



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

CalPERS Actuarial Review  
June 30, 2017 Actuarial Valuation

### **Bartel Associates, LLC**

Joseph R. D'Onofrio, Assistant Vice President  
Bianca Lin, Assistant Vice President  
Katherine Moore, Associate Actuary  
Matt Childs, Senior Actuarial Analyst  
Wai Man Yam, Actuarial Analyst

August 12, 2019

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## WHERE ARE WE NOW?

### Valuation Results<sup>1</sup>

**June 30, 2017**

(Dollar Amounts in Thousands)

Employee Group	Misc	Safety	Total
■ <b>Participants</b>			
• Actives	111	36	147
• Transfers <sup>2</sup>	98	17	115
• Terminations <sup>3</sup>	79	1	80
• Retirees & Beneficiaries	<u>228</u>	<u>73</u>	<u>301</u>
• Total	516	127	643
■ <b>Funded Status</b>			
• Accrued Liability	\$99,903	\$84,807	\$184,710
• Assets	<u>69,527</u>	<u>62,719</u>	<u>132,246</u>
• Unfunded Liability	30,376	22,089	52,465
• Funded Percent	69.6%	74.0%	71.6%
■ <b>Projected 2019/20 Payroll</b>	10,147	5,198	15,345
■ <b>Employer Contribution 2019/20<sup>4</sup></b>			
• Dollar Amount (Estimated) <sup>5</sup>	3,366	2,673	6,039
• Percent of Payroll	33.2%	51.4%	39.4%

<sup>1</sup> Amounts in this report might not add due to rounding.

<sup>2</sup> "Transfers" are former employees working for another agency participating in a CalPERS pension plan.

<sup>3</sup> "Terminations" are former employees not working for an agency participating in a CalPERS pension plan.

<sup>4</sup> **CalPERS results do not reflect Employee-Paid Member Contributions and Member Share of Employer Contributions, if any.**

<sup>5</sup> CalPERS provides the Normal Cost as a percentage of payroll and the Unfunded Liability amortization payment as a dollar amount. CalPERS' Normal Cost estimate is based on payroll projected from 2016/17 to 2019/20 using the valuation's aggregate payroll increase assumption. The Town's budgeted amount may differ based on its expected 2019/20 payroll.

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## WHERE ARE WE NOW?

### Valuation Results

**Discount Rate Sensitivity - June 30, 2017 Valuation**

(Dollar Amounts in Thousands)

Funded Percent	Ongoing Plan Discount Rate <sup>6</sup>		
	7.25%	7.00%	6.00%
■ <b>Miscellaneous</b>			
• Accrued Liability	\$99,903	\$102,599	\$115,979
• Assets	<u>69,527</u>	<u>69,527</u>	<u>69,527</u>
• Unfunded Liability	30,376	33,073	46,452
• Funded Percent	69.6%	67.8%	59.9%
■ <b>Safety</b>			
• Accrued Liability	\$84,807	\$87,274	\$99,376
• Assets	<u>62,719</u>	<u>62,719</u>	<u>62,719</u>
• Unfunded Liability	22,089	24,555	36,657
• Funded Percent	74.0%	71.9%	3.1%
■ <b>Total</b>			
• Accrued Liability	\$184,710	\$189,873	\$215,354
• Assets	<u>132,246</u>	<u>132,246</u>	<u>132,246</u>
• Unfunded Liability	52,465	57,628	83,109
• Funded Percent	71.6%	69.6%	61.4%

<sup>6</sup> At its 2017 Asset Liability Management Workshop, CalPERS stated it expected returns to average 6.1% annually for 10 years and 8.3% annually after 10 years, resulting in a blended expected return of 7.0%. It phased in a discount rate reduction over 3 years from 7.50% for the 6/30/15 valuation to 7.00% for the 6/30/18 valuation. The discount rate is ultimately expected to decrease to about 6.00% as a result of CalPERS' risk mitigation policy.

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## WHAT'S CHANGING NEXT?

### Asset Allocation Approved Changes

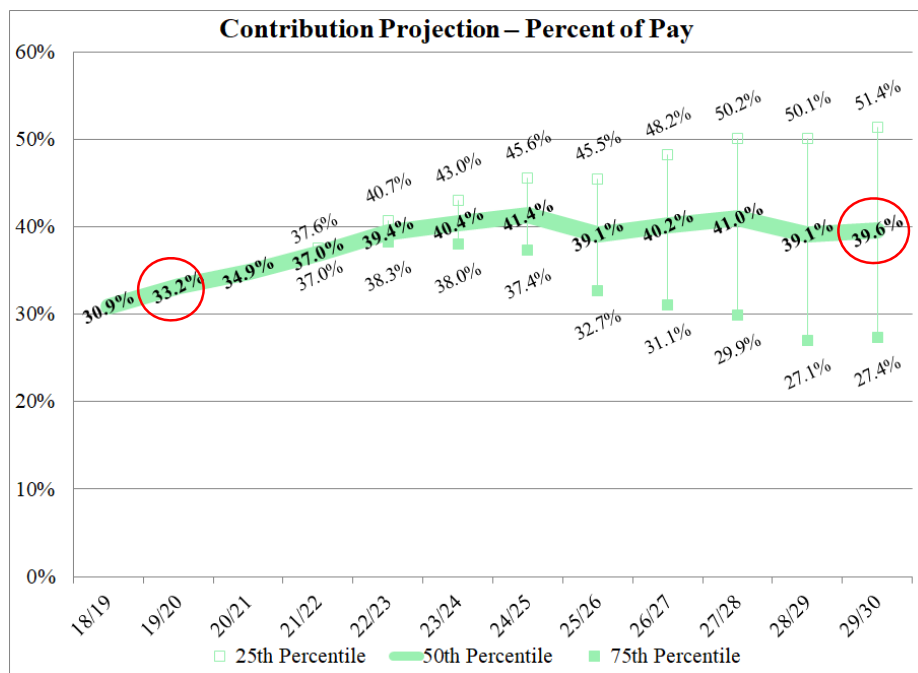
#### ■ Risk Mitigation - 2019 Valuation

- Move to more conservative investment portfolio over time
  - Target lower investment risk due to increasing plan maturity
  - Lower discount rate when investment return is greater than assumed
  - Reduce exposure to higher risk investments
  - Lower probability benefit payments will exceed contributions and earnings
  - Lessen impact of investment losses as a percentage of payroll
  - Gradual phase-in avoids immediate large contribution increase
  - Reduces impact of future investment gains on employer contributions
- Discount rate likely to go from 7% to 6% over 20+ years
- Effective with 6/30/19 valuations for 2021/22 contributions



