



**BARTEL**  
ASSOCIATES, LLC

## **CITY OF MANHATTAN BEACH MISCELLANEOUS AND SAFETY PLANS**

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

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**Bartel Associates, LLC**

May 26, 2015

## Agenda

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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
  - City joined in 1947
- 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



## 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)



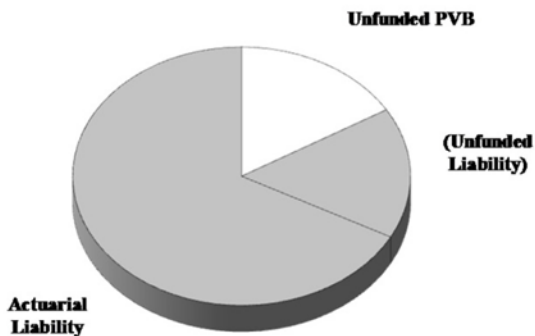
**SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS**

	<b>1996</b>	<b>2003</b>	<b>2012</b>	<b>2013</b>
<b>Actives</b>				
■ Counts	150	170	199	192
■ Average				
• Age	43	45	45	45
• City Service	7	9	10	11
• PERSable Wages	\$39,100	\$50,800	\$64,600	\$64,400
■ Total PERSable Wages (millions)	6.7	9.5	14.0	13.5
<b>Receiving Payments</b>				
■ Counts				
• Service		100	149	151
• Disability		20	15	15
• Beneficiaries		20	27	29
• Total	107	140	191	195
■ Average Annual City Provided Benefit <sup>1</sup>				
• Service		\$9,700	\$17,300	\$18,400
• Disability		4,400	4,800	4,600
• Service Retirements in last 5 years		8,900	26,600	27,900

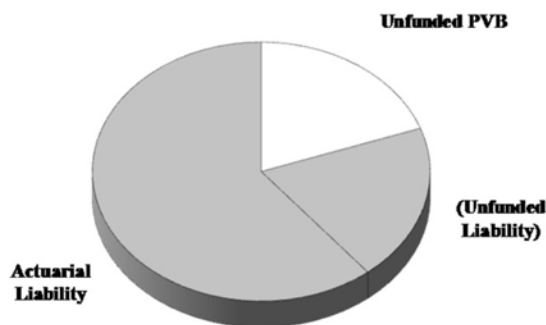
<sup>1</sup> Average City provided pensions are based on City service & City benefit formula, and are not representative of benefits for long service employees.

# PLAN FUNDED STATUS - MISCELLANEOUS

**Present Value of Benefits  
June 30, 2012**



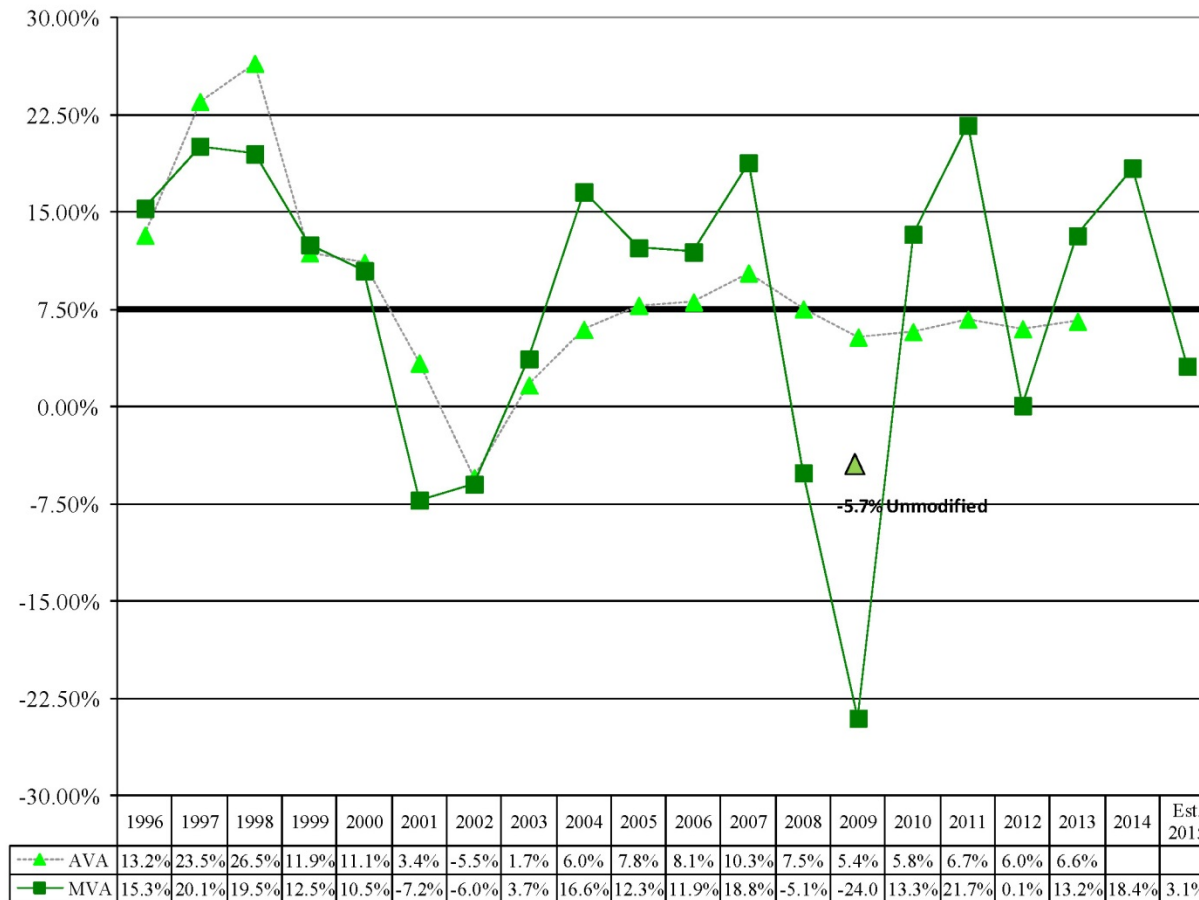
**Present Value of Benefits  
June 30, 2013**



<u>June 30, 2012</u>			<u>June 30, 2013</u>	
\$	74,100,000	<b>Actuarial Liability</b>	\$	77,400,000
	66,600,000	<b>Actuarial Asset Value</b>		70,100,000
	<b>(7,500,000)</b>	<b>(Unfunded Liability)</b>		<b>(7,300,000)</b>
<u>June 30, 2012</u>			<u>June 30, 2013</u>	
\$	74,100,000	<b>Actuarial Liability</b>	\$	77,400,000
	55,600,000	<b>Market Asset Value</b>		61,800,000
	<b>(18,500,000)</b>			<b>(15,600,000)</b>



