



TOWN OF LOS GATOS

CALPERS MISCELLANEOUS & SAFETY PLANS



CalPERS Analysis – 6/30/21 Valuation

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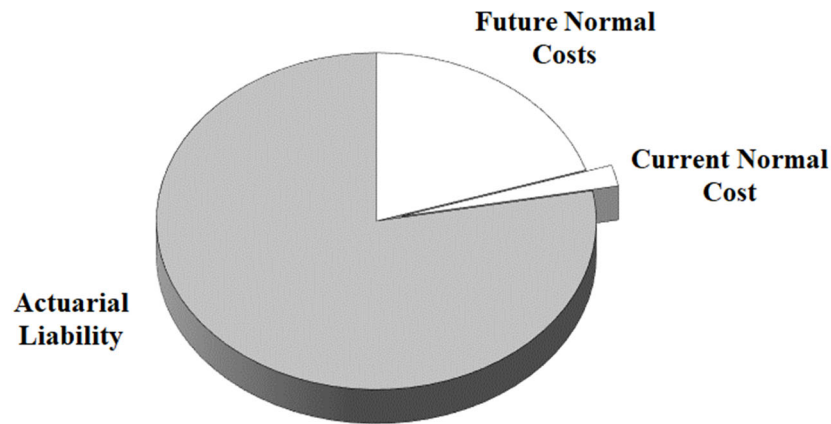
Wai Man Yam

Foster & Foster, Inc.

March 7, 2023

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):**

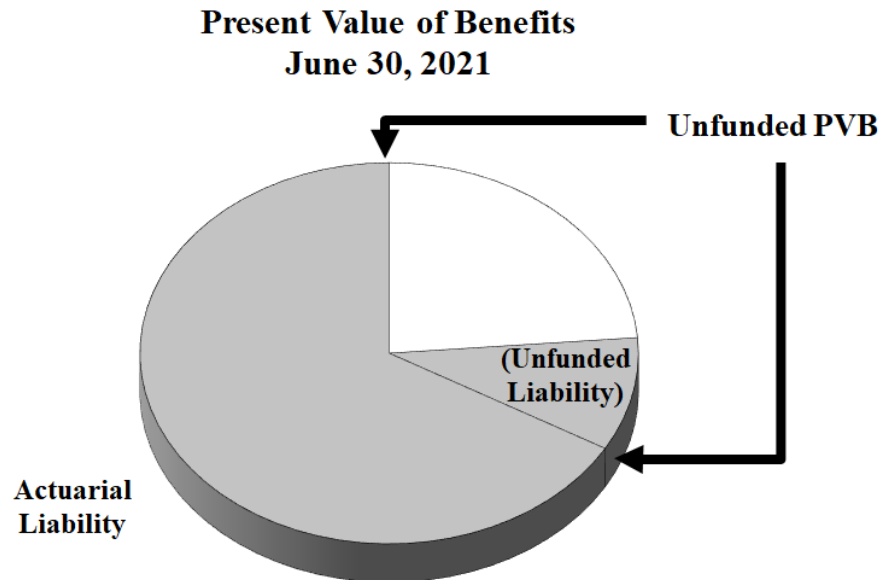
- Portion of PVB allocated to (or “earned” during) current year
- Value of employee and employer current service benefit

■ **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

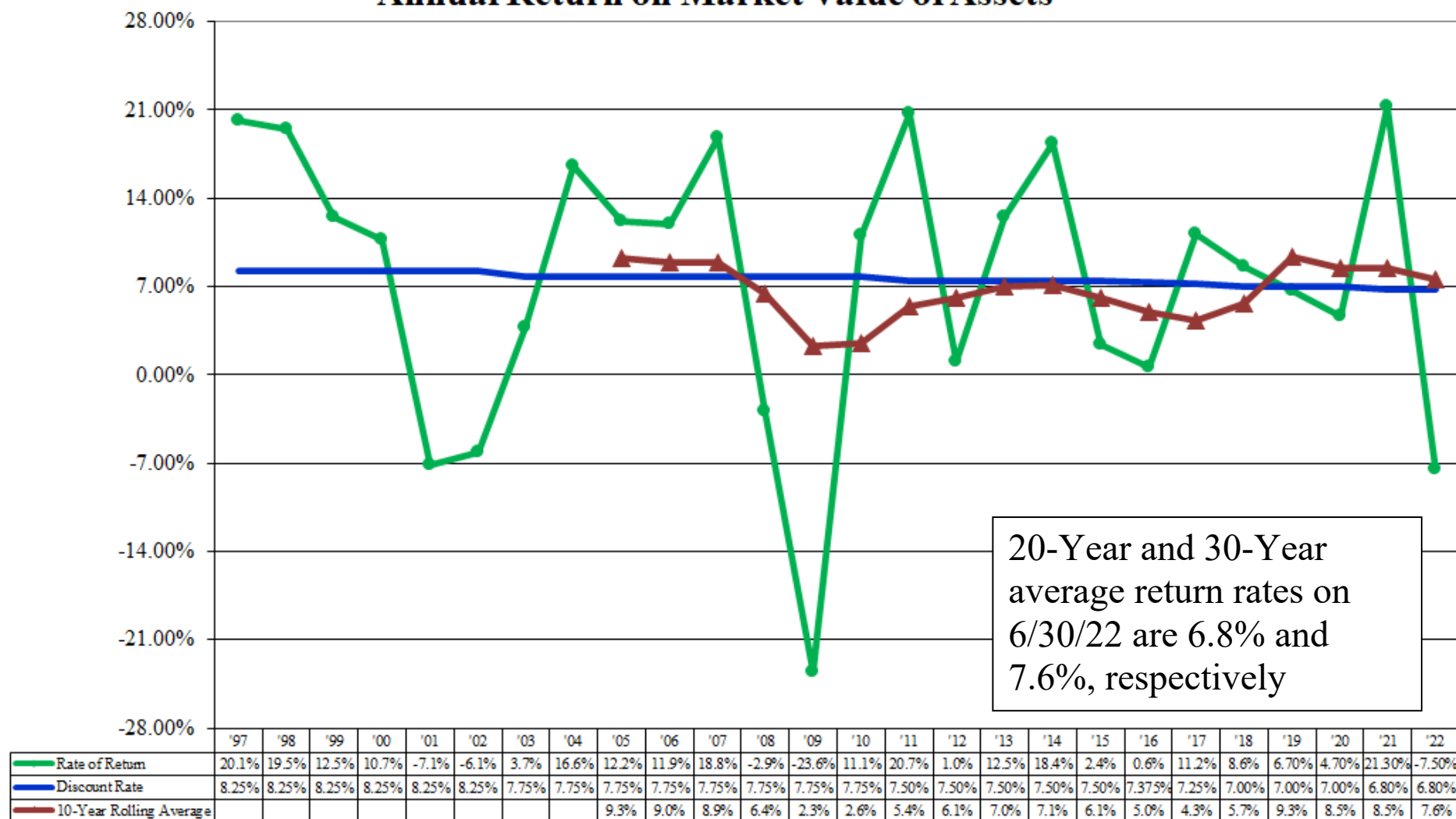


- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability (UAAL or UAL) -** Money short of target at valuation date
 - If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
 - Any difference is the unfunded (or 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 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.



March 7, 2023



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:

	<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
- 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

