



# CalPERS Unfunded Liabilities What are our Options?



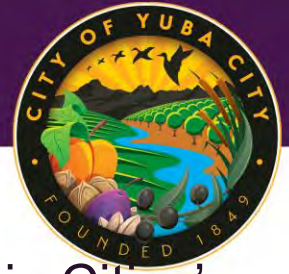
**Dave Shaw, Councilmember**  
**November 21, 2019**

# Topics Covered



- August 15
  - Review of City's Actuary Reports by Finance Director Robin Bertagna
- Guests:
  - Laura Nicholson, Senator Jim Nielsen's Office

# Topics Covered



- September 19
  - Speaker Dane Hutchings regarding League of California Cities' perspective and update of the City's Unfunded Liability
- October 10
  - Actuary from CalPERS will attend for discussion and questions
  - David Teykaerts | Stakeholder Strategy Manager
  - Kurt Schneider | Supervising Pension Actuary

# What's next



- November 21
  - Discussion: Recommendations and Solutions, led by Councilmember Shaw
- December 19
  - Wrap-up and Next Steps, led by Mayor Harris

# Reading Material Online



Located on the City's Website: [www.yubacity.net](http://www.yubacity.net)

1. City Manager Department Pension Sustainability Working Group White Paper
2. CalPERS Actuarial Reports as of June 30, 2017, including bargaining unit plans
3. August 10, 2018 Memorandum regarding CalPERS Unfunded Liabilities from 06/30/17 Actuary Reports including attached summary of Unfunded Actuarial Liabilities (UAL)

# Reading Material



4. CalPERS Unfunded Liabilities and Funding Strategy Staff Report to City Council dated September 18, 2018
5. CalPERS Unfunded Liabilities and Funding Strategy Presentation with Talking Points to City Council dated September 18, 2018
6. CalPERS Prepayment Option Analysis after Additional Discretionary Payment in September 2018

# Reading Material



7. CalPERS Prepayment Option Analysis from July/August 2018 Actuarial Reports
7. PERS cost Projection Analysis Using July 2018 Actuarial Reports
8. June 30, 2017 and June 30, 2018 Actuarial Report Analysis Comparing 30 Year, 20 Year, and 15 Year Amortization
9. Summary of Projected Hypothetical Termination Liability to Leave CalPERS

# Two Locations for Handouts – Home Page Calendar:



The screenshot shows the City of Yuba City website's calendar page. The navigation bar includes links for Home, How Do I?, Community, Doing Business, City Hall, Online Services, Events, City Council, and search options. The main content area is titled "Calendar" and features the "YUBA CITY" logo. A calendar entry for "PERS COMMUNITY WORKSHOP" is displayed, including the date and time (July 18, 2019, 6:00 PM to 7:00 PM) and the location (City Hall, Council Chambers, 1201 Civic Center Blvd, Yuba City). The description field is empty. The "ATTACHMENTS" section is circled in red and contains two files: "PERS.7.2019.png" and "Yuba City PERS Workshop Hand-outs.pdf". Other elements include an "EXPORT EVENT" button, a "DOWNLOAD ALL" button, and a "Back" button. The footer contains links for "About Yuba City", "City Council", "ADA Compliance", "Adopt-A-Pet", "Records Request", and "eAlerts Sign-Up". The Windows taskbar at the bottom shows the date as 7/18/2019 and the time as 2:48 PM.



# The Video and Handouts are on Council Agenda and Minutes Page



Home How Do I? Community Doing Business City Hall Online Services Events City Council

