Pension Funding

Alameda

City Council Presentation

February 20, 2024

GovInvest
Insights to your financial future

Pension Agenda

CalPERS
Pension Basics

Comparison to
Other Agencies

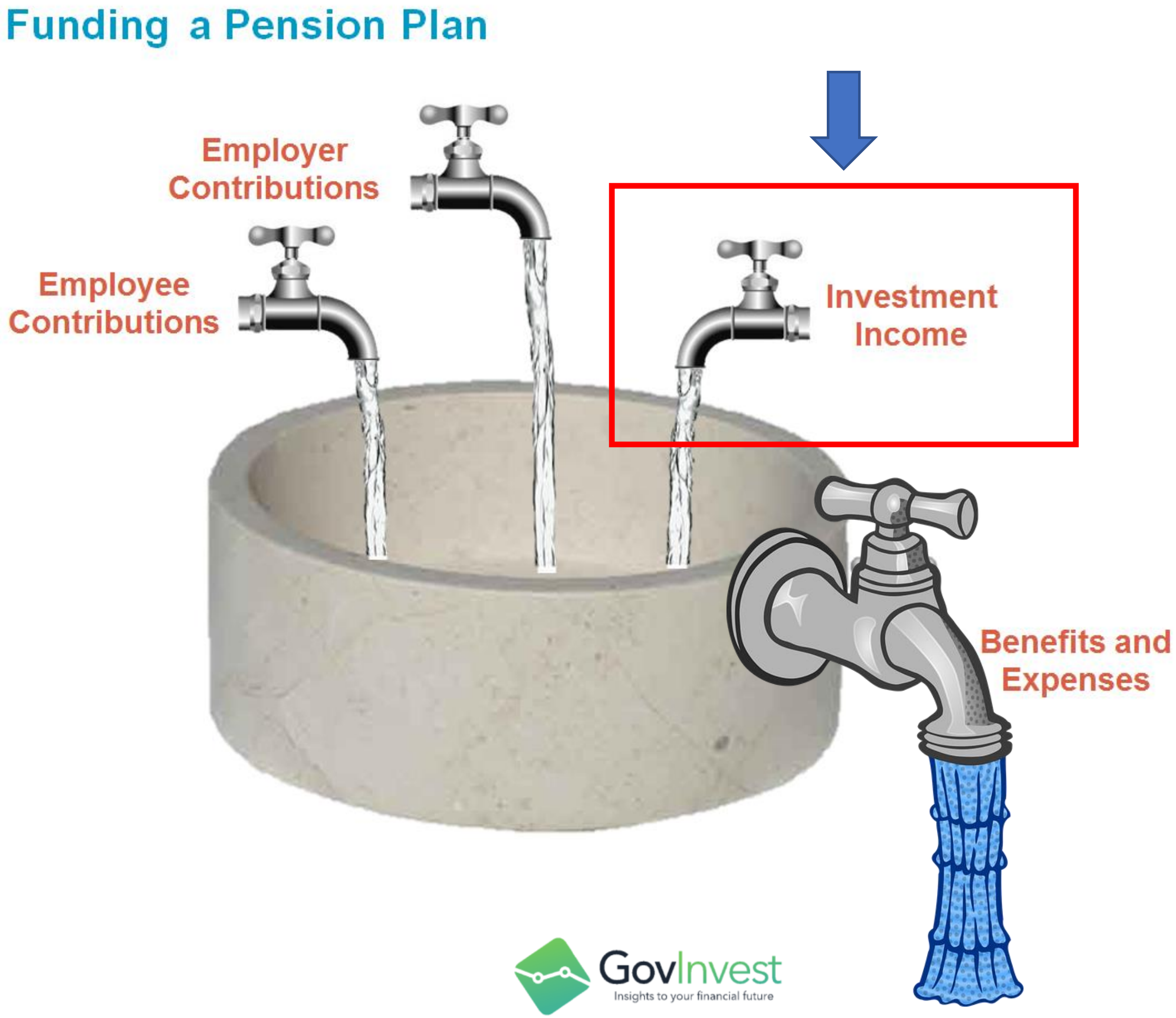
Changes
to CalPERS &
Their Impact

Addressing
Unfunded
Liability

Pension Basics

Money going into CalPERS is equal to the Money coming out of CalPERS

Major Driver of
Plan Cost



CalPERS Projects Future Benefit Payments using a Series of Assumptions

Economic

- Inflation
- Investment Return
- Salary Growth

Demographic

- Retirement
- Disability
- Death
- Termination

Alameda has 2 Safety Benefit Structures within CalPERS

	Classic Safety Police & Fire	*PEPRA Safety Police & Fire*
Hire Date	On or Before 12/31/12	On or After 1/1/13
Formula	3% @ 50	2.7% @ 57
Final Pay Period	12 months	36 months
COLA	2% per year	2% per year
Employee Contributions	9% of pay	12.25% of Pay (50% of Normal Cost)

Alameda has 2 Miscellaneous Benefit Structures within CalPERS

	Miscellaneous Tier 1	***Miscellaneous PEPRA***
Hire Date	On or Before 12/31/12	On or After 1/1/13
Formula	2% @ 55	2% @ 62
Final Pay Period	12 months	36 months
COLA	2% per year	2% per year
Employee Contributions	7% of pay	8.75% of Pay (50% of Normal Cost)

