CITY OF PACIFIC GROVE

AGENDA REPORT

300 Forest Avenue, Pacific Grove, California 93950

TO:	Honorable Mayor and Members of the City Council
FROM:	Mayor Bill Kampe, Councilmembers Bill Peake and Rudy Fischer
MEETING DATE:	February 17, 2016
SUBJECT:	Update from CalPERS Subcommittee
CEQA:	Does not constitute a “Project” under California Environmental Quality Act (CEQA) Guidelines

RECOMMENDATION
Receive a report on actions and findings of the CalPERS Subcommittee.

DISCUSSION
On August 12, 2015, the Council appointed a subcommittee comprised of Councilmembers Bill Peake and Rudy Fischer plus Mayor Bill Kampe. The subcommittee was to analyze issues of our CalPERS costs. This report is submitted as a basis for possible future discussion.

Over the past several months we have obtained what information we could find we the goal of learning additional actions that can reduce our CalPERS burdens. We have only very recently received the CalPERS valuation reports for June 30, 2014.

Our actions included a letter of inquiry to Alan Milligan, a compendium of CalPERS facts and comparative data, and a survey report on attitudes toward benefits costs in other jurisdictions.

Our first step included drafting a letter of inquiry to Alan Milligan, Chief Actuary of CalPERS, sent September 3. The goal was to gain a greater understanding of factors that affect CalPERS costs for Pacific Grove. We have relatively few active employees and many transferred, separated, and retired employees. After sending a follow-up message, we received a response answering all questions in their letter of November 20 and received in the City on December 2. Both our letter and the CalPERS response from Barbara Ware are attached.

Meanwhile, Councilmember Bill Peake gathered the history of PG’s engagement with CalPERS and conducted an extensive financial analysis, which is submitted separately in this agenda package separately.

An additional opportunity came from the League of California Cities Conference in late September. It was a follow-up to a session on the topic of “Yes, It’s Possible to Reduce Benefit Costs!” At that session, 36 people indicated an interest in further dialog; 22 of those completed the survey, results attached. The survey revealed a high level of concern at the individual level and a lower expectation for action at the council level. The respondents also shared the outlook that there is less flexibility to act on pension costs than healthcare costs.

FISCAL IMPACT
None.

ATTACHMENTS

1. Letter of inquiry to Alan Milligan, Chief Actuary of CalPERS
2. CalPERS response to the letter
3. Survey Report of League of California Cities attendees on the topic of Benefit Costs

Respectfully submitted:

Bill Peake

Bill Peake, Councilmember

Rudy Fischer

Rudy Fischer, Councilmember

Bill Kampe

Bill Kampe, Mayor

H1
CalPers

300 Forest Avenue
Pacific Grove, California, 93950

September 3, 2015

Alan Milligan, Chief Actuary
California Public Employees Retirement System
400 Q Street
Sacramento, CA 95811

Dear Mr. Milligan:

Our City continues to try to understand the source of our current liabilities and the employer contributions for pension retirement benefits. The most recent valuation report of June 30, 2013, gives only hints to help us answer the question "How does CalPERS come up with those numbers?" While some parts of the report appear complete, others provide little traceable information to show the source of our liabilities.

We ask your help in providing the additional background information that yields the Total Liabilities, Total Assets, and hence the Unfunded Actuarial Liability for:

- Public Safety Plan
- Miscellaneous Employee Plan

Our goals are two-fold. We wish to gain an understanding of any actionable steps we can take to manage our liabilities. And we feel a strong need to understand how the reported liabilities represent an equitable apportionment to our jurisdiction. We also request an opportunity to meet directly in person to follow up.

Here are some of the topics we seek to understand in more depth. The valuation reports imply a number of factors are applied to determine liabilities for our active employees, transferred employees, separated employees, and retired employees. In particular, the liabilities and resulting employer contributions shown on page 12 in the Schedule of Amortization bases are summary numbers. We envision some additional information in each of the categories shown on page 21 as Participant Data and showing the pension liability attributable to their service in Pacific Grove. The factors that determine the liabilities in each category are not presented in the report, or at least very distantly presented in Section 2. So our questions are:

1. For both Misc and Safety, what are the liabilities for our employees in each category shown on page 21 of the Valuation Report?
    a. Active
    b. Transferred
    c. Separated
    d. Retired

2. What additional factors, in addition to number of employees, are used to determine the local agency Actuarial Liability amount
    a. Salary anticipated at retirement?
    b. Time served in our jurisdiction?
    c. Years to retirement?
    d. Other major factors? We note there is actuarial information in Section 2. It is not explicitly linked to our employee counts.