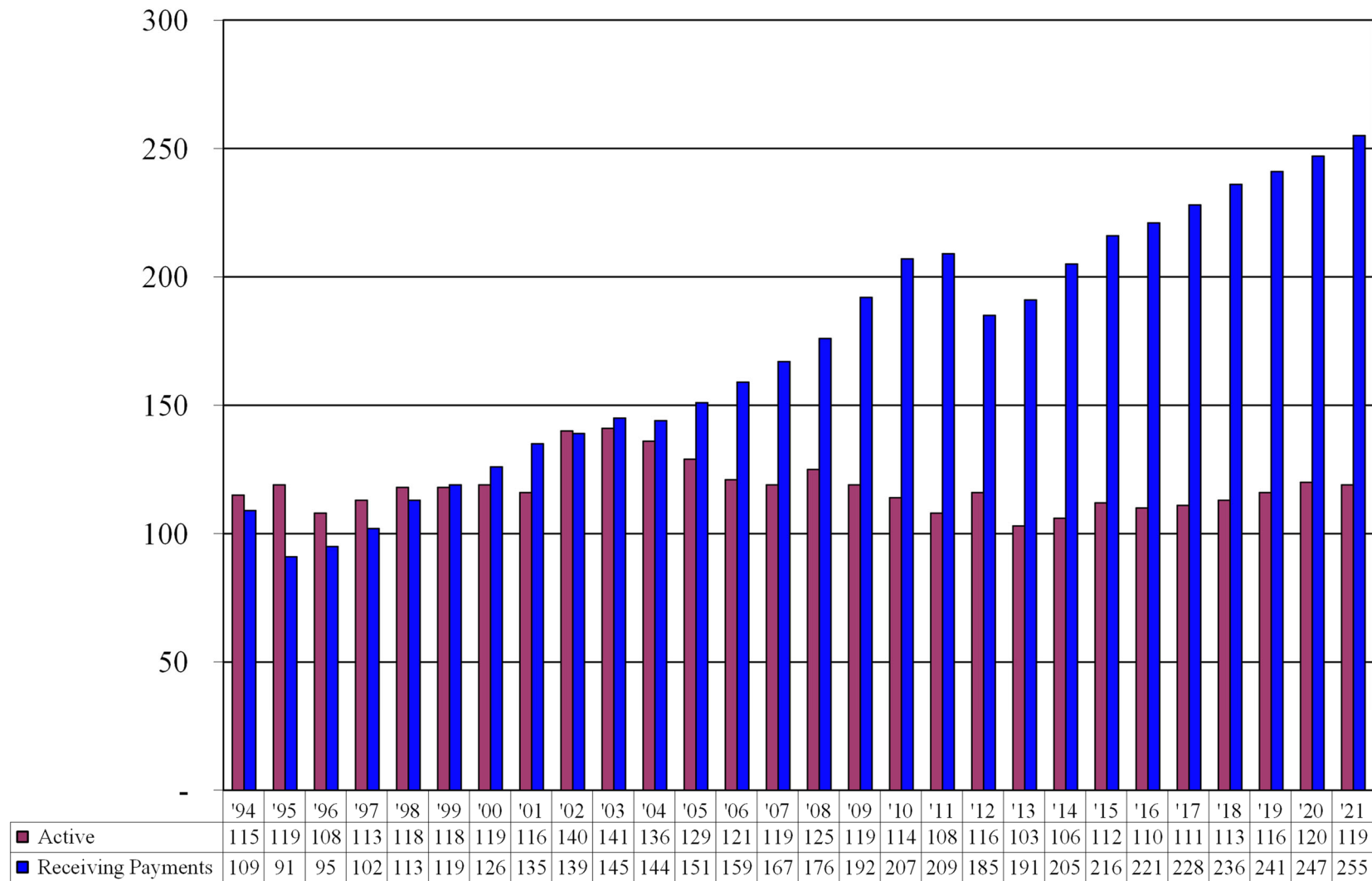
Portfolio Target Allocations

	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



65% of Town's AAL is for retirees, but 59% of the average public agency's Miscellaneous AAL is for retirees

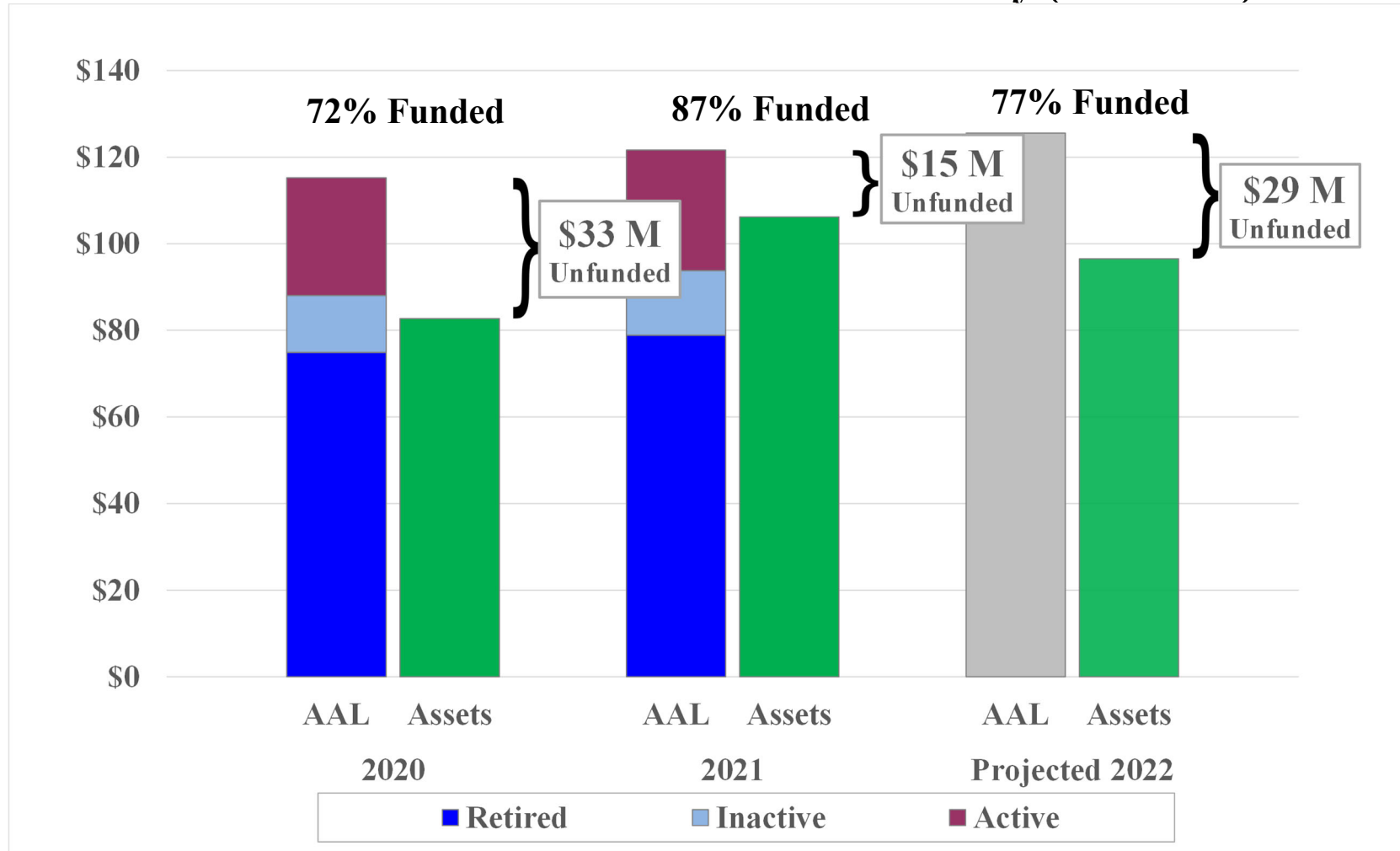


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PLAN FUNDED STATUS - MISCELLANEOUS

Town CalPERS Assets and Actuarial Liability (\$Millions)²

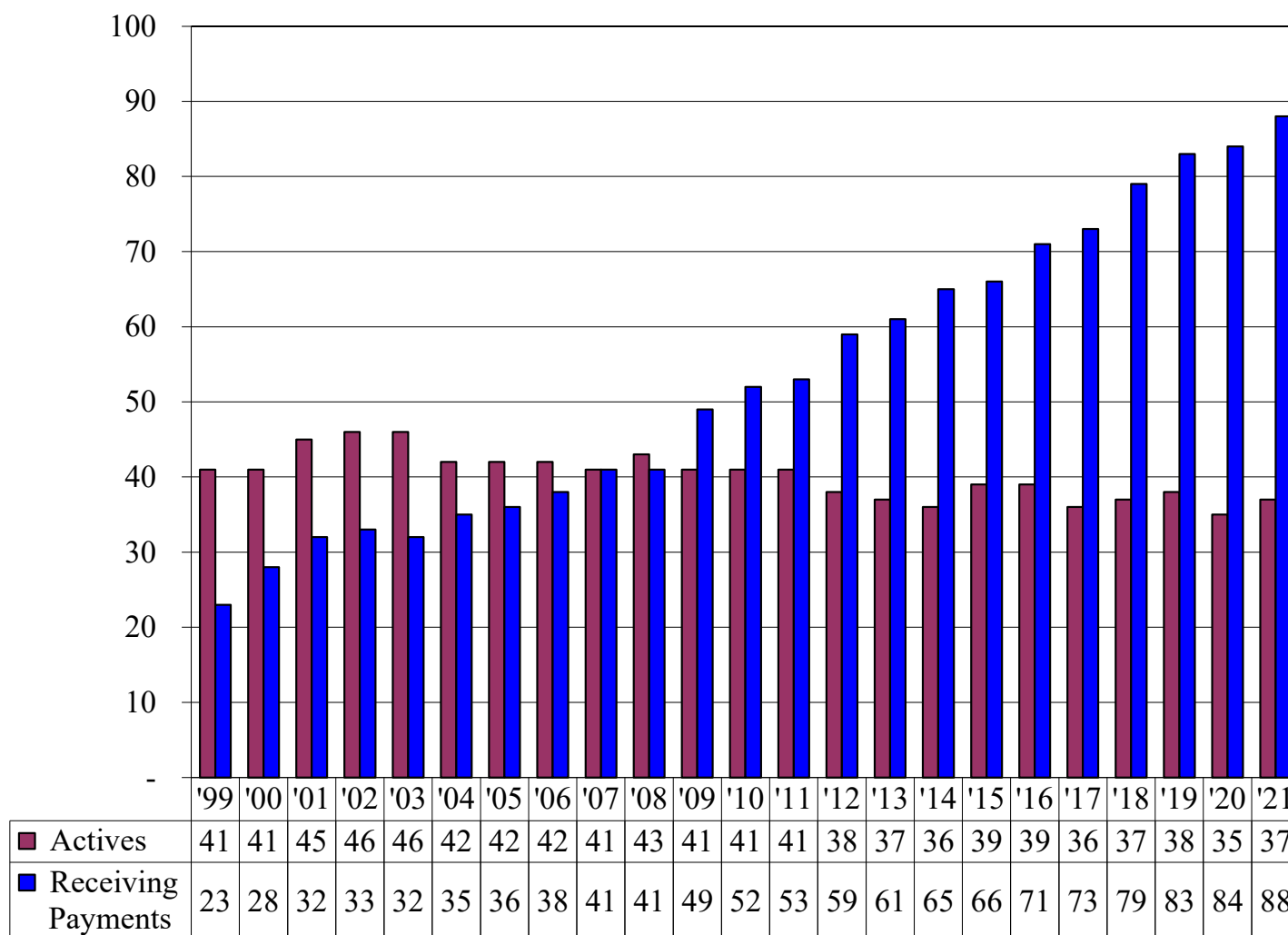


Average funded ratio for CalPERS Public Agency Miscellaneous Plans: 72% at 6/30/2020 and 84% at 6/30/2021

² Projected 2022 assets reflect -7.5% CalPERS investment return for 2021/22.



