



CalPERS Funding Strategy Options & Recommendations



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Background and Purpose

- CalPERS required contributions expected to increase steeply over next decade:
 - Due to phase-in of changes.
 - Expected lower short-term investment return.
- Board requested analysis of impact of additional payments:
 - **Option #1: Directly to CalPERS**
 - Applied to specific amortization bases
 - **Option #2: Deposited to Separate Supplemental Pension Trust**
- Staff provided recommendations.



Option #1: Directly to CalPERS **Assumptions and Methodology**

- **Additional contributions to CalPERS at the end of fiscal years:**
 - \$10 million for 10 years beginning 6/30/19
 - Apply additional contributions to specific amortization bases
 - Shortest or longest periods
 - First contribution begins in FY 2019/20
- **Miscellaneous & Safety Shortest Bases:**
 - Multiple, relatively small bases
 - Outstanding periods currently 7 to 18 years
- **Miscellaneous & Safety Longest Bases:**
 - 2015 loss (30 years amortization remaining)



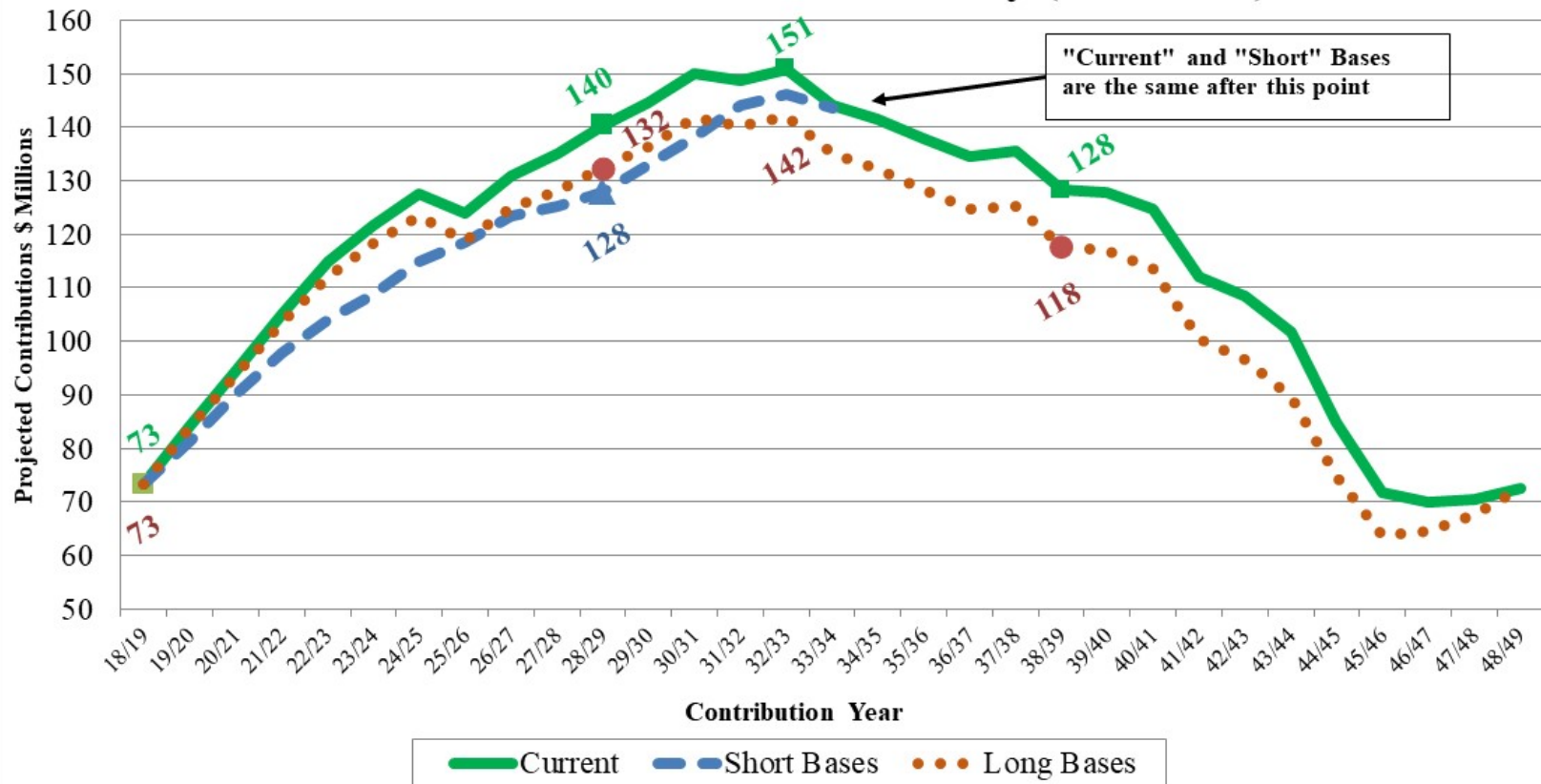
Option #1: Directly to CalPERS Assumptions and Methodology (cont.)

