TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE AGENDA
SEPTEMBER 03, 2019
110 EAST MAIN STREET
LOS GATOS, CA

PARTICIPATION IN THE PUBLIC PROCESS

How to participate: The Town of Los Gatos strongly encourages your active participation in the public process, which is the cornerstone of democracy. If you wish to speak to an item on the agenda, please complete a "speaker's card" located on the back of the chamber benches and return it to the Clerk Administrator. If you wish to speak to an item NOT on the agenda, you may do so during the "Verbal Communications" period. The time allocated to speakers may change to better facilitate the Town Council meeting.

Effective Proceedings: The purpose of the Town Council meeting is to conduct the business of the community in an effective and efficient manner. For the benefit of the community, the Town of Los Gatos asks that you follow the Town's meeting guidelines while attending Town Council meetings and treat everyone with respect and dignity. This is done by following meeting guidelines set forth in State law and in the Town Code. Disruptive conduct is not tolerated, including but not limited to: addressing the Town Council without first being recognized; interrupting speakers, Town Council or Town staff; continuing to speak after the allotted time has expired; failing to relinquish the podium when directed to do so; and repetitiously addressing the same subject.

Deadlines for Public Comment and Presentations are as follows:

- Persons wishing to make an audio/visual presentation on any agenda item must submit the presentation electronically, either in person or via email, to the Clerk's Office no later than 3:00 p.m. on the day of the Council meeting.
- Persons wishing to submit written comments to be included in the materials provided to Town Council must provide the comments as follows:
  - For inclusion in the regular packet: by 11:00 a.m. the Thursday before the Council meeting
  - For inclusion in any Addendum: by 11:00 a.m. the Monday before the Council meeting
  - For inclusion in any Desk Item: by 11:00 a.m. on the day of the Council Meeting

Town Council Meetings Broadcast Live on KCAT, Channel 15 (on Comcast) on the 1st and 3rd Tuesdays at 7:00 p.m.
Rebroadcast of Town Council Meetings on the 2nd and 4th Mondays at 7:00 p.m.
Live & Archived Council Meetings can be viewed by going to:
www.losgatosca.gov/Councilvideos

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]

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TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE AGENDA
SEPTEMBER 03, 2019
5:00 PM

MEETING CALLED TO ORDER

ROLL CALL

CONSENT ITEMS *(Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Council or public may request to have an item removed from the Consent Items for comment and action. If an item is pulled, the Mayor has the sole discretion to determine when the item will be hear. Unless there are separate discussions and/or actions requested by Council, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

1. Approve Town Pension and OPEB Trusts Oversight Committee meeting minutes of June 4, 2019.
2. Accept Year-End Performance and Account Summary Reports for the Period Ending June 30, 2019 for the Town of Los Gatos California Employers' Retiree Benefit Trust (CERBT) for the Period Ending June 30, 2019.
3. Accept Year-End Performance and Account Summary Reports for Period Ending June 30, 2019 for the Town of Los Gatos IRS Section 115 Pension Trust.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Town Council on any matter that is not listed on the agenda. To ensure all agenda items are heard and unless additional time is authorized by the Mayor, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

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

4. Review and Discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and Decide on an Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis.

ADJOURNMENT *(Council policy is to adjourn no later than midnight unless a majority of Council votes for an extension of time)*

Writings related to an item on the Town Council meeting agenda distributed to members of the Council within 72 hours of the meeting are available for public inspection at the front desk of the Los Gatos Town Library, located at 100 Villa Avenue, and are also available for review on the official Town of Los Gatos website. Copies of desk items distributed to members of the Council at the meeting are available for review in the Town Council Chambers

Note: The Town of Los Gatos has adopted the provisions of Code of Civil Procedure §1094.6; litigation challenging a decision of the Town Council must be brought within 90 days after the decision is announced unless a shorter time is required by State or Federal law.

DRAFT
Minutes of the Pension and OPEB Trust Oversight Committee Meeting
June 4, 2019

The Pension and OPEB Trust Oversight Committee of the Town of Los Gatos conducted a regular meeting on Tuesday, June 4, 2019, at 6:30 p.m.

MEETING CALLED TO ORDER AT 6:30 P.M.

ROLL CALL

Present: Mayor Steven Leonardis, Vice Mayor Marcia Jensen, Council Member Rob Rennie, Council Member Marico Sayoc, Council Member Barbara Spector.
Absent: None

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

1. Approve the Town Pension and OPEB Trusts Oversight Committee minutes of March 5, 2019.

MOTION: **Motion** by **Vice Mayor Jensen** to approve the Consent Item. **Seconded** by **Council Member Rennie.**

VOTE: **Motion passed unanimously.**

VERBAL COMMUNICATIONS

Terry Dureya, Council Finance Committee member

- Suggested the Pension/OPEB Oversight Committee receive investment risk/reward training similar to that of the CalPERS Investment Committee.

OTHER BUSINESS

2. Accept Performance Report and fund balance for the California Employers' Retiree Benefit Trust (CERBT) for the period ending March 31, 2019.

Arn Andrews, Assistant Town Manager, presented the staff report.

Opened Public Comment.

Terry Dureya, Council Finance Committee member

- Suggested that the PARS pension asset allocation may have too much equity exposure given the length of the current economic expansion and possible investment horizon. Mr. Duryea asked that the Committee revisit the existing asset allocation.

Other Business Item #2 – continued

Closed Public Comment.

Council discussed the matter.

MOTION: **Motion** by **Vice Mayor Jensen** to accept the reports. **Seconded** by **Council Member Sayoc.**

VOTE: **Motion passed unanimously.**

3. Accept Quarterly Performance Report for the period ending March 31, 2019 and account summary statements for the Town of Los Gatos IRS Section 115 Pension Trust through April 2019.

Arn Andrews, Assistant Town Manager, presented the staff report.

Opened and closed Public Comment.

Council discussed the matter.

MOTION: **Motion** by **Vice Mayor Jensen** to accept the reports. **Seconded** by **Council Member Rennie.**

VOTE: **Motion passed unanimously.**

ADJOURNMENT

The meeting adjourned at 6:47 p.m.

Attest:

____

Shelley Neis, Town Clerk

DATE: August 21, 2019

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Laurel Prevetti, Town Manager

SUBJECT: Accept Year-End Performance and Account Summary Reports for the Period Ending June 30, 2019 for the Town of Los Gatos California Employers' Retiree Benefit Trust (CERBT) for the Period Ending June 30, 2019

RECOMMENDATION:

Accept Year-End Performance and Account Summary Reports for the Period Ending June 30, 2019 for the Town of Los Gatos California Employers' Retiree Benefit Trust (CERBT) for the Period Ending June 30, 2019.

REMARKS:

In 2009, the Council approved participating in the California Employer's Retiree Benefit Trust (CERBT) Fund. The CERBT Fund is a Section 115 trust fund dedicated to the prefunding of other post-employment benefits (OPEB). The CERBT is the single investment vehicle for the Town's OPEB Plan (OPEB Plan). The Town's OPEB assets are invested in the CERBT Strategy 1 and are approximately $18.4 million as of June 30, 2019 (Attachment 1). As of June 30, 2019, the CERBT account returned 6.22% gross of fees for the year (Attachment 2).

Attachments:
1. CERBT Year-End Account Summary for the Period Ending June 30, 2019
2. CERBT Year-End Performance Summary for the Period Ending June 30, 2019

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

110 E. Main Street Los Gatos, CA 95030 ● 406-354-6832
www.losgatosca.gov

Town of Los Gatos
CERBT Strategy 1
Entity #: SKB0-4589482285
Quarter Ended June 30, 2019

CalPERS

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	$16,733,631.97	$16,276,564.86
Contribution	1,100,000.00	1,100,000.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	549,734.79	1,017,089.62
Administrative Expenses	(2,076.28)	(8,018.99)
Investment Expense	(1,518.08)	(5,863.09)
Other	0.00	0.00
Ending Balance	$18,379,772.40	$18,379,772.40
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	$18,379,772.40	$18,379,772.40

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,025,315.136	1,025,315.136
Unit Purchases from Contributions	65,602.866	65,602.866
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,090,918.002	1,090,918.002
Period Beginning Unit Value	16.320477	15.874695
Period Ending Unit Value	16.847987	16.847987

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.

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ATTACHMENT 1

Statement of Transaction Detail for the Quarter Ending 06/30/2019

Town of Los Gatos

Entity #: SKB0-4589482285

Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
06/25/2019	Contribution	$1,100,000.00	$16.767560	65,602.866	WIRE 2019062500269 875	

Client Contact:
CERBT4U@CalPERS.ca.gov

If you have any questions or comments regarding the new statement format please contact CERBT4U@CalPERS.ca.gov

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 1

June 30, 2019

CalPERS

Objective

The objective of the CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition." 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 consists of a higher percentage of 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, the aggregate total of assets under management for all CERBT Strategies was

$9,800,514,809.

Composition

Asset Class Allocations and Benchmarks

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

Asset Class	Target Allocation[1]	Target Range	Benchmark
Global Equity	59%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	25%	±5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays US TIPS Index
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+2%	91 Day Treasury Bill

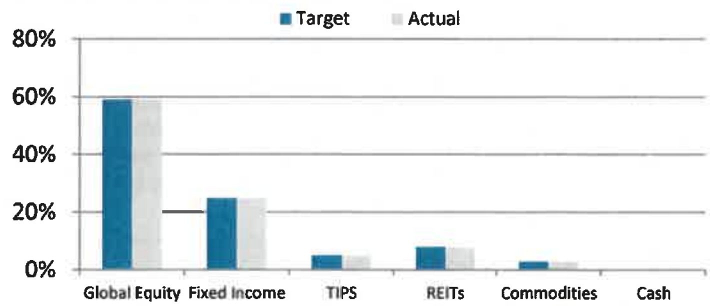
[1] Allocations approved by the Board at the May 2018 Investment Committee meeting

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 overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 1 Performance as of June 30, 2019								
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return[1,3]	4.49%	3.25%	6.22%	6.22%	8.26%	5.07%	9.42%	4.92%
Net Return[2,3]	4.48%	3.23%	6.13%	6.13%	8.17%	4.98%	9.33%	4.85%
Benchmark returns	4.52%	3.30%	6.00%	6.00%	7.83%	4.66%	9.08%	4.48%
Standard Deviation[4]	-	-	-	-	7.80%	8.05%	9.85%	12.61%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.
* Returns for periods greater than one year are annualized.
[1] Gross performance figures are provided net of SSGA operating expenses.
[2] Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.
[3] See the Expense section of this document.
[4] Standard Deviation is from gross return.

ATTACHMENT 2

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 1

CalPERS

June 30, 2019

General Information

Information Accessibility

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or external advisors. Since it is not a mutual fund, a prospectus is not available nor is information available from a newspaper source. This summary is designed to provide descriptive information. 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, including performance to the most recent month-end, please visit our website at: **www.calpers.ca.gov**.

Portfolio Manager Information

The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. State Street Global Advisors (SSGA) manages all asset classes for CERBT, which includes: 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 record keeper.

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 fee, 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 share. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or market conditions. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

What Employers Own

Each employer choosing CERBT Strategy 1 owns a percentage 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. CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. Further, CalPERS will not make up the difference between the employer's CERBT assets and the actual cost of Other Post Employment Benefits provided to employer's plan members.

An investment in the portfolio is not a bank deposit, and it is not insured nor 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**.

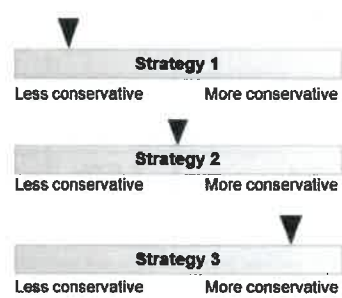
Fund Performance

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. 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	59%	40%	22%
Fixed Income	25%	43%	49%
Treasury Inflation-Protected Securities	5%	5%	16%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	4%	5%



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

TOWN OF LOS GATOS

TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE REPORT

MEETING DATE: 9/3/2019

ITEM NO: 3

DATE: August 21, 2019

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Laurel Prevetti, Town Manager

SUBJECT: Accept Year-End Performance and Account Summary Reports for Period Ending June 30, 2019 for the Town of Los Gatos IRS Section 115 Pension Trust

RECOMMENDATION:

Accept Year-End Performance and Account Summary Reports for Period Ending June 30, 2019 for the Town of Los Gatos IRS Section 115 Pension Trust (Attachments 1 and 2).

REMARKS:

On August 15, 2017, Town Council approved Public Agency Retirement Services (PARS) as the administrator of the Town's Section 115 Pension Trust. On December 4, 2017, the Council Finance Committee recommended to invest in the PARS Capital Appreciation Index Plus. In addition, the Committee recommended that assets placed in the 115 Pension Trust be dollar cost averaged over the next year to mitigate risks associated with a single market entry point.

On December 19, 2017, the Town Pension and OPEB Trusts Oversight Committee affirmed the Committee recommendations. The initial $300,000 was deposited into the PARS account in March 2018 with additional deposits programmed over the course of the year for a current total of $5.0 million in assets as of June 30, 2019. As of June 30, 2019, the PARS account returned 5.92% gross of fees for the year. Attachment 3 continues a brief Q2 Market Summary.

Attachments:
1. PARS IRS 115 Pension Trust Year-End Account Summary for the Period Ending June 30, 2019
2. PARS IRS 115 Pension Trust Year-End Performance Summary for the Period Ending June 30, 2019
3. PARS Q2 Market Summary

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

PUBLIC AGENCY RETIREMENT SERVICES PARS

TOWN OF LOS GATOS
PARS Post-Employment Benefits Trust

Account Report for the Period
7/1/2018 to 6/30/2019

Stephen Conway
Director of Finance
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95030

Account Summary

Source	Beginning Balance as of 7/1/2018	Contributions	Earnings	Expenses	Distributions	Transfers	Ending Balance as of 6/30/2019
PENSION	$1,206,851.41	$3,578,913.00	$236,706.94	$7,155.09	$0.00	$0.00	$5,015,316.26
Totals	**$1,206,851.41**	**$3,578,913.00**	**$236,706.94**	**$7,155.09**	**$0.00**	**$0.00**	**$5,015,316.26**

Investment Selection

Source	
PENSION	**Capital Appreciation Index PLUS**

Investment Objective

Source	
PENSION	The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.

Investment Return

				Annualized Return			
Source	**1-Month**	**3-Months**	**1-Year**	**3-Years**	**5-Years**	**10-Years**	**Plan's Inception Date**
PENSION	4.86%	2.82%	5.92%	-	-	-	3/20/2018

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.
Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.
Account balances are inclusive of Trust Administration, Trustee and Investment Management fees

Headquarters - 4350 Von Karman Ave., Suite 100, Newport Beach, CA 92660 800.540.6369 Fax 949.250.1250 www.pars.org

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Town of Los Gatos Pension

Second Quarter 2019

Presented by:
Andrew Brown, CFA

HIGHMARK®
MANAGEMENT

ATTACHMENT 2

Selected Period Performance
PARS/PRSP CAP APPRECIATION INDEX
Account ******0111
Period Ending: 6/30/2019

Sector	1 Month	3 Months	Year to Date (6 Months)	1 Year	Inception to Date 04/01/2018
Cash Equivalents	.19	.57	1.14	2.14	2.02
Lipper Money Market Funds Index	.18	.54	1.10	2.06	1.96
Total Fixed Income	1.02	2.56	5.34	6.94	5.41
BC US Aggregate Bd Index (USD)	1.26	3.08	6.11	7.87	6.11
Total Equities	6.36	3.36	17.26	6.08	6.63
Large Cap Funds	6.95	4.08	18.06	10.01	10.62
S&P 500 Composite Index	7.05	4.30	18.54	10.42	11.21
Mid Cap Funds	6.72	3.85	21.02	7.64	8.43
Russell Midcap Index	6.87	4.13	21.35	7.83	8.60
Small Cap Funds	6.74	1.68	16.34	-3.71	2.98
Russell 2000 Index (USD)	7.07	2.10	16.98	-3.31	3.34
REIT Funds	1.49	1.43	19.04	11.63	16.84
Wilshire REIT Index	1.42	1.63	17.92	10.53	16.69
International Equities	5.63	2.81	13.91	2.31	-1.54
MSCI EAFE Index (Net)	5.93	3.68	14.03	1.08	-.14
MSCI EM Free Index (Net USD)	6.24	.61	10.58	1.21	-5.52
Total Managed Portfolio	4.89	2.95	13.21	5.82	5.71

Inception Date: 04/01/2018
Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

Asset Allocation – Town of Los Gatos Pension
As of June 30, 2019

Current Asset Allocation		Investment Vehicle	
Equity		***Range: 65% - 85%***	**72.32%**
Large Cap Core	IVV	iShares Tr Core S&P 500 ETF	21.37%
Large Cap Value	IVE	iShares S&P 500 Value ETF	8.29%
Large Cap Growth	IVW	iShares S&P 500 Growth ETF	8.22%
Mid Cap Core	IWR	iShares Russell Mid Cap ETF	5.82%
Small Cap Value	IWN	iShares Russell 2000 Value ETF	4.98%
Small Cap Growth	IWO	iShares Russell 2000 Growth ETF	4.98%
International Core	EFA	iShares MSCI EAFE ETF	9.40%
Emerging Markets	VWO	Vanguard FTSE Emerging Markets ETF	6.10%
REIT	VNQ	Vanguard REIT ETF	3.16%
Fixed Income		***Range: 10% - 30%***	**20.95%**
Short-Term	VFSUX	Vanguard Short-Term Corp Adm Fund	5.60%
Intermediate-Term	AGG	iShares US Core Aggregate Bond ETF	15.35%
Cash		***Range: 0% - 20%***	**6.73%**
	FGZXX	First American Prime Obligations Fund	6.73%
TOTAL			**100.00%**

Town of Los Gatos Pension

For Period Ending June 30, 2019

Fund Name	1-Month Return	3-Month Return	Year-to-Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
LARGE CAP EQUITY FUNDS							
iShares S&P 500 Growth Index	6.14	4.50	20.08	11.85	17.05	12.90	15.89
iShares S&P 500 Index Fnd	7.04	4.29	18.52	10.37	14.14	10.66	14.63
iShares S&P 500 Value Index	8.05	3.96	16.61	8.49	10.47	7.76	12.91
MID CAP EQUITY FUNDS							
iShares Russell Midcap Index	6.84	4.07	21.22	7.72	11.99	8.47	14.97
SMALL CAP EQUITY FUNDS							
iShares Russell 2000 Value	6.33	1.31	13.35	-6.37	9.67	5.29	12.26
iShares Russell 2000 Growth	7.70	2.73	20.33	-0.52	14.71	8.73	14.49
INTERNATIONAL EQUITY FUNDS							
iShares MSCI EAFE Index	5.92	3.75	14.09	1.04	9.04	2.18	6.79
Vanguard FTSE Emerging Markets ETF	5.43	0.73	12.17	3.27	9.28	2.28	5.56
REAL ESTATE FUNDS							
Vanguard REIT ETF	1.71	1.72	19.30	12.21	4.03	7.69	15.46
BOND FUNDS							
iShares Barclays Aggregate Bond	1.24	3.07	6.10	7.84	2.26	2.91	3.78
Vanguard Short-Term Investment-Grade Adm	0.82	1.92	4.14	5.48	2.31	2.26	3.15
BarCap US Aggregate Bond Index	**1.26**	**3.08**	**6.11**	**7.87**	**2.31**	**2.95**	**3.90**

Source: SEI Investments, Morningstar Investments

Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.

HIGHMARK®
CAPITAL MANAGEMENT

July 14, 2019

Town of Los Gatos

RE – 2Q2019 Pension report

Risk-hungry investors, buoyed by the prospect of the Fed cutting rates, drove the S&P 500 index to record highs during the quarter, and the index recorded the best first half year since the first six months of 1997: a total return of 18.5%.

Unlike the volatility of the prior two years, the U.S. dollar, when measured against a trade-weighted basket of foreign currencies, has been remarkably stable so far in 2019. This is one of the most notable differences compared to 2017 when most asset classes also performed well, but the dollar sold off from the near-term highs reached in December of 2016.

With market return trophies in hand, investors may wonder if the risk-on party will ever end. Equity market enthusiasm is somewhat surprising given the fact that domestic stock valuations are rich at 17 times earnings and, having nearly recovered from the year-end 2018 sell-off,[1] now stand at the high end of their historic range. Expectations that second quarter corporate earnings will fall have not deterred investor appetite for stocks in an environment of persistent trade tensions.

Meanwhile, the global economy is fragile with most regions struggling to regain economic momentum. Many key indicators pointing to economic growth—industrial production, manufacturing, consumer confidence and trade—saw disappointing second-quarter readings. The odds of a manufacturing and capital expenditure recession have risen substantially given deteriorating global growth outlooks. The World Bank downgraded their 2019 forecast to 2.6% from 2.9% due to weaker-than forecast trade and investment momentum. Global GDP growth in this range might be considered "stall speed", neither indicative of growth, nor indicative of a decline. In remarks after June's Federal Open Market Committee meeting, Chairman Jay Powell noted concerns regarding global trade tensions and the impact they may have on U.S. economic growth. Shortly after Powell's comments, President Trump and Chinese Premier Xi Jinping wrapped up their Group of 20 (G20) meeting by announcing that trade negotiations would resume after collapsing in the prior month. This last walkout was due to the Chinese balking at the prospect of rewriting domestic legislation to meet U.S. demands on dismantling the government's investment in state-owned businesses. For now, the 25% tariffs on $250 billion worth of Chinese imports will continue to have a negative impact on Chinese GDP and U.S. producers will continue to face export barriers. With the threat of additional 25% tariffs on $300 billion of Chinese imports still on the table, the trade wars with China continue, despite the Osaka G-20 cease-fire, as does the risk of a domestic policy response that could pour oil on the fire.

As trade tariffs drive consumer prices higher and dampen demand, disrupt supply chains and spark uncertainty regarding business investment and capital expenditures, the administration is playing a high risk/potentially high reward endgame. A trade policy mistake would be highly destabilizing to markets, and could easily lead to a global recession. The Fed also faces a dilemma as it considers how far to move from its previously hawkish stance, to an easing policy. All of this, in the face of continued pressure from President Trump on Chair Powell and his fellow FOMC Board of Governors.

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[1] Source: FactSet

Performance and Positioning

The PARS/PRSP Capital Appreciation Index portfolio gained 2.95% gross of fees in the second quarter. While not duplicating the enormous gains of the first quarter, equities were positive across the board for the second quarter. The Plan's equity segment generated a 3.4% return. Most domestic equity categories generated low single digit returns. The S&P500 gained 4.3%, the Russell Mid Cap Index gained 4.1%, and small caps, as represented by the Russell 2000 Index returned 2.1%. REITs lagged slightly for the first time in several quarters, gaining 'only' 1.6% (Wilshire REIT Index). Equities traded around the narrative of international trade. In May, equities struggled as President Trump appeared to attempt to link the USMCA trade deal with Mexico with that country's ability to stem the tide of illegal immigration. In this manner, the weaponization of tariffs, served to damper both investor sentiment, as well as corporate executive's sentiment. However, in short order, the President reversed this course, and combined with a modest truce in the trade spat with China, served to re-invigorate risk appetites among investors – leading to strong gains in the month of June for stocks.

Fixed income returns were strong in the quarter, with 10-year Treasury yields declining 41 basis points in the quarter, to finish at a 2.0% level. Yield curve inversion, which some believe predicts economic recession, continued to deepen with the one-month Treasury yielding 18 basis points more than the 10-year Treasury at the end of the quarter. The Bloomberg Barclays Aggregate Bond Index posted its second quarterly back-to-back +3% return, gaining 3.1%. Bonds reacted favorably to signals from the Fed that they may be on the sidelines with respect to future rate hikes. Additionally, with over $13 trillion of sovereign debt trading at a negative yield, buyers flocked to our domestic fixed income market. The Plan's fixed income returns were slightly less than the benchmark, posting a gain of +2.6%. The Plan's allocation to the shorter-than-benchmark position in the Vanguard Short-Term Corporate Bond Fund (+1.92%) provided a modest drag to returns.

There was no change to the investment managers during the quarter. The Plan's overall target asset allocation was 76% stocks, 22% bonds, and 2% cash at quarter-end.

Andrew Brown

DATE: August 20, 2019

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and Decide on an Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis

RECOMMENDATION:

Review and discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and decide on an Additional Discretionary Payment (ADP) Strategy based on the August 2019 Bartel and Associates Analysis

EXECUTIVE SUMMARY:

Based on direction from the Town Pension and Other Post-Employment Benefits (OPEB) Trusts Oversight Committee (Pension/OPEB Committee), staff presented a report to the Pension/OPEB Committee on March 5, 2019 entitled, “Review and Provide Direction on Additional Discretionary Payment (ADP) Strategies” (Attachment 1). ADP strategies are intended to reduce unfunded Pension and OPEB obligations above the annual required contributions calculated by CalPERS and the Town’s actuary. The staff report provided high level informational material about the three primary types of ADP strategies available: (1) long-term capital accumulation and appreciation, (2) pension contribution management, and (3) direct payments to CalPERS. The report concluded that to date, the primary strategies utilized by the Town have been the prefunding of OPEB obligations and ADPs provided to PARS for long-term capital accumulation and appreciation of the Town’s pension assets. At the conclusion of the meeting, the Pension/OPEB Committee asked that the Finance Committee perform a review of current and potential ADP strategies and report back to the Pension/OPEB Committee.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

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EXECUTIVE SUMMARY (continued):

On June 17, 2019, the Town Finance Committee received a staff report (Attachment 2) which outlined prior Finance Committee decisions regarding the allocation of ADPs. The Town has four primary vehicles for receiving additional discretionary payments which include: Town OPEB 115 Trust, Town Pension 115 Trust, CalPERS Town Miscellaneous Plan, and CalPERS Safety Plan. Based on discussions at the June Finance Committee meeting, staff engaged Bartel and Associates to perform an analysis of the benefits associated with providing ADPs to each of the four vehicles.

On August 12, 2019, the Town Finance Committee received the ADP analysis from Bartel and Associates (Attachment 3) and had extensive deliberations about the pros and cons associated with each strategic approach to ADPs. At the conclusion of the discussion, no consensus was reached among the voting and non-voting members for a single recommendation of an ADP approach. The discussion section of this report summarizes the discussions that transpired at the Finance Committee.

In addition to the analysis of ADP strategies, Bartel and Associates will be attending the Pension/OPEB Committee meeting and is prepared to discuss the following key issues regarding their analysis of the Town's pension plans:

- 2017 Valuation results and Discount Rate Sensitivity
- CalPERS Risk Mitigation Policy and Implications
- Plan Contribution Projections (including a 6% discount rate scenario)

In 2018, staff initiated having the Town's actuary, Bartel and Associates, perform a detailed review and analysis of the Town's CalPERS annual actuarial valuations. The review provides important additional analysis and data for the Town to better understand the long-term obligations associated with its pension and Other Post-Retirement Benefit (OPEB) benefits. The full analysis can be found in Attachment 4.

BACKGROUND:

On December 4, 2017, the Council Finance Committee recommended to invest in the PARS Capital Appreciation Index Plus. In addition, the Committee recommended that assets placed in the 115 Pension Trust be dollar cost averaged over the next year to mitigate risks associated with a single market entry point. In March 2018, the initial $300,000 was deposited into the PARS account with additional $300,000 deposits programmed monthly for a current total of $5.0 million in assets as of July 31, 2019. In addition, on June 4, 2019 the Town Council adopted the FY 2019/20 Operating Budget which among other items identified an additional $3.2 million allocation to reducing either outstanding OPEB or pension unfunded obligations. With the adoption of the FY 2019/20 Operating Budget, the Town Council has identified approximately

BACKGROUND (continued):

$8.2 million dollars which can be utilized for reducing the Town's pension/OPEB obligations. The Bartel analysis provided to the Finance Committee illustrates how the $8.2 million dollars could be utilized for contribution management and direct ADPs to either the pension or OPEB plans.

DISCUSSION:

While no consensus was achieved by Committee members there were certain themes associated with ADPs that Committee members did coalesce around. Highlighted below are areas of consensus:

- The selection of an ADP strategy is preferable to the $3.2 million in additional funds remaining idle in the Town's Operating Portfolio.
- An investment directly in either PARS, OPEB, or CalPERS is preferable to utilizing the funds for contribution management strategies.
- Contribution management strategies do not address the outstanding unfunded obligation.
- Additional ADPs to PARS should only be considered if the funds remain invested for a minimum of ten years.
- Committee members raised concerns about the fortitude of future Councils in maintaining a long-term investment strategy, especially during an economic downturn.
- If a PARS investment strategy cannot be maintained for a minimum of ten years, then the PARS account should be closed, and other ADP options considered.

Committee Member Deliberations

Chair Leonardis:
Chair Leonardis concluded that a payment directly to OPEB is the preferred ADP approach. The rationale included: complete control over investment decisions and actuarial decisions; with the elimination of retiree healthcare prospectively, the Town's OPEB plan would be well funded and could be derisked; and concern about the uncertainty of future CalPERS decisions and the potential impact to the Town's unfunded pension liability.

Committee Members Spector and Duryea:
Both Committee members concluded that payments directly to CalPERS is the preferred ADP approach. The rationale included: certainty of the ADP being used directly for reducing unfunded obligations, a direct action targeted at the unfunded pension obligations, and CalPERS asset allocation has greater diversity among asset classes.

DISCUSSION (continued):

Committee Members Tinsley and Dickel:
Both Committee members concluded that long-term investment in PARS is the preferred ADP approach. The rationale included: historic long-term superior returns for equities, CalPERS reduction in equity exposure for risk mitigation, inferior CalPERS returns, and CalPERS' need to respond to forces beyond attainment of the highest return.

Additional Considerations

Staff sees merits in all three ADP options and is comfortable with all three approaches; however, staff would recommend stipulations for the implementation of the desired ADP approach.

If the Pension/OPEB Committee decides to maintain and/or add resources to PARS, staff agrees that a long-term time horizon is optimal for that strategy at the current asset allocation. If the Committee decides to commit to a long-term approach, this commitment should be codified so future elected officials/staff/residents understand the foundation of the approach. If the Committee would like to continue to invest in PARS with a shorter time horizon, staff would recommend an asset allocation with less equity exposure.

If the Pension/OPEB Committee decides to make direct payments to CalPERS, staff would recommend dollar cost averaging and the sequencing of amortization base payments. Currently, an $8.2 million ADP would represent 11.2% and 12.5% of the Market Value of Assets (MVA) for the Miscellaneous and Safety plans respectively, as of the June 30, 2018 valuation. Both those percentages represent a significant infusion of assets to the plans.

If the Pension/OPEB Committee decides to make a direct payment to the OPEB plan, staff would recommend a corresponding shift to the lowest equity asset allocation and an actuarial review of the OPEB discount rate.

CONCLUSION:

Based on the analysis from Bartel and Associates, input from the Finance Committee, and the additional consideration in this report, the Pension and OPEB Trusts Oversight Committee should recommended an ADP strategy for the current $8.2 million in assets allocated to reducing the Town's pension/OPEB obligations.

ALTERNATIVES:

No action would result in the funds currently invested in the PARS 115 Trust remaining invested in the Trust and the additional monies identified in the FY 2019/20 budget remaining in the Town's Pension/OPEB Reserve earning interest at the rate of the Town's Operating Portfolio.

COORDINATION:

This report was coordinated with the Town Manager's Office and the Finance Department.

FISCAL IMPACT:

Depending on the ADP strategy chosen, the Town will either receive long-term savings from reduced interest costs associated with unfunded pension obligations or budgetary savings from a reduction in annual pension/OPEB contributions or both.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:
1. March 5, 2019 Pension OPEB Committee Staff Report
2. June 17, 2019 Finance Committee Staff Report
3. August 12, 2019 Finance Committee Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis
4. Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis Full Report

TOWN OF LOS GATOS

TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE REPORT

MEETING DATE: 3/5/2019

ITEM NO: 4

DATE: FEBRUARY 25, 2019

TO: TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE

FROM: LAUREL PREVETTI, TOWN MANAGER

SUBJECT: REVIEW AND PROVIDE DIRECTION ON ADDITIONAL DISCRETIONARY PAYMENT STRATEGIES

RECOMMENDATION:

Review and provide direction on additional discretionary payment strategies.

BACKGROUND:

In 2009, the Council approved participating in the California Employer's Retiree Benefit Trust (CERBT) Fund as a vehicle for the prefunding of the Town's other post-employment benefits ("OPEB") obligations. Since that time the Council has consistently used additional discretionary payments (ADPs) has a way to address the Town's unfunded pension and OPEB obligations. ADP is a generic term used to describe any additional payments toward pension obligations beyond the CalPERS actuarially determined contributions and pay-go funding for OPEB.

On August 15, 2017, Town Council approved Public Agency Retirement Services (PARS) as the administrator of the Town's Section 115 Pension Trust. The Council Finance Committee recommended to the Town Council that monies allocated to the Trust should be invested over a long-term horizon with little or no withdrawals for the foreseeable future. As such, the Finance Committee recommended investing in the PARS Capital Appreciation Index Plus product to achieve equity exposures greater than those provided by CalPERS. Committee members stated that the historic return premium of equities compared to fixed income investments warranted an asset allocation with higher exposures to equities. The Committee also identified that the assets would not be utilized in the short-term thereby allowing the increased volatility associated with equities to be mitigated in the long run. In addition, the Committee recommended that assets placed in the 115 Pension Trust be dollar cost averaged

PREPARED BY: ARN ANDREWS
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

BACKGROUND (continued):

over the next year to mitigate risks associated with a single market entry point. On December 19, 2017, the Town Council reviewed the Finance Committees recommendations and adopted the PARS Capital Appreciation asset allocation.

DISCUSSION:

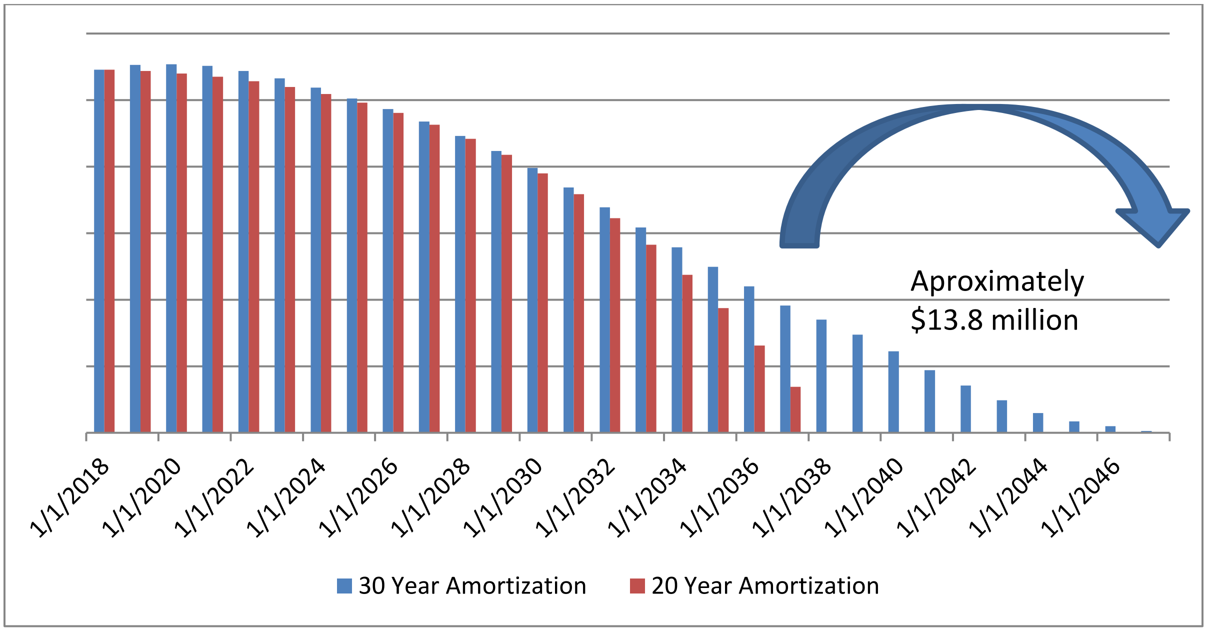
The Town Council, Town Council Pension and OPEB Trusts Oversight Committee, and Finance Committee continue to explore additional strategies for reducing unfunded Pension and OPEB obligations. As previously noted, to date, the primary strategies utilized have been the prefunding of OPEB obligations and ADPs provided to PARS for long-term capital accumulation and appreciation. Provided below are examples of how additional ADPs could be utilized if allocated to additional strategies. In addition, on August 21, 2018, the Oversight Committee received an analysis of the CalPERS 2016 Actuarial Valuations from Bartel Associates, LLC. (Attachment 1) which also included a discussion of additional payment strategies.

