Pension Oversight Committee

Expert Question List

CalPERS:

1. Please describe CalPERS' - owner, organization, mission, history, related laws, the pension contracts with Costa Mesa and its employee Associations, professional staff responsible for the Costa Mesa plans, the requirements that would allow Costa Mesa to exit CalPERS, and why the need for onerous cost to exit.

2. Please provide the worksheets that show the detailed calculation(s) of the Employee and Employer pension contributions for fiscal year 2012-13 and projected contributions for future fiscal years that are known (2013-14, 2014-15, etc.). Please show each Association pension plan separately.

3. Please show the detailed description, original date, and annual amount of each individual event of smoothing, amortization, or similar spreading caused by (1) any increase in unfunded liability (change in benefit formula, retroactive application, etc.) and (2) any other cause.

4. Please describe what caused Costa Mesa's collective unfunded pension liability to rise to above $200 million.

5. Joe Nation, Economic Professor - Stanford University, stated that most economists think CalPERS' calculation of unfunded pension liability should be based on a 6% discount rate or lower. What is the current thinking at CalPERS regarding the discount rate?

6. What future earnings rate (%) would CalPERS need to achieve to <u>eliminate</u> Costa Mesa's unfunded pension liability … based on 2012-2013 contribution rates and assumptions? How many years are included in this calculation?

7. Costa Mesa and other Cities are responsible for losses if CalPERS' fails to achieve projected earnings used to calculate contribution rates. Does the 7.5% earnings and discount rate provide a cushion in the projection to offset that risk? Should the earnings rate lower to offset that risk?

8. Exactly how does CalPERS' bookkeeping for Costa Mesa's individual plans work? Contributions and actual fund earnings add to each account. Disbursements to retirees and actual fund losses subtract from each account. What other activity is actually added or subtracted to / from each account?

9. If the unfunded pension liability increases during a year and Costa Mesa fails to make a special payment to offset the increase, is the increase then actually recorded in the accounts … or is this just included in the separate actuarial calculations?

10. What impact will the GASB Statement No. 68 (accounting for pensions) have on CalPERS calculations of Costa Mesa's unfunded pension liability and the timing of the annual calculations? Most publicly held companies report annual earnings within 30 days after yearend and issue financial statements within 60 days. Many of the larger companies still have defined benefit plans and include current actuarial calculations within those reports. Why does it take CalPERS 16 months to complete such actuarial calculations?

11. Assume we do nothing (no changes to reduce or increase pension obligations). What annual rate of return would PERS have to yield before the amount Costa Mesa is charged on the unfunded portion of the pension will start to decline starting in 5 years, 10 years?

12. Same assumption. What ROR would PERS have to yield before there would be a fully-funded status in 10 years, 15 years, or 20 years?

13. How do the RORs above compare to the historical rates that have been achieved by PERS in terms of average, median and modal rates?

14. Historically, how many years have the PERS pension obligations been fully funded and underfunded and what are the percentages of funding/underfunding over that time? In other words, how unusual is it historically (long view backwards, 20-30 years at least) to be underfunded.

15. What is the percentage range of underfunding and overfunding over the history of PERS and how does PERS's funding rate currently stack up within that range?

16. Does the investment loss in 2008/2009 have any historical precedent in PERS or any other public pension program? What was done in those circumstances to improve the funding position?

17. Has CalPERS done or is it aware of any studies about the cost to federal, state and local government of providing basic living needs of retirees if there were no public employee pensions?

18. Has any state retirement system tried to move from pensions to private accounts and, if so, what has been the outcome?

19. Please answer the question "How does this affect me personally?" from the participants' viewpoint as much as practicable. Classic and PEPRA employees, start of career, mid-career, near retirement. Quantify Present Value (PV) of each future benefit per participant compared to contribution costs by employer and employee.

20. Assuming PERS achieves 7.5% investment returns, when will the current (6/30/2011) unfunded liabilities be amortized? When will contribution rates return to single digits for employee and employer, i.e. less than 20% total?

21. When will the unfunded liabilities be amortized assuming a 6% investment return?

22. Why does PERS use an investment return of 7.5% when Moody's recommends 5.5%? And Boeing uses 3.8%? And Costa Mesa's OPEB retiree medical plan uses 4.5%?

23. Please provide rough estimates updating unfunded liabilities:
-as of 6/30/2012 recognizing FY 2012 investment return of 0.14%
-as of 6/30/2013 assuming FY 2013 investment return of 15%
incorporate updated headcounts above as much as practicable

24. What is the cost of the optional benefits for each plan? In terms of contribution rates? In absolute dollars per $50,000 of payroll?
-12 month vs. 36 month Final Average Compensation Period
-2% COLA
-Purchasing Power Protection
-Sick Leave Credit
-Employer Paid Member Contributions (EPMC)

25. Please explain Class 1 benefits add-on rates and quantify Present Value (PV) of future benefits vs. costs per "typical" individual if possible
http://www.calpers.ca.gov/eip-docs/employer/actuarial-gasb/risk-pooling/surcharge-misc2.5-55.pdf

26. What PERS plan would equate to Social Security contribution rates (6.2% for both employer and employee)?

27. If classic employees reverted to their PERS plan on date of hire, effective 7/1/2014 (e.g. 2%@50 for fire before ~2001) and vested current benefits in the interim (e.g. fire 3%@50), would that eliminate the unfunded liabilities?

