



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

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### **Actuarial Analysis – 6/30/23 Valuation**

#### **Preliminary Results**

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**Foster & Foster, Inc.**

March 25, 2025

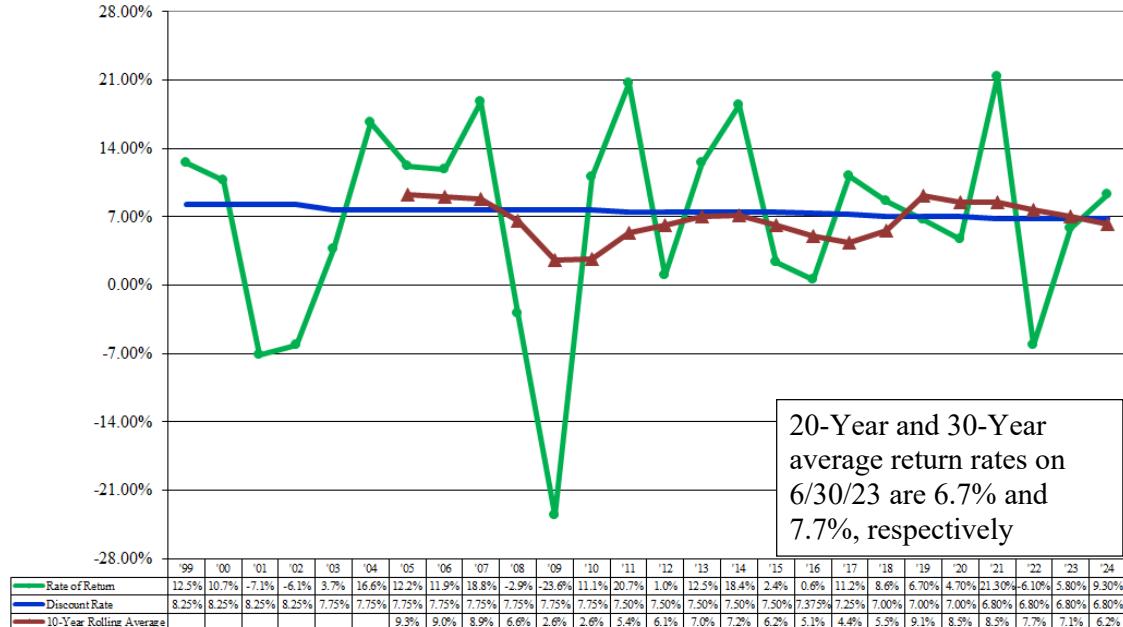
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## INVESTMENT RETURN

### Annual Return on Market Value of Assets



Discount rates are expected returns net of administrative expenses.

2013/14 through 2023/24 “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%, 6.1%, and 9.5%, respectively.



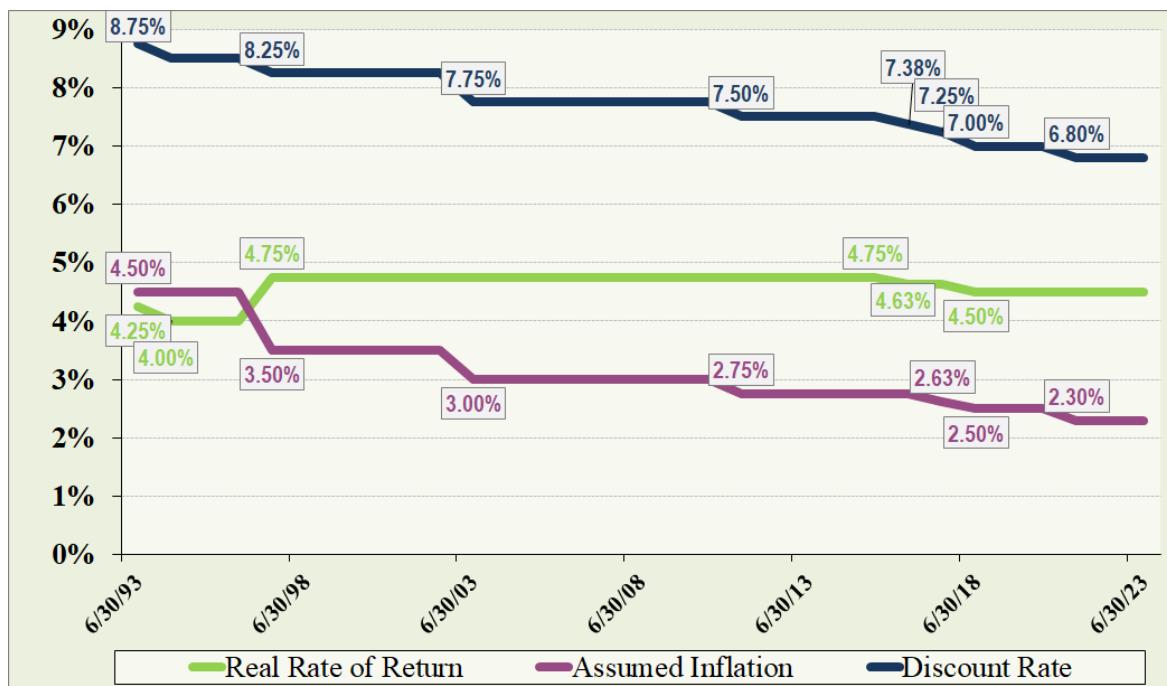
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## INVESTMENT RETURN

### Historical Discount Rates



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## DEMOCRAPHICS

- Around the State
  - Large retiree liability compared to actives
    - State average: 61% for Miscellaneous, 64% 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 66%
  - Safety 72%



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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 FAC1 | 2%@60 FAC3 | 2%@62 FAC3   |
| Safety Police | 3%@50 FAC1   | N/A        | 2.7%@57 FAC3 |
  - Benefit = (Years of Town Service) x Percentage x FAC
    - Percentage varies by retirement age (see following charts)
    - FAC1 is highest one year (typically final) average earnings
    - FAC3 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
    - 2025 Compensation limit
      - Social Security participants: \$155,081
      - Non-Social Security participants: \$186,096



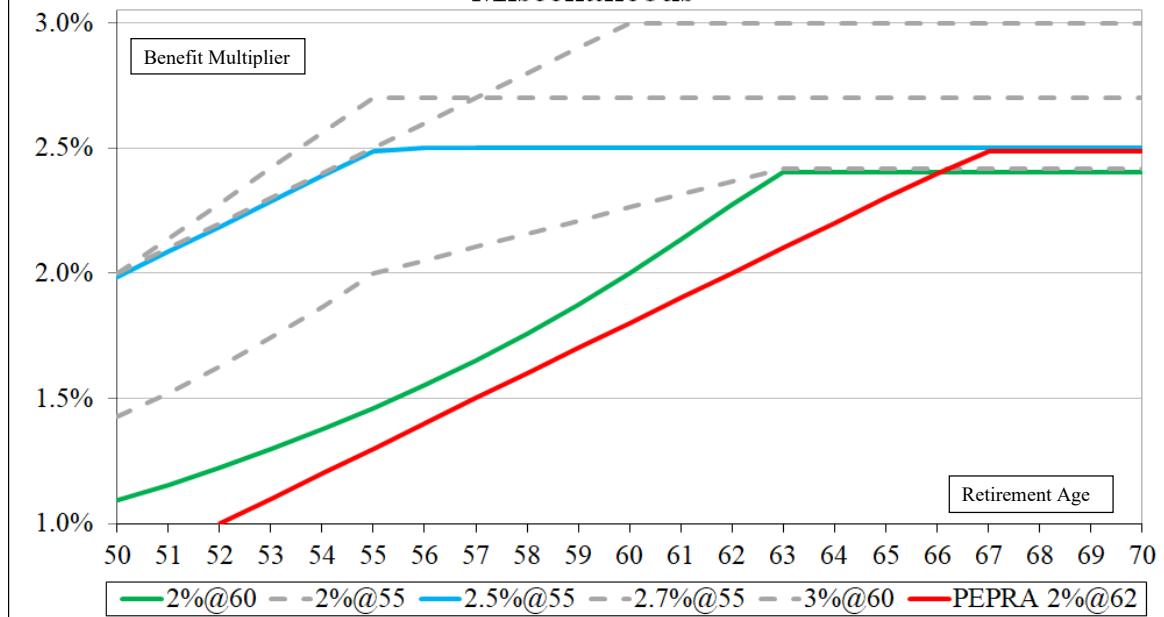
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## TOWN BENEFITS

### Miscellaneous



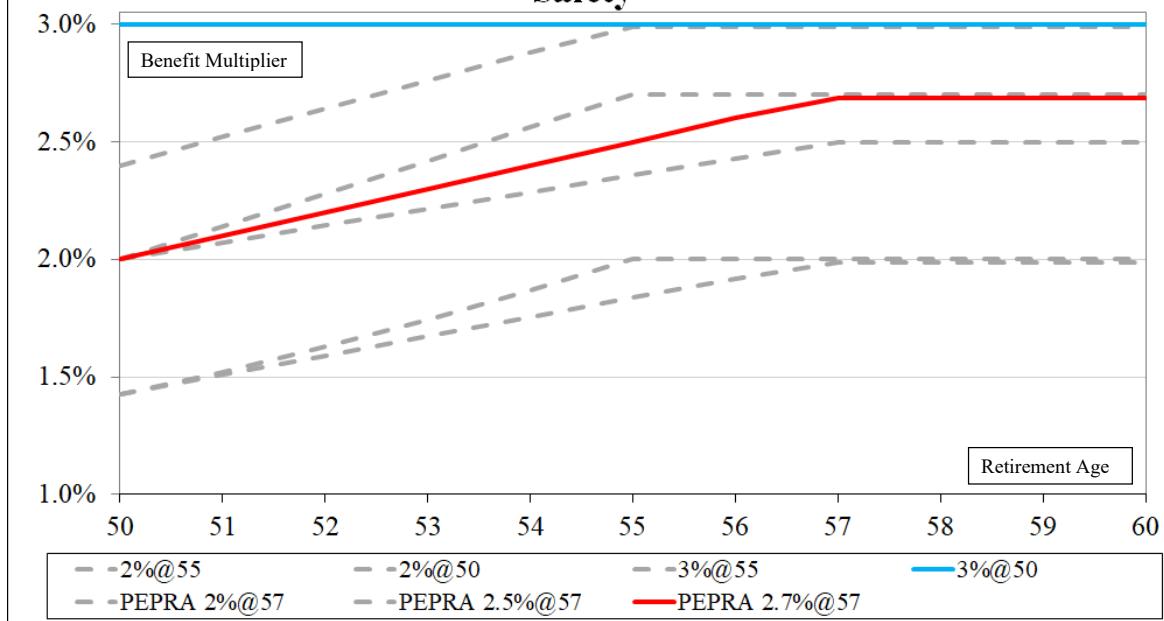
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## TOWN BENEFITS

### Safety



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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
- Ultimate goal of 8% standard deviation on portfolio
- Likely get to 6.0% discount rate over 20+ years
  - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
  - Not triggered 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 or 6/30/23 valuations
- April 16, 2024 CalPERS Board removed automatic trigger
- September 17, 2024 staff recommends no change to the discount rate for June 30, 2024



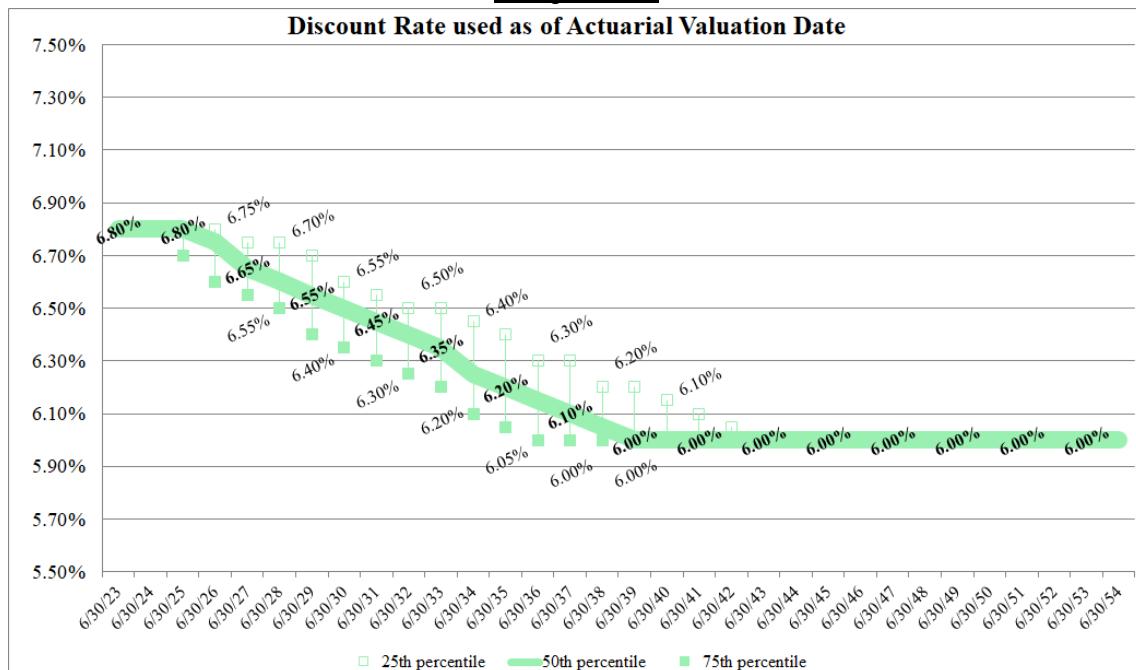
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## RISK MITIGATION

### Projection



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## RISK MITIGATION

### Portfolio Target Allocations

	Prior Portfolio	11/17/21 Portfolio
<b>Asset Classification</b>		
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 <sup>1</sup>	50%	42%
Leverage	<u>-</u>	<u>(5)%</u>
Total	100%	100%
<b>Standard Deviation</b>	11.2%	12.1%

<sup>1</sup> Cap and non-cap weighted combined for this table; actual portfolios have specific allocations for each classification.



