



Long-Term Liabilities Update – CalPERS and Other Postemployment Benefits (OPEB)

Presentation to the Folsom City Council – April 9, 2024



CalPERS Pension Liability

CalPERS Pensions - Background



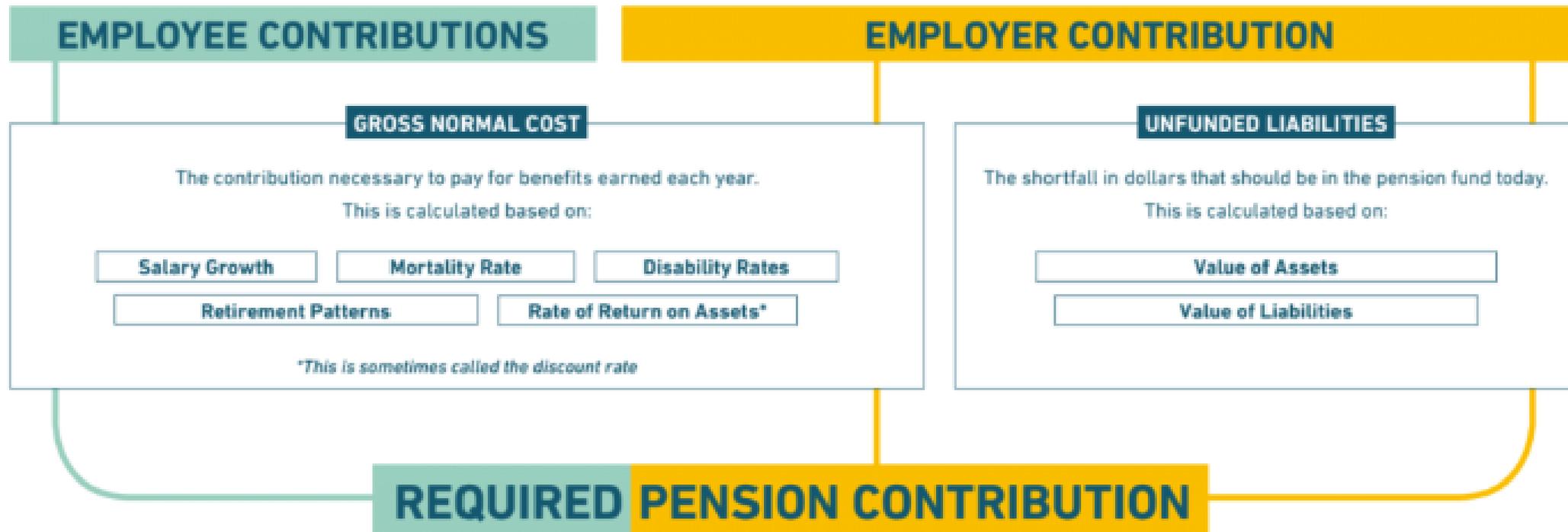
- The City of Folsom, like most cities, is primarily in the business of providing services, such as law enforcement, fire protection, parks services and other municipal services and it takes personnel to provide those services. Due to this service model, within the City's General Fund, employee salary and benefit costs account for over 70% of annual expenses.
- Payments to CalPERS are the largest benefit expense.
- Pension payments are a legal obligation; the City is obligated to pay for the benefits earned.
- In general, state law prohibits retroactive reductions in pension benefits. Under the "California Rule", pension benefits at the start of employment become a vested right and are protected by constitutional contract law.

CalPERS Pensions - Background



- Although CalPERS obligations are a significant expense, the cost is shared. Each employee contributes a required percentage (currently 8% - 12% of their salary) toward their retirement benefits.
- CalPERS performs an annual actuarial study that determines the City's required contribution to pay for these contracted benefits.
- The City's annual, actuarially determined contribution is a combination of (1) the "normal cost" for benefits earned during the same fiscal year, and (2) unfunded liability payments.

CalPERS Pensions - Background



Source: "Pension Basics" from the Equable Institute, equable.org

CalPERS Pensions – Unfunded Liability



An unfunded liability occurs when pension plans have a shortfall in the money that should be available to earn investment returns and pay benefits.

$$\begin{array}{r} \text{Accrued Liability} \\ \text{Less: Market Value of Assets} \\ \hline \text{Unfunded Accrued Liability (UAL)} \end{array}$$

$$\text{Funded Ratio} = \text{Market Value of Assets} / \text{Accrued Liability}$$

A funded ratio of 100% (UAL of \$0) implies that the funding of the plan is on target and that future contributions equal to the normal cost of the active plan members will be sufficient to fully fund all retirement benefits if future experience matches the actuarial assumptions. A funded ratio of less than 100% (positive UAL) implies that in addition to normal costs, payments toward the UAL will be required.

