



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE AGENDA
JUNE 04, 2024
110 EAST MAIN STREET AND TELECONFERENCE
TOWN COUNCIL CHAMBERS
6:15 PM

Mary Badame, Mayor
Matthew Hudes, Vice Mayor
Rob Moore, Council Member
Rob Rennie, Council Member
Maria Ristow, Council Member

IMPORTANT NOTICE

This is a hybrid meeting and will be held in-person at the Town Council Chambers at 110 E. Main Street and virtually through Zoom Webinar (log-in information provided below). Members of the public may provide public comments for agenda items in-person or virtually through the Zoom Webinar by following the instructions listed below. The live stream of the meeting may be viewed on television and/or online at www.LosGatosCA.gov/TownYouTube.

This meeting will be teleconferenced pursuant to Government Code Section 54953(b)(3). Vice Mayor Hudes will be participating from a teleconference location at 111 Harbor Drive, San Diego, CA 92101. The teleconference location shall be accessible to the public and the agenda will be posted at the teleconference location 72 hours before the meeting.

HOW TO PARTICIPATE

The public is welcome to provide oral comments in real-time during the meeting in three ways:

Zoom Webinar (Online): Join from a PC, Mac, iPad, iPhone or Android device. Please click this URL to join: <https://losgatosca-gov.zoom.us/j/87041977797?pwd=rB4tBkWN-0cTKG7zNULsqfsgFMgsnQ.foRwTVwYFwidmV1>

Passcode: 800213 You can also type in 870 4197 7797 in the “Join a Meeting” page on the Zoom website at and use passcode 800213.

When the Mayor announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press *9 on your telephone keypad to raise your hand.

Telephone: Please dial (877) 336-1839 for US Toll-free or (636) 651-0008 for US Toll. (Conference code: 686100)

If you are participating by calling in, press #2 on your telephone keypad to raise your hand.

In-Person: Please complete a “speaker’s card” located on the back of the chamber benches and return it to the Town Clerk before the meeting or when the Mayor announces the item for which you wish to speak.

NOTES: (1) Comments will be limited to three (3) minutes or less at the Mayor’s discretion.

(2) If you are unable to participate in real-time, you may email to Clerk@losgatosca.gov the subject line “Public Comment Item #__” (insert the item number relevant to your comment). All comments received will become part of the record.

(3) Deadlines to submit public comments are:

11:00 a.m. the Thursday before the Committee meeting for inclusion in the agenda packet.

11:00 a.m. the Monday before the Committee meeting for inclusion in an addendum.

11:00 a.m. on the day of the Committee meeting for inclusion in a desk item.

(4) Persons wishing to make an audio/visual presentation must submit the presentation electronically to Clerk@losgatosca.gov no later than 3:00 p.m. on the day of the Committee meeting.

CALL MEETING TO ORDER

ROLL CALL

APPROVE REMOTE PARTICIPATION *(This item is listed on the agenda in the event there is an emergency circumstance requiring a Committee Member to participate remotely under AB 2449 (Government Code 54953)).*

CONSENT ITEMS *(Items appearing on the Consent Items are considered routine Town business and may be approved by one motion. Any member of the Committee may request to have an item removed from the Consent Items for comment and action. Members of the public may provide input on any or multiple Consent Item(s) when the Mayor asks for public comments on the Consent Items. If you wish to comment, please follow the Participation Instructions contained on Page 1 of this agenda. If an item is removed, the Mayor has the sole discretion to determine when the item will be heard.)*

1. Approve Minutes of the March 5, 2024 Town Pension and OPEB Oversight Trusts Committee Meeting.
2. Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the Period Ending March 31, 2024 and Performance as of April 3, 2024.
3. Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending March 31, 2024 and the Performance Report as of April 30, 2024.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Committee only on matters listed on the agenda. To ensure all agenda items are heard, this portion of the agenda is limited to 30 minutes. Each speaker is limited to no more than three (3) minutes or such time as authorized by the Mayor.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items.)*

4. Receive Actuarial Presentation on CalPERS Analysis – 6/30/2022 Valuation Report by Foster & Foster Actuaries and Consultants and Identify Amortization Bases for Future Potential Additional Discretionary Payments (ADPs).

ADJOURNMENT

ADA NOTICE In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Clerk's Office at (408) 354- 6834. Notification at least two (2) business days prior to the meeting date will enable the Town to make reasonable arrangements to ensure accessibility to this meeting. [28 CFR §35.102-35.104]



**TOWN OF LOS GATOS
PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE
REPORT**

ITEM NO. 1.

MEETING DATE: 06/04/2024

**DRAFT
Minutes of the Pension and OPEB Trusts Oversight Committee Meeting
Tuesday, March 5, 2024**

The Pension and OPEB Trusts Oversight Committee of the Town of Los Gatos conducted a regular Meeting on Tuesday, March 5, 2024, at 6:15 p.m.

MEETING CALLED TO ORDER AT 6:15 P.M.

ROLL CALL

Present: Mayor Mary Badame, Vice Mayor Matthew Hudes, Council Member Rob Moore, Council Member Rob Rennie, Council Member Maria Ristow.

Absent: None

CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Minutes of December 5, 2023 Town Pension and OPEB Trusts Oversight Committee Meeting.

Mayor Badame opened public comment.

No one spoke.

Mayor Badame closed public comment.

MOTION: **Motion by Council Member Ristow** to approve the consent item number one.
Seconded by Council Member Moore.

VOTE: **Motion passed unanimously.**

VERBAL COMMUNICATIONS

No one spoke.

OTHER BUSINESS

2. Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending December 31, 2023 and the Performance Report as of January 31, 2024.

Gitta Ungvari, Finance Director, presented the staff report.

Mayor Badame opened public comment.

PAGE 2 OF 2

SUBJECT: Draft Minutes of the Pension and OPEB Trusts Oversight Committee Meeting of

March 5, 2024

DATE: March 5, 2024

No one spoke.

Mayor Badame closed public comment.

Council received the report.

3. Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the Period Ending December 31, 2023 and Performance as of January 31, 2024.

Gitta Ungvari, Finance Director, presented the staff report.

Mayor Badame opened public comment.

No one spoke.

Mayor Badame closed public comment.

Council received the report.

ADJOURNMENT

The meeting adjourned at 6:19 p.m.

Attest:

Jenna De Long, Deputy Town Clerk



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

ITEM NO. 2.

MEETING DATE: 6/04/2024

DATE: May 22, 2024
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the Period Ending March 31, 2024 and Performance as of April 3, 2024

RECOMMENDATION:

Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the period ending March 31, 2024 and performance as of April 30, 2024.

BACKGROUND:

On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in the California Employers' Pension Prefunding Trust (CEPPT) program.

The CEPPT Fund is a Section 115 trust fund dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies. On March 3, 2020, the Town Pension and OPEB Trusts Oversight Committee adopted CEPPT Strategy 2 as the asset allocation for the Town's Section 115 Trust pension assets.

On April 14, 2021, the remaining CEPPT balance at the time of approximately \$700,000 was liquidated for inclusion in a \$2,050,942 additional discretionary payment. The CEPPT account continues to be maintained by the Town (at no cost) to accommodate annual account distributions associated with the Town's General Fund Reserve Policy.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

PAGE 2 OF 2

SUBJECT: CEPPT Update

DATE: May 22, 2024

BACKGROUND (continued):

Effective Fiscal Year (FY) 2015/16, Council determined that if sufficient General Fund year-end savings are available and targeted reserve levels for the Catastrophic Reserve and Budget Stabilization Reserve have been met, upon the final close of the fiscal year, a minimum of \$300,000 annually shall be deposited into the Pension/OPEB Reserve Fund. In addition, in 2018 the Council updated the General Fund Reserve Policy to provide for additional discretionary payments (ADPs) of \$390,000 per year to address the unfunded pension liability. Under the updated Policy, a 20-year amortization equivalence will be achieved.

DISCUSSION:

The ending CEPPT 115 Trust account balance as of March 31, 2024, was \$2,180,743.10 (Attachment 1). As of April 30, 2024, the CEPPT Strategy 2 fund had a net return of negative 2.90% for the month and 2.46% for the Fiscal Year to Date (FYTD) (Attachment 2). Staff transferred an additional \$690,000 to the CEPPT Trust in February 2024.

The Finance Commission will receive this report at its September 9, 2024 regular meeting.

Attachments:

1. CEPPT Market Value Summary Report as of March 31, 2023
2. CEPPT Strategy 2 Performance April 30, 2024

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$1,462,577.40	\$1,400,162.56
Contribution	690,000.00	690,000.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	29,142.70	93,159.36
Administrative Expenses	(644.40)	(1,700.93)
Investment Expense	(332.60)	(877.89)
Other	0.00	0.00
Ending Balance	<u>\$2,180,743.10</u>	<u>\$2,180,743.10</u>
FY End Contribution Accrual	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$2,180,743.10	\$2,180,743.10

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	138,648.200	138,648.200
Unit Purchases from Contributions	66,005.136	66,005.136
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	<u>204,653.336</u>	<u>204,653.336</u>
Period Beginning Unit Value	10.548837	10.098671
Period Ending Unit Value	10.655790	10.655790

Please note the Grand Total is your actual fund account balance at the end of the period, including accrued contribution and disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CEPPT4U@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 03/31/2024

Town of Los Gatos

Entity #: SKHE-4589482285-501P

Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
02/27/2024	Contribution	\$690,000.00	\$10.453732	66,005.136	100000491325 44	

Client Contact:
CEPPT4U@CalPERS.ca.gov

CEPPT Strategy 2



April 30, 2024

Objective

The CEPPT Strategy 2 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CEPPT Strategy 2 portfolio is invested in various asset classes that are passively managed to an index. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CEPPT Strategy 1, this portfolio has a lower allocation to equities and a higher allocation to bonds. Historically, funds with a lower percentage of equities have displayed less price volatility and, therefore, this portfolio may experience comparatively less fluctuation of value. Employers that seek greater stability of value, in exchange for possible lower investment returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end:

CEPPT Strategy 2	Annual Expense Ratio
\$49,973,867	0.25%

Composition

Asset Class Allocations and Benchmarks

The CEPPT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

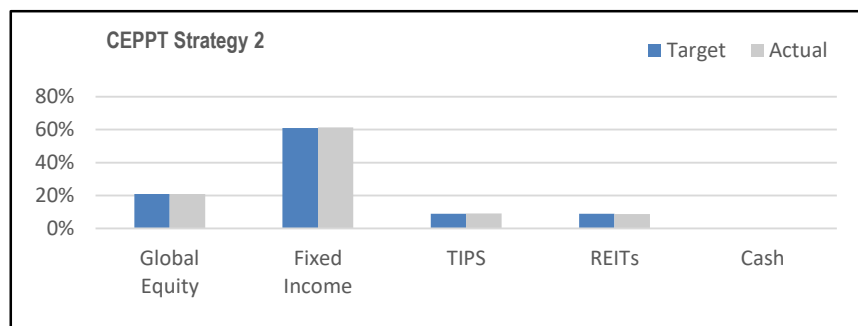
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	21%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	61%	± 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	9%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	9%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Cash	-	+ 2%	ICE BofA US 3-Month Treasury Bill Index

Portfolio Benchmark

The CEPPT Strategy 2 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



CEPPT Strategy 2 Performance as of April 30, 2024

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (January 1, 2020)
Gross Return ^{1,3}	-2.88%	-1.46%	2.65%	2.46%	-1.69%	-	-	0.88%
Net Return ^{2,3}	-2.90%	-1.52%	2.46%	2.23%	-1.92%	-	-	0.65%
Benchmark Return	-2.94%	-1.49%	2.53%	2.32%	-1.78%	-	-	0.77%
Standard Deviation ⁴	-	-	-	-	9.27%	-	-	8.52%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of SSGA operating expenses.

² Net returns are net of SSGA operating expenses, investment management, administrative and recordkeeping fees.

³ Expenses are described in more detail on page 2 of this document.

⁴ Standard deviation is based on gross returns and is reported for periods greater than 3 years.

CEPPT Strategy 2



April 30, 2024

General Information

Information Accessibility

The CEPPT Strategy 2 portfolio consists of assets managed internally by CalPERS and/or by external managers. Since it is not a mutual fund, a prospectus is not available and daily holdings are not published. CalPERS provides a quarterly statement of the employer's account and other information about the CEPPT. For total market value, detailed asset allocation, investment policy and performance information, please visit our website at www.calpers.ca.gov.

Portfolio Manager Information

The CalPERS Board, through its Investment Committee, directs the CEPPT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CEPPT, which include: Global Equity, Fixed Income, Real Estate Investment Trusts, and Treasury Inflation-Protected Securities.

Custodian and Record Keeper

State Street Bank serves as custodian for the CEPPT. Northeast Retirement Services serves as recordkeeper.

Expenses

CEPPT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater reduction of investment return. Currently, CEPPT expense ratios are 0.25%. This equates to \$2.50 per \$1,000 invested. The expenses consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

Each employer invested in CEPPT Strategy 2 owns units of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CEPPT fund is a trust fund dedicated to prefunding employer contributions to defined benefit pension plans for eligible state and local agencies. CEPPT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations.

An investment in the portfolio is not a bank deposit, nor is it insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CEPPT Principal Investment Risks" located at www.calpers.ca.gov.

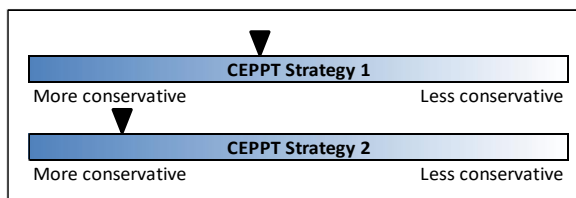
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit www.calpers.ca.gov and follow the links to California Employers' Pension Prefunding Trust.

CEPPT Strategy Risk Levels

CalPERS offers employers the choice of one of two investment strategies. Projected risk levels among risk strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2
Global Equity	37%	21%
Fixed Income	44%	61%
Treasury-Inflation Protected Securities	5%	9%
Real Estate Investment Trusts	14%	9%





TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 06/04/2024

DATE: May 22, 2024
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the California Employer’s Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending March 31, 2024 and the Performance Report as of April 30, 2024.

RECOMMENDATION:

Receive California Employer’s Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending March 31, 2024 and the Performance Report as of April 30, 2024.

BACKGROUND:

In 2009, the Council approved participating in the CERBT Fund. The CERBT Fund is an IRS Section 115 trust fund dedicated to the prefunding of other post-employment benefits (“OPEB”). The CERBT Strategy 1 is the single investment vehicle for the Town’s OPEB Plan (“OPEB Plan”).

DISCUSSION:

The ending OPEB 115 Trust account balance as of March 31, 2024, was \$26,782,842.27 compared to \$25,858,130.65 as of December 31, 2023 (Attachment 1). As of April 30, 2024, the CERBT Strategy 1 fund had a net return of negative 3.68% for the month and 6.08% for Fiscal Year to Date (Attachment 2).

The Finance Commission will receive this report at its September 9, 2024 regular meeting.

Attachments:

1. OPEB 115 Trust Market Value Report as of March 31, 2024
2. CERBT Performance Report April 30, 2024

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$25,858,130.65	\$24,318,329.86
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	930,193.18	2,480,305.32
Administrative Expenses	(3,166.40)	(9,122.70)
Investment Expense	(2,315.16)	(6,670.21)
Other	0.00	0.00
Ending Balance	\$26,782,842.27	\$26,782,842.27
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$26,782,842.27	\$26,782,842.27

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,188,552.988	1,188,552.988
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,188,552.988	1,188,552.988
Period Beginning Unit Value	21.755976	20.460451
Period Ending Unit Value	22.533991	22.533991

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT4U@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 03/31/2024

Town of Los Gatos

Entity #: SKB0-4589482285



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
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CERBT Strategy 1



April 30, 2024

Objective

The CERBT Strategy 1 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 2 and Strategy 3, this portfolio has a higher allocation to equities than bonds and other assets. Historically, equities have displayed greater price volatility and, therefore, this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Operating Ratio
\$17,097,444,944	0.10%

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

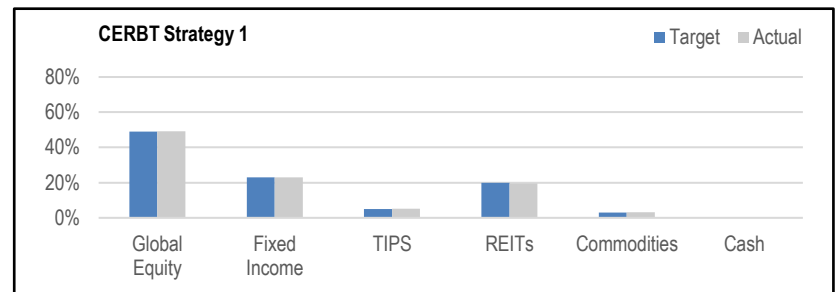
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	49%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	23%	± 5%	Bloomberg Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	20%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	ICE BofA US 3-Month Treasury Bill Index

Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation to a particular asset class based on market, economic, or other considerations.



CERBT Strategy 1 Performance as of April 30, 2024

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	-3.67%	0.54%	6.16%	7.67%	0.20%	5.56%	5.56%	5.08%
Net Return ^{2,3}	-3.68%	0.52%	6.08%	7.58%	0.11%	5.47%	5.47%	5.00%
Benchmark Returns	-3.73%	0.48%	5.99%	7.45%	0.00%	5.33%	5.23%	4.69%
Standard Deviation ⁴	-	-	-	-	14.21%	14.16%	11.36%	13.05%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of SSGA operating expenses.

² Net returns are net of SSGA operating expenses, investment management, administrative and recordkeeping fees.

³ Expenses are described in more detail on page 2 of this document.

⁴ Standard deviation is based on gross returns and is reported for periods greater than 3 years.

CERBT Strategy 1



April 30, 2024

General Information

Information Accessibility

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or by external advisors. Since it is not a mutual fund, a prospectus is not available and daily holdings are not published. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, please visit our website at: www.calpers.ca.gov.

Portfolio Manager Information

The CalPERS Board, through its Investment Committee, directs the CERBT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CERBT, which include: Global Equity, Fixed Income, Real Estate Investment Trusts, Treasury Inflation-Protected Securities, and Commodities.¹

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as recordkeeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

Each employer invested in CERBT Strategy 1 owns units of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits (OPEB). CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations. Further, CalPERS will not make up the difference between an employer's CERBT assets and the actual cost of OPEB provided to an employer's plan members.

An investment in the portfolio is not a bank deposit, nor is it insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at www.calpers.ca.gov.

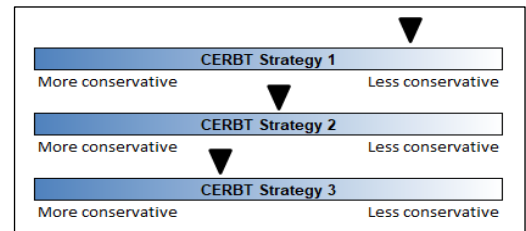
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit www.calpers.ca.gov and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Projected risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	49%	34%	23%
Fixed Income	23%	41%	51%
Treasury Inflation-Protected Securities	5%	5%	9%
Real Estate Investment Trusts	20%	17%	14%
Commodities	3%	3%	3%



¹ Since June 2018, SSGA has passively managed all CERBT asset classes. Previously, Fixed Income, TIPS and Commodity asset classes were managed internally by CalPERS.



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 06/04/2024

DATE: May 22, 2024
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Actuarial Presentation on CalPERS Analysis – 6/30/2022 Valuation Report by Foster & Foster Actuaries and Consultants and Identify Amortization Bases for Future Potential Additional Discretionary Payments (ADPs)

RECOMMENDATION:

Receive Actuarial Presentation on CalPERS Analysis – 6/30/2022 Valuation Report by Foster & Foster Actuaries and Consultants and identify amortization bases for future potential Additional Discretionary Payments (ADPs).

BACKGROUND:

The Town’s pension plans are administered by the Board of Administration of the California Public Employees’ Retirement System (CalPERS). The Board of Administration is responsible for the management and control of CalPERS and maintains exclusive control of the administration and investment of pension funds. In addition, CalPERS actuaries are responsible for the provision of actuarial valuations for the Town’s pension plans. Sworn employees are covered under the Safety Plan which is a pooled plan, while all other employees are covered in the Miscellaneous Plan, which is a separate plan. The Miscellaneous Plan is administered by CalPERS in the Public Employees’ Retirement Fund (PERF).

Recognizing the importance of the Town’s pension obligations and projected increases in future pension costs, starting in 2018 the Town contracted Bartel and Associates to perform an annual review of the actuarial valuation reports provided by CalPERS. Foster & Foster Actuaries and Consultants (formerly Bartel and Associates) is an industry leader in providing actuarial related services to California local governments.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

PAGE 2 OF 3

SUBJECT: Actuarial Presentation on CalPERS Analysis – 6/30/2022 Valuation Report by
Foster & Foster Actuaries and Consultants

DATE: May 22, 2024

DISCUSSION:

Foster & Foster has prepared an analysis of the status of the Town's pension plans for its Miscellaneous and Safety employees as provided in Attachment 1. The Town Actuarial Consultants are attending the meeting to review the following key issues regarding the Town's pension plans:

- An introduction to actuarial valuations
- An introduction to the development of expected returns
- A review of 6/30/2022 valuations and subsequent projections
- Recommended amortization bases for potential future ADPs

The presentation slides are contained in Attachment 2.

