Tier 1 Pension Plan @ 6/30/2012

CALPERS ACTUARIAL ANALYSIS

What do actuaries do?

CalPERS Annual Actuarial Valuation @ 6/30/12

In a nutshell once a year...

- An actuary puts a price on every individual life in a given plan
- The price of all members in the plan is added up
- Actuaries compare the total to the assets the plan has on hand

The purpose of actuaries is to provide methodologies to ensure there are adequate assets to pay the benefits when they come due

How do actuaries do this?

The Big Picture

Present Value of Benefits (PVB)

"Total dollars needed today to fully fund the pension plan for current members in the plan."

- Includes all service that either has been earned or will be earned
- The number is only as accurate as assumptions are
- •It is a good estimate at one point in time

Building the picture

Present Value of Benefits

Normal Cost

"Annual premium cost associated with one year of service accrual."

- •Factors that determine the Normal Cost
 - Assumptions
 - Expected investment return
 - Entry age
 - Plan provisions

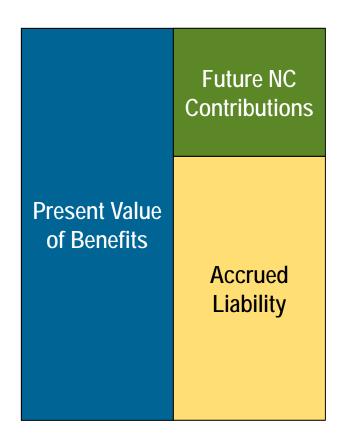
Accrued Liability

"The value of the benefits earned to date by members currently in the plan."

Desired level of assets to have on hand

CalPERS Annual Actuarial Valuation @ 6/30/12

Putting the Terminology Together



Market / Actuarial Value of Assets Unfunded Liability

- Market Value of Assets:
 - Market price that pension assets could be sold
- Actuarial Value of Assets
 - Actuarial Value of Assets: Value of assets used to set your annual contribution rate

Market Value vs. Actuarial Value of Assets

- Why use an Actuarial Value of Assets?
 - Market returns are too volatile, would result in volatile rates
- How are Actuarial Value of Assets Determined?
 - 15 Year Smoothed Rolling Market
 - 80% to 120% Corridors of Market Value of Assets (MVA)
 - 2008 temporary widening
 - 60%-140% year 1
 - 70%-130% year 2
 - 80%-120% year 3
 - 30 Year amortization period

CalPERS New Smoothing Policy

Effective for the June 30, 2013 Annual Actuarial Valuation, CalPERS will no longer be smoothing assets, but instead will be smoothing rates. Therefore, the Annual Actuarial Valuations will only be reporting on the Market Value of Assets.

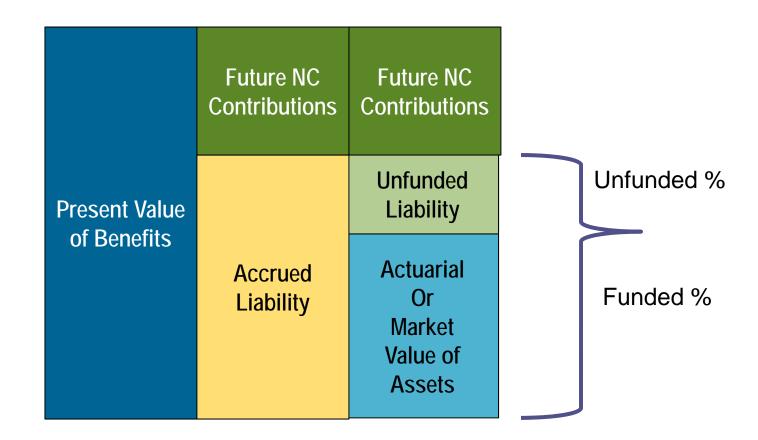
The tables in this document details assets, liabilities and funded ratios using both the latest available actuarial and market values.

Unfunded Liability or Excess Assets

 The difference between smoothed actuarially value of assets and accrued liabilities

