



Paso Robles
Employee Compensation / Unfunded Liability

City Council Study Session

September 28, 2016





Welcome & Introductions

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City Manager
- Meg Williamson
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- Marlaine Sanders
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Study Session Overview



- Part 1 - Compensation Structure
- Part 2 - CalPERS Retirement Structure
- Part 3 - Future of CalPERS Rates
- Part 4 - Options

Council Discussion and Direction

Workshop Format – Council questions any time

Public Comment – at end of each section



Acronyms / Terms

- **CalPERS** – CA Public Employees' Retirement System
- **PEPRA** – Public Employees' Pension Reform Act
- **CAFR** – Comprehensive Annual Financial Report
- **GASB** – General Accounting Standards Board
- **NC** – Normal Costs (PERS payments)
- **UAL** – Unfunded Accrued Liability (PERS payments)



PART 1 -

Public Employee Compensation Structure

Employment Overview

Wide range of services; and goods

Large employer

General Fund – labor intensive

157+ FTEs many w/ post-grad degrees

52% - 68%



All Funds – incl. water and waste water

195+ FTEs

45% - 28%



Employment Overview (cont.)

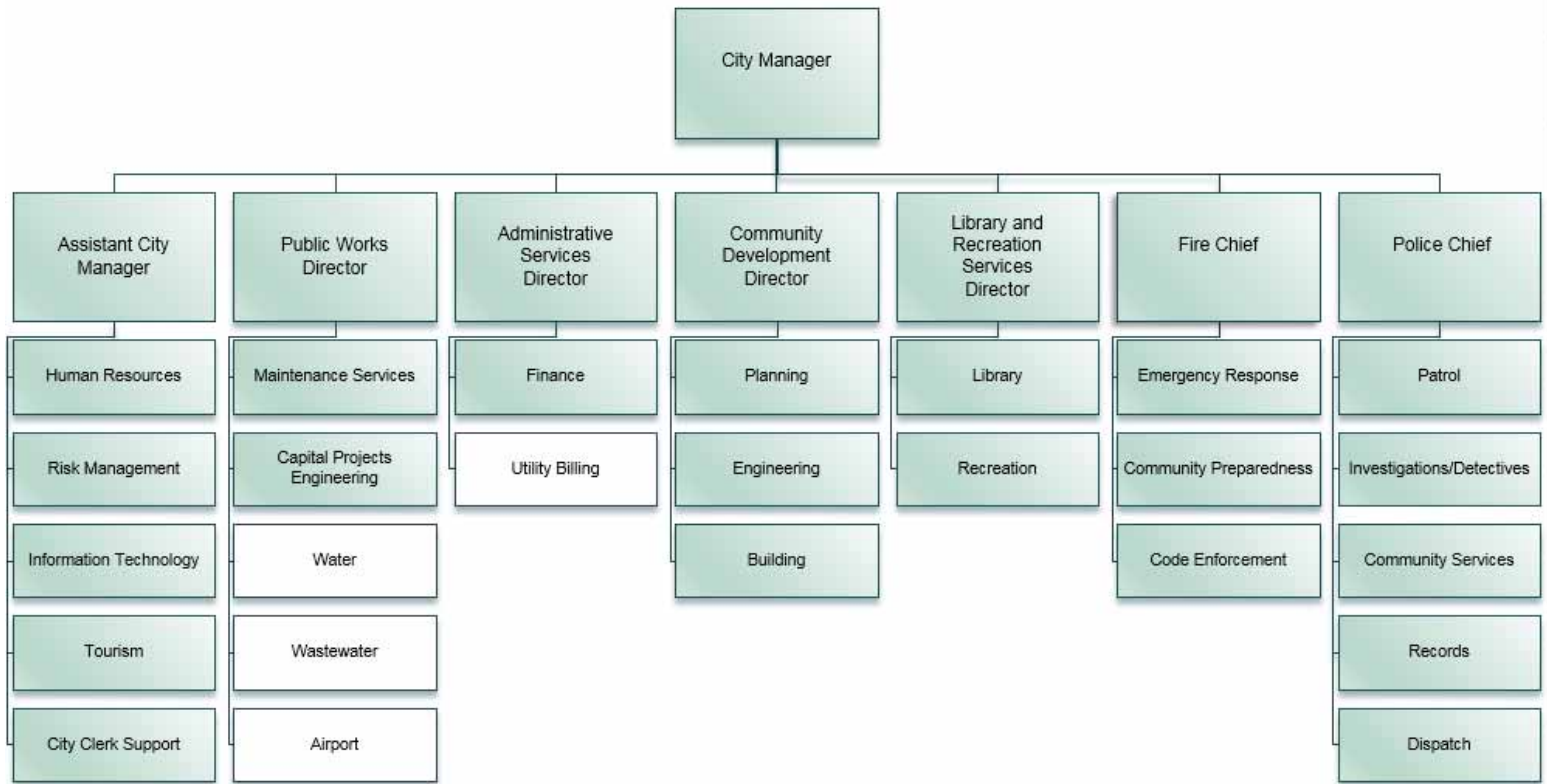
	<u>Total</u>	<u>Mgr</u>	
Public Safety	74	5	
PW + Util	67	8	
Gen'l Gov't	23	7	
Lib + Rec	20	3	
Comm Devel	<u>12</u>	<u>6</u>	
Total	196	29	(15%)



