PERS Posts 18 Percent Return on Investments
The California Public Employees' Retirement System (PERS) has reported an overall 18.4 percent return on investments for FY 2013/14. This strong return is good news for the City and improves our funded status. The unfunded liability for Sunnyvale's Miscellaneous Plan reduced by $12.4 million, from $148.8 million to $136.4 million. For the City's Safety Plan, the unfunded liability reduced by $13 million, from $144.5 million to $131.5 million. Both plans are now about 70 percent funded.

However, this return does not have much impact on Sunnyvale's contribution rates. Last year, PERS changed their amortization and smoothing policies and are no longer using the actuarial value of assets and instead rates will be based on the market value of assets. In addition, all gains and losses will be paid over a fixed 30-year period with increases or decreases in rates phased in over five years. This begins with the FY 2015/16 contribution rates.

This is significant for the City (as well as all other PERS agencies). Sunnyvale's rates are projected to increase approximately 40 percent over the next five-year ramp up period with the move to market value and changes related to mortality improvements. The one strong year of investment returns does not change this. Essentially, it does not make the rate increases worse.

In short, the strong investment returns are good news but nothing to get excited about. Sunnyvale's funded status will bounce around year to year based on market returns; in fact, even with the improvement in funded status, the City was still better funded before the global recession. The critical point is staying disciplined to pay down the unfunded liability and reduce the pension costs we are generating now – which we did by implementing a second tier reduced benefit formula, as well as now having the third tier enacted by the State.