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**TOWN OF LOS GATOS  
MISCELLANEOUS AND SAFETY PLANS**



**CalPERS Actuarial Issues – 6/30/19 Valuation  
Preliminary Results  
DRAFT**

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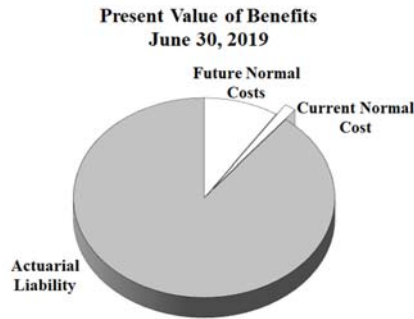
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## DEFINITIONS



- **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)

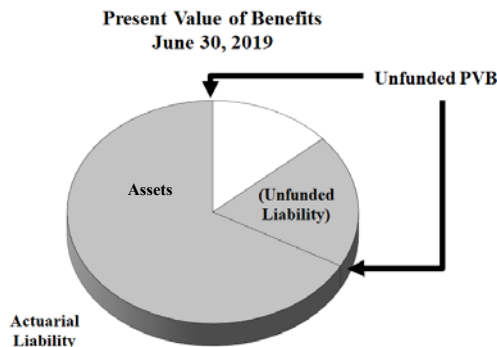


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## DEFINITIONS



- **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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## HOW WE GOT HERE

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

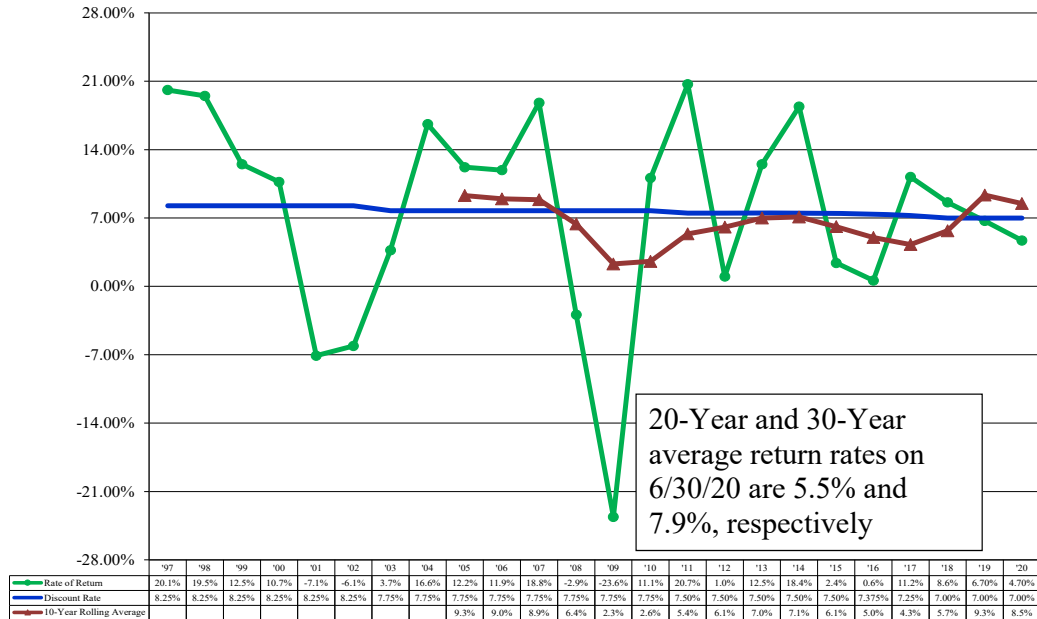


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## HOW WE GOT HERE – INVESTMENT RETURN

**Annual Return on Market Value of Assets**



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.



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## HOW WE GOT HERE – OLD CONTRIBUTION POLICY

- Effective with 2003 valuations:
  - Slow 15-year recognition of investment losses in actuarial value of assets and funded status
  - Rolling 30-year amortization of all experience losses in employer contribution (further delay of investment loss recognition)
- Designed to:
  - First smooth employer contribution rates
  - Secondly to pay off UAAL



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## 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-year (typically final three) average earnings
- PEPRA tier implemented for new members hired after 1/1/13
  - Employee pays half of total normal cost
  - 2021 compensation limit
    - Social Security participants: \$128,059
    - Non-Social Security participants: \$153,671

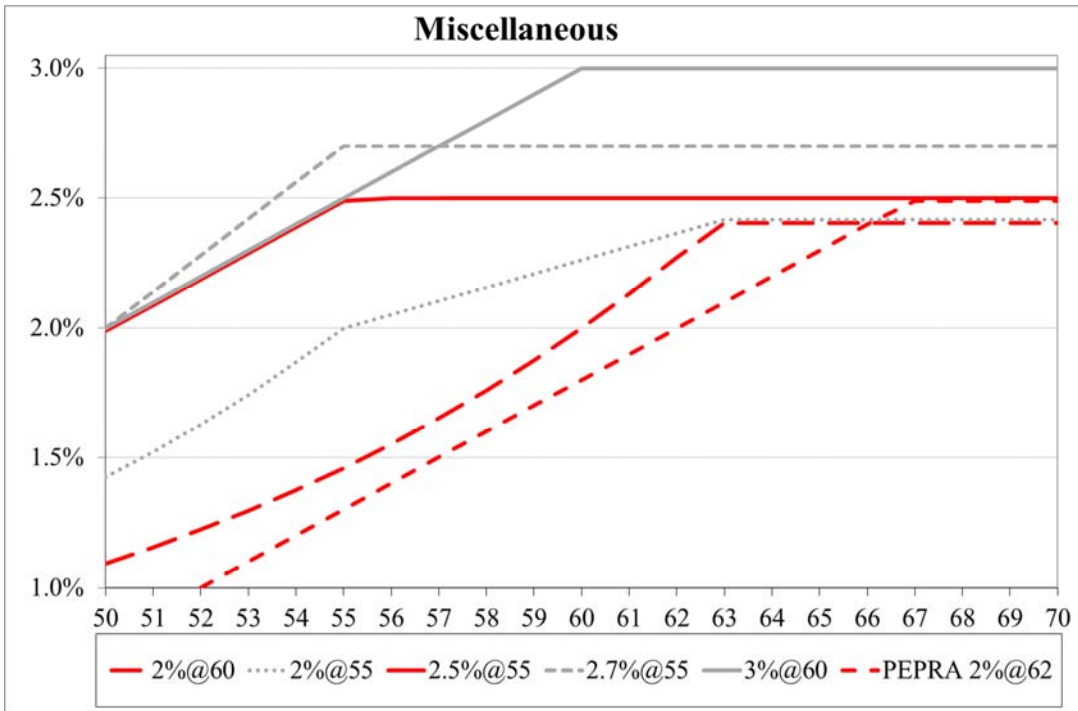


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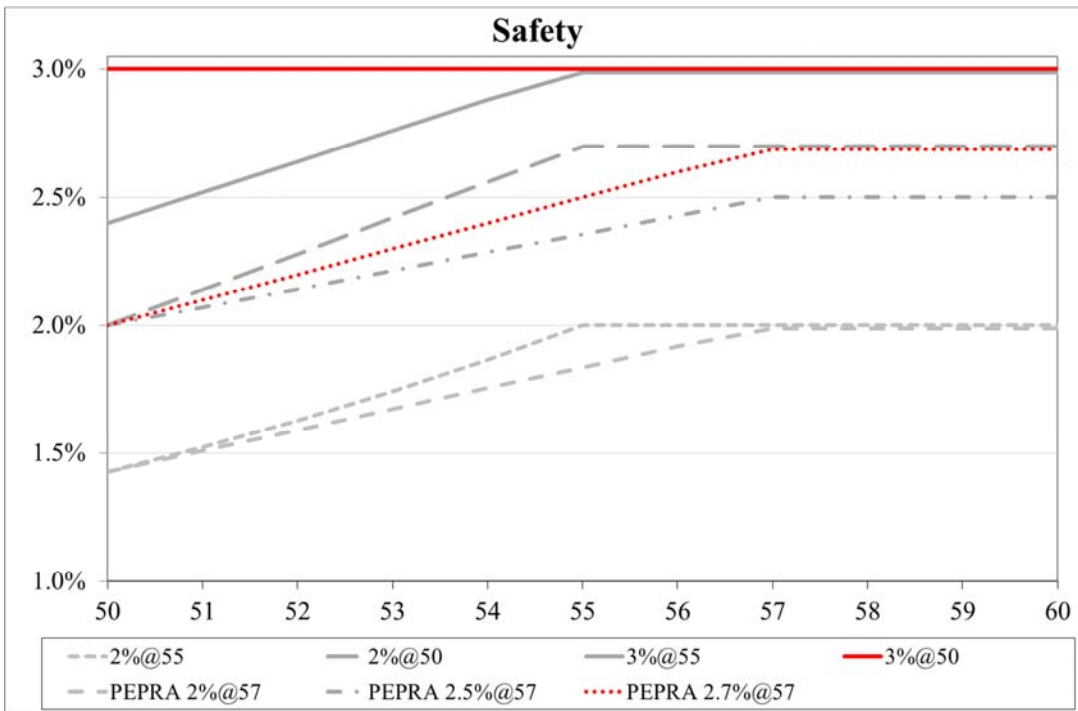
## HOW WE GOT HERE – ENHANCED BENEFITS



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## HOW WE GOT HERE – ENHANCED BENEFITS



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## HOW WE GOT HERE – DEMOGRAPHIC

- All California CalPERS agencies:
  - Increasing number of retirees relative active employees
  - Increasing retiree liability
    - June 30, 2019: 57% for Miscellaneous, 66% for Safety
  - Higher percentage of retiree liability increases contribution volatility

- Town of Los Gatos retirees:

Plan	Ret AAL/Tot AAL	Retirees/Actives	Actives/Retirees
Miscellaneous	65%	2.1	0.5
Safety	72%	2.2	0.5

- Town of Los Gatos retirees plus inactives (transferred & terminated members):

Plan	Ret AAL/Tot AAL	Inactives/Actives	Actives/Inactives
Miscellaneous	77%	3.7	0.3
Safety	75%	2.6	0.4



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## CALPERS CHANGES

- Recent contribution policy changes:
  - June 30, 2013 valuations for 2015/16 contributions
  - No asset smoothing
  - No rolling amortization
  - 5-year ramp up and down

- Recent discount rate changes:

	<u>Rate</u>	<u>Initial Impact</u>	<u>Full Impact</u>
● 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

- New amortization policy:

- June 30, 2019 valuations for 2021/22 contributions
- Applies only to newly established amortization bases
  - Fixed dollar (level) amortization rather than % pay (escalating)
  - Amortize gains/losses over 20 rather than 30 years
  - 5-year ramp up (not down) for investment gains and losses
  - No ramp up/down for other amortization bases
- Minimizes total interest paid over time and pays off UAAL faster



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## 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% discount rate over 20+ years
- Risk mitigation suspended from 6/30/16 to 6/30/18 valuations
- Did not trigger for 6/30/19 valuation
- Will not trigger for 6/30/20 valuation

Excess Earnings	Discount Rate Reduction
2%	5 bp
7%	10 bp
10%	15 bp
13%	20 bp
17%	25 bp