Employment Overview (cont.)

Benchmark	75% of market
Flexible, broad bands	11
Ranges, with Steps	Avg. Annual Inc. 2.4%
FTEs / 1000 Pop	6
Cap on retiree medical	20 yrs/Age 65/\$500
Fixed health contribution	\$0 automatic increase

Organization of Work





Employee Classification System

- Organize Workforce
- Train and Deploy Resources
- Stay Competitive with Market
- Maintain Lean & Capable Workforce



Collective Bargaining

- Meyers-Milias-Brown Act
- Union Structure
 - POA (police)
 - IAFF (fire)
 - SEIU (miscellaneous)
- Unrepresented



Total Compensation

- Salary + Benefits
- Benefits include:
 - Retirement
 - Health, Dental, Vision
 - Leaves: Sick, Holiday, Vacation
 - Disability & Life Insurance
 - Deferred Compensation
 - Misc. – Uniform, Safety Equipment, etc.
- Varies by labor group



Competitive Market

- Local v. Broader Market
- Private Sector
- Comparator Cities
- Internal Calibration



Public Comments



PART 2

CalPERS

Retirement Structure



CalPERS Retirement System

Defined benefit vs. defined contribution

Set Formulas

- 2.5 @ 55* (Miscellaneous Non-Safety)
- 3 @ 50 (Police)
- 3 @ 55 (Fire)

*Example: At age 55, employee with 20 years of service, retire at 50% of salary



Employer/Employee Contributions

- Paid as Percentage of Payroll
- Employee Contribution
 - Generally a fixed percentage
 - Varies by retirement contract & tier
- Employer Contribution
 - Function of Normal Costs (NC) +
 - Unfunded Accrued Liability (UAL)



CalPERS Employer Costs

- **Normal Cost (NC)**
Annual cost for current employees
Charged as % of Payroll
- **Unfunded Accrued Liability (UAL)**
Actuarial liability - value of assets
How much we have vs. how much we should have



History of PERS Rates (Costs)

