

Options for Long-Term CalPERS Pension Liabilities

November 4, 2020 City Council Meeting



Recommendation

- Finance Subcommittee and staff recommend that Council approve the issuance of pension obligation bonds and adopt pension policy.
 - Pension policy includes a dedicated portion of saving to go towards reserves against future UAL
- Staff further recommends:
 - Issuing POBs at 100% of the UAL (currently estimated at \$91.5 million) to yield the highest present value savings of an estimated 31 million and take advantage of historically low borrowing rates
 - The recommendation of issuing POBs does not eliminate our future UAL

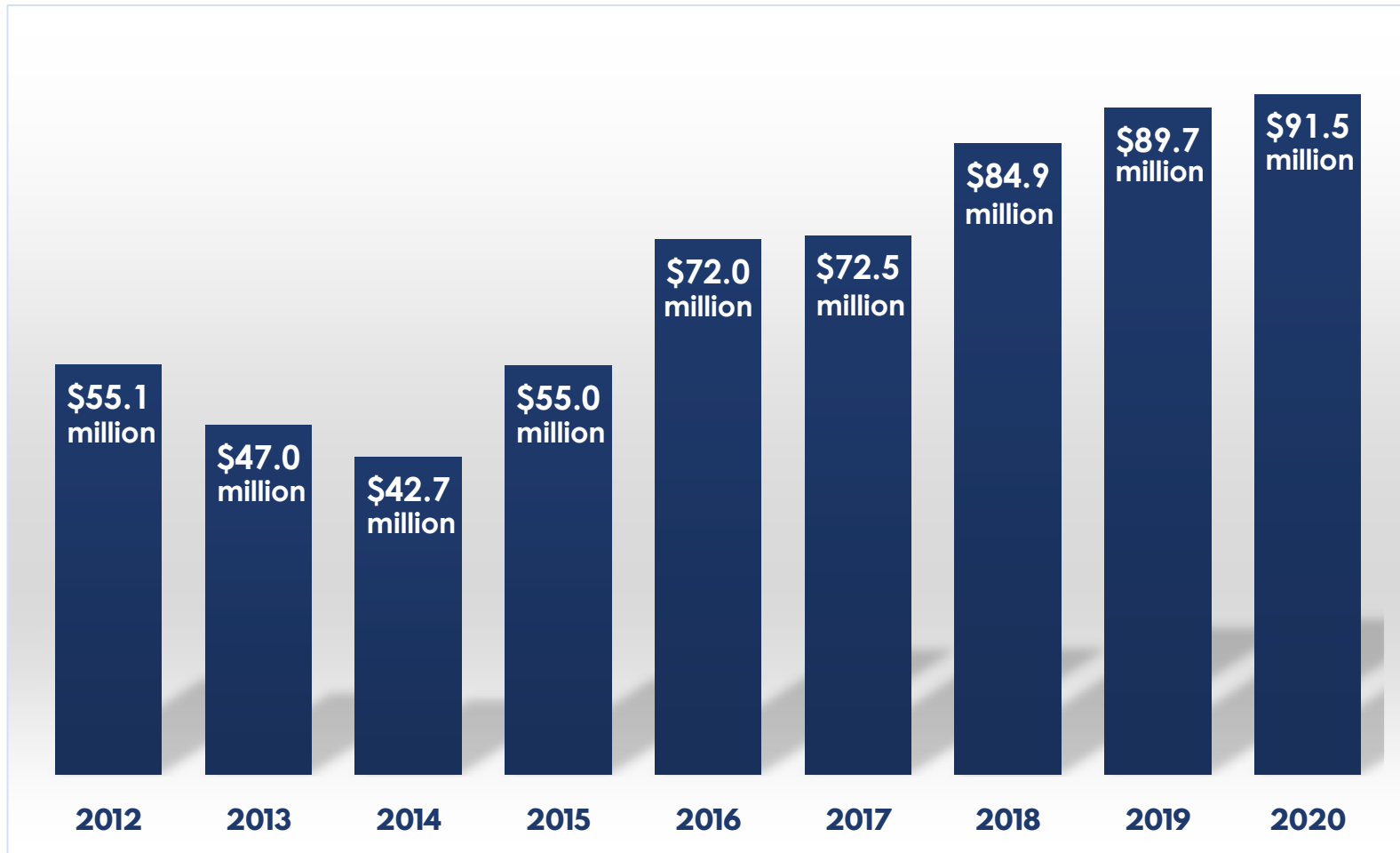


Pension Benefits / Background

- CalPERS Assets are impacted by lower investment returns which result in significant impacts to City Funded Status – as a consequence funded ratio declined
- If Liabilities are greater than Assets, then City has an “Unfunded Actuarial Liability” (UAL)
- If CalPERS Investment Earnings do not meet expected return “*discount rate*” of 7% the City’s UAL will continue to grow.



