



Pension Liability Funding Options and OPEB Status Update

NapaSan
Board of Directors Meeting
March 21, 2018



Policy Questions

Should NapaSan develop a funding policy for retirement liabilities?

If Yes:

- How much?
- From what source(s) or under what conditions?
- Direct liability reduction (CalPERS) or contribute into a Trust?



Pensions

- Definitions

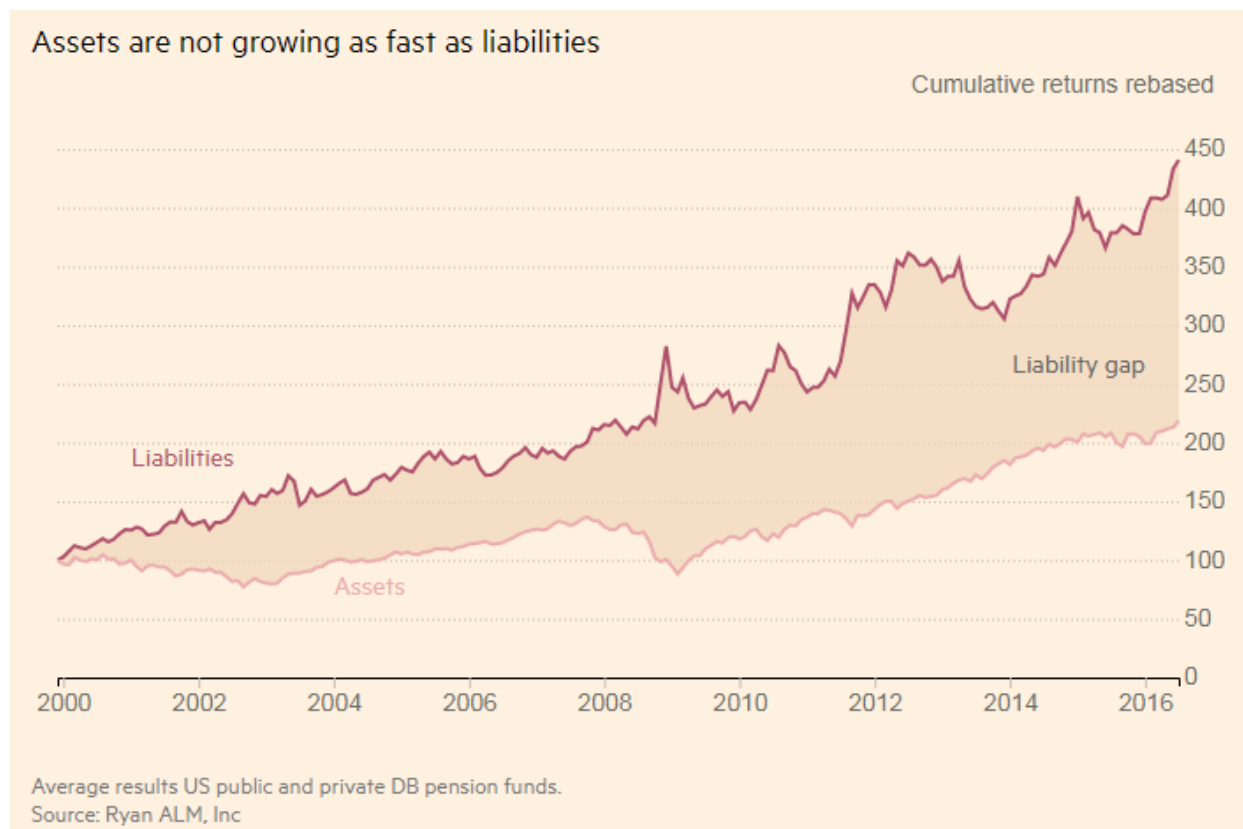
Normal Cost – The cost of the retirement benefits that accrue for the plan year.

Unfunded Actuarial Liability (UAL) – This is the past service costs that have not yet been funded.

Discount Rate – The assumed rate of return on plan investments.

