EXECUTIVE DECISION DOCUMENT

GENERAL MANAGER APPROVAL: 15 May 2019		GENERAL MANAGER ACTION REQ'D:		
DATE: 5/10/2019		BOARD INITIATED ITEM: No		
Originator/Prepared by: Diane Iwata Dept: Human Resources Administration Signature/Date: 5/14/2019	General Counsel 5/15/19 [ ]	Controller/Treasurer 5/15/19 [ ]	District Secretary [ ]	BARC 5/14/19 [ ]

Actuarial Report on Changes to Pension and OPEB under Consideration by the District

PURPOSE:

To provide a report on the actuarial impacts on potential changes to retirement benefits and Other Post-Employment Benefits (OPEB) for BART Police Managers' Association (BPMA) sworn and non-sworn employees. Since Non-Represented sworn employees are subject to the same pension changes as BPMA sworn members, this report will also include this group.

California Government Code 7507 requires a local legislative body, before authorizing changes in retirement benefits or OPEB, to "secure the services of an actuary to provide a statement of the actuarial impact upon future annual costs, including normal cost and any additional accrued liability," and also requires that the future cost of changes in retirement benefits or other postemployment benefits, as determined by the actuary, "be made public at a public meeting at least two weeks prior to the adoption of any changes."

If the future costs of the changes exceed a certain amount, Section 7507 also requires that an actuary be present at the public meeting at which the adoption of the benefit change is considered. Since each of the potential changes described below will result in cost savings, an actuary is not required to attend the public meeting.

This is an informational item. No Board action is required.

DISCUSSION:

The District is proposing to make three changes to retirement benefits and OPEB for BPMA, which include the following:

1. Change Pension Cost Sharing

For Sworn Classic employees, the employee's cost share of the Employer's pension contribution will increase from the current level of 4% to 7% in Year 1 of the new collective bargaining agreement (CBA) term, then increase an additional one percent a year to 8% in Year 2, 9% in Year 3, and finally 10% in Year 4.

For Sworn Public Employees' Pension Reform Act (PEPRA) employees, the employee's cost share of the Employer's pension contribution will decrease from the current level of 4% to 3% in Year 1 of the new CBA term, then decrease an additional one percent a year to 2% in Year 2, 1% in Year 3, and finally 0% in Year 4. PEPRA employees will continue to contribute half of the normal cost of their pension benefits, as required by law.

For Non-sworn Classic employee's, the employee's cost share of the Employer's pension contribution will increase from the current level of 4% to 5% in Year 1 of the new collective bargaining agreement (CBA) term, then increase an additional one percent a year to 6% in Year 2, 7% in Year 3, and finally 8% in Year 4.

For Non-sworn PEPRA employees, the employee's cost share of the Employer's pension contribution will decrease from the current level of 4% to 0% in Year 1. PEPRA employees will continue to contribute half of the normal cost of their pension benefits, as required by law. Currently, there are no employees in this category.

2. Change to Medical Contribution for Retirees

As required by the California Public Employees' Retirement System (CalPERS), active employees and eligible retirees pay the same medical contribution amount. The current employee/retiree medical contribution is listed in the CBA and automatically increases by 3% each year. Employees and retirees are also currently paying an additional monthly contribution of $44. For 2018, the total monthly contribution is $150.93, which includes the $44. The proposed change is to maintain the additional $44 contribution, and make the full contribution (i.e., the monthly contribution *and* the additional contribution) subject to the annual 3% escalator. Making this change will increase the employee/retiree annual contribution through compounding.

The current medical cap would remain the same for 2018 and 2019. Effective January 1, 2020, the cap will be Region 1 Basic Premiums Rates for the PERS HMO Blue Shield Access + or PERS HMO Kaiser Plan, whichever is higher, less the retiree contribution. This change coincides with the changes to the CalPERS Health Regions beginning on January 1, 2020.

