Why Cities are on the Frontline of the Pension Crisis

Yuba City CalPERS Workshop, 09/19/2019

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Agenda

- Why Cities are on the Front Lines of the Pension Crisis?
- CalPERS 101: Key Terms
- Challenges Ahead:
  - Why is FY 24-25 So Important?
  - Key Findings from the 2018 League of California Cities Pension Sustainability Study
  - By the Numbers
  - PPIC Data Key Findings
- Political Realities
- What Cities can do Today
- Current Legislation
- Legislative and CalPERS Trends 2020 and Beyond
- Q & A/ Discussion

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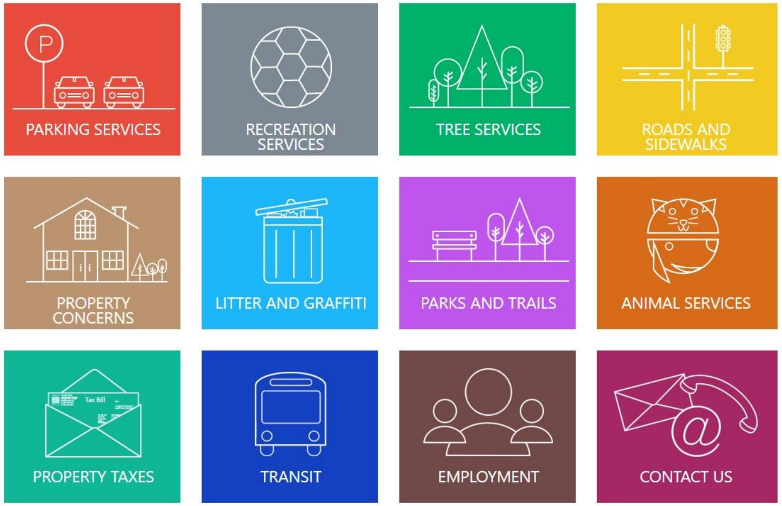
Why are Cities on the Frontline?

- Cities provide the most direct public services to residents (e.g. most employees—highest level of payroll to general fund ratio).
- Cities face future revenue issues. (Sales tax allocation, e-commerce)
- Cities receive little to no revenue from the state (Lost RDA's and are not subsets of the state like counties).
- Regional pressures to attract and retain talent
- City versus state percentage of budget
- For cities, its not about year 30. Its about today and the next decade ahead.



CalPERS 101: Key Terms

- The Pension Buck: The amount of every dollar paid out in retirement broken down by funding source

Discount Rate: Equals the minimum amount that the CalPERS investment team **must** earn to meet the "Pension Buck" breakdown. If they miss the mark—the employer picks up the difference. This rate is projected up to 30 years in the future. Current rate is 7.00%

CalPERS 101: Key Terms Cont.

- *PERF:* Public Employee Retirement Fund (3,000 employers pool their contributions into the fund—primary source of retirement dollars)
- *Amortization:* Is the amount of time that either gains or losses are spread over a period of time (think 30-year mortgage versus a 20 year mortgage). Recently, CalPERS changed this *from* 30 years *to* 20.
- *Actuarial Assumptions:* Mathematical/ statistical assumptions on a variety of information that dictate the rates paid by public employers and employees (Life expectancy, number of FTE's, market rate assumptions etc.)
- *Terminated Agency Pool (TAP) Fund*: A separate fund from the PERF where employers who exit the system, either voluntarily or involuntarily are moved. Agencies are assessed at a 3.00% discount rate **(The lower the rate, the higher an agencies unfunded liability)**.

Challenges Ahead: Why is FY 24-25 So Important ?