3. When calculating the local agency actuarial liability: which of the above data is specific to local agency employees and which is a risk pool statistical average?
    a. Salary anticipated at retirement – pool average?
    b. Time served in our jurisdiction – specific to actual individuals in the category?
    c. Years to retirement – could be an individualized starting point to actuarial value for age at retirement?

4. In determining the wage base for pension liabilities, is a pool average used, or are actual retirement wage experiences used per jurisdiction? The CalPERS Experience Study and Review of Actuarial Assumptions, January 2014, appear to use pool averages exclusively. What data is available that would analyze variances among jurisdictions in retirement wage bases?

5. If a pool average, what data exists to support equitable treatment for each employer in the pool? The concern is that one employer may be cautious both in overall pay scale and end of career practices for various forms of spiking such a promotions and step increases while another may be very generous. We have heard that CalPERS has conducted such studies, and we would appreciate a chance to understand the implications and specifically how Pacific Grove compares to the pool.

6. If an employee transfers into our jurisdiction and pool from a non-pool jurisdiction or a different plan, e.g. 2% at 20 instead of our 3% at 50, how does that affect our pension liability? And the same question for a transfer out to another jurisdiction.

7. What is the "Golden Handshake?" (2 years additional service credit as per Gov't Code 20903?)

8. If we understand Section 2 of the Pool reports, Amortization bases are for 30 years with a 5 year ramp up and 5 year ramp down. What determines how steep the ramp is? Where is that documented?

There may be better or more directly relevant questions. Unfortunately, the valuation report gives few clues and we would appreciate your guidance in understanding the reports and the traceable consequences to our City.

Please let us know what information is available to us, and also your suggestions on how we can fill these gaps, and others we may not have thought of, in gaining a traceable view of our pension liabilities.

Thank you for your help.

Regards,

Bill Kampe

Bill Kampe
Mayor

Regards,

Thom Frutchey

Tom Frutchey
City Manager

cc: Anne Stausboll, Chief Executive Officer
California Public Employees Retirement System
Barbara Ware, Senior Pension Actuary
California Public Employees Retirement System
David Teykaerts, Manager, Stakeholder Relations and Strategic Outreach
California Public Employees Retirement System

CalPERS

California Public Employees' Retirement System
Actuarial Office
P.O. Box 720720
Sacramento, CA 94229-0720
TTY: (877) 249-7442
(888) 225-7377 phone – (916) 795-2744 fax

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CITY OF PACIFIC GROVE

November 20, 2015

Bill Kampe, Mayor
Tom Frutchey, City Manager
City of Pacific Grove
300 Forest Avenue
Pacific Grove, California 93950

Dear Mr. Kampe and Mr. Frutchey,

We apologize for difficulties you encountered with the actuarial valuation report. Shown below is the information you requested in your letter dated September 3, 2015.

1.) **Question:** For both Misc and Safety, what are the liabilities for our employees in each category shown on page 21 of the Valuation Report?

Answer:

Miscellaneous

a.	Actives	$10,340,641
b.	Transferred	3,163,581
c.	Separated	1,153,455
d.	Retired	34,663,200
e.	Total	$49,320,877

Safety

a.	Actives	$ 4,746,193
b.	Transferred	9,105,869
c.	Separated	2,265,430
d.	Retired	51,230,373
e.	Total	$67,347,865

The total values are shown as your Plan's Accrued Liability on line 1 found on page 11, Development of Plan's Share of Pool's Unfunded Accrued Liability.

2.) **Question:** What additional factors, in addition to number of employees, are used to determine the local agency Actuarial Liability amount

a. Salary anticipated at retirement?
b. Time served in our jurisdiction?
c. Years to retirement?
d. Other major factors? We note there is actuarial information in Section 2. It is not explicitly linked to our employee counts.

Answer: The factors you mentioned are all important in determining the Accrued Liability (AL). In addition, we look at possible benefits other than service retirement and also life expectancies.

Possible benefits other than service retirement are: disability retirement (which can be industrial or work-related or non-industrial or not work-related), death benefits (which can be pre-retirement and industrial or non-industrial, or post-retirement) and termination benefits (which can be with or without refund). A description of the various types of benefits is in Appendix B of Section 2 of the Valuation Report.