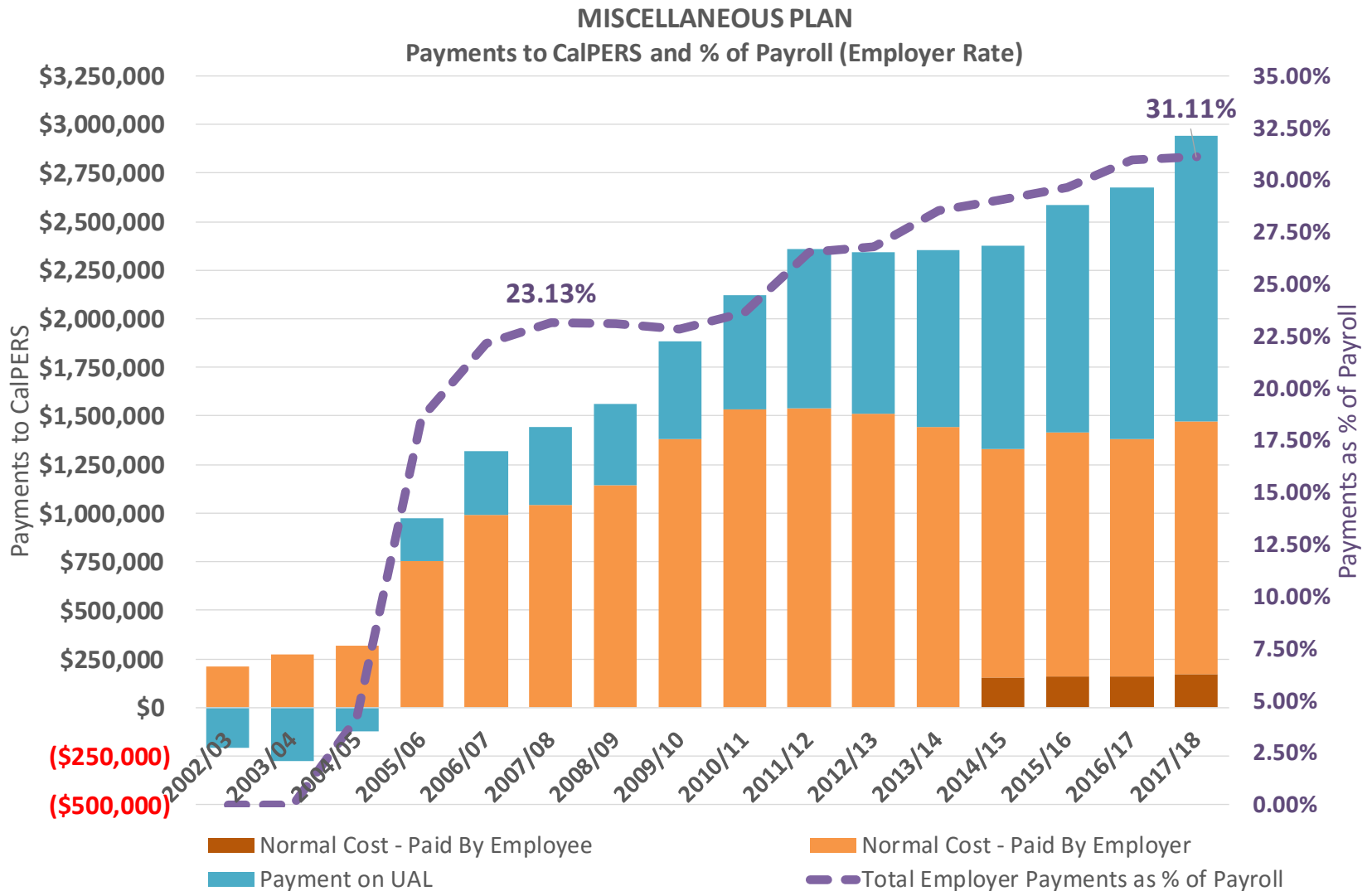
Then ...

