PENSION OVERSIGHT COMMITTEE
EXPERT QUESTIONS

TABLE OF CONTENTS

ACTUARIAL

1. Explain the financial/actuarial rational for CALPERS breaking their targeted Investment Return (discount rate) into two components: a 'price inflation' and 'real rate of return?' What historical real rate of return does CALPERS use with this decision? What historical rate of price inflation does CALPERS use with this decision? What financial/actuarial justification is required to change either of said components to CALPERS Investment Return decision? (CP34)

2. In light of the fact that private pensions generally use a lower discount rate (Boeing is 3.8%) and that most economists and experts (e.g., Moody's recommends 5.5%) advocate a discount rate of between 5-6%, what actuarial justification does CALPERS rely on for their 7.5% investment rate of return. (CP5 & CP22)

3. If an Agency negotiates benefit terms that CalPERS does not have an existing Risk Pool for, will CALPERS open a new Pool? If CALPERS will not, explain why. If CALPERS will open a new pool, will additional fees for such new pool be charged to the Agency? (CP37)

4. What is the basis for the discount rate used to calculate the Termination Fee for those Agencies desiring to exit CALPERS? Does this discount rate differ from the rate used by CALPERS to calculate an Agency's annual PERS contribution? If yes, what is the actuarial rational for using two different discount rates? (S16 & CP35)

5. Explain the bookkeeping and recordation process for Costa Mesa's individual plans. In particular, explain how all changes to these plans including contributions, disbursements, investment returns and fees are notated. For example, if an Agency's unfunded pension liability were to increase in a particular year without the Agency making a special payment for these amounts, how is this recorded and notated in the Agency's account? Please provide a normally used print out of each of Costa Mesa's three plans that includes each Employee and Retiree and their individual deposit balances on hand at 6/30/11 (or most recent date Costa Mesa's unfunded pension liability was calculated) and totals for each plan. Please reconcile the balances in the above print outs (which may include balances at cost and market values) to the market value of assets/deposits used in the individual detailed calculations of unfunded pension liability included in the annual Actuarial Reports of the same date. Please provide one complete copy for the Committee before meeting with the Committee. (CP8 & CP9)

6. What do actuarial and industry "best practices" recommend in regards to under-funded pension obligations by an Agency or City? (S6 & S1)

7. Besides increasing the discount rate, what other actions can CALPERS take to reduce or lessen the increase of an Agency's annual CALPERS contribution amount? (S12)

8. Can Agencies "prepay" their annual obligations more frequently than annually, much like a mortgagee making a more frequent payment than a monthly payment, in order to reduce

its obligations? If we make a prepayment and the ROI does not meet the projected ROI do our unfunded liabilities still increase? (S13)

9. Explain the rational for a constant 2% cost of living increase (COLA)? Can this be modified (reduced) by CALPERS in any way? What particular authority requires the annual 2% COLA? (S15)

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? (CP10)

11. In light of the fact that public companies with defined contribution plans generally include actuarial calculations within their year-end reporting obligations, why does it take CALPERS 16 months to complete such actuarial calculations? (CP10)

12. Please estimate Costa Mesa's current unfunded liabilities including updated headcounts as of 6/30/2013 assuming a FY 2012 investment return of 0.14% and as of 6/30/2013 assuming a FY 2013 investment return of 15%. (CP23)

13. Please explain Class 1 benefits add-on rates and quantify Present Value of future benefits vs. costs per "typical" individual, as discussed at http://www.calpers.ca.gov/eip-docs/employer/actuarial-gasb/risk-pooling/surcharge-misc2.5-55.pdf (CP25)

14. Does CALPERS guarantee agencies a 7.5% or any other minimum investment rate of return? Explain the financial consequences to an Agency such as Costa Mesa in the event that CALPERS investment return does not average 7.5% over an extended period of time (5, 10, 20 years)? (CP7)

15. For the city of Costa Mesa, assuming a 6% investment return instead of the current 7.5%, how much does our underfunded pension obligation grow? (CP21)

16. For Costa Mesa, please provide all substantiation (e.g., worksheets) that shows the calculation 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. (CP2)

