City of San Leandro Pension Trust Analysis

FINANCE COMMITTEE MEETING – MAY 27, 2026

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City of San Leandro Pension Trust Update

- Provide routine updates on the City's Pension Trust
- Finance Committee directed staff to analyze pension trust drawdown to help mitigate budget challenges

What is Section 115 Supplement Trust?

- A Section 115 Trust (often referred to in the context of IRS Section 115) is an irrevocable, tax-exempt trust established by a government entity, municipality, or public agency to pre-fund post-retirement employee benefits (OPEB), such as healthcare or **pensions**.

Section 115 Supplement Trust = Pension Trust

- Can only be used to:
  - Reimburse City for CalPERS contributions
  - Make payments directly to CalPERS

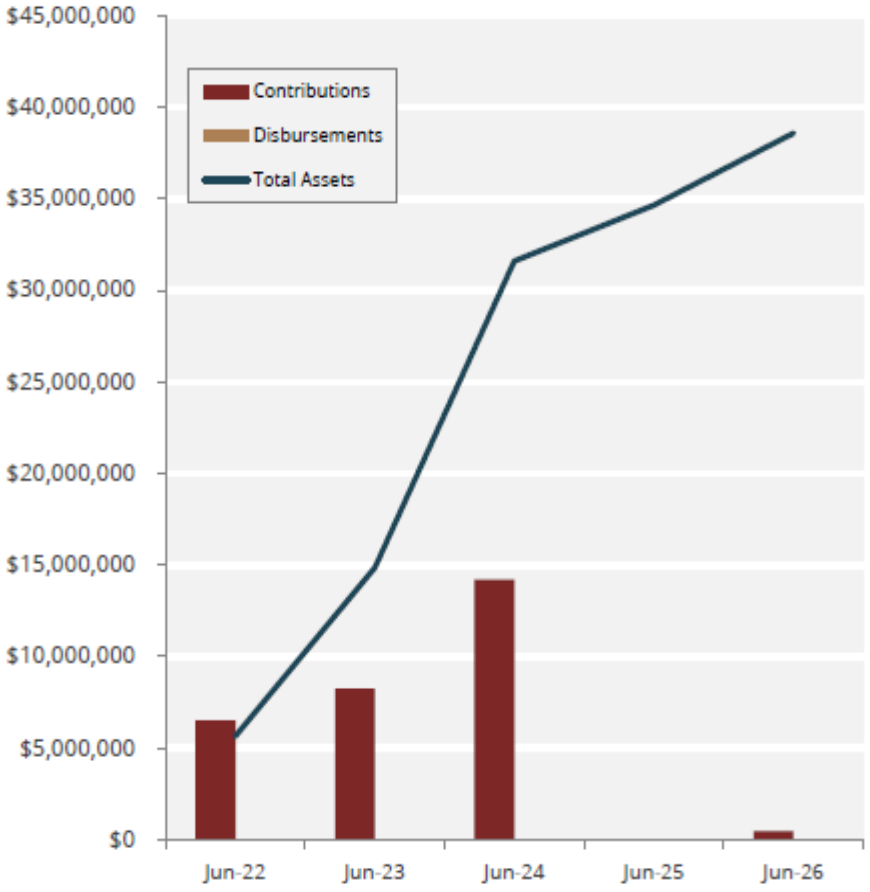
- Pension Trust cannot be used for any other expenses not related to pension reimbursement or payments.

Why Establish a Pension Trust?

- Pension Trust helps stabilize pension costs, mitigate budget challenges, and ensures future financial obligations are met.
- Pension Trust allows for more flexibility, control over investment strategy and risk tolerance, and more visibility.
- City established a Pension Trust to ensure adequate funding for future obligations, specially during the peak of the CalPERS required annual payment.
- City established the Pension Trust in April 2021.