The Finance Commission received the presentation and had an opportunity to ask questions of the consultant its May 13, 2024 meeting. Per the actuarial analysis, paying additional \$1.0 million ADP to the Miscellaneous Plan yields approximately \$853,000 interest savings. Per the actuarial analysis paying additional \$1.0 million ADP to the Safety Plan yields approximately \$1,068,000 interest savings.

The Finance Commission recommended to the Oversight Committee to transfer the balance of the Pension IRS 115 Trust to CalPERS and pay off the Longest Base in the Safety Plan to maximize the interest saving. In addition, the Finance Commission intends to work with Town staff to identify additional pockets of savings for potential investment in the Town's 115 Restricted Pension Trust.

The current balance of the Pension Trust is approximately \$2.18 million as of March 31, 2024. The entire balance is available for the ADP payment. Per the actuarial analysis, paying an ADP of \$2.18 million to the Safety Plan yields approximately \$2,259,000 interest savings.

CONCLUSION:

The Oversight Committee should evaluate the Finance Commission's recommendation of paying down longest base in Safety Plan to maximize interest savings.

COORDINATION:

This report has been coordinated with the Town Manager's Office.

PAGE 3 OF 3

SUBJECT: Actuarial Presentation on CalPERS Analysis – 6/30/2022 Valuation Report by
Foster & Foster Actuaries and Consultants

DATE: May 22, 2024

FISCAL IMPACT:

If the Oversight Committee agrees with the Finance Commission and makes the recommended ADP, the Town will have approximately \$2,259,000 interest savings. If the Town's Restricted 115 Pension Trust balance is transferred to CalPERS, the General Fund Balance will decrease by \$2.18 million.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. CalPERS Analysis – 6/30/2022 Valuation Report by Foster & Foster Actuaries and Consultants
2. Actuarial Presentation on CalPERS Analysis – 6/30/2022 Valuation Report by Foster & Foster Actuaries and Consultants



**TOWN OF LOS GATOS
CALPERS MISCELLANEOUS & SAFETY PLANS**



FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

CalPERS Analysis – 6/30/22 Valuation

Doug Pryor, ASA, EA, MAAA
Matthew Childs
Foster & Foster, Inc.

April 23, 2024

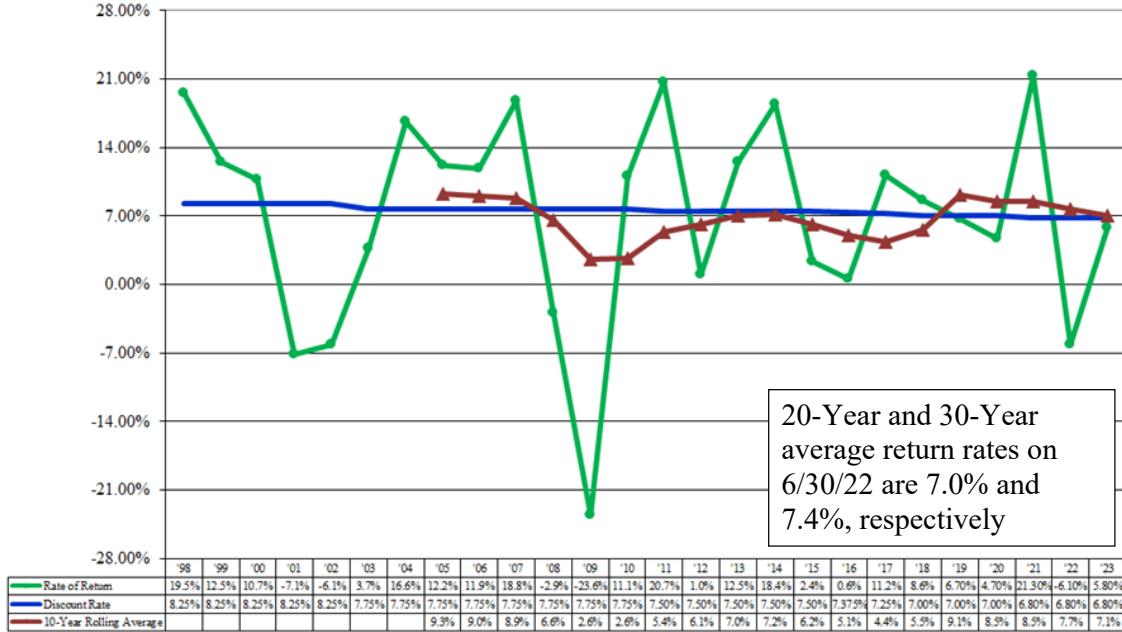
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INVESTMENT RETURN

Annual Return on Market Value of Assets



Discount rates are expected returns net of administrative expenses. 2013/14 through 2021/22 “money-weighted” returns reported in CalPERS AFRC (without lags on private equity and real estate) are 18.3%, 2.2%, 0.5%, 11.2%, 8.4%, 6.5%, 5.0%, 22.4%, -7.5% respectively.



April 23, 2024



TOWN BENEFITS

- At CalPERS, Enhanced Benefits implemented using all (future & prior) service
- Typically not negotiated with cost sharing
- Town of Los Gatos

	Tier 1	Tier 2	PEPRA
Miscellaneous	2.5%@55 FAE1	2%@60 FAE3 (9/15/12)	2%@62 FAE3
Safety	3%@50 FAE1	N/A	2.7%@57 FAE3

- Benefit = (Years of County Service) x Percentage x FAE
 - Percentage varies by retirement age (see following charts)
 - FAE1 is highest one year (typically final) average earnings
 - FAE3 is highest three years (typically final three) average earnings
- PEPRA tier implemented for new employees hired after 1/1/13
 - Employee pays half of total normal cost
 - 2024 Compensation limit
 - Social Security participants: \$151,446
 - Non-Social Security participants: \$181,734

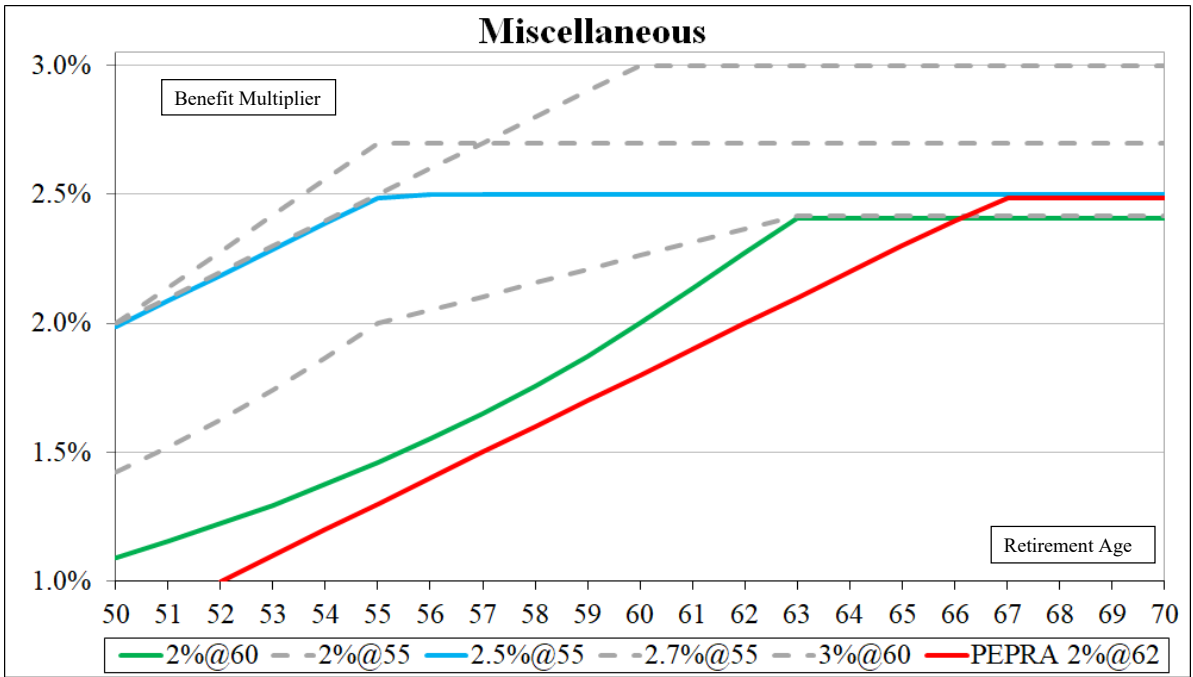


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TOWN BENEFITS

ITEM NO. 4.

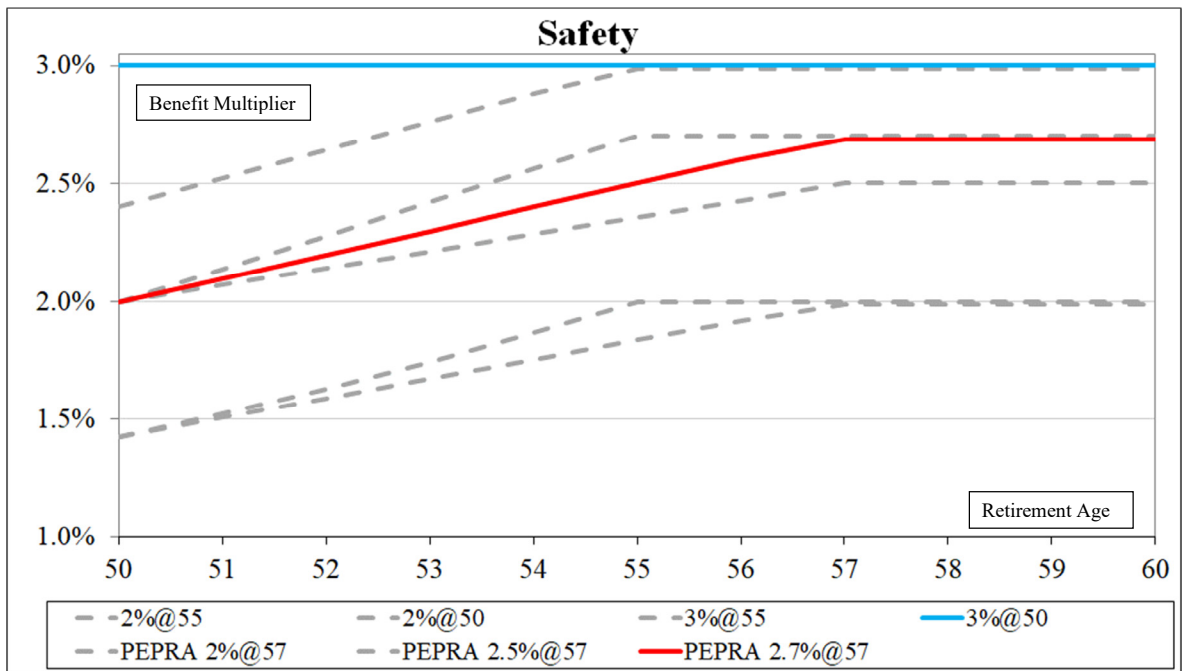


April 23, 2024

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TOWN BENEFITS



April 23, 2024

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DEMOGRAPHICS

ITEM NO. 4.

- Around the State
 - Large retiree liability compared to actives
 - State average: 59% for Miscellaneous, 67% for Safety
 - Declining active population and increasing number of retirees
 - Higher percentage of retiree liability increases contribution volatility
- Town of Los Gatos percentage of liability belonging to retirees:
 - Miscellaneous 67%
 - Safety 75%



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RISK MITIGATION

Overview

- Move to more conservative investments over time to reduce volatility/risk
 - Only when investment return is better than expected
 - Lower discount rate in concert

Excess Investment Return	Reduction in Discount Rate
<i>If the actual investment returns exceed the discount rate by:</i>	<i>Then the discount rate will be reduced by:</i>
2%	0.05%
7%	0.10%
10%	0.15%
13%	0.20%
17%	0.25%

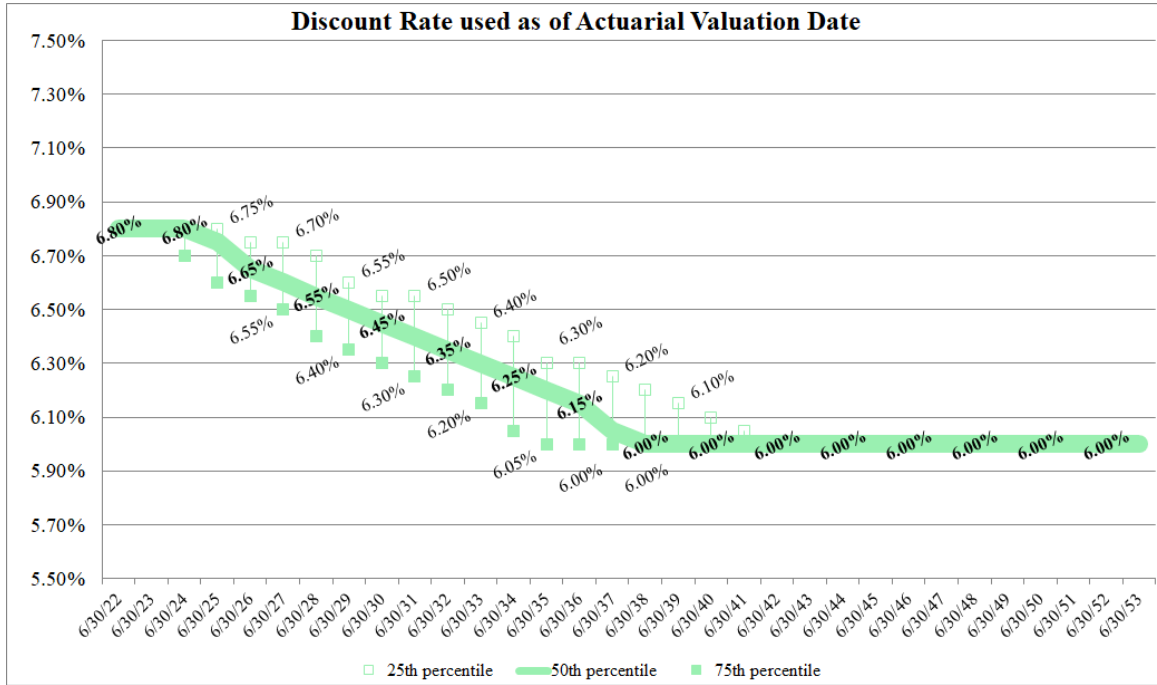
- Essentially use ≈50% of investment gains to pay for cost increases
- Likely get to 6.0% discount rate over 20+ years
 - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
 - Did not trigger for 6/30/19 or 6/30/20 valuations
- First triggered for 6/30/21 valuation – 6.8% discount rate
- Not triggered for 6/30/22 valuation



RISK MITIGATION

ITEM NO. 4.

Projection



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RISK MITIGATION

Portfolio Target Allocations

Asset Classification	Prior Portfolio	11/17/21 Portfolio
Liquidity	1%	-
Real Assets	13%	15%
Private Debt	-	5%
EM Sov Bonds	1%	5%
High Yield	4%	5%
Investment Grade Corp.	6%	10%
Mtge-backed Securities	7%	5%
Treasury	10%	5%
Private Equity	8%	13%
Global Equity ¹	50%	42%
Leverage	-	(5)%
Total	100%	100%
Standard Deviation	11.2%	12.0%

¹ Cap and non-cap weighted combined for this table; actual portfolios have specific allocations for each classification.



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SUMMARY OF DEMOGRAPHIC INFORMATION

ITEM NO. 4.

Miscellaneous

	2002	2012	2021	2022
Actives				
■ Counts	140	116	119	107
■ Average				
• Age	45	47	45	46
• Town Service	8	10	8	8
• PERSable Wages	\$59,400	\$78,800	\$100,600	\$103,700
■ Total PERSable Wages	8,300,000	9,100,000	12,000,000	11,100,000
Inactive Members				
■ Counts				
• Transferred	78	82	101	105
• Separated	64	73	91	104
• Retired				
➤ Service	115	161	220	228
➤ Disability	8	9	13	13
➤ Beneficiaries	<u>16</u>	<u>15</u>	<u>22</u>	<u>22</u>
➤ Total	139	185	255	263
■ Average Annual Town Provided Pension for Service Retirees ²	\$10,400	\$21,500	\$27,000	\$28,100

² Average pension based on Town service & Town benefit formula; not representative of long-service employees.



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SUMMARY OF DEMOGRAPHIC INFORMATION

Safety

	2002	2012	2021	2022
Actives				
■ Counts	46	38	37	37
■ Average				
• Age	38	n/a	42	40
• City Service	9	n/a	10	10
• PERSable Wages	\$ 78,900	\$ 132,600	\$ 149,900	\$ 146,400
■ Total PERSable Wages	3,600,000	4,800,000	5,500,000	5,400,000
Inactive Members				
■ Counts				
• Transferred	22	15	13	12
• Separated	5	3	3	7
• Receiving Payments	33	59	88	91



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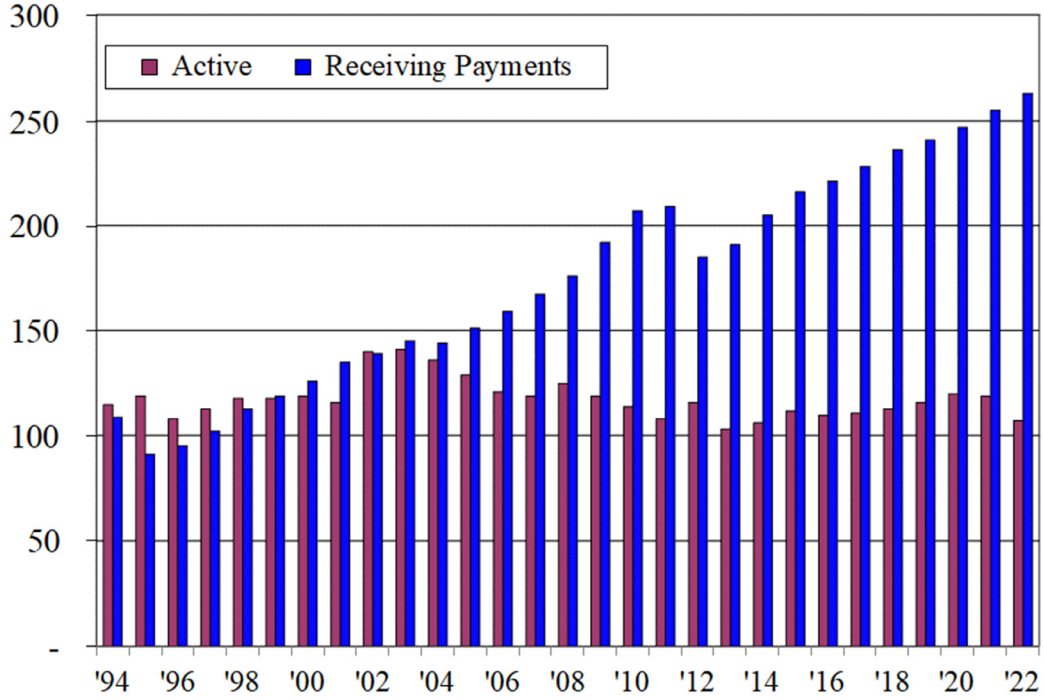
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SUMMARY OF DEMOGRAPHIC INFORMATION

ITEM NO. 4.

Miscellaneous



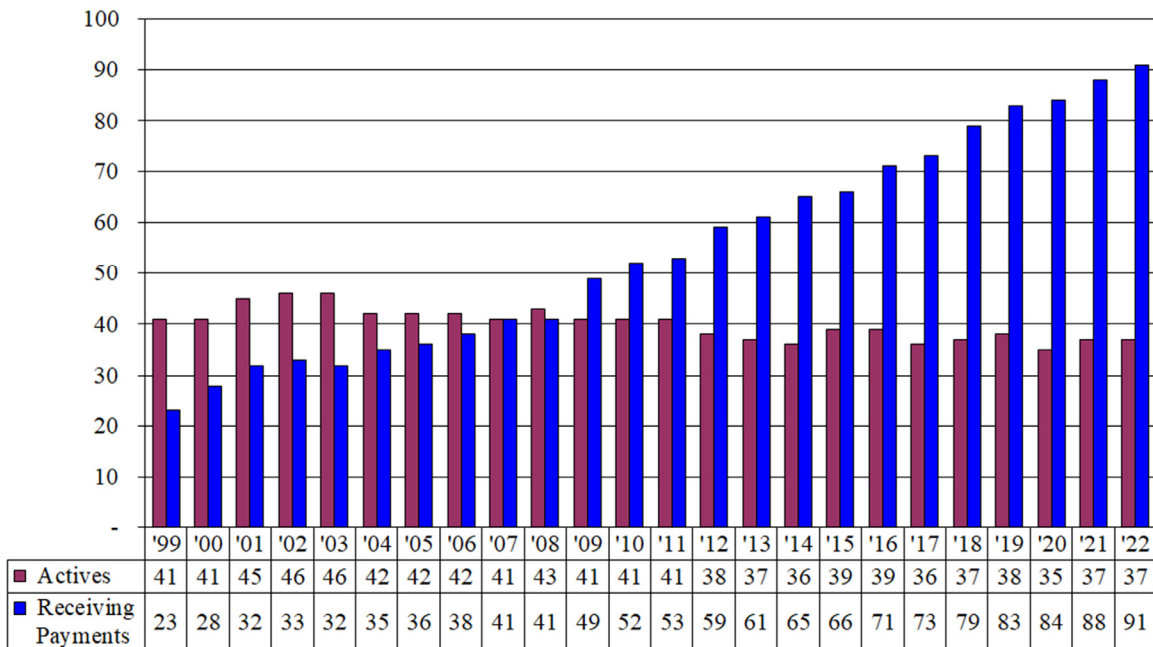
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SUMMARY OF DEMOGRAPHIC INFORMATION

Safety



April 23, 2024

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PLAN FUNDED STATUS

ITEM NO. 4.

