

# CITY OF PALOS VERDES ESTATES



## REPORT ON LONG-TERM PENSION OBLIGATIONS AND ANALYSIS OF CONTRIBUTING MORE THAN THE NORMAL PAYMENT AMOUNT

March 24, 2026



# BACKGROUND AND COUNCIL DIRECTION

- During FY 2025–26 budget discussions, City Council requested deeper analysis of long-term pension obligations.
- Focus area: evaluating options for contributing more than the minimum required employer contribution to CalPERS.
- Pension analysis builds on the City’s long-range strategic planning efforts initiated in 2019.

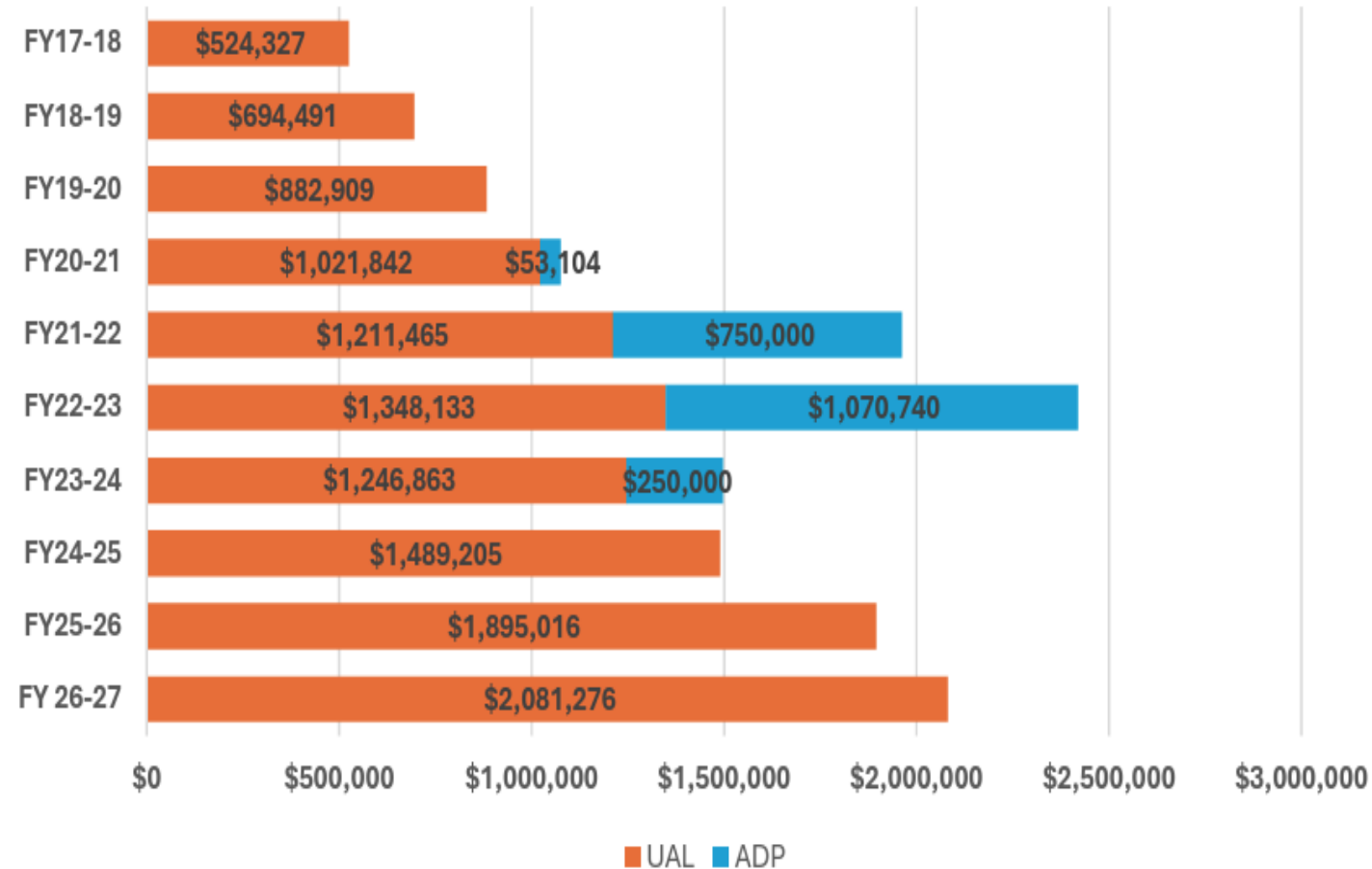
# CREATION OF PENSION AD HOC COMMITTEE

- In August 2019, Council established the Pension Ad Hoc Committee to study pension impacts on the City's financial sustainability.
- Committee led by Mayor Michael Kemps and Councilmember Victoria Lozzi.
- Committee's findings shaped subsequent policy decisions and are summarized in the referenced report.

# IMPLEMENTATION & FINANCIAL REALITIES

- City contributed \$2.07 million in Additional Discretionary Payments (ADPs) during FY 2021–22 through FY 2023–24.
- UAL (Unfunded Accrued Liability) payments increased from \$524K (FY17–18) to \$2.08M (FY26–27).
- Due to ongoing budget deficits and the upcoming Measure E expiration in FY 27–28, ADPs were not budgeted for FY 2024–25 or FY 2025–26.

UAL Payments and ADP's by Fiscal Year



# GOVINVEST ROLE & NEXT STEPS

- City contracts with GovInvest, serving ~300 California agencies, for actuarial analysis and forecasting.
- GovInvest provide updates on CalPERS investment results, actuarial assumption changes, and funding strategies.
- ADPs made to date have improved funded status and reduced long-term interest costs, but future contributions depend on the City's fiscal capacity.