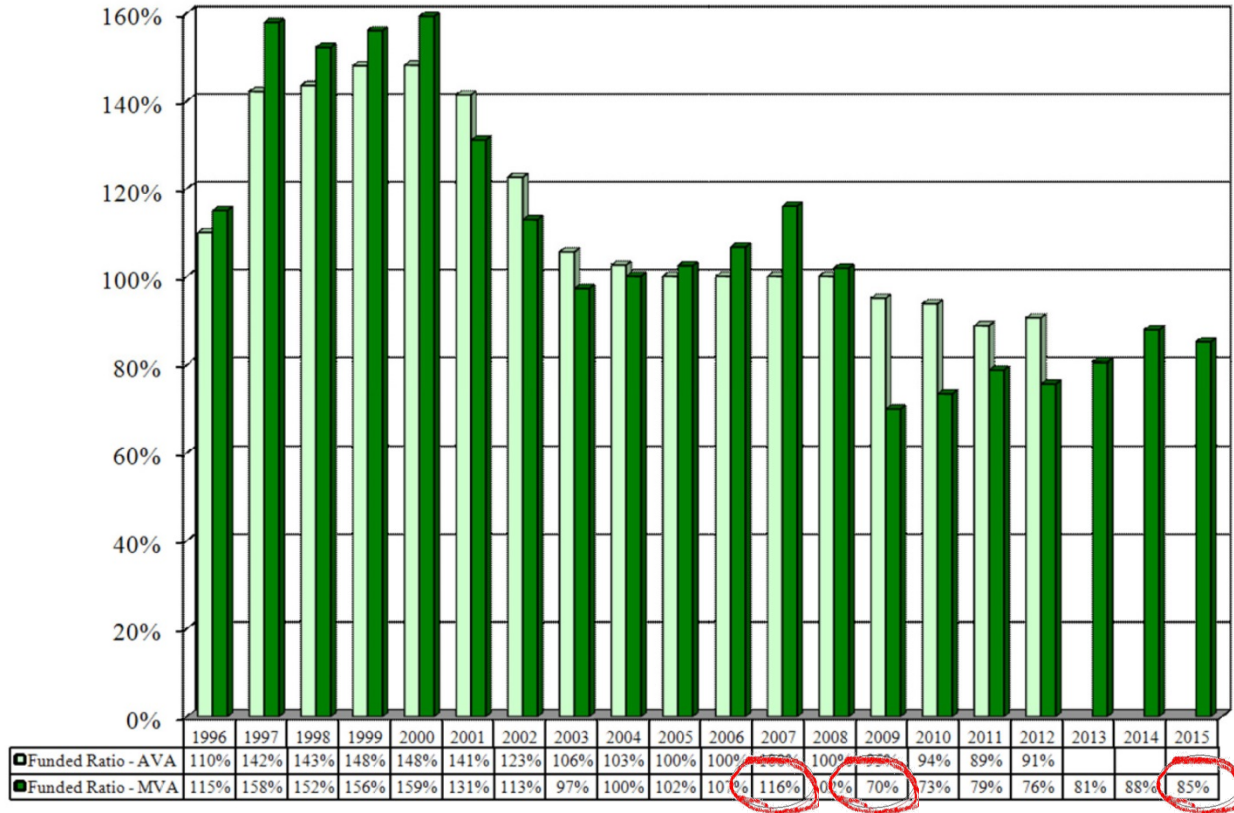
# CALPERS HISTORICAL INVESTMENT RETURN



Above assumes contributions, payments, etc. received evenly throughout year. Estimated 6/30/15 based on CalPERS actual return through 3/31/15 and assumed 7.5% annual return for the remaining 3 months.



# FUNDED RATIO - MISCELLANEOUS

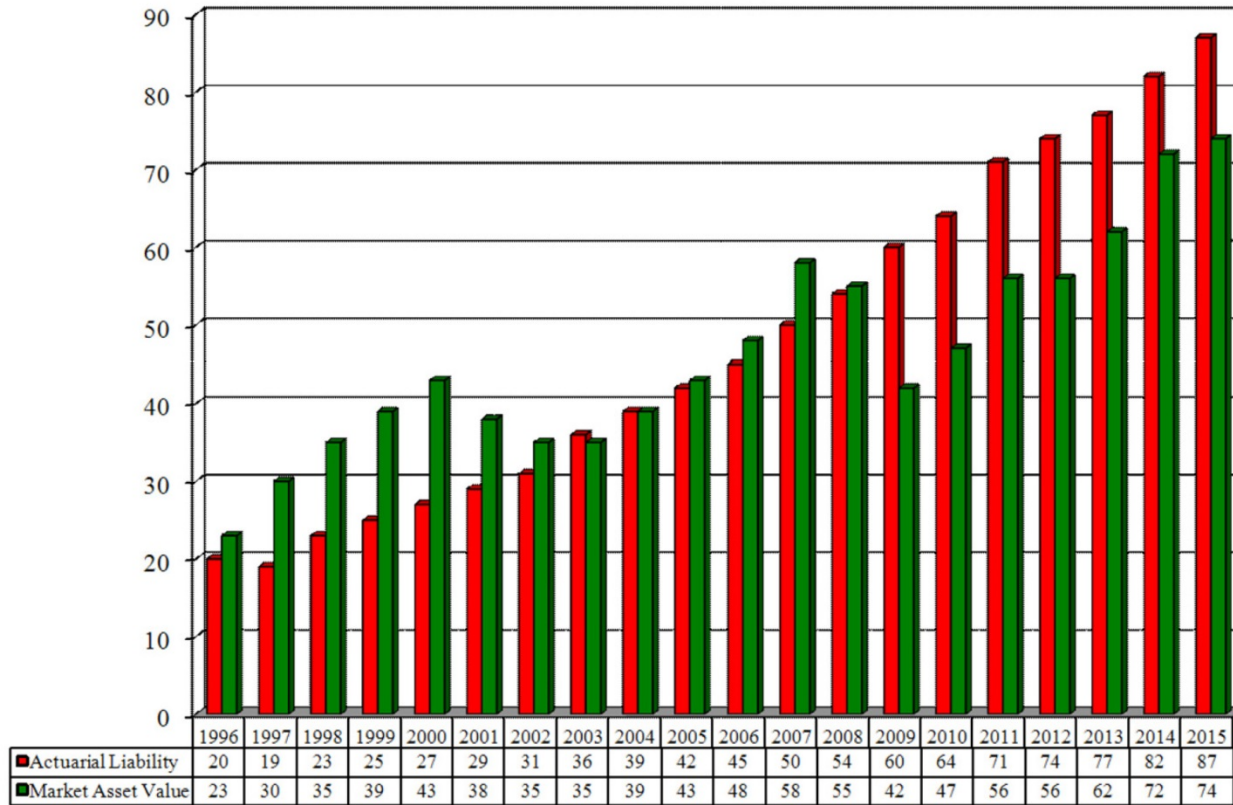


6/30/14 & 6/30/15 funded status estimated.

