



TOWN OF LOS GATOS CALPERS MISCELLANEOUS & SAFETY PLANS



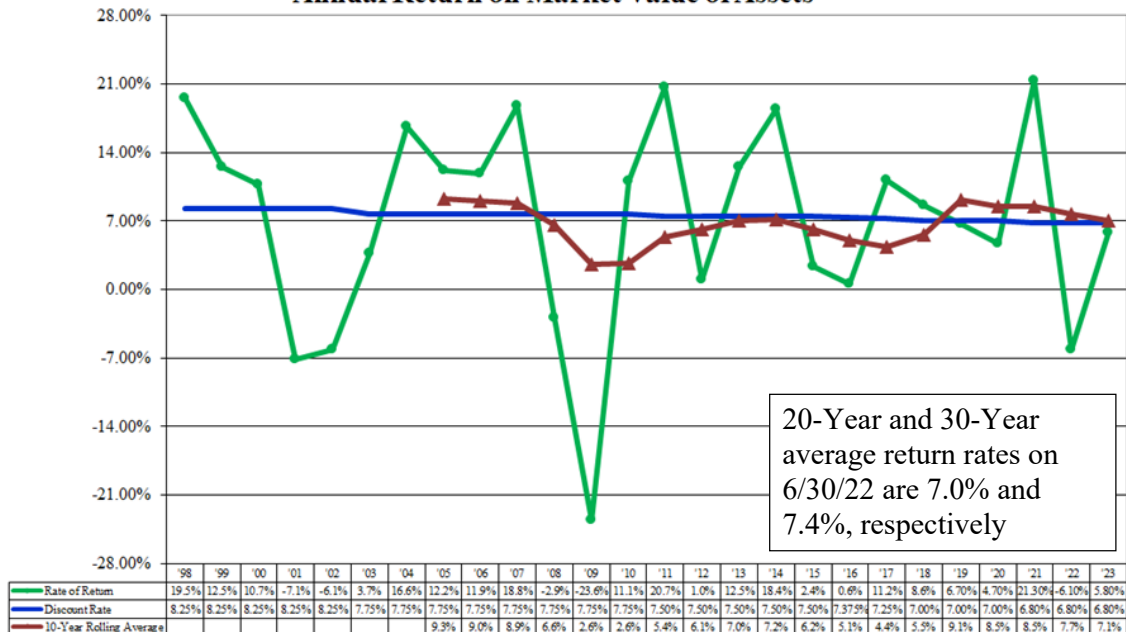
CalPERS Analysis – 6/30/22 Valuation

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May 13, 2024

INVESTMENT RETURN

Annual Return on Market Value of Assets



Discount rates are expected returns net of administrative expenses.

2013/14 through 2022/23 “money-weighted” returns reported in CalPERS AFCR (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%, and 6.1%, respectively.

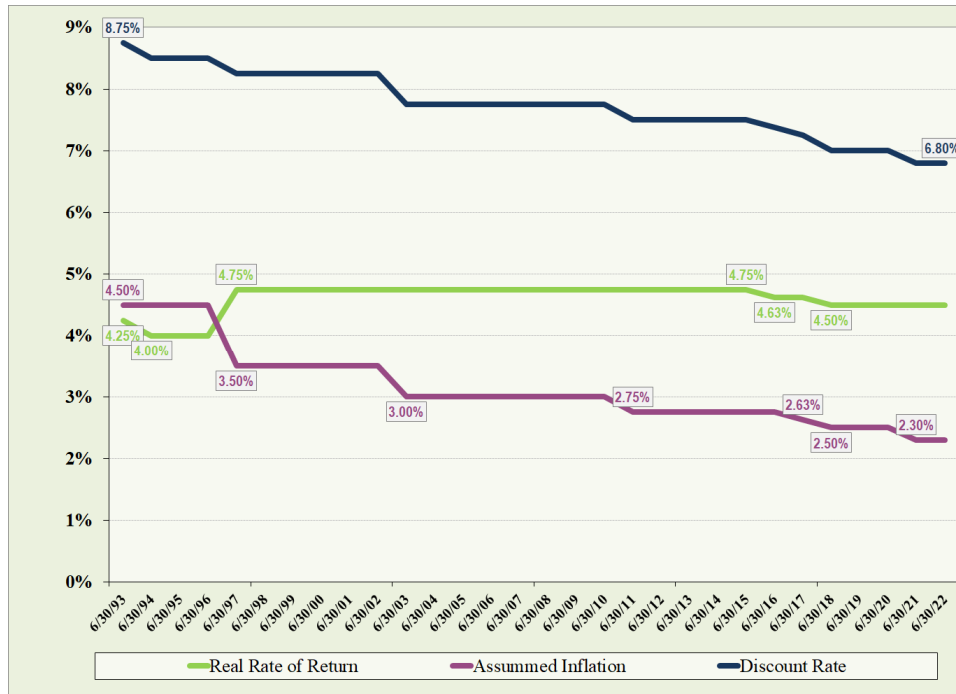


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HISTORICAL DISCOUNT RATES

Inflation and Real Return Assumptions



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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
<i>If the actual investment returns exceed the discount rate by:</i>	<i>Then the discount rate will be reduced by:</i>
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
- Likely get to 6.0% discount rate over 20+ years
 - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
 - First triggered for 6/30/21 valuation - 6.8% discount rate
- Not triggered for 6/30/22 (nor 6/30/23) valuation
- April 15, 2024 CalPERS Board removed automatic trigger



