

# CITY OF BERKELEY



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## Pension and OPEB Funding Study

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# Agenda

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



# OPEB



February 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

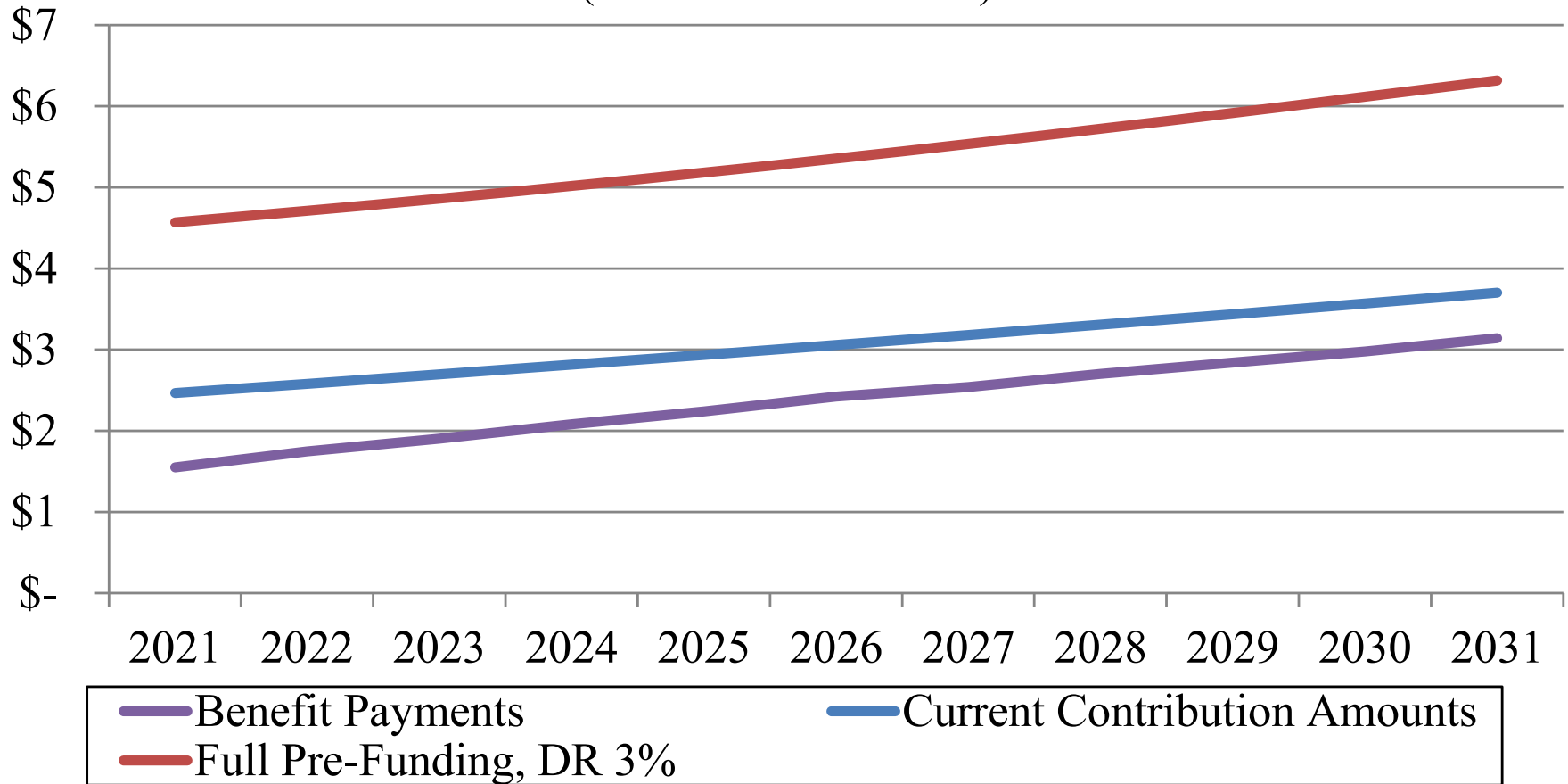
	Miscellaneous	Fire	PERIP	Police
<b>Benefit</b>	Up to cap	Up to cap	Kaiser 2-party premium amount	Up to cap
<b>Cap depends on</b>	Retirement date, Bargaining Unit, Coverage	Retirees after 1997 only	Retirement before September 2012	Retirement after September 2012
<b>100% of Cap</b>	20 years	25 years	N/A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





# OPEB - Miscellaneous

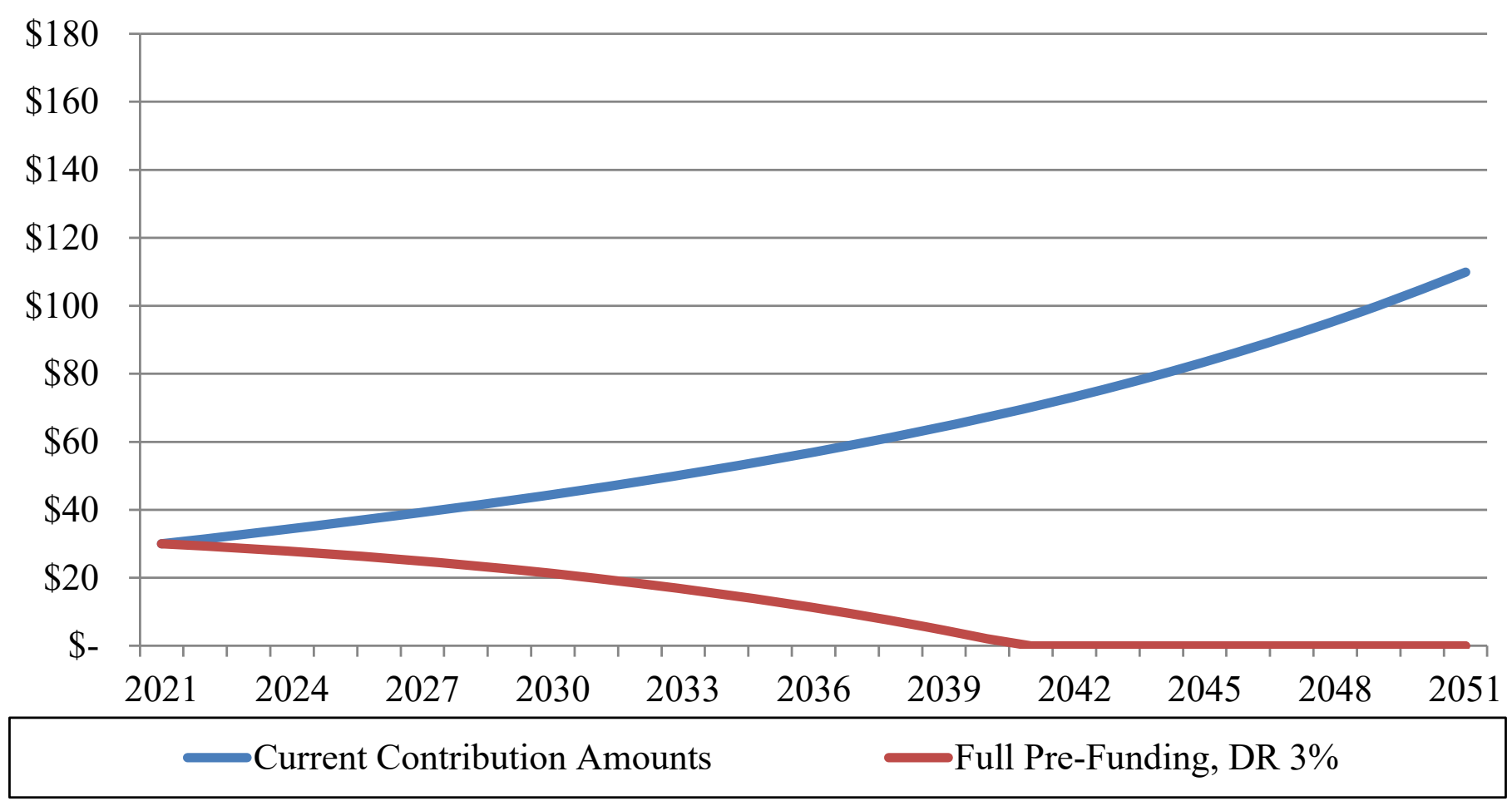
## Contribution (Amounts in millions)



