



TOWN OF LOS GATOS MISCELLANEOUS & SAFETY PLANS

CalPERS Actuarial Issues – 6/30/17 Valuation Preliminary Results

Joseph R. D’Onofrio, Assistant Vice President
Bianca Lin, Assistant Vice President
Matthew Childs, Associate Actuary
Bartel Associates, LLC

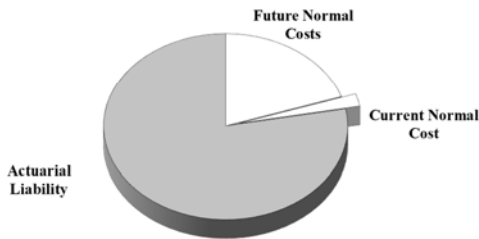
August 6, 2019

Contents	
<u>Topic</u>	<u>Page</u>
Definitions	1
How We Got Here	3
CalPERS Changes	10
Miscellaneous Plan:	
Demographic Information	13
Plan Funded Status	15
Contribution Rates & Projections	21
Safety Plan:	
Demographic Information	35
Plan Funded Status	37
Contribution Rates & Projections	42
Combined Miscellaneous and Safety	65
Leaving CalPERS	67
PEPRA Cost Sharing	69
Paying Down the Unfunded Liability	71
Irrevocable Supplemental (§115) Pension trust	77



DEFINITIONS

Present Value of Benefits
June 30, 2017



■ PVB - Present Value of all Projected Benefits:

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/17), of all future expected benefit payments based on various (actuarial) assumptions

■ Current Normal Cost:

- Portion of PVB allocated to (or “earned” during) current year
- Value of employee and employer current service benefit

■ Actuarial Liability:

- Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
- Portion of PVB “earned” at measurement



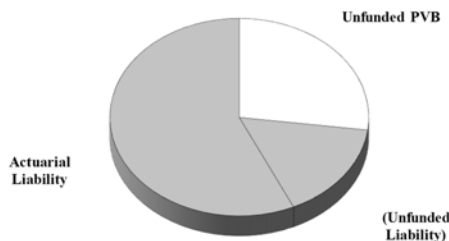
August 6, 2019

1

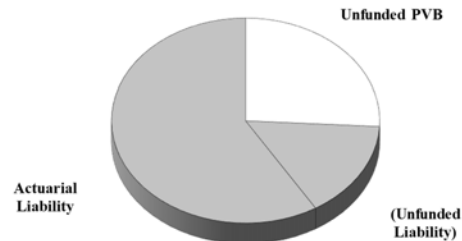


DEFINITIONS

Present Value of Benefits
June 30, 2016



Present Value of Benefits
June 30, 2017



■ Target- Have money in the bank to cover Actuarial Liability (past service)

■ Unfunded Liability - Money short of target at valuation date

- If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
- Any difference is the unfunded (or overfunded) AAL
- Every year, the actuary calculates the difference between the expected UAAL and Actual UAAL. This is a new layer or amortization base
- Each new layer gets amortized (paid off) over a period of time as part of the contribution [rate].



August 6, 2019

2



HOW WE GOT HERE

- Investment Losses
- CalPERS Contribution Policy
- Enhanced Benefits
- Demographics



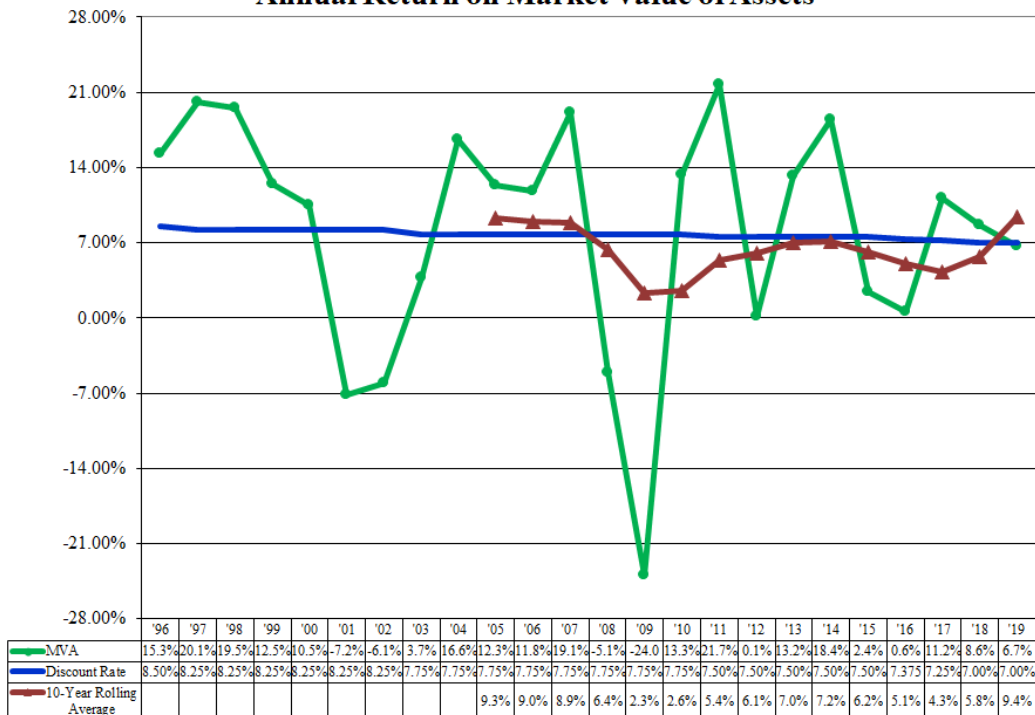
August 6, 2019

3



HOW WE GOT HERE – INVESTMENT RETURN

Annual Return on Market Value of Assets



August 6, 2019

4



HOW WE GOT HERE – OLD CONTRIBUTION POLICY

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses
- Designed to:
 - First smooth rates and
 - Second pay off UAL
- Mitigated contribution volatility



August 6, 2019

5



HOW WE GOT HERE – ENHANCED BENEFITS

- At CalPERS, Enhanced Benefits implemented using all (future & prior) service
- Typically not negotiated with cost sharing
- Town of Los Gatos

	Tier 1	Tier 2	PEPRA
● Miscellaneous	2.5%@55 FAE1	2%@60 FAE3	2%@62 FAE3
● Safety	3%@50 FAE1	N/A	2.7%@57 FAE3

- Note:
 - ☐ FAE1 is highest one year (typically final) average earnings
 - ☐ FAE3 is highest three years (typically final three) average earnings

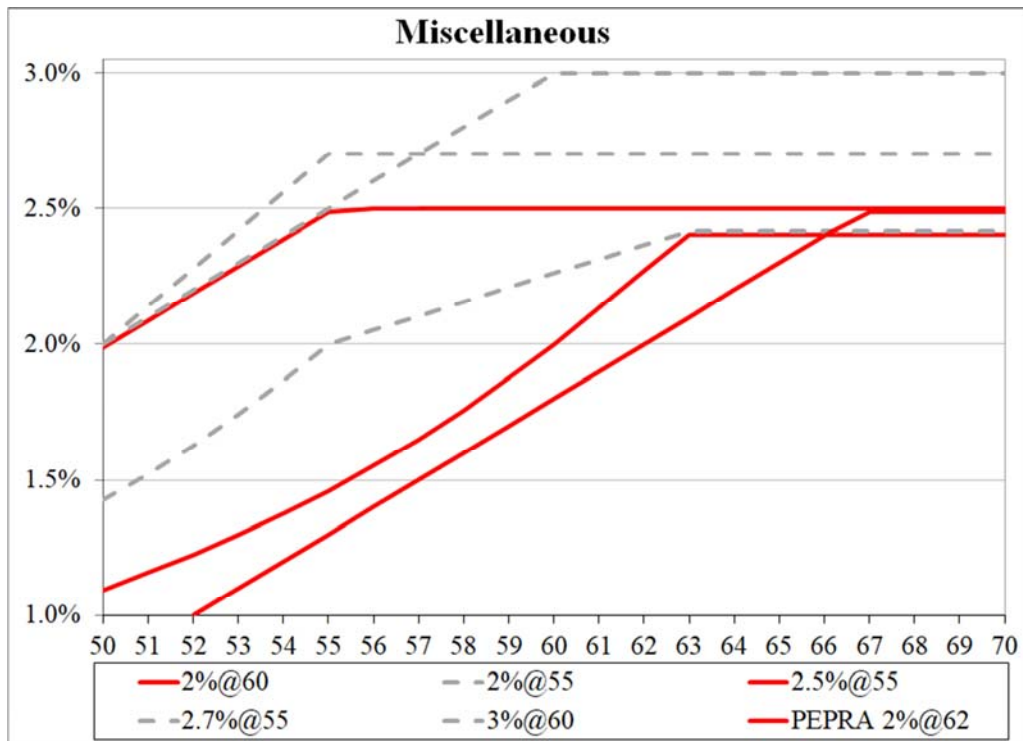


August 6, 2019

6



HOW WE GOT HERE – ENHANCED BENEFITS

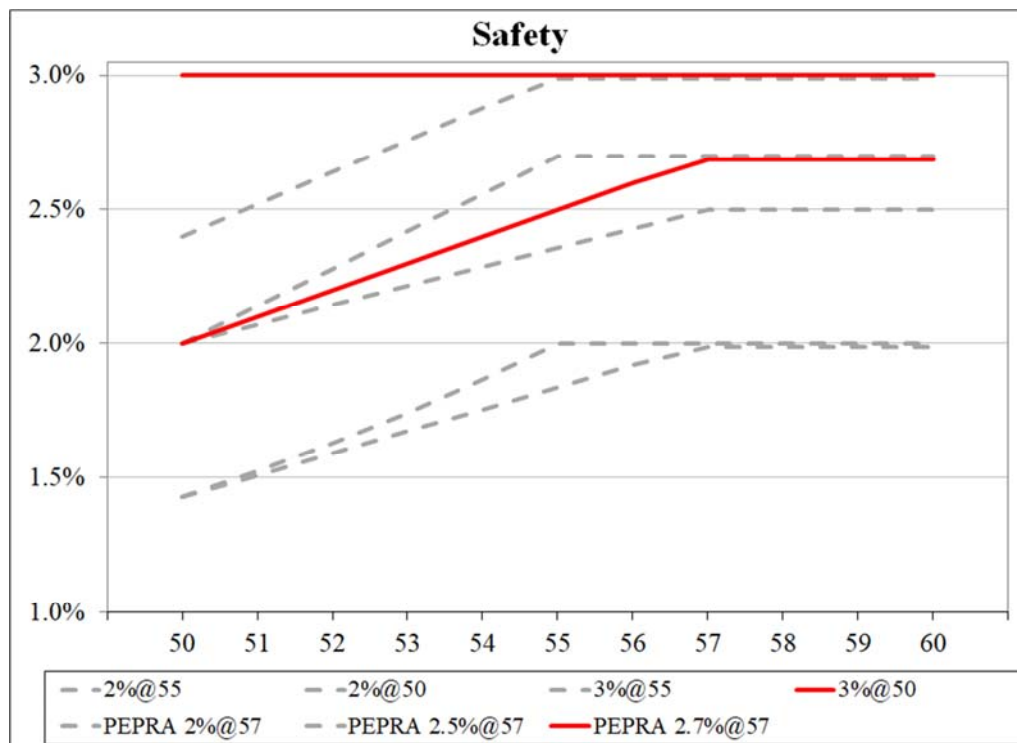


August 6, 2019

7



HOW WE GOT HERE – ENHANCED BENEFITS



August 6, 2019

8



HOW WE GOT HERE – DEMOGRAPHIC

- Around the State
 - Large retiree liability compared to actives
 - State average: 55% for Miscellaneous, 65% for Safety
 - Declining active population and increasing number of retirees
 - Higher percentage of retiree liability increases contribution volatility
- Town of Los Gatos percentage of liability belonging to retirees:
 - Miscellaneous 66%
 - Safety 71%



August 6, 2019

9



CALPERS CHANGES

- Contribution policy changes:
 - No asset smoothing
 - No rolling amortization
 - 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)
- CalPERS Board changed their discount rate:

	<u>Rate</u>	<u>Initial Impact</u>	<u>Full Impact</u>
● 6/30/16 valuation	7.375%	18/19	22/23
● 6/30/17 valuation	7.25%	19/20	23/24
● 6/30/18 valuation	7.00%	20/21	24/25
- December 2017: CalPERS Board selected asset allocation similar to current portfolio. No change to the discount rate



August 6, 2019

10



CALPERS CHANGES

- Risk Mitigation Strategy
 - Move to more conservative investments over time to reduce volatility
 - Only when investment return is better than expected
 - Lower discount rate in concert
 - Essentially use $\approx 50\%$ of investment gains to pay for cost increases
 - Likely get to 6.0% over 20+ years
 - Risk mitigation suspended until 6/30/18 valuation
- February 2018 CalPERS adopted new amortization policy
 - Applies only to newly established amortization bases
 - Fixed dollar amortization rather than % pay
 - Amortize gains/losses over 20 rather than 30 years
 - 5-year ramp up (not down) for investment gains and losses
 - No ramp up/down for other amortization bases
 - Minimizes total interest paid over time and pays off UAL faster
 - Effective June 30, 2019 valuation for 2021/22 contributions
 - Included in this study

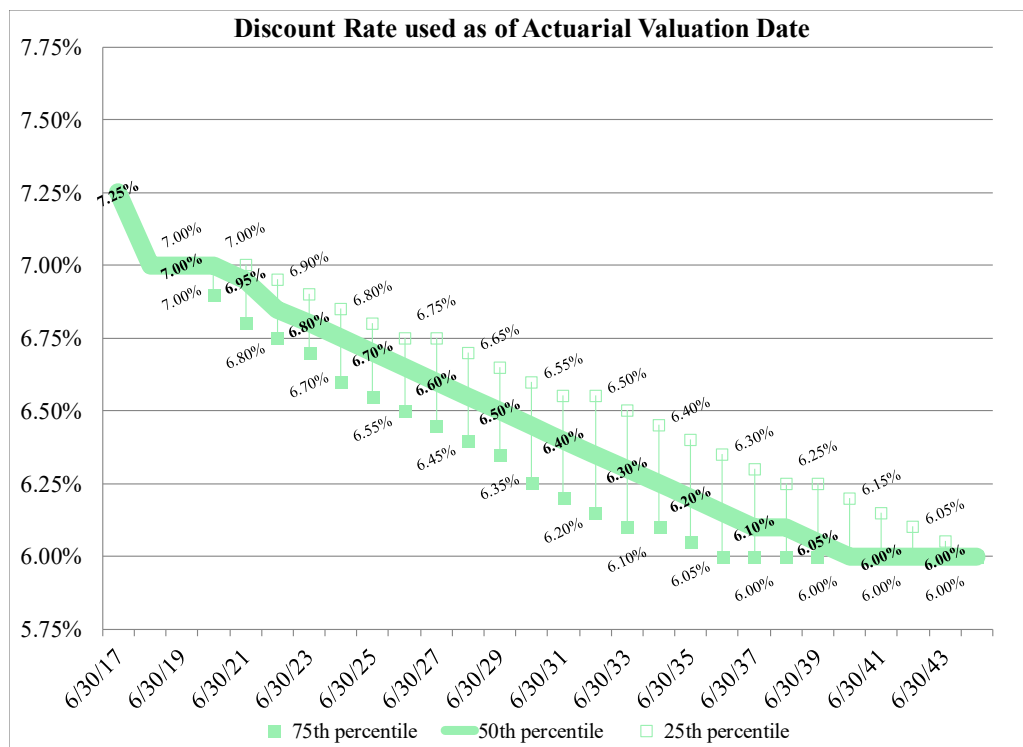


August 6, 2019

11



CALPERS CHANGES



August 6, 2019

12



SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

	1997	2007	2016	2017
Actives				
■ Counts	113	119	110	111
■ Average				
• Age	44	48	45	44
• Town Service	9	10	8	8
• PERSable Wages	\$ 43,000	\$ 73,400	\$ 79,700	\$ 84,000
■ Total PERSable Wages	4,900,000	8,700,000	8,800,000	9,300,000
Inactive Members				
■ Counts				
• Transferred	59	80	96	98
• Separated	52	77	81	79
• Retired				
□ Service		140	190	197
□ Disability		11	11	12
□ Beneficiaries		16	20	19
□ Total	102	167	221	228
■ Average Annual Town Provided Benefit for Service Retirees ¹	N/A	\$ 14,300	\$ 24,100	\$ 25,200

¹ Average Town-provided pensions are based on Town service & Town benefit formula, and are not representative of benefits for long-service employees.

