

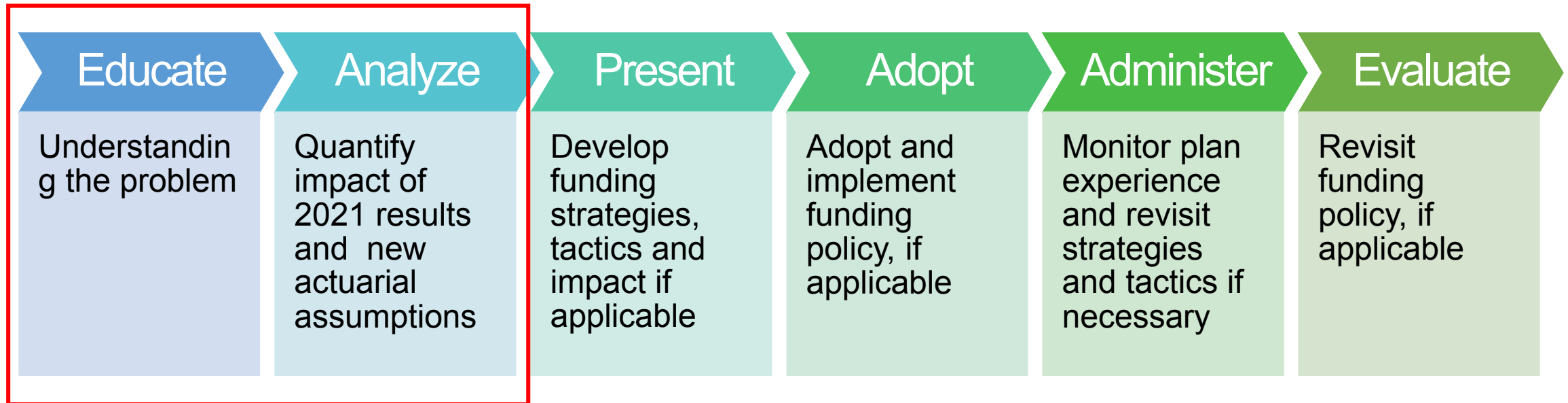
Pension Funding Update

Mammoth Lakes, CA

March 2, 2022



Building Blocks of Pension Funding



Understanding Pension Funding



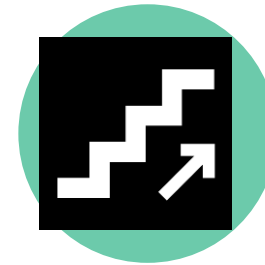
Pension Basics



Hurdles and Other Considerations



How is your agency doing relative to your funding targets?



Next Steps

Pension Basics

Retirement Benefits

Provided through California Public Employees Retirement System (CalPERS), a multi-employer pension & health care administrator

Promised benefit is made by the contracting agency and thus the local agency's obligation not CalPERS

Once the promised benefit is made, the benefit can only be changed prospectively per the California Constitution "California Rule"

Exiting CalPERS is not a practical option, the termination liability is cost prohibitive.

Revised benefit structure for employees hired on or after January 1, 2013 due to Public Employees Pension Reform Act (PEPRA)

The Town has two CalPERS plans for safety and miscellaneous employees (i.e. non-safety employees) with a few different benefit tiers.

Benefit Tiers – Miscellaneous Employees

	<i>Classic Members</i>	<i>Miscellaneous PEPRA</i>
Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Formula	2.7% @ 55	2% @ 62
Final Pay Period	36 Months	36 Months
COLA	2% per year	2% per year
Employee Contributions	Employee Pays 8% of Pensionable Compensation*	Employee Pays 6.75% of Pensionable Compensation

*Or as otherwise agreed to by bargaining unit memorandum of understanding

Benefit Tiers – Safety Employees

	<i>Classic Safety</i>	<i>PEPRA Safety</i>
Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Formula	3% @ 50	2.7% @ 57
Final Pay Period	36 Months	36 Months
COLA	2% per year	2% per year
Employee Contributions	Employee Pays 9% of Pensionable Compensation*	Employee Pays 13% of Pensionable Compensation*

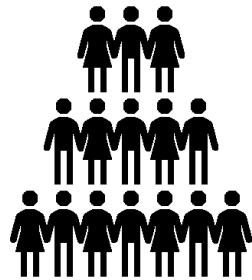
*Or as otherwise agreed to by bargaining unit memorandum of understanding

Assumptions Set Future Cost & Funding Expectations



Economic

- Inflation
- Investment Return
- Salary Growth



Demographic

- Retirement
- Disability
- Death
- Termination

Funding a Pension Plan

Employer Contributions

Employee Contributions

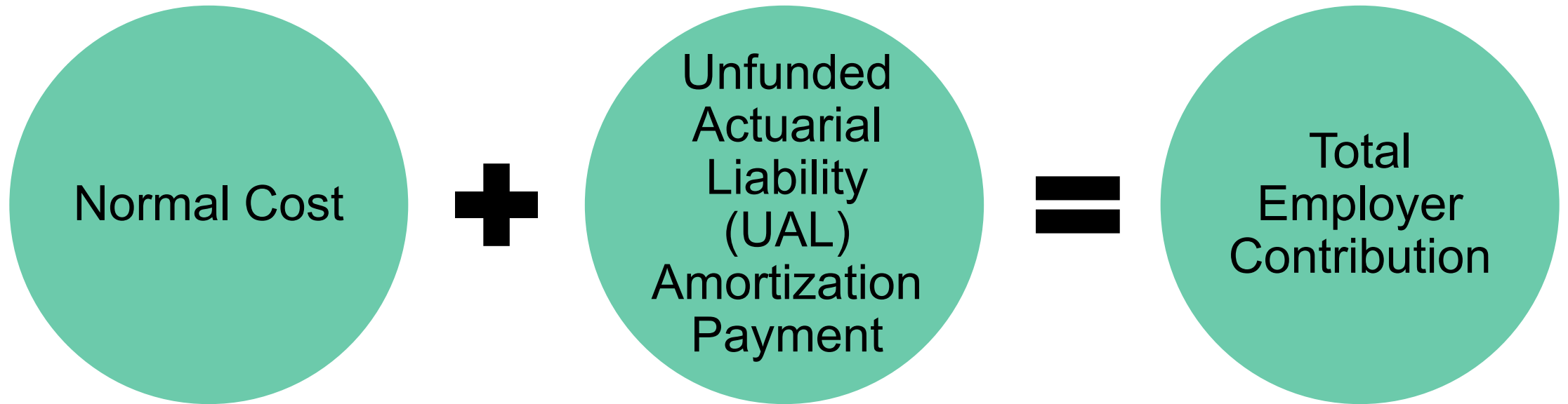
Major Driver of Plan Cost and Affordability