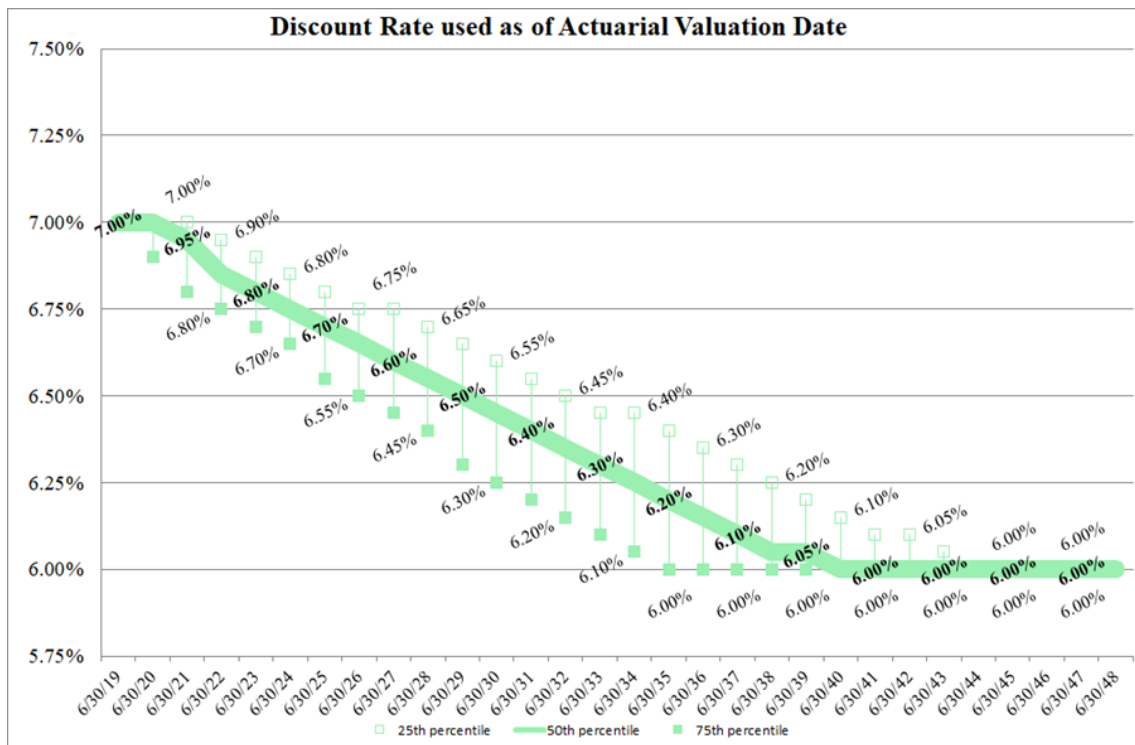


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## CALPERS CHANGES



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## SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

	1999	2009	2018	2019
<b>Actives</b>				
■ Counts	118	119	113	116
■ Average				
• Age	45	47	43	44
• Town Service	10	10	7	8
• PERSable Wages	\$ 47,800	\$ 76,500	\$ 88,000	\$ 93,900
■ Total PERSable Wages	5,600,000	9,100,000	9,900,000	10,900,000
<b>Inactive Members</b>				
■ Counts				
• Transferred	67	78	99	94
• Separated	53	81	87	94
• Retired				
□ Service	97	159	203	208
□ Disability	8	11	12	12
□ Beneficiaries	<u>14</u>	<u>22</u>	<u>21</u>	<u>21</u>
□ Total	119	192	236	241
■ Average Annual Town Provided Benefit for Service Retirees <sup>1</sup>	\$ 8,300	\$ 16,000	\$ 25,700	\$ 25,900

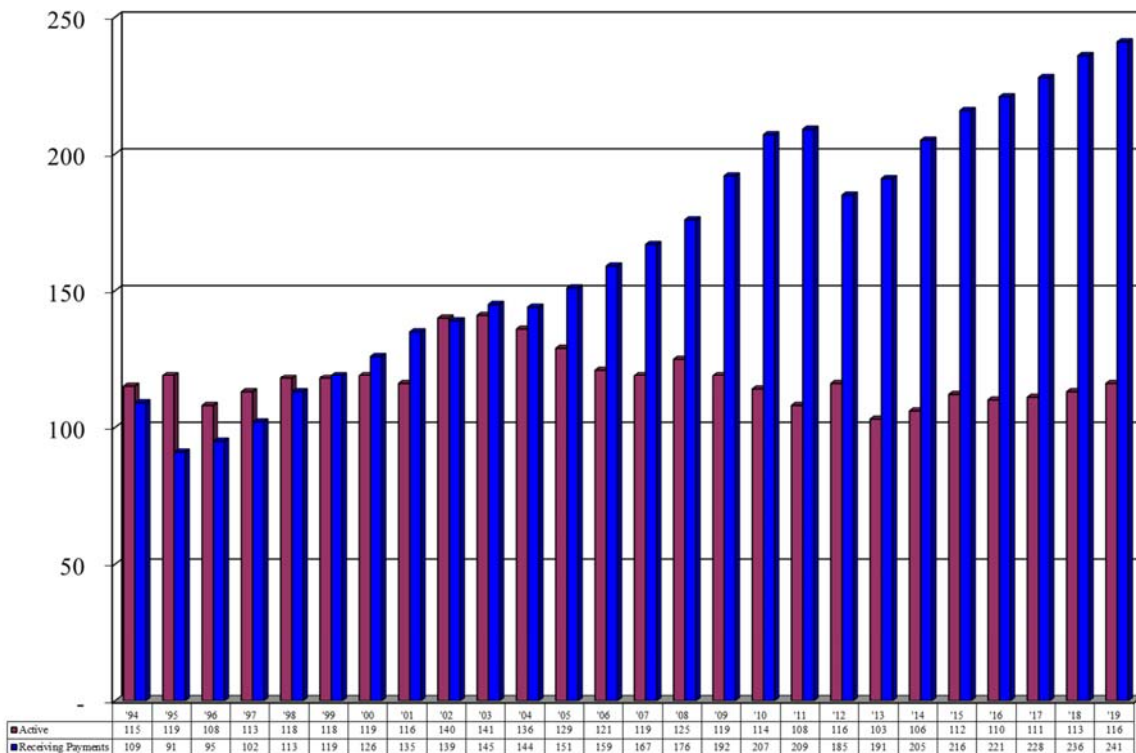
<sup>1</sup> Average Town-provided benefit is based on Town service and Town benefit formulas and is not representative of total benefits for long-service employees employed at multiple agencies.



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## SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS



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## PLAN FUNDED STATUS - MISCELLANEOUS

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ <b>Actuarial Accrued Liability</b>		
● 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
■ <b>Assets</b>	<u>73,300,000</u>	<u>76,100,000</u>
■ <b>Unfunded Liability</b>	33,800,000	36,000,000
■ <b>Funded Ratio</b>	68.4%	67.9%
■ <b>Average Funded Ratio for CalPERS Public Agency Miscellaneous Plans<sup>2</sup></b>	71.8%	72.2%

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



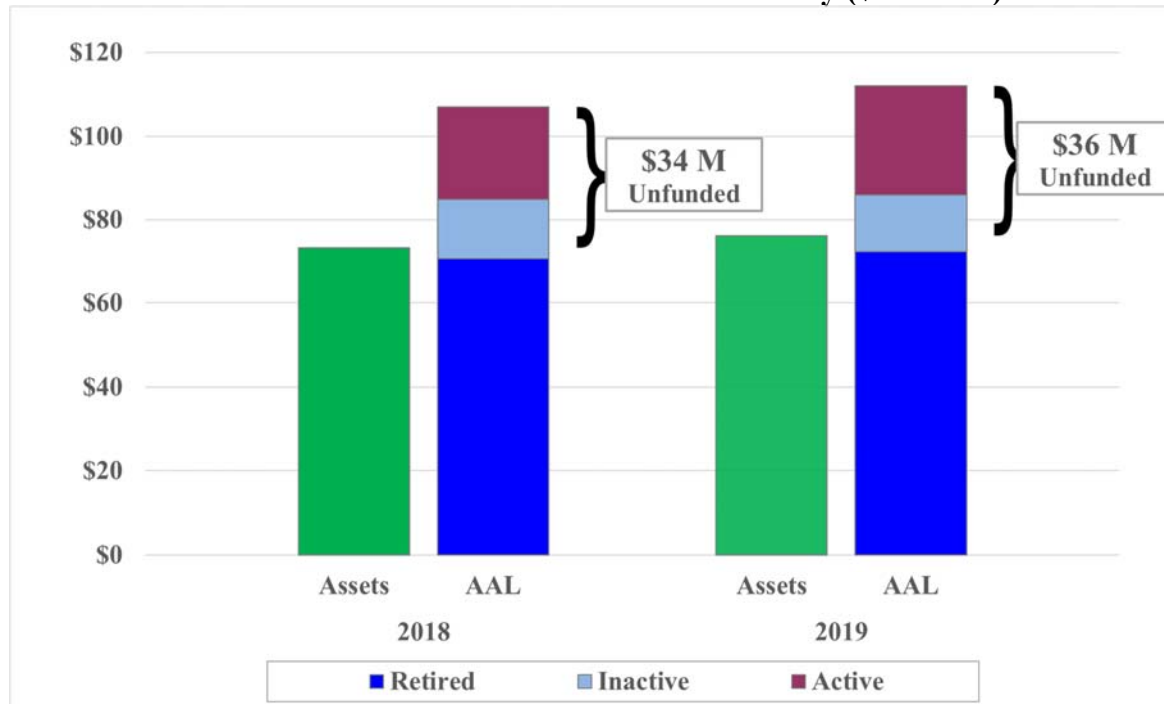
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## PLAN FUNDED STATUS - MISCELLANEOUS

### Town CalPERS Assets and Actuarial Liability (\$Millions)



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**PLAN FUNDED STATUS - MISCELLANEOUS**

**Discount Rate Sensitivity**

**June 30, 2019**

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

<sup>3</sup> 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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**PLAN FUNDED STATUS - MISCELLANEOUS**

**Unfunded Accrued Liability Changes**

■ <b>Unfunded Accrued Liability on 6/30/18</b>	\$ 33,800,000
■ <b>Expected 6/30/19 Unfunded Accrued Liability</b>	34,300,000
■ <b>Other Changes</b>	
• Asset Loss (Gain) (6.6% return for FY 2019)	400,000
• Contribution & Experience Loss (Gain)	<u>1,300,000</u>
• Total	<u>1,700,000</u>
■ <b>Unfunded Accrued Liability on 6/30/19</b>	36,000,000
■ <b>Projected Unfunded Accrued Liability on 6/30/20</b>	37,900,000
■ <b>Projected Funded Ratio on 6/30/20<sup>4</sup></b>	75%

<sup>4</sup> 6/30/20 funded status estimated – included \$4,753,965 and \$3,580,365 made October 2019 and July 2020, respectively.

