Unfunded Retirement Liabilities and Policy Discussion

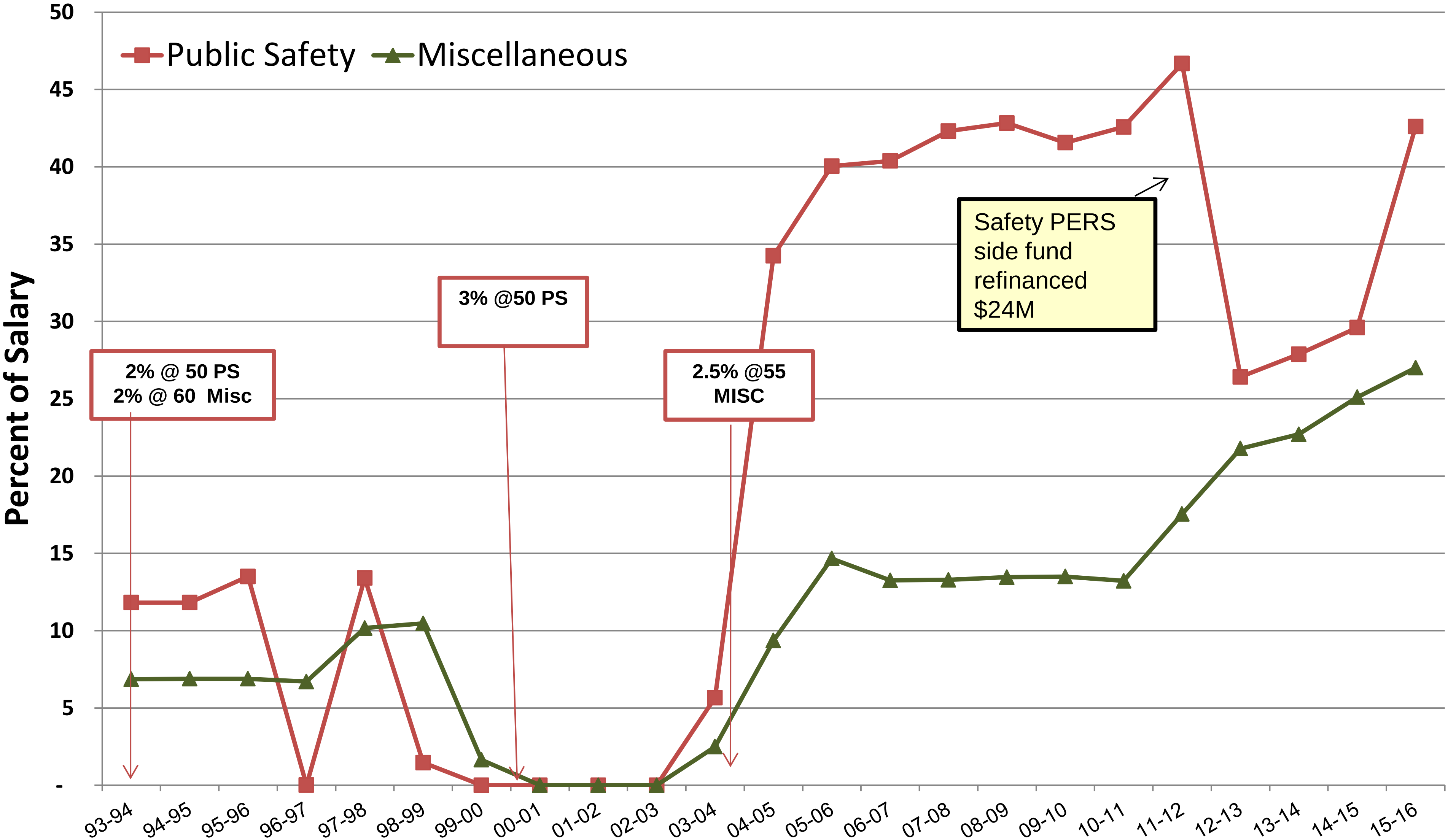
Finance Committee

