



Pension Funding Policy

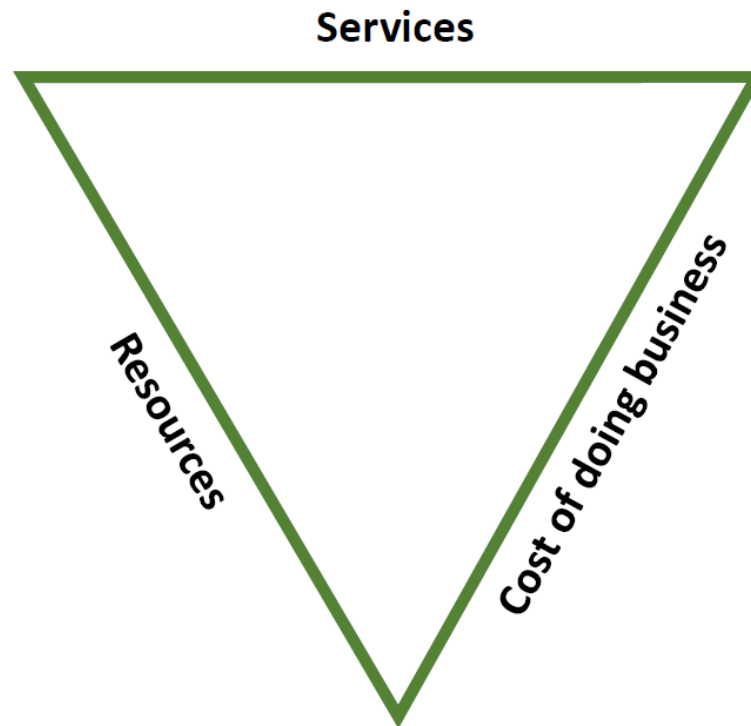
PENSION FUNDING POLICY – INPUT AND GUIDANCE

- Tonight, seeking input and guidance from the City Council on elements of a Pension Funding Policy (PFP), as recommended by the Finance Committee, which will proactively address the City's long-term pension obligations
- Will incorporate that input and guidance and return to City Council for final adoption of a policy
- Approve contract amendment with Bartel Associates to continue work on this important topic



SERVICE DELIVERY ECOSYSTEM

Overarching goal of a Pension Funding Policy is to avoid service delivery crowd-out from escalating pension costs; requires looking at near-term and long-term



PENSION FUNDING POLICY – KEY PRINCIPLES

- What is the desired funding target and corresponding timeline to achieve it?
- The Pension Funding Policy should be “evergreen”, guiding staff and Council when certain parameters are met but providing flexibility and adaptability
- What can the City afford? What is the most efficient use of its funding? What payment options and tools best align with those considerations?
- Important to keep in mind that this is a state-wide issue; CalPERS invests over a very long-term timeframe.



ELEMENTS OF A PFP

- Funding Goal and Timeframe
 - Funding Components
 - Allowable Uses of Funding
 - Service Delivery Outcomes
 - Fiscal Impacts
- ✓ These items were identified and supported by consensus by the Finance Committee



