

# City of Palos Verdes Estates Pension Overview

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# CalPERS Pension Plans

The City maintains four pensions plans for its employees

- ▶ Classic Miscellaneous Employees
- ▶ Classic Safety Employees
- ▶ PEPRAs Miscellaneous Employees
- ▶ PEPRAs Safety Employees

Public Employee's Pension Reform Act (PEPRA) which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members.

- ▶ Employees hired subsequent to December 31, 2012 who do not come from another agency with a reciprocating pension plan.
- ▶ An employee hired subsequent to December 31, 2012, and who is rehired by a different CalPERS employer after a break in service of greater than six months.

# Employer Contributions

- ▶ Normal Cost
  - ▶ The contribution for current accrual of benefits.
- ▶ Unfunded Actuarial Liability (UAL)
  - ▶ Market value of plan assets is less than the present value of accrued benefits (i.e. liability).

# Pension Plans PVE Employer Costs: Current Status

Plan Type	Formula	6/30/2016 Active	6/30/2016 Retired	FY 18-19 Normal Cost %	6/30/2016 UAL	FY 18-19 UAL PMT
Miscellaneous	<u>2@55</u>	29	48	9.41%	\$ 3,389,010	\$ 119,373
Miscellaneous	<u>2@62</u>	8	0	6.84%	\$ 3,751	\$ 362
Public Safety	<u>3@50</u>	23	84	20.56%	\$ 10,682,938	\$ 599,344
Public Safety	<u>2.7@57</u>	1	0	12.14%	\$ 1,152	\$ 567

Note: The MOU approved for the Police Officer Association provides for the sworn officers to contribute an additional 4% of their individual salaries to CalPERS. The total POA contribution is 9% for each sworn officer.

All other employees contribute 7% of their earning to CalPERS.

# Projected Growth in PVE's Misc. Employee Pension Plan

## For Miscellaneous Plans with Funded Ratio over 80%

Revised Discount Rates	7.375%	7.375%	7.25%	7.00%	7.00%	7.00%	7.00%
	2018-19	2019-20	2020-21	2021-22	2022-23	2022-23	2023-244
Normal Cost Rate	9.4%	9.9%	10.8%	10.8%	10.8%	10.8%	10.8%
Normal Cost	\$ 207,370	\$ 225,000	\$ 253,000	\$ 260,000	\$ 268,000	\$ 276,000	\$ 284,000
UAL	\$ 119,204	\$ 176,000	\$ 217,000	\$ 270,000	\$ 315,000	\$ 344,000	\$ 367,000
<b>TOTAL</b>	<b>\$ 326,574</b>	<b>\$ 401,000</b>	<b>\$ 470,000</b>	<b>\$ 530,000</b>	<b>\$ 583,000</b>	<b>\$ 620,000</b>	<b>\$ 651,000</b>
Projected Payroll	\$ 2,203,951	\$ 2,270,000	\$ 2,338,000	\$ 2,408,000	\$ 2,480,000	\$ 2,554,000	\$ 2,631,000
Current "Rate"	14.8%	17.7%	20.1%	22.0%	23.5%	24.3%	24.7%

Note: Discount rate is being lowered from 7.5% to 7% being phased over a 3 year period. The impact results in increased employer contributions.

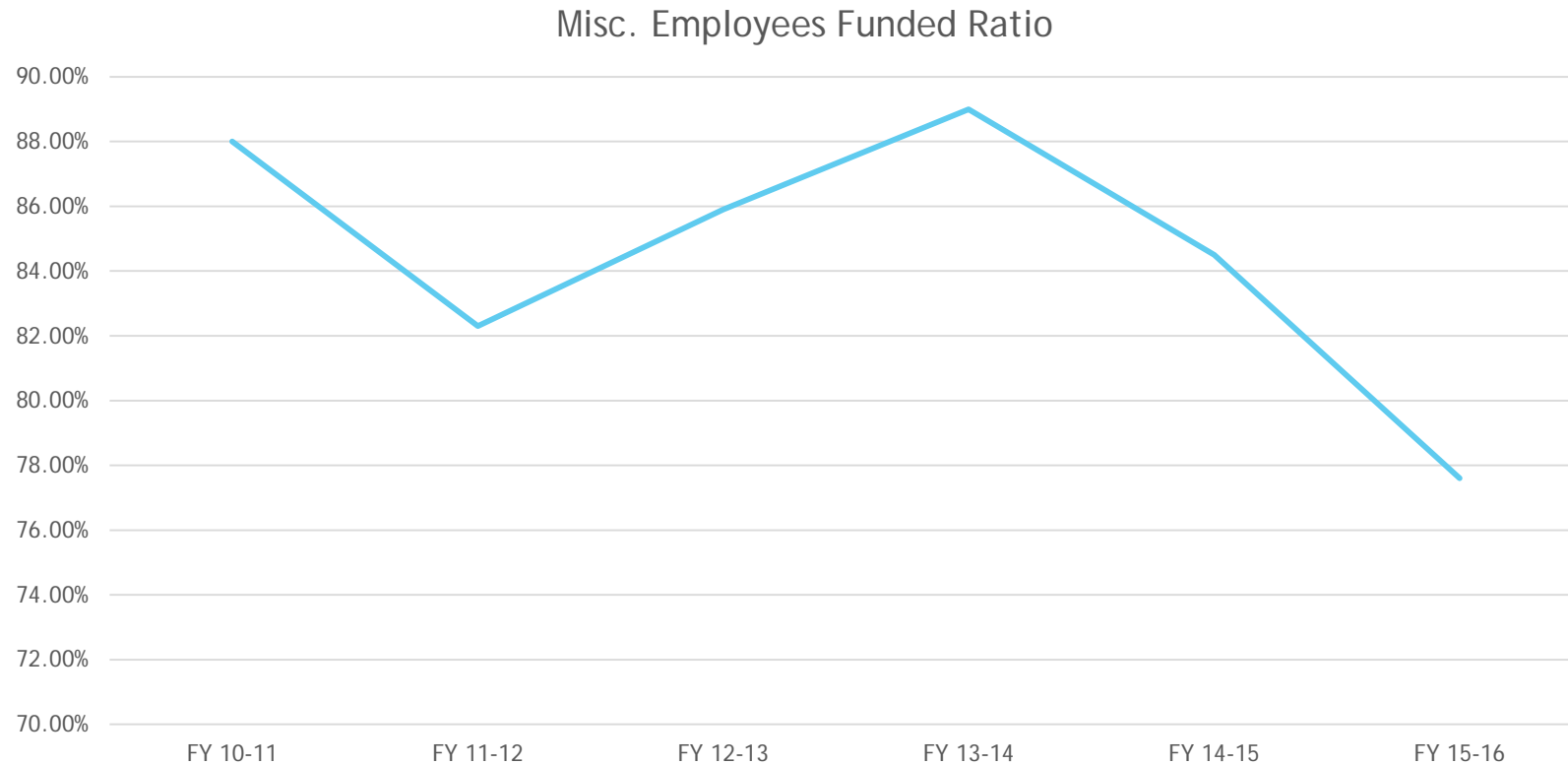
# Projected Growth in PVE's Public Safety Pension Plan

## For Safety Plans with Funded Ratio between 70%-80%

Revised Discount Rates	7.375%	7.375%	7.25%	7.00%	7.00%	7.00%	7.00%
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Nornal Cost Rate	20.556%	21.4%	23.2%	23.2%	23.2%	23.2%	23.2%
Nornal Cost	\$ 560,000	\$ 600,000	\$ 670,000	\$ 690,000	\$ 711,000	\$ 732,000	\$ 754,000
UAL	\$ 599,344	\$ 744,000	\$ 852,000	\$ 988,000	\$ 1,104,000	\$ 1,183,000	\$ 1,250,000
<b>TOTAL</b>	<b>\$ 1,159,344</b>	<b>\$ 1,344,000</b>	<b>\$ 1,522,000</b>	<b>\$ 1,678,000</b>	<b>\$ 1,815,000</b>	<b>\$ 1,915,000</b>	<b>\$ 2,004,000</b>
Projected Payroll	\$ 2,721,951	\$ 2,804,000	\$ 2,888,000	\$ 2,975,000	\$ 3,064,000	\$ 3,156,000	\$ 3,251,000
Revised "Rate"	42.6%	47.9%	52.7%	56.4%	59.2%	60.7%	61.6%

Note: Discount rate is being lowered from 7.5% to 7% being phased over a 3 year period. The impact results in increased employer contributions.

