

**ADMINISTRATIVE POLICY**

SUBJECT: CalPERS Unfunded Accrued Liability and Other Post-Employment Benefit (OPEB) Liability Funding Policy

EFFECTIVE DATE: June 15, 2021

I. Policy Objective:

This policy is intended to provide guidance on the development and adoption of a funding plan for the CalPERS Unfunded Accrued Liability (“UAL”) and Other Post-Employment Benefit (OPEB) liabilities. This funding policy should support the decision making process of the City Council and should be consistent with the overall purpose and goals of the City of Monrovia’s pension and OPEB plans.

As used in this Policy, “City” shall mean the City and/or the City and its related entities, as the context may require.

II. Authority

City Council Resolution No. 2021-42 (Adopted June 15, 2021)

III. Assigned Responsibility

City Manager and the Administrative Services Director

IV. Applicability:

City Manager, Administrative Services Director, and Administrative Services Department staff

V. General Policy

Background:

The primary goal of funding defined benefit pension and retirement benefit plans is to ensure that sufficient assets will be accumulated to deliver promised benefits when they come due and to protect pension and other retirement benefits in situations that involve employer insolvency or bankruptcy. Establishing sound funding guidelines promotes pension and retirement benefit security.

The City’s overall objective is to fund the CALPERS pension and OPEB plans to a level of 100% of the total accrued liability, whenever possible.

### Analysis:

The purpose of this funding policy is to establish a framework for funding the City of Monrovia's defined benefit pension plans, taking into account factors that are relevant to the plans and the City. These factors include:

- The financial position of the City.
- The stability of the plans and / or the affordability of the annual contributions.
- Benefit security.
- The terms of the CALPERS contract for Monrovia, along with any related collective bargaining agreements.
- Minimum funding requirements under State law.

There are a number of advantages to developing a funding policy to address unfunded accrued liabilities. These advantages include the following:

- Establishing a funding policy provides the framework to ensure proper management of future liabilities. The adoption of a funding policy will ensure a disciplined decision making process, which will contribute to better predictability in funding.
- Having a written summary of the funding policy that is accessible to the members will help improve the transparency of funding decisions and increase the members' understanding of pension funding issues.
- The exercise of developing this funding policy improves the identification, understanding, and management of the risk factors that affect the variability of funding requirements and the security of benefits to the members.

### Outstanding Liabilities:

Pension Liabilities - In November 2017, the City issued a pension obligation bond that generated bond proceeds to pay CALPERS 100% of the UAL as of November 1, 2017. After the payment of the UAL in November 2017, the City has incurred a new unfunded accrued liability owed to CALPERS. This new unfunded accrued liability is calculated every June 30<sup>th</sup> when CALPERS completes a new actuarial valuation and calculates the City of Monrovia's total pension liability as of the new valuation date. If the City's funded assets are not equivalent to this new liability amount, the City will incur a new unfunded accrued liability at that point in time. The pension liability may increase or decrease from year to year, due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.).
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected.
- Changes in plan benefits.

Any new increase or decrease in the liability resulting from the annual actuarial valuation is identified as a separate line item, or amortization base, on the annual CALPERS actuarial valuation report.

OPEB Liabilities - The City has an actuarial accrued liability for unfunded defined benefit plan retiree medical costs. The City has taken steps to address this unfunded liability by implementing a defined contribution retiree medical program for new employees beginning in 2009. The defined contribution program essentially eliminates any new OPEB liability, since amounts deposited in the defined contribution plan are paid annually and are funded based on predetermined contribution amounts, not predetermined benefit amounts. However, for existing retirees and for employees enrolled in the grandfathered defined benefit plan, there continues to be an unfunded liability.

Funding Plan to Address UAL and OPEB Liabilities

Section 115 Trust - In September 2019, the City established a Section 115 Trust with the intent to make future contributions as part of the annual budget cycle. This investment vehicle aligns with the City's long-term funding objectives and provides a strategy that sets money aside for UAL and OPEB liabilities. Funds deposited into the Trust are earmarked to pay down and manage growing UAL and OPEB liabilities.

Dedicated Revenue Source - The City has already taken decisive action in response to the unfunded liabilities by issuing the pension obligation bond, increasing employee contributions, limiting OPEB benefits, and paying Annual Required Contributions (ARC). However, the City desires to avoid future tax increases, stress on the City budget and increases to employee contributions for pensions or benefits. Therefore, staff has identified a revenue source that can be dedicated to the Section 115 Trust each year.

Effective beginning in Fiscal Year 2021-22, the City will annually allocate 100% of Residual Redevelopment Property Tax Revenues received in the General Fund as a dedicated funding source for the City's Section 115 Trust. The City estimates an additional increase in these Residual Redevelopment Property Tax Revenues beginning in Fiscal Year 2026-27, which is the result of retiring bond obligations issued through the former Monrovia Redevelopment Agency. This additional increase in Residual Redevelopment Property Tax Revenues will also be dedicated to the Section 115 Trust. During each annual budget process, staff will identify the annual allocation of Residual Redevelopment Property Tax Revenues and appropriate these funds to the Section 115 Trust Fund, subject to City Council approval, as part of the annual budgeting process.

DATED: \_\_\_\_\_

BY: \_\_\_\_\_  
Dylan Feik  
City Manager

APPROVED AS TO FORM:

ATTEST:

\_\_\_\_\_  
Craig A. Steele  
City Attorney

BY: \_\_\_\_\_  
Alice D. Atkins  
City Clerk