

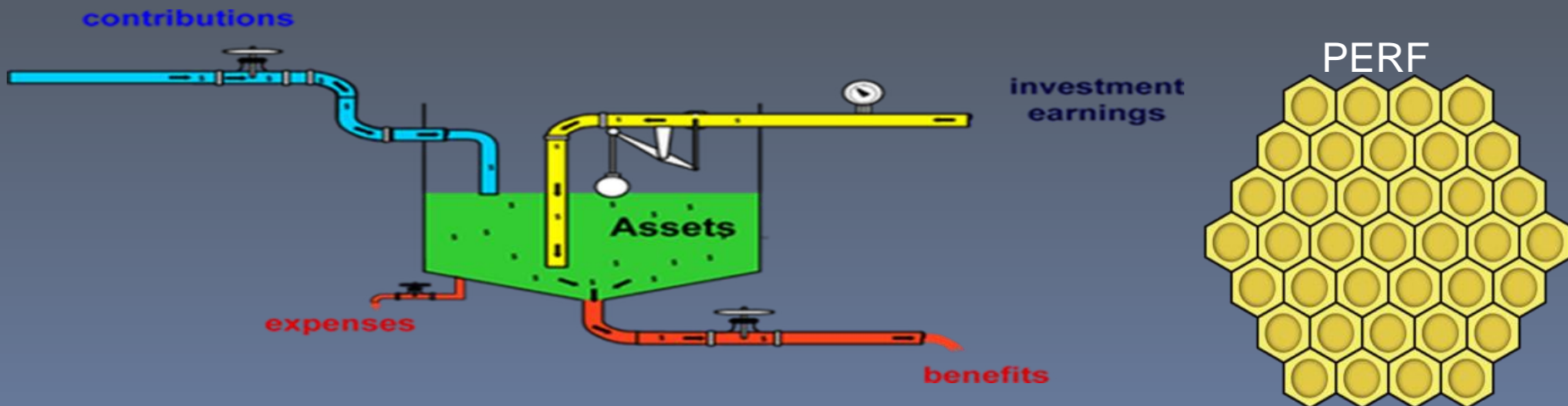


# Closing the Pension Funding Gap

*Dane Hutchings, Legislative Representative, League of California Cities*

# How the Fund Operates

- Pooled investments called the Public Employee Retirement Fund (PERF).
- All 3000+ employers money is pooled together and invested in a series of asset classes (e.g. Growth, equity, real estate, infrastructure etc.)
- BUT... each employer has their own independent pool with their own “funded level” (think Honeycomb).
- If one pool (Agency) is terminated, they move to the Terminated Agency Pool (TAP) fund and benefits may be reduced. (See LA Works)
- “Discount Rate” equals the Floor that CalPERS must earn. Anything below the employer must pick up the difference.



# By The Numbers

- According to CalPERS:
  - In 2001 there were two active workers for every retiree.
  - In 2016 there were 1.3 active employees for every retiree
  - It is projected that within the next 10-20 years there will be 0.6 workers for every retiree (CalPERS 2016 Annual Review of funding levels and Risk September 20, 2016).



# How'd we get Here!?!

## January 1, 2000 — SB 400/ AB 616 Public Employees Retirement Benefits

- Immediate 5% increase for all current state and school retirees
- Eliminated second tier benefits, ensuring everyone has the top tier benefits
- Improved pension benefits:
  - 2.0% at 55 – State Miscellaneous and Industrial
  - 2.5% at 55 – State Safety
  - 3.0% at 55 – State Peace Officer/Firefighter
  - 3.0% at 50 – California Highway Patrol

### The Silver Bullets

- Retroactivity Credit (e.g. Peace Officer retires *Before* 1999, average pension equals 62,218. Same Peace officer retires *After* 1999 pension is \$96,270).
- Local Governments followed suit amidst recruitment challenges, CalPERS actuarial data and political climate (at the time).

# Brief Time Line of Events (Truncated)

**2000-2001** — CalPERS takes significant hit due to the dot.com bubble  
Fund drops below “Super Funded Status”

**2008-2009** — The Great Recession Hits

The Fund loses 27% or \$67 billion in value—drops to 61.00% funded status. True Impact is 34.75% loss [27 loss+ 7.75(discount rate) = 34.75% Loss]

**2012** — PEPRA signed into law which established a new tier of employees with less generous benefits (Classic vs. PEPRA)—Does not modify “Classic” active formulas or retiree benefits.

**Important Note:** Agencies won't feel significant impacts of PEPRA for 20+ years due to “classic” benefit payouts.

# December 21, 2016 — CalPERS Board Takes Further Action.

- CalPERS Board moves to lower its discount rate from 7.5% to 7.00% over a phased in process (eight years in total).

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

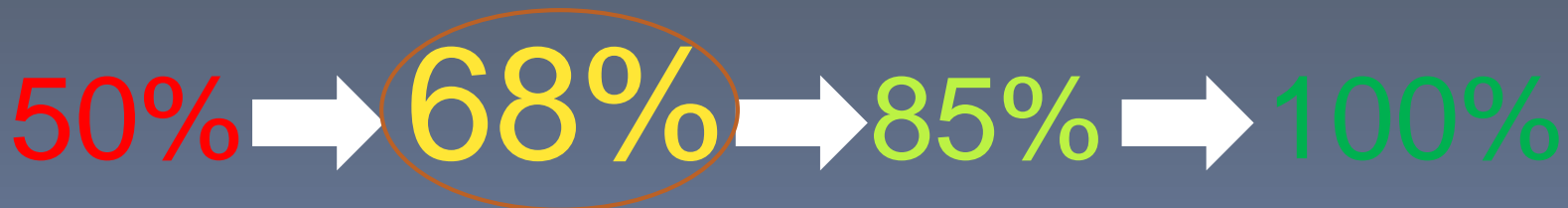
# January 19, 2017 — CalPERS releases Circular Letter on Increased Contribution Rates

- Circular Letter (CL# 200-004-17) assists employers in calculating their increase contribution rates (30-40% unfunded liability increases)

		Normal Cost		UAL Payments	
Valuation Date	FY Impact	Misc. Plans	Safety Plans	Misc. Plans	Safety Plans
6/30/2016	2018-19	0.25% - 0.75%	0.5% - 1.25%	2% - 3%	2% - 3%
6/30/2017	2019-20	0.5% - 1.5%	1.0% - 2.5%	4% - 6%	4% - 6%
6/30/2018	2020-21	1.0% - 3.0%	2.0% - 5.0%	10% - 15%	10% - 15%
6/30/2019	2021-22	1.0% - 3.0%	2.0% - 5.0%	15% - 20%	15% - 20%
6/30/2020	2022-23	1.0% - 3.0%	2.0% - 5.0%	20% - 25%	20% - 25%
6/30/2021	2023-24	1.0% - 3.0%	2.0% - 5.0%	25% - 30%	25% - 30%
6/30/2022	2024-25	1.0% - 3.0%	2.0% - 5.0%	30% - 40%	30% - 40%

# 2016-17 — Current State of the Fund

- Fiscal year 2016-17 CalPERS Announced a **11.2% return** on Investment well above the assumed rate of return (discount rate) of **7.375% (State) 7.50 (Locals)**.
  - **Note: FY 15-16 return was 0.61% well below 7.5%**
- In 2016: 50 percent probability that Public Safety Contribution Rates exceed 60 percent of payroll. (*September Finance Committee Materials-Agenda Item 8c, Attachment 1*)
- Limited Fund Growth Despite Positive Market Trends: Seven years of positive economic growth yet the fund has only gained 7 percent in value (2008: Approx 61% Funded. 2017: Approx. 68% funded after 11.2% was announced).







# Closing the Pension Funding Gap

*Political Landscape, Next Steps, Key Takeaways*

# Political Realities



- Currently, very limited “political will” to address the problem in Sacramento.
- Pending Litigation Re: Vested Rights (Could take multiple years for a resolution).
- Politically charged issue with multiple stakeholders
- The Economy is Healthy... (For Now).
- November – December 2017: ALM Cycle will be completed and presented to the PERS Board.

# The Keys...

- **Education:** Seek education opportunities through the League, continue to educate your area managers, council members etc. on the issues. (This includes attending monthly CalPERS Board meetings).
- **Collaboration:** Continue to work with stakeholders to find common ground on legislative policies to stabilize the pension system.
- **Communication:** Groundswell approach needed. What do these numbers mean for jobs, raises, services for your community? Encourage your locals to engage their State Reps.
  - Open a dialogue with the public, your councils, locals... Keep all stakeholders engaged and educated.

# Major Takeaways: Ramp up Begins Now

- **Knowledge is Power: RUN YOUR NUMBERS AND SHARE**
  - CMFO created a tool (as well as a tutorial on how to use it) that we are asking every city to use to calculate their UAL and Normal cost and then share that information with your stakeholders.
- **This will NOT be Easy, Utilize Best Practices:** The toughest decisions will be made locally. Each city will need to make their own decisions on how to use best practices to stabilize their budgets.
  - Identify New Sources of Revenue
  - Reduce Plan Benefits
  - Review Services and Staffing Models
  - Establish Rate Stabilization 115 Trust and/or UAL Pre-Payments
- **It's not about how we got here... Its about how we fix it... together.**
  - The League has committed to CalPERS, the Administration and our employee partners to work together to address these challenges.