

TOWN OF LOS GATOS
CALPERS MISCELLANEOUS & SAFETY PLANS
INDEPENDENT ACTUARIAL REPORT - 6/30/24 VALUATIONS



April 22, 2026

We are pleased to present this independent actuarial analysis of the Town of Los Gatos CalPERS Retirement 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, 2024 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 Foster & Foster's Capital Market model.

Information provided in this report may be useful to the Town for the Plan's financial management. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as: plan experience differing from that anticipated by the assumptions; changes in assumptions; changes expected as part of the natural progression of the plan; and changes in plan provisions or applicable law. Actuarial models necessarily rely on the use of estimates and are sensitive to changes. Small variations in estimates may lead to significant changes in actuarial measurements. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of such measurements.

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.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at (650) 377-1600.

Respectfully submitted,

Foster & Foster Consulting Actuaries, Inc.

By: 
Drew Ballard, FSA, EA, MAAA

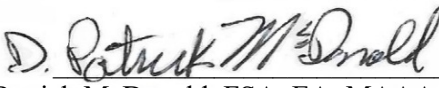
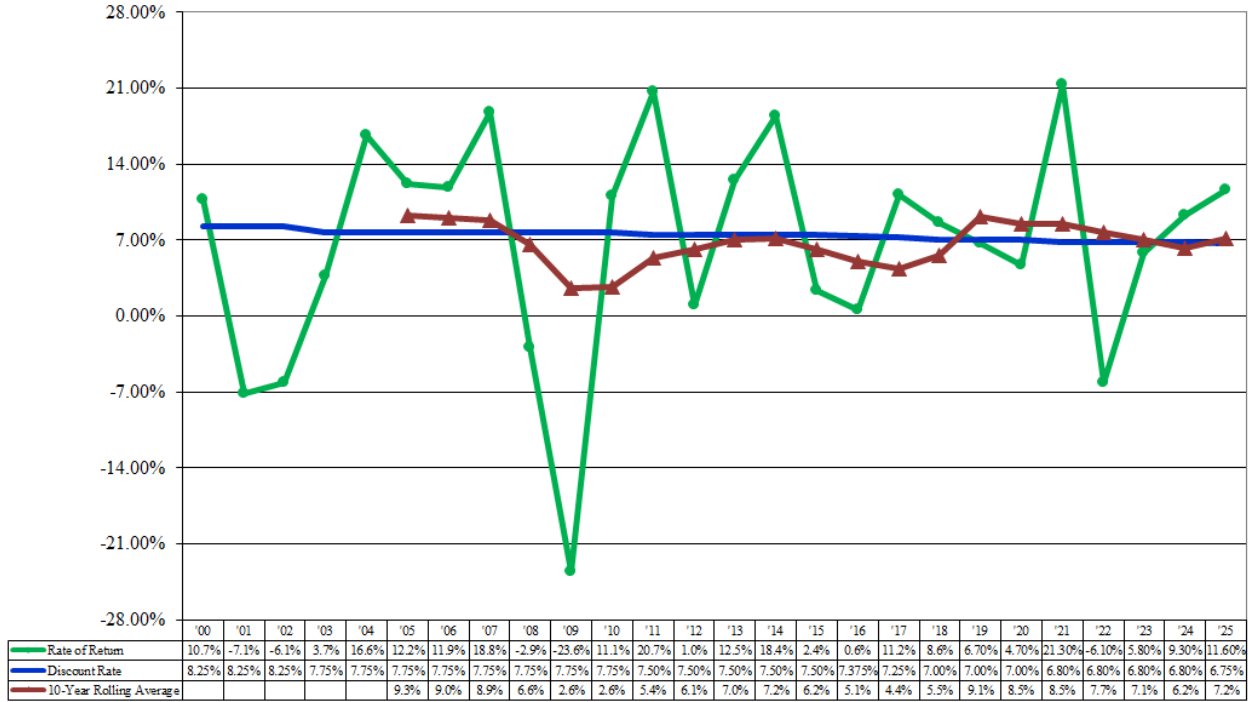
By: 
D. Patrick McDonald, FSA, EA, MAAA

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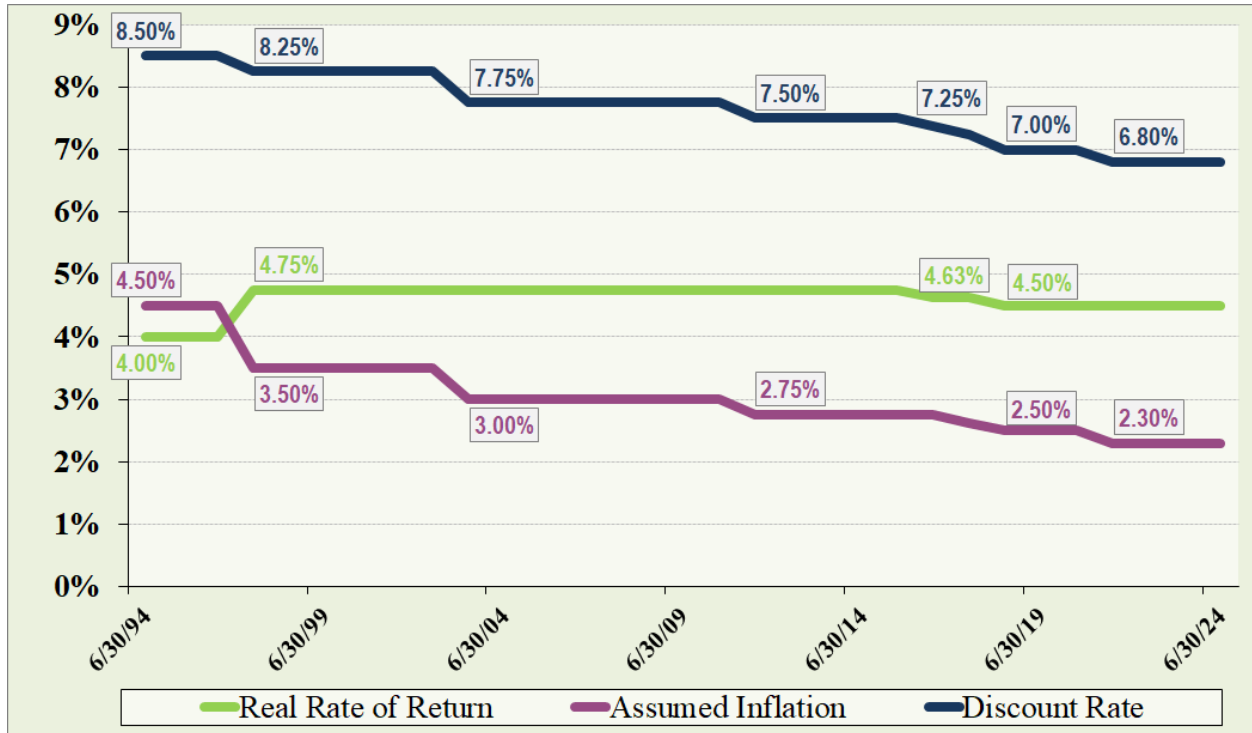
INVESTMENT RETURN

Annual Return on Market Value of Assets



Discount rates are expected returns net of administrative expenses. 2013/14 through 2024/25 “money-weighted” returns reported in CalPERS AFMR (without lags on private equity and real estate) are 18.3%, 2.2%, 0.5%, 11.2%, 8.4%, 6.5%, 5.0%, 22.4%, -7.5%, 6.1%, 9.5%, and 12.1%, respectively.

Historical Discount Rates



DEMOGRAPHICS

- Around the State
 - Large retiree liability compared to actives
 - State average: 61% for Miscellaneous, 64% for Safety
 - Declining active population and increasing number of retirees
 - Higher percentage of retiree liability increases contribution volatility

- Town of Los Gatos percentage of liability belonging to retirees:
 - Miscellaneous 64%
 - Safety 75%



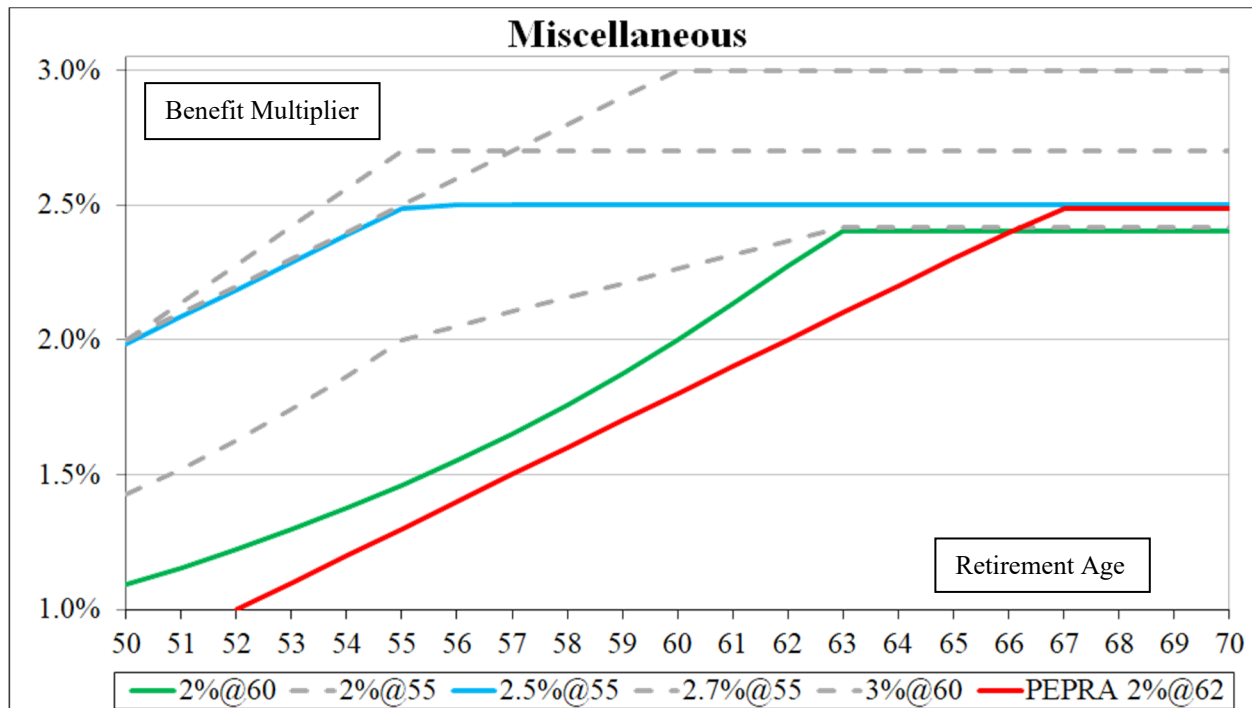
TOWN BENEFITS

- At CalPERS, Enhanced Benefits implemented using all (future & prior) service
- Typically not negotiated with cost sharing
- Town of Los Gatos

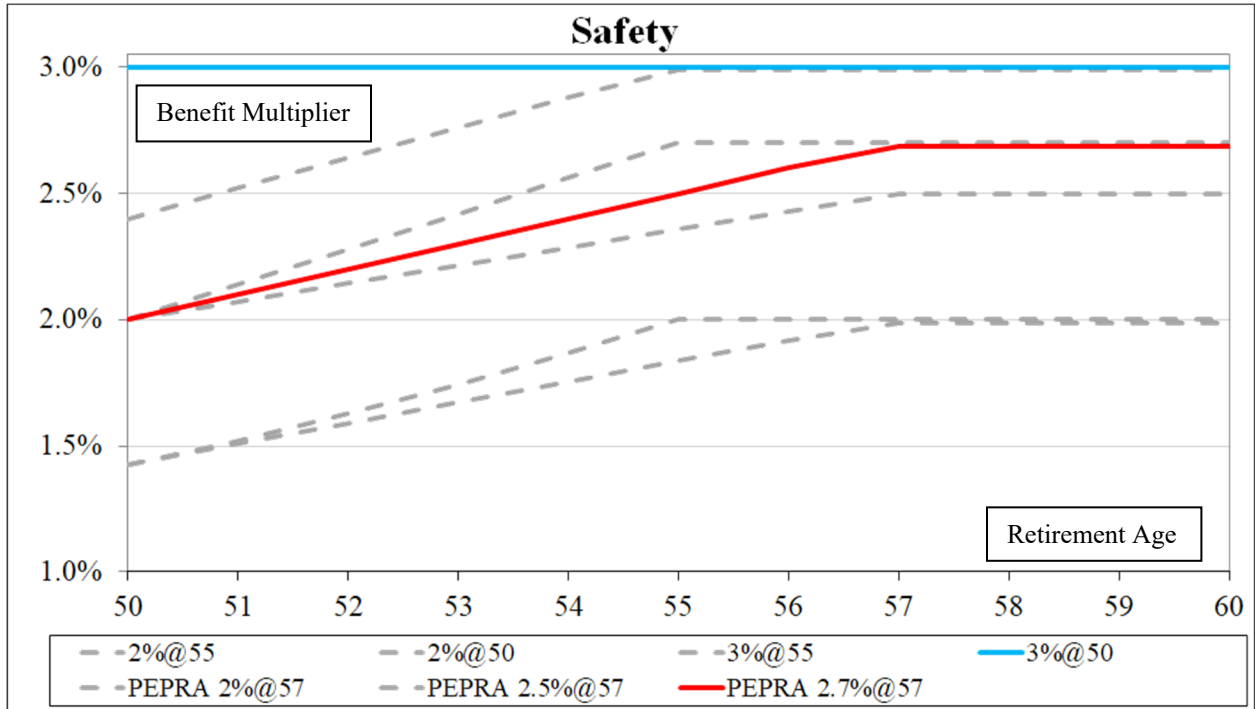
	Tier 1	Tier 2	PEPRA
Miscellaneous	2.5%@55 FAC1	2%@60 FAC3	2%@62 FAC3
Safety Police	3%@50 FAC1	N/A	2.7%@57 FAC3

- Benefit = (Years of Town Service) x Percentage x FAC
 - Percentage varies by retirement age (see following charts)
 - FAC1 is highest one year (typically final) average earnings
 - FAC3 is highest three years (typically final three) average earnings

- PEPRA tier implemented for new employees hired after 1/1/13
 - Employee pays half of total normal cost
 - 2026 Compensation limit
 - Social Security participants: \$159,733
 - Non-Social Security participants: \$191,679