Miscellaneous

	<u>June 30, 2021</u>	<u>June 30, 2022</u>
■ Actuarial Accrued Liability		
● Active	\$ 27,800,000	\$ 26,700,000
● Retiree	78,800,000	84,000,000
● Inactive	<u>15,000,000</u>	<u>15,500,000</u>
● Total	121,600,000	126,200,000
■ Assets	<u>106,200,000</u>	<u>95,800,000</u>
■ Unfunded Liability	15,400,000	30,400,000
■ Funded Ratio	87.3%	75.9%
■ Average funded ratio for CalPERS Public Agency Miscellaneous Plans	83.7%	75.0%



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PLAN FUNDED STATUS

Safety

	<u>June 30, 2021</u>	<u>June 30, 2022</u>
■ Actuarial Accrued Liability		
● Active	\$ 23,700,000	\$ 23,400,000
● Retiree	80,400,000	83,300,000
● Inactive	<u>4,000,000</u>	<u>4,600,000</u>
● Total	108,100,000	111,300,000
■ Assets	<u>86,800,000</u>	<u>76,700,000</u>
■ Unfunded Liability	21,300,000	34,600,000
■ Funded Ratio	80.3%	69.0%
■ Average funded ratio for CalPERS Public Agency Safety Plans	80.9%	73.0%



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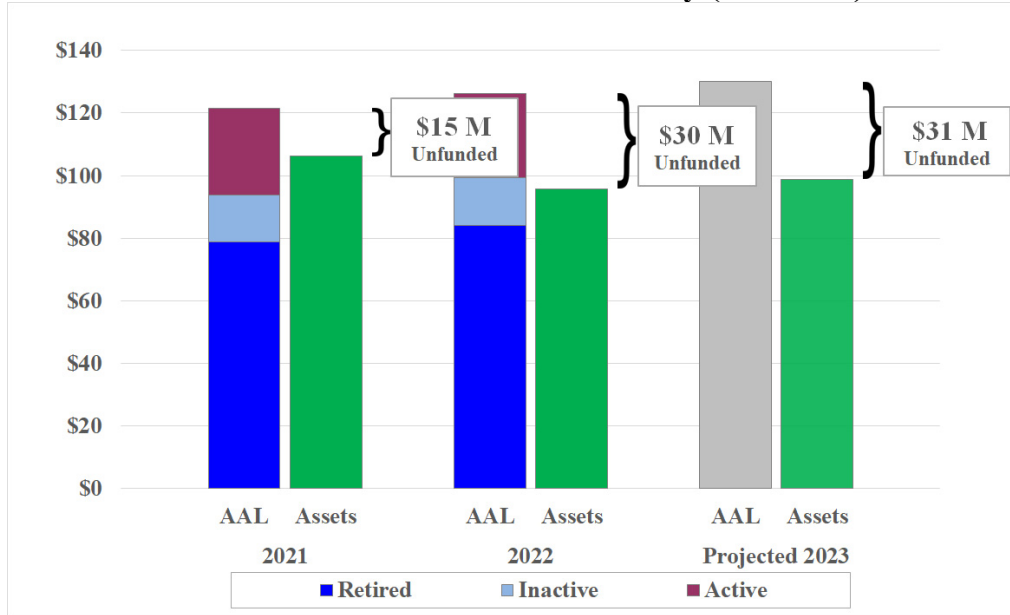


PLAN FUNDED STATUS

ITEM NO. 4.

Miscellaneous

CalPERS Assets and Actuarial Liability (\$Millions)³



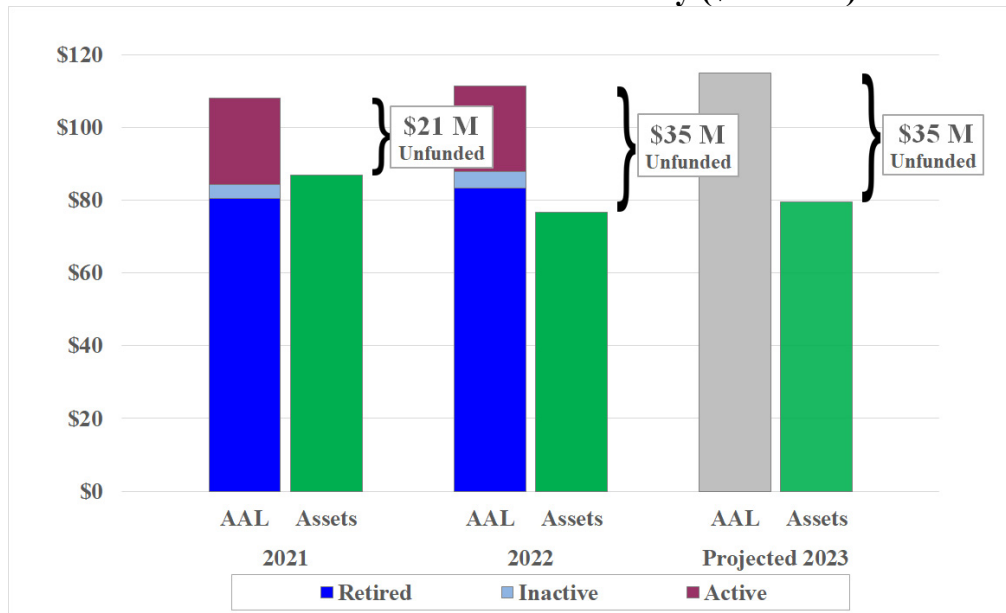
³ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



PLAN FUNDED STATUS

Safety

CalPERS Assets and Actuarial Liability (\$Millions)⁴



⁴ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



PLAN FUNDED STATUS

ITEM NO. 4.

Miscellaneous
Discount Rate Sensitivity
June 30, 2022

	Discount Rate		
	<u>6.80%</u>	<u>6.30%⁵</u>	<u>5.80%</u>
AAL	\$126,200,000	\$134,400,000	\$142,600,000
Assets	<u>95,800,000</u>	<u>95,800,000</u>	<u>95,800,000</u>
Unfunded Liability	30,400,000	38,600,000	46,800,000
Funded Ratio	75.9%	71.3%	67.2%

⁵ Estimated by Foster & Foster.



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PLAN FUNDED STATUS

Safety
Discount Rate Sensitivity
June 30, 2022

	Discount Rate		
	<u>6.80%</u>	<u>6.30%⁶</u>	<u>5.80%</u>
AAL	\$111,300,000	\$118,900,000	\$126,400,000
Assets	<u>76,700,000</u>	<u>76,700,000</u>	<u>76,700,000</u>
Unfunded Liability	34,600,000	42,200,000	49,700,000
Funded Ratio	69.0%	64.5%	60.7%

⁶ Estimated by Foster & Foster.



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PLAN FUNDED STATUS

ITEM NO. 4.

Miscellaneous
Unfunded Accrued Liability Changes

■ Unfunded Accrued Liability on 6/30/21		\$ 15,400,000
■ Expected 6/30/22 Unfunded Accrued Liability		14,200,000
■ Changes		
• Benefit change ⁷	200,000	
• Asset Loss (Gain) (-7.5% return for FY 2022)	15,300,000	
• Contribution & Experience Loss (Gain)	<u>700,000</u>	
• Total		<u>16,200,000</u>
■ Unfunded Accrued Liability on 6/30/22		30,400,000
■ Projected Unfunded Accrued Liability on 6/30/23 ⁸		31,100,000

⁷ SB 1168 increased the standard post-retirement lump sum death benefit from \$500 to \$2,000 for deaths occurring on or after July 1, 2023.

⁸ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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PLAN FUNDED STATUS

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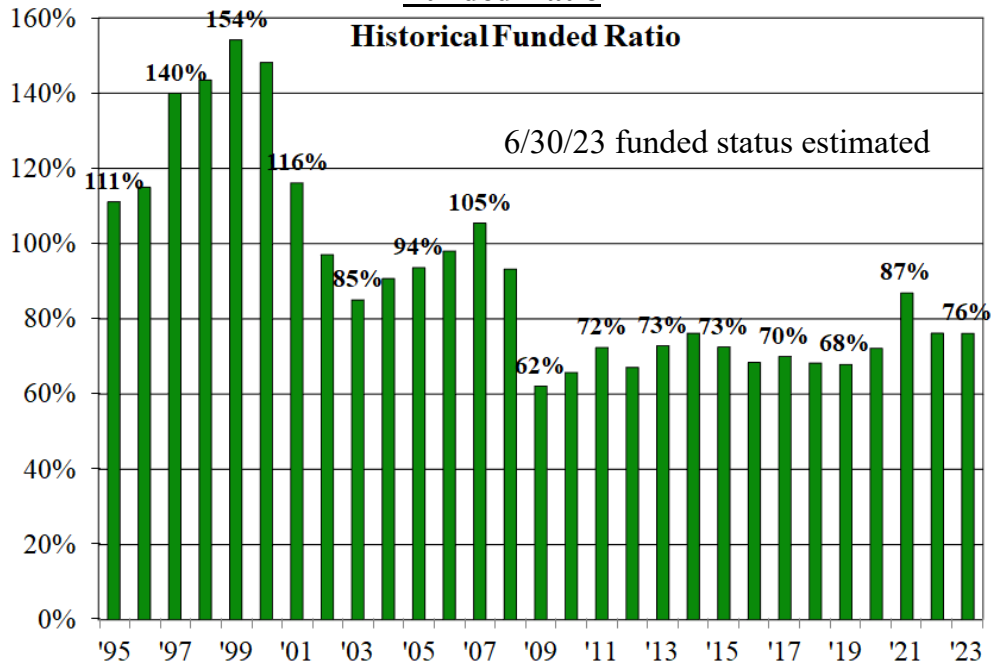
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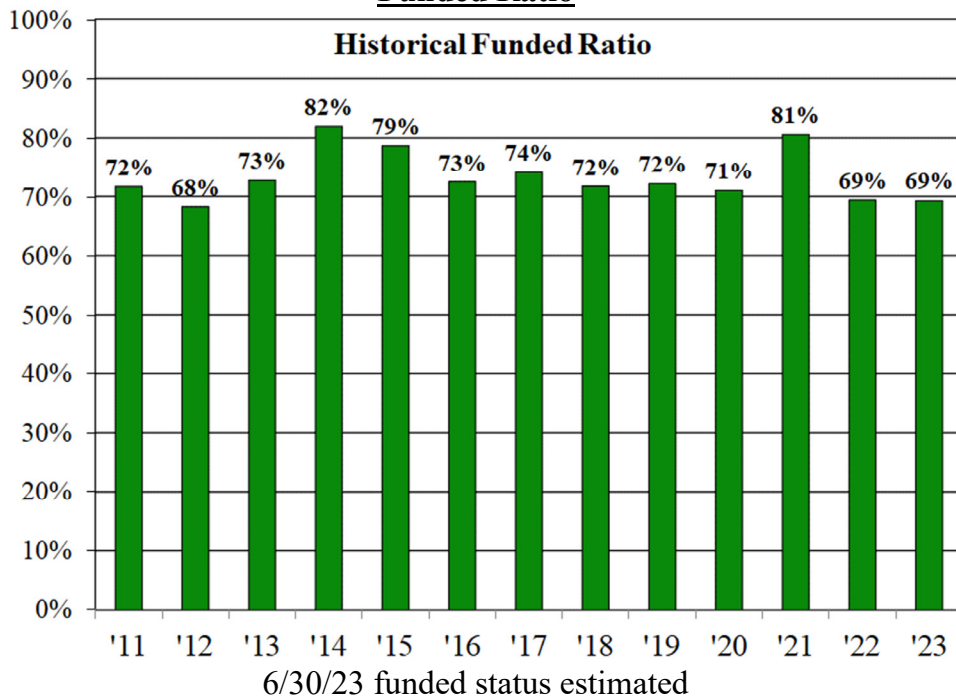
FUNDED RATIO

Miscellaneous Funded Ratio



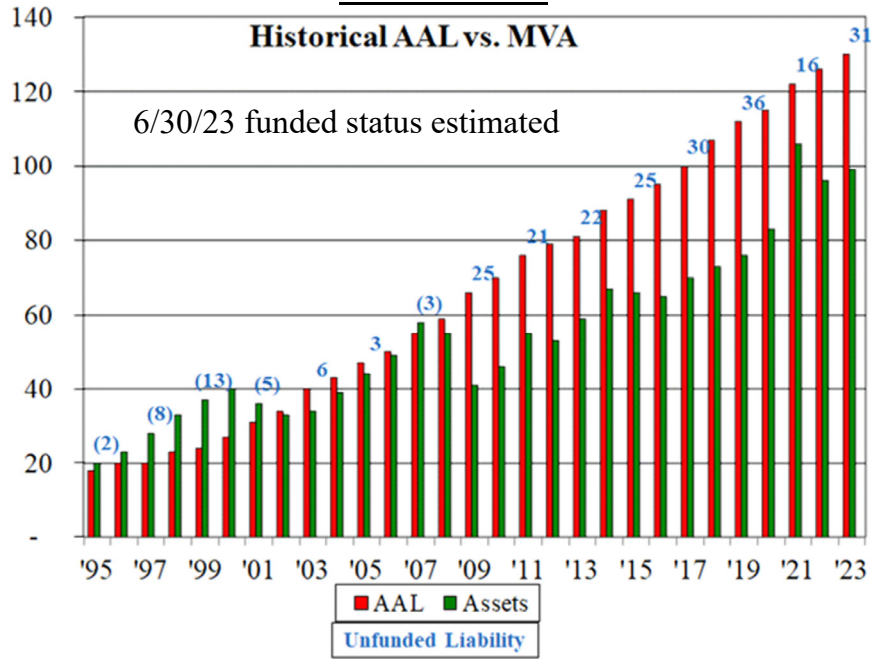
FUNDED RATIO

Safety Funded Ratio



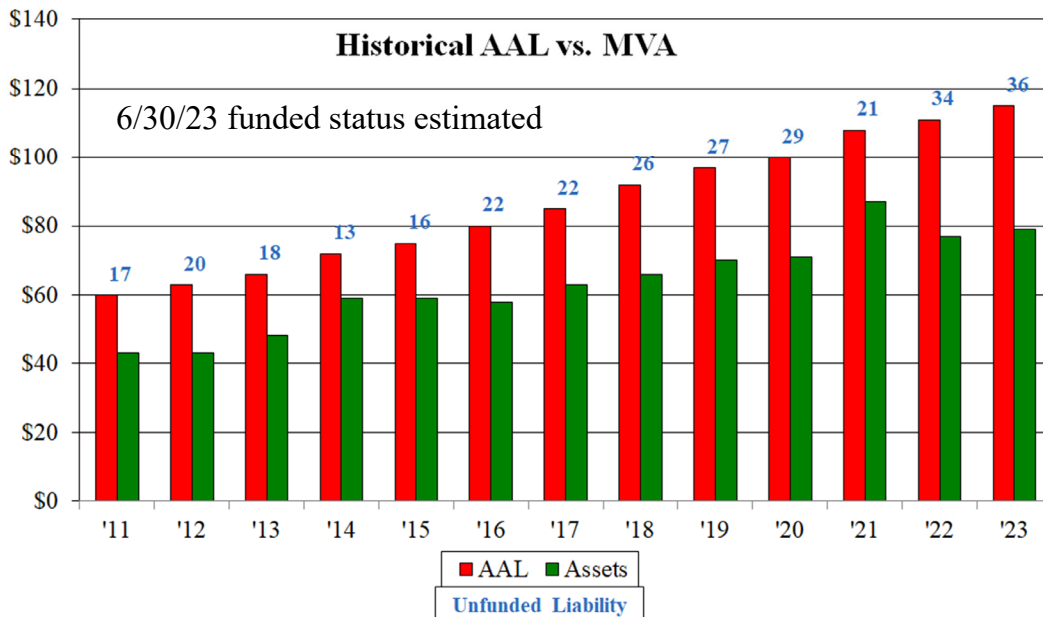
FUNDED STATUS (MILLIONS)

**Miscellaneous
Funded Status**



FUNDED STATUS (MILLIONS)

**Safety
Funded Status**

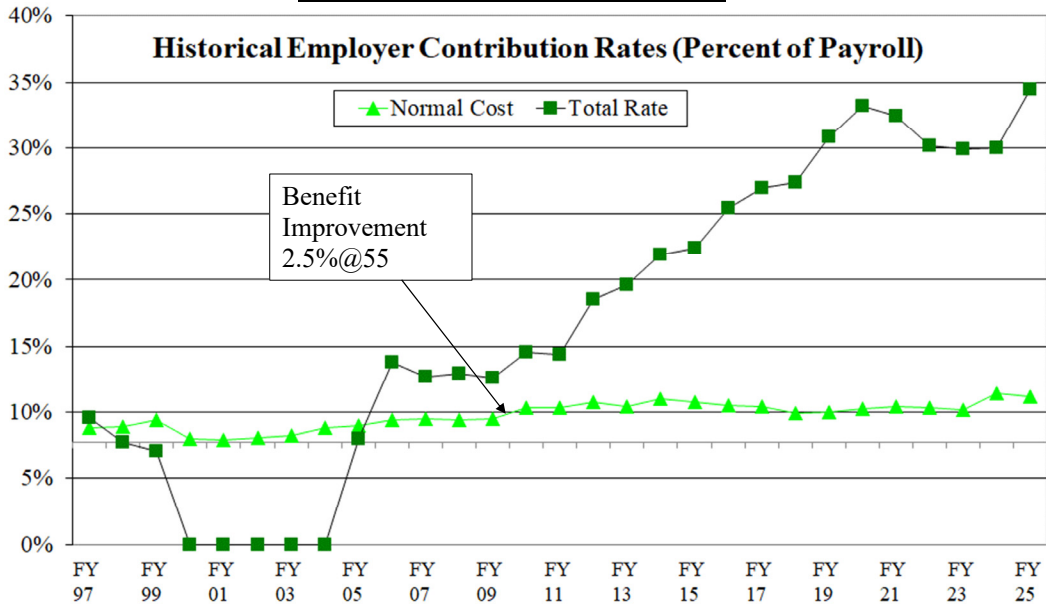


CONTRIBUTION RATES

ITEM NO. 4.

Miscellaneous

Historical Contribution Rates



April 23, 2024

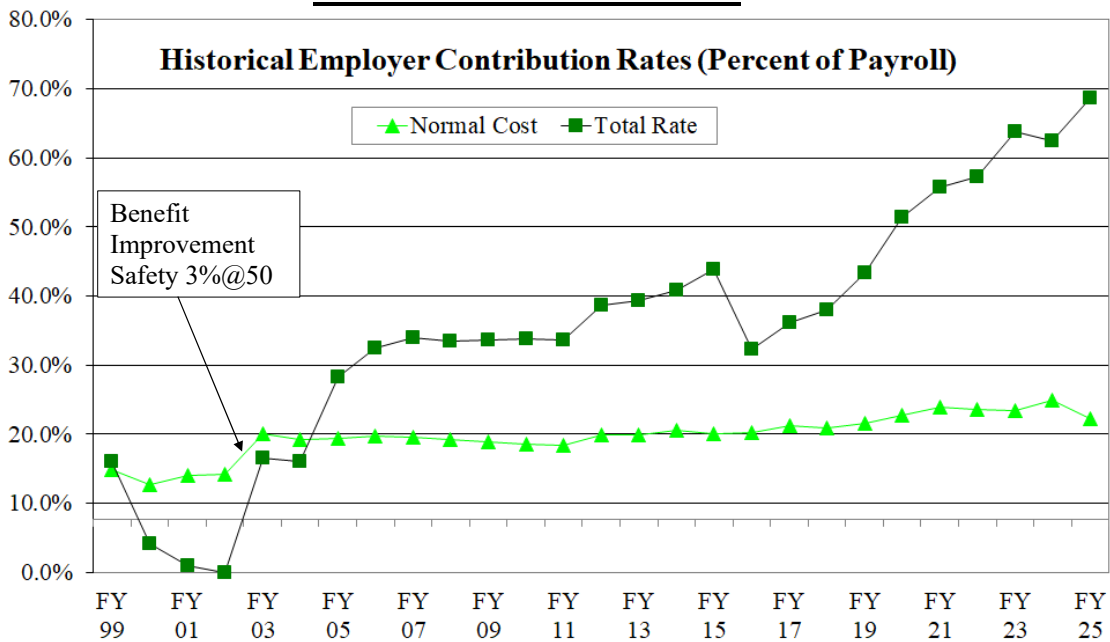
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CONTRIBUTION RATES

Safety

Historical Contribution Rates



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CONTRIBUTION RATES

ITEM NO. 4.

