



TOWN OF LOS GATOS
MISCELLANEOUS AND SAFETY PLANS

CalPERS Actuarial Issues – 6/30/19 Valuation
Preliminary Results - Draft

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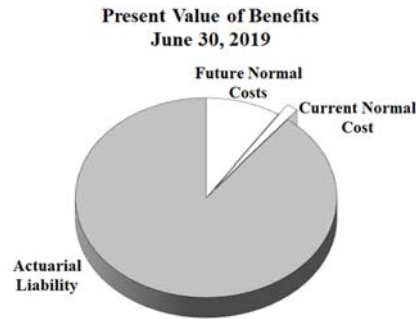
Matt Childs, Actuarial Analyst

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DEFINITIONS



- **Present Value of Benefits (PVB):**
 - Discounted value at valuation date (6/30/19) of all future expected benefit payments using various actuarial assumptions
- **Normal Cost (NC):**
 - Portion of PVB allocated to (or “earned” during) year following valuation date
- **Actuarial Accrued Liability (AAL):**
 - Discounted value at valuation date of benefits “earned” through valuation date (value of past normal costs)

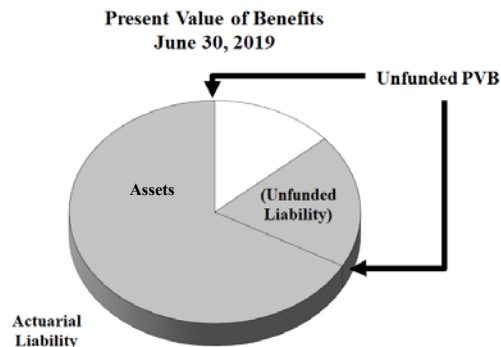


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DEFINITIONS



- **Funding Target** - Have plan assets equal to Actuarial Accrued Liability
- **Unfunded Liability (UAAL or UAL)** - Assets short of target at valuation date
 - Difference between AAL and plan assets is the unfunded (or overfunded) AAL
 - The change in this difference creates a new UAAL layer or amortization base at each valuation dateEach new UAAL layer gets amortized (paid off) over a period of time as part of the employer contribution



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PLAN FUNDED STATUS – MISCELLANEOUS

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$22,300,000	\$26,200,000
● Retiree	70,700,000	72,300,000
● Inactive	<u>14,100,000</u>	<u>13,600,000</u>
● Total	107,100,000	112,100,000
■ Assets	<u>73,300,000</u>	<u>76,100,000</u>
■ Unfunded Liability	33,800,000	36,000,000
■ Funded Ratio	68.4%	67.9%
■ Average Funded Ratio for CalPERS Public Agency Miscellaneous Plans¹	71.8%	72.2%

¹ Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.

