Pension Funding

Beaumont, CA

October 18, 2024

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Understanding Pension Funding

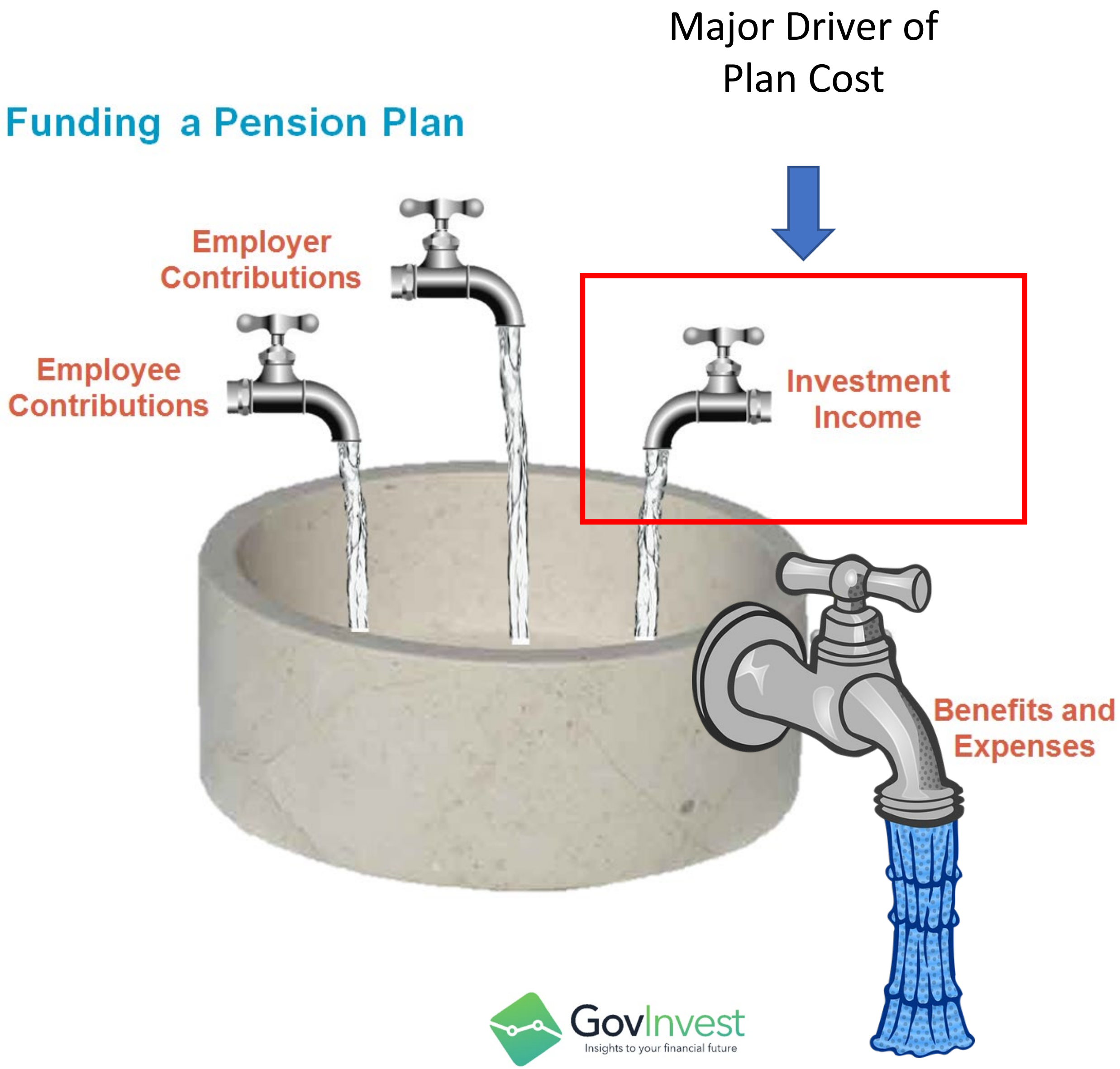
Pension Basics

Changes Since the Last Valuation and the Impact of those Changes

Addressing UAL

Pension Basics

Money going into CalPERS is equal to the Money coming out of CalPERS



CalPERS Projects Future Benefit Payments using a Series of Assumptions

Economic

