

LA MESA

JEWEL OF THE HILLS

CalPERS Retirement Cost
Containment Strategies
Strategic Planning Workshop
March 29, 2018



Introduction



- 2017 Strategic Workshop – Council direction staff to look at ways to best utilize the Section 115 Retirement Trust Fund to our best advantage
- This presentation provides options for Council consideration

Strategic Objectives



- Maximize the earnings potential of the Section 115 Trust Fund by setting aside General Funds reserves and earning investment interest
- Use future Trust Fund balance of contributions and accumulated investment earnings to pay off portion of Unfunded Liability and reduce future CalPERS contribution amounts
- Preserve General Fund Reserves – additional contributions to Section 115 Trust Fund determined by Council as part of the Strategic Workshop

CalPERS Background



- Defined Benefit Plan
- La Mesa has two Plans
 - Miscellaneous (LMCEA members, Police non-sworn, Confidential, General Management, and Elected Officials)
 - Safety (Police Sworn, Police Management, Fire, Fire Management)
- Contributions determined by CalPERS through annual Actuarial Valuation process
- Nature of actuarial valuations – contribution amounts set for two years in the future based on current assumptions

Recent Significant CalPERS Actions



- Change in Contribution Methodology
 - Normal Cost
 - The cost of current employees' pension benefits
 - Paid as a percentage of payroll
 - Split between Employer portion and Employee portion
 - Unfunded Actuarial Liability (UAL)
 - The cost of retired employees' pension benefits
 - Paid as a lump sum independent of payroll amount
 - Employer paid only
 - Increases at greater rate than Normal Cost

Recent Significant CalPERS Actions



- Reduction in Discount Rate
 - In 2016, the CalPERS Board approved a reduction in the Discount Rate from 7.5% to 7.0%
 - Impact to Normal Cost rate phased in over three years beginning in 2018-2019
 - Impact to Unfunded Liability Fixed Contribution
 - Phased in beginning with 2018-2019 rates
 - Amortized over 20 years with biggest impact starting in 2020-2021
 - In 2018, voted to keep at 7.0%

Recent Significant CalPERS Actions



- Change in Amortization Policy
 - Shortens period in which agencies pay future gains and losses from 30-year smoothing to a 20-year straight line calculation
 - Affects future gains and losses in Unfunded Liability beginning 2019
 - First payments included in Unfunded Liability Payments beginning 2021
 - Impact unknown

Implications of CalPERS Changes for La Mesa



- Unfunded Liability Fixed Contribution is now fixed amount regardless of current payroll
- Unfunded Liability Fixed Contribution will remain at elevated levels for many years
- Impact of reduction in Discount Rate begins in 2018-2019
- Impact of change in Amortization of future gains and losses begins in 2020-2021

La Mesa Actions to date



- 2009 – Negotiated with employee groups to have employees pay for Employee share of retirement contribution (currently 8% for Classic Miscellaneous and 9% for Classic Safety)
- 2011 – Implemented Tier II Benefit plans for Miscellaneous, Police and Fire groups
- 2015 – Established Section 115 Retirement Trust Fund

