



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 09/08/2025

ITEM NO: 5

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DATE: September 3, 2025  
TO: Finance Commission  
FROM: Chris Constantin, Town Manager  
SUBJECT: **Receive the CalPERS Actuarial Valuation Reports as of June 30, 2024.**

RECOMMENDATION: Receive the CalPERS Actuarial Valuation Reports as of June 30, 2024.

FISCAL IMPACT:

There is no fiscal impact from the receipt of these reports.

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).

In order 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 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.

PREPARED BY: Gitta Ungvari  
Finance Director

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

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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.

Staff has received the annual Actuarial Valuation Reports from CalPERS for the Miscellaneous Plan (Attachment 1) and the Classic and PEPRSA Safety Plan (Attachment 2). The measurement date for each of the Plans is as of June 30, 2024. These reports provide the Town Pension and OPEB Trusts Oversight Committee with an understanding of the scale of future pension costs, the risks associated with underperformance, and strategies that could mitigate long-term exposure.

#### DISCUSSION:

As of the valuation date and as provided in Exhibit 1 below, the Miscellaneous Plan reported an accrued liability of \$137.2 million against the market value of assets of \$106.0 million, leaving a Unfunded Accrued Liability (UAL) of \$31.2 million and a funded ratio of 77.2%. The Safety and PEPRSA Safety Plans combined reported an accrued liability of \$121.2 million against the market value of assets of \$85.2 million, leaving a UAL of \$36.0 million and a funded ratio of 70.3%. Together, the Town's total pension debt stands at approximately \$67 million.

For fiscal year 2026–27, the Miscellaneous Plan requires an employer normal cost contribution of 10.8% 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.

**Exhibit 1** Summary of CalPERS Actuarial Valuation Reports

<b>June 30, 2024</b>	<b>Miscellaneous Plan</b>	<b>Safety &amp; PEPRSA Safety Plan</b>
Accrued Liability	\$137,248,177	\$121,207,129
Market Value of Assets	\$106,009,107	\$85,213,104
Unfunded Accrued Liability	\$31,239,070	\$35,994,025
Funded Ratio	77.2%	70.3%

Looking forward, both plans show rising contribution requirements through 2031. The Miscellaneous Plan's UAL contributions are projected to increase from \$3.3 million in FY 2026–27 to a peak of \$3.6 million by FY 2030–31 before tapering down slightly. The Safety Plan's UAL contributions are projected to rise from \$3.4 million in FY 2026–27 to nearly \$4.0 million by FY 2031–32.

### *Risk and Sensitivity Analysis*

The actuarial valuations also provide insight into the risks associated with pension funding. If long-term investment returns fall below the assumed 6.8%, contributions will increase substantially. For example, if average returns fall to 3.0%, annual Safety UAL contributions could exceed \$5.2 million by FY 2031–32. Conversely, if returns average 10.8%, UAL obligations could be eliminated earlier in the next decade. Similarly, a 1% reduction in the discount rate assumption would reduce funded ratios by 8–10%, underscoring the Town's exposure to market fluctuations.

Both plans are mature, meaning a significant share of their liabilities are already owed to retirees. Retirees account for 64% of the Miscellaneous Plan's liability and 75% of the Safety Plans' liability. The active-to-retired support ratios are low—0.42 for Miscellaneous and 0.36 for Safety—indicating that there are fewer active workers relative to retirees, increasing the sensitivity of contribution requirements to investment volatility and demographic shifts.

### *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 down the UAL more aggressively—for example, at \$6.9 million annually instead of \$3.3 million—could eliminate the debt in approximately five years and save more than \$10.4 million in interest. For the Safety Plan, a 10-year accelerated payoff schedule at \$4.75 million annually could save approximately \$7.8 million in interest. Third, the Town may strategically leverage its Pension and OPEB Trust to smooth contribution volatility or to prefund obligations. Finally, as more new employees are hired under PEPR rules, normal costs will gradually decline; however, this will not reduce the existing unfunded liability, which remains the primary driver of high contributions.

These reports are attached (Attachment 1 and 2) and posted on the Town's website: <https://www.losgatosca.gov/1861/CalPERS-and-OPEB-Actuarial-Valuation-Rep>. The Town Pension and OPEB Oversight Finance Committee received this report at its September 2, 2025, regular meeting.

### CONCLUSION:

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In conclusion, while the Town's pension funded status has improved modestly, the combined \$67 million in unfunded liabilities continues to present a major long-term fiscal challenge. Required contributions will grow steadily through 2031, consuming a larger share of payroll and constraining fiscal flexibility.

COORDINATION:

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

Attachments:

1. CalPERS Annual Valuation Report as of June 30, 2024 – Miscellaneous Plan of the Town of Los Gatos
2. CalPERS Annual Valuation Report as of June 30, 2024 – Safety Risk Poll (Safety and PEPRSA Safety) Police Plans of the Town of Los Gatos