3. Eliminate Retiree Life Insurance for Future Retirees

Currently, retirees receive life insurance coverage of 50% of their final base salary for their first year of retirement. The coverage level reduces each year by 10%, so by their fourth year of retirement, and for all subsequent years, they receive life insurance coverage of 20% of their final base salary. This benefit is 100% paid by the District. The proposed change would eliminate retiree life insurance for future BPMA retirees.

COST SAVINGS AND ACTUARIAL IMPACT:

1. The change to the pension cost share by Sworn employees is estimated to save the District $536,526 in the first year of the CBA, and a total of $2,191,295 over the 4-year term of the CBA.

2. The change to the pension cost share by Non-sworn employees is estimated to save the District $23,029 in the first year of the CBA, and a total of $111,828 over the 4-year term of the CBA.

3. The change to the medical cost for retirees is estimated to save the District $16,560 in the first year of the CBA, and a total of $55,818 over the 4-year term of the CBA.

4. The elimination of future retiree life insurance is estimated to the save the District $5,825 in the first year of the CBA, and a total of $25,798 over the 4-year term of the CBA. This figure is based on premium reductions.

These proposed changes were reviewed by the District's actuarial firm, Bartel Associates, LLC. Bartel Associates has concluded that there is no negative impact to normal cost and actuarial liability for any of the proposed changes. For retiree life and retiree medical, there are also no negative impact to future annual cost. For pension, there is no negative impact to future annual cost within the contract term, however, there is an impact of 0.25%, which equals about $354,000 over 30 years.

BARTEL ASSOCIATES, LLC

May 14, 2019

Diane M. Iwata, SPHR, SHRM-SCP
Human Resources Division Manager
San Francisco Bay Area Rapid Transit District
300 Lakeside Drive, 20th Floor
Oakland, CA 94612

Re: CalPERS Pension Plan
Police Managers' Association and Nonrepresented Safety Employees

Dear Ms. Iwata:

Section 7507 of the California Government Code requires agencies obtain a statement of actuarial opinion regarding the cost impact of retirement plan benefit changes. The San Francisco Bay Area Rapid Transit District (BART) has requested that Bartel Associates, LLC provide an actuarial opinion regarding the actuarial impact of changes related to the CalPERS pension benefits for the BART Police Managers' Association (BPMA) and for 3 nonrepresented Safety employees.

Summary of Proposed Benefit Changes

The District currently provides retirement benefits to eligible BPMA and nonrepresented Safety employees under CalPERS, with the District paying the CalPERS-required member contributions on behalf of Classic BPOA members. All BPMA members contribute 4% of their pensionable pay towards the District's required CalPERS contribution ("cost sharing").

Under the proposed change for BPMA and nonrepresented Safety employees:

- Sworn (Safety) Classic employees would increase their cost sharing from 4% to 7% of pensionable pay effective for the first full pay period following the ratification of the agreement. Cost sharing would increase to 8% of pensionable pay on the following July 1st, 9% the following year, and to 10% of pensionable pay in year 4.
- Sworn (Safety) PEPRA employees would reduce their cost sharing from 4% to 3% of pensionable pay effective for the first full pay period following the ratification of the agreement. Cost sharing would decrease to 2% of pensionable pay on the following July 1st, 1% the following year, and to 0% of pensionable pay in year 4.
- Nonsworn (Miscellaneous) Classic employees would increase their cost sharing from 4% to 5% of pensionable pay effective for the first full pay period following the ratification of the agreement. Cost sharing would increase to 6% of pensionable pay on the following July 1st, 7% the following year, and to 8% of pensionable pay in year 4.
- Nonsworn (Miscellaneous) PEPRA employees would reduce their cost sharing from 4% to 0% of pensionable pay effective for the first full pay period following the ratification of the agreement. There are currently no Nonsworn PEPRA BPOA employees.

Cost of Change

We estimated the cost impact of this change using the following assumptions:

- Census data was provided by the District as of March 31, 2019. Census data included pensionable and total pay.

