FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

TOWN OF LOS GATOS
CALPERS MISCELLANEOUS & SAFETY PLANS

CalPERS Analysis – 6/30/21 Valuation

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March 7, 2023

ATTACHMENT 1

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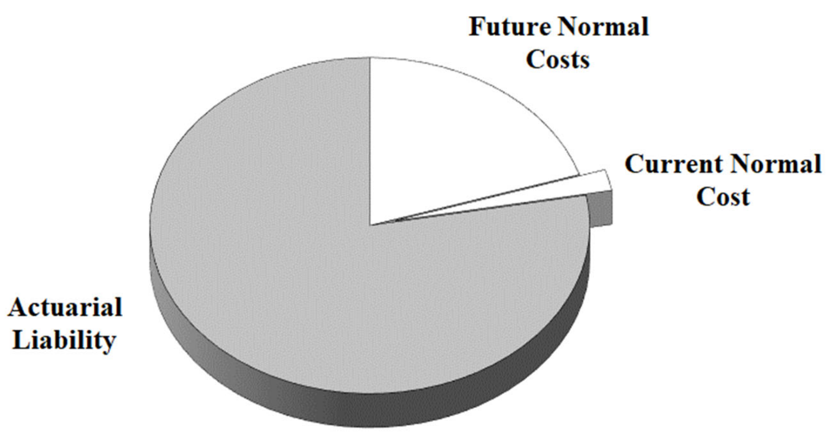
DEFINITIONS

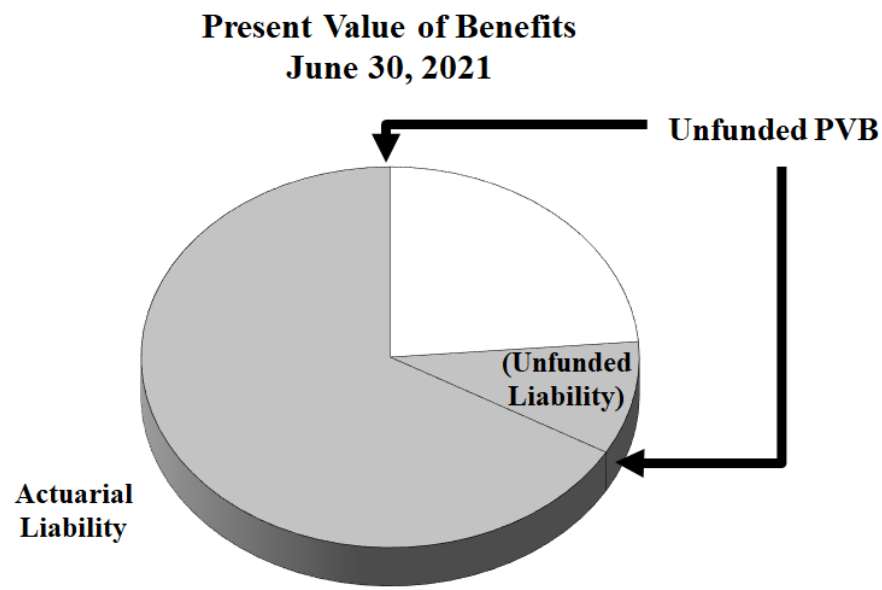
Present Value of Benefits
June 30, 2021



- **PVB - Present Value of all Projected Benefits:**
  - The value now of amounts due to be paid in the future
  - Discounted value (at valuation date - 6/30/21), of all future expected benefit payments based on various (actuarial) assumptions

- **Current Normal Cost (NC):**
  - Portion of PVB allocated to (or "earned" during) current year
  - Value of employee and employer current service benefit
- **Actuarial Liability (AAL):**
  - Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
  - Portion of PVB "earned" at measurement

DEFINITIONS



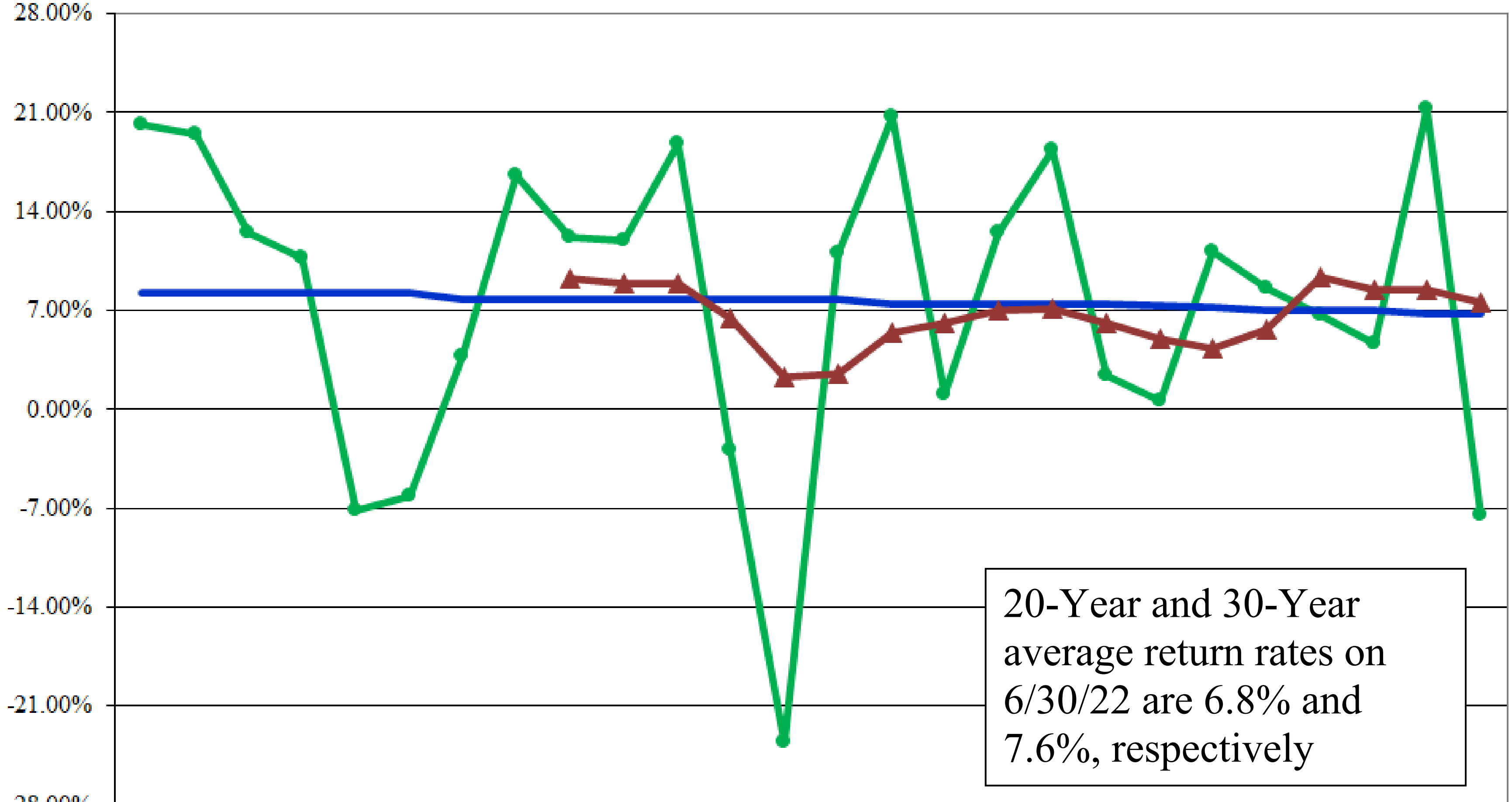
- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability (UAAL or UAL) -** Money short of target <u>at valuation date</u>
  - If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
  - Any difference is the unfunded (or overfunded) AAL
  - Every year, the actuary calculates the difference between the expected UAAL and Actual UAAL. This is a new layer or amortization base
  - Each new layer gets amortized (paid off) over a period of time as part of the contribution [rate]

HOW WE GOT HERE

- Investment Losses
- CalPERS Contribution Policy
- Enhanced Benefits
- Demographics

How We Got Here – Investment Return

Annual Return on Market Value of Assets



	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
Rate of Return	20.1%	19.5%	12.5%	10.7%	-7.1%	-6.1%	3.7%	16.6%	12.2%	11.9%	18.8%	-2.9%	-23.6%	11.1%	20.7%	1.0%	12.5%	18.4%	2.4%	0.6%	11.2%	8.6%	6.70%	4.70%	21.30%	-7.50%
Discount Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.50%	7.50%	7.50%	7.50%	7.50%	7.375%	7.25%	7.00%	7.00%	7.00%	6.80%	6.80%
10-Year Rolling Average									9.3%	9.0%	8.9%	6.4%	2.3%	2.6%	5.4%	6.1%	7.0%	7.1%	6.1%	5.0%	4.3%	5.7%	9.3%	8.5%	8.5%	7.6%

Returns (after 2001) shown are gross returns, unreduced for administrative expenses, from CalPERS valuation reports, when available. The discount rate is based on expected returns net of administrative expenses.

HOW WE GOT HERE – OLD CONTRIBUTION POLICY

- Effective with 2003 valuations:
  - Slow (15 year) recognition of investment losses into funded status
  - Rolling 30 year amortization of all (primarily investment) losses

- Designed to:
  - First smooth rates and
  - Second pay off UAL

- Mitigated contribution volatility

How We Got Here – Enhanced Benefits

- At CalPERS, Enhanced Benefits implemented using all (future & prior) service
- Typically not negotiated with cost sharing
- Town of Los Gatos

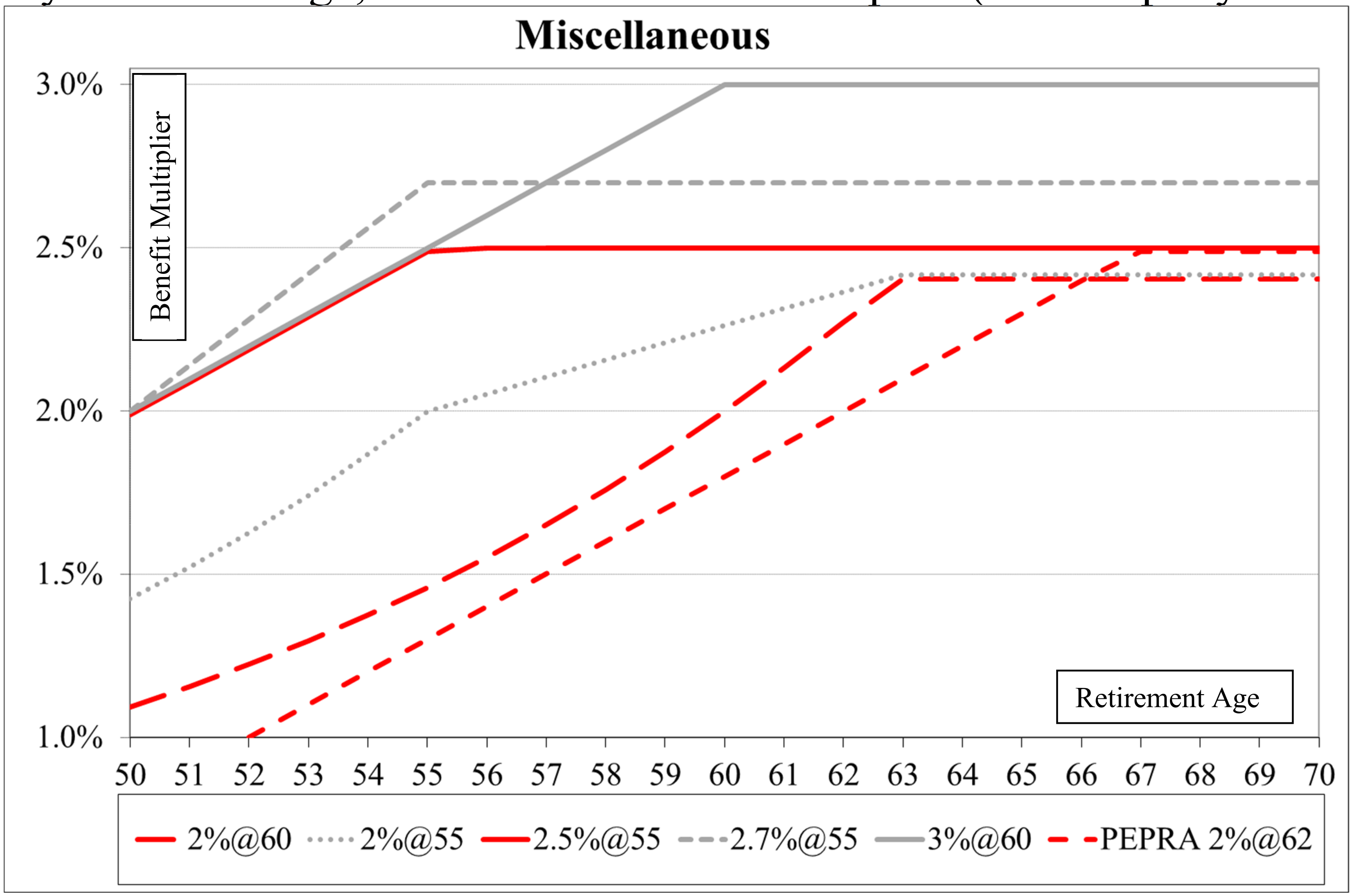
	Tier 1	Tier 2	PEPRA
• Miscellaneous	2.5%@55 FAC1	2%@60 FAC3 9/15/12	2%@62 FAC3
• Safety	3%@50 FAC1	N/A	2.7%@57 FAC3

  - Note:
    - FAC1 is highest one year (typically final) average earnings
    - FAC3 is highest three years (typically final three) average earnings

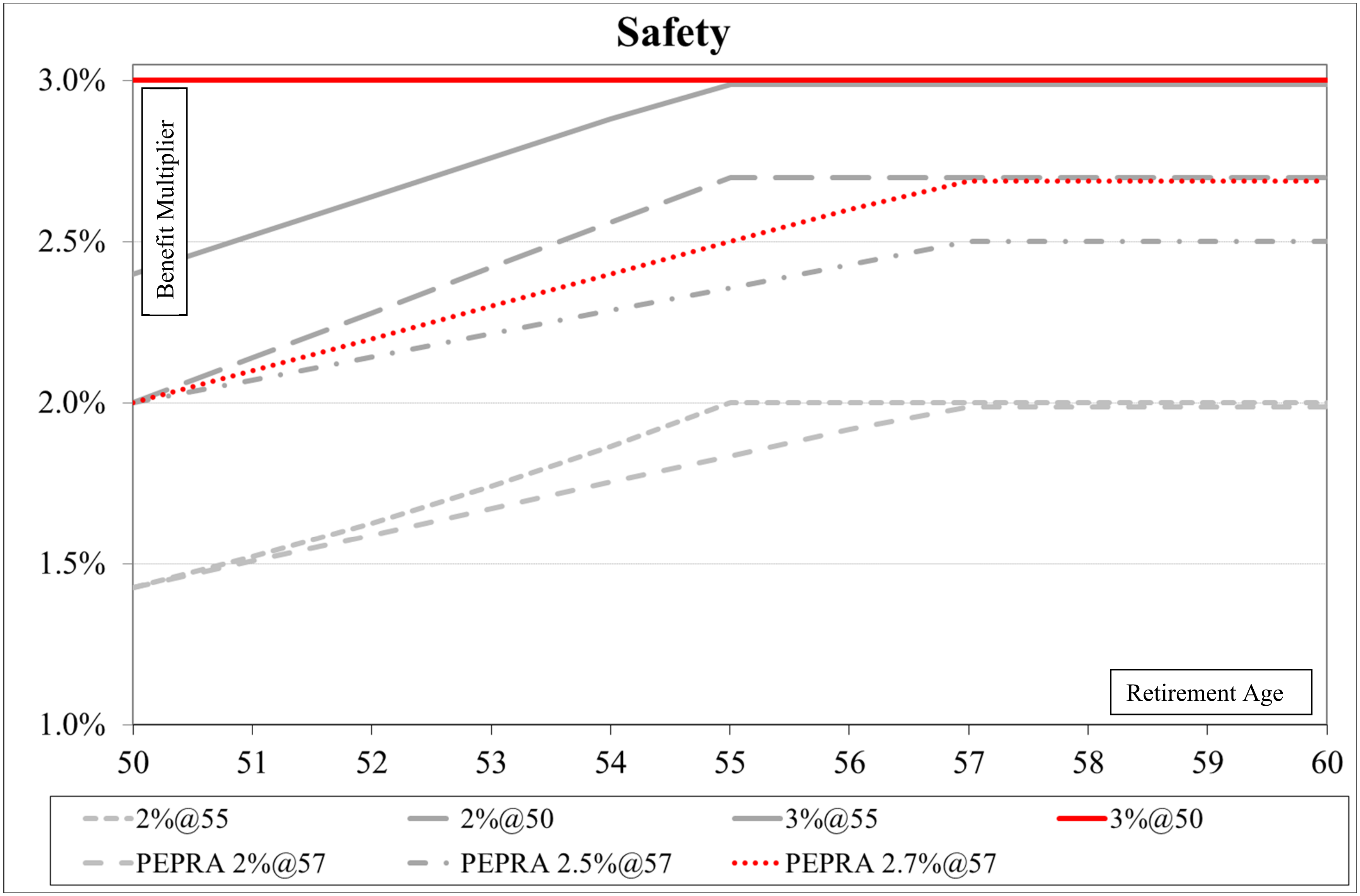
- PEPRA tier implemented for new employees hired after 1/1/13
  - Employee pays half of total normal cost
  - 2023 Compensation limit
    - Social Security participants: $146,042
    - Non-Social Security participants: $175,250

How We Got Here – Enhanced Benefits

- Available CalPERS Benefit formulas. Town's formulas shown in red.
- For any retirement age, chart shows benefit multiplier (% FAE per year of service)



How We Got Here – Enhanced Benefits



HOW WE GOT HERE – DEMOGRAPHIC

- Around the State
  - Large retiree liability compared to actives
    - ☐ Public Agency average: 59% for Miscellaneous, 67% for Safety
  - Declining active population and increasing number of retirees
  - Higher percentage of retiree liability increases contribution volatility

- Town of Los Gatos percentage of liability belonging to retirees:
  - Miscellaneous 65%
  - Safety 74%

CalPERS Changes

- April 2013: CalPERS adopted new contribution policy
  - No asset smoothing or rolling amortization
- February 2018: New amortization policy for 2021/22 contributions
  - Fixed dollar (level) 20-year amortization rather than % pay (escalating)
  - 5-year ramp up (not down) for investment gains and losses
- CalPERS Board changed the discount rate to 7%, still phasing in to rates:

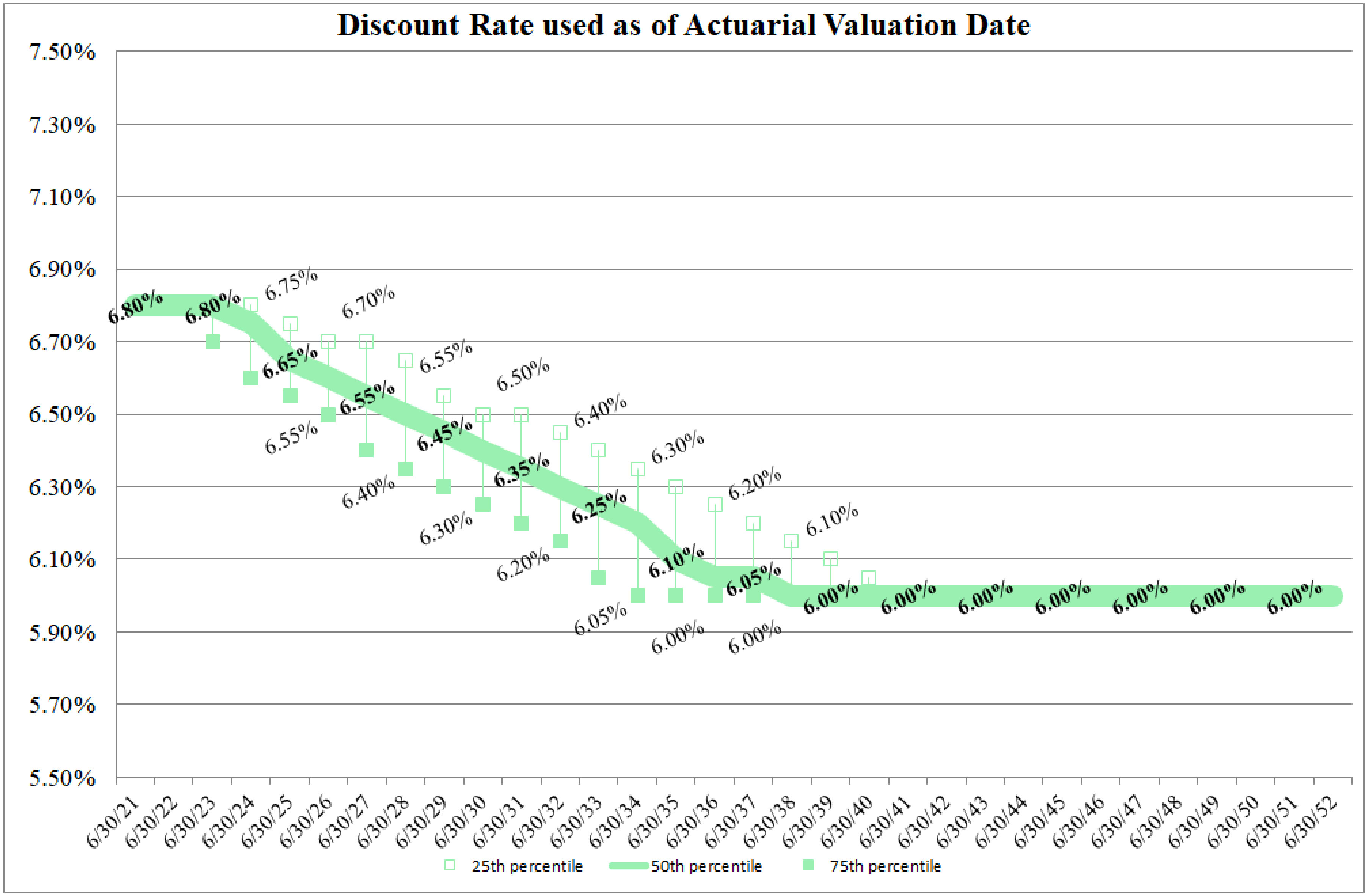
	Rate	Initial Impact	Full Impact
6/30/16 valuation	7.375%	18/19	22/23
6/30/17 valuation	7.25%	19/20	23/24
6/30/18 valuation	7.00%	20/21	24/25

