

Addressing Pension Unfunded Liability

Arcata, CA
April 19, 2023



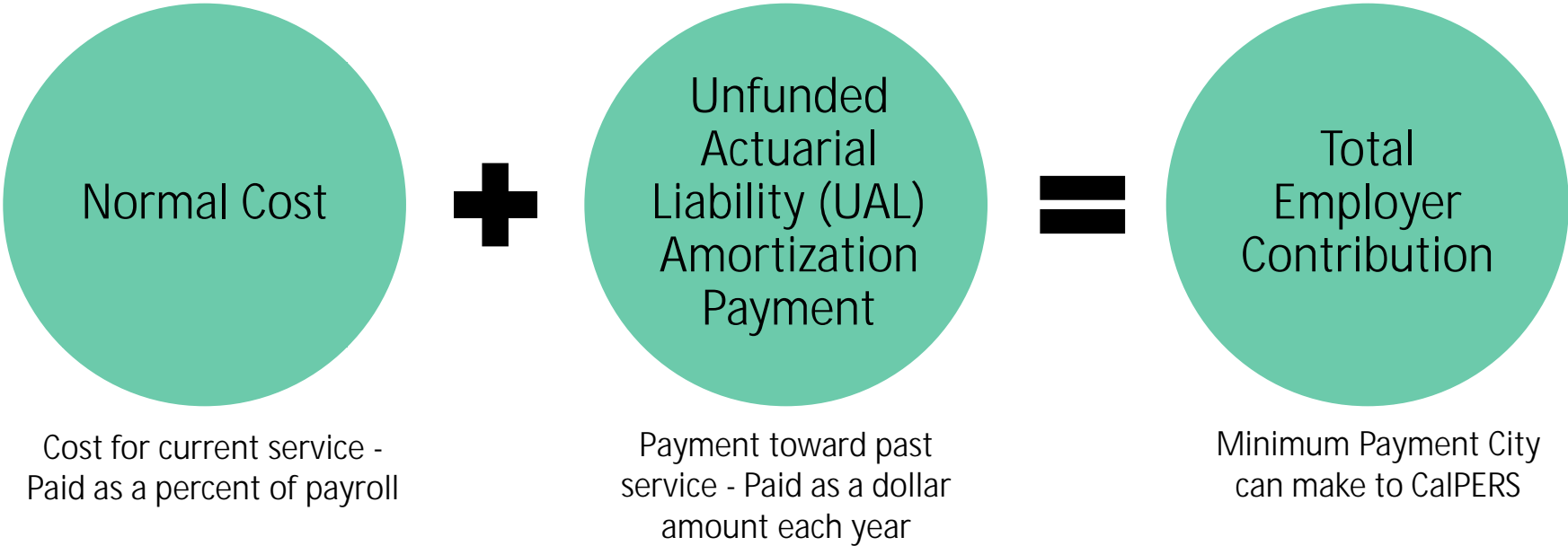
Pension Projections

What will happen to Pension Costs if Future Experience Matches CalPERS Assumptions?

Pension Projections

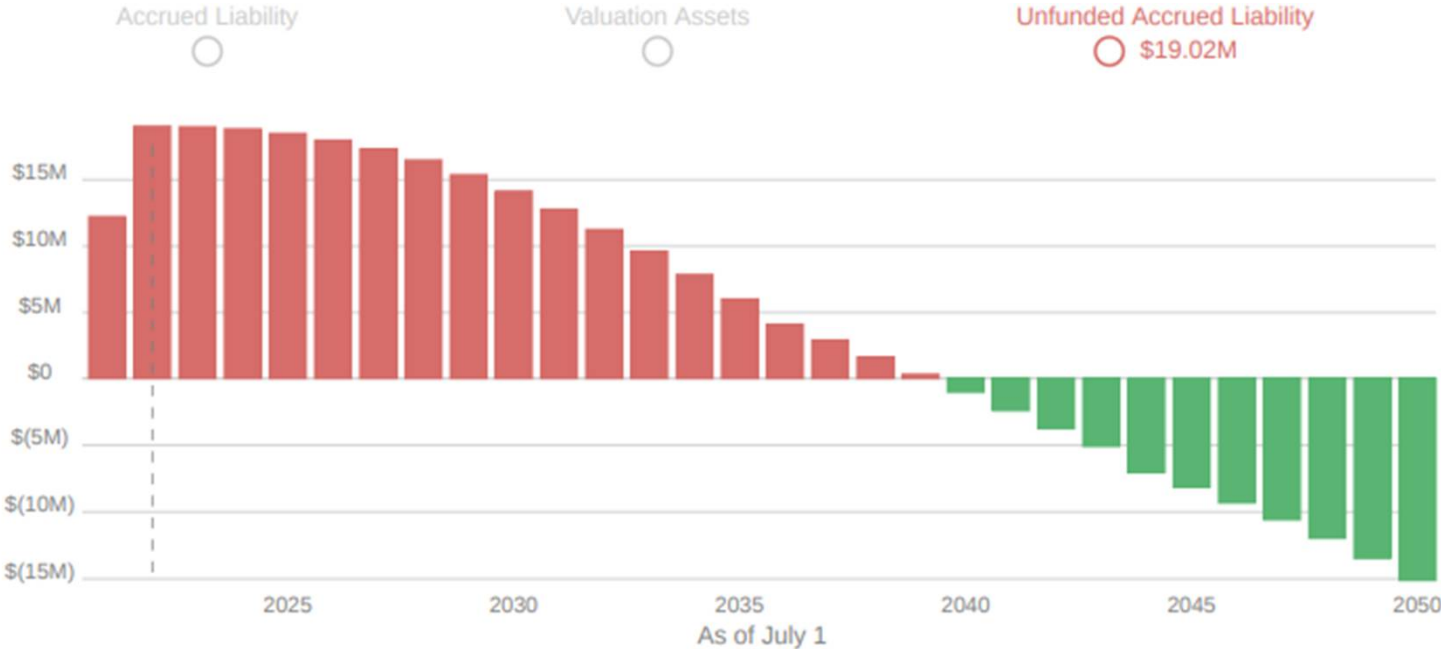
- Focusing on 3 metrics:
 - $\text{Unfunded Actuarial Liability} = \text{Plan Liability} - \text{Plan Assets}$
 - $\text{Funded Percentage} = \text{Plan Assets} / \text{Plan Liability}$
 - Required Contributions
- Showing Split by Plan Classification
 - Miscellaneous
 - Safety
 - All Plans Combined

