



OPEB and Pension Discussion

Presentation to Budget Standing Committee

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January 29, 2025



AGENDA

- 1 UPDATE ON CITY'S OTHER POST EMPLOYMENT BENEFITS (OPEB)
- 2 UPDATE ON CITY'S PENSION LIABILITY
- 3 PENSION OBLIGATION FUNDING STRATEGIES
- 4 DISCUSSION OF PENSION FUNDING POLICY

Past Actions Taken by City to Address OPEB

- Closed System [hired prior to April 25, 2010]
- Participate in CERBT to let fund grow over time
 - 2013/14 (initial investment \$4.2M)
 - 2014/15 - \$11.2M
 - 2015/16 - \$1.2M
 - Annually thereafter \$802K
 - Current CERBT balance \$38.2M
 - Projected UAL as of June 30, 2024 \$51.7M

OPEB 10 Year Contribution Projection Summary

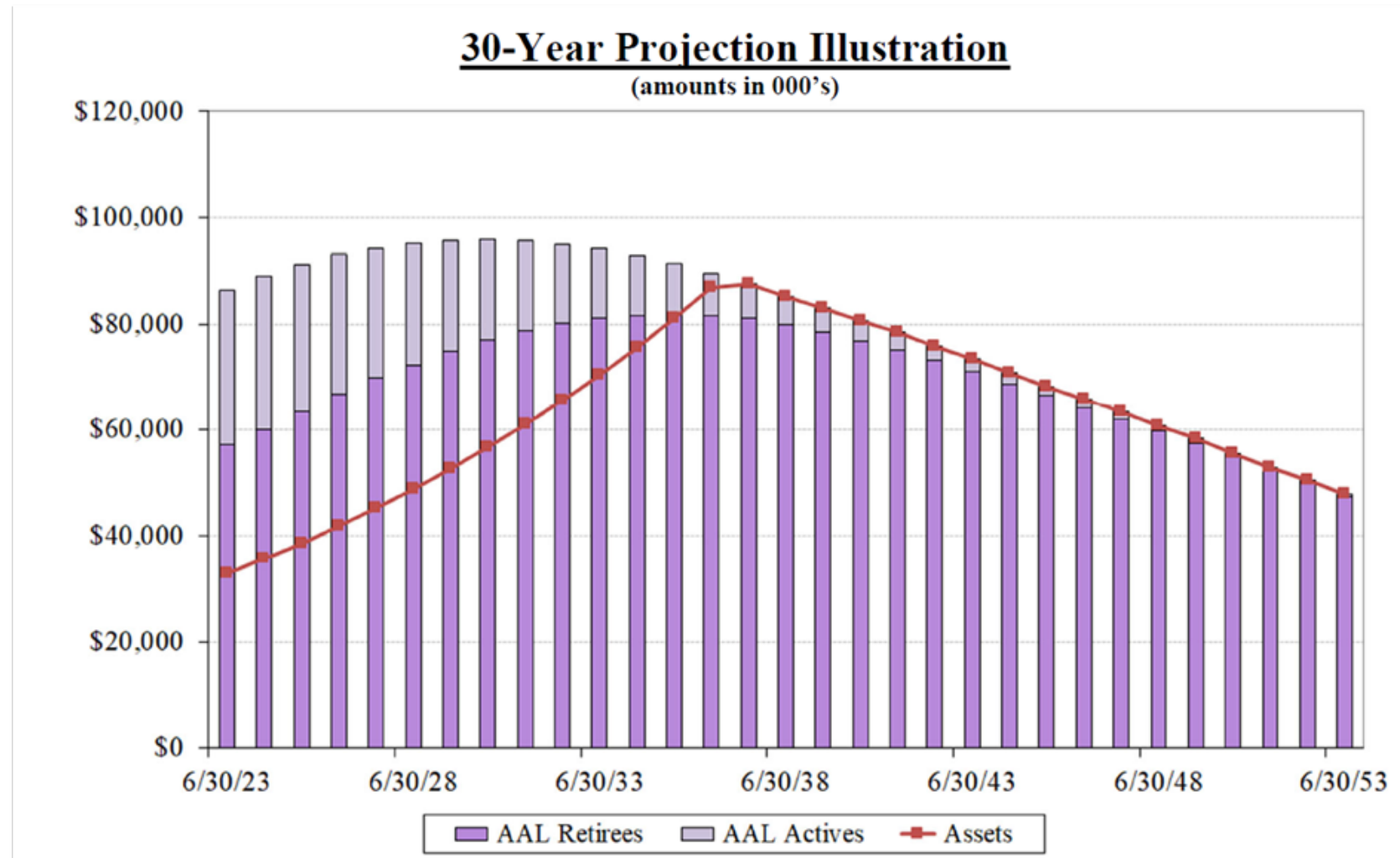
10-Year Projection Illustration

(amounts in 000's)

Fiscal Year	ADC	Contribution			
		Cash Benefit Payments	Implicit Benefit Payments	Pre-Funding	Total
2024/25	\$6,355	\$4,448	\$ 51	\$802	\$5,301
2025/26	6,394	4,809	58	802	5,669
2026/27	6,388	5,282	66	802	6,150
