

CALPERS UPDATE

Finance Committee Meeting – November 14, 2024





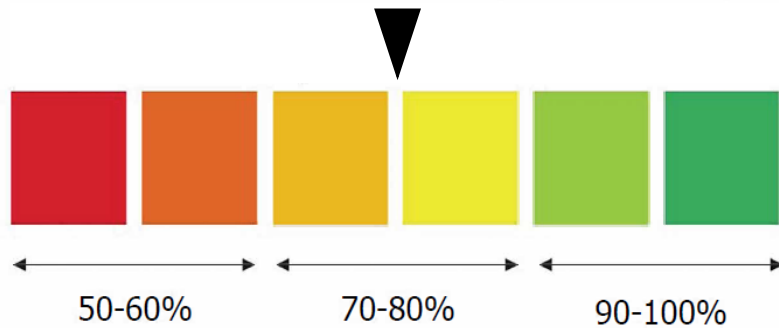
CALPERS NEWS

FISCAL YEAR 2023-24 CALPERS FISCAL STATUS

\$502.9 billion in assets

9.3% net return on investments
Preliminary

75% funded status



CalPERS
investment earnings

55¢

CalPERS
employers

34¢

CalPERS
members

11¢

CalPERS Pension Buck: a 20-year Average (as of June 30, 2024)





JUNE 30, 2023
ACTUARIAL VALUATION REPORTS
(PUBLISHED IN JULY 2024)

JUNE 30, 2023 ACTUARIAL VALUATION REPORTS

- 2023 valuation reports set the contribution rates for FY2025-26.
- FY 2022-23 investment return was 6.1%, underperforming the 6.8% target.
- Total unfunded liability decreased from \$348 million to \$341 million whereas the total funded ratio increased from 70.9% to 72.5%.
- The funded status improved due to the City’s aggressive pension paydown strategy, despite investment returns falling short of the 6.8% target.

	June 30, 2023			June 30, 2022
	Miscellaneous	Safety	Total	Total
Accrued Liability	\$ 529,376,448	\$ 711,388,538	\$ 1,240,764,986	\$ 1,196,853,094
Market Value of Assets	\$ 399,991,701	\$ 499,763,899	\$ 899,755,600	\$ 849,020,920
Unfunded Liability	\$ 129,384,747	\$ 211,624,639	\$ 341,009,386	\$ 347,832,174
Funded Ratio	75.6%	70.3 %	72.5%	70.9%



CALPERS FUNDING RISK MITIGATION POLICY

- In 2015, CalPERS approved the Funding Risk Mitigation Policy, which included a provision that automatically triggered a decrease in the discount rate when the actual investment return for a fiscal year exceeded the assumed rate of return by at least 2%. The two percent trigger intended to use a portion of unexpected gains to de-risk the portfolio.
- In April 2024, CalPERS approved a change to the Funding Risk Mitigation Policy:
 - **Automatic change to discount rate removed:** The policy no longer automatically changes the discount rate.
 - **Board discussion required:** The board will now discuss the discount rate and expected investment returns when the investment return at fiscal year-end exceeds the assumed rate of return by 2% or more.
- In September 2024, CalPERS used their new discretion to leave the discount rate at 6.8% despite investment returns beating the target in FY 2023-24 by more than 2%.



COMPARISON TO OTHER ORANGE COUNTY EMPLOYERS

- The funded percentage for every non-pooled plan in the County increased in part to the investment gain.