- Activity Guide
- Pay Bill
- 311 Requests
- Jobs
- Conserve
- eAlerts

## Council Agenda & Minutes

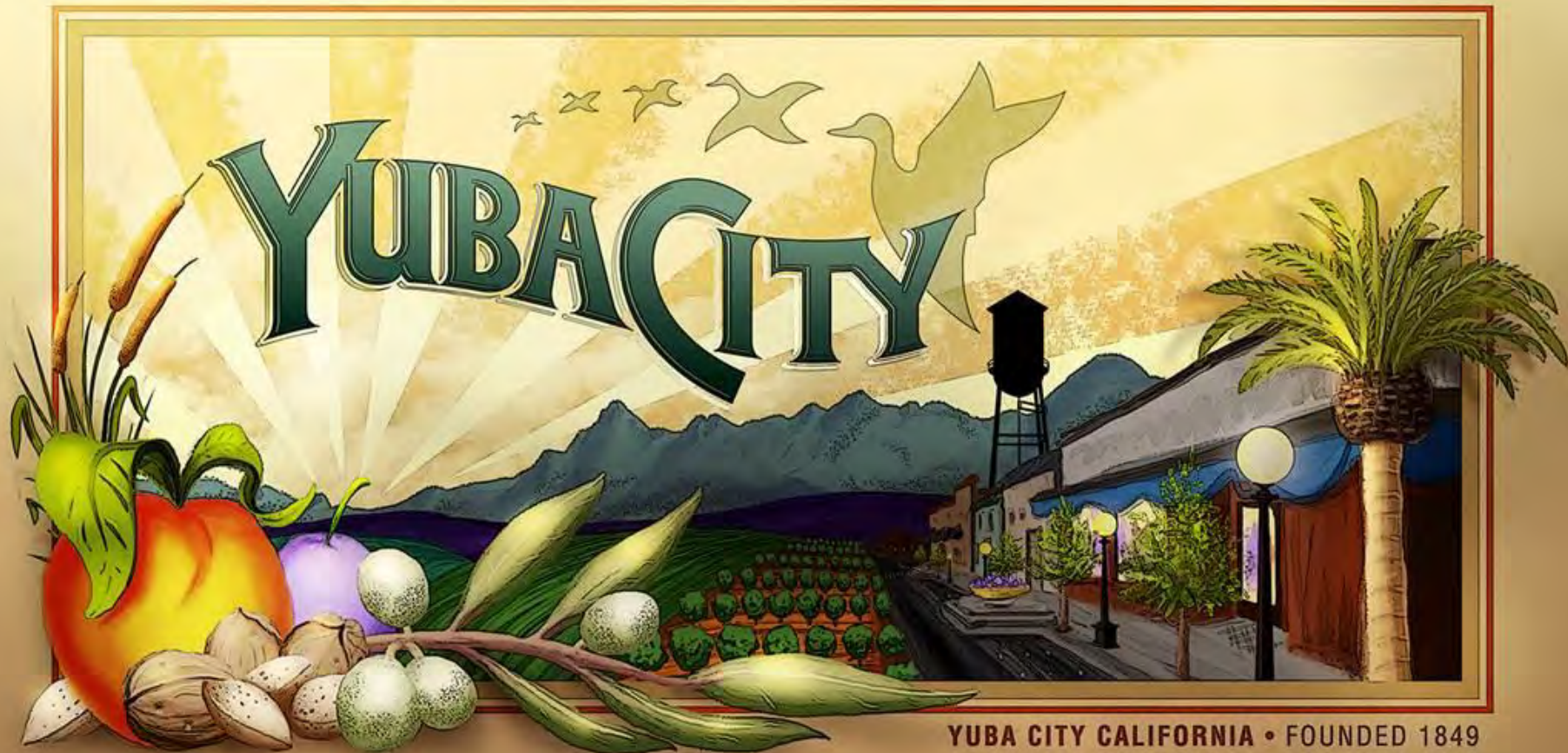
City of Yuba City / City Hall / Boards & Commissions / Parks & Recreation Commission / Agenda & Minutes / Council Agenda & Minutes



Welcome to your City Council Meetings

2019	2018	2017	2016	2015	2014
<b>July</b>					
<b>Date</b>	<b>Downloads</b>				
07/16/2019	<a href="#">View Online</a>	Agenda Packet	Presentations	Video	
07/15/2019	<a href="#">View Online</a>	Agenda	Closed Session		
07/02/2019	<a href="#">View Online</a>	Agenda	Canceled		
07/01/2019	<a href="#">View Online</a>	Agenda Packet			
June					
May					
April					
March					
February					

# YUBA CITY



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# Unfunded Liabilities Update



	<b>6/30/2016</b>	<b>6/30/2017</b>	<b>Change</b>
Assets	\$ 171,871,161	\$ 187,910,092	\$ 16,038,931
Liabilities	\$ (245,205,988)	\$ (258,279,864)	\$ (13,073,876)
UAL	<u>\$ (73,334,827)</u>	<u>\$ (70,369,772)</u>	<u>\$ 2,965,055</u>

# Options considered during the process



- Consider taking action against CalPERS
- Require more from the employees
- Pull out of CalPERS
- Assemble a unified group to address the issue with State Leadership