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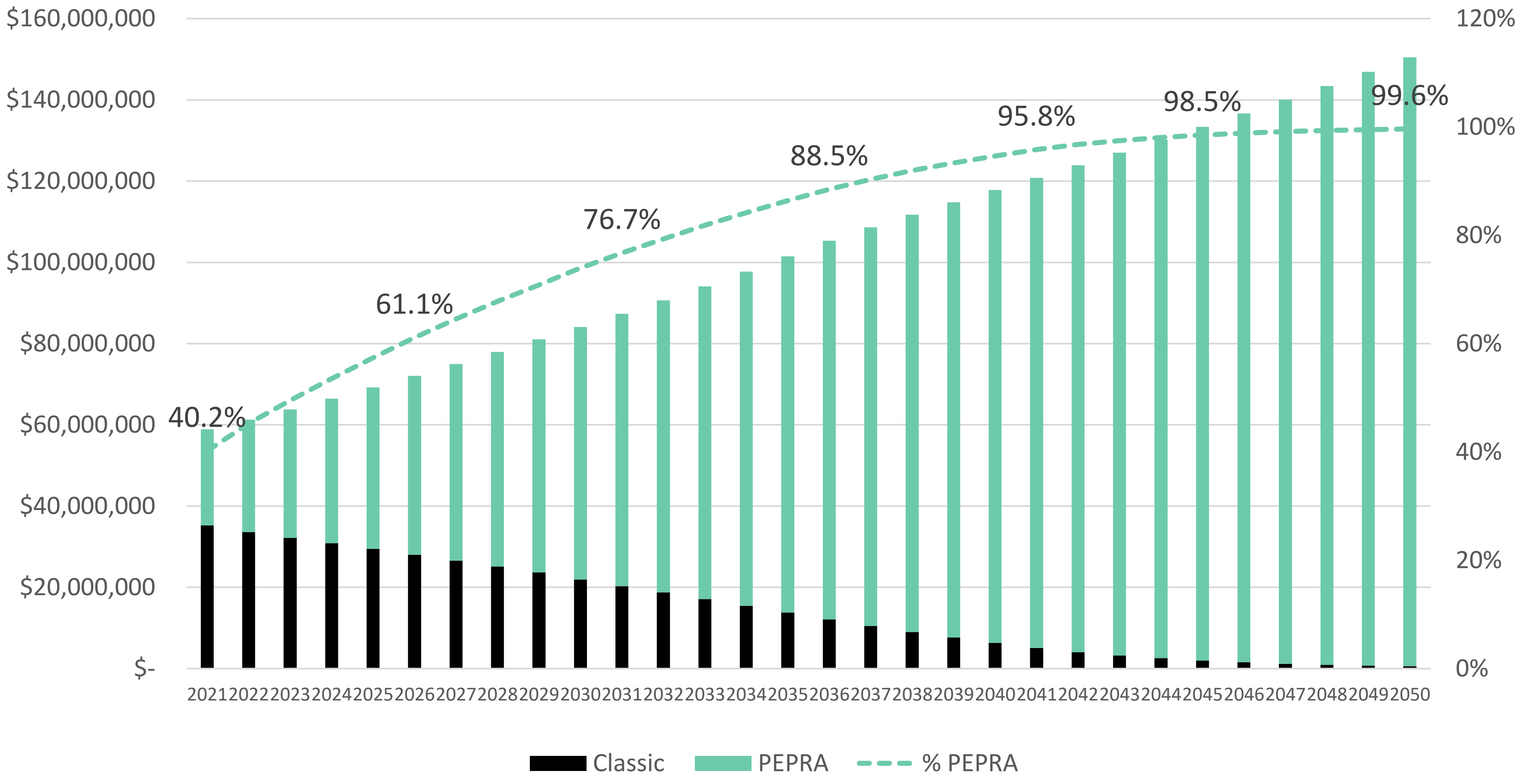
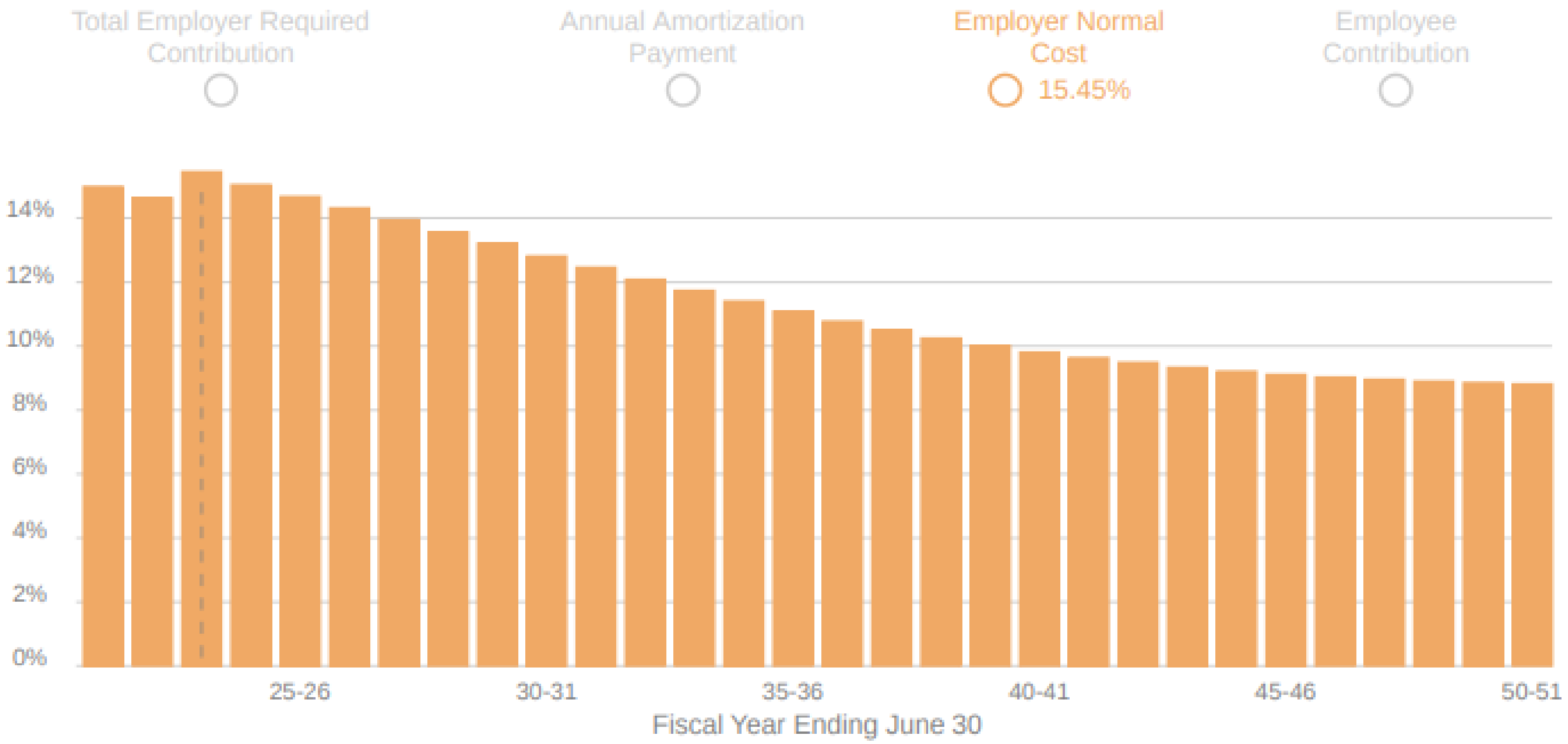
Over the Next Few Years, More Employees will be in the PEPRA Tier



Normal Cost will decrease as a Percent of Pay as the Workforce shifts Toward PEPRA



How is Alameda doing Relative to Other Agencies?

Comparison Metrics

- Funded Percentage
  - Plan assets divided by Plan liabilities
  - Calculated as of June 30, 2022

- Total Contribution Percentage
  - Actuarially Determined Contribution divided by Projected Pensionable Compensation
  - Payable in Fiscal Year 2024/25

Actuarially Determined Contribution

Normal Cost + Unfunded Actuarial Liability (UAL) Amortization Payment = Total Employer Contribution

