

City of Huntington Beach  
Finance Committee  
CalPERS Update – April 26, 2023

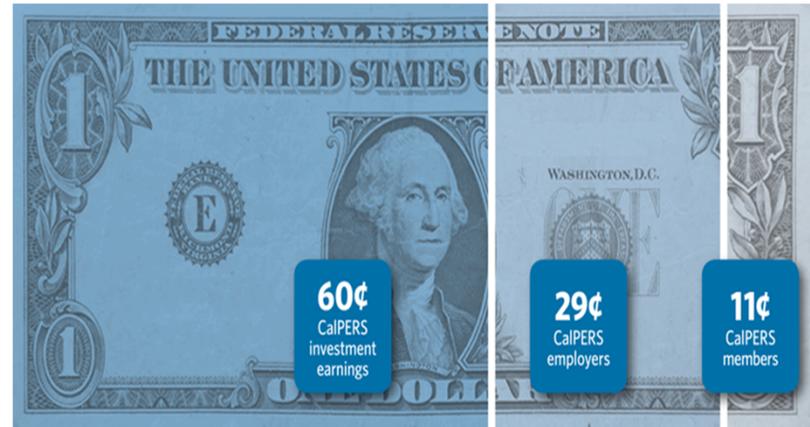
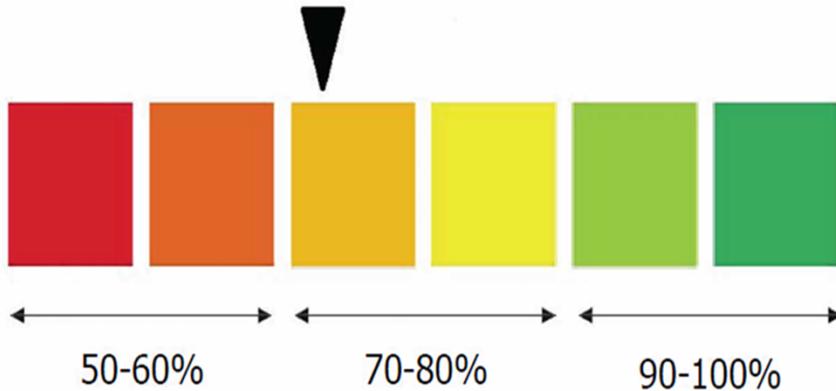


# Fiscal Year 2021-22 – Fiscal Status

**\$440 billion in assets**  
*(down from \$469b in prior year)*

**-7.5% net return on investments**  
*(21.3% in prior year)*

**72% funded status** *(from 82%)*



*Preliminary*

# 2021 Asset Liability Management (ALM) Study

- In 2021, CalPERS completed its most recent asset liability management study, which resulted in a change to the asset mix that is expected to have a long-term blended return that continues to support a discount rate assumption of 6.80%.

	Current Asset Mix	New Asset Mix
Global Equity	50%	42%
Fixed Income	28%	30%
Real Assets	13%	15%
Private Equity	8%	13%
Private Debt	0%	5%

## New Actuarial Assumptions

- On November 17, 2021, CalPERS adopted new actuarial assumptions based on recommendations in the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.
- Salary Growth 2.75% → 2.80%
- Inflation 2.50% → 2.30%
- Mortality – now fully generational based on 80% of SOA Mortality improvement table “MP 2020”

City of Huntington Beach  
Valuation Reports at June 30, 2021  
(Distributed in July 2022)



## June 30, 2021 Actuarial Valuation Results

- 2021 valuation reports set the contribution rates for FY 2023-24.
- FY 2020-21 investment return was 22.4%, overperforming the 7.0% target, which under the Funding Risk Mitigation Policy resulted in a decrease in the discount rate.
- Total unfunded liability decreased from \$454.9 million to an excess of \$41.6 million, while the total funded ratio increased from 68.1% to 102.8%
- The 2021 valuation reports do not reflect the 7.5% investment loss in FY 2021/22

