

Pension Funding Update

Mono County, CA



Pension Workshop Agenda



Review contours of pension plans and what drives pension cost & affordability



Review tools local agencies have to manage unfunded pension liabilities



Review current funding progress and cost trajectory



Review strategies and recommendations to manage unfunded pension liability and reduce exposure to pension cost volatility

Employer Promised Defined Retirement Benefits

Provided through California Public Employees Retirement System (CalPERS), a multi-employer pension & health care administrator

Promised benefit is made by the contracting agency and thus the local agency is on the hook to make up funding shortfalls, not CalPERS

Once the promised benefit is made, the benefit can only be changed prospectively per the California Constitution "California Rule"

Exiting CalPERS is not a practical option, the termination liability is cost prohibitive.

Revised benefit structure for employees hired on or after January 1, 2013 due to Public Employees Pension Reform Act (PEPRA) but will take generations to have a material impact

Benefit Tiers – Miscellaneous Employees



	<i>Miscellaneous Tier 1</i>	<i>Miscellaneous Tier 2</i>	<i>Miscellaneous Tier 3 PEPR</i>
Hire Date	Prior to Jun 1, 2012	On or after Jun 1, 2012	On or after Jan 1, 2013
Formula	2.7% @ 55	2.5% @ 55	2% @ 62
Final Pay Period	12 Months	12 Months	36 Months
COLA	2%	2%	2%
Employee Contributions – CalPERS Contract	8%	8%	7.75%
Employee Cost Sharing – Labor Agreements	0%	0%	0%

Benefit Tiers – Peace Officers & Sheriff



	<i>Peace Officer Tier1</i>	<i>Peace Officer Tier2</i>	<i>Peace Officer PEPRA</i>	<i>Sheriff Tier 1</i>	<i>Sheriff Tier 2</i>	<i>Sheriff Tier 3 PEPRA</i>
Hire Date	Prior to July 1, 2004	Prior to Jan 1, 2013	On or after Jan 1, 2013	Prior to Dec 27, 2012	On or After Dec 27, 2012 Prior to Jan 1, 2013	On or after Jan 1, 2013
Formula	3% @ 50	3%@50	2.7% @ 57	3% @ 50	3% @ 55	2.7% @ 57
Final Pay Period	12 Months	12 Months	36 Months	12 Months	36 Months	36 Months
COLA	2%	2%	2%	2%	2%	2%
Employee Contribution – CalPERS Contract	9%	9%	13.75%	9%	9%	13.75%
Employee Cost Sharing – Labor Agreements	3%	3%	0%	3%	3%	0%

Benefit Tiers – Fire



	<i>Safety Fire Tier 1</i>	<i>Safety Fire Tier 2</i>	<i>Safety Fire Tier 3 - PEPPRA</i>
<i>Hire Date</i>	Prior to Jul 1, 2007	On or after July 1, 2007 Prior to Jan 1, 2013	On or after Jan 1, 2013
<i>Formula</i>	3% @ 50	2% @ 50	2.7% @ 57
<i>Final Pay Period</i>	12 Months	12 Months	36 Months
<i>COLA</i>	2%	2%	2%
<i>Employee Contribution – CalPERS Contract</i>	9%	9%	13.75%
<i>Employee Cost Sharing – Labor Agreements</i>	3%	3%	0%

Defined Benefit – Sample

What does 2.7 @ 55 Mean?

- 2.7 is the benefit factor if employee retires at age 55.
- The benefit factor is multiplied times the years of service to derive a % of pensionable pay
- 30 Years of Service X 2.7 = 81% of Final Year
 - Final Year of \$100,000 = \$81,000 Lifetime Annual Benefit
- Employees could retire as early as 50 and receive a reduced benefit factor.
 - For example: 2.56% at age 54, 2.42% at age 53, 2.28% at age 52, 2.14% at age 51 and 2% at age 50

