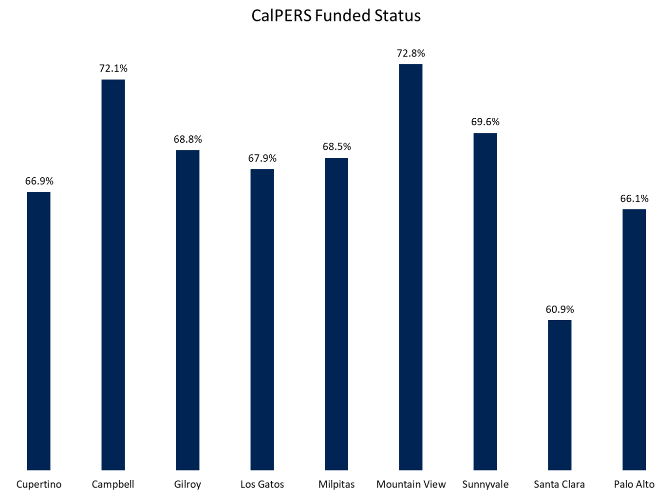
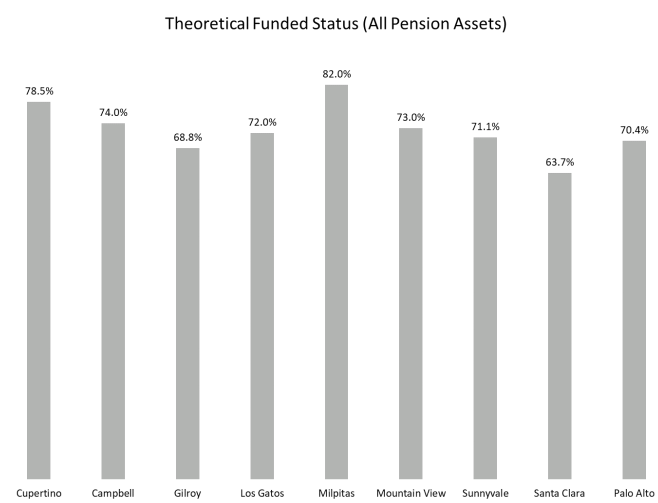
Comparison of Pension Liability Funding with Other Cities

Like most pension plans in the country, the City's CalPERS plan does not have enough money to cover its obligations. As of the most recent actuarial valuation, the City's CalPERS plan had $99.4 million in assets versus $148.5 million in liabilities. As a result, the funded ratio, or ratio of assets to liabilities, was 66.9%.



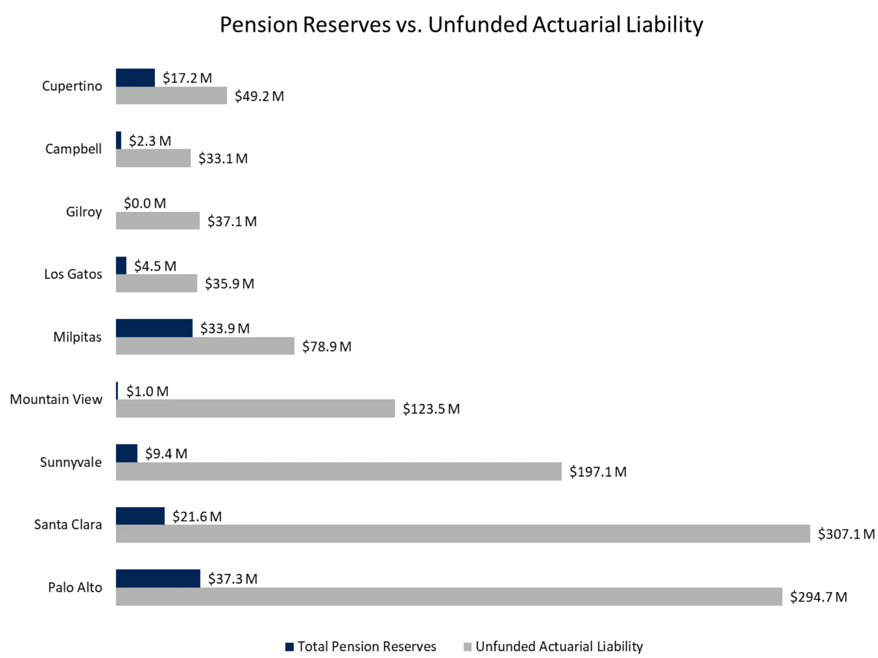
To address rising pension costs, the City implemented a Section 115 Trust in 2018. The City proposed $8.0 million in initial funding and contributions of $2 million annually for five years. So far, the City has contributed $14.0 million. Because of investment growth, the current balance is approximately $17.2 million. When we consider the $17.2 million in the Section 115 Trust, the City's funded status is closer to 78.5%. This theoretical funded status factors in a city's CalPERS assets and any assets in a Section 115 Trust or pension reserve.



