

**TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS OVERSIGHT
COMMITTEE AGENDA
JUNE 02, 2026
110 EAST MAIN STREET AND TELECONFERENCE
TOWN COUNCIL CHAMBERS
6:15 PM**

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

IMPORTANT NOTICE

This is a hybrid meeting and will be held in-person at the Town Council Chambers at 110 E. Main Street and virtually through Zoom Webinar (log-in information provided below). You may watch the Council meeting without providing public comment on Comcast cable channel 15 or at www.LosGatosCA.gov/TownYouTube. Members of the public may provide public comments for agenda items in-person or virtually by following the instructions listed at the end of the agenda.

To watch and participate via Zoom, please go to:

<https://losgatosca-gov.zoom.us/j/85411386935?pwd=awrZm7EN2dTJD3FOqHwCEw6jmQbNff.1>

Enter passcode: 801018

CALL MEETING TO ORDER

ROLL CALL

CONSENT ITEMS (*Consent Items are considered routine Town business and may be approved by one motion. Any member of the Committee may remove an item from the Consent Items for comment and action. Members of the public may provide input on any or multiple Consent Item(s) when the Chair asks for public comments on the Consent Items. If you wish to comment, please follow the Participation Instructions located at the end of this agenda. If an item is removed, the Chair has the sole discretion to determine when the item will be heard. Each speaker is limited to no more than three (3) minutes or such time as authorized by the Chair.*)

1. Approve the Minutes of the March 3, 2026, OPEB Pension and Oversight Trusts Committee Meeting.

RECOMMENDATION: Approve the Minutes of the March 3, 2026, OPEB Pension and Oversight Trusts Committee Meeting.

2. Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending March 31, 2026, and Performance as of March 31, 2026

RECOMMENDATION: Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the period ending March 31, 2026, and performance as of March 31, 2026.

3. Receive the California Employer’s Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending March 31, 2026, and the Performance Report as of March 31, 2026

RECOMMENDATION: Receive California Employer’s Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending March 31, 2026, and the Performance Report as of March 31, 2026.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Committee only on matters listed on the agenda. Town resources may not be used to facilitate audio or visual presentations. Each speaker is limited to no more than three (3) minutes or such time as authorized by the Chair.)*

OTHER BUSINESS *(Each speaker is limited to no more than three (3) minutes or such time as authorized by the Chair.)*

4. Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024

RECOMMENDATION: Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024.

ADJOURNMENT

ADA NOTICE - In compliance with the Americans with Disabilities Act, if you require special assistance to participate in this meeting, please contact the Clerk’s Office at (408) 354-6834. Please notify the Clerk’s Office at least two (2) business days prior to the meeting so that reasonable arrangements can be made to ensure accessibility in compliance with 28 CFR §35.102-35.104 and related provisions.

NOTICE REGARDING SUPPLEMENTAL MATERIALS - Materials related to an item on this agenda submitted to the Committee after initial distribution of the agenda packets are available for public inspection in the Clerk’s Office at Town Hall, 110 E. Main Street, Los Gatos and on the Town’s website at www.losgatosca.gov. Committee agendas and related materials can be viewed online at <https://losgatos-ca.municodemeetings.com/>.

HOW TO PARTICIPATE

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

Zoom Webinar (Online): Join from a PC, Mac, iPad, iPhone or Android device. Please click this URL to join: <https://losgatosca.gov.zoom.us/j/85411386935?pwd=awrZm7EN2dTJD3FOqHwCEw6jmQbNff.1>

Passcode: **801018**. You can also type in **854 1138 6935** in the “Join a Meeting” page on the Zoom website at zoom.us and use passcode **801018**.

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

Telephone: Please dial 1 (855) 758-1310 for US Toll-free or 1 (408) 961-3928 for US Toll. (Meeting ID: 854 1138 6935)

If you are participating by calling in, press *9 on your telephone keypad to raise your hand.

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

NOTES: Comments will be limited to three (3) minutes or less at the Chair's discretion.

If you are unable to participate in real-time, you may email Clerk@losgatosca.gov with the subject line “Public Comment Item #__” (insert the item number relevant to your comment).

Deadlines to submit public comments are:

-3:00 p.m. the business day before the Committee meeting for inclusion in an addendum.

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



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

ITEM NO. 1.

MEETING DATE: 06/02/2026

ITEM NO: 1

**DRAFT
Minutes of the Town Pension and OPEB Trust Oversight Committee Meeting
March 3, 2026**

The Pension and OPEB Trusts Oversight Committee of the Town of Los Gatos conducted a meeting in person and via teleconference.

MEETING CALLED TO ORDER AT 6:20 P.M.

ROLL CALL

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

Absent: None.

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

1. Approve the Minutes of the December 2, 2025, OPEB Pension and Oversight Trusts Committee Meeting.

Mayor Moore opened public comment.

No one spoke.

Mayor Moore closed public comment.

MOTION: **Motion by Council Member Hudes** to approve the minutes of the December 2, 2025, OPEB Pension and Oversight Trusts Committee Meeting. **Seconded by Vice Mayor Ristow.**

VOTE: **Motion passed unanimously.**

VERBAL COMMUNICATIONS

No one spoke.

OTHER BUSINESS

2. Receive the California Employer’s Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the period ending December 31, 2025, and Performance as of January 31, 2026.

Kristina Alfaro, Administrative Services Director, presented the staff report.

PAGE 2 OF 2

SUBJECT: Draft Minutes of the Pension and OPEB Trusts Oversight Committee Meeting of
March 3, 2026

DATE: June 2, 2026

Mayor Moore opened public comment.

No one spoke.

Mayor Moore closed public comment.

The Committee received the report. No action was taken.

3. Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the period ending December 31, 2025, and the Performance Report as of January 31, 2026

Kristina Alfaro, Administrative Services Director, presented the staff report.

Mayor Moore opened public comment.

No one spoke.

Mayor Moore closed public comment.

The Committee received the report. No action was taken.

ADJOURNMENT

The meeting adjourned at 6:24 p.m.

Attest:

Keara Johnson, Deputy Town Clerk



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

MEETING DATE: 06/02/2026

ITEM NO. 2.

ITEM NO: 2

DATE: May 20, 2026
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Chris Constantin, Town Manager
SUBJECT: **Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending March 31, 2026, and Performance as of March 31, 2026**

RECOMMENDATION: Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the period ending March 31, 2026, and performance as of March 31, 2026.

FISCAL IMPACT:

There is no fiscal impact associated with receiving this report.

BACKGROUND:

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

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

DISCUSSION:

Effective Fiscal Year (FY) 2015-16, Council determined that if sufficient General Fund year-end savings are available and targeted reserve levels for the Catastrophic Reserve and Budget

PREPARED BY: Diane M. Howard
Finance Division Manager

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

PAGE 2 OF 3

SUBJECT: CEPPT Update

DATE: May 20, 2026

Stabilization Reserve have been met, upon the final close of the fiscal year, a minimum of \$300,000 annually shall be deposited into the Pension/OPEB Reserve Fund. In 2018, the Council updated the General Fund Reserve Policy to provide for additional discretionary payments Strategy 2 (ADPs) of \$390,000 per year to address the unfunded pension liability. Under the updated Policy, a 20-year amortization equivalence will be achieved.

The ending CEPPT 115 Trust account balance as of March 31, 2026, was \$3,885,749.72 (Attachment 1). In addition, staff transferred \$690,000 to the CEPPT Trust on February 24, 2026. As of March 31, 2026, the CEPPT Strategy 2 fund had a net return of -3.59% for the month and 4.18% for the Fiscal Year to Date (FYTD) (Attachment 2).

The Town Finance Commission will receive this report at its regular meeting on June 8, 2026.

A joint Study Session was held between the Town Pension and OPEB Trust Oversight Committee and the Finance Commission, led by a Financial Advisor, to review the Pension and OPEB Trusts.

The Finance Commission reiterated its prior recommendation to the Oversight Committee on March 10, 2025, to transfer the balance of the Pension IRS 115 Trust to CalPERS and pay off the Longest Base in the Safety Plan to maximize the interest savings. The Finance Commission also recommended that the Town move from Strategy 2 to Strategy 1.

According to the December 2, 2025, Pension/OPEB Oversight Committee action, the Town will retain the funds in the CEPPT Trust until the Town concludes its Fiscal Condition Analysis and Asset Liability Management studies. After receiving and considering the studies, staff plans to explore alternative providers and investment options through an RFP process. The information presented at the study session highlighted that several public sector trust providers offer varied investment structures, account configurations, reporting tools, and fiduciary support models. Alternative trust platforms may include daily valuation, customized portfolios, broader asset classes, and individualized reporting. These features differ from the structure offered through CalPERS and could provide the Town with expanded flexibility or different oversight mechanisms. An RFP would allow the Town to obtain comparable information on investment flexibility, fiduciary services, reporting features, trust governance, and account structure across interested providers. It would also allow the Town to evaluate costs and implementation requirements in a standardized manner. An RFP would not commit the Town to change providers but would ensure that any future decision is made with a full understanding of available alternatives.

As part of the Finance Commission's review of the FY 2026-27 Proposed Budget on May 11, 2026, the Commission recommended that Council transfer the balance of the 115 Trust, and an additional \$390,000 for FY 2026-27 as an additional discretionary payment (ADP).

At the May 19, 2026, FY 2026-27 Proposed Budget Study Session, the Council did not approve this recommendation. Instead, the Council will wait until all NHA Advisor studies are finalized before considering the transfer.

Attachments:

1. CEPPT Market Value Summary Report as of March 31, 2026
2. CEPPT Strategy 2 Performance as of March 31, 2026

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$3,234,153.34	\$3,090,730.98
Contribution	690,000.00	690,000.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(36,409.99)	110,747.44
Administrative Expenses	(1,314.94)	(3,778.44)
Investment Expense	(678.69)	(1,950.26)
Other	0.00	0.00
Ending Balance	<u>\$3,885,749.72</u>	<u>\$3,885,749.72</u>
FY End Contribution Accrual	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$3,885,749.72	\$3,885,749.72

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	266,043.432	266,043.432
Unit Purchases from Contributions	55,025.060	55,025.060
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	<u>321,068.492</u>	<u>321,068.492</u>
Period Beginning Unit Value	12.156486	11.617392
Period Ending Unit Value	12.102557	12.102557

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

Statement of Transaction Detail for the Quarter Ending 03/31/2026

Town of Los Gatos

Entity #: SKHE-4589482285-501P

Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
02/26/2026	Contribution	\$690,000.00	\$12.539741	55,025.060	100000548016 06	

CEPPT Strategy 2



March 31, 2026

Objective

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

Strategy

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

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

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

Composition

Asset Class Allocations and Benchmarks

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

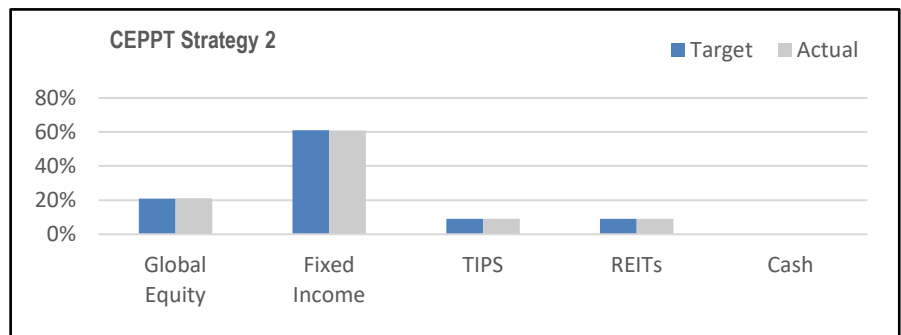
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	21%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	61%	± 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	9%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")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

Portfolio Benchmark

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

Target vs. Actual Asset Class Allocations

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



Assets Under Management

As of the specified reporting month-end:

CEPPT Strategy 2	Annual Expense Ratio
\$96,314,521	0.25%

CEPPT Strategy 2 Performance as of March 31, 2026

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (January 1, 2020)
Gross Return ^{1,3}	-3.57%	-0.39%	4.36%	8.18%	6.67%	2.58%	-	3.24%
Net Return ^{2,3}	-3.59%	-0.44%	4.18%	7.93%	6.42%	2.35%	-	3.01%
Benchmark Return	-3.61%	-0.49%	4.23%	8.00%	6.52%	2.48%	-	3.12%
Standard Deviation ⁴	-	-	-	-	7.11%	8.10%	-	7.79%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of State Street Investment Management operating expenses.

² Net returns are net of State Street Investment Management operating expenses, investment management, administrative and recordkeeping fees.

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

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

CEPPT Strategy 2



March 31, 2026

General Information

Information Accessibility

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

Portfolio Manager Information

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

Custodian and Record Keeper

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

Expenses

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

What Employers Own

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

Price

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

Principal Risks of the Portfolio

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

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

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

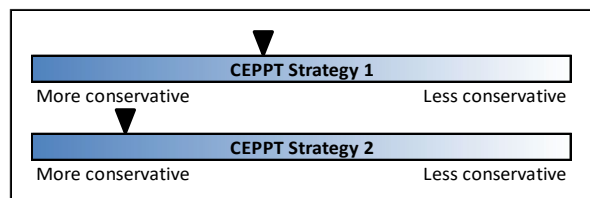
Fund Performance

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

CEPPT Strategy Risk Levels

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

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





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

MEETING DATE: 06/02/2026

ITEM NO. 3.

ITEM NO: 3

DATE: May 20, 2026
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Chris Constantin, Town Manager
SUBJECT: **Receive the California Employer’s Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending March 31, 2026, and the Performance Report as of March 31, 2026**

RECOMMENDATION: Receive California Employer’s Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending March 31, 2026, and the Performance Report as of March 31, 2026.

FISCAL IMPACT:

There is no fiscal impact related to receiving this report.

BACKGROUND:

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

DISCUSSION:

The ending OPEB 115 Trust account balance as of March 31, 2026, was \$32,549,667.02 compared to \$32,526,434.78 as of December 31, 2025 (Attachment 1). As of March 31, 2026, the CERBT Strategy 1 fund had a net return of –5.23% for the month and 7.48% as of Fiscal Year to Date (Attachment 2).

The Town Finance Commission will receive this information at its regular meeting on June 8, 2026.

PREPARED BY: Diane M. Howard
Finance Division Manager

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

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ITEM NO. 3.

SUBJECT: Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1
Market Value Summary Report for the Period Ending March 31, 2026, and the
Performance Report as of March 31, 2026

DATE: May 20, 2026

Attachments:

1. OPEB 115 Trust Market Value Summary Report as of March 31, 2026
2. CERBT Strategy 1 Performance Report March 31, 2026

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$32,526,434.78	\$30,284,763.02
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	28,985.85	2,281,811.26
Administrative Expenses	(2,219.25)	(6,521.37)
Investment Expense	(3,534.36)	(10,385.89)
Other	0.00	0.00
Ending Balance	\$32,549,667.02	\$32,549,667.02
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$32,549,667.02	\$32,549,667.02

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,188,552.988	1,188,552.988
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,188,552.988	1,188,552.988
Period Beginning Unit Value	27.366416	25.480364
Period Ending Unit Value	27.385962	27.385962

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

Statement of Transaction Detail for the Quarter Ending 03/31/2026

Town of Los Gatos

Entity #: SKB0-4589482285



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



March 31, 2026

Objective

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

Strategy

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

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

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

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Operating Ratio
\$24,067,131,982	0.085%

Composition

Asset Class Allocations and Benchmarks

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

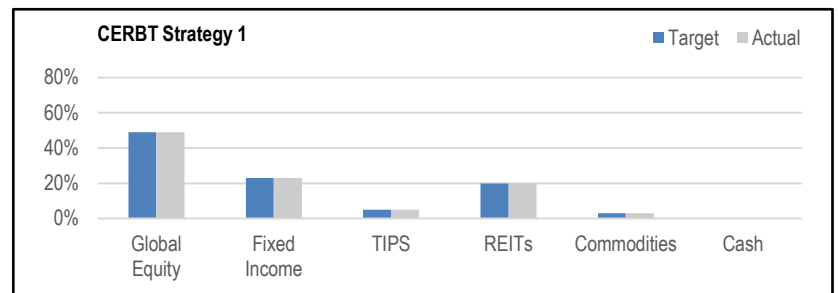
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	49%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	23%	± 5%	Bloomberg Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	20%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

Portfolio Benchmark

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

Target vs. Actual Asset Class Allocations

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



CERBT Strategy 1 Performance as of March 31, 2026

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	-5.22%	0.09%	7.53%	15.06%	11.23%	5.69%	7.84%	5.86%
Net Return ^{2,3}	-5.23%	0.07%	7.48%	14.98%	11.14%	5.61%	7.75%	5.78%
Benchmark Returns	-5.29%	-0.04%	7.29%	14.66%	10.92%	5.43%	7.50%	5.47%
Standard Deviation ⁴	-	-	-	-	10.25%	12.24%	11.30%	12.65%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of State Street Investment Management operating expenses.

² Net returns are net of State Street Investment Management operating expenses, investment management, administrative and recordkeeping fees.

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

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

CERBT Strategy 1



March 31, 2026

General Information

Information Accessibility

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

Portfolio Manager Information

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

Custodian and Record Keeper

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

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater the reduction of investment return. Currently, CERBT expenses are 0.085% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to State Street Investment Management to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

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

Price

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

Principal Risks of the Portfolio

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

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

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

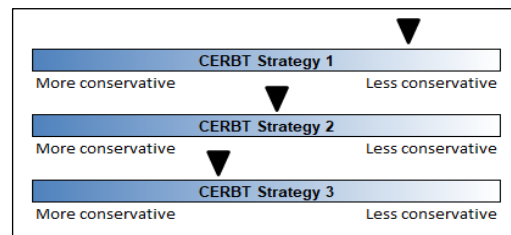
Fund Performance

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

CERBT Strategy Risk Levels

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

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



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



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

ITEM NO. 4.

MEETING DATE: 06/02/2026

ITEM NO: 4

DATE: May 22, 2026
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024

RECOMMENDATION:

Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024.

FISCAL IMPACT:

There is no immediate fiscal impact from receiving these reports. The reports describe existing and projected CalPERS contribution obligations and potential future policy options, but no appropriation, budget amendment, or Additional Discretionary Payment is requested by this item.

STRATEGIC PRIORITIES:

The item provides information that supports the Town's top strategic priority of ensuring prudent financial management.

BACKGROUND:

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

For the Town to understand the value of future pension benefit payments, actuarial valuations are performed each year for the pension plans. The CalPERS actuary estimates the payments

PREPARED BY: Kristina Alfaro
Administrative Services Director

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

PAGE 2 OF 4

SUBJECT: Foster and Foster Independent Actuarial Report – 06-30-24 Valuations

DATE: May 22, 2026

that will be made for all potential retirees from each plan in each future year. The actuary calculates the present value of future benefits the plan will be required to pay to its current participants: those still working who will retire in the future, retirees, and those who have terminated employment but have not yet begun drawing benefits. CalPERS completes its review a year in arrears with FY 2024-25 or 2025 valuations are expected from CalPERS in October 2026. The 2024 valuation reports provide the determination of the minimum required employer contributions for fiscal year (FY) 2026-27. In addition, the reports also contain important information regarding the current financial status of the plans as well as projections and risk measures to aid in planning for the future. The pension funding information presented in this report should not be used in financial reports subject to the Governmental Accounting Standards Board (GASB) Statement No. 68 for an Agent Employer Defined Benefit Pension Plan.

The Town contracts with an actuarial firm to provide an independent review of the Town's data to ensure sufficient funding, as CalPERS assumption has resulted in the Town not contributing enough in prior years based on payroll estimates in the CalPERS valuation. Staff has received the annual Independent Actuarial Report from Foster and Foster for the Miscellaneous Plan and the Classic and PEPRA Safety Plan (Attachment 1). The measurement date for each of the Plans is as of June 30, 2024. These reports provide the Town's Finance Commission with an understanding of the scale of future pension costs, the risks associated with underperformance, and strategies that could mitigate long-term exposure.