Pension Trust Contributions & Asset Balance

HISTORY OF CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF FEBRUARY 28, 2026:

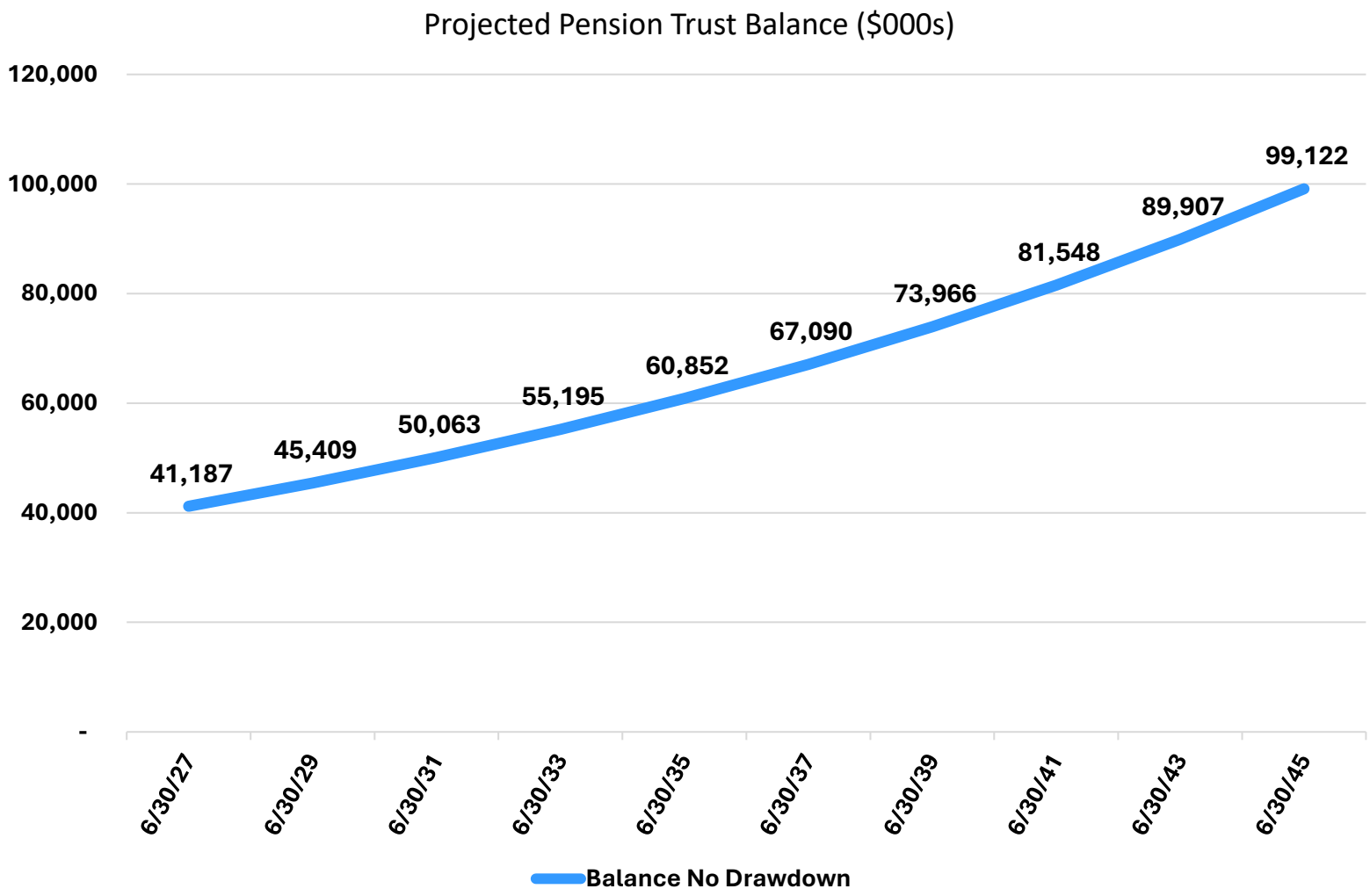


Plan Year Ending

Year	Contributions	Disbursements	Total Assets
Jun-22*	$6,500,000	$0	$5,641,874
Jun-23	$8,222,725	$0	$14,868,477
Jun-24	$14,210,000	$0	$31,600,441
Jun-25	$0	$0	$34,662,877
Jun-26**	$457,968	$0	$38,593,425

**Plan Year Ending June 2022 is based on 11 months of activity*
***Plan Year Ending June 2026 is based on 8 months of activity*

Projected Pension Trust Performance



CalPERS Annual Payment

What is the CalPERS Annual Payment?

- CalPERS annual payment is often referred to as the Actuarially Determined Contribution (ADC).