Required Contribution

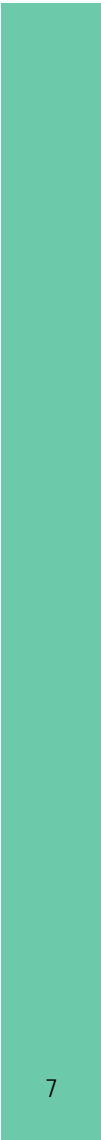
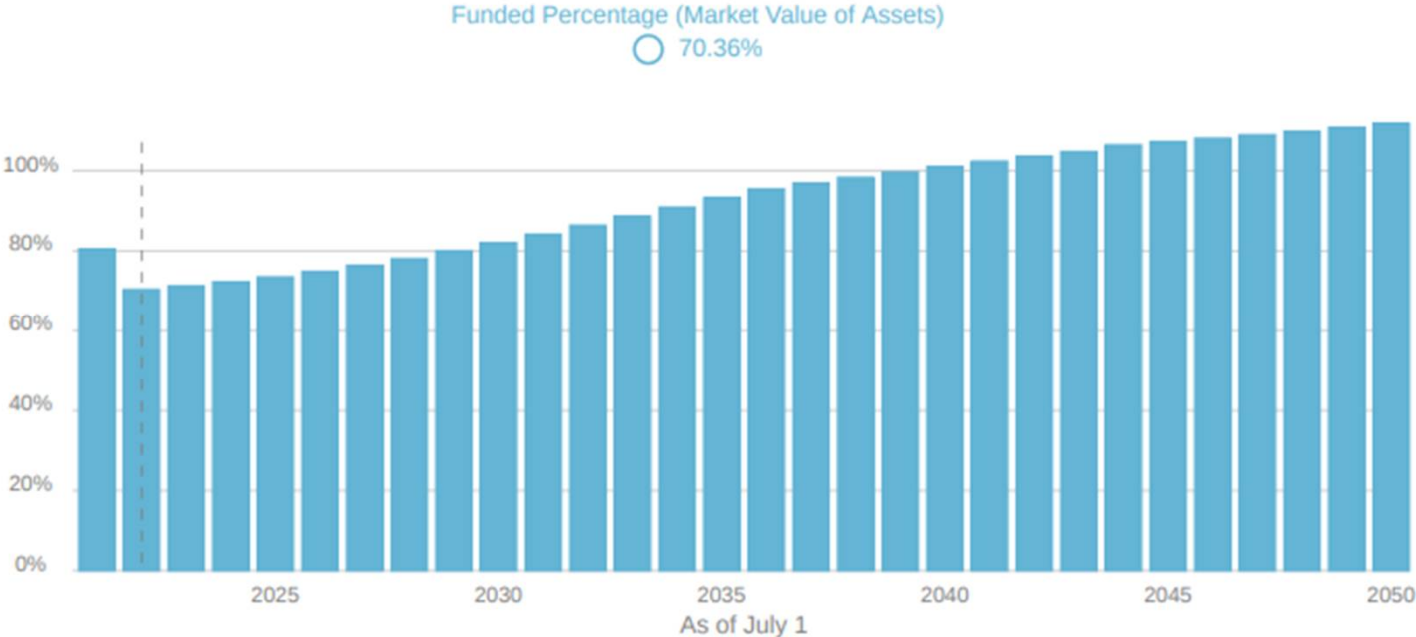


Miscellaneous Plans

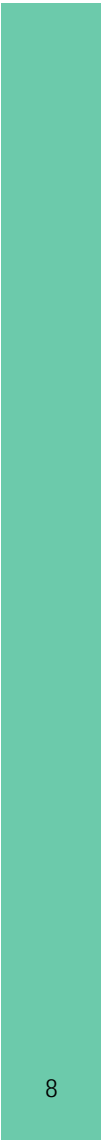
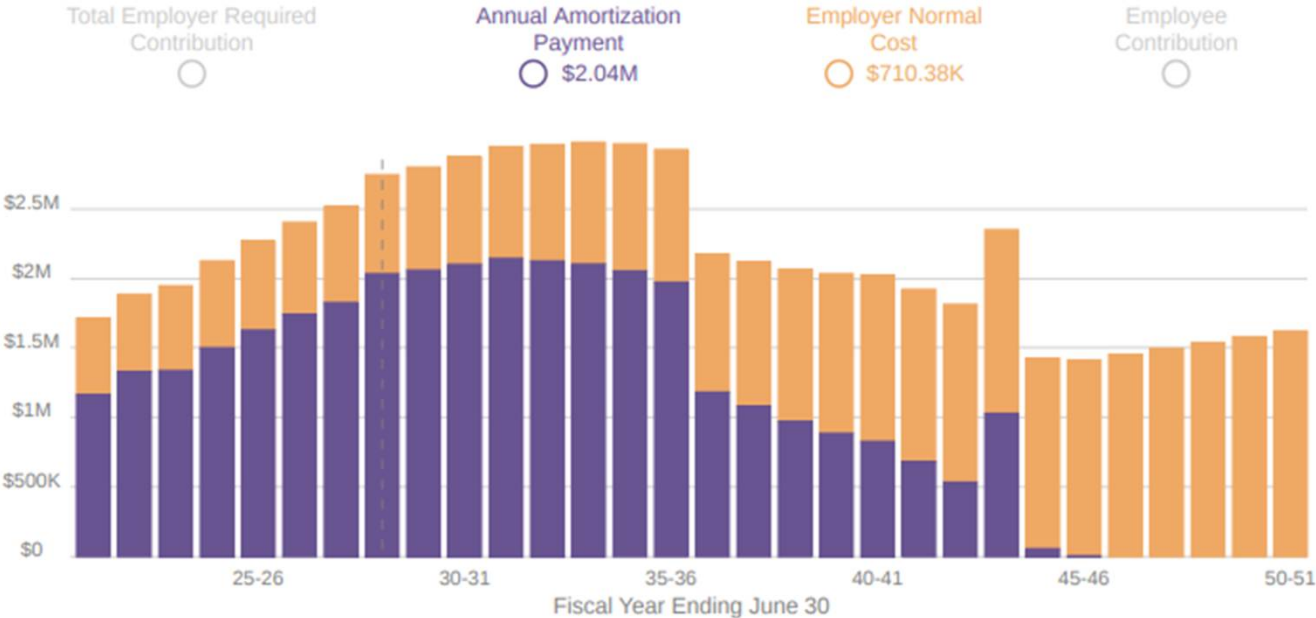
Unfunded Accrued Liability - Miscellaneous