2027/28 ¹¹	5,396	5,678	75	802	6,555
2028/29	5,172	6,076	81	802	6,959
2029/30	6,912	6,343	90	802	7,235
2030/31	6,793	6,613	102	802	7,517
2031/32	7,505	6,892	110	802	7,804
2032/33	7,386	7,073	117	802	7,992
2033/34	7,204	7,238	127	802	8,167

¹¹ First year contribution policy expected to exceed ADC.
Projections assume \$802k contributions continue until plan 100% funded.

OPEB – 30 year pay-off projection



Composition of Pension Funding (CalPERS)

EMPLOYEE CONTRIBUTIONS: ~ 11 cents

Based on negotiated agreements and actuarial valuations

CITY CONTRIBUTION: ~ 34 cents

Based on negotiated agreements and actuarial valuations

CalPERS INVESTMENT EARNINGS: ~ 55 cents

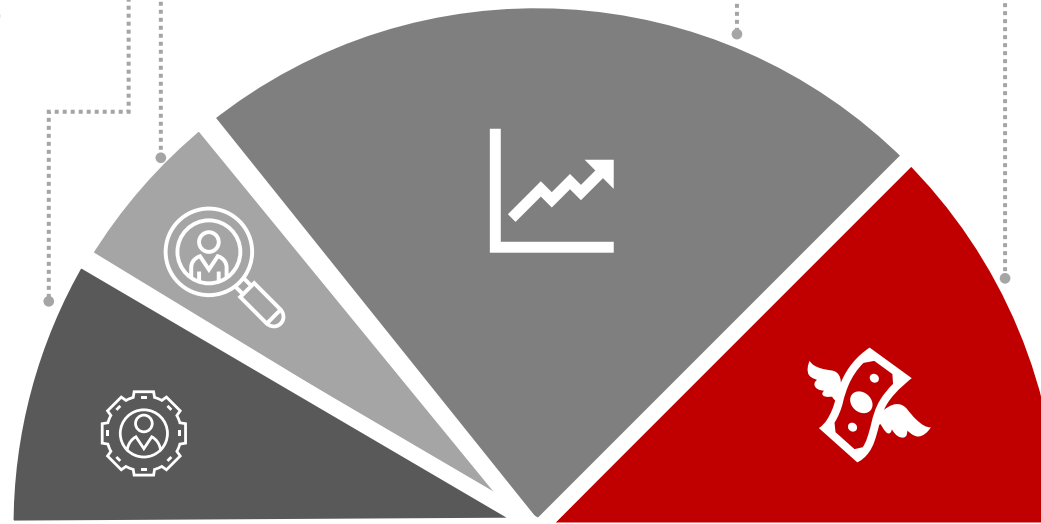
Earnings generated by CalPERS

Effective 7/1/2021, expected rate of return reduced from 7.0% to 6.8%

UNFUNDED ACTUARIAL LIABILITY ("UAL")

Difference between current value of City's assets at CalPERS and estimated obligations to retirees

South San Francisco UAL as of June 30, 2024 is estimated to be **\$264 million (65.5% Funded)**