- Inflation
- Investment Return
- Salary Growth

Demographic

- Retirement
- Disability
- Death
- Termination

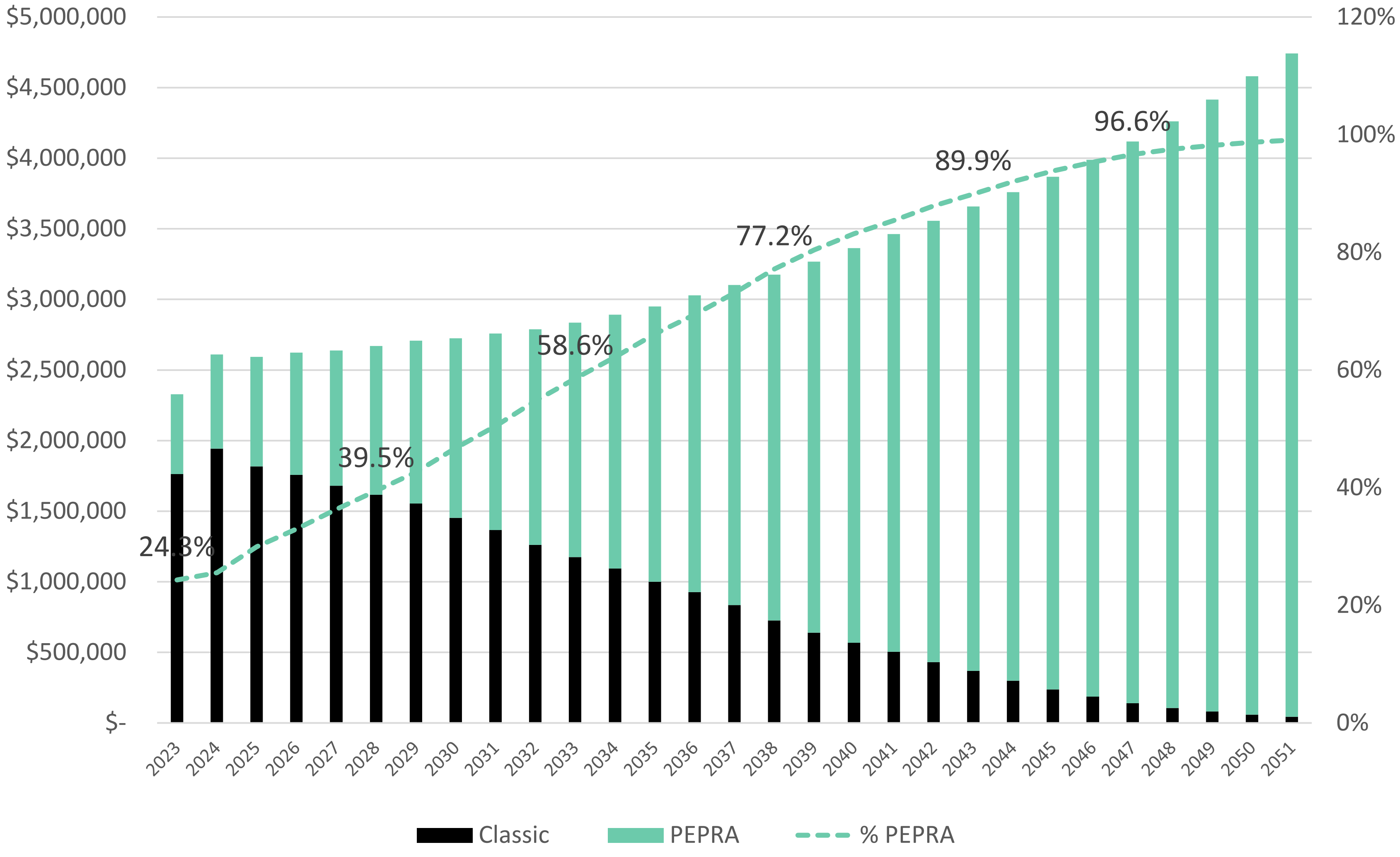
Beaumont has Two Safety Benefit Structures

	Safety	*PEPRA Safety Police*
Hire Date	On or before 12/31/12	On or after 1/1/13
Formula	3.0% @ 50	2.7% @ 57
Final Compensation Period	12 months	36 months
COLA	2% per year	2% per year
Employee Contributions	9% of pay	13.75% of pay (50% of Normal Cost)

