Subject: Finance Committee Meeting - Agenda item #2

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Dear Members of the Finance Committee:

As you review the Calper's valuation reports, please keep in mind the following:

- If you use the 6% discount rate, the combined unfunded pension liability would increase to \$85.7m. This is probably a more realistic number than the reported \$59.3m which was computed using the current 7% discount rate. While making a \$8.5m ADP will help, there is still a lot more money that needs to be paid into the pension plans.
- The staff report correctly states "larger corresponding increases in accrued liabilities offset those gains (in the MVA) resulting increased unfunded accrued liabilities and reduced funded status". However there is no explanation as to why this is happening. The growth in the accrued liabilities are being driven by:
  - The present value of the projected benefits for members/beneficiaries **receiving payments is exploding.** As an example, as of the June 30, 2014 valuation for the Miscellaneous Plan this amount was \$55.8m. By the current June 30, 2018 valuation, this increased **26.6%** to \$70.7m. The Town needs to take measures to manage this growth rate.
  - The active to retired ratio continues to deteriorate. As of the June 30, 2014 valuation, the ratio was .52. The current June 30, 2018 valuation reports this ratio decreased to .48. **The average support ratio for Calpers public agency plans is 1.25**. The Town's pension plans are very mature and as such are more sensitive to risks than plans that are less mature.

The only solution is to increase the amount of assets paid into the pension plans. Excluding the impact of the additional \$8.5m ADP since it has not been paid into the plans, the growth of the market value of assets since the June 30, 2014 valuation has materially lagged the growth in present value of projected benefits for members receiving benefits. In this four year period, the market value of assets in the miscellaneous plan increased \$6.3m while the present value of projected benefits to members receiving payments increased \$14.8m. (Note: I have not included in this analysis the present value of benefits for active, transferred and terminated members which also require assets to pay for these liabilities. Including these liabilities would have only made this analysis even more unfavorable).

Simply put, the accrued liability for members receiving benefits is growing at a rate that is 2.3x the rate that the total market value of assets is growing. If this continues, the funded status of the miscellaneous pension plan will continue to fall.

Thank you,

Phil Koen

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