



BARTEL
ASSOCIATES, LLC

TOWN OF LOS GATOS
MISCELLANEOUS AND SAFETY PLANS

CalPERS Actuarial Issues
June 30, 2019 Actuarial Valuation
Town Council Summary

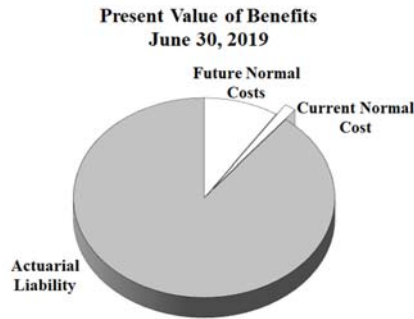
Bartel Associates, LLC
Joseph R. D'Onofrio, Assistant Vice President
Bianca Lin, Assistant Vice President
March 30, 2021

TOWN COUNCIL SUMMARY

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DEFINITIONS



- **Present Value of Benefits (PVB):**
 - Discounted value at valuation date (6/30/19) of all future expected benefit payments using various actuarial assumptions
- **Normal Cost (NC):**
 - Portion of PVB allocated to (or “earned” during) year following valuation date
- **Actuarial Accrued Liability (AAL):**
 - Discounted value at valuation date of benefits “earned” through valuation date (value of past normal costs)

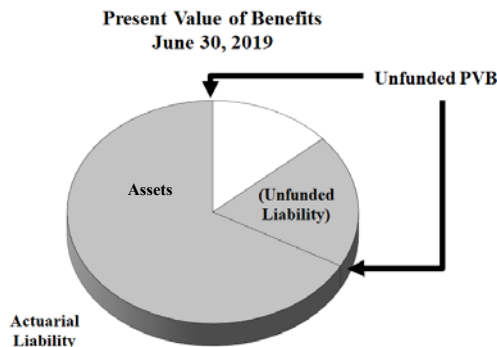


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DEFINITIONS



- **Funding Target** - Have plan assets equal to Actuarial Accrued Liability
- **Unfunded Liability (UAAL or UAL)** - Assets short of target at valuation date
 - Difference between AAL and plan assets is the unfunded (or overfunded) AAL
 - The change in this difference creates a new UAAL layer or amortization base at each valuation dateEach new UAAL layer gets amortized (paid off) over a period of time as part of the employer contribution



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PLAN FUNDED STATUS – MISCELLANEOUS

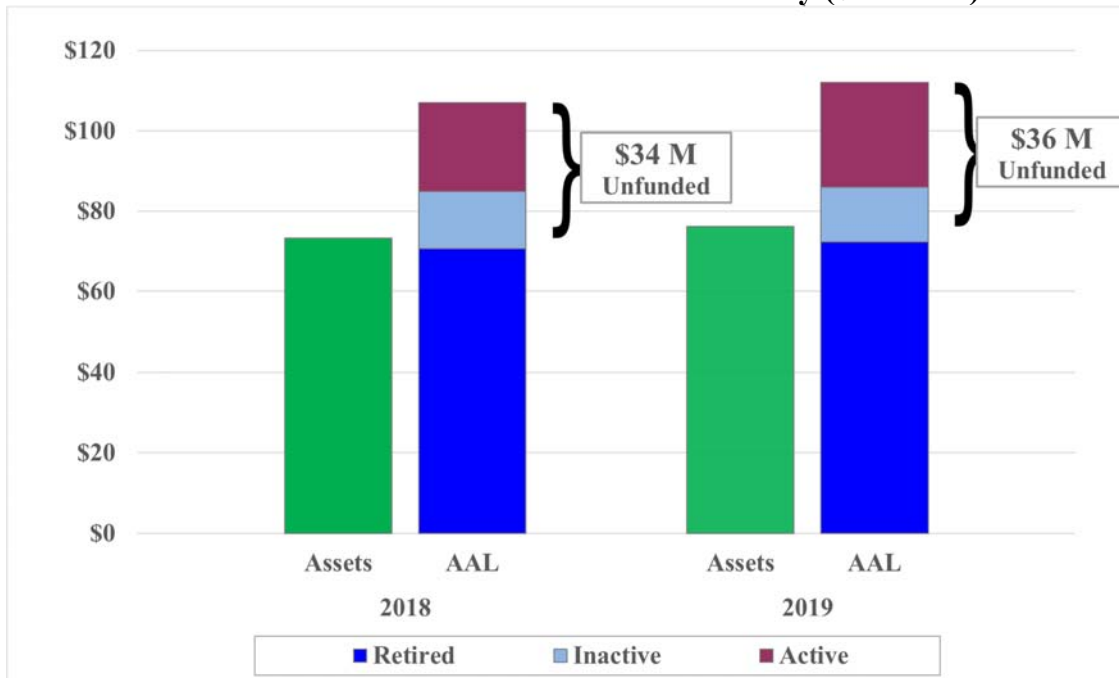
	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$22,300,000	\$26,200,000
● Retiree	70,700,000	72,300,000
● Inactive	<u>14,100,000</u>	<u>13,600,000</u>
● Total	107,100,000	112,100,000
■ Assets	<u>73,300,000</u>	<u>76,100,000</u>
■ Unfunded Liability	33,800,000	36,000,000
■ Funded Ratio	68.4%	67.9%
■ Average Funded Ratio for CalPERS Public Agency Miscellaneous Plans¹	71.8%	72.2%

