

CALPERS PENSION UPDATE

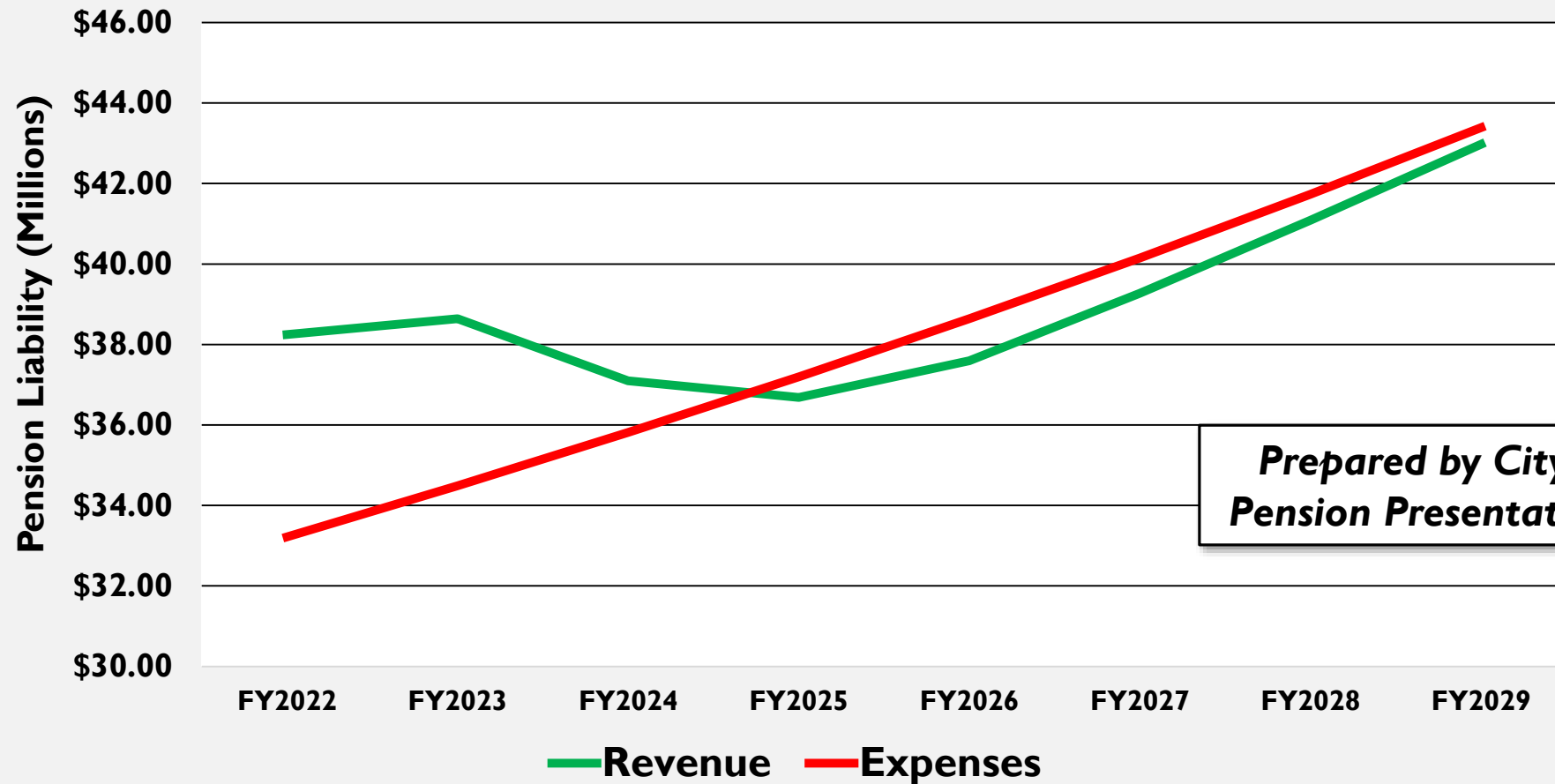
Presented to Beaumont City Council

September 21, 2021

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LONG-TERM FINANCIAL FORECAST PRESENTED 3/2020 – GENERAL FUND

Long-term Financial Forecast



PENSION STUDY RESULTS

- **Pension Costs**
 - Projected Growth – **7% Annually**
 - Next **12 years**
- **Long-Term Pension Costs (After FY2033)**
 - Outlook Improves **Out Years**
 - Mostly due to **PEPRA**
- **After FY2033**
 - Pension Liability Projected to be **Paid Off**
 - Almost All Employees Will Be **PEPRA**
- **Preferred Options to Address Pension Liability (Bartel Associates):**
 - Place Funds In A **Pension 115 Trust**
 - **Direct Contributions** to CalPERS to Pay Down Unfunded Liability