# Unfunded Liabilities Update



## Pension Liabilities FYE 6-30-17, Actuarials Dated August 2018

	Safety Tier 1	Safety Tier 2	Safety Tier 3-Fire	Safety Tier 3-Police	Safety PEPRA-Fire	Safety PEPRA-Police	Miscellaneous	Pension Stabilization Trust Fund
Assets	\$ 49,508,910	\$ 51,587,742	\$ 436,863	\$ 795,991	\$ 272,242	\$ 326,688	\$ 84,981,656	\$ 2,615,658
Liabilities	\$ 72,115,503	\$ 65,491,485	\$ 443,479	\$ 827,652	\$ 284,612	\$ 342,019	\$ 118,775,214	
Unfunded Liability	\$ (22,606,593)	\$ (13,903,743)	\$ (6,616)	\$ (31,561)	\$ (12,370)	\$ (15,331)	\$ (33,793,558)	
% Funded	68.7%	78.8%	98.5%	96.2%	95.7%	95.5%	71.5%	
<b>Total Unfunded Pension Liabilities 6-30-17</b>								<b>\$ 70,369,772</b>

## Pension Liabilities FYE 6-30-18, Actuarials Dated July 2019

	Safety Tier 1	Safety Tier 2	Safety Tier 3-Fire	Safety Tier 3-Police	Safety PEPRA-Fire	Safety PEPRA-Police	Miscellaneous	Pension Stabilization Trust Fund
Assets	\$ 49,201,548	\$ 57,114,497	\$ 647,657	\$ 1,156,516	\$ 654,127	\$ 630,383	\$ 90,520,869	\$ 2,800,837
Liabilities	\$ 74,694,257	\$ 73,773,713	\$ 683,935	\$ 1,243,749	\$ 699,078	\$ 683,672	\$ 127,371,922	
Unfunded Liability	\$ (25,492,709)	\$ (16,659,216)	\$ (36,278)	\$ (87,233)	\$ (44,951)	\$ (53,289)	\$ (36,851,053)	
% Funded	65.9%	77.4%	94.7%	93.0%	93.6%	92.2%	71.1%	
<b>Total Unfunded Pension Liabilities 6-30-18</b>								<b>\$ 79,224,729</b>

## Changes in Values 6-30-17 to 6-30-18 Valuation Reports

	Safety Tier 1	Safety Tier 2	Safety Tier 3-Fire	Safety Tier 3-Police	Safety PEPRA-Fire	Safety PEPRA-Police	Miscellaneous	Pension Stabilization Trust Fund
Assets	\$ (307,362)	\$ 5,526,755	\$ 210,794	\$ 360,525	\$ 381,885	\$ 303,695	\$ 5,539,213	\$ 185,179
Liabilities	\$ 2,578,754	\$ 8,282,228	\$ 240,456	\$ 416,197	\$ 414,466	\$ 341,653	\$ 8,596,708	
Unfunded Liability	\$ 2,886,116	\$ 2,755,473	\$ 29,662	\$ 55,672	\$ 32,581	\$ 37,958	\$ 3,057,495	
% Funded	-2.8%	-1.4%	-3.8%	-3.2%	-2.1%	-3.3%	-0.5%	

