AGENDA ITEM: 14

MEETING DATE: **June 15, 2021**

TO: **Board of Directors**

FROM: **Kelly Woo, Director of Finance and Administration**

SUBJECT: **CalPERS Pension Unfunded Liability**

OBJECTIVE: Discuss options to fund our $2.9 Million unfunded pension liability

SUMMARY OF CALPERS RETIREMENT BENEFIT: All qualified permanent and probationary employees are eligible to participate in Truckee Tahoe Airport District's cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

The Plans' provisions and benefits in effect on December 31, 2020, are summarized as follows:

7 Level 1 Classic Members (Prior to 7/29/12)

2 Level 2 Mid Members (Prior to 1/1/2013)

17 Level 3 PEPRA Members (after 1/1/13)

Hire date	Prior to July 29, 2012	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years' service	5 years' service	5 years' service
Benefit payments	monthly for	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible	2.0% - 2.7%	1.09% - 2.41%	1.0% - 2.5%
Required employee contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates	13.182%	8.081%	6.985%

What is unfunded pension liability? Unfunded pension liability is the gap between the present value of future benefits a pension fund is expected to payout and the assets presently in the pension fund. As of December 31, 2020, the Truckee Tahoe Airport District reported net pension liabilities for its proportionate share of the net pension liability (Unfunded Pension Liability) of $2,937,988.

Currently we have identified multiple options to pay down the unfunded pension liability. We think the 2 best options are as follows:

1-Make additional discretionary payments (ADP's) once or twice a year that we budget for and in addition to the mandatory payment we make in July.

2-Utilize an IRS Section 115 Trust either via private company (Managed by an outside company) or CalPERS version (CEPPT-CA Employers' Pension Prefunding Trust that is managed by CalPERS)

- A grantor trust established by a governmental unit.
- Established to set aside funds for paying future employee benefits such as pensions and OPEB.
- The accumulation within such trusts is excluded from income taxes.
- Assets are dedicated to providing benefits to employees/retirees and beneficiaries.
- Employer contributions are irrevocable.
- Assets are legally protected from creditors of the employer.

The main differences are:

- Funding straight to the normal CalPERS fund would not require additional admin or other fees.
- Funding straight to the normal CalPERS fund would not require a change to our current accounting practices.
- Funding a 115 Trust via CalPERS has low fees and they administer it. It is essentially an investment account where the earnings would then be paid to the main CalPERS fund at a point in time. 115 Trusts require a change to our current accounting practices and creating a new fund on our financials.
- Funding a non 115 Trust has high fees and administered/managed by multiple parties and earnings would be paid to the main CalPERS fund at a point in time. 115 Trusts require a change to our current accounting practices and creating a new fund on our financials.
- An ADP would immediately reduce the pension liability while a section 115 trust delays the liability reduction until funds are transferred out of the 115 trust.
- Earnings from an ADP are nearly guaranteed at 7% while in contrast a 115 trust will need to seek investments with far more risk to outperform 7% + administration fees.

The additional payments can also be looked at from a cash flow perspective. With adequate cash flow we can make additional payments once or twice a year to the main CalPERS fund. These payments can be earmarked in the budget process. If there is concern about future cash flow, we could set up a Section 115 Trust to create an investment fund whose earnings are then utilized to fund additional payments down the road.

STAFF RECOMMENDATION: Before any decisions are made, staff suggests an actuarial analysis. Staff has reached out to an actuarial service provider that specializes in CalPERS pension analysis to analyze our organization and outline various options. Jeff Chang from BBK Law suggested a firm they work with frequently, Bartel & Associates, LLC. An actuarial analysis with projections for long term would be between $6,000 for some basic analysis of baseline contribution projections up to $11,500 for a full actuarial analysis with UAL modeling. Attached is the Bartel & Assoc review letter. Due to the complex nature of this topic staff recommends the full analysis.

SAMPLE MOTION: I move to approve an expenditure not to exceed $11,500 to engage Bartel Associates to conduct a CalPERS review and prefunding alternatives analysis.

ATTACHMENTS:

Bartel & Associates Proposal Letter - CalPERS Review and Prefunding Alternatives