- Super-funded through the 1990s
- PERS investment returns robust

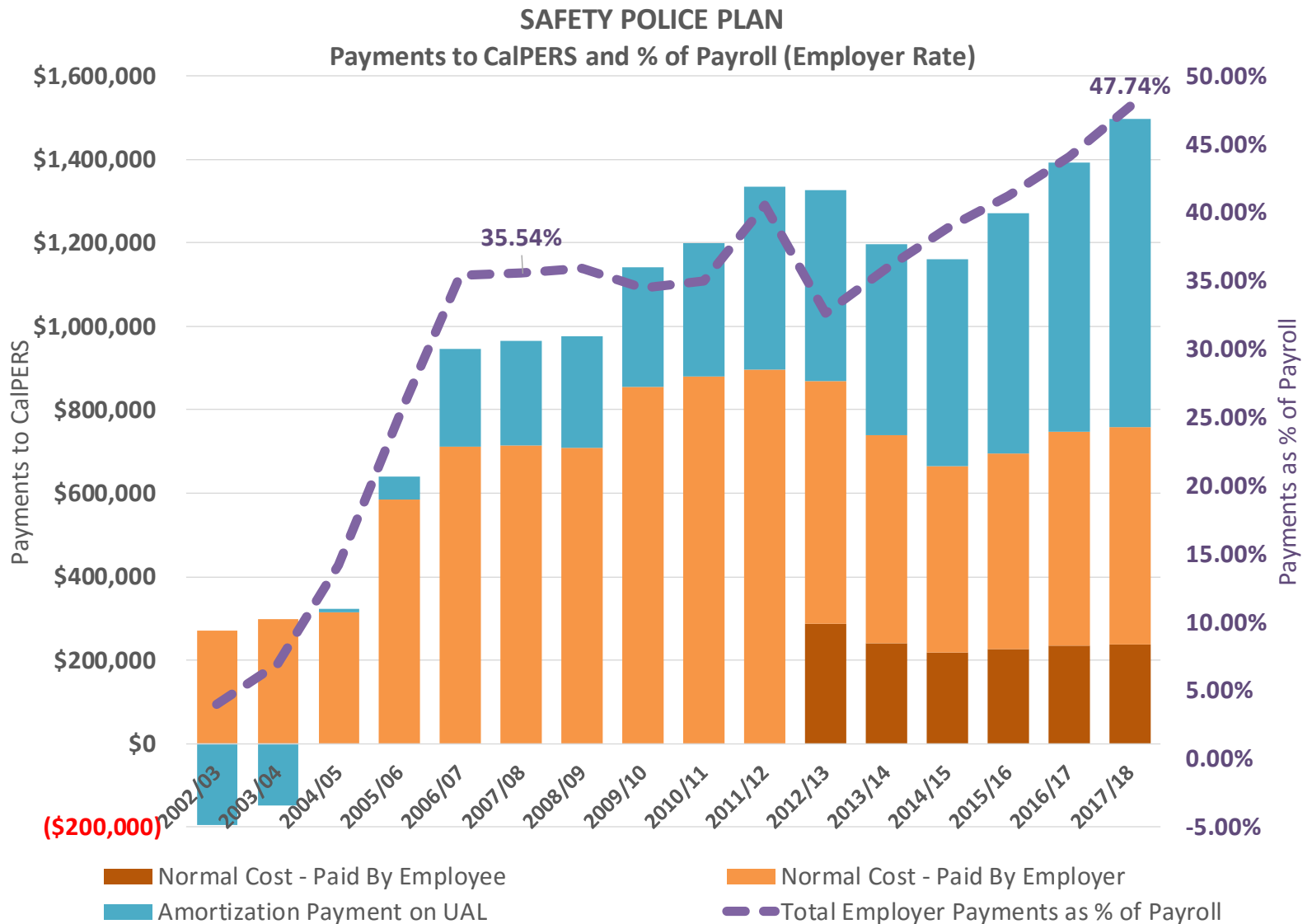
Now ...

- Sluggish investment growth
- Assumptions are changing
- Unfunded liability growing

