CITY OF HEALDSBURG
MISCELLANEOUS AND SAFETY PLANS

BARTEL ASSOCIATES, LLC

CalPERS Actuarial Issues – 6/30/13 Valuation
Preliminary Results

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PENSION TERMINOLOGY

- Defined Benefit Plan: Guaranteed annual pension based on retirement age, years of service and salary, for example
  - Public Sector – CalPERS
  - Private Sector – Generally only very large employers
- Defined Contribution Plan: Employer contribution is a fixed dollar amount; benefit based on contributions and investment earnings net of expenses
  - Public Sector – 457 Plan
  - Private Sector – 401(k) Plan
- Individual Vested Rights: As determined by CA Supreme Court
  - Employee must be eligible to continue earning benefit formula in place when hired.
  - Cannot be reduced or eliminated unless traded for something of equal or greater value.
  - Individual right, cannot be negotiated away.
  - Recent Stockton decision indicates may be set aside in bankruptcy

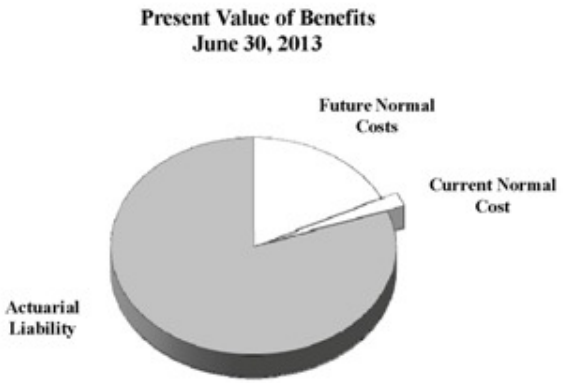
CALPERS HISTORY

- Established in 1932
- Local public agency employees allowed to contract with CalPERS in 1939
- Investment strategy
  - Initial legislation had tight restrictions on how funds could be invested
  - Proposition 21 passed in 1984 allowed CalPERS to invest up to 25% of assets in public equities
  - Proposition 162 passed in 1992 allowing board to have absolute and exclusive powers over administration and investment of CalPERS funds

CALPERS HISTORY

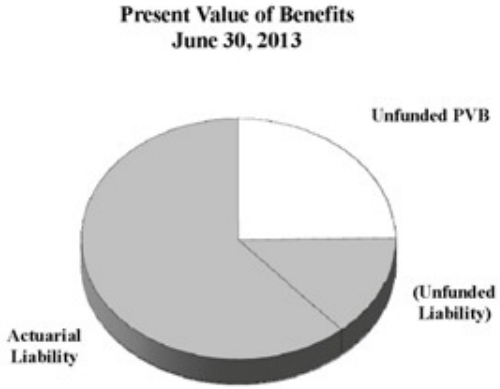
- Enhanced pension formulas
  - SB 400 passed in 1999 allowed enhanced Safety formulas
    - Before: 2%@55, 2.5%@55, 2%@50
    - Added formulas: 3%@55, 3%@50
  - AB 616 passed in 2001 allowed enhanced Miscellaneous formulas
    - Before: 2%@60, 2%@55
    - Added formulas: 2.5%@55, 2.7%@55, 3%@60
  - Adopting enhanced formulas applied retroactively to all agency service
- CalPERS Retirement formulas
  - Options used to vary based on contract between Agency and CalPERS
  - New Law (PEPRA) now mandates formulas

DEFINITIONS



- **PVB - Present Value of all Projected Benefits:**
  - Discounted value (at valuation date - 6/30/13), of all future expected benefit payments based on various (actuarial) assumptions
- **Actuarial Liability:**
  - Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
  - Portion of PVB "earned" at measurement
- **Current Normal Cost:**
  - Portion of PVB allocated to (or "earned" during) current year
  - Value of employee and employer current service benefit

DEFINITIONS



- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability -** Money short of target <u>at valuation date</u>
- **Excess Assets / Surplus:**
  - Money over and above target <u>at that point in time</u>
  - Doesn't mean you're done contributing
- **Super Funded:**
  - Assets cover whole pie (PVB)
  - If everything goes exactly like PERS calculated, you'll never have to put another (employer or employee) dime in