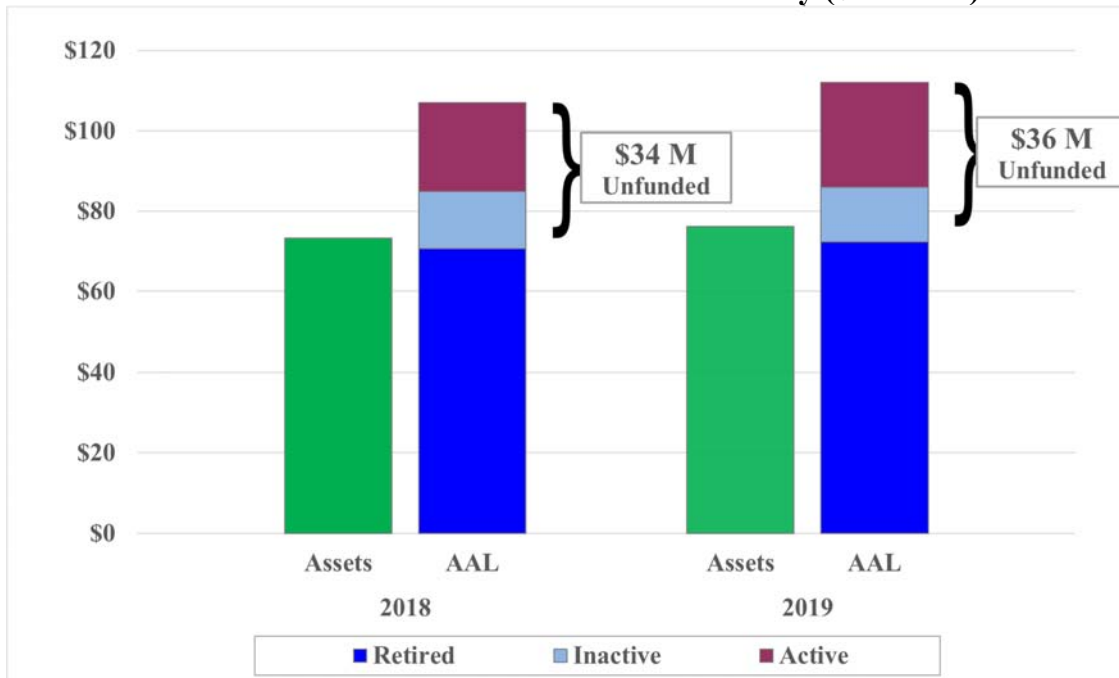


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PLAN FUNDED STATUS – MISCELLANEOUS

Town CalPERS Assets and Actuarial Liability (\$Millions)



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PLAN FUNDED STATUS – SAFETY

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$21,300,000	\$23,700,000
● Retiree	67,200,000	69,800,000
● Inactive	<u>3,000,000</u>	<u>3,000,000</u>
● Total	91,500,000	96,500,000
■ Assets	<u>65,900,000</u>	<u>69,500,000</u>
■ Unfunded Liability	25,600,000	27,000,000
■ Funded Ratio	72.1%	72.0%
■ Average Funded Ratio for CalPERS Public Agency Safety Plans²	68.3%	68.6%

² Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.

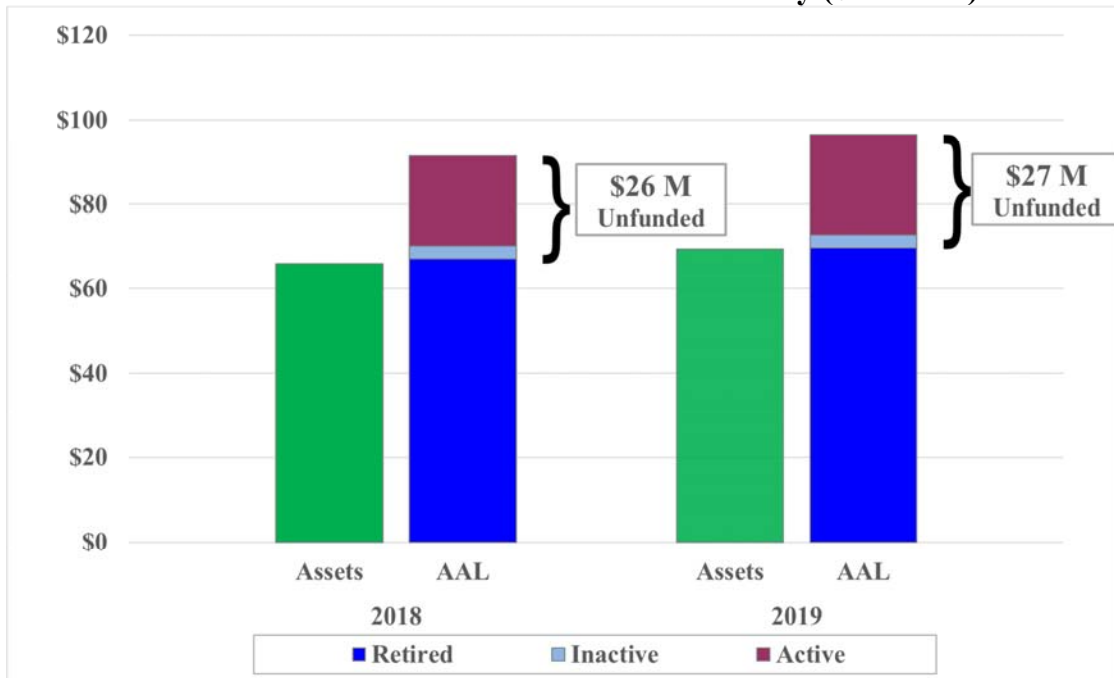


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PLAN FUNDED STATUS – SAFETY

Town CalPERS Assets and Actuarial Liability (\$Millions)



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DISCOUNT RATE SENSITIVITY

Miscellaneous June 30, 2019

	Discount Rate		
	<u>7.00%</u>	<u>6.50%</u> ³	<u>6.00%</u>
AAL	\$112,100,000	\$119,300,000	\$126,500,000
Assets	<u>76,100,000</u>	<u>76,100,000</u>	<u>76,100,000</u>
Unfunded Liability	36,000,000	43,200,000	50,400,000
Funded Ratio	67.9%	63.8%	60.2%

³ Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)



