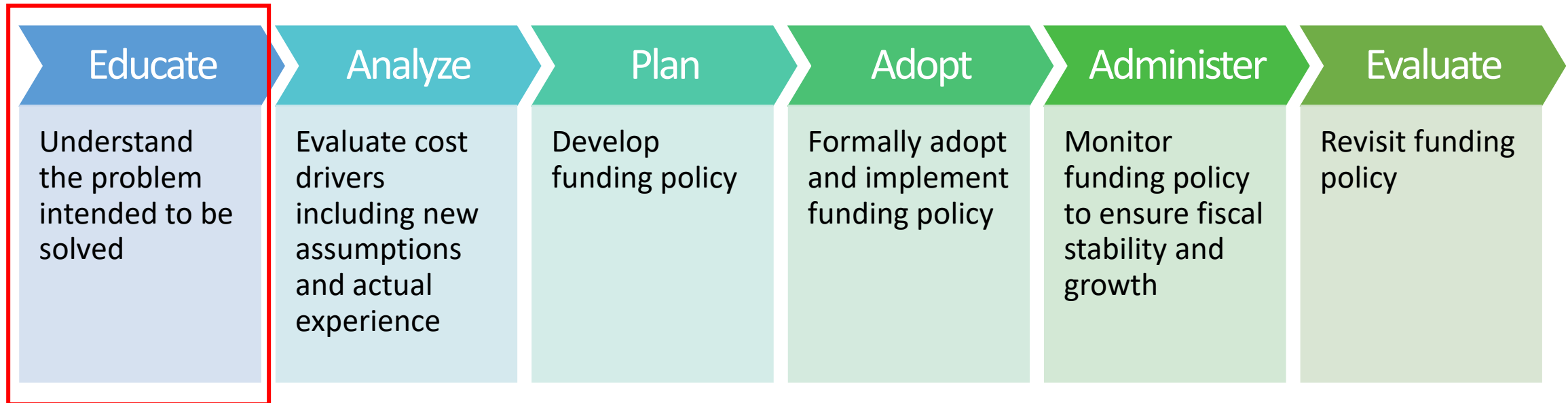


Pension Funding

City of Napa, CA



Building Blocks of Pension Funding



Understanding Pension Funding



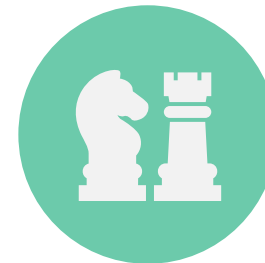
Pension Basics



Hurdles and Other Considerations



How is your agency doing relative to your funding targets?



Next Move

Pension Basics



Pension Jargon Glossary



- Assumption = Target, Goals or Expected Results
- Experience = Actual Results
- Normal Cost = Initial savings rate (Employee and Employer contributions)
- Present Value of Projected Benefit (PVPB) = Savings goal at desired retirement age
- Accrued Liability (AL) = Target funding progress at a given point of time
- Unfunded Accrued Liability (UAL) = Amount actual savings falls short of funding goal
- Amortization of UAL = Annual amount needed to get back on track
- Annual Required Contribution = Normal Cost + Amortization of UAL
- Discount Rate = Long-term *assumed* Investment Rate of Return

What Is the Discount Rate?

Interest rate fixed by the CalPERS Board for the purposes determining the value of future promised benefits (liabilities)

Synonymous with long-term, assumed investment rate of return

Used to calculate or “discount” value of future expected future-benefit payments.

Informed by Capital Market Assumptions and selected by the Board from a range of actuarially sound options

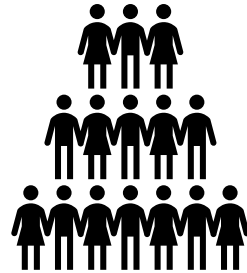
It helps determine how much do we need in the bank today to grow to our desired savings goal.

