

CSMFO
CalPERS Actuarial Issues

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Agenda

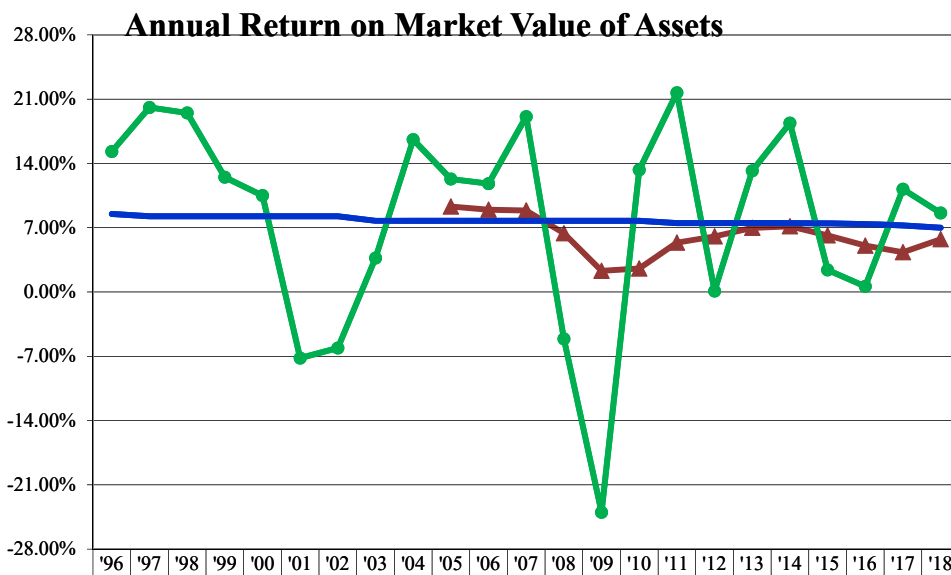
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How Did We Get Here?

- Investment Losses
- Enhanced Benefits
- CalPERS Contribution Policy
- Demographics



Historical Investment Returns



Enhanced Benefits

- At CalPERS, enhanced benefits implemented using all (future & prior) service
- Typically not negotiated with cost sharing

CalPERS Old Policy

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses
- Designed to:
 - First smooth rates
 - Second pay off UAL and
- Mitigated contribution volatility

Demographics

- Around the State
 - Large retiree liability compared to actives
 - Declining active population
- Common to have 60%-75% of liability for retirees

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Recent CalPERS Changes

- Contribution Policy
- Assumptions
- Discount Rate
- Risk Mitigation Strategy
- New Amortization Policy

Contribution Policy Changes

- No asset smoothing
- 5-year ramp up
- All amortization bases have fixed amortization periods
 - No rolling amortization
- June 30, 2013 Valuation (full impact 19/20 rates)
- Designed to:
 - First pay off UAL and
 - Second smooth rates

Assumption Changes

- Anticipate future mortality improvement
- Other, less significant, changes
- June 30, 2014 Valuation (full impact 20/21 rates)

Discount Rate Changes

- CalPERS Board adopted

	<u>Rate</u>	<u>Initial</u>	<u>Full</u>
● 6/30/16 valuation	7.375%	18/19	22/23
● 6/30/17 valuation	7.25%	19/20	23/24
● 6/30/18 valuation	7.00%	20/21	24/25

- December 2018: CalPERS Board selected asset allocation similar to current portfolio. No change to the discount rate.

Risk Mitigation Strategy

- Move to more conservative investments over time
 - Only when investment return is better than expected
- Lower discount rate in concert with investment allocation changes
- Essentially use $\approx 50\%$ of investment gains to pay for cost increases
- Likely reduces discount rate to 6% over ≈ 20 years
- Suspended until 6/30/18 valuation

Amortization Policy Changes

- New policy adopted February 2018
- Applies only to newly established bases
- June 30, 2019 valuation for 2021/22 contributions
- Fixed dollar rather than % pay amortization
- Gains/losses over 20 rather than 30 years
- 5-year ramp up (not down) for investment gains/losses
- No ramp up or down for other bases
- Minimizes total interest paid over time and pays off bases faster

Discount Rate

■ Combination of

● Expected Inflation	2.75%	2.00%
● Real Rate of Return (above inflation)	4.25	4.25
● Margin for Adverse Deviation	<u>0.00</u>	<u>0.00</u>
● Total	7.00%	6.25%

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League of California Cities Study