Miscellaneous

	<u>6/30/21</u> <u>2023/2024</u>	<u>6/30/22</u> <u>2024/2025</u>
■ Total Normal Cost	18.8%	18.8%
■ Employee Normal Cost	<u>7.4%</u>	<u>7.6%</u>
■ Employer Normal Cost	11.4%	11.2%
■ Amortization Payments	<u>18.5%</u>	<u>23.3%</u>
■ Total Employer Contribution Rate	30.0%	34.5%
■ 2023/24 Employer Contribution Rate		30.0%
● Plan changes		0.3%
● 6/30/22 investment (gain)/loss (-7.5% vs. 6.8%)		3.1%
● Progression of amortization bases		(0.5%)
● Other/non-investment (Gains)/Losses		<u>1.6%</u>
■ 2024/25 Employer Contribution Rate		34.5%



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CONTRIBUTION RATES

Safety

	<u>6/30/21</u> <u>2023/2024</u>	<u>6/30/22</u> <u>2024/2025</u>
■ Total Normal Cost	35.4%	33.9%
■ Employee Normal Cost	<u>10.6%</u>	<u>11.7%</u>
■ Employer Normal Cost	24.9%	22.2%
■ Amortization Payments	<u>37.7%</u>	<u>46.4%</u>
■ Total Employer Contribution Rate	62.5%	68.6%
■ 2023/24 Employer Contribution Rate		62.5%
● Payroll < Expected		1.9%
● Other (Gains)/Losses mainly net investment loss		<u>4.2%</u>
■ 2024/25 Employer Contribution Rate		68.6%



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CONTRIBUTION RATES

ITEM NO. 4.

Safety

6/30/22 Valuation 2024/2025 Contribution Rates

	<u>Total⁹</u>	<u>Tier 1</u>	<u>PEPRA</u>
		3%<u>@50</u>	2.7%<u>@57</u>
■ Base Total Normal Cost	31.3%	34.9%	27.5%
■ Class 1 Benefits			
● Final One Year Compensation	0.7%	1.5%	-
● PRSA	<u>1.8%</u>	<u>2.0%</u>	<u>1.7%</u>
■ Total Normal Cost	33.9%	38.3%	29.2%
■ Formula's Expected EE Contr. Rate	<u>11.7%</u>	<u>9.0%</u>	<u>14.5%</u>
■ ER Normal Cost	22.2%	29.3%	14.7%
■ Amortization Payment	46.4%	89.8%	0.8%
■ Amortization of Side Fund	-	-	-
■ Total ER Contribution	68.6%	119.1%	15.6%
■ Employee counts	37	21	16
■ Employee payroll (in 000's)	\$ 5,884	\$ 3,016	\$ 2,868
■ Total ER Contribution \$ (in 000's)	\$ 4,037	\$ 3,591	\$ 446

⁹ Weighting of total contribution based on projected classic and PEPRA payrolls



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CONTRIBUTION PROJECTIONS

- Investment returns:
 - June 30, 2023 5.8%¹⁰
 - Future returns based on stochastic analysis using 1,000 trials
 - Single year returns¹¹ with current investment mix, no risk mitigation:
- | | Percentile | | |
|---------------|------------------|------------------|------------------|
| | 25 th | 50 th | 75 th |
| First 8 years | -1.8% | 6.0% | 14.7% |
| After 8 years | -0.7% | 7.5% | 16.4% |
- Assumes investment returns will generally be lower over the next 8 years and higher beyond that.
- Discount Rate decreases due to Risk Mitigation policy – Ultimate rate 6.0%
 - No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
 - Different from CalPERS projection
 - Impact of Risk Mitigation Policy:
 - Net impact of investment gain and discount rate change amortized over 20 years with 5 year ramp up
 - Same amortization method for all future years

¹⁰ Gross return based on June 30, 2023 CalPERS News Release issued in July 2023.

¹¹ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



CONTRIBUTION PROJECTIONS

ITEM NO. 4.

- New hire assumptions:
 - All new hires assumed PEPRA members and none are Classic members
- Miscellaneous 6/30/22 employee distribution:

Benefit Tier	Count	% of Total	21/22 Payroll	% of Total
2.5%@55 FAC1	28	26.2%	\$ 3,061,200	27.6%
2%@60 FAC3	21	19.6%	3,070,200	27.7%
2%@62 FAC3 (PEPRA)	58	54.2%	4,962,800	44.7%
Total	107	100%	11,094,200	100%

- Town provided Miscellaneous payroll for contribution years:

FYE	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Payroll (000s)	\$13,980	\$14,441	\$14,755	\$15,059	\$15,388	\$15,666



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CONTRIBUTION PROJECTIONS

- Safety 6/30/22 employee distribution:

Benefit Tier	Count	% of Total	21/22 Payroll	% of Total
3%@50 FAC1	21	56.8%	\$3,446,200	63.6%
2.7%@57 FAC3 (PEPRA)	16	43.2%	1,969,500	36.4%
Total	37	100%	5,415,800	100%

- Town provided Safety payroll (000s) for contribution years:

FYE	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Classic	\$3,850	\$3,942	\$4,034	\$4,113	\$4,194	\$4,277
PEPRA	2,738	2,852	2,925	2,992	3,051	3,112

- Safety Employee Cost Sharing of Employer Contribution:
 - 3% of pay employee share for Classic members



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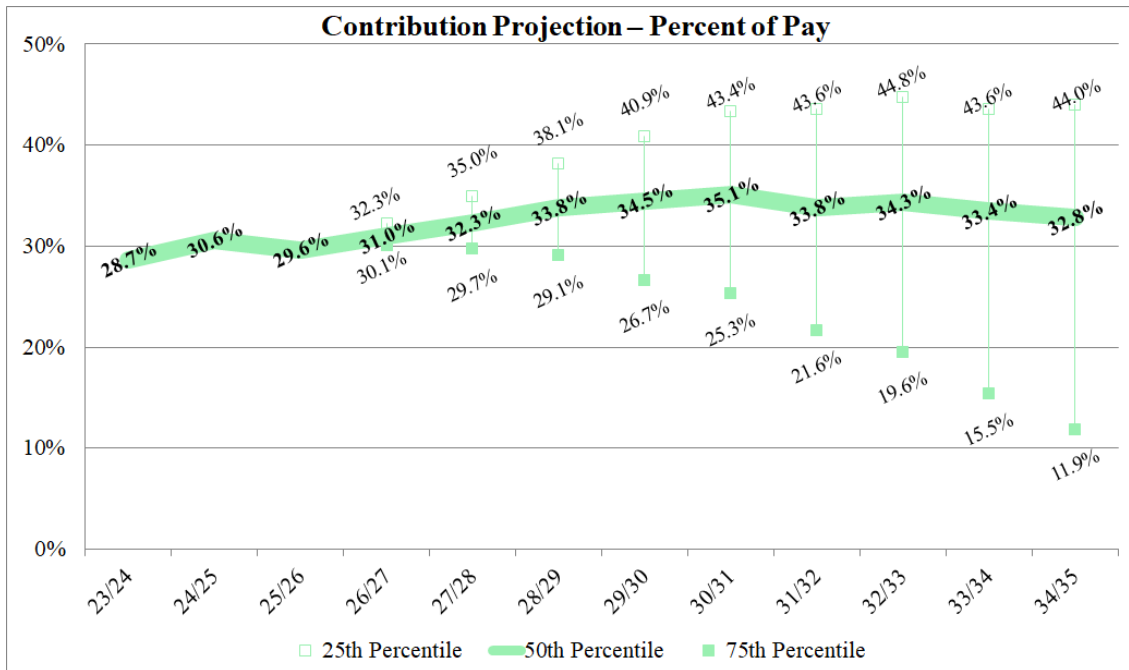
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CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Miscellaneous



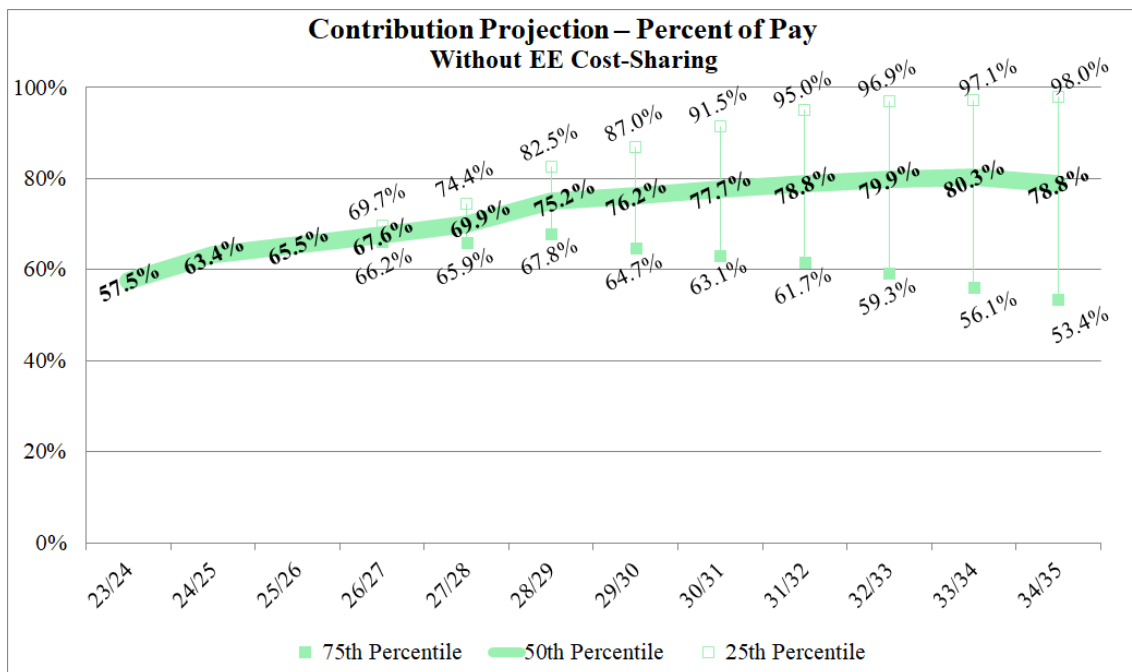
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CONTRIBUTION PROJECTIONS

Safety



April 23, 2024

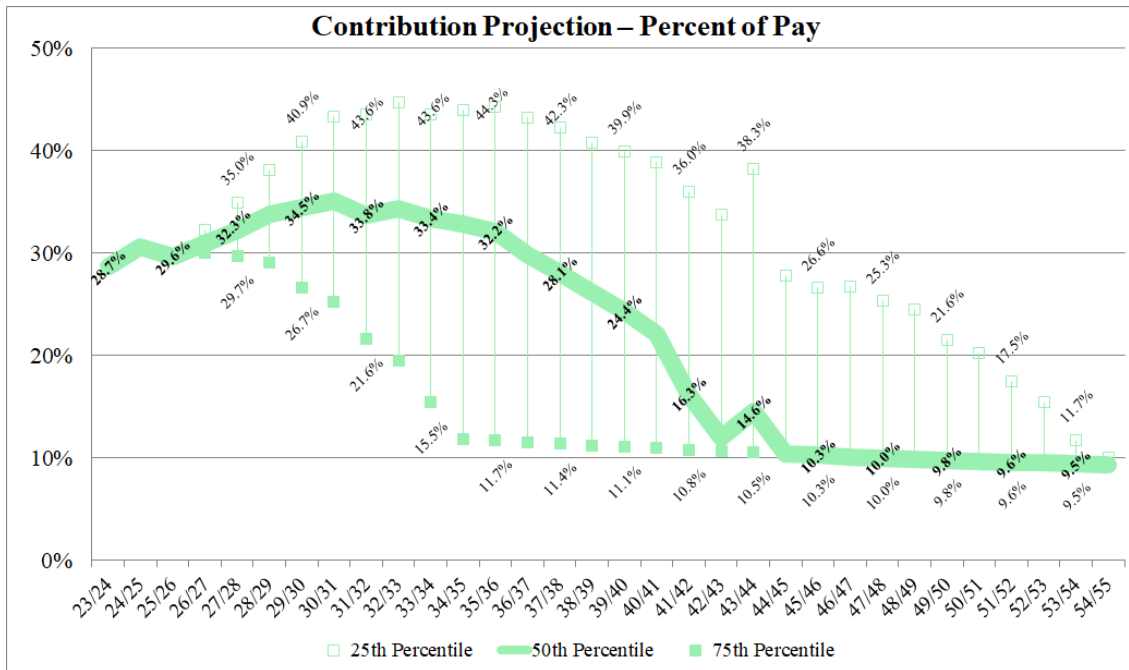
34



CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Miscellaneous



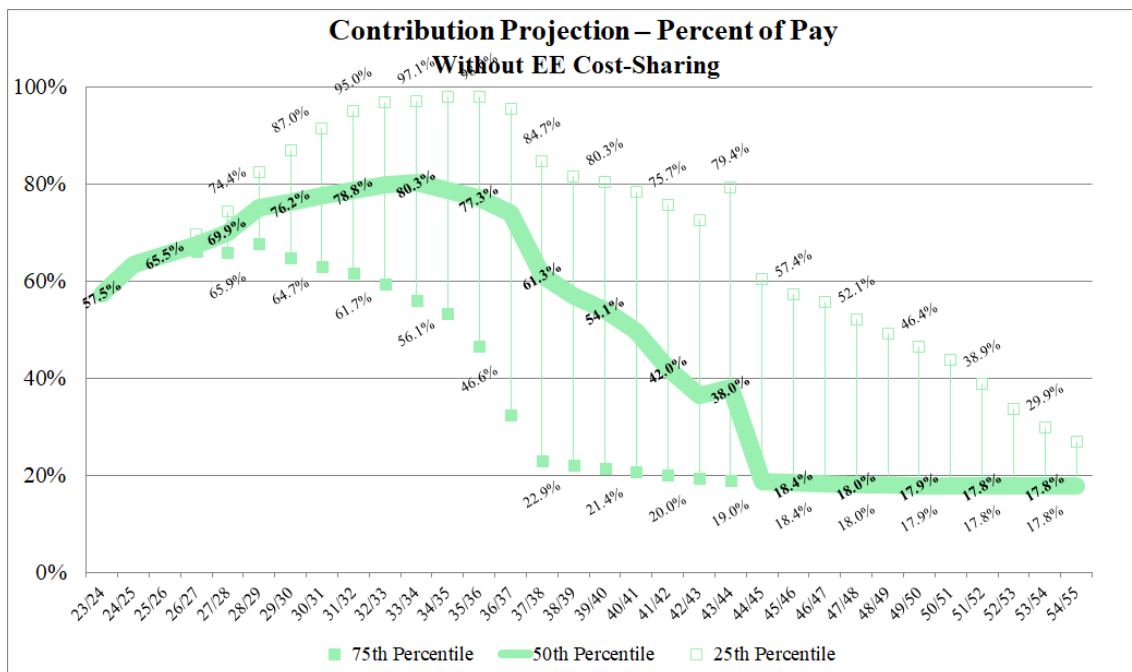
April 23, 2024

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CONTRIBUTION PROJECTIONS

Safety



April 23, 2024

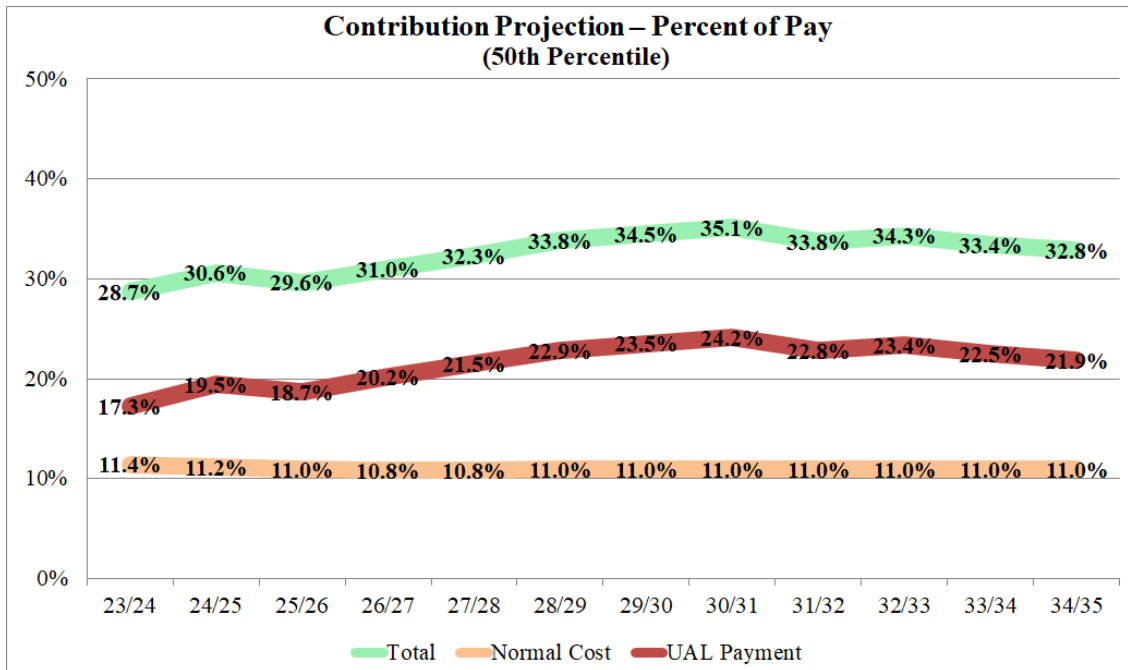
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CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Miscellaneous



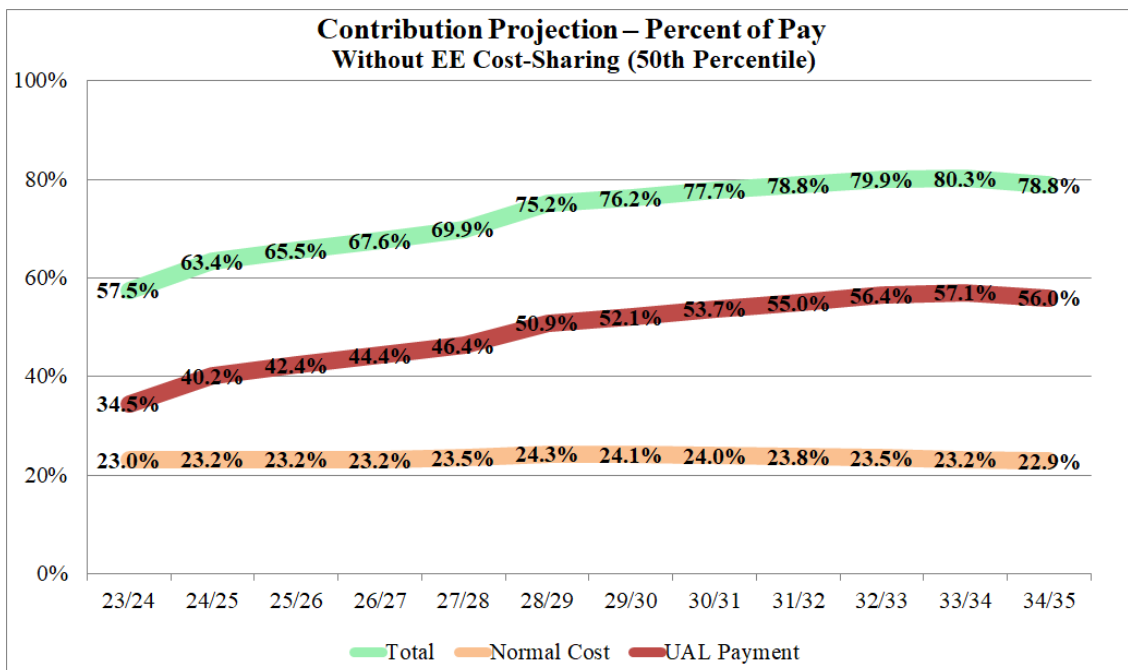
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CONTRIBUTION PROJECTIONS

