THE PUBLIC RETIREMENT
JOURNAL

Options to Pay Down the Unfunded Liability, OPEB, CalPERS Issues, etc.

October 1, 2015

John E. Bartel
BARTEL ASSOCIATES, LLC

Agenda

CalPERS Upcoming Issues

CalPERS Upcoming Issues

- Contribution Policy Changes
- Risk Pool Changes
- Assumption Changes
- “De-risk” Investment Portfolio

Contribution Policy Changes
Old Method

- Designed to smooth contribution rates
- Used AVA to determine contribution so two different funded status/ratios (AVA & MVA)
- If assumptions met then:
  - Contributions never come down and
  - UAL never paid off

Contribution Policy Changes

- No asset smoothing
- 5-year ramp up
- All amortization bases have fixed amortization periods
  - No rolling amortization

Contribution Policy Changes New Method

- Designed to:
  - First pay off UAL and
  - Second smooth rates
- Uses MVA only so only one funded status/ratio
- If assumptions met then:
  - Contributions go up in the short run but then come down
  - UAL will be paid off

Risk Pool Changes

- All Risk Pools combined into 2 Risk Pools
  - Miscellaneous
  - Safety
- Collect payment on UAL as dollar amount
- Risk Pools UAL payment allocated based on **liability** & assets rather than payroll
  - Some agencies saw significant cost increases
- **Side Fund payoff no longer guaranteed savings!**

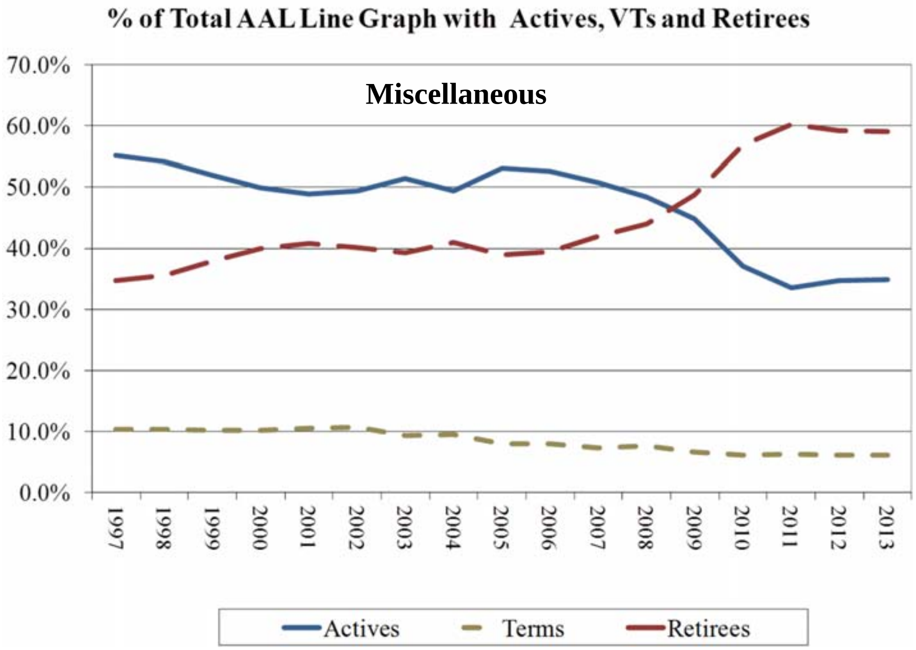
Assumption Changes

- No changes to economic assumptions
- Anticipate future mortality improvement
- Earlier retirements for Miscellaneous enhanced formulas and
- Greater salary increases (late in career)