- Pay increases were assumed to follow CalPERS 2017 actuarial valuation assumptions, including 2.75% total annual payroll growth
- Current employees were assumed to terminate and retire in accordance with CalPERS 2017 valuation assumptions. New employees were added to provide 2.75% total payroll growth. The percentage of new hires assumed to be PEPRA increased from 70% in 19/20 to 100% after 3 years. Future hires were assumed to have the same demographics as current employees.
- Present values were calculated using a 7% discount rate.
- We assumed the change would be effective May 1, 2019.

Because these proposed changes have no impact on CalPERS pension benefits, there is no change in the Normal Cost and Actuarial Accrued Liability. However, the District's contributions to CalPERS, net of employee cost sharing, will change. Therefore, the impact of the proposed changes has been measured based on expected changes in future District contributions to CalPERS.

The estimated cost of the change in current dollars (not a present value) over 3-2/12 years, the expected agreement term, is as follows.

Increase/(Decrease) in District Costs For 3-2/12 Years (Amounts in $000's)			
	Classic	**PEPRA**	**Total**
■ Total increase/(decrease) in BART costs due to change in employee-paid cost sharing over 3-2/12 years (current dollars; not a present value)	($887)	$56	($831)
■ Total increase/(decrease) in BART costs over 3-2/12 years due to change in employee-paid cost sharing as a percentage of total (not pensionable) pay	(2.82%)	2.27%	(2.45%)

Over the anticipated term of the agreement there will be more Classic than PEPRA employees and so this change results in a net savings to the District during the 3-2/12 anticipated years of the agreement. However, over time the number of Classic employees will decline and the number of PEPRA employees will grow. To measure the impact of the change in employee cost sharing, if it were to be continued, we estimated the change over 30 years. The cost impact is shown below, as the present value of the difference for each year.

Increase/(Decrease) in Present Value of District Costs Over 30 Years (Amounts in $000's)			
	Classic	**PEPRA**	**Total**
■ Present value of the total increase/(decrease) in BART costs due to change in employee-paid cost sharing over 30 years	($2,156)	$2,510	$354
■ Present value of the total increase/(decrease) in BART costs due to change in employee-paid cost sharing as a percentage of total (not pensionable) pay	(3.52%)	3.09%	0.25%

Conclusion

Our calculations show the District's future annual costs would decrease over the next 3-2/12 years due to the change in employee cost sharing for BART Police Managers' Association. When evaluated as a present value over the next 30 years, the net impact of the proposed change is an increase in the present value of the District's future annual costs. Bartel Associates is not a law firm and we are not qualified to render a legal opinion.

Information provided in this report is for the District's management purposes. Future results may differ significantly if the Plan or District's experience differs from our assumptions or if there are changes in plan design or actuarial assumptions. The project scope did not include an analysis of this potential variation. Our calculations are based on benefit provisions, participant data, and actuarial assumptions, and other information provided by the District and CalPERS as summarized in this report. This study was conducted using generally accepted actuarial principles and practices. I am a member of the American Academy of Actuaries and meet the Academy Qualification Standards to issue the actuarial opinion in this report.

Please contact Mary Beth Redding (mbredding@bartel-associates.com) or Bianca Lin (blin@bartel-associates.com) with any questions about this information.

Sincerely,

Mary Elizabeth Redding

Mary Elizabeth Redding, FSA, MAAA, EA, FCA
Vice President

c: Doug Pryor, Bianca Lin, Bartel Associates, LLC

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BARTEL ASSOCIATES, LLC

May 10, 2019

Diane M. Iwata, SPHR, SHRM-SCP
Human Resources Division Manager
San Francisco Bay Area Rapid Transit District
300 Lakeside Drive, 20th Floor
Oakland, CA 94612

Re: Retiree Healthcare Plan
Police Managers' Association

Dear Ms. Iwata:

Section 7507 of the California Government Code requires agencies obtain a statement of actuarial opinion regarding the cost impact of retiree healthcare plan benefit changes. The San Francisco Bay Area Rapid Transit District (BART) has requested that Bartel Associates, LLC provide an actuarial opinion regarding the impact of proposed changes related to retiree healthcare benefits for the BART Police Managers' Association (BPMA).

