EXECUTIVE DECISION DOCUMENT

GENERAL MANAGER APPROVAL: Robert M. Powers 14 Aug 2019		GENERAL MANAGER ACTION REQ'D:		
DATE: 8/9/2019		BOARD INITIATED ITEM: Yes		
Originator/Prepared by: Diane Iwata Dept: Human Resources Administration Signature/Date: 8/13/19	General Counsel 8/14/19 [ ]	Controller/Treasurer 8/14/19 [ ]	District Secretary [ ]	BARC 8/13/19 [ ]

Actuarial Report on Changes to Pension under Consideration by the District

PURPOSE:

To provide a report on the actuarial impacts on potential changes to retirement benefits for employees of the American Federation of State, County, and Municipal Employees Local 3993 ("AFSCME"), the Amalgamated Transit Union Local 1555 ("ATU"), and the Service Employees International Union Local 1021 ("SEIU"). The General Manager has determined that Non-Represented employees (including the Board-appointees) should be subject to the same pension changes as AFSCME, ATU and SEIU members. Accordingly, this report will also include Non-Represented employees.

California Government Code 7507 requires a local legislative body, before authorizing changes in retirement benefits or other postemployment benefits (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 OPEB, 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 specified amount, Section 7507 also requires that an actuary be present at the public meeting at which the change in benefits is adopted. Since each of the potential changes described below will result in cost savings to the District, an actuary will not be required to attend the public meeting at which the changes are adopted.

This is an informational item. No Board action is required. As required by Section 7507, staff will return to the Board in no less than two weeks to present for a ratification vote the side letters implementing the changed pension contributions.

DISCUSSION:

The District is proposing to make the following changes to pension contributions:

For Classic employees, the employee's pension contribution will be retroactively increased from the current level of 4% to 6% effective on July 1, 2019, and then increase to 7% on January 1, 2020. The employees will then pay a cost share (employer's portion) of the District's pension contribution in the amount of 1% beginning on July 1, 2020, for a total combined pension contribution (employee's and employer's share) of 8% beginning on July 1, 2020.

For Public Employees' Pension Reform Act (PEPRA) employees, employees will continue to contribute half of the normal cost of their pension benefits, as required by law. On July 1, 2020, if the required pension contribution for PEPRA employees is less than 8%, PEPRA employees will pay a cost share of the Employer's pension contribution in an amount equal to the difference between their required employee contribution and 8%, for a total combined pension contribution (employee's and employer's share) of 8% on July 1, 2020.

COST SAVINGS AND ACTUARIAL IMPACT:

1. The change to the pension contribution by represented employees is estimated to save the District $3,691,000 in the first year of the CBA, and a total of $10,863,000 over the remaining term of the CBA.

2. The change to the pension contribution by Non-Represented employees including Board-appointed employees is estimated to save the District $1,038,000 in the first year, and a total of $3,153,000 over the two-year period.

This proposed change was reviewed by the District's actuarial firm, Bartel Associates, LLC. Bartel Associates has concluded that there is no negative impact to normal cost, actuarial accrued liability, and future cost for this proposed change.

BARTEL ASSOCIATES, LLC

August 12, 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
Non-Police Miscellaneous 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 non-police Miscellaneous employees.

Summary of Proposed Benefit Changes

The District currently provides retirement benefits to eligible non-police Miscellaneous employees, with the District paying 3% of pensionable pay towards the CalPERS-required member contributions on behalf of Classic members ("EPMC"). These members do not contribute any of their pensionable pay towards the District's required CalPERS contribution ("cost sharing").

Under the proposed change for non-police Miscellaneous employees:

- Classic employees would increase the portion of the required member contributions they pay from 4% to 6% of pensionable pay effective retroactively to July 1, 2019. The member contribution paid by these members would increase to 7% of pensionable pay effective the first full pay period after January 1, 2020.
- Effective the first full pay period after July 1, 2020, Classic employees would increase their required member contributions to 8% of pensionable pay. The additional 1% of pensionable pay exceeds the CalPERS-required member contribution and would be considered employee payments towards the employer contributions or "employee cost sharing".
- PEPRA employees would increase their required member contributions to 7% of pensionable pay retroactively to July 1, 2019. This is ½ of their normal cost as currently required by CalPERS effective July 1, 2019 and is not a plan change.
- Effective the first full pay period after July 1, 2020, PEPRA employees would increase their required member contributions to 8% of pensionable pay. The additional 1% of pensionable pay would be considered employee payments towards the employer contributions (or "employee cost sharing") until such time as the CalPERS-required member contributions for PEPRA employees equal or exceed 8% of pensionable pay. PEPRA employees will pay the CalPERS required amounts even if they exceed 8% of pensionable pay.

Cost of Change

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

- Census data was provided by the District as of December 31, 2018. 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 CalPERS-required PEPRA normal cost rate would not increase to be above 7% of pensionable pay.

Because the 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 total payments to CalPERS, including employer-paid member contributions and net of employee cost sharing, will change. Therefore, the impact of the proposed changes has been measured based on expected changes in future District total payments to CalPERS.

The estimated cost of the change in current dollars (not a present value) over 5 years is as follows.

Increase/(Decrease) in District Costs For 5 Years (Amounts in $000's)			
	Classic Employees	**PEPRA Employees**	**Total**
■ Total increase/(decrease) in BART costs due to change in employer-paid member contributions (EPMC) or employee cost sharing or over 5 years (current dollars; not a present value)	($35,487)	($6,015)	($41,502)
■ Above increase/(decrease) in BART costs over 5 years as a percentage of total (not pensionable) pay	(1.73%)	(0.29%)	(2.02%)

Over time the number of Classic employees will decline and the number of PEPRA employees will grow. To measure the long-term impact, we estimated the cost of these changes over 30 years. The cost impact is shown below, as the present value of the cost or savings for each year.

Increase/(Decrease) in Present Value of District Costs Over 30 Years (Amounts in $000's)			
	Classic Employees	PEPRA Employees	Total
■ Total increase/(decrease) in BART costs due to change in employer-paid member contributions (EPMC) or Employee Cost Sharing or over 30 years (current dollars; not a present value)	($58,724)	($37,724)	($96,448)
■ Above increase/(decrease) in BART costs over 30 years as a percentage of total (not pensionable) pay	(0.88%)	(0.57%)	(1.45%)

Conclusion

Our calculations show the District's future annual costs would decrease over the next 5 years due to the change in Employer-Paid Member Contributions for non-police Miscellaneous Classic employees and the change in employee cost sharing for Classic and PEPRA non-police Miscellaneous employees. When evaluated as a present value over the next 30 years, the net impact of the proposed change is a decrease in the present value of the District's future annual costs.

Note that we have not evaluated any other portion of the proposed agreement not outlined above. 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
O:\Clients\BART\Projects\CalPERS\EPMC Bargaining Study\BA BART 2019-08-12 Letter - Impact of CalPERS EPMC Change for All Misc.docx