



SUBJECT: Proposal to Make Additional Payment to District CalPERS Unfunded Pension Liability Obligation

MEETING DATE: July 28, 2021

TO: Board of Directors

FROM: Kelly Woo, Director of Finance and Administration

RECOMMENDATION: Approve Board request at June 2021 Board Meeting to fund \$500,000 in addition to the CalPERS mandatory yearly UAL payment during the fiscal year 2021 to reduce the Districts CalPERS 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 PEPRAs Members (after 1/1/13)

	Prior to July 29, 2012	Prior to January 1, 2013	On or after January 1, 2013
Hire date			
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%
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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.

Per Board discussion at our June 23, 2021 Board Meeting, it was determined after considering the above options that making additional payments to CalPERS to pay down the District's unfunded pension liability was the best option for the District. The Board directed staff to include an agenda item at the July meeting to consider an additional \$500,000 payment as a significant first step to reduce financial liability as well as reduce interest cost to this funding obligation of the District.

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.

STAFF RECOMMENDATION: Staff is recommending that the Board approve an additional payment directly to CalPERS. Additionally, it was decided by Staff that further studies with an actuarial are at this time unnecessary as CalPERS provides us with the information we need to make decisions regarding additional payments and budgeting.

SAMPLE MOTION: I move to approve a payment of \$500,000 (or whatever is agreed upon at the Board meeting) to CalPERS towards paying down our UAL in August 2021.