



**TOWN OF LOS GATOS
CALPERS MISCELLANEOUS & SAFETY PLANS**



CalPERS Analysis – 6/30/22 Valuation

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April 23, 2024

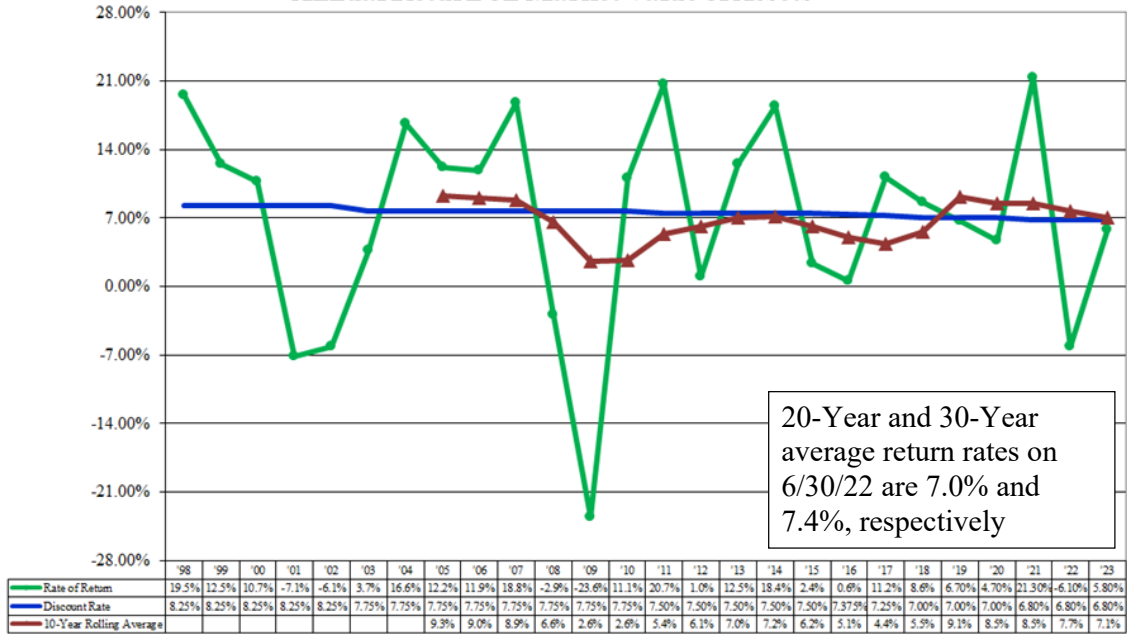
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INVESTMENT RETURN

Annual Return on Market Value of Assets



Discount rates are expected returns net of administrative expenses.

2013/14 through 2021/22 “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% respectively.



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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 FAE1	2%@60 FAE3 (9/15/12)	2%@62 FAE3
Safety	3%@50 FAE1	N/A	2.7%@57 FAE3

- Benefit = (Years of County Service) x Percentage x FAE
 - Percentage varies by retirement age (see following charts)
 - FAE1 is highest one year (typically final) average earnings
 - FAE3 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
 - 2024 Compensation limit
 - Social Security participants: \$151,446
 - Non-Social Security participants: \$181,734

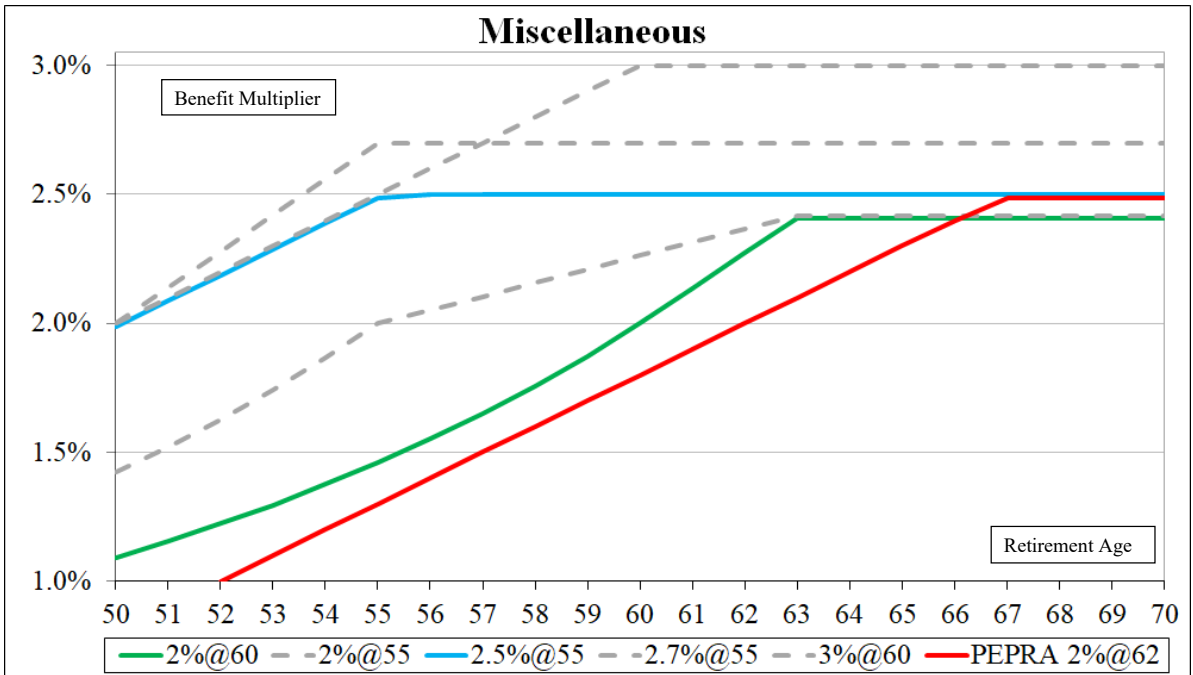


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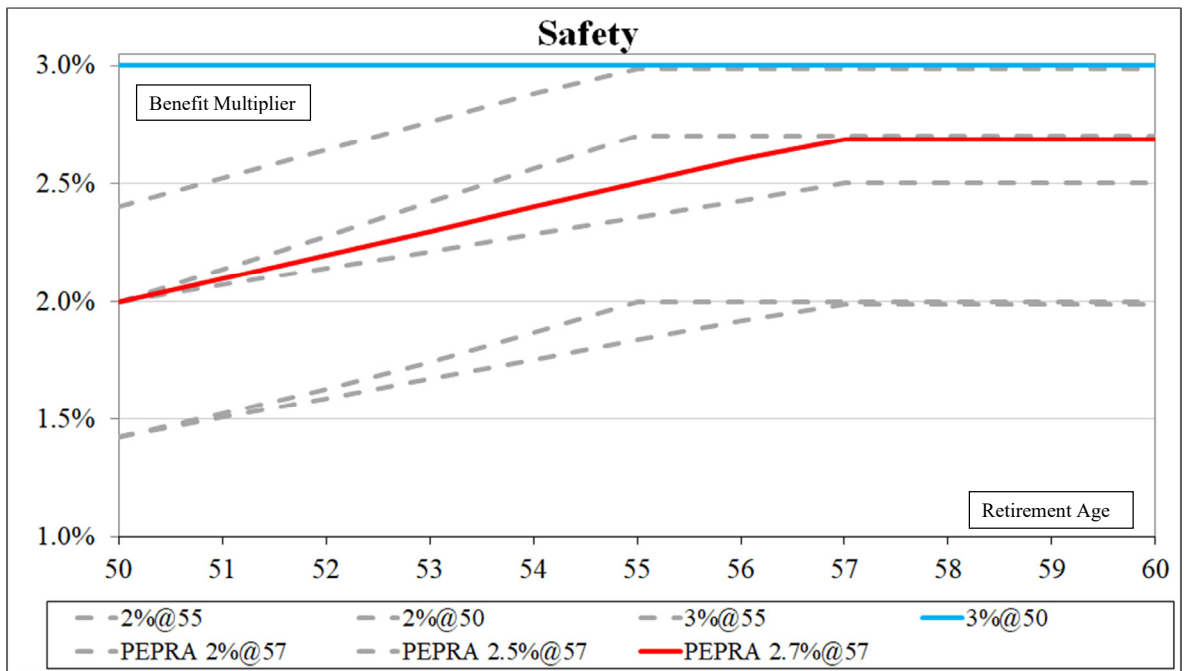
TOWN BENEFITS



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TOWN BENEFITS



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DEMOGRAPHICS

- Around the State
 - Large retiree liability compared to actives
 - State average: 59% for Miscellaneous, 67% 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 67%
 - Safety 75%



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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
 - Did not trigger 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 valuation



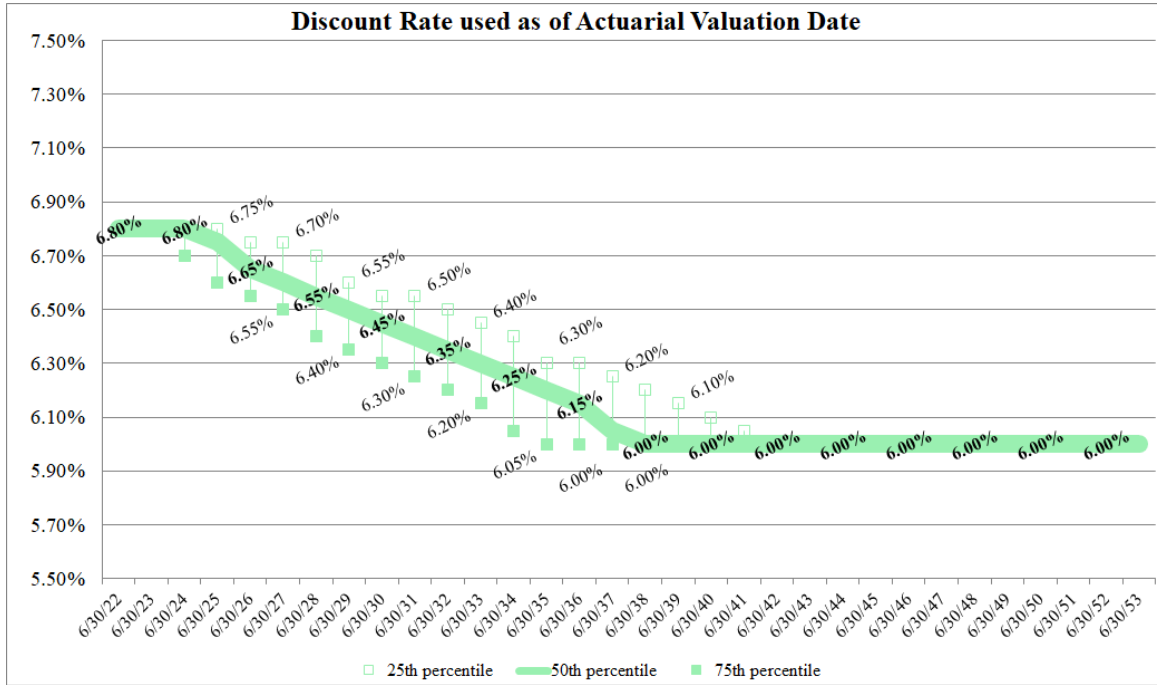
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RISK MITIGATION

Projection



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RISK MITIGATION

Portfolio Target Allocations

Asset Classification	Prior Portfolio	11/17/21 Portfolio
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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SUMMARY OF DEMOGRAPHIC INFORMATION

Miscellaneous

	2002	2012	2021	2022
Actives				
■ Counts	140	116	119	107
■ Average				
• Age	45	47	45	46
• Town Service	8	10	8	8
• PERSable Wages	\$59,400	\$78,800	\$100,600	\$103,700
■ Total PERSable Wages	8,300,000	9,100,000	12,000,000	11,100,000
Inactive Members				
■ Counts				
• Transferred	78	82	101	105
• Separated	64	73	91	104
• Retired				
➤ Service	115	161	220	228
➤ Disability	8	9	13	13
➤ Beneficiaries	<u>16</u>	<u>15</u>	<u>22</u>	<u>22</u>
➤ Total	139	185	255	263
■ Average Annual Town Provided Pension for Service Retirees ²	\$10,400	\$21,500	\$27,000	\$28,100

² Average pension based on Town service & Town benefit formula; not representative of long-service employees.



