



GOVERNANCE, TRANSPARENCY AND LABOR RELATIONS POLICY COMMITTEE

Friday, April 16, 2021

1:30 pm – 4:30 pm

Register for this meeting:

https://zoom.us/join/zoom/register/tJUucO-spjkuG92E_ffQ1QmzqxXtV69anbqr

Immediately after registering, you will receive a link and confirmation email to join the meeting.

AGENDA

I. Welcome and Introductions

Speakers: Chair Lori Ogorchock, Councilmember, Antioch

Vice Chair Rick Bonilla, Deputy Mayor, San Mateo

II. Public Comment

III. General Briefing

Speaker: Bijan Mehryar, Legislative Representative, League of California Cities

IV. CalPERS Presentation

Speaker: Michael Cohen, Chief Financial Officer, CalPERS

V. Asset-Liability Management Policy Discussion (Attachment A)

Speaker: Bijan Mehryar, Legislative Representative, League of California Cities

VI. General Pension Policy Discussion (Attachment B)

Speaker: Glenn Parker, Councilmember, Brea

VII. Adjourn

Next Virtual Meeting: Friday, June 4, 2021, 1:30 pm – 4:30 pm

Brown Act Reminder: The League of California Cities' Board of Directors has a policy of complying with the spirit of open meeting laws. Generally, off-agenda items may be taken up only if:

- 1. Two-thirds of the policy committee members find a need for immediate action exists and the need to take action came to the attention of the policy committee after the agenda was prepared (Note: If fewer than two-thirds of policy committee members are present, taking up an off-agenda item requires a unanimous vote); or*
- 2. A majority of the policy committee finds an emergency (for example: work stoppage or disaster) exists.*

A majority of a city council may not, consistent with the Brown Act, discuss specific substantive issues among themselves at Cal Cities meetings. Any such discussion is subject to the Brown Act and must occur in a meeting that complies with its requirements.

GOVERNANCE, TRANSPARENCY AND LABOR RELATIONS POLICY COMMITTEE
Policy Agenda
April 16, 2021

Staff: Bijan Mehryar, Legislative Representative (916) 882-9886
Johnnie Pina, Legislative Policy Analyst (916) 658-8214

Asset-Liability Management Policy Discussion

Based on the presentation given by CalPERS Chief Financial Officer Michael Cohen, the committee should discuss and evaluate our options for engagement in the Asset-Liability Management (ALM) process.

Existing League Policy:

Public compensation systems programs should be sustainable, fair to taxpayers and employees, and provide long-term financial stability.

Cal Cities believes that solutions towards realizing pension system sustainability should be the result of inclusive stakeholder collaboration at both the local and state level (retirees, employees, employers, CalPERS).

Cal Cities supports balanced measures that ensure sustainable retirement and health care benefits are offered to public agency employees while at the same time ensuring that public agencies have solid retirement benefits to attract and retain highly talented employees.

Cal Cities supports locally negotiated retirement programs that are fiscally responsible, transparent, sustainable, affordable and equitable for employees and for taxpayers in the long term.

Cal Cities supports reasonable measures to ensure that retirement benefits are properly funded allowing flexibility to local agencies to negotiate equitable cost sharing with employees and smoothing the employers' costs during challenging economic times.

Cal Cities supports the long-term sustainability of retiree health benefits by including their costs in employer/employee costs sharing formulas.

Cal Cities recognizes and supports the value of a dependable, sustainable, employer provided defined benefit plan for career employees; supplemented with other employee only funded retirement options including personal savings such as a 457 Plan.

Cal Cities supports further exploration of defined contribution options as part of future pension reform discussions.

Staff Recommendation:

Cal Cities staff recommends the committee discuss the ALM process and direct staff to prepare policy options for review at the June Meeting.

Committee Recommendation:

Board Action:

CalPERS Asset Liability Management Cycle

CalPERS administers pension benefits for more than two million members. These benefits are funded by three sources: investment earnings and contributions by employers and employees.