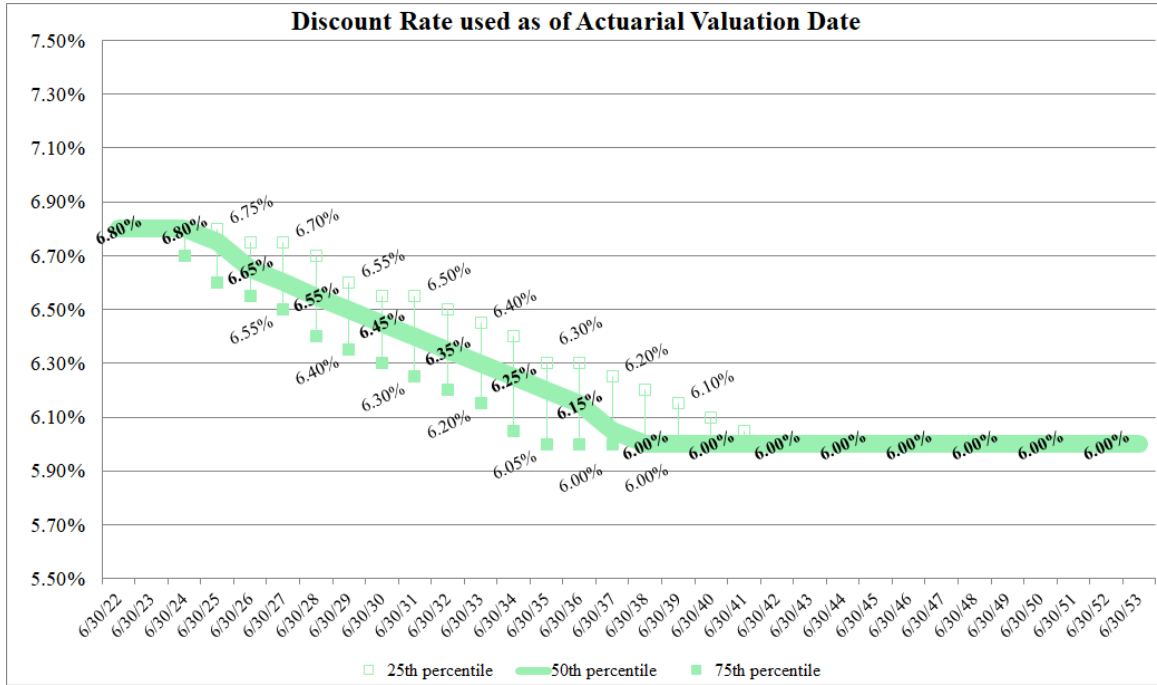
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RISK MITIGATION

Projection



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RISK MITIGATION

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.



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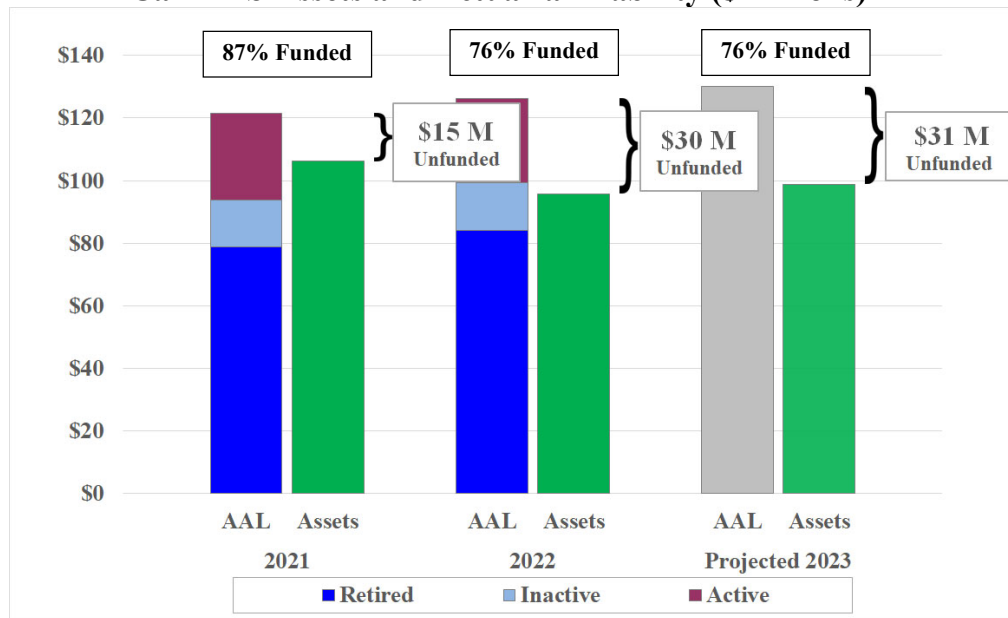
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PLAN FUNDED STATUS

