Date: November 26, 2013

To: Mr. Kerry Worgan

Subject: **Costa Mesa Pension Oversight Committee**
November 20, 2013 Follow-up Questions

Thank you for your excellent presentation to the Costa Mesa Pension Oversight Committee. There are a number of questions we prepared hoping for answers and coordination before the meeting that were not addressed. Hopefully you can do so at this time. I would like to go over these questions with you to ensure that I have communicated effectively and to respect your time. You certainly know what information you have and how long it takes to answer better than I do, and may have some better suggestions than I am asking for here.

1) Actuarial 5 and Actuarial 16.
We have read and understood just about as much as one can understand from the valuations. The gist of these questions is that we would like a copy of PERS' valuation spreadsheet model so that we can see how the myriad actuarial assumptions affect the unfunded liabilities and rates - some "what-if" sensitivity. You indicated in the meeting that there is not an official PERS model, but you have a working spreadsheet you used for the presentation. Whatever you can provide to help clarify the impacts of various assumptions will be much appreciated. I do not expect to share this model publicly.

- 5) Explain the bookkeeping… Please provide one complete copy for the Committee before meeting with the Committee
- 16) …please provide all substantiation (e.g. worksheets)…

2) Do you have contract language and writings to explain how paying Fire Side Fund early would save the discount rate (presently 7.5%) as stated in the meeting? The valuations don't seem to show the Fire Side Fund acting as an amortizing loan. Can you provide the calculations, preferably in a spreadsheet?

3) Your idea of combining the Police and Fire Safety plans sounds like a good one. Please explain the advantages and disadvantages. What is the process? Timeline?

4) Actuarial 10 and 28. Please explain GASB 67 and 68 impacts on PERS and Costa Mesa. Please explain Alan Milligan's initiatives in MVA and longevity versus GASB. Is PERS implementing GASB 67, this year - FY 2013-14? If so, that means Costa Mesa implements GASB 68 in 2014-15 CAFR? http://www.calstrs.com/gasb-accounting-changes

Please help the CMPOC communicate the PERS plans impacts to individuals. As a CFO, the best way I have found to enhance understanding is to make the numbers personal – "How does this affect me personally?" In this vein, please approach the following question with different types of employees in mind: Classic and PEPRA employees, start of career, mid-career, near retirement, retirees.
5) Quantify Present Value (PV) of each future benefit per participant compared to contribution costs by employer and employee. Who is paying for whom?
I expect, for one, this will confirm that the current employees and city rates are paying for retirees in a big way.

6) What is the cost of the optional benefits for each plan? Base benefits? In terms of contribution rates? In absolute dollars per $50,000 of payroll – a "typical employee"?
The purpose is to help the employer, employee and citizen understand how much "optional benefits" cost and how much they are worth to each party. At a future time, they may decide to change optional benefits instead of increasing contributions, etc.

- 12 month vs. 36 month Final Average Compensation Period
- 2% COLA
- Purchasing Power Protection
- Sick Leave Credit
- Employer Paid Member Contributions (EPMC)
- 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

Please help the public get some perspective on what these PERS plans mean to them. Most people participate in Social Security.

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

8) Your presentation graphs answered some of these questions, i.e. how does the future look and when can the City return to "normal" rates? (Next ten years look bleak). Can you please describe some scenarios that would solve/eliminate the unfunded liabilities – how much would it cost, who pays, how much and how long? Below are some questions along those lines.

When I asked you in the meeting, you said that if a plan is 70% funded, retirees and current employees would take a 30% haircut, which makes sense mathematically. I have some suggested approaches below – please feel free to innovate. In my experience, grandfathering the past is almost unavoidable, so maybe the "best" answer is to have Classic employees vest benefits to date – then what would their future benefit be to break even – 2%@60,2%@55, etc?

- 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?
  - When will the unfunded liabilities be amortized assuming a 6% investment return?
  - 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%?
- How much do the new PEPRA rates help the City's budget? Please explain per "typical" employee?
  - 2.7%@55 versus 3%@50?
  - 2%@62 versus 2.5%@55?
- 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)
- 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?

9) Please help me improve my analysis. I attempted to show what it would take to amortize $230M over 30 years – roughly $15M per year at 5%. I can see that roughly one-half of the current annual contributions, $10M of $20M, are for unfunded liabilities, but have no way to know how much is contributed in the future. In addition, it is difficult to ascertain how much of the Fire plan is really going to unfunded liabilities.
http://www.costamesaca.gov/modules/showdocument.aspx?documentid=12154

10) Can you please explain the discount rate sensitivity in terms of dollars (the valuations show in terms of rates, except when estimating termination liabilities). Do you agree with Joe Nation, page 5? http://www.costamesaca.gov/Modules/ShowDocument.aspx?documentid=9896

FYI, the retroactive Miscellaneous 2008 plan increase analysis by John Bartell is here:
It seems that the impact is $14M to current employees.
http://www.costamesaca.gov/Modules/ShowDocument.aspx?documentid=9895

Thank you so much for your excellent information and advice.
I look forward to working with you further to improve the PERS pension situation for our city, its employees and our citizens.

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P.S.
Meeting video: http://costamesa.granicus.com/MediaPlayer.php?view_id=10&clip_id=2260