

# Unfunded Retirement Liabilities and Policy Discussion



City Council  
September 21, 2015



# Unfunded Retirement Liabilities City Council Goal

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



# New Pension Reporting GASB 68

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- 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

# Unfunded Liabilities

	<u>Description</u>	<u>% of ARC</u>	<u>2015-16</u>	<u>Overall</u>
1	Miscellaneous unfunded CalPERS (ARC = \$5.3M)	100%	\$5.3M	\$67.8M
2	Safety unfunded CalPERS (ARC = \$3.1M)	100%	3.1M	48.3M
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
	<b>Total</b>	103%	\$11.95M	\$150.5M



# City & State Steps toward Unfunded Liabilities

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- Pension Obligation Bonds 2012
- Pension Tiers (PEPRA)
- Labor Contracts – all employees now pay into the pension system
- Full Annual Required Contribution, \$11.95 million in current year
- Medical retiree program is modest



# Post-Public Employees' Pension Reform Act Retirement Tiers

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- **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)



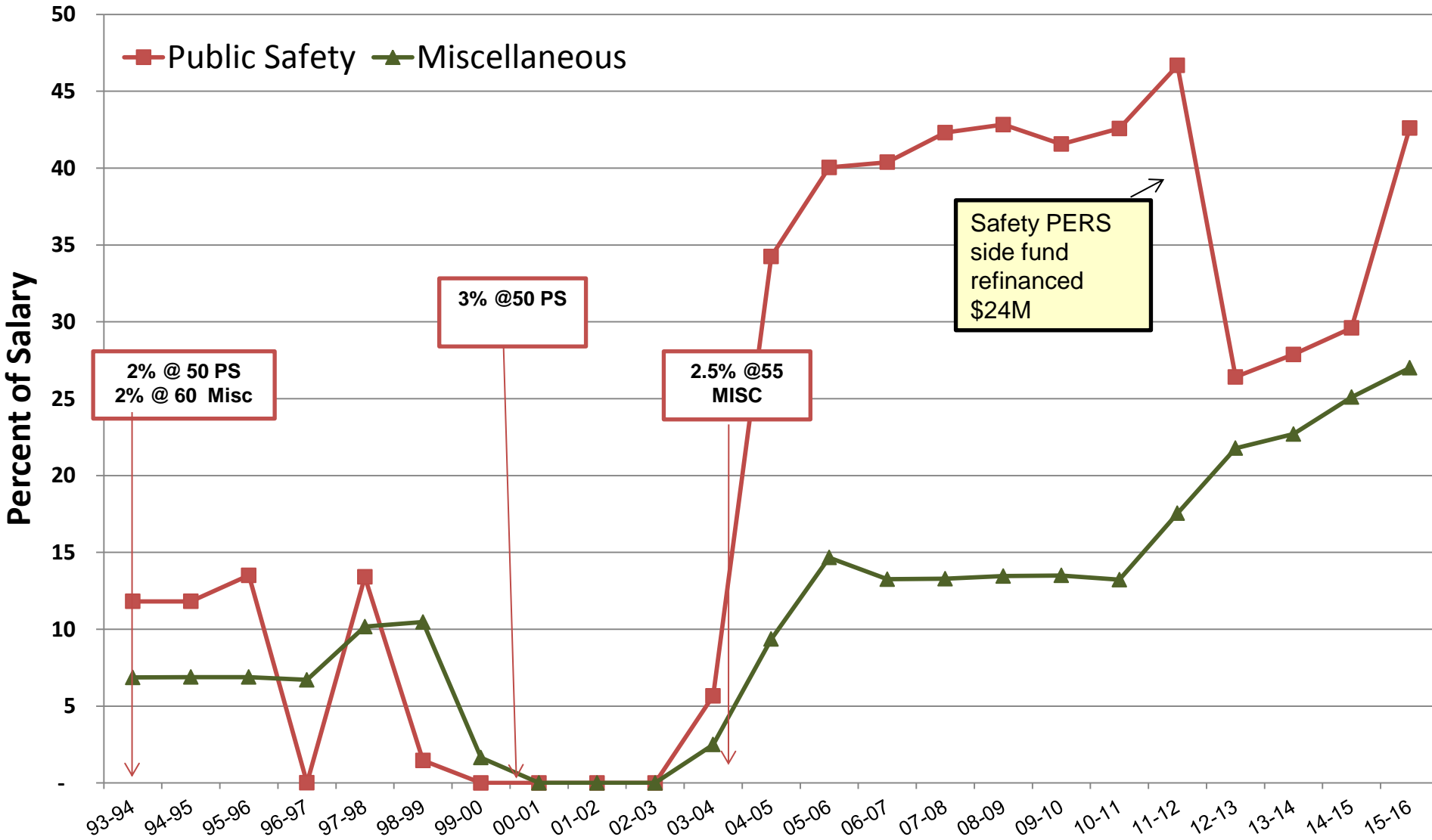
# Post-Public Employees' Pension Reform Act Retirement Tiers (cont.)