Discount Rate Phase in Timeline (Local Agencies)	
Fiscal Year	**Fractions of Rates**
18-19	1/5 of 7.375
19-20	2/5 of 7.375 and 1/5 of 7.25
20-21	3/5 of 7.375, 2/5 of 7.25, 1/5 of 7.00
21-22	4/5 of 7.375, 3/5 of 7.25, 2/5 of 7.00
22-23	**Full impact of 7.375, 4/5 Impact of 7.25, 3/5 impact of 7.00**
23-24	**Full Impact of 7.375, Full Impact of 7.25, 4/5 Impact of 7.00**
24-25	**Full impact of 7.375, full impact of 7.25, Full Impact 7.00**

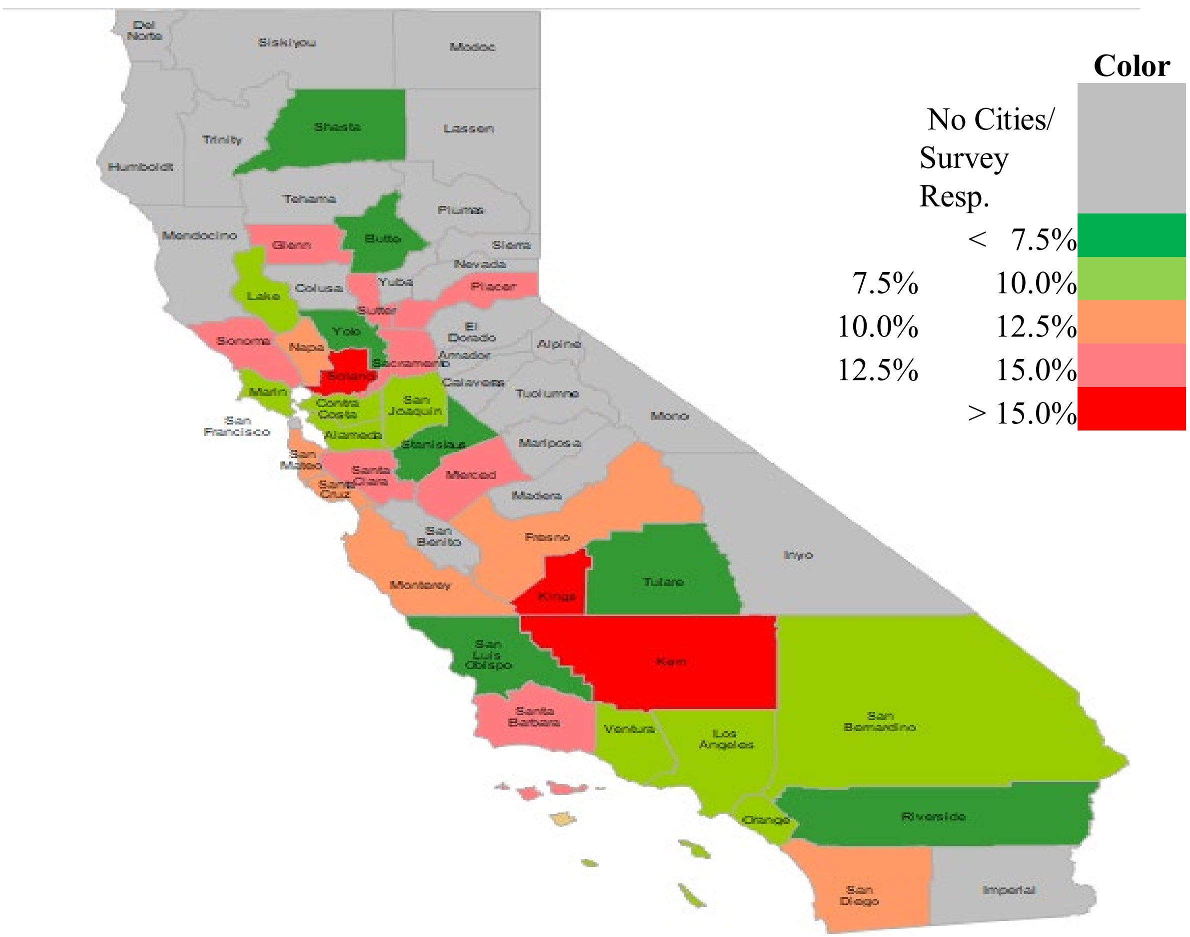
Discount Rate Reduction + Submarket Returns + Shorten Amortization Period + Decline in Revenues = Spike in contribution rates, reduction of services and more.