Past Actions Taken by City to Address Pension

- Tiered Plans (Classic Tier 1, Classic Tier 2, PEPRA)
 - **Miscellaneous:**
 - Classic Tier 1: 2.7% @ 55 [hired prior to April 25, 2010]
 - Classic Tier 2: 2.0% @ 60 [hired after April 25, 2010]
 - PEPRA: 2.0% @ 62 [new hires on or after January 1, 2013]
 - **Safety:**
 - Classic Tier 1: 3.0% @ 50 [hired prior to April 25, 2010]
 - Classic Tier 2: 3.0% @ 55 [hired after April 25, 2010]
 - PEPRA: 2.7% @ 57 [new hires on or after January 1, 2013]
 - Compensation limit (\$155,081)
- Pension Stabilization Reserve Fund (\$5.5 million)
- Successful Judicial Validation for Future Pension Obligation Bond Issuances (tool is now in toolbox but current market is unfavorable)

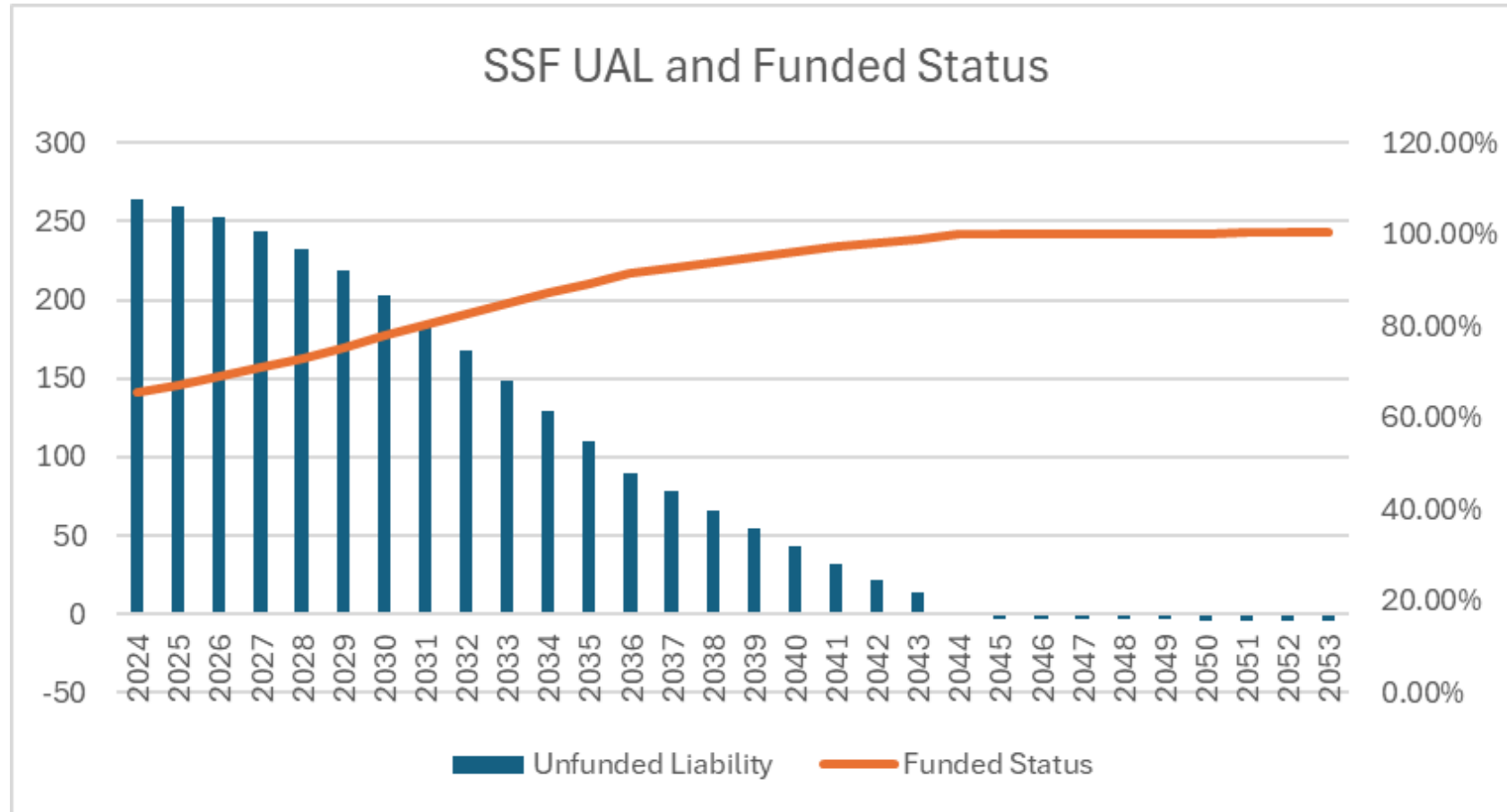
Actions Taken by City to Address Pension Liability