## Total Net Increase in Pension Liabilities Before Pension Trust Offset

\$ 8,854,957

## Total Net Increase in Pension Liabilities After Pension Trust Offset

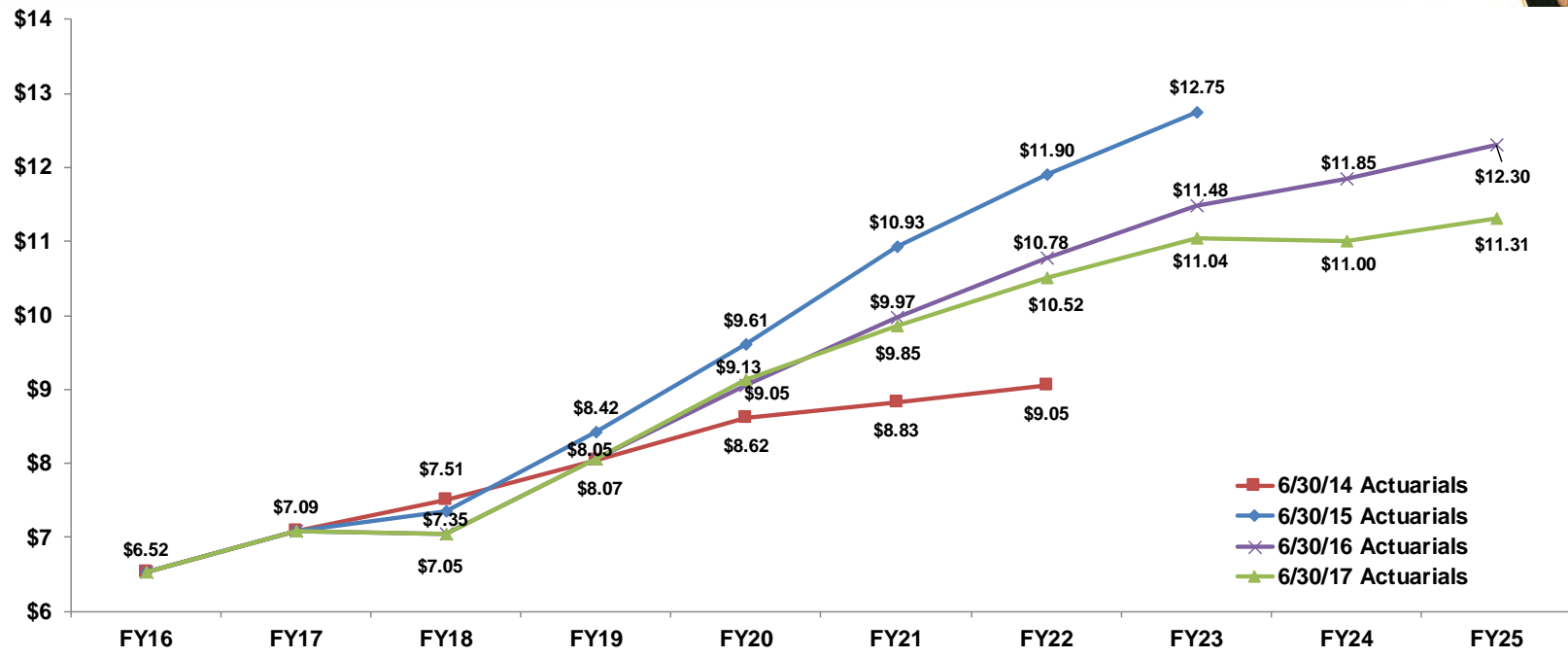
\$ 8,669,778

## CalPERS - Summary of Funded Status as of 6-30-19

	Safety	Miscellaneous	Total
Assets	\$ 109.4	\$ 90.5	\$ 199.9
Liabilities	(152.5)	(127.4)	(279.8)
<b>Unfunded Liability</b>	<b>\$ (43.1)</b>	<b>\$ (36.9)</b>	<b>\$ (79.9)</b>
<b>Percentage Funded</b>	<b>71.8%</b>	<b>71.1%</b>	<b>71.4%</b>

Less Pension Stabilization Trust Fund Available	\$	(2.8)
<b>Net Unfunded Pension Liability</b>	<b>\$</b>	<b>77.1</b>