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## RISK MITIGATION

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## SUMMARY OF DEMOGRAPHIC INFORMATION

### Miscellaneous

	2003	2013	2022	2023
<b>Actives</b>				
■ Counts	141	103	107	114
■ Average				
• Age	46	47	46	45
• Town Service	9	11	8	7
• PERSable Wages	\$64,200	\$79,200	\$103,700	\$111,900
■ Total PERSable Wages	9,000,000	8,200,000	11,100,000	12,800,000
<b>Inactive Members</b>				
■ Counts				
• Transferred	78	85	105	112
• Separated	68	85	104	100
• Retired				
➢ Service	118	164	228	231
➢ Disability	9	10	13	13
➢ Beneficiaries	18	17	22	23
➢ Total	145	191	263	267
■ Average Annual Town Provided Pension for Service Retirees <sup>2</sup>	\$10,900	\$22,000	\$28,100	\$28,600

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



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## SUMMARY OF DEMOGRAPHIC INFORMATION

### Safety

	2003	2013	2022	2023
<b>Actives</b>				
■ Counts	46	37	37	36
■ Average				
• Age	n/a	n/a	40	42
• Town Service	n/a	n/a	9	9
• PERSable Wages	\$ 88,900	\$ 129,000	\$ 146,400	\$ 156,700
■ Total PERSable Wages	4,100,000	4,800,000	5,400,000	5,600,000
<b>Inactive Members</b>				
■ Counts				
• Transferred	25	16	12	14
• Separated	5	3	7	6
• Receiving Payments	32	61	91	93



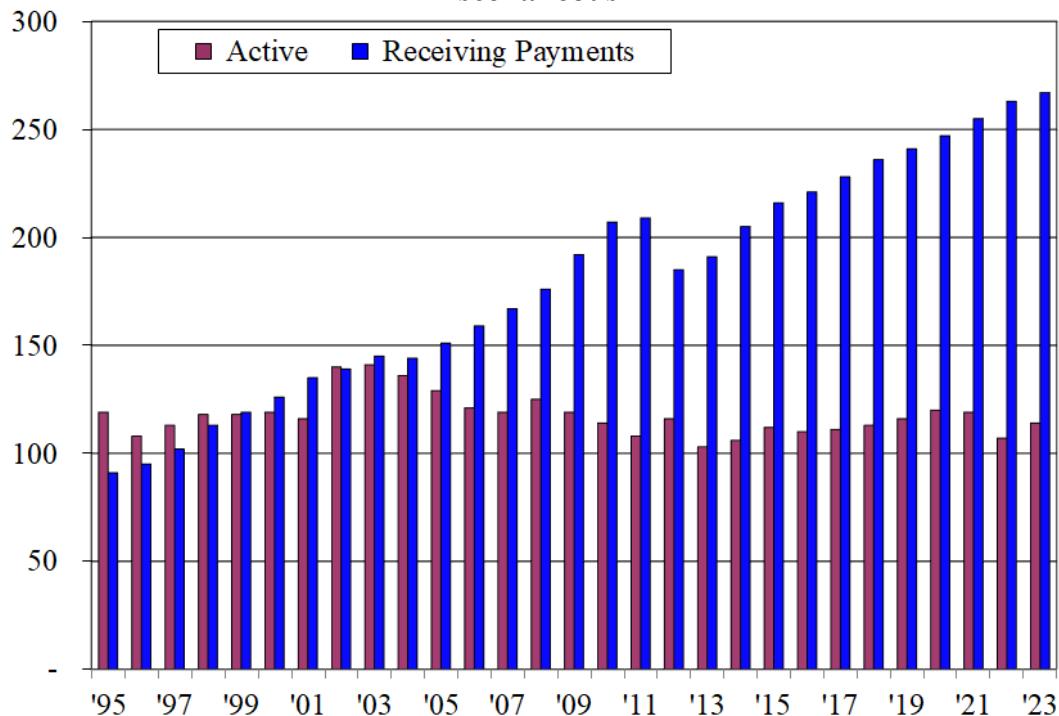
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## SUMMARY OF DEMOGRAPHIC INFORMATION

### Miscellaneous



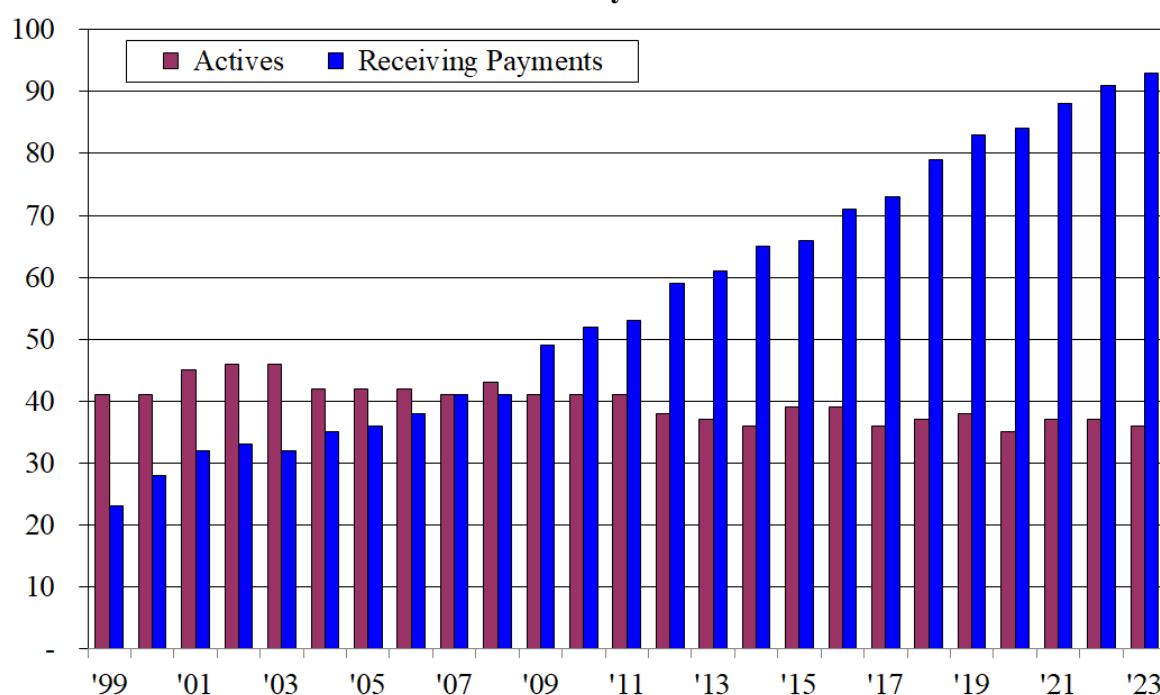
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## SUMMARY OF DEMOGRAPHIC INFORMATION

### Safety



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## PLAN FUNDED STATUS

### Miscellaneous

	<u>June 30, 2022</u>	<u>June 30, 2023</u>
<b>■ Actuarial Accrued Liability</b>		
● Active	\$ 26,700,000	\$ 27,000,000
● Retiree	84,000,000	87,200,000
● Inactive	<u>15,500,000</u>	<u>17,500,000</u>
● Total	126,200,000	131,700,000
<b>■ Assets</b>	<u>95,800,000</u>	<u>99,200,000</u>
<b>■ Unfunded Liability</b>	30,400,000	32,500,000
<b>■ Funded Ratio</b>	75.9%	75.3%
<b>■ Average funded ratio for CalPERS Miscellaneous:</b>		
● Public Agency Plans	73.5%	73.3%
● City and Town Plans	74.1%	73.8%



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## PLAN FUNDED STATUS

### Safety

	<u>June 30, 2022</u>	<u>June 30, 2023</u>
<b>■ Actuarial Accrued Liability</b>		
● Active	\$23,400,000	\$ 26,200,000
● Retiree	83,300,000	84,100,000
● Inactive	<u>4,600,000</u>	<u>5,900,000</u>
● Total	111,300,000	116,200,000
<b>■ Assets</b>	<u>76,700,000</u>	<u>79,500,000</u>
<b>■ Unfunded Liability</b>	34,600,000	36,700,000
<b>■ Funded Ratio</b>	69.0%	68.4%
<b>■ Average funded ratio for CalPERS Safety:</b>		
● Public Agency Plans	71.3%	70.9%
● City & Town Plans	71.4%	70.9%



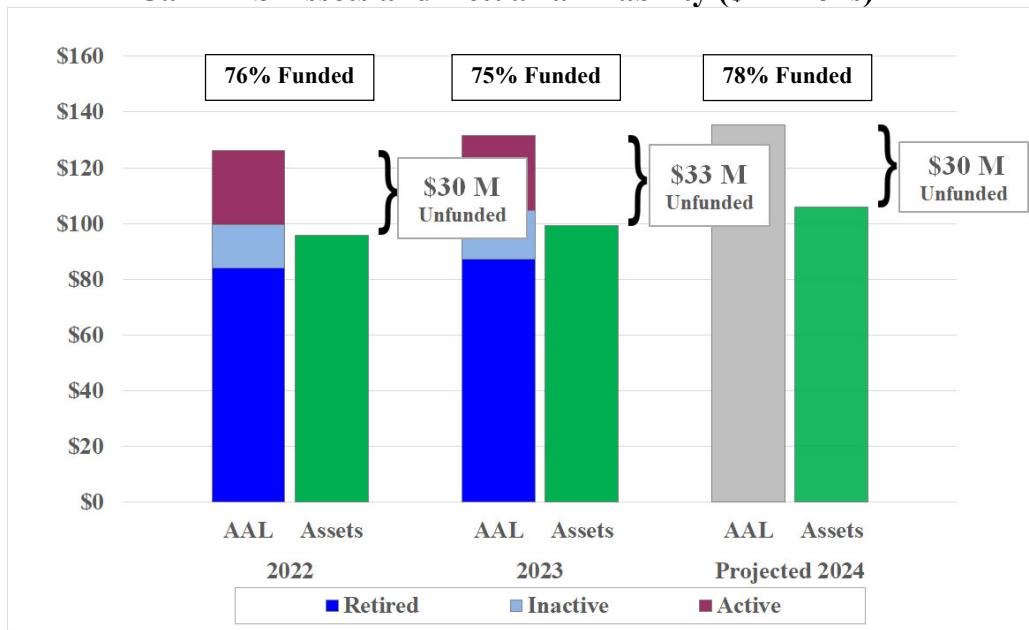
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## PLAN FUNDED STATUS

### Miscellaneous CalPERS Assets and Actuarial Liability (\$Millions)<sup>3</sup>



<sup>3</sup> Projected 2024 assets reflects 9.5% investment return for 2023/24.