Challenges Ahead League of Cities Pension Study: Key Findings

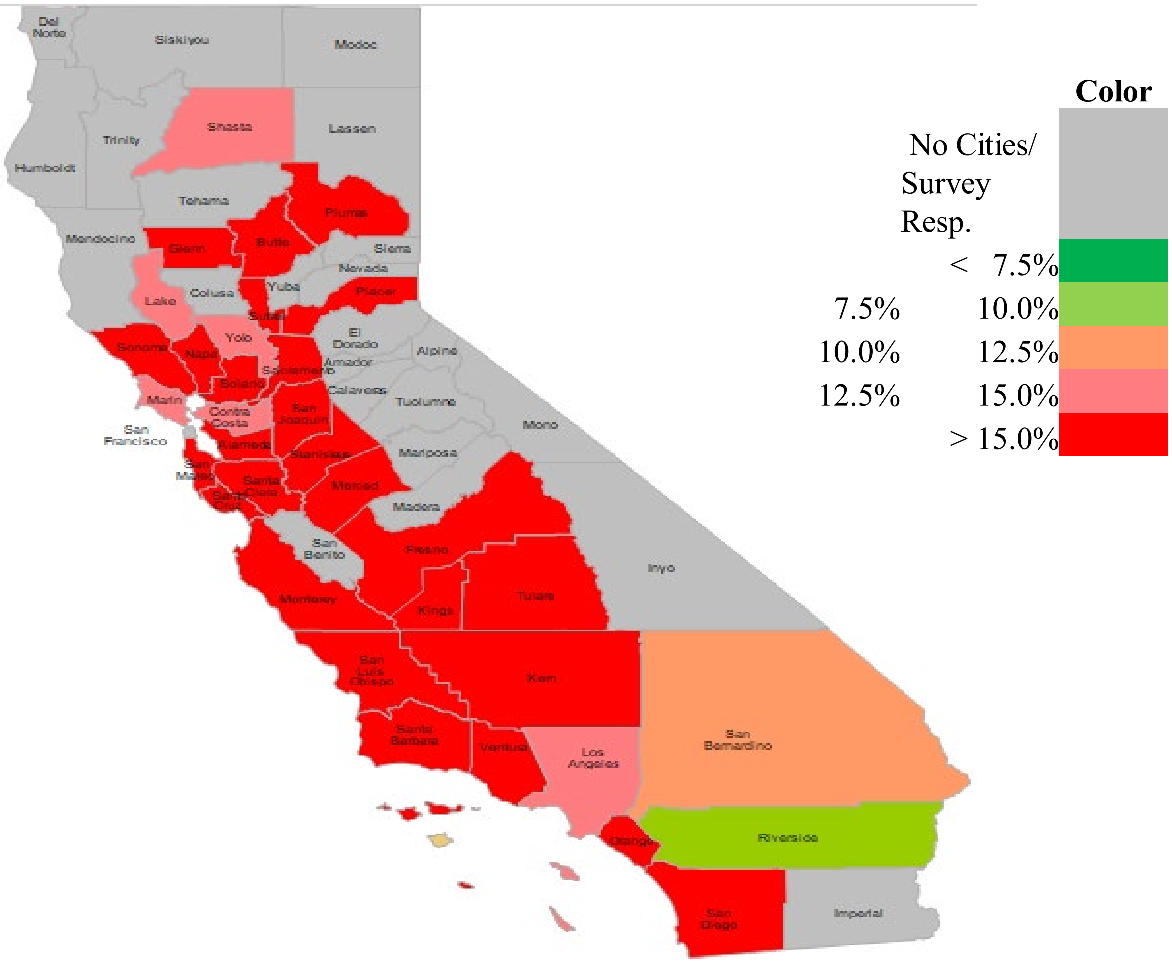
- City respondents (196 valid responses) Averages displayed by County
- Average General Fund Projections FY 06/07, FY 17/18, FY 24/25
- Percentage of payroll Increases FY 17/18, FY 24/ 25
  - Miscellaneous Employees
  - Public Safety

