

Rates, Policies and Reforms...

How COVID-19 Will Impact CalPERS Employers

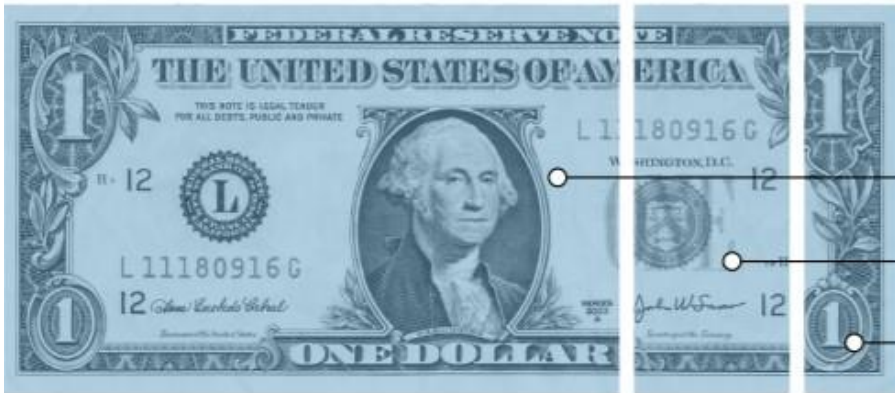
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Agenda

- **“Pre-COVID-19” Pension Sustainability Overview**
 - Evolution of the “Pension Buck”
- **Snapshot COVID-19 Local Financial Impacts**
- **COVID-19 Impact on CalPERS Employer Rates**
- **Polices and Trends Moving Into 2021**
- **“Sample” City Costing Through Various Scenarios**
- **Questions/Discussion**

The Evolution of the “Pension Buck”

2015



Every dollar paid to CalPERS retirees comes from three sources:

- 67¢ Investment Earnings
- 21¢ CalPERS Employers
- 12¢ CalPERS Members

Source: CalPERS, Income over the last 20 years as of June 2014. Figures are updated following the close of each fiscal year.

The Evolution of the “Pension Buck”