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DISCOUNT RATE SENSITIVITY

Safety June 30, 2019

	Discount Rate		
	<u>7.00%</u>	<u>6.50%</u> ⁴	<u>6.00%</u>
AAL	\$96,500,000	\$103,100,000	\$109,700,000
Assets	<u>69,500,000</u>	<u>69,500,000</u>	<u>69,500,000</u>
Unfunded Liability	27,000,000	33,600,000	40,200,000
Funded Ratio	72.0%	67.4%	63.4%

⁴ Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)



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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

■ Capital Market Assumptions for investments in CalPERS PERF:

<u>Asset Class</u>	<u>PERF Policy Target</u>	<u>Geometric Real Average Return</u>	<u>Standard Deviation</u>	<u>Geometric Nominal Average Return</u>
● Public Equity	50%	4.82%	17.84%	7.44%
● Fixed Income	28%	1.47%	4.24%	4.01%
● Real Assets	13%	4.81%	12.55%	7.43%
● Private Equity	8%	6.19%	25.50%	8.84%
● Liquidity	1%	0.06%	0.97%	2.56%
	100%			

■ Based on study of investment consultant and investment bank 2017 short and long-term capital market assumptions adjusted for long-term trends in investment returns.

■ Inflation - 2.5%



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CONTRIBUTION PROJECTIONS – MISCELLANEOUS

■ Market Value Investment Return:

- June 30, 2020 4.7%⁵
 - Future returns based on stochastic analysis using 1,000 trials⁶
- | <u>Single Year Returns at⁷</u> | <u>25th Percentile</u> | <u>50th Percentile</u> | <u>75th Percentile</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Current Investment Mix | 0.1% | 7.0% | 14.8% |
| Ultimate Investment Mix | 0.8% | 6.0% | 11.4% |
- Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 8 years and higher beyond that.

■ Discount Rate decreases due to Risk Mitigation policy

■ No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements

■ Different from CalPERS projection. Our projections include:

- Actual 2019/20 investment return
- Lower expected return for next 8 years
- Impact of risk mitigation
- Possibly different PEPRA new hire assumptions

⁵ Net of investment expenses and gross of administrative expenses. 15 bp assumed for administrative expenses.

⁶ Future returns are assumed net of investment and administrative expenses

⁷ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.

