

# Pension Funding Update

Beaumont, CA



# Pension Funding Agenda



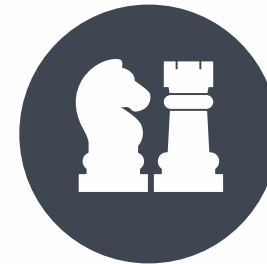
Pension Hurdles and Considerations



Volatility Stress Test



How is your agency doing relative to your funding targets?



Strategies & Tactics

# Pension Hurdles and Considerations

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# 2021 CalPERS Board Decisions



## **ASSUMPTION CHANGES**

Reduced Discount Rate Assumption from 7% to 6.8%

Reduced Inflation Rate Assumption from 2.5% to 2.3%

Increased Wage Growth Assumption from 2.75% to 2.8%

Other Demographic Assumptions Changes



**CalPERS Investment Return:  
June 30, 2021  
21.3% Investment Return**

**Experience Gain  
7% (Assumed) vs 21.3% (Actual) = +14.3%**

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>



**CalPERS Investment Return:  
June 30, 2022  
-6.1% Investment Return**

**Experience Loss  
6.8% (Assumed) vs -6.1% (Actual) = -12.9%**

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>

# 2021 Experience Gain Vs 2022 Experience Loss



	Invest	Gain/(Loss)
Invest	10,000	
<b>2021 Experience Gain</b>	<b>14.3%</b>	
6/30/2021 Balance	11,430	1,430
<b>2022 Experience Loss</b>	<b>-12.9%</b>	
6/30/2022 Balance	9,956	(1,474)
		(44)



# How Has Your Agency Been Impacted

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# Plan Funded Status Trend



Beaumont Funded Status Trend
<b>Accrued Liability</b>
<b>Market Value of Assets</b>
<b>Unfunded Accrued Liability (UAL)</b>
<b>Funded Percentage</b>

2019	2020	2021	2022	Change
\$82,970,879	\$90,442,292	\$103,480,939	\$114,762,921	\$11,281,982
\$62,959,012	\$68,431,486	\$90,339,743	\$84,303,684	\$6,036,059
\$20,011,867	\$22,010,806	\$13,141,196	\$30,459,237	\$17,318,041
75.88%	75.66%	87.30%	73.46%	13.84%



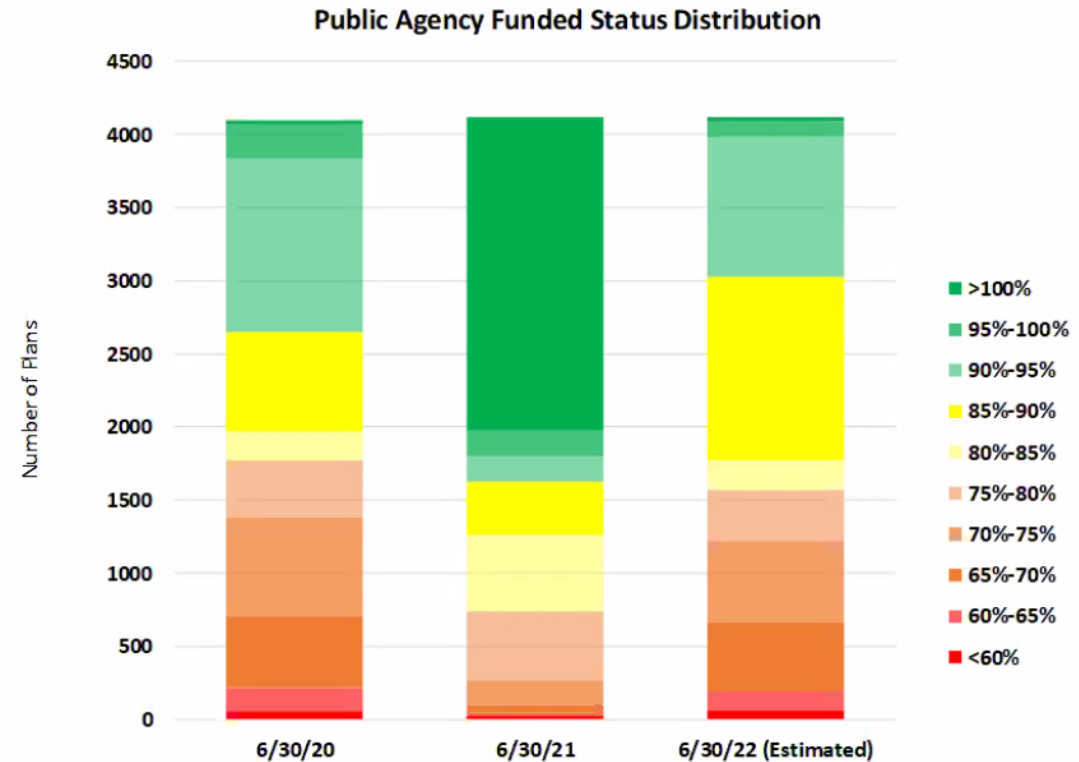
Assumption	7.00%	7.00%	7.00%	6.80%
Actual Experience	6.70%	4.70%	21.30%	-7.50%
Experience Gain/Loss	-0.30%	-2.30%	14.30%	-12.70%