Normal Cost

Cost for current service - Paid as a percent of payroll

Unfunded Actuarial Liability (UAL) Amortization Payment

Payment toward past service - Paid as a dollar amount each year

Total Employer Contribution

Minimum Payment City can make to CalPERS

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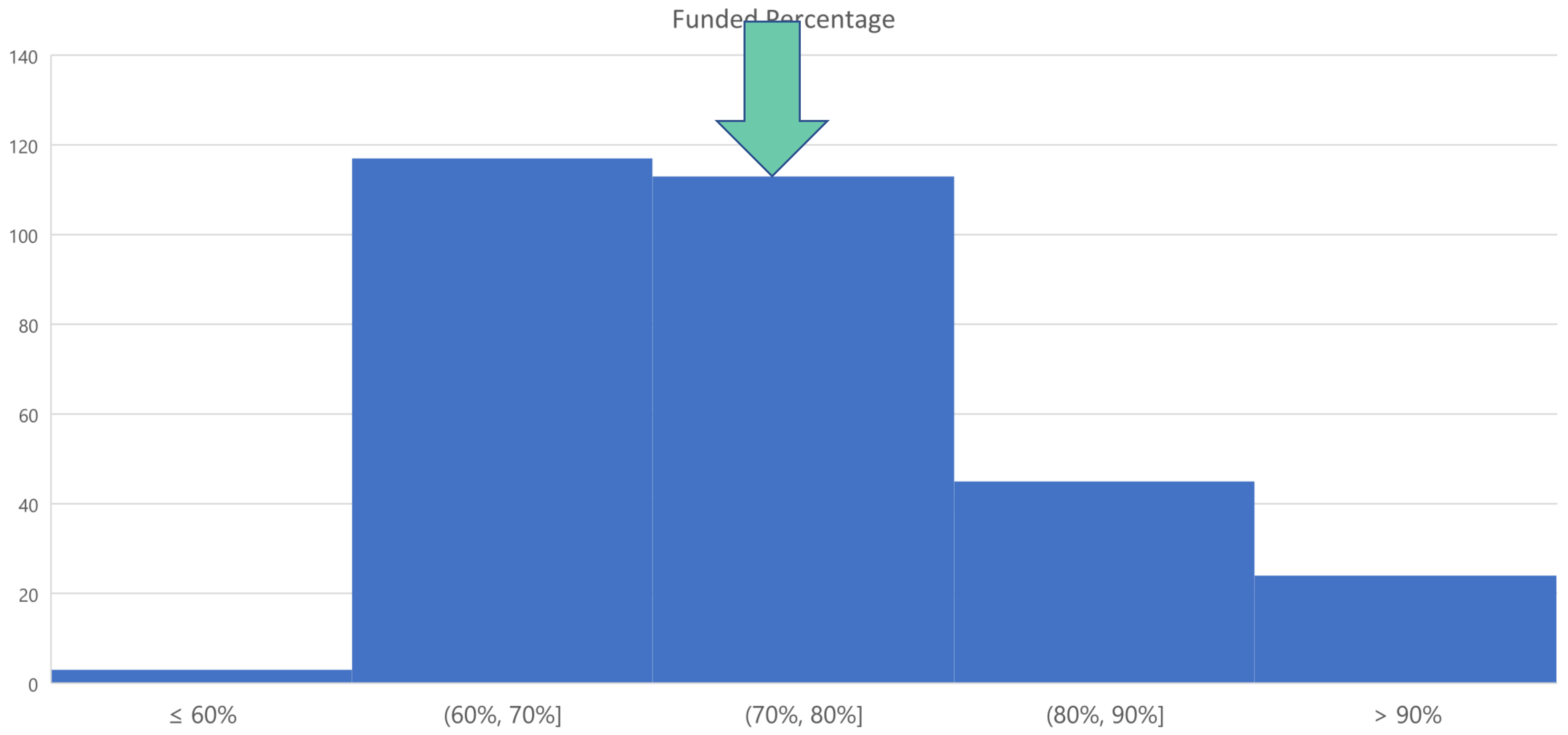
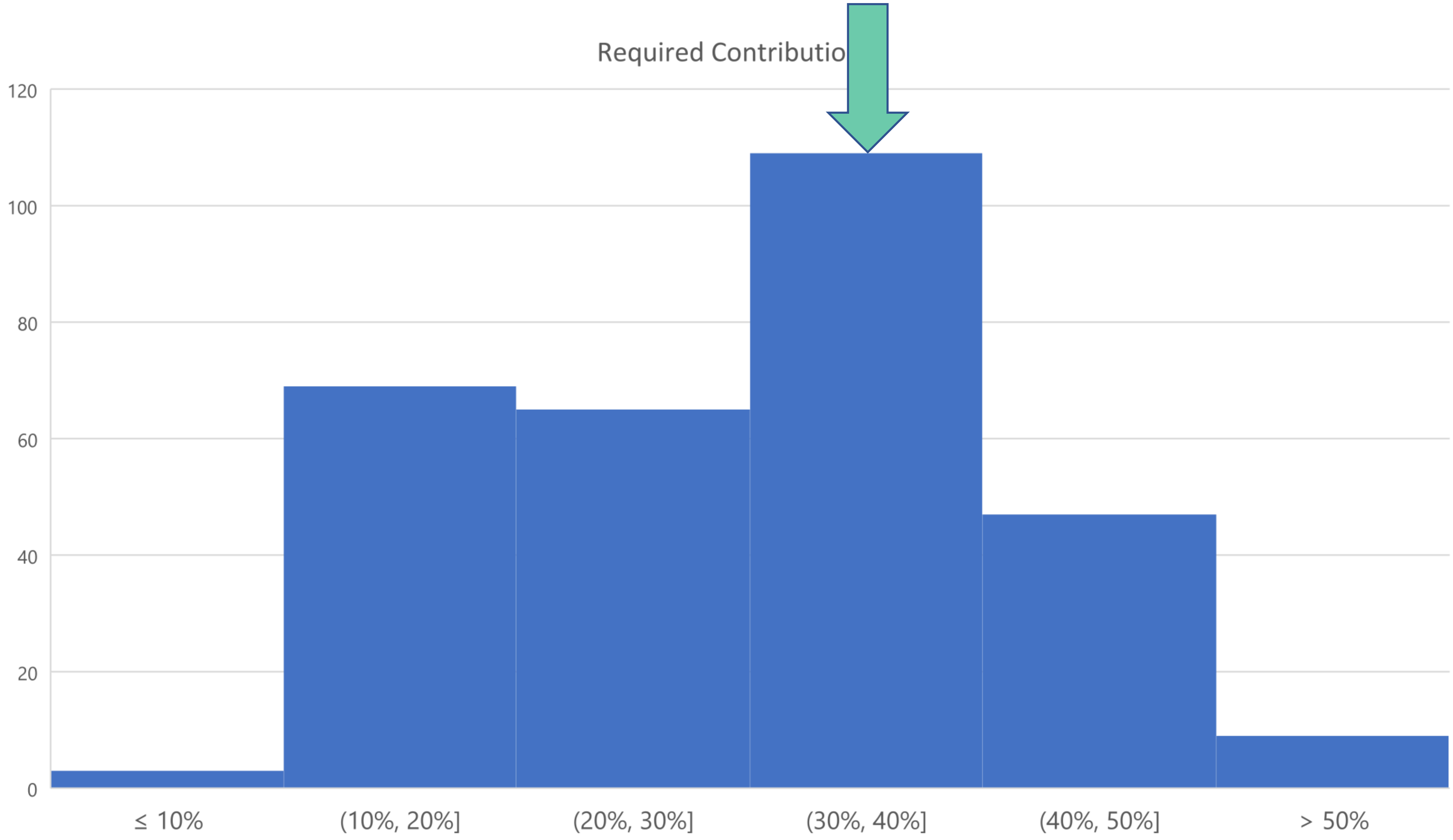
Comparison Group

- City Miscellaneous results are compared against all the results for CalPERS Miscellaneous Plans that are not in the Risk Pool
- City Safety results are compared against all the results for CalPERS Safety Plans that are not in the Risk Pool

