

# CalPERS Retirement Plans Update



Presented to: East Bay Regional Park District Finance Committee

Presented by: Mark Schulte, FSA, EA, MAAA

# Agenda

|          |                       |
|----------|-----------------------|
| <b>1</b> | Actuarial Background  |
| <b>2</b> | EBRPD CalPERS Plans   |
| <b>3</b> | CalPERS Contributions |
| <b>4</b> | Other CalPERS Updates |

# Actuarial Background

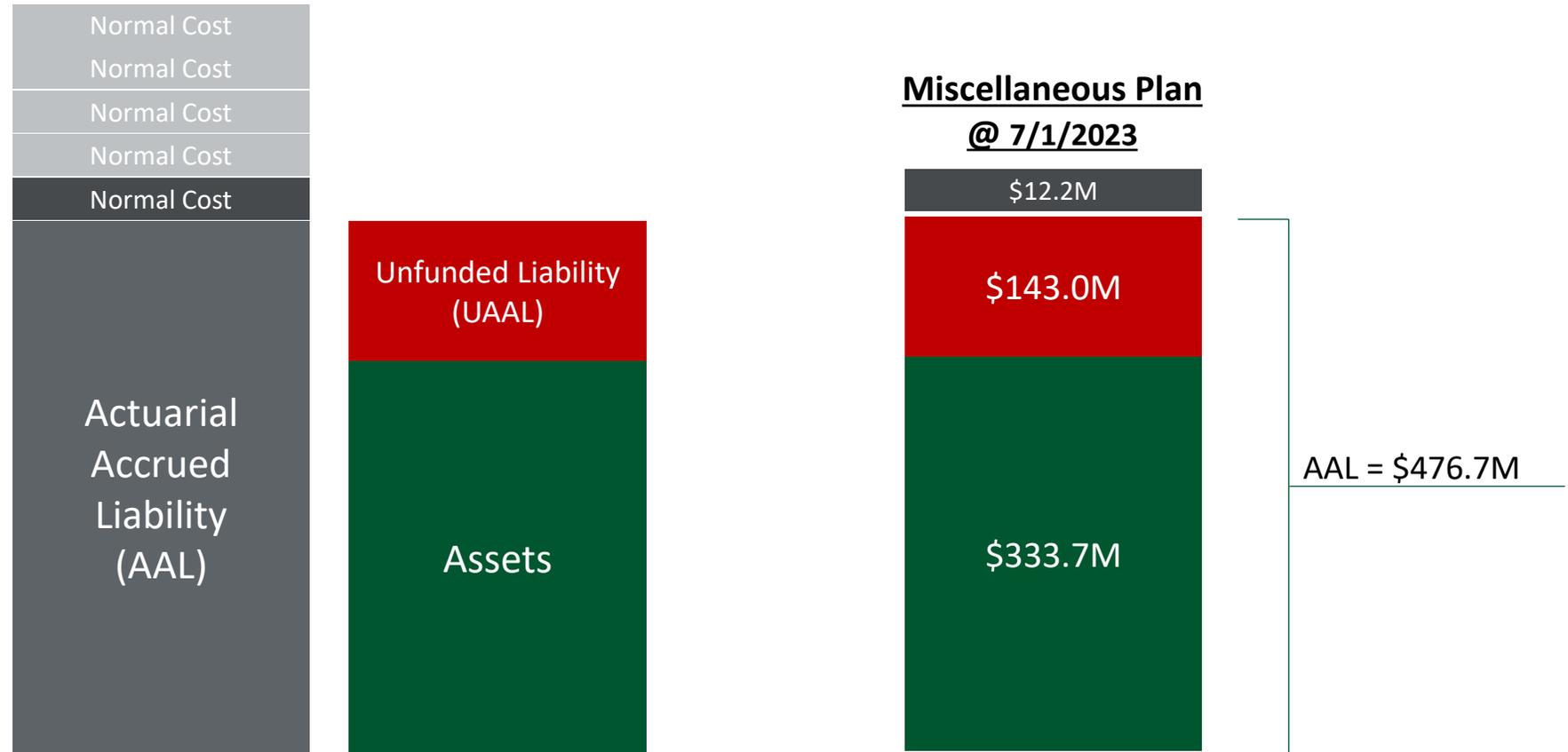
# Actuarial background

- CalPERS administers six different pension plans for the District
- Actuarial valuations prepared annually to determine contributions two years in future

| District CalPERS Pension Plans     |
|------------------------------------|
| Miscellaneous – Classic and PEPRA  |
| Safety (Police and Fire) – Classic |
| Safety Police – Second Tier        |
| Safety Fire – Second Tier          |
| Safety Police – PEPRA              |
| Safety Fire – PEPRA                |