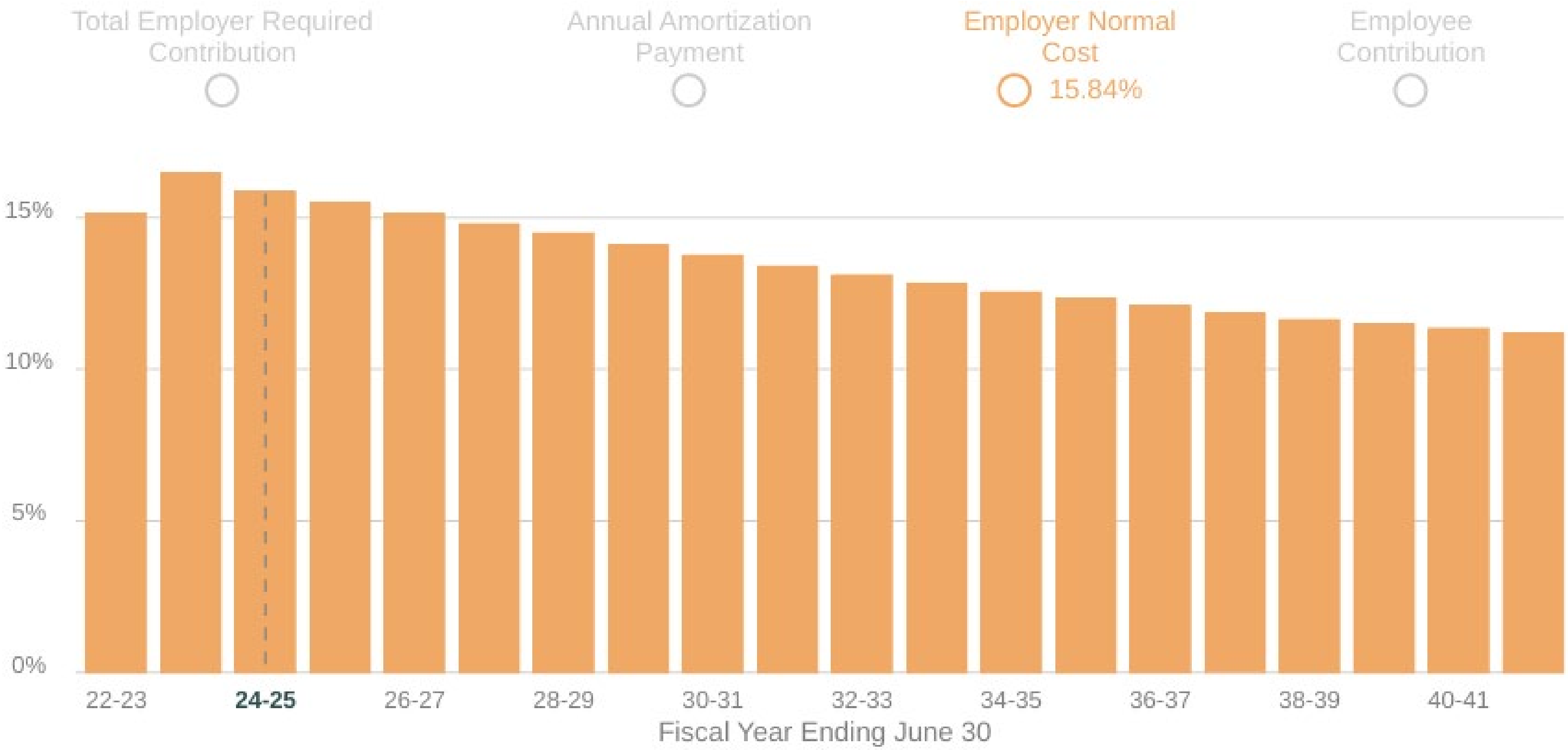
Beaumont has Two Miscellaneous Benefit Structures

	Miscellaneous	***PEPRA Miscellaneous***
Hire Date	On or before 7/1/12	On or after 1/1/13
Formula	3.0% @ 60	2% @ 62
Final Compensation Period	12 months	36 months
COLA	2% per year	2% per year
Employee Contributions	8% of pay	8.25% of pay (50% of Normal Cost)

Over the Next Few Years, More Employees will be in the PEPRA Tier



As the Workforce shifts toward more PEPRA members, the Normal Cost will decrease as a Percent of Pay



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Changes Since Prior Valuation

CalPERS Investment Return:
5.8% in 2022/23
9.3% in 2023/24

Weak return in 2022/23 followed by better return in 23/24

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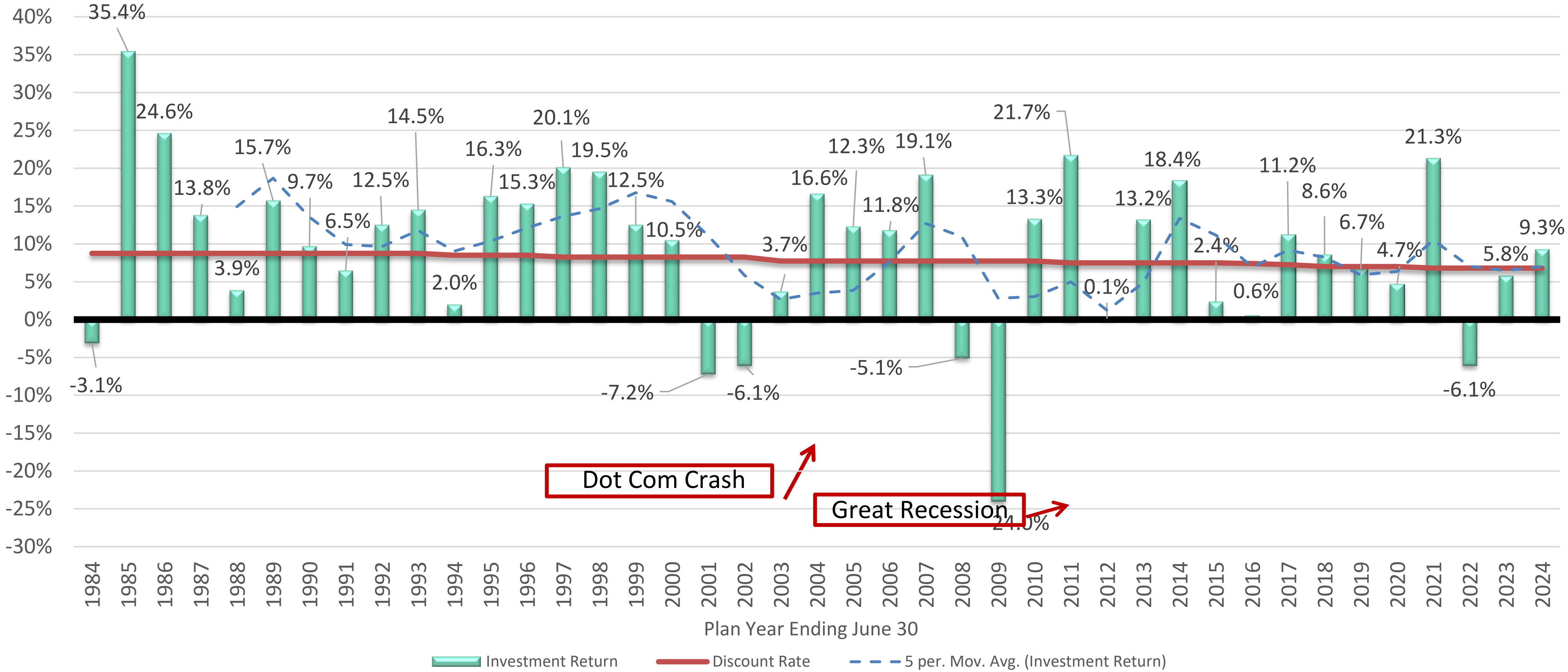
CalPERS Actual Investment Returns versus Assumed Investment Return