Funded Percentage - Miscellaneous

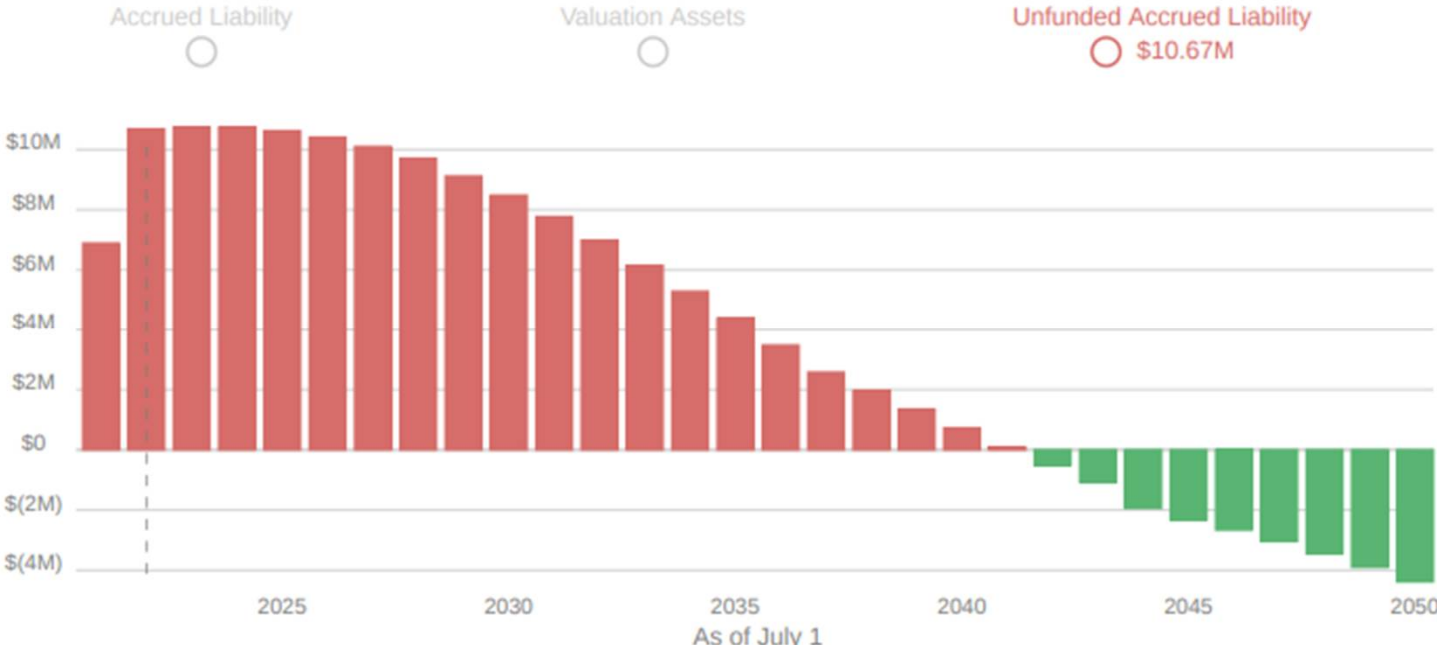


Required Contributions - Miscellaneous



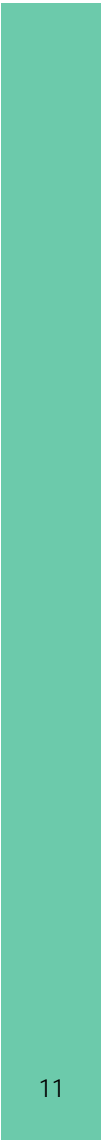
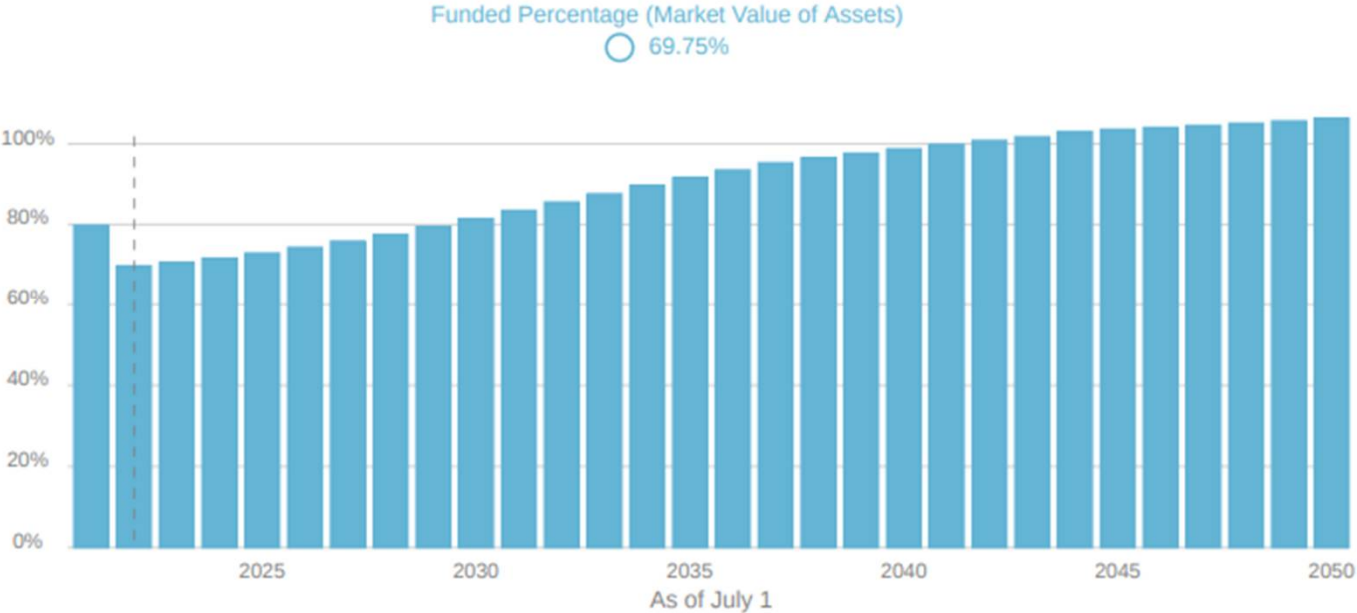
Safety Plans

Unfunded Accrued Liability - Safety

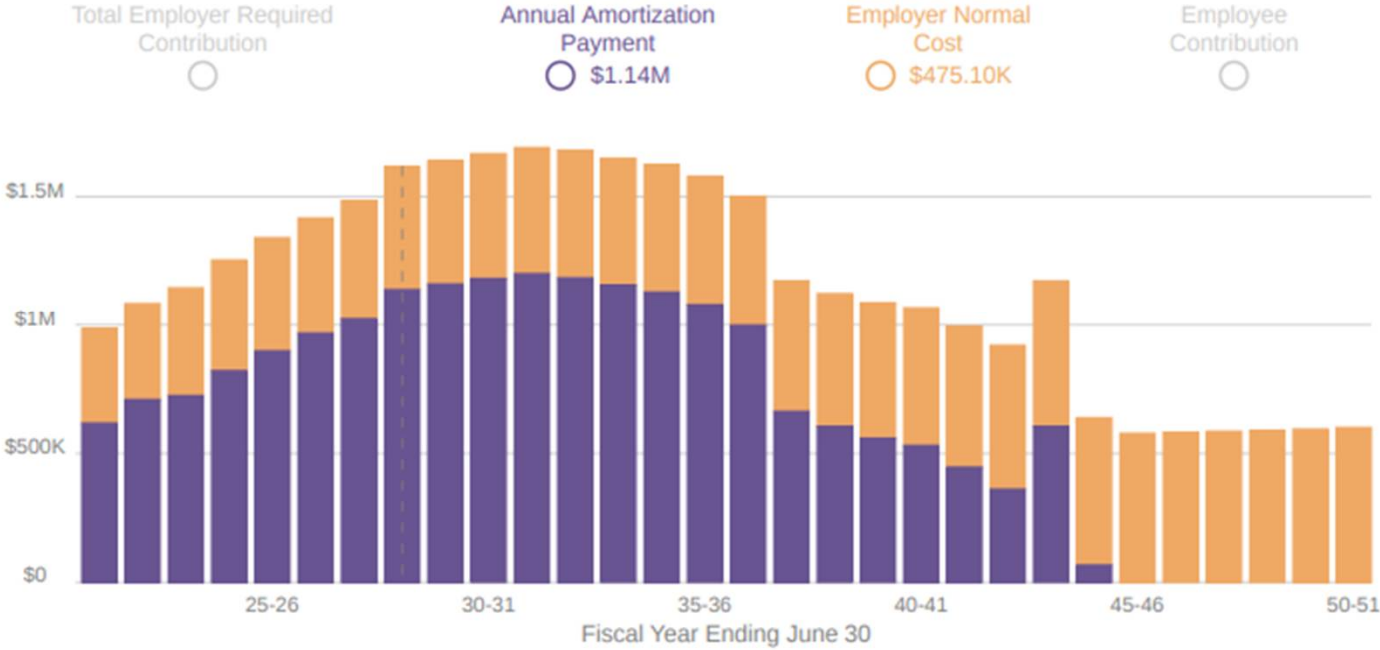


Unfunded Accrued Liability
○ \$10.67M

Funded Percentage - Safety

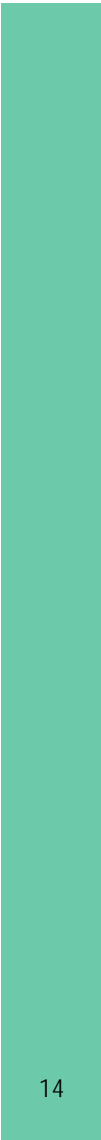
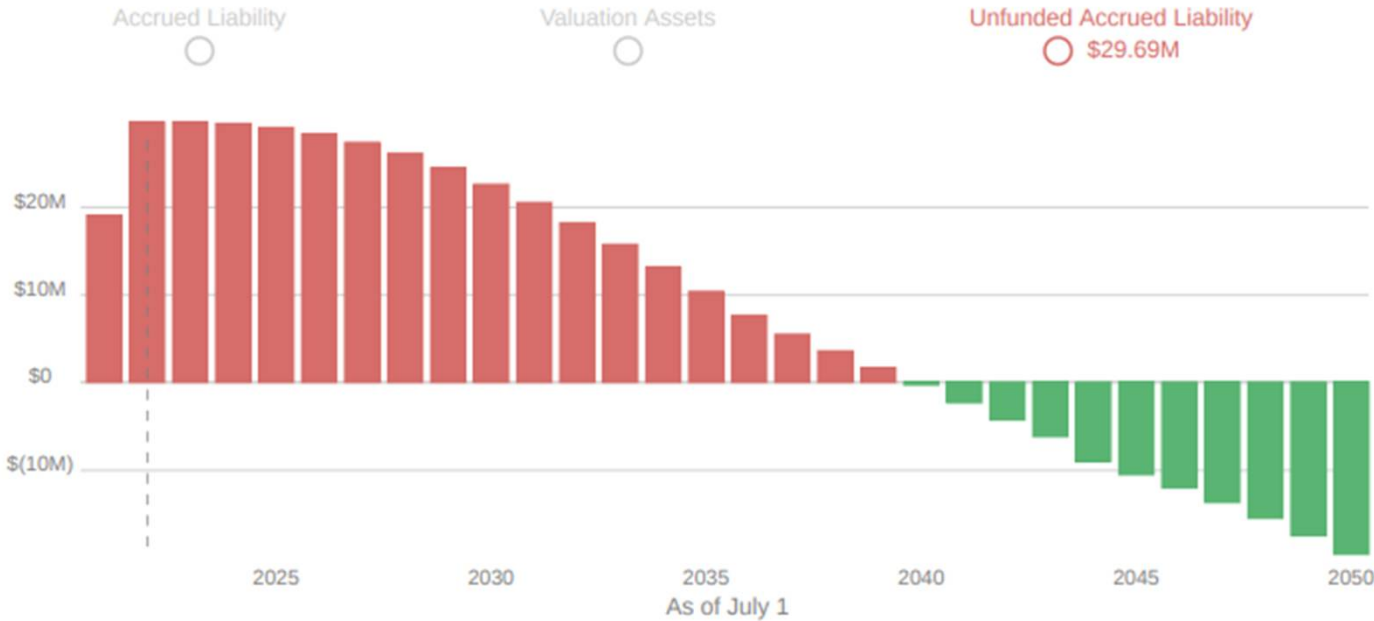