AVA is being set equal to MVA and a separate AVA is not available starting 6/30/13.



## FUNDED STATUS (MILLIONS) - MISCELLANEOUS

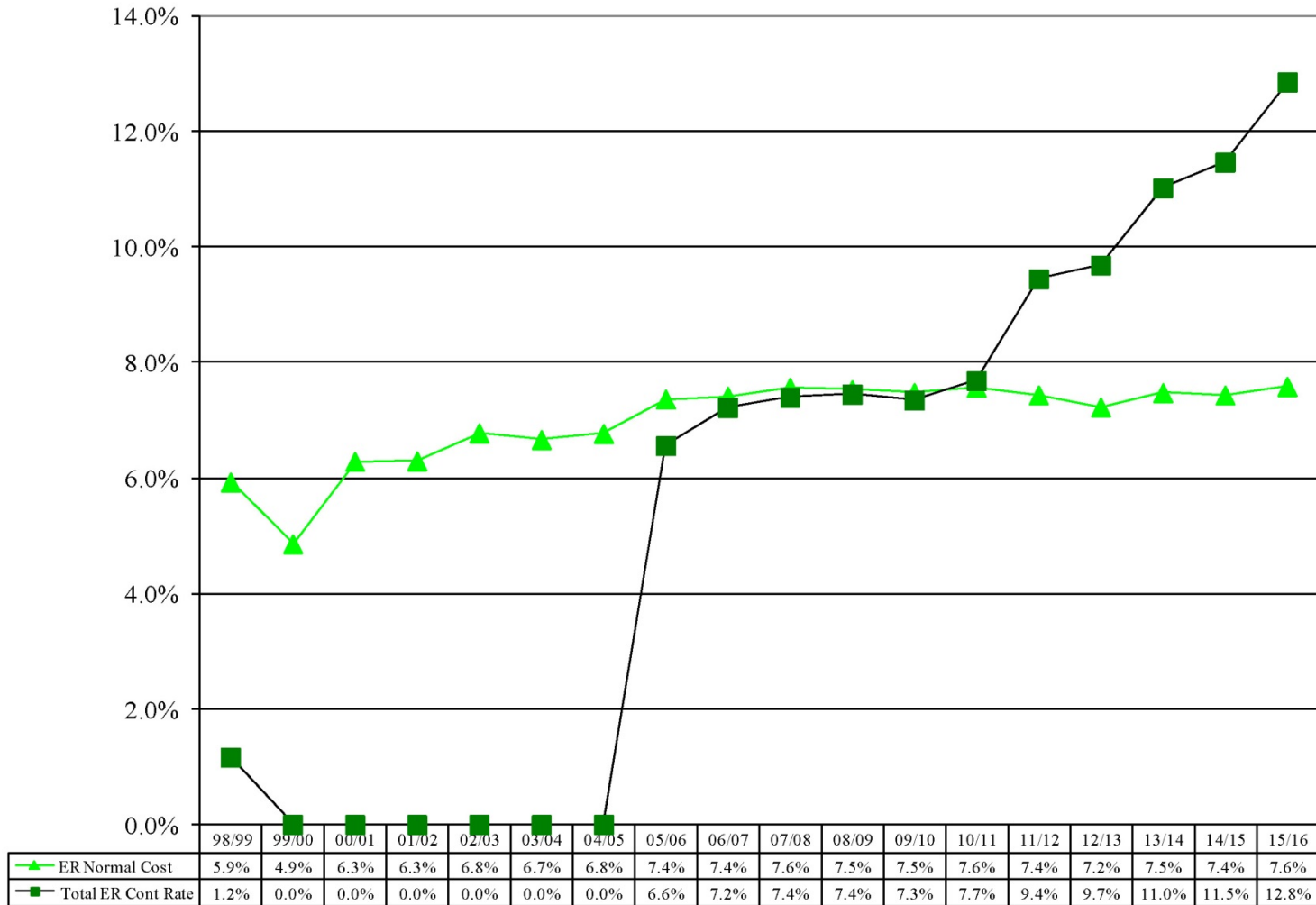


6/30/14 & 6/30/15 funded status estimated





# CONTRIBUTION PROJECTIONS - MISCELLANEOUS





## CONTRIBUTION PROJECTIONS - MISCELLANEOUS

■ **Market Value Investment Return:**

● June 30, 2012		0.1% <sup>2</sup>	
● June 30, 2013		13.2% <sup>2</sup>	
● June 30, 2014		18.4% <sup>2</sup>	
	<u>Poor</u>	<u>Expected</u>	<u>Good</u>
● June 30, 2015 <sup>3</sup>	1.3%	3.2%	4.9%
● June 30, 2016 - 2020	0.2% - 4.1%	7.5%	11.3% - 15.1%