Miscellaneous

CalPERS Assets and Actuarial Liability (\$Millions)²



² Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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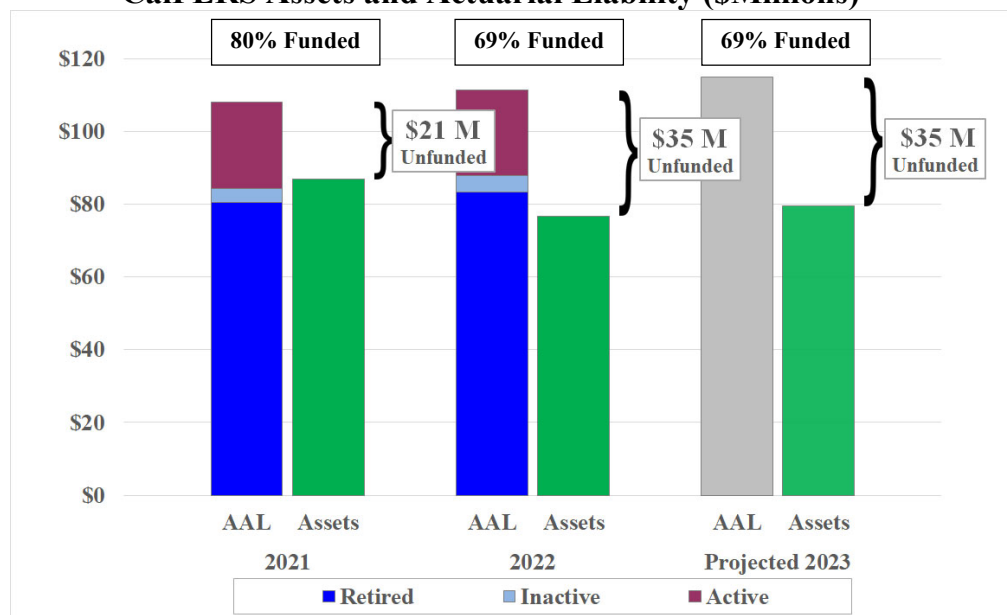
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PLAN FUNDED STATUS

Safety

CalPERS Assets and Actuarial Liability (\$Millions)³



³ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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PLAN FUNDED STATUS

Discount Rate Sensitivity June 30, 2022

Miscellaneous

	<u>Discount Rate</u>		
	<u>6.80%</u>	<u>6.30%⁴</u>	<u>5.80%</u>
AAL	\$126,200,000	\$134,400,000	\$142,600,000
Assets	<u>95,800,000</u>	<u>95,800,000</u>	<u>95,800,000</u>
Unfunded Liability	30,400,000	38,600,000	46,800,000
Funded Ratio	75.9%	71.3%	67.2%

Safety

	<u>Discount Rate</u>		
	<u>6.80%</u>	<u>6.30%</u>	<u>5.80%</u>
AAL	\$111,300,000	\$118,900,000	\$126,400,000
Assets	<u>76,700,000</u>	<u>76,700,000</u>	<u>76,700,000</u>
Unfunded Liability	34,600,000	42,200,000	49,700,000
Funded Ratio	69.0%	64.5%	60.7%

⁴ Estimated by Foster & Foster.



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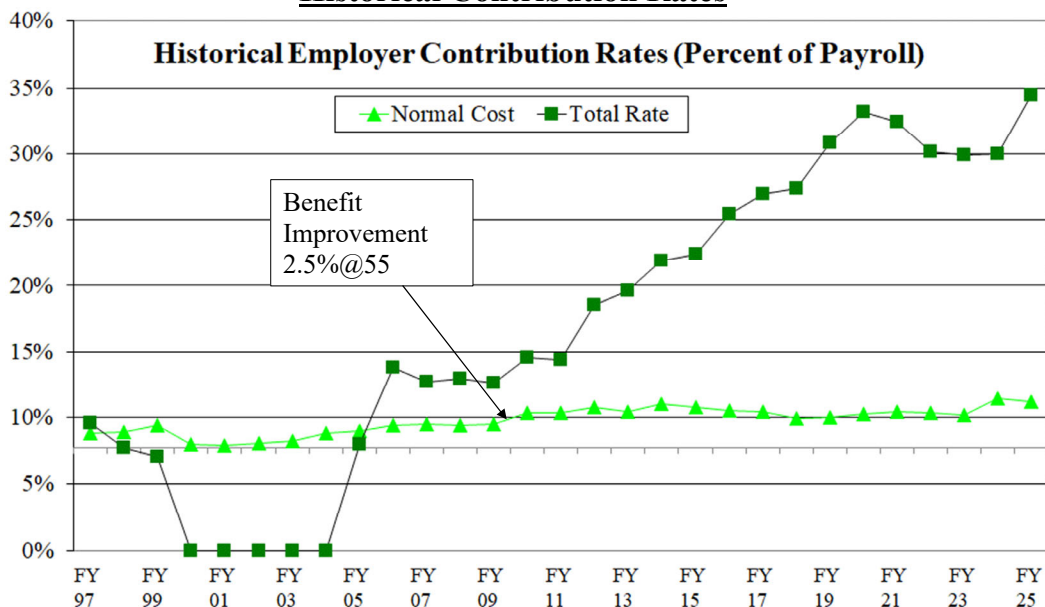
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CONTRIBUTION RATES