The probability that an individual will receive a particular benefit is determined based on our assumptions. Then the amount of the benefit is determined at each age based on salary and service projections, where applicable. Then the length of time the benefit is expected to be paid for benefits that are not lump sum amounts is calculated based on mortality rates and beneficiary information or assumptions. Finally, the possible benefit projected benefit amounts are discounted to the valuation date using our discount rate of 7.5%. Note that there is no single age at which any event is predicted to occur, but the possible benefits payable are determined for each age and multiplied times the probability of the benefit actually being paid at that age. All of those (discounted) possibilities are combined to obtain the Present Value of Benefits (PVB). The portion of the PVB allocated to past service is the Accrued Liability. The Normal Cost is the allocation for each subsequent year. Appendix A of Section 2 gives a more complete description of our cost method. Detail of all of the actuarial assumptions is also provided in Appendix A.

3.) **Question:** When calculating the local agency actuarial liability: which of the above data is specific to local agency employees and which is a risk pool statistical average?

a. Salary anticipated at retirement – pool average?
b. Time served in our jurisdiction – specific to actual individuals in the category?
c. Years to retirement – could be an individualized starting point to actuarial value for age at retirement?

Answer: All liabilities are calculated on an individual by individual basis, beginning with actual and current information known for each individual. Projection of future liabilities is based on actuarial assumptions applicable to all plans.

Once the total liability of your plan is calculated, the payment of the pool's total liability is then distributed across all of the plans within the pool by; in general, pro-rating each plan's Accrued Liability to the total pool liability. Page 11 of Section 1 shows the details of how your plans' portion of the Pool's Unfunded Actuarial Liability (UAL) is determined. The amounts shown on page 11 make up the 6/30/13 balances shown on page 12.

Future gains or losses (that is, the difference between what we expect the UAL to be based or our assumptions compared to the actual UAL) will be allocated based on a proration of the Accrued Liability for that year. That means that if, for example, there is a loss for the pool because most plans have increased pay, but your plan has a gain, you will pay a smaller portion of the pool's loss. (See question 5 for more on this.)

4.) **Question:** In determining the wage base for pension liabilities, is a pool average used, or are actual retirement wage experiences used per jurisdiction? The CalPERS Experience Study and Review of Actuarial Assumptions, January 2014, appear to use pool averages exclusively. What data is available that would analyze variances among jurisdictions in retirement wage bases?

Answer: You are correct in your interpretation of the Experience Study. CalPERS looks at all CalPERS experience in determining the likelihood of wage increases.

Currently, the Actuarial Office does not examine or contrast the actual salaries of employees across different geographic or jurisdictional regions. CalPERS, instead, focuses on the relative changes across individuals regardless of location. These relative changes have been found to be accurate over the long term regardless of jurisdiction or employer.

Individual employees' compensation is used to determine individual member's accrued liabilities and benefits.

5.) **Question:** If a pool average, what data exists to support equitable treatment for each employer in the pool? The concern is that one employer may be cautious both in overall pay scale and end of career practices for various forms of spiking such a[s] promotions and step increases while another may be very generous. We have heard that CalPERS has conducted such studies, and we would appreciate a chance to understand the implications and specifically how Pacific Grove compares to the pool.

Answer: CalPERS does look for aberrances in salary increases in a multitude of ways, but the Actuarial Office reviewing individual agencies against their neighboring agencies is not one of them.

If an agency's plans are consistently out of step with the pool over a period of time, the agency's actuary would notice and would discuss possible remedies with the Chief Actuary and the agency. We have not found this to be an issue with Pacific Grove. For example, as of 6/30/2013, the average pay for the Pacific Grove Miscellaneous Plan was 96.3% of the average pay for the pool ($62,989 vs. $65,408). For the Safety Plan, the Pacific Grove pay was 121.5% of the average pay for the pool ($110,062 vs. $90,563).

6.) **Question:** If an employee transfers into our jurisdiction and pool from a non-pool jurisdiction or a different plan, e.g. 2% at 20 instead of our 3% at 50, how does that affect our pension liability? And, the same question for a transfer out to another jurisdiction.

Answer: An employee's highest 12 consecutive months' salary is the basis for determining the final average compensation used in the calculation of that employee's pension benefit. If that salary occurred prior to that employee's employment with your agency, then your agency will be responsible for a benefit based on the benefit formula for your agency and the service accrued with your agency, but with the higher previous salary.