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- **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)



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

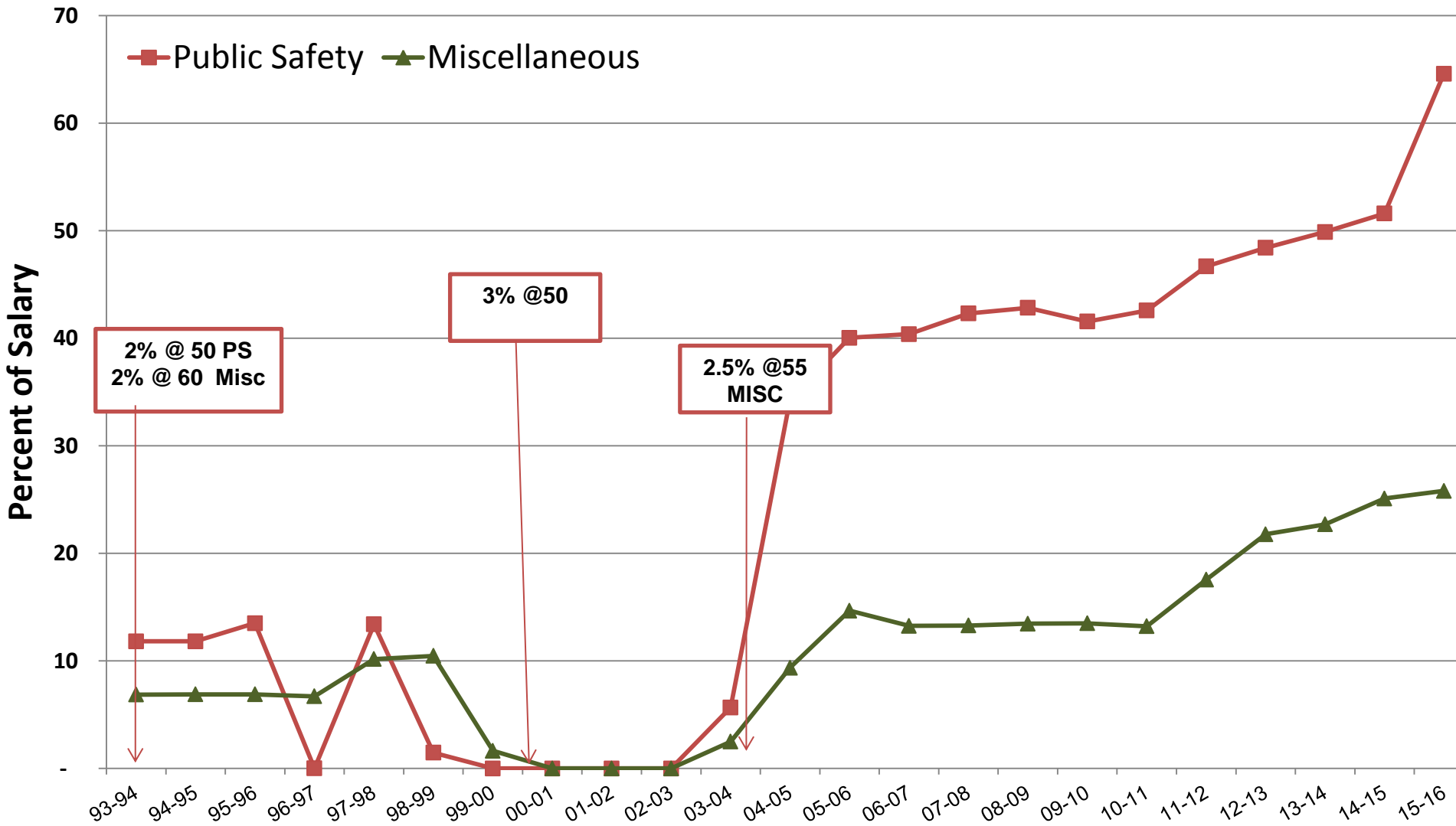






# Public Employees Retirement System Effective Rates

## Historical Data, 1993-94 Thru 2015-16





# New Pension Challenge

- March 2012 – Pension Obligation Bonds reduced unfunded liability
- Public Safety pool comprised of Police and Fire
- May 2014 – CalPERS announced “pension surcharge” beginning in 2015-16
- Surcharge adds \$1.15 million/year for the City’s Public Safety Plan; a 44% increase in Annual Required Contribution
- 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