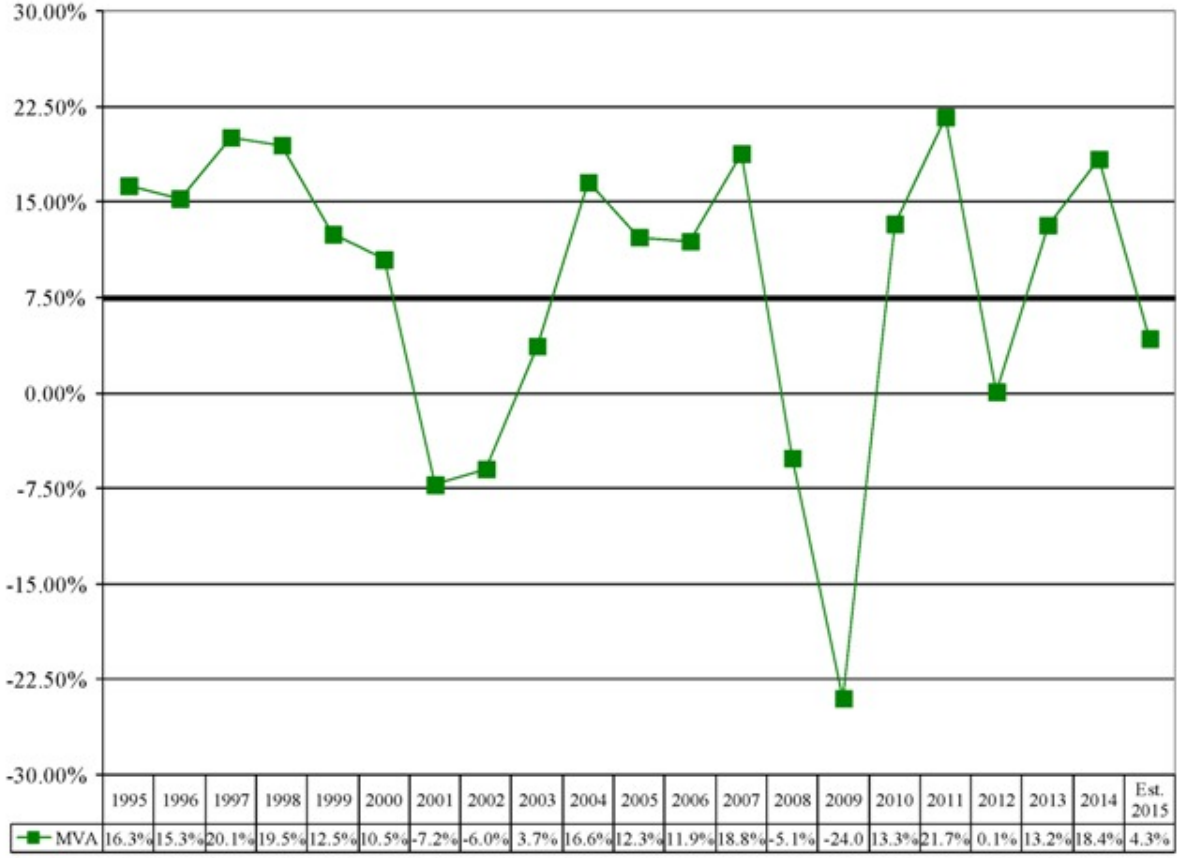
CALPERS CHANGES

- Contribution policy changes:
  - No asset smoothing
  - 5-year ramp up
  - Included in 6/30/13 valuation (first impact 15/16 rates; full impact 19/20)
- Assumption changes:
  - Anticipate future mortality improvement
  - Other, less significant, changes
  - Included in 6/30/14 valuation (first impact 16/17 rates; full impact 20/21)
- Risk Pool changes
  - All Risk Pools combined into one Miscellaneous & one Safety
  - Collect payment on UAL as dollar amount, not as % of pay
  - Payments allocated to agencies based on liability & assets rather than payroll
  - Included in 6/30/13 valuation (impacts 15/16 rates)

PENSION OBLIGATION BONDS

- City issued two Pension Obligation Bonds (POBs) in 2012:
  - Miscellaneous: $ 6,339,200
  - Safety: 2,578,200
  - Total: 8,917,400
- Outstanding POB balance as of 6/30/14: $8,003,600
- Pay off dates
  - Misc 6/30/2023
  - Safety 6/30/2020
- POB issued (borrowed) to pay off a portion of the unfunded liability
  - Pension Plan unfunded liability goes down
  - City still owes money to bond holders
  - POB debt remains a debt related to pension plan
    - Similar to if an individual borrows to pay off a portion of a home loan
- POB is an arbitrage between:
  - Interest paid to bond holders and
  - Interest POB proceeds earn in pension system (expected, but not guaranteed, to be 7.5%)

INVESTMENT RETURN



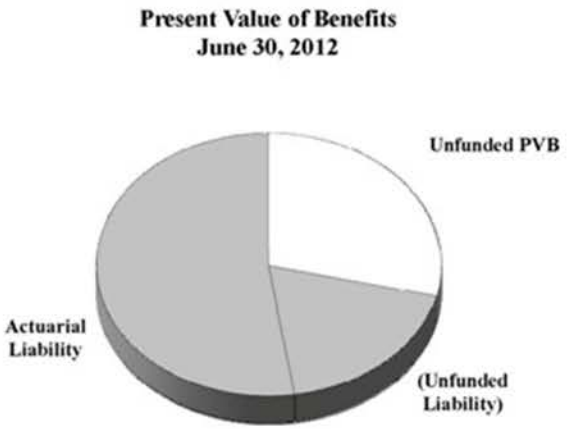
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Est. 2015
MVA	16.3%	15.3%	20.1%	19.5%	12.5%	10.5%	-7.2%	-6.0%	3.7%	16.6%	12.3%	11.9%	18.8%	-5.1%	-24.0	13.3%	21.7%	0.1%	13.2%	18.4%	4.3%

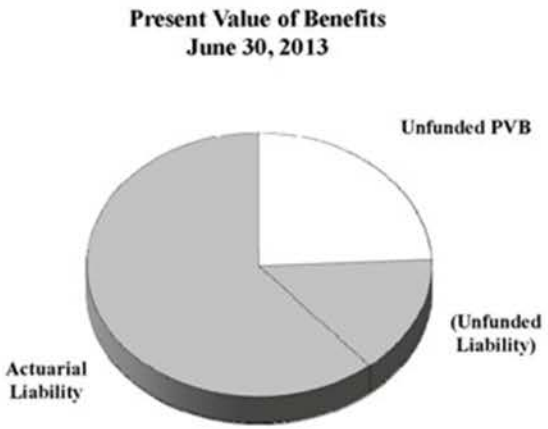
Above assumes contributions, payments, etc. received evenly throughout year.
Estimated June 30, 2015 based on CalPERS actual return through 2/28/15 and assumed 7.5% annual return for the remaining 4 months.

SUMMARY OF DEMOGRAPHIC INFORMATION – MISCELLANEOUS

	2011	2012	2013
Actives			
■ Counts	85	87	84
■ Average PERSable Wages	$85,000	$87,900	$80,000
■ Total PERSable Wages (millions)	7.3	7.6	6.7
Inactive Counts			
■ Transferred	51	46	52
■ Separated	27	31	27
■ Receiving Payments	90	97	100

PLAN FUNDED STATUS – MISCELLANEOUS





June 30, 2012		June 30, 2013
$ 57,500,000	Actuarial Liability	$ 59,100,000
43,800,000	Actuarial Asset Value	N/A
(13,700,000)	(Unfunded Liability)	N/A
June 30, 2012		June 30, 2013
$ 57,500,000	Actuarial Liability	$ 59,100,000
36,800,000	Market Asset Value	45,000,000
(20,700,000)	(Unfunded Liability)	(14,100,000)

CONTRIBUTION RATES – MISCELLANEOUS

■ Valuation	**6/30/12**	**6/30/13**
■ Contribution Year	**2014/15**	**2015/16**
■ Required Employer Contribution		
● Risk Pool's Net Employer Normal Cost	8.9%	9.0%
● Final Average Compensation (1-Year)	0.6%	0.6%
● Post-Retirement Survivor Allowance	0.9%	0.9%
● **Total Normal Cost**	**10.4%**	**10.5%**
● Risk Pool's Payment on Amortization Bases	6.2%	9.8%
● **Total Employer Contribution**	**16.6%**	**20.4%**
● **Total Employer Contribution $ w/o POB Payment**	**$1,387**	**$1,499**
● **Total Employer Contribution $ w/ POB Payment**	**1,970**	**2,227**

■ What Happened from 6/30/12 to 6/30/13 (without POB):

● 2014/15 Rate	16.6%
● Asset Method	1.3%
● Risk Pool Changes	2.4%
● (Gains)/Losses	0.1%
● 2015/16 Rate	20.4%

CONTRIBUTION PROJECTIONS – MISCELLANEOUS

- Market Value Investment Return:
  - June 30, 2012 — 0.1%[1]
  - June 30, 2013 — 13.2%[3]
  - June 30, 2014 — 18.4%[3]

