TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 09/12/2022
DESK ITEM

DATE: September 12, 2022

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Receive CalPERS Actuarial Valuation Reports as of June 30, 2021

REMARKS:

Attachment 4 contains public comments received 11:01 a.m. September 9 to 11:00 a.m. September 12, 2022.

Attachments previously received with the Staff Report:
1. CalPERS Annual Valuation Report as of June 30, 2021 – Miscellaneous Plan of the Town of Los Gatos
2. CalPERS Annual Valuation Report as of June 30, 2021 – Safety Plan of the Town of Los Gatos
3. CalPERS Annual Valuation Report as of June 30, 2021 – PEPRA Safety Police Plan of the Town of Los Gatos

Attachment received with this Desk Item:
4. Public comments received 11:01 a.m. September 9 to 11:00 a.m. September 12, 2022.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Interim Finance Director

This Page Intentionally Left Blank

Subject: FW: The impact of the $10m ADP made to CALPERs
Attachments: Pages from Calpers - Misc Plan 2021.pdf; Pages from Annual-Valuation-Report-as-of-June-30-2019---Miscellaneous.pdf

From: Phil Koen [redacted]
Sent: Saturday, September 10, 2022 6:25 AM
To: [redacted]; Mary Badame <MBadame@losgatosca.gov>; Rick Van Hoesen [redacted] Matthew Hudes <MHudes@losgatosca.gov>; Terry Duryea [redacted]; Peter Hertan <phertan@alum.mit.edu>; Lee Fagot [redacted]; Rob Rennie <RRennie@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; Maria Ristow <MRistow@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Ron Dickel [redacted]; Kyle Park [redacted]; Robert Stump [redacted]; [redacted]
Subject: The impact of the $10m ADP made to CALPERs

EXTERNAL SENDER

All,

CALPER's latest actuarial report for the Misc Pension Plan shows remarkable progress in reducing the unfunded pension liability. To refresh your memory as of June 30, 2019 the unfunded pension liability for the Misc Plan was $35.9m and had a funded ratio of only 67.9%. Things looked very bleak for sure.

It was at that time the LGCA strongly advocated to make an additional discretionary payment of $10m to aggressively reduce the unfunded pension liability. One member of the Town Council objected to this, preferring to hold the excess cash in reserve to make smaller ADP's over time.

This argument made no financial sense to us because CALPERs was charging the Town 8% interest on the unfunded liability while the Town was only making approximately 1% on the invested excess cash. The interest arbitrage was material, and the Town desperately needed to increase its overall asset exposure to potential market rate returns. That meant making an additional discretionary payment.

The core problem was the Town did not have enough assets exposed to the markets and as a result the Town had little chance to earn more than the 8% being charged on the unfunded pension liability, let alone keep up with the annual increases in total pension liability as service costs increased. This is why the funded ratio had been declining over the prior years.

Calpers 2019 actuarial report which is attached , projected that it would take until 2042 and a total of $53.4m in amortization payments (including $22.6m in interest expense) to pay off the unfunded liability, assuming everything went right. You can see these numbers on the attached amortization table.

Thankfully the Council agreed with the LGCA position and made a $10.4m ADP to the Misc Plan ($4.8m in FY 20 and $5.6m in FY 21). These additional payments were then exposed to a very strong 21.4% return in FY 21 which significantly increased the total market value of all of the assets in the plan.

As a reference point, as of June 30, 2019 the FMV of all assets in the Plan was $76.1m and by June 30, 2021 the FMV had increased to $106.2m! That is a staggering $30.1m increase or 40% in 2 years! Of this $30.1m increase, the ADP accounted for approximately 42% or roughly $12.6m.

The net result was that as of June 30, 2021 the Misc Plan's unfunded pension liability decreased to $15.5m from $35.9m which is a 57% decrease in just two years!

More importantly, if you look at the new FY 21 amortization table which is attached, CALPERs is now projecting that the Misc Plan's unfunded liability could be fully amortized by 2032 (10 years sooner) with a total payment of only $16.7m (of which interest expense would be only $3.9m). The total reduction in amortization payments went from $53.4m to $16.7m, which is a $36.7m total savings!

In summary, the incremental $10.4m ADP has saved the Town a total of $18.7m in total interest expense while decreasing the amortization period by approximately 50%. This translates into a gross Money on Money return of 180% on the $10.4m ADP investment.