Historical Citywide UAL



Total UAL including Miscellaneous, Police and Fire



CalPERS Funding Status

- Annual UAL payments to amortize an estimated \$91.5 million increasing significantly over next ten years
 - Impacted by changes in actuarial assumptions (e.g. demographics), low investment returns, earlier retirement, etc.
 - On \$91.5 million UAL, total Interest paid will be \$73.3 million

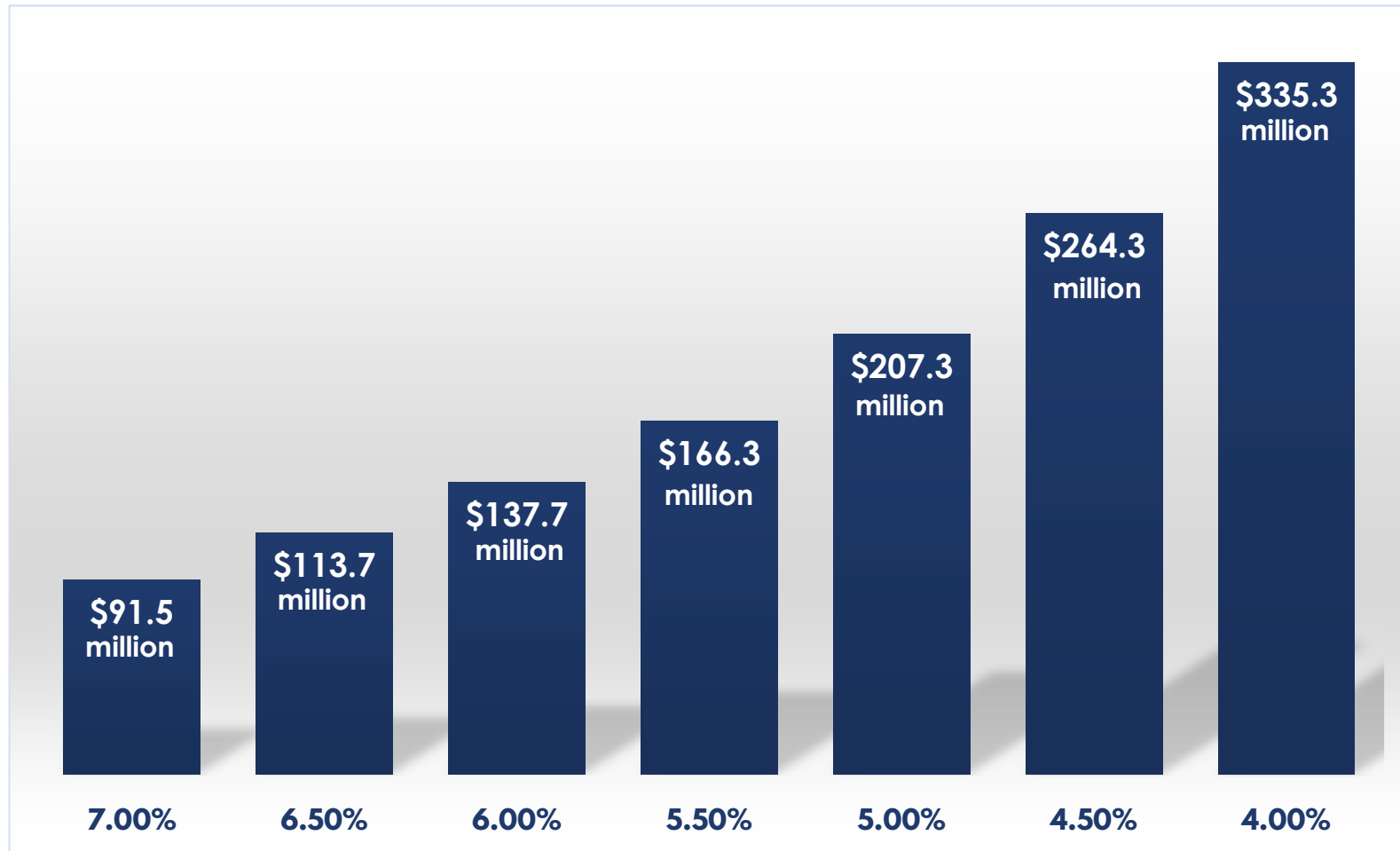
Date	Jul-20		Jul-20		Jul-20			
Valuation as of	6/30/2019		6/30/2019		6/30/2019			
Plan	TOTAL FIRE		TOTAL Police		Miscellaneous Plan		TOTAL UAL	
Required Contribution In	Balance	Payment	Balance	Payment	Balance	Payment	Balance	Payment
<u>6/30/2022</u>	19,942,282	1,455,513	42,841,197	3,146,788	28,807,225	2,152,306	91,590,704	<u>6,754,607</u>
6/30/2023	19,832,648	1,623,787	42,585,018	3,488,182	28,597,370	2,401,557	91,015,036	7,513,526
6/30/2024	19,541,273	1,728,325	41,957,766	3,707,817	28,114,995	2,569,628	89,614,034	8,005,770
6/30/2025	19,121,369	1,833,254	41,059,413	3,927,876	27,425,002	2,746,690	87,605,784	8,507,820
6/30/2026	18,563,532	1,888,281	39,870,544	4,045,461	26,503,553	2,831,629	84,937,629	8,765,371
6/30/2027	17,909,727	1,936,747	38,476,824	4,153,200	25,429,741	2,907,340	81,816,292	8,997,287
6/30/2028	17,160,021	1,988,314	36,874,093	4,263,904	24,202,448	2,985,128	78,236,562	9,237,346
6/30/2029	16,304,495	2,041,300	35,044,663	4,377,647	22,808,779	3,065,060	74,157,937	9,484,007
6/30/2030	15,334,275	2,095,740	32,969,516	4,494,520	21,234,871	3,147,186	69,538,662	9,737,446
6/30/2031	14,239,826	2,151,679	30,628,215	4,614,615	19,465,835	3,231,573	64,333,876	9,997,867
6/30/2032	13,010,899	2,209,155	27,998,795	4,738,006	17,485,678	3,099,143	58,495,372	<u>10,046,304</u>