	Poor	Expected	Good
June 30, 2015[2]	**1.9%**	**4.3%**	**6.7%**
June 30, 2016 - 2020	**0.2% - 4.1%**	**7.5%**	**11.3% - 15.1%**

- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- Includes CalPERS Board adopted assumption changes, first impact 2016/17
- New hire assumptions:
  - Assumes 50% of 2013 new hires will be Classic Members (2.5%@55) and 50% will be New Members with PEPRA benefits.
  - Assumes Classic Members will decrease from 50% to 0% of new hires over 20 years

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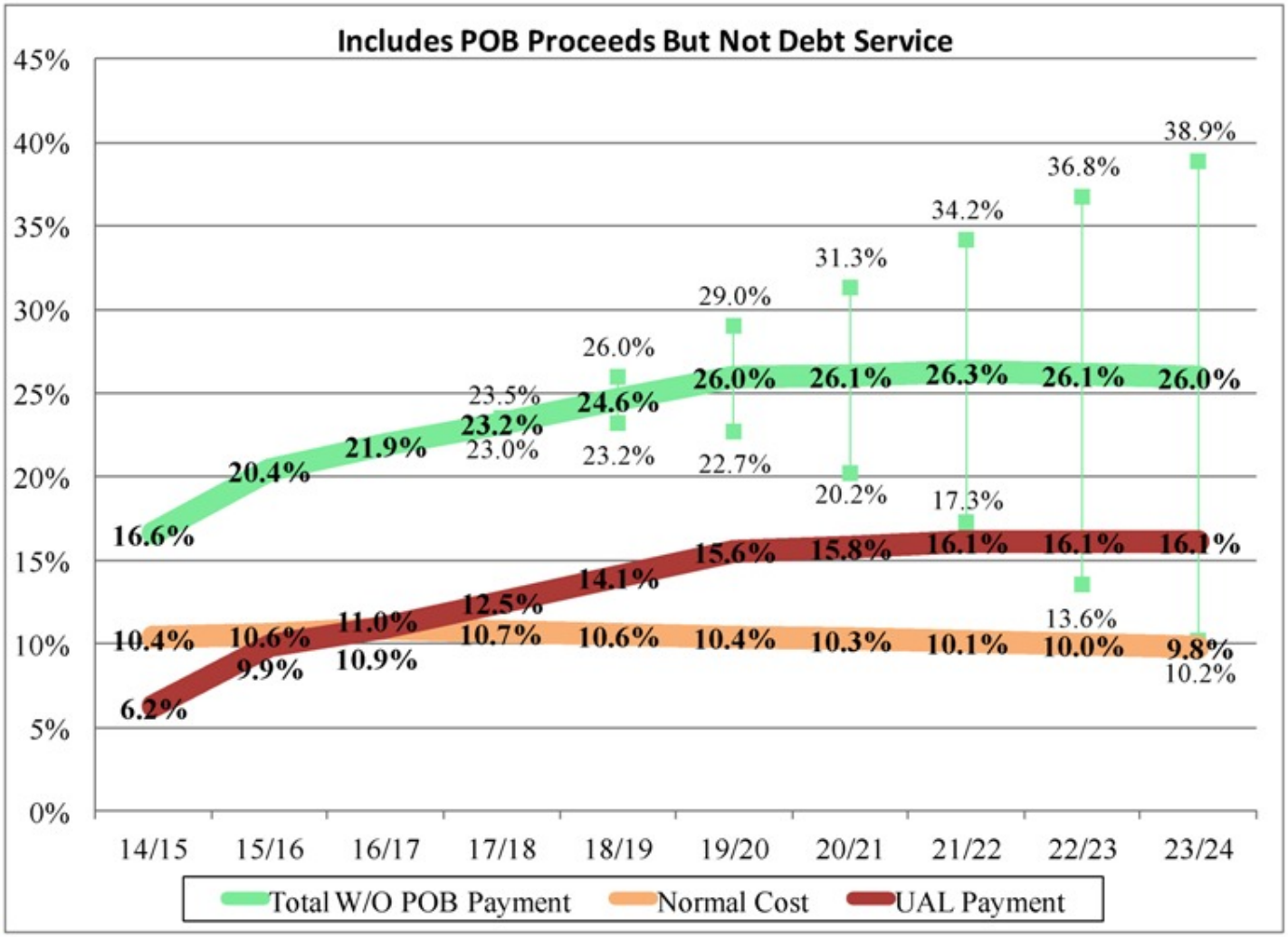
1 Based on CalPERS CAFR.

2 Based on CalPERS return of 1.8% through 2/28/15 and assumed annual return for 4 months.

CONTRIBUTION PROJECTIONS – MISCELLANEOUS

- Contribution projections include
  - New Contribution Policy Changes
  - Risk pool changes
    - Agency's payroll share: 0.352%
    - Agency's liability share: 0.500%
    - Higher contribution because of higher liability share compared to payroll share
  - Contribution policy & risk pool changes took place in June 30, 2013 valuation first affecting 2015/16 contribution rate

