LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

MEMORANDUM

DATE:	**NOVEMBER 13, 2018**
TO:	**BOARD OF DIRECTORS** **Lake Arrowhead Community Services District**
FROM:	**JESSICA BROWN, Finance Manager**
	CATHERINE CERRI, General Manager
SUBJECT:	**CALPERS UPDATE**

A. RECOMMENDATION

This is an information item only.

B. REASON FOR RECOMMENDATION

This is an information item only.

C. BACKGROUND INFORMATION

The California Public Employee Retirement System (CalPERS) is the nation's largest public pension fund with investments of $351 billion at the end of 2017-18, in both domestic and international markets and one of the largest private equity investors in the world. With 1.9 million members, the District has been a member of CalPERS since 2003, participating in the Miscellaneous Risk Pool for its defined retirement program.

<u>District Plans</u>

The District has three active plans as follows:

- Tier 1 Plan (2.5% @ 55) – closed plan and includes employees who were employed with the District prior to October 2011.
- Tier 2 Plan (2% @ 55) – plan open only to new employees who are current CalPERS members or members of reciprocal agencies prior to January 2013.
- PEPRA Plan (2% @ 62) – all new employees who are not members of CalPERS before January 2013.

	Participant Data (as of June 30, 2017)			
Plan	Active	Transferred	Separated	Retired
Misc Tier 1	29	12	19	29
Misc Tier 2	4	0	0	0
PEPRA	21	1	3	0
Total	54	13	22	29

Cost Components

There are two major cost components to the District's plans which include employer normal cost contributions and unfunded actuarial liability (UAL) contributions. Employer normal cost contributions are based upon a percentage of payroll. UAL is the difference between the projected or anticipated return of investment and the actual return on investments.

Plan Changes

The plan is structured and funded based upon various assumptions including interest rates, inflation, discount rates (assumed rate of return on investments), life expectancy, retirement age and payroll cost changes. Since the District's last actuarial report received August 2017 for the fiscal year ended June 30, 2016, numerous changes have been implemented.

Fiscal year 2018-19 is the first year of a three-year phase in of the lowered discount rate. This is discussed in more detail below. Additionally, in December 2017 CalPERS completed its Experience Study and Review of Actuarial Assumptions and adopted assumption changes, implemented a shorter amortization period for future unfunded liabilities, and adopted a new asset allocation plan for investments.