TOWN BENEFITS



RISK MITIGATION

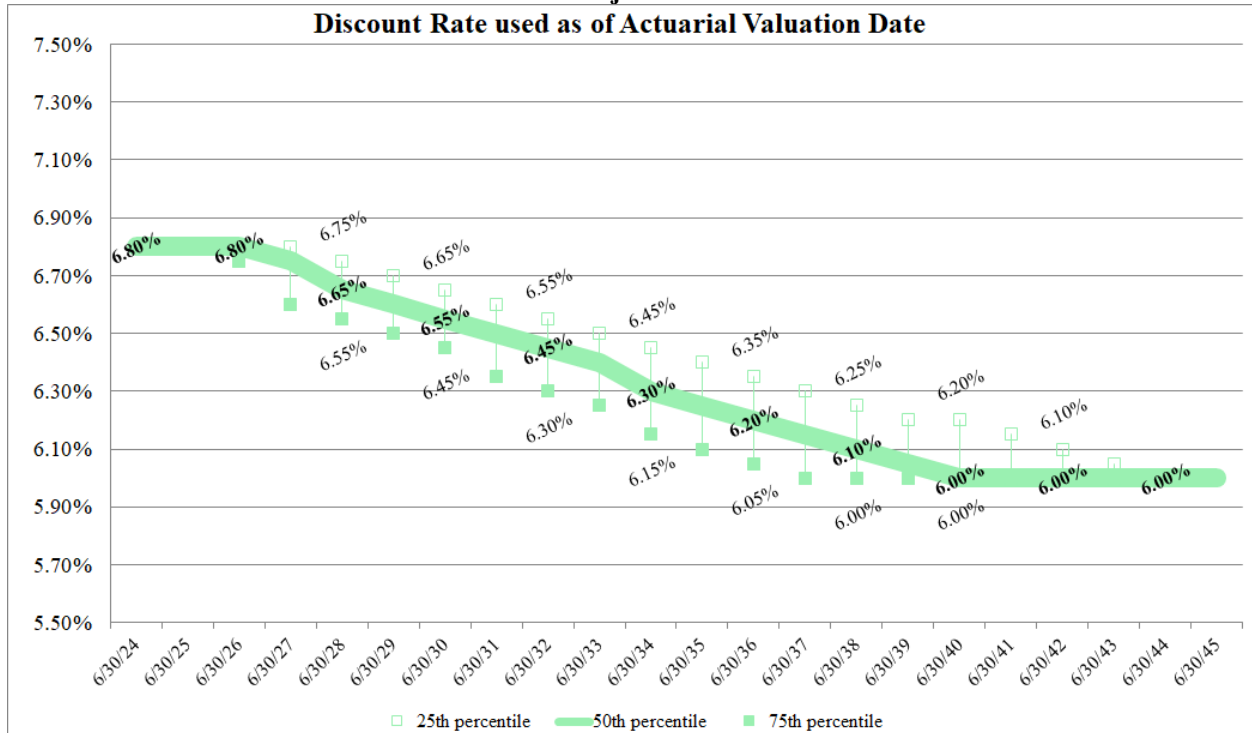
Overview

- Move to more conservative investments over time to reduce volatility/risk
 - Only when investment return is better than expected
 - Lower discount rate in concert

Excess Investment Return	Reduction in Discount Rate
If the actual investment returns exceed the discount rate by:	Then the discount rate will be reduced by:
2%	0.05%
7%	0.10%
10%	0.15%
13%	0.20%
17%	0.25%

- Essentially use ≈50% of investment gains to pay for cost increases
- Ultimate goal of 8% standard deviation on portfolio
- Likely get to 6.0% discount rate over 20+ years
 - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
 - Not triggered for 6/30/19 or 6/30/20 valuations
- First triggered for 6/30/21 valuation – 6.8% discount rate
- Not triggered for 6/30/22 or 6/30/23 valuations
- April 16, 2024 CalPERS Board removed automatic trigger
- Staff recommends no change to the discount rate for June 30, 2024 & June 30, 2025

Projection



SUMMARY OF DEMOGRAPHIC INFORMATION

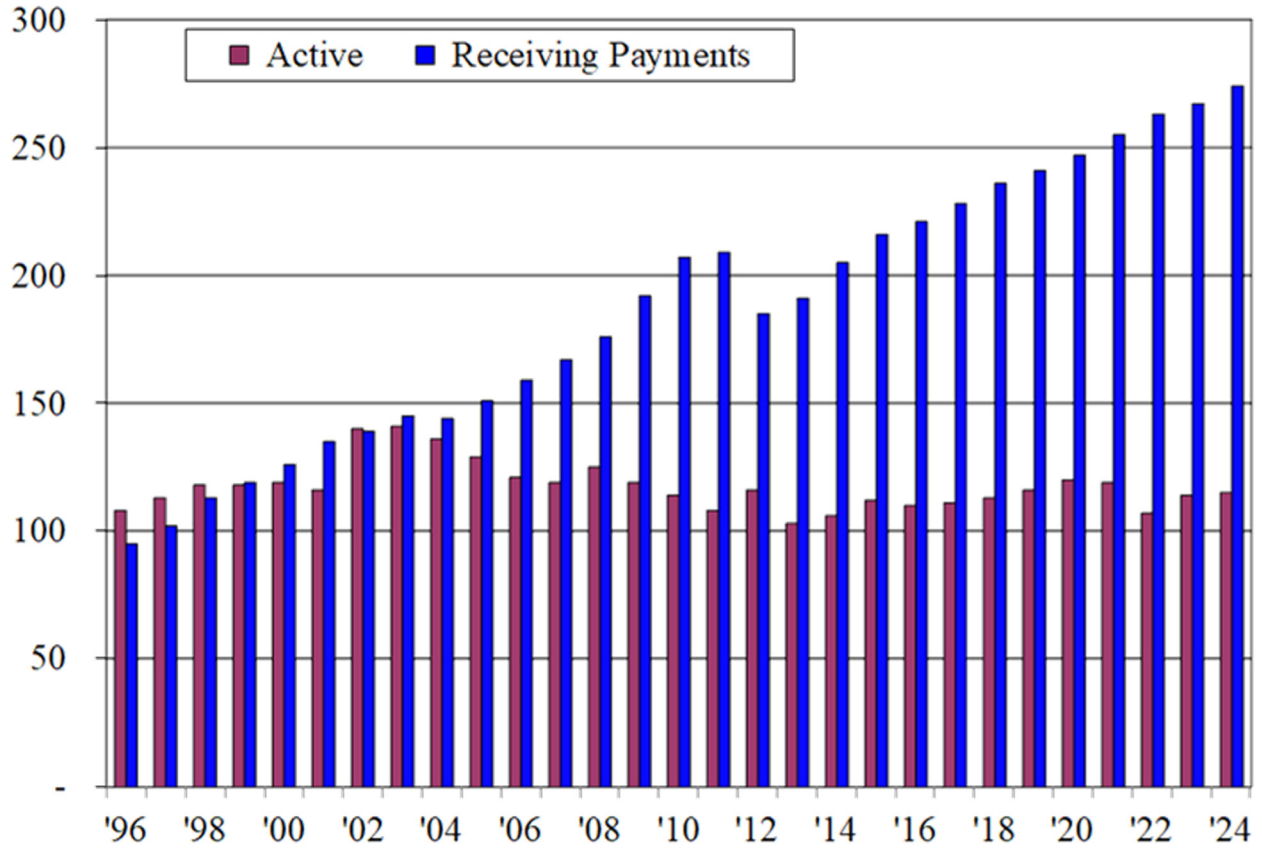
Miscellaneous				
	2004	2014	2023	2024
Actives				
■ Counts	136	106	114	115
■ Average				
• Age	47	46	45	46
• Town Service	9	9	7	8
• PERSable Wages	\$64,900	\$77,700	\$111,900	\$117,400
■ Total PERSable Wages	8,800,000	8,200,000	12,800,000	13,500,000
Inactive Members				
■ Counts				
• Transferred	79	89	112	115
• Separated	71	80	100	102
• Retired				
□ Service	117	176	231	234
□ Disability	9	11	13	16
□ Beneficiaries	<u>18</u>	<u>18</u>	<u>23</u>	<u>24</u>
□ Total	144	205	267	274
■ Average Annual Town Provided Pension for Service Retirees ¹	\$11,900	\$24,000	\$28,600	\$29,100
Safety				
	2004	2014	2023	2024
Actives				
■ Counts	42	36	36	36
■ Average				
• Age	n/a	n/a	42	42
• Town Service	n/a	n/a	9	8
• PERSable Wages	\$94,900	\$128,400	\$156,700	\$170,100
■ Total PERSable Wages	4,000,000	4,600,000	5,600,000	6,100,000
Inactive Members				
■ Counts				
• Transferred	25	14	14	16
• Separated	5	4	6	7
• Receiving Payments	35	65	93	100

¹ Average pension based on Town service & Town benefit formula; not representative of long-service employees.

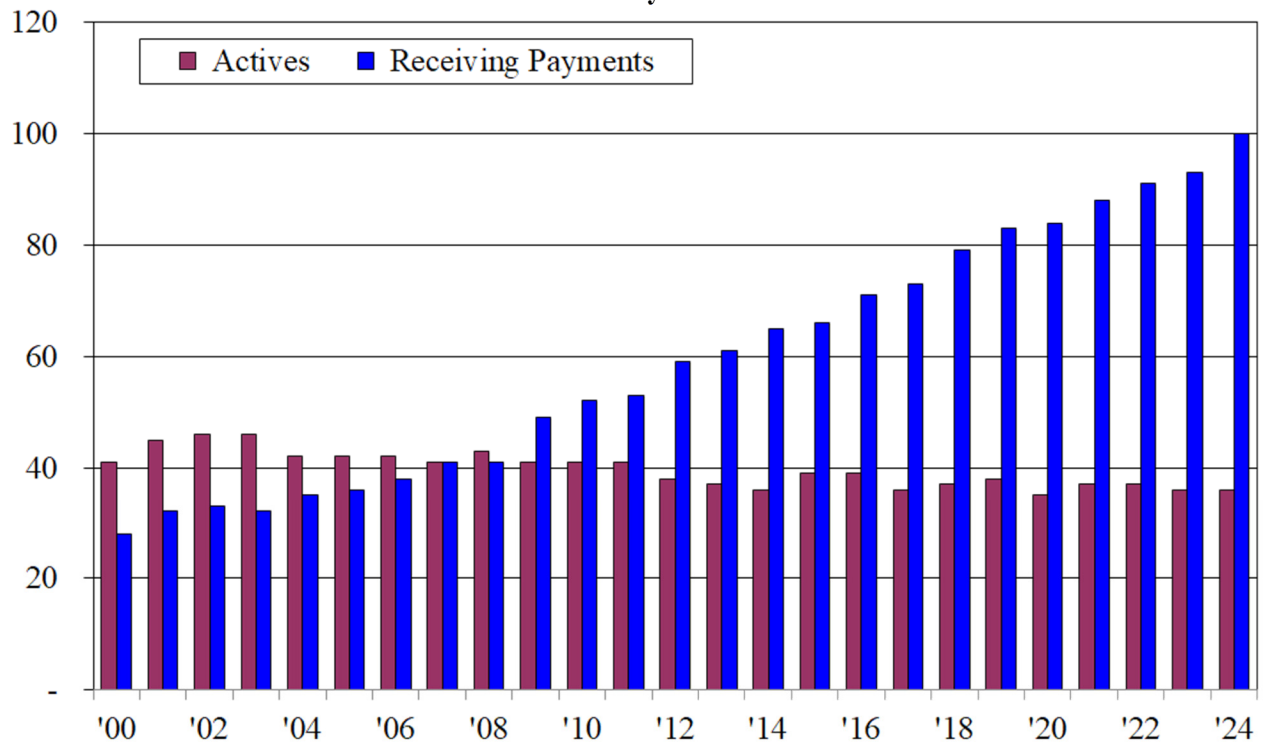


SUMMARY OF DEMOGRAPHIC INFORMATION

Miscellaneous



Safety



PLAN FUNDED STATUS

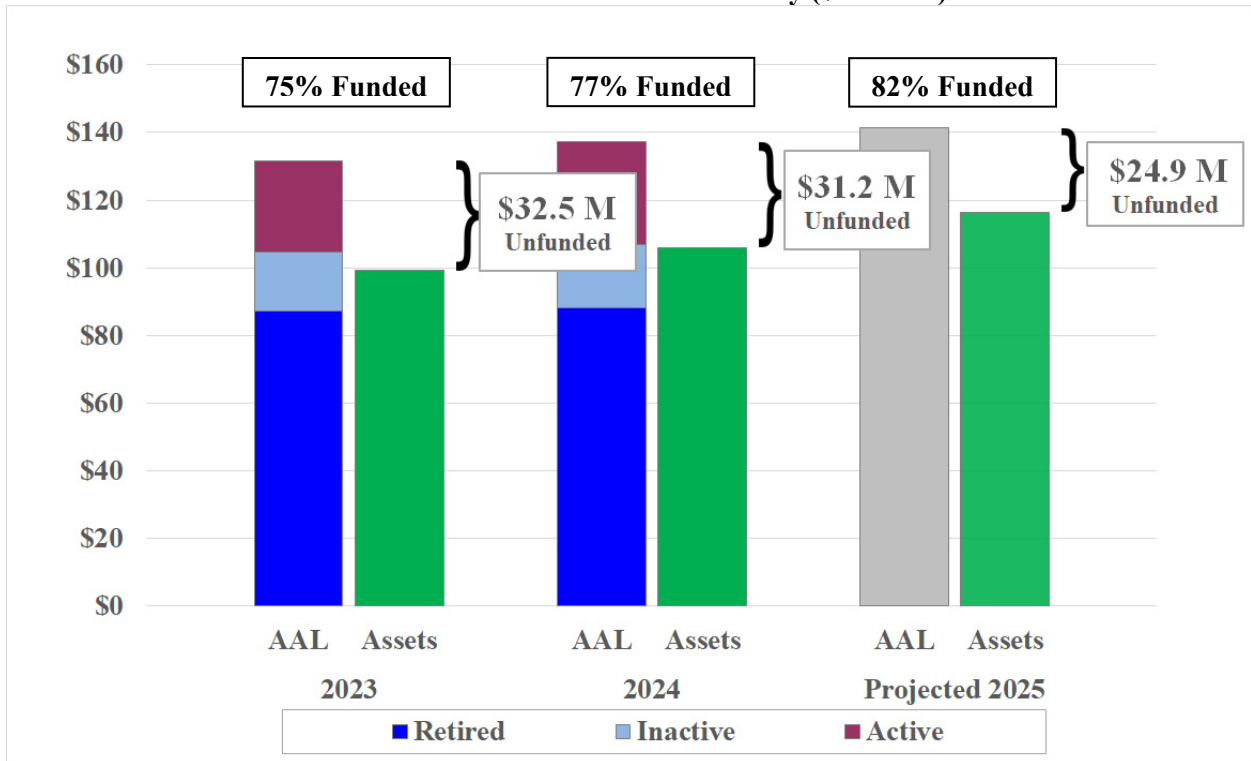
	Miscellaneous	
	June 30, 2023	June 30, 2024
■ Actuarial Accrued Liability		
• Active	\$ 27,000,000	\$ 30,300,000
• Retiree	87,200,000	88,300,000
• Inactive	<u>17,500,000</u>	<u>18,600,000</u>
• Total	131,700,000	137,200,000
■ Assets	<u>99,200,000</u>	<u>106,000,000</u>
■ Unfunded Liability	32,500,000	31,200,000
■ Funded Ratio	75.3%	77.2%
■ Average funded ratio for CalPERS Miscellaneous:		
• Public Agency Plans	73.3%	75.5%
• City & Town Plans	73.8%	75.8%