Note: Data currently being collected. Updated study to be released early 2020. **PLEASE FILL OUT SURVEY**

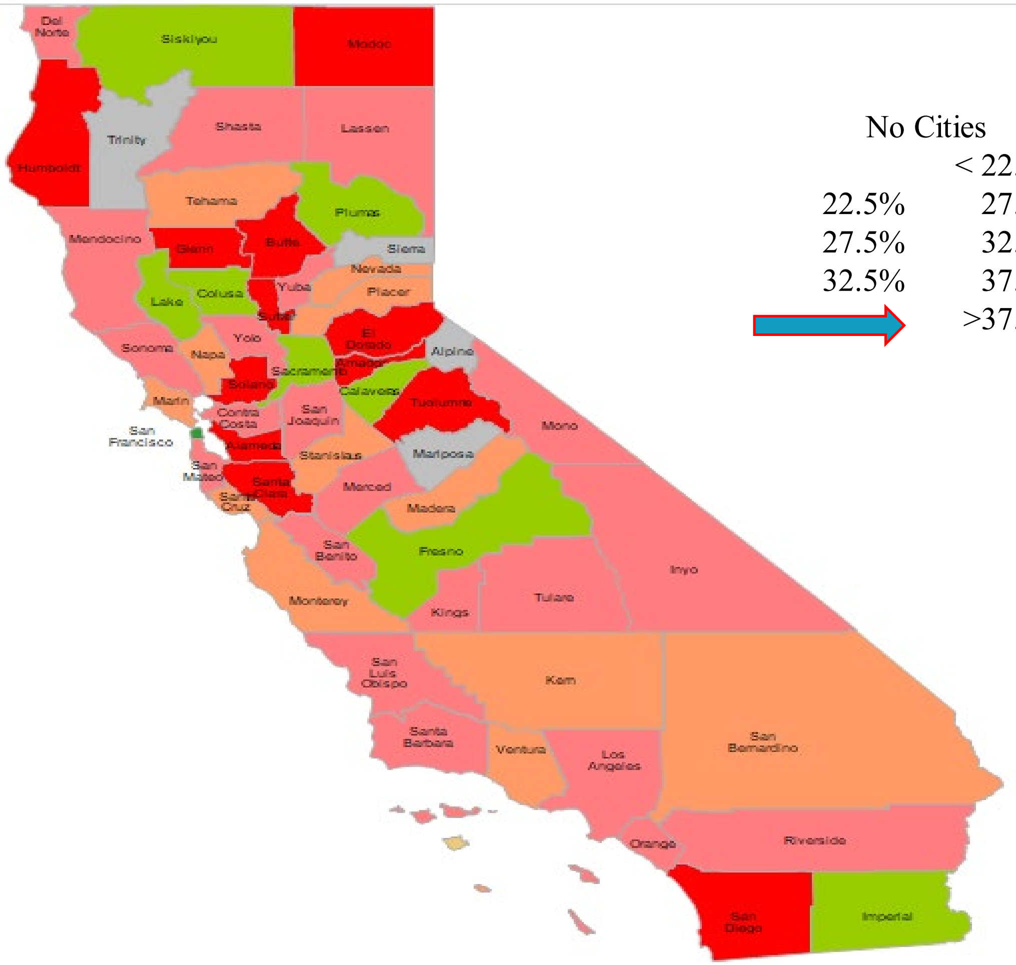
CalPERS City 2017/18 Contr. As % GF Budget By County



