



Meeting Date: June 26, 2019

Agenda Item: # 13

AGENDA SUMMARY REPORT

SUBJECT:

Update on CalPERS Unfunded Liability

SUMMARY:

MTA's Classic Plan Unfunded annual CalPERS Liability payment has increased as follows:

2016-2017	\$ 35,670
2017-2018	\$ 50,095
2018-2019	\$ 72,735
2019-2020	\$ 103,386

This unfunded liability portion of our CalPERS Classic Plan must be either paid monthly or paid by a reduced lump-sum payment annually.

A similar but lesser increase is in effect for our CalPERS PEPRA plan.

STAFF RECOMMENDATION:

Discussion only.

ATTACHMENTS:

Documents from CalPERS showing required employer contributions.

Required Employer Contributions

	Fiscal Year	
Required Employer Contributions	2019-20	
Employer Normal Cost Rate	8.081%	
<i>Plus, Either</i>		
1) Monthly Employer Dollar UAL Payment	\$	8,615.47
<i>Or</i>		
2) Annual Lump Sum Prepayment Option	\$	99,830
<i>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).</i>		
<i>Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31). Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change.</i>		
<i>In accordance with Sections 20537 and 20572 of the Public Employees' Retirement Law, if a contracting agency fails to remit the required contributions when due, interest and penalties may apply.</i>		

	Fiscal Year	
	2018-19	2019-20
Development of Normal Cost as a Percentage of Payroll¹		
Base Total Normal Cost for Formula	14.546%	14.996%
Surcharge for Class 1 Benefits ²		
None	0.000%	0.000%
Phase out of Normal Cost Difference ³	0.000%	0.000%
Plan's Total Normal Cost	14.546%	14.996%
Formula's Expected Employee Contribution Rate	6.912%	6.915%
Employer Normal Cost Rate	7.634%	8.081%
Projected Payroll for the Contribution Fiscal Year	\$ 1,951,354	\$ 1,735,534
Estimated Employer Contributions Based on Projected Payroll		
Plan's Estimated Employer Normal Cost	\$ 148,966	\$ 140,249
Plan's Payment on Amortization Bases ⁴	72,735	103,386
% of Projected Payroll (illustrative only)	3.727%	5.957%
Estimated Total Employer Contribution	\$ 221,701	\$ 243,635
% of Projected Payroll (illustrative only)	11.361%	14.038%

¹ The results shown for Fiscal Year 2018-19 reflect the prior year valuation and may not take into account any lump sum payment, side fund payoff, or rate adjustment made after June 30, 2017.

² Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

³ The normal cost difference is phased out over a five-year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year. This is non-zero only for plans that joined a pool within the past 5 years. Most plans joined a pool June 30, 2003, when risk pooling was implemented.

⁴ See page 9 for a breakdown of the Amortization Bases.

Plan's Funded Status

		June 30, 2016		June 30, 2017
1. Present Value of Projected Benefits (PVB)	\$	8,703,730	\$	9,704,339
2. Entry Age Normal Accrued Liability (AL)		7,016,599		8,273,683
3. Plan's Market Value of Assets (MVA)		5,535,412		6,740,067
4. Unfunded Accrued Liability (UAL) [(2) - (3)]		1,481,187		1,533,616
5. Funded Ratio [(3) / (2)]		78.9%		81.5%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows projected employer contributions (before cost sharing) for the next six fiscal years. Projected results reflect the adopted changes to the discount rate described in Appendix A, "Statement of Actuarial Data, Methods and Assumptions" of the Section 2 report. The projections also assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period.

	Required Contribution	Projected Future Employer Contributions (Assumes 7.25% Return for Fiscal Year 2017-18)				
Fiscal Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Normal Cost %	8.081%	8.7%	8.7%	8.7%	8.7%	8.7%
UAL Payment	\$103,386	\$122,000	\$144,000	\$162,000	\$172,000	\$183,000

Changes in the UAL due to actuarial gains or losses as well as changes in actuarial assumptions or methods are amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of Section 2. This method phases in the impact of unanticipated changes in UAL over a 5-year period and attempts to minimize employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years where there is a large increase in UAL the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

Due to the adopted changes in the discount rate for next year's valuation in combination with the 5-year phase-in ramp, the increases in the required contributions are expected to continue for six years from Fiscal Year 2019-20 through Fiscal Year 2024-25.

For projected contributions under alternate investment return scenarios, please see the "Analysis of Future Investment Return Scenarios" in the "Risk Analysis" section.

