

OPEB

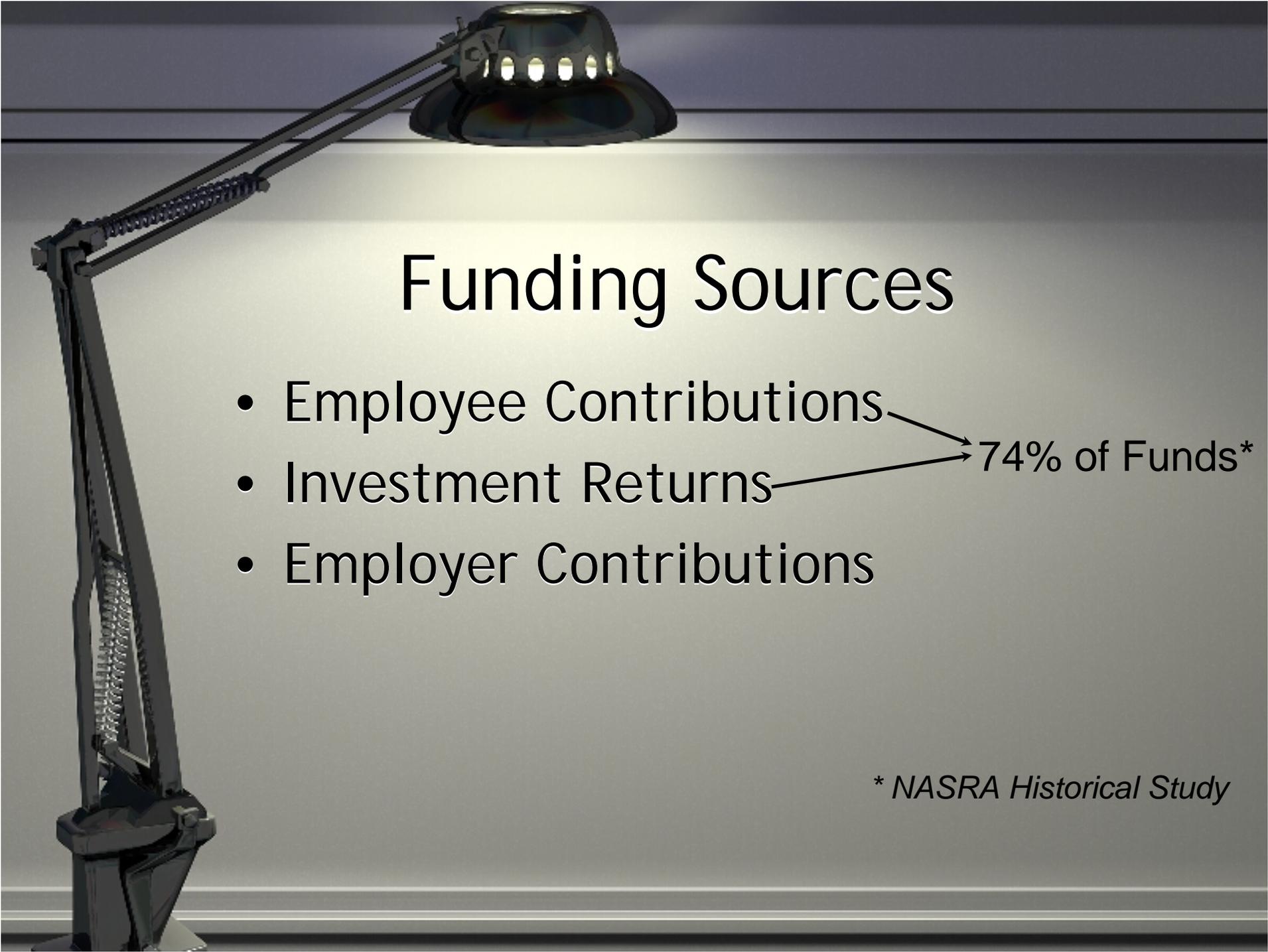
Mr. Robert R. Palmer



# The Funding of Retirement Systems

Public Employee Post-Employment  
Benefits Commission Hearing

July 12, 2007



# Funding Sources

- Employee Contributions
  - Investment Returns
  - Employer Contributions
- 74% of Funds\*

