




Closing the Pension Funding Gap

Dane Hutchings, Legislative Representative, League of California Cities

How'd we get Here!?!

January 1, 2000 — SB 400 (Ortiz) Public Employees Retirement Benefits

- Immediate 5% increase for all current state and school retirees
- Eliminated second tier benefits, ensuring everyone has the top tier benefits
- Improved pension benefits:
 - 2.0% at 55 – State Miscellaneous and Industrial
 - 2.5% at 55 – State Safety
 - 3.0% at 55 – State Peace Officer/Firefighter
 - 3.0% at 50 – California Highway Patrol
 - Applied Retroactivity Credit (e.g. Peace Officer retires before 1999, average pension equals 62,218. Same Peace officer retires *After* 1999 pension is \$96,270).
- Local Governments followed suit amidst recruitment challenges, CalPERS actuarial data and political climate (at the time).



2000-2001 — CalPERS
takes significant hit due to
the dot.com bubble


- Fund drops below “Super Funded Status”

2008-2009 — The Great Recession Hits

- The Fund loses 27% or \$67 billion in value—drops to 61.00% funded status.

“If you’re asking me, with everything I’ve learned in the last 17 years, would I have signed SB 400... No, I would not have signed it” - Former California Governor Gray Davis (Interview LA Times September 16, 2016)

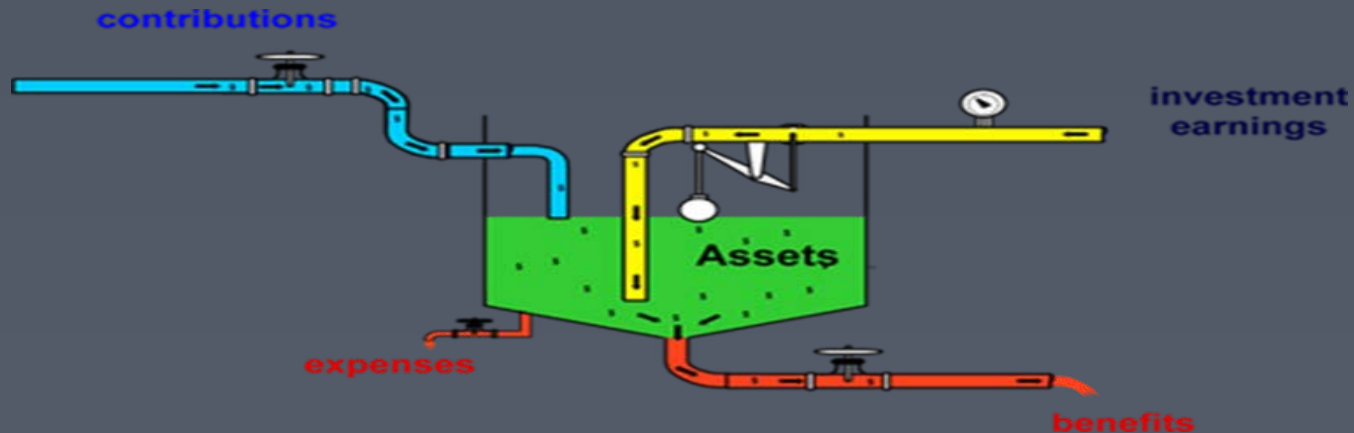




2012 — Public Employee Pension Reform Act (PEPRA) Signed into Law

- Established a new tier of employees with less generous benefits (Classic vs. PEPRA)—Does not modify “classic” actives or retirees.

2016-17 — Current State of the Fund



- Fiscal year 2015-16 CalPERS Announced a **0.61% return** on Investment well below the assumed rate of return (discount rate) of **7.5%**.
- In 2016: 50 percent probability that Public Safety Contribution Rates exceed 60 percent of payroll. (*September Finance Committee Materials-Agenda Item 8c, Attachment 1*)
- **Limited Fund Growth Despite Positive Market Trends** Seven years of positive economic growth yet the fund has only gained 7 percent in value (2008: Approx 61% Funded. 2017: Approx. 64% funded).

December 21, 2016 — CalPERS Board Takes Further Action.

- CalPERS Board moves to lower its discount rate from 7.5% to 7.00% over a phased in process (eight years in total).

Discount Rate Phase in Timeline (Local Agencies)	
Fiscal Year	Fractions of Rates
18-19	1/5 of 7.375
19-20	2/5 of 7.375 and 1/5 of 7.25
20-21	3/5 of 7.375, 2/5 of 7.25, 1/5 of 7.00
21-22	4/5 of 7.375, 3/5 of 7.25, 2/5 of 7.00
22-23	Full impact of 7.375, 4/5 Impact of 7.25, 3/5 impact of 7.00
23-24	Full Impact of 7.375, Full Impact of 7.25, 4/5 Impact of 7.00
24-25	Full impact of 7.375, full impact of 7.25, Full Impact 7.00

January 19, 2017 — CalPERS releases Circular Letter on Increased Contribution Rates

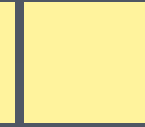
- Circular Letter (CL# 200-004-17) assists employers in calculating their increase contribution rates (30-40% unfunded liability increases)