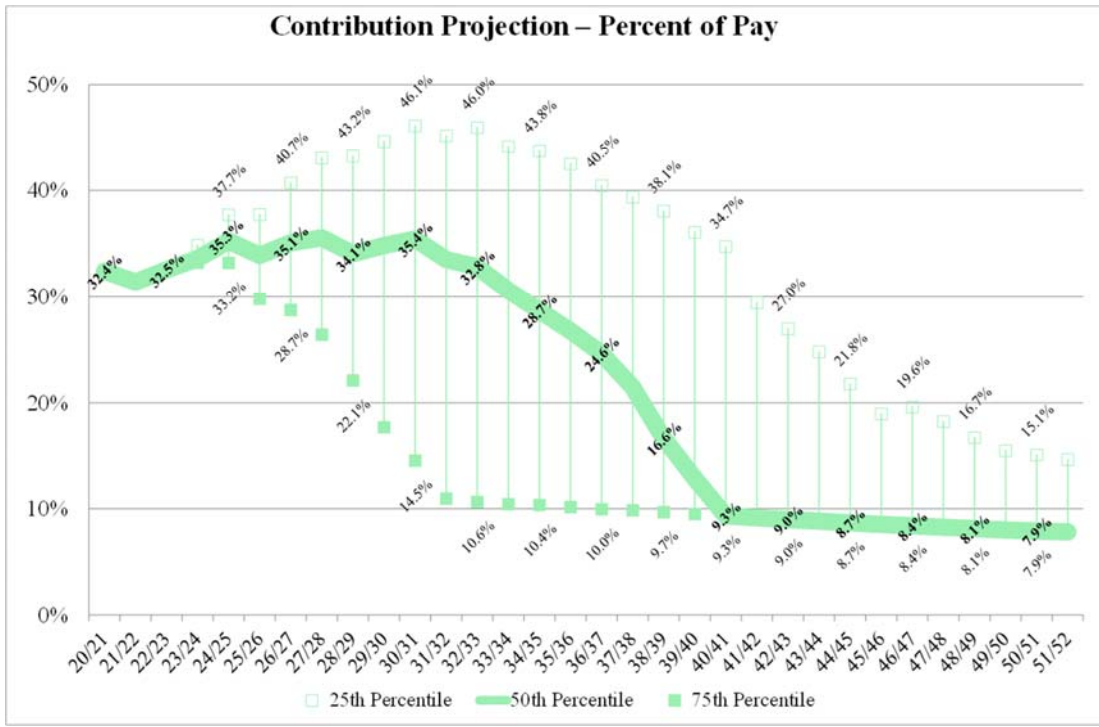


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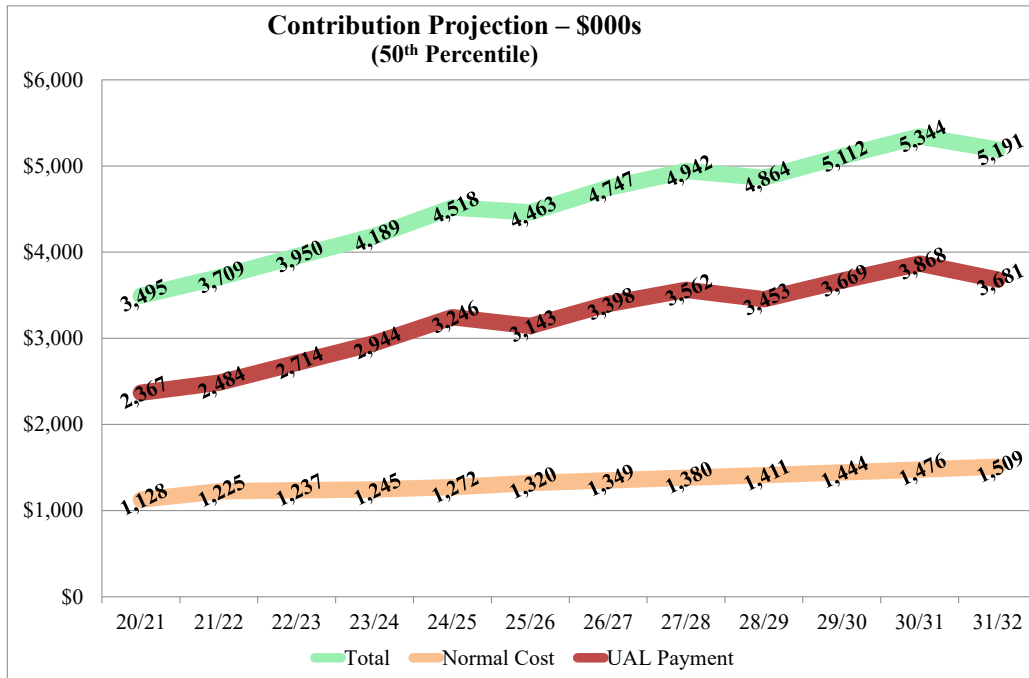
CONTRIBUTION PROJECTIONS – MISCELLANEOUS



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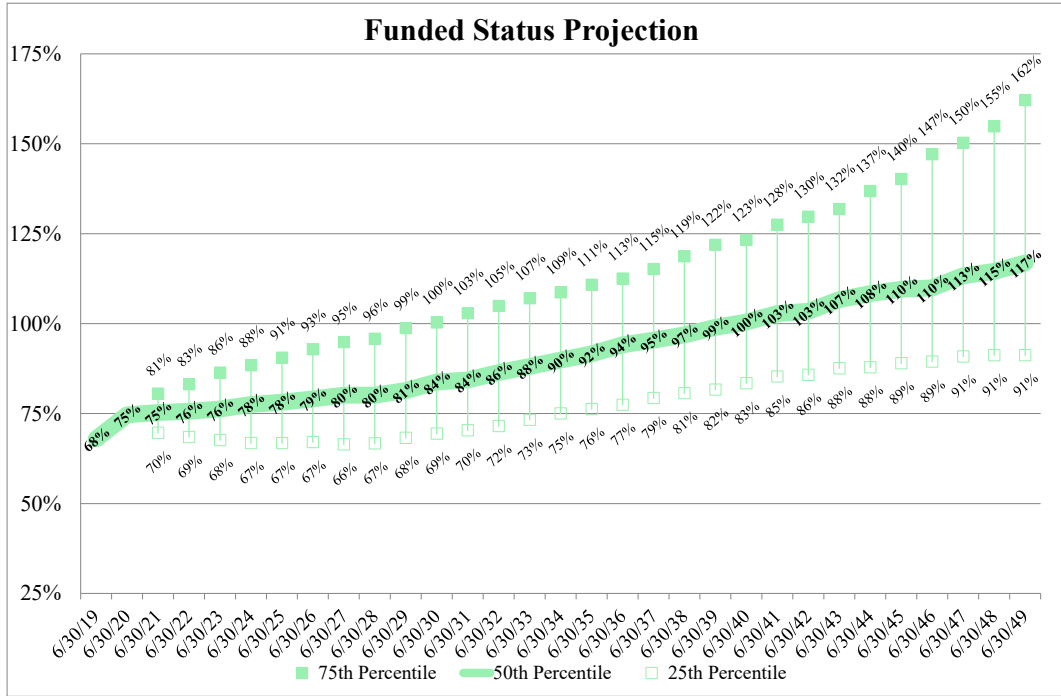
CONTRIBUTION PROJECTIONS – MISCELLANEOUS