CONTRIBUTION PROJECTIONS – MISCELLANEOUS



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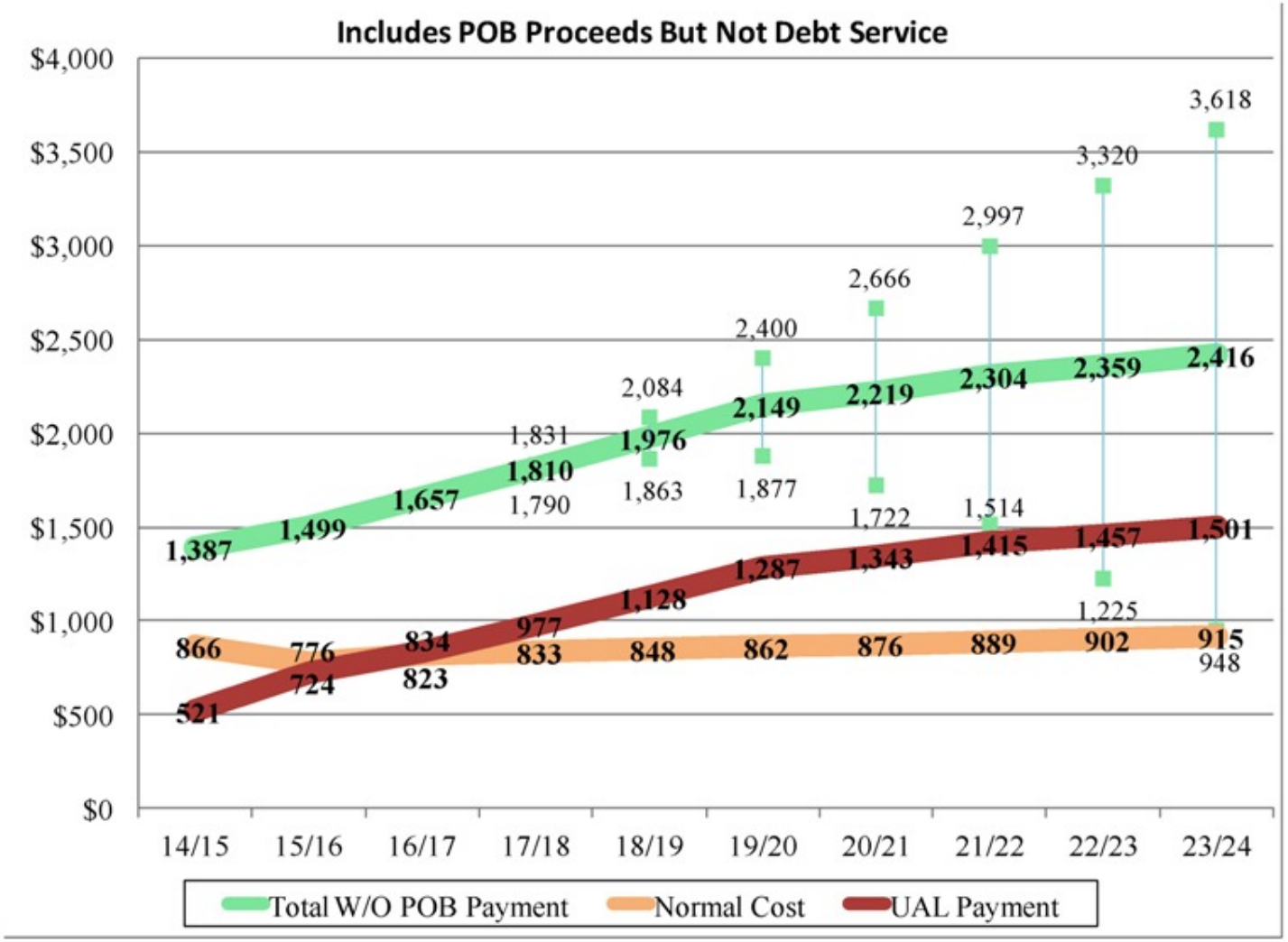

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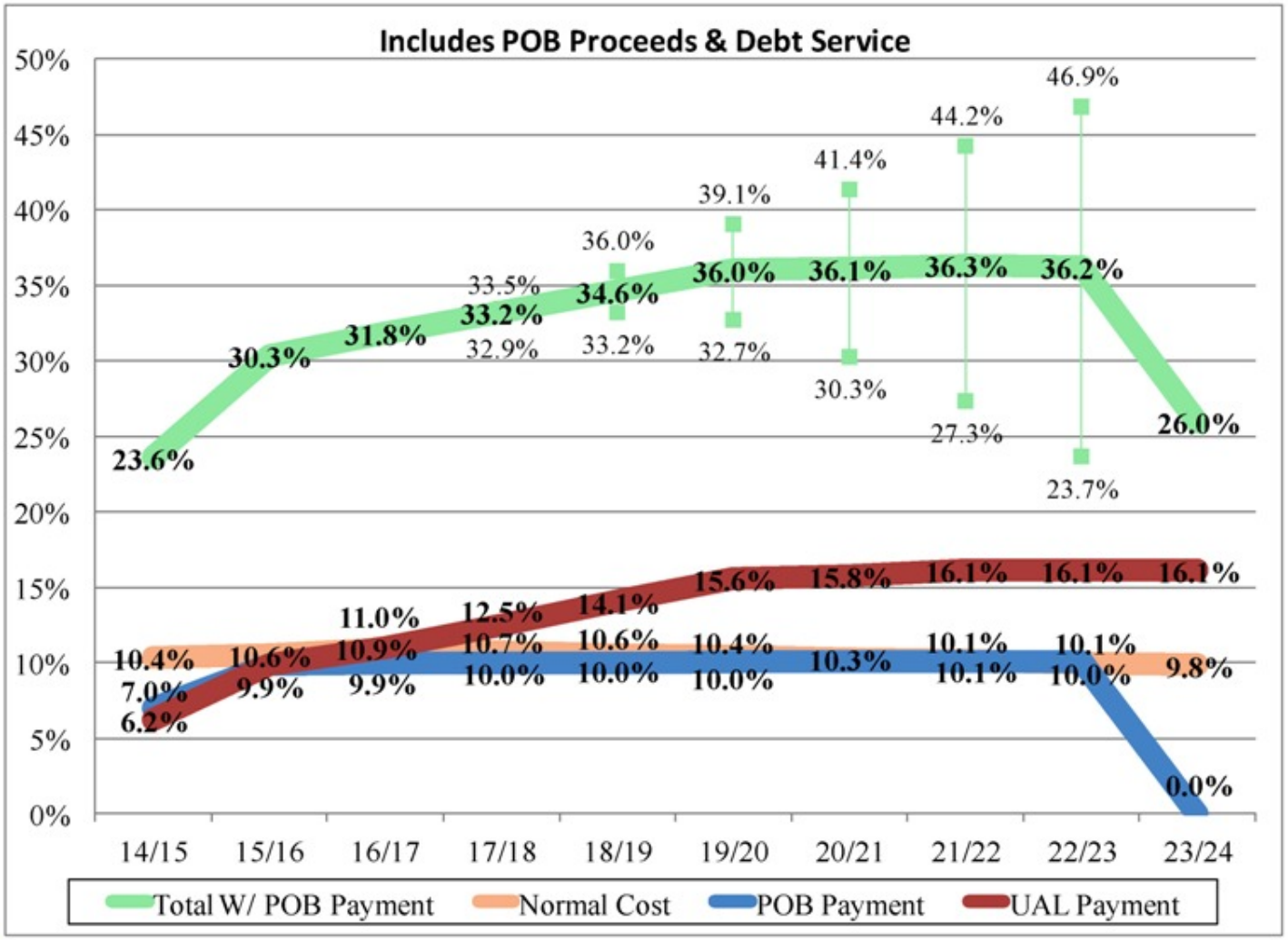