Overfunded – Scenario

- CalPERS could over-perform and achieve higher than the 7% discount rate.
 - If CalPERS outperforms and beats the 7% investment return then the UAL amount will decrease
 - CalPERS would recalculate the tail end on the UAL for the out years
 - If overfunded the amount will sit on account (*cannot be withdrawn*) – act as buffer for future years



Projected UAL / Scenario 4%-6%



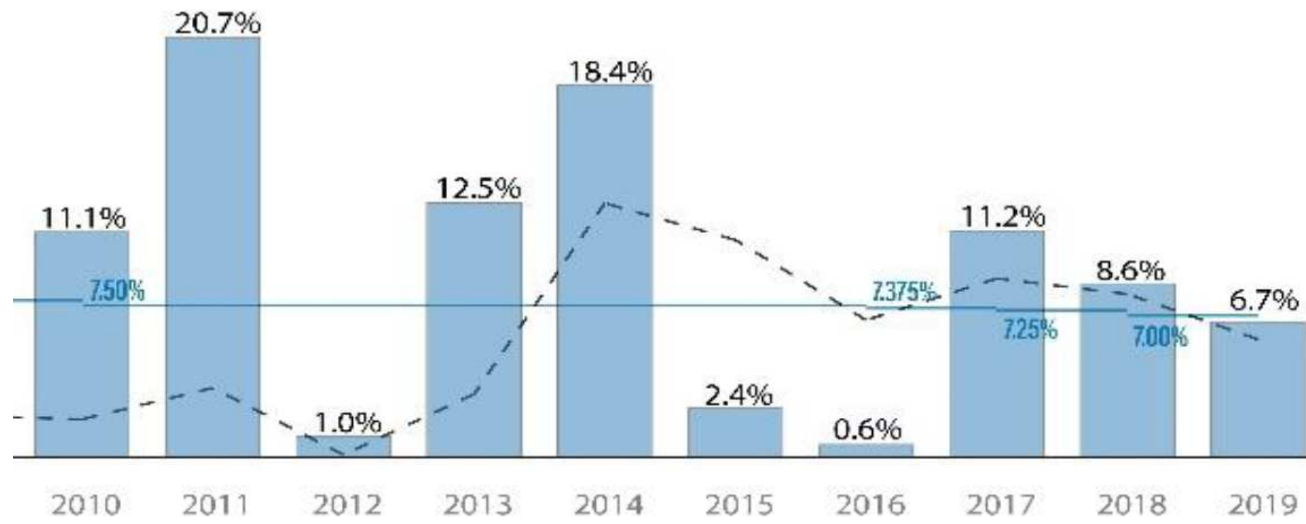
CalPERS Rate of Return



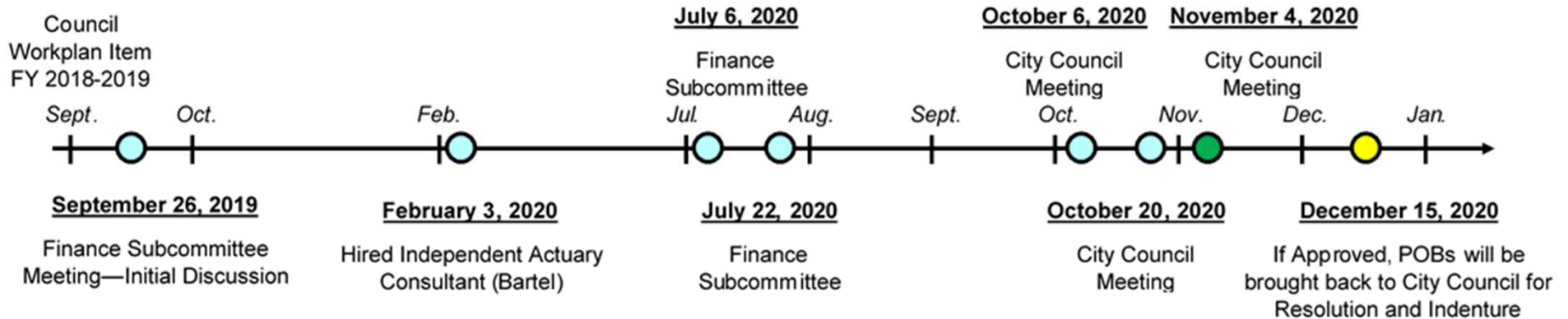
Historic CalPERS Annual Rate of Return

- CalPERS history of investment returns – reference actuarial valuation report ending June 30, 2019

History of CalPERS Compound Annual Rates of Return and Volatilities					
	1 year	5 year	10 year	20 year	30 year
Compound Annual Return	6.7%	5.8%	9.1%	5.8%	8.1%
Volatility	—	4.4%	6.9%	10.7%	9.8%



Discussion - Timeline



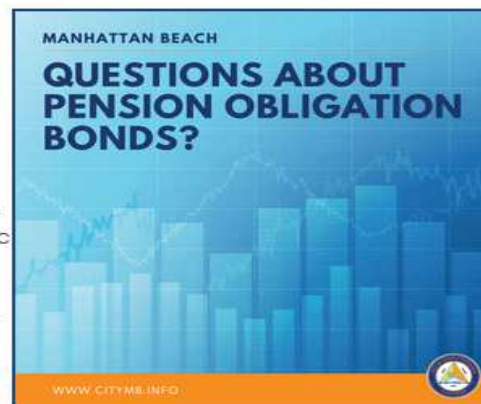
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Questions About Pension Obligation Bonds