Assumptions Set Future Cost & Funding Expectations



Economic

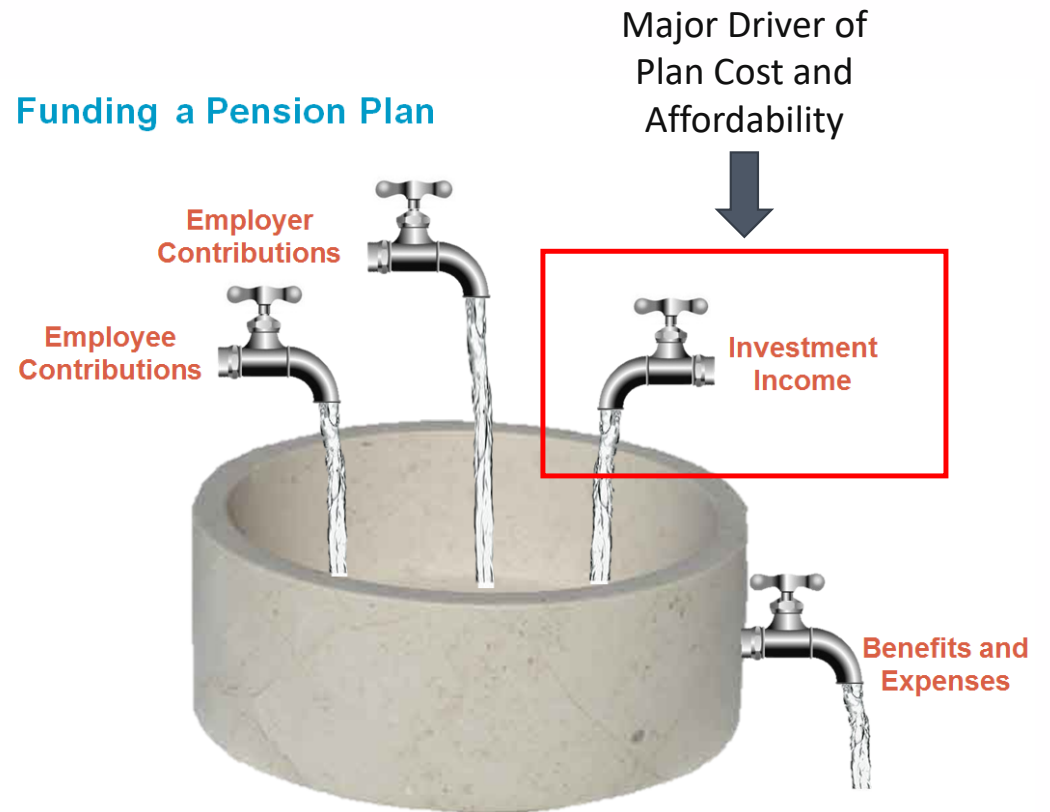
- Inflation
- Investment Return
- Salary Growth