¹ Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



PLAN FUNDED STATUS – MISCELLANEOUS

Town CalPERS Assets and Actuarial Liability (\$Millions)



PLAN FUNDED STATUS – SAFETY

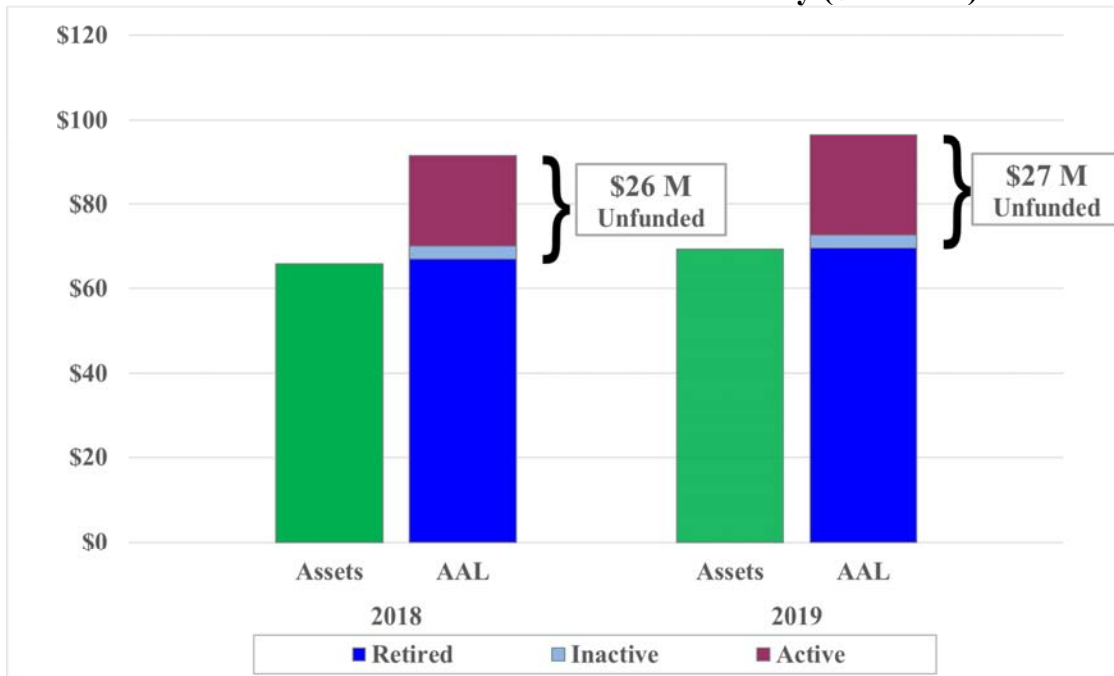
	<u>June 30, 2018</u>	<u>June 30, 2019</u>
■ Actuarial Accrued Liability		
● Active	\$21,300,000	\$23,700,000
● Retiree	67,200,000	69,800,000
● Inactive	<u>3,000,000</u>	<u>3,000,000</u>
● Total	91,500,000	96,500,000
■ Assets	<u>65,900,000</u>	<u>69,500,000</u>
■ Unfunded Liability	25,600,000	27,000,000
■ Funded Ratio	72.1%	72.0%
■ Average Funded Ratio for CalPERS Public Agency Safety Plans²	68.3%	68.6%

² Individual agency and average funded ratios depends on benefit levels, demographics, effective dates, funding policy, ADPs, etc.