# Pension Funding Update

Palos Verdes Estates, CA

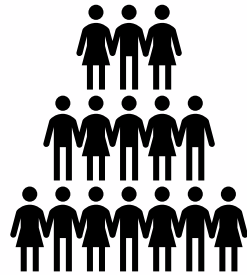


# Assumptions Set Future Cost & Funding Expectations



## Economic

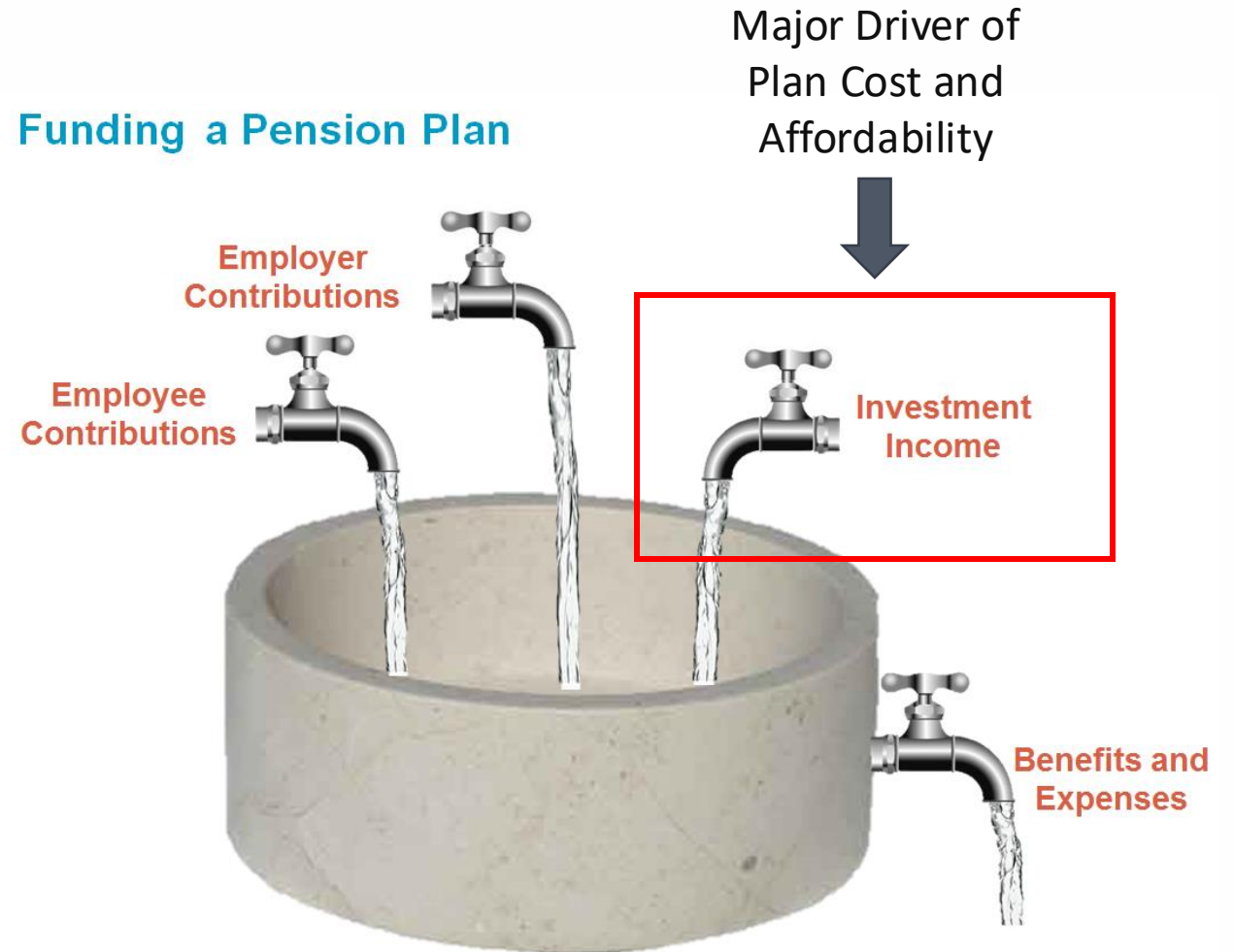
- Inflation
- Investment Return
- Salary Growth



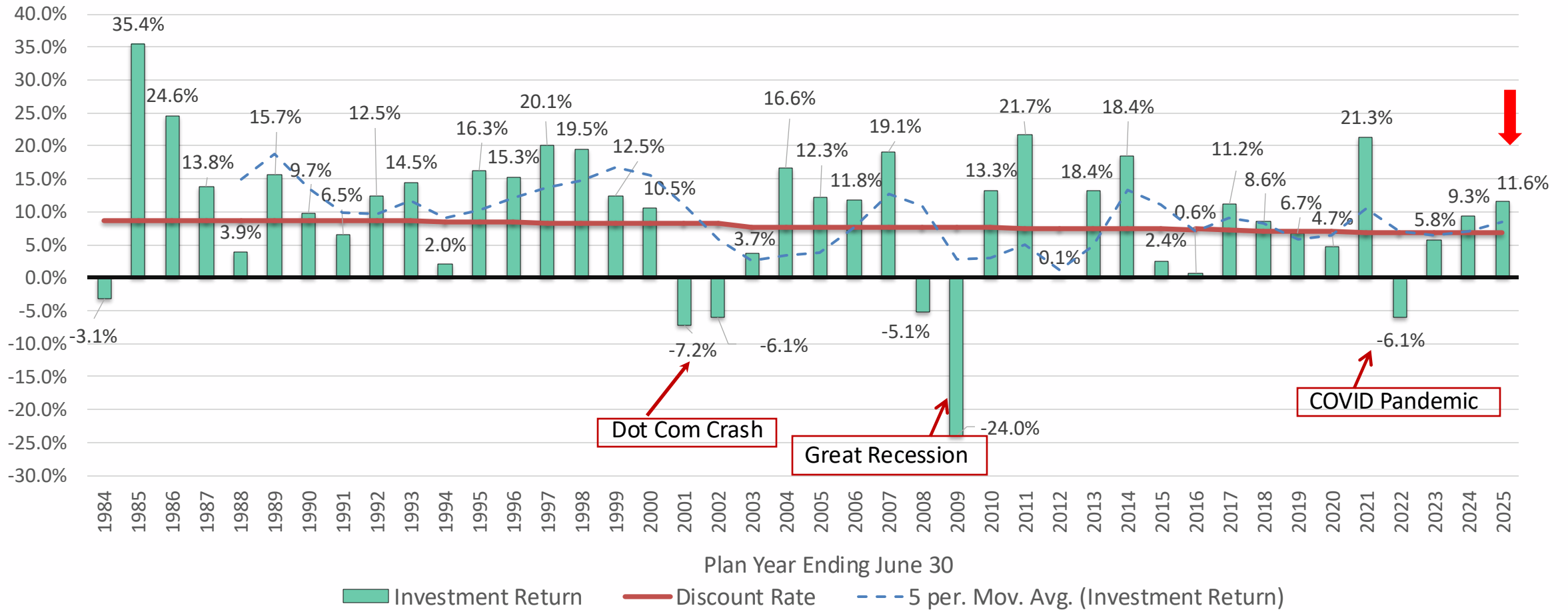
## Demographic

- Retirement
- Disability
- Death
- Termination

## Funding a Pension Plan



# CalPERS Historical Investment Returns\*



\* CalPERS Investment Office does not adjust reporting to reflect final adjusted return used by Financial Office to allocate investment income/losses to member agency plans.

