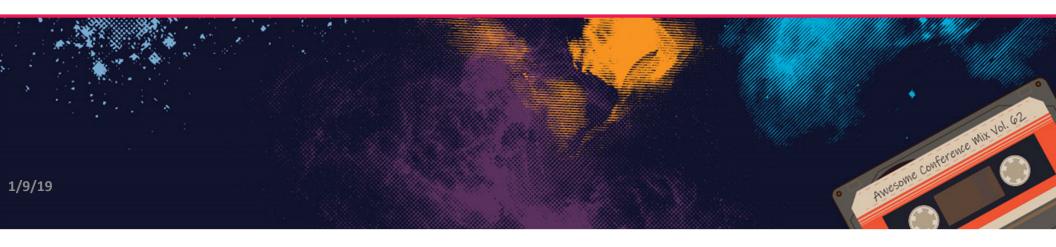


Your CalPERS Contribution Path(ology)

Mary Beth Redding, Bartel Associates
Michelle Fitzer, City of Pinole



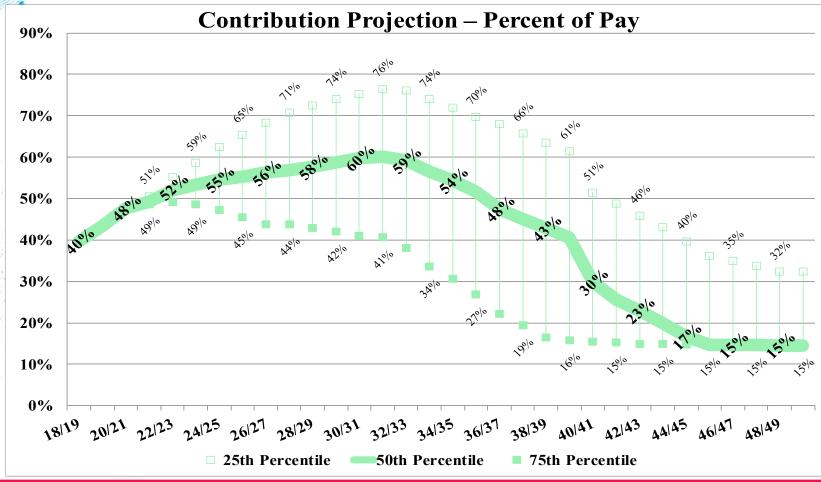
Agenda

GUARDIANS FINANCE M GALAXY

- What is the Contribution Path
- Possibilities for Changing the Path
- City of Pinole's Pension Strategies

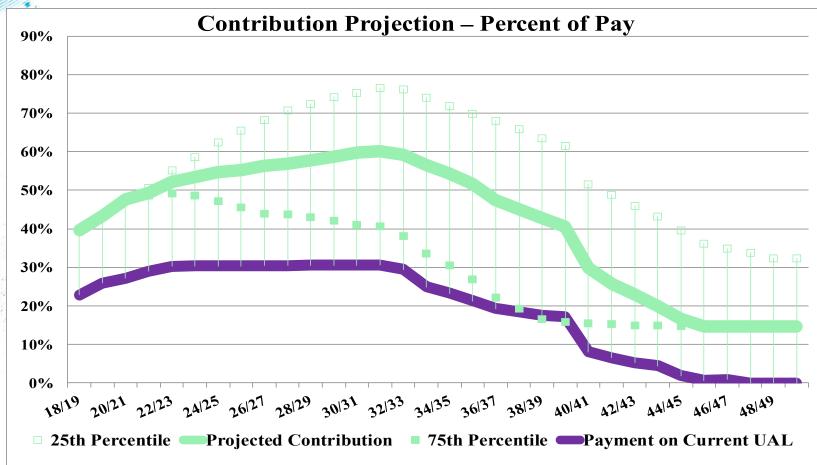


What is the Contribution Path?





What is the UAL Contribution Path?



What is the Contribution Path?



