

**COUNCIL MEETING**

9/20/2022

Received Before Meeting

**1**

# CalPERS Annual Valuation Reports

Finance Committee

Item #1

September 20, 2022

# Definitions

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## Actuarial Determined Contribution (ADC):

- **Normal Cost (NC):** pay-go costs for current employees (% payroll)
- **Unfunded Accrued Liability (UAL):** catch-up costs over amortization timeline (\$)



**Blended Rate:** NC and UAL expressed as a percentage of payroll

**Additional Discretionary Payments (ADPs):** payments in excess of the ADC

# CalPERS Valuation Reports – Significant Changes

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## Significant outcomes from the CalPERS Asset Liability Management (ALM) Review Process and Experience Study in November 2021:

- Reduced discount rate from 7.0% to 6.8%, per CalPERS Risk Mitigation Policy
- New actuarial assumptions, including price inflation from 2.5% to 2.3%
- New asset allocation to target 1/3 investment in private assets, add 5 percent leverage, and reduce public equity exposure
- Adjustments to Public Employee's Pension Reform Act (PEPRA) employee contributions:
  - Miscellaneous rates to increase 1.0%, from 6.25% to 7.25%
  - Safety rates to remain unchanged at 11.75%

# CalPERS Valuation Reports – Overview

## Overall Status as of June 30, 2021

- Reduced discount rate from 7.0% to 6.8%
- Significant investment gain of 21.3% as compared to 6.8% target, 5-year ramp up

	June 30, 2019	June 30, 2020	June 30, 2021
Actual	6.7%	4.7%	<b>21.3%</b>
Target	7.0%	7.0%	<b>6.8%</b>

- Increase in overall funded status by ~10%, from 63.5% to 73.3%
  - Misc. from 65.1% to 75.3%; Safety from 60.3% to 69.4%

## Supplemental Contributions to 115 Pension Trust – NOT included in CalPERS reports

- \$49.4 million in principal contributions expected through FY 2023
- Moderately conservative portfolio, return on investment:
  - Period ending June 30, 2019: 5.9%, 2020: 6.1%, **2021: 11.5%**
- Increases overall funded status ~3%, from 73.3% to 76.6%

# CalPERS Valuation Reports – Expected Changes

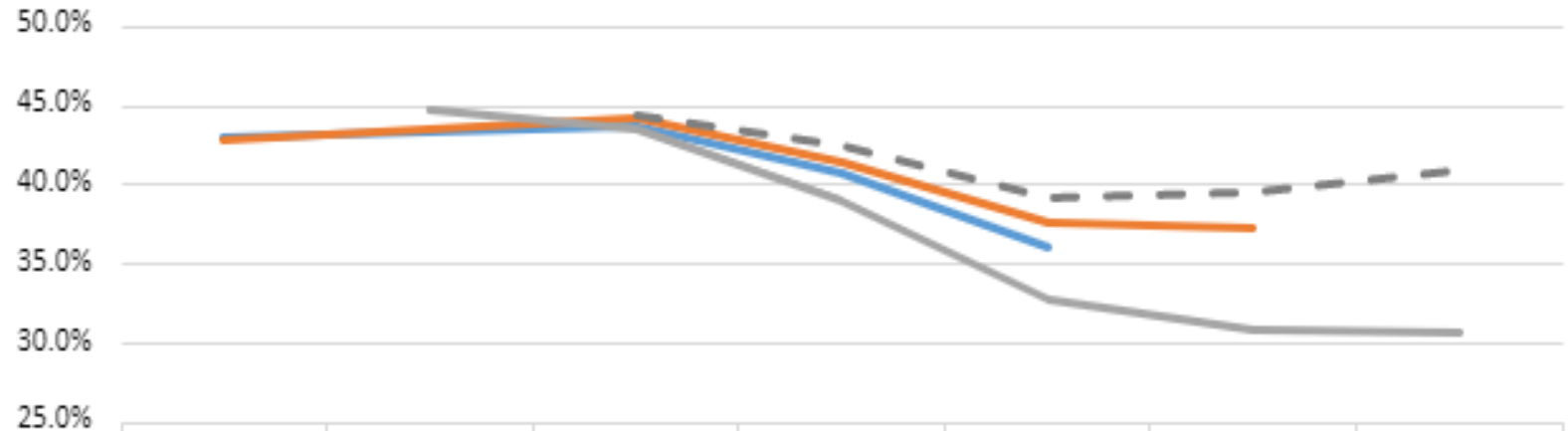
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## Significant Changes Expected to Impact Future Reporting