- In the November 2021 meeting, CalPERS Board adopted new
  - Discount rate and investment allocation
    - Discount rate: 6.8% for 6/30/2021. UAL impact matches investment gain amortization (5-year ramp-up). Initial impact in 23/24 and full impact in 27/28.
    - Asset allocation has higher investment risk than current portfolio
  - Experience study (Demographic assumptions)

CalPERS Changes

- Risk Mitigation Strategy
  - Move to more conservative investments over time to reduce volatility
    - Only when investment return is better than expected
    - Lower discount rate in concert
    - Essentially use ≈50% of investment gains to pay for cost increases
  - Likely get to 6.0% discount rate over 20+ years
    - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
    - Did not trigger for 6/30/19 or 6/30/20 valuations
  - First triggered for 6/30/21 valuation – 6.8% discount rate

CalPERS Changes



Capital Market Assumptions

Asset Class	Asset Segment	Near-Term Return (5-year)	Long-Term Return (20-year)	Volatility (20-year)
Growth	Global Equity – Cap Weighted	6.8%	6.8%	17.0%
	Global Equity – Non-Cap Weighted	5.1%	6.1%	13.5%
	Private Equity	8.9%	9.6%	30.1%
Income	Long U.S. Treasuries	0.1%	2.6%	12.4%
	Mortgage-Backed Securities	1.2%	2.8%	3.1%
	Investment Grade Corporates	0.1%	3.9%	8.5%
	Spread Product – High Yield	2.2%	4.7%	9.2%
	Spread Product – Sovereigns	3.2%	4.5%	10.4%
	High Yield Segment	2.2%	4.6%	9.0%
Real Assets	Real Estate	5.3%	5.5%	12.2%
Liquidity	Liquidity	0.3%	1.7%	0.8%
Other	Private Debt	6.8%	5.9%	9.9%
	Emerging Market Debt	2.7%	4.8%	10.3%

Portfolio Target Allocations

	Prior Portfolio	11/17/21 Portfolio
Asset Classification		
Liquidity	1%	-
Real Assets	13%	15%
Private Debt	-	5%
EM Sov Bonds	1%	5%
High Yield	4%	5%
Investment Grade Corp.	6%	10%
Mtge-backed Securities	7%	5%
Treasury	10%	5%
Private Equity	8%	13%
Global Equity[1]	50%	42%
Leverage	-	(5)%
Total	100%	100%
Standard Deviation	11.2%	12.0%

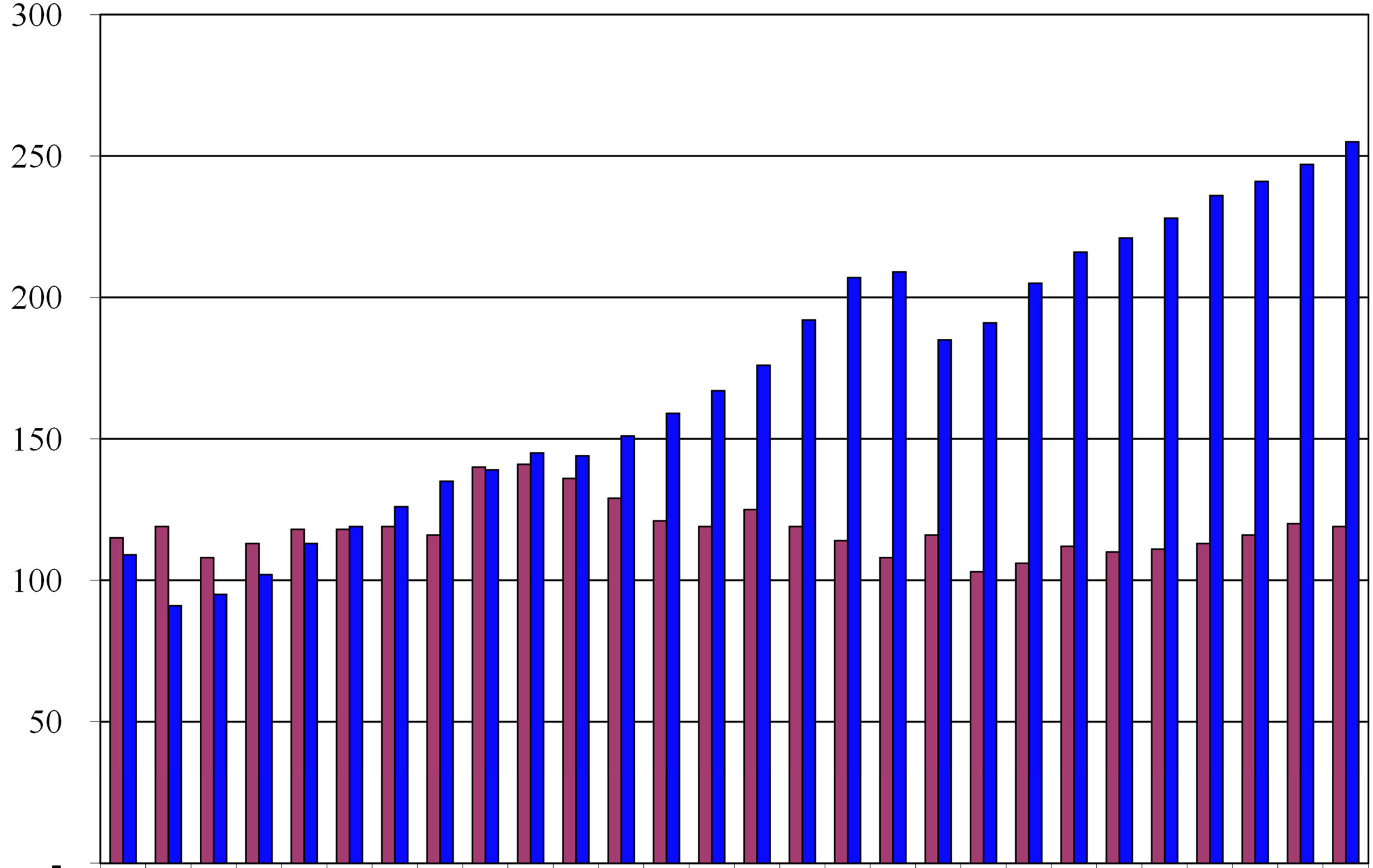
[1] Cap and non-cap weighted combined for this table; actual portfolios have specific allocations for each classification.

SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

	2001	2011	2020	2021
Actives				
■ Counts	116	108	120	119
■ Average				
• Age	46	48	45	45
• Town Service	9	10	8	8
• PERSable Wages	$ 56,900	$ 79,800	$ 98,000	$ 100,600
■ Total PERSable Wages	6,600,000	8,600,000	11,800,000	12,000,000
Inactive Members				
■ Counts				
• Transferred	76	88	101	101
• Separated	67	72	88	91
• Retired				
☐ Service	109	178	213	220
☐ Disability	9	11	12	13
☐ Beneficiaries	17	20	22	22
☐ Total	135	209	247	255
■ Average Annual Town Provided Benefit for Service Retirees[2]	9,700	18,300	26,600	27,000

[2] Average Town-provided pensions are based on Town service & Town benefit formula, and are not representative of benefits for long-service employees.

SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS



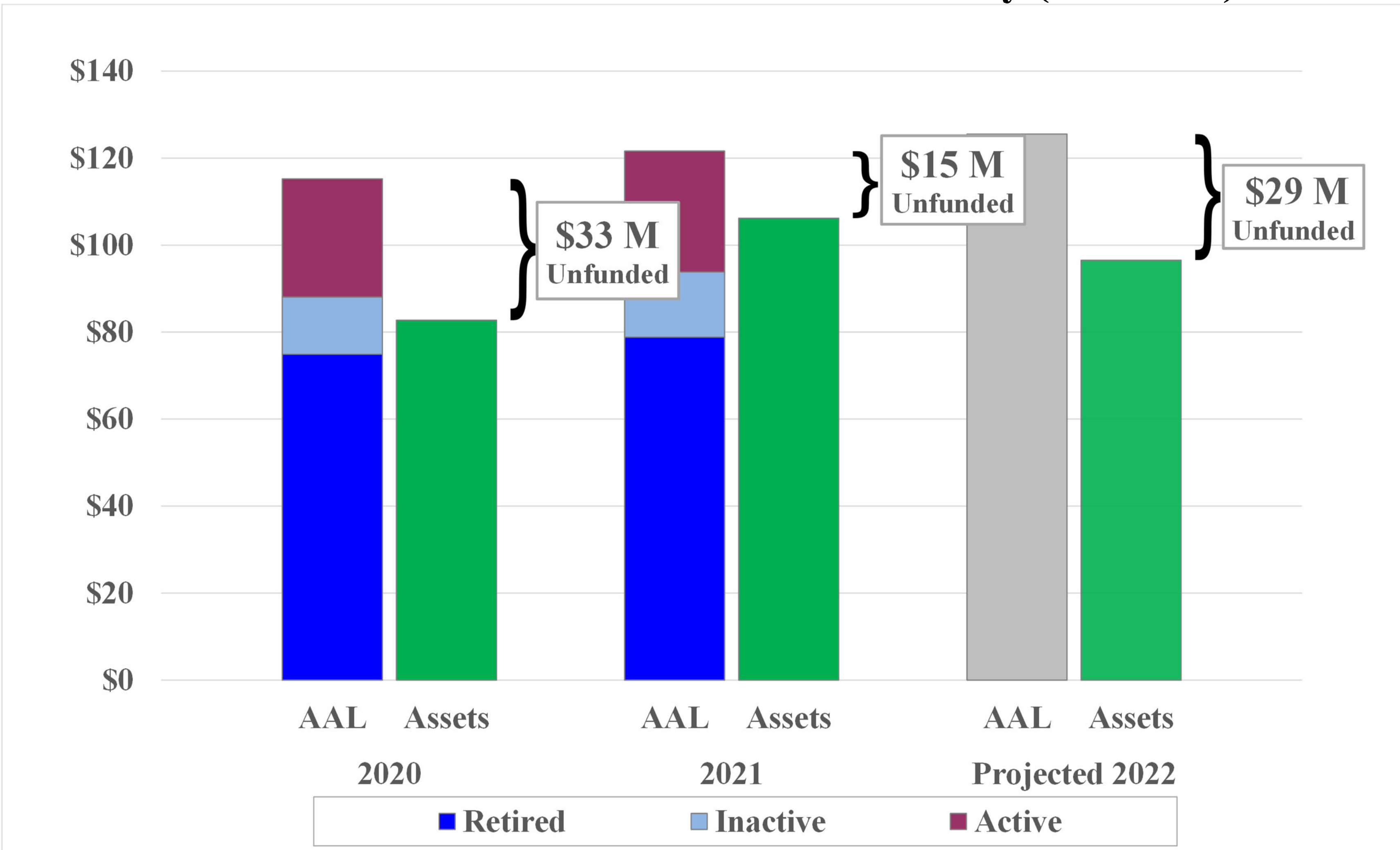
	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21
Active	115	119	108	113	118	118	119	116	140	141	136	129	121	119	125	119	114	108	116	103	106	112	110	111	113	116	120	119
Receiving Payments	109	91	95	102	113	119	126	135	139	145	144	151	159	167	176	192	207	209	185	191	205	216	221	228	236	241	247	255

PLAN FUNDED STATUS - MISCELLANEOUS

	June 30, 2020	June 30, 2021
■ **Actuarial Accrued Liability**		
● Active	$27,200,000	$27,800,000
● Retiree	74,900,000	78,800,000
● Inactive	13,100,000	15,000,000
● Total	115,200,000	121,600,000
■ **Assets**	82,700,000	106,200,000
■ **Unfunded Liability**	32,500,000	15,400,000
■ **Funded Ratio**	71.8%	87.3%
■ **Average funded ratio for CalPERS Public Agency Miscellaneous Plans**	72.3%	83.7%

Plan Funded Status - Miscellaneous

Town CalPERS Assets and Actuarial Liability ($Millions)[3]



3 Projected 2022 assets reflect -7.5% CalPERS investment return for 2021/22.

Discount Rate Sensitivity

June 30, 2021

	Discount Rate		
	6.80%	6.30%[4]	5.80%
AAL	$121,600,000	$129,700,000	$137,700,000
Assets	106,200,000	106,200,000	106,200,000
Unfunded Liability	15,400,000	23,500,000	31,500,000
Funded Ratio	87.3%	81.9%	77.1%

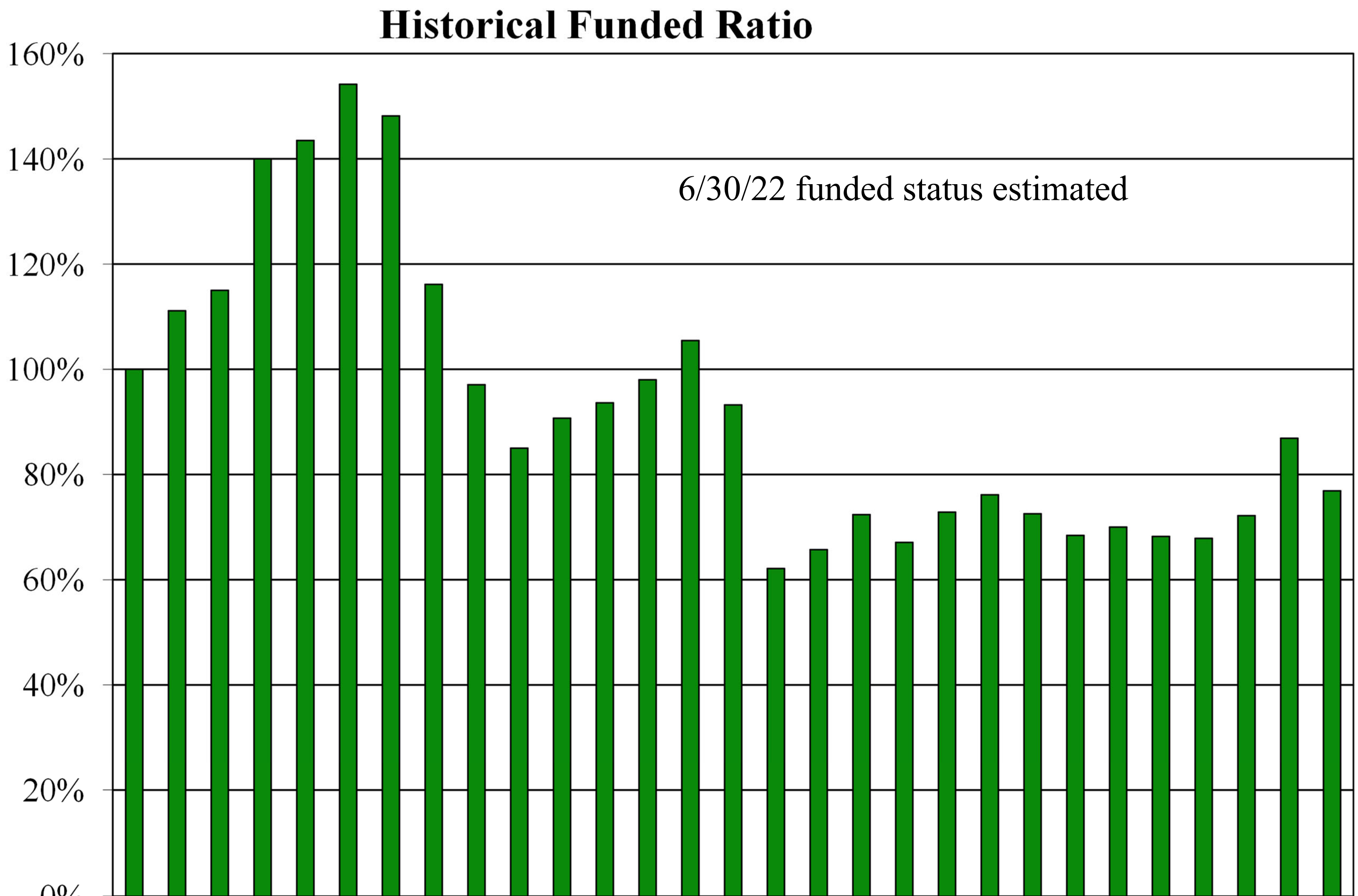
4 Estimated by Foster & Foster.

Unfunded Accrued Liability Changes

■ **Unfunded Accrued Liability on 6/30/20**		$ 32,500,000
■ **Expected 6/30/21 Unfunded Accrued Liability**		26,400,000
■ **Changes**		
• Assumption Change (demographics)	0	
• Discount Rate 7% to 6.8%	2,800,000	
• Asset Loss (Gain) (21.3% return for FY 2021)	(13,700,000)	
• Contribution & Experience Loss (Gain)	(100,000)	
• Total		(11,000,000)
■ **Unfunded Accrued Liability on 6/30/21**		15,400,000
■ **Projected Unfunded Accrued Liability on 6/30/22**[5]		29,000,000

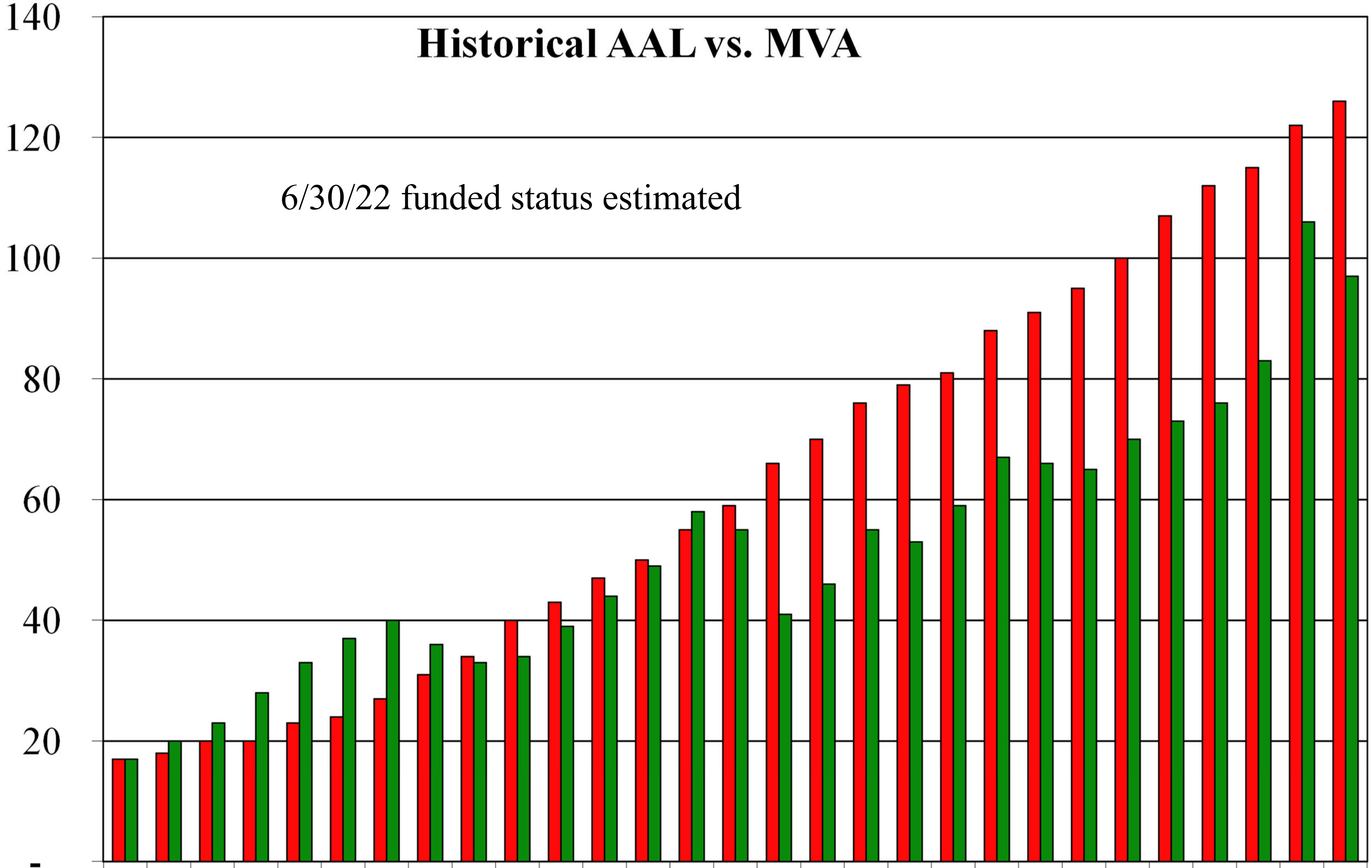
5 Projected UAL reflects -7.5% CalPERS investment return for 2021/22.