Assumptions Set Future Cost & Funding Expectations



Economic

- Inflation
- **Investment Return**
- Salary Growth



Demographic

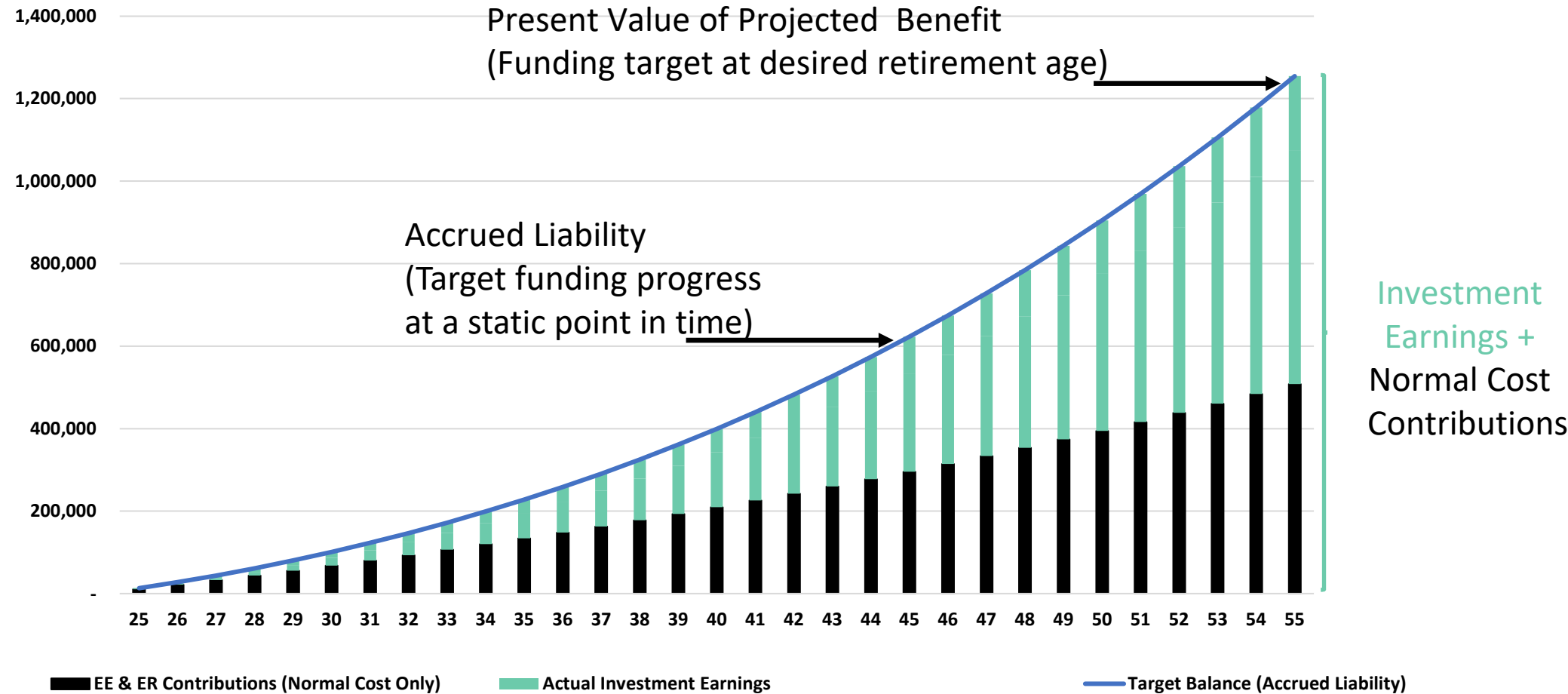
- Retirement
- Disability
- Death
- Termination

Funding a Pension Plan



Promised benefit cannot be retracted except prospectively, per CA Constitution AKA "The California Rule"

Retirement Plans Are Sensitive to Investment Earnings



Retirement Plans Are Sensitive to Investment Earnings

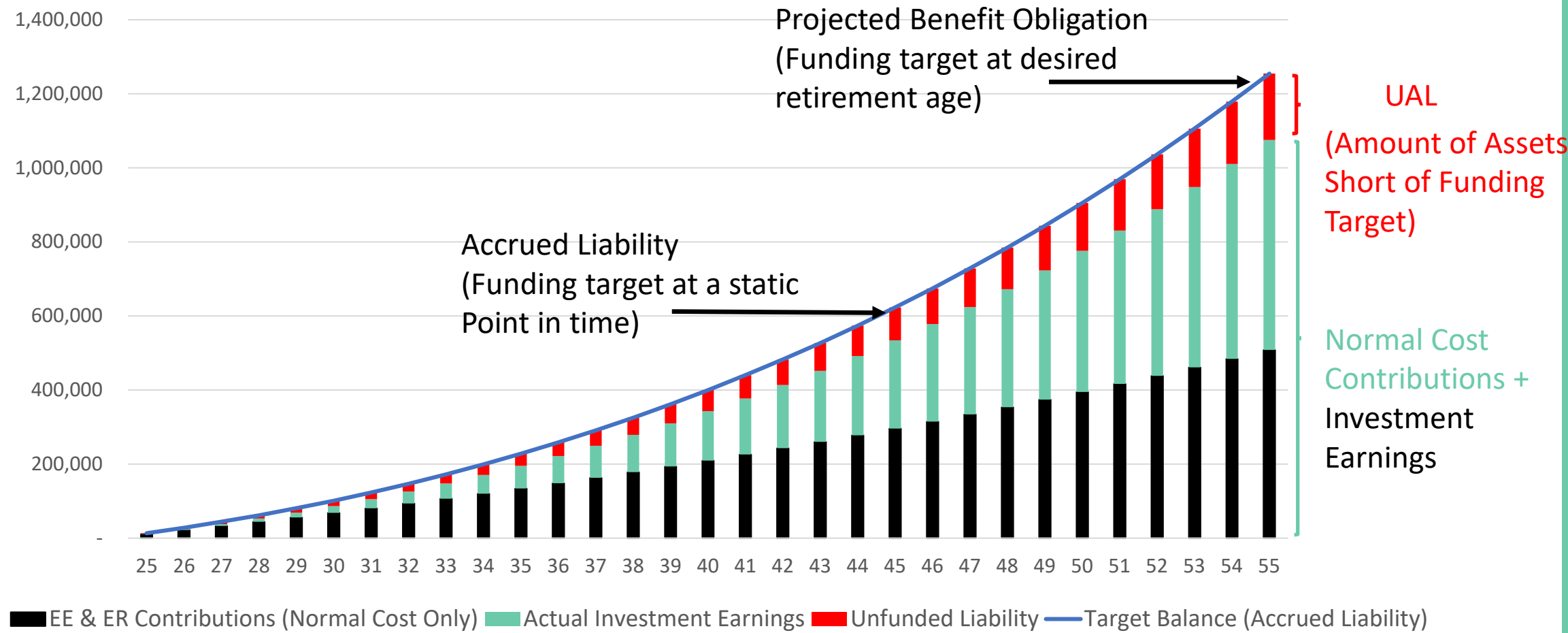
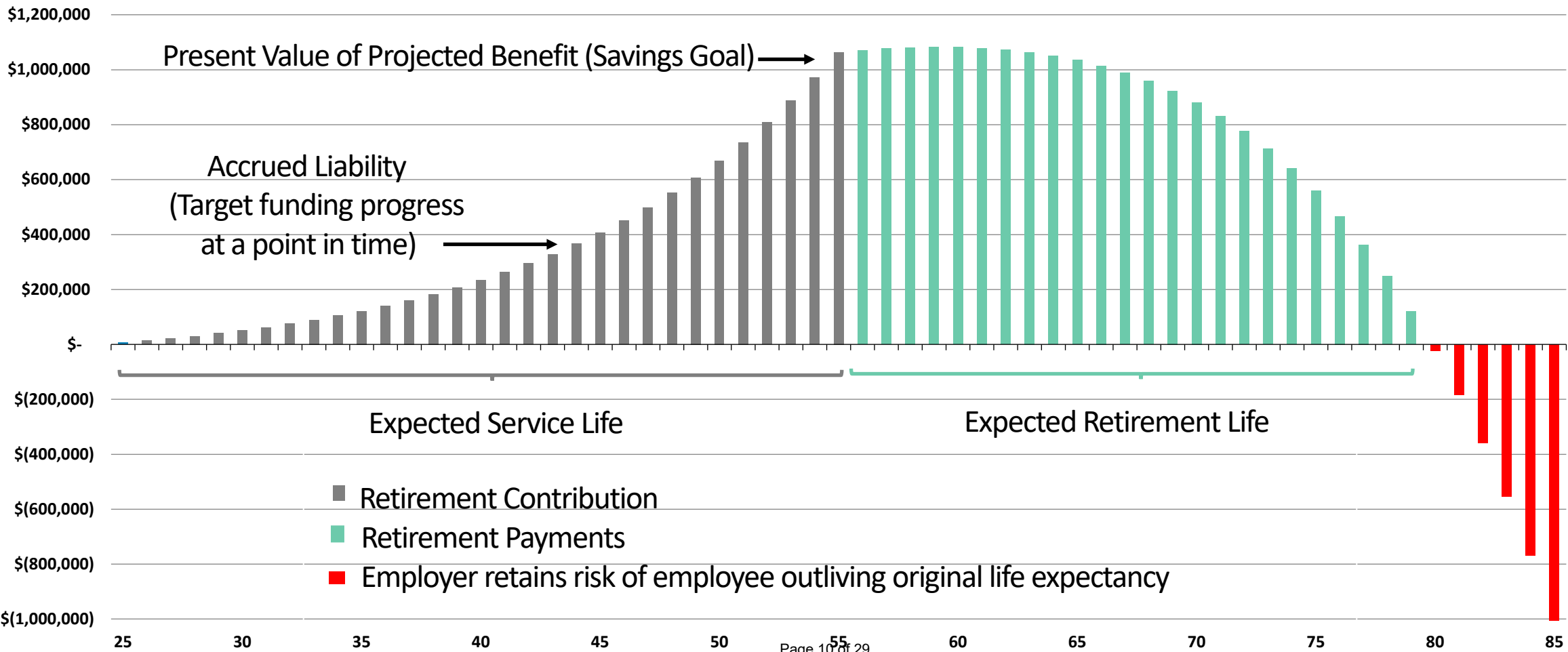