Section 115 Retirement Trust

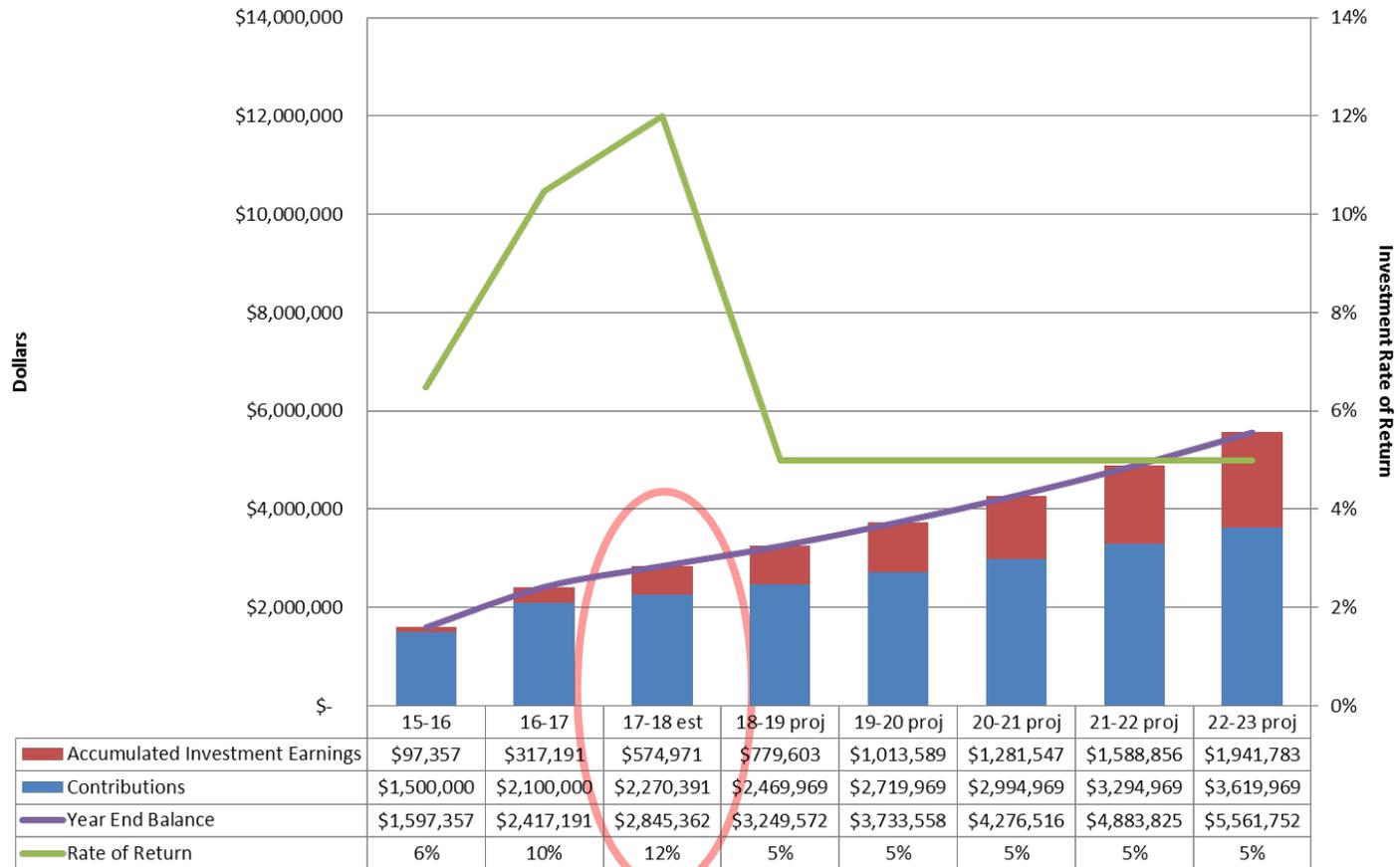


- Funds are legally restricted to Pension-related activities
- Contributions of \$1.5 million in 2015-2016 and \$600,000 in 2016-2017
- Contribution of \$170,391 in 2017-2018 (Annual Unfunded Liability Prepayment Option Discount)
- Future contributions using same Prepayment Option Discount
- Investments held in irrevocable trust invested independent of City Funds - current annual investment rate of return is 12%

Section 115 Retirement Trust



**Section 115 Retirement Trust Fund Balance Summary
Projected Balance at 2023
Current Strategy - Annual UAL Prepayment Discount Contribution**



CalPERS Pension Contributions Long-Term Forecast



- Reductions in the Discount rate cause contribution amounts to ramp up starting 2018-2019 through 2023-2024
- Contribution amounts at highest levels between 2024-2025 through 2034-2035
- Contribution amounts begin to decrease beginning 2036
- Eventually Unfunded Liability reduced to zero, with only Normal Cost for PEPPRA members