	Safety	
	June 30, 2023	June 30, 2024
■ Actuarial Accrued Liability		
• Active	\$ 26,200,000	\$ 23,800,000
• Retiree	84,100,000	91,000,000
• Inactive	<u>5,900,000</u>	<u>6,400,000</u>
• Total	116,200,000	121,200,000
■ Assets	<u>79,500,000</u>	<u>85,200,000</u>
■ Unfunded Liability	36,700,000	36,000,000
■ Funded Ratio	68.4%	70.3%
■ Average funded ratio for CalPERS Miscellaneous:		
• Public Agency Plans	70.9%	72.9%
• City & Town Plans	70.9%	72.7%

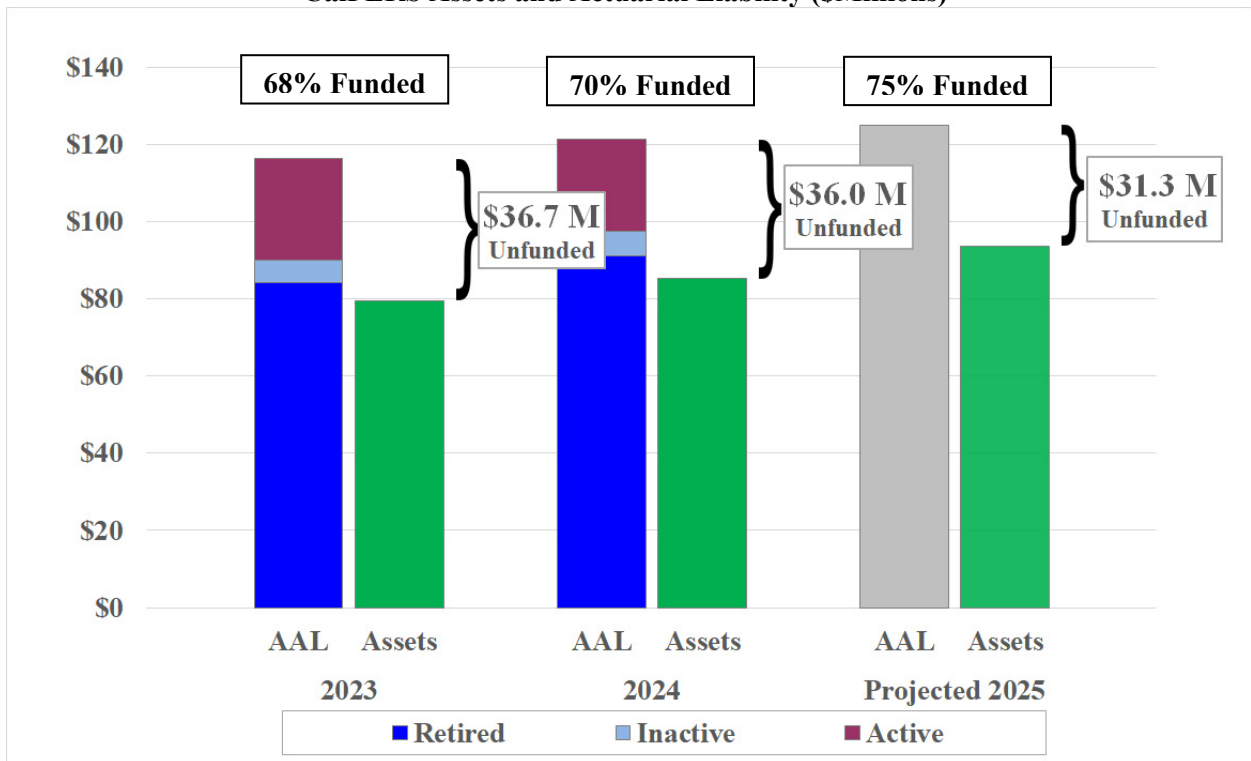


PLAN FUNDED STATUS

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



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



² Projected 2025 assets reflect 12.1% investment return for 2024/25.



PLAN FUNDED STATUS

Miscellaneous Unfunded Accrued Liability Changes

	UAAL
■ Unfunded Accrued Liability on 6/30/23	\$32,500,000
■ Expected 6/30/24 Unfunded Accrued Liability	32,200,000
■ Changes	
• Asset Loss (Gain) (9.5% return for FY 2024)	(2,600,000)
• Contribution & Experience Loss (Gain)	<u>1,600,000</u>
• Total	<u>(1,000,000)</u>
■ Unfunded Accrued Liability on 6/30/24	31,200,000
■ Projected Unfunded Accrued Liability on 6/30/25 ³	24,900,000

Safety Unfunded Accrued Liability Changes

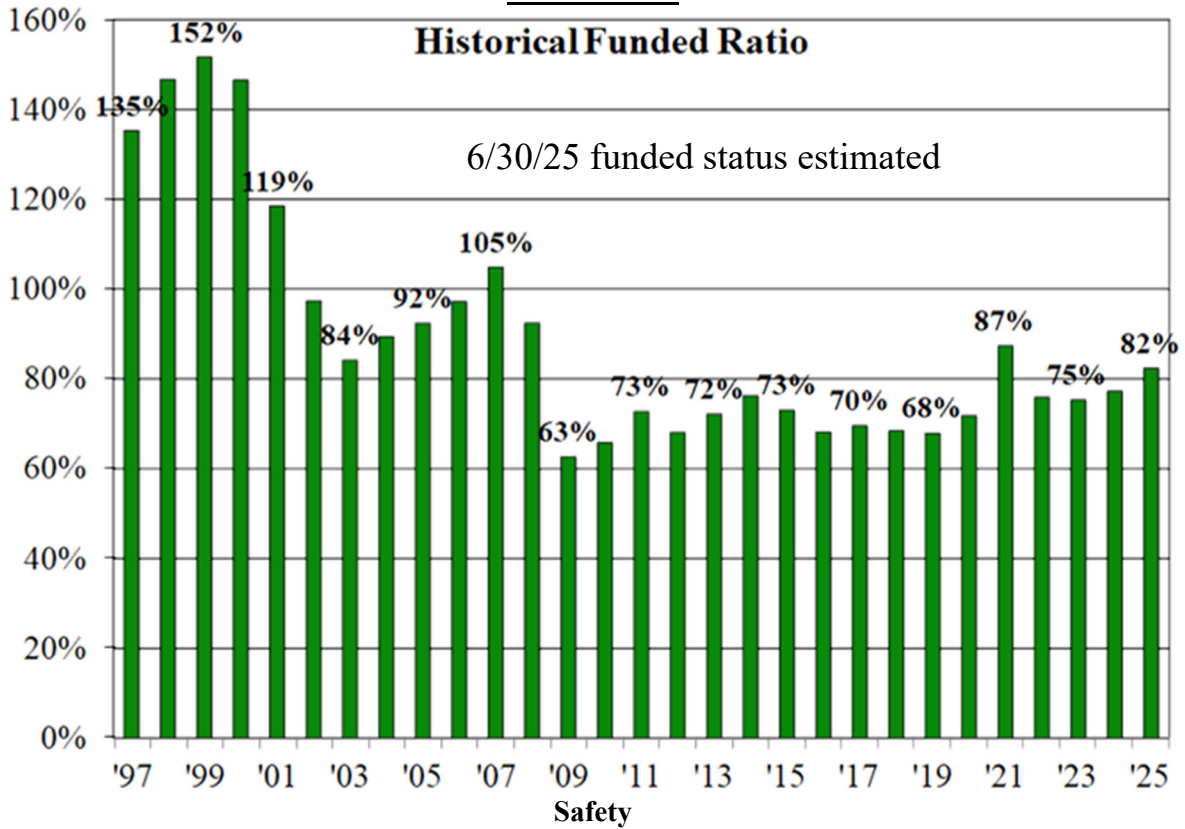
	UAAL
■ Unfunded Accrued Liability on 6/30/23	\$36,700,000
■ Expected 6/30/24 Unfunded Accrued Liability	36,800,000
■ Changes	
• Asset Loss (Gain) (9.5% return for FY 2024)	(2,100,000)
• Contribution & Experience Loss (Gain)	<u>1,300,000</u>
• Total	<u>(800,000)</u>
■ Unfunded Accrued Liability on 6/30/24	36,000,000
■ Projected Unfunded Accrued Liability on 6/30/25 ³	31,300,000

³ Projected 2025 assets reflect 12.1% investment return for 2024/25.

