Unfunded Pension Liability

Funding Goals & Challenges
Unfunded Pension Liability Funding Goals

- Keep Amortization Schedules Under 20 Years
- Maximize Long-term Savings
- Unfunded Liability Contributions should be aggressive but mindful of current needs
- Maximize use of Additional Discretionary Payments (ADP)
- Keep contributions to CalPERS relatively level
- Don’t increase risk
- Choose most cost effective path

* New 20-year level-dollar amortization policies adopted by CalPERS are applied prospectively unless early implemented
<table>
<thead>
<tr>
<th>Base</th>
<th>Balance as of FY 2020</th>
<th>Remaining Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Fresh Start Base</td>
<td>$305M</td>
<td>305,410,911</td>
</tr>
<tr>
<td>2 Experience - 2014</td>
<td>$(76.9M)</td>
<td>(76,872,914)</td>
</tr>
<tr>
<td>3 Experience - 2015</td>
<td>$31.9M</td>
<td>31,961,188</td>
</tr>
<tr>
<td>4 Assumption Change 2016</td>
<td>$16.8M</td>
<td>16,873,600</td>
</tr>
<tr>
<td>5 Experience - 2016</td>
<td>$21.5M</td>
<td>21,528,844</td>
</tr>
<tr>
<td>6 Assumption - 2017</td>
<td>$16.4M</td>
<td>16,338,103</td>
</tr>
<tr>
<td>7 Experience - 2017</td>
<td>$(27.2M) Est.</td>
<td>(27,217,335)</td>
</tr>
<tr>
<td>8 Assumption - 2018</td>
<td>$30.1M</td>
<td>30,805,734</td>
</tr>
</tbody>
</table>

Many Bases Form Unfunded Liability Where are ADPs Most Effective?

Apply here to achieve greatest short-term savings (e.g. lower min payment)

Apply here to longest base to achieve greatest L.T. savings
Years to Final Maturity

- **1 Fresh Start Base**: $305M
- **2 Experience - 2014**: $(76.9M)
- **3 Experience - 2015**: $31.9M
- **4 Assumption Change 2016**: $16.8M - 7.375%
- **5 Experience - 2016**: $21.5M
- **6 Assumption - 2017**: $16.4M - 7.25% Est.
- **7 Experience - 2017**: $(27.2M) Est.
- **8 Assumption - 2018**: $30.1M - 7.0% Est.
# Inclining Payment Schedules

