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HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
MEMORANDUM

To: Audit & Finance Committee, HACLA Board of Commissioners

From: Marlene Garza, Chief Administrative Officer MG

Through: Doug Guthrie, President and Chief Executive Officer DG

Date: March 28, 2019

SUBJECT: PENSION – ADDITIONAL CONTRIBUTIONS UPDATE

Background

Beginning with Budget Year 2017, the Board of Commissioners authorized additional pension contributions to address the agency's unfunded liability. The long-term goal is to increase the agency's Funded Ratio, which reflects the percent of assets in the plan against the liability, to 80%, which is generally considered sound.

On this basis, two contributions to the Miscellaneous Plan, which covers all of the agency's current employees, have been made relying on a 20-year amortization of the shortfall as summarized below:

	Annual Valuation as of 6/30/17	Annual Valuation as of 6/30/16
(1) Normal Accrued Liability	$ 481,749,860	$ 456,896,447
(2) Market Value (MVA) of Assets	324,461,517	299,422,787
(3) Unfunded Liability (UAL)	$ 157,288,343	$ 157,473,660
(4) Funded Ratio [3/1]	67.35%	65.53%
(5) 80% Funded Ratio [1*.8]	385,399,888	365,517,158
(6) Shortfall [5-2]	60,938,371	66,094,371
(7) 20-Year Amortization [6/20]	**$ 3,046,919**	**$ 3,304,719**

It is expected that we will again make a year-end contribution this year.

CalPERS Forecasting Tool

One of the challenges the agency has faced in developing a plan to mitigate the pension liability has been the lack of forecasting tools to help measure the specific impact of additional payments. Fortunately, late last year, CalPERS made a modeling tool available to its members, which provides basic forecasting estimates. The tool relies on rates of return and other actuarial assumptions to provide estimated savings through additional payments.

The tool provides two key data points: first, it demonstrates the cumulative reduction to the unfunded liability over time; second, it illustrates the savings realized each year through the prior years' contributions. In effect, as additional payments are made, the annual required contribution in subsequent years decreases.

The effect of these changes are shown over a thirty (30) year period.

Projected Impact of HACLA Additional Payments

In order to gauge the effect of additional payments, we modeled two scenarios. In the first, the agency would make three more year-end payments through 2021 for a total of five (5) additional payments; in the second, we modeled ten (10) years of payments. For this exercise, we assumed an ongoing payment of $3 million, although this amount will necessarily change each year since it is tied to the unfunded liability.

Nevertheless, based on these assumptions, the following savings are estimated:

	5 Years	10 Years
TOTAL ADDITIONAL CONTRIBUTIONS	$ 15,300,000	$ 30,300,000
Total Reduction to Annual Payments	$ (28,093,328)	$ (50,970,157)
Net Savings	$ (12,793,328)	$ (20,670,157)
Return on Investment	84%	68%
TOTAL ANNUAL SAVINGS - 5 Years	$ 3,409,427	
TOTAL ANNUAL SAVINGS - 10 Years		$ 9,861,605

Under the 5-year model, HACLA will have contributed an additional $15.3 million. This will result in an overall reduction to annual payments of $28.1 million over the 30-year period, for a net savings of $12.8 million. The effective return on the investment would be 84%. Moreover, the short-term (5-years) budget savings would be approximately $3.4 million.

Under the 10-year model, HACLA will have contributed an additional $30.3 million. This will result in an overall reduction to annual payments of $51 million over the 30-year period, for a net savings of $20.7 million. The effective return on the investment would be 68%. Moreover, the mid-term (10-years) budget savings would be approximately $9.9 million.

Please see Attachment 1 for more detailed schedule information.

Conclusion

Currently, HACLA's additional year-end payments are contingent on surplus annual revenue. This is to ensure program delivery is not compromised by the diversion of operating funds for this expense. Nevertheless, the forecasting model demonstrates that in both the short- and long-term, additional payments to the pension plan are beneficial and should be continued to the extent possible.

