

POLICY: Pension Funding Policy

ESTABLISHED: October 17, 2023

RESOLUTION NO.: [104-23](#); **DATE:** October 17, 2023

I. Pension Funding Policy

A. Introduction

The following policy has been developed in response to significant annual pension cost increases as a result of current and retired employees living longer, lower than anticipated investment returns by CalPERS over the last several years, reduction in Discount Rate and CalPERS adopted policies that require all cities to payback all Unfunded Actuarial Liability (“UAL”) over thirty years for unfunded liability prior to June 30, 2019 valuations and over twenty years for any new unfunded liability. This policy will formalize a funding mechanism to be used at the City’s discretion to help offset future pension cost increases.

B. General Information

The City of Richmond (the “City”) approved a new contract to create a combo Section 115 Trust account on July 19, 2022, for pension prefunding. The combo Section 115 Trust account is administered by Public Agency Retirement Services (“PARS”) and allows the City to prefund Pension and Other Post-Employment Benefits (“OPEB”). The funds that are contributed to the Trust account can only be used to pay Pension and OPEB; the City can utilize these funds to pay for such costs during fiscal emergencies.

C. Policy Funding Objectives

The primary funding objectives of this Policy are to:

1. Address the increasing annual employer required UAL contributions due to variances in actual experience versus CalPERS actuarial assumptions including investment returns.
2. Prefunding the Trust Fund account can help the City improve its UAL funding ratio faster.
3. Provide budgetary flexibility during challenging budget years or to “smooth” payment spikes that could cause financial stress on the City.

D. Funding Guidelines

This Policy establishes guidelines for setting the employer contribution to pre-fund rising pension costs.

1. The City shall continue to make annual UAL prepayment to CalPERS in the beginning of each Fiscal Year, resulting in an estimated 3.4 percent discount compared to paying the UAL monthly. The City shall place the prepayment savings into the Trust account.
2. The City shall place 10 percent of each year-end operating surplus (Total Actual Revenues minus Total Actual Expenditures, including Transfers In and Transfers Out) in the General Fund in excess of the City's Minimum Reserve Policy into the Trust.

E. Review of Funding Policy

Funding Pension requires a long-term plan. The City will review this policy annually and make changes as necessary. Annually checking the CalPERS actuarial valuations to determine if changes to this policy are necessary to ensure adequate resources are being accumulated to fund Pension.