Summary of Proposed Benefit Changes

The District currently provides healthcare benefits to eligible BPMA employees who retire directly from the District under CalPERS, with the District paying monthly medical premiums up to the greater of the Bay Area Blue Shield Access+ or Bay Area Kaiser basic premiums. A percentage schedule applies for BPMA employees hired after January 1, 2015. The District participates in the CalPERS medical program (PEMHCA).

In addition to paying premiums above the cap, retirees also pay monthly contributions. The basic contribution for BPMA retirees is $106.93 per month in 2018 with 3% annual future increases. The basic contribution ceases in 2035. There is also an additional contribution of $44 per month, which was schedule to cease in 2018 under the current BPMA MOU.

Under the proposed benefit change, the $44 monthly additional contribution for BPMA retires would continue through 2035, with 3% annual future increases starting 2019.

Cost of Change

Our estimated cost impact is based on our June 30, 2018 actuarial valuation methods, assumptions, and data, including:

- 6.5% discount rate
- Terminations, disabilities and retirements in accordance with CalPERS 2017 valuation assumption assumptions (1997-2015 CalPERS Experience Study)
- 43 BPMA actives and 60 BPMA retirees receiving benefits.

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Following is the change in the District's June 30, 2018 actuarial obligations and 2019/20 Actuarially Determined Contribution due to the proposed benefit change.

Retiree Healthcare Plan (Amounts in $000's)			
	Current Plan Before any Changes	**After BPMA Proposed Change**	**Increase/ (Decrease)**
■ June 30, 2018 Present Value of Projected Benefits	$ 792,369	$ 791,990	$ (379)
■ June 30, 2018 Funded Status			
• Actuarial Accrued Liability (AAL)	587,896	587,550	(346)
• Market Value of Plan Assets	305,850	305,850	-
• Unfunded AAL	282,046	281,700	(346)
■ 2019/20 ADC - $			
• Normal Cost	25,047	25,041	(6)
• Amortization of Unfunded AAL	16,785	16,753	(32)
• Total (future annual cost)	41,832	41,794	(38)

The Present Value of Projected Benefits represents the amount needed as of the valuation date to pay all future benefits for current members if all assumptions are met. The Actuarial Accrued Liability represents the portion of the Present Value of Projected Benefits that participants have earned (on an actuarial, not actual, basis) through the valuation date. The District's Actuarially Determined Contribution (ADC) is equal to the employer Normal Cost (the value of benefits earned during the year), plus an amortization payment on the unfunded liability (Actuarial Accrued Liability less Plan assets). Consistent with the 2018 valuation changes, the decrease in the unfunded liability due to the BPMA benefit change has been amortized over 15-years.

Conclusion

The District's actuarial cost would decrease due to the proposed benefit change for BART Police Managers' Association. Bartel Associates is not a law firm and we are not qualified to render a legal opinion.

Information provided in this report is for the District's management purposes. Future results may differ significantly if the Plan or District's experience differs from our assumptions or if there are changes in plan design or actuarial assumptions. The project scope did not include an analysis of this potential variation. Our calculations are based on benefit provisions, participant data, and actuarial assumptions, and other information provided by the District as summarized in this letter and our June 30, 2018 actuarial valuation report. This study was conducted using generally accepted actuarial principles and practices. I am a member of the American Academy of Actuaries and meet the Academy Qualification Standards to issue the actuarial opinion in this report.

Please contact Doug Pryor (dpryor@bartel-associates.com) or Mary Beth Redding (mbredding@bartel-associates.com) with any questions about this information.

Sincerely,

Doug Pryor

Doug Pryor, ASA, MAAA, EA
Vice President

c: Mary Elizabeth Redding , Bartel Associates, LLC

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BARTEL
ASSOCIATES, LLC

May 14, 2019

Diane M. Iwata, SPHR, SHRM-SCP
Human Resources Division Manager
San Francisco Bay Area Rapid Transit District
300 Lakeside Drive, 20th Floor
Oakland, CA 94612

Re: Retiree Life Insurance Plan
Police Managers' Association Benefits

Dear Ms. Iwata:

Section 7507 of the California Government Code requires agencies obtain a statement of actuarial opinion regarding the cost impact of retiree healthcare plan benefit changes. The San Francisco Bay Area Rapid Transit District (BART) has requested that Bartel Associates, LLC provide an actuarial opinion regarding the impact of proposed changes related to retiree life insurance benefits for the BART Police Managers' Association (BPMA).