Discount Rate = Assumed Investment Return Rate

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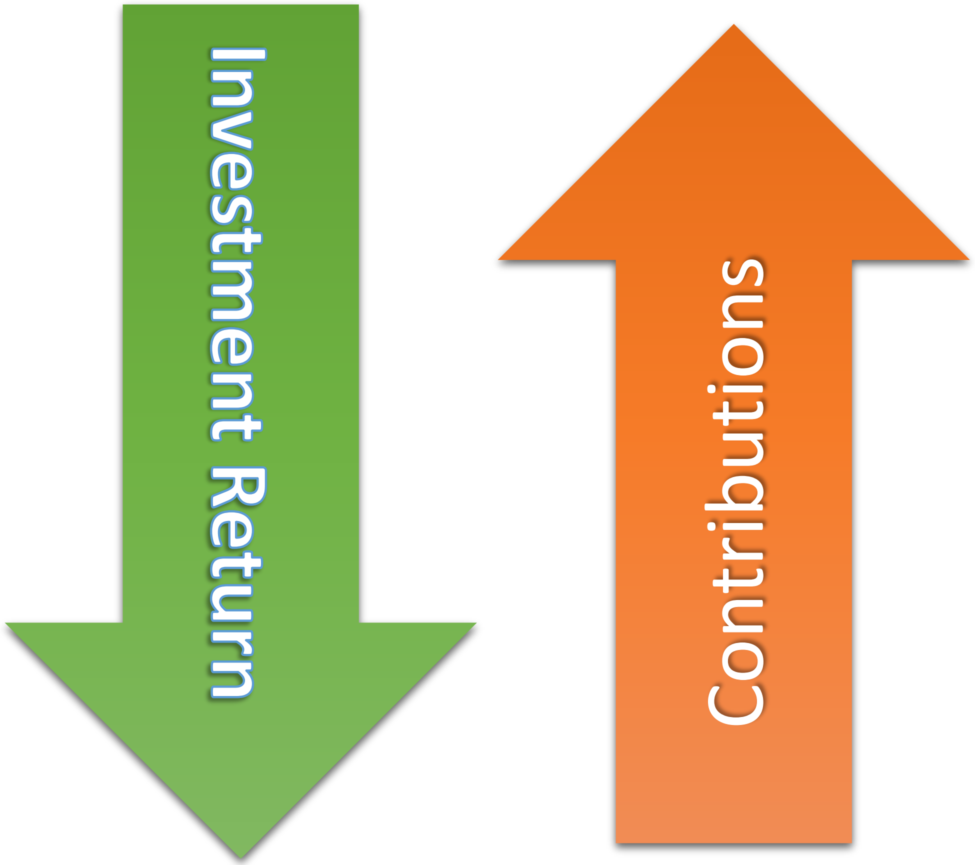
Less Money from Investment Return means More Money Required from Contributions