# Comparison of Projected Retirement Costs by Actuarial Year

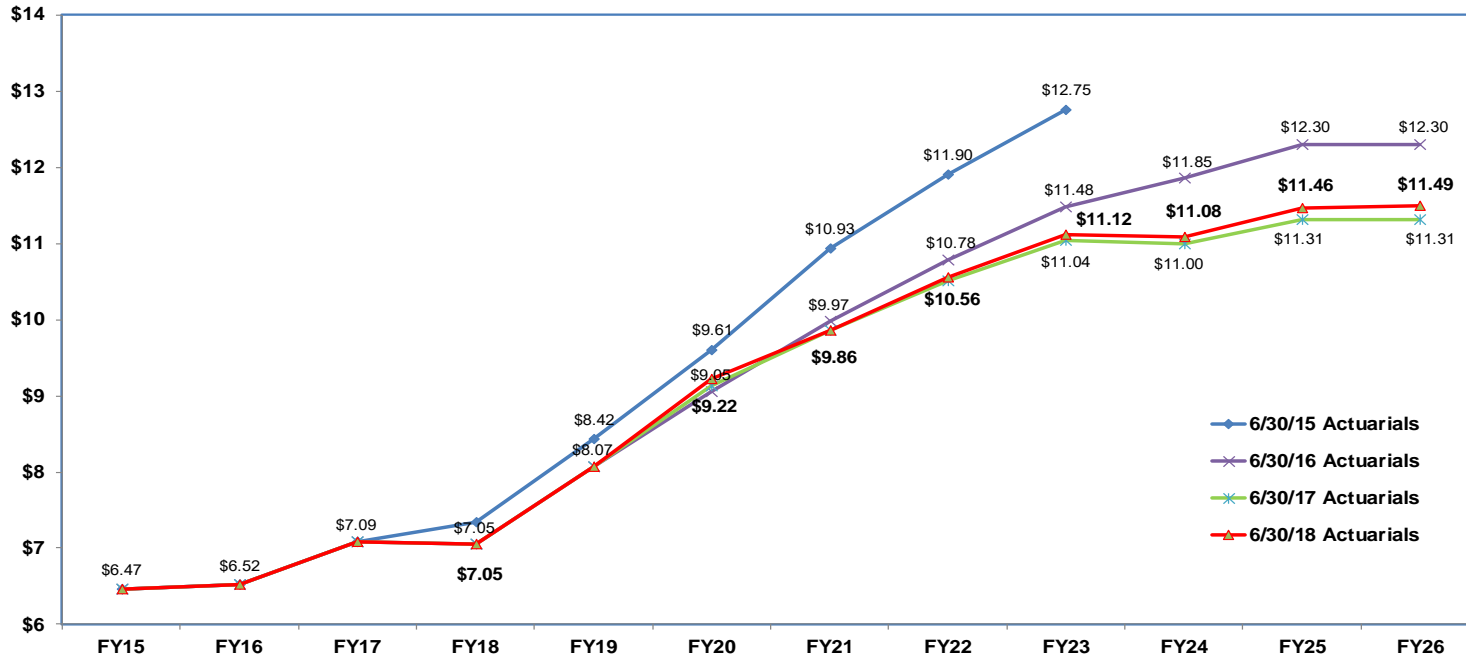


# CalPERS Pension Expenses on the Rise

## *Employer Cost in total dollars—Updated for FY 19-20*



The CalPERS employer contribution is projected to increase by over 75% from FY16 to FY26



Sources:

# FY 2019/20 Interest on UAL



- Interest charged on UAL \$5.1 million
- UAL payment \$5.3



# Hypothetical Termination Liability



- Assumed discount rate of 2.5%
  - \$469,148,144
- Assumed discount rate of 3.25%
  - \$425,593,748

# Actions to Date



- Established Stabilization Trust Fund in June, 2016. Balance just under \$2.5 Million
- Prepaid annual UAL costs for past 4 years saving an estimated \$300,000
- Employees now pay employee share of PERS saving \$2 million annually (not in exchange for a raise)
- PERS impacts always considered when negotiating employee contracts. One-time money given in conjunction with on-going raises to not further compound problem

# Short-Term Actions



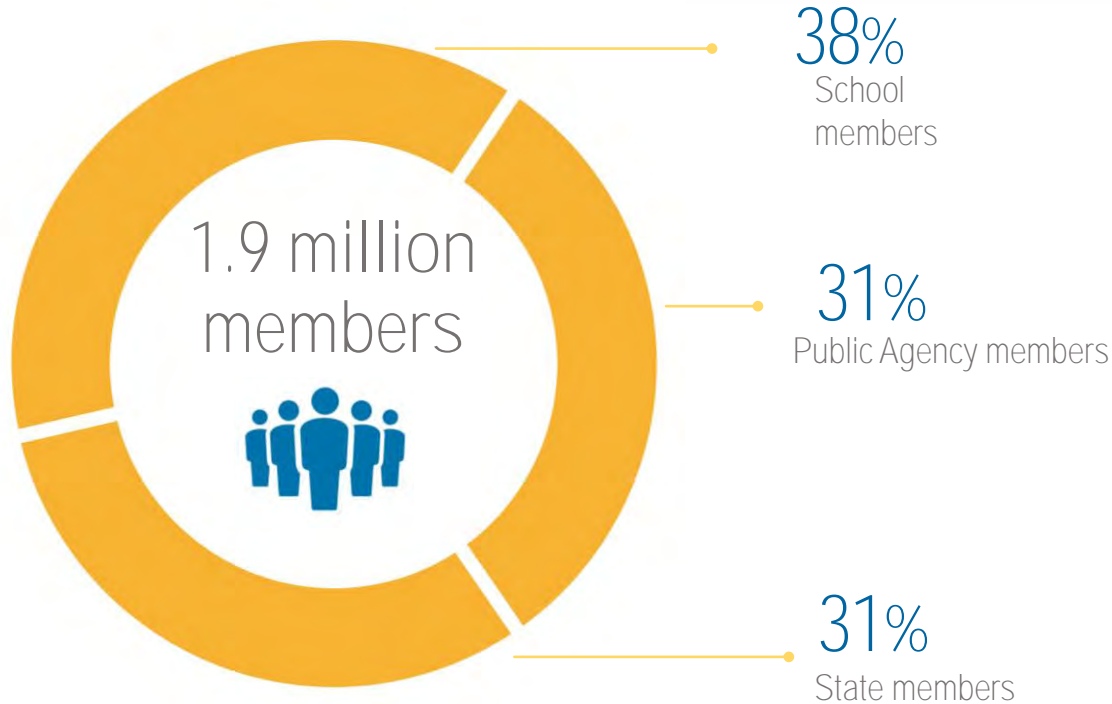
- Pay additional contributions annually in excess of required contributions
- Negotiate a lower tier benefit to Classic employees who are new to the City
- Pay lump-sum, one-time payment to CalPERS and evaluate continuing on an annual basis if sufficient funds are available