2020



13¢

CalPERS
members*

29¢

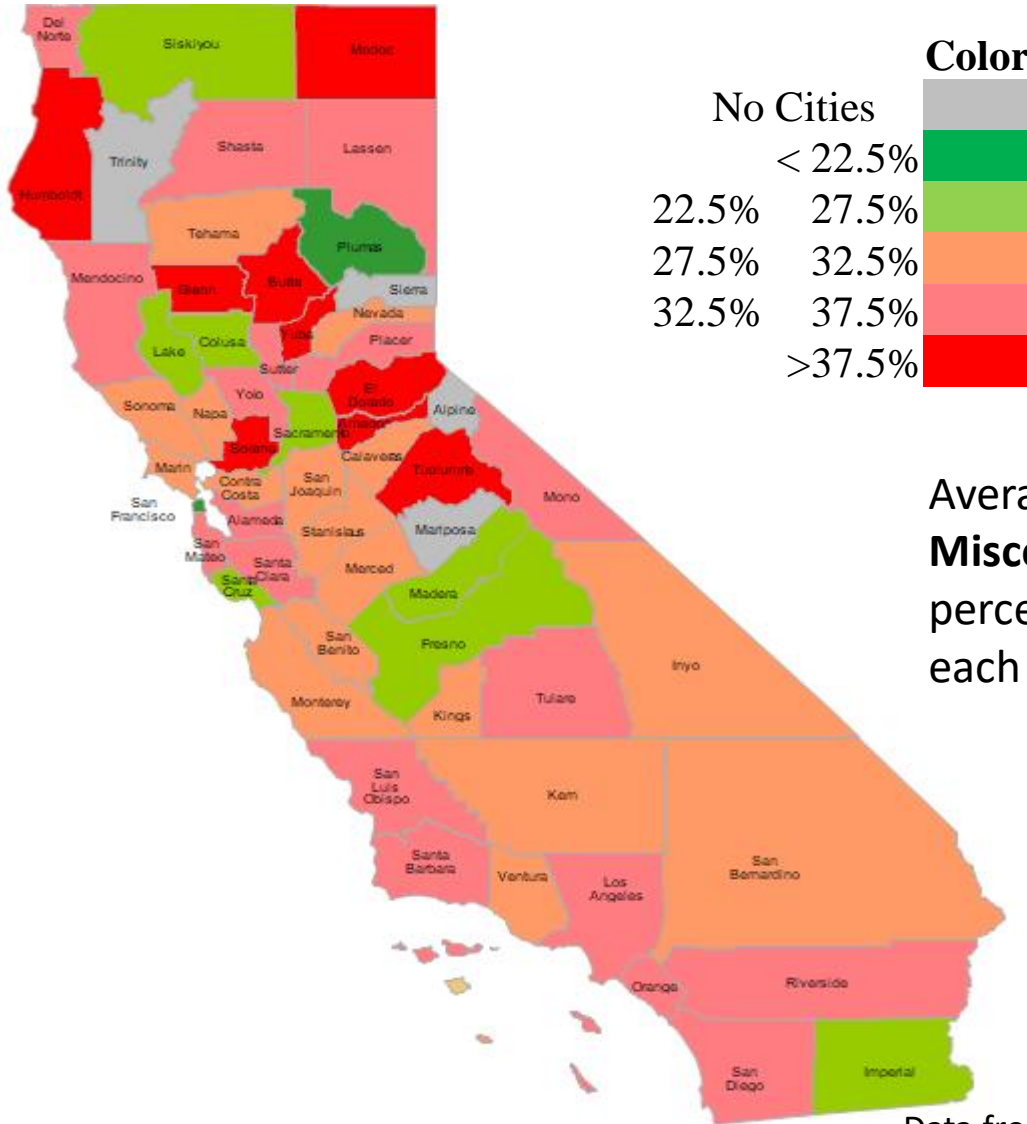
CalPERS
employers*

58¢

Investment
earnings*