Required Contributions - Safety

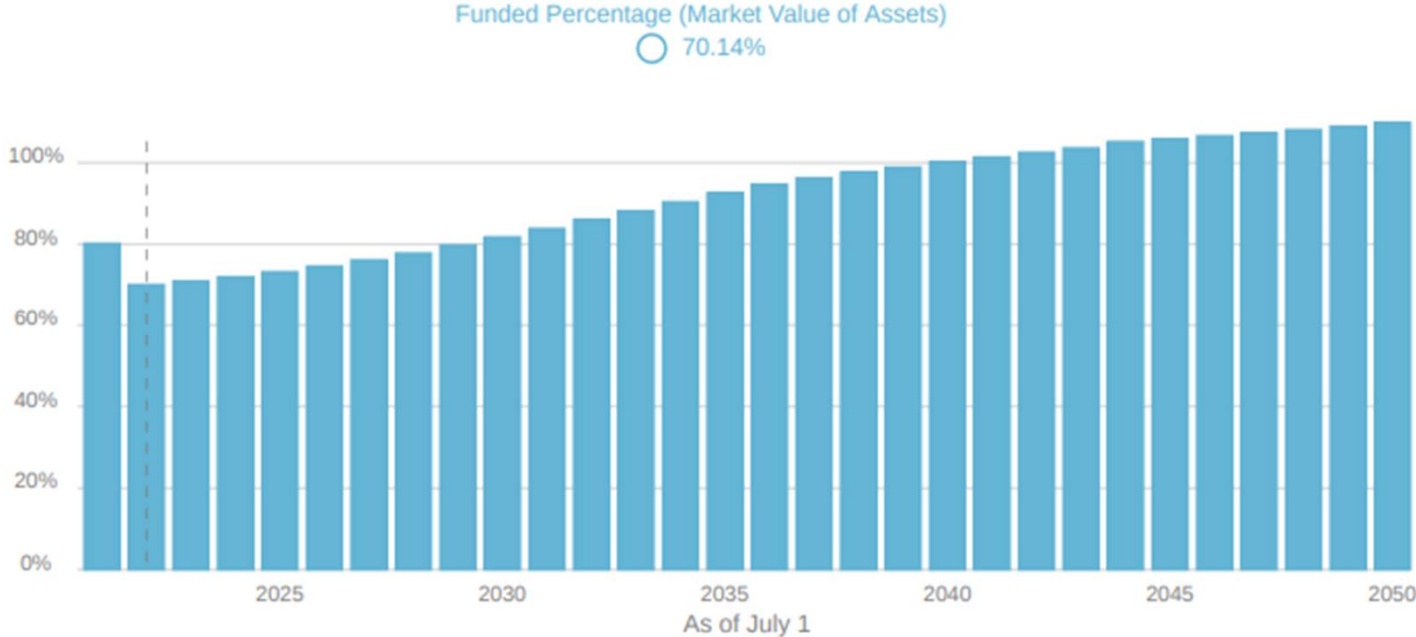


All Plans Combined

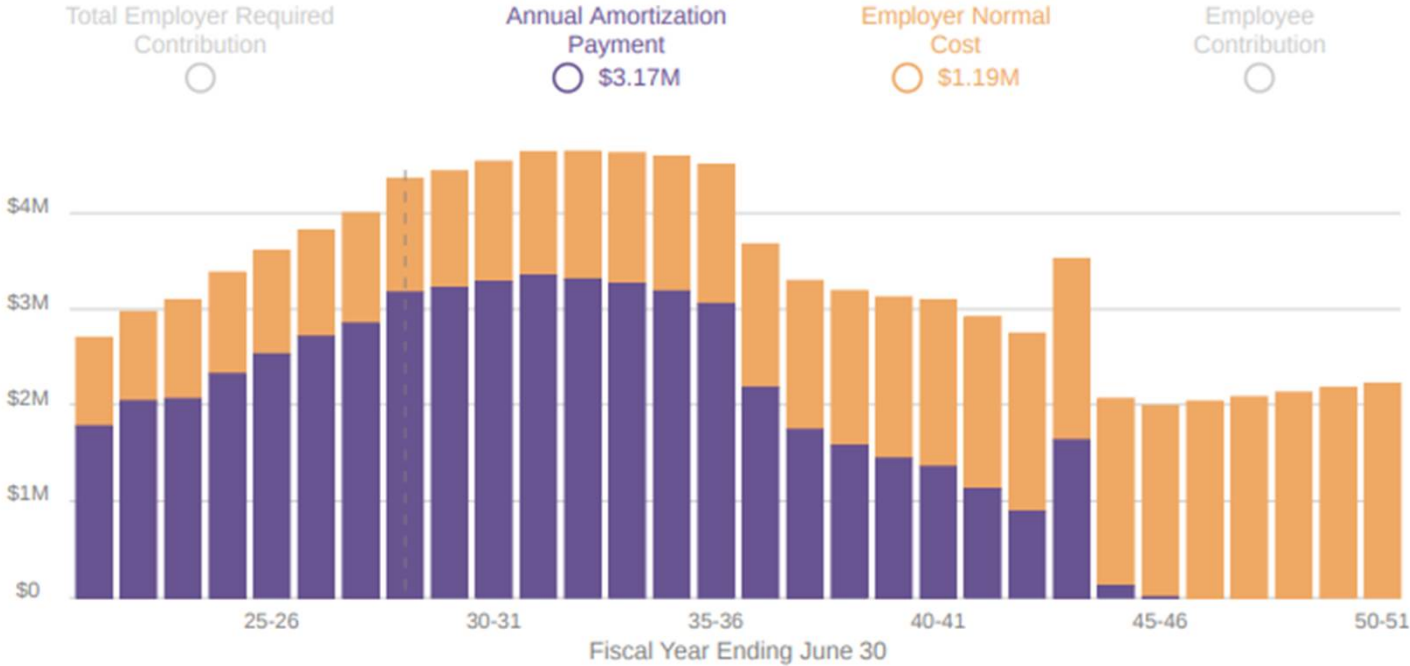
Unfunded Accrued Liability – All Plans



Funded Percentage - All Plans



Required Contributions - All Plans



Addressing Unfunded Liability

Approaches the City can take to control future Unfunded Liability

What has Arcata done?

- Additional contributions
 - City issued bonds in 2015
 - Used the proceeds to pay off a portion of the City's UAL
 - \$2.1 Million to Miscellaneous
 - \$1.0 Million to Safety
- Employee cost sharing agreement
 - Additional Employee Contributions
 - Differ by Bargaining Group
 - Range to 3% of pay

Why Address Unfunded Liability?