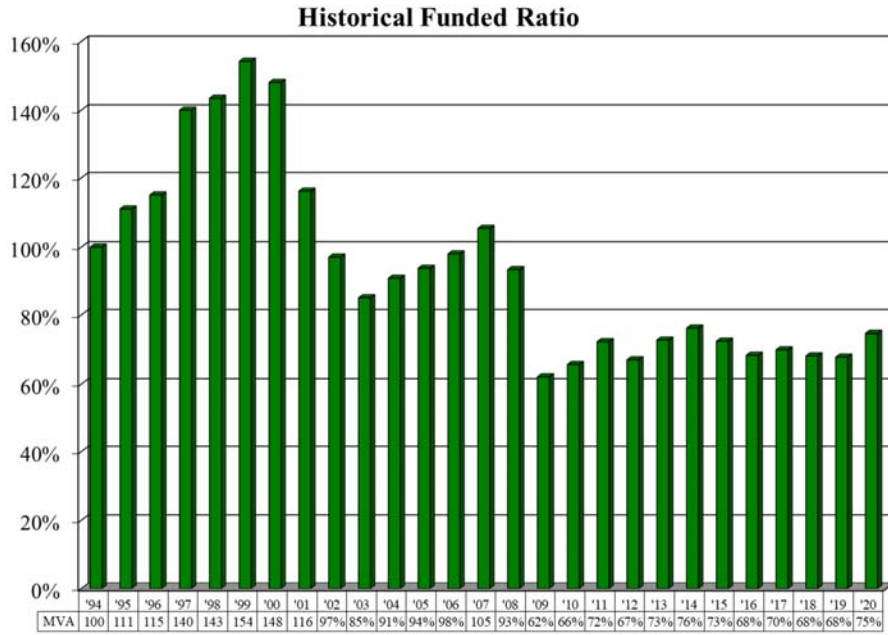


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## FUNDED RATIO - MISCELLANEOUS



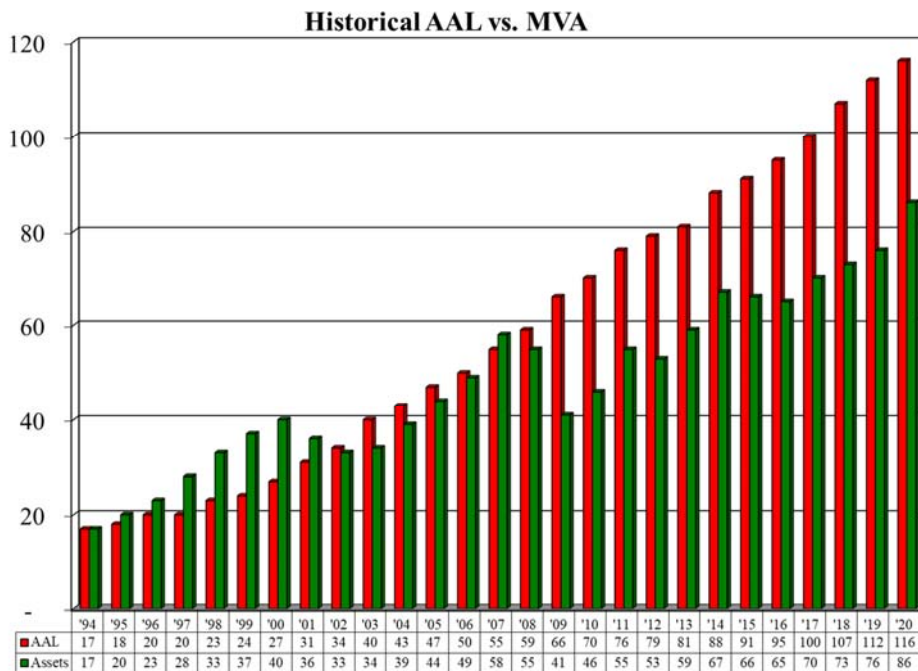
6/30/20 funded status estimated – included \$4,753,965 and \$3,580,365 made October 2019 and July 2020, respectively.



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## FUNDED STATUS (MILLIONS) - MISCELLANEOUS



6/30/20 Assets included \$4,753,965 and \$3,580,365 made October 2019 and July 2020, respectively.

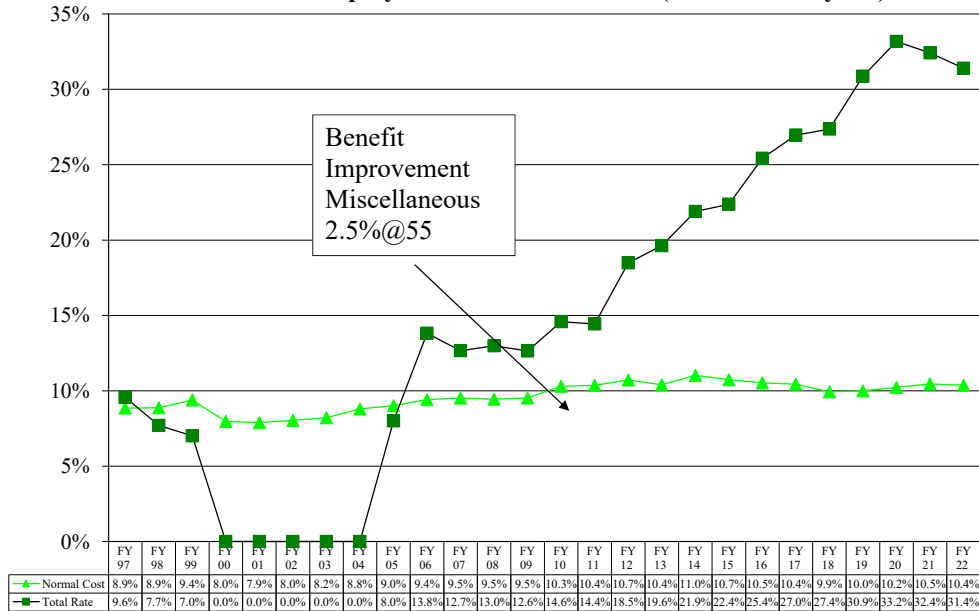


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## CONTRIBUTION RATES - MISCELLANEOUS

### Historical Employer Contribution Rates (Percent of Payroll)



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



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## CONTRIBUTION RATES - MISCELLANEOUS

	<b>6/30/18</b>	<b>6/30/19</b>
	<b><u>2020/2021</u></b>	<b><u>2021/2022</u></b>
■ Total Normal Cost	17.9%	17.8%
■ Employee Normal Cost	<u>7.5%</u>	<u>7.4%</u>
■ Employer Normal Cost	10.5%	10.4%
■ Amortization Payments <sup>5</sup>	<u>22.0%</u>	<u>21.0%</u>
■ Total Employer Contribution Rate	32.4%	31.4% <sup>6</sup>
■ 2020/21 Employer Contribution Rate		32.4%
● Payroll More Than Expected		-1.5%
● 6/30/16 Discount Rate Change (4 <sup>th</sup> Year)		0.3%
● 6/30/17 Discount Rate & Inflation (3 <sup>rd</sup> Year)		0.3%
● 6/30/18 Discount Rate change (2 <sup>nd</sup> Year)		0.6%
● Lump Sum Payment July 2020		-2.1%
● Other (Gains)/Losses		<u>1.4%</u>
■ 2021/22 Employer Contribution Rate		31.4%

<sup>5</sup> Reflects \$4,753,965 ADP made October 2019 and \$3,580,365 ADP made July 2020.

<sup>6</sup> Average CalPERS agency Miscellaneous 2021-22 employer contribution rate is 27.4%. Individual agency and average employer contribution rates depend on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



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## CONTRIBUTION PROJECTIONS – MISCELLANEOUS

- Market Value Investment Return:
  - June 30, 2020 4.7%<sup>7</sup>
  - Future returns based on stochastic analysis using 1,000 trials<sup>8</sup>

<u>Single Year Returns at<sup>9</sup></u>	<u>25<sup>th</sup> Percentile</u>	<u>50<sup>th</sup> Percentile</u>	<u>75<sup>th</sup> Percentile</u>
Current Investment Mix	<b>0.1%</b>	<b>7.0%</b>	<b>14.8%</b>
Ultimate Investment Mix	<b>0.8%</b>	<b>6.0%</b>	<b>11.4%</b>

  - 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

<sup>7</sup> Net of investment expenses and gross of administrative expenses. 15 bp assumed for administrative expenses.

<sup>8</sup> Future returns are assumed net of investment and administrative expenses

<sup>9</sup> N<sup>th</sup> percentile means N percentage of our trials result in returns lower than the indicated rates.



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## CONTRIBUTION PROJECTIONS – MISCELLANEOUS

- New hire assumptions:<sup>10</sup>
  - 95% of 2020/21 new hires are PEPRA members and 5% are Classic members
  - Percentage of PEPRA member future hires to increase from 95% to 100% over 2 years
- 6/30/19 employee distribution:

Benefit Tier	Count	6/30/19 Payroll
● 2.5%@55 FAC1	39	3,921,893
● 2%@60 FAC3	25	3,106,958
● 2%@62 FAC3 (PEPRA)	39	3,860,616

- Additional discretionary payments reflected:
  - \$4,753,965 made October 18, 2019 towards 6/30/16 base
  - \$3,580,365 made July 7, 2020 towards 6/30/15 and 6/30/13 bases

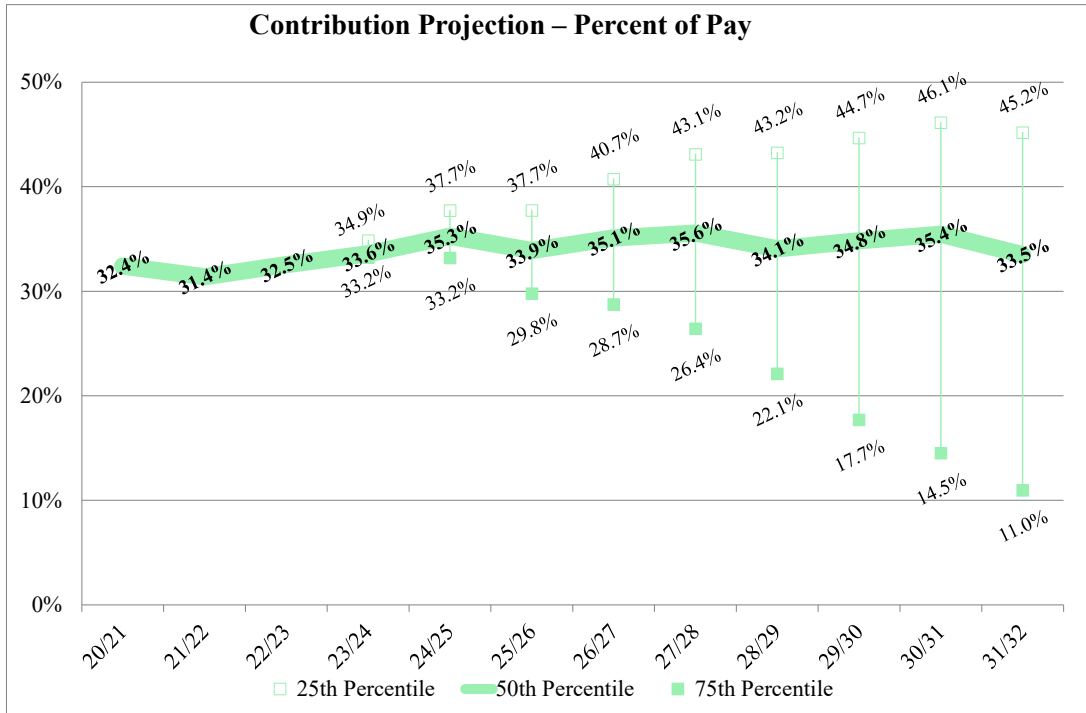
<sup>10</sup> Based on experience from sample CalPERS agencies.