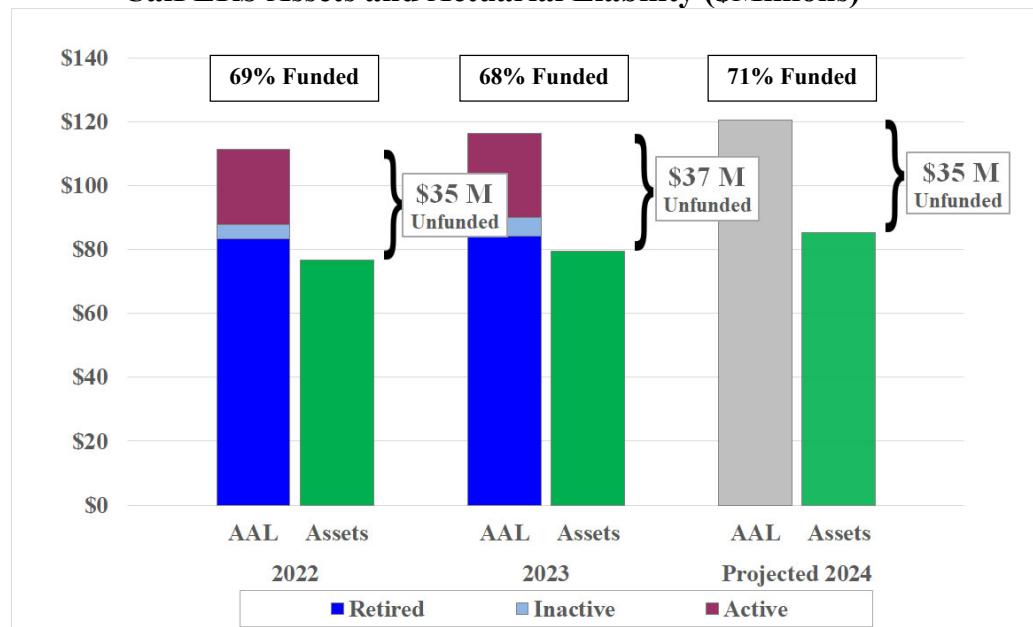
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## PLAN FUNDED STATUS

### Safety CalPERS Assets and Actuarial Liability (\$Millions)<sup>4</sup>



<sup>4</sup> Projected 2024 assets reflects 9.5% investment return for 2023/24.



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## PLAN FUNDED STATUS

### Miscellaneous Discount Rate Sensitivity June 30, 2023

	<b>Discount Rate</b>		
	<b><u>6.80%</u></b>	<b><u>6.30%<sup>5</sup></u></b>	<b><u>5.80%</u></b>
<b>AAL</b>	\$131,700,000	\$140,300,000	\$148,900,000
<b>Assets</b>	<u>99,200,000</u>	<u>99,200,000</u>	<u>99,200,000</u>
<b>Unfunded Liability</b>	32,500,000	41,100,000	49,700,000
<b>Funded Ratio</b>	75.3%	70.7%	66.6%

<sup>5</sup> Estimated by Foster & Foster.



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## PLAN FUNDED STATUS

### Safety Discount Rate Sensitivity June 30, 2023

	<b>Discount Rate</b>		
	<b><u>6.80%</u></b>	<b><u>6.30%<sup>6</sup></u></b>	<b><u>5.80%</u></b>
<b>AAL</b>	\$116,200,000	\$124,000,000	\$131,800,000
<b>Assets</b>	<u>79,500,000</u>	<u>79,500,000</u>	<u>79,500,000</u>
<b>Unfunded Liability</b>	36,700,000	44,500,000	52,300,000
<b>Funded Ratio</b>	68.4%	64.1%	60.3%

<sup>6</sup> Estimated by Foster & Foster.



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## PLAN FUNDED STATUS

### Miscellaneous

#### Unfunded Accrued Liability Changes

■ <b>Unfunded Accrued Liability on 6/30/22</b>	\$30,400,000
■ <b>Expected 6/30/23 Unfunded Accrued Liability</b>	30,000,000
■ <b>Changes</b>	
• Asset Loss (Gain) (6.1% return for FY 2023)	700,000
• Contribution & Experience Loss (Gain)	<u>1,800,000</u>
• Total	<u>2,500,000</u>
■ <b>Unfunded Accrued Liability on 6/30/23</b>	32,500,000
■ <b>Projected Unfunded Accrued Liability on 6/30/24<sup>7</sup></b>	29,600,000

<sup>7</sup> Projected 2024 assets reflects 9.5% investment return for 2023/24.



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## FUNDED RATIO

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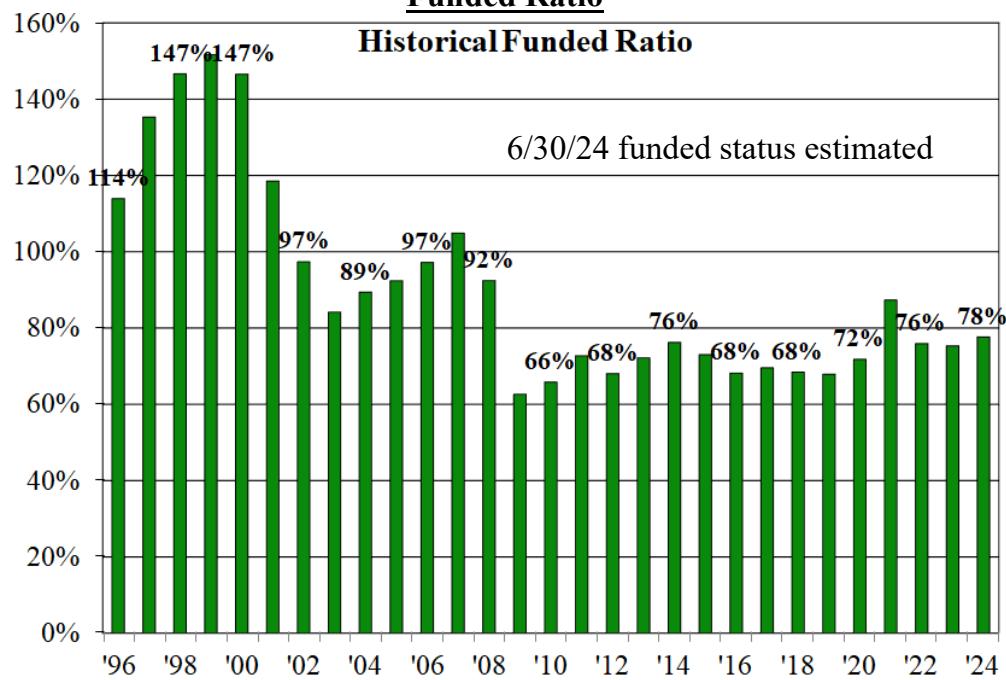
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## FUNDED RATIO

### Miscellaneous

#### Funded Ratio



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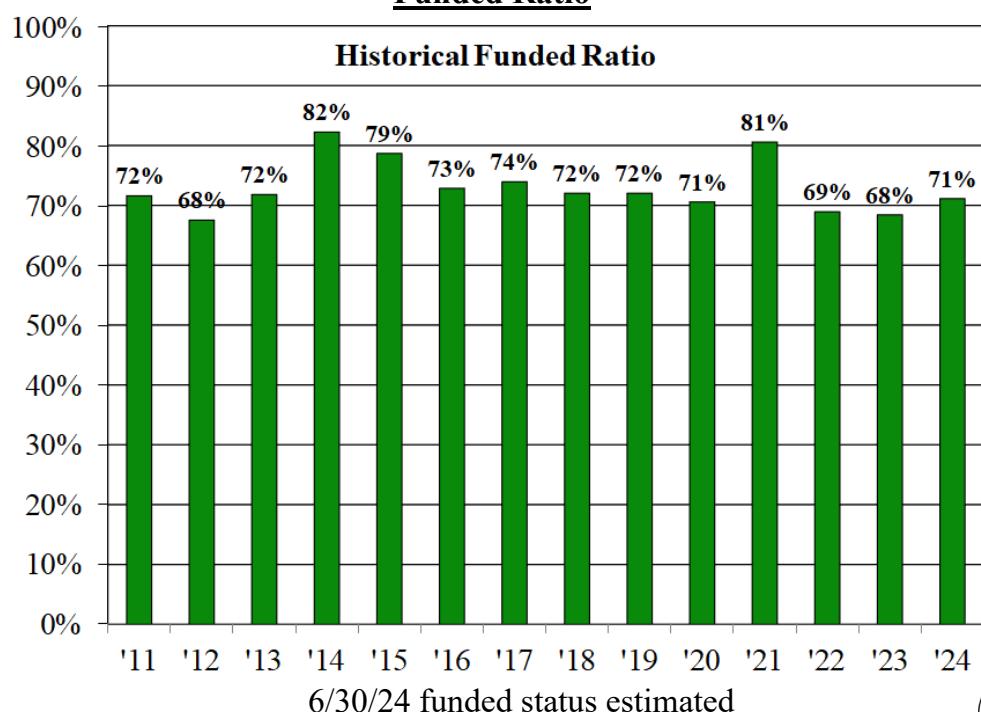


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## FUNDED RATIO

### Safety

#### Funded Ratio



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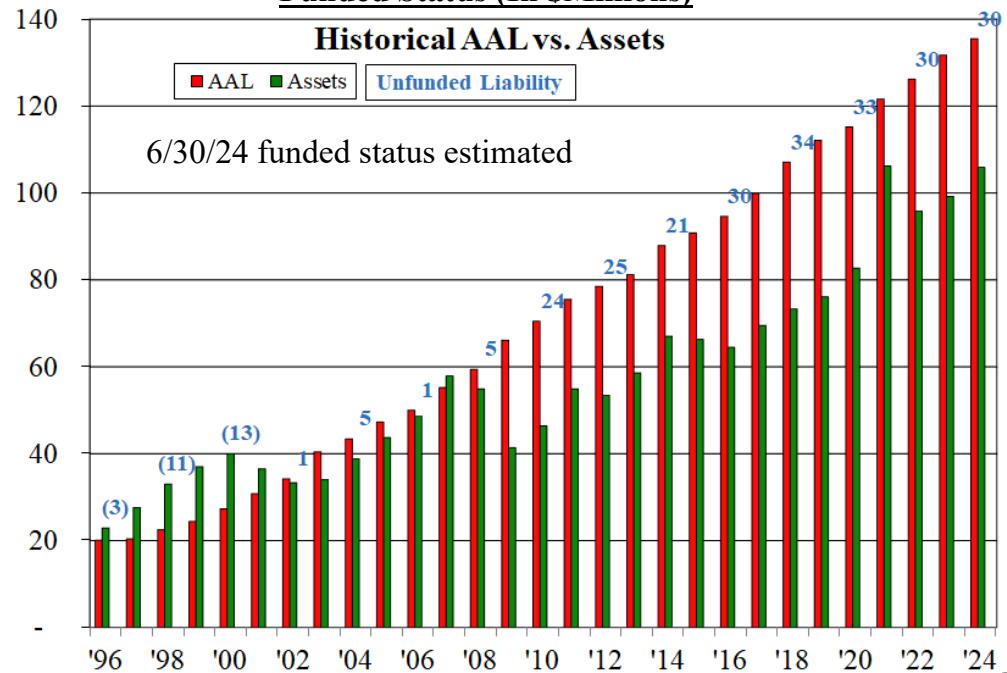


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## FUNDED STATUS

### Miscellaneous

#### Funded Status (In \$Millions)



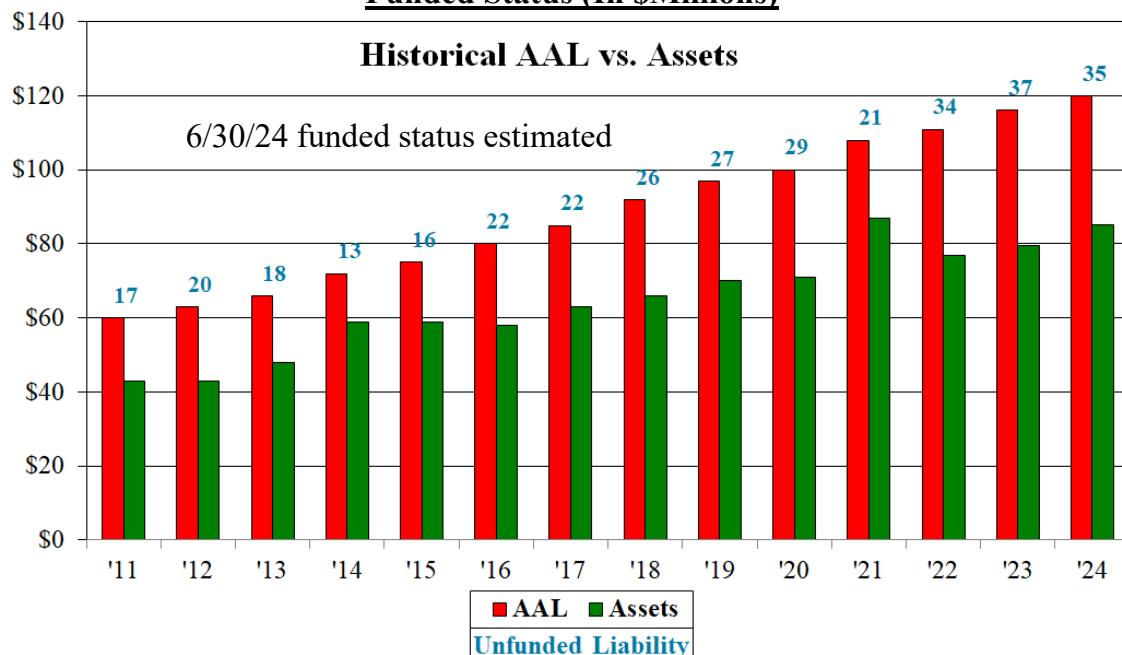
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## FUNDED STATUS