Summary of Proposed Benefit Changes

The District currently provides retiree life insurance benefits to eligible BPMA employees who retire directly from the District under CalPERS. Coverage is equal to 50% of final base salary at retirement, reduced by 10% annually until reaching 20% for year 4 and all future years.

Under the proposed benefit change, future BPMA retirees who retire on or after July 1, 2019 would not have life insurance benefits provided by the District, nor would they be eligible to purchase life insurance through the District plan. Current retirees and retirees who retire before July 1, 2019 would continue to have their life insurance coverage paid by the District.

Cost of Change

Our estimated cost impact is based on our June 30, 2018 actuarial valuation methods, assumptions, and data, including:

- 3.75% discount rate
- Terminations, disabilities and retirements in accordance with CalPERS 2017 valuation assumption assumptions (1997-2015 CalPERS Experience Study)
- 43 BPMA actives with $6.210 million in 2019/20 payroll. Additionally, there are 44 BPMA retirees with life insurance coverage who will not be impacted by the change.
- The value of life insurance is based on the death benefits expected to be paid to retirees. This is a better measure than if retiree life insurance premiums were valued, since the active life insurance premiums paid by the District subsidize retiree life insurance.

Following is the change in the District's June 30, 2018 actuarial obligations and 2019/20 Actuarially Determined Contribution due to the proposed benefit change.

Retiree Life Insurance Plan (Amounts in $000's)			
	Current Plan Before any Changes	**After BPMA Proposed Change**	**Increase/ (Decrease)**
■ June 30, 2018 Present Value of Projected Benefits	$ 46,341	$ 45,931	$ (410)
■ June 30, 2018 Funded Status			
• Actuarial Accrued Liability (AAL)	34,628	34,358	(270)
• Market Value of Plan Assets	-	-	-
• Unfunded AAL	34,628	34,358	(270)
■ 2019/20 ADC - $			
• Normal Cost	1,267	1,251	(16)
• Amortization of Unfunded AAL	2,592	2,571	(21)
• Total (future annual cost)	3,859	3,822	(37)

The Present Value of Projected Benefits represents the amount needed as of the valuation date to pay all future benefits for current members if all assumptions are met. The Actuarial Accrued Liability represents the portion of the Present Value of Projected Benefits that participants have earned (on an actuarial, not actual, basis) through the valuation date. The District's Actuarially Determined Contribution (ADC) is equal to the employer Normal Cost (the value of benefits earned during the year), plus an amortization payment on the unfunded liability (equal to the Actuarial Accrued Liability since there are no Plan assets). Consistent with the 2018 valuation changes, the decrease in the unfunded liability due to the BPMA benefit change has been amortized over 15-years.

Conclusion

The District's actuarial cost would decrease due to the proposed benefit change for BART Police Managers' Association. Bartel Associates is not a law firm and we are not qualified to render a legal opinion.

Information provided in this report is for the District's management purposes. Future results may differ significantly if the Plan or District's experience differs from our assumptions or if there are changes in plan design or actuarial assumptions. The project scope did not include an analysis of this potential variation. Our calculations are based on benefit provisions, participant data, and actuarial assumptions, and other information provided by the District as summarized in this letter and our June 30, 2018 actuarial valuation report. This study was conducted using generally accepted actuarial principles and practices. I am a member of the American Academy of Actuaries and meet the Academy Qualification Standards to issue the actuarial opinion in this report.

Please contact Doug Pryor (dpryor@bartel-associates.com) or Mary Beth Redding (mbredding@bartel-associates.com) with any questions about this information.

Sincerely,

Doug Pryor

Doug Pryor, ASA, MAAA, EA
Vice President

c: Mary Elizabeth Redding , Bartel Associates, LLC

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