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

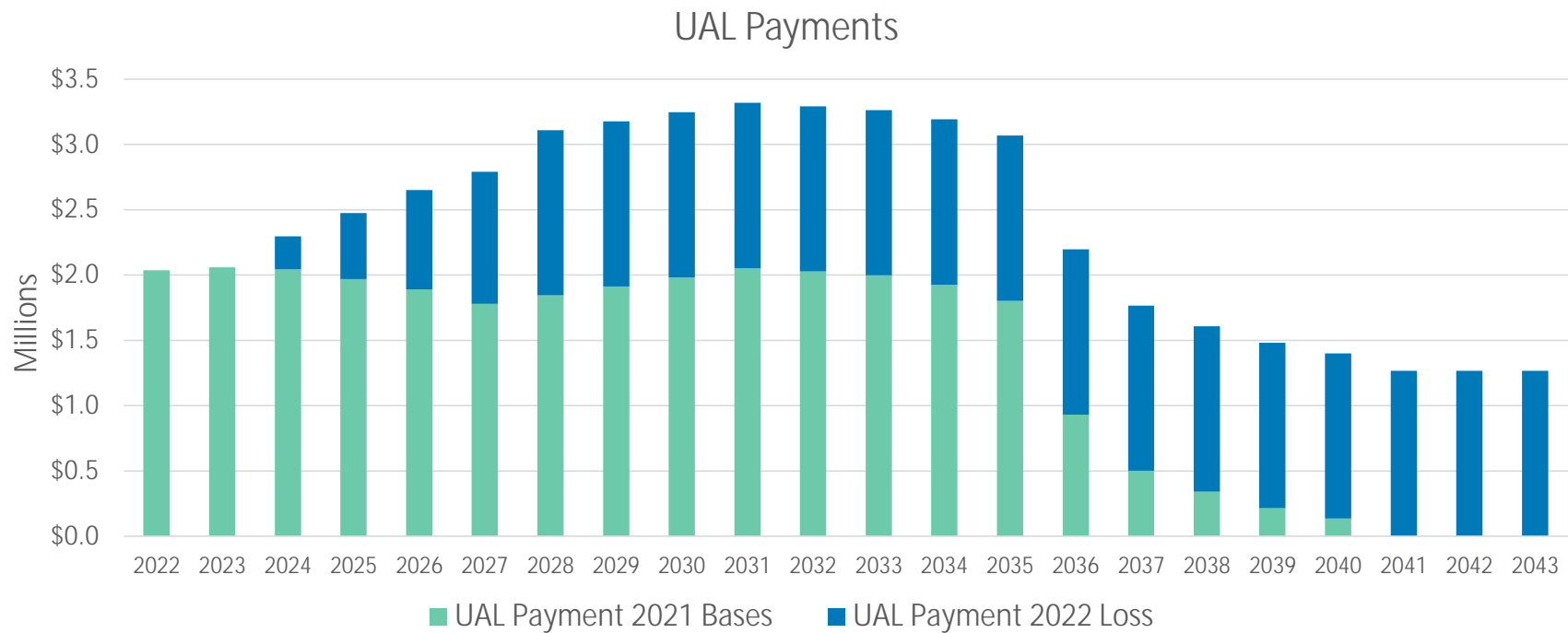
What is Unfunded Actuarial Liability?

- 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

Looking for Direction from Council

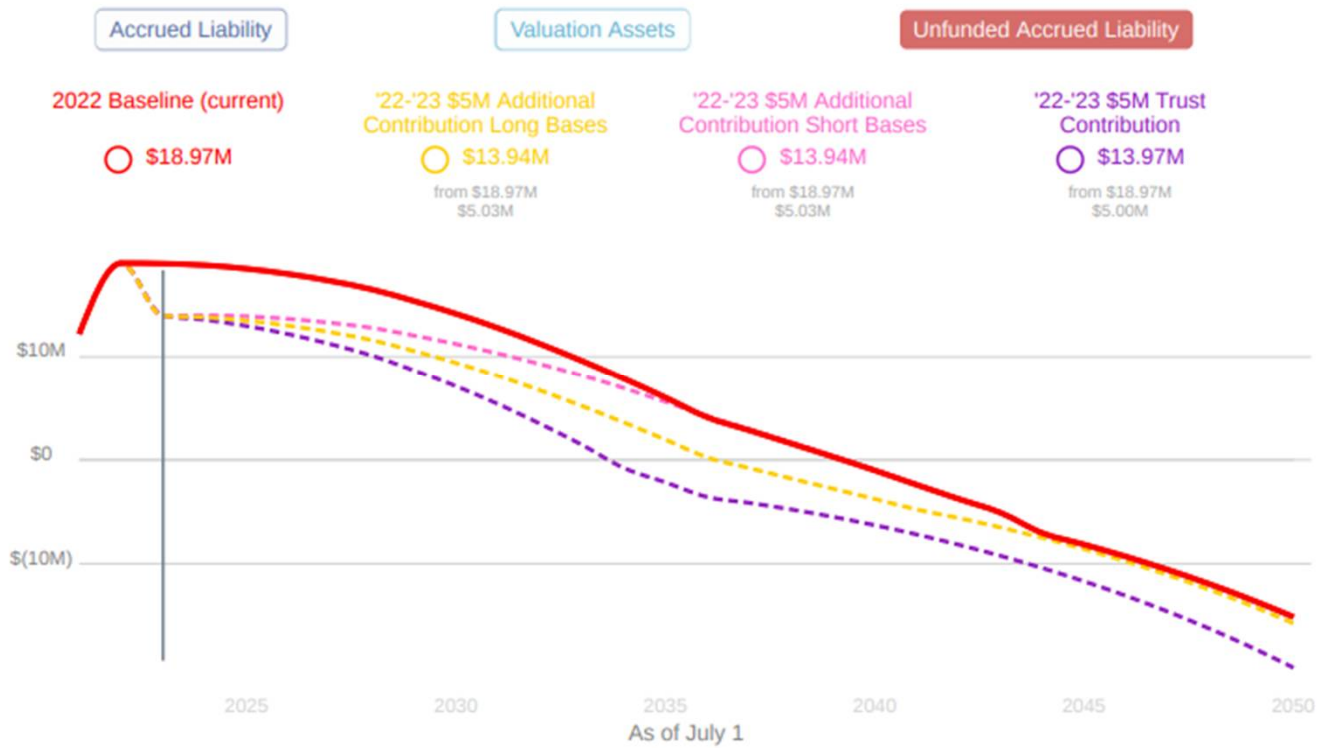
- Following are just examples
- Which approaches would the Council like to consider?
- What levels should staff consider?