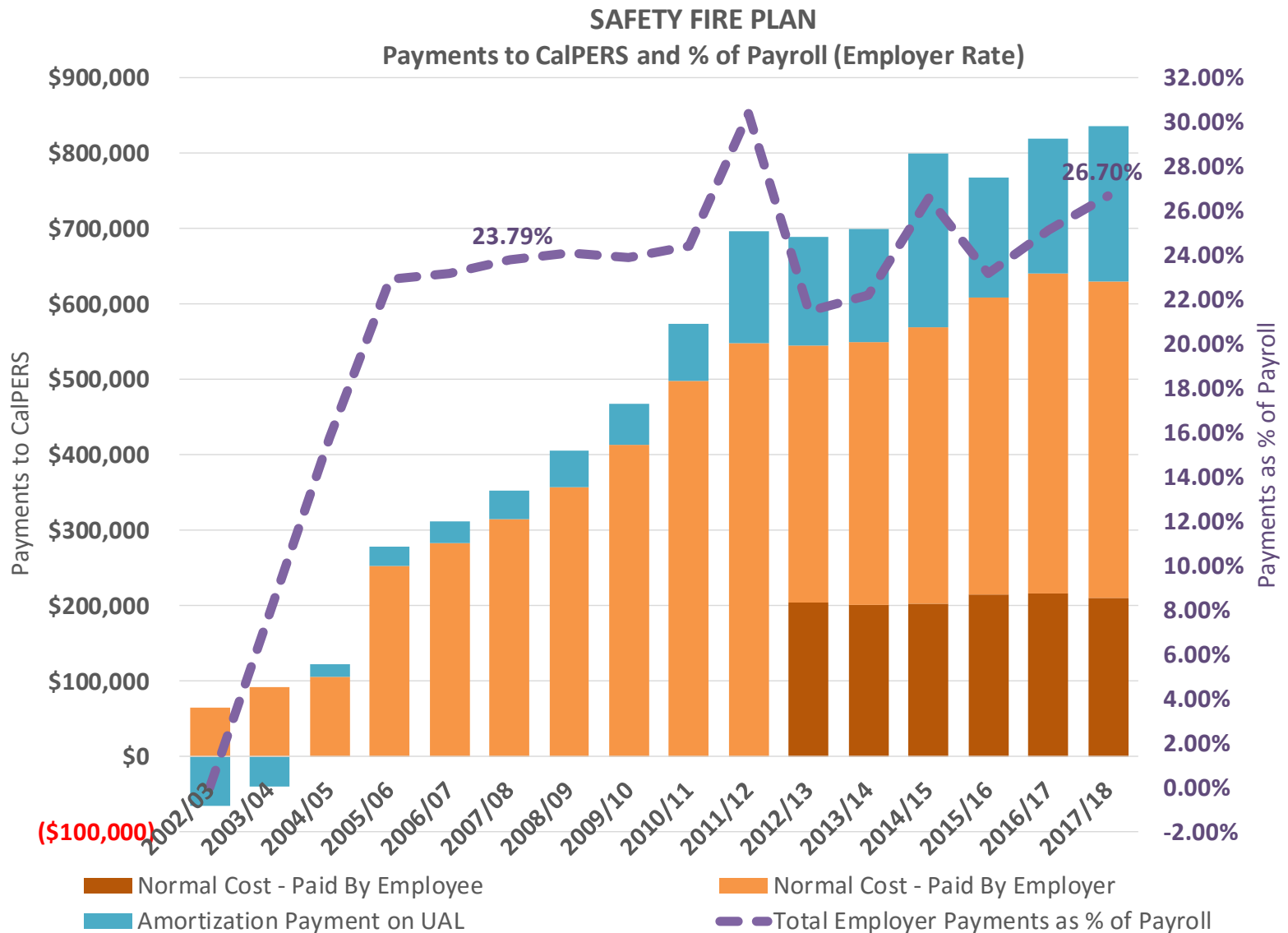
Employer Rate & Payment History – *Miscellaneous Plan*