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SUMMARY OF DEMOGRAPHIC INFORMATION

Safety

	2002	2012	2021	2022
Actives				
■ Counts	46	38	37	37
■ Average				
• Age	38	n/a	42	40
• City Service	9	n/a	10	10
• PERSable Wages	\$ 78,900	\$ 132,600	\$ 149,900	\$ 146,400
■ Total PERSable Wages	3,600,000	4,800,000	5,500,000	5,400,000
Inactive Members				
■ Counts				
• Transferred	22	15	13	12
• Separated	5	3	3	7
• Receiving Payments	33	59	88	91



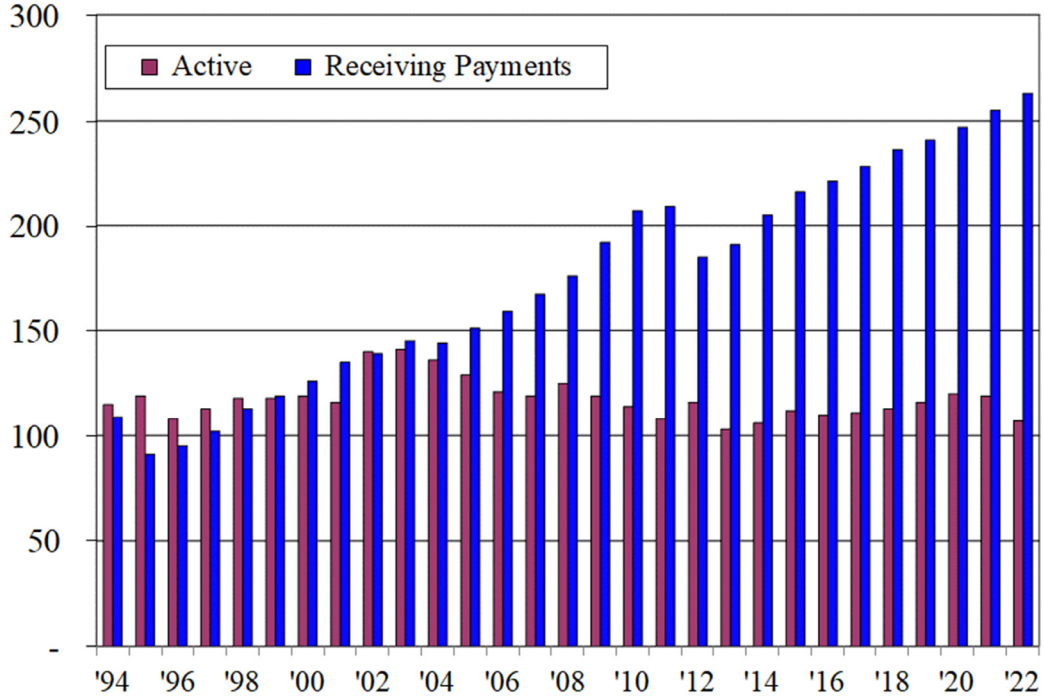
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SUMMARY OF DEMOGRAPHIC INFORMATION

Miscellaneous

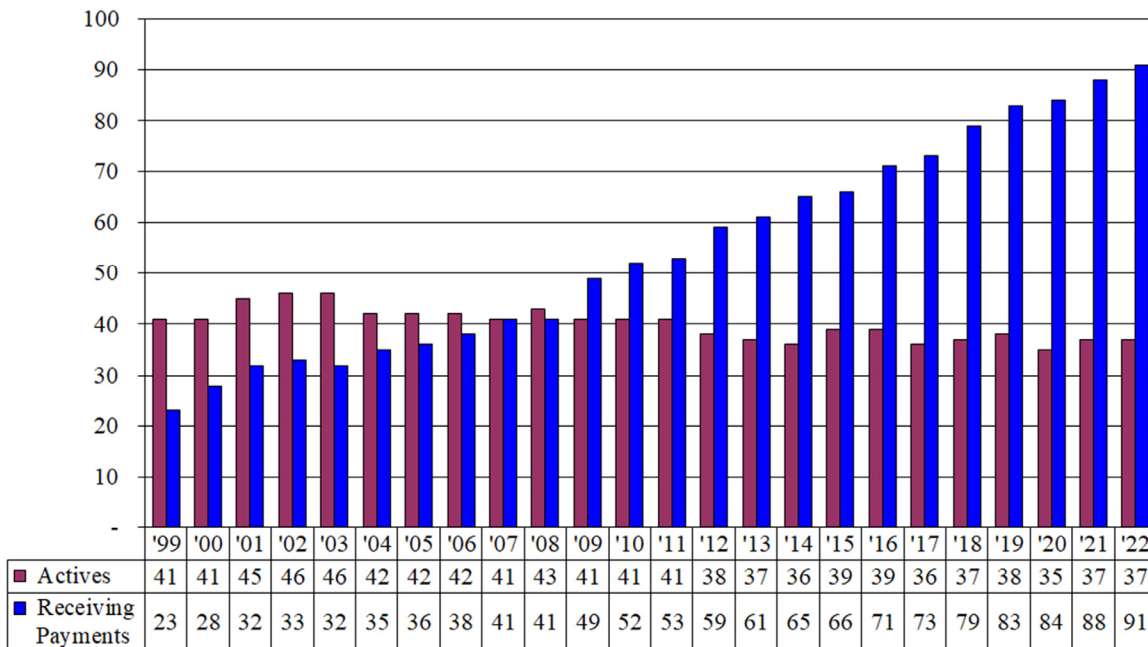


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SUMMARY OF DEMOGRAPHIC INFORMATION

Safety



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PLAN FUNDED STATUS

Miscellaneous

	<u>June 30, 2021</u>	<u>June 30, 2022</u>
■ Actuarial Accrued Liability		
● Active	\$ 27,800,000	\$ 26,700,000
● Retiree	78,800,000	84,000,000
● Inactive	<u>15,000,000</u>	<u>15,500,000</u>
● Total	121,600,000	126,200,000
■ Assets	<u>106,200,000</u>	<u>95,800,000</u>
■ Unfunded Liability	15,400,000	30,400,000
■ Funded Ratio	87.3%	75.9%
■ Average funded ratio for CalPERS Public Agency Miscellaneous Plans	83.7%	75.0%



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PLAN FUNDED STATUS

Safety

	<u>June 30, 2021</u>	<u>June 30, 2022</u>
■ Actuarial Accrued Liability		
● Active	\$ 23,700,000	\$ 23,400,000
● Retiree	80,400,000	83,300,000
● Inactive	<u>4,000,000</u>	<u>4,600,000</u>
● Total	108,100,000	111,300,000
■ Assets	<u>86,800,000</u>	<u>76,700,000</u>
■ Unfunded Liability	21,300,000	34,600,000
■ Funded Ratio	80.3%	69.0%
■ Average funded ratio for CalPERS Public Agency Safety Plans	80.9%	73.0%



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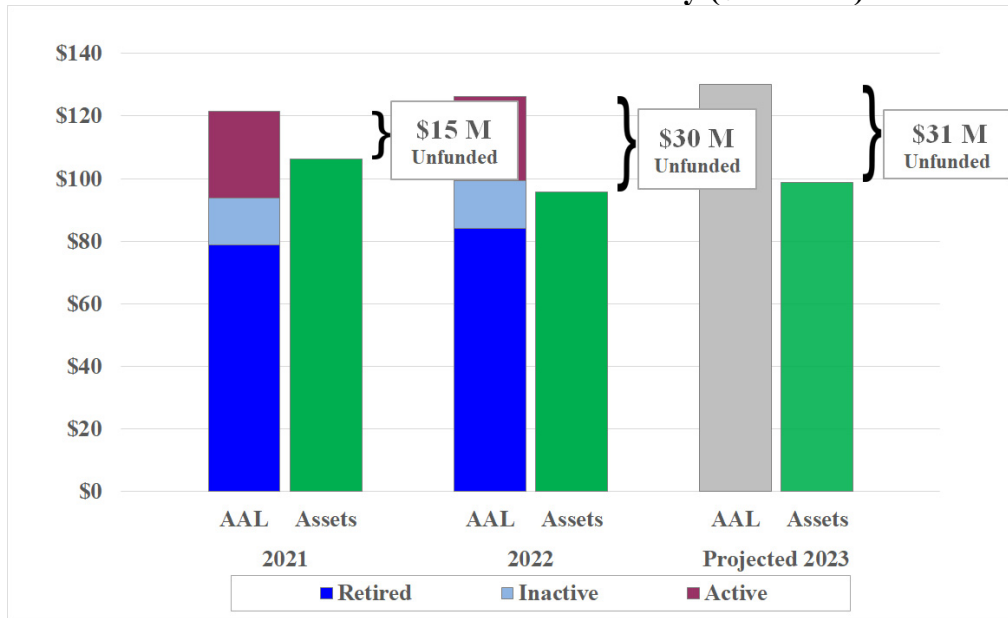
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PLAN FUNDED STATUS

Miscellaneous

CalPERS Assets and Actuarial Liability (\$Millions)³



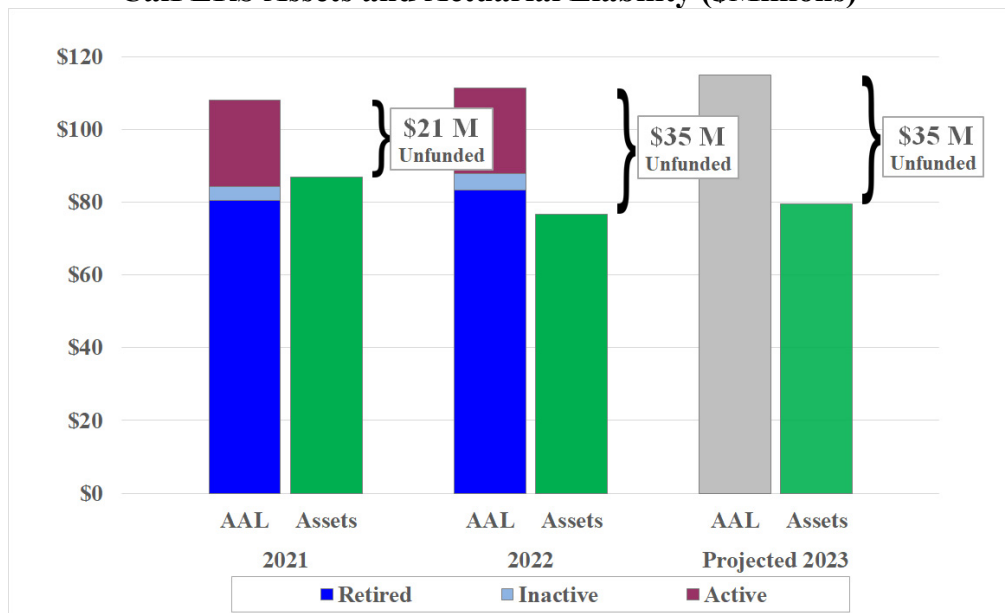
³ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



PLAN FUNDED STATUS

Safety

CalPERS Assets and Actuarial Liability (\$Millions)⁴



⁴ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



PLAN FUNDED STATUS

Miscellaneous
Discount Rate Sensitivity
June 30, 2022

	<u>Discount Rate</u>		
	<u>6.80%</u>	<u>6.30%⁵</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%

⁵ Estimated by Foster & Foster.