FUNDED RATIO - MISCELLANEOUS



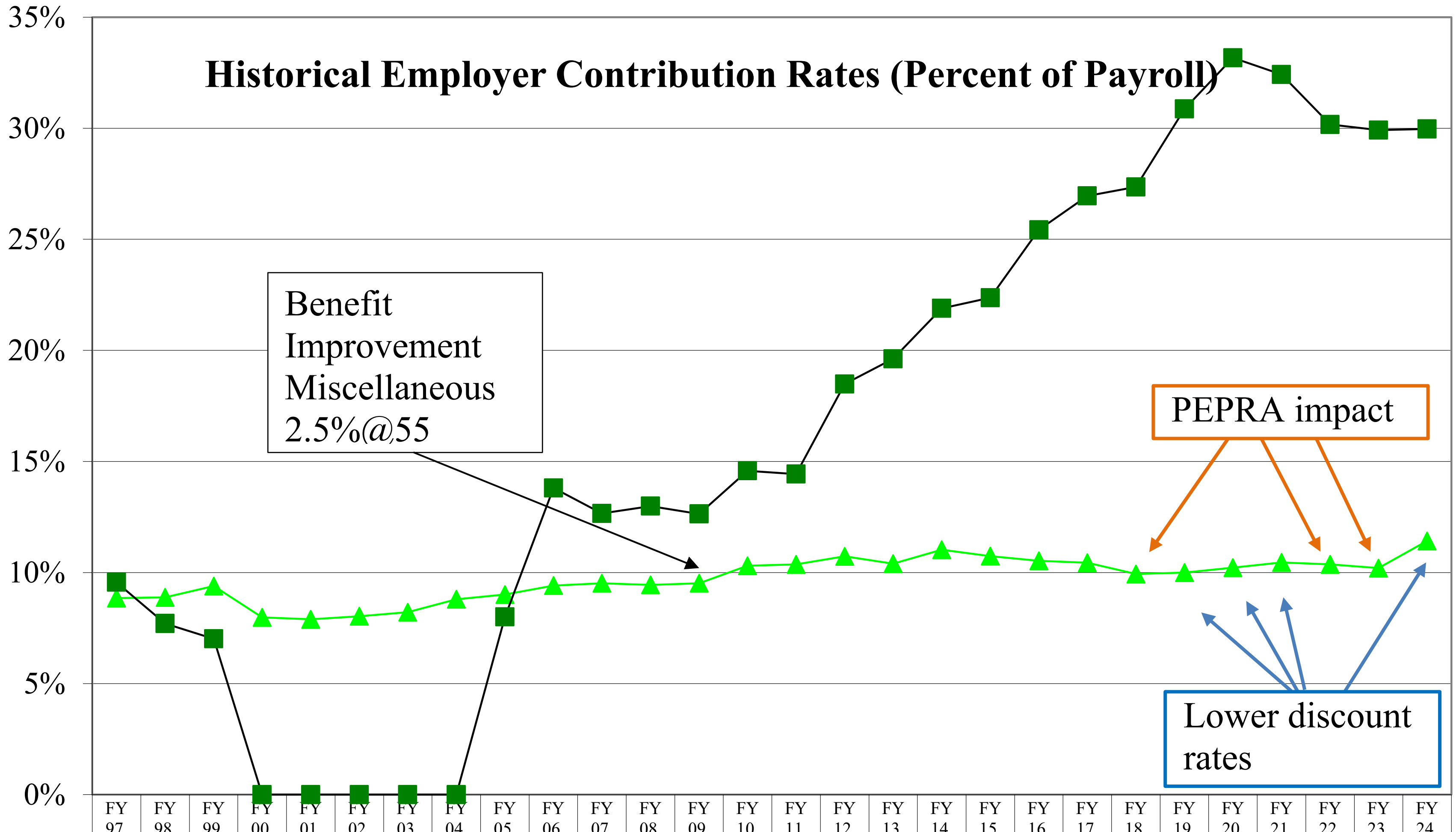
	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
Funded Ratio - MVA/AAL	100%	111%	115%	140%	143%	154%	148%	116%	97%	85%	91%	94%	98%	105%	93%	62%	66%	72%	67%	73%	76%	73%	68%	70%	68%	68%	72%	87%	77%

FUNDED STATUS (MILLIONS) - MISCELLANEOUS



	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
AAL	17	18	20	20	23	24	27	31	34	40	43	47	50	55	59	66	70	76	79	81	88	91	95	100	107	112	115	122	126
Assets	17	20	23	28	33	37	40	36	33	34	39	44	49	58	55	41	46	55	53	59	67	66	65	70	73	76	83	106	97

Contribution Rates - Miscellaneous



	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Normal Cost	8.9%	8.9%	9.4%	8.0%	7.9%	8.0%	8.2%	8.8%	9.0%	9.4%	9.5%	9.5%	9.5%	10.3%	10.4%	10.7%	10.4%	11.0%	10.7%	10.5%	10.4%	9.9%	10.0%	10.2%	10.5%	10.4%	10.2%	11.4%
Total Rate	9.6%	7.7%	7.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.0%	13.8%	12.7%	13.0%	12.6%	14.6%	14.4%	18.5%	19.6%	21.9%	22.4%	25.4%	27.0%	27.4%	30.9%	33.2%	32.4%	30.2%	29.9%	30.0%

FY21 & FY22 Total Rates reflect Additional Discretionary Payments (ADPs) of $4,753,965 made October 2019, $3,580,365 made July 2020, and $2,050,942 in April 2021.

Contribution Rates - Miscellaneous

	6/30/20 **2022/2023**	6/30/21 **2023/2024**
■ Total Normal Cost	17.6%	18.8%
■ Employee Normal Cost	7.4%	7.4%
■ Employer Normal Cost	10.2%	11.4%
■ Amortization Payments	19.7%	18.5%[6]
■ Total Employer Contribution Rate	29.9%	30.0%

■ 2022/23 Employer Contribution Rate	29.9%
● Payroll Changes	0.2%
● 6/30/17 Discount Rate & Inflation (5th Year)	0.2%
● 6/30/18 Discount Rate change (4th Year)	0.6%
● 6/30/21 Demographic Assumption change (no ramp)	0.7%
● 6/30/21 Risk Mitigation (6.8%) (Normal Cost change)	0.8%
● Other (Gains)/Losses mainly net investment gain	(2.4%)
■ 2023/24 Employer Contribution Rate	30.0%

[6] Equivalent to 18.8% of UAL. One year, 6.8% interest on the UAL is 6.7% of payroll. 2023/24 amortization payment exceeds interest on the UAL, so there is no "negative amortization."

CONTRIBUTION PROJECTIONS - MISCELLANEOUS

- Investment returns:
  - June 30, 2022 (7.5%)[7]
  - Future returns based on stochastic analysis using 1,000 trials
  - Single year returns[8] with current investment mix, no risk mitigati

	Percentile		
	25th	50th	75th
First 10 years	**-1.8%**	**6.0%**	**14.7%**
After 10 years	**-0.7%**	**7.5%**	**16.4%**

  - Assumes investment returns will generally be lower over the next 10 years and higher beyond that.
- Discount Rate decreases due to Risk Mitigation policy – Ultimate rate 6.0%
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection
- Impact of Risk Mitigation Policy:
  - Net impact of investment gain and discount rate change amortized over 20 years with 5 year ramp up; same amortization method for all future years
- Projected payroll FY 2023-2027 from City budget projections

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[7] Final return based on CalPERS 2022 ACFR.

[8] N^{th} percentile means N percentage of our trials result in returns lower than the indicated rates.

CONTRIBUTION PROJECTIONS - MISCELLANEOUS

- New hire assumptions:
  - All new hires assumed PEPRA members and none are Classic members

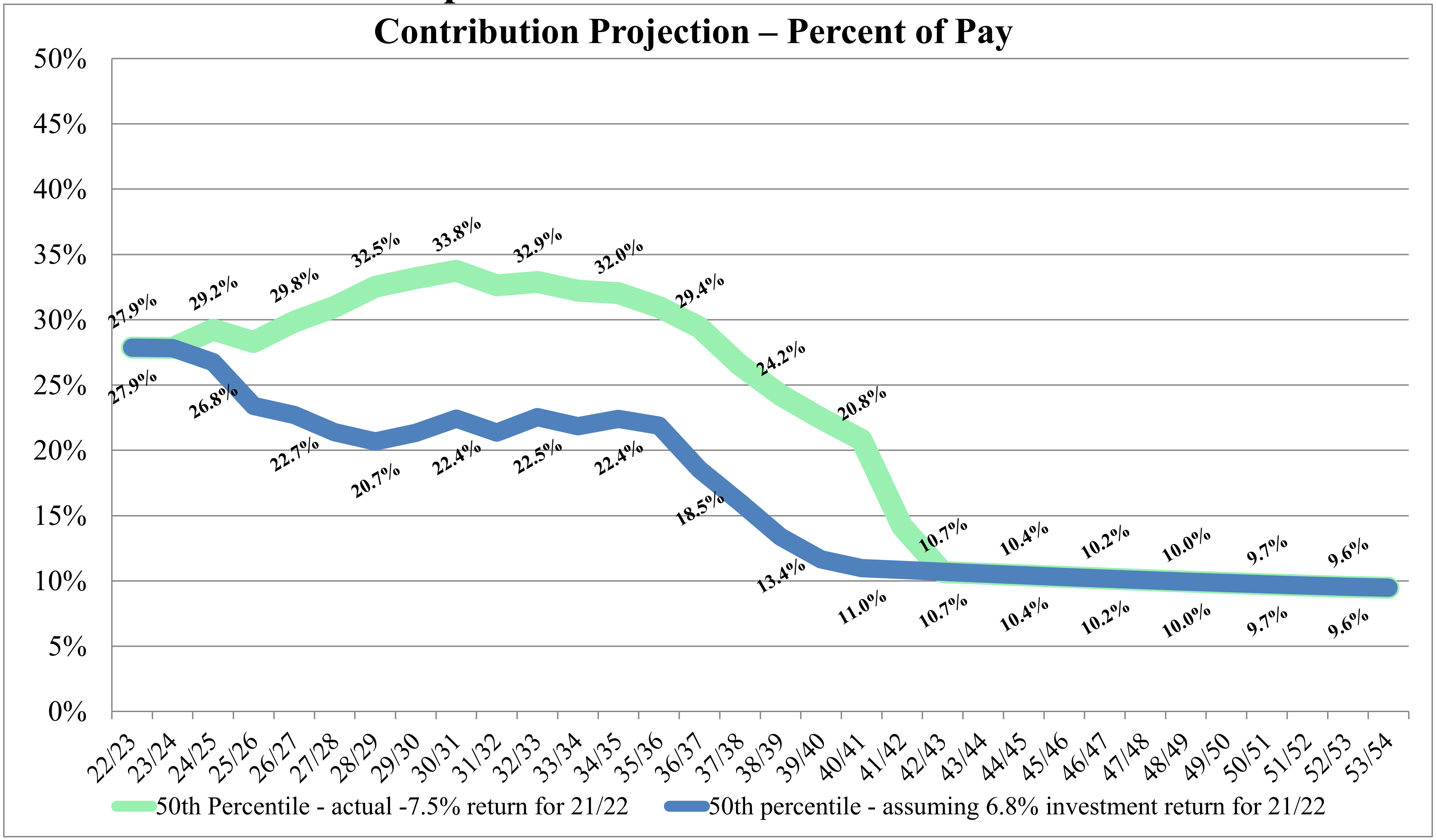
- 6/30/21 employee distribution:

Benefit Tier	Count	% of Total	20/21 Payroll	% of Total
● 2.5%@55 FAC1	32	26.9%	$3,511,394	29.3%
● 2%@60 FAC3	25	21.0%	3,344,416	27.9%
● 2%@62 FAC3 (PEPRA)	62	52.1%	5,114,292	42.7%

- Town provided payroll for contribution years:

FYE	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Payroll (000s)	$14,241	$14,695	$15,128	$15,388	$15,747	$16,111	$16,439

Impact of 21/22 Investment Return



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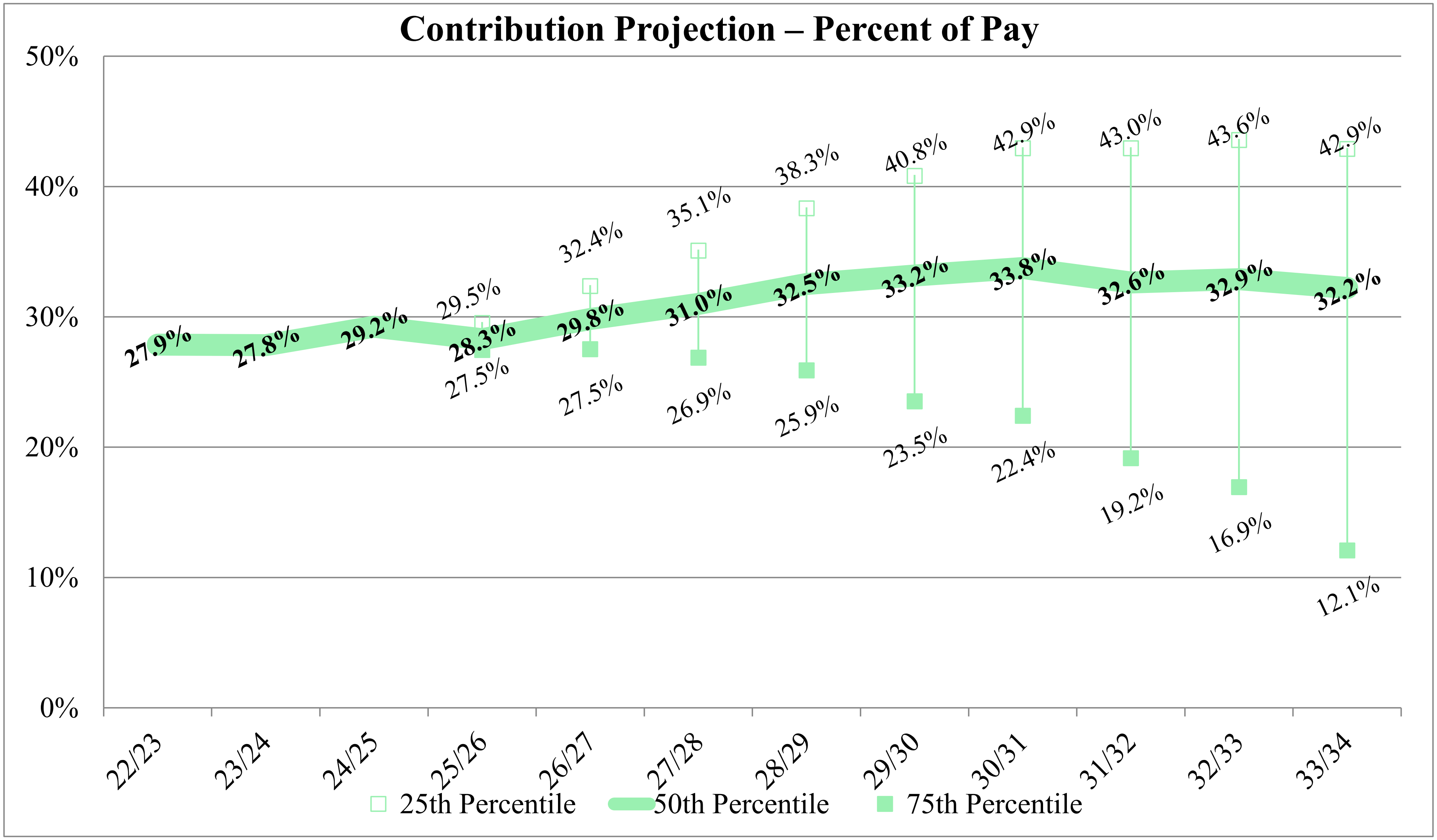
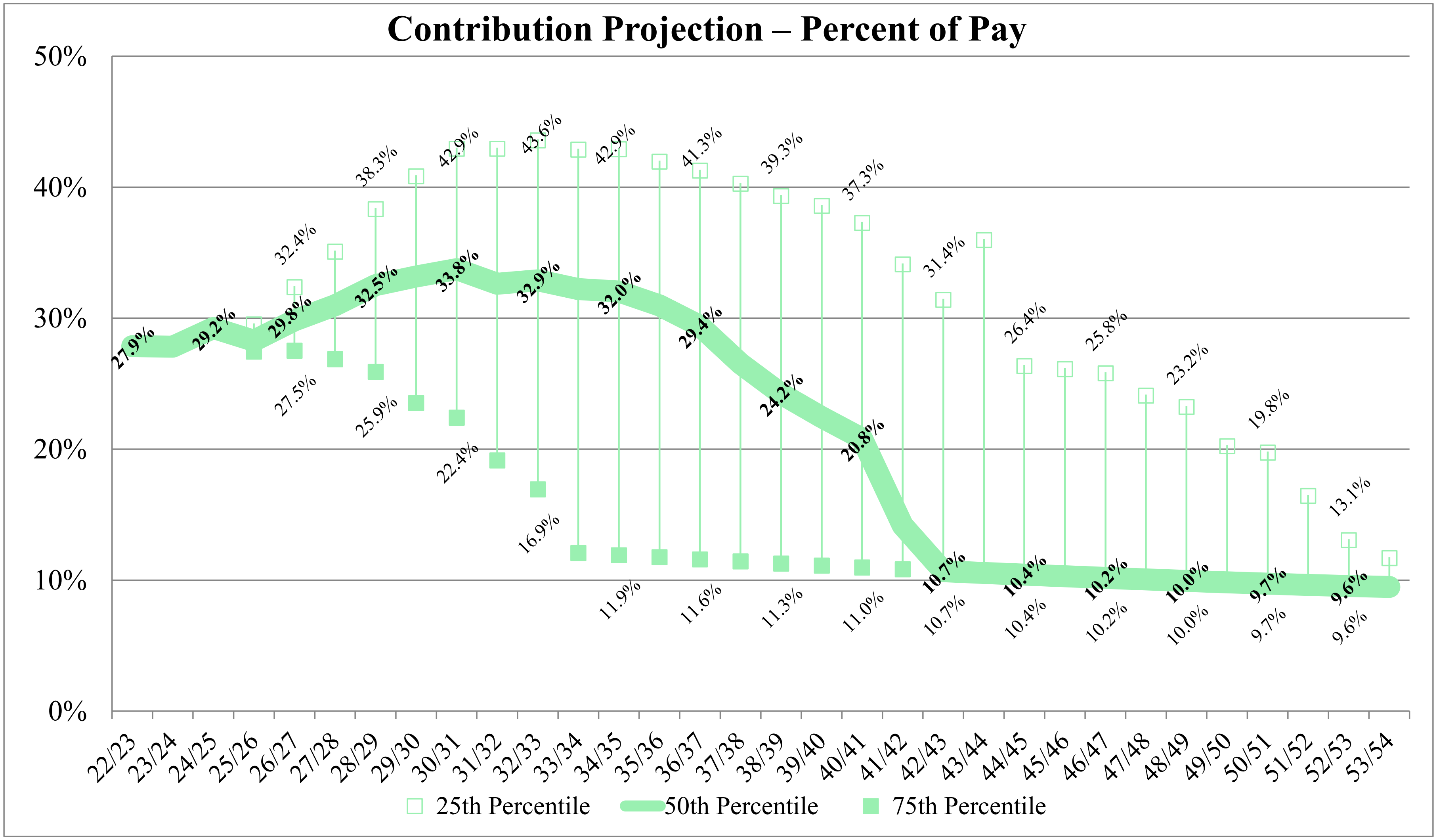
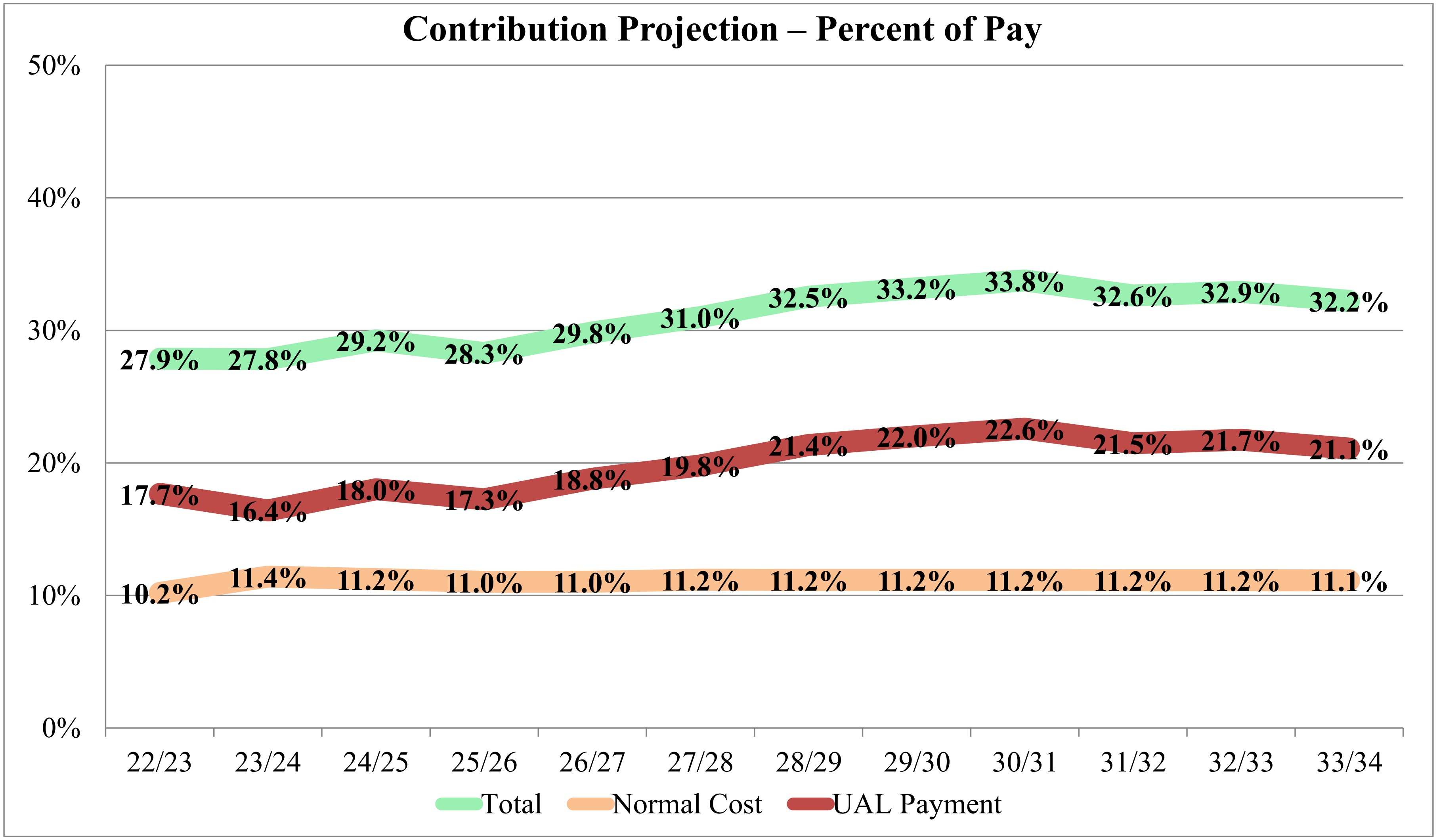
CONTRIBUTION PROJECTIONS - MISCELLANEOUS



