

City of Millbrae

Post Employment Benefit Review





City of Millbrae

Post-Employment (Retirement) Benefits

- California Public Employee Retirement System (CalPERS) Pension

Defined Benefit Program: Amount paid as benefit is fixed regardless of amount paid by employee

Pension Obligation Bond – Issued 2004

- Other Post Employment Benefits

(Retiree Medical also referred to as OPEB)



City of Millbrae

Post-Employment (Retirement) Benefits

- California Public Employee Retirement System (CalPERS) Pension
 - Classic:
 - Employees hired before January 1, 2013 (into any CalPERS active employer or employer with reciprocal plan)
 - Formula: $2.7\% \times \text{Final Highest Year Salary} \times \# \text{ years of employment}$
 - Eligible at age 55 (lower multiplier if retire at younger age)

City of Millbrae

Post-Employment (Retirement) Benefits

- California Public Employee Retirement System (CalPERS) Pension
 - PEPPRA: 2 @ 62 Formula –
 - Formula implemented by State law to reduce long term pension liabilities for all government pension programs
 - Employees hired after January 1, 2013 and not already a member of CalPERS or who were members of CalPERS with a break in service greater than 6 months
 - $2\% \times \text{Average Highest 3 Year Salary} \times \# \text{ years of employment}$
 - Eligible at age 62 (lower multiplier if retire at younger age)



City of Millbrae

Post-Employment (Retirement) Benefits

- ▶ Other Post Employment Benefits (Retiree Medical)
 - ▶ Management / Confidential Employees employed before May 31, 2013
Up to \$1,385.62 per month reduced by PEMHCA minimum (\$133 per month), if applicable
 - ▶ Firefighters (retired directly from City):
Up to \$221.50 per month reduced by PEMHCA minimum (\$133 per month), if applicable
 - ▶ Police (retired directly from City):
PEMHCA minimum (\$133 per month), if applicable
 - ▶ Under MOU, Represented employees are provided a plan by Teamsters, City contributes a monthly allocation.



Millbrae CalPERS History

- 1950: Millbrae Fire District joins CalPERS
- 1954: Millbrae Fire District contract transferred to City and City adds police employees
- 1964 / 65: City adds miscellaneous employees and transfers assets from City's existing retirement program

Millbrae CalPERS History

- 1974 – Benefit Changes:
 - Safety: $\frac{1}{2}$ Salary at age 55 (police & fire)
 - Miscellaneous: Modified 2% at age 60
- 1975: CalPERS benefits in lieu of Social Security
- 1978:
 - Permit members to continue employment after retirement age
 - Use of Single highest year salary for safety calculation

Millbrae CalPERS actions

- 1983 – Benefit Enhancements:

- Fire 2% at age 50

- Miscellaneous single highest year salary used for calculation

- 1985 – Benefit Enhancements

- Police 2% at age 50

- 1996 – Benefit Enhancements:

- 2% at age 55 for miscellaneous members employed prior to May 1996

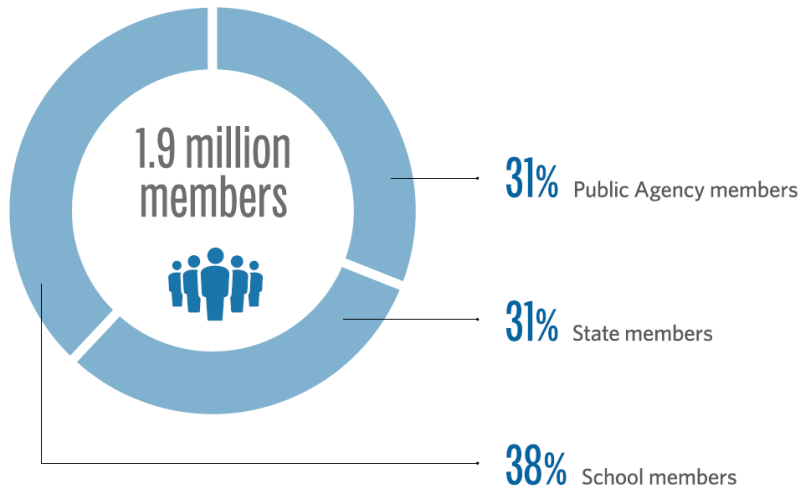
Millbrae CalPERS actions

- 2000: 2% at age 55 for all miscellaneous members
- 2006:
 - 3% at age 50 for police
 - 3% at age 55 for fire
 - 2.7% at age 55 for miscellaneous

CalPERS - History

- Established 1932
 - Opened to other local government employees 1939
- Initially set retirement age at 65
- When established, pension equal to 1.43% times average salary last 5 years on job (typically half of employee salary)
- 1968: Added annual cost of living adjustments