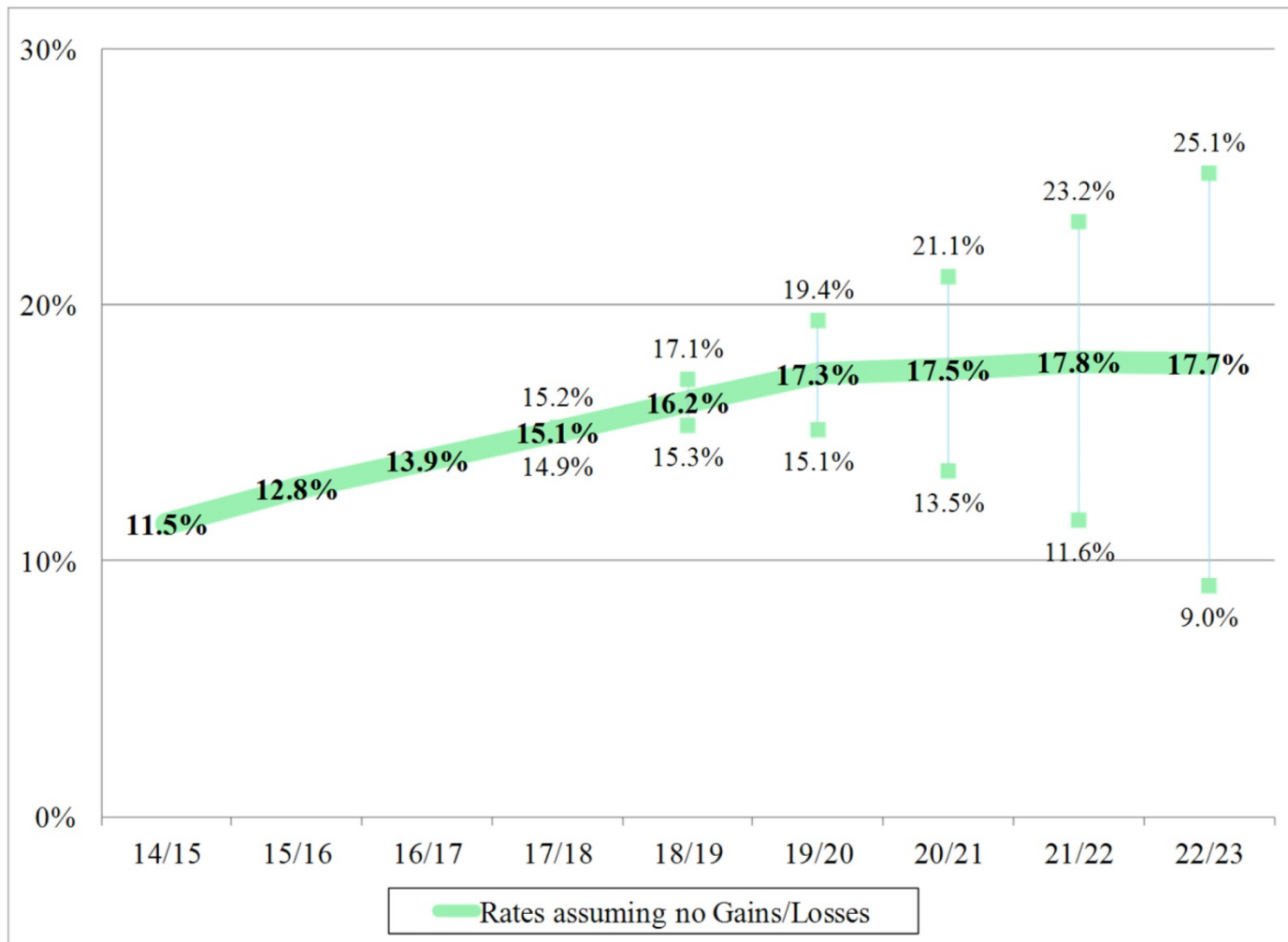
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- Includes CalPERS Board adopted assumption changes, first impact 2016/17
- New hire assumptions:
  - Assumes 50% of 2013 new hires will be Classic Members (2.0%@55) and 50% will be New Members with PEPRAs benefits.
  - Assumes Classic Members will decrease from 50% to 0% of new hires over 20 years.

<sup>2</sup> Based on CalPERS CAFR.

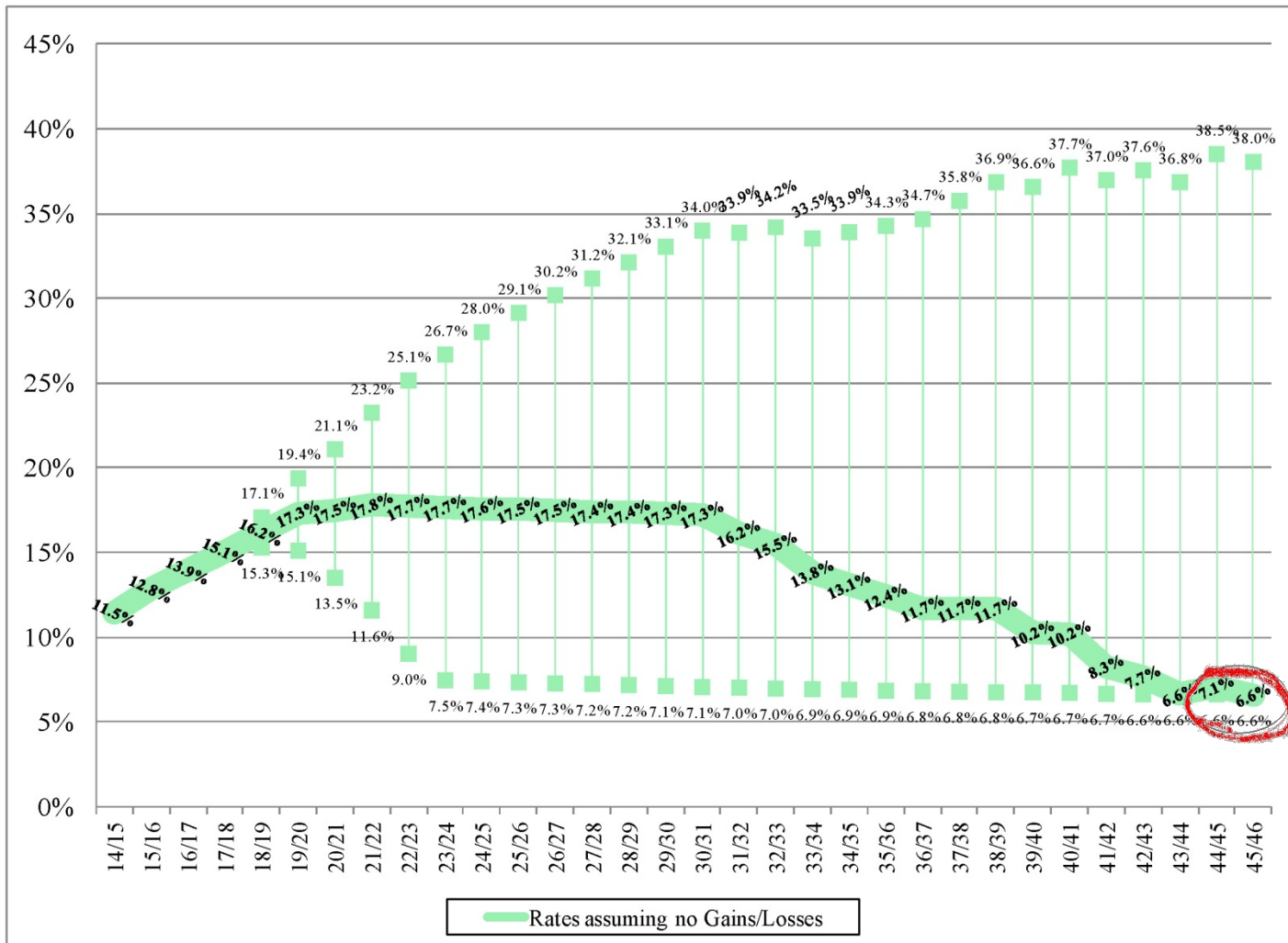
<sup>3</sup> Based on CalPERS return of 1.3% through 3/31/15 and assumed annual return for 3 months.



