

CITY OF BERKELEY



Pension and OPEB Funding Study

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May 23, 2023

Agenda

- OPEB
- OPEB Funding Recommendation
- CalPERS
- CalPERS Funding Recommendation
- Summary



OPEB



May 23, 2023



Definitions

- OPEB: Other (than pension) Post Employment Benefits: Medical benefits paid to retirees
 - No legal requirement to provide OPEB
 - Depends on bargaining agreements
 - Unlike pensions, could be eliminated for future hires
 - Depending on bargaining agreements, could be changed for current employees/retirees



Definitions

- Normal Cost (NC): value of benefits earned by employees in the coming year
- Actuarial Accrued Liability (AAL): value of benefits earned to date
- Unfunded Actuarial Accrued Liability (UAL):
AAL minus Assets
- Discount Rate (DR): Rate used to calculate present value of future benefits.
 - Based on expected rate of return on invested assets.
 - Higher rate => lower present value



Definitions

- Actuarially Determined Contribution (ADC): Full Prefunding:
 - Normal Cost plus
 - Amortization (payment over time) of UAAL

- Why is there a UAAL?
 - OPEB was not fully funded in the past
 - Cost of benefits being earned every year should have been paid since plan inception
 - Cost of benefits being earned is currently \$8 million/year
 - Things did not always happen as expected



OPEB Funding Study Assumptions

- Projection assumptions for study
 - Current investment policy: 3%/year future returns
 - Full prefunding = normal cost + 20 year amortization of unfunded actuarial accrued liability
 - No change in number of active employees
- Note: Investing funds for the long term should provide higher returns, on average, and reduce needed City contributions.



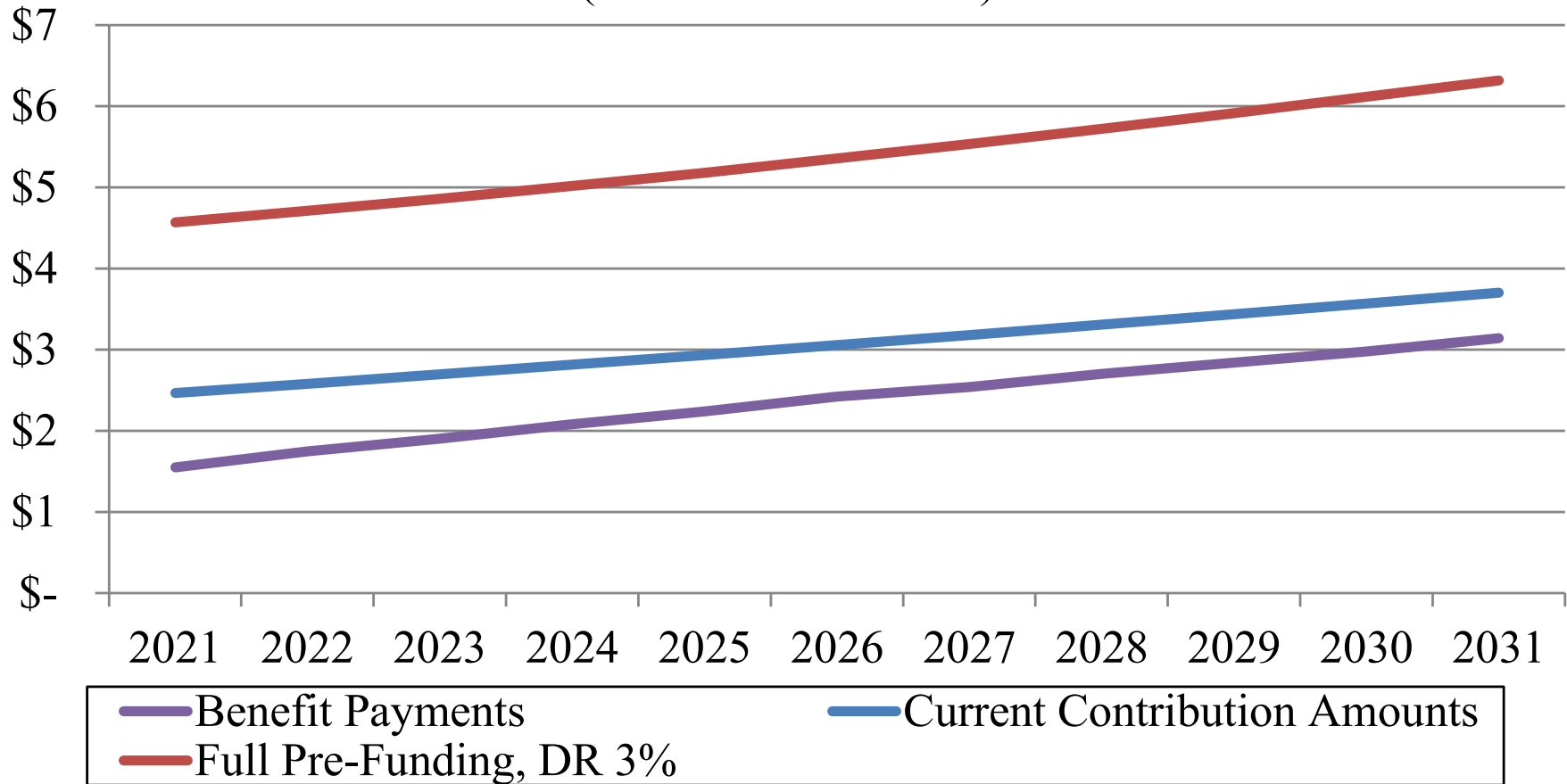
OPEB Benefit Summary

	Miscellaneous	Fire	PERIP	Police
Benefit	Up to cap	Up to cap	Kaiser 2-party premium amount	Up to cap
Cap depends on	Retirement date, Bargaining Unit, Coverage	Retirees after 1997 only	Retirement before September 2012	Retirement after September 2012
100% of Cap	20 years	25 years	N/A	20 years
Cap Increases	Kaiser premium increases, up to 4.5%/Year	4.5% per year	No limit	Kaiser premium increases, up to 6%/Year
Current Trust Contributions	% of payroll; in MOUs	About 1/3 of recommended contribution	Retiree premium amount	About 8% of recommended contribution



OPEB - Miscellaneous

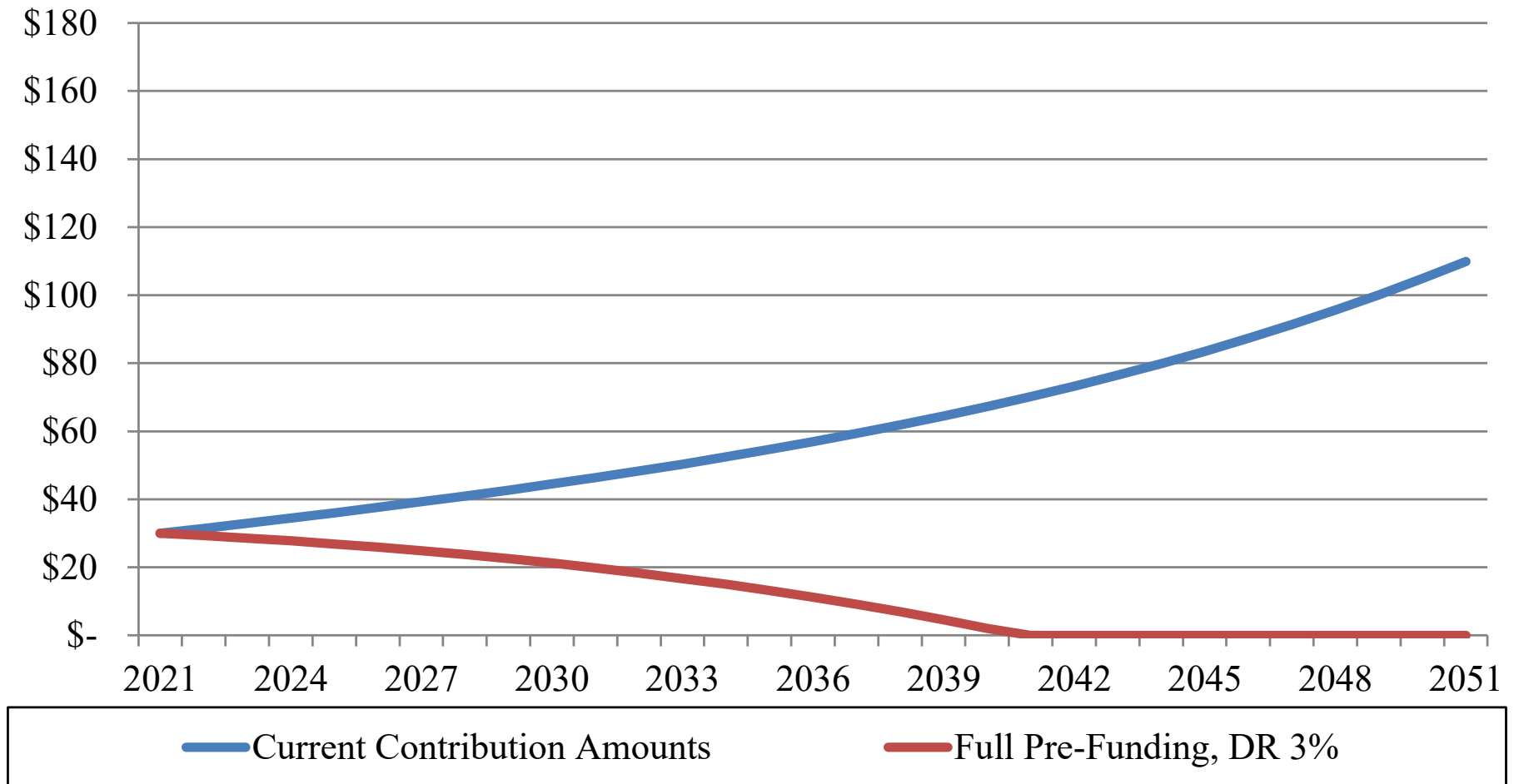
Contribution (Amounts in millions)