### Safety

#### Funded Status (In \$Millions)



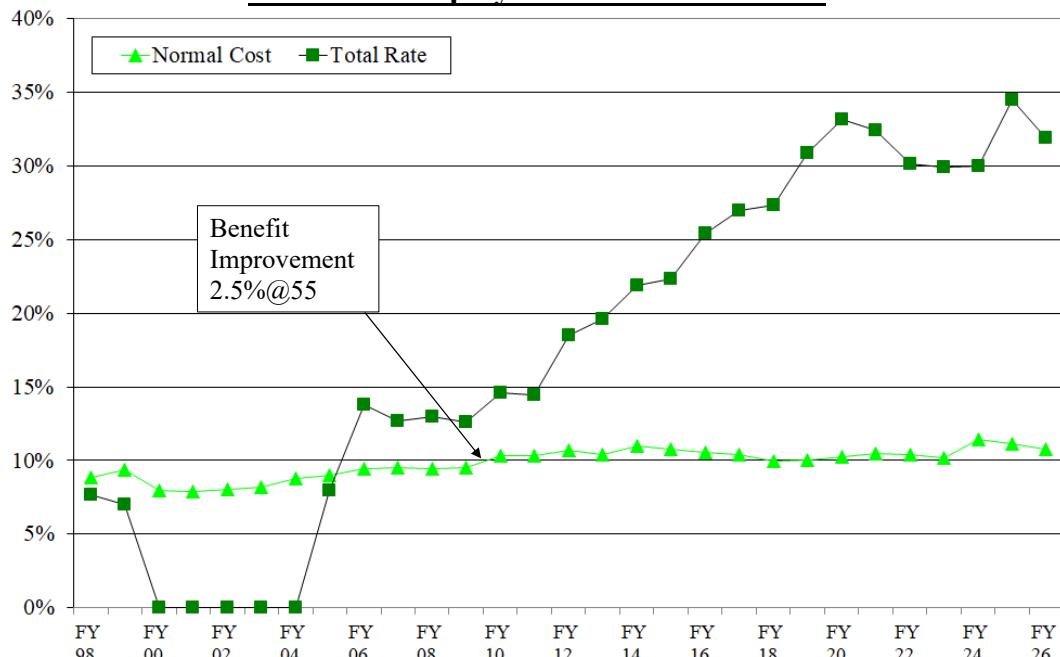
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## CONTRIBUTION RATES

### Miscellaneous

#### Historical Employer Contribution Rates



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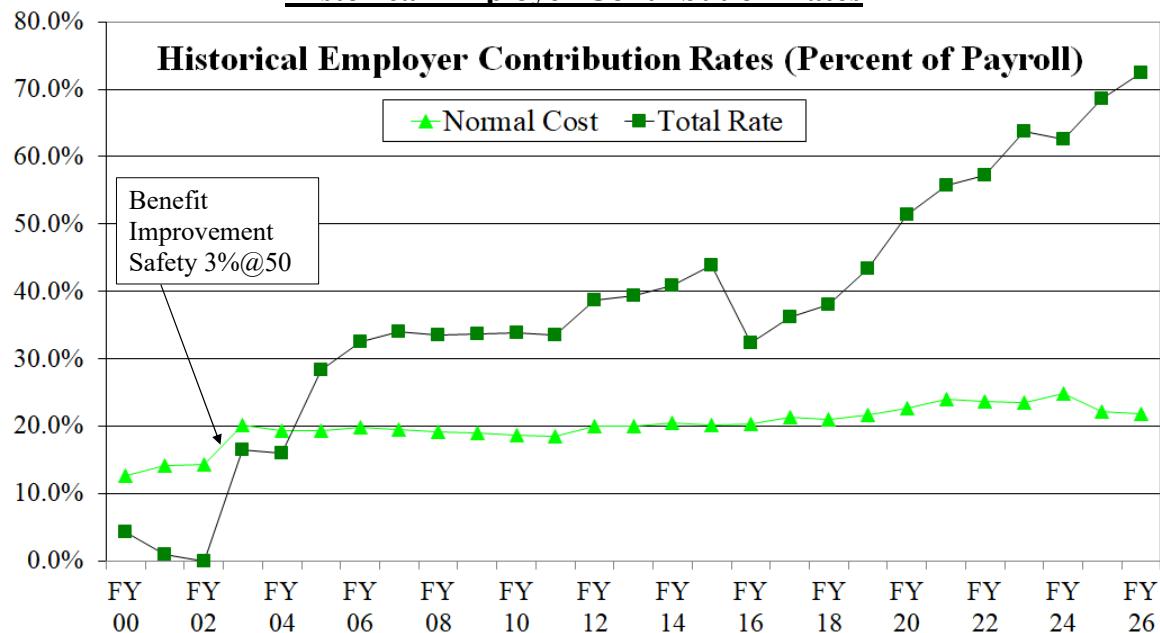


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## CONTRIBUTION RATES

### Safety

#### Historical Employer Contribution Rates



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## CONTRIBUTION RATES

### Miscellaneous

	<u>6/30/22</u>	<u>6/30/23</u>
	<u>2024/2025</u>	<u>2025/2026</u>
■ Total Normal Cost	18.8%	18.4%
■ Employee Normal Cost	<u>7.6%</u>	<u>7.6%</u>
■ Employer Normal Cost	11.2%	10.8%
■ Amortization Payments	<u>23.3%</u>	<u>21.1%</u>
■ Total Employer Contribution Rate	34.5%	31.9%
■ 2024/25 Employer Contribution Rate		34.5%
● 6/30/23 investment (gain)/loss (6.1% vs. 6.8%)		0.1%
● Progression of amortization bases		(0.6%)
● Other/non-investment (Gains)/Losses		<u>(2.1%)</u>
■ 2025/26 Employer Contribution Rate		31.9%



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## CONTRIBUTION RATES

### Safety

	<u>6/30/22</u>	<u>6/30/23</u>
	<u>2024/2025</u>	<u>2025/2026</u>
■ Total Normal Cost	33.9%	33.7%
■ Employee Normal Cost	<u>11.7%</u>	<u>11.9%</u>
■ Employer Normal Cost	22.2%	21.8%
■ Amortization Payments	<u>46.4%</u>	<u>50.7%</u>
■ Total Employer Contribution Rate	68.6%	72.5%
■ 2024/25 Employer Contribution Rate		68.6%
● Payroll > expected		(0.6%)
● Other (Gains)/Losses		<u>4.5%</u>
■ 2025/26 Employer Contribution Rate		72.5%



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## CONTRIBUTION RATES

### Safety

	<b>6/30/23 Valuation</b>	<b>Total<sup>8</sup></b>	<b>Tier 1</b>	<b>PEPRA</b>
		<b>3%@50</b>	<b>2.7%@57</b>	
■ Base Total Normal Cost		31.2%	34.8%	27.8%
■ Class 1 Benefits				
● Final One Year Compensation	0.7%	1.5%	-	
● Post-Retirement Survivor Allowance	<u>1.8%</u>	<u>2.0%</u>	<u>1.7%</u>	
■ Total Normal Cost	33.7%	38.3%	29.5%	
■ Formula's Expected EE Contr. Rate	<u>11.9%</u>	<u>9.0%</u>	<u>14.5%</u>	
■ ER Normal Cost	21.8%	29.3%	15.0%	
■ Amortization Payment	<u>50.7%</u>	<u>105.8%</u>	<u>0.8%</u>	
■ <b>Total ER Contribution</b>	<b>72.5%</b>	<b>135.1%</b>	<b>15.8%</b>	
■ Employee counts	36	20	16	
■ Employee proj. payroll (in 000's)	\$6,127	\$2,909	\$3,219	
■ <b>Total ER Contribution \$ (in 000's)</b>	<b>\$4,439</b>	<b>\$3,930</b>	<b>\$ 509</b>	

<sup>8</sup> Weighting of total contribution based on projected classic and PEPRA payrolls



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## CONTRIBUTION RATES

### Miscellaneous

#### 2025/26 Amortization Payment

- Amortization payment is 9.6% of UAL  
(one year interest on UAL is 6.8%)
  - Payment exceeds interest on the UAL
  - No “negative amortization.”
- Amortization payment equivalent to:
  - 18.8 years on level dollar amortization schedule  
(all payments are the same amount)
  - 14.1 years on level percent of payroll schedule  
(payments increase 2.8% annually)



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## CONTRIBUTION RATES

### Safety 2025/26 Amortization Payment

- Amortization payment is 8.8% of UAL  
(one year interest on UAL is 6.8%)
  - Payment exceeds interest on the UAL
  - No “negative amortization.”
- Amortization payment equivalent to:
  - 22.6 years on level dollar amortization schedule  
(all payments are the same amount)
  - 15.9 years on level percent of payroll schedule  
(payments increase 2.8% annually)



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## CONTRIBUTION PROJECTIONS

- Investment returns:
  - June 30, 2024 9.5%<sup>9</sup>
  - Future returns based on stochastic analysis using 1,000 trials
  - Single year returns<sup>10</sup> with current investment mix, no risk mitigation:

	Percentile		
	25 <sup>th</sup>	50 <sup>th</sup>	75 <sup>th</sup>
First 7 years	<b>-2.1%</b>	<b>5.8%</b>	<b>14.6%</b>
After 7 years	<b>-0.7%</b>	<b>7.4%</b>	<b>16.3%</b>
- Assumes investment returns will generally be lower over the next 7 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
- Risk Mitigation:
  - Assumed to be approved by CalPERS board in each year returns meet threshold
  - 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

<sup>9</sup> Gross return based on CalPERS draft 23/24 ACFR.

<sup>10</sup> N<sup>th</sup> 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 6/30/23 employee distribution:

Benefit Tier	Count	% of Total	22/23 Payroll	% of Total
2.5%@55 FAC1	23	20.2%	\$ 2,883,400	22.6%
2%@60 FAC3	19	16.7%	2,886,800	22.6%
2%@62 FAC3 (PEPRA)	72	63.1%	6,984,500	54.8%
Total	114	100.0%	12,754,700	100.0%

- Town-provided Miscellaneous payroll for contribution years:

FYE	2025/26	2026/27	2027/28	2028/29	2029/30
Payroll (000s)	\$15,215	\$15,780	\$16,187	\$16,546	\$16,892

- Employee Cost Sharing of Employer Contribution:
  - Miscellaneous: None



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## CONTRIBUTION PROJECTIONS

- Safety 6/30/23 employee distribution:

Benefit Tier	Count	% of Total	22/23 Payroll	% of Total
3%@50 FAC1	20	55.6%	\$3,602,800	63.9%
2.7%@57 FAC3 (PEPRA)	16	44.4%	2,036,900	36.1%
Total	36	100.0%	5,639,700	100.0%

- Town-provided Safety payroll (\$000s) for contribution years:

FYE	2025/26	2026/27	2027/28	2028/29	2029/30
Classic	\$3,718	\$4,077	\$3,778	\$3,866	\$3,959
PEPRA	3,124	3,111	3,646	3,751	3,859
Total	6,842	7,188	7,424	7,617	7,818