- **Discount rate to calculate present value of savings at 3%.**
- **Contribution projections based on Bartel Associates modeling including factors such as:**
 - Expected investment return at 6.5% for 10 years.
 - Stochastically modeled investment returns.
 - CalPERS new amortization policy and risk mitigation strategy.
 - Increase in percentage of PEPRA employees.
 - Illustrations based on 50th percentile contributions.



Option #1: Directly to CalPERS Contributions

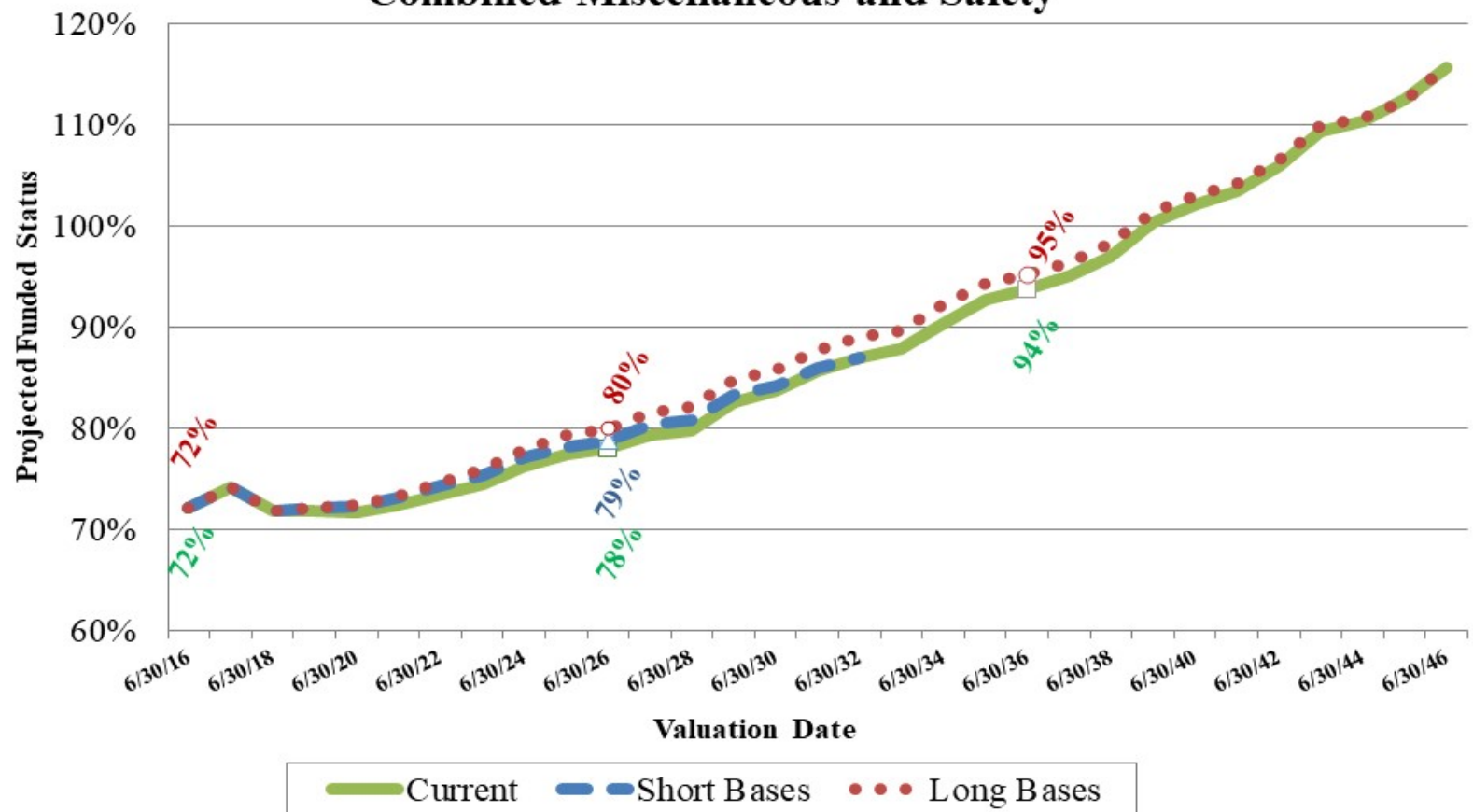
Impact of Additional CalPERS Contributions - \$10 Million Per Year for 10 Years Applied to Selected Amortization Bases Combined Miscellaneous and Safety (\$ Millions)