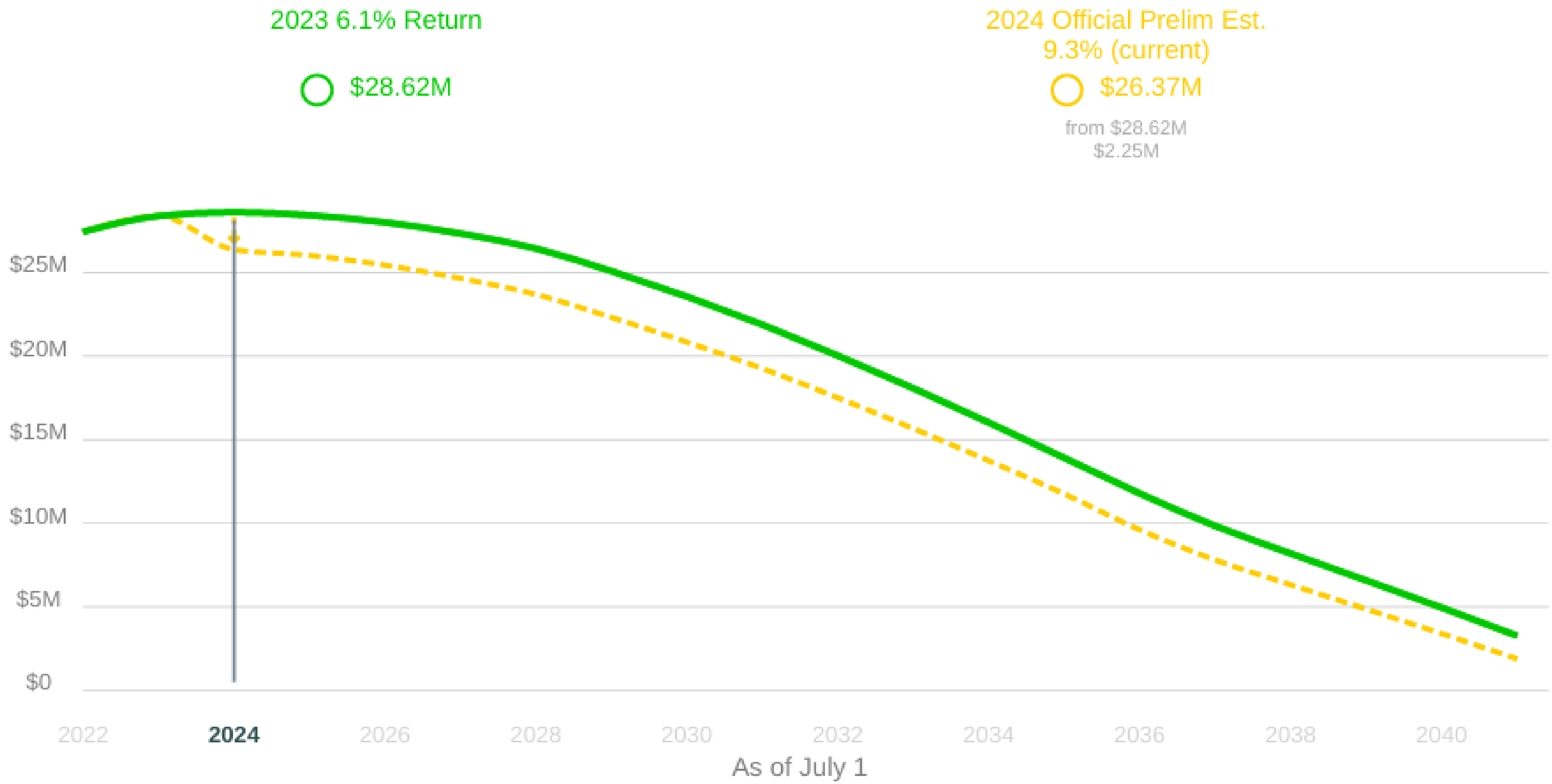
Higher than Assumed Retiree COLA in 2022

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2022
2% COLA Provision	2003 & Earlier	2%
	2004	2.19%
	2005	3.59%
	2006-2014	4.70%
	2015	3.13%
	2016	2.39%
	2017	2.52%
	2018	2.96%
	2019	2.77%
	2020	2.00%
	2021	Not Eligible

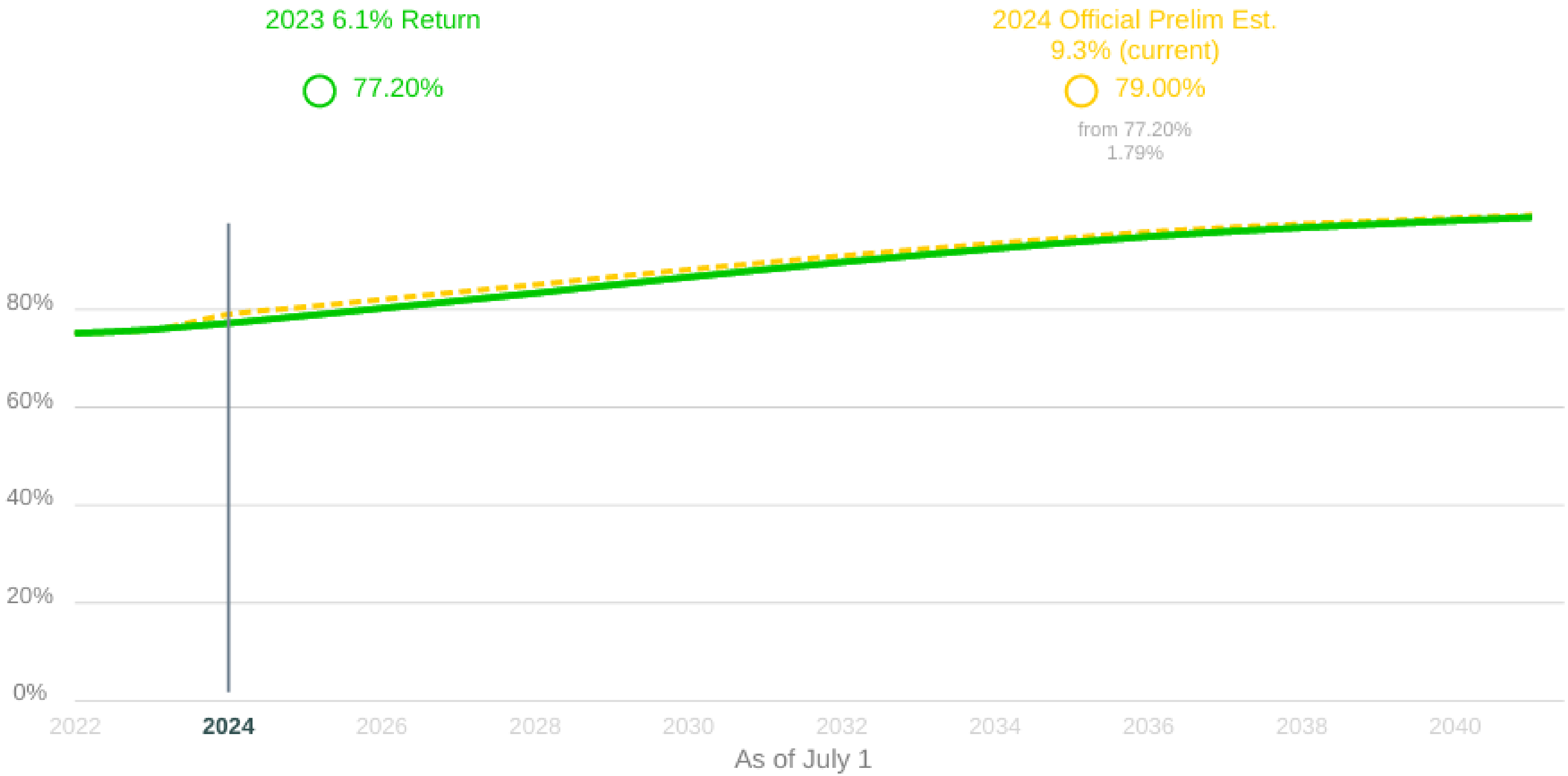
What is the Impact of those Changes?

