City of West Covina

Pension Funding Policy

Adopted – May 19, 2020

I. PURPOSE

The City's Pension Funding Policy documents the method the City will use to determine its actuarially determined 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;
- Create sustainable and affordable budgets for pensions;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

II. BACKGROUND

The City provides defined benefit retirement plan 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 within 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.

- **Funding 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 services 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.

III. POLICY

A. **Actuarially Determined 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 the 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. **Additional Discretionary Payment (ADP) Contribution.** The City will consider making ADP contributions with one-time General Fund resources, with the objectives of increasing the plan's funded status, by reducing the unfunded actuarially accrued liability, and reducing ongoing pension costs.

C. **Pension Obligations Bonds.** The City will consider pension obligation bonds if such bonds have expected savings using borrowing costs and CalPERS' discount rate.

The City and its advisors will discuss and consider the risks of any potential pension obligation bonds.

Any pension obligation bonds, or refundings of pension obligation bonds, must be voted upon by the City Council.

D. **Contributions as a Manageable Budget Expense.** The City will always make its required annual contributions to CalPERS. Contributions should be stable and a manageable portion of revenue. The City may:

- Make additional discretionary contributions directly to CalPERS.
- Consider establishing a pension stabilization trust, subject to approval by the Council.
- Issue, call, or refund pension obligation bonds.

E. **Transparency and Reporting.** Funding of the City's pension plans should be transparent to vested parties including plan participants, annuitants, the City Council, and 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.

F. **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 two years.