Option #1: Directly to CalPERS Funded Status

**CalPERS Funded Percentage - Additional Payments Towards
Selected Amortization Bases at \$10 Million Per Year
Combined Miscellaneous and Safety**





Option #1: Directly to CalPERS

Estimated Savings

(\$Millions)

Additional Annual Payment for 10 Years	Amortization Bases Paid	Savings (current dollars)	Present Value of Savings 3% Discount Rate
\$10 Million	Longest	\$ 114.7	\$ 43.1
\$10 Million	Shortest	\$ 20.1	\$ 9.1

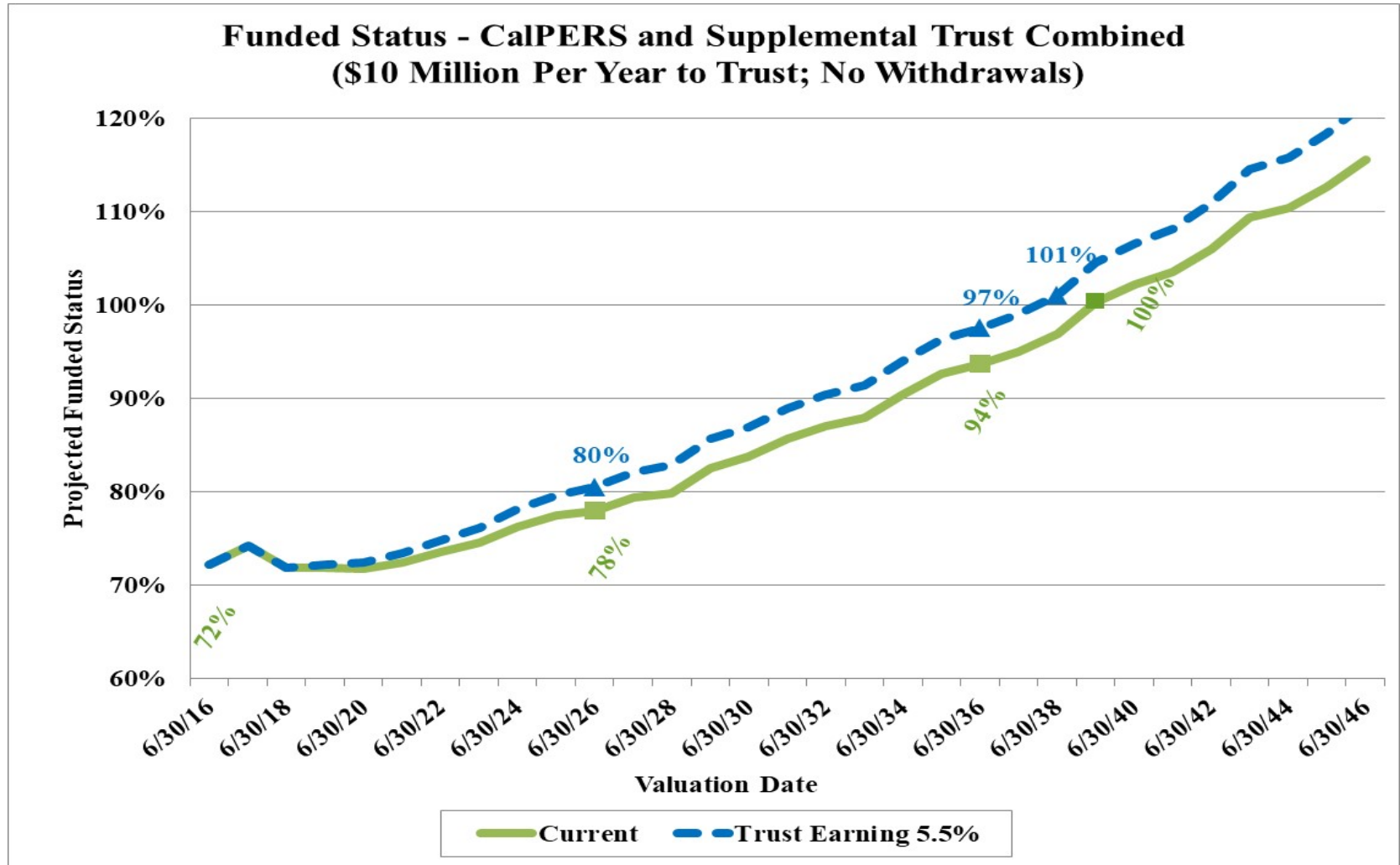


Option #2: Deposit into Pension Trust Assumptions and Methodology

- Additional contributions to supplemental pension trust at the end of fiscal years:
 - \$10 million for 10 years beginning 6/30/19,
 - Funds accumulate in trust until used to pay CalPERS contributions,
 - Funds can continue to accumulate, improving combined funded status; or
 - Funds can be withdrawn to reduce expected peak contributions.
 - Alternate contribution patterns possible depending on budget needs.
- Expected trust earnings at 5.5% (trust assumed to always earn the expected rate).
- Discount rate to calculate present value of savings at 3%.