- Preliminary -6.1% investment loss for the period ending June 30, 2022
  - Impact in FY 2025, subject to 5-year ramp up
- Current labor contracts and negotiation parameters
  - 4.0% increase for all labor groups in March 2022
  - 3.0% increase for Firefighters (IAFF) in July 2022
  - All labor agreements expire in FY 2023
- FY 2022-23 Staffing additions
  - Increased full-time staffing from 956 FTE to 1,018 FTE, a +62 FTE or +6% change

# CalPERS Past & Projected Employer Rates (Misc)

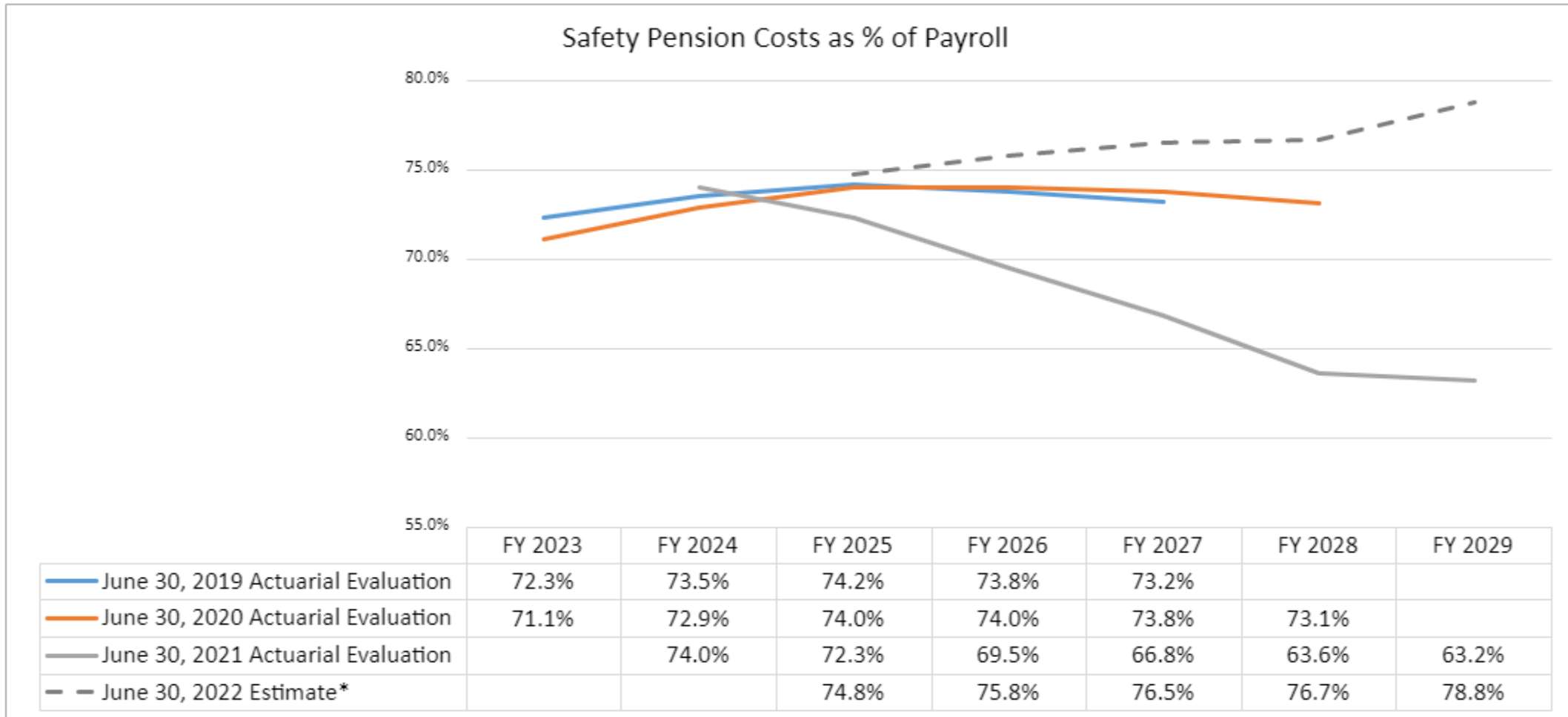
Miscellaneous Pension Costs as % of Payroll



	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
— June 30, 2019 Actuarial Evaluation	43.0%	43.3%	43.6%	40.7%	36.1%		
— June 30, 2020 Actuarial Evaluation	42.8%	43.5%	44.1%	41.5%	37.6%	37.2%	
— June 30, 2021 Actuarial Evaluation		44.8%	43.6%	38.9%	32.8%	30.8%	30.7%
- - June 30, 2022 Estimate*			44.4%	42.5%	39.2%	39.5%	41.0%