Demographic

- Retirement
- Disability
- Death
- Termination

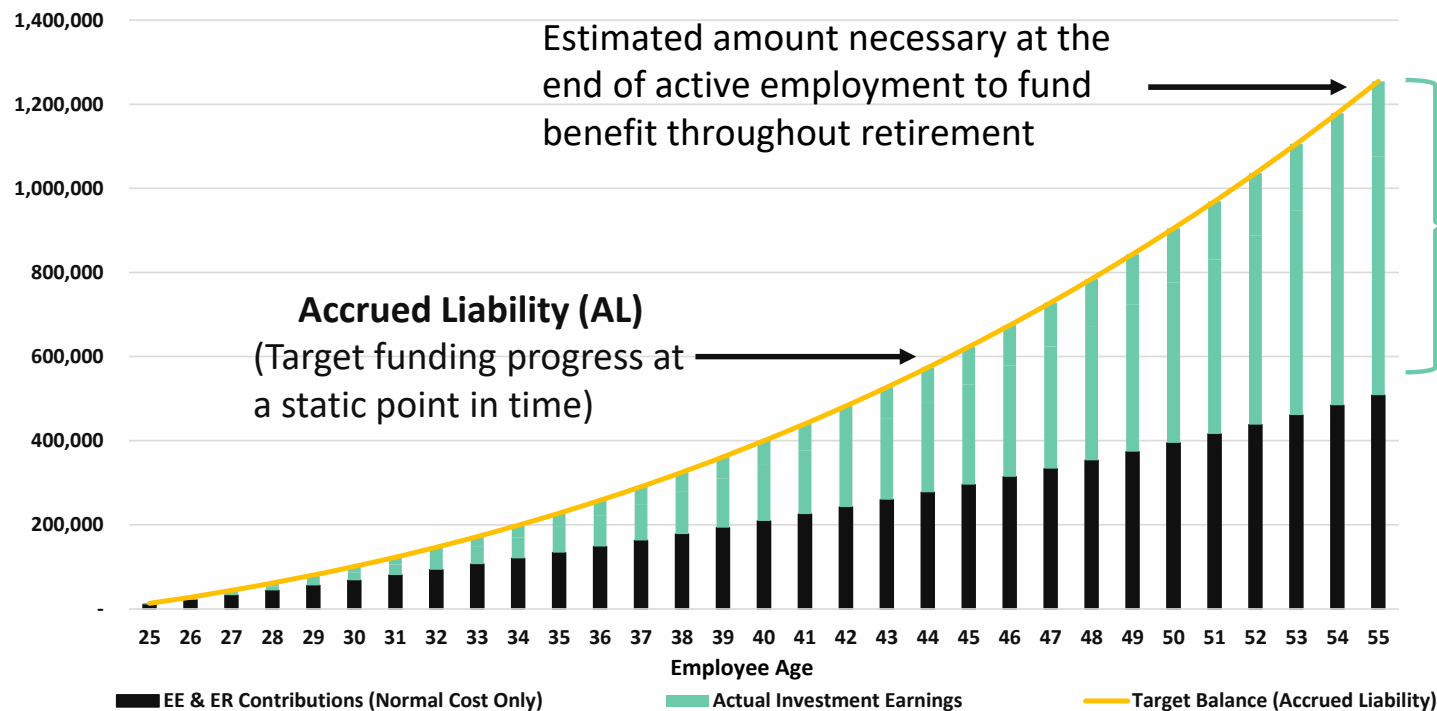
Funding a Pension Plan



Hypothetical Prefunding Example for Individual Employee's Retirement Benefit

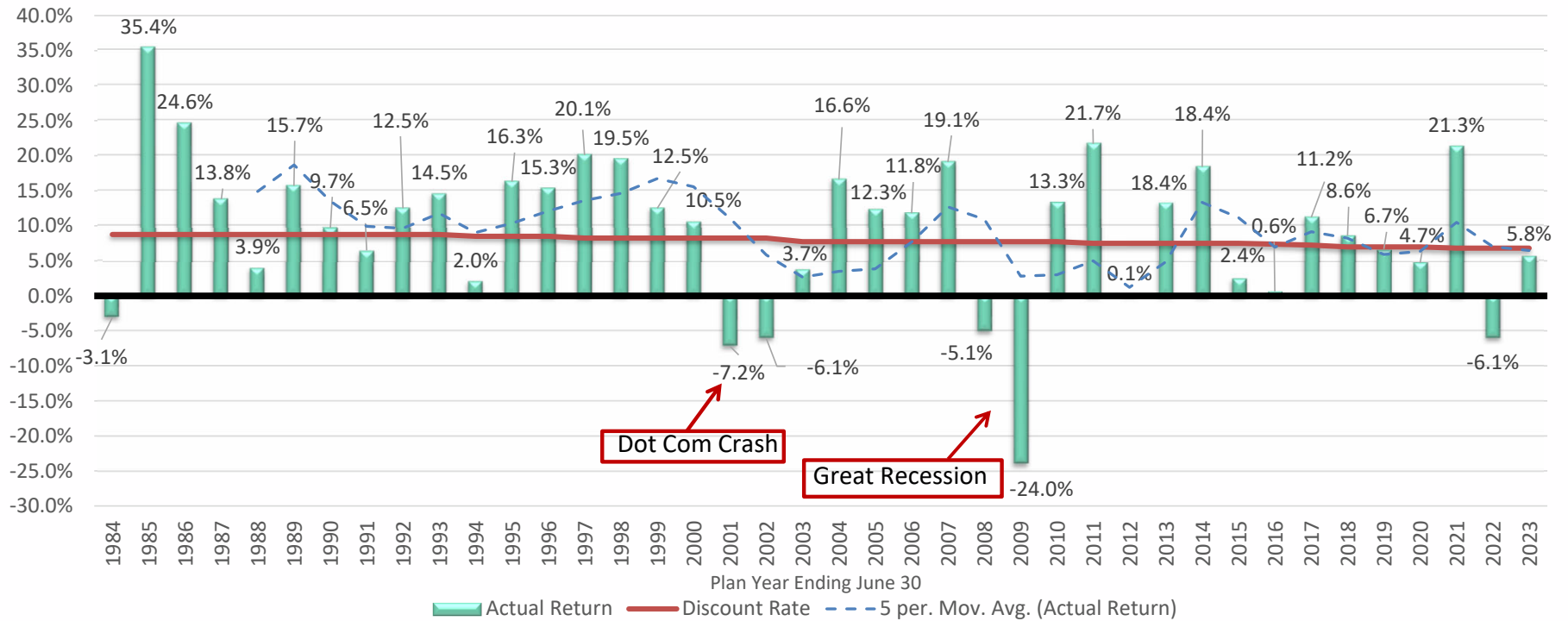


Illustration Only



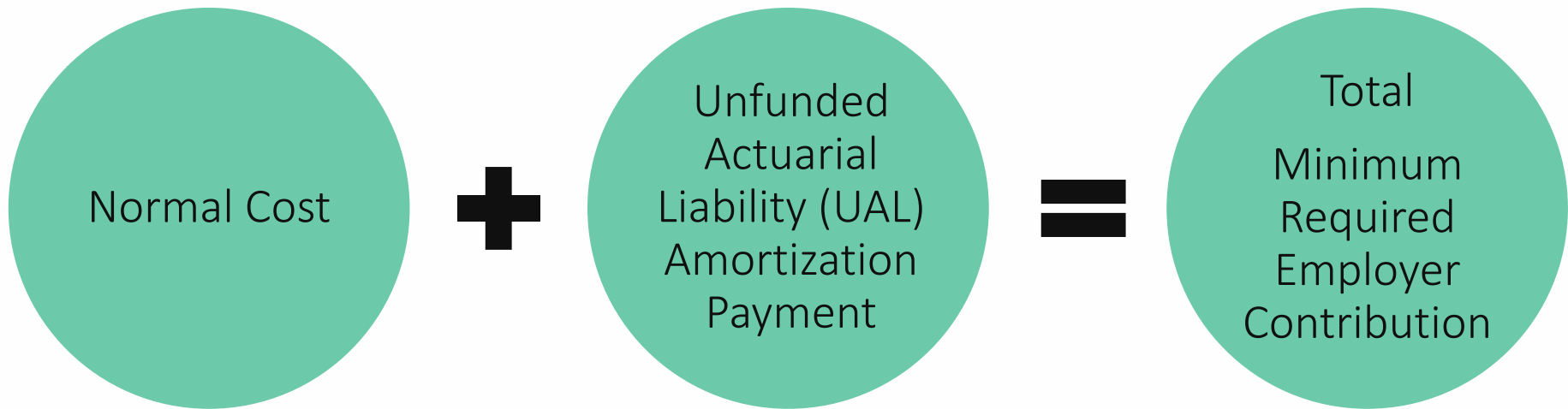
Investment earnings are **presumed** to offset 50%-60% of the promised benefit. When investment performance fall short of expectations, employers feel the pain.

CalPERS Historical Investment Returns



Compound Annual Rates of Return through June 30, 2023					
	1 Year	5 Year	10 Year	20 Year	30 Year
Compound Annual Return	5.8%	6.1%	7.1%	7.0%	7.5%

Components of Required Employer Contribution



Normal Cost – the cost for current service paid as a percent of payroll. Increases when payroll increases, decreases when payroll decreases

Relatively stable – Generally expected to grow with payroll

UAL Contribution – payment toward past service. Paid as a fixed dollar amount each year.

Volatile - Pension assets and resulting funded status are at the whim of the markets

How Has Your Agency Been Impacted?