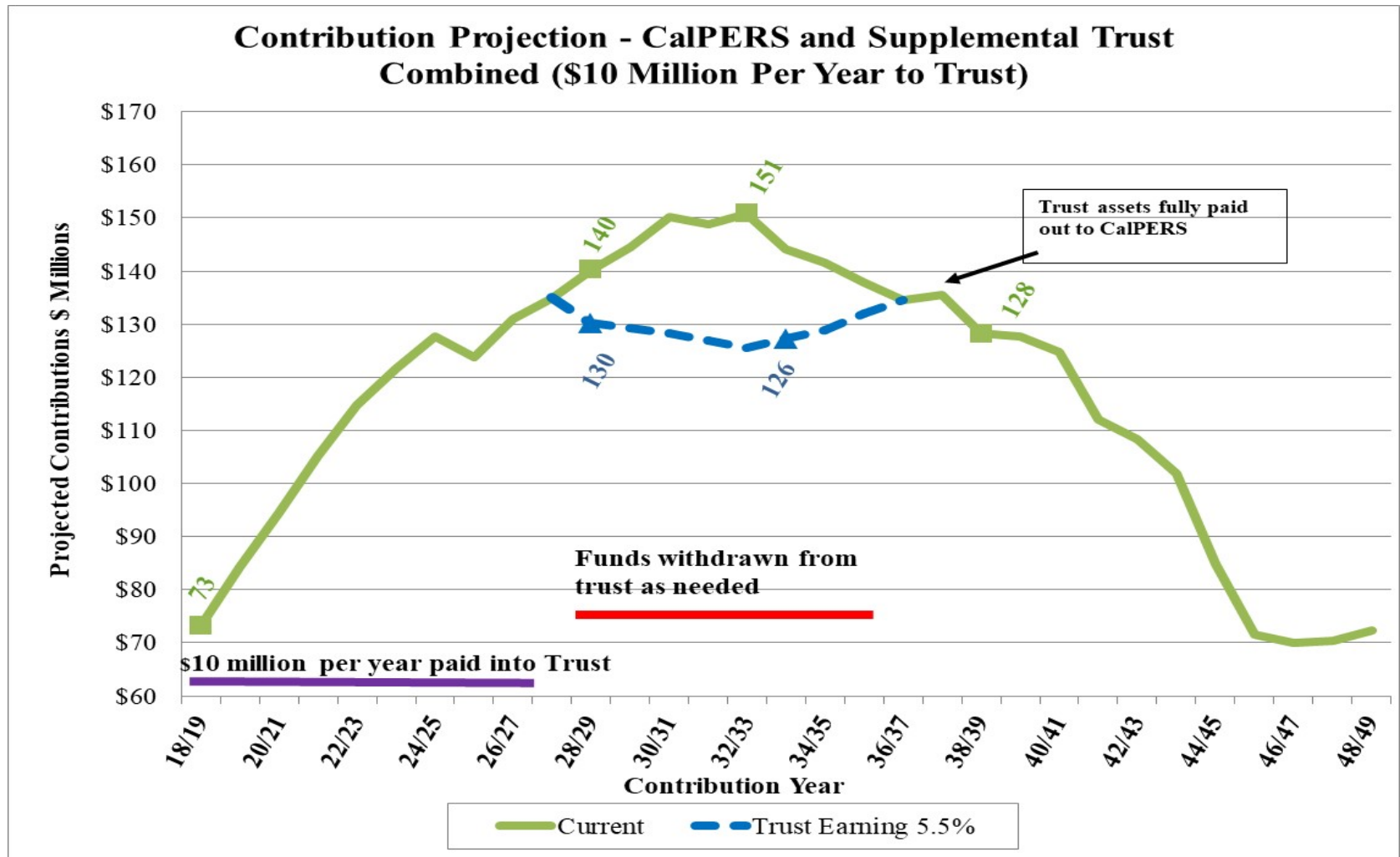


Option #2: Deposit into Pension Trust Funded Status – No Withdrawals



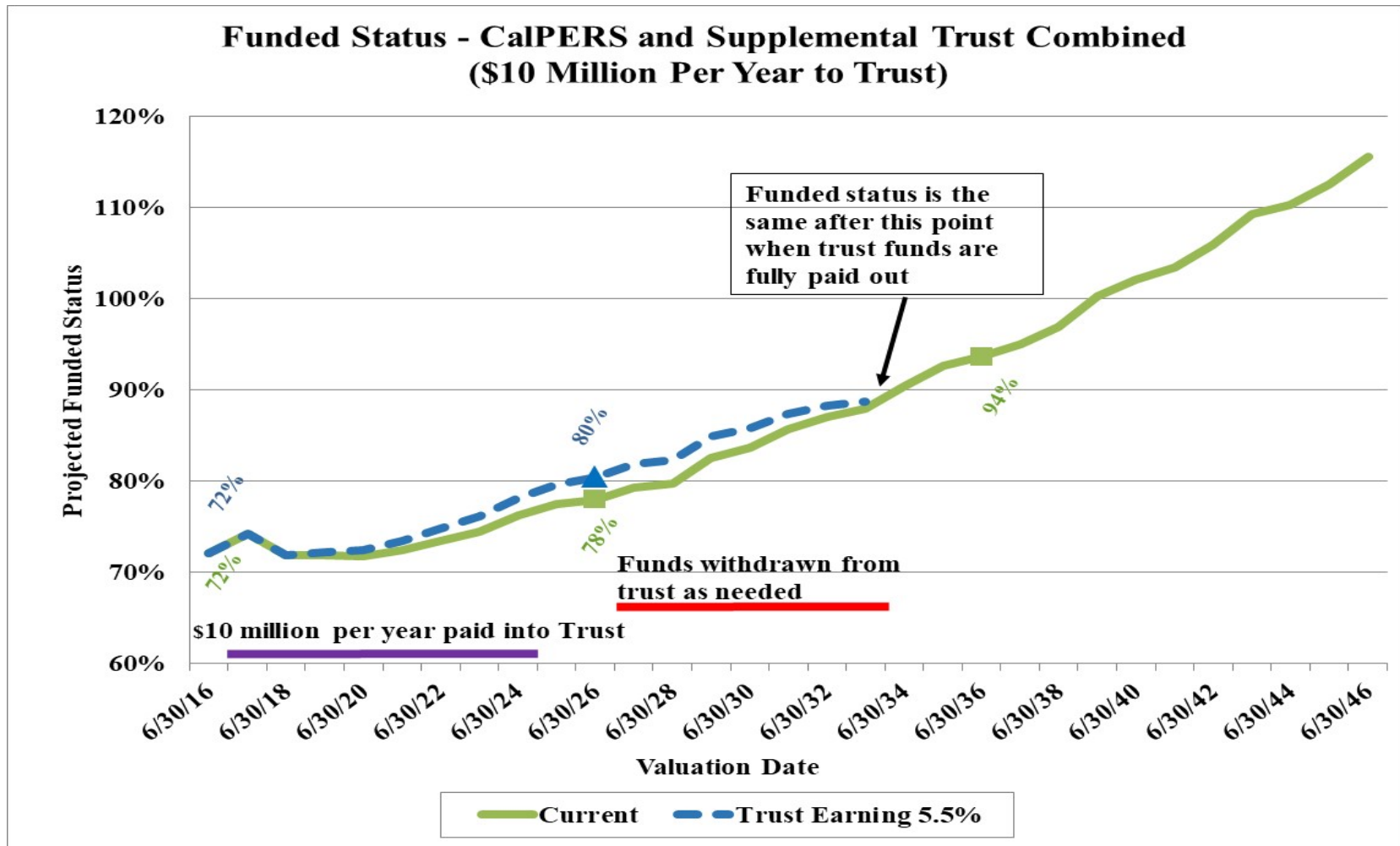


Option #2: Deposit into Pension Trust Contributions and Withdrawals During Peak Period





Option #2: Deposit into Pension Trust Funded Status- Contributions and Withdrawals During Peak Period





Option #2: Deposit into Pension Estimated Fund Balance

No Withdrawals

(\$Millions)

Additional Annual Payment for 10 Years	Trust Earnings	Date	Projected Total Fund Balance, Including \$100 Million Investment
\$10 Million	5.5%	6/30/29	\$160
		6/30/39	\$272
		6/30/49	\$465

Trust balance is approximately 5% of BART's CalPERS assets in 2040



Option #2: Deposit into Pension Estimated Savings

Withdrawals beginning in FY 2029/30 as illustrated in slide 10:

(\$Millions)