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PLAN FUNDED STATUS

Safety
Discount Rate Sensitivity
June 30, 2022

	<u>Discount Rate</u>		
	<u>6.80%</u>	<u>6.30%⁶</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%

⁶ Estimated by Foster & Foster.



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PLAN FUNDED STATUS

Miscellaneous
Unfunded Accrued Liability Changes

■ Unfunded Accrued Liability on 6/30/21		\$ 15,400,000
■ Expected 6/30/22 Unfunded Accrued Liability		14,200,000
■ Changes		
• Benefit change ⁷	200,000	
• Asset Loss (Gain) (-7.5% return for FY 2022)	15,300,000	
• Contribution & Experience Loss (Gain)	<u>700,000</u>	
• Total		<u>16,200,000</u>
■ Unfunded Accrued Liability on 6/30/22		30,400,000
■ Projected Unfunded Accrued Liability on 6/30/23 ⁸		31,100,000

⁷ SB 1168 increased the standard post-retirement lump sum death benefit from \$500 to \$2,000 for deaths occurring on or after July 1, 2023.

⁸ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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PLAN FUNDED STATUS

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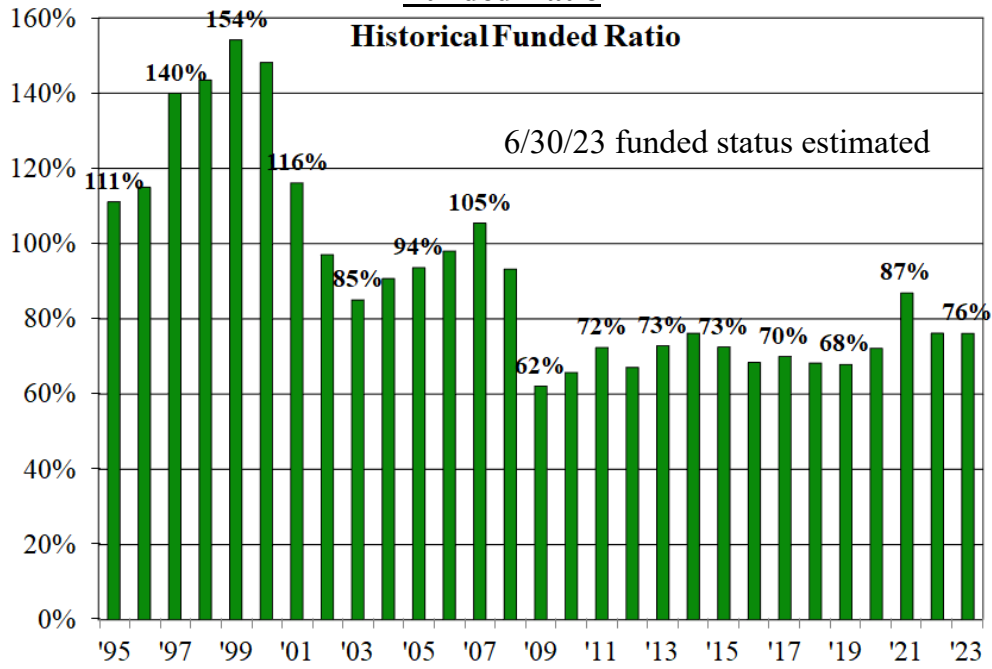
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FUNDED RATIO

Miscellaneous Funded Ratio



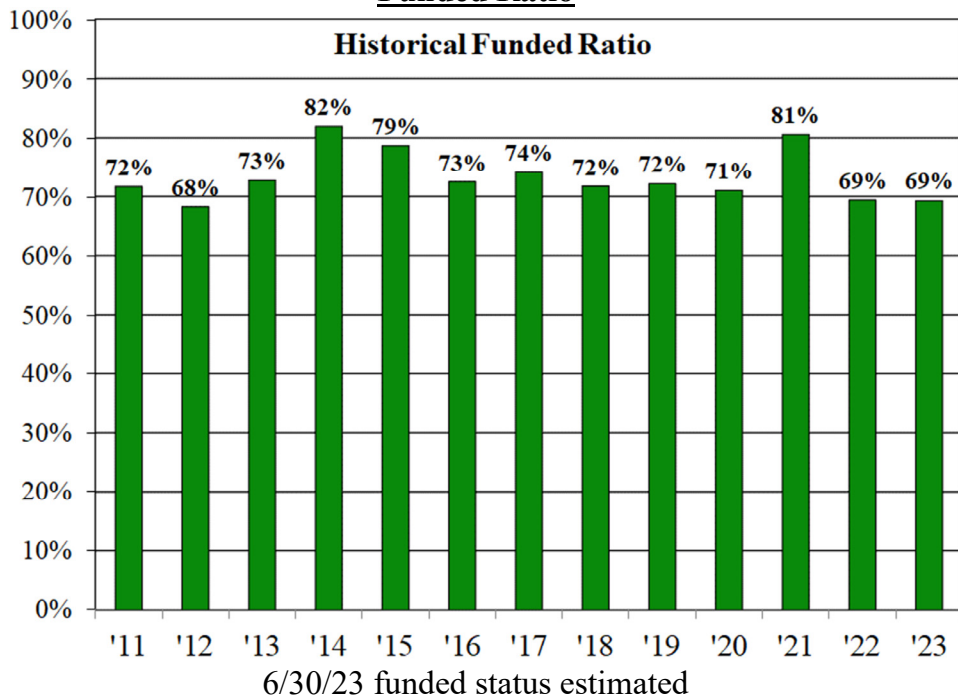
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FUNDED RATIO

Safety Funded Ratio



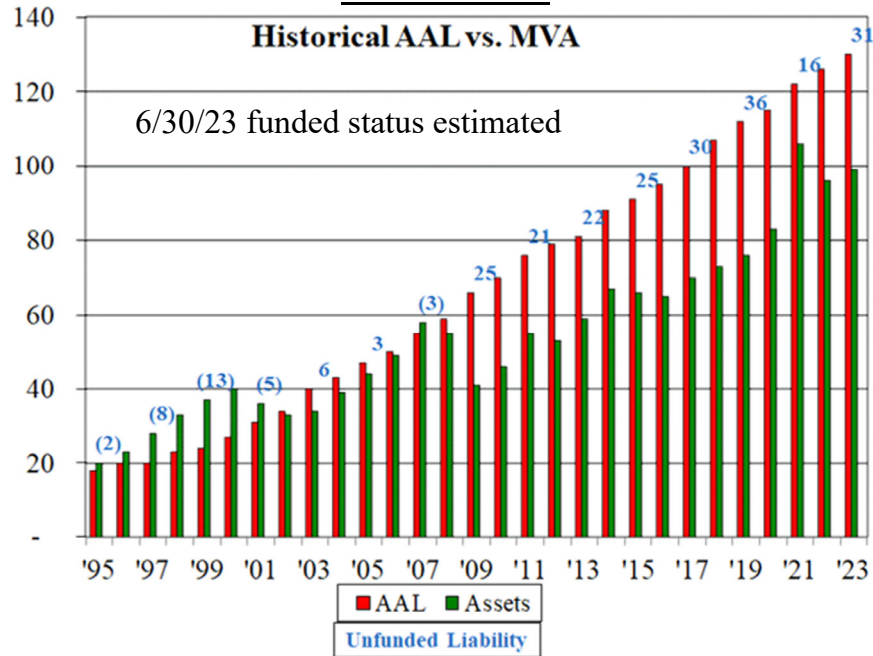
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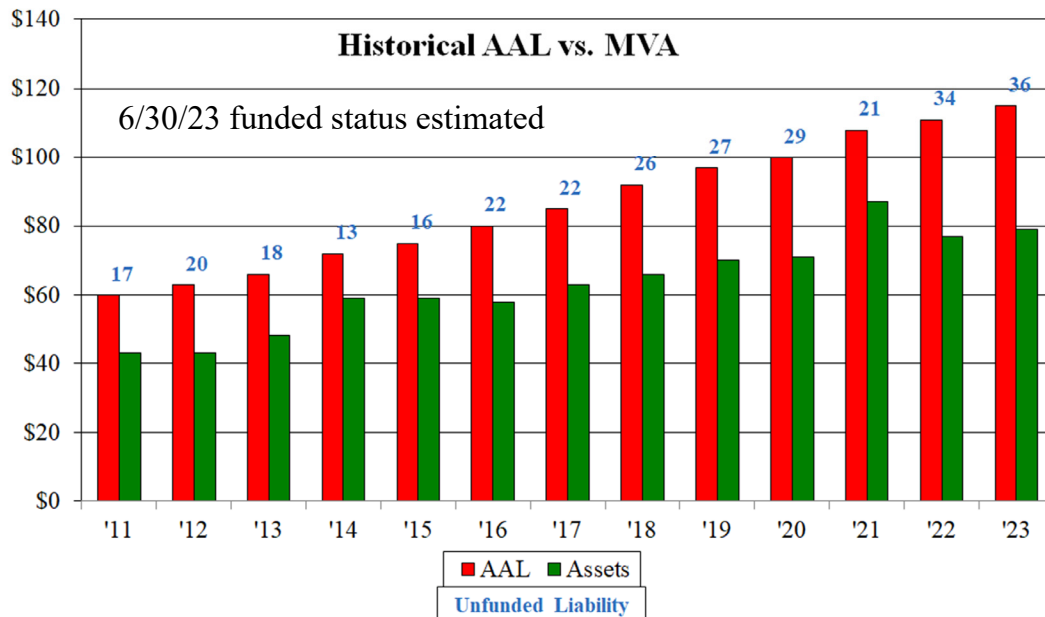
FUNDED STATUS (MILLIONS)

Miscellaneous Funded Status



FUNDED STATUS (MILLIONS)

