



Item No. 6 Town of Atherton

FINANCE COMMITTEE STAFF REPORT

TO: FINANCE COMMITTEE

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: SEPTEMBER 13, 2016

SUBJECT: REVIEW AND DISCUSS PRESENTATION BY GOVINVEST PENSION SENSITIVITY ANALYSIS FORECAST MODEL

RECOMMENDATION

Review presentation by Ted Price of GovInvest, the pension sensitivity analysis forecast modeling tool for the Town of Atherton.

BACKGROUND

During the past couple of years the Finance Committee previously held discussions on performing a sensitivity analysis on our long term pension liabilities. Items of concern focused on the discount rate CalPERS uses for funding of pension benefits and the funded status of the Town's plans. Over the years focus on pension plans included the rate of return of plans and the sustainability of reaching set rates of returns. We discussed in prior years of enlisting the help of Joe Nation, Professor of Public Policy at Stanford University about the possibility of conducting a sensitivity analysis on the Town's pension obligations. We also researched and prepared to conduct an RFP for a consultant to do a sensitivity analysis on the lesser rates of return than the CalPERS applied discount rate. Part of initial discussions were to analyze changes in the discount rate at varying levels (7.5%, 7.25%, 7%, 6%) on the Town's funded status.

As the committee may recall, in the fall of 2013 CalPERS proposed and implemented a rate smoothing policy. It called for an actuarial plan for smoothing and increasing local employer contribution rates by 1.1% over five years beginning FY 15/16. This was implemented to allow for "the closing of the gap" in the funding status of local agency pension plans. In previous years, CalPERS created side funds for local agencies as a means to catch up on funding needs of local retirement plans. The rate smoothing policy plan by CalPERS eliminated the side fund methodology and included the collection of the unfunded actuarial liability as a lump sum every year instead of the prior method of a contribution rate. Staff has monitored the actuarial smoothing and amortization policies of CalPERS retirement pension. One of the assumptions of the yearly increase in contribution rates was a 7.5 percent return each year. During the initial implementation of the smoothing policy, CalPERS had an investment return of 18.42 percent for

Discussion of GovInvest Pension Sensitivity Analysis Tool

September 13, 2016

Page 2 of 3

FY 2013/14, of which was included in the calculation of the FY 2016/17 contribution rates. Per the CalPERS annual valuation report as of June 30, 2014, the contribution rates and employer payment of unfunded liability for Miscellaneous and Public Safety Employees is as follows.

CalPERS (Employer Normal Cost) Contribution Rates	Employer Required Contribution FY 2015/16	Employer Required Contribution FY 2016/17	Projected Employer Required Contribution FY 2017/18
Miscellaneous Employees	8.844%	9.055%	9.1%
Public Safety Employees	20.230%	21.230%	21.20%

The estimated contributions for 2017/18 are based on a projection of the most recent information available to CalPERS, which includes an estimated 2.4 percent investment return for fiscal year 2014/15.

CalPERS Employer Payment of Unfunded Liability	Unfunded Liability Payment FY 2015/16	Unfunded Liability Payment FY 2016/17	Projected Unfunded Liability Payment FY 2017/18
Miscellaneous Employees	\$116,323	\$146,085	\$183,717
Public Safety Employees	\$325,906	\$402,865	\$494,737
Total Contribution	\$442,229	\$548,950	\$678,454

Collecting the unfunded liability as a dollar amount addresses the funding issue due to the declining population of classic formula members. This provides agencies the opportunity to track and pay down their unfunded liabilities faster as more agencies seek to contribute more towards these liabilities.

CalPERS also began providing within the 2013 actuarial valuation reports, scenarios to analyze different rates of return. This is exactly the analysis local agencies were seeking as they evaluate best and worst case scenarios with the selected rate of return by CalPERS. Investment returns are the key driver on employer rates and funded status. Such return scenarios will provide a better understanding of any changes in investment returns on retirement plans. Contribution rates will change as each valuation period CalPERS reassess investment returns. As the committee is aware estimated projections of employer contribution rates will be based on recent CalPERS available information. The current CalPERS discount rate is 7.50% and having the ability to see changes in the discount rates at different levels and the effects on the funding status allows for agencies to forecast costs. Pension liability continues to be a significant discussion amongst governmental agencies, and finding a way to have real time data that would produce a liability analysis with varying assumptions is beneficial forecasting model.