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



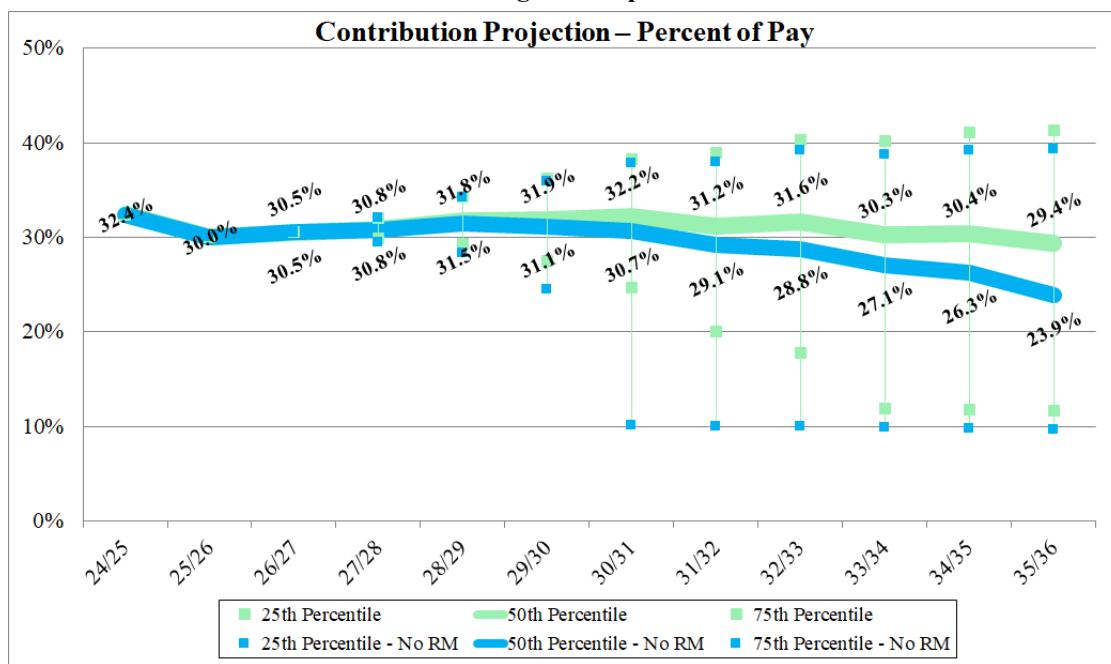
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## CONTRIBUTION PROJECTIONS

### Miscellaneous Risk Mitigation Impact



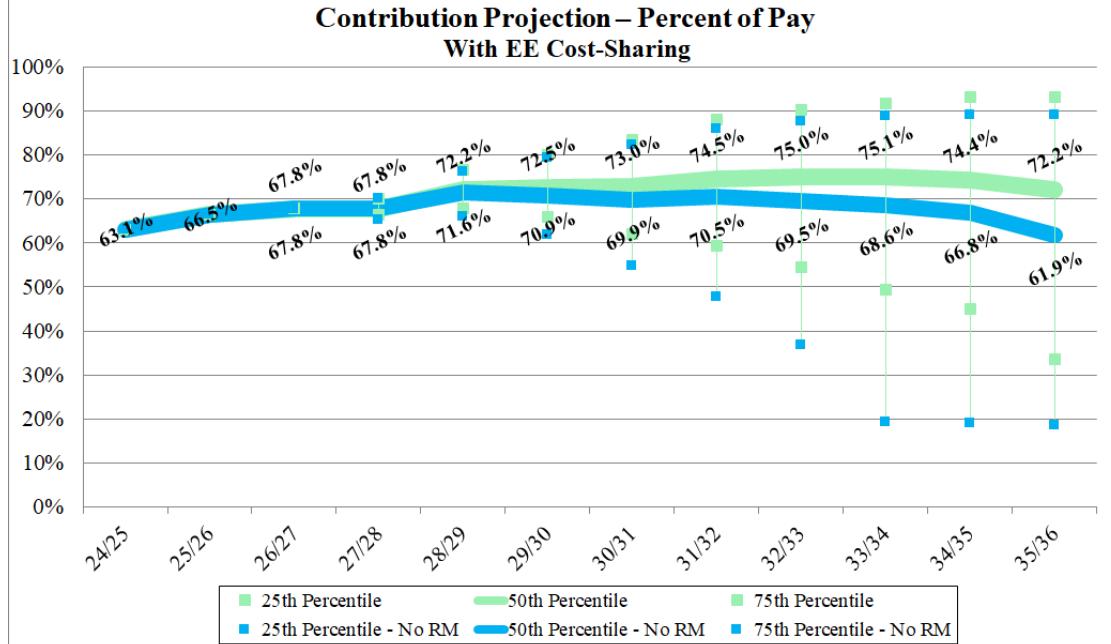
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## CONTRIBUTION PROJECTIONS

### Safety Risk Mitigation Impact



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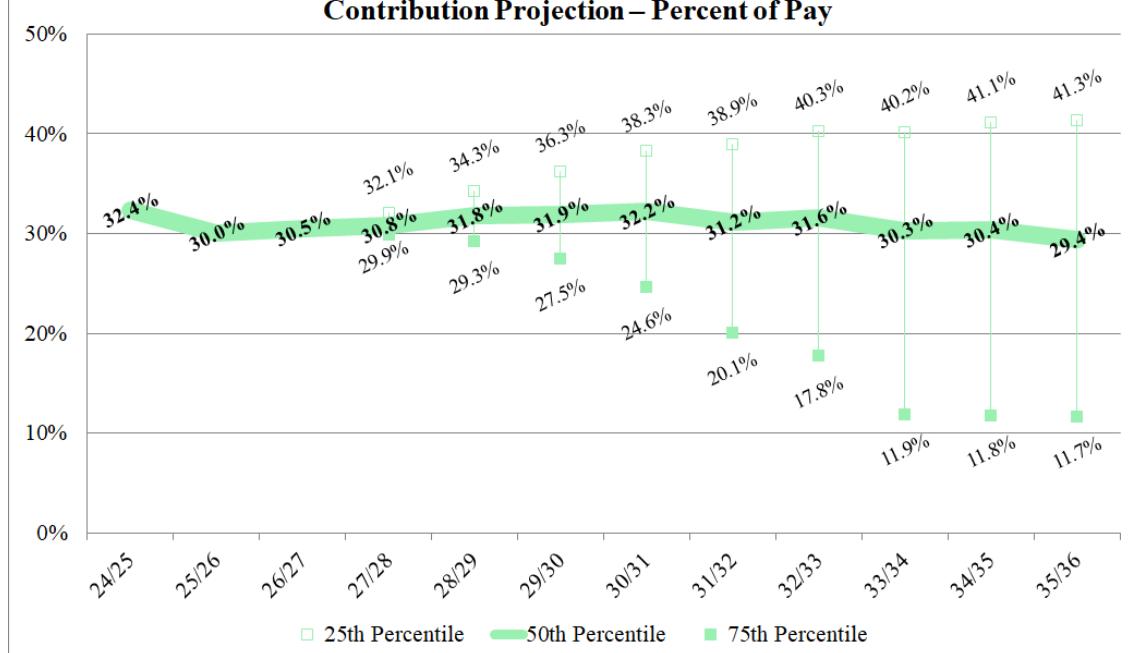


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## CONTRIBUTION PROJECTIONS

### Miscellaneous

#### Contribution Projection – Percent of Pay



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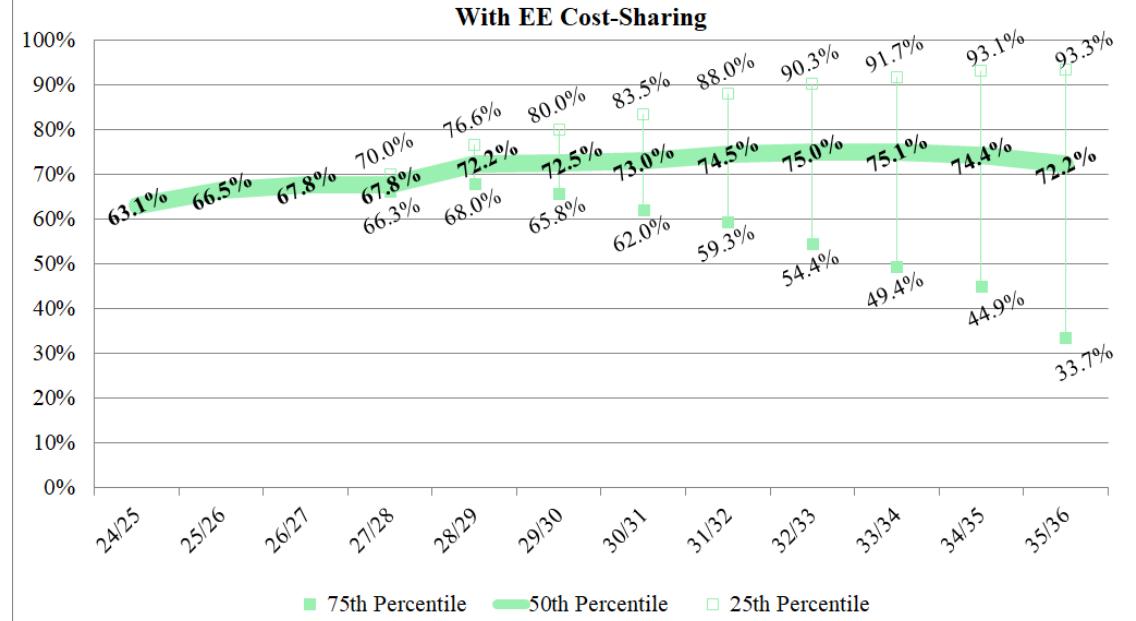


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## CONTRIBUTION PROJECTIONS

### Safety

#### Contribution Projection – Percent of Pay With EE Cost-Sharing



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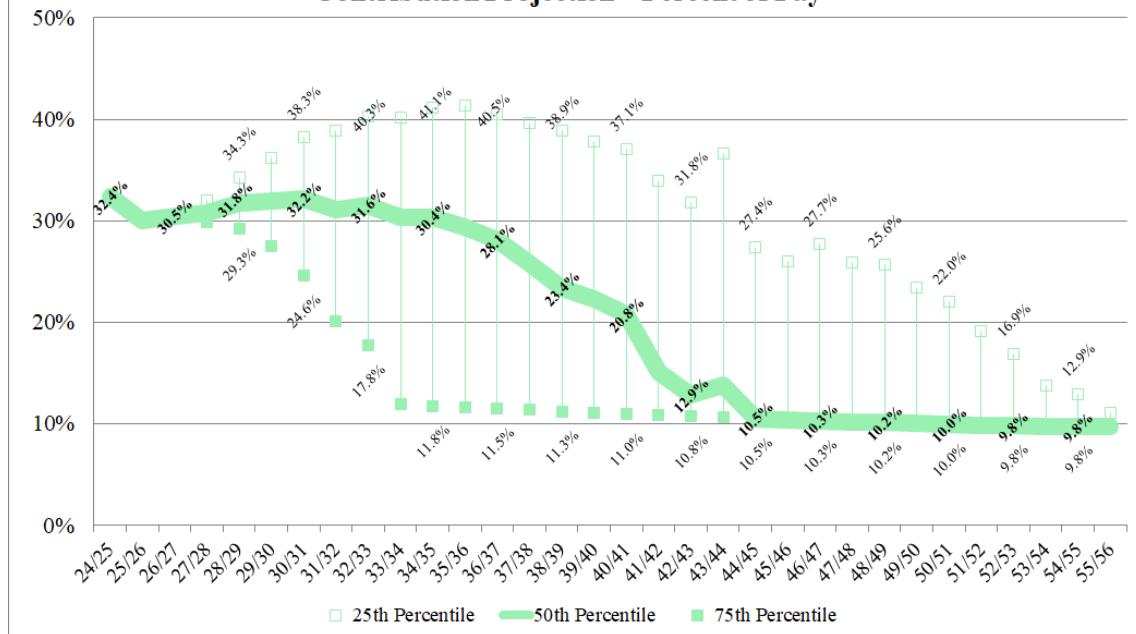


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## CONTRIBUTION PROJECTIONS

### Miscellaneous

#### Contribution Projection – Percent of Pay



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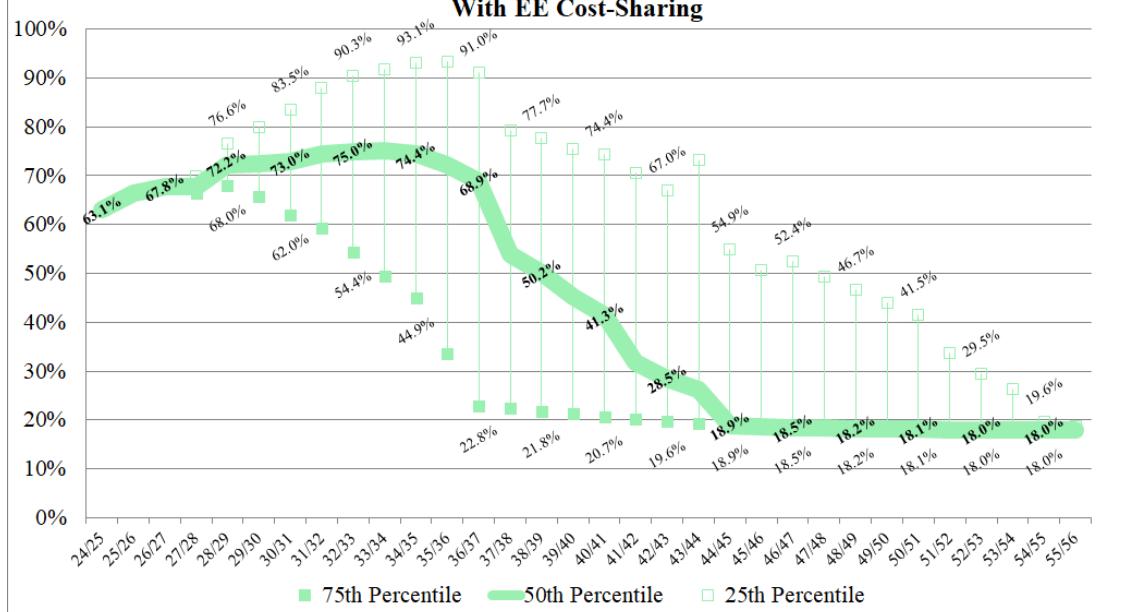