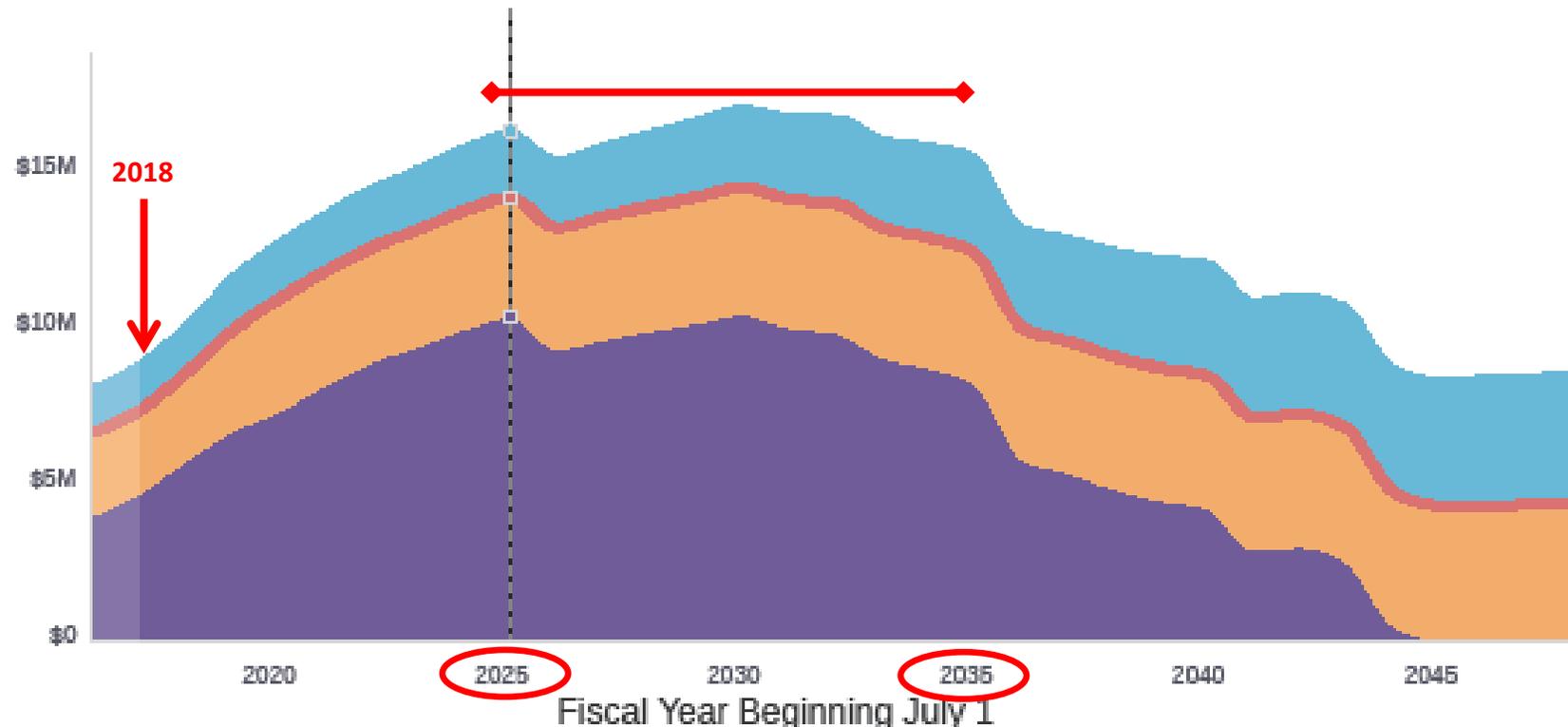
CalPERS Pension Forecast Without Additional Contributions



This graph shows the main components of your annual pension costs.

in year 2025:

Unfunded Liability Contribution	Employer Normal Cost	Employee Contribution	Total Employer Contribution
\$10.29M	\$3.79M	\$2.15M	\$14.09M