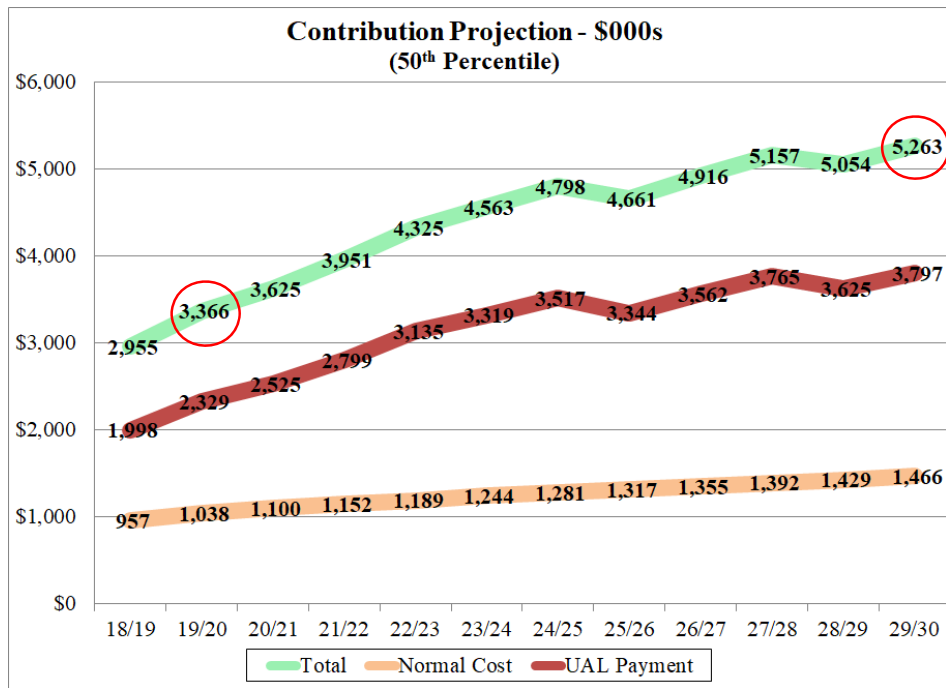
## WHERE ARE WE GOING?

### Miscellaneous Plan



## WHERE ARE WE GOING?

### Miscellaneous Plan



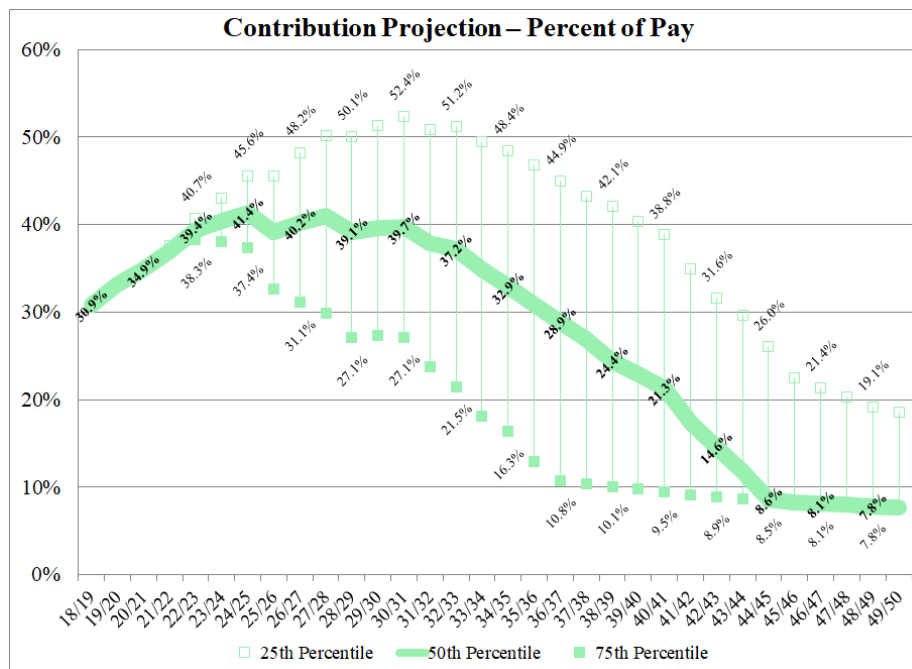
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## WHERE ARE WE GOING?

### Miscellaneous Plan



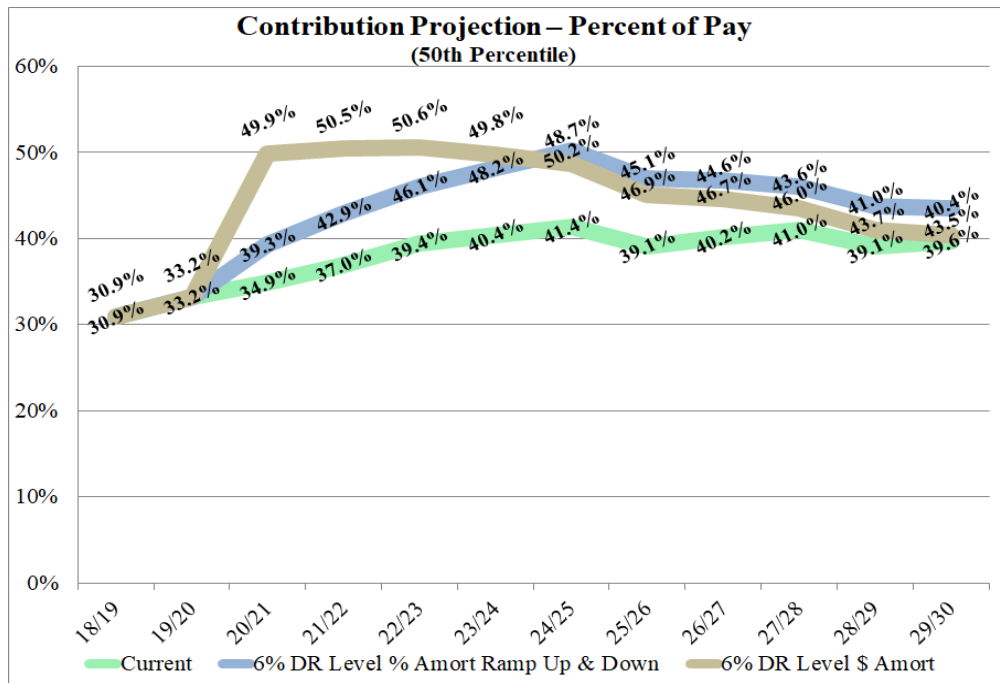
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## WHERE ARE WE GOING?

### Miscellaneous Plan



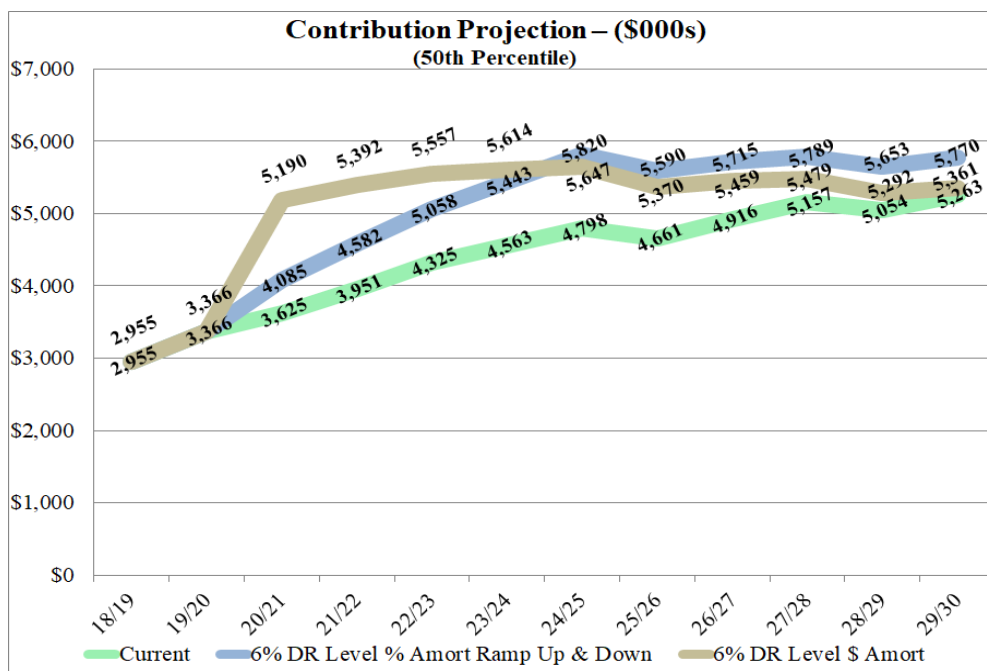
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## WHERE ARE WE GOING?

