



## Legislation Text

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**File #:** 18-353, **Version:** 1

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### Proposal to Pre-Pay CalPERS annual required contribution

#### **SUMMARY AND RECOMMENDATIONS**

It is recommended that the Finance Committee direct staff to pre-pay the Fiscal Year 2018- 2019 obligation in the amount of \$10,000,375 for the City's Unfunded Accrued Liability calculated by CalPERS, which will save nearly \$400,000.

#### **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 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's 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 in dollars*). 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 2018-19 is 9.9% for miscellaneous and 22.3% for safety employees. The total annual UAL payment for fiscal year 2018-19 is \$10.4 million if paid monthly or \$10 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 \$400,000 for fiscal year 2018-19.

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 \$394,826 in interest for the 2018-19 contribution year.

#### **FISCAL IMPACT**

CalPERS requires an annual contribution for FY 2018-19 in a total amount of \$15.2 million. The pre-payment savings will reduce this contribution to \$14.8 million.

#### **BUDGET AUTHORITY**

The FY 2018-19 Budget was adopted by Council on June 4, 2018 and provides the necessary payment to CalPERS.

#### **ATTACHMENT**

None

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