OPEB - Miscellaneous

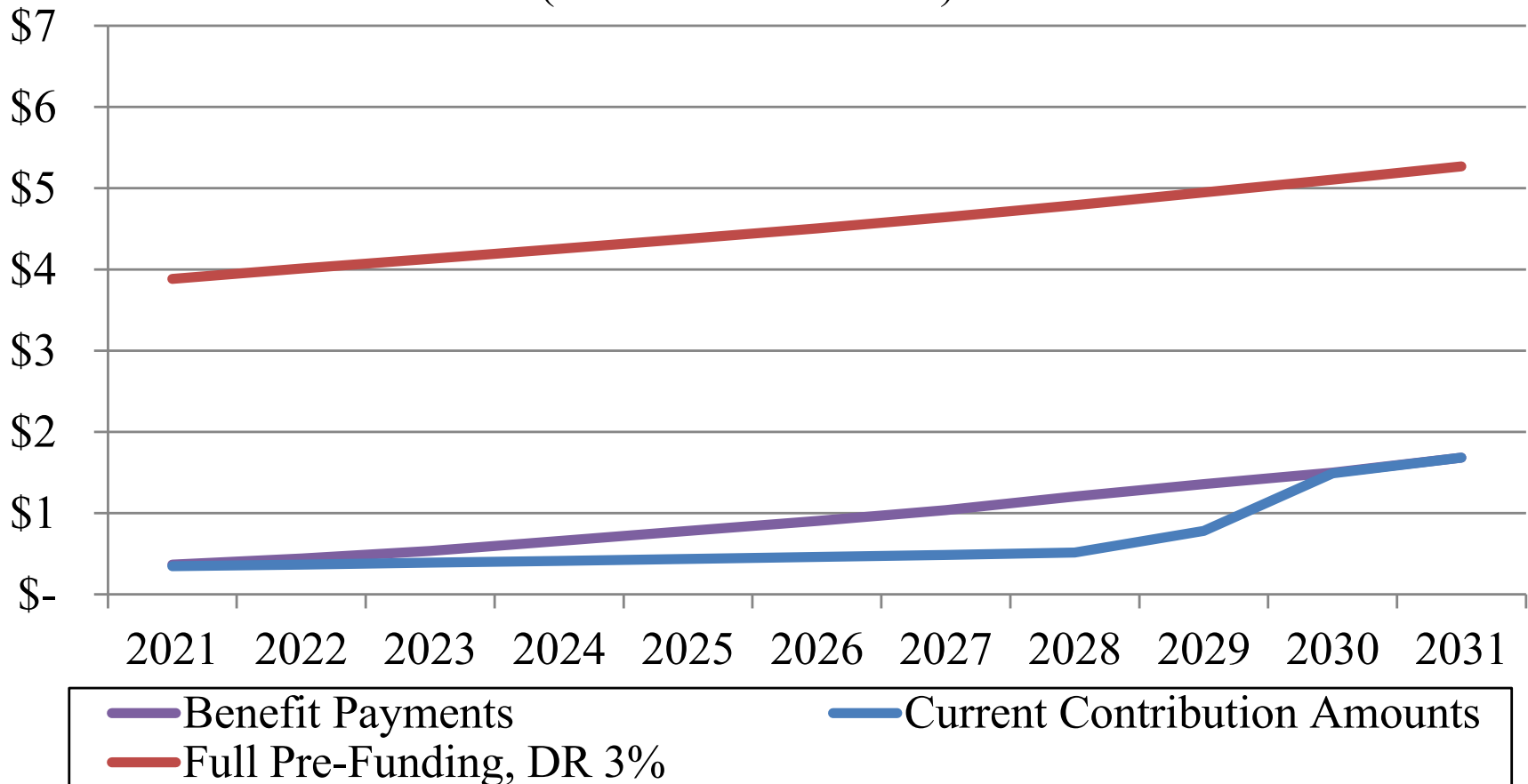
Unfunded Actuarial Accrued Liability

(Amounts in millions)



OPEB – Police

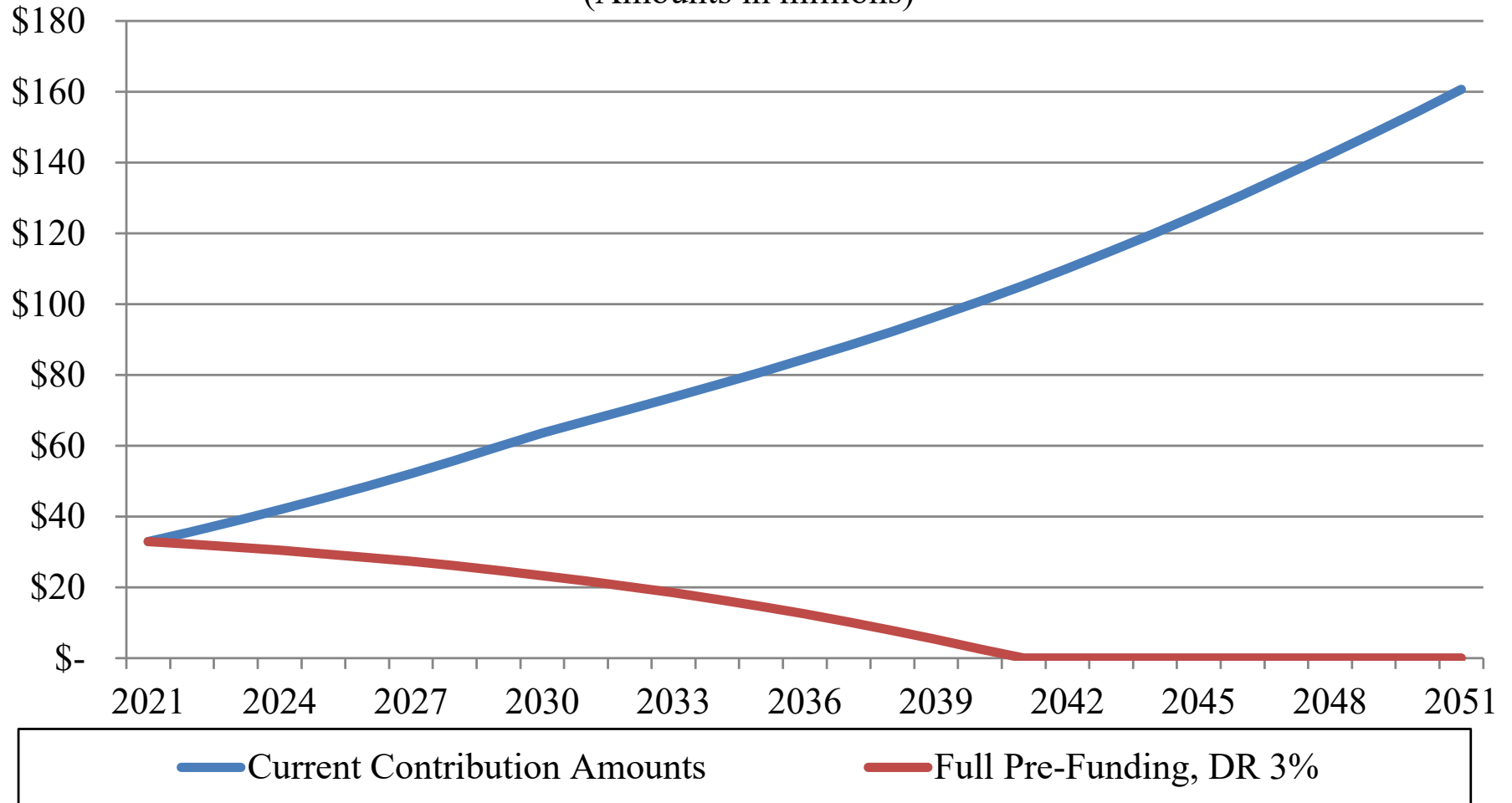
Contribution (Amounts in millions)