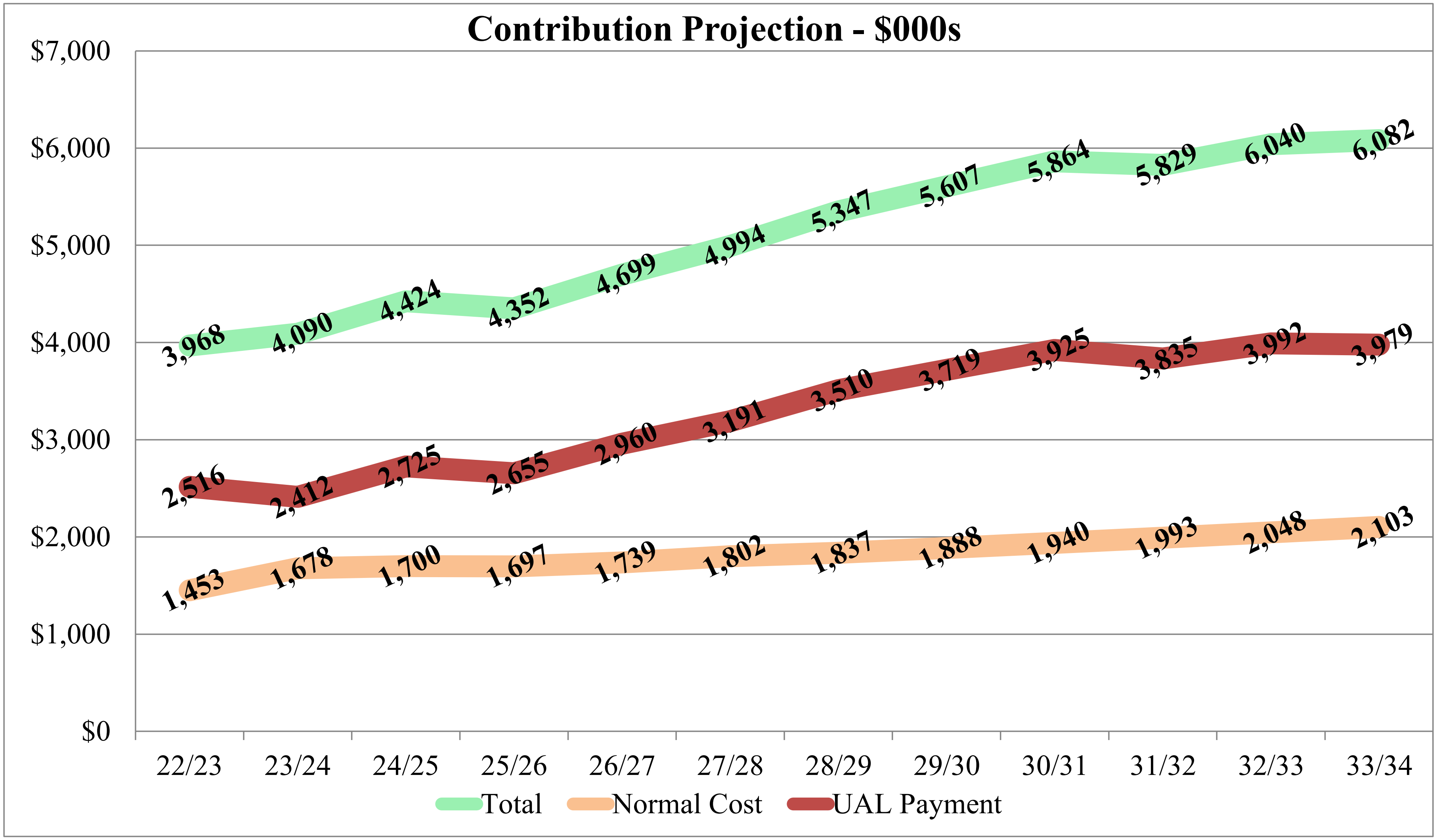
Contribution Projections - Miscellaneous



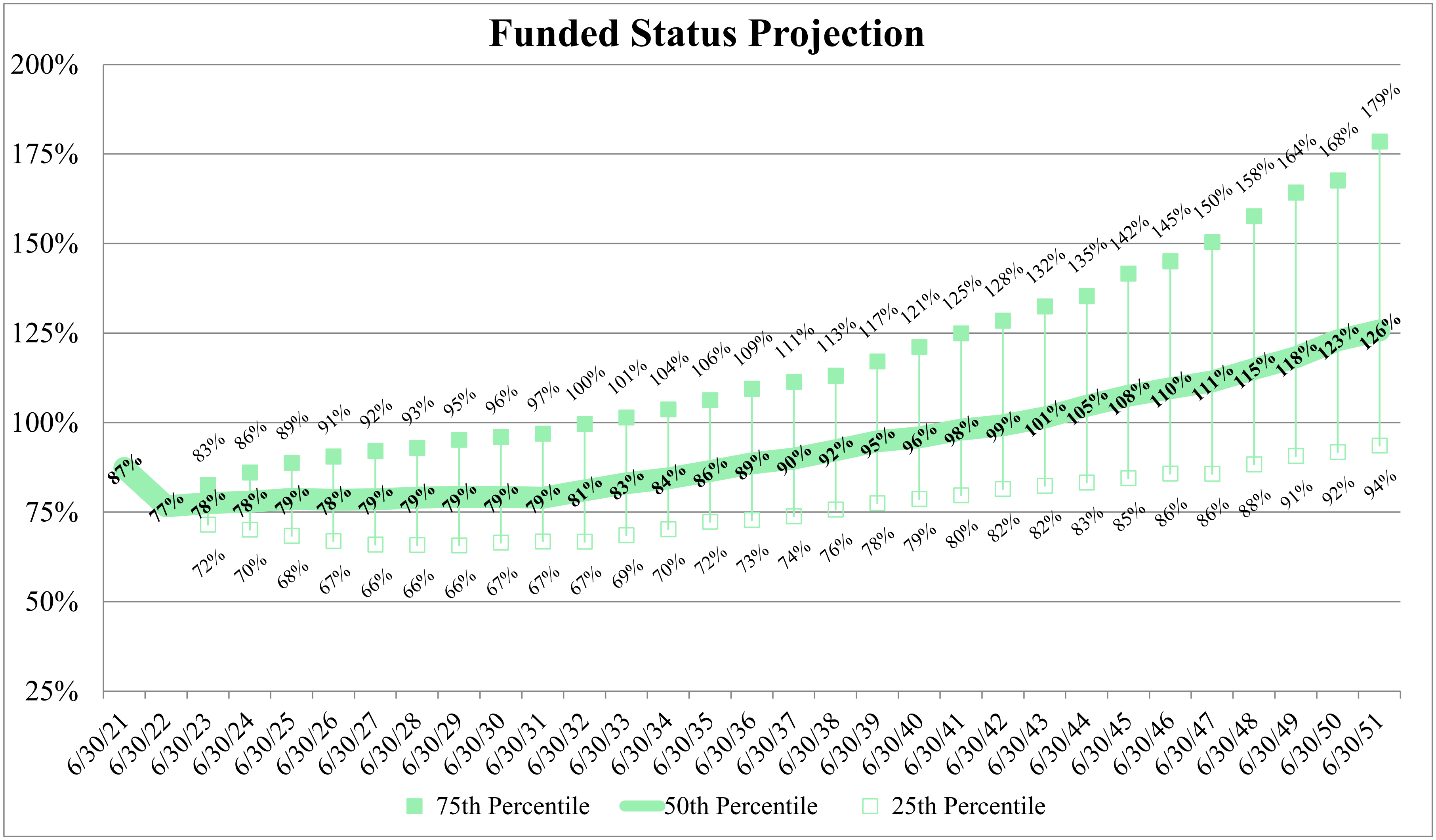
Contribution Projections - Miscellaneous



Contribution Projections - Miscellaneous



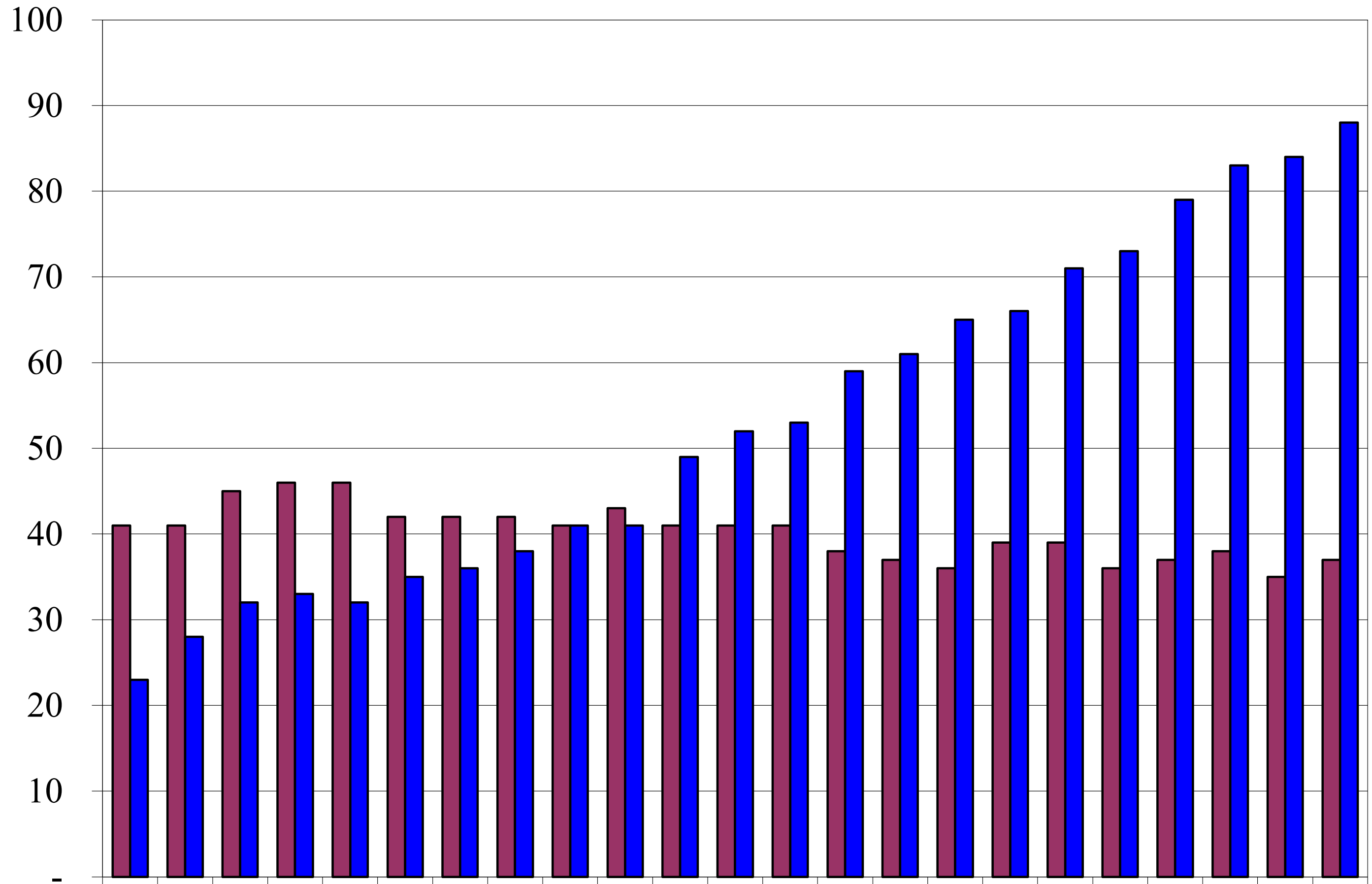
FUNDED STATUS - MISCELLANEOUS



Summary of Demographic Information - Safety

	2012	2016	2020	2021
Actives				
■ Counts	38	39	35	37
■ Average PERSable Wages	$ 128,000	$ 129,000	$ 152,900	$ 149,900
■ Total PERSable Wages	4,900,000	5,000,000	5,300,000	5,500,000
Inactive Members				
■ Counts				
• Transferred	15	14	13	13
• Separated	3	2	3	3
• Receiving Payments	59	71	84	88

SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY

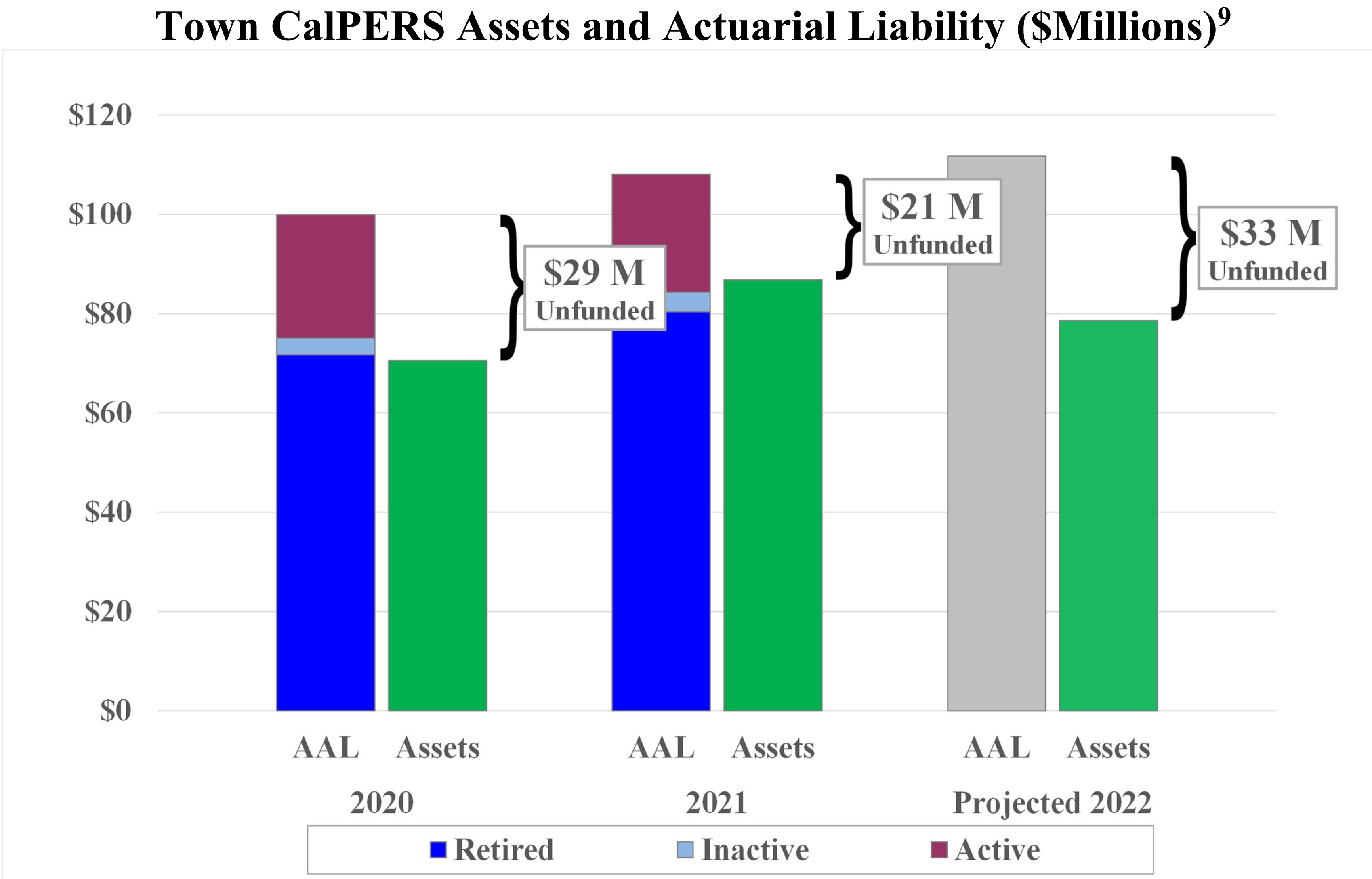


	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21
Actives	41	41	45	46	46	42	42	42	41	43	41	41	41	38	37	36	39	39	36	37	38	35	37
Receiving Payments	23	28	32	33	32	35	36	38	41	41	49	52	53	59	61	65	66	71	73	79	83	84	88

PLAN FUNDED STATUS - SAFETY

	June 30, 2020	June 30, 2021
■ **Actuarial Accrued Liability**		
● Active	$24,800,000	$23,700,000
● Retiree	71,700,000	80,400,000
● Inactive	3,400,000	4,000,000
● Total	99,900,000	108,100,000
■ **Assets**	70,500,000	86,800,000
■ **Unfunded Liability**	29,400,000	21,300,000
■ **Funded Ratio**	70.6%	80.3%
■ **Average funded ratio for CalPERS Public Agency Safety Plans**	69.2%	80.9%

Plan Funded Status - Safety



[9] Projected 2022 assets reflects -7.5% CalPERS investment return for 2021/22.

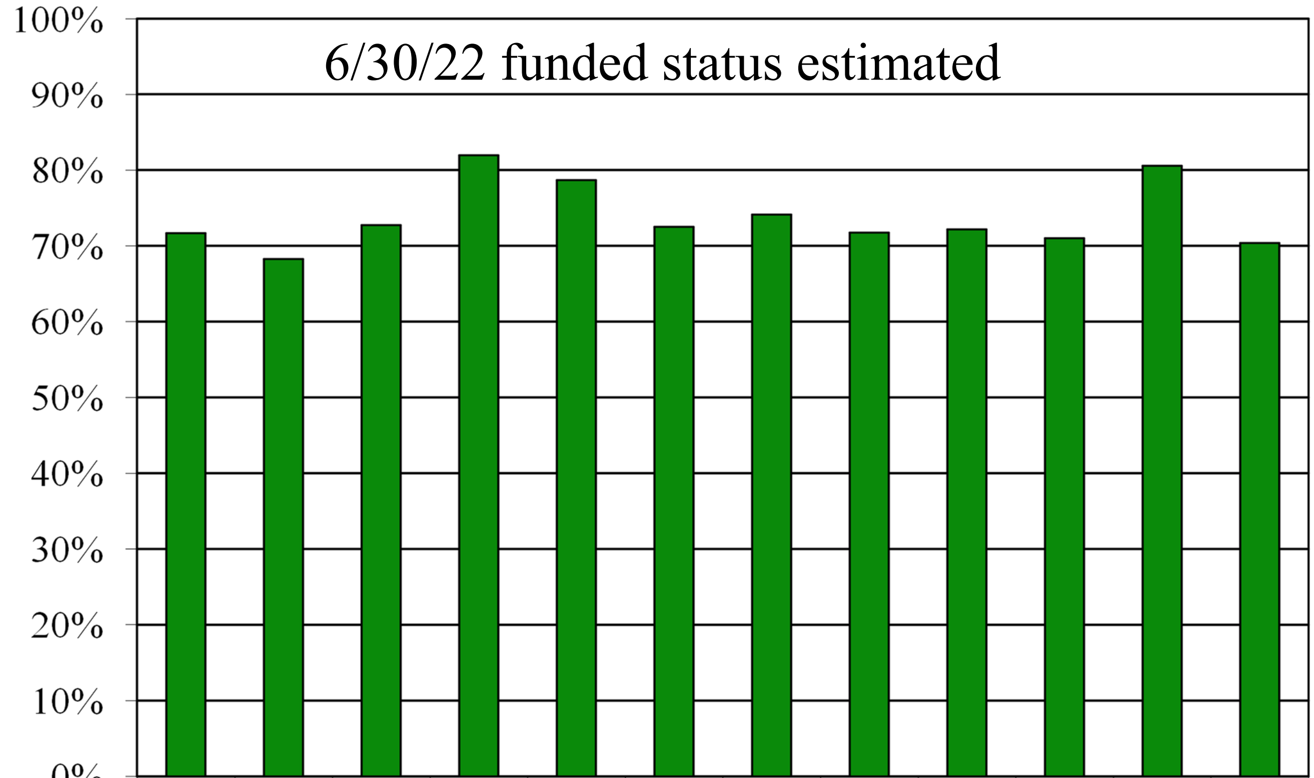
Discount Rate Sensitivity

June 30, 2021

	Discount Rate		
	6.80%	6.30%[10]	5.80%
AAL	$108,100,000	$115,500,000	$122,900,000
Assets	86,800,000	86,800,000	86,800,000
Unfunded Liability	21,300,000	28,700,000	36,100,000
Funded Ratio	80.3%	75.2%	70.6%

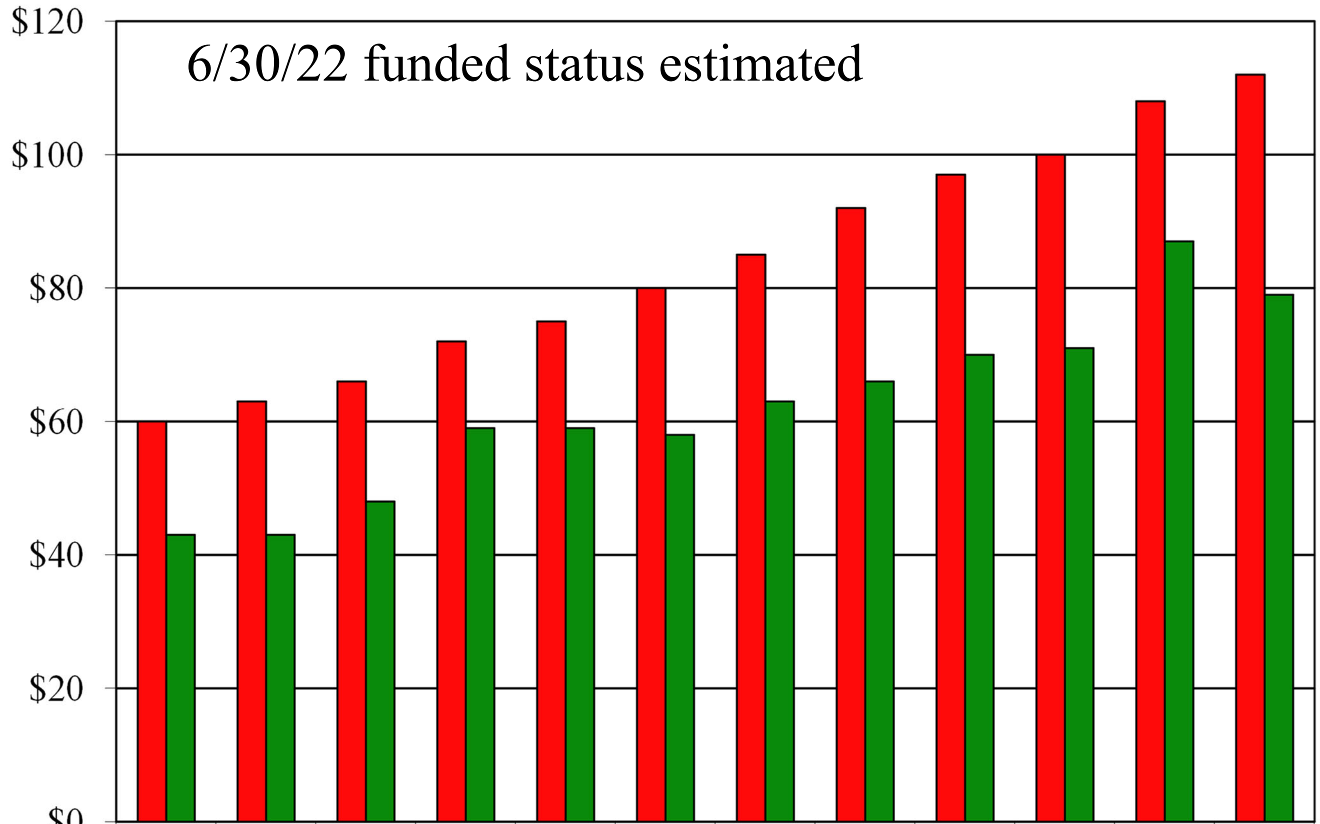
[10] Estimated by Foster & Foster.