PENSION COSTS OVERVIEW

- **Two Liability Types**
 - **Normal Costs**
 - **Unfunded Liability**
- **Normal Costs**
 - Associated w/ **Existing Employees**
 - Computed as **Percentage of Wages**
- **Liability Costs**
 - Associated w/ **Past & Current Employees**
 - Cost of Future **Benefits Exceed Amount of Funds Available** to pay those benefits
- **Annual City Costs**
 - City Makes **Payments** to CalPERS
 - Applied to **Normal & Liability Costs**

INPUTS INTO THE PENSION SYSTEM

Two Major Inputs to the Pension System

- **Contributions**
 - **Employers Contributions**
 - **Employees Contributions**
- **Investment Returns**
 - **Gains/Losses**
 - Subject to CalPERS **Amortization Policy**

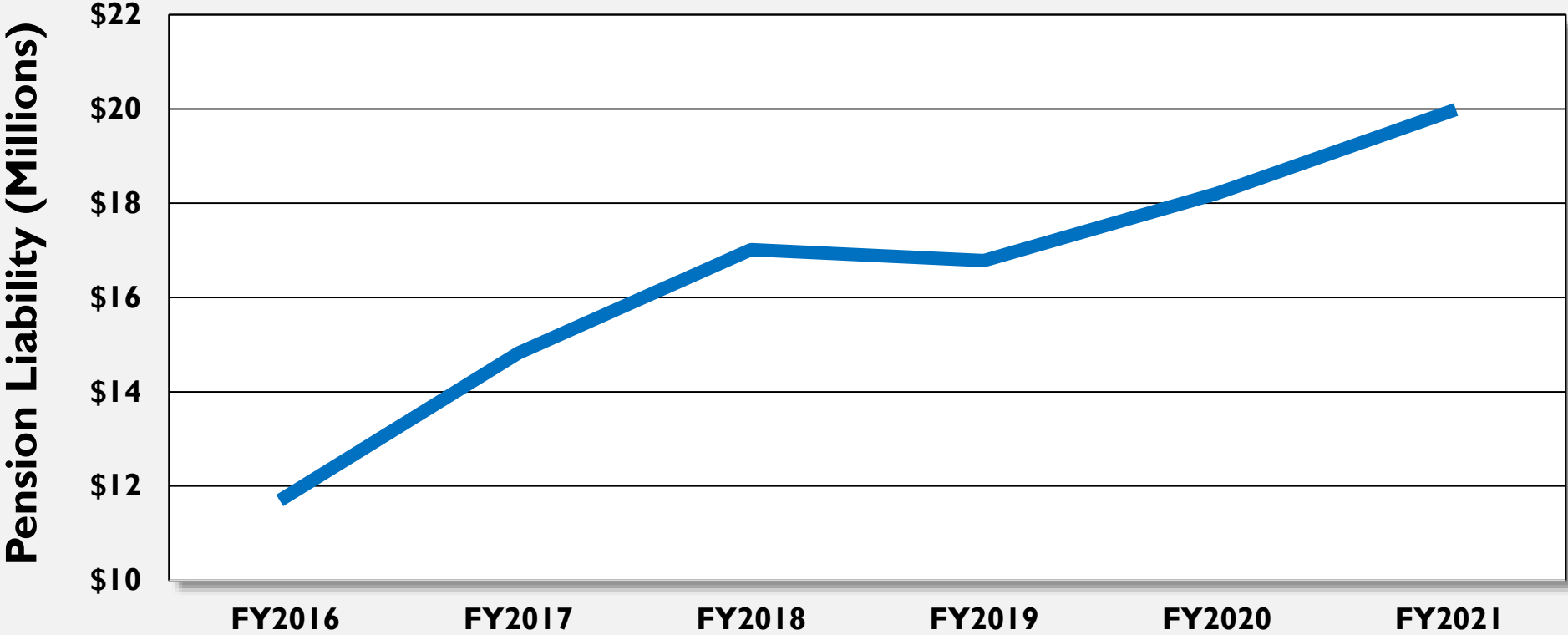
CALPERS DISCOUNT RATE

- **Calculated Long-term Interest Rate**
 - Assumed **Real Rate** of Return
 - Assumed Annual Price **Inflation**
- **Key Component of Asset Liability Management Cycle**
 - **Balance** Assets to Future Obligations
- **Inverse Effect to Costs**
 - Plan's **Sensitivity** to Change

CITY OF BEAUMONT PENSION STATUS

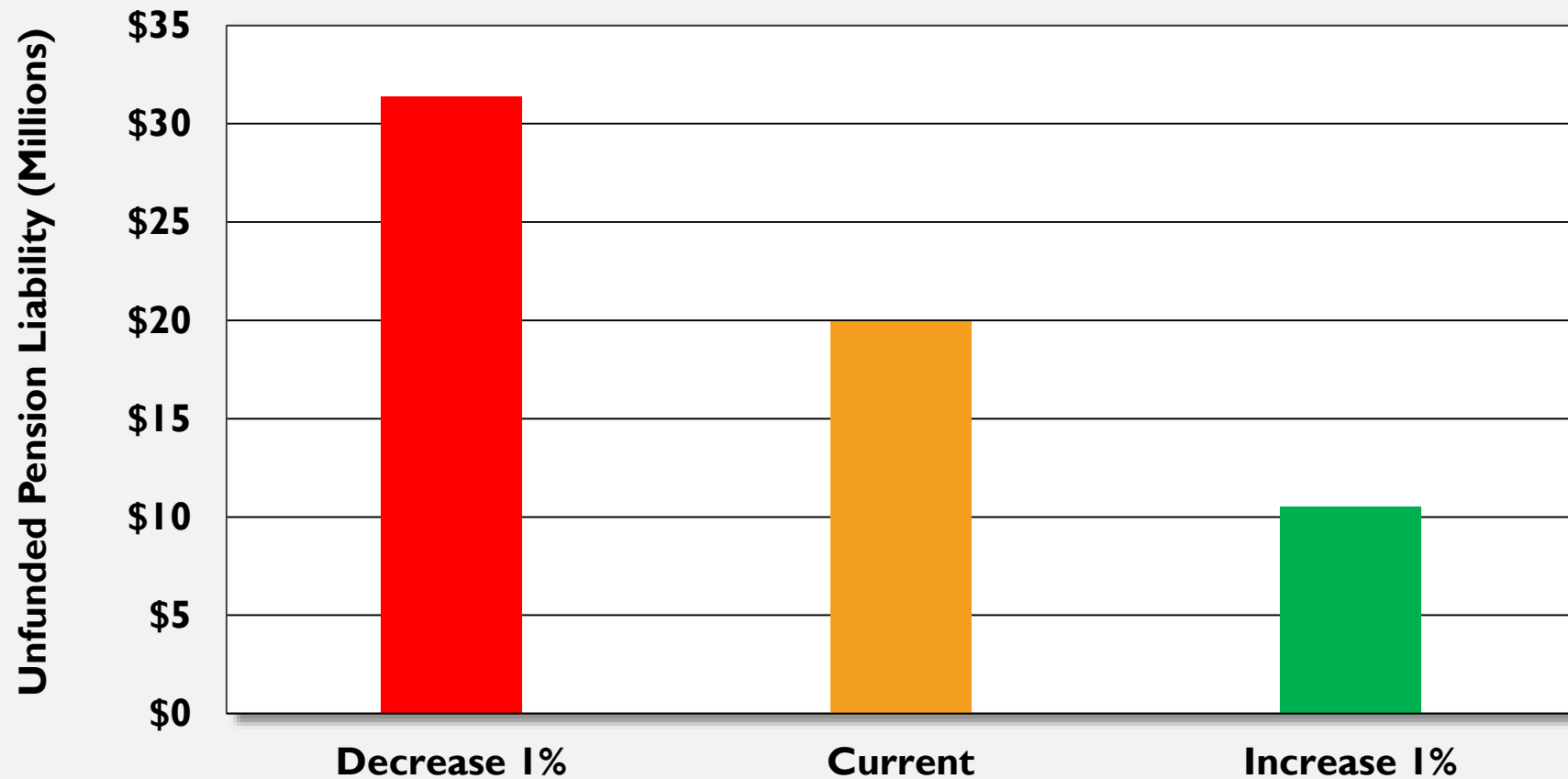
Estimated FY2021 Liability \$19,940,189 – Increase of \$1,732,807 from Prior Year