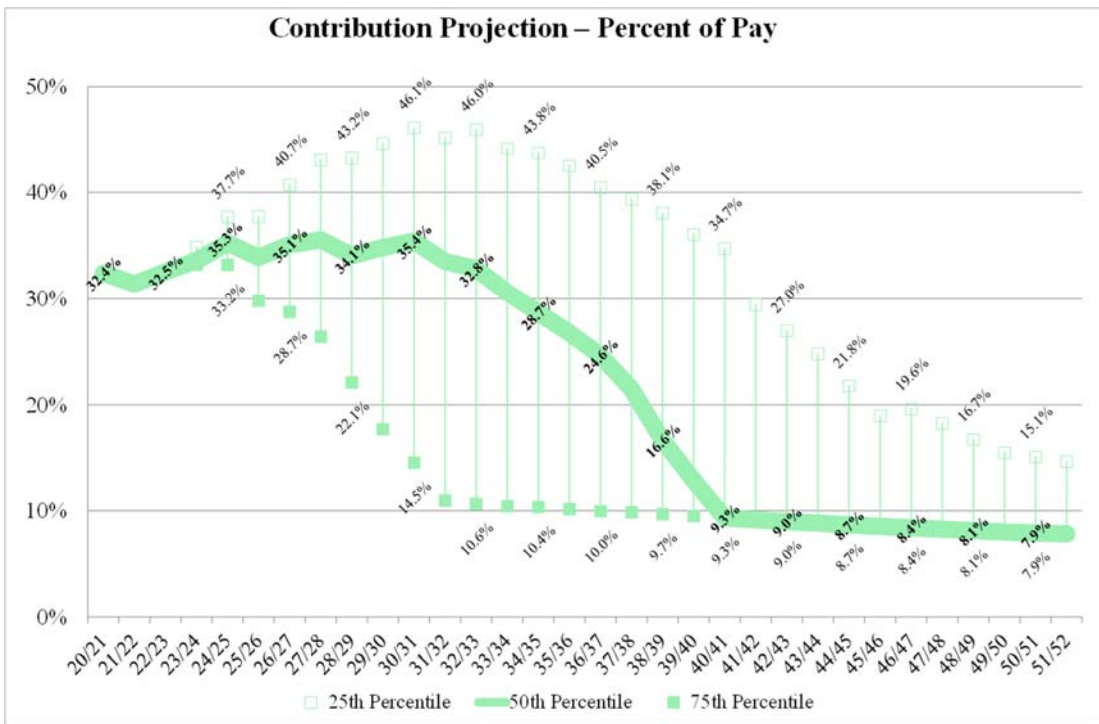
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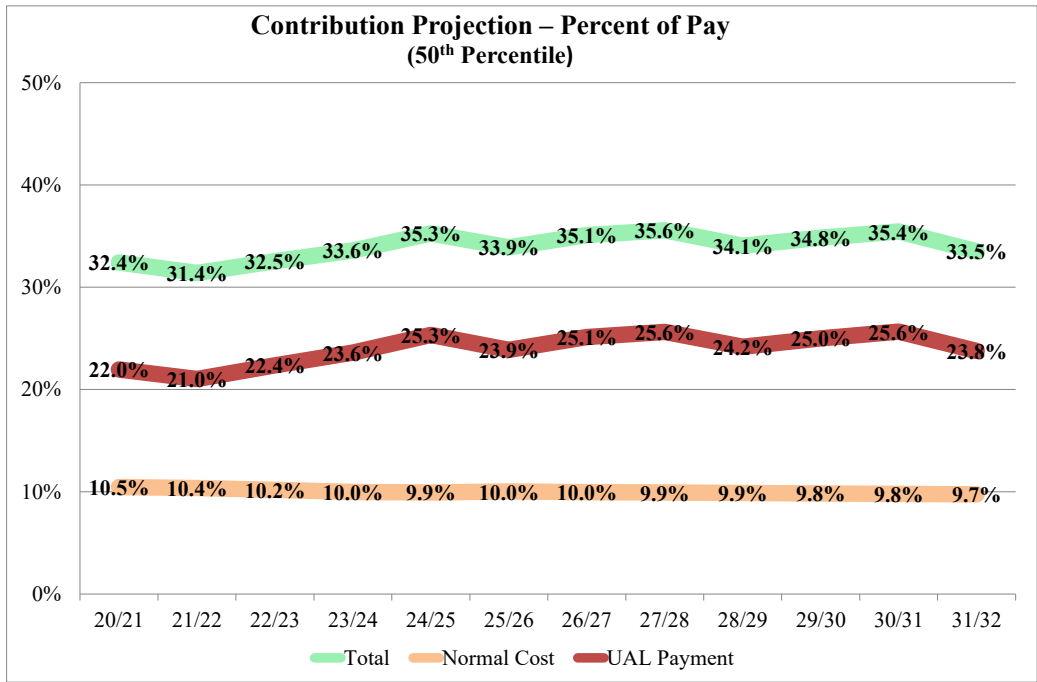
## CONTRIBUTION PROJECTIONS – MISCELLANEOUS



## CONTRIBUTION PROJECTIONS – MISCELLANEOUS



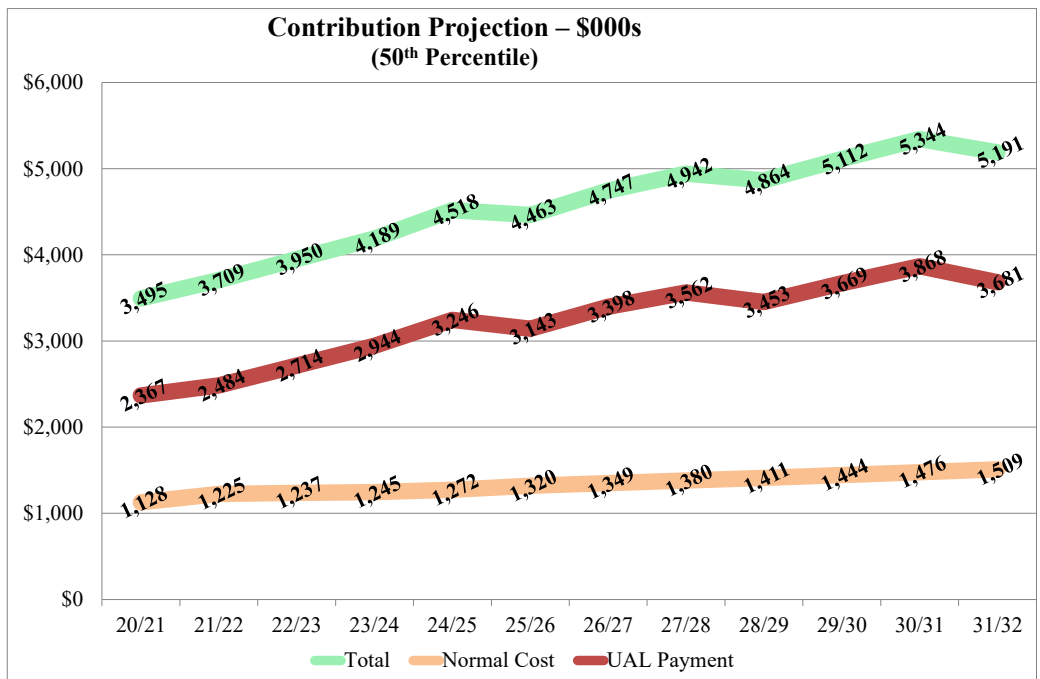
## CONTRIBUTION PROJECTIONS – MISCELLANEOUS



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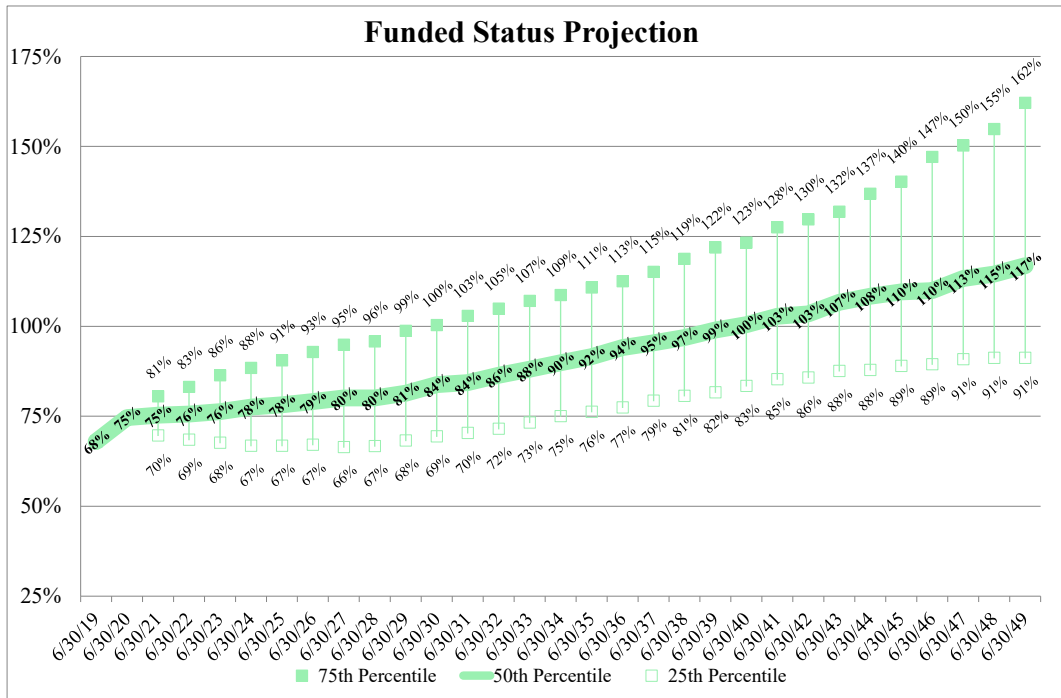
## CONTRIBUTION PROJECTIONS – MISCELLANEOUS



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**FUNDED STATUS - MISCELLANEOUS**



**FUNDED STATUS - MISCELLANEOUS**

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## SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY

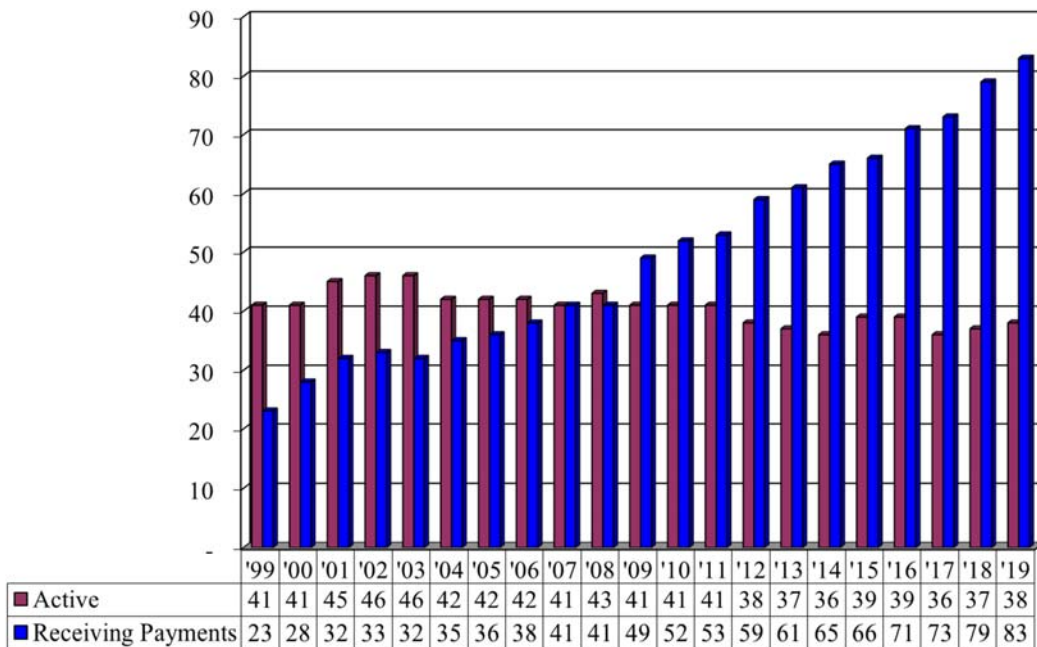
	1999	2009	2018	2019
<b>Actives</b>				
■ Counts	41	41	37	38
■ Average PERSable Wages	\$ 69,400	\$120,100	\$ 134,700	\$ 146,900
■ Total PERSable Wages	2,800,000	4,900,000	5,000,000	5,600,000
<b>Inactive Members</b>				
■ Counts				
• Transferred	16	20	13	12
• Separated	10	4	2	2
• Receiving Payments	23	49	79	83



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## SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY



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**PLAN FUNDED STATUS - SAFETY**