Agency	June 30, 2023, Valuation		June 30, 2024, Valuation		Change		
	UAL	Funded %	UAL	Funded %	UAL \$	UAL %	Funded %
City of Anaheim	1,007,646,110	68.9%	942,224,154	71.7%	(65,421,956)	-6.5%	2.7%
City of Brea*	49,697,608	71.9%	46,262,674	74.6%	(3,434,934)	-6.9%	2.6%
City of Buena Park*	25,479,436	85.2%	23,557,554	86.6%	(1,921,882)	-7.5%	1.4%
City of Costa Mesa	271,199,110	62.4%	255,750,461	65.5%	(15,448,649)	-5.7%	3.1%
City of Fullerton	321,231,685	67.2%	306,048,958	69.4%	(15,182,727)	-4.7%	2.2%
City of Garden Grove	378,352,420	65.3%	358,999,367	68.1%	(19,353,053)	-5.1%	2.8%
City of Huntington Beach	224,255,857	86.5%	204,411,677	88.0%	(19,844,180)	-8.8%	1.5%
City of Irvine	211,157,864	78.4%	193,682,765	80.3%	(17,475,099)	-8.3%	1.8%
City of La Habra*	18,642,781	87.5%	16,641,093	89.2%	(2,001,688)	-10.7%	1.7%
City of Laguna Beach*	35,794,229	76.1%	32,905,252	78.8%	(2,888,977)	-8.1%	2.7%
City of Mission Viejo*	30,166,285	75.3%	27,720,619	78.2%	(2,445,666)	-8.1%	2.9%
City of Newport Beach	341,009,386	72.5%	293,791,911	76.9%	(47,217,474)	-13.8%	4.4%
City of Orange	103,263,020	91.0%	85,312,554	92.9%	(17,950,466)	-17.4%	1.9%
City of Santa Ana	463,102,824	81.2%	420,794,474	83.3%	(42,308,350)	-9.1%	2.1%
City of Tustin*	36,428,973	77.1%	32,183,180	80.5%	(4,245,793)	-11.7%	3.4%
City of Westminster*	55,424,288	66.7%	52,472,224	69.3%	(2,952,064)	-5.3%	2.6%
City of Yorba Linda*	27,773,564	71.5%	25,517,229	74.9%	(2,256,335)	-8.1%	3.4%
Irvine Ranch Water District*	101,128,596	73.1%	93,149,470	76.2%	(7,979,126)	-7.9%	3.1%
Santa Margarita Water District*	39,241,223	71.3%	36,583,480	74.3%	(2,657,743)	-6.8%	3.0%





PENSION PAYDOWN STRATEGY

PENSION PAYDOWN STRATEGY

- The pension paydown strategy is revisited each year.
- In 2024, the Finance Committee and City Council approved the continuation of an aggressive pension paydown strategy, and approved staff's recommendation to make a payment of \$40 million to CalPERS as part of the budget with the intent to allocate an additional \$5 million from the FY 2024-25 budget surplus.
- The previous forecast projected the City's pension liability being paid off in FY 2032-33, which was dependent on CalPERS earning 6.8% over the long-term.
- The expected investment gain for FY 2023-24 is 9.3%, which is greater than the 6.8% discount rate.