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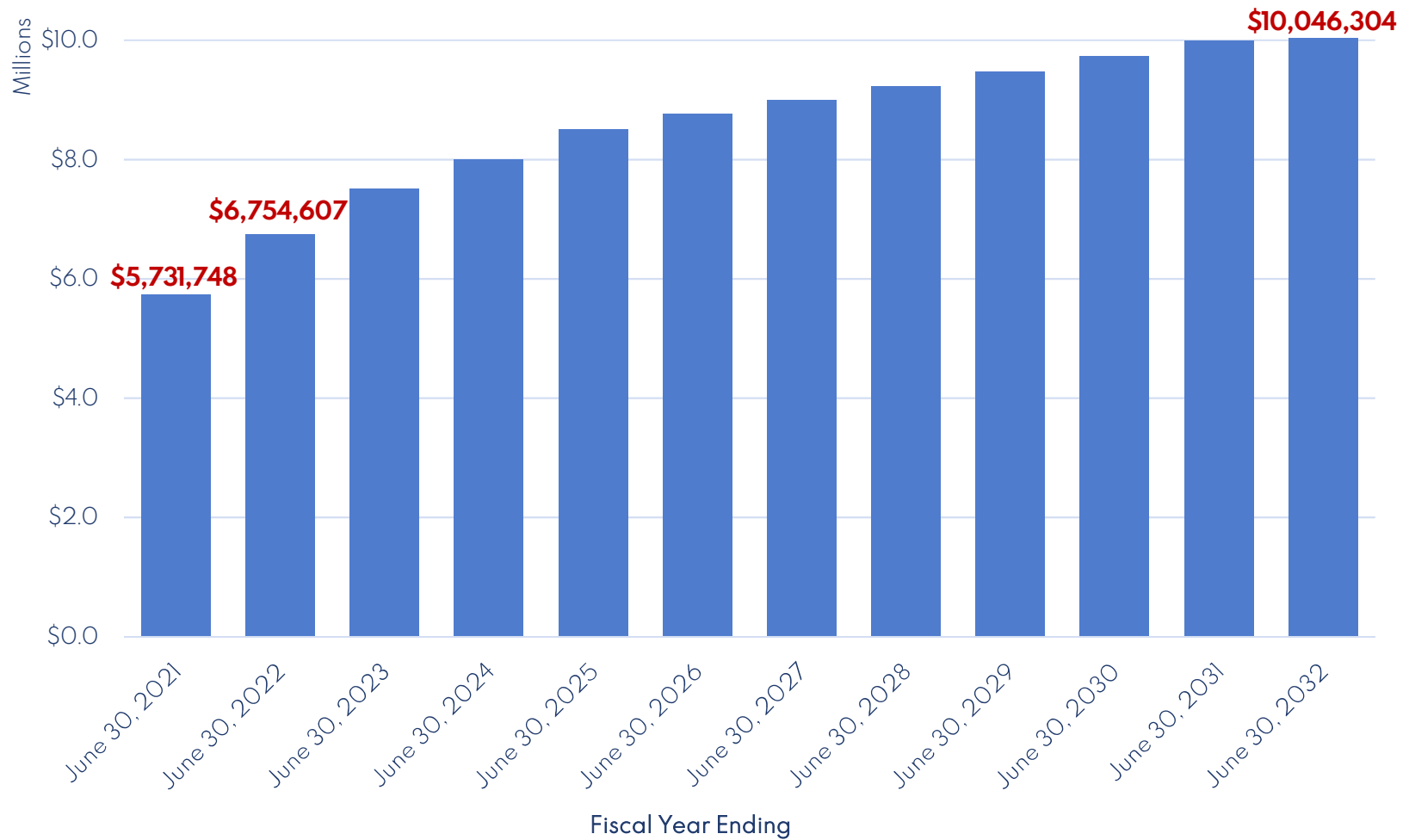
This page is designed to answer questions and provide information about Pension Obligation Bonds (POBs). You will find reference material links below, in date order, starting with the City Council work plan items from July 2019, to Finance Subcommittee public meetings in September 2019, July 2020 (two meetings, July 6, 2020, continued on July 22, 2020), City Council meeting in October 2020 (two meetings) and November 2020, and an Easy Reader article, October 2020. The materials on this page provide a background to California Public Employees Retirement System (CalPERS), the City's pension liability, pension policy and the City's amortized annual payments. The [Frequently Asked Questions](#) document provides answers to general questions. All staff reports from public meetings will have attached PowerPoint presentations for additional information.