DISCUSSION:

Based on the June 30, 2025, projected funded status shown in Attachment 1, the Miscellaneous Plan reported a projected accrued liability of \$141.3 million against the market value of assets of \$116.4 million, leaving an Unfunded Accrued Liability (UAL) of 24.9 million and a funded ratio of 82.4%. The Safety and PEPRA Safety Plans combined reported an accrued liability of \$125.0 million against the market value of assets of \$93.7 million, leaving a UAL of \$31.3 million and a funded ratio of 75.0%. Together, the Town's total pension debt stands at approximately \$56.2 million.

For fiscal year 2025–26, the Miscellaneous Plan requires an employer normal cost contribution of 11.2% of payroll, in addition to an annual UAL payment of \$3.29 million. This UAL payment may be made monthly at \$274,000 or prepaid in July at \$3.19 million. For the Safety and PEPRA Safety Plans, the employer's normal cost contributions are 29.38% for Classic members and 14.86% for PEPRA members, with a UAL contribution of \$3.40 million. The Safety UAL payment may be made monthly at \$283,000 or prepaid at \$3.29 million.

SUBJECT: Foster and Foster Independent Actuarial Report – 06-30-24 Valuations

DATE: May 22, 2026

Exhibit 1 Foster and Foster Independent Actuarial Report – 06-30-24 Valuations (page 11)

June 30, 2024	Miscellaneous Plan	Safety & PEPR Safety Plan
Projected Accrued Liability	\$137,200,000	\$121,200,000
Projected Market Value of Assets	\$106,000,000	\$85,200,000
Projected Unfunded Accrued Liability	\$31,200,000	\$36,000,000
Projected Funded Ratio	77.2%	70.3%

Looking forward, the miscellaneous plans show a decrease for the first two years of the forecast period, a slight increase in FY 2028-29, and then continued decreases for the remainder of the forecast period, as shown on page 20 of Attachment 1. The safety plans show slight increases and decreases until FY 2029-30, at which point the plan starts to decrease for the remainder of the forecast period.

Policy Considerations

The Town has several policy options available to address these long-term pension obligations. First, the Town may continue paying the required minimum contributions established by CalPERS. Second, the Town could make Additional Discretionary Payments (ADPs) to accelerate the payoff of pension debt. For the Miscellaneous Plan, paying \$1.778M on or before 6/30/26 could result in a reduction in costs of \$533,000 if the Town paid down the shortest base, and \$144,000 if the longest base(s) are paid down. For safety, a \$2.237M payment on the shortest base is estimated to save \$330,000 and \$160,000 for the longest base(s).

These reports are attached (Attachment 1).

CONCLUSION:

In conclusion, while the Town’s pension funded status has improved modestly, the combined unfunded liability was \$67.2 million as of June 30, 2024, and is projected at \$56.2 million as of June 30, 2025, and continues to present a major long-term fiscal challenge. Although longer term projections show only minor increases and steady declines, much of this funding relief is being driven by favorable returns. Should the market shift over a prolonged period, this could result in higher costs.

COORDINATION:

This staff report was coordinated with the Town Manager and Town Attorney.

PAGE 4 OF 4

SUBJECT: Foster and Foster Independent Actuarial Report – 06-30-24 Valuations

DATE: May 22, 2026

ITEM NO. 4.

Attachments:

1. Foster and Foster Independent Actuarial Report – 06-30-24 Valuations
2. Presentation

TOWN OF LOS GATOS
CALPERS MISCELLANEOUS & SAFETY PLANS
INDEPENDENT ACTUARIAL REPORT - 6/30/24 VALUATIONS



ATTACHMENT 1

April 22, 2026

We are pleased to present this independent actuarial analysis of the Town of Los Gatos CalPERS Retirement Plans. The purpose of this report is to provide the Town:

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

The calculations and projections in this report are based on information contained in the Town's June 30, 2024 and earlier CalPERS actuarial valuation reports. We reviewed this information for reasonableness, but do not make any representation on the accuracy of the CalPERS reports.

Future investment returns and volatility are based on Foster & Foster's Capital Market model.

Information provided in this report may be useful to the Town for the Plan's financial management. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as: plan experience differing from that anticipated by the assumptions; changes in assumptions; changes expected as part of the natural progression of the plan; and changes in plan provisions or applicable law. Actuarial models necessarily rely on the use of estimates and are sensitive to changes. Small variations in estimates may lead to significant changes in actuarial measurements. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of such measurements.

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

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at (650) 377-1600.

Respectfully submitted,

Foster & Foster Consulting Actuaries, Inc.

By: 
Drew Ballard, FSA, EA, MAAA

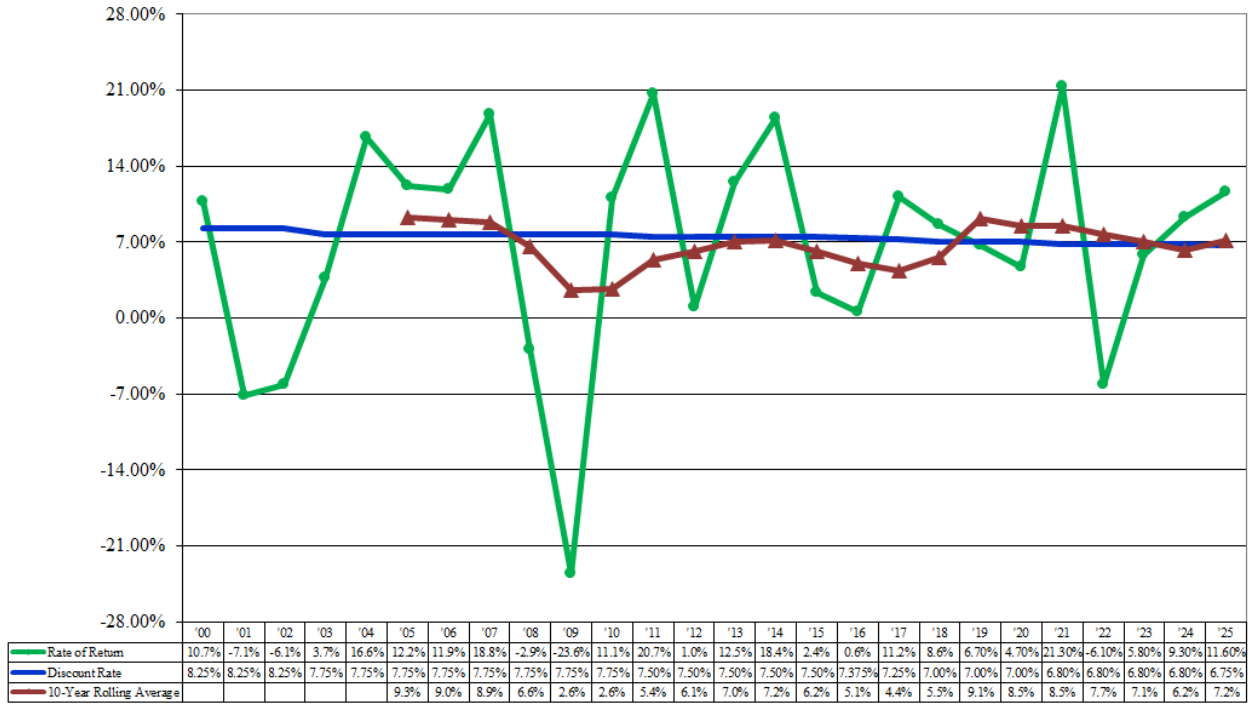
By: 
D. Patrick McDonald, FSA, EA, MAAA

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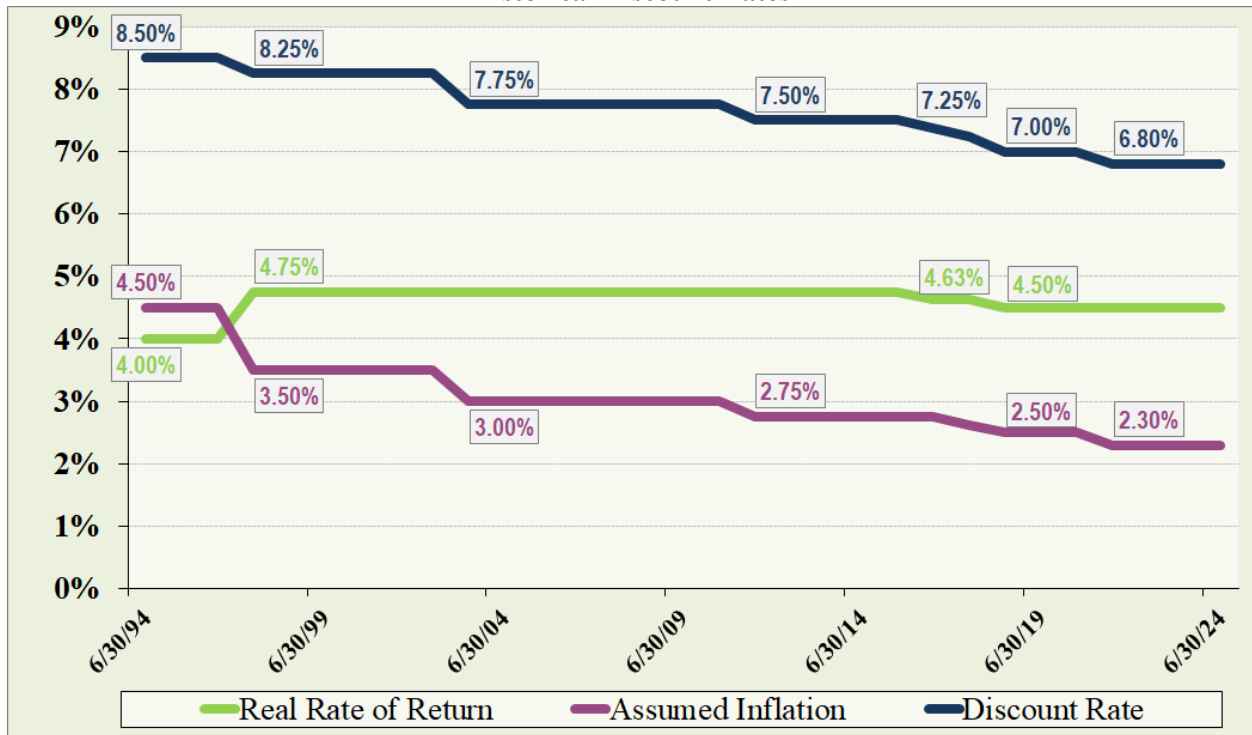
INVESTMENT RETURN

Annual Return on Market Value of Assets



Discount rates are expected returns net of administrative expenses. 2013/14 through 2024/25 “money-weighted” returns reported in CalPERS AFMR (without lags on private equity and real estate) are 18.3%, 2.2%, 0.5%, 11.2%, 8.4%, 6.5%, 5.0%, 22.4%, -7.5%, 6.1%, 9.5%, and 12.1%, respectively.

Historical Discount Rates



DEMOGRAPHICS

- Around the State
 - Large retiree liability compared to actives
 - State average: 61% for Miscellaneous, 64% 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 64%
 - Safety 75%



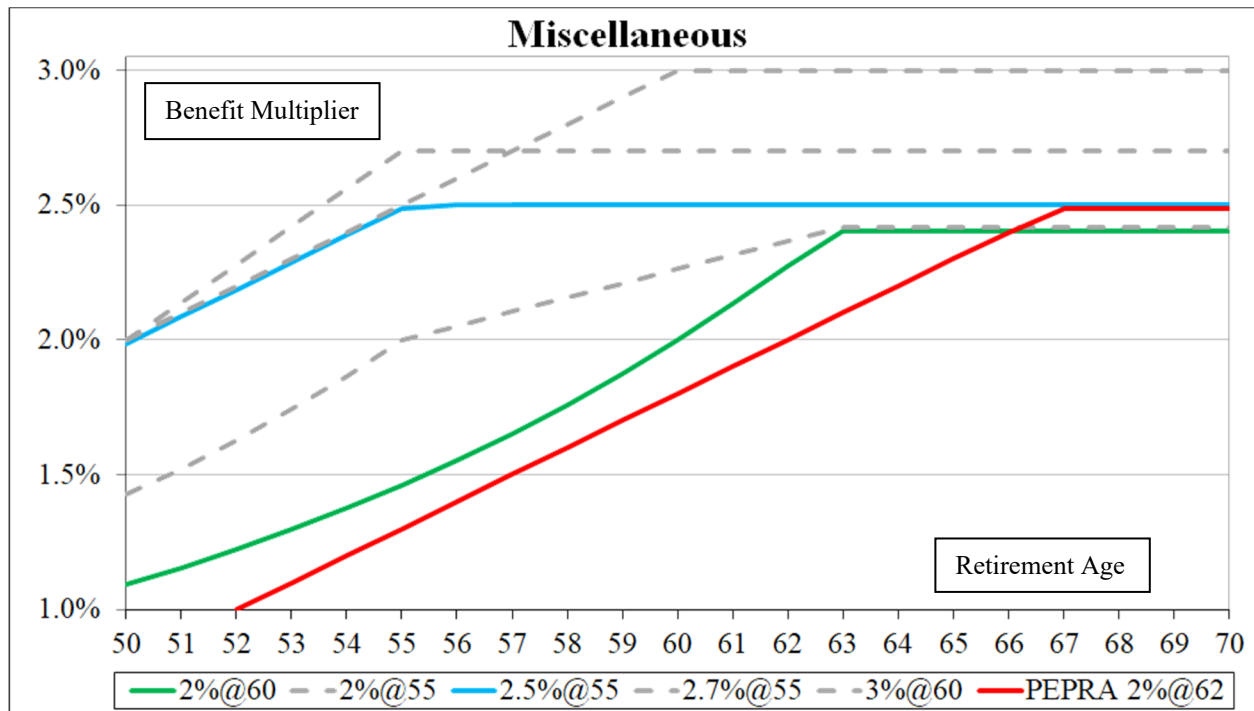
TOWN BENEFITS

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

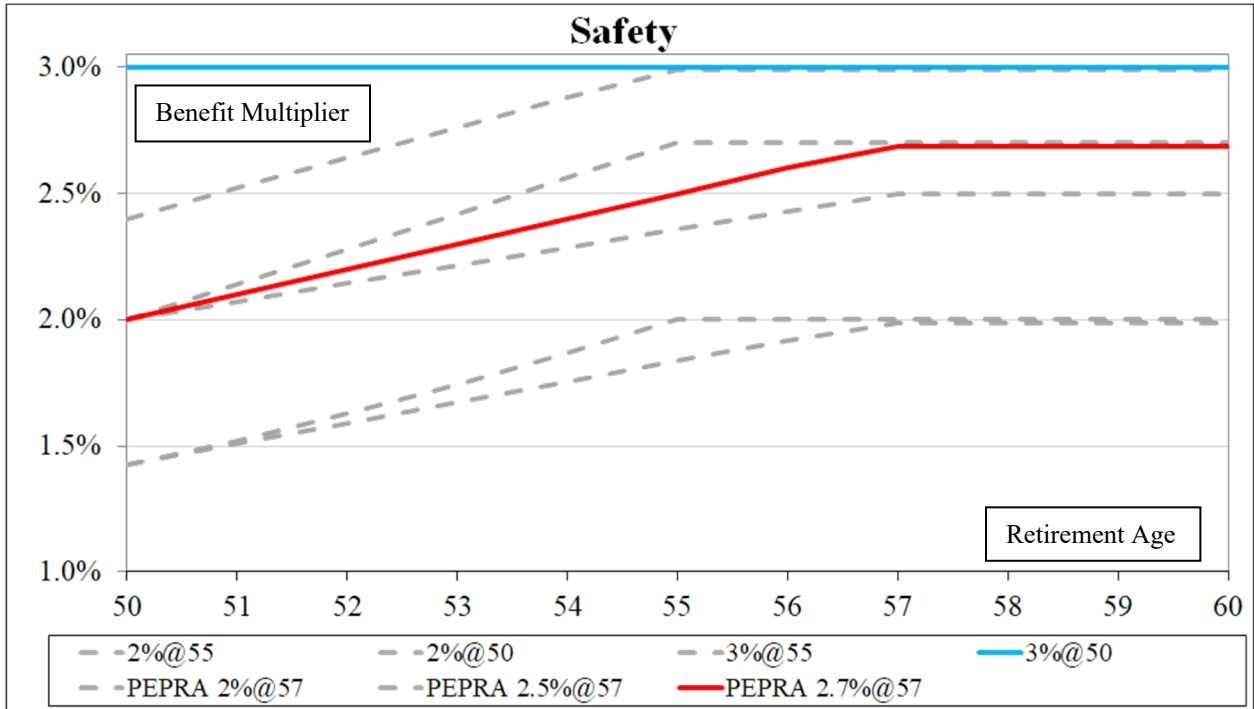
	Tier 1	Tier 2	PEPRA
Miscellaneous	2.5%@55 FAC1	2%@60 FAC3	2%@62 FAC3
Safety Police	3%@50 FAC1	N/A	2.7%@57 FAC3

- Benefit = (Years of Town Service) x Percentage x FAC
 - Percentage varies by retirement age (see following charts)
 - FAC1 is highest one year (typically final) average earnings
 - FAC3 is highest three years (typically final three) average earnings

- PEPRA tier implemented for new employees hired after 1/1/13
 - Employee pays half of total normal cost
 - 2026 Compensation limit
 - Social Security participants: \$159,733
 - Non-Social Security participants: \$191,679



TOWN BENEFITS



RISK MITIGATION

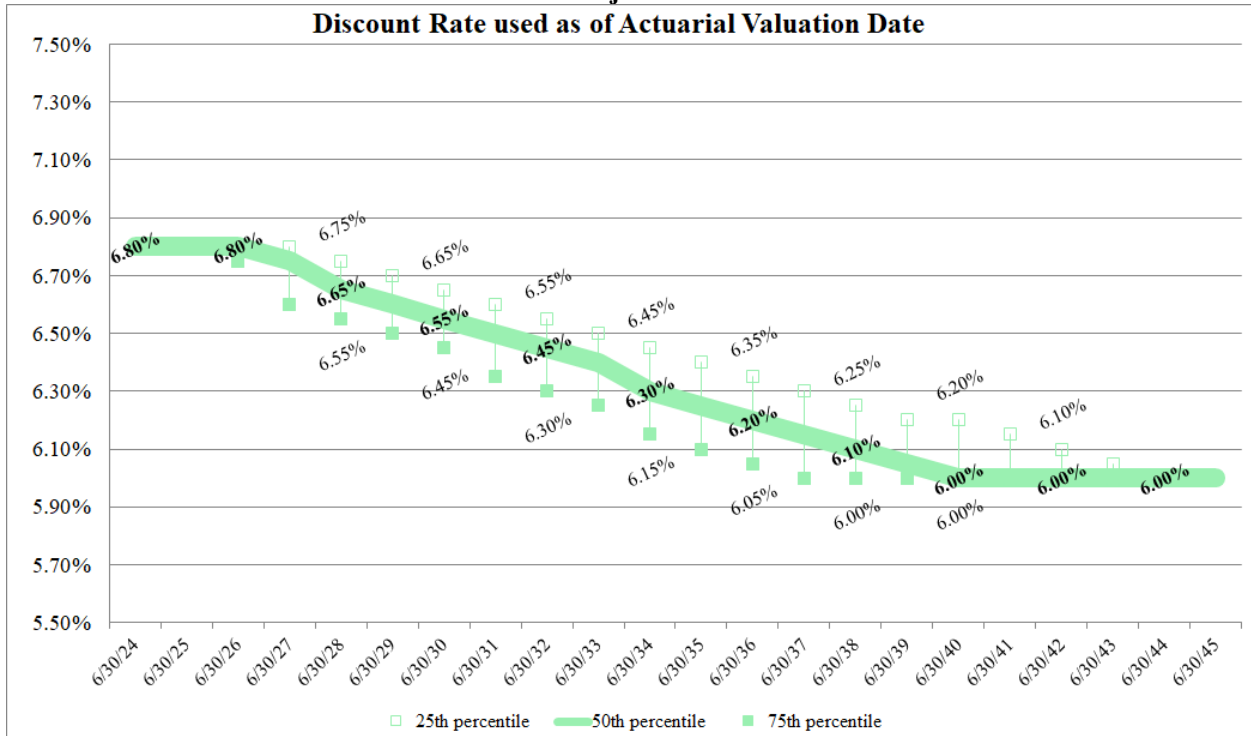
Overview

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

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

- Essentially use ≈50% of investment gains to pay for cost increases
- Ultimate goal of 8% standard deviation on portfolio
- Likely get to 6.0% discount rate over 20+ years
 - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
 - Not triggered for 6/30/19 or 6/30/20 valuations
- First triggered for 6/30/21 valuation – 6.8% discount rate
- Not triggered for 6/30/22 or 6/30/23 valuations
- April 16, 2024 CalPERS Board removed automatic trigger
- Staff recommends no change to the discount rate for June 30, 2024 & June 30, 2025