TABLE 2: Pension Funding Policy Examples

Pension Funding Policy Elements	Example 1: CalPERS (Baseline)	Example 2: Lower Funding Target (Current Practice)	Example 3: Medium Funding Target	Example 4: Higher Funding Target
% Funded Goal (Range)	100%; no lower element of range	80% - 100%; Target of 85%	80% min - 100%; Target of 95%	90% - 100%+; Target of 100%+
Time frame	30 years	Within 10 years	Within 10 years	Within 10 years
Funding Components	✓ Normal Cost (NC) calculated at 7.0% ✓ Discount Rate	✓ (+) Cost-sharing with employees (see table above for specific rates)	(+) Additional cost-sharing with employees	(+) Recalculate the UAL with the same lower DR (phase-in)
	Changes in actuarial assumptions amortized over 20 years	✓ (+) Using a more conservative discount rate (DR) for calculation of normal cost	✓ (+) Identify funding for the pension obligation through Budget	✓ (+) Amend existing BSR policy, 100% excess BSR allocated for pension costs (all funds contribute a commensurate amount)
	✓ UAL amortized over 30 years for gains/ losses; calculated at 7.0% Discount Rate (20 years beginning 6/30/2019)	✓ (+) Amend existing BSR policy, 50% excess BSR can be allocated for pension costs (all funds contribute a commensurate amount) ✓ (+) Reach one-year of funding for CalPERS ADC in 115 Trust Fund (invest moderately conservatively); subsequent proactive funding to CalPERS as ADP		
Allowable Uses of Funding Components	✓ NC covers pay-go portion; UAL portion pays off unfunded liability in 30 years if CalPERS investment returns met	✓ (+) Use of 115 Trust Fund funding to be addressed through annual budget process or separate City Council approved action. Pension Rate Stabilization Program	(+) Fresh start in concept for the Safety group, beginning in a target year	(-) Contractual Partial Fresh Start for the Safety group beginning in a target year in-lieu of fresh start in concept
Service Delivery Outcomes	Continue services throughout the City including the ability to keep up with the cost of doing business as well as limited strategic investments.	✓ Continue current constraints and limitations on service delivery including an inability to keep up with the cost of doing business. Prioritization would continue to be necessary annually through the budget process.	✓ (+) City Manager to identify plan to address additional contributions to pension as part of annual budget process (+) Impacts on Service Delivery and/or structural additional revenue	(+) Significant adverse impacts on service delivery levels; additional revenue
Fiscal Impact	Savings to the City	✓ Continue \$5.0 million structural adjustments necessary to maintain contributions	Additional structural adjustments Estimated at 3.5% of the General Fund	Significant additional structural adjustments Estimated at 8.0% of the General Fund

(+) Indicates that this is in addition to the step to the left while (-) indicates that this is instead of the step to the left.

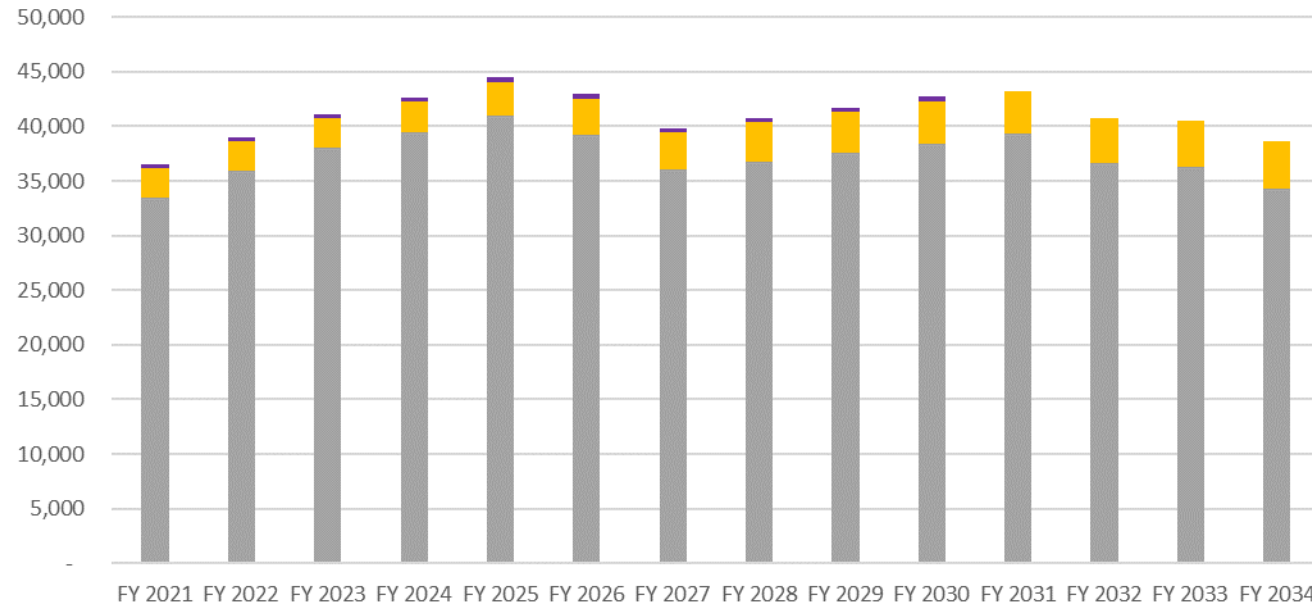
FINANCE COMMITTEE DISCUSSION – OCTOBER 15, 2019