Miscellaneous

Historical Contribution Rates



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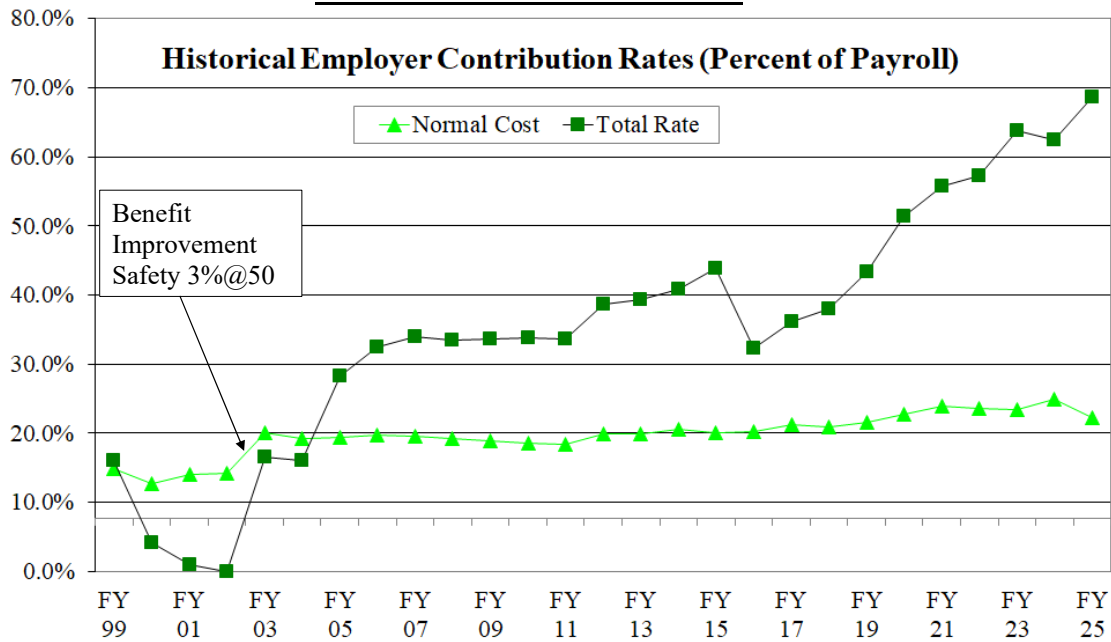
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CONTRIBUTION RATES

Safety

Historical Contribution Rates



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CONTRIBUTION PROJECTIONS

Background

- Investment returns:
 - June 30, 2023 5.8%⁵
 - Future returns based on stochastic analysis using 1,000 trials
 - Single year returns⁶ with current investment mix, no risk mitigation:
- | | Percentile | | |
|---------------|------------------|------------------|------------------|
| | 25 th | 50 th | 75 th |
| First 8 years | -1.8% | 6.0% | 14.7% |
| After 8 years | -0.7% | 7.5% | 16.4% |
- Assumes investment returns will generally be lower over the next 8 years and higher beyond that.
 - Discount Rate decreases due to Risk Mitigation policy:
 - Ultimate rate 6.0%
 - Net impact of investment gain and discount rate change amortized over 20 years with 5 year ramp up
 - No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
 - All future hires PEPPRA

⁵ Gross return based on June 30, 2023 CalPERS News Release issued in July 2023.