| Compound Annual Return |        |        |         |         |         |
|------------------------|--------|--------|---------|---------|---------|
|                        | 1 Year | 5 Year | 10 Year | 20 Year | 30 Year |
| <b>June 30, 2025</b>   | 11.6%  | 8.0%   | 7.1%    | 6.7%    | 7.6%    |
| <b>June 30, 2024</b>   | 9.3%   | 6.6%   | 6.2%    | 6.7%    | 7.7%    |

# Changes to Actuarial Assumptions



## 2025 Experience Study Results

- **Discount Rate:** No change to current rate 6.8%
- **Inflation Rate:** Increase from 2.3% to 2.5%
- **Wage Growth:** Increase from 2.8% to 3.0%
- **Mortality:** Normal improvement progression

**Key Takeaway:** Assumption changes were relatively insignificant compared to a change to the discount rate.



# What Impact Will These Results Likely Have?

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# Funded Status Trend



| Fiscal Year End (FYE)            | Historical Trend - Actual |              |              |              |              | Projected    |
|----------------------------------|---------------------------|--------------|--------------|--------------|--------------|--------------|
|                                  | 2020                      | 2021         | 2022         | 2023         | 2024         | 2025         |
| Accrued Liability (AL)           | \$63,519,026              | \$67,397,116 | \$69,191,202 | \$72,230,951 | \$74,145,070 | \$76,977,972 |
| Market Value of Assets (MVA)     | \$44,294,685              | \$53,174,851 | \$47,527,184 | \$50,262,337 | \$52,760,415 | \$57,344,992 |
| Unfunded Accrued Liability (UAL) | \$19,224,341              | \$14,222,265 | \$21,664,018 | \$21,968,614 | \$21,384,655 | \$19,632,980 |
| <b>Agency Funded Status</b>      | 69.73%                    | 78.90%       | 68.69%       | 69.59%       | 71.16%       | 74.50%       |
| <b>CalPERS Funded Status</b>     | 70.60%                    | 81.20%       | 72.00%       | 72.00%       | 75.00%       | 79.00%       |
| <b>Investment Return</b>         |                           |              |              |              |              |              |
| Assumption                       |                           | 7.00%        | 6.80%        | 6.80%        | 6.80%        | 6.80%        |
| Actual                           |                           | 22.40%       | -7.50%       | 6.10%        | 9.50%        | 12.10%       |
| <b>Experience Gain(Loss)</b>     |                           | 15.40%       | -14.30%      | -0.70%       | 2.70%        | 5.30%        |

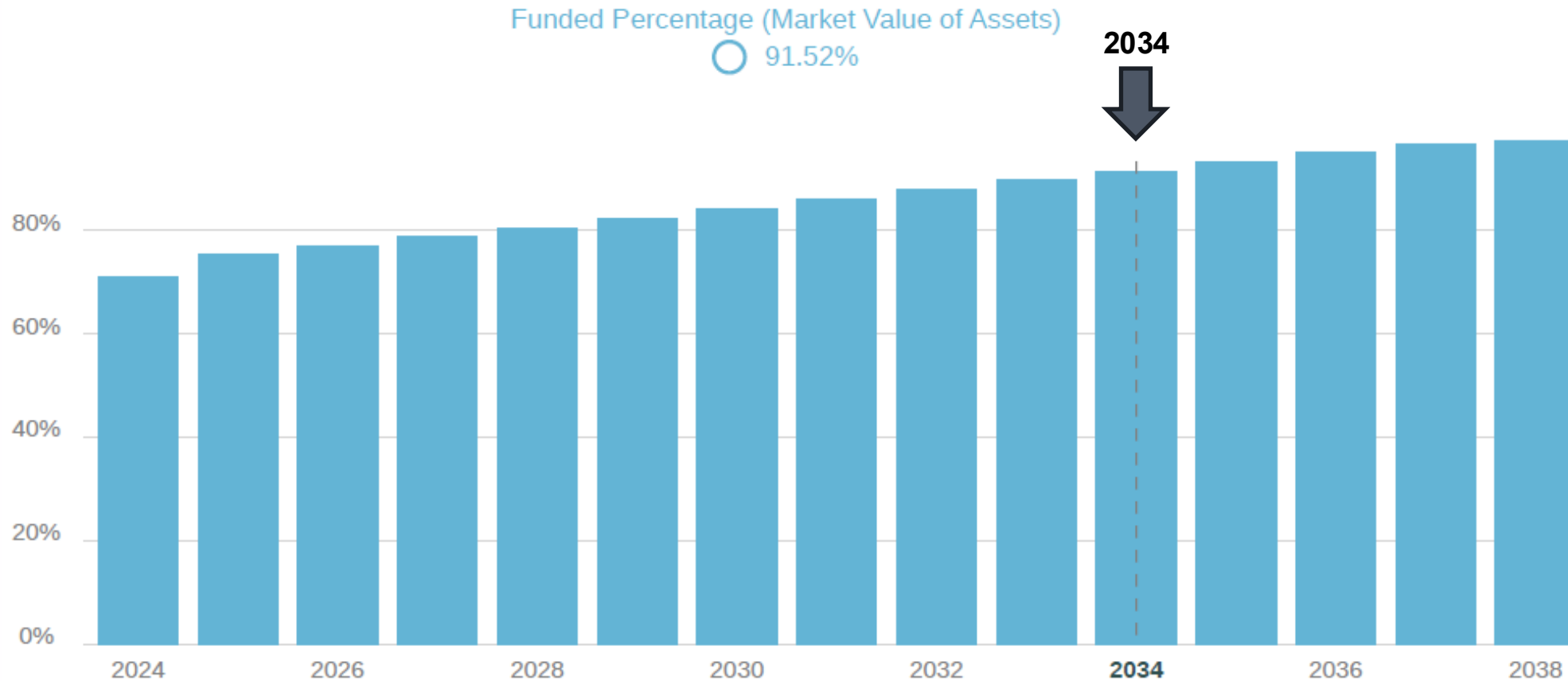
# Regional Comparison as of 6/30/24 Valuations



