



OTHER POST-EMPLOYMENT BENEFITS ACTUARIAL VALUATION REPORT UPDATE

Finance Committee

January 15, 2026

BACKGROUND

- The City provides eligible retirees and surviving spouses with certain retiree medical benefits, also known as other post-employment benefits (OPEB).
- Benefits vary by hire date, employment status and classification. Benefits generally fall into the following categories:
 - **Legacy Defined Benefit Plan** – up to \$450 per month is provided for eligible healthcare expenses. The legacy plan is a closed plan, which generally includes employees and retirees who were active and enrolled in the defined benefit plan as of 12/31/2005.
 - **CalPERS Minimum Required Contribution (MRC)** – agencies that contract with CalPERS for health insurance coverage are required under the Public Employee's Medical and Hospital Care Act (PEMHCA) to contribute a minimum amount for retiree health insurance (\$158/month in 2025).
 - **Defined Contribution Retiree Health Savings Plan** – employee and employer contributions are required to be made to the employee's Retiree Health Savings (RHS) account, which generally includes new hires on or after 1/1/2006. The City has no further funding obligation to the RHS plan once the City has made the required contributions.



IMPLICIT RATE SUBSIDY

- A portion of the City's OPEB liability is in the form of an implicit rate subsidy, which results from the pooling of non-Medicare retirees and active employees for premium purposes.
- Although retirees are solely responsible for the cost of their health insurance, retirees receive the benefit of a lower rate. The difference between these amounts is the implicit rate subsidy.
- The accounting standards require that the value of the implicit subsidy be included in the City's OPEB liability, even though these costs will be paid on a pay-as-you-go basis in the future in the form of higher premiums for active employees.
- However, the cost associated with the implicit subsidy is covered by the City's cafeteria plan contribution and is paid from the City's operating budget. Therefore, the targeted funding level is based on the value of the explicit subsidy associated with the legacy defined benefit plan and the CalPERS MRC.





OVERVIEW OF THE PARS TRUST

PUBLIC AGENCY RETIREMENT SERVICES

- In March of 2024, the City Council approved establishing an OPEB Trust with Public Agency Retirement Services (PARS)
- Funds were transferred from the prior trust with California Employers' Retiree Benefit Trust (CERBT), which is managed by CalPERS
- The PARS OPEB Trust has an expected rate of return of 6.74%