Miscellaneous Funded Percentage Comparison – 71.5%



Miscellaneous Total Contribution Comparison – 33.6%



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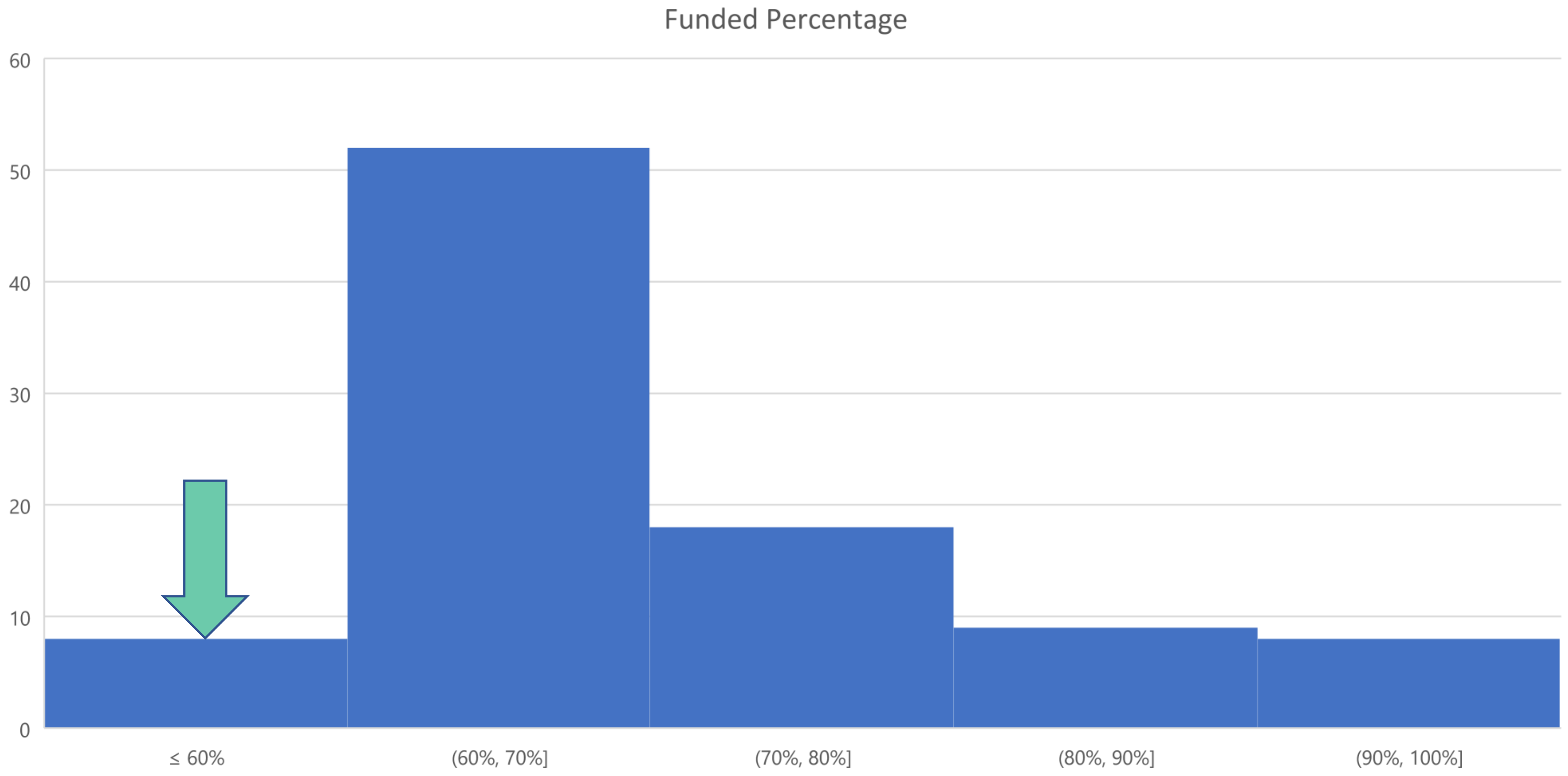
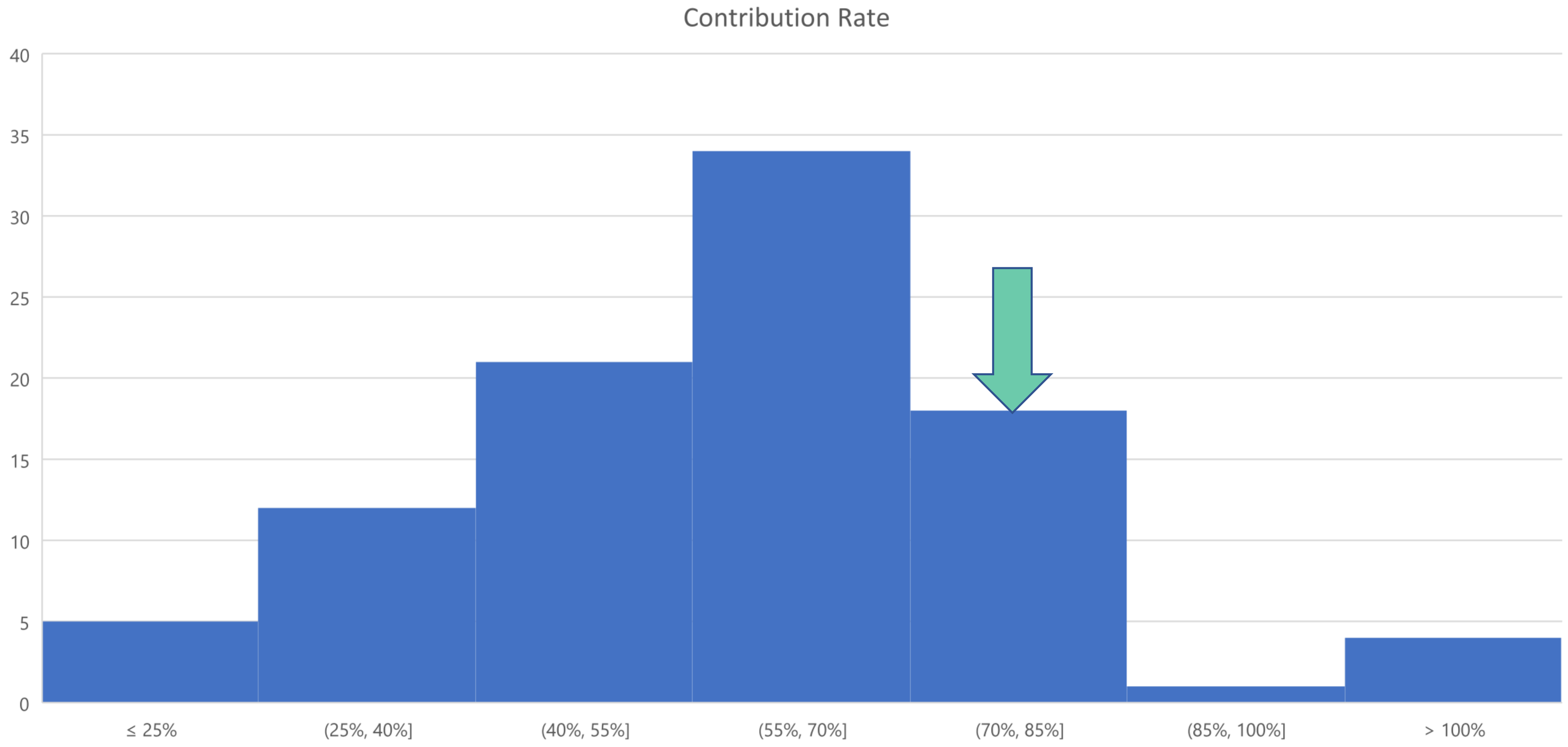
Safety Funded Percentage Comparison – 59.1%