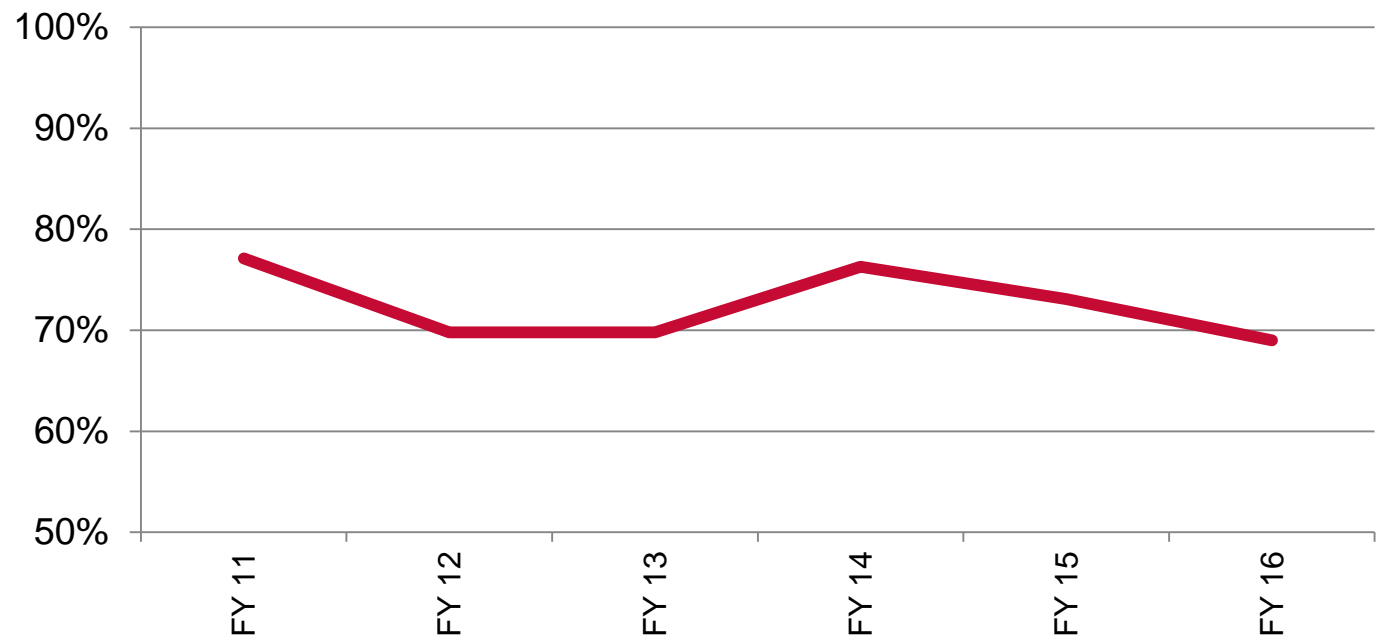
Pensions

- Pension Plans, Generally



CalPERS

- CalPERS Pension Plan Funding Status





CalPERS

- CalPERS Response

2013 – Changed amortization and smoothing policies (5 years)

2014 – Updated mortality tables

2015 – Funding Risk Mitigation policy (when investment returns are above discount rate, lowers discount rate and changes asset allocation)

2017 – Evaluating asset allocation mix (study concludes February 2018)

CalPERS

- CalPERS Response

Reduced Discount Rate:

FY 16-17	7.50%
FY 17-18	7.375%
FY 18-19	7.25%
FY 19-20	7.00%

Impact: Increases Normal Cost AND
Increases unfunded liability



CalPERS

- Result of Changes

Normal Cost: Increase of 1-3% as percentage of payroll (e.g., increase cost from 13% of payroll to 14-16% of payroll)

Unfunded Liability: 30-40% increase



CalPERS

- February 2018 Changes
 - Shorter amortization periods for UAL
(from 30 years down to 20 years)
 - Eliminate 5-year ramp-up and ramp-down
(for assumption changes)
 - Eliminate 5-year ramp-down
(for investment gains and losses)
- Changes effective in 2021/22



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- 3 Tiers of CalPERS Plans at NapaSan

	Tier 1	Tier 2	PEPRA
Effective Date		Sept. 2009	Jan. 2013
Plan	2.7% @ 55	2.0% @ 55	2.0% @ 62
# of Employees (Active)	34	6	13
# of Retirees	60	0	0
Normal Cost (% of payroll)	13.7%	9.6%	6.9%
Employee Contribution (% of payroll)	4.25%	4.25%	6.5%
Annual Payment of Unfunded Liability	\$1,111,132	\$3,234	\$496