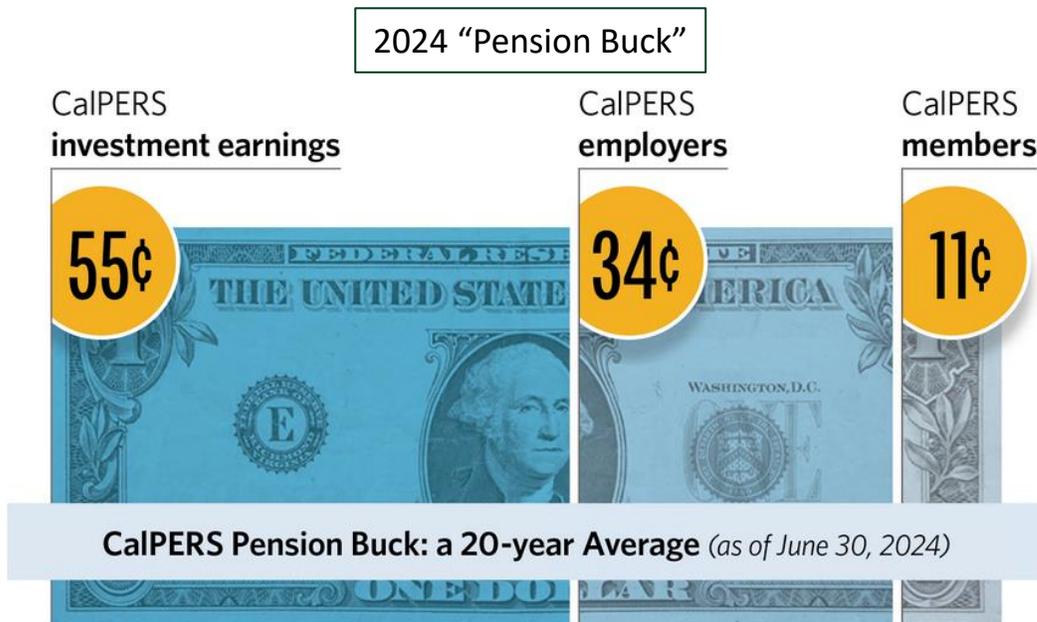
# Actuarial background *(continued)*



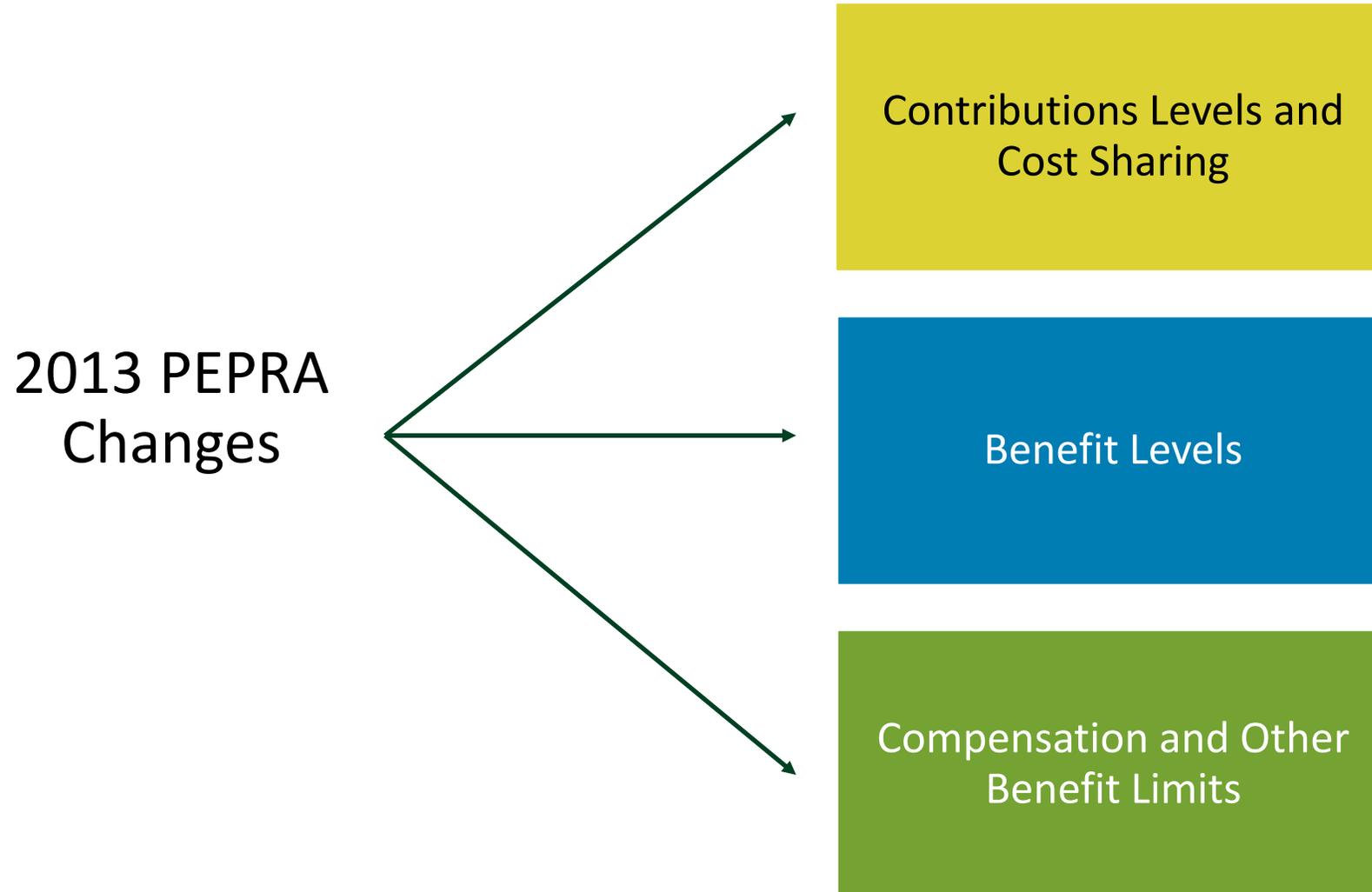
# Actuarial background *(continued)*

Investment returns are primary driver of cost to deliver pension benefits

- Contributions + investment earnings finance future benefit payments
- Higher investment returns = lower contributions, and vice versa
- Main risk that CalPERS doesn't achieve investment return assumption