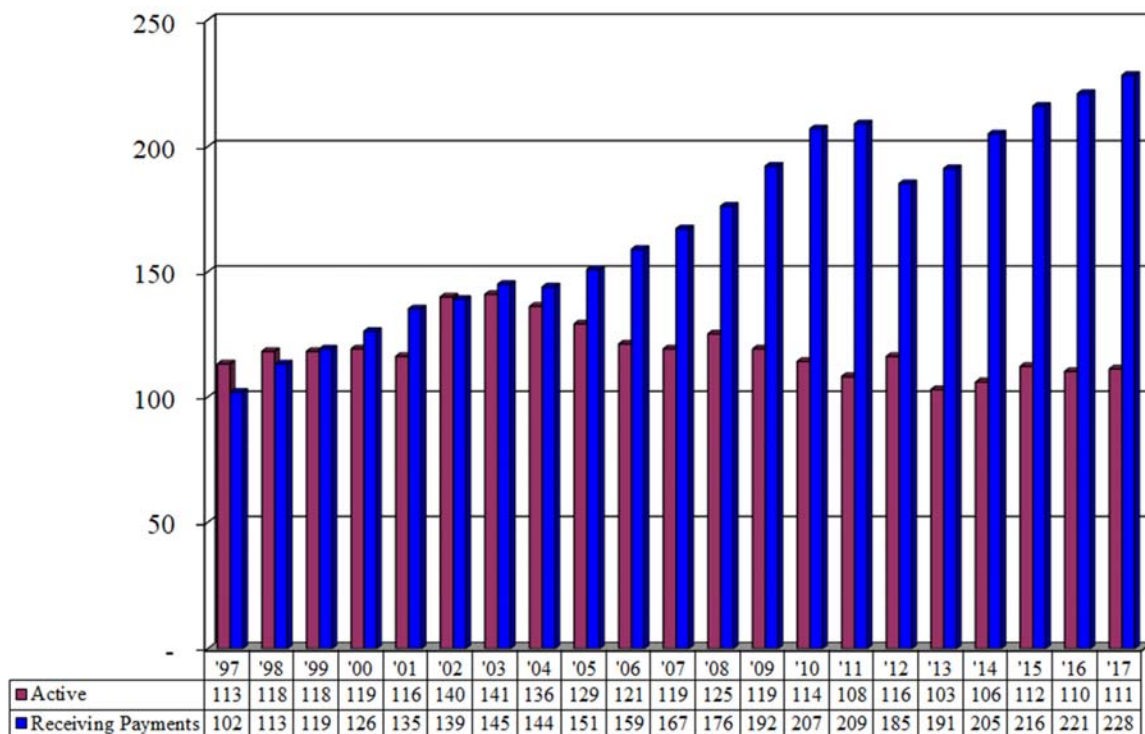


August 6, 2019

13



SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS



August 6, 2019

14



PLAN FUNDED STATUS - MISCELLANEOUS

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Active AAL	\$20,800,000	\$21,400,000
Retiree AAL	60,600,000	65,700,000
Inactive AAL	<u>13,200,000</u>	<u>12,800,000</u>
Total AAL	94,600,000	99,900,000
Assets	<u>64,500,000</u>	<u>69,500,000</u>
Unfunded Liability	30,100,000	30,400,000
Funded Ratio	68.2%	69.6%

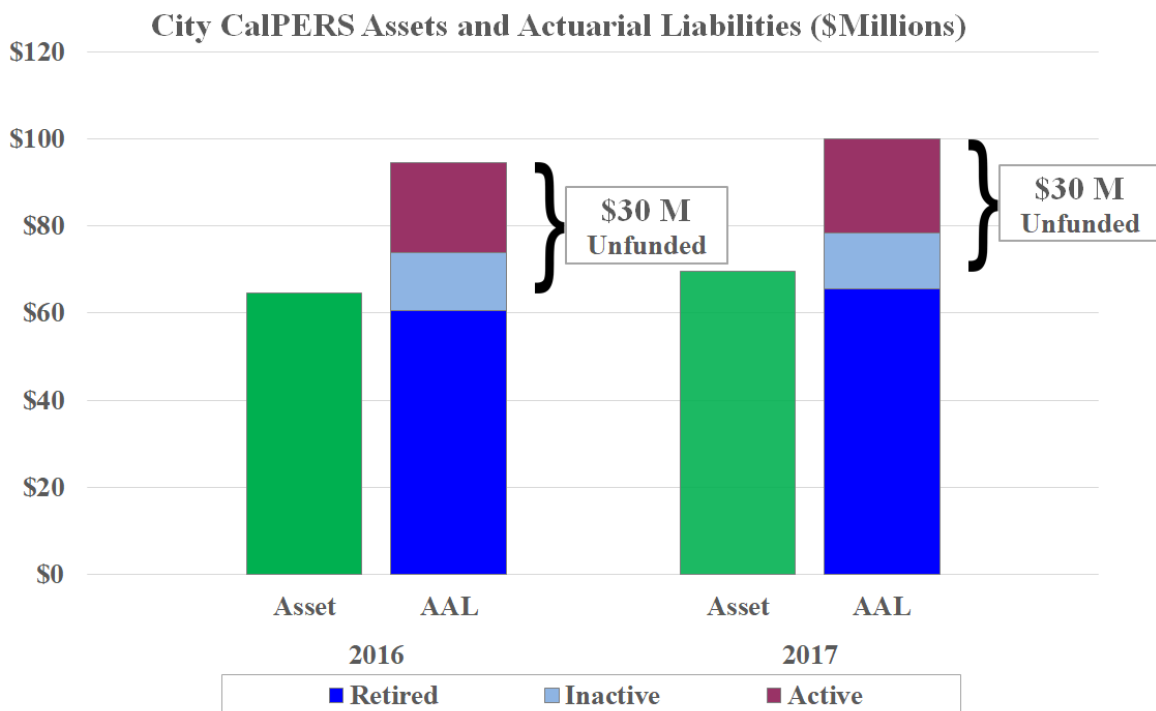


August 6, 2019

15



PLAN FUNDED STATUS - MISCELLANEOUS



August 6, 2019

16



PLAN FUNDED STATUS - MISCELLANEOUS

Discount Rate Sensitivity

June 30, 2017

	Discount Rate		
	<u>7.25%</u>	<u>7.00%</u>	<u>6.00%</u>
AAL	\$99,900,000	\$102,600,000	\$116,000,000
Assets	<u>69,500,000</u>	<u>69,500,000</u>	<u>69,500,000</u>
Unfunded Liability	30,400,000	33,100,000	46,500,000
Funded Ratio	69.6%	67.8%	59.9%



August 6, 2019

17



PLAN FUNDED STATUS - MISCELLANEOUS

Unfunded Accrued Liability Changes

■ Unfunded Accrued Liability on 6/30/16	\$30,100,000
■ Expected Unfunded Accrued Liability on 6/30/17	30,700,000
■ Other Changes	
• Asset Loss (Gain) (11.2% return for FY 2017)	(2,400,000)
• Assumption Change	1,200,000
• Contribution & Experience Loss (Gain)	<u>900,000</u>
• Total	<u>(300,000)</u>
■ Unfunded Accrued Liability on 6/30/17	30,400,000

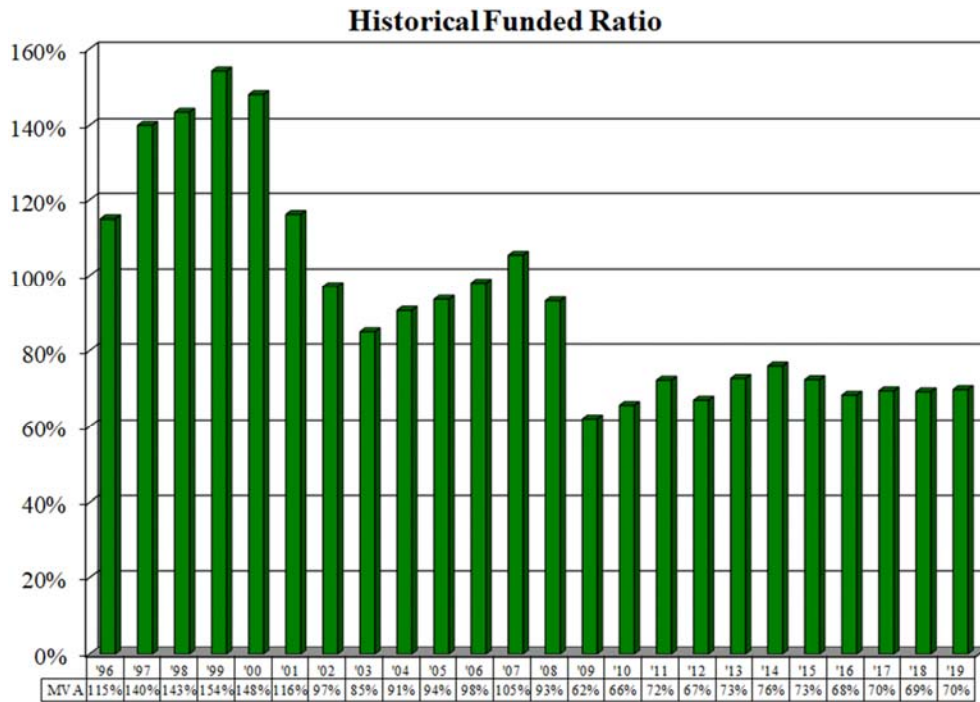


August 6, 2019

18



FUNDED RATIO - MISCELLANEOUS

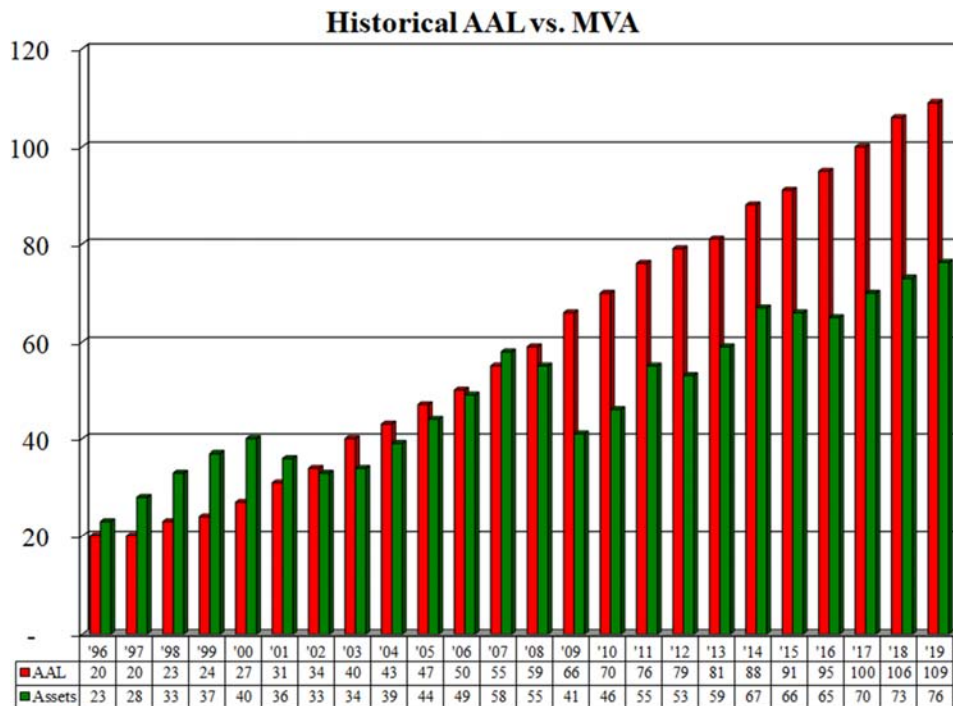


August 6, 2019

19



FUNDED STATUS (MILLIONS) - MISCELLANEOUS



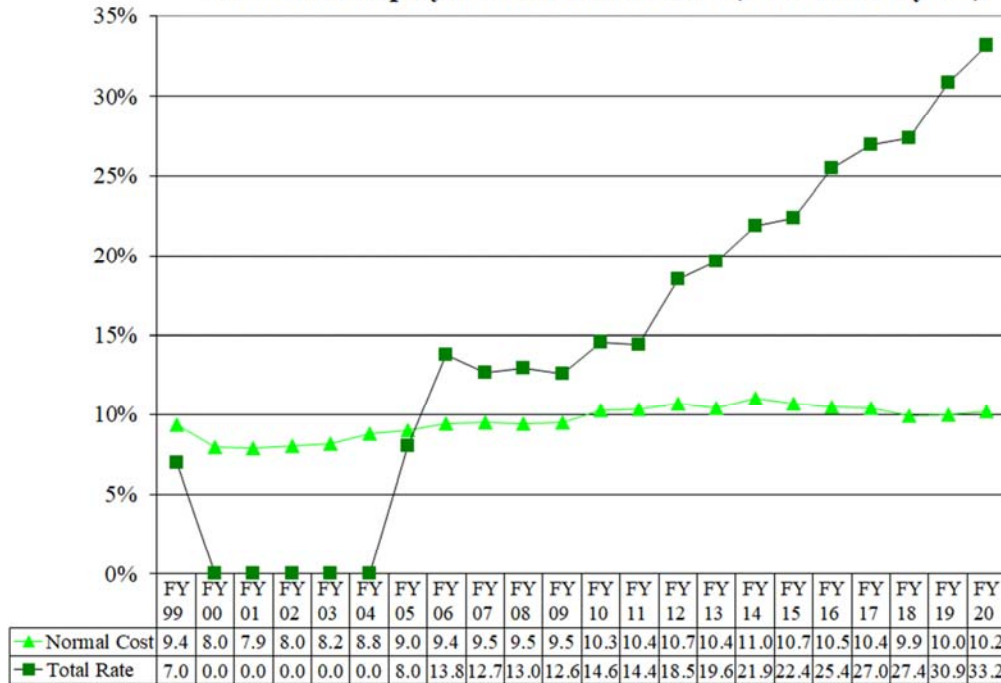
August 6, 2019

20



CONTRIBUTION RATES - MISCELLANEOUS

Historical Employer Contribution Rates (Percent of Payroll)



August 6, 2019

21



CONTRIBUTION RATES - MISCELLANEOUS

	6/30/16 2018/2019	6/30/17 2019/2020
■ Total Normal Cost	17.4%	17.6%
■ Employee Normal Cost	<u>7.4%</u>	<u>7.4%</u>
■ Employer Normal Cost	10.0%	10.2%
■ Amortization Payments	<u>20.9%</u>	<u>22.9%</u>
■ Total Employer Contribution Rate	30.9%	33.2%
■ 2018/19 Employer Contribution Rate		30.9%
● Payroll > Expected		(0.6%)
● Asset Method Change (5 th Year)		1.5%
● 6/30/14 Assumption Change (4 th Year)		0.9%
● 6/30/16 Discount Rate Change (2 nd Year)		0.3%
● 6/30/17 Discount Rate & Inflation (1 st Year)		0.8%
● Other (Gains)/Losses		<u>(0.6%)</u>
■ 2019/20 Employer Contribution Rate		33.2%



August 6, 2019

22



CONTRIBUTION PROJECTIONS - MISCELLANEOUS

■ Market Value Investment Return:

- June 30, 2018 8.6%²
- June 30, 2019 6.7%³
- Future returns based on stochastic analysis using 1,000 trials

<u>Single Year Returns at</u> ⁴	<u>25th Percentile</u>	<u>50th Percentile</u>	<u>75th Percentile</u>
Current Investment Mix	0.1%	7.0%	14.8%
Ultimate Investment Mix	0.8%	6.0%	11.4%
- Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.

■ Assumption Changes – Discount Rate

- Decrease to 7.0% by June 30, 2018 valuation
- Additional Discount Rate decreases due to Risk Mitigation policy.