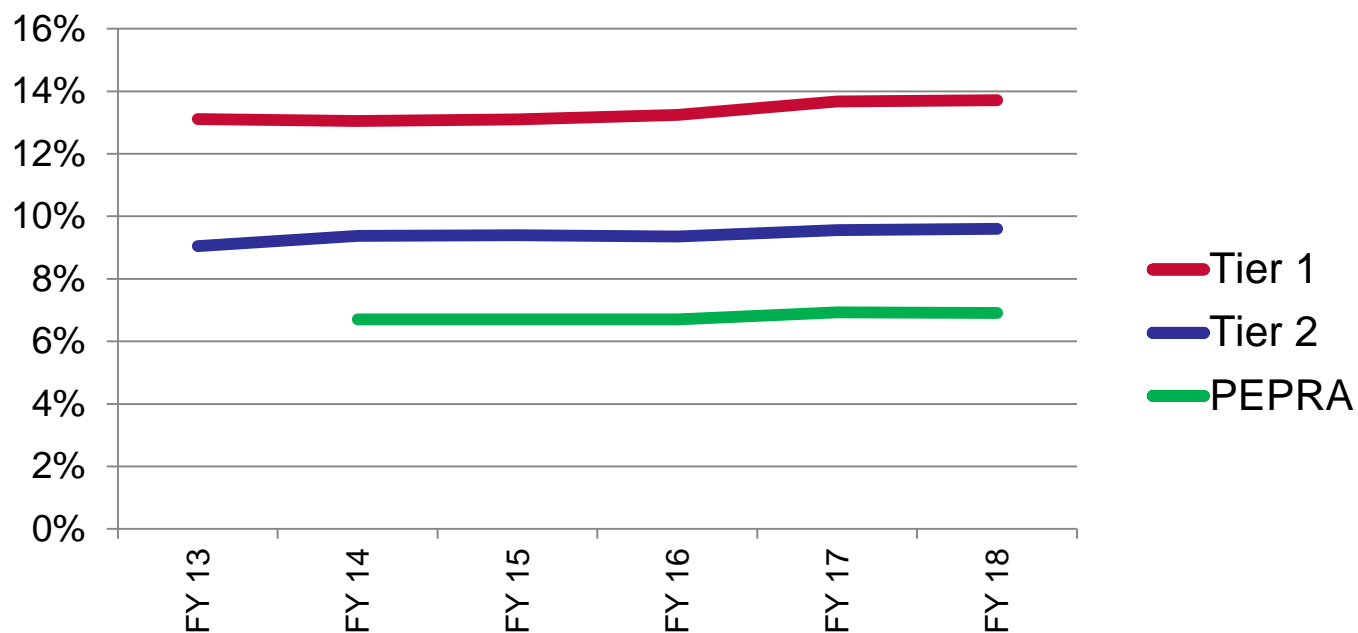


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Normal Cost – The cost of the retirement benefits that accrue for the plan year.

- NapaSan Normal Cost

Normal Cost (% of salary)