Actuarial Funding (Gains)/Losses



Valuation Year	(GAIN)/LOSS
6/30/2021	All Plans
Investment Experience Gain	(23,505,800)
Discount Rate Change	5,262,760
Other Assumption Changes	838,272
Other Demographic Gain	(1,643,498)
TOTAL	(19,048,266)

Assumption	Actual Return	Experience Gain/(Loss)	First Contribution Year
7.0%	22.4%	15.4%	FY 23-24

	(GAIN)/LOSS
6/30/2022	All Plans
Investment Experience Loss	26,167,021
Liability Loss	4,398,883
TOTAL	30,565,904

6.8%	-7.5%	-14.3%	FY 24-25
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	(GAIN)/LOSS
6/30/2023	All Plans
Investment Experience Loss	\$1,310,00

6.8%	6.1%	0.7%	FY 25-26
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Primary Reason for Unusually Large Non-Investment Loss



During the 2022 Valuation Year, Retirees received the highest COLA in 30 years, driven by the surge in inflation

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2022
2% COLA Provision	2003 & Earlier	2%
	2004	2.19%
	2005	3.59%
	2006-2014	4.70%
	2015	3.13%
	2016	2.39%
	2017	2.52%
	2018	2.96%
	2019	2.77%
	2020	2.00%
	2021	Not Eligible

3% COLA Provision	1979 & Earlier	3%
	1980-2019	4.70%
	2020	3%
	2021	Not Eligible
4% COLA Provision	2019 & Earlier	4.70%
	2020	4.00%
	2021	Not Eligible
5% COLA Provision	2020 & Earlier	4.70%
	2021	Not Eligible

Funded Status Trend With Trust



Fiscal Year End (FYE)	2020	2021	2022	Projected 2023	Change
Accrued Liability (AL)*	\$170,774,142	\$228,943,673	\$242,573,146	\$250,200,000	\$7,626,854
Market Value of Assets (MVA)**	\$115,964,512	\$180,524,326	\$164,984,155	\$171,230,000	\$6,245,845
115 Trust Assets	\$0	\$0	\$0	\$1,243,157	\$1,243,157
Unfunded Accrued Liability (UAL)	\$54,809,630	\$48,419,347	\$77,588,991	\$77,726,843	\$137,852
Funded Status	67.91%	78.85%	68.01%	68.93%	0.92%
Assumption	7.00%	7.00%	6.80%	6.80%	
Actual	5.00%	22.40%	-7.50%	6.10%	
Experience Gain/Loss	-2.00%	15.40%	-14.30%	-0.70%	

* The County's Accrued Pension Liability growth rate is stable and declining over time

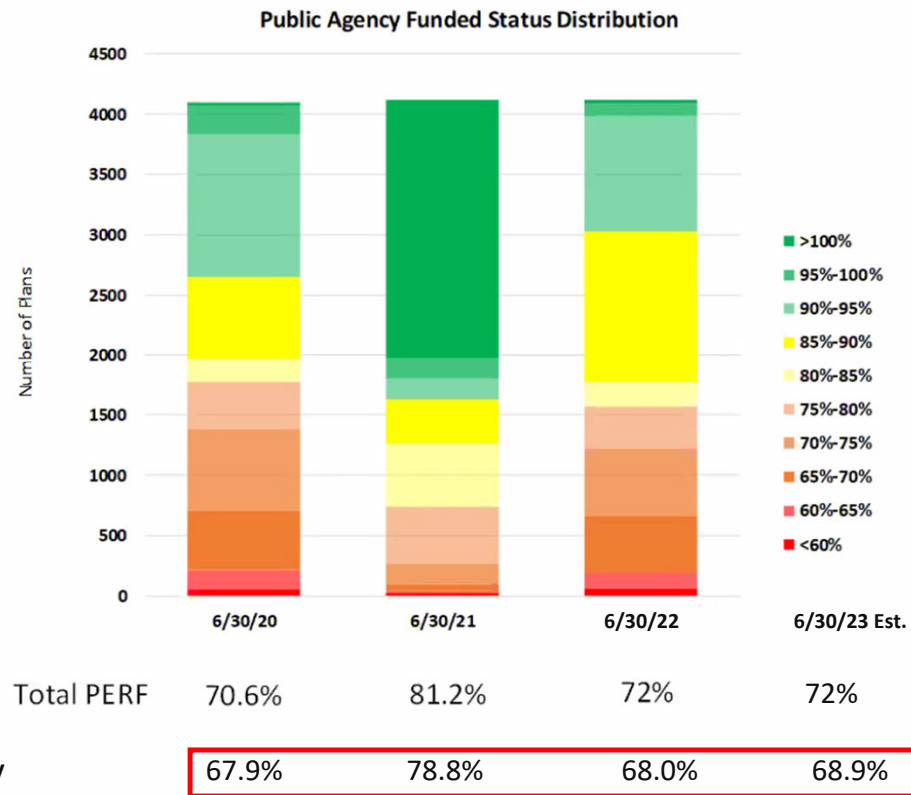
** The Market Value of Assets invested by CalPERS is volatile, which is outside of the County's control.