- ADC determined as the sum of:
  - Normal Cost (as a percentage-of-payroll)
    - Annual cost of pension benefits earned by active employees, representing the current cost of a workforce, paid as a percentage of payroll
    - Paid through combination of both employer and employee contributions
  - Payment to Amortize Unfunded Actuarial Accrued Liability (UAAL) (as a fixed dollar)
    - Shortfall between the projected benefits to be paid and the assets currently held in the pension fund

Actuarially Determined Contribution (ADC)

The Actuarially Determined Contribution (ADC) is the **required** annual contribution to a pension plan, calculated by the plan actuary, designed to **provide benefits** as they come due and **fund the plan over the long term.**

WHAT IT INCLUDES

NORMAL COST

Covers the cost of benefits earned by active employees during the year.

AMORTIZATION PAYMENT

Pays down the Unfunded Actuarial Accrued Liability (UAAL) over a period of years.

ADMINISTRATIVE EXPENSES

Covers the plan's administrative expenses.

ASSET GAINS/LOSSES & OTHER FACTORS

Reflects assumptions for investment returns, salary increases, mortality, and other actuarial factors.

WHY IT MATTERS

The ADC is the actuary's required funding amount that helps maintain the long-term financial health and security of the pension plan.

Actuarially Determined Contribution (ADC)

HOW IT WORKS

NORMAL COST
Cost of benefits earned this year.

+

AMORTIZATION PAYMENT
Pays down the UAAL over time.

+

ADMINISTRATIVE EXPENSES
Plan administration costs.

+

OTHER FACTORS
Assumptions, investment returns, etc.

=

ACTUARIALLY DETERMINED CONTRIBUTION (ADC)
Total required annual contribution

EXAMPLES (ILLUSTRATIVE)

COMPONENT	AMOUNT (millions)
Normal Cost	$12.0
Amortization Payment (UAAL)	$18.0
Administrative Expenses	$2.0
Other Factors	$3.0
ACTUARIALLY DETERMINED CONTRIBUTION (ADC)	**$35.0**

Goal: To ensure the pension plan has sufficient resources to pay promised benefits today and in the future.

Unfunded Actuarial Accrued Liability (UAAL)

Unfunded Actuarial Accrued Liability (UAAL) is the amount by which a **pension plan's promised benefits exceed** the assets currently set aside to pay them.

HOW IT'S CALCULATED

AAL – **AVA** = **UAAL**

Actuarial Accrued Liability
(Total projected pension obligations)

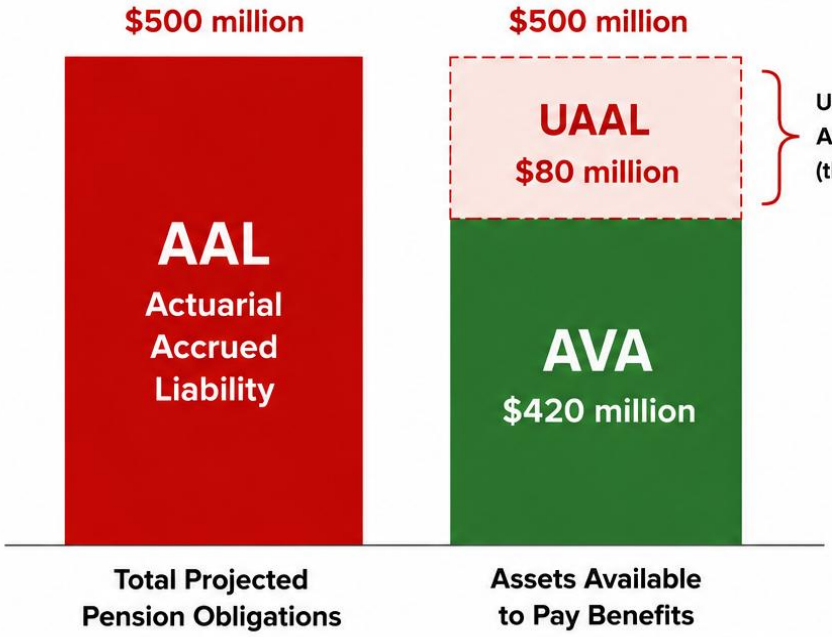
Actuarial Value of Assets
(Assets available to pay benefits)

Unfunded Actuarial Accrued Liability
(Funding Gap)

Why it matters: UAAL is a key measure of a pension plan's financial health and helps guide funding decisions to ensure promised benefits can be paid in the future.