Correspondingly, if that employee leaves employment with your agency and gains employment elsewhere where the employee's salary escalates significantly, the pension benefit applicable to the service accrued while employed at your agency will be calculated with that higher salary.

Under the Public Employees' Pension Reform Act (PEPRA) there is provision for exceptions in extreme circumstances. The policy to address this is currently being developed.

7.) **Question:** What is a "Golden Handshake?" (2 years additional service credit as per Gov't Code 20903?)

Answer: A "Golden Handshake" is a provision for which an agency may elect to contract to provide an additional two years of service to an employee or employee group who retire early under a very specific set of criteria.

Some criteria to pay particular attention:

The position being vacated by the person receiving the golden handshake must "remain permanently unfilled thereby resulting in an overall reduction in the workforce of the department or organization unit." Government Code (20903(d))

This cannot be offered "to any member who is not employed by the contracting agency during the period designated in subdivision (a) and who has less than five years of service credit." Government Code (20903(h)) The period designated is often referred to as the "window."

8.) **Question:** If we understand Section 2 of the Pool reports, Amortization bases are for 30 years with a 5 year ramp up and a 5 years ramp down. What determines how steep the ramp is? Where is that documented?

Answer: The full rationale for the design and implementation of the ramp up and ramp down policies are explained in the May 2014 Finance and Administration Committee Agenda Item 5a. Titled "Changes to Pension Risk Pools as a Result of Pension Reform." You can find the agenda item on the CalPERS website at www.calper.ca.gov.

The specific answer regarding your question, as I understand it, is:

"Commencing with the June 30, 2013 valuation, the annual contribution amount with regard to gains and losses recognized in that valuation shall be the dollar amount determined in accordance with the following schedule:

- Year 1: 20% of base payment
- Year 2: 40% of base payment
- Year 3: 60% of base payment
- Year 4: 80% of base payment
- Years 5 through 26: base payment
- Year 27: 80% of base payment
- Year 28: 60% of base payment
- Year 29: 40% of base payment
- Year 30: 20% of base payment

The base payment, for this paragraph (B)(2), shall be the annual amount (increasing each year by the overall payroll increase assumption adopted by the Board) necessary for the gains and losses to be fully amortized over a fixed 30 year period using the above schedule."

I hope that your questions have been satisfactorily answered. I will be happy to answer any follow-up questions at your convenience. You may contact me directly at 916-795-3426.

Sincerely,

Barbara N. Ware

Barbara Ware
Senior Pension Actuary

cc: Anne Stausboll, Chief Executive Officer
David Teykaerts, Stakeholder Relations
Alan Milligan, Chief Actuary

Managing Employee Benefit Costs Consolidated Survey Results

As of December 1, 2015

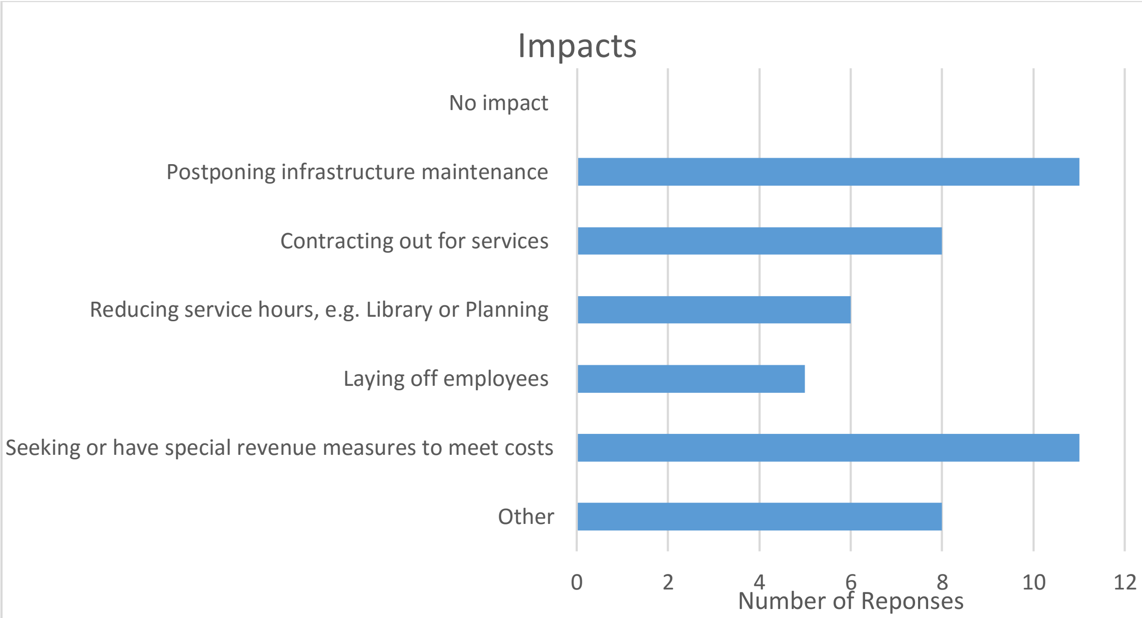
Bill Kampe, Mayor, City of Pacific Grove