Investment Income

Benefits and Expenses

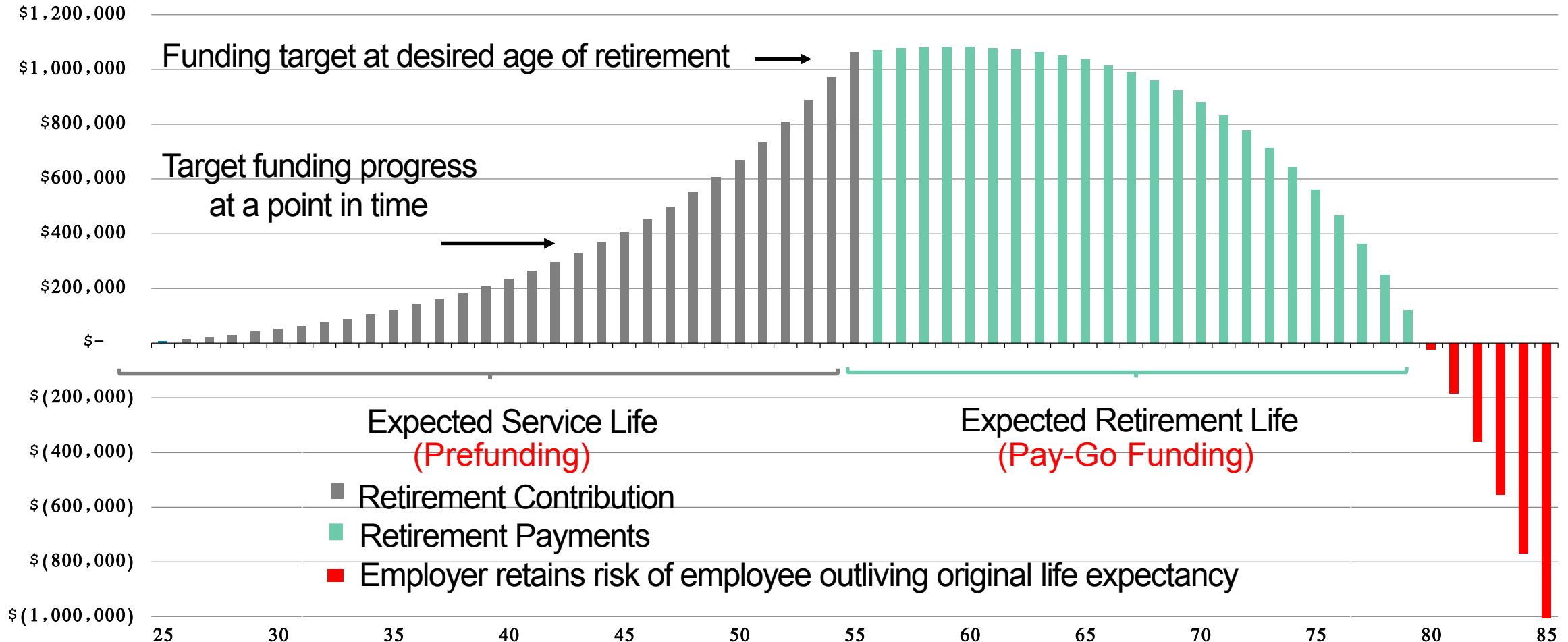
Actuarially Determined Contribution



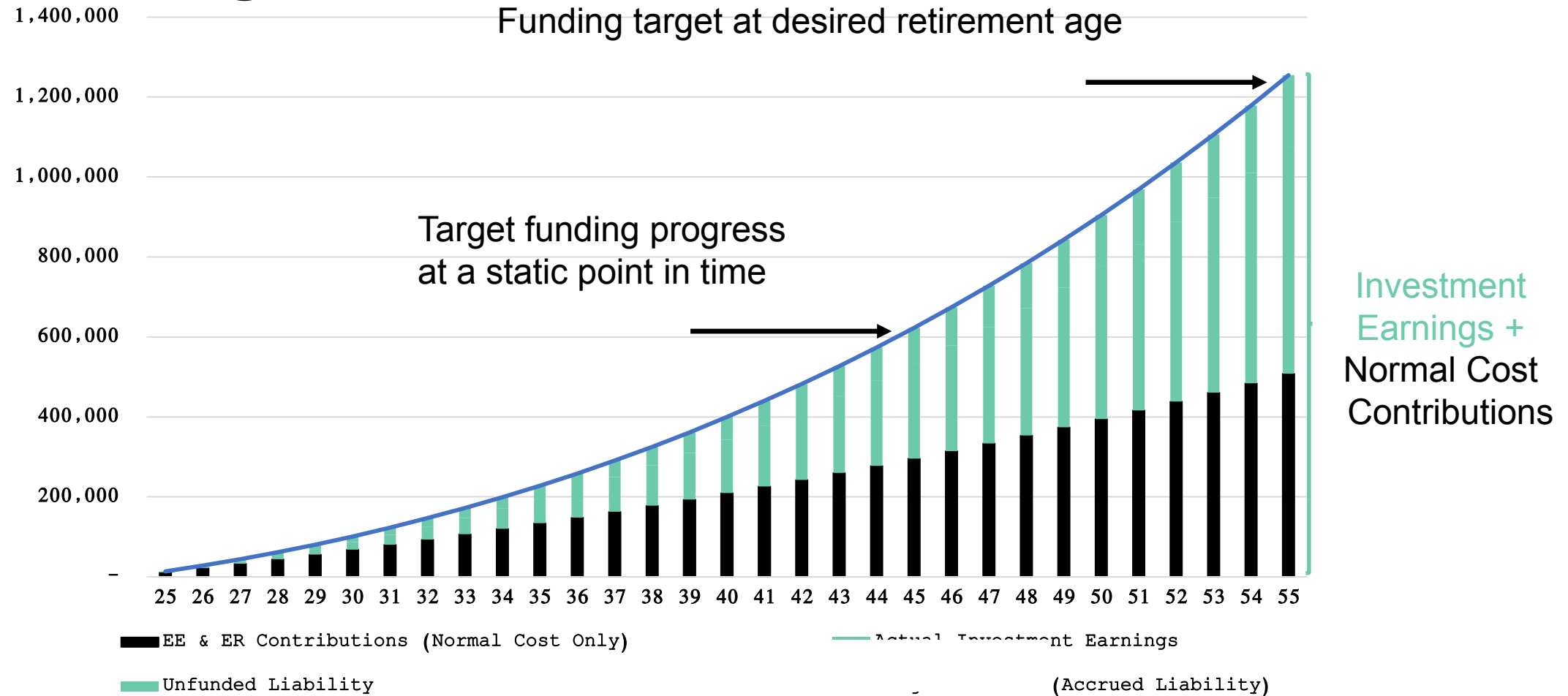
Normal Cost – the cost for current service
Paid as a percent of payroll
Increases when payroll increases,
decreases when payroll decreases