Employer Contribution History

The table below provides a recent history of the required employer contributions for the plan, as determined by the annual actuarial valuation. It does not account for prepayments or benefit changes made during a fiscal year.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment (\$)
2016 - 17	7.159%	\$35,670
2017 - 18	7.200%	\$50,095
2018 - 19	7.634%	\$72,735
2019 - 20	8.081%	\$103,386

Funding History

The funding history below shows the plan's actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2011	\$ 4,203,441	\$ 3,530,723	\$ 672,718	84.0%	\$ 1,968,801
06/30/2012	4,640,249	3,717,456	922,793	80.1%	1,998,481
06/30/2013	5,222,684	4,417,777	804,907	84.6%	2,066,112
06/30/2014	6,289,983	5,647,068	642,915	89.8%	2,102,862
06/30/2015	6,855,145	5,883,554	971,591	85.8%	1,956,460
06/30/2016	7,016,599	5,535,412	1,481,187	78.9%	1,785,765
06/30/2017	8,273,683	6,740,067	1,533,616	81.5%	1,594,056

Required Employer Contributions

		Fiscal Year
Required Employer Contributions		2019-20
Employer Normal Cost Rate		6.985%
<i>Plus, Either</i>		
1) Monthly Employer Dollar UAL Payment	\$	1,137.84
<i>Or</i>		
2) Annual Lump Sum Prepayment Option	\$	13,185
<p><i>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).</i></p> <p><i>Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31). Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change.</i></p> <p><i>In accordance with Sections 20537 and 20572 of the Public Employees' Retirement Law, if a contracting agency fails to remit the required contributions when due, interest and penalties may apply.</i></p>		

	Fiscal Year	Fiscal Year
	2018-19	2019-20
Development of Normal Cost as a Percentage of Payroll¹		
Base Total Normal Cost for Formula	13.092%	13.735%
Surcharge for Class 1 Benefits ²		
None	0.000%	0.000%
Phase out of Normal Cost Difference ³	0.000%	0.000%
Plan's Total Normal Cost	13.092%	13.735%
Plan's Employee Contribution Rate	6.250%	6.750%
Employer Normal Cost Rate	6.842%	6.985%
Projected Payroll for the Contribution Fiscal Year	\$ 398,986	\$ 736,222
Estimated Employer Contributions Based on Projected Payroll		
Plan's Estimated Employer Normal Cost	\$ 27,299	\$ 51,425
Plan's Payment on Amortization Bases ⁴	387	13,654
% of Projected Payroll (illustrative only)	0.097%	1.855%
Estimated Total Employer Contribution	\$ 27,686	\$ 65,079
% of Projected Payroll (illustrative only)	6.939%	8.840%

¹ The results shown for Fiscal Year 2018-19 reflect the prior year valuation and may not take into account any lump sum payment, side fund payoff, or rate adjustment made after June 30, 2017.

² Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

³ The normal cost difference is phased out over a five-year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year. This is non-zero only for plans that joined a pool within the past 5 years. Most plans joined a pool June 30, 2003, when risk pooling was implemented.

⁴ See page 9 for a breakdown of the Amortization Bases.

Plan's Funded Status

		June 30, 2016		June 30, 2017
1. Present Value of Projected Benefits (PVB)	\$	617,891	\$	1,138,267
2. Entry Age Normal Accrued Liability (AL)		126,061		206,535
3. Plan's Market Value of Assets (MVA)		113,366		194,794
4. Unfunded Accrued Liability (UAL) [(2) - (3)]		12,695		11,741
5. Funded Ratio [(3) / (2)]		89.9%		94.3%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows projected employer contributions (before cost sharing) for the next six fiscal years. Projected results reflect the adopted changes to the discount rate described in Appendix A, "Statement of Actuarial Data, Methods and Assumptions" of the Section 2 report. The projections also assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period.

	Required Contribution	Projected Future Employer Contributions (Assumes 7.25% Return for Fiscal Year 2017-18)				
Fiscal Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Normal Cost %	6.985%	7.5%	7.5%	7.5%	7.5%	7.5%
UAL Payment	\$13,654	\$14,000	\$660	\$1,000	\$1,400	\$1,800

Changes in the UAL due to actuarial gains or losses as well as changes in actuarial assumptions or methods are amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of Section 2. This method phases in the impact of unanticipated changes in UAL over a 5-year period and attempts to minimize employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years where there is a large increase in UAL the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

Due to the adopted changes in the discount rate for next year's valuation in combination with the 5-year phase-in ramp, the increases in the required contributions are expected to continue for six years from Fiscal Year 2019-20 through Fiscal Year 2024-25.

For projected contributions under alternate investment return scenarios, please see the "Analysis of Future Investment Return Scenarios" in the "Risk Analysis" section.

