



Menlo Park Fire Protection District

Number	2024-000	Title	Pension Funding Policy
To	Board of Directors	Originator	Allain Mallari
Effective Date	May 21, 2024	Suspense Date	
Approved By	Board of Directors	Date	May 21, 2024

I. PURPOSE:

The Menlo Park Fire Protection District’s (“District”) pension funding policy (“Policy”) aims to establish a plan, methodology, and process for funding current and future costs associated with pension benefits. The Policy also:

- Guides in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Promotes long-term and strategic thinking;
- 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 District, nor an implied contract. The District’s Board of Directors (“Board”) may revoke or amend this policy whenever it determines the changes to be in the best interest of the District.

II. DEFINITIONS:

As used in this Policy, the following terms shall have the meanings specified below:

1. Accrued Liability (AL) – is the gross pension liability associated with past service at a specific measurement date representing the cumulative obligation to employees and retirees, calculated using the assumptions and methodology adopted by the CalPERS Board.
2. Additional Discretionary Payments (ADP) – Additional contributions made directly to CalPERS in addition to the Minimum Required Employer Contributions.
3. Amortization of the Unfunded Accrued Liability (UAL) – represents the employer’s minimum annual contribution to the Unfunded Accrued Liability per CalPERS Amortization Policy.
4. California Public Employees’ Retirement System (CalPERS) – manages and administers the California pension and health benefits for state workers and local public agencies such as cities, counties, and special districts. They offer various defined benefit retirement plans based on

members' years of service, age at retirement, and maximum compensation.

5. Employer Normal Cost Rate – represents the annual service cost of an additional year of service credit to fund the promised post-employment benefit, expressed as a percent of payroll.
6. Funded Status – A measure of plan solvency, the funded status is calculated by dividing the market value of the assets by Accrued Liability.
7. Minimum Required Employer Contribution (MREC) – the annual amount the employer is required to pay; made up of the Employer Normal Cost and the annual Amortization Payment of the Unfunded Accrued Liability.
8. Pension Plan - An employee benefit plan established or maintained by an employer or by an employee organization (such as a union), or both, that provides retirement income or defers income until termination of covered employment or beyond.
9. Policy – This “Pension Funding” Policy.
10. Unfunded Accrued Liability (UAL) is the net pension liability representing the arithmetical difference between the Accrued Liability and Market Value of Assets.

III. BACKGROUND

The District provides defined retirement benefits through the California Public Employees' Retirement System (CalPERS). CalPERS is a multiple-employer public employee-defined benefit pension plan. Retirement benefits are calculated based on a member's years of service credit, age at retirement, and final compensation (average salary for a defined period of employment). Investment earnings, employee contributions, and employer contributions fund the total pension cost, including benefits and expenses. Employer contributions are set by actuaries using an assumed investment rate of return (also known as the discount rate), and other assumptions related to salary, payroll, cost of living, mortality rate, disabilities, terminations, and retirements. The employer contributions are determined by periodic actuarial valuations under state law.

District employees who meet CalPERS eligibility requirements are enrolled in CalPERS. CalPERS provides retirement, disability, death benefits, and annual cost of living adjustments 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 statutes.

This policy is consistent with the Pension Funding: A Guide for Elected Officials report, issued by eleven national groups including the U.S. Conference of Mayors (USCM), the International Agency/County Management Association (ICMA), and the Government Finance Officers Association (GFOA), which establishes 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 Accrued Liability (UAL).

- 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 receive 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.

IV. PROCESS

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan members. To ensure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefiting employees. This funding policy outlines the method that the District will utilize to determine its annual pension contributions to fund the long-term cost of benefits to plan members and annuitants.

A. Objectives

1. Address the annual employer UAL contributions due to variances in experience versus CalPERS actuarial assumptions including investment returns.
2. Reach 100% funding of the actuarial liability by June 30, 2034, and, upon reaching that target, keep the funded percentage at or above 90% in future years.
3. Stabilize the District's contributions toward pensions.
4. Fund liabilities using the economic and demographic assumption, such as the discount rate, adopted by the CalPERS Board for funding purposes.
5. Provide flexibility in the budgetary process.

B. Contributions to CalPERS

1. Minimum Required Employer Contribution
 - a. Normal Cost - Each pay period, the District shall make normal cost contributions to CalPERS as required in the most recent actuarial valuation report.
 - b. Unfunded Accrued Liability Amortization - Each fiscal year in July, the District shall make the unfunded accrued liability payment to CalPERS as required in the most recent actuarial valuation report. This lump-sum prepayment will save money, generate interest savings, and maximize potential investment returns.
2. Additional Discretionary Payment (ADP) -The additional amount needed to implement the 10-year soft ("virtual") fresh start methodology. These payments will be made in four quarterly installments to mitigate CalPERS investment return risk. The Board may eliminate

or reduce the ADP to CalPERS as deemed necessary.

Each year when the District receives its actuarial valuation report from CalPERS, staff will adjust the ADP based on new amortization bases, either positive or negative, as described below.

- a. If there is an increase in UAL resulting to an increase in ADP that is less than 10%, staff will roll it into the original amortization schedule based on the June 30, 2022 valuation report.
- b. If there is an increase in UAL resulting to an increase in ADP that is between 10% - 30%, staff will not roll it into the original amortization schedule but will restart a new 10-year amortization schedule.
- c. If there is an increase in UAL resulting to an increase in ADP that is greater than 30%, staff will follow the standard CalPERS 20-year amortization schedule.
- d. If there is a decrease in UAL, staff will roll it into the longest outstanding virtual amortization schedule.

C. Delegation of Authority

The management oversight responsibility for the District's pension program is delegated by the Board to the Fire Chief. The Fire Chief has delegated the authority to conduct transactions and manage the operation of the pension program to the Administrative Services Director and Finance Manager (District Treasurer). These officers shall meet regularly to discuss retirement benefit costs, review the CalPERS actuarial valuation report, and act accordingly to meet the objectives of this policy. No person may engage in additional pension transactions except as expressly provided under the terms of this policy.

D. Transparency and Reporting

Funding of the District's pension plans should be transparent to interested stakeholders including plan members, annuitants, the District Board, and residents. To achieve this transparency, the following information shall be available:

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

V. **POLICY REVIEW**

Staff will monitor changes to and expansions of pension funding best practices, as well as any additional guidance provided by the Government Finance Officers Association that relates to the funding of defined benefit pensions. Staff will return to the Board with modifications to this Policy as needed.