UAL Contribution – payment toward past service
Paid as a dollar amount each year

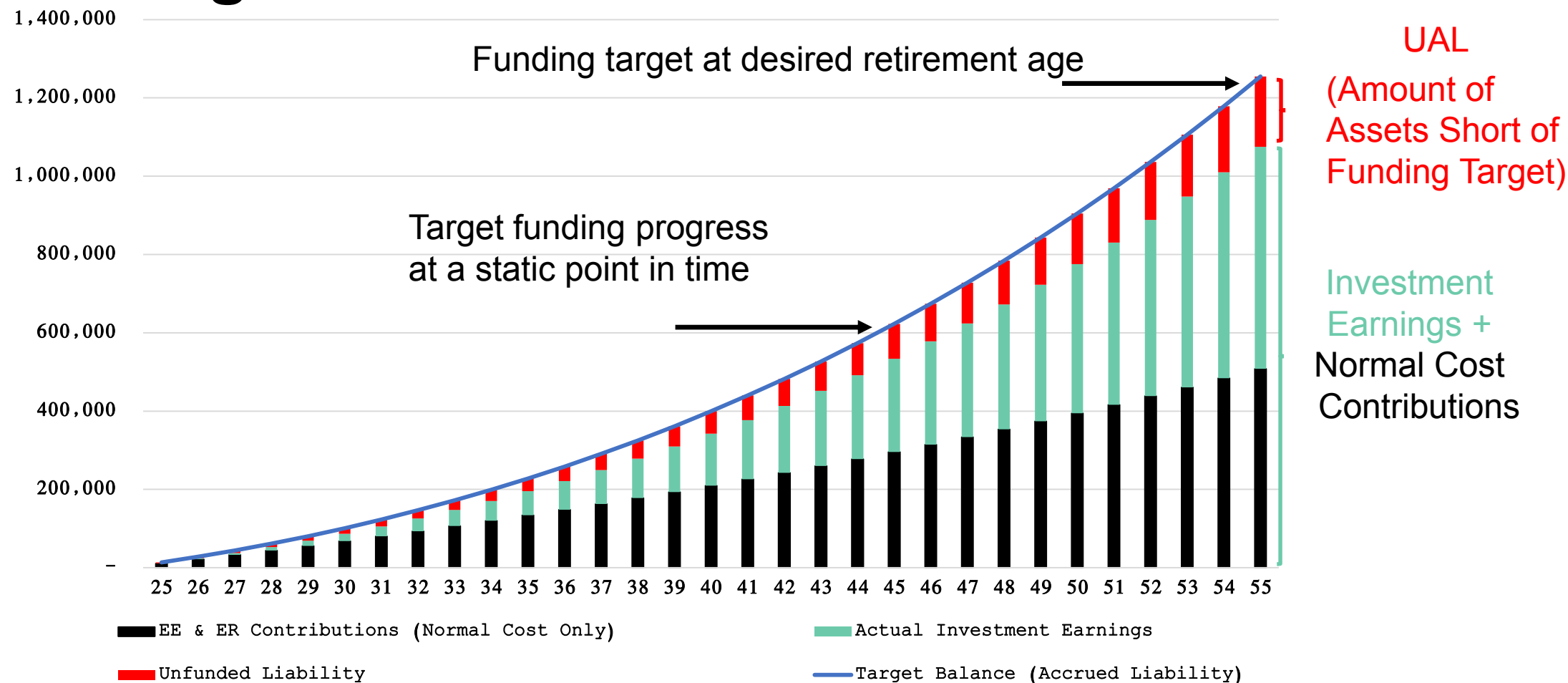
Illustration Pension Funding for an Individual Employee