- Projected CalPERS Contribution Rates
- Projected Rates as % of General Fund Budget

CalPERS Projected Rates

- Generally higher if:
 - Mature City with large retiree liability
 - Enhanced formulas for Classic employees
- Generally lower if:
 - Younger City with small retiree liability
 - No enhanced formulas for Classic employees
- Implementation of an unenhanced 2nd benefit tier before PEPRA has very little impact on projected rates

CalPERS Projected Rates

- Projected rates adjusted for:
 - 6/30/17 Actual investment returns
 - Impact of 2nd tiers and PEPRA
- Not adjusted for:
 - Anticipated (by CalPERS outside investment advisors) lower investment returns
 - CalPERS Risk Mitigation Policy

2024/25 Contribution Rates¹

Cities/Towns		
Percentile	Miscellaneous	Safety
90th	18.8%	35.2%
75th	25.2	44.8
50th	30.8	54.0
25th	37.7	63.8
10th	43.0	76.0

¹ CalPERS projected rates adjusted for 6/30/17 actual investment return and PEPRA.

Percentile means x% of Cities have results that are higher than shown

2024/25 Contribution Rates¹

Mature Cities/Towns		
Percentile	Miscellaneous	Safety
90th	26.5%	49.0%
75th	31.2	54.1
50th	37.9	62.3
25th	42.9	72.8
10th	48.4	78.7

¹ CalPERS projected rates adjusted for 6/30/17 actual investment return and PEPRA.

Mature means retirees comprise 60% or more of the Miscellaneous and 65% or more of the Safety plan Actuarial Accrued Liability.

Percentile means x% of Cities have results that are higher than shown

2024/25 Contribution Rates¹

Cities/Towns with Enhanced Formulas		
Percentile	Miscellaneous	Safety
90th	25.4%	39.9%
75th	29.4	48.1
50th	35.0	56.0
25th	40.5	65.9
10th	45.3	76.2

¹ CalPERS projected rates adjusted for 6/30/17 actual investment return and PEPRA.

Percentile means x% of Cities have results that are higher than shown

2024/25 Contribution Rates¹

Special Purpose Districts		
Percentile	Miscellaneous	Safety
90th	12.4%	22.7%
75th	16.1	30.3
50th	21.5	40.6
25th	28.0	48.7
10th	35.0	56.3

¹ CalPERS projected rates adjusted for 6/30/17 actual investment return and PEPRRA.

Percentile means x% of Districts have results higher than shown

2024/25 Contribution Rates¹

Counties		
Percentile	Miscellaneous	Safety
90th	24.0%	40.7%
75th	26.2	42.2
50th	28.7	48.1
25th	32.4	54.5
10th	36.4	58.4