		Normal Cost		UAL Payments	
Valuation Date	FY Impact	Misc. Plans	Safety Plans	Misc. Plans	Safety Plans
6/30/2016	2018-19	0.25% - 0.75%	0.5% - 1.25%	2% - 3%	2% - 3%
6/30/2017	2019-20	0.5% - 1.5%	1.0% - 2.5%	4% - 6%	4% - 6%
6/30/2018	2020-21	1.0% - 3.0%	2.0% - 5.0%	10% - 15%	10% - 15%
6/30/2019	2021-22	1.0% - 3.0%	2.0% - 5.0%	15% - 20%	15% - 20%
6/30/2020	2022-23	1.0% - 3.0%	2.0% - 5.0%	20% - 25%	20% - 25%
6/30/2021	2023-24	1.0% - 3.0%	2.0% - 5.0%	25% - 30%	25% - 30%
6/30/2022	2024-25	1.0% - 3.0%	2.0% - 5.0%	30% - 40%	30% - 40%

By The Numbers

- According to CalPERS:
 - In 2001 there were two active workers for every retiree.
 - In 2016 there were 1.3 active employees for every retiree
 - It is projected that within the next 10-20 years there will be 0.6 workers for every retiree (CalPERS 2016 Annual Review of funding levels and Risk September 20, 2016).



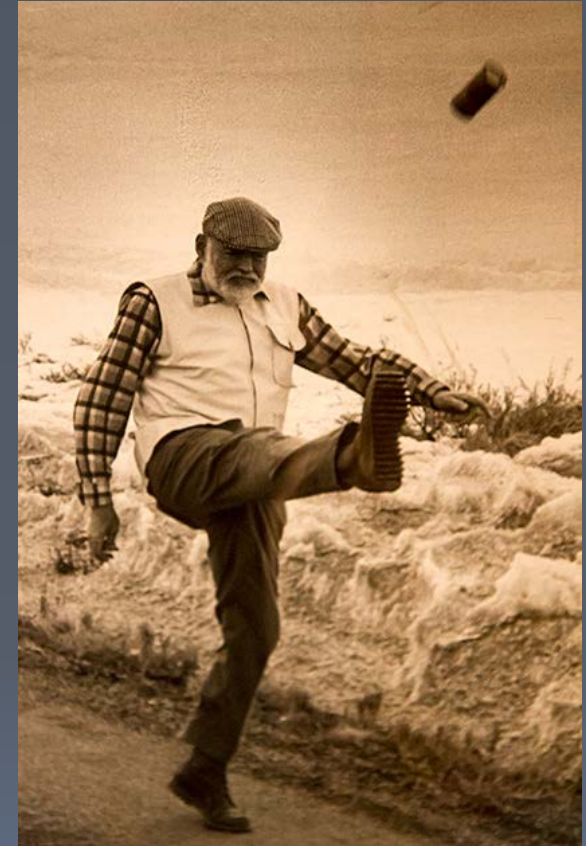


Closing the Pension Funding Gap

*Political Landscape, Core Messaging and Next
Steps*

Political Realities- Kick The Can

- Very limited “political will” to address the problem in Sacramento.
- Legislature is Reactive... Not Proactive (Think Orville Dam)
- Pending Litigation Re: Vested Rights (Could take multiple years for a resolution).
- Politically charged issue with multiple stakeholders
- New Chief Committee Consultants. (Turnover in both houses)
- The Economy is Healthy... (For Now).
- February 2018 ALM Cycle will be completed and presented to the PERS Board.
- AB 1250 (Jones-Sawyer) New Legislation that makes the problem worse!



Core Message: Ramp up Begins Now

- **Knowledge is Power: RUN YOUR NUMBERS AND SHARE**
 - CMFO created a tool (as well as a tutorial on how to use it) that we are asking every city to use to calculate their UAL and Normal cost and then share that information (can redact identifying info if you need to).
- **This WILL not be Easy, Utilize Best Practices:** The toughest decisions will be made at the bargaining table. Each City will need to make their own decisions on how to use best practices to stabilize their budgets.
- **It's not about how we got here... Its about how we fix it... together.**
 - The League has committed to CalPERS, the Administration and our employee partners to work together to address these challenges.

Next Steps

- Continue to work with the Pension Taskforce to create and action plan, policy positions and recommendations.
 - In person meeting has been set with Pension TF and League Executives.
 - Recco's to be finalized June policy committee and board meeting.
- Continue to work with stakeholders to find common ground on legislative policies to stabilize the pension system.
- Control our own destiny as best we can by continuing to position the League as the local government thought leader

What can I do Right now?

- **Inform Your Locals and the Public:**
- Groundswell approach needed. What do these numbers mean for jobs, raises, services for your community? Encourage your locals to engage their State Reps.
 - Open a dialogue with the public... Keep the public engaged and educated.
- **Implement “City Best Practices” ASAP**
- (e.g. establish a 115 trust, pre-pay your normal costs, negotiate aggressively as contracts are up, etc.)
- **Talk you your Assembly Member and Senator**
 - Talk about the challenges facing your city (e.g. your numbers, services that may be eliminated and / or potential job losses) Plant the seed now to help create the “political will”.

Questions?