| 2024 Regional Comparison Table  |                |                              |                        |                                  |              |
|---|----------------|------------------------------|------------------------|----------------------------------|--------------|
| City  | Annual Payroll | Market Value of Assets (MVA) | Accrued Liability (AL) | Unfunded Accrued Liability (UAL) | Funded Ratio |
| <b>Cities with Pension Obligations Bonds or Lease Revenue Bonds to Reduce their Unfunded Pension Liability</b>    |                |                              |                        |                                  |              |
| Carson*   | \$ 32,530,439  | \$ 356,483,634               | \$ 383,381,424         | \$ 26,897,790                    | 93.00%       |
| Redondo Beach*  | \$ 44,232,652  | \$ 667,703,242               | \$ 718,680,282         | \$ 50,977,040                    | 92.90%       |
| Hawthorne*  | \$ 25,982,832  | \$ 483,610,266               | \$ 522,518,993         | \$ 38,908,727                    | 92.60%       |
| Manhattan Beach*  | \$ 35,622,852  | \$ 389,114,075               | \$ 421,052,011         | \$ 31,937,936                    | 92.40%       |
| Gardena*  | \$ 35,359,366  | \$ 445,506,718               | \$ 485,113,668         | \$ 39,606,950                    | 91.80%       |
| El Segundo*   | \$ 30,081,881  | \$ 457,223,809               | \$ 505,754,310         | \$ 48,530,501                    | 90.40%       |
| Torrance*   | \$ 120,719,938 | \$ 1,718,095,664             | \$ 1,984,011,377       | \$ 265,915,713                   | 86.60%       |
| <b>Cities without Pension Obligations Bonds or Lease Revenue Bonds to Reduce their Unfunded Pension Liability</b> |                |                              |                        |                                  |              |
| Lawndale  | \$ 3,113,506   | \$ 30,506,534                | \$ 42,209,305          | \$ 11,702,771                    | 72.30%       |
| Rancho Palos Verdes   | \$ 6,744,573   | \$ 45,195,988                | \$ 62,848,046          | \$ 17,652,058                    | 71.90%       |
| Palos Verdes Estates  | \$ 3,479,008   | \$ 52,760,415                | \$ 74,145,070          | \$ 21,384,655                    | 71.20%       |
| Hermosa Beach   | \$ 10,652,751  | \$ 149,654,787               | \$ 216,530,131         | \$ 66,875,344                    | 69.10%       |
| Lomita  | \$ 2,847,641   | \$ 24,935,043                | \$ 36,297,388          | \$ 11,362,345                    | 68.70%       |

NOTE: \*denotes the use of Pension Obligations Bonds or Lease Revenue Bonds to reduce their unfunded pension liability

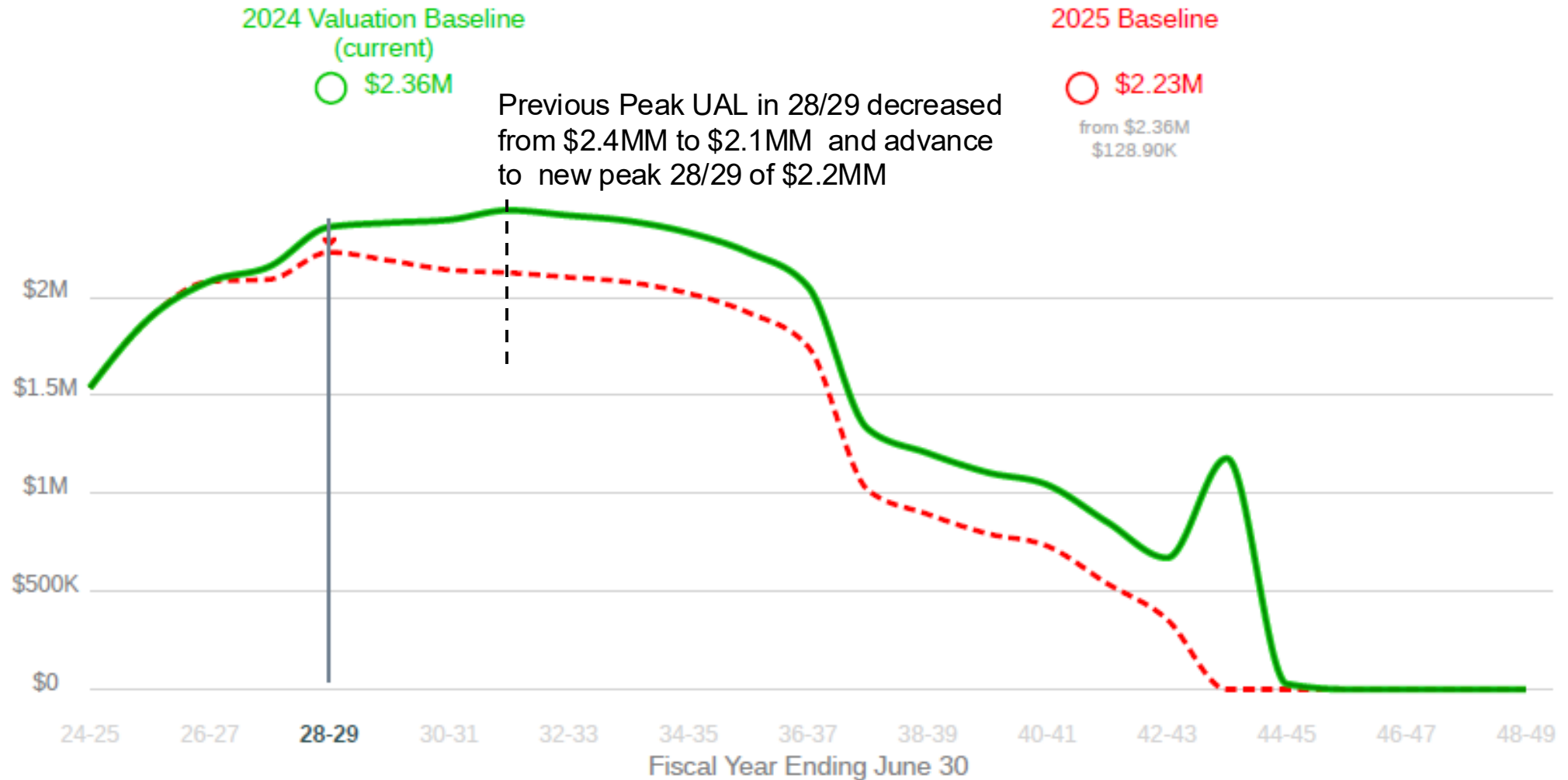
# 2025 Default Baseline Projection



## Projection Assumptions:

- 1) This scenario represents the 2025 baseline projection including the 2025 favorable investment return and experience study assumptions.
- 2) City makes no Additional Discretionary Payments (ADPs) but continues to make its required employer contributions.
- 3) Most importantly, the baseline projection assumes all future actuarial assumptions are exactly met, including investment returns.

