

**LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT**

***MEMORANDUM***

**DATE:** SEPTEMBER 24, 2019

**TO:** BOARD OF DIRECTORS  
Lake Arrowhead Community Services District

**FROM:**   
\_\_\_\_\_  
JOHN O'BRIEN, Finance Manager

  
\_\_\_\_\_  
CATHERINE CERRI, General Manager

**SUBJECT:** CALPERS PENSION PLAN UPDATE

**A. RECOMMENDATION**

This is an information item only.

**B. REASON FOR RECOMMENDATION**

This is an information item only.

**C. BACKGROUND INFORMATION**

The District is a member of the California Public Employee Retirement System (CalPERS) which is the nation's largest public pension fund with investments of \$365.75 billion in both domestic and international markets and is one of the largest private equity investors in the world.

The District's total pension liability is actuarially determined based upon participant history and various assumptions including retirement age, life expectancy, and inflation. These assumptions are periodically reviewed by CalPERS and adjusted based upon experience.

Funding for the pension liability consists of investment income, employee and employer contributions. Employer contributions have two major cost components, which are the Employer Normal Cost contributions and the Unfunded Actuarial Liability (UAL) contributions. Employer Normal Cost contributions are based upon a percentage of payroll. The UAL is based on the difference between the projected or anticipated return of investment and the actual return on investments.

The District's total pension liability is \$33.1 million, which is 71.9% funded, resulting in an estimated \$9.2 million Unfunded Accrued Liability (as presented in the most recent CalPERS valuation dated June 30, 2018).

<b>District Plan Funded Status and UAL (June 30, 2018)</b>				
	<b>Tier 1</b>	<b>Tier 2</b>	<b>PEPRA</b>	<b>District Total</b>
Accrued Total Liability	32,230,832	152,082	748,354	33,131,268
Market Value of Assets	23,061,565	146,618	678,838	23,887,021
Unfunded Accrued Liability (UAL)	9,169,267	5,464	69,516	9,244,247
Funded Ratio	71.6%	96.4%	90.7%	71.9%

#### UAL Funding Options

- 1) *Current Schedule:* The Board approved an additional \$300,000 payment towards the District's UAL in August 2018, with the idea that 4 more equal payments would be made in the subsequent 4 years. This would provide the District with an approximate \$3,000,000 savings in interest expense over the 25 year life of the UAL.

While this is a beneficial step towards managing the District's pension liability, the District may wish to consider more aggressive alternatives given the relatively low rate of return the District is currently receiving on its investments.

- 2) *Single Lump Sum Contribution:* If the District was to make a single lump sum of approximately \$8,600,000, this would effectively satisfy the District's current UAL. The benefit of this alternative would be the savings of approximately \$14,940,000 in interest costs over the projected 25 year life of the UAL. The benefits of this alternative need to be weighed against the possible lack of liquidity and flexibility associated with using approximately 22% of the District's cash pool to fund the UAL.
- 3) *5 Year Schedule:* The District could also satisfy the current UAL by making 5 annual payments of approximately \$1,700,000. This would save the District approximately \$13,680,000 in interest over the projected 25 year life of the UAL. The interest savings are very close to that of the Single Lump Sum Contribution but gives the District more flexibility since the payments are spread over 5 years.

It is important to understand that while the District can pay off the current UAL, the District is still subject to future trends that can either increase or decrease future liabilities. These trends include changes to the CalPERS discount rate, investment returns, salary changes, workforce fluctuations and mortality rates.

#### **D. FISCAL IMPACT**

This is an information item only.

**E. ENVIRONMENTAL IMPACT**

None.

**F. ATTACHMENTS**

None.