### Miscellaneous Plan



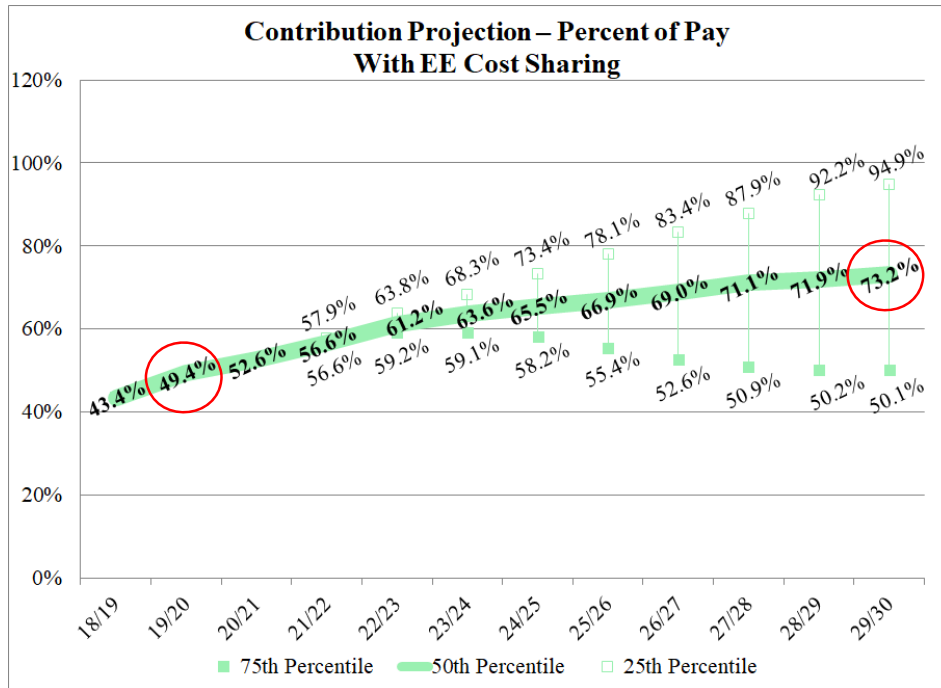
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## WHERE ARE WE GOING?

### Safety Plan



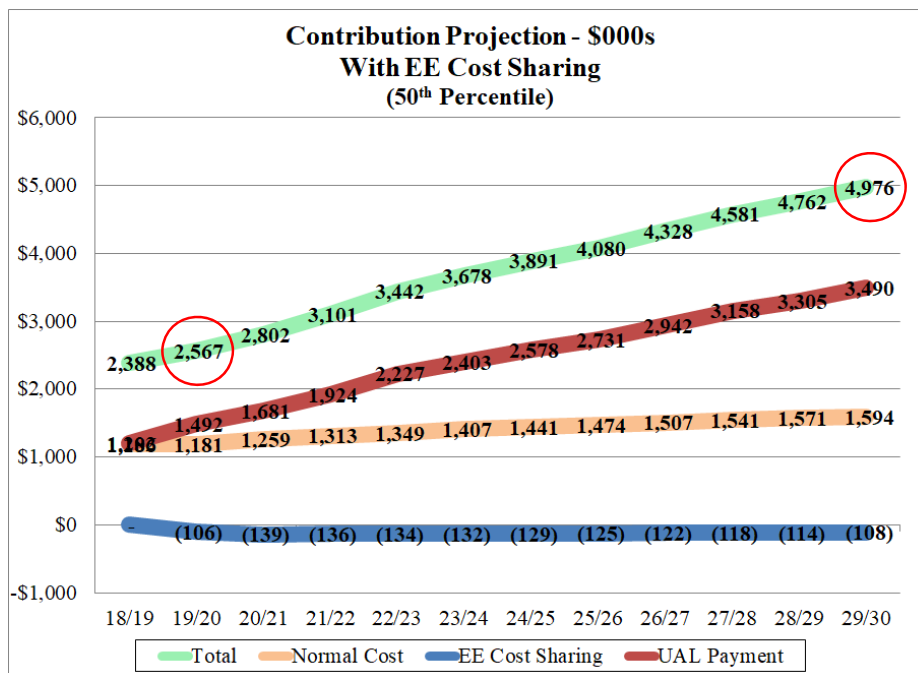
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## WHERE ARE WE GOING?

### Safety Plan



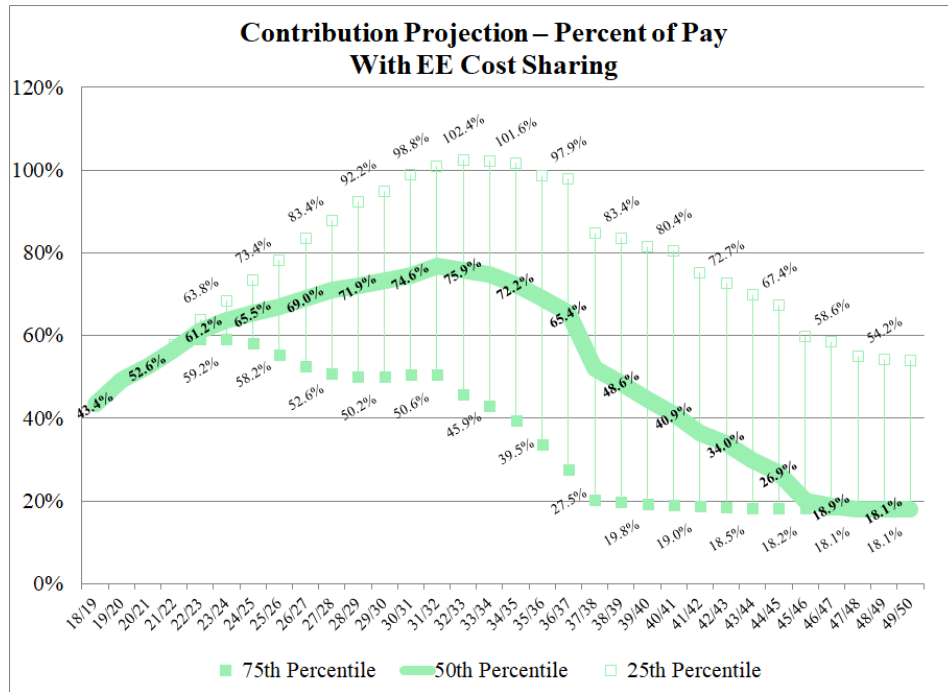
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## WHERE ARE WE GOING?

