Legislation Details (With Text)

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Title:	OVERVIEW OF EMPLOYEE PENSION PLAN ANNUAL REPORT (CITY COUNCIL)				
Sponsors:					
Indexes:					
Code sections:					
Attachments:	1. 20160630_Actuarial Valuation				

Date	Ver.	Action By	Action	Result

Report to Mayor and City Council
Tuesday, November 21, 2017
Consent

SUBJECT:

OVERVIEW OF EMPLOYEE PENSION PLAN ANNUAL REPORT (CITY COUNCIL)

I. SUMMARY

The City provides a defined benefit pension to employees, and contracts with the California Public Employees Retirement System (CalPERS) to manage the plan. Each year, CalPERS publishes an Actuarial Valuation Report (AVR) for the City's pension plan. The purpose of this agenda report is to provide a summary of the most recent AVR as of June 30, 2016 (Exhibit A).

II. RECOMMENDATION

RECEIVE and FILE this report.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

The AVR includes actual results through June 30, 2016. Projections for future activity and funding requirements are based upon actuarial assumptions, including investment returns and retiree mortality rates. The AVR sets the City's employer contribution rate for FY18-19, and projects estimated annual contributions through FY24-25 (6 years of projections).

There are 3 contributions to the employee pension plan:

- Contributions made by employees, deducted from their wages;
- Employer Normal Cost contribution; and
- Employer contribution towards the Unfunded Liability.

All full-time employees are enrolled in the pension plan. The City has 109 part-time employees who have previously worked more than 1,000 hours during a fiscal year; and were required to be enrolled in CalPERS. The total number of part-time employees ranges from about 400 to 600 based upon the season. Therefore, about one-fifth of the City's part -time employees receive a pension benefit. Pension benefits are summarized below.

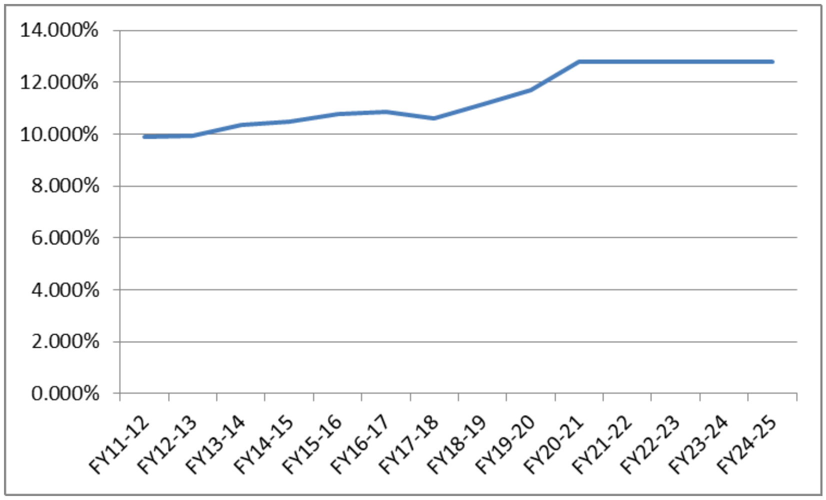
	Benefit Formula	Benefit Formula Explained	Employee Contribu as a percentage of w
Employees hired prior to M 2011	3% @ 60	3 times the number of service yea percentage of the highest year of when the employee retires at age	8.00
Employees hired after May 2011 who come from anoth agency with a reciprocating pension plan	2% @ 55	2 times the number of service yea percentage of the highest year of when the employee retires at age	7.00
Employees hired after Janu 2013 who do not come fror another agency with a reciprocating pension plan	2% @ 62	2 times the number of service yea percentage of the average of the 3 years of wages when the emplo retires at age 62.	6.25

<u>Employer Contributions</u>

The City, as the employer, makes two different contributions to the employee pension plan. The Normal Cost contribution is for the current accrual of benefits. For example, an employee works an additional 2 weeks; and the City contributes a percentage of wages for those 2 weeks, to pay the accrued benefit in the future for 2 additional weeks of service. The Normal Cost percentage for FY18-19 will be 11.143% of pensionable wages (base salary + a limited list of other compensation payments such as longevity pay). The history of actual Normal Cost contributions and future projections follow.