CalPERS Annual Actuarial Valuation @ 6/30/12

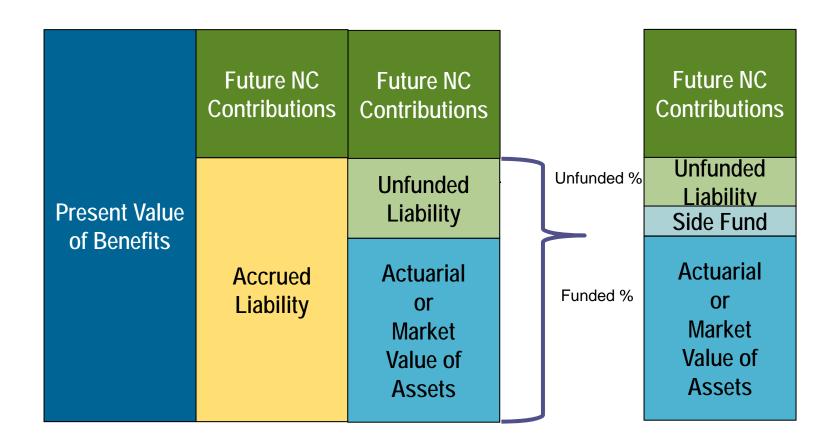
Putting the Terminology Together



Side Funds

As required by a new State law effective July 1, 2005, the City's Miscellaneous and Safety Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The City satisfied its Miscellaneous and Safety Plans unfunded liabilities by agreeing to contribute to the Side Fund through an addition to its normal contribution rates. The balance of the Miscellaneous Plan's Side Fund liability of \$413,515 and the balance of the Fire Safety Plan's Side Fund liability of \$1,333,859 was paid off during fiscal year ended June 30, 2013.

Putting the Terminology Together



Sausalito Pension Plans

- Sausalito has three classes of employees, each with separate pension plans consisting of disparate tiers
 - Miscellaneous
 - Police
 - Former Firefighters

Sausalito Plan Benefits

Hire Date
Benefit vesting schedule
Benefit payments
Retirement age
Monthly benefits, as a % of salary

Hire Date
Benefit vesting schedule
Benefit payments
Retirement age
Monthly benefits, as a % of salary

Hire Date
Benefit vesting schedule
Benefit payments
Retirement age
Monthly benefits, as a % of salary

Tier 1 (Closed to new Miscellaneous

Before January 1, 2013
5 years service
monthly for life
50-55 and up
2% - 2.5%

Tier 1 (Closed to new entrants)

entrants)

Before January 1, 2013
5 years service
monthly for life
50-55 and up
2.4%-3.0%

Former Firefighters Tier 1 (Closed to new

entrants)
Before January 1, 2013

5 years service monthly for life 50-55 and up 2.4%-3.0%

Tier 2 (Classic Employee) Tier 3 (PEPRA)

After January 1, 2013	After July 1, 2013
5 years service	5 years service
monthly for life	monthly for life
50-63 and up	62 and up
1.426%-2.418%	2%
<u>Police</u>	

Tier 2 (Classic Employee) Tier 3 (PEPRA)

After January 1, 2013
5 years service

monthly for life
50-55 and up
2%-2.7%

After July 1, 2013
5 years service

monthly for life
57 and up
2.70%

Soft freeze

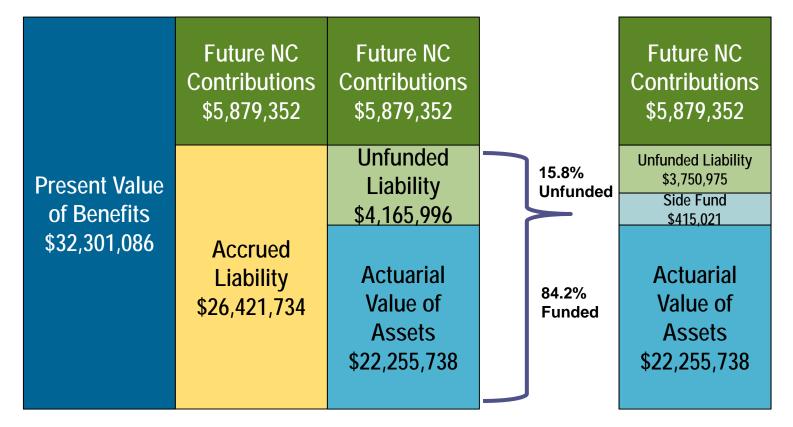
- No new entrants
- Eventually will go away
- Lowers annual cost

Sausalito Tier 1 June 30, 2012 Annual Actuarial Valuation Report

Tier 2 and Tier 3 do not have 6/30/2012 annual reports as they were enacted after July 1, 2012

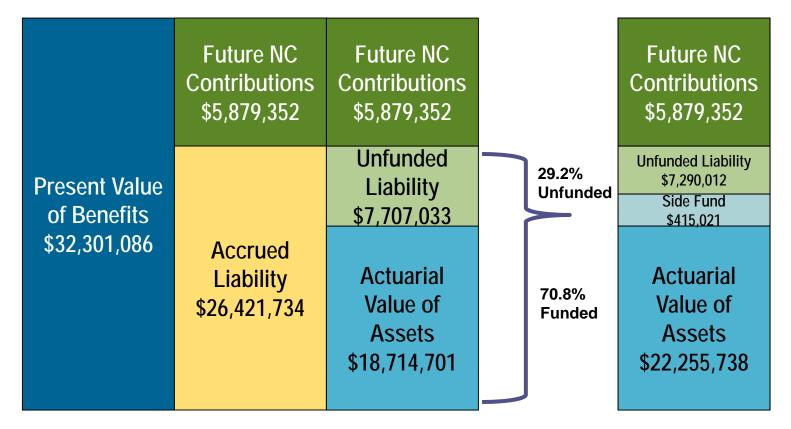
Sausalito Miscellaneous Picture Actuarial Value of Assets