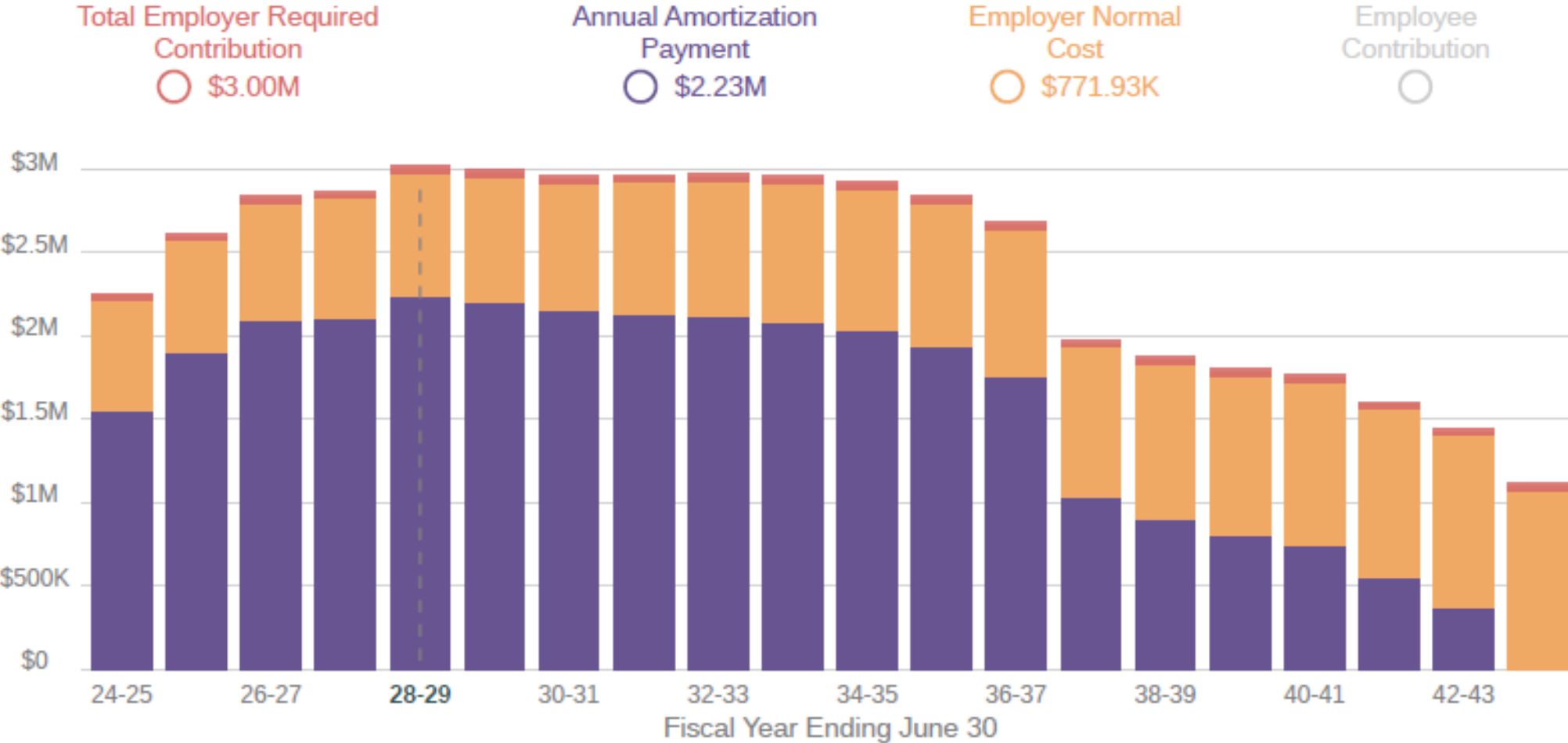
# Impact of 2025's 12.1% Investment Return



**Notes:**

- 1) Includes adverse impact of wage growth increase from 2.8% to 3.0% annually effected 2025.
- 2) Peak UAL Payment improved and decreased from FY 31/32 to 28/29

# Total Projected Required Employer Contribution



**6/30/25 Baseline Assumption:**

Favorable 12.1% investment return experience, 6.8% thereafter. Wage growth assumption increased from 2.8% to 3.0% effective 2025. Based on current assumptions and known experience, Total Required Employer Contribution is estimated at \$3.0M.

# When Will City Reach Funded Status of ~90%

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# Modeled Scenario Modifications to Baseline



**Pessimistic Scenario 1)** CalPERS underperforms, earning 6.0% in FY 25/26 and all subsequent years. City makes ADPs\* of \$1.3MM annually starting FY 26-27 through FY 34-35, No Further ADPs planned – **City reach 90% Funded Status By 2032\*\***