Current Rate at Measurement Date



PLAN'S SENSITIVITY TO CHANGE IN DISCOUNT RATE

Liability is Sensitive to Discount Rate Change



CALPERS FUNDING RISK MITIGATION POLICY

- **Reduce Funding Risk Over Time**
 - **Lowers** Discount Rate
 - FY2021 Preliminary Returns of **21.3%**
- **Increases Costs**
 - Discount Rate Decreased to **6.8%**
 - Returns **Amortized** Over 20 Years
- ***First Time Policy Triggered***

CALPERS ASSET LIABILITY MANAGEMENT PROCESS

- **Integrated Review of Assets and Liabilities**

- Full Review Every **4 Years**
- Mid-Cycle Review Every **2 Years**

- **CalPERS Currently in Full Review**

- Discussion of **Portfolio** Options
- What **Discount Rate** Applied
- Final Decision **November 2021**

Cal PERS Candidate Portfolios

Portfolio	Discount Rate	Projected Return
Current Portfolio: Status Quo	6.25%	6.2%
Candidate Portfolio A	6.375%	6.4%
Candidate Portfolio B	6.75%	6.8%
Candidate Portfolio C	6.75%	6.8%
Candidate Portfolio D	6.75%	6.8%
Candidate Portfolio E	7.0%	7.0%

WHAT HAS THE CITY DONE SO FAR?

- **Committed General Fund Reserve**
 - **\$2,500,000** for Future Options
- **UAL Payment Options**
 - Monthly or **Upfront**
 - Interest Savings **\$49,594**

OPTIONS TO ADDRESS LIABILITY

- **Keep Funds in General Fund Reserves**
 - **Pros**
 - Flexible
 - Reserve Requirement Allowed
 - **Cons**
 - Fixed Income Investing Only
 - Unprotected from Creditors & Spending Pressures
- **Section 115 Pension Trust**
 - **Pros**
 - Long-Term Investment Strategy
 - Can be Tailored
 - Protected from Creditors
 - Solely for Pension Costs

OPTIONS TO ADDRESS LIABILITY (CONT.)

- **Section 115 Pension Trust**
 - **Cons**
 - Irrevocable
- **Supplemental 115 or Cal PERS (CEPPT) 115**
 - **Supplemental**
 - **Pros**
 - Flexible
 - Investment Strategy Choice
 - More Visible
 - **Cons**
 - Does Not Reduce Pension Liability

OPTIONS TO ADDRESS LIABILITY (CONT.)

- **CalPERS (CEPPT)**
 - **Pros**
 - Reduces Net Pension Liability
 - Likely Higher Long-Term Return
 - **Cons**
 - Locked-In
 - No Investment Choice
 - More Restricted
- **Additional Discretionary Payments**
 - **Pros**
 - Possible Long-Term Investment Return
 - **Cons**
 - Irrevocable
 - Not Eligible for Future Credit
 - Subject to CalPERS Gains/Losses

