5-Year CalPERS Projections of Sworn Fire Positions (Tier 1 and PEPRA Plans), And Unfunded CalPERS Liability (Provided by Finance Director Viki Copeland)

The first conversation with our CalPERS actuary regarding a 5-year projection of the ongoing costs of our unfunded liability in the event that the City contracted with the County for Fire Services produced column 1 and 2 below. The actuary indicates that when a plan becomes inactive, which is what would happen if the Fire Department is contracted to the County, the plan is automatically converted from a % of pay method to a level dollar method which generates the projections in column 2 below.

The plan is also converted to a 20 year amortization period from the eight bases currently used, with amortization periods ranging from 19 to 30 years. This is why the amounts are higher per year in column 2. During our review of these results, another option was discussed whereby the actuary has the discretion to review our plan and determine whether the City would be allowed to keep the current amortization bases, which would result in the amounts in Column 3. This option would require the lowest payments from the City and therefore would allow the most flexibility, even though the City could and likely would, make higher payments to achieve paying off this liability in 20 years as recommended in our financial plan. Our actuary reviewed our plan and indicated that he would be able to recommend that the City be allowed to keep the same amortization bases, based on current CalPERS policy (which is option 2).

The unfunded liability of the plan as of the 6/30/15 valuation (the latest, used for 2016-17 payments) is $7,982,130.

The table and footnotes below are from our CalPERS actuary, Randy Dziubek.

Fiscal Year	Projection From 6/30/2015 Actuarial Report	Projection if Plan Becomes Inactive – option 1	Projection if Plan Becomes Inactive – option 2
2018-2019	$ 483,805	$ 887,500	$ 602,873
2019-2020	$ 601,227	$ 887,500	$ 732,494
2020-2021	$ 673,299	$ 887,500	$ 798,611
2021-2022	$ 751,001	$ 887,500	$ 871,114
2022-2023	$ 807,228	$ 887,500	$ 912,889
Total	$ 3,316,560	$ 4,437,500	$ 3,917,981

We discuss the possible impact on required contributions to the Fire Plan if it becomes inactive and the amortization method for unfunded liability is changed to “level dollar” versus the current “level percent of pay” method.

The numbers above are provided to give you an idea of the impact of such a change. Please note with regard to these numbers, the following comments apply:

1) The results are projections of required annual payments toward unfunded liability beginning in FY 2018-19.

2) Base line results were taken from page 5 of the 6/30/2015 actuarial valuation report.

3) Projected results assuming the plan becomes inactive reflect the same assumptions and methods used for the base line projections and described in the actuarial report.

4) Future actuarial gains or losses are likely to occur during this projection period that will change these results.

5) The projection assuming the plan is inactive reflects 1) a fresh start amortization of the unfunded liability using a 20 year period, or 2) level dollar amortization with existing bases and amortization periods retained. The selection of this period(s) will be made by the actuary based on facts and circumstances existing at the time the plan become inactive. 20 years is a common period for inactive plans.

6) While the required contributions shown are higher for the inactive scenario, it is important to realize that over time there is no increase or decrease in total employer contributions due to changing the amortization approach. The approach used for inactive plans generally requires higher payments initially but pays off the unfunded liability faster.

7) While not provided here, it is important to realize that the remaining UAL payments beyond the 5 years shown would look very different between the three alternatives shown.

8) Even if the actuary is comfortable with option 2 shown at the time the plan becomes inactive, the amortization period(s) will be reevaluated every year thereafter and may be shortened by the actuary at any time if deemed appropriate. This would increase required UAL payments at that time.

9) These results assume that the plan becomes inactive but there is no transfer of assets or liabilities from this plan into the LA County plan.

5-Year Projections of Other Post-Employment Benefits (OPEB), And Unfunded OPEB Liability for Sworn Fire Positions

The 5-year projection presented below is based on an update by our actuary to the 6/30/2014 valuation (the latest, used for 2015-16, 2016-17 2017-18), using current salary and benefit information.

	2016-17	2017-18	2018-19	2019-20	2020-21
Normal Cost	30,688	31,792	32,896	33,779	34,883
UAAL Amortization	108,312	112,208	116,104	119,221	123,117
Total ARC	139,000	144,000	149,000	153,000	158,000

The unfunded liability of the plan as of the 6/30/16 is projected to be $866,000 (based on the 6/30/14 actuarial report).