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## CONTRIBUTION PROJECTIONS

### Safety

#### Contribution Projection – Percent of Pay With EE Cost-Sharing



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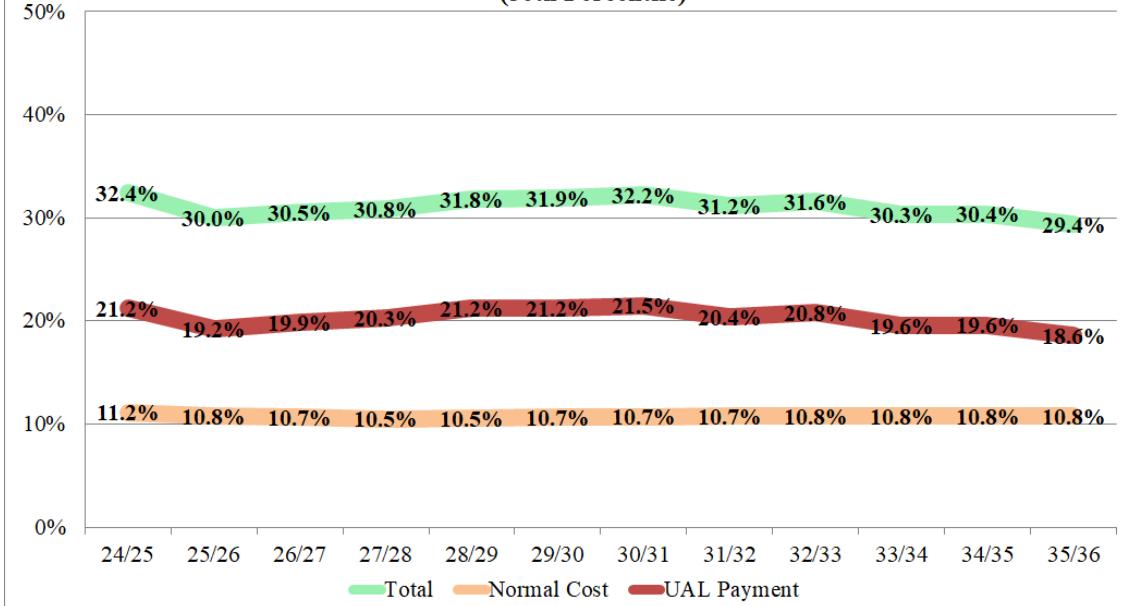


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## CONTRIBUTION PROJECTIONS

### Miscellaneous

#### Contribution Projection – Percent of Pay (50th Percentile)



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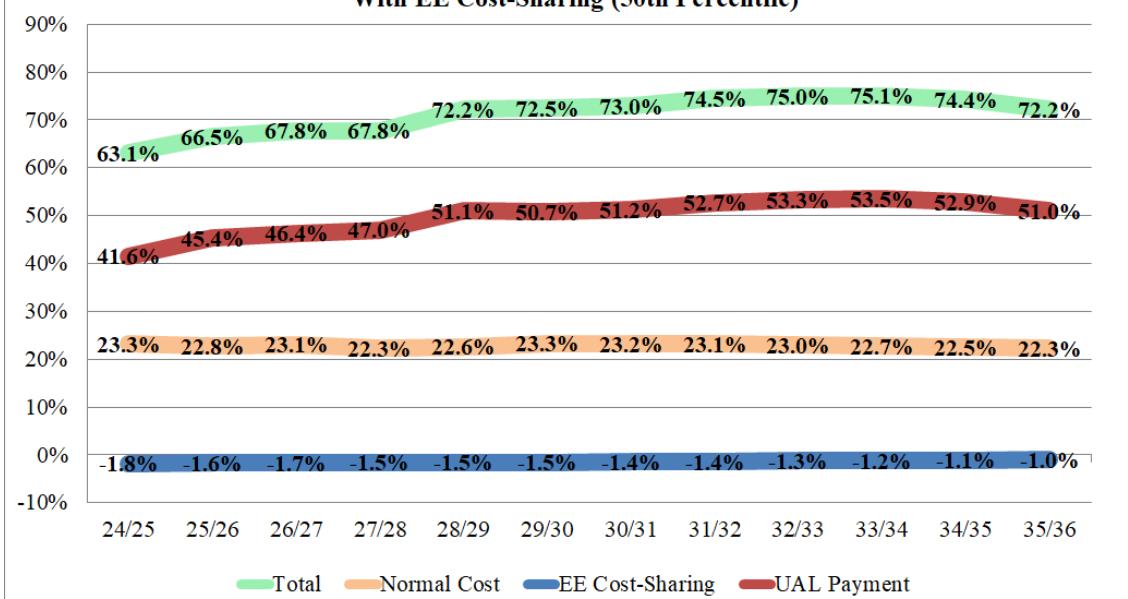


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## CONTRIBUTION PROJECTIONS

### Safety

#### Contribution Projection – Percent of Pay With EE Cost-Sharing (50th Percentile)



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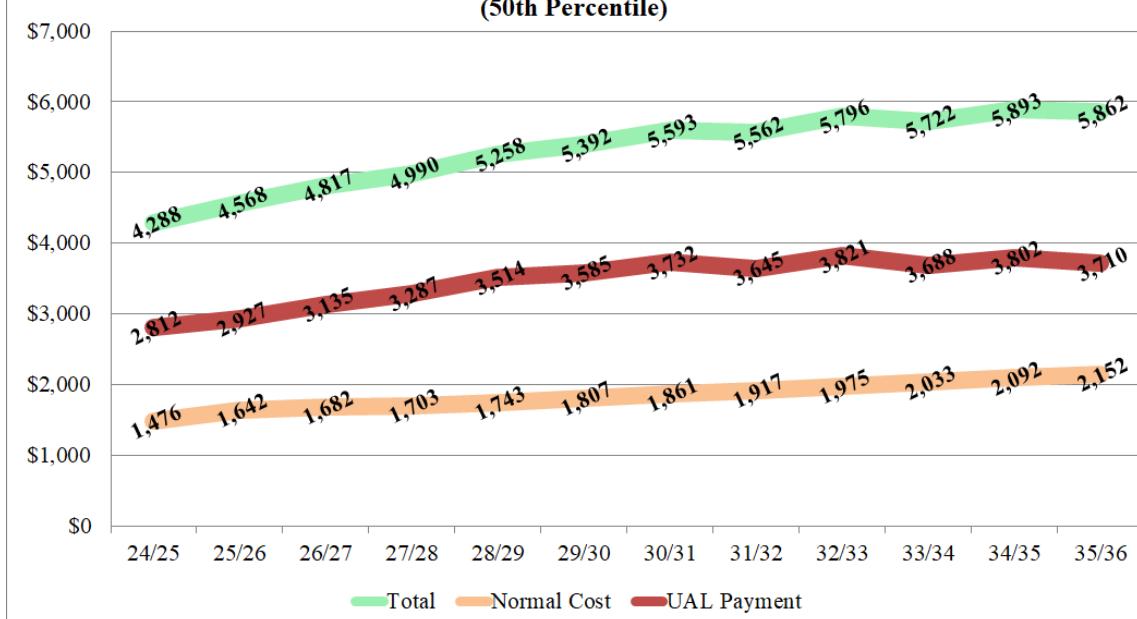


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## CONTRIBUTION PROJECTIONS

### Miscellaneous

**Contribution Projection - \$000s  
(50th Percentile)**



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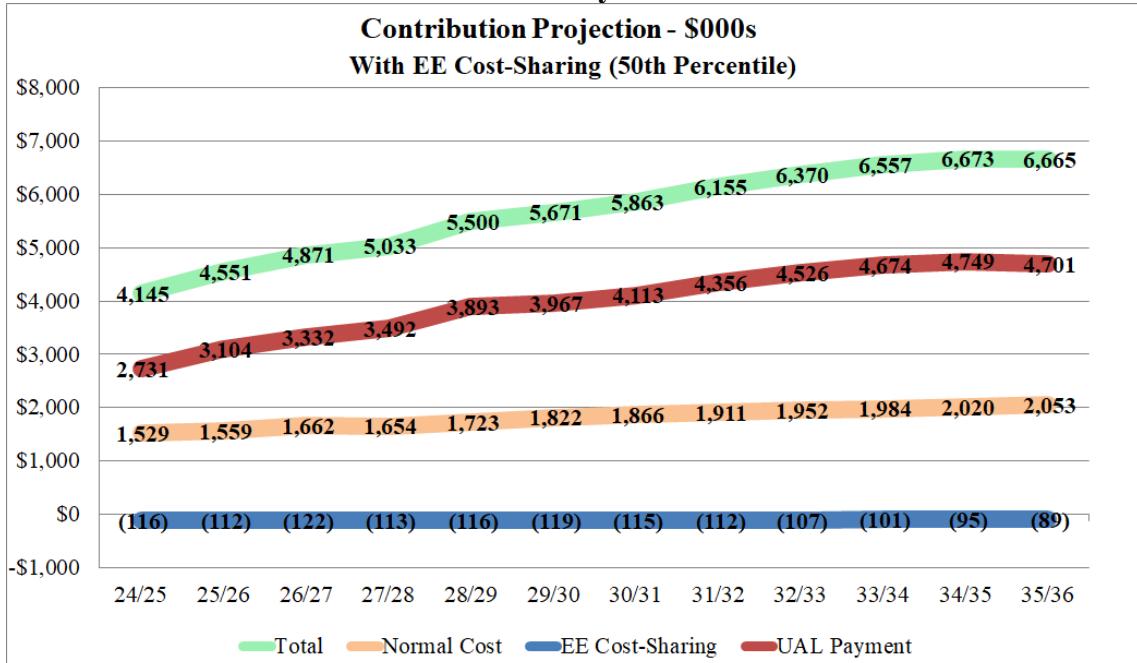


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## CONTRIBUTION PROJECTIONS

### Safety

**Contribution Projection - \$000s  
With EE Cost-Sharing (50th Percentile)**



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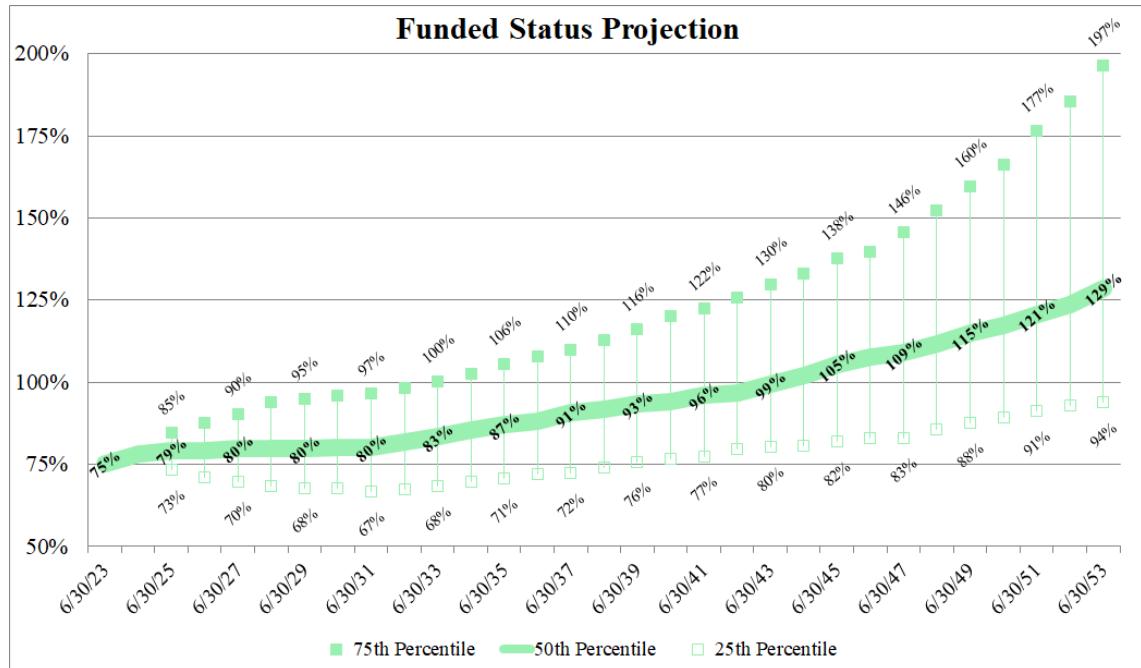


