



Pension “101”

Presented to the Board Finance Committee

Thursday, May 12, 2022

Charles D. Francis, Government Finance Executive Consultant



Agenda

- What is a Defined Benefit Pension Plan?
- How is a Defined Benefit calculated?
- What is an Unfunded Accrued Actuarial Liability (UAAL)?
- How is CalSTRS different than CalPERS?
- Options for preparing today for tomorrow's pension liabilities and costs...



What is a Defined Benefit Pension Plan?

A Pension

is a payment plan for retirement income from an investment fund that employees and employers contribute to during the employees' career.



What is a Defined Benefit Pension Plan?

There are **two types of pension plans**:

- Defined Benefit Pension Plan (DB)
- Defined Contribution Pension Plan (DC)



What is a Defined Benefit Pension Plan?

A Defined Benefit Pension Plan

is an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.



How is a Defined Benefit calculated?



\$2,500/month = “The Benefit”

2% x annual salary x # of years worked

2% x \$50,000 x 30 years = \$30,000/year



What is an Unfunded Accrued Actuarial Liability?

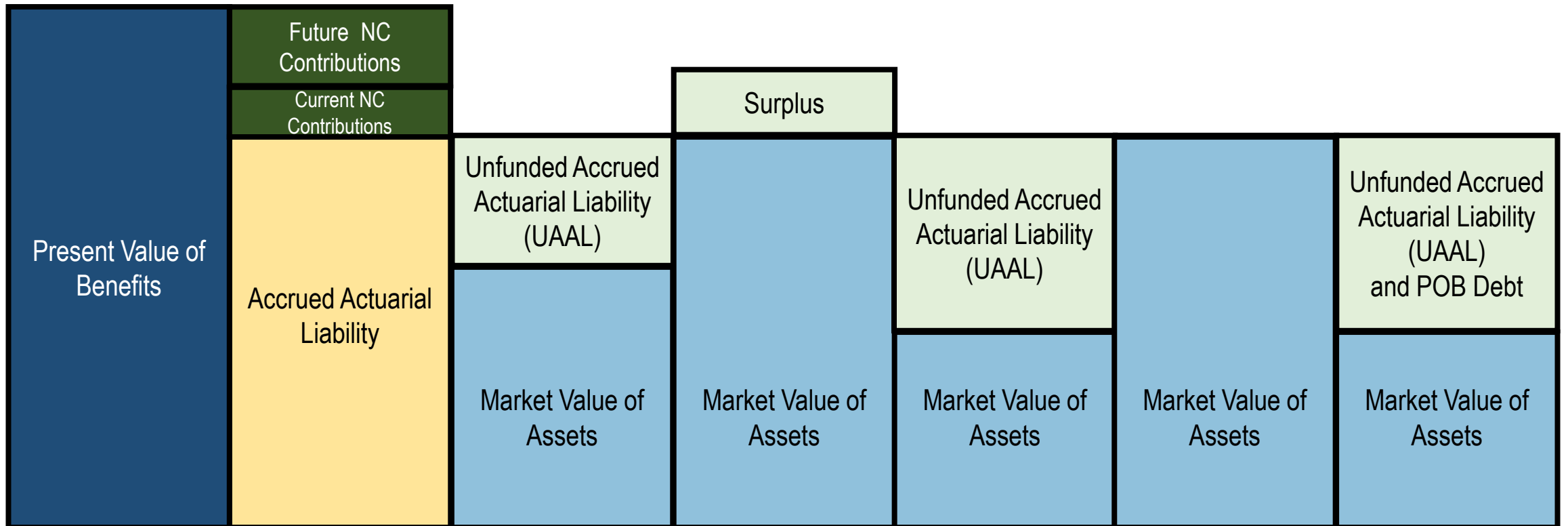


\$2,500/month = “The Benefit”





What is an Unfunded Accrued Actuarial Liability or UAAL?





Rate Volatility!