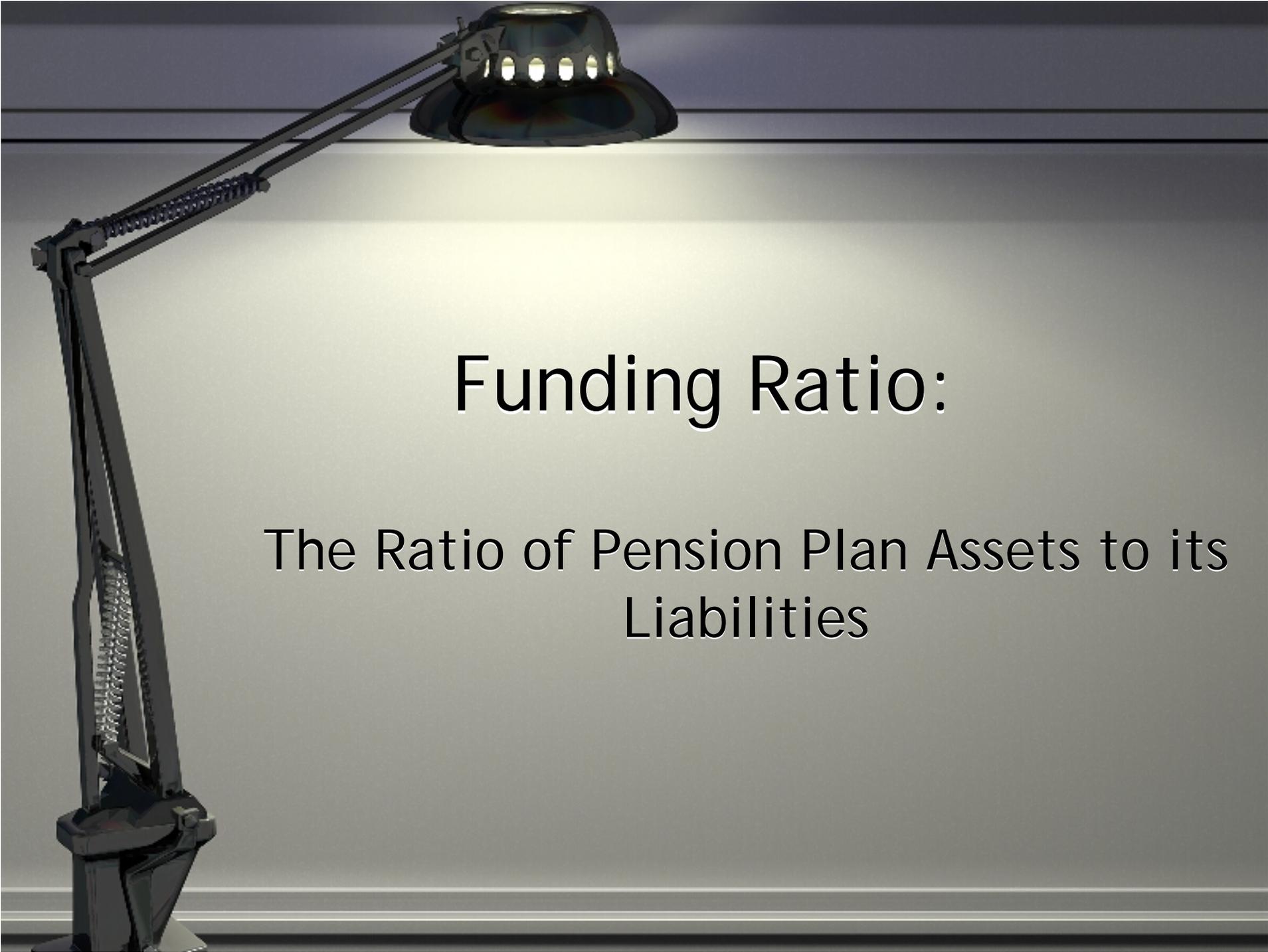
\* *NASRA Historical Study*



# Public Pensions in California

- Well Managed
- Well Funded
- Investments are Relatively Safe

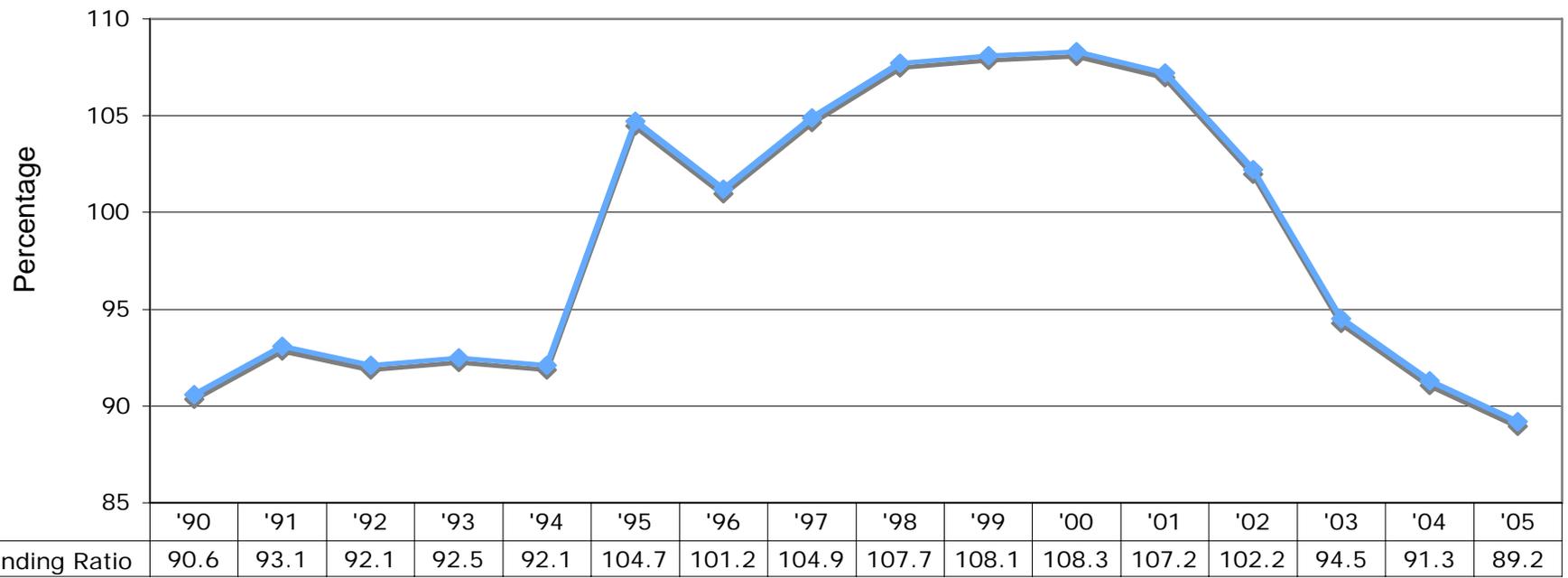
*Over the Long Term, the Pension “Promise”  
Will be Met*

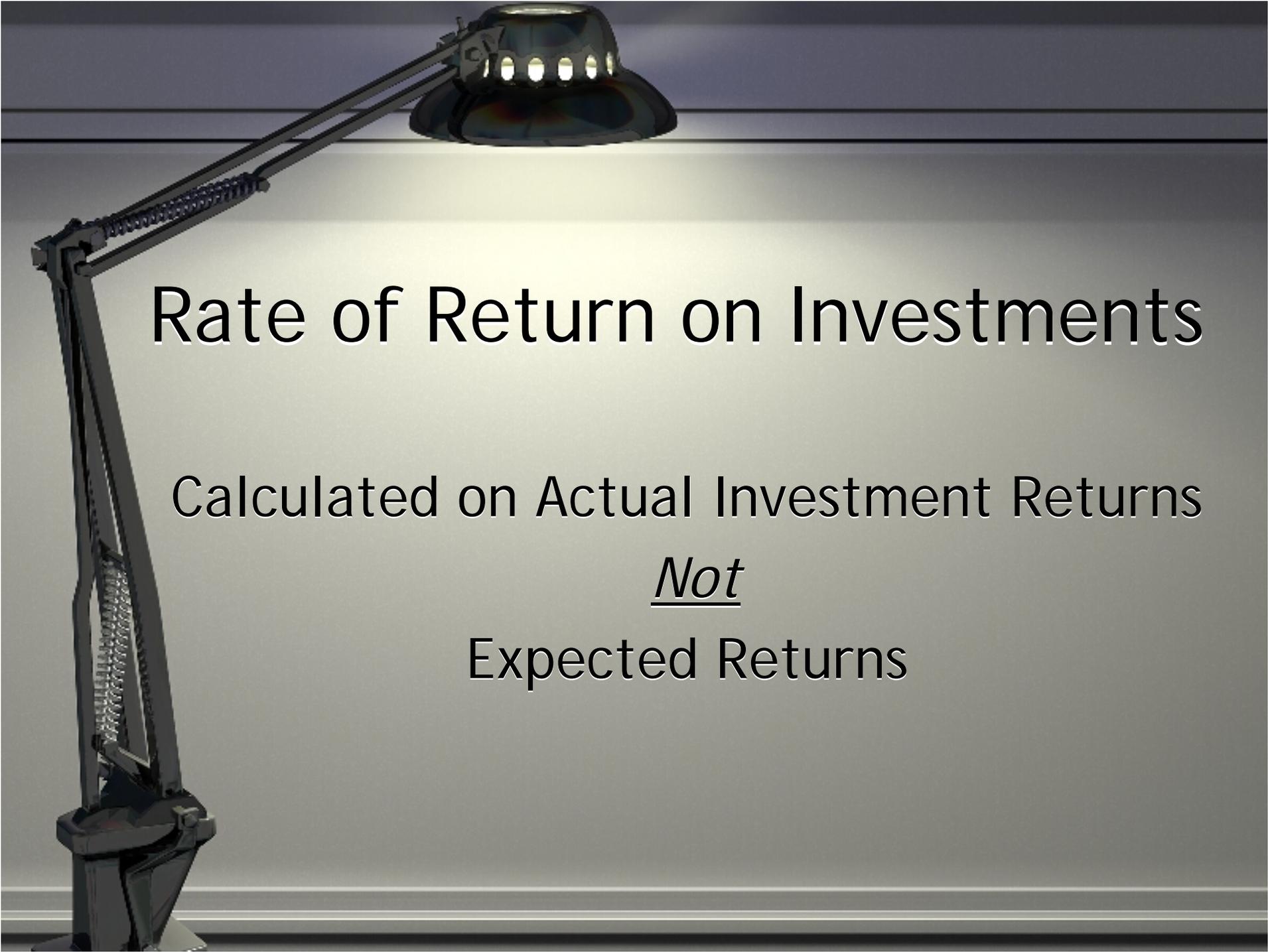
A desk lamp with a silver-colored adjustable arm and a black shade is positioned on the left side of the frame. The lamp is turned on, casting a bright, circular glow on a white surface that serves as a background for the text. The lamp's base is also visible on the left. The overall scene is dimly lit, with the primary light source being the desk lamp.