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FUNDED STATUS – MISCELLANEOUS

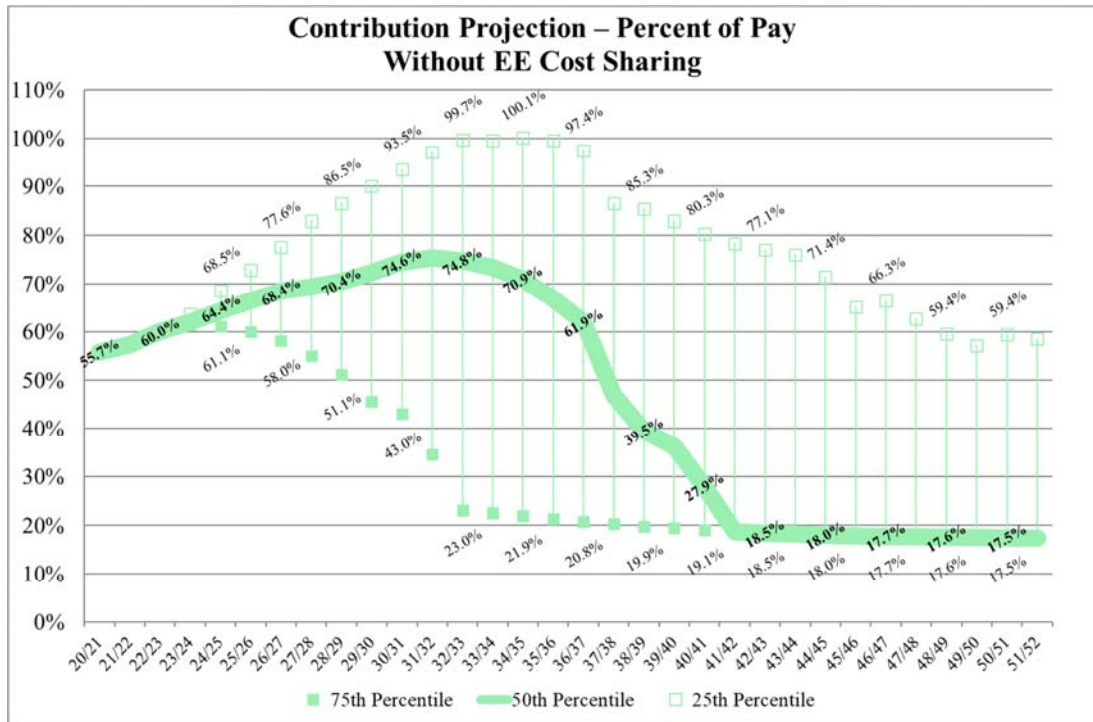


FUNDED STATUS – MISCELLANEOUS

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CONTRIBUTION PROJECTIONS – SAFETY