CalPERS City – Projected 2024/25 Contr. As % GF Budget By County



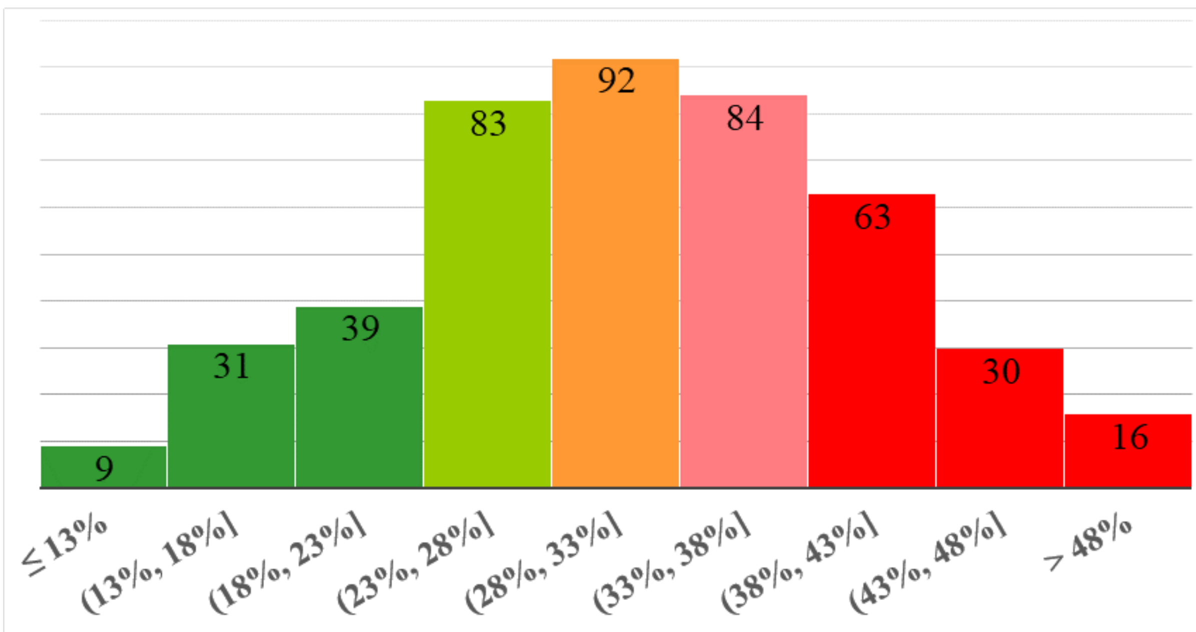
CalPERS City Miscellaneous 2024/25 Projected Rates By County



		Color
No Cities		
	< 22.5%	
22.5%	27.5%	
27.5%	32.5%	
32.5%	37.5%	
	>37.5%	

League Pension Survey: Key Findings

Miscellaneous Employees: In the fiscal year 2024-2025, a majority of city respondents' contributions will increase by over 29% of their payroll towards miscellaneous employee pension costs, with some employers paying over 49% of payroll**.** This means for every $100 in salary, the majority of cities will **pay an additional $29 to $49** or more to CalPERS for pensions alone. **Note**: These figures do not include costs associated with retiree healthcare.