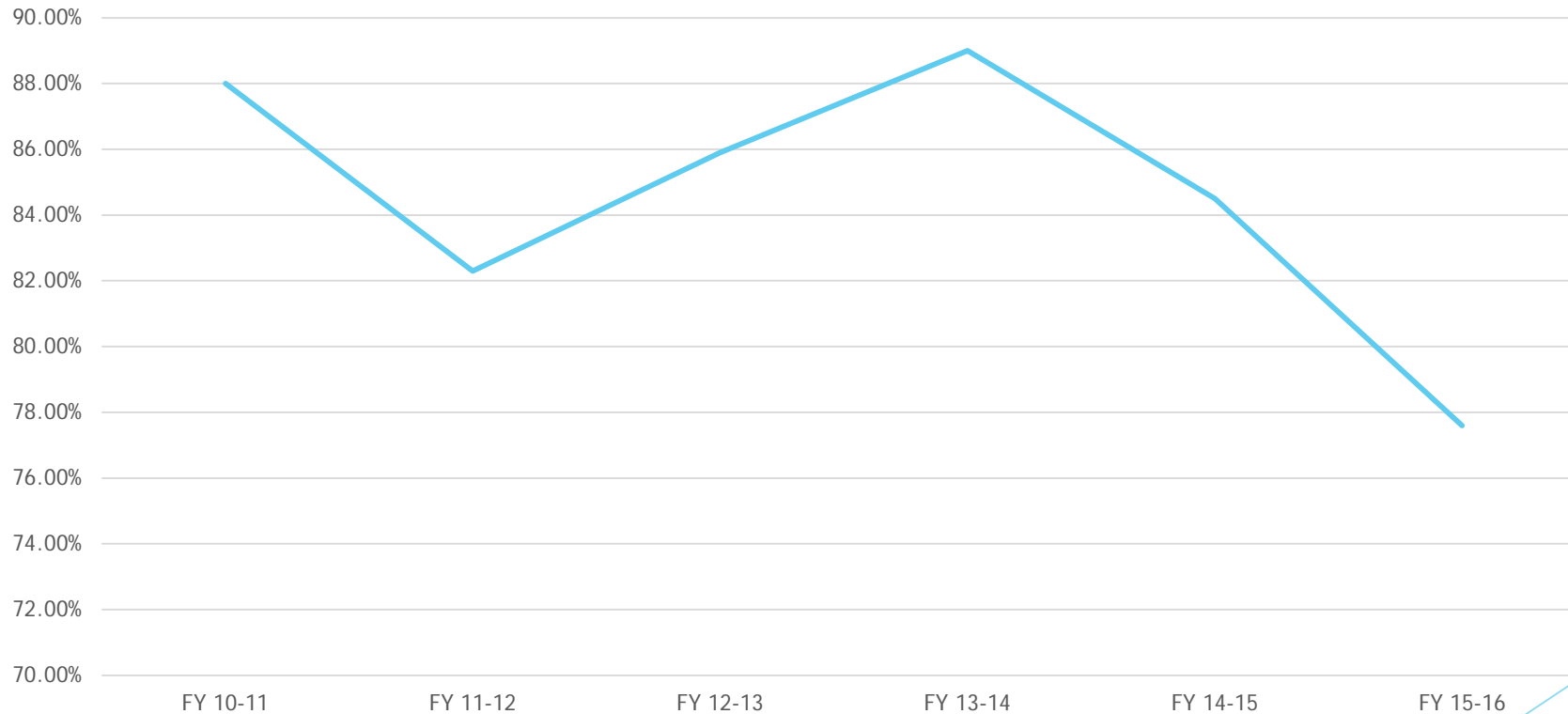
# Miscellaneous Employee Classic Plan Funded Ratio FY 2010/11 - 2015/16



Note: Decrease in funding ratio has prompted CalPERS to lower the discount rates to require additional contributions.

# Public Safety Classic Plan Funded Ratio FY 2010/11 - 2015/16

Public Safety Employees Funded Ratio



Note: Decrease in funding ratio has prompted CalPERS to lower the discount rates to require additional contributions.



# Potential Future Impacts from CalPERS

Every four years CalPERS performs an Asset Liability Management (ALM) review to:

- ▶ Candidate Portfolios
- ▶ Investment Decision Factors
- ▶ Actuarial Decision Factors
- ▶ ALM Model Results (Cost vs. Volatility Trade-off)

Note: This review allows CalPERS to evaluate market conditions, the performance of their investments and ongoing and future liabilities.

# CalPER's Candidate Portfolios

Asset Allocation of Preliminary Candidate Portfolios					Allocation 9/30/2017	Interim Policy 9/30/2016	ALM Policy 2013
Asset Class Component	Candidate A ○	Candidate B ○	Candidate C △	Candidate D ○	□	□	□
Global Equity	34%	42%	50%	59%	50%	46%	47%
Private Equity	8%	8%	8%	8%	8%	8%	12%
Fixed Income	44%	36%	28%	19%	19%	20%	19%
Real Assets	13%	13%	13%	13%	-	-	-
Real Estate	-	-	-	-	9%	11%	11%
Infrastructure/Forestland	-	-	-	-	2%	2%	3%
Inflation Assets	0%	0%	0%	0%	8%	9%	6%
Liquidity	1%	1%	1%	1%	4%	4%	2%
Expected Compound Return (1-10 yrs.)	5.6%	5.8%	6.1%	6.4%	6.0%	5.9%	6.2%
Long Term Expected Return (11-60 yrs.)	7.8%	8.0%	8.3%	8.5%	8.1%	8.0%	8.3%
Blended Return (1-60 yrs.)	6.50%	6.75%	7.00%	7.25%	6.85%	6.77%	7.09%
Expected Volatility	9.1%	10.2%	11.4%	12.8%	11.5%	11.0%	12.0%
Cash Yield:	3.1%	3.0%	2.9%	2.7%	-	-	-

# Candidate Portfolio

## Future Discount Rate Determinations

Portfolio	Discount Rate <sup>1</sup>	Volatility
A	6.50%	9.1%
B	6.75%	10.2%
C	7.00%	11.4%
D	7.25%	12.8%

Note: Discount rate will be 7% in FY 2021/22. CalPERS is considering lowering the discount rate for subsequent years as shown above. Further lowering of rate will increase employer contributions.

# Next Steps and Questions

- ▶ Continuous evaluation of CalPers actions
- ▶ Evaluate City budget impacts
- ▶ Determine City/employer and employee contributions