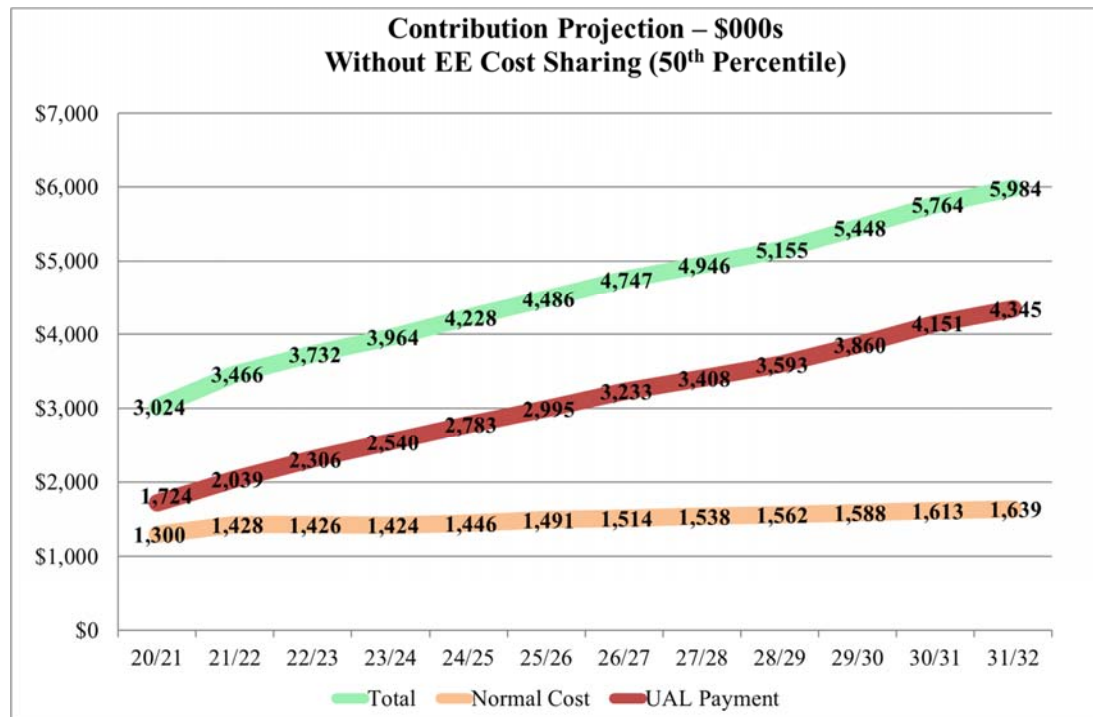


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CONTRIBUTION PROJECTIONS – SAFETY

