CITY OF DANA POINT
MISCELLANEOUS PLAN

CalPERS Actuarial Issues – 6/30/17 Valuation

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March 5, 2019
**Definitions**

**Present Value of Benefits**

- **June 30, 2017**

**Future Normal Costs**
- **Current Normal Cost (NC):**
  - Portion of present value of benefits allocated to (or “earned” during) current year

**Actuarial Liability (AAL):**
- Discounted value of benefits earned through valuation date Portion of PVB “earned” at measurement
- Also accumulation of past Normal Costs

**Target:** Have money in the bank to cover Actuarial Liability (past service)

**Unfunded Liability (UAL):** - Money short of target at valuation date
- Every year, the actuary calculates the difference between the expected and actual UAAL. This is a new layer or amortization base
- Each new layer gets amortized (paid off) over a period of time.

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CalPERS Defined Benefit Promise:

- At retirement, employees receive a monthly annuity for life
- Final average pay (monthly) x years of service x factor
- Example 2.0% @ 55
  - Hire age 30, retire at 55 = 25 years of service
  - 2.0% x 25 years = 50% of final 1-year average pay for life
- Cost of living increase up to 2% per year
- NO SOCIAL SECURITY
HOW WE GOT HERE

- Investment Losses - CalPERS
- CalPERS Contribution Policy
- Enhanced Benefits (Not Dana Point)
- Demographics
6/30/19 return of -0.8% estimated based on actual through 12/31/18 and assumed rate thereafter
How We Got Here – Old Contribution Policy

- Effective with 2003 valuations:
  - Slow (15 year) recognition of investment losses into funded status
  - Rolling 30 year amortization of all (primarily investment) losses

- Designed to:
  - First smooth rates and
  - Second pay off UAL

- Mitigated contribution volatility
HOW WE GOT HERE - OTHER

- City of Dana Point’s Classic benefit 2%@55 is NOT an enhanced formula

- Demographics: around the State
  - Large retiree liability compared to actives
  - State average: 55% for Miscellaneous, 65% for Safety
  - Declining active population

<table>
<thead>
<tr>
<th>Percentage of Liability belonging to</th>
<th>Retirees</th>
<th>All Inactives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous</td>
<td>34%</td>
<td>48%</td>
</tr>
</tbody>
</table>

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CalPERS changes in past several years designed to strengthen funded status

- Contribution increases phased in over time
- Most recently, change to 20 year, level dollar amortization for future new amortizations

Risk Mitigation Strategy (Nov ’15)

- Move to more conservative investments over time
- Only when investment return is better than expected
- Lower discount rate in concert
- Essentially use ≈50% of investment gains to pay for cost increases
- Likely get to 6.0% discount rate over 20+ years
<table>
<thead>
<tr>
<th>Summary of Demographics</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counts</td>
<td>63</td>
<td>65</td>
<td>62</td>
<td>63</td>
</tr>
<tr>
<td>Average PERSable Wages</td>
<td>$75,700</td>
<td>$78,400</td>
<td>$88,700</td>
<td>$90,000</td>
</tr>
<tr>
<td>Total PERSable Wages (millions)</td>
<td>4.8</td>
<td>5.1</td>
<td>5.5</td>
<td>5.7</td>
</tr>
</tbody>
</table>

| **Inactive Counts** |       |       |       |       |
| Transferred        | 32    | 27    | 31    | 33    |
| Separated          | 30    | 31    | 29    | 31    |
| Retired            | 34    | 38    | 48    | 51    |
City CalPERS Assets and Actuarial Liabilities ($Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Asset</th>
<th>AAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **$5 M Unfunded**

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CONTRIBUTION PROJECTIONS

■ Market Value Investment Return:
  • June 30, 2018 8.6%^1
  • June 30, 2019 -0.8%^2
  • Future returns based on stochastic analysis using 1,000 trials
    Single Year Returns at[^\textsuperscript{3}]
    \begin{tabular}{lccc}
    & 25\textsuperscript{th} Percentile & 50\textsuperscript{th} Percentile & 75\textsuperscript{th} Percentile \\
    Current Investment Mix & 0.1% & 7.0% & 14.8% \\
    Ultimate Investment Mix & 0.8% & 6.0% & 11.4% \\
    \end{tabular}

  • Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.

■ Assumption Changes – Discount Rate
  • Decrease to 7.0% by June 30, 2018 valuation
  • Additional Discount Rate decreases due to Risk Mitigation policy.