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## FUNDED STATUS

### Miscellaneous

#### Funded Status Projection



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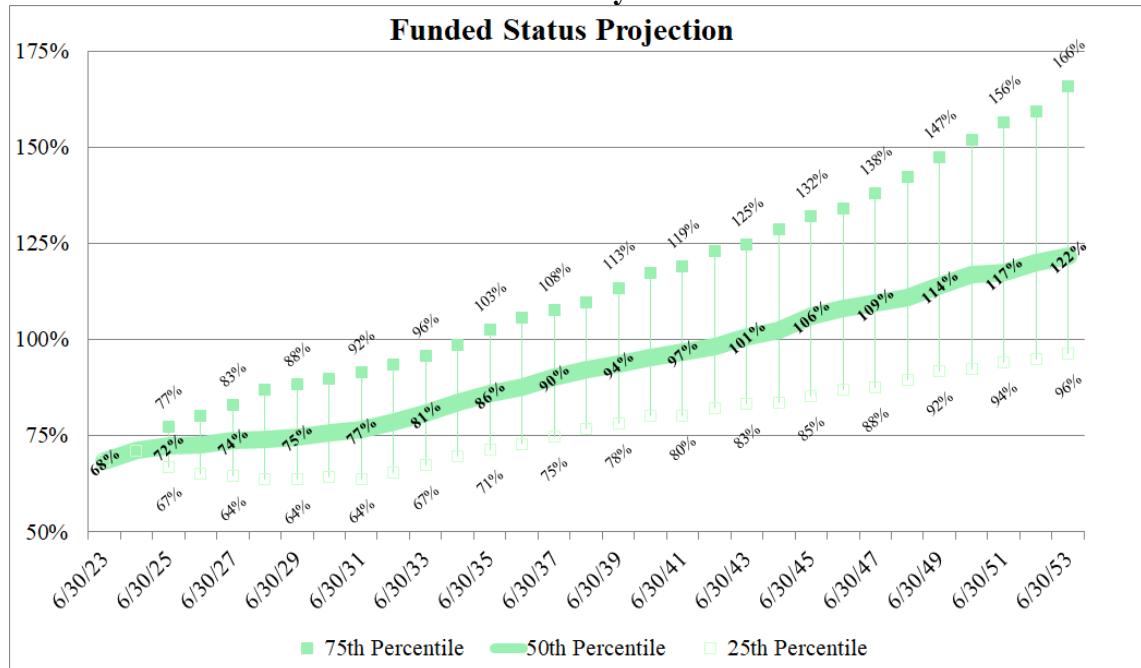


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## FUNDED STATUS

### Safety

#### Funded Status Projection

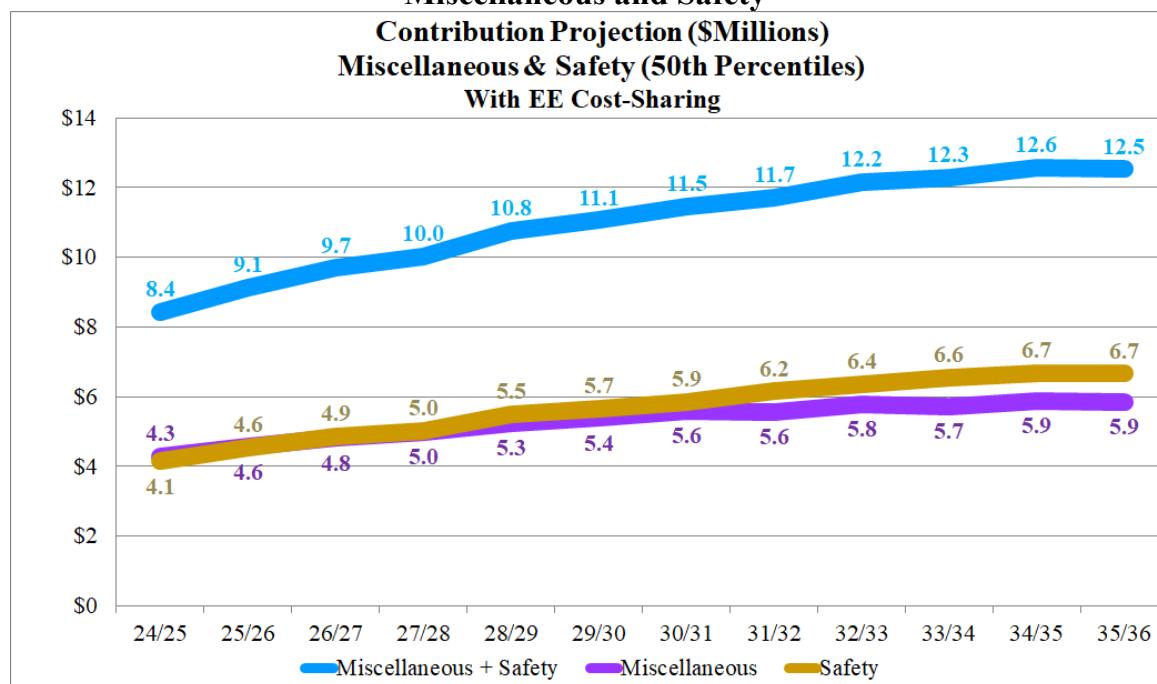


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## COMBINED MISCELLANEOUS AND SAFETY



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## COMBINED MISCELLANEOUS AND SAFETY

### **Miscellaneous and Safety** **Funded Status Summary on June 30, 2023** (Amounts in \$Millions)

	<b>Miscellaneous</b>	<b>Safety</b>	<b>Total</b>
■ <b>AAL</b>	\$131.7	\$116.2	\$247.9
■ <b>Assets</b>	<u>99.2</u>	<u>79.5</u>	<u>178.7</u>
■ <b>Unfunded AAL</b>	32.5	36.7	69.2
■ <b>Funded Ratio</b>	75.3%	68.4%	72.1%

### **Projected Funded Status Summary on June 30, 2024<sup>11</sup>** (Amounts in \$Millions)

	<b>Miscellaneous</b>	<b>Safety</b>	<b>Total</b>
■ <b>AAL</b>	\$ 135.5	\$119.9	\$255.4
■ <b>Assets</b>	<u>105.9</u>	<u>85.3</u>	<u>191.2</u>
■ <b>Unfunded AAL</b>	29.6	34.6	64.2
■ <b>Funded Ratio</b>	78.2%	71.1%	74.9%

<sup>11</sup> Projected 2024 assets reflects 9.5% investment return for 2023/24.



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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, 2023 (Amounts in Millions)

Discount Rate	Ongoing Plan		Termination Basis	
	6.80%	3.06%	5.06%	5.06%
<b>Miscellaneous</b>				
Actuarial Accrued Liability	\$131.7	\$210.1	\$157.9	
Assets	<u>99.2</u>	<u>99.2</u>	<u>99.2</u>	
Unfunded AAL (UAAL)	32.5	110.9	58.7	
<b>Safety</b>				
Actuarial Accrued Liability	\$116.2	\$196.1	\$144.0	
Assets	<u>79.5</u>	<u>79.5</u>	<u>79.5</u>	
Unfunded AAL (UAAL)	36.7	116.6	64.5	
<b>Total</b>				
Unfunded AAL (UAAL)	69.2	227.5	123.2	
Funded Ratio	72.1%	44.0%	59.2%	



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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 2025/26:

	<u>Classic Members</u>		<u>New Members</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA</u>
	<u>2.5%@55 FAC1</u>	<u>2%@60 FAC3</u>	<u>2%@62 FAC3</u>
● Employer Normal Cost	13.3%	14.7%	8.19%
● Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.75%</u>
● Total Normal Cost	21.3%	21.7%	15.94%
● 50% Target	10.7%	10.9%	7.97%



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## PEPRA COST SHARING

- Safety Plan 2025/26:

	<u>Classic Members</u>		<u>New Members</u>
	<u>Tier 1</u>	<u>PEPRA</u>	
	<u>3%@50 FAC1</u>	<u>2.7%@57 FAC3</u>	
● Employer Normal Cost	29.3%	14.96%	
● Member Normal Cost	<u>9.0%</u>	<u>14.50%</u>	
● Total Normal Cost	38.3%	29.46%	
● 50% Target	19.2%	14.73%	

- PEPRA Member Contributions:

Group	2024/25		2025/26			
	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	15.59%	7.75%	15.94%	<b>0.35%</b>	<b>7.75%</b>	PEPRA Members
Safety	29.00%	14.50%	29.46%	<b>0.46%</b>	<b>14.50%</b>	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”
    - PEPRA 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 (PEPRA)



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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 13.6¢ for \$1 (level dollar)
      - 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 (level dollar)
      - 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 PEPRA 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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## PREFUNDING OPTIONS

### Town's Section 115 Trust

	Miscellaneous	Police Safety
12/31/24 Trust Balance <sup>12</sup>	\$2,253,000	
Projected Balance 6/30/25 <sup>13</sup>	\$1,387,000	\$1,620,000
Assumed Future Trust Earnings	5.0%	

<sup>12</sup> Approximate 21% Equity/79% Fixed Income asset allocation trust with CEPPT.

<sup>13</sup> Projected to 6/30/25 with assumed future Trust earnings and \$690,000 end of March contribution.

\$3.007M projected balance allocated to Miscellaneous and Safety based on 6/30/24 UAL for illustrative purposes.



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## PREFUNDING OPTIONS

### Scenario #1 Miscellaneous Direct Payment \$1.387M<sup>14</sup> 6/30/25 to CalPERS

- Shortest Bases: 2007 Benefit Change (3 years remaining) and 2009 Assumption Change (6 years remaining)  
**or**
- Longest Bases: 2013 Loss (20 years remaining)

Target Bases	Estimated Interest Savings	2025/26 Contribution Impact
<b>Shortest Bases</b>		
\$ Savings (000's)	\$228	\$(371)
Present value savings @ 3% (000's)	119	
<b>Longest Base</b>		
\$ Savings (000's)	\$1,103	\$(108)
Present value savings @ 3% (000's)	499	

<sup>14</sup> \$3.007M projected trust balance allocated to Miscellaneous and Safety by UAL.



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## PREFUNDING OPTIONS

### Scenario #1 Safety Direct Payment \$1.620M<sup>15</sup> 6/30/25 to CalPERS

- Shortest Bases: 2014 Assumption Change (11 years remaining)  
**or**
- Longest Bases: 2017 & 2018 Non-Asset Loss (24 & 25 years remaining, respectively) and 2016 Asset Loss (23 years remaining)

Target Bases	Estimated Interest Savings	2025/26 Contribution Impact
<b>Shortest Bases</b>		
\$ Savings (000's)	\$569	\$(216)
Present value savings @ 3% (000's)	284	
<b>Longest Base</b>		
\$ Savings (000's)	\$1,600	\$(112)
Present value savings @ 3% (000's)	699	

<sup>15</sup> \$3.007M projected trust balance allocated to Miscellaneous and Safety by UAL.