# Actuarial Valuation Results

Miscellaneous Plan	June 30, 2020	June 30, 2021	June 30, 2022*
Accrued Liability	\$ 613,679,047	\$ 647,865,192	\$ 670,481,991
Market Value of Assets	\$ 442,266,727	\$ 671,531,383	\$ 596,832,426
Unfunded Liability	\$ 171,412,320	\$(23,666,191)	\$ 73,649,565
Funded Ratio	72.1 %	103.7 %	89.0 %

Safety Plan	June 30, 2020	June 30, 2021	June 30, 2022*
Accrued Liability	\$ 814,590,033	\$ 864,734,474	\$ 905,838,984
Market Value of Assets	\$ 531,072,489	\$ 882,667,461	\$ 788,891,163
Unfunded Liability	\$ 283,517,544	\$ (17,932,987)	\$ 116,947,017
Funded Ratio	65.2 %	102.1 %	87.1 %

\* Preliminary Valuation Results

# Normal Cost for Active Employees

## Blended Normal Cost Rates (as a % of Payroll)

	FY 2022-23	FY 2023-24	FY 2024-25*
Miscellaneous - Total NC	17.78%	18.93%	18.72%
Miscellaneous - Employer	<b>10.33%</b>	<b>11.22%</b>	<b>11.06%</b>
Safety – Total NC	30.30%	32.56%	32.24%
Safety - Employer	<b>20.46%</b>	<b>22.33%</b>	<b>21.91%</b>

- Normal cost represents the amount required to be paid to CalPERS for new pension benefits earned by active employees each pay period.
- Employees pay a portion of normal cost, which varies by bargaining group and benefit tier. (Misc - 8.00%/7.25%, Safety – 9.00%/13.00%/12.50%)
- Normal cost rates increase in FY 2023-24 largely due to changes associated with the Funding Risk Mitigation impact that resulted in a decrease in the discount rate to 6.8%. Normal cost rates were also impacted by changes to several demographic assumptions.

## UAL Payments – Valuation at June 30, 2021

	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25*</b>	<b>FY 2025-26*</b>
Miscellaneous	\$2,296,465	\$0	\$2,182,408	\$3,822,000
Safety	\$3,440,962	\$0	\$3,812,244	\$6,317,000

- UAL payments can be prepaid in July saving ½ year of interest (approx. 3.4%).
- Investment Gains/Losses are amortized over 20 years with a 5 year ramp
- Demographic Gains/Losses and Assumption changes are amortized over 20 years (no ramp).
- Additional Discretionary Payments can result in long-term savings

# Path Forward – Pension Outlook

### Economic Assumptions

Details	Baseline	Model
Discount Rate	6.800%	<b>6.800%</b>
Payroll Growth	2.800%	<b>2.800%</b>
Inflation Rate	2.300%	<b>2.300%</b>

### Investment Scenario Chosen

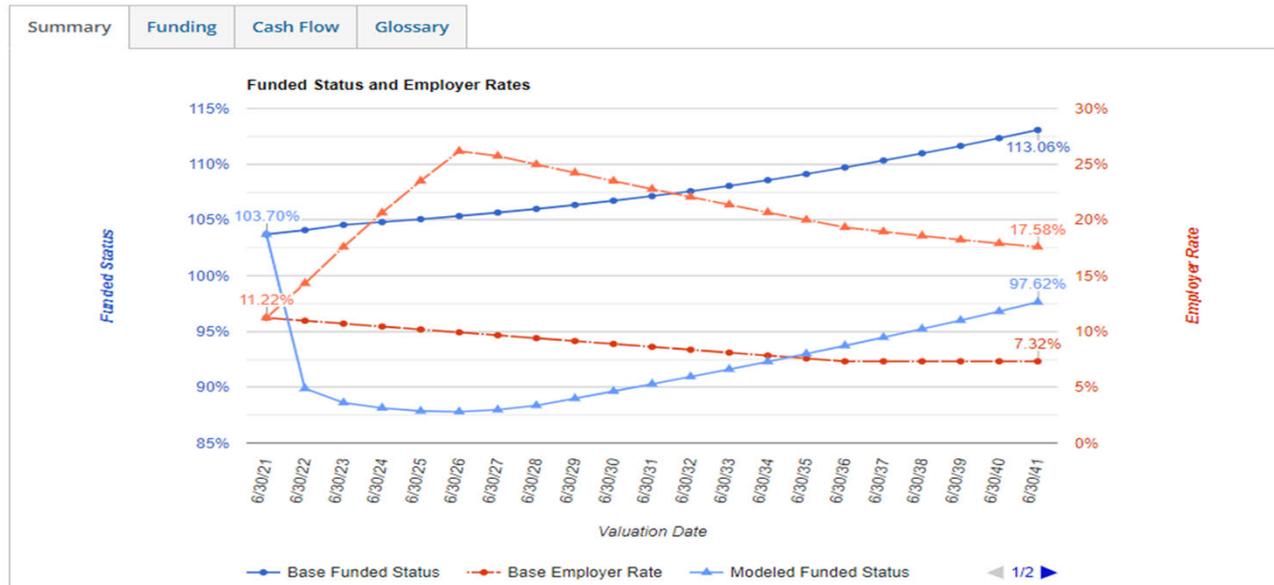
Rate	Period
-7.500%	1
5.500%	1
6.800%	1
6.800%	7
6.800%	10