- Sample Plan
 - Safety
 - UAL = \$70,000
 - Projected UAL Contributions = \$145,000
 - Total Interest = \$145,000 \$70,000 = \$75,000
 - 30-year PV of interest on current UAL payments @ 3% = \$30,000

How to Change the Path?

GUARDIANS # FINANCE 111 GALAXY

- What is your purpose?
 - Reduce future contributions?
 - In general or for a specific time period?
 - Reduce the Unfunded Liability
 - Target funded status?
 - Increase future flexibility?
 - Other?

How to Change the Path?

Where to find money





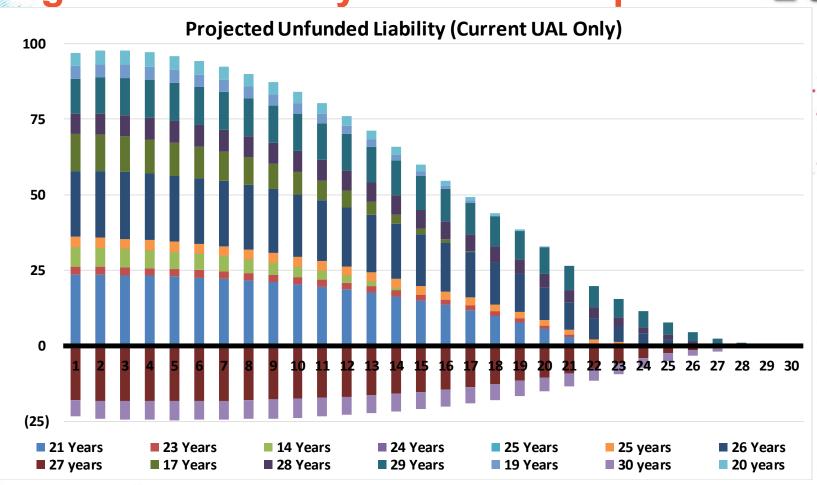
Paying off the Liability – CalPERS Options

- Pay Off UAL Bases
- Fresh Start
- Combination
- "Soft" or "Unofficial"

GUARDIANS # FINANCE III GALAXY

Paying off the Liability – CalPERS Options

1/9/19





Paying off the Liability – CalPERS Options

- The Unfunded Liability is made of many "bases"
- Sample Plan:

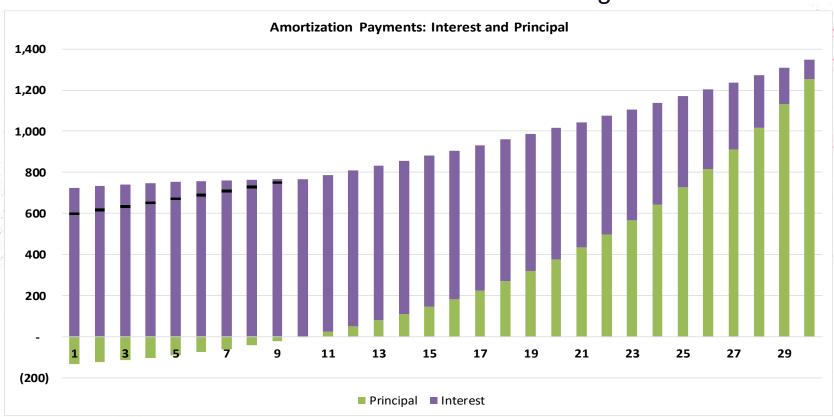
 Loss base 	\$11 M	29 years re	maining
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- Loss base
 \$ 7 M
 14 years remaining
- Other loss bases \$75 Million 17 to 28 years
- Other gain bases (\$23 Million) 25 to 30 years
- UAL \$70 Million



Paying off the Liability – CalPERS Options

Current CalPERS amortization method can have "negative amortization"