SUMMARY OF DEMOGRAPHIC INFORMATION - SAFETY

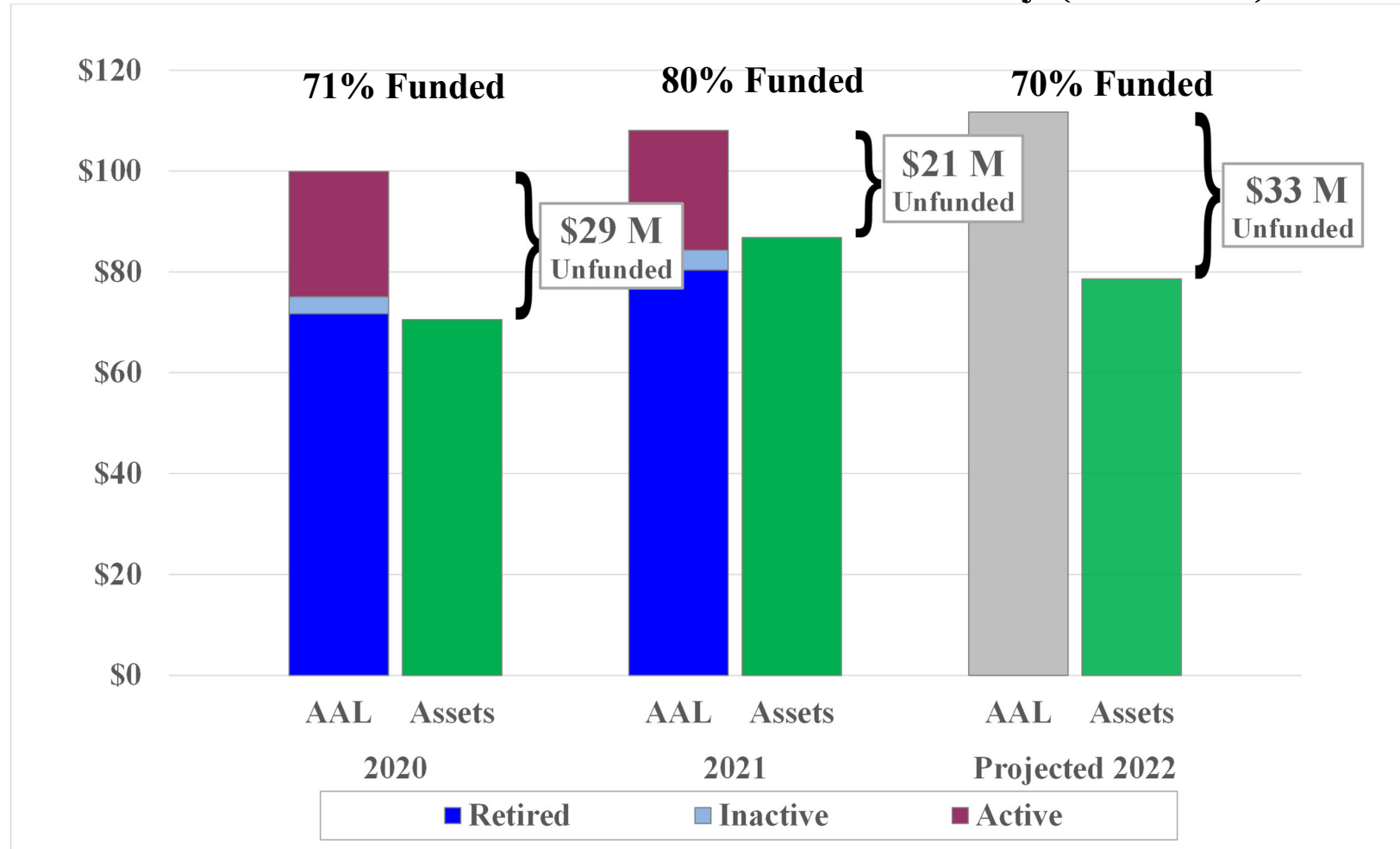


74% of Town's AAL is for retirees, but 67% of the average public agency's Safety AAL is for retirees



PLAN FUNDED STATUS - SAFETY

Town CalPERS Assets and Actuarial Liability (\$Millions)³



Average funded ratio for CalPERS Public Agency Miscellaneous Plans: 69% at 6/30/2020 and 81% at 6/30/2021

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



EMPLOYEE DISTRIBUTION

■ 6/30/21 Miscellaneous 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%

■ 6/30/21 Safety 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%



CONTRIBUTION PROJECTIONS

■ Investment returns:

- June 30, 2022 (7.5%)⁴
- Future returns based on stochastic analysis using 1,000 trials
- Single year returns⁵ with current investment mix, no risk mitigation

	Percentile		
	25 th	50 th	75 th
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

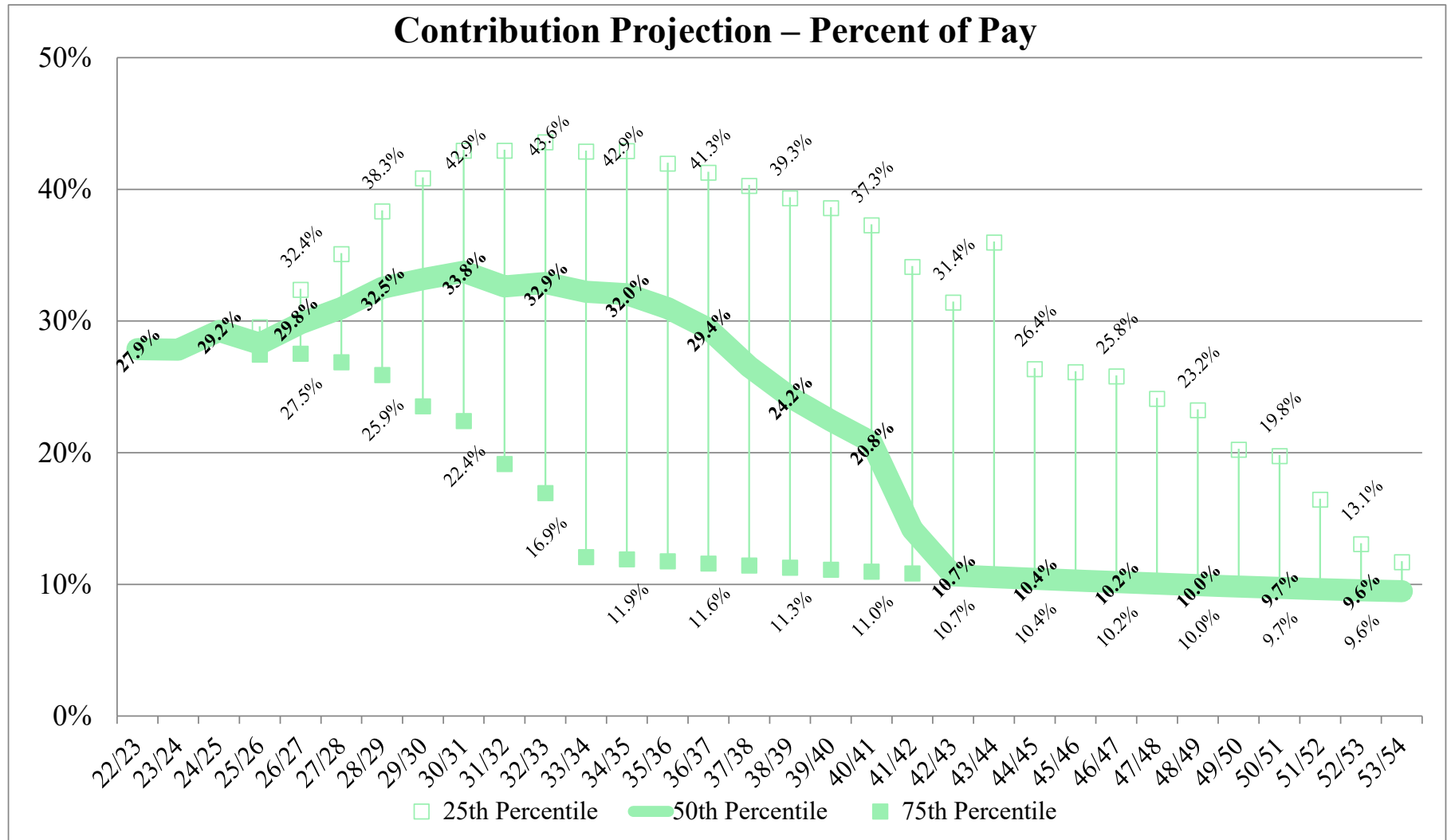
■ Projected payroll FY 2023-2027 from City budget projections

⁴ Final return based on CalPERS 2022 ACFR.