Long-term Capital Accumulation and Appreciation

Over the past several years Council has allocated a portion of budgetary surpluses for allocation to the PARS Trust. To date, the Trust has received $3.3 million in deposits with another $1.0 million pending for a total allocation of $4.3 million. In addition, on May 15, 2018 the Council adopted a Reserve Policy which lays out the procedures for the Town to set aside additional discretionary payments annually to reduce the effective amortization period of the Town's unfunded pension liabilities from approximately 30 years to 20 years. The pension ADP analysis performed in conjunction with CalPERS indicated that a 20-year amortization equivalence can be achieved through additional unfunded actuarial liability (UAL) payments of approximately $390,000 per year. As part of adopting the shortened amortization policy the Finance Committee and Council determined that any ADPs be deposited into the PARS IRS 115 Pension Trust Fund instead of directly to CalPERS.

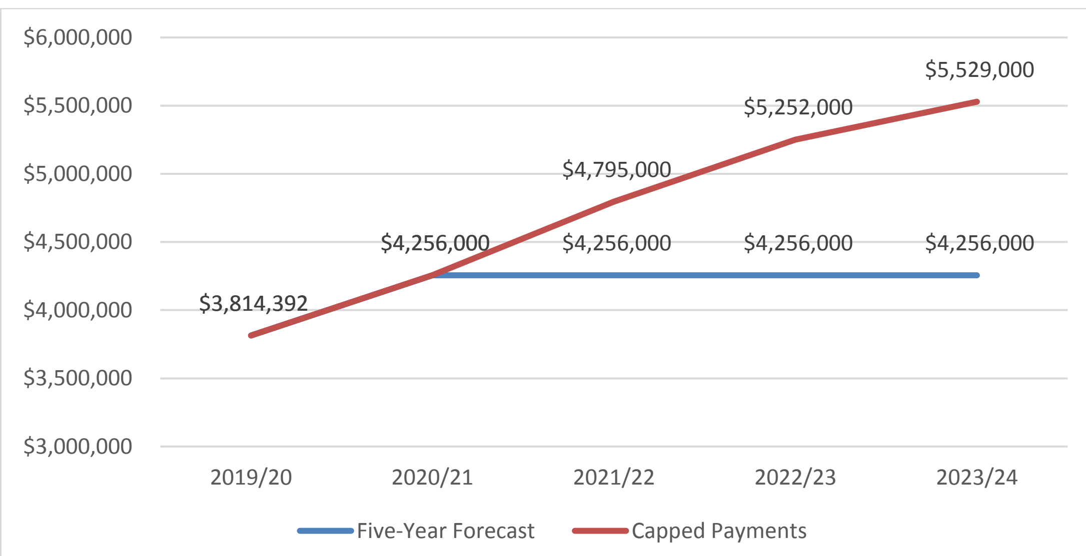
As the chart below illustrates the savings from the reduced amortization strategy derive from the accumulation and appreciation of the PARS assets over a twenty-year period being used to pay off the remaining ten years of the amortization bases. This strategy currently has $12.1 million in ADPs programmed over the 20-year period. It is estimated that the total savings associated with this ADP strategy is approximately $13.8 million versus the existing amortization schedules for both plans.

DISCUSSION (continued):



Pension Contribution Management

Pension contribution management strategies utilize ADPs to offset anticipated increases in pension contributions. As the table below illustrates the Town's five-year forecast anticipates that the UAL portion of annual pension contributions is forecasted to increase from $3.8 million to $5.5 million for the Safety and Miscellaneous Plans.



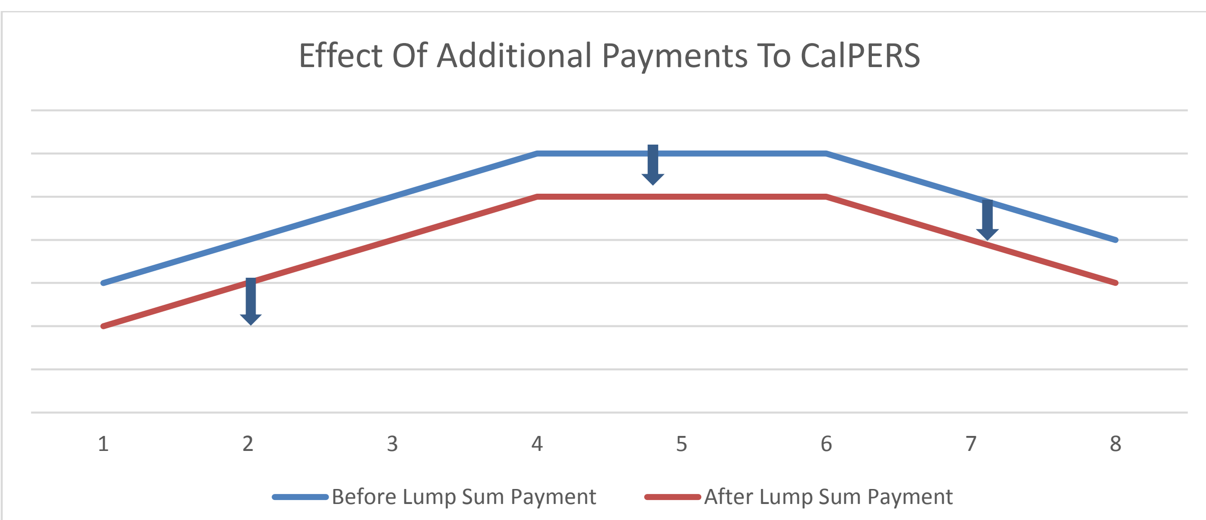
DISCUSSION (continued):

If the Town sought budgetary relief from the forecasted increase in pension expense it could utilize ADPs to cap annual payments at some predetermined figure. The ADPs would make up the difference between the actual payment determined by CalPERS and the self-imposed cap. In the example on the previous page, if the Council wanted to maintain UAL payments at the FY 2020/21 level of $4,256,000 for the remaining forecast period it would require total ADPs of $2,808,000. While this ADP strategy provides direct budgetary relief, it does not present savings associated with the pension liability.

If Council were inclined to pursue this strategy staff would recommend holding the ADPs in the Pension/OPEB reserve as opposed to PARS. Since the monies would be utilized over a short time horizon it would not be prudent to expose them to the volatility associated with equities. Monies in the Pension/OPEB reserve would earn interest at the rate of return of the Town's operating portfolio.

Direct Payments to CalPERS

ADPs allocated directly to CalPERS can achieve several outcomes which help to reduce the Town's outstanding unfunded pension obligation. Lump sum payments to CalPERS can either be in the form of generic additional contributions or targeted at specific amortization bases. Benefits associated with direct payments to CalPERS include, point in time reductions in the UAL, interest savings, increased funding status, and reduced contributions. As the chart below illustrates ADP strategies can be developed to shift the existing pension contribution cost curve down from existing forecasts. It should be noted, that anticipated cost savings associated with additional payments directly to CalPERS are for a point in time and subject to change if actuarial demographic and economic assumptions change.



DISCUSSION (continued):

If Council were inclined to pursue this strategy staff would work with Bartel Associates, LLC to craft a payment plan which optimizes reductions in pension contributions, interest expense, and UAL. Staff would recommend holding the ADPs in the Pension/OPEB reserve as opposed to PARS. Since the monies would be utilized over a short time horizon it would not be prudent to expose them to the volatility associated with equities. Monies in the Pension/OPEB reserve would earn interest at the rate of return of the Town's operating portfolio. Staff would also recommend that any payments to CalPERS be delayed until more favorable market valuations exist.

CONCLUSION:

Council has been proactive in allocating additional discretionary payments towards the Town's unfunded pension obligations. To date, the Council has predominately pursued capital accumulation and appreciation ADP strategies through the creation and funding of IRS 115 Trusts. Staff looks forward to hearing from Council if they would like to entertain other ADP strategies.

FISCAL IMPACT:

None

ENVIRONMENTAL ASSESSMENT:

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

Attachment:
1. CalPERS 2016 Actuarial Valuation Analysis from Bartell Associates, LLC
2. Public Comment

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TOWN OF LOS GATOS

FINANCE COMMITTEE REPORT

MEETING DATE: 06/17/2019

ITEM NO: 3

DATE: JUNE 10, 2019

TO: COUNCIL FINANCE COMMITTEE

FROM: LAUREL PREVETTI, TOWN MANAGER

SUBJECT: REVIEW AND PROVIDE DIRECTION ON ADDITIONAL DISCRETIONARY PAYMENT STRATEGIES

RECOMMENDATION:

Review and provide direction on additional discretionary payment strategies.

BACKGROUND:

Based on direction from the Town Council and Town Pension and Other Post-Employment Benefits (OPEB) Trusts Oversight Committee (Pension/OPEB Committee), staff presented a report to the Town Pension and OPEB Trusts Oversight Committee on March 5, 2019 entitled "Review and Provide Direction on Additional Discretionary Payment (ADP) Strategies" (Attachment 1). The ADP strategies are intended to reduce unfunded Pension and OPEB obligations. The staff report provided high level informational material about the three primary types of ADP strategies available: (1) long-term capital accumulation and appreciation, (2) pension contribution management, and (3) direct payments to CalPERS. The report concluded that to date, the primary strategies utilized by the Town have been the prefunding of OPEB obligations and ADPs provided to PARS for long-term capital accumulation and appreciation of the Town's pension assets.

On June 4, 2019 the Town Council adopted the FY 2019/20 Operating Budget which among other items identified an additional $3.2 million allocation to reducing either outstanding OPEB or pension unfunded obligations. Also on June 4, 2019, the Town Pension and OPEB Trusts Oversight Committee held its quarterly meeting. As with past meetings, both bodies expressed

PREPARED BY: ARN ANDREWS
ASSISTANT TOWN MANAGER

Reviewed by: Town Manager, Finance Director, and Town Attorney

BACKGROUND (Continued):

an interest in the Town Finance Committee reviewing previous guidance for the exclusive allocation of ADPs to the PARS 115 Pension Trust and analyzing alternative allocation approaches. In addition, there have been recent discussions regarding the appropriateness of the current asset allocations for both the OPEB and Pension Trusts. The Town Council and the Pension/OPEB Committee would also like the Finance Committee to review previous asset allocation decisions and report back to both bodies.

DISCUSSION:

The following report is intended to be informational and summarize previous data, analysis, and Committee decisions regarding the allocation of ADPs and pension/OPEB plan asset allocations. Based on the Finance Committee's deliberations, staff will return at the August Committee meeting with more detailed analysis based on the Committee's direction. If in August the Committee is ready to make a recommendation to the Town Council, the topic would be scheduled in coordination with the Mayor as is the Town's practice. Assuming a September Town Council discussion, this would align well with the anticipated availability of the actuarial valuations update and year end performance reports for both the pension and OPEB plans.

The Town has four primary vessels for receiving additional discretionary payments which include: Town OPEB 115 Trust, CalPERS Town Miscellaneous Plan and Safety Plan, and Town Pension 115 Trust. The following summaries will outline the advantages and disadvantages associated with each one of those vehicles.

Town OPEB 115 Trust

The Town's retiree healthcare plan is an Internal Revenue Code Section 115 Trust which is administered by the Town Pension and OPEB Trusts Oversight Committee. The Oversight Committee is responsible for the management and control of the healthcare assets. In 2009, the Town Council approved a Finance Department recommendation to initiate a ten-year phase in of pre-funding future OPEB obligations. Prior to 2009, the Town like most other cities, followed the generally accepted government accounting principle of paying OPEB benefits on a "pay as you go" basis. The Finance Department recommendation also included participating in the CalPERS managed California Employers' Retiree Benefit Trust (CERBT) Fund. As the table below illustrates, as of July 31, 2018 the Town pre-funded $12,360,000 since the Trust Fund was established. In addition, the Town's investment in CERBT Strategy 1 has earned approximately $4.2 million in investment earnings with an average annualized rate of return of 8.33%.

DISCUSSION (Continued):

Account summary as of July 31, 2018 (Source: CalPERS Annual Review)	
Initial contribution (6/29/2009)	$400,000
Additional contributions	$11,960,000
Disbursements	($0)
CERBT expenses	($53,431)
Investment earnings	$4,212,256
Total market value of assets	$16,518,825
Average annualized internal rate of return (6/29/2009-7/31/2018)	8.33%

CalPERS CERBT Asset Allocation Strategies

The California Employers' Retiree Benefit Trust (CERBT) provides multiple options for investment of the Town's retiree healthcare assets. The CalPERS managed CERBT provides three distinct asset allocations. Each asset allocation has varying degrees of exposure to equity, fixed income, Treasury Inflation Protected Securities (TIPS), Real Estate Investment Trusts (REITs), and commodities. Following are the three asset allocations:

2018 Asset Allocation Targets	Strategy 1	Strategy 2	Strategy 3
	2018	2018	2018
Global Equity	59%	40%	22%
Fixed Income	25%	43%	50%
Global Real Estate (REITs)	8%	8%	8%
Treasury Inflation Protected Securities (TIPS)	5%	5%	16%
Commodities	3%	4%	5%

DISCUSSION (Continued):

The three investment options represent varying degrees of investment risk/return profiles. As the table below illustrates, a reduction in equity exposure correlates to a reduction in long-term expected returns and a reduction in the variability of those returns as expressed by standard deviation.

2018 Asset Allocation Strategies	Strategy 1	Strategy 2	Strategy 3
	2018	2018	2018
Expected Long Term Annualized Rate of Investment Return	7.59%	7.01%	6.22%
Discount Rate	Determined by Actuary (Currently 6.75%)	Determined by Actuary (Currently 6.75%)	Determined by Actuary (Currently 6.75%)
Standard Deviation of Expected Investment Returns	11.83%	9.24%	7.28%

OPEB Funding Status

Since the initial $400,000 prefunding in 2009, the OPEB funded status has grown steadily due to the additional contributions and investment earnings. Based on the June 30, 2017 Retiree Healthcare Plan Actuarial Valuation performed by Bartel Associates, the funded status of the plan has grown to 55%.

Valuation Date	Total OPEB Liability	Actuarial Value of Assets	Funded Status
6/30/2013	$19,211,000	$4,866,000	25%
6/30/2015	$20,977,000	$8,238,000	39%
6/30/2017	$24,773,000	$13,605,000	55%
Projected 6/30/2018	$26,390,000	$16,148,000	61.2%

Source: Bartel Associates Actuarial Valuations

DISCUSSION (Continued):

It is important to note that during the development of the 2017 actuarial valuation, the Oversight Committee elected to lower the discount rate from 7.25% to 6.75%. In addition, since the development of the 2017 actuarial valuation, the Town's bargaining groups and Management and Confidential employees agreed to eliminate the current retiree healthcare benefit prospectively for new employees. During labor negotiations, staff asked Bartel Associates to perform a preliminary review of what the implications may be for the funding status and potential funded status if ADPs were allocated to the OPEB plan. Provided below is a summary of the preliminary data:

2018 Asset Allocation Strategies & Discount Rates (Amounts in 000's)	CERBT Strategy1	CERBT Strategy 2	CERBT Strategy 3
	6.75%	6.25%	5.50%
Actuarial Accrued Liability (AAL)	$26,390	$28,020	$30,785
Market Value of Assets (MVA)	16,277	16,277	16,277
Unfunded AAL (UAAL)	10,113	11,743	14,508
Funded Percentage	61.7%	58.1%	52.9%
$ Amount Needed for 80% Funded %	$4,835	$6,139	$8,351

OPEB Trust ADP Advantages

- Multiple asset allocation options
- Control over asset allocation
- Control over discount rate/assumed rate of return
- Control over amortization period
- Immediate unfunded actuarial accrued liability (UAAL) and contribution impact
- Less UAAL interest cost
- Reduces accounting net pension liability

OPEB Trust ADP Disadvantages

- Market timing risk
- Assets restricted to OPEB benefits

DISCUSSION (Continued):

CalPERS Town Miscellaneous and Safety Plans

The Town's pension plans are administered by the Board of Administration of the California Public Employees' Retirement System (CalPERS). In addition, the Board has exclusive control of the administration and investment of funds. The Miscellaneous Plan is administered by CalPERS and invested in the Public Employees' Retirement Fund (PERF A). Sworn employees are covered under the Safety Plan which is a pooled cost-sharing plan and invested in PERF C. According to the 2017 Annual Valuations provided by CalPERS, the Miscellaneous Plan and Safety Plan had $69.5 million and $62.5 million calculated Market Value of Assets, respectively. According to CalPERS, 59 cents of every dollar paid out of the PERF fund has historically been from investment returns.

CalPERS Public Employees Retirement Fund (PERF) Asset Allocation

The PERF was established by statute in 1931 and provides retirement, death and disability benefits to members of its participating employers, which include the State of California, non-teaching, non-certified employees in schools, and various other public agencies. The benefits options for the public agencies are established by statute and voluntarily selected by contract with the system in accordance with the provisions of the Public Employees' Retirement Law.

In December 2017, the CalPERS Board voted on the asset allocation of the PERF's investment portfolio for the next four years. The Board examined four potential portfolios and their impact on the PERF. Each portfolio represented different distributions of assets based on varying rates of expected return and risk of volatility. The Board selected the portfolio with expected volatility of 11.4 percent and a return of 7.0 percent, which aligns with the December 2016 decision to lower the discount rate to 7.0 percent over three years. The following tables provide the PERF investment returns for the 12-month period that ended June 30, 2018, as well as five-year, ten-year, and twenty-year periods since inception.

CalPERS Investment Return	2018	5 Years	10 Years	20 Years	PERF Since Inception (1988)
	8.6%	8.1%	5.6%	6.1%	8.4%

The current asset allocation is provided in the next table.

DISCUSSION (Continued):

2018 PERF Asset Allocation Targets	PERF A	PERF C
	2018	2018
Global Equity	49%	49%
Private Equity	8%	8%
Global Debt Securities	22%	22%
Real Assets	12%	12%
Liquidity	3%	4%
Inflation	6%	6%

Miscellaneous and Safety Pension Plan Funding Status

As of June 30, 2017, the funded status of the PERF was 70.1 percent. The funded status as of June 30, 2018, is estimated to be approximately 71.0 percent. PERF funded status values were calculated using a 7.00 percent discount rate. In December 2016, the CalPERS board voted to lower the discount rate from 7.5 percent to 7.0 percent. Also in February 2018, the CalPERS Board voted to shorten the period over which actuarial gains and losses are amortized from 30 to 20 years. The table below illustrates the funding history for both the Town's Miscellaneous and Safety Plans.

Pension Plan	Valuation Date 6/30/11	Valuation Date 6/3014	Valuation Date 6/30/17
Miscellaneous	72.6%	76.2%	69.6%
Safety	71.7%	82.2%	73.9%

DISCUSSION (Continued):

Provided below is the schedule of amortization bases for the Miscellaneous Plan as of June 30, 2017. Similar to the early analysis performed on the OPEB Plan by Bartel Associates, if the Finance Committee were interested, staff could ask Bartel Associates to run scenarios which illustrate the effects on contribution rates and funding status for paying down/off varying amortization bases.

Reason for Base	Date Established	Ramp Up/Down 2019-20	Amorti-zation Period	Balance 6/30/17	Expected Payment 2017-18	Balance 6/30/18	Expected Payment 2018-19	Balance 6/30/19	Scheduled Payment for 2019-20
ASSUMPTION CHANGE	06/30/03	No Ramp	6	$1,780,035	$266,995	$1,632,584	$273,196	$1,468,020	$280,479
METHOD CHANGE	06/30/04	No Ramp	7	$(166,052)	$(22,588)	$(154,698)	$(23,102)	$(141,989)	$(23,720)
BENEFIT CHANGE	06/30/07	No Ramp	9	$1,646,511	$190,679	$1,568,412	$194,828	$1,480,355	$200,062
ASSUMPTION CHANGE	06/30/09	No Ramp	12	$2,566,712	$247,607	$2,496,373	$252,637	$2,415,725	$259,458
SPECIAL (GAIN)/LOSS	06/30/09	No Ramp	22	$2,100,631	$142,257	$2,105,604	$144,524	$2,108,588	$148,467
SPECIAL (GAIN)/LOSS	06/30/10	No Ramp	23	$1,755,770	$116,186	$1,762,739	$117,992	$1,768,343	$121,214
ASSUMPTION CHANGE	06/30/11	No Ramp	14	$1,710,594	$150,016	$1,679,253	$152,924	$1,642,629	$157,063
SPECIAL (GAIN)/LOSS	06/30/11	No Ramp	24	$809,430	$52,416	$813,831	$53,210	$817,729	$54,664
PAYMENT (GAIN)/LOSS	06/30/12	No Ramp	25	$199,878	$12,683	$201,234	$12,870	$202,495	$13,222
(GAIN)/LOSS	06/30/12	No Ramp	25	$1,791,787	$113,697	$1,803,946	$115,376	$1,815,246	$118,531
(GAIN)/LOSS	06/30/13	100% →	26	$10,388,059	$419,466	$10,706,787	$567,711	$10,895,099	$729,061
ASSUMPTION CHANGE	06/30/14	80% ↗	17	$4,484,869	$166,960	$4,637,116	$255,108	$4,709,113	$349,398
(GAIN)/LOSS	06/30/14	80% ↗	27	$(7,403,556)	$(202,526)	$(7,730,575)	$(308,168)	$(7,971,898)	$(422,159)
(GAIN)/LOSS	06/30/15	60% ↗	28	$3,320,211	$46,754	$3,512,507	$94,780	$3,669,008	$146,078
ASSUMPTION CHANGE	06/30/16	40% ↗	19	$1,502,722	$(42,200)	$1,655,372	$31,238	$1,743,036	$64,186
(GAIN)/LOSS	06/30/16	40% ↗	29	$4,225,172	$0	$4,531,497	$62,882	$4,794,909	$129,230
ASSUMPTION CHANGE	06/30/17	20% ↗	20	$1,176,961	$(50,144)	$1,314,221	$(51,586)	$1,462,925	$27,570
(GAIN)/LOSS	06/30/17	20% ↗	30	$(1,513,779)	$0	$(1,623,528)	$0	$(1,741,234)	$(24,135)
TOTAL				**$30,375,955**	**$1,608,258**	**$30,912,675**	**$1,946,420**	**$31,138,099**	**$2,328,669**

Miscellaneous and Safety Pension Plan ADP Advantages

- Immediate UAL and contribution impact
- Can elect shorter amortization (Fresh Start)
- Can elect to pay specific amortization bases
- Less UAL interest cost

Miscellaneous and Safety Pension Plan ADP Disadvantages

- Single asset allocation option
- No control over discount rate/assumed rate of return
- Market timing risk
- Assets restricted to pension benefits
- No current benefit to accounting net pension liability
- Pooled liability risk with Safety Plan

Town Pension 115 Trust

On August 15, 2017, Town Council approved Public Agency Retirement Services (PARS) as the administrator of the Town's Section 115 Pension Trust. The 115 Pension Trust acts as an additional investment vehicle for the overall funding of pension liabilities associated with the

DISCUSSION (Continued):

Town's Miscellaneous and Safety Pension Plans (the "Pension Plans"). The 115 Pension Trust provides the Town with flexibility in a variety of ways, including making lump sum payments directly to CalPERS and augmenting budget stability by using trust assets to defray pension costs in future years. In addition, the 115 Pension Trust can be utilized to either mimic or alter the risk/reward profile of assets currently invested with CalPERS.

On December 4, 2017, the Council Finance Committee recommended to invest in the PARS Capital Appreciation Index Plus. PARS utilizes the services of Highmark Capital for the management of the 115 assets. In addition, the Committee recommended that assets placed in the 115 Pension Trust be dollar cost averaged over the next year to mitigate risks associated with a single market entry point. On December 19, 2017, the Town Pension and OPEB Trusts Oversight Committee affirmed the Committee recommendations.

Asset Allocation Strategies

Highmark Capital Management currently provides the 115 Pension Trust with five different asset allocation options. Each asset allocation has varying degrees of exposure to equity, fixed income, and cash. The five asset allocations are intended to provide the Pension Plans with five distinct risk/reward profiles. The following are the equity exposures and investment objectives for the asset allocations provided by PARS:

PARS Strategy	Investment Objective	Equity Allocation	Fixed Income	Cash
Capital Appreciation	Provide growth of principal and income	65-85%	10-30%	0-20%
Balanced	Provide growth of principal and income	50-70%	30-50%	0-20%
Moderate	Provide growth of principal and income	40-60%	40-60%	0-20%
Moderately Conservative	Provide current income and moderate capital appreciation	20-40%	50-80%	0-20%
Conservative	Provide a consistent level of inflation-protected income over the long-term	5-20%	60-95%	0-20%

DISCUSSION (Continued):

The asset allocation for the PARS Capital Appreciation Index Plus portfolio as of April 30, 2019 is provided below.

PARS Strategy	Equity Allocation	Fixed Income	Cash
Capital Appreciation	76%	22%	2%

For the period ending April 30, 2019 the investment returns for the PARS Capital Appreciation Index Plus portfolio are provided below with an expected standard deviation of 11.85%.

PARS Strategy	1 Month	3 Month	1 Year*
Capital Appreciation	2.37%%	5.99%	6.79%

*Plans Inception Date 3/20/2018

PARS Funding Status

In March 2018 the initial $300,000 was deposited into the PARS account with additional $300,000 deposits programmed monthly for a current total of $4.4 million in assets as of April 30, 2019.

PARS Pension Trust ADP Advantages

- Actuarial equivalence with CalPERS for interest savings if assumed rate of return achieved
- Multiple asset allocation options
- Control over asset allocation
- Assets can be used to pay CalPERS directly or reimburse the Town for CalPERS contributions

PARS Pension ADP Disadvantages

- Market Timing Risk
- Assets Restricted to Pension Benefits
- No Current Benefit to Accounting Net Pension Liability

CONCLUSION:

Staff looks forward to the discussion with the Committee and its direction on next steps

ATTACHMENT:

1. Public Comment

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TOWN OF LOS GATOS
MISCELLANEOUS AND SAFETY PENSION PLANS

CalPERS Actuarial Review
June 30, 2017 Actuarial Valuation

Bartel Associates, LLC
Joseph R. D'Onofrio, Assistant Vice President
Bianca Lin, Assistant Vice President
Katherine Moore, Associate Actuary
Matt Childs, Senior Actuarial Analyst
Wai Man Yam, Actuarial Analyst

August 12, 2019

CONTENTS

WHERE ARE WE NOW?

Valuation Results[1]

June 30, 2017

(Dollar Amounts in Thousands)

Employee Group	Misc	Safety	Total
■ **Participants**			
• Actives	111	36	147
• Transfers[2]	98	17	115
• Terminations[3]	79	1	80
• Retirees & Beneficiaries	228	73	301
• Total	516	127	643
■ **Funded Status**			
• Accrued Liability	$99,903	$84,807	$184,710
• Assets	69,527	62,719	132,246
• Unfunded Liability	30,376	22,089	52,465
• Funded Percent	69.6%	74.0%	71.6%
■ **Projected 2019/20 Payroll**	10,147	5,198	15,345
■ **Employer Contribution 2019/20**[4]			
• Dollar Amount (Estimated)[5]	3,366	2,673	6,039
• Percent of Payroll	33.2%	51.4%	39.4%

[1] Amounts in this report might not add due to rounding.
[2] "Transfers" are former employees working for another agency participating in a CalPERS pension plan.
[3] "Terminations" are former employees not working for an agency participating in a CalPERS pension plan.
[4] CalPERS results do not reflect Employee-Paid Member Contributions and Member Share of Employer Contributions, if any.
[5] CalPERS provides the Normal Cost as a percentage of payroll and the Unfunded Liability amortization payment as a dollar amount. CalPERS' Normal Cost estimate is based on payroll projected from 2016/17 to 2019/20 using the valuation's aggregate payroll increase assumption. The Town's budgeted amount may differ based on its expected 2019/20 payroll.

WHERE ARE WE NOW?

Valuation Results

Discount Rate Sensitivity - June 30, 2017 Valuation

(Dollar Amounts in Thousands)

Funded Percent	Ongoing Plan Discount Rate[6] 7.25%	7.00%	6.00%
■ **Miscellaneous**			
• Accrued Liability	$99,903	$102,599	$115,979
• Assets	69,527	69,527	69,527
• Unfunded Liability	30,376	33,073	46,452
• Funded Percent	69.6%	67.8%	59.9%
■ **Safety**			
• Accrued Liability	$84,807	$87,274	$99,376
• Assets	62,719	62,719	62,719
• Unfunded Liability	22,089	24,555	36,657
• Funded Percent	74.0%	71.9%	3.1%
■ **Total**			
• Accrued Liability	$184,710	$189,873	$215,354
• Assets	132,246	132,246	132,246
• Unfunded Liability	52,465	57,628	83,109
• Funded Percent	71.6%	69.6%	61.4%

[6] At its 2017 Asset Liability Management Workshop, CalPERS stated it expected returns to average 6.1% annually for 10 years and 8.3% annually after 10 years, resulting in a blended expected return of 7.0%. It phased in a discount rate reduction over 3 [illegible]rs from 7.50% for the 6/30/15 valuation to 7.00% for the 6/30/18 valuation. The discount rate is ultimately expected to [illegible]rease to about 6.00% as a result of CalPERS' risk mitigation policy.

WHAT'S CHANGING NEXT?

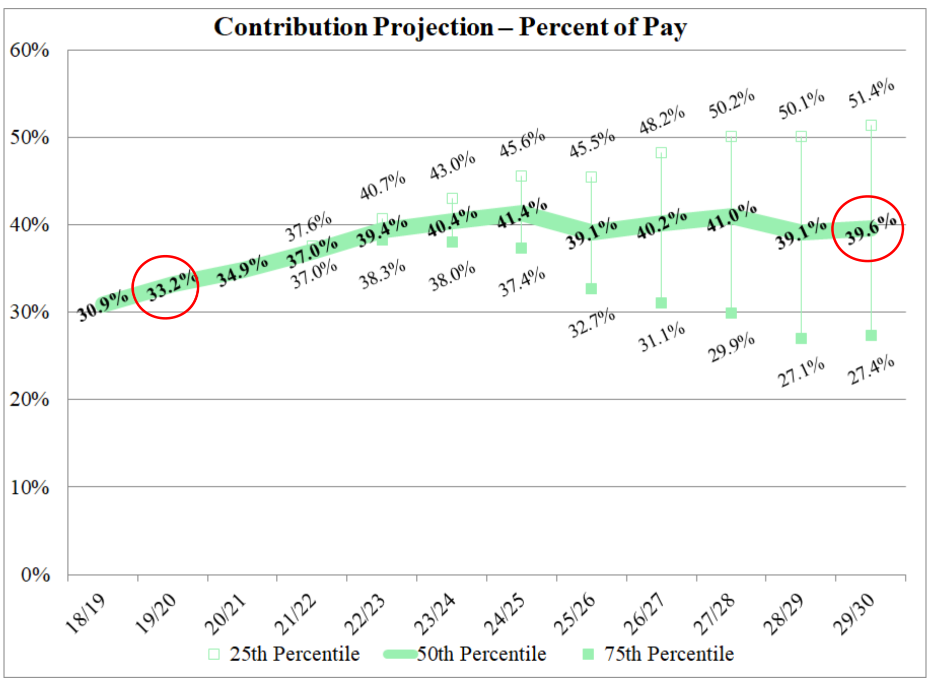
Asset Allocation

Approved Changes

- **Risk Mitigation - 2019 Valuation**
  - Move to more conservative investment portfolio over time
    - Target lower investment risk due to increasing plan maturity
    - Lower discount rate when investment return is greater than assumed
    - Reduce exposure to higher risk investments
    - Lower probability benefit payments will exceed contributions and earnings
    - Lessen impact of investment losses as a percentage of payroll
    - Gradual phase-in avoids immediate large contribution increase
    - Reduces impact of future investment gains on employer contributions
  - Discount rate likely to go from 7% to 6% over 20+ years
  - Effective with 6/30/19 valuations for <u>2021/22 contributions</u>

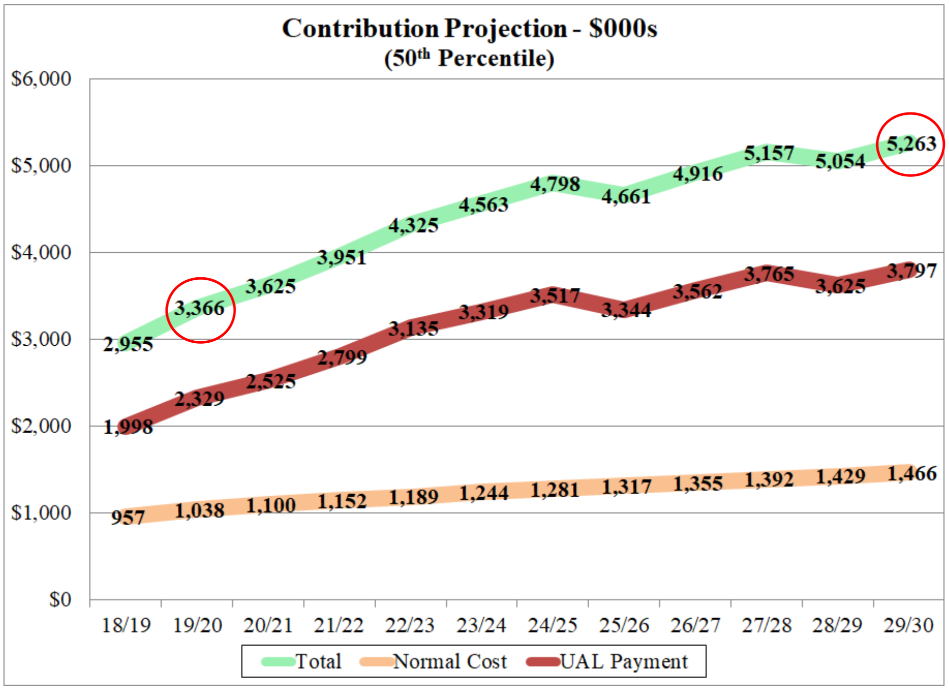
WHERE ARE WE GOING?

Miscellaneous Plan



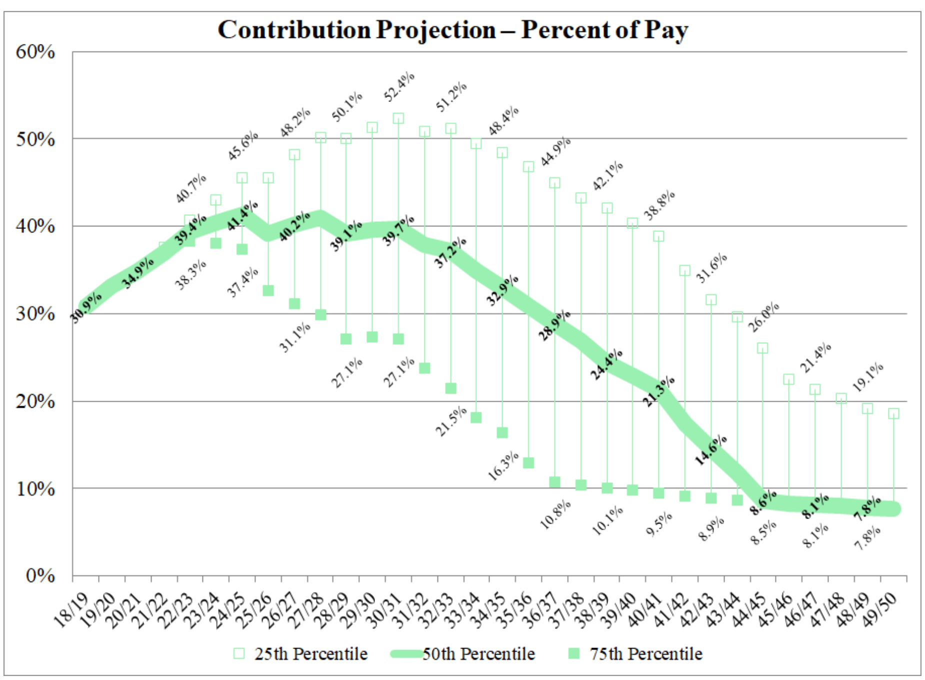
WHERE ARE WE GOING?