I want to close by saying this only happened because of the LGCA's hard work in educating the Council on the benefits of making a large ADP along with the strong support of the Finance Commission. This shows that better decisions can be made when knowledgeable members of the public are allowed to participate in critical financial decisions.

Let's build on the success we have achieved in addressing the unfunded pension liability as we now wrestle with the annual operating deficits.

Thank you.

Phil Koen
LGCA

Item 5.

Amortization Schedule and Alternatives (continued)

	Current Amortization Schedule		Alternative Schedules: 5 Year Amortization		Alternative Schedules: 0 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2023	12,804,288	2,411,960	12,804,288	3,005,631	N/A	N/A
6/30/2024	11,182,362	2,348,501	10,568,838	3,005,631		
6/30/2025	9,515,726	1,889,992	8,181,377	3,005,631		
6/30/2026	8,209,600	1,768,242	5,631,569	3,005,632		
6/30/2027	6,940,478	1,574,712	2,908,373	3,005,631		
6/30/2028	5,785,060	1,394,019				
6/30/2029	4,737,807	1,459,443				
6/30/2030	3,551,730	1,526,699				
6/30/2031	2,215,495	1,243,454				
6/30/2032	1,081,114	1,117,267				
6/30/2033						
6/30/2034						
6/30/2035						
6/30/2036						
6/30/2037						
6/30/2038						
6/30/2039						
6/30/2040						
6/30/2041						
6/30/2042						
6/30/2043						
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
6/30/2050						
6/30/2051						
6/30/2052						
Total		**16,734,289**		**15,028,156**		**N/A**
Interest Paid		**3,930,001**		**2,223,868**		**N/A**
Estimated Savings				**1,706,133**		**N/A**

Amortization Schedule and Alternatives

	Current Amortization Schedule		Alternative Schedules			
			15 Year Amortization		10 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2021	30,833,754	2,736,531	30,833,754	3,272,771	30,833,754	4,244,005
6/30/2022	30,161,426	2,926,947	29,606,736	3,272,771	28,602,084	4,244,005
6/30/2023	29,245,070	3,090,008	28,293,827	3,272,771	26,214,197	4,244,005
6/30/2024	28,095,896	3,255,415	26,889,014	3,272,771	23,659,158	4,244,005
6/30/2025	26,695,181	3,022,445	25,385,864	3,272,771	20,925,266	4,244,005
6/30/2026	25,437,401	3,128,884	23,777,494	3,272,771	18,000,002	4,244,005
6/30/2027	23,981,476	3,209,801	22,056,538	3,272,771	14,869,969	4,244,005
6/30/2028	22,339,936	3,039,842	20,215,115	3,272,770	11,520,834	4,244,005
6/30/2029	20,759,294	3,118,315	18,244,793	3,272,770	7,937,259	4,244,005
6/30/2030	18,986,835	3,198,944	16,136,549	3,272,771	4,102,834	4,244,004
6/30/2031	17,006,897	2,926,174	13,880,727	3,272,771		
6/30/2032	15,170,521	2,878,655	11,466,997	3,272,770		
6/30/2033	13,254,752	2,599,372	8,884,307	3,272,770		
6/30/2034	11,493,773	2,488,413	6,120,829	3,272,771		
6/30/2035	9,724,303	2,327,530	3,163,906	3,272,770		
6/30/2036	7,997,391	2,037,672				
6/30/2037	6,449,425	1,870,967				
6/30/2038	4,965,541	1,693,694				
6/30/2039	3,561,158	1,559,918				
6/30/2040	2,196,848	1,465,743				
6/30/2041	834,453	787,884				
6/30/2042	77,870	80,549				
6/30/2043						
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
6/30/2050						
Total		**53,443,703**		**49,091,560**		**42,440,049**
Interest Paid		**22,609,949**		**18,257,806**		**11,606,295**
Estimated Savings				**4,352,143**		**11,003,654**

Subject: FW: Finance Commission Meeting - Agenda #5
Attachments: cid8C8DD5AC-E47E-4351-ADCB-FF487DF54882.pdf; cid0E66E8EA-7214-4378-A33C-29B999F3A444.pdf

From: Phil Koen [redacted]
Sent: Monday, September 12, 2022 1:56 AM
To: Ron Dickel [redacted]; Kyle Park [redacted]; Rick Tinsley [redacted]; [redacted]; Matthew Hudes <MHudes@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Lee Fagot [redacted]; Barbara Spector [redacted]; Jim Foley [redacted]
Subject: Finance Commission Meeting - Agenda #5

EXTERNAL SENDER

Dear Members of the Finance Commission,

CALPER's latest actuarial report for the Misc Pension Plan shows remarkable progress in reducing the unfunded pension liability. To refresh your memory the last actuarial report prior to the Town making the $10.4m ADP was dated June 30, 2019. The 2019 report showed an unfunded pension liability for the Misc Plan of $35.9m and a funded ratio of 67.9%. By comparison as of June 30, 2014 the unfunded pension liability was $20.9m and the funded ratio was $76.2%. Over that 5 year period the Town had incurred an additional $15m in debt and the future funded ratio trend looked very bleak for sure.