FUNDED RATIO - SAFETY



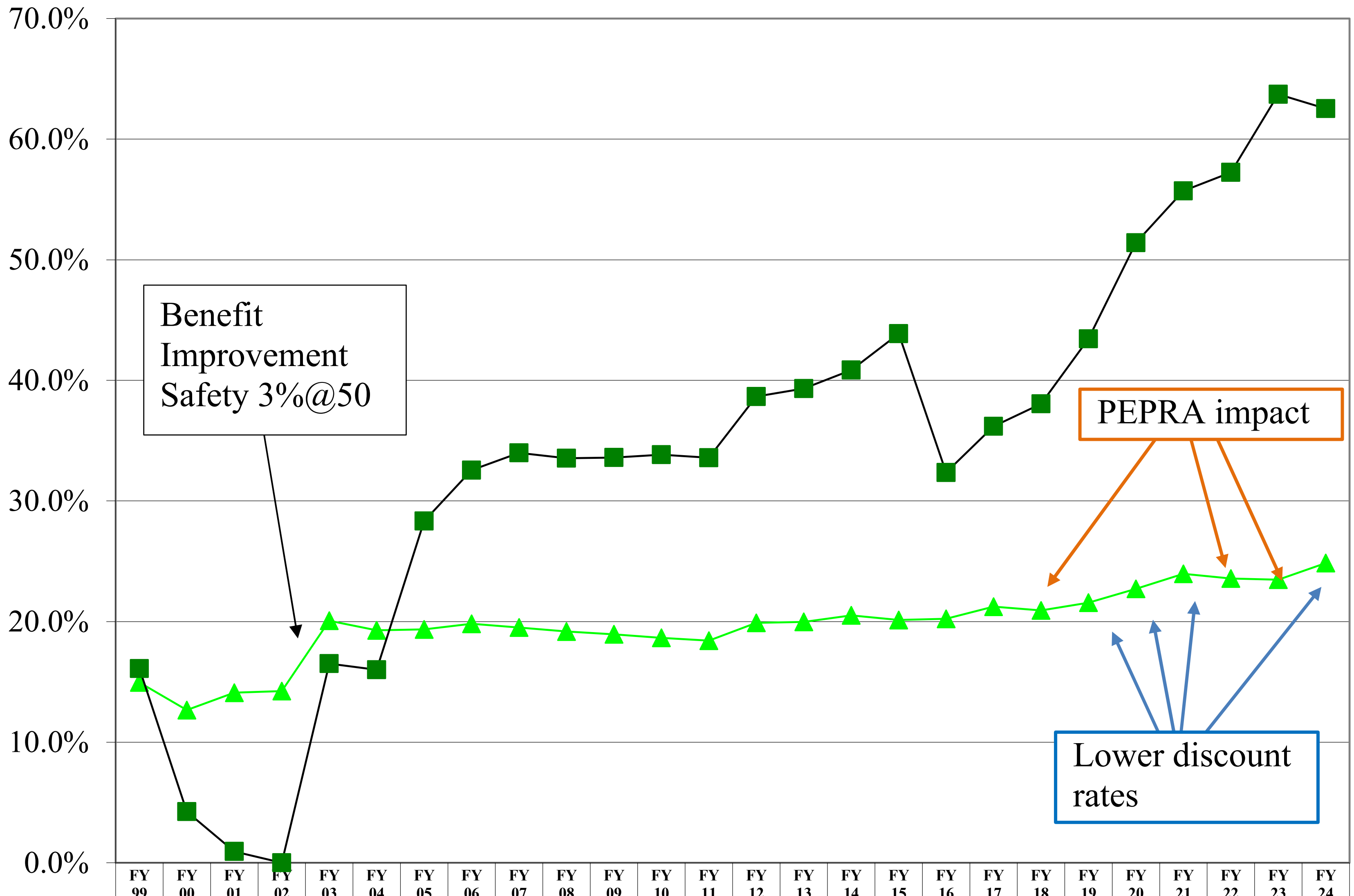
	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
Funded Ratio - MVA/AAL	72%	68%	73%	82%	79%	73%	74%	72%	72%	71%	81%	70%

Funded Status (Millions) - Safety



	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
Actuarial Liability	60	63	66	72	75	80	85	92	97	100	108	112
Market Asset Value	43	43	48	59	59	58	63	66	70	71	87	79

CONTRIBUTION RATES - SAFETY



	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
ER Normal Cost	15.0%	12.7%	14.1%	14.2%	20.1%	19.3%	19.4%	19.8%	19.5%	19.2%	18.9%	18.6%	18.4%	19.9%	20.0%	20.5%	20.1%	20.2%	21.2%	20.9%	21.6%	22.7%	24.0%	23.6%	23.5%	24.9%
Total ER Cont Rate	16.1%	4.2%	0.9%	0.0%	16.5%	16.0%	28.3%	32.6%	34.0%	33.5%	33.6%	33.8%	33.6%	38.6%	39.3%	40.9%	43.9%	32.4%	36.2%	38.1%	43.4%	51.4%	55.7%	57.2%	63.7%	62.5%

CONTRIBUTION RATES - SAFETY

	6/30/21 Valuation 2023/2024 Contribution Rates		
	Total[11]	**Tier 1 3%@50**	**PEPRA 2.7%@57**
■ Base Total Normal Cost	32.5%	34.60%	27.3%
■ Class 1 Benefits			
● Final One Year Compensation	1.0%	1.50%	-
● PRSA	1.9%	2.00%	1.7%
■ Total Normal Cost	35.4%	38.10%	29.0%
■ Formula's Expected EE Contr. Rate	10.6%	9.00%	14.5%
■ Employer Normal Cost	24.9%	29.10%	14.5%
■ Amortization Payment	37.7%	53.10%	-
■ Amortization of Side Fund	-	-	-
■ **Total Employer Contribution**	**62.5%**	**82.20%**	**14.5%**
■ Employee counts	37	24	13
■ Employee payroll (in 000's)	$ 6,026	$4,276	$ 1,751
■ **Total ER Contribution $ (in 000's)**	**$ 3,769**	**$3,515**	**$ 254**

[11] Weighting of total contribution based on projected classic and PEPRA payrolls

Contribution Rates - Safety

	6/30/20 2022/2023	6/30/21 2023/2024
■ Total Normal Cost	33.3%	35.4%
■ Employee Normal Cost	9.9%	10.6%
■ Employer Normal Cost	23.5%	24.9%
■ Amortization Payments	40.3%	37.7%[12]
■ Total Employer Contribution Rate	63.7%	62.5%

■ 2022/23 Employer Contribution Rate	63.7%
● Payroll Changes	(0.4%)
● 6/30/17 Discount Rate & Inflation (5th Year)	0.7%
● 6/30/18 Discount Rate change (4th Year)	1.0%
● 6/30/21 Demographic Assumption change	1.8%
● 6/30/21 Risk Mitigation (Normal Cost change)	0.7%
● Other (Gains)/Losses mainly net investment gain	(5.0%)
■ 2023/24 Employer Contribution Rate	62.5%

[12] Equivalent to 11.4% of UAL. One year, 6.8% interest on the UAL is 22.4% of payroll. 2023/24 amortization payment exceeds interest on the UAL, so there is no "negative amortization."

CONTRIBUTION PROJECTION - SAFETY

- Investment returns:
  - June 30, 2022 (7.5%)[13]
  - Future returns based on stochastic analysis using 1,000 trials
  - Single year returns[14] with current investment mix, no risk mitigation:

	Percentile		
	25th	50th	75th
First 10 years	**-1.8%**	**6.0%**	**14.7%**
After 10 years	**-0.7%**	**7.5%**	**16.4%**

  - Assumes investment returns will generally be lower over the next 10 years and higher beyond that.
- Discount Rate decreases due to Risk Mitigation policy – Ultimate rate 6.0%
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection
- Impact of Risk Mitigation Policy:
  - Net impact of investment gain and discount rate change amortized over 20 years with 5 year ramp up; same amortization method for all future years
- Projected payroll FY 2023-2027 from City budget projections

[13] Final return based on CalPERS 2022 ACFR.
[14] Nth percentile means N percentage of our trials result in returns lower than the indicated rates.

CONTRIBUTION PROJECTION - SAFETY

- New hire assumptions:
  - All new hires assumed PEPRA members and none are Classic members

- 6/30/21 employee distribution:

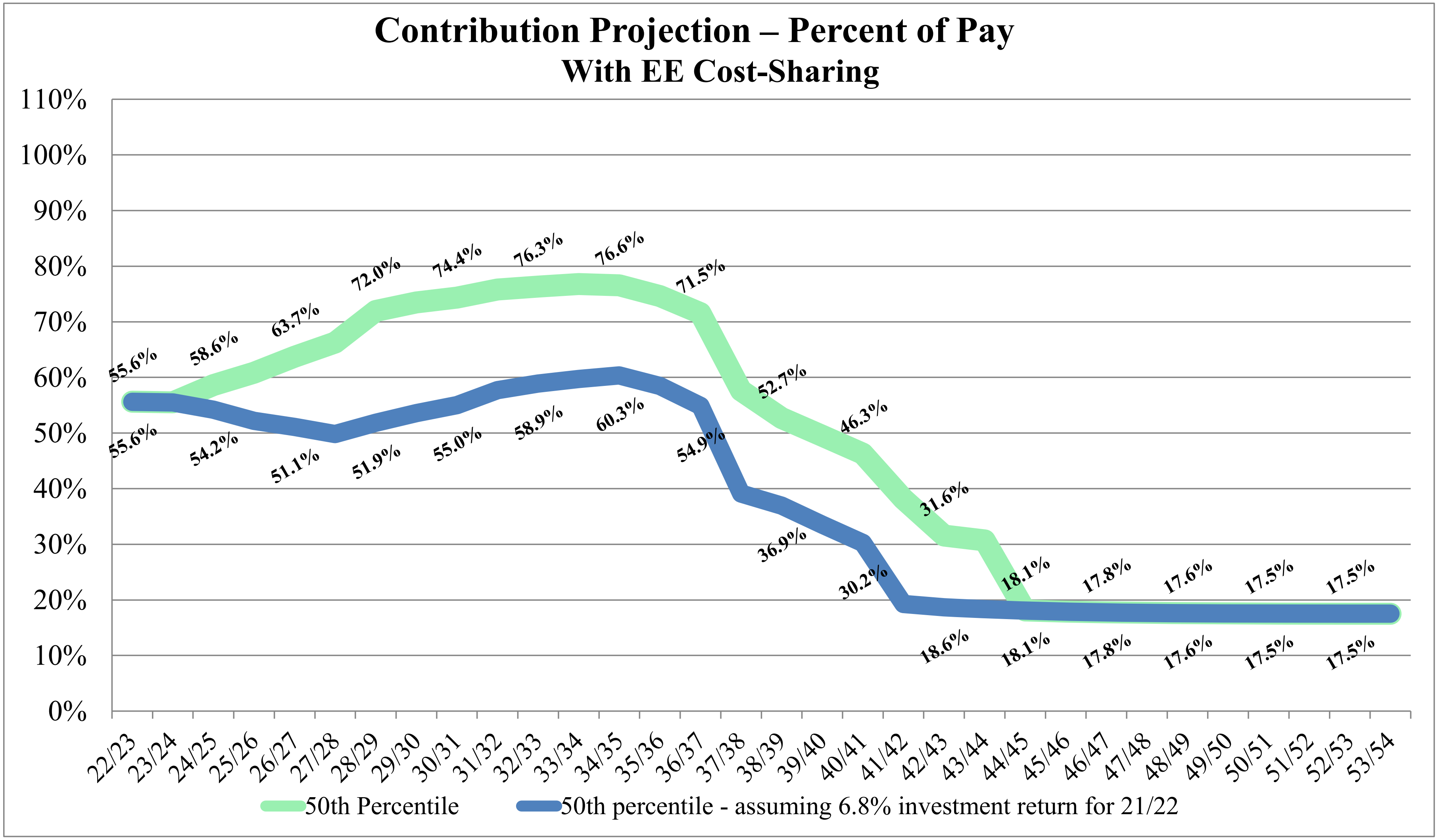
Benefit Tier	Count	% of Total	20/21 Payroll	% of Total
● 3%@50 FAE1	24	64.9%	$3,935,891	71.0%
● 2.7%@57 FAE3 (PEPRA)	13	35.1%	1,611,346	29.0%

- Employee Cost Sharing of Employer Contribution:
  - 3% of pay employee share for Classic members
- Town provided payroll (000s) for contribution years:

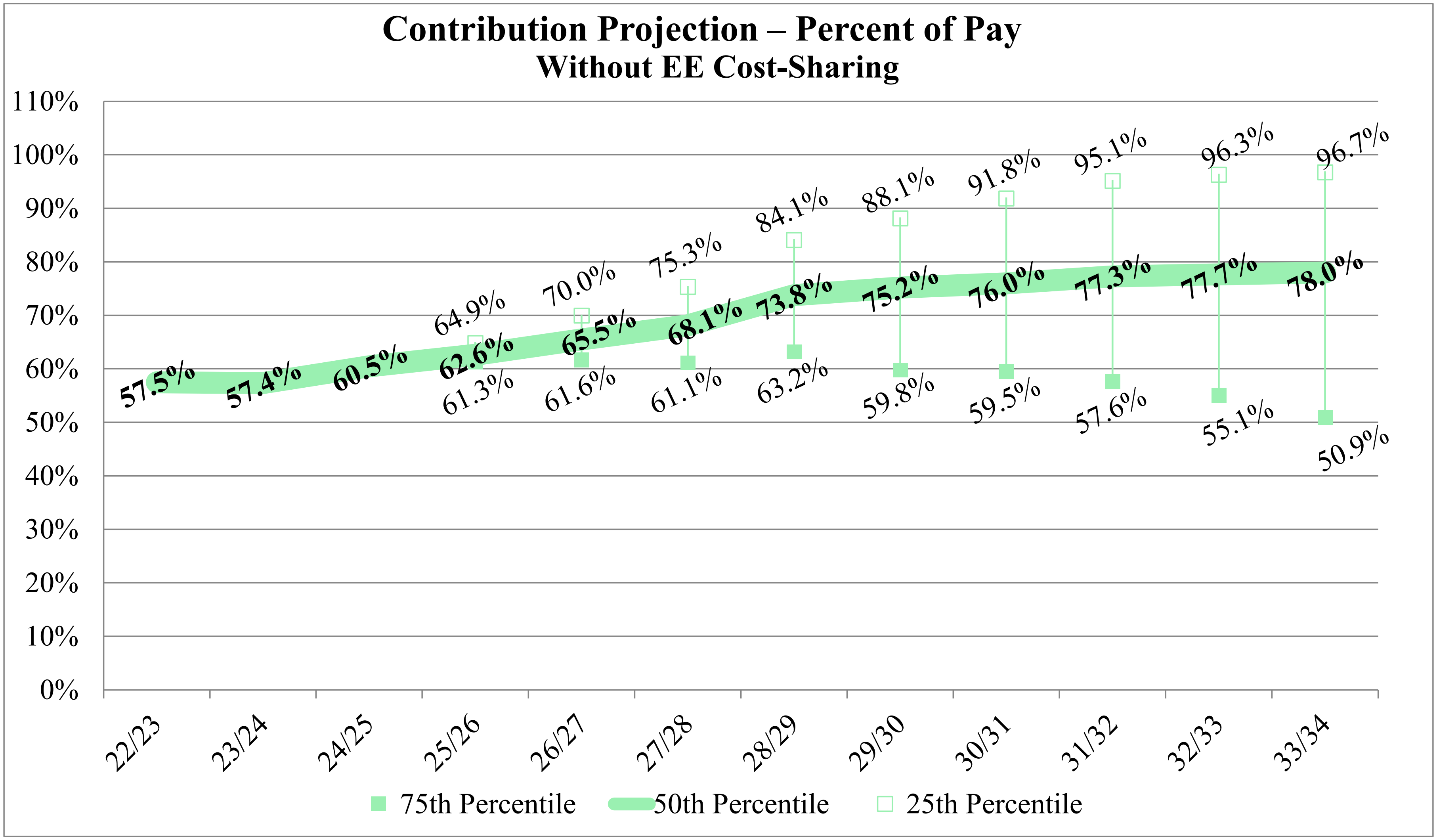
FYE	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Classic	$3,982	$4,113	$4,204	$4,290	$4,375	$4,462	$4,551
PEPRA	2,438	2,586	2,712	2,810	2,869	2,927	2,985