# OPEB - Miscellaneous

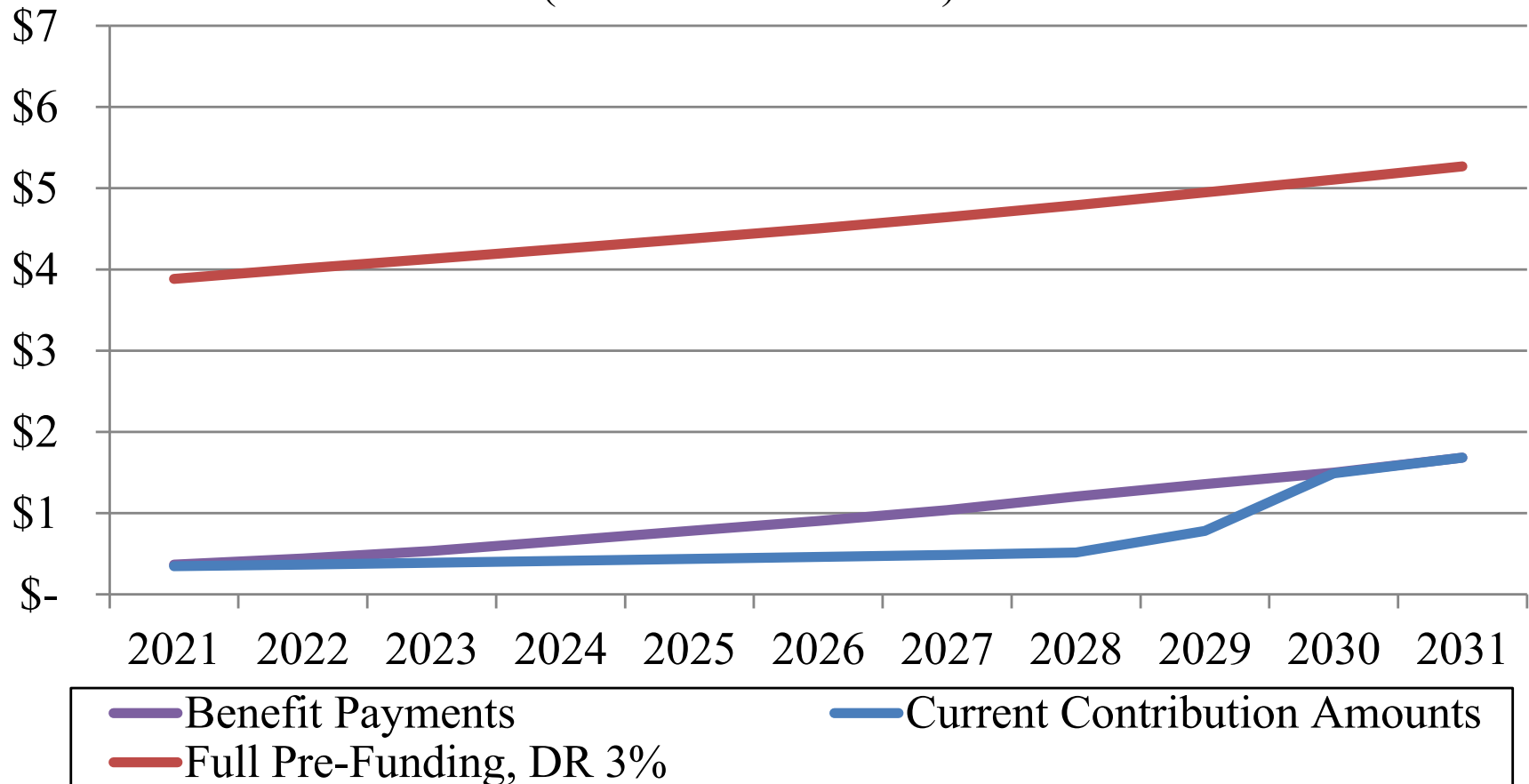
## Unfunded Actuarial Accrued Liability

(Amounts in millions)



# OPEB – Police

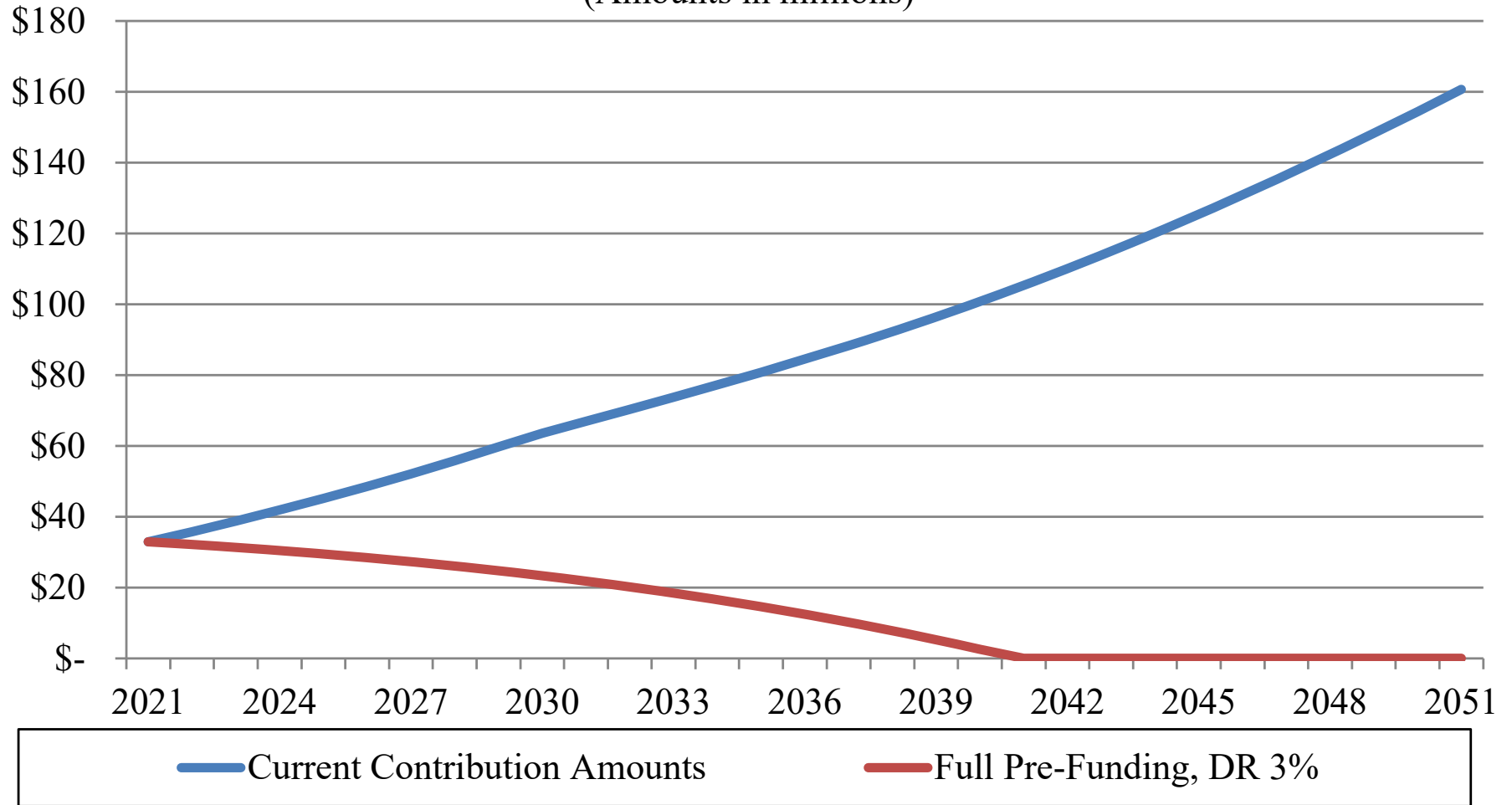
## Contribution (Amounts in millions)