- Tiered Plans (Classic Tier 1, Classic Tier 2, PEPRA)
 - **Miscellaneous:**
 - Classic Tier 1: 2.7% @ 55 [hired prior to April 25, 2010]
 - Classic Tier 2: 2.0% @ 60 [hired after April 25, 2010] (City)
 - PEPRA: 2.0% @ 62 [new hires on or after January 1, 2013] (State)
 - **Safety:**
 - Classic Tier 1: 3.0% @ 50 [hired prior to April 25, 2010]
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 - Compensation limit (\$155,081)
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- Successful Judicial Validation for Future Pension Obligation Bond Issuances (tool is now in toolbox but current market is unfavorable)

Actions Taken by State to Address Pension Liability

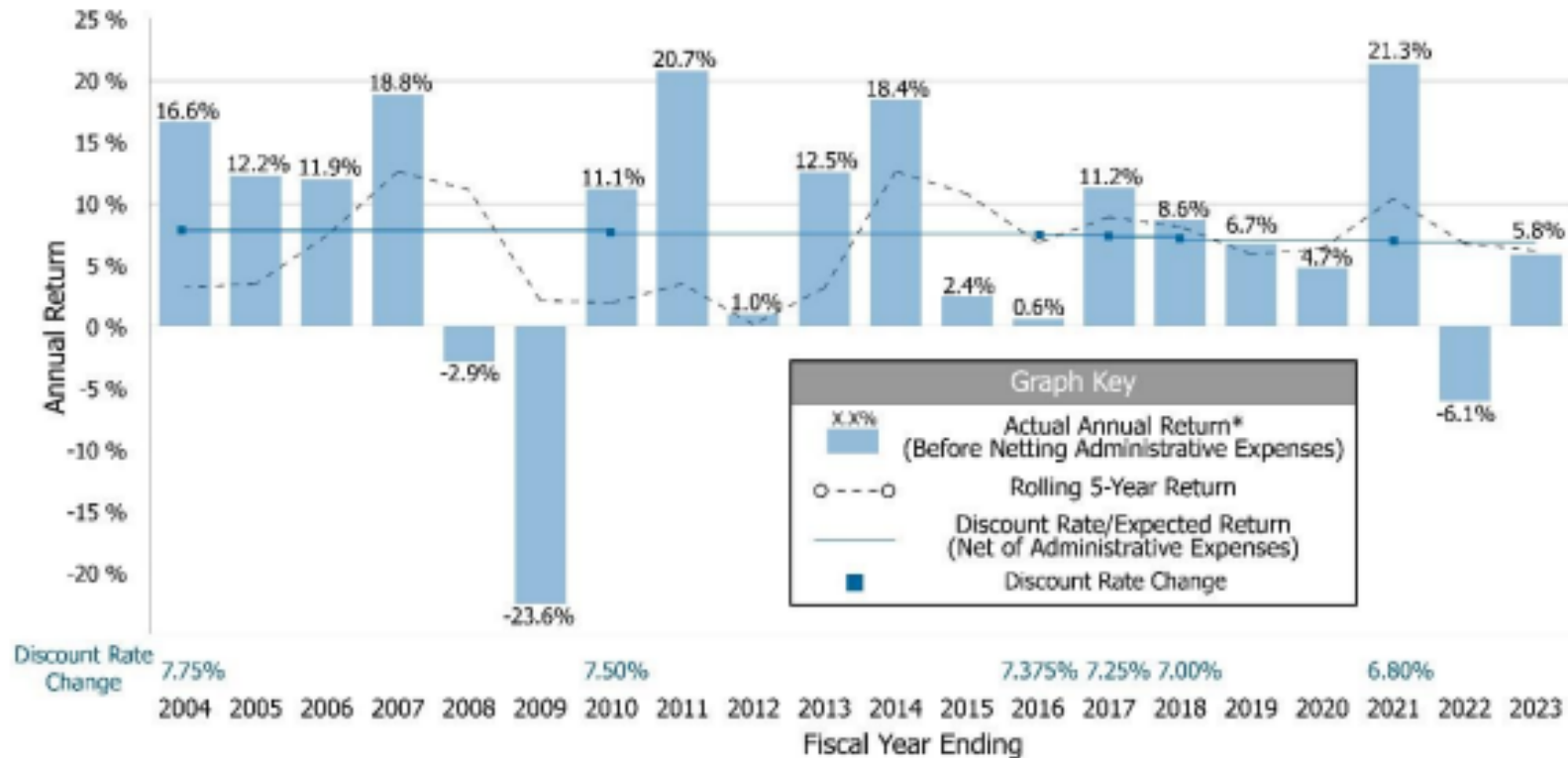
- Pension Reform
 - **Miscellaneous:**
 - PEPRA: 2.0% @ 62 [new hires on or after January 1, 2013]
 - **Safety:**
 - PEPRA: 2.7% @ 57 [new hires on or after January 1, 2013]
 - Compensation limit (\$155,081)
- Ended rolling amortization
- Reduced amortization period from 30 years to 20 years
 - Reduces interest expense