- General consensus that the City should continue its practice of paying the CalPERS Actuarial Determined Contribution (ADC) on an annual basis
- Continue methodology of using a lower discount rate (DR) to calculate the normal cost (NC) or “pay-go” costs; revisit DR every three years to ensure alignment with policy goals
- Explore options for additional payments, understanding impacts on service delivery outcomes and fiscal impacts dependent on timeframe to achieve Funding Goal



FINANCE COMMITTEE REQUEST FOR INFORMATION

Miscellaneous Baseline Costs, 6.2% Margin, and Margin to reach 90% within 10 Years - 7% DR



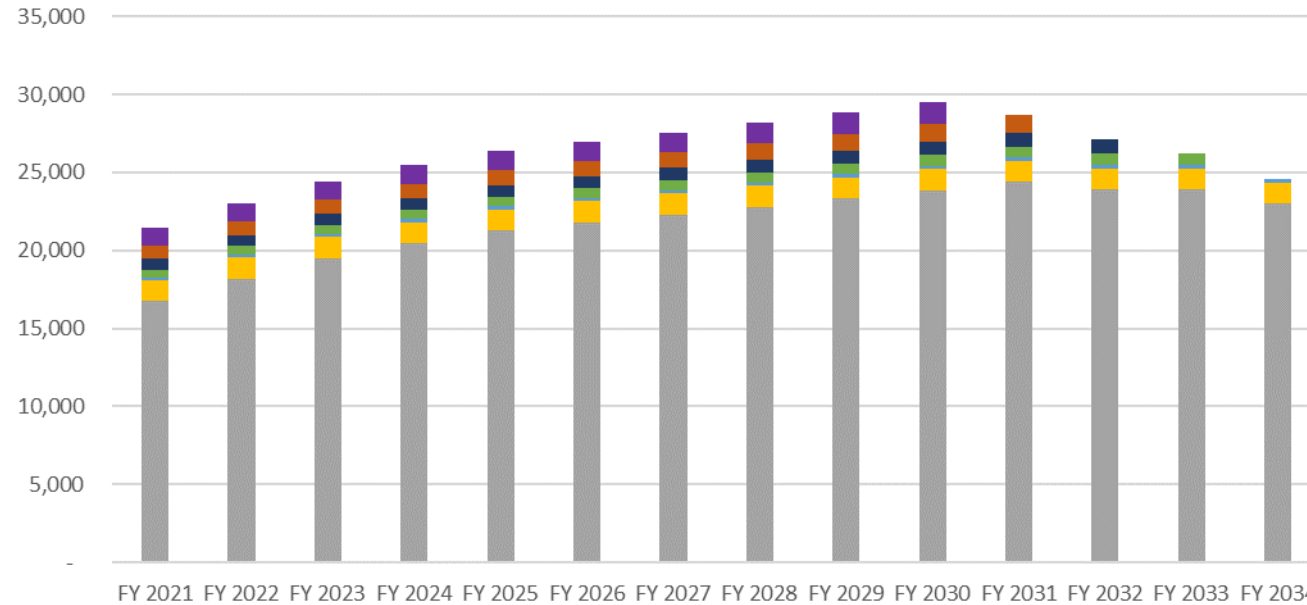
■ Base Pension Costs ■ 6.2% Margin ■ 10 Year Margin

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
6.2% DR NC Margin	2,729	2,686	2,668	2,648	2,624	2,603	2,583	2,566	2,550	2,535	2,520	2,505	2,490	2,476
14 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Years	368	378	389	399	410	421	433	445	457	470				



FINANCE COMMITTEE REQUEST FOR INFORMATION (CONT'D.)