### Safety Plan



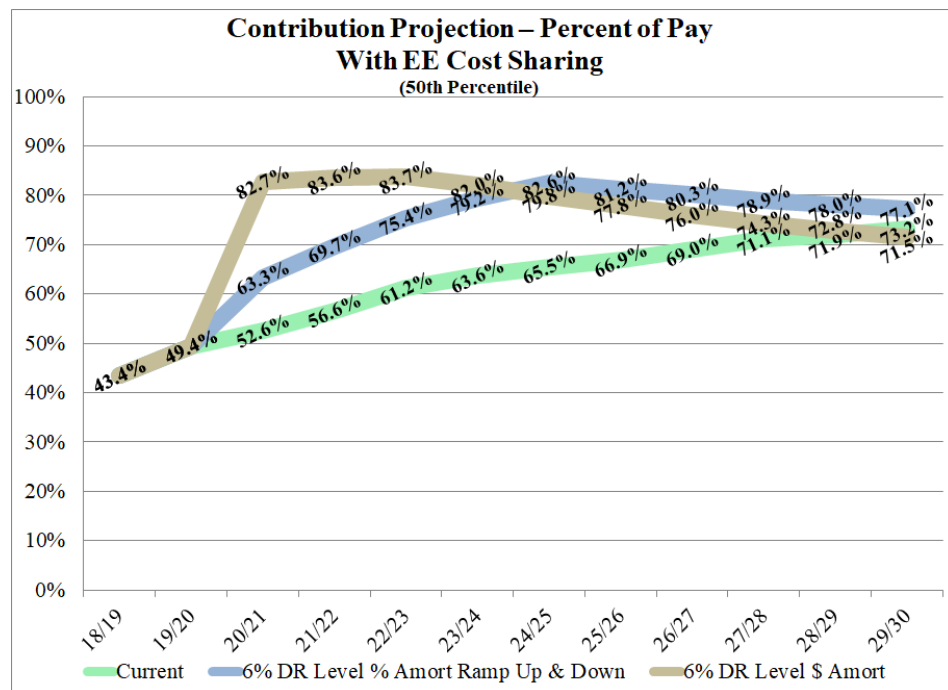
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## WHERE ARE WE GOING?

### Safety Plan



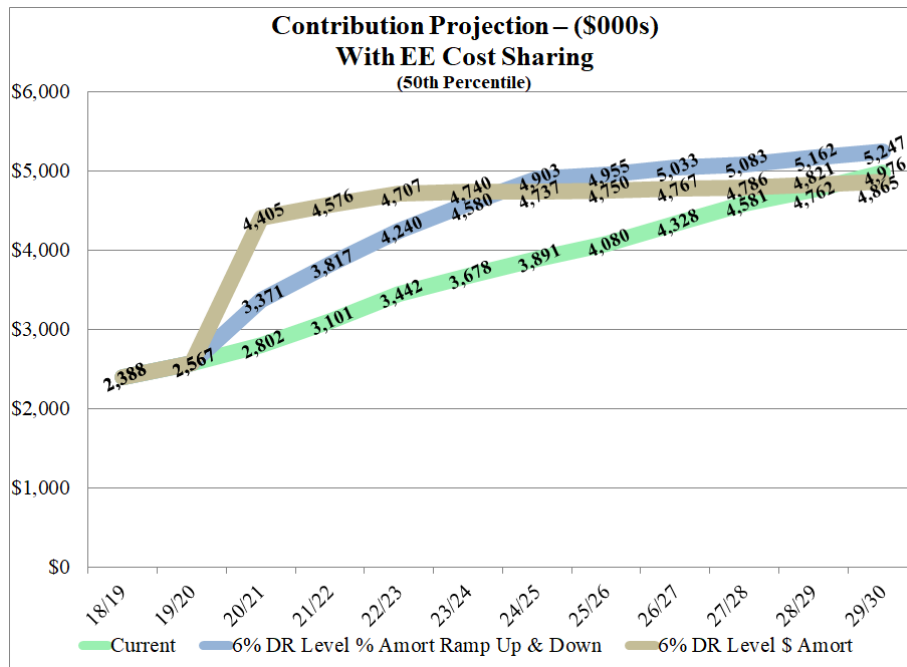
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## WHERE ARE WE GOING?

### Safety Plan



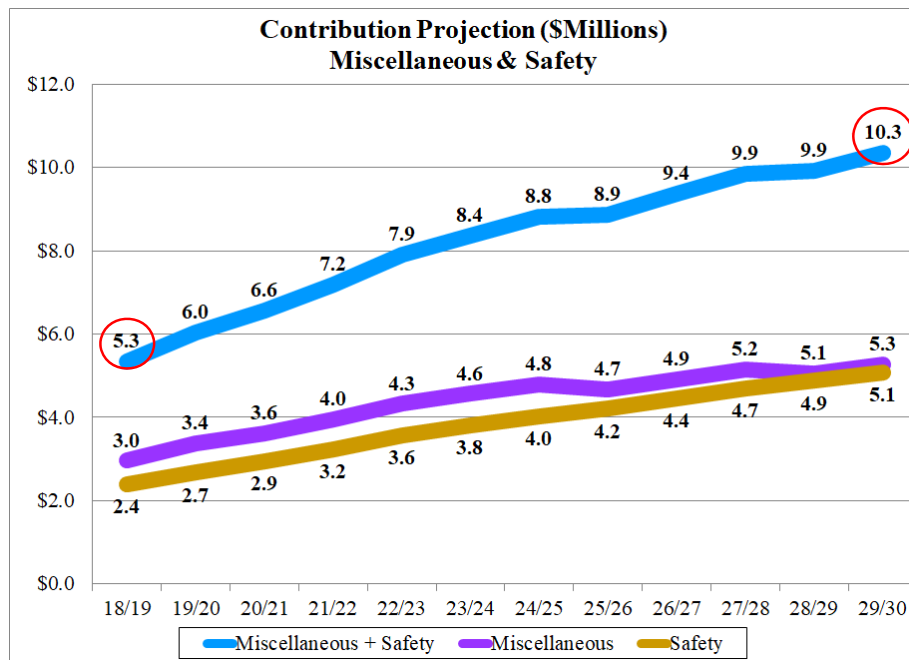
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## WHERE ARE WE GOING?

### Combined Plans (50th Percentile)



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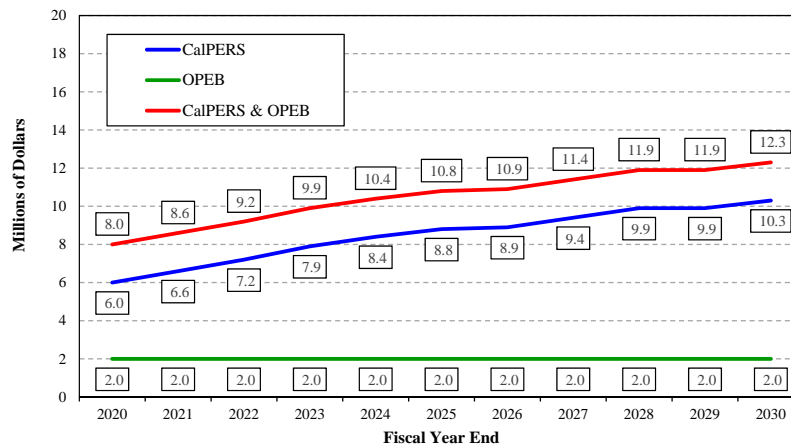




## WHERE ARE WE GOING?

### CalPERS Pension & OPEB

Projected City Contributions  
CalPERS Pension & OPEB



Note: CalPERS pension amounts for 2020/21 and later years were determined stochastically and are shown at the 50th percentile. OPEB ADC amounts are from a deterministic projection based on the 6/30/17 valuation using 3/31/19 plan assets of \$16,733,632 projected to 6/30/19 using the CERBT #1 rate of return of 3.23% for the quarter ending 6/20/19 modified to reflect plan changes since the valuation date.