⁵ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



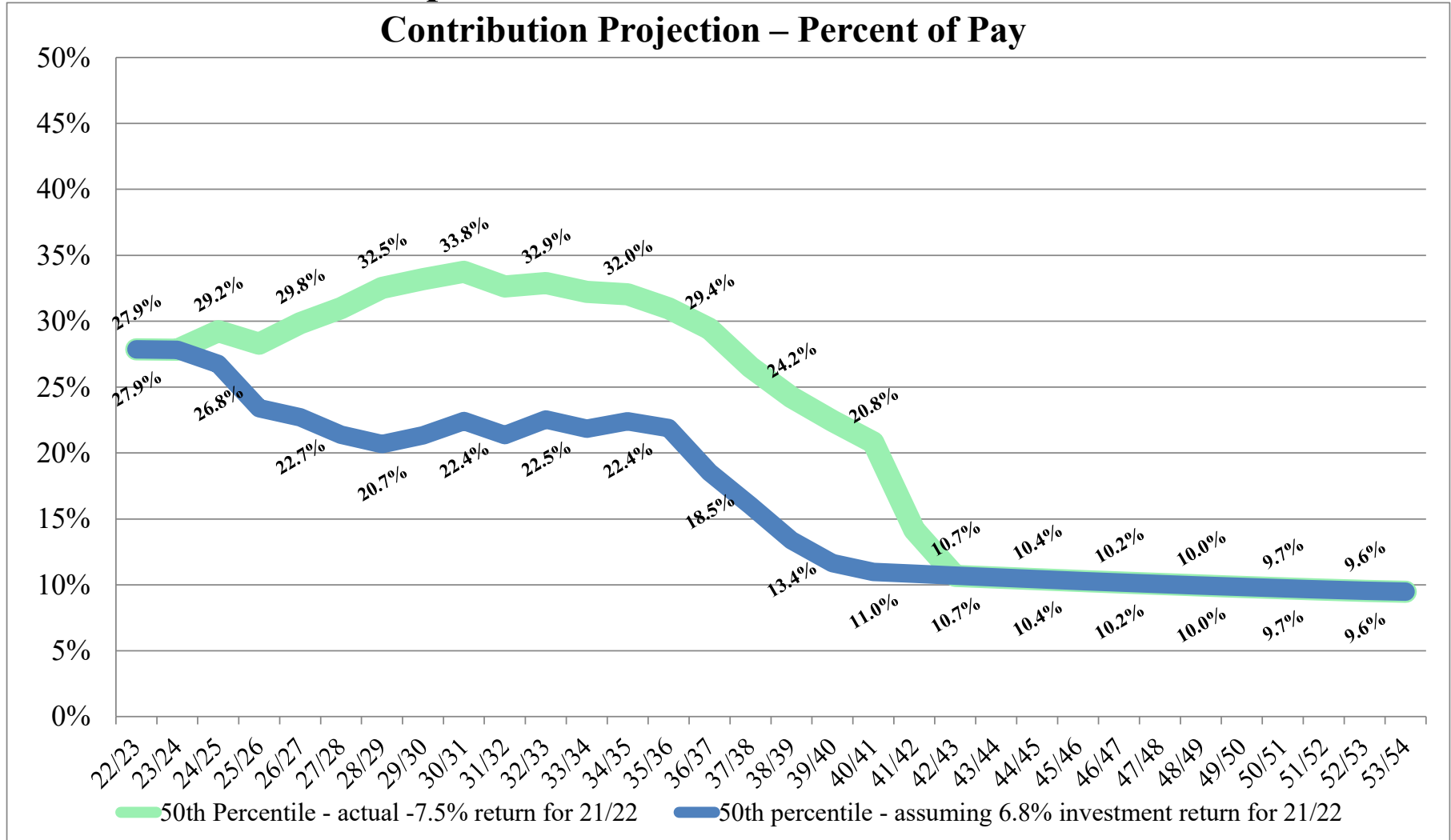
CONTRIBUTION PROJECTIONS - MISCELLANEOUS



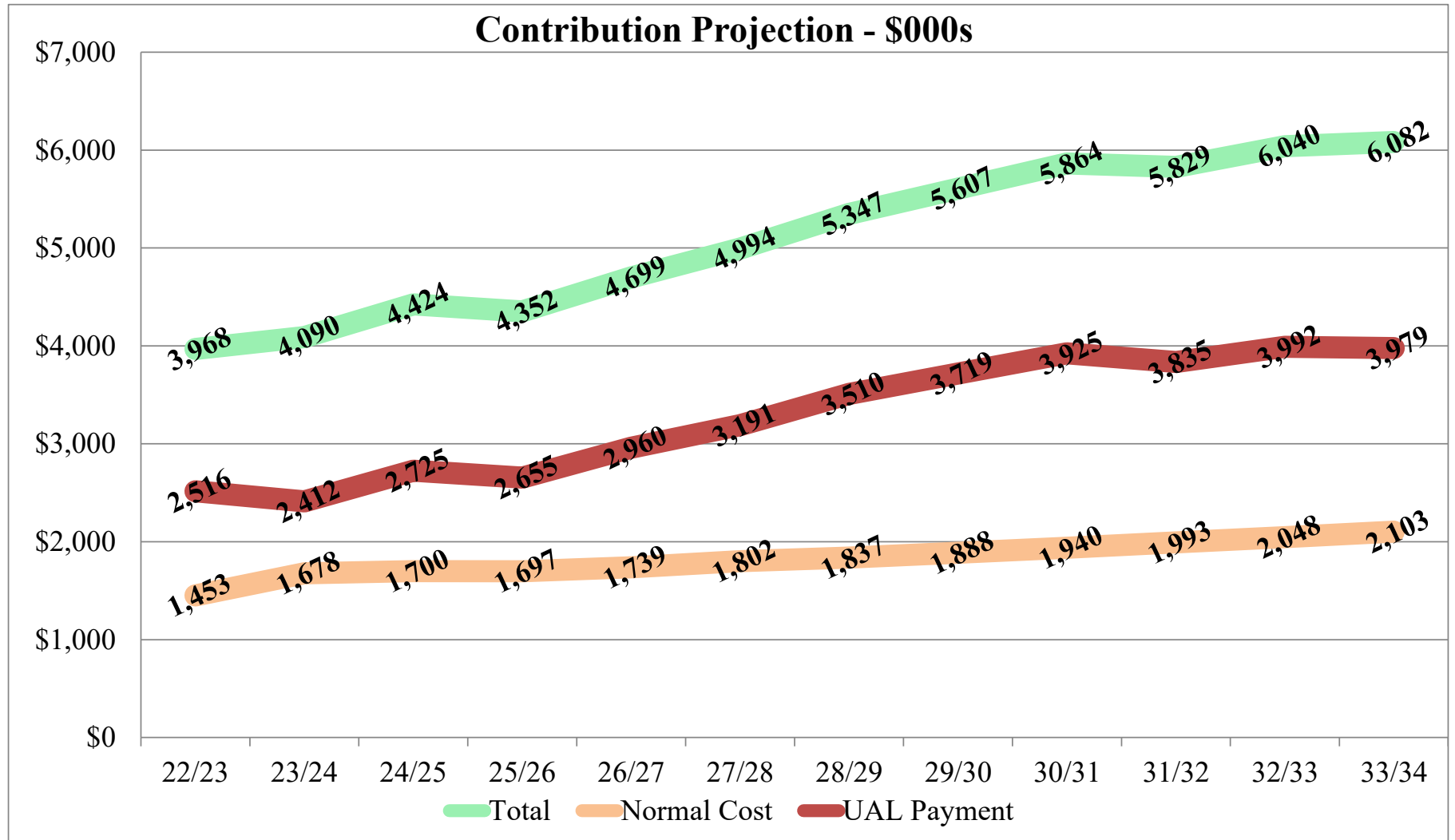
CONTRIBUTION PROJECTIONS - MISCELLANEOUS