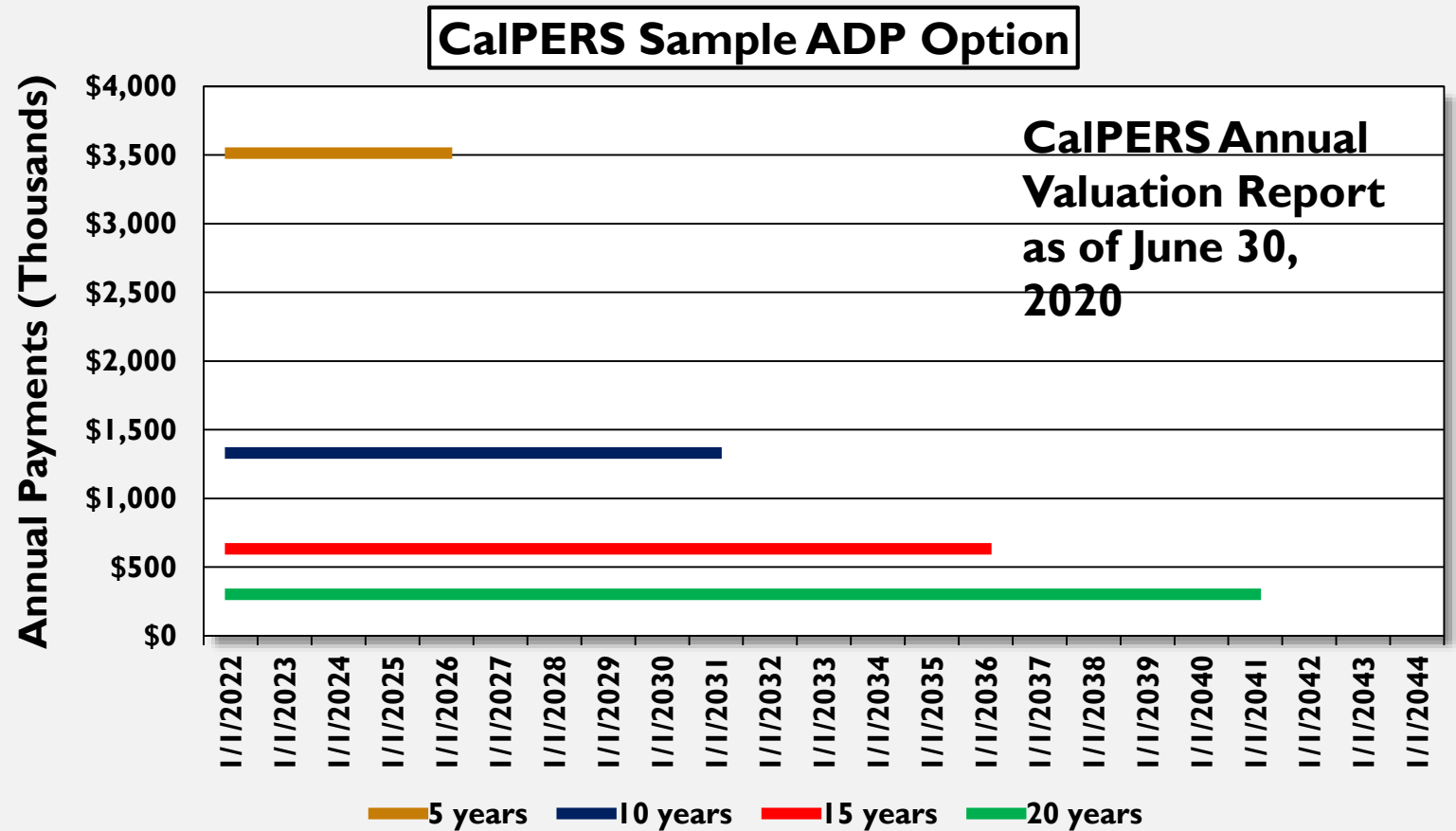
OPTIONS TO ADDRESS LIABILITY CONT.

- **CalPERS “Fresh Start”**
 - **Pros**
 - Less Interest
 - Lower Long-Term Payments
 - **Cons**
 - Higher Short-Term Payment
 - Requires Contract Amendment
 - Locked into New Schedule
 - Subject to CalPERS Gains/Losses