June 16, 2015

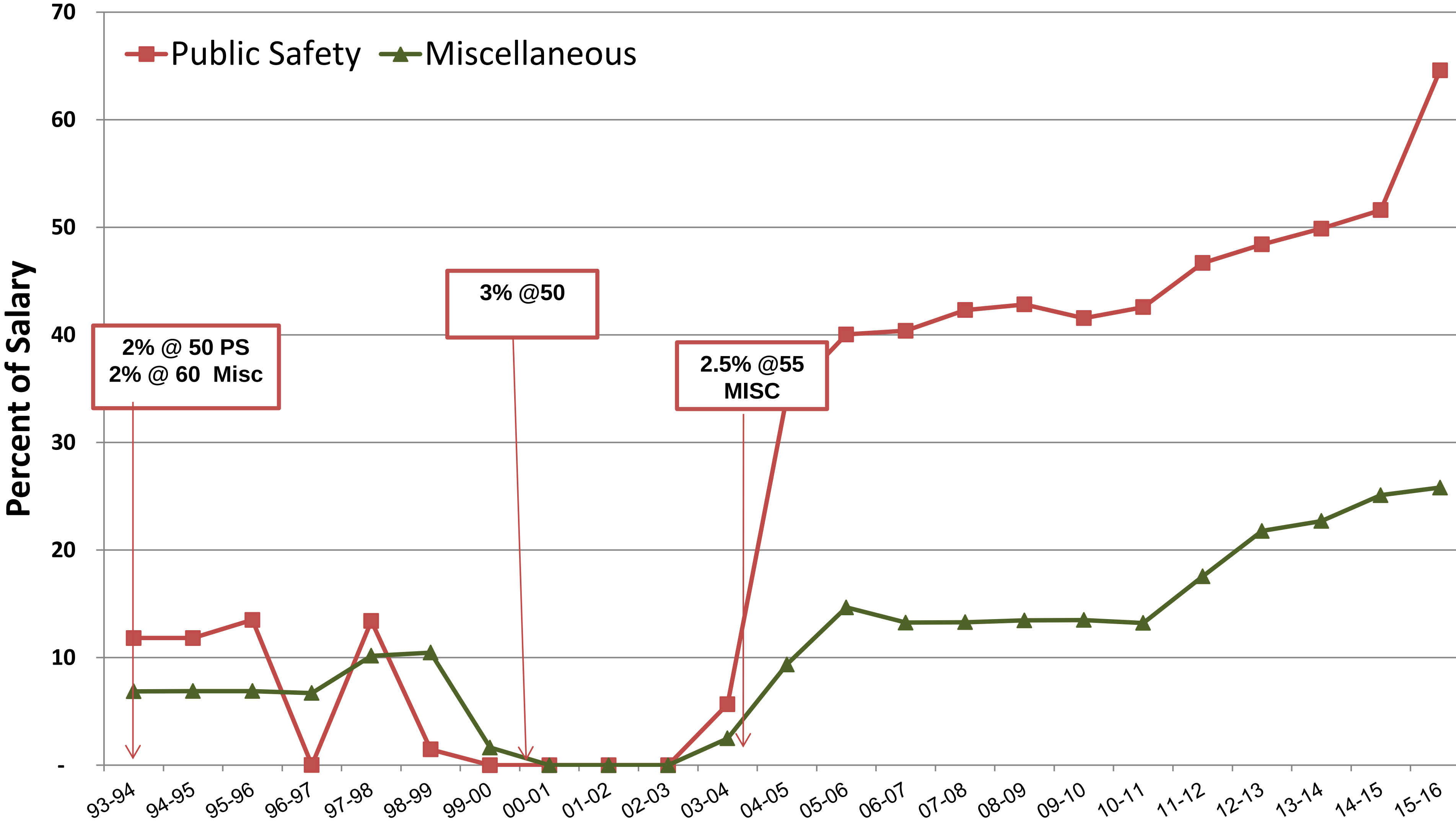
Unfundeded Retirement Liabilities
City Council Goal