CalPERS



\$21.4 billion
paid in annual retirement benefits

CalPERS

\$351 billion

Current fund value

11.20%

2016-17 FY Return

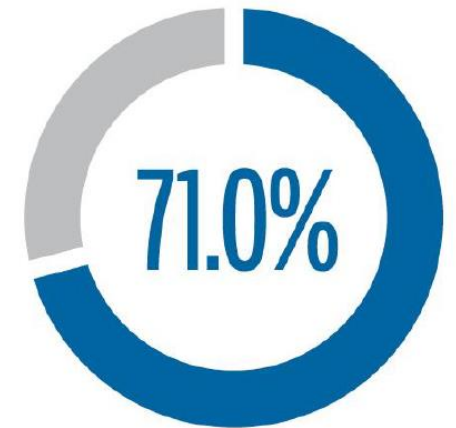
15.73%

2017 Calendar Year Return

Funded Status



June 30, 2016

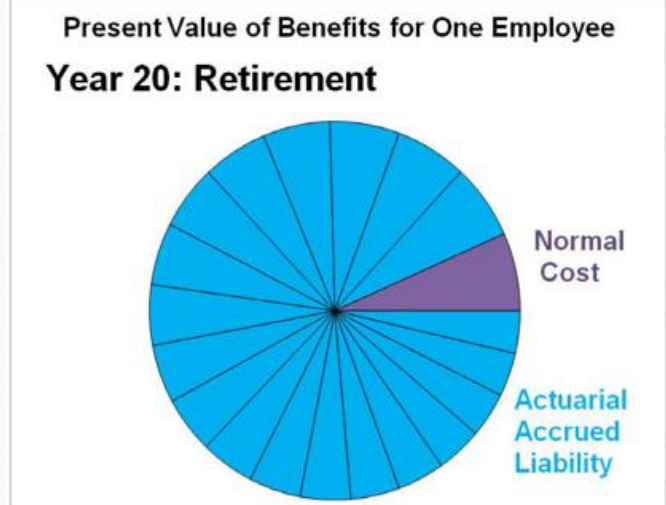
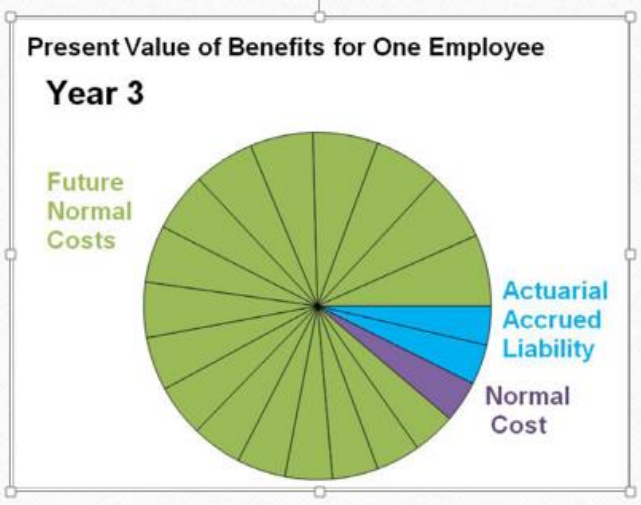
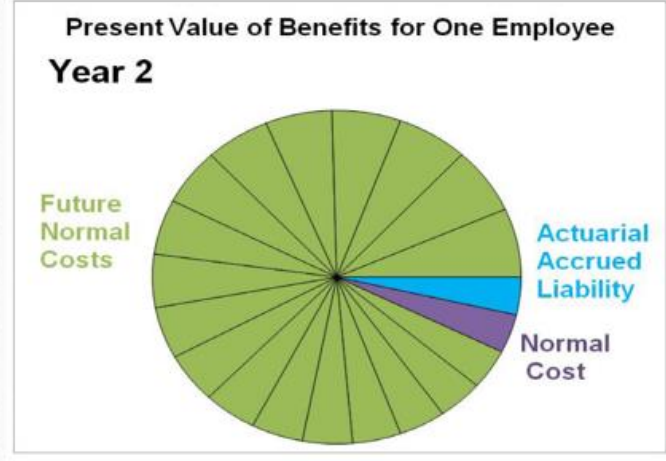
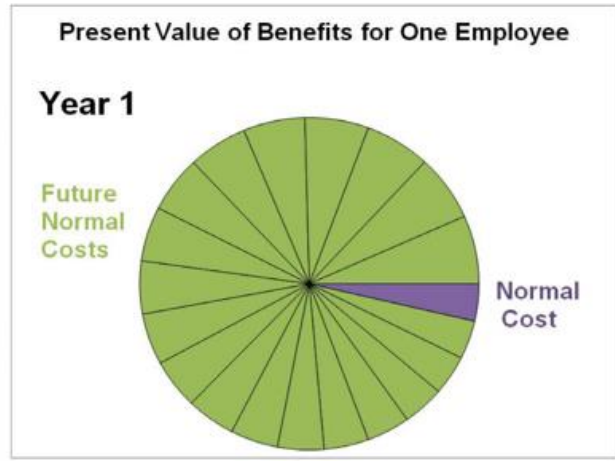