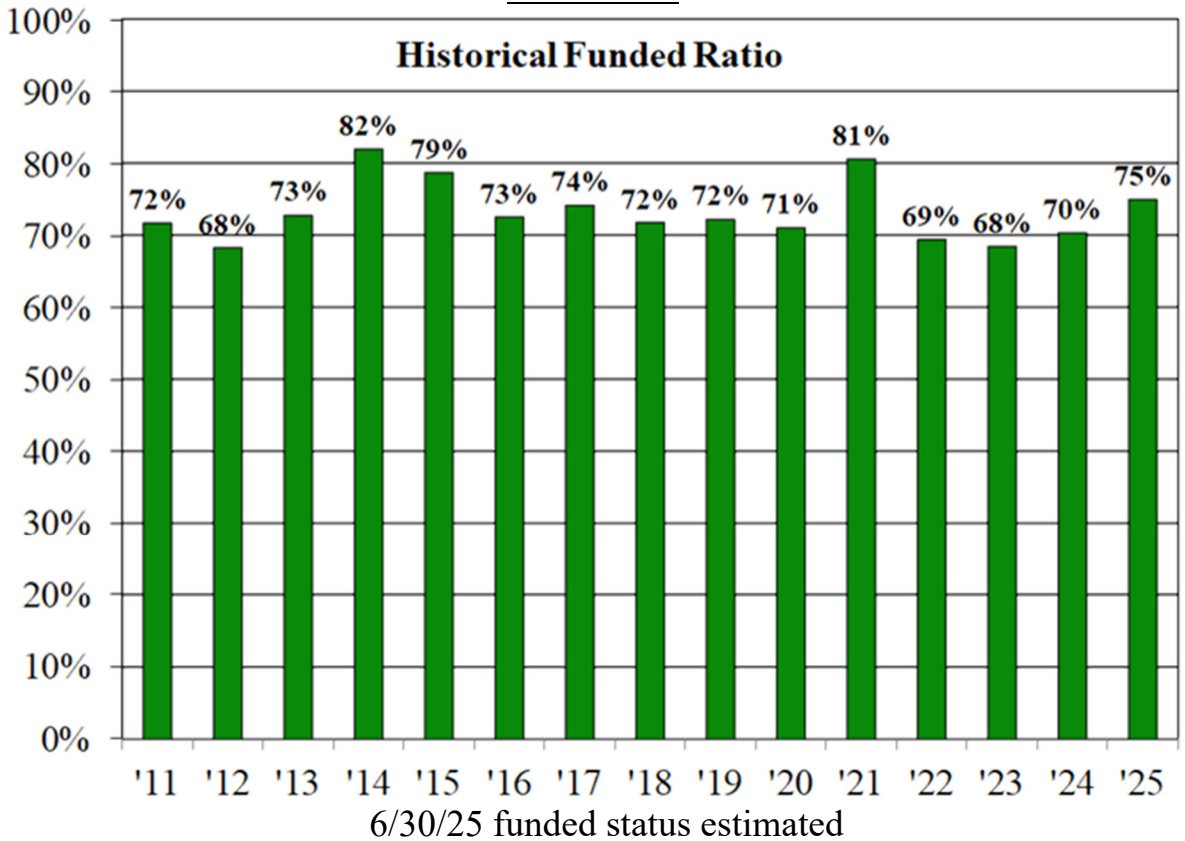


FUNDED RATIO

Miscellaneous Funded Ratio

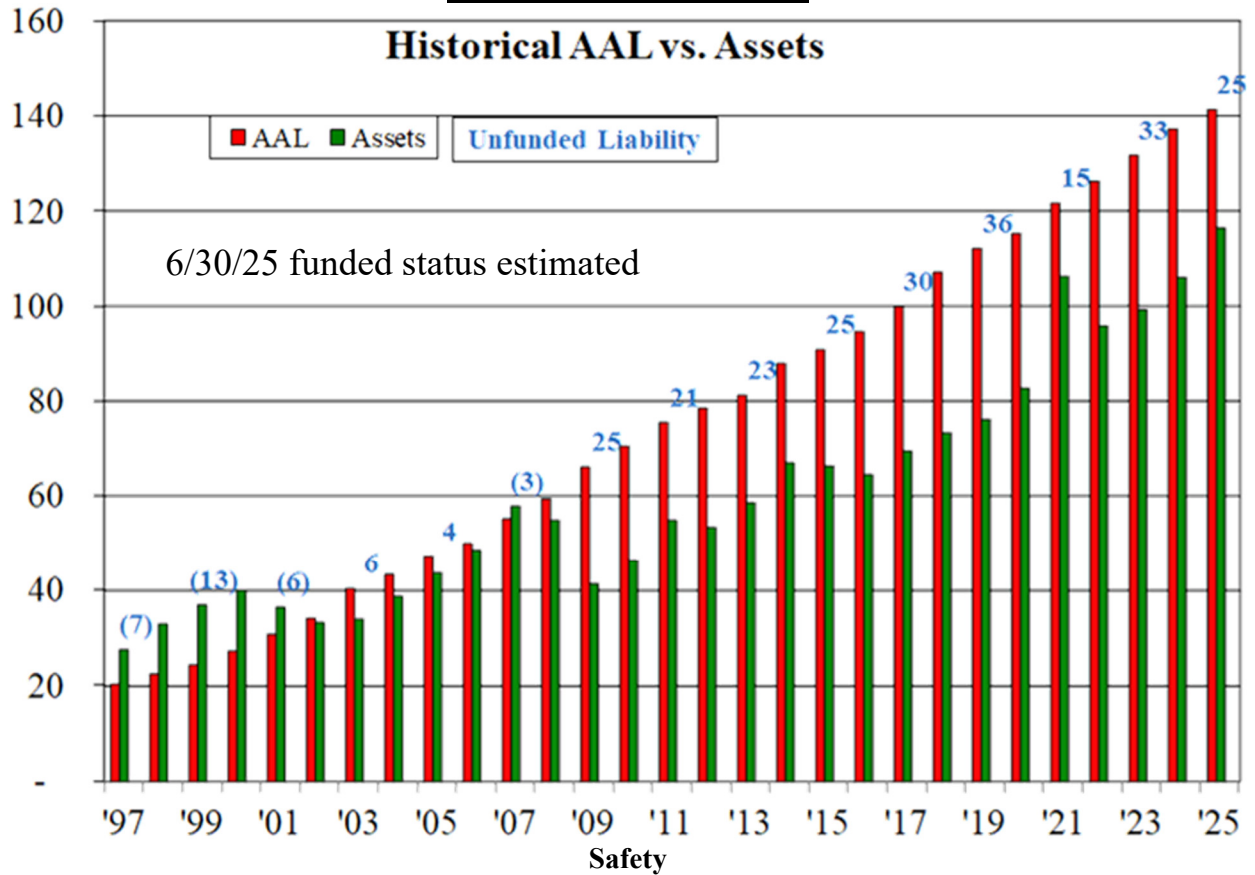


Safety Funded Ratio

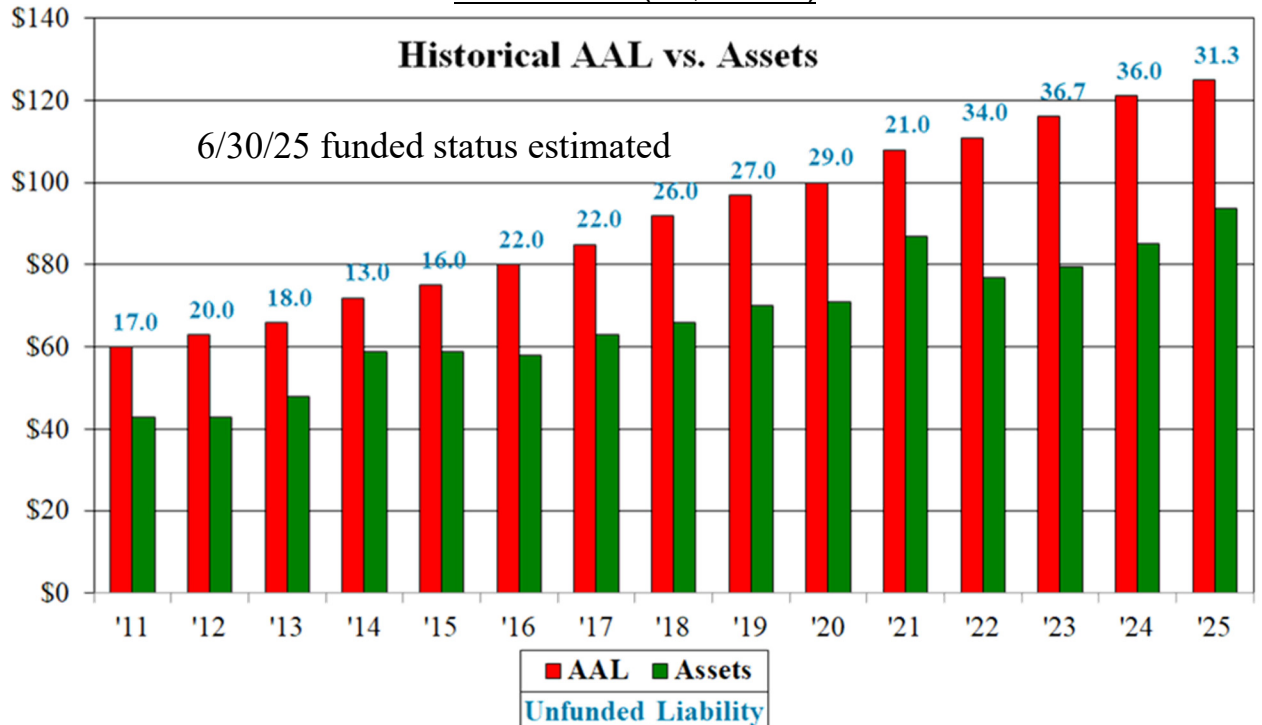


FUNDED STATUS

Miscellaneous
Funded Status (In \$Millions)

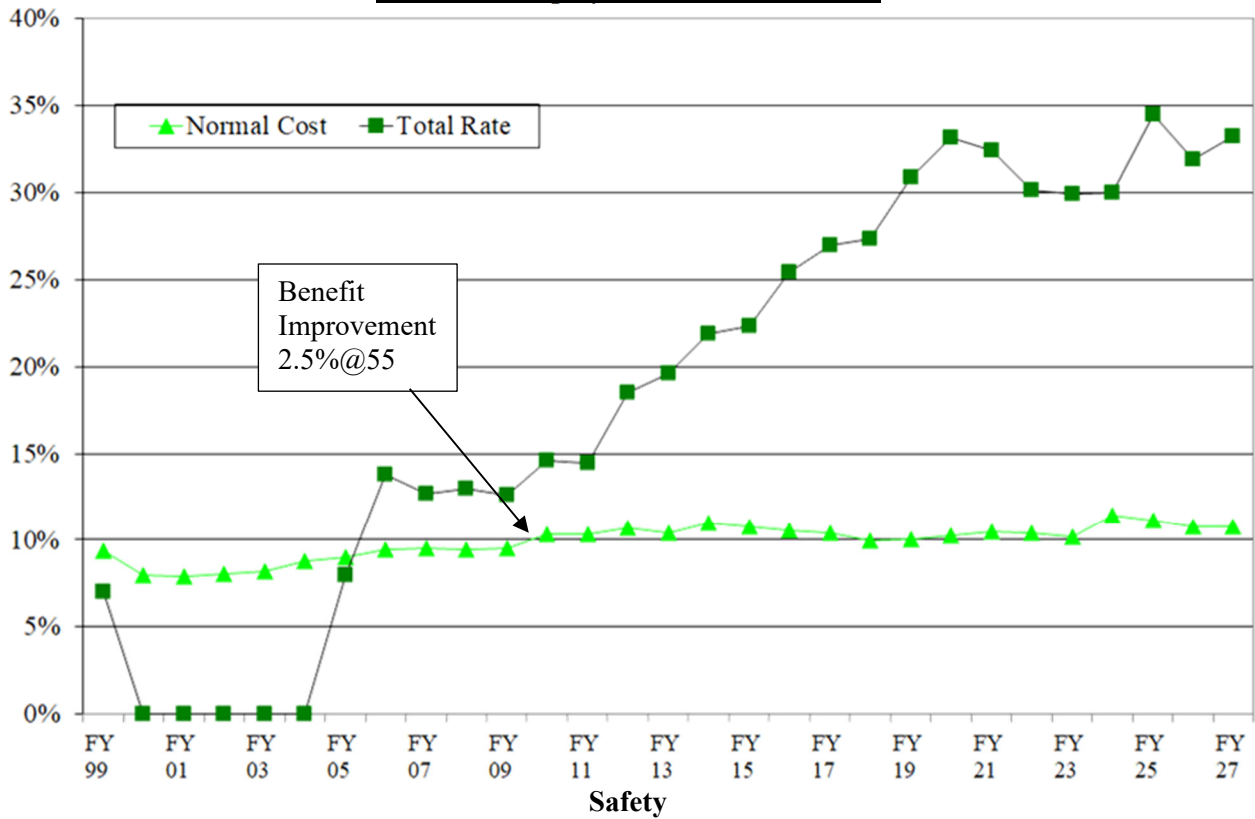


Funded Status (In \$Millions)

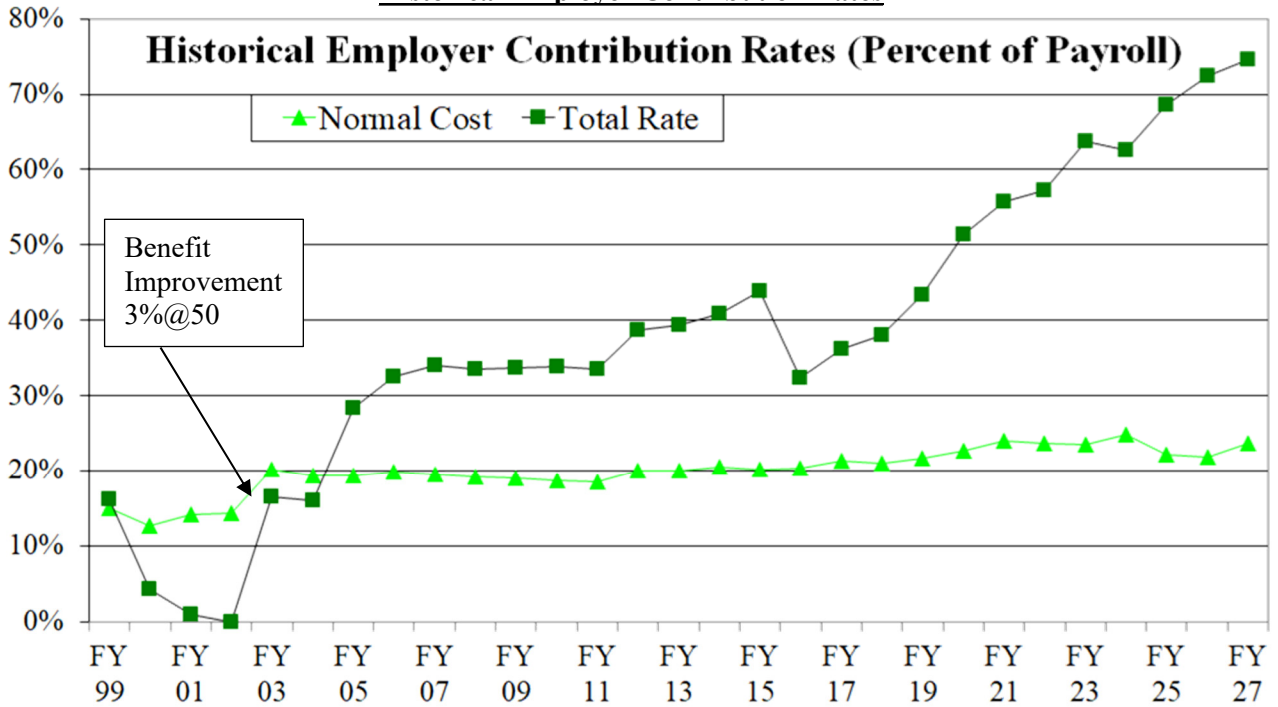


CONTRIBUTION RATES

Miscellaneous Historical Employer Contribution Rates



Safety Historical Employer Contribution Rates



CONTRIBUTION RATES

Miscellaneous		
	6/30/23	6/30/24
	2025/2026	2026/2027
■ Total Normal Cost	18.4%	18.4%
■ Employee Normal Cost	<u>7.6%</u>	<u>7.6%</u>
■ Employer Normal Cost	10.8%	10.8%
■ Amortization Payments	<u>21.1%</u>	<u>22.5%</u>
■ Total Employer Contribution Rate	31.9%	33.3%
■ 2025/26 Employer Contribution Rate		31.9%
• 6/30/24 investment (gain)/loss (9.5% vs. 6.8%)		(0.4%)
• Progression of amortization bases		1.8%
• Other/non-investment (Gains)/Losses		<u>0.0%</u>
■ 2026/27 Employer Contribution Rate		33.3%

2026/27 Amortization Payment

- Amortization payment is 10.8% of UAL
(one year interest on UAL is 6.8%)
 - Payment exceeds interest on the UAL
 - No “negative amortization.”
- Amortization payment equivalent to:
 - 13.5 years on level dollar amortization schedule
(all payments are the same amount)
 - 11.2 years on level percent of payroll schedule
(payments increase 2.8% annually)

Safety		
	6/30/23	6/30/24
	2025/2026	2026/2027
■ Total Normal Cost	33.7%	34.8%
■ Employee Normal Cost	<u>11.9%</u>	<u>11.2%</u>
■ Employer Normal Cost	21.8%	23.6%
■ Amortization Payments	<u>50.7%</u>	<u>51.1%</u>
■ Total Employer Contribution Rate	72.5%	74.7%
■ 2025/26 Employer Contribution Rate		72.5%
• (Gains)/Losses		<u>2.2%</u>
■ 2026/27 Employer Contribution Rate		74.7%

2026/27 Amortization Payment

- Amortization payment is 9.4% of UAL
(one year interest on UAL is 6.8%)
 - Payment exceeds interest on the UAL
 - No “negative amortization.”
- Amortization payment equivalent to:
 - 17.1 years on level dollar amortization schedule
(all payments are the same amount)
 - 13.2 years on level percent of payroll schedule
(payments increase 2.8% annually)



CONTRIBUTION PROJECTION

■ Investment returns:

- June 30, 2025 12.1%⁴
- Future returns based on stochastic analysis using 1,000 trials
- Single year returns⁵ with current investment mix, no risk mitigation:

	Percentile		
	25th	50th	75th
First 6 years	-2.2%	5.7%	14.5%
After 6 years	-0.6%	7.5%	16.4%

- Assumes investment returns will generally be lower over the next 6 years and higher beyond that
- No Discount Rate decreases due to Risk Mitigation policy – Ultimate rate 6.8%
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection

■ New hire assumptions:

- All new hires assumed PEPRA members and none are Classic members

■ Miscellaneous 6/30/24 employee distribution:

Benefit Tier	Count	% of Total	23/24 Payroll	% of Total
2.5%@55 FAC1	22	19.1%	\$ 2,922,200	21.6%
2%@60 FAC3	19	16.5%	2,916,700	21.6%
2%@62 FAC3 (PEPRA)	74	64.4%	7,665,300	56.8%
Total	115	100.0%	13,504,200	100.0%

■ Town-provided Miscellaneous payroll:

FYE	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Payroll (000s)	\$15,852	\$17,314	\$17,787	\$18,205	\$18,583	\$18,954	\$19,333

■ Safety 6/30/24 employee distribution:

Benefit Tier	Count	% of Total	23/24 Payroll	% of Total
3%@50 FAC1	19	52.8%	\$3,700,000	60.4%
2.7%@57 FAC3 (PEPRA)	17	47.2%	2,422,600	39.6%
Total	36	100.0%	6,122,600	100.0%

■ Town-provided Safety payroll (\$000s):

FYE	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Classic	\$4,878	\$5,142	\$5,277	\$5,399	\$5,507	\$5,617	\$5,730
PEPRA	2,326	2,429	2,477	2,527	2,577	2,628	2,680
Total	7,204	7,571	7,754	7,926	8,084	8,245	8,410