# Actuarial background *(continued)*



# EBRPD CalPERS Plans

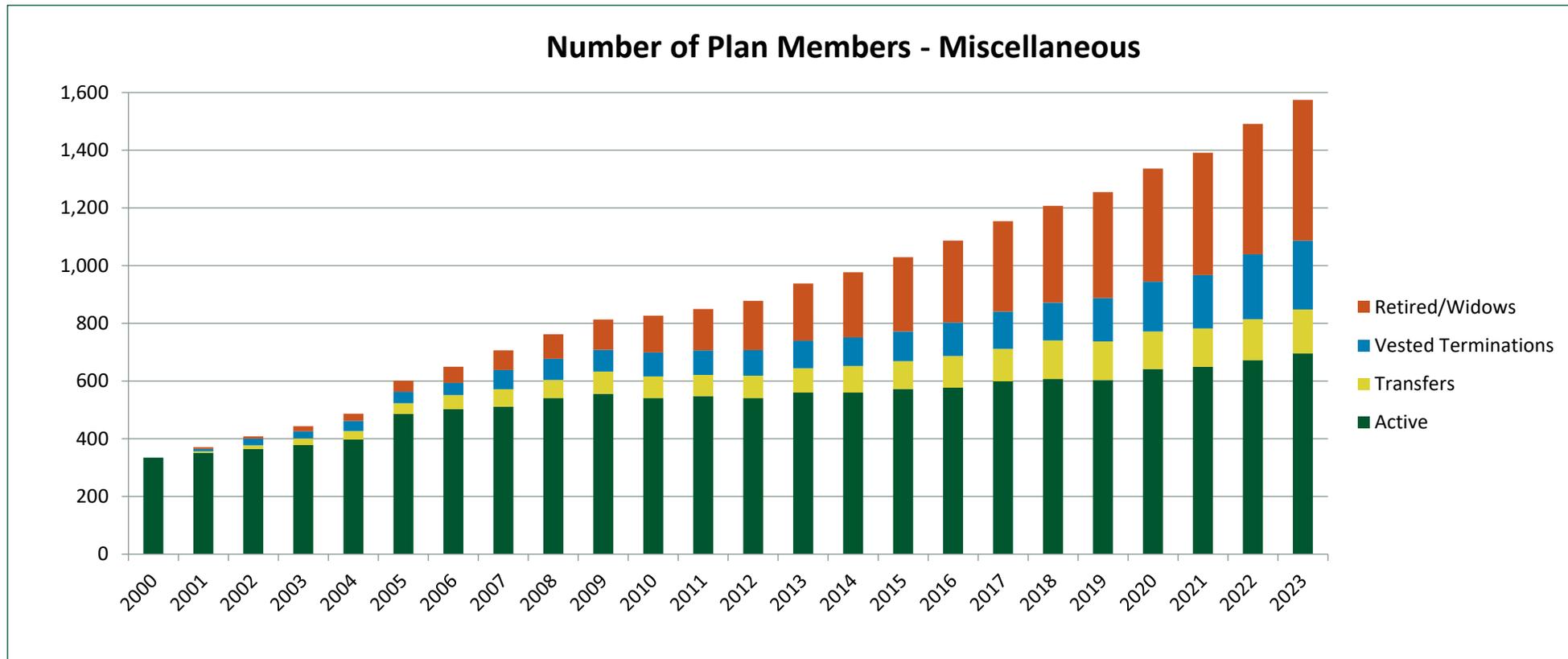
# EBRPD CalPERS Plans

| CalPERS Retirement Plans   | 6/30/2023<br>Unfunded Liability |
|--|---------------------------------|
| <ul style="list-style-type: none"> <li>▪ Miscellaneous – Classic and PEPRA</li> </ul>  | \$143.0M                        |
| <ul style="list-style-type: none"> <li>▪ Safety (Police &amp; Fire) – Classic</li> <li>▪ Safety Police – Second Tier</li> <li>▪ Safety Fire – Second Tier</li> <li>▪ Safety Police – PEPRA</li> <li>▪ Safety Fire – PEPRA</li> </ul> | \$35.5M                         |

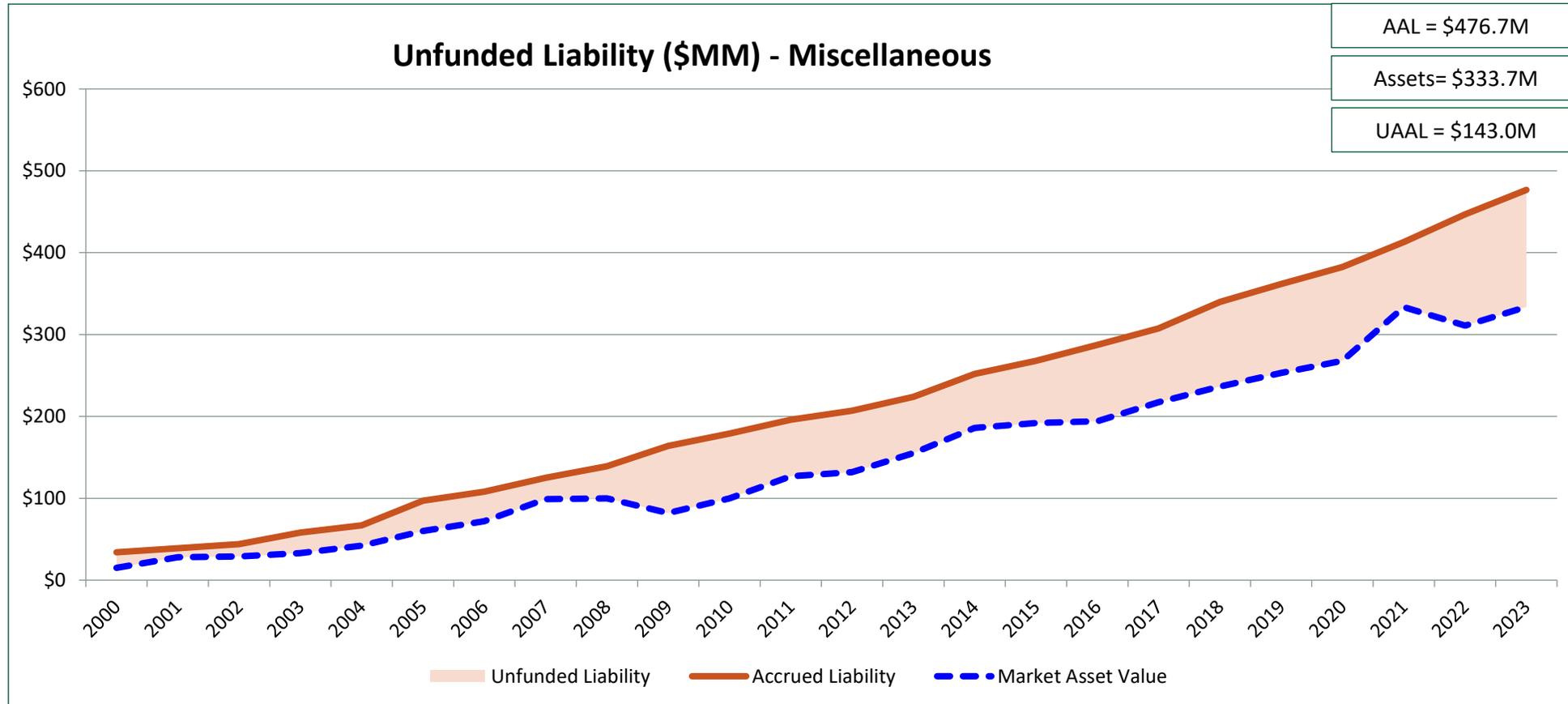
Liabilities are from most recently completed 6/30/2023 CALPERS funding reports. UAAL for all Safety pension plans is aggregated amount.

# EBRPD CalPERS Plans *(continued)*

- EBRPD CalPERS plans are relatively new – successors to legacy plans
- Plan population is starting to mature with more retirees