Normal Cost Contributions as a Percentage of Wages

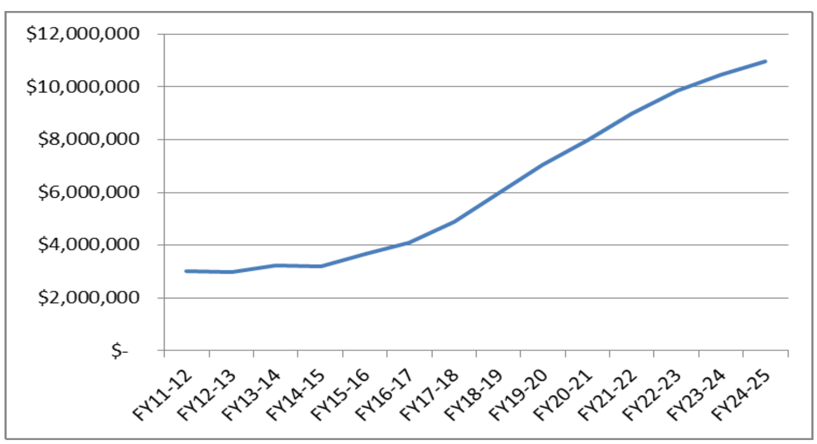
8 years actual & 6 years estimate



The second employer contribution reduces the Unfunded Liability. An Unfunded Liability exists when the market value of plan assets is less than the present value of accrued benefits. An Unfunded Liability is typically created when CalPERS investments do not earn as much as planned. The employer contribution for the Unfunded Liability is a payment of a liability; and is expressed as a fixed dollar amount, as opposed to a percentage of pay. The contribution is considered a legacy cost, meaning the City must continue to make the payment regardless of changes to the workforce (e.g. layoffs or wage reductions). The Unfunded Liability contribution for FY18-19 will be $5,982,446. If the City pays the full amount by July 31, 2018, CalPERS will discount the payment to $5,773,341 (a $209,105 or 3.5% savings). The history of actual Unfunded Liability contributions and future projections follow.

Dollar Contributions to the Unfunded Liability

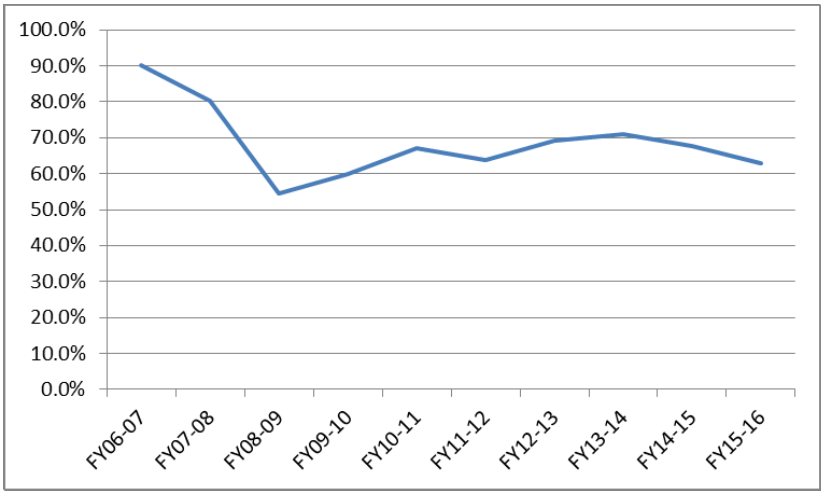
7 years actual & 7 years estimate



The “Funded Ratio” of the plan is calculated as market value of plan assets, divided by the present value of accrued benefits. The goal is to have a Funded Ratio of 100%. The Carson pension plan Funded Ratio at June 30, 2016 was 63%. A history of Funded Ratios follows. Note the significant decrease in FY08-09, which was directly related to significant CalPERS investment losses discussed below.