Impact of 21/22 Investment Return

Contribution Projection – Percent of Pay



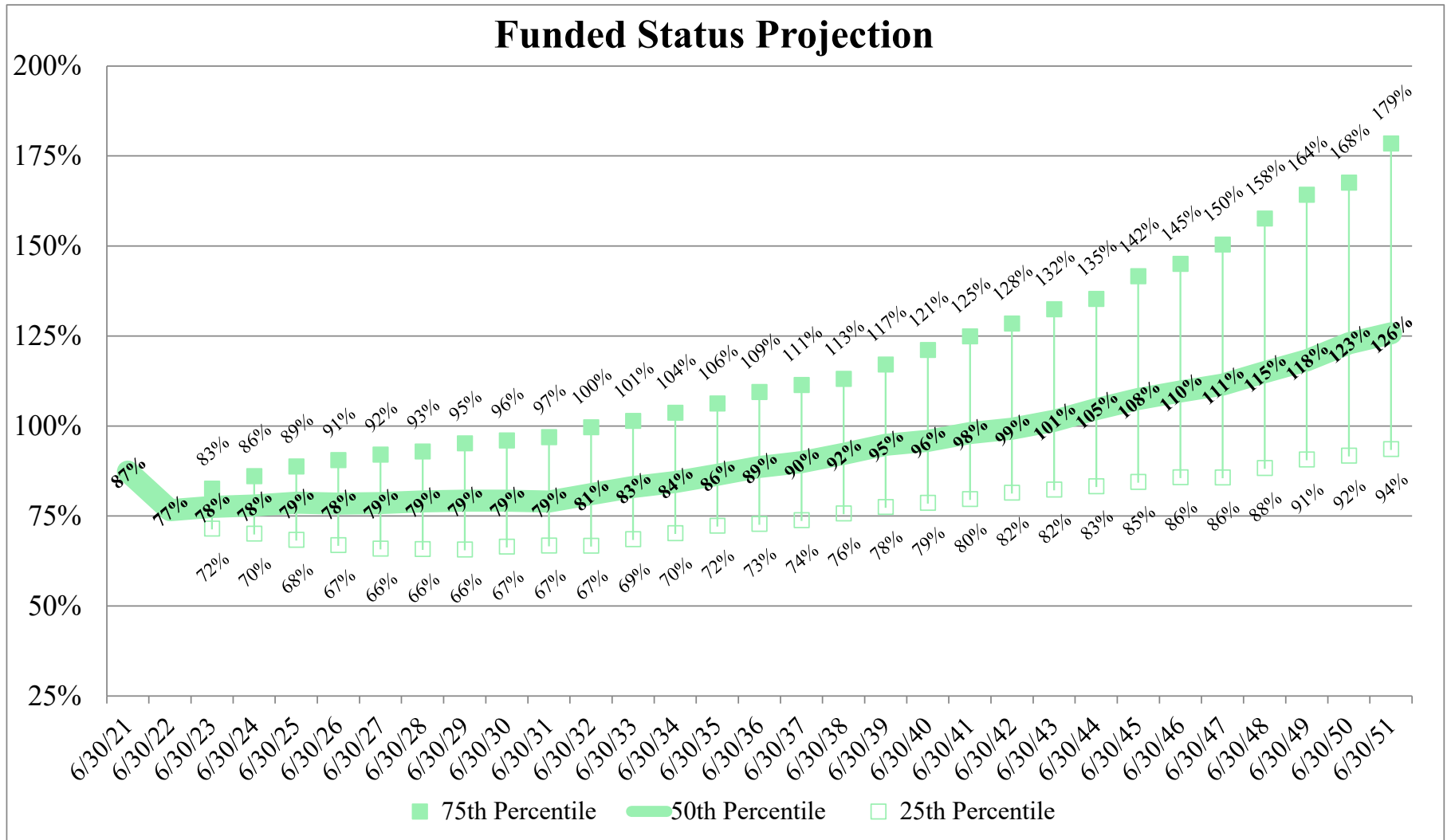
CONTRIBUTION PROJECTIONS - MISCELLANEOUS



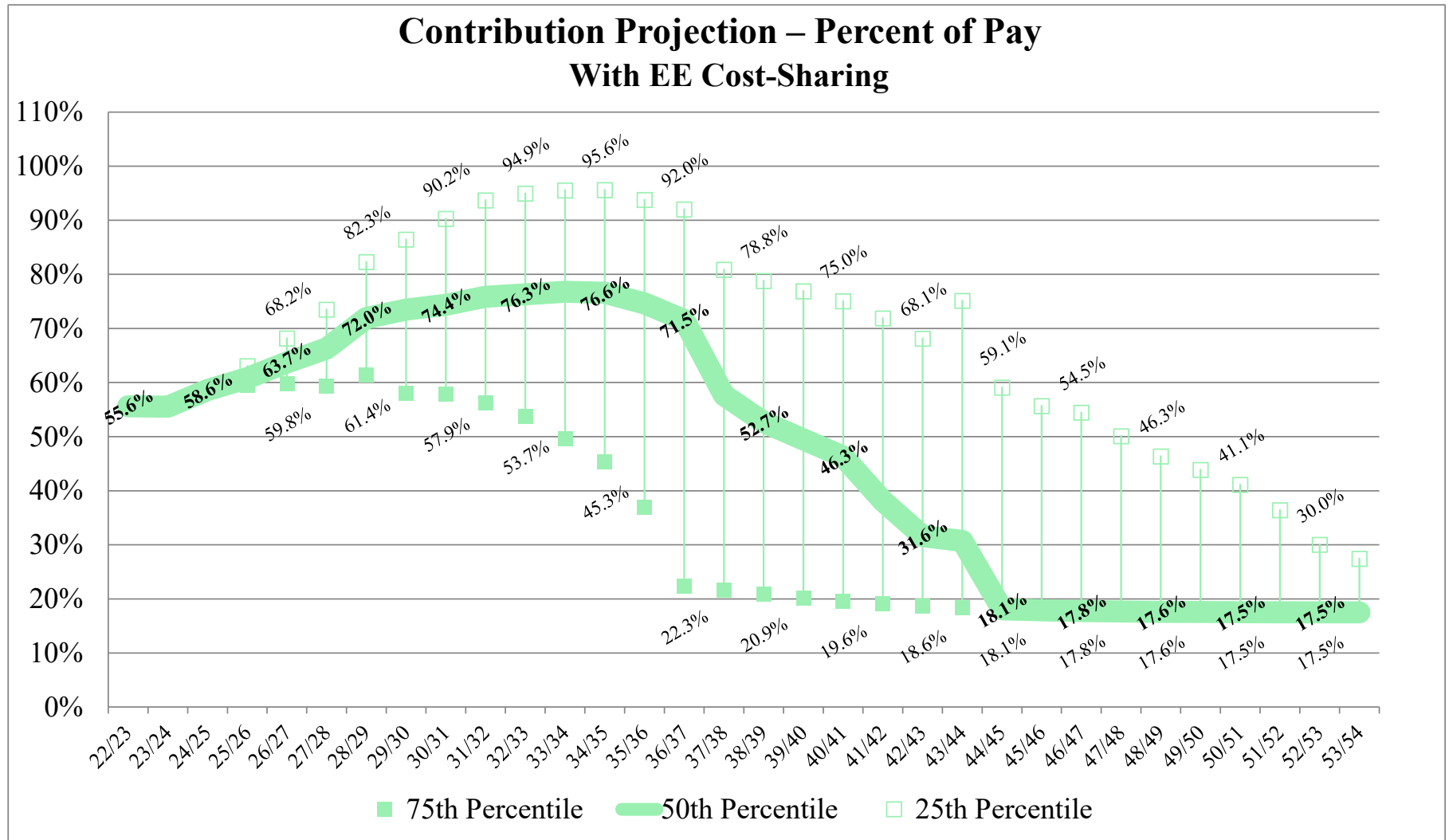
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FUNDED STATUS - MISCELLANEOUS