Illustration of Mortality Risk for an Individual Employee



Hurdles & Considerations



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>

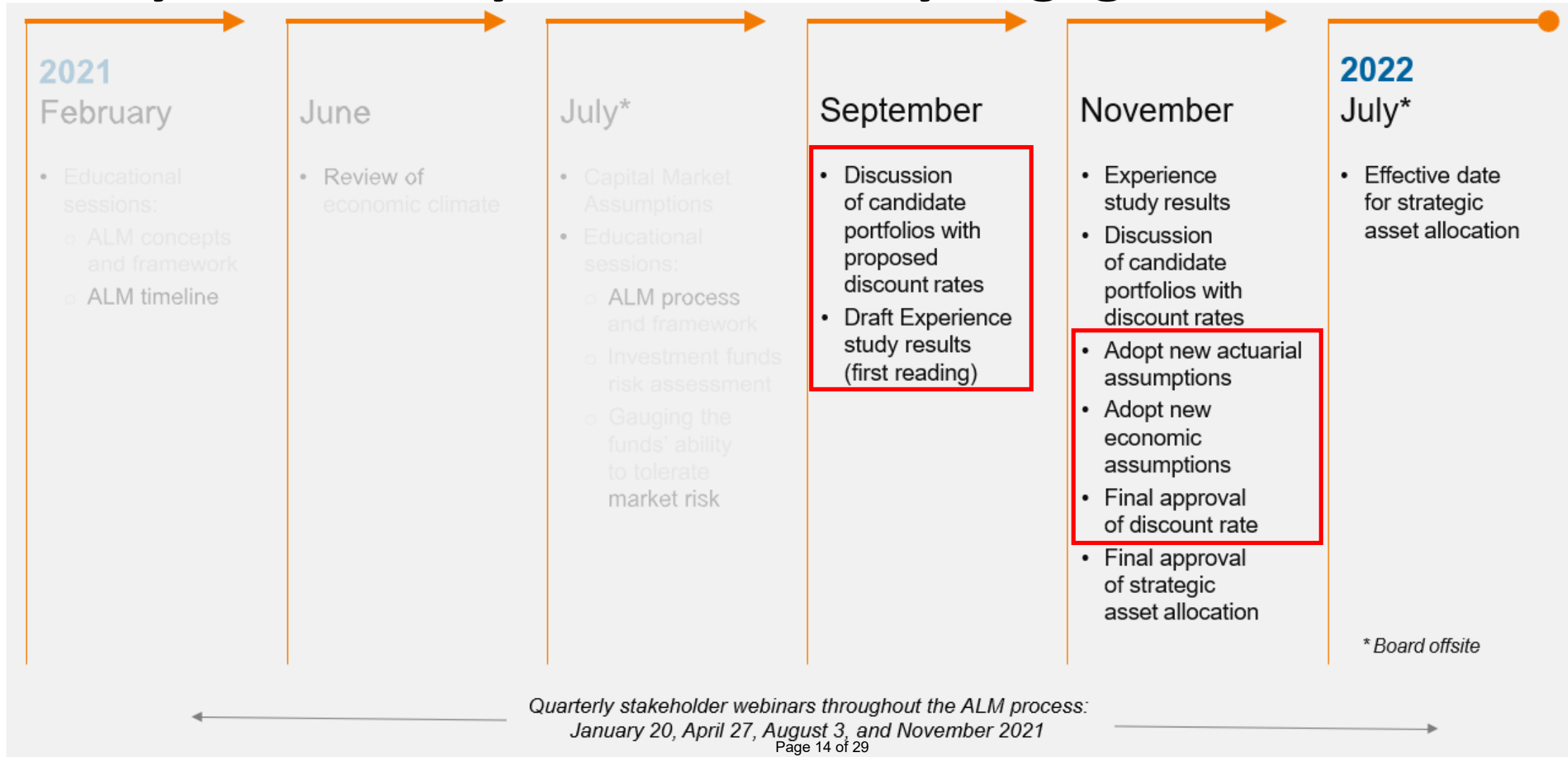
Funding Risk Mitigation Policy - Still in Place*