Unfunded Actuarial Accrued Liability (UAAL)

VISUAL REPRESENTATION



EXAMPLE

Pension obligations (AAL):
$500 million

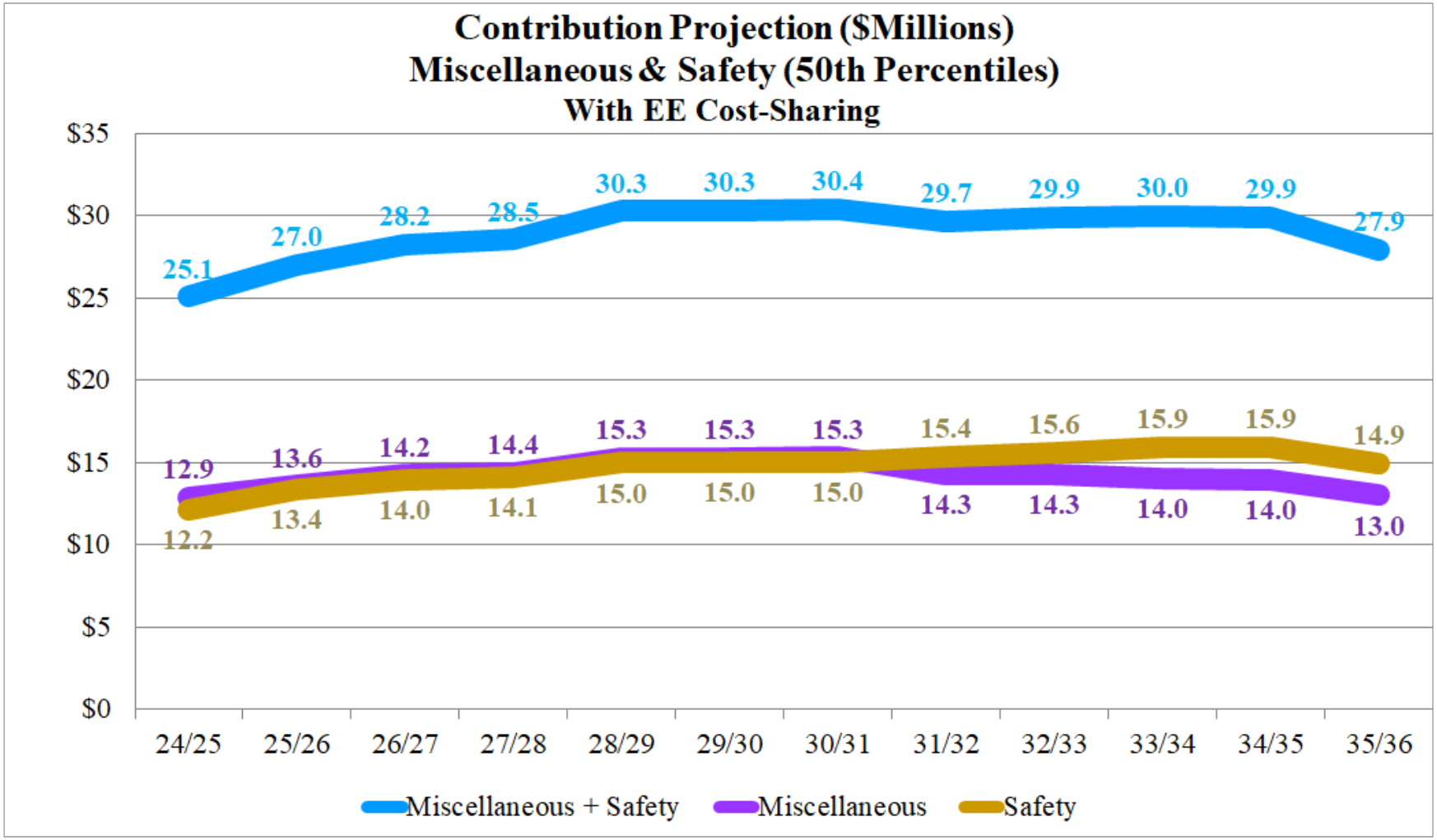
Pension assets (AVA):
$420 million

UAAL = $500 million – $420 million
= **$80 million**

The plan has an $80 million unfunded liability.