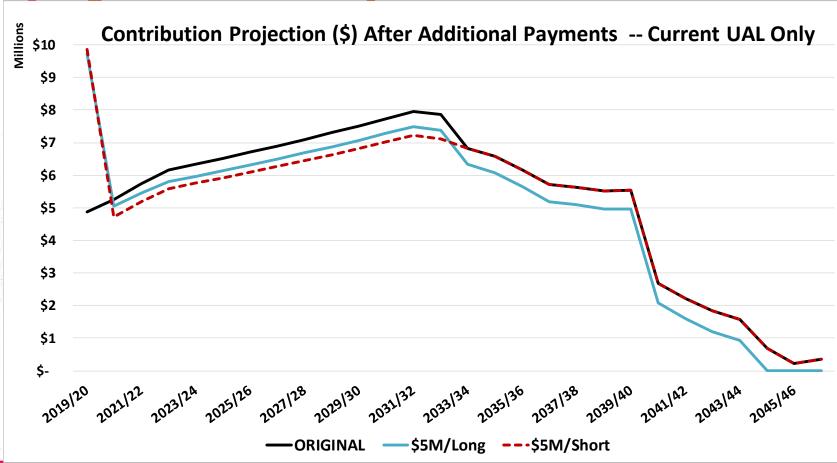


Paying off the Liability – UAL Bases

- Pay off all or part of a "long" or "short" base
 - Application of payment agreed with CalPERS
 - Cannot be changed in the future
 - Short bases:
 - Less interest savings
 - Greater contribution reduction
 - Long bases:
 - More interest savings
 - Less contribution reduction