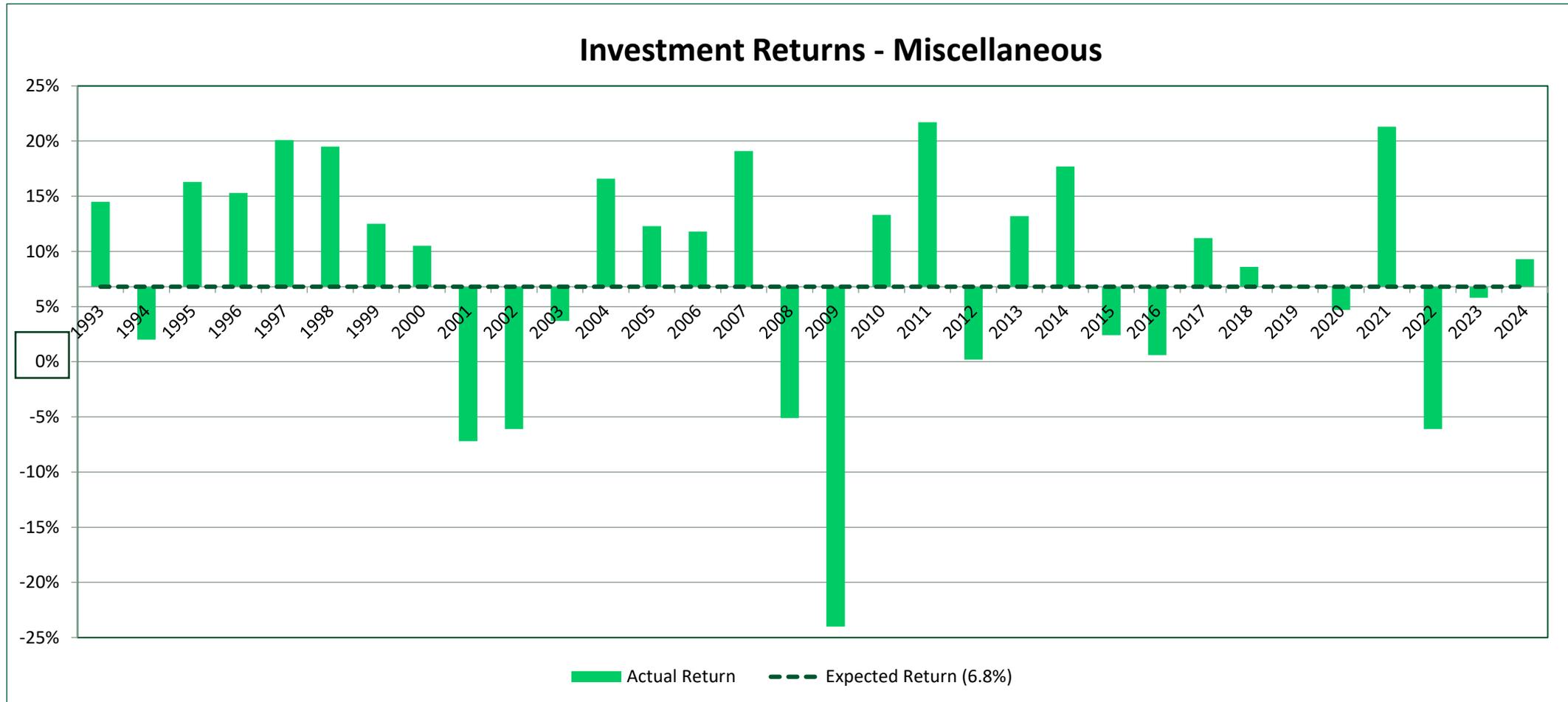


# EBRPD CalPERS Plans *(continued)*



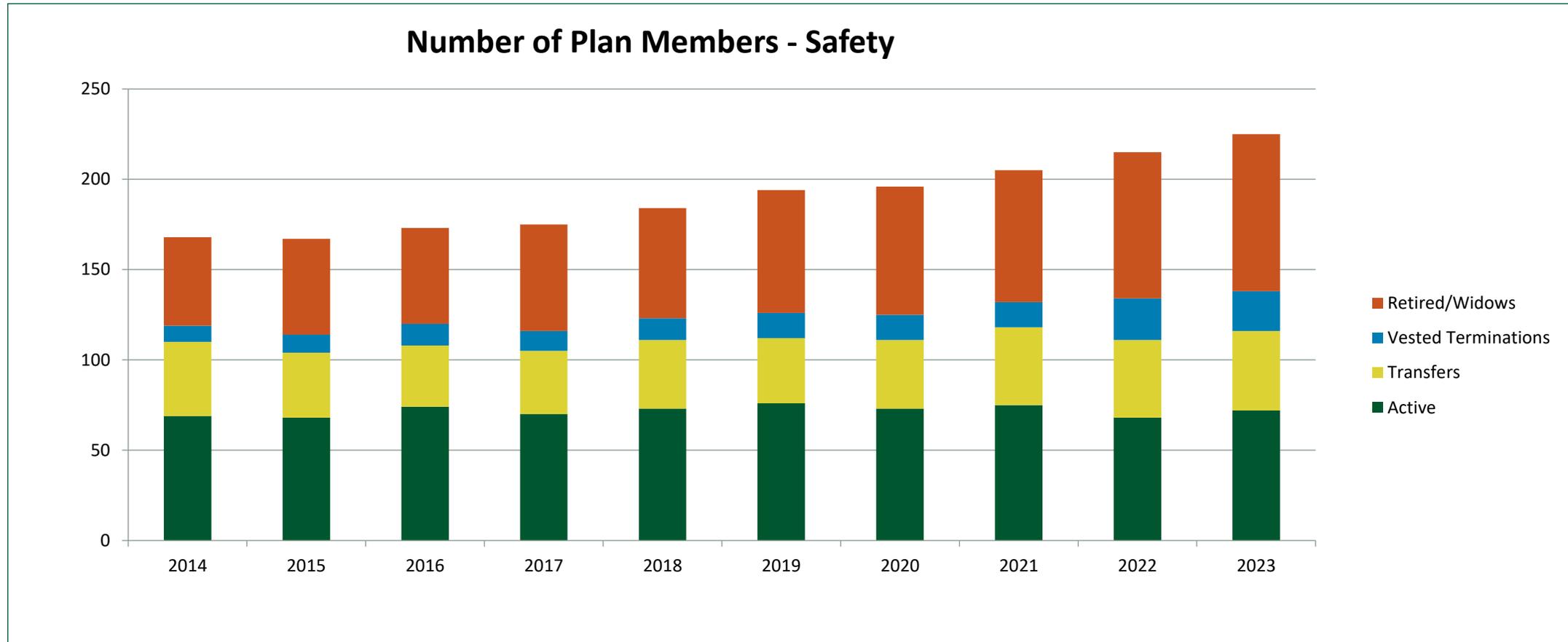
- Liabilities usually increase steadily unless assumptions change
- Investment returns are primary source of funded status and contribution volatility
- Other than 2021, funded percent has been around 70% for over a decade

