

September 11, 2019

Gretchen Beatty  
Director of Human Resources  
City of Fullerton  
303 W. Commonwealth Avenue  
Fullerton, CA 92832

Re: Impact on CalPERS costs of proposed Police Side Letter of Agreement

Dear Ms. Beatty:

The City of Fullerton has requested that Bartel Associates, LLC provide an actuarial calculation regarding the actuarial impact of changes in Police pay schedules as reflected in a proposed Side Agreement on the City's CalPERS costs.

***Summary of Proposed Benefit Changes***

Under the proposed change (the following is a simplified summary of relevant provisions):

- All Police would receive a 2.5% pay increase in October 2019
- A new Step 7 would be implemented, 5% pay increase higher than Step 6 effective October, 2019
- A new Step 8 would be implemented, 2.5% pay increase higher than Step 7 effective July 2020

The current MOU, assuming it is continued, provides at 1% pay increase effective July 1, 2019 and 1.5% effective July 1, 2020. The current salary step increases are all 5%.

***Cost of Change***

**Assumptions and Methods**

We estimated the cost impact of this change using the following assumptions:

- We used the 2018 payroll, headcount, and normal cost rate for each Police Tier as detailed in the 2018 CalPERS actuarial valuation report.
- The City reported that 46% of police are currently at the top pay step. Based on this, we assumed 70% of non-PEPRA members are at the top step. We made the simplifying assumption that no PEPRA members are at the top step.
- We assumed that the City already budgeted the 1% or 1.5% across-the-board pay increase and the current pay steps. Our normal cost estimates take into account the whole increase in each year's pay as a base, but only calculate the impact of the new increases in the proposed Side Agreement.
- We used an email dated July 11, 2019 from Kerry Worgan of CalPERS who estimated that, based on the 2018 valuation, a 10% pay increase for City Police would increase the actuarial accrued liability about \$7,000,000, and the UAL payment by \$637,000 per year for 20 years.
- As we've discussed, CalPERS builds into their costs both a COLA-type pay increase and a "merit" increase varying by years of service. For purposes of evaluating the impact on the City's actuarial accrued liability and UAL payments, we've assumed that in the long run, the new step 7 and step 8 will increase each person's PERSable pay at retirement and so their retirement benefits by about 7.6% (1.05 x 1.025). We've assumed all other increases would not change pay at retirement.



### Normal Cost Impact

The City's Normal Cost rate will not change, but since the total amount of PERSable pay will be higher than otherwise, the City's Normal Cost payment will increase as soon as pay increases. We estimate this as follows:

	2019/20 (Full Year)	2019/20 <sup>3</sup> / <sub>4</sub> of Year	2020/21 (Cumulative)
Estimated increase in City's Normal Cost payment for Police	\$180,000	\$135,000	\$235,000

### Unfunded Liability (UAL) Payment Impact

Since virtually all police will eventually reach the new highest pay step 8, the City's pension costs will reflect these increases for all police employees. The costs below reflect only the impact of the new steps 7 and 8, as producing retirement benefits greater than what would have occurred without the new steps.

The cost pattern for the UAL change is unclear. We show below the contribution increase if the full impact of the new steps were reflected immediately in CalPERS's 6/30/20 actuarial valuation. However, the actual costs may arise differently over time, based on the difference between each individual's actual and expected pays each year.

Year raises begin	2019/20
Year of potential increase in UAL payment	2022/23
Total new step increases	7.625%
Estimated total increase in unfunded actuarial liability	\$5,300,000
Estimated annual increase in UAL for 20 years if full UAL impact reflected in CalPERS 2020 valuation	\$487,000

### Certification

Note that we have not evaluated any other portion of the proposed agreement not outlined above. We have not calculated the cost savings from elimination or revision of existing budgeted staff positions. Bartel Associates is not a law firm and we are not qualified to render a legal opinion.

Information provided in this report is for the City's management purposes. Future results may differ significantly if the Plan or City's experience differs from our assumptions or if there are changes in plan design or actuarial assumptions. The project scope did not include an analysis of this potential variation. Our calculations are based on benefit provisions, participant data, and actuarial assumptions, and other information provided by the City and CalPERS as summarized in this report. This study was conducted using generally accepted actuarial principles and practices. I am a member of the American Academy of Actuaries and meet the Academy Qualification Standards to issue the actuarial opinion in this report. Please contact Mary Beth Redding (mbredding@bartel-associates.com) with any questions about this information.

Sincerely,

Mary Elizabeth Redding, FSA, MAAA, EA, FCA  
Vice President

c: Bianca Lin, Bartel Associates, LLC

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