The best time to use the Section 115 Trust Funds

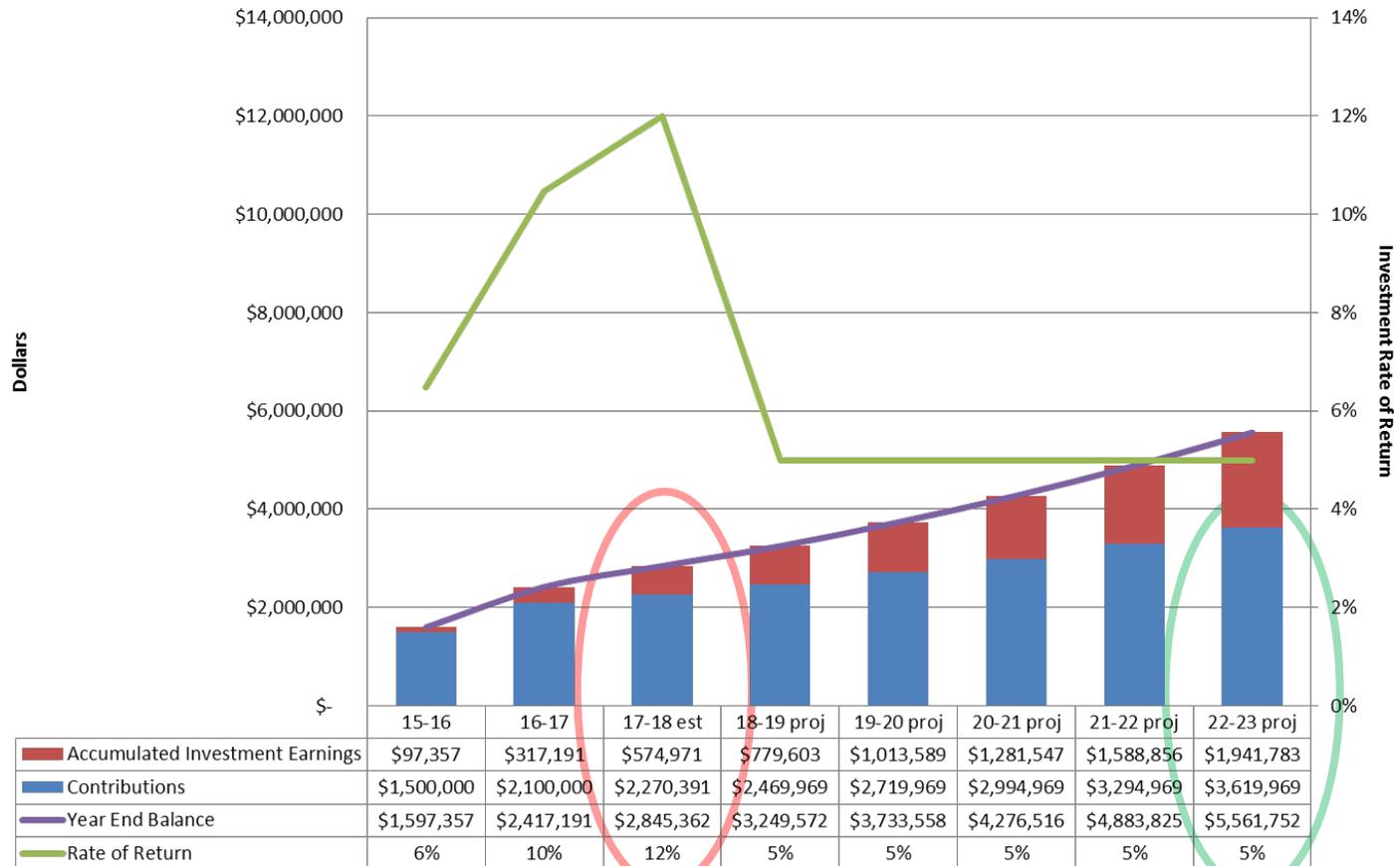


- Must make one-time payment to Unfunded Liability two years before we see savings
- Recommend making one-time payment in 2023 to begin seeing benefit in 2025 (start of high point of pension payments)
- Section 115 Trust Fund will have had 5 years of earnings potential
- How much one-time payment to make?
 - Balance in Section 115 Trust Fund by 2023
 - The larger the payment, the better benefit