Employer Contribution History

The table below provides a recent history of the required employer contributions for the plan, as determined by the annual actuarial valuation. It does not account for prepayments or benefit changes made during a fiscal year.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment (\$)
2016 - 17	6.555%	\$25
2017 - 18	6.533%	\$93
2018 - 19	6.842%	\$387
2019 - 20	6.985%	\$13,654

Funding History

The funding history below shows the plan's actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2013	\$ 12	\$ 16	\$ (4)	133.3%	\$ 17,160
06/30/2014	17,266	18,038	(772)	104.5%	163,823
06/30/2015	52,037	49,510	2,527	95.1%	306,541
06/30/2016	126,061	113,366	12,695	89.9%	365,129
06/30/2017	206,535	194,794	11,741	94.3%	676,207

List of Public Agency Employer Contribution Requirements - Fiscal Year 2019-20

Important Information

- The contribution requirements shown are for July 1 of each year. Changes in plan benefits, the funding period, prepayments, or other contract changes may not be reflected.
- A value shown as "N/A" designates that a rate plan was not in the CalPERS database as of the valuation date.
- The contribution requirements shown do not reflect any cost sharing or employee contributions. Some employers may pay employee contributions also, but this is not reflected in the information shown.

Employer ID	Employer name	Rate Plan Name	Normal Cost Rate FY 2019-20	UAL Payment FY 2019-20	Normal Cost Rate FY 2018-19	UAL Payment FY 2018-19	Normal Cost Rate FY 2017-18	UAL Payment FY 2017-18
2705940435	Marina Coast Water District	Miscellaneous	8.533%	\$191,366	8.099%	\$145,795	7.653%	\$102,754
2705940435	Marina Coast Water District	PEPRA Miscellaneous	6.985%	\$397	6.842%	\$125	6.533%	\$25
3122134566	Marinwood Community Services District	Miscellaneous	8.533%	\$98,147	8.099%	\$83,911	7.653%	\$70,478
3122134566	Marinwood Community Services District	Safety Second Tier	18.928%	\$459	17.614%	\$132	16.842%	\$63
3122134566	Marinwood Community Services District	Safety First Tier	20.707%	\$292,349	19.416%	\$248,723	18.615%	\$209,412
3122134566	Marinwood Community Services District	PEPRA Safety Fire	13.034%	\$328	12.141%	\$108	11.99%	\$6
3122134566	Marinwood Community Services District	PEPRA Miscellaneous	6.985%	\$503	6.842%	\$106	6.533%	\$25
1949027584	Mariposa Public Utility District	Miscellaneous	8.081%	\$30,315	7.634%	\$24,089	7.2%	\$17,135
1949027584	Mariposa Public Utility District	PEPRA Miscellaneous	6.985%	\$1,157	6.842%	\$1,172	6.533%	\$25
6859883482	Maxwell Public Utility District	Miscellaneous	9.680%	\$12,586	8.892%	\$10,043	8.418%	\$7,681
6859883482	Maxwell Public Utility District	PEPRA Miscellaneous	6.985%	\$0	6.842%	\$0	0.06533	\$0
5483989497	McCloud Community Services District	Miscellaneous	8.081%	\$27,919	7.634%	\$19,633	7.2%	\$11,766
5483989497	McCloud Community Services District	Safety	0.000%	\$1,072	0%	\$1,078	0%	\$1,083
5483989497	McCloud Community Services District	PEPRA Miscellaneous	6.985%	\$1,432	6.842%	\$1,499	6.533%	\$44
7763145158	McFarland Recreation and Park District	Miscellaneous	10.823%	\$83,485	10.022%	\$73,705	9.539%	\$64,739
7763145158	McFarland Recreation and Park District	PEPRA Miscellaneous	6.985%	\$623	6.842%	\$458	6.533%	\$0
3058001188	McKinleyville Community Services District	Miscellaneous	9.680%	\$124,217	8.892%	\$98,590	8.418%	\$74,583
3058001188	McKinleyville Community Services District	PEPRA Miscellaneous	6.985%	\$1,322	6.842%	\$163	6.533%	\$46
4197922266	Meeks Bay Fire Protection District	Safety	20.073%	\$106,017	18.677%	\$83,761	17.875%	\$63,241
4197922266	Meeks Bay Fire Protection District	Miscellaneous	9.680%	\$9,453	8.892%	\$7,961	8.418%	\$6,552
4197922266	Meeks Bay Fire Protection District	PEPRA Safety Fire	10.216%	\$1,487	10.02%	\$152	9.513%	\$33
4197922266	Meeks Bay Fire Protection District	PEPRA Miscellaneous	6.985%	\$0	6.842%	\$0	6.533%	\$0
4197922266	Meeks Bay Fire Protection District	Safety Fire Second Tier	13.540%	\$727	12.848%	\$57	12.242%	\$5
4197922266	MEERS BAY FIRE PROTECTION DISTRICT	Miscellaneous Second Tier	8.081%	\$0	7.634%	\$0	0.072	\$0
4000074610	Meiners Oaks County Water District	Miscellaneous	8.081%	\$20,339	7.634%	\$15,564	7.2%	\$11,064
4000074610	Meiners Oaks County Water District	PEPRA Miscellaneous	6.985%	\$874	6.842%	\$292	6.533%	\$251
1846635935	Mendocino City Community Services District	Miscellaneous	8.081%	\$45,992	7.634%	\$40,218	7.2%	\$34,752
1846635935	Mendocino City Community Services District	PEPRA Miscellaneous	6.985%	\$0	6.842%	\$0	0.06533	\$0
7932295621	Mendocino County Russian River Flood Control & Water Conservation Improvement	Miscellaneous	9.680%	\$4,855	8.892%	\$2,059	8.418%	\$1,514
7932295621	Mendocino County Russian River Flood Control & Water Conservation Improvement	PEPRA Miscellaneous	6.985%	\$1,128	6.842%	\$2,072	0.06533	\$0
1157424734	Mendocino Transit Authority	Miscellaneous	8.081%	\$103,386	7.634%	\$72,735	7.2%	\$50,095
1157424734	Mendocino Transit Authority	PEPRA Miscellaneous	6.985%	\$13,654	6.842%	\$387	6.533%	\$93
4441199077	Menlo Park Fire Protection District	Miscellaneous	13.182%	\$152,963	12.212%	\$124,550	11.675%	\$98,118
4441199077	Menlo Park Fire Protection District	Safety	23.654%	\$2,465,434	22.346%	\$1,767,078	21.418%	\$1,589,594
4441199077	Menlo Park Fire Protection District	PEPRA Safety Fire	13.786%	\$15,389	12.965%	\$4,432	12.729%	\$3,470
4441199077	Menlo Park Fire Protection District	PEPRA Miscellaneous	6.985%	\$5,028	6.842%	\$1,671	6.533%	\$672
2673031300	Merced County Housing Authority	Miscellaneous	13.182%	\$578,930	12.212%	\$507,493	11.675%	\$441,889
2673031300	Merced County Housing Authority	PEPRA Miscellaneous	6.985%	\$1,560	6.842%	\$257	6.533%	\$67
4162505786	Merced County Mosquito Abatement District	Miscellaneous	13.692%	\$214,237	12.759%	\$164,025	12.036%	\$138,503
4162505786	Merced County Mosquito Abatement District	PEPRA Miscellaneous	6.985%	\$499	6.842%	\$440	0.06533	\$0
6334099697	Merced Irrigation District	Miscellaneous	7.309%	\$1,931,957	6.936%	\$1,665,042	6.879%	\$1,406,203
3322577952	Mesa Water District	Miscellaneous	10.868%	\$686,538	10.152%	\$548,264	9.599%	\$418,256
3322577952	Mesa Water District	PEPRA Miscellaneous	7.073%	\$3,212	7.266%	\$2,011	6.908%	\$194
6361598907	Metropolitan Transportation Commission	Miscellaneous	11.343%	\$2,946,412	10.293%	\$2,569,368	10.141%	\$2,140,237
4104962804	Metropolitan Water District of Southern California	Miscellaneous	9.006%	\$46,684,999	8.273%	\$39,554,600	7.853%	\$32,560,150