■ No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements

■ Different from CalPERS projection

² Based July 2018 CalPERS press release

³ Based July 2019 CalPERS press release

⁴ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



August 6, 2019

23



CONTRIBUTION PROJECTIONS - MISCELLANEOUS

■ New hire assumptions:

- 62.5% of 2018/19 new hires are PEPRAs members and 37.5% are Classic members
- Percentage of PEPRAs member future hires to increase from 62.5% to 100% over 15 years

■ 6% Discount Rate Comparison

- 2 discount rate change amortization
 - ☐ 20 years level % payroll amortization with ramp up and ramp down
 - ☐ 20 years level \$ amortization (no ramp up or ramp down)

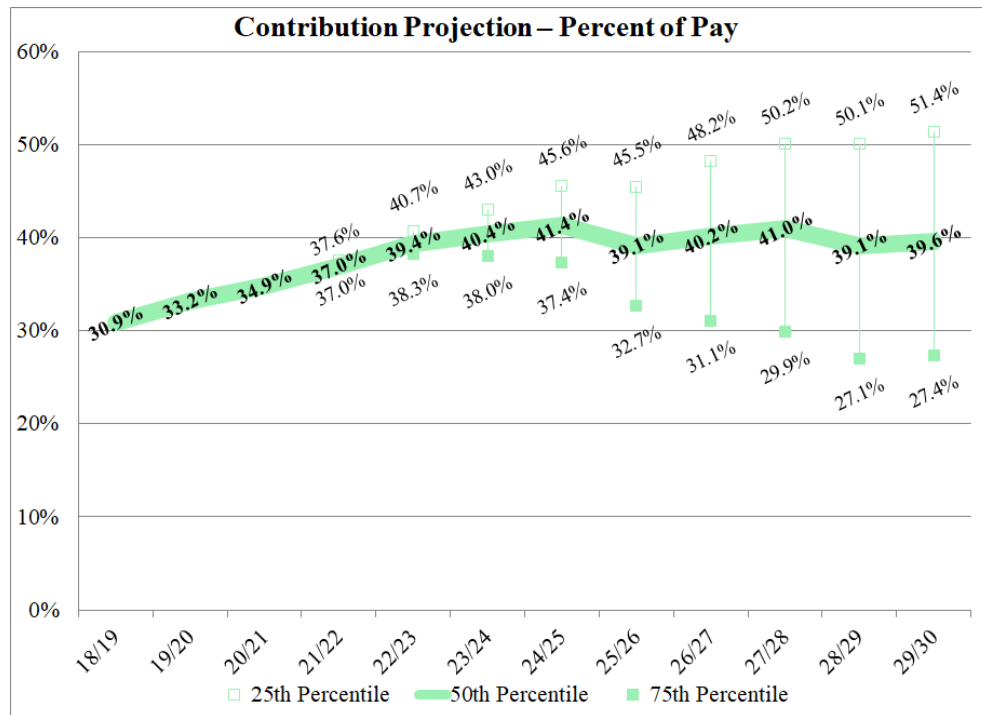


August 6, 2019

24



CONTRIBUTION PROJECTIONS - MISCELLANEOUS

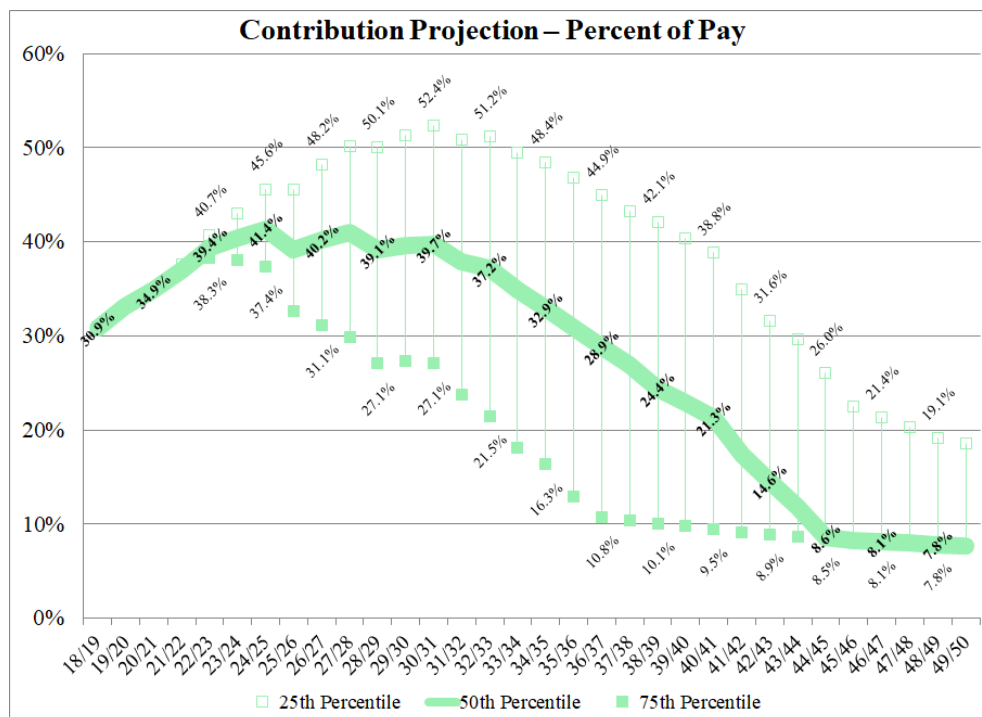


August 6, 2019

25



CONTRIBUTION PROJECTIONS - MISCELLANEOUS

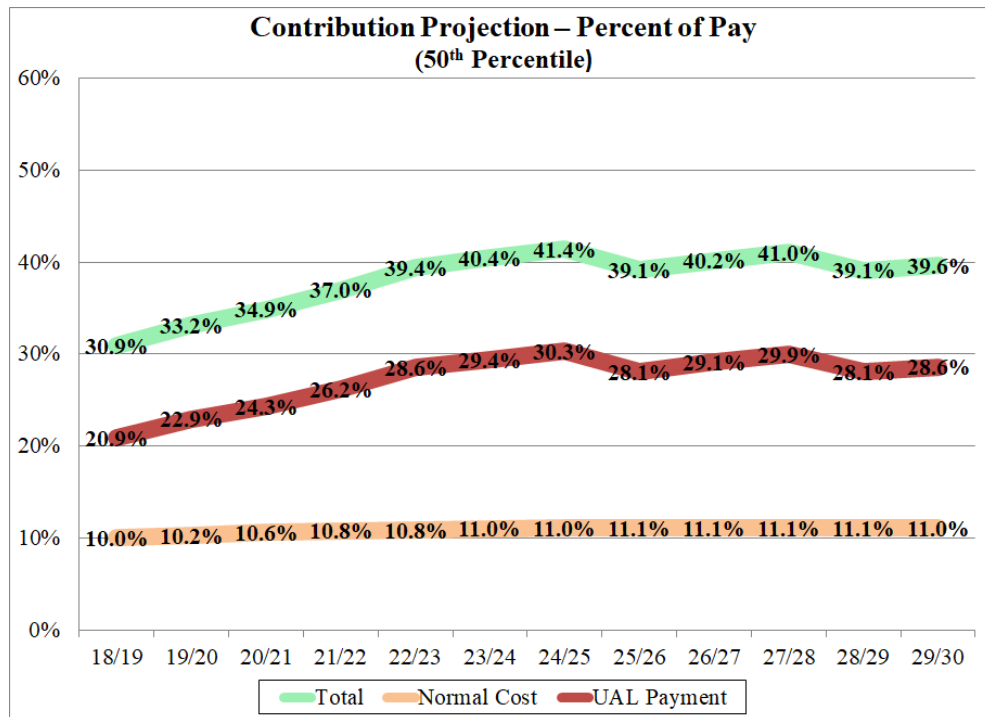


August 6, 2019

26



CONTRIBUTION PROJECTIONS - MISCELLANEOUS

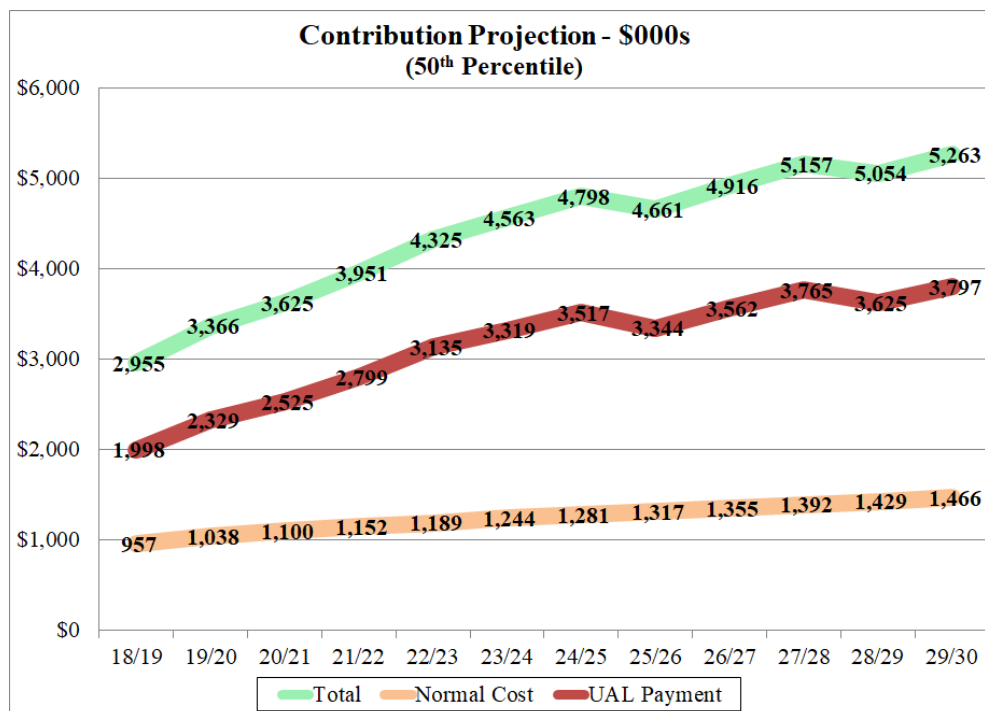


August 6, 2019

27



CONTRIBUTION PROJECTIONS - MISCELLANEOUS

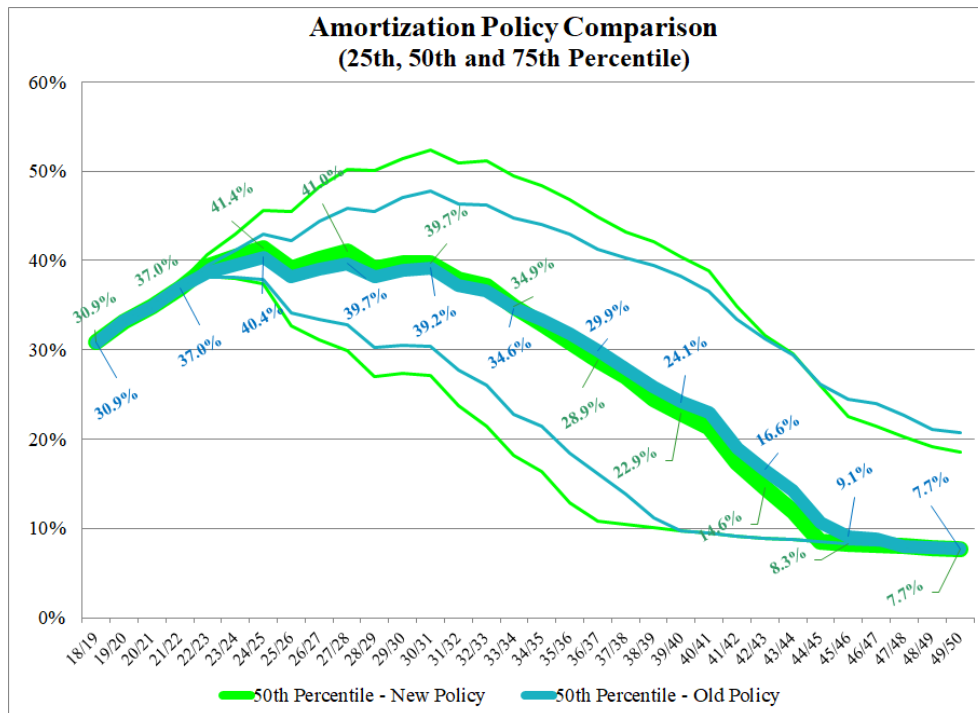


August 6, 2019

28



CONTRIBUTION PROJECTIONS - MISCELLANEOUS

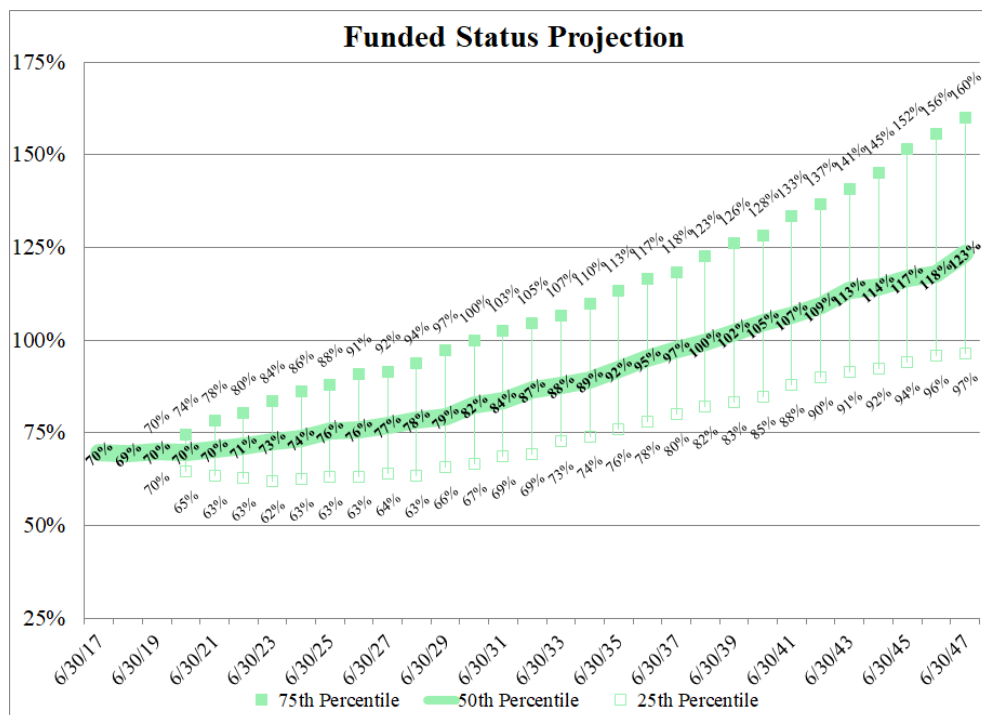


August 6, 2019

29



FUNDED STATUS - MISCELLANEOUS

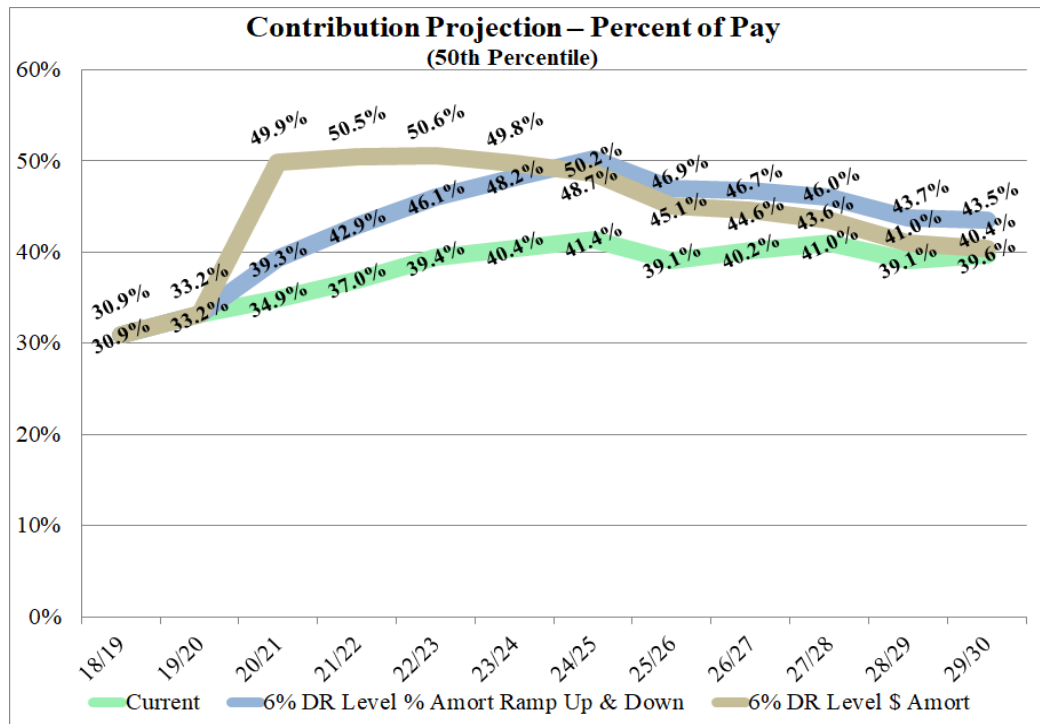


August 6, 2019

30



6% DISCOUNT RATE PROJECTION - MISCELLANEOUS

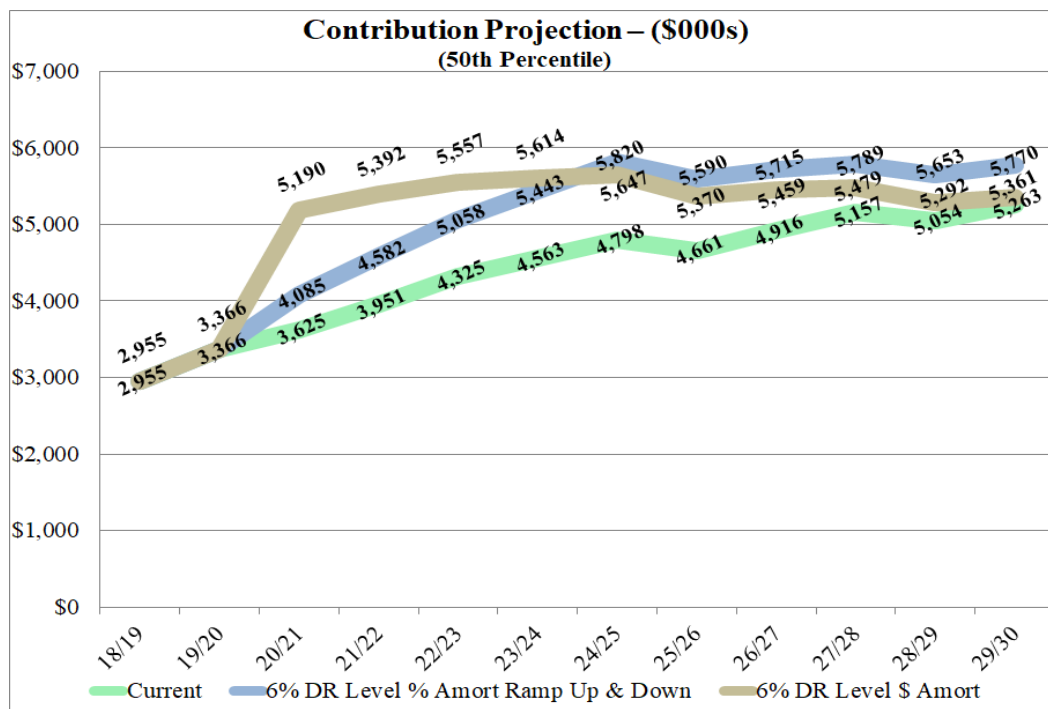


August 6, 2019

31



6% DISCOUNT RATE PROJECTION - MISCELLANEOUS

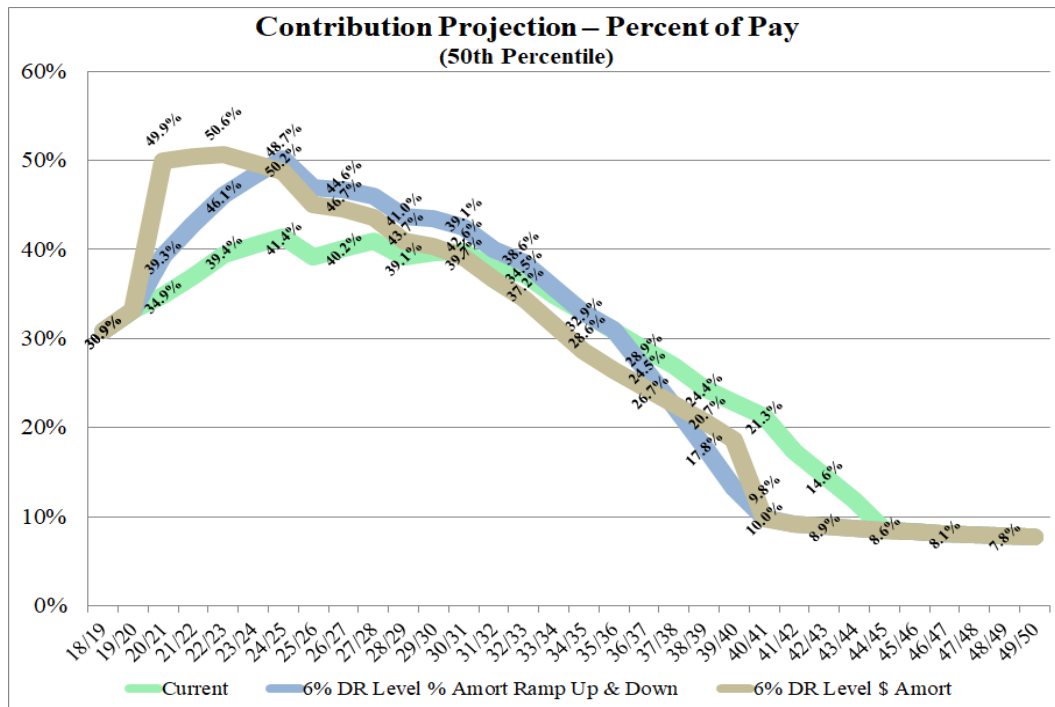


August 6, 2019

32



6% DISCOUNT RATE PROJECTION - MISCELLANEOUS



August 6, 2019

33



6% DISCOUNT RATE PROJECTION - MISCELLANEOUS

This page intentionally blank



August 6, 2019

34



SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY

	1997	2007	2016	2017
Actives				
■ Counts	40	41	39	36
■ Average PERSable Wages	\$ 60,500	\$ 107,300	\$ 129,000	\$ 132,600
■ Total PERSable Wages	2,400,000	4,400,000	5,000,000	4,800,000
Inactive Members				
■ Counts				
• Transferred	13	25	14	17