Section 115 Retirement Trust



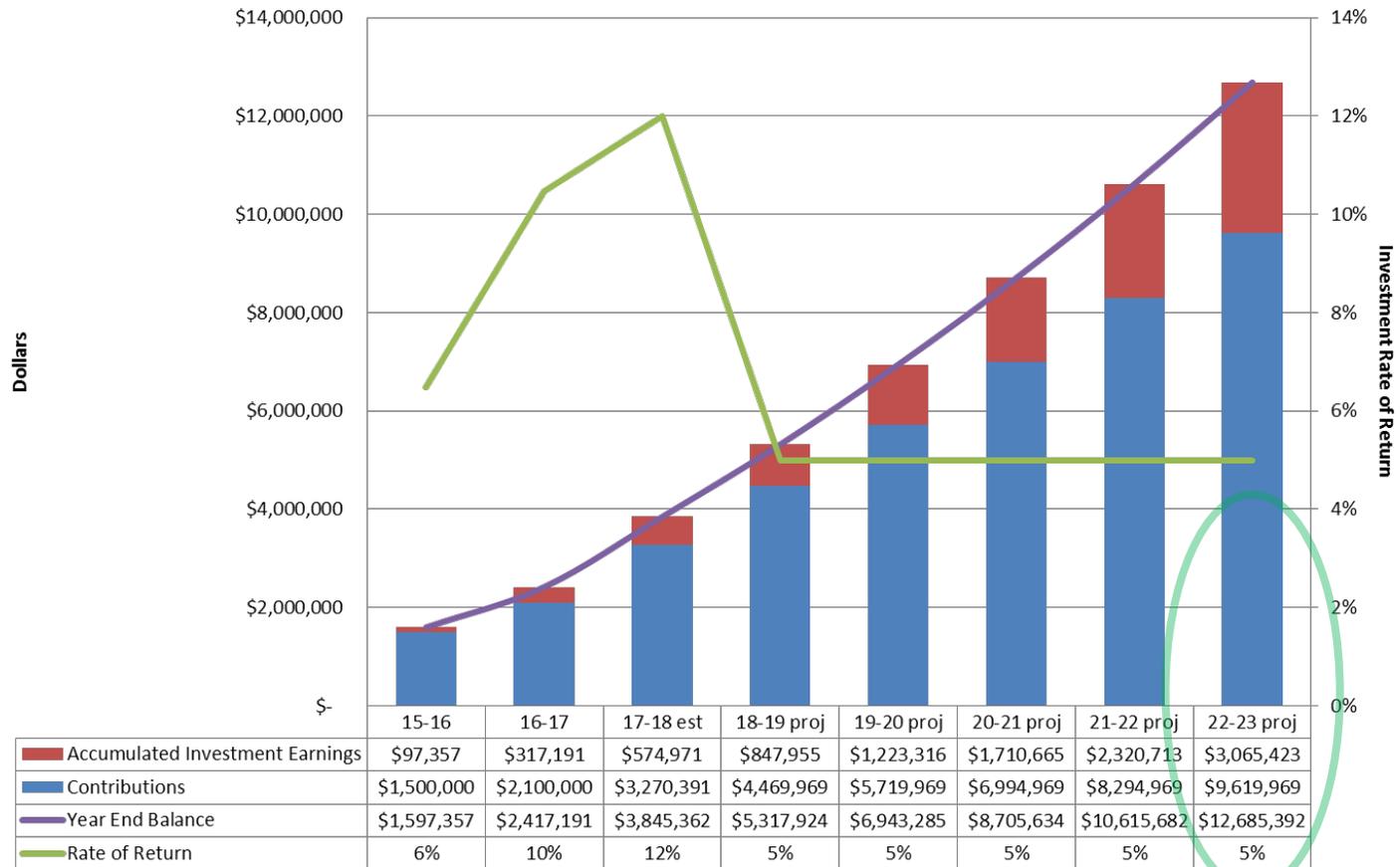
**Section 115 Retirement Trust Fund Balance Summary
Projected Balance at 2023
Current Strategy - Annual UAL Prepayment Discount Contribution**



Section 115 Retirement Trust



Section 115 Retirement Trust Fund Balance Summary
Projected Balance at 2023
Current Strategy plus additional \$1 Million each year beginning 2017



Impact of One-time Payment to Unfunded Liability



One Time Payment to PERS in 2023		
	\$5 Million	\$10 Million
Structural Budget Surplus/(Deficit)		
2019	(\$2.5 million)	(\$3.5 million)
2022	(\$2.5 million)	(\$3.5 million)
2025	(\$935 thousand)	(\$364 thousand)
2028	\$2.4 million	\$3.1 million
Ending Reserves		
2019	\$27.4 million (55%)	\$25.4 million (50%)
2022	\$19.6 million (36%)	\$14.6 million (27%)
2025	\$15.2 million (27%)	\$11.3 million (20%)
2028	\$19.8 million (35%)	\$17.7 million (32%)
Annual Pension Payment		
2019	\$8.2 million	\$8.2 million
2022	\$11.3 million	\$11.3 million
2025	\$12.4 million	\$11.8 million
2028	\$12.0 million	\$11.4 million
Total PERS Savings through 2051	\$16.23 million	\$25.74 million

Additional Contributions to the Section 115 Retirement Trust Fund



- Benefits
 - Council can provide direction each year
 - Advantage of compound investment earnings
 - Funds are under City control, and not CalPERS control
 - Long-term savings in contribution amounts
- Risks
 - Additional contributions reduces General Fund Reserves
 - Downturn in the market – is a risk for all alternatives, regardless of location of funds (e.g. Trust, CalPERS, etc.)
 - Future actuarial losses and changes to CalPERS plan make current strategies obsolete

Policy Direction



- Continue with the existing contributions to the Section 115 Trust Fund using the Prepayment Option Discount method without additional contributions

Or

- Authorize a \$1 million contribution from General Fund Reserves to the Section 115 Retirement Trust Fund in the current year with additional \$1 million annual contributions in future forecasts for Council consideration each year

Or

- Authorize more than \$1 million in the current year as a one-time contribution from General Fund Reserves to the Section 115 Retirement Trust Fund