December 31, 2017

CalPERS Definitions

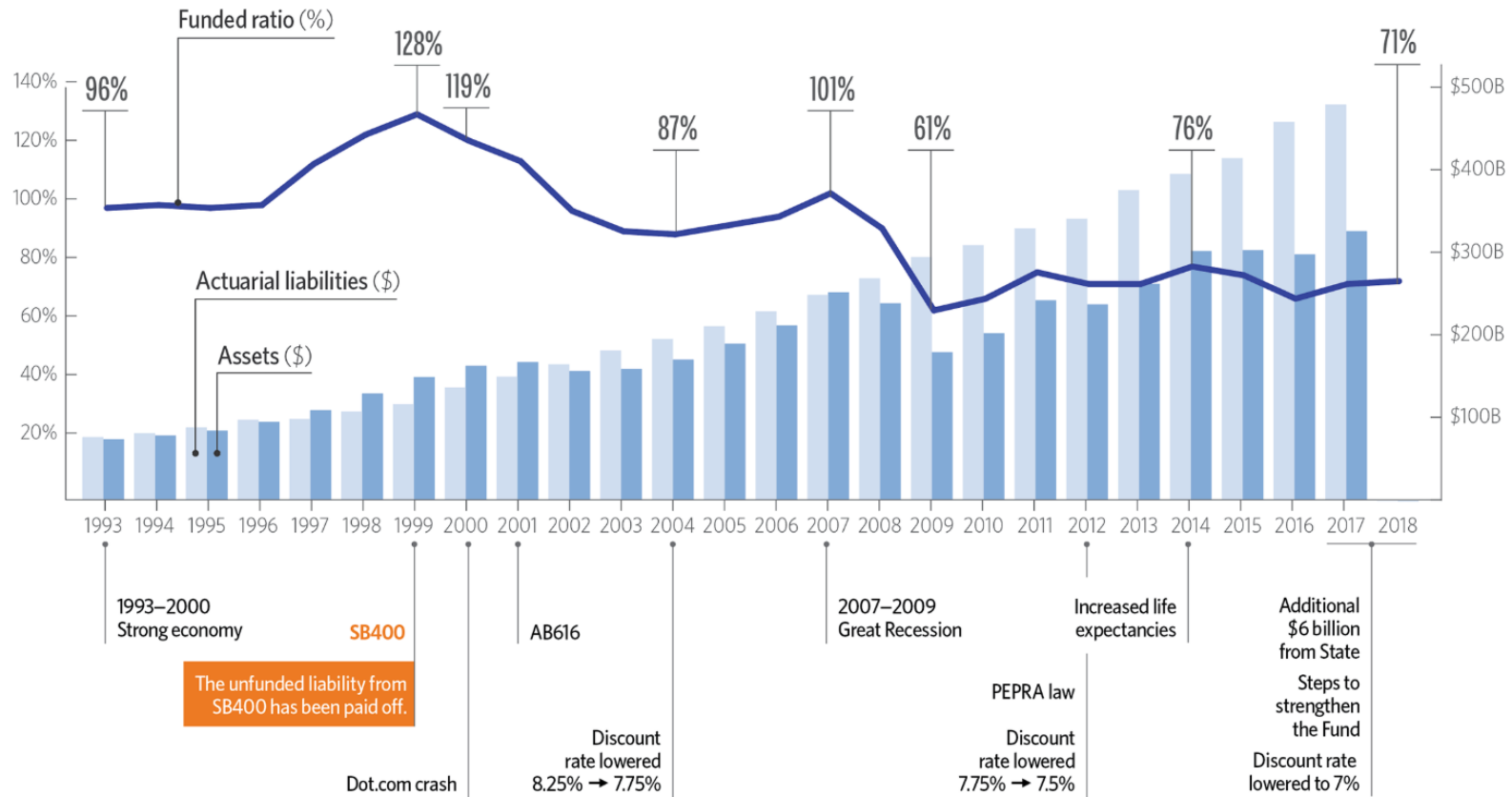
- Present Value of Benefits (PVB): Amount of money needed today to fully fund the years of service accrued to date and the expected future years of service
- Normal Cost (NC): Cost for one year of service.
- Accrued Liability (AL): Cost for the years of service accrued to date
- Unfunded Accrued Liability (UAL): The amount of retirement owed to an employee in future years that exceeds the current assets.
- Discount Rate (DR): What CalPERS expects to earn on their investments
- Employer Contribution: Normal Cost plus payment on the Unfunded Liability

Value of Benefits



CalPERS Historical Funded Status

Historical Factors Impact Funded Status (1993-2018)



How We Got Here

- Investment Losses

Multiple years of returns coming in significantly under discount rate

- Enhanced Benefit Formulas –

- Implemented using all future and prior service (2.7% @ 55 for Classic, 3% @ 50 for Police, 3% @ 55 for Fire)

- Cost sharing limited to share of “Normal” costs

- CalPERS Contribution Policy – slow recognition of investment loss, rolling 30 year amortization and asset smoothing

- Demographics – More retirees, declining active population, longer life spans

CalPERS Funding Sources

- Investment of accumulated assets
- Contributions from Employers (City of Millbrae)

Since employee contributions are fixed, if investment returns are insufficient, employer contributions are increased to make up difference

- Contributions from Employees

Fixed percentage and sometimes covered by employer

Millbrae's employees pay the full "Employee share" plus 5.5% of Employer share of Normal Costs (For fiscal year 2019, that has meant that employees pay approximately 13.5% of salary towards CalPERS Normal Costs while the City pays approximately 7.6%.)

