

CalPERS: What's New, What's Old and What's to Come



Agenda

- Introductions
- CalPERS –
 - GASB 68 Cost Sharing Reports
 - Annual Actuarial Valuations
 - Where Rates are Headed
 - Funding Risk Mitigation
- The Rialto Example
- Analysis and Comments



Introductions

- **Alan Milligan, CalPERS**
 - Chief Actuary, CalPERS
- **Janet Cory Sommer, Burke, Williams & Sorensen, LLP**
 - Partner, Public Section Labor and Employment Law
- **George Harris, City of Rialto**
 - Assistant to the City Administrator/Director of Administrative Services
 - Labor Negotiator, HR Director, CFO, Risk Manager



GASB 68 Cost Sharing Reports



GASB 68 Actuarial Reports

- June 30, 2014 GASB 68 Cost Sharing Reports are available
- Contracting agencies can order reports through my|CalPERS
 - Non-Pooled Plan Report Cost: \$2,500 per plan
 - Pooled Plan Report Cost : \$850 per plan
- June 30, 2015 GASB 68 Cost Sharing Reports will be available in 2016, after the June 30, 2014 Actuarial Valuations are complete

A large blue rectangular graphic with rounded corners, containing the text "Annual Actuarial Valuations" in white, centered within the rectangle.

Annual Actuarial Valuations

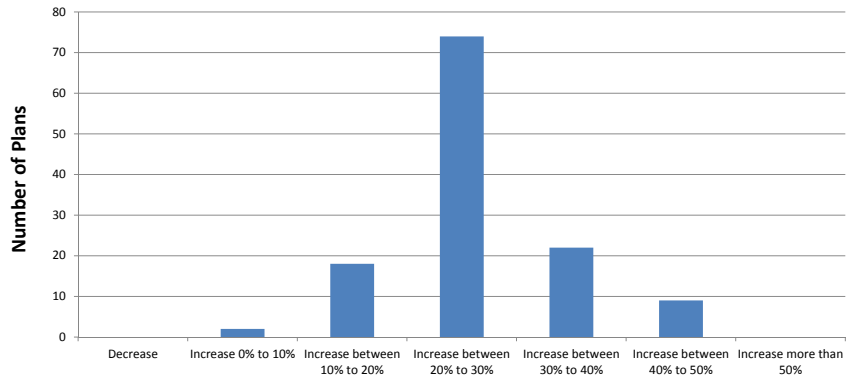
June 30, 2014 Actuarial Valuations

- Expect June 30, 2014 Actuarial Valuations to be complete by the end of December 2015

Where Rates Are Headed

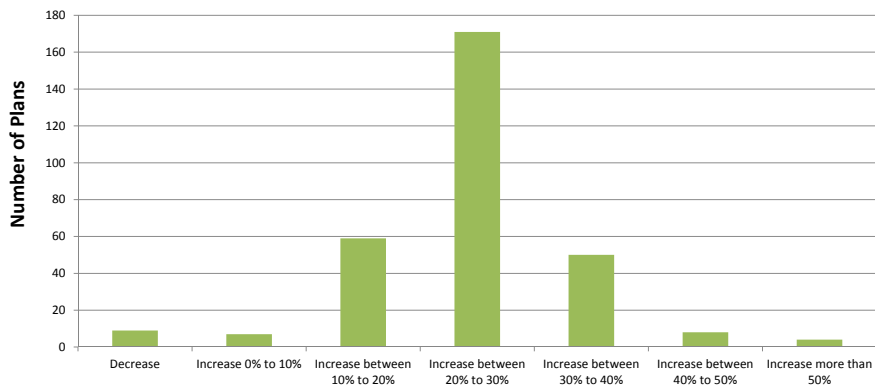
Five Year Outlook for Safety Plans

Percent Increase starting at 2015-2016 Employer Rates over 5 Years
Non-Pooled Public Agency - Safety Plans



Five Year Outlook for Miscellaneous Plans

Percent Increase starting at 2015-2016 Employer Rates over 5 Years
Non-Pooled Public Agency - Miscellaneous Plans



Funding Risk Mitigation

What is Funding Risk Mitigation?

- Funding Risk Mitigation seeks to reduce CalPERS funding risk over time
- Reducing funding risk should mitigate the impact of investment volatility on employer contribution rates and funding levels

How Would Funding Risk Mitigation Work?