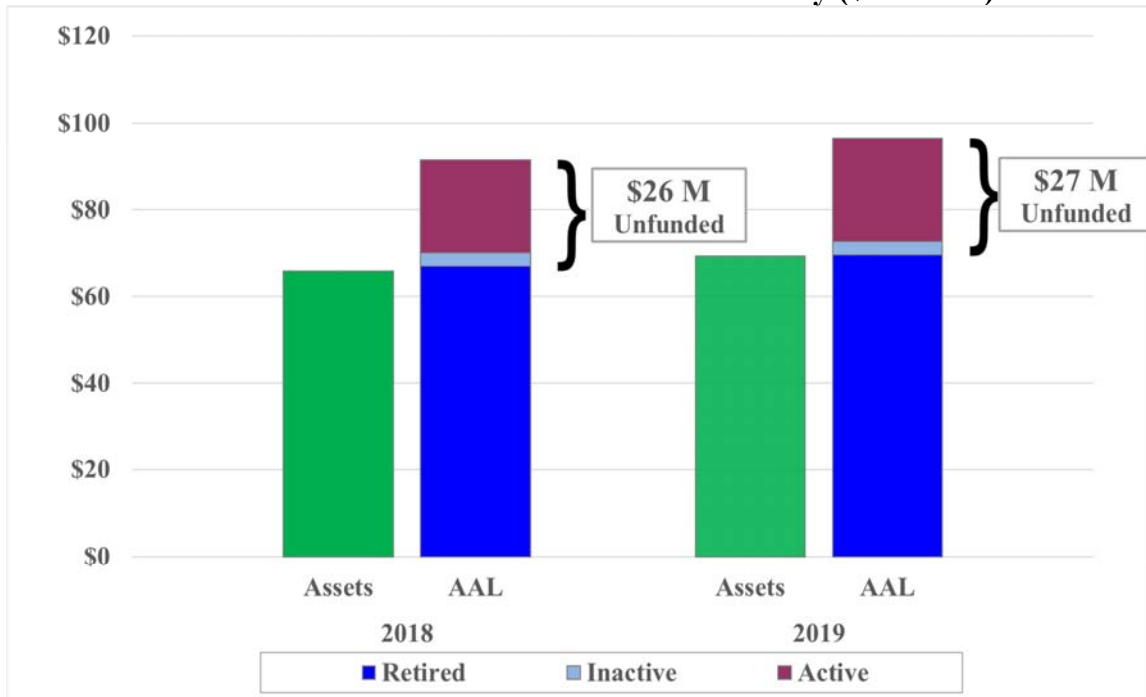
	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ <b>Actuarial Accrued Liability</b>		
● Active	\$21,300,000	\$23,700,000
● Retiree	67,200,000	69,800,000
● Inactive	<u>3,000,000</u>	<u>3,000,000</u>
● Total	91,500,000	96,500,000
■ <b>Assets</b>	<u>65,900,000</u>	<u>69,500,000</u>
■ <b>Unfunded Liability</b>	25,600,000	27,000,000
■ <b>Funded Ratio</b>	72.1%	72.0%
■ <b>Average Funded Ratio for CalPERS Public Agency Safety Plans<sup>11</sup></b>	68.3%	68.6%

<sup>11</sup> Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



**PLAN FUNDED STATUS - SAFETY**

**Town CalPERS Assets and Actuarial Liability (\$Millions)**



## PLAN FUNDED STATUS - SAFETY

### Discount Rate Sensitivity

June 30, 2019

	Discount Rate		
	<u>7.00%</u>	<u>6.50%</u> <sup>12</sup>	<u>6.00%</u>
<b>AAL</b>	\$96,500,000	\$103,100,000	\$109,700,000
<b>Assets</b>	<u>69,500,000</u>	<u>69,500,000</u>	<u>69,500,000</u>
<b>Unfunded Liability</b>	27,000,000	33,600,000	40,200,000
<b>Funded Ratio</b>	72.0%	67.4%	63.4%

<sup>12</sup> Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)

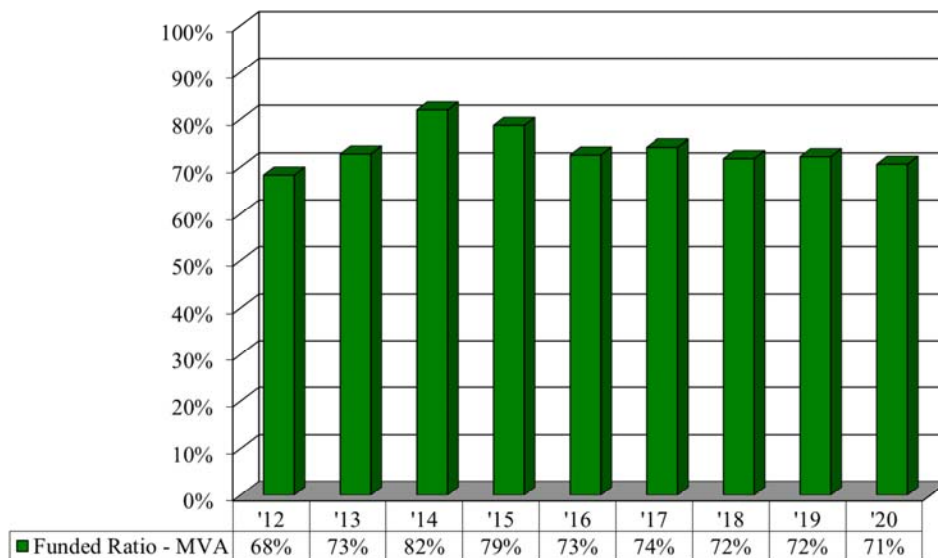


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## FUNDED RATIO - SAFETY



6/30/20 funded status estimated

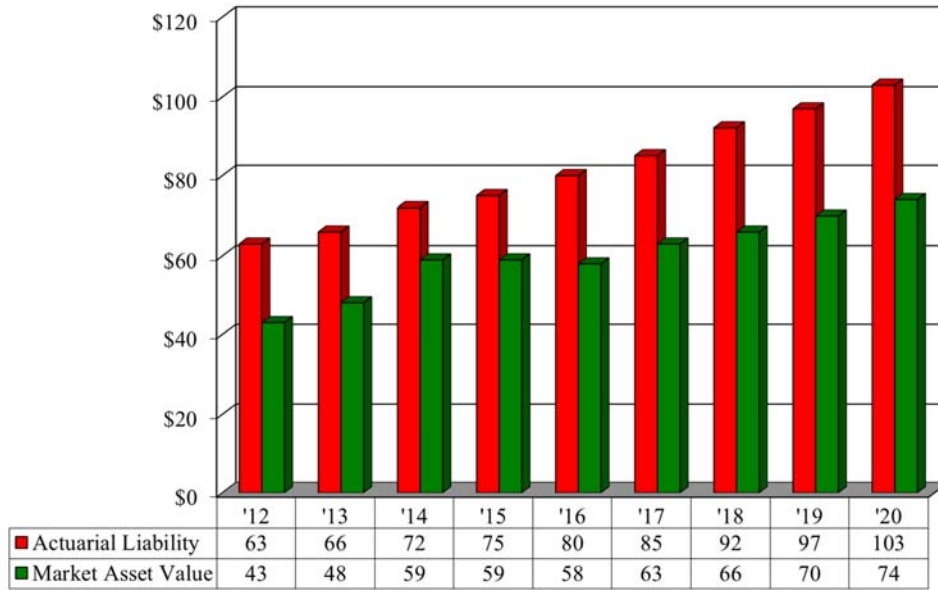


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## FUNDED STATUS (MILLIONS) - SAFETY



6/30/20 funded status estimated

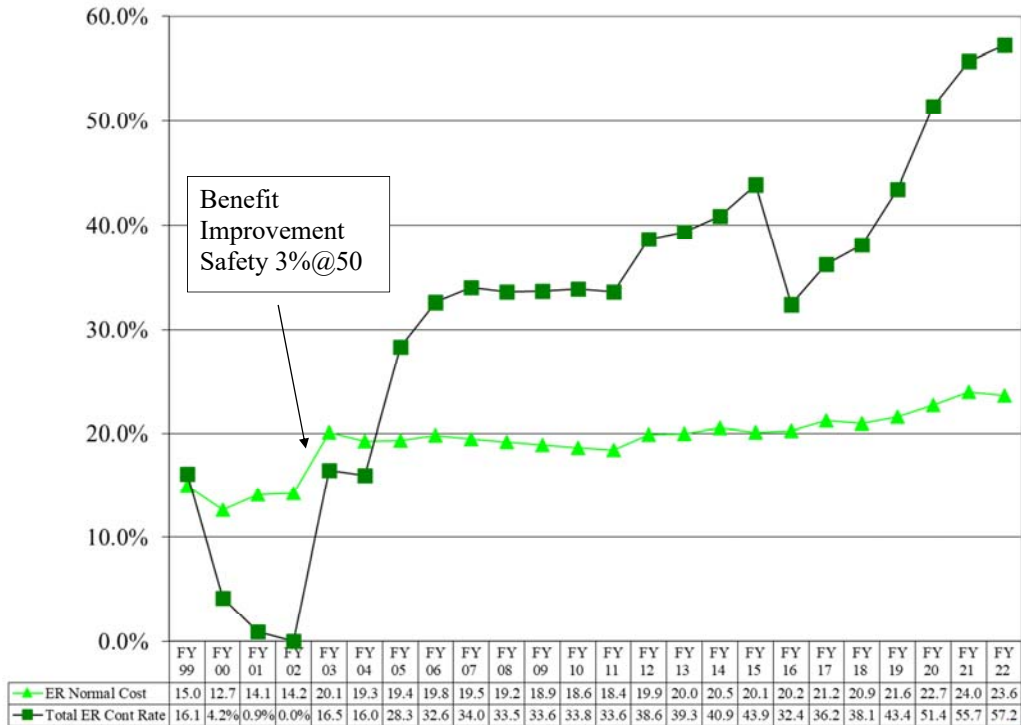


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## FUNDED STATUS (MILLIONS) - SAFETY



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## CONTRIBUTION RATES - SAFETY

	<b>6/30/19 Valuation</b>		
	<b><u>2021/2022 Contribution Rates</u></b>		
	<b><u>Total</u><sup>13</sup></b>	<b><u>Tier 1</u></b>	<b><u>PEPRA</u></b>
		<b>3%<u>@50</u></b>	<b>2.7%<u>@57</u></b>
■ Base Total Normal Cost	30.5%	31.5%	26.1%
■ Class 1 Benefits			
● Final One Year Compensation	1.1%	1.2%	-
● PRSA	<u>1.8%</u>	<u>1.9%</u>	<u>1.6%</u>
■ Total Normal Cost	33.4%	34.6%	27.7%
■ Formula's Expected EE Contribution Rate	<u>9.8%</u>	<u>9.0%</u>	<u>13.7%</u>
■ ER Normal Cost	23.6%	25.6%	14.0%
■ Amortization Payment	33.6%	40.3%	1.7%
■ Amortization of Side Fund	-	-	-
■ <b>Total ER Contribution</b>	<b>57.2%</b>	<b>65.9%</b>	<b>15.7%</b>
■ Employee counts	38	30	8
■ Projected 2021/22 employee payroll (000's)	\$ 6,055	\$ 5,006	\$ 1,049
■ <b>Total ER Contribution \$ (in 000's)</b>	<b>\$ 3,466</b>	<b>\$ 3,301</b>	<b>\$ 165</b>

<sup>13</sup> Weighting of total contribution based on projected classic and PEPRA payrolls



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## CONTRIBUTION RATES - SAFETY

	<b><u>6/30/18</u></b>	<b><u>6/30/19</u></b>
	<b><u>2020/2021</u></b>	<b><u>2021/2022</u></b>
■ Total Normal Cost	33.6%	33.4%
■ Employee Normal Cost	<u>9.6%</u>	<u>9.8%</u>
■ Employer Normal Cost	23.9%	23.6%
■ Amortization Payments	<u>31.8%</u>	<u>33.6%</u>
■ Total Employer Contribution Rate	55.7%	57.2% <sup>14</sup>
■ 2020/21 Employer Contribution Rate		55.7%
● Payroll More Than Expected		-2.7%
● 6/30/16 Discount Rate Change (4 <sup>th</sup> Year)		0.6%
● 6/30/17 Discount Rate & Inflation (3 <sup>rd</sup> Year)		0.7%
● 6/30/18 Discount Rate change (2 <sup>nd</sup> Year)		1.1%
● Other (Gains)/Losses		<u>1.8%</u>
■ 2021/22 Employer Contribution Rate		57.2%

<sup>14</sup> CalPERS valuation results before reflecting EPMC. Average CalPERS agency Safety 2021-22 employer contribution rate is 53.5%. Individual agency and average employer contribution rates depend on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



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## CONTRIBUTION PROJECTIONS – SAFETY

- Market Value Investment Return:
  - June 30, 2020 4.7%<sup>15</sup>
  - Future returns based on stochastic analysis using 1,000 trials<sup>16</sup>

<u>Single Year Returns at<sup>17</sup></u>	<u>25<sup>th</sup> Percentile</u>	<u>50<sup>th</sup> Percentile</u>	<u>75<sup>th</sup> Percentile</u>
Current Investment Mix	<b>0.1%</b>	<b>7.0%</b>	<b>14.8%</b>
Ultimate Investment Mix	<b>0.8%</b>	<b>6.0%</b>	<b>11.4%</b>

  - 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

<sup>15</sup> Net of investment expenses and gross of administrative expenses. 15 bp assumed for administrative expenses.