6.8% Discount Rate Heading Into ALM Deliberations Nov 21

Excess Investment Return	Reduction in Discount Rate	Reduction in Expected Investment Return
<i>If the actual investment returns exceed the discount rate by:</i>	<i>Then the discount rate will be reduced by:</i>	<i>And the expected investment return will be reduced by:</i>
2.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
13.00%	0.20%	0.20%
17.00%	0.25%	0.25%

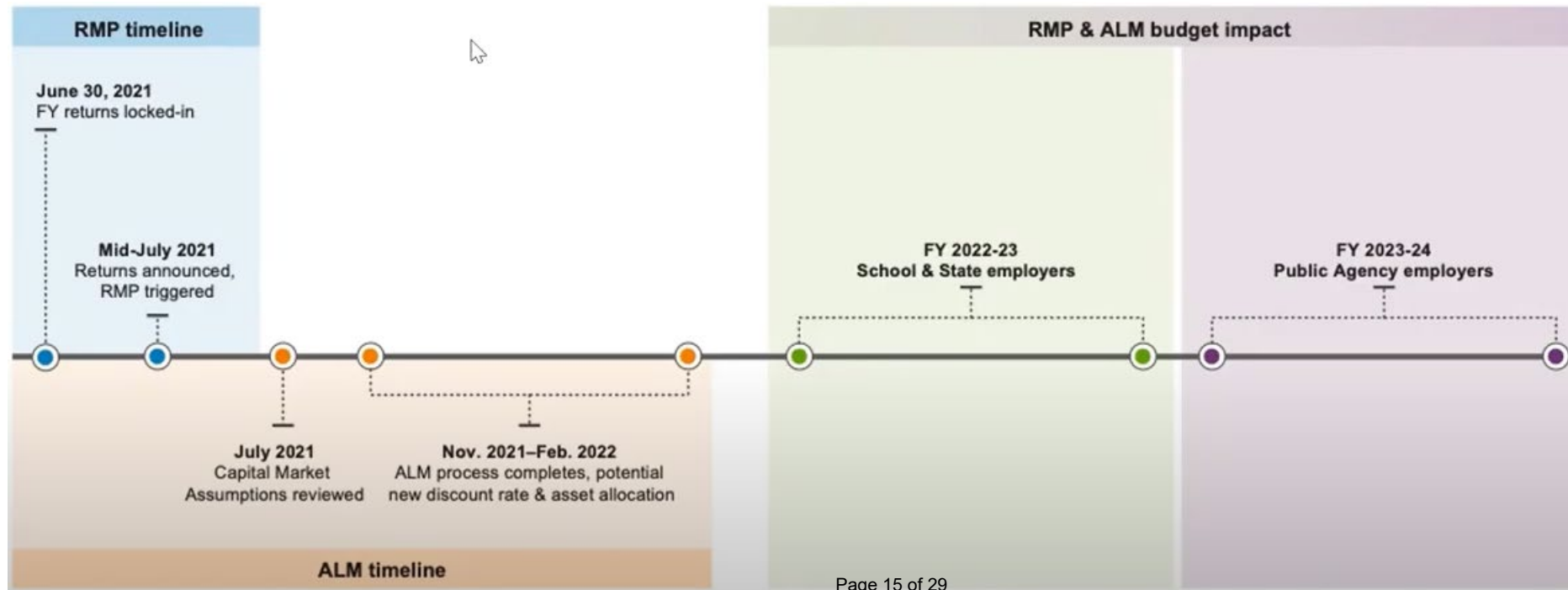
* While the CalPERS Board may elect to implement something different, the current policy suggests that the board should reduce the discount rate 20 bps to 6.8%. <https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>

Stay Tuned, Stay Informed, Stay Engaged



What is Happening When? *All subject to CalPERS Board Decisions*

- CalPERS Board Expected to Adopt New Discount Rate November 2021
- Assets and Liabilities Adjusted in 2021 Valuation (Next Fiscal Year for Most Plans)
- Net Positive Impact to Funded Status Under Almost Every Conceivable Scenario
- Contribution Rate Impact Begins FY 2023-24 for Local Agencies