UAAL represents the funding gap.
The goal is to reduce this gap over time through contributions and investment returns.

Projected CalPERS Annual Payment



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Pension Trust Drawdown Analysis

Finance Committee Direction

- During FY 2027 Mid-cycle budget process, Finance Committee directed staff to explore and analyze potential drawdown scenarios from the City's Pension Trust.

- The intent of the analysis is to understand the impact on stabilizing the City's budget challenges, while ensuring the City's ability to meet long-term obligations.

Drawdown Scenario Analysis

Scenario Analyzed:

- City makes the annual ADC -- City's annual payment to CalPERS (normal cost + UAAL).

- City's projected annual ADC for FY 2027-2037 ranges from $27.9M-$30.4M.

  - $25.5 million will be funded annually from City Accounts (i.e. General Fund)
  - Balance owed will be an annual withdrawal from Pension Trust ranging from $0.6M-$4.9M

- CalPERS projected contributions (projected payments) are based on 50th percentile run
  - Best estimate based on stable market and portfolio expectations

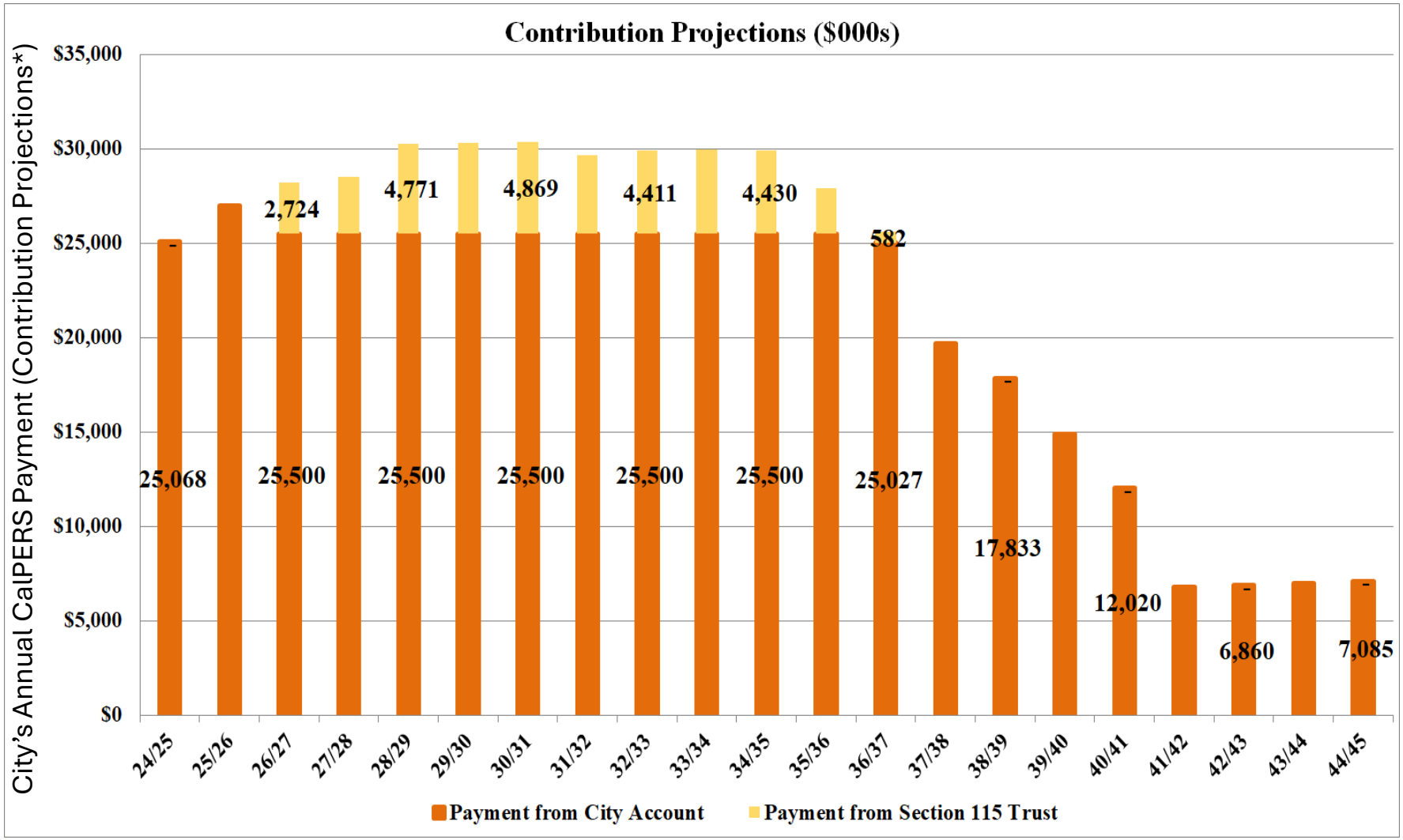
- Pension Trust analysis reflects an assumed investment return of 5%