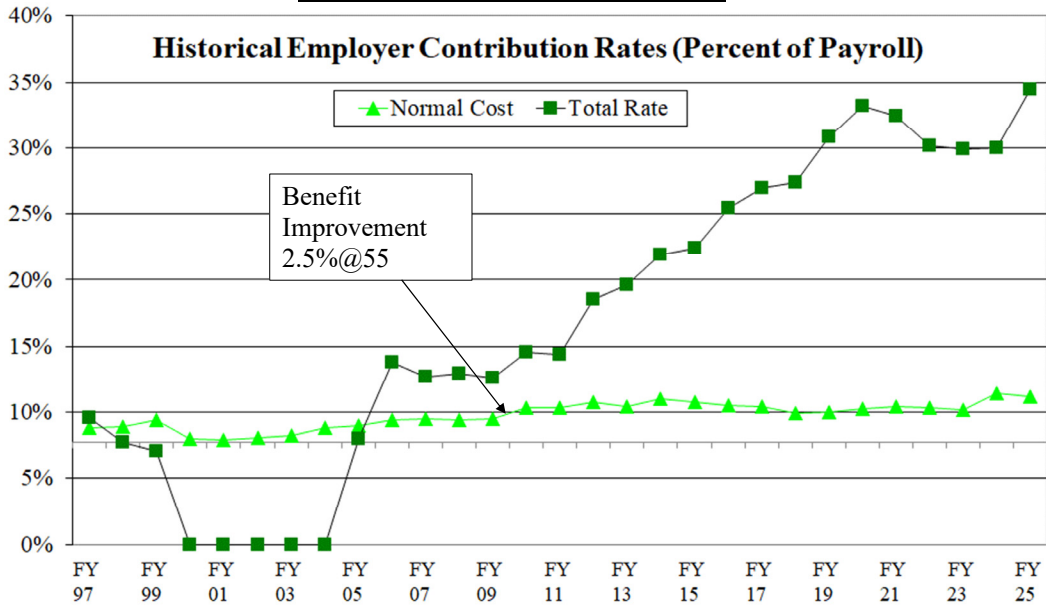
Safety Funded Status



CONTRIBUTION RATES

Miscellaneous

Historical Contribution Rates



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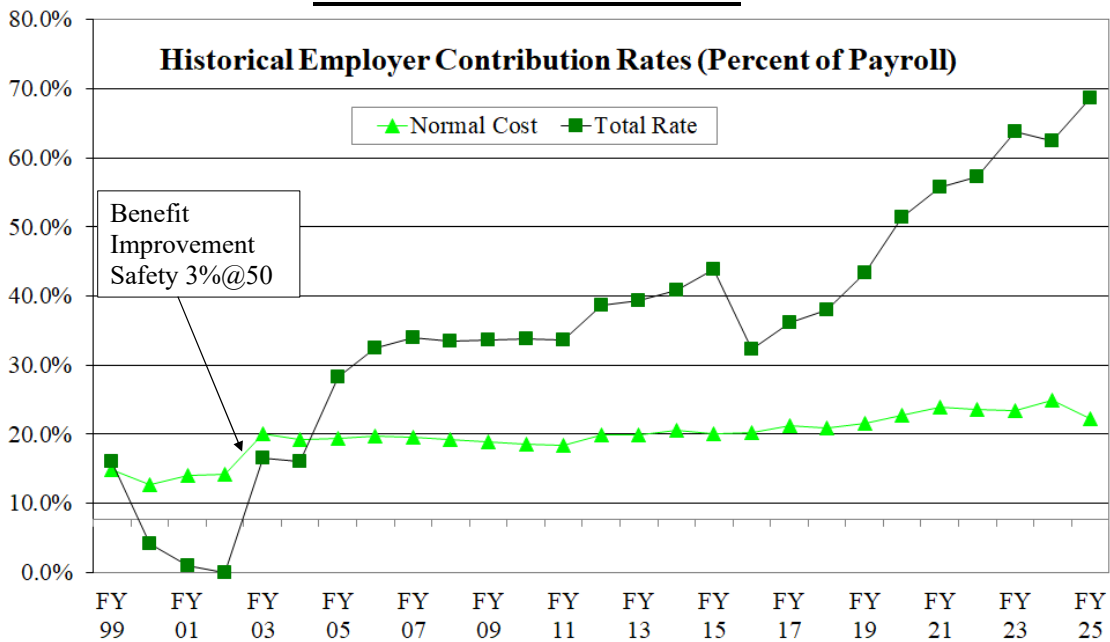
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CONTRIBUTION RATES

Safety

Historical Contribution Rates



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CONTRIBUTION RATES

Miscellaneous

	6/30/21	6/30/22
	<u>2023/2024</u>	<u>2024/2025</u>
■ Total Normal Cost	18.8%	18.8%
■ Employee Normal Cost	<u>7.4%</u>	<u>7.6%</u>
■ Employer Normal Cost	11.4%	11.2%
■ Amortization Payments	<u>18.5%</u>	<u>23.3%</u>
■ Total Employer Contribution Rate	30.0%	34.5%
■ 2023/24 Employer Contribution Rate		30.0%
● Plan changes		0.3%
● 6/30/22 investment (gain)/loss (-7.5% vs. 6.8%)		3.1%
● Progression of amortization bases		(0.5%)
● Other/non-investment (Gains)/Losses		<u>1.6%</u>
■ 2024/25 Employer Contribution Rate		34.5%



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CONTRIBUTION RATES

Safety

	6/30/21	6/30/22
	<u>2023/2024</u>	<u>2024/2025</u>
■ Total Normal Cost	35.4%	33.9%
■ Employee Normal Cost	<u>10.6%</u>	<u>11.7%</u>
■ Employer Normal Cost	24.9%	22.2%
■ Amortization Payments	<u>37.7%</u>	<u>46.4%</u>
■ Total Employer Contribution Rate	62.5%	68.6%
■ 2023/24 Employer Contribution Rate		62.5%
● Payroll < Expected		1.9%
● Other (Gains)/Losses mainly net investment loss		<u>4.2%</u>
■ 2024/25 Employer Contribution Rate		68.6%



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CONTRIBUTION RATES

Safety

6/30/22 Valuation 2024/2025 Contribution Rates

	<u>Total⁹</u>	<u>Tier 1</u>	<u>PEPRA</u>
		3%<u>@50</u>	2.7%<u>@57</u>
■ Base Total Normal Cost	31.3%	34.9%	27.5%
■ Class 1 Benefits			
● Final One Year Compensation	0.7%	1.5%	-
● PRSA	<u>1.8%</u>	<u>2.0%</u>	<u>1.7%</u>
■ Total Normal Cost	33.9%	38.3%	29.2%
■ Formula's Expected EE Contr. Rate	<u>11.7%</u>	<u>9.0%</u>	<u>14.5%</u>
■ ER Normal Cost	22.2%	29.3%	14.7%
■ Amortization Payment	46.4%	89.8%	0.8%
■ Amortization of Side Fund	-	-	-
■ Total ER Contribution	68.6%	119.1%	15.6%
■ Employee counts	37	21	16
■ Employee payroll (in 000's)	\$ 5,884	\$ 3,016	\$ 2,868
■ Total ER Contribution \$ (in 000's)	\$ 4,037	\$ 3,591	\$ 446

⁹ Weighting of total contribution based on projected classic and PEPRA payrolls



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CONTRIBUTION PROJECTIONS

- Investment returns:
 - June 30, 2023 5.8%¹⁰
 - Future returns based on stochastic analysis using 1,000 trials
 - Single year returns¹¹ 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%
- 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

¹⁰ Gross return based on June 30, 2023 CalPERS News Release issued in July 2023.

¹¹ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS

- New hire assumptions:
 - All new hires assumed PEPRA members and none are Classic members
- Miscellaneous 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 Miscellaneous 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



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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 Safety 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

- Safety Employee Cost Sharing of Employer Contribution:
 - 3% of pay employee share for Classic members



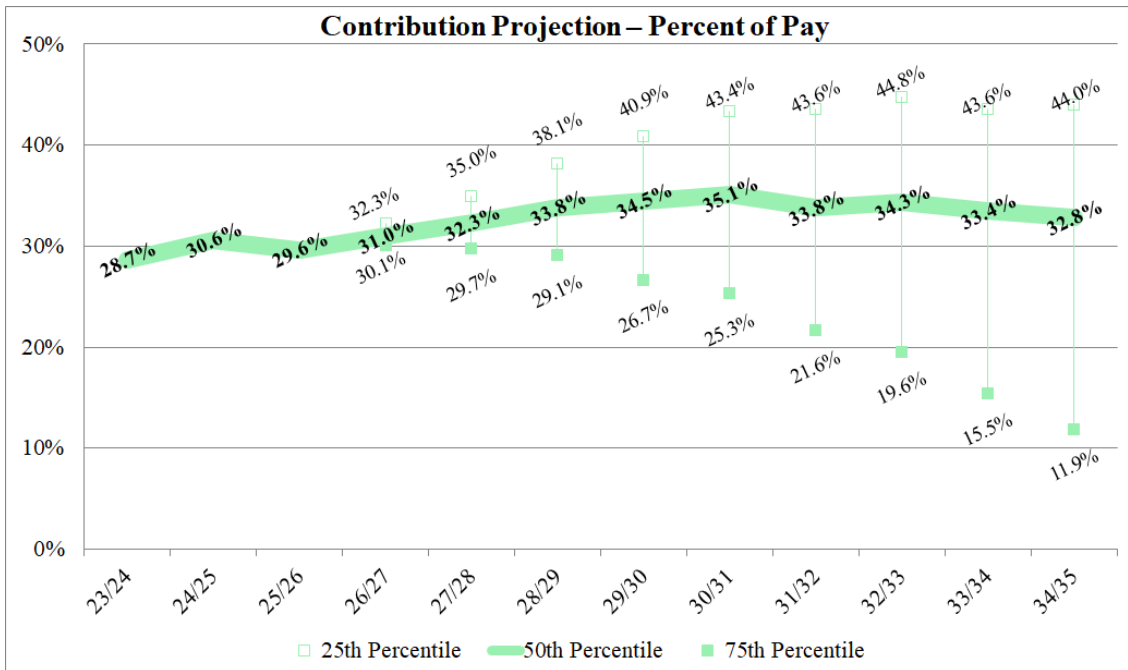
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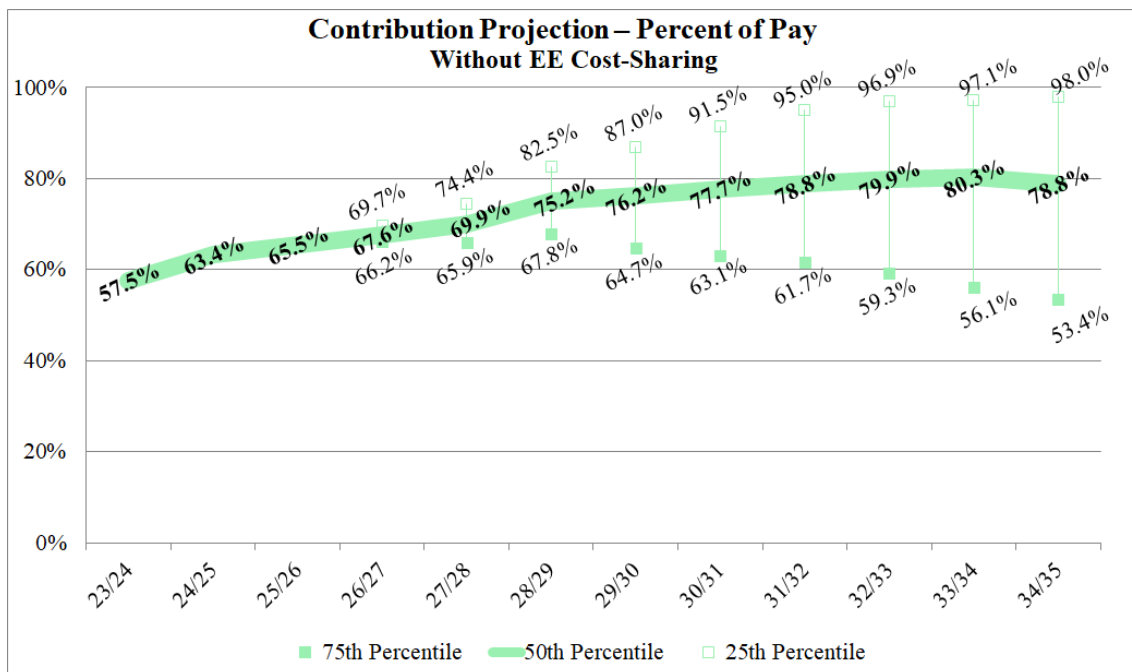
CONTRIBUTION PROJECTIONS