Safety



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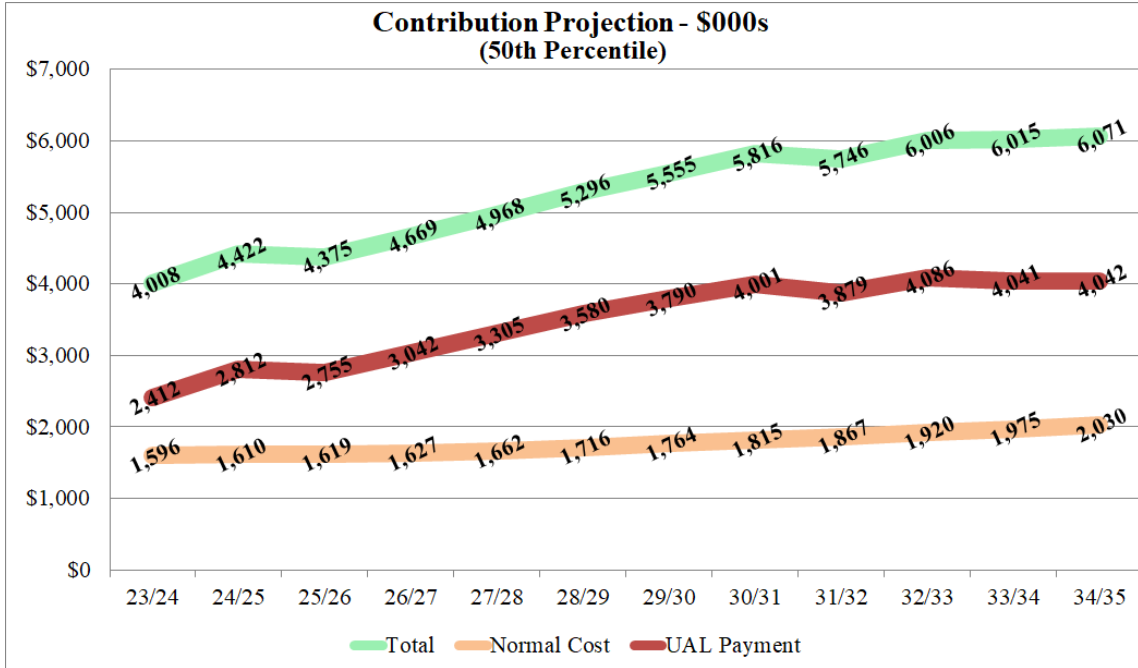
38



CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Miscellaneous



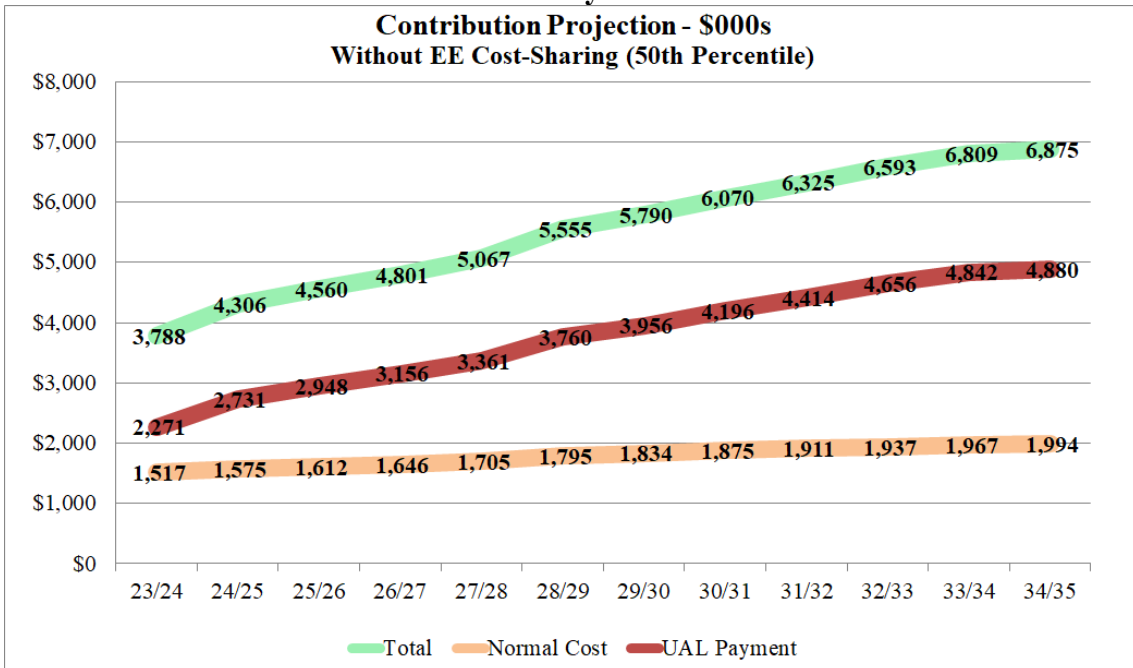
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CONTRIBUTION PROJECTIONS

Safety



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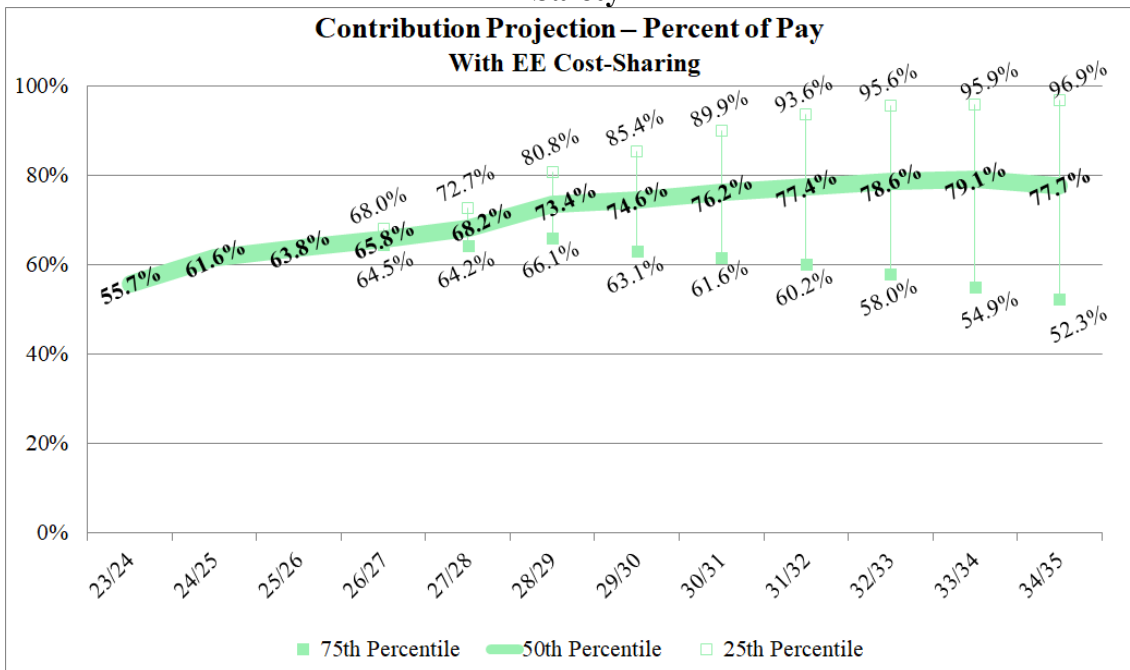
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CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Safety



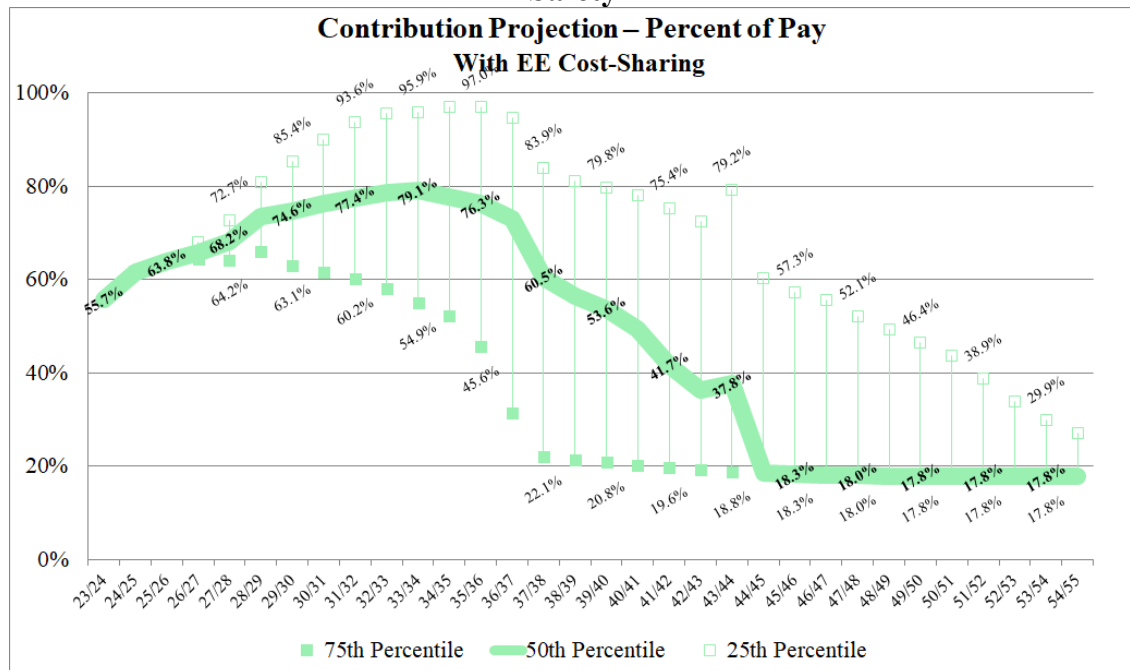
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CONTRIBUTION PROJECTIONS

Safety



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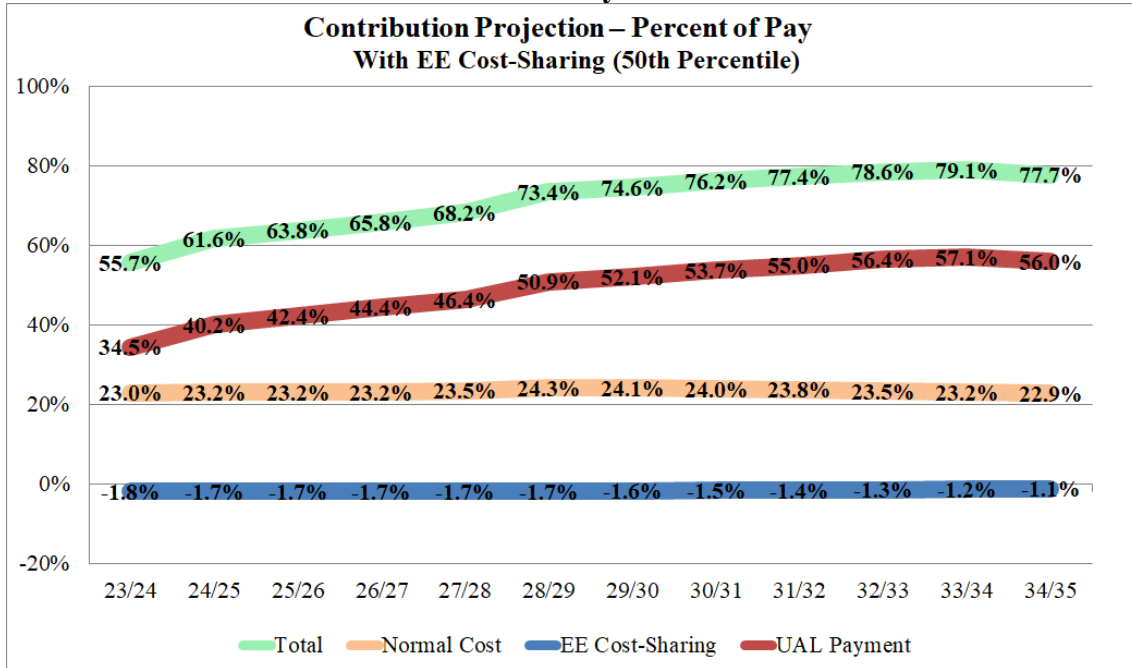
42



CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Safety



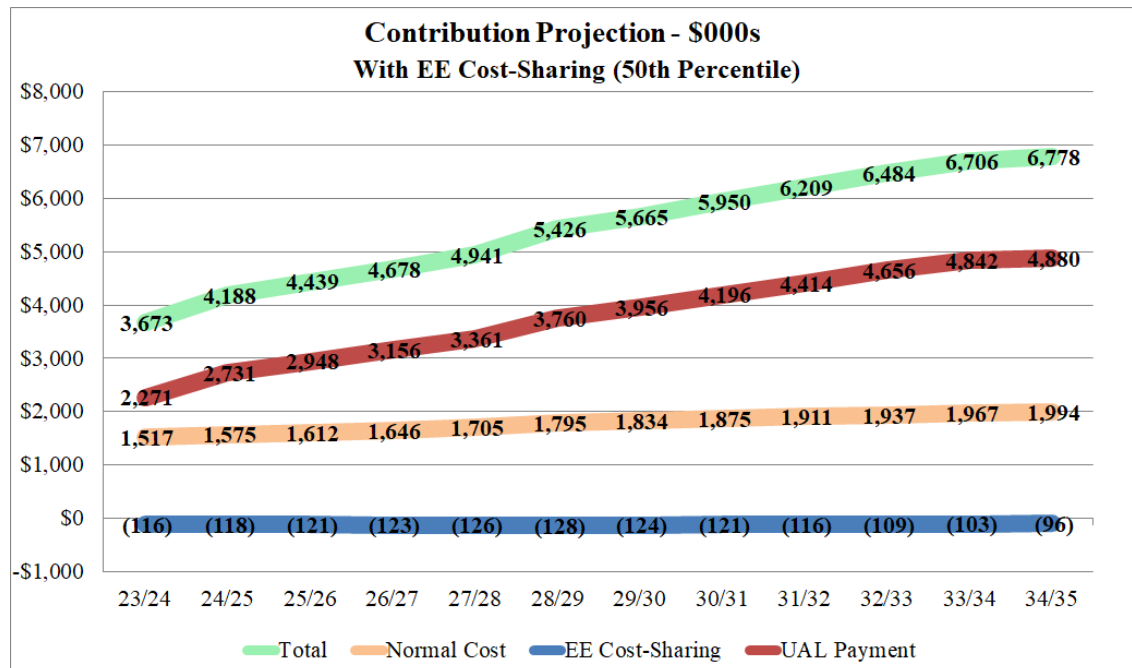
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CONTRIBUTION PROJECTIONS

Safety



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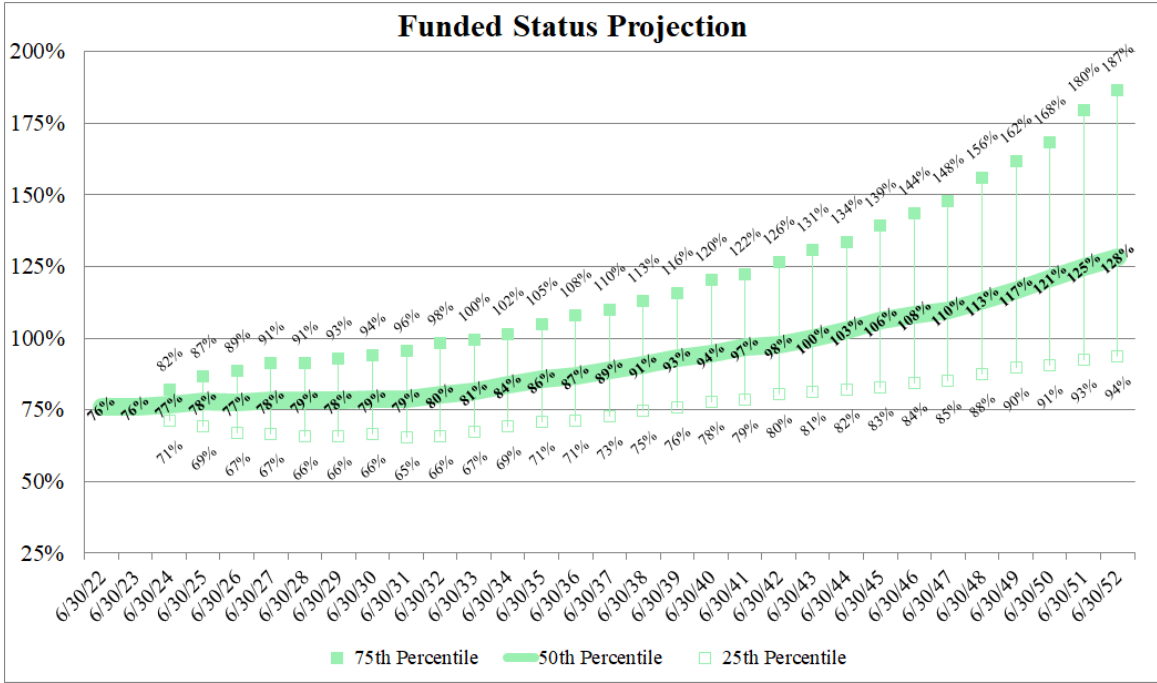
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FUNDED STATUS

ITEM NO. 4.

Miscellaneous



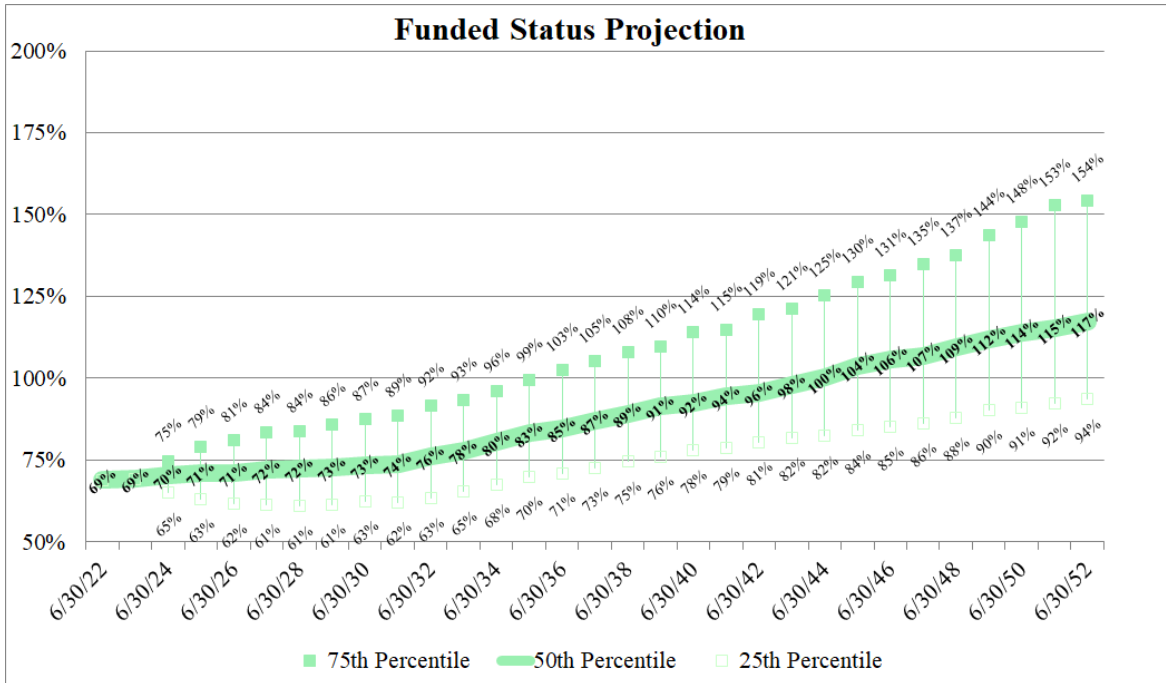
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FUNDED STATUS

Safety

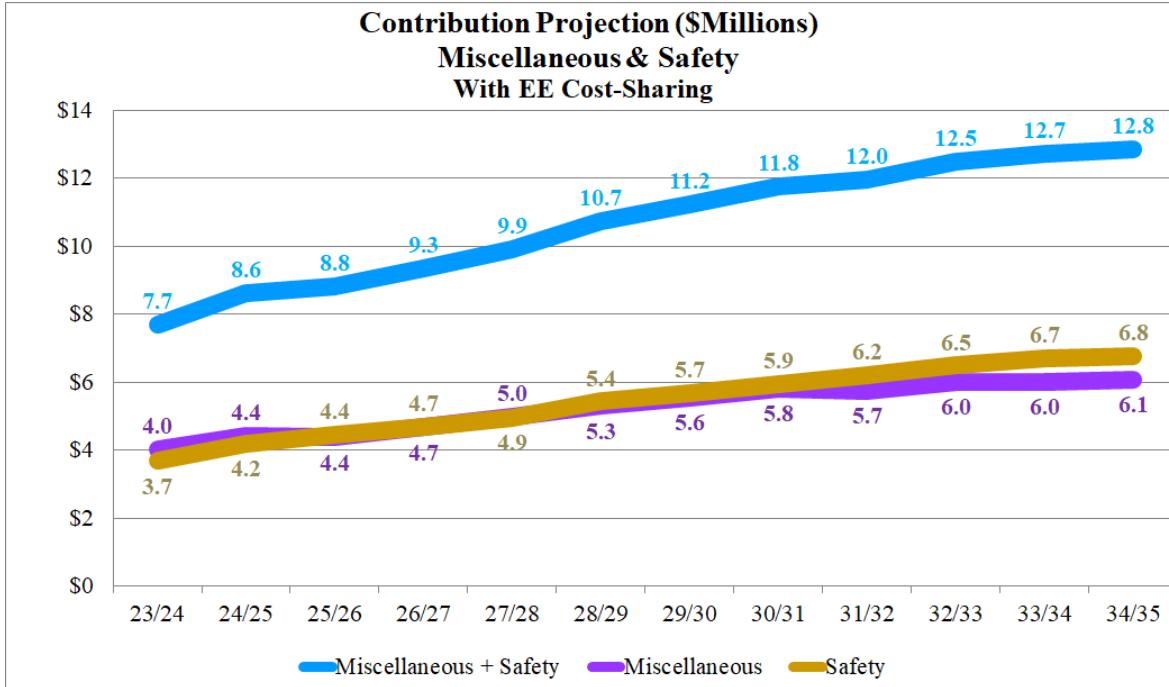


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Miscellaneous and Safety



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Miscellaneous and Safety

Funded Status Summary on June 30, 2022

(Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$126	\$111	\$237
■ Assets	<u>96</u>	<u>77</u>	<u>173</u>
■ Unfunded AAL	30	34	64
■ Funded Ratio	76.2%	69.0%	73.0%

Projected Funded Status Summary on June 30, 2023¹²

(Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$130	\$115	\$245
■ Assets	<u>99</u>	<u>79</u>	<u>178</u>
■ Unfunded AAL	31	36	67
■ Funded Ratio	76.2%	68.7%	72.7%

¹² Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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LEAVING CALPERS

ITEM NO. 4.