Comparison to Other Public Agencies



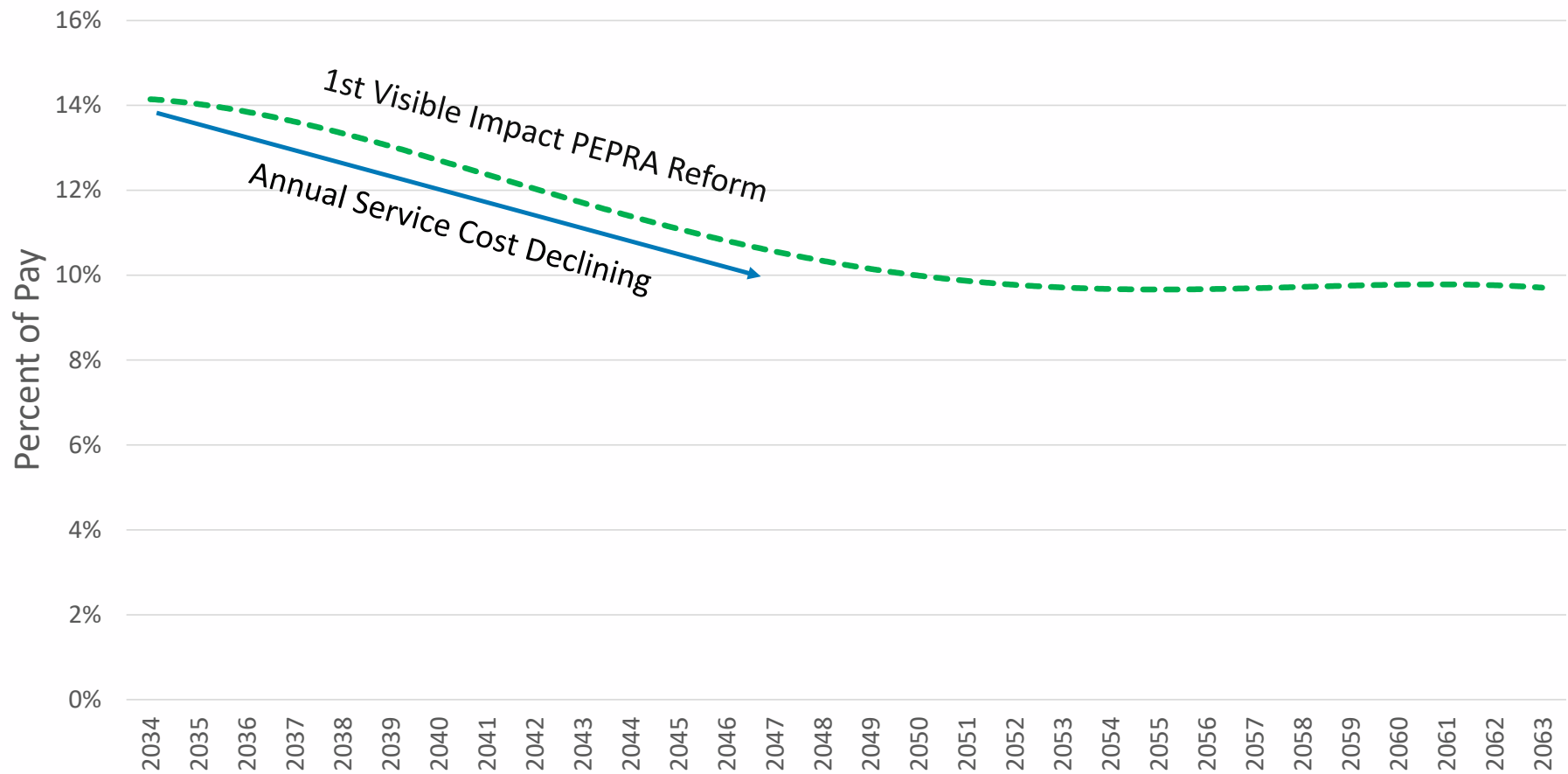
6/30/2022 Estimates —
Public Agency
Funded Ratios