* As of
June 30,
2019

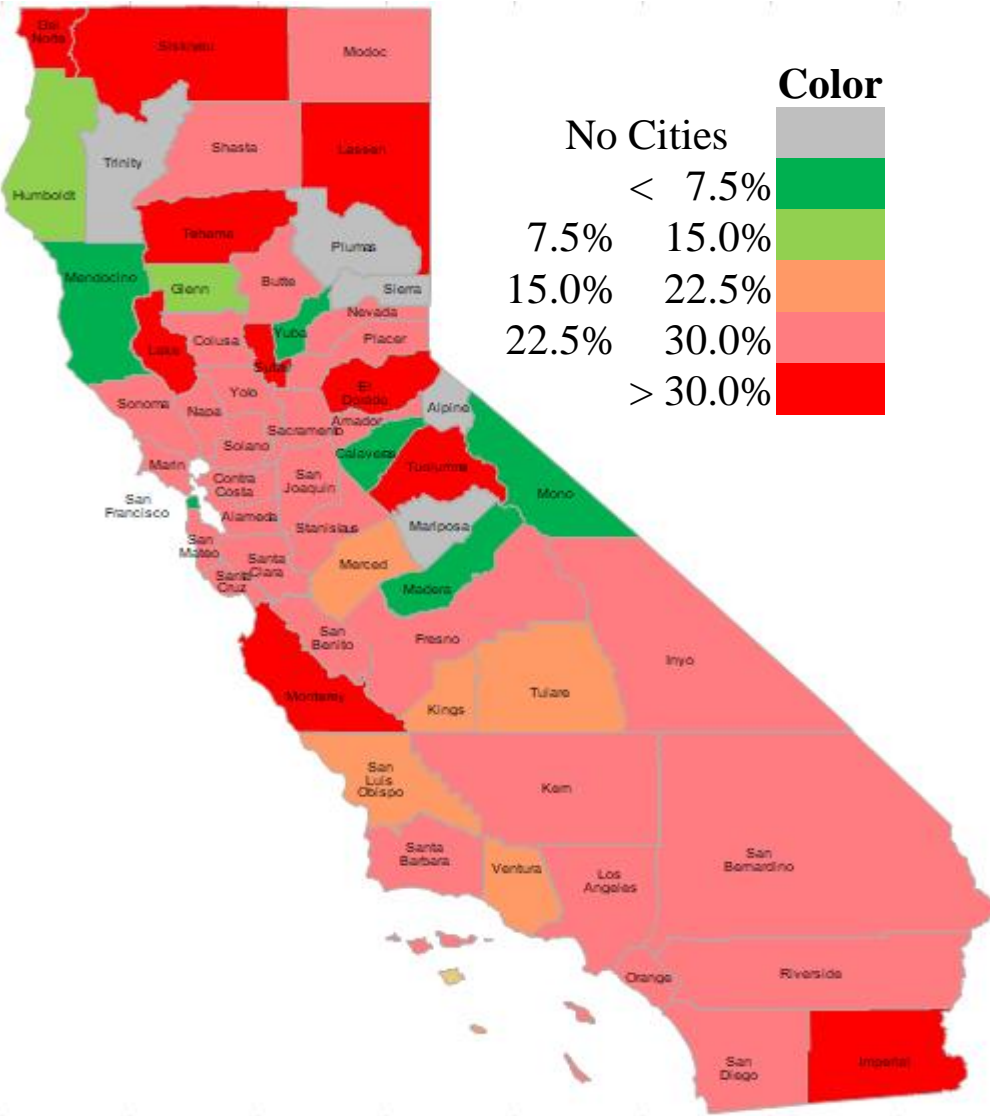
“Pre-COVID-19” Pension Sustainability Overview (Misc).