Miscellaneous Plan



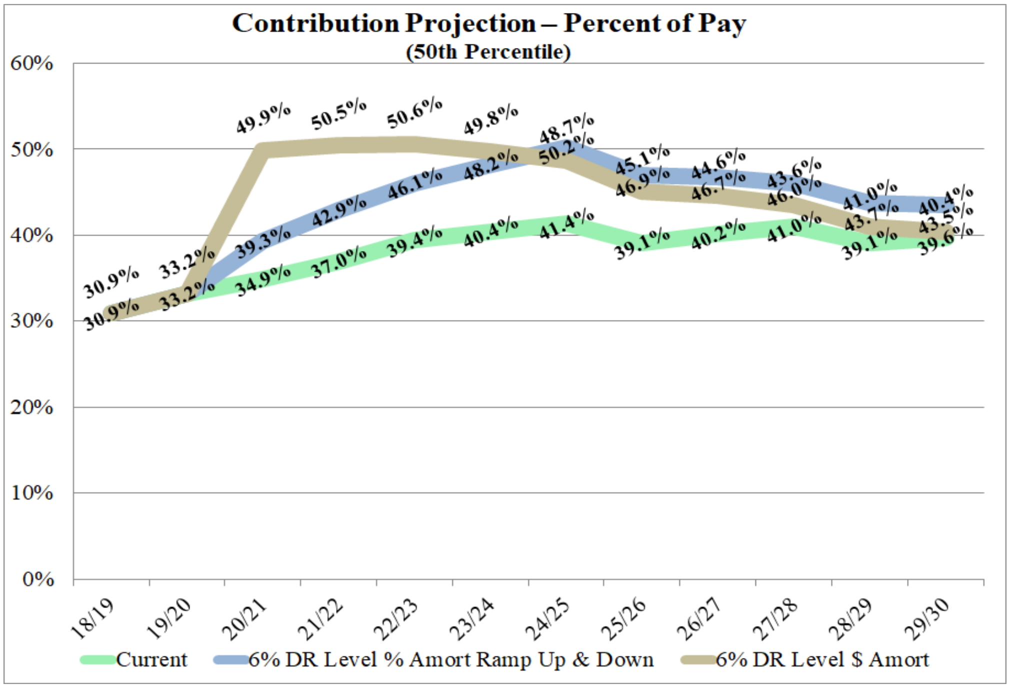
WHERE ARE WE GOING?

Miscellaneous Plan



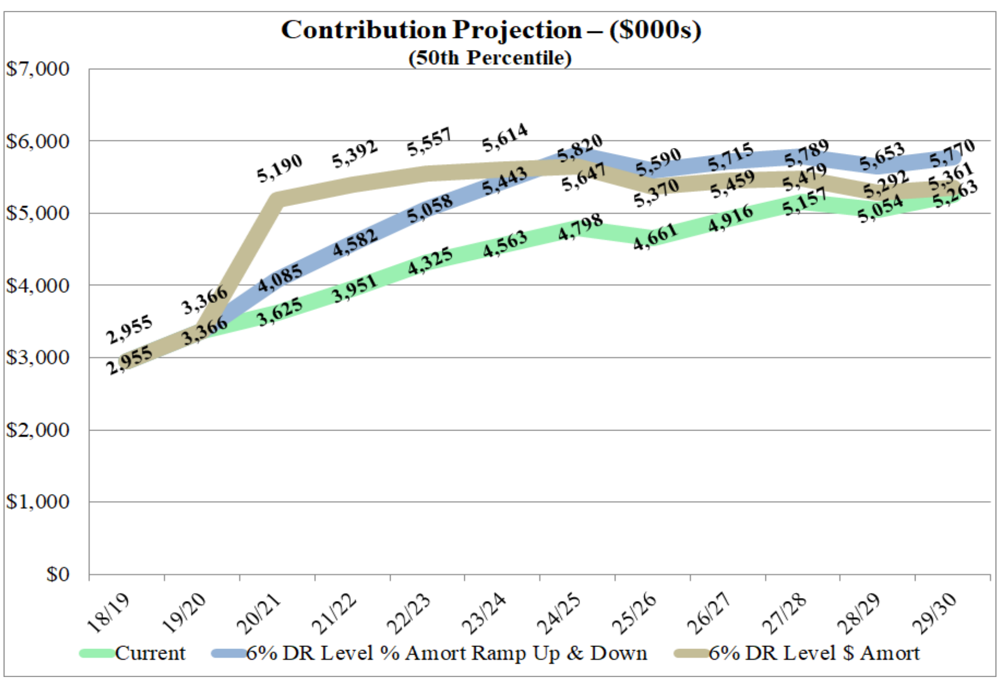
WHERE ARE WE GOING?

Miscellaneous Plan



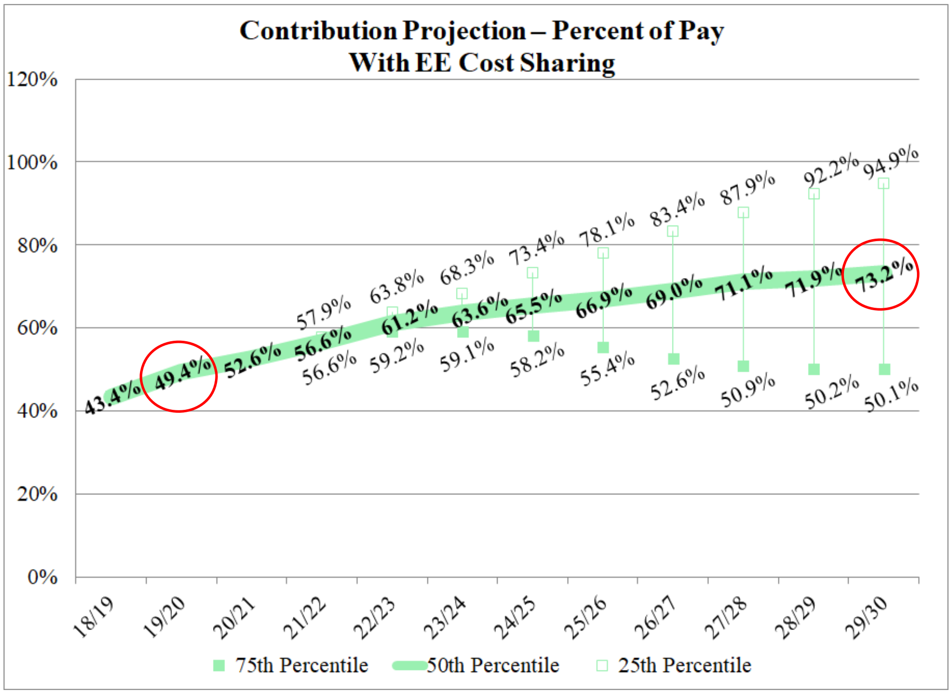
WHERE ARE WE GOING?

Miscellaneous Plan



WHERE ARE WE GOING?

Safety Plan



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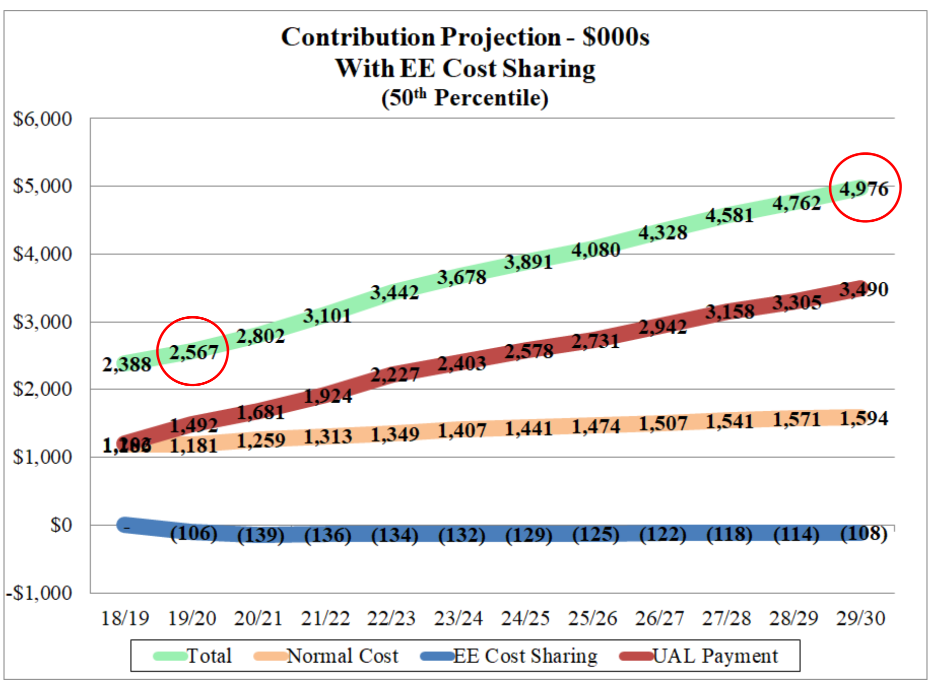
WHERE ARE WE GOING?

Safety Plan



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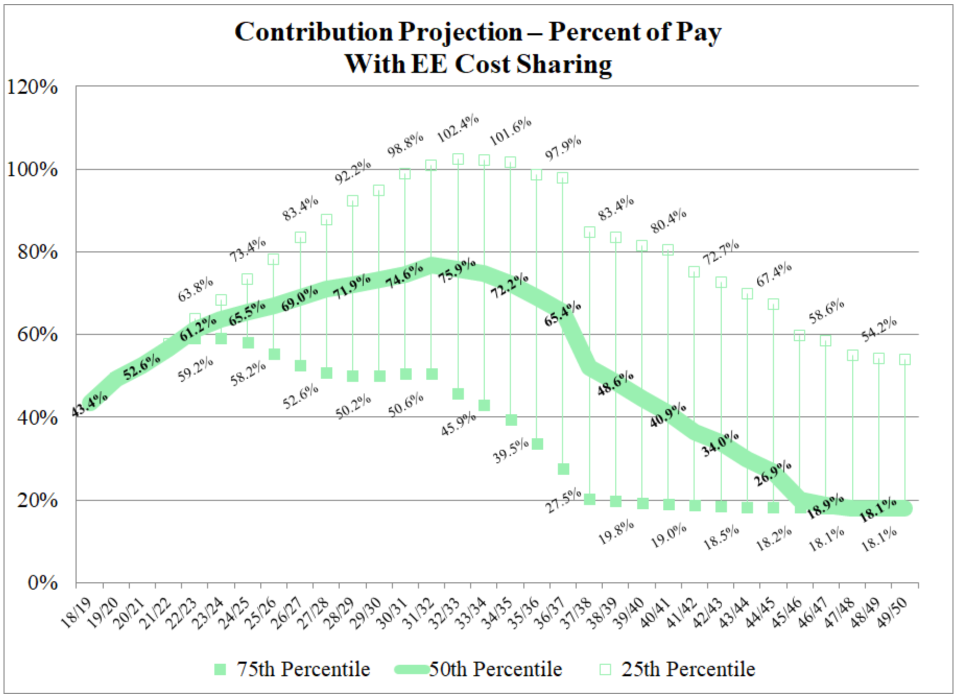
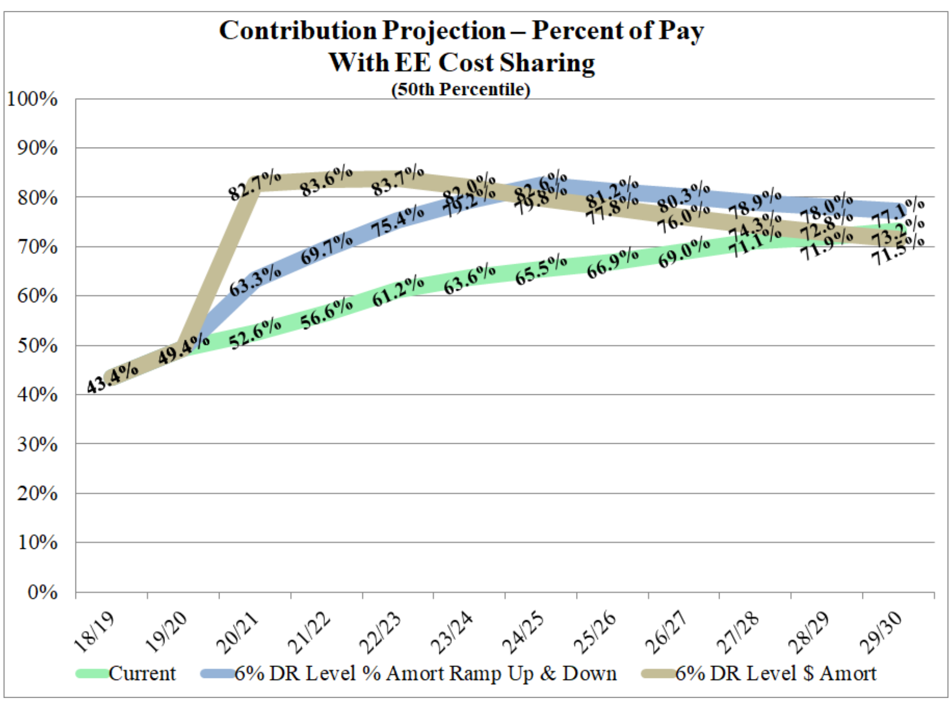
WHERE ARE WE GOING?

Safety Plan

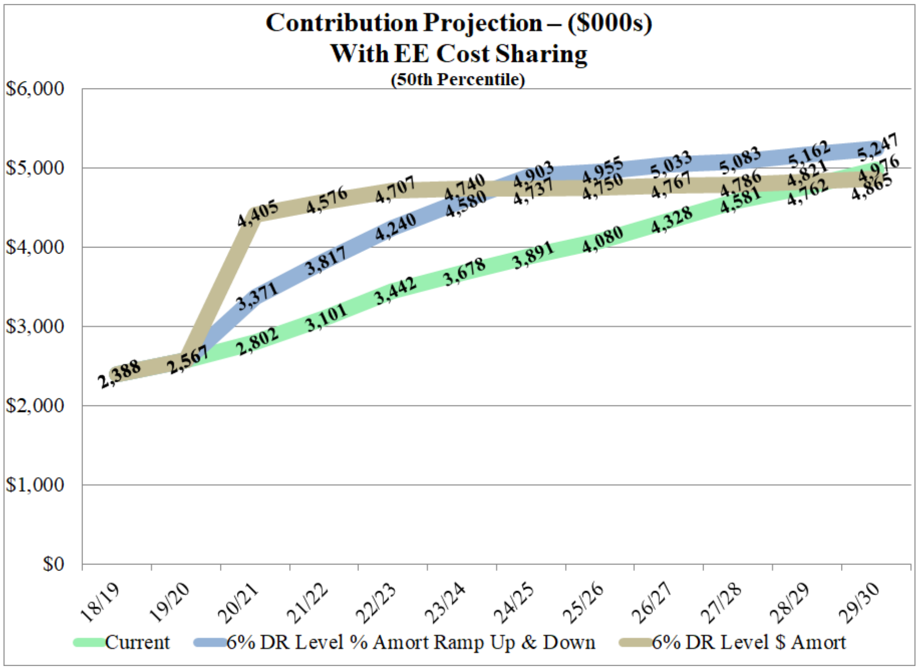


WHERE ARE WE GOING?

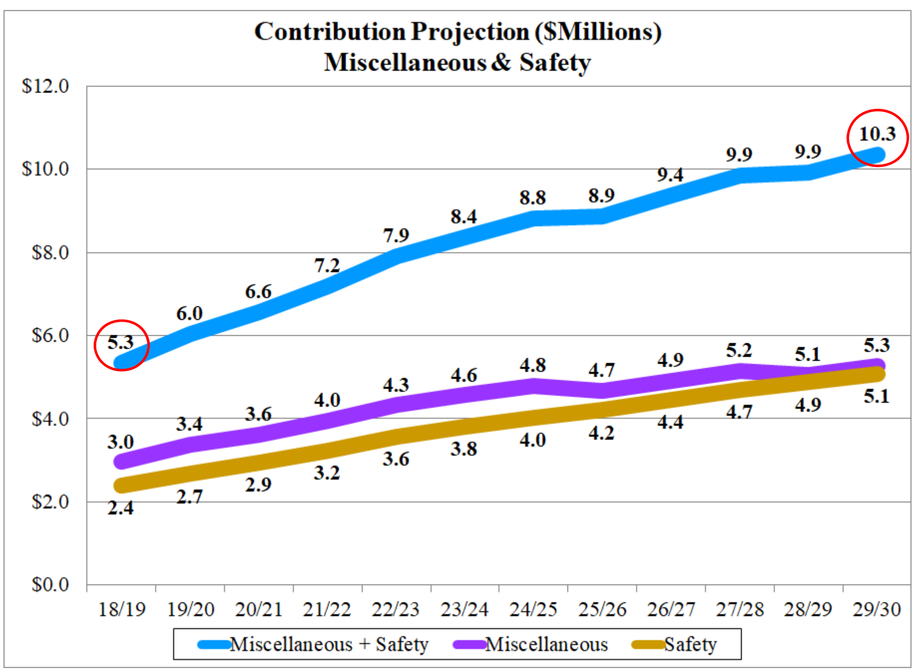
Safety Plan



Safety Plan



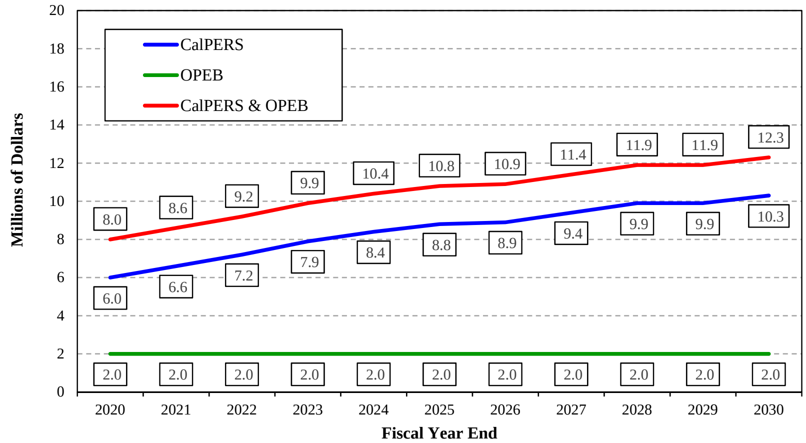
Combined Plans
(50th Percentile)



WHERE ARE WE GOING?

CalPERS Pension & OPEB

Projected City Contributions
CalPERS Pension & OPEB



Note: CalPERS pension amounts for 2020/21 and later years were determined stochastically and are shown at the 50th percentile. OPEB ADC amounts are from a deterministic projection based on the 6/30/17 valuation using 3/31/19 plan assets of $16,733,632 projected to 6/30/19 using the CERBT #1 rate of return of 3.23% for the quarter ending 6/20/19 modified to reflect plan changes since the valuation date.

HOW CAN WE PREFUND?

Additional Contributions[7]
Prefunding Options

- **General Fund or Internal Reserve**
  - Low risk and return
  - Flexible as to when and how used for CalPERS funding
  - Not restricted and can be used for other purposes
  - Not part of GASBS 68 assets for determining Net Pension Liability
- **Additional CalPERS Contributions**
  - Pay down a portion of the Unfunded Liability
    - Target specific bases (short or long)
    - Fresh start amortization (more stable contribution)
    - Saves 7% (discount rate) interest on CalPERS pension debt
  - Invested per CalPERS' investment policy
  - Contribution volatility remains
  - Employer required to pay Normal Cost when 100% funded

[7] Based on the 6/30/17 valuation using 3/31/19 plan assets of $16,733,632 projected to 6/30/19 using the CERBT #1 rate of return of 3.23% for the quarter ending 6/20/19.

Additional Contribution
Prefunding Options

- **Section 115 Trusts**
  - Generally greater risk and return than general fund but less than CalPERS
    - Agency chooses asset allocation
    - Consider risk tolerance and when funds are expected to be used
  - Flexible as to when and how used for CalPERS funding
    - Rate stabilization is a common objective
    - Paying of unfunded bases in the future
  - Avoids CalPERS overfunding due to required Normal Cost contributions
  - Asset restricted and can only be used for pension funding
  - Not part of GASBS 68 assets for determining Net Pension Liability
  - 115 Trust providers include:
    - PARS
    - Keenan
    - PFM
    - CalPERS California Employers' Pension Prefunding Trust[8]

[8] CEPPT has 2 funds with expected 10-year returns of 4% and 5%.

Additional Contribution
Prefunding Options

Characteristics	General Fund	CalPERS	115 Trust
Investment Risk	Lower	No Choice	Flexible
Investment Return	Lower	Higher	Flexible
Restricted Use	No	Yes	Yes
Pay Off Specific Bases	Yes	Yes	Yes
Rate Stabilization	Yes	No	Yes
GASBS 68 Assets	No	Yes	No

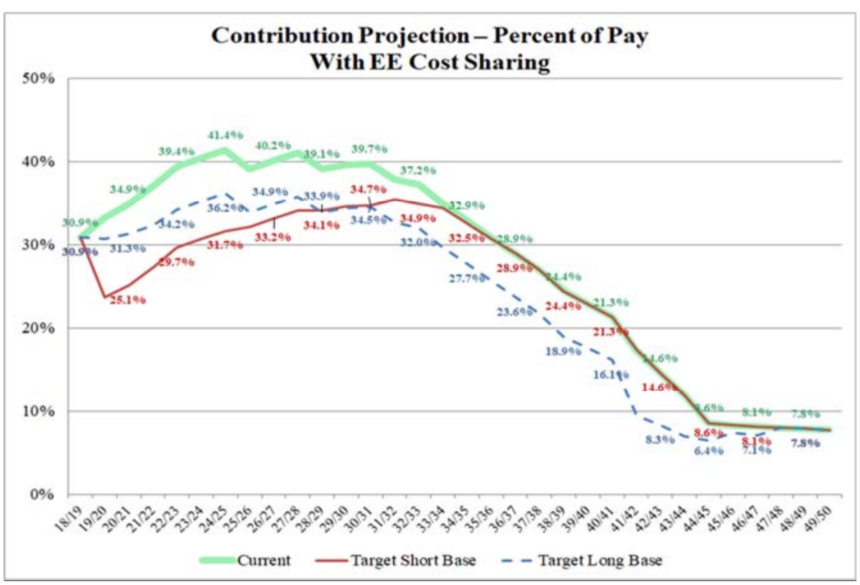
CalPERS Contributions
Pay Off Targeted Unfunded Bases
Miscellaneous Example

Bases Targeted	Contribution Impact	Interest Savings
Shorter Bases	Immediate	Less
Longer Bases	Delayed	More

Bases Targeted	Initial Payment	Contribution Savings	Present Value (3% Discount Rate)
Shorter Bases[9]	$8,000,000	$3,701,000	$1,844,000
Longer Bases[10]	8,000,000	11,674,000	4,903,000

[9] 2003, 2009, 2011, and 2014 assumption change bases and 2007 benefit change base.
[10] 2015 and 2016 gain/loss bases.

CalPERS Contributions
Pay Off Targeted Unfunded Bases
Miscellaneous Example
50th Percentile



Section 115 Trust Contributions

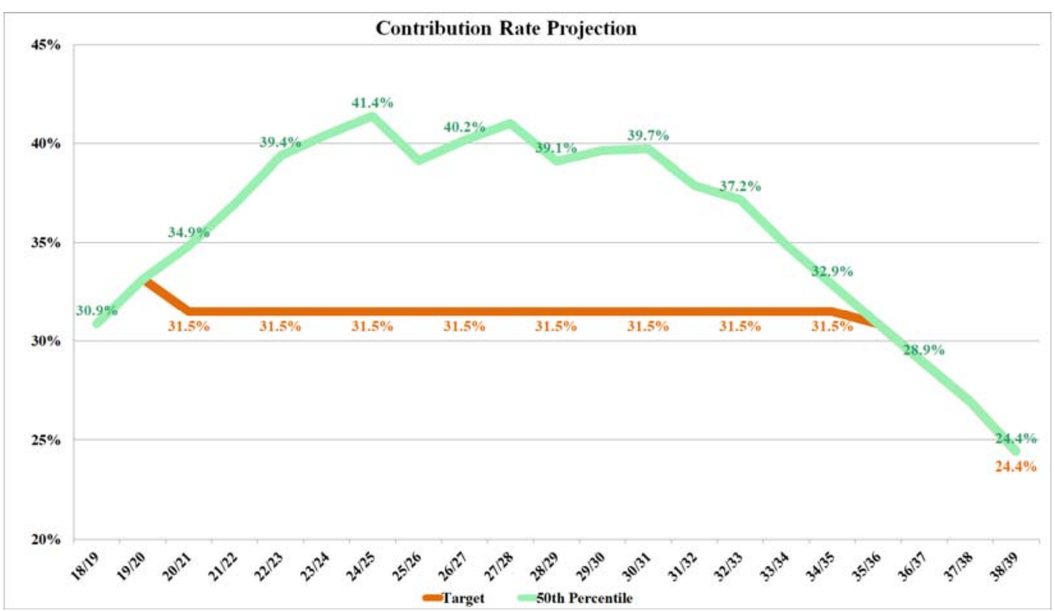
Rate Stabilization Example

Assumptions	Misc	Misc
Initial Trust Balance	$8,000,000	$4,400,000
Future Contributions	0	0
Assumed Annual Earnings Rate	6.00%	6.00%
Maximum Budgeted Contribution Rate	31.5%	34.6%

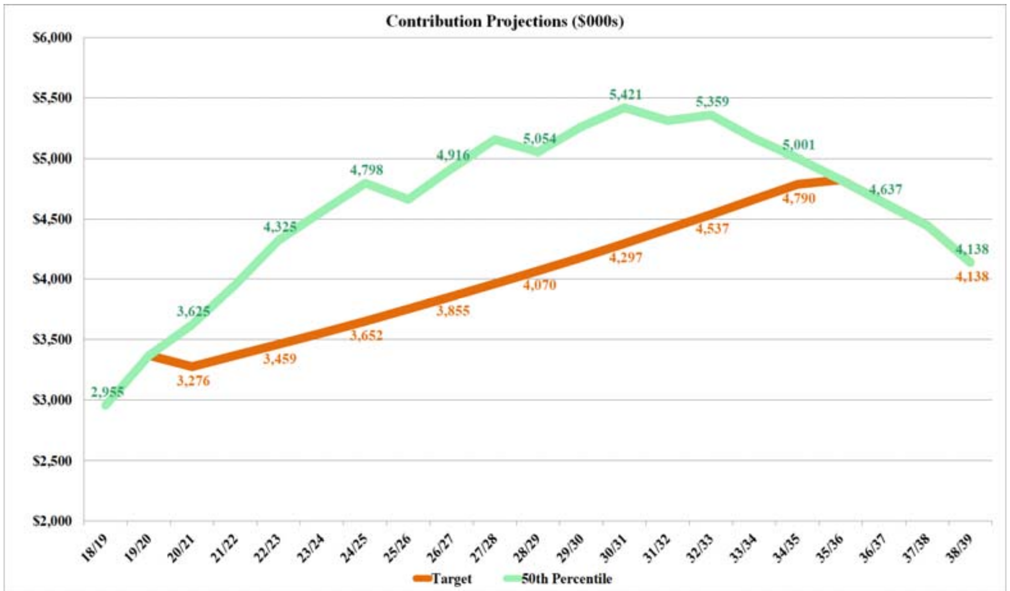
Results - 50th Percentile	Misc	Misc
First Year Funds Are Used	2020/21	2021/22
Last Year Funds Are Used	2034/35	2032/33
Duration	15 years	12 years
Interest Savings	$5,130,000	$2,733,000
Present Value (3% Discount Rate)	2,402,000	1,265,000
Remaining Balance at 6/30/33	558,000	116,000

Section 115 Trust Contributions

Miscellaneous Plan Rate Stabilization Example - $8 Million
50th Percentile

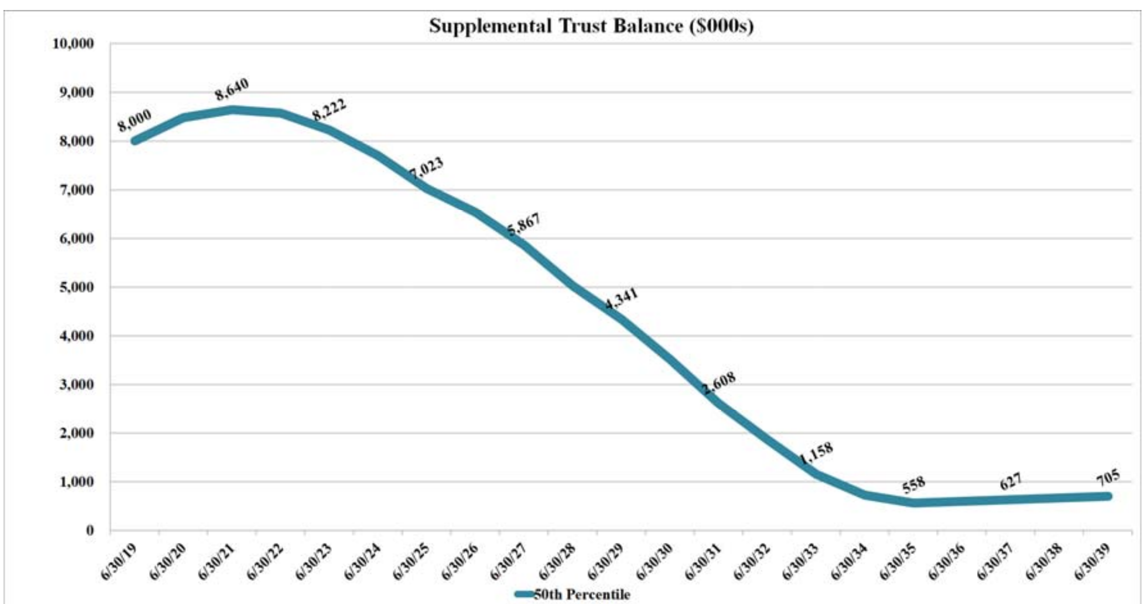


Section 115 Trust Contributions
Miscellaneous Plan Rate Stabilization Example - $8 Million
50th Percentile



HOW CAN WE PREFUND?

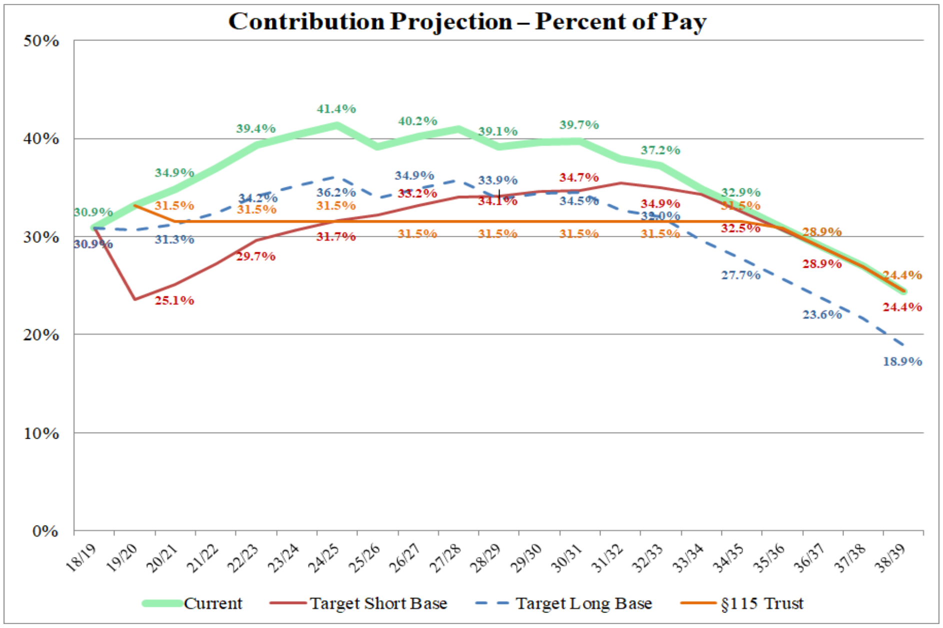
Section 115 Trust Contributions
Miscellaneous Plan Rate Stabilization Example - $8 Million
50th Percentile



HOW CAN WE PREFUND?

Section 115 Trust Contributions

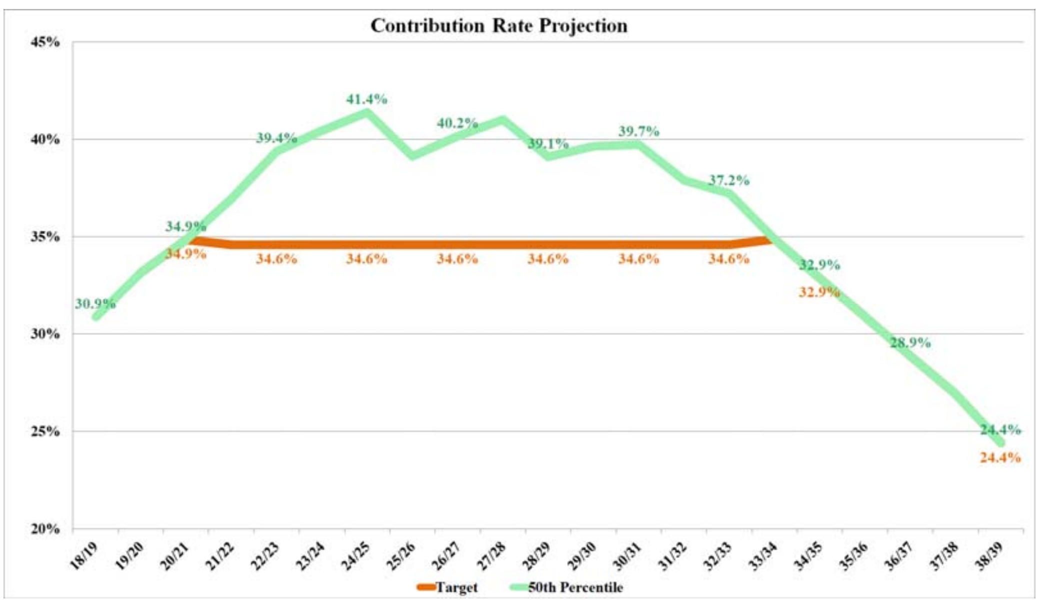
Miscellaneous Plan Rate Stabilization Example - $8 Million
50th Percentile



HOW CAN WE PREFUND?

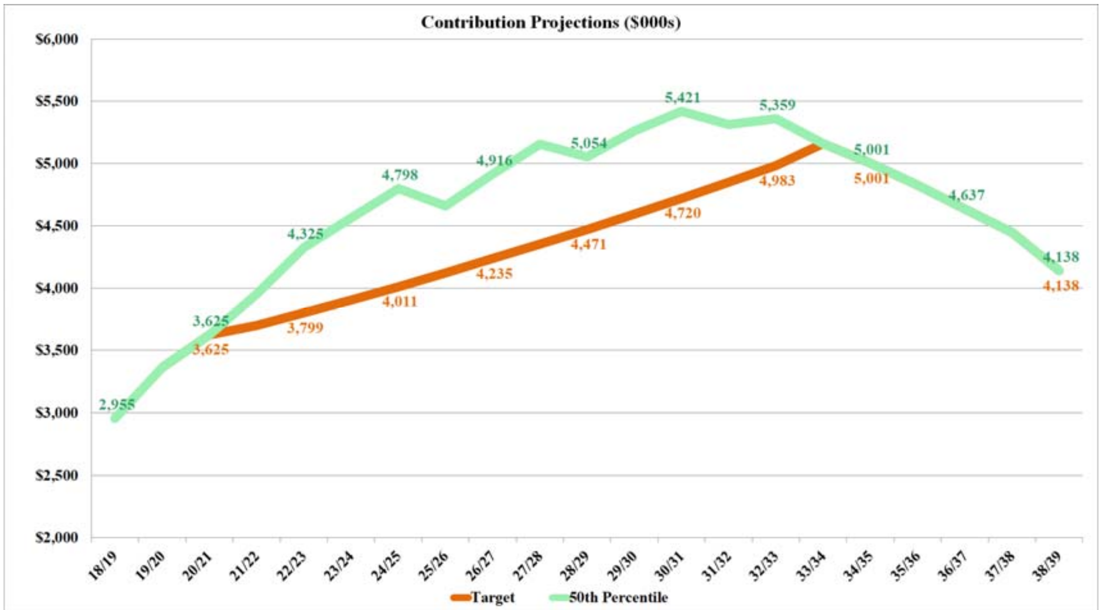
Section 115 Trust Contributions

Miscellaneous Plan Rate Stabilization Example - $4.4 Million
50th Percentile



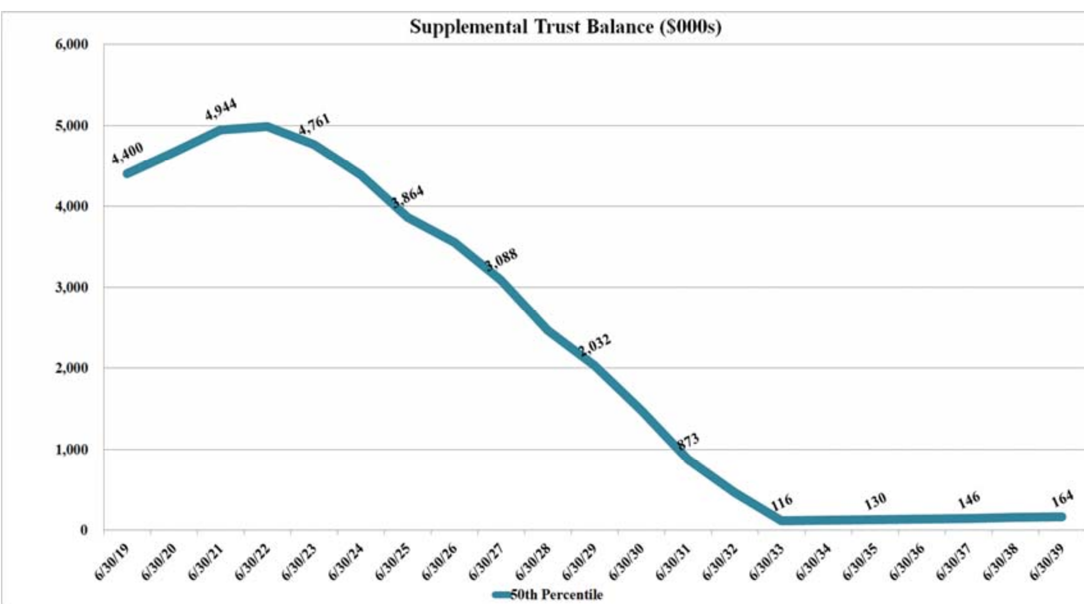
HOW CAN WE PREFUND?