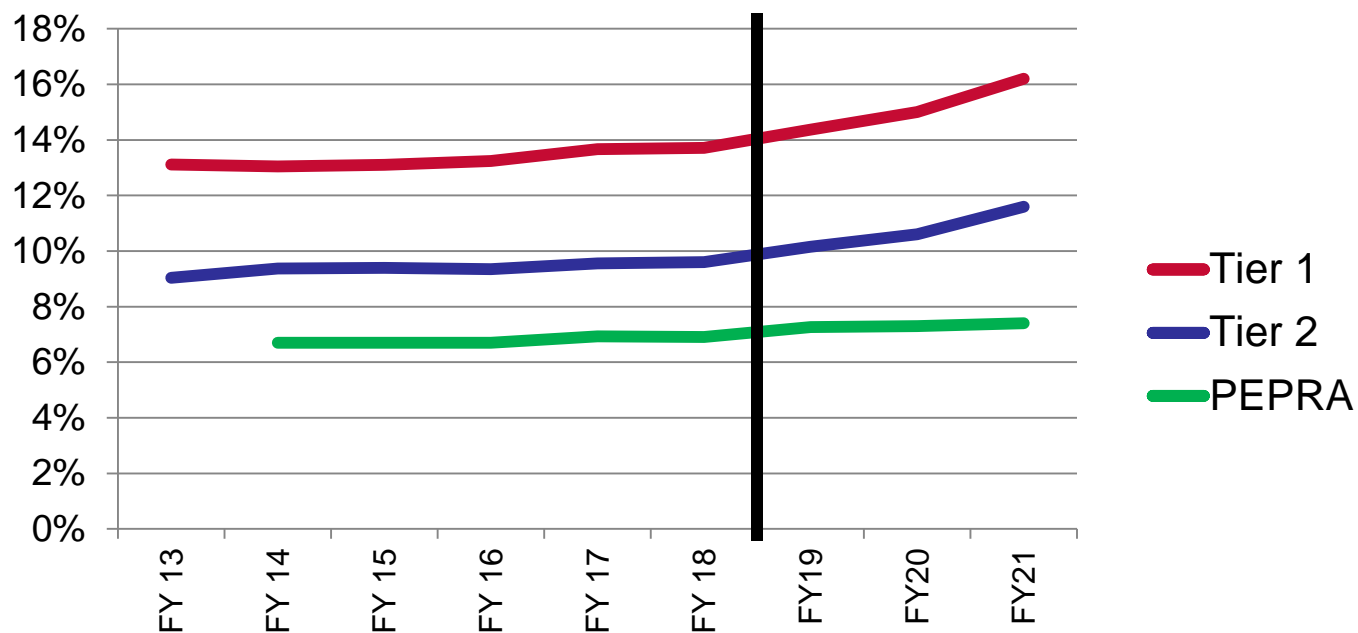




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- NapaSan Normal Cost

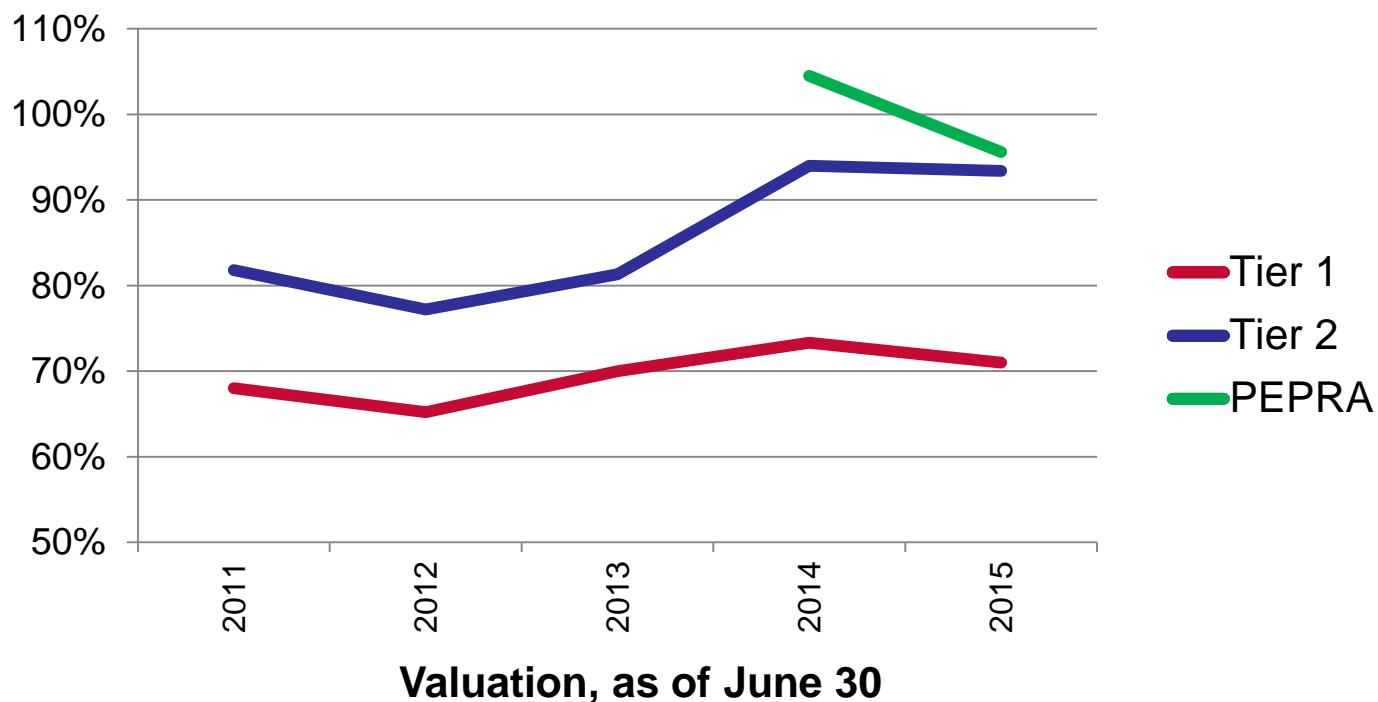
Normal Cost (% of salary)



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- NapaSan Pension Liability**
(% Funded Status)

Unfunded Actuarial Liability (UAL) –
This is the past service costs that have not yet been funded.





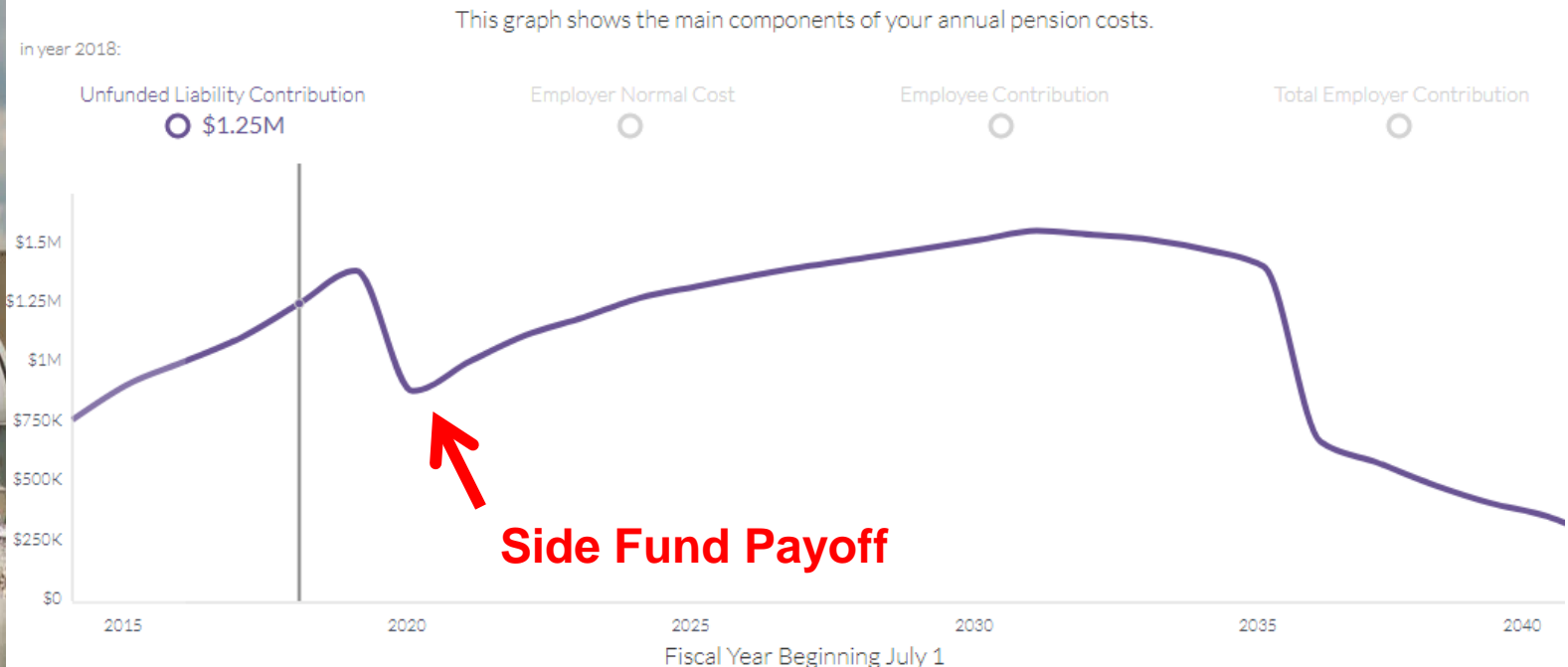
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- Liability Cost Projection