Page 15 of 29

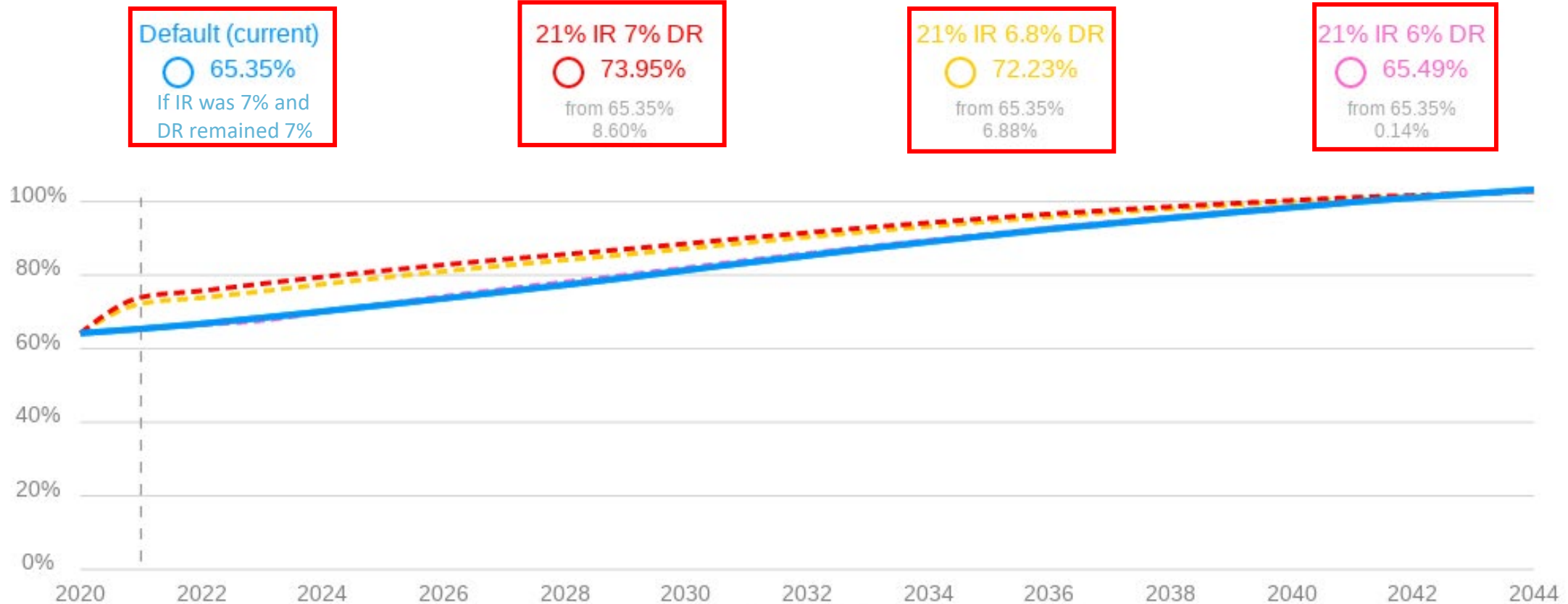


Potential Financial Impacts

Plan Funded Status

(21.3% Return, Discount Rate Assumptions: 7% through 6.0%)

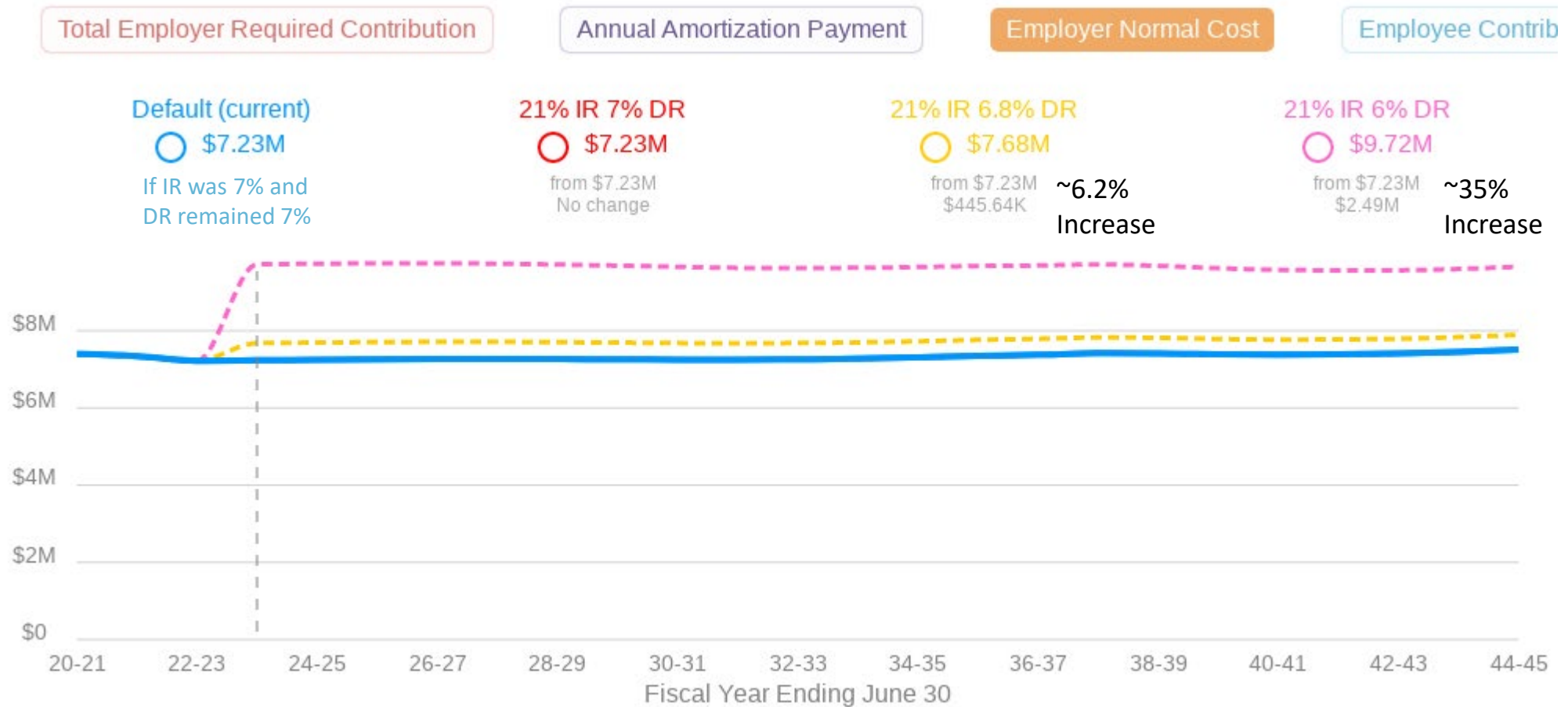
Funded Percentage (Market Value of Assets)