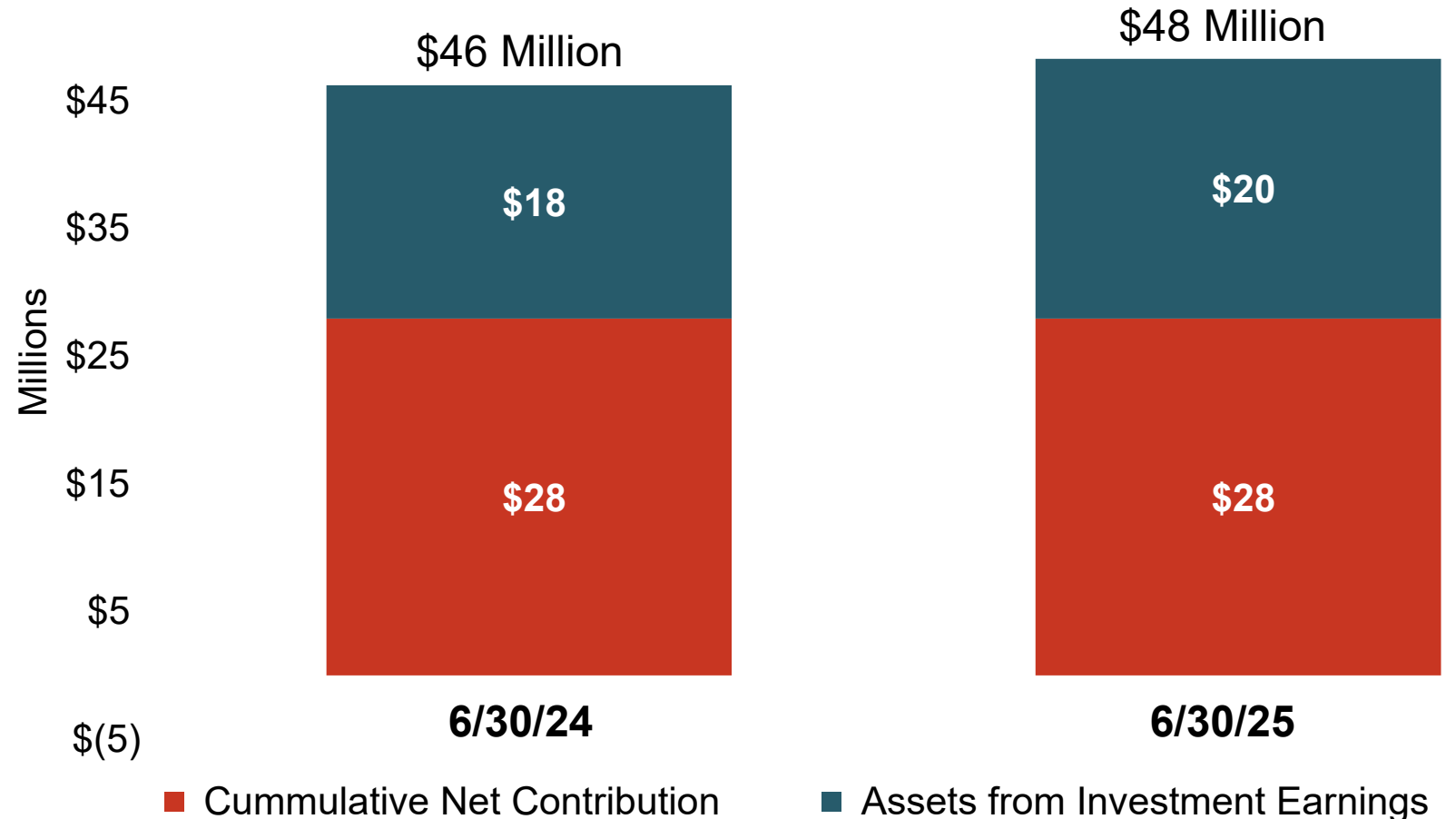
PARS BALANCED STRATEGY

Asset Class	Strategic Range
Equity Style:	
Domestic Large Cap Equity	20%-50%
Domestic Mid Cap Equity	0%-15%
Domestic Small Cap Equity	0%-20%
International Equity (incl. Emerging Markets)	0%-20%
Real Estate Investment Trust (REIT)	0%-10%
Total Equities	50%-70%
Fixed Income Style:	
Long-Term Bonds (Maturities > 7 Years)	0%-20%
Intermediate-Term Bonds (Maturities 3-7 Years)	15%-50%
Shorter-Term Bonds (Maturities < 3 Years)	0%-15%
High Yield Bonds	0%-8%
Total Fixed Income	30%-50%
Total Cash	0%-20%



HISTORICAL PERFORMANCE OF THE CITY'S TRUST ACCOUNT

- Total investment earnings (net of fees) of \$20.3 million since 2008
- Total assets of \$48.3 million at 6/30/25
- Annualized net rate of return of 11.56% since inception with PARS (March 2024)



Note: The City's trust balance was transferred from CERBT to PARS in March 2024.



2025 ACTUARIAL VALUATION REPORT

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- A full actuarial valuation is completed once every two years. The most recent actuarial valuation was completed in 2025, which had a measurement date of June 30, 2024.
- The actuarial valuation report reflects a discount rate of 6.40%, net of fees
- City's OPEB liability decreased by \$1.4 million dollars
- The numbers presented in the Actuarial Report are on a one fiscal year lag and do not represent current trust performance.



SUMMARY OF VALUATION RESULTS – INCLUDING IMPLICIT LIABILITY

- The City's total OPEB liability decreased by \$1.4 million, primarily because benefit payments exceeded interest costs and the discount rate decreased.
- The trust assets reflected in the valuation report dated June 30, 2025, are based on balances as of June 30, 2024. These balances were \$11 million higher than the prior year, due in part to a \$5.8 million contribution from the FY 2022-23 year-end surplus.