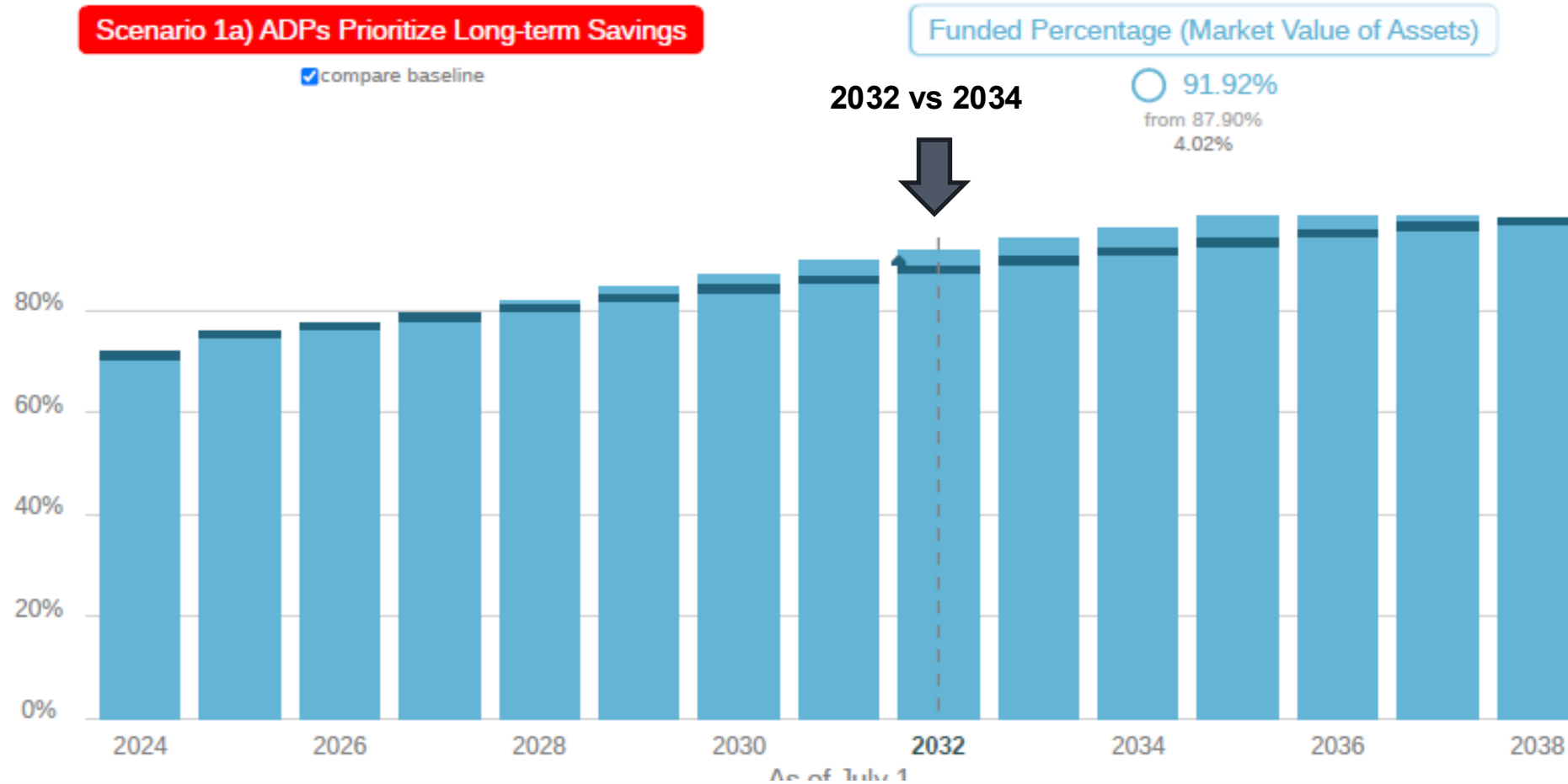
**Optimistic Scenario 2)** earns expected investment return of 6.8% in FY 25/26 and all subsequent years. City makes ADPs\* of \$1.3MM annually starting FY 26-27 through FY 34-35, No Further ADPs planned – **City reaches 90% Funded Status by 2030\*\***

## Notes:

\* ADPs applied to Safety Plan – Note Effective 2024 all benefit tiers (Classic and PEPRAs rate plans) were combined into a Single Safety plan; asset by benefit tier are no longer tracked separately.

\*\* Assumes also future actuarial assumptions, except investment return, if applicable, were exactly met.