### Other Assumptions

Details	Baseline	Model
PEPRA	Yes	<b>Yes</b>
Transition Years	15	<b>15</b>
ADP	No	<b>No</b>

### 30 Year Budget

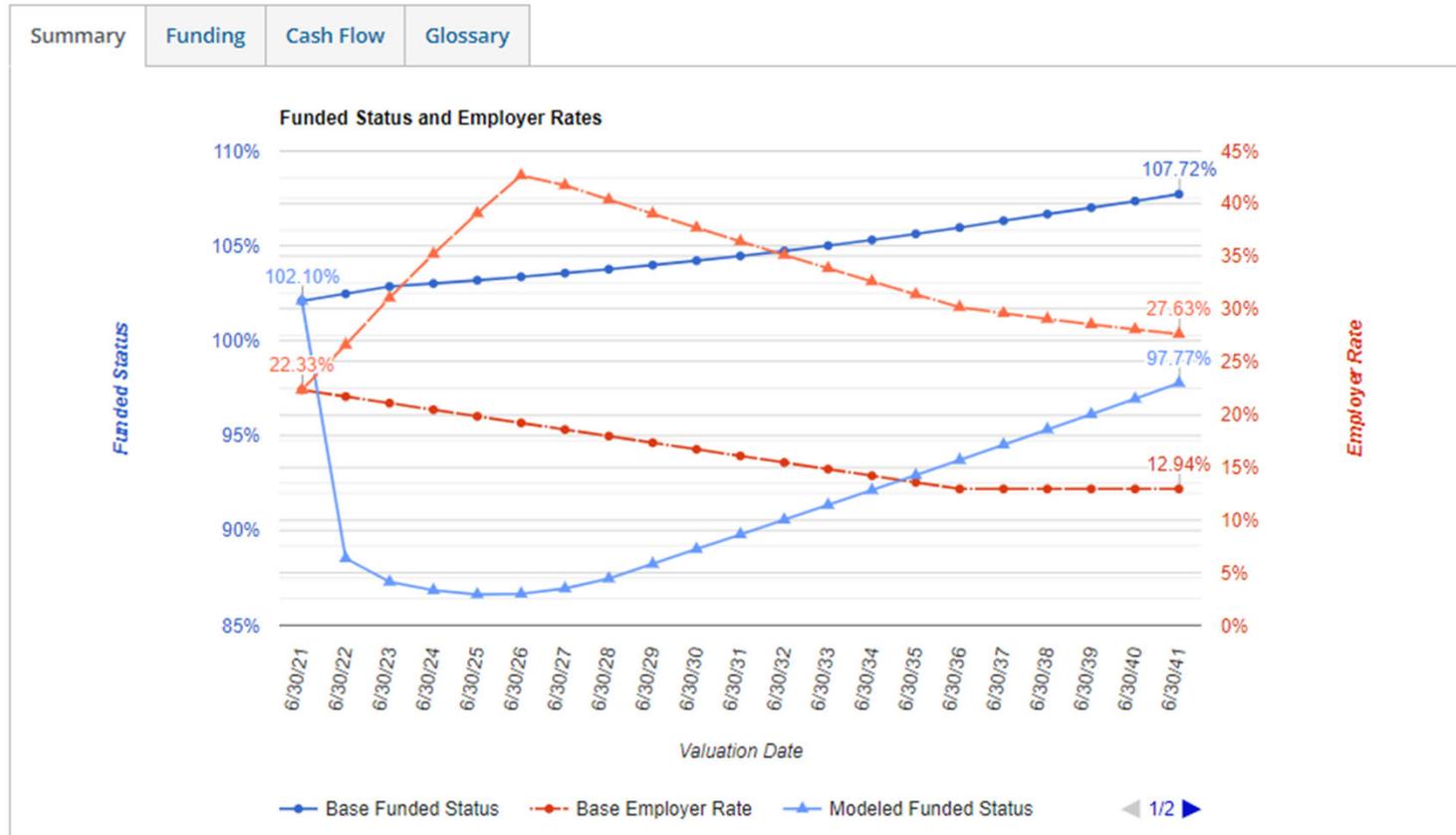
Download the [Fiscal Year Cost and Annual Relative Increase in Cost \(XLSX\)](#).