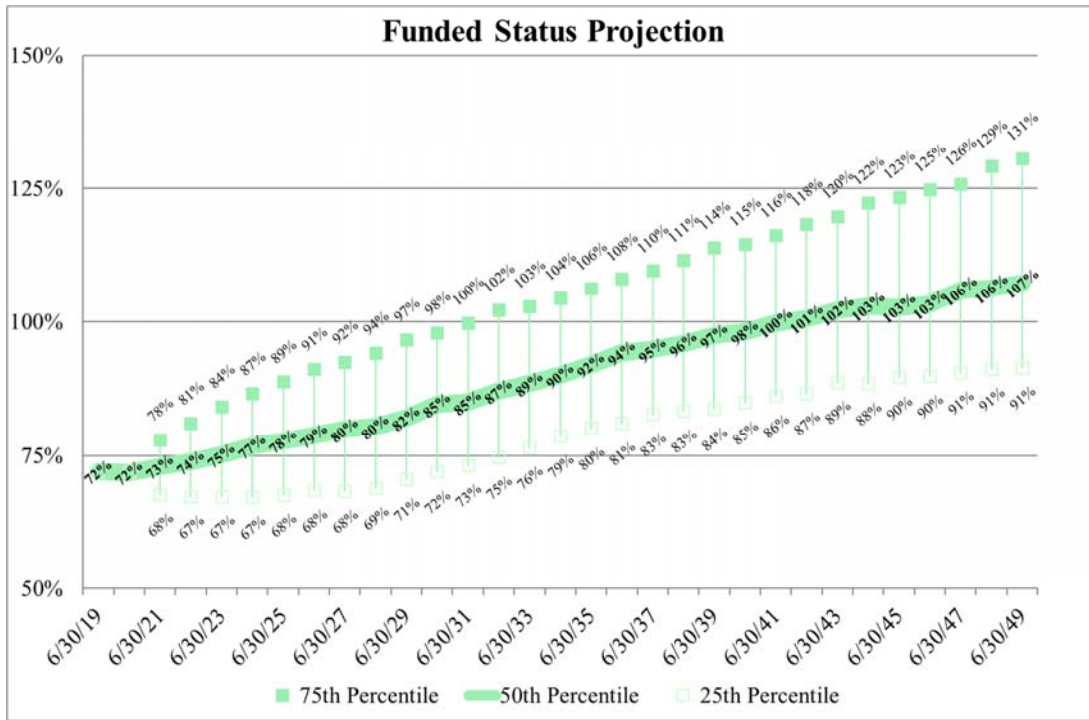


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FUNDED STATUS - SAFETY



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FUNDED STATUS - SAFETY

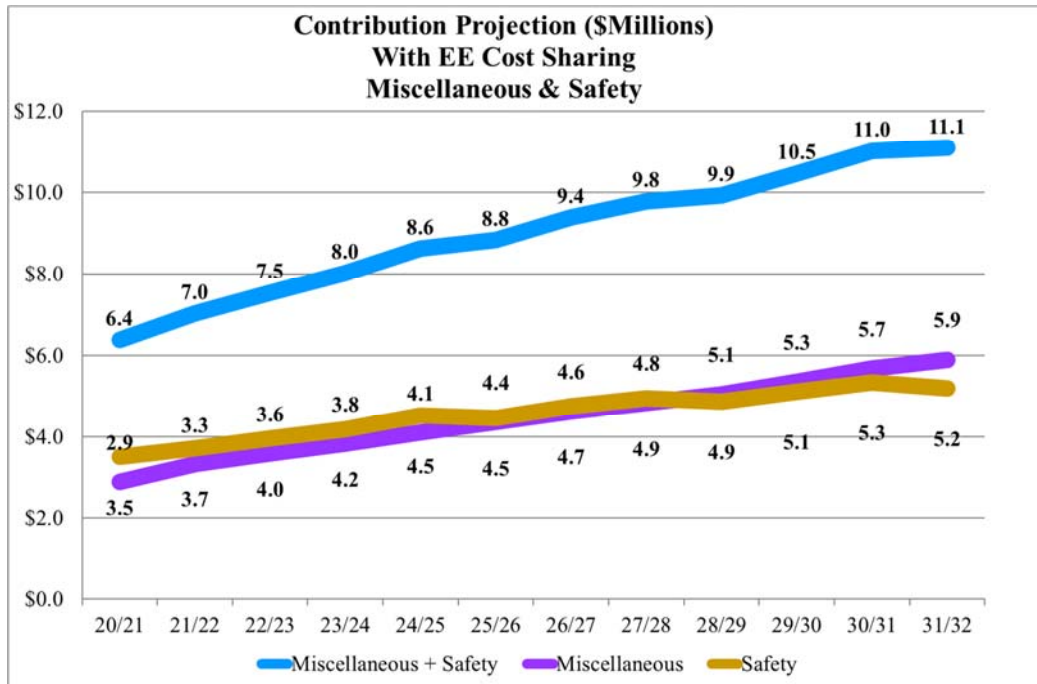
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COMBINED MISCELLANEOUS AND SAFETY



Reflects Additional Discretionary Payments \$4,753,965 made October 2019 and \$3,580,365 made July 2020.



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COMBINED MISCELLANEOUS AND SAFETY

Funded Status Summary on June 30, 2019 (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$ 112	\$ 97	\$ 209
■ Assets	<u>76</u>	<u>70</u>	<u>146</u>
■ Unfunded AAL	36	27	63
■ Funded Ratio	67.9%	72.0%	69.9%



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PREFUNDING OPTION

Additional CalPERS Contributions
Prefunding Option

■ **Direct Payment to CalPERS**

- Pay down a portion of the Unfunded Liability
 - Target specific bases (short or long)
- Fresh start amortization (more stable contribution)
 - Directly through CalPERS
 - Indirectly through budgeted contributions
- Funds invested per CalPERS' investment policy
- Contribution is lower but volatility remains
- Employer required to pay Normal Cost when 100% funded
- Sources of funds
 - General fund
 - Prior dedicated internal reserve
 - Pension Obligation Bond



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PREFUNDING OPTION

Direct Payment to CalPERS
Savings

Following illustrates the interest savings on Additional Discretionary Payments (ADPs) of \$4,753,965 made on October 18, 2019 (June 30, 2016 loss base) and \$3,580,365 made July 7, 2020 (June 30, 2015 loss base):

Target Bases	Estimated Savings	2021/22 Contribution Impact
October 18, 2019 ADP	\$4.8 million	
\$ Savings (000's)	\$6,299	\$(268)
PV Savings @ 3% (000's)	2,583	
July 7, 2020 ADP	\$3.6 million	
\$ Savings (000's)	\$4,382	\$(253)
PV Savings @ 3% (000's)	1,919	



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PREFUNDING OPTION

Direct Payment to CalPERS
Prefunding Option

- Following illustrates additional \$1 million contribution to CalPERS on June 30, 2021:
- Miscellaneous Plan
 - Shortest Base: 2003 Assumption Change (4 years, \$1.1 million on 6/30/21)
Less interest savings, largest short-term contribution impact
 - Longest Base: 2013 Gain/Loss (24 years, \$10.9 million on 6/30/21)
Greater interest savings, smallest short-term contribution impact

Target Bases	Estimated Savings	2021/22 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$144	\$(275)
PV Savings @ 3% (000's)	78	
Longest Bases	\$1 million	
\$ Savings (000's)	\$1,042	\$(70)
PV Savings @ 3% (000's)	464	