OPEB – Police

Unfunded Actuarial Accrued Liability

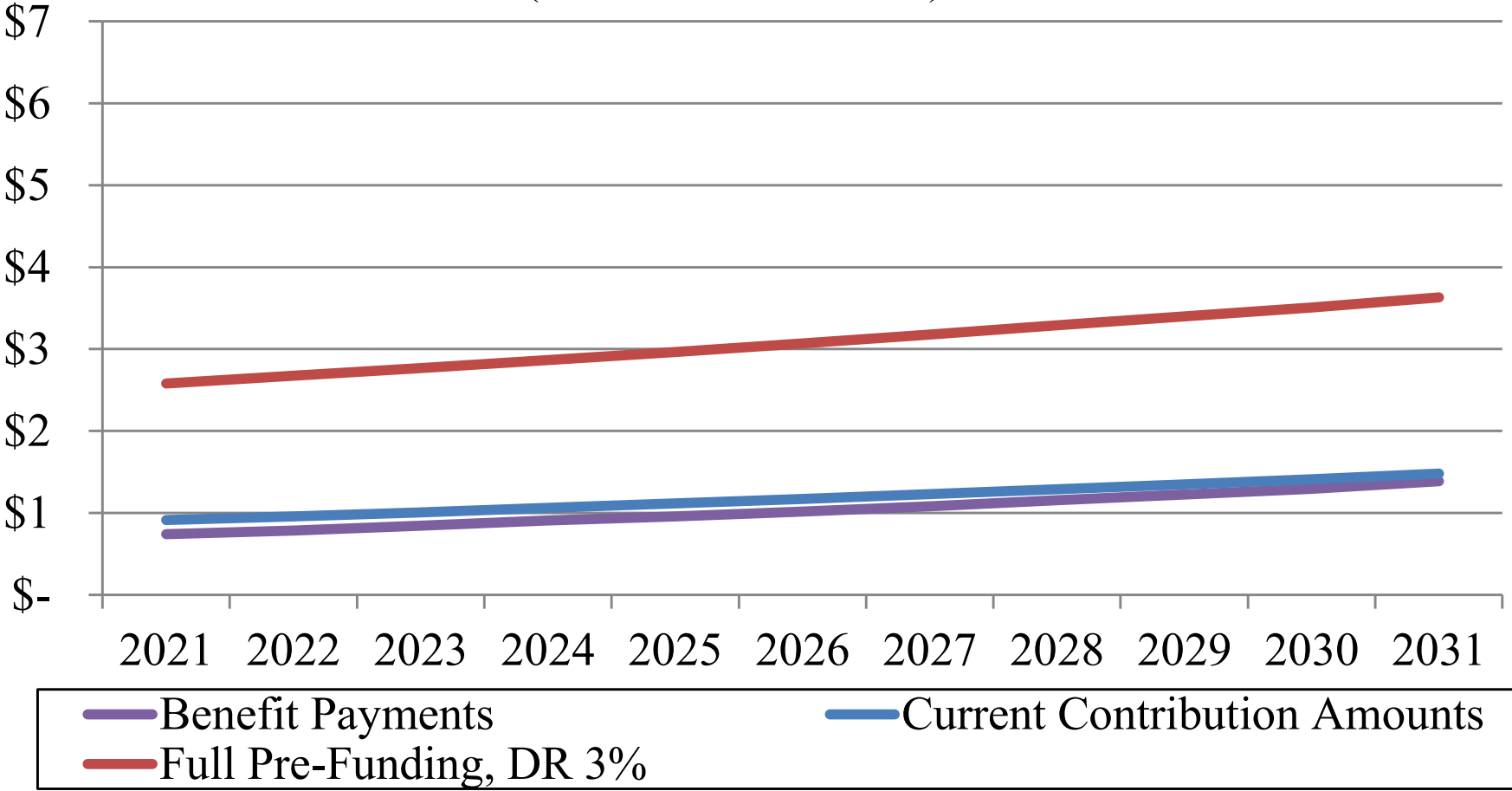
(Amounts in millions)



OPEB – Fire

Contribution

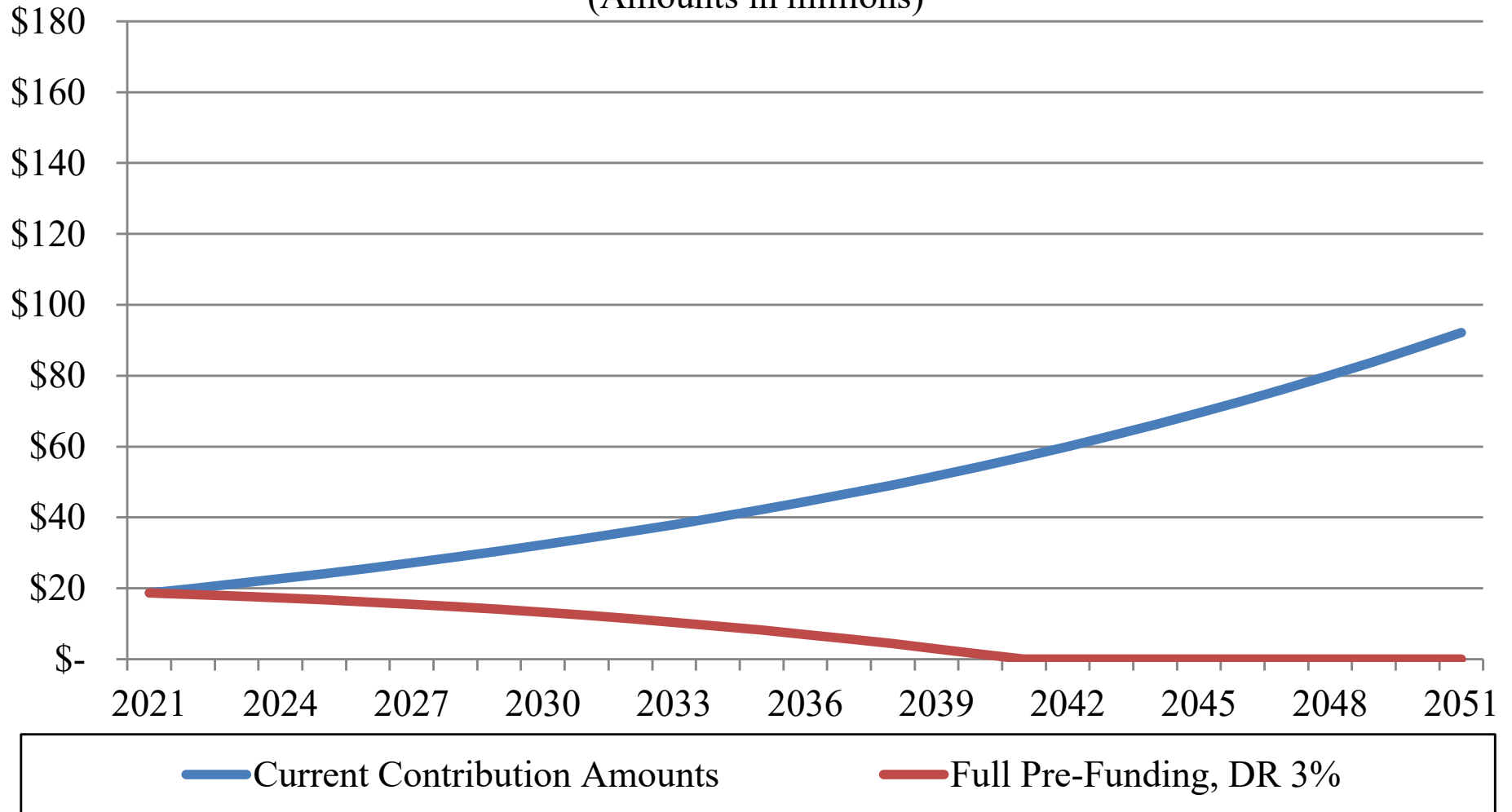
(Amounts in millions)