California Public Employees' Retirement System
P.O. Box 942715
Sacramento, CA 94229-2715
(888) CalPERS (or 888-225-7377)
TTY: (877) 249-7442
www.calpers.ca.gov

Circular Letter: 200-042-16
Distribution: VI

Circular Letter

August 17, 2016

TO: **ALL PUBLIC AGENCY EMPLOYERS**

SUBJECT: **JUNE 30, 2015 ACTUARIAL VALUATION REPORTS**

The purpose of this Circular Letter is to inform you that the 2015 Actuarial Valuation reports are completed and available on my|CalPERS. We expect to have the reports also posted to the CalPERS website in September. The 2015 Actuarial Valuation reports set the employer contribution rates for Fiscal Year 2017-18. Also, please note the change below to the non-pooled plans billing process.

All Plans Billed Separately for Normal Cost and Unfunded Liability

Prior to Fiscal Year 2015-16, we billed employers for all contributions as a percentage of payroll. Beginning with Fiscal Year 2015-16, we began billing pooled plans as a percentage of payroll for the normal cost portion and as a dollar amount for the unfunded liability portion. Starting in Fiscal Year 2017-18 non-pooled plans will also be billed as a percentage of payroll for the normal cost portion and as a monthly dollar amount for the unfunded liability portion.

Annual Lump-Sum Payment Option

An annual lump-sum prepayment option is available for the unfunded liability portion. You can find the lump-sum payment amount on page 4 of your valuation report. If you choose this option for Fiscal Year 2017-18, payment must be received and posted by CalPERS prior to August 1, 2017. Instructions for paying the annual lump-sum amount will be included on your July 1, 2017 invoice.

If you have any questions, please contact the CalPERS Customer Contact Center at **888 CalPERS** (or **888-225-7377**).

Alan Milligan
Chief Actuary