SSF - Unfunded Pension Liability and Funded Status



CalPERS History of Investment Returns

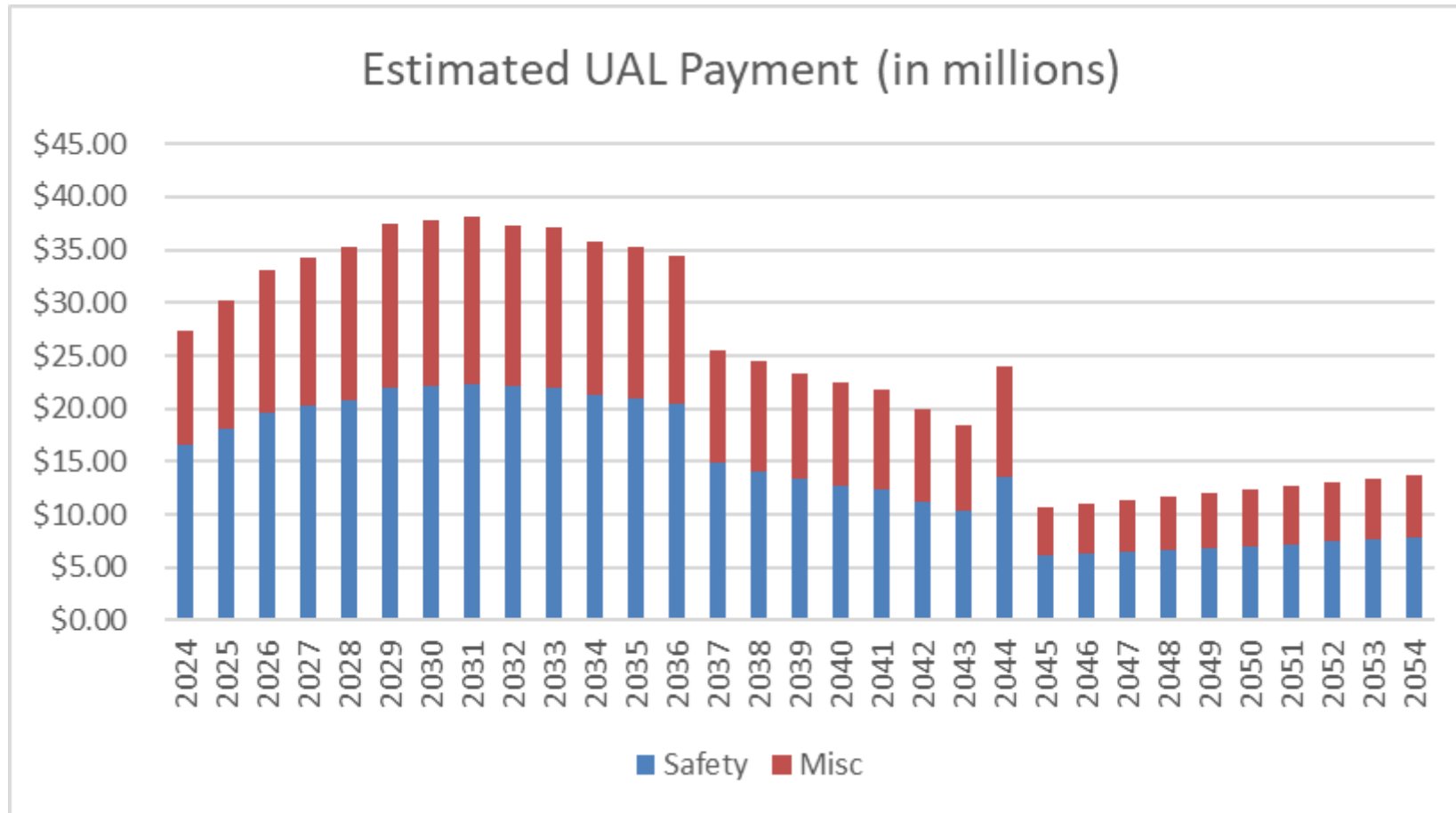
History of Investment Returns (2004 - 2023)