Retirement Plans Are Sensitive to Investment Earnings

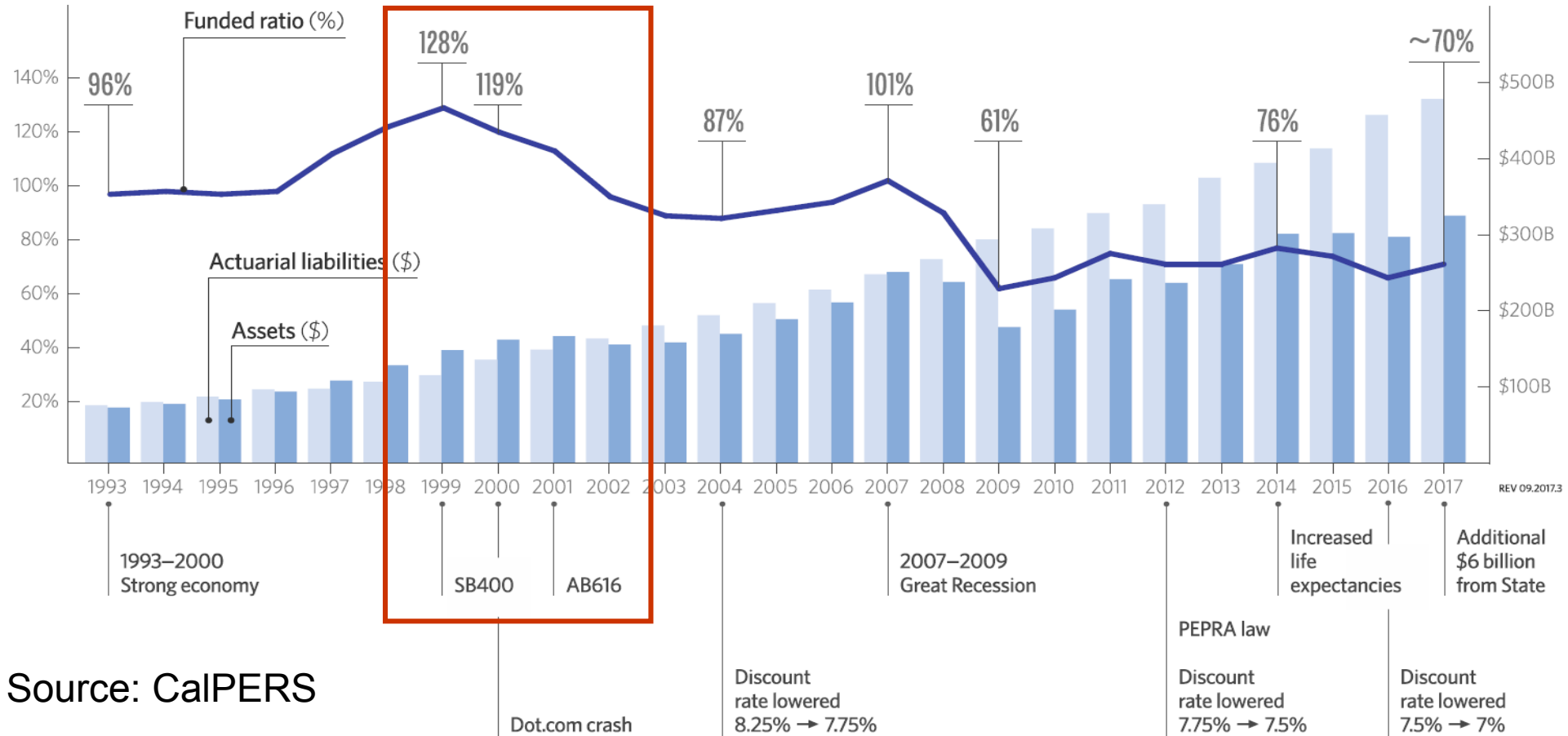


Retirement Plans Are Sensitive to Investment Earnings



Historical Factors Impacting Funded Status

Challenge Yourself to Look Beyond What You See Today



Source: CalPERS

Hurdles & Consideration



CalPERS Investment Return: **21.3%** (Preliminary Estimate)

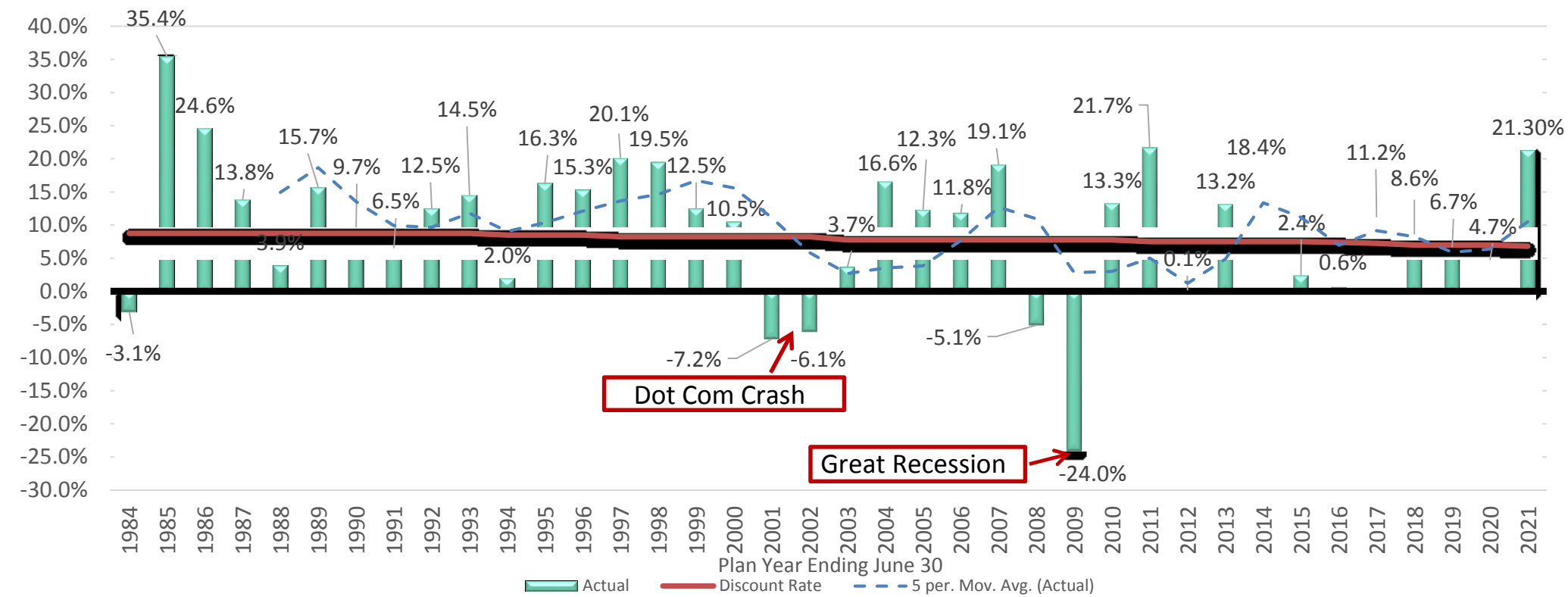
Investment Return Triggers Lower Discount Rate Provision of
Funding Risk Mitigation Policy

New Discount Rate 6.8% Heading into ALM Deliberations

Final Decisions Expected November 2021

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>

CalPERS Historic Investment Returns

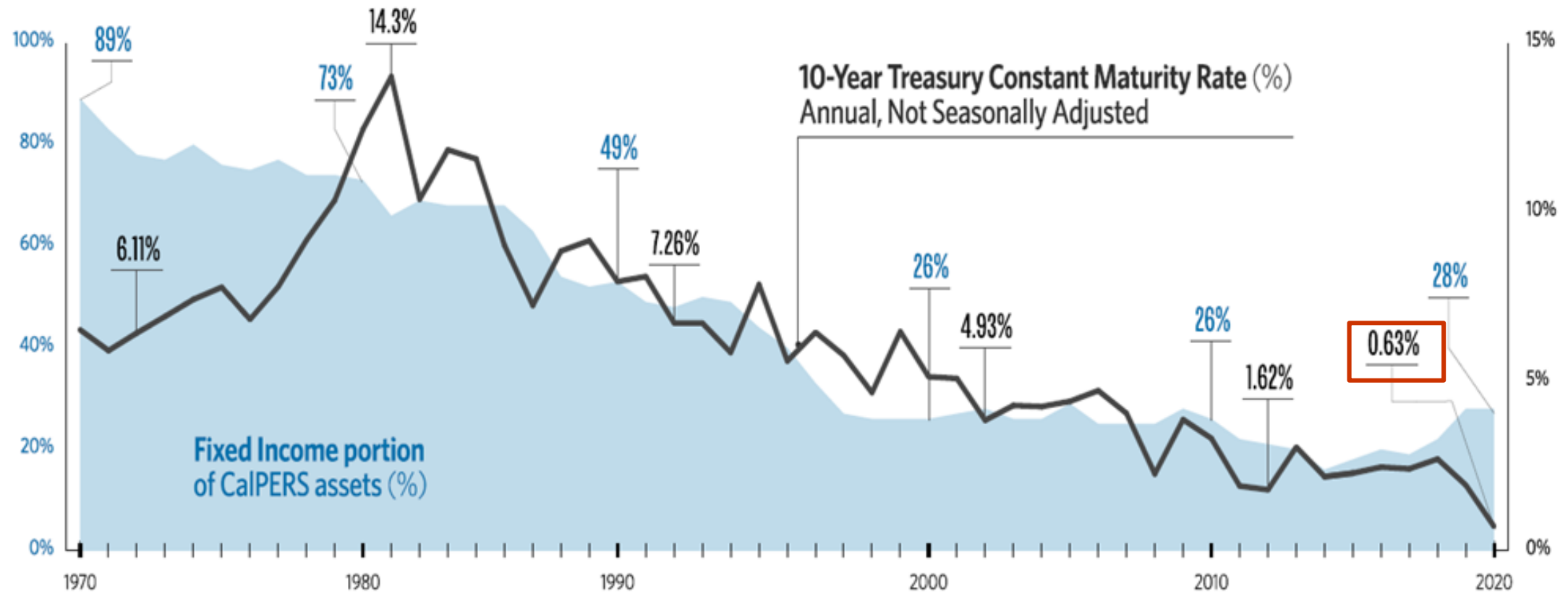


Historical Compound Annual Rate of Return					
	1 Year	5 Year	10 Year	20 Year	30 Year
Compound Annual Return	21.30%	10.40%	8.50%	6.90%	8.40%

Challenges to Achieving Target Returns

US Treasury Yields Reduced to Near Zero

We Need to Take Risks to Achieve Returns



How is Your Agency Impacted?