- If an investment return exceeds the discount rate by a certain threshold, a Funding Risk Mitigation Event will be triggered
- When a Funding Risk Mitigation Event occurs, a portion of the investment return is used to pay for lowering the expected investment return and discount rate
- For example, a 11.5% investment return would reduce the expected investment and discount rate return five (5) basis points (.05%)

Where Are We With Funding Risk Mitigation

- CalPERS staff are drafting a Funding Risk Mitigation Board Policy
- The first reading of the Funding Risk Mitigation Board Policy is scheduled to occur in the October 2015 Finance and Administration Board Meeting

City of Rialto Example



- City of Rialto, CA – San Bernardino County
 - 101,000 Population
 - FY 15/16
 - \$67M General Fund Budget, \$144M Citywide
 - 315 FTEs
 - Full Service – Police, Fire and Water and Sewer Utility
 - 5 Member Council w/ Mayor elected Separately from 4 Council at-large
 - Median Household Income – \$45,415



City of Rialto Example



- Rialto PERS Plan
 - 3 Contracts – Pre 2011
 - Misc. Employees – 2.0 @ 55
 - Fire Employees – 2.0 @ 50
 - Police Employees – 2.0 @ 50
 - In 2008, Council Approved (3-2 Vote) new MOUs Granting **“Retroactive”** PERS formula enhancement effective January 1, 2011.
 - 3 Contracts – Post January 1, 2011
 - Misc. Employees – 2.7 @ 55
 - Fire Employees – 3.0 @ 50
 - Police Employees – 3.0 @ 50



City of Rialto Example



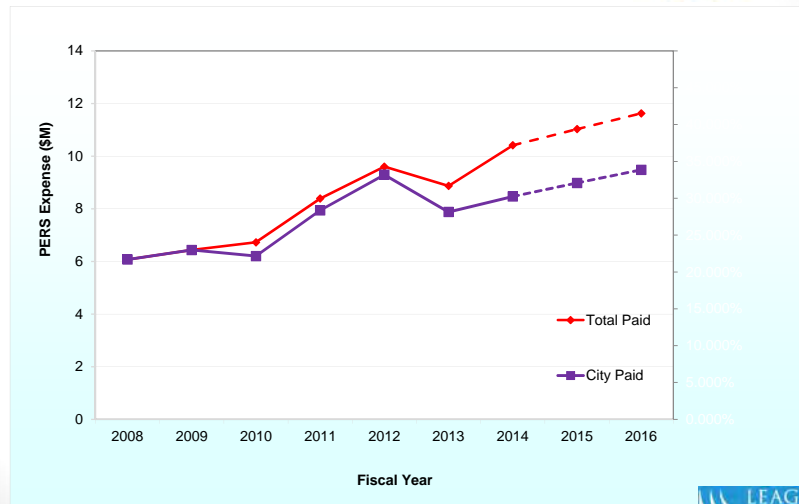
- Perfect Storm
 - Increased PERS Costs in 2011 with Enhancement
 - Revenues reduced due to the state of the Economy
 - Dissolution of RDA
 - Mass Exodus of Staff and Department Heads as a result of the enhanced formulas
 - Forced into Deficit Spending despite the loss of personnel
 - Unfunded PERS Liability grew to \$50M
 - PERS Rates doubled



City of Rialto Example



City of Rialto Example



City of Rialto Example



- Pre-PEPRA
 - Employer Side Cost Sharing for CGMA and Fire was approved on a Post-Tax basis per CA Gov. Code 20516(f); Police only agreed to Cost Sharing on a Pre-Tax Basis
 - PERS Restrictions
 - No multiple contract amendments active at one time
 - Cost Sharing Plans could not vary within a contract
- Post-PEPRA
 - Allow for Cost Sharing Plans to vary by MOU and between Classic and New Members



City of Rialto Example



- City of Rialto Example
 - City of Rialto has 7 Bargaining Units

Unit	Contribution Amount	Employee vs. Employer Side	EPMC Benefit Yes/No
CGMA – Department Heads	Safety – 12% Misc. – 8%	Employer	YES
Mid Managers	8%	Employee	No
General Unit	8%	Employee	No
Fire Management (Division Chief and Battalion Chiefs)	12%	Employer	Yes
Fire General Unit (Captains and below)	9%	Employer	No
Police Management (Sergeants and Up)	Safety - 12% Misc. – 8%	Employer	Yes
Police General Unit (Corporals and Down)	Safety - 12% Misc. – 8%	Employer	No



City of Rialto Example



- Negotiation and Budget Tactics
 - Exchange PERS contributions with fixed dollar non-PERSable benefits;
 - Deferred Compensation 457 Plan contributions
 - Cafeteria Plan or pre-tax medical contributions
 - Discuss the State-wide pension issues and concerns
 - Discuss Citywide Budget concerns
 - Classification and Compensation studies
 - “You may not be as far behind the Market as your employees may want to believe”
 - Discuss new service models and new technology
 - Civilian Ambulance Operators vs Sworn Firefighters
 - Mobile Technology and Automation
 - Discuss the trade off of service vs. costs



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PEPRA Phase II: Bargaining Environment in California Will Be A Tinderbox. Why?