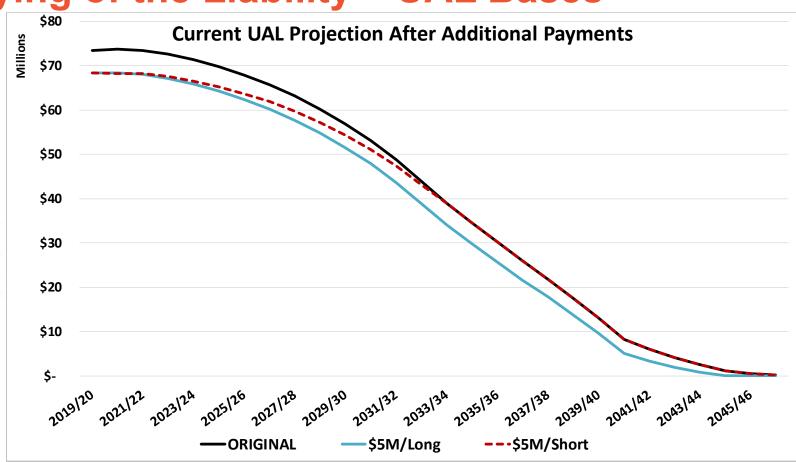
GUARDIANS & FINANCE III GALAXY

Paying of the Liability – UAL Bases





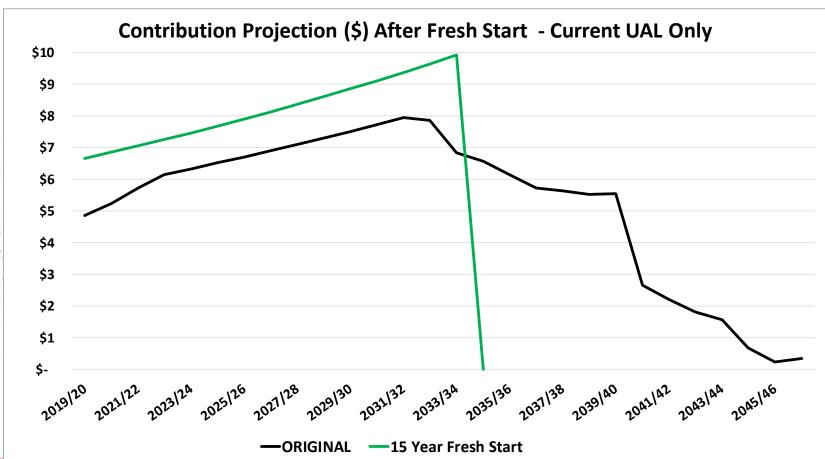
Paying of the Liability – UAL Bases





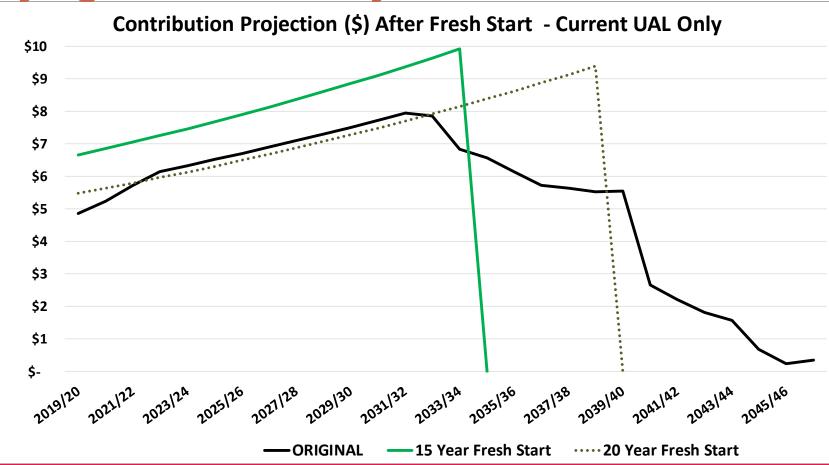
- Fresh Start
 - Consolidate all bases and fund over a single period
 - Cannot be undone
- "Soft" or informal fresh start



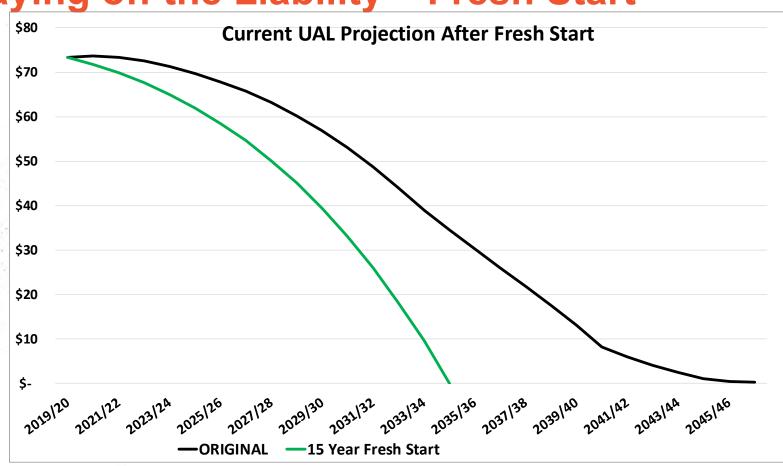




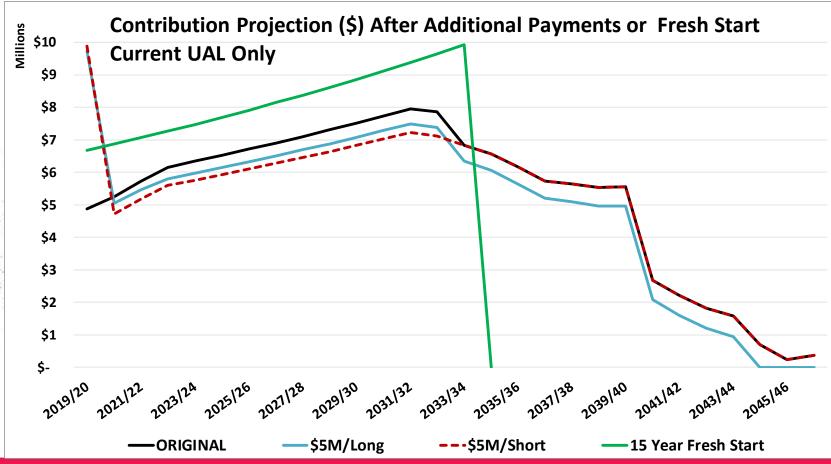
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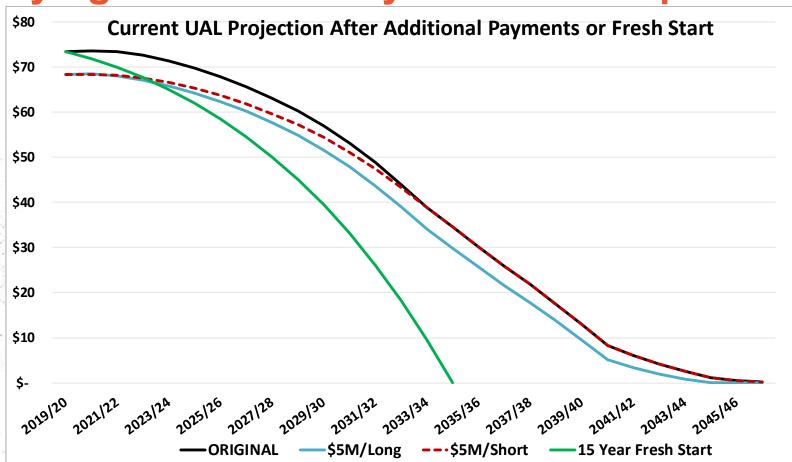


