

Pension Debt/ Unfunded Accrued Liability Update

The City’s annual accrued unfunded liability, or UAL payment, is a significant annual cost and consideration in budget development since the re-emergence of this payment in FY 2024-25. This summary provides Council current information about upcoming unfunded liability payments, including some recent positive projections related to two consecutive years of CalPERS investment returns in excess of its 6.8% target rate.

In the City’s most recent CalPERS valuation, dated July 2025, the City had a combined approximately \$51.0 million unfunded accrued liability, funded at approximately 92.9%, broken down as below:

	Valuation Date	6/30/2025
	Unfunded Accrued Liability (\$ millions)	Funded Level
Miscellaneous	9.5	96.3%
Safety	41.4	91.0%
Combined	\$ 51.0	92.9%

Based on this information, the City’s required unfunded accrued liability (UAL) payment for the current fiscal year is \$4.2 million. This data reflects FY 2023-24 investment return, of 9.6%. The same valuation projects UAL payments increasing by close to \$1 million annually through FY 2028-29 to \$6.1 million, then leveling off at that amount for the next several years. Those projections assume that CalPERS meets, but does not exceed, its 6.8% return rate, or discount rate.

In FY 2024-25, CalPERS posted an 11.6% investment return, well ahead of its 6.8% target. While the City will not receive a new valuation until July 2026, the agency provides a projection tool with which cities can forecast the unfunded accrued liability total and payments applying more recent data, including the impact of the positive investment returns. This will also include the impacts of actuarial assumption adjustment changes made as part of the four-year Asset Liability Management (ALM review).

Staff has run the projection including these adjustments, and the result is very positive for unfunded liability and funded level. The projection estimates a new unfunded accrued liability of \$18.8 million, and combined 97.8% funded level, broken down as below (**PLEASE NOTE:** this is an estimate, and the final valuation will differ from these results, particularly with inclusion of plan experience – how salaries, longevity, plan makeup – compare to assumptions):

	Projection (Estimate)	
	Unfunded Accrued Liability (\$ millions)	Funded Level
Miscellaneous	(2.72)	101.0%
Safety	21.5	95.5%
Combined	\$ 18.8	97.8%

While the improvement to total unfunded liability does not immediately reduce the City’s required unfunded liability payment – this will remain at \$4.3 million for FY 2026-27 - the updated forecast shows

significant improvement to projected UAL payments compared to the prior projection, with the possibility of further improvements should CalPERS' investments continue the past two years' positive performance. CalPERS' most recent data (through Q2 2025, December 31, 2025) shows a 7.7% fiscal year to date return. Staff will continue to monitor and report to Council on changes to the City's potential ongoing required payments.

Attachment: Projection using updated assumptions and FY 2024-25 investment returns, run March 2026.

Fiscal Year Cost (in \$M)

Combined	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	2037-38	2038-39	2039-40
Combined														
UAL Payment	\$ 4.31	\$ 3.63	\$ 3.58	\$ 2.82	\$ 2.02	\$ 1.46	\$ 1.44	\$ 1.42	\$ 1.39	\$ 1.37	\$ 1.35	\$ 1.33	\$ 1.30	\$ -
UAL - Scenario	\$ 16.80	\$ 13.60	\$ 10.57	\$ 7.38	\$ 4.75	\$ 2.77	\$ 1.22	\$ (0.41)	\$ (2.14)	\$ (3.98)	\$ (5.92)	\$ (7.98)	\$ (10.17)	\$ (12.48)
Funded Ratio	97.8%	98.2%	98.7%	99.1%	99.4%	99.7%	99.9%	100.1%	100.3%	100.5%	100.7%	100.9%	101.1%	101.3%
Miscellaneous														
UAL Payment	\$ 0.84	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
UAL - Scenario	\$ (3.39)	\$ (4.44)	\$ (4.78)	\$ (5.14)	\$ (5.53)	\$ (5.95)	\$ (6.40)	\$ (6.87)	\$ (7.38)	\$ (7.93)	\$ (8.52)	\$ (9.15)	\$ (9.82)	\$ (10.54)
Funded Ratio	101.3%	101.6%	101.7%	101.8%	101.9%	102.0%	102.1%	102.3%	102.4%	102.5%	102.7%	102.8%	103.0%	103.1%
Safety														
UAL Payment	\$ 3.47	\$ 3.63	\$ 3.58	\$ 2.82	\$ 2.02	\$ 1.46	\$ 1.44	\$ 1.42	\$ 1.39	\$ 1.37	\$ 1.35	\$ 1.33	\$ 1.30	\$ -
UAL - Scenario	\$ 20.19	\$ 18.05	\$ 15.35	\$ 12.53	\$ 10.29	\$ 8.72	\$ 7.62	\$ 6.46	\$ 5.24	\$ 3.96	\$ 2.60	\$ 1.16	\$ (0.35)	\$ (1.95)
Funded Ratio	95.8%	96.3%	96.9%	97.5%	98.0%	98.4%	98.6%	98.8%	99.1%	99.3%	99.5%	99.8%	100.1%	100.3%

Source: CalPERS Pension Forecasting Tool

For 2027-28 and later years, assumed 6.8% return

NOTE: This is an estimate only and will change, maybe significantly, based on actual plan experience (year 1) and investment returns (outyears)