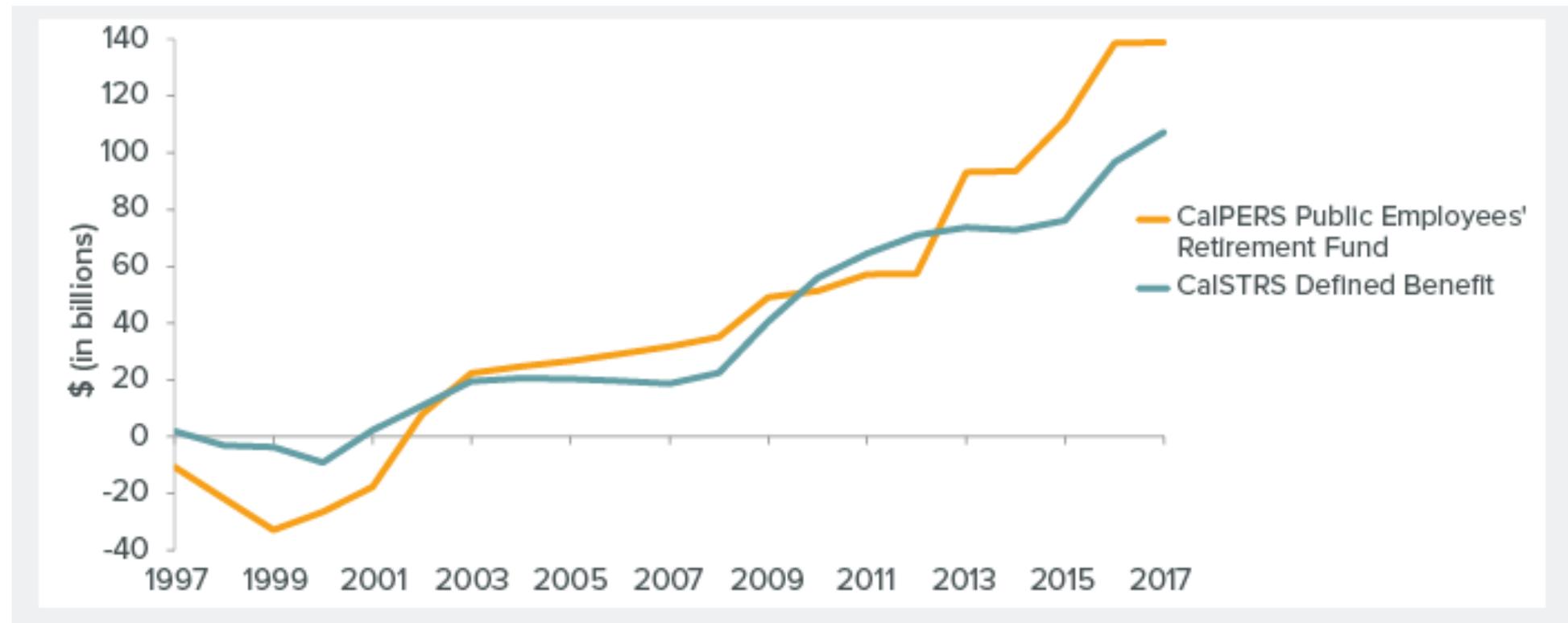
Plans with a funded ratio greater than 100% have a negative UAL (or surplus) but are required under current law to continue contributing the normal cost in most cases, preserving the surplus for future contingencies.

Factors that contributed to CalPERS unfunded liability:

1. Past enhanced benefits (1999-2000)
2. CalPERS investment losses
3. Automatic Cost of Living Adjustments for retirees
4. Past CalPERS contribution policy (Post Great Recession)
5. Demographics

Source: League of California Cities Retirement System Sustainability Study and Findings (2018)