# Comparison to Other Public Agencies



6/30/2022 Estimates —  
Public Agency  
Funded Ratios

Source:



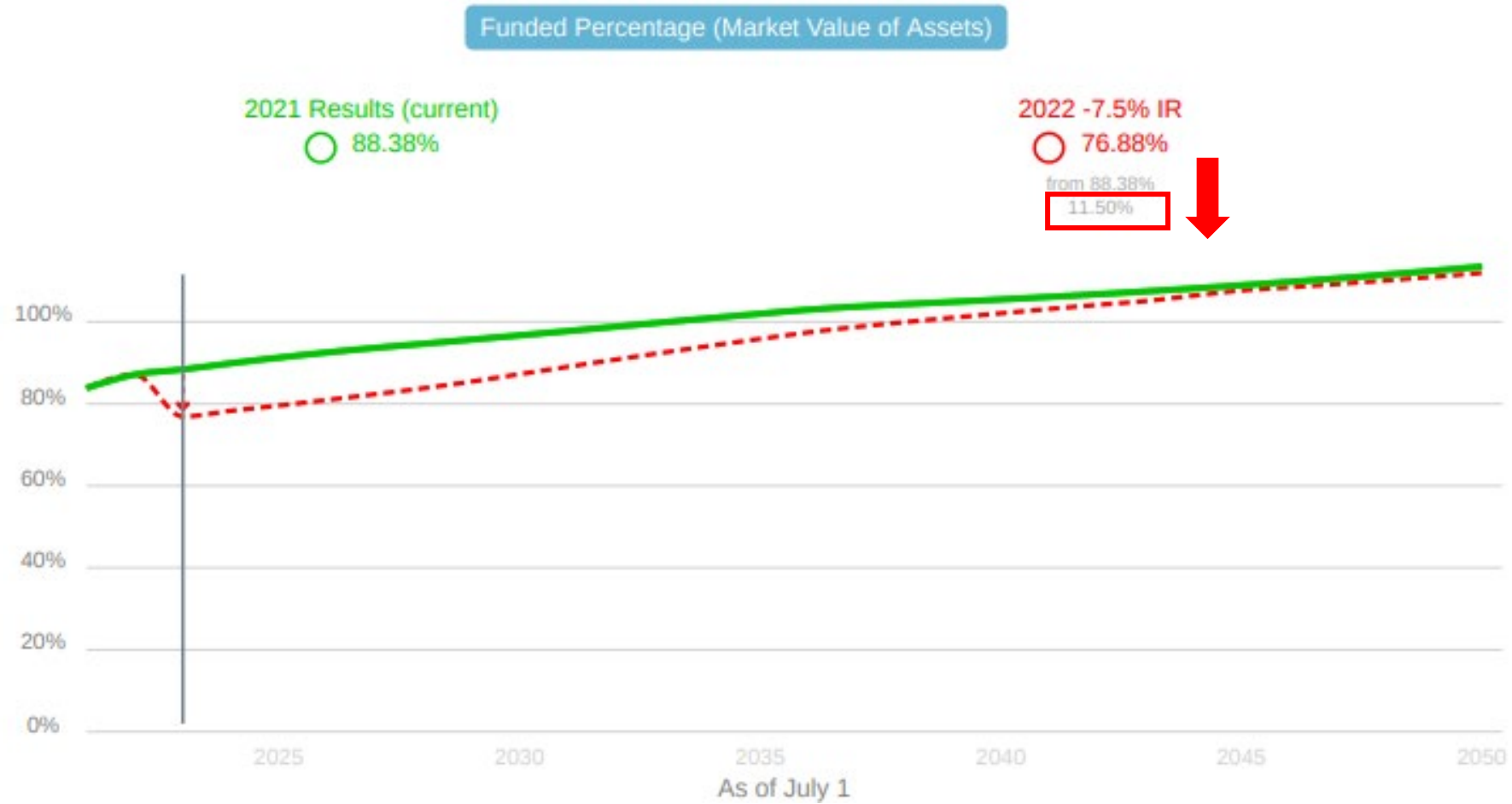
Total PERF 70.6% 81.2% 72%

**Beaumont 75.7% 87.3% 74%**

# Unfunded Accrued Liability (UAL) Comparison