⁶ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS

Miscellaneous Payroll

■ 6/30/22 employee distribution:

Benefit Tier	Count	% of Total	21/22 Payroll	% of Total
2.5%@55 FAC1	28	26.2%	\$ 3,061,200	27.6%
2%@60 FAC3	21	19.6%	3,070,200	27.7%
2%@62 FAC3 (PEPRA)	58	54.2%	4,962,800	44.7%
Total	107	100%	11,094,200	100%

■ Town provided payroll for contribution years:

FYE	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Payroll (000s)	\$13,980	\$14,441	\$14,755	\$15,059	\$15,388	\$15,666

■ Employee Cost Sharing of Employer Contribution:

- None



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CONTRIBUTION PROJECTIONS

Safety

■ 6/30/22 employee distribution:

Benefit Tier	Count	% of Total	21/22 Payroll	% of Total
3%@50 FAC1	21	56.8%	\$3,446,200	63.6%
2.7%@57 FAC3 (PEPRA)	16	43.2%	1,969,500	36.4%
Total	37	100%	5,415,800	100%

■ Town provided payroll (000s) for contribution years:

FYE	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Classic	\$3,850	\$3,942	\$4,034	\$4,113	\$4,194	\$4,277
PEPRA	2,738	2,852	2,925	2,992	3,051	3,112

■ Employee Cost Sharing of Employer Contribution:

- 3% of pay employee share for Classic members



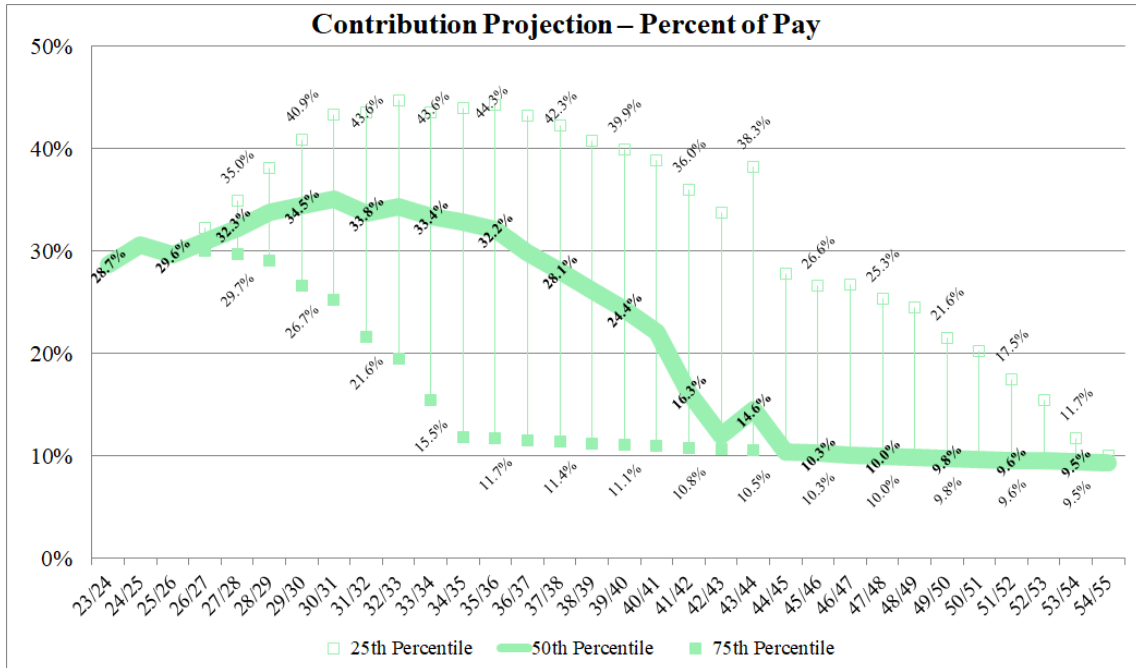
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CONTRIBUTION PROJECTIONS

Miscellaneous



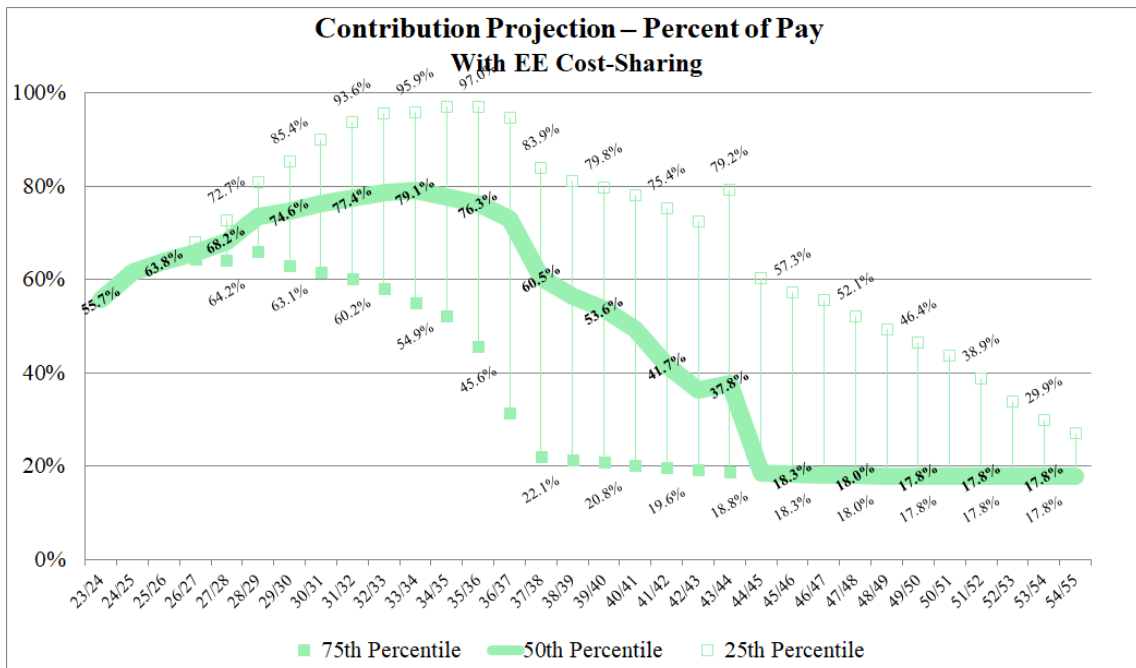
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Safety