OPEB - Fire

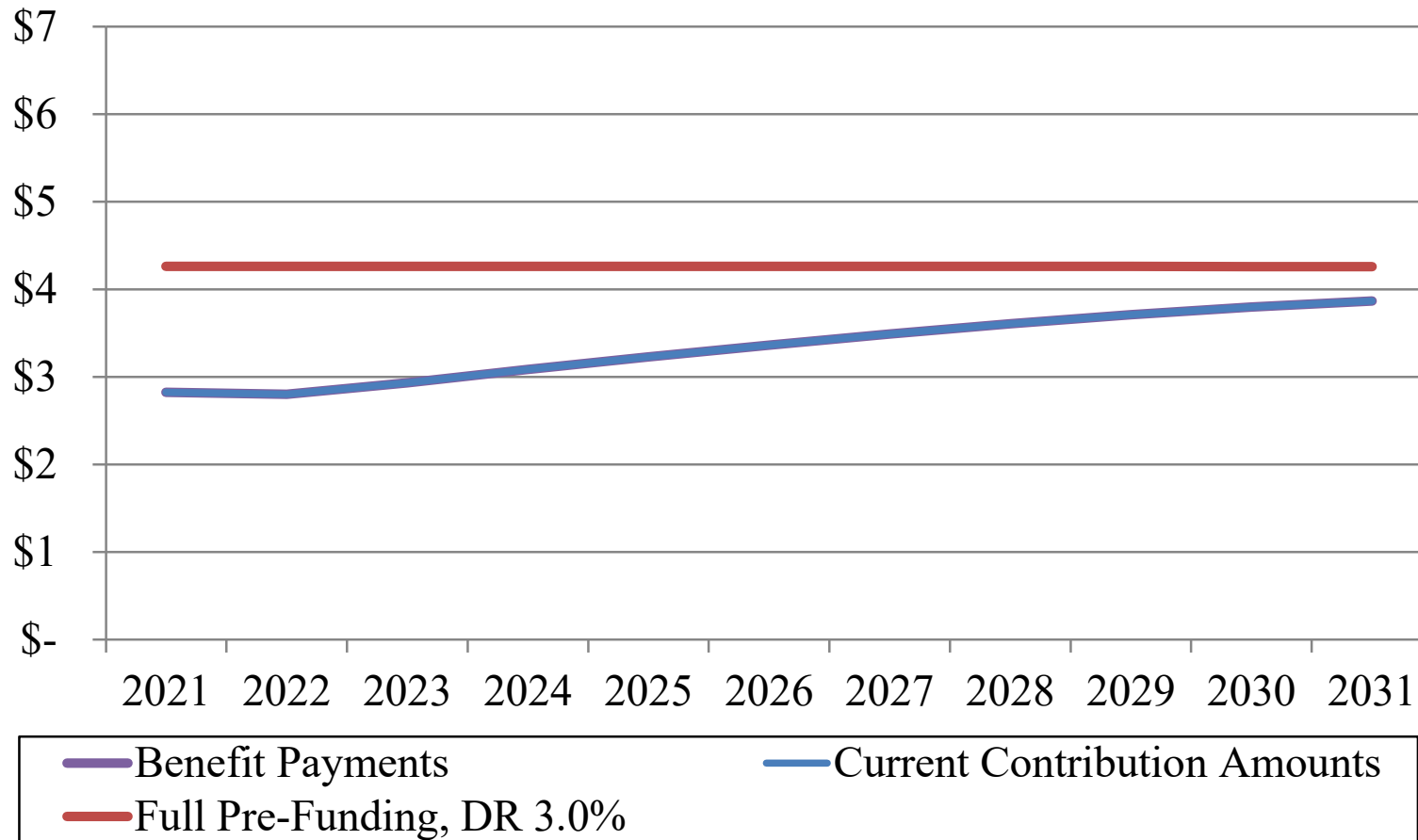
Unfunded Actuarial Accrued Liability

(Amounts in millions)



Police Retirement Income Plan (PERIP)

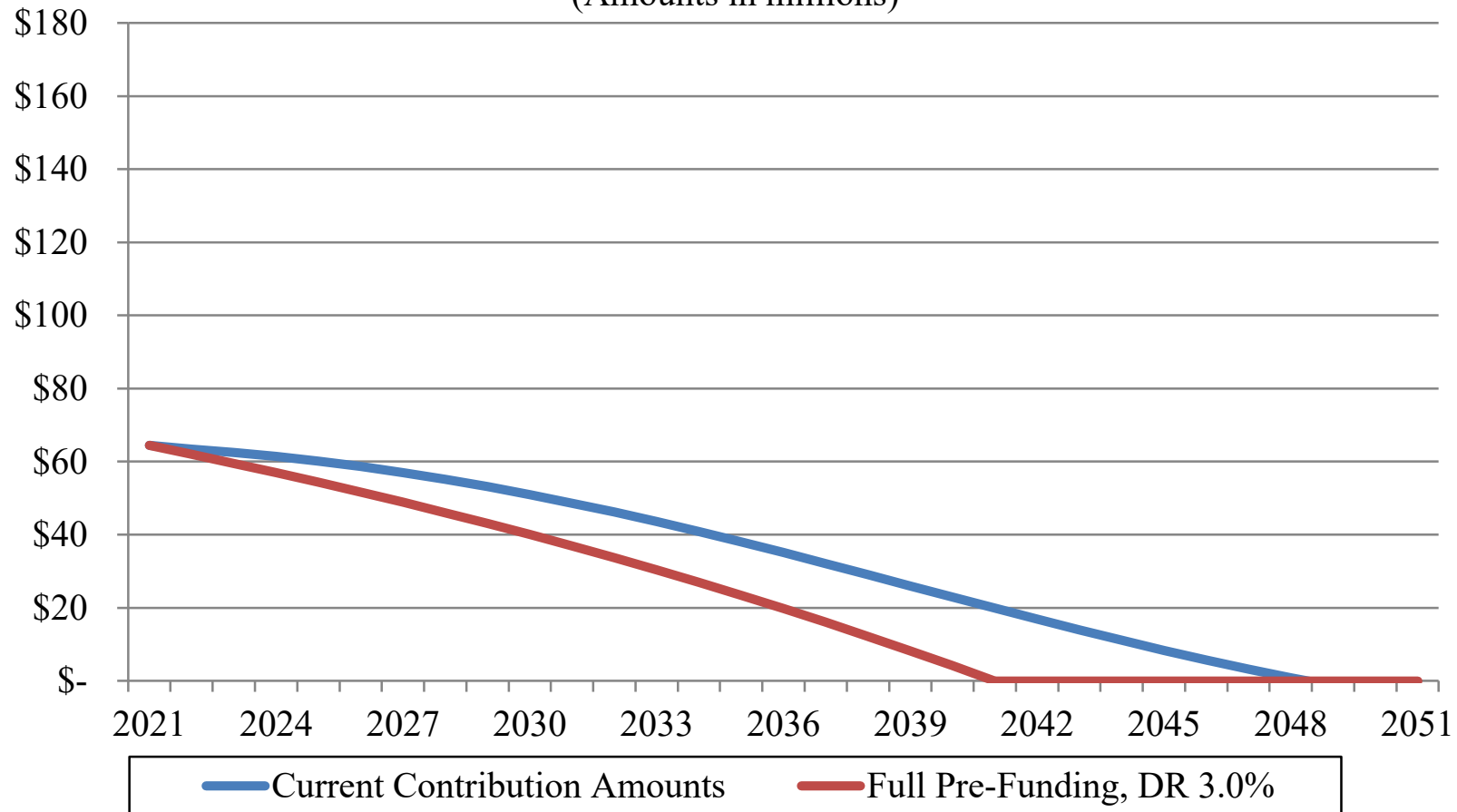
Contribution (Amounts in millions)



Police Retirement Income Plan (PERIP)

Unfunded Actuarial Accrued Liability

(Amounts in millions)



Total of All OPEB Plans

Summary of Recommendation

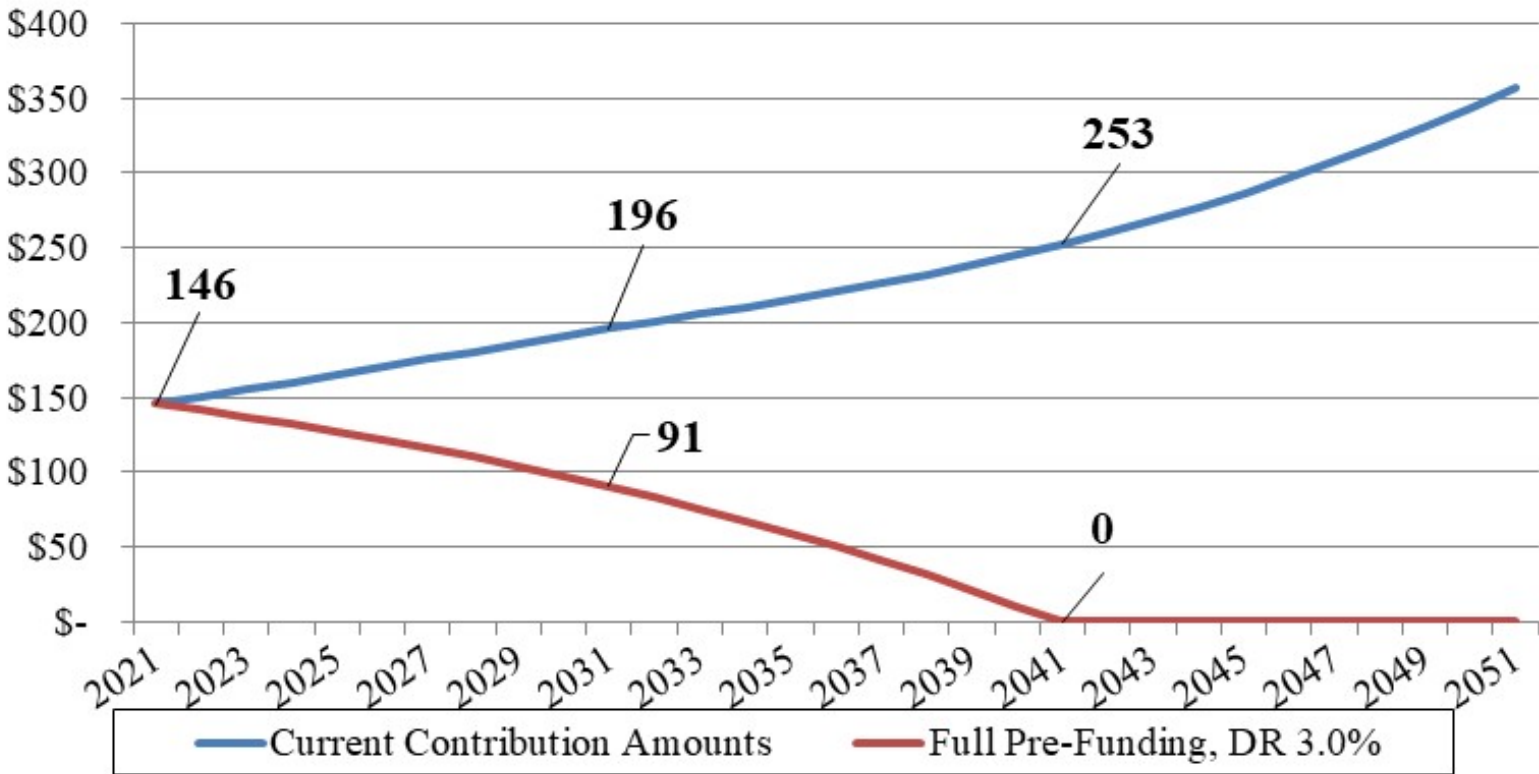
(\$ Millions)