• Separated	6	6	2	1
• Retired	20	41	71	73

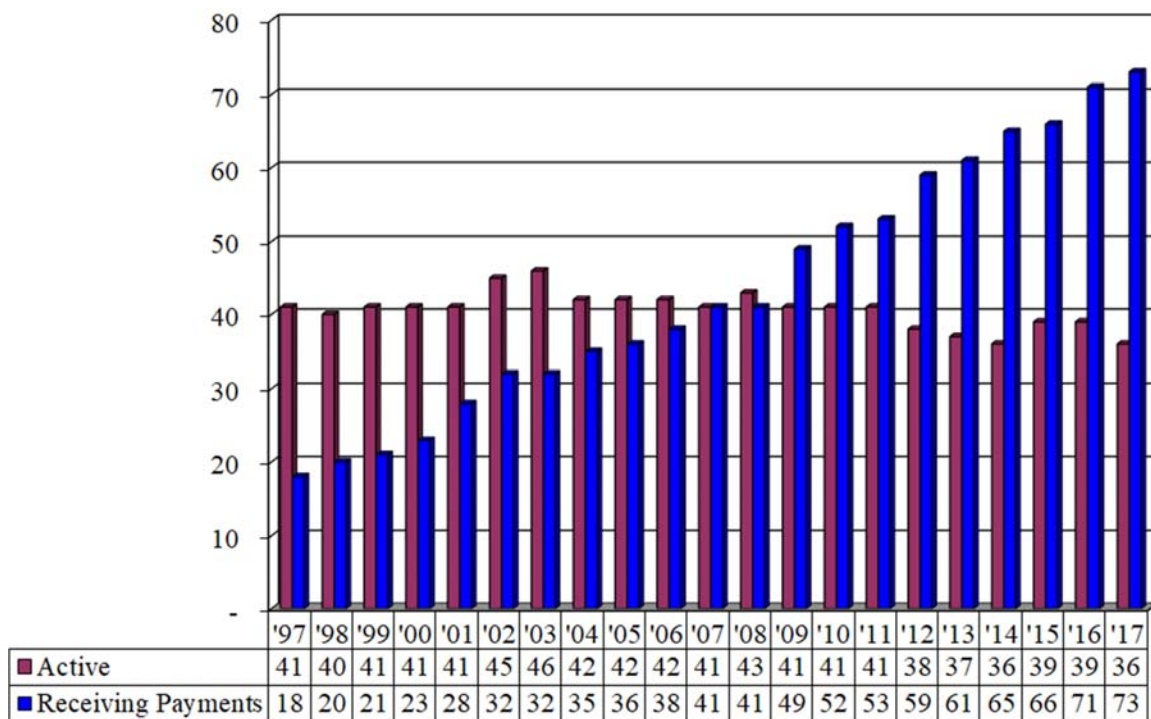


August 6, 2019

35



SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY



August 6, 2019

36



PLAN FUNDED STATUS - SAFETY

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Active AAL	\$21,900,000	\$20,400,000
Retiree AAL	54,600,000	60,400,000
Inactive AAL	<u>3,400,000</u>	<u>4,000,000</u>
Total AAL	79,900,000	84,800,000
Assets	<u>58,200,000</u>	<u>62,700,000</u>
Unfunded Liability	21,700,000	22,100,000
Funded Ratio	72.8%	74.0%

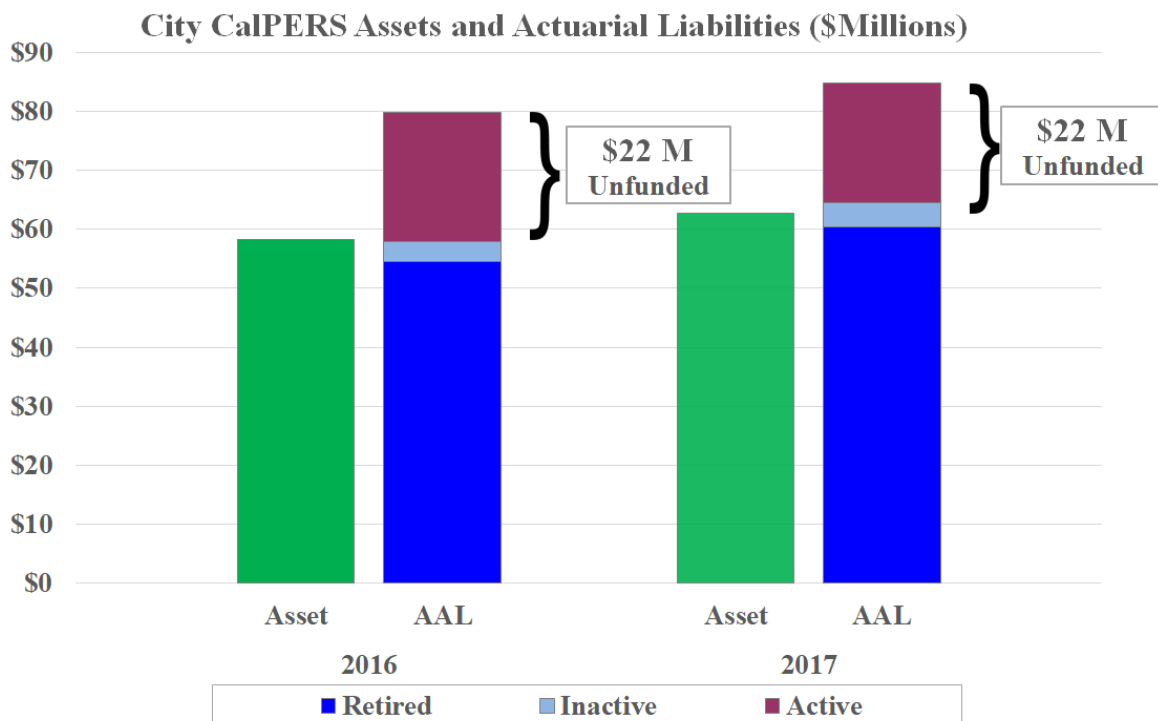


August 6, 2019

37



PLAN FUNDED STATUS - SAFETY



August 6, 2019

38



PLAN FUNDED STATUS - SAFETY

Discount Rate Sensitivity

June 30, 2017

	Discount Rate		
	<u>7.25%</u>	<u>7.00%</u>	<u>6.00%</u>
AAL	\$84,800,000	\$87,300,000	\$99,400,000
Assets	<u>62,700,000</u>	<u>62,700,000</u>	<u>62,700,000</u>
Unfunded Liability	22,100,000	24,600,000	36,700,000
Funded Ratio	74.0%	71.9%	63.1%

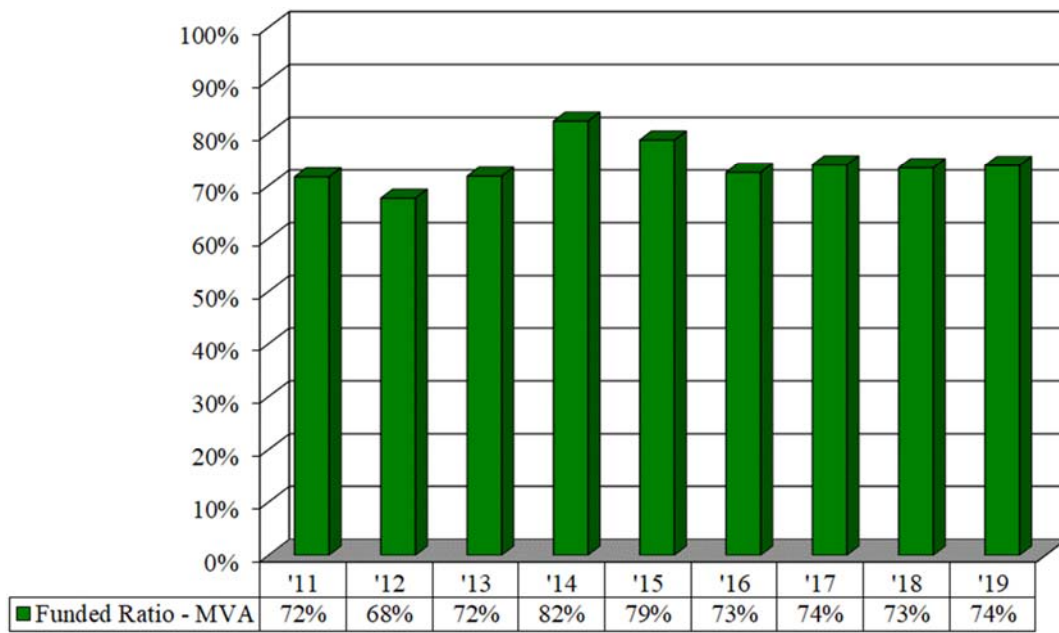


August 6, 2019

39



FUNDED RATIO - SAFETY



6/30/18 & 6/30/19 funded status estimated

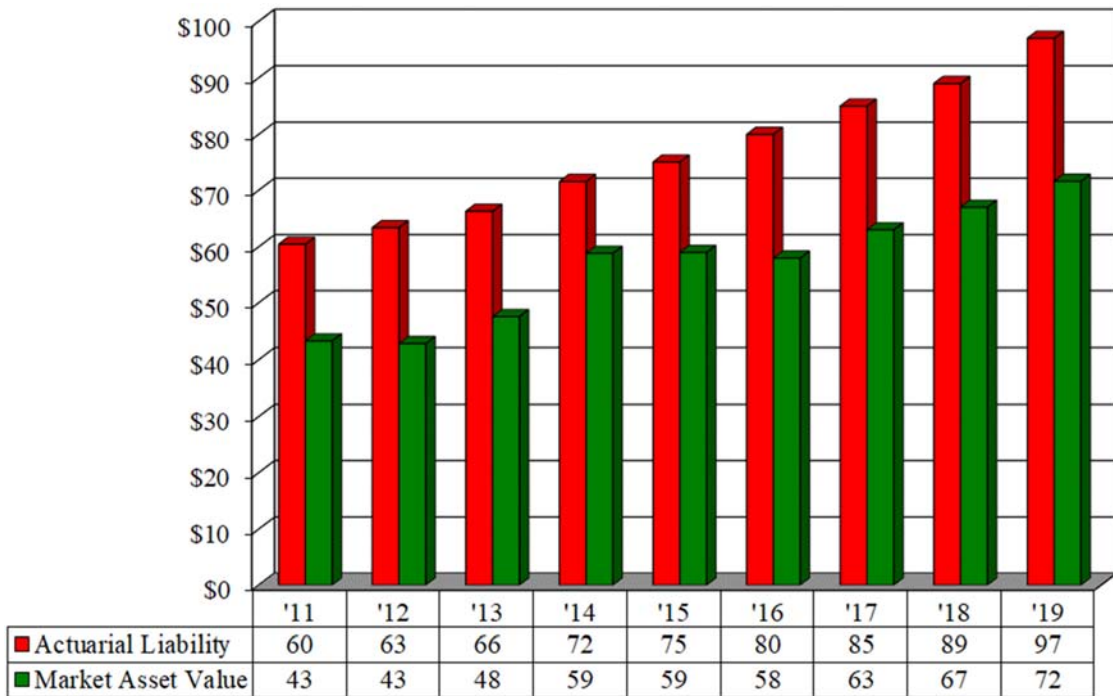


August 6, 2019

40



FUNDED STATUS (MILLIONS) - SAFETY



6/30/18 & 6/30/19 funded status estimated

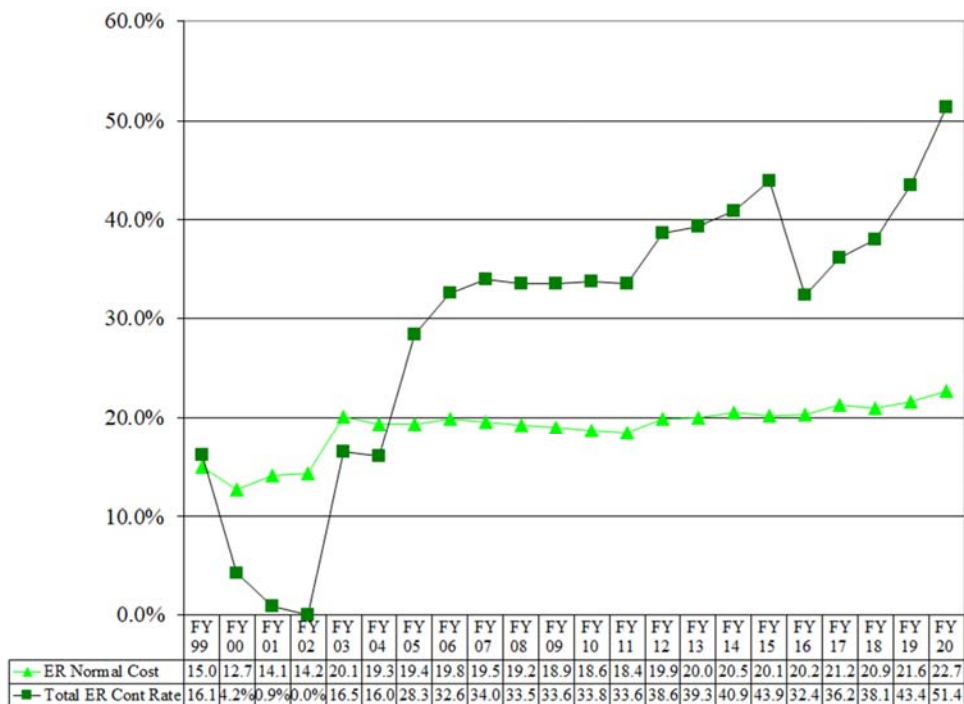


August 6, 2019

41



CONTRIBUTION RATES - SAFETY



August 6, 2019

42



CONTRIBUTION RATES - SAFETY

	6/30/17 Valuation		
	2019/2020 Contribution Rates		
	<u>Total⁵</u>	<u>Tier 1</u>	<u>PEPRA</u>
		3%<u>@50</u>	2.7%<u>@57</u>
■ Base Total Normal Cost	29.3%	29.7%	25.0%
■ Class 1 Benefits			
● Final Average Comp (1-Year)	1.1%	1.2%	-
● Pre Retirement Survivor Allowance	<u>1.7%</u>	<u>1.7%</u>	<u>1.5%</u>
■ Total Normal Cost	32.1%	32.6%	26.5%
■ Formula's Expected EE Contr. Rate	<u>9.3%</u>	<u>9.0%</u>	<u>12.8%</u>
■ ER Normal Cost	22.7%	23.7%	13.8%
■ Amortization Bases	28.7%	31.6%	1.2%
■ Amortization of Side Fund	-	-	-
■ Total ER Contribution	51.4%	55.2%	15.0%
■ Employee counts	36	32	4
■ Employee payroll (in 000's)	5,198	4,706	492
■ Total ER Contribution \$ (in 000's)	\$ 2,673		

