

THE PUBLIC RETIREMENT
JOURNAL
**Options to Pay Down the Unfunded Liability,
OPEB, CalPERS Issues, etc.**

October 1, 2015

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Agenda

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| ■ Paying Down the Unfunded Liability/Rate
Stabilization Fund | 13 |
| ■ Ongoing PEPRA Issues | 23 |

CalPERS Upcoming Issues

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CalPERS Upcoming Issues

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

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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

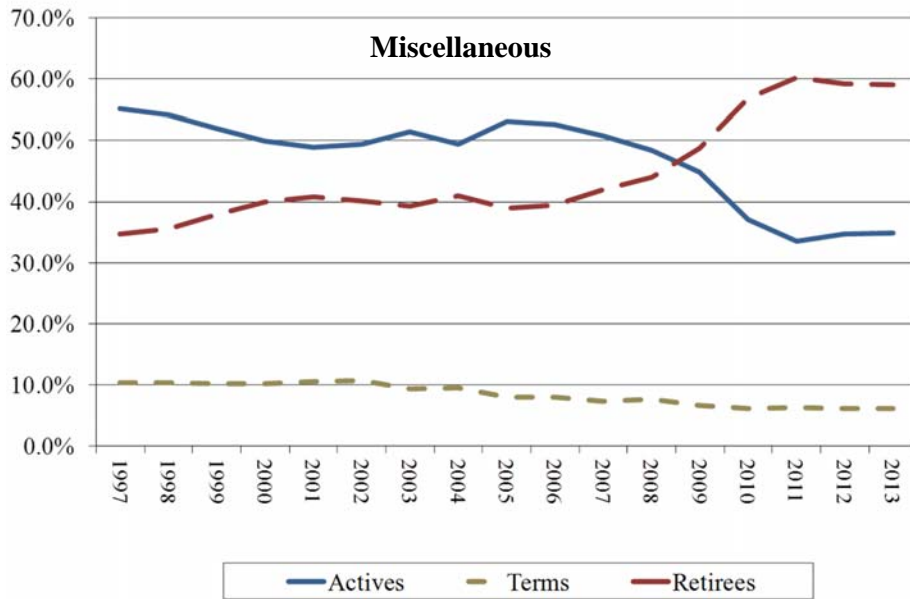
- No changes to economic assumptions
- Anticipate future mortality improvement
- Earlier retirements for Miscellaneous enhanced formulas and
- Greater salary increases (late in career)

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?

% of Total AAL Line Graph with Actives, VTs and Retirees

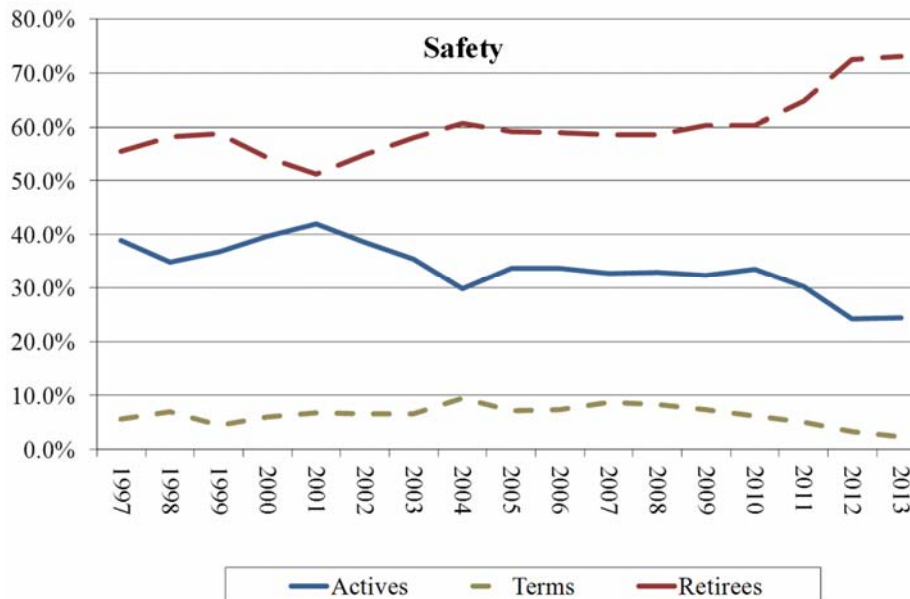


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Why De-Risk Investment Portfolio?

% of Total AAL Line Graph with Actives, VTs and Retirees



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Estimated Contribution Rate Impact

	<u>Misc.</u>	<u>Safety</u>
■ 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

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Options

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

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POBs

- Interest arbitrage between **expected** CalPERS earnings and rate paid on POB
- No guaranteed savings
 - Including paying off CalPERS Side Fund
- PEPRRA 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
- PEPPRA 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 ($\approx 10\%$ 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
 - PEPRRA Summary
 - Other exciting stuff
- Anthony T. Oliveira, *The Local Challenges of Pension Reform*
 - <http://www.tonytoliveira.com/Research.html>