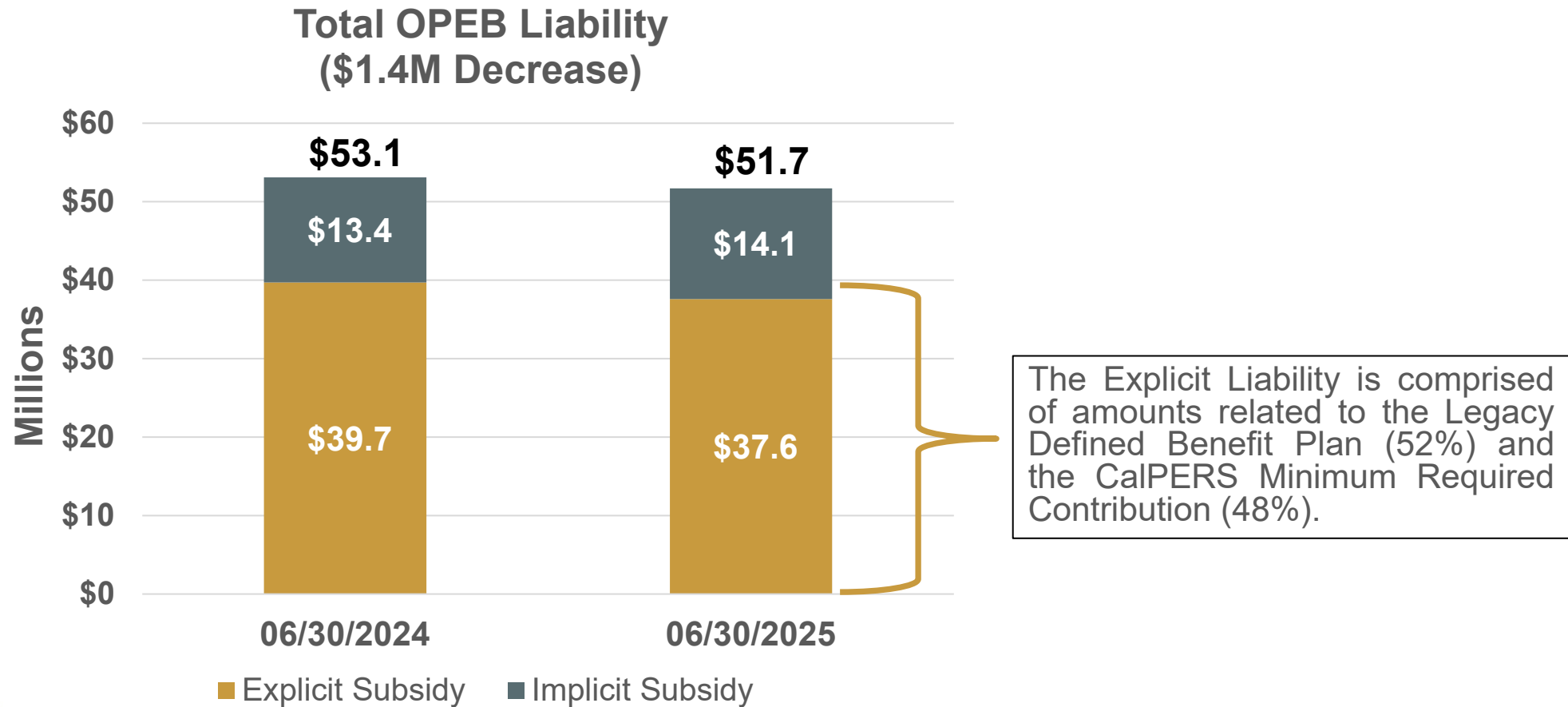
	June 30, 2024 ¹	June 30, 2025 ²
Trust Assets	\$ 35,166,853	\$ 46,207,675
Total OPEB Liability	<u>(\$ 53,136,842)</u>	<u>(\$ 51,722,347)</u>
Net OPEB Liability	(\$ 17,969,989)	(\$ 5,514,672)
Funded Percentage	66.2%	89.3%

¹ June 30, 2023 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2024.

² June 30, 2024 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2025.



CHANGES IN THE OPEB LIABILITY



SUMMARY OF VALUATION RESULTS – EXCLUDING IMPLICIT LIABILITY

- The City's total OPEB liability decreased by \$2.1, which is largely due to benefit payments and a change in the discount rate.
- Assets on hand with PARS as of June 30, 2025 amounted to \$48.3 million, which were \$2.1 million higher due to investment income less benefit payments.

	June 30, 2024	June 30, 2025
Trust Assets	\$ 46,207,675	\$ 48,295,888
Total OPEB Liability*	<u>(\$ 39,727,418)</u>	<u>(\$ 37,632,003)</u>
Excess Assets	\$ 6,480,257	\$ 10,663,885
Funded Percentage	116.3%	128.3%

**Excluding Implicit Liability*



TARGETED FUNDING LEVEL

- City Council Policy F-2 (Reserve Policy) requires the “new plan” be 100% funded and that the explicit portion of the “old plan” be funded over a 20-year amortization period (or less) based on the annual required contribution determined by a biennial actuarial review.
- Since the cost associated with the implicit subsidy is covered by the City’s cafeteria plan contribution and is paid from the City’s operating budget, the targeted funding level has been based on the value of the explicit subsidy associated with the legacy defined benefit plan and the CalPERS MRC.
- In October 2023, the City Council approved allocating \$5.8 million of the General Fund’s operating surplus for Fiscal Year 2022-23 towards paying down the City’s OPEB liability.
- The explicit subsidy is fully funded.



FY 2025-26 IMPACT

- Since the OPEB liability is fully funded, contributions to the OPEB Trust are no longer required and Trust assets are utilized to fund future benefit payments.
- Therefore, annual savings totaling approximately \$4 million continue to accrue due to the elimination of the OPEB liability.





QUESTIONS?