

CalPERS Unfunded Accrued Liability Update

Long Term Financial Policy Audit Subcommittee
November 9, 2023

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Presentation Overview

- The City's Pension Plans
- Changes to Pensions/ City Actions
- The Challenge
- Section 115 Trust
- Discussion/ Q&A

The City's Pension Plans

- Pensions are funded from three sources, employer contributions, employee contributions and investment earnings
- The main components of a pension plan are the benefit formula, actuarial assumptions and expected rate of return
- When any of these components change or don't meet expectations, the funding status and contributions can change greatly

The City's Pension Plans

- Benefit formulas include years of service, age and final compensation to determine the annual pension due to a retiree
- Employees are legally protected from having their benefit reduced after hire

Public Safety (sworn)		
Benefit Formula	Employee Count	Hire Date
3.0% @ 50	117	Prior to 7/8/2012
3.0% @ 55	55	7/8/2012-12/31/2012
*2.7% @ 57	*126	*After 12/31/2012
Miscellaneous		
Benefit Formula	Employee Count	Hire Date
3.0% @60	354	Prior to 7/8/2012
2.5% @55	44	7/8/2012-12/31/2012
*2.0% @62	*426	*After 12/31/2012

* PERPRA

The City's Pension Plans

Summary of Current Pension Beneficiaries

Plan	Retired Employee Count	Average Annual Benefit
Miscellaneous	1,283	\$ 35,970
Police	304	\$ 66,027
Fire	191	\$ 77,231

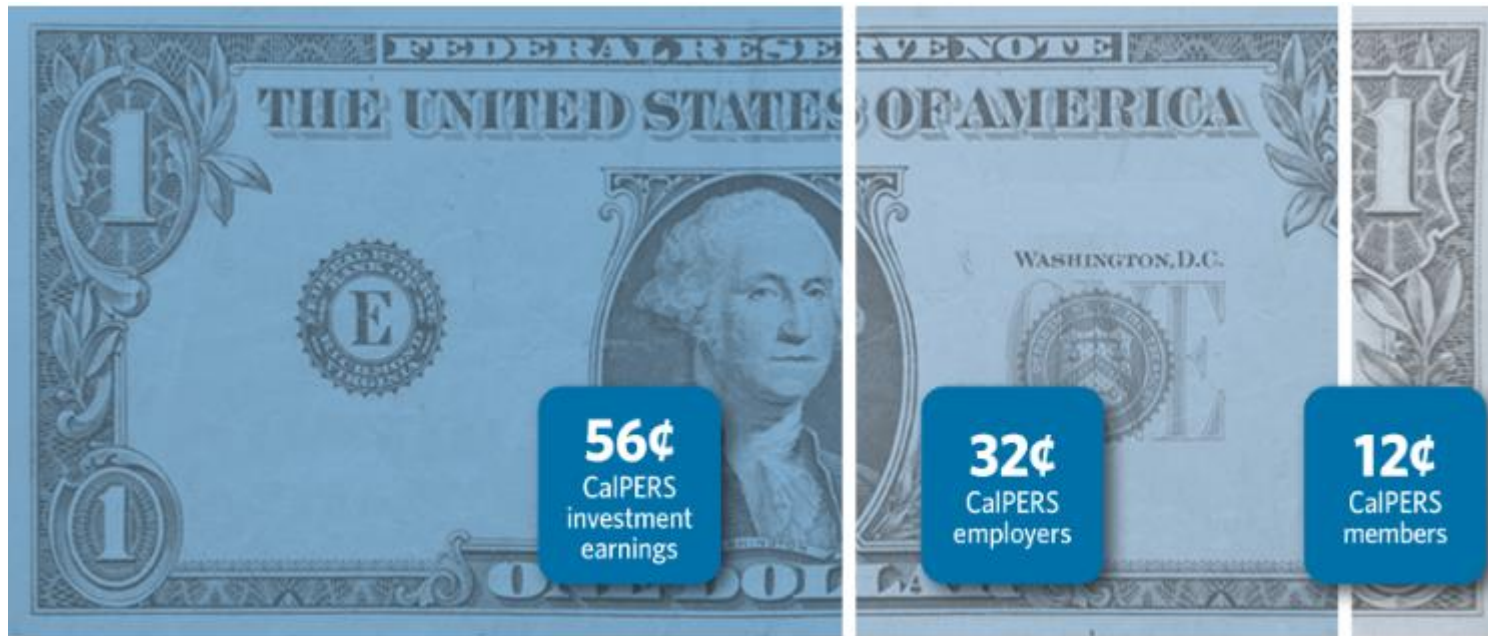
Example of how different formulas impact pension benefit