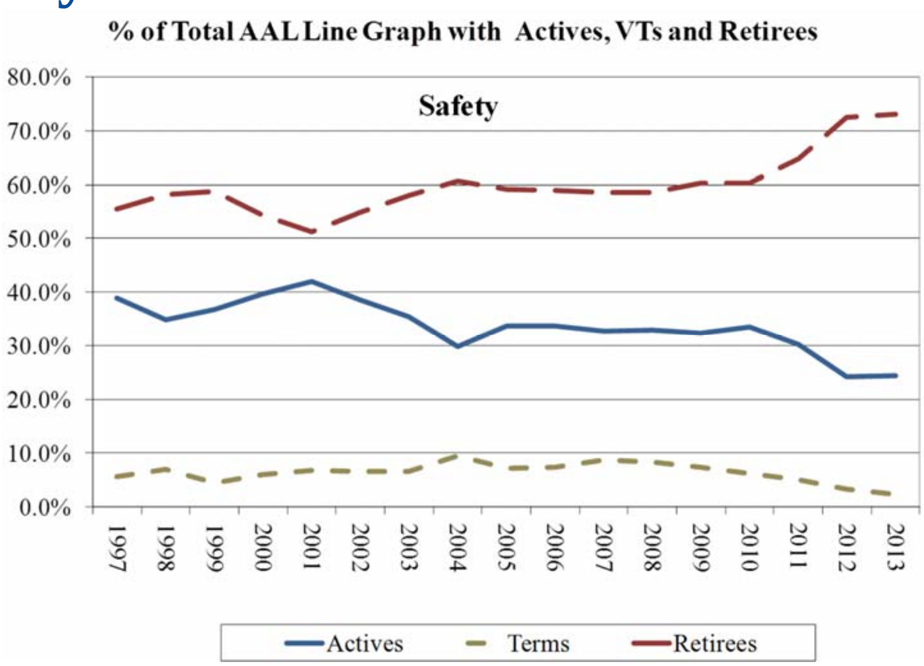
De-Risk Investment Portfolio

- Generally means CalPERS would move to more conservative investments over time (20-30 years)
- Phasing into lower discount rate (e.g. 6.5% or 7% over 20-30 years)
- Originally CalPERS staff gave Board 3 options
  - Controlled glide path
  - Blended glide path
  - Flexible glide path

Why De-Risk Investment Portfolio?



Why De-Risk Investment Portfolio?



Estimated Contribution Rate Impact

	Misc.	Safety
■ Decrease to **7%** over **30** years	1-2%	2-3%
■ Decrease to **6½%** over **20** years	4-5%	8-10%

Timing

	Valuation	First Impact	Full Impact
■ Contribution Policy	6/30/13	2015/16	2019/20
■ Risk Pool Changes	6/30/13	2015/16	2015/16
■ Assumption Changes	6/30/14	2016/17	2020/21
■ De-Risk Plan	Uncertain timing		

Paying Down Unfunded Liability & Rate Stabilization

Options

- Pension Obligation Bonds (POBs)
- Borrow from General Fund
- Amortization Period
- One time payments
- Internal Service Fund
- Irrevocable Supplemental (§115) Trust

POBs

- Interest arbitrage between **expected** CalPERS earnings and rate paid on POB
- No guaranteed savings
  - Including paying off CalPERS Side Fund
- PEPRA prevents contributions from dropping below normal cost
  - Savings offset when investment return is good

Borrow from General Fund

- Pay GF back like a loan
- Payments should come from all funds

Request Shorter Amortization Period

- Higher short term payments
- Less interest and lower long term payments
- PEPRA prevents contributions from dropping below normal cost
  - Savings offset when investment return is good

One Time Payments

- Council/Board resolution to use a portion of one time money to reduce unfunded liability, e. g.
  - 1/3 to one time projects
  - 1/3 to replenish reserves and
  - 1/3 to pay down unfunded liability

Establish Internal Service Fund

- Could be used for rate stabilization
- Restricted investments:
  - Likely low (0.5%-1.0%) investment returns
  - Short term/high quality
  - Designed for preservation of principal
- Assets could be used by Board/Council for other purposes
- Does not reduce GASB 68 Net Pension Liability

Establish Irrevocable Supplemental (§115) Trust

- Could be used for rate stabilization
- Reduces GASB 68 Net Pension Liability
- Investments significantly less restricted:
  - Designed for long term returns
  - Likely much higher (5%-7%) investment returns

Establish Irrevocable Supplemental (§115) Trust

- Can only be used to :
  - Reimburse for CalPERS contributions
  - Make payments directly to CalPERS
- Assets could **not** be used by Board/Council for other purposes
- PARS & PFM
- 9 agencies

Establish Irrevocable Supplemental (§115) Trust

- Can mitigate:
  - CalPERS investment volatility
  - Impact of plan becoming over funded
- Requires modest seed contribution to trust (≈10% of annual dollar contribution)

PEPRA Issues

Compensation Limit

- 2012 Social Security Taxable Wage Base, adjusted for inflation, $140,424 in 2015
- Adjust up by 20% if not participating in Social Security
- Approximately 53% of Federal limit ($265,000) for private sector pensions

Compensation Limit

- Example, 2%@62 formula reduced for employee with base salary
  - $160,000 results in a 1.75% formula
  - $200,000 results in a 1.4% formula
- Pension can be supplemented with separate defined contribution benefit
- Will almost certainly create difficulty in hiring from out of State or from the private sector

Minimum Contribution

- Contribution can't be less than Normal Cost
- Overreaction to contribution holidays in early 2000s
- May discourage agencies from trying to be 100% funded

Appendices

- Public Retirement Journal & PERS PAC Alert
- Bartel Associates www.Bartel-Associates.com:
  - GASB 68 Summary
  - PEPRA Summary
  - Other exciting stuff
- Anthony T. Oliveira, *The Local Challenges of Pension Reform*
  - http://www.tonytoliveira.com/Research.html