Drawdown Scenario - City's Pension Trust

2/28/2026 Trust Balance - $38.6 million

Year	Withdrawal (millions)
FY 2027	$2.7
FY 2028	$3.0
FY 2029	$4.8
FY 2030	$4.8
FY 2031	$4.9
FY 2032	$4.2
FY 2033	$4.4
FY 2034	$4.5
FY 2035	$4.4
FY 2036	$2.4
FY 2037	$0.6

Projected CalPERS Payment Sources



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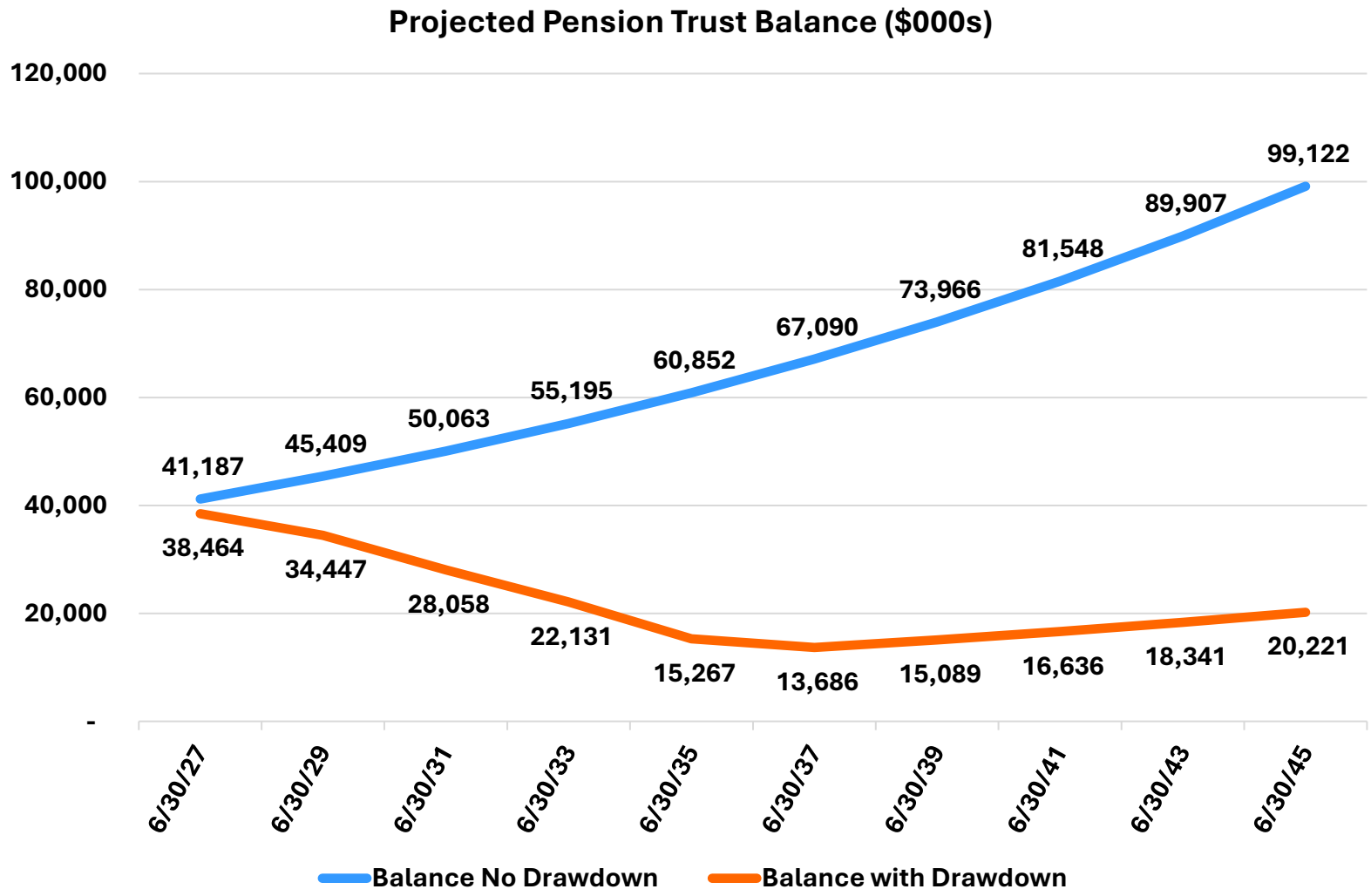
*Projection based on 50th Percentile