Funded Status Comparison

Reason
for
Change

6.8% Discount Rate

Accrued Liability

○ \$77.86M

from \$75.98M

\$1.88M



21.3% Investment Return

Valuation Assets

○ \$59M

from \$52.04M

\$6.95M



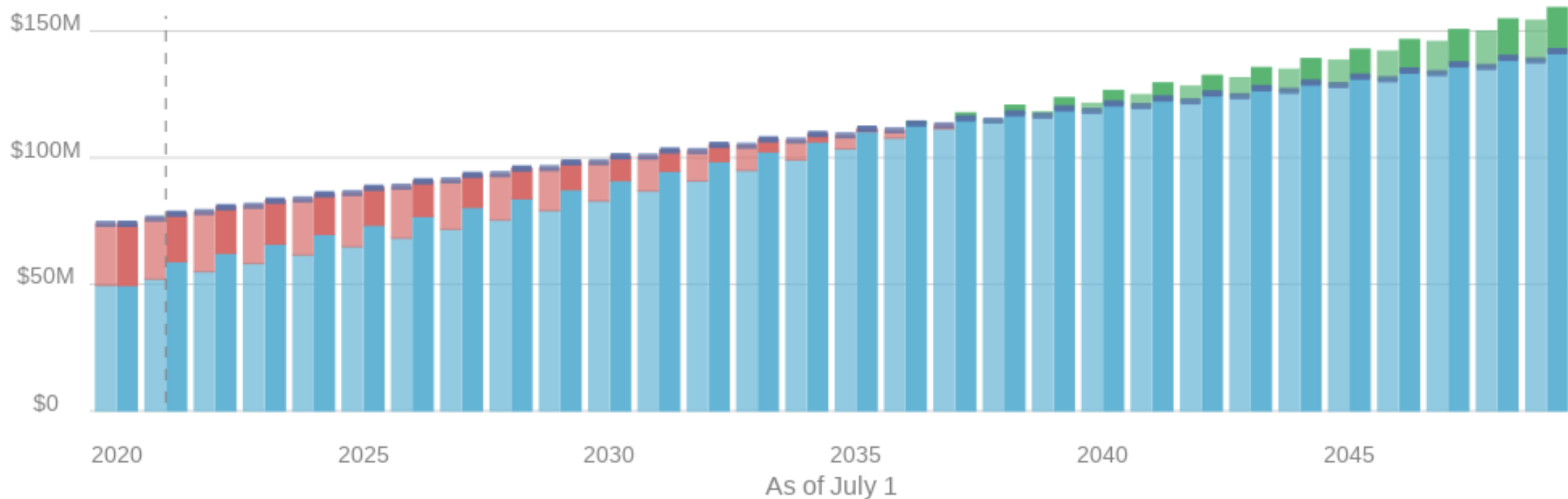
Net Impact

Unfunded Accrued Liability

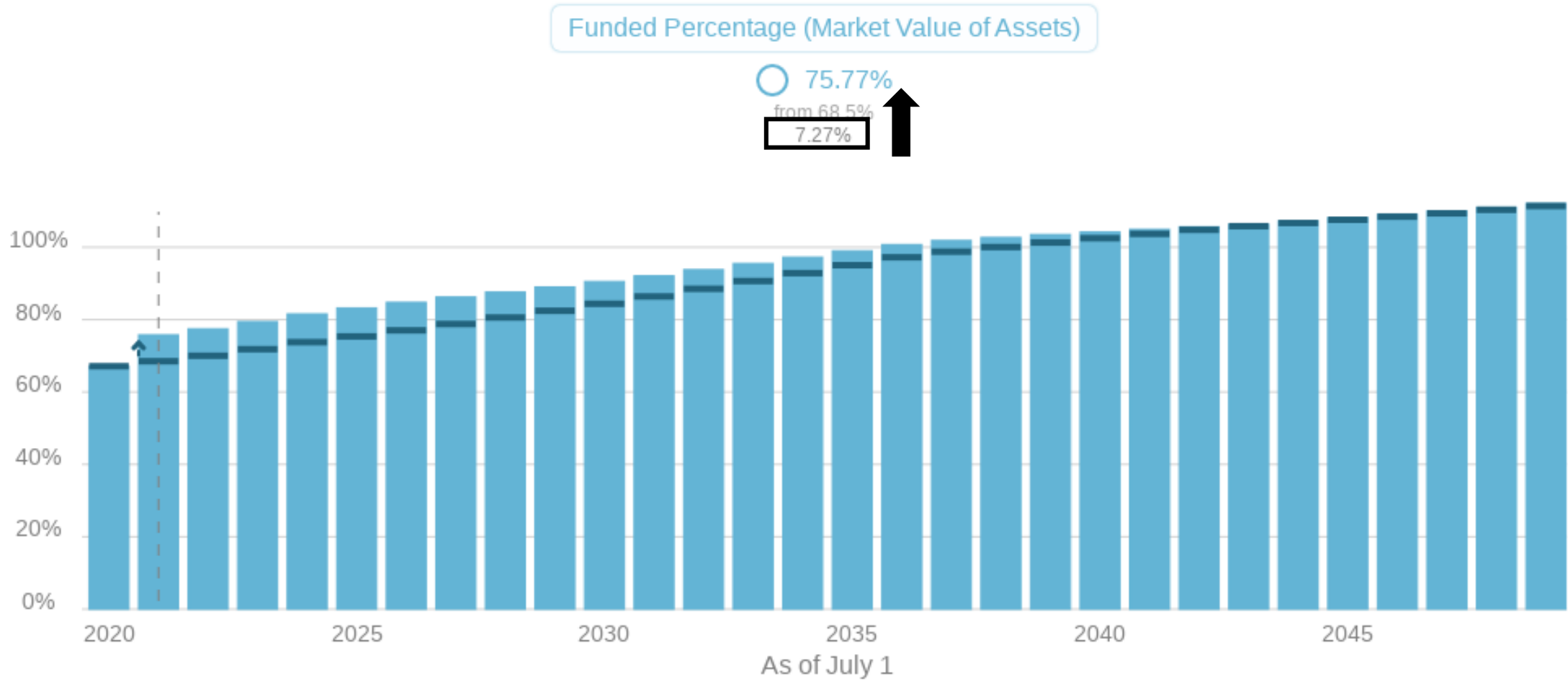
○ \$18.87M

from \$23.94M

\$5.07M

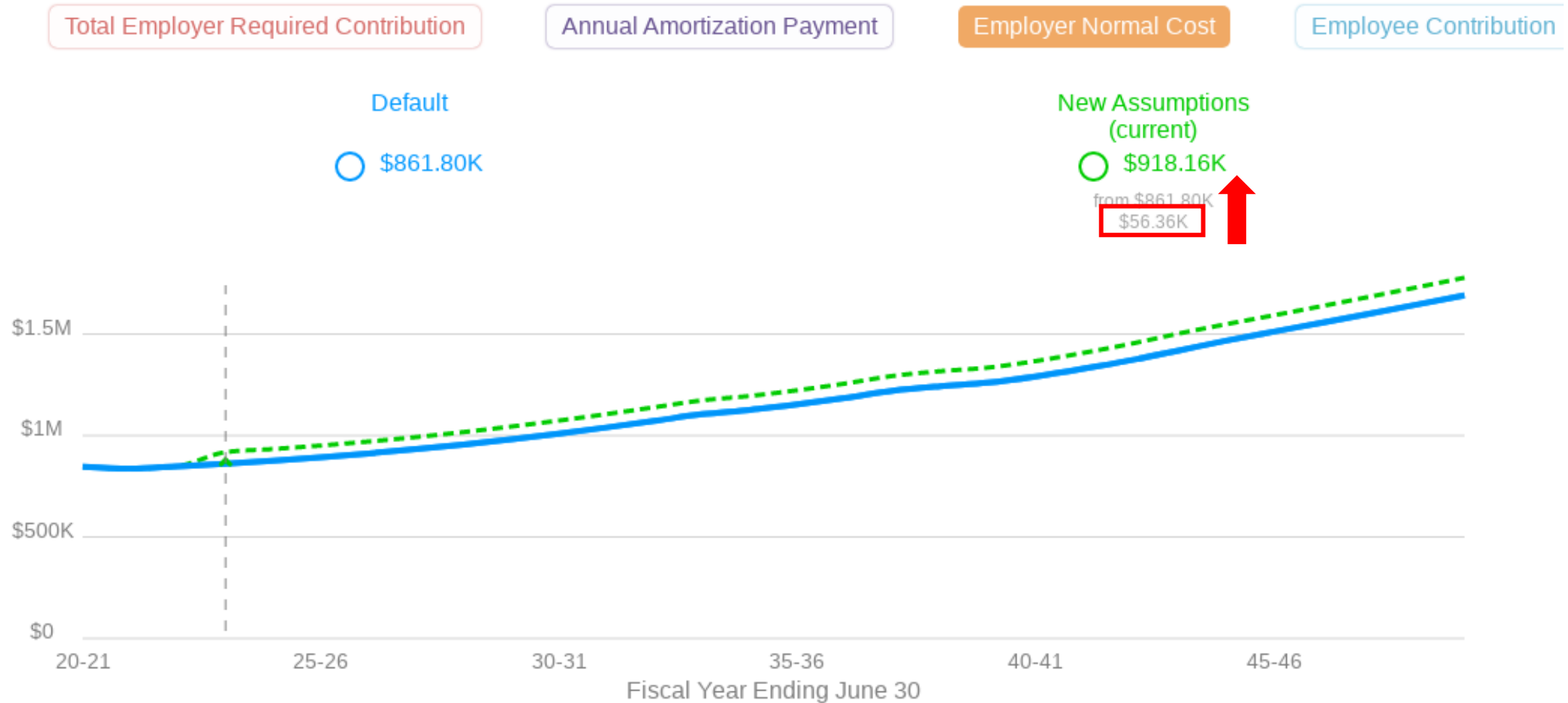


