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

Data from CalPERS 2018 actuarial valuations; 449 Cities and Towns
"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

Data from CalPERS 2018 actuarial valuations; 337 Cities and Towns
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

- 93% Disinfection of public facilities
- 91% Purchase of personal protective equipment
- 85% New technology for remote operations
- 67% Emergency operations center/training costs
- 61% Increased public safety costs (includes overtime)
- 56% Increased personnel costs (includes overtime)
- 32% Purchase supplies for residents
- 32% Financial support to residents/businesses

*Percentage of cities

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.
• 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.

2020
July*
• Educational sessions:
  o ALM process overview and timeline
  o Capital Market Assumptions
  o Strategic asset allocation

2021
June
• Capital Market Assumptions
• Economic Assumptions

July*
• Educational sessions:
  o ALM process and framework
  o Investment funds risk assessment
  o Gauging the funds’ ability to tolerate market risk

September
• Discussion of candidate portfolios with proposed discount rates

November
• Experience study results
• Discussion of candidate portfolios with discount rates
• Final approval of discount rate
• Final approval of strategic asset allocation

2022
July*
• Effective date for strategic asset allocation

^ Board onsite
“Sample” City Costing Through Various Scenarios

GovInvest

• 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)