CalPERS “Pension Buck”

The CalPERS Pension Buck

CalPERS income over the last 20 years (as of June 2015) demonstrates that every dollar spent on public employee pensions comes from the following sources:

65¢

CalPERS investment earnings

22¢

CalPERS employers

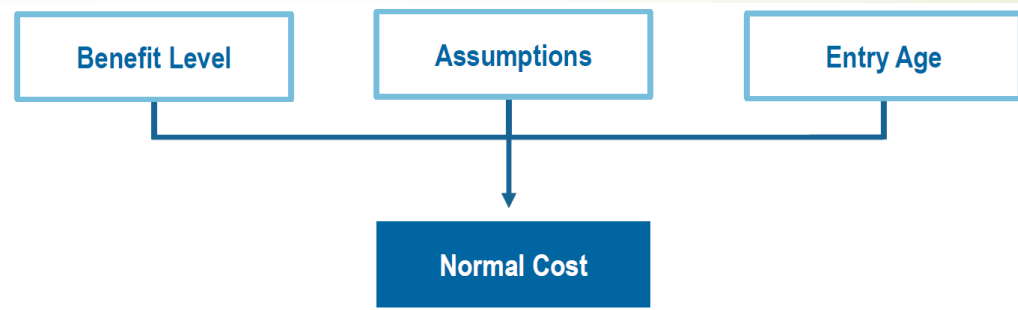
13¢

CalPERS members

CalPERS Contributions

➤ Contribution Components

- Normal Cost (% of payroll): Cost Associated with one year of service accrual



- Unfunded Accrued Liability Amortization Payment (Fixed Dollar Amount): Portion of benefits accrued to date.

Employee start date Now

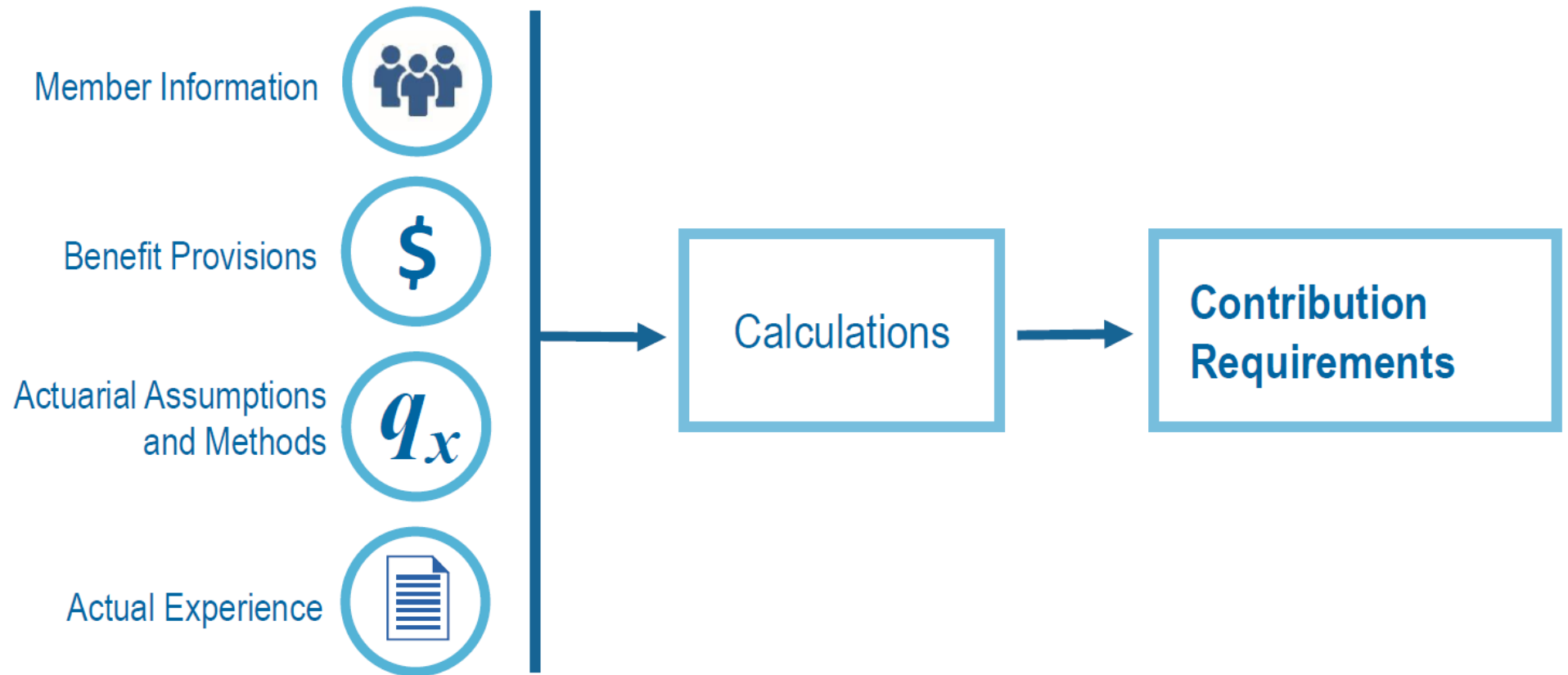
$$\text{UAL} = \text{Accrued Liability} - \text{Market Value of Assets}$$