Average of projected 2025/26 CalPERS **Miscellaneous Employer** contribution as a percent of covered payroll for all Cities in each County

Average employer contribution rate = 33.4% of covered payroll. Note: Assumes 7.00% return Does not include OPEB

“Pre-COVID-19” Pension Sustainability Overview (Safety).

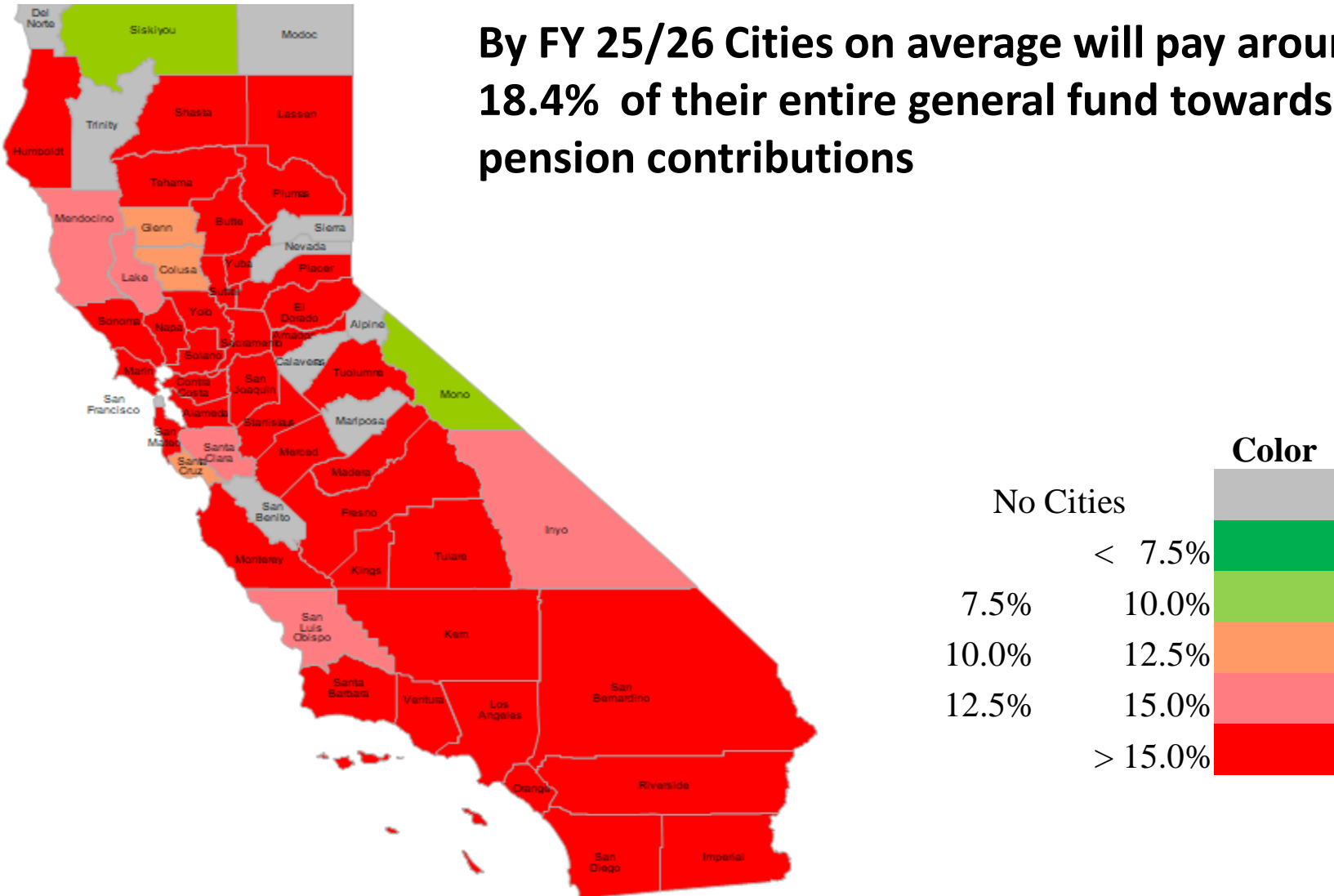


Average Employer contributions projected to increase by 30+ percent or more from FY 20-21 to FY 25-26

Average employer contribution rate = 61.5% of covered payroll. Note: Assumes 7.00% return. Does not include OPEB

“Pension Payments as a percentage of General Fund Budget

By FY 25/26 Cities on average will pay around 18.4% of their entire general fund towards pension contributions



COVID-19 City Financial Impacts

Cities Key Revenue Loss by Source through FY 21-22

\$24 million

Utility Taxes

\$28 million

Property Transfer Taxes

\$65 million

Franchises

\$93 million

Parking and Admissions

\$175 million

Investments,
Forfeitures, and Fines

\$402 million

Business Tax

\$616 million

County
Transportation SUT

\$1.37 billion

Hotel/Bed Taxes

\$2.26 billion

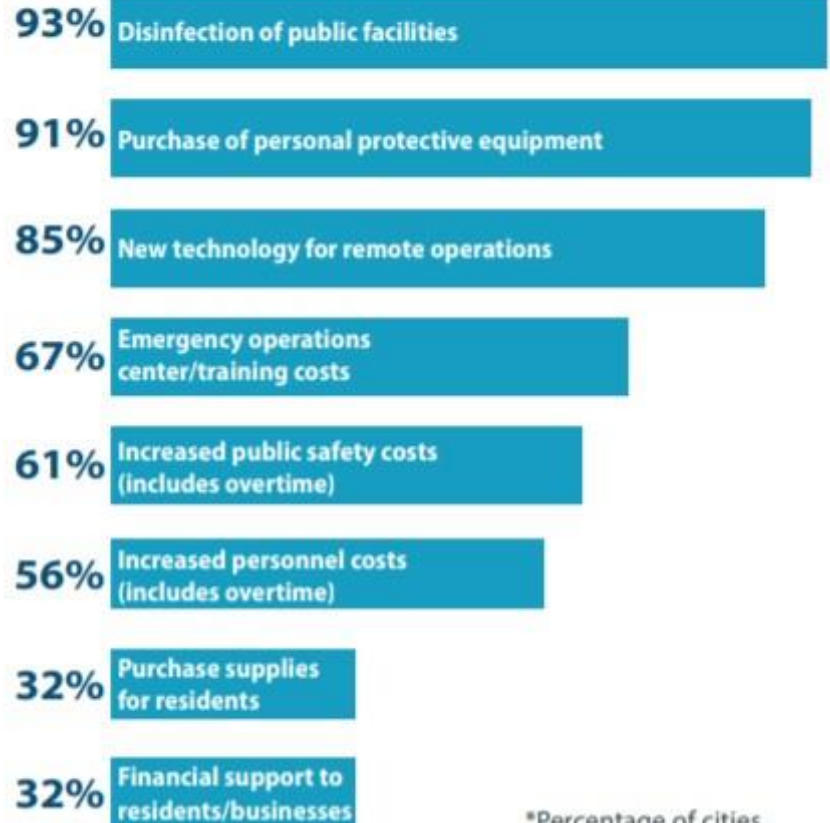
Sales Taxes

\$1.7 billion

City/County of
San Francisco

Total \$6.7 billion

Unanticipated COVID-19 Expenses



*Percentage of cities

Source: <https://www.cacities.org/Images/COVID19-Fiscal-Impact-on-CA-Cities-Infographic-FIN.aspx>