Beginning in 2019 the LGCA began to strongly advocated making an additional discretionary payment (ADP) of $10m to aggressively reduce the unfunded pension liability. The LGCA had done a detail analysis of the individual fund balances in the Internal Services Group of Funds as well as the General Fund and had identified $10m of cash reserves which appeared to be in excess of required operating requirements. This capital appeared to be available for redeployment.

The idea was simple - make a large one time discretionary payment into the Misc Pension Plan thereby reducing the unfunded liability and reducing the 8% annual interest being charged on the $35.9m liability. It was no different from what an individual would do facing a large credit card balance that was being charged a very high interest rate and had just received a large bonus payment. One member of the Town Council objected to the LGCA proposal, advocation a strategy to hold the excess cash in reserve and make smaller ADP's over time.

This argument made no financial sense to us because CALPERs was charging the Town 8% interest on the unfunded liability while the Town was only making approximately 1% on the invested excess cash. The 7 % "interest arbitrage" was material, and the Town desperately needed to increase its overall asset exposure to potential market rate returns if there was any hope in improving the funded ratio over time. That meant making an additional discretionary payment.

For years the Town did not have enough assets exposed to the markets and as a result the Town had little chance to earn more than the 8% being charged on the unfunded pension liability, and to keep up with the annual increases in total pension liability as service costs increased and retirees lived longer. This is one of the major reasons the funded ratio had been declining over the prior 5 years.

The 2019 actuarial report which is attached , projected it would take until 2042 and a total of $53.4m in amortization payments (including $22.6m in interest expense) to pay off the unfunded liability, assuming everything went right. You can see these numbers on the attached amortization table.

Thankfully the Council agreed with the LGCA position and made a $10.4m ADP to the Misc Plan ($4.8m in FY 20 and $5.6m in FY 21). These additional payments were then exposed to a very strong 21.4% return in FY 21 which significantly increased the total market value of all of the assets in the plan.

As a reference point, as of June 30, 2019 the FMV of all assets in the Plan was $76.1m and by June 30, 2021 the FMV had increased to $106.2m! That is a staggering $30.1m increase or 40% in 2 years! Of this $30.1m increase, the ADP accounted for approximately 42% or roughly $12.6m.

The net result was that as of June 30, 2021 the Misc Plan's unfunded pension liability decreased to $15.5m from $35.9m which is a 57% decrease in just two years!

More importantly, if you look at the new FY 21 amortization table which is attached, CALPERs is now projecting that the Misc Plan's unfunded liability could be fully amortized by 2032 (10 years sooner) with a total payment of only $16.7m (of which interest expense would be only $3.9m). The total reduction in amortization payments went from $53.4m to $16.7m, which is a $36.7m total savings!

In summary, the incremental $10.4m ADP has saved the Town a total of $18.7m in total future interest expense while decreasing the amortization period by approximately 50%. This translates into a gross Money on Money return of 180% on the $10.4m ADP investment.

I want to close by saying this only happened because of the LGCA's hard work in educating the Council on the benefits of making a large ADP along with the strong support of the Finance Commission. This shows that better decisions can be made when members of the public are allowed to participate in critical financial decisions.

Let's build on the success we have achieved in addressing the unfunded pension liability as we now wrestle with the 5 year forecast which is projecting material annual operating deficits.

Thank you.