For questions please reach out by email to: budget@citymb.info



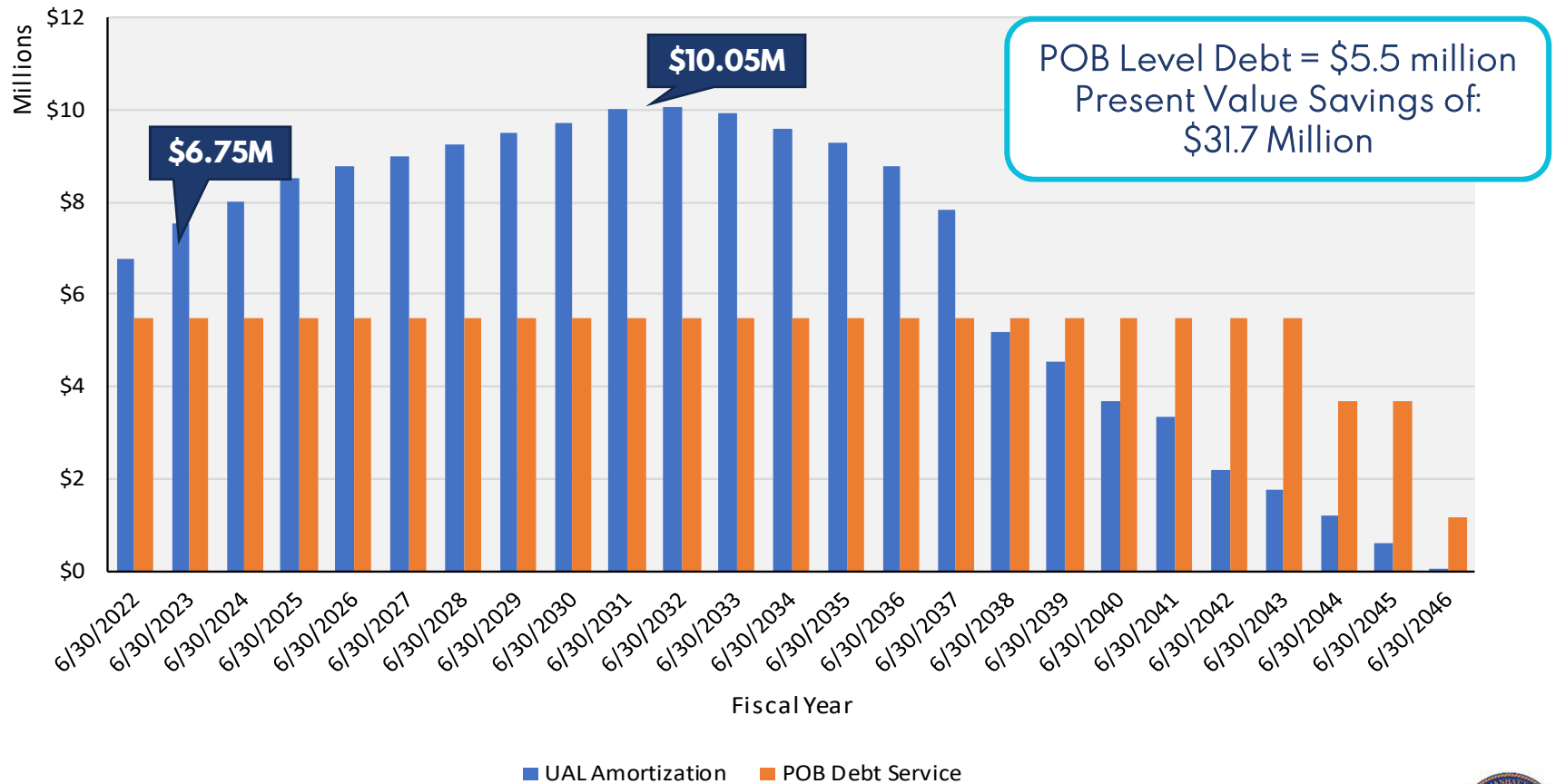
UAL Payments – Ramping Up



Staff Recommendation: POBs Illustrative – 100%

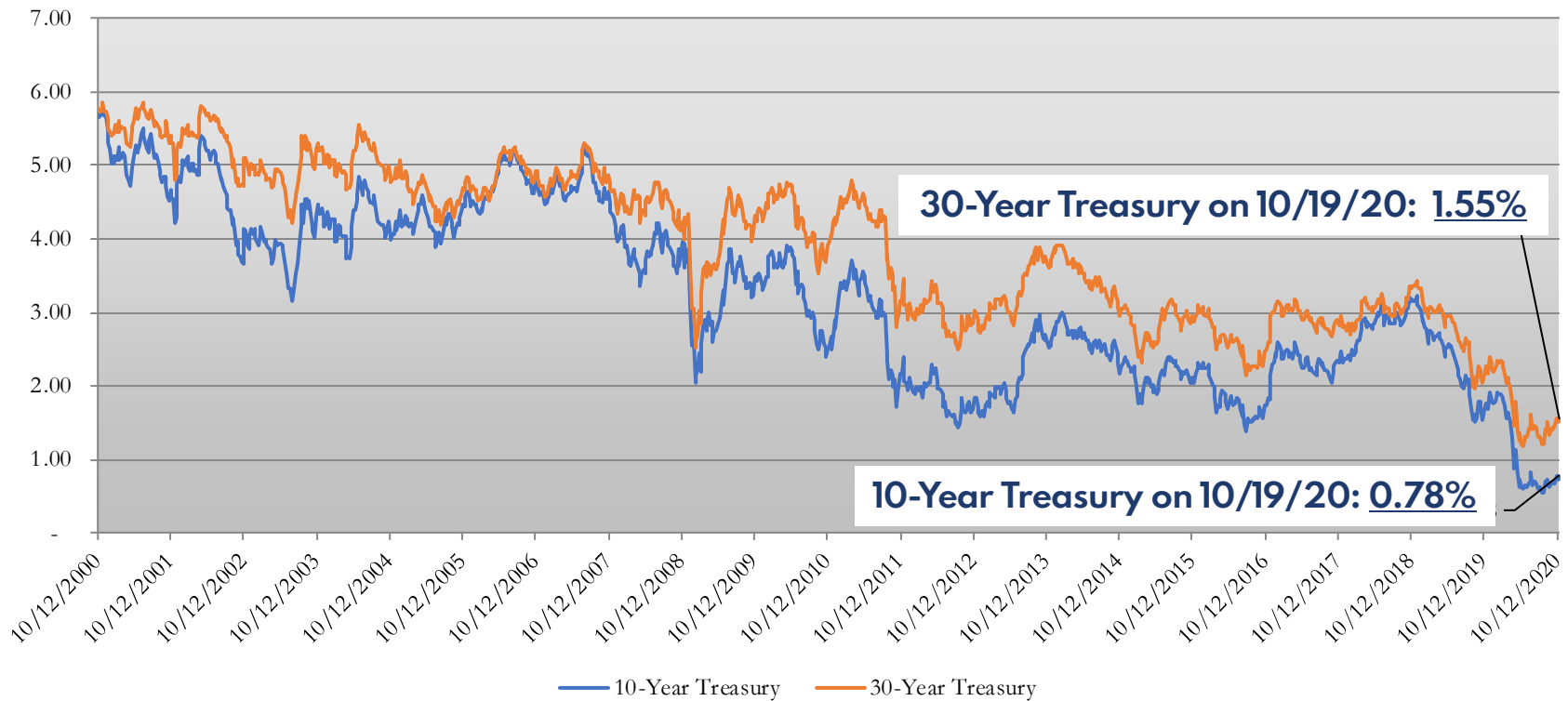
- 100% POB Payment is \$5.5 million

100% UAL Amortization and Estimated POB Debt Service



US Treasury Rates

US Treasuries Taxable Benchmark



Pension Obligation Bonds

- POBs replace CalPERS current UAL debt of 7.0% with POB debt of 3.1% fixed interest rate
- UAL payment of \$91.5 million would go into CalPERS \$400 billion fund (*not side fund*)
- As of June 30, 2020 CalPERS earned 4.7% which will add about \$7.0 million dollars to the current UAL
- Based on the current UAL schedule POBs result in long term budgetary savings.



Pension Obligation Bonds

- Instead of current UAL payment costs ramping up, POB debt payments will be set at level annual payments
- Pension Policy gives Council flexibility in how to allocate savings on an annual basis concurrent with the budget and fund Council and community priorities
- Similar to PD/Fire Facility & Metlox Refunding
 - Reduce City's borrowing cost
 - Refinancing is not additional debt and not new debt- replaces our current debt at a lower cost



Conclusion

- Staff recommends:
 - Issuing POBs at 100% of the UAL (currently estimated at \$91.5 million) to yield the highest present value savings and take advantage of historically low borrowing rates
 - The recommendation of issuing POBs does not eliminate our future UAL
 - Adopt the Pension Policy



Questions