- Participation in CalPERS is governed by State law and CalPERS rules
- The following are considered “withdrawing” from CalPERS:
 - Exclude new hires from CalPERS & giving them a different pension
 - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
 - Treated as plan termination
 - Liability increased for conservative investments
 - Liability increased for future demographic fluctuations
 - Liability must be funded immediately by withdrawing agency
 - Otherwise, retiree benefits are cut



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LEAVING CALPERS

CalPERS Termination Estimates on June 30, 2022 (Amounts in Millions)

Discount Rate	Ongoing Plan 6.80%	Termination Basis 1.75% 4.50%	
Miscellaneous			
Actuarial Accrued Liability	\$126	\$252	\$165
Assets	<u>96</u>	<u>96</u>	<u>96</u>
Unfunded AAL (UAAL)	30	156	69
Safety			
Actuarial Accrued Liability	\$111	\$238	\$150
Assets	<u>77</u>	<u>77</u>	<u>77</u>
Unfunded AAL (UAAL)	34	161	73
Total			
Unfunded AAL (UAAL)	\$ 64	\$317	\$142
Funded Ratio	73.0%	35.3%	54.9%



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PEPRA COST SHARING

- Target of 50% of total normal cost paid by all employees
- *PEPRA members* must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of *PEPRA member* required employee contributions
- Employer may impose current employees pay 50% of total normal cost (limited to 8% of pay for Miscellaneous and 12% for Safety) if not agreed through collective bargaining
- Miscellaneous Plan 2024/25:

	<u>Classic Members</u>		<u>New Members</u>
	Tier 1	Tier 2	PEPRA
	<u>2.5%@55 FAC1</u>	<u>2%@60 FAC3</u>	<u>2%@62 FAC3</u>
● Employer Normal Cost	13.2%	14.5%	7.84%
● Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.75%</u>
● Total Normal Cost	21.2%	21.5%	15.59%
● 50% Target	10.6%	10.8%	7.80%



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PEPRA COST SHARING

- Safety Plan 2024/25:

	<u>Classic Members</u>		<u>New Members</u>
	Tier 1	PEPRA	
	<u>3%@50 FAE1</u>	<u>2.7%@57 FAE3</u>	
● Employer Normal Cost	29.3%	14.72%	
● Member Normal Cost	<u>9.0%</u>	<u>14.50%</u>	
● Total Normal Cost	38.3%	29.22%	
● 50% Target	19.2%	14.61%	

- PEPRA Member Contributions:

Group	2023/24		2024/25			
	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	14.43%	7.25%	15.59%	1.16%	7.75%	PEPRA Members
Safety	29.00%	14.50%	29.22%	0.22%	14.50%	PEPRA Members



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- Where do you get the money from?
- How do you use the money?



WHERE DO YOU GET THE MONEY FROM?

- POB:
 - Usually thought of as interest arbitrage between expected earnings and rate paid on POB
 - No guaranteed savings
 - PEPRA prevents contributions from dropping below normal cost
 - Savings offset when investment return is good
 - GFOA Advisory
- Borrow from General Fund similar to State
- One time payments
 - Governing body resolution to use a portion of one time money, e.g.
 - 1/3 to one time projects
 - 1/3 to replenish reserves and
 - 1/3 to pay down unfunded liability



ADDITIONAL PAYMENTS TO CALPERS

ITEM NO. 4.

- Internal Service Fund
 - Typically used for rate stabilization
 - Restricted investments:
 - Likely low (0.5%-1.0%) investment returns
 - Short term/high quality, designed for preservation of principal
 - Assets can be used by governing body for other purposes
 - Does not reduce Unfunded Liability



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ADDITIONAL PAYMENTS TO CALPERS

- Make payments directly to CalPERS:
 - Likely best long-term investment return
 - Must be considered an irrevocable decision
 - Extra payments cannot be used as future “credit”
 - PEPRAs prevents contributions from dropping below normal cost
 - Option #1: Request shorter amortization period (Fresh Start):
 - Higher short term payments
 - Less interest and lower long term payments
 - Likely cannot revert to old amortization schedule
 - Savings offset when investment return is good (PEPRA)



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ADDITIONAL PAYMENTS TO CALPERS

ITEM NO. 4.

- Make payments directly to CalPERS (continued):
 - Option #2: Target specific amortization bases with an “Additional Discretionary Payment “ADP” :
 - Extra contribution’s impact muted by reduced future contributions
 - CalPERS can’t track the “would have been” contribution
 - No guaranteed savings
 - Larger asset pool means larger loss (or gain) opportunity
 - Paying off shorter amortization bases: larger contribution savings over shorter period:
 - e.g. 10 year base reduces contribution 13.7¢ for \$1
 - Less interest savings vs paying off longer amortization bases
 - Paying off longer amortization bases: smaller contribution savings over longer period:
 - e.g. 25 year base reduces contribution 8.2¢ for \$1
 - More interest savings vs paying off shorter amortization bases
 - Maintaining the current payment schedule – not letting payments reduce due to extra payment – gives the greatest long-term savings



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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Can only be used to:
 - Reimburse Town for CalPERS contributions
 - Make payments directly to CalPERS
- Investments significantly less restricted than Town investment funds
 - Fiduciary rules govern Trust investments
 - Usually, designed for long term returns
- Assets don’t count for GASB accounting
 - Are considered Employer assets
- Hundreds of trusts established, mostly since 2015
 - Trust providers: PARS, PFM, Keenan
 - California Employers’ Pension Prefunding Trust (CEPPT) effective July 2019
 - Strategy 1: 48% stocks / 52% bonds
 - Strategy 2: 22% stocks / 78% bonds



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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

ITEM NO. 4.

- More flexibility than paying CalPERS directly
 - Town decides if and when and how much money to put into Trust
 - Town decides if and when and how much to withdraw to pay CalPERS or reimburse Town
- Funding strategies typically focus on:
 - Reducing the unfunded liability
 - Fund enough to make total CalPERS UAL = 0
 - Make PEPRAs required payments from Trust when overfunded
 - Stabilizing contribution rates
 - Mitigate expected contribution rates to better manage budget
 - Combination
 - Use funds for rate stabilization/budget predictability
 - Target increasing fund balance to pay off UAL sooner



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IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- Consider:
 - How much can you put into Trust?
 - Initial seed money?
 - Additional amounts in future years?
 - When do you take money out?
 - Target budget rate?
 - Year target budget rate kicks in?
 - Before or after CalPERS rate exceeds budgeted rate?



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COMPARISON OF OPTIONS

ITEM NO. 4.

■ **Supplemental Trust**

- Flexible
- Likely lower long-term return
- Investment strategy choice
- Does not reduce net pension liability for GASB reporting
- More visible

■ **CalPERS**

- Locked In
- Likely higher long-term return
- No investment choice
- Reduces net pension liability for GASB reporting
- More restricted



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COMPARISON OF OPTIONS

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PREFUNDING OPTIONS

ITEM NO. 4.

- Savings from an additional \$1 million contribution to CalPERS on 6/30/2024:
- Miscellaneous Plan
 - Shortest Bases: 2003 Assumption Change (1 year remaining) and 2007 Benefit Change (4 years remaining)

OR

- Longest Bases: 2013 Loss (21 years remaining)

Miscellaneous Plan Target Bases	Estimated Interest Savings	2024/25 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$107	\$(506)
Present value of savings @ 3% (000's)	57	
Longest Base	\$1 million	
\$ Savings (000's)	\$853	\$(75)
Present value of savings @ 3% (000's)	382	



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PREFUNDING OPTIONS

- Safety Plan
 - Shortest Bases: 2014 Assumption Change (12 year remaining)
- OR**
- Longest Bases: 2017 & 2018 Non-Asset Loss (25 & 26 years remaining, respectively) and 2016 Asset Loss (24 years remaining)

Safety Plan Target Bases	Estimated Interest Savings	2024/25 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$394	\$(122)
Present value of savings @ 3% (000's)	195	
Longest Base	\$1 million	
\$ Savings (000's)	\$1,068	\$(67)
Present value of savings @ 3% (000's)	460	



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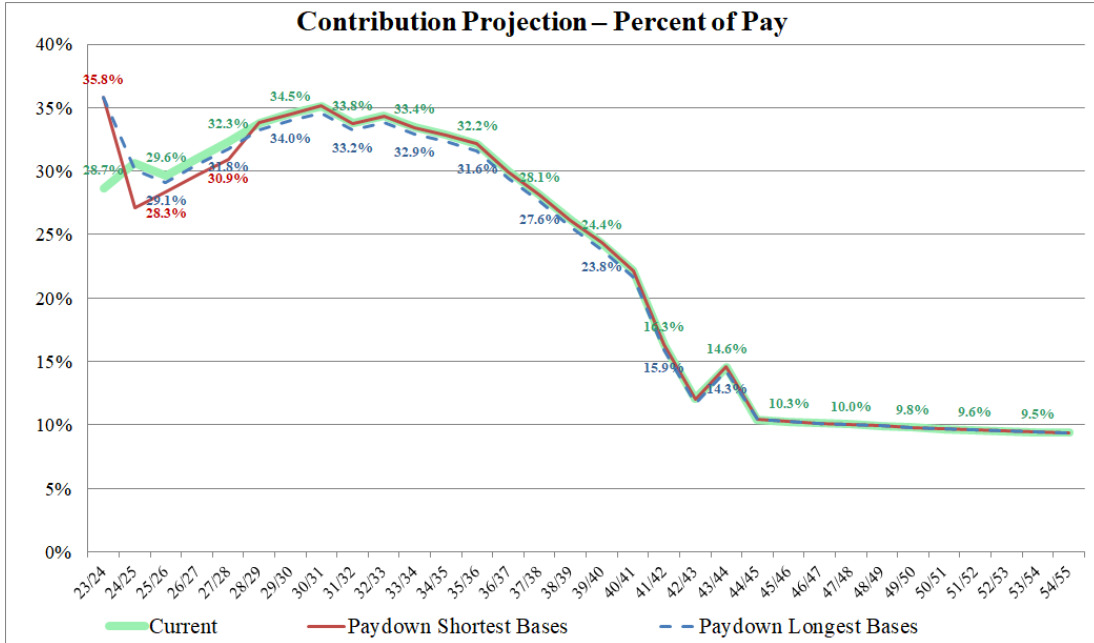
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Miscellaneous

Direct Payment \$1M to CalPERS

Contribution Projection – Percent of Pay



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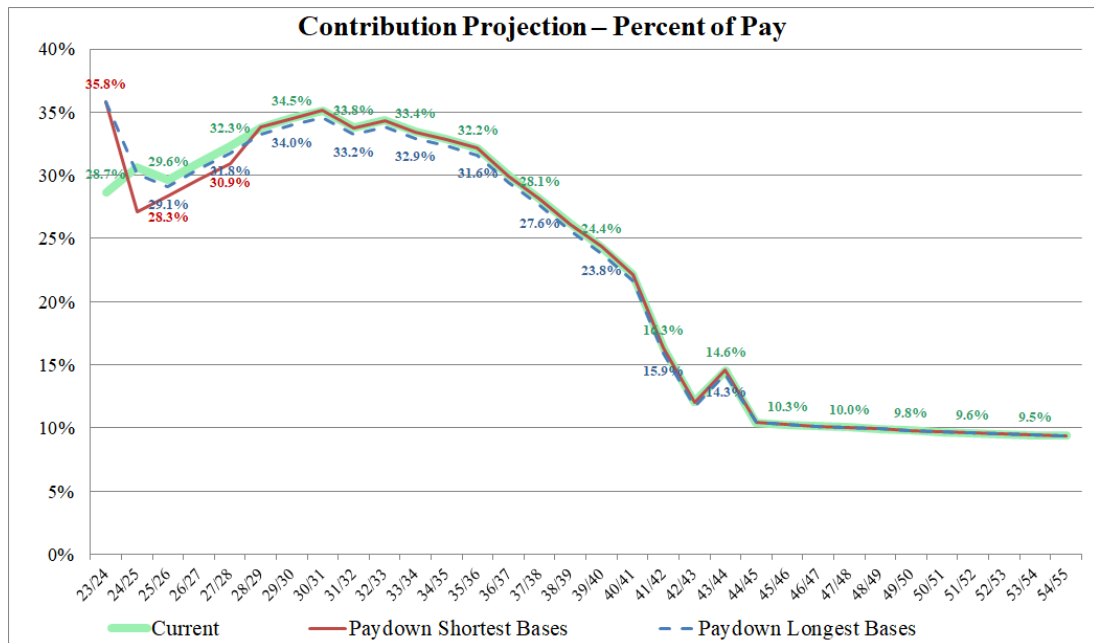
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Safety

Direct Payment \$1M to CalPERS

Contribution Projection – Percent of Pay

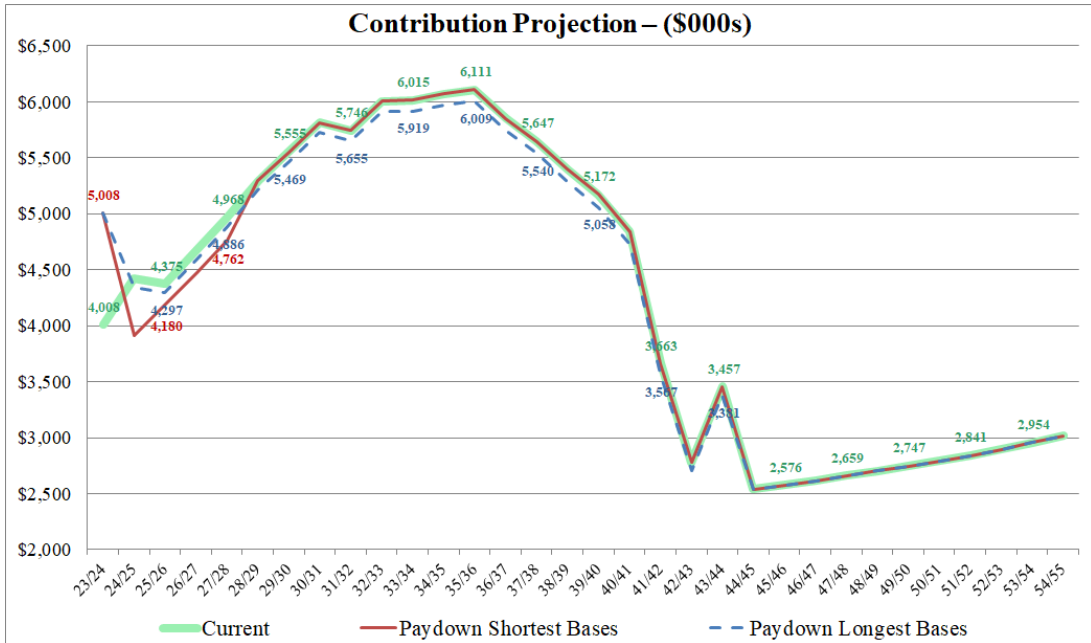


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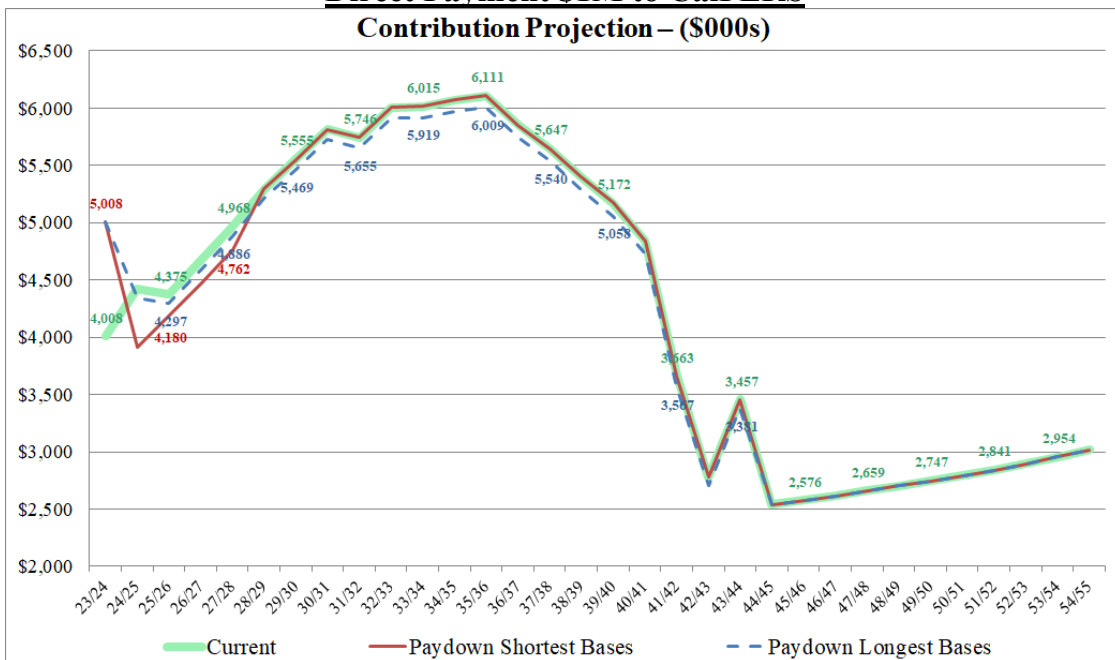
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Miscellaneous
Direct Payment \$1M to CalPERS



Safety
Direct Payment \$1M to CalPERS



This report presents analysis of the Town of Los Gatos’s CalPERS pension plans. The purpose of this report is to provide the Town:

- Historical perspective on the plan investment returns, assets, funded status and contributions.
- Projections of likely future contributions and the impact of investment volatility

The calculations and projections in this report are based on information contained in the Town’s June 30, 2022 and earlier CalPERS actuarial valuation reports. We reviewed this information for reasonableness, but do not make any representation on the accuracy of the CalPERS reports.

Future investment returns and volatility are based on Foster & Foster’s Capital Market model which results in long term returns summarized on page 30.

Future results may differ from our projections due to differences in actual experience as well as changes in plan provisions, CalPERS actuarial assumptions or methodology. Other than variations in investment return, this study does not analyze these.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,

Doug Pryor, ASA, EA, MAAA
Foster & Foster, Inc.
April 23, 2024

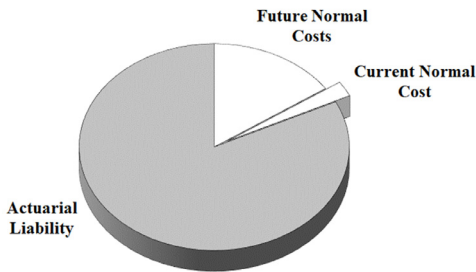


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DEFINITIONS

Present Value of Benefits
June 30, 2022



■ PVB - Present Value of all Projected Benefits:

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/22), of all future expected benefit payments based on various (actuarial) assumptions

■ Current Normal Cost (NC):

- Portion of PVB allocated to (or “earned” during) current year
- Value of employee and employer current service benefit

■ Actuarial Liability (AAL):

- Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
- Portion of PVB “earned” at measurement

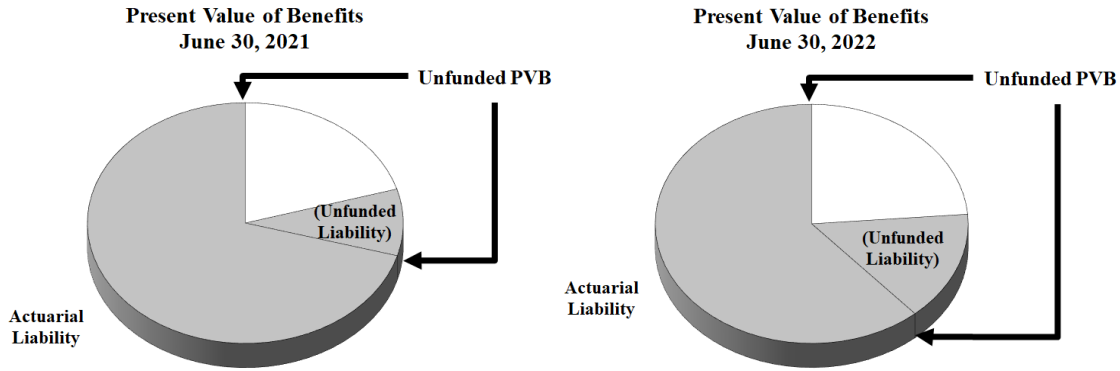


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DEFINITIONS

ITEM NO. 4.



- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability (UAAL or UAL) -** Money short of target at valuation date
 - If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
 - Any difference is the unfunded (or overfunded) AAL
 - Every year, the actuary calculates the difference between the expected UAAL and Actual UAAL. This is a new layer or amortization base
 - Each new layer gets amortized (paid off) over a period of time as part of the contribution [rate]



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HOW WE GOT HERE

Significant Factors

- Investment Losses
- CalPERS Contribution Policy
- Enhanced Benefits
- Demographics



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Old Contribution Policy

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses

- Designed to:
 - First smooth rates and
 - Second pay off UAL

- Mitigated contribution volatility



CalPERS Changes

- April 2013: CalPERS adopted new contribution policy
 - No asset smoothing or rolling amortization
- February 2018: New amortization policy for 2021/22 contributions
 - Fixed dollar (level) 20-year amortization rather than % pay (escalating)
 - 5-year ramp up (not down) for investment gains and losses
- CalPERS Board changed the discount rate to 7%, still phasing in to rates:

	<u>Rate</u>	<u>Initial Impact</u>	<u>Full Impact</u>
● 6/30/16 valuation	7.375%	18/19	22/23
● 6/30/17 valuation	7.25%	19/20	23/24
● 6/30/18 valuation	7.00%	20/21	24/25
- In the November 2021 meeting, CalPERS Board adopted
 - Discount rate and investment allocation
 - Discount rate: 6.8% for 6/30/2021. UAL impact matches investment gain amortization (5-year ramp-up). Initial impact in 23/24 and full impact in 27/28.
 - Asset allocation has higher investment risk than current portfolio
 - Experience study (Demographic assumptions)





**TOWN OF LOS GATOS
CALPERS MISCELLANEOUS & SAFETY PLANS**



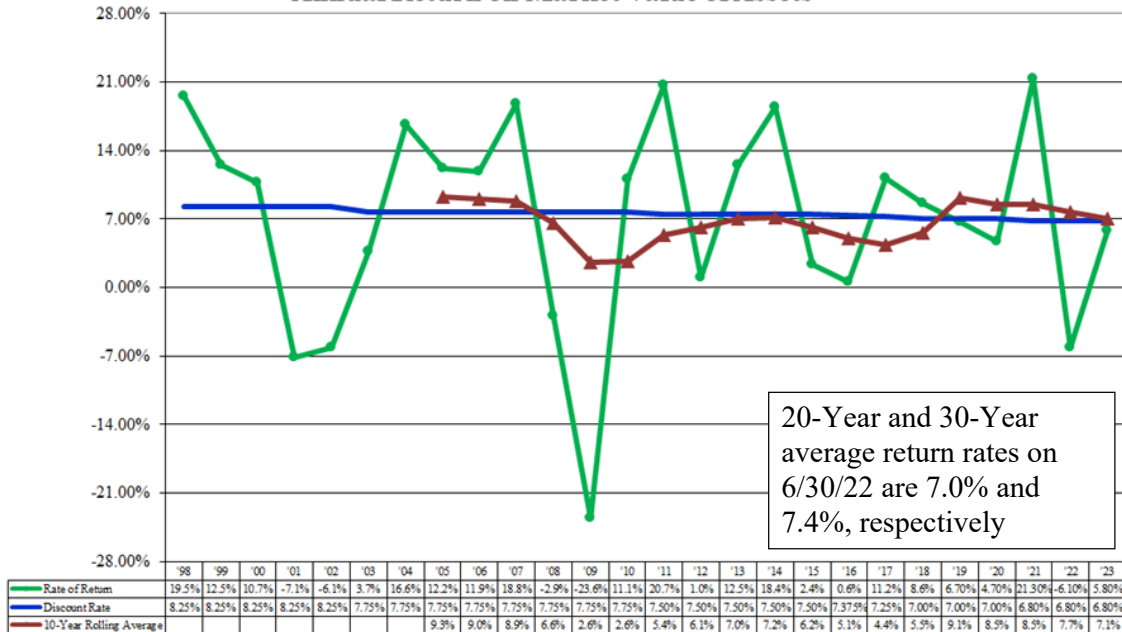
CalPERS Analysis – 6/30/22 Valuation

Doug Pryor, ASA, EA, MAAA
Matthew Childs
Foster & Foster, Inc.

May 13, 2024

INVESTMENT RETURN

Annual Return on Market Value of Assets

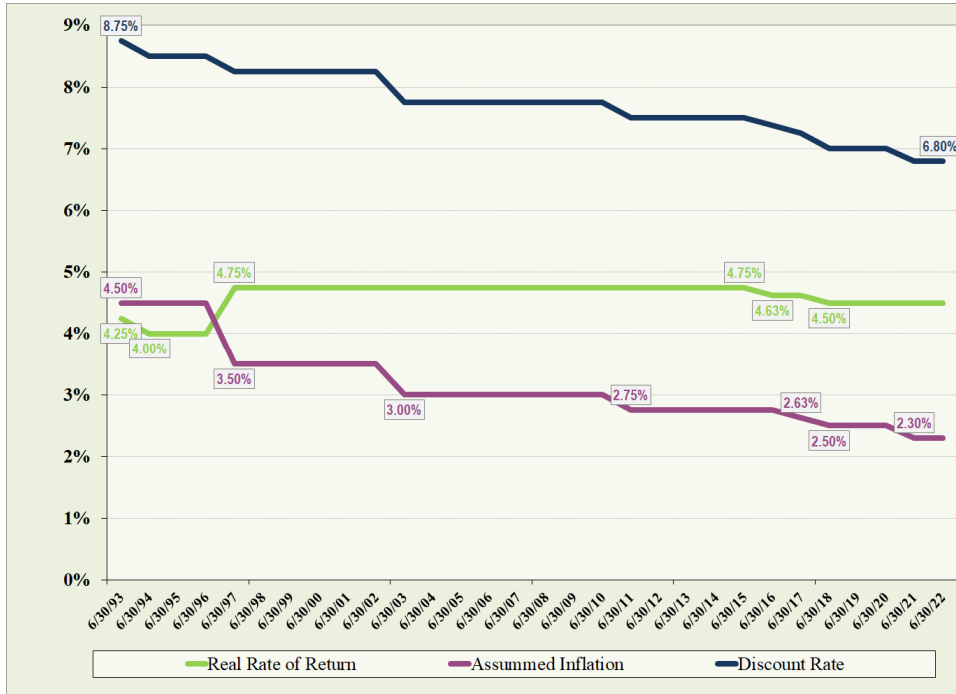


Discount rates are expected returns net of administrative expenses.

2013/14 through 2022/23 “money-weighted” returns reported in CalPERS AFCR (without lags on private equity and real estate) are 18.3%, 2.2%, 0.5%, 11.2%, 8.4%, 6.5%, 5.0%, 22.4%, -7.5%, and 6.1%, respectively.



Inflation and Real Return Assumptions



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RISK MITIGATION

Overview

- Move to more conservative investments over time to reduce volatility/risk
 - Only when investment return is better than expected
 - Lower discount rate in concert

Excess Investment Return	Reduction in Discount Rate
<i>If the actual investment returns exceed the discount rate by:</i>	<i>Then the discount rate will be reduced by:</i>
2%	0.05%
7%	0.10%
10%	0.15%
13%	0.20%
17%	0.25%

- Essentially use ≈50% of investment gains to pay for cost increases
- Likely get to 6.0% discount rate over 20+ years
 - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
 - First triggered for 6/30/21 valuation - 6.8% discount rate
- Not triggered for 6/30/22 (nor 6/30/23) valuation
- April 15, 2024 CalPERS Board removed automatic trigger



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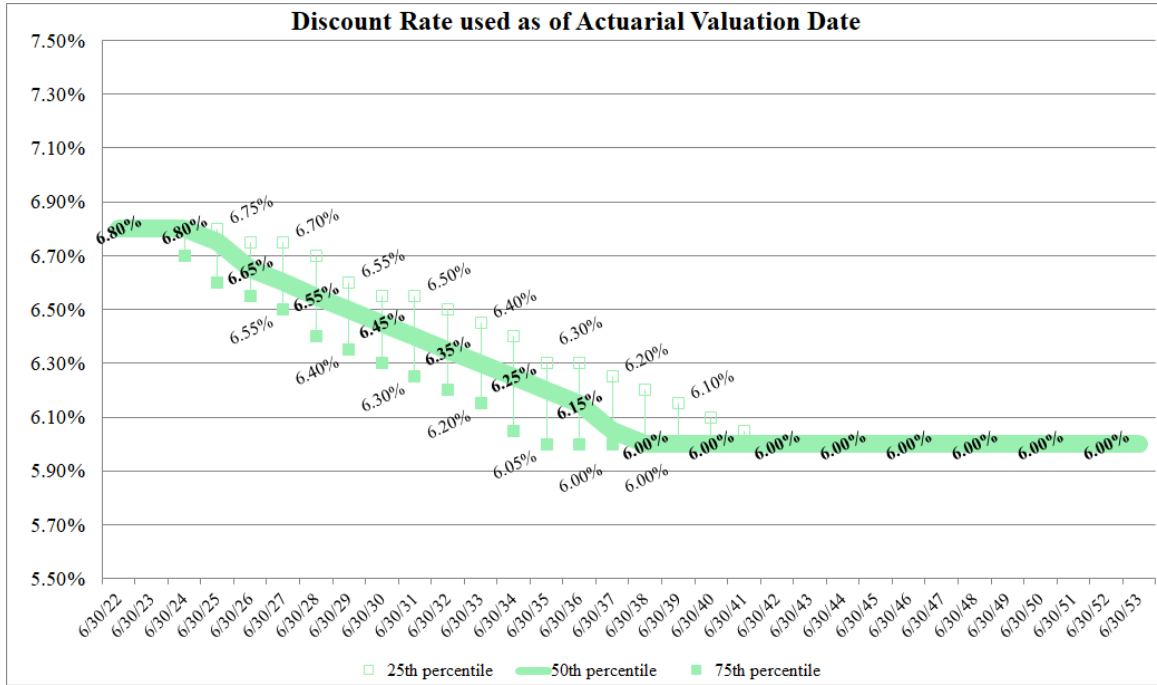
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RISK MITIGATION

ITEM NO. 4.

Projection



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RISK MITIGATION

Portfolio Target Allocations

Asset Classification	Prior Portfolio	11/17/21 Portfolio
Liquidity	1%	-
Real Assets	13%	15%
Private Debt	-	5%
EM Sov Bonds	1%	5%
High Yield	4%	5%
Investment Grade Corp.	6%	10%
Mtge-backed Securities	7%	5%
Treasury	10%	5%
Private Equity	8%	13%
Global Equity ¹	50%	42%
Leverage	-	(5)%
Total	100%	100%
Standard Deviation	11.2%	12.0%

¹ Cap and non-cap weighted combined for this table; actual portfolios have specific allocations for each classification.



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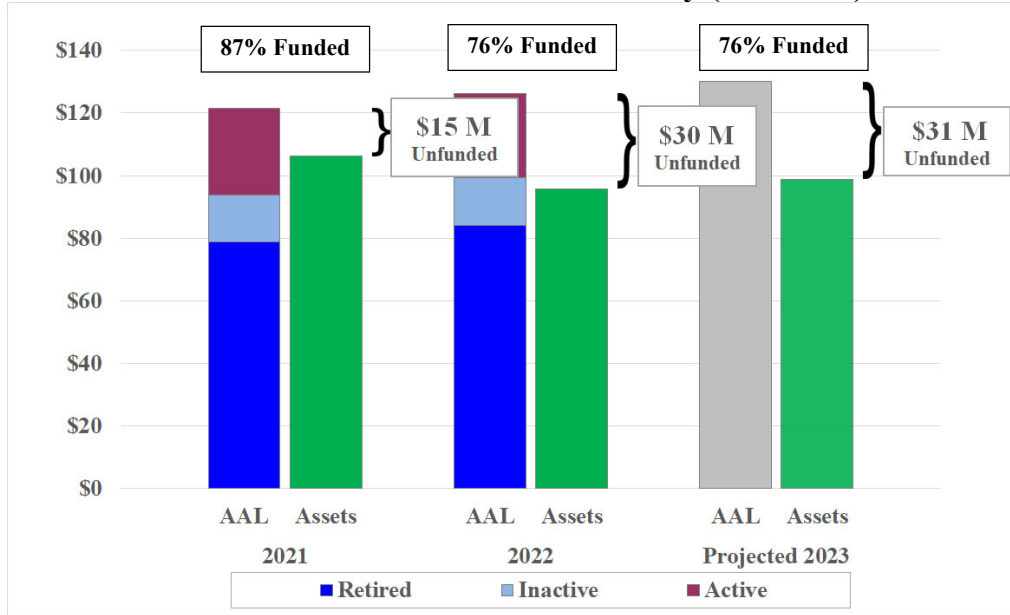


PLAN FUNDED STATUS

ITEM NO. 4.

Miscellaneous

CalPERS Assets and Actuarial Liability (\$Millions)²



² Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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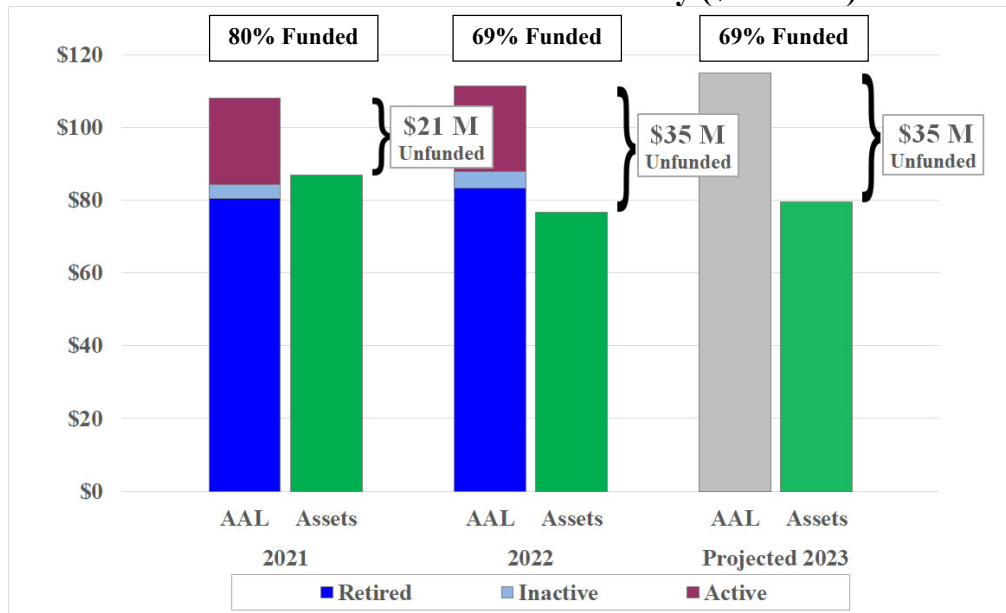
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PLAN FUNDED STATUS

Safety

CalPERS Assets and Actuarial Liability (\$Millions)³



³ Projected 2023 assets reflects 5.8% CalPERS investment return for 2022/23.



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PLAN FUNDED STATUS

ITEM NO. 4.

Discount Rate Sensitivity June 30, 2022

Miscellaneous

	Discount Rate		
	<u>6.80%</u>	<u>6.30%</u> ⁴	<u>5.80%</u>
AAL	\$126,200,000	\$134,400,000	\$142,600,000
Assets	<u>95,800,000</u>	<u>95,800,000</u>	<u>95,800,000</u>
Unfunded Liability	30,400,000	38,600,000	46,800,000
Funded Ratio	75.9%	71.3%	67.2%

Safety

	Discount Rate		
	<u>6.80%</u>	<u>6.30%</u>	<u>5.80%</u>
AAL	\$111,300,000	\$118,900,000	\$126,400,000
Assets	<u>76,700,000</u>	<u>76,700,000</u>	<u>76,700,000</u>
Unfunded Liability	34,600,000	42,200,000	49,700,000
Funded Ratio	69.0%	64.5%	60.7%

⁴ Estimated by Foster & Foster.



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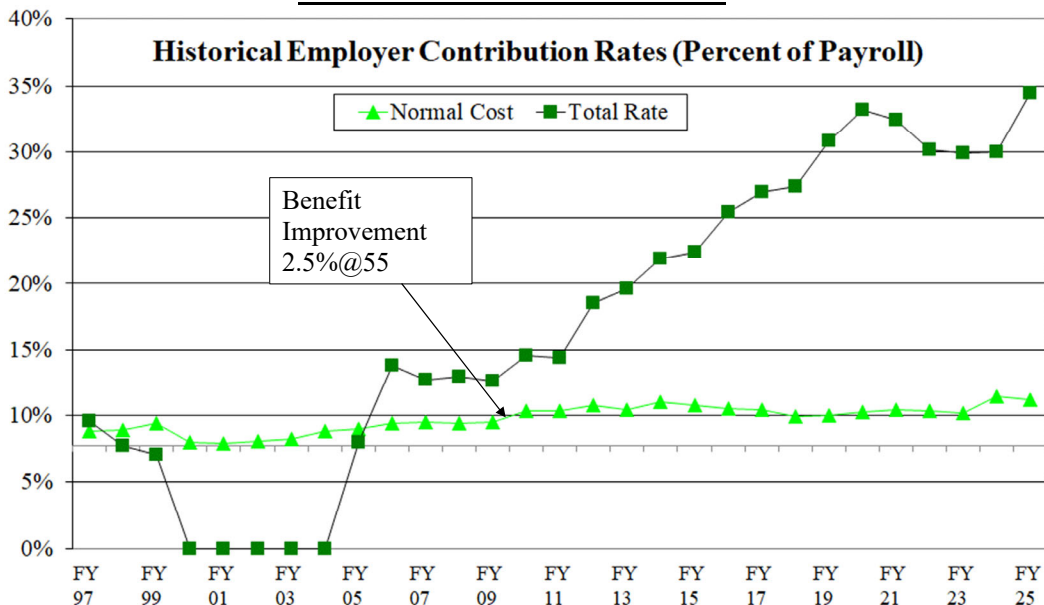
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CONTRIBUTION RATES

Miscellaneous

Historical Contribution Rates



May 13, 2024

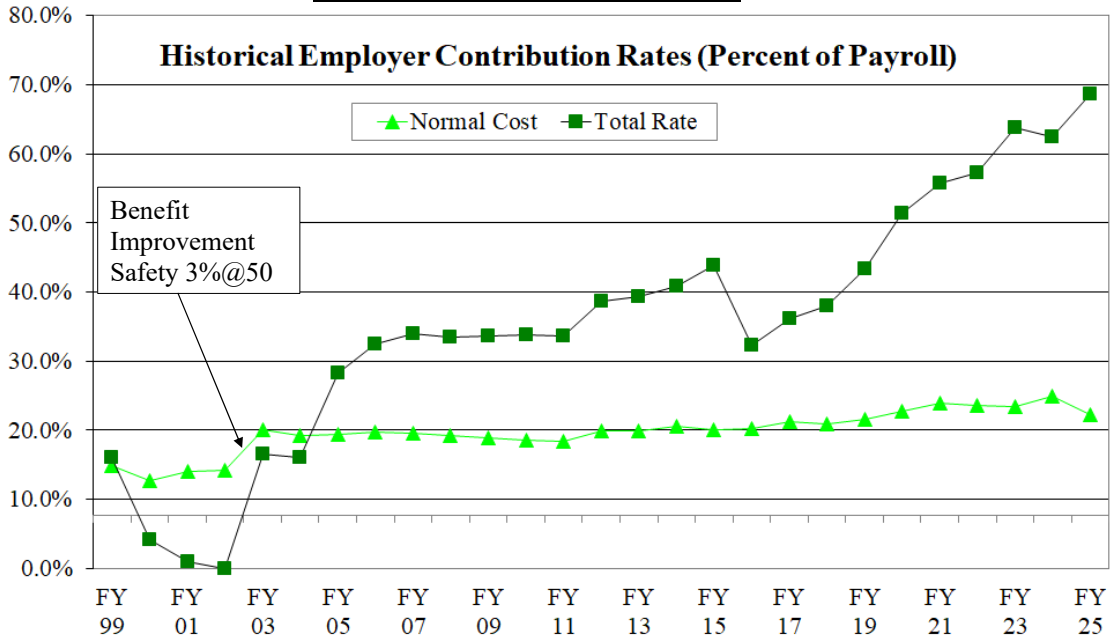
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CONTRIBUTION RATES

Safety

Historical Contribution Rates



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CONTRIBUTION PROJECTIONS

Background

- Investment returns:
 - June 30, 2023 5.8%⁵
 - Future returns based on stochastic analysis using 1,000 trials
 - Single year returns⁶ with current investment mix, no risk mitigation:
- | | Percentile | | |
|---------------|------------------|------------------|------------------|
| | 25 th | 50 th | 75 th |
| First 8 years | -1.8% | 6.0% | 14.7% |
| After 8 years | -0.7% | 7.5% | 16.4% |
- Assumes investment returns will generally be lower over the next 8 years and higher beyond that.
 - Discount Rate decreases due to Risk Mitigation policy:
 - Ultimate rate 6.0%
 - Net impact of investment gain and discount rate change amortized over 20 years with 5 year ramp up
 - No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
 - All future hires PEPRA

⁵ Gross return based on June 30, 2023 CalPERS News Release issued in July 2023.