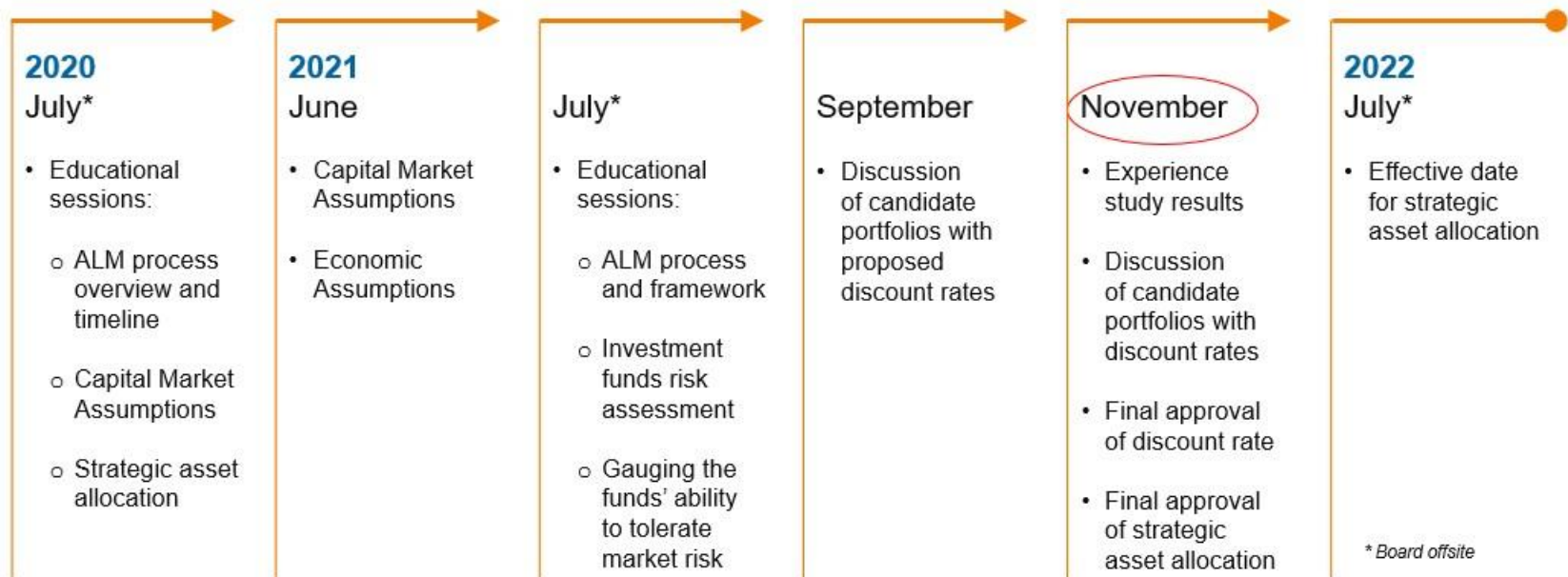
COVID-19 Impact on CalPERS Employer Rates

Too soon to tell (CalPERS has not released new data since in 2020).
However...

- Local governments are the insurer of defined benefit plans. If CalPERS misses the mark, employers assume the liability.
- CalPERS earned 4.7 percent for FY 19/20 falling short of the 7 percent baseline.
- Losses are now amortized over a 20-year period versus 30.
- Minimum contributions (not including OPEB) continue to grow year over year.

Policies/ Politics in 2021

- Relatively “light” year in pension legislation due to COVID-19
- If enacted, AB 2967 (O’Donnell) will limit local flexibility.
- Anticipate more measures in 2021 to divest, shift liability to employers, limit local options.
- CalPERS Board of Administration by and large continues to be very “pro member” versus “pro employer”.
- CalPERS will be conducting their ALM Cycle to determine if a discount rate reduction and other adjustments to cost-driving assumptions are needed.
- Don’t be surprised if there is a push for a 2022 ballot initiative.



“Sample” City Costing Through Various Scenarios



- Provides easy to use actuarial analysis, modeling and support for retirement systems as well as state and local employers.
- Ability to run various cost assumptions scenarios at a “bargaining unit” level
- Can export to easy to understand reports, council presentations etc.
- Instantly analyze labor contracts (pensionable vs. non-pensionable pay)



Questions/ Discussion



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