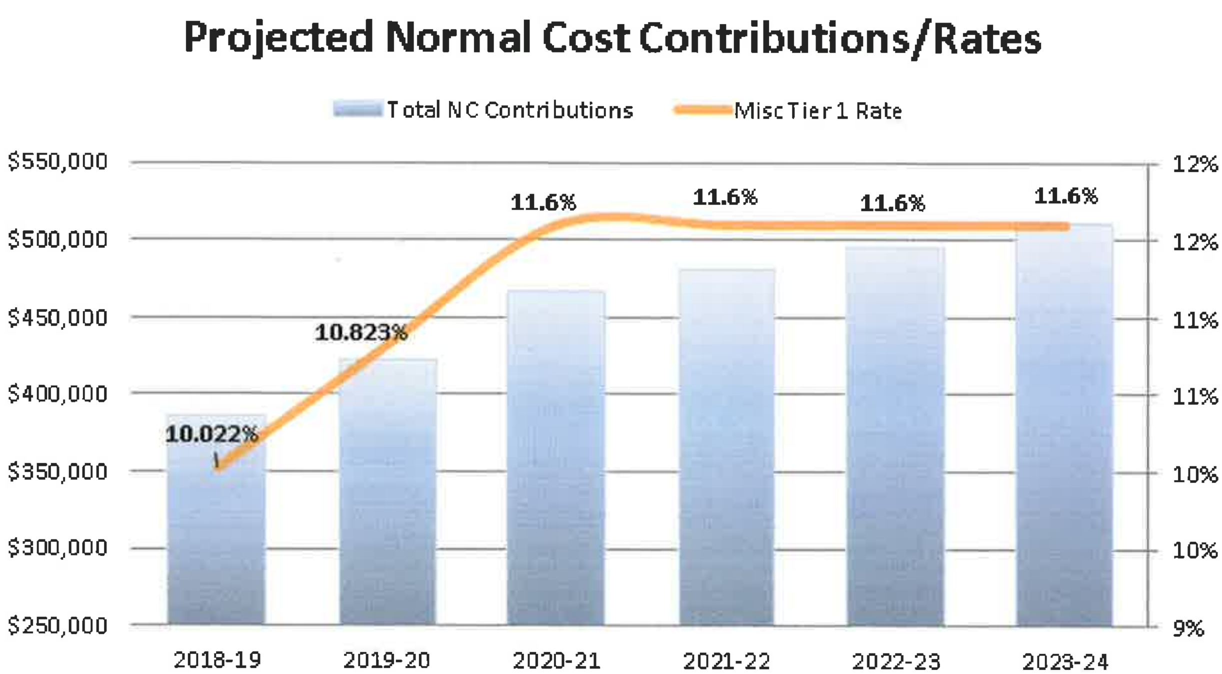
Projected Costs

The District's total pension liability for the 2018 Annual Valuation Report as of June 30, 2017, is $30.3 million and its market value of assets is $22.3 million. The District's total unfunded accrued liability is $8.0 million resulting in the District's plan being 73.5% funded (this is an increase of 1.5% from the last valuation date. As stated above, the District makes two pension contributions to CalPERS annually including the employer normal cost contributions and UAL. The District's employer normal cost contributions are calculated as a percentage of payroll. Due to the discount rate being lowered, associated investment revenue to fund the plan also decreased. As a result, employer contributions were directly impacted and resulted in an annual increase to provide funding for the lowered investment revenue with its implementation beginning in fiscal year 2018-19.

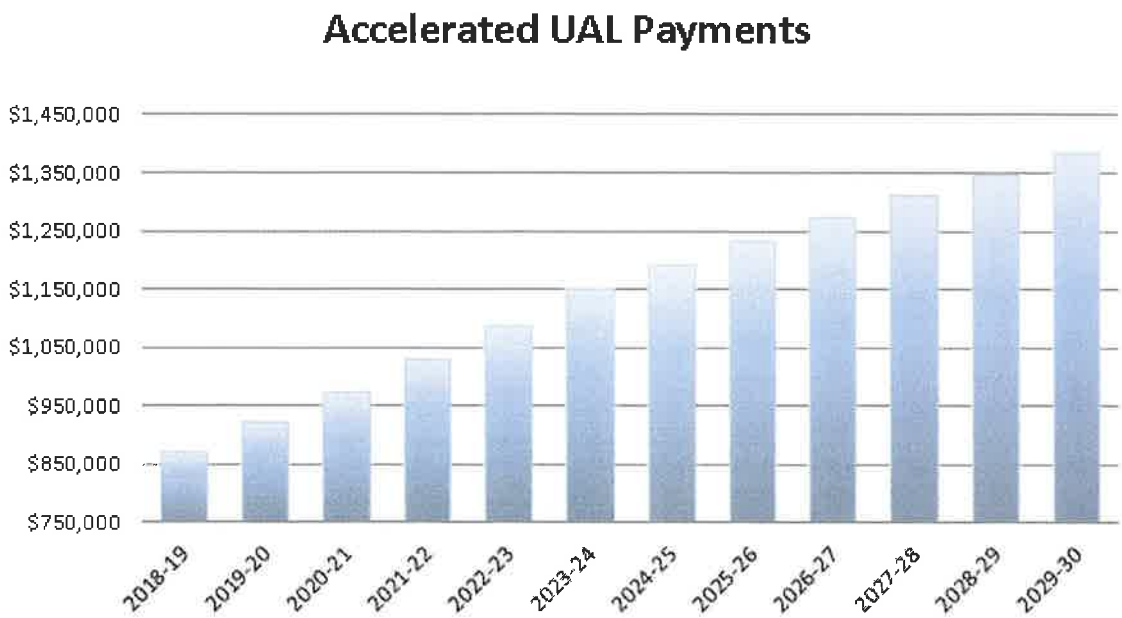
Anticipated employer normal cost rates are listed below as well as the projected employer normal cost contributions. The employer normal cost rates are projected to stabilize with payroll increases being the main factor for increases in the annual employer normal cost contributions.

