



CITY OF SAN RAMON PENSION FUNDING POLICY

Purpose

The City's Pension Funding Policy documents the method the City will use to determine its annual pension contributions to fund the long-term cost of benefits to the plan participants and annuitants. The policy also:

- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded

Nothing in this funding policy shall constitute an obligation upon the City, nor an implied contract. The City Council may revoke or amend this policy in the best interests of the City.

Background

The City provides defined benefit retirement benefits through the California Public Employees' Retirement System (CalPERS). CalPERS is a multiple-employer public employee defined benefit pension plan.

All full-time and certain part-time City employees are eligible to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities with the State of California. Benefit provisions and all other requirements are established by state statute.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the City will utilize to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants.

Pension Funding: A Guide for Elected Officials, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

- Actuarially Determined Contributions. A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
- Fund Discipline. A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
- Intergenerational equity. Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives from those employees.
- Contributions as a stable percentage of payroll. Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
- Accountability and transparency. Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

Policy

A. Actuarially Determine Contribution (ADC)

CalPERS actuaries will determine the City's ADC to CalPERS based on annual actuarial valuations. The ADC will include the normal cost for current service and amortization of any under-funded amount. The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions approved by CalPERS Board of Administration.

The City will review the CalPERS annual actuarial valuations to validate the completeness and accuracy of the member census data and the reasonableness of the actuarial assumptions.

B. Section 115 Pension Trust Contribution

In an effort to address long-term pension costs and rising unfunded liabilities, the City established a Section 115 Trust to pre-fund pension obligations. The City will consider making contributions to the Pension Trust with one-time General Fund resources, with the objectives of increasing the plan's funded status, by reducing the unfunded actuarially accrued liability, lowering annual pension contribution volatility and reducing ongoing pension costs.

C. Additional Discretionary Payment (ADP) Contribution

Additional Discretionary Payment (ADP) Contributions are additional contributions made by the City to CalPERS. When funds in the Section 115 Pension Trust are sufficient, the City will periodically consider making ADP contributions with one-time General Fund resources and money from the Section 115 Pension Trust, with the objectives of increasing the plan's funded status, by reducing the unfunded actuarially accrued liability, and reducing ongoing pension costs.

D. Transparency and Reporting

Funding of the City's pension plans should be transparent to vested parties including plan participants, annuitants, the City Council and San Ramon residents. In order to achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for the City's CalPERS plans shall be made available to the City Council.
- The City's Comprehensive Annual Financial Report shall be published on its website. This report includes information on the City's annual contributions to the pension systems and their funded status.
- The City's annual operating budget shall include the City's contributions to CalPERS.

E. Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. As such, the City will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated.