



CITY OF PACIFICA
COUNCIL AGENDA SUMMARY REPORT

2/24/2020

SUBJECT:

2019-20 Presentation of Pension Costs

RECOMMENDED ACTION:

Receive an updated presentation on the City's CalPERS pension liability and the City's actions toward addressing these costs.

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BACKGROUND/DISCUSSION:

Tonight's discussion provides an update regarding pension costs. This presentation also conforms to various recommended actions in the July 17, 2018; the San Mateo County Civil Grand Jury issued a report titled "Soaring City Pension Costs".

A pension plan is an agreement in which the employer provides employees with a defined retirement benefit in exchange for services. The pension plan is funded in a trust which is an investment portfolio structured to provide enough funds to pay retiree benefits. Pension benefits are paid from the trust to retired employees on a monthly basis. The City contracts with the California Public Employees' Retirement System (CalPERS) defined benefit plan for City employees.

The pension plan's funded status is the relationship between the liability associated with employee retirement and the assets needed to pay this liability.

- a. The typical **pension liability** contains the amounts owed for:
 - 1) Active employees - those employees still working for the City, but not yet retired,
 - 2) Retired employees - those employees who have retired who are drawing retirement benefits
 - 3) Inactive employees - those employees who have worked for the City, but not yet retired, who have transferred to another CalPERS agency.

- b. Pension assets are accumulated through employer contributions, active employee contributions, and investment earnings. The expected investments earnings rate of return is referred to as a **discount rate**. The investment return and accumulated contributions, offset by benefits and expenses paid, creates the **market asset value** of the pension.

- c. The difference between the pension liability and the market asset value represents **an unfunded liability**.

Pension Formula
Pension Liability:
- Active Employees
- Retired Employees
- Inactive Employees
Less: Market Asset Value
= Unfunded Liability

City of Pacifica percentage of pension liability belonging to retirees:	
Employee Group	Percentage
Miscellaneous	56%
Safety Police	63%
Safety Fire	55%

The relationship between the City and CalPERS

Pacifica contracts with CalPERS for most of its employees. CalPERS pension enrollment is limited to regular employees, working 20+ hours per week, for at least 6 months. As of 2017, the City paid retirement benefits to 331 retirees and has to accrue pension liability for an additional 175 employees.

The City contributes a share of pension contributions and the employees contribute a share of pension contributions. Additionally, the City has bargained with the labor units so that the employees also pay a small share of the City’s pension costs.

CalPERS manages City contributions and have historically projected a 7.5% rate of return (discount rate) on the contributions of the City and its employees. However, for the last 5 years the CalPERS actual rate of return was 5.8%.

In part because the rate of return has been below the discount rate, the City has an unfunded liability. The City annually budgets and pays the required contributions (which includes the payback necessary to alleviate the unfunded liability) as determined by CalPERS.

Discount Rate of Return Adjusted

On December 21, 2016, CalPERS lowered their discount rate from 7.5% to 7.0% over the three subsequent years. The approved Discount Rate Reduction Phase-In is as follows:

Valuation Date	FY Required Contribution	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

FISCAL IMPACT:

As explained above as the discount rate of return is reduced, the City’s pension liability is also increased, which increases the City’s unfunded liability.

In 2017, staff asked Bartel Associates to perform an actuarial analysis to ascertain the growth in the City’s pension liability as a result of the CalPERS policy change. In addition, staff now utilizes the CalPERS valuation tool to further refine City pension expense estimates. The results of Bartel Associates analysis and additional tools from CalPERS yields the following results:

Projected Estimated Annual Cumulative Increase in CalPERS	
2020-2021	\$598,000
2021-2022	\$798,000
2022-2023	\$503,000
2023-2024	\$322,000
2024-2025	\$332,000
2025-2026	\$163,000
2026-2027	\$484,000
2027-2028	\$215,000
2028-2029	\$271,000
2029-2030	\$292,000

As a result of the CalPERS policy change staff estimates that the City will incur addition pension expenses averaging \$510K annually for the next five years, dropping to \$285K in the successive five years. In addition, this growth in expenditures is expected to continue, albeit at a lower rate until FY 2031/2032. The City will incorporate these estimates into the long-term forecasts and the 2020-2021 budget development process.

Summary of our overall pension costs and funded/unfunded status as of 6/30/2017:

Pension Formula	
Pension Liability:	
- Active Employees	\$ (65,100,000)
- Retired Employees	(121,000,000)
- Inactive Employees	(23,000,000)
Total Pension Liability	(209,100,000)
Less: Market Asset Value	162,000,000
Unfunded Liability	\$ (47,100,000)
Funded Ratio	77%

ORIGINATED BY:

City Manager's Office

ATTACHMENT LIST:

Attachment 1 - Bartel Associates - CalPERS Actuarial Issues – 6/30/17 Valuation (PDF)