# EBRPD CalPERS Plans *(continued)*



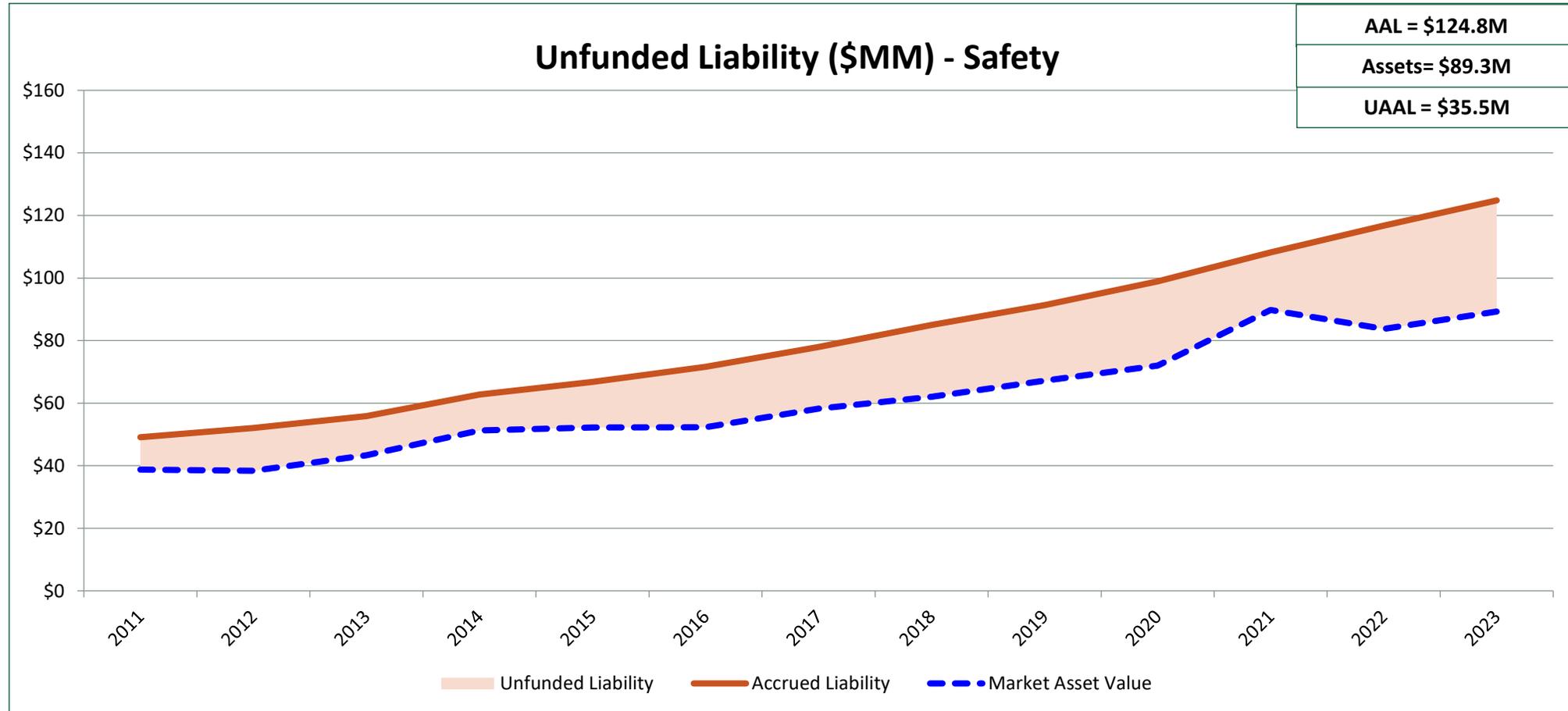
- Investment volatility is normal, but can be challenging as a plan matures and pays out more benefits
- Misc. Plan: FYE2023 contributions (employer + employee) = \$24.1M; benefit payments = \$20.7M

# EBRPD CalPERS Plans *(continued)*



- Safety participant counts are smaller than Miscellaneous
- Participant group is slightly more mature

# EBRPD CalPERS Plans *(continued)*



- Similar UAAL growth pattern as Miscellaneous plan
- Slightly higher funded status (71.5%) vs. Miscellaneous (70.0%); PEPRAs are about 85% funded

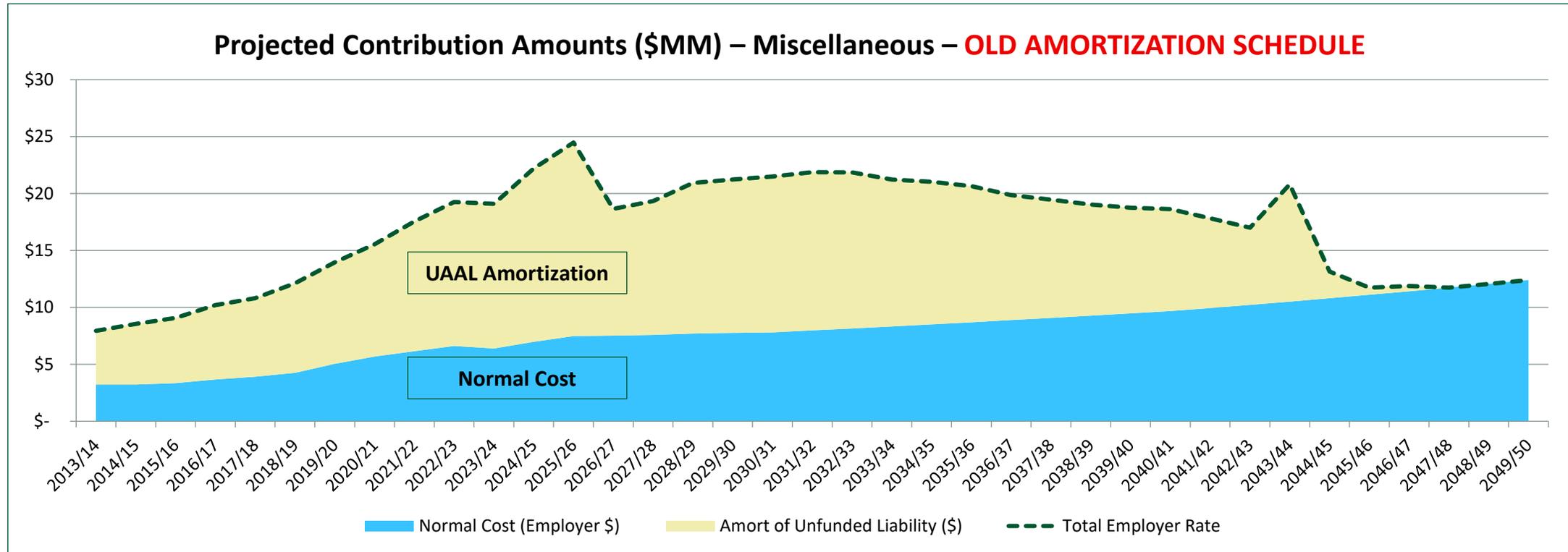
# CalPERS Contributions

# CalPERS Contributions



- Pay off new benefit accruals each year (Normal Cost)
- Plus pay down unfunded liability in an orderly manner (UAAL amortization)

# CalPERS Contributions *(continued)*



Projected normal cost contributions assume an annual 2.80% payroll growth rate in all future years. Different rates of assumed payroll growth will change the slope of the normal cost contribution line.