# CONTRIBUTION PROJECTIONS - MISCELLANEOUS



# CONTRIBUTION PROJECTIONS - MISCELLANEOUS



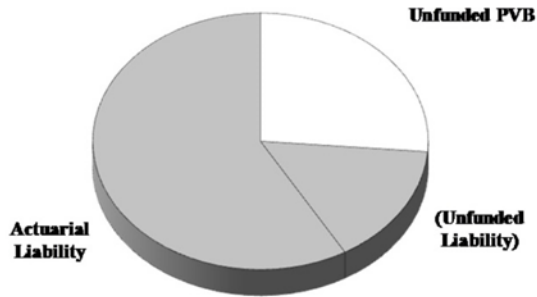
**SUMMARY OF DEMOGRAPHIC INFORMATION – POLICE SAFETY**

	<b>2001</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Actives</b>				
■ Counts	63	59	60	58
■ Average PERSable Wages	\$71,600	\$121,500	\$121,800	\$120,500
■ Total PERSable Wages (millions)	4.5	7.2	7.3	7.0
<b>Inactive Counts</b>				
■ Transferred	23	17	16	15
■ Separated	3	9	9	10
■ Receiving Payments	63	104	107	110

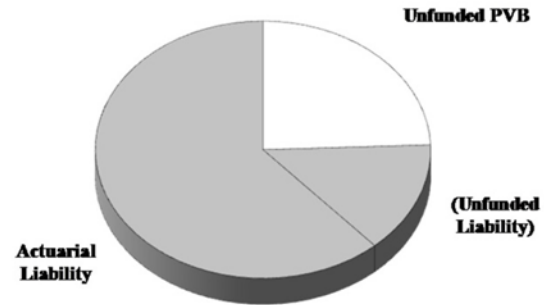


# PLAN FUNDED STATUS – POLICE SAFETY

**Present Value of Benefits  
June 30, 2012**



**Present Value of Benefits  
June 30, 2013**



<u>June 30, 2012</u>		<u>June 30, 2013</u>
\$ 93,900,000	<b>Actuarial Liability</b>	\$ 97,300,000
82,700,000	<b>Actuarial Asset Value</b>	N/A
(11,200,000)	<b>(Unfunded Liability)</b>	N/A
<u>June 30, 2012</u>		<u>June 30, 2013</u>
\$ 93,900,000	<b>Actuarial Liability</b>	\$ 97,300,000
69,300,000	<b>Market Asset Value</b>	75,500,000
(24,600,000)		(21,800,000)

*Note: Red circles highlight the unfunded liability values for both years. Blue arrows indicate the flow of data from the 2012 table to the 2013 table.*



## CONTRIBUTION RATES – POLICE SAFETY

	<b>6/30/12</b>	<b>6/30/13</b>
	<b><u>2014/15</u></b>	<b><u>2015/16</u></b>
■ Valuation		
■ Contribution Year		
■ Required Employer Contribution		
● Risk Pool’s Net Employer Normal Cost	17.5%	17.6%
● Final Average Compensation (1-Year)	1.0%	1.0%
● Post-Retirement Survivor Allowance	<u>1.7%</u>	<u>1.7%</u>
● <b>Total Normal Cost</b>	<b>20.2%</b>	<b>20.2%</b>
● Risk Pool’s Payment on Amortization Bases	<u>9.4%</u>	<u>13.3%</u>
● Total Employer Contribution	29.6%	33.5%
● Employee Cost Sharing <sup>4</sup>	<u>(3.0%)</u>	<u>(3.0%)</u>
● <b>Net Employer Contributions</b>	<b>26.6%</b>	<b>30.5%</b>
● <b>Net Employer Contribution \$</b>	<b>\$2,121</b>	<b>\$2,328</b>
■ What Happened from 6/30/12 to 6/30/13:		
● 2014/15 Rate	26.6%	
● Asset Method	2.0%	
● Risk Pool Changes	0.8%	
● Payroll Increase Less Than Expected	0.8%	
● (Gains)/Losses	<u>0.3%</u>	
● 2015/16 Rate	30.5%	

<sup>4</sup> 3% for Tier 1 employees.



## CONTRIBUTION PROJECTIONS – POLICE SAFETY

■ **Market Value Investment Return:**

●	June 30, 2012		0.1% <sup>5</sup>	
●	June 30, 2013		13.2% <sup>4</sup>	
●	June 30, 2014		18.4% <sup>4</sup>	
		<u>Poor</u>	<u>Expected</u>	<u>Good</u>
●	June 30, 2015 <sup>6</sup>	<b>1.3%</b>	<b>3.2%</b>	<b>4.9%</b>
●	June 30, 2016 - 2020	<b>0.2% - 4.1%</b>	<b>7.5%</b>	<b>11.3% - 15.1%</b>

■ **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 PEPRAs benefits.
- Assumes Classic Members will decrease from 50% to 0% of new hires over 10 years

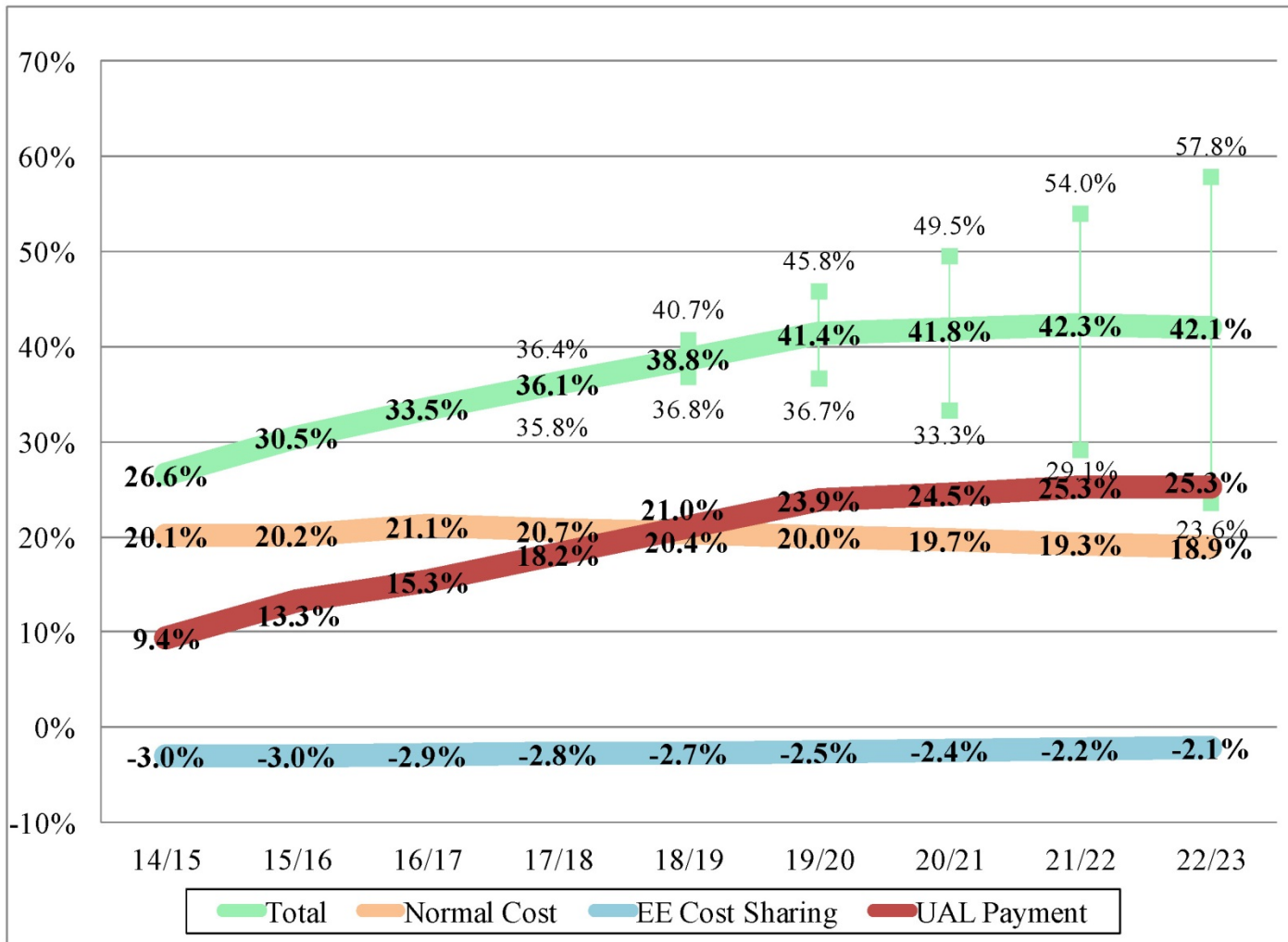
<sup>5</sup> Based on CalPERS CAFR.