# Funding Ratio:

The Ratio of Pension Plan Assets to its  
Liabilities

## Funding Ratio





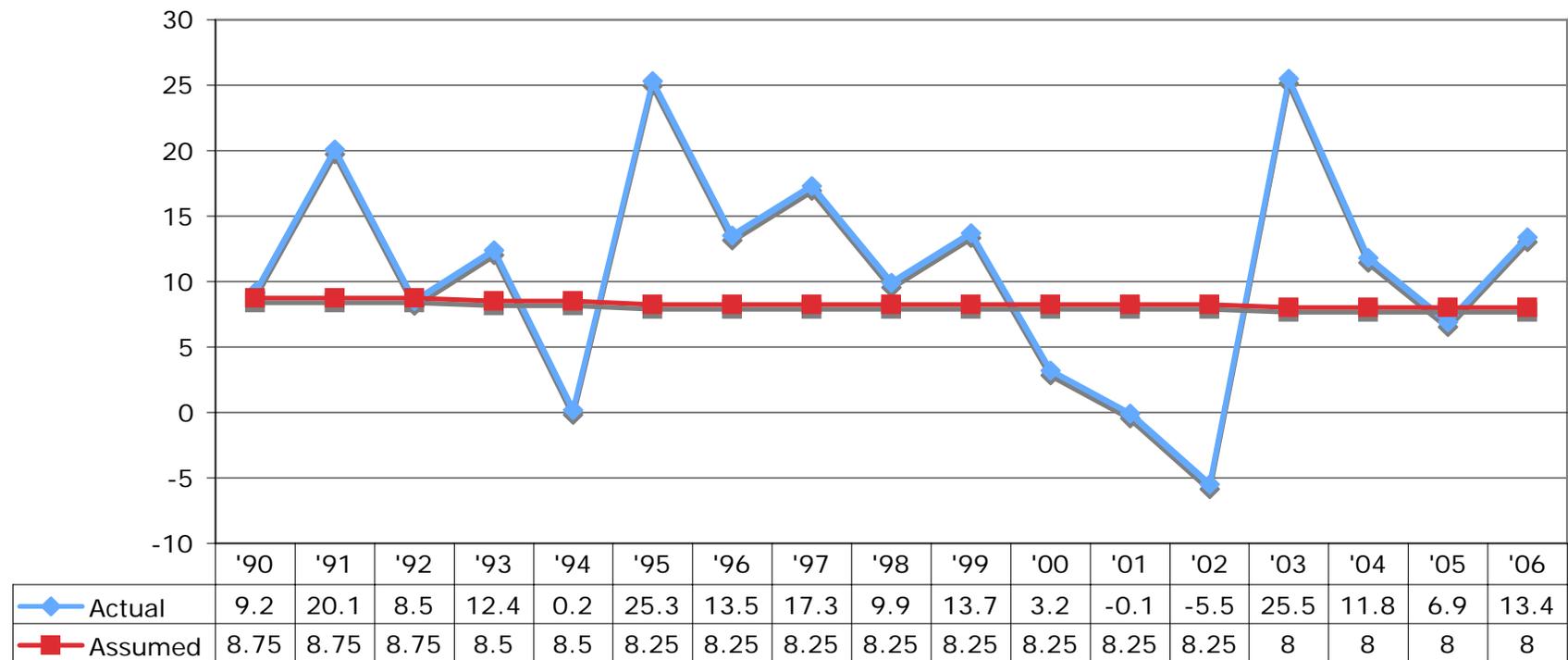
# Rate of Return on Investments

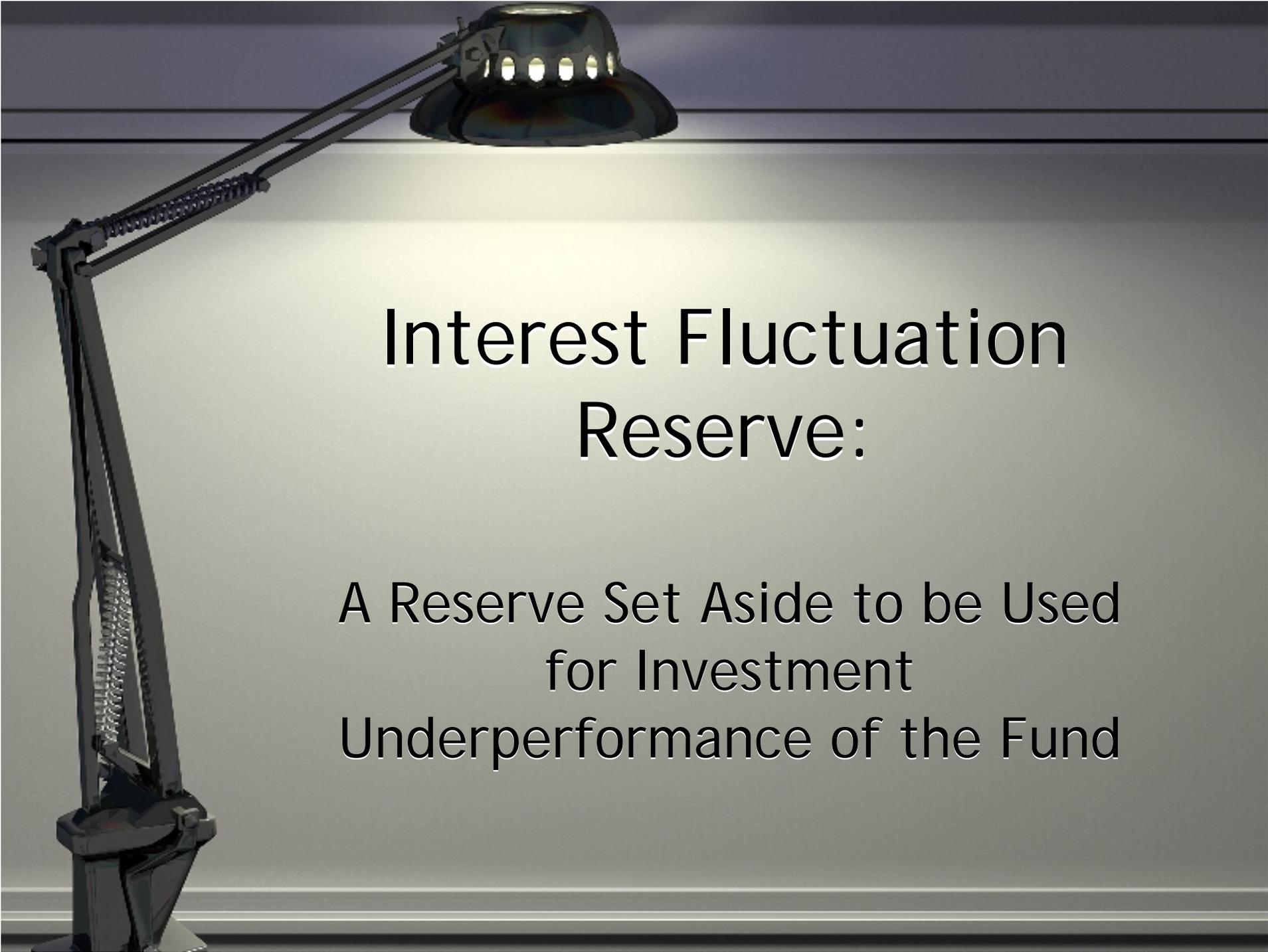
Calculated on Actual Investment Returns

*Not*

Expected Returns

# Rate of Return on Investments





# Interest Fluctuation Reserve:

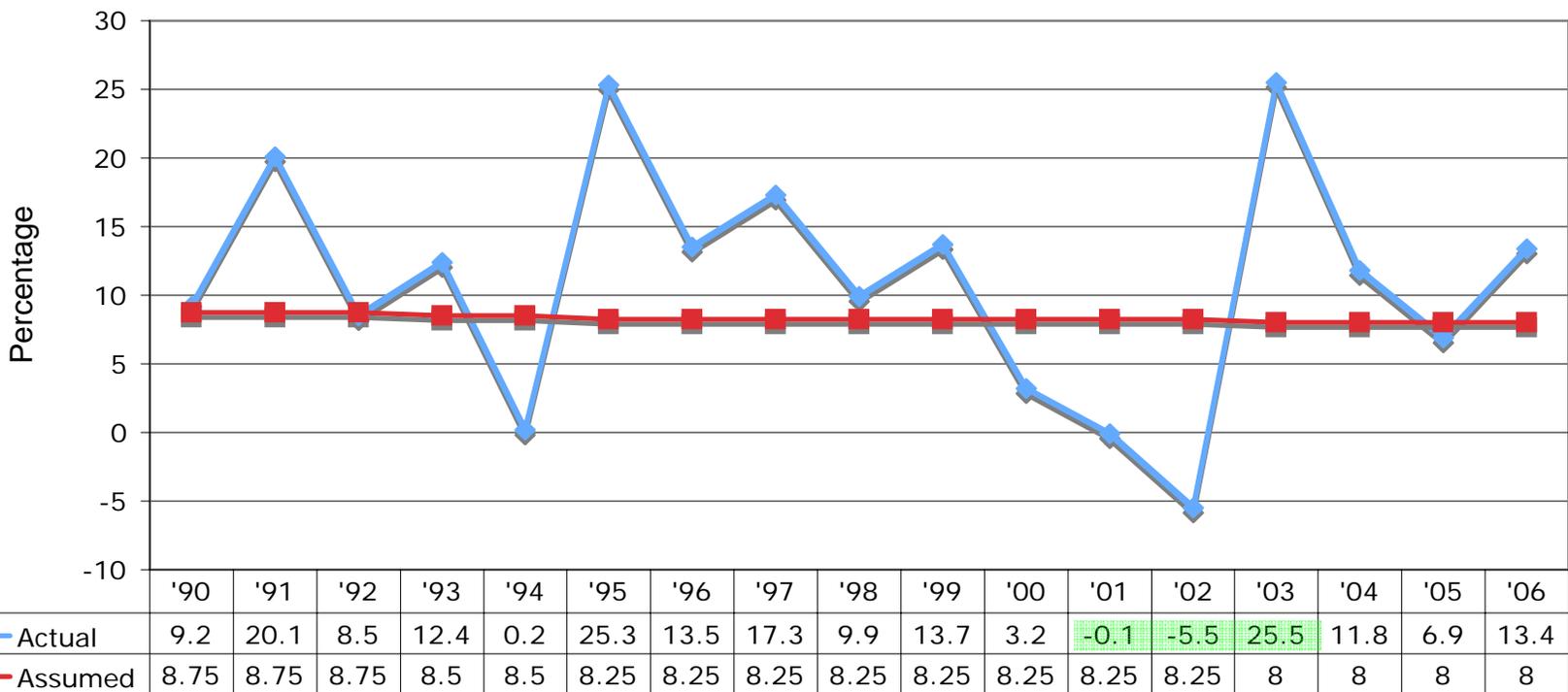
A Reserve Set Aside to be Used  
for Investment  
Underperformance of the Fund