# OPEB – Police

## Unfunded Actuarial Accrued Liability

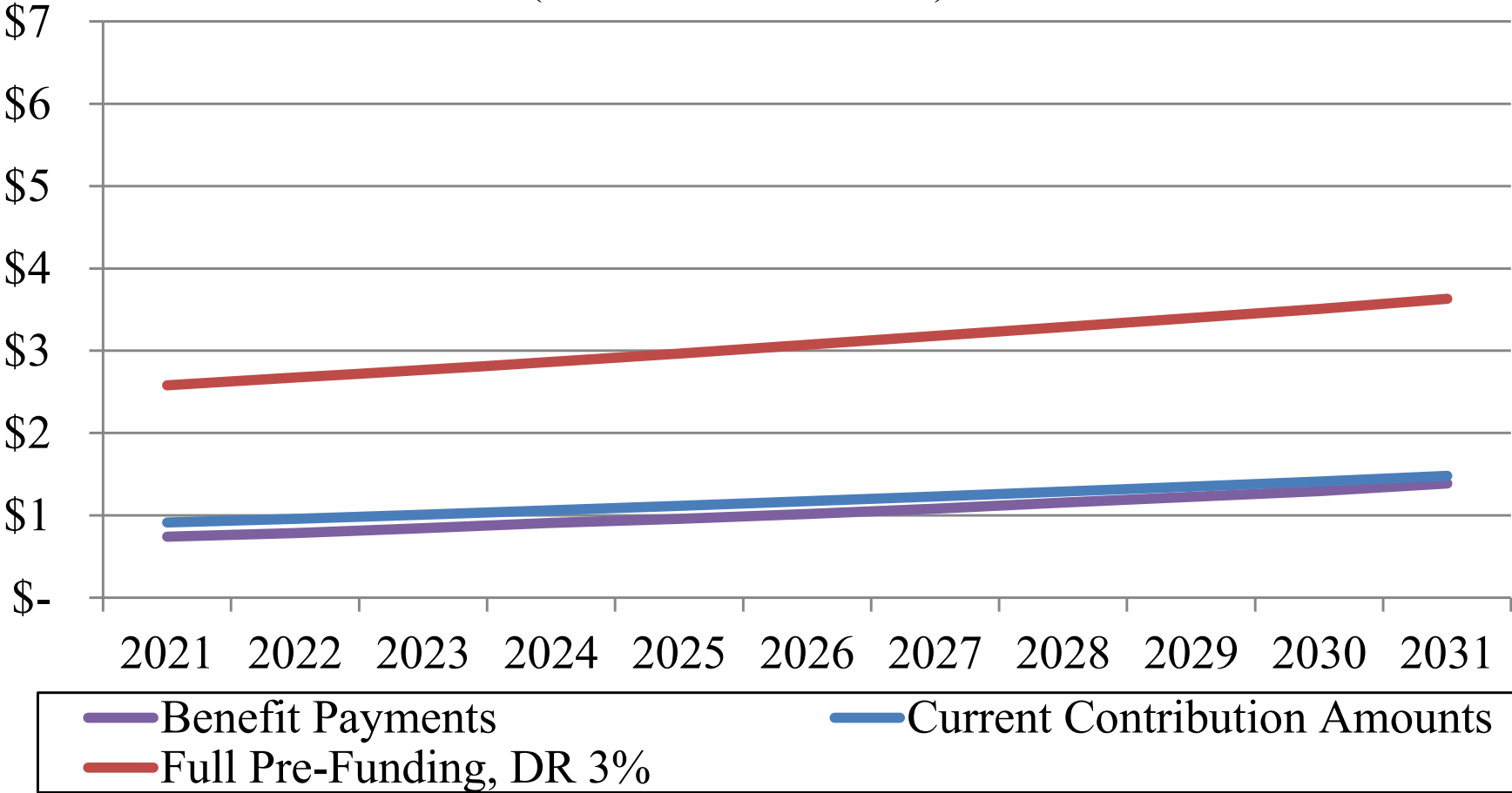
(Amounts in millions)



# OPEB – Fire

## Contribution

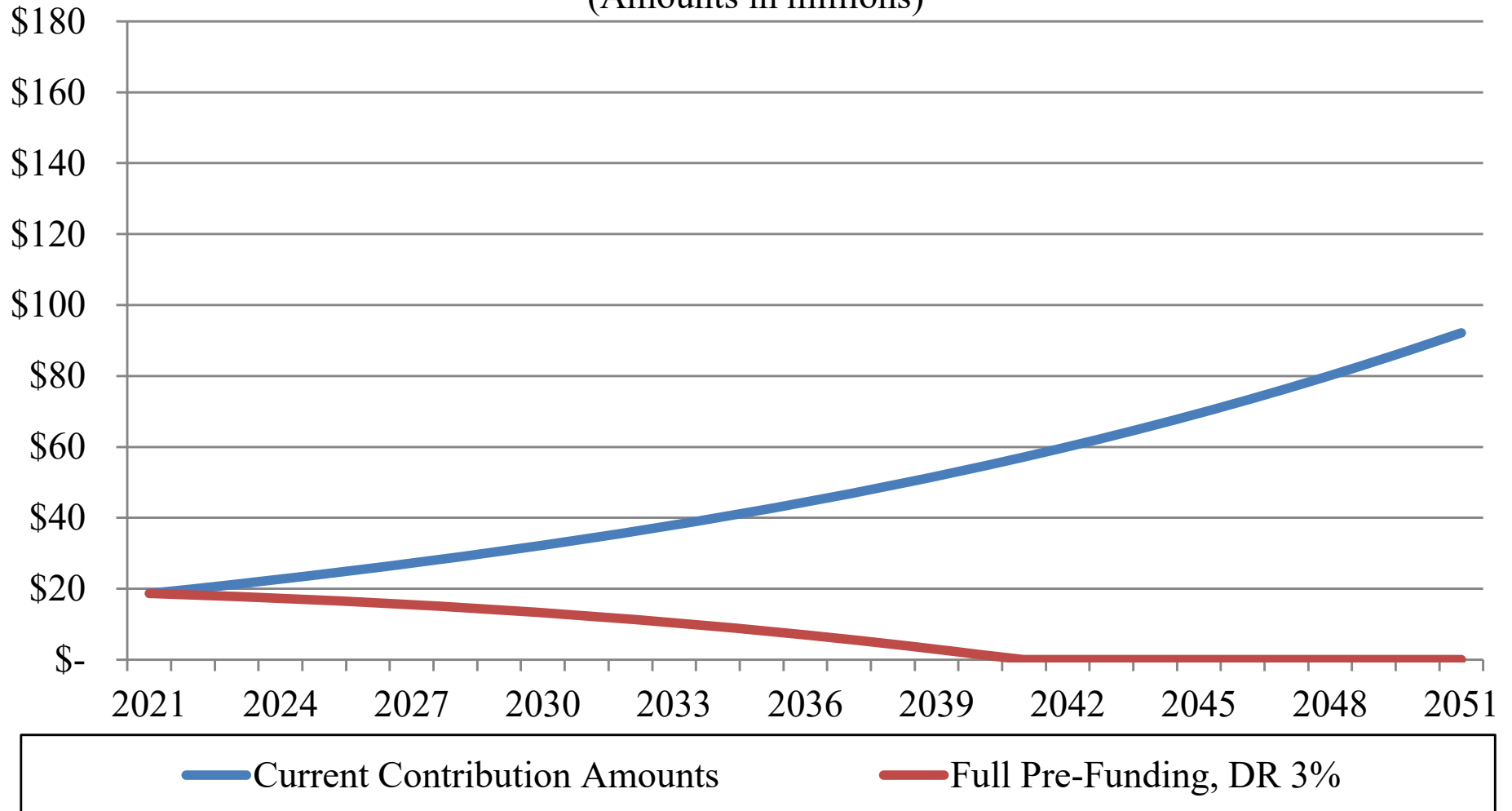
(Amounts in millions)