# Scenario 1 Compared to 2025 Baseline

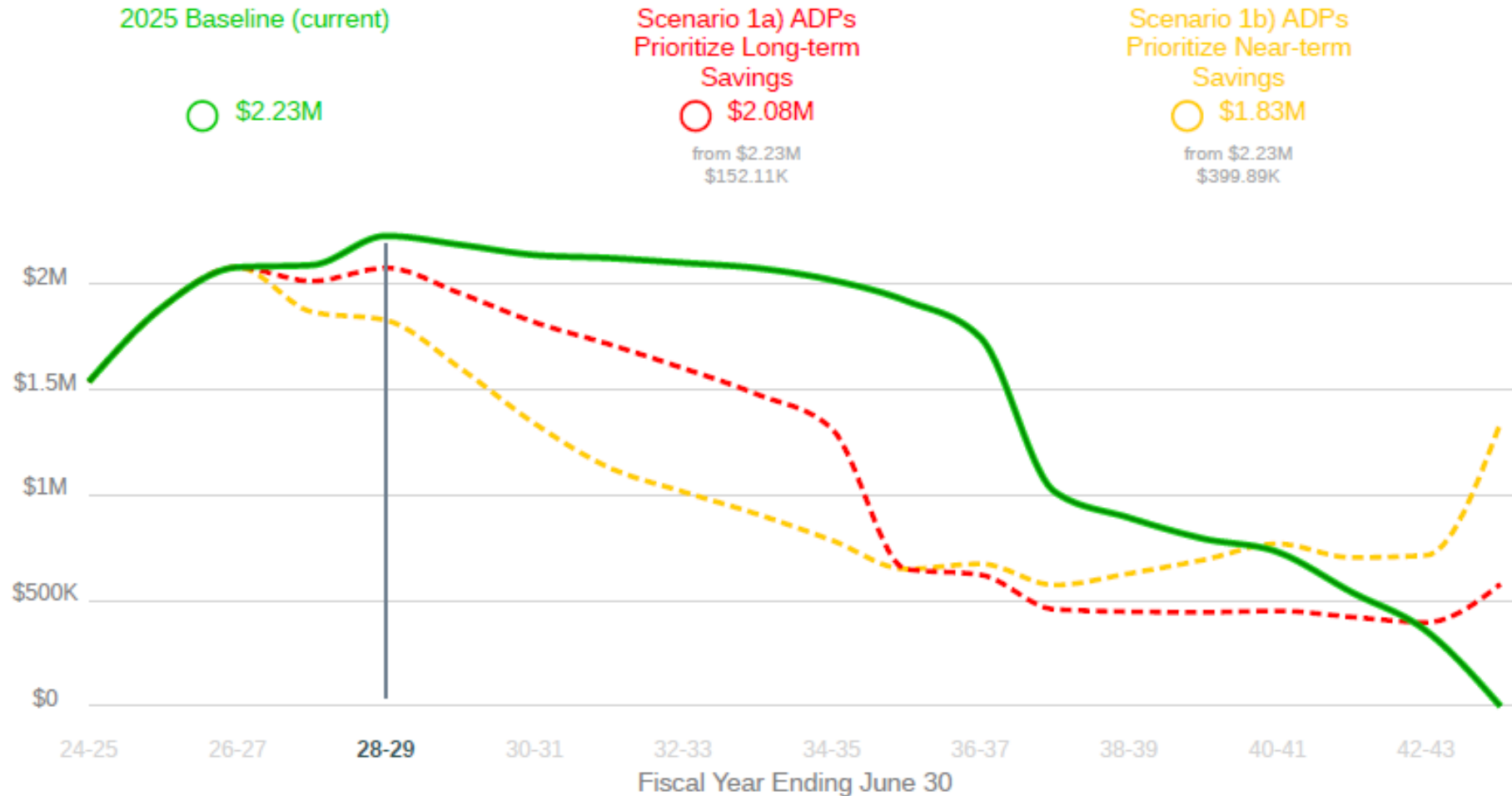


## ASSUMPTIONS

1. Assumes persistent 6% CalPERS annual investment returns
2. \$1.3MM ADPs from 26-27 to 34-35, consistent with long-term fiscal forecast assumptions.

**Scenario 1** CalPERS only earns 6.0% in FY 25/26 and all subsequent years. City makes ADPs of \$1.3MM annually starting FY 26-27 through FY 30/31.

# Scenario 1) Long-term vs Near Term Cash Flow Priority



## ASSUMPTIONS

1. Assumes persistent 6% CalPERS annual investment returns
2. \$1.3MM ADPs from 26-27 to 34-35, consistent with long-term fiscal forecast assumptions.

### Notes:

Scenario 1a) Prioritizes long UAL bases increasing long-term savings but sacrifice near-term cash flow requirements.  
 Scenario 1b) Prioritizes short UAL bases increasing near-term cash flow savings sacrificing some long-term savings.  
 Both Scenarios hypothetical advance funded status to approximately 2030 vs 2034 if all assumptions are exactly met.

# Scenario 2 Compared to 2025 Baseline



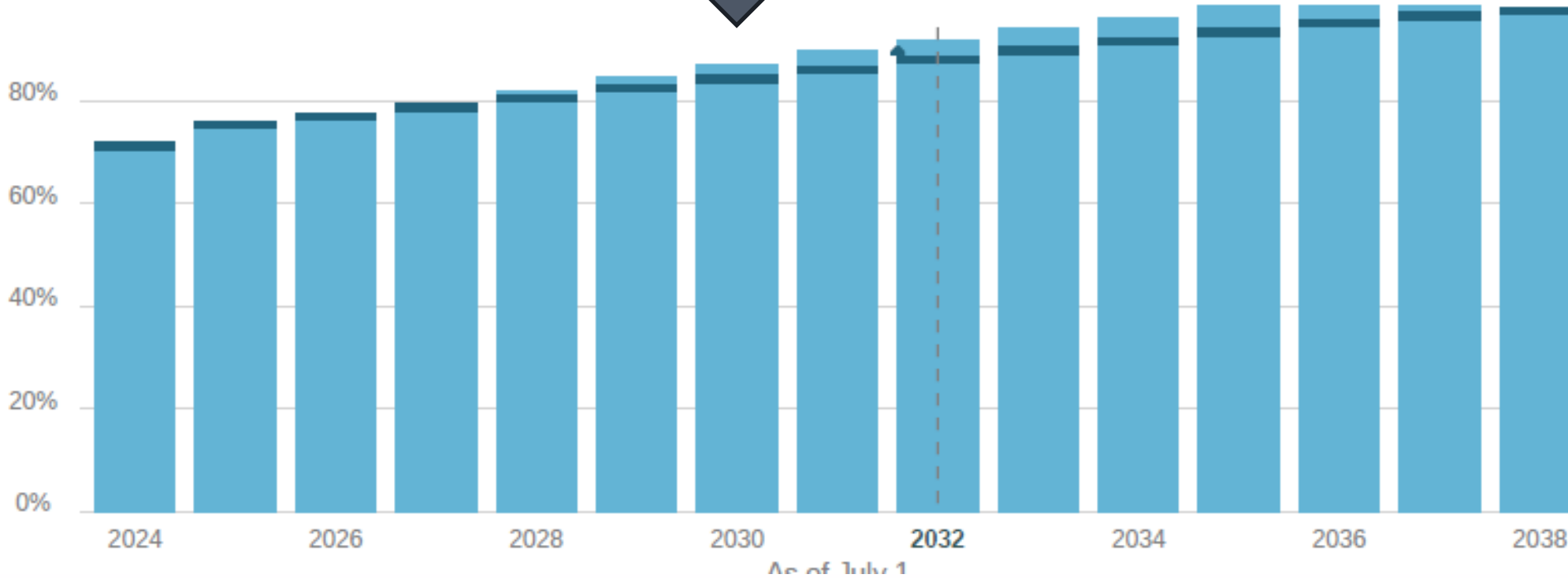
## Scenario 1a) ADPs Prioritize Long-term Savings