Safety Baseline Costs, 6.2% Margin, and Margin to reach 90% within
10 Years - 7 % DR



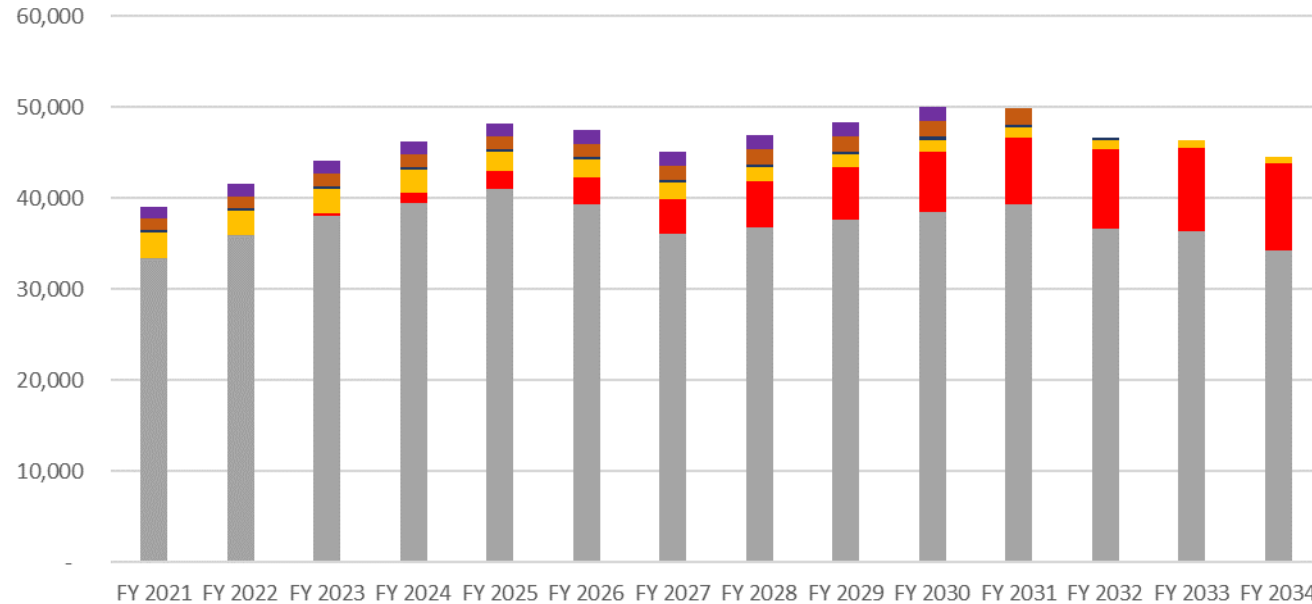
■ Baseline Cost ■ 6.2% Margin ■ 14 Year Margin ■ 13 Year Margin ■ 12 Year Margin ■ 11 Year Margin ■ 10 Year Margin

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
6.2% DR NC Margin	1,337	1,369	1,365	1,363	1,361	1,359	1,357	1,356	1,354	1,348	1,334	1,322	1,308	1,291
14 Years	165	170	174	179	184	189	194	200	205	211	216	222	228	235
13 Years	539	554	569	585	601	617	634	652	670	688	707	726	746	
12 Years	695	714	734	754	775	796	818	840	863	887	912	937		
11 Years	854	877	902	926	952	978	1,005	1,033	1,061	1,090	1,120			
10 Years	1,088	1,118	1,149	1,180	1,213	1,246	1,280	1,316	1,352	1,389				



FINANCE COMMITTEE REQUEST FOR INFORMATION (CONT'D.)

Misc. Baseline Costs, Risk Mitigation Impacts, 6.2% Margin, and Margin to reach 90%



