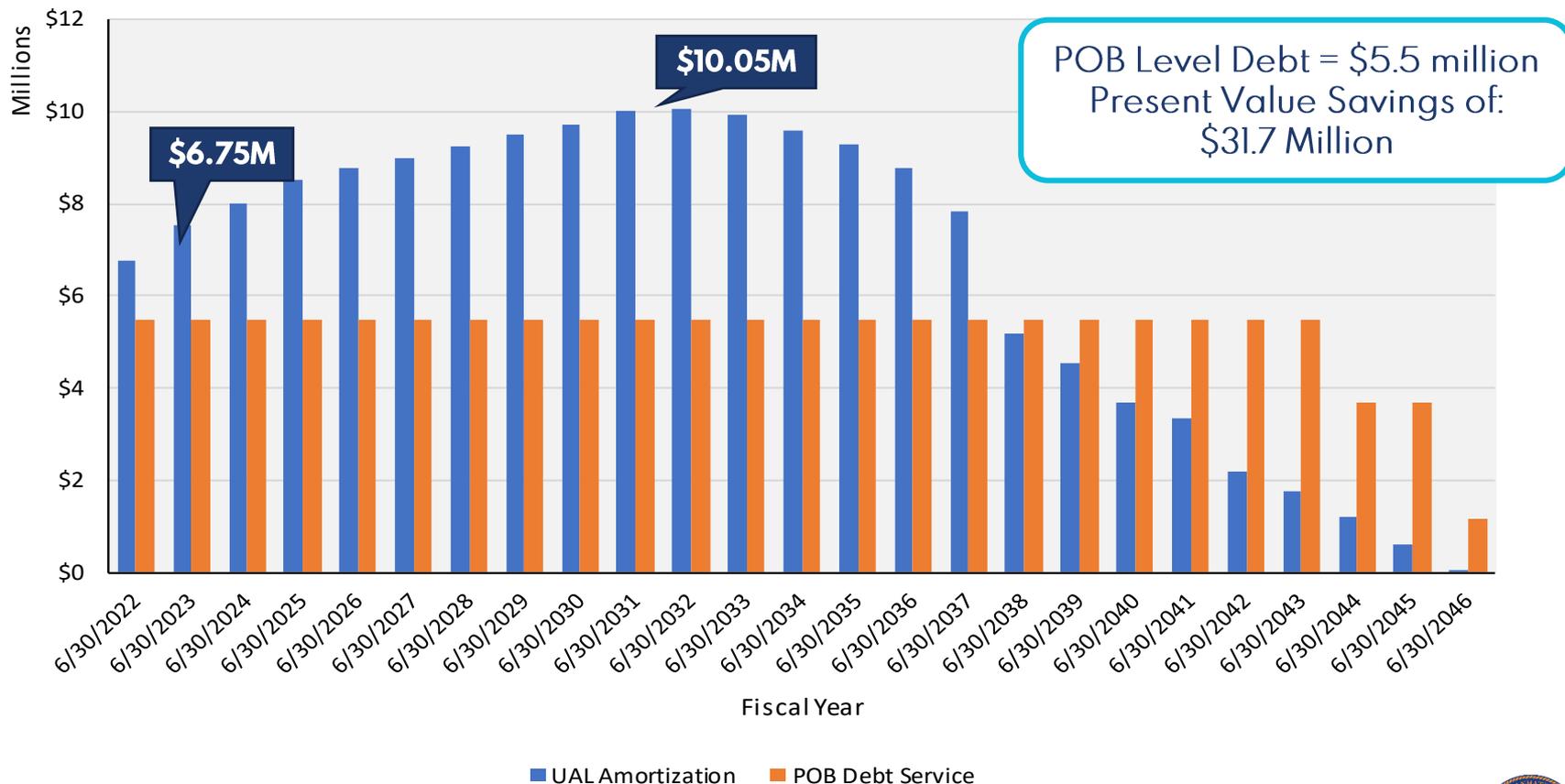
# UAL Payments – Ramping Up



# Staff Recommendation: POBs Illustrative – 100%

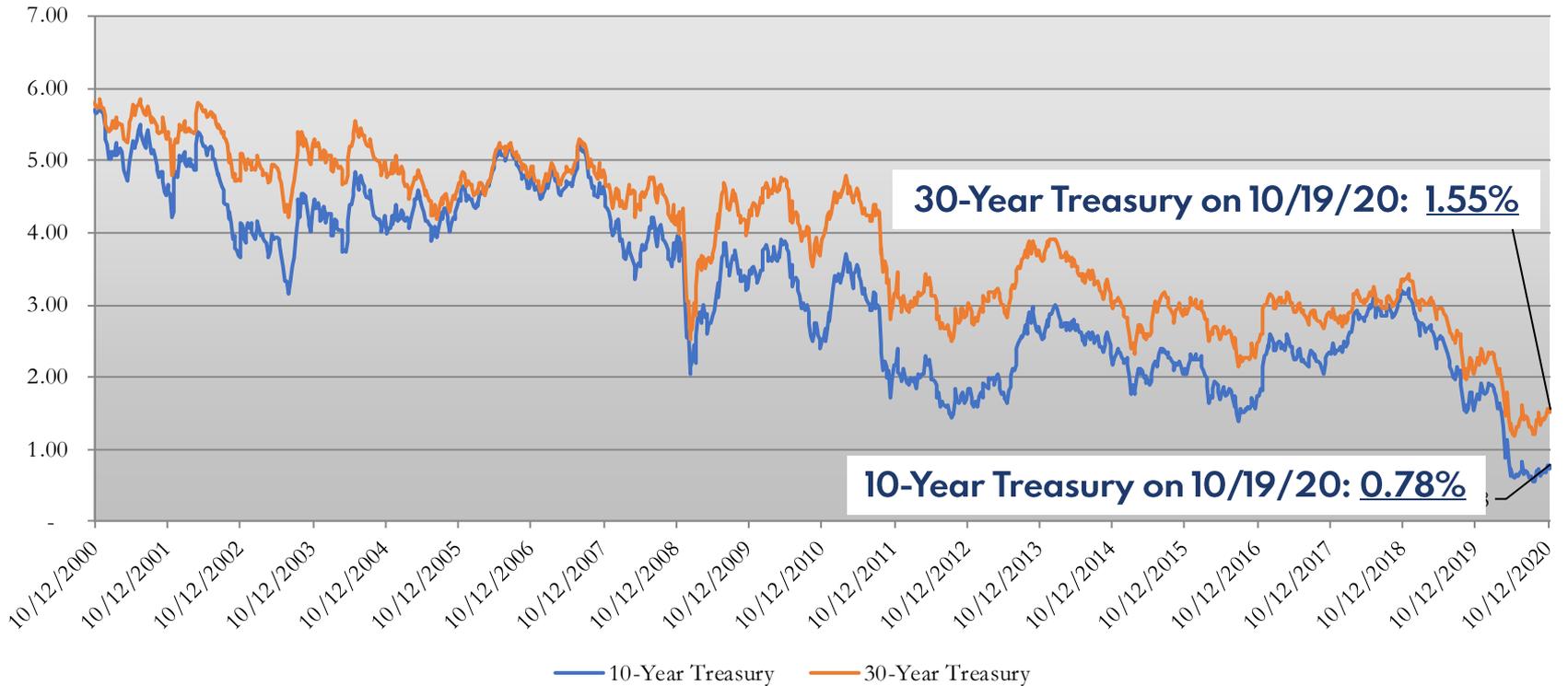
- 100% POB Payment is \$5.5 million

100% UAL Amortization and Estimated POB Debt Service



# US Treasury Rates

## US Treasuries Taxable Benchmark



# Pension Obligation Bonds

- POBs replace CalPERS current UAL debt of 7.0% interest rate with POB debt of 3.1% fixed interest rate
- UAL payment of \$91.5 million would go into CalPERS \$400 billion fund (*not side fund*)
- As of June 30, 2020 CalPERS earned 4.7% which will add about \$7.0 million dollars to the current UAL
- Based on the current UAL schedule POBs result in long term budgetary savings and annual level debt payments



# Pension Obligation Bonds

- Instead of current UAL payment costs ramping up, POB debt payments will be set at level annual payments
- Pension Policy gives Council flexibility in how to allocate savings on an annual basis concurrent with the budget and fund Council and community priorities
- Similar to PD/Fire Facility & Metlox Refunding
  - Reduce City's borrowing cost
  - Refinancing is not additional debt and not new debt- replaces our current debt at a lower cost



# Conclusion

- Staff recommends:
  - Issuing POBs at 100% of the UAL (currently estimated at \$91.5 million) to yield the highest present value savings and take advantage of historically low borrowing rates
  - The recommendation of issuing POBs does not eliminate our future UAL
  - Adopt the Pension Policy



# Questions

