



Item No. 5 Town of Atherton

FINANCE COMMITTEE STAFF REPORT

TO: FINANCE COMMITTEE

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: MAY 9, 2017

SUBJECT: BRIEF WITH REVIEW OF DISCOUNT RATE ASSUMPTIONS USING GOVINVEST FINANCIAL CALCULATION TOOL TO PROVIDE FUTURE ANALYSIS FOR CITY COUNCIL REVIEW

RECOMMENDATION

Brief review and discussion of discount rate assumptions using the GovInvest Financial Calculation tool.

BACKGROUND

At the March 21, 2017 meeting, staff presented for review the June 30, 2015 CalPERS actuarial reports and letter from League of California Cities addressing CalPERS potential reduction of the discount rate from 7.5% to 7% for the next three years. Staff mentioned that it had been working with GovInvest to update its pension calculation tool to assist us in pension liability projections. With this calculation tool we have the capability to develop an analysis for City Council consideration with respect to changes in the discount rate and forecast unfunded pension liabilities.

The CalPERS Board of Administration approved lowering the discount rate assumptions over the next three years. It is likely that this will increase public agency employer contribution costs beginning in FY 2018-19. Below is the anticipated phase in for discount rate reductions:

Valuation Date	FY for Required Contribution	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

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At today's meeting, staff will use the calculation portal to highlight the assumption changes to the discount rate above and conduct what if scenarios to the effects on the Town's pension liability. There is anticipation that lowering the discount rate means agency plans will see increases in the normal cost or the cost of pension benefits accruing in one year for active members and the accrued liabilities. A result of will be higher required employer contributions. Below is a projection of the impact of the first reduction to the discount rate.

Valuation Date	Fiscal Year Impact	Normal Cost		UAL Payments	
		Misc. Plans	Safety Plans	Misc. Plans	Safety Plans
06/30/16	2018-19	0.25% - 0.75%	0.5%-1.25%	2% - 3%	2% - 3%

Some benefits of reducing the discount rate include:

- Strengthening long-term sustainability of the fund
- Reduction of negative cash flows; additional contributions will help offset the cost to pay pensions
- Reducing the long-term probability of funded ratios falling below undesirable levels
- Improves the prospect of CalPERS investments earning the assumed rate of return.
- Reduces the risk of contribution increases in the future from volatile investment markets.

FISCAL IMPACT

None

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

ATTACHMENTS

None