# Projected Funded Status - 2022



# Total Required Employer Contributions



# Stress Test

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# Expect Volatility



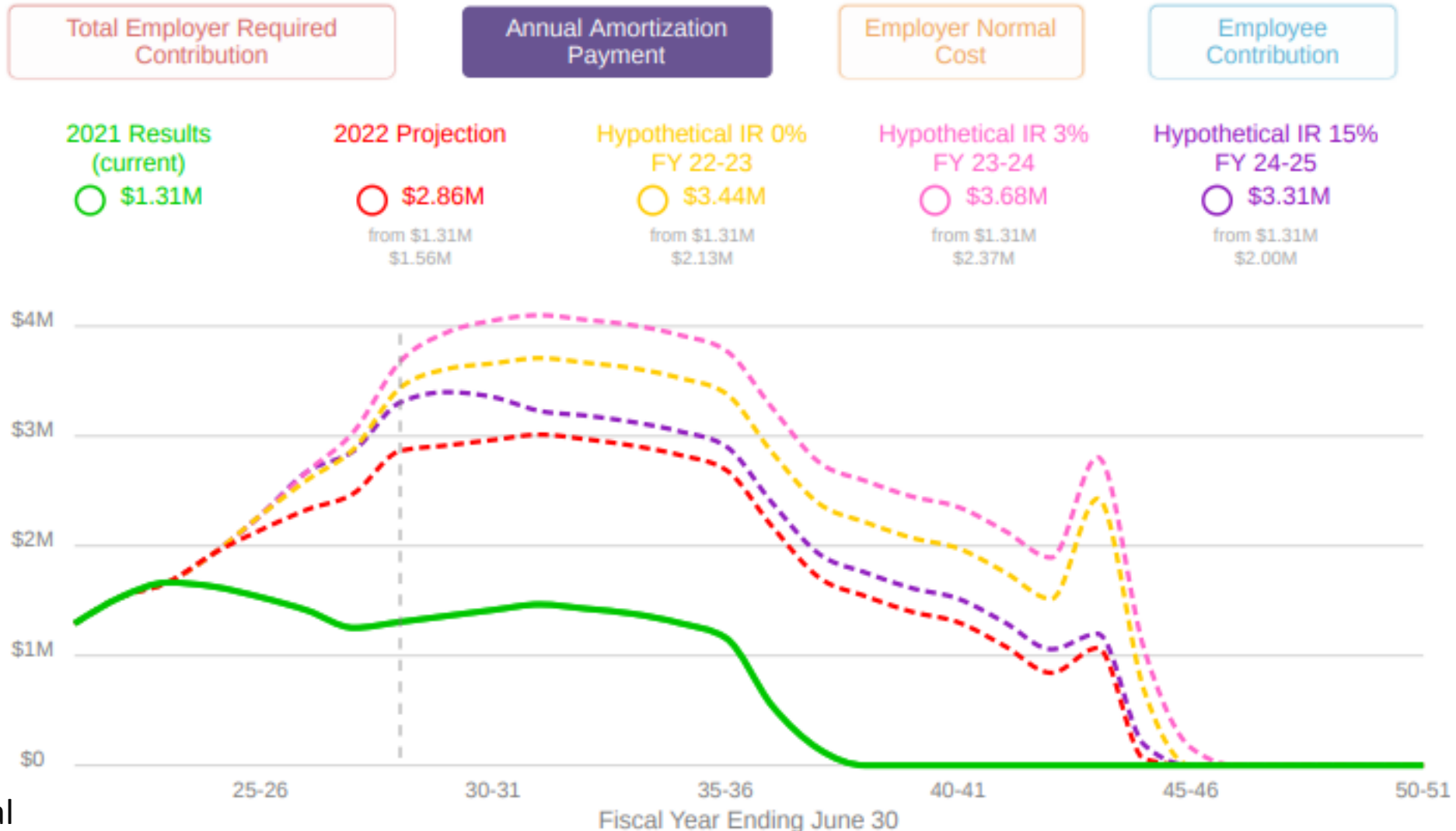
Unprecedented  
Market Dynamics



Source:



# Stress Test – Investment Volatility



Hypothetical



# Strategies & Tactics

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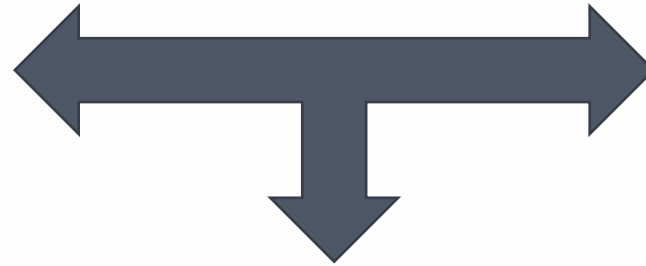
# Pension Goal Dilemma



1

Paydown UAL As Fast as Possible  
Maximize Interest Savings

Opposing Goals



2

Preserve Budget Flexibility In the  
Short to Medium Term

Long-term Methodical Approach  
Paydown UAL While Avoiding Pension Peaks

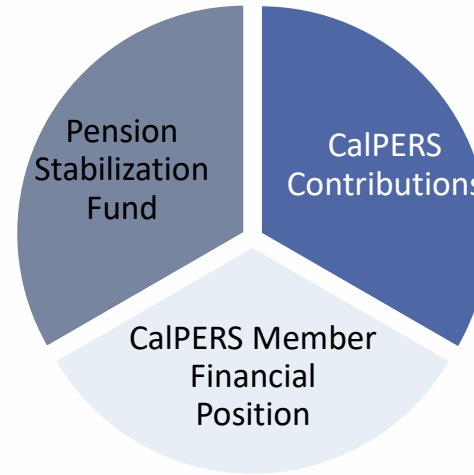
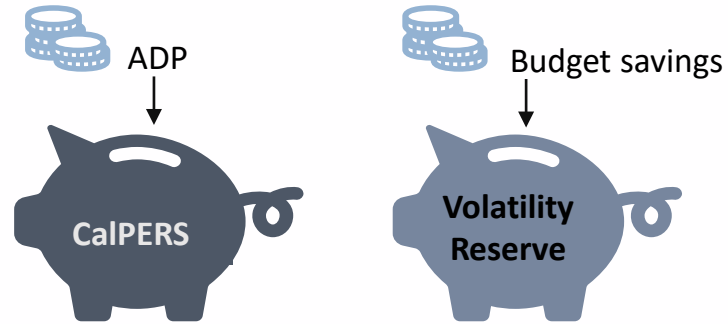
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# Pension Management Tools



- Additional Discretionary Payments
  - Near-term Savings
  - Long-term Savings
- Full or Partial Restructuring of UAL Payment Schedule
- Pension Volatility Reserve
  - Internal Reserve (Substantial Increase in Fixed Income Yields Over Last Yr.)
  - S115 Trust (Higher Potential Long-term Returns; Short Term Volatility) ✓
- Pension Funding/Reserve Policy ✓

# Consider a Balanced Approach



## Direct Contributions to CalPERS - ADP

- ▶ Reduces net pension liability in financial statements immediately
- ▶ Minimal impact on magnitude of future contribution

## Volatility Reserve – Internal Reserve or Section 115 Trust

- Allows entity to control cash flow to pension by using Volatility Reserve assets to augment contributions
- Creates the ability to stabilize contributions over the long term

# Policy Development



- Documents Pension Management Goals
- Demonstrates Council Intent to Fulfill Promised Benefit
- Demonstrates Long-term Fiscal Discipline
- Reassures Council commitment to Creditors, Staff & Stakeholders
- Provide General Roadmap for Staff and Future Councils

# Recommendations



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
3. Consider a Surplus Use Policy

# Questions





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