Miscellaneous



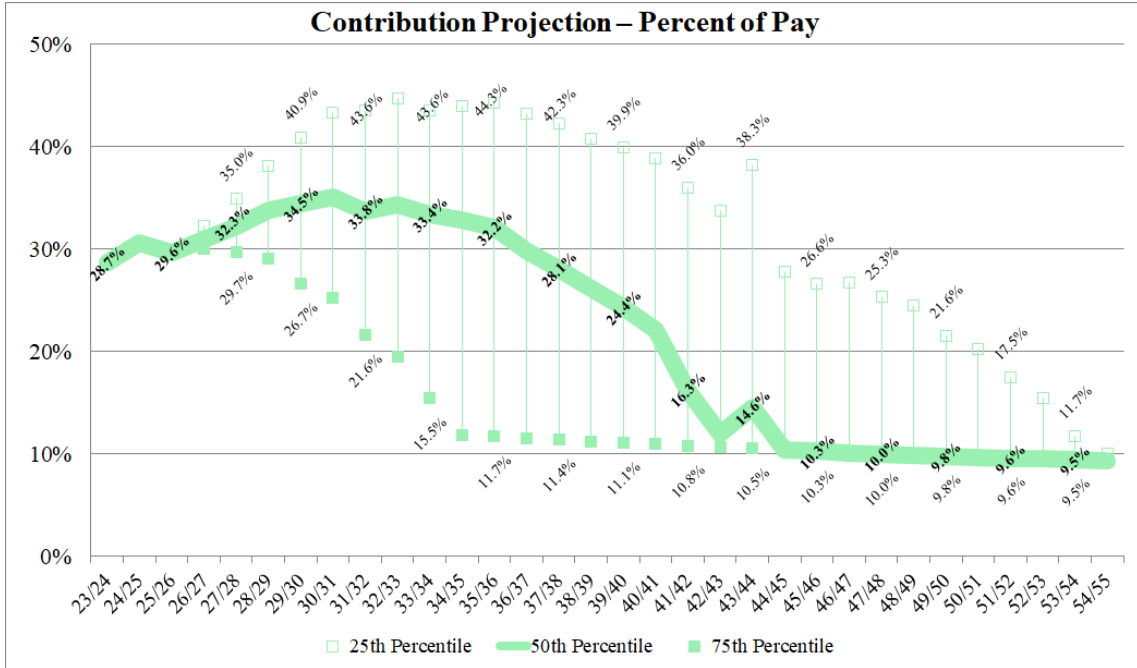
CONTRIBUTION PROJECTIONS

Safety



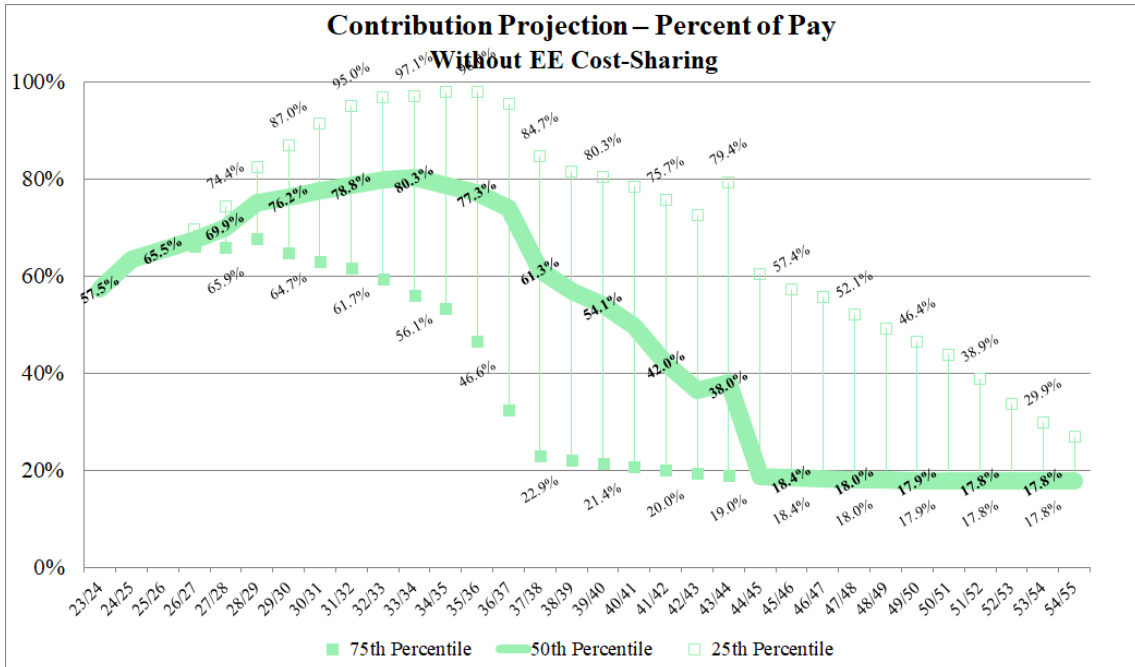
CONTRIBUTION PROJECTIONS

Miscellaneous



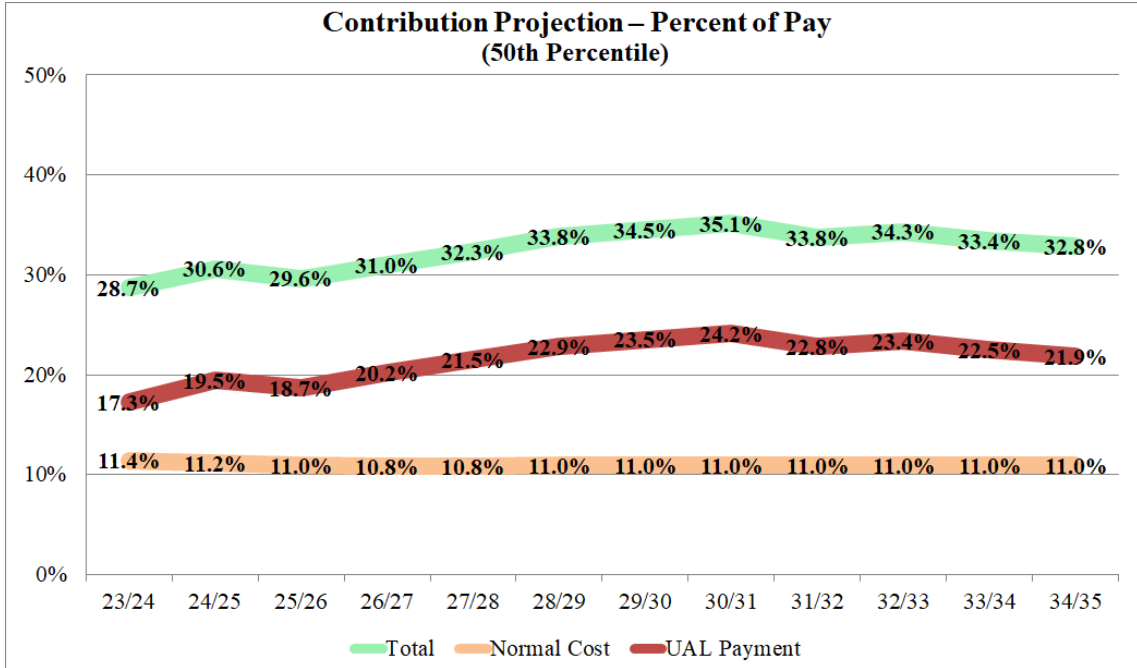
CONTRIBUTION PROJECTIONS

Safety



CONTRIBUTION PROJECTIONS

Miscellaneous



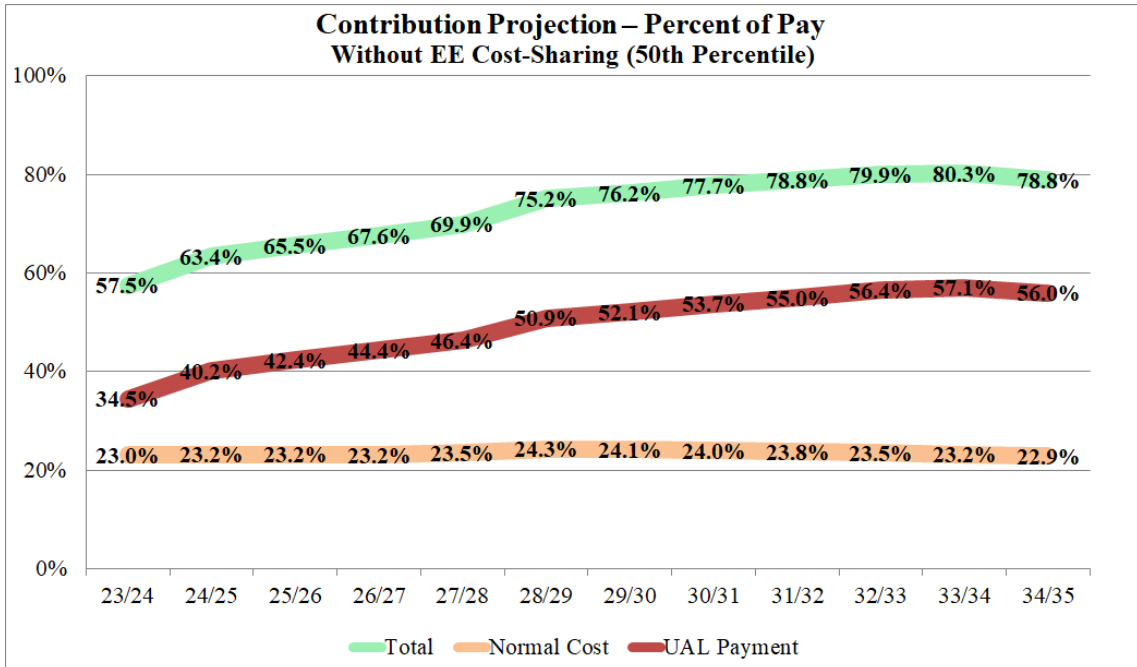
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CONTRIBUTION PROJECTIONS

Safety



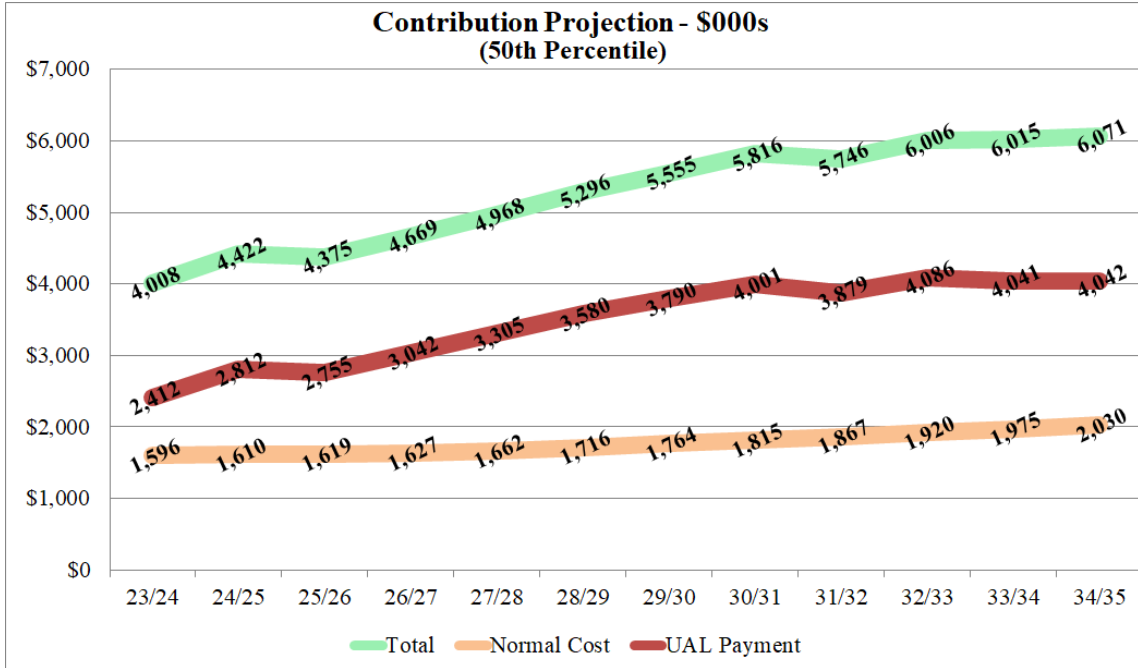
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CONTRIBUTION PROJECTIONS