	Projected Employer Normal Cost Rate		
Fiscal Year	**Misc Tier 1**	**Misc Tier 2**	**PEPRA**
2018-19 (Current)	10.022%	8.892%	6.842%
2019-20	10.823%	9.680%	6.985%
2020-21	11.6%	10.3%	7.50%
2021-22	11.6%	10.3%	7.50%
2022-23	11.6%	10.3%	7.50%
2023-24	11.6%	10.3%	7.50%

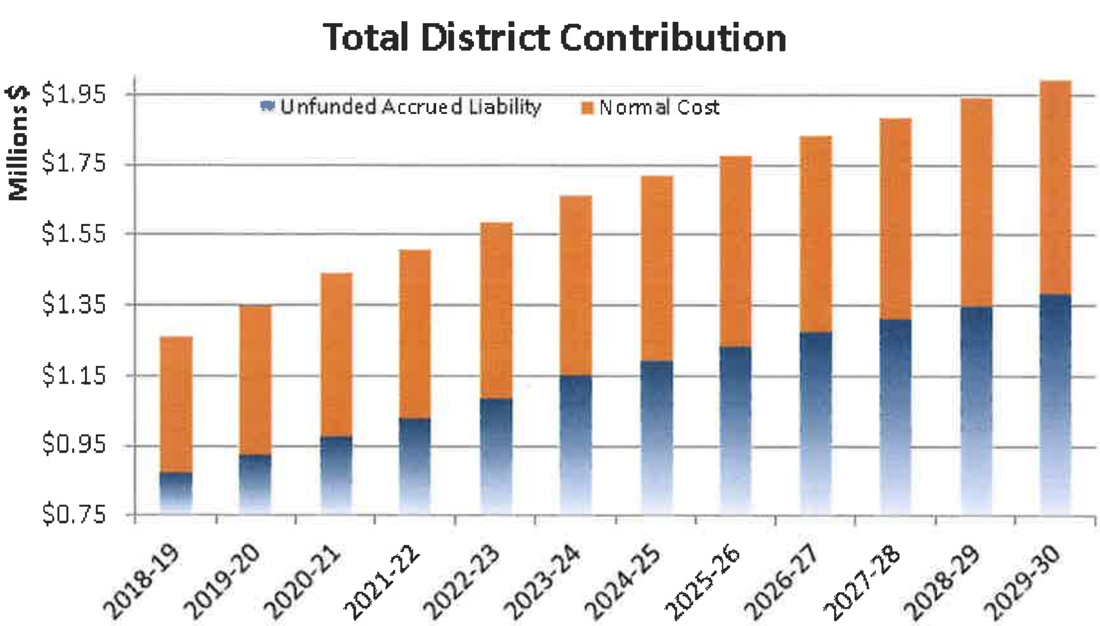
The District's normal cost contributions are expected to level out beginning in 2020-21 following the implementation of changes in actuarial assumptions and discount rates.



Last year, the District's projected UAL for June 30, 2018, was $8.6 million. Due to favorable investment returns, at June 30, 2018, the District's UAL was reported at $8.3 million. Beginning in 2018-19, the District began making additional annual lump sum payments of $300,000 to accelerate the repayment of the liability and realize interest savings of nearly $5.0 million.



The District's total annual pension contribution is anticipated to grow from $1.3 million in 2018-19 to $2.0 million in 2029-30. This includes the additional annual lump sum payments of $300,000. However, in 2029-30, the existing UAL base of $8.3 million will be repaid.



CalPERS Discount Rate and Fund Performance

In December 2016, the CalPERS Board of Administration lowered the discount rate from 7.5% to 7.0% mainly due to changing market conditions, more uncertainty in the financial forecast, and in an attempt to close the cash flow funding gap. The implementation of the discount rate change was rolled out using a three-year phase-in beginning in 2018-19.

Fiscal Year	***Discount Rate***
2018-19	7.375%
2019-20	7.250%
2020-21	7.000%

Preliminary results reported that CalPERS net return on investments was 8.6% for fiscal year 2017-18, 1.1% above the projected discount rate of 7.5%. Based on these returns, the overall CalPERS fund is estimated to have a 71% funded status which is up 3% from last year.

D. FISCAL IMPACT

This is an information item only.

E. ATTACHMENTS

None.