History of Actual Funded Ratio

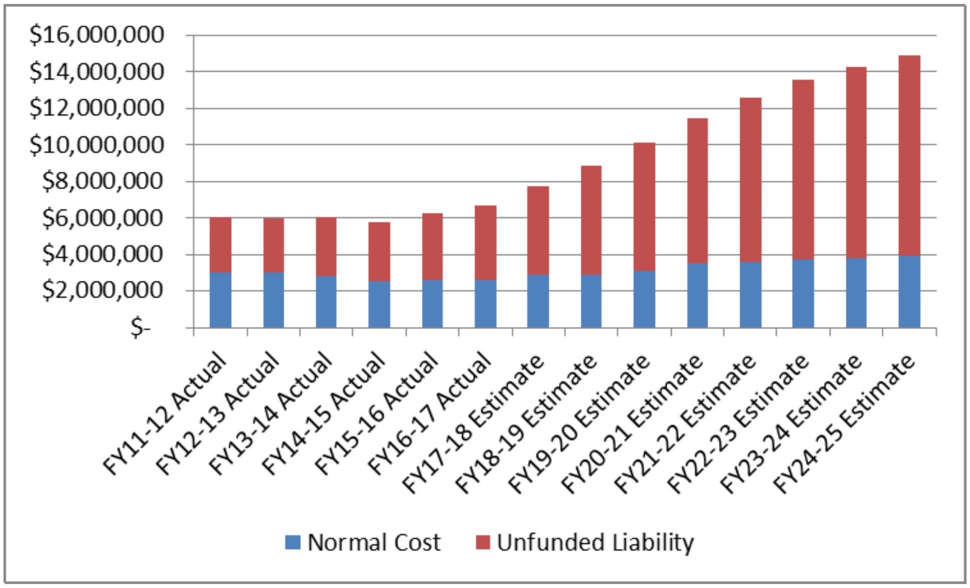
10 years actual



The two types of employer contributions are combined and summarized below.