Plan	Current Contribution Amounts	Increase	Full Pre-Funding ADC (DR 3%)
Miscellaneous	\$2.5	\$2.1	\$4.6
Fire	0.9	1.7	2.6
PERIP	<u>2.8</u>	<u>1.4</u>	<u>4.3</u>
Police	0.3	3.5	3.9
Total	\$6.5	\$8.8	\$15.3

Recommended contributions are based on 3% expected annual return on trust funds. Higher expected returns would lower needed funding.

Total of All OPEB Plans

Unfunded Actuarial Accrued Liability Combined Plans (Amounts in \$ millions)



CalPERS Pensions



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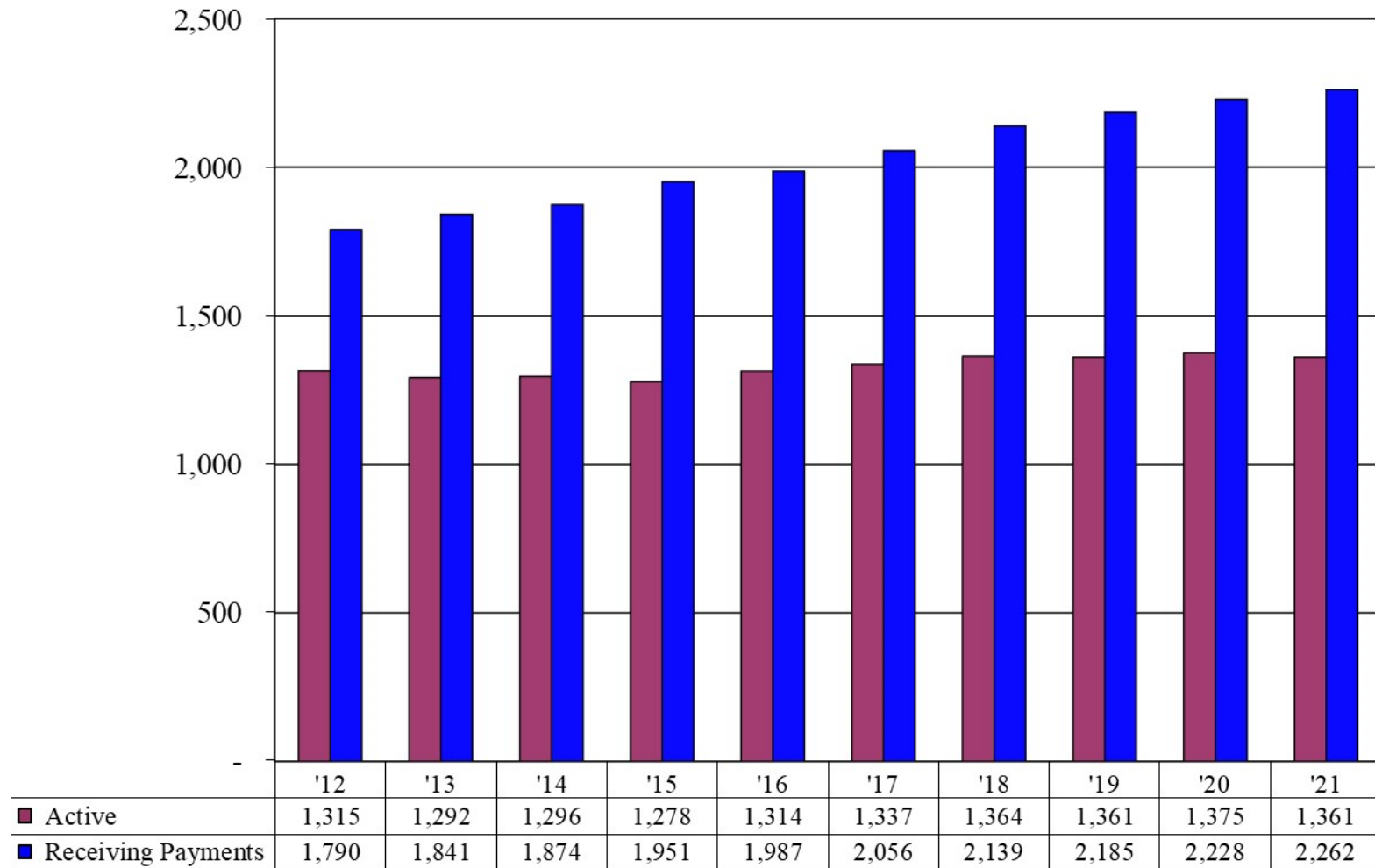


How Did We Get A Large CalPERS Unfunded Liability?

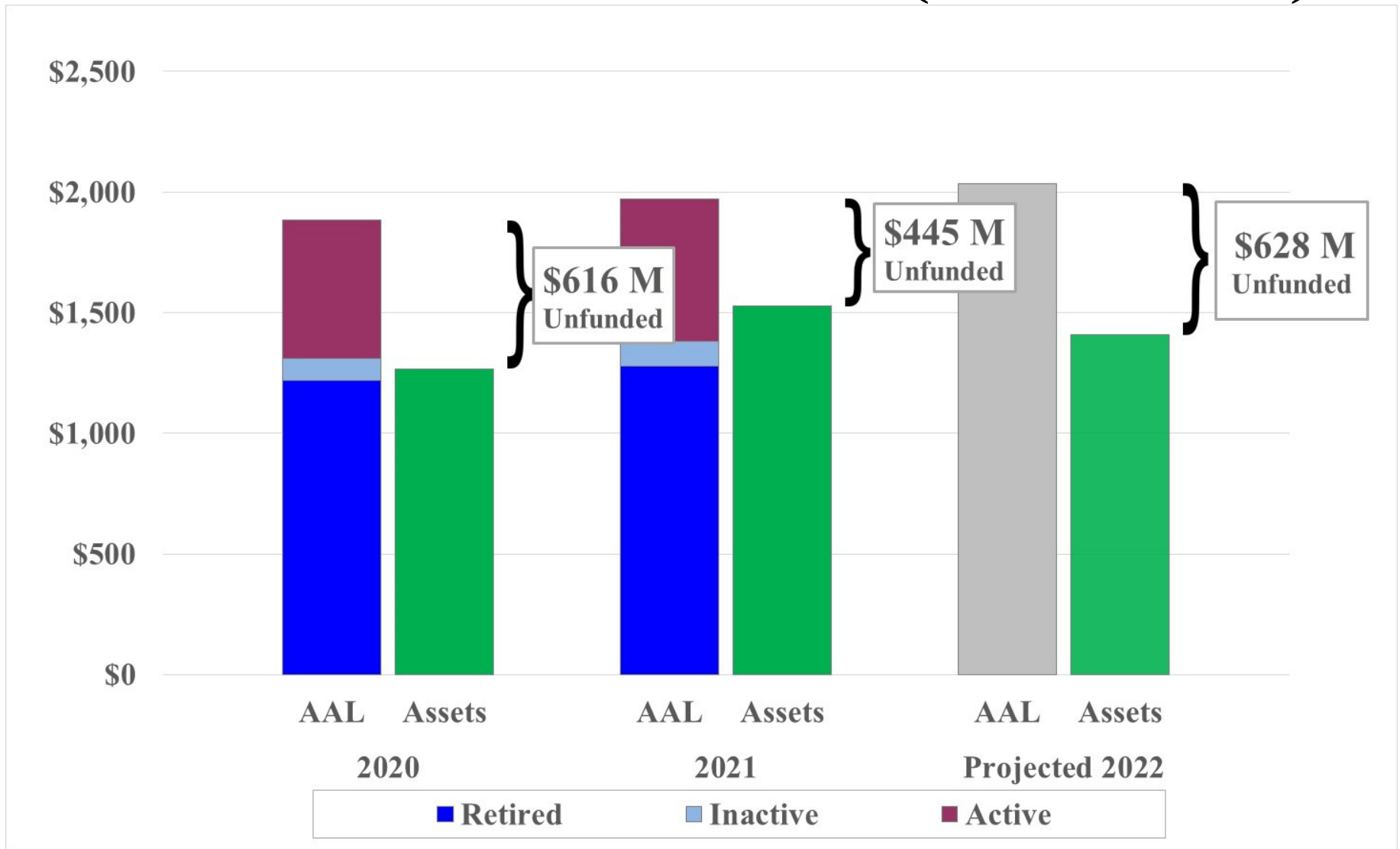
- Combination of many factors
 - Large investment losses in some years combined with “smoothing” policy delayed funding improvement.
- Enhanced benefits
- Demographics - growing number of retirees
- Updated & strengthened actuarial assumptions
- PEPRRA (hires after 1/1/2013) beginning to help contributions
- The City has always paid the required CalPERS contributions