2018 = \$1.25M

2020 = \$0.89M

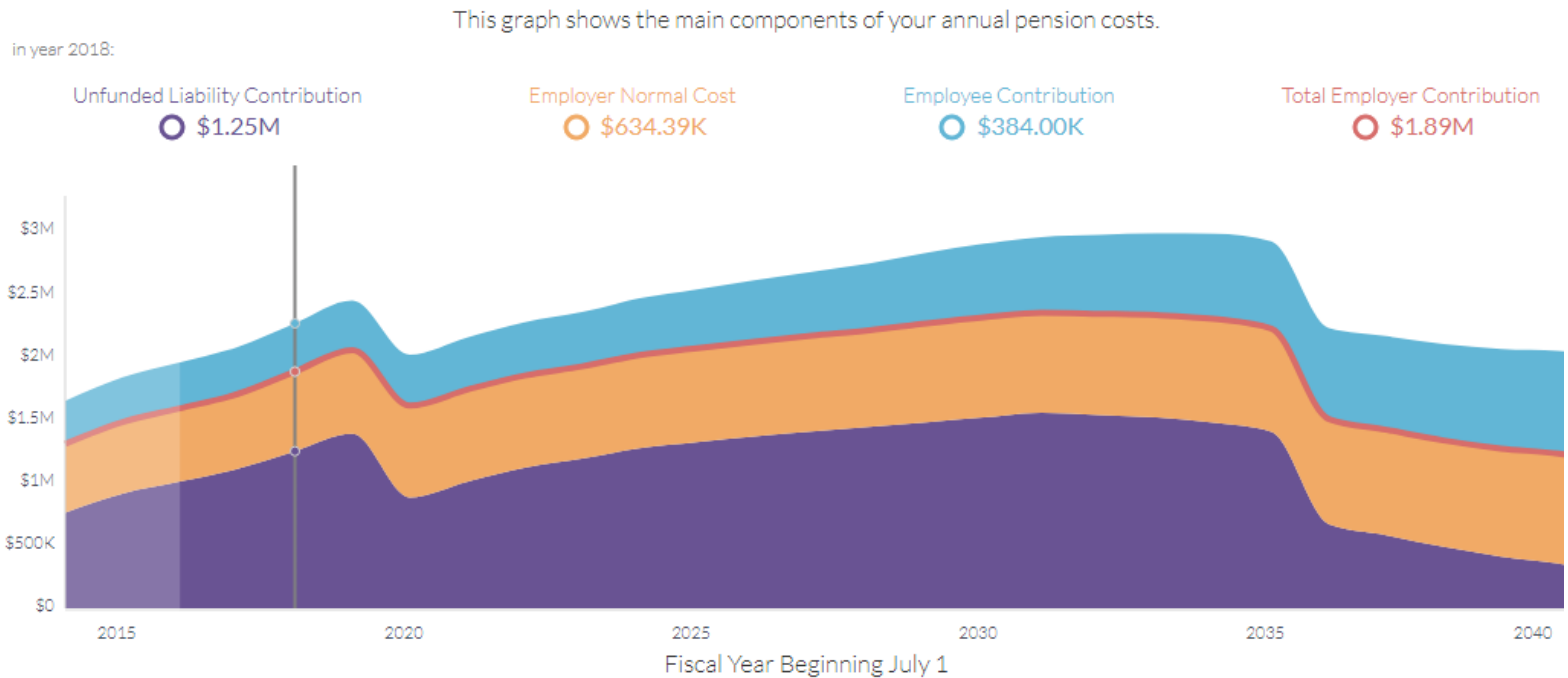
2031 = \$1.56M





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- Total Cost Projection





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Funding Options

15% of governments pay
more than CalPERS
requires annually

1. Pay-Go (current strategy)
2. 50% of one-time salary savings
3. Utilize side fund payments
4. Use savings from debt refinancing
5. New 15-Year amortization schedule

Funding Options

1. Pay-Go (current strategy)

This graph shows the main components of your annual pension costs.