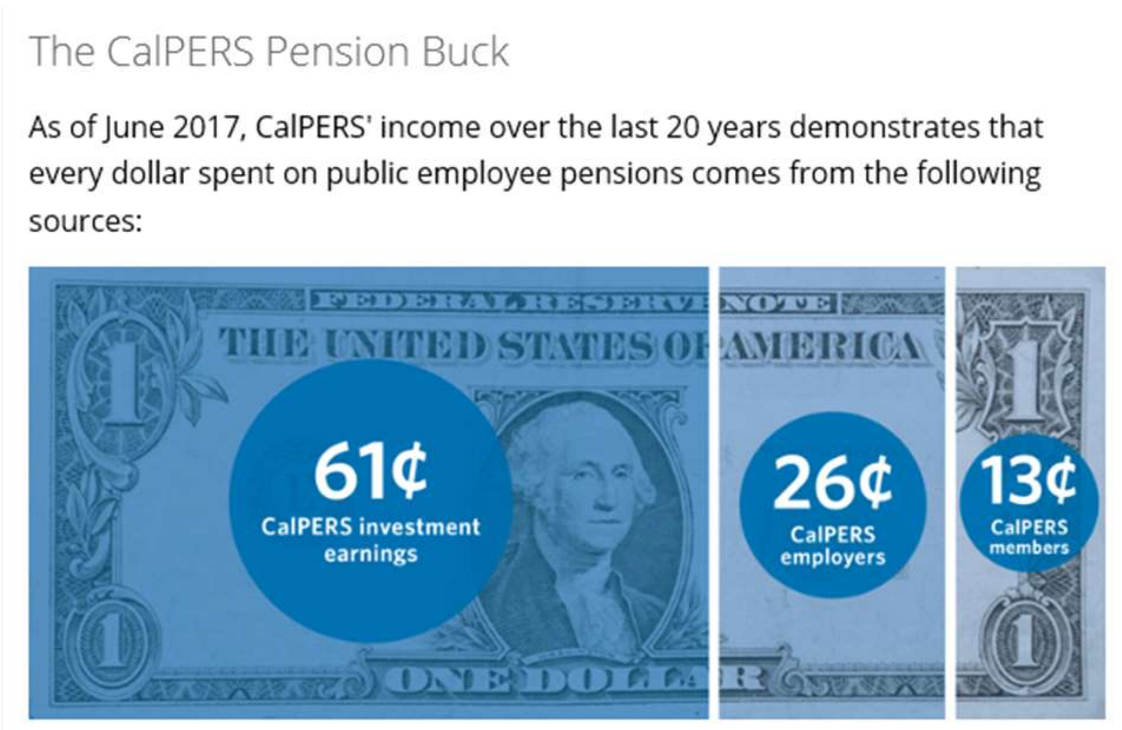
	Normal Cost	Unfunded Liability	Total	Change
FY11-12 Actual	$ 3,039,005	$ 3,004,965	$ 6,043,970	
FY12-13 Actual	$ 2,991,062	$ 2,994,970	$ 5,986,032	$ (57,938)
FY13-14 Actual	$ 2,817,211	$ 3,243,286	$ 6,060,497	$ 74,465
FY14-15 Actual	$ 2,540,267	$ 3,200,862	$ 5,741,129	$ (319,368)
FY15-16 Actual	$ 2,578,386	$ 3,680,227	$ 6,258,613	$ 517,485
FY16-17 Actual	$ 2,580,630	$ 4,101,876	$ 6,682,506	$ 423,892
FY17-18 Estimate	$ 2,878,247	$ 4,869,400	$ 7,747,647	$1,065,141
FY18-19 Estimate	$ 2,863,836	$ 5,982,446	$ 8,846,282	$1,098,635
FY19-20 Estimate	$ 3,097,199	$ 7,043,000	$10,140,199	$1,293,917
FY20-21 Estimate	$ 3,490,040	$ 7,969,000	$11,459,040	$1,318,841
FY21-22 Estimate	$ 3,594,741	$ 8,973,000	$12,567,741	$1,108,701
FY22-23 Estimate	$ 3,702,584	$ 9,841,000	$13,543,584	$ 975,842
FY23-24 Estimate	$ 3,813,661	$ 10,449,000	$14,262,661	$ 719,078
FY24-25 Estimate	$ 3,928,071	$ 10,976,000	$14,904,071	$ 641,410

After FY16-17, the City's total annual contribution is expected to increase by an average of more than $1 million per year. Seven years from now, the City's annual contribution is expected to be $8.2 million more than the FY16-17 contribution. The draft budget for FY18-19 will include a cost increase of $1,098,635.



CalPERS Investments

The CalPERS investment portfolio totals more than $330 billion for more than 3,000 member agencies. The investment earnings on this portfolio are critical to the pension system, as they fund 62% of pension benefit payments.



The CalPERS investment return assumption for FY16-17 was 7.375%. The preliminary actual rate of return for FY16-17 was 11.2%. However, CalPERS does not always earn a favorable return. For FY15-16, the investment return assumption was 7.5%, yet only 0.6% was earned. Much of the Unfunded Liability came from CalPERS investment losses during the Great Recession. To strengthen the pension system, CalPERS took action in 2016 to incrementally reduce the investment return assumption to 7.0% by FY19-20, thereby increasing employer contributions.

V. FISCAL IMPACT

The required employer contributions for FY18-19 are expected to be $1.1 million more than the contributions for FY17-18.

VI. EXHIBITS

A. Miscellaneous Plan of the City of Carson Annual Valuation Report as of June 30, 2016 (pages 7-82)

A.

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