28. What is the impact of reducing the benefits by the amount of the unfunded liabilities?
-across only active employees
-across active and retired employees (like New Hampshire
http://www.nhpolicy.org/reports/policynote_july2011_pensionreform.pdf)

29. What specific law or policy allows employees to 'spike' their pay for pension calculation purposes?
-What has to change to discontinue that process?

30. Can CalPERS go bankrupt?

31. If a member agency refuses to pay their annual contributions what procedural/legal process does have to make them pay?

-Or can CalPERS make them pay if the agency absolutely does not have the funds?

32. Are retroactive changes to benefit formulas allowed because of law/policy or because CalPERS software does not have the capability of separating the new formula?

33. How many separate investment or portfolio pools does CalPERS manage?

-Results of PERF are shown in the CAFRs but are there other portfolios and if yes, who for?

-Are the investment strategies different between the portfolios?

-Are the investment results similar for the various portfolios?

34. For what purpose and what is significance of CalPERS splitting the Investment Return between 'price inflation' and 'real rate of return'?

-Doesn't splitting infer that CalPERS will at least earn the 'price inflation' rate?

-If one of the factors is not reached does CalPERS change the investment return?

35. Why does CalPERS use an Investment Return for all their calculations except termination liability? A much lower discount rate is used that jacks up the cost to cities for exiting the program.

36. CalPERS had an overall PERF portfolio return of .1% for 2011/2012, with a market value of $233.9B. The 2010/2011, market value was $239.3B. Why the decrease in market value with the (small) positive return?

37. If a government agency negotiates benefit terms that CalPERS does not have an existing Risk Pool for will it open a new Pool?

-If not, why not and does opening a new pool cost the requesting government agency additional fees?

38. Why does CalPERS have one Board member elected by active school members? School members have there own pension system...CalSTRS.

Nyhart:

1. How was the 4.5% discount rate determined? Why isn't the inflation rate used … since this is a "pay as you go" plan with no investment assets?

2. Why isn't the present value of future benefits (unfunded liability) going down as the number of individuals in the medical plan declines?

3. What impact will the GASB Statement No. 68 (accounting for pensions) have on calculations of Costa Mesa's unfunded pension and medical benefits liability and Costa Mesa's financial statements?

4. Will employees be able to keep their plan? Is the plan grandfathered under Obamacare? If not grandfathered, what are the benefit and cost impacts to employees and cost impact to the city?

City Legal Assistance:

1. Can you provide a list of the various laws and applicable sections/provisions that affect Costa Mesa and the pension, medical and other retirement benefits it provides (and might in the future provide) its employees. Can you provide links to these laws and applicable sections/provisions?

2. Is the City "required" to make increases in a pension formula retroactive?

3. Can Costa Mesa offer new employees a 401K (defined contribution) type of pension plan?

4. On a forward basis only, is it possible to roll back a pension formula for existing employees? Or for retirees? If so, what would need to be done to accomplish this?

5. How much do the new PEPRA rates help? Please explain per "typical" employee?
   -2.7%@55 versus 3%@50?
   -2%@62 versus 2.5%@55?

Allan Roeder, Former City Manager

1. What was the thinking when the City Council approved the increases in the pension formulas in calendar year 2008 and 2010?

2. Were you aware that each increase would be retroactive and would cause (1) an instant increase in the City's unfunded pension liability of several million dollars and (2) raise the City's unfunded pension liability to a level it could not pay down?

3. What advise did CalPERS provide before the City Council approved the increases in pension formulas in 2008 and 2010?

4. Was the City aware of the significant negative impact the increase in each pension formula would have on the General Fund revenues that are available for non-labor expenses and investments in the community at large?

Misc. / City:

1. When do the fire, police, and miscellaneous workers have to sit down with the City of Costa Mesa to review their contract?

2. How many active employees are in each PERS plan tier?

3. How many active employees were hired before PERS benefit increases? Circa 2000 for police and fire, circa 2008 for miscellaneous?

4. Does fire really have 3 tiers? Does 2%@50 side letter or PEPRA 2.7%@57 apply after 2012?

5. What are the average years of service for a Costa Mesa retiree in each of the main categories?

6. What is the average age that a Costa Mesa retiree in each of the main categories began drawing a pension?

7. What is the average monthly benefit for a retiree in the three main categories, miscellaneous, police, and fire?

8. What is the percentage of Costa Mesa employees who retire after working 30 years at Costa Mesa?

9. How many active employees were hired before PERS benefit increases? Circa 2000 for police and fire, circa 2008 for miscellaneous?

10. Does fire really have 3 tiers? Does 2%@50 side letter or PEPRA 2.7%@57 apply after 2012?

11. How much does the August 31, 2012, 2%@50 fire agreement help the unfunded liabilities?