Pension Trust Balance Comparison



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Potential Risks

- ***Funding Status***
  - Not using the Pension Trust to accelerate pay down of the UAAL could cause a decline in the aggregate funded status.

- ***Purpose***
  - Pension Trust was originally established to help mitigate significant future increases in pension payments due to fluctuation in investment performance, and assumptions.

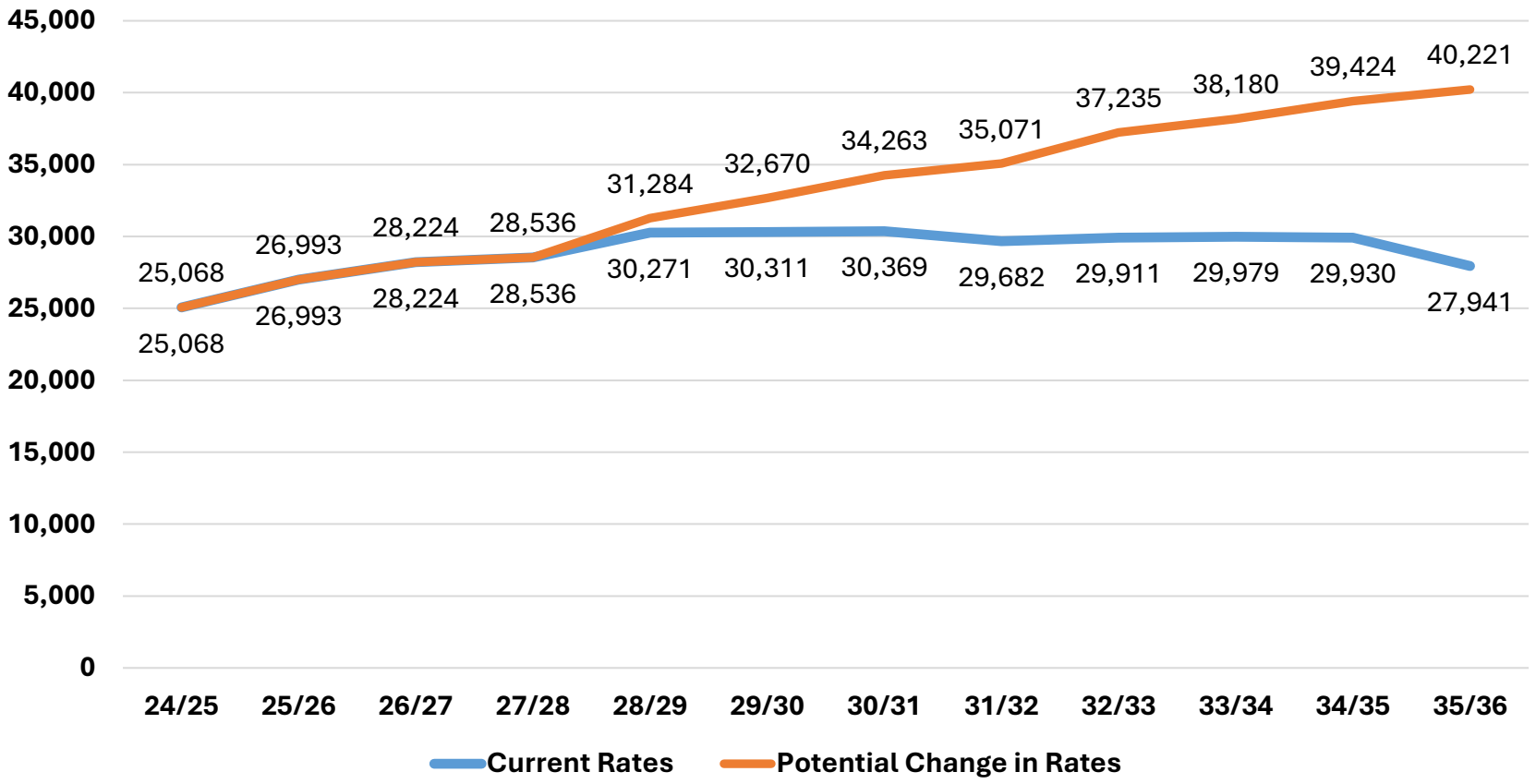
- ***Unpredictable Investment Performance***
  - Based on recent CalPERS investment performance, projected annual payment trends over the next 5–10 years are currently more stable than previously anticipated.
  - May increase the City's annual CalPERS payments.
  - Utilizing Pension Trust funds at this time would reduce resources available in the future to offset annual payment increases that may occur during periods of poor CalPERS investment performance.

