

M E M O

TO: Budget & Finance Committee
FROM: Director of Finance & Business Services
SUBJECT: CalPERS UAL Prepayment
DATE: June 1st, 2018

RECOMMENDATION:

It is recommended that the committee review the CalPERS Unfunded Accrued Liability (UAL) prepayment option.

BACKGROUND:

Every year the District receives the CalPERS actuarial valuation report. This report denotes the employer's normal cost rate per payroll, plus the employer's UAL contribution. The UAL is either billed monthly at a fixed rate, or there is a lump sum prepayment option which saves approximately 3.5%.

The District has been paying the lump sum amount the past 3 years and it is recommended we continue until it is not deemed favorable.

While this is an administrative function, we do like to bring it to the committee's attention. The prepayment is due by 7/31 of each year. This year it will be \$241K, which will save the District about \$9K.

Required Employer Contribution

	Fiscal Year	
Required Employer Contribution	2018-19	
Employer Normal Cost Rate	8.892%	
<i>Plus Either</i>		
1) Monthly Employer Dollar UAL Payment	\$	20,616.72
<i>Or</i>		
2) Annual Lump Sum Prepayment Option	\$	238,753
<p><i>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).</i></p> <p><i>Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31). Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change.</i></p> <p><i>§ 20572 of the Public Employees' Retirement Law assesses interest at an annual rate of 10 percent if a contracting agency fails to remit the required contributions when due.</i></p>		

	Fiscal Year	Fiscal Year
	2017-18	2018-19
Development of Normal Cost as a Percentage of Payroll¹		
Base Total Normal Cost for Formula	15.314%	15.794%
Surcharge for Class 1 Benefits ²		
None	0.000%	0.000%
Phase out of Normal Cost Difference ³	0.000%	0.000%
Plan's Total Normal Cost	15.314%	15.794%
Formula's Expected Employee Contribution Rate	6.896%	6.902%
Employer Normal Cost Rate	8.418%	8.892%
Projected Payroll for the Contribution Fiscal Year	\$ 2,054,521	\$ 1,878,160
Estimated Employer Contributions Based on Projected Payroll		
Plan's Estimated Employer Normal Cost	\$ 172,950	\$ 167,006
Plan's Payment on Amortization Bases ⁴	216,365	247,401
% of Projected Payroll (illustrative only)	10.531%	13.173%
Estimated Total Employer Contribution	\$ 389,315	\$ 414,407
% of Projected Payroll (illustrative only)	18.949%	22.065%

¹ The results shown for Fiscal Year 2017-18 reflect the prior year valuation and may not take into account any lump sum payment, side fund payoff, or rate adjustment made after June 30, 2016.

² Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

³ The normal cost difference is phased out over a five year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year. This is non-zero only for plans that joined a pool within the past 5 years. Most plans joined a pool June 30, 2003, when risk pooling was implemented.

⁴ See page 9 for a breakdown of the Amortization Bases.

Required Employer Contribution

	Fiscal Year	
Required Employer Contribution	2018-19	
Employer Normal Cost Rate	6.842%	
<i>Plus Either</i>		
1) Monthly Employer Dollar UAL Payment	\$	216.30
<i>Or</i>		
2) Annual Lump Sum Prepayment Option	\$	2,505
<p><i>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).</i></p> <p><i>Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31). Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change.</i></p> <p><i>§ 20572 of the Public Employees' Retirement Law assesses interest at an annual rate of 10 percent if a contracting agency fails to remit the required contributions when due.</i></p>		

	Fiscal Year	Fiscal Year
	2017-18	2018-19
Development of Normal Cost as a Percentage of Payroll¹		
Base Total Normal Cost for Formula	12.783%	13.092%
Surcharge for Class 1 Benefits ²		
None	0.000%	0.000%
Phase out of Normal Cost Difference ³	0.000%	0.000%
Plan's Total Normal Cost	12.783%	13.092%
Plan's Employee Contribution Rate	6.250%	6.250%
Employer Normal Cost Rate	6.533%	6.842%
Projected Payroll for the Contribution Fiscal Year	\$ 409,387	\$ 663,760
Estimated Employer Contributions Based on Projected Payroll		
Plan's Estimated Employer Normal Cost	\$ 26,745	\$ 45,414
Plan's Payment on Amortization Bases ⁴	126	2,596
% of Projected Payroll (illustrative only)	0.031%	0.391%
Estimated Total Employer Contribution	\$ 26,871	\$ 48,010
% of Projected Payroll (illustrative only)	6.564%	7.233%

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³ The normal cost difference is phased out over a five year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year. This is non-zero only for plans that joined a pool within the past 5 years. Most plans joined a pool June 30, 2003, when risk pooling was implemented.

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