Section 115 Trust Contributions
Miscellaneous Plan Rate Stabilization Example - $4.4 Million
50th Percentile



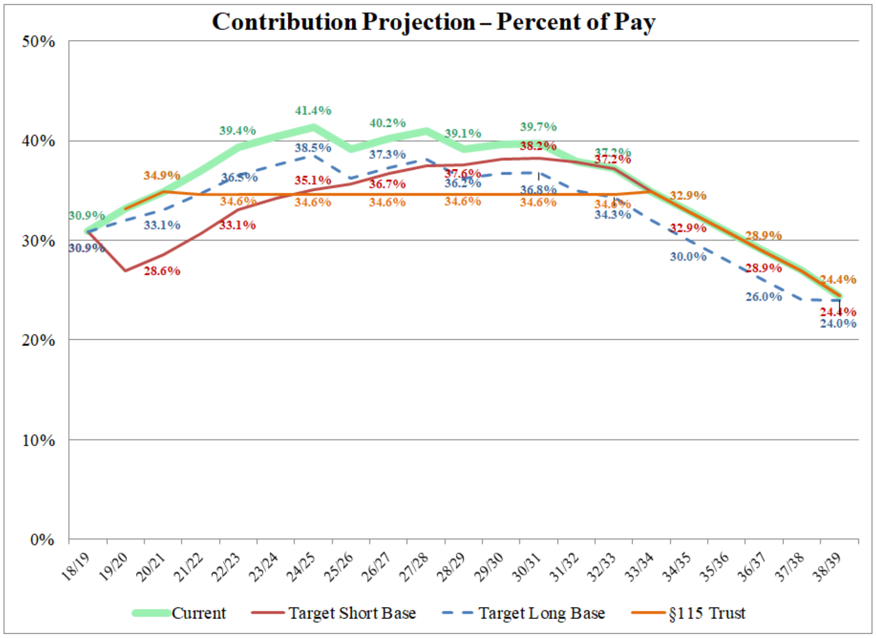
HOW CAN WE PREFUND?

Section 115 Trust Contributions
Miscellaneous Plan Rate Stabilization Example - $4.4 Million
50th Percentile



Section 115 Trust Contributions

Miscellaneous Plan Rate Stabilization Example - $4.4 Million
50th Percentile



OPEB Plan

Contribution Projection - Full ADC Funding - CERBT #1[11]

(Amounts in 000's)

Fiscal Year End	Prior Plan ADC[12]	Prior Plan BOY UAAL[13]	Prior Plan BOY Fund%	New Plan ADC	New Plan BOY UAAL	New Plan BOY Fund%
2019	$2,050	$10,242	61%	$1,991	$10,242	61%
2020	2,110	10,154	64%	1,996	10,154	64%
2021	2,173	10,044	66%	2,004	10,044	66%
2022	2,237	9,908	69%	2,007	9,908	68%
2023	2,304	9,744	71%	2,012	9,744	70%
2024	2,373	9,549	73%	2,019	9,549	72%
2025	2,444	9,319	75%	2,024	9,319	74%
2026	2,517	9,050	77%	2,028	9,050	76%
2027	2,593	8,739	79%	2,033	8,739	78%
2028	2,671	8,382	81%	2,034	8,382	79%

[11]Based on the 6/30/17 valuation study (12/10/18) using 6/30/18 plan assets of $16,276,565 projected to 6/30/19 using the assumed CERBT #1 return of 6.75% for 2018/19 and the PEMHCA minimum amount for new hires. Prior plan actives assumed to have a Normal Cost Percentage of 8.8%. New hires assumed to have a Normal Cost Percentage of 1.7%. The prior plan participation assumption is 100% for covered actives and 90% for waived actives. The new plan participation assumption is 60% for covered actives and 50% for waived actives. The projection assumes no retirees from new hires over the projection period. New hires are projected to account for 47% of projected payroll in 2028.
[12] ADC amounts are from a deterministic projection.
[13] UAAL is amortized over 20 years for 2018/19 and is projected to be fully funded on 6/30/38. "BOY" means "Beginning of Year."

HOW CAN WE PREFUND?

CERBT Target Investment Allocations

■ CERBT Investment Strategy	CERBT #1	CERBT #2	CERBT #3
■ Global Equity	59%	40%	22%
■ Fixed Income	25%	43%	49%
■ TIPS	5%	5%	16%
■ REITs	8%	8%	8%
■ Commodities	3%	4%	5%
■ Total	100%	100%	100%
■ Long-Term Expected Real Return	4.14%	3.54%	2.83%
■ Long-Term Inflation Assumption	2.75%	2.75%	2.75%
■ Assumed Investment Expenses	(0.04%)	(0.04%)	(0.04%)
■ Long-Term Expected Nominal Return	6.85%	6.25%	5.54%
■ Recommended Discount Rate	6.75%	6.25%	5.50%

HOW CAN WE PREFUND?

OPEB Plan

Contribution Projection - Full ADC Funding - New Plan[14]

(Amounts in 000's)

Fiscal Year End	CERBT #1			CERBT #3		
	ADC[15]	BOY UAAL[16]	BOY Fund%	ADC	BOY UAAL	BOY Fund%
2019	$1,991	$10,242	61%	$2,520	$14,637	52%
2020	1,996	10,154	64%	2,527	14,455	56%
2021	2,004	10,044	66%	2,537	14,239	59%
2022	2,007	9,908	68%	2,542	13,988	62%
2023	2,012	9,744	70%	2,550	13,696	64%
2024	2,019	9,549	72%	2,558	13,361	67%
2025	2,024	9,319	74%	2,566	12,979	69%
2026	2,028	9,050	76%	2,571	12,545	71%
2027	2,033	8,739	78%	2,577	12,057	73%
2028	2,034	8,382	79%	2,579	11,507	75%

[14] Based on the 6/30/17 valuation study (12/10/18) using 6/30/18 plan assets of $16,276,565 projected to 6/30/19 using the assumed CERBT #1 and CERBT #3 rates of return of 6.75% and 5.50% for 2018/19.
[15] ADC amounts are from a deterministic projection.
[16] UAAL is amortized over 20 years for 2018/19 and is projected to be fully funded on 6/30/38.

OPEB Plan[17]

Contribution Projection - Full ADC Funding - New Plan - Additional $8 Million

(Amounts in 000's)

Fiscal Year End	New Plan CERBT #1			Additional $8 Million[18]		
	ADC[19]	BOY UAAL[20]	BOY Fund%	ADC	BOY UAAL	BOY Fund%
2019	$ 1,991	$ 10,242	61%	$ 1,991	$ 10,242	61%
2020	1,959	9,662	65%	1,355	1,662	94%
2021	1,967	9,572	68%	1,345	1,640	94%
2022	1,970	9,456	70%	1,329	1,615	95%
2023	1,975	9,310	72%	1,315	1,586	95%
2024	1,981	9,133	74%	1,301	1,552	95%
2025	1,987	8,921	75%	1,286	1,513	96%
2026	1,990	8,671	77%	1,268	1,468	96%
2027	1,994	8,378	79%	1,250	1,416	96%
2028	1,995	8,041	80%	1,228	1,357	97%

[17] Based on the 6/30/17 valuation using 3/31/19 plan assets of $16,733,632 projected to 6/30/19 using the CERBT #1 rate of return of 3.23% for the quarter ending 6/20/19.
[18] Additional $8 million assumed contributed to the OPEB trust on 6/30/19.
[19] ADC amounts are from a deterministic projection.
[20] UAAL is amortized over 20 years for 2018/19 and is projected to be fully funded on 6/30/38.

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TOWN OF LOS GATOS
MISCELLANEOUS & SAFETY PLANS

CalPERS Actuarial Issues – 6/30/17 Valuation
Preliminary Results

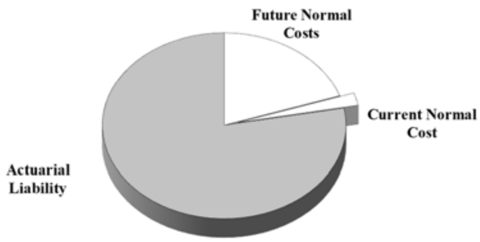
Joseph R. D'Onofrio, Assistant Vice President
Bianca Lin, Assistant Vice President
Matthew Childs, Associate Actuary
Bartel Associates, LLC

August 6, 2019

Contents

DEFINITIONS

Present Value of Benefits
June 30, 2017

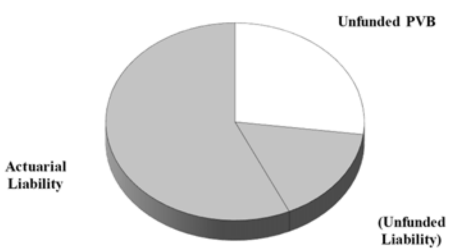


- **PVB - Present Value of all Projected Benefits:**
  - The value now of amounts due to be paid in the future
  - Discounted value (at valuation date - 6/30/17), of all future expected benefit payments based on various (actuarial) assumptions

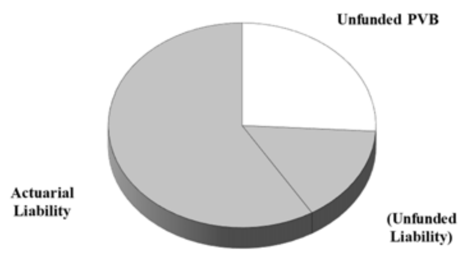
- **Current Normal Cost:**
  - Portion of PVB allocated to (or "earned" during) current year
  - Value of employee and employer current service benefit
- **Actuarial Liability:**
  - Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
  - Portion of PVB "earned" at measurement

DEFINITIONS

Present Value of Benefits
June 30, 2016



Present Value of Benefits
June 30, 2017

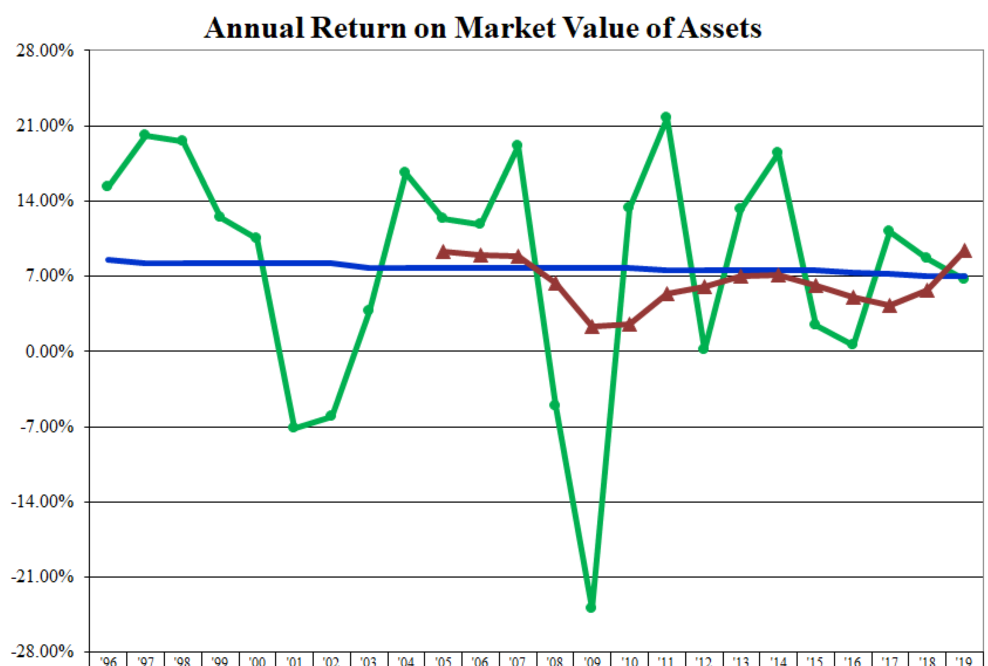


- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability -** Money short of target <u>at valuation date</u>
  - If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
  - Any difference is the unfunded (or overfunded) 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].

How We Got Here

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

How We Got Here – Investment Return



	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
MVA	15.3%	20.1%	19.5%	12.5%	10.5%	-7.2%	-6.1%	3.7%	16.6%	12.3%	11.8%	19.1%	-5.1%	-24.0	13.3%	21.7%	0.1%	13.2%	18.4%	2.4%	0.6%	11.2%	8.6%	6.7%
Discount Rate	8.50%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.50%	7.50%	7.50%	7.50%	7.50%	7.375	7.25%	7.00%	7.00%
10-Year Rolling Average										9.3%	9.0%	8.9%	6.4%	2.3%	2.6%	5.4%	6.1%	7.0%	7.2%	6.2%	5.1%	4.3%	5.8%	9.4%

How We Got Here – 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

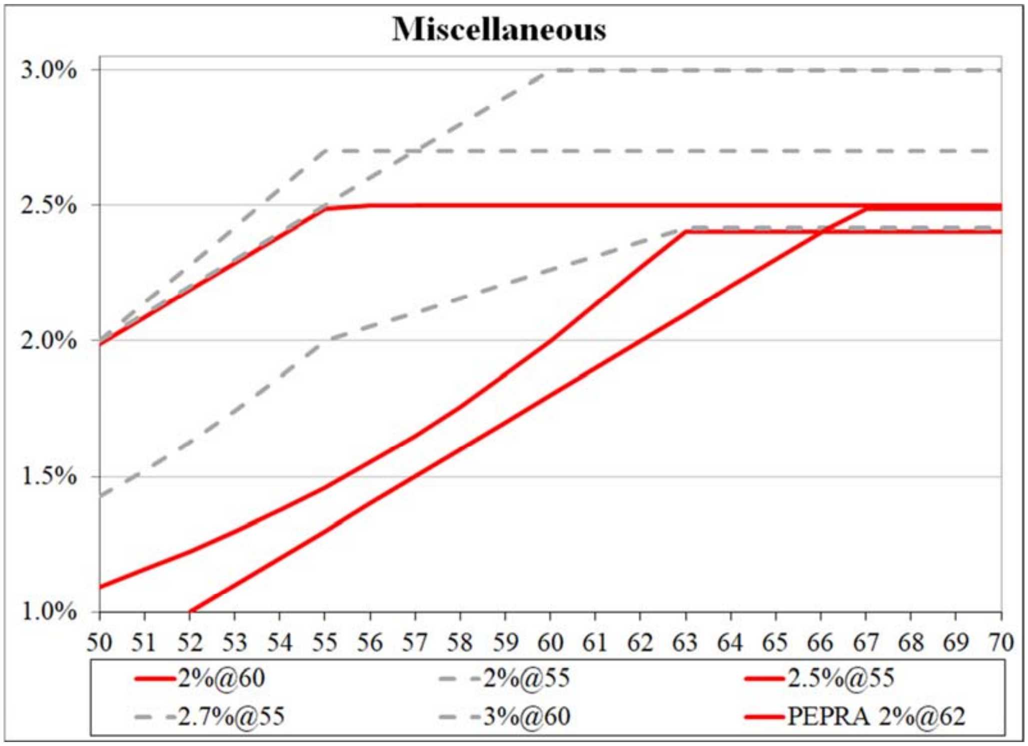
How We Got Here – Enhanced Benefits

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

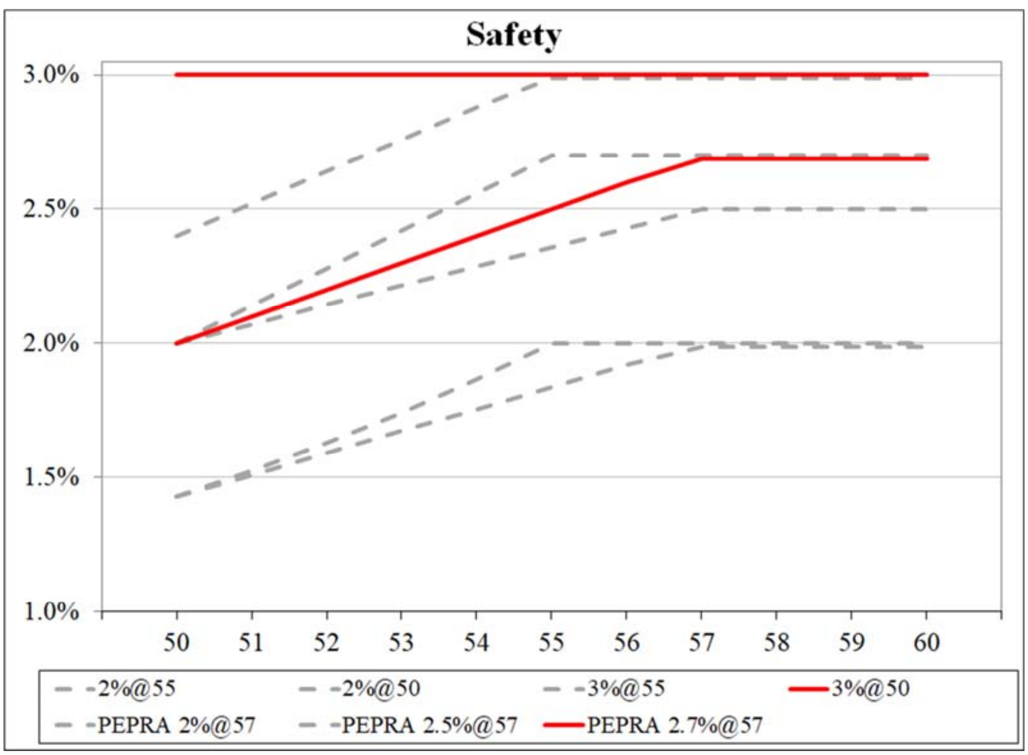
	Tier 1	Tier 2	PEPRA
• Miscellaneous	2.5%@55 FAE1	2%@60 FAE3	2%@62 FAE3
• Safety	3%@50 FAE1	N/A	2.7%@57 FAE3

  - Note:
    - ☐ FAE1 is highest one year (typically final) average earnings
    - ☐ FAE3 is highest three years (typically final three) average earnings

How We Got Here – Enhanced Benefits



How We Got Here – Enhanced Benefits



HOW WE GOT HERE – DEMOGRAPHIC

- Around the State
  - Large retiree liability compared to actives
    - State average: 55% for Miscellaneous, 65% 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 66%
  - Safety 71%

CALPERS CHANGES

- Contribution policy changes:
  - No asset smoothing
  - No rolling amortization
  - 5-year ramp up
  - Included in 6/30/13 valuation (first impact 15/16 rates; full impact 19/20)
- Assumption changes:
  - Anticipate future mortality improvement
  - Other, less significant, changes
  - Included in 6/30/14 valuation (first impact 16/17 rates; full impact 20/21)
- CalPERS Board changed their discount rate:

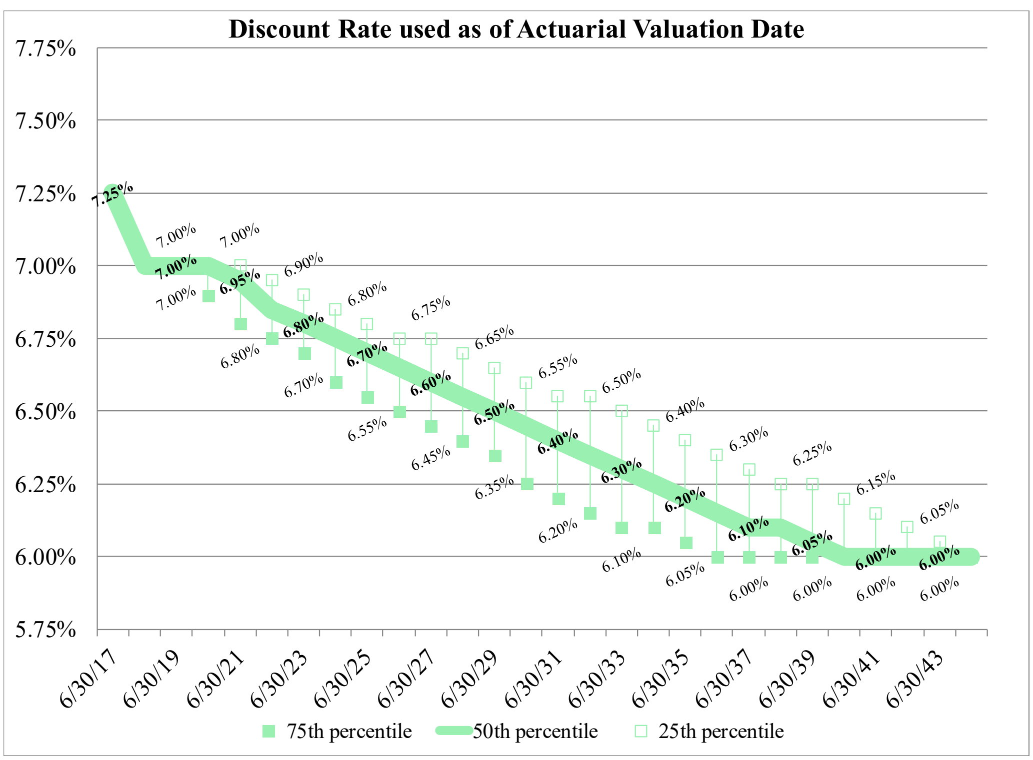
	Rate	Initial Impact	Full Impact
6/30/16 valuation	7.375%	18/19	22/23
6/30/17 valuation	7.25%	19/20	23/24
6/30/18 valuation	7.00%	20/21	24/25

- December 2017: CalPERS Board selected asset allocation similar to current portfolio. No change to the discount rate

CalPERS Changes

- Risk Mitigation Strategy
  - Move to more conservative investments over time to reduce volatility
  - Only when investment return is better than expected
  - Lower discount rate in concert
  - Essentially use ≈50% of investment gains to pay for cost increases
  - Likely get to 6.0% over 20+ years
  - Risk mitigation suspended until 6/30/18 valuation
- February 2018 CalPERS adopted new amortization policy
  - Applies only to newly established amortization bases
    - Fixed dollar amortization rather than % pay
    - Amortize gains/losses over 20 rather than 30 years
    - 5-year ramp up (not down) for investment gains and losses
    - No ramp up/down for other amortization bases
  - Minimizes total interest paid over time and pays off UAL faster
  - Effective June 30, 2019 valuation for 2021/22 contributions
  - Included in this study

CalPERS Changes

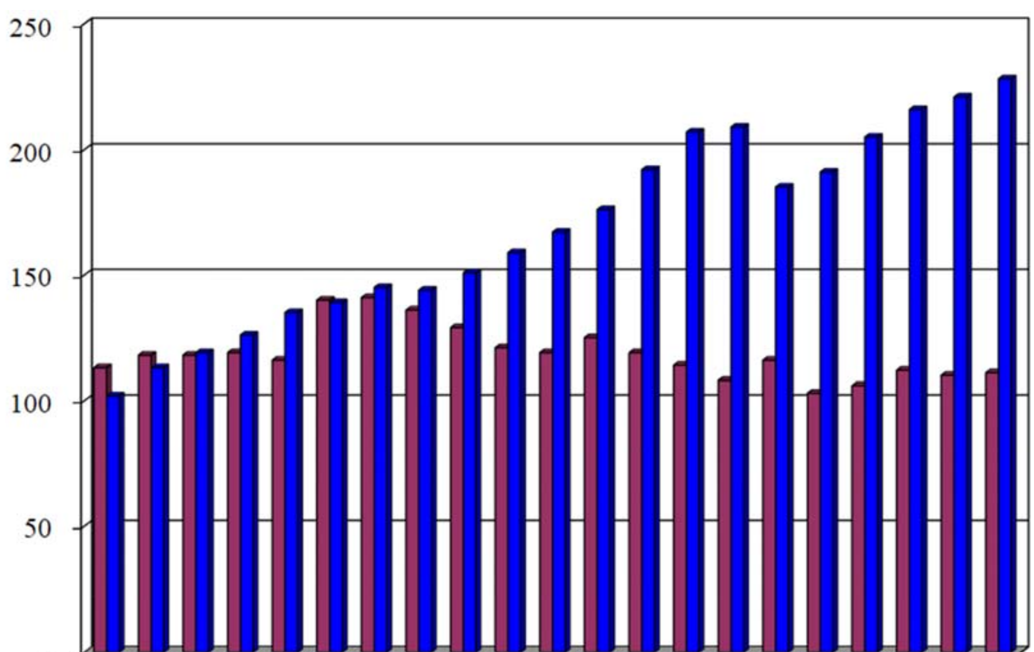


SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

	1997	2007	2016	2017
Actives				
■ Counts	113	119	110	111
■ Average				
• Age	44	48	45	44
• Town Service	9	10	8	8
• PERSable Wages	$ 43,000	$ 73,400	$ 79,700	$ 84,000
■ Total PERSable Wages	4,900,000	8,700,000	8,800,000	9,300,000
Inactive Members				
■ Counts				
• Transferred	59	80	96	98
• Separated	52	77	81	79
• Retired				
□ Service		140	190	197
□ Disability		11	11	12
□ Beneficiaries		16	20	19
□ Total	102	167	221	228
■ Average Annual Town Provided Benefit for Service Retirees[1]	N/A	$ 14,300	$ 24,100	$ 25,200

[1] Average Town-provided pensions are based on Town service & Town benefit formula, and are not representative of benefits for long-service employees.

SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

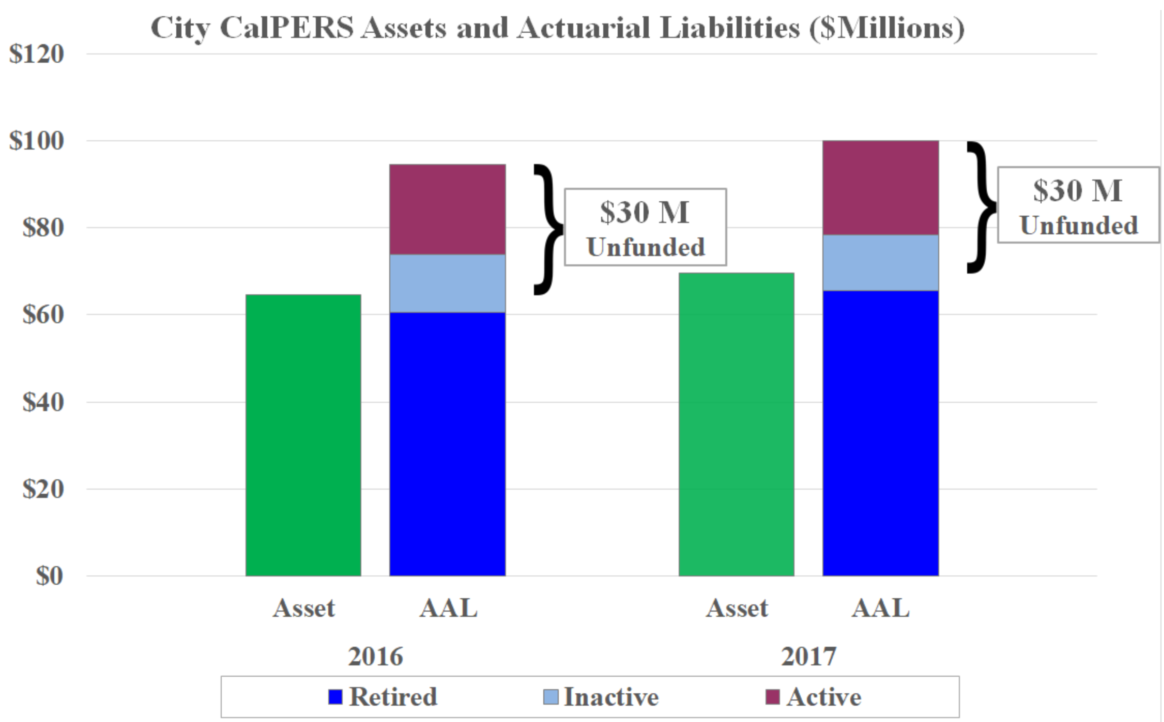


	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17
Active	113	118	118	119	116	140	141	136	129	121	119	125	119	114	108	116	103	106	112	110	111
Receiving Payments	102	113	119	126	135	139	145	144	151	159	167	176	192	207	209	185	191	205	216	221	228

PLAN FUNDED STATUS - MISCELLANEOUS

	June 30, 2016	June 30, 2017
Active AAL	$20,800,000	$21,400,000
Retiree AAL	60,600,000	65,700,000
Inactive AAL	13,200,000	12,800,000
Total AAL	94,600,000	99,900,000
Assets	64,500,000	69,500,000
Unfunded Liability	30,100,000	30,400,000
Funded Ratio	68.2%	69.6%

PLAN FUNDED STATUS - MISCELLANEOUS



Discount Rate Sensitivity

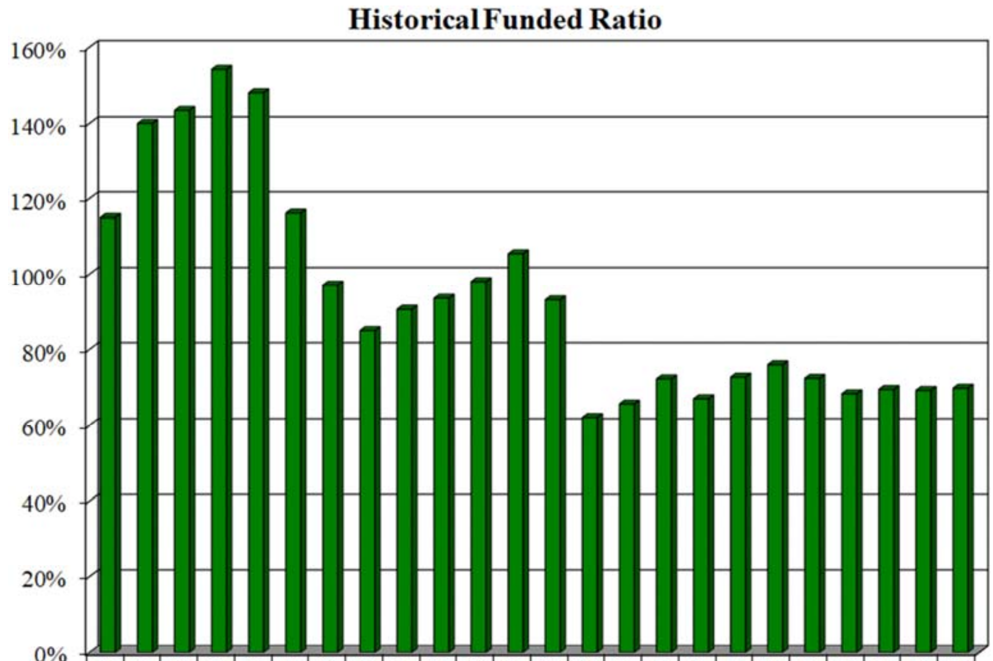
June 30, 2017

	Discount Rate		
	7.25%	**7.00%**	**6.00%**
AAL	$99,900,000	$102,600,000	$116,000,000
Assets	69,500,000	69,500,000	69,500,000
Unfunded Liability	30,400,000	33,100,000	46,500,000
Funded Ratio	69.6%	67.8%	59.9%

Unfunded Accrued Liability Changes

■ **Unfunded Accrued Liability on 6/30/16**		$30,100,000
■ **Expected Unfunded Accrued Liability on 6/30/17**		30,700,000
■ **Other Changes**		
• Asset Loss (Gain) (11.2% return for FY 2017)	(2,400,000)	
• Assumption Change	1,200,000	
• Contribution & Experience Loss (Gain)	900,000	
• Total		(300,000)
■ **Unfunded Accrued Liability on 6/30/17**		30,400,000

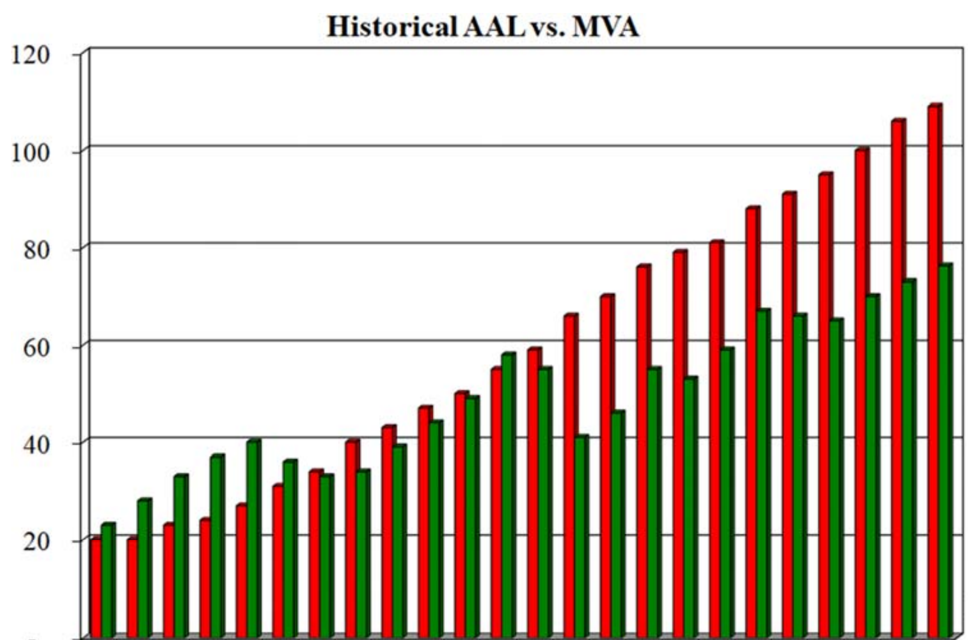
FUNDED RATIO - MISCELLANEOUS



	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
MVA	115%	140%	143%	154%	148%	116%	97%	85%	91%	94%	98%	105%	93%	62%	66%	72%	67%	73%	76%	73%	68%	70%	69%	70%

6/30/18 & 6/30/19 funded status estimated

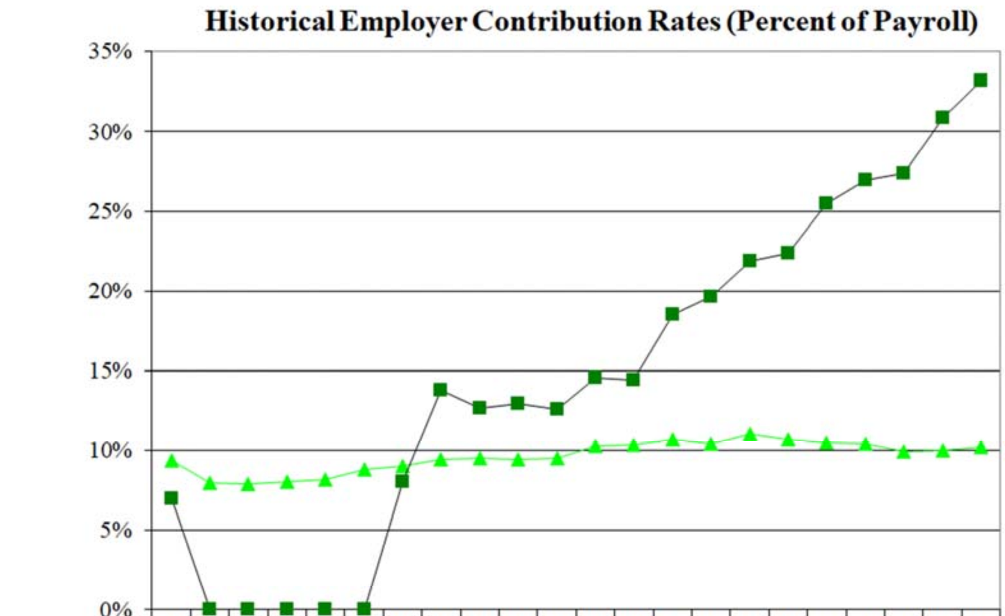
FUNDED STATUS (MILLIONS) - MISCELLANEOUS



	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
AAL	20	20	23	24	27	31	34	40	43	47	50	55	59	66	70	76	79	81	88	91	95	100	106	109
Assets	23	28	33	37	40	36	33	34	39	44	49	58	55	41	46	55	53	59	67	66	65	70	73	76

6/30/18 & 6/30/19 funded status estimated

CONTRIBUTION RATES - MISCELLANEOUS



	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Normal Cost	9.4	8.0	7.9	8.0	8.2	8.8	9.0	9.4	9.5	9.5	9.5	10.3	10.4	10.7	10.4	11.0	10.7	10.5	10.4	9.9	10.0	10.2
Total Rate	7.0	0.0	0.0	0.0	0.0	0.0	8.0	13.8	12.7	13.0	12.6	14.6	14.4	18.5	19.6	21.9	22.4	25.4	27.0	27.4	30.9	33.2

CONTRIBUTION RATES - MISCELLANEOUS

	6/30/16 2018/2019	6/30/17 2019/2020
■ Total Normal Cost	17.4%	17.6%
■ Employee Normal Cost	7.4%	7.4%
■ Employer Normal Cost	10.0%	10.2%
■ Amortization Payments	20.9%	22.9%
■ Total Employer Contribution Rate	30.9%	33.2%

■ 2018/19 Employer Contribution Rate	30.9%
● Payroll > Expected	(0.6%)
● Asset Method Change (5th Year)	1.5%
● 6/30/14 Assumption Change (4th Year)	0.9%
● 6/30/16 Discount Rate Change (2nd Year)	0.3%
● 6/30/17 Discount Rate & Inflation (1st Year)	0.8%
● Other (Gains)/Losses	(0.6%)
■ 2019/20 Employer Contribution Rate	33.2%

CONTRIBUTION PROJECTIONS - MISCELLANEOUS

- Market Value Investment Return:
  - June 30, 2018 — 8.6%[2]
  - June 30, 2019 — 6.7%[3]
  - Future returns based on stochastic analysis using 1,000 trials

Single Year Returns at[4]	25th Percentile	50th Percentile	75th Percentile
Current Investment Mix	**0.1%**	**7.0%**	**14.8%**
Ultimate Investment Mix	**0.8%**	**6.0%**	**11.4%**

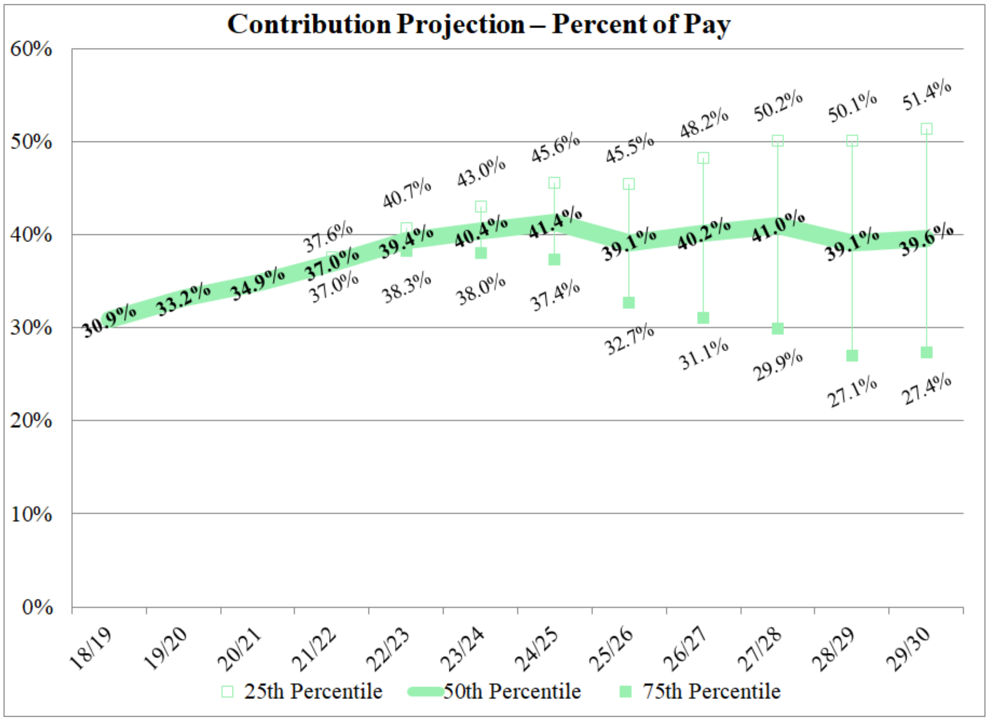
  - Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.
- Assumption Changes – Discount Rate
  - Decrease to 7.0% by June 30, 2018 valuation
  - Additional Discount Rate decreases due to Risk Mitigation policy.
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection

2 Based July 2018 CalPERS press release
3 Based July 2019 CalPERS press release
4 N^{th} percentile means N percentage of our trials result in returns lower than the indicated rates.