Projection



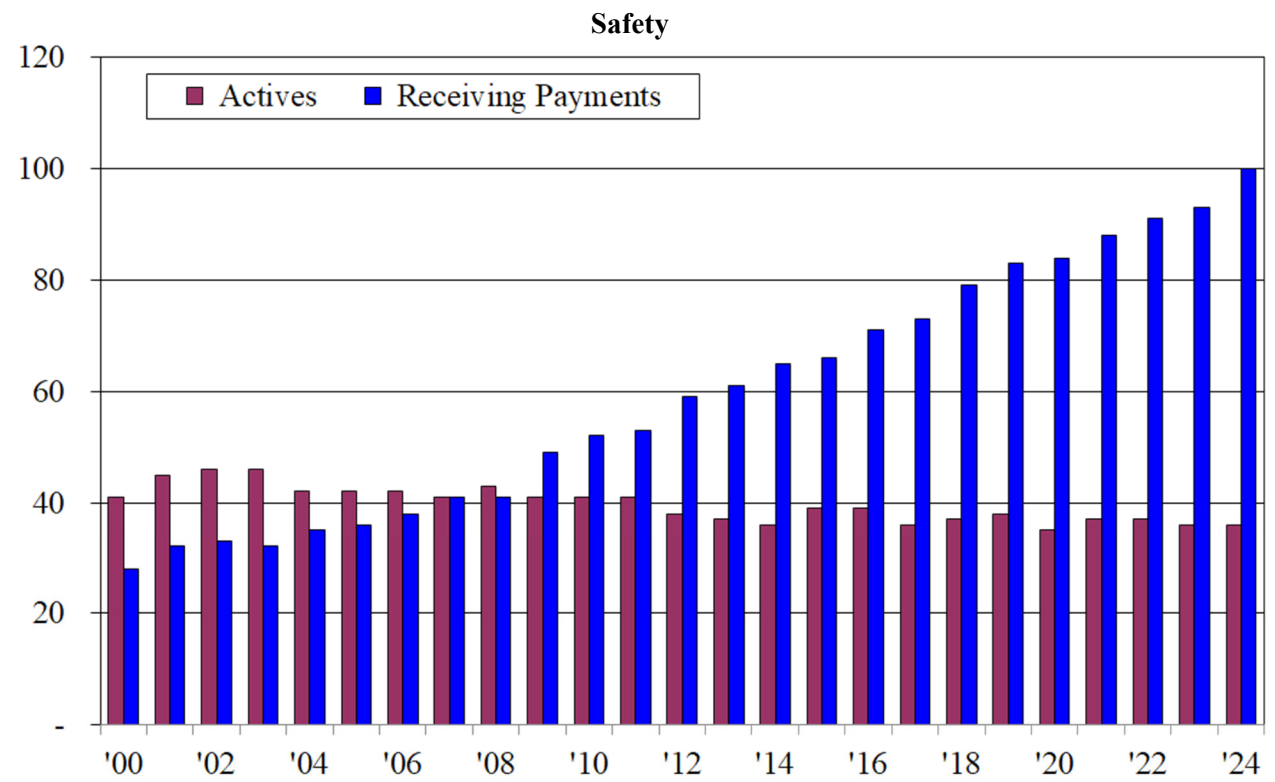
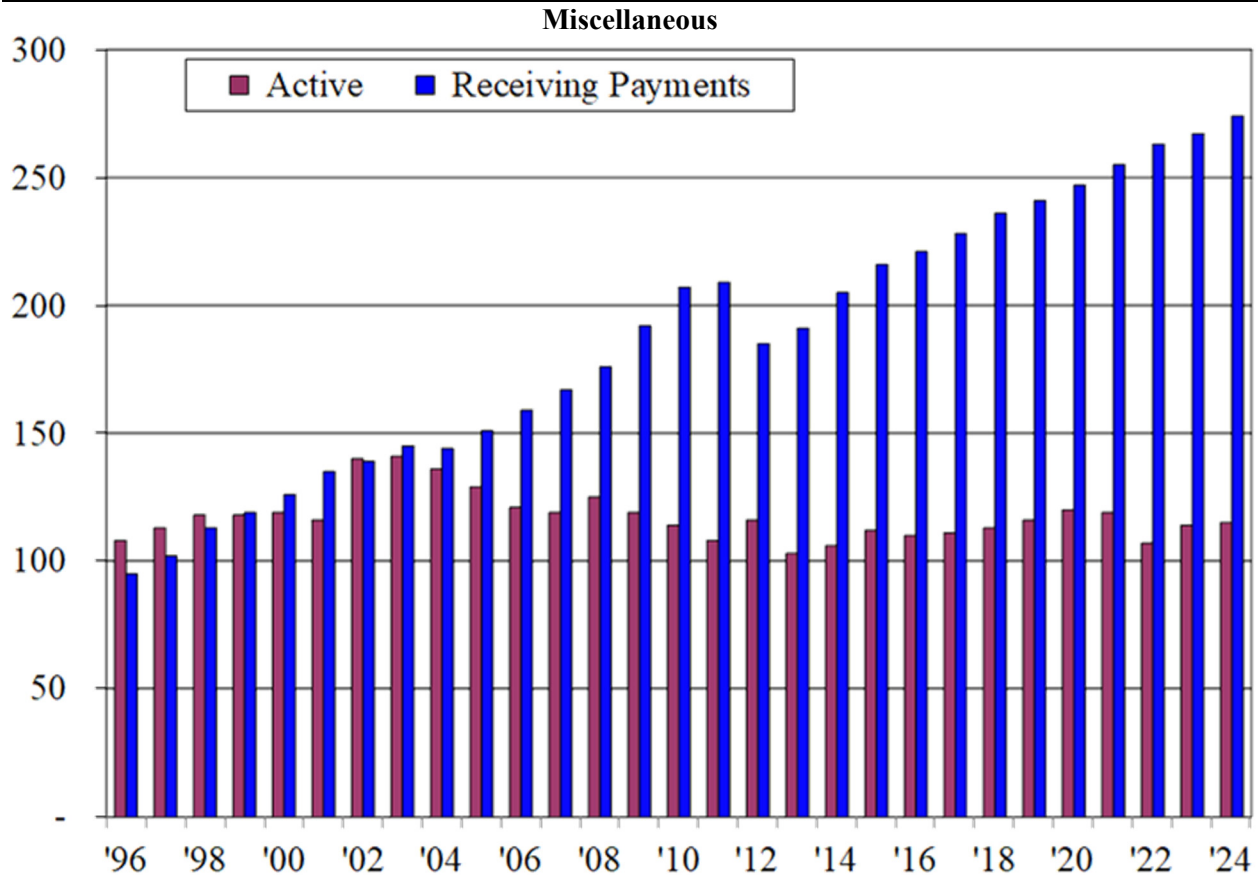
SUMMARY OF DEMOGRAPHIC INFORMATION

Miscellaneous				
	2004	2014	2023	2024
Actives				
■ Counts	136	106	114	115
■ Average				
• Age	47	46	45	46
• Town Service	9	9	7	8
• PERSable Wages	\$64,900	\$77,700	\$111,900	\$117,400
■ Total PERSable Wages	8,800,000	8,200,000	12,800,000	13,500,000
Inactive Members				
■ Counts				
• Transferred	79	89	112	115
• Separated	71	80	100	102
• Retired				
□ Service	117	176	231	234
□ Disability	9	11	13	16
□ Beneficiaries	<u>18</u>	<u>18</u>	<u>23</u>	<u>24</u>
□ Total	144	205	267	274
■ Average Annual Town Provided Pension for Service Retirees ¹	\$11,900	\$24,000	\$28,600	\$29,100
Safety				
	2004	2014	2023	2024
Actives				
■ Counts	42	36	36	36
■ Average				
• Age	n/a	n/a	42	42
• Town Service	n/a	n/a	9	8
• PERSable Wages	\$94,900	\$128,400	\$156,700	\$170,100
■ Total PERSable Wages	4,000,000	4,600,000	5,600,000	6,100,000
Inactive Members				
■ Counts				
• Transferred	25	14	14	16
• Separated	5	4	6	7
• Receiving Payments	35	65	93	100

¹ Average pension based on Town service & Town benefit formula; not representative of long-service employees.



SUMMARY OF DEMOGRAPHIC INFORMATION



PLAN FUNDED STATUS

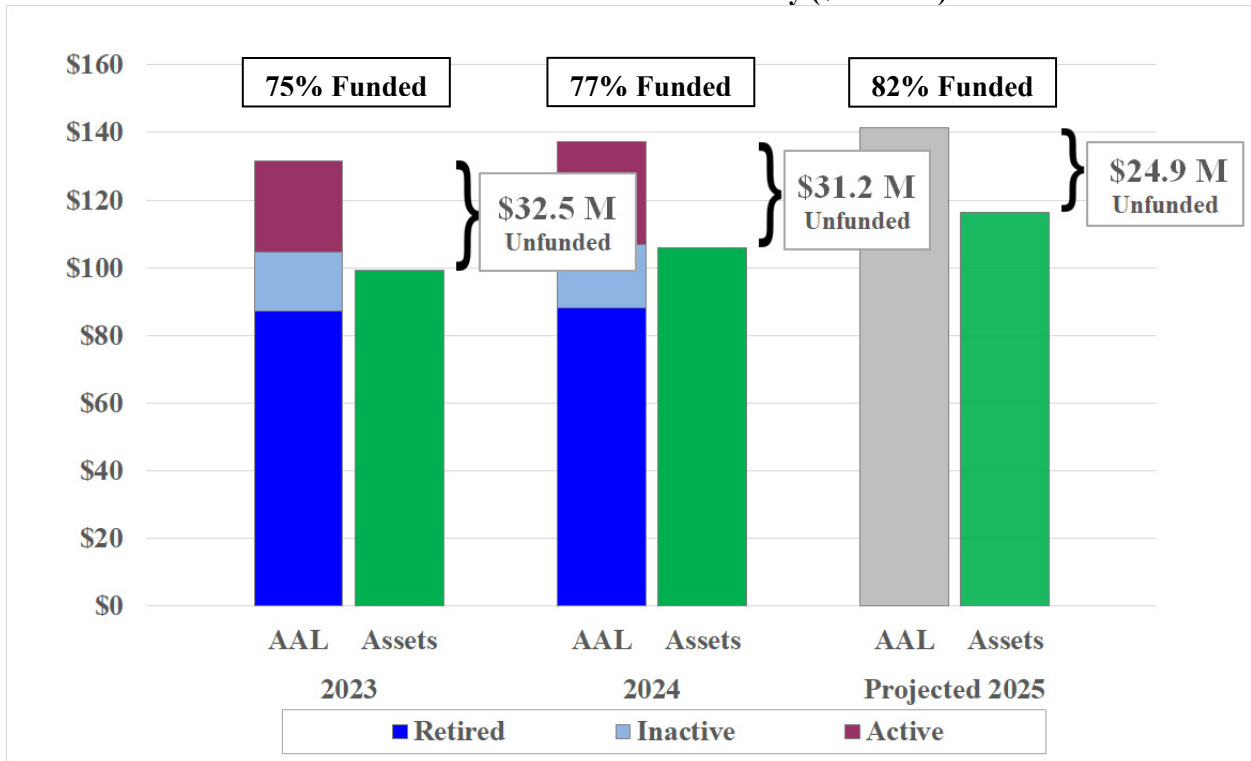
	Miscellaneous	
	June 30, 2023	June 30, 2024
■ Actuarial Accrued Liability		
• Active	\$ 27,000,000	\$ 30,300,000
• Retiree	87,200,000	88,300,000
• Inactive	<u>17,500,000</u>	<u>18,600,000</u>
• Total	131,700,000	137,200,000
■ Assets	<u>99,200,000</u>	<u>106,000,000</u>
■ Unfunded Liability	32,500,000	31,200,000
■ Funded Ratio	75.3%	77.2%
■ Average funded ratio for CalPERS Miscellaneous:		
• Public Agency Plans	73.3%	75.5%
• City & Town Plans	73.8%	75.8%

	Safety	
	June 30, 2023	June 30, 2024
■ Actuarial Accrued Liability		
• Active	\$ 26,200,000	\$ 23,800,000
• Retiree	84,100,000	91,000,000
• Inactive	<u>5,900,000</u>	<u>6,400,000</u>
• Total	116,200,000	121,200,000
■ Assets	<u>79,500,000</u>	<u>85,200,000</u>
■ Unfunded Liability	36,700,000	36,000,000
■ Funded Ratio	68.4%	70.3%
■ Average funded ratio for CalPERS Miscellaneous:		
• Public Agency Plans	70.9%	72.9%
• City & Town Plans	70.9%	72.7%

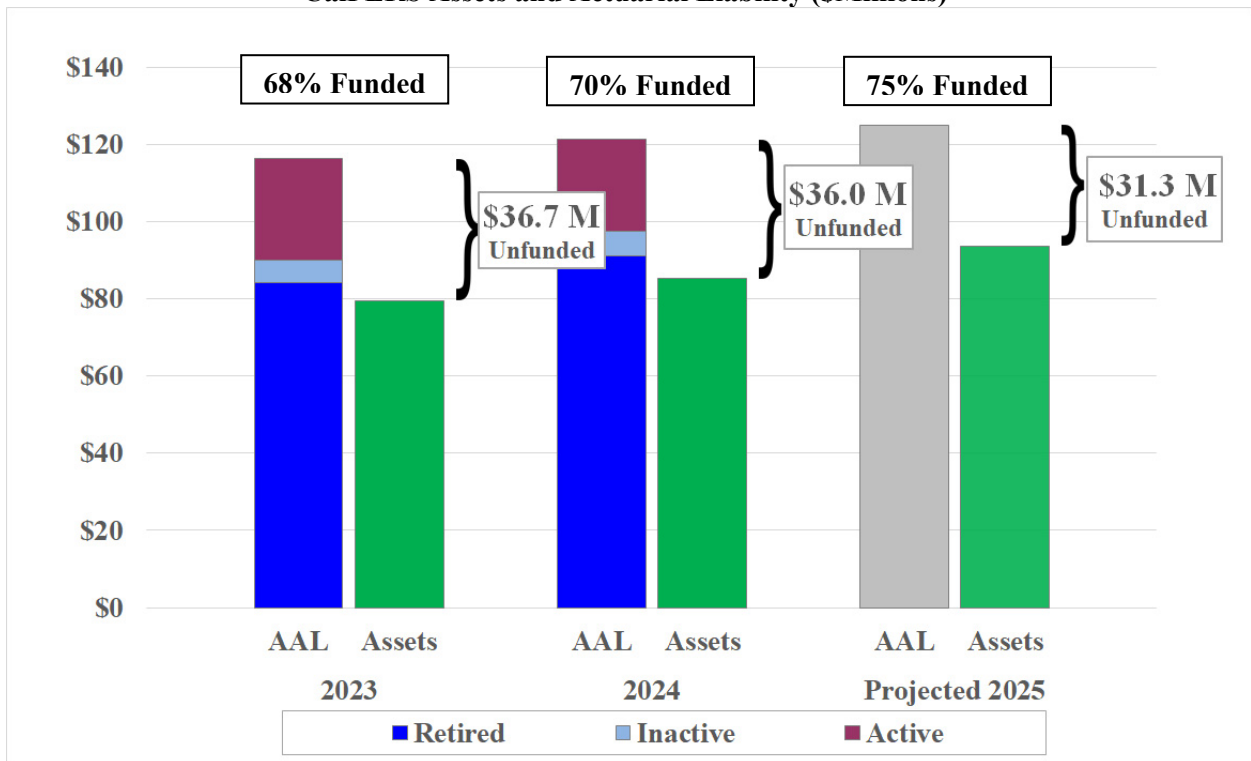


PLAN FUNDED STATUS

Miscellaneous
CalPERS Assets and Actuarial Liability (\$Millions)²



Safety
CalPERS Assets and Actuarial Liability (\$Millions)²



² Projected 2025 assets reflect 12.1% investment return for 2024/25.



PLAN FUNDED STATUS

Miscellaneous Unfunded Accrued Liability Changes

	UAAL
■ Unfunded Accrued Liability on 6/30/23	\$32,500,000
■ Expected 6/30/24 Unfunded Accrued Liability	32,200,000
■ Changes	
• Asset Loss (Gain) (9.5% return for FY 2024)	(2,600,000)
• Contribution & Experience Loss (Gain)	<u>1,600,000</u>
• Total	<u>(1,000,000)</u>
■ Unfunded Accrued Liability on 6/30/24	31,200,000
■ Projected Unfunded Accrued Liability on 6/30/25 ³	24,900,000