Miscellaneous



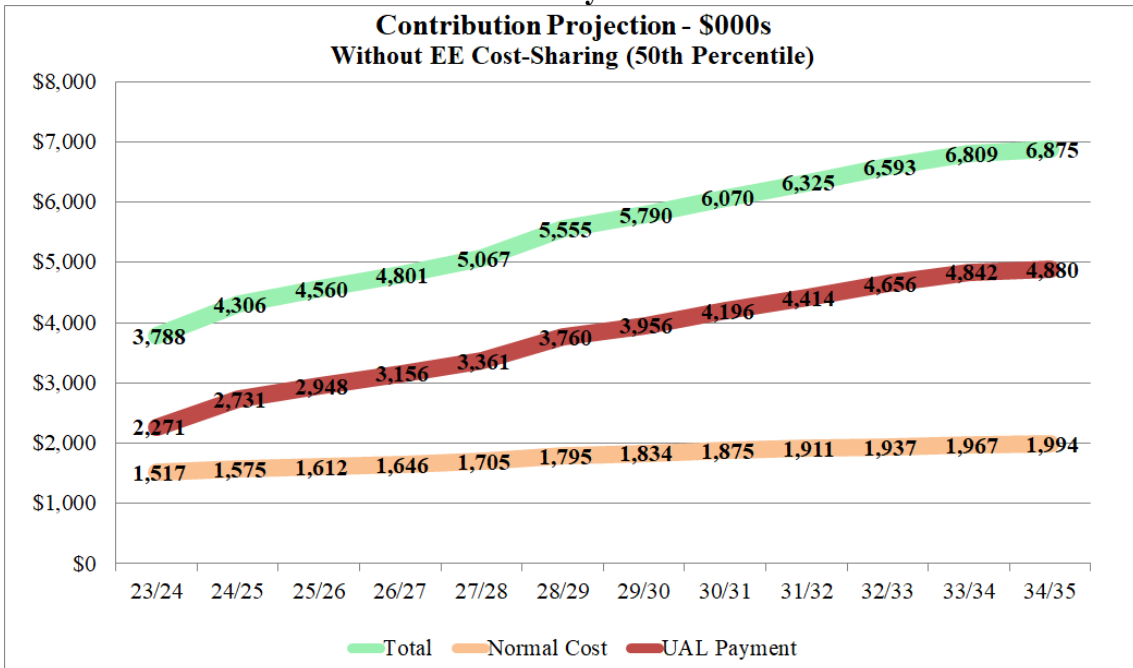
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CONTRIBUTION PROJECTIONS

Safety



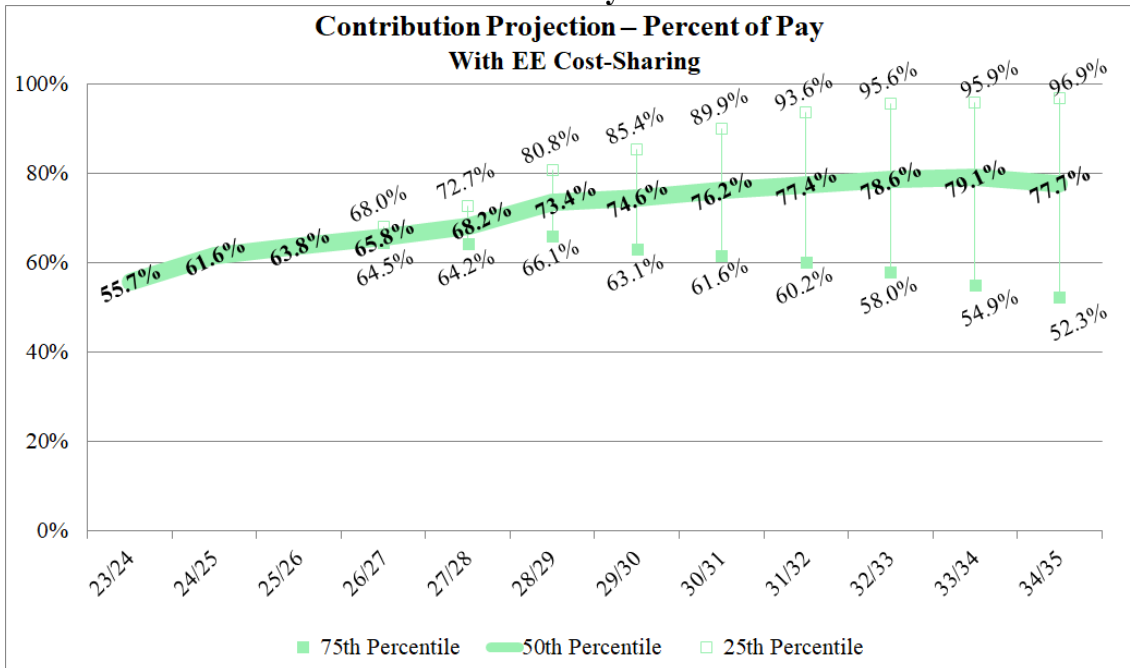
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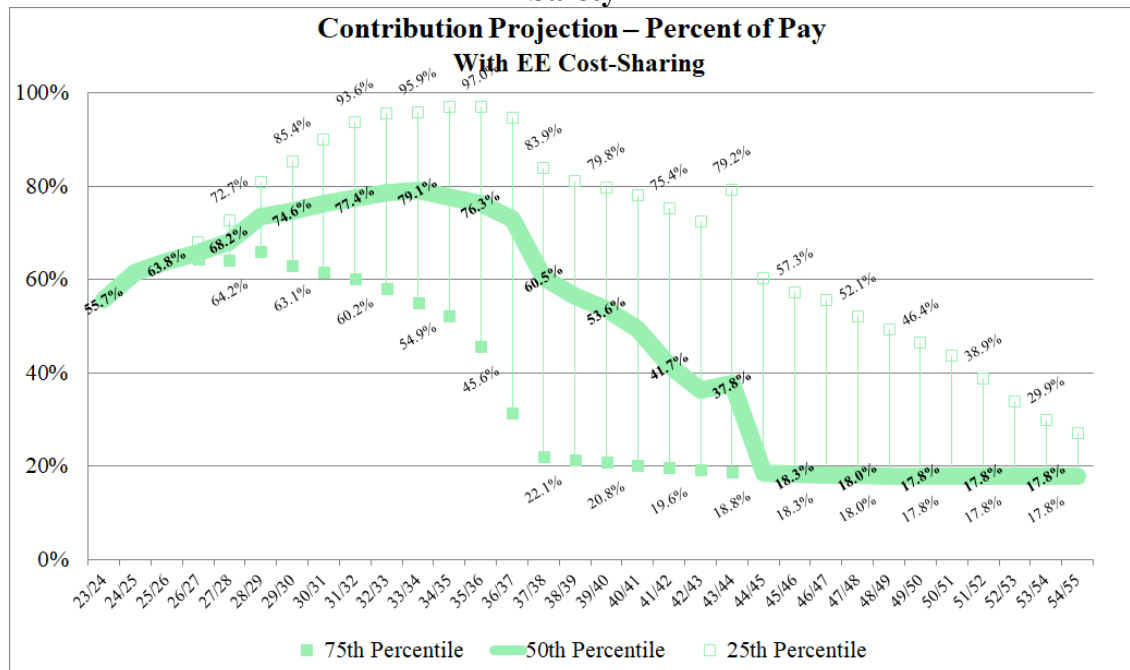
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Safety



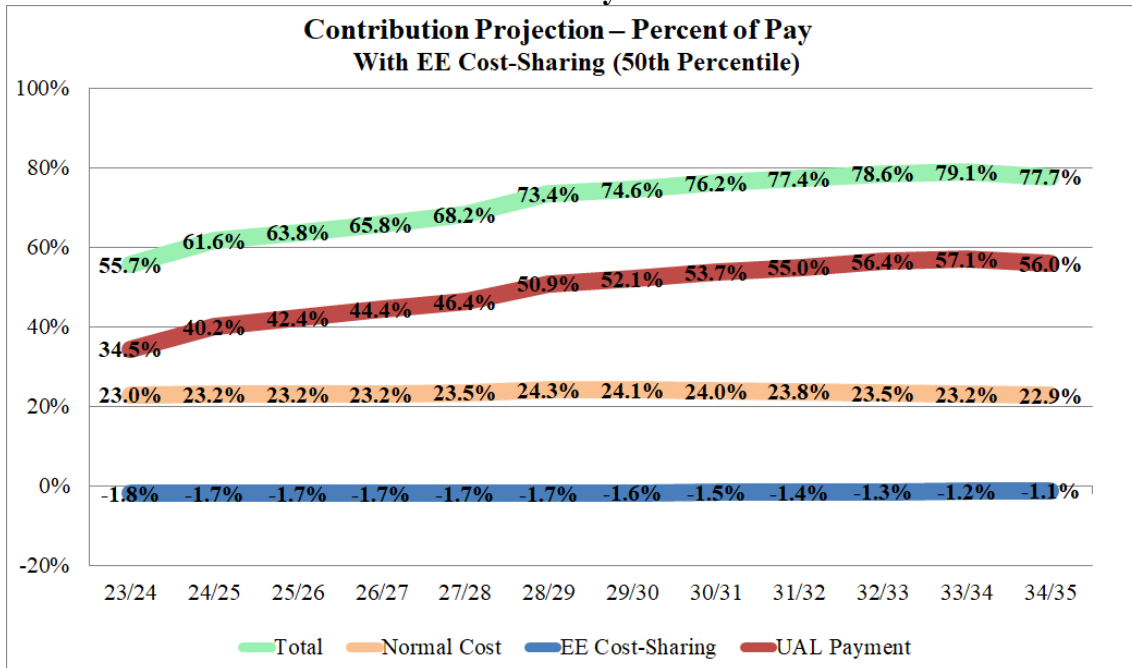
CONTRIBUTION PROJECTIONS

Safety



CONTRIBUTION PROJECTIONS

Safety



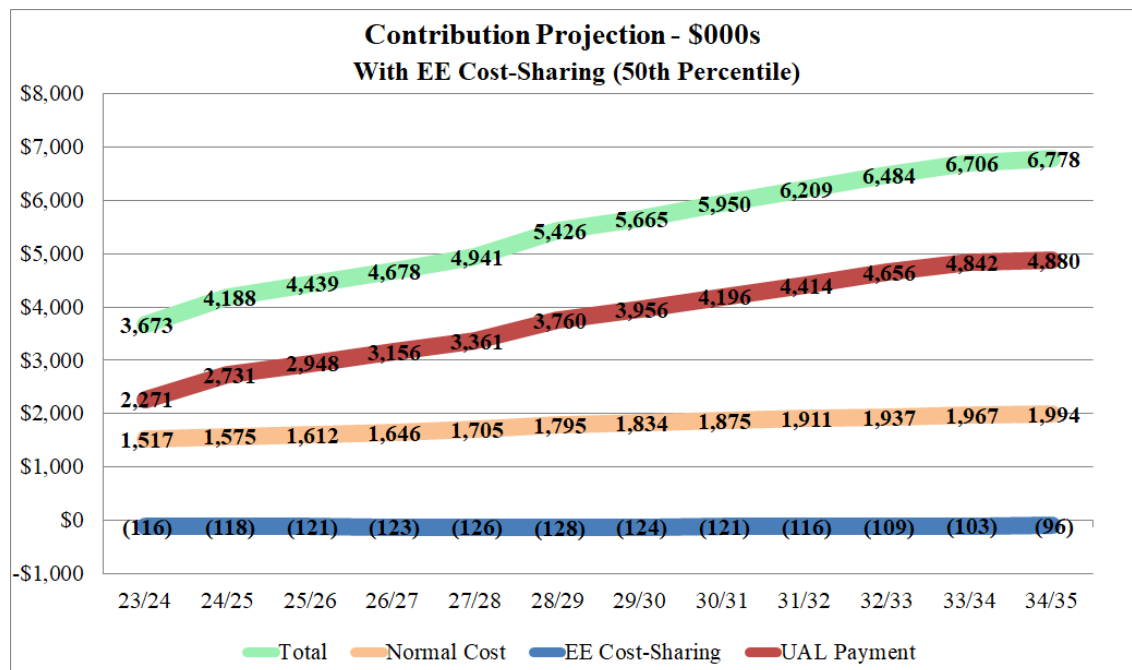
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CONTRIBUTION PROJECTIONS

