



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 08/12/2019

ITEM NO: 2

DATE: August 6, 2019
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review and Discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and Make a Recommendation on an Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis

RECOMMENDATION:

Review and discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and make a recommendation on an Additional Discretionary Payment (ADP) Strategy based on the August 2019 Bartel and Associates Analysis

BACKGROUND:

In 2018 staff initiated having the Town's actuary, Bartel and Associates, perform a detailed review and analysis of the Town's CalPERS annual actuarial valuations. The review provided important additional analysis and data for the Town to better understand the long-term obligations associated with its pension and Other Post-Retirement Benefit (OPEB) benefits.

In addition, on June 17, 2019 the Town Finance Committee received a staff report which outlined prior Finance Committee decisions regarding the allocation of ADPs. The Town has four primary vehicles for receiving additional discretionary payments which include: Town OPEB 115 Trust, Town Pension 115 Trust, CalPERS Town Miscellaneous Plan, and CalPERS Safety Plan. Based on discussions at the June Finance Committee meeting, staff engaged Bartel and Associates to perform an analysis of the benefits associated with providing ADPs to each of the four vehicles.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

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DISCUSSION:

On December 4, 2017, the Council Finance Committee recommended to invest in the PARS Capital Appreciation Index Plus. In addition, the Committee recommended that assets placed in the 115 Pension Trust be dollar cost averaged over the next year to mitigate risks associated with a single market entry point. In March 2018, the initial \$300,000 was deposited into the PARS account with additional \$300,000 deposits programmed monthly for a current total of \$5.0 million in assets as of June 30, 2019. In addition, on June 4, 2019 the Town Council adopted the FY 2019/20 Operating Budget which among other items identified an additional \$3.2 million allocation to reducing either outstanding OPEB or pension unfunded obligations. With the adoption of the FY 2019/20 Operating Budget, the Town Council has identified over \$8.0 million dollars which can be utilized for reducing the Town's pension/OPEB obligations. The Bartel analysis provided in Attachment 1 details how the \$8.0 million dollars could be utilized for contribution management and direct ADPs to either the pension or OPEB plans.

In addition to the analysis of ADP strategies, Bartel and Associates will be discussing the following key issues regarding the Town's pension plans:

- 2017 Valuation results and Discount Rate Sensitivity
- CalPERS Risk Mitigation Policy and Implications
- Plan Contribution Projections (including a 6% discount rate scenario)

CONCLUSION:

Based on the analysis of Bartel and Associates, the Finance Committee should provide the Town Pension and OPEB Trusts Oversight Committee with a recommended ADP strategy for the current \$8.0 million in assets allocated to reducing the Town's pension/OPEB obligations.

COORDINATION:

This report was coordinated with the Town Manager's Office and the Finance Department.

FISCAL IMPACT:

Depending on the ADP strategy chosen, the Town will either receive long-term savings from reduced interest costs associated with unfunded pension obligations or budgetary savings from a reduction in annual pension/OPEB contributions.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

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Attachment:

1. Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis