Cathedral City

Legislation Details (With Text)

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Date	Ver.	Action By	Action	Result

City Council

MEETING DATE: 9/13/2017

TITLE:
Pension/OPEB Update

FROM:
Tami E. Scott, Administrative Services Director

RECOMMENDATION:
Informational Report Only

BACKGROUND:
On December 21, 2016, the CalPERS (California Public Employees Retirement System) Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning June 30, 2016 actuarial valuations. The minimum employer contributions for Fiscal Year 2018-2019 determined in the projections was calculated using a discount rate of 7.375. The projected employer discount rate 2019-20 was calculated using a discount rate of 7.25 percent and the discount rate in 2020-21 and beyond was calculated using a discount rate of 7.00 percent. The resulting projections reflect a significant increase to our CalPERS contribution rates. At the same time, our OPEB (Other Post-Employment Benefits) continue to increase at marginal rates as employees retire primarily due extended life cycles and unknown variables related to the cost of healthcare.

DISCUSSION:
You will see significant progress made over the last several years reducing our unfunded CalPERS

liability. We have gone, in most cases, from the low 60% funding rate in all our plans to the 80+% funded rates. Although the target is to be 100% funded, thus the reduced discount rates allocated by CalPERS, some of the changes in funding levels come from the investment returns earned by CalPERS that is out of the control of local government. For example, in the 2014/15 year, CalPERS earned 2.4%, in 2015/2016 they earned .61% and then finally in 2016/2017 they earned 11.2%. When actuarial reports are distributed, they are 18 months behind us so the presentation will reflect a reduction in funding rates from 2014 to 2015 primarily due to the poor performance by CalPERS. Due to this poor performance, the decision was made by the CalPERS Board of Directors to reduce the discount rate to local government on a phased-in approach, ultimately passing on their poor performance to us resulting in an increased annual obligation spread over the next several years, with the goal to attain a 100% funding rate.

The City's Other Post-Employment Benefits (OPEB) obligation has historically been handled on a pay -as-you-go basis as is the case with most cities. Over the next two- year budget cycle, we have allocated additional funds as a contribution to our overall unfunded liability. We have also developed additional tiers with our employee groups whereby employees need to be vested at 10 (50% contribution to retiree healthcare), 15 (75% contribution to retiree healthcare and 20 (100% contribution to retiree healthcare) years to receive some level of retiree healthcare benefit. Over time, this will reduce the impact of the city's unfunded liability. In the near term, however, as seasoned employees of tier one retire, there will be an increase in this unfunded liability.

FISCAL IMPACT:

An overall increase in both CalPERS and OPEB funding allocations

ATTACHMENTS:

None