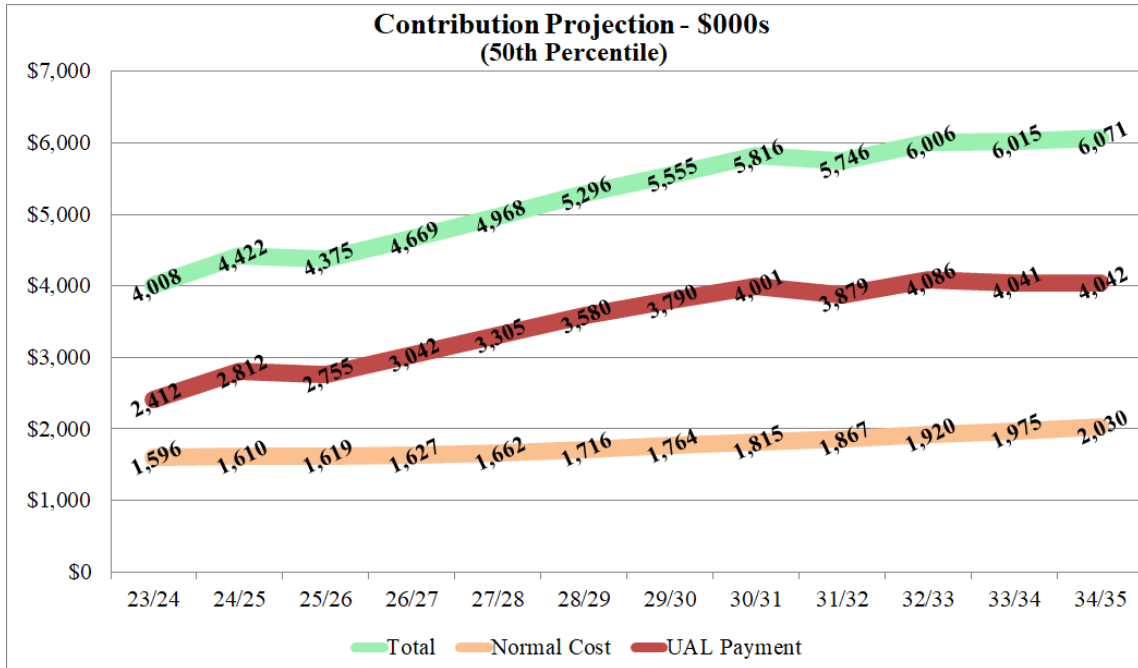
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CONTRIBUTION PROJECTIONS

Miscellaneous



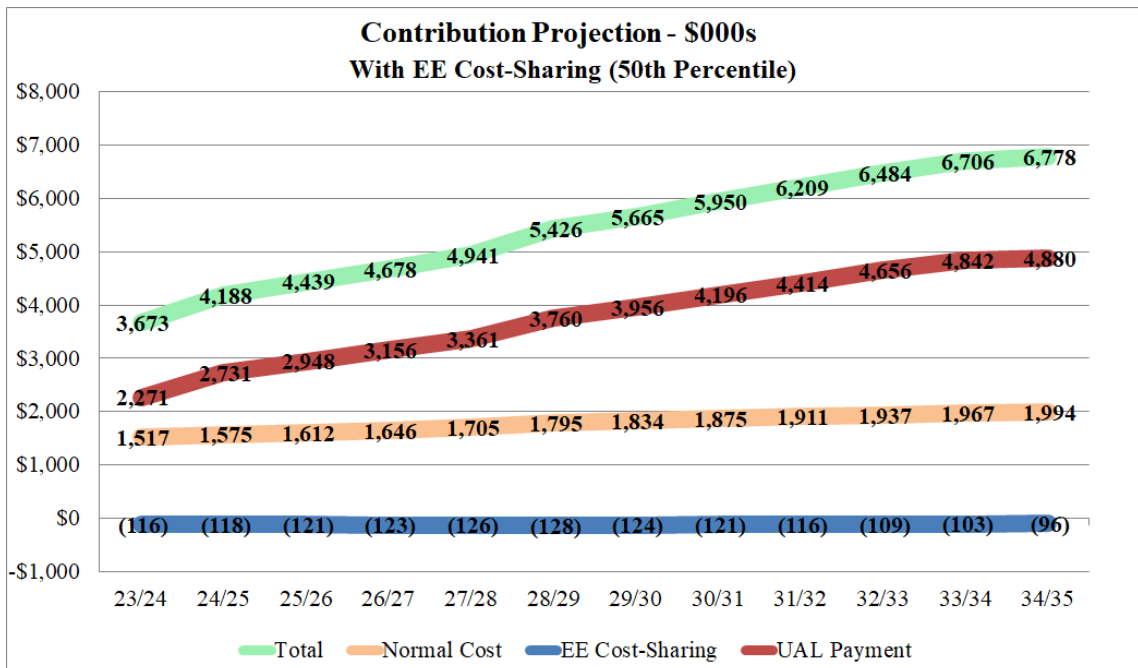
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CONTRIBUTION PROJECTIONS