## HOW CAN WE PREFUND?

### Additional Contributions<sup>7</sup> Prefunding Options

#### ■ General Fund or Internal Reserve

- Low risk and return
- Flexible as to when and how used for CalPERS funding
- Not restricted and can be used for other purposes
- Not part of GASBS 68 assets for determining Net Pension Liability

#### ■ Additional CalPERS Contributions

- Pay down a portion of the Unfunded Liability
  - Target specific bases (short or long)
  - Fresh start amortization (more stable contribution)
  - Saves 7% (discount rate) interest on CalPERS pension debt
- Invested per CalPERS' investment policy
- Contribution volatility remains
- Employer required to pay Normal Cost when 100% funded

<sup>7</sup> Based on the 6/30/17 valuation using 3/31/19 plan assets of \$16,733,632 projected to 6/30/19 using the CERBT #1 rate of return of 3.23% for the quarter ending 6/20/19.



## HOW CAN WE PREFUND?

### Additional Contribution Prefunding Options

#### ■ Section 115 Trusts

- Generally greater risk and return than general fund but less than CalPERS
  - Agency chooses asset allocation
  - Consider risk tolerance and when funds are expected to be used
- Flexible as to when and how used for CalPERS funding
  - Rate stabilization is a common objective
  - Paying of unfunded bases in the future
- Avoids CalPERS overfunding due to required Normal Cost contributions
- Asset restricted and can only be used for pension funding
- Not part of GASBS 68 assets for determining Net Pension Liability
- 115 Trust providers include:
  - PARS
  - Keenan
  - PFM
  - CalPERS California Employers' Pension Prefunding Trust<sup>8</sup>

<sup>8</sup> CEPPT has 2 funds with expected 10-year returns of 4% and 5%.



## HOW CAN WE PREFUND?

### Additional Contribution Prefunding Options

Characteristics	General Fund	CalPERS	115 Trust
Investment Risk	Lower	No Choice	Flexible
Investment Return	Lower	Higher	Flexible
Restricted Use	No	Yes	Yes
Pay Off Specific Bases	Yes	Yes	Yes
Rate Stabilization	Yes	No	Yes
GASBS 68 Assets	No	Yes	No



## HOW CAN WE PREFUND?

### CalPERS Contributions Pay Off Targeted Unfunded Bases Miscellaneous Example

Bases Targeted	Contribution Impact	Interest Savings
Shorter Bases	Immediate	Less
Longer Bases	Delayed	More

Bases Targeted	Initial Payment	Contribution Savings	Present Value (3% Discount Rate)
Shorter Bases <sup>9</sup>	\$8,000,000	\$3,701,000	\$1,844,000
Longer Bases <sup>10</sup>	8,000,000	11,674,000	4,903,000

<sup>9</sup> 2003, 2009, 2011, and 2014 assumption change bases and 2007 benefit change base.

<sup>10</sup> 2015 and 2016 gain/loss bases.

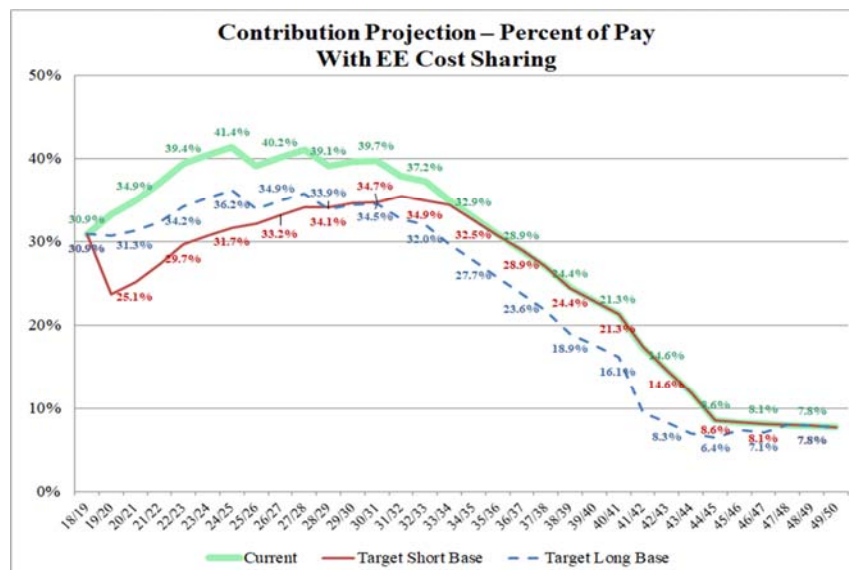
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## HOW CAN WE PREFUND?

### CalPERS Contributions Pay Off Targeted Unfunded Bases Miscellaneous Example 50th Percentile



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## HOW CAN WE PREFUND?

### Section 115 Trust Contributions Rate Stabilization Example

Assumptions	Misc	Misc
Initial Trust Balance	\$8,000,000	\$4,400,000
Future Contributions	0	0
Assumed Annual Earnings Rate	6.00%	6.00%
Maximum Budgeted Contribution Rate	31.5%	34.6%

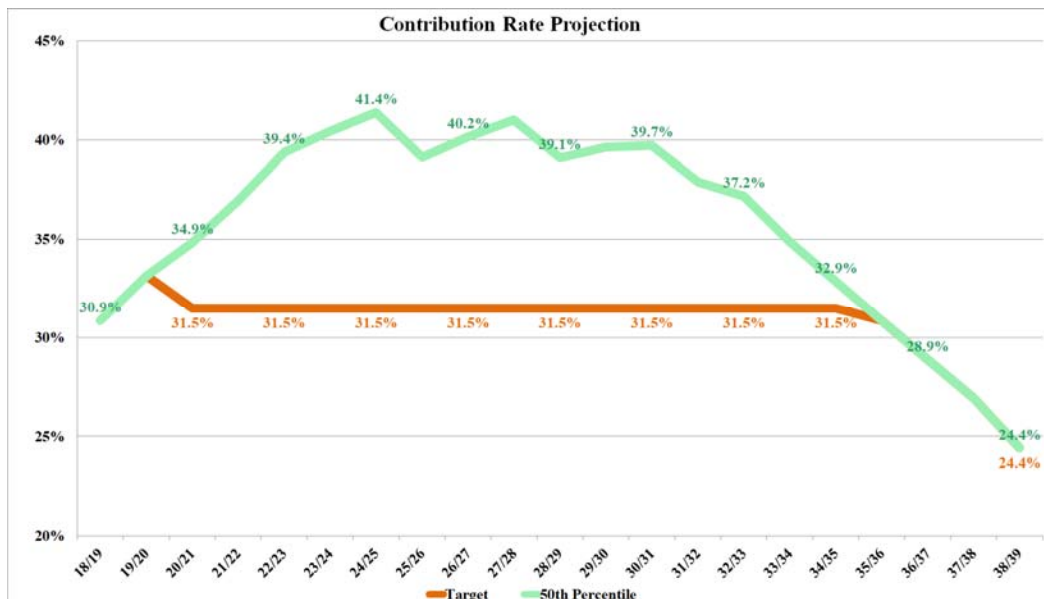
  

Results - 50th Percentile	Misc	Misc
First Year Funds Are Used	2020/21	2021/22
Last Year Funds Are Used	2034/35	2032/33
Duration	15 years	12 years
Interest Savings	\$5,130,000	\$2,733,000
Present Value (3% Discount Rate)	2,402,000	1,265,000
Remaining Balance at 6/30/33	558,000	116,000