<sup>16</sup> Future returns are assumed net of investment and administrative expenses

<sup>17</sup> N<sup>th</sup> percentile means N percentage of our trials result in returns lower than the indicated rates.



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## CONTRIBUTION PROJECTIONS – SAFETY

- New hire assumptions<sup>18</sup>:
  - 95% of 2020/21 new hires are PEPRA members and 5% are Classic members
  - Percentage of PEPRA member future hires to increase from 95% to 100% over 2 years

- 6/30/19 employee distribution:

Benefit Tier	Count	6/30/19 Payroll
● 3%@50 FAC1	30	\$4,614,993
● 2.7%@57 FAC3 (PEPRA)	8	967,007

- EE Cost Sharing of Employer Contribution:
  - 3% employee share for Classic members

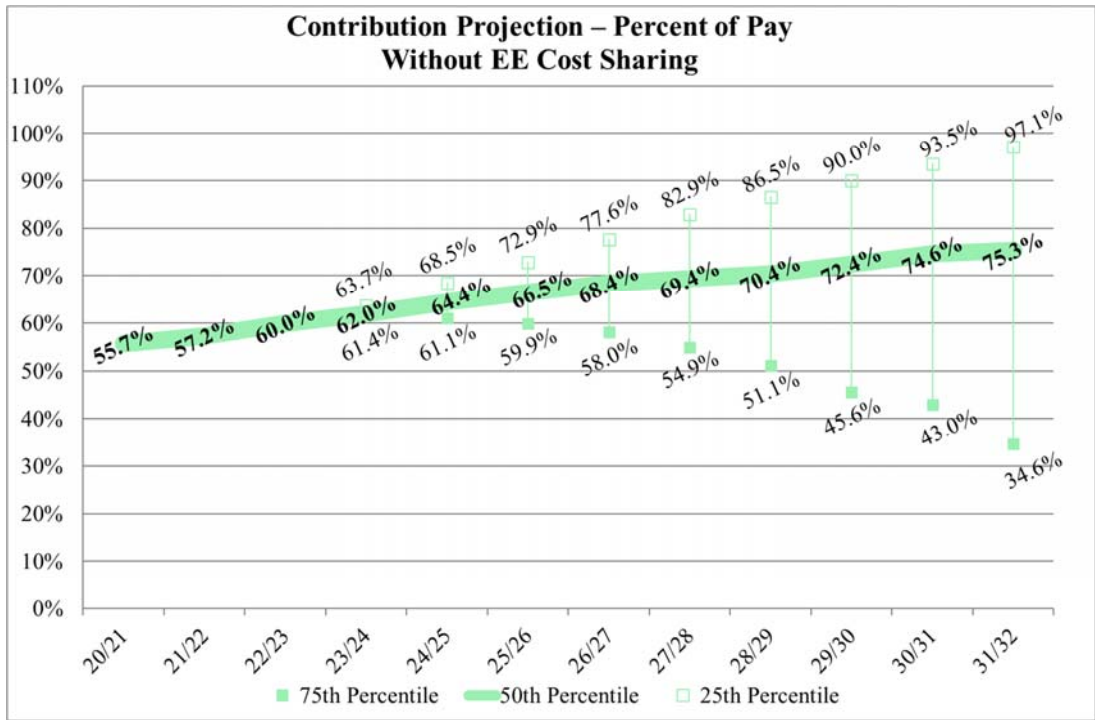
<sup>18</sup> Based on experience from sample CalPERS agencies



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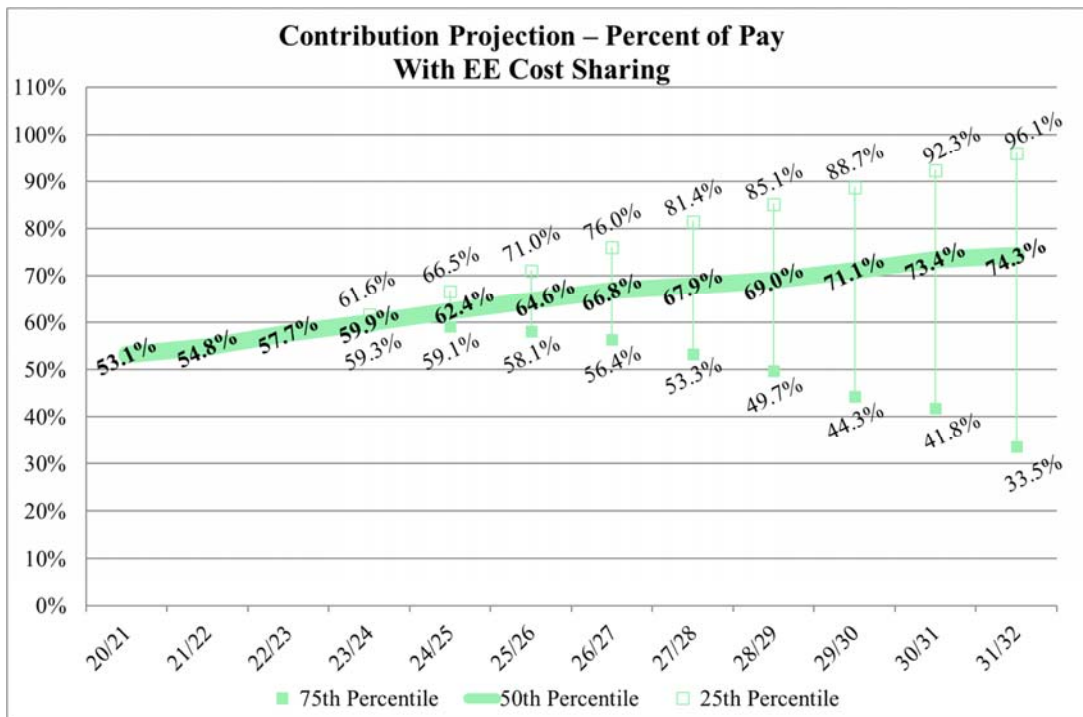
## CONTRIBUTION PROJECTIONS – SAFETY



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## CONTRIBUTION PROJECTIONS – SAFETY

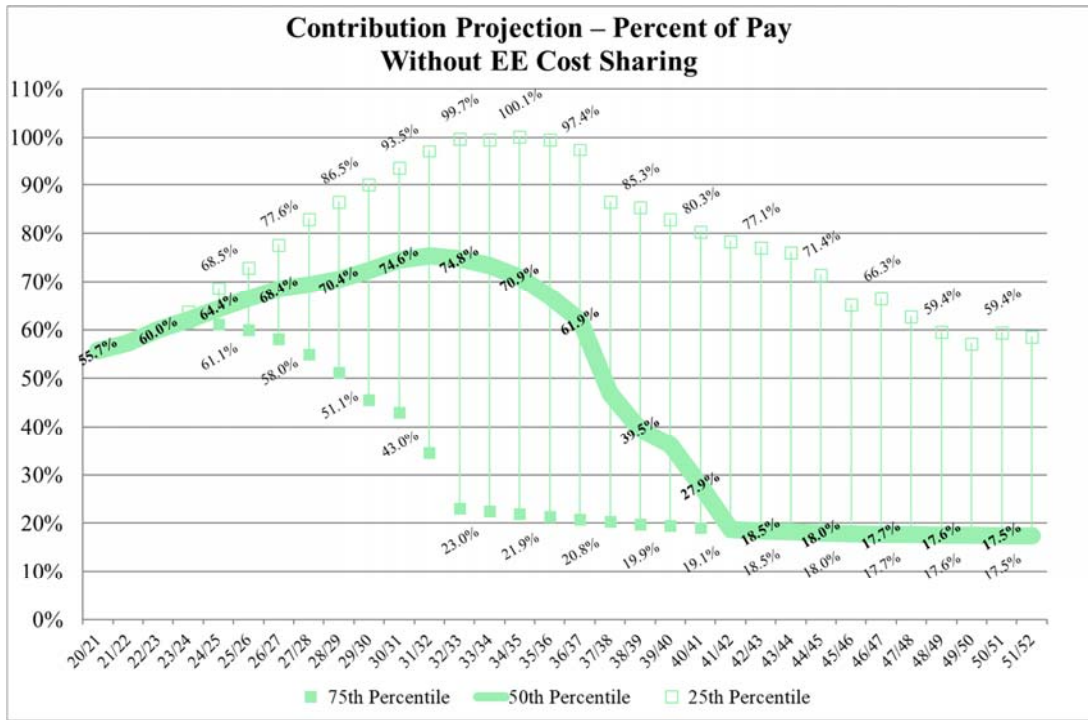


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## CONTRIBUTION PROJECTIONS – SAFETY



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## CONTRIBUTION PROJECTIONS – SAFETY