CalPERS Employer Contributions

- ▶ Set by Actuaries
 - ▶ Demographic Assumptions:
 - ▶ mortality rates
 - ▶ retirement rates
 - ▶ employment termination rates
 - ▶ disability rates
 - ▶ Economic Assumptions:
 - ▶ future investment earnings (discount rate)
 - ▶ inflation
 - ▶ salary growth rates

CalPERS

What Goes into Employer Contribution Requirements



CalPERS Policy Assumption Changes

- Strengthen sustainability of the fund
 - Lower Risk / Lower Return Strategy
- Reduce negative cash flows
- Reduce probability of funded ratios falling below desirable ratio
 - Fund is 68% Funded
 - IN 2006 / 2007, Fund was “Super-Funded” at 106%
- Increase likelihood of earning assumed rate of return
- Reduce risk of future contribution increases

CalPERS Policy Assumption Changes

Lower Discount Rate

Lowered the discount rate from 7.5% to 7% over three years
(assumed rate of return)

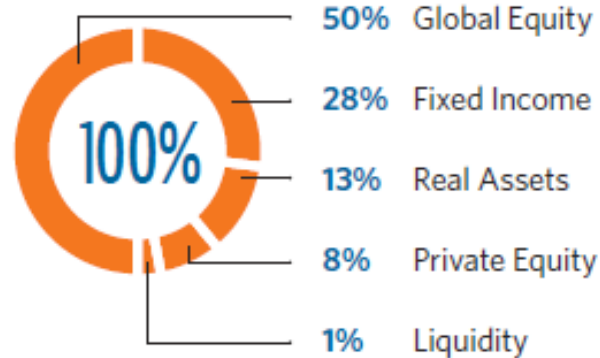
7.5%



7%

New Asset Allocation

Adopted new strategic asset allocation effective July 1, 2018



Shorter Amortization

Shortened the amortization period for employers to pay their unfunded liability

30 yrs.



20 yrs.



significant long-term savings

CalPERS Policy Assumption Changes

Designed to pay down unfunded liability sooner

- ▶ Reduce Discount Rate

- ▶ The Discount Rate is the assumed rate of investment return.

- ▶ Reducing the discount rate results in paying down the unfunded liability sooner

- ▶ Rate Smoothing

- ▶ Change in amortization of investment gains and losses (period to pay down unfunded liability)

- ▶ 5 year ramp up / down

Millbrae CalPERS Membership

	Active	Transferred	Separated	Retired
Miscellaneous	74	88	65	126
Safety Fire	0	22	1	48
Safety Police	0	24	1	54
Total	74	134	67	228

Millbrae Cost Classic Miscellaneous Members

- From June 30, 2016 valuation (used for 2018 / 2019 budget and payments)

	Fiscal Year 2017-18	Fiscal Year 2018-19
Development of Normal Cost as a Percentage of Payroll¹		
Base Total Normal Cost for Formula	19.000%	19.521%
Surcharge for Class 1 Benefits ²		
a) FAC 1	0.626%	0.643%
b) PRSA	0.795%	0.872%
Phase out of Normal Cost Difference ³	0.000%	0.000%
Plan's Total Normal Cost	20.421%	21.036%
Formula's Expected Employee Contribution Rate	7.951%	7.952%
Employer Normal Cost Rate	12.470%	13.084%
Projected Payroll for the Contribution Fiscal Year	\$ 5,080,722	\$ 5,226,778
Estimated Employer Contributions Based on Projected Payroll		
Plan's Estimated Employer Normal Cost	\$ 633,566	\$ 683,872
Plan's Payment on Amortization Bases ⁴	1,397,178	1,618,153
% of Projected Payroll (illustrative only)	27.500%	30.959%
Estimated Total Employer Contribution	\$ 2,030,744	\$ 2,302,025
% of Projected Payroll (illustrative only)	39.970%	44.043%

Normal Cost

UAL

- Under current MOU, employee pays 5.5% of Employer Contribution, therefore Employee pays 13.5% of salary towards Pension and City pays 7.6% + UAL Amount

Millbrae CalPERS Pension Costs All Plans Future Year Estimates – Miscellaneous Classic