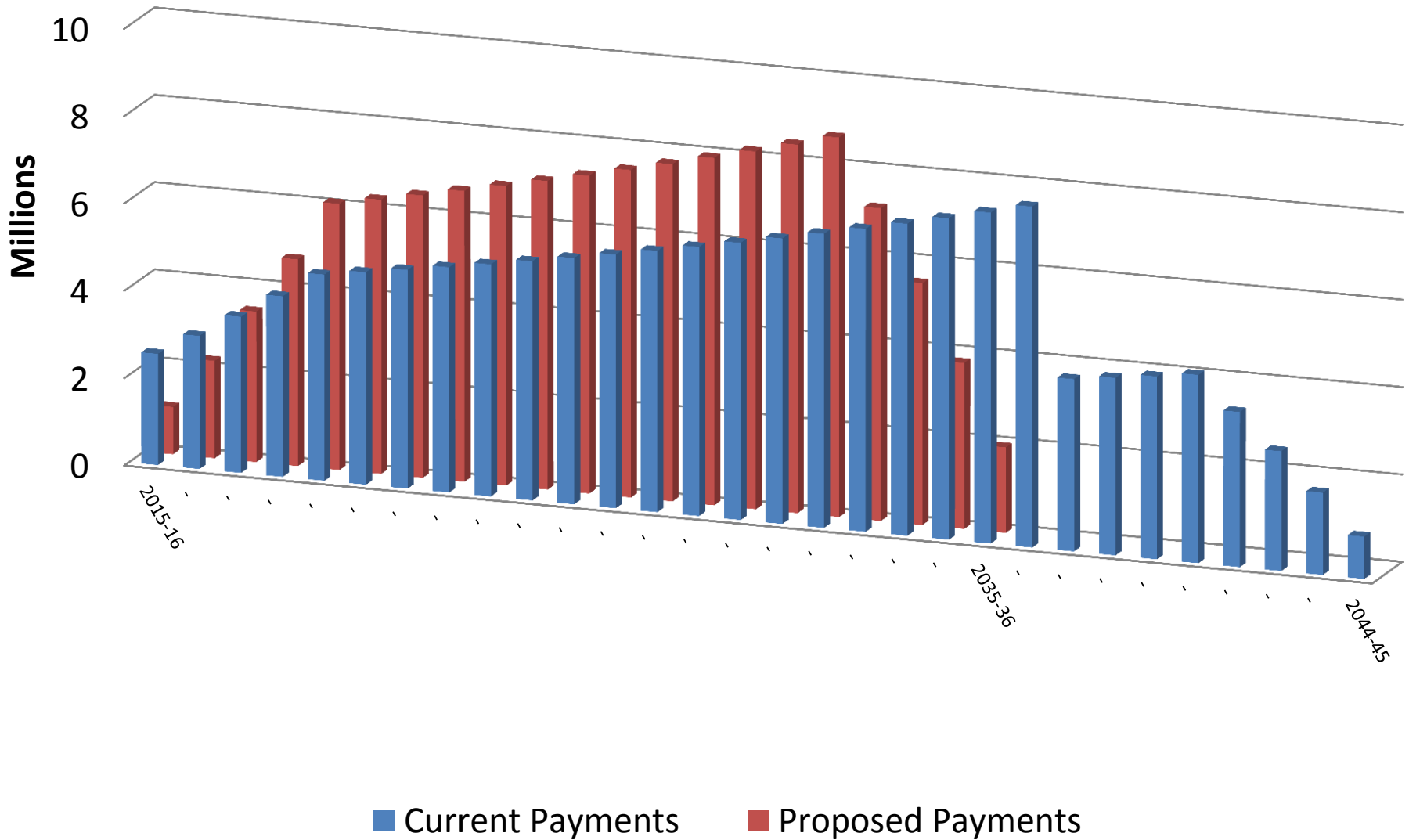
# Public Safety Pool Restructuring Option

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- On May 19, 2015 CalPERS approved restructuring of City of San Leandro Pool; Finance Director provided testimony
- Requires lower payments in next 3 years; higher payments in years 4-18
- Assumes unfunded liability extinguished after 21 years instead of 30 years
- Assumes interest savings are \$24.4 million using a 7.5% discount rate



# Public Safety Pool Structuring Options





# Meetings/Council Chronology

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- Council Retreats – January 2013, 2014, 2015
- Budget Hearing – March 2015
- Mayor’s State of the City Address – March 2015
- Finance Committee – June 2015



# Current Funding Strategies

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- Pension Obligation Bonds financing saved \$1.48 million on present value basis
- Budget forecast assumes increase in City's OPEB and CalPERS 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 pay ARC for OPEB
- Strengthening our revenue streams
- Future bargaining unit agreements to continue employee contributions toward CalPERS



# Proposed Prioritizing Unfunded Liability Liquidation (PULL)

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- City Council directed minimum 100% ARC in budget
- Reserve 16.7% instead of 20% 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. Miscellaneous Pension 2. Safety Pension 3. City OPEB 4. ACFD OPEB
- Goal – find \$5 million new funding over next 5 years

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# Questions