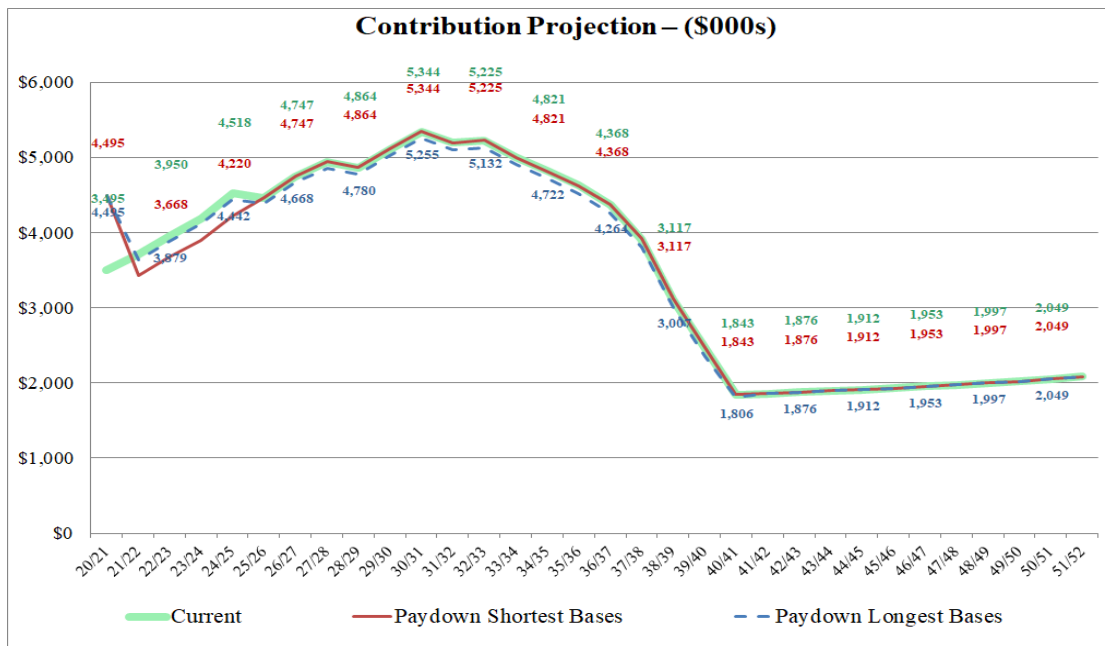


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PREFUNDING OPTION

Direct Payment to CalPERS
Miscellaneous



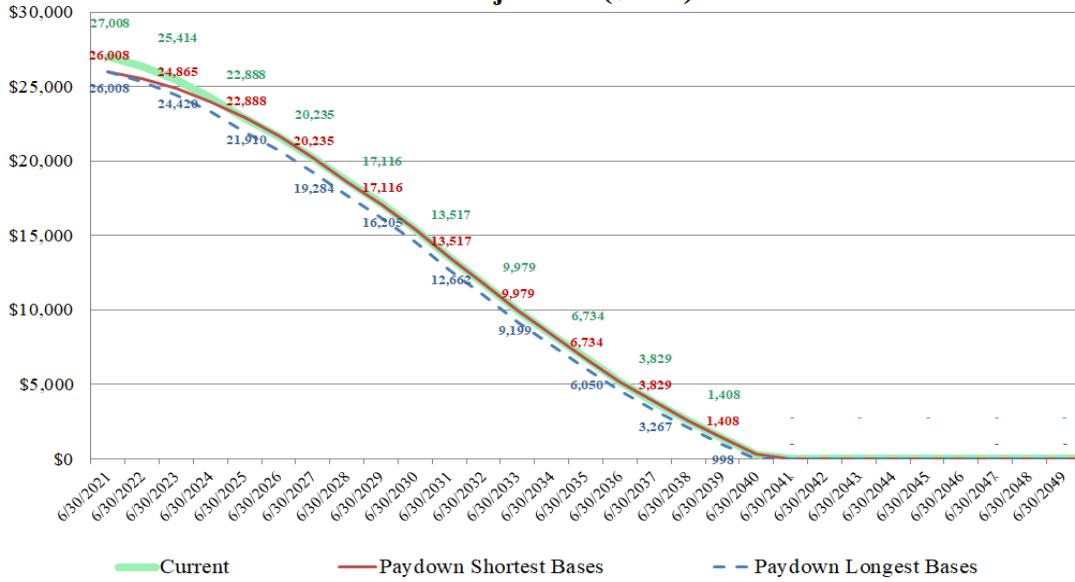
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PREFUNDING OPTION

Direct Payment to CalPERS
Miscellaneous

UAAL Projection – (\$000s)



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PREFUNDING OPTION

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