2024/25 CalPERS Projected Contribution as % of Projected Payroll

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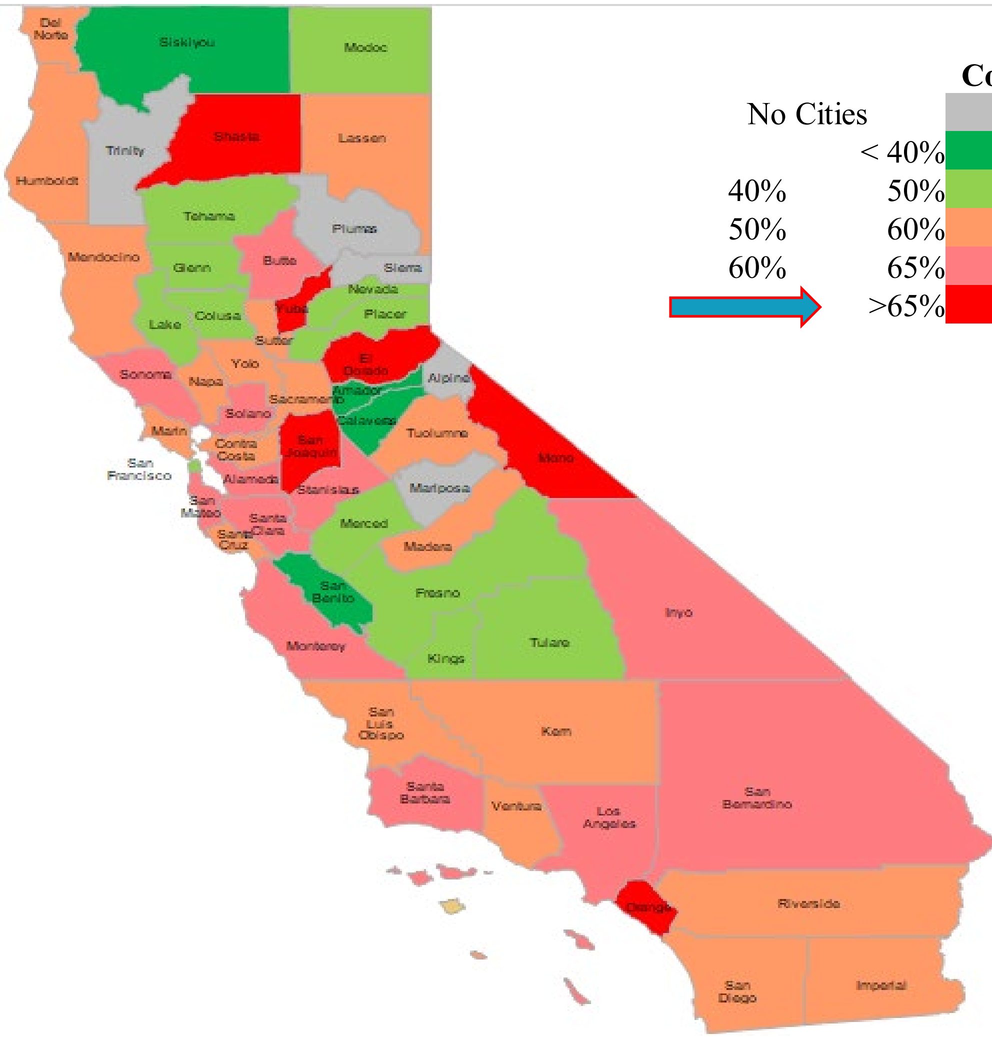
CalPERS City Safety
2024/25 Projected Rates By County