ATTACHMENT 1
CalPERS Forecasting Tool

	Original Schedule		Additional Contributions - 5 YEARS			
FISCAL YEAR	Unfunded Liability Balance	Annual Payment	Additional Contributions	Adjusted Unfunded Liablity Balance	Adjusted Annual Payment	Annual Payment Difference
2017-18	$ 157,288,343	$ 10,661,230		$ 157,288,343	$ 10,661,230	$ -
2018-19	$ 157,650,810	$ 9,110,363	$ 3,300,000	$ 157,650,810	$ 9,110,363	$ (67,981)
2019-20	$ 159,262,534	$ 11,210,784	$ 3,000,000	$ 155,738,994	$ 11,142,803	$ (248,078)
2020-21	$ 158,814,387	$ 12,032,688	$ 3,000,000	$ 152,011,295	$ 11,784,611	$ (551,304)
2021-22	$ 157,484,684	$ 12,997,793	$ 3,000,000	$ 147,358,765	$ 12,446,489	$ (983,630)
2022-23	$ 155,063,590	$ 13,728,832	$ 3,000,000	$ 141,695,906	$ 12,745,202	$ (1,558,433)
2023-24	$ 151,716,828	$ 14,092,519		$ 135,327,656	$ 12,534,086	$ (1,601,290)
2024-25	$ 147,759,590	$ 14,480,064		$ 131,835,233	$ 12,878,773	$ (1,645,326)
2025-26	$ 143,124,467	$ 14,142,969		$ 127,741,792	$ 12,497,644	$ (1,690,572)
2026-27	$ 138,513,579	$ 14,663,774		$ 123,756,055	$ 12,973,202	$ (1,737,063)
2027-28	$ 133,041,203	$ 15,067,028		$ 118,999,394	$ 13,329,965	$ (3,187,354)
Thru 2044/45		$ 174,389,233			$ 171,679,583	$ (14,822,296)
Total Payments		**$ 316,577,278**	**$ 15,300,000**		**$ 303,783,950**	**$ (28,093,328)**

	Original Schedule		Additional Contributions - 10 YEARS			
FISCAL YEAR	Unfunded Liability Balance	Annual Payment	Additional Contributions	Adjusted Unfunded Liablity Balance	Adjusted Annual Payment	Annual Payment Difference
2017-18	$ 157,288,343	$ 10,661,230		$ 157,288,343	$ 10,661,230	$ -
2018-19	$ 157,650,810	$ 9,110,363	$ 3,300,000	$ 157,650,810	$ 9,110,363	$ (67,981)
2019-20	$ 159,262,534	$ 11,210,784	$ 3,000,000	$ 155,738,994	$ 11,142,803	$ (248,078)
2020-21	$ 158,814,387	$ 12,032,688	$ 3,000,000	$ 152,011,295	$ 11,784,611	$ (551,304)
2021-22	$ 157,484,684	$ 12,997,793	$ 3,000,000	$ 147,358,765	$ 12,446,489	$ (983,630)
2022-23	$ 155,063,590	$ 13,728,832	$ 3,000,000	$ 141,695,906	$ 12,745,202	$ (1,558,433)
2023-24	$ 151,716,828	$ 14,092,519	$ 3,000,000	$ 135,327,656	$ 12,534,086	$ (1,913,338)
2024-25	$ 147,759,590	$ 14,480,064	$ 3,000,000	$ 128,732,009	$ 12,566,726	$ (2,297,875)
2025-26	$ 143,124,467	$ 14,142,969	$ 3,000,000	$ 121,640,903	$ 11,845,095	$ (2,716,561)
2026-27	$ 138,513,579	$ 14,663,774	$ 3,000,000	$ 114,799,881	$ 11,947,213	$ (3,175,155)
2027-28	$ 133,041,203	$ 15,067,028	$ 3,000,000	$ 107,374,355	$ 11,891,873	$ (3,187,354)
Thru 2044/45		$ 174,389,233			$ 167,544,613	$ (33,957,267)
Total Payments		**$ 316,577,278**	**$ 30,300,000**		**$ 296,220,301**	**$ (50,656,977)**