<sup>6</sup> Based on CalPERS return of 1.3% through 3/31/15 and assumed annual return for 3 months.



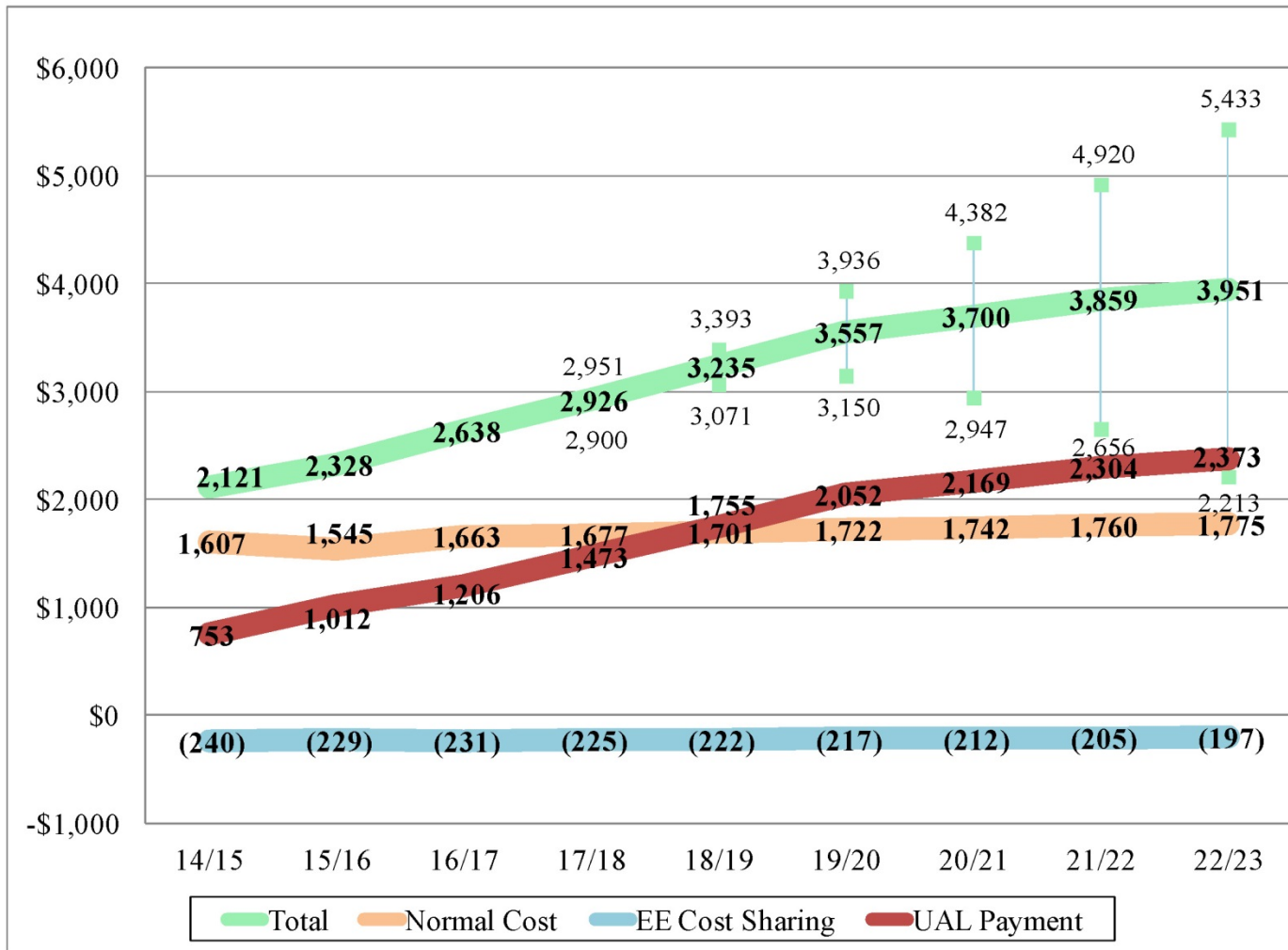


# CONTRIBUTION PROJECTIONS – POLICE SAFETY





# CONTRIBUTION PROJECTIONS – POLICE SAFETY



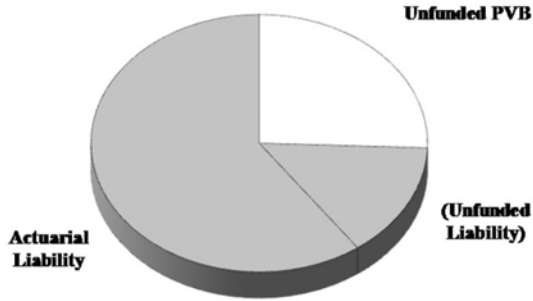
## SUMMARY OF DEMOGRAPHIC INFORMATION – FIRE SAFETY

	2001	2011	2012	2013
<b>Actives</b>				
■ Counts	30	27	29	30
■ Average PERSable Wages	\$82,300	\$144,400	\$145,600	\$145,300
■ Total PERSable Wages (millions)	2.5	3.9	4.2	4.4
<b>Inactive Counts</b>				
■ Transferred	11	5	5	5
■ Separated	1	4	3	3
■ Receiving Payments	41	54	54	51