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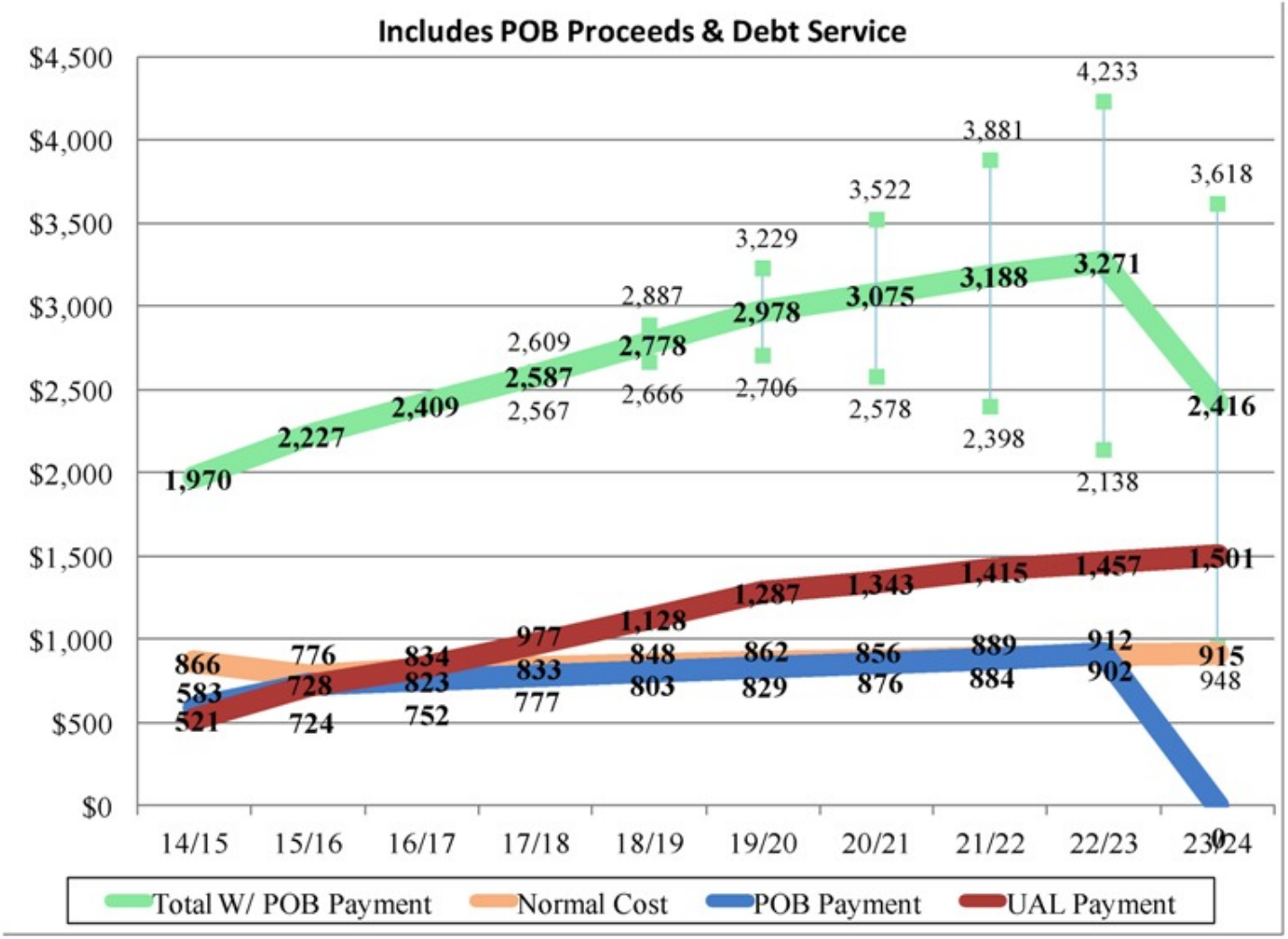
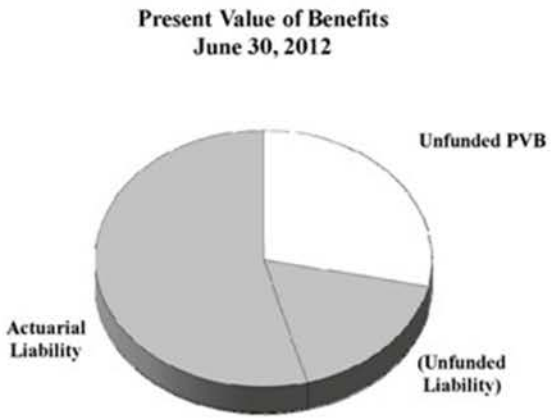
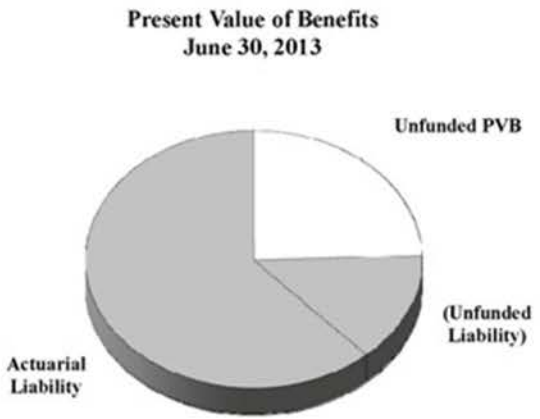


SUMMARY OF DEMOGRAPHIC INFORMATION – SAFETY

	2011	2012	2013
Actives			
■ Counts	27	26	25
■ Average PERSable Wages	$96,500	$98,000	$94,400
■ Total PERSable Wages (millions)	2.6	2.6	2.4
Inactive Counts			
■ Transferred	4	4	8
■ Separated	5	6	6
■ Receiving Payments	43	44	45

PLAN FUNDED STATUS – SAFETY





June 30, 2012		June 30, 2013
$ 31,400,000	Actuarial Liability	$ 32,900,000
25,400,000	Actuarial Asset Value	N/A
(6,000,000)	(Unfunded Liability)	N/A
June 30, 2012		June 30, 2013
$ 31,4[illegible]000	Actuarial Liability	$ 32,900,000
21,3[illegible]000	Market Asset Value	25,500,000
(10,100,000)		(7,400,000)

CONTRIBUTION RATES – SAFETY

■ Valuation	**6/30/12**	**6/30/13**
■ Contribution Year	**2014/15**	**2015/16**
■ Required Employer Contribution		
● Risk Pool's Net Employer Normal Cost	17.5%	17.4%
● Final Average Compensation (1-Year)	1.0%	0.9%
● Post-Retirement Survivor Allowance	0.0%	0.0%
● **Total Normal Cost**	**18.5%**	**18.5%**
● Risk Pool's Payment on Amortization Bases	9.4%	13.3%
● **Total Employer Contribution**	**27.8%**	**31.6%**
● **Total Employer Contribution $ w/o POB Payment**	**$ 776**	**$ 816**
● **Total Employer Contribution $ w/ POB Payment**	**1,121**	**1,217**

■ What Happened from 6/30/12 to 6/30/13 (without POB):

● 2014/15 Rate	27.8%
● Asset Method	2.3%
● Risk Pool Changes	2.0%
● (Gains)/Losses	-0.5%
● 2015/16 Rate	31.6%