One-Time Additional Contribution of \$5 Million

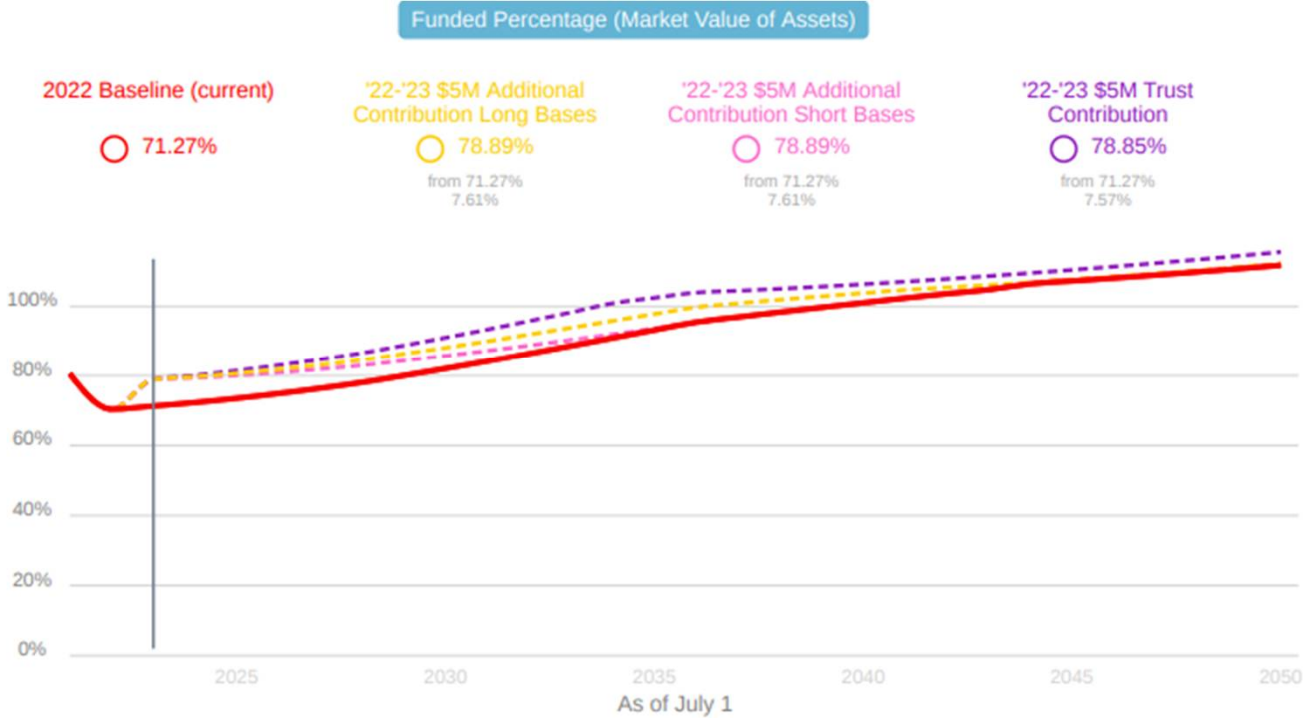
One-Time Additional Contribution of \$5 Million

- Where does \$5 Million come from?
 - \$2.5 Million from City's current rainy-day reserves in the General Fund
 - \$2.5 million from enterprise funds.
- Where does \$5 Million go?
 - Directly to CalPERS
 - Pay off longest amortization bases for most long-term savings
 - Pay off shortest amortization bases for largest short-term contribution reduction
 - Contribute to Section 115 Pension Trust
 - Assumed Trust would earn 5% per year
 - Assumed Trust balance would be contributed to CalPERS when it would bring Plan to 100% funded
- Focusing on Miscellaneous Plan for this example

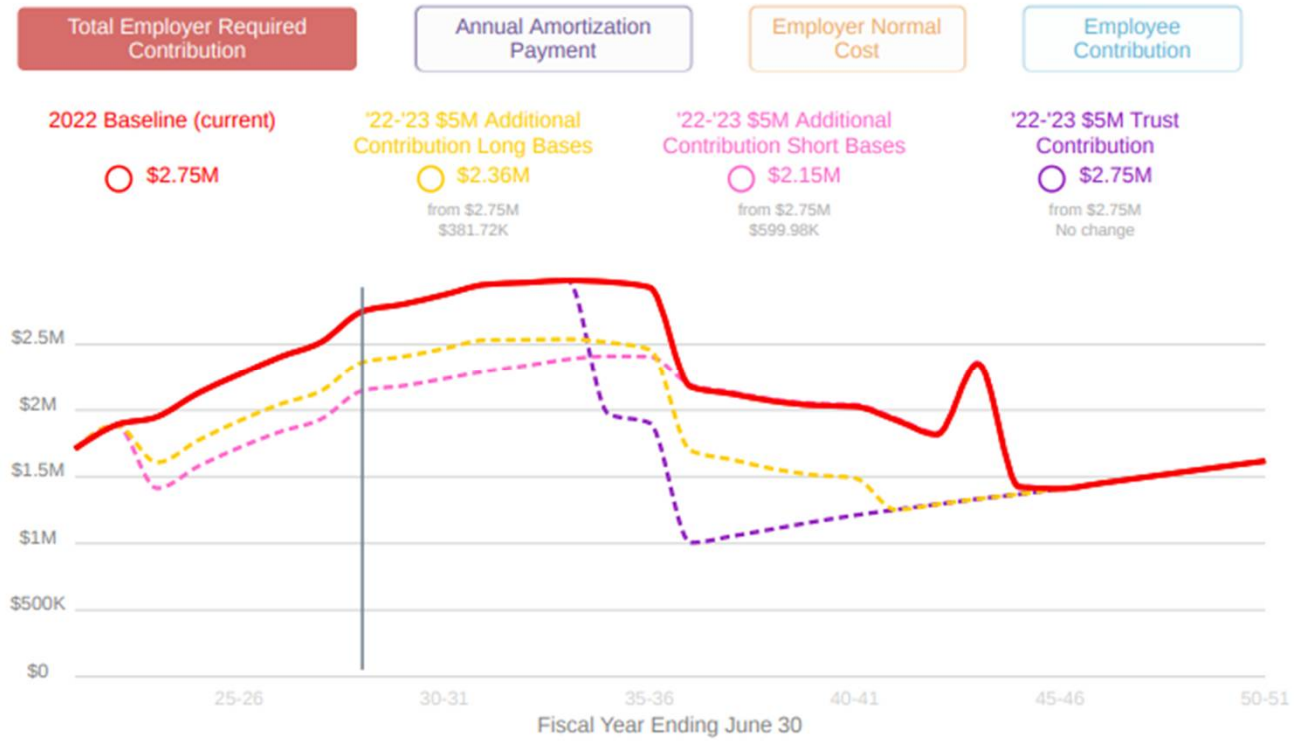
Unfunded Accrued Liability – Miscellaneous



Funded Percentage - Miscellaneous



Required Contributions - Miscellaneous



Comparison of Savings

Net Savings over 25 years

	2022 Baseline	Long Bases	Short Bases	Trust Contribution
Required Contribution	\$89,531,733	\$79,562,049	\$82,078,380	\$80,353,305
Additional Contribution	\$0	\$5,000,000	\$5,000,000	\$5,000,000
Total Contribution	\$89,531,733	\$84,562,049	\$87,078,380	\$85,353,305
Savings	N/A	\$4,969,684.61	\$2,453,352.89	\$4,178,428.53

Advantages of Each Option

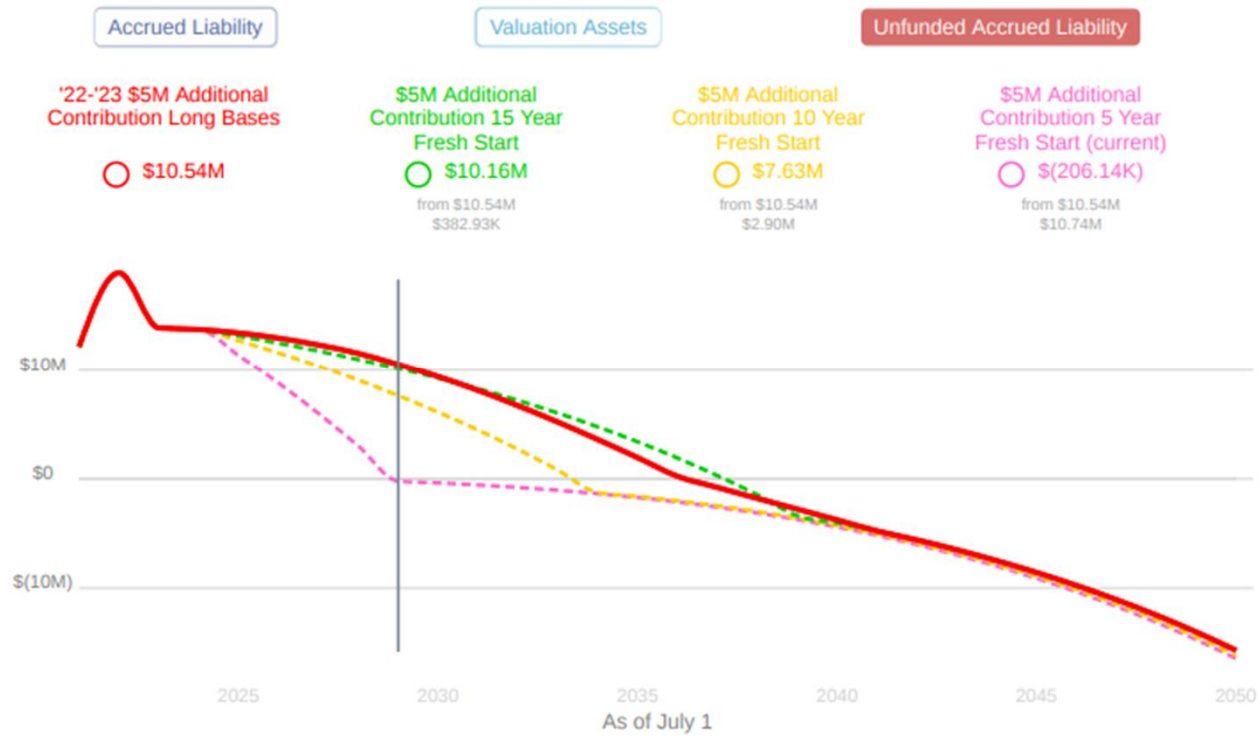
- Longest Base – Maximize Long-Term Savings
- Shortest Base – Largest Short-Term Contribution Reduction
- 115 Trust – Maximize Budget Flexibility

