

UNFUNDED PENSION LIABILITY UPDATE

Administrative & Finance Committee

September 12, 2023



- The California Public Employees' Retirement System (CalPERS) releases their annual member agencies pension valuation updates every August.
- CalPERS experienced a loss on their overall investments of 6.1% in FY22, which is 12.9% below the long-run CalPERS actuarially estimated return of 6.8%.
- 10-year “soft fresh start” was targeted to fully pay off the District's UAL (which is the difference between the value of projected earned pension benefits and assets on deposit with CalPERS).
- This fresh start would require approximately 10 equal payments of \$1.16 million from FY24 to FY33 - prior to the FY22 CalPERS loss, which has significantly impacted the District's (and other CalPERS participating agencies) UAL

Change in District's UAL		
August 2022 Valuation		<u>\$ 11,387,290</u>
FY22 Investment Losses	5,888,098	
Actuarial Changes	761,720	
FY23 / FY24 UAL Payments	(2,388,888)	
August 2023 Valuation		<u><u>\$ 15,648,220</u></u>

- In addition to an increase in the UAL, the market value of the assets on deposit with CalPERS decreased due to the market loss,
 - \$40,878,817 in FY22 to \$38,551,734
- The overall funded percentage for the District's pension obligation declined from 78.2% to 71.1%

	2022	2023
Estimated Pension Benefits Earned	\$ 52,266,107	\$ 54,199,954
Market Value of Assets with CalPERS	(40,878,817)	(38,551,734)
District UAL	\$ 11,387,290	\$ 15,648,220
Funded Percentage	78.2%	71.1%

	2022 Valuation	2023 Valuation	Variance
FY25	\$ 1,014,983	\$ 1,237,473	\$ 222,490
FY26	\$ 971,345	\$ 1,338,195	\$ 366,850
FY27	\$ 924,495	\$ 1,435,706	\$ 511,211
FY28	\$ 858,476	\$ 1,514,048	\$ 655,572
FY29	\$ 892,025	\$ 1,691,957	\$ 799,932
FY30	\$ 926,523	\$ 1,726,455	\$ 799,932
FY31	\$ 961,983	\$ 1,761,915	\$ 799,932
FY32	\$ 998,434	\$ 1,798,366	\$ 799,932
FY33	\$ 978,970	\$ 1,778,902	\$ 799,932
FY34	\$ 957,367	\$ 1,757,298	\$ 799,931
FY35	\$ 912,241	\$ 1,712,172	\$ 799,931
FY36	\$ 852,447	\$ 1,652,380	\$ 799,933
FY37	\$ 135,978	\$ 935,911	\$ 799,933
FY38	\$ 102,880	\$ 902,811	\$ 799,931
FY39	\$ 67,551	\$ 867,484	\$ 799,933
FY40	\$ 54,332	\$ 854,263	\$ 799,931
FY41	\$ 52,822	\$ 852,754	\$ 799,932
FY42	\$ 11,235	\$ 722,868	\$ 711,633
FY43	\$ -	\$ 594,491	\$ 594,491
FY44	\$ -	\$ 1,029,531	\$ 1,029,531
FY45	\$ -	\$ 96,686	\$ 96,686
TOTAL	\$ 11,674,087	\$ 26,261,666	\$14,587,579

2022 Valuation - 10yr Soft Fresh Start

FY	Balance	Payment
2023	\$ 8,998,402	-
2024	8,484,945	1,158,190
2025	7,865,000	1,158,190
2026	7,202,899	1,158,190
2027	6,495,775	1,158,190
2028	5,740,567	1,158,190
2029	4,934,005	1,158,190
2030	4,072,596	1,158,190
2031	3,152,612	1,158,190
2032	2,170,069	1,158,190
2033	1,120,713	1,158,190

Total Payments	\$ 11,581,900
Interest Paid	\$ 3,096,596
Savings*	\$ 1,146,482

** Savings as compared to mandatory minimum amortization schedule with \$12,728,383 in total payments*

2023 Valuation - 10yr Soft Fresh Start

FY	Balance	Payment
2024	\$ 15,648,220	-
2025	15,557,310	2,123,564
2026	14,420,629	2,123,564
2027	13,206,654	2,123,564
2028	11,910,129	2,123,564
2029	10,525,440	2,123,564
2030	9,046,592	2,123,564
2031	7,467,182	2,123,564
2032	5,780,374	2,123,564
2033	3,978,863	2,123,564
2034	2,054,848	2,123,564

Total Payments	\$ 21,235,640
Interest Paid	\$ 5,678,328
Savings*	\$ 5,026,028

** Savings as compared to mandatory minimum amortization schedule with \$26,261,666 in total payments*

2022 Valuation - 10yr Soft Fresh Start

FY	Balance	Payment
2023	\$ 8,998,402	-
2024	8,484,945	1,158,190
2025	7,865,000	1,158,190
2026	7,202,899	1,158,190
2027	6,495,775	1,158,190
2028	5,740,567	1,158,190
2029	4,934,005	1,158,190
2030	4,072,596	1,158,190
2031	3,152,612	1,158,190
2032	2,170,069	1,158,190
2033	1,120,713	1,158,190
Total Payments		\$ 11,581,900
Interest Paid		\$ 3,096,596
Savings*		\$ 1,146,482

** Savings as compared to mandatory minimum amortization schedule with \$12,728,383 in total payments*

2023 Valuation - 15yr Soft Fresh Start

FY	Balance	Payment
2024	\$ 15,648,220	-
2025	15,557,310	1,632,019
2026	14,928,612	1,632,019
2027	14,257,163	1,632,019
2028	13,540,055	1,632,019
2029	12,774,184	1,632,019
2030	11,956,233	1,632,019
2031	11,082,662	1,632,019
2032	10,149,688	1,632,019
2033	9,153,272	1,632,019
2034	8,089,099	1,632,019
2035	6,952,563	1,632,019
2036	5,738,742	1,632,019
2037	4,442,381	1,632,019
2038	3,057,868	1,632,019
2039	1,579,208	1,632,019

Total Payments	\$ 24,480,285
Interest Paid	\$ 8,922,974
Savings*	\$ 1,781,382

** Savings as compared to mandatory minimum amortization schedule with \$26,261,666 in total payments*

- Staff **is not** requesting that the Committee make any recommendations currently for potential changes to the previously Board adopted strategy to pay-off the UAL in accordance with the Pension Funding Policy.
- These updated required UAL payments won't begin until July 2024, allowing for additional review of information and discussion prior to requiring the Board to make any specific decision(s).
- *Staff's recommendation is to first review the financial outcomes from FY23 in November during the presentation of the Annual Comprehensive Financial Report, which will show if the District is performing better / in-line with / or worse than projected during the long-range financial planning during the cost-of-service. Staff will present a recommendation to the Committee at that time to aid in addressing the increase in the UAL, which may include one or more of the following items;*
 - Implementation of a portion or all of the District's noticed 5.5% rate increase effective January 1, 2024 to yield additional revenue to continue to make advance payments on the UAL;
 - Utilization of District fund balance to make a one-time payment on the UAL;
 - Utilization of the Section 115 Pension Trust;
 - Extending the soft fresh start beyond the previously recommended 10-year time frame;
- One additional factor for consideration that needs additional analysis is that the CalPERS FY23 investment return was 5.8%, which is 1.0% below the actuarial projected return of 6.8%. This negative return variance will increase the District's (and all other CalPERS participating agencies') UAL and will need to be considered in any recommendation(s) made during November.