CONTRIBUTION PROJECTIONS – SAFETY

- Market Value Investment Return:
  - June 30, 2012 — 0.1%[3]
  - June 30, 2013 — 13.2%[7]
  - June 30, 2014 — 18.4%[7]

	Poor	Expected	Good
June 30, 2015[4]	**1.9%**	**4.3%**	**6.7%**
June 30, 2016 - 2020	**0.2% - 4.1%**	**7.5%**	**11.3% - 15.1%**

- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- Includes CalPERS Board adopted assumption changes, first impact 2016/17
- New hire assumptions:
  - Assumes 50% of 2013 new hires will be Classic Members (3%@50) and 50% will be New Members with PEPRA benefits.
  - Assumes Classic Members will decrease from 50% to 0% of new hires over 20 years

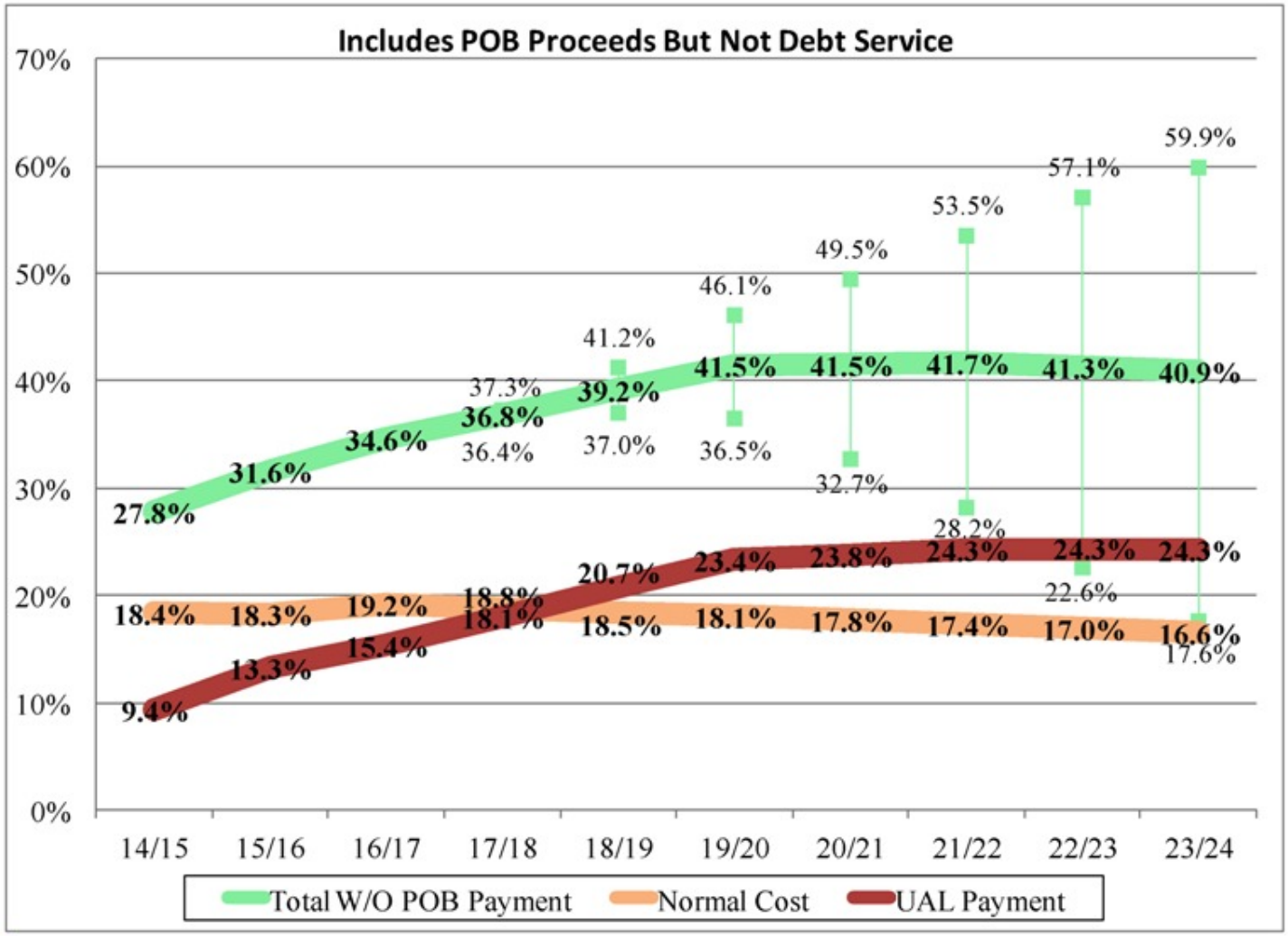
[3] Based on CalPERS CAFR.

[4] Based on CalPERS return of 1.8% through 2/28/15 and assumed annual return for 4 months.

CONTRIBUTION PROJECTIONS – SAFETY

- Contribution projections include
  - New Contribution Policy Changes
  - Risk pool changes
    - Agency's payroll share: 0.187%
    - Agency's liability share: 0.204%
    - Higher contribution because of higher liability share compared to payroll share
  - Contribution policy & risk pool changes took place in June 30, 2013 valuation first affecting 2015/16 contribution rate