# OPEB - Fire

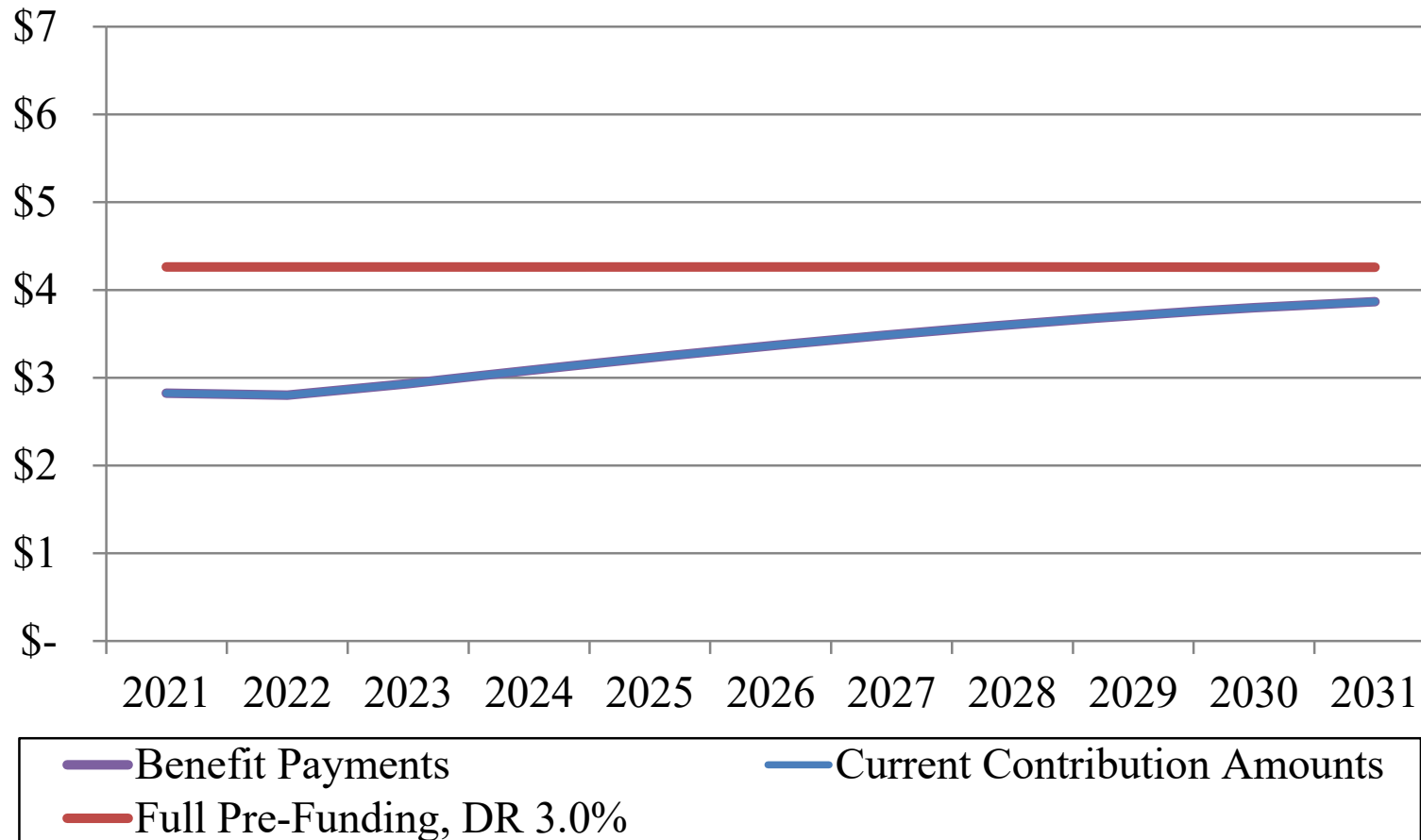
## Unfunded Actuarial Accrued Liability

(Amounts in millions)



# Police Retirement Income Plan (PERIP)

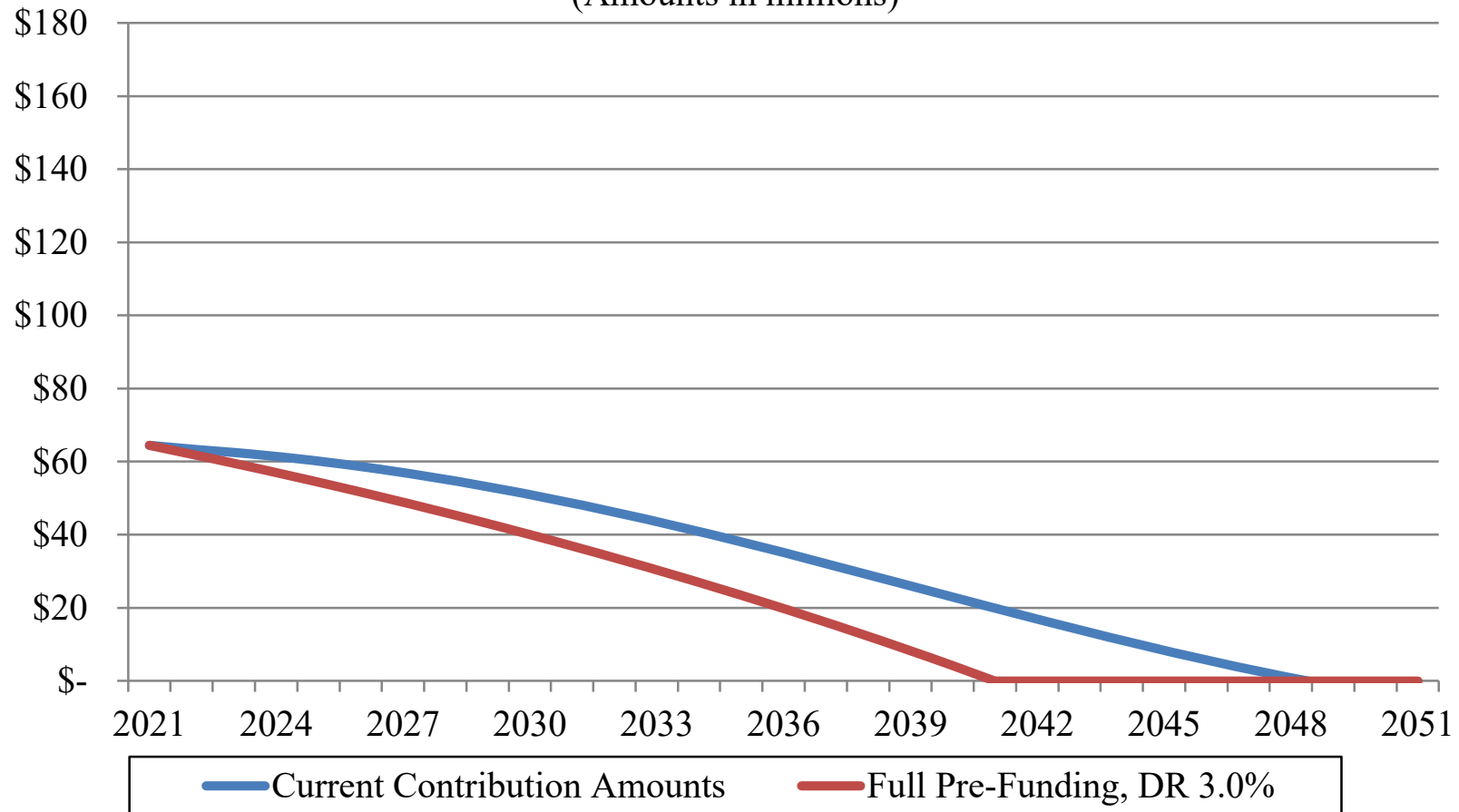
## Contribution (Amounts in millions)