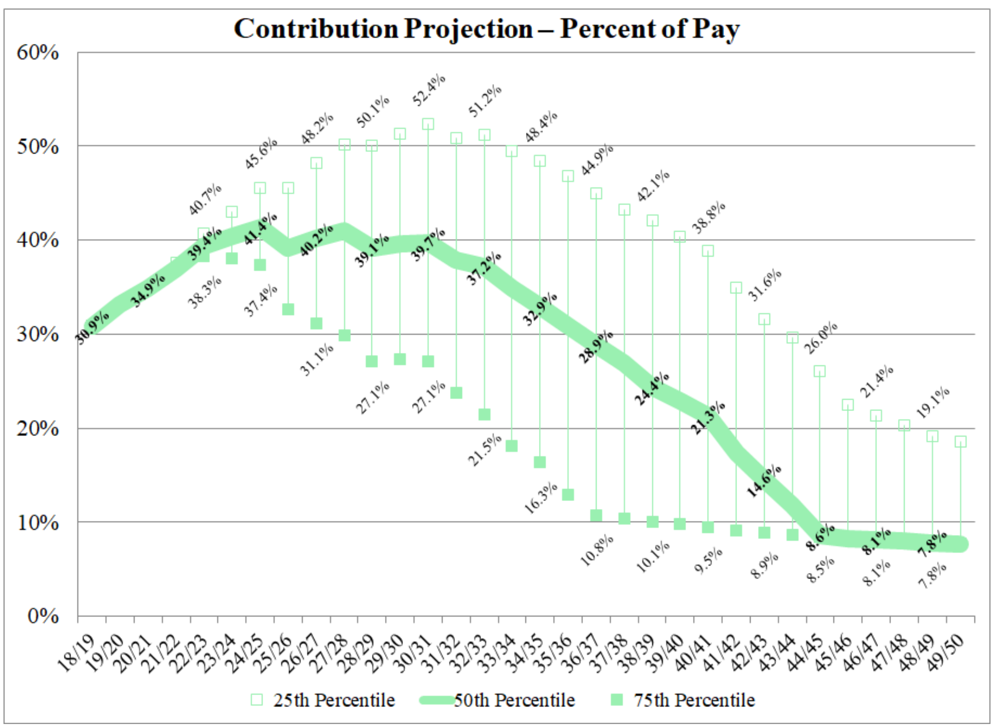
CONTRIBUTION PROJECTIONS - MISCELLANEOUS

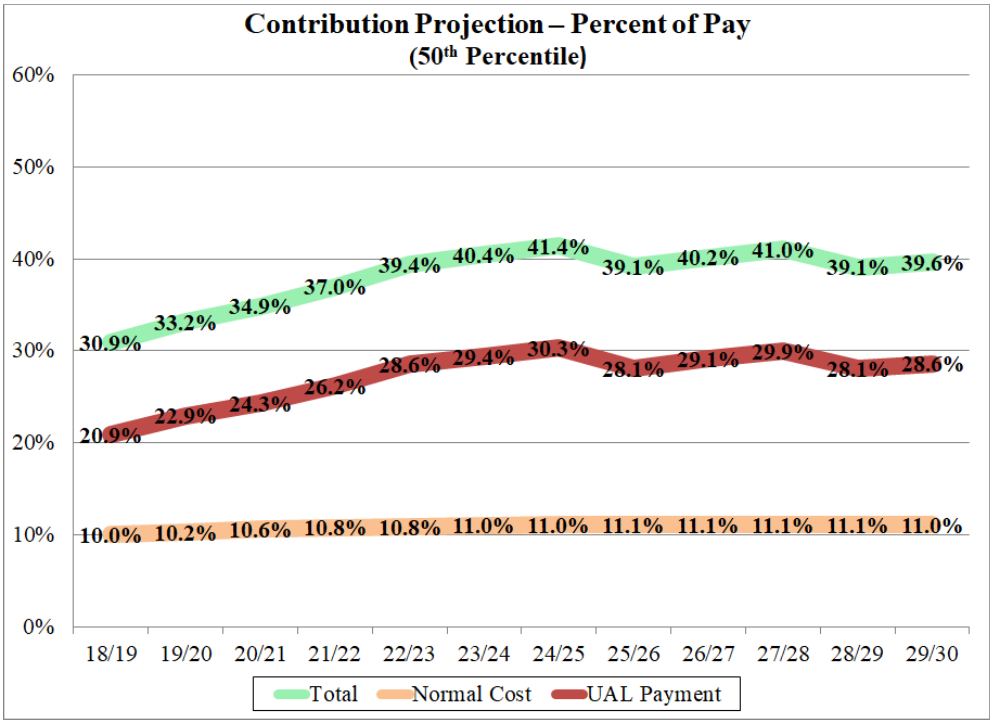
- New hire assumptions:
  - 62.5% of 2018/19 new hires are PEPRA members and 37.5% are Classic members
  - Percentage of PEPRA member future hires to increase from 62.5% to 100% over 15 years
- 6% Discount Rate Comparison
  - 2 discount rate change amortization
    - ☐ 20 years level % payroll amortization with ramp up and ramp down
    - ☐ 20 years level $ amortization (no ramp up or ramp down)

CONTRIBUTION PROJECTIONS - MISCELLANEOUS

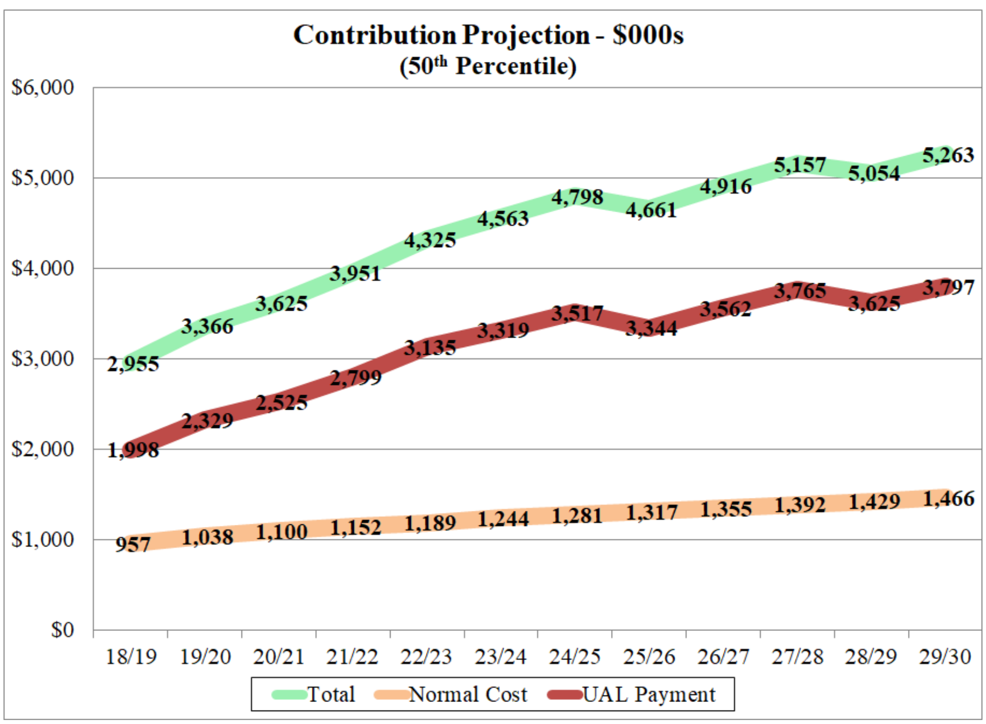


CONTRIBUTION PROJECTIONS - MISCELLANEOUS

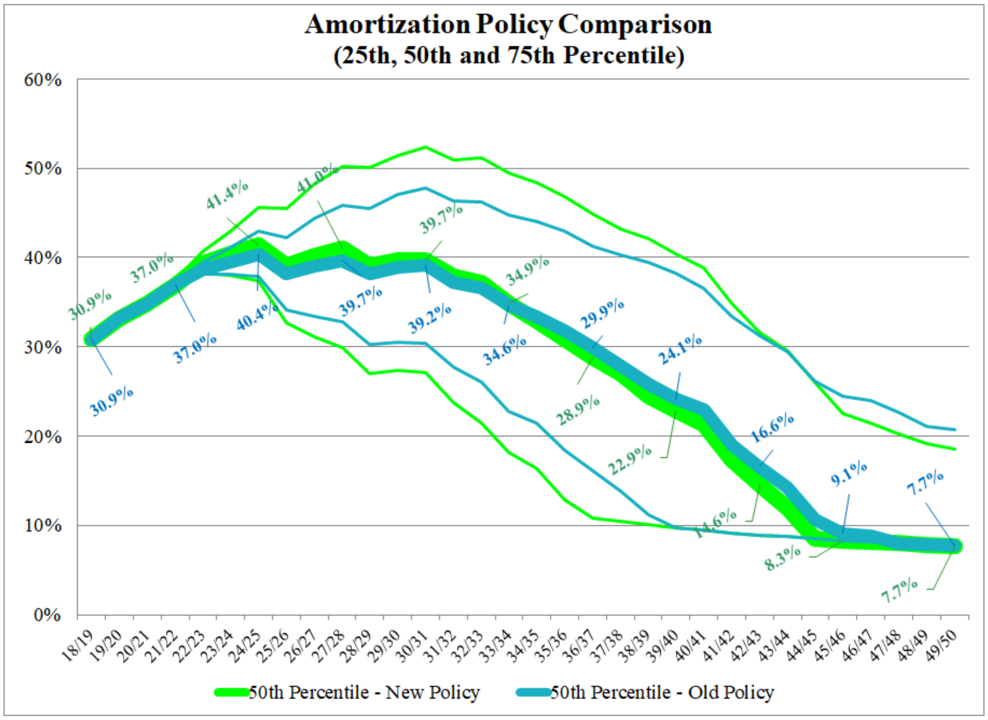




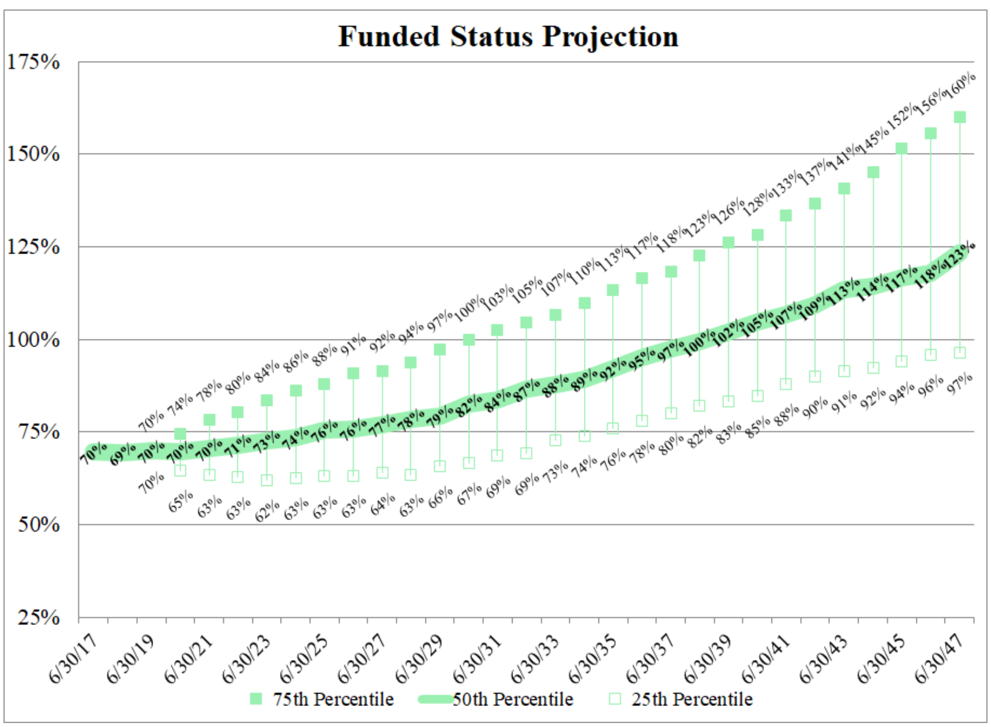
CONTRIBUTION PROJECTIONS - MISCELLANEOUS



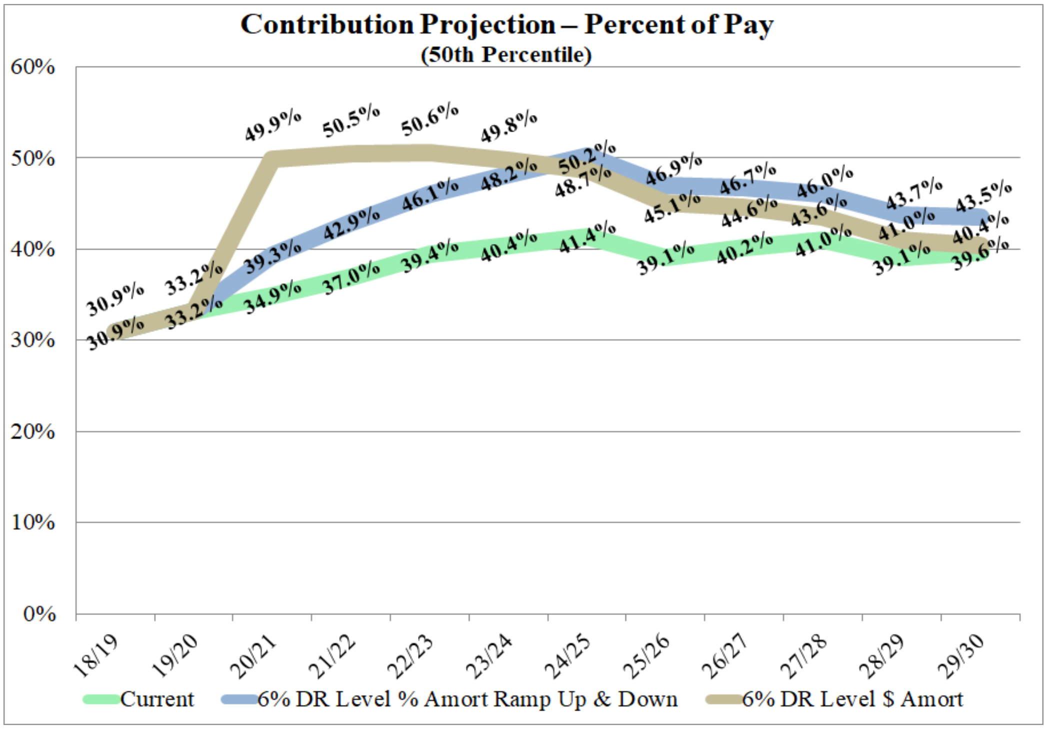
CONTRIBUTION PROJECTIONS - MISCELLANEOUS



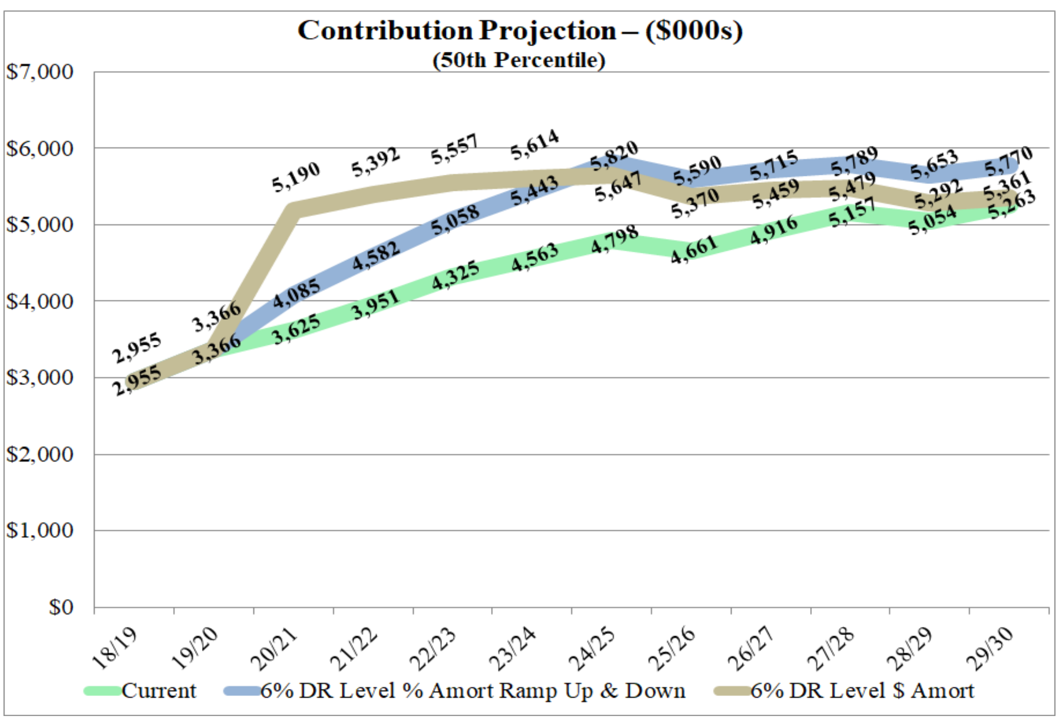
FUNDED STATUS - MISCELLANEOUS



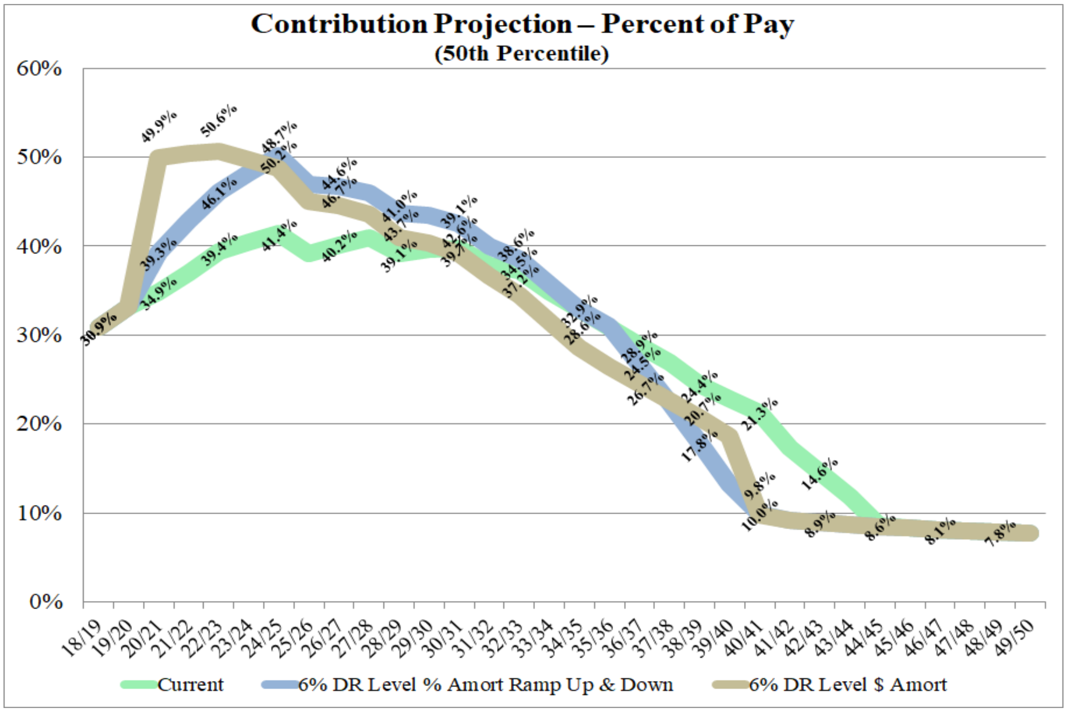
6% Discount Rate Projection - Miscellaneous



6% Discount Rate Projection - Miscellaneous



6% Discount Rate Projection - Miscellaneous



6% Discount Rate Projection - Miscellaneous

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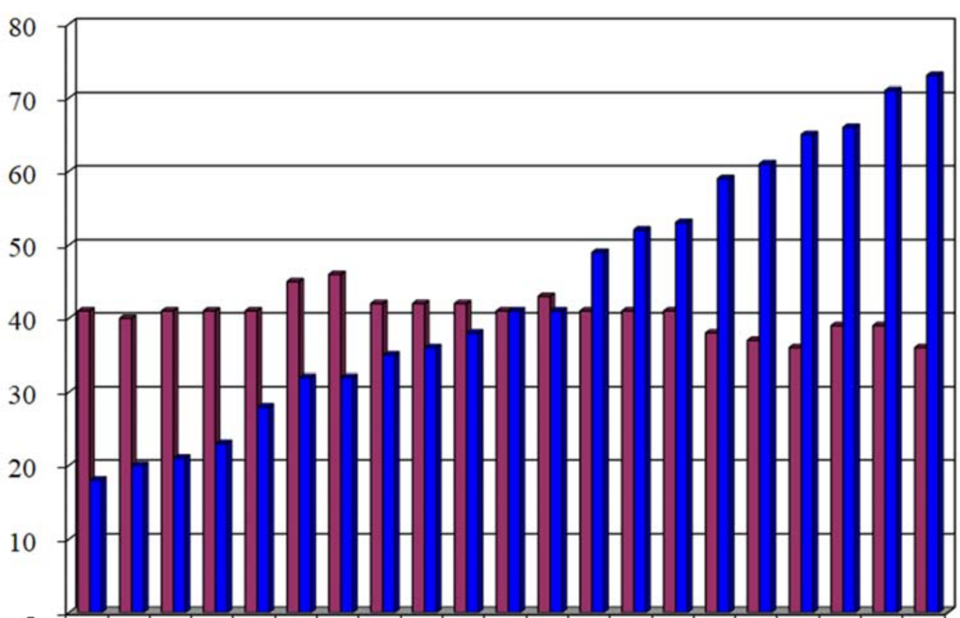
Summary of Demographic Information - Safety

	1997	2007	2016	2017
Actives				
■ Counts	40	41	39	36
■ Average PERSable Wages	$ 60,500	$ 107,300	$ 129,000	$ 132,600
■ Total PERSable Wages	2,400,000	4,400,000	5,000,000	4,800,000
Inactive Members				
■ Counts				
• Transferred	13	25	14	17
• Separated	6	6	2	1
• Retired	20	41	71	73

Summary of Demographic Information - Safety

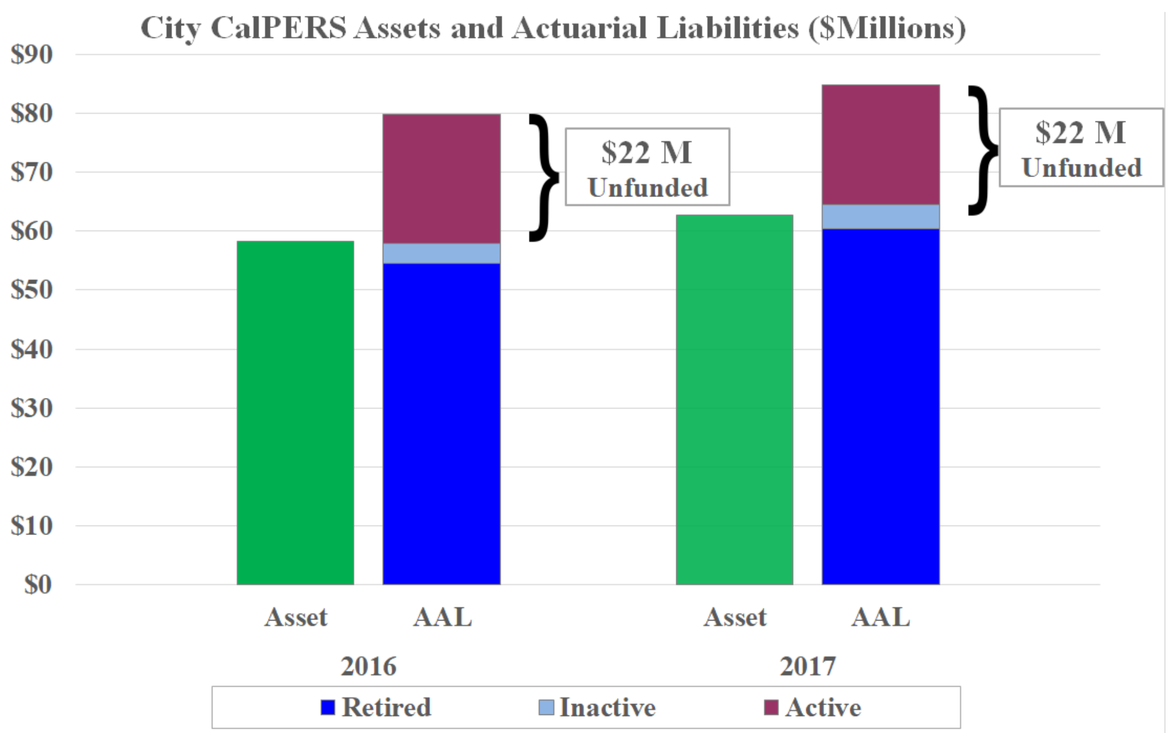


	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17
■ Active	41	40	41	41	41	45	46	42	42	42	41	43	41	41	41	38	37	36	39	39	36
■ Receiving Payments	18	20	21	23	28	32	32	35	36	38	41	41	49	52	53	59	61	65	66	71	73

PLAN FUNDED STATUS - SAFETY

	June 30, 2016	June 30, 2017
Active AAL	$21,900,000	$20,400,000
Retiree AAL	54,600,000	60,400,000
Inactive AAL	3,400,000	4,000,000
Total AAL	79,900,000	84,800,000
Assets	58,200,000	62,700,000
Unfunded Liability	21,700,000	22,100,000
Funded Ratio	72.8%	74.0%

PLAN FUNDED STATUS - SAFETY



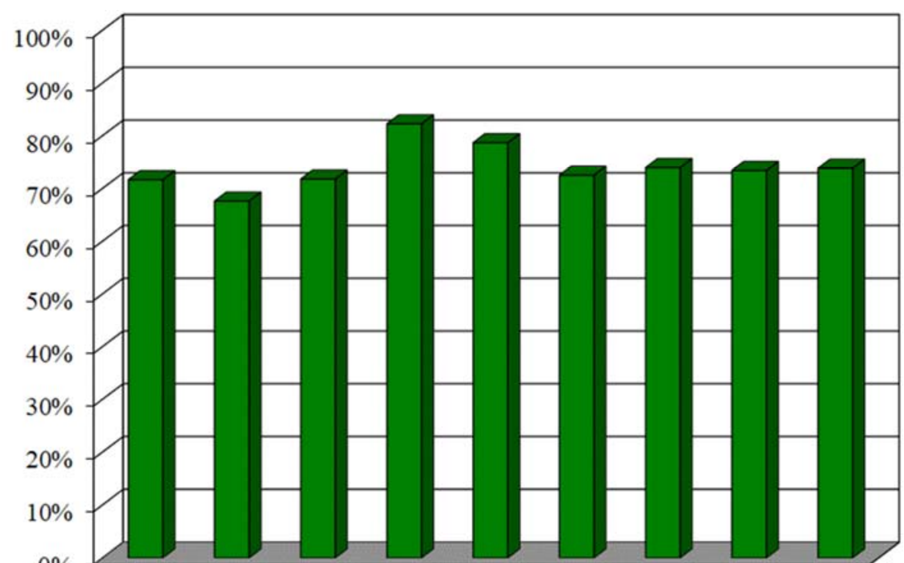
PLAN FUNDED STATUS - SAFETY

Discount Rate Sensitivity

June 30, 2017

	Discount Rate		
	7.25%	**7.00%**	**6.00%**
AAL	$84,800,000	$87,300,000	$99,400,000
Assets	62,700,000	62,700,000	62,700,000
Unfunded Liability	22,100,000	24,600,000	36,700,000
Funded Ratio	74.0%	71.9%	63.1%

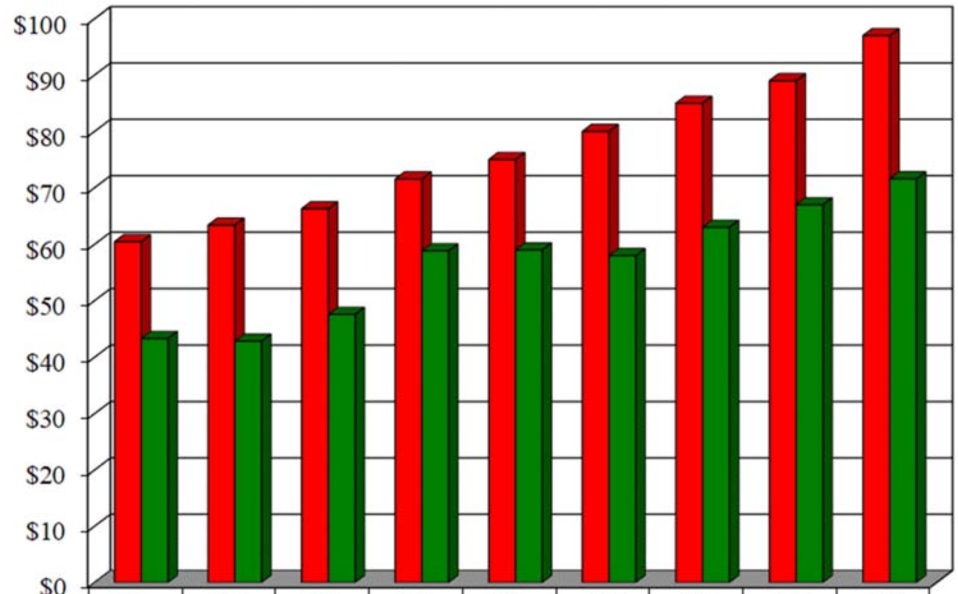
FUNDED RATIO - SAFETY



	'11	'12	'13	'14	'15	'16	'17	'18	'19
Funded Ratio - MVA	72%	68%	72%	82%	79%	73%	74%	73%	74%

6/30/18 & 6/30/19 funded status estimated

FUNDED STATUS (MILLIONS) - SAFETY



	'11	'12	'13	'14	'15	'16	'17	'18	'19
Actuarial Liability	60	63	66	72	75	80	85	89	97
Market Asset Value	43	43	48	59	59	58	63	67	72

6/30/18 & 6/30/19 funded status estimated

CONTRIBUTION RATES - SAFETY

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
ER Normal Cost	15.0	12.7	14.1	14.2	20.1	19.3	19.4	19.8	19.5	19.2	18.9	18.6	18.4	19.9	20.0	20.5	20.1	20.2	21.2	20.9	21.6	22.7
Total ER Cont Rate	16.1	4.2%	0.9%	0.0%	16.5	16.0	28.3	32.6	34.0	33.5	33.6	33.8	33.6	38.6	39.3	40.9	43.9	32.4	36.2	38.1	43.4	51.4

CONTRIBUTION RATES - SAFETY

	6/30/17 Valuation 2019/2020 Contribution Rates Total[5]	Tier 1 3%@50	PEPRA 2.7%@57
■ Base Total Normal Cost	29.3%	29.7%	25.0%
■ Class 1 Benefits			
● Final Average Comp (1-Year)	1.1%	1.2%	-
● Pre Retirement Survivor Allowance	1.7%	1.7%	1.5%
■ Total Normal Cost	32.1%	32.6%	26.5%
■ Formula's Expected EE Contr. Rate	9.3%	9.0%	12.8%
■ ER Normal Cost	22.7%	23.7%	13.8%
■ Amortization Bases	28.7%	31.6%	1.2%
■ Amortization of Side Fund	-	-	-
■ **Total ER Contribution**	**51.4%**	**55.2%**	**15.0%**
■ Employee counts	36	32	4
■ Employee payroll (in 000's)	5,198	4,706	492
■ **Total ER Contribution $ (in 000's)**	**$ 2,673**		

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

CONTRIBUTION RATES - SAFETY

	6/30/16 2018/2019	6/30/17 2019/2020
■ Total Normal Cost	30.9%	32.1%
■ Employee Normal Cost	9.3%	9.3%
■ Employer Normal Cost	21.6%	22.7%
■ Amortization Payments	21.9%	28.7%
■ Total Employer Contribution Rate	43.4%	51.4%