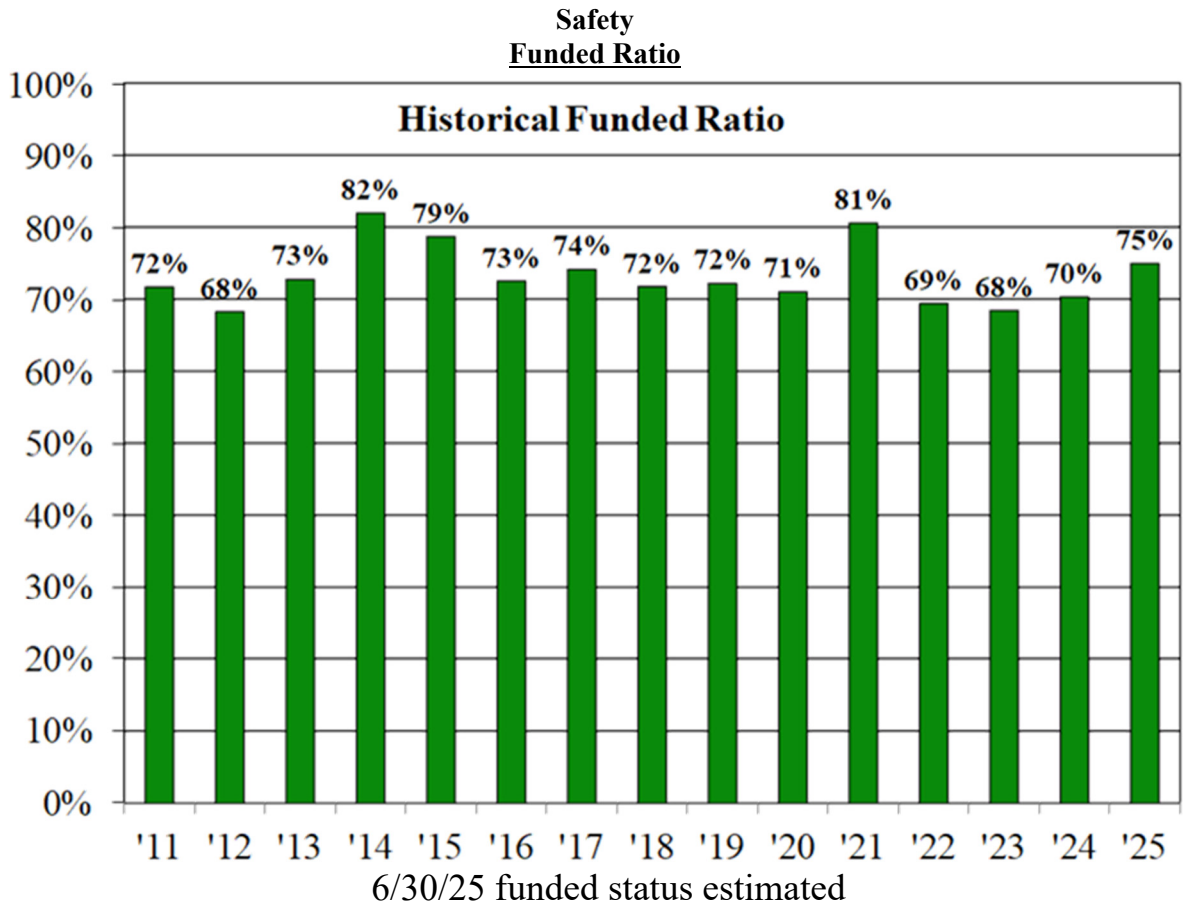
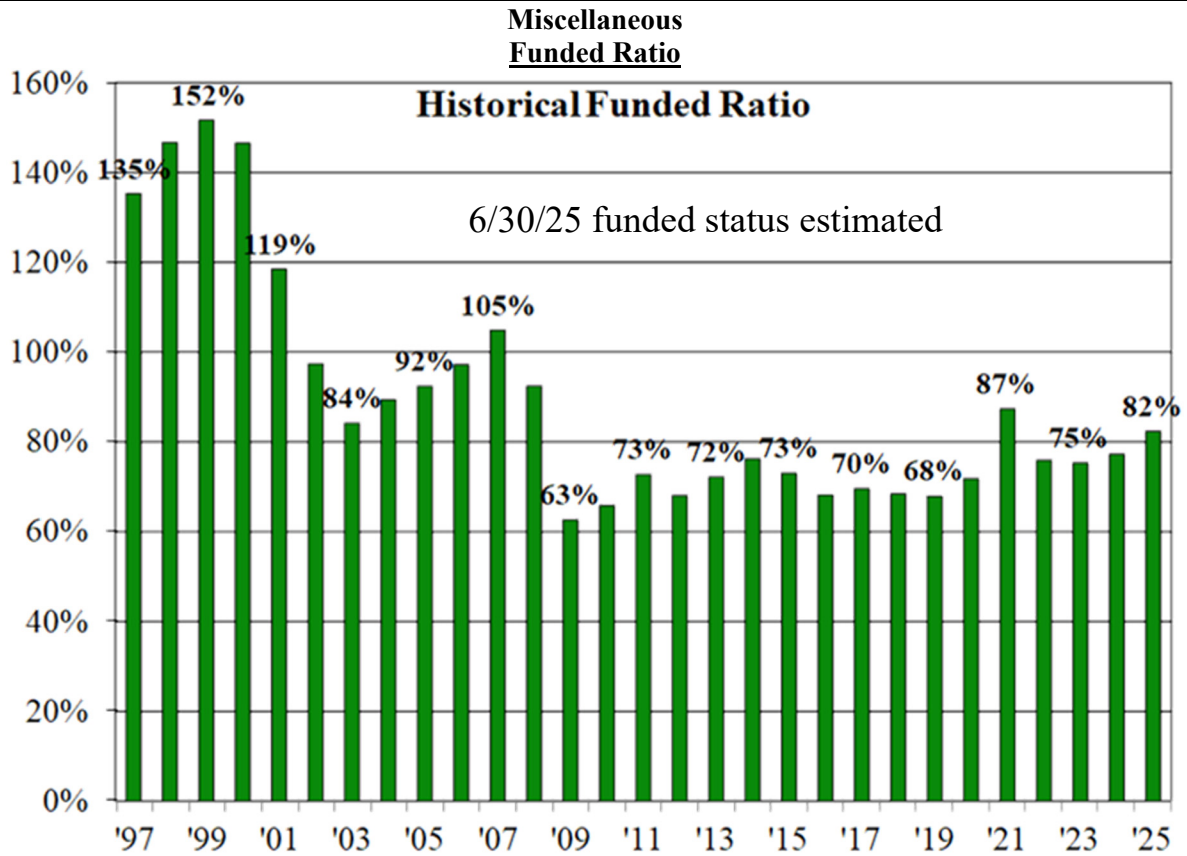
Safety Unfunded Accrued Liability Changes

	UAAL
■ Unfunded Accrued Liability on 6/30/23	\$36,700,000
■ Expected 6/30/24 Unfunded Accrued Liability	36,800,000
■ Changes	
• Asset Loss (Gain) (9.5% return for FY 2024)	(2,100,000)
• Contribution & Experience Loss (Gain)	<u>1,300,000</u>
• Total	<u>(800,000)</u>
■ Unfunded Accrued Liability on 6/30/24	36,000,000
■ Projected Unfunded Accrued Liability on 6/30/25 ³	31,300,000

³ Projected 2025 assets reflect 12.1% investment return for 2024/25.

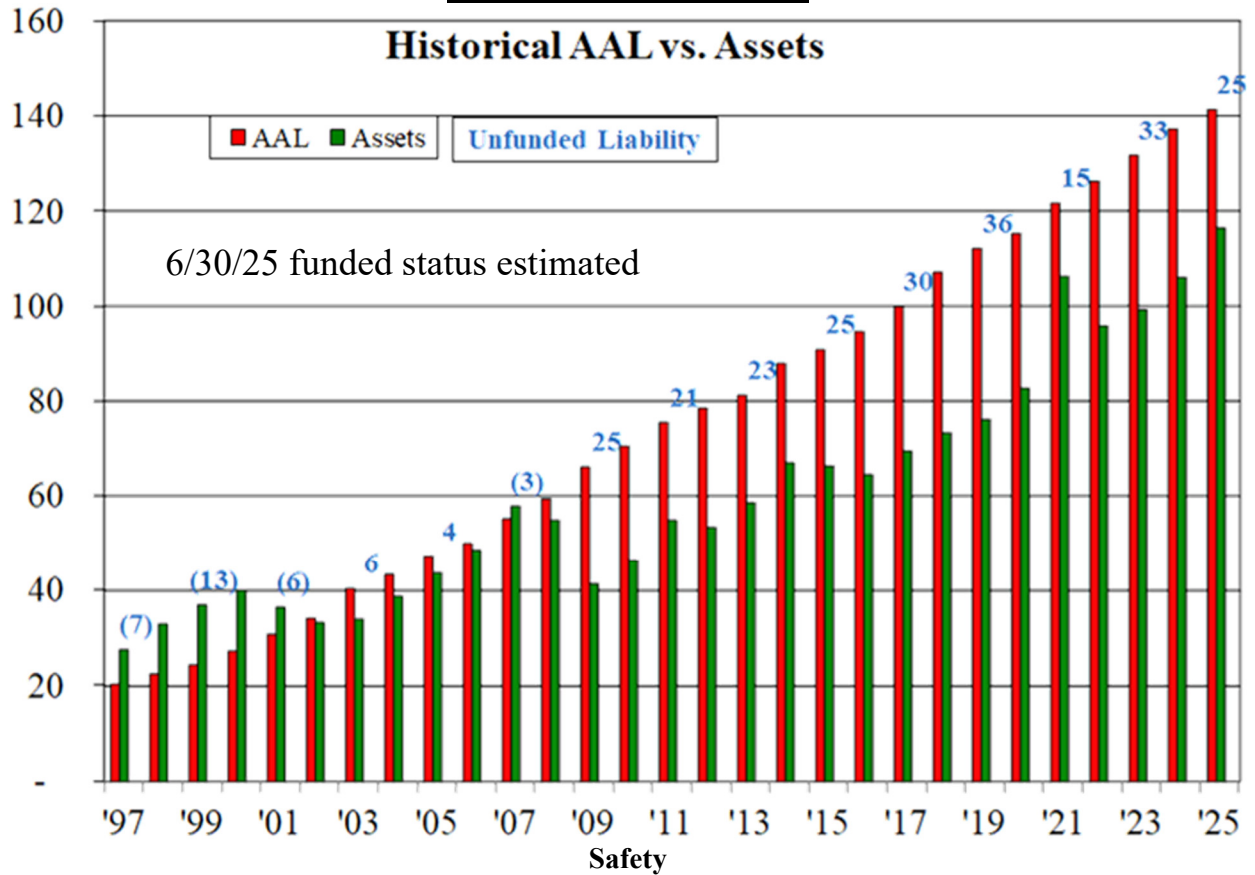


FUNDED RATIO

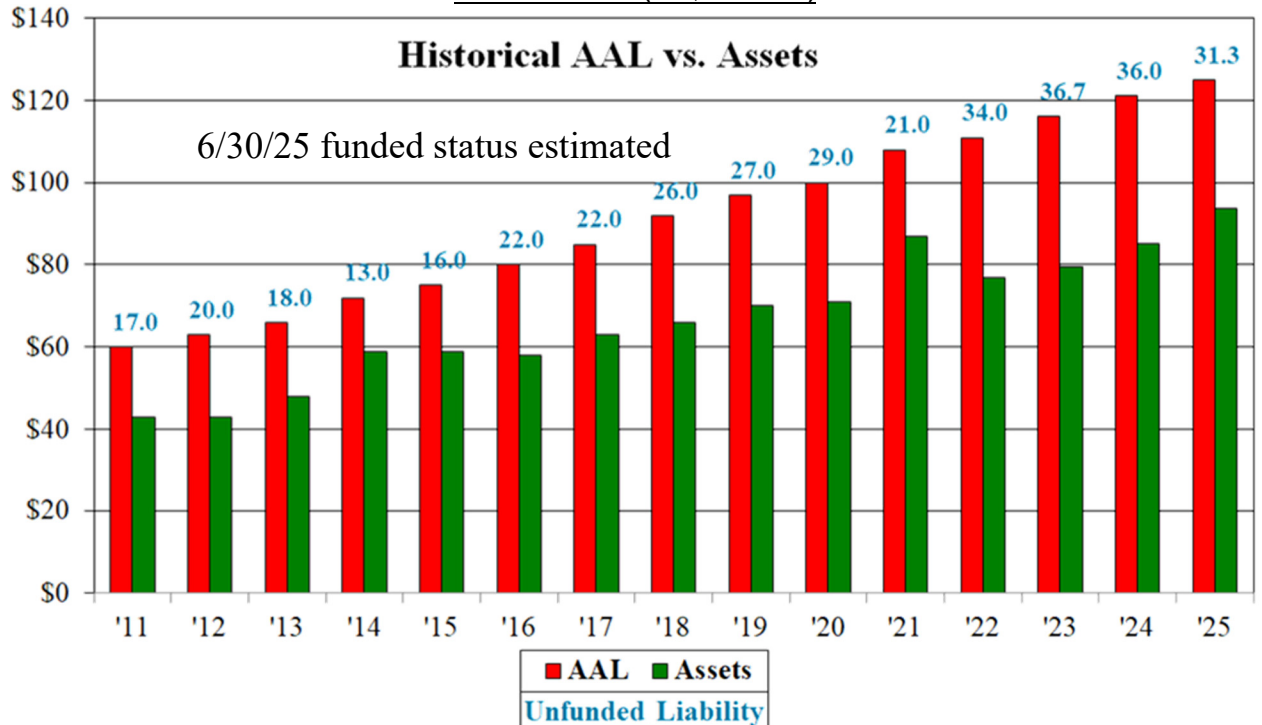


FUNDED STATUS

Miscellaneous
Funded Status (In \$Millions)

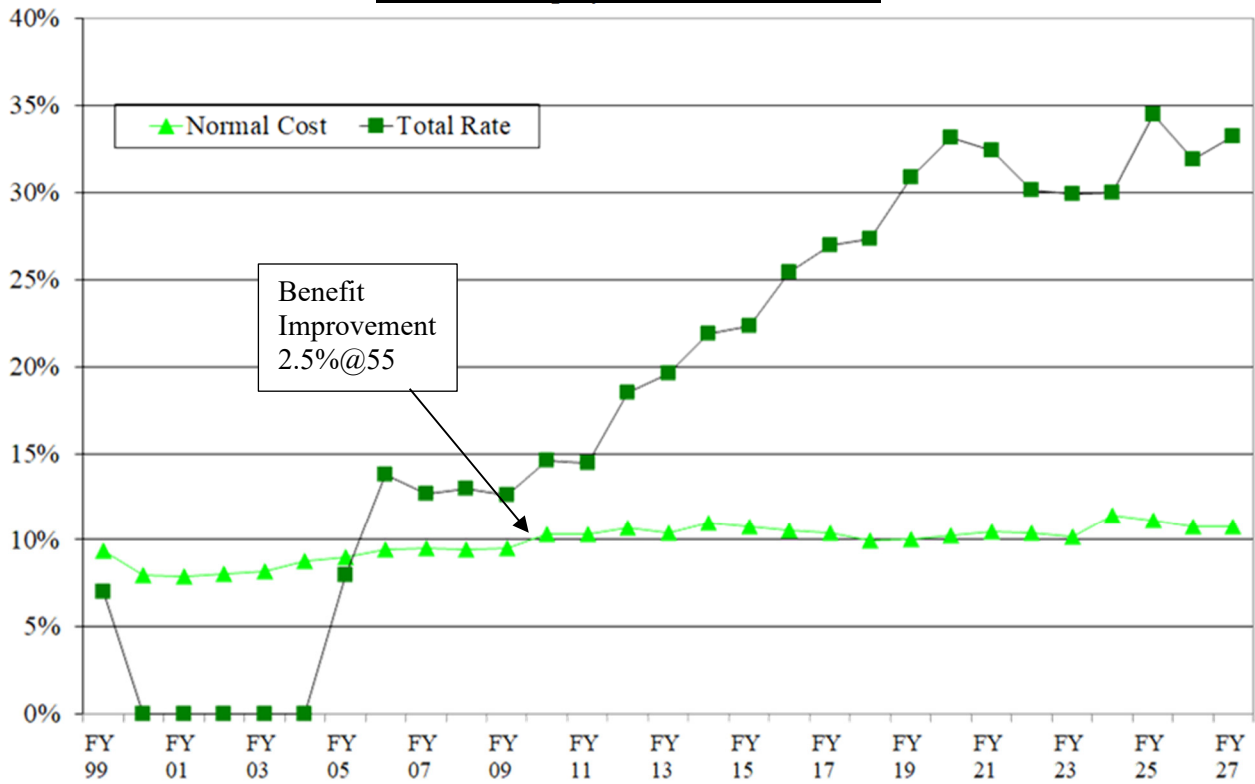


Funded Status (In \$Millions)

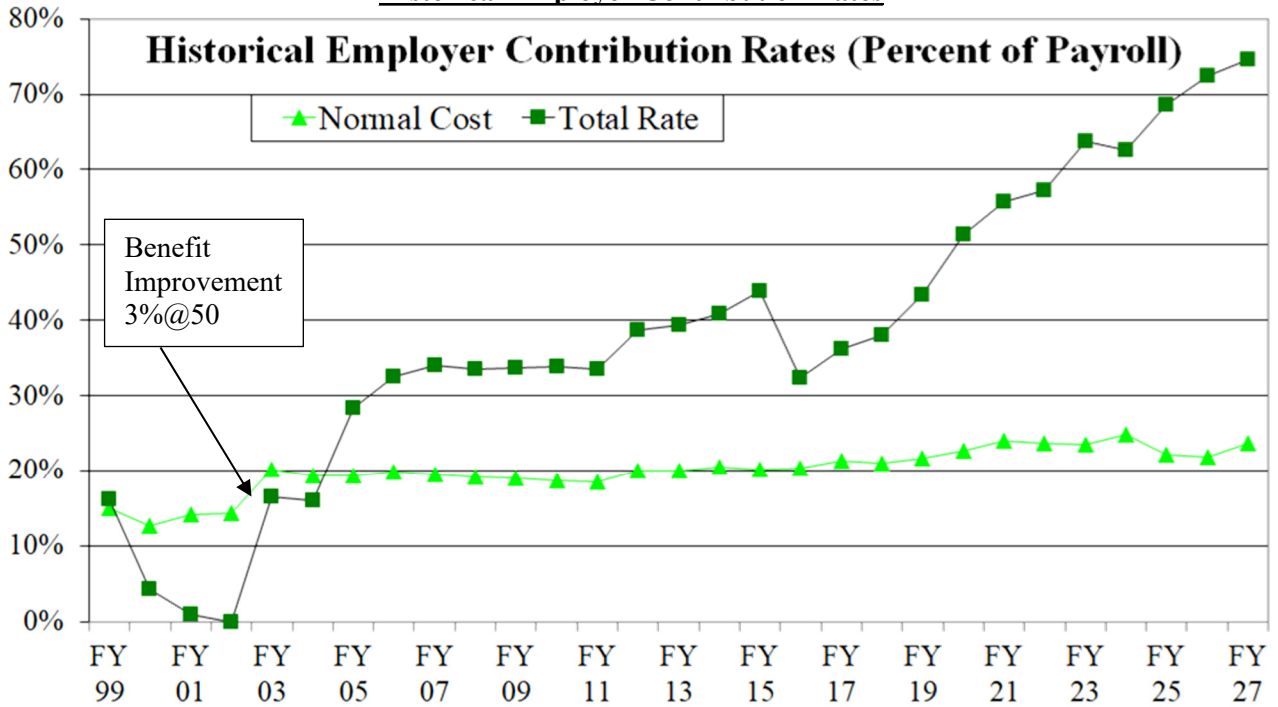


CONTRIBUTION RATES

Miscellaneous Historical Employer Contribution Rates



Safety Historical Employer Contribution Rates



CONTRIBUTION RATES

Miscellaneous		
	6/30/23	6/30/24
	2025/2026	2026/2027
■ Total Normal Cost	18.4%	18.4%
■ Employee Normal Cost	<u>7.6%</u>	<u>7.6%</u>
■ Employer Normal Cost	10.8%	10.8%
■ Amortization Payments	<u>21.1%</u>	<u>22.5%</u>
■ Total Employer Contribution Rate	31.9%	33.3%
■ 2025/26 Employer Contribution Rate		31.9%
• 6/30/24 investment (gain)/loss (9.5% vs. 6.8%)		(0.4%)
• Progression of amortization bases		1.8%
• Other/non-investment (Gains)/Losses		<u>0.0%</u>
■ 2026/27 Employer Contribution Rate		33.3%

2026/27 Amortization Payment

- Amortization payment is 10.8% of UAL
(one year interest on UAL is 6.8%)
 - Payment exceeds interest on the UAL
 - No “negative amortization.”
- Amortization payment equivalent to:
 - 13.5 years on level dollar amortization schedule
(all payments are the same amount)
 - 11.2 years on level percent of payroll schedule
(payments increase 2.8% annually)

Safety

	6/30/23	6/30/24
	2025/2026	2026/2027
■ Total Normal Cost	33.7%	34.8%
■ Employee Normal Cost	<u>11.9%</u>	<u>11.2%</u>
■ Employer Normal Cost	21.8%	23.6%
■ Amortization Payments	<u>50.7%</u>	<u>51.1%</u>
■ Total Employer Contribution Rate	72.5%	74.7%
■ 2025/26 Employer Contribution Rate		72.5%
• (Gains)/Losses		<u>2.2%</u>
■ 2026/27 Employer Contribution Rate		74.7%

2026/27 Amortization Payment

- Amortization payment is 9.4% of UAL
(one year interest on UAL is 6.8%)
 - Payment exceeds interest on the UAL
 - No “negative amortization.”
- Amortization payment equivalent to:
 - 17.1 years on level dollar amortization schedule
(all payments are the same amount)
 - 13.2 years on level percent of payroll schedule
(payments increase 2.8% annually)



CONTRIBUTION PROJECTION

■ Investment returns:

- June 30, 2025 12.1%⁴
- Future returns based on stochastic analysis using 1,000 trials
- Single year returns⁵ with current investment mix, no risk mitigation:

	Percentile		
	25th	50th	75th
First 6 years	-2.2%	5.7%	14.5%
After 6 years	-0.6%	7.5%	16.4%

- Assumes investment returns will generally be lower over the next 6 years and higher beyond that
- No Discount Rate decreases due to Risk Mitigation policy – Ultimate rate 6.8%
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection

■ New hire assumptions:

- All new hires assumed PEPRA members and none are Classic members

■ Miscellaneous 6/30/24 employee distribution:

Benefit Tier	Count	% of Total	23/24 Payroll	% of Total
2.5%@55 FAC1	22	19.1%	\$ 2,922,200	21.6%
2%@60 FAC3	19	16.5%	2,916,700	21.6%
2%@62 FAC3 (PEPRA)	74	64.4%	7,665,300	56.8%
Total	115	100.0%	13,504,200	100.0%

■ Town-provided Miscellaneous payroll:

FYE	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Payroll (000s)	\$15,852	\$17,314	\$17,787	\$18,205	\$18,583	\$18,954	\$19,333

■ Safety 6/30/24 employee distribution:

Benefit Tier	Count	% of Total	23/24 Payroll	% of Total
3%@50 FAC1	19	52.8%	\$3,700,000	60.4%
2.7%@57 FAC3 (PEPRA)	17	47.2%	2,422,600	39.6%
Total	36	100.0%	6,122,600	100.0%

■ Town-provided Safety payroll (\$000s):

FYE	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Classic	\$4,878	\$5,142	\$5,277	\$5,399	\$5,507	\$5,617	\$5,730
PEPRA	2,326	2,429	2,477	2,527	2,577	2,628	2,680
Total	7,204	7,571	7,754	7,926	8,084	8,245	8,410

■ Employee Cost Sharing of Employer Contribution:

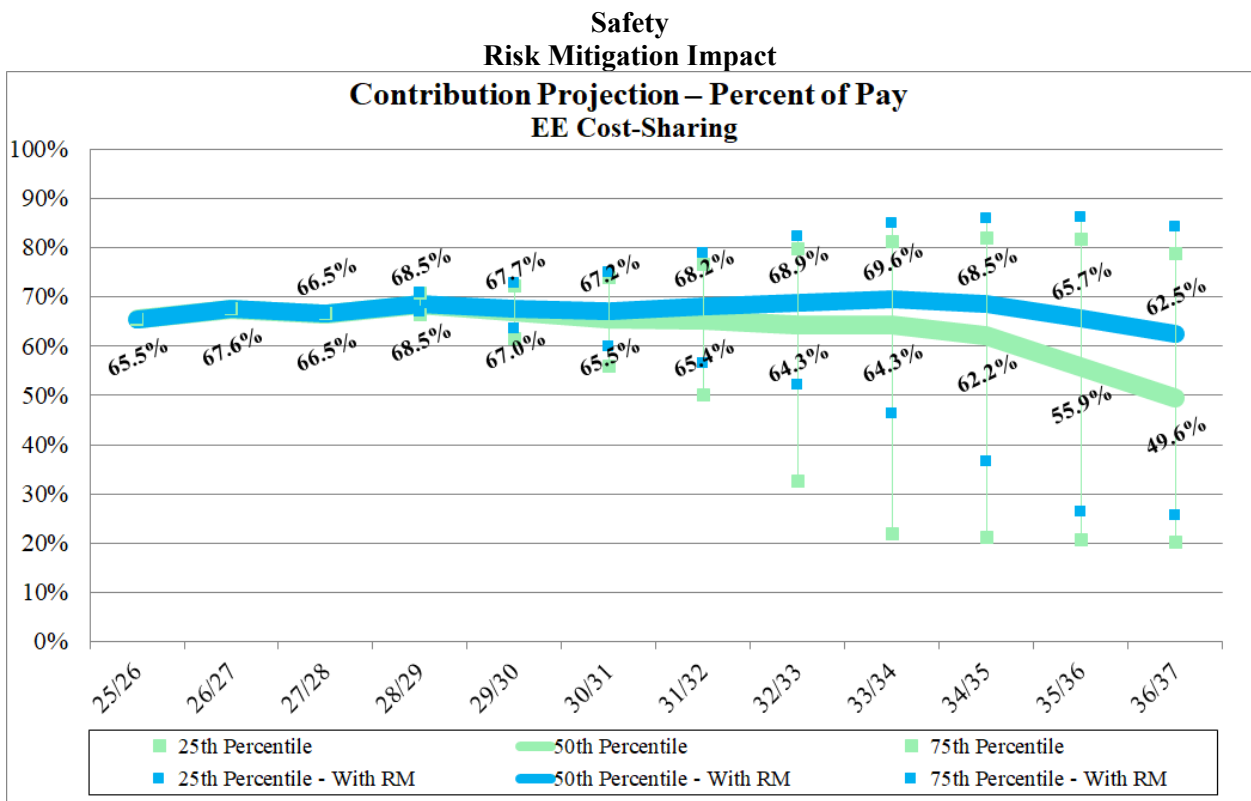
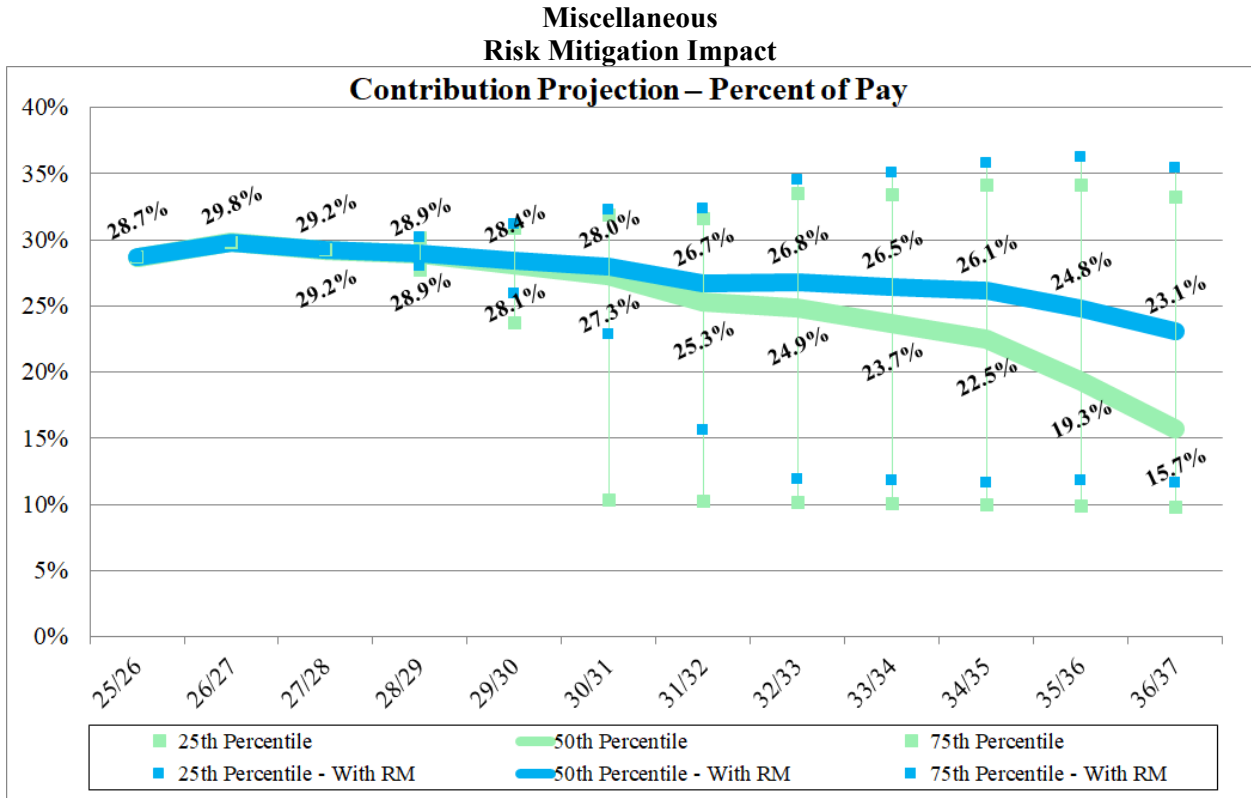
- Miscellaneous: None
- Safety: 3% of pay employee share for Classic members

⁴ Gross return based on CalPERS Basic Financial Statements for fiscal year ending June 30, 2025.

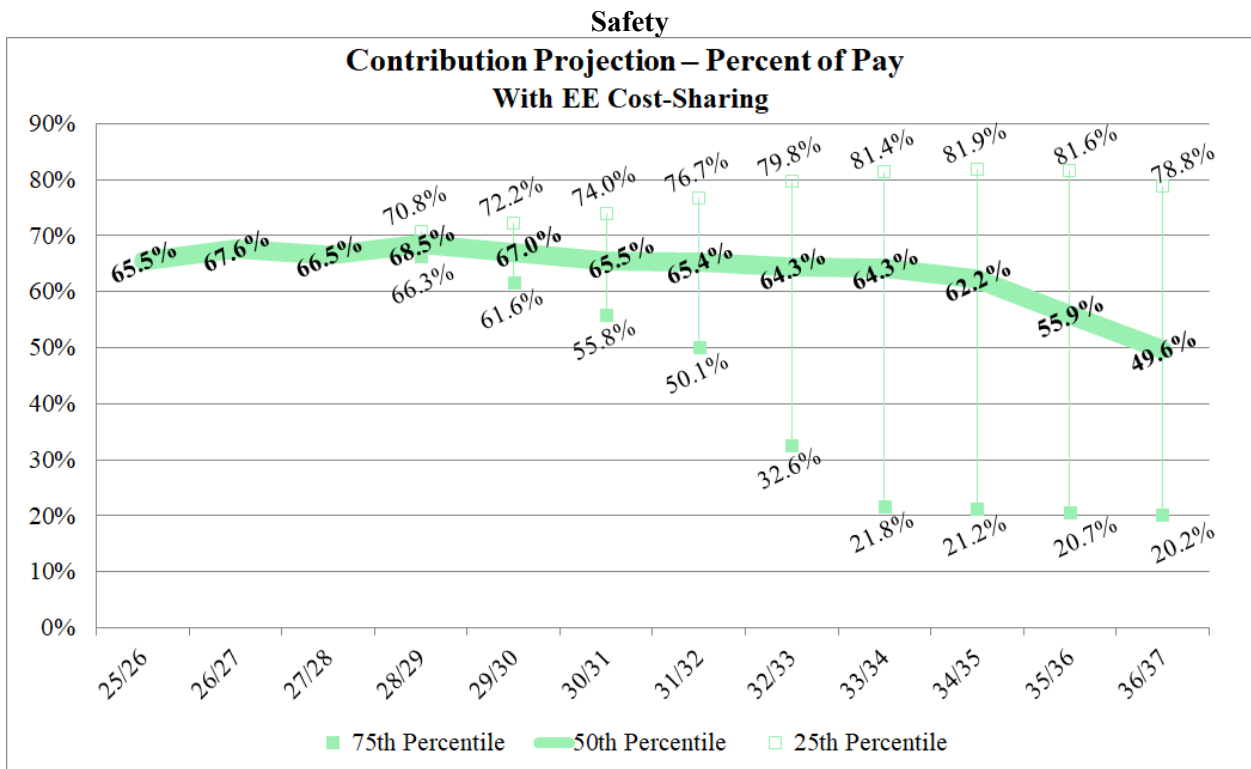
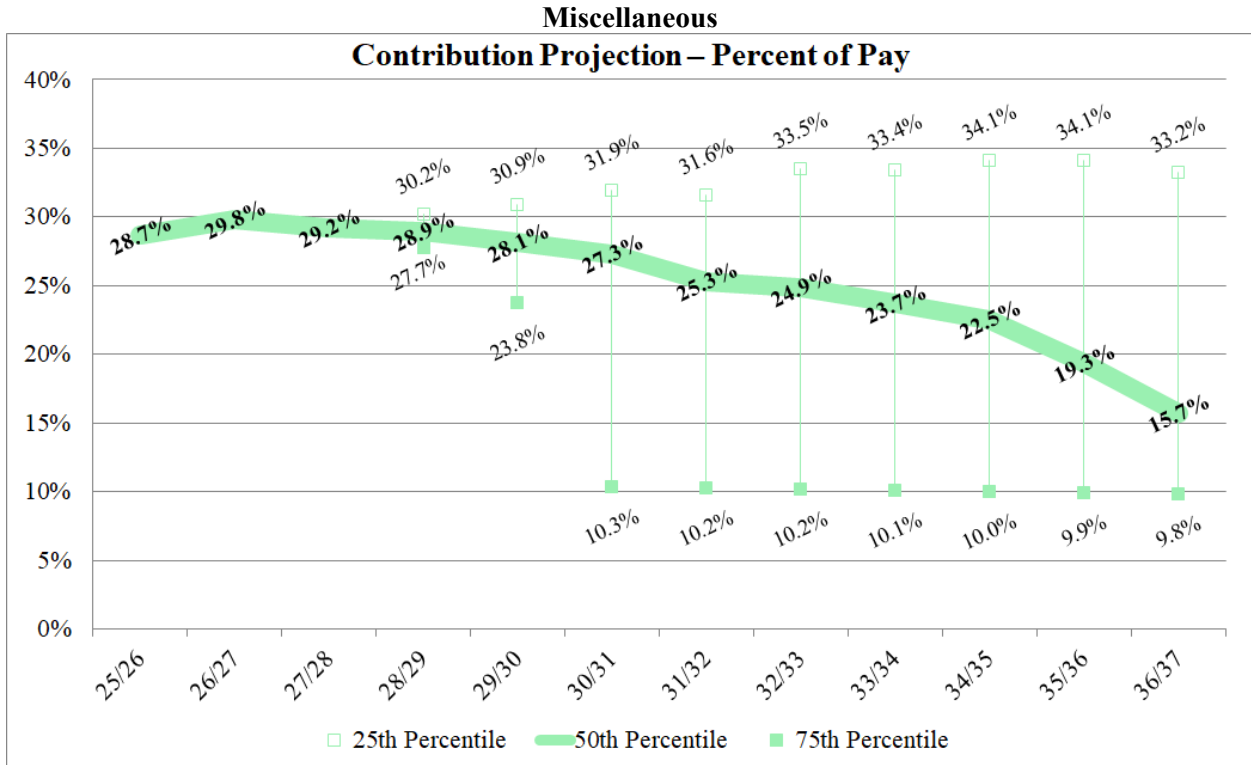
⁵ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



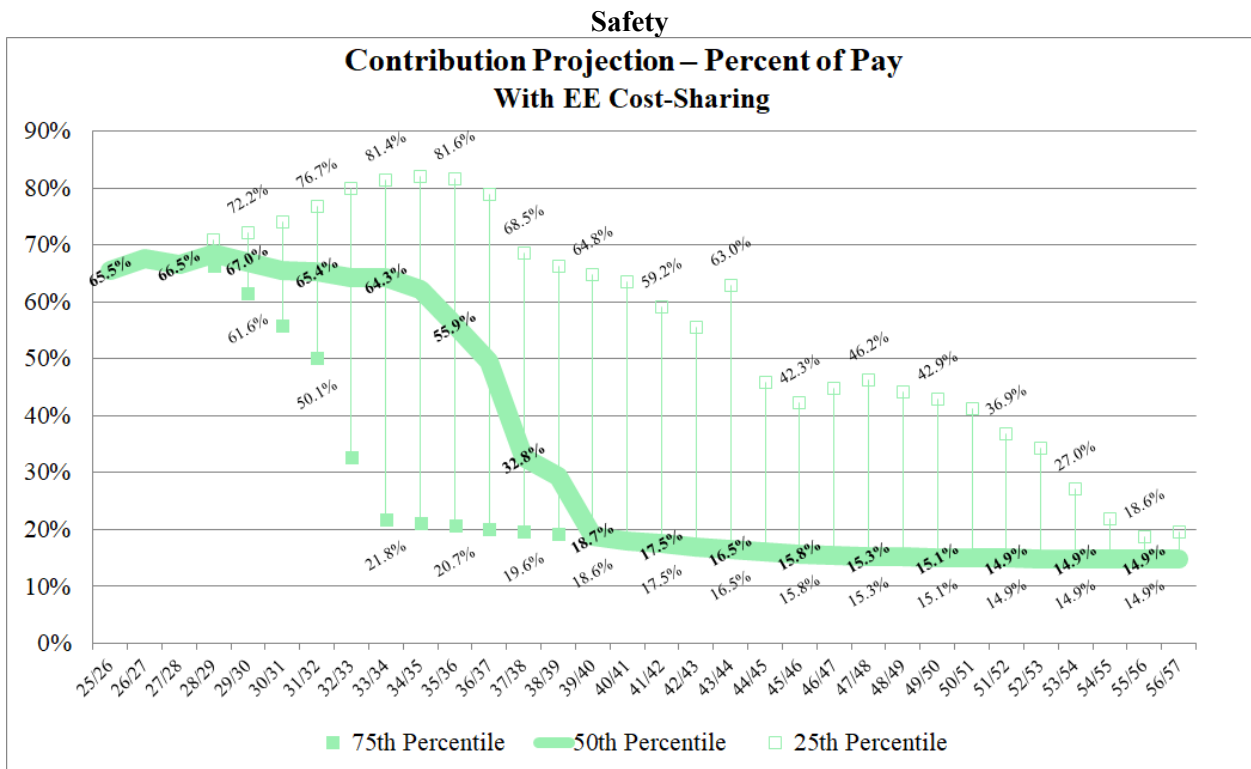
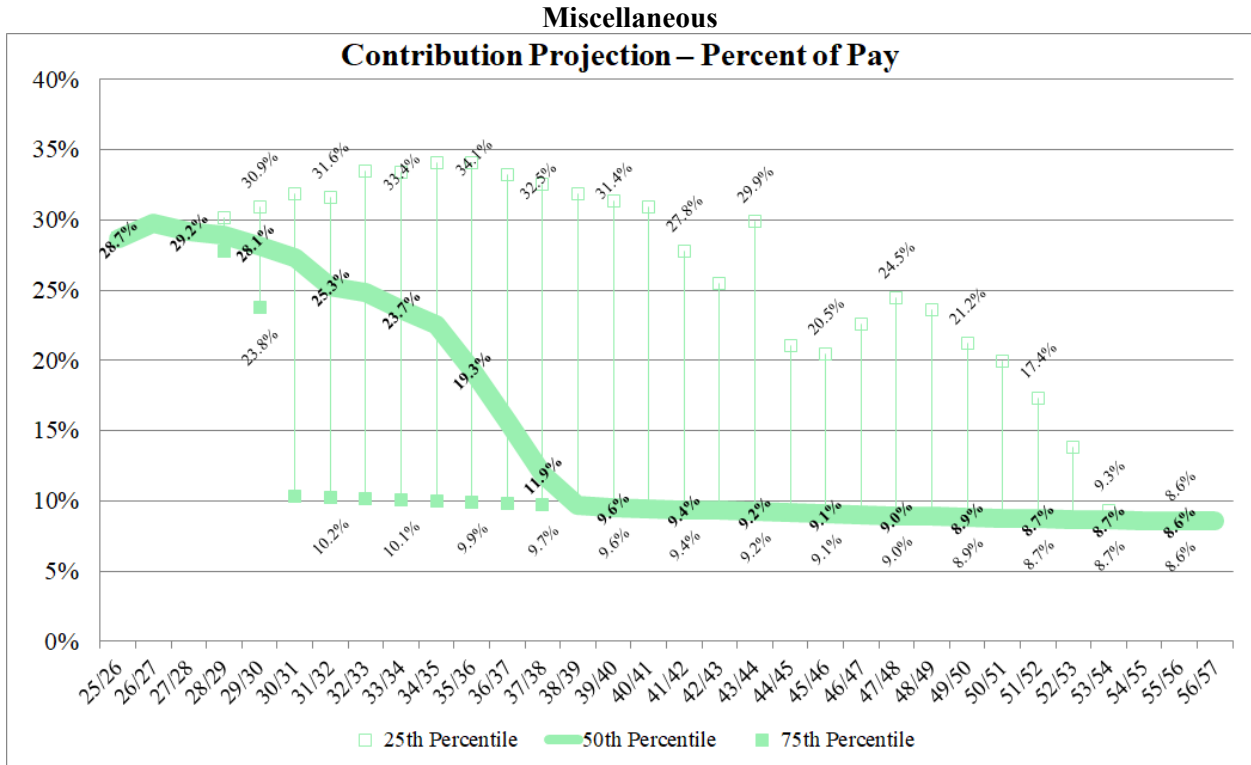
CONTRIBUTION PROJECTION