Public Safety (sworn)				
Benefit Formula	Age at Hire	Years of Service	Final Compensation	Pension Benefit
3.0% @ 50	30	25	\$ 100,000.00	\$ 75,000.00
3.0% @ 55	30	25	\$ 100,000.00	\$ 75,000.00
*2.7% @ 57	30	25	\$ 100,000.00	\$ 62,500.00
Miscellaneous				
Benefit Formula	Age at Hire	Years of Service	Final Compensation	Pension Benefit
3.0% @60	30	30	\$ 100,000.00	\$ 90,000.00
2.5% @55	30	30	\$ 100,000.00	\$ 75,000.00
*2.0% @62	30	30	\$ 100,000.00	\$ 54,000.00

*PEPRA

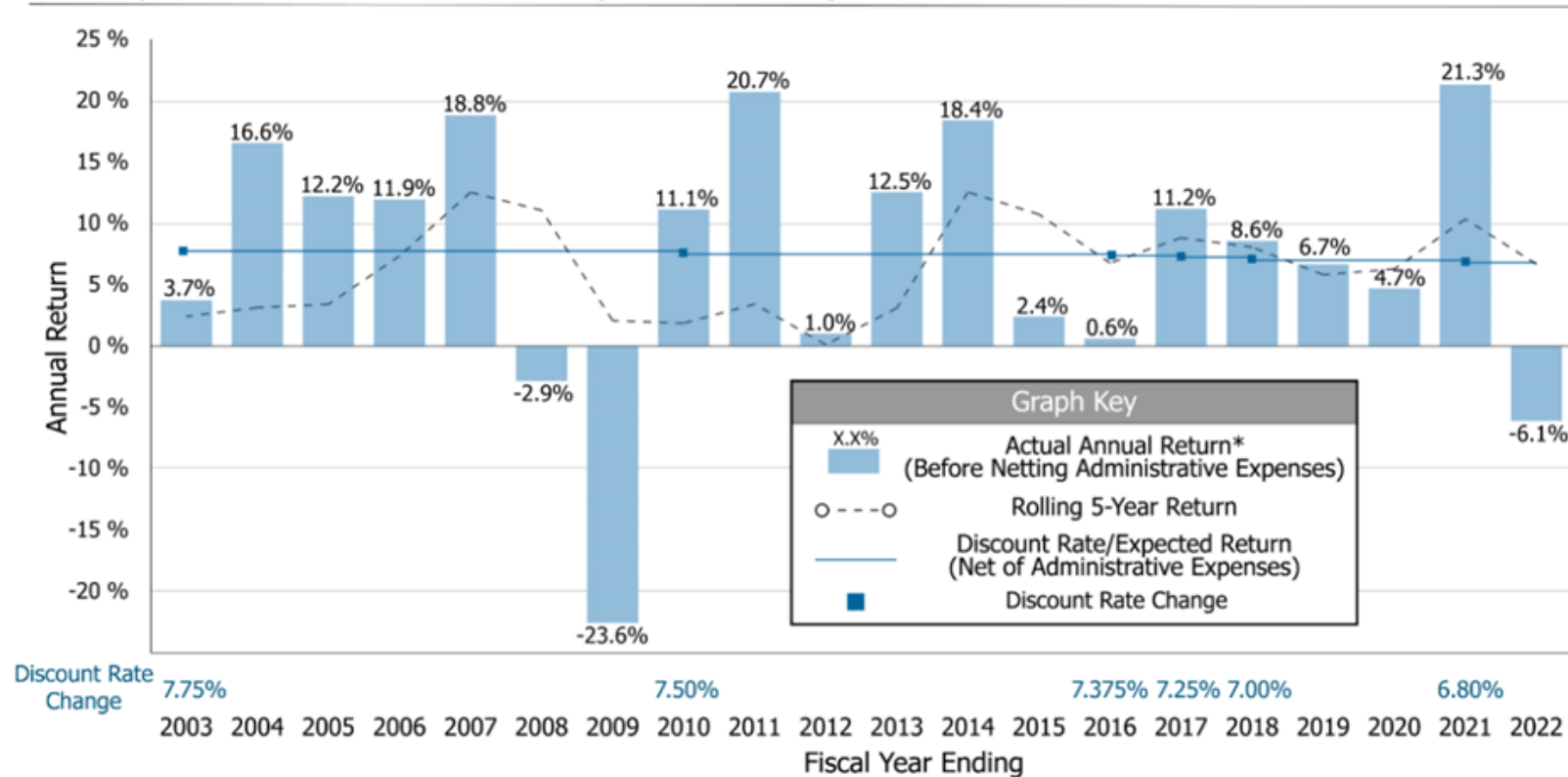
The City's Pension Plans

- The largest funding source of pensions is investments. This has a significant benefit but it also carries risk which is assumed by the City.