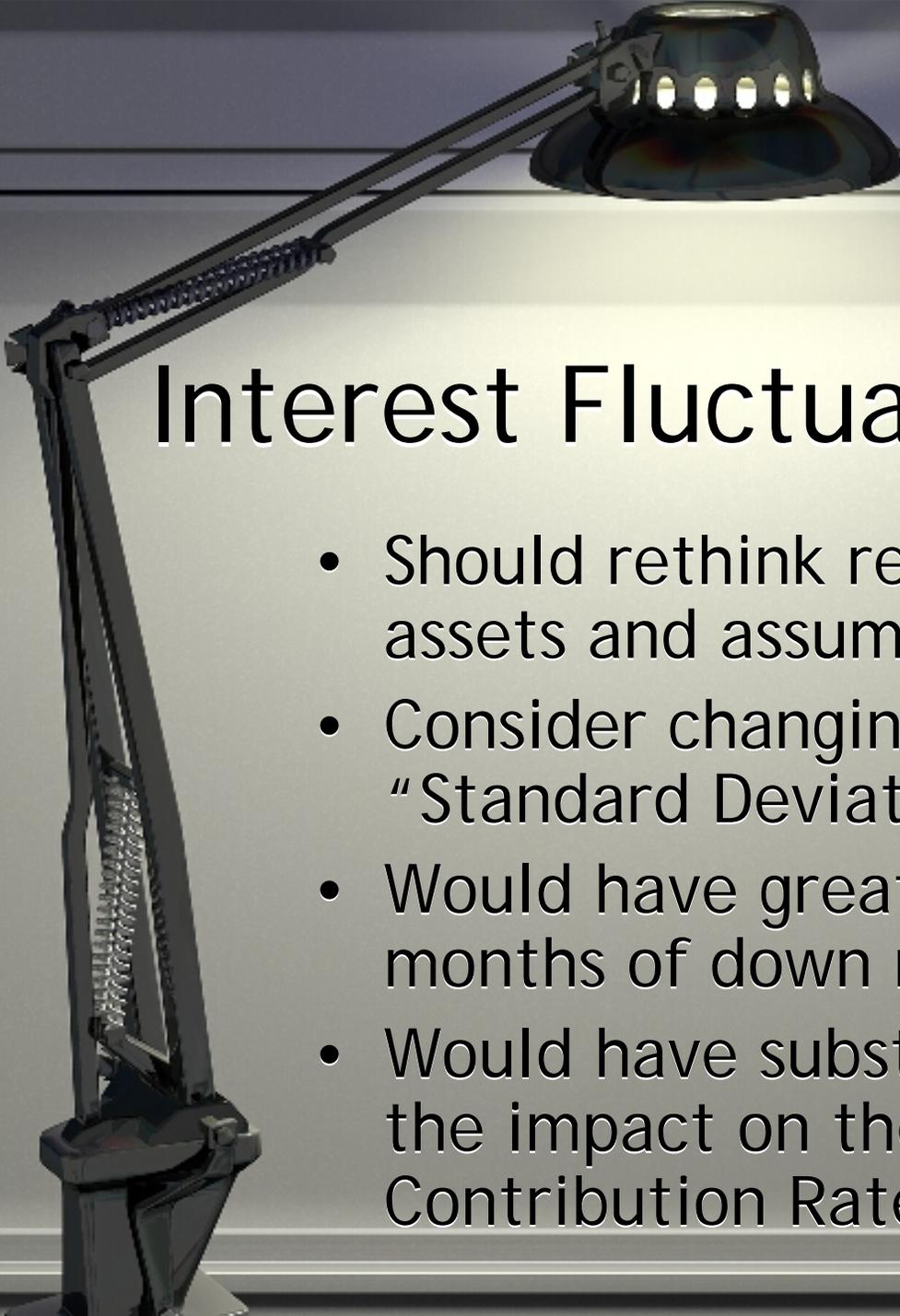


## Interest Fluctuation Reserve (IFR)

- Historical:
  - Under 1937 Act - must set aside 1% of Assets
    - Concept created when investments were entirely in bonds
    - Investments were measured at cost (not market)
- Now
  - Need to rethink IFR
  - Much more volatility in the markets
  - Look at the impact of the funds during the 36 month period of down markets