Advantages

- ***Stabilization***
  - Help mitigate budget challenges, while ensuring future financial obligations are met.

- ***Flexibility***
  - Using a draw-down approach allows the City control over the timing of the withdrawals strategically, and to respond to changing economic conditions.

Impacts to Potential Changes to CalPERS Rates



Final Considerations

- Pension Trust Drawdown is Risky
  - Early drawdown could diminish available funds, that would be necessary if CalPERS were to experience poor investment returns, resulting in City rates (annual CalPERS payments) increasing beyond current projections.
  - Ensuring money is available to pay the bill when obligations come due.
- Legal mandate to meet benefits obligations
- Too Risky Today, But Continue to Evaluation
  - Changes in Market Performance
  - Impacts from PEPRA

Pension Trust Drawdown is Not Necessary at this Time

The City successfully addressed the $11.6M deficit during the FY 2027 Mid-Cycle budget process, with the City's financial forecast assuming the fully required annual payment to CalPERS

At this time, refrain from Pension Trust withdrawals – Reserving for time of significant economic downturn or large-scale changes in annual CalPERS payment

	A	B	C	D	E	F	G	H	I	J	K	L
		2025 Actuals	2026 Adjusted	2027 Adopted	2028 Est.	2029 Est.	2030 Est.	2031 Est.	2032 Est.	2033 Est.	2034 Est.	2035 Est.
1	**Beginning Fund Balance**	**$74.9M**	**$69.5M**	**$53.5M**	**$48.1M**	**$48.7M**	**$49.5M**	**$49.9M**	**$51.7M**	**$51.1M**	**$48.7M**	**$50.6M**
2												
3	Revenue	$147.7M	$149.3M	$153.7M	$157.0M	$160.6M	$164.2M	$168.2M	$168.8M	$172.7M	$177.6M	$182.9M
4												
5	Operating Expenditures	$144.3M	$149.3M	$150.6M	$151.9M	$156.2M	$159.9M	$163.9M	$166.7M	$169.9M	$172.7M	$175.9M
6	*Prior Year Carryover*		*$9.4M*									
7	Transfers	$8.8M	$6.6M	$8.5M	$4.5M	$3.7M	$3.8M	$2.5M	$2.7M	$5.3M	$3.0M	$3.2M
8	**Net/Use of Fund Balance**	**-$5.4M**	**-$16.0M**	**-$5.3M**	**$0.6M**	**$0.7M**	**$0.5M**	**$1.8M**	**-$0.6M**	**-$2.5M**	**$1.9M**	**$3.8M**
9												
10	**Ending Fund Balance**	**$69.5M**	**$53.5M**	**$48.1M**	**$48.7M**	**$49.5M**	**$49.9M**	**$51.7M**	**$51.1M**	**$48.7M**	**$50.6M**	**$54.4M**
11												
12	**% of Expenditures for Economic Uncertai**	**38.6%**	**25.0%**	**23.3%**	**21.5%**	**21.4%**	**21.1%**	**23.4%**	**22.6%**	**20.8%**	**21.5%**	**23.3%**

Discussion & Questions