CONTRIBUTION PROJECTIONS – SAFETY



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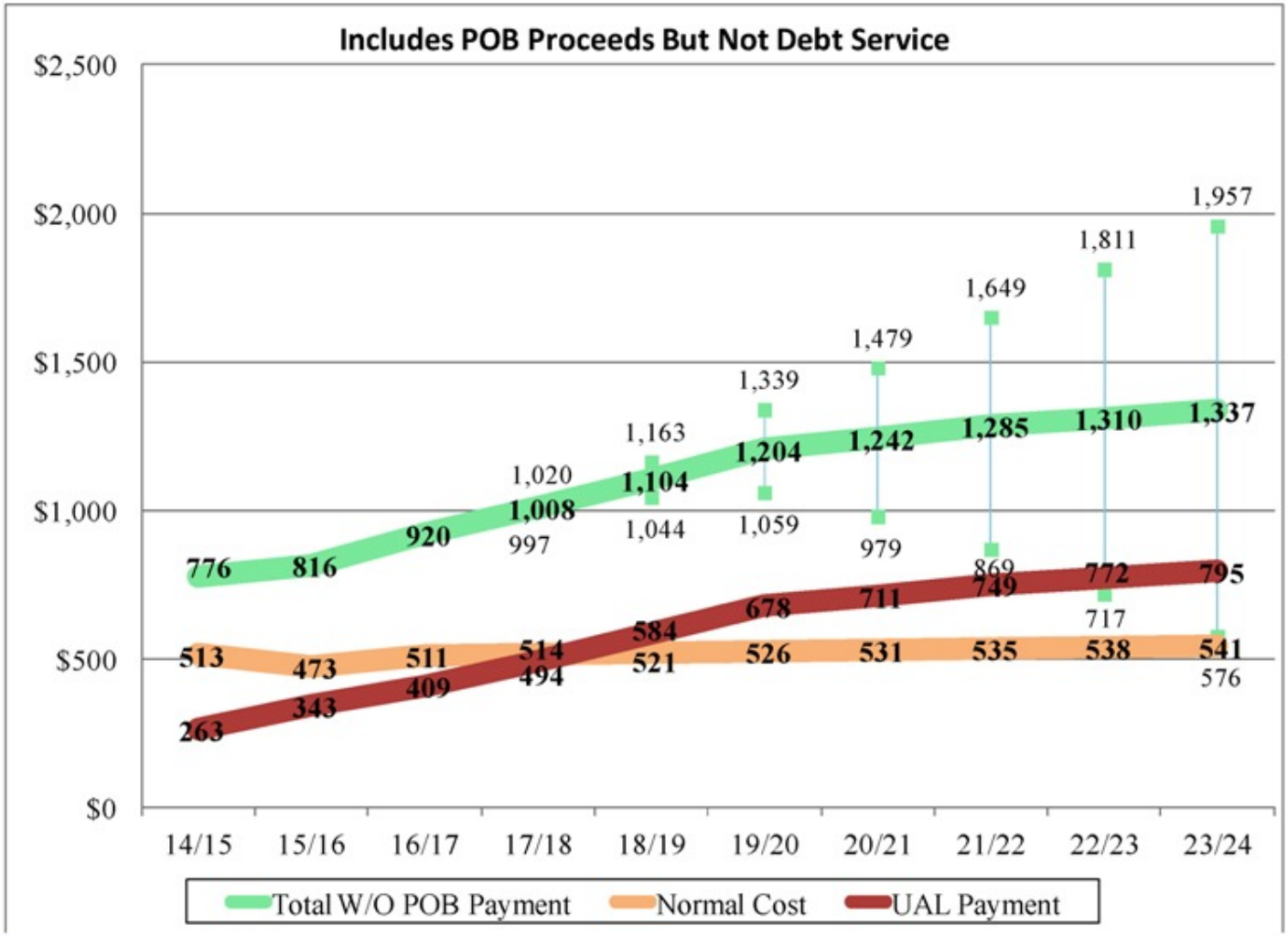

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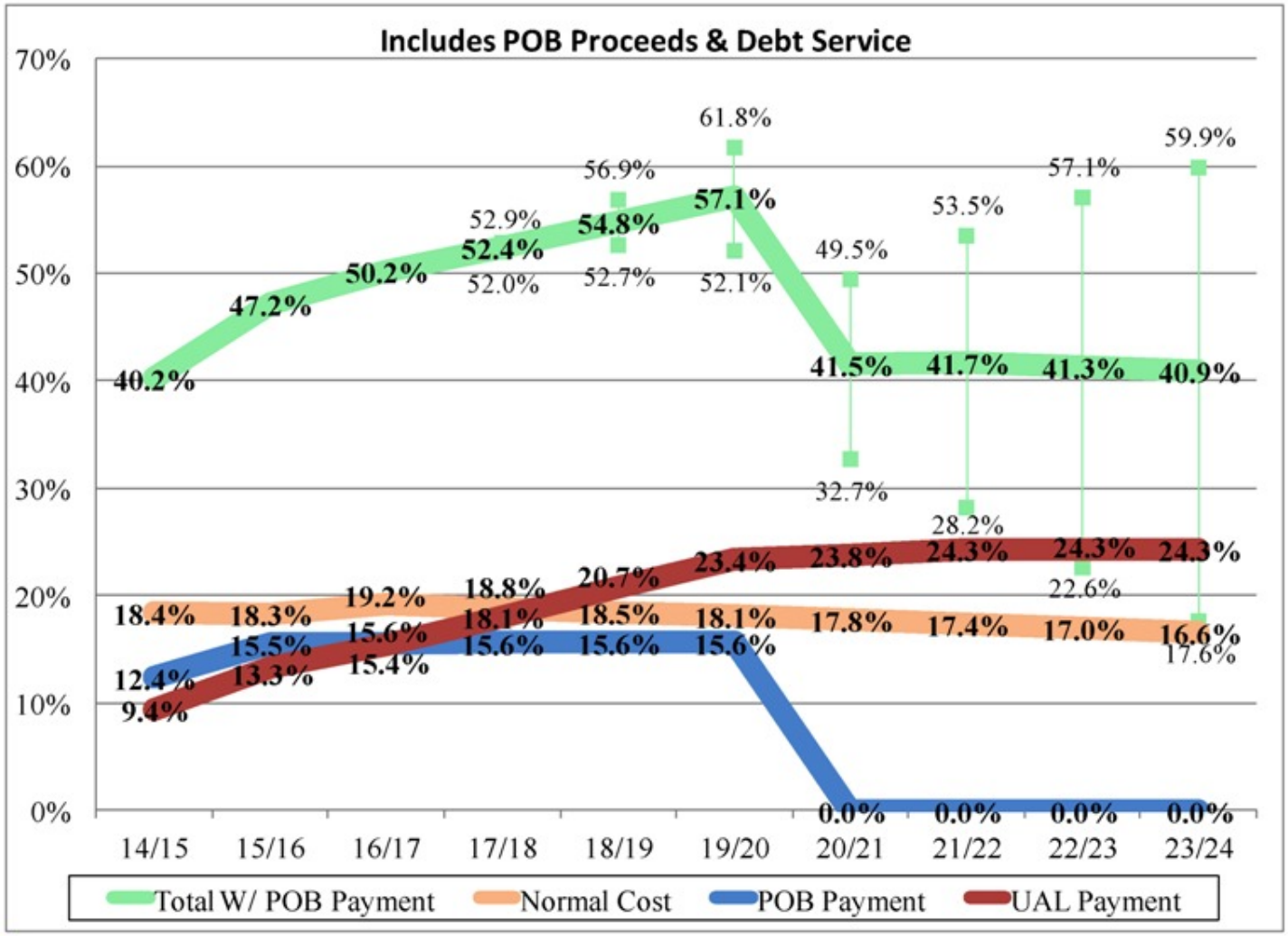