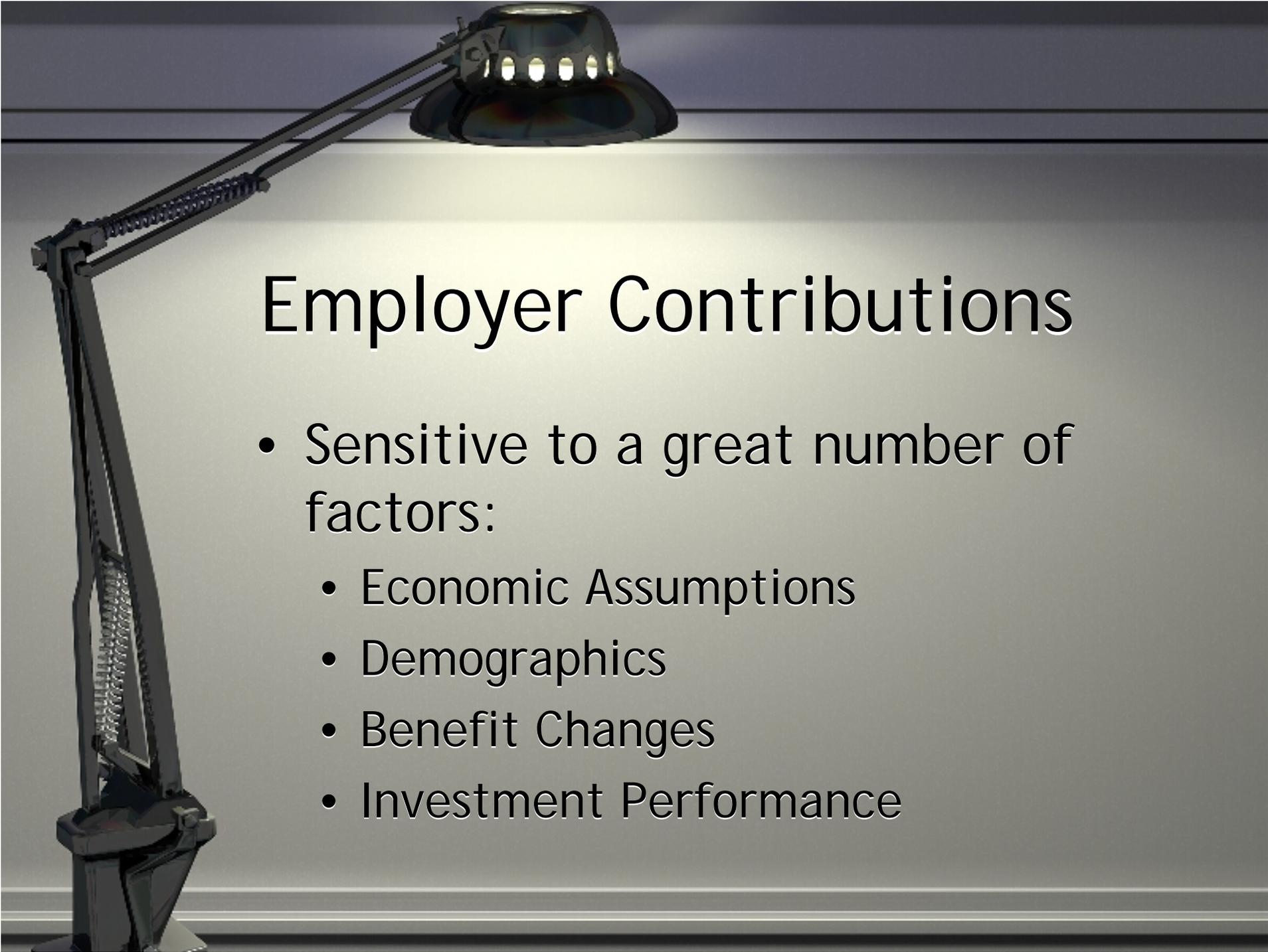
# Rate of Return on Investments





# Interest Fluctuation Reserve (IFR)

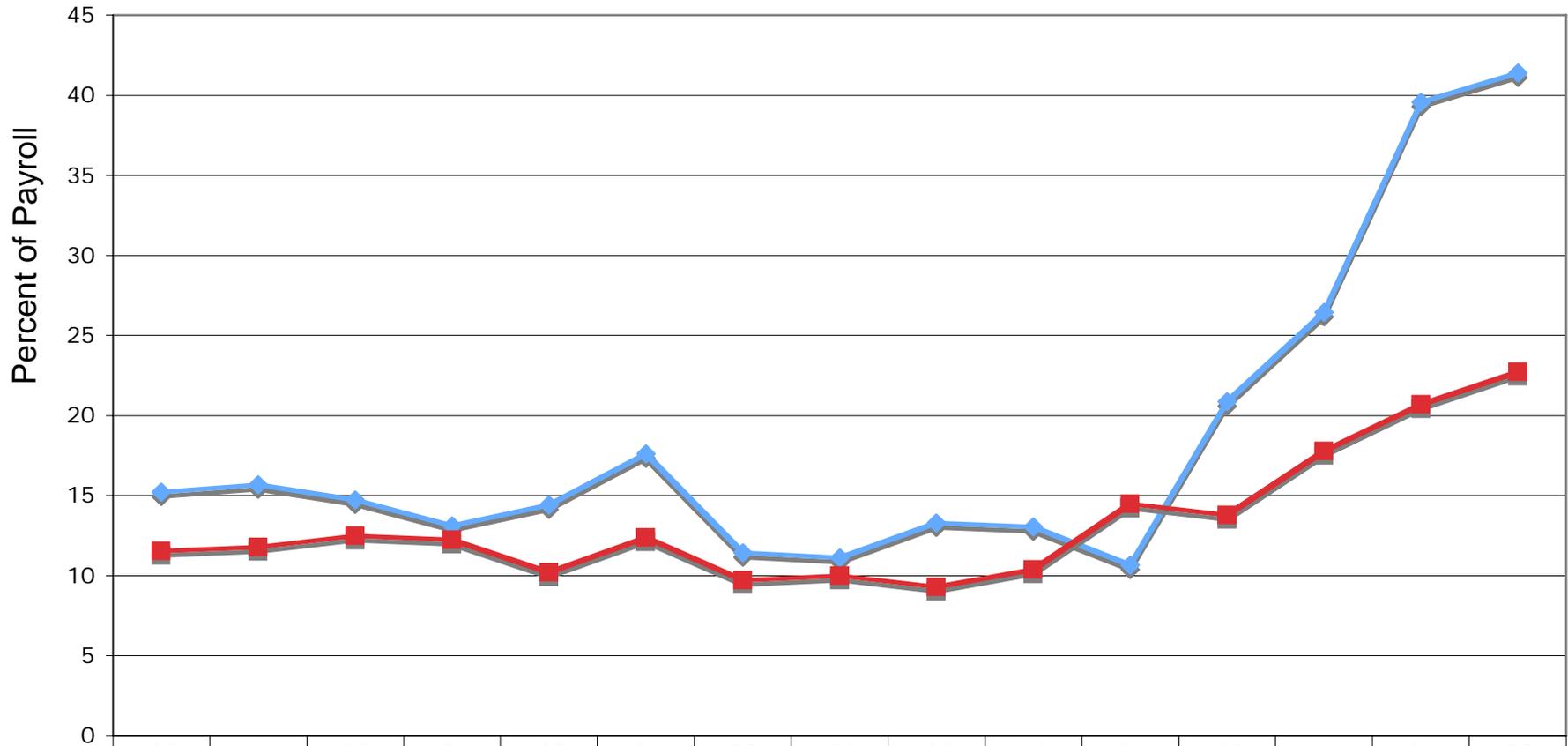
- Should rethink relationships between assets and assumptions
- Consider changing the IFR to the “Standard Deviation” of the Fund
- Would have greatly mitigated the 36 months of down market
- Would have substantially helped reduce the impact on the Employer’s Contribution Rate



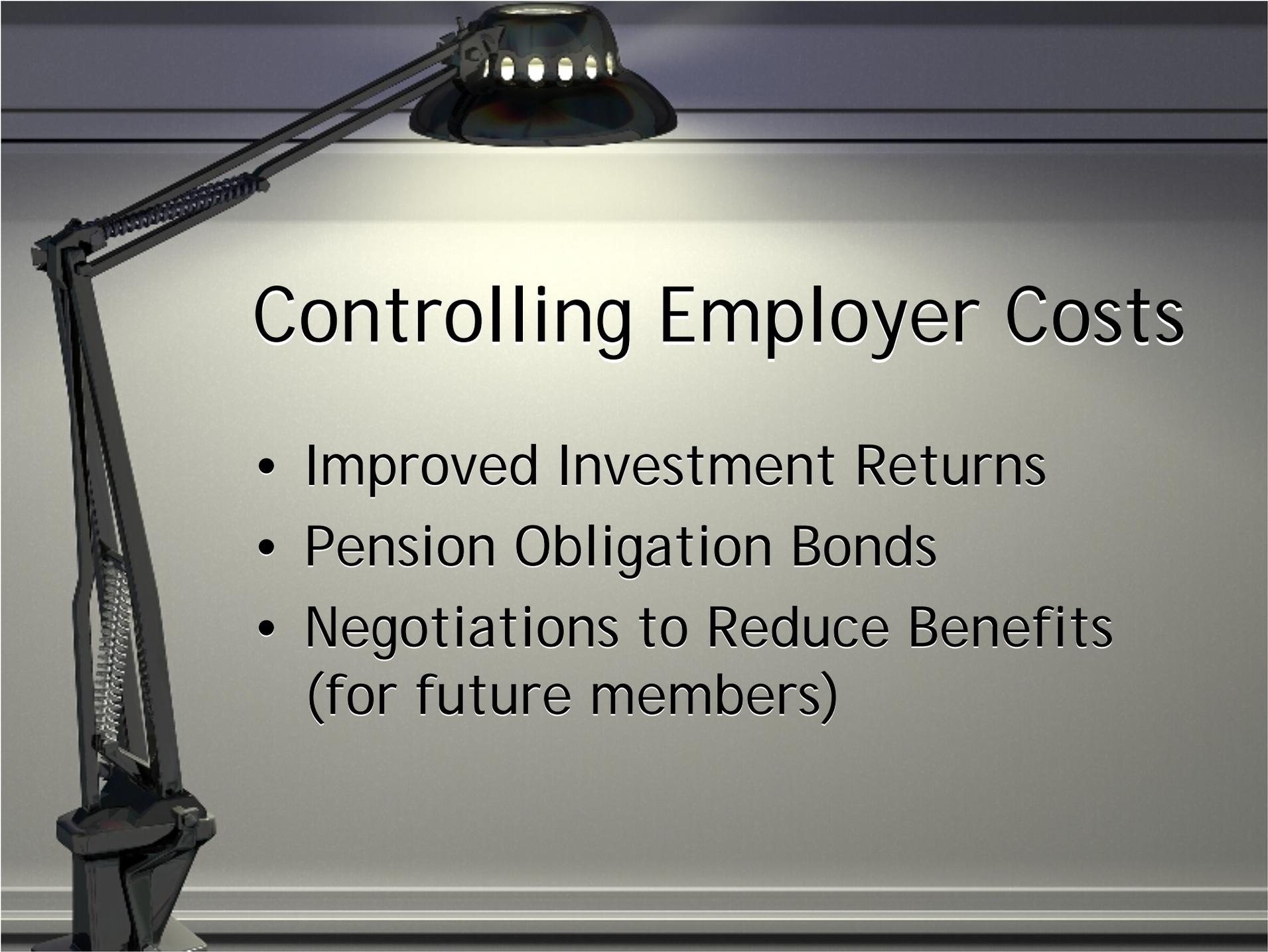
# Employer Contributions

- Sensitive to a great number of factors:
  - Economic Assumptions
  - Demographics
  - Benefit Changes
  - Investment Performance

### Employer Contribution Rates

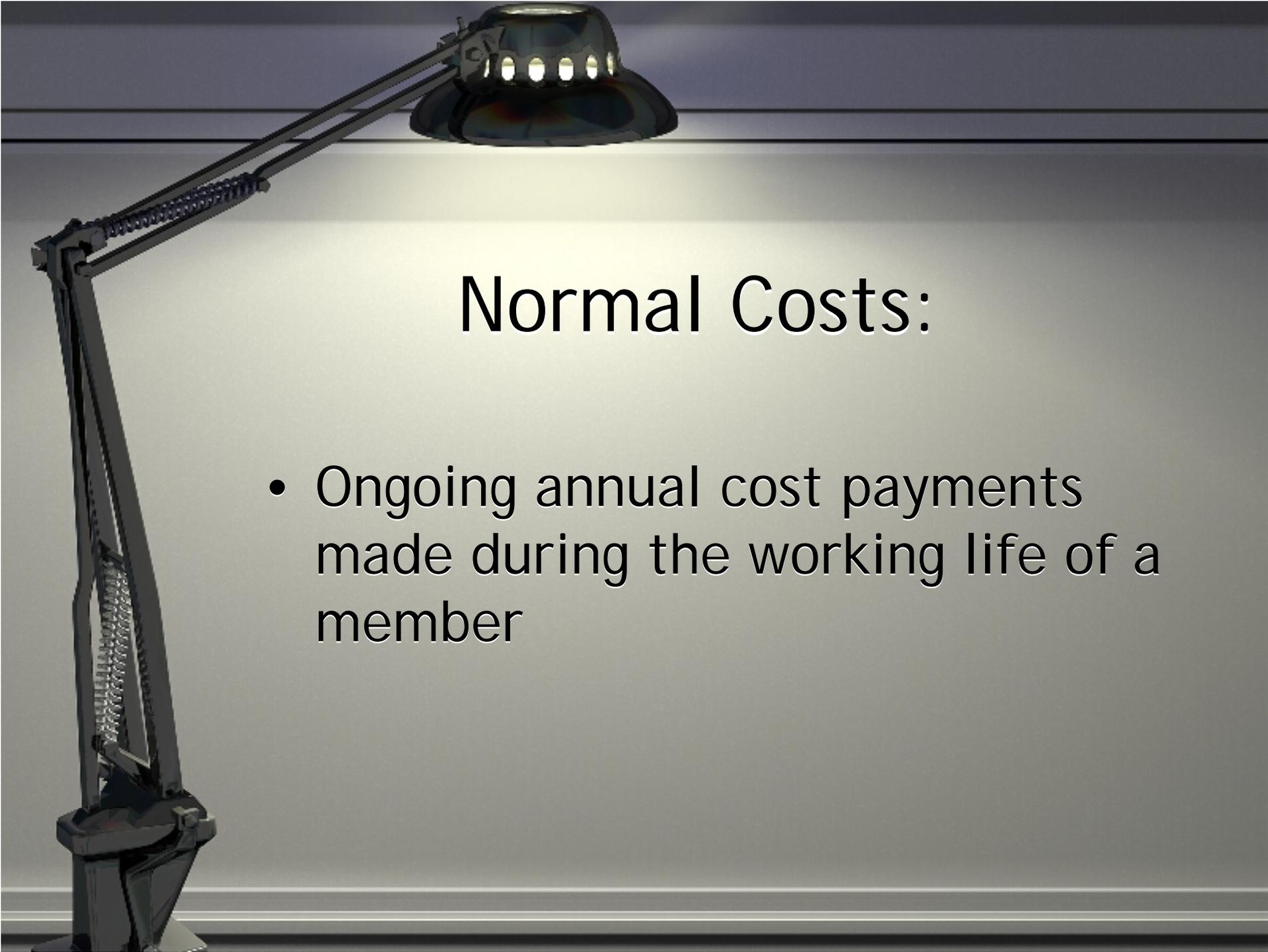


◆ Safety	15.22	15.69	14.74	13.13	14.43	17.59	11.44	11.13	13.28	13.04	10.66	20.87	26.44	39.56	41.37
■ General	11.53	11.77	12.49	12.25	10.22	12.38	9.7	10	9.28	10.37	14.48	13.8	17.77	20.7	22.74