This survey was opened on October 31, 2015. An invitation was sent to 36 persons who attended the League of California Cities Conference in San Jose, particularly a session on "Yes, It is Possible to Reduce Employee Benefit Costs." I served as the Moderator for that session. Attendees who expressed interest in continuing a dialog received the invitation. 22 people completed the survey. Of the 36-person list, **only 1,** other than me, confirmed that they would like to actually continue the dialog with other concerned persons.

The intent of the survey is to identify some themes of common interest as a basis for continuing dialog among interested persons. Here are some of the themes that I see from the results on the following pages:

- No respondent reported "No Impact".
- Respondents report more than 2 impacts on their cities, on average.
- **As individuals**, respondents feel generally that **urgent action is needed**.
- Looking at the flavor of their **councils**, respondents are **more guarded** on likelihood of action.
- Both **healthcare and pensions costs produce strong impacts on budgets**, with pension costs at the lead.
- Respondents have **more flexibility to act on healthcare costs**, in general. **Pension action** is viewed as much **more constrained**.
- Understanding of benefits costs and potential actions is mixed. There is room for education and information.
- Jurisdictions are exploring a range of actions to manage costs. It could be **useful to compare notes and experiences.**

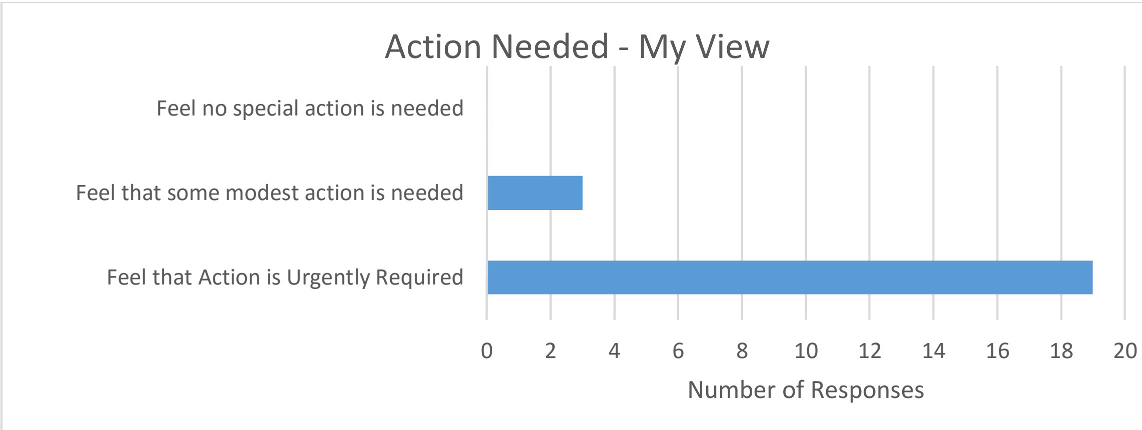
Q1. What impacts are benefit costs already having on your jurisdiction (Please check all that apply)?



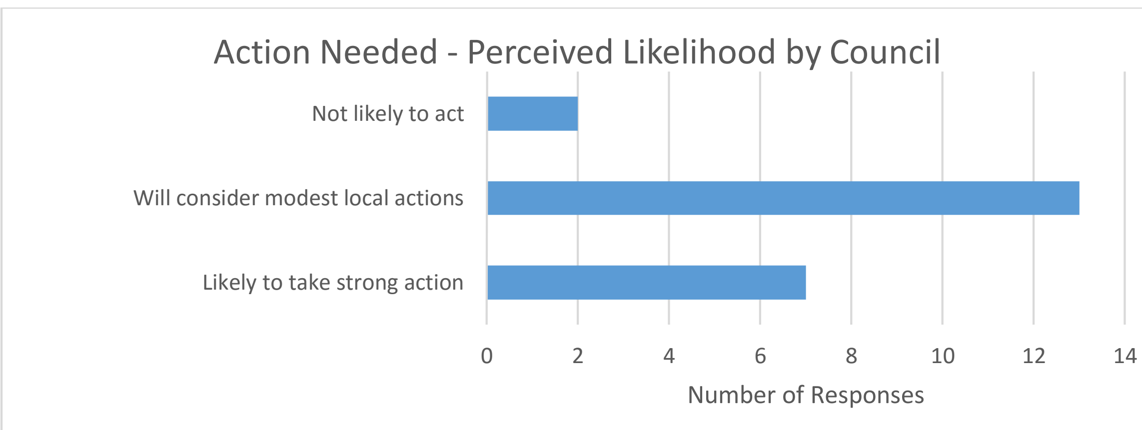
"Other" responses:

- Staff Reductions through attrition
- Threatening ability to provide fire protection services
- Evaluate the need to fill each vacancy
- taking time to fully evaluate costs before hiring planner & making employee salary increases requested
- Reviewing budget
- We anticipate rising costs to the GF, which will have an impact on CIP projects
- city's bond rating was downgraded to junk bond status by Moodys
- Belief during recession that the city had a "structural" budget deficit

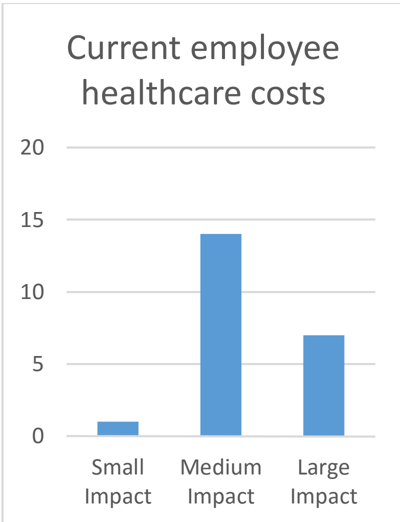
Q2. How strongly do you feel that additional action is needed to manage benefit costs?

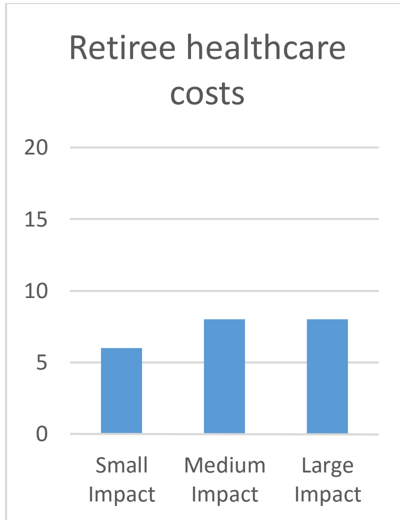


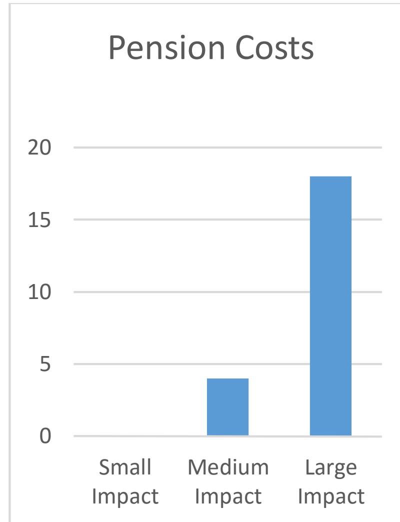
Q3. How committed do you feel your Council is to take action on benefit costs?



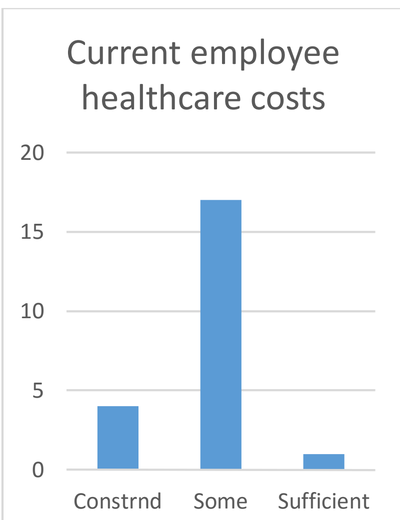
Q4. How would you rate the budget impact of each of the following elements of benefit costs?