■ 2018/19 Employer Contribution Rate	43.4%
● Payroll < Expected	1.8%
● Asset Method Change (5th Year)	2.1%
● 6/30/14 Assumption Change (4th Year)	1.5%
● 6/30/16 Discount Rate Change (2nd Year)	0.5%
● 6/30/17 Discount Rate & Inflation (1st Year)	1.9%
● Other (Gains)/Losses	0.2%
■ 2019/20 Employer Contribution Rate	51.4%

CONTRIBUTION PROJECTIONS - SAFETY

- Market Value Investment Return:
  - June 30, 2018 8.6%[6]
  - June 30, 2019 6.7%[7]
  - Future returns based on stochastic analysis using 1,000 trials

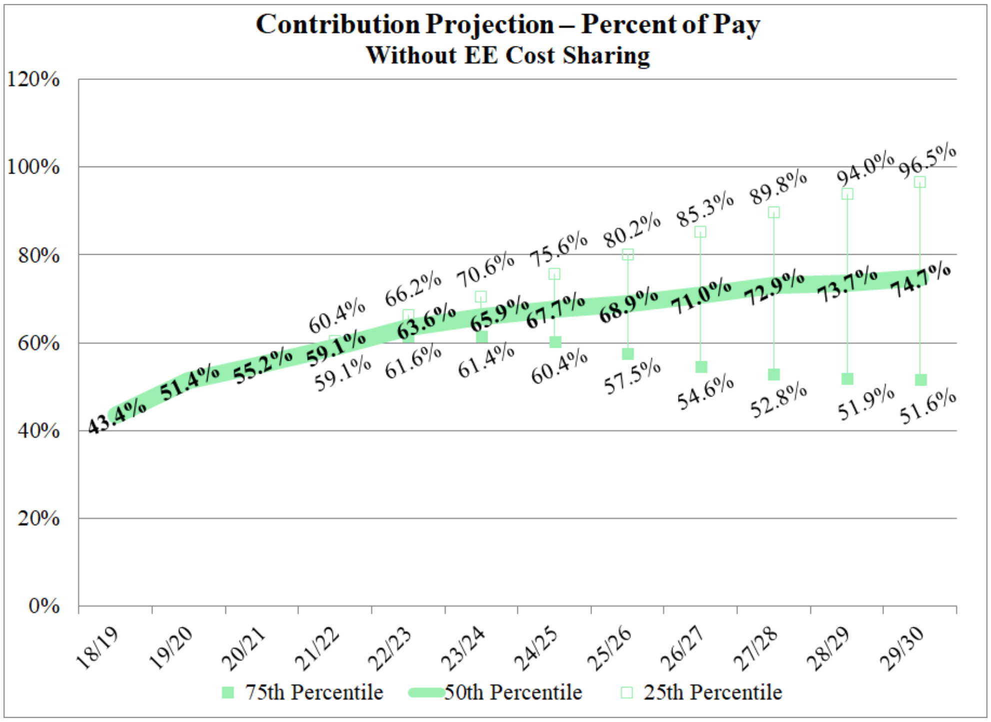
Single Year Returns at[8]	25th Percentile	50th Percentile	75th Percentile
Current Investment Mix	**0.1%**	**7.0%**	**14.8%**
Ultimate Investment Mix	**0.8%**	**6.0%**	**11.4%**

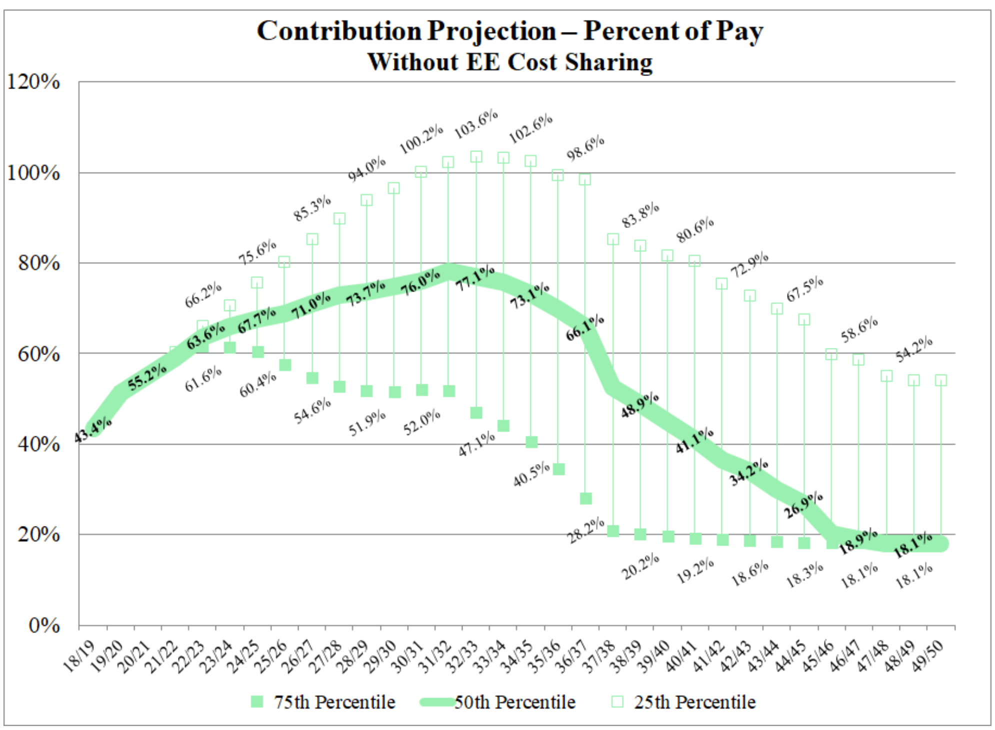
  - Assumes investment returns will, generally be 6.5% (as compared to 7.0%) over the next 10 years and higher beyond that.
- Assumption Changes – Discount Rate
  - Decrease to 7.0% by June 30, 2018 valuation
  - Additional Discount Rate decreases due to Risk Mitigation policy.
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection

6 Based July 2018 CalPERS press release
7 Based July 2019 CalPERS press release
8 Nth percentile means N percentage of our trials result in returns lower than the indicated rates.

CONTRIBUTION PROJECTIONS - SAFETY

- New hire assumptions:
  - 75.0% of 2018/19 new hires are PEPRA members and 25.0% are Classic members
  - Percentage of PEPRA member future hires to increase from 75.0% to 100% over 5 years
- Employee Cost-Sharing:
  - 3% employee share for Classic members effective October 1, 2019
- 6% Discount Rate Comparison
  - 2 discount rate change amortization
    - ☐ 20 years level % payroll amortization with ramp up and ramp down
    - ☐ 20 years level $ amortization (no ramp up or ramp down)


Contribution Projection – Percent of Pay
Without EE Cost Sharing
120%
100%
80%
60%
40%
20%
0%
18/19
19/20
20/21
21/22
22/23
23/24
24/25
25/26
26/27
27/28
28/29
29/30
43.4%
51.4%
55.2%
59.1%
63.6%
65.9%
67.7%
68.9%
71.0%
72.9%
73.7%
74.7%
60.4%
66.2%
70.6%
75.6%
80.2%
85.3%
89.8%
94.0%
96.5%
59.1%
61.6%
61.4%
60.4%
57.5%
54.6%
52.8%
51.9%
51.6%
75th Percentile
50th Percentile
25th Percentile


Contribution Projection – Percent of Pay
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45/46
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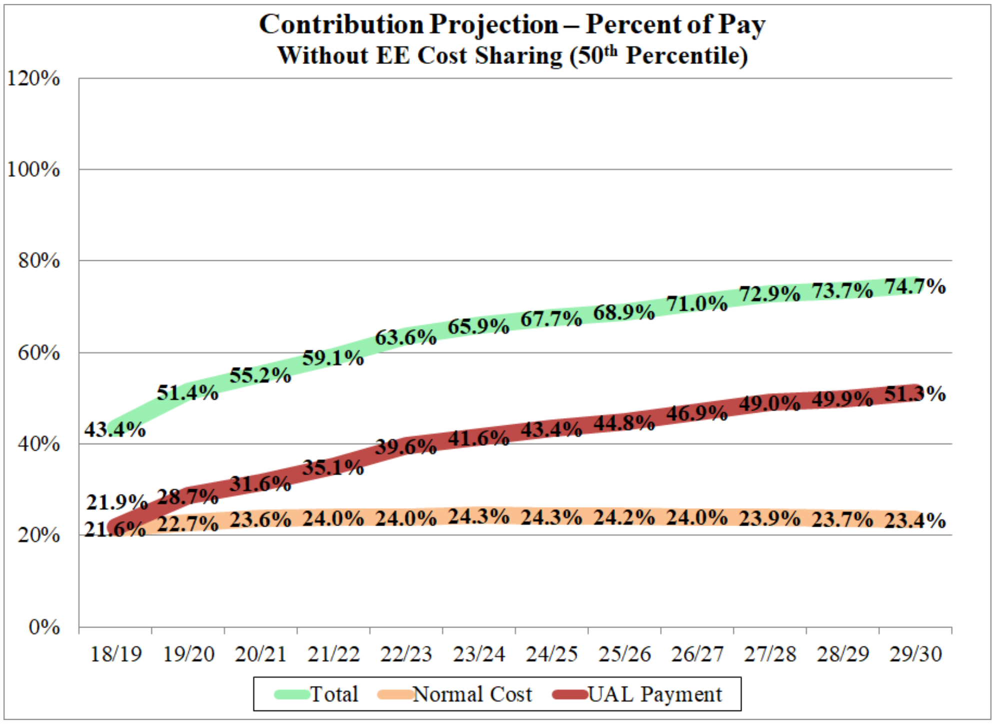
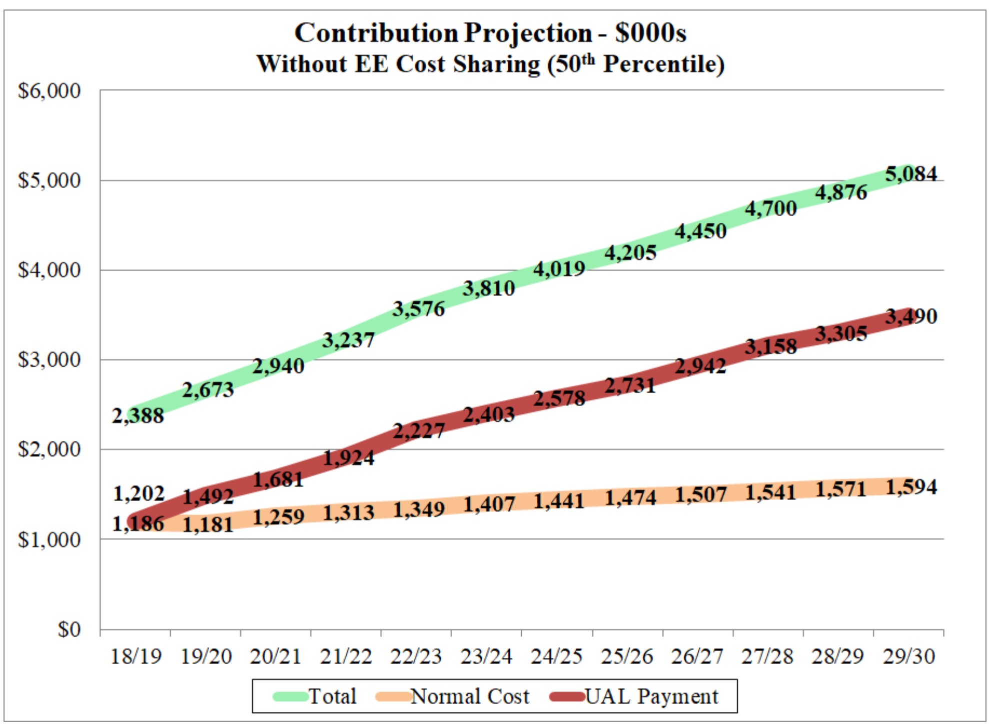
47/48
48/49
49/50
66.2%
75.6%
85.3%
94.0%
100.2%
103.6%
102.6%
98.6%
83.8%
80.6%
72.9%
67.5%
58.6%
54.2%
43.4%
55.2%
63.6%
67.7%
71.0%
73.7%
76.0%
77.1%
73.1%
66.1%
48.9%
41.1%
34.2%
26.9%
18.9%
18.1%
61.6%
60.4%
54.6%
51.9%
52.0%
47.1%
40.5%
28.2%
20.2%
19.2%
18.6%
18.3%
18.1%
18.1%
75th Percentile
50th Percentile
25th Percentile

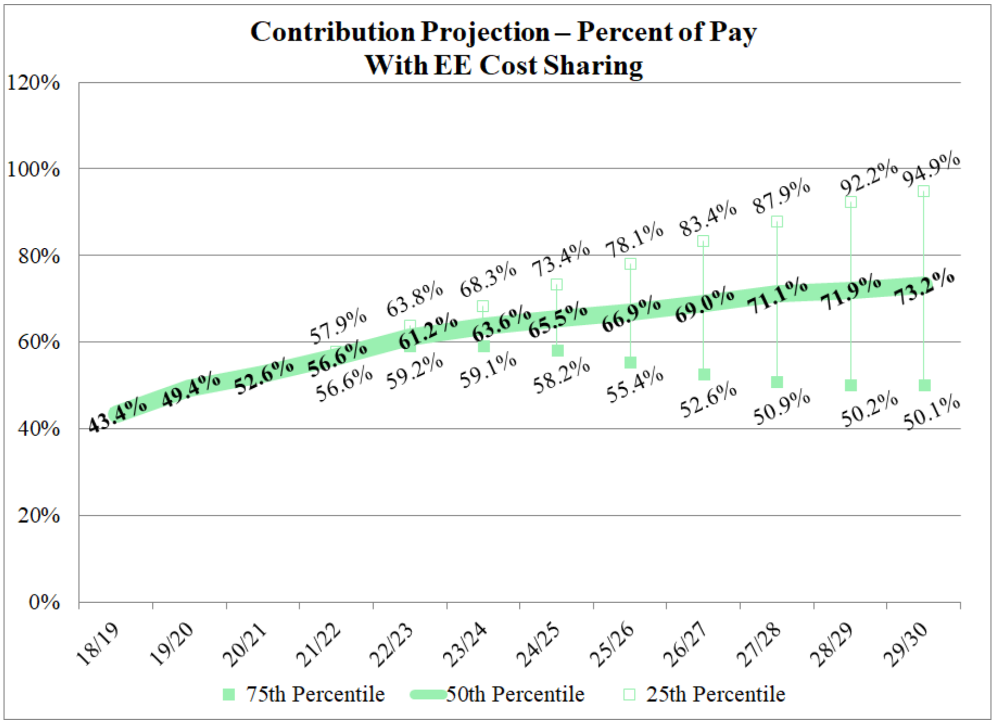
CONTRIBUTION PROJECTIONS - SAFETY



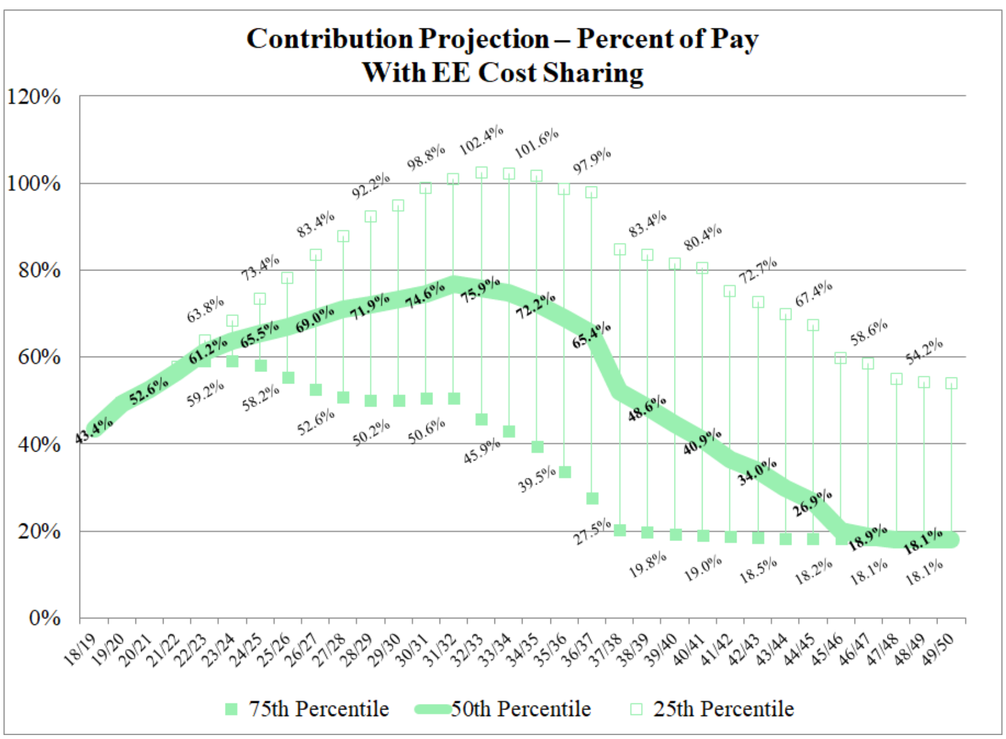
CONTRIBUTION PROJECTIONS - SAFETY



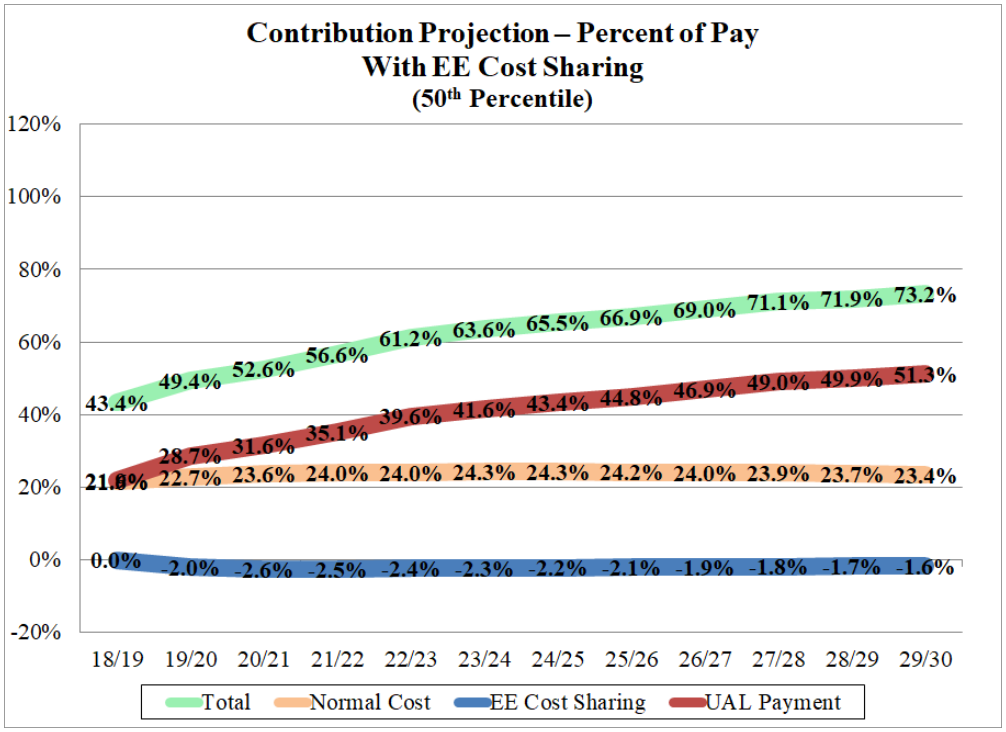
Contribution Projections - Safety



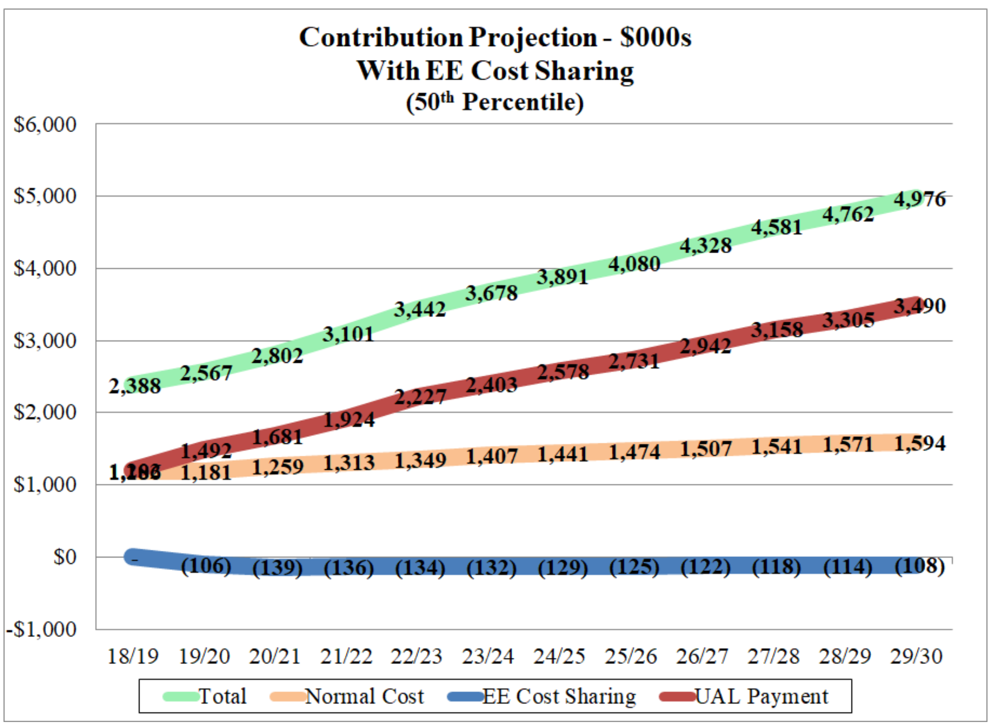
Contribution Projections - Safety



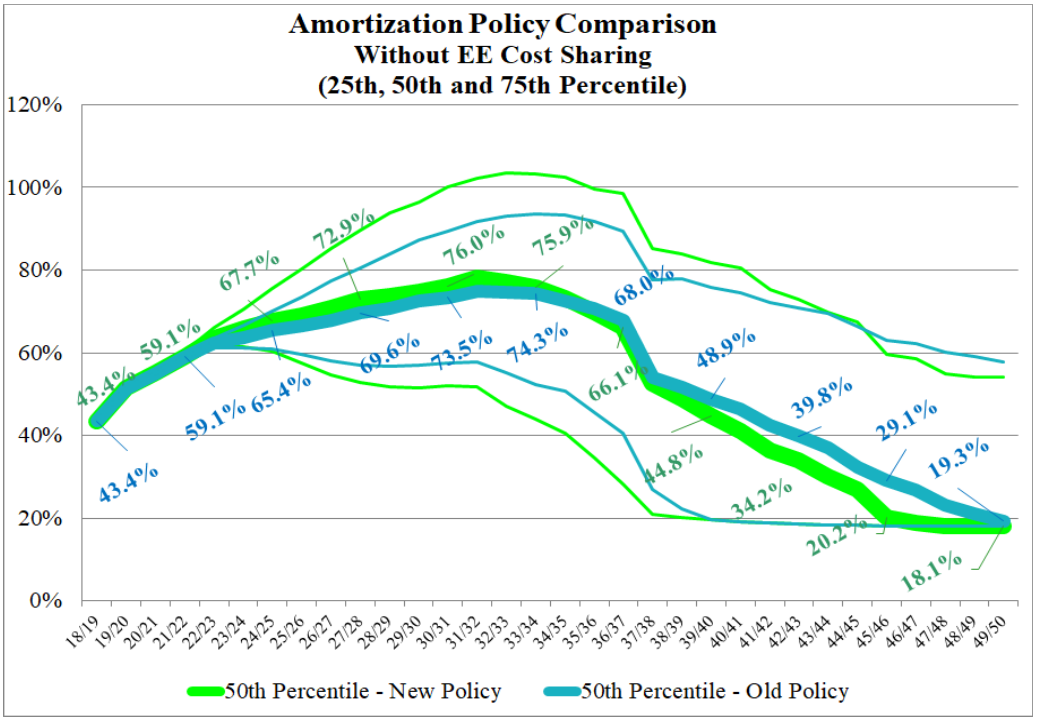
Contribution Projections - Safety



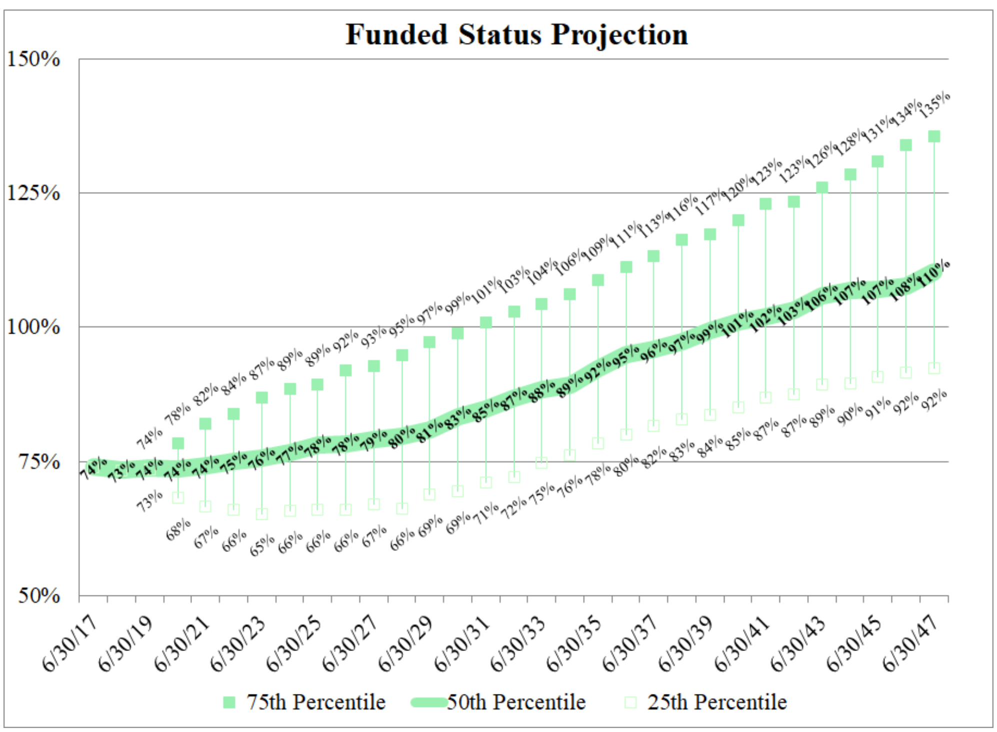
Contribution Projections - Safety



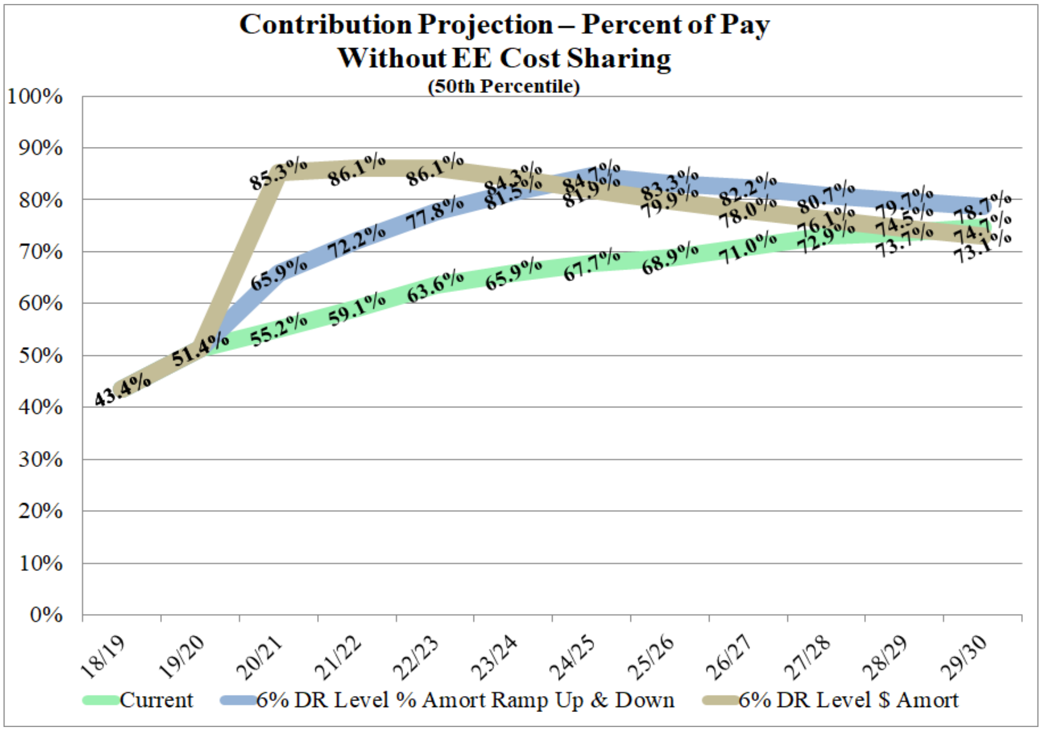
CONTRIBUTION PROJECTIONS - SAFETY



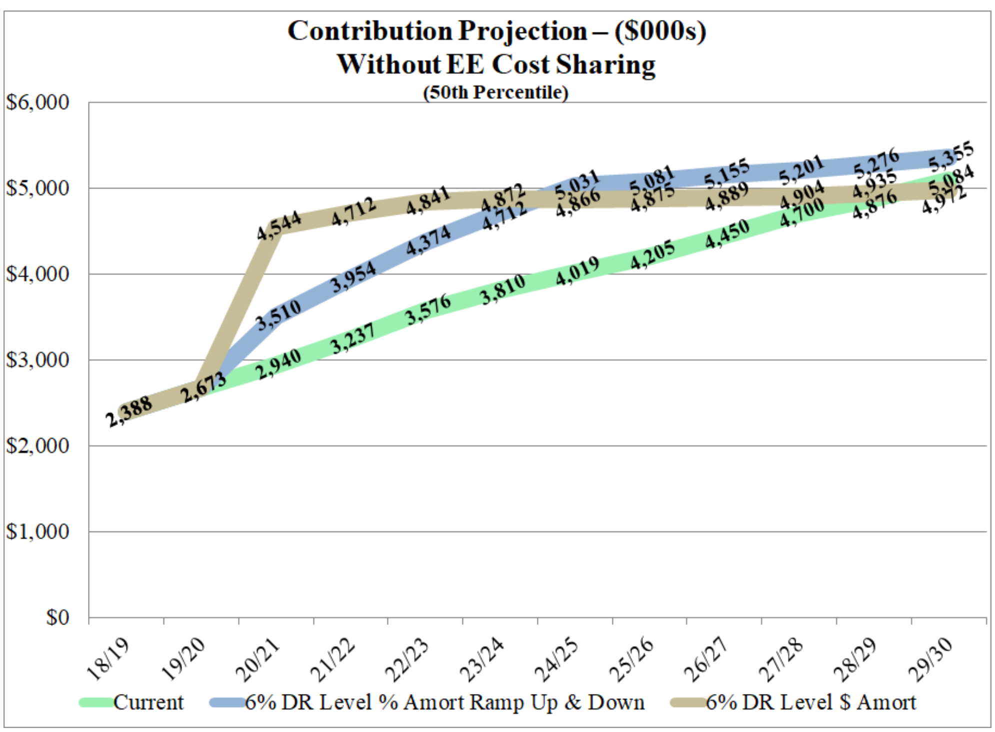
FUNDED STATUS - SAFETY



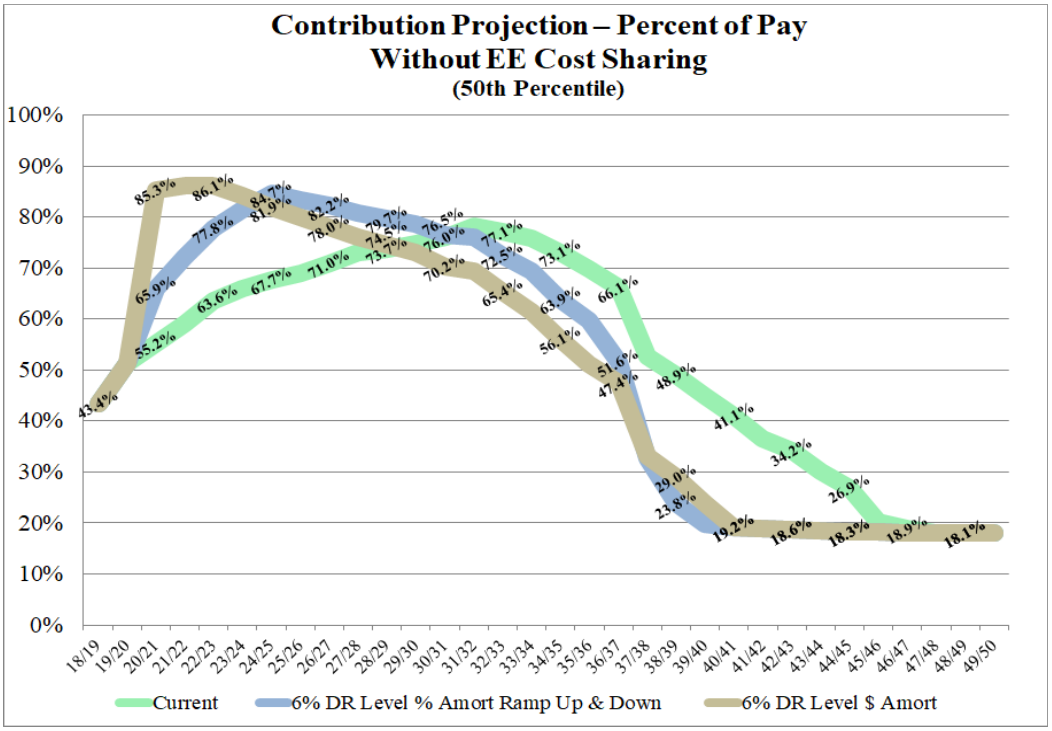
6% Discount Rate Projection - Safety



6% Discount Rate Projection - Safety



6% Discount Rate Projection - Safety



6% Discount Rate Projection - Safety

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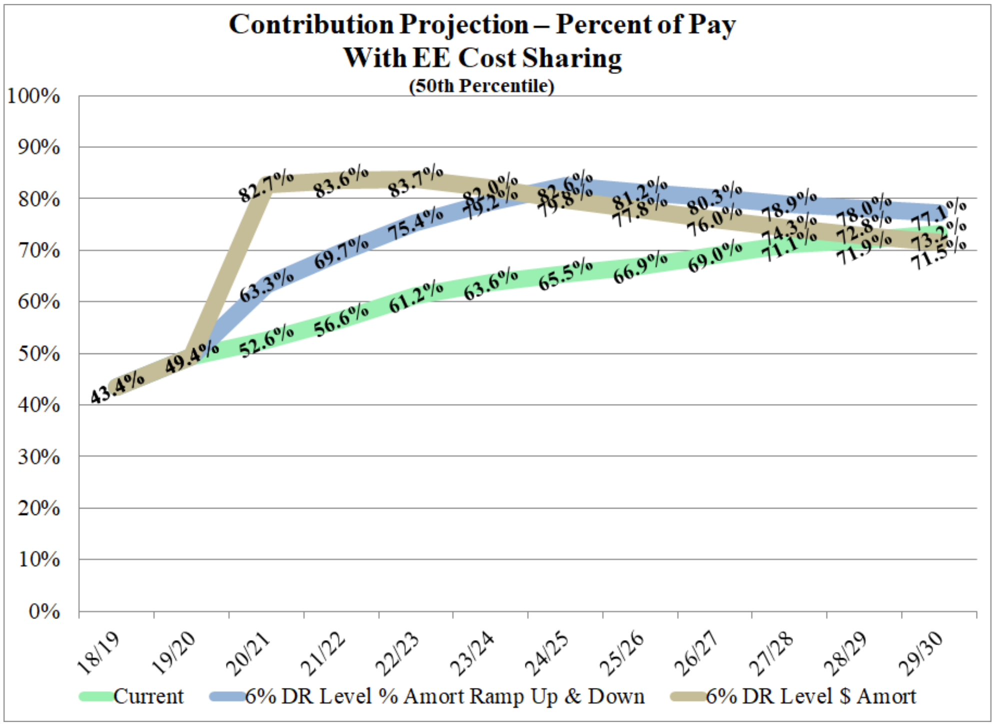
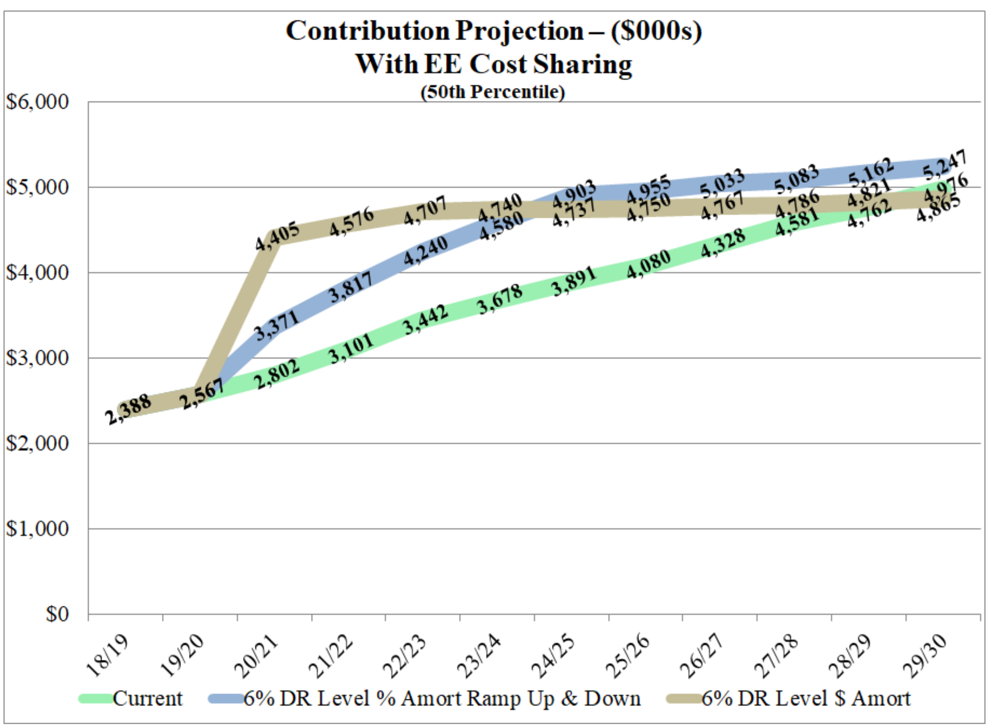
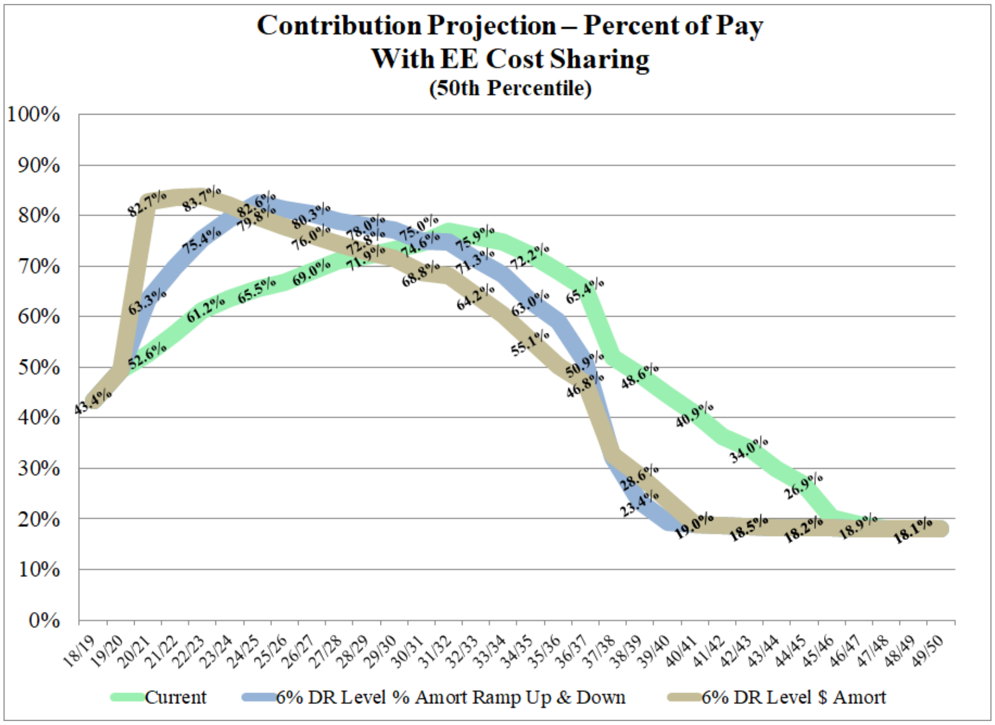
6% Discount Rate Projection - Safety