⁶ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



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CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Miscellaneous Payroll

- 6/30/22 employee distribution:

Benefit Tier	Count	% of Total	21/22 Payroll	% of Total
2.5%@55 FAC1	28	26.2%	\$ 3,061,200	27.6%
2%@60 FAC3	21	19.6%	3,070,200	27.7%
2%@62 FAC3 (PEPRA)	58	54.2%	4,962,800	44.7%
Total	107	100%	11,094,200	100%

- Town provided payroll for contribution years:

FYE	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Payroll (000s)	\$13,980	\$14,441	\$14,755	\$15,059	\$15,388	\$15,666

- Employee Cost Sharing of Employer Contribution:

- None



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CONTRIBUTION PROJECTIONS

Safety

- 6/30/22 employee distribution:

Benefit Tier	Count	% of Total	21/22 Payroll	% of Total
3%@50 FAC1	21	56.8%	\$3,446,200	63.6%
2.7%@57 FAC3 (PEPRA)	16	43.2%	1,969,500	36.4%
Total	37	100%	5,415,800	100%

- Town provided payroll (000s) for contribution years:

FYE	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Classic	\$3,850	\$3,942	\$4,034	\$4,113	\$4,194	\$4,277
PEPRA	2,738	2,852	2,925	2,992	3,051	3,112

- Employee Cost Sharing of Employer Contribution:

- 3% of pay employee share for Classic members



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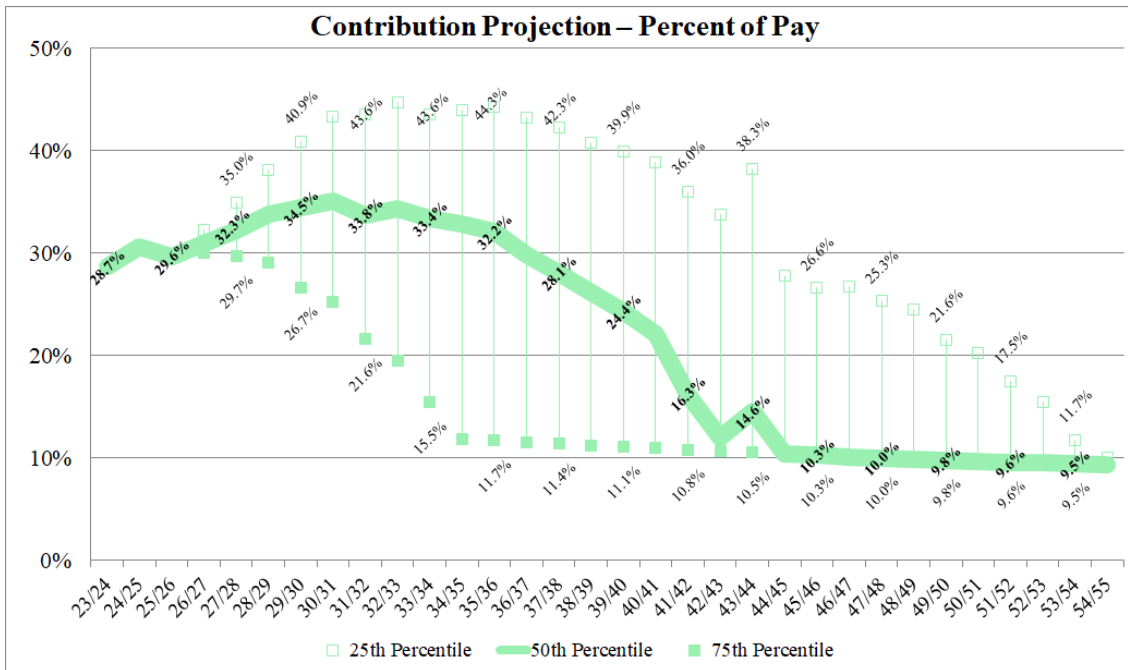
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CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Miscellaneous



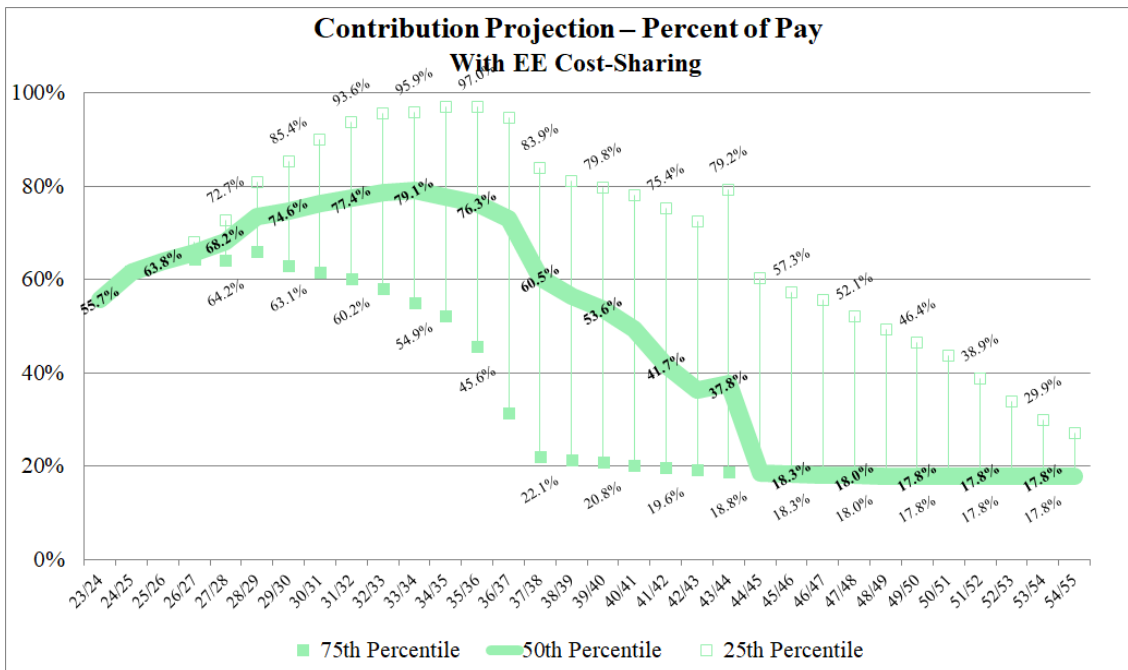
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CONTRIBUTION PROJECTIONS

Safety



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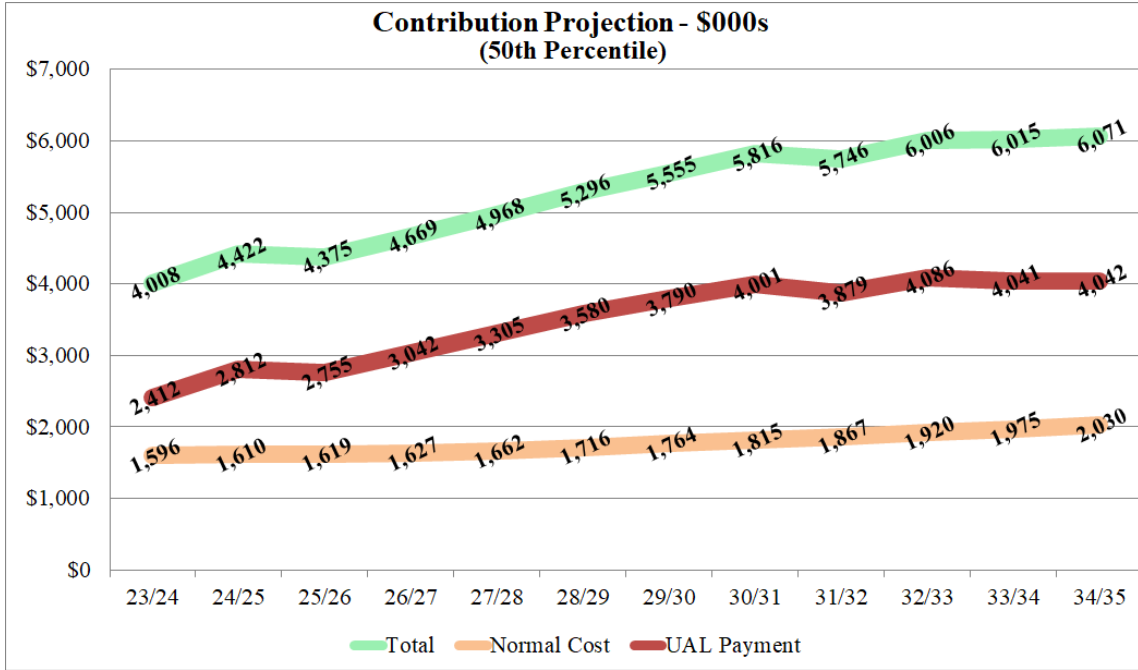
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CONTRIBUTION PROJECTIONS

ITEM NO. 4.

Miscellaneous



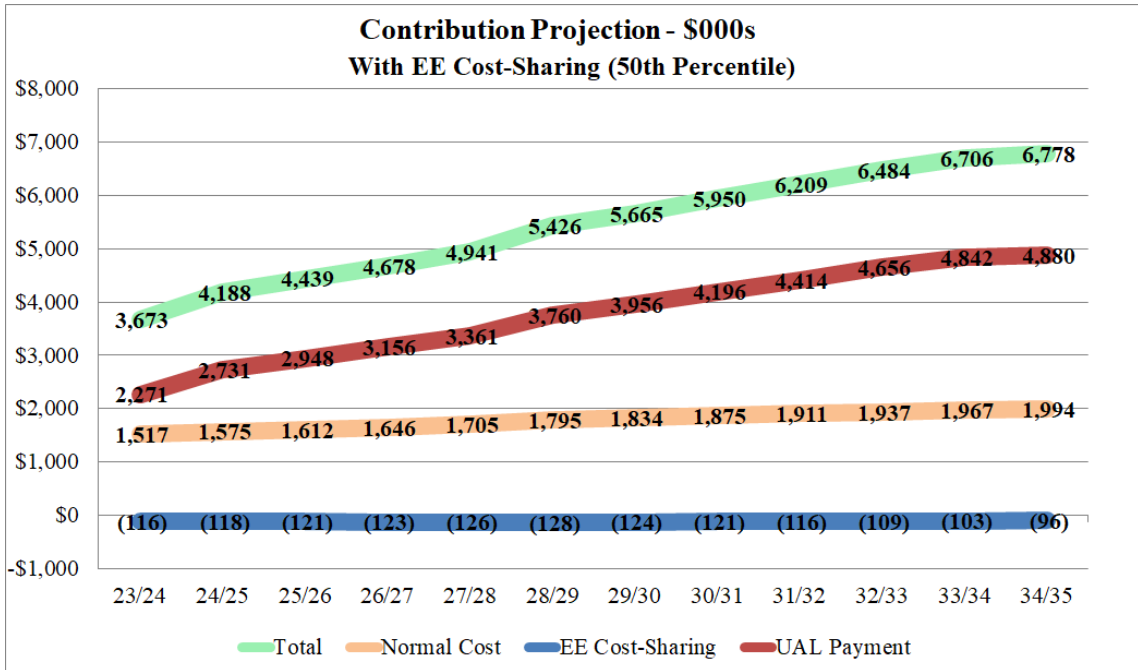
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CONTRIBUTION PROJECTIONS

Safety

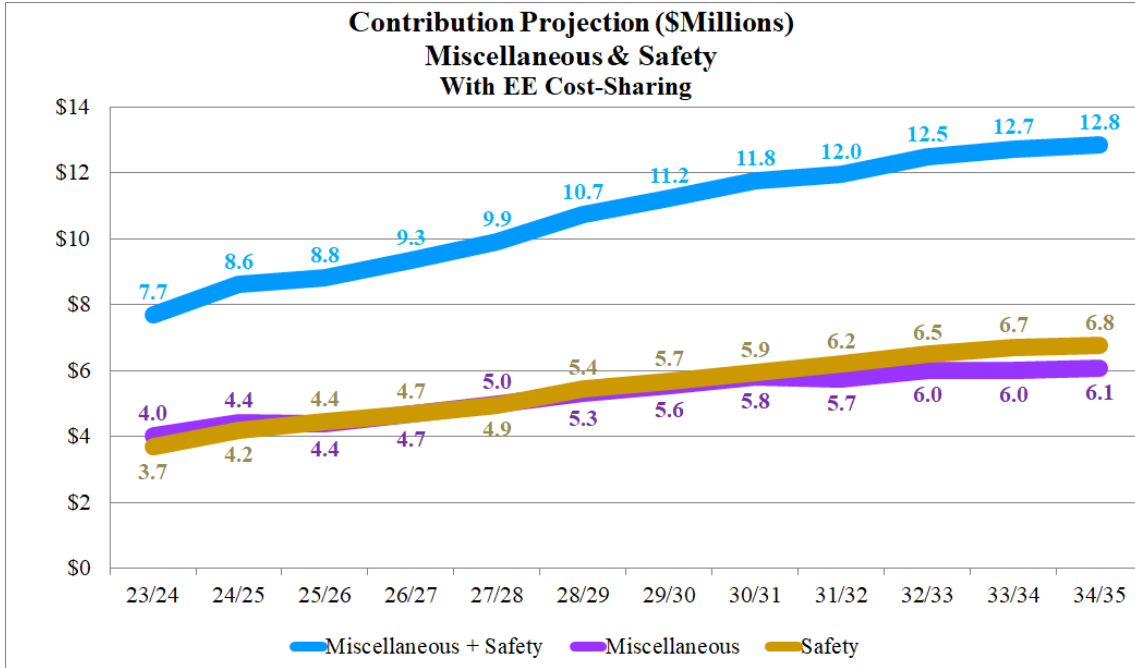


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Combined Miscellaneous and Safety



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PREFUNDING OPTIONS

Miscellaneous

Direct Payment \$1M 6/30/24 to CalPERS

- Shortest Bases: 2003 Assumption Change (1 year remaining) and 2007 Benefit Change (4 years remaining)

OR

- Longest Bases: 2013 Loss (21 years remaining)

Miscellaneous Plan Target Bases	Estimated Interest Savings	2024/25 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$107	\$(506)
Present value of savings @ 3% (000's)	57	
Longest Base	\$1 million	
\$ Savings (000's)	\$853	\$(75)
Present value of savings @ 3% (000's)	382	



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PREFUNDING OPTIONS

ITEM NO. 4.

Safety

Direct Payment \$1M 6/30/24 to CalPERS

- Shortest Bases: 2014 Assumption Change (12 year remaining)
OR
- Longest Bases: 2017 & 2018 Non-Asset Loss (25 & 26 years remaining, respectively) and 2016 Asset Loss (24 years remaining)

Safety Plan Target Bases	Estimated Interest Savings	2024/25 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$394	\$(122)
Present value of savings @ 3% (000's)	195	
Longest Base	\$1 million	
\$ Savings (000's)	\$1,068	\$(67)
Present value of savings @ 3% (000's)	460	



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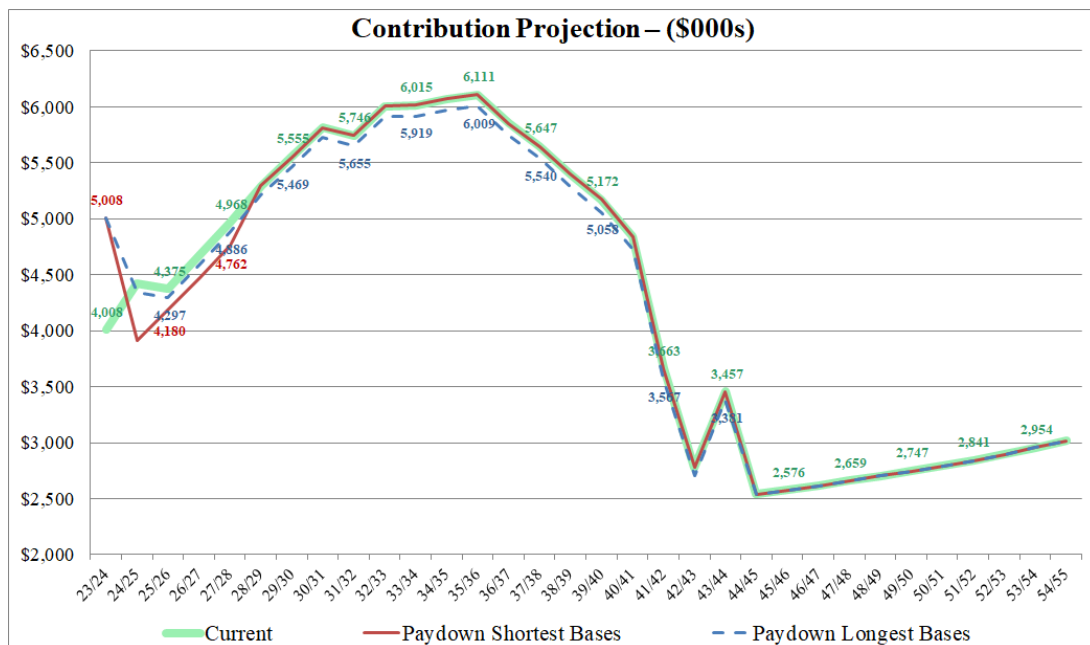
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PREFUNDING OPTIONS

Miscellaneous

Direct Payment \$1M to CalPERS



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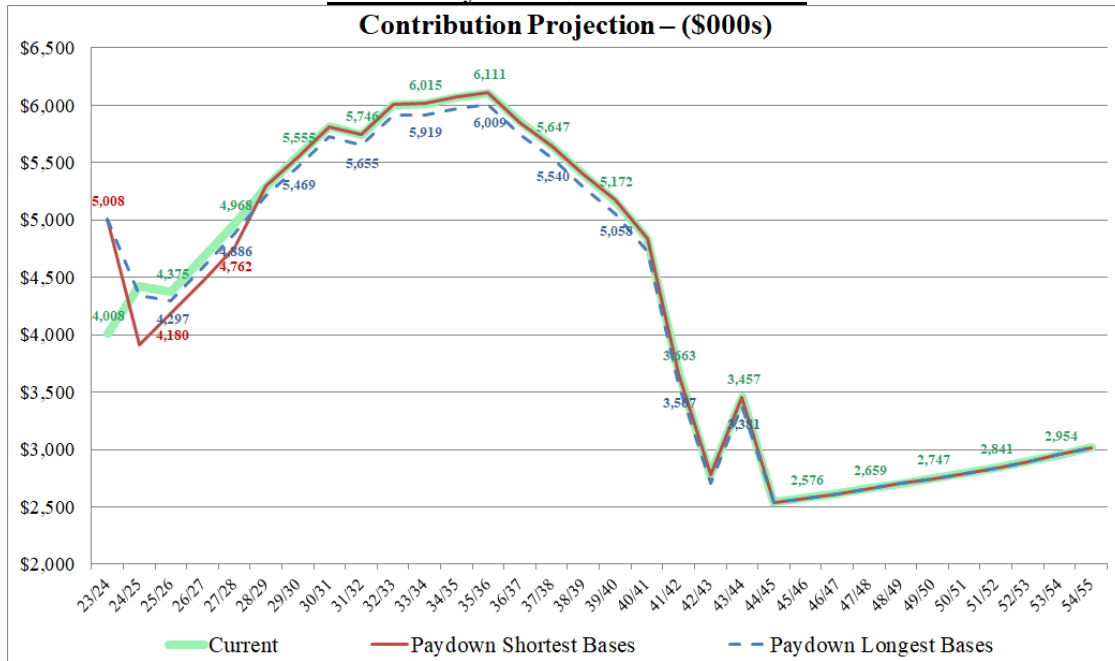
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Safety

Direct Payment \$1M to CalPERS

Contribution Projection – (\$000s)



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