



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/11/2026

ITEM NO: 5

DATE: May 11, 2026
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024

RECOMMENDATION:

Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024.

FISCAL IMPACT:

There is no immediate fiscal impact from receiving these reports. The reports describe existing and projected CalPERS contribution obligations and potential future policy options, but no appropriation, budget amendment, or Additional Discretionary Payment is requested by this item.

STRATEGIC PRIORITIES:

The item provides information that supports the Town's top strategic priority of ensuring prudent financial management.

BACKGROUND:

The Town's pension plans are administered by the Board of Administration of the California Public Employees' Retirement System (CalPERS). The Board of Administration is responsible for the management and control of CalPERS. In addition, the Board has exclusive control of the administration and investment of funds. Sworn employees are covered under the Safety Plan, which is a pooled plan, while all other employees are covered in the Miscellaneous Plan, which is a separate plan. The Miscellaneous Plan is administered by CalPERS in the Public Employees' Retirement Fund (PERF).

For the Town to understand the value of future pension benefit payments, actuarial valuations are performed each year for the pension plans. The CalPERS actuary estimates the payments

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Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

that will be made for all potential retirees from each plan in each future year. The actuary calculates the present value of future benefits the plan will be required to pay to its current participants: those still working who will retire in the future, retirees, and those who have terminated employment but have not yet begun drawing benefits. CalPERS completes its review a year in arrears with FY 2024-25 or 2025 valuations are expected from CalPERS in October 2026. The 2024 valuation reports provide the determination of the minimum required employer contributions for fiscal year (FY) 2026-27. In addition, the reports also contain important information regarding the current financial status of the plans as well as projections and risk measures to aid in planning for the future. The pension funding information presented in this report should not be used in financial reports subject to the Governmental Accounting Standards Board (GASB) Statement No. 68 for an Agent Employer Defined Benefit Pension Plan.

The Town contracts with an actuarial firm to provide an independent review of the Town's data to ensure sufficient funding, as CalPERS assumption has resulted in the Town not contributing enough in prior years based on payroll estimates in the CalPERS valuation. Staff has received the annual Independent Actuarial Report from Foster and Foster for the Miscellaneous Plan and the Classic and PEPRSA Safety Plan (Attachment 1). The measurement date for each of the Plans is as of June 30, 2024. These reports provide the Town's Finance Commission with an understanding of the scale of future pension costs, the risks associated with underperformance, and strategies that could mitigate long-term exposure.

DISCUSSION:

Based on the June 30, 2025 projected funded status shown in Attachment 1, the Miscellaneous Plan reported a projected accrued liability of \$141.3 million against the market value of assets of \$116.4 million, leaving an Unfunded Accrued Liability (UAL) of 24.9 million and a funded ratio of 82.4%. The Safety and PEPRSA Safety Plans combined reported an accrued liability of \$125.0 million against the market value of assets of \$93.7 million, leaving a UAL of \$31.3 million and a funded ratio of 75.0%. Together, the Town's total pension debt stands at approximately \$56.2 million.

For fiscal year 2025–26, the Miscellaneous Plan requires an employer normal cost contribution of 11.2% of payroll, in addition to an annual UAL payment of \$3.29 million. This UAL payment may be made monthly at \$274,000 or prepaid in July at \$3.19 million. For the Safety and PEPRSA Safety Plans, the employer's normal cost contributions are 29.38% for Classic members and 14.86% for PEPRSA members, with a UAL contribution of \$3.40 million. The Safety UAL payment may be made monthly at \$283,000 or prepaid at \$3.29 million.

June 30, 2024	Miscellaneous Plan	Safety & PEPR Safety Plan
Projected Accrued Liability	\$137,200,000	\$121,200,000
Projected Market Value of Assets	\$106,000,000	\$85,200,000
Projected Unfunded Accrued Liability	\$31,200,000	\$36,000,000
Projected Funded Ratio	77.2%	70.3%

Looking forward, the miscellaneous plans show a decrease for the first two years of the forecast period, a slight increase in FY 2028-29, and then continued decreases for the remainder of the forecast period, as shown on page 20 of Attachment 1. The safety plans show slight increases and decreases until FY 2029-30, at which point the plan starts to decrease for the remainder of the forecast period.

Policy Considerations

The Town has several policy options available to address these long-term pension obligations. First, the Town may continue paying the required minimum contributions established by CalPERS. Second, the Town could make Additional Discretionary Payments (ADPs) to accelerate the payoff of pension debt. For the Miscellaneous Plan, paying \$1.778M on or before 6/30/26 could result in a reduction in costs of \$533,000 if the Town paid down the shortest base, and \$144,000 if the longest base(s) are paid down. For safety, a \$2.237M payment on the shortest base is estimated to save \$330,000 and \$160,000 for the longest base(s).

These reports are attached (Attachment 1).

CONCLUSION:

In conclusion, while the Town’s pension funded status has improved modestly, the combined unfunded liability was \$67.2 million as of June 30, 2024 and is projected at \$56.2 million as of June 30, 2025 and continues to present a major long-term fiscal challenge. Although longer term projections show only minor increases and steady declines, much of this funding relief is being driven by favorable returns. Should the market shift over a prolonged period, this could result in higher costs.

COORDINATION:

This staff report was coordinated with the Town Manager and Town Attorney.

Attachments:

1. Foster and Foster Independent Actuarial Report – 06-30-24 Valuations