## HOW CAN WE PREFUND?

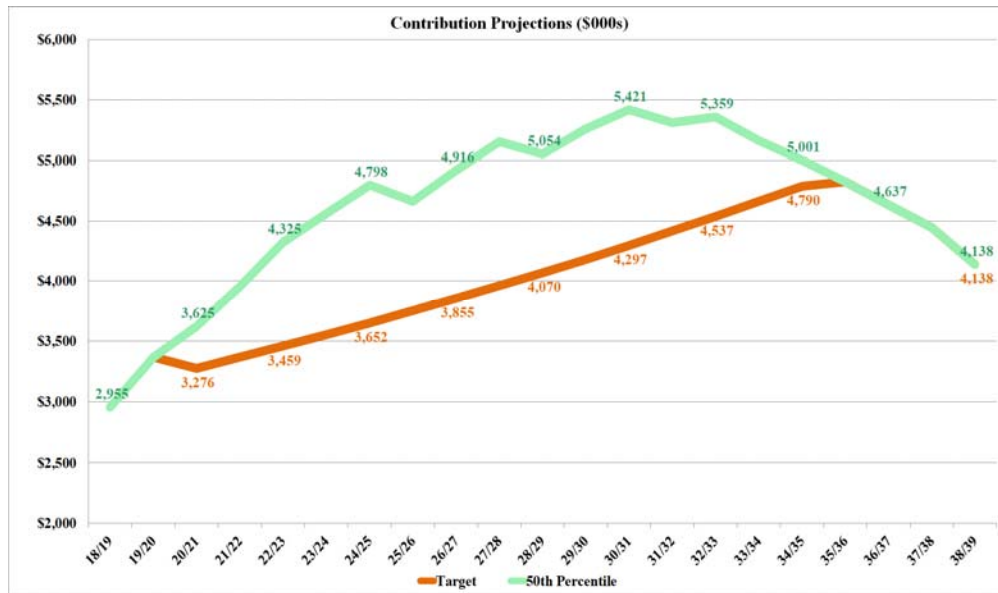
### Section 115 Trust Contributions Miscellaneous Plan Rate Stabilization Example - \$8 Million 50th Percentile



## HOW CAN WE PREFUND?

### Section 115 Trust Contributions

#### Miscellaneous Plan Rate Stabilization Example - \$8 Million 50th Percentile



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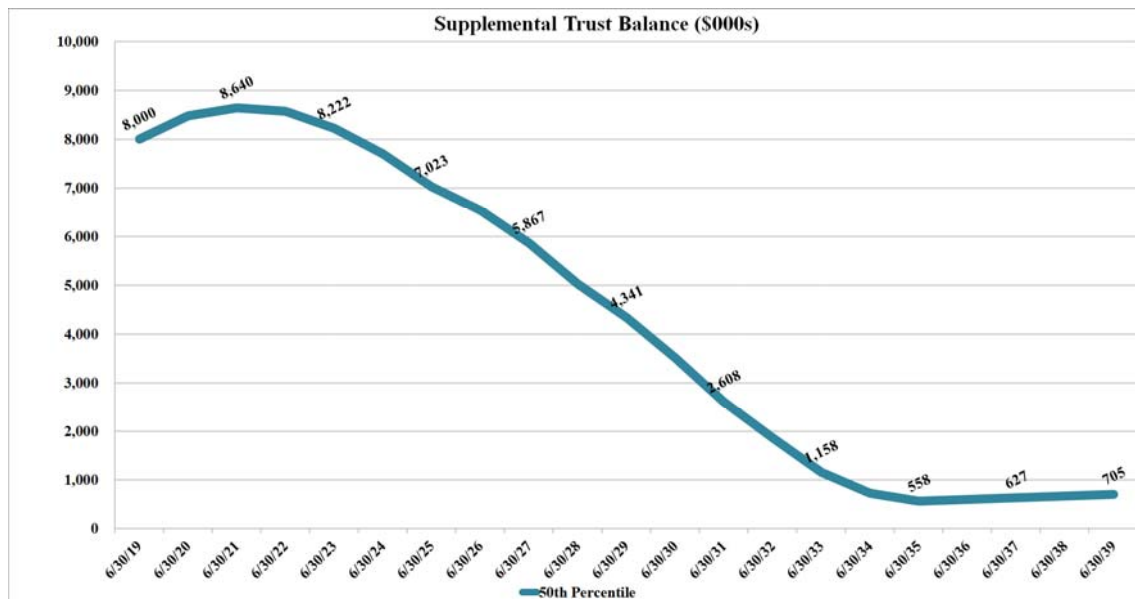
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## HOW CAN WE PREFUND?

### Section 115 Trust Contributions

#### Miscellaneous Plan Rate Stabilization Example - \$8 Million 50th Percentile



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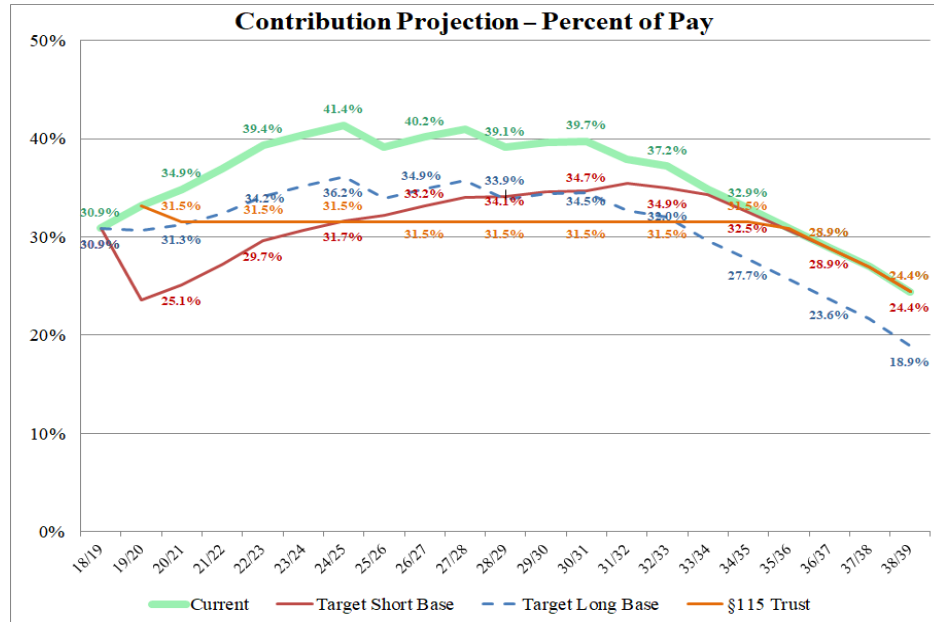
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## HOW CAN WE PREFUND?