Funded Status



Normal Cost Impact – Nominal Dollars

6.8% Discount Rate



Normal Cost Impact – Percent of Payroll

6.8% Discount Rate

Total Employer Required Contribution

Annual Amortization Payment

Employer Normal Cost

Employee Contribution

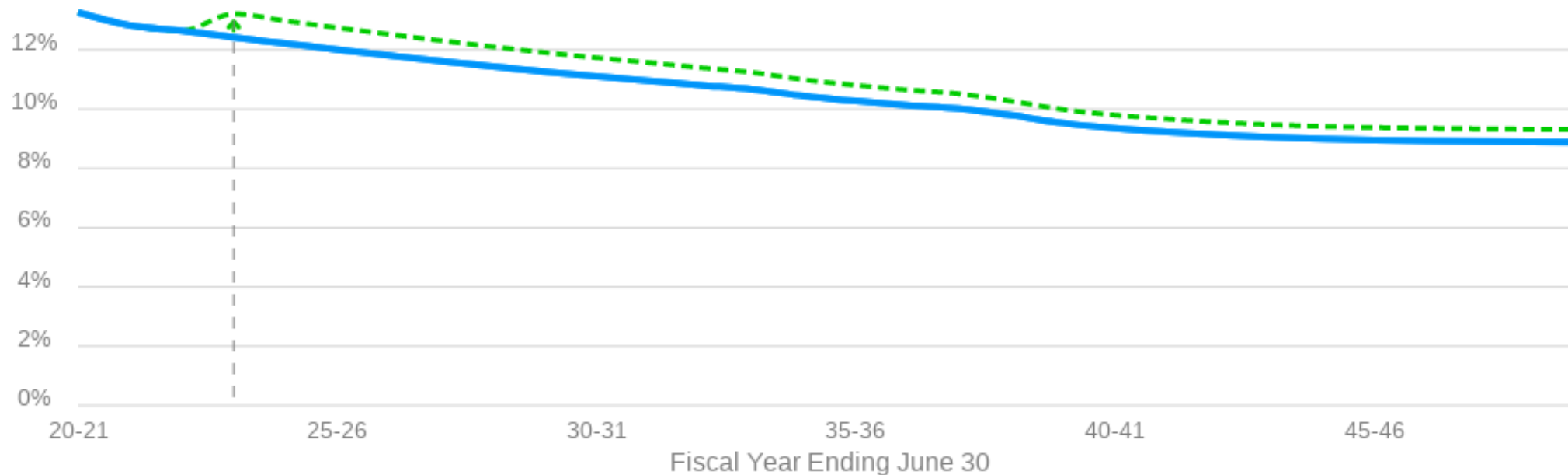
Default

○ 12.42%

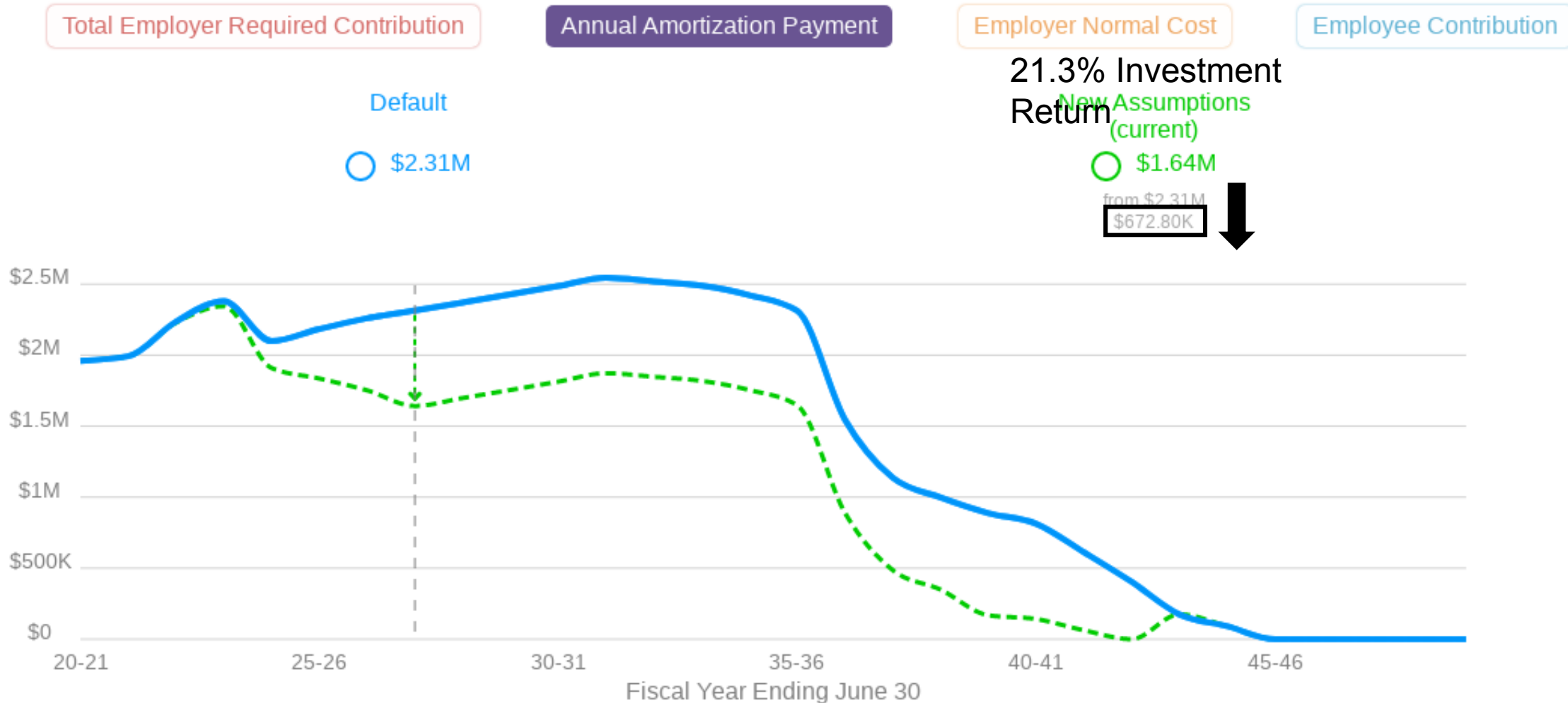
New Assumptions
(current)