PLAN FUNDED STATUS – SAFETY

Town CalPERS Assets and Actuarial Liability (\$Millions)



DISCOUNT RATE SENSITIVITY

Miscellaneous June 30, 2019

	<u>Discount Rate</u>		
	<u>7.00%</u>	<u>6.50%³</u>	<u>6.00%</u>
AAL	\$112,100,000	\$119,300,000	\$126,500,000
Assets	<u>76,100,000</u>	<u>76,100,000</u>	<u>76,100,000</u>
Unfunded Liability	36,000,000	43,200,000	50,400,000
Funded Ratio	67.9%	63.8%	60.2%

³ Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)



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DISCOUNT RATE SENSITIVITY

Safety June 30, 2019

	<u>Discount Rate</u>		
	<u>7.00%</u>	<u>6.50%⁴</u>	<u>6.00%</u>
AAL	\$96,500,000	\$103,100,000	\$109,700,000
Assets	<u>69,500,000</u>	<u>69,500,000</u>	<u>69,500,000</u>
Unfunded Liability	27,000,000	33,600,000	40,200,000
Funded Ratio	72.0%	67.4%	63.4%

⁴ Estimated by Bartel Associates. (Straight line interpolation of the 7% and 6% discount rate AAL provided in the 6/30/19 valuation report.)



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CONTRIBUTION PROJECTIONS – ASSUMPTIONS

- Market Value Investment Return:
 - June 30, 2020 4.7%⁵
 - Future returns based on stochastic analysis using 1,000 trials⁶

<u>Single Year Returns at⁷</u>	<u>25th Percentile</u>	<u>50th Percentile</u>	<u>75th Percentile</u>
Current Investment Mix	0.1%	7.0%	14.8%
Ultimate Investment Mix	0.8%	6.0%	11.4%

 - Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 8 years and higher beyond that.
- Discount Rate decreases due to Risk Mitigation policy
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection. Our projections include:
 - Actual 2019/20 investment return
 - Lower expected return for next 8 years
 - Impact of risk mitigation
 - Possibly different PEPRA new hire assumptions

⁵ Net of investment expenses and gross of administrative expenses. 15 bp assumed for administrative expenses.

⁶ Future returns are assumed net of investment and administrative expenses

⁷ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.