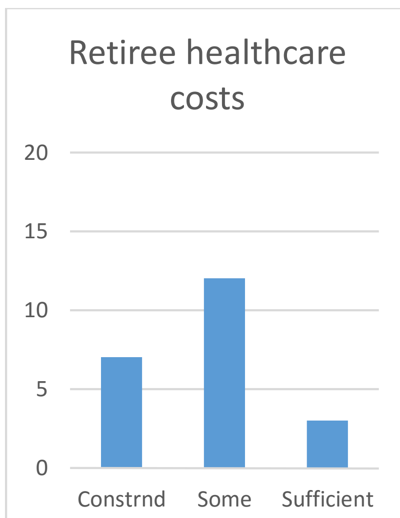


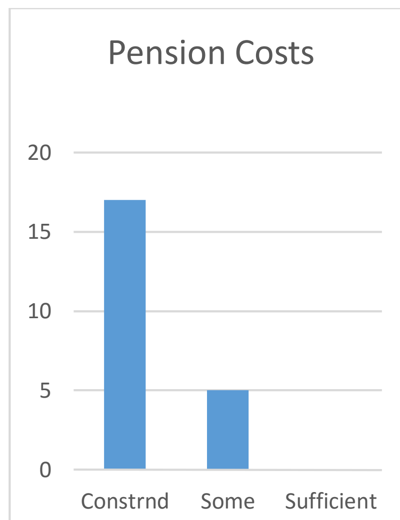




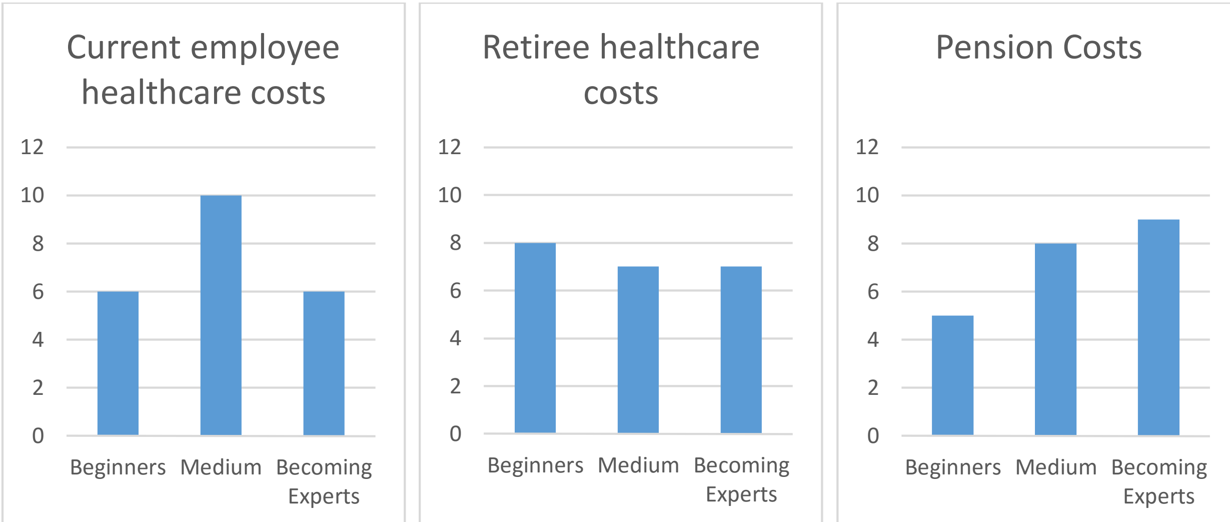
Q5. How much flexibility (contract / legal) do you feel you have locally to take needed action?