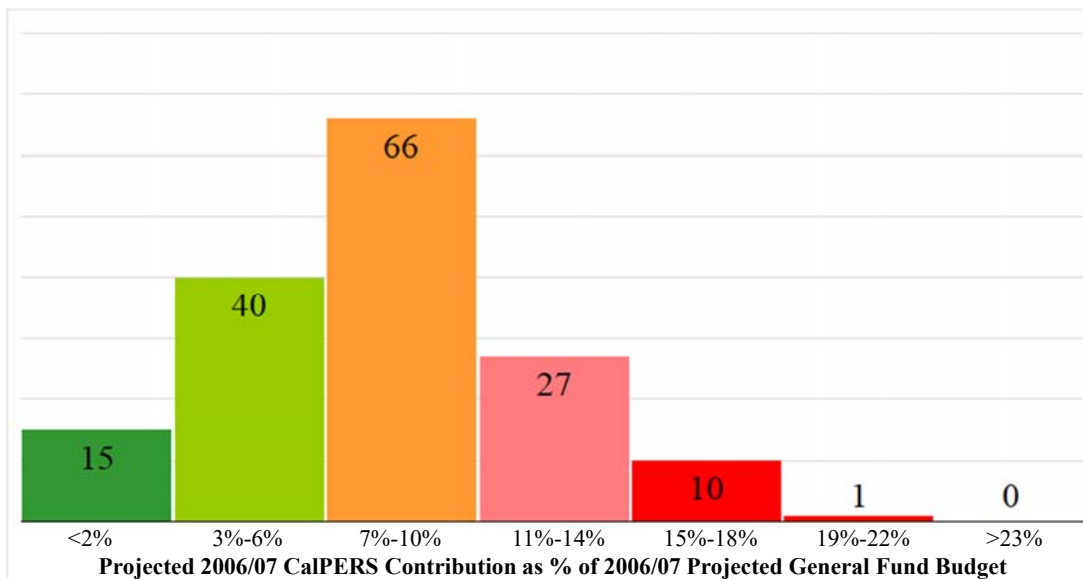
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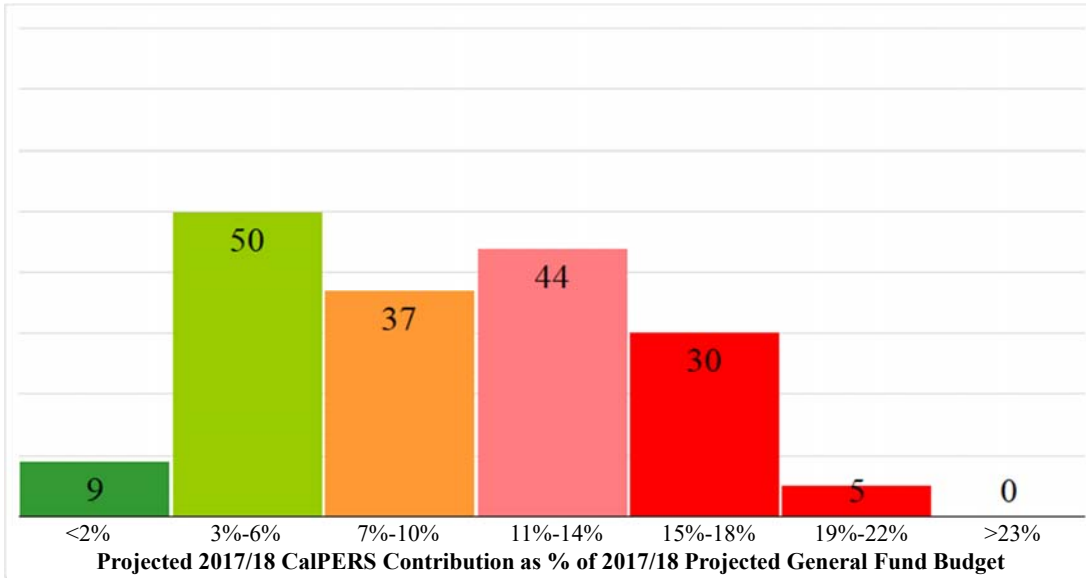
City GF Projection Assumptions

- 2006/07 and 2017/18:
 - General Fund budgets and CalPERS contributions from League survey data
- 2024/25 Projection:
 - GF budgets projected from 2017/18 assuming 3% annual growth
 - CalPERS contributions from CalPERS data adjusted for new tiers and 2016/17 investment gain
 - Assumes 100% of Safety contributions paid from GF
 - Misc GF contributions allocated on Misc % of GF payroll x projected positions / actual positions

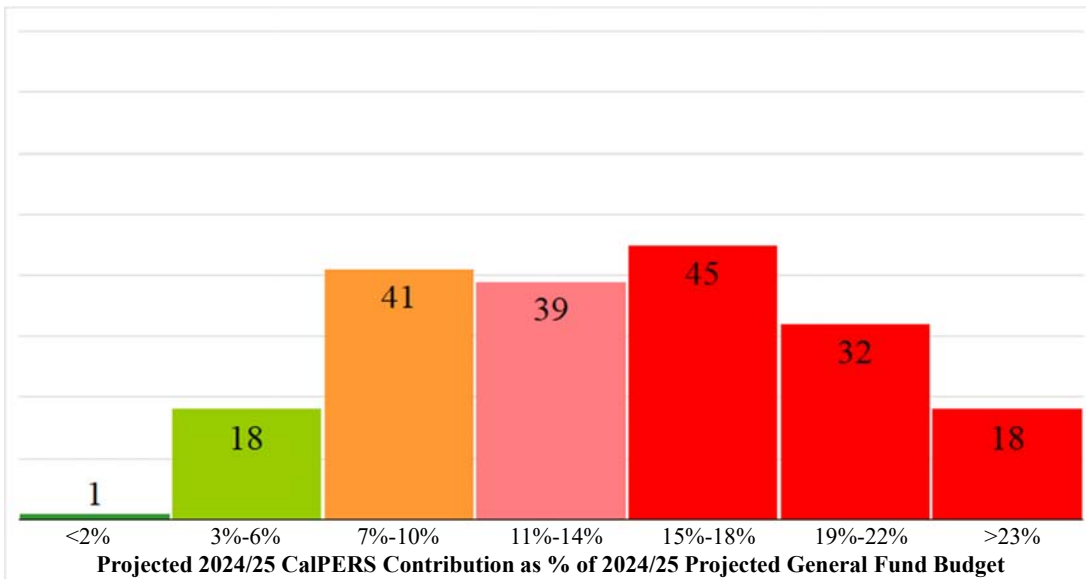
CalPERS Total City 2006/07 Contribution % GF Budget