compare baseline

## Funded Percentage (Market Value of Assets)

○ 91.92%  
from 87.90%  
4.02%

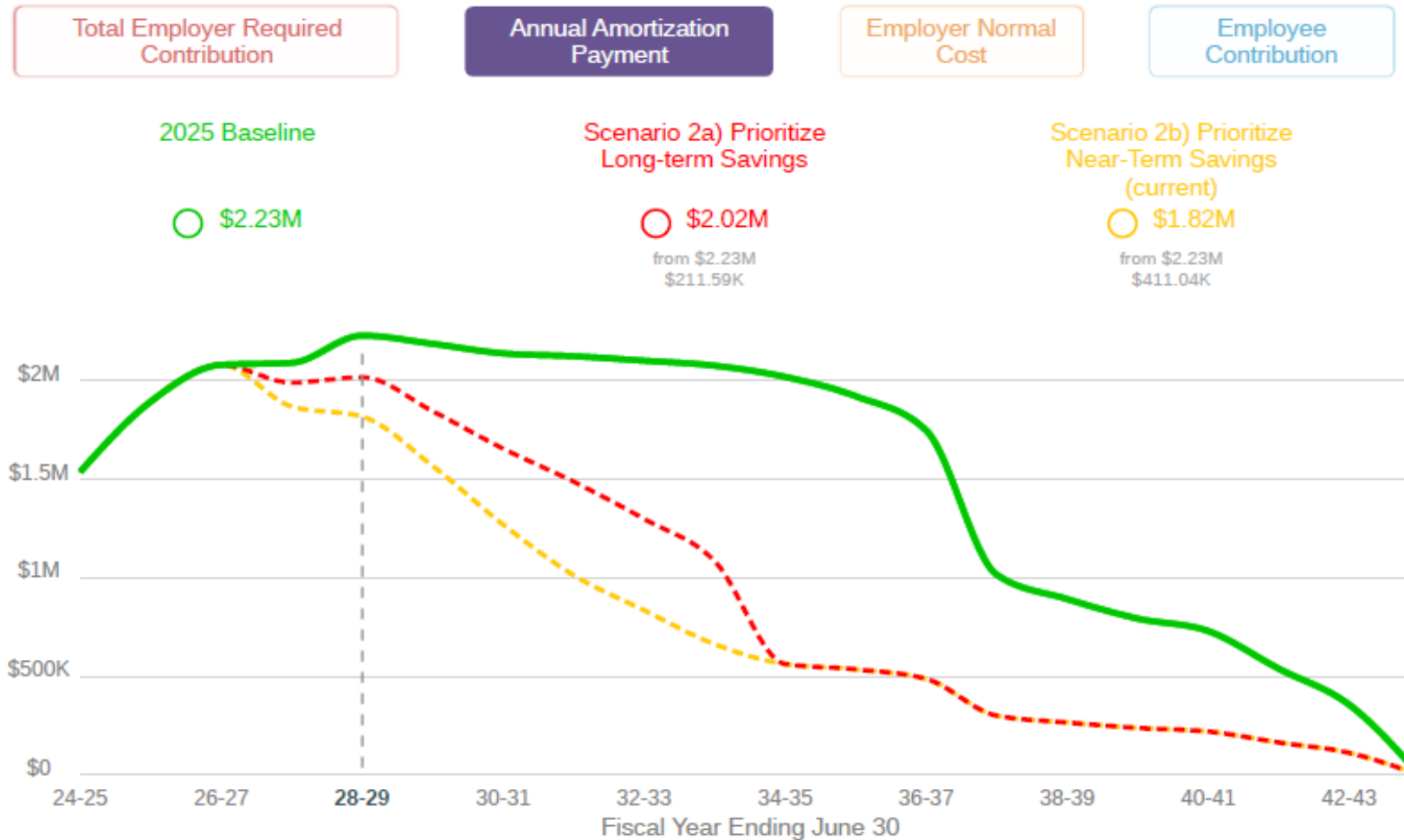
2030 vs 2034



## ASSUMPTIONS

1. Assumes expected 6.8% CalPERS annual investment returns and
2. \$1.3MM ADPs from 26-27 to 34-35, consistent with long-term fiscal forecast assumptions.

# Scenario 2) Long-term vs Near Term Cash Flow Priority



## ASSUMPTIONS

1. Assumes expected 6.8% CalPERS annual investment returns and
2. \$1.3MM ADPs from 26-27 to 34-35, consistent with long-term fiscal forecast assumptions.

### Notes:

Scenario 1a) Prioritizes long UAL bases increasing long-term savings but sacrifice near-term cash flow requirements.  
 Scenario 1b) Prioritizes short UAL bases increasing near-term cash flow savings sacrificing some long-term savings.  
 Both Scenarios hypothetical advance funded status to approximately 2030 vs 2034 if all assumptions are exactly met.

# Scenario Comparison



| As of July 1 | 2025 Baseline | Scenario 1a) ADPs Prioritize Long-term Savings | Scenario 1b) ADPs Prioritize Short-term Bases Savings | Scenario 2a) ADPs prioritize Long-term Savings | Scenario 2b) ADPs prioritize Near-term Savings |
|--------------|---------------|--|---|--|--|
| 2024         | 71.16%        | 71.16%   | 71.16%  | 71.16%   | 71.16%   |
| 2025         | 75.43%        | 75.43%   | 75.43%  | 75.43%   | 75.43%   |
| 2026         | 76.95%        | 76.37%   | 76.37%  | 76.95%   | 76.95%   |
| 2027         | 78.70%        | 79.18%   | 79.18%  | 80.38%   | 80.38%   |
| 2028         | 80.45%        | 81.86%   | 81.68%  | 83.70%   | 83.55%   |
| 2029         | 82.35%        | 84.60%   | 84.11%  | 87.08%   | 86.68%   |
| 2030         | 84.23%        | 87.19%   | 86.26%  | 90.31%   | 89.55%   |
| 2031         | 86.06%        | 89.62%   | 88.09%  | 93.35%   | 92.12%   |
| 2032         | 87.90%        | 91.92%   | 89.68%  | 96.25%   | 94.42%   |

**Scenario 1)** CalPERS underperforms, earning 6.0% in FY 25/26 and all subsequent years. City makes ADPs\* of \$1.3MM annually starting FY 26-27 through FY 34-35, No Further ADPs planned – **City reach 90% Funded Status By 2032\***

**Scenario 2)** earns expected investment return of 6.8% in FY 25/26 and all subsequent years. City makes ADPs\* of \$1.3MM annually starting FY 26-27 through FY 34-35, No Further ADPs planned – **City reaches 90% Funded Status by 2030\***

\* Assumes all future actuarial assumptions are exactly met, except investment return scenario

# Observations



- The City is making meaningful progress toward its pension funding objectives.
- That progress will likely be uneven over time, as market volatility and actuarial experience can periodically interrupt the path toward improved funded status.
- Based on current projections, required UAL contributions are expected to peak in FY 2028–29, assuming future actuarial assumptions are met.
- Ultimately, Council will need to determine how to implement ADP's and how to balance long-term and short-term needs.

# CONCLUSION

- Staff recommends that the City Council receive and file the report.



**THANK YOU**