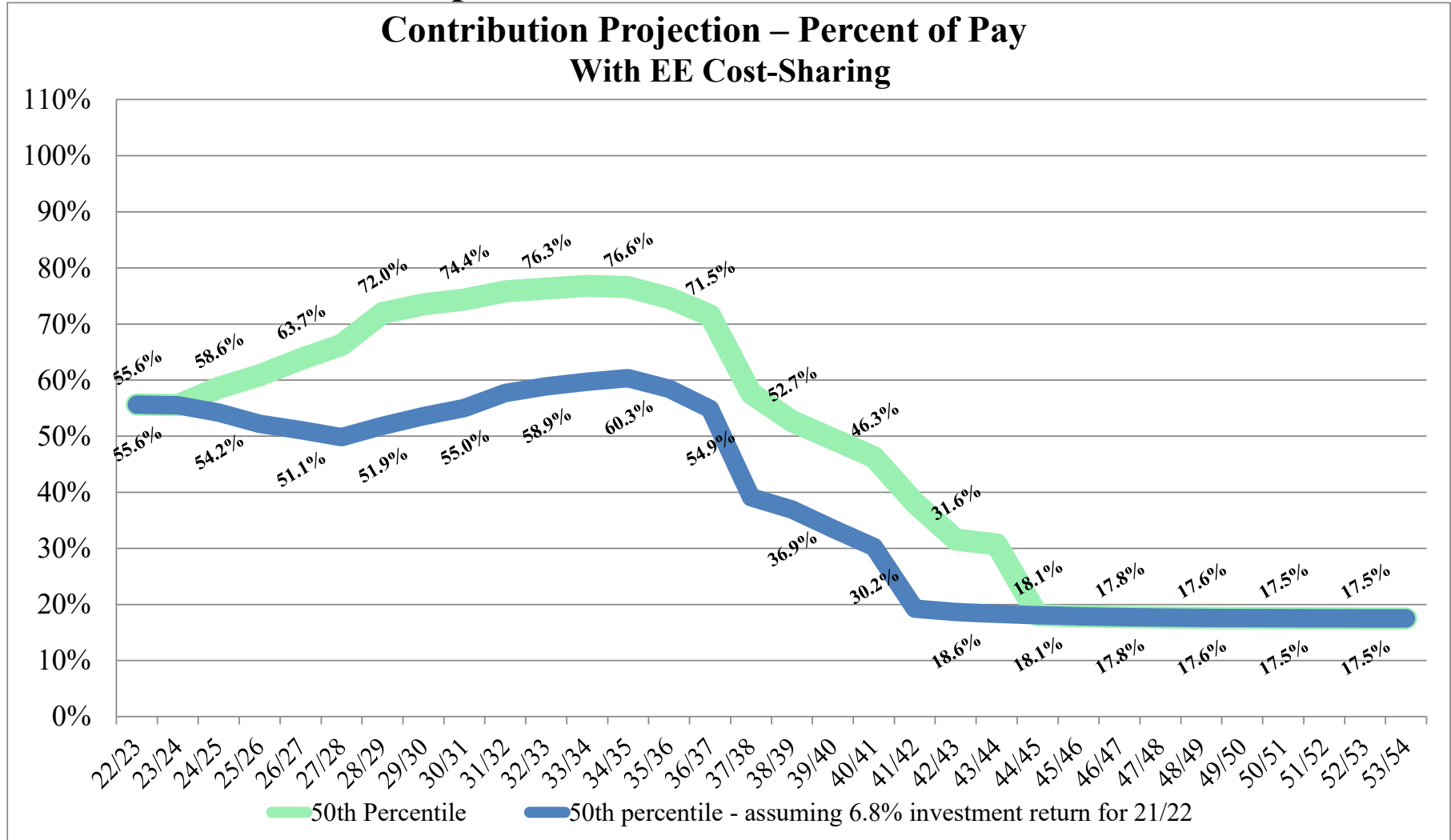


CONTRIBUTION PROJECTION - SAFETY

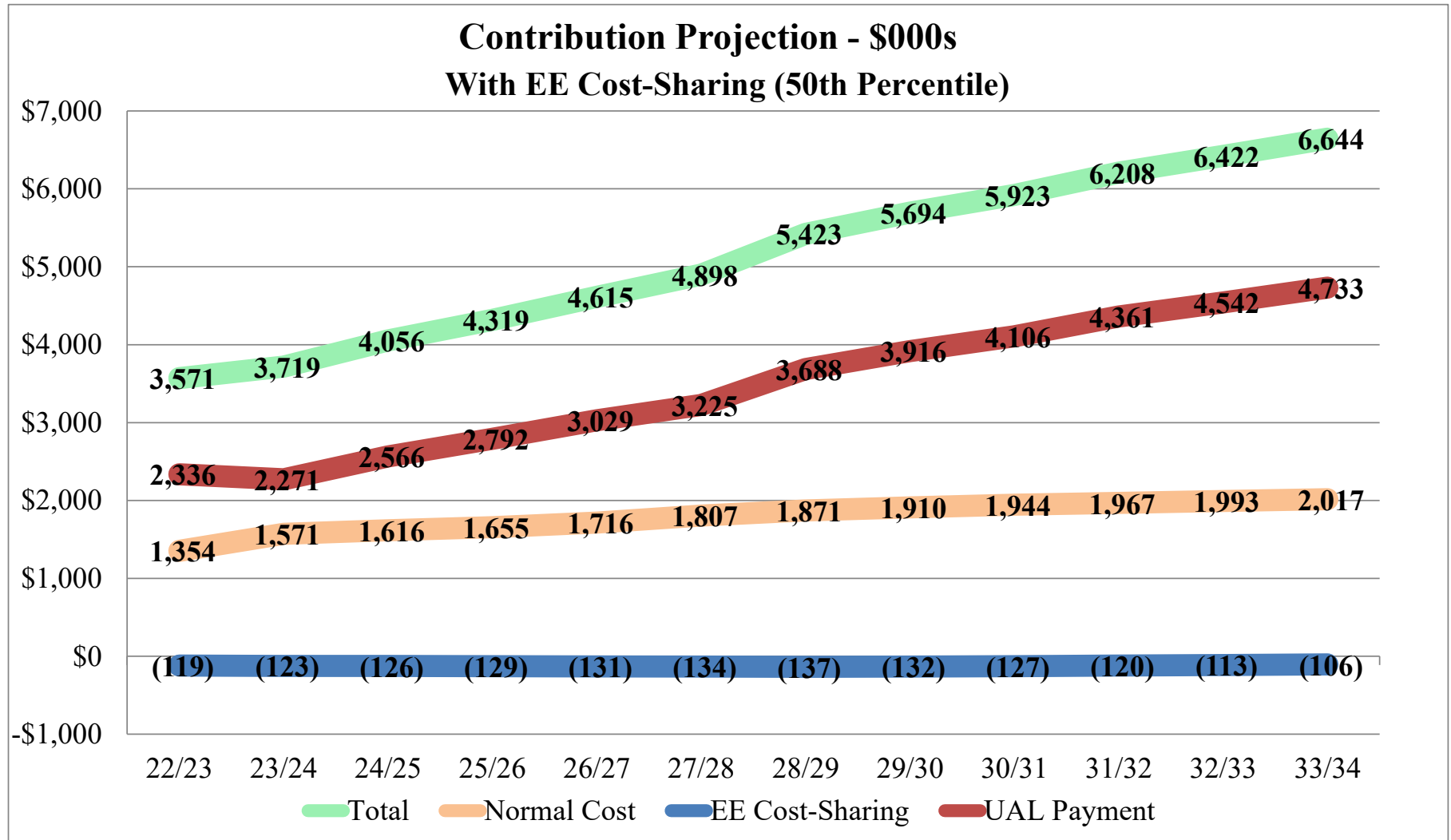


CONTRIBUTION PROJECTION - SAFETY

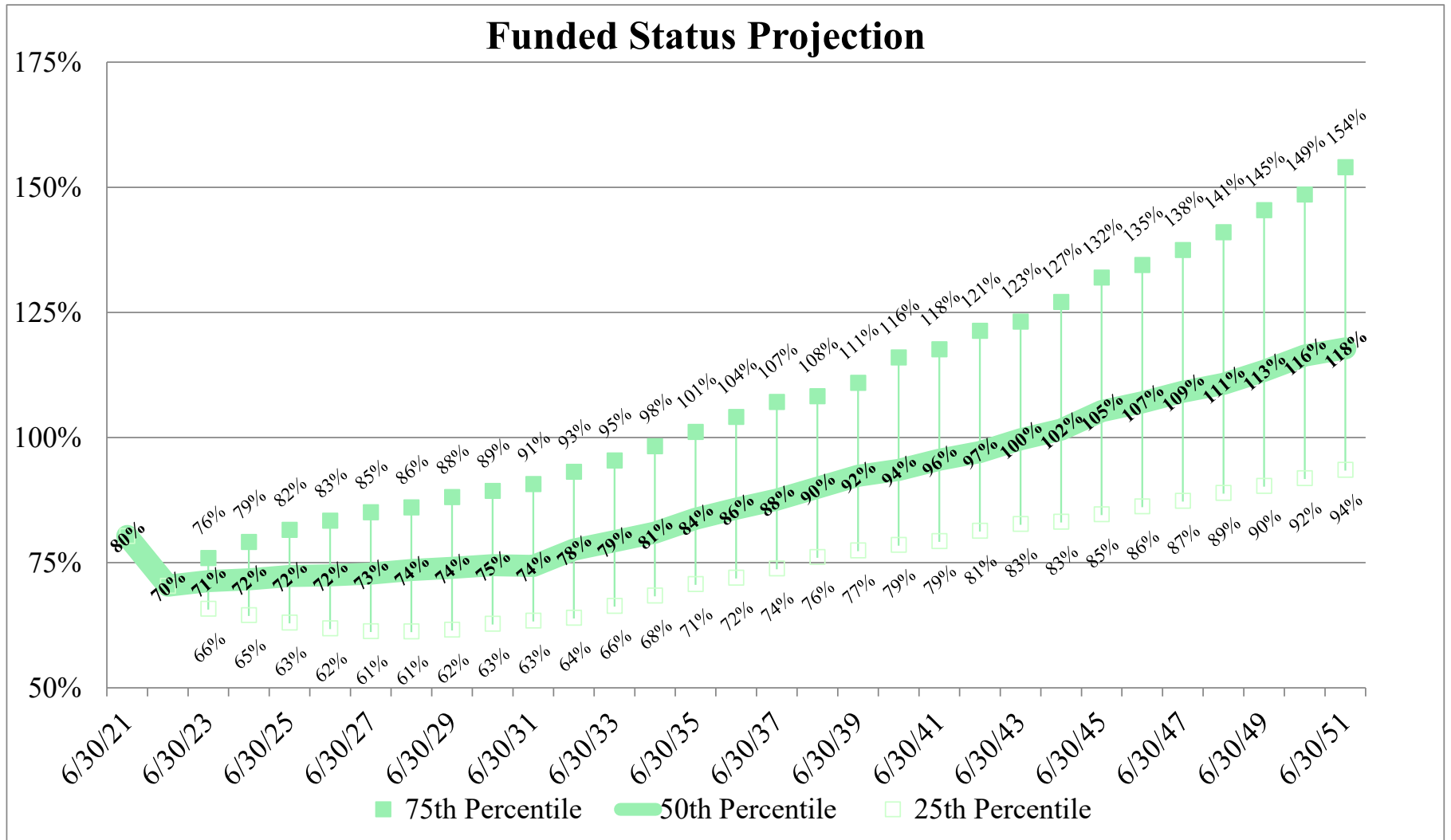
Impact of 21/22 Investment Return Contribution Projection – Percent of Pay With EE Cost-Sharing