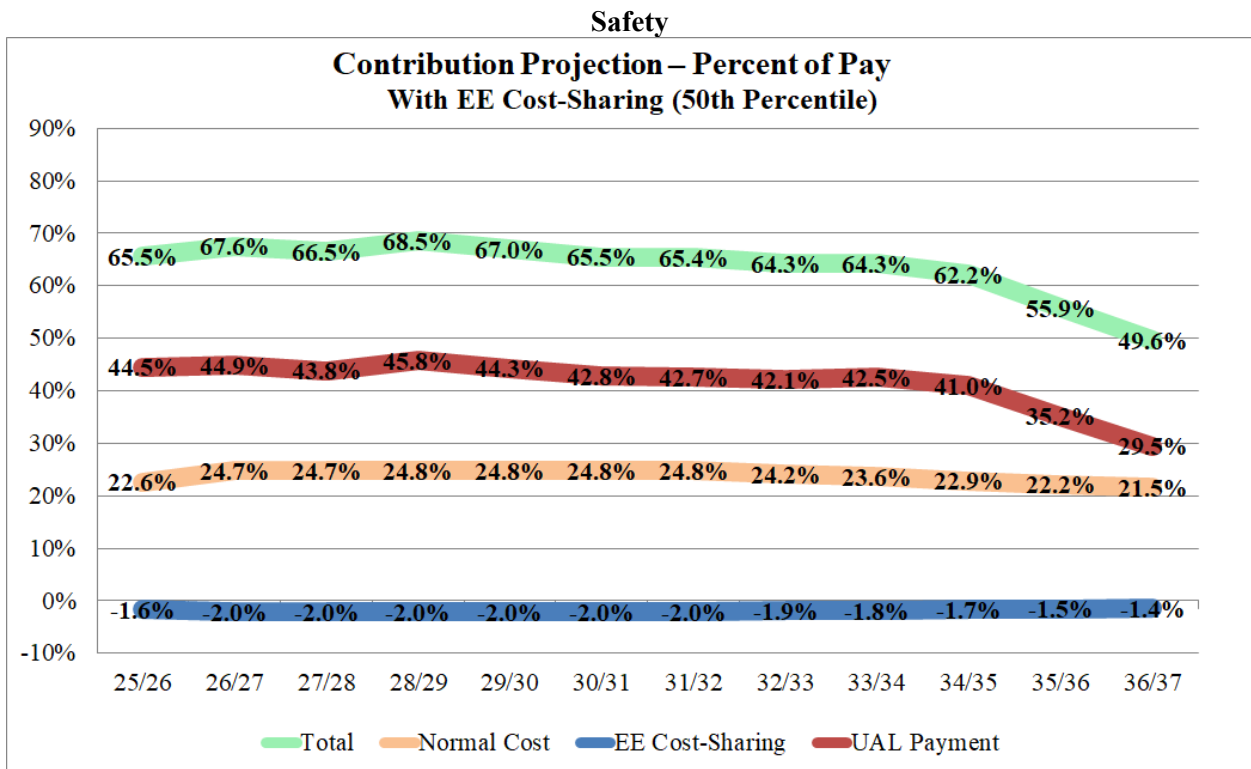
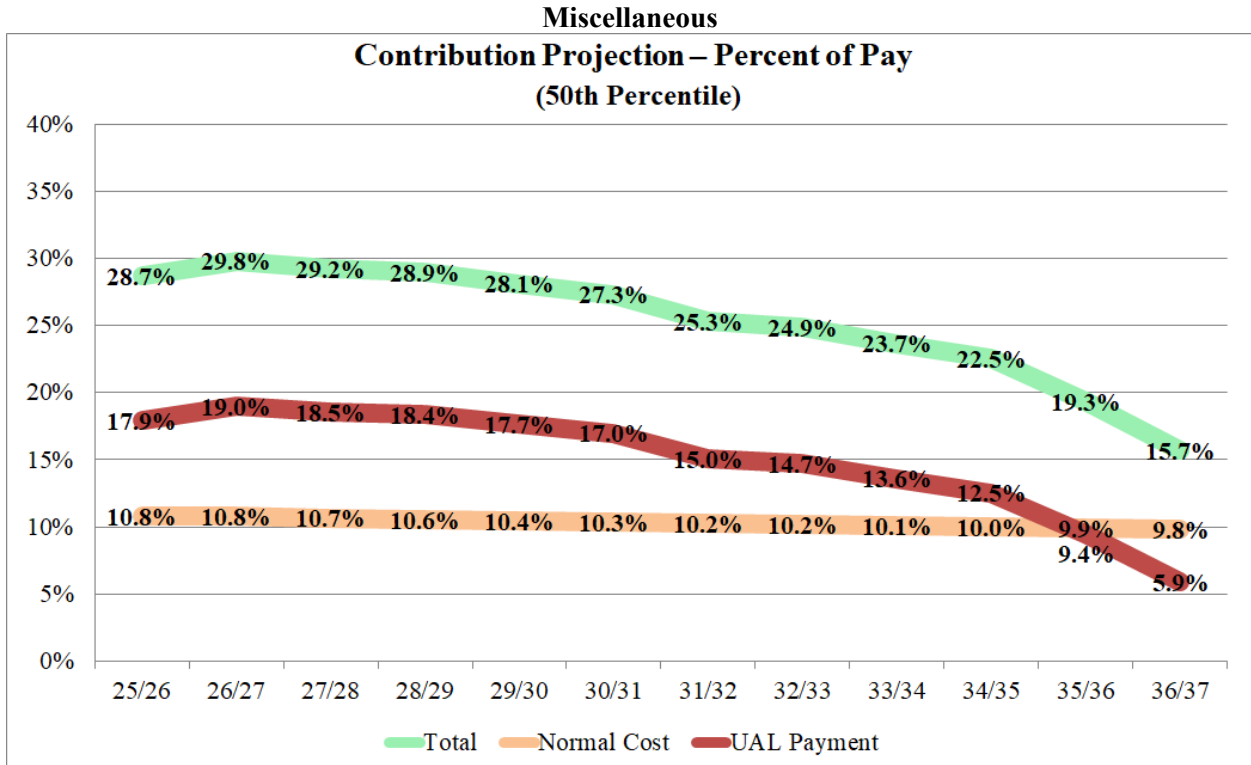
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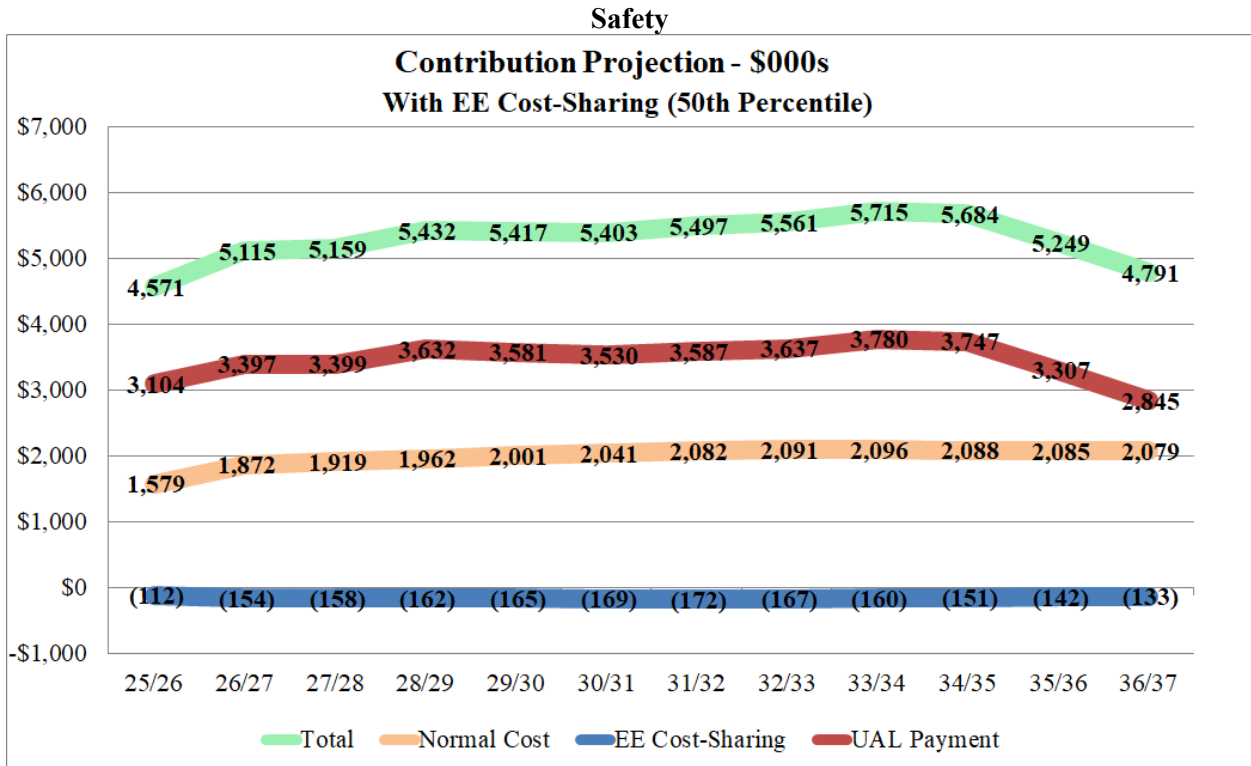
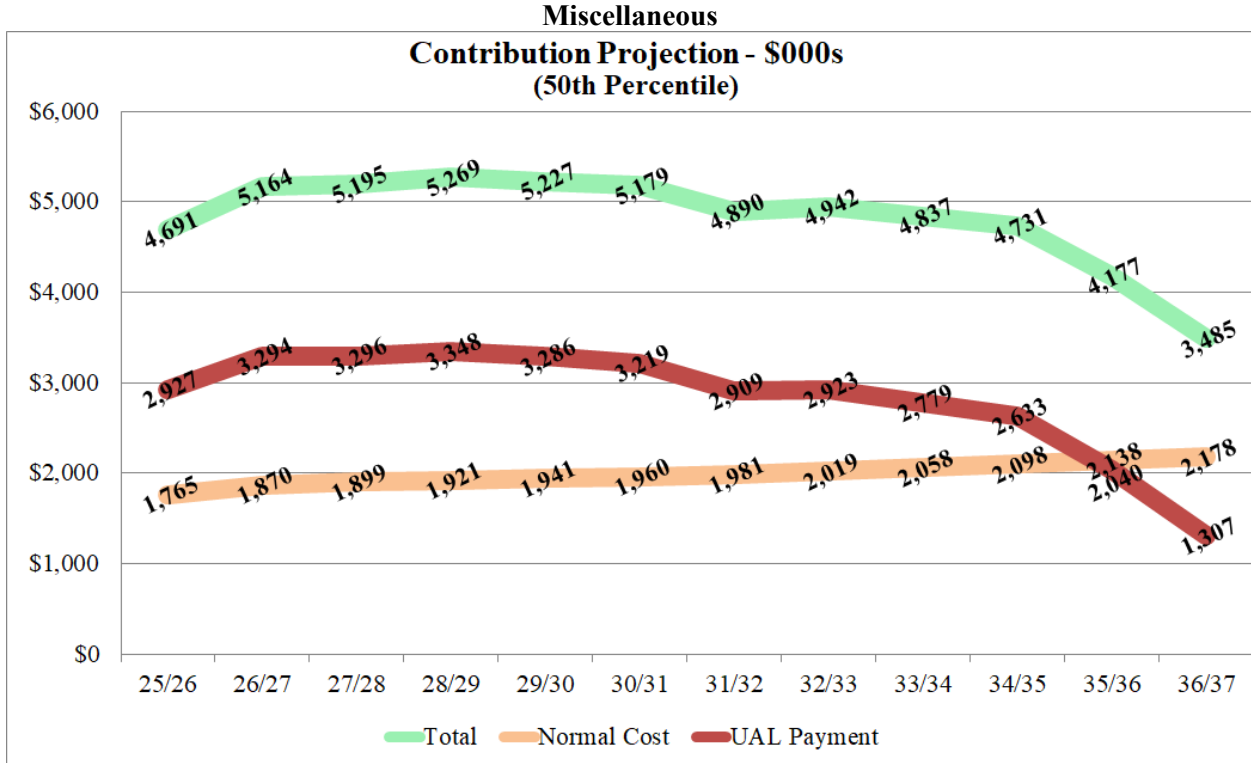
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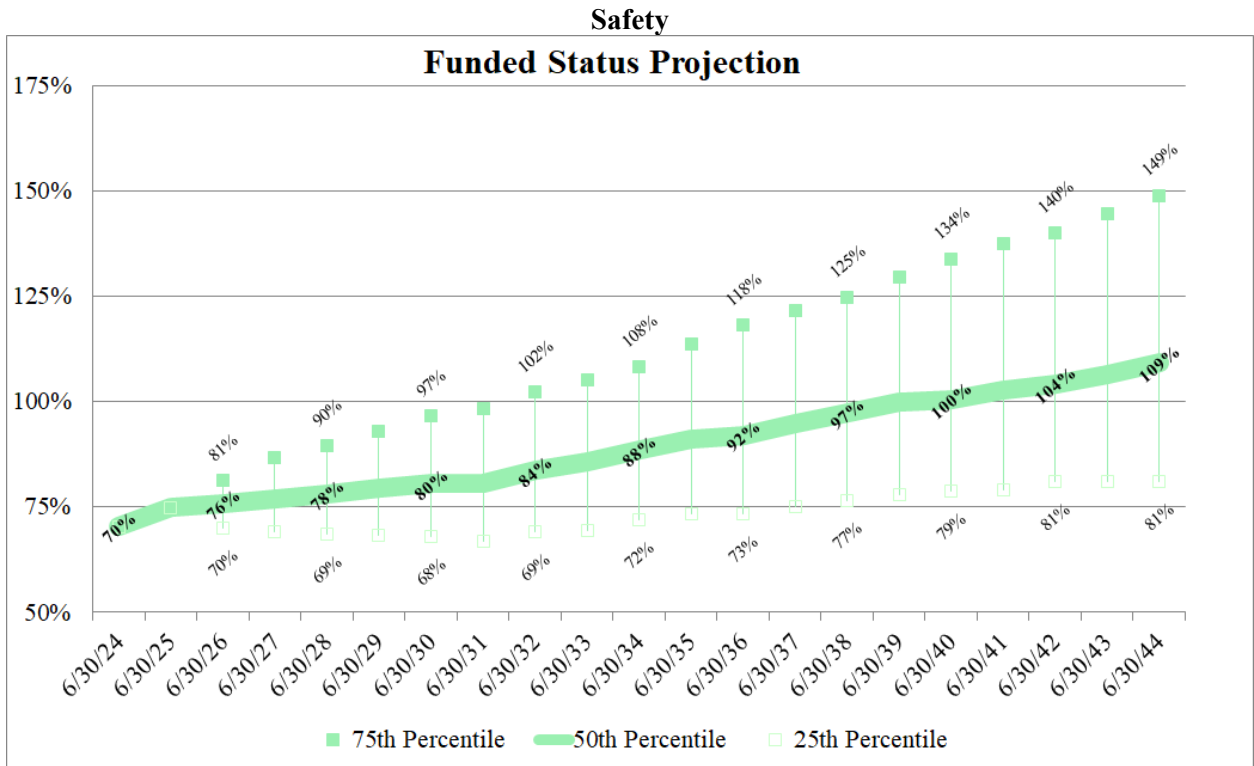
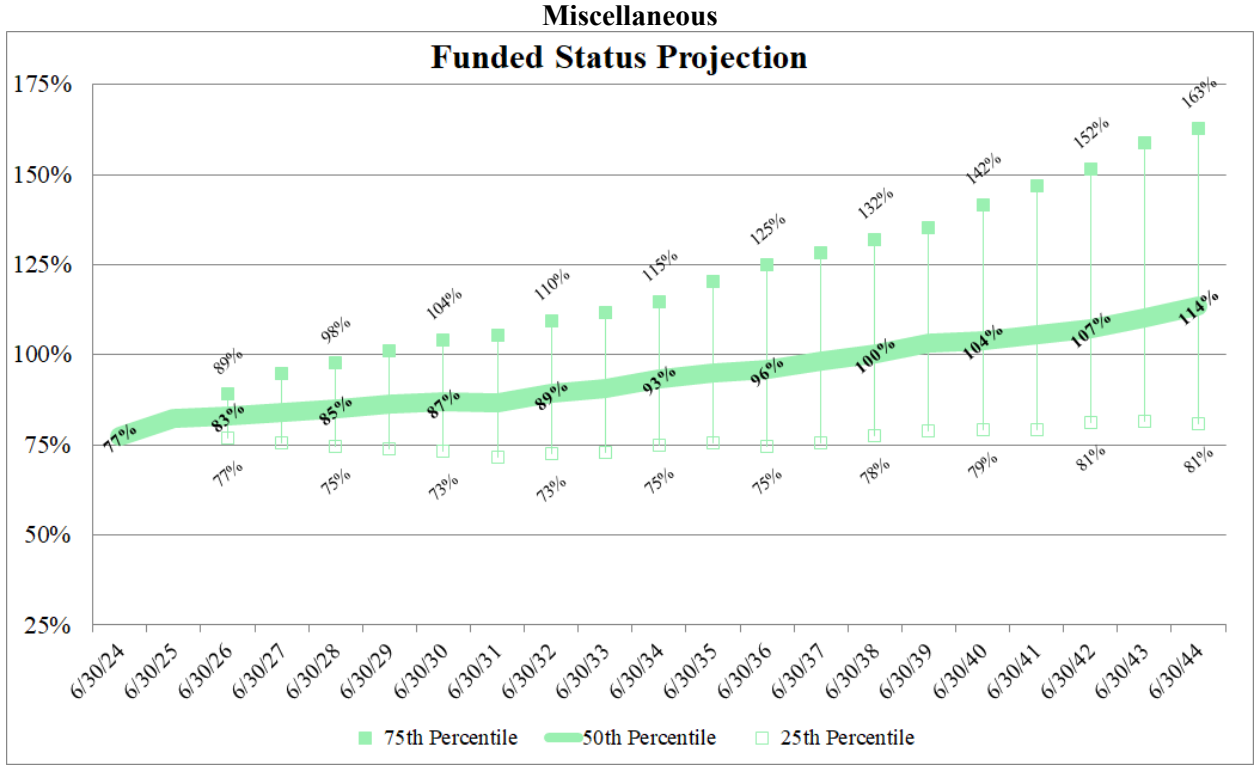
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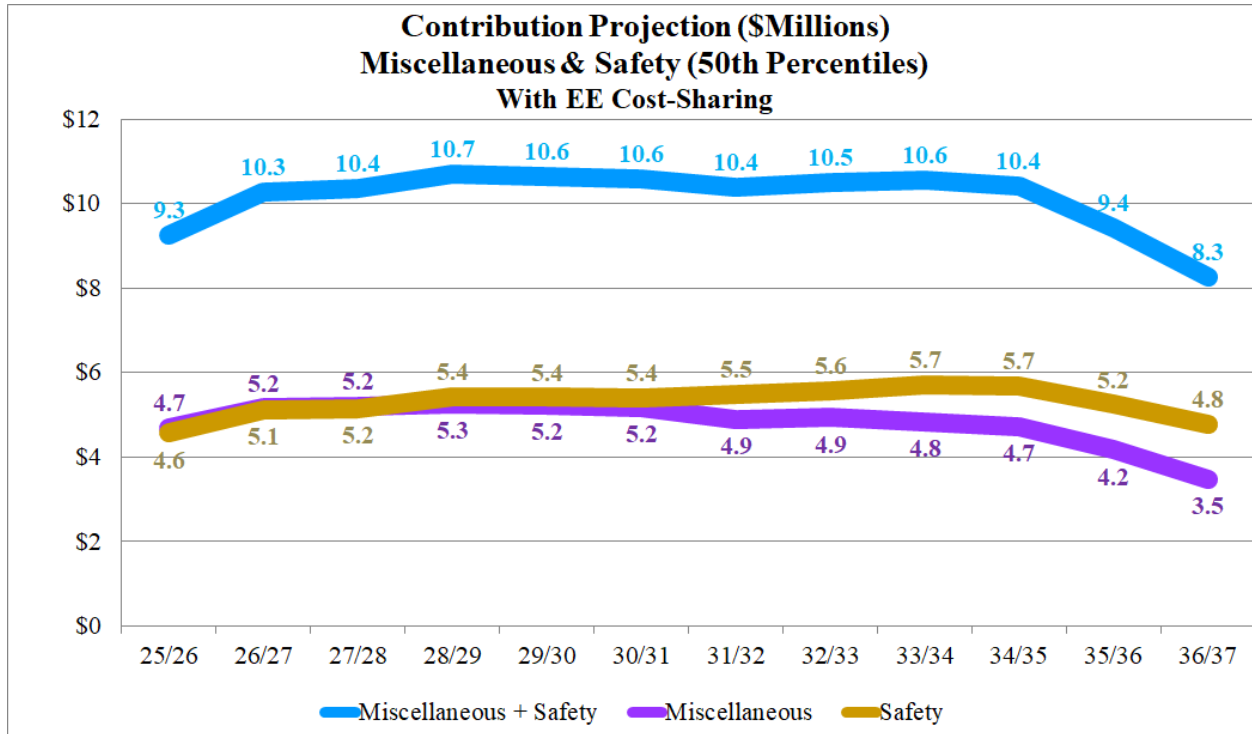
CONTRIBUTION PROJECTION



FUNDED STATUS



COMBINED MISCELLANEOUS AND SAFETY



Miscellaneous and Safety Funded Status Summary on June 30, 2024 (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$137.2	\$121.2	\$258.4
■ Assets	<u>106.0</u>	<u>85.2</u>	<u>191.2</u>
■ Unfunded AAL	31.2	36.0	67.2
■ Funded Ratio	77.2%	70.3%	74.0%

Miscellaneous and Safety Funded Status Summary on June 30, 2025⁶ (Amounts in \$Millions)

	Miscellaneous	Safety	Total
■ AAL	\$141.3	\$125.0	\$266.3
■ Assets	<u>116.4</u>	<u>93.7</u>	<u>210.1</u>
■ Unfunded AAL	24.9	31.3	56.2
■ Funded Ratio	82.4%	75.0%	78.9%

⁶ Projected 2025 assets reflect 12.1% investment return for 2024/25.