Phil Koen
LGCA

Amortization Schedule and Alternatives (continued)

	Current Amortization Schedule		Alternative Schedules			
			5 Year Amortization		0 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2023	12,804,288	2,411,960	12,804,288	3,005,631	N/A	N/A
6/30/2024	11,182,362	2,348,501	10,568,838	3,005,631		
6/30/2025	9,515,726	1,889,992	8,181,377	3,005,631		
6/30/2026	8,209,600	1,768,242	5,631,569	3,005,632		
6/30/2027	6,940,478	1,574,712	2,908,373	3,005,631		
6/30/2028	5,785,060	1,394,019				
6/30/2029	4,737,807	1,459,443				
6/30/2030	3,551,730	1,526,699				
6/30/2031	2,215,495	1,243,454				
6/30/2032	1,081,114	1,117,267				
6/30/2033						
6/30/2034						
6/30/2035						
6/30/2036						
6/30/2037						
6/30/2038						
6/30/2039						
6/30/2040						
6/30/2041						
6/30/2042						
6/30/2043						
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
6/30/2050						
6/30/2051						
6/30/2052						
Total		**16,734,289**		**15,028,156**		**N/A**
Interest Paid		**3,930,001**		**2,223,868**		**N/A**
Estimated Savings				**1,706,133**		**N/A**

Amortization Schedule and Alternatives

	Current Amortization Schedule		Alternative Schedules			
			15 Year Amortization		10 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2021	30,833,754	2,736,531	30,833,754	3,272,771	30,833,754	4,244,005
6/30/2022	30,161,426	2,926,947	29,606,736	3,272,771	28,602,084	4,244,005
6/30/2023	29,245,070	3,090,008	28,293,827	3,272,771	26,214,197	4,244,005
6/30/2024	28,095,896	3,255,415	26,889,014	3,272,771	23,659,158	4,244,005
6/30/2025	26,695,181	3,022,445	25,385,864	3,272,771	20,925,266	4,244,005
6/30/2026	25,437,401	3,128,884	23,777,494	3,272,771	18,000,002	4,244,005
6/30/2027	23,981,476	3,209,801	22,056,538	3,272,771	14,869,969	4,244,005
6/30/2028	22,339,936	3,039,842	20,215,115	3,272,770	11,520,834	4,244,005
6/30/2029	20,759,294	3,118,315	18,244,793	3,272,770	7,937,259	4,244,005
6/30/2030	18,986,835	3,198,944	16,136,549	3,272,771	4,102,834	4,244,004
6/30/2031	17,006,897	2,926,174	13,880,727	3,272,771		
6/30/2032	15,170,521	2,878,655	11,466,997	3,272,770		
6/30/2033	13,254,752	2,599,372	8,884,307	3,272,770		
6/30/2034	11,493,773	2,488,413	6,120,829	3,272,771		
6/30/2035	9,724,303	2,327,530	3,163,906	3,272,770		
6/30/2036	7,997,391	2,037,672				
6/30/2037	6,449,425	1,870,967				
6/30/2038	4,965,541	1,693,694				
6/30/2039	3,561,158	1,559,918				
6/30/2040	2,196,848	1,465,743				
6/30/2041	834,453	787,884				
6/30/2042	77,870	80,549				
6/30/2043						
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
6/30/2050						
Total		**53,443,703**		**49,091,560**		**42,440,049**
Interest Paid		**22,609,949**		**18,257,806**		**11,606,295**
Estimated Savings				**4,352,143**		**11,003,654**

Subject: FW: Finance Commission - Agenda #5
Attachments: Pages from Calpers - Misc Plan 2021(2).pdf; Pages from Miscellaneous%20Plan%20Annual%20Valuation%20Plan%20of%20the%20Town%20of%20Los%20Gatos%202019(1) (2).pdf

---

From: Phil Koen [redacted]
Sent: Monday, September 12, 2022 3:07 AM
To: Ron Dickel [redacted]; Kyle Park [redacted]>; Rick Tinsley [redacted];
[redacted]; Matthew Hudes <MHudes@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>
Cc: [redacted] Rick Van Hoesen [redacted]; Laurel Prevetti <LPrevetti@losgatosca.gov>;
Arn Andrews <aandrews@losgatosca.gov>; Lee Fagot [redacted]
Subject: Finance Commission - Agenda #5

EXTERNAL SENDER

Dear Finance Commission,

There is one other very positive impact that flows from the reduction in the unfunded pension liability, namely a corresponding reduction in the annual required employer contribution made to CALPERs.

I have attached the calculation of the required CALPERs contribution the Town must make for FY 2024. As you can see the amount expressed as a percentage of payroll dollars is 29.97%. Assuming a projected payroll of $13,004,007 that would equate to a total dollar payment of $3,897,300. That's real cash being spent.

As a result of the ADP and the strong market growth, the Town receives the benefit of lower required annual UAL payments which is offset by an increase in the normal costs percentage. The normal cost is increasing from 9.7% in 2019 to 11.42% in 2021.