Fresh Starts

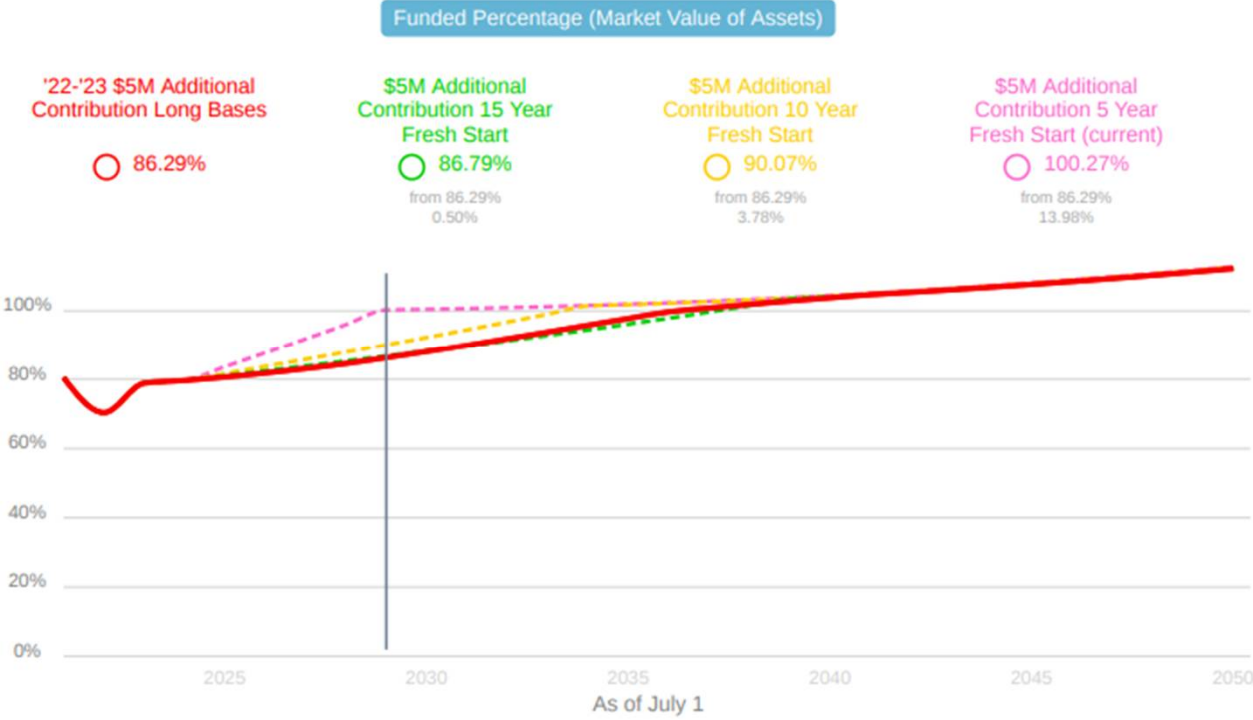
Fresh Start

- Analysis assumes Additional \$5 million contribution was made
- Fresh Start can be actual or virtual
- Options shown
 - 15 year
 - 10 year
 - 5 year

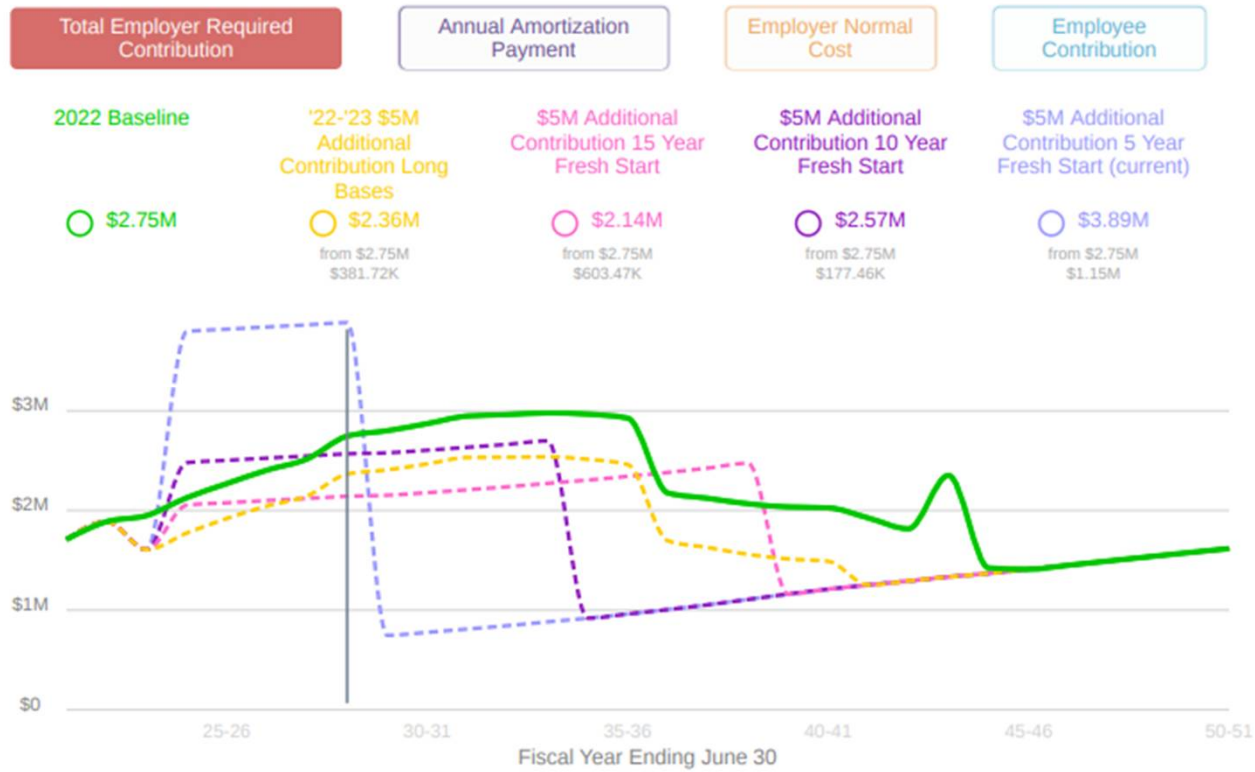
Unfunded Accrued Liability – Miscellaneous



Funded Percentage – Miscellaneous



Required Contributions – Miscellaneous



Comparison of Savings

Net Savings over 25 Years

	No Fresh Start	15 Year Fresh Start	10 Year Fresh Start	5 Year Fresh Start
Required Contribution	\$79,562,049	\$79,818,516	\$77,196,474	\$74,701,267
Additional Contribution	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Total Contribution	\$84,562,049	\$84,818,516	\$82,196,474	\$79,701,267
Savings	N/A	-\$256,468	\$2,365,575	\$4,860,781