Projected contribution rates are from 6/30/2023 CalPERS report and are very rough long-term estimates based on the current unfunded liability amortizations. **Future unfunded liability payments could be substantially higher or lower depending on actual plan economic/demographic experience, and changes in actuarial assumptions or methods.**

# CalPERS Contributions *(continued)*

CalPERS has several options for refinancing UAAL payments

## Additional Discretionary Payments (ADP)

- Voluntarily contribute extra funds to CalPERS
- Intent is to lower interest paid on UAAL; similar to pre-paying principal on a mortgage
- Largest potential interest savings is to pay down longest-term debt/amortization layer first

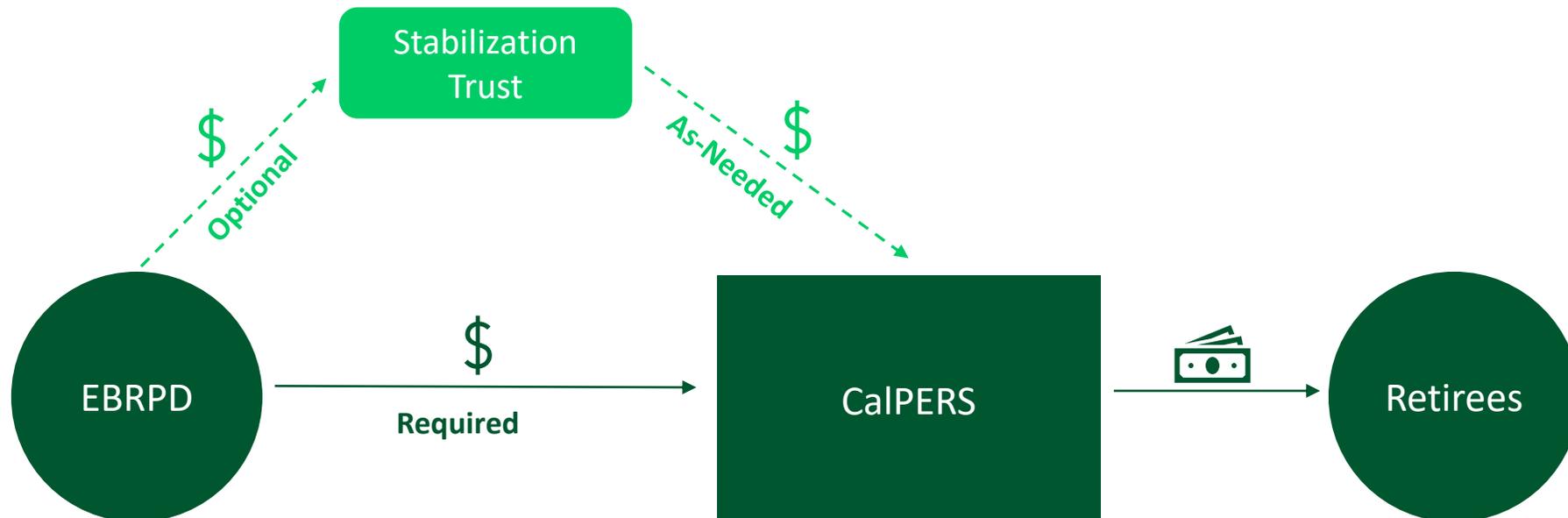
## Fresh Start Amortization

- Voluntarily combine all amortization bases and re-amortize over new payoff period
- Can't extend payment period vs. current schedule
- Potential to provide significant interest savings, but may raise short term payment costs

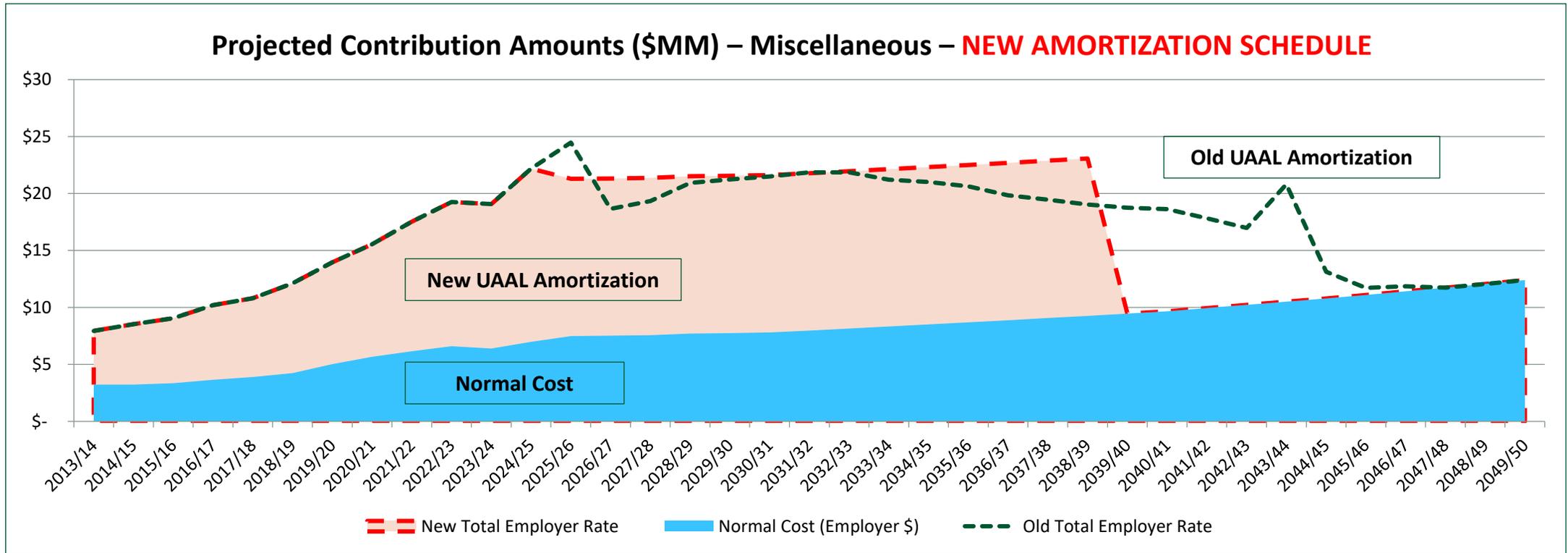
# CalPERS Contributions *(continued)*

## Pension Stabilization Trust

- Reserve funds in separate trust; use to stabilize (offset) budgeted contribution rates when they are at a “peak”
- Short-term budget relief; not a long-term funding solution
- EBRPD contributed most of its Stabilization Trust assets to CalPERS at the end of 2024 in a single Additional Discretionary Payment of \$6.825M and implemented a Fresh Start Amortization over a 14-year period.