ADDITIONAL DISCRETIONARY PAYMENTS

Additional Payments to CalPERS

- Employers
- Reduce UAL for **Future** Contributions
- One-Time

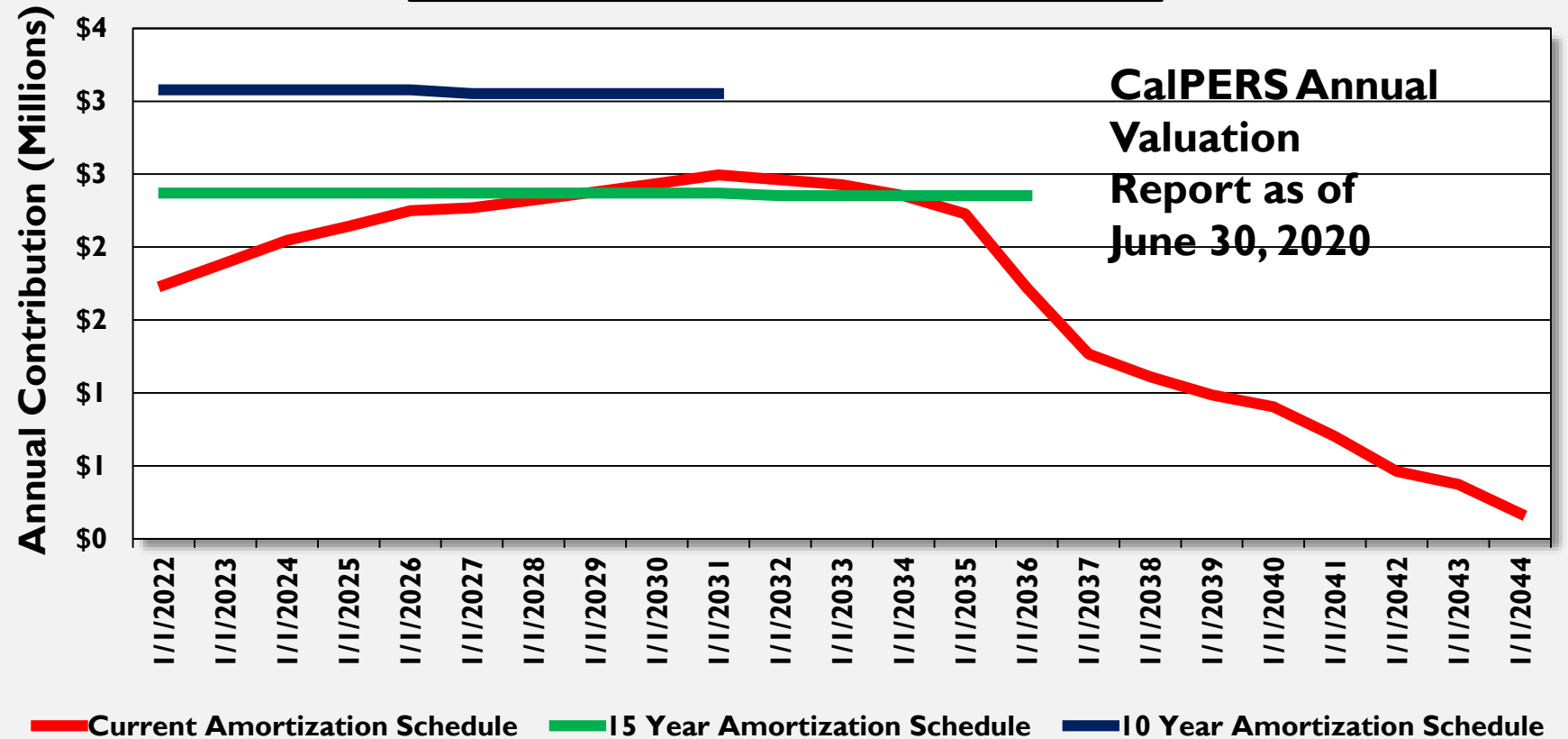


CALPERS “FRESH START”

- **Shorter Amortization Schedule**

- **Higher Annual Payments**
- **Contract Amendment**
- **Locked-In**

CalPERS Sample Fresh Start Option



PENSION OBLIGATION BONDS

- **Not Recommended by Staff**
 - **GFOA** Advisory
 - Considerable Investment **Risk**
 - Very **Complex**
 - **Bonded** Debt Burden
 - Doesn't Make Financial **Sense**

STAFF RECOMMENDATIONS

- **Model Financial Scenarios**
 - Medium to Long-Term
 - **Internally** Fully Funded
 - **Create** Pension Funding Policy
- **Research Section 115 Trusts**
 - **Supplemental**
 - Single Employer
 - Multiple Employer
 - **CalPERS (CEPPT)**
- **Combination of Options**

COUNCIL DIRECTION

Questions?