Side Fund was paid off July 1, 2012



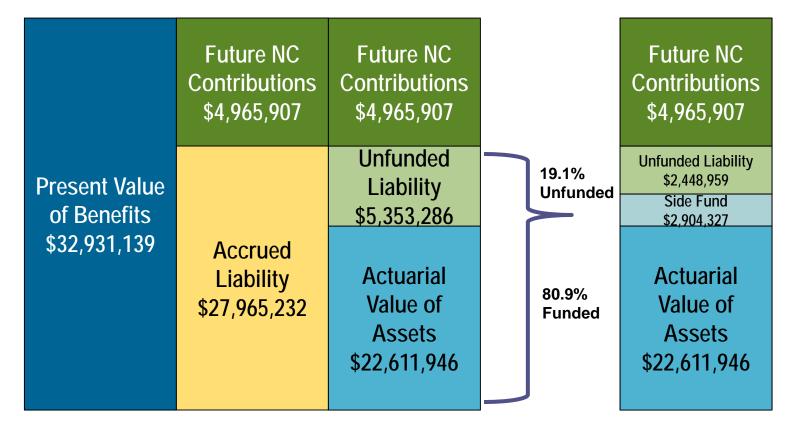
Sausalito Miscellaneous Picture Market Value of Assets

Side Fund was paid off July 1, 2012



Sausalito Police Safety Picture Actuarial Value of Assets

Side Fund was NOT paid off during 2012



Sausalito Police Safety Picture Market Value of Assets

Future NC Future NC Future NC Contributions Contributions Contributions \$4,965,907 \$4,965,907 \$4,965,907 Unfunded **Unfunded Liability** 32.1% \$6,065,532 Present Value Liability Unfunded Side Fund of Benefits \$8,969,859 \$2,904,327 \$32,931,139 Accrued Market Market Liability 67.9% Value of Value of \$27,965,232 **Funded Assets Assets** \$18,995,373 \$18,995,373

Side Fund was NOT paid off during 2012

Sausalito Fire Safety Picture Actuarial Value of Assets

Future NC Future NC Future NC Contributions Contributions Contributions \$499,214 \$499,214 \$499,214 Unfunded **Unfunded Liability** 15.9% \$1,823,690 Present Value Liability Unfunded Side Fund of Benefits \$3,184,903 \$1,361,213 \$20,522,769 Accrued **Actuarial Actuarial** Liability 84.1% Value of Value of \$20,023,555 **Funded Assets Assets** \$16,838,652 \$22,255,738

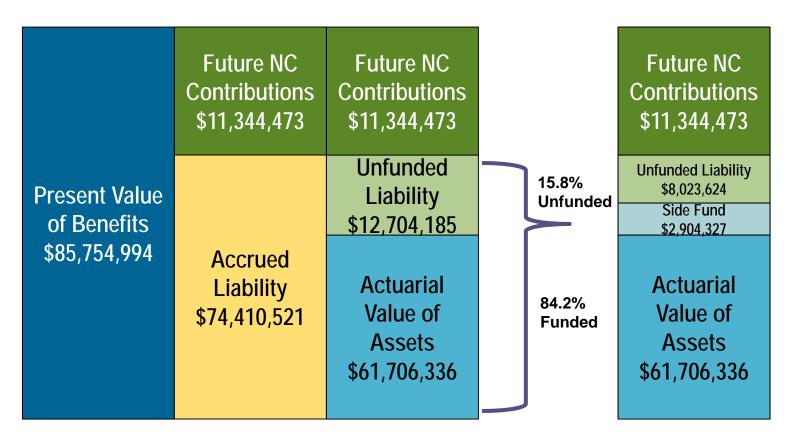
Side Fund was paid off June 30, 2012

Sausalito Fire Safety Picture Market Value of Assets

Future NC Future NC Future NC Contributions Contributions Contributions \$499,214 \$499,214 \$499,214 Unfunded **Unfunded Liability** 29.4% \$4,516,877 Present Value Liability Unfunded Side Fund of Benefits \$5,878,090 \$1,361,213 \$20,522,769 Accrued Market Market Liability 70.6% Value of Value of \$20,023,555 **Funded Assets Assets** \$14,145,465 \$14,145,465