17. Please show the detailed description, original date/amount, and annual amount of each individual event of smoothing, amortization, or similar spreading included in the Employee and Employer contribution calculations in question 17 above caused by (1) any increase in unfunded liability (change in benefit formula, retroactive application, etc.) and (2) any other cause. (CP3)

18. What is the closest plan that equates to Social Security? (CP26)

19. If we moved everyone to PEPRA rates how would it change our normal costs? (CP27)

20. Provide an analysis of the net effect of Costa Mesa’s most recent (August 2012) negotiated fire plan whereby pension benefits were changed to 2% at 50. Please compare to 3% at 50. (MP11)

21. How much would pension benefits need to be reduced for those “retired employees” in each of Costa Mesa’s plans to eliminate the city’s current unfunded liabilities? How much would pension benefits need to be reduced for “current employees” in each of Costa Mesa’s plans to eliminate the city’s current unfunded liabilities? (CP28)

22. What is the percentage of underfunding and overfunding Costa Mesa has experienced over its history with PERS and where does our current funding rate fall within that range? (CP15)

23. If someone works for 10 years at a city, transfers to Costa Mesa for the remaining 20 years. Are we responsible for all 30 years? How does that work? (NEW)

24. What California cities have the least unfunded pension obligations and is there something categorically different about those cities versus Costa Mesa? Perhaps within their employee obligations and contracts themselves. (S7)

25. What California cities have had a serious problem with underfunded pension obligations and now don't and how have they achieved this? (S4)

26. Explain the reasoning for using a 4.5% discount rate for the OPEB obligations. Does the 4.5% rate include an inflation and rate of return component like the CALPERS discount rate? Why does the 4.5% OPEB discount rate differ from the 7.5% CALPERS rate? Why not use inflation instead of 4.5% since there are no assets in the account. (N1)

27. For Costa Mesa’s OPEB plan, explain why the unfunded liability has not decreased despite the fact that those participating in the medical plan have decreased?? (N2)

28. What impact will the GASB Statement No. 67 & 68 (accounting for pensions) have on calculations of Costa Mesa’s unfunded pension and medical benefits liability and Costa Mesa’s financial statements? (N3)

INVESTMENT

1. Is there historical precedent within the PERS system or outside of it for the fiscal year 2008/09 investment losses? What, if any historical precedent, did CALPERS rely on in their response (i.e., smoothing and amortization) to the investment losses in 2008/09? (CP16)

2. Please explain the cause of the decline in CALPERS holdings from fiscal year 2010/11 to 2011/12 despite an increase in their return on investment during this same period? (CP36)

LEGAL

1. What specific, or major, provisions of California law & regulations govern CALPERS and pension obligations to public employees? (CL1)

2. When Costa Mesa increased their pension benefits, such as they did in 2008, did CALPERS require such enhancements to be offered retroactively or was this a negotiated benefit? If your answer to the above question is yes to CALPERS, please list the specific laws or regulations that require this practice of granting retroactive benefits. (CL2)

3. Are those amounts in the City's pension accounts segregated from other Agencies accounts like an escrow account, or are these moneys in Agencies accounts commingled with other Agencies accounts? Does CALPERS guarantee or otherwise offer any assurance that those funds in the City's account will not be used to pay other Agencies obligations? Does CALPERS guarantee or otherwise offer any assurance to Agencies that will receive a 7.5% investment return? (S5)

4. Please list each and every financial or other instrument at CALPERS disposal in the event they could not meet their obligations? (S9)

5. What is the legal process should an Agency fail to meet its CALPERS' obligation? What legal proceedings could CALPERS undertake in such an event? (S11)

6. Is CALPERS subject to bankruptcy laws and proceedings? In the event that CALPERS current obligations exceeded their current assets, could they enter bankruptcy proceedings? (S10)

7. What specific law or policy allows employees to 'spike' their pay for pension calculation purposes? -What has to change to discontinue that process? (N4)

8. 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? [CalPERS publication "Reinstatement From Retirement" illustrates hybrid plan benefit calculations] (CP32)

9. Are agencies such as Costa Mesa required to offer a defined benefit pension to existing and/or new employees? Could Costa Mesa offer a defined contribution or 401K styled plan to existing and/or new employees? (CL3)