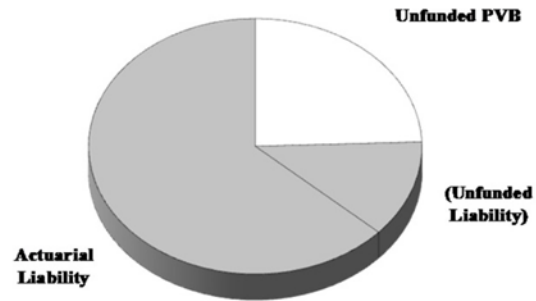


# PLAN FUNDED STATUS – FIRE SAFETY

**Present Value of Benefits  
June 30, 2012**



**Present Value of Benefits  
June 30, 2013**



<u>June 30, 2012</u>		<u>June 30, 2013</u>	
\$ 49,200,000	<b>Actuarial Liability</b>	\$ 48,900,000	
44,400,000	<b>Actuarial Asset Value</b>	N/A	
(4,800,000)	<b>(Unfunded Liability)</b>	N/A	
<u>June 30, 2012</u>		<u>June 30, 2013</u>	
\$ 49,200,000	<b>Actuarial Liability</b>	\$ 48,900,000	
37,300,000	<b>Market Asset Value</b>	39,400,000	
(11,900,000)		(9,500,000)	



## CONTRIBUTION RATES – FIRE SAFETY

	<u>6/30/12</u>	<u>6/30/13</u>
	<u>2014/15</u>	<u>2015/16</u>
■ Valuation		
■ Contribution Year		
■ Required Employer Contribution		
● Risk Pool’s Net Employer Normal Cost	15.4%	15.6%
● Final Average Compensation (1-Year)	0.9%	0.9%
● Post-Retirement Survivor Allowance	<u>1.7%</u>	<u>1.7%</u>
● <b>Total Normal Cost</b>	<b>18.0%</b>	<b>18.2%</b>
● Risk Pool’s Payment on Amortization Bases	<u>5.9%</u>	<u>8.8%</u>
● Total Employer Contribution	23.9%	27.0%
● Employee Cost Sharing <sup>7</sup>	<u>(3.0%)</u>	<u>(3.0%)</u>
● <b>Net Employer Contribution</b>	<b>20.9%</b>	<b>24.0%</b>
● <b>Net Employer Contribution \$</b>	<b>\$967</b>	<b>\$1,143</b>
■ What Happened from 6/30/12 to 6/30/13:		
● 2014/15 Rate	20.9%	
● Asset Method	1.6%	
● Risk Pool Changes	1.2%	
● (Gains)/Losses	<u>0.3%</u>	
● 2015/16 Rate	24.0%	

<sup>7</sup> 3% for Tier 1 employees.



## CONTRIBUTION PROJECTIONS – FIRE SAFETY

■ **Market Value Investment Return:**

●	June 30, 2012			0.1% <sup>8</sup>
●	June 30, 2013			13.2% <sup>6</sup>
●	June 30, 2014			18.4% <sup>6</sup>
		<u>Poor</u>	<u>Expected</u>	<u>Good</u>
●	June 30, 2015 <sup>9</sup>	1.3%	3.2%	4.9%
●	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:

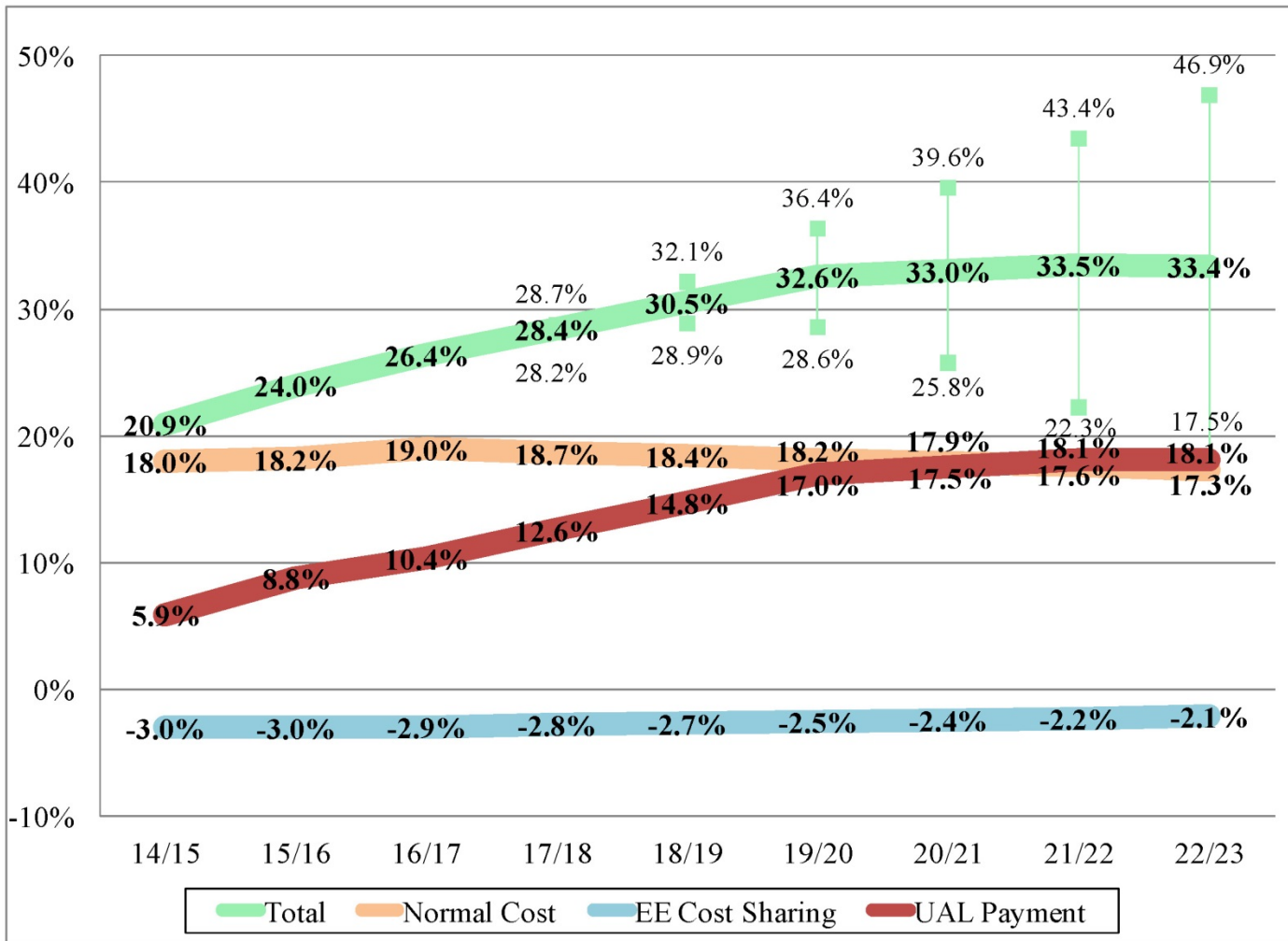
- Assumes 50% of 2013 new hires will be Classic Members (3%<sup>@</sup>55) and 50% will be New Members with PEPRAs benefits.
- Assumes Classic Members will decrease from 50% to 0% of new hires over 10 years

<sup>8</sup> Based on CalPERS CAFR.