CalPERS Pension System Total Unfunded Liability



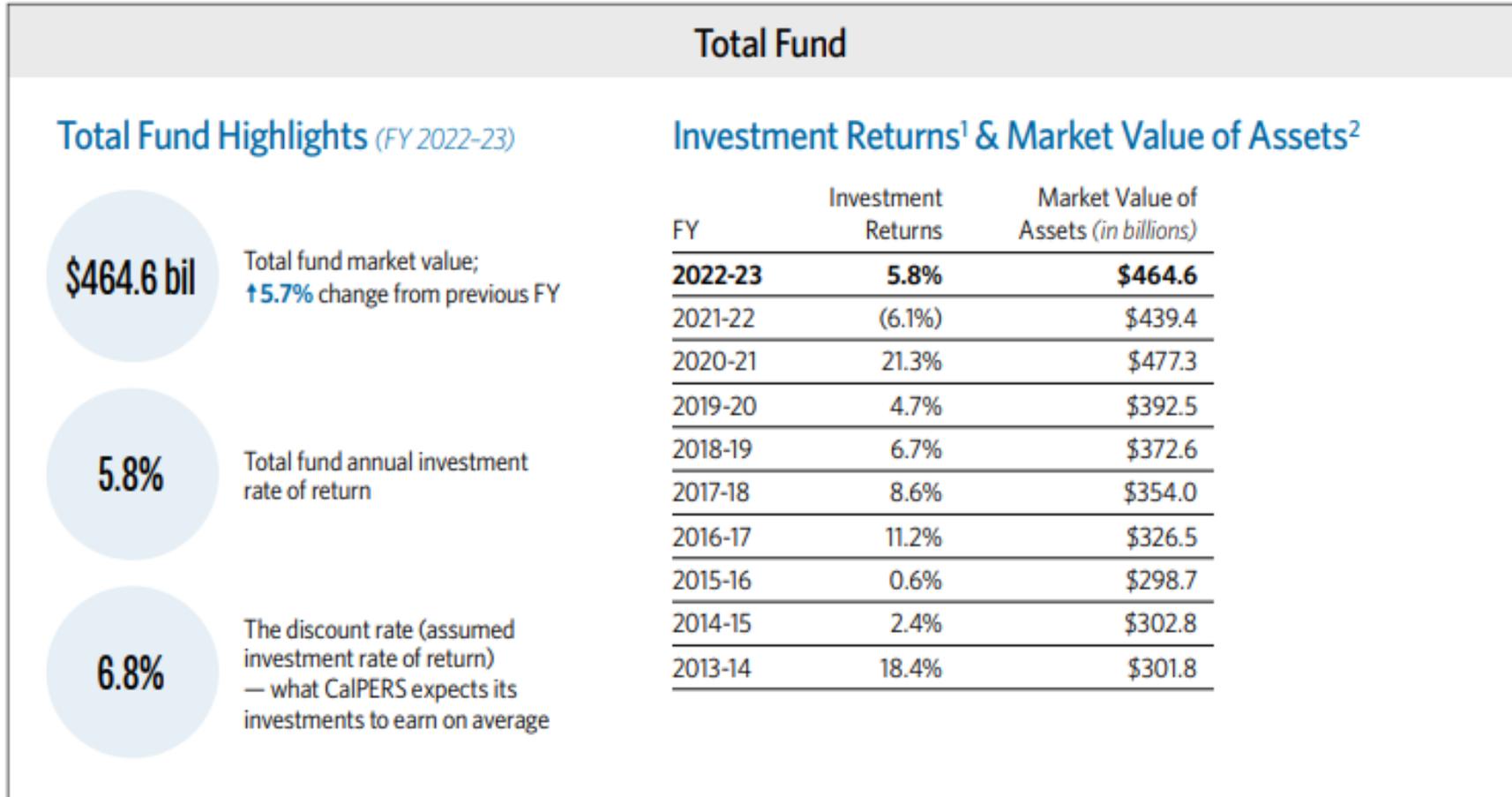
Source: Public Policy Institute of California, ppic.org

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CalPERS Recent Investment Returns



Source: CalPERS Facts at a Glance publication for FY 2022–23

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Source: League of California Cities Retirement System Sustainability Study and Findings (2018)

Addressing Pension Costs



Folsom and its employees have been proactive in addressing pension costs:

- Pension formula reductions required by the California Public Employees' Pension Reform Act (PEPRA) have been implemented. The new formulas were implemented for all new employees hired on or after January 1, 2013:

Public Safety Employees: 2.7% @ age 57 (down from 3.0% at 50)

Miscellaneous Employees: 2.0% @ age 62 (down from 2.7% at 55)

- The City took pension reform a step further than required by PEPRA and reduced the pension benefits for employees new to the City of Folsom, but not new to CalPERS (were members of CalPERS prior to January 1, 2013). When they come to work for the City of Folsom, they receive a reduced benefit formula for their years working for the City:

Public Safety Employees: 2.0% @ age 50 (down from 3.0% at 50)

Miscellaneous Employees: 2.0% @ age 55 (down from 2.7% at 55)

Addressing Pension Costs

- As noted on the previous slide, the new formulas required by PEPRRA (and the City) are lower than for members under the “classic” formulas. Over time, these changes will help to reduce the city’s overall pension cost as employees under the new formula begin to make up the majority of the employee groups.
- However, the City’s total UAL is affected by actuarial assumptions and the performance of the financial markets. If in any year CalPERS does not earn at least 6.8% (the current discount rate) on their investments, the City will see an increase in the UAL and an increase in required contributions to make up for that lower rate of return.