CONTRIBUTION PROJECTION - SAFETY

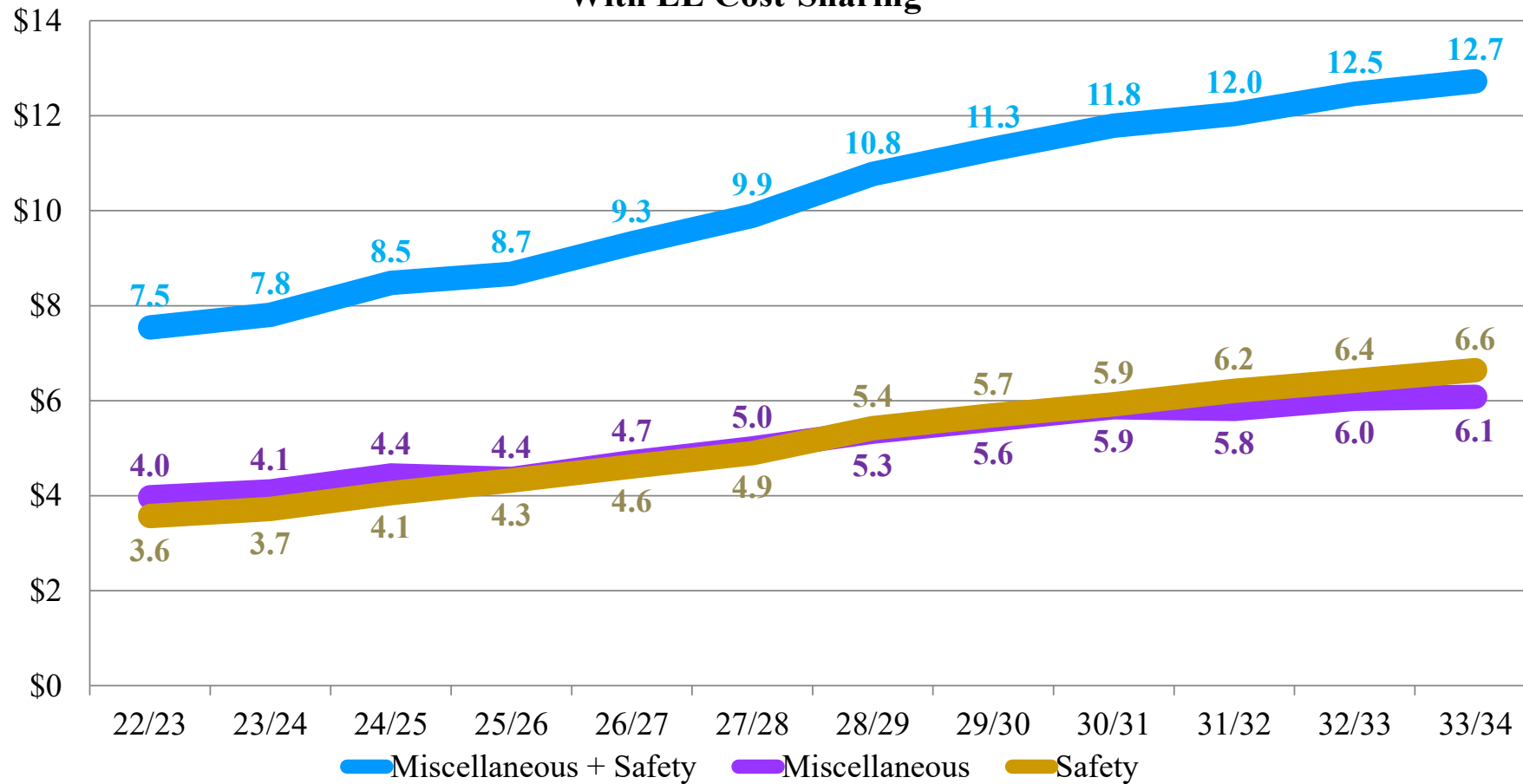


FUNDED STATUS - SAFETY



COMBINED MISCELLANEOUS AND SAFETY

Contribution Projection (\$Millions) Miscellaneous & Safety With EE Cost-Sharing



PREFUNDING OPTIONS

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
- Safety Plan⁶
 - 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

⁶ All of the target bases are in Safety Classic plan. PEPRA plan has only one credit base.



PREFUNDING OPTIONS

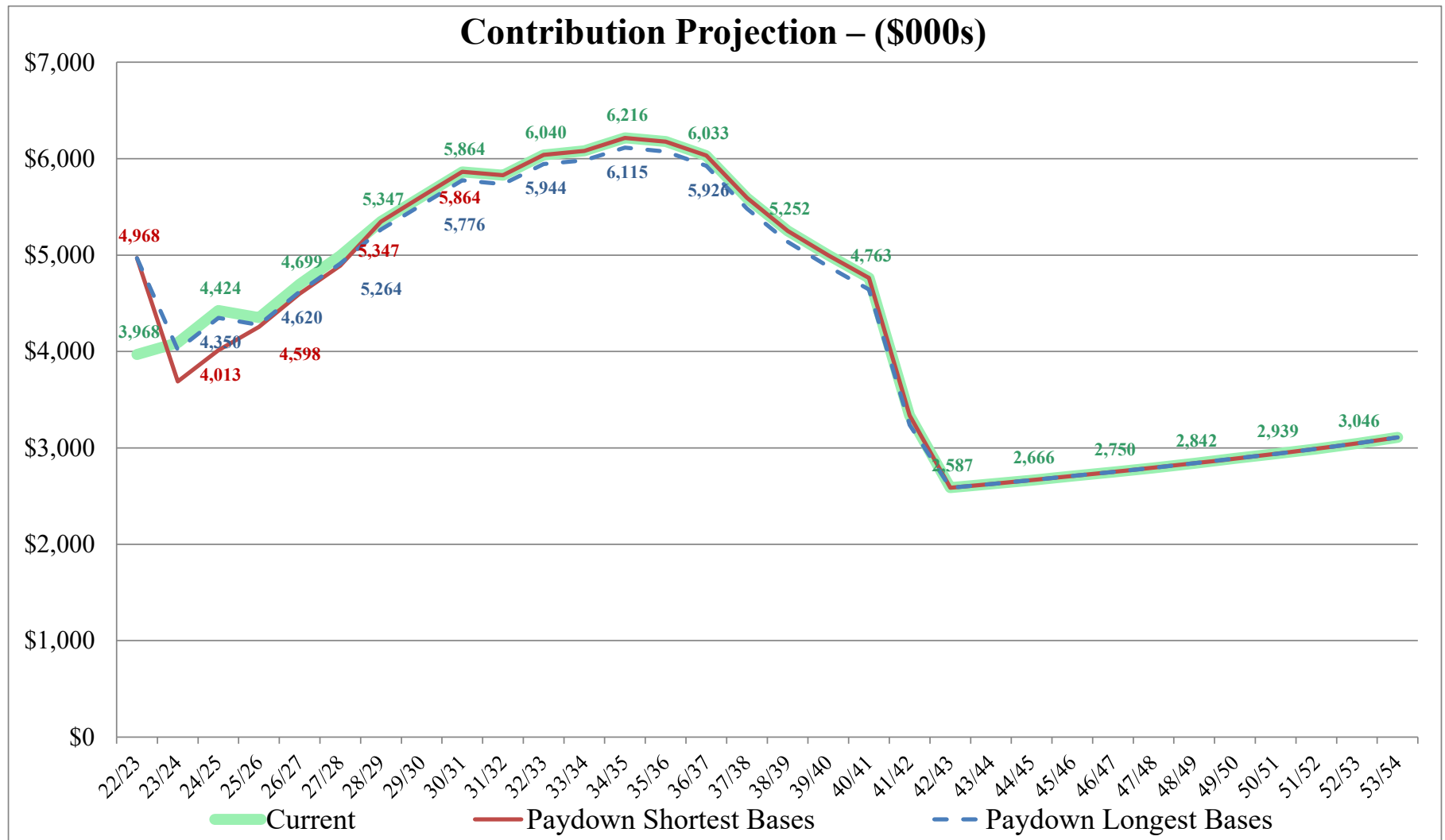
Miscellaneous Plan Target Bases	Estimated Interest Savings	2023/24 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$114	\$(400)
PV Savings @ 3% (000's)	60	
Longest Base	\$1 million	
\$ Savings (000's)	\$954	\$(73)
PV Savings @ 3% (000's)	430	