Safety Total Contribution Comparison – 77.9%

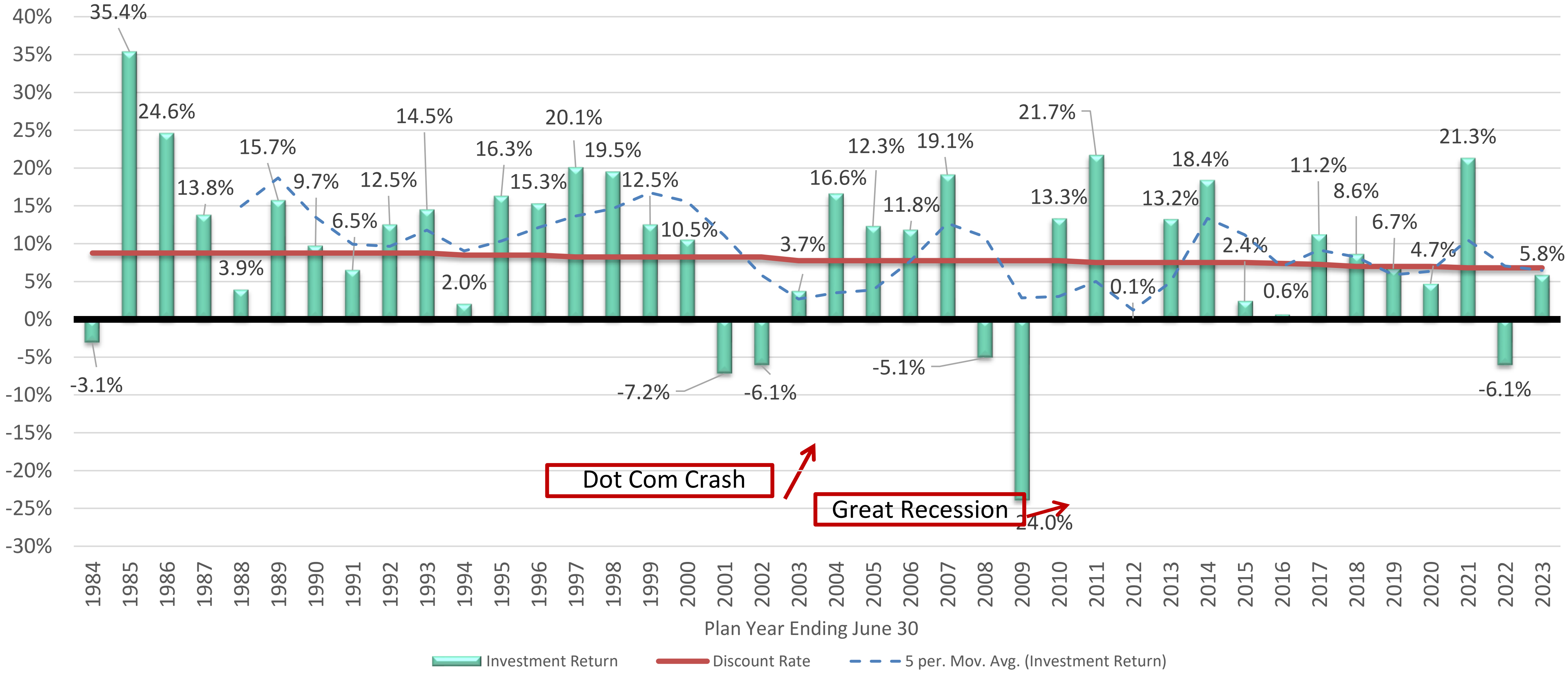


Changes Since Prior Valuation

CalPERS Investment Return:
-6.1% in 2021/22
5.8% in 2022/23

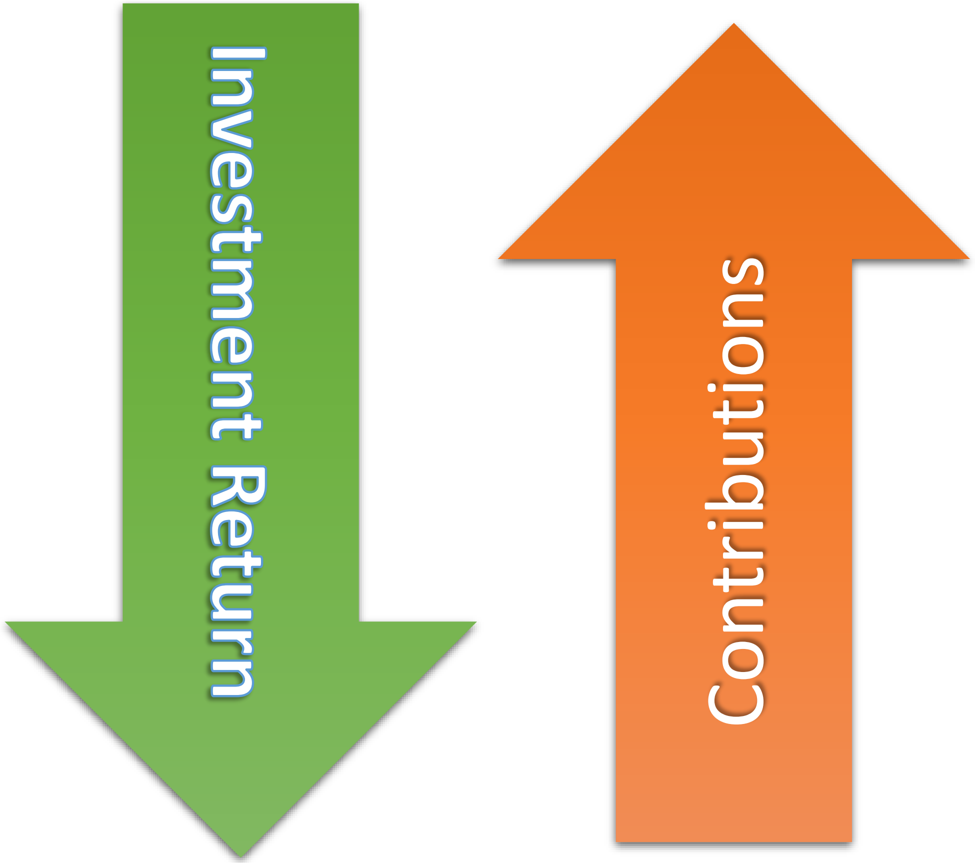
Weak return in 2021/22 followed by better return in 22/23

CalPERS Actual Investment Returns versus Assumed Investment Return



Discount Rate = Assumed Investment Return Rate

Less Money from Investment Return means More Money Required from Contributions



Higher than Assumed Retiree COLA in 2022

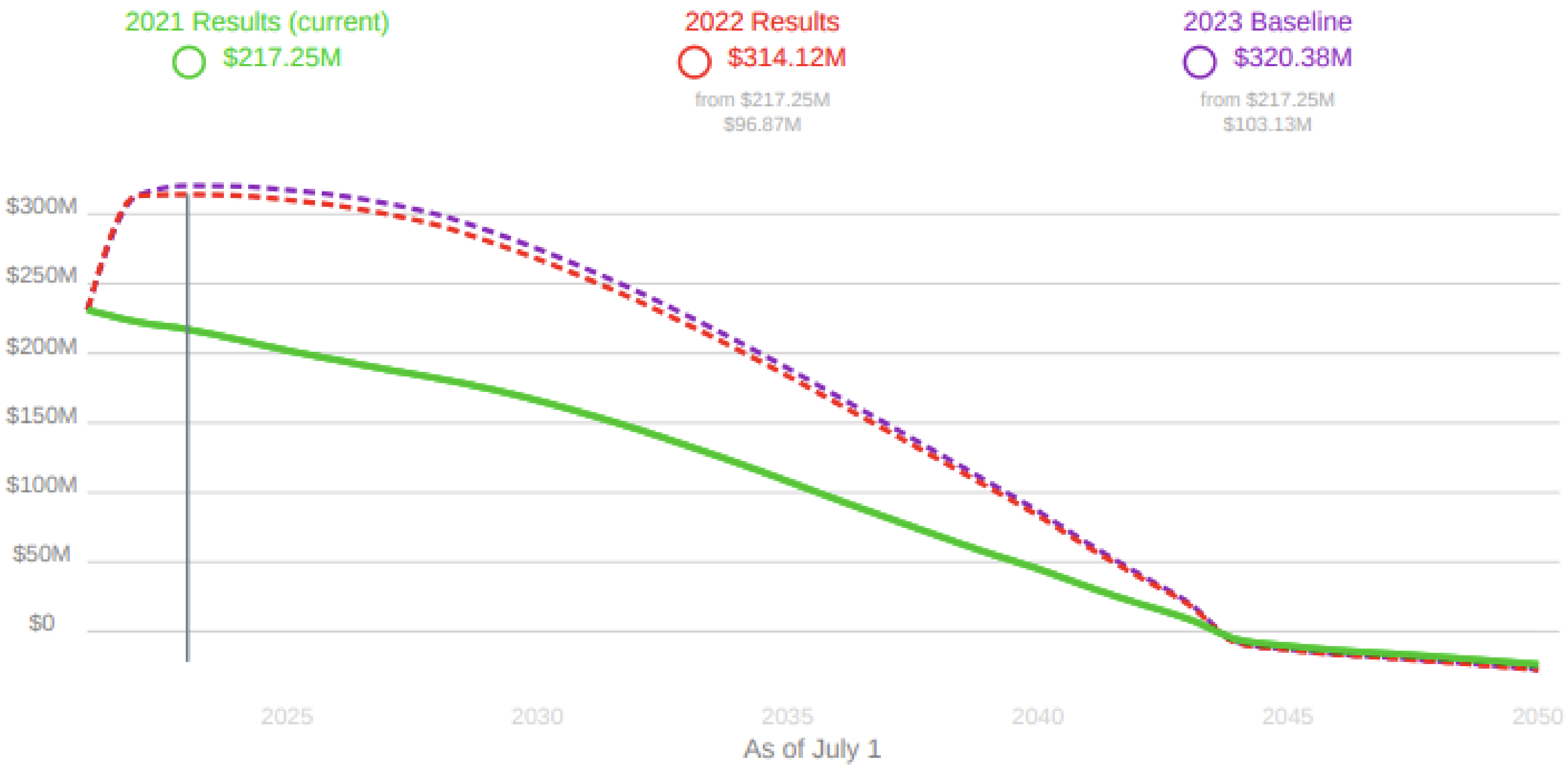
COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2022
2% COLA Provision	2003 & Earlier	2%
	2004	2.19%
	2005	3.59%
	2006-2014	4.70%
	2015	3.13%
	2016	2.39%
	2017	2.52%
	2018	2.96%
	2019	2.77%
	2020	2.00%
	2021	Not Eligible

What is the Impact of those Changes?