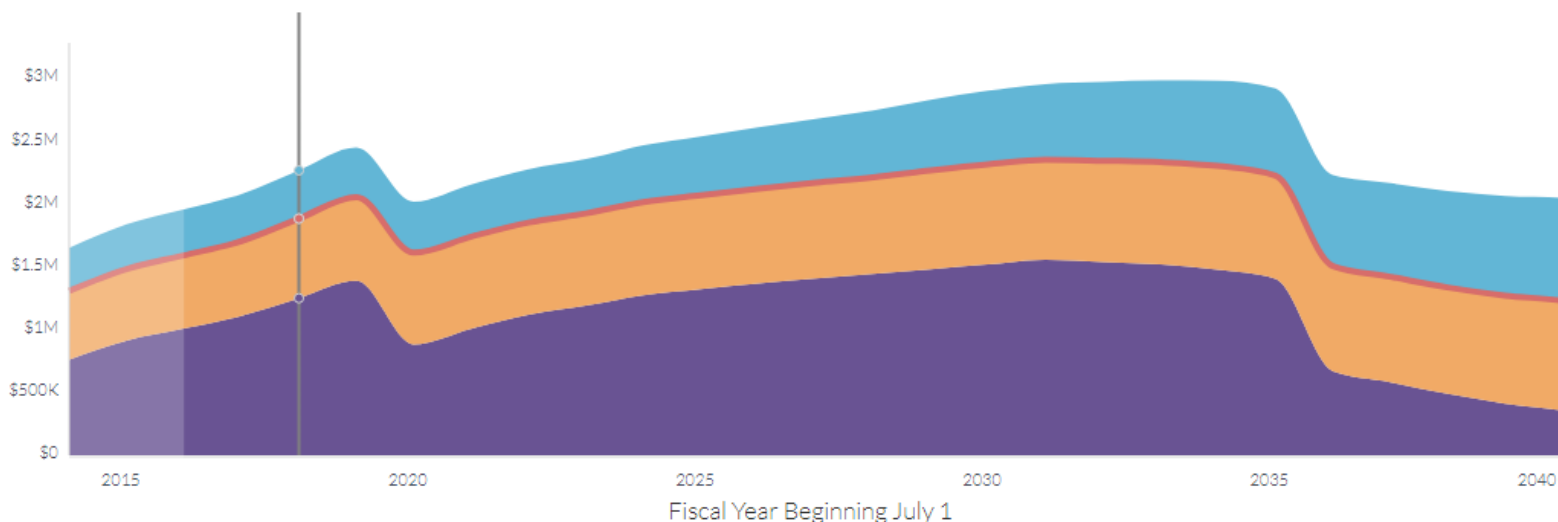
in year 2018:

Unfunded Liability Contribution
○ \$1.25M

Employer Normal Cost
○ \$634.39K

Employee Contribution
○ \$384.00K

Total Employer Contribution
○ \$1.89M

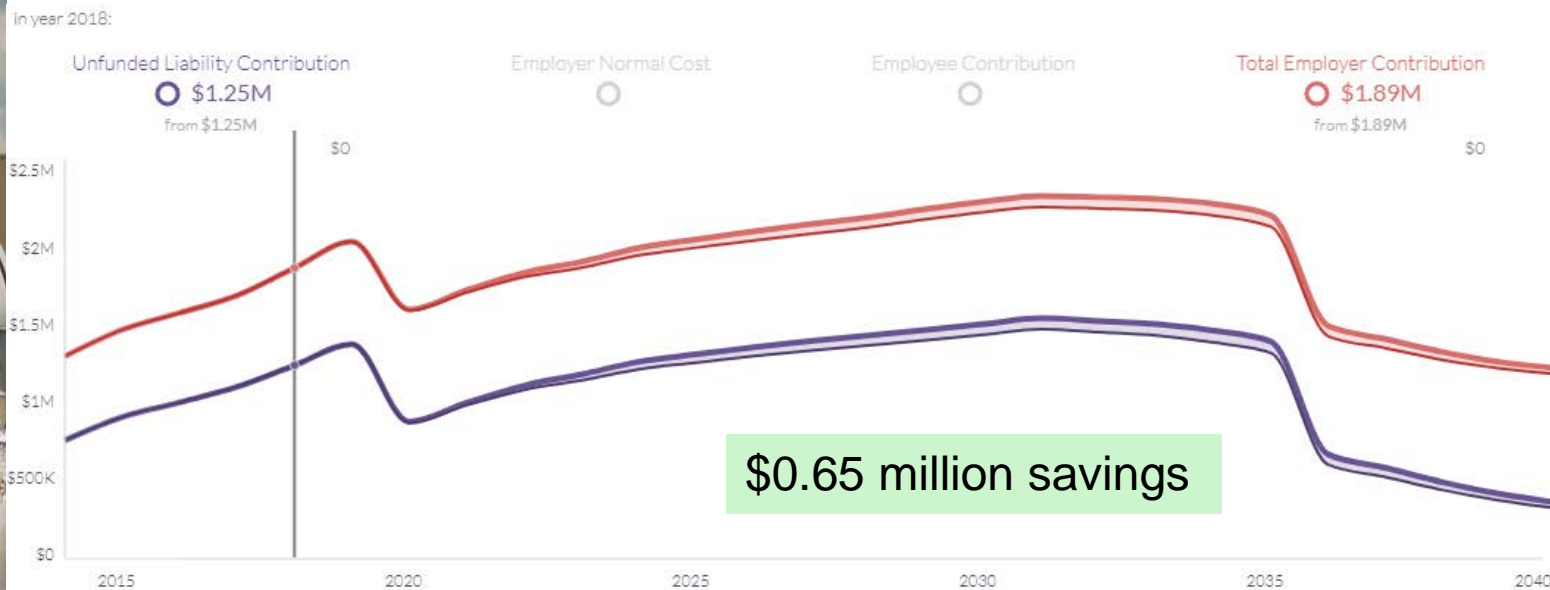




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Funding Options

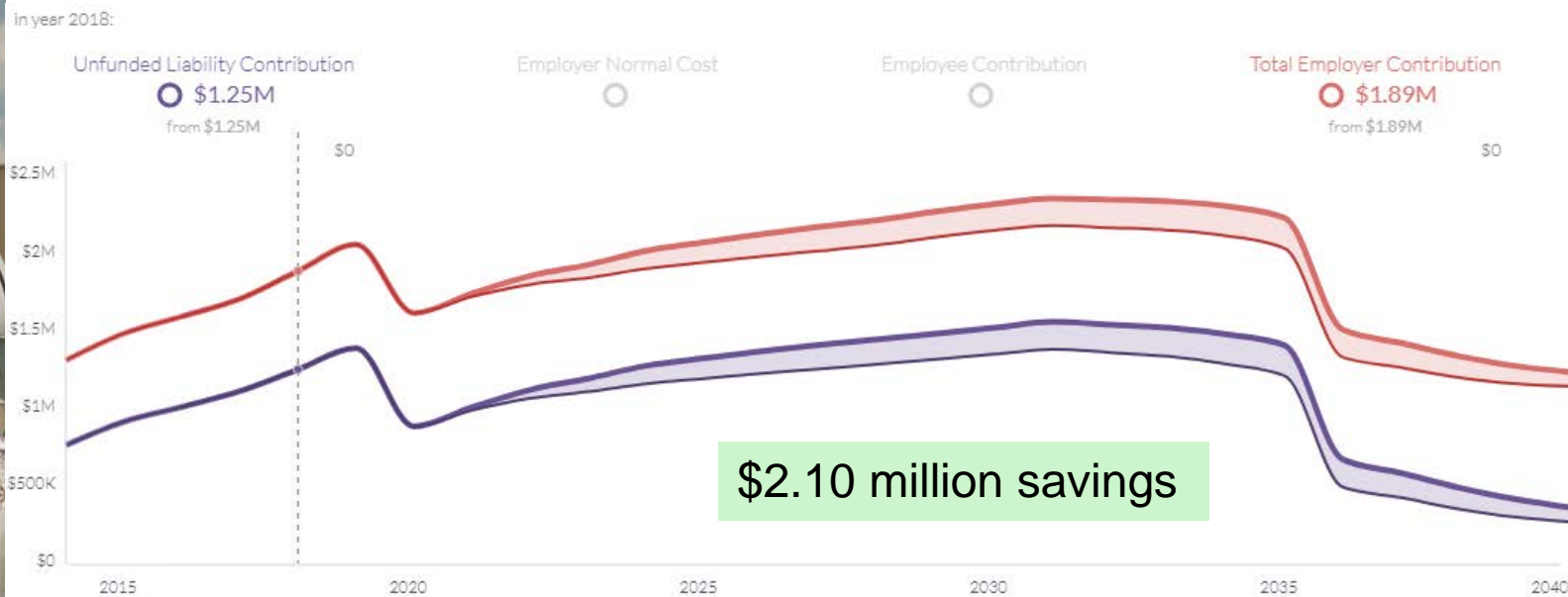
2. 50% of one-time salary savings (assumes three payments of \$100k)



Funding Options

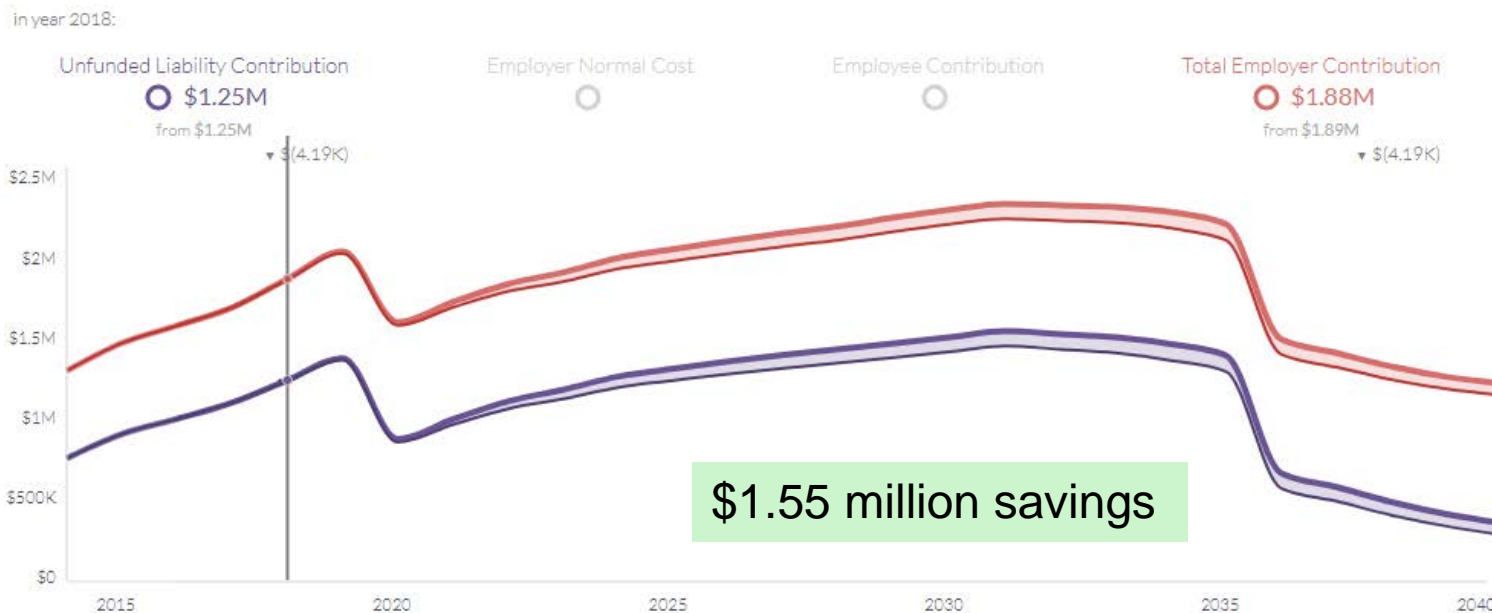
3. Utilize side fund payments

(Two payments of \$500k, in FY 21 and FY 22)