### Section 115 Trust Contributions

#### Miscellaneous Plan Rate Stabilization Example - \$8 Million 50th Percentile



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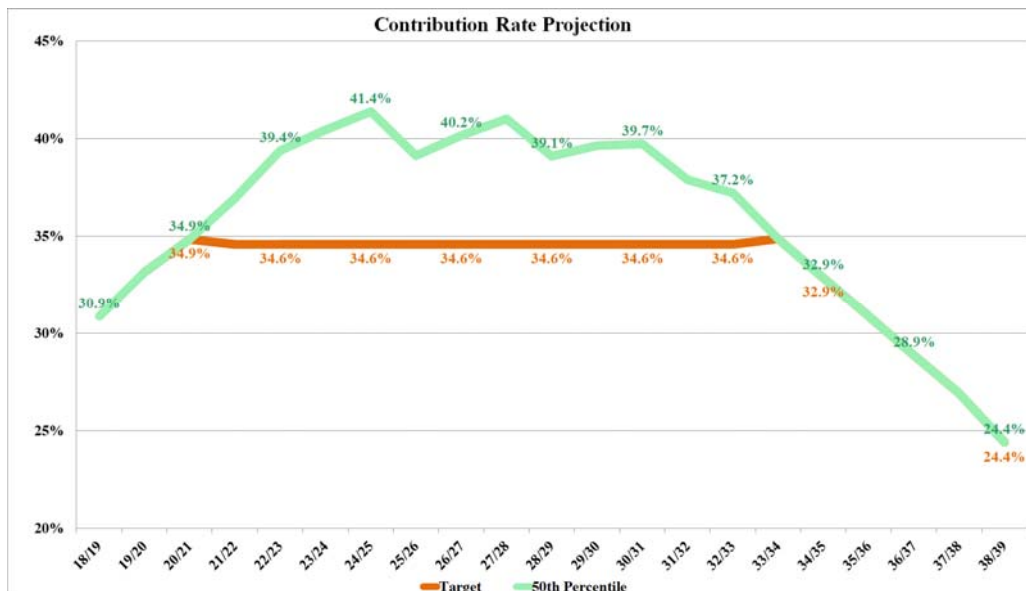
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## HOW CAN WE PREFUND?

### Section 115 Trust Contributions

#### Miscellaneous Plan Rate Stabilization Example - \$4.4 Million 50th Percentile



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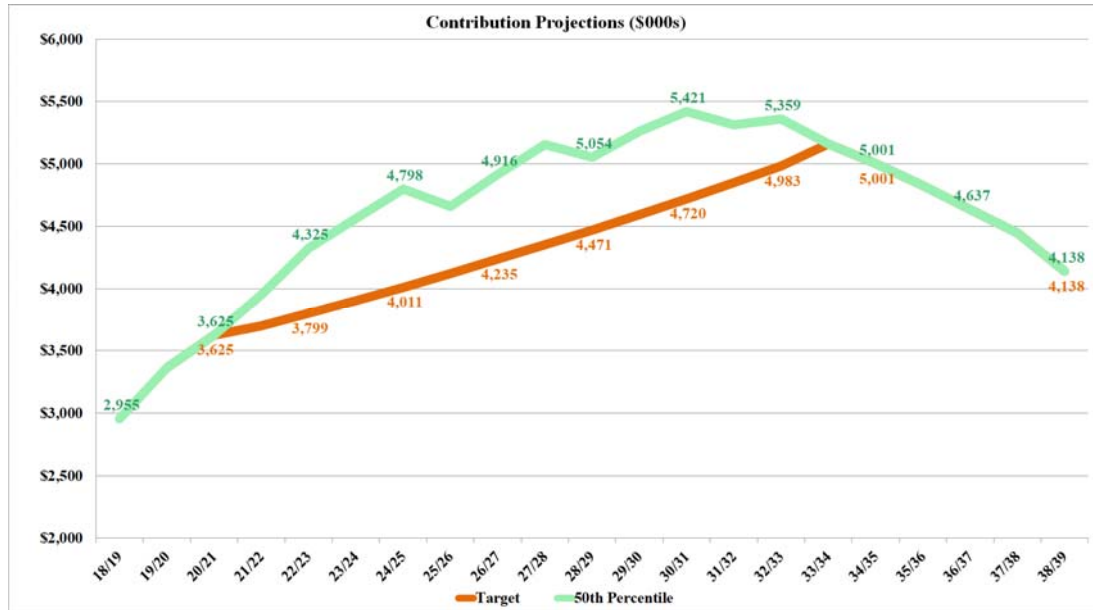
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## HOW CAN WE PREFUND?

### Section 115 Trust Contributions

#### Miscellaneous Plan Rate Stabilization Example - \$4.4 Million 50th Percentile



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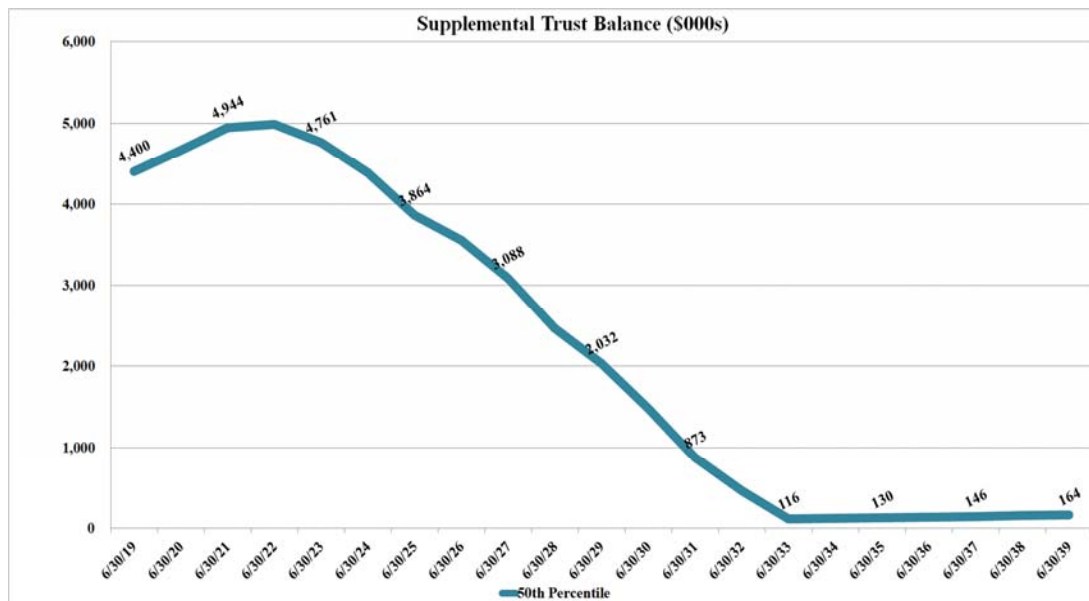
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## HOW CAN WE PREFUND?