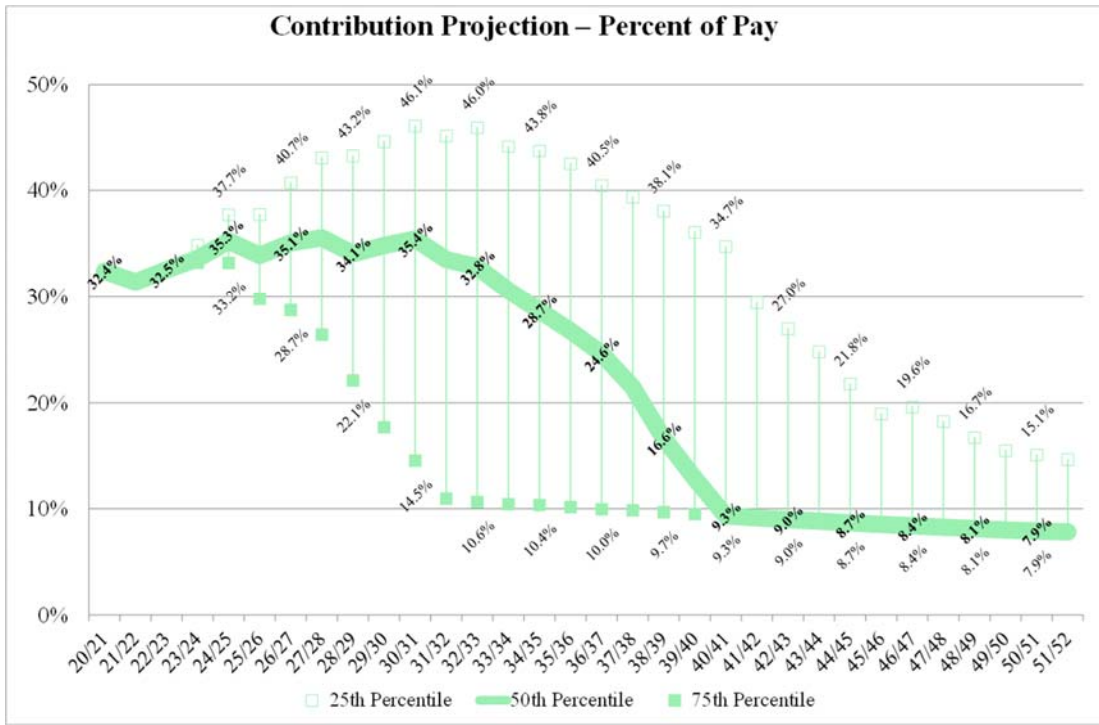


CONTRIBUTION PROJECTIONS – ASSUMPTIONS

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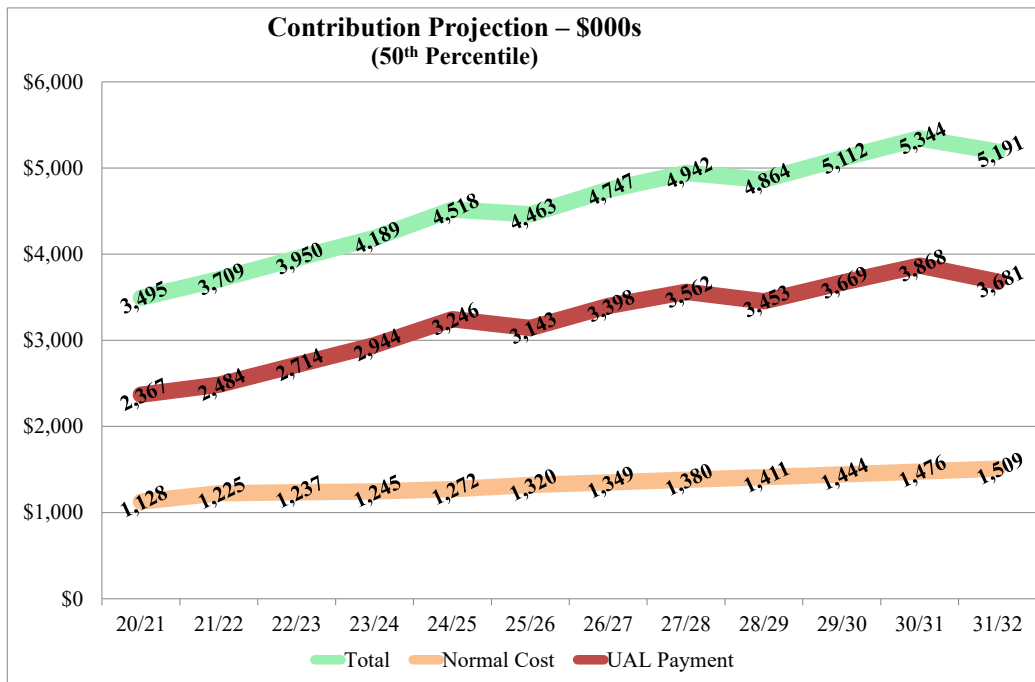
CONTRIBUTION PROJECTIONS – MISCELLANEOUS



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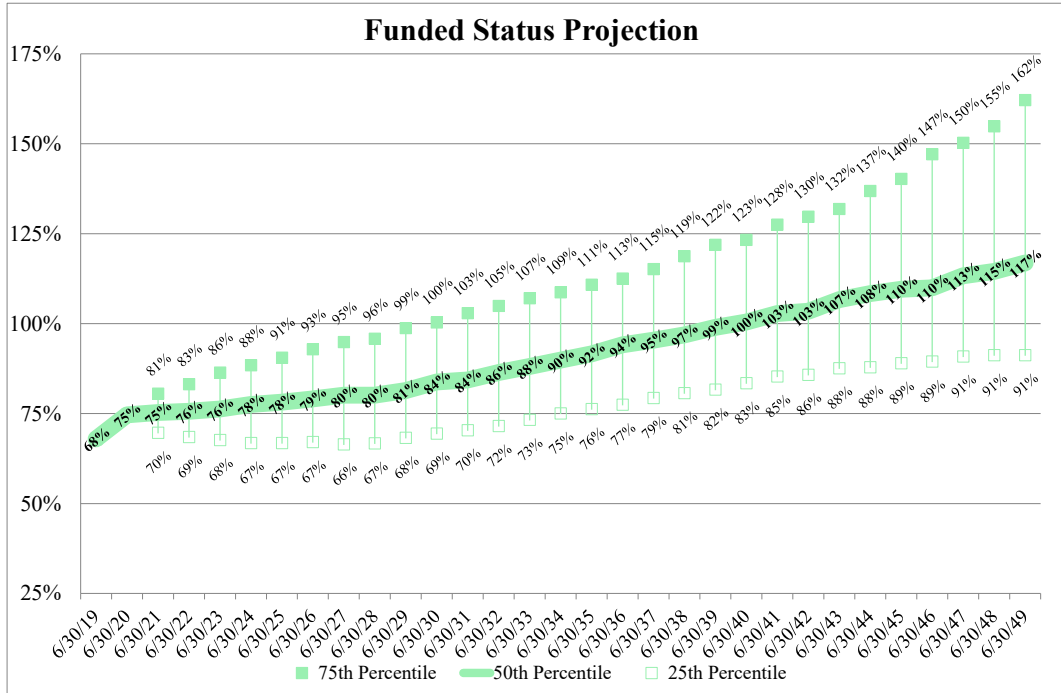
CONTRIBUTION PROJECTIONS – MISCELLANEOUS