Achieve to Assumptions

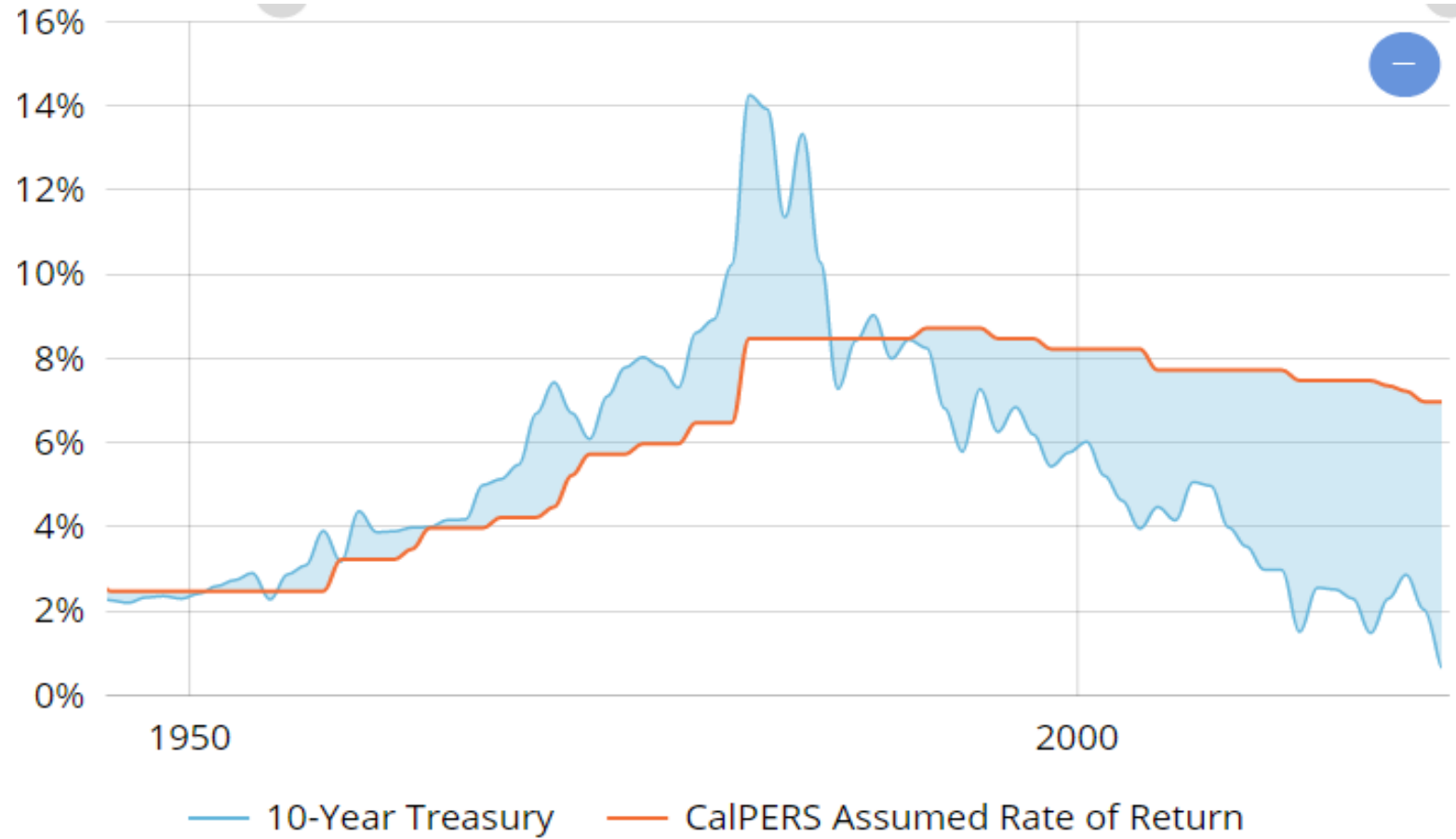
- Discount Rate
- Amortization Period
- Wage Growth
- Longevity
- Inflation
- Payroll Growth
- Demographic (mortality, etc.)