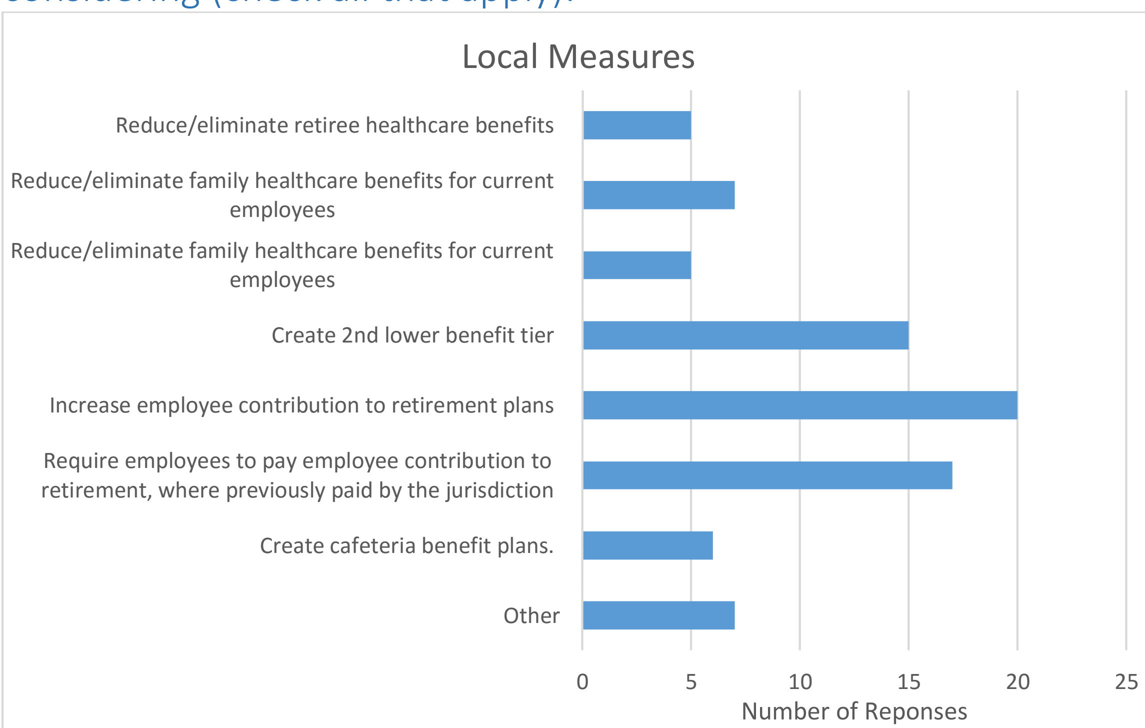




Q6. How well does your jurisdiction understand rising benefit costs?



Q7. Please check all local measures that you have taken or are considering (check all that apply):



"Other" Responses:

- Getting out of Pers
- Require employee contribution toward retiree healthcare benefit
- Early stages of discussion
- seek alternate suppliers of healthcare; benefit package mix other than PERS
- Looking at other pools/JPA's to join

- Reduce cafeteria cash out
- In 2011, Menlo Park paid down $7 MM unfunded PERS side fund for safety employees, saving $3.6 MM in implied interest expense (7.5%) and reducing annual pension benefit cost by $800k per year.

Q8. Please add your comments on how your jurisdiction is adapting to increased benefit costs.

- Hiring part-time employees to avoid medical and retirement costs
- Since 2009, Signal Hill has entered into short term (1 to 2 year) labor agreements with its employee associations including police. The City has negotiated additional employee contributions toward PERS costs. Miscellaneous employees are paying the full 7% and police in the classic category are paying 12%
- I based my answers on my current understanding/knowledge of my city's situation but that knowledge is still growing/ evolving
- Early stages of discussion
- We are setting up an Irrevocable Trust. (We have yet to decide between pension, OPEB or both.)
- We worked with staff to meet the new adjustments from PERS to cover the unfunded liability in the short term up till the contract expires in 2018.
- We passed a policy that 1/2 of any budget surplus gets set aside for a "Strategic Pension Reserve" that can be used to offset future increases in PERS rates or pay down unfunded liability. During the recession in 2009 the City Council negotiated cost sharing with all bargaining units - AFSME and SEIU pay half of PERS increases above specific thresholds, and our POA pays 3% of the City's contribution.
- Employees are contributing the retirement contributions under state law. We plan to ask employees to start making at least a nominal contribution to retiree health care during upcoming negotiations.
- City employees are taking the brunt of the medical premium increases. Most employees cannot afford anything other than the high deductible Silver PPO through Blue shield.
- Cities can make substantial impact on this issue through coordinated efforts to address all sides of the expense equation, including, but not limited to, identifying actual costs of healthcare, accountability related to pricing of healthcare, and assessment and reduction of "double dipping" practices (eg: collecting retirement while maintaining a full-time career). Further, coordinated support for those items already in the works is needed, for example, increasing competition, sustainable management for investment planning and returns, right-sizing of benefits, and accountability and preventative approaches related to disability retirements.
- No add'l comments.
- Stressful as we realizing the can is kicked down the road. And we are creating a community of pension haves and pension have not's.
- We have reduced workforce, deferred maintenance, negotiated improved contracts. It is still not enough.

Q9. What is your position in your jurisdiction?