Safety



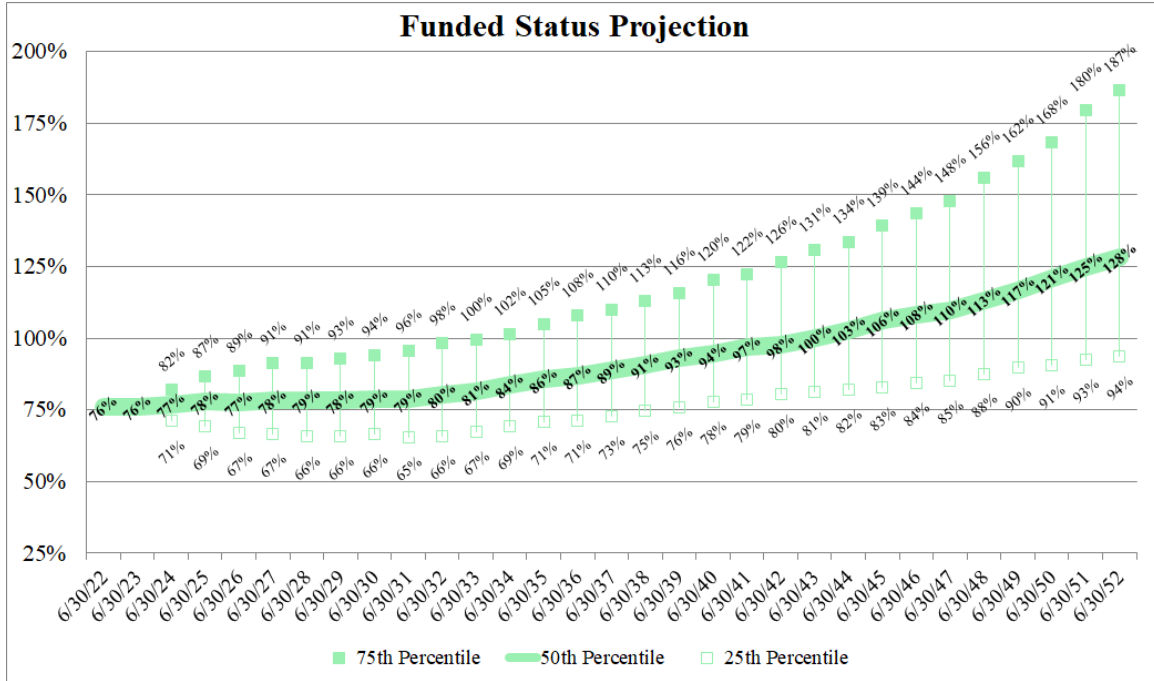
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FUNDED STATUS

Miscellaneous

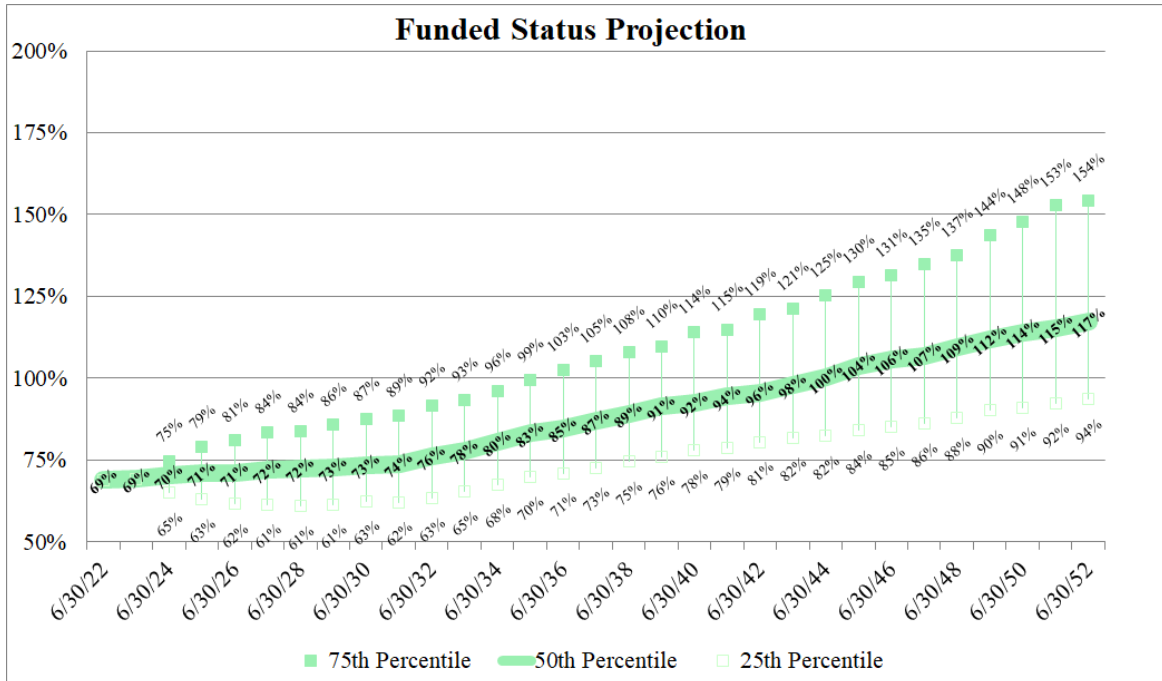


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FUNDED STATUS

Safety

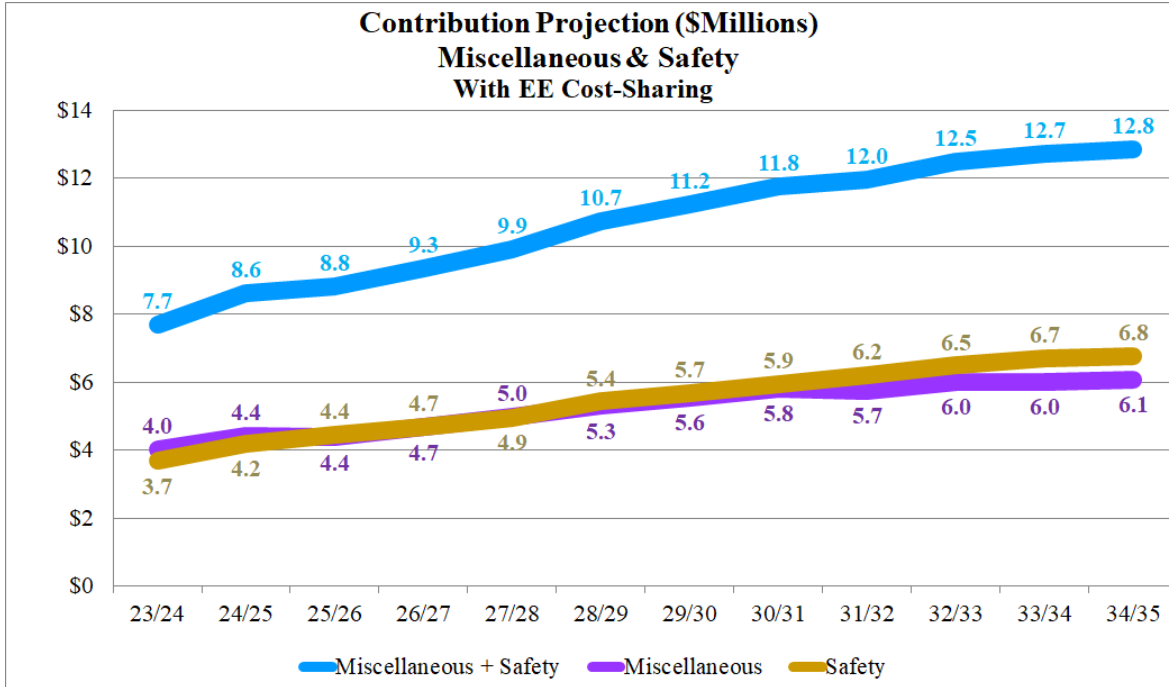


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COMBINED MISCELLANEOUS AND SAFETY

Miscellaneous and Safety



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COMBINED MISCELLANEOUS AND SAFETY

Miscellaneous and Safety

Funded Status Summary on June 30, 2022

(Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$126	\$111	\$237
■ Assets	<u>96</u>	<u>77</u>	<u>173</u>
■ Unfunded AAL	30	34	64
■ Funded Ratio	76.2%	69.0%	73.0%

Projected Funded Status Summary on June 30, 2023¹²

(Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$130	\$115	\$245
■ Assets	<u>99</u>	<u>79</u>	<u>178</u>
■ Unfunded AAL	31	36	67
■ Funded Ratio	76.2%	68.7%	72.7%

¹² Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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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



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LEAVING CALPERS

CalPERS Termination Estimates on June 30, 2022 (Amounts in Millions)

Discount Rate	Ongoing Plan	Termination Basis	
	6.80%	1.75%	4.50%
Miscellaneous			
Actuarial Accrued Liability	\$126	\$252	\$165
Assets	<u>96</u>	<u>96</u>	<u>96</u>
Unfunded AAL (UAAL)	30	156	69
Safety			
Actuarial Accrued Liability	\$111	\$238	\$150
Assets	<u>77</u>	<u>77</u>	<u>77</u>
Unfunded AAL (UAAL)	34	161	73
Total			
Unfunded AAL (UAAL)	\$ 64	\$317	\$142
Funded Ratio	73.0%	35.3%	54.9%



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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 2024/25:

	<u>Classic Members</u>		<u>New Members</u>
	Tier 1	Tier 2	PEPRA
	<u>2.5% @ 55 FAC1</u>	<u>2% @ 60 FAC3</u>	<u>2% @ 62 FAC3</u>
● Employer Normal Cost	13.2%	14.5%	7.84%
● Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.75%</u>
● Total Normal Cost	21.2%	21.5%	15.59%
● 50% Target	10.6%	10.8%	7.80%



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PEPRA COST SHARING

- Safety Plan 2024/25:

	<u>Classic Members</u>		<u>New Members</u>
	Tier 1	PEPRA	
	<u>3% @ 50 FAE1</u>	<u>2.7% @ 57 FAE3</u>	
● Employer Normal Cost	29.3%	14.72%	
● Member Normal Cost	<u>9.0%</u>	<u>14.50%</u>	
● Total Normal Cost	38.3%	29.22%	
● 50% Target	19.2%	14.61%	

- PEPRA Member Contributions:

Group	2023/24		2024/25			
	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	14.43%	7.25%	15.59%	1.16%	7.75%	PEPRA Members
Safety	29.00%	14.50%	29.22%	0.22%	14.50%	PEPRA Members



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PAYING DOWN THE UAL & RATE STABILIZATION

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



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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



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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



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ADDITIONAL PAYMENTS TO CALPERS

- 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)



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ADDITIONAL PAYMENTS TO CALPERS

- Make payments directly to CalPERS (continued):
 - 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 13.7¢ for \$1
 - 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
 - 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



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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



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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- 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 PEPRAs 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



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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- 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?