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FUNDED STATUS – MISCELLANEOUS

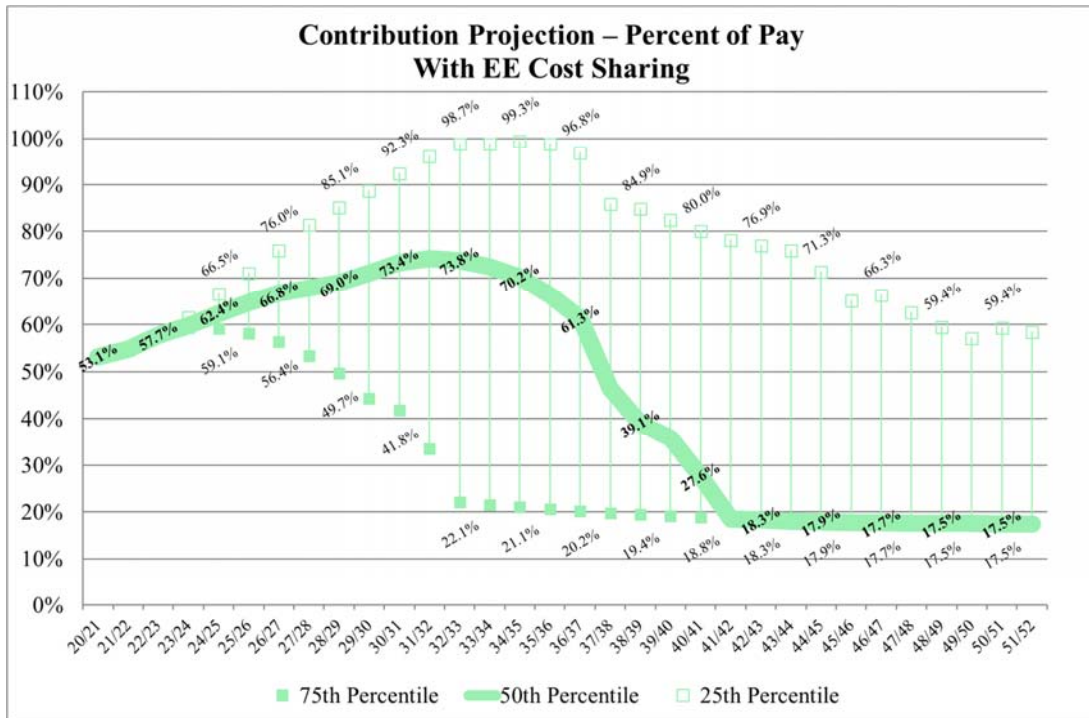


FUNDED STATUS – MISCELLANEOUS

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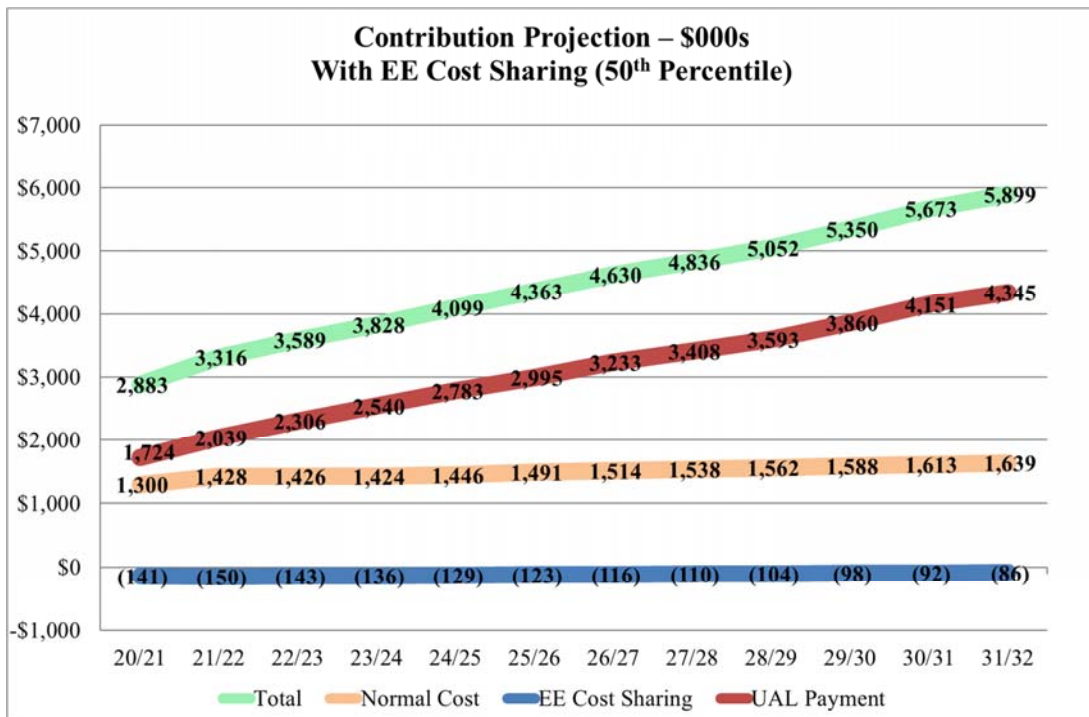
CONTRIBUTION PROJECTIONS – SAFETY