The City's Pension Plans

History of Investment Returns (2003 - 2022)



History of CalPERS Compound Annual Rates of Return and Volatilities					
	1 year	5 year	10 year	20 year	30 year
Compound Annual Return	-6.1%	6.7%	7.7%	6.9%	7.7%

Changes to Pensions

Public Employee Pension Reform Act (PEPRA)

Reduced benefit formulas, created maximum compensation amounts and equal sharing of normal costs (increased employees contribution). *Only for employees hired after 12/31/2012.*

CalPERS Board Actions & Meeting New Accounting Standards

Discount rate/expected return has been decreased from a high of 8.5% and is now at 6.8%. A 1% change equals approximately \$200M in liability for Santa Rosa. The amortization of losses and assumption changes was changed from a rolling average methodology (50 years) to a 30-year fixed schedule. Recent actions shortened to a 20-year amortization.

City Actions

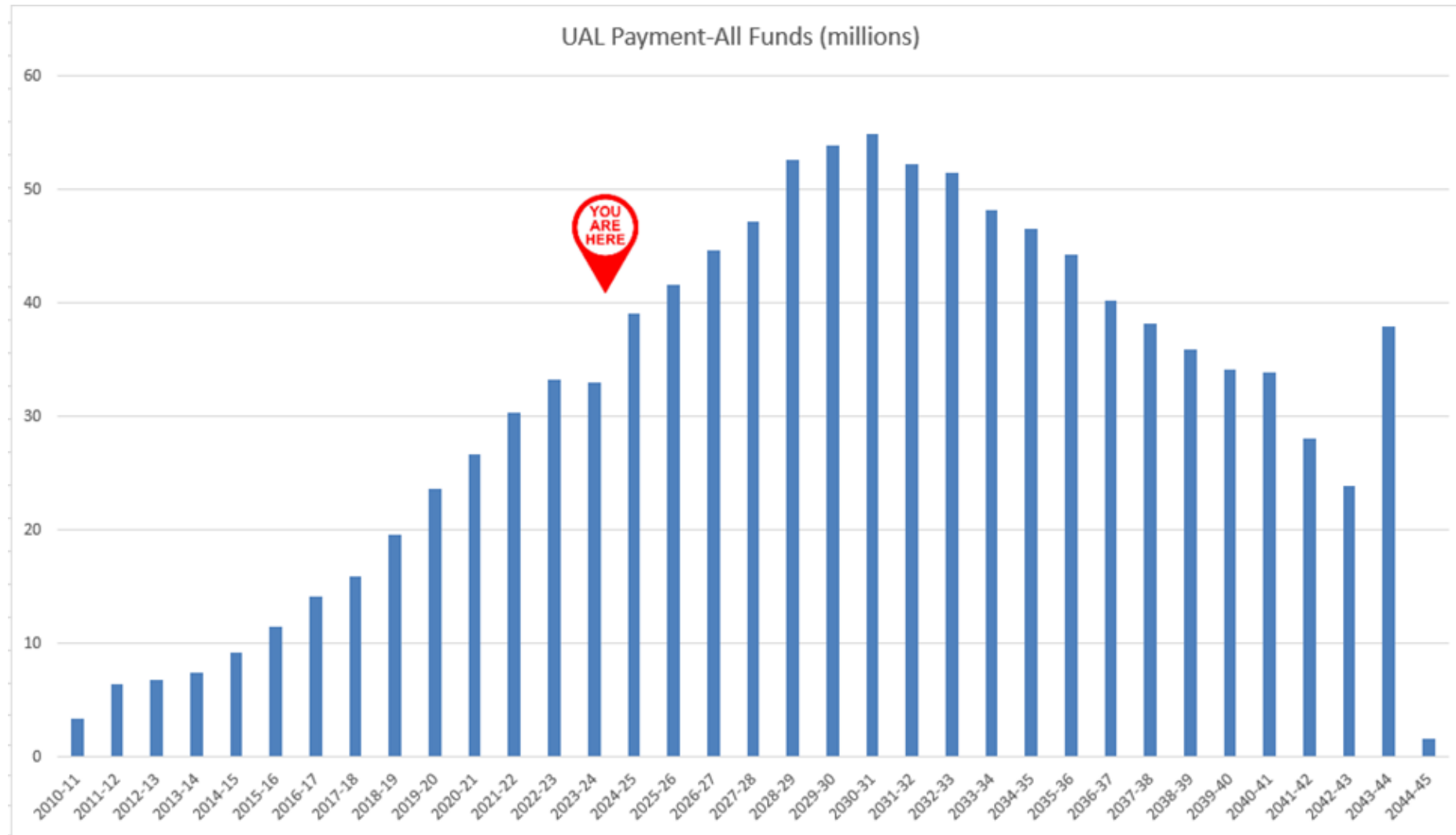
- Through collective bargaining all employee groups pay more than their required contribution to CalPERS. These additional contributions range by bargaining unit and pension benefit formula.
- In FY20, the City made an additional payment of \$4.2M to CalPERS which reduced future UAL payments.
- In FY22 the City created a section 115 trust to prefund pension obligations