⁵ Weighting of total contribution based on projected classic and PEPRA payrolls



August 6, 2019

43



CONTRIBUTION RATES - SAFETY

	<u>6/30/16</u>	<u>6/30/17</u>
	<u>2018/2019</u>	<u>2019/2020</u>
■ Total Normal Cost	30.9%	32.1%
■ Employee Normal Cost	<u>9.3%</u>	<u>9.3%</u>
■ Employer Normal Cost	21.6%	22.7%
■ Amortization Payments	<u>21.9%</u>	<u>28.7%</u>
■ Total Employer Contribution Rate	43.4%	51.4%
■ 2018/19 Employer Contribution Rate		43.4%
● Payroll < Expected		1.8%
● Asset Method Change (5 th Year)		2.1%
● 6/30/14 Assumption Change (4 th Year)		1.5%
● 6/30/16 Discount Rate Change (2 nd Year)		0.5%
● 6/30/17 Discount Rate & Inflation (1 st Year)		1.9%
● Other (Gains)/Losses		<u>0.2%</u>
■ 2019/20 Employer Contribution Rate		51.4%



August 6, 2019

44



CONTRIBUTION PROJECTIONS - SAFETY

- Market Value Investment Return:
 - June 30, 2018 8.6%⁶
 - June 30, 2019 6.7%⁷
 - Future returns based on stochastic analysis using 1,000 trials

<u>Single Year Returns at⁸</u>	<u>25th Percentile</u>	<u>50th Percentile</u>	<u>75th Percentile</u>
Current Investment Mix	0.1%	7.0%	14.8%
Ultimate Investment Mix	0.8%	6.0%	11.4%
 - Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.
- Assumption Changes – Discount Rate
 - Decrease to 7.0% by June 30, 2018 valuation
 - Additional Discount Rate decreases due to Risk Mitigation policy.
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection

⁶ Based July 2018 CalPERS press release

⁷ Based July 2019 CalPERS press release

⁸ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



August 6, 2019

45



CONTRIBUTION PROJECTIONS - SAFETY

- New hire assumptions:
 - 75.0% of 2018/19 new hires are PEPRAs members and 25.0% are Classic members
 - Percentage of PEPRAs member future hires to increase from 75.0% to 100% over 5 years
- Employee Cost-Sharing:
 - 3% employee share for Classic members effective October 1, 2019
- 6% Discount Rate Comparison
 - 2 discount rate change amortization
 - ☐ 20 years level % payroll amortization with ramp up and ramp down
 - ☐ 20 years level \$ amortization (no ramp up or ramp down)