	Color
No Cities	
< 40%	
40% 50%	
50% 60%	
60% 65%	
>65%	

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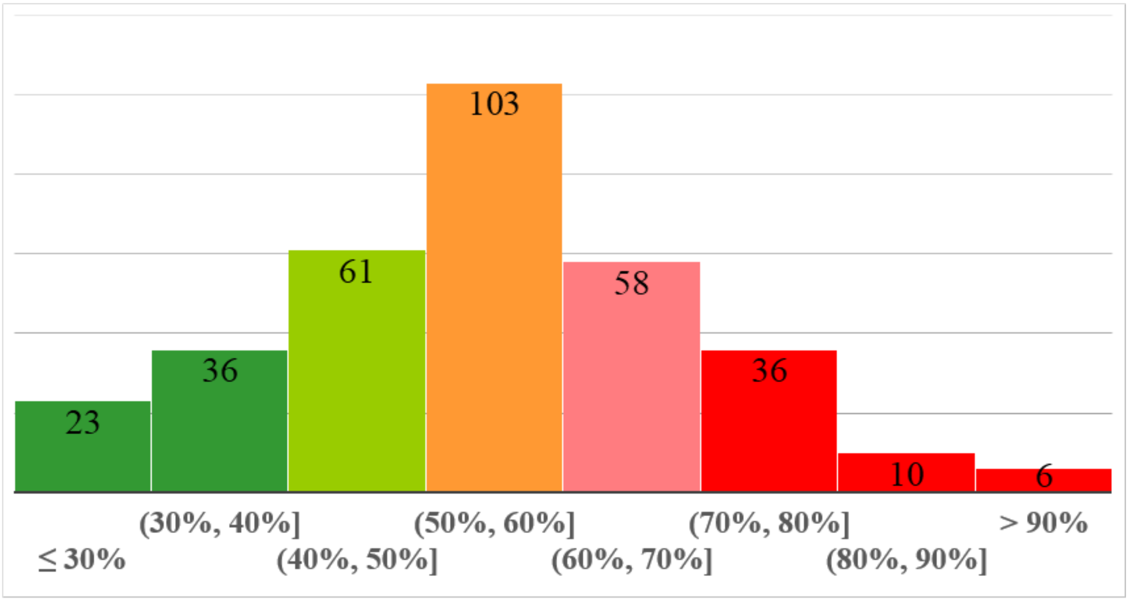
League Pension Survey: Key Findings

Safety Employees. 2024-2025 a majority of city respondents' contributions will increase by 51% to over 91% of payroll towards pension costs. In other words, for every $100 in salary, the majority of cities would **pay an additional $51 to $91** to CalPERS for pensions alone. Note: These figures do not include costs associated with retiree healthcare.



2024/25 CalPERS Projected Contribution as % of Projected Payroll

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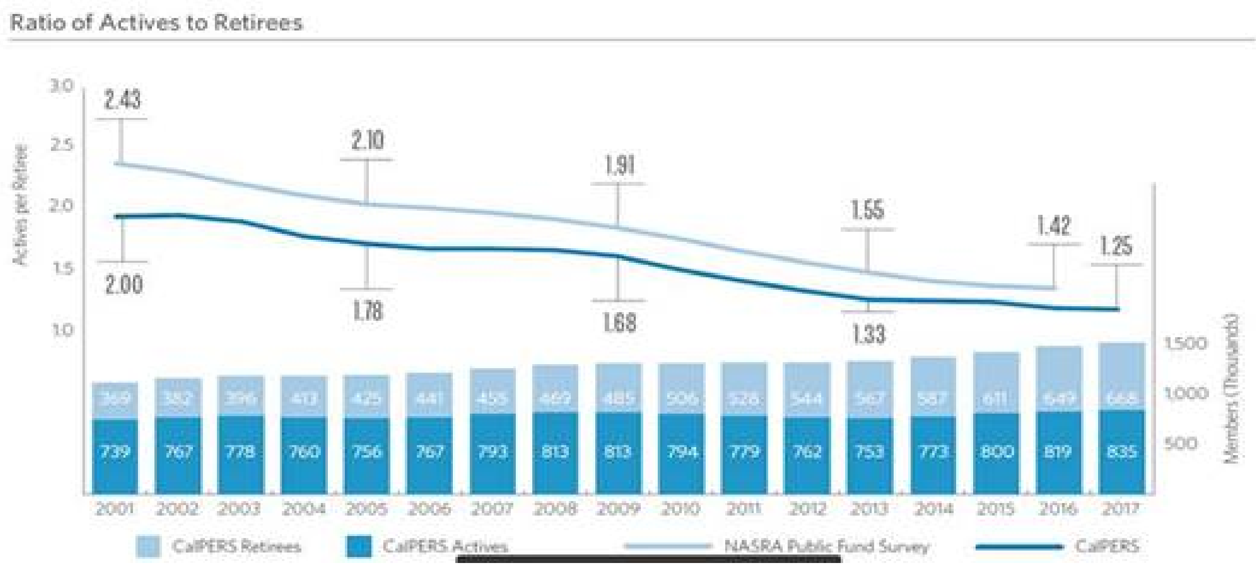
Challenges Ahead: By the Numbers