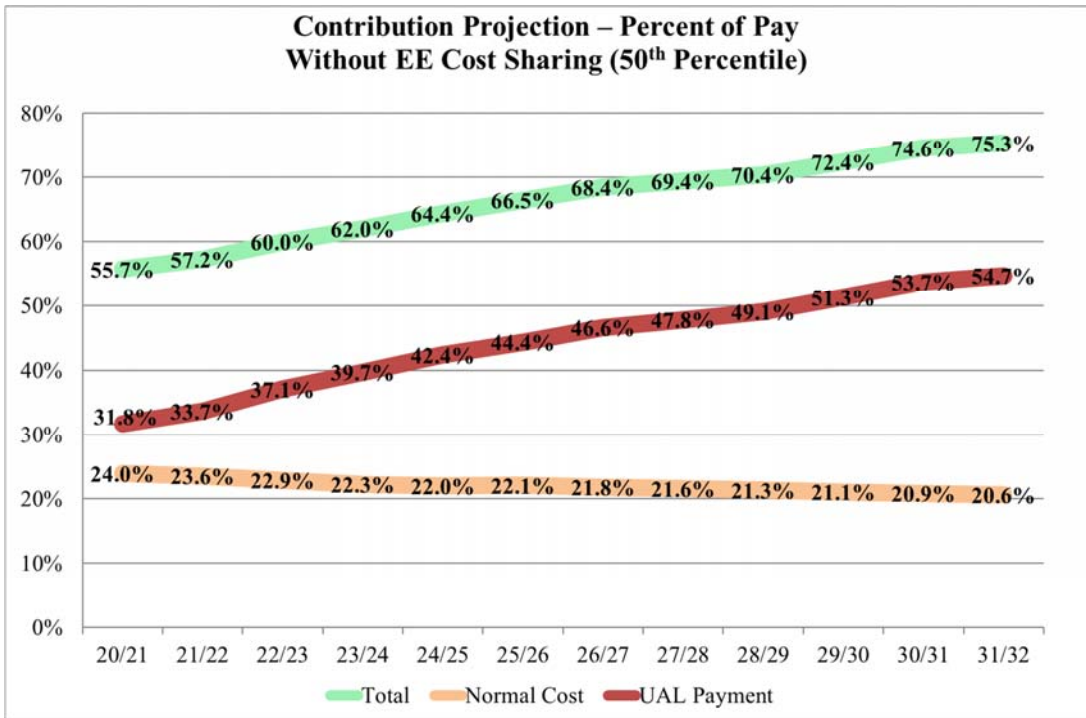


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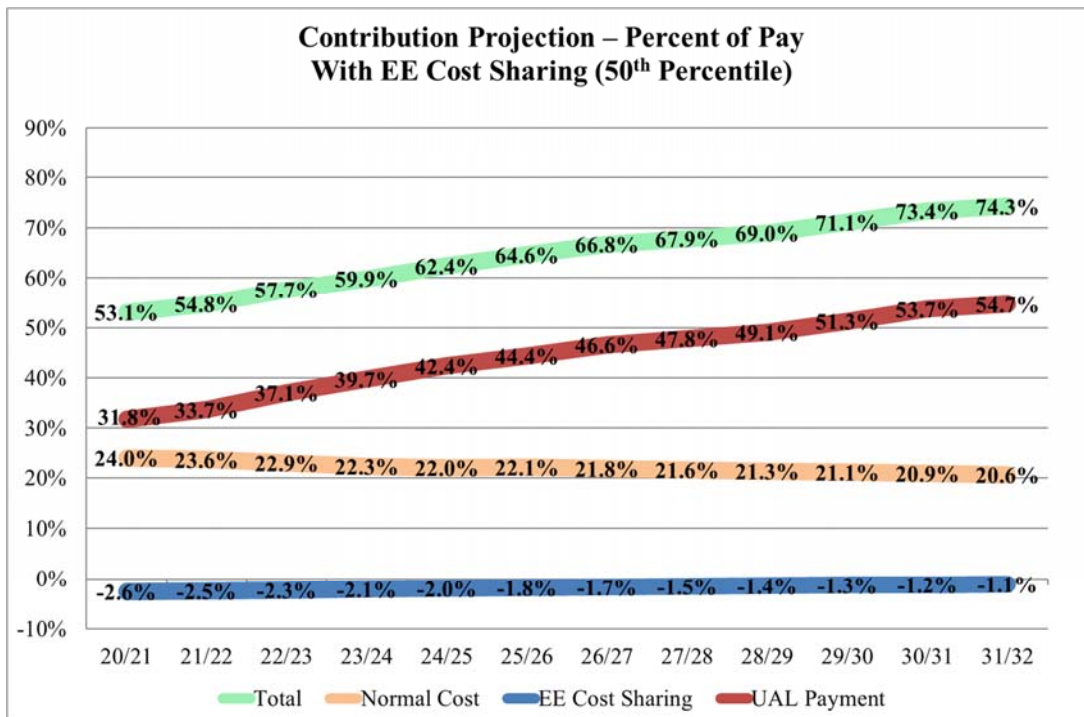
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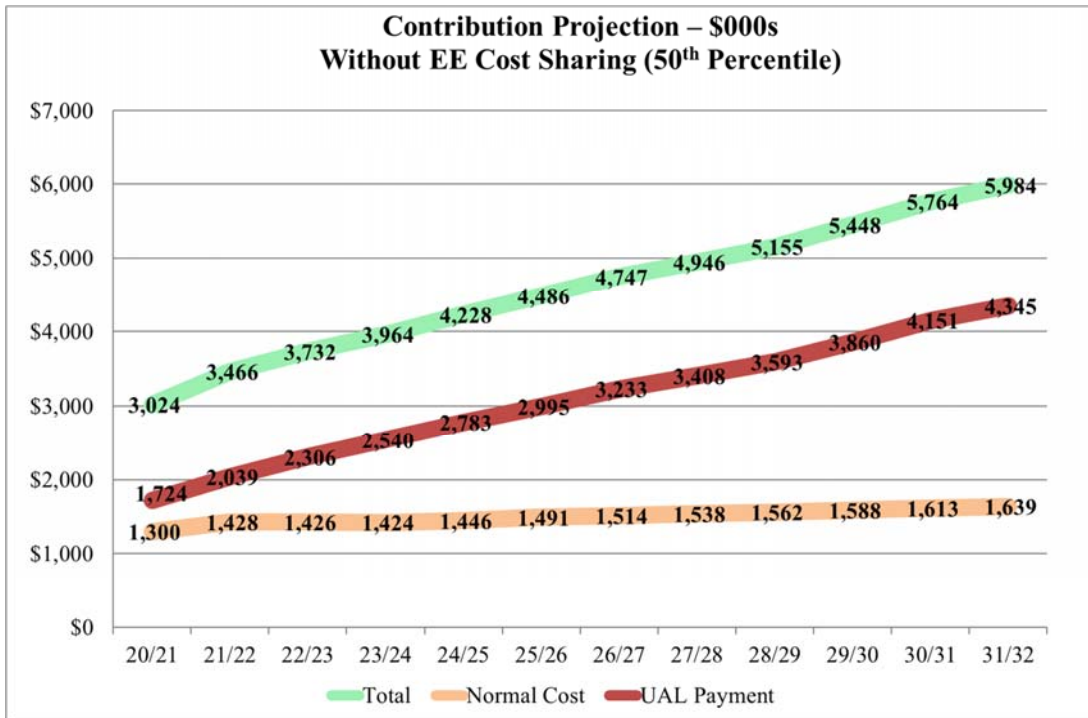
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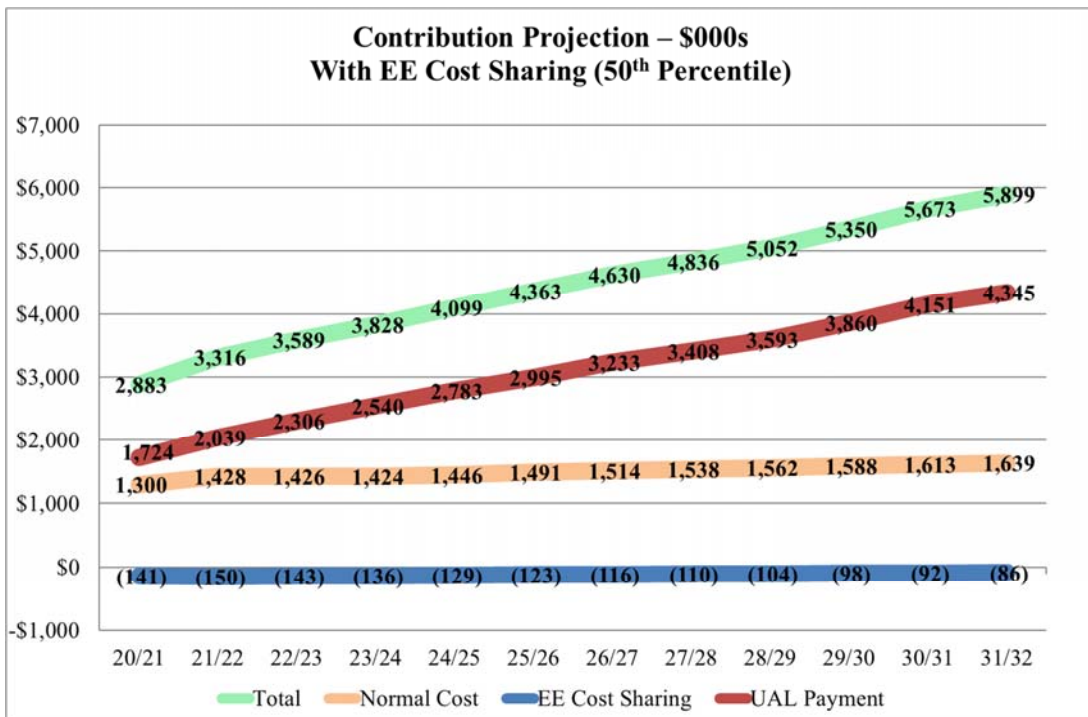
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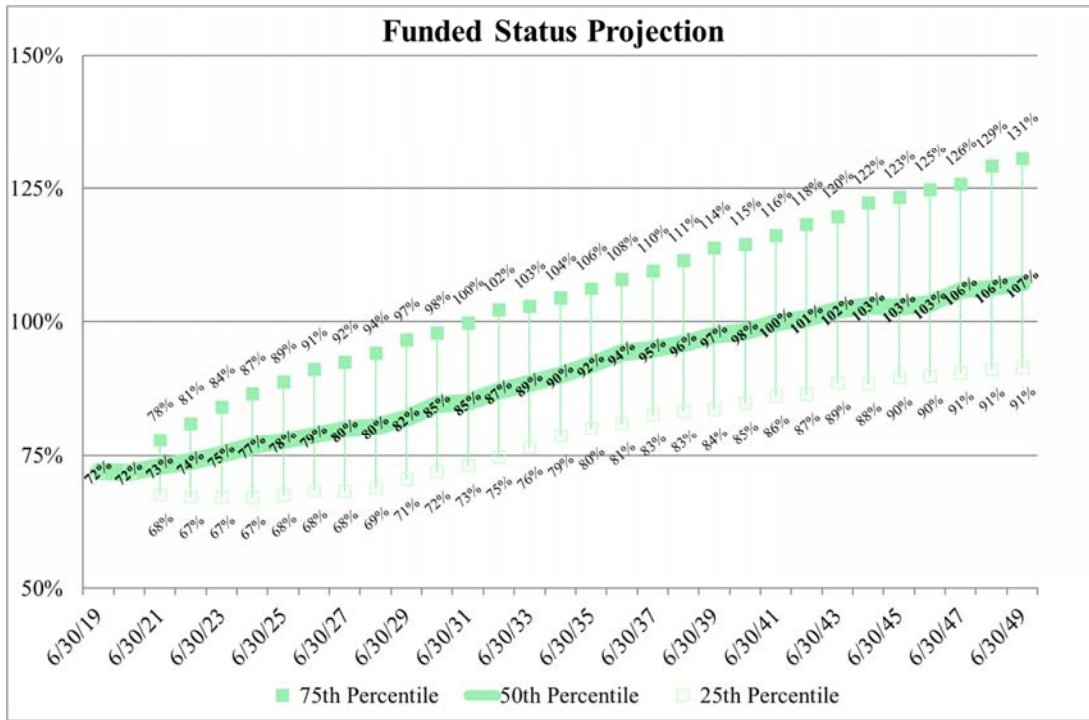
## CONTRIBUTION PROJECTIONS – SAFETY