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

CalPERS Termination Estimates on June 30, 2024 (Amounts in Millions)

	Ongoing Plan	Termination Basis	
Discount Rate	6.80%	3.61%	5.61%
	Miscellaneous		
Actuarial Accrued Liability	\$137.2	\$200.5	\$153.2
Assets	<u>106.0</u>	<u>106.0</u>	<u>106.0</u>
Unfunded AAL (UAAL)	31.2	94.5	47.2
	Safety		
Actuarial Accrued Liability	\$ 121.2	\$188.8	\$141.2
Assets	<u>85.2</u>	<u>85.2</u>	<u>85.2</u>
Unfunded AAL (UAAL)	36.0	103.6	56.0
	Total		
Unfunded AAL (UAAL)	67.2	198.1	103.2
Funded Ratio	74.0%	49.1%	64.9%



PEPRA COST SHARING

- Target of 50% of total normal cost paid by all employees
 - PEPRA members must pay greater of 50% of total normal cost or bargained amount if higher
 - Employer cannot pay any part of PEPRA member required employee contributions
 - Employer may impose current employees pay 50% of total normal cost (limited to 8% of pay for Miscellaneous and 12% for Safety) if not agreed through collective bargaining
- Miscellaneous Plan 2026/27:

	Classic Members		New Members
	Tier 1	Tier 2	PEPRA
	2.5% <u>@55</u> FAC1	2% <u>@60</u> FAC3	2% <u>@62</u> FAC3
• Employer Normal Cost	13.2%	14.6%	8.49%
• Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.75%</u>
• Total Normal Cost	21.2%	21.6%	16.24%
• 50% Target	10.6%	10.8%	8.12%

- Safety Plan 2026/27:

	Classic Members	New Members
	Tier 1	PEPRA
	3% <u>@50</u> FAC1	2.7% <u>@57</u> FAC3
• Employer Normal Cost	29.4%	14.86%
• Member Normal Cost	<u>9.0%</u>	<u>14.50%</u>
• Total Normal Cost	38.4%	29.36%
• 50% Target	19.2%	14.68%

- PEPRA Member Contributions:

Group	2025/26		Total Normal Cost	2026/27		Method
	Total NC (Basis)	Member Rate		Change	Member Rate	
Miscellaneous	15.59%	7.75%	16.24%	0.65%	7.75%	PEPRA Members
Safety	29.00%	14.50%	29.36%	0.36%	14.50%	PEPRA Members



PAYING DOWN THE UAL & 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
 - Governing body resolution to use a portion of one time money, e.g.
 - 1/3 to one time projects
 - 1/3 to replenish reserves and
 - 1/3 to pay down unfunded liability



PAYING DOWN THE UAL & RATE STABILIZATION

Additional payments to CalPERS:

- Internal Service Fund
 - Typically used for rate stabilization
 - Restricted investments:
 - Likely low (0.5%-1.0%) investment returns
 - Short term/high quality, designed for preservation of principal
 - Assets can be used by governing body for other purposes
 - Does not reduce Unfunded Liability
- 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”
 - PEPPRA 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 (PEPPRA)
 - Option #2: Target specific amortization bases with an Additional Discretionary Payment “ADP”:
 - Extra contribution’s impact muted by reduced future contributions
 - CalPERS can’t track the “would have been” contribution
 - No guaranteed savings
 - Larger asset pool means larger loss (or gain) opportunity
 - Paying off shorter amortization bases: larger contribution savings over shorter period:
 - e.g. 10 year base reduces contribution 13.6¢ for \$1 (level dollar)
 - Less interest savings vs paying off longer amortization bases
 - Paying off longer amortization bases: smaller contribution savings over longer period:
 - e.g. 25 year base reduces contribution 8.2¢ for \$1 (level dollar)
 - More interest savings vs paying off shorter amortization bases
 - Maintaining the current payment schedule – not letting payments reduce due to extra payment – gives the greatest long-term savings



PAYING DOWN THE UAL & RATE STABILIZATION

Irrevocable Supplemental (§115) Pension Trust:

- Can only be used to:
 - Reimburse Town for CalPERS contributions
 - Make payments directly to CalPERS
- Investments significantly less restricted than Town investment funds
 - Fiduciary rules govern Trust investments
 - Usually, designed for long term returns
- Assets don't count for GASB accounting
 - Are considered Employer assets
- Hundreds of trusts established, mostly since 2015
 - Trust providers: PARS, PFM, Keenan
 - California Employers' Pension Prefunding Trust (CEPPT) effective July 2019
 - Strategy 1: 48% stocks / 52% bonds
 - Strategy 2: 22% stocks / 78% bonds
- More flexibility than paying CalPERS directly
 - Town decides if and when and how much money to put into Trust
 - Town decides if and when and how much to withdraw to pay CalPERS or reimburse Town
- Funding strategies typically focus on:
 - Reducing the unfunded liability
 - Fund enough to make total CalPERS UAL = 0
 - Make PEPPRA 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?

■ Supplemental Trust

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

■ CalPERS

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



PREFUNDING OPTIONS

Town's Section 115 Trust

	Miscellaneous	Police Safety
12/31/25 Trust Balance ⁷		\$3,234,000
Projected Balance 6/30/26 ⁸	\$ 1,778,000	\$ 2,237,000
Assumed Future Trust Earnings		5.0%

Miscellaneous Direct Payment of \$1.778M⁹ 6/30/26 to CalPERS

- Shortest Bases: 2007 Benefit Change (2 years remaining) and 2009 Assumption Change (5 years remaining)
or
- Longest Bases: 2013 Loss (19 years remaining)

	Estimated Interest Savings	2026/27 Contribution Impact
Shortest Bases		
\$ Savings (\$000's)	\$ 267	\$(533)
Present value savings @ 3% (\$000's)	140	
Longest Bases		
\$ Savings (\$000's)	\$1,315	\$(144)
Present value savings @ 3% (\$000's)	602	

Safety Direct Payment of \$2.237M⁹ 6/30/26 to CalPERS

- Shortest Bases: 2014 Assumption Change (10 years remaining)
or
- Longest Bases: 2017 & 2018 Non-Asset Loss (23 & 24 years remaining, respectively) and 2016 Asset Loss (22 years remaining)

	Estimated Interest Savings	2026/27 Contribution Impact
Shortest Bases		
\$ Savings (\$000's)	\$ 691	\$(330)
Present value savings @ 3% (\$000's)	349	
Longest Bases		
\$ Savings (\$000's)	\$2,030	\$(160)
Present value savings @ 3% (\$000's)	902	

⁷ Approximate 21% Equity/79% Fixed income asset allocation trust with CEPPT.

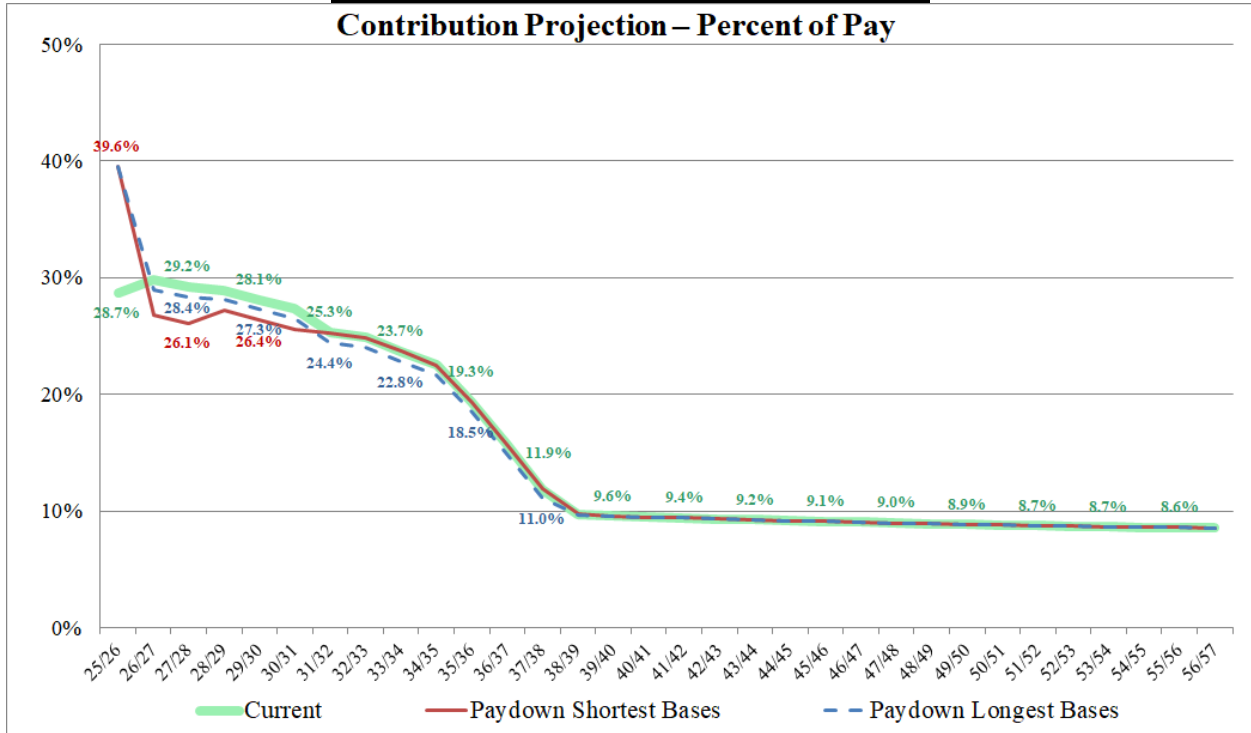
⁸ Approximate 21% Equity/79% Fixed income asset allocation trust with CEPPT.

⁹ \$4.015M projected trust balance allocated to Miscellaneous and Safety by UAL.

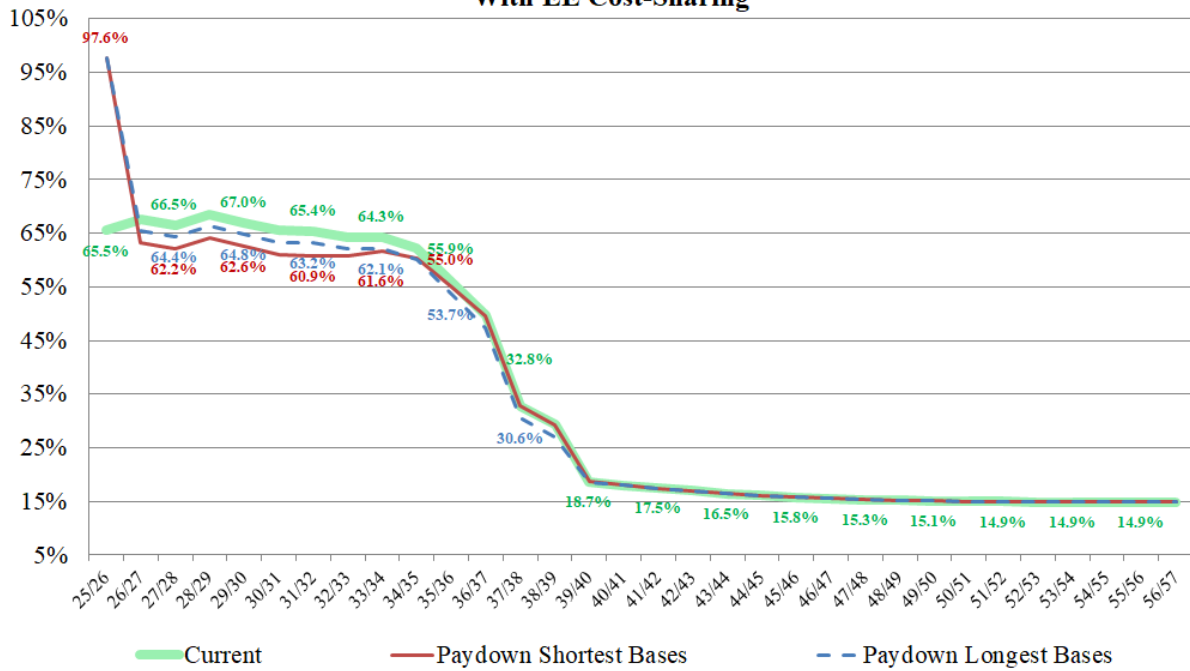


PREFUNDING OPTIONS

Miscellaneous
Direct Payment of \$1.778M 6/30/26 to CalPERS
Contribution Projection – Percent of Pay

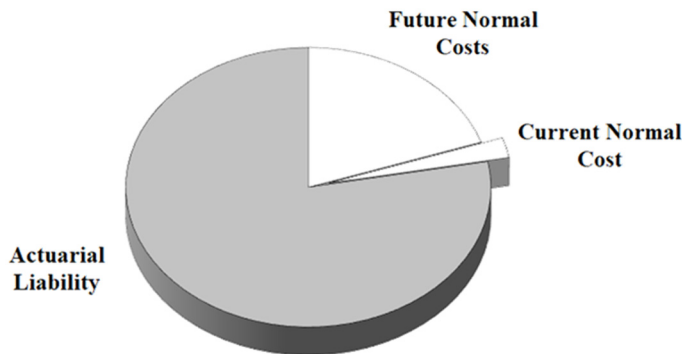


Safety
Direct Payment of \$2.237M 6/30/26 to CalPERS
Contribution Projection – Percent of Pay
With EE Cost-Sharing



DEFINITIONS

**Present Value of Benefits
June 30, 2024**



■ **PVB - Present Value of all Projected Benefits:**

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/24), of all future expected benefit payments based on various (actuarial) assumptions

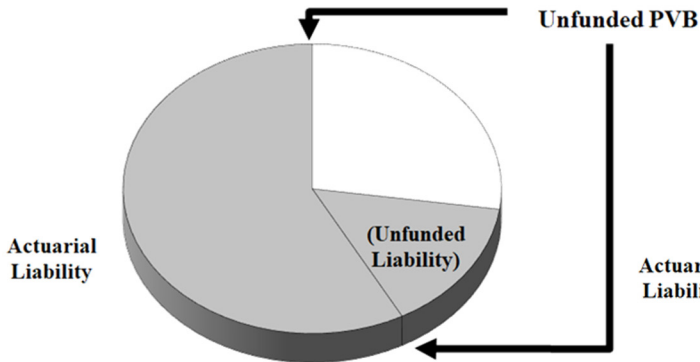
■ **Current Normal Cost (NC):**

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

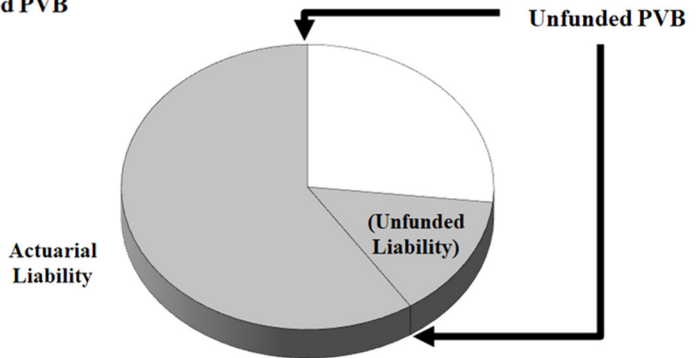
■ **Actuarial Liability (AAL):**

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

**Present Value of Benefits
June 30, 2023**



**Present Value of Benefits
June 30, 2024**



■ **Target** - Have money in the bank to cover Actuarial Liability (past service)

■ **Unfunded Liability (UAAL or UAL)** - Money short of target at valuation date

- If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
- Any difference is the unfunded (or overfunded) AAL
- Every year, the actuary calculates the difference between the expected UAAL and Actual UAAL. This is a new layer or amortization base
- Each new layer gets amortized (paid off) over a period of time as part of the contribution [rate]



HOW WE GOT HERE

Significant Factors

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

Old Contribution Policy

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses
- Designed to:
 - First smooth rates and
 - Second pay off UAL
- Mitigated contribution volatility

CalPERS Changes

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

	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

- In the November 2021 meeting, CalPERS Board adopted
 - Discount rate and investment allocation
 - Discount rate: 6.8% for 6/30/2021. UAL impact matches investment gain amortization (5-year ramp-up). Initial impact in 23/24 and full impact in 27/28.
 - Asset allocation has higher investment risk than current portfolio
 - Experience study (Demographic assumptions)



ADDITIONAL ASSUMPTIONS & METHODS

- Retiree benefit payments increase at 4% for stand-alone Miscellaneous plan and 3% for pooled Safety plan
- Tiers 1, 2, and current PEPRA members' payroll increase/decrease after 2031/32 according to similar large client projected payroll using same mortality, retirement, withdrawal, and disability assumptions as CalPERS 2000-2019 Experience Study
- PEPRA payroll added to above projected payroll to make aggregate payroll increase at CalPERS' assumption of 2.8% after 2031/32
- All other assumptions same as CalPERS valuation assumptions





Town of Los Gatos

CalPERS Misc & Safety Plans

June 2, 2026

Presented By:
Drew Ballard, FSA, EA, MAAA

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

Agenda

ITEM NO. 4.

