

City of Manhattan Beach

Options for Addressing Pension Costs

May 4, 2017



Overview

- ▶ Pension costs and unfunded liabilities rising
- ▶ Seeking options for addressing both the ability to weather large increases as well as reduce unfunded liabilities and costs
- ▶ Council reviewed pension stabilization trust fund option last summer and asked for more options



Pension Objectives

- ▶ 1. Reduce unfunded pension liabilities
- ▶ 2. Maintain budget flexibility
- ▶ 3. Reduce carrying costs of unfunded liabilities



Options for Addressing Pension Costs

- ▶ 1. Pension Rate Stabilization Fund
- ▶ 2. Accelerated Amortization
- ▶ 3. Payoff Selected Liabilities
- ▶ 4. Create Lower Internal Discount Rate



Option #1 - Trust Fund

▶ Pros:

- City oversight of investments and risk control
- Assets to be used to offset unexpected increases
- Greater investment flexibility and risk diversification
- May address Net Pension Liability
- Rating agencies view positively
- Maximizes budget flexibility
- Can be used in conjunction with other options presented

▶ Cons:

- Funds must be used for pension costs – no pullback
- Still subject to market fluctuations

Objectives Met: 1, 2, 3



Option #2 - Accelerated Amortization of Unfunded Liabilities

- ▶ Pros:
 - Reduces interest cost of carrying liabilities at CalPERS
- ▶ Cons:
 - Reduces budget flexibility by locking-in higher required long-term payments which may be compounded when CalPERS earnings are below expectation

Objectives Met: 1, 3



Option #3 – Payoff Selected Liabilities

▶ Pros:

- Reduces interest cost of carrying unfunded liabilities at CalPERS
- Reduces on-going pension contributions

▶ Cons:

- Reduces budget flexibility by reducing available cash

Objectives Met: 1, 3



Option #4 – Establish an Internal Discount Rate to Set Contributions

▶ Pros:

- Increases amount of money allocated to pay down liabilities and/or stabilize rates

▶ Cons:

- Reduces budget flexibility by allocating financial resources to pensions

Objectives Met: 1, 2 3



Recommendations

- ▶ Establish a Pension Rate Stabilization Trust Fund with PARS (Adopt Resolution #17-0128)
- ▶ Appoint the City Manager as Plan Administrator
- ▶ Authorize the City Manager to negotiate and execute the final trust documents
- ▶ Authorize the transfer of \$500,000 in budgeted funds to the trust
- ▶ Assign responsibility and authority to the Finance Subcommittee to develop investment policy direct investments in the trust



PARS - Trust Administrator

- ▶ Leader in new segment of industry
- ▶ 75 public agencies using pension stabilization trust fund with PARS
- ▶ City experience with PARS for other retirement programs
- ▶ Low asset management costs



Trustee and Investment Advisor

- ▶ US Bank serves as trustee for PARS
- ▶ High Mark Capital Management serves as Investment Advisor
 - Preset investment options/objectives
 - Custom options as funds grow
 - Option to retain independent advisor at any time



Next Steps

- ▶ Establish Trust effective by end of fiscal year
- ▶ Investment Advisor to meet with Finance Subcommittee to develop investment and risk tolerance profile
- ▶ Fund trust with \$500,000 budgeted in FY 2016-2017
- ▶ Finance Subcommittee to develop investment policies specific to trust (60-90 days)



Questions