# Controlling Employer Costs

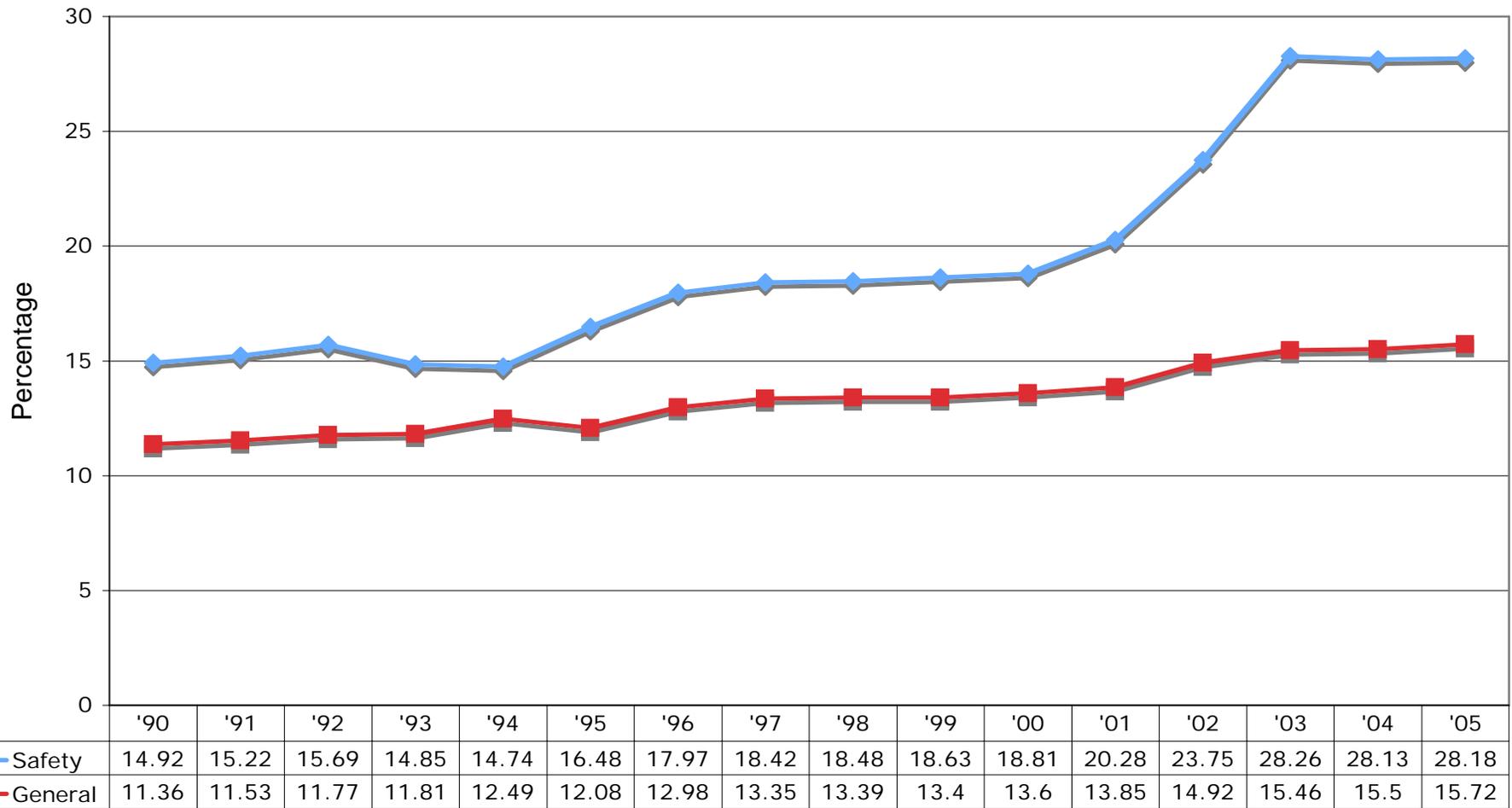
- Improved Investment Returns
- Pension Obligation Bonds
- Negotiations to Reduce Benefits  
(for future members)

A desk lamp with a dark, adjustable arm and a circular shade with four small lights is positioned on the left side of the frame. It is turned on, casting a warm, yellowish glow onto a light-colored surface below it. The surface appears to be a slide or a piece of paper with text on it. The background is a dark, solid color.