# Long-Term Actions



- Change type of retirement plan from Defined Benefit Plan to Defined Contribution Plan
  - \$490 Million Termination Payment to CalPERS
  - Change would have to be negotiated with all employee unions and bargaining units
  - California Rule

# CalPERS Membership



# Functions In Pension Decision-Making



## CalPERS Board

- Fiduciary obligation
- Set risk tolerance
- Set investment asset allocation

## Legislature

- Set menu of pension benefit formulas
- Make and change pension laws
- Benefit design changes

## Employees

- Make contributions
- Select employer
- Collectively bargain salary and (optional) cost sharing

## CalPERS Staff

- Administer pensions
- Calculate pension costs
- Effectuate investment strategy

## Employers

- Select pension formulas
- Add optional provisions
- Set salaries
- Make contributions

## Courts

- Rule on legal questions of pension law

# CalPERS Recent & Historical Investment Performance



**Current Fund Value \$380 billion~**

**6.7%**  
2018/19

**8.1%**  
5-yr Annualized  
Return

**5.6%**  
10-yr Annualized  
Return

**6.1%**  
20-yr Annualized  
Return

**8.4%**  
30-yr Annualized  
Return

# How are CalPERS Pensions Funded?



## The CalPERS Pension Buck

As of June 2018, CalPERS' income over the last 20 years demonstrates that every dollar spent on public employee pensions comes from the following sources:

**59¢**

CalPERS investment earnings

**28¢**

CalPERS employers

**13¢**

CalPERS members



# CalPERS Focus Going Forward



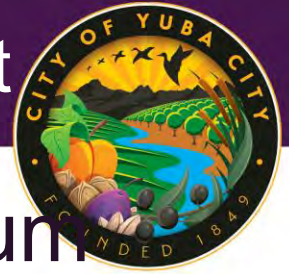
- Investment performance is paramount
  - growth assets are key
- Top quality leadership and investment team
- Streamlined investment strategies
- Capitalize on and weather financial market downturns
- Recognize that employers are essential to sustaining benefits
- One message to all stakeholders
- Provide access and information

# Unfunded Accrued Liability (UAL)



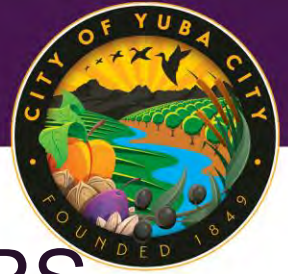
$$\text{UAL} = \text{Accrued Liability} - \text{Market Value of Assets}$$

# Required Contribution is the Minimum Payment



- Agencies are required to make minimum annual payments on the UAL
- Unfunded accrued liability is long-term debt
- Interest rate charged on UAL = Discount rate

# Options considered during the process



- Consider taking action against CalPERS
  - Sue CalPERS

# Options considered during the process



- Require more from the employees
  - Require employees to understand the cost of their CalPERS
  - Consider lowering salaries and wages
  - Union influence
  - Employees need to pay at least 50% of the CalPERS cost

# Options considered during the process



- Pull out of CalPERS
  - Consider 401k plan
    - California Rule
  - File bankruptcy
    - Financially we are strong
  - Walk away from CalPERS start new system
    - \$469,148,144
  - Do not pay any thing more on our UAL
    - Required by law

# Options considered during the process



- Assemble a unified group to address the issue with State Leadership
  - Form a coalition to petition State for change
  - Non political based investments
  - Address how the Board is appointed
  - Invest in more investment choices

# Thank you