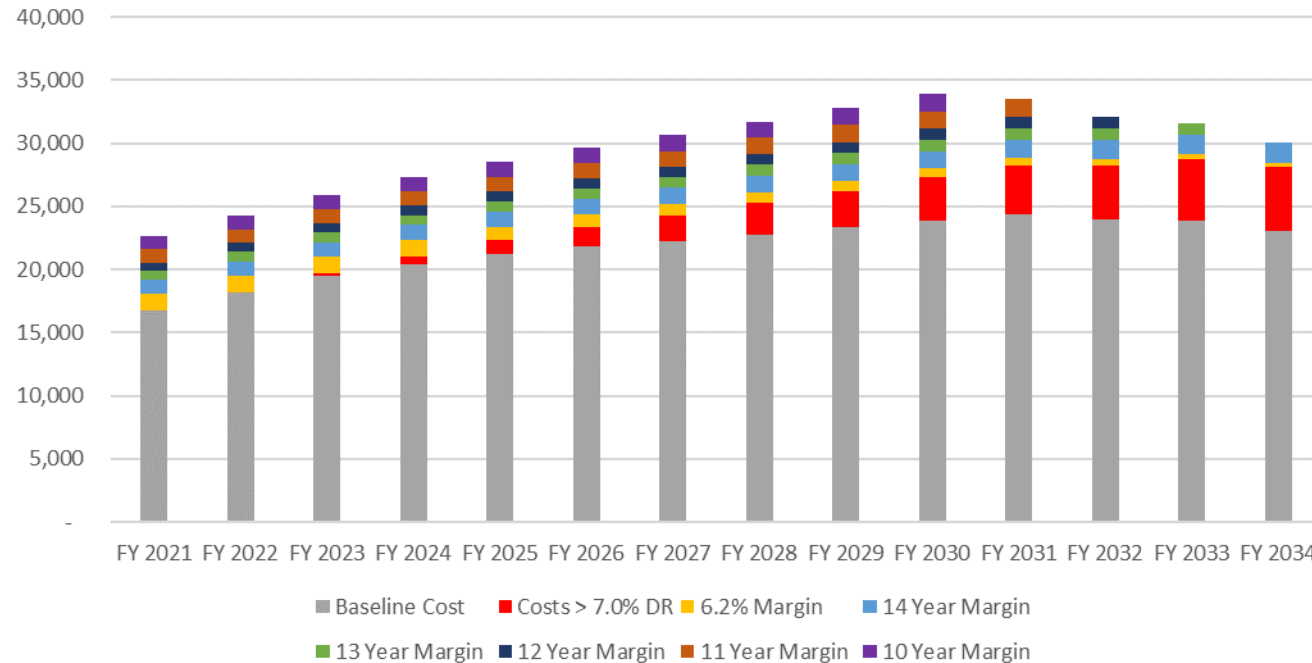
■ Baseline Cost ■ Costs > 7.0% DR ■ 6.2% Margin ■ 12 Year Margin ■ 11 Year Margin ■ 10 Year Margin

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Costs > 7.0% DR	-	-	331	1,167	1,964	2,967	3,831	4,987	5,735	6,678	7,377	8,703	9,268	9,564
6.2% DR NC Margin	2,729	2,686	2,668	2,482	2,132	1,952	1,776	1,604	1,435	1,268	1,102	939	778	619
14 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Years	255	121	121	121	121	121	121	121	121	121	121	121		
11 Years	1,320	649	670	692	714	737	761	785	810	836	862			
10 Years	1,286	629	646	664	682	701	720	740	761	781				



FINANCE COMMITTEE REQUEST FOR INFORMATION (CONT'D.)

