REPORT TO CITY COUNCIL

DATE: **NOVEMBER 9, 2011**

TO: **HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL**

FROM: **GREG RAMIREZ, CITY MANAGER**

BY: **MELINDA BRODSLY, ACCOUNTANT**
DIRECTOR OF FINANCE PINUELAS

SUBJECT: **OTHER POST EMPLOYMENT BENEFITS (OPEB) – ADOPT OPTION 1 OF CALPERS BOARD ALLOCATION STRATEGY**

On May 11, 2011, the Finance Committee discussed the CalPers CERBT asset allocation strategies. After reviewing the three options, the Committee directed staff to have an actuarial valuation completed using both Option 1 and Option 2 as an assumption. After finalizing the report, the two assumptions show the following information:

	Discount Rate	Std Deviation of Exp Return	City Cost (approx)
Option 1	7.61%	11.73%	$174,020
Option 2	7.06%	9.46%	$187,821

The 2011/12 budget includes $186,000 towards our OPEB obligation. This amount was derived from the prior report and assumed investment in Option 1. The amount to fund has decreased slightly due to increased fund performance and a reduction in the number of eligible participants.

The Finance Committee recommends that the City Council selects Option 1, which closely matches the city's current asset allocation strategy. The majority of CERBT plan participants have indicated they will choose Option1.

The City can change its investment strategy each year. However, a new valuation would be required when a change in investment strategy is made.

RECOMMENDATION:

Staff respectfully recommends the City Council adopt Option 1 for our CalPers Board Allocation Strategy

Attachments:
May 11, 2011, Finance Committee Report
Nicolay Consulting draft actuarial valuation, Page 4 and 5
Excerpt from August 15, 2011, recommendation by CalPERS Board for investment strategies

REPORT TO FINANCE COMMITTEE

DATE: MAY 11, 2011

TO: FINANCE COMMITTEE

FROM: GREG RAMIREZ, CITY MANAGER

BY: MELINDA BRODSLY, ACCOUNTANT

SUBJECT: OTHER POST EMPLOYMENT BENEFITS (OPEB) - RECOMMEND ACCEPTING OPTION 1 OF CALPERS BOARD ALLOCATION STRATEGY

On June 9, 2009 the Finance Committee agreed to the recommendation of Bartel Associates' to participate in a funding plan to fund the liability of retiree medical costs, also known as Other Post Employment Benefits (OPEB). In order to fund the Annual Required Contribution (ARC) the City agreed to contribute at least $166,000 in retiree medical expenses in 2009/10 and 2010/11 to the CalPers OPEB Trust (CERBT).

GASB requires all employers participating in the plan to perform biennial valuations. The most recent actuarial valuation for 2010/11 was completed by Nicolay Consulting and shows that the City is on target with its funding. The city is also required to do an additional valuation in 2011/12 as GASB needs all valuations to be aligned. The City will again use Nicolay Consulting.

Additionally, the CalPers Board approved changes to the current asset allocation strategy in March, 2011 which will be implemented in August, 2011. When the City completes its 2011/12 valuation, we will need to choose one of the investment strategy outlined below. The cost of funding the OPEB will increase from the $166,000 paid in the two prior fiscal years as the discount rate will change from 7.75% to 7.61%. Each employer will migrate from the current allocation strategy to one of the following:

	Discount Rate	Std Deviation of Exp Return	City Cost (approx)
Option 1	7.61%	11.73%	186,000
Option 2	7.06%	9.46%	197,540
Option 3	6.39%	7.27%	298,000

These strategies have been designed to give employers greater flexibility to invest in a portfolio that best fits their needs and level of risk.

Staff recommends that the committee approve the continued funding of the OPEB and participate in Option 1, which closely matches the city's current asset allocation strategy. The majority of CERBT plan participants have indicated they will choose Option1.

The City can change its investment strategy each year. However, a new valuation would be required when a change in investment strategy is made.

DRAFT #2

Table 2-3a presents a five-year projection under the assumptions the City contributes the full Annual OPEB Cost to the CERBT, the Trust Fund earns 7.61% per year, the discount rate remains 7.61% and the Normal Cost component of the ARC increases 5,00% per year throughout the five year period. We assumed mid-year additions to and subtractions from the Trust.

Table 2-3a

City of Agoura Hills

Five-year Projection of Annual OPEB Cost and Net OPEB Obligation
Based on a 7.61% discount rate and
assuming full Annual OPEB Cost funding

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Actuarial Accrued Liability (AAL)	**$1,569,351**	**$1,726,158**	**$1,896,028**	**$2,075,365**	**$2,266,537**
Actuarial Value of Assets at beginning of year	**$301,096**	**$457,475**	**$621,469**	**$797,022**	**$986,715**
Unfunded Actuarial Accrued Liability (UAAL)	**$1,268,255**	**$1,268,683**	**$1,274,559**	**$1,278,343**	**$1,279,822**
Remaining Amortization Period	**27**	**26**	**25**	**24**	**23**
Normal Cost	$91,176	$95,735	$100,522	$105,548	$110,825
Amortization of UAAL	$82,206	$83,959	$86,234	$88,553	$90,916
Annual Required Contribution (ARC)	$173,382	$179,694	$186,756	$194,101	$201,741
Annual Required Contribution (ARC)	$173,382	$179,694	$186,756	$194,101	$201,741
Interest on net OPEB Obligation	$4,307	$4,307	$4,307	$4,307	$4,307
Adjustment to ARC	($3,669)	($3,746)	($3,829)	($3,921)	($4,021)
Annual OPEB Cost	$174,020	$180,255	$187,234	$194,487	$202,027
Contributions	($174,020)	($180,255)	($187,234)	($194,487)	($202,027)
Increase in net OPEB Obligation	$0	$0	$0	$0	$0
Net OPEB Obligation - Beginning of Year	**$56,601***	**$56,601**	**$56,601**	**$56,601**	**$56,601**
Net OPEB Obligation - End of Year	**$56,601**	**$56,601**	**$56,601**	**$56,601**	**$56,601**
Projected pay-as-you-go cost	$51,860	$55,165	$63,115	$69,708	$75,378