# Police Retirement Income Plan (PERIP)

## Unfunded Actuarial Accrued Liability

(Amounts in millions)





# Total of All OPEB Plans

## Summary of Recommendation

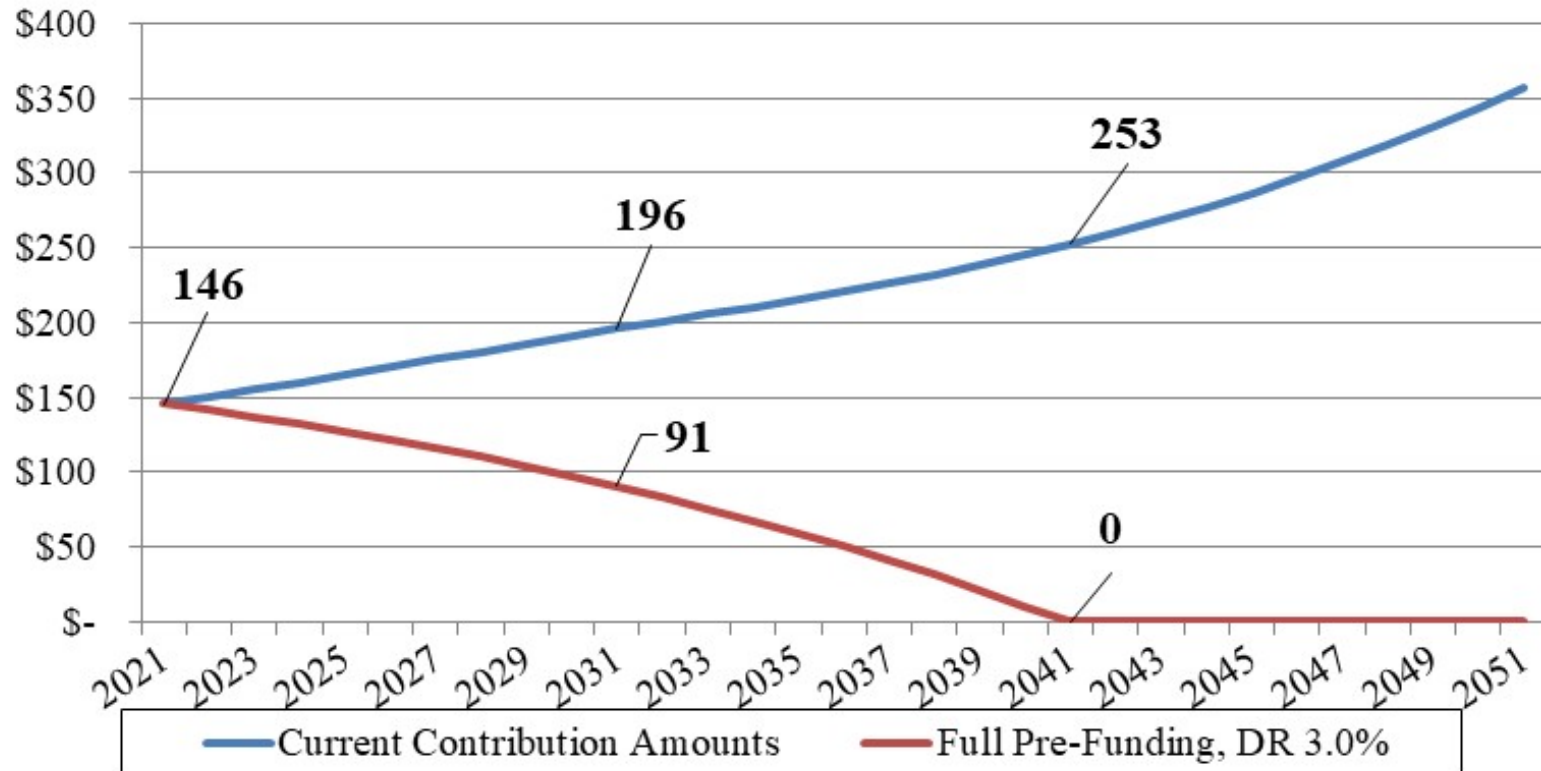
(\$ Millions)

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
<b>Total</b>	<b>\$6.5</b>	<b>\$8.8</b>	<b>\$15.3</b>

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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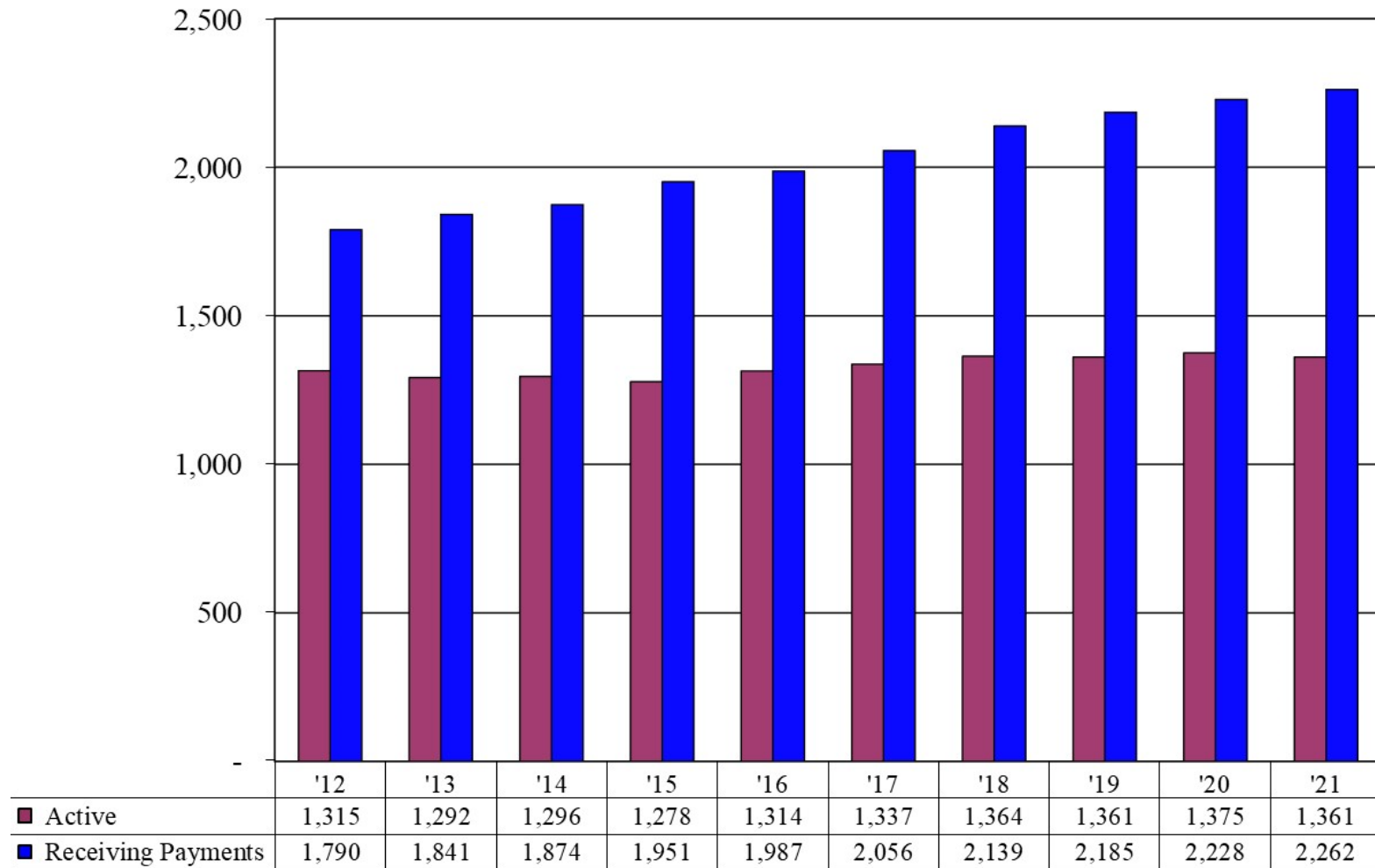