Source:



Normal Cost Moving Forward

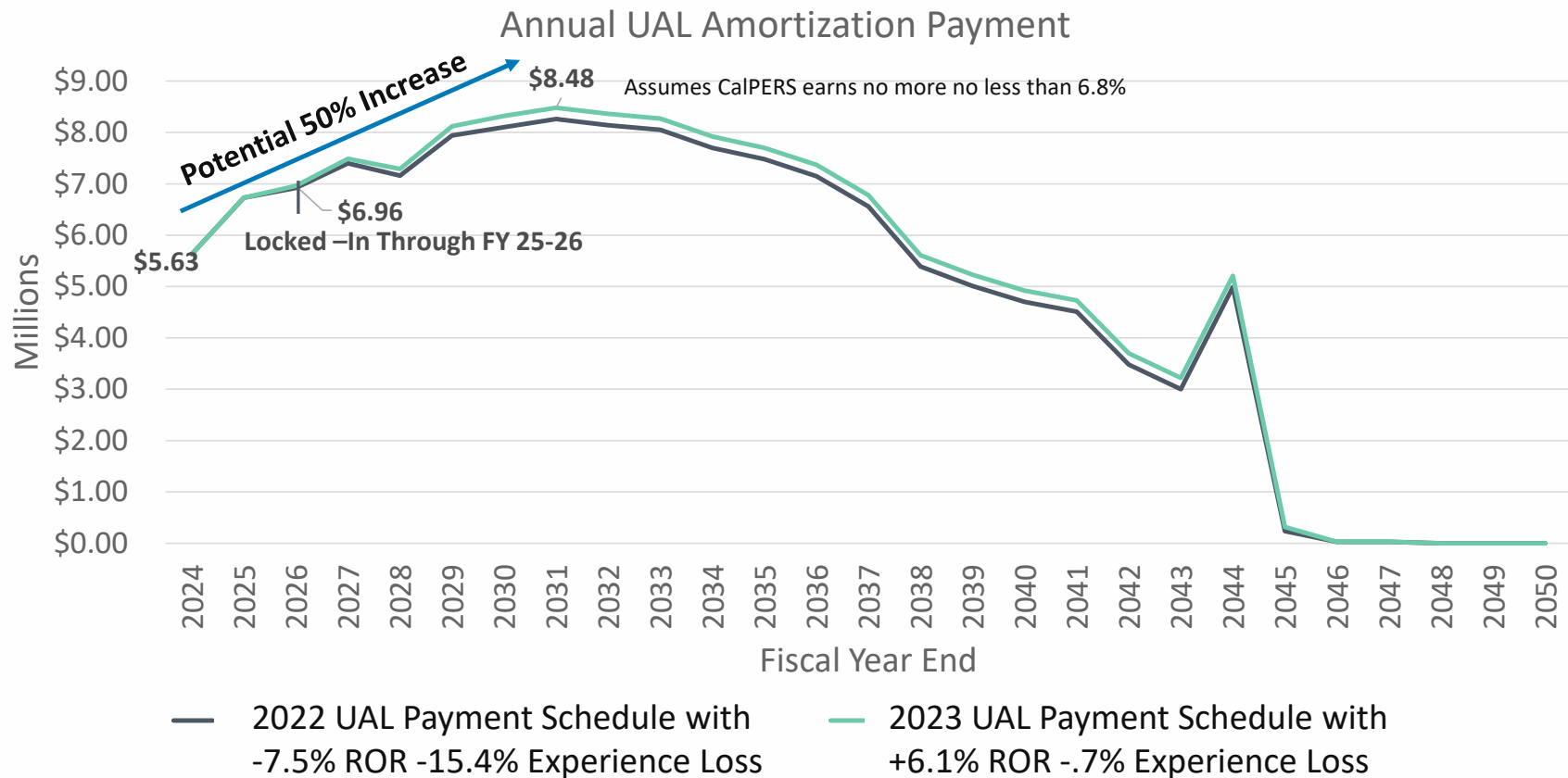
Projected Cost of Annual Pension Service Credit - Normal Cost as a % of Payroll