### Section 115 Trust Contributions

#### Miscellaneous Plan Rate Stabilization Example - \$4.4 Million 50th Percentile



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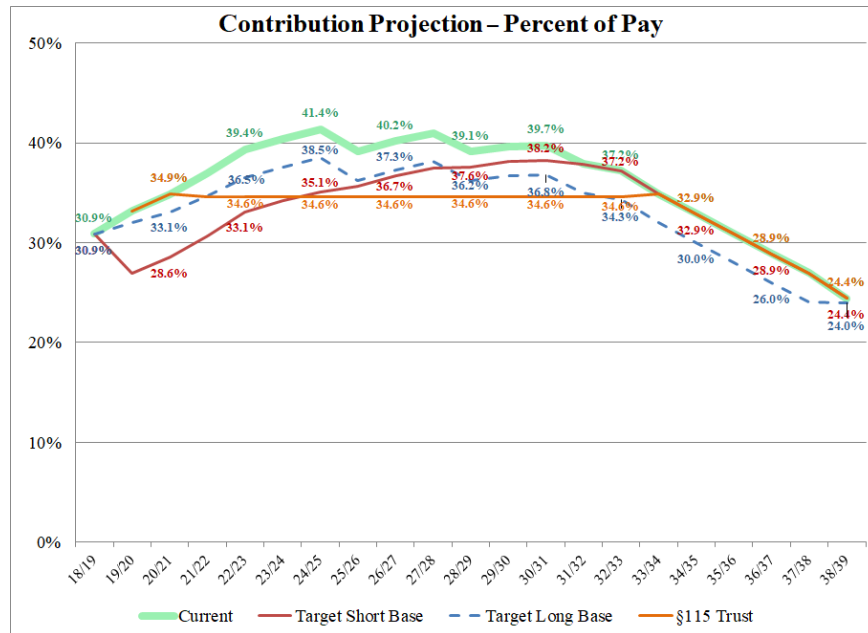
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## HOW CAN WE PREFUND?

### Section 115 Trust Contributions

#### Miscellaneous Plan Rate Stabilization Example - \$4.4 Million 50th Percentile



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## HOW CAN WE PREFUND?

### OPEB Plan

#### Contribution Projection - Full ADC Funding - CERBT #1<sup>11</sup> (Amounts in 000's)

Fiscal Year End	Prior Plan			New Plan		
	ADC <sup>12</sup>	BOY UAAL <sup>13</sup>	BOY Fund%	ADC	BOY UAAL	BOY Fund%
2019	\$2,050	\$10,242	61%	\$1,991	\$10,242	61%
2020	2,110	10,154	64%	1,996	10,154	64%
2021	2,173	10,044	66%	2,004	10,044	66%
2022	2,237	9,908	69%	2,007	9,908	68%
2023	2,304	9,744	71%	2,012	9,744	70%
2024	2,373	9,549	73%	2,019	9,549	72%
2025	2,444	9,319	75%	2,024	9,319	74%
2026	2,517	9,050	77%	2,028	9,050	76%
2027	2,593	8,739	79%	2,033	8,739	78%
2028	2,671	8,382	81%	2,034	8,382	79%

<sup>11</sup>Based on the 6/30/17 valuation study (12/10/18) using 6/30/18 plan assets of \$16,276,565 projected to 6/30/19 using the assumed CERBT #1 return of 6.75% for 2018/19 and the PEMHCA minimum amount for new hires. Prior plan actives assumed to have a Normal Cost Percentage of 8.8%. New hires assumed to have a Normal Cost Percentage of 1.7%. The prior plan participation assumption is 100% for covered actives and 90% for waived actives. The new plan participation assumption is 60% for covered actives and 50% for waived actives. The projection assumes no retirees from new hires over the projection period. New hires are projected to account for 47% of projected payroll in 2028.

<sup>12</sup> ADC amounts are from a deterministic projection.

<sup>13</sup> UAAL is amortized over 20 years for 2018/19 and is projected to be fully funded on 6/30/38. "BOY" means "Beginning of Year."

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## HOW CAN WE PREFUND?

### CERBT Target Investment Allocations

■ CERBT Investment Strategy	CERBT #1	CERBT #2	CERBT #3
■ Global Equity	59%	40%	22%
■ Fixed Income	25%	43%	49%
■ TIPS	5%	5%	16%
■ REITs	8%	8%	8%
■ Commodities	<u>3%</u>	<u>4%</u>	<u>5%</u>
■ Total	100%	100%	100%
■ Long-Term Expected Real Return	4.14%	3.54%	2.83%
■ Long-Term Inflation Assumption	2.75%	2.75%	2.75%
■ Assumed Investment Expenses	<u>(0.04%)</u>	<u>(0.04%)</u>	<u>(0.04%)</u>
■ Long-Term Expected Nominal Return	6.85%	6.25%	5.54%
■ Recommended Discount Rate	6.75%	6.25%	5.50%



## HOW CAN WE PREFUND?

### OPEB Plan

#### Contribution Projection - Full ADC Funding - New Plan<sup>14</sup>

(Amounts in 000's)

Fiscal Year End	CERBT #1			CERBT #3		
	ADC <sup>15</sup>	BOY UAAL <sup>16</sup>	BOY Fund%	ADC	BOY UAAL	BOY Fund%
2019	\$1,991	\$10,242	61%	\$2,520	\$14,637	52%
2020	1,996	10,154	64%	2,527	14,455	56%
2021	2,004	10,044	66%	2,537	14,239	59%
2022	2,007	9,908	68%	2,542	13,988	62%
2023	2,012	9,744	70%	2,550	13,696	64%
2024	2,019	9,549	72%	2,558	13,361	67%
2025	2,024	9,319	74%	2,566	12,979	69%
2026	2,028	9,050	76%	2,571	12,545	71%
2027	2,033	8,739	78%	2,577	12,057	73%
2028	2,034	8,382	79%	2,579	11,507	75%

<sup>14</sup> Based on the 6/30/17 valuation study (12/10/18) using 6/30/18 plan assets of \$16,276,565 projected to 6/30/19 using the assumed CERBT #1 and CERBT #3 rates of return of 6.75% and 5.50% for 2018/19.

<sup>15</sup> ADC amounts are from a deterministic projection.

<sup>16</sup> UAAL is amortized over 20 years for 2018/19 and is projected to be fully funded on 6/30/38.



## HOW CAN WE PREFUND?

### **OPEB Plan<sup>17</sup>**

#### **Contribution Projection - Full ADC Funding - New Plan - Additional \$8 Million**

(Amounts in 000's)

Fiscal Year End	New Plan CERBT #1			Additional \$8 Million <sup>18</sup>		
	ADC <sup>19</sup>	BOY UAAL <sup>20</sup>	BOY Fund%	ADC	BOY UAAL	BOY Fund%
2019	\$ 1,991	\$ 10,242	61%	\$ 1,991	\$ 10,242	61%
2020	1,959	9,662	65%	1,355	1,662	94%
2021	1,967	9,572	68%	1,345	1,640	94%
2022	1,970	9,456	70%	1,329	1,615	95%
2023	1,975	9,310	72%	1,315	1,586	95%
2024	1,981	9,133	74%	1,301	1,552	95%
2025	1,987	8,921	75%	1,286	1,513	96%
2026	1,990	8,671	77%	1,268	1,468	96%
2027	1,994	8,378	79%	1,250	1,416	96%
2028	1,995	8,041	80%	1,228	1,357	97%

<sup>17</sup> Based on the 6/30/17 valuation using 3/31/19 plan assets of \$16,733,632 projected to 6/30/19 using the CERBT #1 rate of return of 3.23% for the quarter ending 6/20/19.

<sup>18</sup> Additional \$8 million assumed contributed to the OPEB trust on 6/30/19.

<sup>19</sup> ADC amounts are from a deterministic projection.

<sup>20</sup> UAAL is amortized over 20 years for 2018/19 and is projected to be fully funded on 6/30/38.



## HOW CAN WE PREFUND?



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