The Challenge

-CalPERS amortization schedule will continue to increase much faster than City revenues burdening City services.

General Fund	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Scenario - Investment return earning 6.8%									
UAL Payment	\$25.4	\$30.2	\$32.2	\$34.5	\$36.4	\$40.4	\$41.3	\$42.1	\$40.4

The Challenge



The Challenge

Unfunded Accrued Liability (UAL) June 30, 2022 ALL FUNDS

	Miscellaneous	Police	Fire	Combined
Accrued Liability (AL)	\$ 875,334,654	\$ 390,403,722	\$ 289,651,646	\$ 1,555,390,022
Market Value of Assets (MVA)	\$ 633,099,076	\$ 243,021,558	\$ 189,935,236	\$ 1,066,055,870
UAL= AL-MVA	\$ 242,235,578	\$ 147,382,164	\$ 99,716,410	\$ 489,334,152
Funded Ratio	72%	62%	66%	69%

Section 115 Trust

- City Council funded \$10M from General Fund Fiscal Stability Reserves and \$4.4M from Santa Rosa Water Operating Reserves. This account can only be used to pay pension expenses and is to mitigate future pension expenses.
- Council also directed the ongoing funding of the trust through the retired debt service of the City's pension obligation bonds. This will begin in FY24.
- The directed goal of the trust was to reach one year's contribution amount which was approximately \$26M at that time. Flexibility was to be considered if our UAL amortization schedule went higher.
- FY23 returns were 6.6% net of expenses, outperforming CalPERS

Section 115 Trust

- The City's UAL amortization schedule has significantly increased due to CalPERS -6.1% FY21 returns.
- As in the prior year's presentation, we are recommending a strategic use of section 115 funds prior to reaching our funding goal.
- Proposed strategy would maintain balance in fund allowing investment returns to appreciate and allocating POB funding to UAL payment during highest scheduled payments.

Section 115 Trust

Proposed Strategy

General Fund	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Scenario - Investment return earning 6.8%									
UAL Payment	\$25.4	\$30.2	\$32.2	\$34.5	\$36.4	\$40.4	\$41.3	\$42.1	\$40.4
Funded Ratio	67%	68%	69%	71%	72%	74%	76%	78%	80%
115 Contribution	\$0.0	(\$1.8)	(\$3.0)	(\$3.1)	(\$3.2)	(\$3.3)	(\$3.4)	(\$3.5)	(\$3.6)
Net UAL Payment	\$25.4	\$28.4	\$29.2	\$31.4	\$33.2	\$37.1	\$37.9	\$38.6	\$36.8

Water	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Scenario - Investment return earning 6.8%									
UAL Payment	\$4.7	\$5.5	\$5.9	\$6.4	\$6.7	\$7.6	\$7.8	\$8.0	\$7.4
Funded Ratio	72%	73%	74%	75%	77%	78%	80%	82%	84%
115 Contribution	\$0.0	(\$0.3)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
Net UAL Payment	\$4.7	\$5.2	\$5.4	\$5.9	\$6.2	\$7.1	\$7.3	\$7.5	\$6.9

Questions / Comments