■ Employee Cost Sharing of Employer Contribution:

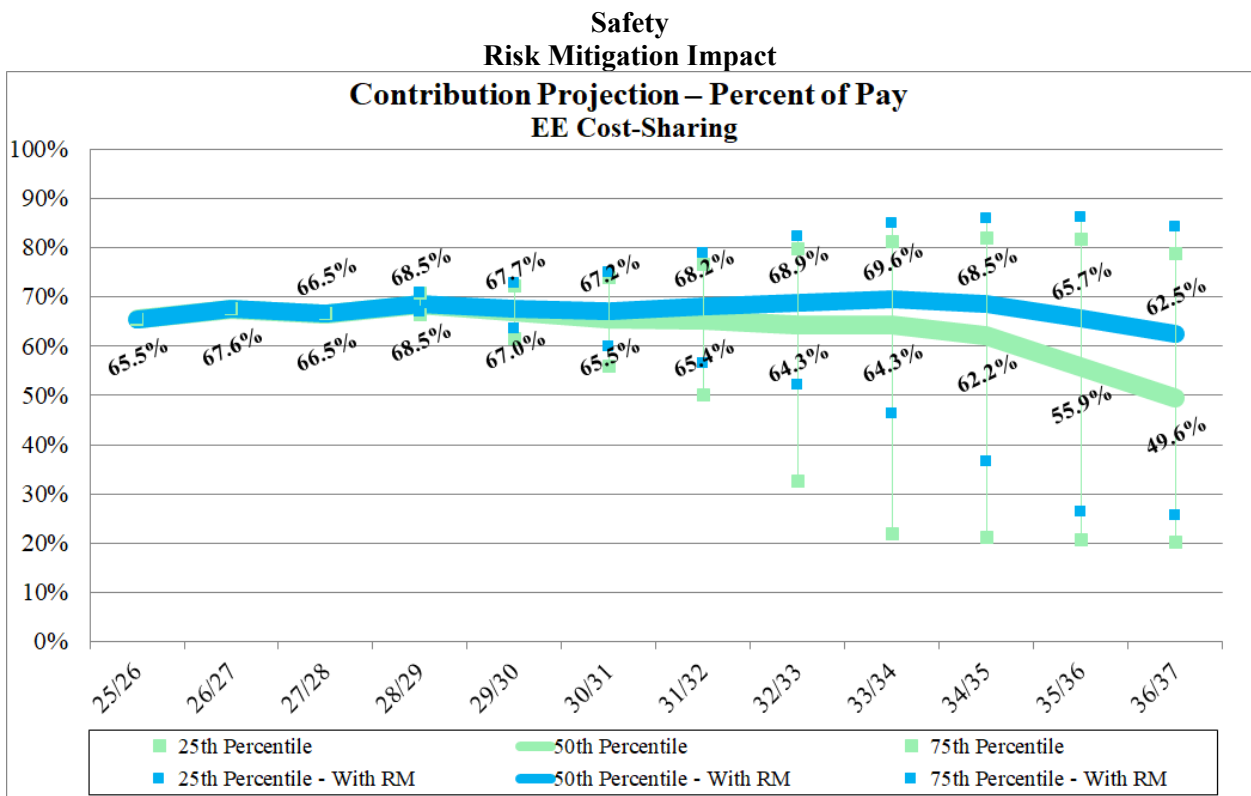
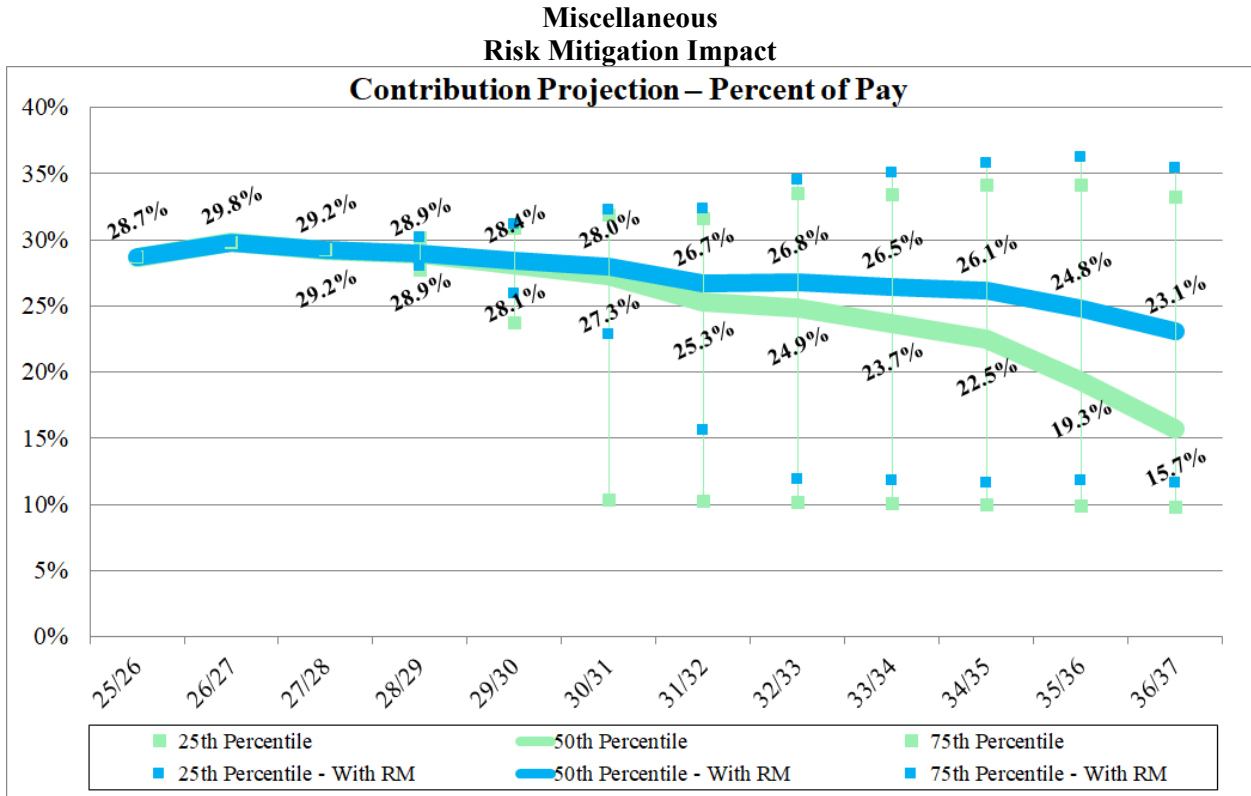
- Miscellaneous: None
- Safety: 3% of pay employee share for Classic members

⁴ Gross return based on CalPERS Basic Financial Statements for fiscal year ending June 30, 2025.

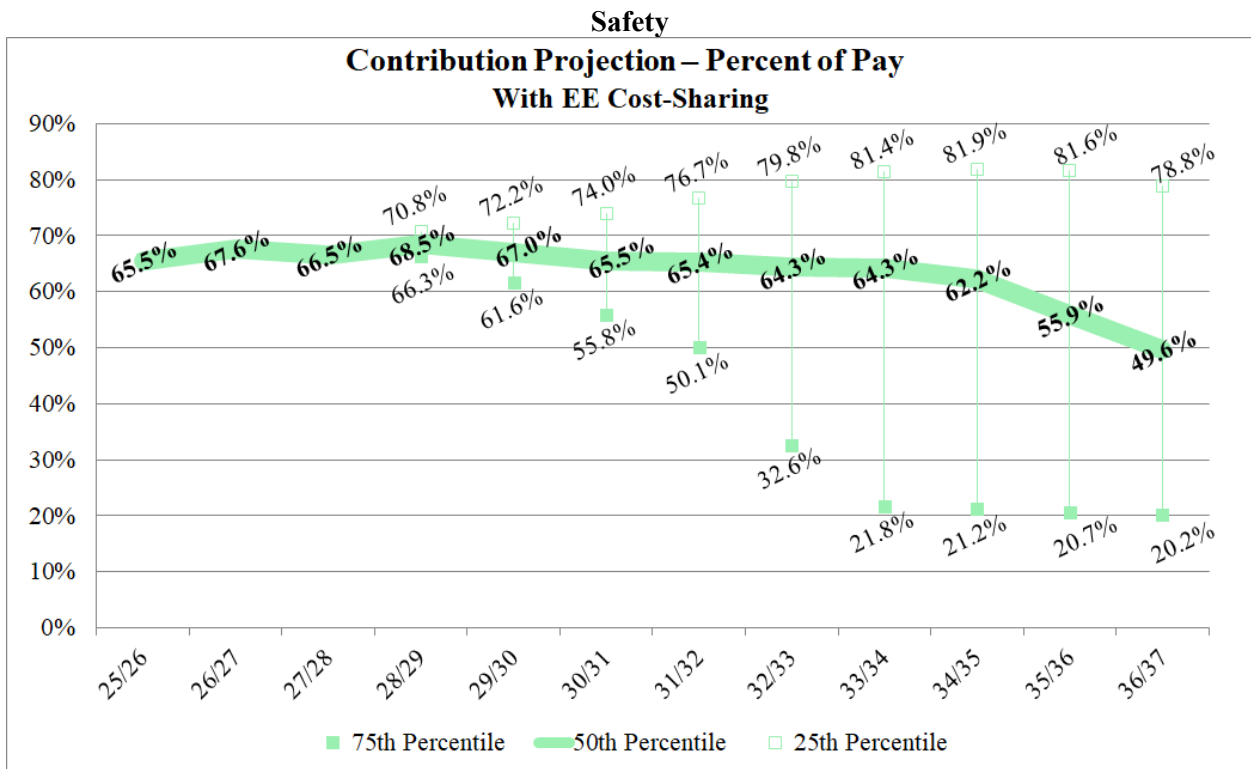
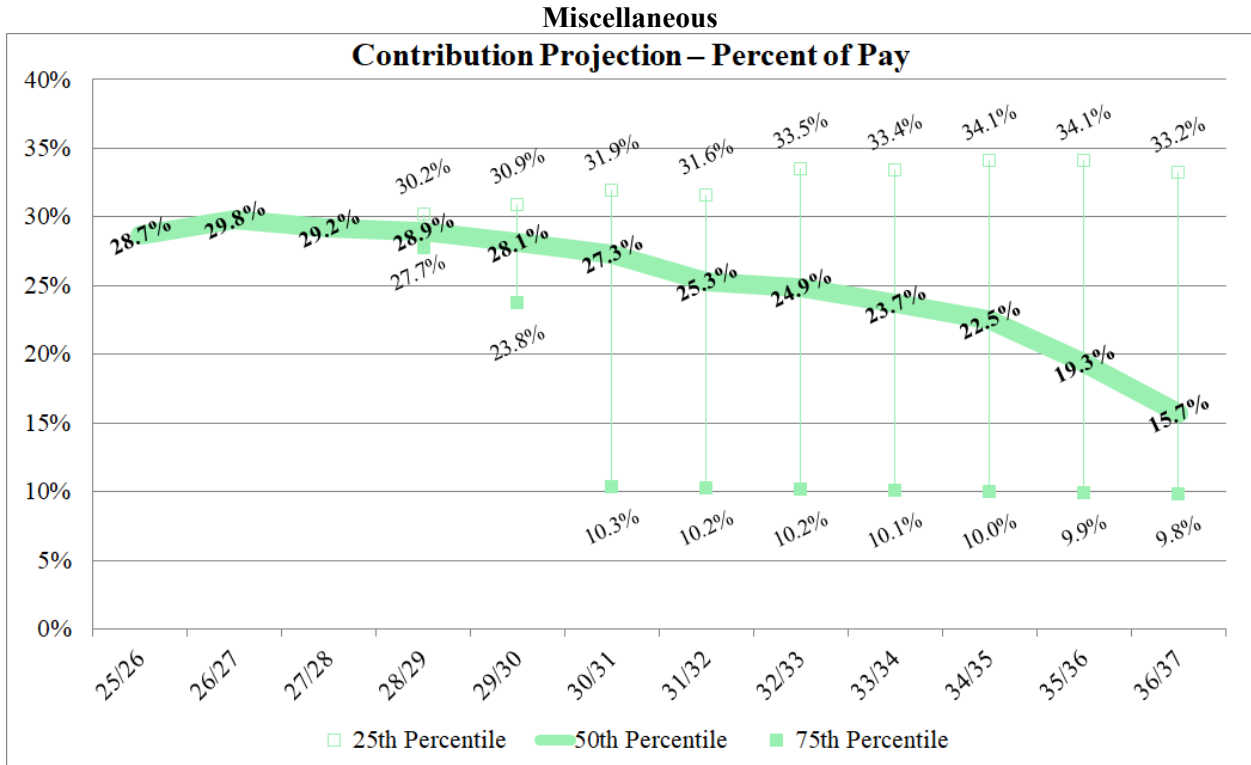
⁵ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