CONTRIBUTION PROJECTION - SAFETY

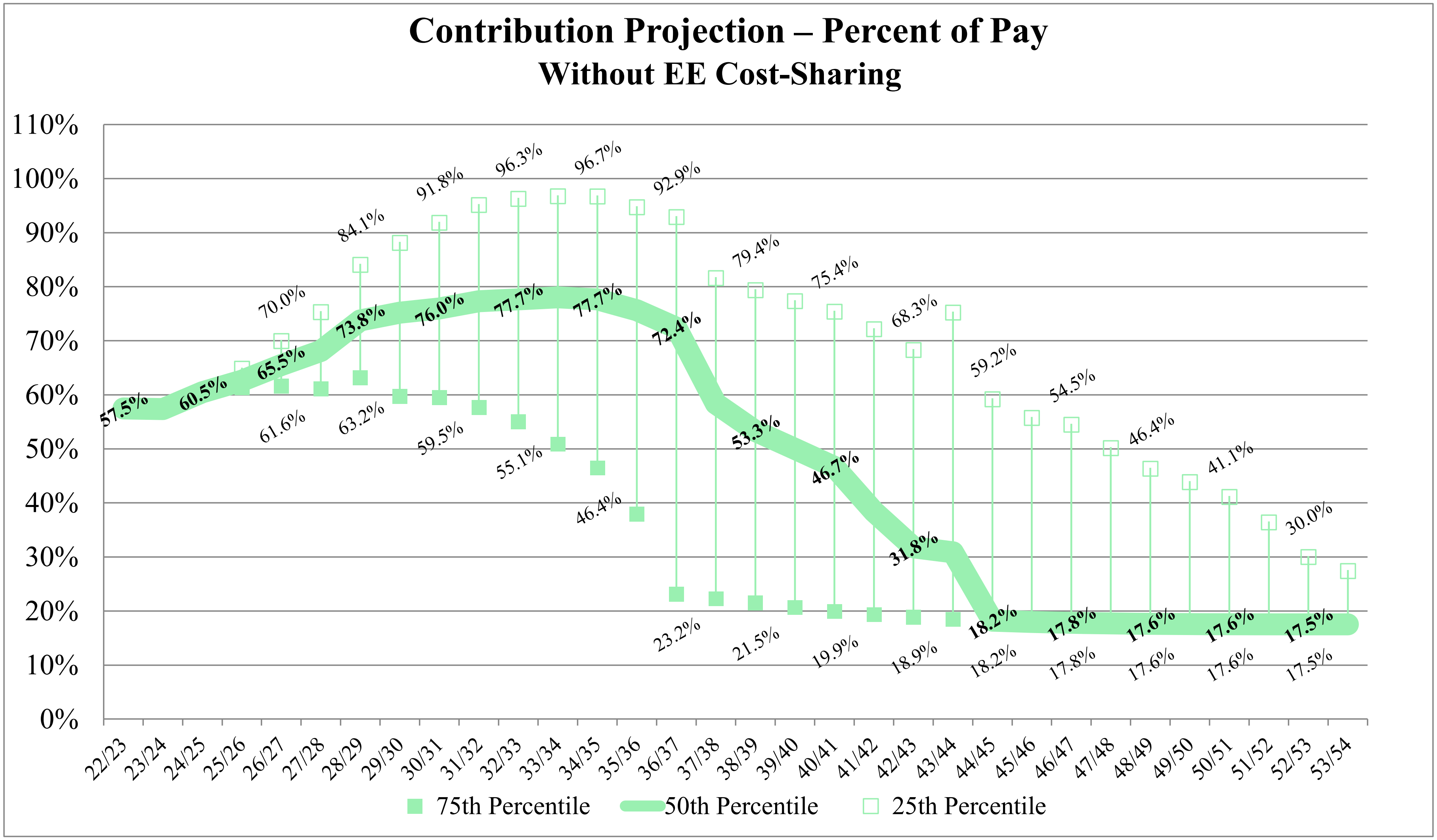
Impact of 21/22 Investment Return



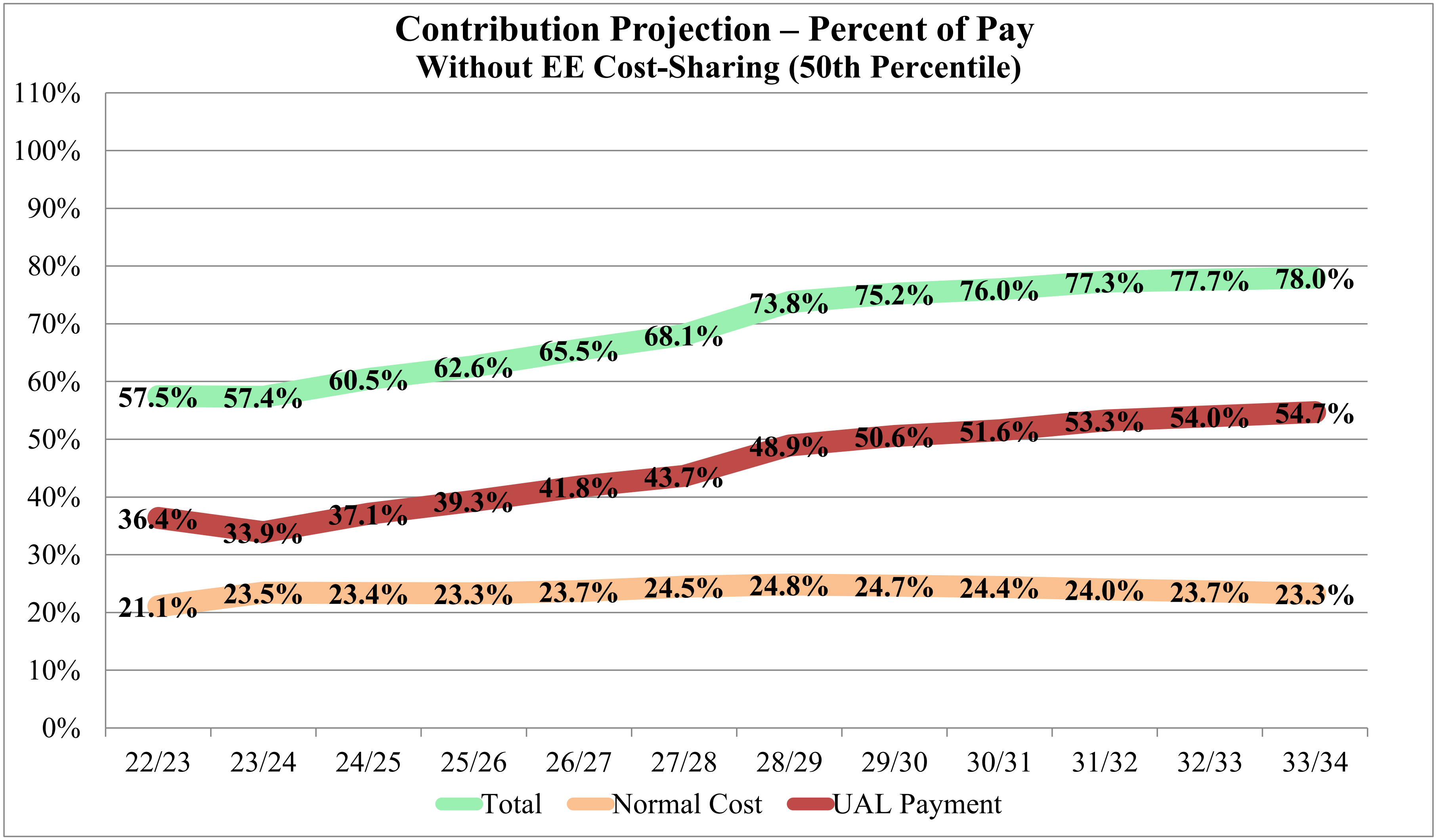
Contribution Projection - Safety



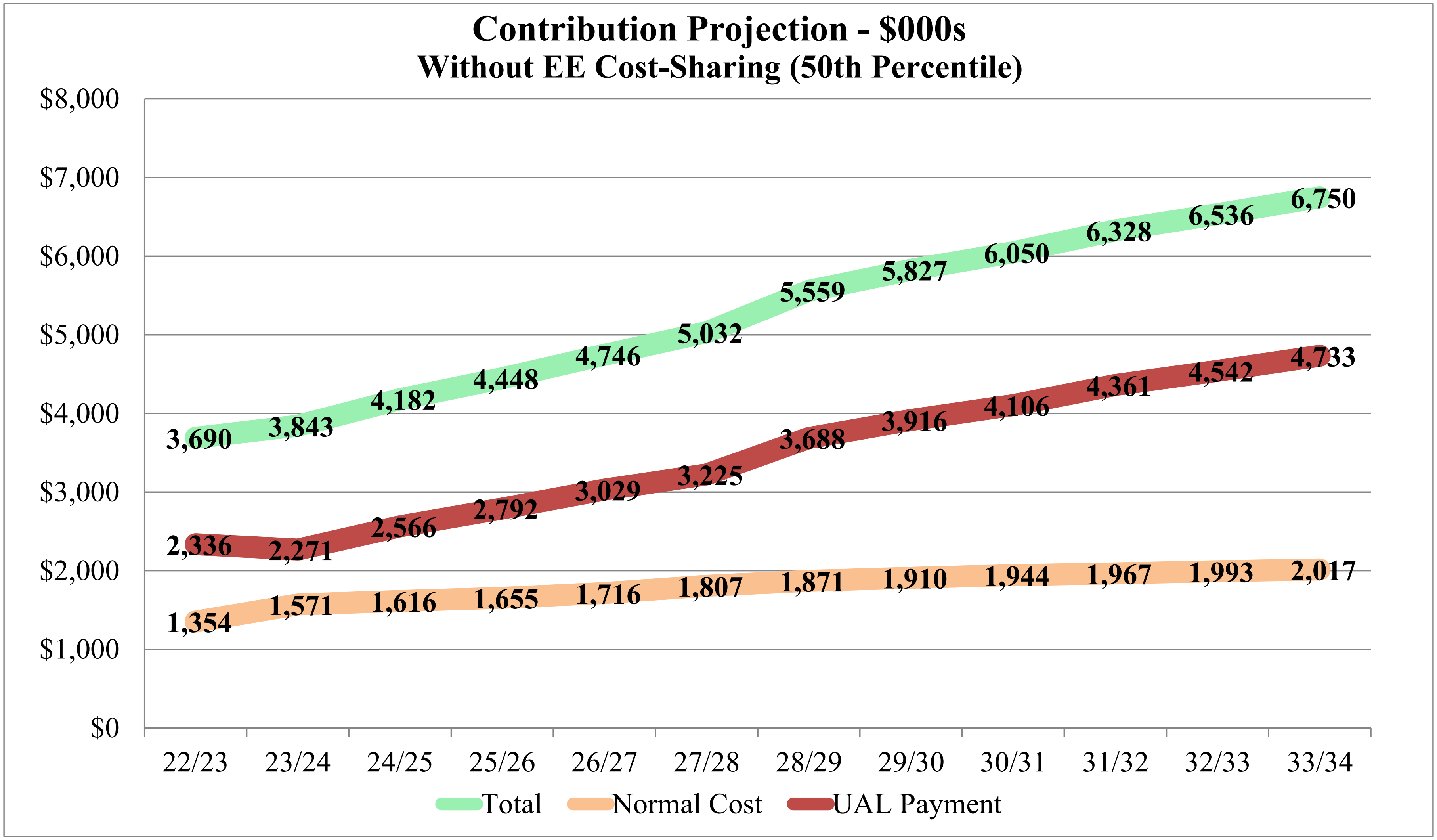
CONTRIBUTION PROJECTION - SAFETY



Contribution Projection - Safety



Contribution Projection - Safety



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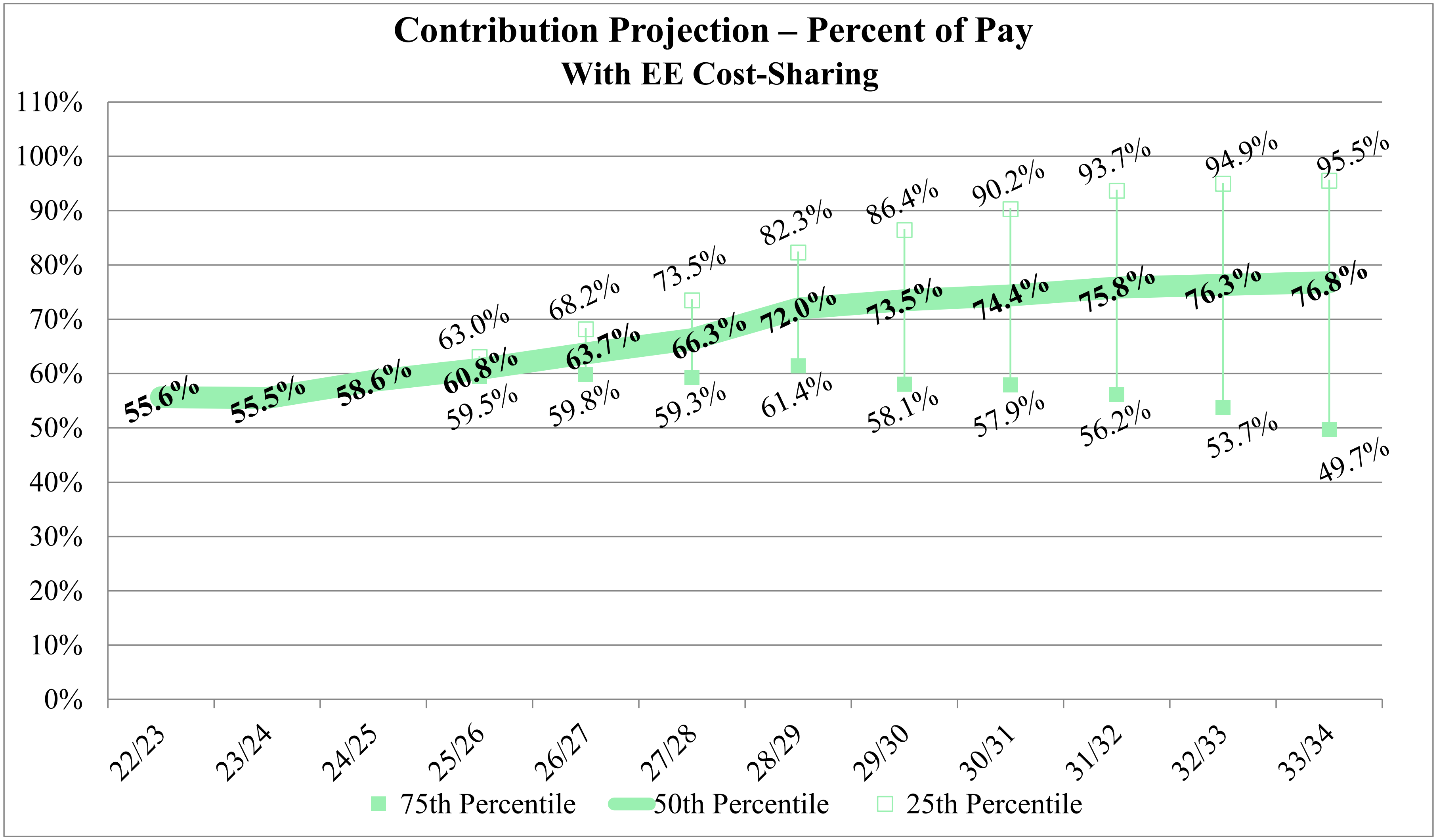

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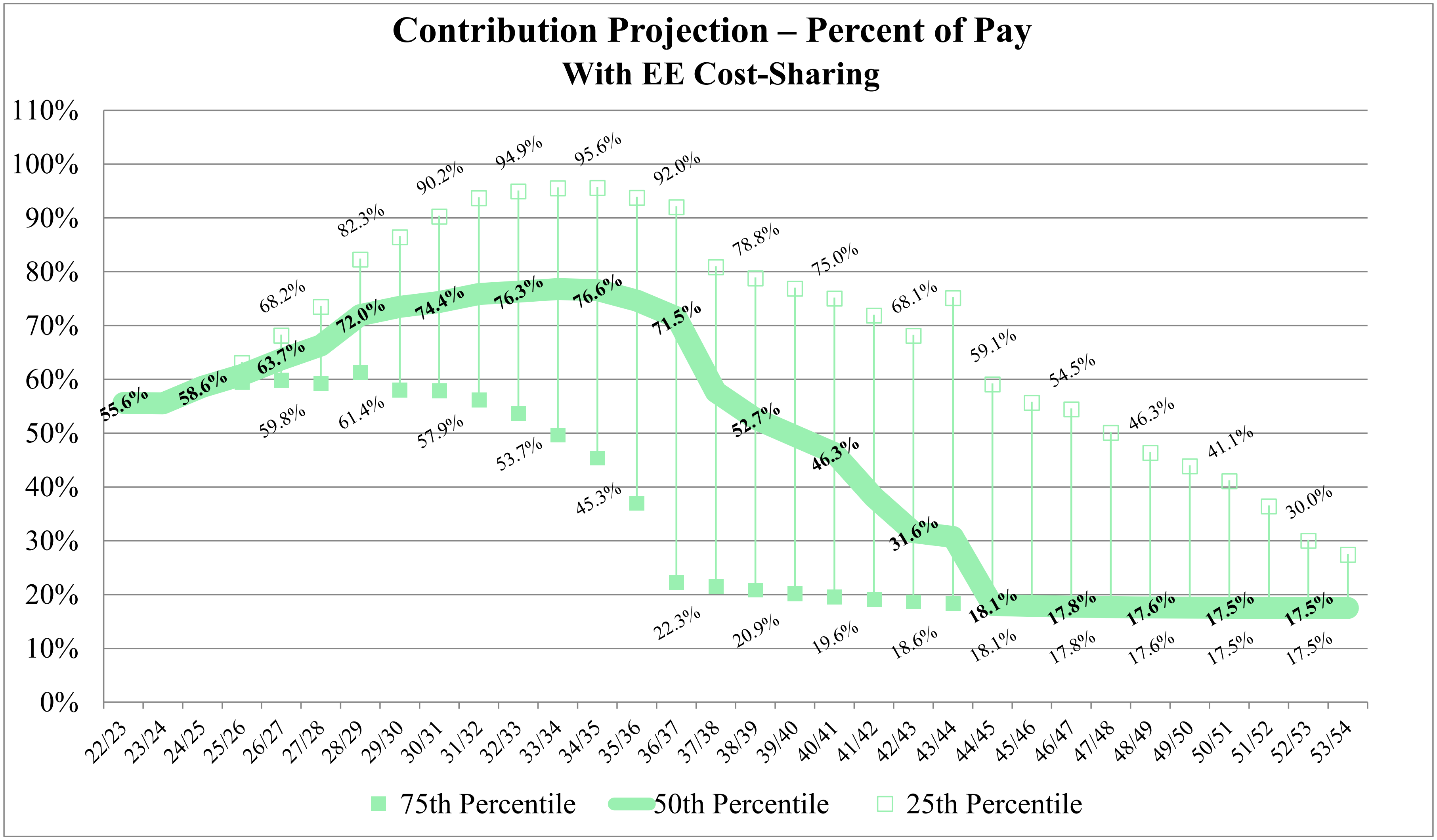
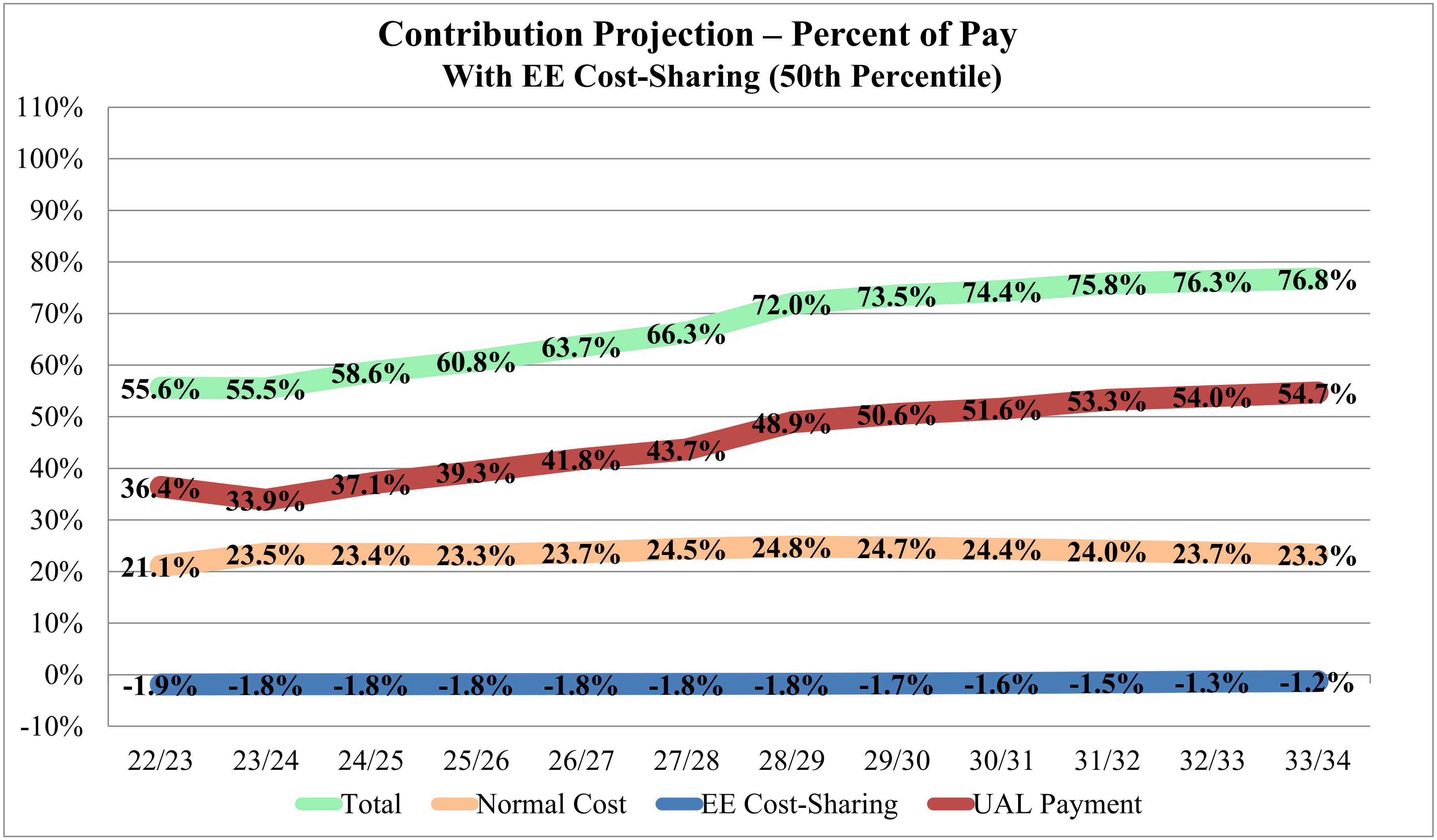
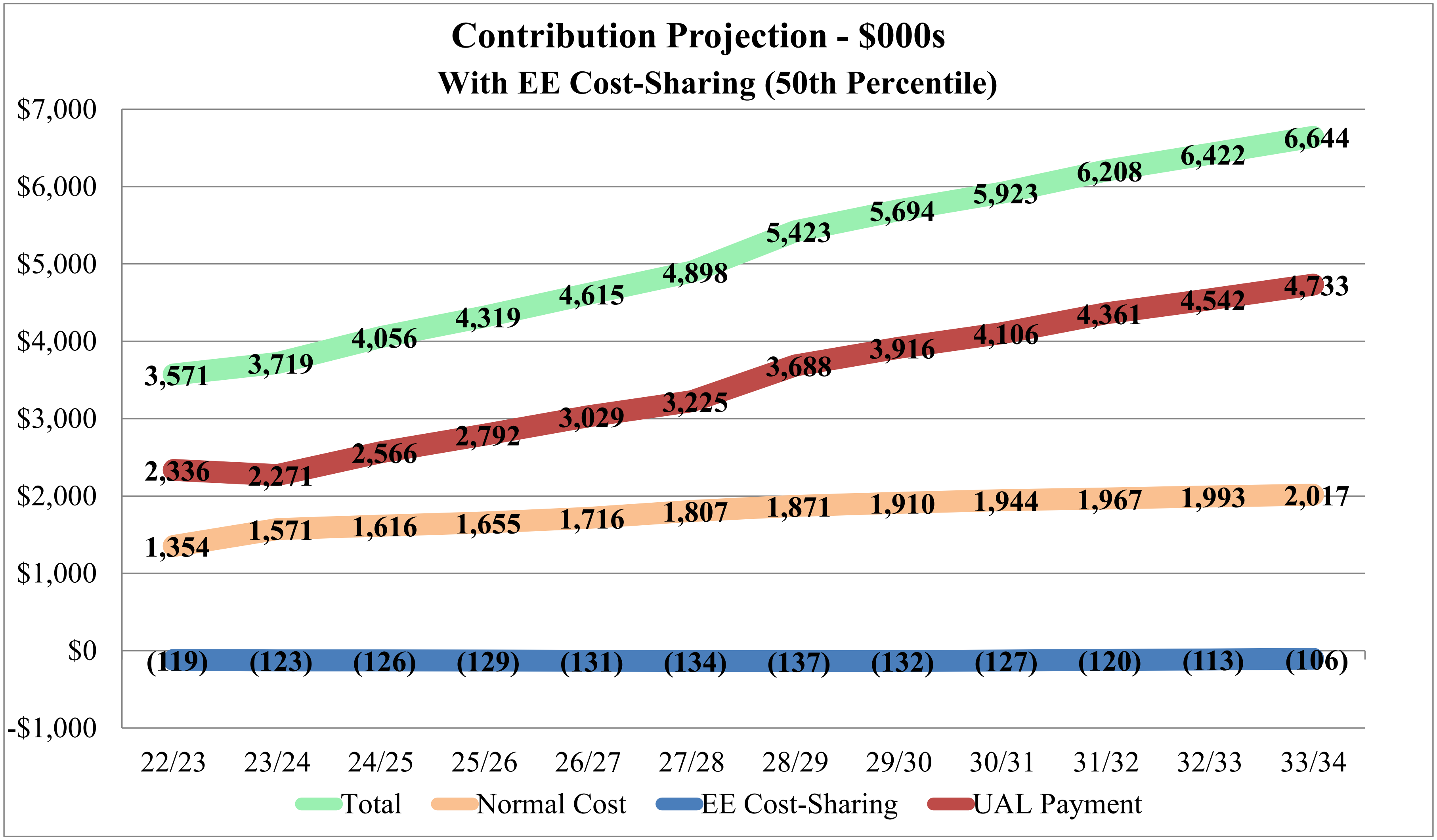