# How Did We Get A Large CalPERS Unfunded Liability?

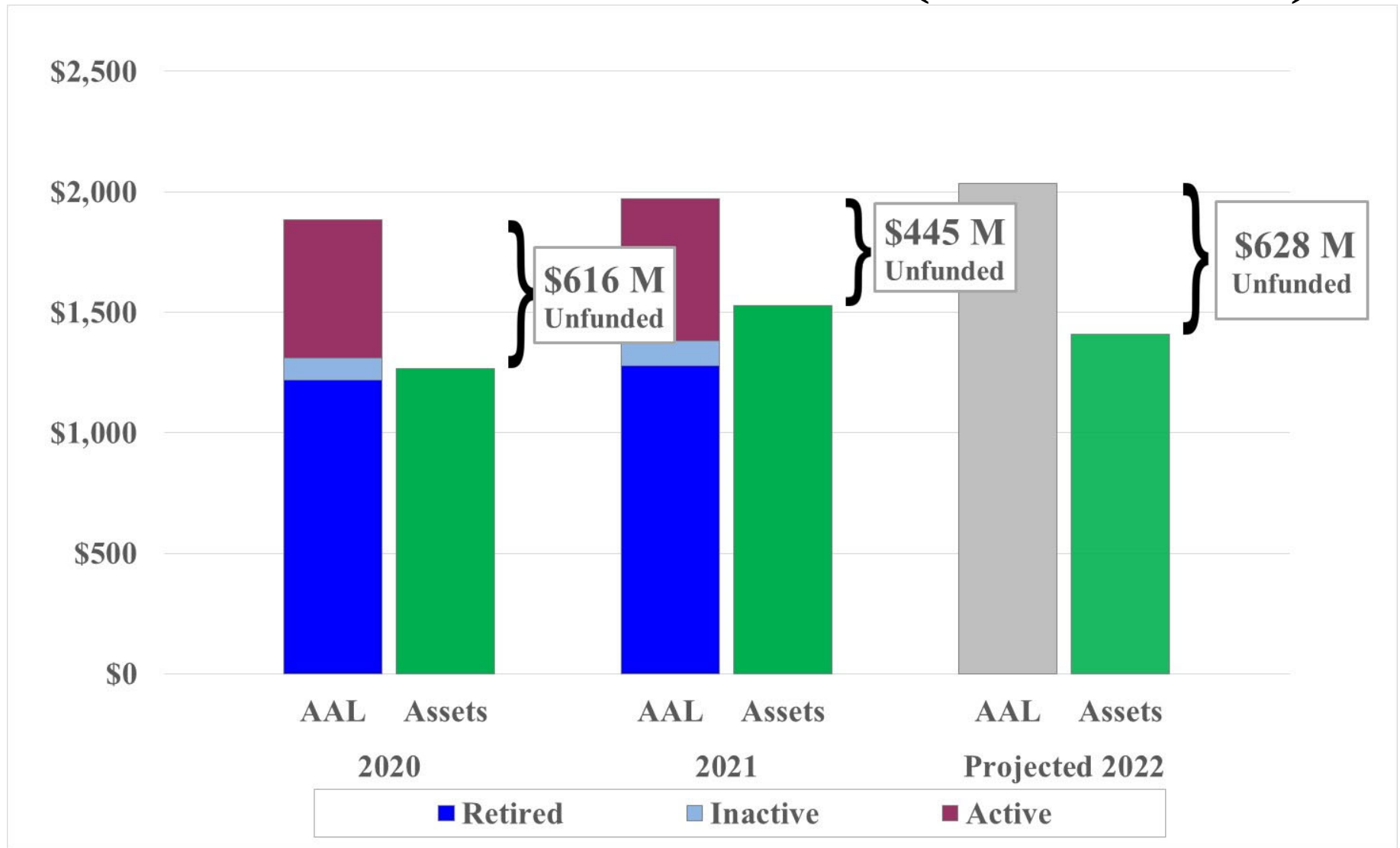
- Combination of many factors
  - Large investment losses in some years combined with “smoothing” policy delayed funding improvement.
- Enhanced benefits
- Demographics - growing number of retirees
- Updated & strengthened actuarial assumptions
- PEPRRA (hires after 1/1/2013) beginning to help contributions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