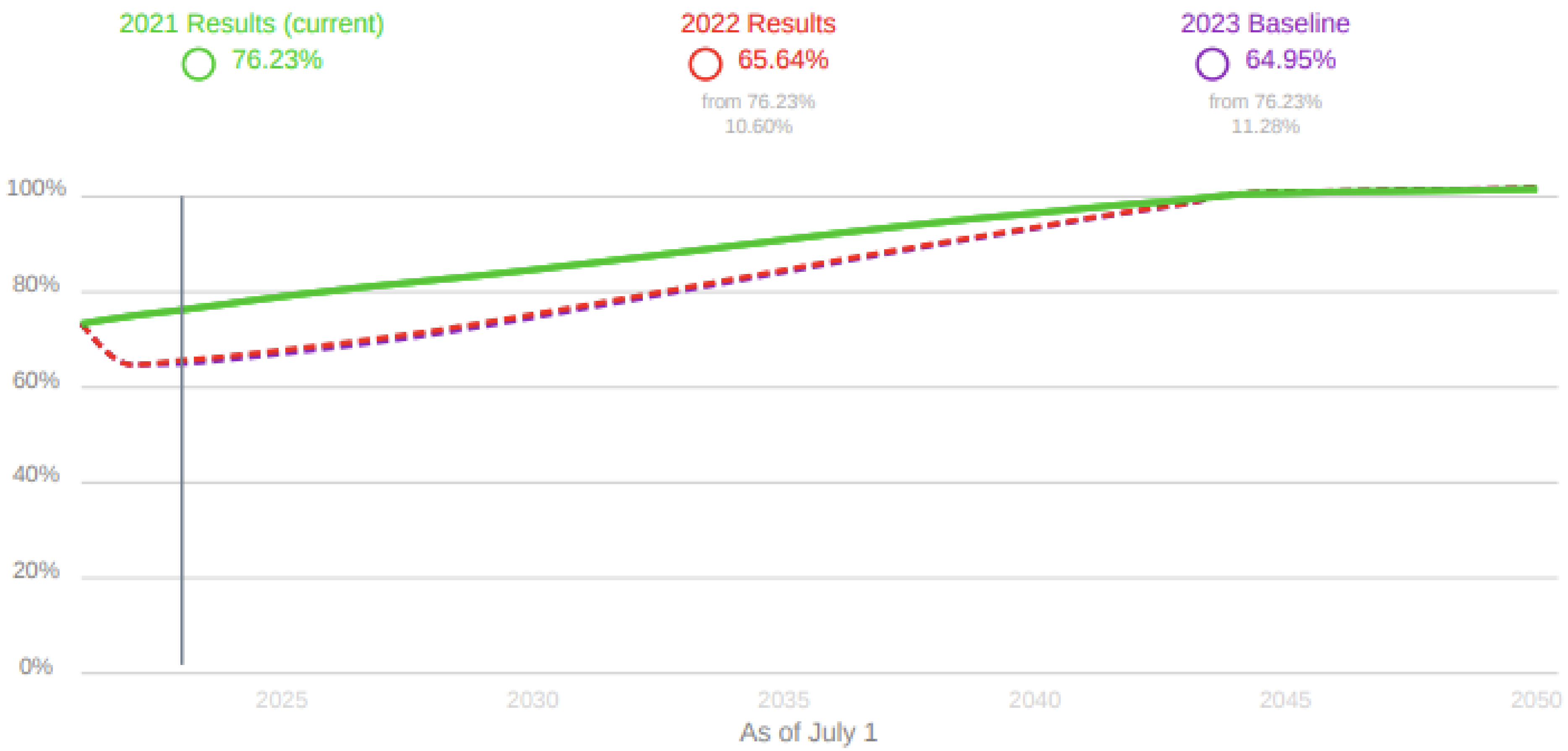
How did the above change impact the City's Funded Percentage and Contribution? Now and in the future?