## Normal Costs:

- Ongoing annual cost payments made during the working life of a member

### Normal Costs and Cost of Living (COL)

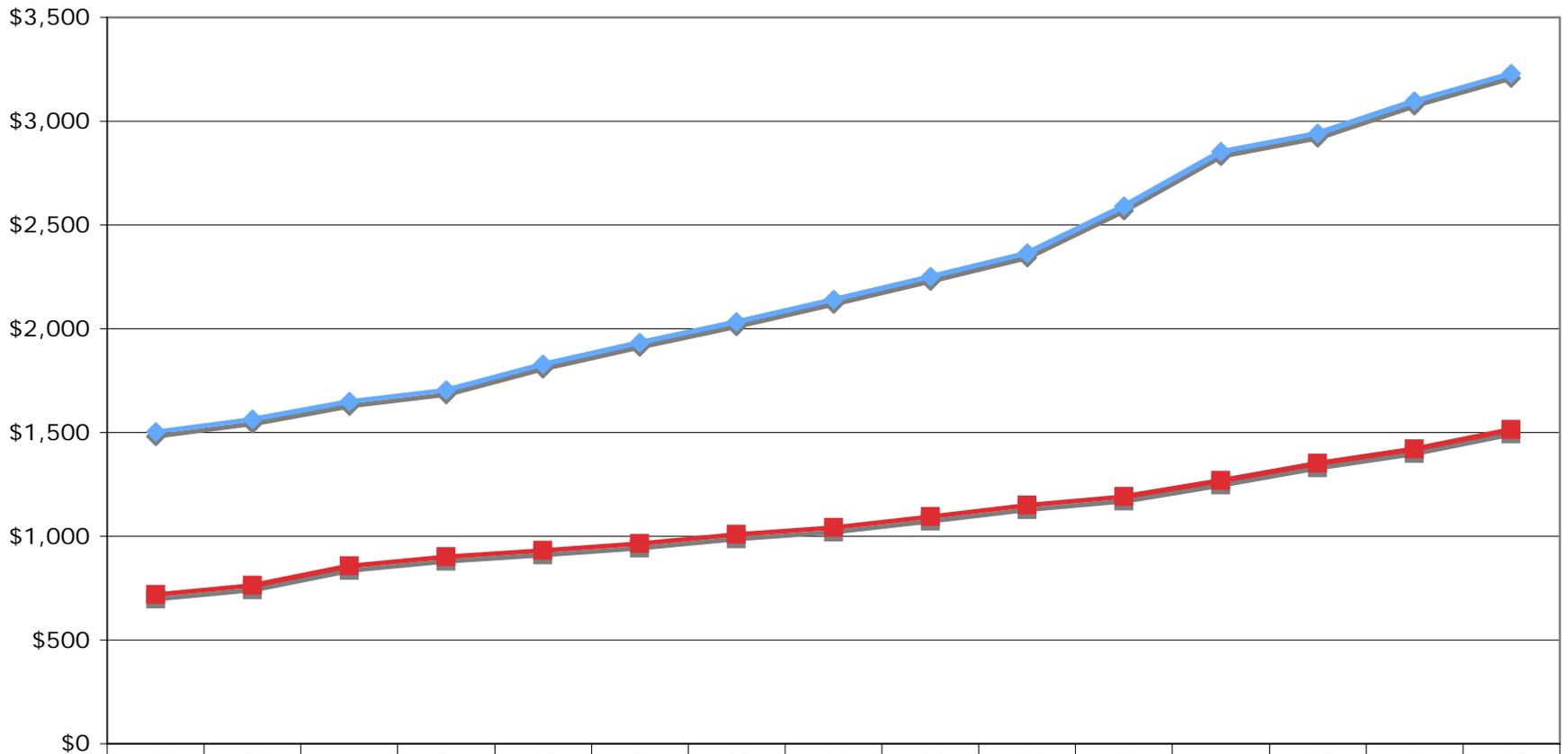




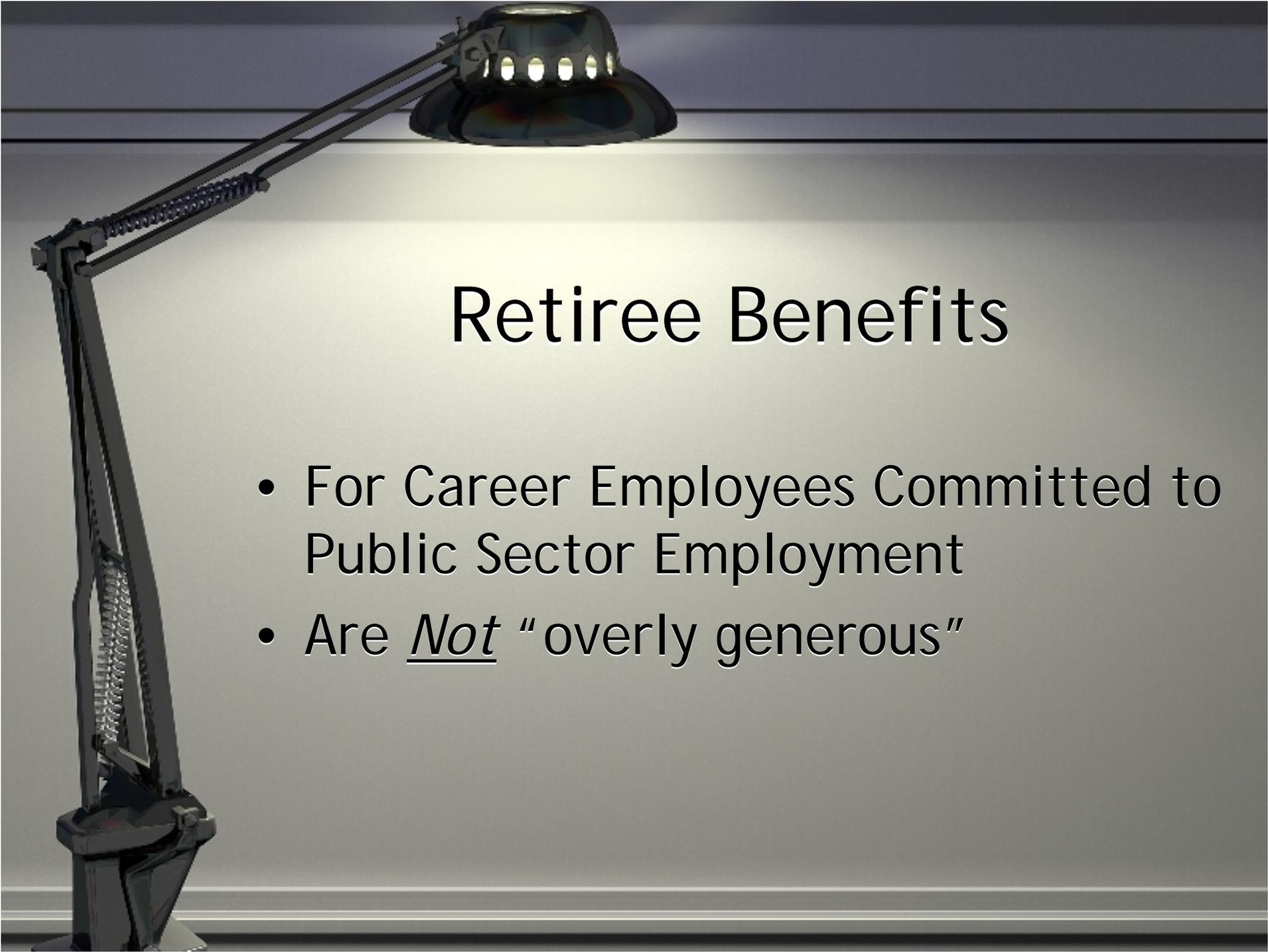
# Normal Costs

- Continue to Rise
- Demographics of the workforce:
  - Hire older; retire younger; live longer in retirement
- Not sure the increasing costs are sustainable

### Average Monthly Retirement Allowance in Dollars

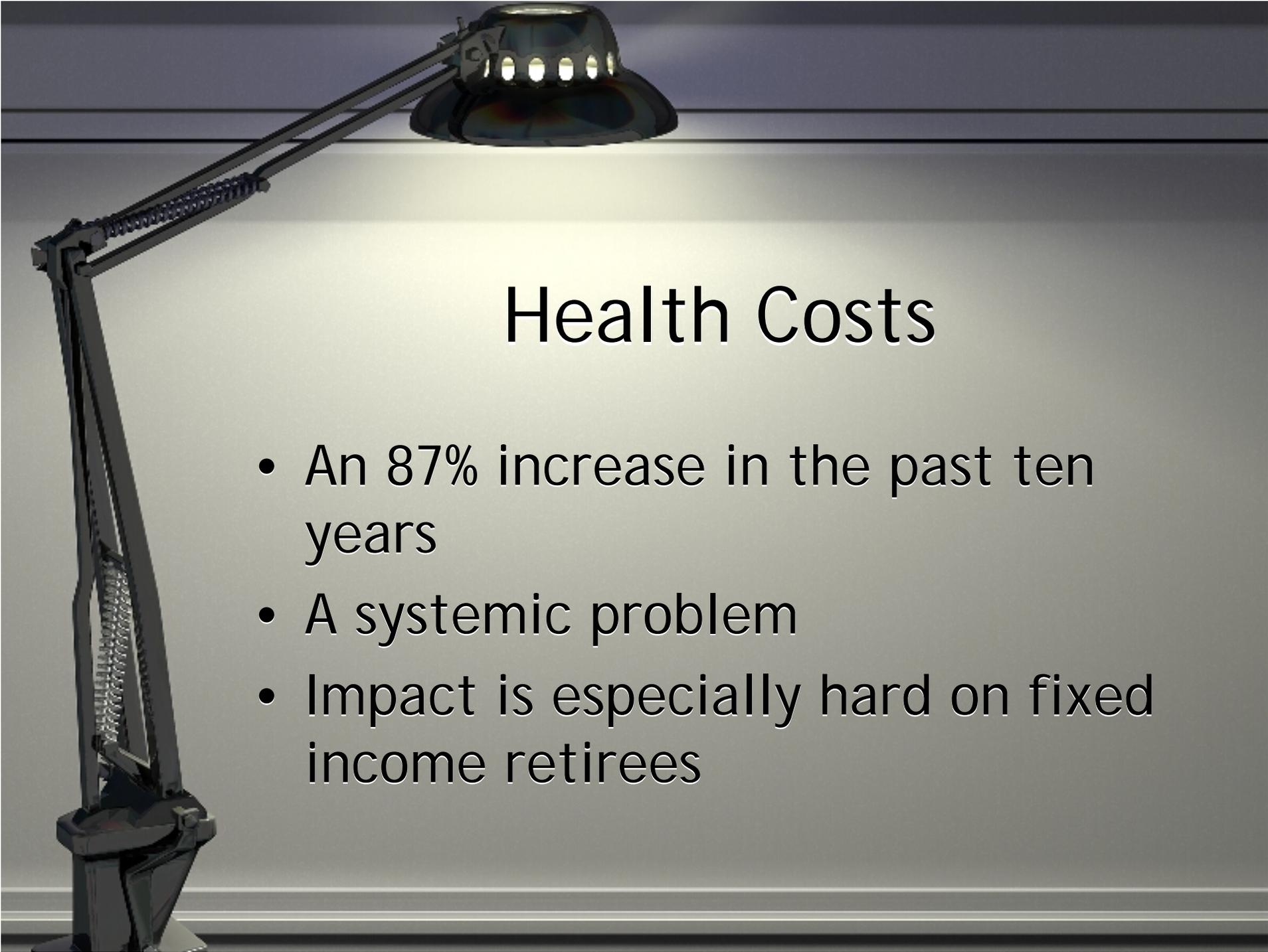


◆ Safety	\$1,502	\$1,563	\$1,648	\$1,705	\$1,828	\$1,934	\$2,033	\$2,140	\$2,251	\$2,366	\$2,590	\$2,854	\$2,942	\$3,097	\$3,228
■ General	\$718	\$762	\$855	\$900	\$930	\$965	\$1,007	\$1,041	\$1,095	\$1,149	\$1,190	\$1,268	\$1,351	\$1,421	\$1,513



# Retiree Benefits

- For Career Employees Committed to Public Sector Employment
- Are Not “overly generous”



# Health Costs

- An 87% increase in the past ten years
- A systemic problem
- Impact is especially hard on fixed income retirees