- Place San Leandro on a firm foundation for long-term fiscal sustainability

Public Employees Retirement System (PERS) Rates
Historical Data, 1993-94 Thru 2015-16



Public Employees Retirement System Effective Rates
Historical Data, 1993-94 Thru 2015-16



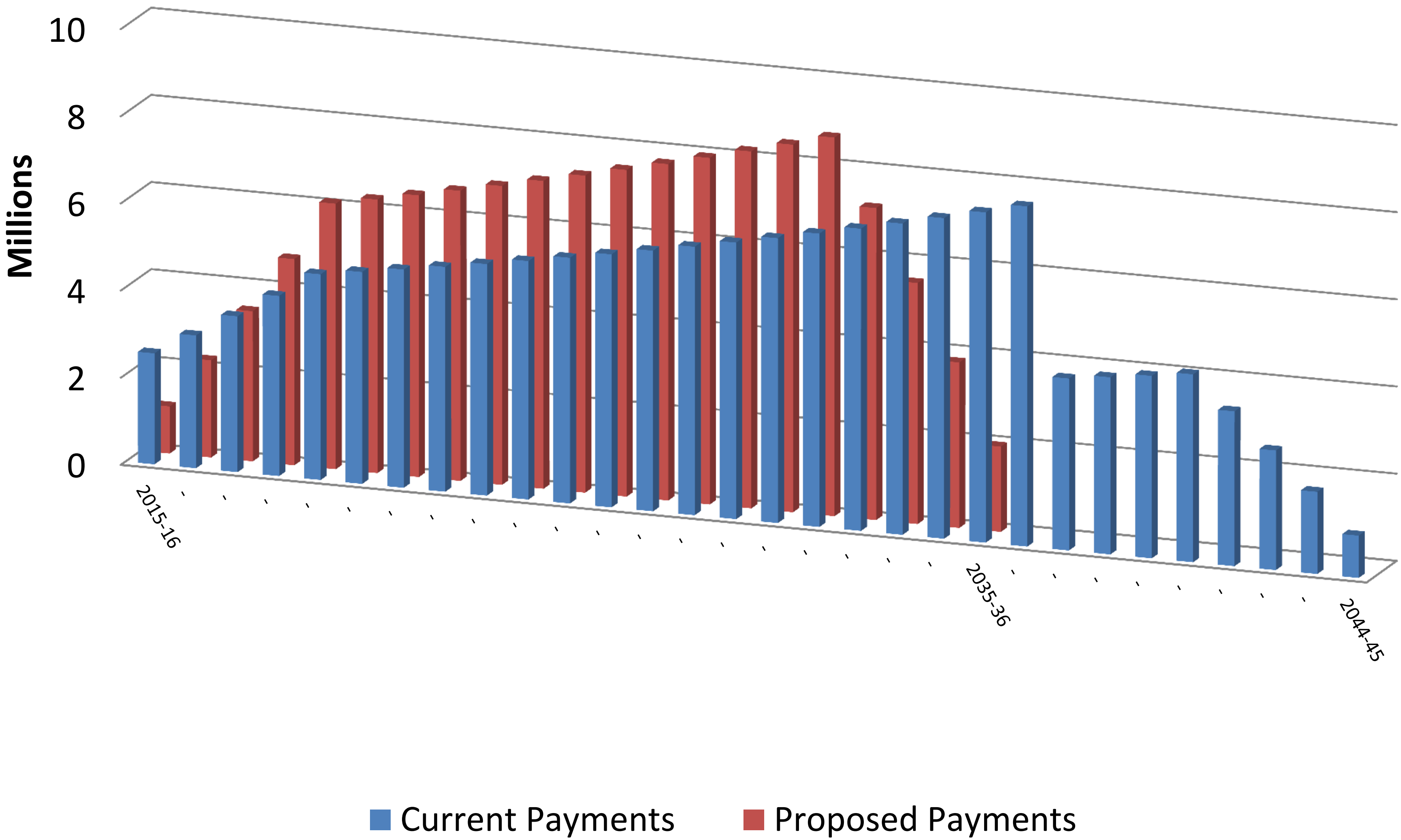
New Pension Challenge

- March 2012 – POB paid unfunded liability
- Public Safety pool comprised of Police and Fire
- May 2014 – PERS announced “pension surcharge” beginning in 2015-16
- Surcharge adds $1.15 million/year for the City’s Public Safety Plan; a 44% increase in ARC
- Surcharge due to relatively high ratio (3:1) of retirees to active public safety participants
- One of 26 cities charged > $250,000 surcharge and San Leandro #1 dollar impact
- Numerous conversations with CalPERS Actuary Alan Milligan and his staff regarding hardship relief

Public Safety Pool Restructuring Option

- On May 19, 2015 CalPERS approved restructuring of CSL Pool; Finance Director provided testimony
- Requires lower payments in next 3 years; higher payments in years 4-15
- Assumes unfunded liability extinguished after 15 years instead of 30 years
- Assumes interest savings are $24.4 million using a 7.5% discount rate

Public Safety Pool
Structuring Options



New Pension Reporting
GASB 68

- New pension financial reporting requires governments providing defined benefit pensions to:
  1. Recognize long-term obligation as liabilities on balance sheet for the first time
  2. Measure annual pension benefit costs more comprehensively and comparably
  3. Enhance pension plans disclosures and required supplementary information
- GASB 68 implementation in 2014-15
- Financial reporting cost unfunded mandate

Post-Public Employees' Pension Reform Act Retirement Tiers

- **Miscellaneous (Non-sworn) SLCEA, SLMO, Confidential, and Unrepresented**:
- **CalPERS Formula**