	Required Contribution	Projected Future Employer Contributions (Assumes 7.375% Return for Fiscal Year 2016-17)					
Fiscal Year	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Normal Cost %	13.084%	13.7%	14.8%	14.8%	14.8%	14.8%	14.8%
UAL Payment	\$1,618,153	\$1,872,000	\$2,073,000	\$2,328,000	\$2,555,000	\$2,717,000	\$2,856,000

Millbrae CalPERS Pension Costs All Plans Fiscal Year 2018 – 2019

	Normal Cost	UAL
Classic Miscellaneous	13.084%*	\$1,618,153
PEPRA Miscellaneous	7.266%	\$4,313
Classic Safety Police	N/A#	\$1,117,066
Classic Fire	N/A#	\$922,907
PEPRA Fire	N/A#	\$1,391

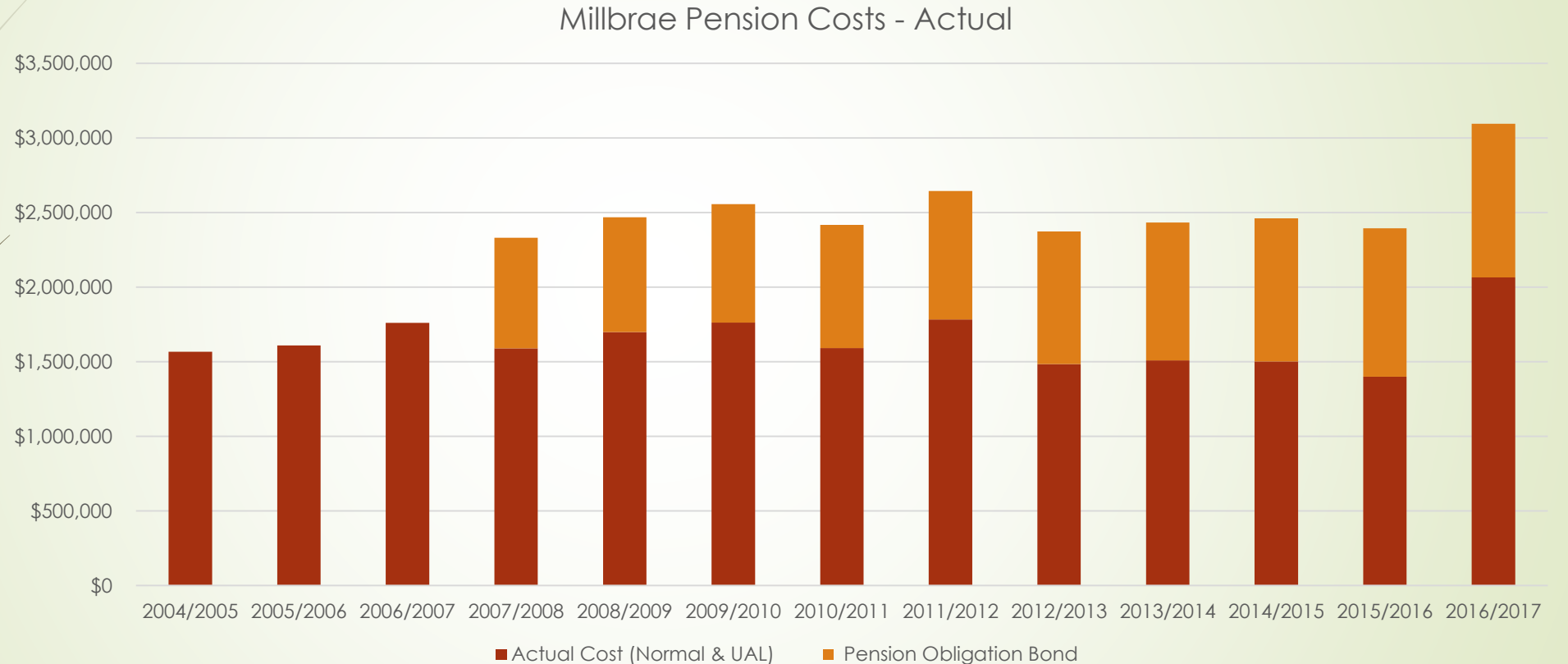
*5.5% paid by employees

There are no current police and fire employees. All Normal costs are paid through contract services. In addition, there is UAL associated with employees paid through police and fire contracts.