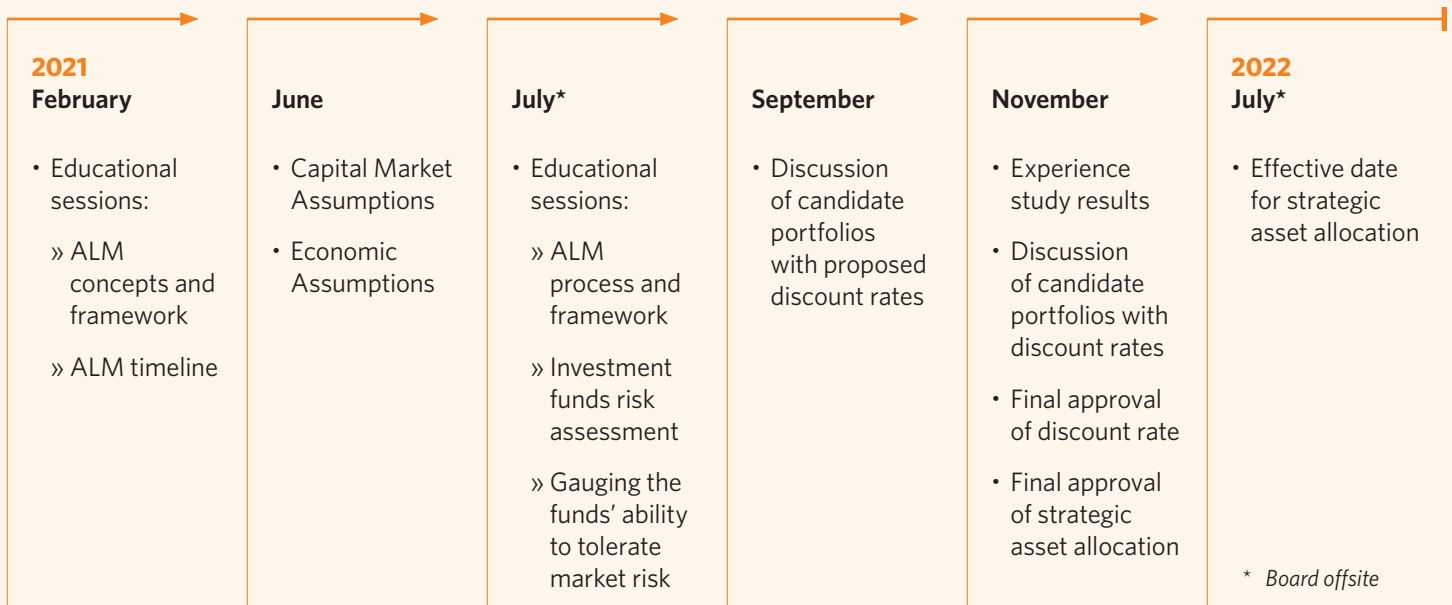
The CalPERS Board of Administration oversees the long-term sustainability of the Public Employees' Retirement Fund (PERF) and the Affiliate Funds through a process called Asset Liability Management

The ALM is a transparent review of our total fund that informs decisions to help achieve a sound and sustainable System.

(ALM). This formal process runs on a four-year cycle and includes a review of CalPERS' investment portfolios and retirement plan liabilities. Capital Market Assumptions are primarily based on expectations of future investment returns. Liability projections are based on demographic and economic factors and trends, including membership dynamics, future salary and payroll growth, retirement ages, inflation, and life expectancy.

The goal of the ALM process is to balance the expected cost of future pension payments with the expected future investment returns. During the process, the CalPERS board reviews its overall risks, taking into consideration the long-term sustainability of the System,

ALM Timeline for PERF and Affiliate Funds



Quarterly stakeholder webinars throughout the ALM process:
January 20, April 27, June 9, and September 15, 2021

volatility and expected return of the investment portfolio. Impacts on employer and employee contribution rates are also a key consideration.

The ALM process results in the following key decisions by the board:

- New strategic asset allocation of the investment portfolios
- Adoption of new actuarial assumptions
- Possible change to the discount rate which impacts employer and employee contribution requirements

Key Terms

Strategic Asset Allocation – percentage of the total investments by asset class, which includes:

- Global equity – U.S. and international public stocks
- Fixed income – government and corporate bonds, and structured securities
- Real assets – physical assets including commercial real estate, forestland, and infrastructure
- Private equity – investments in companies that are privately held and not available for purchase through public exchanges
- Liquidity – money market securities such as Treasury bills, certificates of deposit, and commercial paper

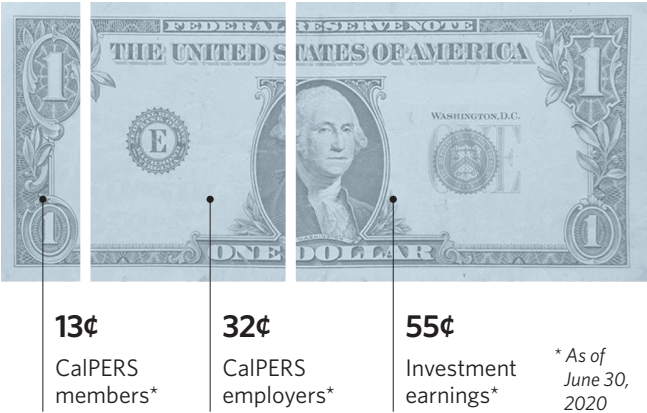
Discount Rate – the rate of interest used in calculating the accrued liabilities and normal costs for employers, as well as contributions for employees. It represents the long-term assumed rate of return on investments based on the portfolio allocation decided by the board.