**Make Level Payment Goal Challenging**

<table>
<thead>
<tr>
<th></th>
<th>Balance FY 2020</th>
<th>Remaining Yrs</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>FY 2028</th>
<th>FY 2029</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Experience - 2014</td>
<td>(76,872,914)</td>
<td>27</td>
<td>(4,021,557)</td>
<td>(5,044,363)</td>
<td>(5,195,694)</td>
<td>(5,351,112)</td>
<td>(5,677,475)</td>
<td>(5,847,800)</td>
<td>(6,023,233)</td>
<td>(6,203,930)</td>
<td>(6,390,048)</td>
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</tr>
<tr>
<td>3 Experience - 2015</td>
<td>31,961,188</td>
<td>28</td>
<td>1,256,208</td>
<td>1,678,940</td>
<td>2,161,635</td>
<td>2,226,484</td>
<td>2,293,279</td>
<td>2,362,077</td>
<td>2,432,940</td>
<td>2,505,928</td>
<td>2,581,106</td>
<td>2,658,539</td>
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<tr>
<td>4 Assumption Chg. 2016 - 7.375%</td>
<td>16,873,600</td>
<td>19</td>
<td>615,563</td>
<td>932,262</td>
<td>1,280,307</td>
<td>1,648,395</td>
<td>1,697,847</td>
<td>1,748,782</td>
<td>1,801,246</td>
<td>1,855,283</td>
<td>1,910,942</td>
<td>1,968,270</td>
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<tr>
<td>5 Experience - 2016</td>
<td>21,528,844</td>
<td>29</td>
<td>572,314</td>
<td>859,363</td>
<td>1,180,191</td>
<td>1,519,496</td>
<td>1,565,081</td>
<td>1,612,034</td>
<td>1,660,395</td>
<td>1,710,206</td>
<td>1,761,513</td>
<td>1,814,358</td>
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<tr>
<td>6 Assumption - 2017 7.25% Est.</td>
<td>16,338,103</td>
<td>20</td>
<td>304,722</td>
<td>614,310</td>
<td>949,110</td>
<td>1,303,444</td>
<td>1,678,184</td>
<td>1,728,529</td>
<td>1,780,385</td>
<td>1,833,797</td>
<td>1,888,811</td>
<td>1,945,475</td>
</tr>
<tr>
<td>7 Experience - 2017 Est.</td>
<td>(27,217,335)</td>
<td>30</td>
<td>(371,727)</td>
<td>(743,016)</td>
<td>(1,147,960)</td>
<td>(1,576,532)</td>
<td>(2,029,784)</td>
<td>(2,090,678)</td>
<td>(2,153,398)</td>
<td>(2,218,000)</td>
<td>(2,284,540)</td>
<td>(2,353,076)</td>
</tr>
<tr>
<td>Current Max.</td>
<td>35,000,000</td>
<td></td>
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</tr>
<tr>
<td>ADP</td>
<td>9,114,923</td>
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<td>8,223,177</td>
<td>5,872,207</td>
<td>3,836,547</td>
<td>2,357,548</td>
<td>745,426</td>
<td>(282,211)</td>
<td>(1,340,677)</td>
<td>(2,430,898)</td>
<td>(3,553,825)</td>
<td></td>
</tr>
</tbody>
</table>

*Disclaimer - Payment schedules have not been adjusted to reflect the lower payroll growth assumption of 2.75% vs 3.00%*
Default Payment vs Full Fresh Start

Is this payment level palatable?

Under Utilized Credits

Default Payment vs Full Fresh Start Level $ 16 Years
Potential Benefits of Using a Section 115 Trust

- Trust assets can be theoretically accessed to pay CalPERS at anytime to reduce volatility and offset unexpected rate increases (rate stabilization).
- Provides access to a broader universe of investments that the City can undertake on its own, including stocks and longer-term bonds.
- Allows the City to maintain control and investment oversight of assets.
- Rainy Day Fund - Emergency source of funds when Employer revenues are impaired based on economic or other conditions.
- Diversifies investment assets and strategies.
Potential Limitations of Using a Section 115 Trust

• Does not directly reduce Net Pension Liability
• Assets not recognized when CalPERS sets contribution rates
• More expensive to administer
• Added complexities for reporting & administration
• May introduce additional risks
  • Potentially short investment horizon
  • Difficult to diversify a small portfolio
  • Headline risk
• Assets can’t be simply transferred to CalPERS. They must be sold at current market value
• In the event of an economic downturn, when the reserve funds might need to be accessed, the market value of the trust portfolio is also likely to be negatively impacted by the downturn.
• The Trust would not likely have a material impact on overall pension asset diversification or investment return relative to the $550 million of pension assets already at CalPERS.
Comments From Major Provider of 115 Trusts

- There are approximately 124 public agencies in California that have adopted a 115 trust.
- Of those, we have 60 cities that have adopted our program.
- The types of city clients run the gamut from perceived wealthy cities to those not considered as well off.
- The average deposit is probably under $1 million
- Our program has no minimum fees nor monthly minimum, so those Cities that may not be able to contribute substantial sums can still participate.
- We simply charge a percentage of assets in the program to administer the program (which starts at 0.6%) so those making smaller deposits would pay smaller fees.
- The smallest deposit we have from a city is $50,000.
Future Pension Funding Policy Decision

1) Continue with Additional Discretionary Payments (ADP)
2) Fresh Start two or more bases to bring future credits forward
3) Divert ADP contributions to Section 115 Pension Prefunding Trust