Number of Pension Members



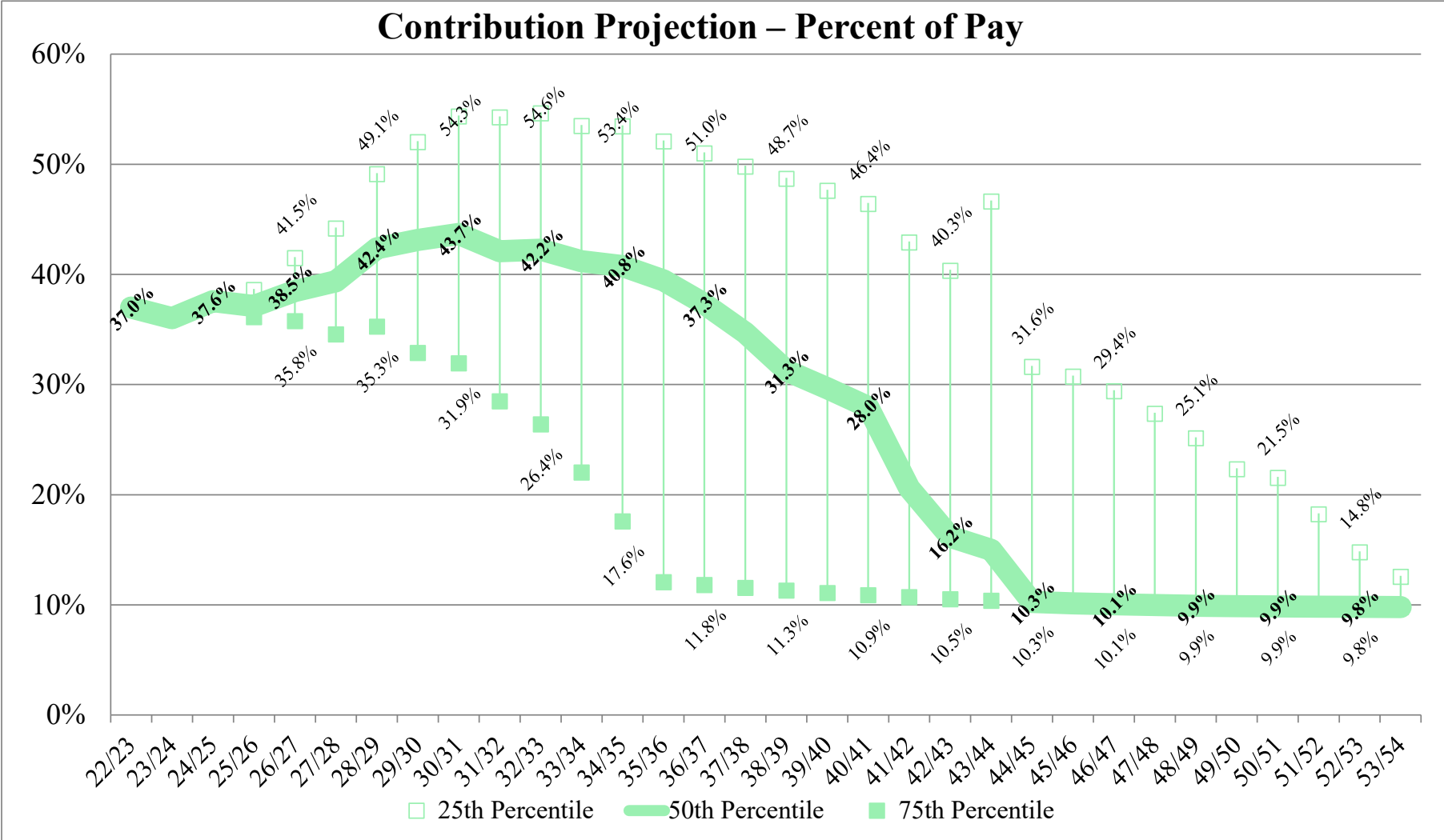
Pension Funded Status (Combined)