UAL & Total ER Required Contribution Projection



Impact of Experience Losses on UAL Amortization Payment



Pension Management

Pension Management Goals



1

**Preservation of
Liquidity & Budget
Flexibility**



**Adequate Reserves and
Continuity of Service to Citizenry**

Solvency

Strategic

**Maximize Interest
Savings**



Governance



**Regular
Review,
Transparent
Disclosures**

**Maximize Principal and
Payment Reduction**



Pension Management Tools

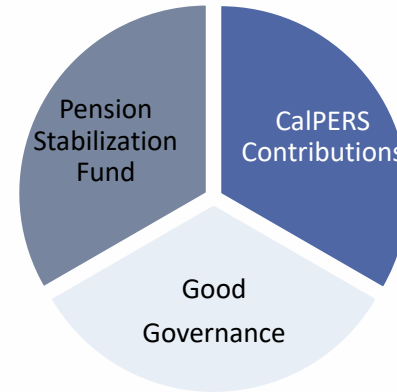
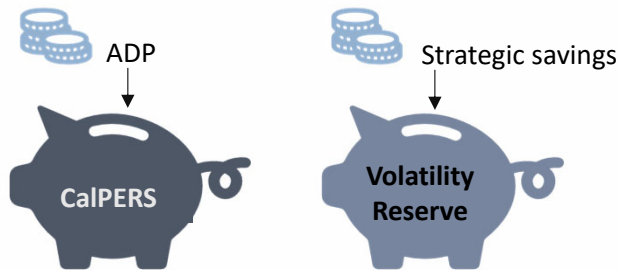


- 1) Pension Volatility Reserve (“Rainy Day” Fund) (Goal: Preserve Budget Flexibility)
§115 Trust (Higher Potential Long-term Returns; Short Term Volatility)
- 2) Full or Partial Restructuring of UAL Payment Schedule
 - a) Level payment schedule to achieve minimal savings but remove peaks and valleys (budget stability); or
 - b) Shorten repayment to maximize interest savings (may inhibit budget flexibility)
- 3) Additional Discretionary Payments (ADPs)
 - a) Goal to achieve near-term cash flow savings; or
 - b) Goal to achieve long-term interest savings over entire term of repayment schedule (20+ Years)
- 4) Pension Funding and Reserve Policies

The tools above can be used independently or in conjunction with one another.

Most pension management options require significant financial resources. Therefore, consistently funding the pension stabilization reserve is an imperative first step to preserve budget flexibility and provide a funding source to pursue cost mitigating strategies.

Consider a Balanced Approach



Direct Contributions to CalPERS - ADP

- Reduces net pension liability in financial statements immediately
- Minimal impact on magnitude of future contribution

Volatility Reserve – Internal Reserve or Section 115 Trust

- Allows entity to control cash flow to pension by using Volatility Reserve assets to augment contributions
- Creates the ability to stabilize contributions over the long term

Pension Funding Policy

- Documents long-term governance plan for staff and future Councils

Policy Development



- Documents Pension Management Goals
- Demonstrates Board Intent to Fulfill Promised Benefit
- Demonstrates Long-term Fiscal Discipline
- Reassures Board commitment to Creditors, Staff & Stakeholders
- Provide General Roadmap for Staff and Future Boards
- Identifies Transparency and Governance Procedures

Pension Specific Recommendations



- 1) “Stay the course” by consistently funding the County’s Pension stabilization reserve to protect the County against annual market volatility.
- 2) Identify and direct additional funding sources to pension reserve, where feasible (Example: additional employee contributions)
- 3) Once minimum target reserves are established and/or are replenished, consider a balanced approach of saving and deploying resources to keep the unfunded pension liability contained through use of other pension management tools.
- 4) Develop Pension Funding policy to memorialize funding plan(s) encompassing target balance, use of pension stabilization reserves and regular governance of this significant operating liability.

Surplus Use Recommendations



- 1) Eliminate Structural Budget Deficit
- 2) Replenish and Maintain Economic Reserve (25% of Budget)
- 3) Continue to build Pension Stabilization Reserve
- 4) Other Strategic Priorities

Questions & Feed Back