Without 115 Trust

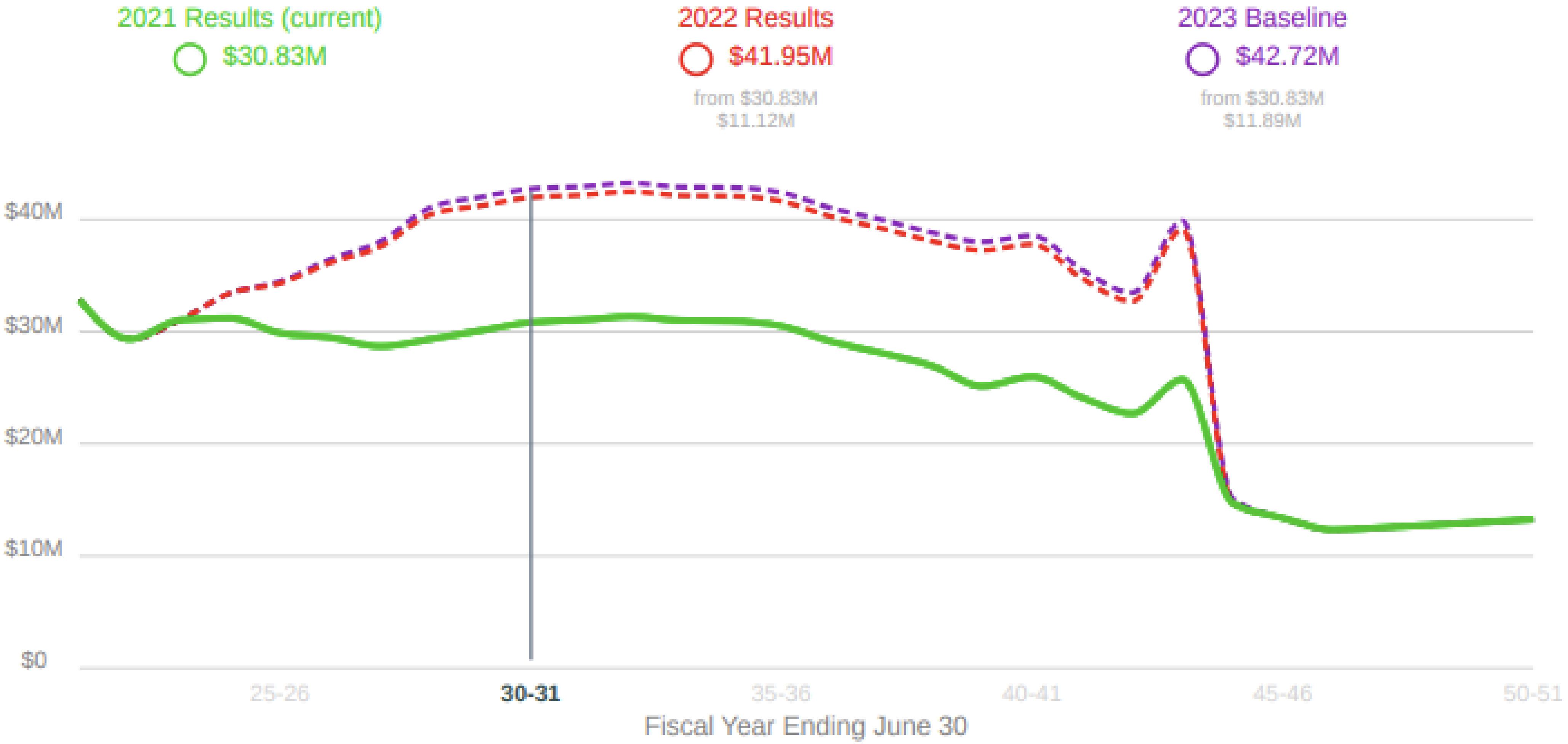
Unfunded Accrued Liability



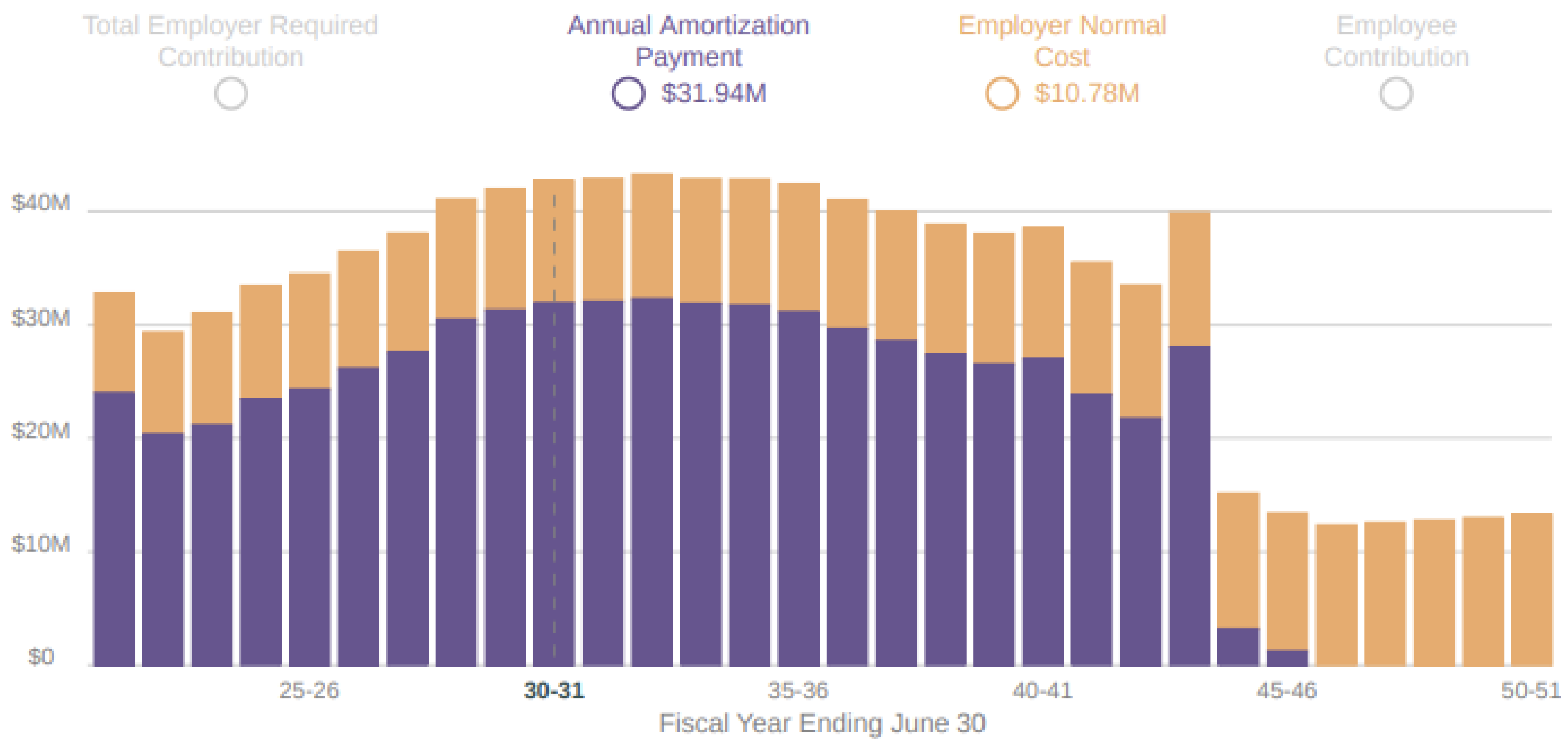
Funded Percentage



Total Required Employer Contributions



Normal Cost + Annual Amortization Payment

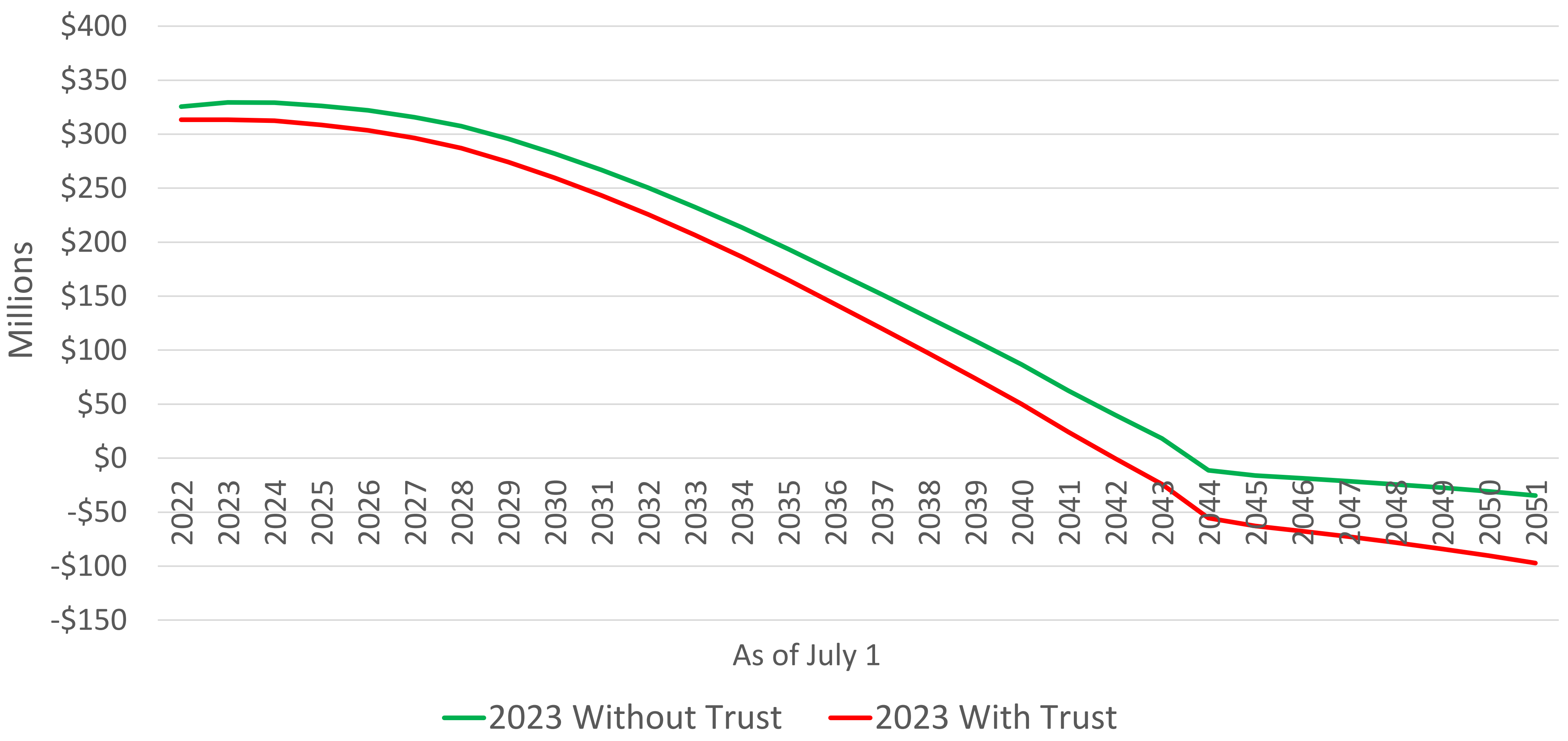


With 115 Trust

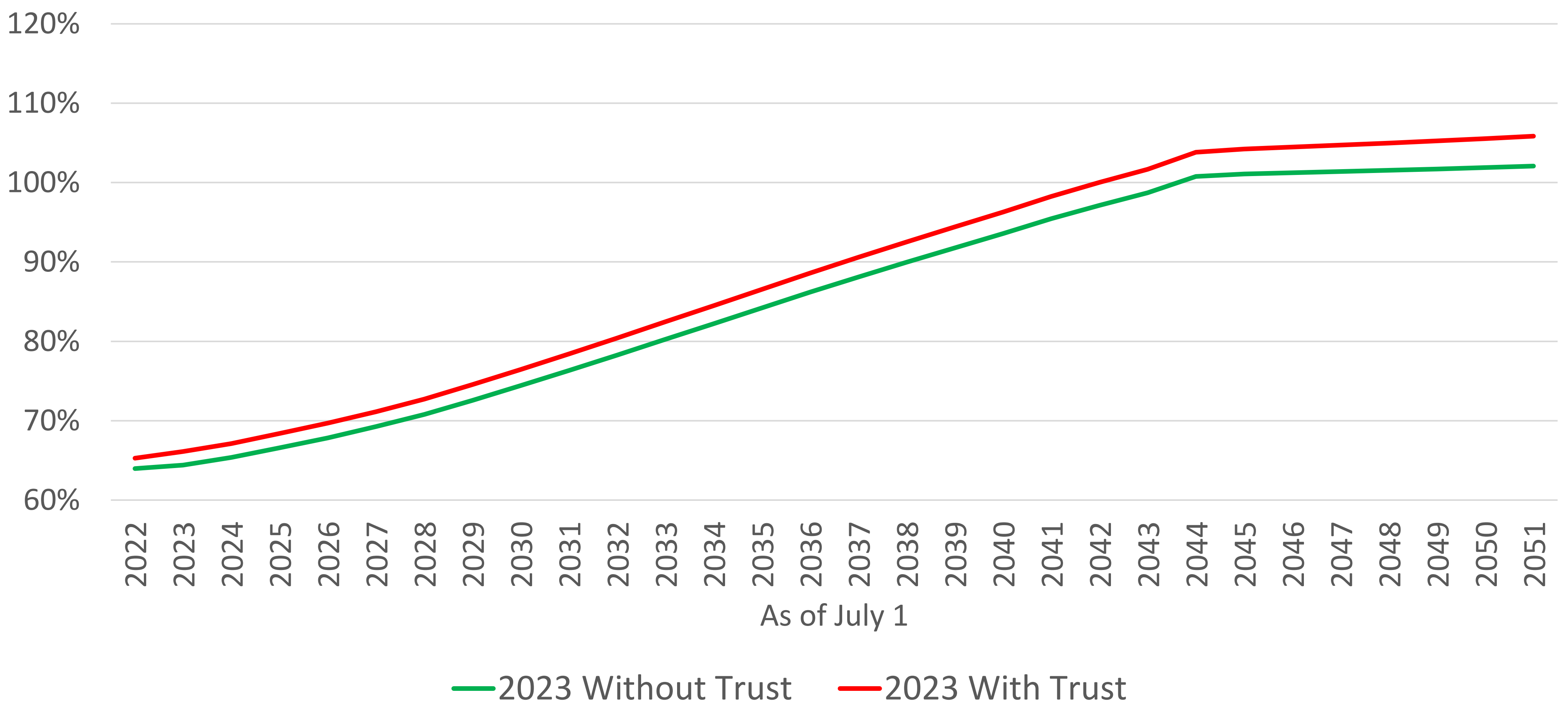
Section 115 Pension Trust

- Assets invested in PARS
- Contributions
  - Fiscal Year 2021-22: $1,919,000.00
  - Fiscal Year 2022-23 : $2,903,224.00
- Rate of Return (Gross of Fees)
  - Fiscal Year 2021-22: -11.41%
  - Fiscal Year 2022-23 : 8.16%
- Balance
  - June 30, 2022: $12,019,783.57
  - June 30, 2023: $15,937,624.10

Unfunded Accrued Liability (With Trust)



Funded Percentage (With Trust)



Addressing Unfunded Liability

Approaches the City can take to control future Unfunded Liability

Why Address Unfunded Liability?

- Most of current Required Contribution is due to payment toward Unfunded Actuarial Liability
- City is effective paying interest to CalPERS for Unfunded Actuarial Liability
- Current interest rate is 6.8%

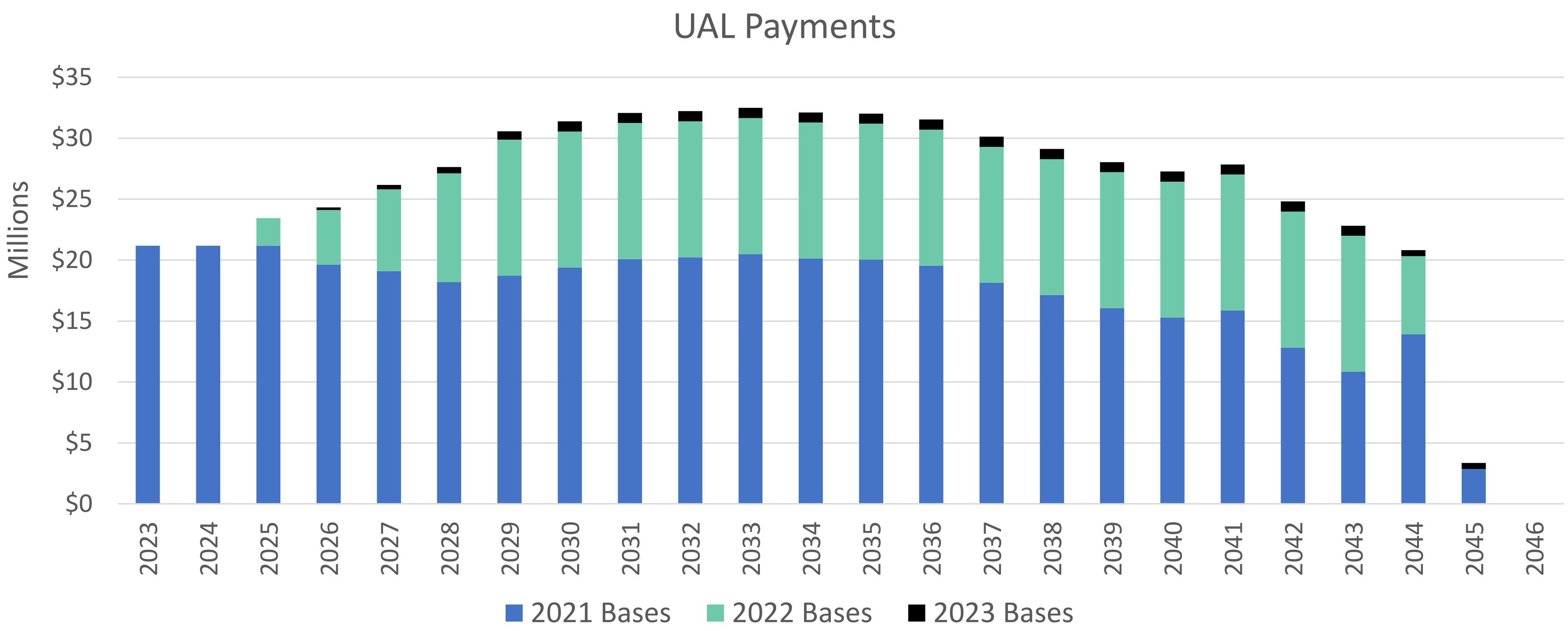
What is Unfunded Actuarial Liability?

- When actual plan experience is different than the plan's assumptions, new Unfunded Actuarial Liability (UAL) is created.
- UAL is also created when assumptions are changed.
- UAL increases when experience is worse for the plan than what was assumed. For example, when the Investment Return assumption was lowered to 6.8%.
- UAL decreases when experience is better for the plan than what was assumed. For example, when the Investment Return is greater than the assumed Interest Rate.
- It can also happen for salary increases, or demographic changes, such as high levels of turnover, or increasing life expectancy.

Unfunded Actuarial Liability should be Monitored Regularly

- Paying off the current UAL does not mean there will be no Unfunded Actuarial Liability in the future.
- Each year, new Unfunded Actuarial Liability (both positive and negative) will be created based on plan assumptions and experience. These are referred to as Amortization Bases.
- Payments toward the new UAL Amortization Bases are generally amortized over a 20-year period.

Each Year, UAL is Adjusted due to the Previous Year's Experience, and paid off over a 20-Year Period



Potential Approaches to Addressing UAL

- One-time Additional Contribution
- Additional Annual Contributions
  - Budgeted
  - Based on Budget Surplus or Other Savings

Where Does the Money Go?

- Direct to CalPERS
    - Which amortization bases will you pay off?
- 115 Trust
- Internal Reserve

Questions

Disclaimer

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