Safety Plan 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	



PREFUNDING OPTIONS

Direct Payment \$1M to CalPERS Miscellaneous



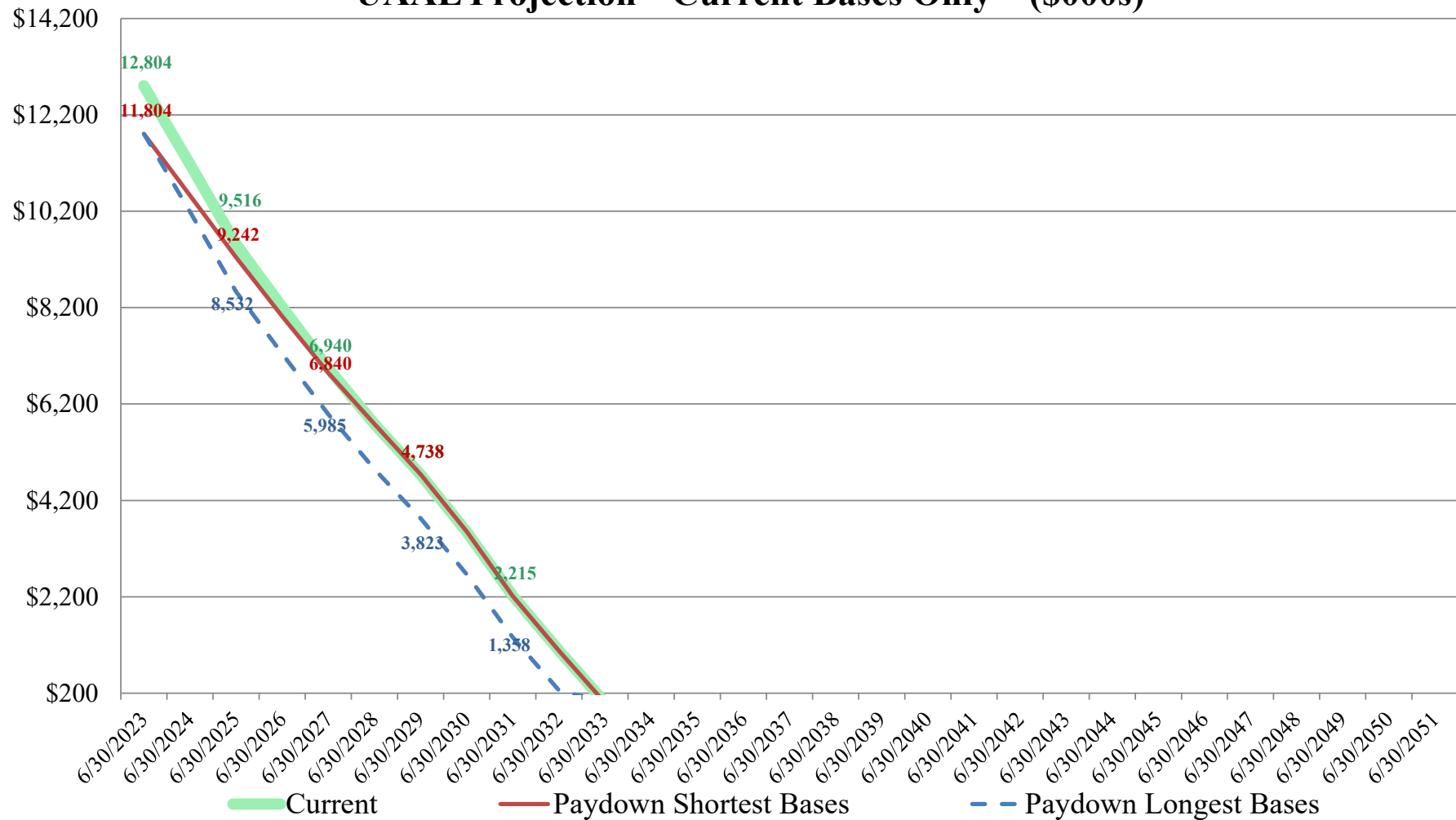
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PREFUNDING OPTIONS

Direct Payment \$1M to CalPERS Miscellaneous

UAAL Projection – Current Bases Only – (\$000s)



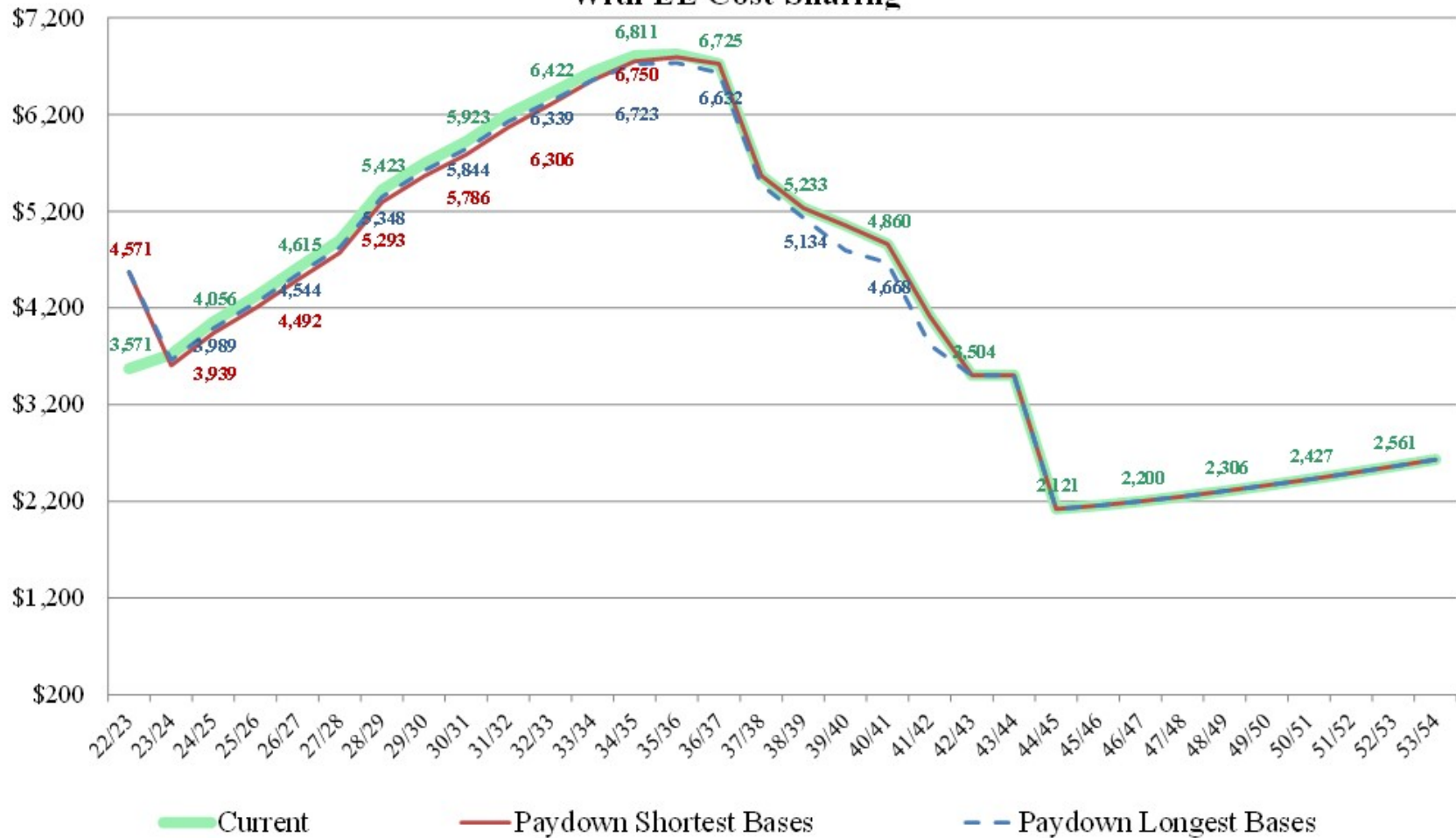
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PREFUNDING OPTIONS

Direct Payment \$1M to CalPERS Safety

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



PREFUNDING OPTIONS

Direct Payment \$1M to CalPERS Safety UAAL Projection – (\$000s)

