



Staff Reports

File #: 267-2021, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Elizabeth Cabell, Interim Finance Director

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TITLE:

Pension Update, September 2021

RECOMMENDED ACTION:

Receive a presentation from GovInvest on pension funding concepts as the next step in developing a pension funding policy.

DISCUSSION:

The City's pension obligations are and will continue to be one of the City's largest financial concerns for decades to come. Therefore, it is important that it receives appropriate and regular attention. With its current participants and benefit levels, the City's accrued pension liability (AL) was \$552.4 million as of June 30, 2020. The AL is the funding target level if the plan(s) were fully funded. At the same balance sheet date, the market value of assets (MVA) in trust with CalPERS was \$350.4 million. The shortfall between the AL and the MVA is the City's Unfunded Accrued Liability (UAL) or \$202.0 million. The UAL represents the amount the City is short of its funding target as of June 30, 2020. The MVA as a percent of the AL is known as the funded status. The City's funded status was 63.4% as of June 30, 2020.

CalPERS has reported preliminary investment returns of 21.3% for FY 2020/21. While these strong returns have a positive impact on the funded status of plans, it triggers CalPERS Funding Risk Mitigation Policy, which recommends reducing the discount rate (expected investment return rate) by 0.20%, from 7.0% to 6.8%. Discount rate reductions can increase the City's UAL payments. CalPERS will adopt any discount rate changes in November, along with their adoption of new actuarial and economic assumptions.

Developing a pension policy goal, approved by council, is a key long-term step to addressing the increasing pension costs. This policy will be the guiding principles to provide a plan to "smooth the curve" of rising pension costs. Staff will work with GovInvest over the next few months to develop this policy and bring it back to council for discussion and requested approval.

FINANCIAL IMPACTS:

There is no financial impact as this report is presented for information purposes only.

CEQA:

The Finance Director has determined that the recommended actions described in this agenda report are not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:

ATCH 1 - Pension Primer

ATCH 2 - PowerPoint presentation

NOTIFICATION:

None.