

**Options to Pay Down the Unfunded Liability,
GASB 68, OPEB,
CalPERS Issues, and Other Fun Stuff**

March 18, 2015

John E. Bartel

BARTEL
ASSOCIATES, LLC

Agenda

- | | |
|---|----|
| ■ CalPERS Upcoming Issues | 1 |
| ■ Paying Down the Unfunded Liability/Rate
Stabilization Fund | 9 |
| ■ GASB 45 Implied Subsidy (PEMHCA) | 19 |
| ■ GASB 68 Summary | 24 |
| ■ New GASB OPEB Accounting Standard | 29 |

CalPERS Upcoming Issues

ACCMA 3-18-15

1



CalPERS Upcoming Issues

- Contribution Policy Changes
- Risk Pool Changes
- Assumption Changes

ACCMA 3-18-15

2



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

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



Contribution Policy Changes

- No asset smoothing
- 5-year ramp up
- Future Gains/losses 25 year amortization period
 - With 5 year ramp up means paid over 30 years
- Method & Assumption changes 15 year amortization period
 - With 5 year ramp up means paid over 20 years
- No cap on rate increases each year



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 will see significant cost increases
- **Side Fund payoff no longer guaranteed savings!**



Assumption Changes

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



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



Paying Down Unfunded Liability & Rate Stabilization

ACCMA 3-18-15

9



Options

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

ACCMA 3-18-15

10



POBs

- Interest arbitrage between **expected** CalPERS earnings and rate paid on POB
- No guaranteed savings
 - Including paying off CalPERS Side Fund



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



One Time Payments

- Council/Board resolution to use a portion (e.g. 50%) of one time money to reduce 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 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 Council for other purposes
- PARS & PFM



Establish Irrevocable Supplemental (§115) Trust

- Can mitigate:
 - CalPERS investment volatility
 - Impact of plan becoming over funded



GASB 45

Implicit Rate Subsidy

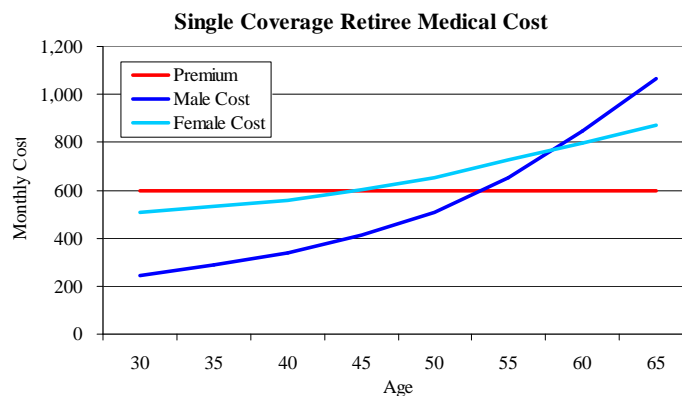
ACCMA 3-18-15

19



GASB 45 – Implicit Rate Subsidy

- Employer cost for allowing retirees to participate at active premium rates



ACCMA 3-18-15

20



GASB 45 – Implicit Rate Subsidy

- GASB 45 defers to Actuarial Standards of Practice (ASOP) for implicit rate subsidy
- Old ASOP says community-rated medical plans not required to value implicit rate subsidy
 - PEMHCA is, for most participating agencies, considered a community-rated plan



GASB 45 – Implicit Rate Subsidy

- New ASOP requires
 - Implicit rate subsidy be valued for all plans
 - Based on medical plan's (not agency's) demographics
 - Cross-employer subsidy would be ignored
 - A few agencies will have liability that will not be defeased
 - A few others will have liability that will be over defeased
- Actuaries must comply with valuation measurement after March 31, 2015



GASB 45 – Implicit Rate Subsidy Estimated Liability Impact

- Varies based on agency demographics
- PEMHCA Minimum: +30-50%
- 100% Single Premium: +15-35%
- 100% Family Premium +10-25%



GASB 68 New Pension Standard Summary



GASB 68

- Pension accounting changes issued 6/25/12:
 - Effective for 2014/15 fiscal year
- Fundamental changes
 - Delinks contributions and accounting
 - Unfunded liability drives expense



GASB 68

- Major issues:
 - Unfunded liability on balance sheet
 - For some may exceed fund balance
 - Lower discount rate if projected assets do not cover projected benefit payments
 - Significant additional disclosure



GASB 68

- Immediate recognition of:
 - Service & interest cost
 - Benefit changes
- Deferred recognition of:
 - Gains/losses & assumption changes, over future working lifetime (average of active and inactive employees) closed period
 - Asset gains/losses over 5 years
- Entry age normal cost method required



GASB 68

- CalPERS will provide for a fee:
 - Stand alone \$2,400
 - Each Risk Pool plan/benefit tier \$850
 - Bulk of fees related to accounting not actuarial work
- Agencies will need to combine reports



New GASB OPEB Accounting Standard



New OPEB Accounting Standard

- Similar to GASB 68
- Likely timing:
 - Final June 2015
 - Effective FYB > 12/31/16
- Fundamental changes
 - Delinks contributions and accounting
 - Unfunded liability recognition drives expense



New OPEB Accounting Standard

- Major issues:
 - Unfunded liability on balance sheet
 - Lower discount rate if projected assets do not cover projected benefit payments
 - Significant additional disclosure



Issues GASB May Revisit

- Discount rate development
- Cost method
- How Implied Subsidy allocated to employers in pooled medical plan
- Other (primarily disclosure) issues



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>