Additional Annual Payment for 10 Years	Trust Earnings	Savings (current dollars)	Present Value of Savings 3% Discount Rate
\$10 Million	5.5%	\$ 32	\$ 14



Option #2: Deposit into Pension Trust Administrative Expenses

- Estimates were provided by Alan Biller, the District's current RHBT administrator:
 - Annual Administrative Cost: \$20,000
 - Annual % of Fund Assets: 0.25%
- Estimates for creating the pension trust plan document:
 - One-time Cost: Up to \$50,000



Required Contributions During Peak Period

- Pension and OPEB obligations are at their highest during FY 2028-2034

Annual Payments (\$Millions)

Required	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Pension	\$ 135	\$ 140	\$ 144	\$ 150	\$ 149	\$ 151	\$ 144
OPEB	\$ 66	\$ 67	\$ 69	\$ 71	\$ 73	\$ 75	\$ 77
Total	\$ 201	\$ 207	\$ 213	\$ 221	\$ 222	\$ 226	\$ 221



Required Contributions Funding Concerns

Known:

- Combined required pension and OPEB retiree medical payments for FY 2019 is \$113M.
 - By FY 2028 this will increase by 78%: \$201M
 - By FY 2034 this will increase by 96%: \$221M

Additional Risks:

- If CalPERS investments do not meet the discount rate or there are other significant changes, the required contribution rates will be even higher.
- Repeal of SB1 on the ballot for November 2018 - approximately \$20M annual revenue reduction if repealed.



Staff Recommendations

- **Pension Funding Recommendation:**
 - Option #2: Establish Irrevocable Supplemental Pension (§115) Trust.
- **Proposed Funding Options:**
 - 1 Commitment to funding \$10M between FY18 and FY19, contingent upon:
 - FY 2018 year end results
 - SB1 repeal
 - 2 Annual Funding (\$10M) to be programmed into Operating Budget in future fiscal years.