Safety



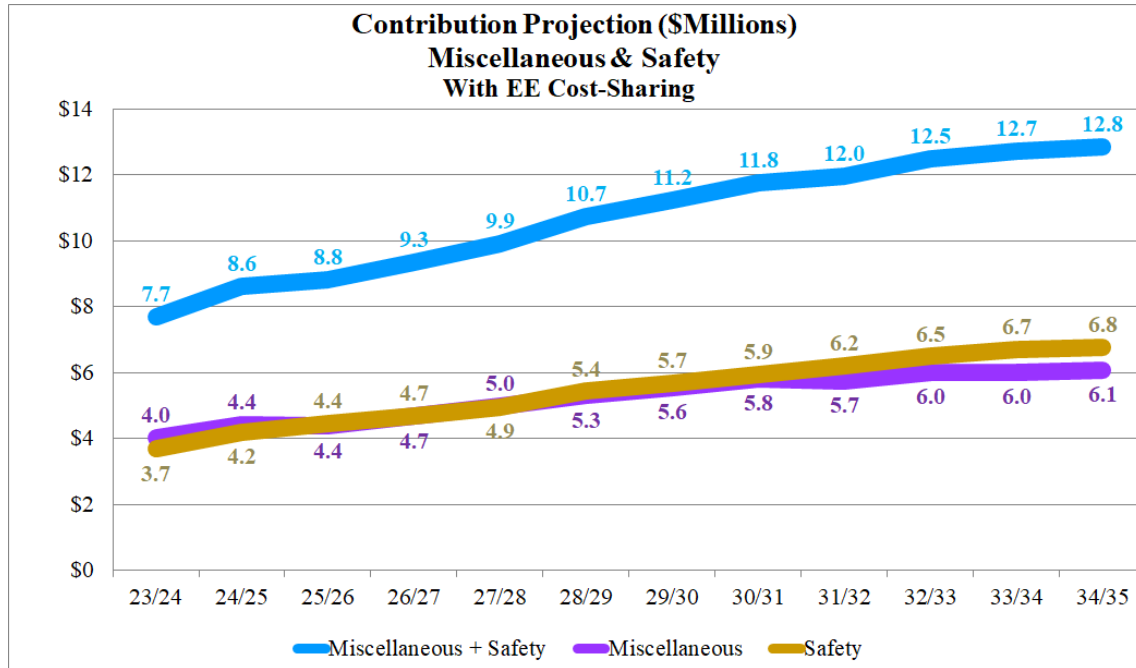
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CONTRIBUTION PROJECTIONS

Combined Miscellaneous and Safety



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PREFUNDING OPTIONS

Miscellaneous

Direct Payment \$1M 6/30/24 to CalPERS

- Shortest Bases: 2003 Assumption Change (1 year remaining) and 2007 Benefit Change (4 years remaining)

OR

- Longest Bases: 2013 Loss (21 years remaining)

Miscellaneous Plan Target Bases	Estimated Interest Savings	2024/25 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$107	\$(506)
Present value of savings @ 3% (000's)	57	
Longest Base	\$1 million	
\$ Savings (000's)	\$853	\$(75)
Present value of savings @ 3% (000's)	382	



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PREFUNDING OPTIONS

Safety

Direct Payment \$1M 6/30/24 to CalPERS

- Shortest Bases: 2014 Assumption Change (12 year remaining)
OR
- Longest Bases: 2017 & 2018 Non-Asset Loss (25 & 26 years remaining, respectively) and 2016 Asset Loss (24 years remaining)

Safety Plan Target Bases	Estimated Interest Savings	2024/25 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$394	\$(122)
Present value of savings @ 3% (000's)	195	
Longest Base	\$1 million	
\$ Savings (000's)	\$1,068	\$(67)
Present value of savings @ 3% (000's)	460	