10. What statutory or regulatory restrictions restrict an Agency's ability to negotiate smaller pension benefits on a going forward basis for a particular plan? What statutory or regulatory restrictions restrict an Agency from reducing current retiree's benefits? (CL4)

11. Based on the “pooling model”, in the event that an agency does not pay its annual pension obligation, how are the other participating Agencies’ pension plans in CALPERS affected? In the event that an Agency enters bankruptcy and has all or some portion of its pension obligations discharged, how are the other participating Agencies’ pension plans in CALPERS affected? (CP31)

12. What is CALPERS position in regards to whether an Agency’s pension obligations can be discharged in a bankruptcy proceeding? What legal authority is such a position based on? In the event an Agency does not have revenue to meet its pension obligations, what legal recourse can CALPERS take to collect such amounts? (S2)

13. Set forth the law or regulation that requires an annual COLA increase to be included in CALPERS pension benefits? If a COLA increase is mandated by law, is there a minimum COLA required by law? If so, what is this amount? Can an Agency offer a COLA exceeding the minimum amount should this be negotiated? (NEW)

FINANCE

1. Since 1990, please list each instance in which the City agreed to provide increased (and retroactive) pension (including medical) benefits including COLA increases to any employee groups (Misc./Police/Fire). (AR1)

2. Please provide the complete historical record (minutes, CALPERS presentations etc.) presented to the Council regarding each such action listed above. (AR2)

3. Please provide an annual historical record of the amount (by dollar amount and as a percentage of the General Fund budget) paid by the City for their CALPERS obligations. Can we look at a 20 year run on Total City Budget, Total Employee Compensation, Total Contribution to Retire Plans (Employer/Employee), Total Capital Improvements. (NEW)

COMMENT - After examining the historical record, determine those decision makers and other parties of interest (e.g., former council members, staff, CALPERS staff) that could be interviewed or otherwise invited to an Oversight meeting to discuss questions 1-4 above and/or any other information.

GENERAL

1. What are the ROR's for PERS over the last 20 years and how do they compare to various investment indexes? (define which indexes to compare with) (CP13) Alex to forward the information.

2. What are the major triggers that caused Costa Mesa's collective unfunded pension liability to rise above $200M? (CP4)

3. Assuming no changes in the City's current plans, at this time, what rate of return would CALPERS need to achieve over the next 5, 10 and 20 years in order for Costa Mesa's unfunded pension obligations to return to the black and be considered fully funded? (What does fully funded mean? 85% funded or 100%) (CP12)

4. Has any city in California moved their retirement system from Defined Benefit to Defined Contribution accounts and, if so, what has been the outcome? (CP18)

HUMAN RESOURCES

1. 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 impacts to the City? (N4)

   Employees will be able to keep the health plans presently provided by the City. The City's health plan is not grandfathered under Obamacare; however, the City's cafeteria plan meets the appropriate levels of affordability and coverage and will not result in a change in cost to the employee or the City for full time employees.

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

   Yes fire has three tiers (3%@50, 2%@50 and 2.7@57). The 2%@50 formula would only apply to laterally hired members of CalPERS (without a six month break in service). The <u>2.7%@57</u> formula would apply to new hires that are also new CalPERS members.

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

   Miscellaneous: 20.5 years of service
   Police: 22.5 years of service
   Fire: 28 years of service

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

   Miscellaneous = 58 years of age
   Police = 52 years of age
   Fire = 55 years of age

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

   According to the CalPERS actuarial report, dated June 30, 2011, the average monthly benefit for retirees of each group are as follows:

   Miscellaneous: $2,250 per month
   Police: $5,315 per month
   Fire: Not provided within pool valuation, awaiting response from CalPERS.

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

   16.3% of retirees (all contract groups) had 30 or more years of service with the City.

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

   Fire: *33 active employees were hired prior to 05/20/2001, the effective date of the 3%@55 retirement plan.*
   Police: *73 active employees were hired prior to 12/31/2000, the effective date of the 3%@50 retirement plan.*
   Miscellaneous: *193 active full time employees were hired prior to 09/28/2008, the effective date of the 2.5%@55 retirement plan.*