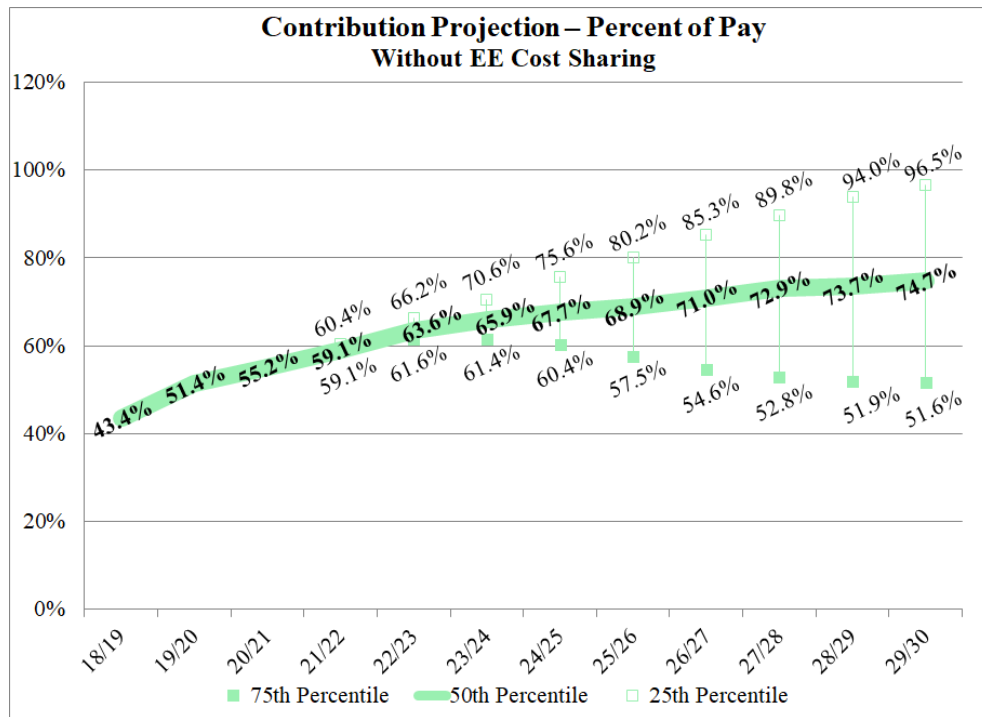


August 6, 2019

46



CONTRIBUTION PROJECTIONS - SAFETY

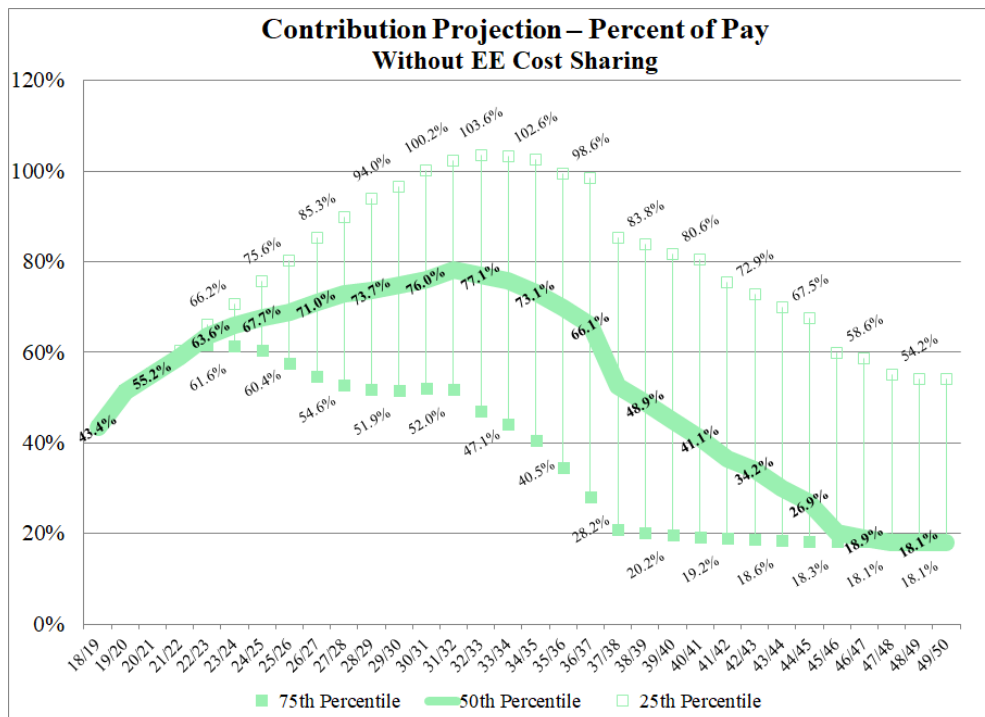


August 6, 2019

47



CONTRIBUTION PROJECTIONS - SAFETY

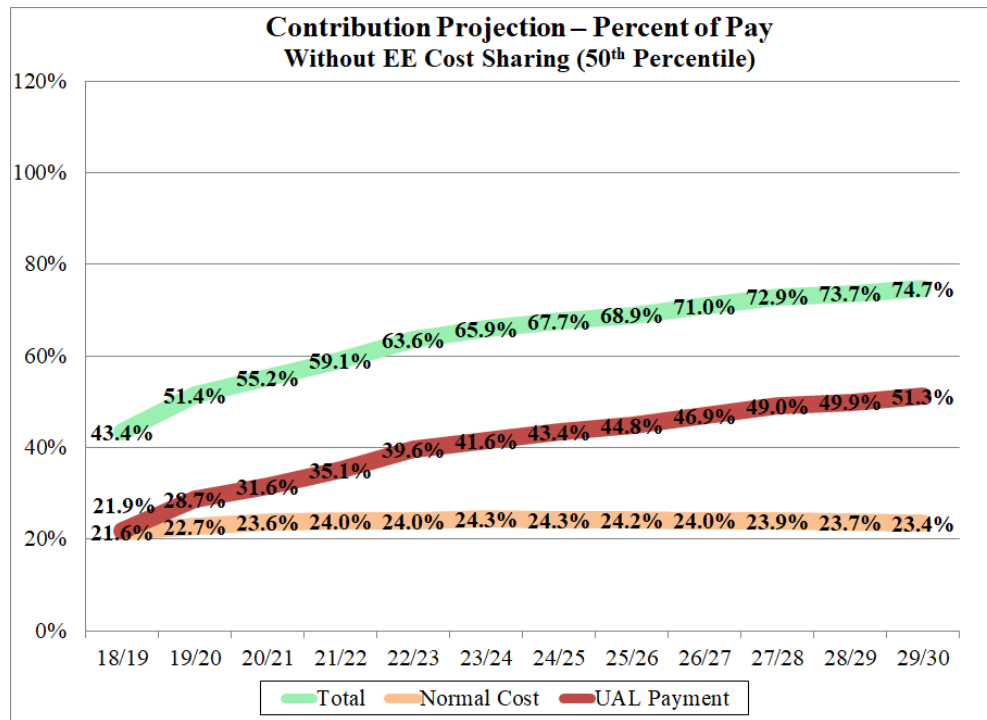


August 6, 2019

48



CONTRIBUTION PROJECTIONS - SAFETY

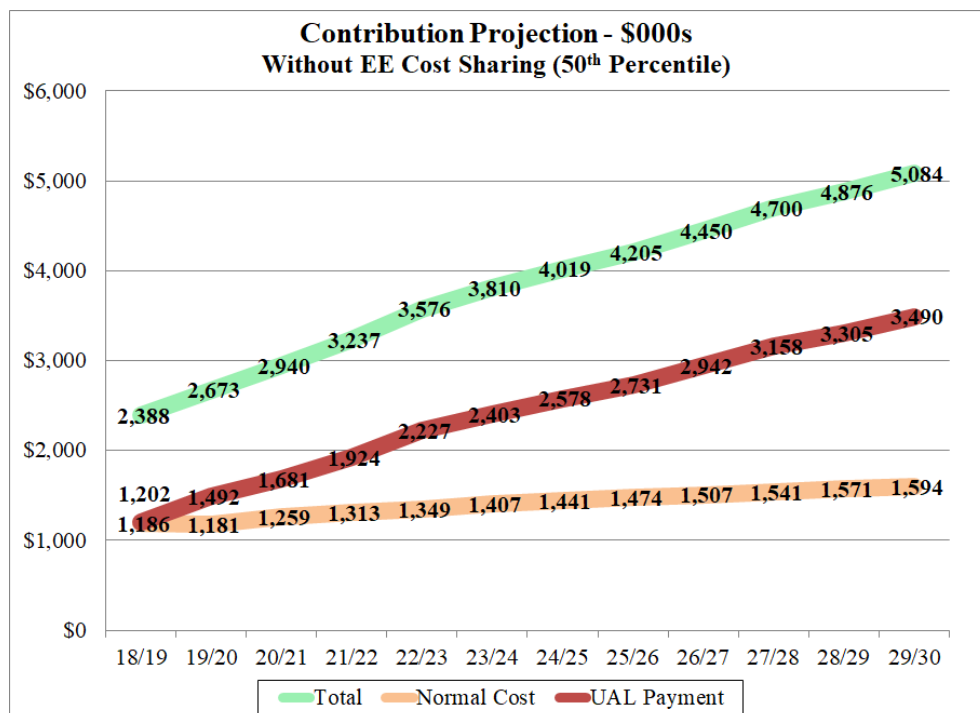


August 6, 2019

49



CONTRIBUTION PROJECTIONS - SAFETY

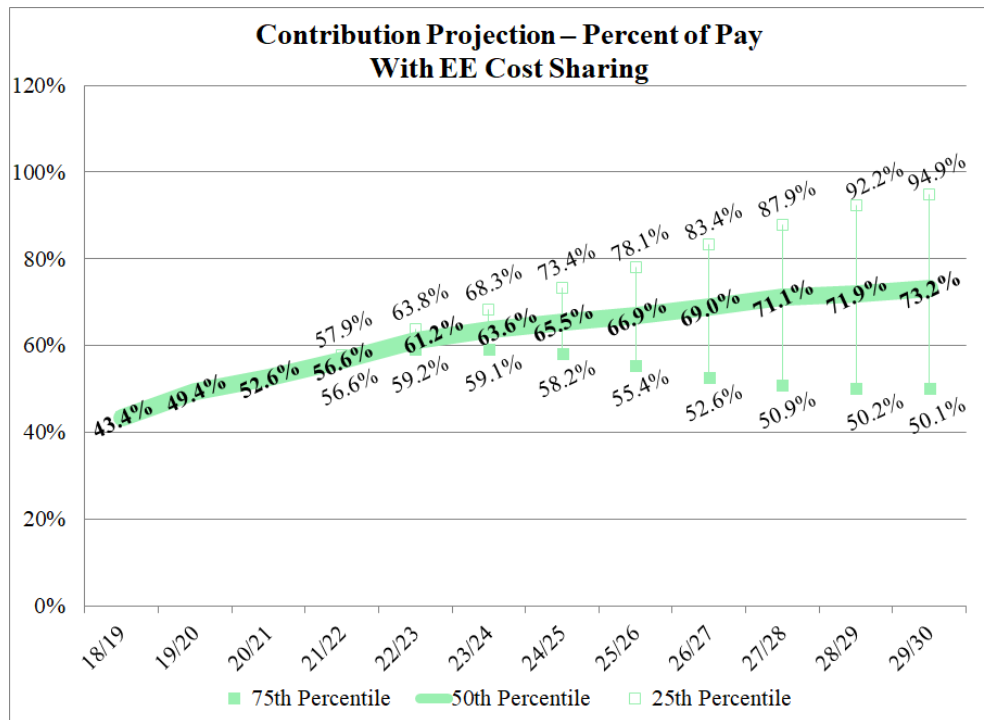


August 6, 2019

50



CONTRIBUTION PROJECTIONS - SAFETY

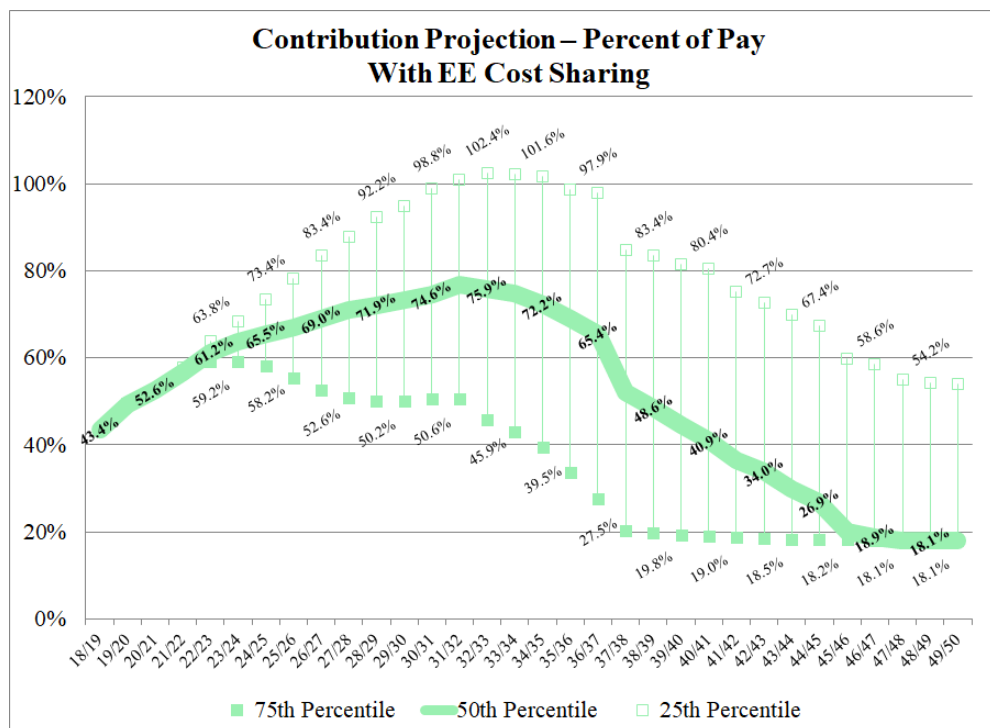


August 6, 2019

51



CONTRIBUTION PROJECTIONS - SAFETY

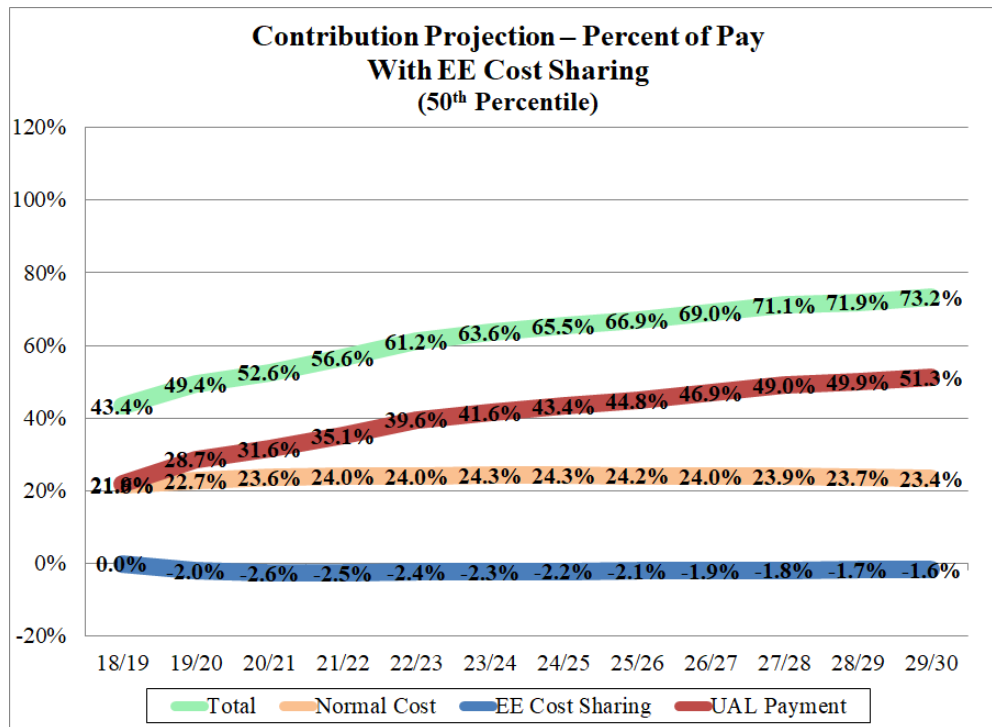


August 6, 2019

52



CONTRIBUTION PROJECTIONS - SAFETY

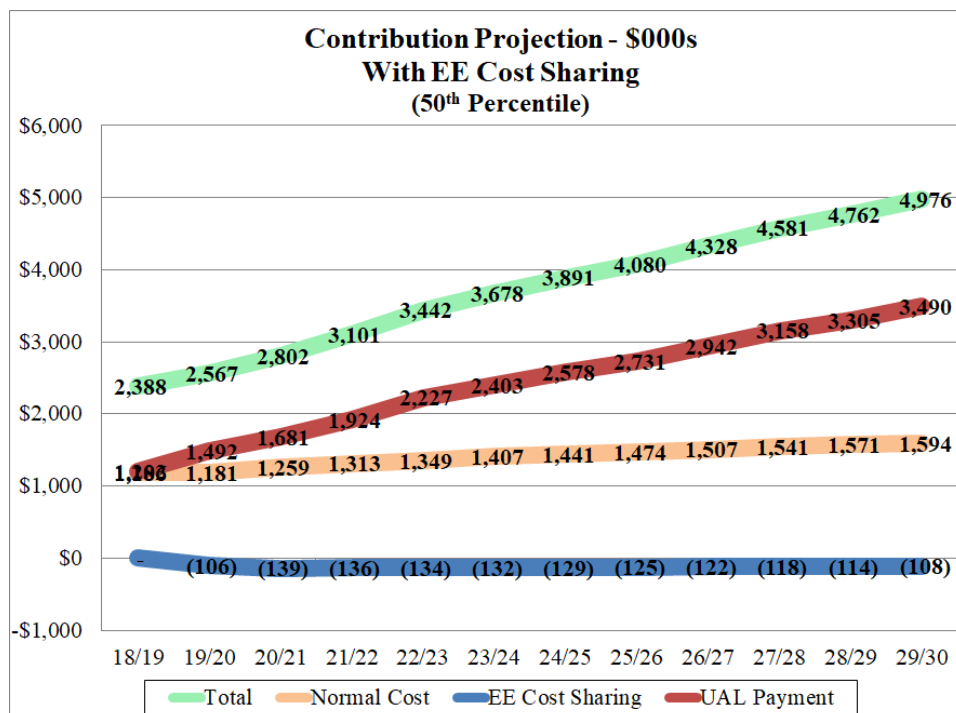


August 6, 2019

53



CONTRIBUTION PROJECTIONS - SAFETY

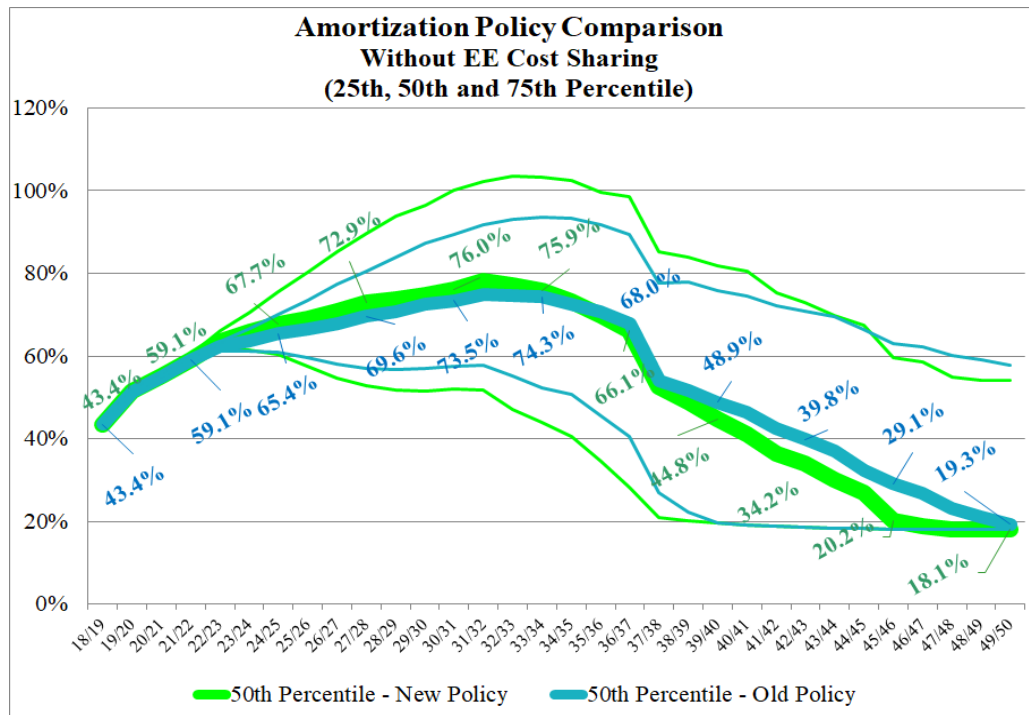


August 6, 2019

54



CONTRIBUTION PROJECTIONS - SAFETY

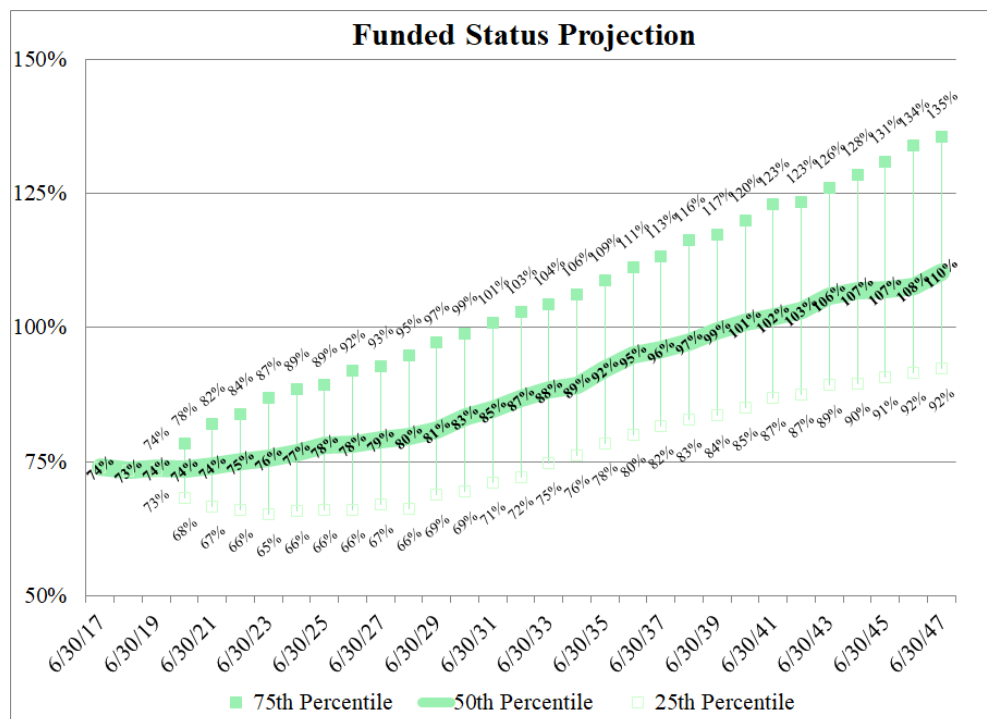


August 6, 2019

55



FUNDED STATUS - SAFETY

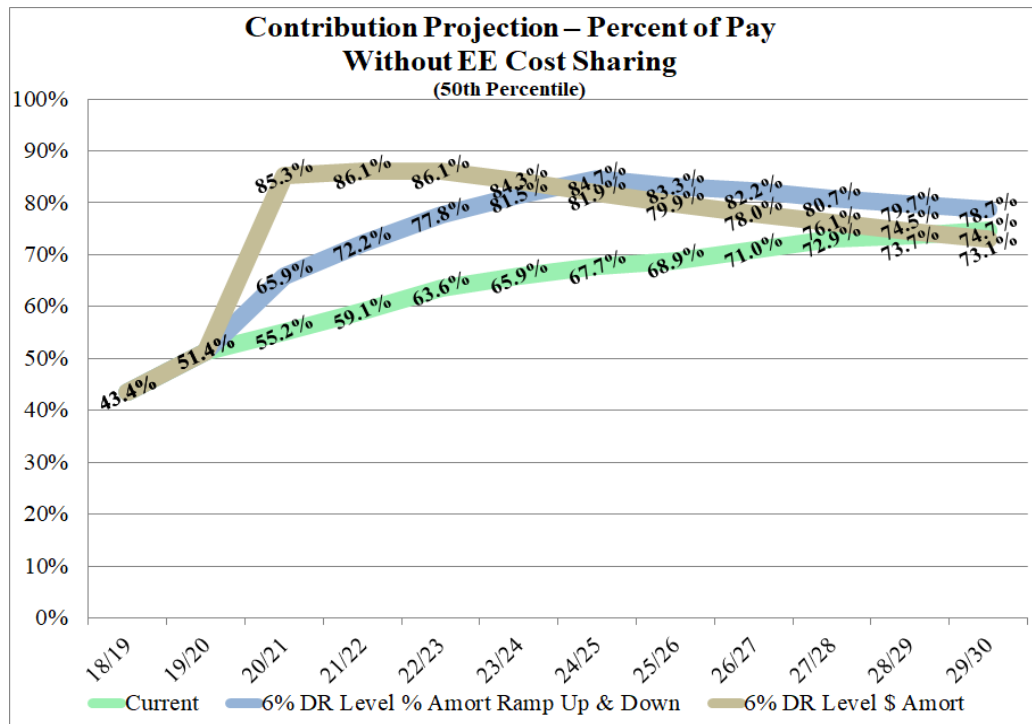


August 6, 2019

56



6% DISCOUNT RATE PROJECTION - SAFETY

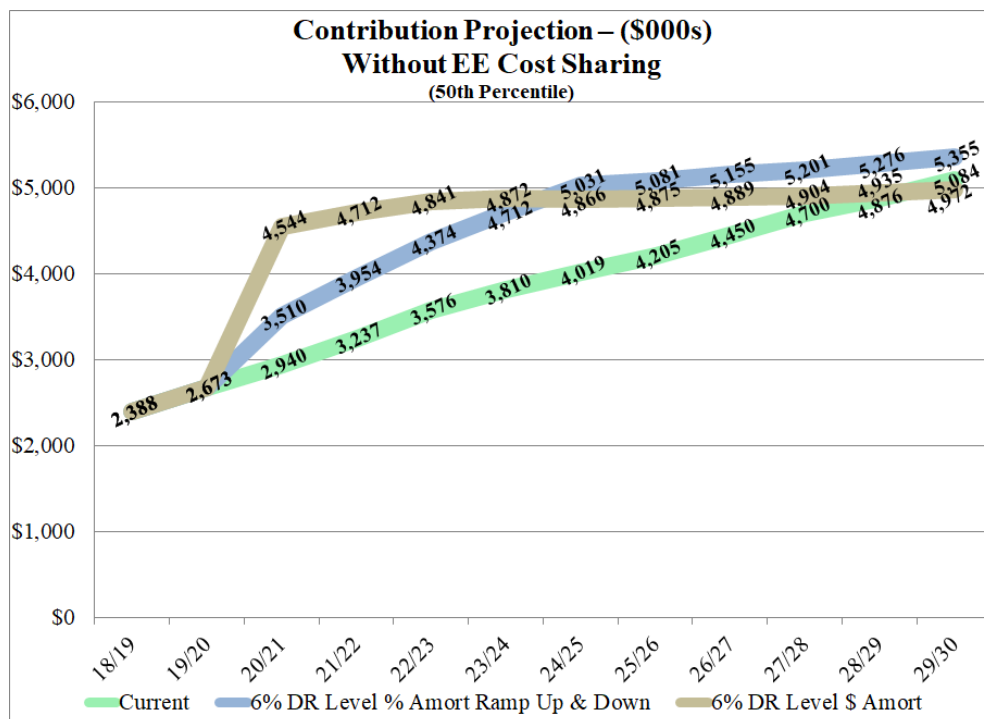


August 6, 2019

57



6% DISCOUNT RATE PROJECTION - SAFETY

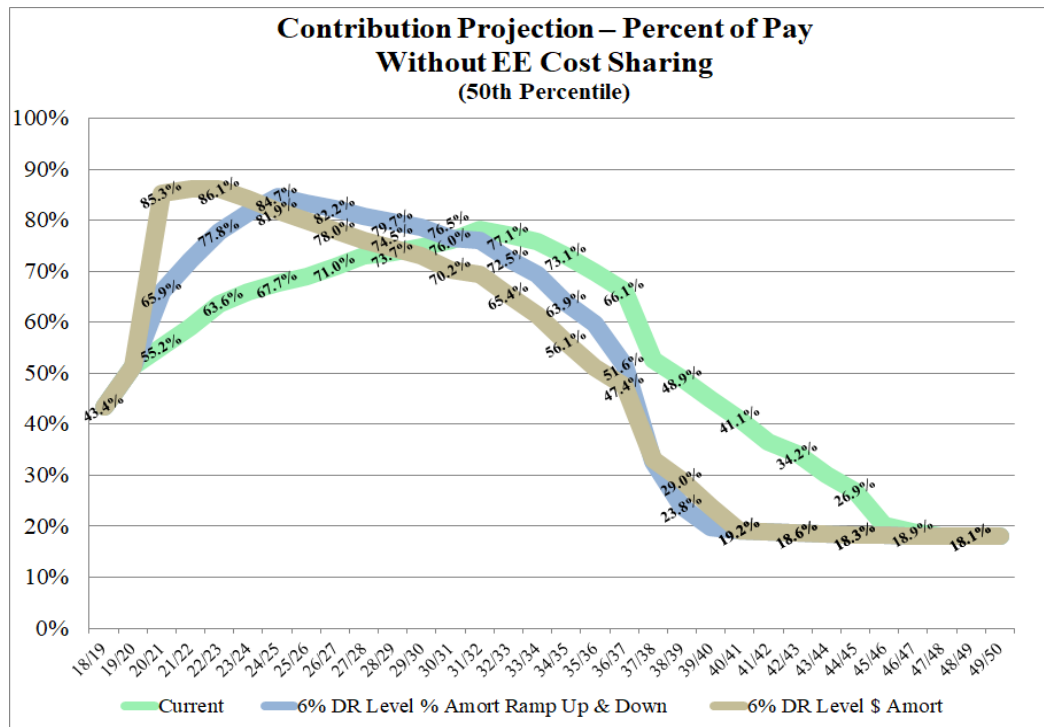


August 6, 2019

58



6% DISCOUNT RATE PROJECTION - SAFETY



August 6, 2019

59



6% DISCOUNT RATE PROJECTION - SAFETY

This page intentionally blank

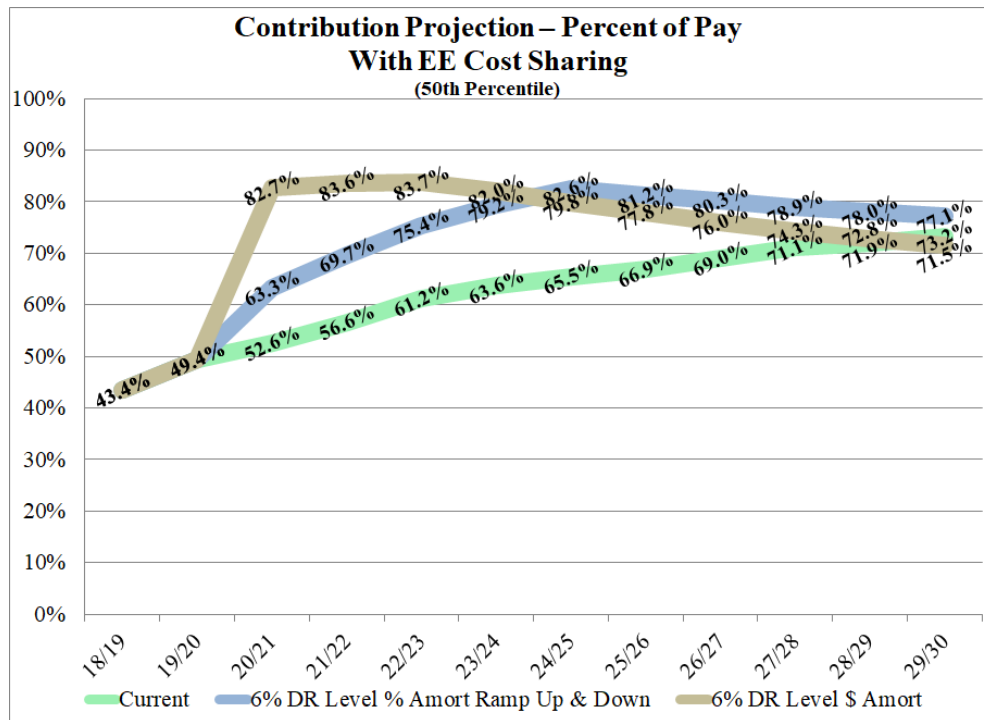


August 6, 2019

60



6% DISCOUNT RATE PROJECTION - SAFETY

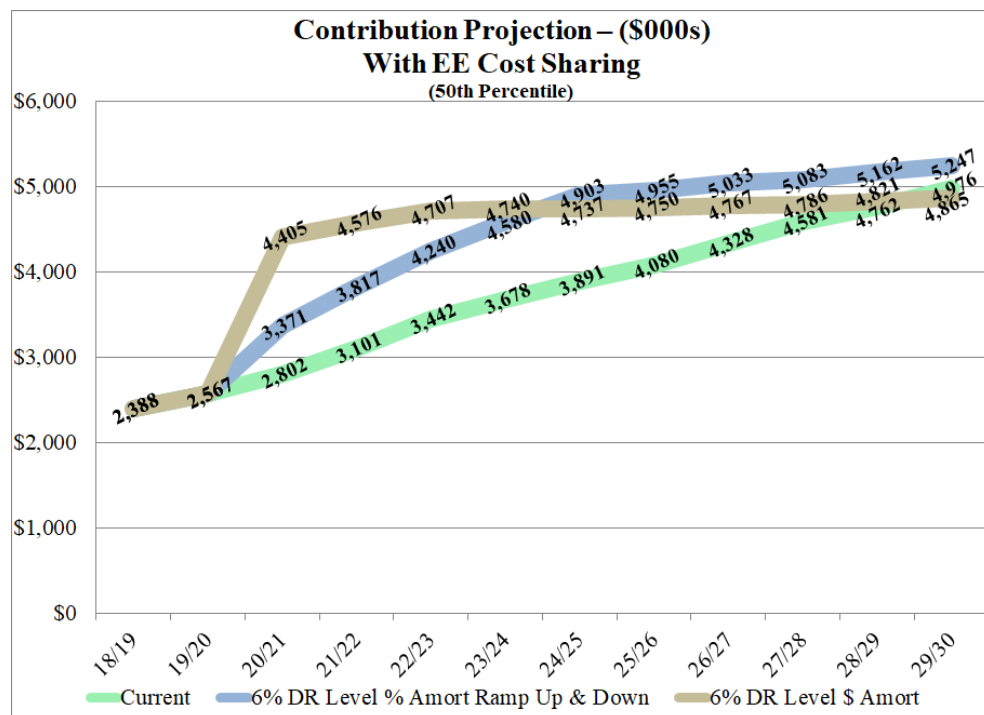


August 6, 2019

61



6% DISCOUNT RATE PROJECTION - SAFETY

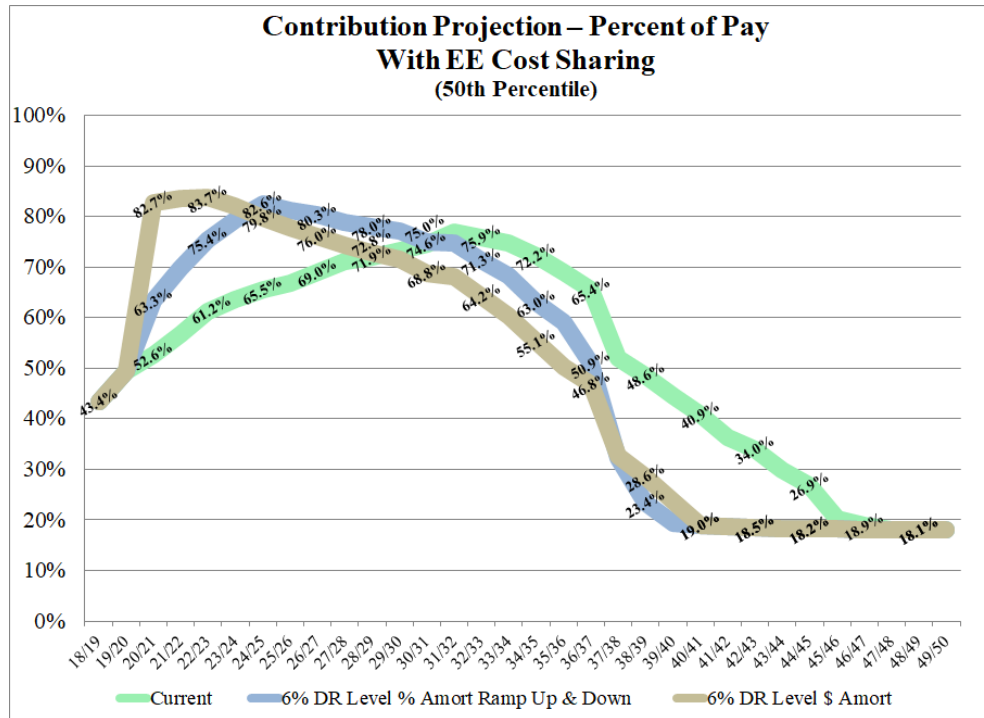


August 6, 2019

62



6% DISCOUNT RATE PROJECTION - SAFETY



August 6, 2019

63



6% DISCOUNT RATE PROJECTION - SAFETY

This page intentionally blank

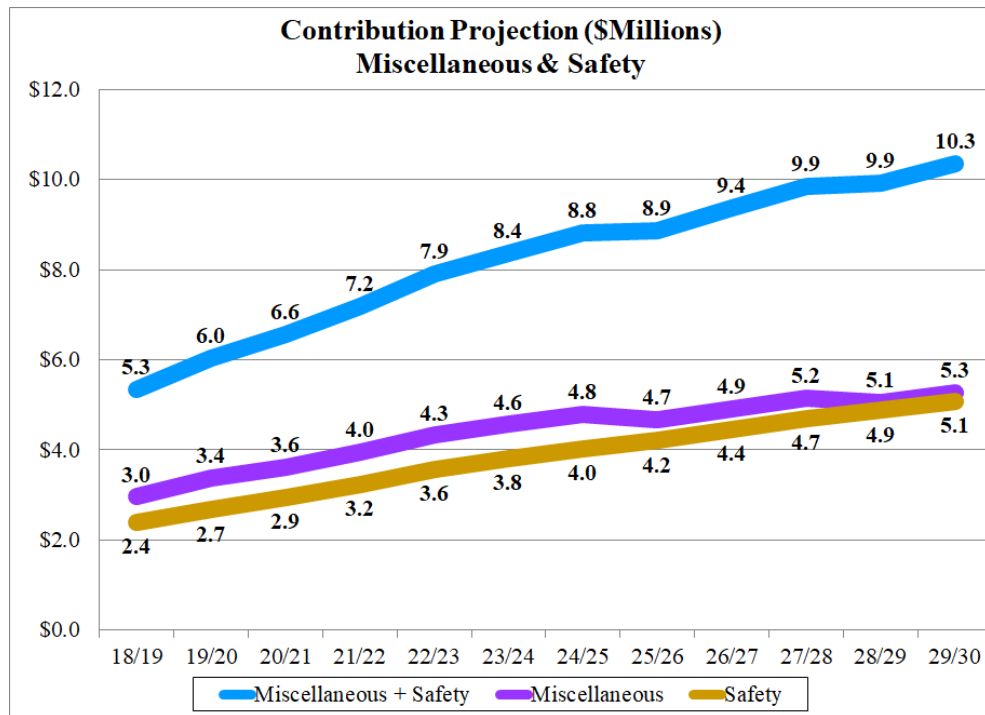


August 6, 2019

64



COMBINED MISCELLANEOUS AND SAFETY



August 6, 2019

65



COMBINED MISCELLANEOUS AND SAFETY

Funded Status Summary on June 30, 2017 (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$ 100	\$ 85	\$ 185
■ Assets	<u>70</u>	<u>63</u>	<u>133</u>
■ Unfunded AAL	30	22	52
■ Funded Ratio	69.6%	74.0%	71.6%



August 6, 2019

66



LEAVING CALPERS

- Participation in CalPERS is governed by State law and CalPERS rules
- The following are considered “withdrawing” from CalPERS:
 - Exclude new hires from CalPERS & giving them a different pension
 - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
 - Treated as plan termination
 - Liability increased for conservative investments
 - Liability increased for future demographic fluctuations
 - Liability must be funded immediately by withdrawing agency
 - Otherwise, retiree benefits are cut



August 6, 2019

67



LEAVING CALPERS

CalPERS Termination Estimates on June 30, 2017 (Amounts in Millions)

Discount Rate	Ongoing Plan	Termination Basis	
	7.25%	1.75%	3.00%
Miscellaneous			
Actuarial Accrued Liability	\$ 100	\$ 188	\$ 169
Assets	<u>70</u>	<u>70</u>	<u>70</u>
Unfunded AAL (UAAL)	30	118	99
Safety			
Actuarial Accrued Liability	\$ 85	\$ 173	\$ 154
Assets	<u>63</u>	<u>63</u>	<u>63</u>
Unfunded AAL (UAAL)	22	110	91
Total			
Unfunded AAL (UAAL)	\$ 52	\$ 228	\$ 190
Funded Ratio	71.6%	36.6%	40.9%



August 6, 2019

68



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 8% of pay for Miscellaneous and 12% for Safety) if not agreed through collective bargaining by 1/1/18
- Miscellaneous Plan:

	<u>Classic Members</u>		<u>New Members</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
	<u>2.5% @ 55 FAE1</u>	<u>2% @ 60 FAE3</u>	<u>2% @ 62 FAE3</u>
● Employer Normal Cost	11.3%	13.0%	5.72%
● Member Normal Cost	8.0%	7.0%	7.25%
● Total Normal Cost	19.3%	20.0%	12.97%
● 50% Target	9.7%	10.0%	6.49%



August 6, 2019

69



PEPRA COST SHARING

- Safety Plan:

	<u>Classic Members</u>	<u>New Members</u>
	<u>Tier 1</u>	<u>PEPRA</u>
	<u>3% @ 50 FAE1</u>	<u>2.7% @ 57 FAE3</u>
● Employer Normal Cost	23.7%	13.79%
● Member Normal Cost	9.0%	12.75%
● Total Normal Cost	32.7%	26.54%
● 50% Target	16.4%	13.27%



August 6, 2019

70