* As reported by the Investment Office with a 3-month lag on private equity and real assets and without any reduction for administrative expenses.

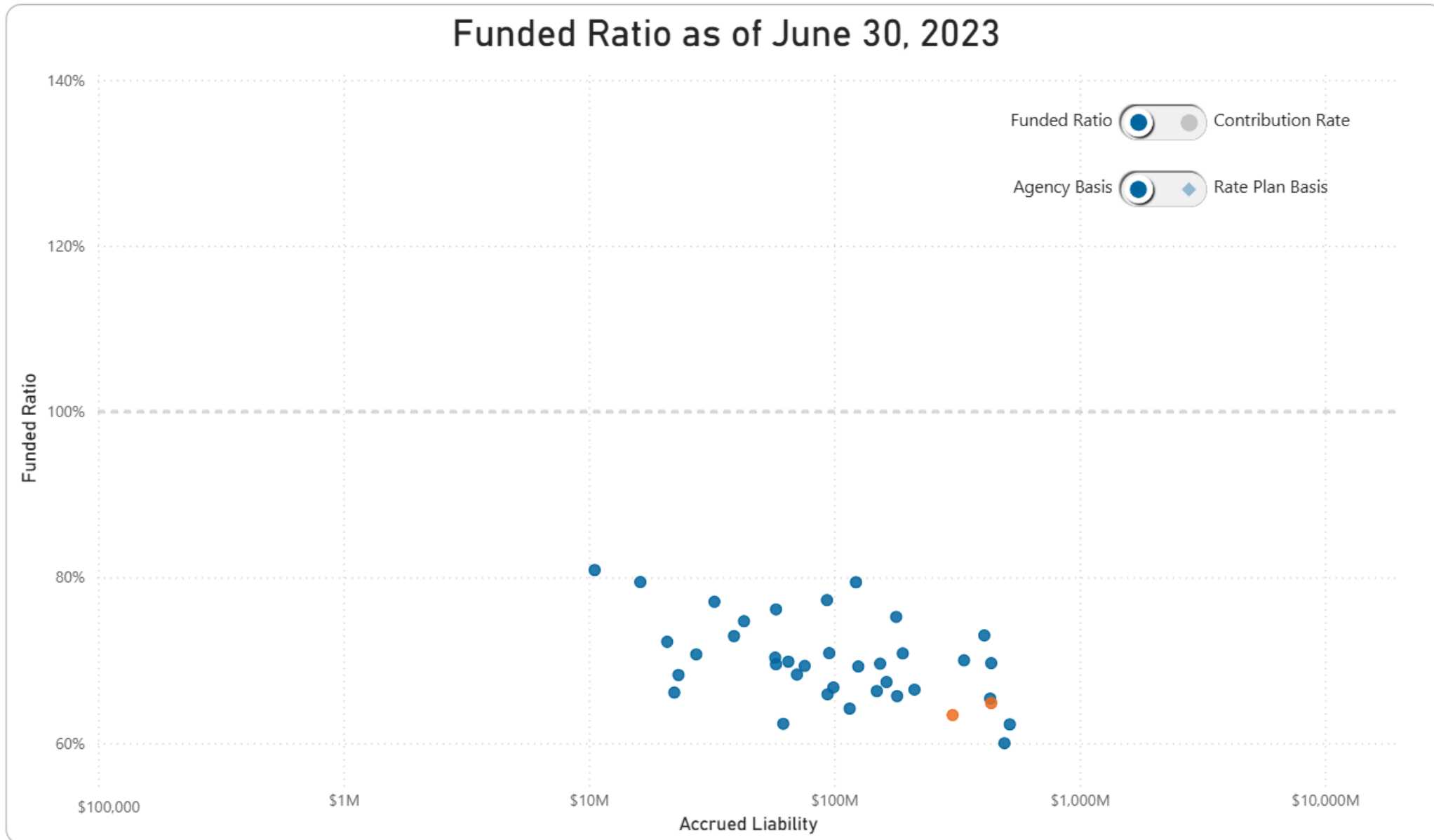
Investment return 2024 ~9.3%

Estimated Annual Payments (NC + UAL)



Source: CalPERS Outlook tools

Comparison of Funded Ratio – San Mateo County



How Does SSF Compare?

- CalPERS Fund is estimated to be 72% Funded

	Miscellaneous Plan		Safety Plan	
	UAL Balance	% Funded	UAL Balance	% Funded
Daly City	110,376,411	73%	149,590,511	65%
Redwood City	132,369,133	70%	195,952,209	62%
San Mateo	101,414,805	70%	198,803,821	60%
South San Francisco	111,188,891	63%	153,332,993	65%

Source: CalPERS Summary of Valuation Results

Why Pension Funding Policy



Maintain the City's sound financial position;



Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures;



Provide guidance in making annual budget decisions;



Protect the City's creditworthiness;



Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers, employees, and residents of the City; and



Ensure that the structure of Pension Obligation Bonds, if authorized and issued, is consistent with the City's strategic planning goals, objectives, capital improvement program, budget, and Debt Management Policy.

Strategies for Addressing Pension Obligations

1

Make Additional
Discretionary
Payments (ADPs)
to CalPERS

2

Pension
Stabilization
Reserve Fund

3

Section 115 Trust

4

Pension
Obligation
Bonds

1

Make Additional Discretionary Payments to CalPERS above and beyond Annually Required Contribution

- Prepay small amounts of “principal” on the UAL and save the 6.80% associated “interest” cost
- Requires long-term budgetary discipline and prioritization