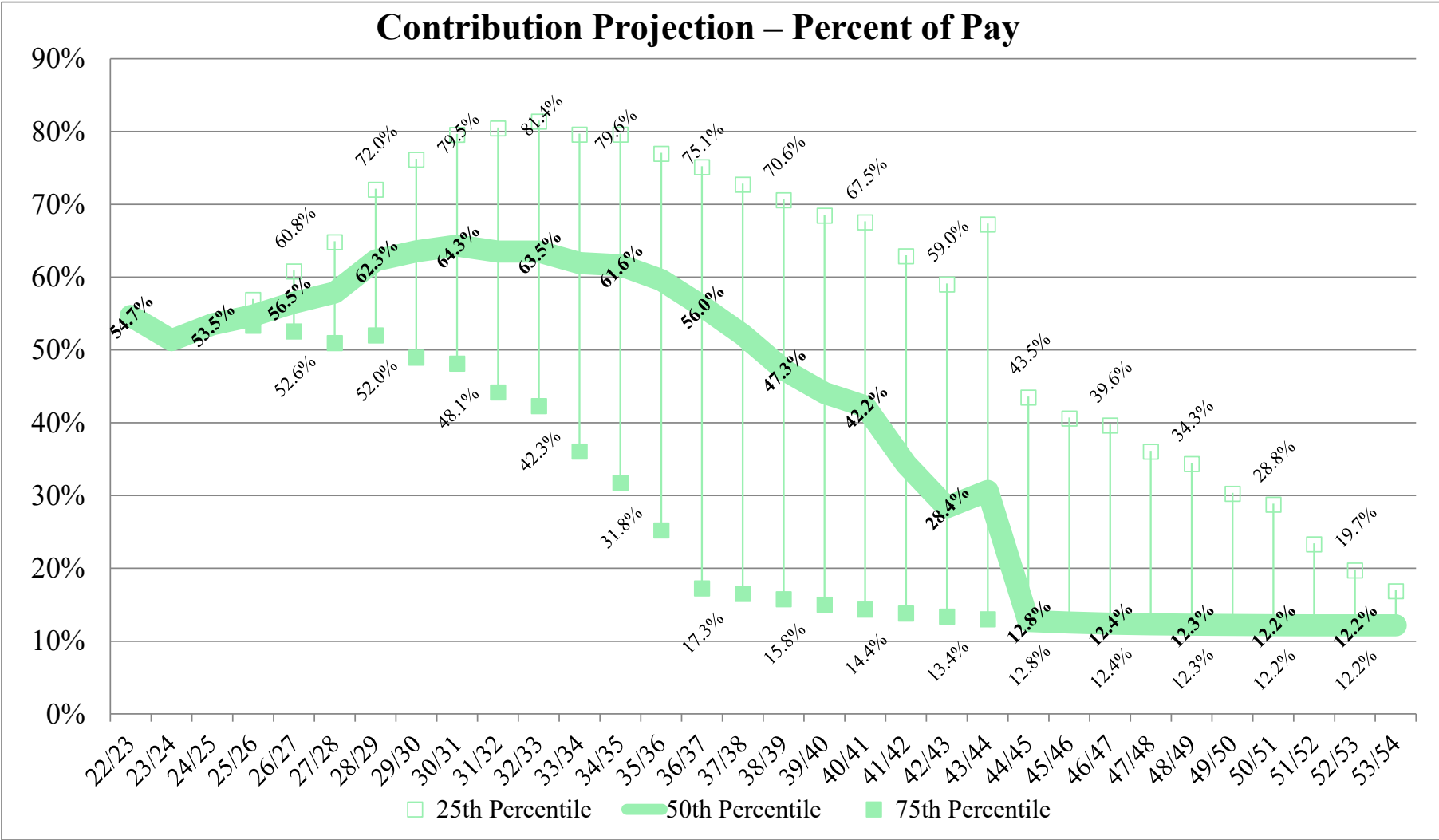
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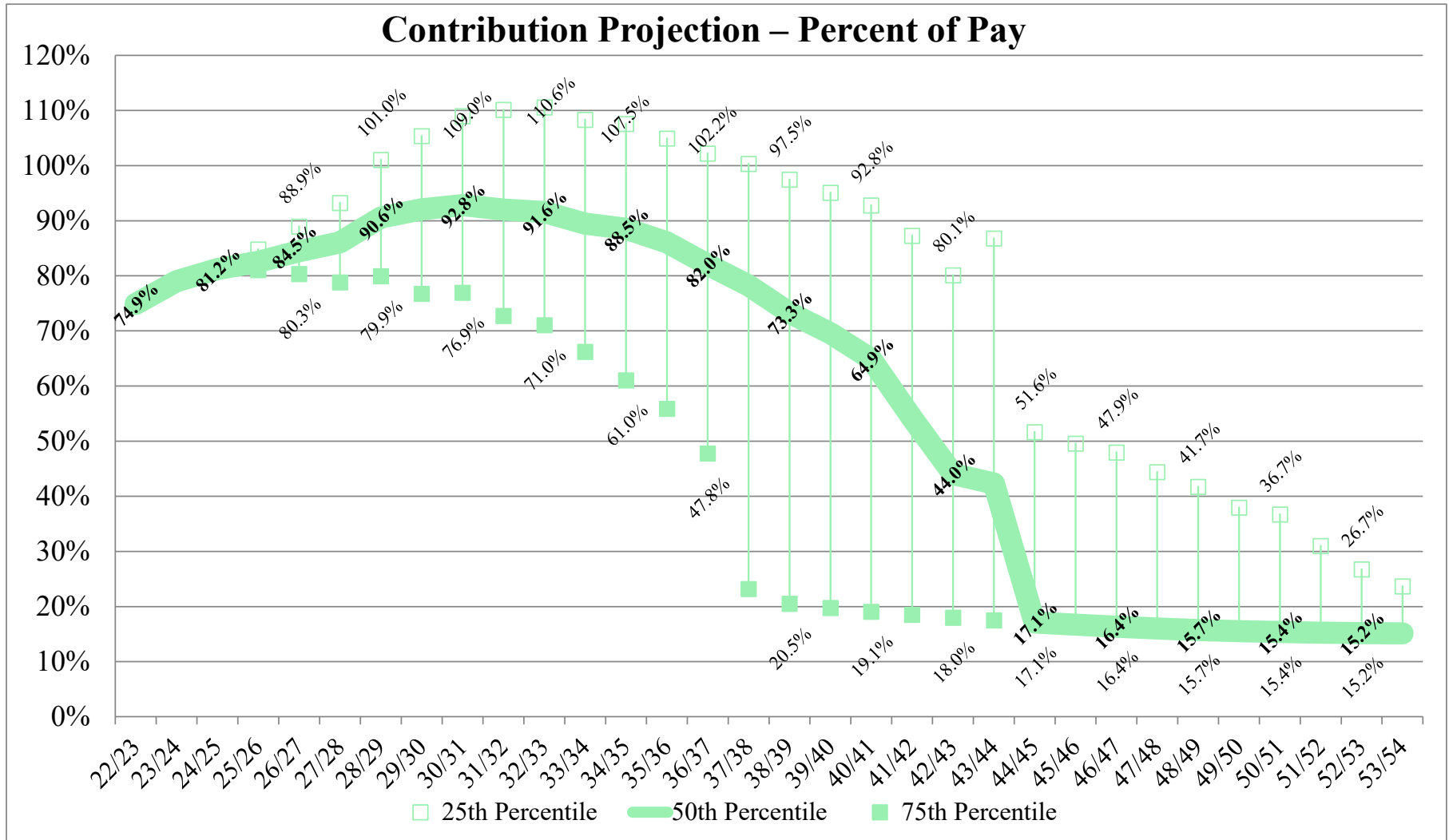
Miscellaneous–CalPERS Rates (% Payroll)



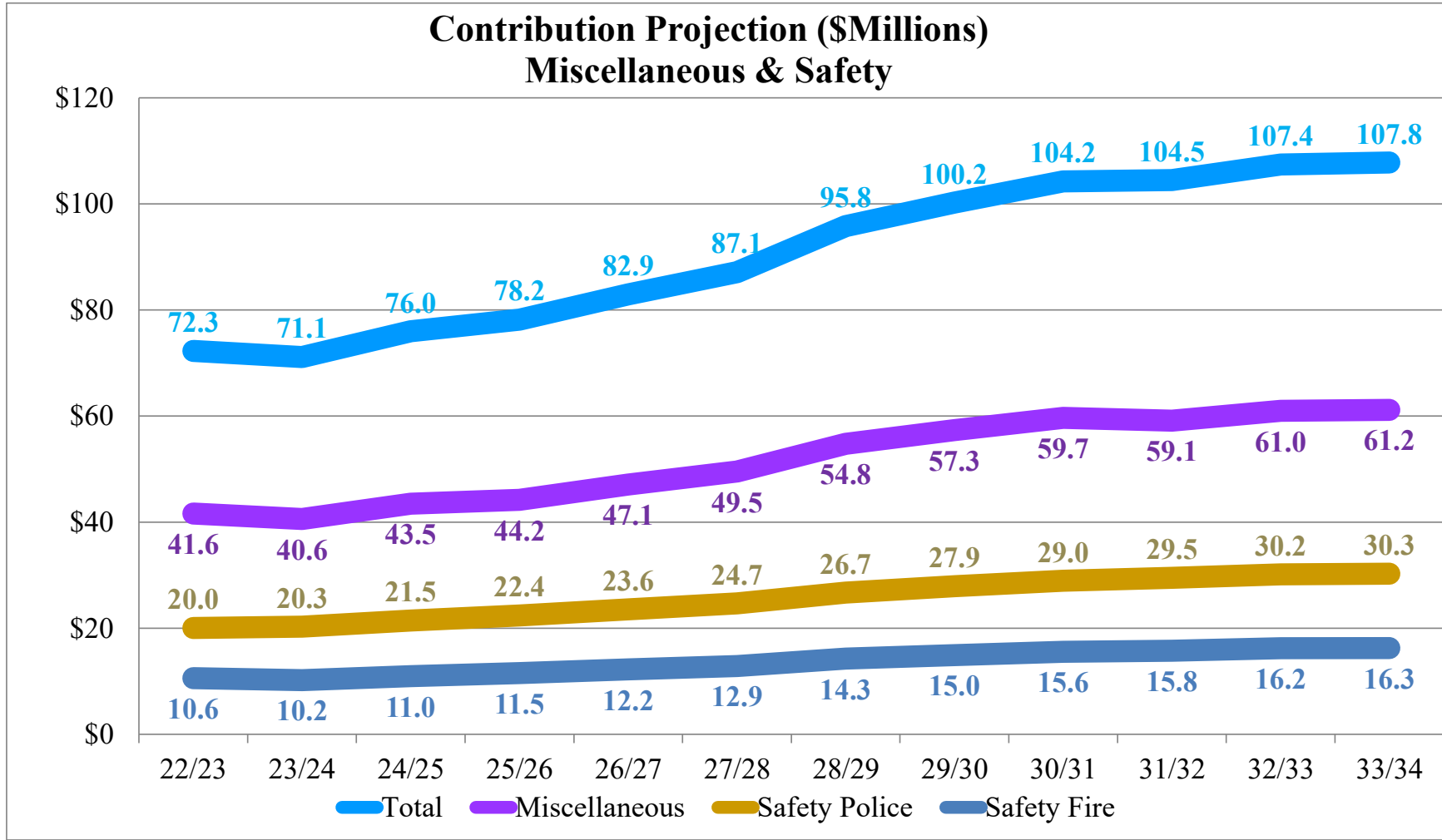
Fire-CalPERS Rates (% Payroll)



Police–CalPERS Rates (% Payroll)



Total Projected CalPERS Contributions (\$Millions)



CalPERS Funding

Reduce/Eliminate Unfunded Liability

- The City is already paying the full actuarially determined contribution for its CalPERS plans
- The City's funded status is similar to other CalPERS public agencies
- Most ideas to pay down the unfunded liability ahead of schedule are not recommended
 - Pension Obligation Bond (POB) is interest arbitrage
 - Success not guaranteed
- Unlike OPEB, City cannot leave CalPERS
 - New hires must be in CalPERS
 - Current employees must retain current benefits
 - \$2.1 Billion payment needed to leave CalPERS



Irrevocable Supplemental (§115) Trust

- Can only be used to:
 - Reimburse City for CalPERS contributions
 - Make payments directly to CalPERS
- Investments significantly less restricted than City investment funds
- City's §115 Trust
 - Established in FY2018
 - Contributions up to \$5.2 Million per year
 - Current target contribution \$5.5 Million per year
 - Balance 6/30/2022 \$14.8 Million