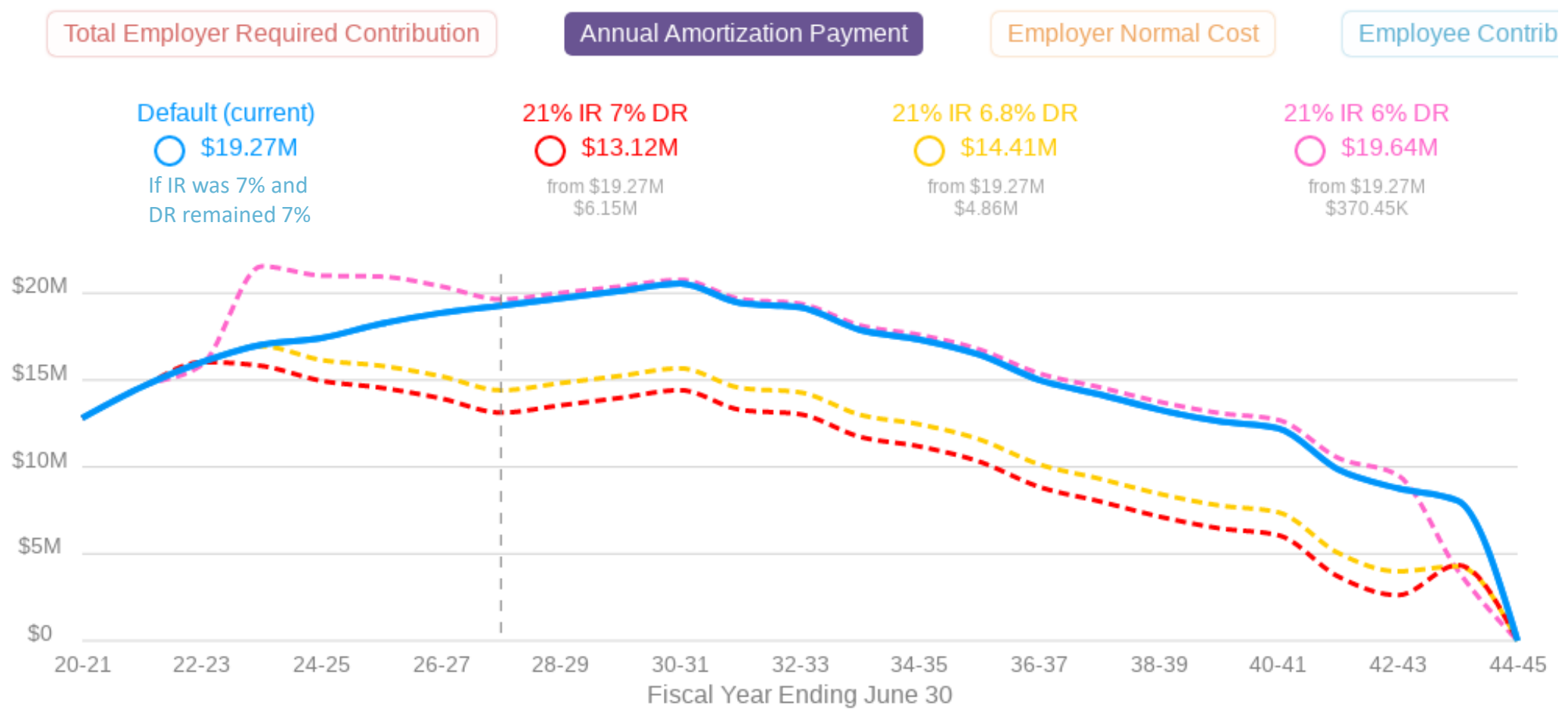
As of July 1

Page 17 of 29

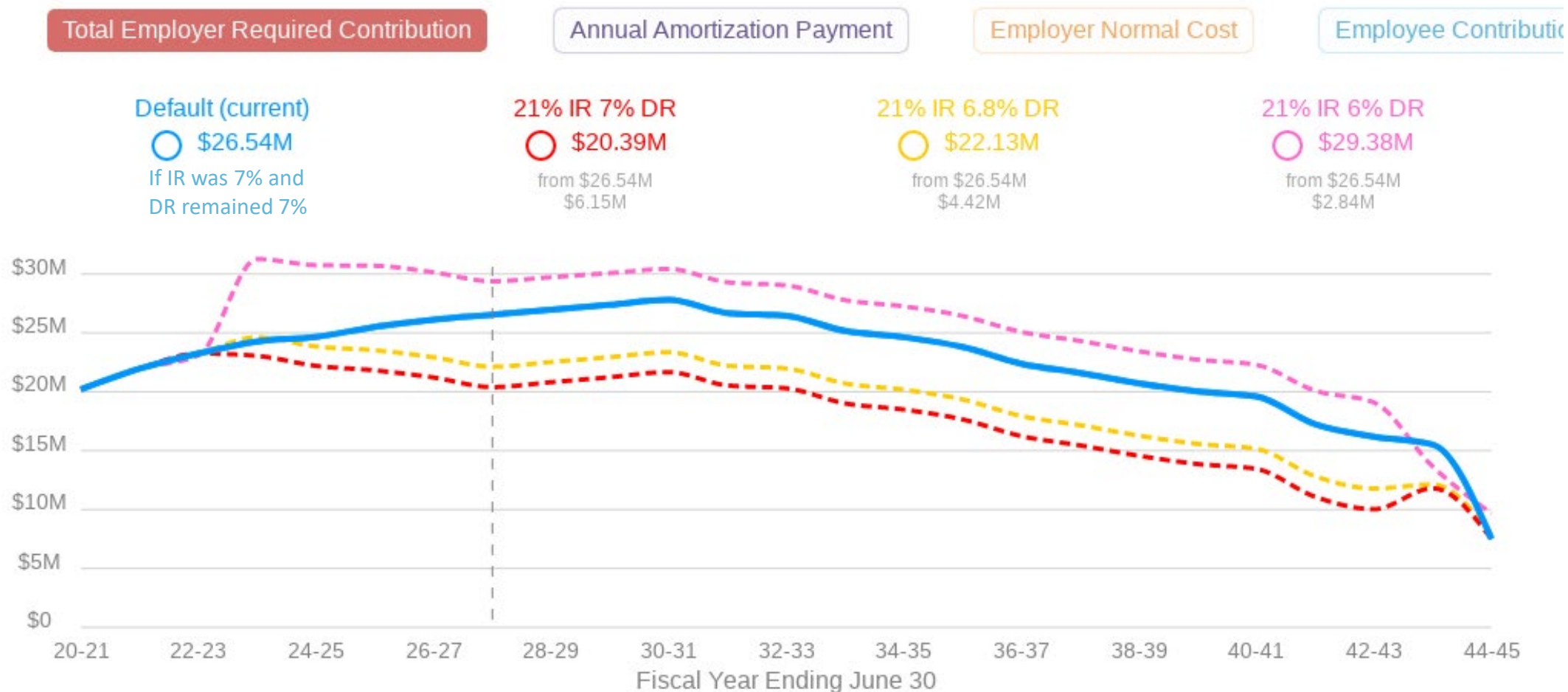
Approximate Dollar Change to **Normal Cost** from Current 7% Discount Rate to New Assumed Discount Rate Alternatives



Approximate Dollar Change to **UAL Amort Payment** from Default 7% Discount Rate to New Assumed Discount Rate Alternatives



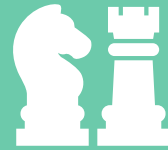
Approximate Dollar Change to **Total ER Cost** from Default 7% Discount Rate to New Assumed Discount Rate Alternatives



Financial Impact Takeaways

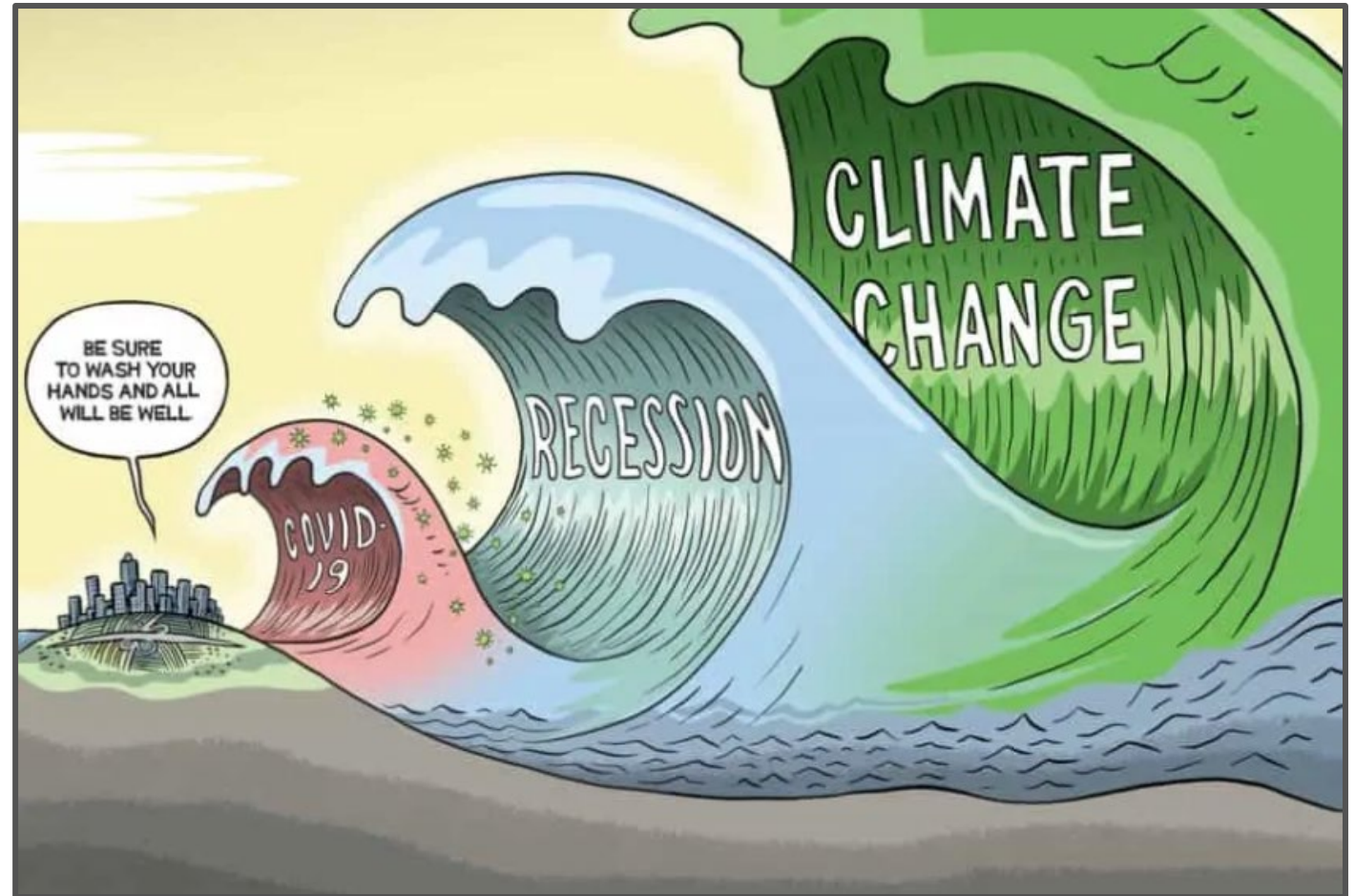
1. The 21.3% Return in FYE 2020-21 will increase Napa's pension assets \$49M boosting Napa's funded projected funded percentage at 6/30/21 from 67% as to 74% before considering any changes to the discount rate
2. Lowering the discount rate to 6.8%, 6.5%, 6.25% or 6.0% will increase Napa's Accrued Liability and lowers the funded status
3. Overall, Napa's **decrease** in the required UAL Amortization contribution will be greater than the increase in the required normal cost contribution, **lowering** the overall employer pension cost to Napa, as long as the investment credit lasts and no new losses are incurred.