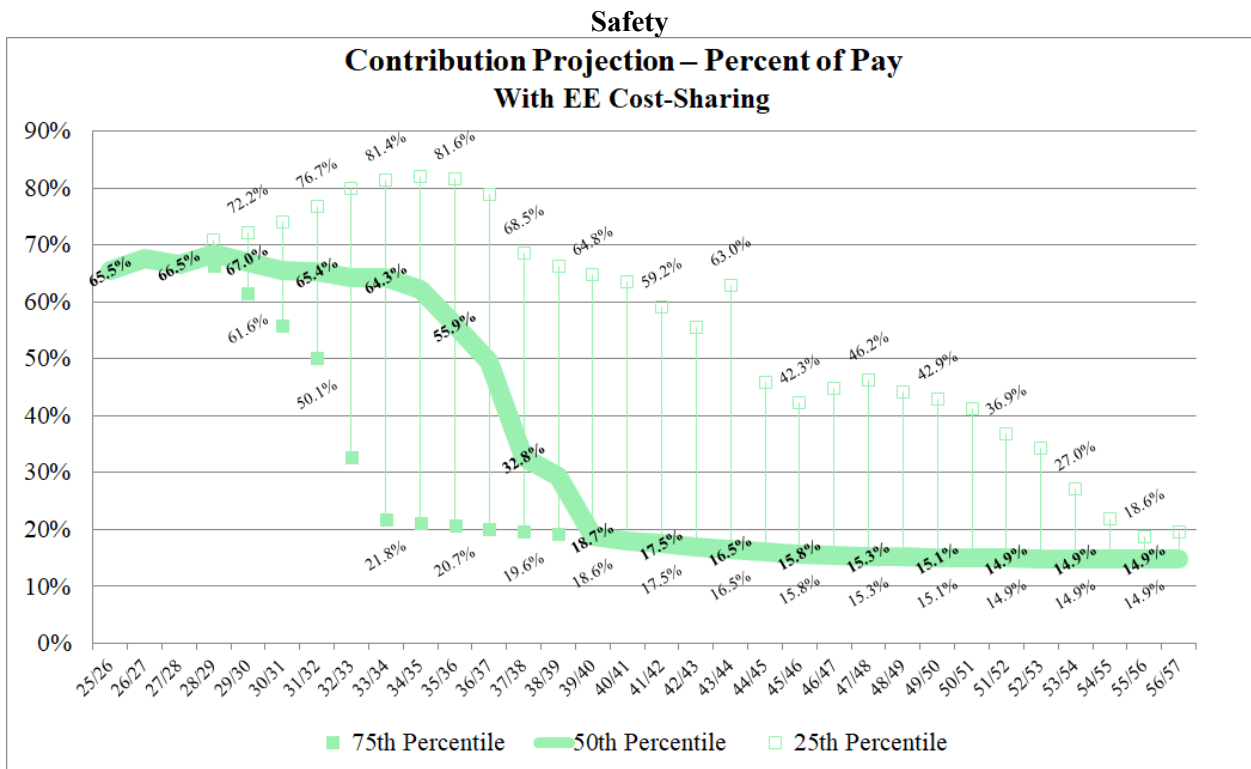
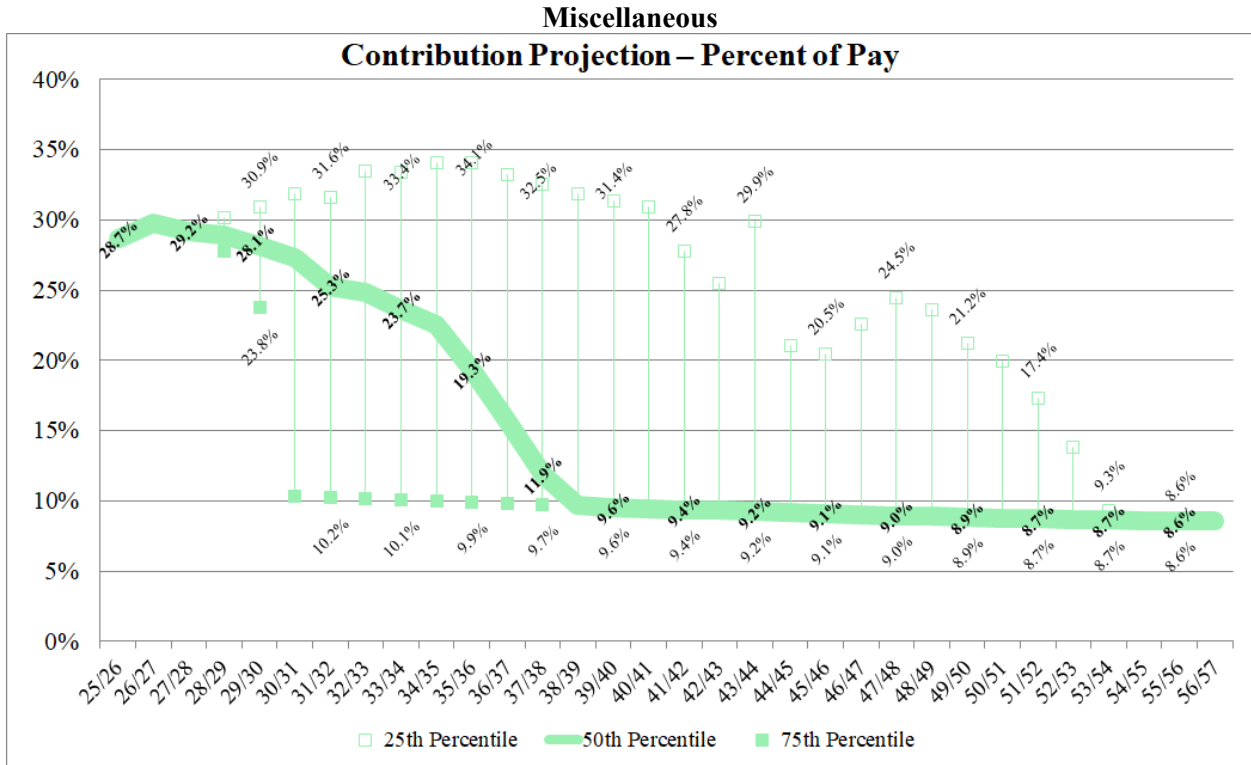
CONTRIBUTION PROJECTION