PAYING DOWN THE UNFUNDED LIABILITY & RATE STABILIZATION

- Where do you get the money from?
- How do you use the money?



August 6, 2019

71



WHERE DO YOU GET THE MONEY FROM?

- POB:
 - Usually thought of as interest arbitrage between expected earnings and rate paid on POB
 - No guaranteed savings
 - PEPPRA prevents contributions from dropping below normal cost
 - ☐ Savings offset when investment return is good
 - GFOA Advisory
- Borrow from General Fund similar to State
- One time payments
 - Council resolution to use a portion of one time money, e.g.
 - ☐ 1/3 to one time projects
 - ☐ 1/3 to replenish reserves and
 - ☐ 1/3 to pay down unfunded liability



August 6, 2019

72



HOW DO YOU USE THE MONEY?

- Internal Service Fund
 - Typically used for rate stabilization
 - Restricted investments:
 - ☐ Likely low (0.5%-1.0%) investment returns
 - ☐ Short term/high quality, designed for preservation of principal
 - Assets can be used by Council for other purposes
 - Does not reduce Unfunded Liability



August 6, 2019

73



HOW DO YOU USE THE MONEY?

- Make payments directly to CalPERS:
 - Likely best long-term investment return
 - Must be considered an irrevocable decision
 - ☐ Extra payments cannot be used as future “credit”
 - ☐ PEPRAs prevents contributions from dropping below normal cost
 - Option #1: Request shorter amortization period (Fresh Start):
 - ☐ Higher short term payments
 - ☐ Less interest and lower long term payments
 - ☐ Likely cannot revert to old amortization schedule
 - Savings offset when investment return is good (PEPRA)



August 6, 2019

74



HOW DO YOU USE THE MONEY?

- Make payments directly to CalPERS (continued):
 - Option #2: Target specific amortization bases:
 - ☐ Extra contribution's impact muted by reduced future contributions
 - CalPERS can't track the "would have been" contribution
 - ☐ No guaranteed savings
 - Larger asset pool means larger loss (or gain) opportunity
 - ☐ Paying off shorter amortization bases: larger contribution savings over shorter period:
 - e.g. 10 year base reduces contribution 12.3¢ for \$1
 - Less interest savings vs paying off longer amortization bases
 - ☐ Paying off longer amortization bases: smaller contribution savings over longer period:
 - e.g. 25 year base reduces contribution 6.5¢ for \$1
 - More interest savings vs paying off shorter amortization bases



August 6, 2019

75



HOW DO YOU USE THE MONEY?

This page intentionally blank



August 6, 2019

76



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Can only be used to:
 - Reimburse Town for CalPERS contributions
 - Make payments directly to CalPERS
- Investments significantly less restricted than Town investment funds
 - Fiduciary rules govern Trust investments
 - Usually, designed for long term returns
- Assets don't count for GASB accounting
 - Are considered Employer assets
- Over 180 trusts established, mostly since 2015
 - Trust providers: PARS, PFM, Keenan
 - California Employers' Pension Prefunding Trust (CEPPT) is coming



August 6, 2019

77



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- More flexibility than paying CalPERS directly
 - Town decides if and when and how much money to put into Trust
 - Town decides if and when and how much to withdraw to pay CalPERS or reimburse Agency
- Funding strategies typically focus on
 - Reducing the unfunded liability
 - ☐ Fund enough to make total CalPERS UAL = 0
 - ☐ Make PEPPRA required payments from Trust when overfunded
 - Stabilizing contribution rates
 - ☐ Mitigate expected contribution rates to better manage budget
 - Combination
 - ☐ Use funds for rate stabilization/budget predictability
 - ☐ Target increasing fund balance to pay off UAL sooner



August 6, 2019

78



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Consider:
 - How much can you put into Trust?
 - ☐ Initial seed money?
 - ☐ Additional amounts in future years?
 - When do you take money out?
 - ☐ Target budget rate?
 - ☐ Year target budget rate kicks in?
 - Before or after CalPERS rate exceeds budgeted rate?