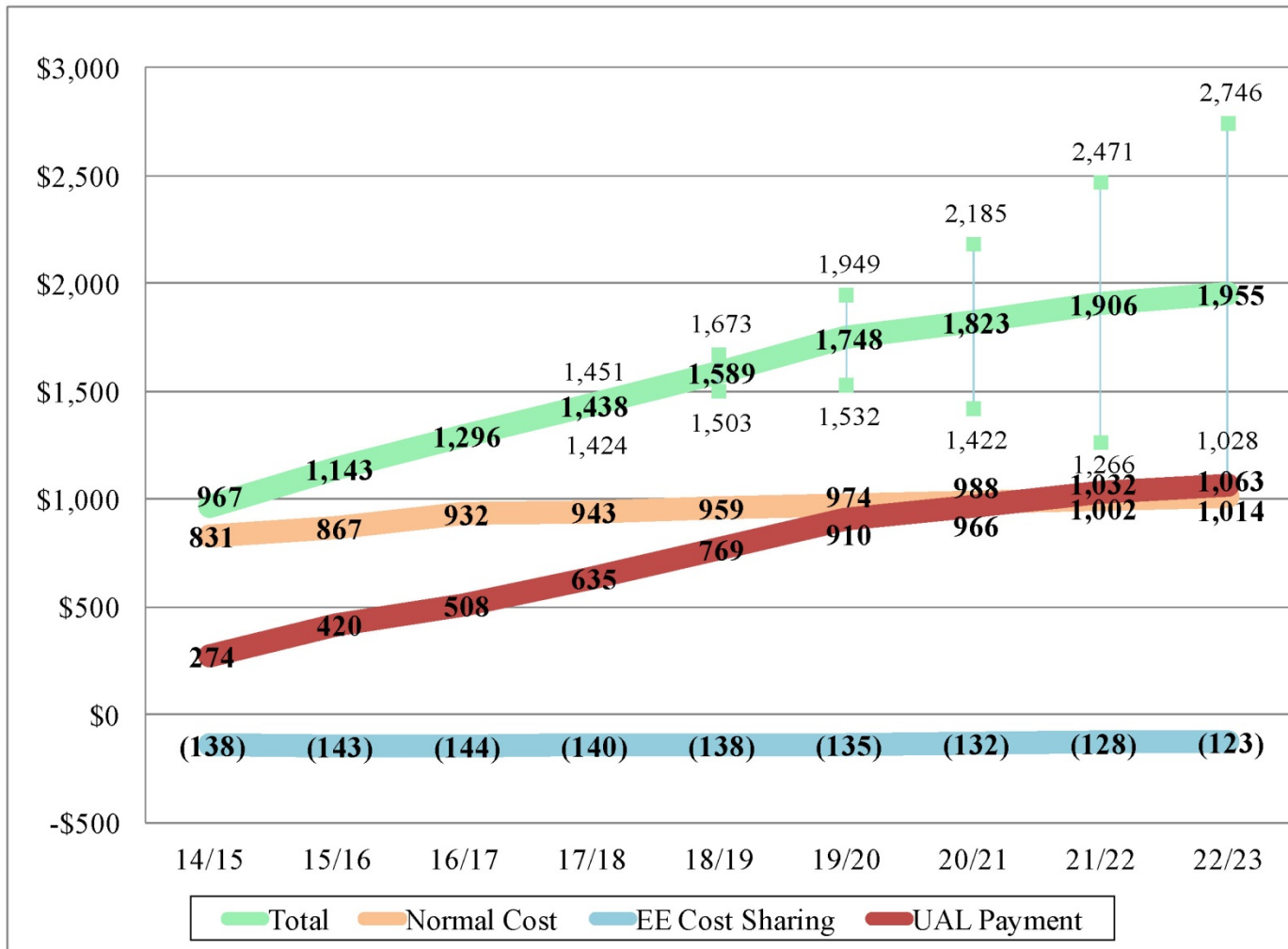
<sup>9</sup> Based on CalPERS return of 1.3% through 3/31/15 and assumed annual return for 3 months.



# CONTRIBUTION PROJECTIONS – FIRE SAFETY



## CONTRIBUTION PROJECTIONS – FIRE SAFETY





## 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%).*

■ **Projected June 30, 2014 Unfunded Actuarial Liability (in Millions)**

Plan	Total Pension Liability (AAL)	Fiduciary Net Position (MVA)	Net Pension Liability (UAL)
Police Safety	\$102.6	\$88.0	\$14.6
Fire Safety	51.9	46.2	5.7
Miscellaneous	81.9	72.3	9.6
<b>Total Net Pension Liability</b>			<b>\$29.9</b>





## 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

	<u><b>Current Members</b></u>	<u><b>New Members</b></u>
	<b>Tier 1</b>	<b>Tier 2</b>
	<u><b>2% @ 55</b></u>	<u><b>2% @ 62</b></u>
● Employer Normal Cost	7.6%	6.25%
● Member Normal Cost	<u>7.0%</u>	<u>6.25%</u>
● Total Normal Cost	14.6%	12.50%
● 50% Target	7.3%	6.25%

## PEPRA COST SHARING

### ■ Police Safety Plan

	<b>Current Members</b>	<b>New Members</b>
	<b>Tier 1</b>	<b>Tier 2</b>
	<b><u>3%@50</u></b>	<b><u>2.7%@57</u></b>
● Employer Normal Cost	17.2%	12.25%
● Member Normal Cost <sup>10</sup>	<u>12.0%</u>	<u>12.25%</u>
● Total Normal Cost	29.2%	24.50%
● 50% Target	14.6%	12.25%

### ■ Fire Safety Plan

	<b>Current Members</b>	<b>New Members</b>
	<b>Tier 1</b>	<b>Tier 2</b>
	<b><u>3%@55</u></b>	<b><u>2.7%@57</u></b>
● Employer Normal Cost	15.2%	12.25%
● Member Normal Cost <sup>11</sup>	<u>12.0%</u>	<u>12.25%</u>
● Total Normal Cost	27.2%	24.50%
● 50% Target	13.6%	12.25%

<sup>10</sup> Includes cost sharing.

<sup>11</sup> Includes cost sharing.

## 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
  - 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:
    - Reimburse City for CalPERS contributions
    - Make payments directly to CalPERS

## PAYING DOWN THE UNFUNDED LIABILITY

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## PAYING DOWN THE UNFUNDED LIABILITY

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