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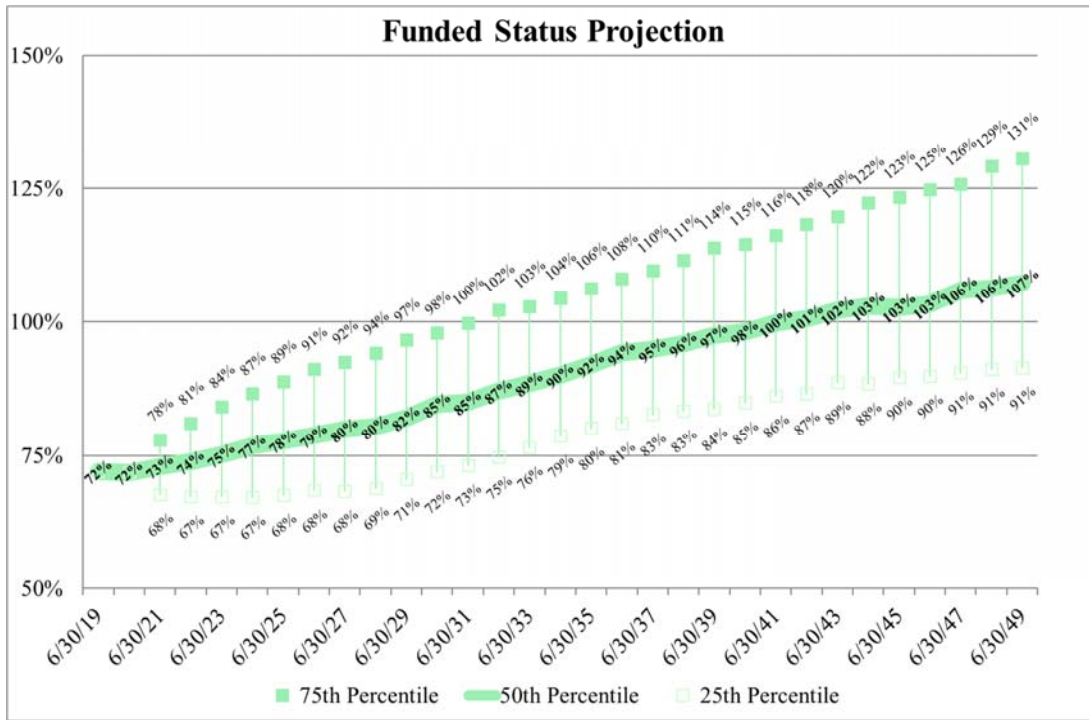
CONTRIBUTION PROJECTIONS – SAFETY