August 6, 2019

79



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

This page intentionally blank



August 6, 2019

80



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Direct Payment to CalPERS

- Following example illustrates additional contribution of \$8 million to CalPERS on June 30, 2019:
- Miscellaneous
 - Short Base: 2003 Assumption Change (6 years amortization), 2007 Benefit Change (9 years amortization), 2009 Assumption Change (12 years amortization), 2011 Assumption Change (14 years amortization), and 2014 Assumption Change (17 years amortization)
 - Long Base: 2016 Gain/Loss (29 years amortization) and 2015 Gain/Loss (28 years amortization)
- Estimated Savings

	Miscellaneous
Short Base	\$8 million
\$ Savings (000's)	\$3,701
PV Savings @ 3% (000's)	1,844
Long Base	\$8 million
\$ Savings (000's)	\$11,674
PV Savings @ 3% (000's)	4,903



August 6, 2019

81



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to 115 Trust

	Miscellaneous	Miscellaneous
Trust Contributions	\$8 million	\$4.4 million
Trust Earnings	6%	6%
Trust Target		
- Target Rate	31.5%	34.6%
- 1st Year	2020/21	2021/22
- Last Year	2034/35	2032/33
\$ Savings (000's)	\$5,130	\$2,733
PV Savings @ 3% (000's)	2,402	1,265
Remaining Balance Final Year	558	116



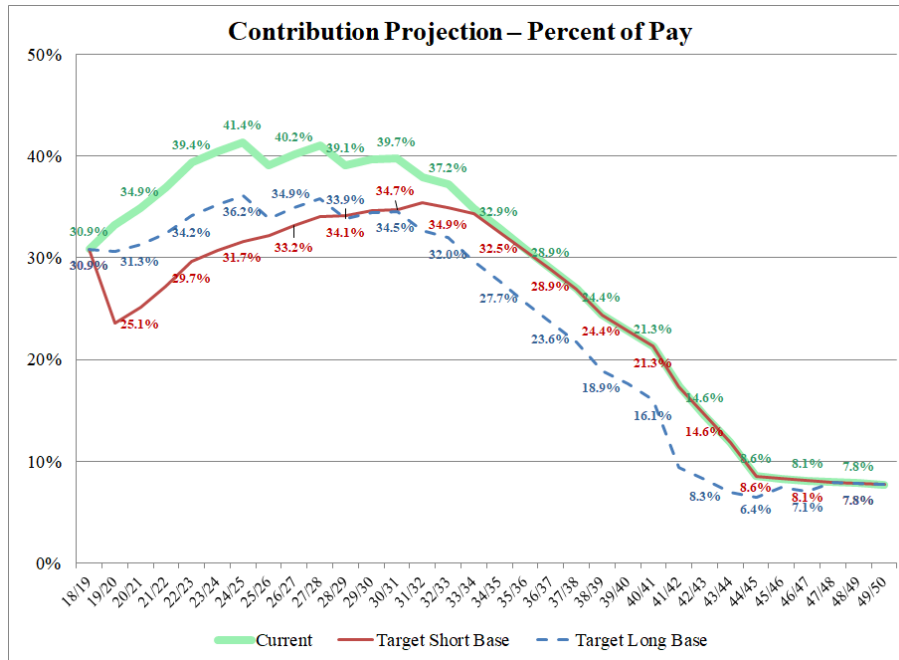
August 6, 2019

82



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Direct Payment to CalPERS Miscellaneous



August 6, 2019

83



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - \$8M Miscellaneous



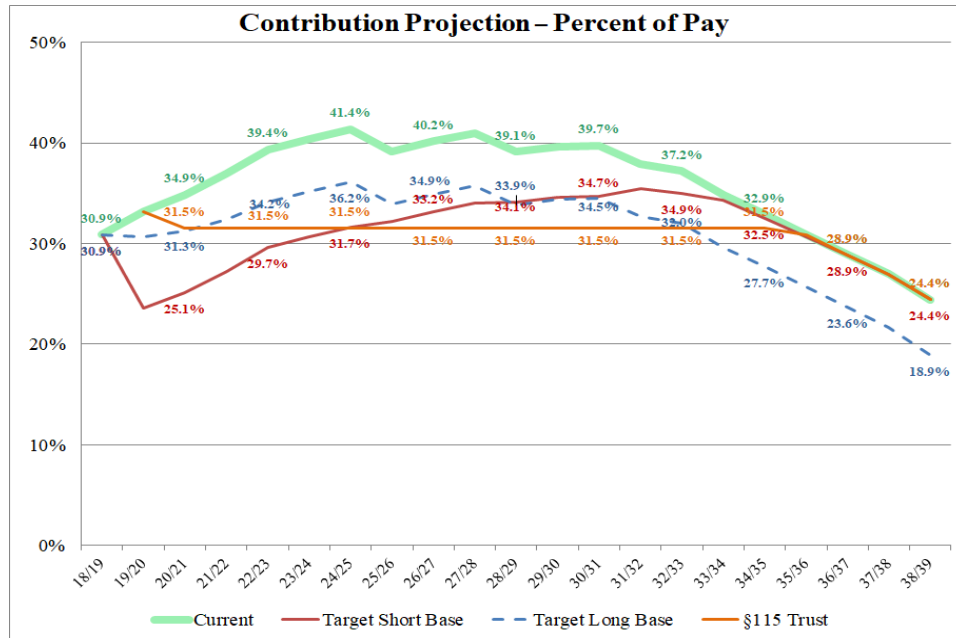
August 6, 2019

84



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

\$8 M Additional Payments – §115 Trust vs. CalPERS Miscellaneous



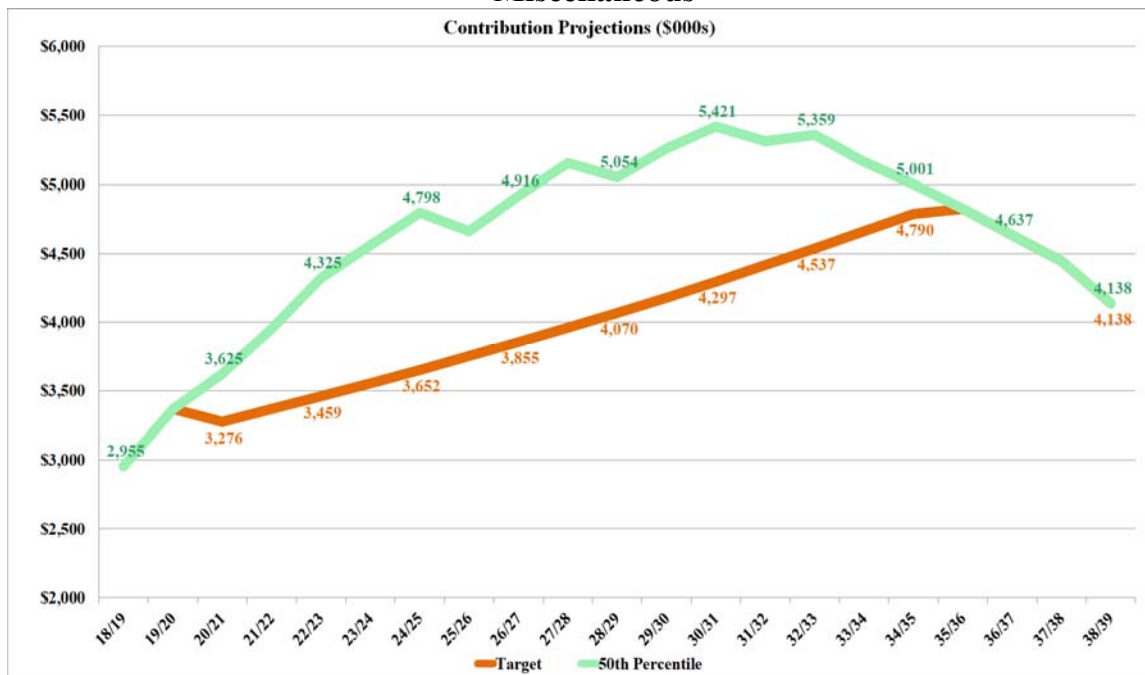
August 6, 2019

85



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - \$8M Miscellaneous



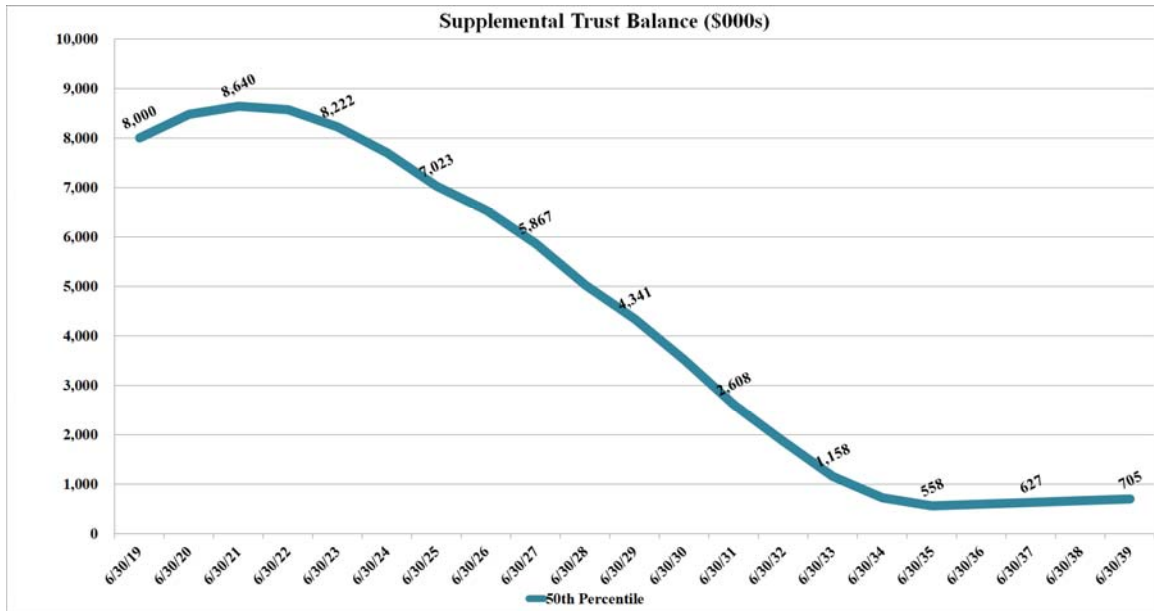
August 6, 2019

86



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - \$8M Miscellaneous



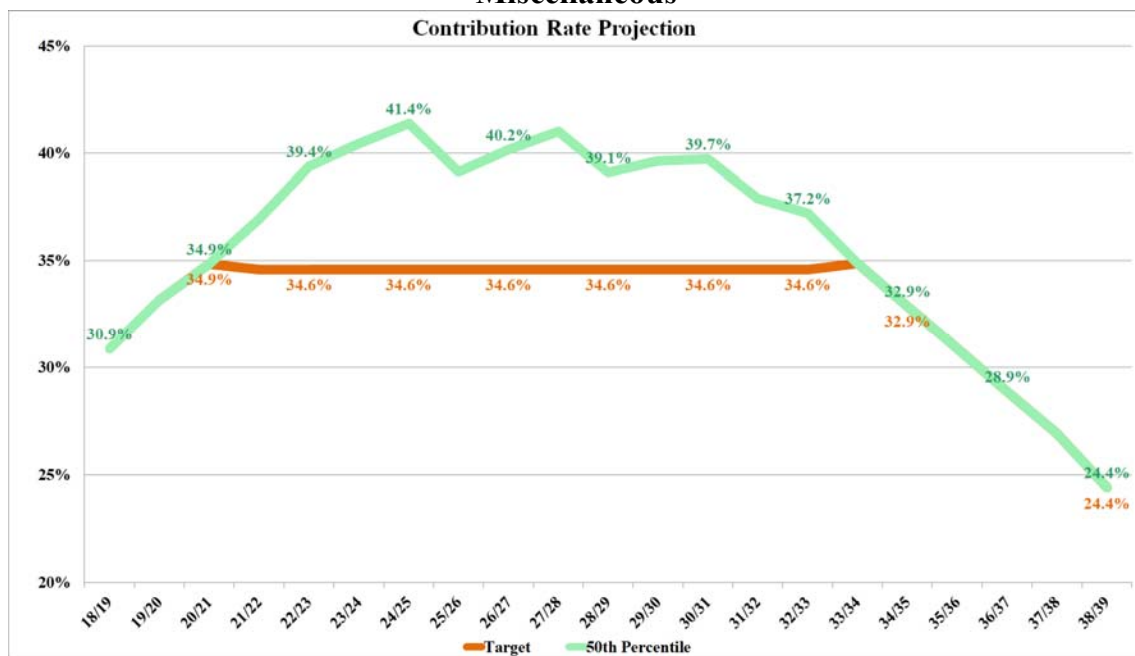
August 6, 2019

87



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - \$4.4M Miscellaneous



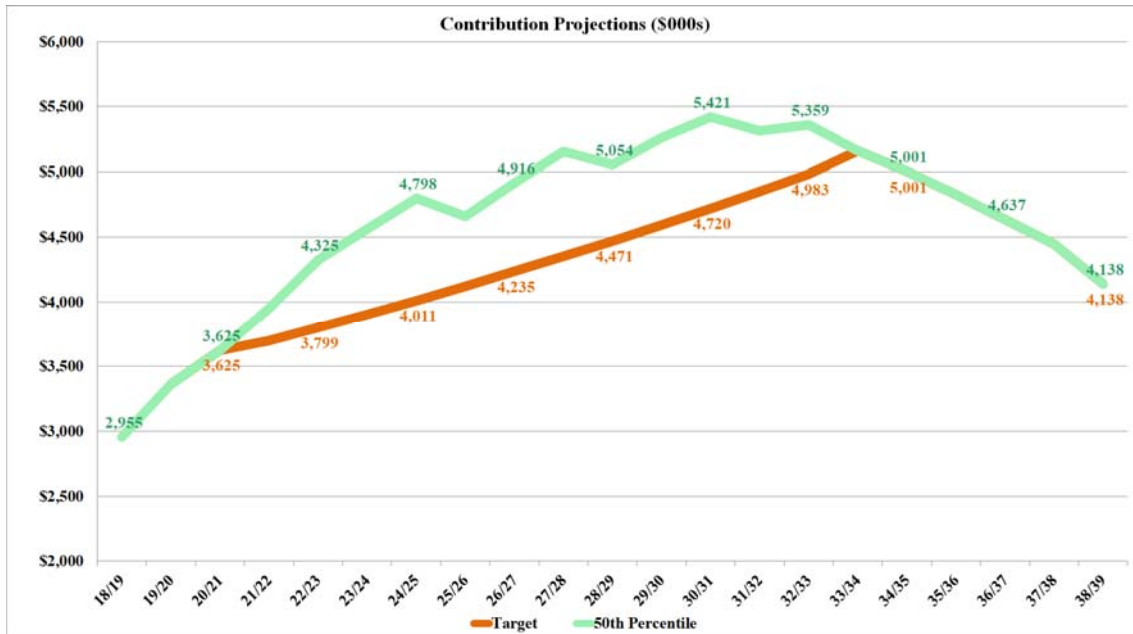
August 6, 2019

88



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - \$4.4M Miscellaneous



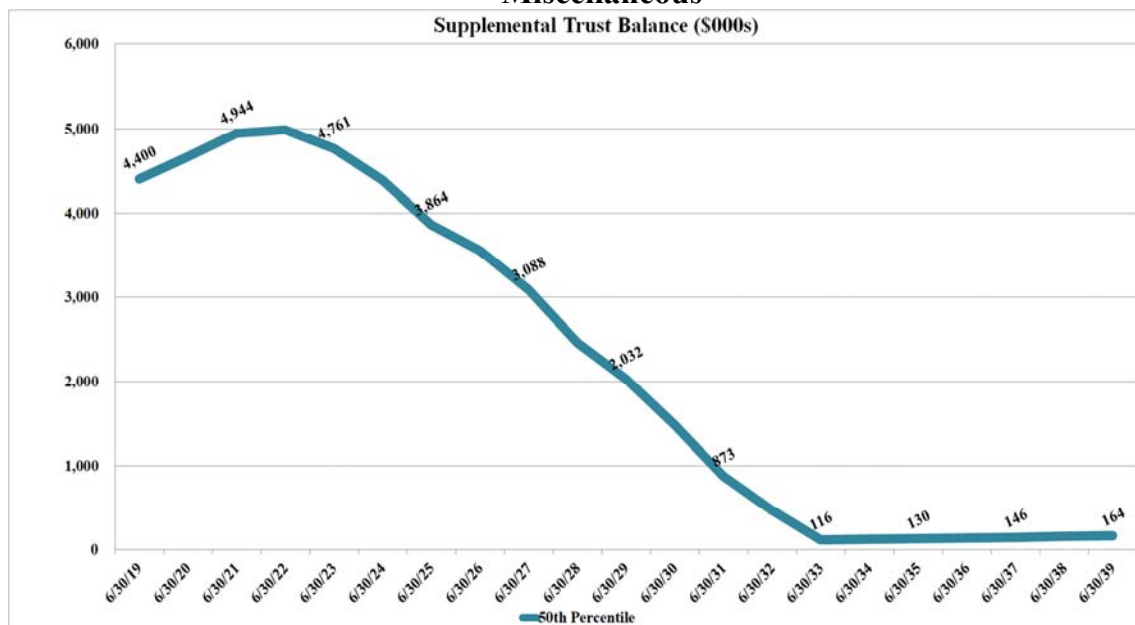
August 6, 2019

89



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - \$4.4M Miscellaneous



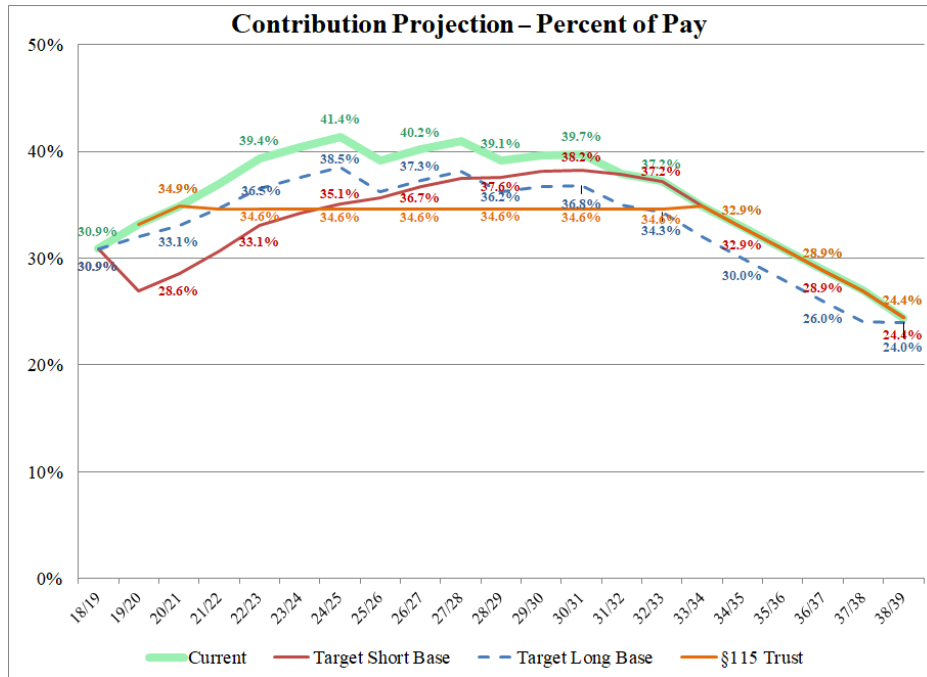
August 6, 2019

90



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

\$4.4 M Additional Payments – §115 Trust vs. CalPERS Miscellaneous



August 6, 2019



*THIS PAGE
INTENTIONALLY
LEFT BLANK*