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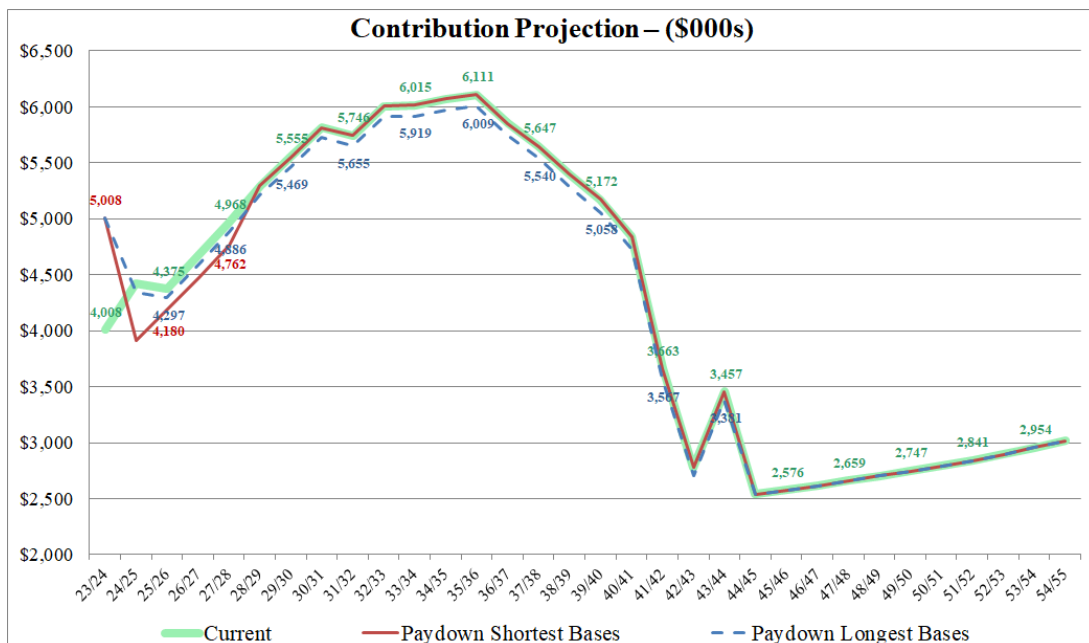
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PREFUNDING OPTIONS

Miscellaneous

Direct Payment \$1M to CalPERS



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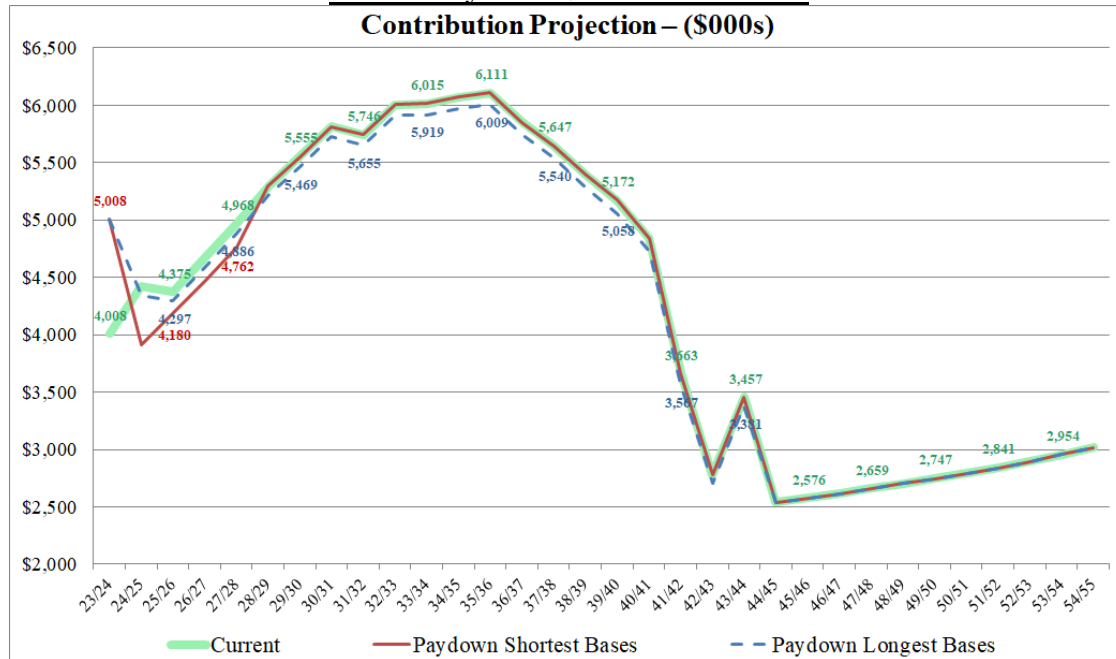


PREFUNDING OPTIONS

Safety

Direct Payment \$1M to CalPERS

Contribution Projection – (\$000s)



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