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FUNDED STATUS - SAFETY



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FUNDED STATUS - SAFETY

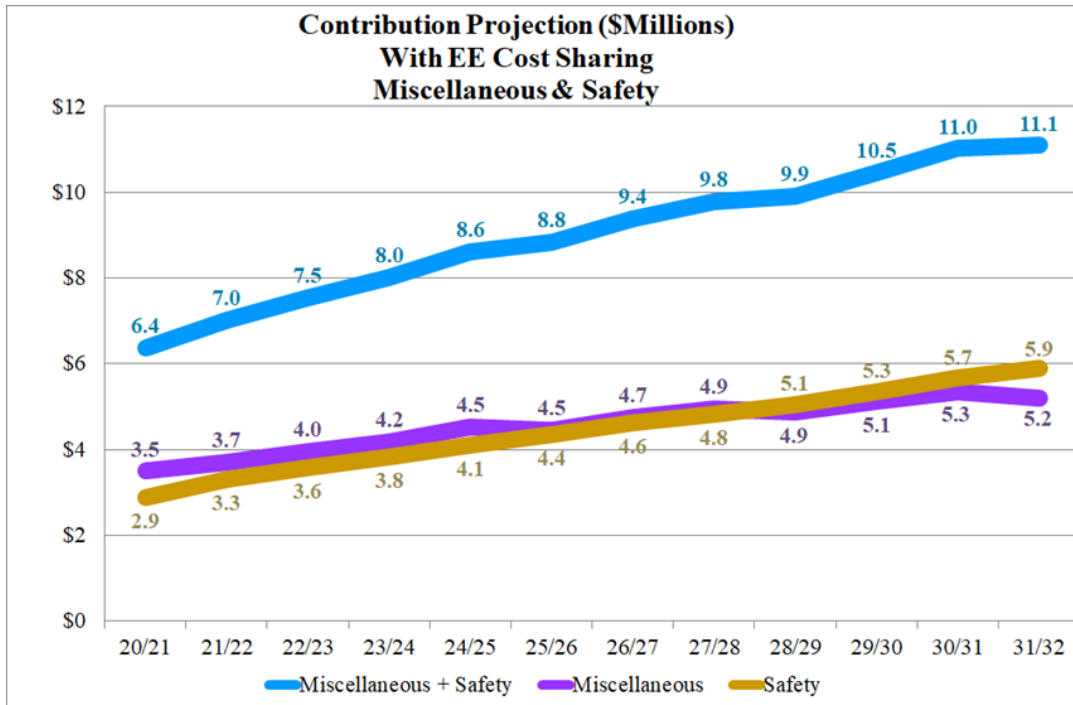
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COMBINED MISCELLANEOUS AND SAFETY



Reflects Additional Discretionary Payments \$4,753,965 made October 2019 and \$3,580,365 made July 2020.



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COMBINED MISCELLANEOUS AND SAFETY

Funded Status Summary on June 30, 2019 (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$ 112	\$ 97	\$ 209
■ Assets	<u>76</u>	<u>70</u>	<u>146</u>
■ Unfunded AAL	36	27	63
■ Funded Ratio	67.9%	72.0%	69.9%



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PREFUNDING OPTION

Additional CalPERS Contributions
Prefunding Option

■ **Direct Payment to CalPERS**

- Pay down a portion of the Unfunded Liability
 - Target specific bases (short or long)
- Fresh start amortization (more stable contribution)
 - Directly through CalPERS
 - Indirectly through budgeted contributions
- Funds invested per CalPERS' investment policy
- Contribution is lower but volatility remains
- Employer required to pay Normal Cost when 100% funded
- Sources of funds
 - General fund
 - Prior dedicated internal reserve
 - Pension Obligation Bond



PREFUNDING OPTION

Direct Payment to CalPERS
Savings

Following illustrates the interest savings on Additional Discretionary Payments (ADPs) of \$4,753,965 made on October 18, 2019 (June 30, 2016 loss base) and \$3,580,365 made July 7, 2020 (June 30, 2015 loss base):

Target Bases	Estimated Savings	2021/22 Contribution Impact
October 18, 2019 ADP	\$4.8 million	
\$ Savings (000's)	\$6,299	\$(268)
PV Savings @ 3% (000's)	2,583	
July 7, 2020 ADP	\$3.6 million	
\$ Savings (000's)	\$4,382	\$(253)
PV Savings @ 3% (000's)	1,919	



PREFUNDING OPTION

Direct Payment to CalPERS
Prefunding Option

- Following illustrates additional \$1 million contribution to CalPERS on June 30, 2021:
- Miscellaneous Plan
 - Shortest Base: 2003 Assumption Change (4 years, \$1.1 million on 6/30/21)
Less interest savings, largest short-term contribution impact
 - Longest Base: 2013 Gain/Loss (24 years, \$10.9 million on 6/30/21)
Greater interest savings, smallest short-term contribution impact

Target Bases	Estimated Savings	2021/22 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$144	\$(275)
PV Savings @ 3% (000's)	78	
Longest Bases	\$1 million	
\$ Savings (000's)	\$1,042	\$(70)
PV Savings @ 3% (000's)	464	