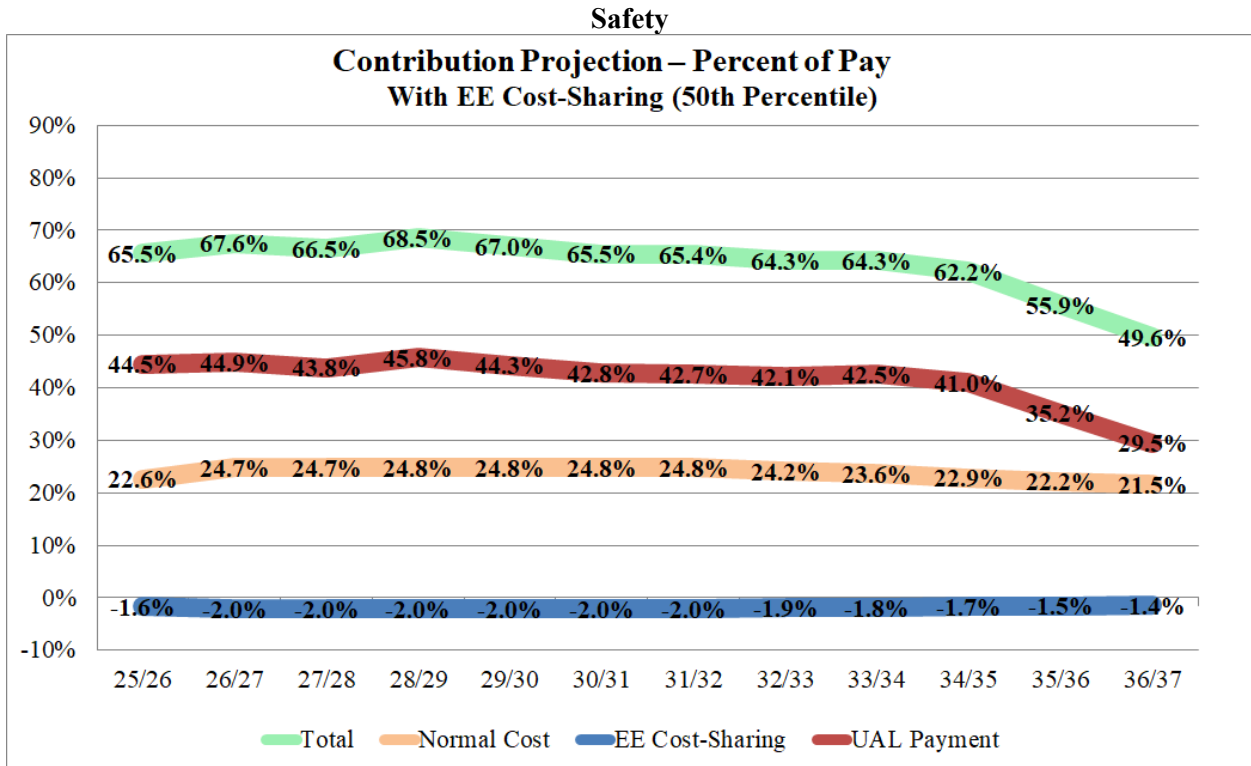
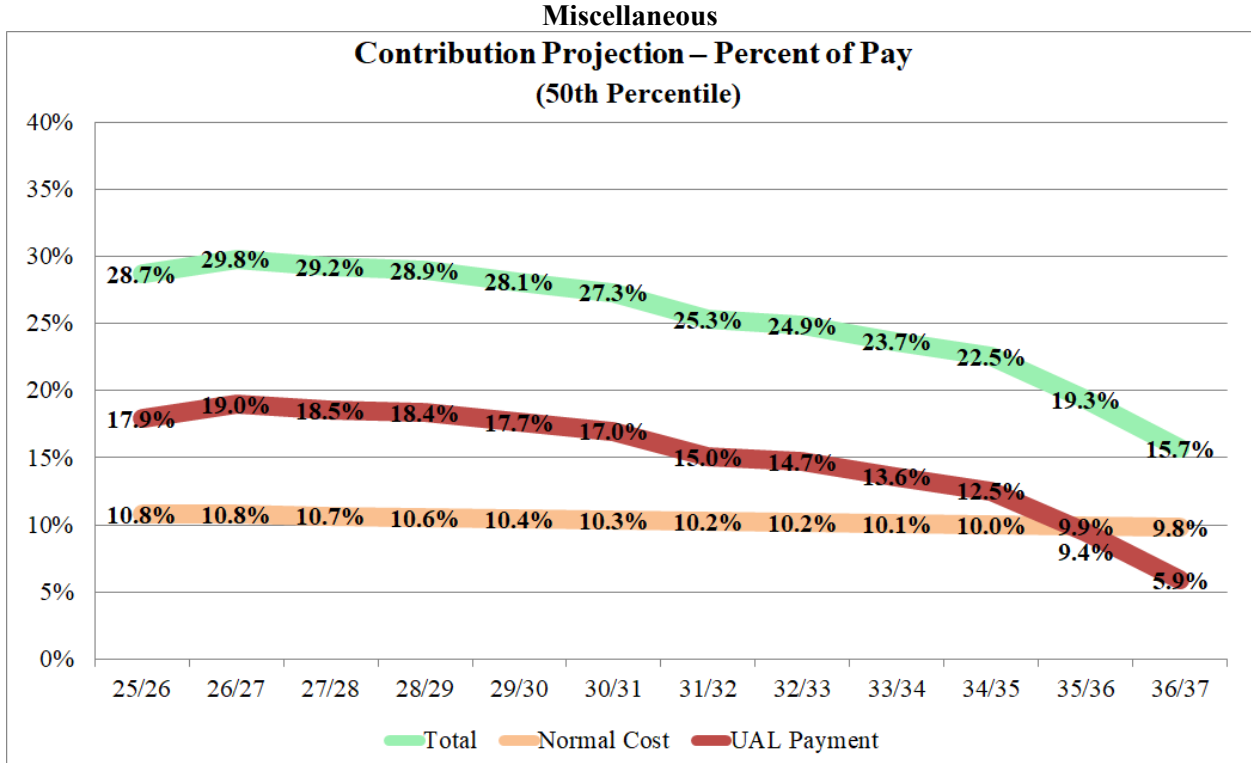
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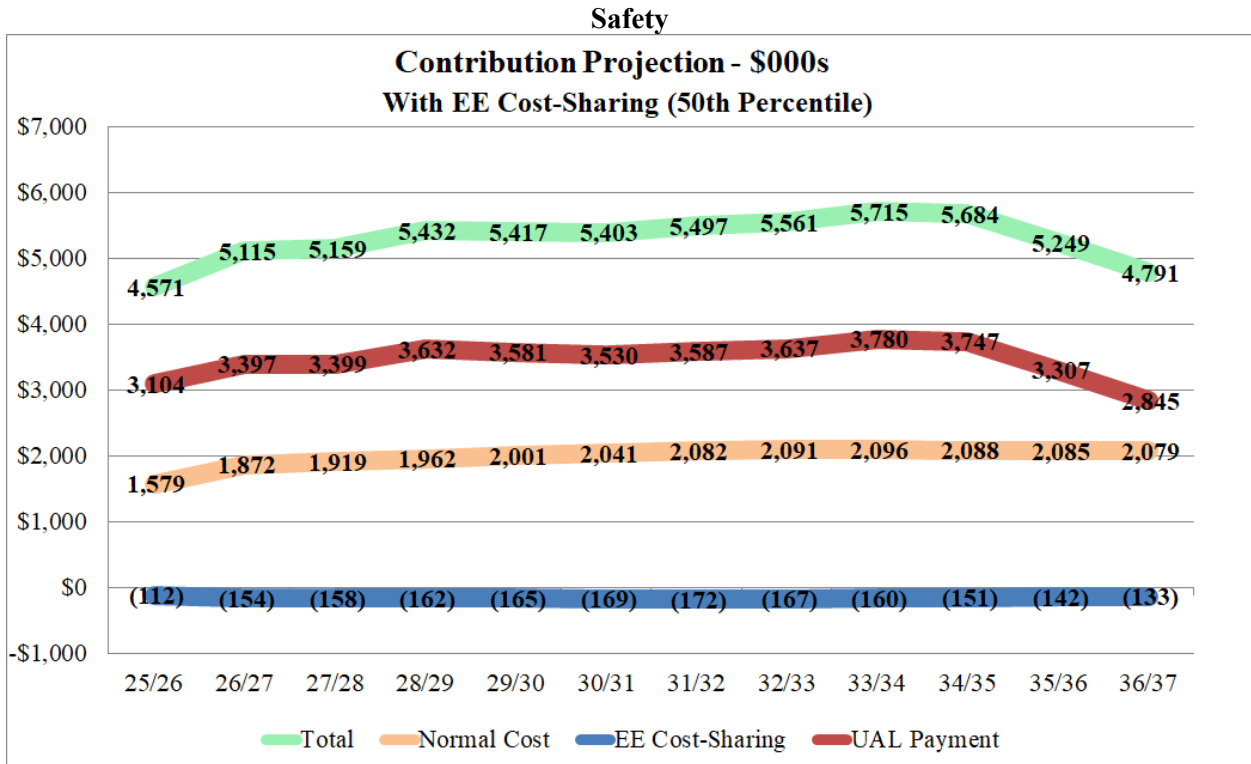
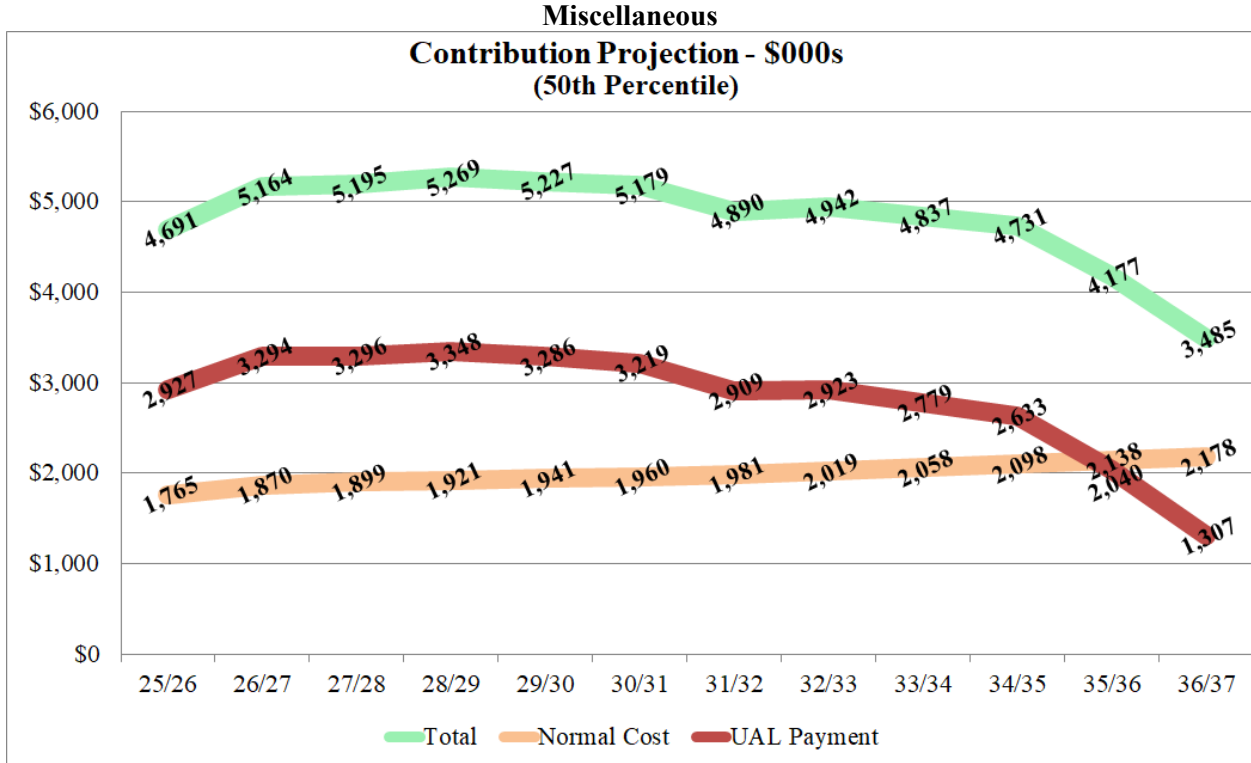
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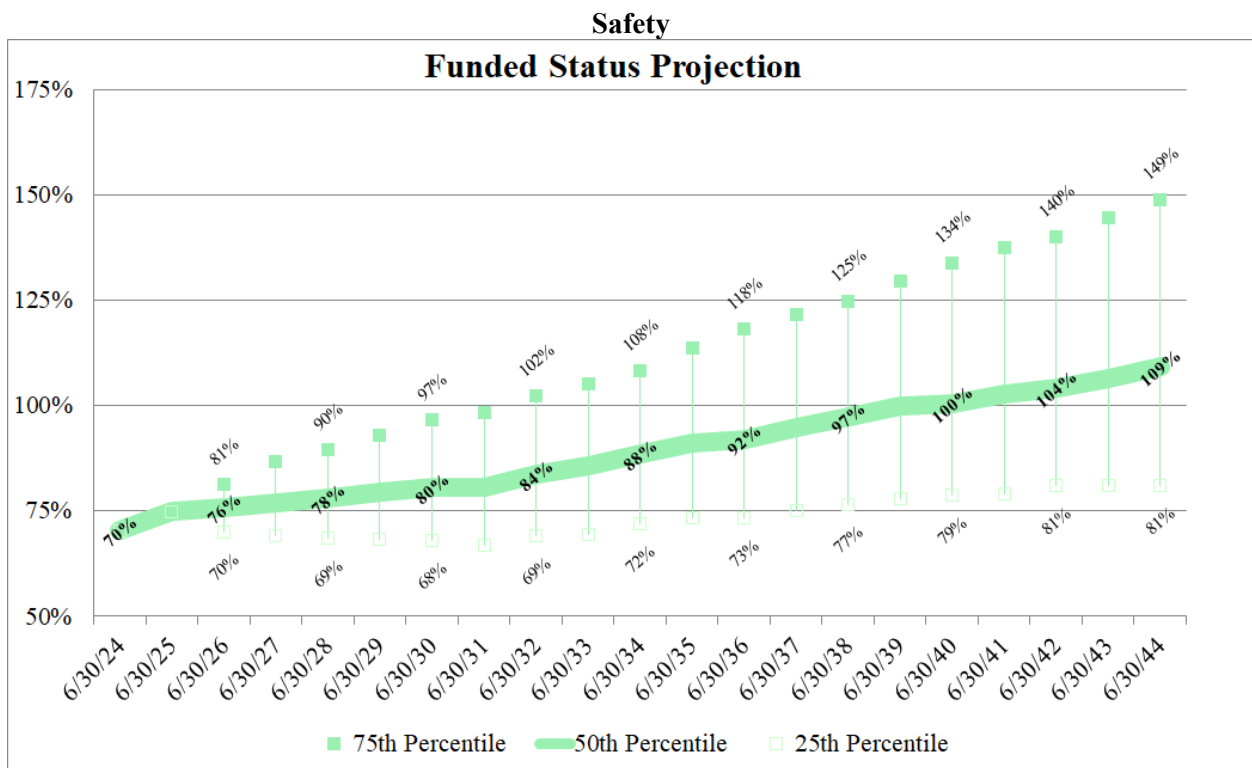
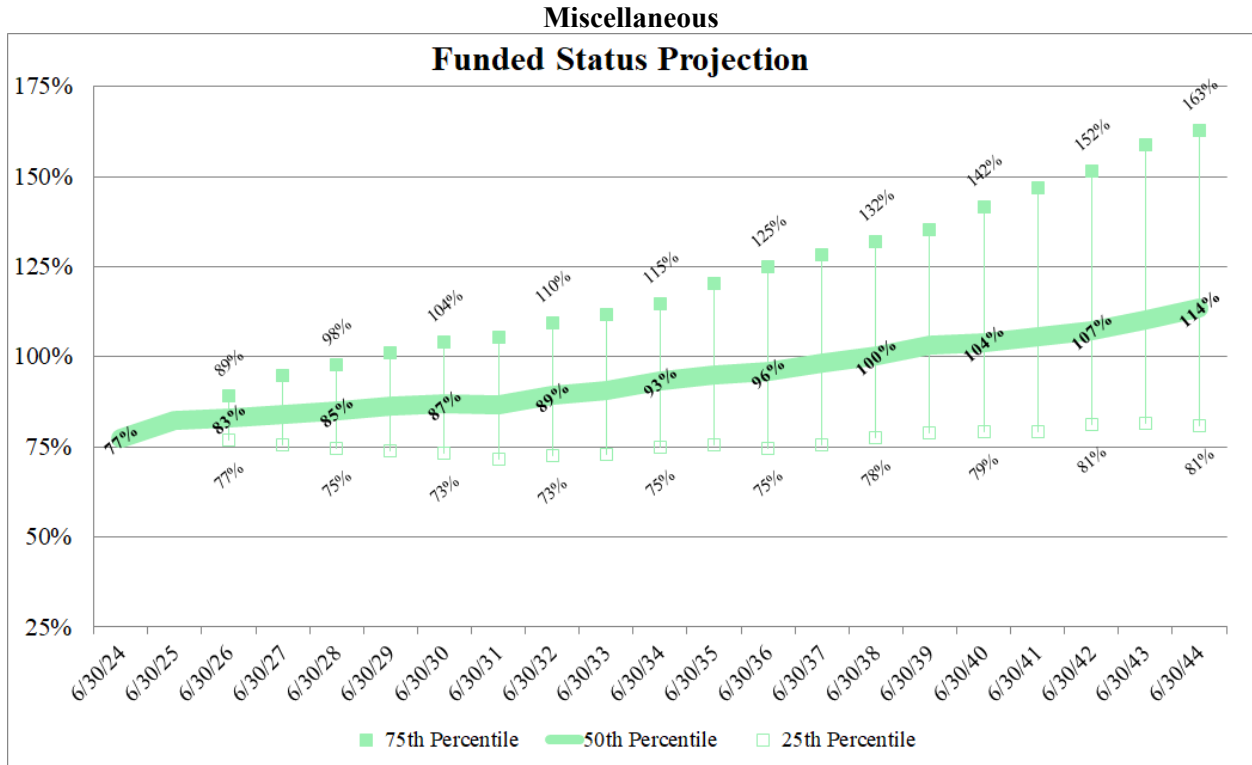
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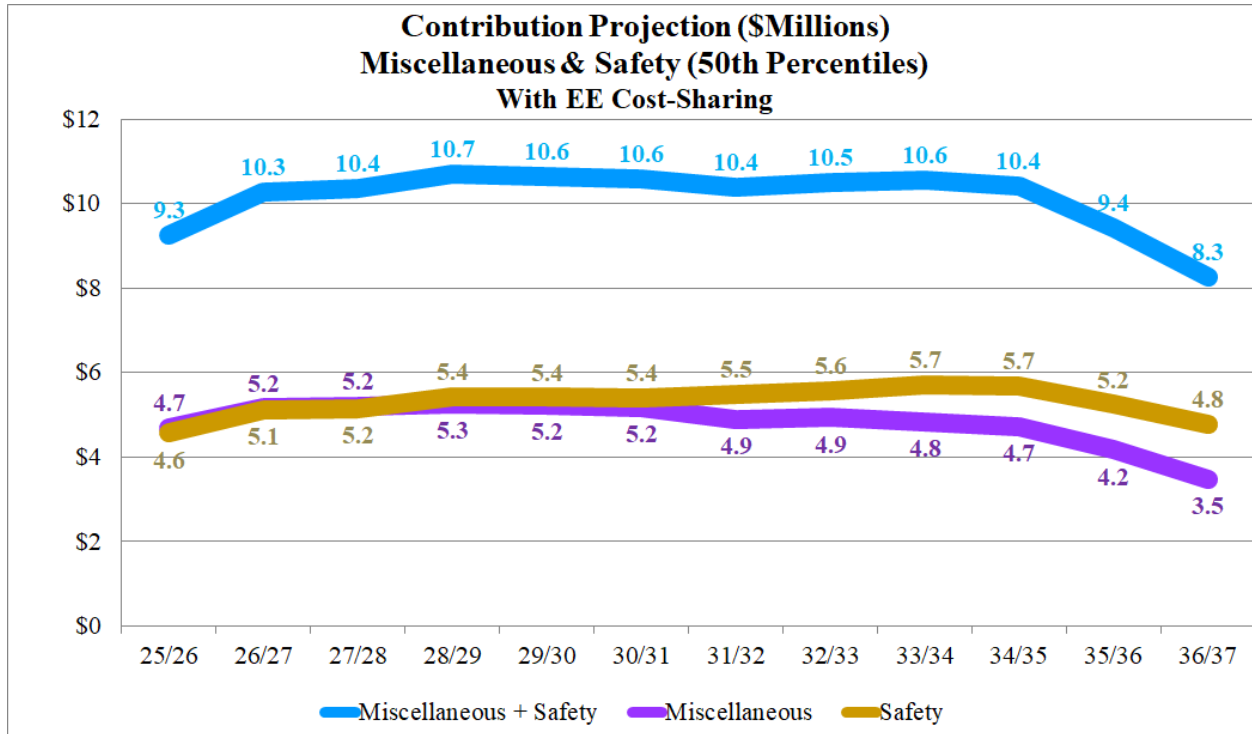
CONTRIBUTION PROJECTION



FUNDED STATUS



COMBINED MISCELLANEOUS AND SAFETY



**Miscellaneous and Safety
Funded Status Summary on June 30, 2024**
(Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$137.2	\$121.2	\$258.4
■ Assets	<u>106.0</u>	<u>85.2</u>	<u>191.2</u>
■ Unfunded AAL	31.2	36.0	67.2
■ Funded Ratio	77.2%	70.3%	74.0%

**Miscellaneous and Safety
Funded Status Summary on June 30, 2025⁶**
(Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$141.3	\$125.0	\$266.3
■ Assets	<u>116.4</u>	<u>93.7</u>	<u>210.1</u>
■ Unfunded AAL	24.9	31.3	56.2
■ Funded Ratio	82.4%	75.0%	78.9%

⁶ Projected 2025 assets reflect 12.1% investment return for 2024/25.



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 & giving them a different pension
 - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
 - Treated as plan termination
 - Liability increased for conservative investments
 - Liability increased for future demographic fluctuations
 - Liability must be funded immediately by withdrawing agency
 - Otherwise, retiree benefits are cut

CalPERS Termination Estimates on June 30, 2024 (Amounts in Millions)

	Ongoing Plan	Termination Basis	
Discount Rate	6.80%	3.61%	5.61%
	Miscellaneous		
Actuarial Accrued Liability	\$137.2	\$200.5	\$153.2
Assets	<u>106.0</u>	<u>106.0</u>	<u>106.0</u>
Unfunded AAL (UAAL)	31.2	94.5	47.2
	Safety		
Actuarial Accrued Liability	\$ 121.2	\$188.8	\$141.2
Assets	<u>85.2</u>	<u>85.2</u>	<u>85.2</u>
Unfunded AAL (UAAL)	36.0	103.6	56.0
	Total		
Unfunded AAL (UAAL)	67.2	198.1	103.2
Funded Ratio	74.0%	49.1%	64.9%



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 2026/27:

	Classic Members		New Members
	Tier 1	Tier 2	PEPRA
	2.5% <u>@55</u> FAC1	2% <u>@60</u> FAC3	2% <u>@62</u> FAC3
• Employer Normal Cost	13.2%	14.6%	8.49%
• Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.75%</u>
• Total Normal Cost	21.2%	21.6%	16.24%
• 50% Target	10.6%	10.8%	8.12%

■ Safety Plan 2026/27:

	Classic Members	New Members
	Tier 1	PEPRA
	3% <u>@50</u> FAC1	2.7% <u>@57</u> FAC3
• Employer Normal Cost	29.4%	14.86%
• Member Normal Cost	<u>9.0%</u>	<u>14.50%</u>
• Total Normal Cost	38.4%	29.36%
• 50% Target	19.2%	14.68%

■ PEPRA Member Contributions:

	2025/26		2026/27			
Group	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	15.59%	7.75%	16.24%	0.65%	7.75%	PEPRA Members
Safety	29.00%	14.50%	29.36%	0.36%	14.50%	PEPRA Members



PAYING DOWN THE UAL & RATE STABILIZATION

- Where do you get the money from?
- How do you use the money?

Where do you get the money from?