ROLL-FORWARD OF VALUATIONS TO JUNE 30, 2023

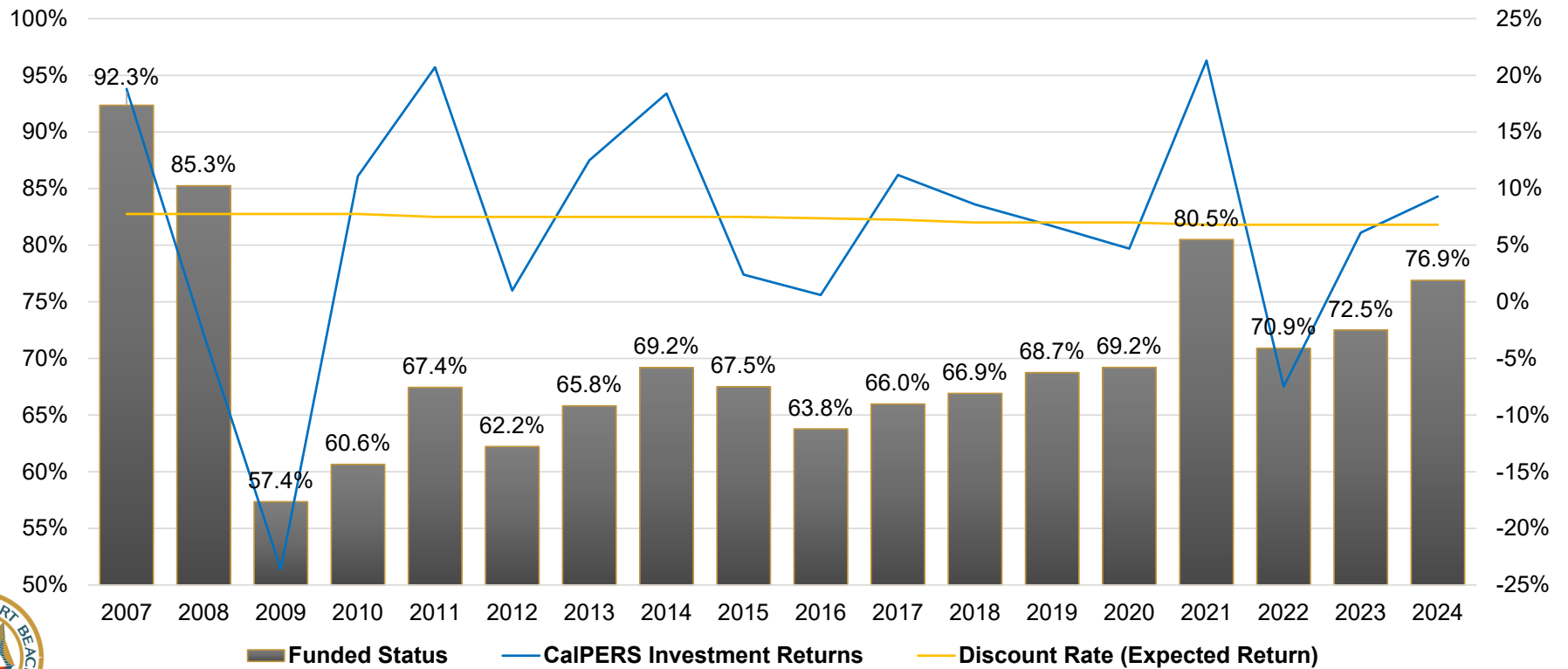
- It is expected that CalPERS will announce a 9.3% investment return for FY 2023-24 in November.
- The Actuarial Valuation at June 30, 2024, will not be available until August 2025. However, the CalPERS Pension Outlook tool has been utilized to estimate the City's projected funded status as of June 30, 2024, which reflects the impact associated with the 9.3% investment gain.

	June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023	June 30, 2024*
Unfunded Liability	\$ 333,046,257	\$ 223,438,444	\$347,832,174	\$341,009,386	\$295,190,000
Funded Percentage	69.2 %	79.3 %	70.9%	72.5%	76.9%
Investment Return	4.7 %	21.3 %	-7.5%	6.1%	9.3%

* Projected



HISTORICAL INVESTMENT RETURNS & THE CITY'S FUNDED STATUS



PROJECTIONS FOR THE FUTURE

- Using the CalPERS Pension Outlook tool, staff modeled the impact of the projected 9.3% return for FY 2023-24 and the impact of continuing the current payment strategy
 - The FY 2023-24 rate of return is estimated to be 2.5% higher than expected
 - Current projection shows the liability will be eliminated in FY 2032-33
 - FY 2024-25 projected to pay approximately \$13.9 million more than required by CalPERS

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-2030	2032-33
Planned Payment	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 26,828,000
Beginning Unfunded Liability	\$ 295,490,000	\$ 268,765,000	\$ 240,536,000	\$ 210,387,000	\$ 178,188,000	\$143,800,000	\$ 26,828,000
Beginning Funded Percentage	76.9%	79.5%	82.2%	84.9%	87.6%	90.3%	98.4%
Investment Return	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %



NORMAL COST FOR ACTIVE EMPLOYEES

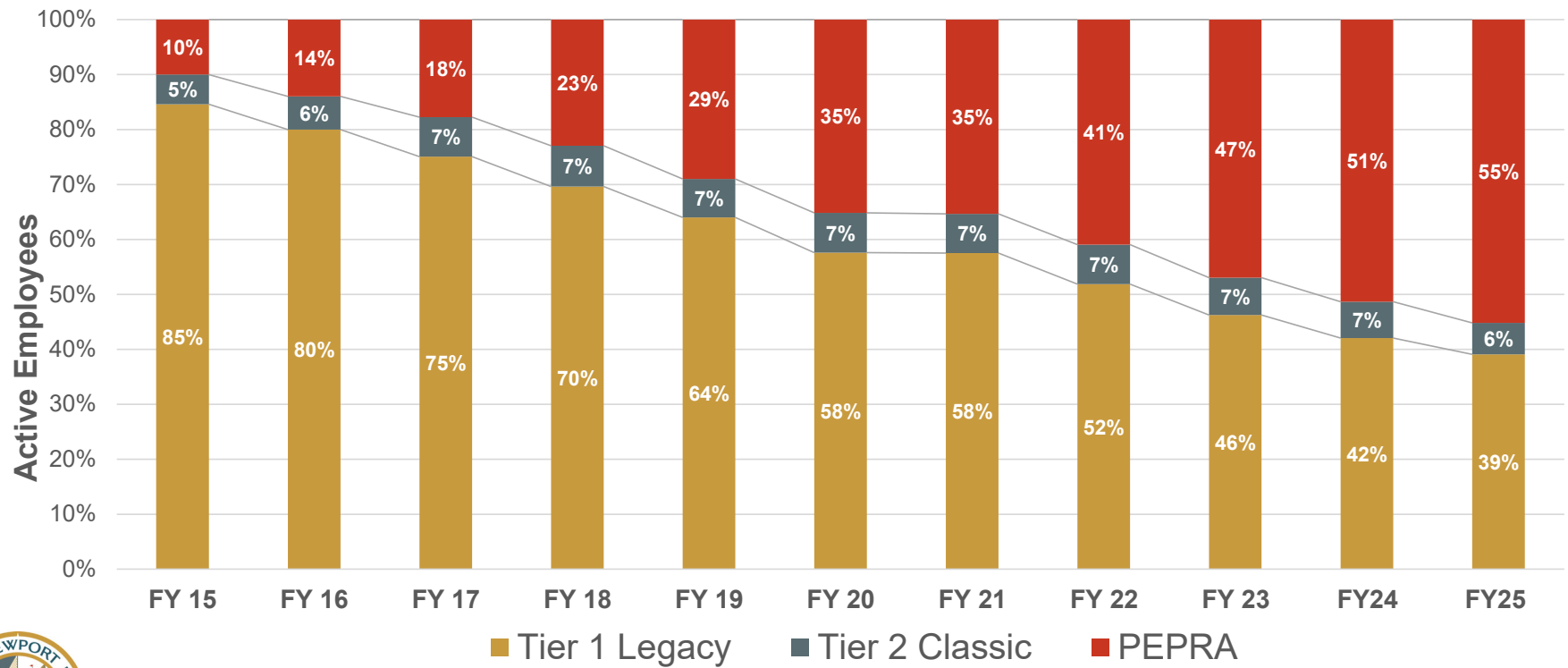
- Tier 1 (Legacy) & Tier 2 (Classic) employees in the Miscellaneous Plan contribute approximately 57% of amounts associated with normal cost.
- Tier 1 (Legacy) & Tier 2 (Classic) employees in the Safety Plan contribute approximately 42% of amounts associated with normal cost on average across the various bargaining groups.
- Miscellaneous PEPRA employees contribute approximately 77% of amounts associated with normal cost, whereas Safety PEPRA employees share equally 50% in the payment of normal cost.

Total Normal Cost Rates (as a % of Payroll)

	Miscellaneous	Safety
Tier 1 "Legacy"	20.09%	30.64%-37.26%
Tier 2 "Classic"	19.64%	24.46%-33.84%
Tier 3 "PEPRA"	15.3%	25.5%-30.9%



ACTIVE EMPLOYEES BY BENEFIT TIER



IMPACT OF INVESTMENT RETURN AND ADDITIONAL PAYMENTS

- Last year's CalPERS update projected the pension liability to be paid off in FY 2032-33
- FY 2023-24 projection considered a return of 6.8%, where return actual was 9.3%, shortening the payoff timeline further by a few months
- Staff project the pension liability to be paid off in FY 2032-33 if CalPERS can achieve an investment rate of return equal to their 6.8% discount rate



SUMMARY

- Staff recommend continuing with the current ADP strategy
- This disciplined approach to the accelerated paydown of the City's unfunded liability is expected to:
 - Paydown the current liability in FY 2032-33
 - Reduce long-term pension costs
- Monitor future CalPERS investment returns and respond accordingly





QUESTIONS?