- Benefits of making Additional Discretionary Payments to CalPERS
 - Chip away at UAL and can result in significant savings over time
 - Less risky compared to POBs (no borrowing of funds and mitigates market timing risk)
 - Improves the City’s funded status over time
- Cons
 - Market Risk if making one-time big payment

2

Pension Stabilization Reserve Fund

- City has created a designated Pension Stabilization Reserve of \$5.5M
 - No impact on UAL unless funds are transferred to CalPERS
 - Invested with Chandler within California Investment Code
 - Yield since Inception: 4.5%
- Benefits of Pension Reserve
 - Investment return has lower risk
 - City has maximum control over assets
 - Budget stabilization
 - Available in years with unexpected operating results or recession
- Cons:
 - Lower Investment return
 - Not receiving credit from CalPERS to reduce Unfunded Liabilities
 - reducing interest rate environment

3

Section 115 Trust

- Legally restricted fund - Can only be used for pension costs
 - No impact on UAL unless funds are transferred to CalPERS
- Benefits of 115 Trust
 - CalPERS CEPPT similar to the OPEB CERBT
 - Assets in the 115 Trust will offset liabilities on the City's balance sheet
 - Investment flexibility (perhaps greater investment return, but higher risk)
 - City can choose conservative, moderate, or aggressive investments
 - Long term strategy so the fund can grow over time
 - City has control over assets
 - Flexibility to access trust assets at any time if used for pension costs
 - Addresses unfunded pension liabilities over time when using assets to make “slow and steady” ADPs to achieve UAL savings
- Cons: Investments can be in a negative position at a time when City may need to make a withdrawal to offset pension costs