# CalPERS Contributions *(continued)*



New 14 year “fresh start” amortization period starting with 2025-26 contributions

Expected to reduce net contribution costs by roughly \$18M over the next 25 years

# Other CalPERS Updates

# Risk Mitigation Updates

## CalPERS Pension Initiatives

**2013: Shorter amortization periods and elimination of asset smoothing**

**2014: New mortality/longevity assumptions**

**2015: Risk mitigation policy** Reduce discount rate gradually when investment returns exceed assumption by at least 2%

**2016: Lower investment return assumption from 7.50% to 7.0% over 3 years**

**2017: New demographic and economic assumptions**

**2018: More amortization changes** Shorter amortization period; eliminate phase-in of amortization changes; “level-dollar” amortizations

**2021: Risk mitigation policy triggered** FY2020-21 investment returns used to finance reduction of discount rate from 7.0% to 6.8%

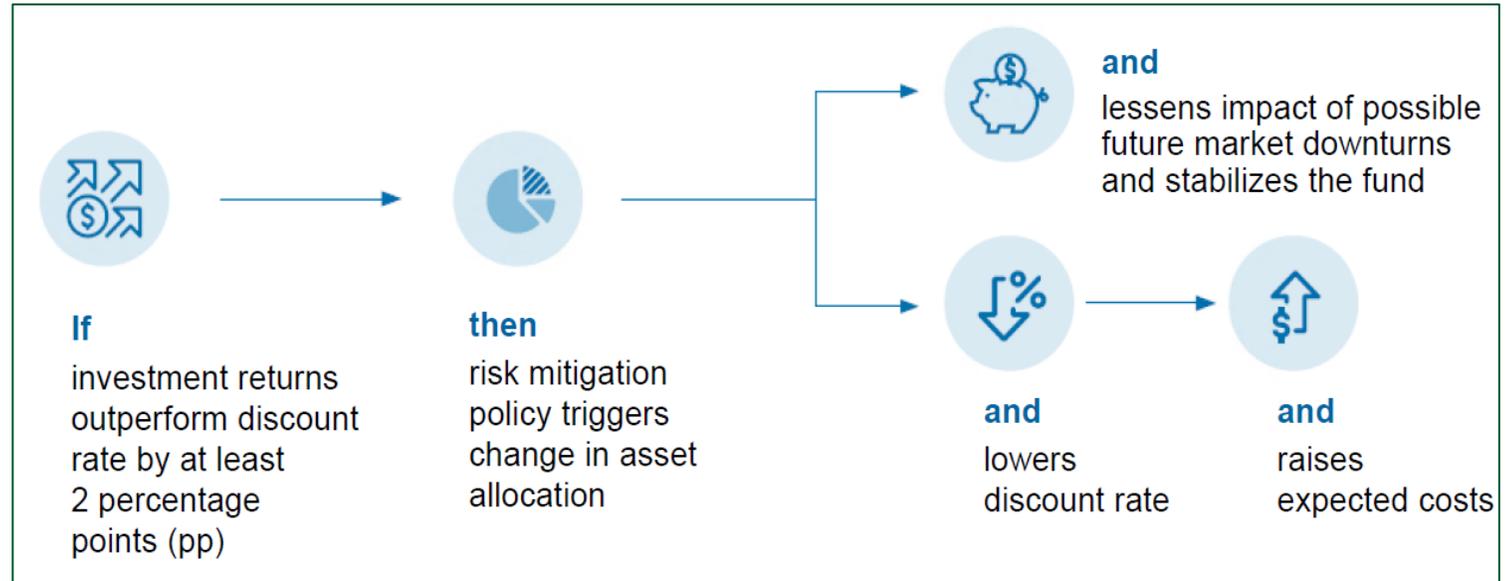
**2021: New demographic and economic assumptions**

**2024: Risk mitigation policy adjusted to remove automatic change to discount rate**  
Pension Outlook tool used for agency projections

**2025: Assumption review (every 4 years)**

# Risk Mitigation Updates *(continued)*

CalPERS risk mitigation policy seeks to reduce long-term investment risk/volatility



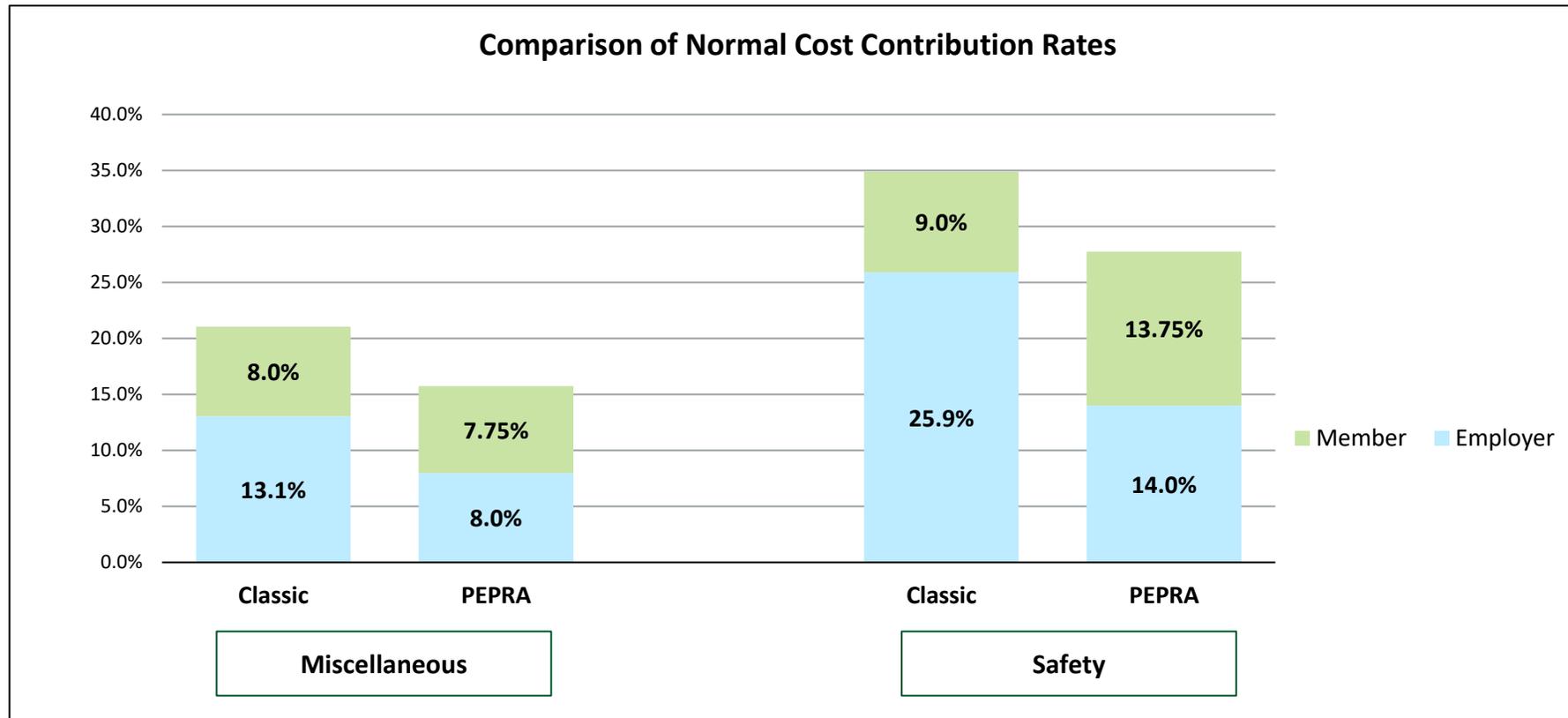
Source: CalPERS 7/15/2021 risk mitigation presentation