Funding Options

4. Use savings from debt refinancing (5 payments of \$135k, starting in FY 19)





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Funding Options

5. New 15-Year amortization schedule





Date	<u>Current Amortization Schedule</u>		<u>Alternate Schedules</u>			
	Balance	Payment	20 Year Amortization		15 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2018	13,014,683	1,247,230	13,014,683	972,880	13,014,683	1,183,761
6/30/2019	12,682,112	1,400,222	12,966,399	1,002,066	12,747,879	1,219,274
6/30/2020	12,166,481	882,259	12,884,310	1,032,128	12,424,600	1,255,852
6/30/2021	12,149,546	976,215	12,765,017	1,063,092	12,039,576	1,293,528
6/30/2022	12,034,002	1,050,001	12,604,841	1,094,985	11,587,117	1,332,334
6/30/2023	11,833,479	1,081,501	12,399,803	1,127,835	11,061,077	1,372,304
6/30/2024	11,585,526	1,113,946	12,145,605	1,161,670	10,454,824	1,413,473
6/30/2025	11,285,666	1,147,364	11,837,600	1,196,520	9,761,199	1,455,877
6/30/2026	10,929,063	1,181,785	11,470,766	1,232,415	8,972,480	1,499,553
6/30/2027	10,510,493	1,217,239	11,039,683	1,269,388	8,080,335	1,544,540
6/30/2028	10,024,316	1,253,756	10,538,496	1,307,469	7,075,777	1,590,876
6/30/2029	9,464,444	1,291,369	9,960,885	1,346,693	5,949,119	1,638,603
6/30/2030	8,824,306	1,330,110	9,300,031	1,387,094	4,689,916	1,687,761
6/30/2031	8,096,813	1,370,013	8,548,575	1,428,707	3,286,907	1,738,393
6/30/2032	7,274,320	1,353,573	7,698,579	1,471,568	1,727,960	1,790,545
6/30/2033	6,408,203	1,334,913	6,741,482	1,515,715		
6/30/2034	5,497,545	1,291,861	5,668,053	1,561,187		
6/30/2035	4,564,338	1,245,025	4,468,340	1,608,022		
6/30/2036	3,610,839	561,136	3,131,617	1,656,263		
6/30/2037	3,295,679	553,870	1,646,323	1,705,951		
6/30/2038	2,964,805	545,664				
6/30/2039	2,618,032	562,034				
6/30/2040	2,228,721	578,895				
6/30/2041	1,793,228	494,021				
6/30/2042	1,413,564	483,623				
6/30/2043	1,016,675	425,622				
6/30/2044	650,617	308,081				
6/30/2045	379,361	183,104				
6/30/2046	217,603	168,876				
6/30/2047	58,659	60,784				
Totals		26,694,090		26,141,649		22,016,676
Interest Paid		13,679,407		13,126,966		9,001,993
Estimated Savings				552,441		4,677,414

3% increase
per year

New Amortization
Period

\$4.68 million savings



Discussion

Option	Up Front	25-Yr Savings
1. Pay-Go	\$0	\$0
2. 50% Salary Savings	\$100k/yr for 3 yrs	\$0.65 million
3. Side Fund	\$500k/yr for 2 yrs	\$2.10 million
4. Debt Refi Savings	\$135k/yr for 5 yrs	\$1.55 million
5. 15-Yr Amortization	3% per year increase	\$4.68 million
A. Combine 2 + 3	\$500k for 2 yrs + \$100k/yr in 3 other years	\$3.12 million
B. Combine 3 + 4	\$500k for 2 yrs + \$135k/yr in 3 other years	\$3.35 million
C. Combine 2 + 4	\$235k/yr for 5 years	\$2.20million
D. Combine 2 + 3 + 4	\$500k for 2 yrs + \$235k/yr in 3 other years	\$3.51 million



Policy Questions

Should NapaSan develop a funding policy for retirement liabilities?

If Yes:

- How much?
- From what source(s) or under what conditions?
- Direct liability reduction (CalPERS) or contribute into a Trust?

Next Steps

1) Funding Options:

CalPERS – or – IRC §115 Trust

2) Develop Funding Policy Language

To Finance Committee
for Review and Recommendation



OPEB Status Update



OPEB – Status Update

- Other Post-Employment Benefits
 - Health Care

Hired before July 1, 2014 – family coverage
Hired after July 1, 2014 – single coverage
 - Vision

Same as current employees
 - Life Insurance

\$7,500 coverage



OPEB – Status Update

2009	Refinanced debt
2010	Established CERBT Trust
Annually	Use savings from refinancing to make annual trust payments

OPEB – Status Update

- Total Liability = \$10.1 million
- Total Funded = \$3.5 million in trust
- Total Unfunded = \$6.6 million
- Percent Funded = 34.5%

Cumulative Net Contributions and Ending Assets