Capital Market Assumptions – estimates investment returns, volatilities, correlations, and market constraints by asset segment, resulting in expected total returns for the CalPERS funds over long periods.

Experience Study – a review of the demographic and economic assumptions that are used to calculate the System’s projected liabilities and required contributions. Every four years, this study is conducted by the CalPERS actuaries, and examines factors like life expectancy, workforce changes, inflation, and payroll trends.

Affiliate Funds – separate pools of invested contributions for other Trusts administered by CalPERS, which includes Judges’ Retirement System (JRS) Fund, Judges’ Retirement System II (JRS II) Fund, Legislators’ Retirement System (LRS) Fund, California Employers’ Retiree Benefit Trust (CERBT) Fund, California Employers’ Pension Prefunding Trust (CEPPT) Fund, Long Term Care Fund (LTC), Health Care Fund (HCF) and Supplemental Income Plan Funds (SIP).

Pension Funding – each dollar of benefits is funded by investment earnings and employer and employee contributions. The largest contribution comes from CalPERS investment earnings.



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**CALPERS MODERNIZATION
Legislative Proposal**

Goal: *To establish a sustainable long-term pension retirement program that supports the safety and security of public employees at an affordable cost to the local agency.*

Implementation of this proposal will require amendment of the Public Employees' Retirement Law (Government Code Section 20000 et seq.) and/or the California Public Employees' Pension Reform Act of 2013 (Government Code Section 7522 et seq.).

Issue: In 2013, PEPRA created new pension formulas, yet almost ten years later little relief to the annual cost of pension contributions has been realized by local agencies.

- Modernization of pension plans by states has been significant, with 13 states having made changes to their pension programs since 2017 and 27 states having made changes since 2014.
- In 2020, the League of California Cities (Cal Cities) *Strategic Priorities* include: "Address cities' fiscal sustainability to deliver essential services and meet pension obligations. Work collaboratively to secure new revenue tools and flexible prudent policies to ensure cities are able to provide essential services to their residents while maintaining their ability to meet pension obligations."

The Cal Cities has identified the following pension sustainability and guideline principles:

- Public compensation systems programs should be sustainable, fair to taxpayers and employees, and provide long-term financial stability.
- Cal Cities supports legal or legislative remedies that facilitate options to restore sustainability to CalPERS benefit plans.
- Cal Cities recognizes and supports the value of a dependable, sustainable, employer provided defined benefit plan for career employees; supplemented with other employee funded retirement options including personal savings such as a 457 Plan.
- Cal Cities supports further exploration of defined contribution options as a part of future pension reform discussions.

Key Elements of Proposed Legislation:

Employees upon hire can decide on a defined contribution option or hybrid/defined contribution retirement option.

- **Defined Contribution Option 401(k)-plan** - Employer contributions on behalf of its employees. Employees can contribute additional funds into their 401(k)-plan for added security.
- **Hybrid Defined Contribution Option that includes a 401(K)-plan** - Hybrid defined retirement contribution option will match either the current Social Security Retirement Benefit or Federal Employee Retirement System (FERS) retirement benefit in order to provide a minimum level of employee security. This hybrid plan is coupled with contributions made by the employer on behalf of its employees to provide a supplemental retirement income. Employees can also contribute additional funds into their 401(k)-plan.

General Pension Policy Discussion

**Document Provided by Brea Councilmember Glenn Parker
Not a Cal Cities Document**

CALIFORNIA LEGISLATURE —2021–22 REGULAR SESSION

ASSEMBLY BILL No. 1133

Introduced by Assembly Member Chen
February 18, 2021

An act relating to a state employee hybrid pension system.

Legislative Counsel’s Digest

AB 1133, as introduced, Chen. State employee hybrid pension system.

Existing law creates the Public Employees’ Retirement System (PERS), which offers a defined benefit pension and other benefits to its members based on age at retirement, service credit, and final compensation, subject to certain variations. Existing law generally provides that state employees become members of PERS upon employment. Existing law authorizes the Department of Personnel Administration to create a tax-deferred savings plan, which has been named Savings Plus, that permits state employees to build a retirement savings account using payroll deductions.

The bill would state the intent of the Legislature to enact legislation that would create a hybrid retirement benefit, consisting of a defined benefit pension and a defined contribution program for new employees, within the Public Employees’ Retirement System, that state employees would have the option of electing.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. It is the intent of the Legislature to enact legislation that would create a hybrid retirement benefit for new employees, consisting of a defined benefit pension and a defined contribution program, within the Public Employees’ Retirement System, that state employees would have the option of electing into upon hire.