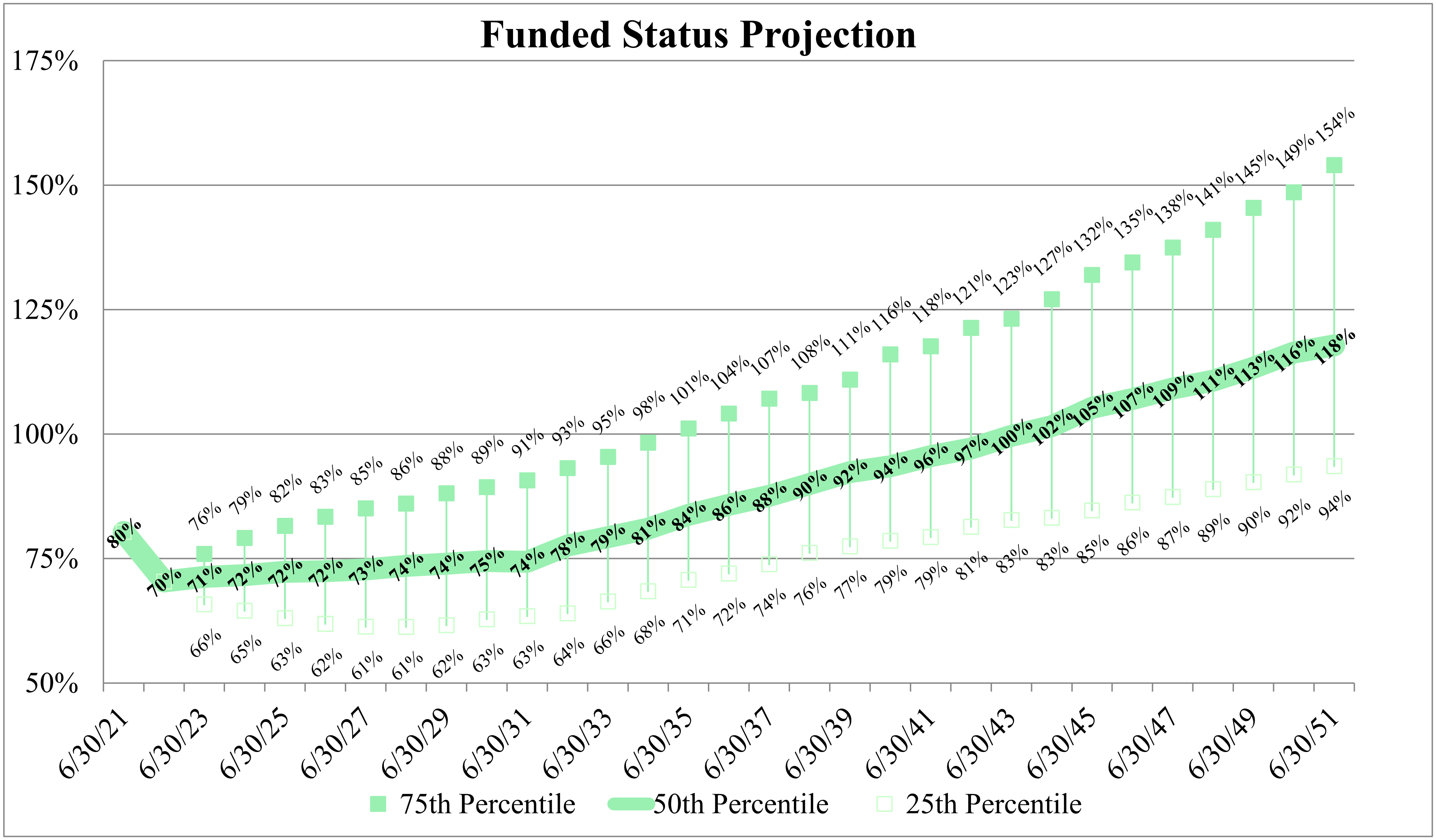
Contribution Projection - Safety



CONTRIBUTION PROJECTION - SAFETY



Funded Status - Safety



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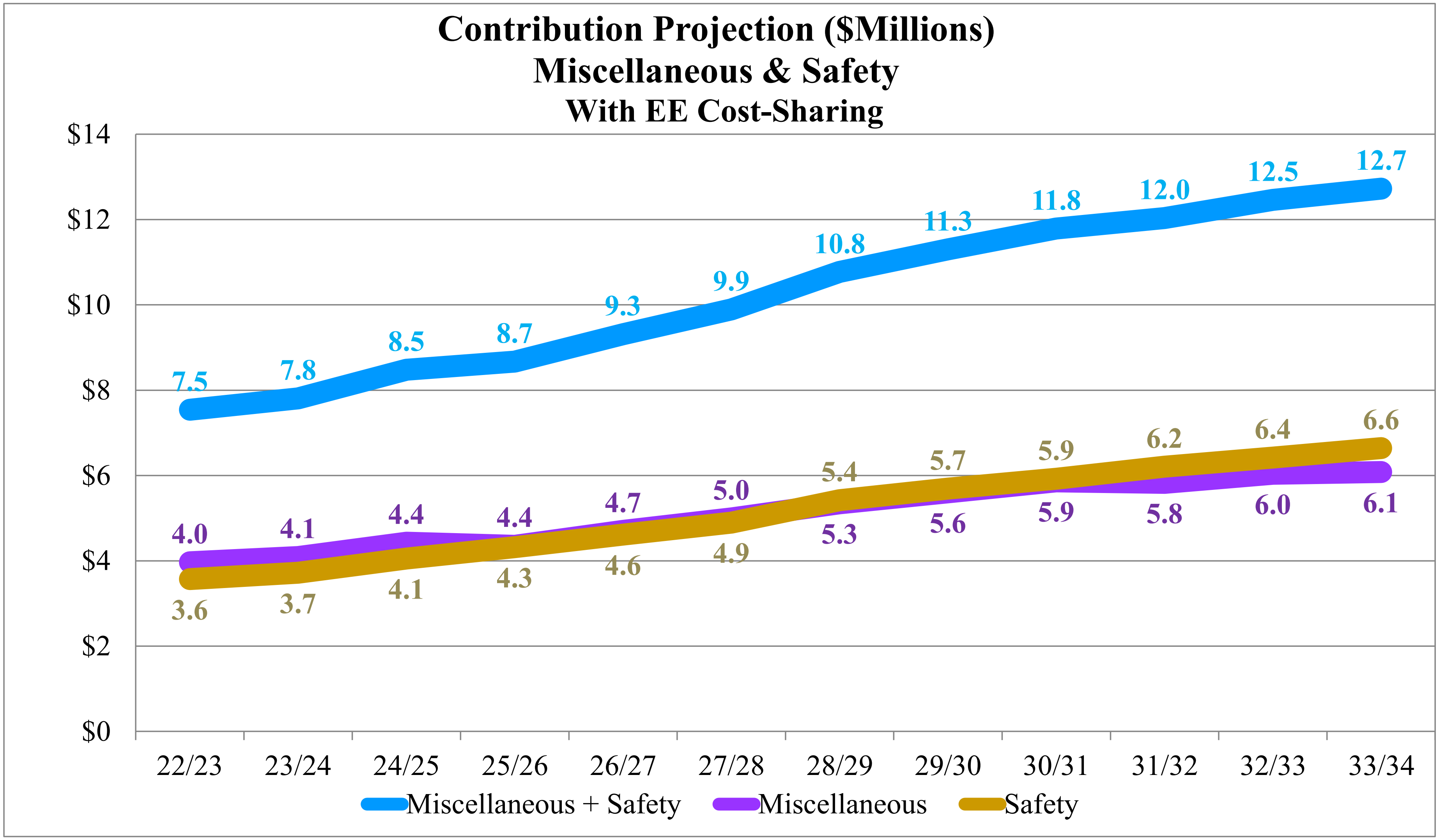
COMBINED MISCELLANEOUS AND SAFETY



Funded Status Summary on June 30, 2021

(Amounts in $Millions)

	Miscellaneous	Safety	Total
■ AAL	$ 121.6	$ 108.1	$ 229.7
■ Assets	106.2	86.8	193.0
■ Unfunded AAL	15.4	21.3	36.7
■ Funded Ratio	87.3%	80.3%	84.0%

Projected Funded Status Summary on June 30, 2022[15]

(Amounts in $Millions)

	Miscellaneous	Safety	Total
■ AAL	$ 125.5	$ 111.6	$ 237.1
■ Assets	96.1	78.6	174.7
■ Unfunded AAL	29.4	33.0	62.4
■ Funded Ratio	76.6%	70.4%	73.7%

15 Projected 2022 assets reflects -7.5% CalPERS investment return for 2021/22.

LEAVING CALPERS

- Participation in CalPERS is governed by State law and CalPERS rules
- The following are considered "withdrawing" from CalPERS:
  - Exclude new hires from CalPERS & giving them a different pension
  - Stop accruing benefits for current employees
- "Withdrawal" from CalPERS:
  - Treated as plan termination
  - Liability increased for conservative investments
  - Liability increased for future demographic fluctuations
  - Liability must be funded immediately by withdrawing agency
  - Otherwise, retiree benefits are cut

CalPERS Termination Estimates on June 30, 2021 (Amounts in Millions)

	Ongoing Plan	Termination Basis	
Discount Rate	**6.80%**	**1.00%**	**2.25%**
Miscellaneous			
Actuarial Accrued Liability	$ 121.6	$ 270.8	$ 223.9
Assets	106.2	106.2	106.2
Unfunded AAL (UAAL)	15.4	164.6	117.7
Safety			
Actuarial Accrued Liability	$ 108.1	$ 258.1	$ 210.9
Assets	86.8	86.8	86.8
Unfunded AAL (UAAL)	21.3	171.3	124.1
Total			
Unfunded AAL (UAAL)	$36.7	$335.9	$241.8
Funded Ratio	84.0%	36.5%	44.4%

PEPRA COST SHARING

- Target of 50% of total normal cost paid by all employees
- *PEPRA members* must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of *PEPRA member* required employee contributions
- Employer may impose current employees pay 50% of total normal cost (limited to 8% of pay for Miscellaneous and 12% for Safety) if not agreed through collective bargaining
- Miscellaneous Plan 2023/24:

	Classic Members		New Members
	Tier 1 2.5%@55 FAC1	Tier 2 2%@60 FAC3	PEPRA 2%@62 FAC3
• Employer Normal Cost	13.8%	14.3%	7.93%
• Member Normal Cost	8.0%	7.0%	7.25%
• Total Normal Cost	21.8%	21.3%	15.18%
• 50% Target	10.9%	10.7%	7.59%

PEPRA COST SHARING

- Safety Plan 2023/24:

	Classic Members Tier 1 3%@50 FAC1	New Members PEPRA 2.7%@57 FAC3
• Employer Normal Cost	29.1%	14.50%
• Member Normal Cost	9.0%	14.50%
• Total Normal Cost	38.1%	29.00%
• 50% Target	19.1%	14.50%

- PEPRA Member Contributions:

Group	2022/23		2023/24			
	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	14.43%	7.25%	15.18%	**0.75%**	**7.25%**	PEPRA Members
Safety	27.63%	13.75%	29.00%	**1.37%**	**14.50%**	PEPRA Members

PAYING DOWN THE UAL & RATE STABILIZATION

- Where do you get the money from?
- How do you use the money?

Where Do You Get the Money From?

- POB:
  - Usually thought of as interest arbitrage between expected earnings and rate paid on POB
  - No guaranteed savings
  - PEPRA prevents contributions from dropping below normal cost
    - Savings offset when investment return is good
  - GFOA Advisory
- Borrow from General Fund similar to State
- One time payments
  - Governing body resolution to use a portion of one time money, e.g.
    - 1/3 to one time projects
    - 1/3 to replenish reserves and
    - 1/3 to pay down unfunded liability

ADDITIONAL PAYMENTS TO CALPERS

- Internal Service Fund
  - Typically used for rate stabilization
  - Restricted investments:
    - Likely low (0.5%-1.0%) investment returns
    - Short term/high quality, designed for preservation of principal
  - Assets can be used by governing body for other purposes
  - Does not reduce Unfunded Liability

ADDITIONAL PAYMENTS TO CALPERS

Make payments directly to CalPERS:

- Likely best long-term investment return
- Must be considered an irrevocable decision
  - Extra payments cannot be used as future "credit"
  - PEPRA prevents contributions from dropping below normal cost

- Option #1: Request shorter amortization period (Fresh Start):
  - Higher short term payments
  - Less interest and lower long term payments
  - Likely cannot revert to old amortization schedule
    - Savings offset when investment return is good (PEPRA)

ADDITIONAL PAYMENTS TO CALPERS

- Make payments directly to CalPERS (continued):
  - Option #2: Target specific amortization bases with an Additional Discretionary Payment "ADP" :
    - Extra contribution's impact muted by reduced future contributions
      - CalPERS can't track the "would have been" contribution
    - No guaranteed savings
      - Larger asset pool means larger loss (or gain) opportunity
    - Paying off shorter amortization bases: larger contribution savings over shorter period:
      - e.g. 10 year base reduces contribution 13.7¢ for $1
      - Less interest savings vs paying off longer amortization bases
    - Paying off longer amortization bases: smaller contribution savings over longer period:
      - e.g. 25 year base reduces contribution 8.2¢ for $1
      - More interest savings vs paying off shorter amortization bases
    - Maintaining the current payment schedule – not letting payments reduce due to extra payment – gives the greatest long-term savings

IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Can only be used to:
  - Reimburse Town for CalPERS contributions
  - Make payments directly to CalPERS
- Investments significantly less restricted than Town investment funds
  - Fiduciary rules govern Trust investments
  - Usually, designed for long term returns
- Assets don’t count for GASB accounting
  - Are considered Employer assets
- Over 100 trusts established, mostly since 2015
  - Trust providers: PARS, PFM, Keenan
  - California Employers’ Pension Prefunding Trust (CEPPT) effective July 2019
    - Strategy 1: 48% stocks / 52% bonds
    - Strategy 2: 22% stocks / 78% bonds

IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- More flexibility than paying CalPERS directly
  - Town decides if and when and how much money to put into Trust
  - Town decides if and when and how much to withdraw to pay CalPERS or reimburse Agency
- Funding strategies typically focus on:
  - Reducing the unfunded liability
    - ☐ Fund enough to make total CalPERS UAL = 0
    - ☐ Make PEPRA required payments from Trust when overfunded
  - Stabilizing contribution rates
    - ☐ Mitigate expected contribution rates to better manage budget
  - Combination
    - ☐ Use funds for rate stabilization/budget predictability
    - ☐ Target increasing fund balance to pay off UAL sooner

IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Consider:
  - How much can you put into Trust?
    - Initial seed money?
    - Additional amounts in future years?
  - When do you take money out?
    - Target budget rate?
    - Year target budget rate kicks in?
      - Before or after CalPERS rate exceeds budgeted rate?

Direct Payment to CalPERS
Prefunding Option

- Following illustrates savings from an additional $1 million contribution to CalPERS on June 30, 2023:
- Miscellaneous Plan
  - Shortest Base: 2003 Assumption Change (2 years, $0.6 million on 6/30/23) and 2007 Benefit Change (5 years, $1.0 million on 6/30/23)
    Less interest savings, largest short-term contribution impact
  - Longest Base: 2013 Gain/Loss (22 years, $8.7 million on 6/30/23)
    Greater interest savings, smallest short-term contribution impact

Target Bases	Estimated Interest Savings	2023/24 Contribution Impact
Shortest Bases	**$1 million**	
$ Savings (000's)	$114	$(400)
PV Savings @ 3% (000's)	60	
Longest Base	**$1 million**	
$ Savings (000's)	$954	$(73)
PV Savings @ 3% (000's)	430	

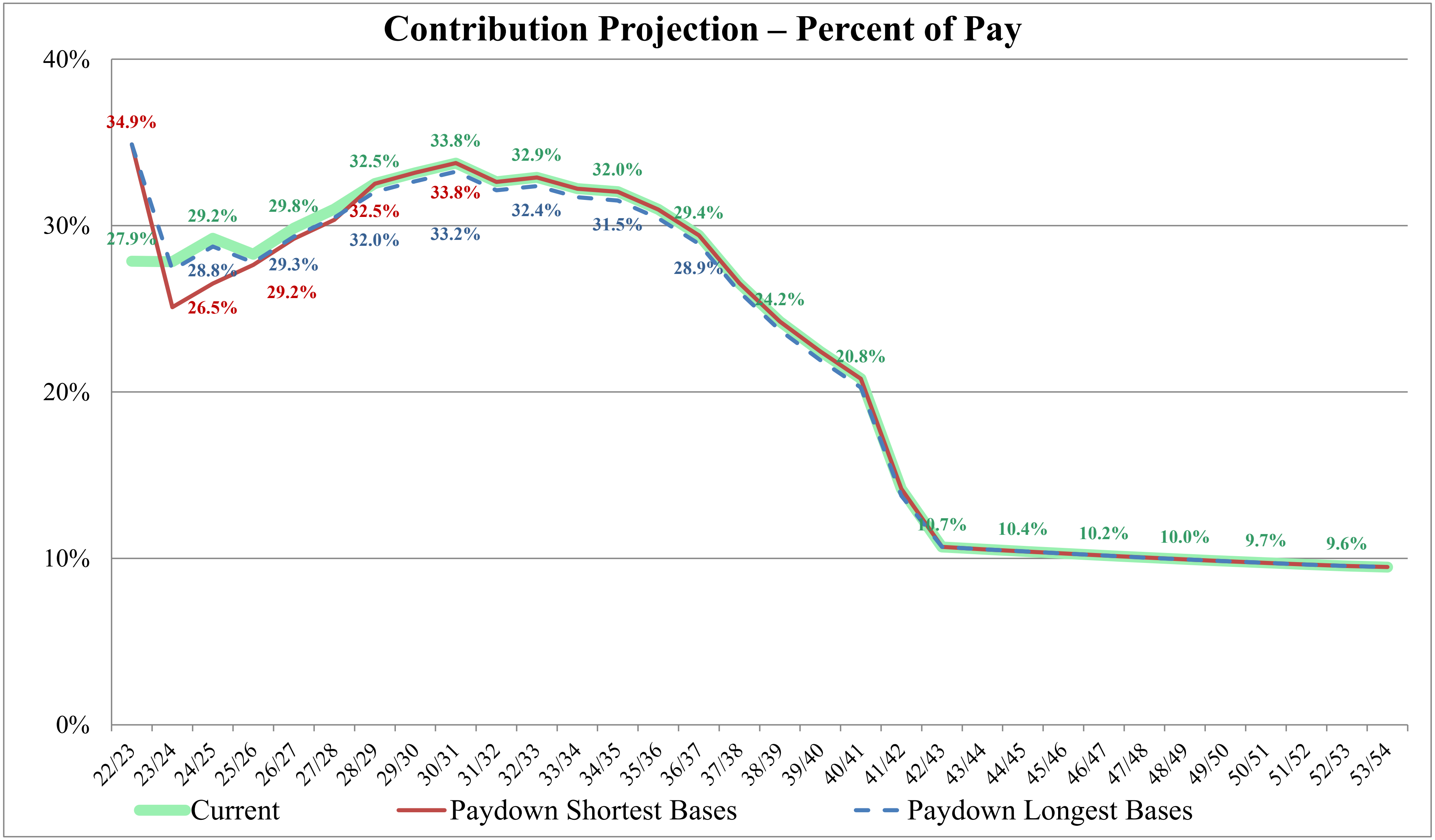
- Safety Plan[16]
  - Shortest Base: 2014 Assumption Change (13 years, $3.9 million on 6/30/23)
    Less interest savings, largest short-term contribution impact
  - Longest Base: 2018 Non Asset Gain/Loss (27 years, $0.4 million on 6/30/23), 2017 Non Asset Gain/Loss (26 years, $0.07 million on 6/30/23) and 2016 Asset Gain/Loss (25 years, $5.5 million on 6/30/23)
    Greater interest savings, smallest short-term contribution impact