Table 1: Funding Risk Mitigation Event thresholds and Impacts

| Excess Investment Return   | Reduction in Discount Rate                        | Reduction in Expected Investment Return                       |
|--|---|---|
| <i>If the actual investment returns exceed the discount rate by:</i> | <i>Then the discount rate will be reduced by:</i> | <i>And the expected investment return will be reduced by:</i> |
| 2.00%  | 0.05%   | 0.05%   |
| 7.00%  | 0.10%   | 0.10%   |
| 10.00%   | 0.15%   | 0.15%   |
| 13.00%   | 0.20%   | 0.20%   |
| 17.00%   | 0.25%   | 0.25%   |

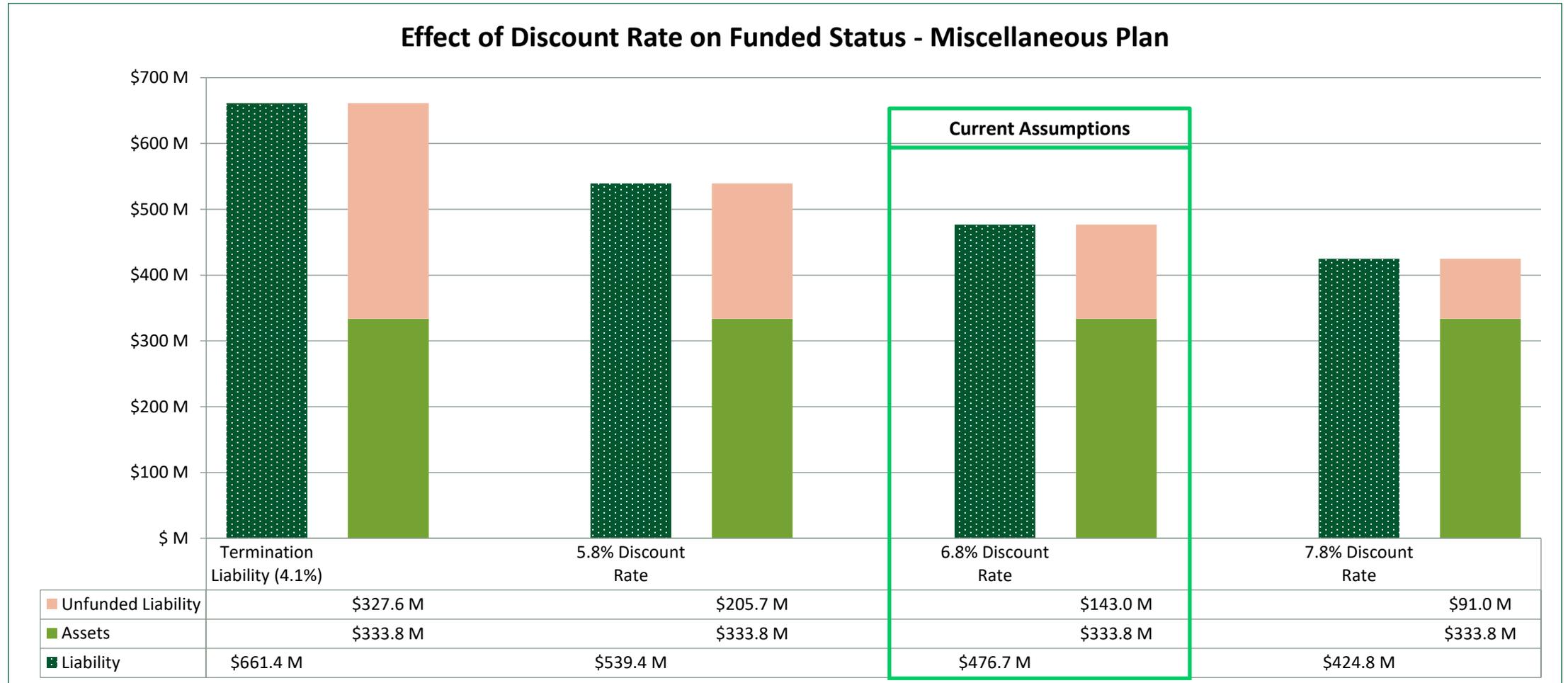
# Normal Cost Rates

- PEPRAs are starting to reduce current employee pension costs
- The Classic/PEPRA active member counts were **279/417 for Miscellaneous** and **35/37 for Safety** as of June 30, 2023 valuations



# Investment De-Risking

- Expect further investment de-risking in future



# CalPERS Outlook

- Contribution rates are projected to eventually revert to Normal Cost rate
- CalPERS assumptions are changing as they try to minimize future risk and volatility
- District has taken important first step towards refinancing CalPERS payments

# Important Disclosures

Unless otherwise indicated, all projected results in this document are based on information contained in the June 30, 2023 CalPERS actuarial valuation reports, Pension Outlook modeling tool, and other data and information provided by EBRPD. This includes CalPERS projections prepared by EBRPD and modified by VIA Actuarial Solutions to approximate different modeling scenarios.

All projected results are rough estimates based on expectations of future events. Actual results may be significantly different. To the extent actual results differ from projected, additional contributions to the plans may be required.

This presentation does not contain a complete discussion of pension risks. We would be glad to provide additional analysis upon request.

This purpose of this presentation is to provide a high-level summary of the District's CalPERS pension plans' funded status and projected contributions. This presentation may not be used for any other purpose, and VIA Actuarial Solutions is not responsible for the consequences of any unauthorized use. Its content may not be modified, incorporated into or used in other material, or otherwise provided, in whole or in part, to any other person or entity, without our permission.

The preparing actuary, Mark Schulte FSA EA MAAA, is a Member of the American Academy of Actuaries and meets the Qualification Standards of the Academy to render the actuarial opinion contained herein. I am available to answer questions on the material contained in the report or to provide explanations or further detail, as may be appropriate. I am not aware of any material direct or indirect financial interest or relationship that could create a conflict of interest or impair the objectivity of our work.

L/D/C/R: 4/dmk/mws/gng