Comparing the Cost of Benefit Groups



Benefit Group	Normal Cost as % of Payroll	Total Active Employees (per CalPERS)	
	FY 23/24	FY 22/23	FY 23/24
Miscellaneous Classic	21.99%	120	110
Miscellaneous Second Level	21.60%	28	25
Miscellaneous PEPRA	16.17%	144	152
Safety Fire Classic	31.23%	33	31
Safety Fire Second Level	25.95%	7	6
Safety Fire PEPRA	22.91%	32	36
Safety Police Classic	36.40%	41	34
Safety Police Second Level	33.46%	5	6
Safety Police PEPRA	27.46%	30	33

Source: CalPERS Annual Valuation Reports for the City of Folsom Miscellaneous and Safety Plans as of June 30, 2022

Annual Pension Contributions



	Actual FY 22-23	Budgeted FY 23-24
Misc Plan Pension Contributions	\$ 9,849,013	\$ 10,872,272
Safety Plan Pension Contributions	9,893,616	10,581,541
Total	\$ 19,742,629	\$ 21,453,813
General Fund	\$ 16,194,561	\$ 17,871,234

Unfunded Liability – Miscellaneous Plan



	June 30, 2021	June 30, 2022*
Accrued Liability	\$ 272,234,237	\$ 286,119,485
Market Value of Assets	198,342,627	181,961,779
Unfunded Liability	<u>\$ 73,891,610</u>	<u>\$ 104,157,706</u>
Funded Ratio	72.9%	63.6%

* Date of most recent actuarial valuation

Source: CalPERS Annual Valuation Report for the City of Folsom Miscellaneous Plan as of June 30, 2022

Unfunded Liability – Safety Plan



	June 30, 2021	June 30, 2022*
Accrued Liability	\$ 244,633,108	\$ 258,253,986
Market Value of Assets	171,264,148	158,314,315
Unfunded Liability	<u>\$ 73,368,960</u>	<u>\$ 99,939,671</u>
Funded Ratio	70.0%	61.3%

* Date of most recent actuarial valuation

Source: CalPERS Annual Valuation Report for the City of Folsom Safety Plan as of June 30, 2022

CalPERS Pension Rate and Contribution Forecast



Year	Miscellaneous		Safety		Total
	Contribution	Rate	Contribution	Rate	
FY 23-24	\$10.8M	43%	\$10.6M	56%	\$21.4M
FY 24-25	\$11.4M	45%	\$11.2M	60%	\$22.6M
FY 25-26	\$11.7M	45%	\$12.1M	63%	\$23.8M
FY 26-27	\$12.3M	46%	\$12.7M	64%	\$25.0M
FY 27-28	\$12.7M	46%	\$13.1M	64%	\$25.8M
FY 28-29	\$13.7M	48%	\$13.9M	66%	\$27.6M
FY 29-30	\$13.9M	48%	\$14.1M	65%	\$28.0M

Source: CalPERS Employer Pension Outlook Overview report

Economic Assumptions

Discount Rate	6.80%
Payroll Growth	2.80%
Inflation Rate (used to predict COLA adjustments for CalPERS retirees)	2.30%

Source: CalPERS Employer Pension Outlook Overview report and CalPERS Actuarial Reports

The Retirement System Sustainability Study performed by the League of California Cities noted that “Cities have few options to address growing pension liabilities.” The study discussed the limited options allowed under current law:

1. Develop and implement a plan to pay down the City’s Unfunded Accrued Liability (UAL)
2. Consider local ballot measures to enhance revenues
3. Create a Pension Rate Stabilization Program (PRSP) – 115 Trust Fund
4. Change service delivery methods and levels of certain public services
5. Use procedures and transparent bargaining to increase employee pension contributions
6. Issue a pension obligation bond (POB) - (financial experts including the Government Finance Officers Association (GFOA) strongly discourage local agencies from issuing POBs)

Source: League of California Cities Retirement System Sustainability Study and Findings (2018)

Other Postemployment Benefits (OPEB)

OPEB - Background

- As a savings measure, the City eliminated retiree health benefit contributions for new employees hired after May 8, 2007.
- Established an OPEB Trust Fund in 2008 to set aside resources to help fund the City's OPEB obligation.
- The City has been contributing to the OPEB Trust Fund regularly.
- Money in this trust is irrevocably committed for retiree health benefits.
- Every two years, the City hires an actuary to perform an actuarial evaluation of the City's OPEB liability and calculate the actuarially determined contribution.