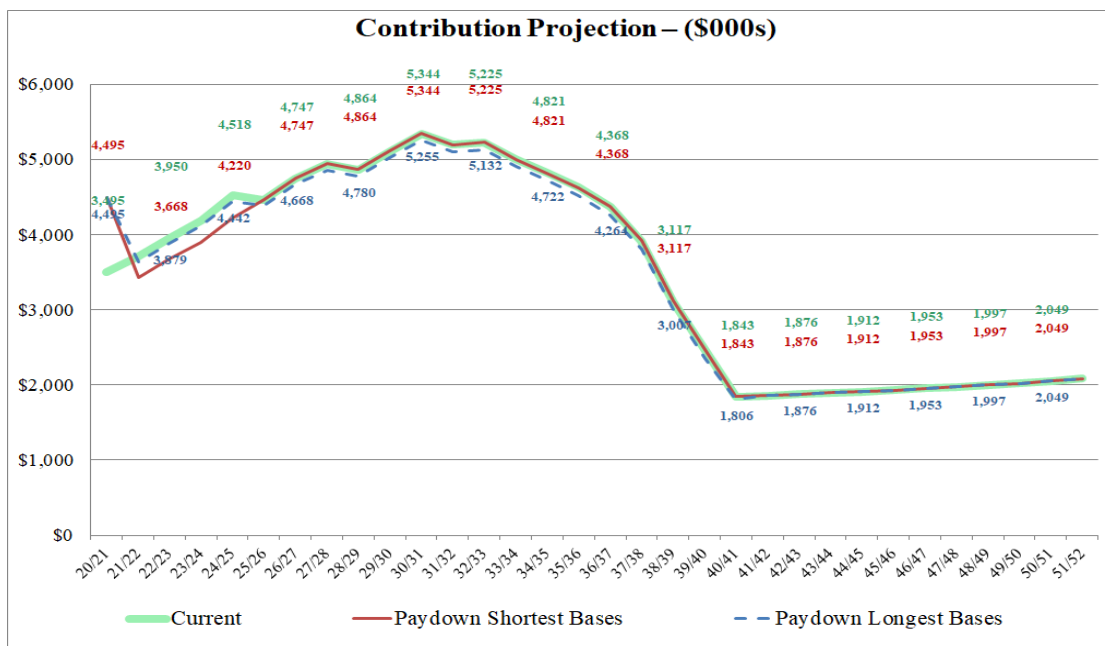


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PREFUNDING OPTION

Direct Payment to CalPERS
Miscellaneous



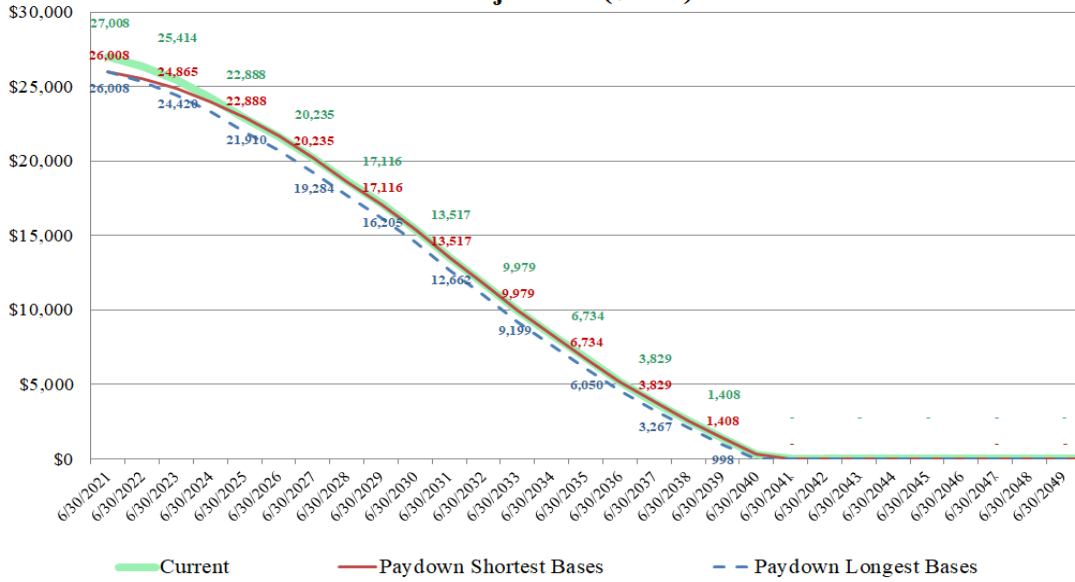
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PREFUNDING OPTION

**Direct Payment to CalPERS
Miscellaneous**

UAAL Projection – (\$000s)



PREFUNDING OPTION

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