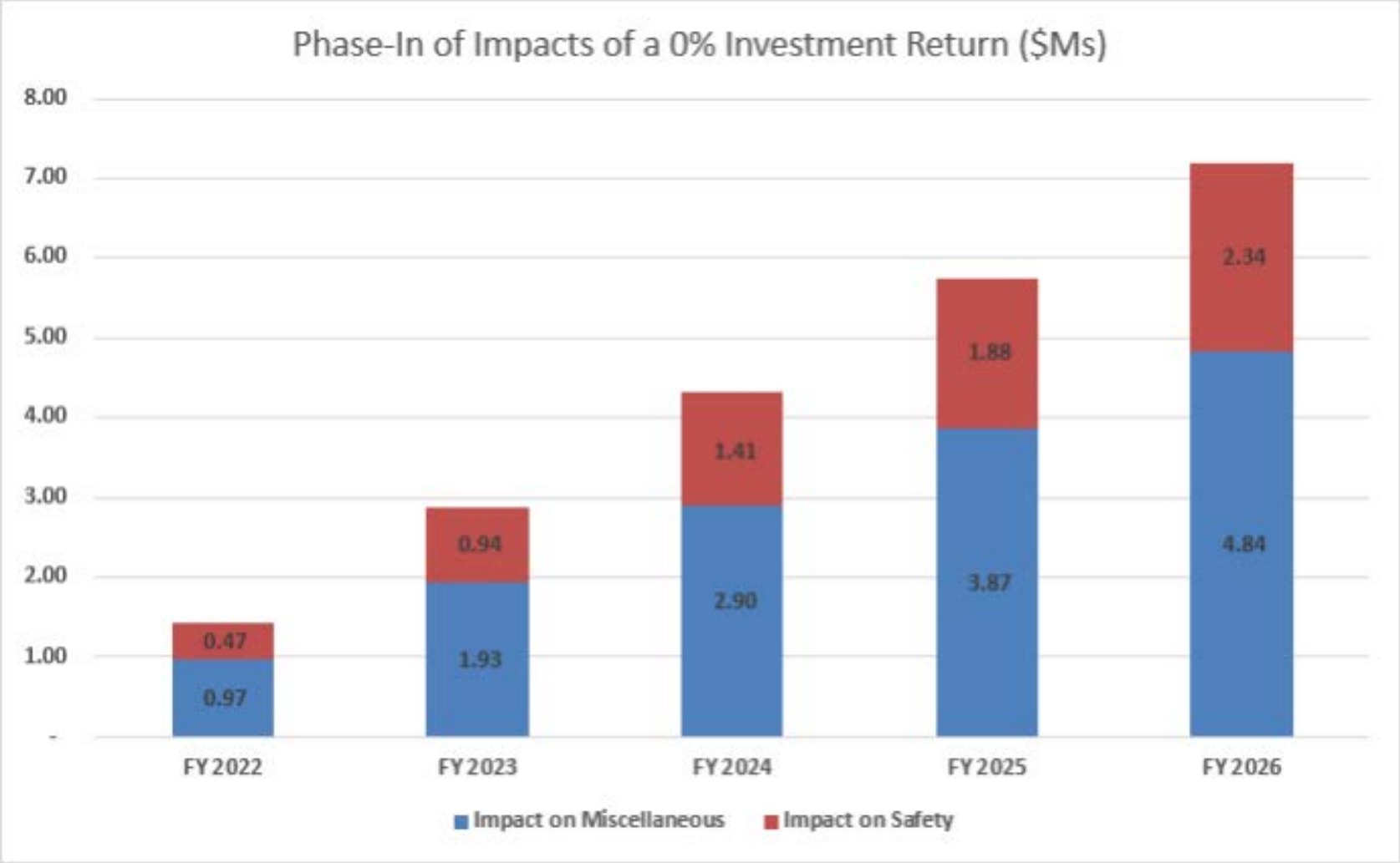
Safety Baseline Costs, Risk Mitigation Impacts, 6.2% Margin, and Margins to reach 90%



	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Costs > 7.0% DR	-	-	186	612	1,021	1,536	1,995	2,482	2,929	3,467	3,825	4,324	4,807	5,094
6.2% DR NC Margin	1,337	1,369	1,365	1,278	1,106	1,019	933	847	762	674	584	496	409	323
14 Years	1,088	1,118	1,149	1,180	1,213	1,246	1,280	1,316	1,352	1,389	1,427	1,466	1,507	1,548
13 Years	710	730	750	770	791	813	836	858	882	906	931	957	983	
12 Years	694	713	733	753	774	795	817	839	862	886	910	935		
11 Years	1,066	1,095	1,125	1,156	1,188	1,221	1,254	1,289	1,324	1,361	1,398			
10 Years	1,068	1,097	1,128	1,159	1,190	1,223	1,257	1,291	1,327	1,363				



IMPACT OF AN FY 2020 CALPERS INVESTMENT RETURN OF 0%



EXAMPLE PENSION FUNDING POLICY

- *Funding Goal and Timeframe:* 90% of CalPERS Liabilities within 10 years
- *Funding Components:* Calculate NC at 6.2%, transmit to PARS.
Excess BSR > 18.5% at City Manager's discretion to PARS
Other options may be pursued
- *Allowable Uses of Funding:* Payments from PARS to CalPERS to be addressed as part of Budget Process
- *Service Delivery Outcomes & Fiscal Impacts:*
If maintaining contributions impact service delivery levels, City Manager to identify impact on funding goal and timeframe and recommendations to mitigate those adverse outcomes and impacts



PENSION FUNDING POLICY – INPUT AND GUIDANCE

- Seeking input and guidance on the example Pension Funding Policy
 - Confirm the Finance Committee consensus direction and clarifications as needed
 - Additional dimensions of any of the elements to include in final Pension Funding Policy
- Balance flexibility and adaptability with long-term strategy for addressing pension obligations
- Staff will incorporate direction from City Council into a final Pension Funding Policy for adoption at later date
- Adopt contract amendment for Bartel Associates





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