



MEMORANDUM

DATE: January 24, 2013

TO: Mayor and City Council

FROM: Marcia Somers, City Manager
Russell J. Morreale, Finance Director

SUBJECT: NEWLY RELEASED CALPERS VALUATION REPORTS

Upcoming changes in pension accounting requirements will necessitate substantial modifications in future reporting and disclosures. These Government Accounting Standards Board requirements, known as GASB 67 and 68, call for the recording of existing unfunded pension liabilities in the City's government-wide financial statements. For Los Altos, these changes will be effective in fiscal year 2014/15. An estimate of this liability is noted in the CalPERS Actuarial Valuation Report (AVR).

To comply with the new accounting standards, CalPERS continues to make adjustments to its reporting model and systems. Although this new valuation information was included in the City's most recent AVR, it is not intended for use, nor is it sufficient to implement the new GASB standards. Nonetheless, it is significant that for the first time the AVR does provide an estimate of unfunded liabilities specific to Los Altos, and an approximation of the cost to exit the current CalPERS retirement plans.

A series of tables below provide a summary of key valuation information extracted from the CalPERS AVRs that is now available on the CalPERS website.

Existing and Projected Pension Rates: The following two tables identify the current benefit levels and employer contributions for the two City employee groups (Miscellaneous and Safety) and enrollment categories, defined below, as well as the portion of the employee member contribution rates paid for by both the City (EPMC) and employees:

- **Existing members** - employee hires prior to January 1, 2013 in City-adopted tiers
- **Classic members** - employee hires who previously participated in reciprocating California employer pension systems and were hired on or after January 1, 2013
- **New members** - hires on or after January 1, 2013 who do not fit the 'existing' or 'classic' member criteria

<i>Employer Contribution Rates</i>					
<i>Group</i>	<i>Member</i>	<i>Benefit Level</i>	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>
<i>Misc.</i>	Existing	2.7% @ 55	15.178%	15.685%	16.60%
		2.0% @ 60	7.846%	8.049%	-
<i>Misc.</i>	Classic	2.0% @ 60	7.846%	8.049%	-
<i>Misc.</i>	New	2.0 %@ 62	6.250%	6.250%	6.250%
<i>Safety</i>	Existing	3.0 %@ 50	25.137%	26.582%	28.40%
		3.0 %@ 55	20.057%	20.774%	-
<i>Safety</i>	Classic	3.0 %@ 55	20.057%	20.774%	-
<i>Safety</i>	New	2.7% @ 57	11.500%	11.500%	11.500%

The 2012/13 rates noted above have been reduced over recent years with periodic side fund prepayments made by the City. It is also important to note that the 2014/15 rates listed above are projections at this time and subject to change by CalPERS.

<i>Employer Paid Member Contribution Rates</i>					
<i>Group</i>	<i>Member</i>	<i>Benefit Level</i>	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>
<i>Misc.</i>	Existing	2.7% @ 55	6.00%	-	-
		2.0% @ 60	0.00%	-	-
<i>Misc.</i>	Classic	2.0% @ 60	0.00%	-	-
<i>Misc.</i>	New	2.0 %@ 62	0.00%	0.00%	0.00%
<i>Safety</i>	Existing	3.0 %@ 50	7.00%	6.00%	-
		3.0 %@ 55	0.00%	0.00%	-
<i>Safety</i>	Classic	3.0 %@ 55	0.00%	0.00%	-
<i>Safety</i>	New	2.7% @ 57	0.00%	0.00%	0.00%

<i>Employee Paid Member Contribution Rates</i>					
<i>Group</i>	<i>Member</i>	<i>Benefit Level</i>	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>
<i>Misc.</i>	Existing	2.7% @ 55	2.00%	-	-
		2.0% @ 60	7.00%	-	-
<i>Misc.</i>	Classic	2.0% @ 60	7.00%	-	-
<i>Misc.</i>	New	2.0 %@ 62	6.25%	6.25%	6.25%
<i>Safety</i>	Existing	3.0 %@ 50	2.00%	3.00%	-
		3.0 %@ 55	9.00%	9.00%	-
<i>Safety</i>	Classic	3.0 %@ 55	9.00%	9.00%	-
<i>Safety</i>	New	2.7% @ 57	11.50%	11.50%	11.50%

Employer and Employee paid member contribution rates are subject to change based on future labor contract expiration dates. Furthermore, the new state laws effective January 1, 2013 prohibit the provision of Employer Paid Member Contributions for new members.