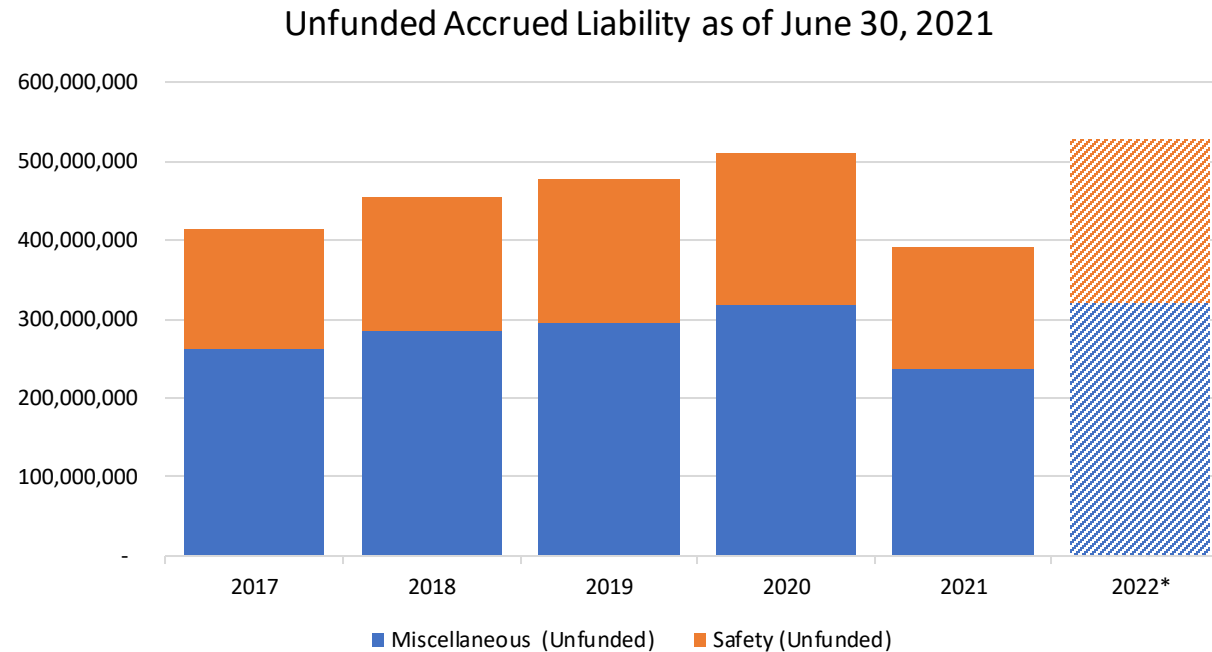
*\*For demonstrative purposes, the 2022 employer rates are estimated using the CalPERS Pension Outlook Tool to adjust for -6.1% preliminary losses as of June 30, 2022. These rates do not reflect actual outcomes.*

# CalPERS Past & Projected Employer Rates (Safety)



*\*For demonstrative purposes, the 2022 employer rates are estimated using the CalPERS Pension Outlook Tool to adjust for -6.1% preliminary losses as of June 30, 2022. These rates do not reflect actual outcomes.*

# CalPERS Projected Unfunded Accrued Liability (UAL)



	2017	2018	2019	2020	2021	2022*
Miscellaneous	260.7	284.9	294.7	317.1	236.0	319.3
Safety	154.2	170.7	182.2	193.3	155.9	208.5
<b>Total (\$ Million)</b>	<b>\$414.9</b>	<b>\$455.6</b>	<b>\$476.9</b>	<b>\$510.4</b>	<b>\$391.9</b>	<b>\$527.8</b>
<i>Funded Status</i>	65.3%	63.7%	64.4%	63.5%	73.3%	67.9%

*\*For demonstrative purposes, 2022 UAL is estimated using the CalPERS Pension Outlook Tool to adjust for -6.1% preliminary losses as of June 30, 2022. These rates do not reflect actual outcomes.*



## Action:

- Accept the June 30, 2021 CalPERS Valuation Reports

## Next Steps (dates tentative):

- *October 18, 2022, Finance Committee:* Pension Trust Fund and Other Post Employment Benefit (OPEB)/Retiree Healthcare Trust Fund Study Session
- *November 15, 2022, Finance Committee:* Pension Policy Updates
- *December 6, 2022, Finance Committee:* Review and Recommend that the City Council Accept the FY 2024 – FY 2033 Long Range Financial Forecast (LRFF) and FY 2024 Budget Development Guidelines
- *May 2023, Finance Committee:* Budget Hearings to review the FY 2024 Proposed Budget, including the FY 2024 Municipal Fee Schedule, FY 2024 Utility Rates, and 2024-2028 Capital Improvement Plan (CIP)
- *June 2023, City Council:* Adopt FY 2024 Budget, Municipal Fees, Utility Rates, & accept the 2024-2028 CIP



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