

# STAFF REPORT



ITEM NO. 32

CITY OF OCEANSIDE

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DATE: June 24, 2015  
TO: Honorable Mayor and City Councilmembers  
FROM: City Manager's Office  
SUBJECT: **PENSION COST REDUCTION ALTERNATIVE**

## **SYNOPSIS**

Staff recommends the City Council authorize a lump-sum prepayment to CalPERS for the City's annual required contribution for both Safety and Miscellaneous Retirement Plans; and place the savings, estimated at \$729,626, into the Post Employment Benefits Fund.

## **BACKGROUND**

Retirement plans for City employees are administered by the California Public Employees' Retirement System (PERS). The City's current annual cost for retirement benefits for FY 15-16 is approximately \$15.7 million which is traditionally paid on a bi-weekly basis as part of the payroll process.

The amount remitted to PERS includes interest at the rate of 7.5 percent. PERS provides an option that allows for the annual PERS contribution to be paid in full between July 1 and July 10 of any given year. By paying in one lump sum, the payment is discounted by approximately 3.5 percent.

## **ANALYSIS**

The City traditionally pays its annual required contribution to PERS on a bi-weekly basis as part of the payroll process. PERS offers a lump-sum prepayment option that allows employers to prepay the entire annual contribution at a discounted amount. The discount is approximately 3.5 percent of the total annual contribution in consideration that the funds will be invested with PERS for a longer period of time. The discount compares favorably to the composite interest rate of less than 1 percent currently earned on cash and investments held by the City. The lump sum payment is required after June 30 and before the first payroll of the new fiscal year.

The lump sum prepayment amounts and savings are detailed in Attachments 1 and 2 and summarized as follows:

	<u>Safety Plan</u>	<u>Miscellaneous Plan</u>
Required Employer Contribution	\$11,588,635	\$8,955,906
Lump Sum Pre-Payment Option	\$11,177,072	\$8,637,843
Savings	\$411,563	\$318,063

Total Savings equals \$729,626

Once the portfolio is restored, staff recommends that the excess \$729,626 be placed in the City's Post Employment Benefits Fund which has been used for various employee departure payouts.

In FY 2015-16 approximately 16 percent of the workforce will be eligible to retire. Consequently, it is prudent to allocate the prepayment savings to the Post Employment Benefits Fund.

### **FISCAL IMPACT**

The lump-sum prepayment of the Safety and Miscellaneous retirement plans will require \$19.8 million in cash in early July. The City Treasurer's Office will manage the City's cash investments to provide for the payment. The City will continue to collect the pension payments through the bi-weekly payroll process and will prioritize restoring the \$19.8 million in the portfolio.

### **INSURANCE REQUIREMENTS**

Does not apply.

### **COMMISSION OR COMMITTEE REPORT**

Does not apply.

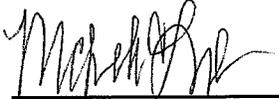
### **CITY ATTORNEY'S ANALYSIS**

Does not apply.

**RECOMMENDATION**

Staff recommends the City Council authorize a lump-sum prepayment to CalPERS for the City's annual required contribution for both Safety and Miscellaneous Retirement Plans; and place the savings, estimated at \$729,626, into the Post Employment Benefits Fund.

PREPARED BY:



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SUBMITTED BY:



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Interim City Manager

REVIEWED BY:

Jane M. McPherson, Interim Financial Services Director



ATTACHMENTS:

1. Safety Plan Actuarial Valuation
2. Miscellaneous Plan Actuarial Valuation

CALPERS ACTUARIAL VALUATION - June 30, 2013  
 SAFETY PLAN OF THE CITY OF OCEANSIDE  
 CalPERS ID: 2578435041

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

## Required Employer Contribution

	Fiscal Year 2014-15	Fiscal Year 2015-16
<b>Actuarially Determined Employer Contributions</b>		
<b>1. Contribution in Projected Dollars</b>		
a) Total Normal Cost	\$ 10,079,149	\$ 10,359,219
b) Employee Contribution <sup>1</sup>	3,101,383	3,183,928
c) Employer Normal Cost [(1a) - (1b)]	6,977,766	7,175,291
d) Unfunded Liability Contribution	3,635,876	4,413,344
→ e) Required Employer Contribution [(1c) + (1d)]	\$ 10,613,642	\$ 11,588,635
Projected Annual Payroll for Contribution Year	\$ 34,459,808	\$ 35,243,836
<b>2. Contribution as a Percentage of Payroll</b>		
a) Total Normal Cost	29.249%	29.393%
b) Employee Contribution <sup>1</sup>	9.000%	9.034%
c) Employer Normal Cost [(2a) - (2b)]	20.249%	20.359%
d) Unfunded Liability Rate	10.551%	12.522%
e) Required Employer Rate [(2c) + (2d)]	30.800%	32.881%
<b>Minimum Employer Contribution Rate<sup>2</sup></b>	<b>30.800%</b>	<b>32.881%</b>
→ Annual Lump Sum Prepayment Option <sup>3</sup>	\$ 10,236,705	\$ 11,177,072