By the Numbers. According to CalPERS:

- In 2001 there were two active workers for every retiree.
- In 2017 there were 1.25 active employees for every retiree
- It is projected that within the next 10-20 years there will be 0.6 workers for every retiree

Source: ***[(CalPERS 2018 Annual Review of funding levels and Risk Report, November, 2018).]***



PPIC Californians and Their Governments Re: Public Sector Pension Costs

Released March, 2019

- 63 Percent of adults believe the amount of money being spent on public employer pension or retirement systems is a big problem (29%) or somewhat of a problem (35%)
- 69 percent of likely voters feel the same:
  - 34% (Big Problem)
  - 35% (Somewhat of a Problem)

Despite that, these numbers are still a record low (By “Adult” Percentage):

- January 2005 72%
- January 2010 76%
- March 2011 79%
- December 2011 83%
- September 2015 68%

Political Realities

- Currently, very limited "political will" to address the problem in Sacramento—Housing is the "Shiny Object"
- Pending Litigation Re: Vested Rights (Could take multiple years for a resolution).
- Politically charged issue with multiple stakeholders.
  - Public Sector Unions
  - Retiree Groups
  - Local Government
  - Tax Payers Associations
  - Chambers of Commerce
  - Placement Agents
- Two very big misperceptions
  - PEPRA "fixed" the problem.
  - The State is doing well that means Locals are too.

What Can Cities do today?

Limited Options:

Under current law, the toughest decisions will be made locally. Each agency will need to make their own decisions on how to use best practices to stabilize their budgets.

- Identify New Sources of Revenue (political resistance, voter approval)
- Reduce Active Employee Healthcare and other Plan Benefits (OPEB)
- Review Services and Staffing Models (regional approach to service delivery)
- Establish Rate Stabilization 115 Trust and/or UAL Pre-Payments (Need capital to invest)
- Reduce UAL Amortization Period (Drives up short term costs)
- Issue POB (Not recommended by GFOA)

2019 Current Legislation

PERS Specific

- SB 266 (Leyva) Disallowed Compensation **(Double pay) (HOT BILL) (DEAD)**
- AB 33 (Bonta) Divestment from Private Prison Industry **(DEAD)**
- AB 1320 (Nazarian) Divestment from the Turkish Government **(Governor's Desk)**

Note: According to CalPERS Divestments have cost the pension fund 10 billion dollars or more in lost earnings

Other Measures of Concern (Workers' Compensation):

- SB 542 (Stern) PTSD Presumptions Police and Fire (IDR Concerns) **(Governor's Desk)**
- AB 932 (Low) Workers Compensation Off Duty Fire Fighters (Claim increases) **(DEAD)**
- AB 1332 (Bonta) Sanctuary State Investment Act (Anti-Contracting) **(DEAD)**
- AB 1400 (Kamlager-Dove) Presumptions non-sworn fire **(Removed OPP)**

Legislative/ CalPERS Trends 2020 and Beyond

California Legislative Trends (Retirement Space)

Lawmakers will continue to introduce measures that impede CalPERS’ ability to maximize investment returns and add significant cost to employers. Look for measures that restrict local agency budget discretion, drive up operational cost and shift liabilities to employers.

- Divestment Measures
- Benefit Enhancement Measures
- Anti-Contracting Measures
- Reserve Cap Measures

CalPERS Board of Administration Trends

- Lagging Returns (Av. 6.2% over 10. Target is 7.00%)
- Higher Employer Contributions Required
- Will Continue to see Increased CalPERS Employer Audits
- Major Ramp up on “Common Law” Employee Determinations
- BOA will see more turnover—This present more opportunities for engagement
- Continued Focus on Investments/ Strong Against Divestment

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Questions/ Discussion