- POB:
 - Usually thought of as interest arbitrage between expected earnings and rate paid on POB
 - No guaranteed savings
 - PEPRA prevents contributions from dropping below normal cost
 - Savings offset when investment return is good
 - GFOA Advisory
- Borrow from General Fund similar to State
- One time payments
 - Governing body resolution to use a portion of one time money, e.g.
 - 1/3 to one time projects
 - 1/3 to replenish reserves and
 - 1/3 to pay down unfunded liability



PAYING DOWN THE UAL & RATE STABILIZATION

Additional payments to CalPERS:

- Internal Service Fund
 - Typically used for rate stabilization
 - Restricted investments:
 - Likely low (0.5%-1.0%) investment returns
 - Short term/high quality, designed for preservation of principal
 - Assets can be used by governing body for other purposes
 - Does not reduce Unfunded Liability
- Make payments directly to CalPERS:
 - Likely best long-term investment return
 - Must be considered an irrevocable decision
 - Extra payments cannot be used as future “credit”
 - PEPPRA prevents contributions from dropping below normal cost
 - Option #1: Request shorter amortization period (Fresh Start):
 - Higher short term payments
 - Less interest and lower long term payments
 - Likely cannot revert to old amortization schedule
 - Savings offset when investment return is good (PEPPRA)
 - Option #2: Target specific amortization bases with an Additional Discretionary Payment “ADP”:
 - Extra contribution’s impact muted by reduced future contributions
 - CalPERS can’t track the “would have been” contribution
 - No guaranteed savings
 - Larger asset pool means larger loss (or gain) opportunity
 - Paying off shorter amortization bases: larger contribution savings over shorter period:
 - e.g. 10 year base reduces contribution 13.6¢ for \$1 (level dollar)
 - Less interest savings vs paying off longer amortization bases
 - Paying off longer amortization bases: smaller contribution savings over longer period:
 - e.g. 25 year base reduces contribution 8.2¢ for \$1 (level dollar)
 - More interest savings vs paying off shorter amortization bases
 - Maintaining the current payment schedule – not letting payments reduce due to extra payment – gives the greatest long-term savings



PAYING DOWN THE UAL & RATE STABILIZATION

Irrevocable Supplemental (§115) Pension Trust:

- Can only be used to:
 - Reimburse Town for CalPERS contributions
 - Make payments directly to CalPERS
- Investments significantly less restricted than Town investment funds
 - Fiduciary rules govern Trust investments
 - Usually, designed for long term returns
- Assets don't count for GASB accounting
 - Are considered Employer assets
- Hundreds of trusts established, mostly since 2015
 - Trust providers: PARS, PFM, Keenan
 - California Employers' Pension Prefunding Trust (CEPPT) effective July 2019
 - Strategy 1: 48% stocks / 52% bonds
 - Strategy 2: 22% stocks / 78% bonds
- More flexibility than paying CalPERS directly
 - Town decides if and when and how much money to put into Trust
 - Town decides if and when and how much to withdraw to pay CalPERS or reimburse Town
- Funding strategies typically focus on:
 - Reducing the unfunded liability
 - Fund enough to make total CalPERS UAL = 0
 - Make PEPPRA required payments from Trust when overfunded
 - Stabilizing contribution rates
 - Mitigate expected contribution rates to better manage budget
 - Combination
 - Use funds for rate stabilization/budget predictability
 - Target increasing fund balance to pay off UAL sooner
- Consider:
 - How much can you put into Trust?
 - Initial seed money?
 - Additional amounts in future years?
 - When do you take money out?
 - Target budget rate?
 - Year target budget rate kicks in?
 - Before or after CalPERS rate exceeds budgeted rate?

■ Supplemental Trust	■ CalPERS
<ul style="list-style-type: none"> ● Flexible ● Likely lower long-term return ● Investment strategy choice ● Does not reduce net pension liability for GASB reporting ● More visible 	<ul style="list-style-type: none"> ● Locked In ● Likely higher long-term return ● No investment choice ● Reduces net pension liability for GASB reporting ● More restricted



PREFUNDING OPTIONS

Town's Section 115 Trust

	Miscellaneous	Police Safety
12/31/25 Trust Balance ⁷		\$3,234,000
Projected Balance 6/30/26 ⁸	\$ 1,778,000	\$ 2,237,000
Assumed Future Trust Earnings		5.0%

Miscellaneous Direct Payment of \$1.778M⁹ 6/30/26 to CalPERS

- Shortest Bases: 2007 Benefit Change (2 years remaining) and 2009 Assumption Change (5 years remaining)
or
- Longest Bases: 2013 Loss (19 years remaining)

	Estimated Interest Savings	2026/27 Contribution Impact
Shortest Bases		
\$ Savings (\$000's)	\$ 267	\$(533)
Present value savings @ 3% (\$000's)	140	
Longest Bases		
\$ Savings (\$000's)	\$1,315	\$(144)
Present value savings @ 3% (\$000's)	602	

Safety Direct Payment of \$2.237M⁹ 6/30/26 to CalPERS

- Shortest Bases: 2014 Assumption Change (10 years remaining)
or
- Longest Bases: 2017 & 2018 Non-Asset Loss (23 & 24 years remaining, respectively) and 2016 Asset Loss (22 years remaining)

	Estimated Interest Savings	2026/27 Contribution Impact
Shortest Bases		
\$ Savings (\$000's)	\$ 691	\$(330)
Present value savings @ 3% (\$000's)	349	
Longest Bases		
\$ Savings (\$000's)	\$2,030	\$(160)
Present value savings @ 3% (\$000's)	902	

⁷ Approximate 21% Equity/79% Fixed income asset allocation trust with CEPPT.

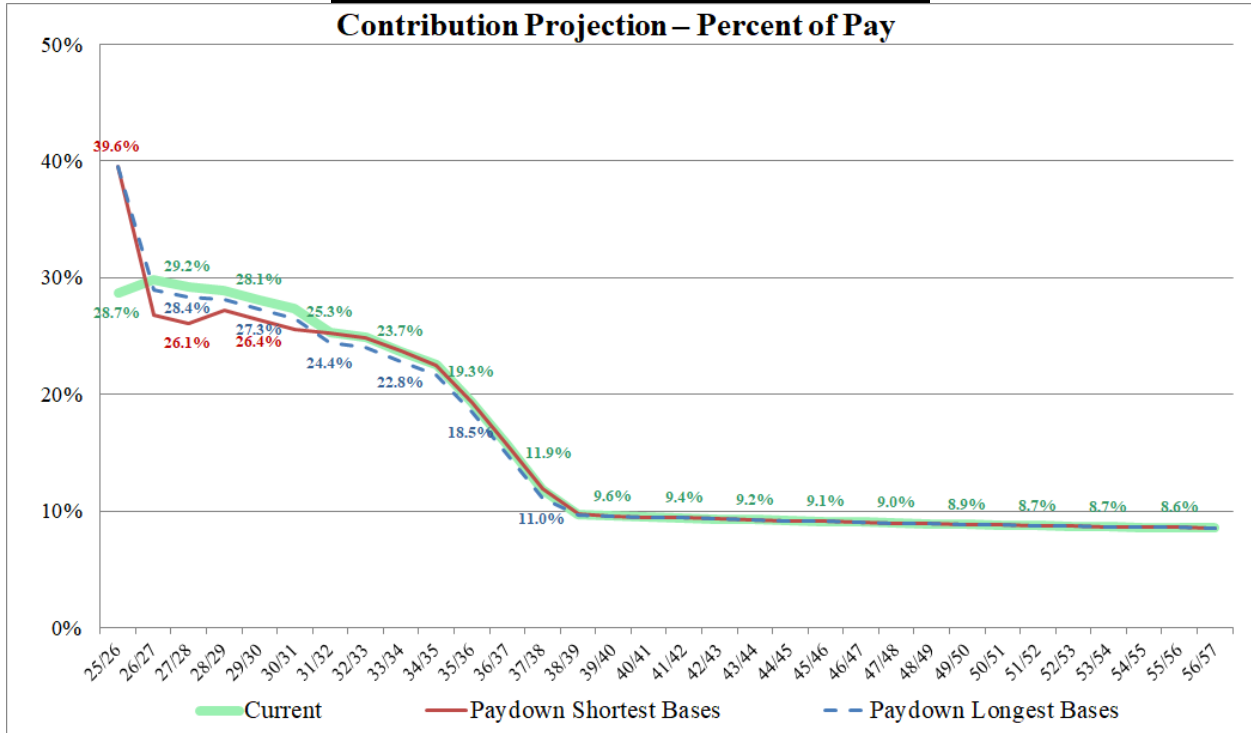
⁸ Approximate 21% Equity/79% Fixed income asset allocation trust with CEPPT.

⁹ \$4.015M projected trust balance allocated to Miscellaneous and Safety by UAL.

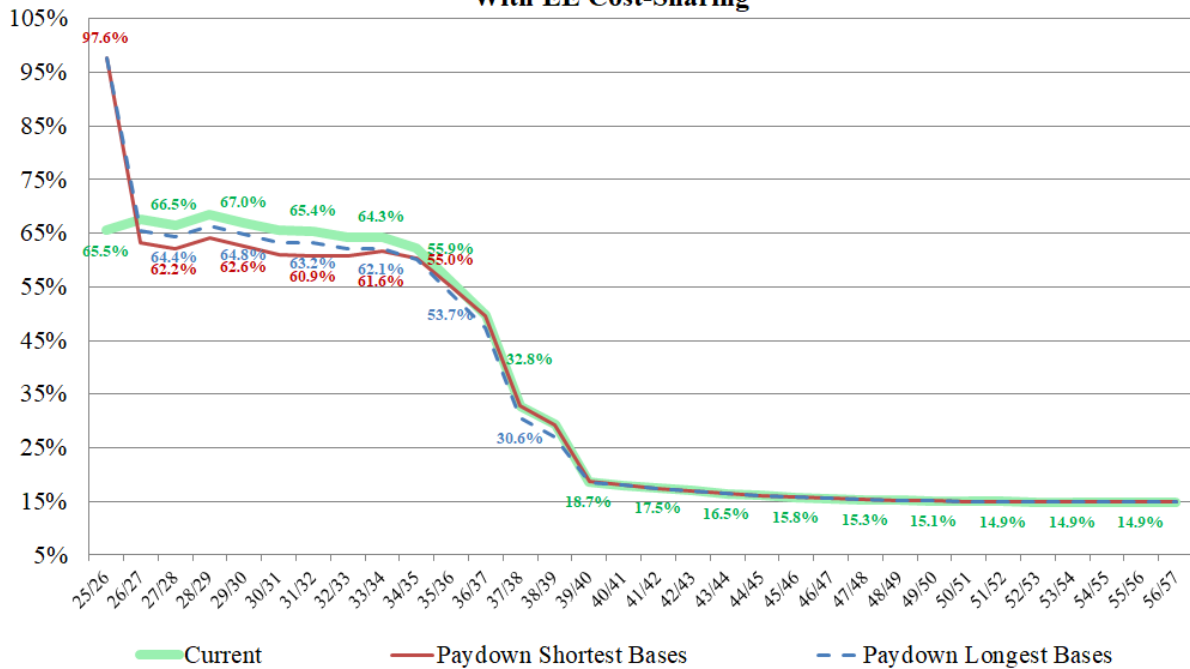


PREFUNDING OPTIONS

Miscellaneous
Direct Payment of \$1.778M 6/30/26 to CalPERS
Contribution Projection – Percent of Pay

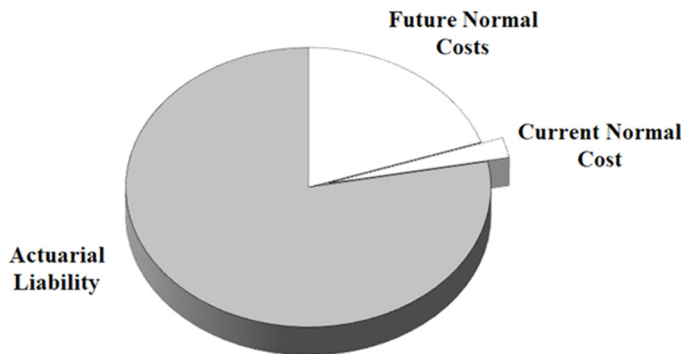


Safety
Direct Payment of \$2.237M 6/30/26 to CalPERS
Contribution Projection – Percent of Pay
With EE Cost-Sharing



DEFINITIONS

**Present Value of Benefits
June 30, 2024**



■ **PVB - Present Value of all Projected Benefits:**

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/24), of all future expected benefit payments based on various (actuarial) assumptions

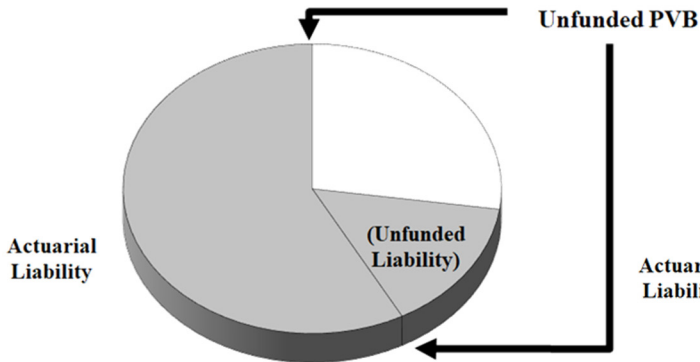
■ **Current Normal Cost (NC):**

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

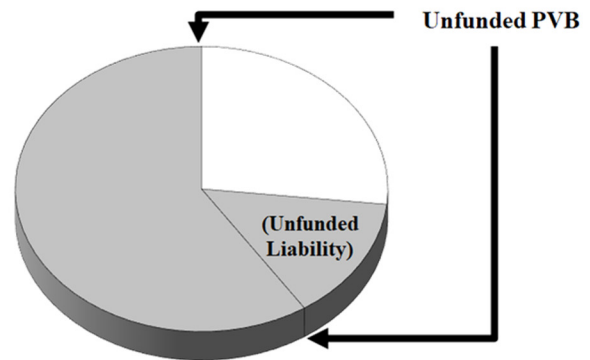
■ **Actuarial Liability (AAL):**

- Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
- Portion of PVB “earned” at measurement

**Present Value of Benefits
June 30, 2023**



**Present Value of Benefits
June 30, 2024**



■ **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

Significant Factors

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

Old Contribution Policy

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses
- Designed to:
 - First smooth rates and
 - Second pay off UAL
- Mitigated contribution volatility

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:

	Rate	Initial Impact	Full Impact
• 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
 - 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)



ADDITIONAL ASSUMPTIONS & METHODS

- Retiree benefit payments increase at 4% for stand-alone Miscellaneous plan and 3% for pooled Safety plan
- Tiers 1, 2, and current PEPRA members' payroll increase/decrease after 2031/32 according to similar large client projected payroll using same mortality, retirement, withdrawal, and disability assumptions as CalPERS 2000-2019 Experience Study
- PEPRA payroll added to above projected payroll to make aggregate payroll increase at CalPERS' assumption of 2.8% after 2031/32
- All other assumptions same as CalPERS valuation assumptions