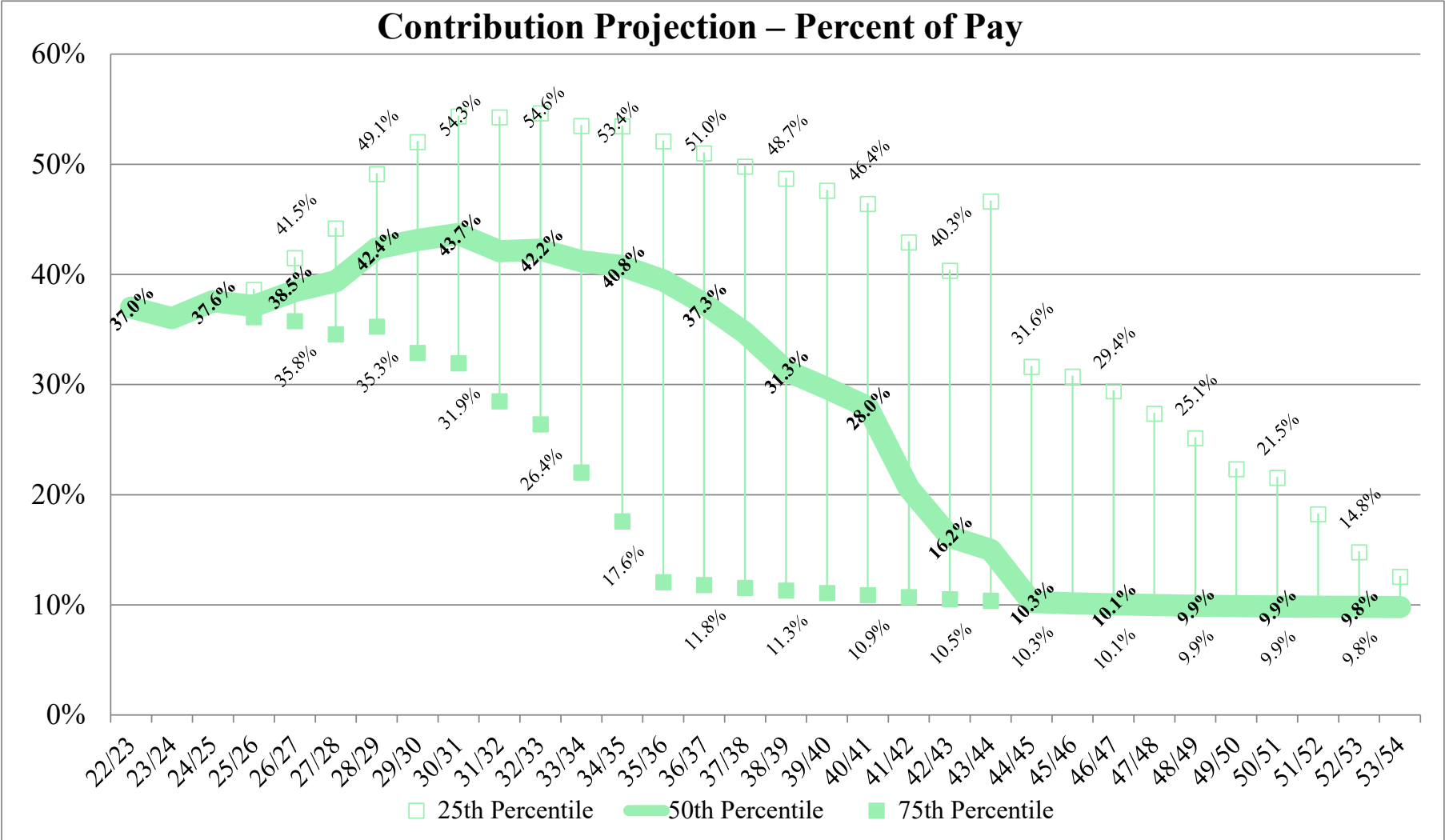
# Number of Pension Members



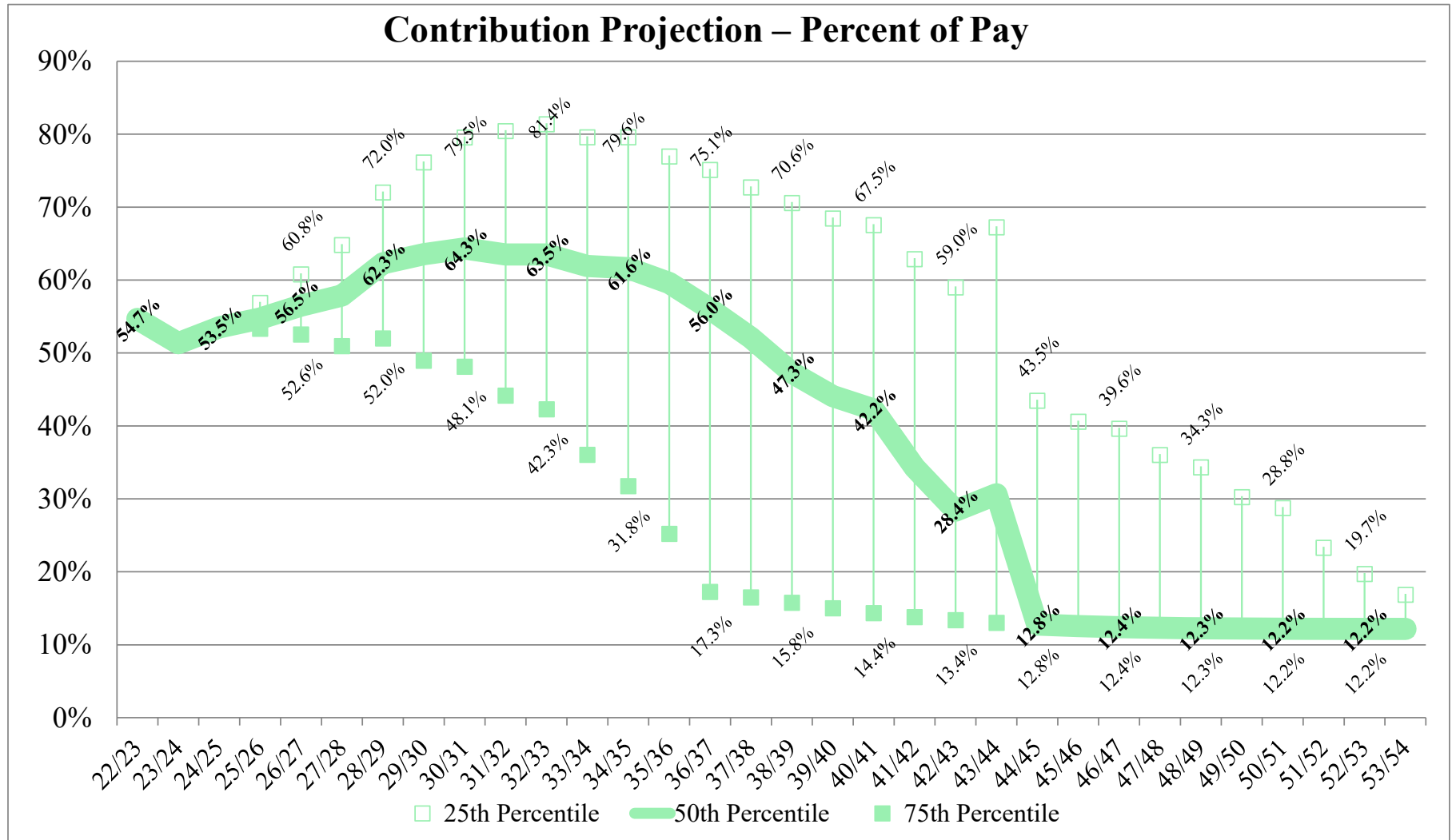
# Pension Funded Status (Combined)