Employer Rate & Payment History – *Safety Police Plan*



Employer Rate & Payment History – *Safety Fire Plan*

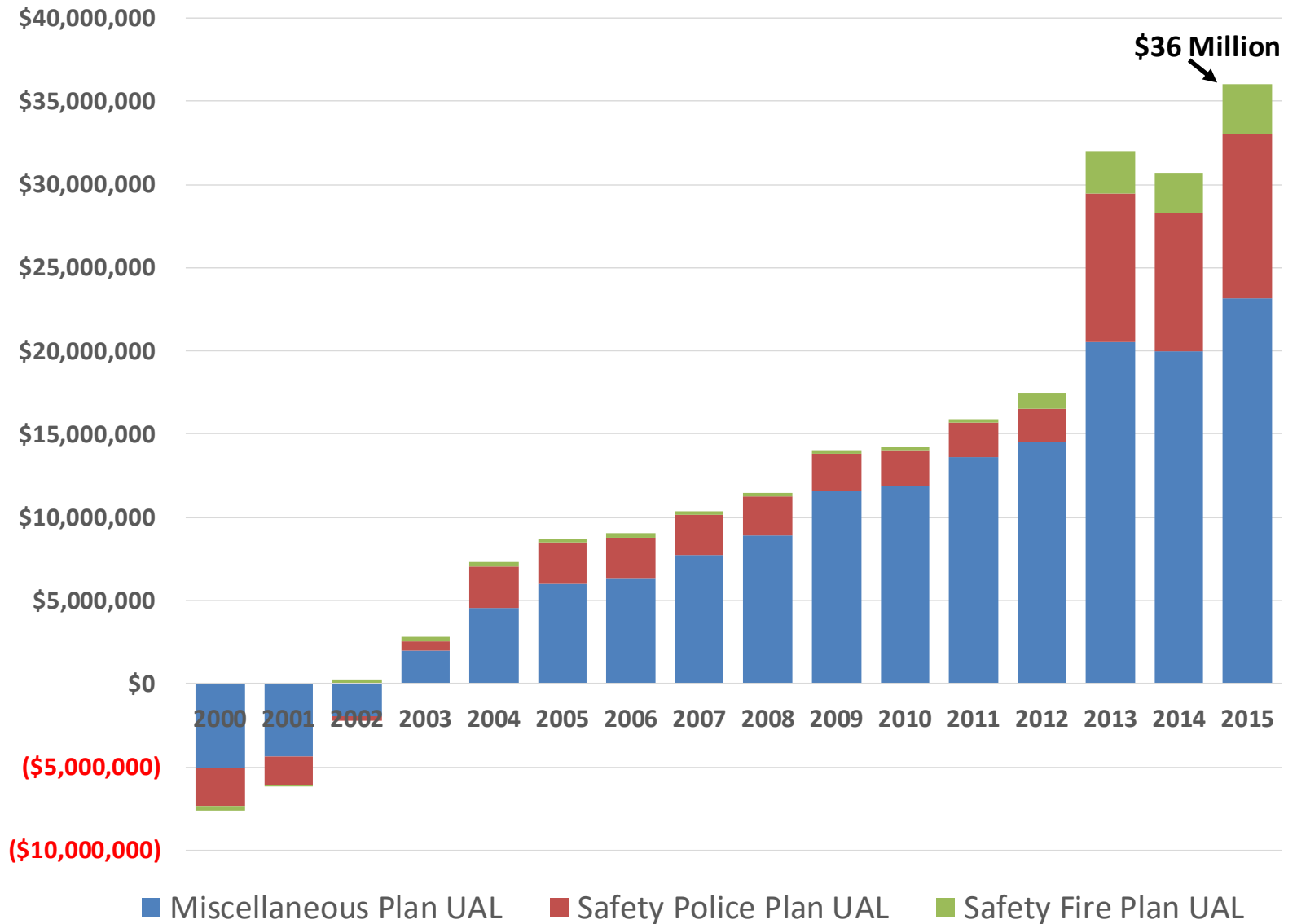




Takeaways from Cost Charts

- FY 2016/17 - \$4.3M total PERS payments
- Employer Normal Cost - relatively steady
- Unfunded Accrued Liability - biggest impact and biggest issue

UAL History





Why Such Big UAL Increases?

Changes in CalPERS assumptions

- Reductions in assumed earnings rate
- Changes to actuarial assumptions (mortality rates)

Changes in CalPERS Performance

- Sluggish investment performance (actuals)
- Changes to risk-sharing pools to allocate pool



CalPERS Rates – Reporting

- **CAFR** - Comprehensive Annual Financial Report
- **GASB** - Government Accounting Standards Board



What we have done ...

- PERS formula revisions
 - 2nd tier for new hires
 - PEPRRA tier for non-PERS new hires
- Employee PERS contribution increases
- Early annual payments to PERS