At the end of the day, the total required CALPERs payment for FY 24 has been reduced by $576,007 simply because the Town reduced the unfunded pension liability.

I doubt that there is any other line item expenditure in the FY 24 budget that will reflect that large of a decline. Said another way, this real expense savings (budget vs actuals are not real savings in the terms of spendable savings) can be reallocated to other pressing needs such as increased spending on fire prevention or can simply remain unspent and applied to the reserve balance. This is the power of paying down unfunded pension liabilities as opposed to raising taxes.

Again, I want to thank the Finance Commission for supporting the LGCA effort in getting the Town to address this situation. This is a big win for all residents!

Phil Koen
LGCA

Item 5.

Plan's Funded Status

	June 30, 2020	June 30, 2021
1. Present Value of Projected Benefits	$131,799,672	$141,365,707
2. Entry Age Accrued Liability	115,223,358	121,630,966
3. Market Value of Assets (MVA)	82,711,453	106,171,684
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$32,511,905	$15,459,282
5. Funded Ratio [(3) / (2)]	71.8%	87.3%

The UAL and funded ratio are assessments of the need for future employer contributions based on the actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. The funded ratio, on the other hand, is a relative measure of funded status that allows for comparison between plans of different sizes. For measures of funded status that are appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. In particular, the investment return beginning with FY 2021-22 is assumed to be 6.80% per year, net of investment and administrative expenses. Actual contribution rates during this projection period could be significantly higher or lower than the projection shown below. The projected normal cost percentages below reflect that the normal cost will continue to decline over time as new employees are hired into lower cost benefit tiers. Future contribution requirements may differ significantly from those shown below. The actual long-term cost of the plan will depend on the actual benefits and expenses paid and the actual investment experience of the fund.

		Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2021-22 and Beyond)				
6/30/19							
23-24	**Fiscal Year**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
9.7%	**Normal Cost %**	11.42%	11.2%	11.0%	10.8%	10.6%	10.4%
$3,090,000	**UAL Payment**	$2,411,960	$2,349,000	$1,890,000	$1,768,000	$1,575,000	$1,394,000
34.4%	*Total as a % of Payroll**	*29.97%*	*28.8%*	*24.8%*	*23.3%*	*21.5%*	*19.7%*
$12,471,416	*Projected Payroll*	*$13,004,007*	*$13,368,119*	*$13,742,426*	*$14,127,214*	*$14,522,776*	*$14,929,415*

*Illustrative only and based on the projected payroll shown.

For some sources of UAL, the change in UAL is amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large increase in UAL, the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section. Our online pension plan projection tool, Pension Outlook, is available in the Employers section of the CalPERS website. Pension Outlook can help plan and budget pension costs under various scenarios.

Savings = (34.4% − 29.97%) * 13,004,007
= $576,007

Plan's Funded Status

	June 30, 2018	June 30, 2019
1. Present Value of Projected Benefits	$121,942,346	$127,740,089
2. Entry Age Normal Accrued Liability	107,075,648	112,050,553
3. Market Value of Assets (MVA)	73,291,140	76,137,861
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$33,784,508	$35,912,692
5. Funded Ratio [(3) / (2)]	68.4%	67.9%

This measure of funded status is an assessment of the need for future employer contributions based on the actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. As of the preparation date of this report, the year to date return for the 2019-20 fiscal year was well below the 7 percent assumed return. Actual contribution rates during this projection period could be significantly higher than the projection shown below. The projected normal cost percentages in the projections below reflect that the normal cost will continue to decline over time as new employees are hired into PEPRA or other lower cost benefit tiers.

	Required Contribution	**Projected Future Employer Contributions (Assumes 7.00% Return for Fiscal Year 2019-20)**				
Fiscal Year	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Normal Cost %	10.37%	10.0%	9.7%	9.3%	8.9%	8.6%
UAL Payment	$2,736,531	$2,927,000	$3,090,000	$3,255,000	$3,022,000	$3,129,000
*Total as a % of Payroll**	*33.54%*	*34.1%*	*34.4%*	*34.7%*	*31.9%*	*31.7%*
Projected Payroll	*$11,812,780*	*$12,137,631*	*$12,471,416*	*$12,814,380*	*$13,166,775*	*$13,528,862*

*Illustrative only and based on the projected payroll shown.

For some sources of UAL, the change in UAL is amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large increase in UAL, the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section.