# Miscellaneous–CalPERS Rates (% Payroll)

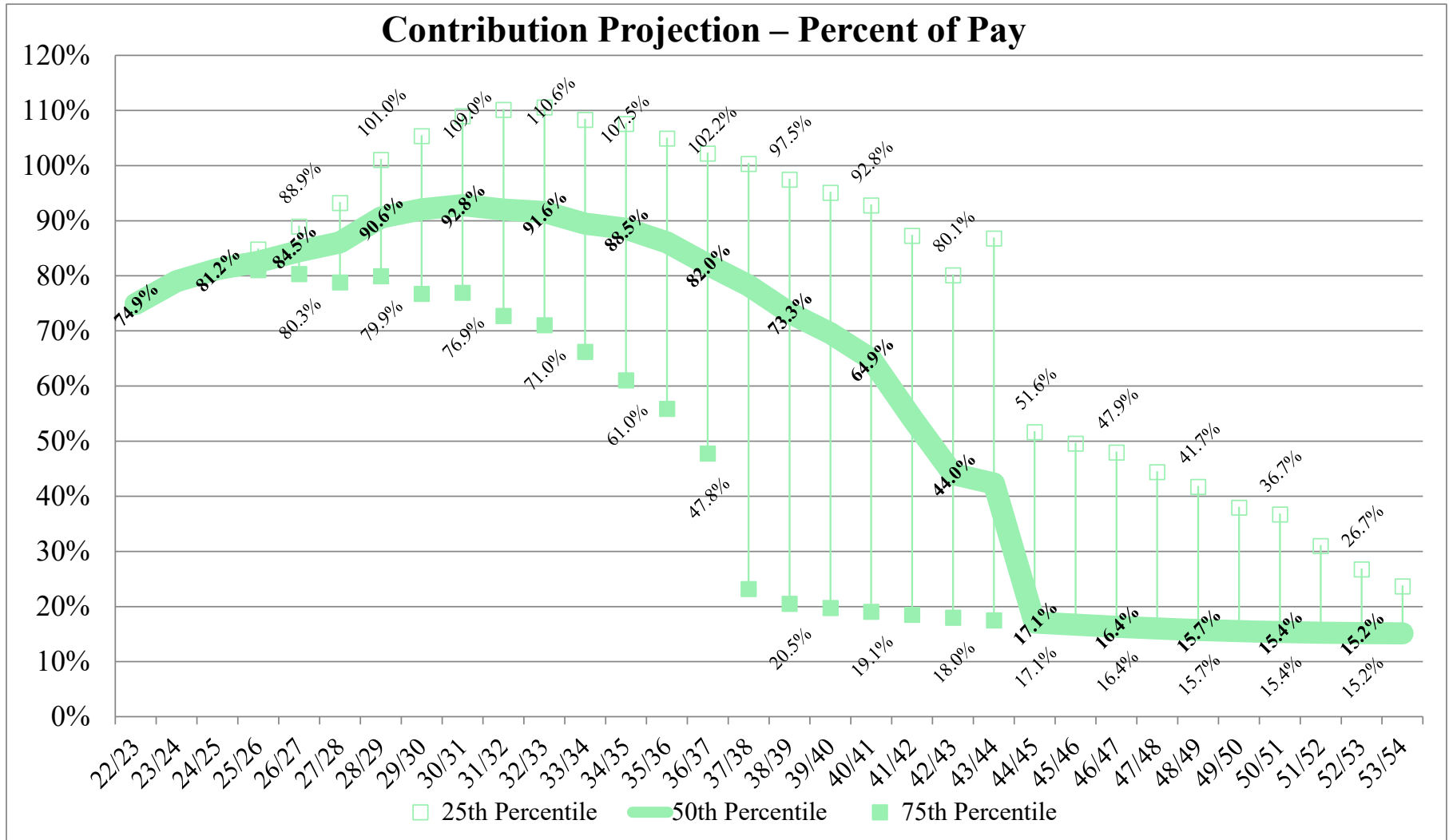


# Fire-CalPERS Rates (\$millions)

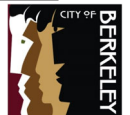
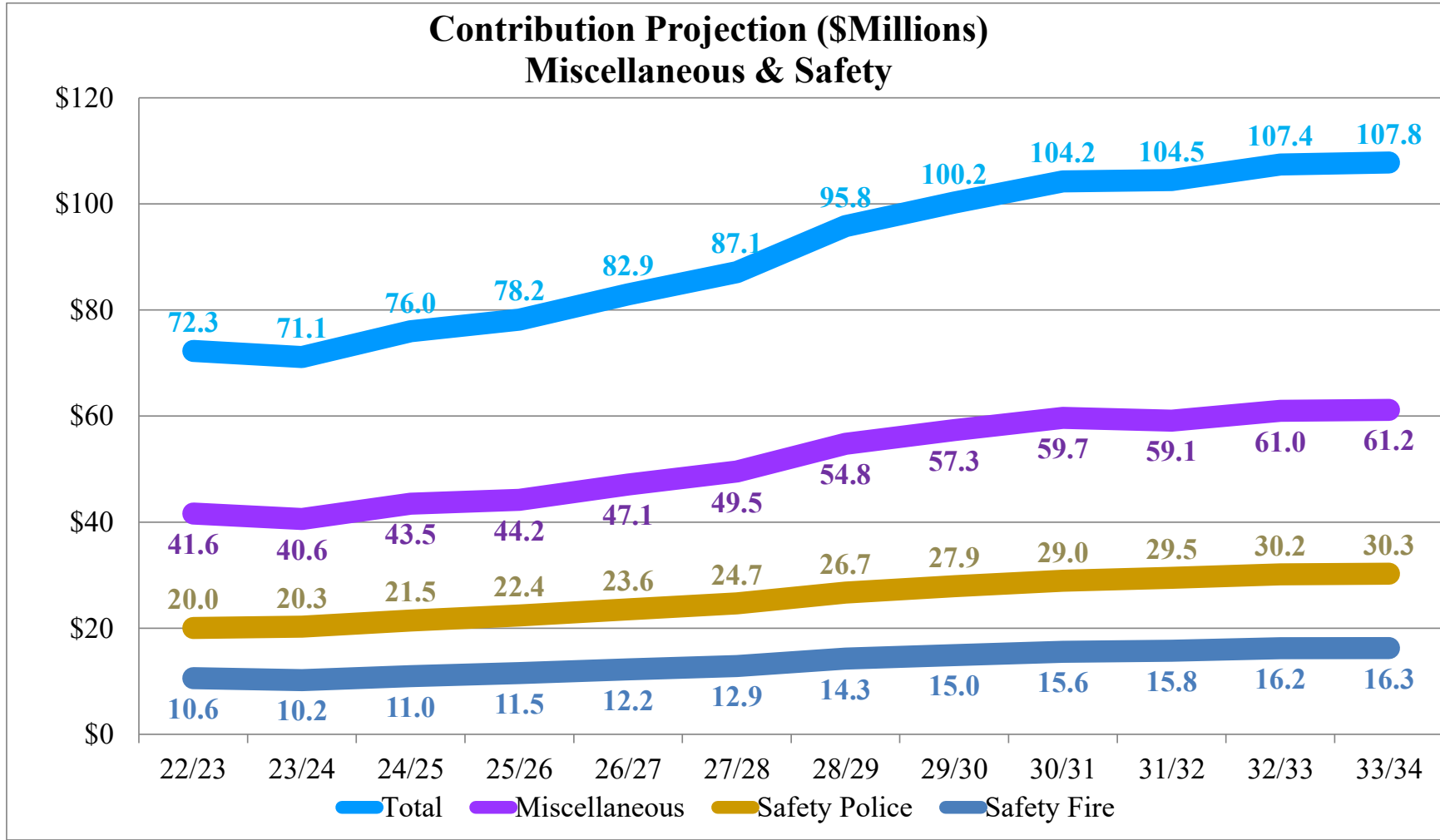




# Police–CalPERS Rates (% Payroll)



# 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



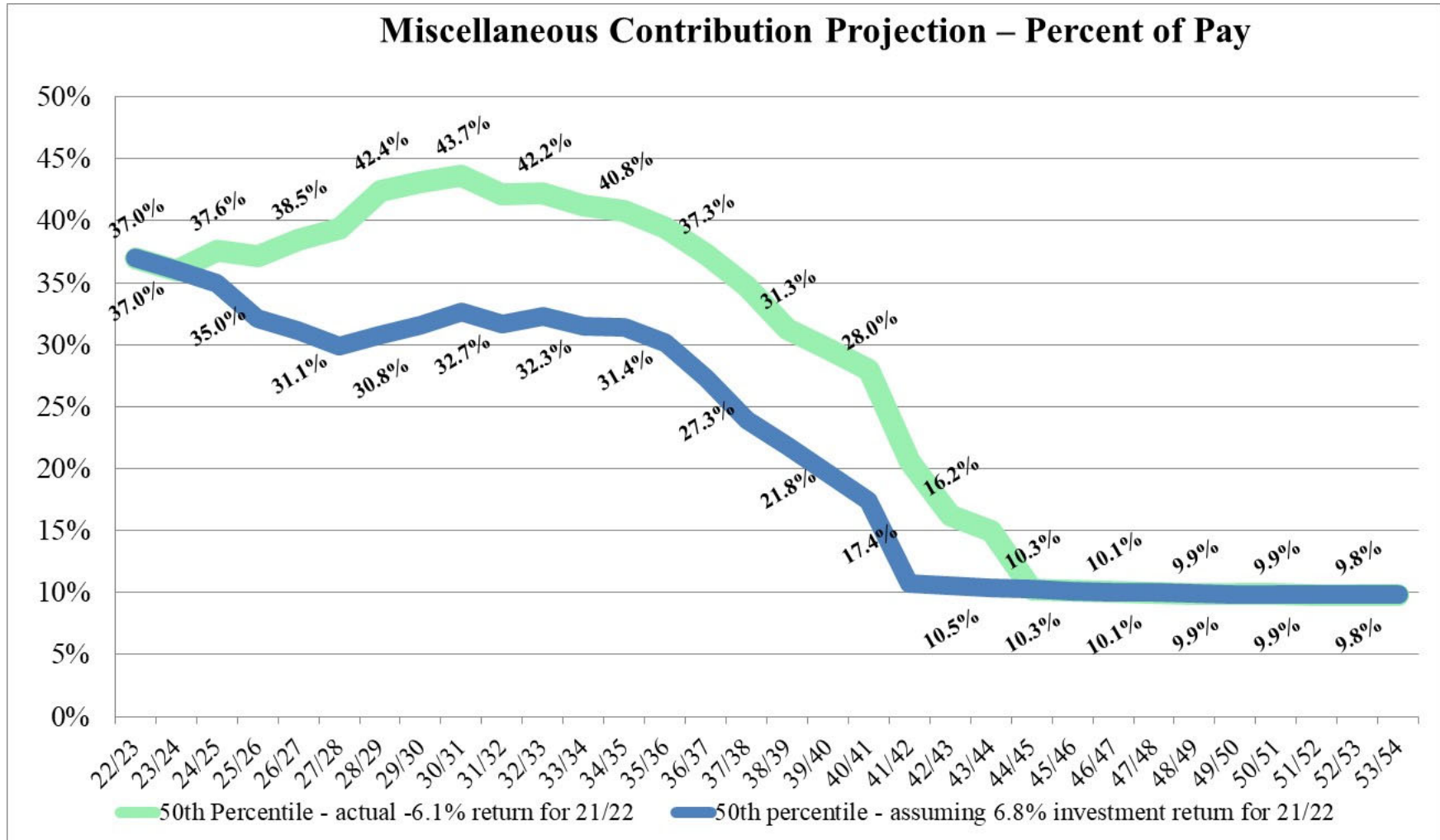
# Irrevocable Supplemental (§115) Trust

- 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





# 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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