Next Move



An Over-Abundance of Uncertainty

Proceed Cautiously



The corona crisis has been a prompt for change. How will these changes impact your agency's finances?

Known Threats

- More Pandemic Waves
- Geopolitical Risks
- Political Gridlock on Further Stimulus
- Low Fixed Income Yields
- Inflation
- Low Fixed Income Yields
- Significant Market Correction or slow reversion to the mean
- Unknown, unknowns but we know you are out there

Exercise Professional Skepticism

In other words,
worry what may
be lurking around
the next bend

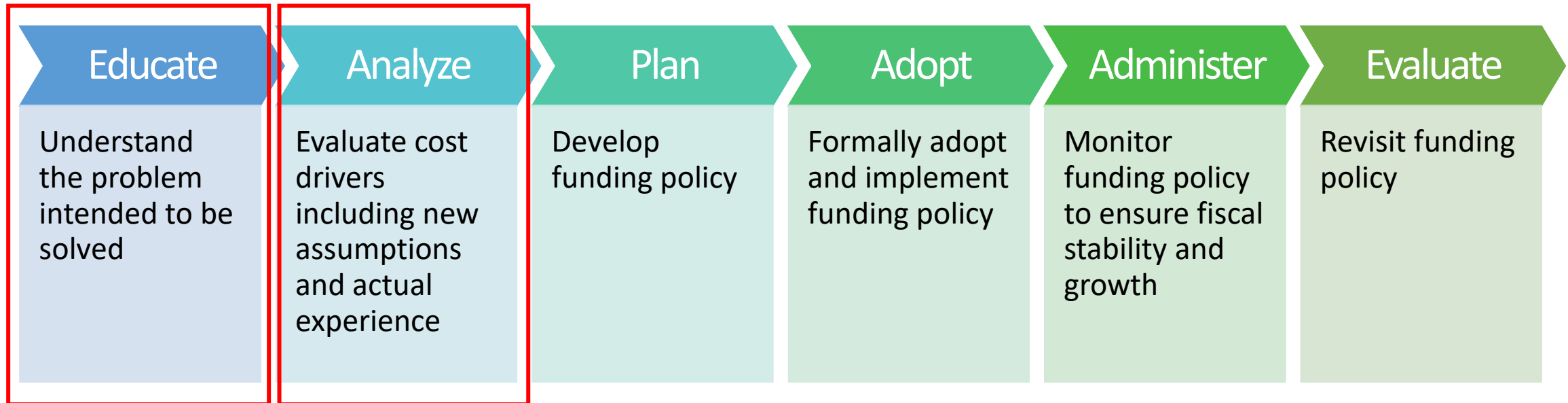
- Bank, Don't Spend Savings Associated with 21.3% Investment Return
- Bank, Don't Spend Pandemic Windfall
- Replenish Reserves as necessary
- Investment Gain is masking Long-term Cost of Lower Discount Rate
- Develop Funding Policy
- Good Times Don't Last Forever



Why are Funding Policies Important

- Pension obligations are expensive and can become a serious financial threat to agencies without regular and appropriate attention;
- Pensions require long-term management therefore it is important to develop pension management strategies memorialize practices;
- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded

Building Blocks of Pension Funding



Questions



Disclaimer

While tested against actuarial valuation results, the software results will not necessarily match actuarial valuation results, as no two actuarial models are identical. The software offers financially sound projections and analysis; however, outputs do not guarantee compliance with standards under the Government Accounting Standards Board or Generally Accepted Accounting Principles. The software and this presentation are not prepared in accordance with standards as promulgated by the American Academy of Actuaries, nor do outputs or this presentation constitute Statements of Actuarial Opinion. GovInvest has used census data, plan provisions, and actuarial assumptions provided by Customer and/or Customer's actuary to develop the software for Customer. GovInvest has relied on this information without audit.