OPEB – Plan Participants

Benefit Group	As of June 30, 2021	As of June 30, 2023
Active Participants	159	110
Retired Participants	372	407

Source: Nyhart Actuarial Report for the City of Folsom for Fiscal Year Ended June 30, 2023

OPEB – Unfunded Liability



	June 30, 2022	June 30, 2023
Accrued Liability	\$ 96,507,729	\$ 100,430,790
Market Value of Assets	7,850,344	8,977,594
Unfunded Liability	<u>\$ 88,657,385</u>	<u>\$ 91,453,196</u>
Funded Ratio	8.1%	8.9%

Source: Nyhart Actuarial Report for the City of Folsom for Fiscal Year Ended June 30, 2023

OPEB – Portfolio Performance

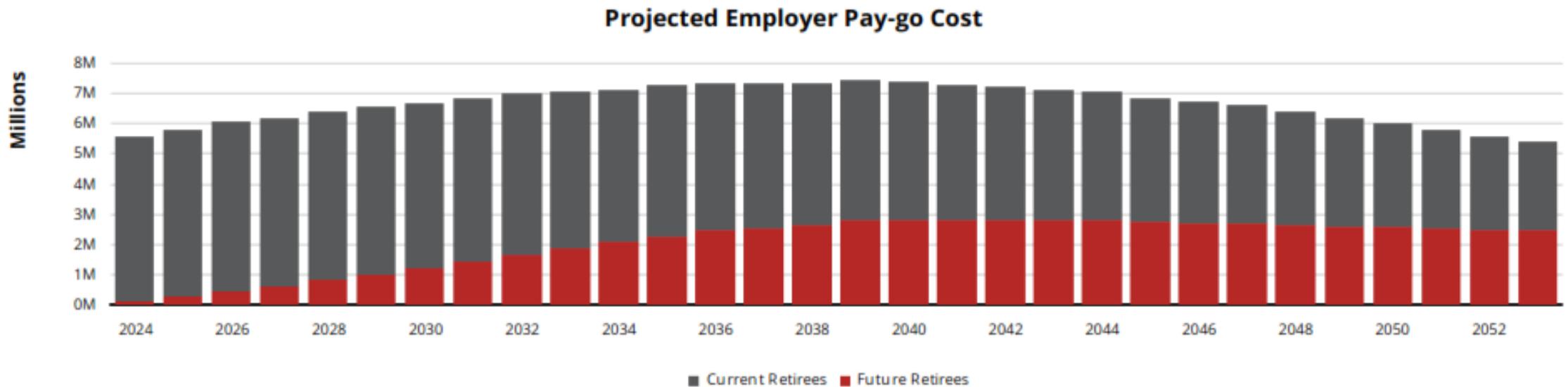


	2nd Quarter	Calendar Year to Date	Last 3 Years	Last 5 Years	Last 10 Years	Since Inception*
OPEB Trust	9.8%	15.2%	0.6%	6.5%	5.1%	5.5%
Benchmark	8.9%	14.7%	1.3%	6.6%	5.1%	4.9%

* Inception date: 5/31/2008

Source: Investment Trust Portfolio Performance Report prepared by Benefit Trust Company (BTC)

OPEB – Projected Future Costs



Source: Nyhart Actuarial Report for the City of Folsom for Fiscal Year Ended June 30, 2023

Online Resources



2018 League of Californian Cities Pension Survey:

<https://www.calcities.org/home/advocacy/policy-areas-and-committees/governance-transparency-and-labor-relations/retirement-system-sustainability>

CalPERS Facts at a Glance FY 2022-23

<https://www.calpers.ca.gov/docs/forms-publications/facts-investments.pdf>

CalPERS Experience Study, 2021 Report

<https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2021.pdf>

City of Folsom CalPERS Actuarial Report – Miscellaneous and Safety

<https://www.folsom.ca.us/government/finance/reports>

City of Folsom Actuarial Retiree Health Liability Reports

<https://www.folsom.ca.us/government/finance/reports>

QUESTIONS / COMMENTS