FINDINGS | ANALYSIS

GovInvest is a technology company that provides actuarial services for government agencies. They maintain a unique software that provides pension actuarial reports, valuations, and forecasting model capabilities. The Town of Atherton enlisted the help of GovInvest to create and onboard Atherton pension data into the GovInvest software forecast model. They provide a Total Liability Calculator software that takes pension actuarial reports and simplifies them into an interactive visualization tool of pension actuarial data that can be used to communicate with agency officials and stakeholders. It is a software calculation tool that allows the adjustment of assumptions to project liability costs and run a variety of sensitivity analysis on pensions. This transparency actuarial tool allows for the update of real-time information, with financial data visualization and transparency. The total liability calculator provides an actuarial analysis with the ability to adjust assumptions on our own and compare to CalPERS forecast and actuarial reports. *Ted Price, CEO of GovInvest is in attendance today to discuss the GovInvest software and the onboarding results of the Atherton employee pension liabilities.*

Staff believes this forecast model can provide tools that can help us have multiple discussions over time to help create a plan to set aside funds to pay down unfunded liabilities quicker, and help project increases in expenses with changes in the discount rate. The Committee can use this interactive tool along with the CalPERS actuarial reports and consider the continued effort to pay down long term liabilities. This is a presentation of a liability calculator model that will allow us to perform a sensitivity analysis to better understand pension liabilities and allow the Town to create policy or funding targets in an effort to pay down pension liabilities and mitigate investment volatility.

FISCAL IMPACT

None

ATTACHMENT

GovInvest Information Flyer



Transparent Solutions for Pension & OPEB Information



Effortless Analysis

You now have the ability to adjust assumptions, project costs/liabilities, and run sensitivity analysis all with the click of a button.



Transparency

Key information is clearly visualized for decision makers and stakeholders.



Real-Time Information

Say goodbye to those two-year old actuarial reports. Employment information is updated as of your last payroll period.



Reports You Can Understand

Tired of those complicated reports? Us too. That's why our actuarial reports succinctly express the necessary information in beautiful charts and graphs covering all of your **GASB 68/45** requirements.



Ways Our Software Saves You Money

Potential Annual Savings Using Total Liability Calculator

1	Assumption Adjustment Discount rate, COLA, amortization period, lump sum payments	\$1,500 (Per Adjustment)
2	Cost Projections See costs 30 years into the future; helps with budgeting	\$3,000 - 15,000
3	Liability Projections See how liabilities change over 30 years	\$3,000 - 15,000
4	Presentation of Results In-person presentation of valuation results and key insights	\$2,500
5	Real-Time Information See results as of your last payroll period, not results based on two-year old information	\$20,000 - 50,000
6	Granular Benefit Adjustment Adjust member level data, i.e. benefit multiplier, retirement age, salary increases	\$5,000 - 10,000

Total Annual Savings Due to the Total Liability Calculator:

\$35,000 - 94,000

Additional Benefits Provided:
(Services traditional actuaries are unable to deliver)



Financial Data Visualization
Visualized results are far easier to understand



Transparency
Maintain clarity of liabilities and keep stakeholders and constituents informed



Features Only We Provide



Interactive visualization of complex actuarial information



On-the-fly assumption adjustments
(i.e. discount rate)



Breakdown actuarial analysis by bargaining group



Setting retirement ages for individuals

Traditional actuaries assume retirement probabilities and don't have the insight that you do as a City Official



Seeing the impact on costs & liability when hiring or retiring particular members or groups of members
(bargaining groups, plan groups)



Real-time information as of last payroll period

Traditional actuaries use 1-2 year-old information



30 year cost projections

Compared to traditional 10 year projections



Cost-savings based on different benefits for new hires
(PEPRA vs. Classic)