Millbrae CalPERS Pension Costs All Plans Historical Payments

ACTUAL COSTS OF PENSION BENEFITS				
Fiscal Year	Actual Cost (Normal & UAL)	Pension Obligation Bond	Total Pension Cost	Increase (Decrease) from Prior Year
2016/2017	\$ 2,064,418	\$ 1,030,000	\$ 3,094,418	\$ 699,874
2015/2016	\$ 1,399,544	\$ 995,000	\$ 2,394,544	\$ (66,482)
2014/2015	\$ 1,501,026	\$ 960,000	\$ 2,461,026	\$ 27,394
2013/2014	\$ 1,508,632	\$ 925,000	\$ 2,433,632	\$ 59,903
2012/2013	\$ 1,483,729	\$ 890,000	\$ 2,373,729	\$ (270,060)
2011/2012	\$ 1,783,789	\$ 860,000	\$ 2,643,789	\$ 226,411
2010/2011	\$ 1,592,378	\$ 825,000	\$ 2,417,378	\$ (139,140)
2009/2010	\$ 1,761,518	\$ 795,000	\$ 2,556,518	\$ 87,720
2008/2009	\$ 1,698,798	\$ 770,000	\$ 2,468,798	\$ 138,031
2007/2008	\$ 1,590,767	\$ 740,000	\$ 2,330,767	\$ 569,689
2006/2007	\$ 1,761,078	\$ -	\$ 1,761,078	\$ 152,608
2005/2006	\$ 1,608,470	\$ -	\$ 1,608,470	\$ 41,848
2004/2005	\$ 1,566,622		\$ 1,566,622	