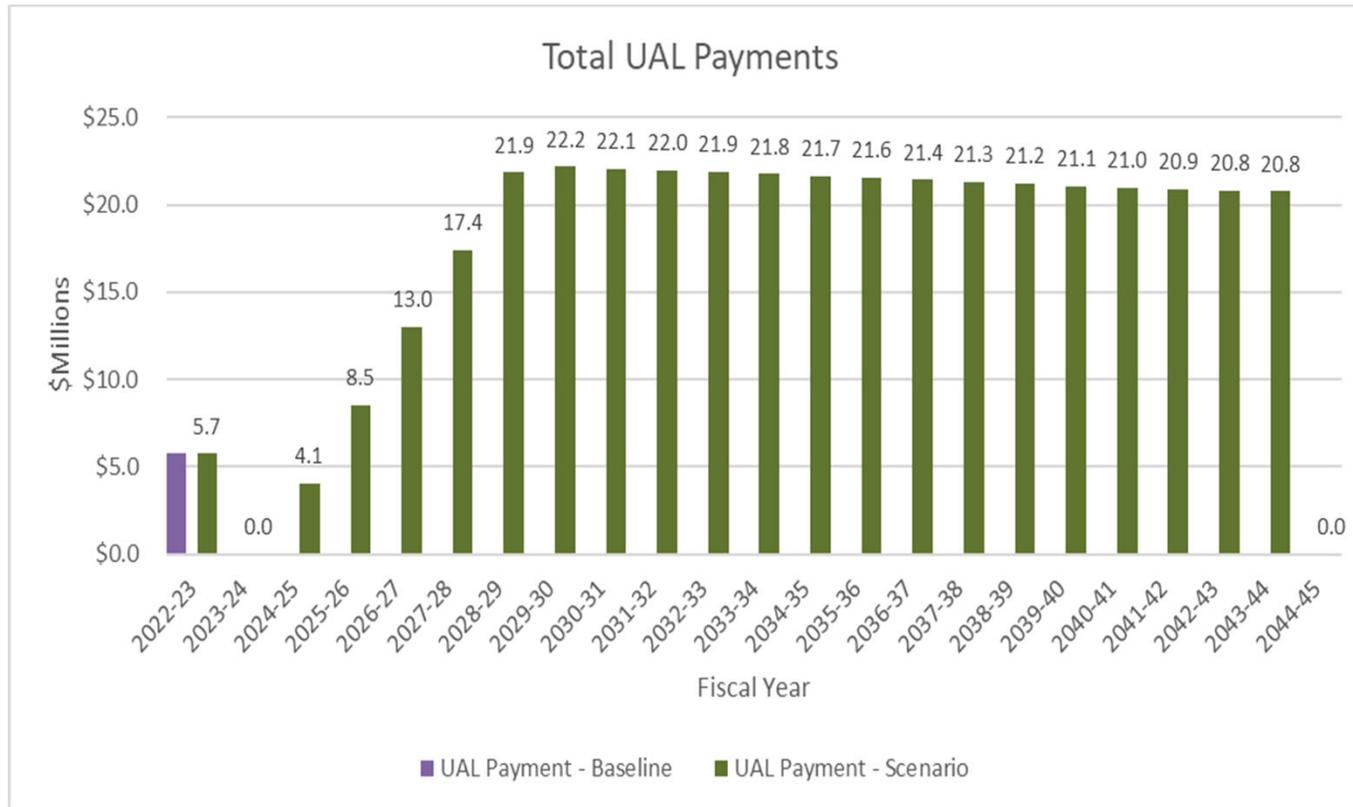
# Path Forward – Pension Outlook

30 Year Budget

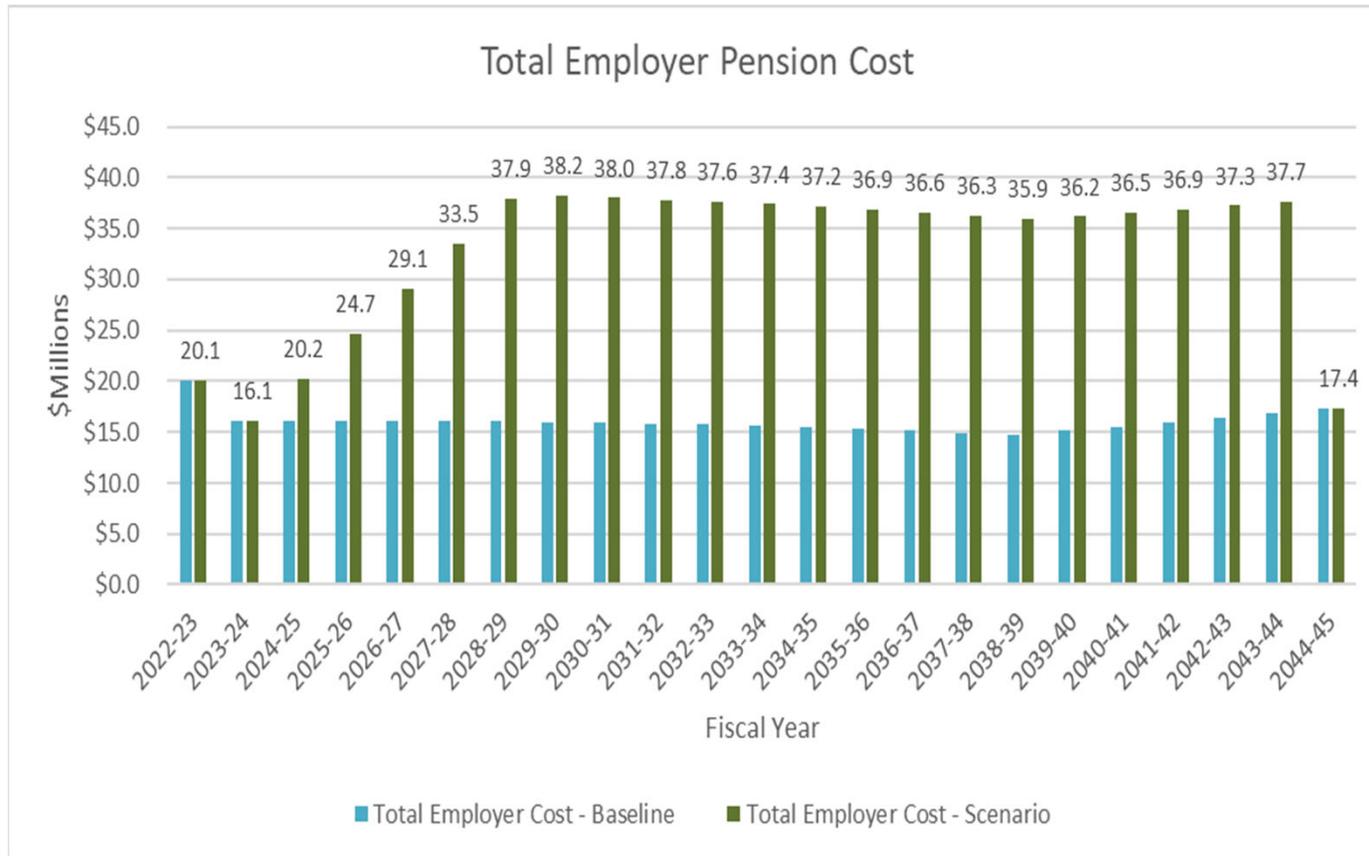
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# Path Forward – Pension Outlook Projected UAL Payments



