



Legislation Details (With Text)

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Date	Ver.	Action By	Action	Result
7/15/2019	1	City Council	Received and Filed	Pass

Staff Report for a Motion to Approve Proposal to Pre-pay CalPERS Annual Required Contribution

SUMMARY AND RECOMMENDATION:

It is recommended that the Finance Committee recommend to the City Council pre-payment of the Fiscal Year 2019-2020 obligation in the amount of \$11,881,893 for the City’s Unfunded Accrued Liability calculated by CalPERS.

BACKGROUND

The California Public Employees Retirement System (CalPERS) currently invoices the City monthly to collect pension cost for current and former City employees. Employer contributions are determined by periodic actuarial valuations that are based on the benefit formulas the City provides.

Prior to Fiscal Year 2015-16, CalPERS billed employers for all contributions, which included the normal cost plus the unfunded accrued liability (UAL) portion (*combined*) as a total percentage of payroll. As a result of the discount rate change approved by CalPERS on December 21, 2016, employers are now required to pay a percentage of payroll for the normal cost portion and a monthly dollar amount for the unfunded liability portion. CalPERS also provided an option of prepaying the UAL portion annually as opposed to monthly to reduce the amount of interest paid by jurisdictions annually. The discount rate is the long-term interest rate used to fund future pension benefits and it is also known as the assumed rate of return because it is what CalPERS expects its investments to earn during the fiscal year.

The annual required contribution total is the sum of the plan's employer normal cost (NC) rate (*expressed as a percentage of payroll*) plus the employer UAL contribution amount (*billed monthly*). Only the UAL portion of the employer contribution can be prepaid (*which must be paid in full no later than July 31*). The NC rate represents the annual cost of service accrual for the upcoming fiscal year, for active employees. The UAL is the amortized dollar amount needed to

fund past service credit earned (or accrued) for members who are currently receiving benefits, and for members entitled to deferred benefits, as of the valuation date. The City's annual NC rate for Fiscal Year 2019-20 is 10.4% of payroll for miscellaneous and 22.3% of payroll for safety employees. The total annual UAL payment for Fiscal Year 2019-20 is \$12.3 million if paid monthly or \$11.9 million paid as a prepayment. The City will benefit from paying the UAL portion as a prepayment annually as opposed to monthly by saving nearly \$425,000 for Fiscal Year 2019-20.

The Finance Department is recommending the City pay the UAL as a prepayment annually instead of monthly which will result in a total savings amount of \$423,182 in interest for the 2019-20 contribution year.

FISCAL IMPACT

CalPERS requires an annual contribution for FY 2019-20 in a total amount of \$17.6 million. The pre-payment savings will reduce this contribution to \$17.2 million.

BUDGET AUTHORITY

The FY 2019-20 Budget was adopted by Council on June 3, 2019 and provides the necessary payment to CalPERS.

ATTACHMENT

None

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