Paying off the Liability – CalPERS Options



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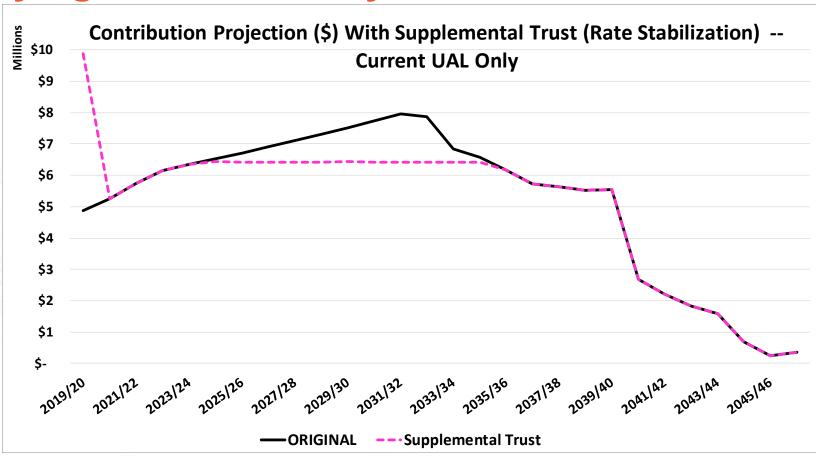
Paying off the Liability – CalPERS Options



Paying off the Liability – Rate Stabilization

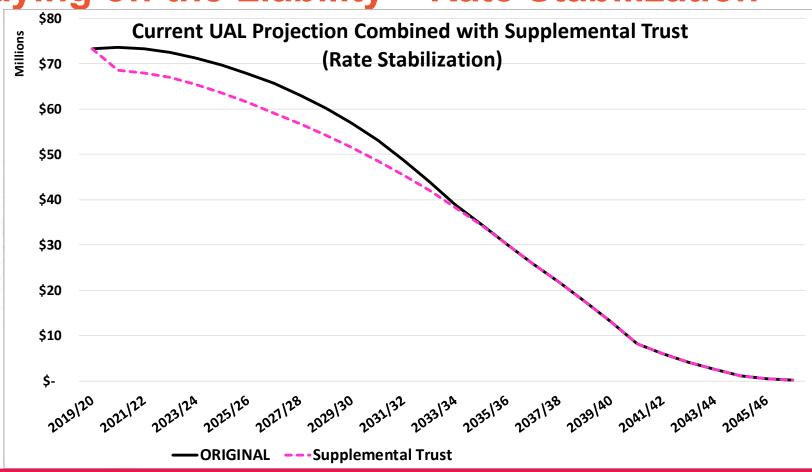
- Use a Section 115 Trust (Rate Stabilization Trust)
 - Help pay CalPERS required contributions
 - Whenever the agency chooses
 - Accumulate funds
 - Pay PEPRA-required contributions if plan is fully funded