■ No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements

New hire assumptions:
  • 62.5% of 2018/19 new hires are PEPRA members and 37.5% are Classic members
  • Percentage of PEPRA member future hires to increase from 62.5% to 100% over 15 years

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1 based July 2018 CalPERS press release
2 June 30, 2019 return based on actual CalPERS return of -3.9% through 12/31/18 and assumed returns for 6 months.
3 \textsuperscript{N}th percentile means \textsuperscript{N} percentage of our trials result in returns lower than the indicated rates.
Leaving CalPERS

- Participation in CalPERS is governed by State law and CalPERS rules
- The following are considered “withdrawing” from CalPERS:
  - Exclude new hires from CalPERS & giving them a different pension
  - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
  - Treated as plan termination
  - Liability increased for conservative investments
  - Liability increased for future demographic fluctuations
  - Liability must be funded immediately by withdrawing agency
  - Otherwise, retiree benefits are cut

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# LEAVING CALPERS

## CalPERS Termination Estimates (Amounts in Millions)

<table>
<thead>
<tr>
<th>Discount Rate</th>
<th>Ongoing Plan 7.25%</th>
<th>Termination Basis 1.75%</th>
<th>Termination Basis 3.00%</th>
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<tbody>
<tr>
<td>AAL</td>
<td>$26</td>
<td>$53</td>
<td>$46</td>
</tr>
<tr>
<td>Assets</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>UAL</td>
<td>5</td>
<td>32</td>
<td>25</td>
</tr>
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</table>
Paying Down the UAL

Make payments directly to CalPERS:

- Likely best long-term investment return
- Must be considered an irrevocable decision
  - Extra payments cannot be used as future “credit”

- Option #1: Request shorter amortization period (Fresh Start):
  - Higher short term payments
  - Less interest and lower long term payments
  - Likely cannot revert to old amortization schedule
Make payments directly to CalPERS (continued):

- Option #2: Target specific amortization bases:
  - Extra contribution’s impact muted by reduced future contributions
    - CalPERS will reduce future required contributions
    - Saves interest
    - CalPERS can’t track the “would have been” contribution
  - No guaranteed savings
    - Larger asset pool means larger loss (or gain) opportunity
IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Can only be used to:
  - Reimburse City for CalPERS contributions
  - Make payments directly to CalPERS
- Investments significantly less restricted than City investment funds
  - Fiduciary rules govern Trust investments
  - Usually, designed for long term returns
- Assets don’t count for GASB accounting
  - Are considered Employer assets
- Over 180 trusts established, mostly since 2015
  - Trust providers: PARS, PFM, Keenan
  - California Employer’s Pension Prefunding Trust (CEPPT) is coming

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More flexibility than paying CalPERS directly

- City decides if and when and how much money to put into a Trust
- City decides if and when and how much to withdraw to pay CalPERS or reimburse itself

Consider:

- How much can you put into Trust?
- Investment strategy/asset allocation?
- When do you take money out?
Example 4

- $4,000,000 one-time payment to Section 115 Trust
- Trust earns 5% per year
- Withdrawals from Trust to pay peak CalPERS contributions
- Beginning FY 25/26, pay UAL payments over $550,000 from Trust
- Allows City to budget $550,000 per year UAL payment (plus normal cost)
- Trust funds projected to last until UAL required payment drops below $550,000 in FY 40/41

Savings

- $3,600,000
- $1,300,000 present value of savings @ 3%


PENSION TRUST – EXAMPLE 4

Contribution Projections ($000s)

Target

50th Percentile

March 5, 2019
Example 5

- $5,000,000 one-time payment to Section 115 Trust
- Trust earns 5% per year
- Withdrawals from Trust to pay peak CalPERS contributions
- Beginning FY 25/26, pay UAL payments over $410,000 from Trust
- Allows City to budget $410,000 per year UAL payment (plus normal cost)
- Trust funds projected to last until UAL required payment drops below $410,000 in FY 40/41

Savings

- $4,700,000
- $1,700,000 present value of savings @ 3%
PENSION TRUST – EXAMPLE 5

Contribution Projections ($000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>50th Percentile</th>
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<tr>
<td>19/20</td>
<td>933</td>
<td>1,177</td>
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<tr>
<td>20/21</td>
<td>1,177</td>
<td>1,431</td>
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<tr>
<td>21/22</td>
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<td>22/23</td>
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<td>23/24</td>
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<td>24/25</td>
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Example 4

Example 5

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Questions?

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