* Estimated

DRAFT #2

Table 2-3b presents a five-year projection under the assumptions the City contributes the full Annual OPEB Cost to the CERBT, the Trust Fund earns 7.06% per year, the discount rate remains 7.61% and the Normal Cost component of the ARC increases 5,00% per year throughout the five year period. We assumed mid-year additions to and subtractions from the Trust.

Table 2-3a
City of Agoura Hills
Five-year Projection of Annual OPEB Cost and Net OPEB Obligation
Based on a 7.06% discount rate and
assuming full Annual OPEB Cost funding

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Actuarial Accrued Liability (AAL)	**$1,691,002**	**$1,859,153**	**$2,040,877**	**$2,232,582**	**$2,436,646**
Actuarial Value of Assets at beginning of year	**$301,096**	**$469,775**	**$646,901**	**$836,340**	**$1,040,695**
Unfunded Actuarial Accrued Liability (UAAL)	**$1,389,906**	**$1,389,378**	**$1,393,976**	**$1,396,242**	**$1,395,951**
Remaining Amortization Period	**27**	**26**	**25**	**24**	**23**
Normal Cost	$102,426	$107,547	$112,924	$118,570	$124,499
Amortization of UAAL	$84,854	$86,750	$89,138	$91,575	$94,060
Annual Required Contribution (ARC)	$187,280	$194,297	$202,062	$210,145	$218,559
Annual Required Contribution (ARC)	$187,280	$194,297	$202,062	$210,145	$218,559
Interest on net OPEB Obligation	$3,996	$3,996	$3,996	$3,996	$3,996
Adjustment to ARC	($3,455)	($3,534)	($3,619)	($3,712)	($3,814)
Annual OPEB Cost	$187,821	$194,759	$202,439	$210,429	$218,741
Contributions	($187,821)	($194,759)	($202,439)	($210,429)	($218,741)
Increase in net OPEB Obligation	$0	$0	$0	$0	$0
Net OPEB Obligation - Beginning of Year	**$56,601***	**$56,601**	**$56,601**	**$56,601**	**$56,601**
Net OPEB Obligation - End of Year	**$56,601**	**$56,601**	**$56,601**	**$56,601**	**$56,601**
Projected pay-as-you-go cost	$51,860	$55,165	$63,115	$69,708	$75,378

* Estimated

The Committee shall approve Policy asset allocation targets and ranges expressed as a percentage of total assets. The Committee shall set Policy ranges sufficiently wide to permit efficient and flexible implementation, yet sufficiently narrow to maintain the basic risk and return relationship established by the allocation targets.

There are three separate CERBT Portfolios ("Strategy 1", "Strategy 2", and "Strategy 3"). Levels of expected return and risk vary among the Portfolios. The Policy asset allocation targets and permissible ranges are as follows:

Asset Class	**Strategy 1**		**Strategy 2**		**Strategy 3**	
	Policy Allocation	**Policy Range**	**Policy Allocation**	**Policy Range**	**Policy Allocation**	**Policy Range**
U.S Inflation Linked Bonds	5%	+/- 2%	15%	+/- 4%	15%	+/- 4%
U.S. Nominal Bonds	18%	+/- 5%	24%	+/- 5%	42%	+/- 5%
Global Equity	66%	+/- 5%	50%	+/- 5%	32%	+/- 5%
Global Public Real Estate	8%	+/- 2%	8%	+/- 2%	8%	+/- 2%
Commodities	3%	+/- 2%	3%	+/- 2%	3%	+/- 2%
Expected Return	7.10%		6.50%		5.75%	
Expected Risk	11.73%		9.46%		7.27%	
Return/Risk	0.61%		0.69%		0.79%	

Approved by the Investment Committee August 15, 2011.

E. Rebalancing

Adherence to the Policy asset allocation targets and ranges shall be monitored and reported to the Investment Committee as part of the quarterly performance report. This report shall display a comparison between the Portfolios' asset class allocations and the Policy asset allocation targets and ranges. The report shall also compare the investment performance results of each asset class and the benchmark returns.

Asset class allocations shall be managed to be within Policy ranges. Cash in the portfolio will be held within a range of 0 – 1%. Allocations may temporarily deviate from Policy ranges due to employer contributions and/or extreme market volatility. If an asset class allocation exceeds the Policy range, staff shall return the asset allocation to within its Policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.
Changes in Policy asset class allocations may be achieved by the movement of capital between asset classes through the trading of pooled funds or through the use of derivatives. The intent is for Policy asset class