6% Discount Rate Projection - Safety



6% DISCOUNT RATE PROJECTION - SAFETY



6% DISCOUNT RATE PROJECTION - SAFETY

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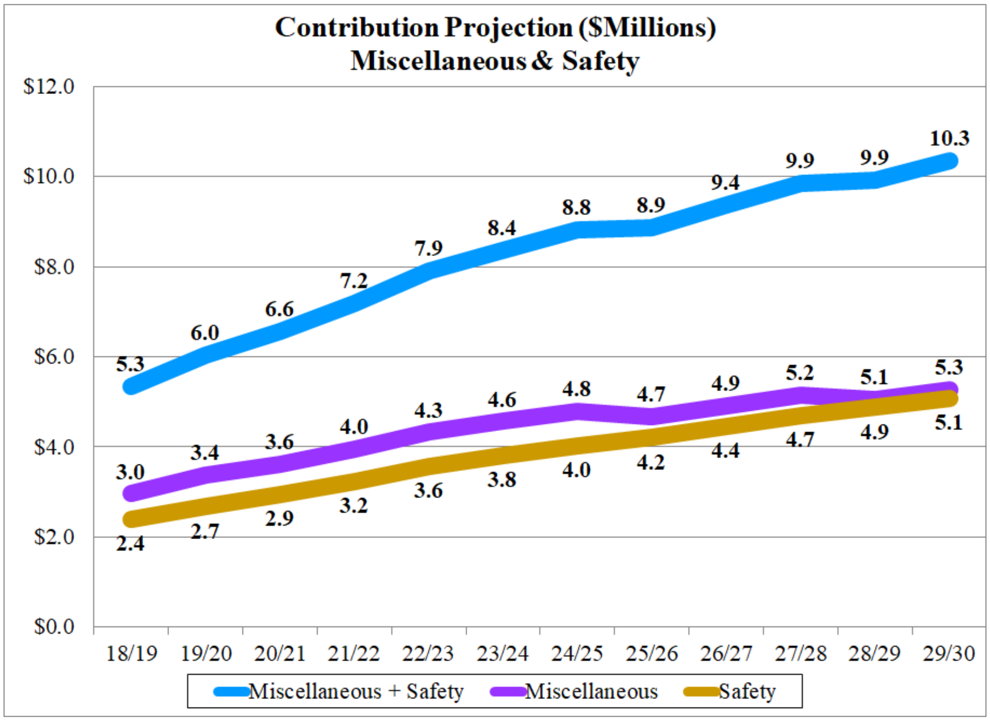
Combined Miscellaneous and Safety



Combined Miscellaneous and Safety

Funded Status Summary on June 30, 2017
(Amounts in $Millions)

	Miscellaneous	Safety	Total
■ AAL	$ 100	$ 85	$ 185
■ Assets	70	63	133
■ Unfunded AAL	30	22	52
■ Funded Ratio	69.6%	74.0%	71.6%

LEAVING CALPERS

- 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

LEAVING CALPERS

CalPERS Termination Estimates on June 30, 2017 (Amounts in Millions)

Discount Rate	Ongoing Plan 7.25%	Termination Basis 1.75%	Termination Basis 3.00%
Miscellaneous			
Actuarial Accrued Liability	$ 100	$ 188	$ 169
Assets	70	70	70
Unfunded AAL (UAAL)	30	118	99
Safety			
Actuarial Accrued Liability	$ 85	$ 173	$ 154
Assets	63	63	63
Unfunded AAL (UAAL)	22	110	91
Total			
Unfunded AAL (UAAL)	$ 52	$ 228	$ 190
Funded Ratio	71.6%	36.6%	40.9%

PEPRA Cost Sharing

- Target of 50% of total normal cost for everyone
- *New members* must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of *new 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 by 1/1/18
- Miscellaneous Plan:

	Classic Members		New Members
	Tier 1	Tier 2	PEPRA
	2.5%@55 FAE1	2%@60 FAE3	2%@62 FAE3
• Employer Normal Cost	11.3%	13.0%	5.72%
• Member Normal Cost	8.0%	7.0%	7.25%
• Total Normal Cost	19.3%	20.0%	12.97%
• 50% Target	9.7%	10.0%	6.49%

PEPRA Cost Sharing

- Safety Plan:

	Classic Members	New Members
	Tier 1	PEPRA
	3%@50 FAE1	2.7%@57 FAE3
• Employer Normal Cost	23.7%	13.79%
• Member Normal Cost	9.0%	12.75%
• Total Normal Cost	32.7%	26.54%
• 50% Target	16.4%	13.27%

PAYING DOWN THE UNFUNDED LIABILITY & RATE STABILIZATION

- 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
  - Council 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

How Do You Use the Money?

- 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 Council for other purposes
  - Does not reduce Unfunded Liability

How Do You Use the Money?

- 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"
    - PEPRA 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)

How Do You Use the Money?

- Make payments directly to CalPERS (continued):
  - Option #2: Target specific amortization bases:
    - 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 12.3¢ 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 6.5¢ for $1
      - More interest savings vs paying off shorter amortization bases

How Do You Use the Money?

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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
- Over 180 trusts established, mostly since 2015
  - Trust providers: PARS, PFM, Keenan
  - California Employers' Pension Prefunding Trust (CEPPT) is coming

IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

- 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 Agency
- Funding strategies typically focus on
  - Reducing the unfunded liability
    - Fund enough to make total CalPERS UAL = 0
    - Make PEPRA 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

- 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?

IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

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Direct Payment to CalPERS

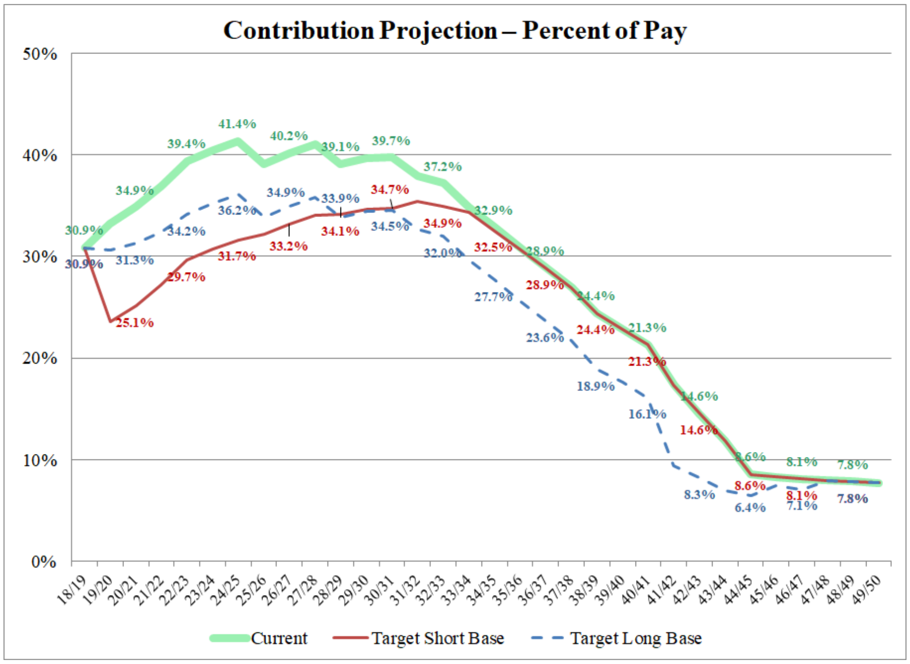
- Following example illustrates additional contribution of $8 million to CalPERS on June 30, 2019:
- Miscellaneous
  - Short Base: 2003 Assumption Change (6 years amortization), 2007 Benefit Change (9 years amortization), 2009 Assumption Change (12 years amortization), 2011 Assumption Change (14 years amortization), and 2014 Assumption Change (17 years amortization)
  - Long Base: 2016 Gain/Loss (29 years amortization) and 2015 Gain/Loss (28 years amortization)
- Estimated Savings

	Miscellaneous
Short Base	**$8 million**
$ Savings (000's)	$3,701
PV Savings @ 3% (000's)	1,844
Long Base	**$8 million**
$ Savings (000's)	$11,674
PV Savings @ 3% (000's)	4,903

Payment to 115 Trust

	Miscellaneous	Miscellaneous
Trust Contributions	**$8 million**	**$4.4 million**
Trust Earnings	**6%**	**6%**
Trust Target		
- Target Rate	31.5%	34.6%
- 1st Year	2020/21	2021/22
- Last Year	2034/35	2032/33
$ Savings (000's)	$5,130	$2,733
PV Savings @ 3% (000's)	2,402	1,265
Remaining Balance Final Year	558	116

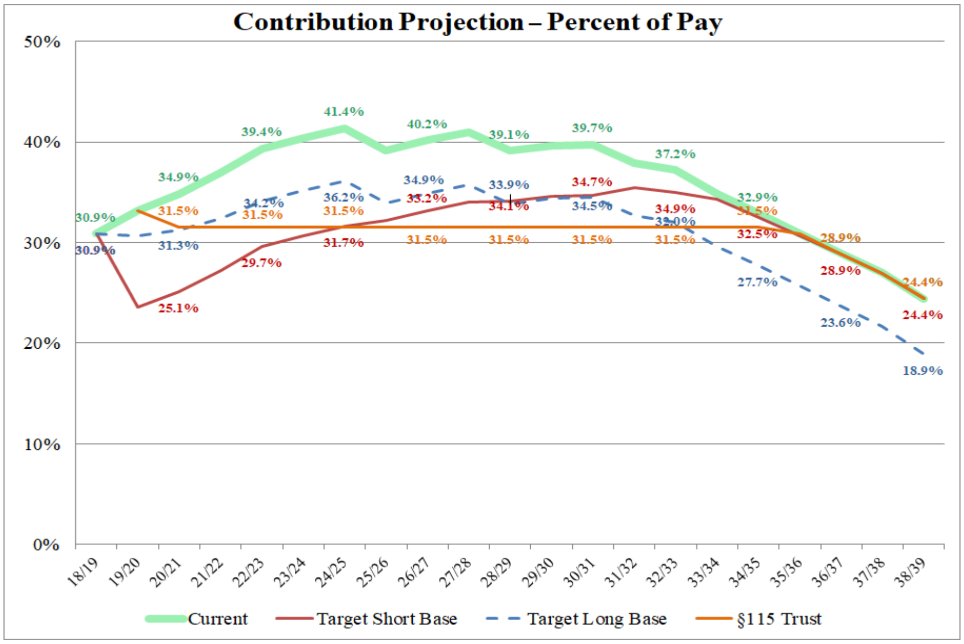
Direct Payment to CalPERS
Miscellaneous



IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

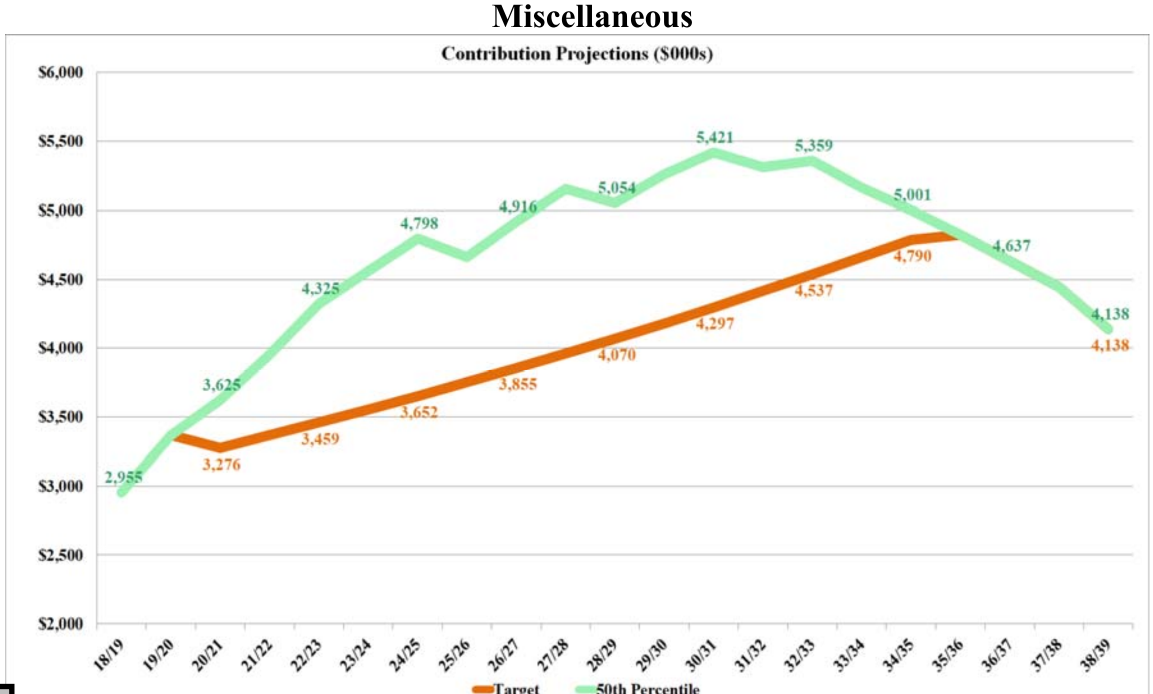
Payment to §115 Trust - $8M
Miscellaneous

$8 M Additional Payments – §115 Trust vs. CalPERS Miscellaneous

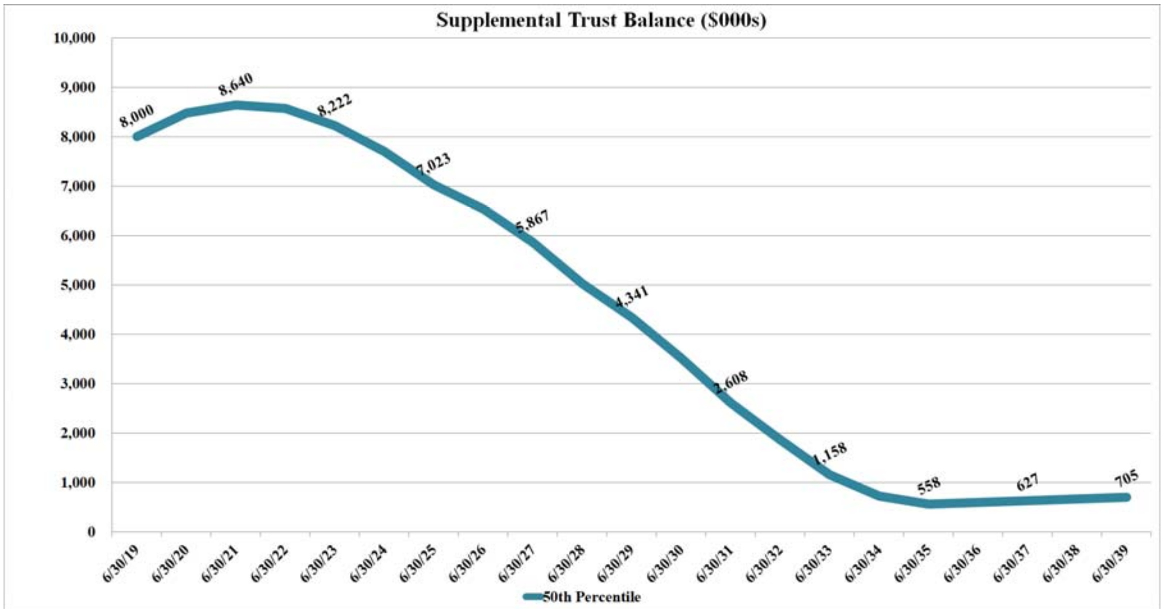


IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - $8M Miscellaneous

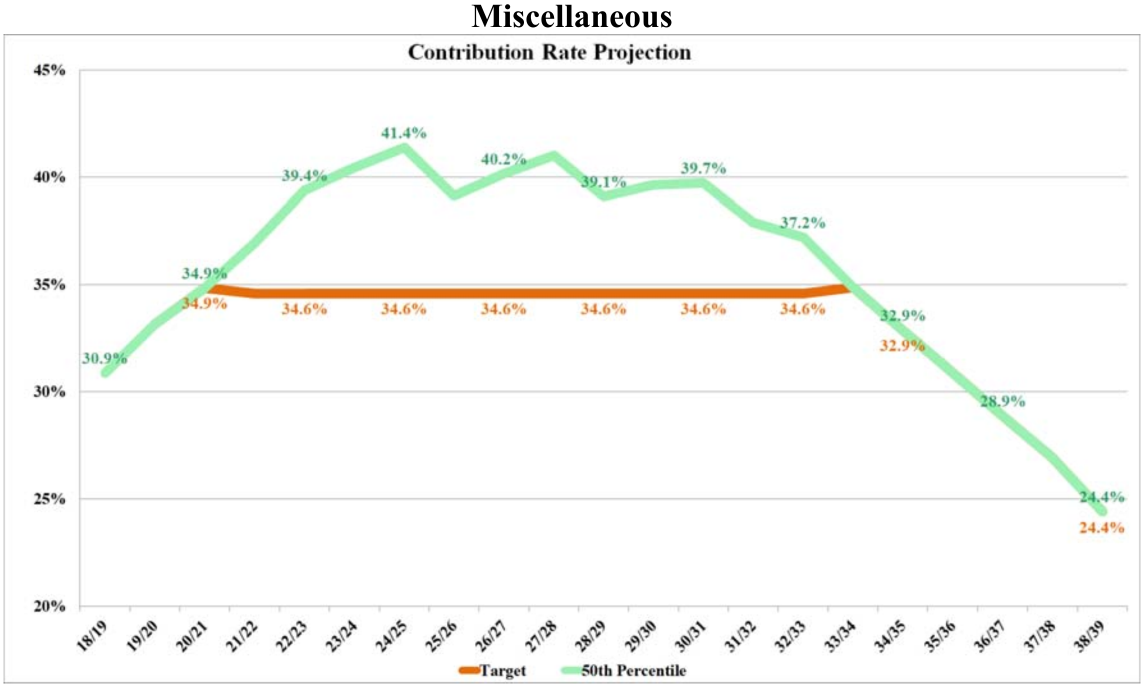


Payment to §115 Trust - $8M
Miscellaneous

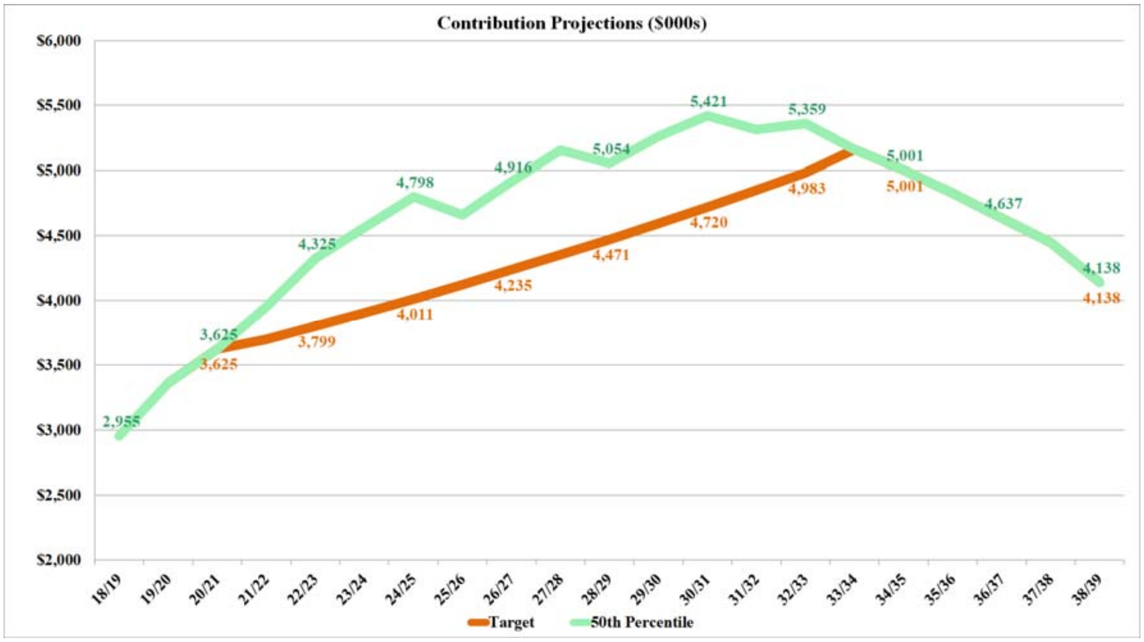


IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - $4.4M
Miscellaneous

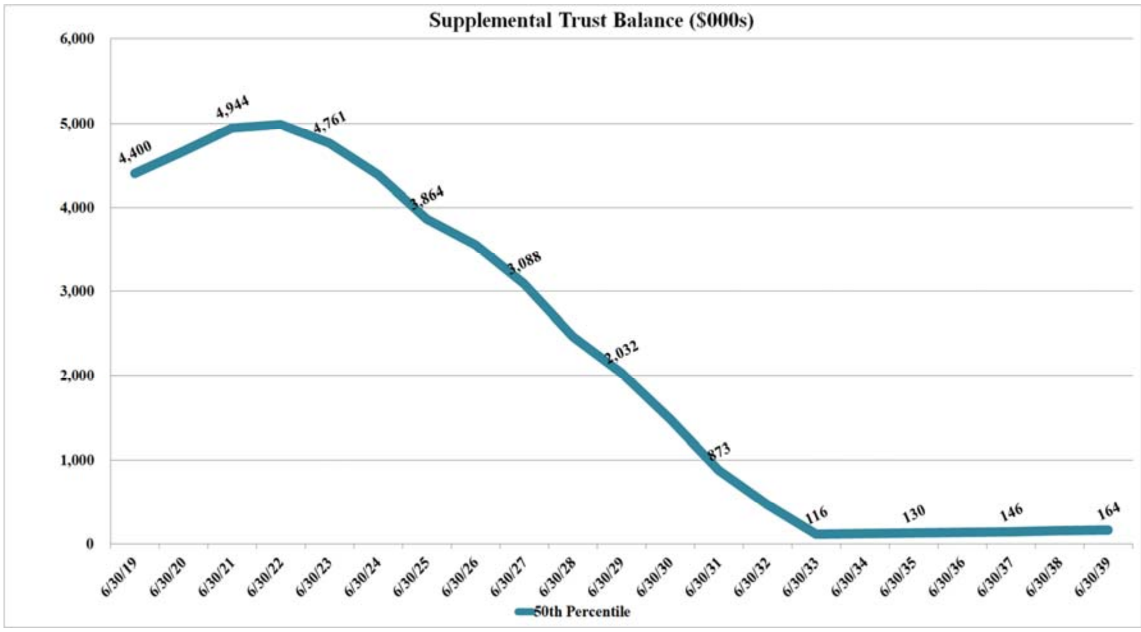


Payment to §115 Trust - $4.4M
Miscellaneous

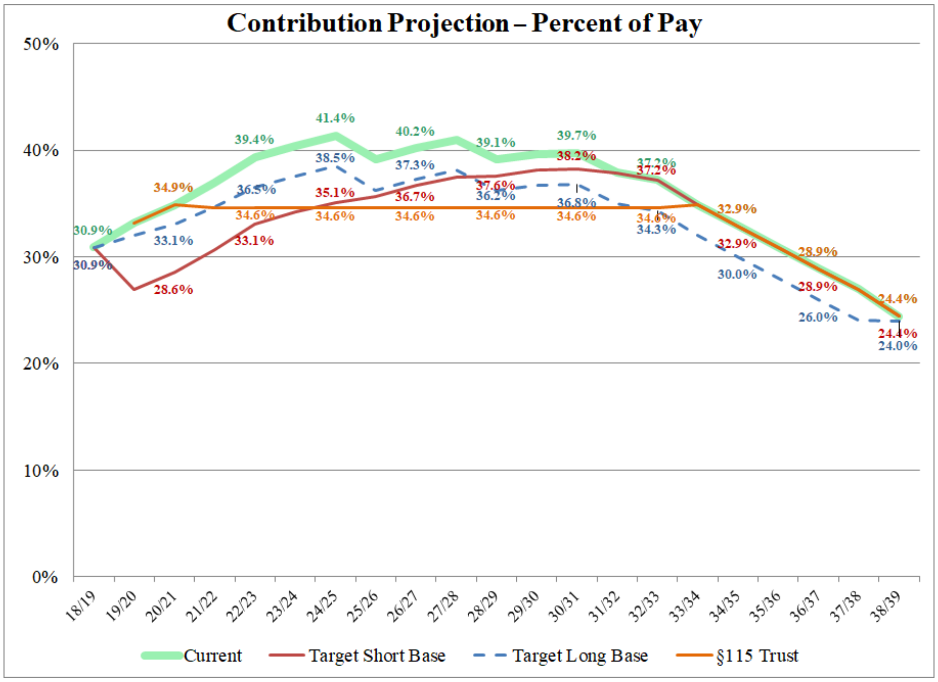


IRREVOCABLE SUPPLEMENTAL (§115) PENSION TRUST

Payment to §115 Trust - $4.4M
Miscellaneous



$4.4 M Additional Payments – §115 Trust vs. CalPERS Miscellaneous



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TOWN OF LOS GATOS

TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE REPORT

MEETING DATE: 9/3/2019

ITEM NO: 4

ADDENDUM

DATE: August 20, 2019

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and Decide on an Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis

REMARKS:

A Committee Member asked for additional elaboration on the discussion surrounding the last bullet item on page three of the staff report.

- *If a PARS investment strategy cannot be maintained for a minimum of ten years, then the PARS account should be closed, and other ADP options considered.*

The Committee discussed at length whether or not future Councils can be bound to maintain a strategy of ADPs provided to PARS being held for a period of ten years or longer. At the conclusion of this discussion, four of the Committee Members concluded that if future Councils cannot be bound, then ADPs should be directed to CalPERS.

In addition, staff would like to clarify what was meant by the first paragraph of the Discussion section on page three.

While no consensus was achieved by Committee members there were certain themes associated with ADPs that Committee members did coalesce around. Highlighted below are areas of consensus:

The final sentence should read:

Highlighted below are areas where a majority opinion emerged.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

110 E. Main Street Los Gatos, CA 95030 ● 406-354-6832
www.losgatosca.gov

SUBJECT: Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis
DATE: August 20, 2019

<u>Attachments</u>:

1. March 5, 2019 Pension OPEB Committee Staff Report
2. June 17, 2019 Finance Committee Staff Report
3. August 12, 2019 Finance Committee Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis
4. Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis Full Report

TOWN OF LOS GATOS

TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE REPORT

DATE: August 30, 2019

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and Decide on an Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis

REMARKS:

Attachment 5 contains public comment received between the publication of the staff report, August 23, 2019, and 11:00 a.m. Friday, August 30, 2019.

Attachments previously received with the staff report:

1. March 5, 2019 Pension OPEB Committee Staff Report
2. June 17, 2019 Finance Committee Staff Report
3. August 12, 2019 Finance Committee Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis
4. Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis Full Report

Attachment received with this addendum:

5. Public comments received between the publication of the staff report, Friday, August 23, 2019, and 11:00 a.m. Friday, August 30, 2019.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

110 E. Main Street Los Gatos, CA 95030 ● 406-354-6832
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Date: August 29, 2019
From: Terry Duryea, member of the Los Gatos Finance Committee
To: Members of Los Gatos Pension and OPEB Trusts Oversight Committee

Dear Mayor and Committee Members

My comments relate to Item 4: "Review and Discuss CalPERS 2017 Actuarial Valuations…and Decide on an Additional Discretionary Payment Strategy Based on the August 2019 Bartel and Associates Analysis".

I recognize most of you understand the issues so I will be brief and try to frame the issues as I see them.

First I want to complement Town Staff for commissioning the August 12 Bartel's report included as Attachment 3 that was the basis of the discussion at the August 12 Finance Committee meeting. It provides analysis of possible options to invest the $8M plus funds that have been identified to reduce the Town's Unfunded Pension and OPEB Obligations.

In particular, I want to complement the staff for having Bartel compute what the Unfunded Pension Liability would be at a 6% discount rate. You will find this information on slide 2 of the report which is on page 43 of the Item 4 advance material.

Slide 2 shows the unfunded liability increases to $83M using a 6% discount rate, a rate presumably used as explained in footnote 6 because the discount rate "is ultimately expected to decrease to approximately 6% as a result of CALPERs risk mitigation strategy". The Unfunded Pension Liability is $25.M (44%) higher than the reported Unfunded Liability 0f $57.6M using the CALPERs current 7% discount rate.

I know you know we have a problem, but I don't know if you were aware of how big it is, or the credibility Bartel now shines on the 6% long term discount rate.

You may not be aware that two weeks ago CALPERs investment consultant, Wilshire Consulting, has reduced their forecast of the return CALPERs will earn over the next decade to 5.9% from 6.2%

As a member of the Finance Committee I will add some color to the Staff Report summarizing the recent meeting.

- A metaphor was used in the committee discussion was to compare "the Unfunded Pension Liability to a cancer while the OPEB Liability is a bad cold".
- Most of the Finance Committee feel it was highly unlikely the state would bail out local municipalities if they were otherwise forced into bankruptcy because of their pension obligations.
    - The skepticism even greater that if the state did step in in dire situations, the state would certainly not bail out Los Gatos so long as we had $70M cash in the bank.
- There was discussion that the "California Rule" covers pension benefits while there is no equivalent rule for OPEB benefits
    - As a reminder, the California Rule says that you cannot take away pension benefits from employees unless you replace them with something of equal value
    - I know you recognize the flexibility you have to reduce OPEB benefits because you negotiated a reduction of these benefits in the latest labor contracts.
- I believe there was universal recognition among the committee participants that it made sense to put funds in the PARs 115 Pension Trust only if the intent was to invest it long term (over 10 years).

ATTACHMENT 5

  - The primary justification for putting the funds with PARs was a belief that PARs would achieve better returns than CALPERs since the funds would be invested with a long term time horizon
- Bartels indicated that the reason the pension contribution graphs peak and begin to decline in approximately 2030 (see slide 6 of page 45 of the advance attachment) is because the graphs assumes CAPLERs earns at least the 7% discount rate every year. Any time it misses the target you add another layer of obligation that extends the peak of the curve further out. Furthermore, any future changes in actuarial assumptions that increase the pension costs would also delay the time before the contributions begin to decrease

The staff material present 3 options to invest the $8M plus that has been set aside to address our obligations:

- Apply all the money to fund the OPEB obligation—this makes the obligation close to fully funded
- Add the money to the PARs 115 Pension Trust—hoping for better returns than CALPERs
- Pay the money to CALPERs to pay down the Town's unfunded liability—each year we would save interest on the reduced unfunded liability providing an immediate budget benefit

I believe we need to address the Cancer (Pensions) and not the Cold (OPEB). Therefore, I encourage you to focus on how to best fund the Pension Obligations.

Most of the discussion over the last couple years doesn't speak to our moral obligation to staff and former staff to fund their pension obligations. When we allow the unfunded pension liability to grow, we are effectively telling our employees to trust the future Town governance process—we're watching out for you because these councils will make sure you receive your pension.

The Staff memo lays out 2 options to fund the pensions—should the assets be managed by CALPERs or by PARs? In my opinion, the choice comes down to the relative weight you give to these 2 issues:

- Do you believe PARs will achieve a superior investment return over CALPERs long term?
- Do you believe that the potential for higher PARs return will compensate for the fact that a future Town Council could raid the 115 Plan Assets if there is a shift in Town priorities?
    - To paraphrase the staff memo, it states that if the Committee decides to commit to a long term investment plan with PARs, "the commitment should be codified so future elected officials/staff/resident understand the foundation of this approach"
    - At the Finance Committee meeting, staff stated that there is no fail safe mechanism to prevent future Town Councils from disregarding this foundation

I come out on the side to keep it simple—give the money to CALPER's now, rather than bet on higher returns under PARs. The biggest benefit of this approach is that it eliminates the risk that the funds could be raided by future Town Councils for some other purpose (remember, money is fungible).

In conclusion, potentially the biggest benefit of investing all the money with CALPERs now (over 12 months) is that this won't be a topic every year requiring ongoing Town Council attention and time.

Filename: PensionOversiteCommSept3LetterToCouncil_802919

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

MEETING DATE: 9/3/2019
ITEM NO: 4
DESK ITEM

DATE: September 3, 2019

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review and Discuss CalPERS 2017 Actuarial Valuations for the Miscellaneous and Safety Pension Plans and Decide on an Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis

REMARKS:

Attachment 6 contains public comment received between Friday, August 30, 2019, after 11:01 a.m. and Tuesday September 3, 2019, before 11:00 a.m.

Attachments previously received with the staff report:
1. March 5, 2019 Pension OPEB Committee Staff Report
2. June 17, 2019 Finance Committee Staff Report
3. August 12, 2019 Finance Committee Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis
4. Bartel and Associates CalPERS 2017 Actuarial Review and ADP Analysis Full Report

Attachment received with this addendum:
5. Public comments received between the publication of the staff report, Friday, August 23, 2019, and 11:00 a.m. Friday, August 30, 2019.