Recommendations

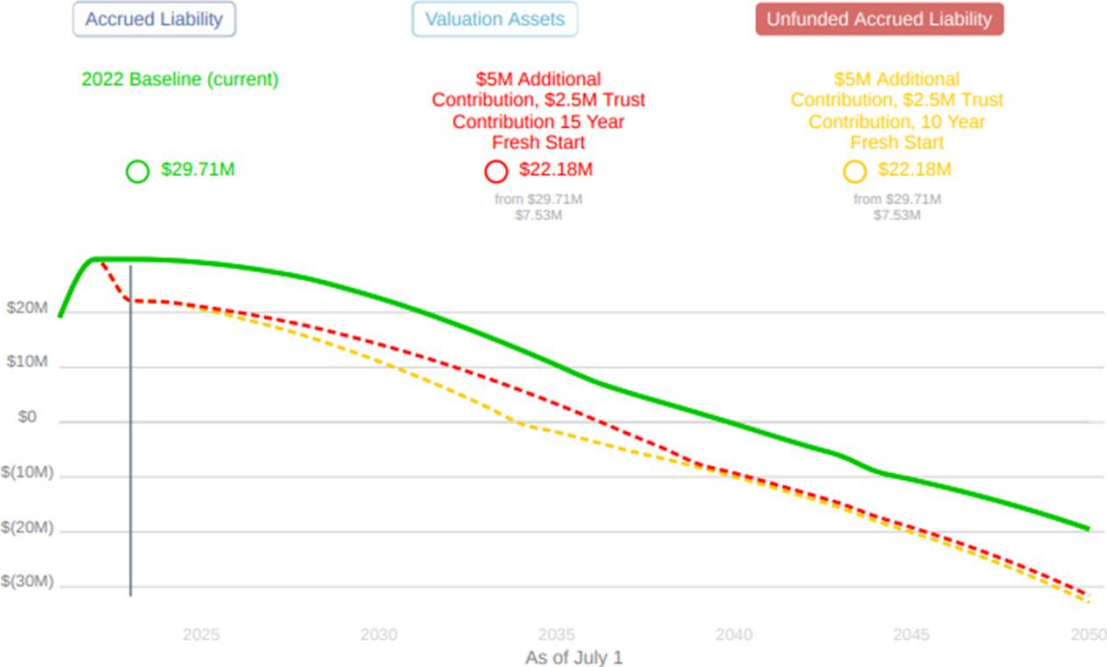
Staff Recommendation

- Make \$7.5 Million Additional Contribution
 - \$5.0 Million to CalPERS
 - Paying off Longest Amortization Base to Miscellaneous Plan
 - \$2.5 Million to Section 115 Trust
 - For our projections, we assumed the funds be used as a Rainy Day fund and would remain in the Trust throughout projection
- Make Actual 15-Year Fresh Start with CalPERS
- Do a Virtual 10-Year Fresh Start
 - Attempt to make payments at the higher level

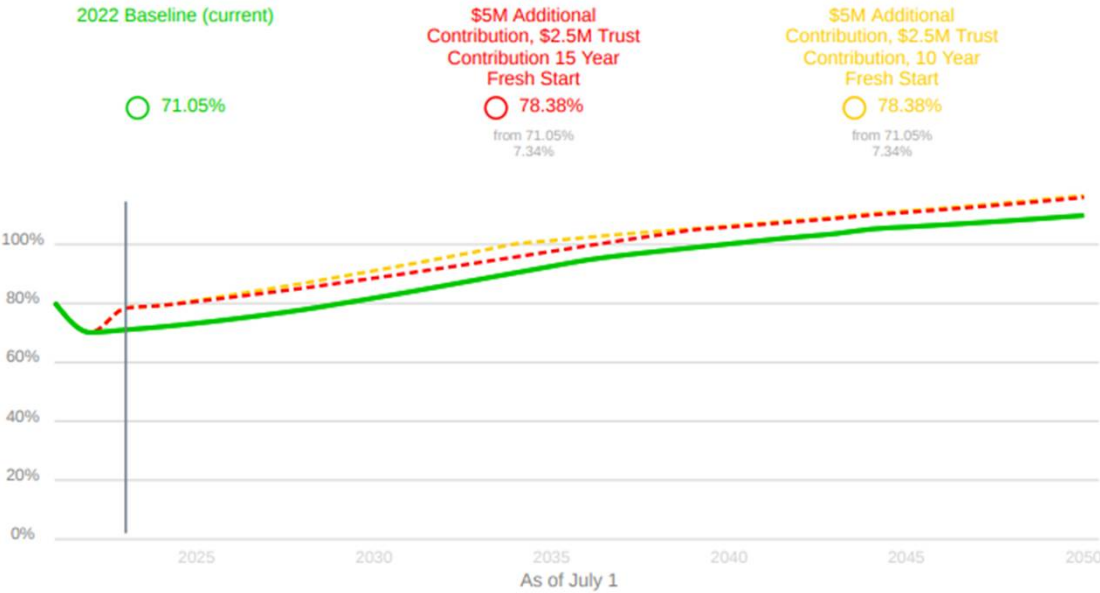
Graphs of Recommendation versus No Action

- 3 lines
 - No action
 - \$7.5 Million one time (see previous page) and 15-year fresh start
 - \$7.5 Million one time (see previous page) and 10-year fresh start
- 3 graphs
 - UAL
 - Funded Percentage
 - Required Contribution

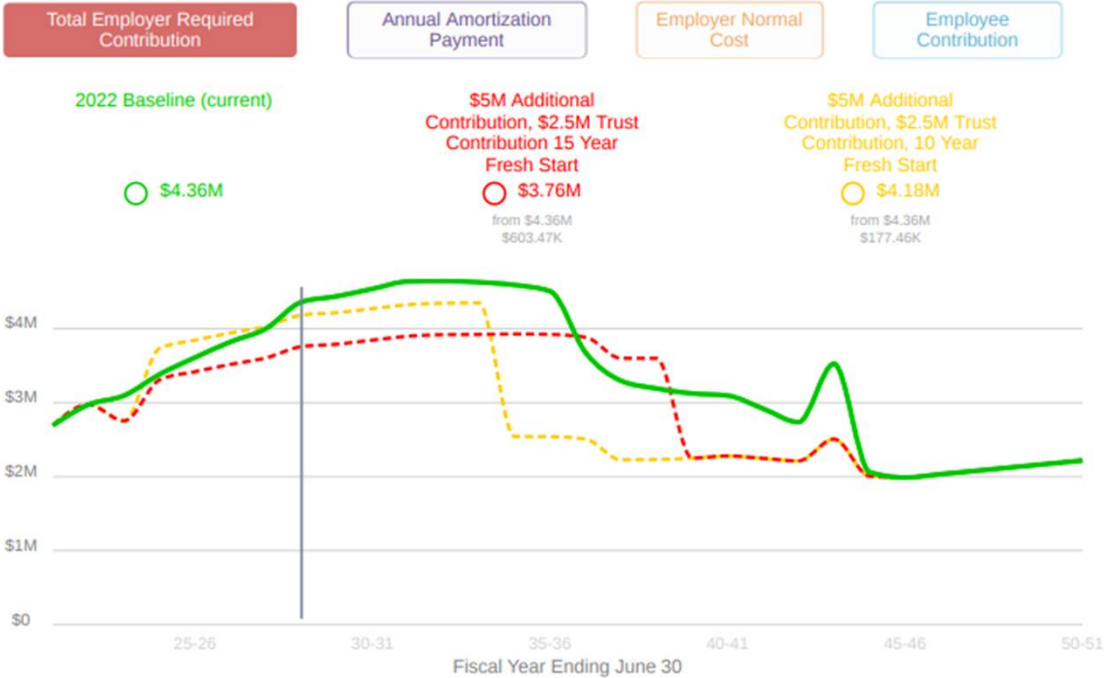
Unfunded Accrued Liability – All Plans



Funded Percentage – All Plans



Required Contributions – All Plans





Disclaimer

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