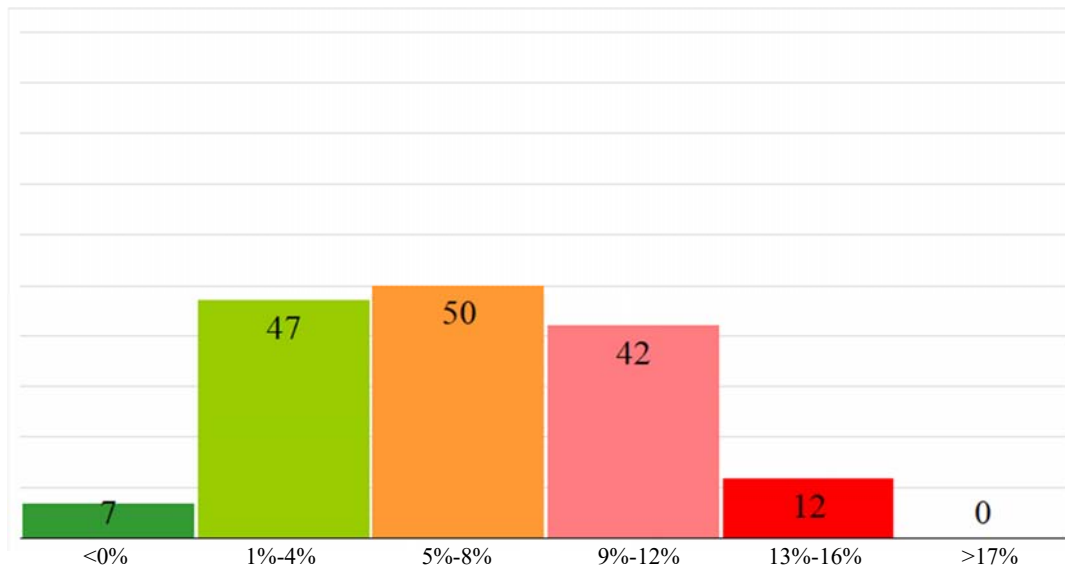
CalPERS Total City 2017/18 Contribution % GF Budget



CalPERS Total City 2024/25 Contribution % GF Budget



Percentage Point Increase in CalPERS Contribution as % of GF Budget From 2006/07 to 2024/25



Contribution % GF Budgets

Cities/Towns			
Percentile	2006/07	2017/18	2024/25
90th	2.0%	2.5%	6.1%
75th	3.8	4.6	8.5
50th	7.6	9.1	13.7
25th	9.8	13.2	18.2
10th	12.8	15.5	21.5
Average	8.3%	11.2%	15.8%

Percentile means x% of Cities have results that are higher than shown

Solutions?

Solutions Without Help

- Requires money
- Where do you get the money from?
 - Existing reserves
 - One time events
 - Pension Obligation Bonds

Solutions Without Help

- How do you use the money you have?
 - Give it to CalPERS
 - Establish an Internal Service Fund
 - Establish a §115 Supplemental Pension Trust

Solutions With Help

1. Get everyone to agree there is a problem
2. Get everyone to discuss solutions

Solutions With Help

- California Supreme Court
 - Individual Vested Rights aka the California Rule
 - Not likely to give much relief in the short run
 - Requires legislative changes even if Supremes change how we think of the California Rule
- California Legislature
 - Allow agencies to negotiate lower benefit accruals

Solutions With Help

- CalPERS Should allow hardship contribution rates:
 - If an agency declares “hardship”, allow lower contribution provided agency:
 - Specifies CalPERS rates will push agency into bankruptcy
 - Adopts resolution in open session

Solutions With Help

■ CalPERS Should Not:

- Increase discount rate or weaken contribution policy for all
- Allow withdrawal at discount rates higher than current settlement rate policy unless
 - It can be determined withdrawal will not impact System

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