Paying off the Liability – Rate Stabilization



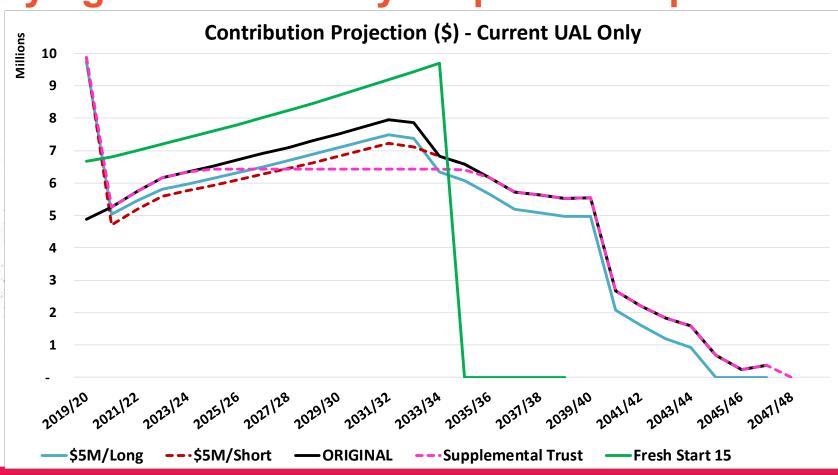
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Paying off the Liability – Rate Stabilization



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Paying off the Liability – Option Comparison





Supplemental Trust vs. CalPERS

Supplemental Trust

- Flexible
- Likely lower long-term return
- Investment strategy choice
- Does not count for GASB reporting
- More visible

CalPERS

- Locked In
- Likely higher long-term return
- No investment choice
- Reduces net pension liability for GASB reporting
- More restricted

Other Options

"Mix and Match"



Other Options

- Court/Legislative solution
 - Timing
 - Does not impact current UAL





Cautions

- Analysis above includes only current UAL
 - See CalPERS valuation report for impact of discount rate change to 7% at 6/30/18
 - Normal cost cost of benefits earned each year
 - We expect future investment losses especially over next 10 years
 - Risk mitigation strategy
- Best solution for every agency will be different



City of Pinole's Pension Strategies

Michelle Fitzer, City Manager



Sharing the PERS Employer Contribution



- In 2008 pension formulas were enhanced. The City and our employees began sharing the Employer Contribution, based on a negotiated formula.
 - Safety transitioned from 2% @ 50 to 3% @ 55
 - Miscellaneous transitioned from 2% @ 55 to 2.5% @ 55
- The ER rate was set at the pre-enhancement formula as the baseline. Everything above that rate to be shared 50/50.
- Safety baseline was 11.5%; Miscellaneous baseline was 8.509%.
- In 2011 the employees began paying their Employee Contribution.
- In 2018 the City and EE groups negotiated a 4.5% increase to the base.
- As of 7/1/18 Safety EEs are paying 24.659%; Misc. 20.547% total (ER & EE share).



IRS Section 115 Pension Trust

- In June 2018 established a 115 Pension Trust and funded \$13 million.
- Selected a moderately conservative investment strategy targeting 5% annual rate of return.
- Given talk at PERS of reducing their target ROR to 6.5%, looking to invest another \$3 million.
- Interest is to cap or slightly reduce the City's pension payments from current revenues, and reduce the percent of EE contribution, through 2036 when rates are expected to decline.





- There comes a point where the financial pros of the sharing formula are outweighed by the HR cons: difficulties in recruiting Classic PERS members; challenges in keeping our current Classic member employees.
 - Each Employer must develop their own strategy for addressing the pension obligations – no help is coming.
- Unfunded liability payments/funding are a good use of 1-time monies.
- Include your employee groups in the decision making process.
- Be prepared for further modifications in the PERS actuarial assumptions.
- We look forward to our colleagues negotiating sharing formulas!