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COMPARISON OF OPTIONS

■ Supplemental Trust

- Flexible
- Likely lower long-term return
- Investment strategy choice
- Does not reduce net pension liability for GASB reporting
- More visible

■ CalPERS

- Locked In
- Likely higher long-term return
- No investment choice
- Reduces net pension liability for GASB reporting
- More restricted



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COMPARISON OF OPTIONS

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PREFUNDING OPTIONS

- Savings from an additional \$1 million contribution to CalPERS on 6/30/2024:
- Miscellaneous Plan
 - 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 Plan
 - 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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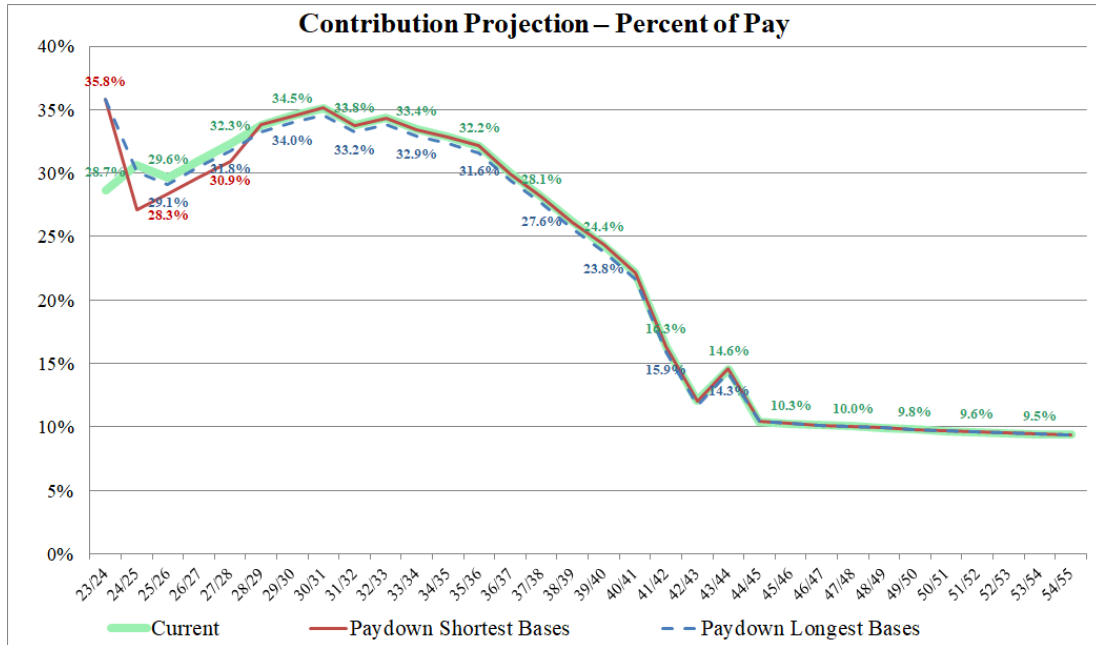


PREFUNDING OPTIONS

Miscellaneous

Direct Payment \$1M to CalPERS

Contribution Projection – Percent of Pay



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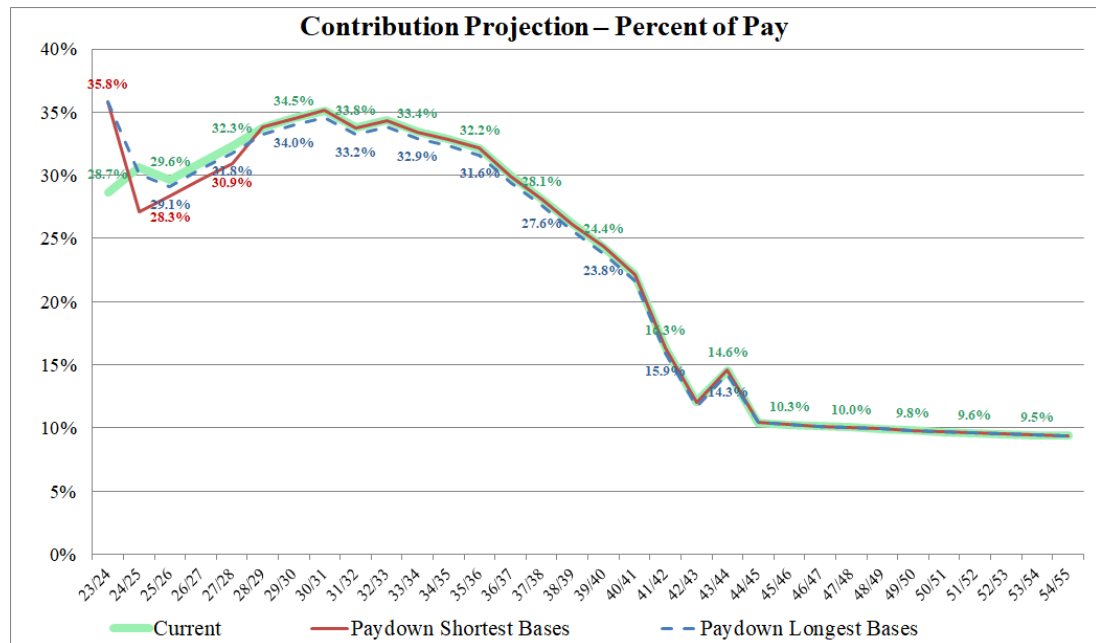


PREFUNDING OPTIONS

Safety

Direct Payment \$1M to CalPERS

Contribution Projection – Percent of Pay



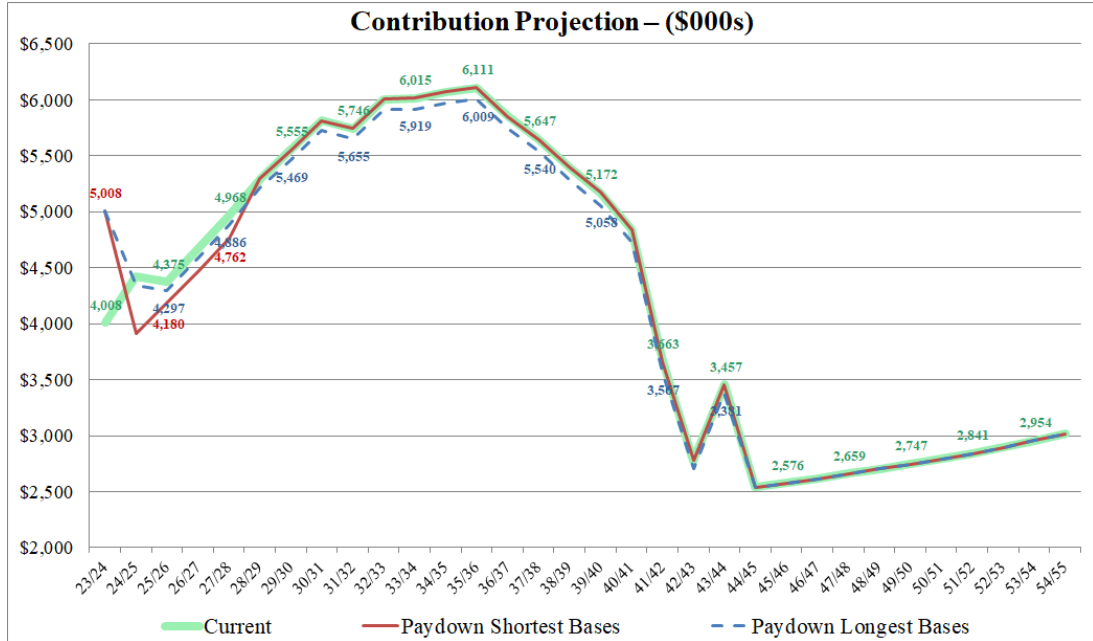
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PREFUNDING OPTIONS

Miscellaneous Direct Payment \$1M to CalPERS

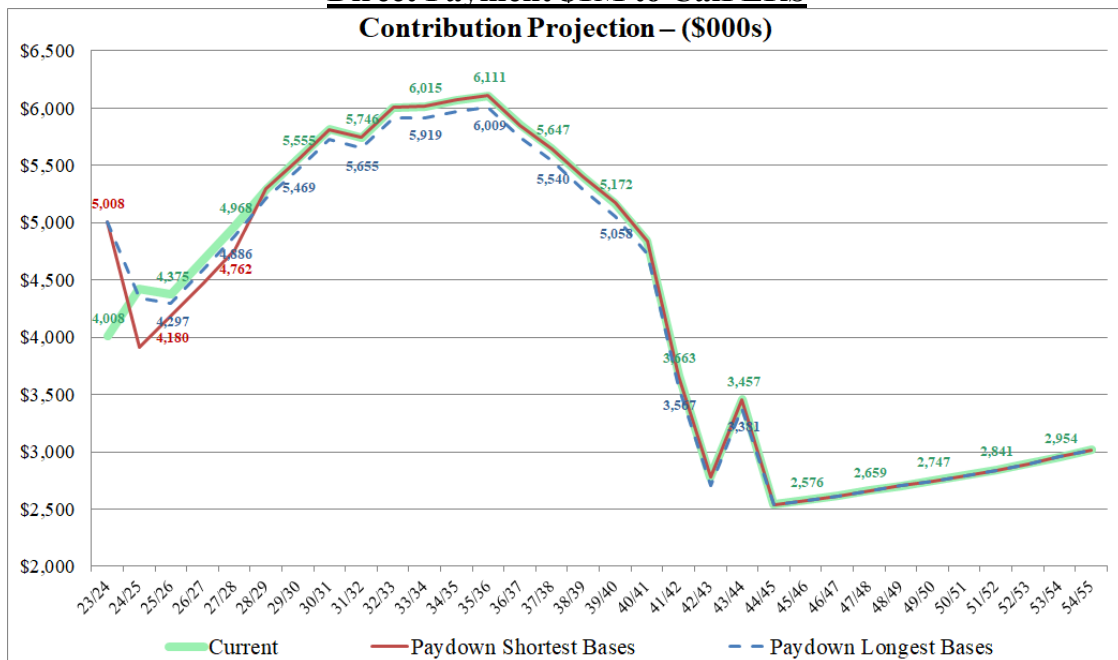


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PREFUNDING OPTIONS

Safety Direct Payment \$1M to CalPERS



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ACTUARIAL CERTIFICATION

This report presents analysis of the Town of Los Gatos's CalPERS pension 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, 2022 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 which results in long term returns summarized on page 30.

Future results may differ from our projections due to differences in actual experience as well as changes in plan provisions, CalPERS actuarial assumptions or methodology. Other than variations in investment return, this study does not analyze these.

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.

Respectfully submitted,



Doug Pryor, ASA, EA, MAAA
Foster & Foster, Inc.
April 23, 2024



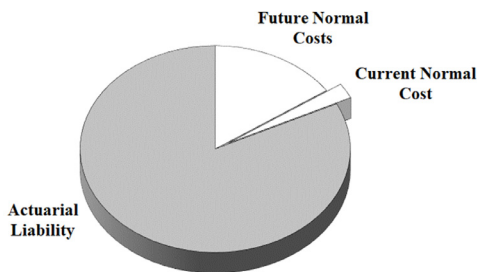
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DEFINITIONS

Present Value of Benefits
June 30, 2022



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

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/22), 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

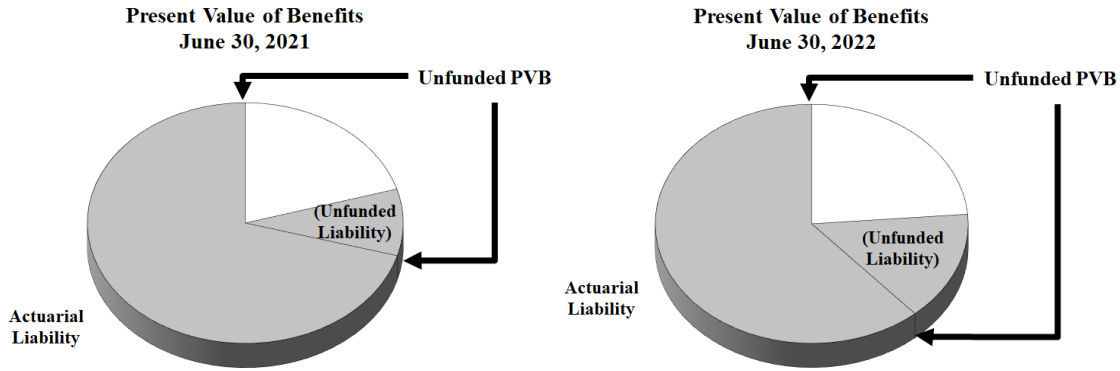


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DEFINITIONS



- **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]



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HOW WE GOT HERE

Significant Factors

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



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HOW WE GOT HERE

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



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HOW WE GOT HERE

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
 - 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)



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