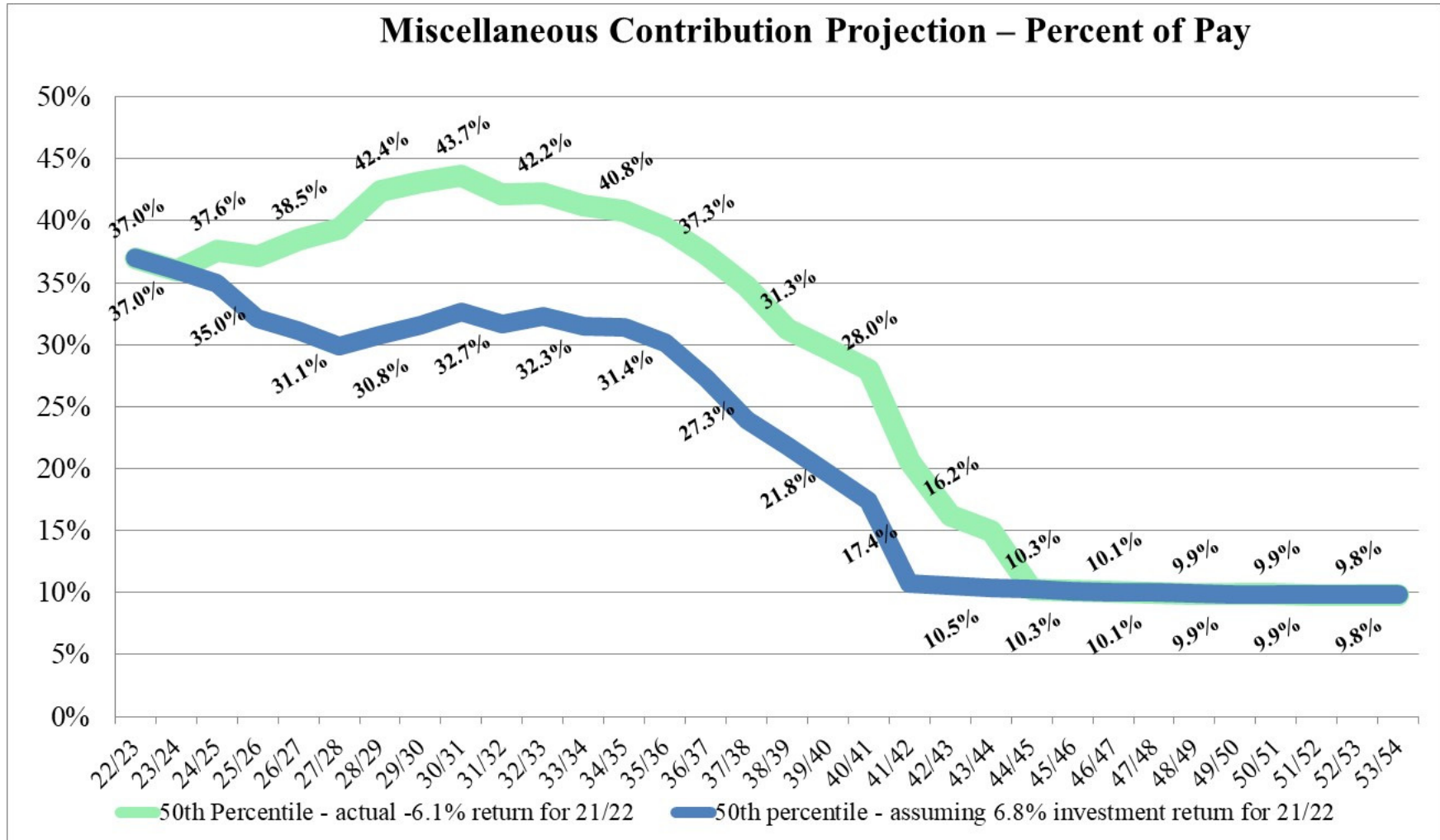
Irrevocable Supplemental (§115) Trust

- Best use: Rate Stabilization
 - Add to Trust when possible
 - Use Trust funds to help pay CalPERS contributions in highest years or if unexpected increases
- Accumulate funds to eventually pay down UAL
- Target:
 - Consider City's reserve policy?
 - Consider potential variability of projected contributions?
 - In 10 years, 50% chance of contributions \$25M larger or smaller than projected
 - Consider potential contribution impact of large investment loss?



Example: Impact of 1 Year Poor Returns

Difference in Contributions Due to Poor 2022 Investment Return



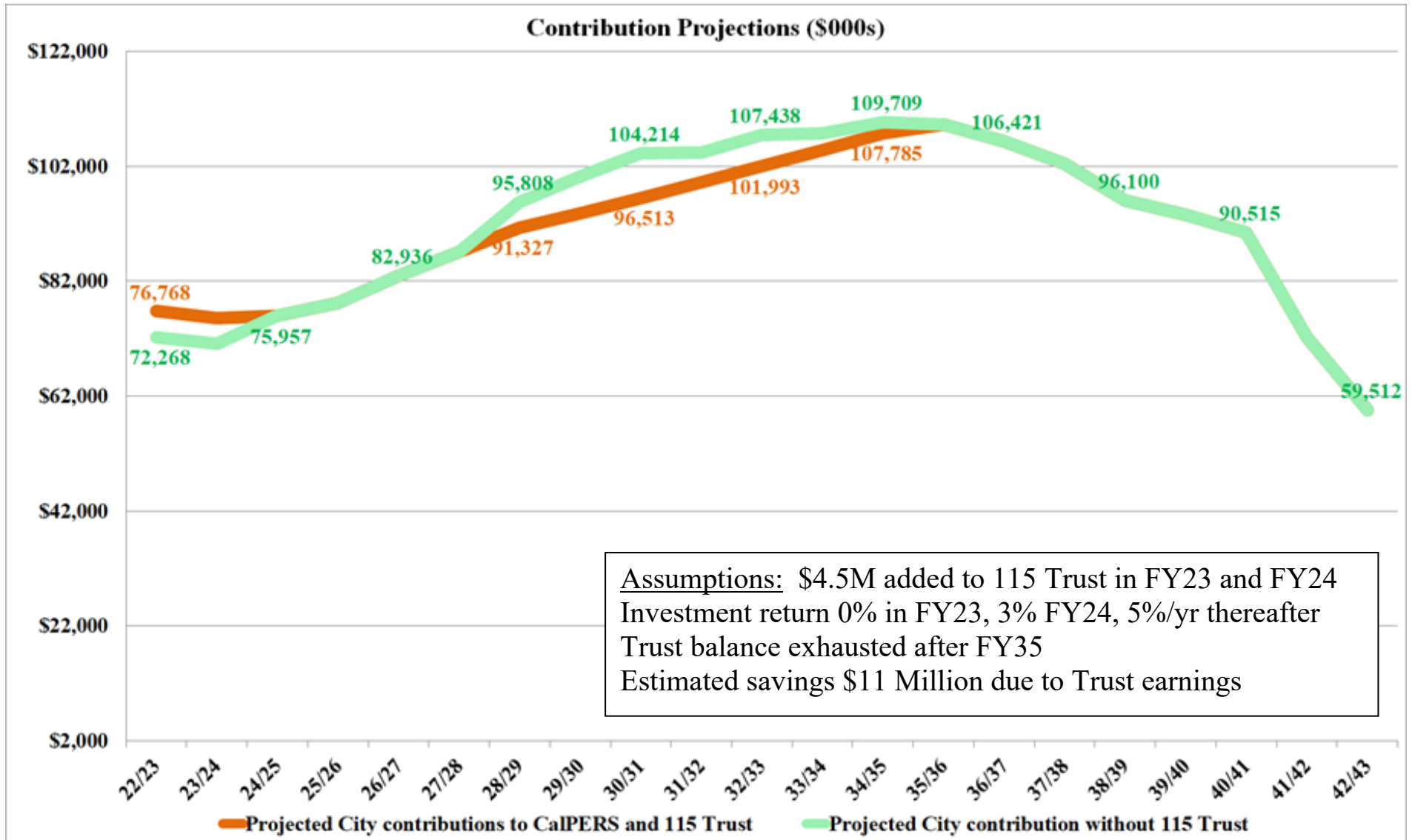
Example: Impact of 1 Year Poor Returns

Difference in Contributions Due to Poor 2022 Investment Return
(Total City Plans)
(\$Millions)

Payment Year	Increase Each Year	Cumulative Increase
● 2024/25	\$4.9	\$4.9
● 2025/26	9.7	14.6
● 2026/27	14.5	29.2
● 2027/28	19.3	48.5
● 2028/29	24.1	72.6



Example: Rate Stabilization



CalPERS Funding Recommendation

- Prioritize OPEB
- Continue funding CalPERS §115 Trust as possible
 - Current \$5.5M/year target is ideal
 - Recommend trust balance of \$25M to \$50M
 - Higher balance could be used to pay down UAL



Summary



Summary of Recommendations

- OPEB Funding (Misc, Police, Fire, “PERIP”)
 - Full pre-funding; will increase annual contribution
 - Total \$8.8 million additional per year
- CalPERS
 - Continue targeting \$5.5 million per year



Thank You



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