Target Bases	Estimated Interest Savings	2023/24 Contribution Impact
Shortest Bases	**$1 million**	
$ Savings (000's)	$439	$(113)
PV Savings @ 3% (000's)	215	
Longest Base	**$1 million**	
$ Savings (000's)	$1,035	$(60)
PV Savings @ 3% (000's)	452	

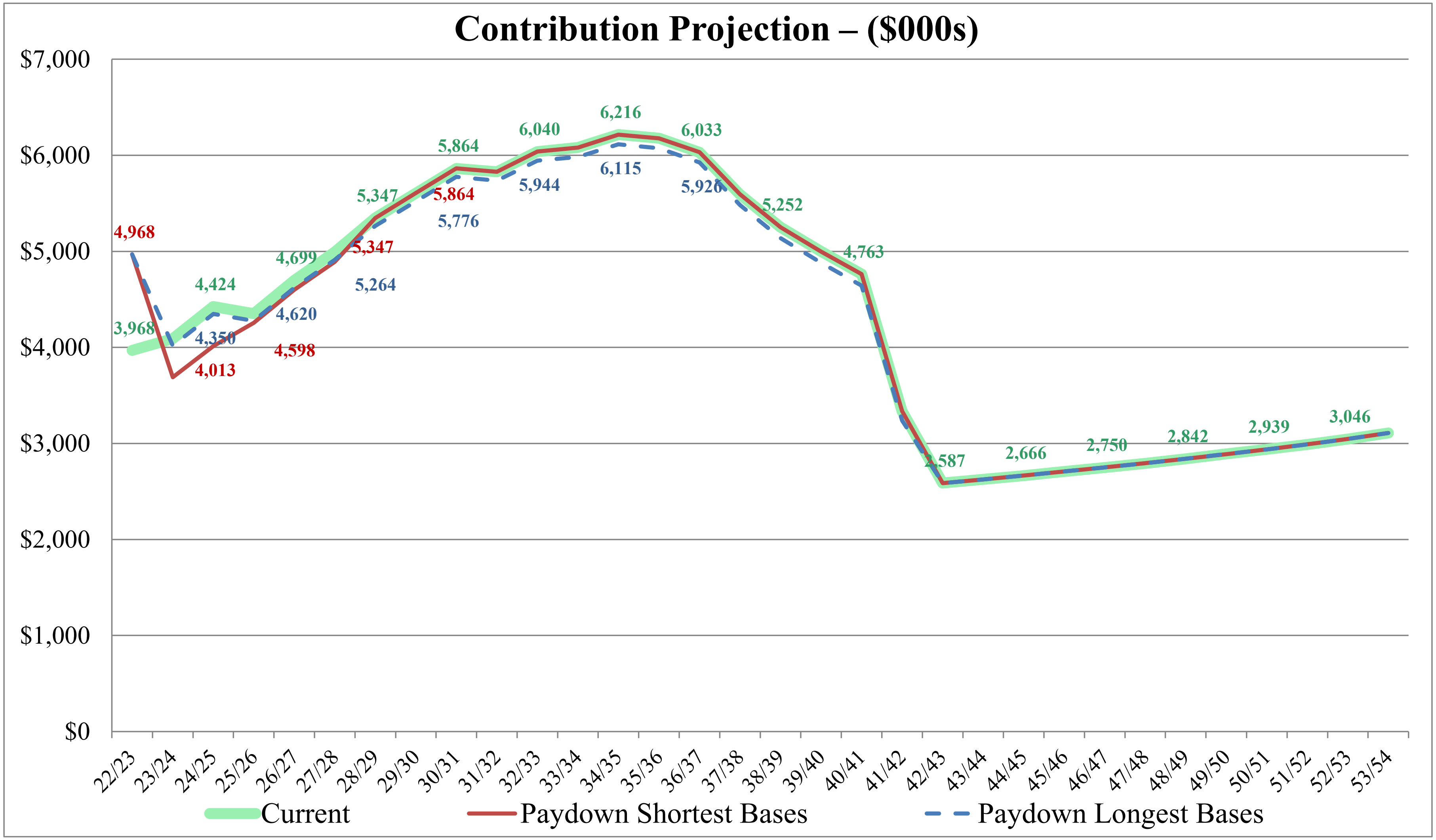
[16] All of the target bases are in Safety Classic plan. PEPRA plan has only one credit base.

Direct Payment to CalPERS

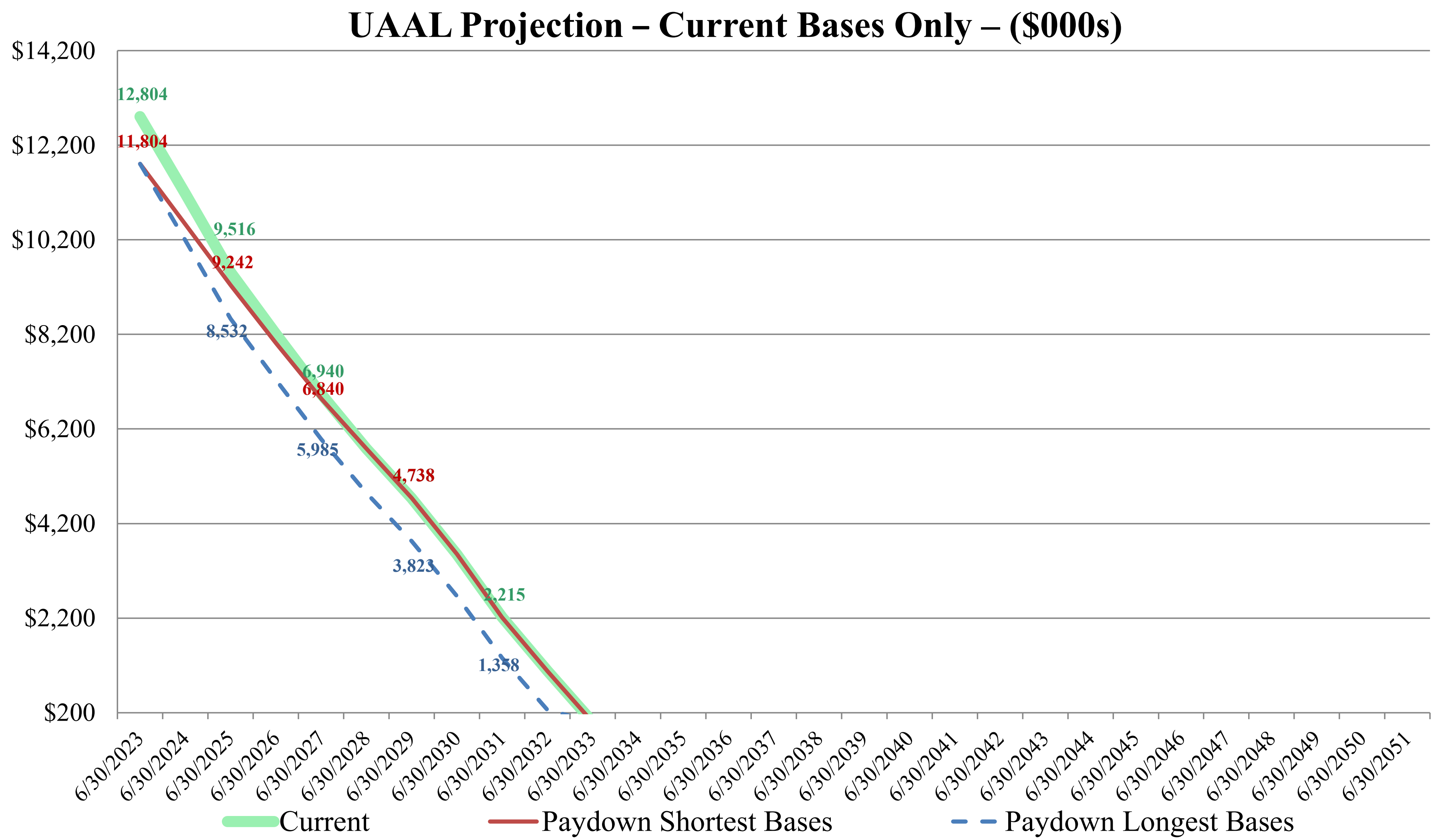
Miscellaneous



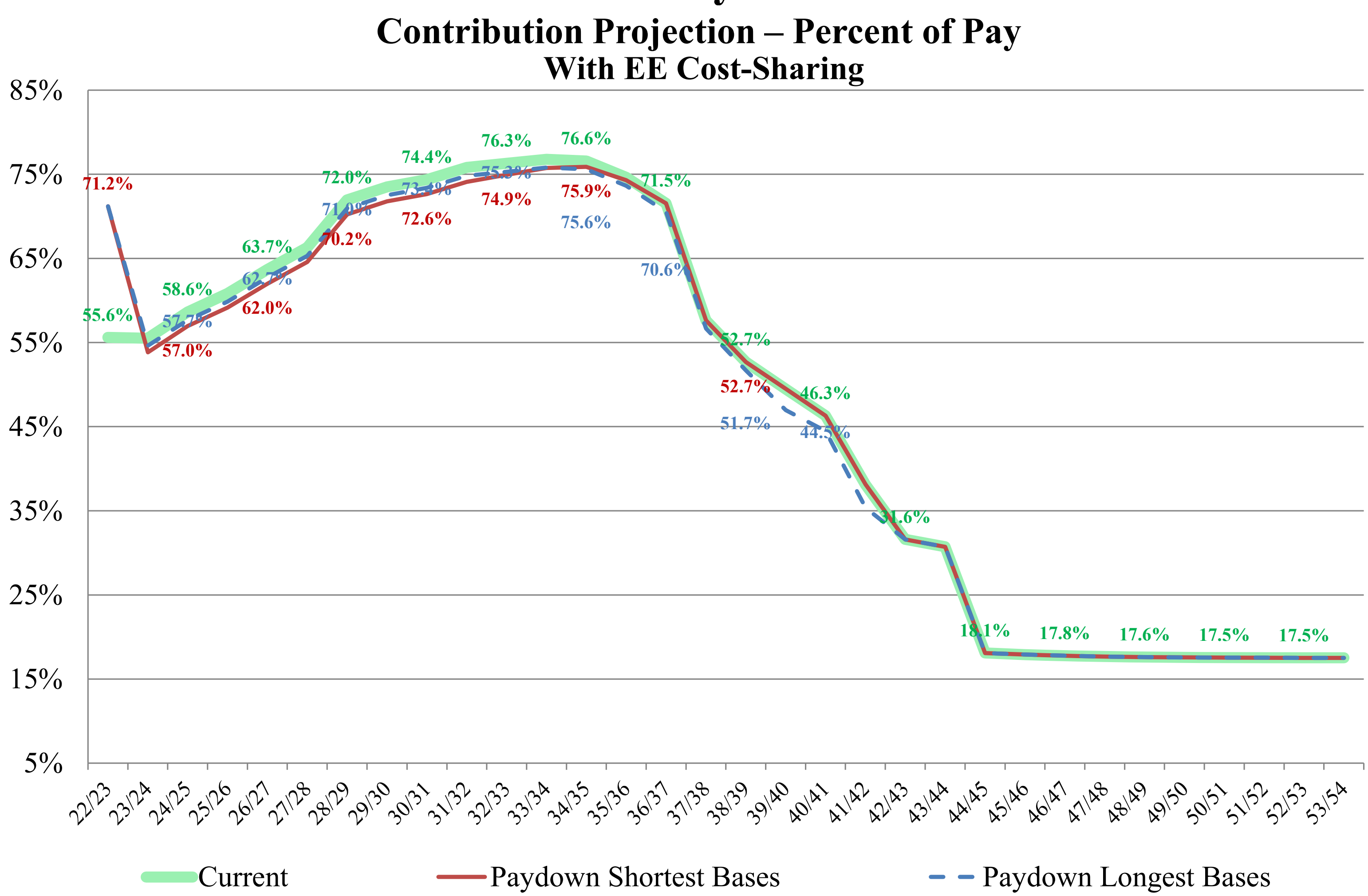
Direct Payment to CalPERS
Miscellaneous



Direct Payment to CalPERS
Miscellaneous



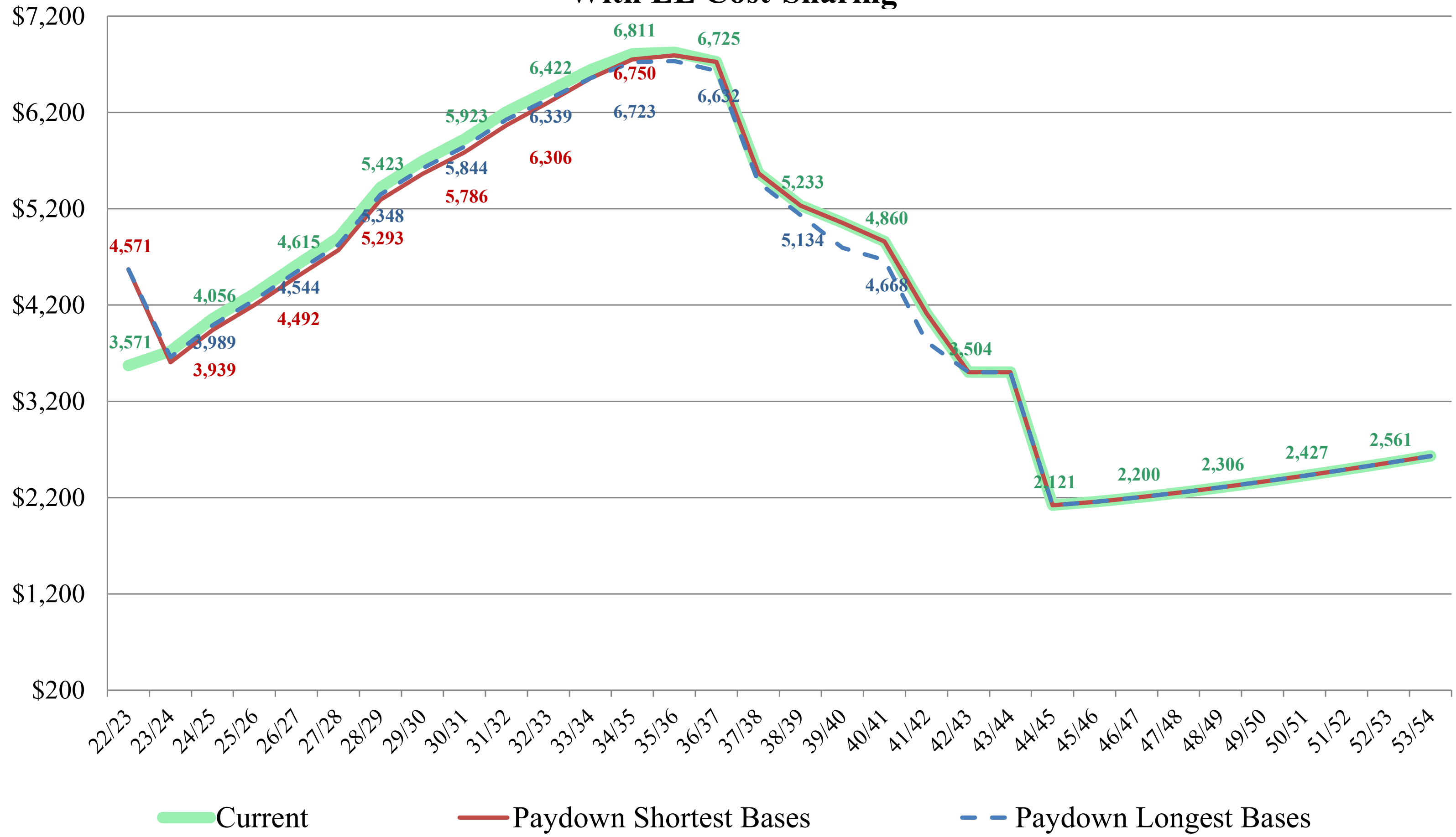
Direct Payment to CalPERS
Safety



Direct Payment to CalPERS

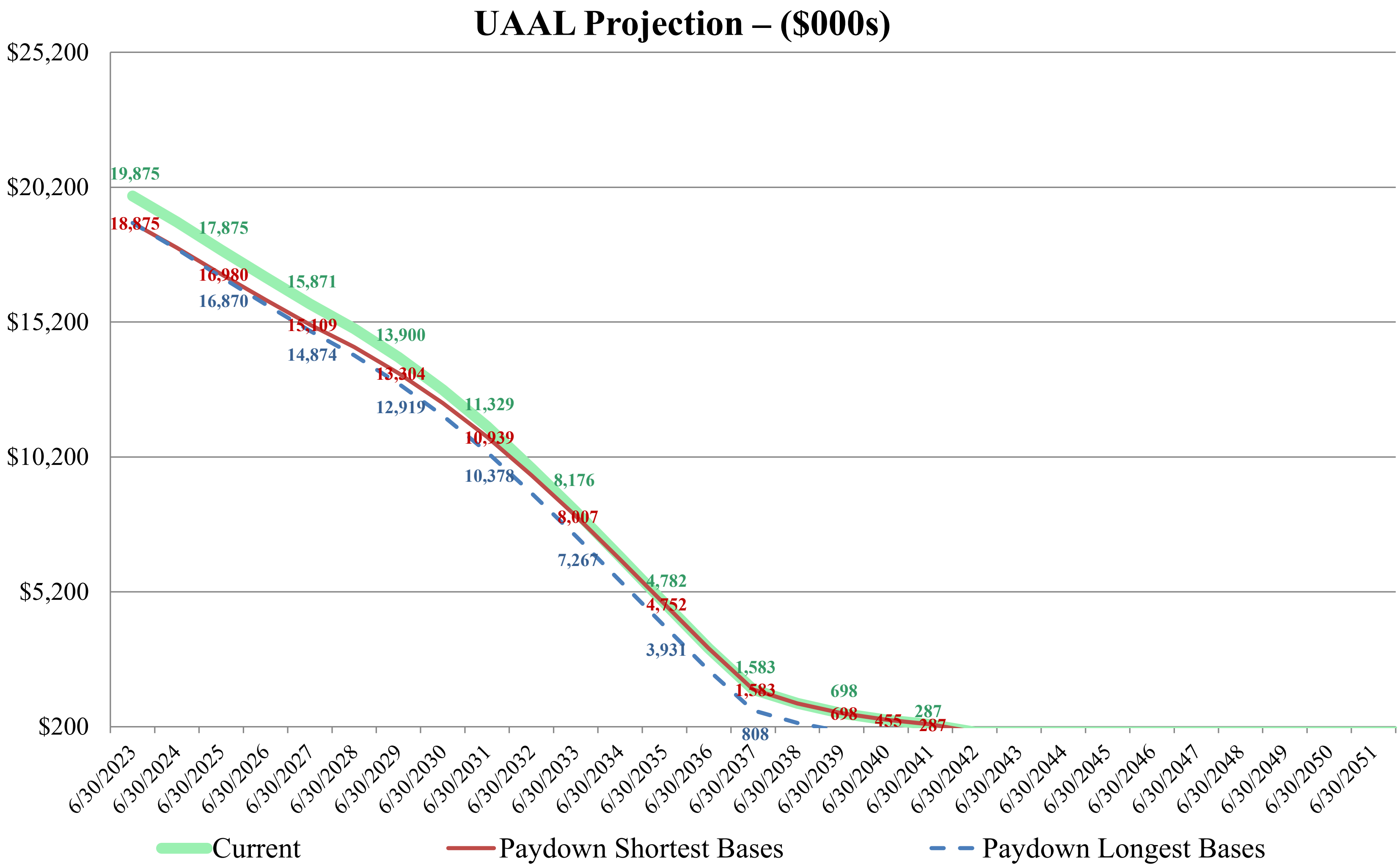
Safety

Contribution Projection – ($000s)
With EE Cost-Sharing



Direct Payment to CalPERS

Safety



COMPARISON OF OPTIONS

- **Supplemental Trust**
  - Flexible
  - Likely lower long-term return
  - Investment strategy choice
  - Does not reduce net pension liability for GASB reporting
  - More visible

- **CalPERS**
  - Locked In
  - Likely higher long-term return
  - No investment choice
  - Reduces net pension liability for GASB reporting
  - More restricted

ACTUARIAL CERTIFICATION

This report presents analysis of the Town of Los Gatos's CalPERS pension plans. The purpose of this report is to provide the Town:

- Historical perspective on the plan investment returns, assets, funded status and contributions.
- Projections of likely future contributions and the impact of investment volatility

The calculations and projections in this report are based on information contained in the Town's June 30, 2021 and earlier CalPERS actuarial valuation reports. We reviewed this information for reasonableness, but do not make any representation on the accuracy of the CalPERS reports.

Future investment returns and volatility are based on Foster & Foster's Capital Market model which results in long term returns summarized on pages 25 and 57.

Future results may differ from our projections due to differences in actual experience as well as changes in plan provisions, CalPERS actuarial assumptions or methodology. Other than variations in investment return, this study does not analyze these.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,

Mary Elizabeth Redding

Mary Elizabeth Redding, FSA, EA, MAAA
Foster & Foster, Inc.
March 7, 2023

Bianca Lin

Bianca Lin, FSA, EA, MAAA
Foster & Foster, Inc.
March 7, 2023