- Cost-Sharing for Pension and Retiree Medical Creates Overall Reductions In Take-Home Pay
- Increasing PERS Employer Rates
- Health Care and Affordable Care Act 2014
- Increasing Premiums for Medical Insurance



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PEPRA Phase II: Bargaining Environment in California Will Be A Tinderbox. Why?

- Need for Cities to Reinstate Service Cuts and Deferred Infrastructure
- Making up for Lost Wages of Recent Years
- Increasing Agency Revenue Trends
- Increased use of Factfinding and the Martinez PERB



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PEPRA Phase II: Bargaining Environment

Pension Cost Sharing Progression Reduces Take-Home Pay

- Eliminate EPMC
- Implementation of 2018 “50/50” Normal Costs
- Negotiating Actual 50/50 Sharing of Normal Costs
- Negotiating More than 50/50 Normal Cost Share
- Sharing City’s UAAL Costs



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PEPRA Phase II: Bargaining Environment

Pension Cost-Sharing Results In Net Reduction in Take-Home Pay (continued)

- Substantial increased costs over next 5 years
- Retiree Medical
- Net Reduction in Employee Pay for Cost Sharing of Pensions
- Need for Wage Increase Offset



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PEPRA Phase II: Bargaining Environment

Key Pension Cost Sharing Statutes

- **Standard: 50/50 Share of Normal Costs**
 - Gov. Code 7522.30(a) & 20516.5(a)
- **2018 Unilateral Imposition of 50/50 Share**
 - Gov. Code 20516.5(b) and (c)
- **Greater than 50/50 Share with MOU**
 - Gov. Code 7522.30(e)
- **Cost Sharing By Agreement & PERS Contract Change**
 - Gov. Code 20516 (a) – (e)
- **Cost Sharing Outside PERS Contract**
 - Gov. Code 20516(f)



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PEPRA Phase II: Bargaining Environment

Cost Sharing Negotiations

- Setting the Stage – current or future wages
- Similar to medical premium cost sharing negotiations
- Salary offset as negotiating tool
- Great care needed in drafting MOU language



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PEPRA Phase II: Bargaining Environment

Pension Cost Sharing Negotiations Complicated by Concurrently Addressing:

- ACA Issues
 - Increased costs from fees and penalties
 - Takes staff time & energy
 - Labor relations issues
- Increasing Medical Insurance Premium Costs
 - Impact on employees' take-home pay
 - Continuation of struggle to share costs of premiums



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PEPRA Phase II: Bargaining Environment

Cities' Need to Restore Service Cuts and Restart Deferred Infrastructure

- Citizens' Demands to Restore Services to Pre-2009 Levels
- Deferred Infrastructure
- Restoration of Prudent Budget Reserves



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PEPRA Phase II: Bargaining Environment

Making up for Lost Wages of Recent Years

- Depends on Whether the Wage Reductions Were Temporary (snap-backs) or Structural (e.g. salary schedule reductions)
- Wage Loss v. CPI Increase



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PEPRA Phase II: Bargaining Environment

Increasing Agency Revenue Trends

- Raw Numbers Looking Better
- Increased Expectation for Service Restorations and Wage Increases



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PEPRA Phase II: Bargaining Environment

Unions Increasing Use of Fact-finding and the Martinez PERB

- **Fact-finding Forces Planning for Negotiations Using:**
 - Comparable Agencies' Total Compensation
 - Increase in Inflation (CPI)
 - Ability-to-Pay Increases
- **Total Compensation is Key – Include Total Costs of:**
 - Wages
 - All H&W Benefits
 - Retiree Medical
 - Full Pension Costs
 - Other Compensation (special pay, vacation, etc.)



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PEPRA Phase II: Bargaining Environment

Unions Increasing use of Fact-finding and the Martinez PERB

- **PERB Will be an Unfriendly Forum for Cities in Foreseeable Future**
 - More notice, more interaction with unions & more time required to implement decisions
- **Understand and Adjust to the New Reality**
 - Procedural compliance is key to successful implementation



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What Does All Of This Mean?

- **A Major Conflict of Expectations For PEPRAs Phase II**

- **Employees:**

- Increases in Wages Overdue
- Rising City Revenues
- Use of Factfinding and PERB

VS.

- **Cities:**

- Pension Cost-Sharing
- Medical Cost-Sharing
- Funding Retiree Medical
- Restore Services & Reserves, Restart Infrastructure
- Increased Cost in Cities' Pension and Medical Costs



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REFLECTION & SUMMARY

- Phase II of PEPRAs (Cost-Sharing) Is Occurring in a Context of Rising Expectations and Conflicting Interests Of Cities, Employees and Citizens
- Don't Depend on Unilateral Imposition – Cost Sharing Agreements are Key
- Carefully Craft the Agreements According to Law
- Focus on Total Compensation to Reach Agreement



Q & A