How did the above change impact Funded Percentage and Contribution? Now and in the future?

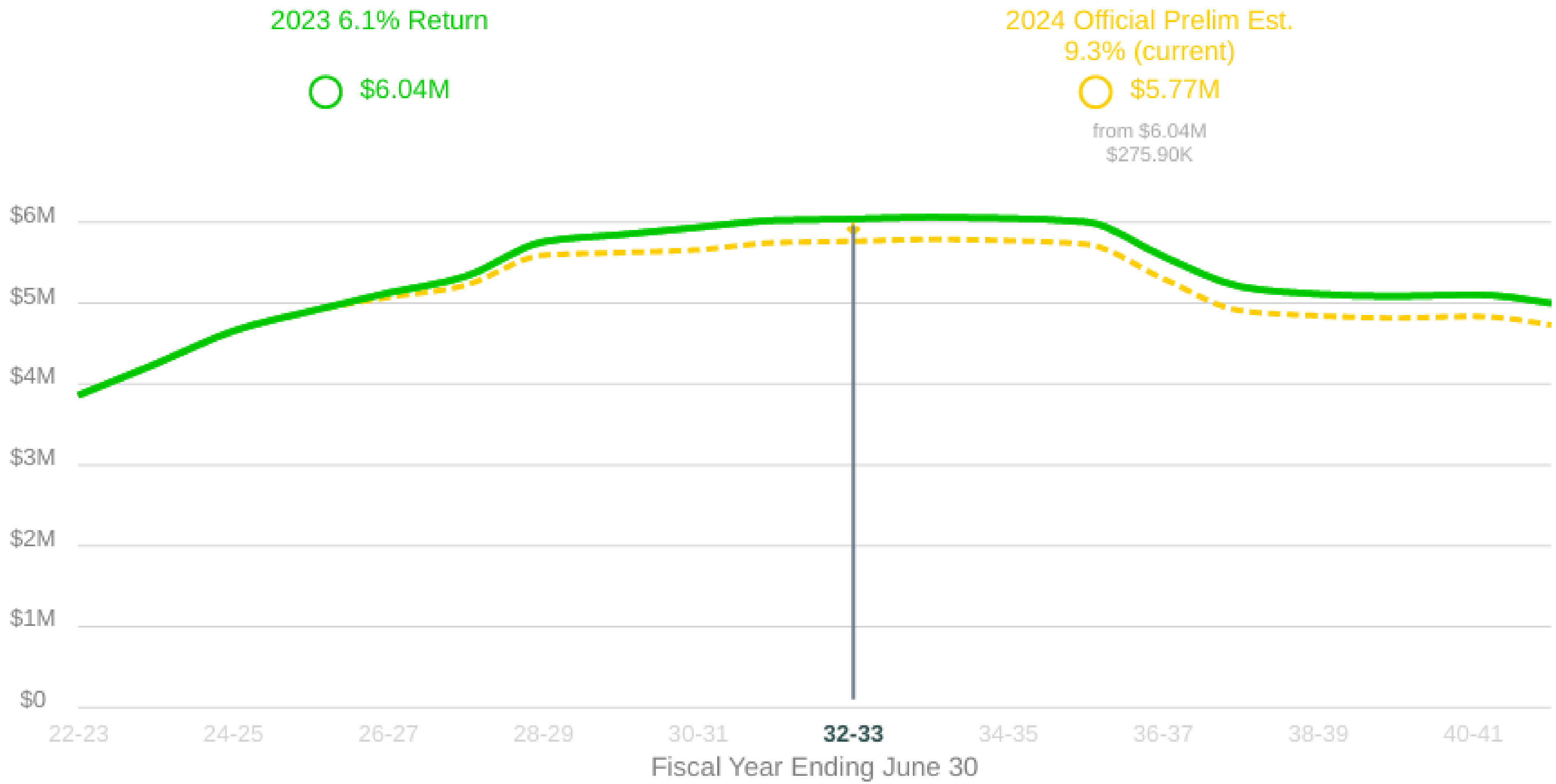
Unfunded Accrued Liability



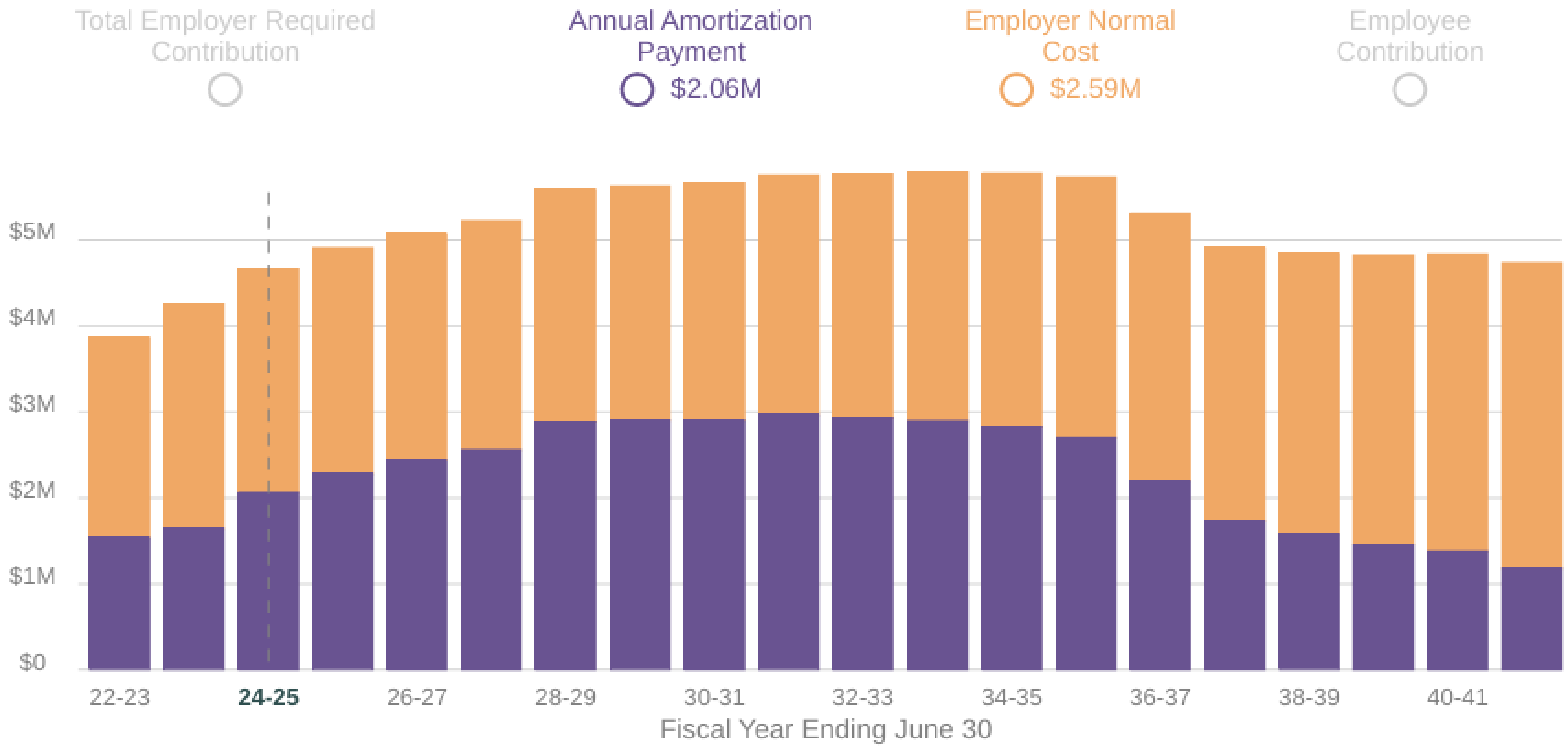
Funded Percentage



Total Required Employer Contributions



Total Required Employer Contributions



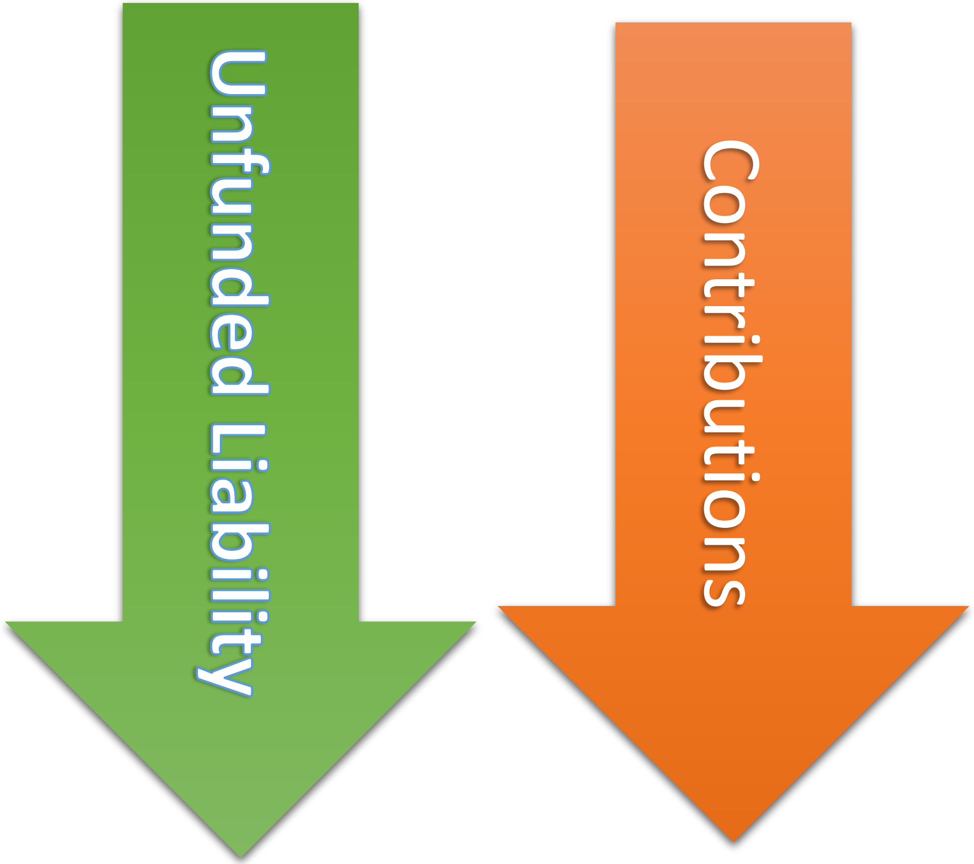
Addressing Unfunded Liability

Approaches the City can take to control future Unfunded Liability

Why Address Unfunded Liability?

- Most of current Required Contribution is due to payment toward Unfunded Actuarial Liability
- The City is effectively paying interest to CalPERS for Unfunded Actuarial Liability
- Current interest rate is 6.8%

Lower Unfunded Actuarial Liability means Lower Required Contributions



What is Unfunded Actuarial Liability?

- When actual plan experience is different than the plan’s assumptions, new Unfunded Actuarial Liability (UAL) is created.
- UAL is also created when assumptions are changed.
- UAL increases when experience is worse for the plan than what was assumed. For example, when the Investment Return assumption was lowered to 6.8%.