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## FUNDED STATUS - SAFETY

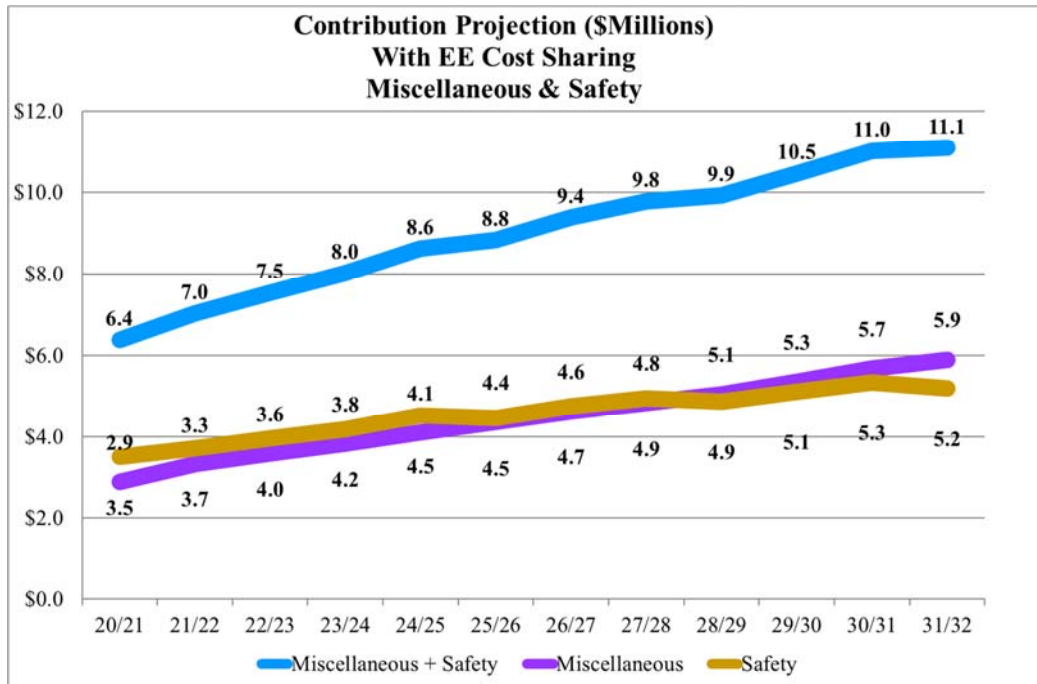


## FUNDED STATUS - SAFETY

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



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## 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 and giving them a different pension plan
  - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
  - Treated as plan termination
  - Liability increased to reflect conservative investments of Terminated Agency Pool
  - Termination discount rate depends on market risk-free returns on termination date
    - Weighted average of 10-year and 30-year US Treasury yields (weighted by matching benefit payment durations)
    - CalPERS estimates are based on the highest and lowest 20-year Treasury yields 12 months before and 7 months after the valuation date
  - Liability increased to include a 5% contingency load for future demographic fluctuations
  - Liability must be funded immediately by withdrawing agency
  - Otherwise, retiree benefits are cut



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## LEAVING CALPERS

### CalPERS Termination Estimates on June 30, 2019

(Amounts in Millions)

Discount Rate	Ongoing Plan	Termination Basis	
	7.00%	1.75%	3.25%
<b>Miscellaneous</b>			
Actuarial Accrued Liability	\$ 112	\$ 221	\$ 179
Assets	<u>76</u>	<u>76</u>	<u>76</u>
Unfunded AAL (UAAL)	36	145	103
<b>Safety</b>			
Actuarial Accrued Liability	\$ 97	\$ 204	\$ 162
Assets	<u>70</u>	<u>70</u>	<u>70</u>
Unfunded AAL (UAAL)	27	134	92
<b>Total</b>			
Unfunded AAL (UAAL)	\$ 63	\$279	\$ 195
Funded Ratio	69.9%	34.4%	42.8%



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## 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 2021/22:

	<u>Classic Members</u>		<u>New Members</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
	<u>2.5%@55 FAC1</u>	<u>2%@60 FAC3</u>	<u>2%@62 FAC3</u>
● Employer Normal Cost	12.0%	13.6%	6.21%
● Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.25%</u>
● Total Normal Cost	20.0%	20.6%	13.46%
● 50% Target	10.0%	10.3%	6.73%



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## PEPRA COST SHARING

- Safety Plan 2021/22<sup>19</sup>:

	<u>Classic Members</u>		<u>New Members</u>
	<u>Tier 1</u>	<u>PEPRA</u>	
	<u>3%@50 FAC1</u>	<u>2.7%@57 FAC3</u>	
● Employer Normal Cost	25.6%	13.98%	
● Member Normal Cost	<u>9.0%</u>	<u>13.75%</u>	
● Total Normal Cost	34.6%	27.73%	
● 50% Target	17.3%	13.87%	

- PEPRA Member Contributions:

Group	2020/21		2021/22			
	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	14.430%	7.25%	14.92%	0.49%	7.25%	All Active Members <sup>20</sup>
Safety	27.634%	13.75%	27.73%	0.096%	13.75%	PEPRA Members <sup>21</sup>

<sup>19</sup> This exhibit does not reflect the 3% employee cost sharing for Classic members.

<sup>20</sup> 52 PEPRA members are 44.8% of actives. Does not satisfies the 100 PEPRA member/25% of actives threshold or the 50% of actives threshold for agent plan to base rate on PERPA members.

<sup>21</sup> PEPRA risk pool plan.



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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**  
**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

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



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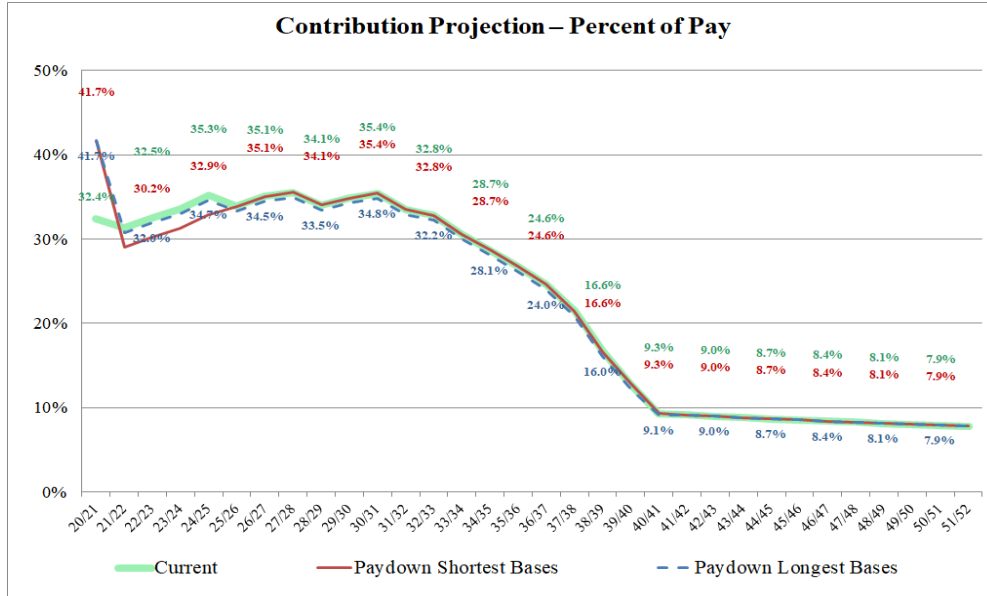
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**PREFUNDING OPTION**

**Direct Payment to CalPERS  
Miscellaneous**

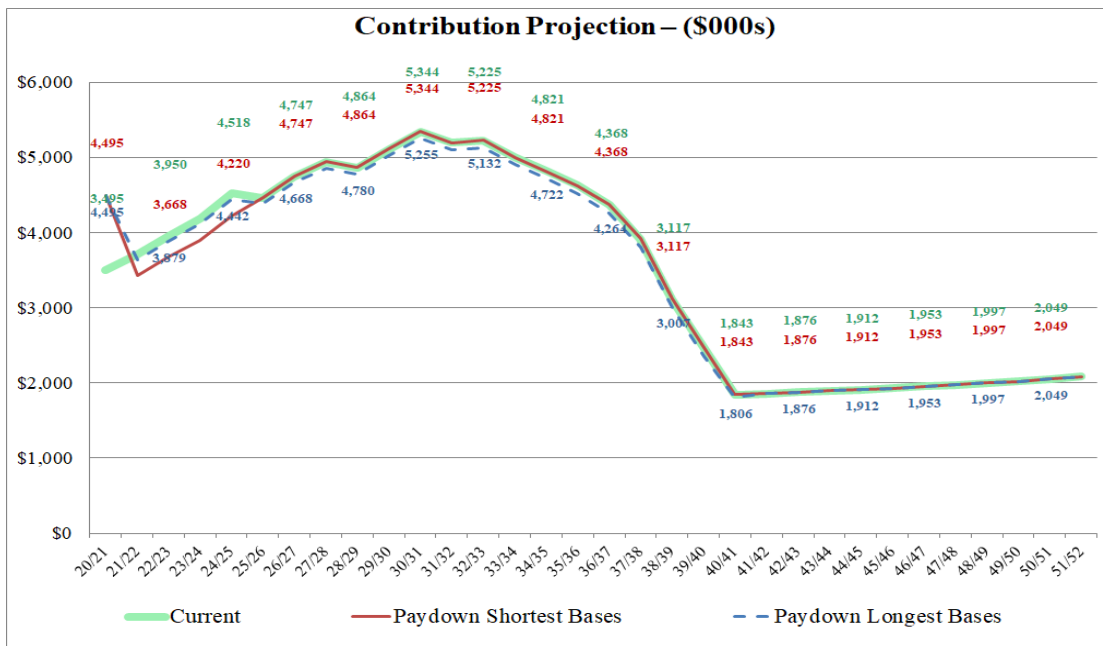


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**PREFUNDING OPTION**

**Direct Payment to CalPERS  
Miscellaneous**



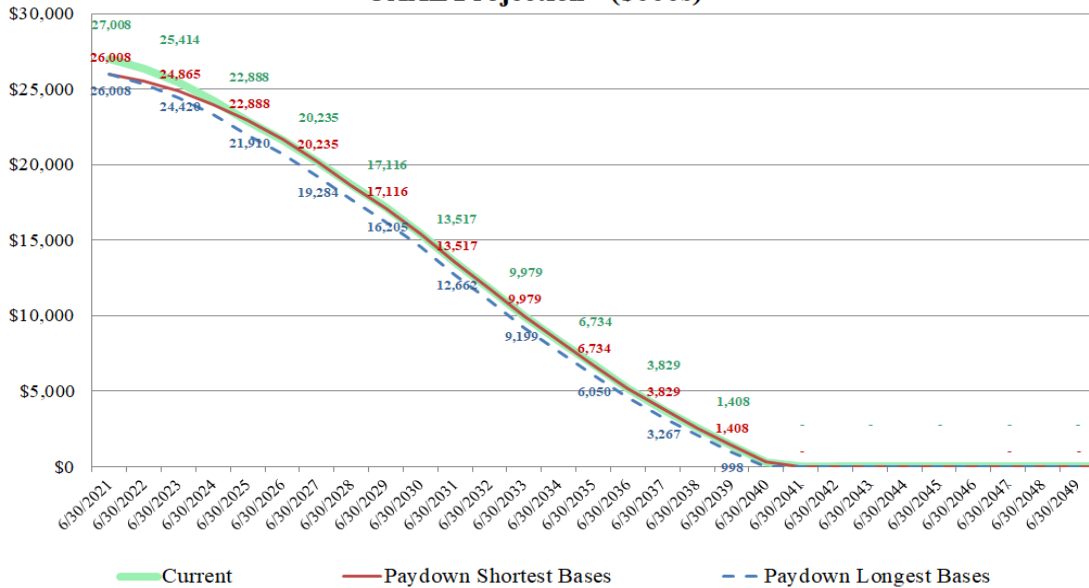
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## PREFUNDING OPTION

### Direct Payment to CalPERS Miscellaneous UAAL Projection – (\$000s)



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## ACTUARIAL CERTIFICATION

This report presents an 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, 2019 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 Bartel Associates’ Capital Market model which results in the long-term returns summarized on pages 23 and 41.

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,

**DRAFT**

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Assistant Vice President  
Bartel Associates, LLC  
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**DRAFT**

Joseph R. D’Onofrio, FSA, EA, MAAA, FCA  
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March 1, 2021