## Average Retiree Benefit

Safety  
\$3228

General  
\$1513

## Retiree Health Premiums

Over 65 Highest Lowest

Single \$345 \$208

Couple \$689 \$415

Under 65 Highest Lowest

Single \$790 \$444

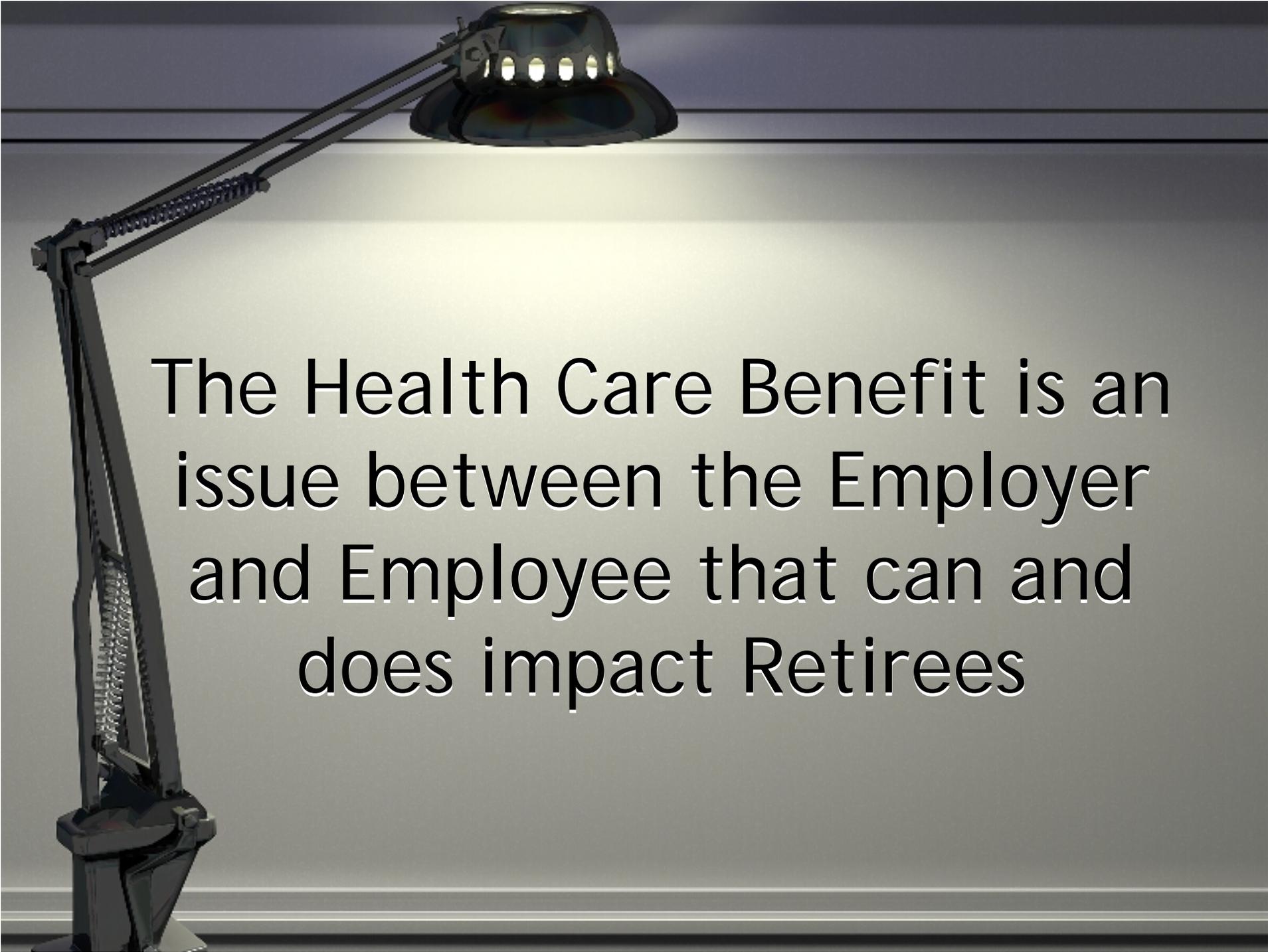
Couple \$1,185 \$888



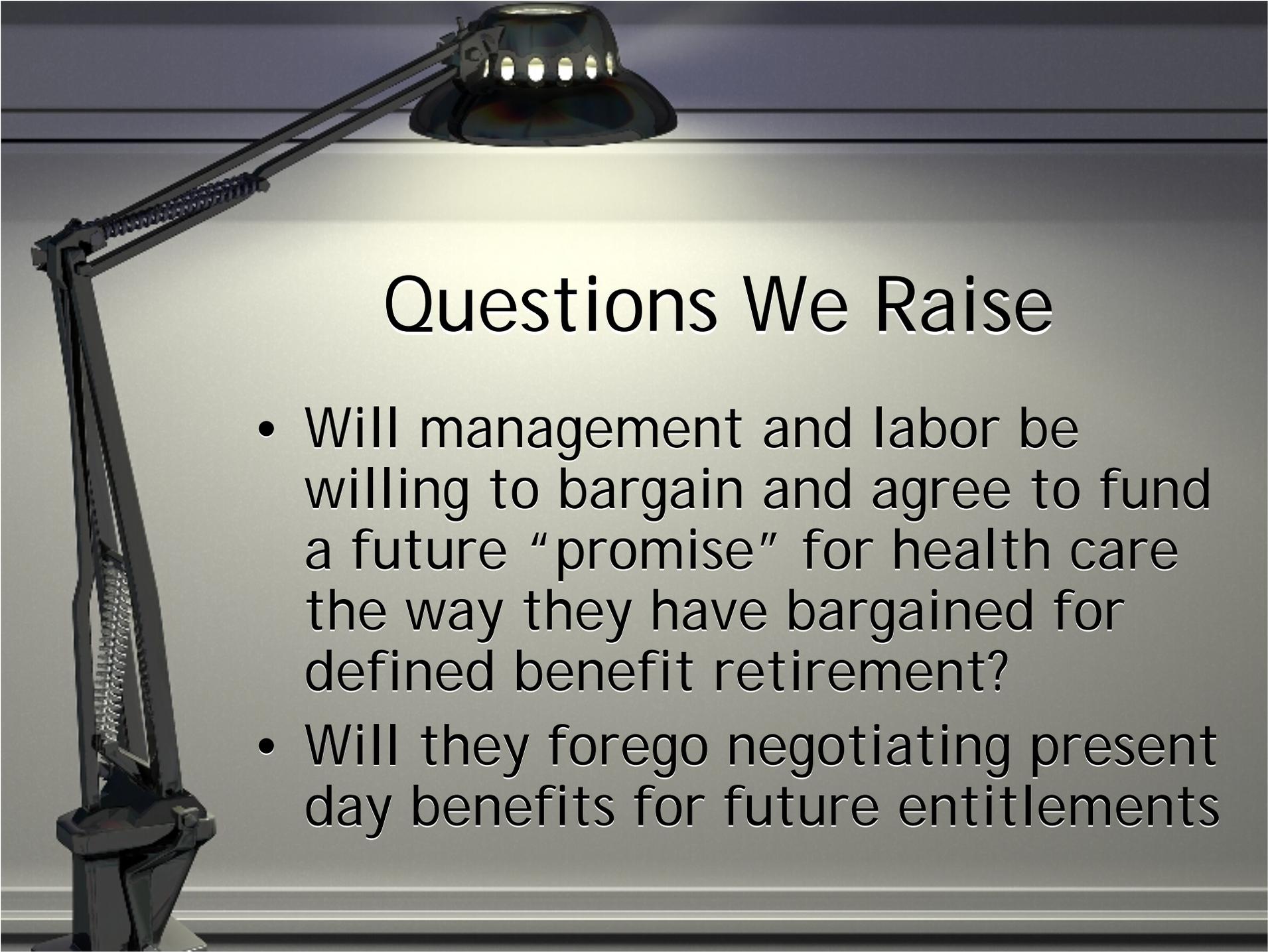
From the Retirees  
Perspective:

1) The Benefit

2) The Funding

A desk lamp with a dark, adjustable arm and a glowing, multi-lens shade is positioned on the left side of the frame. The lamp's light illuminates a plain, light-colored wall. Centered on the wall is a block of text in a white, sans-serif font with a subtle drop shadow. The background is a dark, gradient surface, possibly a desk or a wall panel, with a horizontal line running across it.

The Health Care Benefit is an issue between the Employer and Employee that can and does impact Retirees



# Questions We Raise

- Will management and labor be willing to bargain and agree to fund a future “promise” for health care the way they have bargained for defined benefit retirement?
- Will they forego negotiating present day benefits for future entitlements

A desk lamp with a silver-colored adjustable arm and a black shade is positioned on the left side of the frame. The lamp is turned on, casting a warm, yellowish glow onto a whiteboard that occupies the center and right portions of the image. The whiteboard has a light gray background with a subtle gradient. The text on the whiteboard is written in a black, italicized serif font. The lamp's base is visible at the bottom left corner.

*Thank You for the  
Opportunity to Appear and  
Speak to Your Commission*