- Funded Status
- Contribution Projections
- Funding Strategy Overview
- Town Section 115 Trust Background

Funded Status

June 30, 2024 CalPERS Valuation

	Miscellaneous	Safety
Actuarial Accrued Liability	\$137.2	\$121.2
Assets	<u>\$106.0</u>	<u>\$85.2</u>
Unfunded Actuarial Liability	\$31.2	\$36.0
Funded Ratio	77.3%	70.3%
<i>Projected UAAL (6/30/2025)</i>	<i>\$24.9</i>	<i>\$31.3</i>
<i>Projected Funded Ratio (6/30/2025)</i>	<i>82%</i>	<i>75%</i>

- **Projected 6/30/2025 results reflect CalPERS 12.1% return for fiscal year 2024-25**

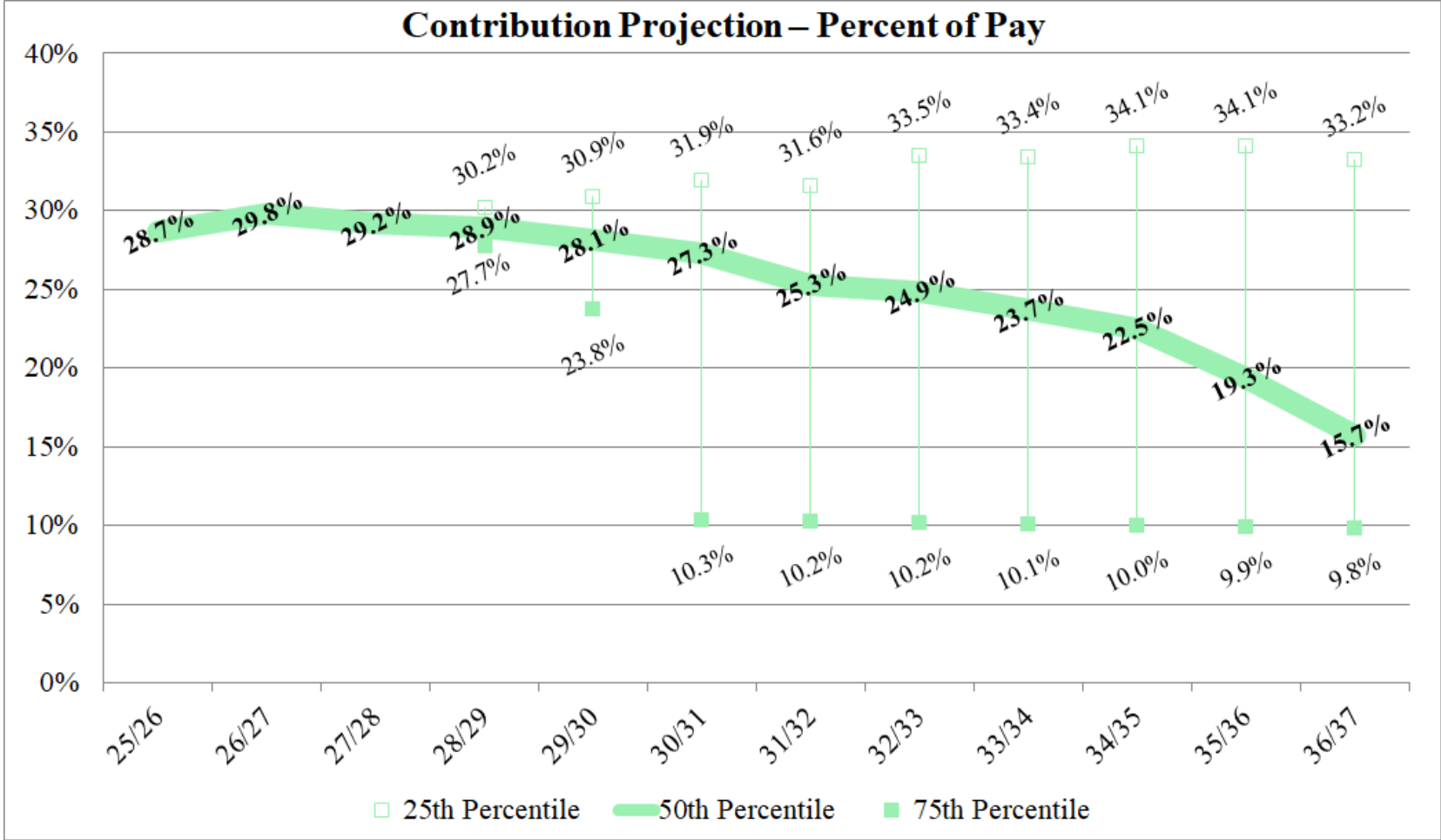
Contribution Projections

ITEM NO. 4.

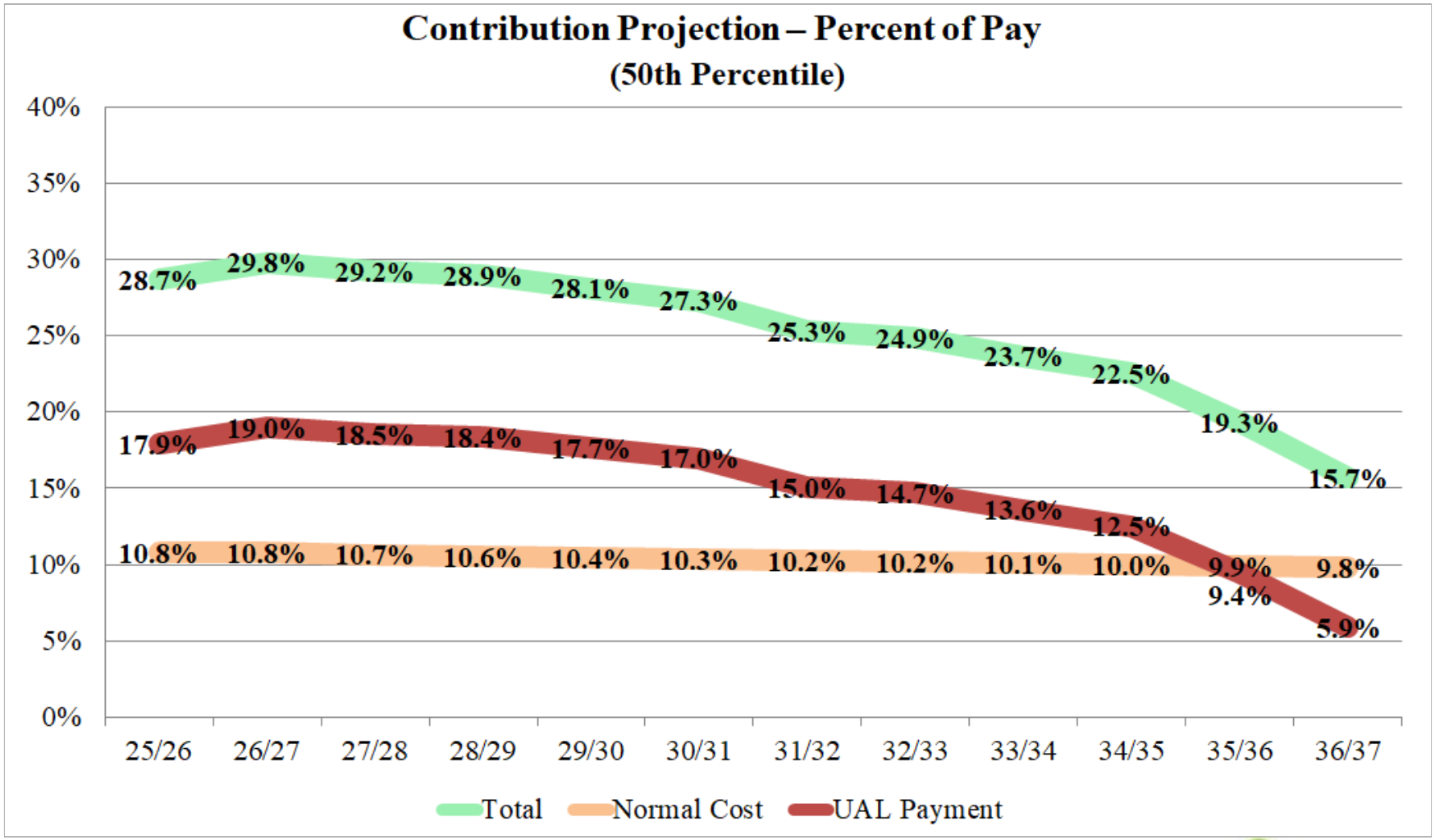
➤ Assumptions

- 12.1% investment return for 2024/25
- 6.8% discount rate for all years
- Town provided payroll projections by Classic/PEPRA
- Safety: 3% employee cost sharing for Classic members

Contribution Projections (Misc)

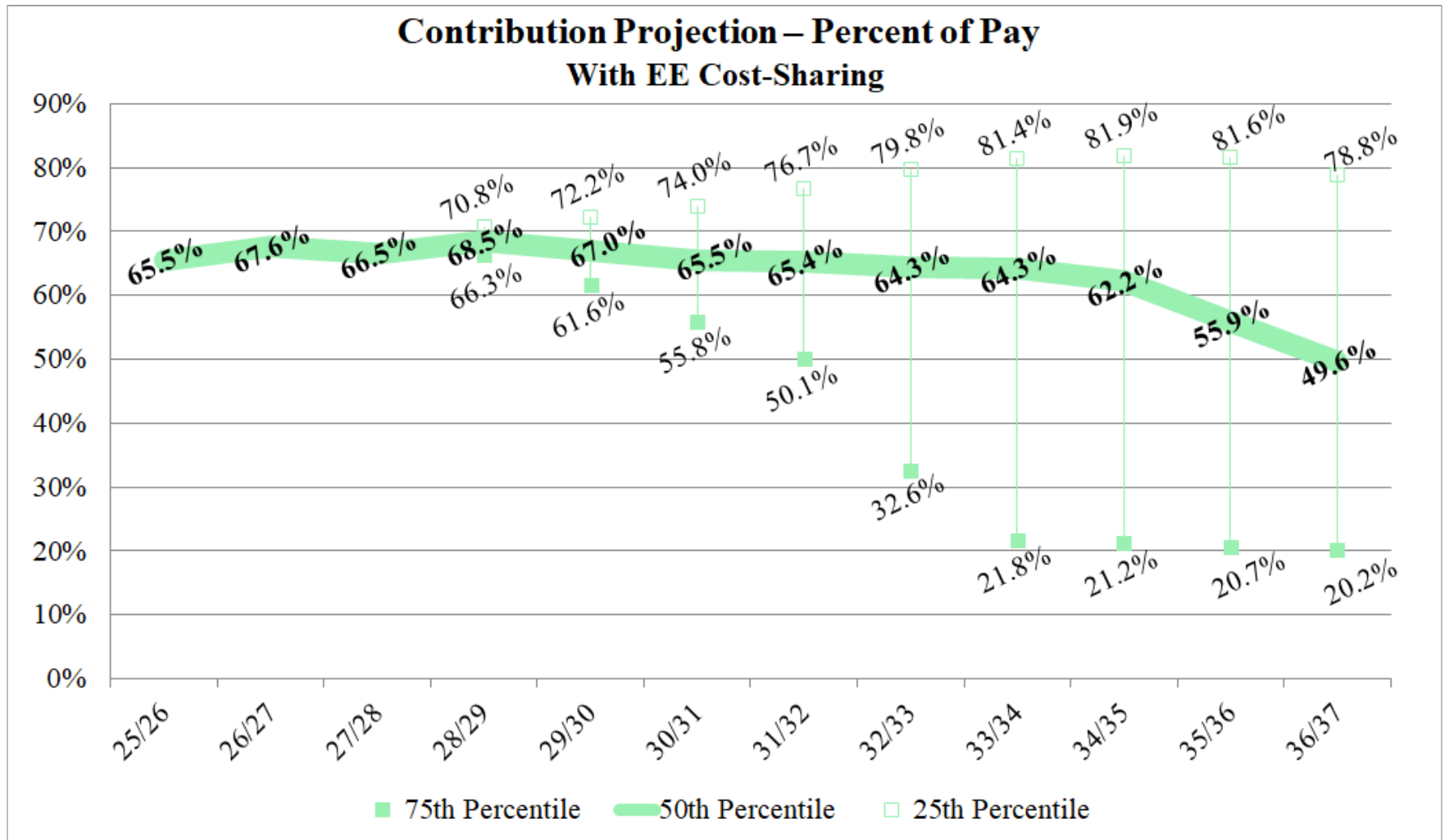


Contribution Projections (Misc)

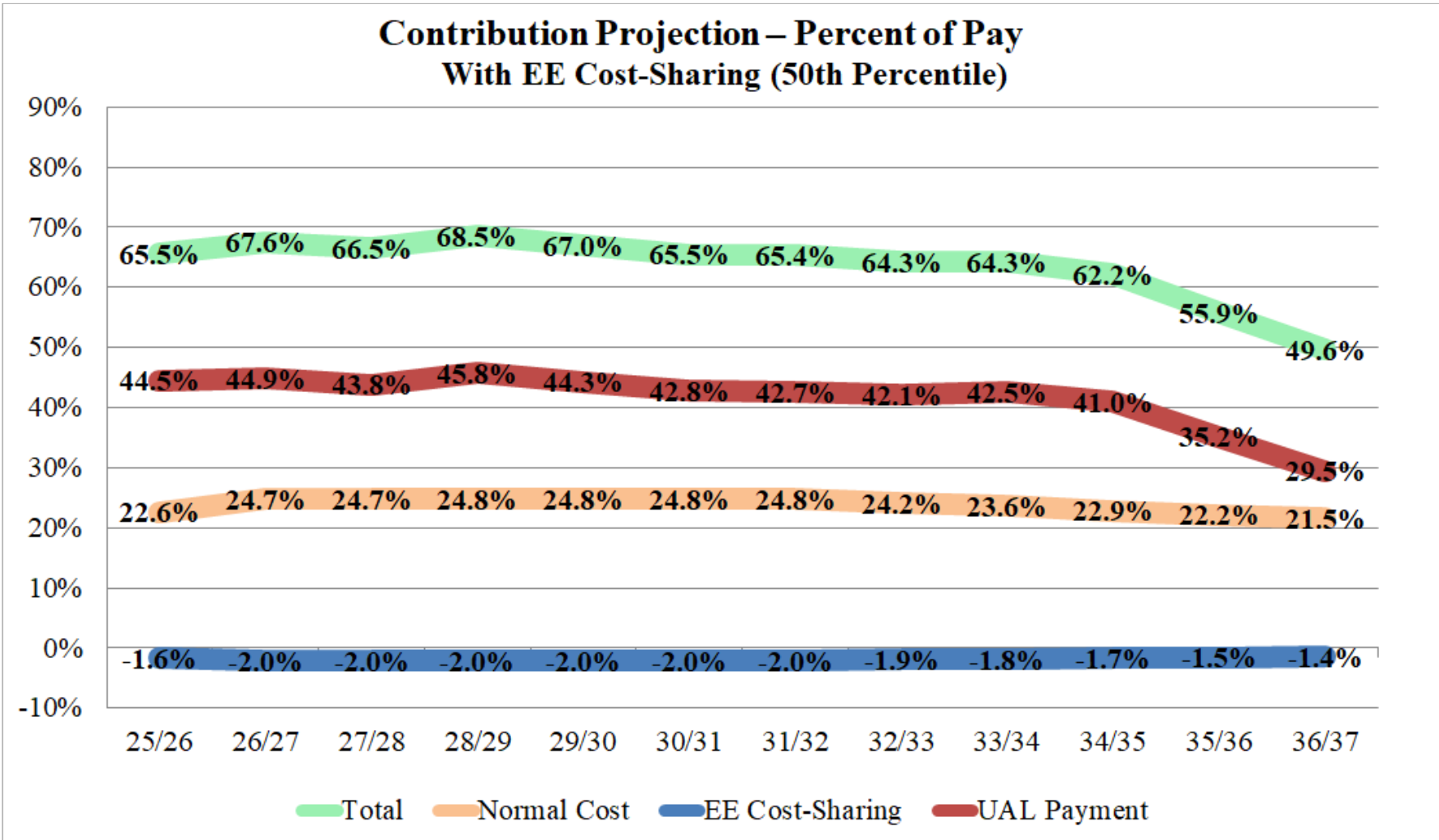


Contribution Projections (Safety)

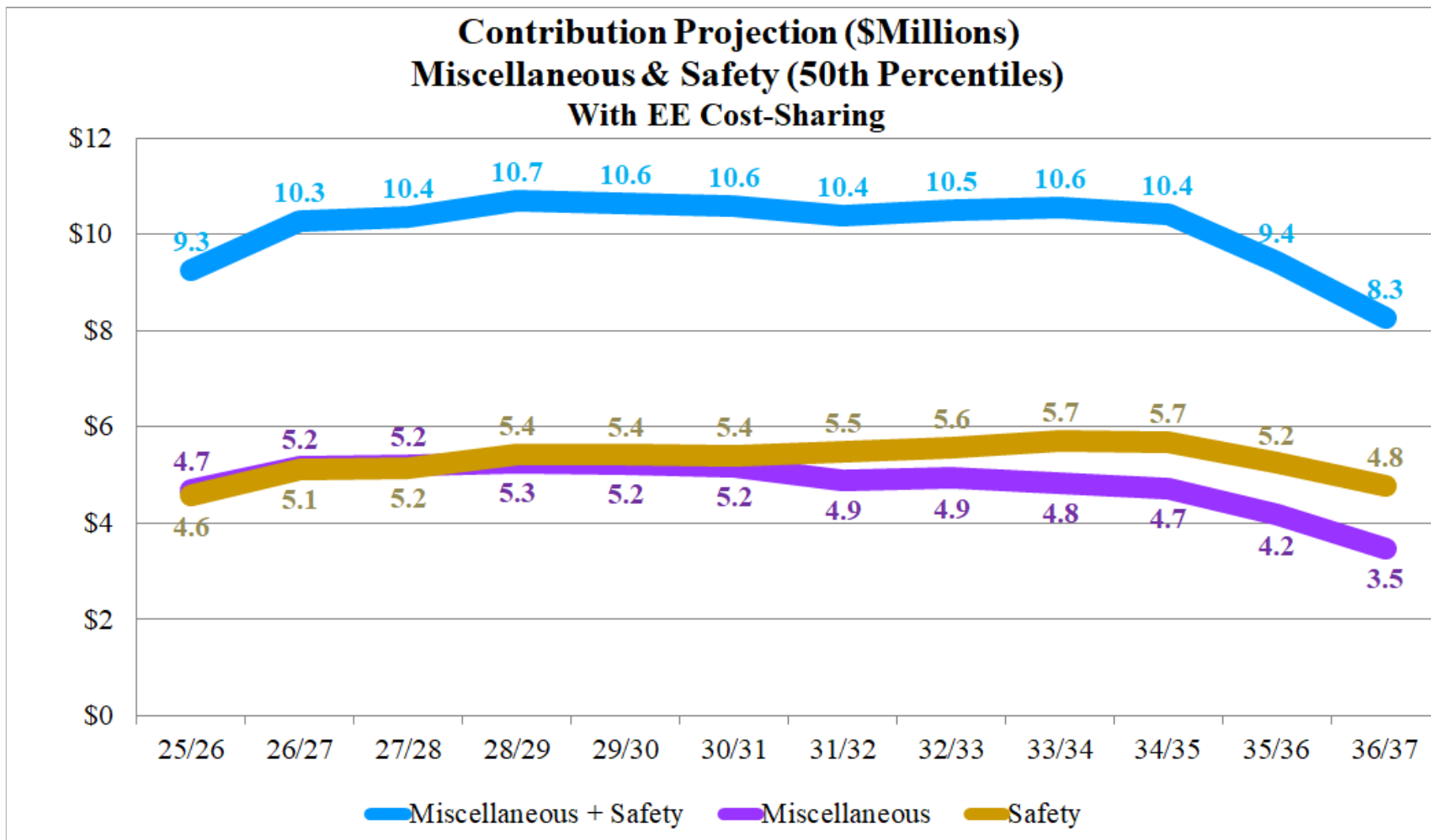
ITEM NO. 4.



Contribution Projections (Misc)



Cont. Projections (Combined)



Funding Strategy Overview

ITEM NO. 4.

- Additional Discretionary Payments
 - Paid directly to CalPERS above ADC
 - Accelerate paydown of UAAL and funded status increase
 - Irrevocable decision
 - Target specific amortization layers (long versus short)
 - Reduces GASB 68 Net Pension Liability

- IRS Section 115 Trust
 - Used to reimburse Town for CalPERS contributions or make payments directly to CalPERS
 - Flexible, internal control
 - Town has investment strategy choice
 - Typically used to reduce UAAL, stabilize contribution rates, or combination
 - Does not reduce GASB 68 Net Pension Liability

CalPERS ADP Impact

- Below represents the estimated impact of transferring \$4.015 million to CalPERS Safety Plan from the Section 115 trust on June 30, 2026
 - Applied to UAAL layers with longest remaining amortization period
 - 2018 Non-Investment Loss (24 years, \$420,362)
 - 2017 Non-Investment Loss (23 years, \$70,092)
 - 2016 Investment Loss (22 years, Balance = \$5,455,708)

Estimated Interest Savings	Contribution Impact
\$3,603,000	(\$289,000)

115 Trust - Background

ITEM NO. 4.

- Town established original 115 in 2017
 - The primary objective of the 115 Trusts investment portfolios is to satisfy the Pension Plans and OPEB Plan obligations to pay benefits to members and their beneficiaries. To do so, the 115 Trusts will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk.
 - History of payments to CalPERS
 - 2019-20 \$4.8M (Misc)
 - 2020-21 \$5.6M (Misc)

115 Trust - Background

ITEM NO. 4.

- Funding policy
 - \$390K annual payment
 - \$300K additional at Mid-Year based on funding availability
- Town currently in CalPERS CEPPT Strategy 2
 - 22% stocks / 78% bonds
 - \$3.2 million balance as of December 31, 2025