- **Tier 1** – Hired prior to May 6, 2010
- 2.5% at 55 (2% early retirement at 50, 2.5% maximum benefit at 55)
- **Tier 2** – Hired May 6, 2010 through December 31, 2012
- 2% at 55 (1.426% early retirement at 50, 2.418% maximum benefit at 63)
- **Tier 3** – Hired January 1, 2013 and After
- 2% at 62 (1% early retirement at 52, 2.5% maximum benefit at 67)

Post-Public Employees’ Pension Reform Act Retirement Tiers (cont.)

- **Safety (Sworn), SLPMA, and SLPOA**:
- **CalPERS Formula**
- **Tier 1** – Prior to January 1, 2013
- 3% at 50 (no early retirement age, 3% maximum benefit at 50)
- **Tier 2** – January 1, 2013 and After
- 2.7% at 57 (2% early retirement at age 50, 2.7% maximum benefit at 57)

Unfunded Liabilities

	Description	% of ARC	2015-16	Overall
1	Miscellaneous unfunded CalPERS (ARC = $5.3M)	100%	$5.3M	$70.3M
2	Safety unfunded CalPERS (ARC = $3.1M)	100%	3.1M	53.1M
3	Miscellaneous/Safety unfunded OPEB (ARC = $1.4M)	125%	1.75M	14.6M
4	Fire department unfunded OPEB (ARC = $1.8M)	100%	1.8M	19.8M
	Total	103%	$11.95M	$157.8M

Funding Strategies

- POB financing saved $1.48 million on PV basis
- Budget forecast assumes increase in City's OPEB and PERS contributions
- Future new employees will have lower benefits due to Public Employees' Pension Reform Act of 2013 (PEPRA)
- City will continue payment of ARC for CalPERS and endeavor to pay ARC for OPEB
- Strengthening our revenue streams
- Future bargaining unit agreements to continue employee contributions toward CalPERS

Policy Discussion

- City Council directed minimum 100% ARC in budget
- Reserve 20% vs. 15% and use a portion to pay down unfunded liabilities
- Carryover usage – up to 50% (?) to apply to unfunded liability in net positive year
- Major property/other sales apply to 50% to unfunded liabilities
- Prioritization of unfunded liability debts (1-4)

Questions