Public Comments



PART 3

Future of CalPERS Rates



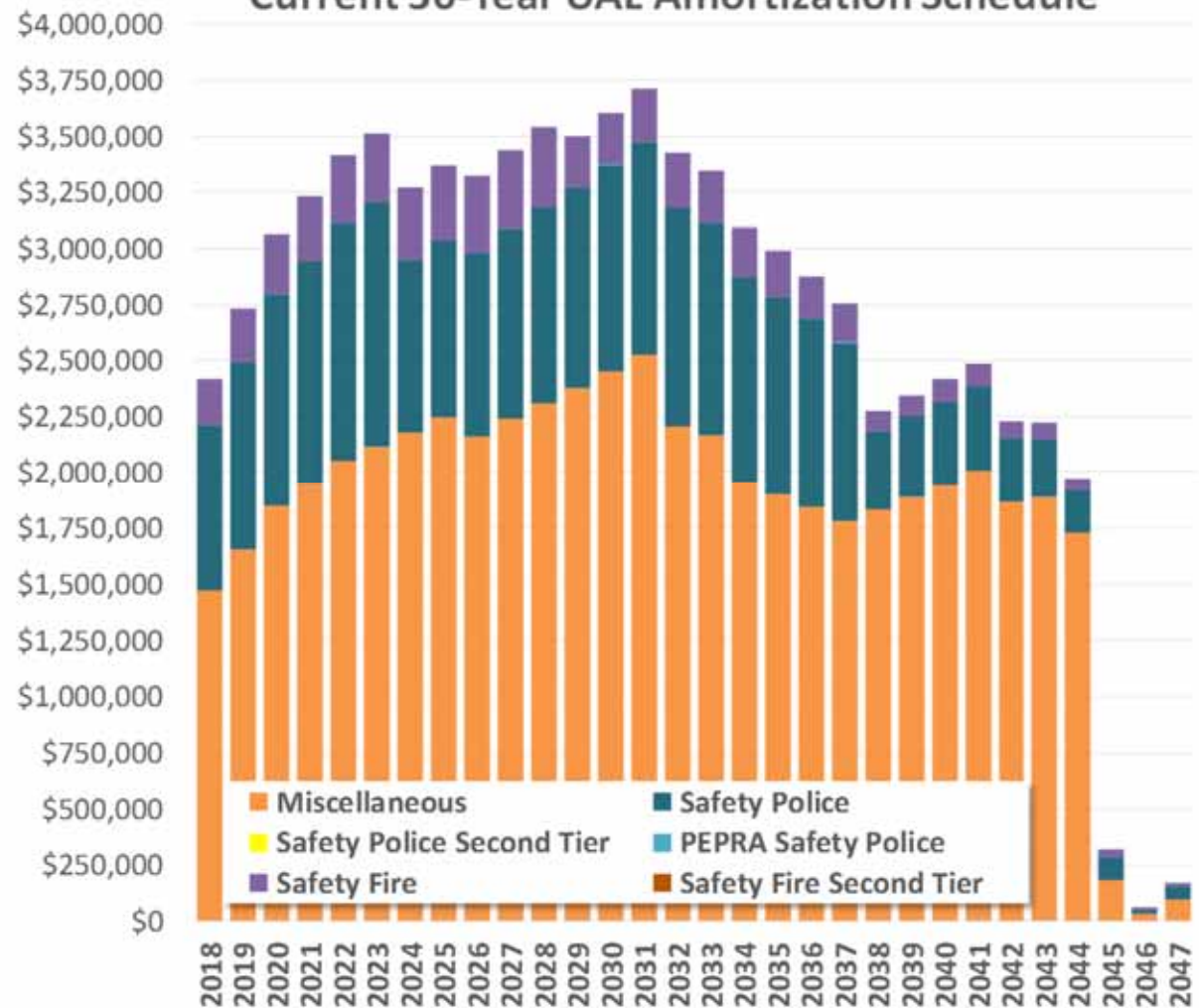
Future of PERS Costs

- Normal Costs contained
 - Modified formulas on a prospective basis for PEPPRA and 2nd Tier Plans
 - Cost savings under PEPPRA and 2nd Tier Plans for new hires
 - PERS actuarial reports project flat NC % rates moving forward
- UAL payments will continue to increase, most notably over next 6 years

Projected UAL Payments

- Payments will grow by over \$1MM over next 6 years
- Snapshot in Time → Assumes CalPERS earns exactly 7.50% each year and \$36MM UAL fully paid down over 30 years

Current 30-Year UAL Amortization Schedule





Takeaways on UAL

- Near-term pressure and un-even payments
- UAL will not be static; will increase or decrease each year based on investment performance
- Current schedule likely “optimistic”



Public Comments



PART 4

Options



Possible Options to Consider

1. Public/private partnerships
2. Personnel costs as % of budget
3. Pay down unfunded liability
4. State-level actions
5. Leaving PERS



1. Public-Private Partnerships

- Seek most cost-effective option
- Program-specific analysis needed
- Private and public contract options
- Work with labor partners



2. Personnel as % of Budget

- Service industry = personnel intensive
- What is appropriate?
- Avoid unintended consequences



3. Pay Down Unfunded Liability

- Use Reserves
 - Direct pay-down; or
 - Fund separate retirement vehicle (PARS)
- Loan/bond



4. State-level Actions

- PERS Board
- Legislature
- California Rule
- Plans and mixed systems
- Model other states



5. Leaving PERS

Termination Liability (est.)

All three plans: \$120-155M



Public Comments



Recommendations

- Partnerships with labor
- Hourly / part-time
- Public/private partnerships
- Analyze UAL pay-down options
- State-level changes; LoCC



Council Direction