Side Fund was paid off June 30, 2013

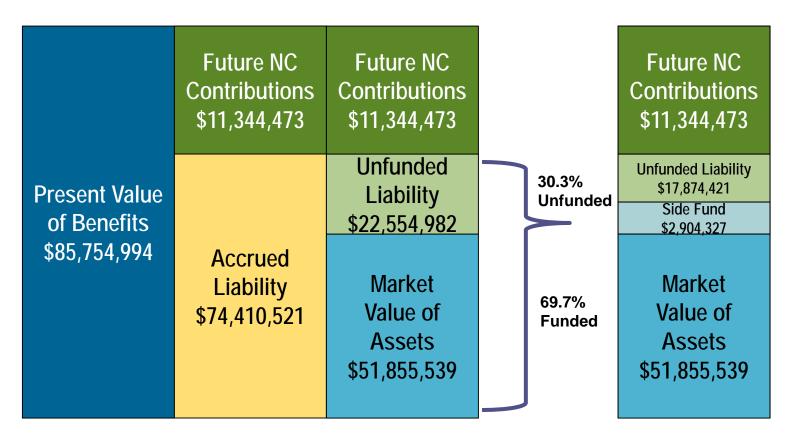
Sausalito Complete Picture Actuarial Value of Assets



Miscellaneous and Fire Safety Side funds were paid off during 2013

Police Side fund was not paid off during 2013

Sausalito Complete Picture Market Value of Assets



Miscellaneous and Fire Safety Side funds were paid off during 2013

Police Side fund was not paid off during 2013

Hypothetical Termination

	Valuation Date	Hypothetical Termination Liability	Market Value of Assets	Unfunded Termination Liability	Funded Ratio	Discount Rate
Police	6/30/2011	39,590,576	19,119,098	20,471,478	48.3%	4.82%
	6/30/2012	52,234,407	18,995,373	33,239,034	36.4%	2.98%
Fire	6/30/2011	27,203,876	14,608,838	12,595,038	53.7%	4.82%
	6/30/2012	37,000,601	14,145,465	22,855,136	38.2%	2.98%
Miscellaneous	6/30/2011	35,744,260	19,033,715	16,710,545	53.2%	4.82%
	6/30/2012	46,559,620	18,714,701	27,844,919	40.2%	2.98%
City-Wide	6/30/2011	102,538,712	52,761,651	49,777,061	51.5%	4.82%
	6/30/2012	135,794,628	51,855,539	83,939,089	38.2%	2.98%

Pension Reforms

- Past
 - Pre FY 2012-13
 - Employees Paid Member Contribution
 - No Benefit Improvements
 - FY 2012 -13
 - Closed Tier 1 to new entrants Soft Freeze
 - Created Tier 2 and Tier 3;
 - Paid off Fire and Miscellaneous Side Funds
 - Transferred firefighters to SMFPD
 - Lowered Pay Ranges
 - Employees Pay FAC 1 Employer Share

Pension Reforms NEXT STEPS

Best ROI!!!

- Post FY 2012-13
 - Payoff Police Side Fund!
 - Pre-pay FY14-15 Police CalPERS premium
 - Pay as you Go % of Payroll FY14-15 Miscellaneous premium
 - Impact of FY12-13 Reforms
 - Gradual lowering of normal costs
 - Increase in employer contribution rates direct offset with new hires new pension tiers
 - Future MOU negotiations
 - Sharing market risk
 - Normal cost sharing
 - Monitor legislation to analyze future pension reform opportunities

CalPERS Rates

Current FY 13-14 Rates

Miscellaneous

– Tier 1 = 15.577

• - 0.577 (FAC1) = 15.000%

– Tier 2 =

10.518%

– Tier 3 =

6.700%

Safety Police

– Tier 1 = 39.885

• - 0.895 (FAC1) = 38.990%

– Tier 2 =

20.560%

– Tier 3 =

12.250%

Proposed FY 14-15 Rates

Miscellaneous

– Tier 1 = 16.601

• -0.566 (FAC1) = 16.035%

– Tier 2 =

10.583%

– Tier 3 =

6.700%

Safety Police

– Tier 1 = 42.005

• 0.883 (FAC1) = 41.122%

– Tier 2 =

20.743%

– Tier 3 =

12.250%

Projected FY 15-16 Rates

Miscellaneous

– Tier 1 = 17.6%

Tier 2 = not published yet

Tier 3 = not published yet

Safety Police

Tier 1 = 43.6%

– Tier 2 = not published yet

Tier 3 = not published yet

Conclusion

- Actuarially, the City and CalPERS is on plan to fully fund the Accrued Liability
- Financially, the City has taken significant steps to:
 - Lower annual pension costs
 - Reduce unfunded liabilities
- Strategically, the City has positioned itself to be able to provide current levels of service to its citizens at the same resource generation capacity of the community.