Attachment received with this desk item:
6. Public comments received between Friday, August 30, 2019, after 11:01 a.m. and Tuesday September 3, 2019, before 11:00 a.m.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

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www.losgatosca.gov

9-3-19 Oversight Committee

Item 4

Having had the opportunity to have read others thorough and thoughtful comments to the Oversight Committee leaves me with mostly non-technical observations from a laymen's point of view.

Why I would put the money into CalPERS?

CalPERS has stated that they expect investment returns to be less than 6% over the next ten years. We should move the current 7% needle down to 6% instead of keeping it artificially high as CalPERS has done that for years. If we "get real" and use 6%, the pension debt is really $83,000,000 and OPEB will be around $14,000,000, for a total employment related debt of $97,000,000!

Interest on the Miscellaneous pension debt in 2017 was nearly $7M. We do not have actual interest charges on Safety, but proportionately, it should have been close to $5,000,000 for total estimated interest charges of $12,000,000 for pension debt. If you then add the OPEB interest charge from 2017, $1,607,000, you'll find that we paid **$13,607,000 interest!**

Interest is money that could have been spent on town improvements, paid salaries, hired police to direct beach traffic, etc.

Interest costs will be increasing if we don't make continual concentrated efforts to reduce the unfunded pension debt each year.

The OPEB funded status has increased from 42.8% to 54.9% in the past two years; up 12.1% points. On the other hand, the unfunded pension liability for Miscellaneous has only gone up 1.4% percentage points from 2016 to 2017 but has fallen from 76% in 2014 to 69% today.

I do not subscribe to the 115 plan as its investments are close to those of CalPERS who is much larger and has a much longer history of investment successes. CalPERS, for all its travails, has survived the two huge downturns; the 2001 the Dotcom bust and the 2008 Great Recession. The current 115 investment fund has not had to suffer any severe setbacks and has only been making investments while investing in the longest bull market in history. With investment fees of just under ½%, the 115 plan starts out at a disadvantage every year.

I also do not subscribe to the state bailing out a town. We have over $70,000,000 in the bank. There is no sound reasoning that the state could make to bail us out with that high of a cash balance.

The best thing we can do to improve the financial position of the town will be to pay directly to CalPERS. We need to eliminate the opportunity of future councils to exercise the fungibility of money, spending pension dollars on personal pet projects rather than paying down pension debt.

Jak VanNada

Los Gatos Community Alliance

From: Phil Koen <pkoen@monteropartners.com>
Sent: Monday, September 02, 2019 10:33 PM
Subject: Agenda item #4 - Pension and OPEB Oversight Committee Meeting - September 3, 2019

Dear Honorable Mayor and Council Members,

Recommendation

There has been a tremendous amount of discussion regarding what the Town should do with the $8.2m which is freely available to this Council. I would strongly encourage the Council to make an $8.2m ADP to CalPERS while directing CalPERS to apply this payment against the longer unfunded bases that Bartels Associates identified on page 19 of his August 12, 2019 report.

By doing this the Town will capture $11.7m in future contribution savings. Based on the analysis provided by Bartels, making this ADP to CalPERS is far superior in both nominal dollar terms and on a present value basis to any other alternative identified on page 3 of the Staff memo, which included making an ADP to PARS or OPEB.

Background

It is important for this Council to fully understand the massive challenge the Town is facing. For this discussion I will only reference the miscellaneous plan, but the same issues also apply to the safety pension plan.

Please look at slide number 3. In 2007, the miscellaneous plan was fully funded, and in fact had a slight excess funding of $3m. By 2017 the plan had materially deteriorated and was now facing an unfunded liability of $30m. While during this period of time assets to fund the plan had increased from $58m to $70m, the pension liability had exploded from $55m to $100m (and that is measured using a 7.25% discount rate).

If you were to measure the pension liability using the 6% discount rate, which CALPERS is on a path to adopt, you can see in slide 1 the miscellaneous plan liability would be $116m with no increase in the asset base. That means the unfunded liability would be $46m. The negative impact of the discount rate cannot be emphasized enough.

If that were not enough, the Town is facing a very challenging demographic profile as shown in slide 2. In 2007 the miscellaneous plan had 119 active employees making contributions with 167 receiving benefits. By 2017 the number of active employees had decreased slightly to 111 but the number of individuals receiving benefits had increased to 228. This trend will only continue to get worse, putting even more strain on the assets that must be used to pay for these benefits. For example in 2017 the Miscellaneous Plan paid benefits totaling $5.1m but collected only $3.1m from employee and employer contributions. That means the plan experienced $2m in negative contributions. This is up from the $1.2m negative contribution the Town experienced in 2012.

This trend in negative contributions is in part driven by increases in service benefits that prior Council had agreed to as part of the employee bargaining process. As shown on slide 2, the average annual benefit provided for miscellaneous plan service retirees in 2007 was $14,300. By 2017 this had grown to

$25,200. This can only be paid if there are sufficient assets in the pension plan to meet these obligations as they come due.

The Town has responded to this challenge by dramatically increasing the contribution rate, thus pumping more dollars into the miscellaneous pension plan. As shown on slide 4, the contribution rate in 2007 was 12.7%. By 2017 it had grown to 27.0% and it is projected to increase to 33.2% in 2020. These rates are the minimum amount charged by Calpers. To date, with the exception of paying off a side car fund in the safety plan, the Town has only paid the minimum required amount into the miscellaneous pension plan.

To be fair, the Town has made payments into a 115 Trust fund, but these payments do not reduce the unfunded pension liability nor have any impact on the required annual Calpers contributions. Putting money into a 115 Trust would be equivalent to putting money into a savings account which could be used in the future to pay your home mortgage.

Despite all of these good efforts, the Town is making no headway in reducing the Miscellaneous Plan unfunded pension liability. This is clearly shown in slide 5. Despite realizing a 11.2% return on the $69.5m in assets in the miscellaneous pension plan in 2017, the unfunded pension liability still increased by $300k. A major reason for this is the $2m negative contribution mentioned above REDUCED the 11.2% return. The $2.4m that is reported as an asset gain is a “net” number. This coupled with adverse change in plan assumptions combined to push the unfunded liability higher.

Let me also quickly address the advisability of making an ADP to the OPEB Trust. If you look at slide # 6 you can see that in 2017 the Town contributed in excess of $2.6m more to the OPEB fund than it paid out in benefits. Additionally, unlike the Miscellaneous Pension Plan, the Town paid more than $800k than was actuarially required.

This “over contributing” has allowed the funded status of the OPEB plan to consistently improve. If you look at slide #7, Bartel has projected that the OPEB Plan will be 77% funded if the Town continues to contribute at roughly the same $2.1m level as 2018. It is because of this, that making an $8.2m ADP to this plan make no sense. The OPEB plan simply doesn’t need additional assets compared to the pressing need of the miscellaneous pension plan.

Conclusion

Unfortunately, there is no magic solution to the unfunded miscellaneous pension plan liability. Just like individuals who are retiring only to realize that their 401k has insufficient assets, the Town is facing the same problem with the pension plans. Hoping that miraculous stock market returns will be realized in the future to offset the negative trends discussed above would not be prudent nor in the best interests of the plan beneficiaries.

This leaves only one sensible act, namely put the $8.2m into the Miscellaneous Plan as quickly as possible. As Bartel has computed, the financial benefits are significant and cannot be matched by any of the other alternatives under consideration.

1

Valuation Results[1]
June 30, 2017
(Dollar Amounts in Thousands)

Employee Group	Misc	Safety	Total
■ **Participants**			
● Actives	111	36	147
● Transfers[2]	98	17	115
● Terminations[3]	79	1	80
● Retirees & Beneficiaries	228	73	301
● Total	516	127	643
■ **Funded Status**			
● Accrued Liability	$99,903	$84,807	$184,710
● Assets	69,527	62,719	132,246
● Unfunded Liability	30,376	22,089	52,465
● Funded Percent	69.6%	74.0%	71.6%
■ **Projected 2019/20 Payroll**	10,147	5,198	15,345
■ **Employer Contribution 2019/20[4]**			
● Dollar Amount (Estimated)[5]	3,366	2,673	6,039
● Percent of Payroll	33.2%	51.4%	39.4%

[1] Amounts in this report might not add due to rounding.
[2] "Transfers" are former employees working for another agency participating in a CalPERS pension plan.
[3] "Terminations" are former employees not working for an agency participating in a CalPERS pension plan.
[4] CalPERS results do not reflect Employee-Paid Member Contributions and Member Share of Employer Contributions, if any.
[5] CalPERS provides the Normal Cost as a percentage of payroll and the Unfunded Liability amortization payment as a dollar amount. CalPERS' Normal Cost estimate is based on payroll projected from 2016/17 to 2019/20 using the valuation's aggregate payroll increase assumption. The Town's budgeted amount may differ based on its expected 2019/20 payroll.

Valuation Results
Discount Rate Sensitivity - June 30, 2017 Valuation
(Dollar Amounts in Thousands)

Funded Percent	Ongoing Plan Discount Rate[6]		
	7.25%	7.00%	6.00%
■ **Miscellaneous**			
● Accrued Liability	$99,903	$102,599	$115,979
● Assets	69,527	69,527	69,527
● Unfunded Liability	30,376	33,073	46,452
● Funded Percent	69.6%	67.8%	59.9%
■ **Safety**			
● Accrued Liability	$84,807	$87,274	$99,376
● Assets	62,719	62,719	62,719
● Unfunded Liability	22,089	24,555	36,657
● Funded Percent	74.0%	71.9%	3.1%
■ **Total**			
● Accrued Liability	$184,710	$189,873	$215,354
● Assets	132,246	132,246	132,246
● Unfunded Liability	52,465	57,628	83,109
● Funded Percent	71.6%	69.6%	61.4%

If 6%, liability is $83M

[6] At its 2017 Asset Liability Management Workshop, CalPERS stated it expected returns to average 6.1% annually for 10 years and 8.3% annually after 10 years, resulting in a blended expected return of 7.0%. It phased in a discount rate reduction over 3 [illegible]s from 7.50% for the 6/30/15 valuation to 7.00% for the 6/30/18 valuation. The discount rate is ultimately expected to [illegible]ease to about 6.00% as a result of CalPERS' risk mitigation policy.

2

Summary of Demographic Information - Miscellaneous

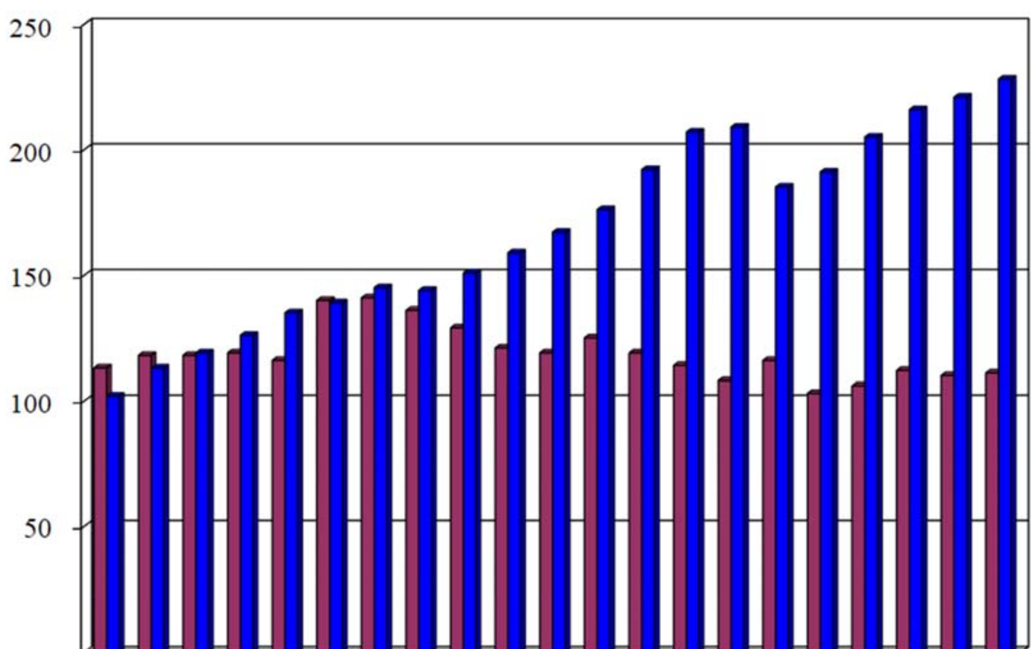
	1997	2007	2016	2017
Actives				
■ Counts	113	119	110	111
■ Average				
• Age	44	48	45	44
• Town Service	9	10	8	8
• PERSable Wages	$ 43,000	$ 73,400	$ 79,700	$ 84,000
■ Total PERSable Wages	4,900,000	8,700,000	8,800,000	9,300,000
Inactive Members				
■ Counts				
• Transferred	59	80	96	98
• Separated	52	77	81	79
• Retired				
□ Service		140	190	197
□ Disability		11	11	12
□ Beneficiaries		16	20	19
□ Total	102	167	221	228
■ Average Annual Town Provided Benefit for Service Retirees[1]	N/A	$ 14,300	$ 24,100	$ 25,200

ratio will only get worse!

what prior Councils agreed to

[1] Average Town-provided pensions are based on Town service & Town benefit formula, and are not representative of benefits for long-service employees.

Summary of Demographic Information - Miscellaneous

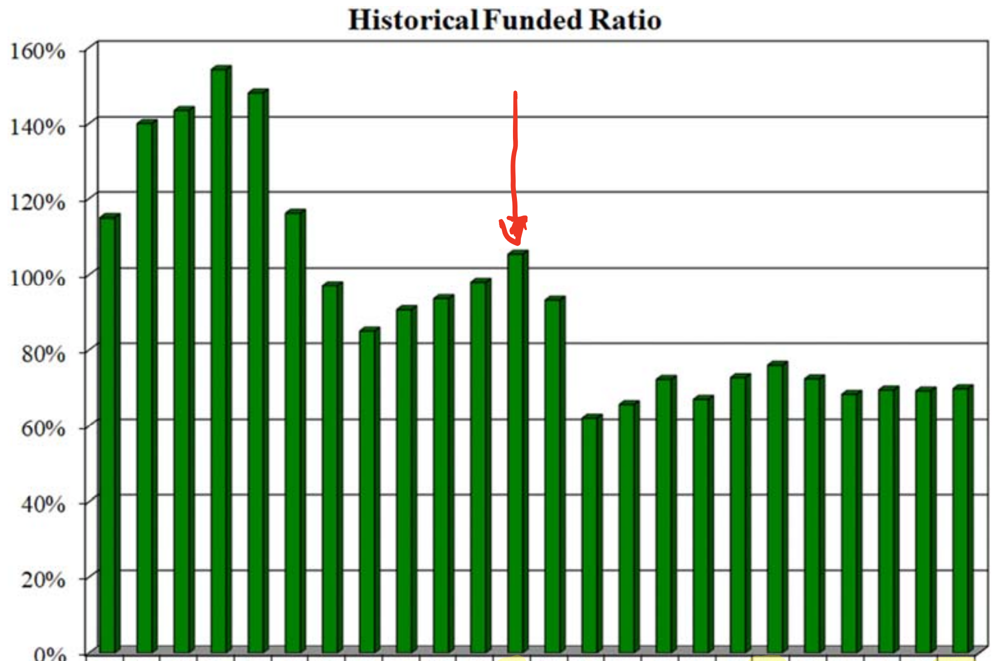


	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17
Active	113	118	118	119	116	140	141	136	129	121	119	125	119	114	108	116	103	106	112	110	111
Receiving Payments	102	113	119	126	135	139	145	144	151	159	167	176	192	207	209	185	191	205	216	221	228

2014 is this Councils base year

3

FUNDED RATIO - MISCELLANEOUS

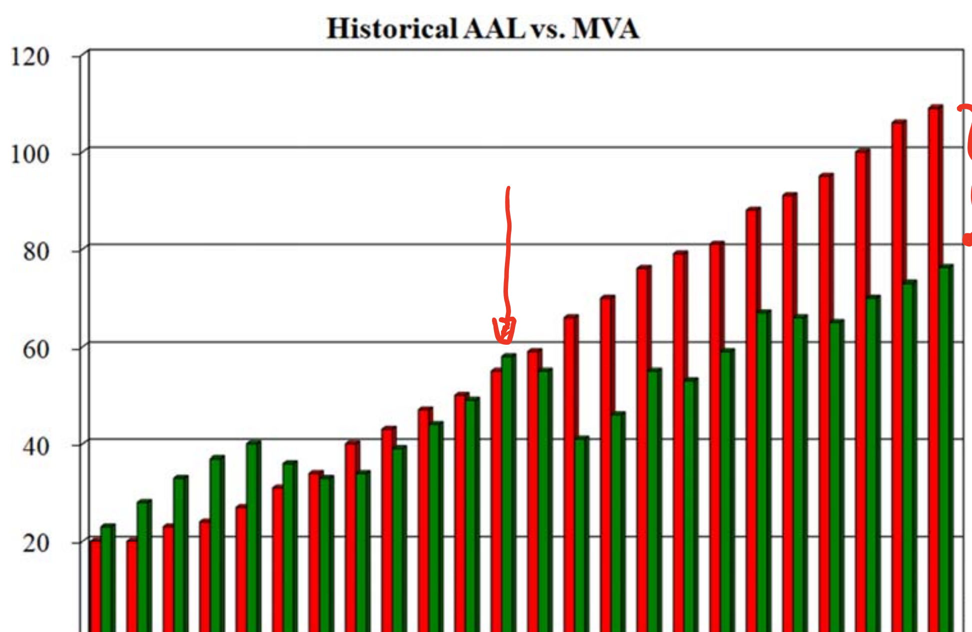


	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
MVA	115%	140%	143%	154%	148%	116%	97%	85%	91%	94%	98%	105%	93%	62%	66%	72%	67%	73%	76%	73%	68%	70%	69%	70%

6/30/18 & 6/30/19 funded status estimated

Declined !

FUNDED STATUS (MILLIONS) - MISCELLANEOUS



$33m

	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
AAL	20	20	23	24	27	31	34	40	43	47	50	55	59	66	70	76	79	81	88	91	95	100	106	109
Assets	23	28	33	37	40	36	33	34	39	44	49	58	55	41	46	55	53	59	67	66	65	70	73	76

6/30/18 & 6/30/19 funded status estimated

Unfunded $21m $33m

Assets increased only $9m

4

CONTRIBUTION RATES - MISCELLANEOUS

Historical Employer Contribution Rates (Percent of Payroll)

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Normal Cost	9.4	8.0	7.9	8.0	8.2	8.8	9.0	9.4	9.5	9.5	9.5	10.3	10.4	10.7	10.4	11.0	10.7	10.5	10.4	9.9	10.0	10.2
Total Rate	7.0	0.0	0.0	0.0	0.0	0.0	8.0	13.8	12.7	13.0	12.6	14.6	14.4	18.5	19.6	21.9	22.4	25.4	27.0	27.4	30.9	33.2

Contribution rates soaring because of unfunded liability

CONTRIBUTION RATES - MISCELLANEOUS

	6/30/16 2018/2019	6/30/17 2019/2020
■ Total Normal Cost	17.4%	17.6%
■ Employee Normal Cost	7.4%	7.4%
■ Employer Normal Cost	10.0%	10.2%
■ Amortization Payments	20.9%	22.9%
■ Total Employer Contribution Rate	30.9%	33.2%

■ 2018/19 Employer Contribution Rate	30.9%
● Payroll > Expected	(0.6%)
● Asset Method Change (5th Year)	1.5%
● 6/30/14 Assumption Change (4th Year)	0.9%
● 6/30/16 Discount Rate Change (2nd Year)	0.3%
● 6/30/17 Discount Rate & Inflation (1st Year)	0.8%
● Other (Gains)/Losses	(0.6%)
■ 2019/20 Employer Contribution Rate	33.2%

5

Discount Rate Sensitivity

June 30, 2017

	Discount Rate		
	7.25%	**7.00%**	**6.00%**
AAL	$99,900,000	$102,600,000	$116,000,000
Assets	69,500,000	69,500,000	69,500,000
Unfunded Liability	30,400,000	33,100,000	46,500,000
Funded Ratio	69.6%	67.8%	59.9%

Unfunded Accrued Liability Changes

■ **Unfunded Accrued Liability on 6/30/16**		$30,100,000
■ **Expected Unfunded Accrued Liability on 6/30/17**		30,700,000
■ **Other Changes**		
• Asset Loss (Gain) (11.2% return for FY 2017)	(2,400,000)	
• Assumption Change	1,200,000	
• Contribution & Experience Loss (Gain)	900,000	
• Total		(300,000)
■ **Unfunded Accrued Liability on 6/30/17**		30,400,000

- this is a "net" number

- Even with a 11.2% return, the UAL increased $300K!

- The plan does not have sufficient assets to earn a sufficient return.

6

Schedule of Changes in Net OPEB Liability and Related Ratios

Measurement Date	**6/30/2017**
Changes in Total OPEB Liablity	
Service Cost	$ 1,134,000
Interest on net liability	1,607,000
Difference between expected and actual	-
experience	-
Changes in assumptions	-
Changes in benefits	-
Benefit payments	(1,269,000)
Net change in total OPEB liability	1,472,000
Total OPEB liability - beginning	23,301,000
Total OPEB liability - ending (a)	$ 24,773,000
Changes in plan fiduciary net position	
Contributionss - employer	3,878,000
Contributionss - employee	-
Net Investment Income	1,049,000
Benefit payments	(1,269,000)
Administrative Expenses	(14,000)
Net change in plan fiduciary net position	3,644,000
Plan fiduciary net position - beginning	9,964,000
Plan fiduciary net position - ending (b)	$ 13,608,000
Net OPEB liability - ending (a) - (b)	$ 11,165,000
Plan fiduciary net position as a percentage of the total OPEB liability	54.9%
Covered payroll	14,985,716
Net pension liability as a percentage of covered payroll	74.50%

$2,609 Excess contribution is increasing Assets

Schedule of Employer Contributions

Fiscal Year	**2018**
Actuarially Determined Contribution (ADC)	$ 2,129,000
Actual Contributions	2,935,000
Contribution deficiency/(excess)	(806,000)
Covered employee payroll	14,985,716
Contributions as a percentage of covered payroll	19.6%

Town paid more than required Payment

7

Funded Status Projection - Full ADC Funding

(Amounts in 000's)

Fiscal Year End	Actuarial Value of Assets[15]						Funded Status		
	BOY AVA	Trust Funding	CS Payments	IS Payments	Expected Earnings	EOY AVA	BOY AAL	BOY UAAL[16]	BOY Fund%
2018	$13,605	$2,129	($1,076)	($188)	$879	$15,349	$24,773	$11,168	55%
2019	15,349	2,108	(1,159)	(195)	981	17,084	26,390	11,041	58%
2020	17,084	2,172	(1,242)	(201)	1,094	18,907	28,061	10,977	61%
2021	18,907	2,238	(1,319)	(185)	1,216	20,857	29,791	10,884	63%
2022	20,857	2,307	(1,423)	(197)	1,341	22,885	31,616	10,759	66%
2023	22,885	2,377	(1,510)	(197)	1,473	25,028	33,484	10,600	68%
2024	25,028	2,449	(1,617)	(208)	1,614	27,266	35,432	10,403	71%
2025	27,266	2,524	(1,719)	(210)	1,760	29,621	37,433	10,166	73%
2026	29,621	2,601	(1,830)	(223)	1,914	32,083	39,506	9,885	75%
2027	32,083	2,680	(1,958)	(247)	2,073	34,631	41,638	9,555	77%

[15] Projection assumes Town requests benefit payments, including PEMHCA administrative fees, from the OPEB trust. Expected earnings is shown net of investment and CERBT administrative expenses.
[16] UAAL is amortized over 20 years for 2018/19 and is projected to be fully funded on 6/30/38.

This report presents the Town of Los Gatos Retiree Healthcare Plan ("Plan") June 30, 2017 actuarial valuation. The purpose of this valuation is to calculate the June 30, 2017 funded status and the 2018/19 and 2019/20 Actuarially Determined Contributions.

This report provides recommended contribution information for Plan funding and may not be appropriate for other purposes. Future valuations may differ significantly if the Plan's experience differs from the assumptions or if there are changes in Plan design, actuarial methods, or actuarial assumptions. The scope of the valuation did not include an analysis of this potential variation.

The valuation is based on Plan provisions, participant data, and asset information provided by the Town as summarized in this report, which we relied on but did not audit. We reviewed the participant data for reasonableness.

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

Respectfully submitted,

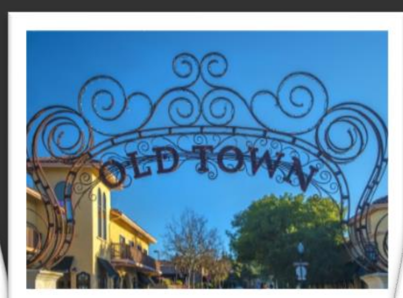
Joseph D'Onofrio

Katherine Moore

Joseph R. D'Onofrio, FSA, EA, MAAA, FCA	Katherine Moore, ASA, MAAA
Assistant Vice President	Associate Actuary
Bartel Associates, LLC	Bartel Associates, LLC
May 14, 2018	May 14, 2018

Town Pension and OPEB Trusts Oversight Committee
September 3, 2019

CalPERS Actuarial Review and Additional Discretionary Payment (ADP) Strategy



CalPERS Approved Asset Allocation Changes

- **Risk Mitigation - 2019 Valuation**
  - Move to more conservative investment portfolio over time
    - Target lower investment risk due to increasing plan maturity
    - Lower discount rate when investment return is greater than assumed
    - Reduce exposure to higher risk investments
    - Lower probability benefit payments will exceed contributions and earnings
    - Lessen impact of investment losses as a percentage of payroll
    - Gradual phase-in avoids immediate large contribution increase
    - Reduces impact of future investment gains on employer contributions
  - Discount rate likely to go from 7% to 6% over 20+ years

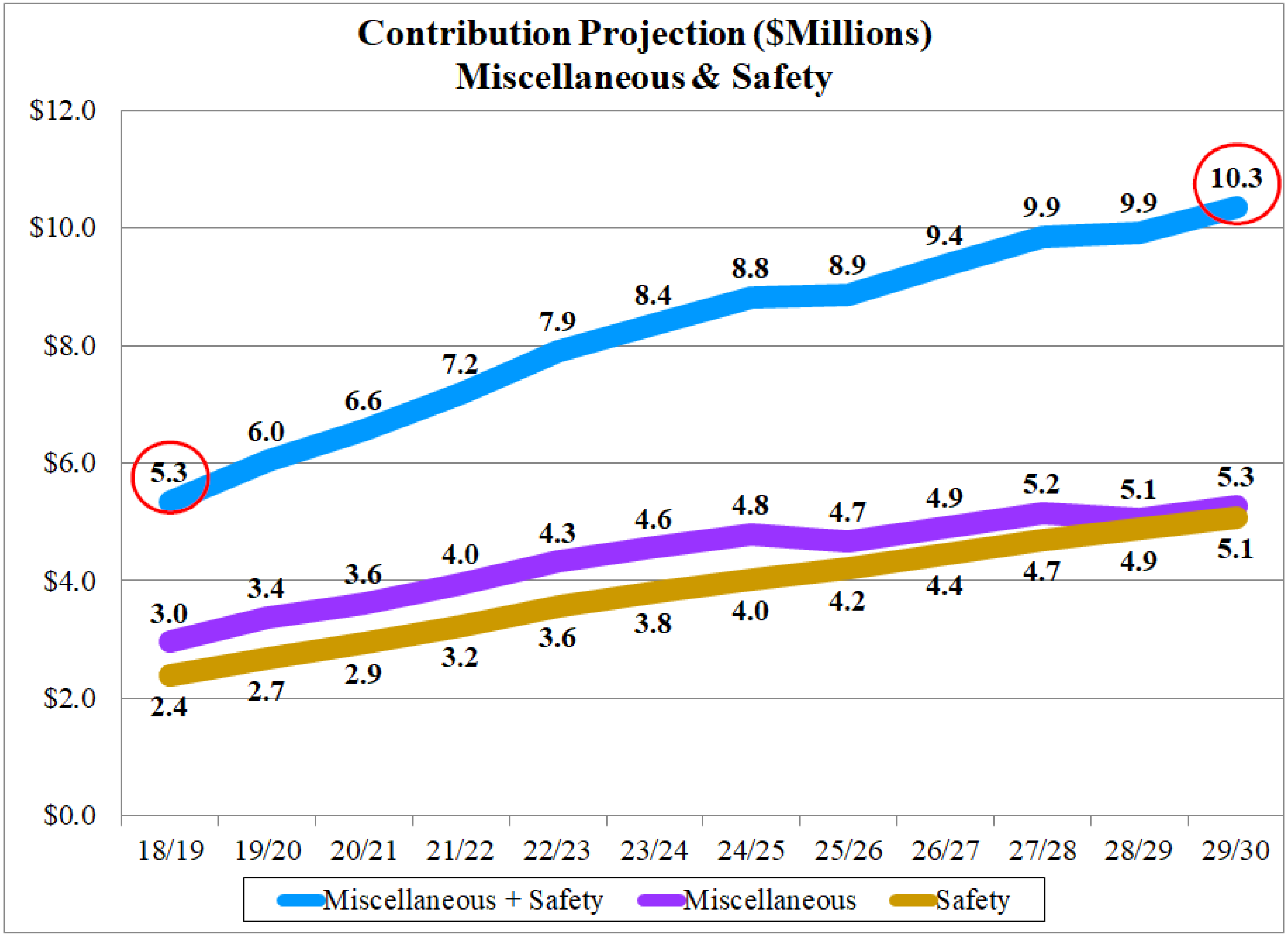
Valuation Results

Discount Rate Sensitivity - June 30, 2017 Valuation

(Dollar Amounts in Thousands)

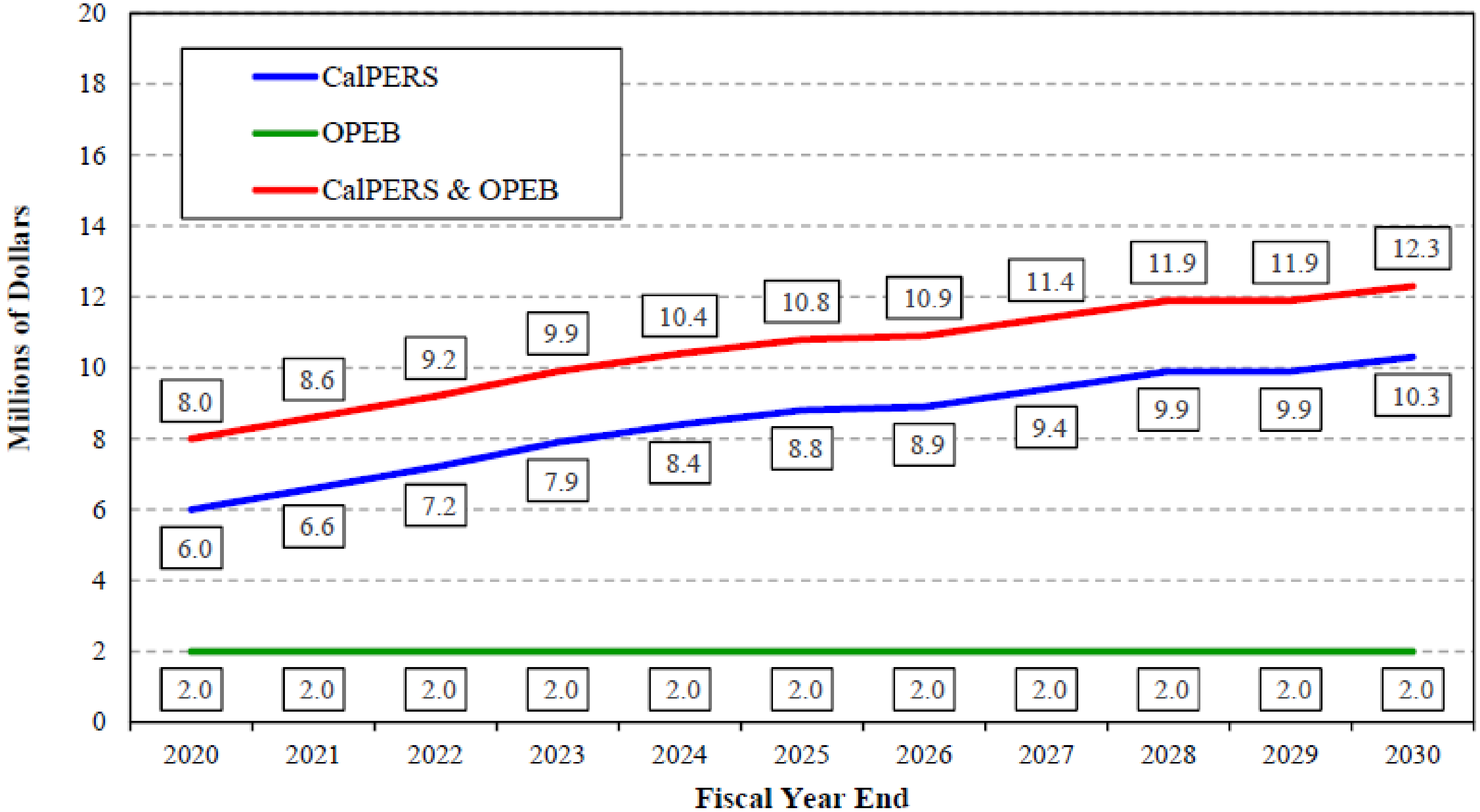
Funded Percent	Ongoing Plan Discount Rate[6]		
	7.25%	7.00%	6.00%
■ **Miscellaneous**			
● Accrued Liability	$99,903	$102,599	$115,979
● Assets	69,527	69,527	69,527
● Unfunded Liability	30,376	33,073	46,452
● Funded Percent	69.6%	67.8%	59.9%
■ **Safety**			
● Accrued Liability	$84,807	$87,274	$99,376
● Assets	62,719	62,719	62,719
● Unfunded Liability	22,089	24,555	36,657
● Funded Percent	74.0%	71.9%	3.1%
■ **Total**			
● Accrued Liability	$184,710	$189,873	$215,354
● Assets	132,246	132,246	132,246
● Unfunded Liability	52,465	57,628	83,109
● Funded Percent	71.6%	69.6%	61.4%

Combined Plans
(50th Percentile)



As investment returns will, generally be 6.5% over the next 10 years and higher beyond that.

Projected City Contributions
CalPERS Pension & OPEB



Additional Discretionary Payment (ADP) Strategies

- Payments directly to CalPERS
- Payments into Pension 115 Trust
- Payments into OPEB Trust

Making Payments Directly to CalPERS

Pay Off Targeted Unfunded Bases
Miscellaneous Example

Bases Targeted	Contribution Impact	Interest Savings
Shorter Bases	Immediate	Less
Longer Bases	Delayed	More

Bases Targeted	Initial Payment	Contribution Savings	Present Value (3% Discount Rate)
Shorter Bases[9]	$8,000,000	$3,701,000	$1,844,000
Longer Bases[10]	8,000,000	11,674,000	4,903,000

Payments into an IRS 115 Pension Trust

- Generally greater risk and return than general fund
  - Agency chooses asset allocation
  - Consider risk tolerance and when funds are expected to be used
- Flexible as to when and how used for CalPERS funding
  - Rate stabilization is a common objective
  - Paying of unfunded bases in the future
- Avoids CalPERS overfunding due to required Normal Cost contributions
- Asset restricted and can only be used for pension funding

Payments Directly to OPEB 115 Trust

Contribution Projection - Full ADC Funding - New Plan - Additional $8 Million

(Amounts in 000's)

Fiscal Year End	New Plan CERBT #1			Additional $8 Million[18]		
	ADC[19]	BOY UAAL[20]	BOY Fund%	ADC	BOY UAAL	BOY Fund%
2019	$ 1,991	$ 10,242	61%	$ 1,991	$ 10,242	61%
2020	1,959	9,662	65%	1,355	1,662	94%
2021	1,967	9,572	68%	1,345	1,640	94%
2022	1,970	9,456	70%	1,329	1,615	95%
2023	1,975	9,310	72%	1,315	1,586	95%
2024	1,981	9,133	74%	1,301	1,552	95%
2025	1,987	8,921	75%	1,286	1,513	96%
2026	1,990	8,671	77%	1,268	1,468	96%
2027	1,994	8,378	79%	1,250	1,416	96%
2028	1,995	8,041	80%	1,228	1,357	97%

ACTION

Decide on an Additional Discretionary Payment (ADP) Strategy Based on the August 2019 Bartel and Associates Analysis

- Payments directly to CalPERS
- Payments into Pension 115 Trust
- Payments into OPEB Trust