City of Pacifica
2018-19 Budget Issue

Annual Impact of CalPERS Reduction in Discount Rate

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Pension Plan Defined:

- An agreement to provide a defined retirement benefit in exchange for services.
- Funded in a trust which is an investment portfolio structured to provide enough funds to pay retiree benefits.
- Benefits are paid from the trust to retired employees on a monthly basis.
- The City contracts with California Public Employees' Retirement System (CalPERS) defined benefit plan for the majority of our employees.

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Pension Plan Defined:

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

Typical pension liability include amounts owed for:
1) Active employees
2) Retired employees
3) Inactive employees

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Pension Plan Defined:

- 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.

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

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Pension Formula:

Pension Liability:

- Active Employees
- Retired Employees
- Inactive Employees

Less: Market Asset Value

= Unfunded Liability

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Relationship between the City and CalPERS:

- City contracts with CalPERS for most of our employees.
- 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.

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Relationship between the City and CalPERS:

- CalPERS manages our 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 10 years the CalPERS actual rate of return was 5.8%.
- In part because our 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.

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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%

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Fiscal Impact

- As a result of this policy change by CalPERS, we estimate that the City will incur pension expenses of approximately $700K to $800K annually for the next four 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 our long term forecasts and our 2018-2019 budget development process.

	2018-2019 Projected	2019-2020 Projected	2020-2021 Projected	2021-2022 Projected	2022-2023 Projected	2023-2024 Projected	Total Increase
Estimated Annual Cumulative Increase in CalPERS	$0	$814,000	$571,000	$696,000	$673,000	$385,000	$3,139,000