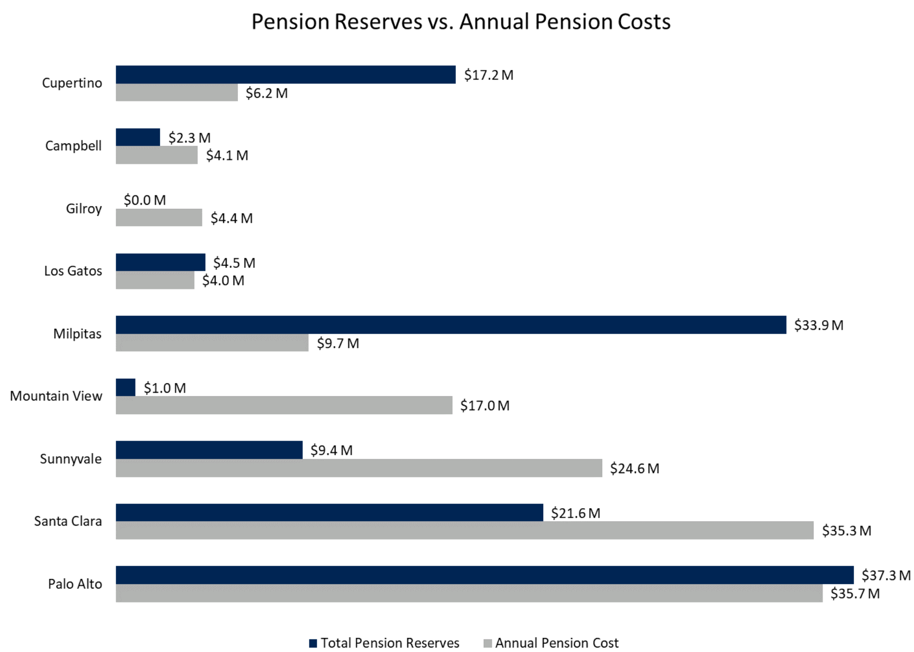
How does this compare to neighboring cities? Cupertino has the second-highest theoretical funded status. However, this isn't the complete picture.

- The funded status doesn't consider future pension contributions. Cupertino plans to contribute an additional $4.0 million over the next two years. In contrast, other cities may make ongoing contributions or larger contributions in the future.
- The funded status assumes CalPERS' current discount rate of 7%. However, the 7% discount rate may be overly optimistic. CalPERS is likely to earn returns closer to 6.25%, according to pension experts. If CalPERS earns investment returns of 6.25% or lowers the discount rate to 6.25%, the funded status will be lower.

Another way to view the magnitude of our pension reserves is to compare them to the gap between the pension plan's assets and liabilities, also known as the Unfunded Actuarial Liability (UAL). With $17.2 million in the Section 115 Trust, the City is making progress towards addressing the $49.2 million funding gap.



It is also helpful to compare the City's pension reserves with the City's annual pension costs. Because the City's annual pension costs are around $6 million annually, the City's Section 115 Trust balance would be equivalent to more than two years of pension costs.



As we can see, one size (funded status) does not fit all. Each jurisdiction has different needs and challenges, and each jurisdiction has different funding strategies and funding sources. Most importantly, even though every agency is at the mercy of CalPERS' performance, that does not mean we want to ignore the issues and exacerbate the challenges for the City later down the road, particularly because Cupertino, unlike some other agencies, can be proactive now.

It pays to be proactive. Why? The price can be high for cities that are not prepared. Cities that cannot afford pension cost increases may need to cut services or add debt to balance their budgets.

Because Cupertino has benefitted from solid revenues over the past few years, the City has built healthy reserves and proactively funded pension costs. Given the City's pension funding strategy, the City is currently in a solid position to withstand the effects of pension cost increases.