



## Staff Report

**TO:** City Council  
**FROM:** Jennifer Ustation, Finance Director  
**DATE:** January 17, 2023  
**SUBJECT:** Pension Funding Update and Strategy Discussion

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**Description** Receive an update on the City's pension funding status and discuss strategies for long-term stabilization of pension costs.

### **Background and Analysis:**

On September 21, 2021, the City Council received an update on the City's pension funding status and directed City staff to investigate Pension 115 Trust options to address rising pension cost concerns. On December 7, 2021, the City established a Pension 115 Trust with the Public Agency Retirement Services (PARS). In an effort to continue to monitor and forecast future pension costs, the City is working with GovInvest to analyze and determine the City's pension status on an annual basis and make any recommendations. This report provides an update as to the most current pension funding status and provides for recommendations on how to address pension volatility and rising costs.

As with most cities, pension obligations are and will continue to be some of the City's largest financial concerns for decades to come. The City of Beaumont is managing these liabilities very well, but it is important that they receive appropriate and regular attention.

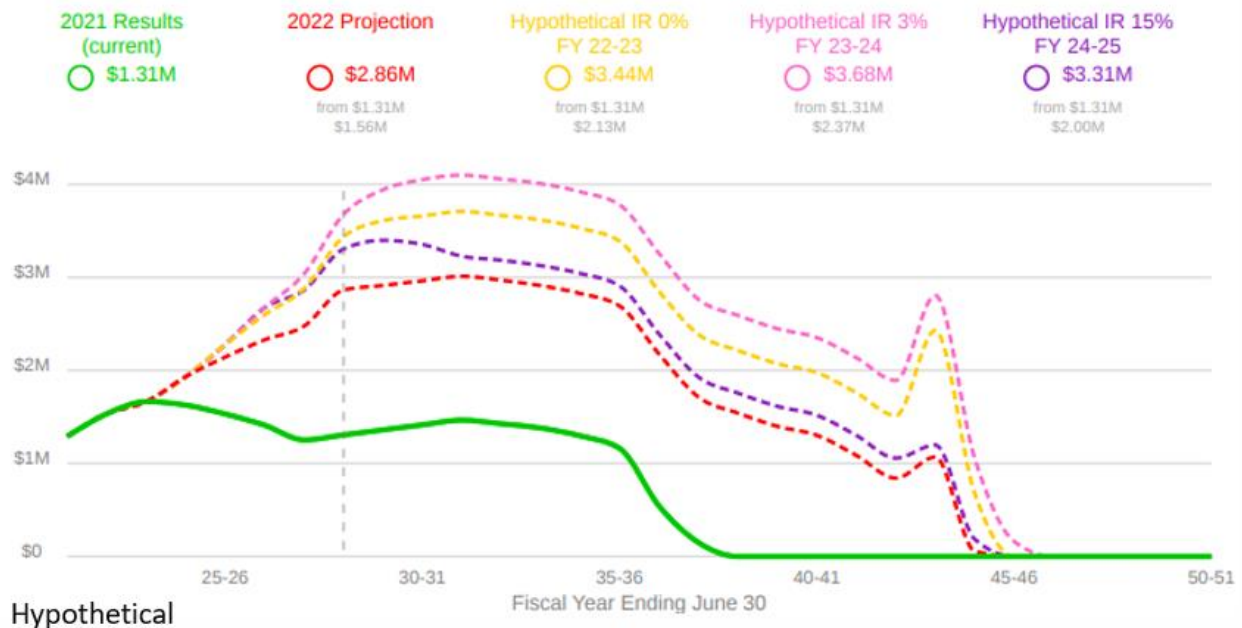
With its current participants and benefit levels, the City's unfunded accrued pension liability (UAL) is \$13.1 million as of June 30, 2021 and is projected to increase to \$30.5 million as of June 30, 2022. The rapid increase in the projected UAL is due to an adverse investment return of -7.5% after accounting for subsequent technical adjustments. The City's funded status history is as follows:

Beaumont Funded Status Trend
Accrued Liability
Market Value of Assets
Unfunded Accrued Liability (UAL)
Funded Percentage

2019	2020	2021	Projected 2022
\$82,970,879	\$90,442,292	\$103,480,939	\$114,762,921
\$62,959,012	\$68,431,486	\$90,339,743	\$84,303,684
\$20,011,867	\$22,010,806	\$13,141,196	\$30,459,237
75.88%	75.66%	87.30%	73.46%

Due to unprecedented uncertainty and market volatility, the City could experience rapid pension cost increases should adverse market returns continue for the next few years. See the volatility stress test below.

### Hypothetical UAL Payment Paths



To preserve budget flexibility and maintain its ability to keep pace with pension costs, staff would like City Council to consider a number of pension strategies that are outlined in the recommendation section of this report and will be discussed at length during the Council meeting.

**Fiscal Impact:**

While executing each of the pension management strategies may limit the City's ability to approve new programs, most strategies should not represent a significant impact to the City's budget and should go a long way to protect the City from pension expense volatility over time.

**Recommended Action:**

It is recommended that the City Council discuss and provide direction to City staff on the following strategies to address pension volatility and rising costs.

1. Establish Pension Volatility Reserve
  - a) Establish reserve target
  - b) Identify funding term
  - c) Identify additional funding sources
  - d) Identify eligible use scenarios
2. Further Refine Funding Policy
  - a) Annual Pension Update & Analysis
  - b) Reserve Targets
  - c) Consider a Surplus Use Policy

**Attachments:**

- A. GovInvest Pension Status Presentation