Actual Experience

- Investment Returns
- Wage Growth
- Payroll Growth

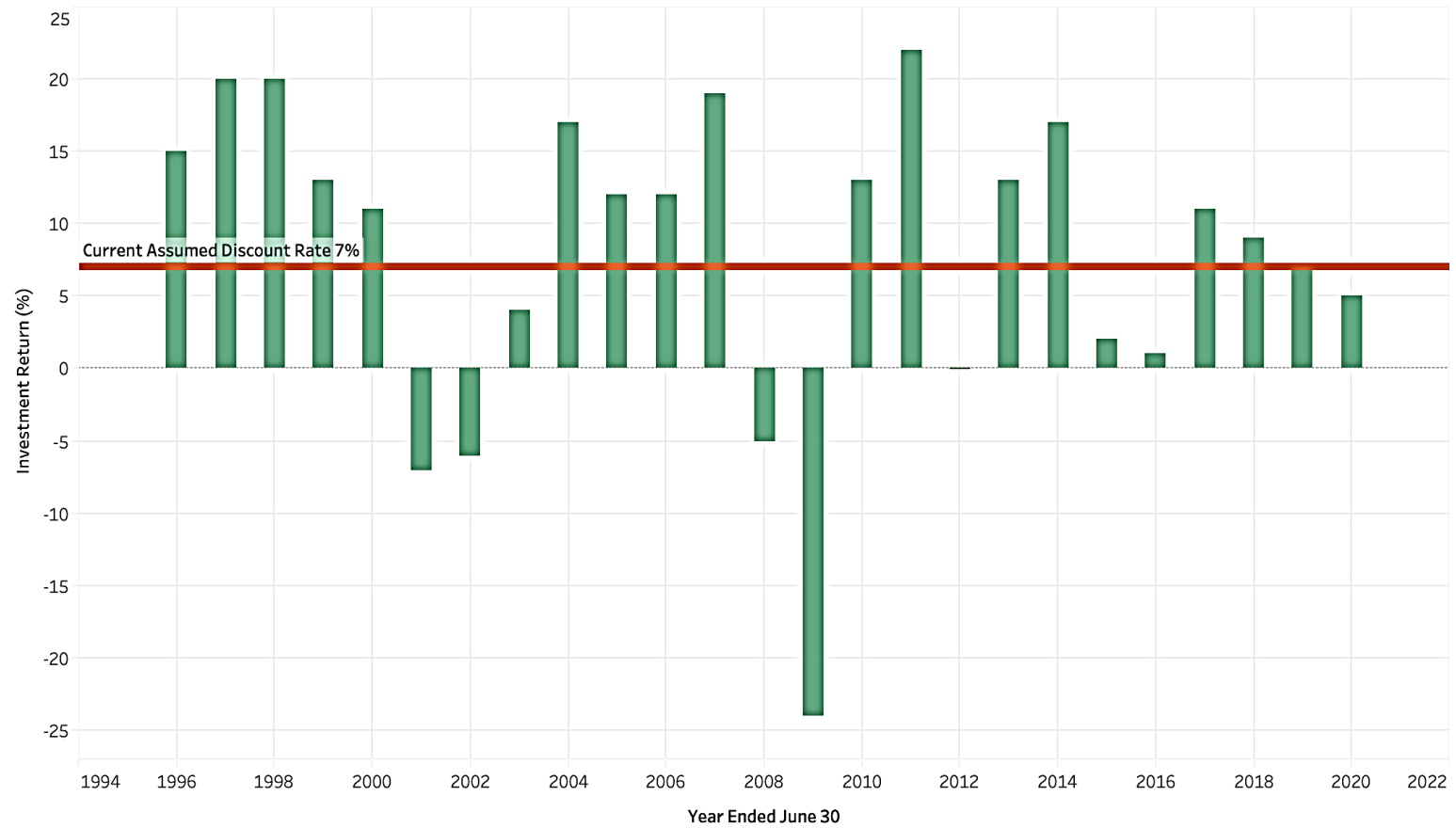


Discount Rate





Actual Investment Returns vs. Current Assumed Discount Rate





CalSTRS / CalPERS Employer Rates

CalSTRS

Fiscal Year	Rate
2020-2021	16.15%
2021-2022	16.92%
2022-2023	19.10%
2023-2024	19.10%
2024-2025	19.10%
2025-2026	19.10%
2026-2027	19.10%

CalPERS

Fiscal Year	Rate
2020-2021	20.70%
2021-2022	22.91%
2022-2023	26.10%
2023-2024	27.10%
2024-2025	27.70%
2025-2026	27.80%
2026-2027	27.60%



CaSTRS / CaIPERS

As of June 30 , 2021

CaSTRS

CaIPERS

	State Teachers' Retirement Plan (STRP)		School Employer Pool (SEP)	
Hire Date	On or < 12/31/12	On or > 1/1/2013	On or < 12/31/12	On or > 1/1/2013
Benefit Formula	2% at 60	2% at 62	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement Age	60	62	55	62
Monthly Benefit as % of Eligible Compensation	2.0% - 2.4%	2.0% - 2.4%	1.1% - 2.5%	1.0% - 2.5%
Required Employee Contribution Rate	10.25%	10.205%	7.00%	7.00%
Required Employer Contribution Rate	16.15%	16.15%	20.70%	20.70%
Required State Contribution Rate	10.328%	10.328%		



CalSTRS / CalPERS

As of June 30 , 2021

	Aggregate Net Pension Liability	Pension Expense
CalSTRS	76,124,802	12,398,954
CalPERS	77,523,785	21,705,758
Total	153,648,587	34,104,712



CalSTRS / CalPERS

As of June 30 , 2021

	Aggregate Net Pension Liability
CalSTRS	76,124,802
CalPERS	77,523,785
Total	153,648,587
CalSTRS / CalPERS Irrevocable Trust	99,288,977
Net Liability	54,359,610

During FY 2017-18, SBCCCD established an IRS Section 115 irrevocable trust through PARS for the purpose of funding future employer contributions associated with CalSTRS and CalPERS.

Funds deposited into this trust are not considered “plan assets” for GASB Statement No. 68 reporting; therefore, the balance of the irrevocable trust is not netted against the net pension liability shown on the Statement of Net Position.

The balance and activity of the trust is recorded as a special revenue fund of SBCCCD. As of June 30, 2021, the balance of the trust was \$99,288,977.



Questions?