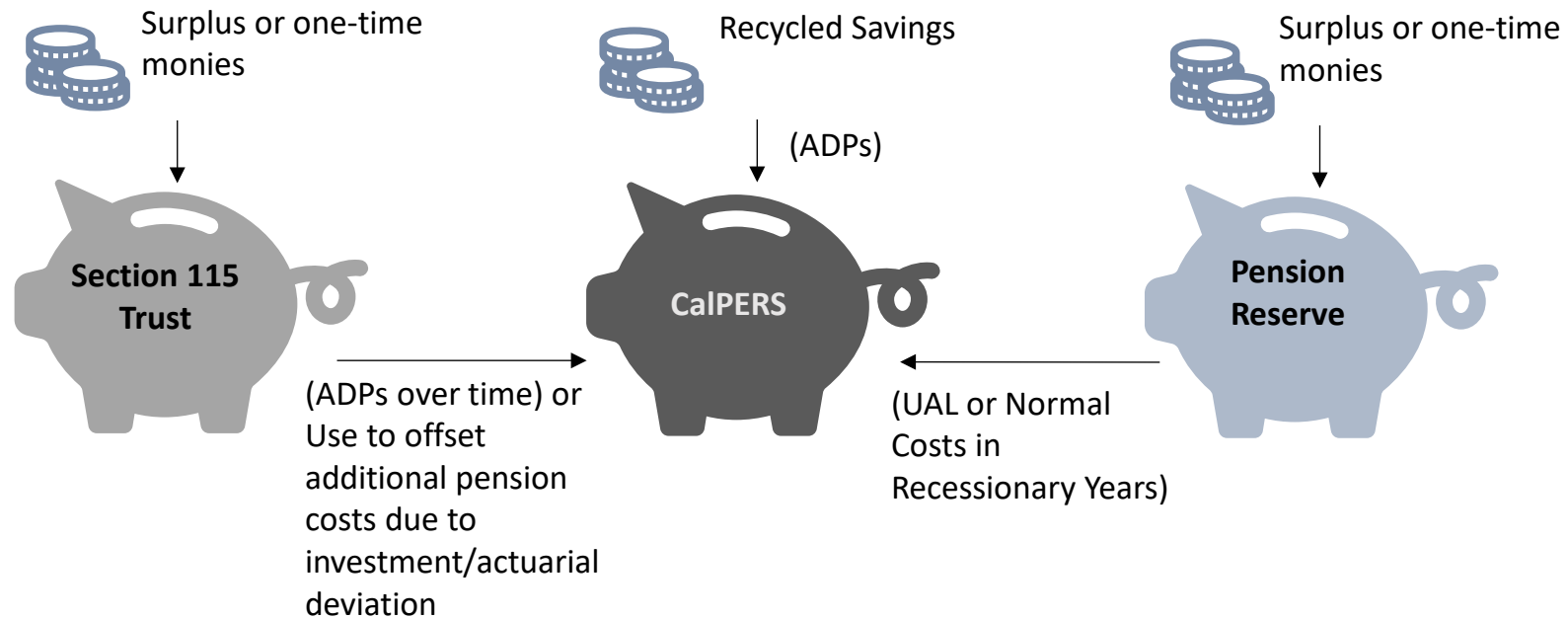
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Pension Obligation Bonds (POBS)

- October 2021: City Council Study Session on Pension Funding Strategies
- July 2022: City Obtained Judicial Validation for Issuance of POBs
- POBs Refinance the UAL
- Benefits of POBs
 - Significant Budgetary Savings when POB Borrowing Rate is Low
 - Stabilize UAL Payments (level payments)
 - Restore Funded Status
- Risks of POBs
 - Market Timing Risk
 - Impact of Returns is Magnified
 - Returns in Initial Years Critical

Unfavorable Market Conditions

Funding strategies



Feedback from Council

- Set target funding ratio for UAL
- Preset strategies
 - Set Reserves Limits
 - Preset criteria for designating a % of General Fund Surplus or one time revenue to fund pension obligations
 - Example: 50% up to cap of \$2 million
- Review and oversight by Council



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Questions/Comments