○ 13.21%

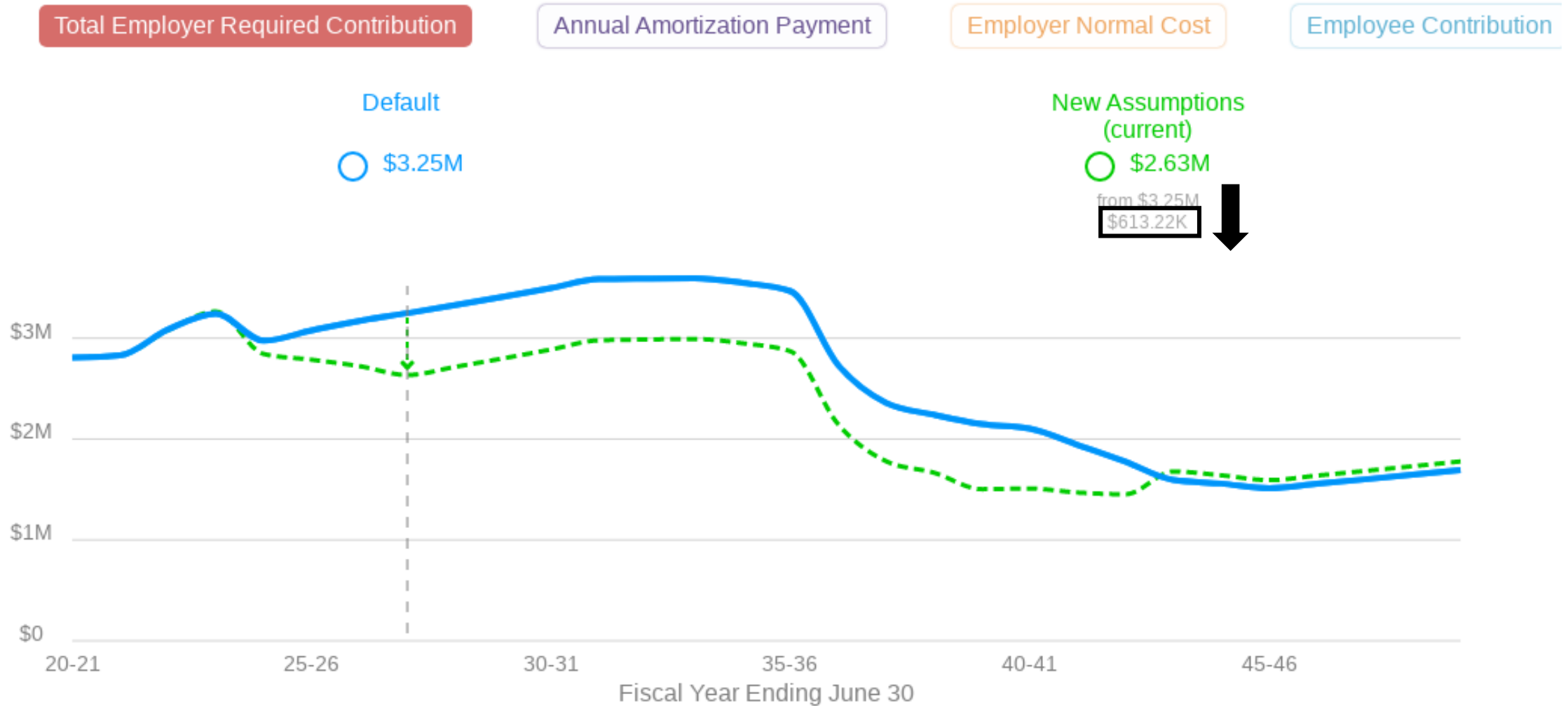
from 12.42%
0.79%



Impact on Annual Amortization Payment



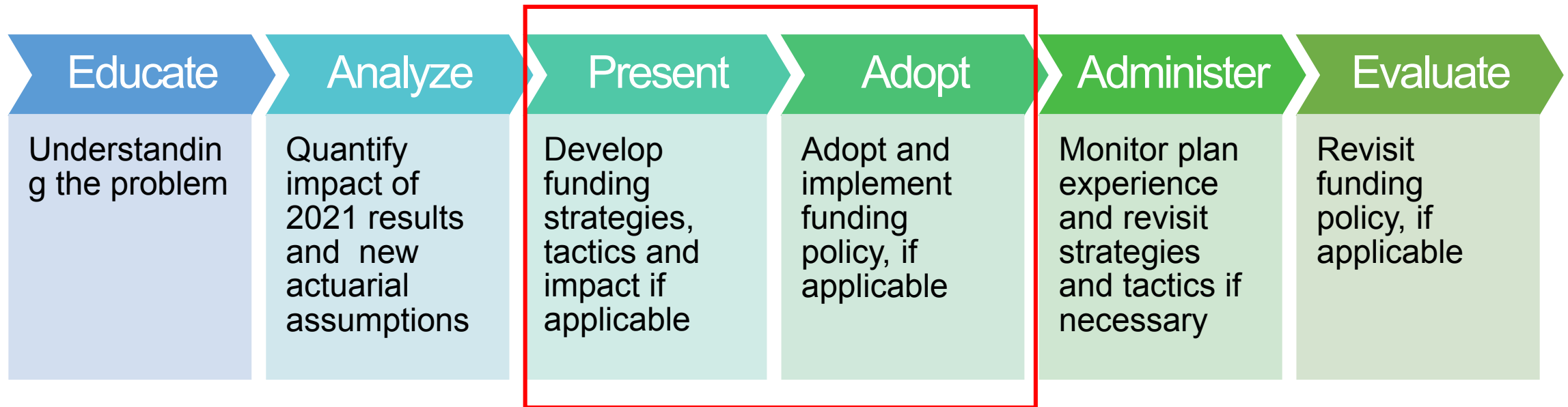
Total Required Employer Contributions



Known Threats

- More Pandemic Waves
- Geopolitical Risks
- Political Gridlock
- Low Fixed Income Yields
- Inflation
- FOMC reaction signally the end of cheap money
- Significant Market Correction or slow reversion to the mean
- Unknown Risks

Building Blocks of Pension Funding



Questions



Disclaimer

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