- UAL decreases when experience is better for the plan than what was assumed. For example, when the Investment Return is greater than the assumed Interest Rate.
- It can also happen for salary increases, or demographic changes, such as high levels of turnover, or increasing life expectancy.

Unfunded Actuarial Liability should be Monitored Regularly

- Paying off the current UAL does not mean there will be no Unfunded Actuarial Liability in the future.
- Each year, new Unfunded Actuarial Liability (both positive and negative) will be created based on plan assumptions and experience. These are referred to as Amortization Bases.
- Payments toward the new UAL Amortization Bases are generally amortized over a 20-year period.

Non-Investment Loss

Reason for Base	Date Est.	Ramp Level 2025-26	Ramp Shape	Escala-tion Rate	Amort. Period	Balance 6/30/23	Expected Payment 2023-24	Balance 6/30/24
Investment (Gain)/Loss	6/30/20	80%	Up Only	0.00%	17	808,176	33,222	828,799
Non-Investment (Gain)/Loss	6/30/20	No Ramp		0.00%	17	131,733	12,149	128,136
Assumption Change	6/30/21	No Ramp		0.00%	18	228,999	20,592	223,290
Net Investment (Gain)	6/30/21	60%	Up Only	0.00%	18	(4,231,994)	(90,965)	(4,425,763)
Non-Investment (Gain)/Loss	6/30/21	No Ramp		0.00%	18	(196,386)	(17,660)	(191,490)
Risk Mitigation	6/30/21	No Ramp		0.00%	0	1,245,910	1,287,574	0
Risk Mitigation Offset	6/30/21	No Ramp		0.00%	0	(1,245,910)	(1,287,574)	0
Investment (Gain)/Loss	6/30/22	40%	Up Only	0.00%	19	5,775,964	0	6,168,730
Non-Investment (Gain)/Loss	6/30/22	No Ramp		0.00%	19	687,006	0	733,722
Investment (Gain)/Loss	6/30/23	20%	Up Only	0.00%	20	238,139	0	254,332
Non-Investment (Gain)/Loss	6/30/23	No Ramp		0.00%	20	755,940	0	807,344
Total						**12,434,736**	**691,148**	**12,566,037**

Potential Approaches to Addressing UAL

- One-time Additional Contribution
- Additional Annual Contributions
  - Budgeted
  - Based on Budget Surplus or Other Savings

Where Does the Money Go?

- Direct to CalPERS
    - Which amortization bases will you pay off?
- 115 Trust
- Internal Reserve

Questions

Disclaimer

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