<sup>1</sup>For classic members this is the percentage specified in the Public Employees Retirement Law, net of any reduction from the use of a modified formula or other factors. For PEPRA members the member contribution rate is based on 50 percent of the normal cost. A development of PEPRA member contribution rates can be found in Appendix D. Employee cost sharing is not shown in this report.

<sup>2</sup>The Minimum Employer Contribution Rate under PEPRA is the greater of the required employer rate or the employer normal cost.

<sup>3</sup>Payment must be received by CalPERS before the first payroll reported to CalPERS of the new fiscal year and after June 30. If there is contractual cost sharing or other change, this amount will change.

## Plan's Funded Status

	June 30, 2012	June 30, 2013
1. Present Value of Projected Benefits	\$ 453,902,252	\$ 471,940,896
2. Entry Age Normal Accrued Liability	374,364,841	392,045,249
3. Market Value of Assets (MVA)	\$ 269,192,395	\$ 297,691,669
4. Unfunded Liability [(2) - (3)]	\$ 105,172,446	\$ 94,353,580
5. Funded Ratio [(3) / (2)]	71.9%	75.9%
Superfunded Status	No	No

CALPERS ACTUARIAL VALUATION - June 30, 2013  
 MISCELLANEOUS PLAN OF THE CITY OF OCEANSIDE  
 CalPERS ID: 2578435041

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## Required Employer Contribution

	Fiscal Year 2014-15	Fiscal Year 2015-16
<b>Actuarially Determined Employer Contributions</b>		
1. Contribution in Projected Dollars		
a) Total Normal Cost	\$ 7,210,789	\$ 6,967,729
b) Employee Contribution <sup>1</sup>	3,108,636	2,978,978
c) Employer Normal Cost [(1a) - (1b)]	4,102,153	3,988,751
d) Unfunded Liability Contribution	4,337,111	4,967,155
→ e) Required Employer Contribution [(1c) + (1d)]	\$ 8,439,264	\$ 8,955,906
Projected Annual Payroll for Contribution Year	\$ 38,930,942	\$ 37,565,926
2. Contribution as a Percentage of Payroll		
a) Total Normal Cost	18.522%	18.548%
b) Employee Contribution <sup>1</sup>	7.985%	7.930%
c) Employer Normal Cost [(2a) - (2b)]	10.537%	10.618%
d) Unfunded Liability Rate	11.141%	13.223%
e) Required Employer Rate [(2c) + (2d)]	21.678%	23.841%
<b>Minimum Employer Contribution Rate<sup>2</sup></b>	<b>21.678%</b>	<b>23.841%</b>
→ Annual Lump Sum Prepayment Option <sup>3</sup>	\$ 8,139,549	\$ 8,637,843

<sup>1</sup>For classic members this is the percentage specified in the Public Employees Retirement Law, net of any reduction from the use of a modified formula or other factors. For PEPRA members the member contribution rate is based on 50 percent of the normal cost. A development of PEPRA member contribution rates can be found in Appendix D. Employee cost sharing is not shown in this report.

<sup>2</sup>The Minimum Employer Contribution Rate under PEPRA is the greater of the required employer rate or the employer normal cost.

<sup>3</sup>Payment must be received by CalPERS before the first payroll reported to CalPERS of the new fiscal year and after June 30. If there is contractual cost sharing or other change, this amount will change.

## Plan's Funded Status

	June 30, 2012	June 30, 2013
1. Present Value of Projected Benefits	\$ 363,378,685	\$ 374,017,727
2. Entry Age Normal Accrued Liability	317,026,139	329,625,450
3. Market Value of Assets (MVA)	\$ 222,608,853	\$ 246,538,422
4. Unfunded Liability [(2) - (3)]	\$ 94,417,286	\$ 83,087,028
5. Funded Ratio [(3) / (2)]	70.2%	74.8%
Superfunded Status	No	No