Long-Term Funding Plan for NCPA's Employee Pension Program

December 29, 2016

Background

In 1981, NCPA adopted a Simplified Employee Pension (SEP)/Individual Retirement Account (IRA) plan to provide retirement benefits for the small number of existing employees and for future employees. The Agency originally adopted the plan because: 1) it was easy to implement; and 2) it was perceived as simple to administer. Over the years, the Agency explored changing its retirement plan a number of times. The California Public Employees' Retirement System (CalPERS) retirement plan had been adopted by most of the Agency's members and was seen as being very successful for them as at the time, most Agency members participating in the plan had been paying little for years because of CalPERS' ability to pool investment of assets and amortize losses over a 20-year period.

NCPA executed an agreement to join the CalPERS retirement system April 7, 2002. Ratification of the agreement created an immediate unfunded liability of $13.5 million for the Agency. CalPERS performs an actuarial study each year for the pension plan. In December 2016, NCPA received the most recent actuarial valuation for the Miscellaneous Plan which resulted in a large increase in the unfunded liability (from $55.9 million to $60.9 million, or 8.97%) and reduction in funding level (57.2% funded to 56.1%) primarily due to a lower than projected return on asset investments.

To stabilize the Pension Plan and reduce the unfunded liability over a shorter amortization period, staff recommends that the Finance Committee recommend adoption of the following long term funding plan to the Commission.

Plan Elements

1. Establish a goal to obtain a minimum funding level of 80% within 15 years and confirm the policy of funding 100% or more of the employer required contribution each year

   Best practices and guidelines from the various credit rating agencies indicate that a minimum funding level of 80% is desired, as well as funding 100% of the employer required contribution. NCPA's current practice is to fund 100% of the employer required contribution; however, the Agency's current funding ratio is 56.1%.

2. Shorten the amortization period used in the actuarial calculations from 30 years to 15 years

   This strategy will increase the employer required contribution by approximately $1,455,070 a year, but will shorten the period of payments for the liability, similar to refinancing a mortgage over 15 years versus 30 years. Funding of this additional payment will begin in FY2018.

3. Research other ways to limit pension liability going forward

   This long-term strategy includes researching other ways to limit pension liability by placing additional contributions into non-CalPERS retirements trusts such as the Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSG). This would diversify the investment portfolio for pension assets.

4. Review plan funding annually with Finance Committee in conjunction with CalPERS actuarial study issuance and recommend updates as needed

   As with every strategy, periodic review is important. In accordance with best practices, NCPA will assess the annual CalPERS actuarial study and the updated funding levels and make recommendations for revision as needed to the Finance Committee. The Chair of the Finance Committee will provide an annual report of the progress of reducing the unfunded liability and provide proposals to limit the pension liability going forward.