Normal Costs: As part of this new AVR, CalPERS has quantified normal cost, or annual service cost, for each City plan. These rates are listed below. Under the newly adopted California State pension reform laws, new members will be required to contribute at least 50% of the normal cost for their defined plan.

<i>Normal Costs</i>				
<i>Group</i>	<i>Member</i>	<i>Benefit Level</i>	<i>2013/14</i>	<i>2014/15</i>
<i>Misc.</i>	Existing	2.7% @ 55	18.789%	-
<i>Misc.</i>	Classic	2.0% @ 60	13.786%	-
<i>Misc.</i>	New	2.0 %@ 62	12.500%	-
<i>Safety</i>	Existing	3.0 %@ 50	27.767%	-
<i>Safety</i>	Classic	3.0 %@ 55	24.811%	-
<i>Safety</i>	New	2.7% @ 57	23.000%	-

Preliminary estimates of Pension Liabilities: The following two tables identify initial estimates, as provided by CalPERS, of the City’s unfunded liabilities as of the latest AVR date – **June 30, 2011**. They also present the projected cost of “buying out of the system.” The following definitions are important to note as you consider this information:

- **Unfunded Actuarial Liability** - an estimated amount that would be recorded on the City’s financial statements per the new accounting standards
- **Hypothetical Termination Amount (HTA)** - an estimate of what the City would owe if it were to separate from CalPERS as of the date of the AVR. The HTA is calculated by using a 30-year U.S. Treasury discounting rate, a model adopted by CalPERS to limit its funding risk for terminating agencies. It is important to note that the HTA is based upon a June 30, 2011 discount rate of 4.82%. *Considering that the corresponding U.S. Treasury discount rate for June 30, 2012 is 2.87%, it is very likely that the calculated HTA presented in the June 30, 2012 AVR will be substantially greater.*

<i>Actuarial Liability</i>				
<i>Group</i>	<i>Actuarial Liability</i>	<i>Market Value of Assets</i>	<i>Unfunded Actuarial Liability</i>	<i>Funded Ratio</i>
<i>Misc.</i>	\$50,089,152	\$37,821,669	\$12,267,483	75.51%
<i>Safety</i>	\$40,241,911	\$31,417,591	\$ 8,824,320	78.07%
<i>Total</i>	\$90,331,063	\$69,239,260	\$21,091,803	76.65%

<i>Agency Termination Liability</i>				
<i>Group</i>	<i>Hypothetical Termination Liability</i>	<i>Market Value of Assets</i>	<i>Unfunded Hypothetical Termination Value</i>	<i>Termination Funded Ratio</i>
<i>Misc.</i>	\$ 70,012,089	\$37,821,669	\$32,190,420	54.03%
<i>Safety</i>	\$ 60,864,508	\$31,417,591	\$29,446,917	51.63%
<i>Total</i>	\$130,876,597	\$69,239,260	\$61,637,337	52.91%

Over the past three years the City has pre-paid its CalPERS “side-Fund” liability reducing that value to \$152,591, or near payoff, at June 30, 2011.

The full CalPERS AVR is available at the web site address below:

<http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml>

This memo will be provided to the Financial Commission, which will consider the information as it evaluates the matter and drafts a report to City Council regarding pension-related issues and alternatives. Furthermore, this memorandum will be posted on the City’s website.

If you have any questions regarding the information provided in this report, don’t hesitate to contact us for further clarification.