# Path Forward – Pension Outlook Projected ER Cost



# Appendix Supplementary Information



# CalPERS Funding Risk Mitigation Policy

- Uses a portion of unexpected gains to de-risk the portfolio.

**If**

investment returns outperform discount rate by:

+2 pp → 8.8%

+7 pp → 13.8%

+10 pp → 16.8%

+13 pp → 19.8%

+17 pp → 23.8%

**then**

resulting discount rate will be:

6.75%

6.70%

6.65%

6.60%

6.55%

## Comparison To Other Orange County Employers

Agency	June 30, 2020, Valuation		June 30, 2021, Valuation		Change		
	UAL	Funded %	UAL	Funded %	UAL \$	UAL %	Funded %
City of Anaheim	884,308,082	69.6%	625,854,522	79.0%	(258,453,560)	-29.2%	9.4%
City of Brea *	44,240,756	72.0%	28,478,757	82.8%	(15,761,999)	-35.6%	10.8%
City of Buena Park *	45,947,839	69.8%	33,064,905	79.4%	(12,882,934)	-28.0%	9.6%
City of Costa Mesa	242,275,493	61.7%	189,671,106	71.5%	(52,604,387)	-21.7%	9.8%
City of Fullerton	282,857,335	66.6%	211,231,609	77.9%	(71,625,726)	-25.3%	11.2%
City of Garden Grove	329,315,311	64.7%	257,363,315	74.8%	(71,951,996)	-21.8%	10.1%
City of Huntington Beach	454,929,864	68.2%	(41,599,178)	102.9%	(496,529,042)	-109.1%	34.7%
City of Irvine	162,599,460	79.4%	71,891,554	91.4%	(90,707,906)	-55.8%	12.0%
City of La Habra *	33,462,226	74.1%	20,859,964	84.8%	(12,602,262)	-37.7%	10.7%
City of Laguna Beach *	31,849,617	75.5%	18,034,222	86.9%	(13,815,395)	-43.4%	11.4%
City of Mission Viejo *	23,921,524	76.3%	13,408,809	87.6%	(10,512,715)	-43.9%	11.3%
City of Newport Beach	333,046,257	69.2%	223,438,444	81.0%	(109,607,813)	-32.9%	11.8%
City of Orange	311,646,198	68.1%	(76,384,628)	107.8%	(388,030,826)	-124.5%	39.8%
City of Santa Ana	764,634,849	65.5%	574,282,144	75.4%	(190,352,705)	-24.9%	9.8%
City of Tustin *	31,572,384	76.7%	19,141,426	86.8%	(12,430,958)	-39.4%	10.1%
City of Westminster *	48,114,638	67.1%	33,948,569	77.7%	(14,166,069)	-29.4%	10.6%
City of Yorba Linda *	24,520,033	70.2%	16,703,379	81.0%	(7,816,654)	-31.9%	10.8%
Irvine Ranch Water District *	83,052,928	73.6%	52,029,692	84.5%	(31,023,236)	-37.4%	10.9%
Santa Margarita Water District *	37,650,157	67.3%	25,311,966	79.3%	(12,338,191)	-32.8%	12.0%

**POB's issued by Huntington Beach, Orange in FY 20-21, and by Santa Ana, La Habra and Buena Park in FY 21-22**

# Investment Tracker