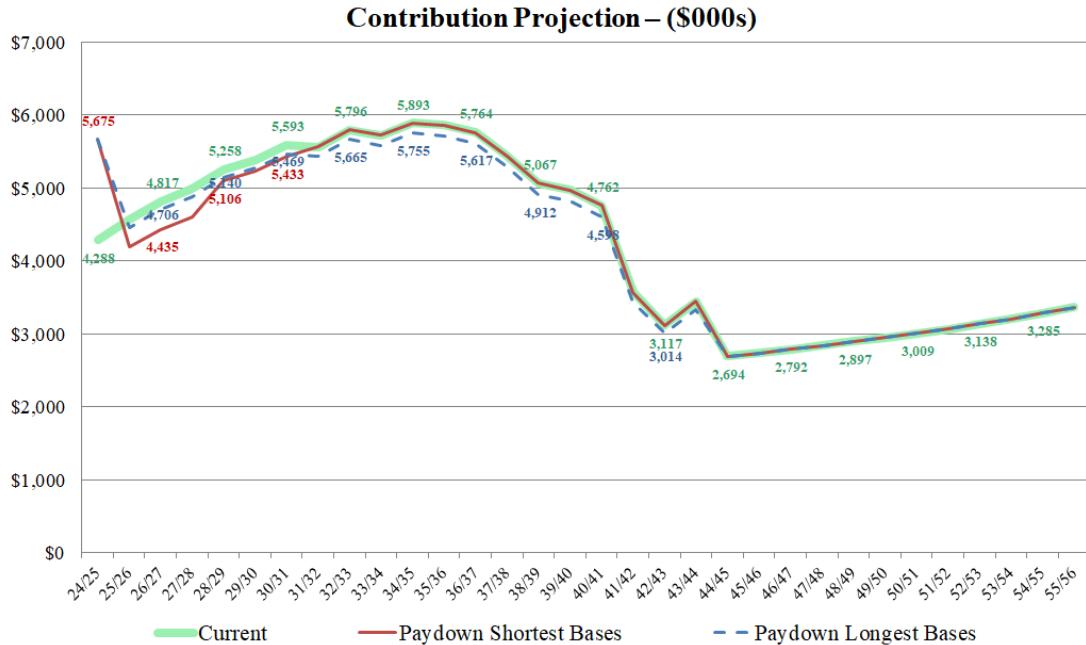
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## PREFUNDING OPTIONS

### Scenario #1 – Miscellaneous Direct Payment \$1.387M to CalPERS



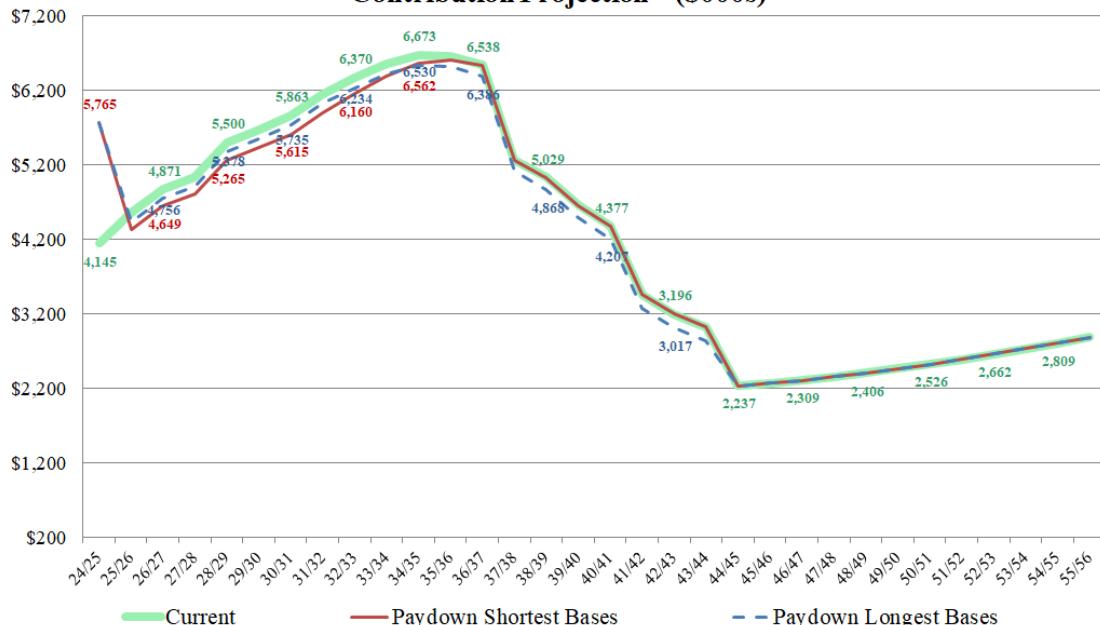
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## PREFUNDING OPTIONS

### Scenario #1 – Safety Direct Payment \$1.620M to CalPERS



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## PREFUNDING OPTIONS

### Scenario #2 Miscellaneous Direct Payment \$1M 6/30/25 to CalPERS

- Shortest Bases: 2007 Benefit Change (3 years remaining) and 2009 Assumption Change (6 years remaining)  
**OR**
- Longest Bases: 2013 Loss (20 years remaining)

Target Bases	Estimated Interest Savings	2025/26 Contribution Impact
<b>Shortest Bases</b>		
\$ Savings (000's)	\$144	\$(298)
Present value savings @ 3% (000's)	76	
<b>Longest Base</b>		
\$ Savings (000's)	\$796	\$(78)
Present value savings @ 3% (000's)	360	



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## PREFUNDING OPTIONS

### Scenario #2 Safety Direct Payment \$1M 6/30/25 to CalPERS

- Shortest Bases: 2014 Assumption Change (11 years remaining)  
**OR**
- Longest Bases: 2017 & 2018 Non-Asset Loss (24 & 25 years remaining, respectively) and 2016 Asset Loss (23 years remaining)

Target Bases	Estimated Interest Savings	2025/26 Contribution Impact
<b>Shortest Bases</b>		
\$ Savings (000's)	\$351	\$(134)
Present value savings @ 3% (000's)	175	
<b>Longest Base</b>		
\$ Savings (000's)	\$1,004	\$(68)
Present value savings @ 3% (000's)	438	



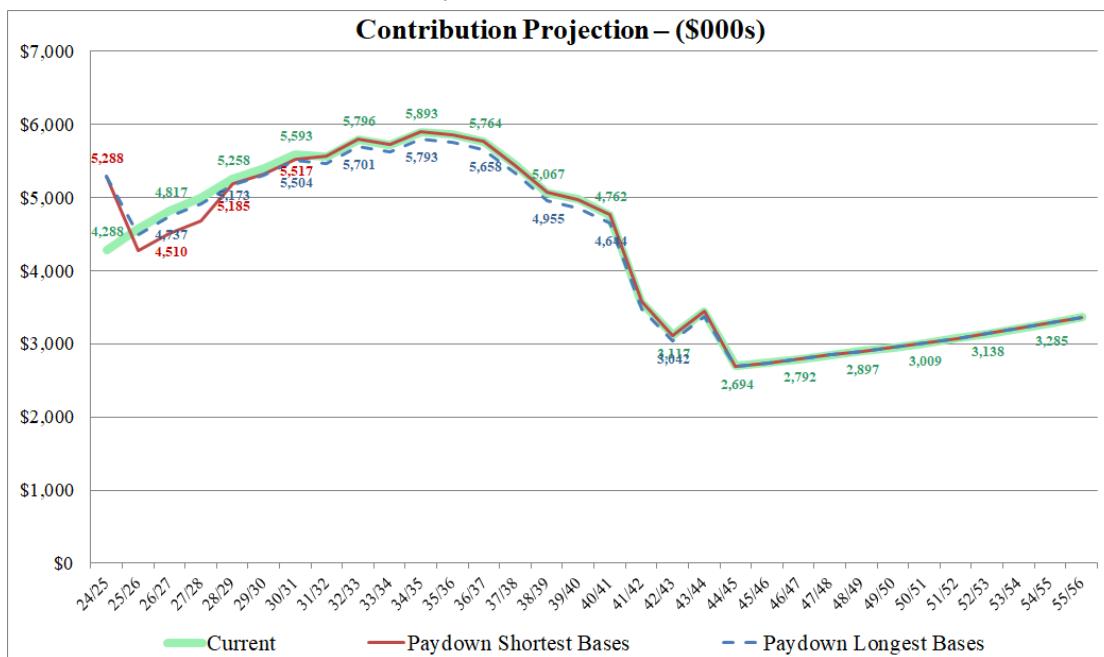
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## PREFUNDING OPTIONS

### Scenario #2 – Miscellaneous Direct Payment \$1M to CalPERS



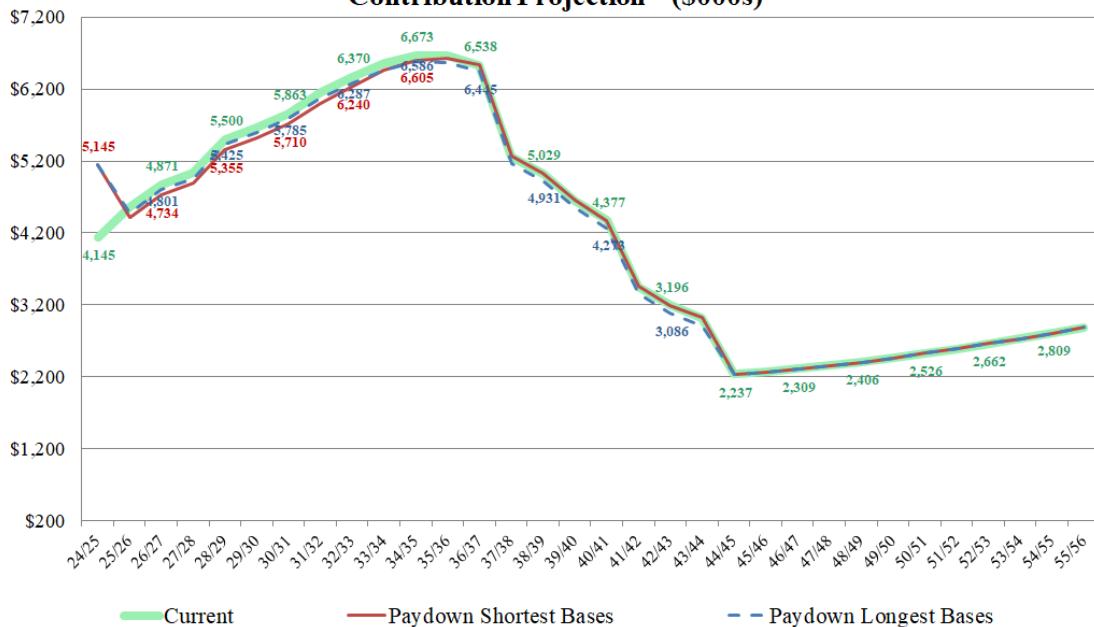
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## PREFUNDING OPTIONS

### Scenario #2 – 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, 2023 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 34.

Information provided in this report may be useful to the Town for the Plan's financial management. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as: plan experience differing from that anticipated by the assumptions; changes in assumptions; changes expected as part of the natural progression of the plan; and changes in plan provisions or applicable law. Actuarial models necessarily rely on the use of estimates and are sensitive to changes. Small variations in estimates may lead to significant changes in actuarial measurements. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of such measurements.

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.

D. Patrick McDonald, FSA, EA, MAAA  
Foster & Foster, Inc.



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## ACTUARIAL CERTIFICATION

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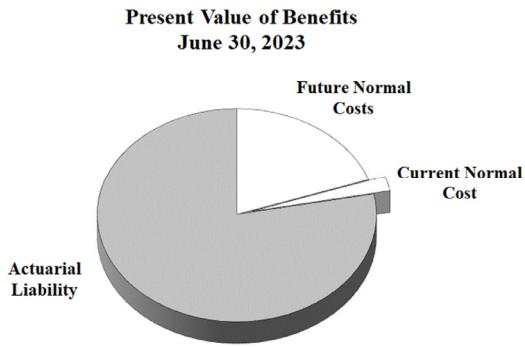


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## DEFINITIONS



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

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/23), 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

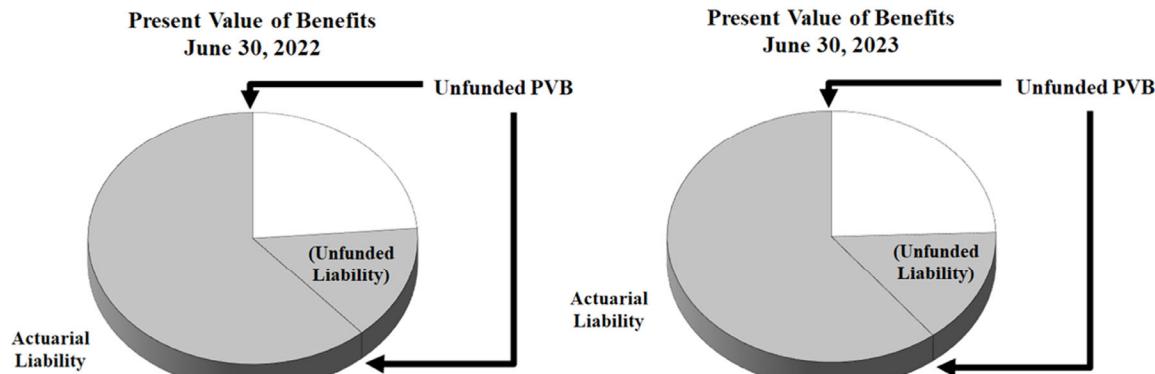


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## DEFINITIONS



### ■ 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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### ADDITIONAL ASSUMPTIONS & METHODS

- Retiree benefit payments increase at 4% for stand-alone plan and 3% for pooled plan
- Tiers 1, 2, and current PEPRA members' payroll increase/decrease after 2029/30 according to similar large client projected payroll using same mortality, retirement, withdrawal, and disability assumptions as CalPERS 2000-2019 Experience Study
- PEPRA payroll added to above projected payroll to make aggregate payroll increase at CalPERS' assumption of 2.8% after 2029/30
- All other assumptions same as CalPERS valuation assumptions



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