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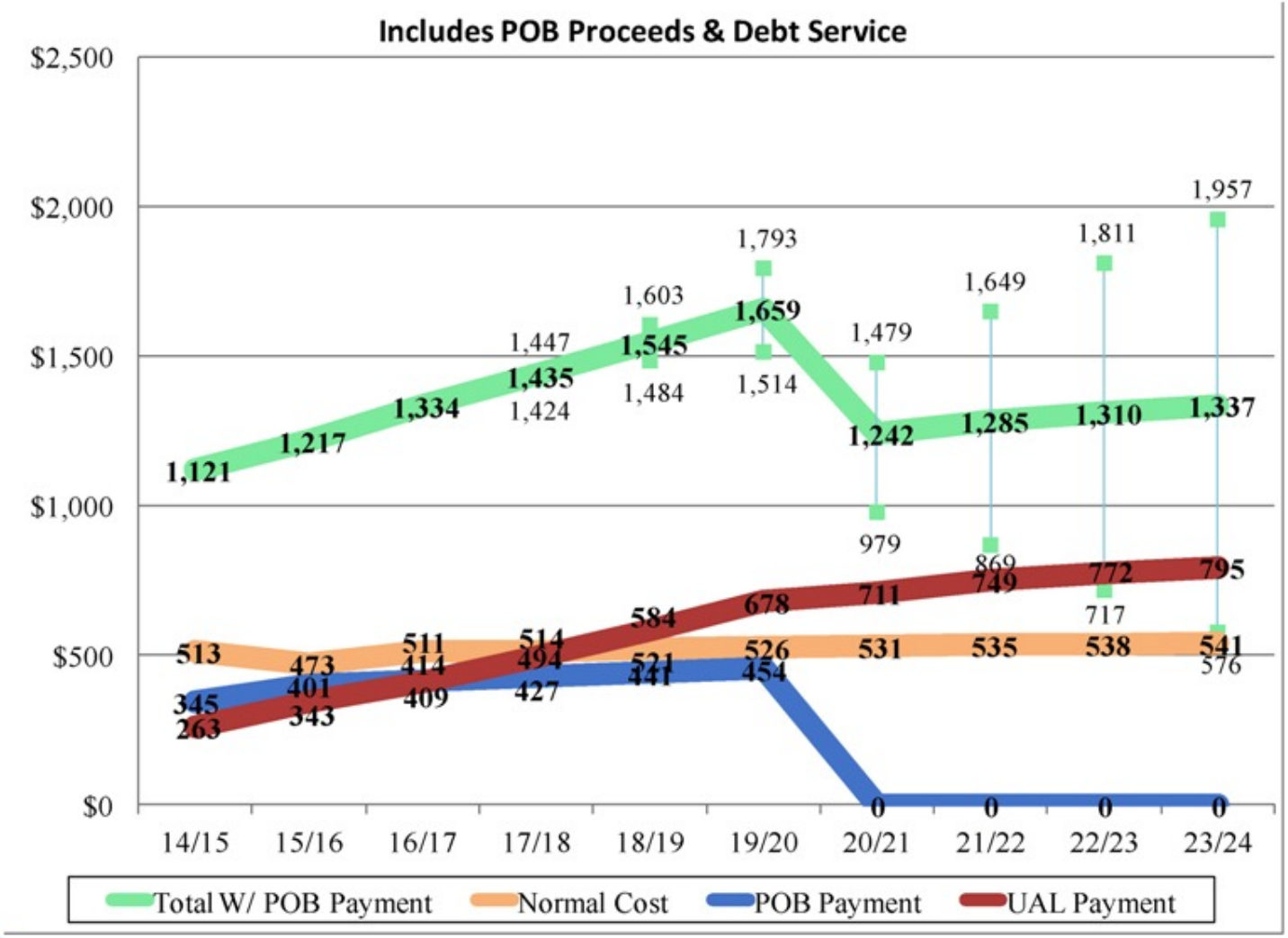

GASB 68

- **Pension Accounting:**
  - GASB 68, Accounting for Employers, approved June 25, 2012
  - Replaces GASB 27
  - Effective 2014/15
- **Major Issues:**
  - Unfunded liability on balance sheet
  - Expense calculation disconnected from contribution calculation
  - Discount rate is
    - ☐ Expected return on plan assets when assets sufficient to pay benefits
    - ☐ Municipal bond rate when assets not sufficient to pay benefits

    Likely caused CalPERS to modify assets smoothing and/or amortization policy to avoid using discount rate lower than expected return (7.5%).
- **Estimated June 30, 2014 Unfunded Actuarial Liability** (in Millions)

Plan	Total Pension Liability (AAL)	Fiduciary Net Position (MVA)	Net Pension Liability (UAL)
Safety	$ 34.3	$ 29.4	$ 4.9
Miscellaneous	62.8	53.2	9.6
Estimated Total Net Pension Liability			**$ 14.5**

  - Does not include POB Balance

GASB 68

- CalPERS
  - Actuaries have approval from CalPERS Board to make necessary system changes & have begun work.
  - Intend to provide June 30, 2015 GASB 68 information in spring 2015.
  - Expect to provide only upon request.
  - Will charge small fee, set in early 2015.

PEPRA COST SHARING

- Target of 50% of total normal cost for everyone
- *New members* must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of *new member* required employee contributions
- Employer may impose current employees pay 50% of total normal cost (limited to certain amounts) if not agreed through collective bargaining by 1/1/18
- Miscellaneous Plan:

	Current Members	New Members
	Tier 1	**PEPRA**
	2.5%@55	**2%@62**
	FAE1	**FAE3**
Employer Normal Cost	10.6%	6.7%
Member Normal Cost	8.0%	6.5%
Total Normal Cost	18.6%	13.2%
50% Target	9.3%	6.6%

PEPRA COST SHARING

- Safety Plan

	Current Members	New Members
	Tier 1	**PEPRA**
	3%@50	**2.7%@57**
Employer Normal Cost	18.5%	11.2%
Member Normal Cost	9.0%	11.5%
Total Normal Cost	27.5%	22.7%
50% Target	13.75%	11.35%

PAYING DOWN THE UNFUNDED LIABILITY

- Pension Obligation Bond (POB)
  - Interest arbitrage between expected CalPERS earnings and rate paid on POB
  - Not guaranteed
- Borrow from General Fund
  - Pay GF back like a loan
  - Payments come from all funds
- Request shorter amortization period of CalPERS
  - Higher short term payments
  - Less interest and lower long term payments
- One time payments
  - Council resolution to use portion of one time money

PAYING DOWN THE UNFUNDED LIABILITY

- Internal Service Fund vs. Irrevocable Supplemental (§115) Pension Trust
  - Internal Service Fund
    - 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
  - Irrevocable Supplemental (§115) Pension Trust
    - One Trust established so far
    - PARS & PFM
    - Investments significantly less restricted
      - Designed for long term returns
      - Likely much higher (5% - 7%) investment return
    - Assets could not be used by Council for other purposes
    - Can only be used to pay
      - Reimburse County for CalPERS contributions
      - Make payments directly to CalPERS