Millbrae CalPERS Pension Costs All Plans Historical Payments

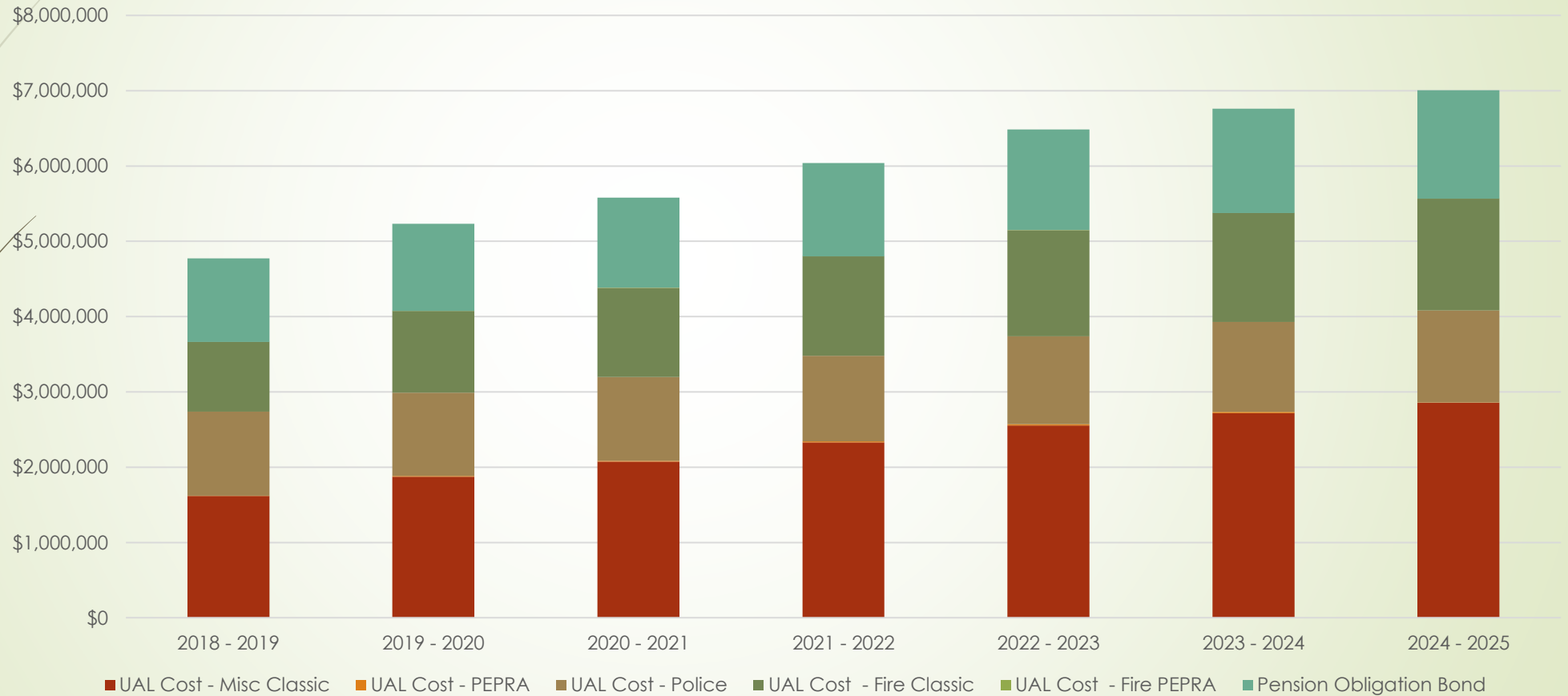


Millbrae Pension Costs All Plans

Future Year Estimates – All Plans

PROJECTED COSTS OF PENSION BENEFITS				
Fiscal Year	Projected Cost (Normal and UAL)*	Pension Obligation Bond	Total Pension Cost	Increase (Decrease) from Prior Year
2017/2018	\$ 3,585,000	\$ 1,070,000	\$ 4,655,000	\$ 1,560,582
2018/2019	\$ 4,435,000	\$ 1,110,000	\$ 5,545,000	\$ 890,000
2019/2020	\$ 4,864,000	\$ 1,155,000	\$ 6,019,000	\$ 474,000
2020/2021	\$ 5,280,000	\$ 1,195,000	\$ 6,475,000	\$ 456,000
2021/2022	\$ 5,746,000	\$ 1,240,000	\$ 6,986,000	\$ 511,000
2022/2023	\$ 6,165,000	\$ 1,290,000	\$ 7,455,000	\$ 469,000
2023/2024	\$ 6,479,000	\$ 1,335,000	\$ 7,814,000	\$ 359,000
2024/2025	\$ 6,835,000	\$ 1,385,000	\$ 8,220,000	\$ 406,000
2025/2026	\$ 7,169,000	\$ 1,440,000	\$ 8,609,000	\$ 389,000
2026/2027	\$ 6,731,000	\$ 1,495,000	\$ 8,226,000	\$ (383,000)

Millbrae Pension Costs All Plans Future Year Estimates – All Plans





Other Post Employment Benefits (OPEB) / Retiree Health

Other Post Employment Benefits (Retiree Medical)

- ▶ Management / Confidential / Safety / and Council members
 - ▶ Employed before May 31, 2013 (Employees hired June 1, 2013 and later covered by PEMHCA)
 - ▶ Up to \$1,385.62 per month
 - ▶ # of Participants
 - ▶ Management / Confidential / Council
 - ▶ 36 Active
 - ▶ 41 Retired
 - ▶ Safety: 39 Retired

Other Post Employment Benefits (Retiree Medical)

Management / Confidential / Safety / and Council members

- ▶ Active – Average Age: 47.6
- ▶ Retired – Average Age: 68.5
- ▶ Service Retirement Age: 58.7
- ▶ Disability Retirement Age: 42.4

Millbrae Historical Costs – Other Post Employment Benefits (OPEB) / Retiree Health

ACTUAL COSTS OF OPEB BENEFITS		
Fiscal Year	Cost (Pay As You Go)	Increase (Decrease) from Prior Year
2016/2017	\$ 815,000	\$ 13,987
2015/2016	\$ 801,013	\$ 83,013
2014/2015	\$ 718,000	\$ (15,600)
2013/2014	\$ 733,600	\$ 109,200
2012/2013	\$ 624,400	\$ 84,500
2011/2012	\$ 539,900	\$ 98,600
2010/2011	\$ 441,300	\$ (96,700)
2009/2010	\$ 538,000	\$ 225,700
2008/2009	\$ 312,300	\$ 18,900
2007/2008	\$ 293,400	\$ 25,600
2006/2007	\$ 267,800	\$ 42,100
2005/2006	\$ 225,700	\$ (22,700)
2004/2005	\$ 248,400	\$ 248,400

Millbrae Estimated Future Costs – Other Post Employment Benefits (OPEB) / Retiree Health

PROJECTED COSTS OF OPEB BENEFITS		
Fiscal Year	Projected Cost (Pay As You Go)	Increase (Decrease) from Prior Year
2017/2018	\$ 1,078,000	\$ 263,000
2018/2019	\$ 1,117,000	\$ 39,000
2019/2020	\$ 1,158,000	\$ 41,000
2020/2021	\$ 1,201,000	\$ 43,000
2021/2022	\$ 1,246,000	\$ 45,000
2022/2023	\$ 1,292,000	\$ 46,000
2023/2024	\$ 1,342,000	\$ 50,000

Millbrae Actions to Mitigate Costs

- ▶ Adjusting employee benefits including:
 - ▶ Classic members pay the full employee share of PERS costs and 5% of the City (employer) share.

For fiscal year 2018, that has meant that employees pay approximately 13.5% of salary towards CalPERS Normal Costs while the City pays approximately 7.6%

- ▶ Modifying eligibility for retiree medical benefits so that OPEB benefits for employees who joined the City after June 1, 2013 are reduced.
- ▶ Establishment of a trust fund to pay OPEB benefits.

Over \$6 Million has been placed into trust for OPEB. Staff will evaluate a similar trust fund for pension benefits.

Millbrae Actions to Mitigate Costs

- ▶ Contracting services
- ▶ In general, contracted services result in a fixed cost that will not have ongoing liability. (Note that for public safety services contracted to other public agencies, pension and OPEB costs are included in the annual contract cost.)
- ▶ As a result of contracting services and working as a lean organization with limited staff City salary costs are very low. As a result, pension costs as a percentage of salary appear very high especially because City retains liability for employees who formerly worked for the City (such as police and fire).

	All	Exclude Public Safety
Salary Costs (in millions)	18.5	15
Pension Costs - PERS General, PERS UAL, Pension Obligation Bond (in millions)	\$5.4	\$2.7
Pension Costs as Percentage of Salary	29%	18%*
* Current Employees pay 13.5% of this amount.		



Additional Actions to Consider

- ▶ Section 115 Trust for Pension (in addition to trust for OPEB)
 - ▶ Lump Sum Pre-payment to CalPERS
- 



Questions